Annual Results
January-December 2008

TELEFONICA, S.A.
February 26th, 2009

TELEFONICA S.A.
Investor Relations

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2008 key highlights

- **Robust results in a challenging environment,** capitalizing our highly diversified portfolio, execution skills, and integrated business model
- **Group guidance met or exceeded on all metrics,** boosted by a brilliant performance in Latin America
- **Outstanding organic growth rates, ramping up from top line to OI:**
  - Solid revenue growth: +6.9%; 9M 08 trends maintained
  - Double digit growth rates in OIBDA and OI; acceleration vs. 9M 08 figures
  - Strong OIBDA margin expansion: +2.6 p.p. vs. 2007
- **Sound underlying EPS growth**
- **Very solid OpCF generation**
- **Strong financial position**
- **Prioritizing shareholders returns:**
  - 10% of current market cap devoted to shareholder returns in 2008

Organic growth: Assumes constant exchange rates and includes the consolidation of TVA (January-September 2007) and Telemig (April-December 2007). Excludes the consolidation of Airwave (January-March 2007) and Endemol (January-June 2007). In revenues, the impact in T.España of the new model for the public use telephone service (-147.4 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave, Endemol and Sogecable) in both periods is excluded.
Underlying growth: Excluding the impacts from assets disposal (Airwave, Endemol and Sogecable) and the impact of the impairment charge taken by Telco on its investment in TI.
Market capitalization: February 25th, 2009.

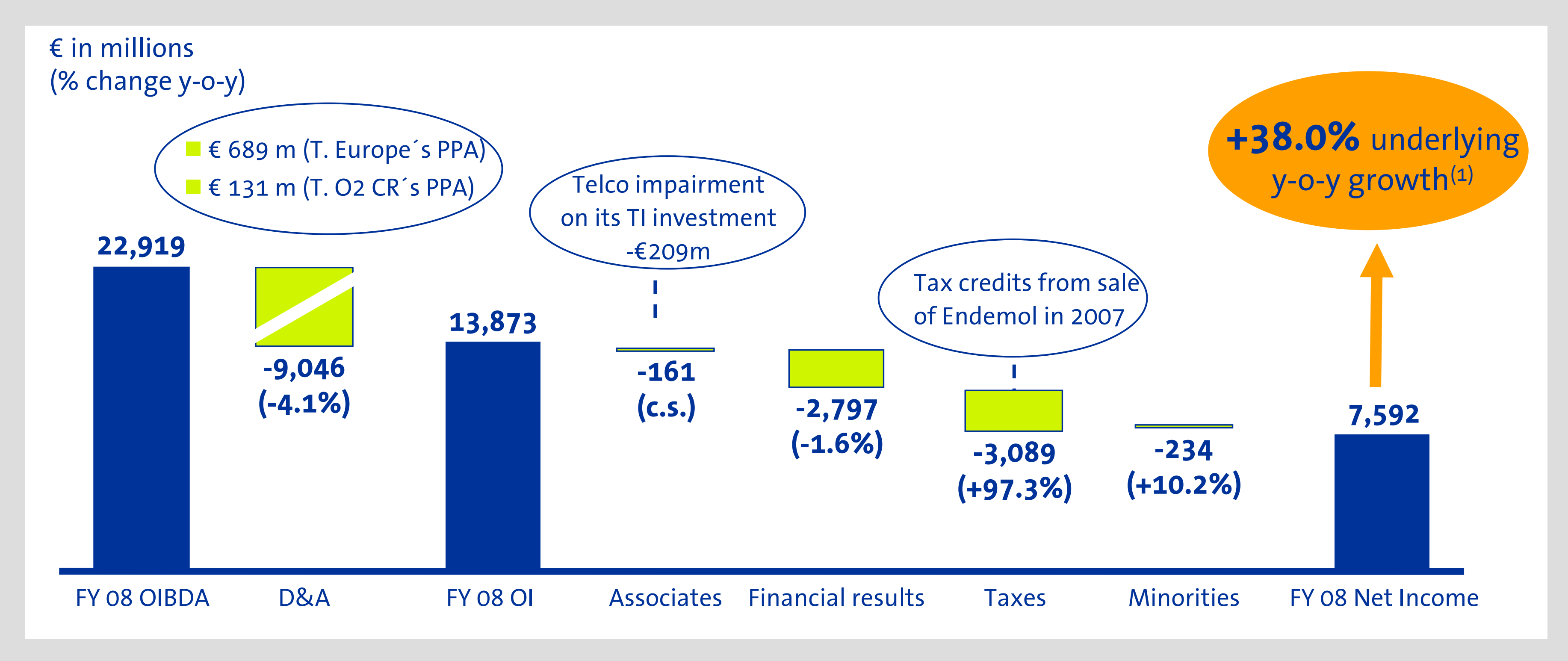
A set of very strong results

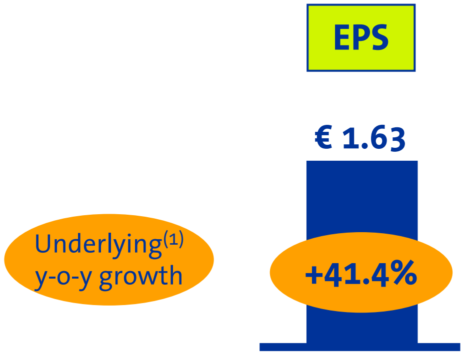
€ in millions	Jan-Dec 2008	Change FY 08/FY 07	Change ex-forex(1) FY 08/FY 07	Change organic(2) FY 08/FY 07
Revenues	57,946	**+2.7%**	+5.6%	**+6.9%**
Operating Income before D&A (OIBDA)	22,919	**+0.4%**	+2.5%	**+14.7%**
OIBDA Margin	39.6%	**-0.9 p.p**	-1.2 p.p.	**+2.6 p.p.**
Operating Income (OI)	13,873	**+3.6%**	+5.4%	**+28.7%**
Net income	7,592	**-14.8%**		**+38.0%(3)**
OpCF (OIBDA-CapEx)	14,519	**-1.9%**	-0.1%	**+20.2%**

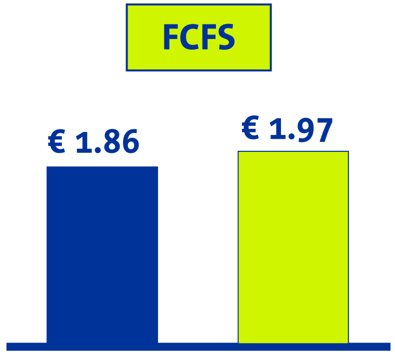
Negative impacts in nominal growths due to capital gains registered in 2007, FX and changes in perimeter

(1) Constant exchange rate as of FY 07.
(2) Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-147.4 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave, Endemol and Sogecable) in both periods is excluded.
(3) Underlying growth: Excluding the impacts from assets disposal (Airwave, Endemol and Sogecable) in both periods and the impact of the impairment charge taken by Telco on its investment in TI.

Robust underlying EPS growth



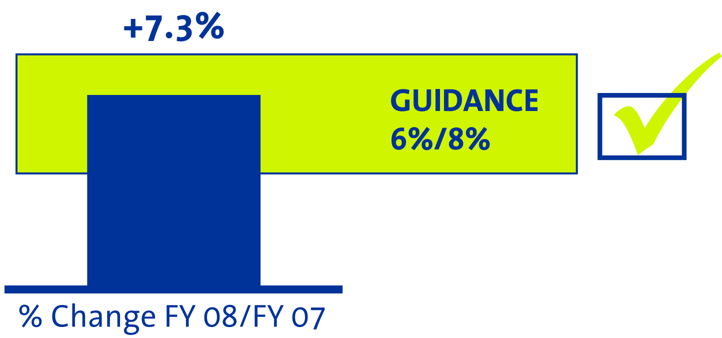




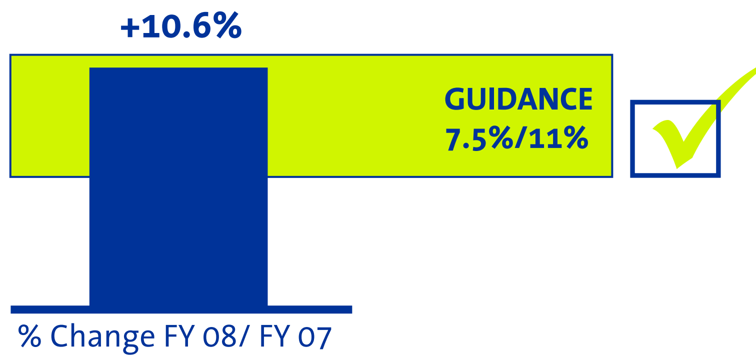
(1) Excluding the impacts from assets disposal (Airwave, Endemol and Sogecable) in both periods and the impact of the impairment charge taken by Telco on its investment in TI.

