Delivering sustainable growth

César Alierta
Executive Chairman and Chief Executive Officer

9 October 2009

Telefónica

Disclaimer

This presentation contains statements that constitute forward-looking statements about the Company, within the general meaning of the term and within the meaning of applicable securities laws, including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations. These statements appear in a number of places in this document and include statements regarding our intent, belief or current expectations regarding our customer base, estimates regarding future growth in our different business lines and our global business, market share, financial results and other aspects of our activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by the forward-looking nature of discussions of strategy, plans or intentions.

Such forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. These risks and uncertainties include those discussed or identified in the documents filed by Telefónica with the relevant Securities Markets Regulators, and in particular, with the Spanish Securities Market Regulator.

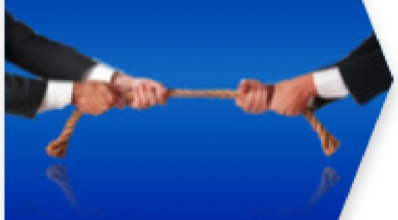
Except as required by applicable law, Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica's business or acquisition strategy or to reflect the occurrence of unanticipated events.

Neither this presentation nor any of the information contained herein constitutes an offer of purchase, sale or exchange, nor a request for an offer of purchase, sale or exchange of securities, or any advice or recommendation with respect to such securities.

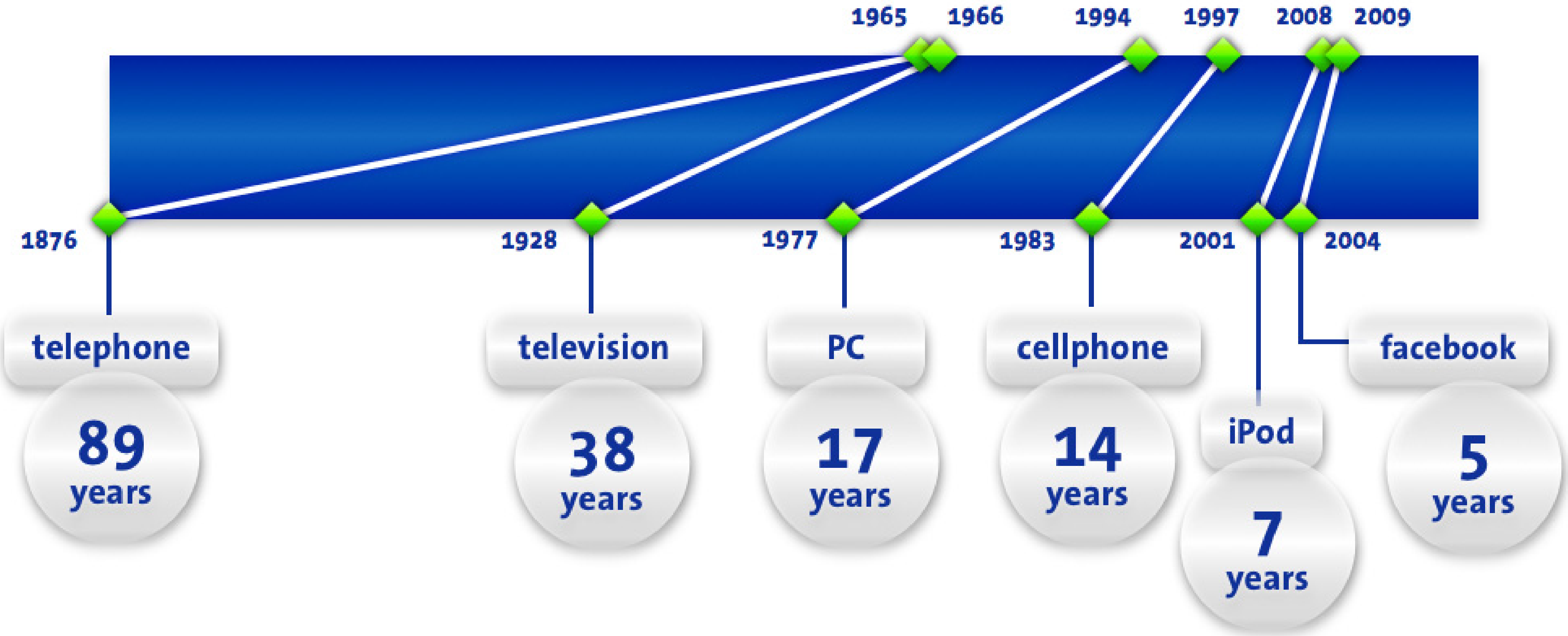
Finally, be advised that this document may contain summarized information or information that has not been audited. In this sense, this information is subject to, and must be read in conjunction with, all other publicly available information, including if it is necessary, any fuller disclosure document published by Telefónica. Furthermore, Telefónica may present financial information herein that is not prepared in accordance with IFRS. This non-GAAP financial information should be considered in addition to, but not as a substitute for, financial information prepared in accordance with IFRS. Telefónica has included such non-GAAP financial information because Telefónica's management uses such financial information as part of its internal reporting and planning process and to evaluate Telefónica's performance. Accordingly, Telefónica believes that investors may find such information useful. However, such non-GAAP financial information is not prepared in accordance with IFRS or any other generally accepted accounting principles, and such non-GAAP financial information, as defined and calculated by us, may be different from similarly-titled financial information used by other companies. Investors are cautioned not to place undue reliance on such non-GAAP financial information.

Index

01 The digital revolution is happening regardless the economic cycle

	Today	Tomorrow
Customers 	• **Cost control** • Telecom spend sheltered with **lower price sensitiveness**	• More focus on **value for money** • More **online** • More **outsourcing opportunities**
Competitors 	• Focus on **access market share** by weakest players • Focus on **revenue market share** by established players	• **Increased market consolidation** • Less but **stronger global players**
Markets 	• **Weaker markets** in some geographies due to macro conditions	• Long term growth prospects based on **digital connected world** • Endless demand for **value added services & applications**

01 People are willing to adopt new services to improve the way they live and work



Time to reach the first 150 million users

Source: Fortune magazine, ITU and Wikipedia

01 We are becoming digital with Telecoms covering an increasing number of **people's** needs, ...

444 m | **Broadband** world subscribers

Source: Point Topic. Q2 09

4,075 m | **Mobile** users

Source: Yankee. May 09

1,668 m | **Online** world **population**

Source: Internet Worldstats. June 09

64% | **US teens** have created content on **Internet**

Source: Pew Internet

75% | Of **50+ US citizens** are now **online**

Source: Bayard

>734 m | Worldwide of **social networks**

Source: comScore. July 09

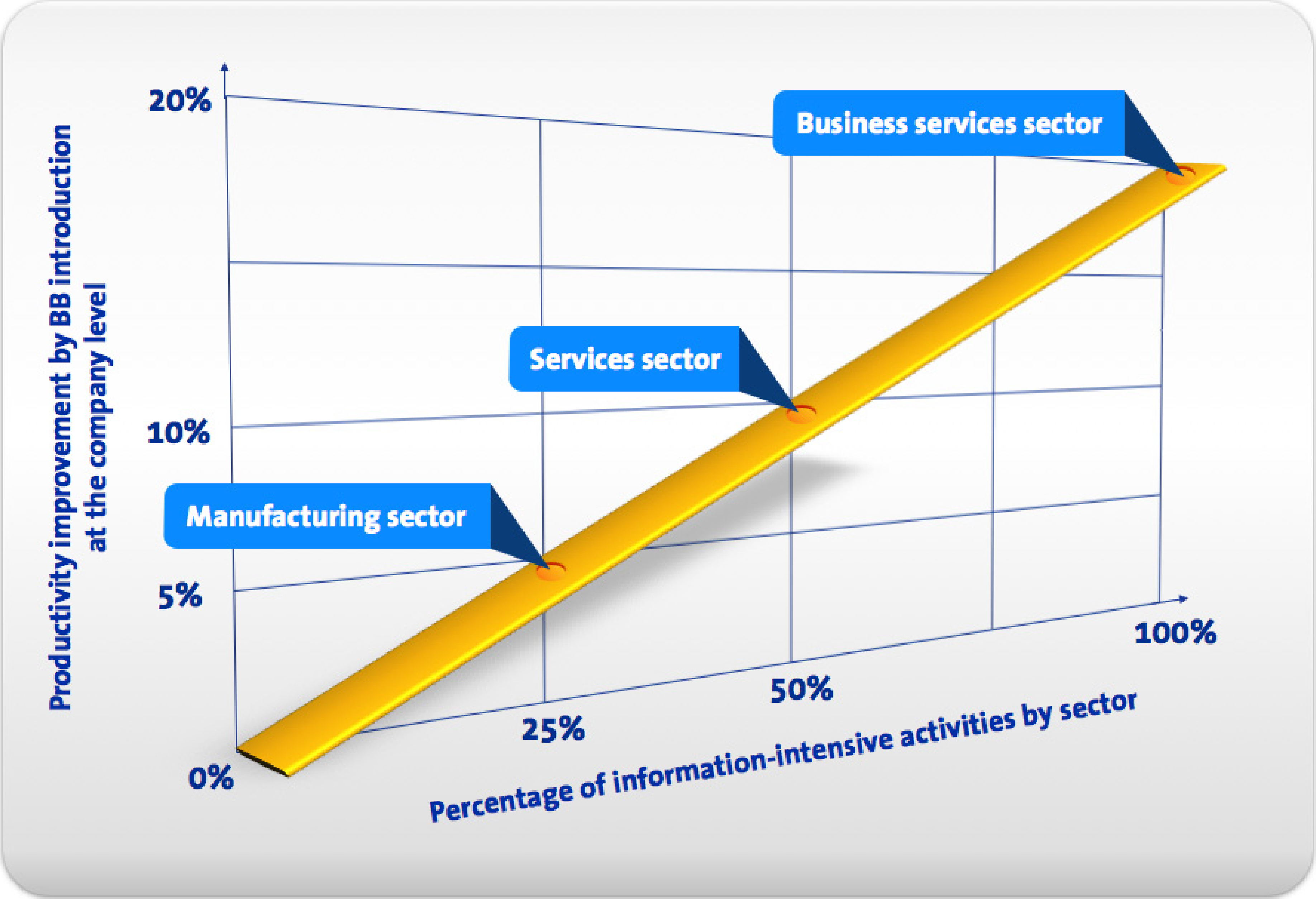
83% | Of Internet users **search** for goods and services

Source: Eurostats – EU15. Sept-09

US$ 204 bn | US **e-Commerce**

Source: Forrester. Feb-08

01 ...while improving **business'** productivity and competitiveness...