Meeting Group guidance by far

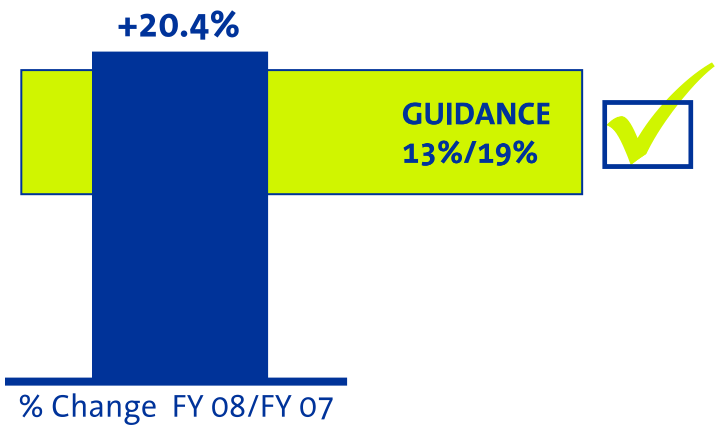
Revenue Growth[1]



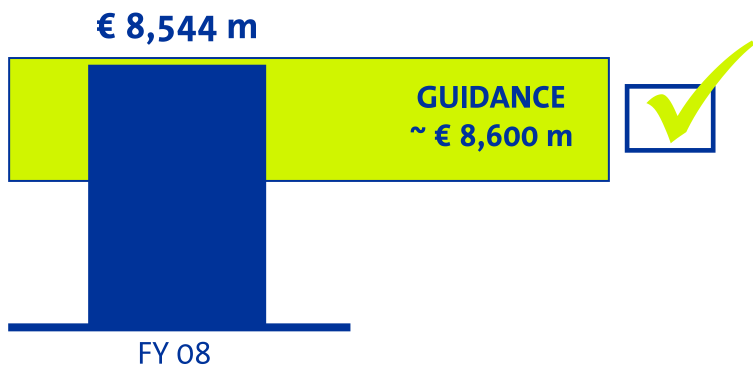
OIBDA Growth[1]



OI Growth[1]



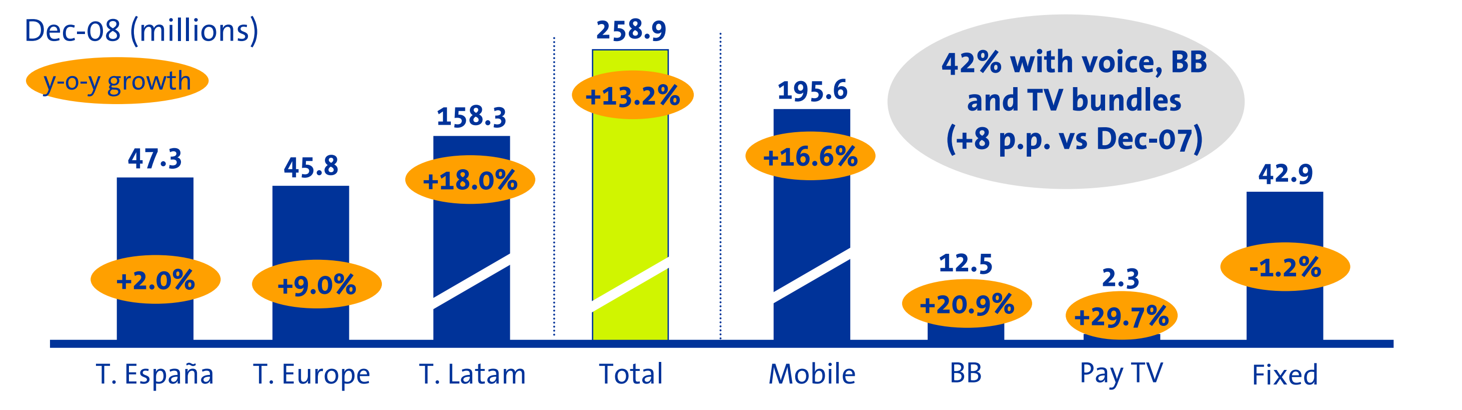
CapEx[1]



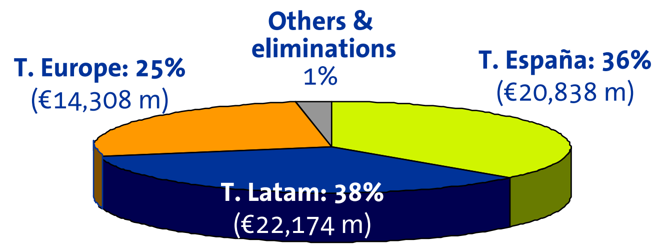
(1) Guidance criteria: 2007 adjusted figures exclude Airwave and Endemol, include 3 months of consolidation of TVA. 2007 T. España revenues are adjusted for new public voice telephone services business model. Group revenues are also adjusted accordingly. 2008 figures includes TVA, Deltax and Telemig (from April 2008). Telefónica's CapEx excludes Real Estate Efficiency Program. Guidance growths assume 2007 constant FX. In terms of guidance calculation OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007 and 2008.

Leveraging a highly diversified portfolio

Accesses



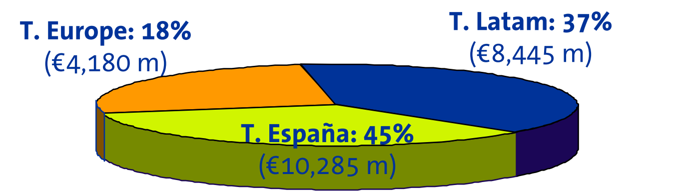
FY 08 Revenue



Contribution to organic[(1)] Group growth (+6.9%)

T.Latam	T.Europe	T.España
+4.6 p.p.	+1.5 p.p.	+0.4 p.p.

FY 08 OIBDA



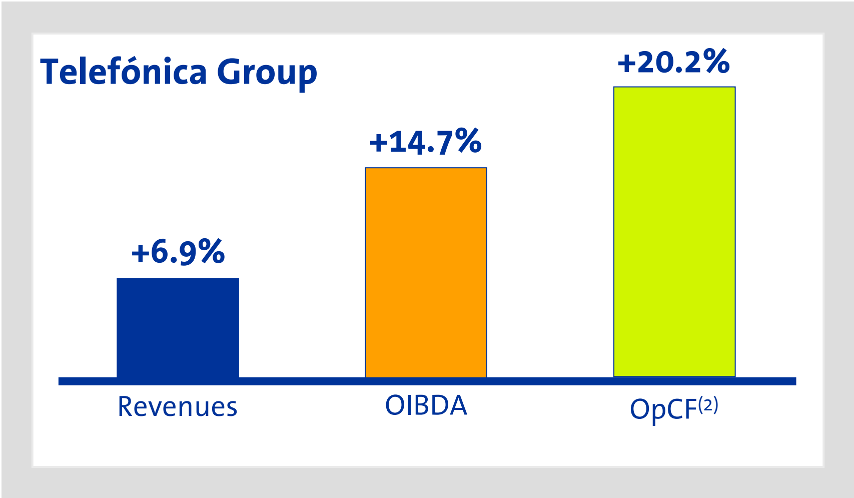
Contribution to organic[(1)] Group growth (+14.7%)

T.Latam	T.España	T.Europe
+7.7 p.p.	+4.2 p.p.	+2.7 p.p.

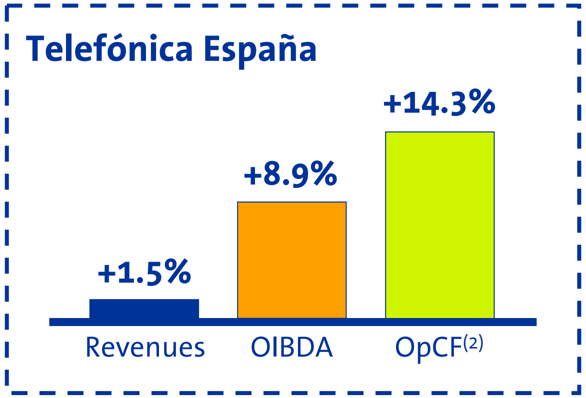
(1) Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-147.4 million euros) is included. In OIBDA the impact of sale of assets (Airwave, Endemol and Sogecable) in both periods is excluded.

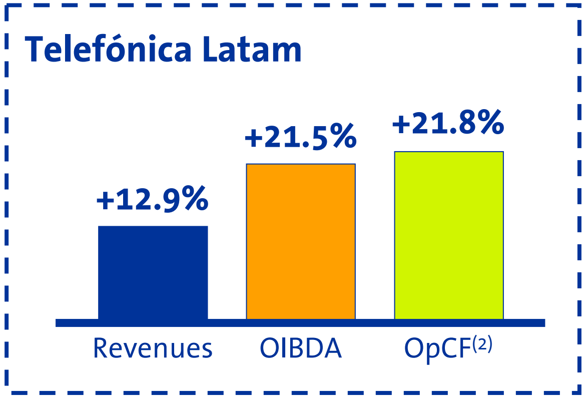
High conversion rate of top line growth into cash-flow

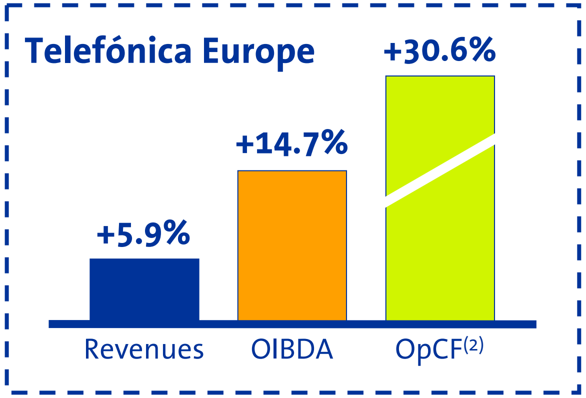
FY 08 Organic[1] growth (y-o-y)



Leveraging efficiency measures and scale economies





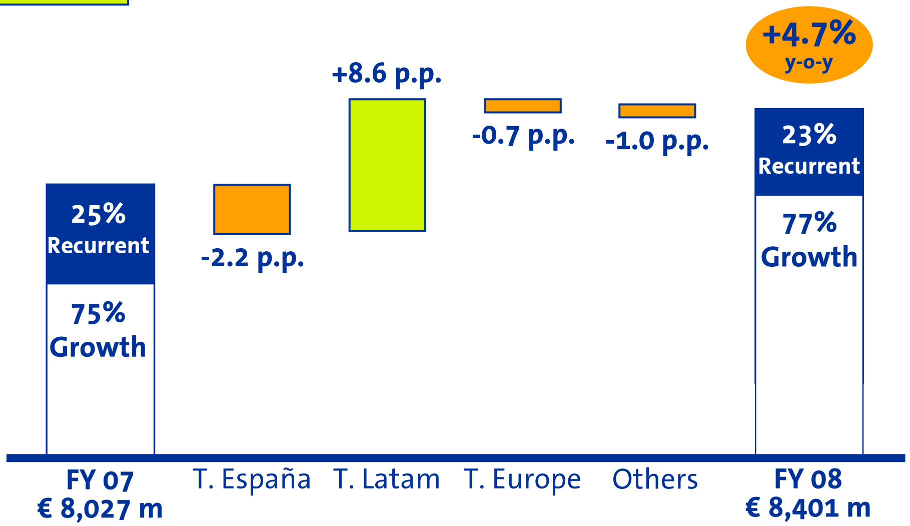


(1) Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-147.4 million euros) is included. In OIBDA the impact of sale of assets (Airwave, Endemol and Sogecable) in both periods is excluded.