Source: MICUS for E. Commission, 2008

01 ...and becoming an essential pillar for **governments** to promote a renewed world economic model

Illustrative

US Broadband Technology Opportunities Program

The program approved in February 2009 focuses on expanding broadband services to enhance broadband capacity at public computer centers, stimulate the economy and create jobs

European Commission Broadband gap policy

The next European Commission could develop a European Digital Agenda to tackle the main obstacles to a genuine digital single market, promote a investment in high-speed internet and avert an unacceptable digital divide (Political guidelines for the next Commission. Barroso speech)

UK Digital Britain Program

Program focused on five objectives for 2012: upgrading the digital network, investment for digital content, content of quality, access for all and enabling online delivery of e-Government

German Federal Government's Broadband Strategy

High-speed broadband networks that enable the rapid exchange of information and knowledge are crucial for economic growth. The aim is to have nationwide capable broadband access by no later than the end of 2010

Spain Plan Avanza2

Program focused on safer ICT systems for businesses and for individuals, content development, e-Services and broadband promotion. € 1.5 bn budget in 2009

Chile Digital Action Plan

Program focused for 2010 on increasing internet connectivity, fostering e-Government services, ICT adoption for businesses & Clusters, e-Education & boosting Global Technological Services industry (Offshoring)

01 Our industry will continue to be a continuous source of growth...

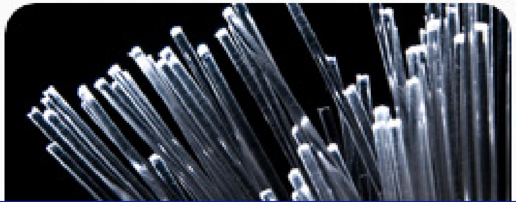
Penetration

Massive penetration of accesses & BB

7.2 bn total accesses by 2012E[1]
+1.3 bn accesses since 2008

- **FBB accesses x1.5**[1]
- **MBB accesses x4**[2]
- **FTTH x3**[3]
- **Mobile data market >US$ 350 bn by 2012E**[2]

Usage



Traffic explosion

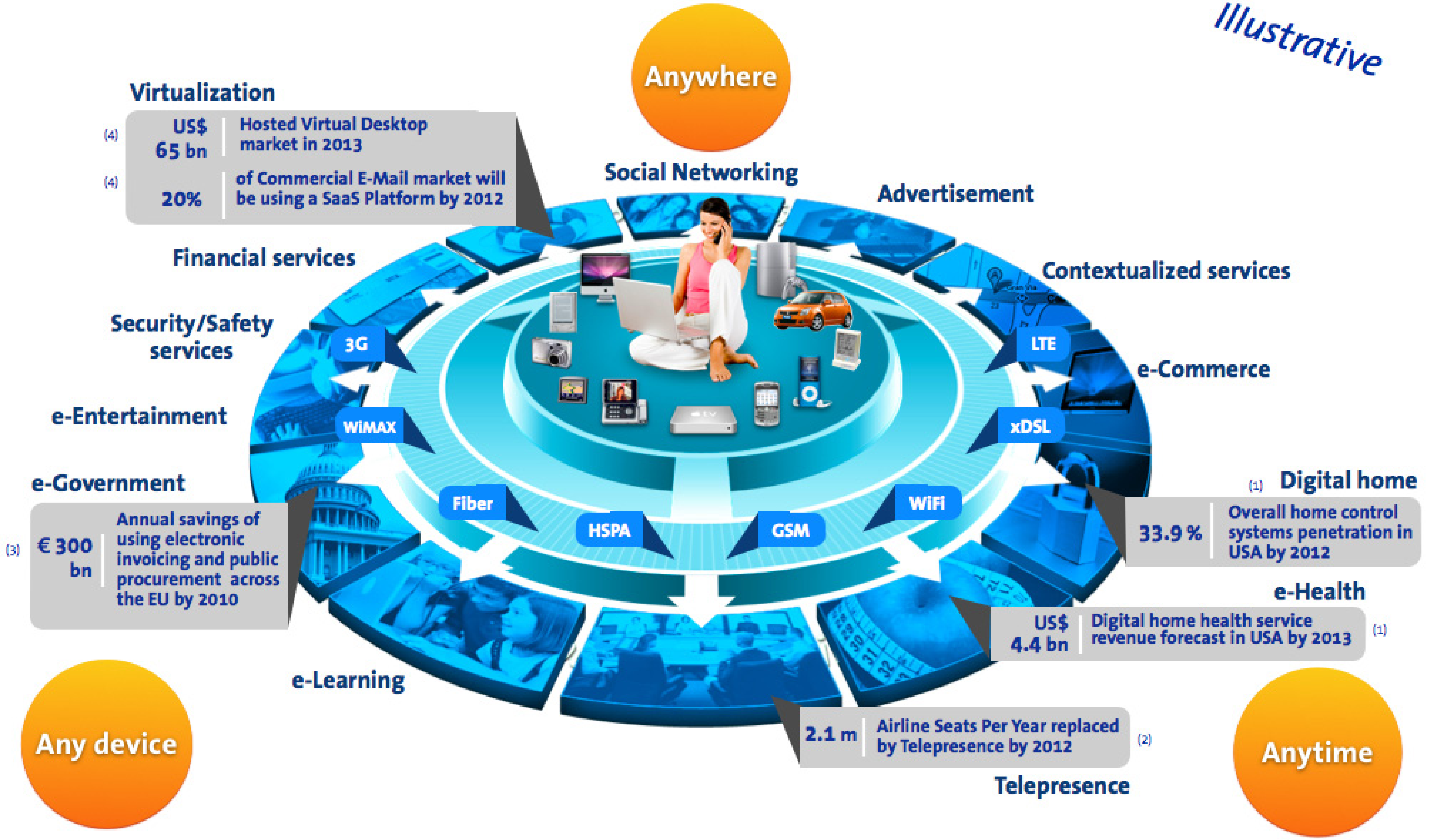
Total traffic volume x4 from 2008 to 2012E[4]

- **Towards an "always-on-world"**
- **User generated content** growth
- Huge growth of **digital content available online**
- Hundred thousands of **applications available**
- **Massive growth** fueled by **video**