(2) OpCF: OIBDA-CapEx.

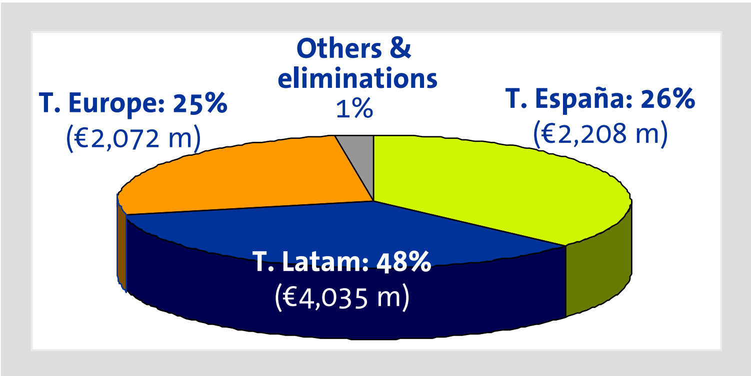
Strengthening our networks

CapEx

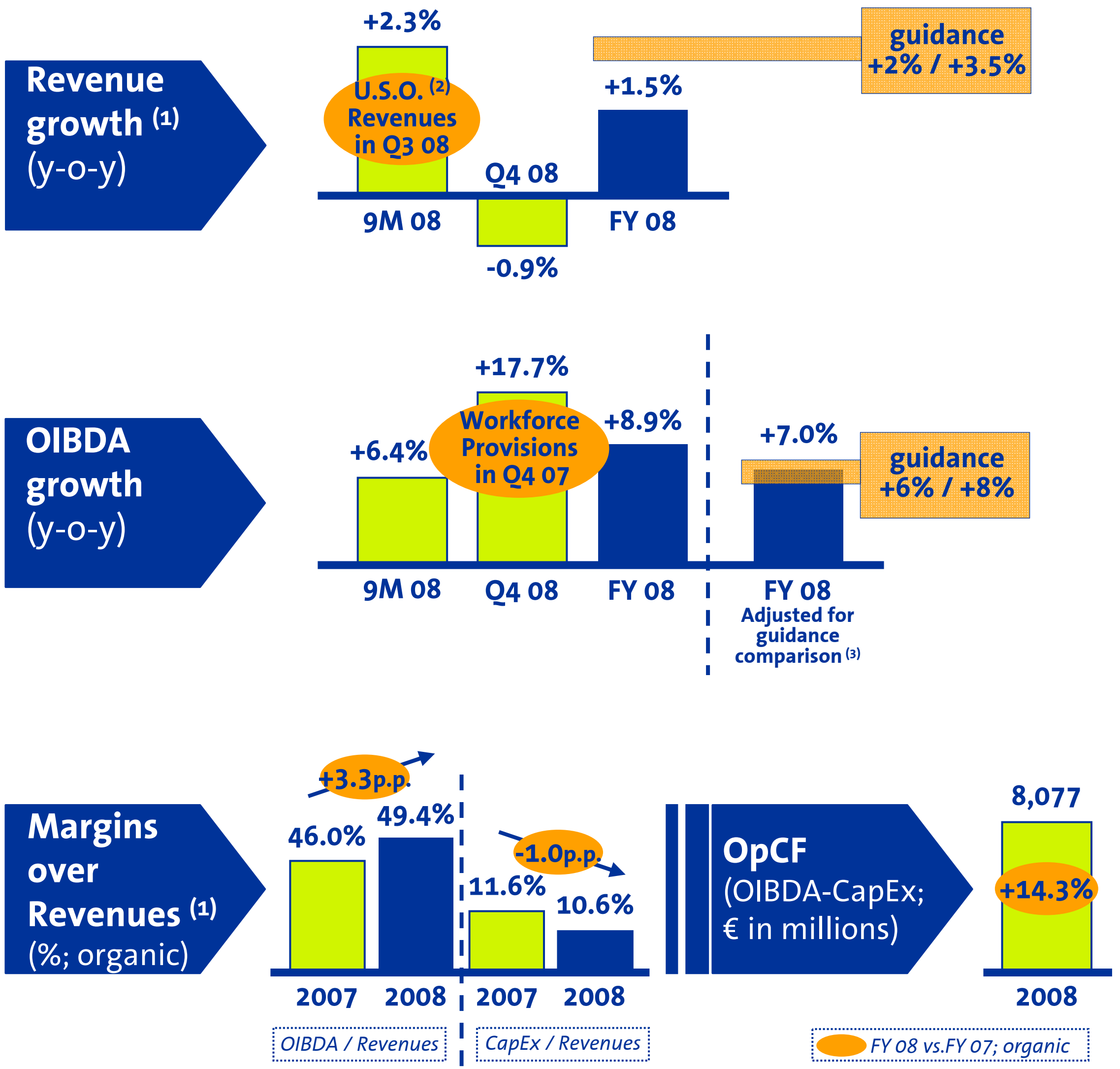


- **CapEx growth driven by T. Latam:**
  - Expansion of mobile networks (coverage &capacity)
  - Enhanced BB platforms
- **Building a proprietary high quality mobile network in Germany**

CapEx breakdown



T.España: Strong OIBDA and high cash-flow generation

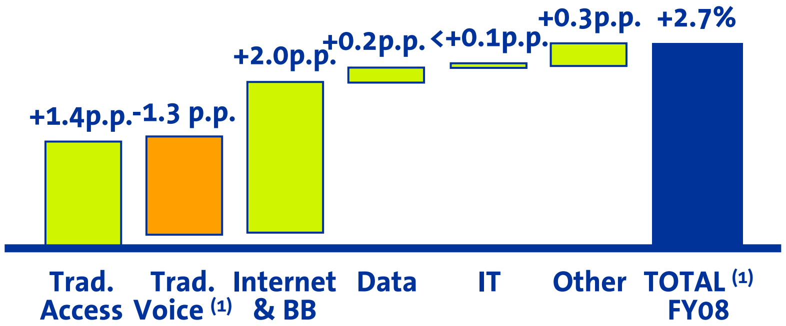


- **Positive revenue growth in 2008 in a very challenging economic environment**
- **Leveraging our market leadership and integrated approach** to better face:
  - Lower voice usage patterns
  - Market growth slowdown across businesses
- **Integration efficiencies and cost management to deliver OIBDA guidance and boost margin**
  - OIBDA growth: +8.9% in 2008
  - Close to 50% OIBDA margin
  - Bad debt remains <1% of revenues
- **CapEx control to maximize OpCF**
  - Incremental OpCF: € 1.0 Bn
  - +14.3% y-o-y growth in FY 08

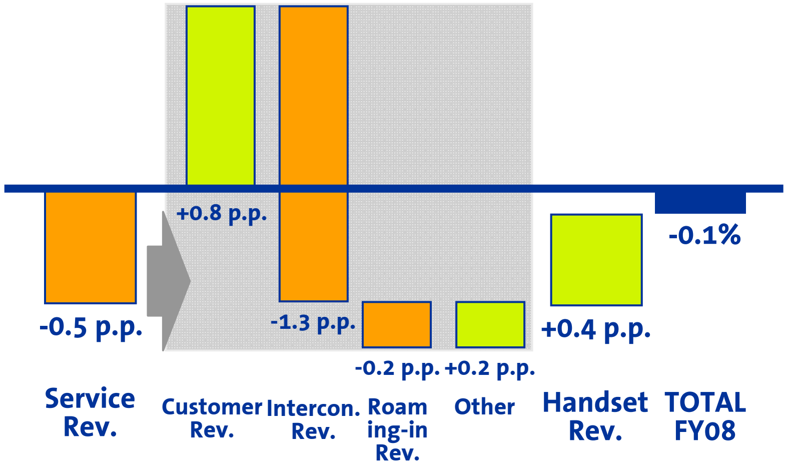
(1) Revenues adjusted for impact of the new model for public use telephone service (-147,4 million euros in January-December 2007); (equal to guidance criteria).
(2) USO: Universal Service Obligation.
(3) Adjusted OIBDA for guidance comparison.