1. **FBB:** Fixed Broadband. **Source:** Yankee Group, May 09. FBB & FTTH growth 08-12E
2. **MBB:** Mobile Broadband. **Source:** Pyramid Research, Feb-09 MBB growth 08-12E
3. **FTTH:** Fiber To The Home. **Source:** Yankee Group, May 09. FBB & FTTH growth 08-12E
4. **Source:** Cisco

01 ...with other multiple applications & new business arising towards an eventual Total Digital Life

Illustrative



Source: 1. Park Associates, 2. Gartner, 3. European Comission, 4. Gartner

Index

01 Telecoms: A steady growth industry

02 Telefónica, a differential growth track

Our current strengths

Our growth strategy

Our new guidance & shareholders' return policy

02 What makes us a differential player in this growth industry?

02 Our current strengths

1. A differential **scale** with a value creating **diversification** and an optimum risk profile
2. A consistent **growth** company
3. Trusted and **strong brands**
4. An excellent **execution track record**
5. An experienced and **committed team**
6. **Best in class efficiency** with room for further improvements
7. **Strong financials**
8. The right **partnerships and alliances**
9. **Outperforming** on **Corporate Sustainability**

02 A differential scale with a value-creating diversification and an optimum risk profile

strengths +

Scale & diversity

Global

- **264 million** accesses[1]
  - Mobile: **201 m**
  - Broadband: **13 m**
  - Pay TV: **2 m**
- **#5** Worldwide[1] by number of accesses
- **>85%** **OpCF**[2] **from "Investment Grade" countries**

Regional

- **Access market share of 30% in Latin America**[3] and **20% in Europe**[4]

Local

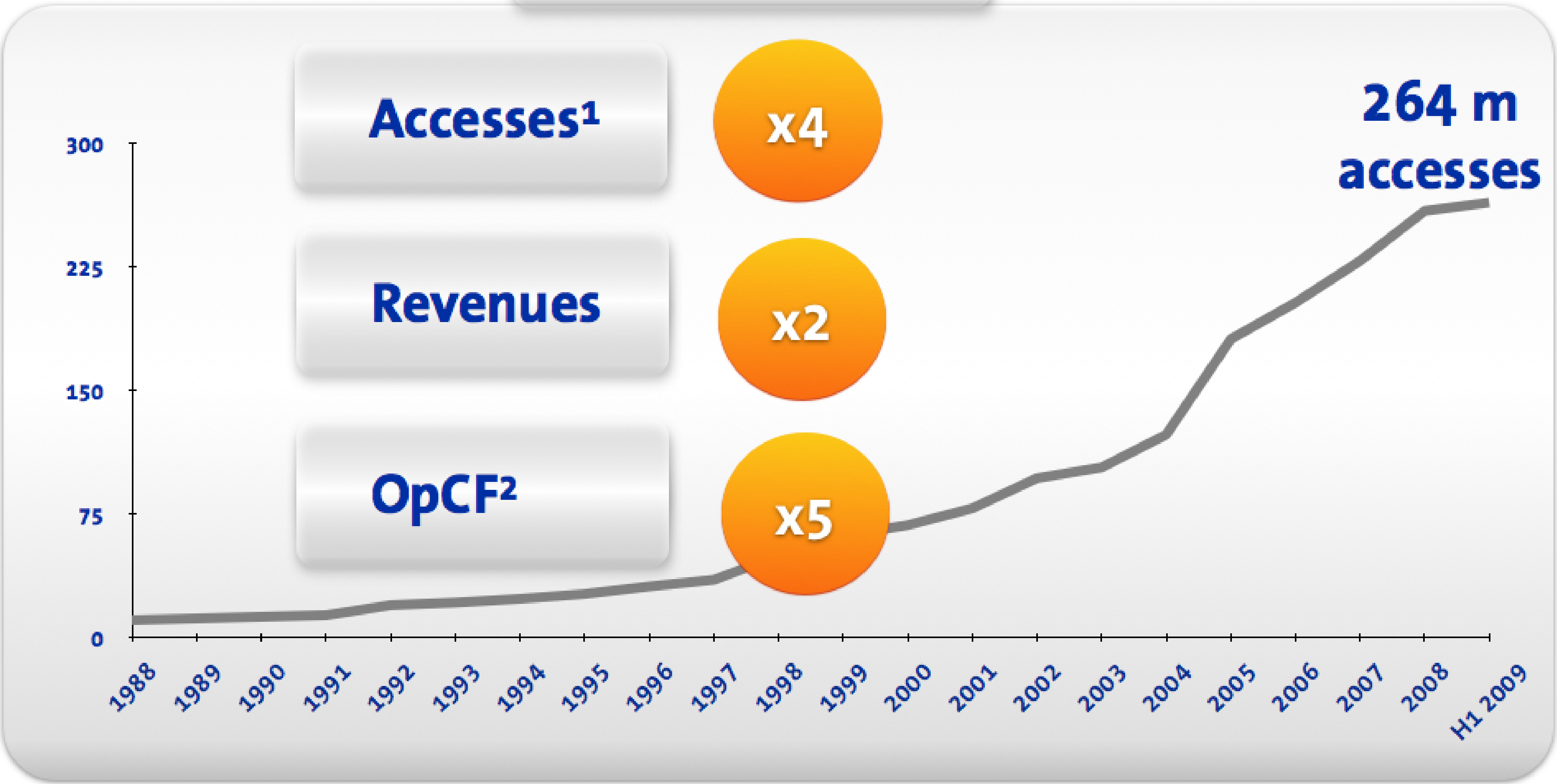
- **#1** or **#2** in our markets[5]