Revenue growth slowdown trend on worse trading conditions

Contribution to Wireline Revenue growth (FY08 vs FY07)



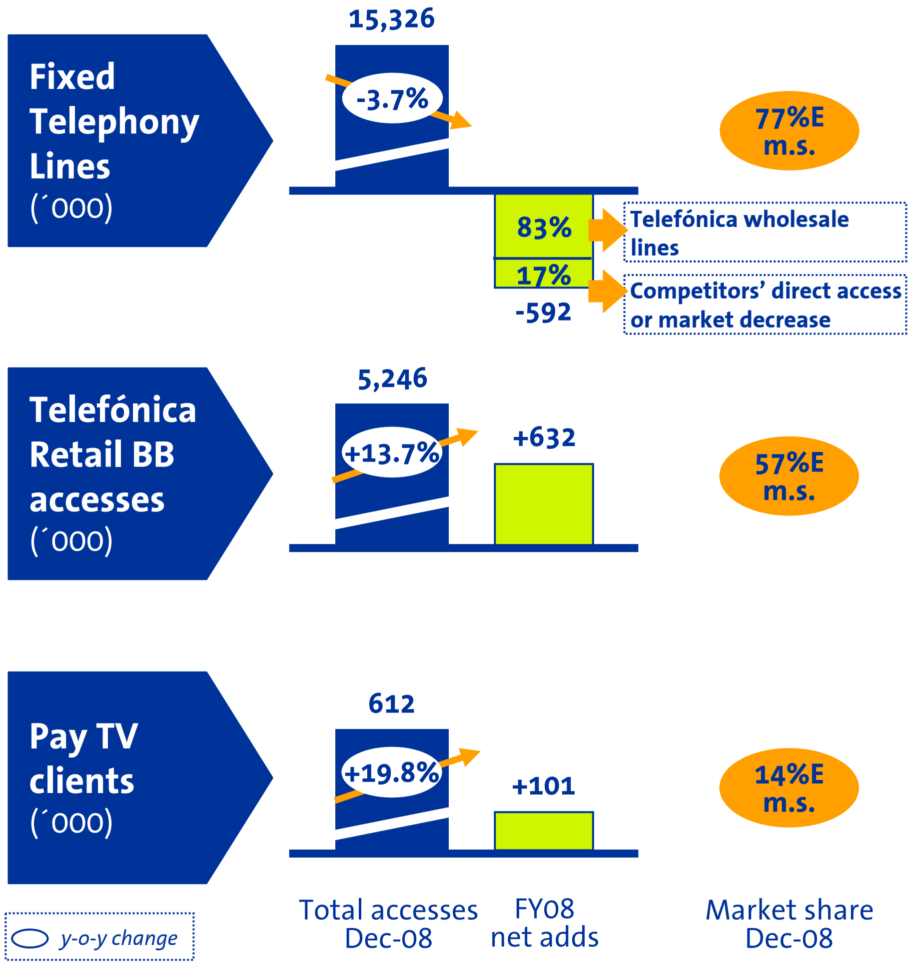
Contribution to Wireless Revenue growth (FY08 vs FY07)



- **2.7%[1] wireline revenue growth in FY 08:**
  - Internet and Broadband as a key driver (+8.7% y-o-y)
  - Positive traditional access performance (€182.8 m in Q3 08 related to USO[2])
  - Q4 08 performance (-0.9% y-o-y) in line with Q308 evolution ex- USO, mainly driven by lower traditional access and voice revenues and slowdown of BB growth
- **Flat wireless revenues (-0.1% in FY 08) mainly due to lower incoming revenue:**
  - Strong data revenue growth (+14.8%) sustaining customer revenues.
  - **Similar trends in service revenues in the last two quarters of 2008:** -2.6% in Q4 vs. -2.1% in Q3
  - Lower interconnection and roaming-in revenues mostly due to tariff reductions

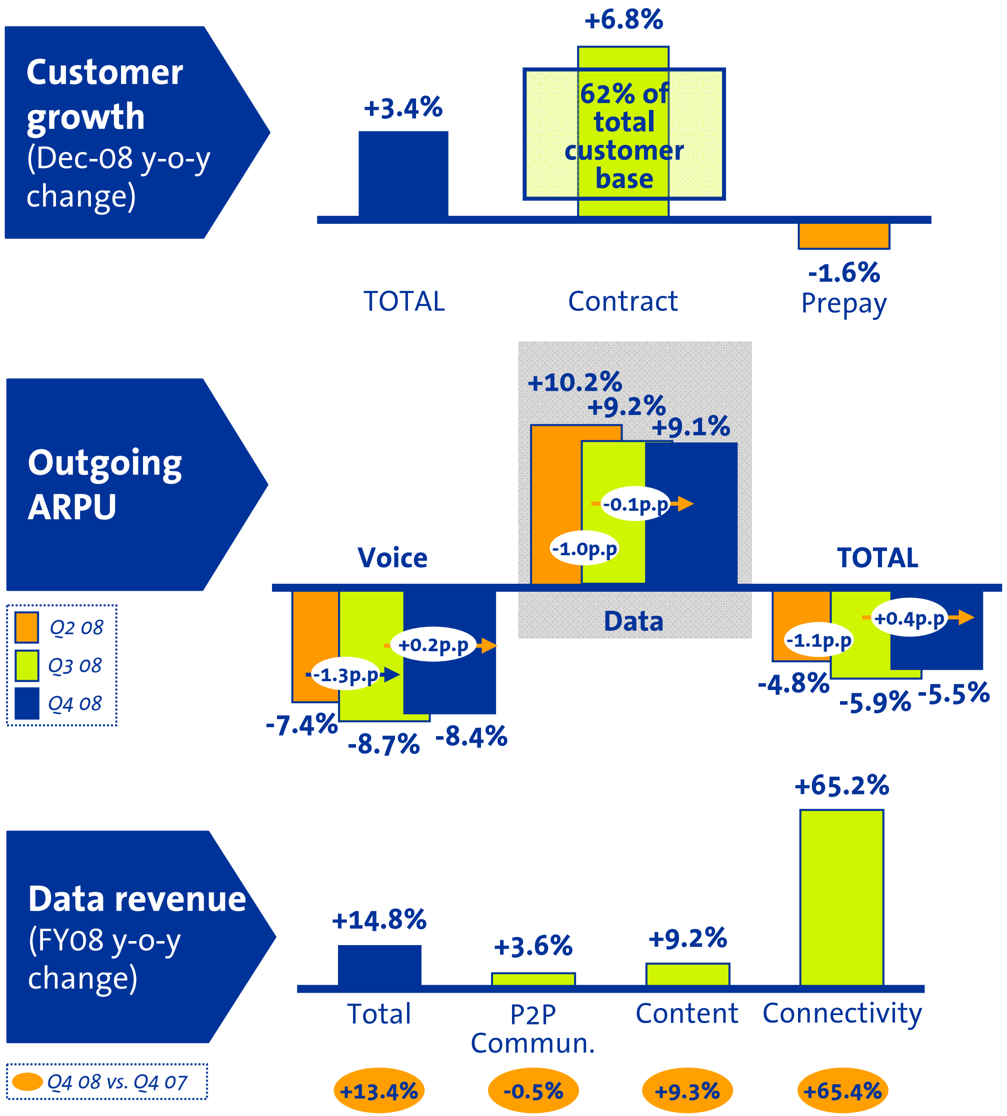
(1) Including PUT effect.
(2) USO: Universal Service Obligation.

Wireline Business: Sustained commercial activity fostering 2P & 3P adoption



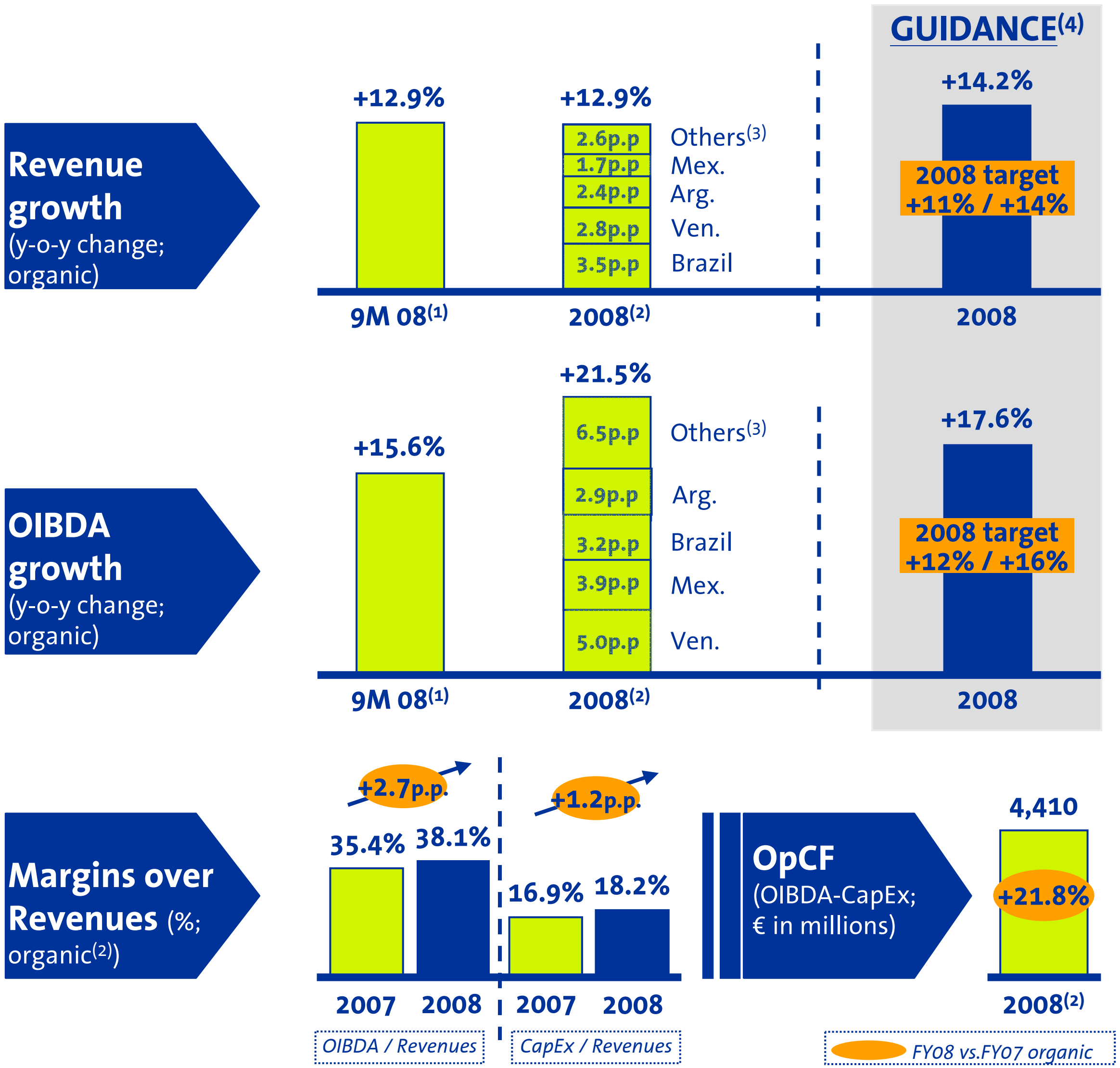
- **Fixed line losses due to full & naked shared ULL, competition and market growth slowdown:**
  - 0.7%(E) market growth in FY08. Negative evolution in Q4 08
  - Wholesale Line Rental introduced in Q4 08 (9.5 K net adds)
- **Strong position in BB:**
  - Market share around 57%E
  - Over 85% of retail BB accesses with 2P & 3P
  - Sustained BB ARPU performance: -3.9% vs. 2007 to 43.5 €
- **Increasing Pay TV market share**
- **Focus on customer value:**
  - Total wireline ARPU: +3.4% y-o-y to 69.5€ in FY 08