Customer-centric organisation with a Multilocal and Integrated Management

1. Jun-09
2. **OpCF:** OIBDA-CapEx. Investment Grade countries in foreign currency by Standard & Poor's. FY 2008
3. Market share calculated over Telefónica's footprint in Latin America. **Source:** Internal data. Data as of Dec-08
4. Market share calculated over Telefónica's mobile footprint in Europe. **Source:** Internal data. Data as of Dec-08
5. Based on number of accesses. Excluding Germany & Slovakia

02 A consistent growth company

FY 2000 - FY 2008



1. Accesses data Jun-09 over Dec-00
2. **OpCF:** OIBDA - CapEx. FY2000 CapEx excluding UMTS related countries

02 Trusted and strong brands

strengths

Institutional Level

Telefónica

Commercial Level

movistar

O2

Top of Mind brand

#1 or #2 in 90% of our markets

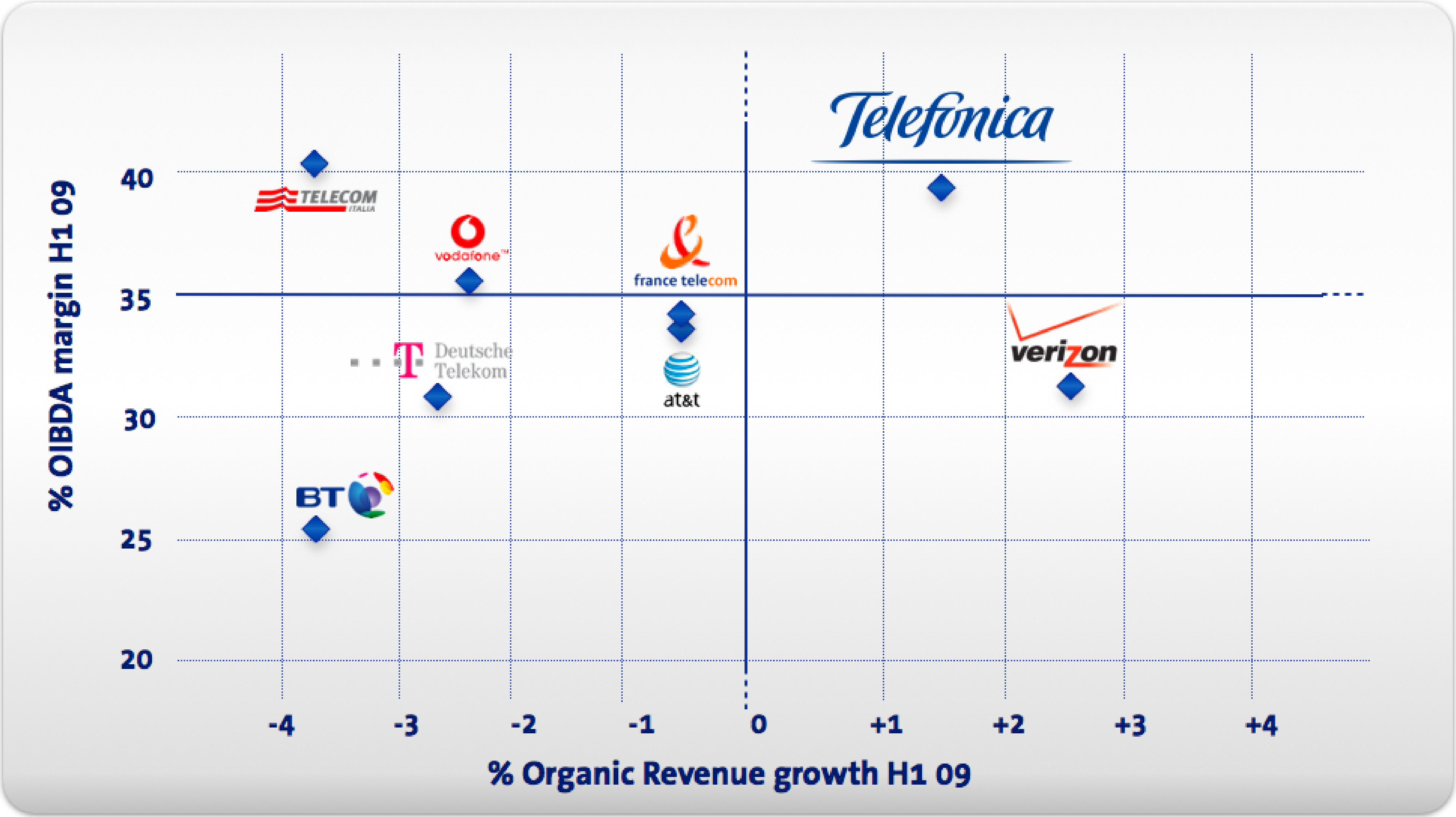
02 An excellent execution track record which makes us highly predictable and thus a lower risk choice (1/2)

strengths

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	H1 09
Revenues	✓	✓	✓	✓	✓	✓	✓
OIBDA	✓	✓	✓	✓	✓	✓	✓
OI	✓	✓	✓	✓	✓	✓	---

Consistent delivery

02 An excellent execution track record which makes us highly predictable and thus a lower risk choice (2/2)



Source: Morgan Stanley based on public company fillings

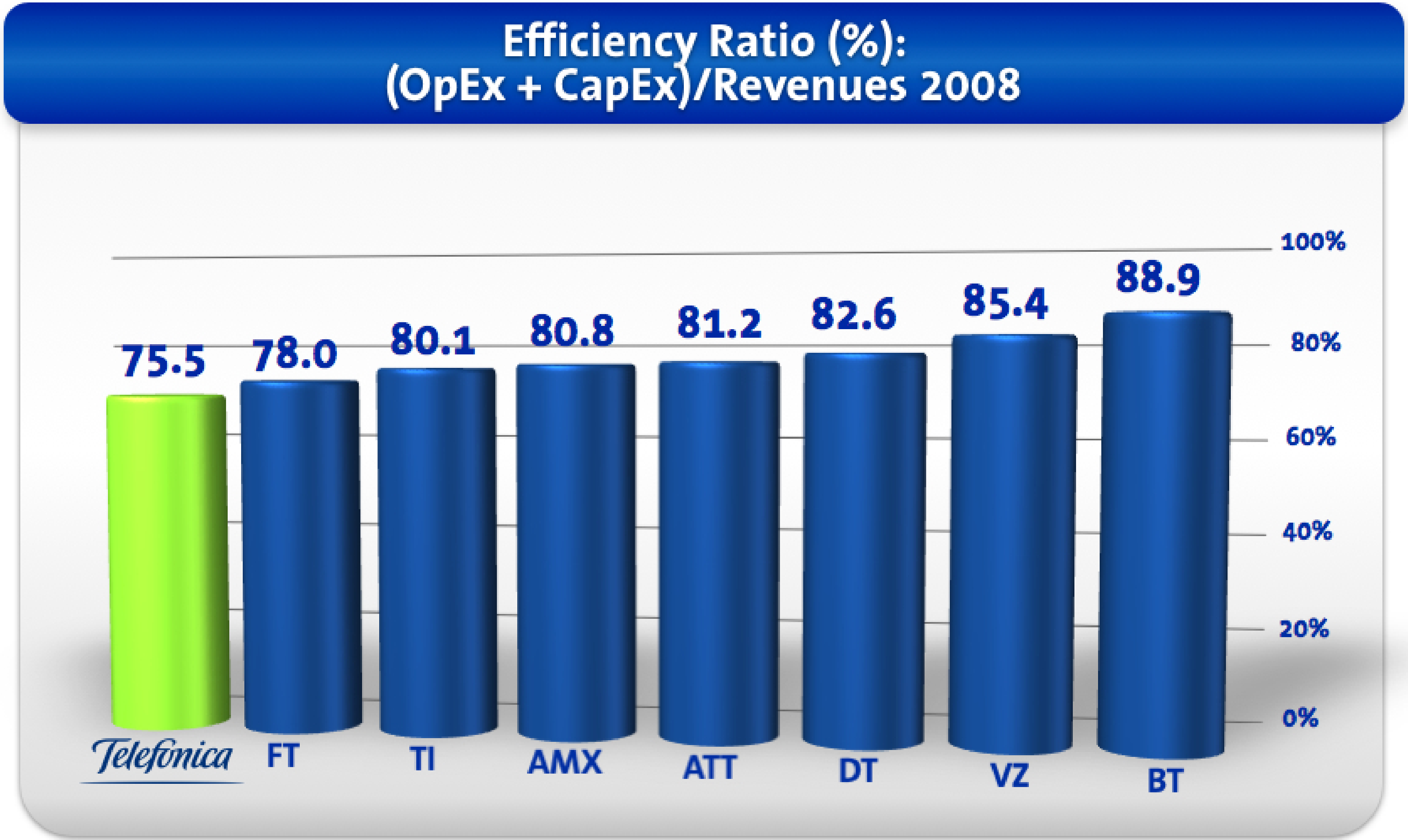
02 An experienced and committed team

Telefónica Executive Commitee	Working for Telefónica	Exposure to Telefónica share
César Alierta - Executive Chairman & CEO Telefónica	since Jul-00	4.0 m shares + 10.2 m call options
Julio Linares - COO Telefónica	since 1970 c.p. since Dec-07	253 k shares
Santiago Fernández Valbuena - CFO Telefónica	since Jan-97 c.p. since Jul-02	323 k shares
José María Álvarez-Pallete - Chairman & CEO T.Latinoamérica	since Feb-99 c.p. since Jul-02	198 k shares
Guillermo Ansaldo - Chairman & CEO T. España	since Apr-00 c.p. since Dec-07	109 k shares
Matthew Key - Chairman & CEO T. Europe	since Feb-02 c.p. since Nov-07	96 k shares
Luis Abril - Technical General Secretary for the Chairman	since Sept-01 c.p. since Dec-08	126 k shares
Board of Directors[1]		>1.8 m shares

Note: c.p. = current position

1. Excluding Executive Committee

02 Best in class efficiency with room for further improvements

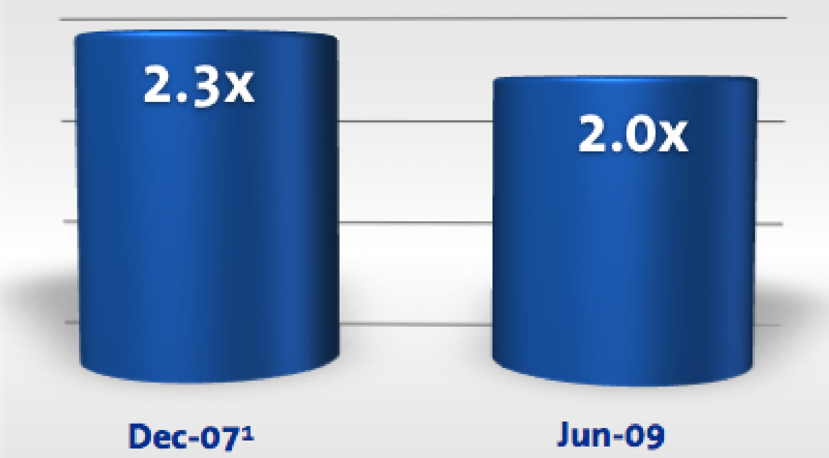


Source: Morgan Stanley. Internal data for Telefónica, (Operating expenses + CapEx - Internal expenses capitalized in fixed assets)/Revenue. CapEx figure excludes Real Estate Efficiency Program of T.España and spectrum licenses

02 We benefit from a strong balance sheet and generate substantial cash-flow...

Steady financial profile and...