Wireless Business: ARPU trends remain stable in Q4 08



- **Customer growth:**
  - 23.6 m mobile customers in a 116% penetration market
  - 923 k contract net adds in 2008; 778 k in total
  - Churn rate contained at 1.9% (1.2% in contract)
- **ARPU impacted by regulatory price cuts (MTRs and roaming):**
  - MoU trend stabilization along the year (-2.3% in Q4 08 vs. -2.6% in Q3 08)
  - Better performance in q-o-q ARPU growth rates across the year (-5.9% in FY08): -0.3 p.p. in Q4 vs. Q3, -2.4 p.p. in Q2 vs. Q1 08
  - Incoming voice ARPU (-14.2% y-o-y in FY 08) impacted by 17% MTR cuts over last 12 months
  - Strong data ARPU: +9.3% in FY 08 to account for 17.2% of total ARPU (+2.4 p.p. vs. 2007)
- **Solid results in mobile data:**
  - 6.2 m 3G devices in 2008 (1.8x vs. Dec-07)
  - ~850k flat rates (2.8x vs. Dec-07)

T.Latam: Robust set of results, beating guidance

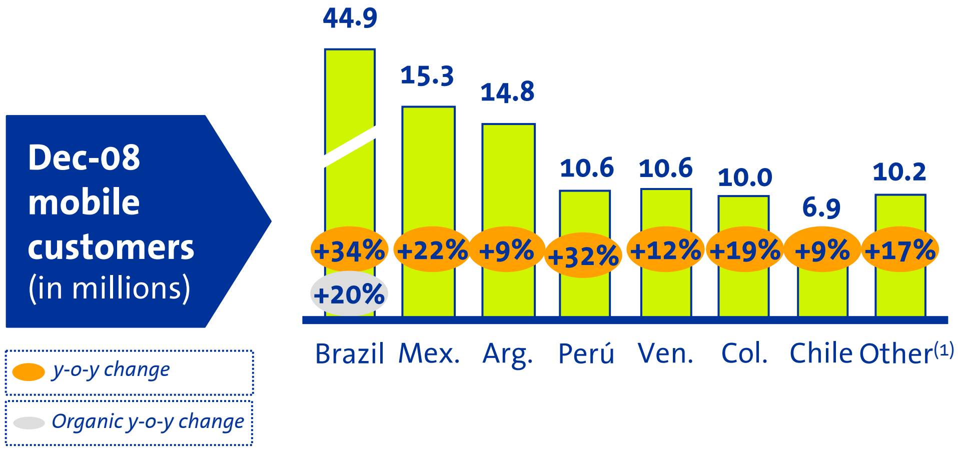


- **Successfully managing growth, transformation and profitability:**
  - Steady customer growth across businesses: total accesses up 14.7%(5) driven by mobile (+18.1%(5)) and BB accesses (+20.5%)
  - Strong y-o-y organic revenue growth in 2008; sustained growth rates in Q4 08
  - Solid OIBDA acceleration leveraging scale economies and efficiency initiatives
  - OIBDA margin ramp up both y-o-y and q-o-q; Q4 08 margin: 41.2% (+4.2 p.p. vs. 9M 08)
  - Very robust growth in OpCF despite strong investments

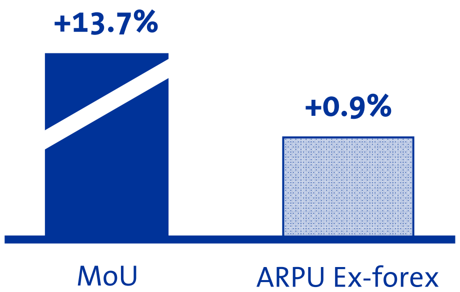
(1) Assuming constant exchange rates and including the consolidation of TVA in Jan-Sep 2007 and Telemig in Apr-Sep 2007.
(2) Assuming constant exchange rates and including the consolidation of TVA in Jan-Sep 2007 and Telemig in April-Dec 2007.
(3) Includes Central America, Colombia, Peru, Ecuador, Chile, Uruguay and Others.
(4) Assuming constant exchange rates and includes 3 months of consolidation of TVA in 2007. In 2008 Includes TVA (12 months) and Telemig (9 months).
(5) Includes Telemig in Dec 2007.

Wireless business: Solid growth enhancing our profitability

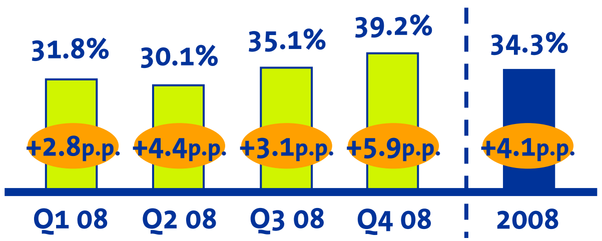
Dec-08 mobile customers (in millions)



Outgoing MoU & ARPU (2008 y-o-y[2]; ex-fx)



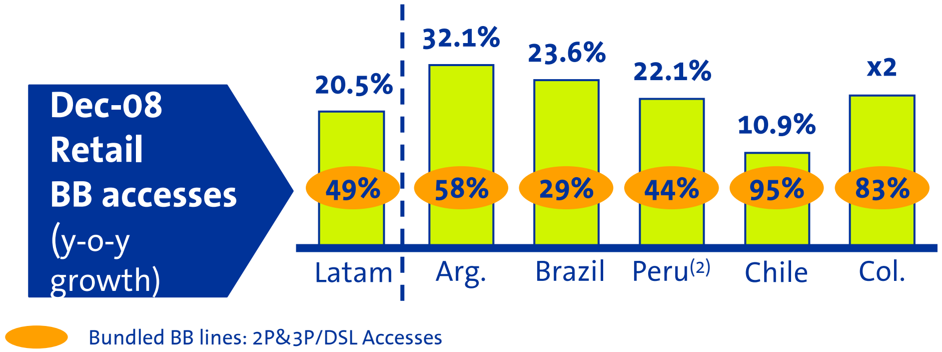
Wireless OIBDA Margin[4]

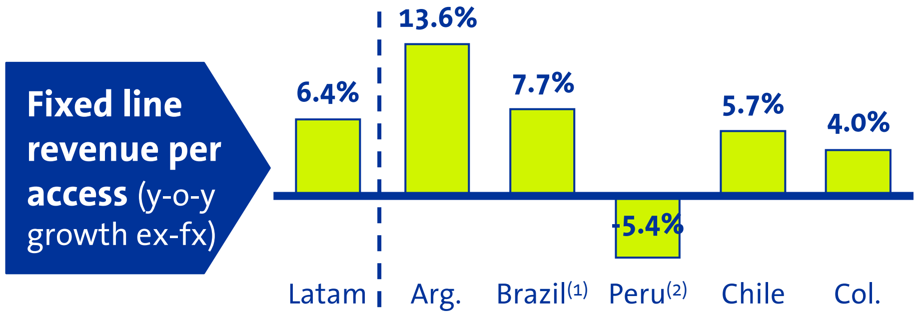


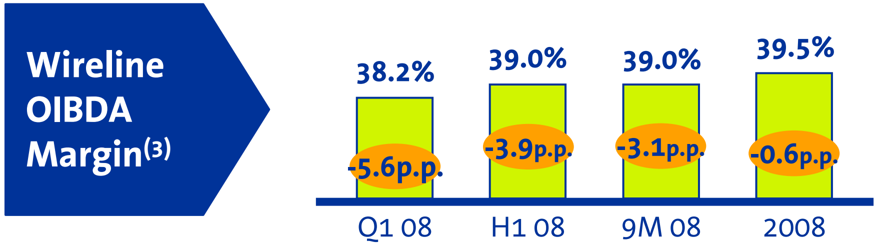
- **Double digit customer growth in most markets:**
  - Mobile penetration up +13 p.p. y-o-y to 82% in Dec-08
  - 18.9[3] m net adds in 2008, on the back of strong gross adds (+14.2%[2] vs. 2007)
  - 80% of total customer base in GSM (+16 p.p. y-o-y)
- **ARPU performance driven by strong customer growth & lower MTRs:**
  - Strong push in usage: MoU +7.8%[2] vs. 2007
  - Solid ARPU performance ex-fx (-3.5% Blended ARPU[2] vs. 2007)
  - Robust mobile data revenue growth[2] ex-fx (+36.3% vs. 2007)
- **Solid OIBDA margin[4] expansion in 2008:**
  - Commercial efficiency and scale economies lead to OIBDA margin expansion across the year

(1) Includes Central America, Ecuador and Uruguay.
(2) Includes Telemig in April-Dec 2007.
(3) The Telemig customers incorporated to the Group in April 2008 (3,986,439 customers) are not considered as net adds.
(4) Aggregated margin.

Wireline business: Accelerating the transformation







- **Sound BB accesses growth to reach 6.1m:**
  - Strong push in bundles (+18 p.p. in 2P&3P/DSL bundles)
  - Higher BB speeds (Brazil & Chile) and expanded coverage in Colombia
  - 191k net adds in Q4 08
- **1.5m Pay TV accesses (+32.4% vs. Dec-07)**
- **Solid top line in 2008 driven by robust Internet & TV revenue growth:**

FY 08 (Local currency)	**Internet & Pay TV revenue/ Total revenue**	**y-o-y change**
Colombia	15.8%	+7.0 p.p.
Peru	30.5%	+5.2 p.p.
Chile	21.9%	+3.4 p.p.
Argentina	17.3%	+3.5 p.p.
Brazil	12.9%	+3.0 p.p.
Total Wireline	**18.6%**	**+3.0 p.p.**

- **Total fixed line accesses up 1.0% y-o-y**
- **Solid expansion of fixed line revenue per access growth rate, accelerating 0.9 p.p. vs. 9M 08**
- **OIBDA margin[3] stabilization across the year**

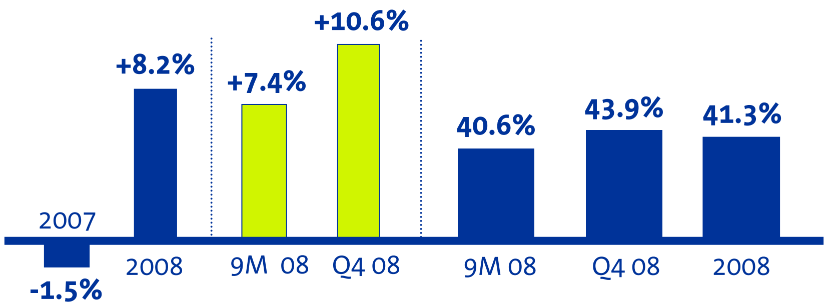
(1) Including TVA in January-September 2007.
(2) Including cable modem.
(3) Aggregated margin (Telesp, T. Argentina, T.Chile, TdP and T. Telecom). For Argentina Margin over revenues includes fixed to mobile interconnection.

Main operations review

Telesp

y-o-y growth

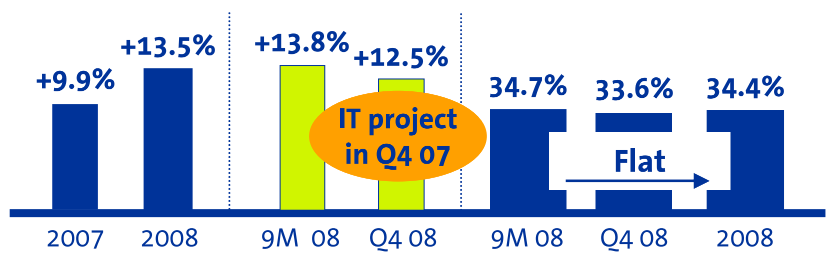
Revenues (in local currency) **OIBDA Margin**



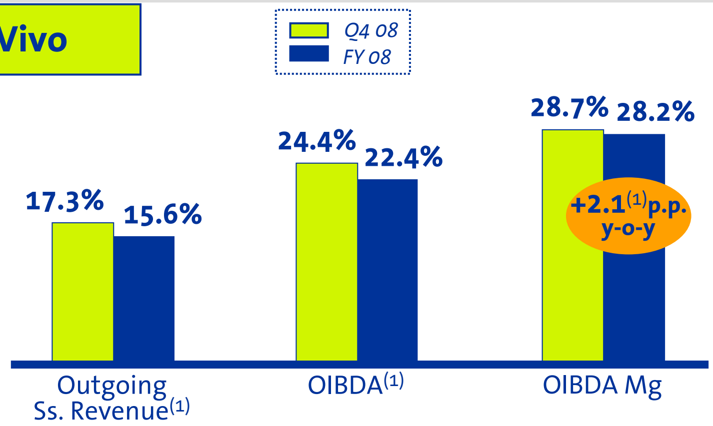
TASA

y-o-y growth

Revenues (in local currency) **OIBDA Margin**[2]

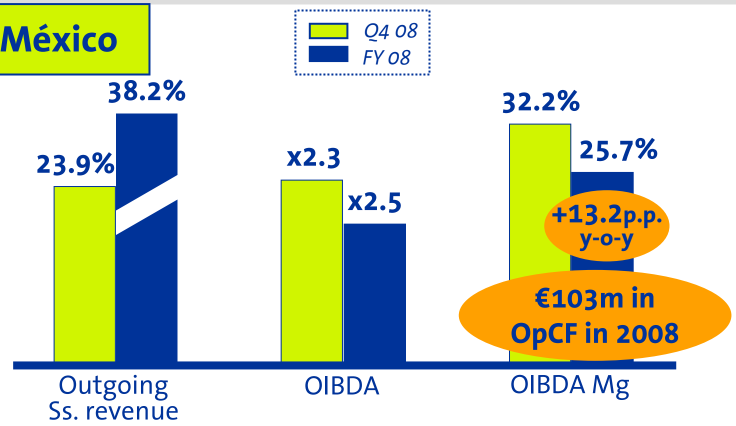


Vivo



y-o-y growth (in local currency)

T. México



y-o-y growth (in local currency)

(1) Includes Telemig in April-Dec 2007.
(2) Margin over revenues include fixed to mobile interconnection.

Sum-up: Strong growth on the back of our integrated and diversified operations

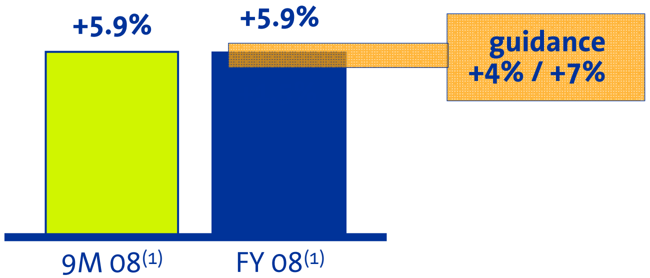
	FY 08 y-o-y growth (in local currency)	Total revenue	BB & TV revenue	Mobile service revenue	Mobile outgoing service revenue	Total OIBDA	Mobile OIBDA
Integrated	**Brazil**[1]	+12.2%	**+41.1%**	**+13.6%**[2]	+15.6%[2]	+9.8%	**+22.4%**[2]
	Argentina	+21.3%	**+42.5%**	**+28.2%**	+32.2%	+26.7%	**+33.4%**
	Chile	+13.3%	**+25.9%**	**+20.3%**	+18.2%	+9.7%	**+22.4%**
	Peru	+7.6%	**+14.2%**	**+20.1%**	+25.5%	+29.0%	**+64.6%**
	Colombia	-3.9%	**+74.7%**	**-5.5%**	+10.3%	+3.6%	**+13.4%**
	C. America[3]	+4.2%		**+5.2%**	+12.5%	-1.5% **+5.9%**	
Mobile	**Venezuela**	+23.9%		**+22.6%**	+31.0%	**+34.0%**	
	Mexico	+23.8%		**+32.1%**	+38.2%	**x2.5**	
	Ecuador	+16.8%		**+20.8%**	+28.0%	**+35.0%**	
	Uruguay	+37.8%		**+35.2%**	+36.0%	**+64.5%**	

Ex sale of Spectrum in 2007

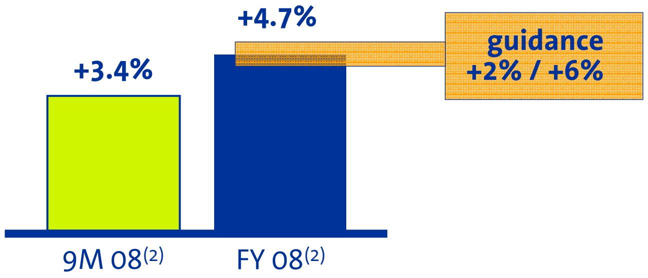
(1) Includes 50% of Vivo.
(2) Includes Telemig in April-September 2007.
(3) Guatemala, El Salvador, Panama and Nicaragua. Year-on-year variation in constant currency.