Net financial Debt/OIBDA



- **Outlook upgrade from stable to positive by Moody's last Feb-09,** following the upgrades performed by Fitch, S&P and JCR to A or A- at the end of 2008

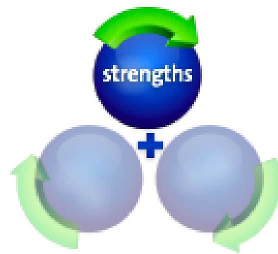
... best-in-class cash flow generation

FCF/Revenues[2]

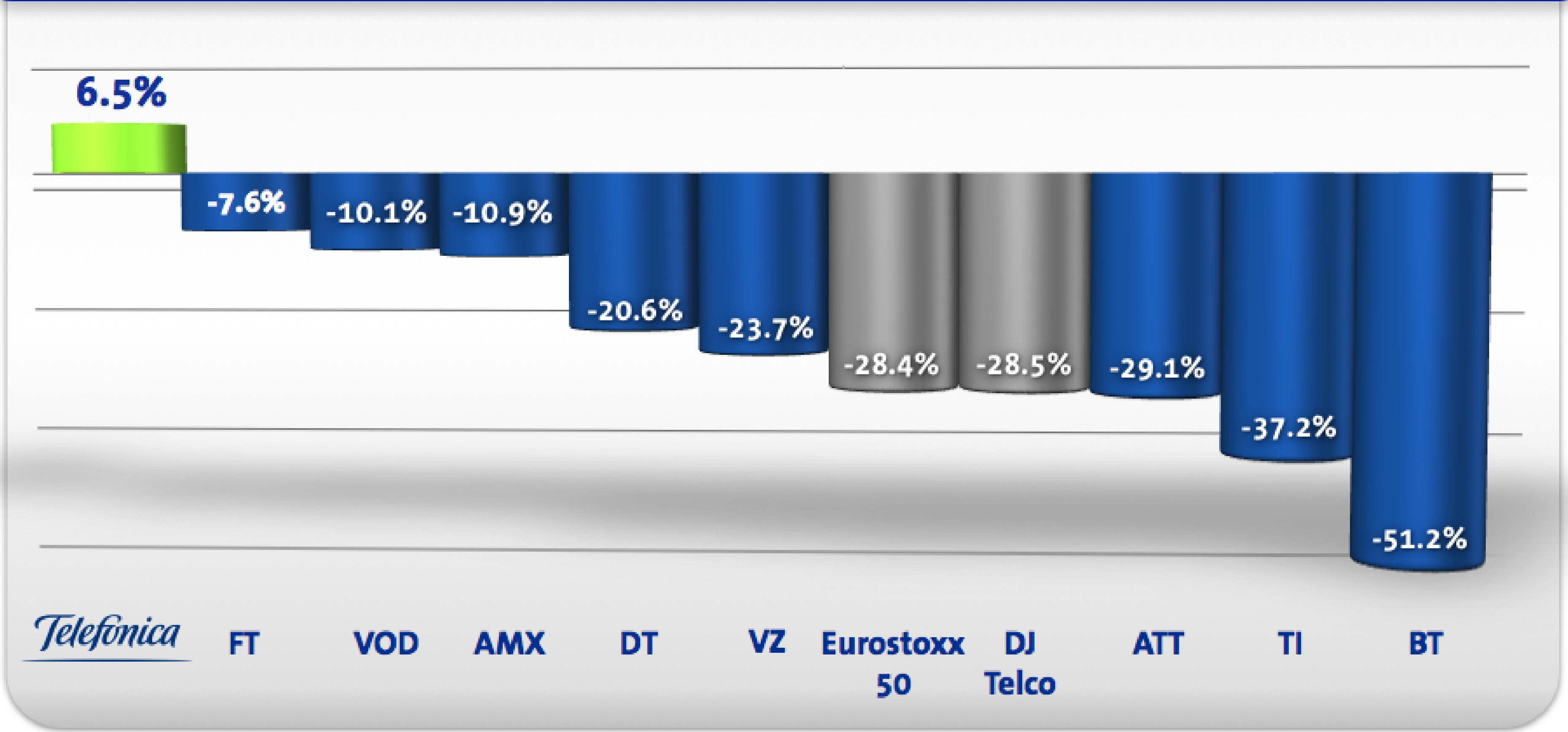
FY 2008

1. Calculated based on 2007 OIBDA figure excluding results on the sale of fixed assets
2. **Source:** Bank of America Merrill Lynch. Internal data for Telefónica. FCF for Telefónica reflects the amount of cash-flow available remunerate Telefónica SA shareholders, to protect solvency levels (financial debt and commitments) and to accommodate strategic flexibility

02 ...that allows us to offer the best-in-class shareholders' return among our peers



Total Shareholders' Return (Sep-07 to Sep-09)



Source: Bloomberg

02 We are capturing significant value by leveraging our global scale and our alliances

strengths

Industrial & Strategic alliances

TELECOM ITALIA

- Combined customer base: **368 m** (Jun-09)
- **Economies of scale** in European footprint, joint **developments** and **implementation** of commercial and operational **best practices**
- **Synergies:**
  - **On track to meet synergies targets**

China unicom 中国联通

- Combined customer base: **548 m** (Jun-09)
- Mutual **investment agreement:**
  - **Telefónica: from 5.38% to ~8% in China Unicom**
  - **China Unicom: ~0.88% in Telefónica**
- **Extraordinary leverage vis a vis third parties** (equipment & devices, VAS & innovative platforms, ...)