T. Europe: Delivering results, anticipating customer needs

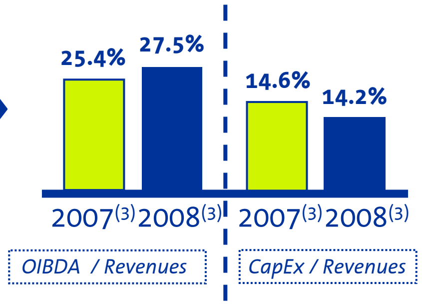
Revenue growth (y-o-y)



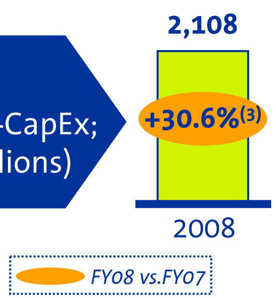
OIBDA growth (y-o-y)



Margins over Revenues (%)



OpCF (OIBDA-CapEx; € in millions)

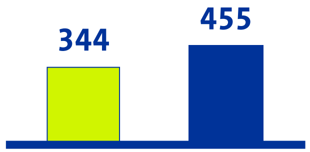


- **Financial targets successfully achieved in a worse economic environment:**
  - UK: *Sustained market outperformance*
  - GER: *Finishing foundations & new commercial approach*
  - CR, IRE: *Improving trends*
- **Sustained profitability:**
  - Improved focused commercial efficiency
  - 2007 & 2008 cost measures paying off
- **Strong cash flow generation despite increasing investment in Germany**

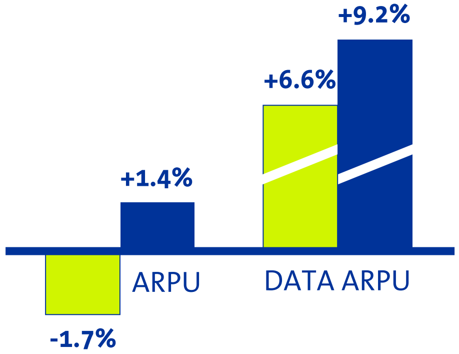
(1) Assuming constant exchange rates and the exit of Airwave in the first quarter of 2007.
(2) Assuming constant exchange rates and excluding the consolidation of Airwave in the first quarter of 2007. Capital gain from the sale of Airwave is also excluded, as well as gains related to the real estate sale in the Czech Republic, restructuring and similar charges and the result of the application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized.
(3) Organic growth: Assuming constant exchange rates as of 2007 and excluding the exit of Airwave in the first quarter of 2007. In OIBDA and OpCF capital gain of Airwave is excluded.

T. O2 UK: sustained market outperformance

Mobile contract net adds (´000)

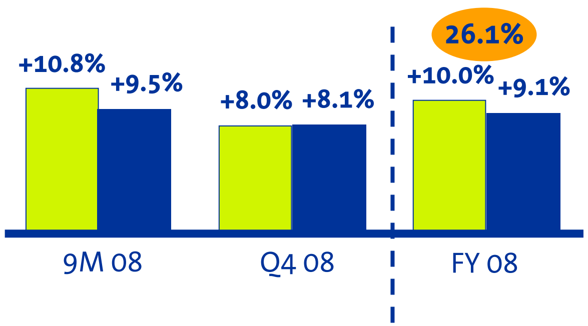


ARPU (y-o-y change in local currency)



Q4 08
FY 08

Mobile Serv. Rev. & OIBDA (local currency)

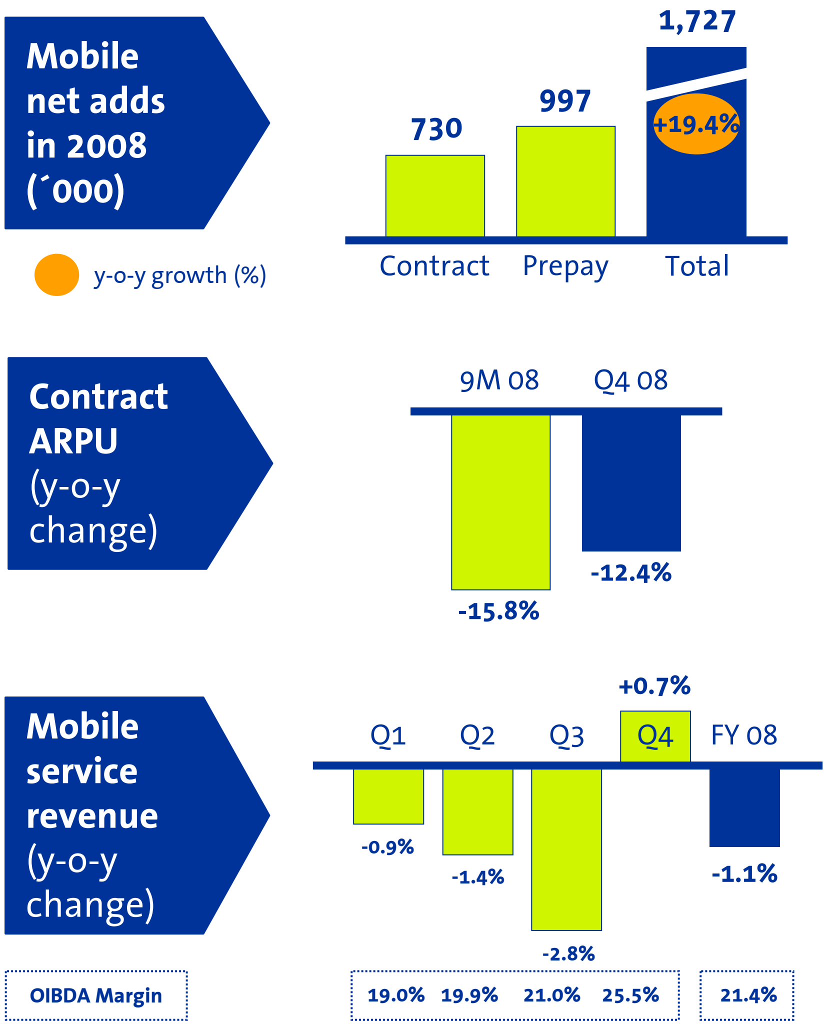


MSR (y-o-y)
OIBDA (y-o-y [2])
OIBDA margin

- **Commercial approach focused on long term customer value:**
  - Clear leader in customer satisfaction[1]
  - Simplicity, iPhone and leading contract churn driving contract customer growth:
    - Contract churn at 1.4% in 2008 (-0.3 p.p. y-o-y)
  - Contract: 39.1% of mobile base (+2.0 p.p. vs. Dec-07)
- **Anticipating customer needs in the current environment: "Control, Value, Trust":**
  - Customers optimizing bundle usage (flat y-o-y contract MoU in Q4)
  - Smaller market/longer handset replacement cycles
  - Non SMS data revenues driving growth (+55.4% y-o-y in 2008 in local currency)
- **Balanced approach: Strong Growth & Efficiency:**
  - 2007 & 2008 efficiency measures paying off

(1) Categories: Fixed broadband, mobile broadband and overall mobile service among network operators (JD Power Associates report).
(2) Like-for-like: Excluding restructuring charges in 2008.

T. O2 Germany: finishing foundations & new commercial approach

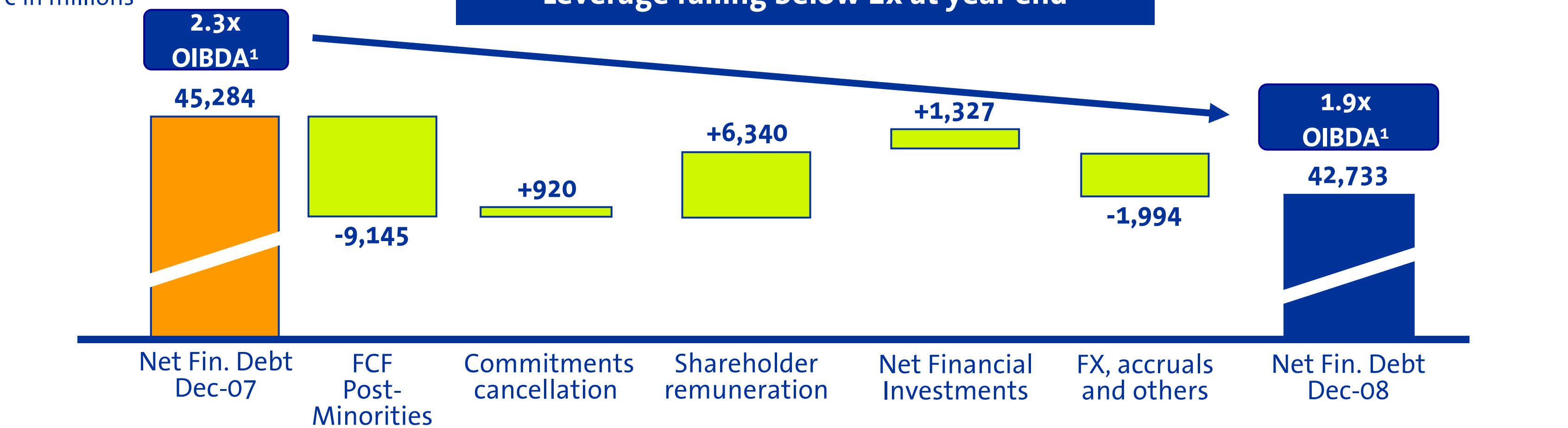


- **Mobile service revenues turnaround achieved in Q4 08:**
  - ARPU declines stabilizing with larger portion of customer base on value tariffs
  - Q4 08 non SMS data revenues +33.2% y-o-y
  - Highly competitive and overall smaller market
- **New commercial approach introduced in Q4:**
  - Aggressive SIM-only offer (reduced SAC)
  - Strong direct channel mix, indirect channel slower to embrace
- **Finishing foundations of the business in 2008:**
  - Migration from legacy to new tariffs completed
  - Distribution network: 805 shops(1) now (+226 increase over 2007)
  - Own network deployment: focus on mobile data
    - 2G coverage at 99% pops
    - High speed data coverage 78% pops

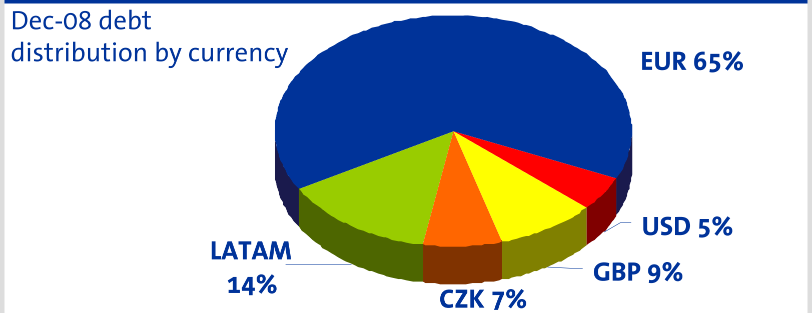
(1) February, 17th, 2009: Acquisition of 80 retail shops from Freenet AG.

Financial expenses on target and upgraded credit ratings

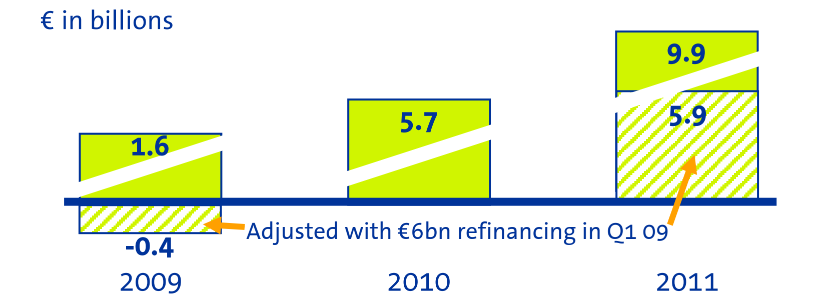
Leverage falling below 2x at year end



€2.1 bn savings due to foreign currency debt



Adjusted net debt maturities

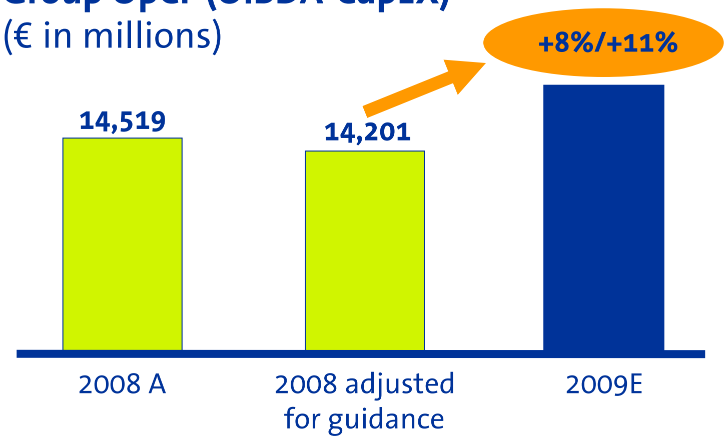


- 3 rating upgrades in Q4 08 (Fitch+S&P, A-/stable, JCR A/stable) plus 1 outlook upgrade in Q1 09 (Moody's Baa1/positive)
- Leverage target, including commitments, in the low range (2.0x OIBDA)
- Eur 2.8 bn financial expenses on Eur 47 bn average total debt: 5.95% effective cost fully on target

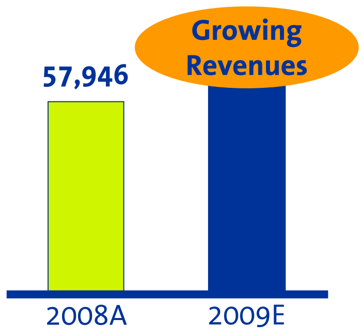
(1) Calculated based on FY 08 OIBDA figure excluding results on the sale of fixed assets.

Group guidance for 2009

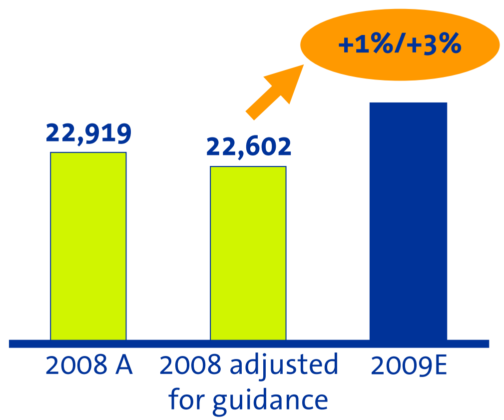
Group OpCF (OIBDA-CapEX)
(€ in millions)



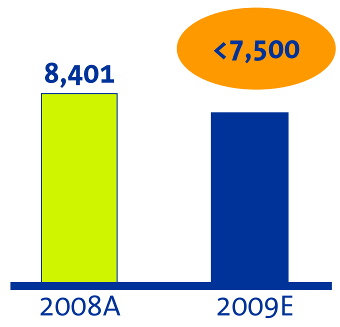
Group Revenues
(€ in millions)



Group OIBDA
(€ in millions)



Group CapEx
(€ in millions)



2008 adjusted figures for guidance exclude Sogecable capital gain (€ 143 m) and the application of provisions made in T. Europe in respect of potential contingencies deriving from the past disposal of shareholdings, one these risks had dissipated or had not materialized (€ 174 m), includes 9 months of consolidation of Telemig in T. Latam. 2009 figures for guidance assume 2008 constant FX (average FX in 2008). In terms of guidance calculation OIBDA exclude capital gains and losses from sale of companies and write-offs. Group CapEx excludes Real Estate Efficiency Program of T. España and spectrum licenses.

2009 regional priorities

SPAIN

- Sustain leading competitive position across businesses, emphasizing customer loyalty & rational value creation commercial initiatives
- Strong focus on OpCF

EUROPE

- Continue to outperform the market in the UK.
- Capitalize strengthened business foundations in Germany to drive growth
- Enhance profitability across markets to deliver increased OpCF

LATIN AMERICA

- Capture structural growth in the region (wireless and BB)
- Further OIBDA margin expansion
- Enriched OpCF profile, leveraging strong CapEx efforts in 2008

Focused strategy & high execution skills

Accelerating transformation to adapt to new environment

TECHNOLOGY

- **Network transformation:**
  - Site build cost reduction
  - Transport optimization
  - Greater coordination in transport networks between Fixed-Mobile businesses
  - Outsourcing initiatives
  - Global partner for network support contracts in IP, GSM, 3G and microwave networks across the Group
  - New Operating Model
  - Energy efficiency program
- **Operations:** service platform regionalization, European centres for some technologies, Regional labs & testing

IT

- **IT Infrastructure optimization:** Mainframes optimization; Data centres consolidation; Common workplace and single corporate network for all TEF Group
- **Application Development and Maintenance**: achieve savings, unify practices & improve quality
- **Corporate IT map for the Group**

PROCUREMENT

- Deployment of a new purchasing platform for all Telefónica Group
- Increase of electronic management of purchases, including negotiation and auction
- Optimise global purchasing strategy for customer devices, networks & IT
- Contracts renegotiation

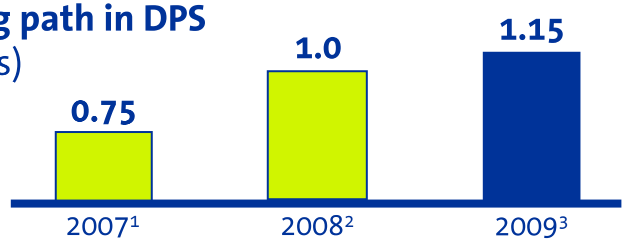
COMMERCIAL

- Channel mix optimization (strengthening on-line channel)
- Streamline P&S portfolio and reduce time to market
- Global P&S development
- Enhanced efficiency of SACs
- Logistics model simplification

Prioritizing shareholder returns

DIVIDENDS

Growing path in DPS
(in euros)



Current DY[(4)]: 8.2%

+

SHARE BUYBACKS

Tactical Share Buybacks

- 126.7 million shares bought in 2008
- Pending tranche of 2008 program to be completed in Q1 09

10%[(5)] of the current market cap devoted to shareholder returns in 2008

(1) Paid in H2 07 (0.35€) and 0.4€ paid in H1 08.
(2) Fiscal year 2008, paid in H2 08 (0.5€) and to be paid in H1 09 (0.5€).
(3) BoD approved the proposal to increase the dividend corresponding to 2009 fiscal year. It is Company´s intention to maintain its current practice so that his dividend will be payable in two tranches.
(4) Based on Telefónica stock price as of 25th, February 2009.
(5) Based on Telefónica market capitalization as of 25th, February, 2009.

2010 "stress case" vs. guidance

	2010 Guidance October 2007	"Stress case" Scenario
EPS [1]	2.304 €	2.10 €
FCFS [2]	2.87 €	2.50 €

(1) Reported EPS.
(2) FCF available to remunerate Telefonica S.A. shareholders, to protect solvency levels and to accommodate strategic flexibility.

Conclusions

DISTINCTIVE PROFILE IN THE INDUSTRY

- Strategically diversified portfolio, execution skills and integrated business model
- Very strong performance in 2008, delivering our Group commitments
- 2009 focus on maximizing free cash-flow generation
- Fully committed to return value to our shareholders
- A reliable company with solid fundamentals