Business alliances

NOKIA · Microsoft · SONY · ERICSSON · ORACLE · Sony Ericsson · YAHOO! · Google

LG · Nokia Siemens Networks · CISCO · RIM · IBM · hp invent · HUAWEI · SAMSUNG · Alcatel·Lucent

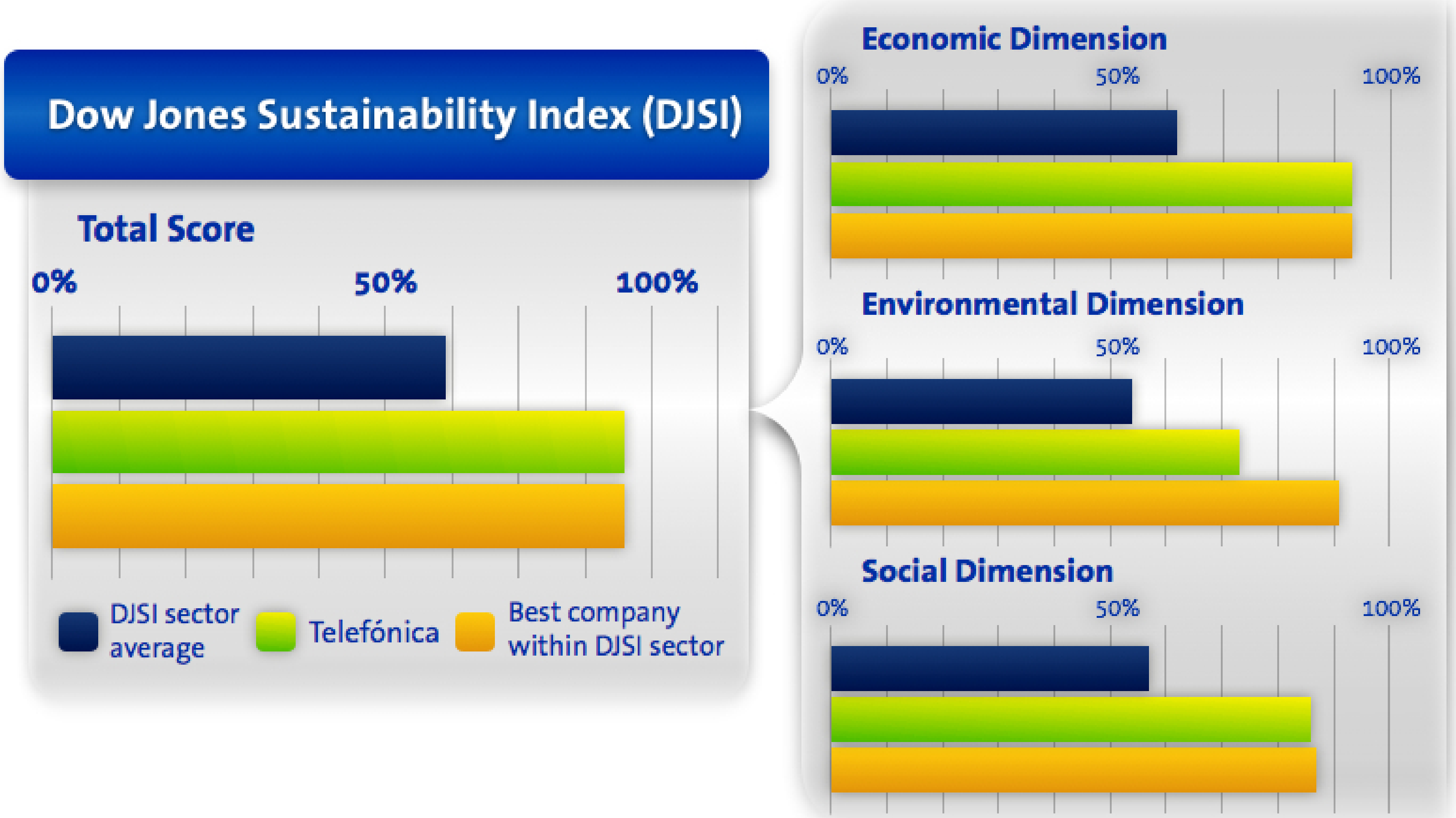
02 Outperforming on Corporate Sustainability

strengths

Dow Jones Sustainability Indexes
Member 2009/10

Telefónica

leads the DJSI in the Telecoms Sector Worldwide
(2 years ahead of our commitment)



DJSI: "Corporate Sustainability is a business approach to create long term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments"

02 All these strengths allow Telefónica to fullfill our stakeholders' expectations

02 What makes us a differential player in this growth industry?

02 Our main strategic challenges

Fully capturing revenue growth potential

Transformation to keep growing profitably

02 A growth industry still ahead

Growth Strategy

Broadband everywhere	Accesses to support BB	Traffic explosion
FBB[1]: +10%	Fixed: +0%	Overall IP traffic (Exabytes): +46%
MBB[2]: +70%	Mobile: +4%	

TOTAL CAGR 08-12E in Telefónica Markets[3]

Telco Revenues[4] in Telefonica's markets CAGR 08-12E[5]: +1%/+3%

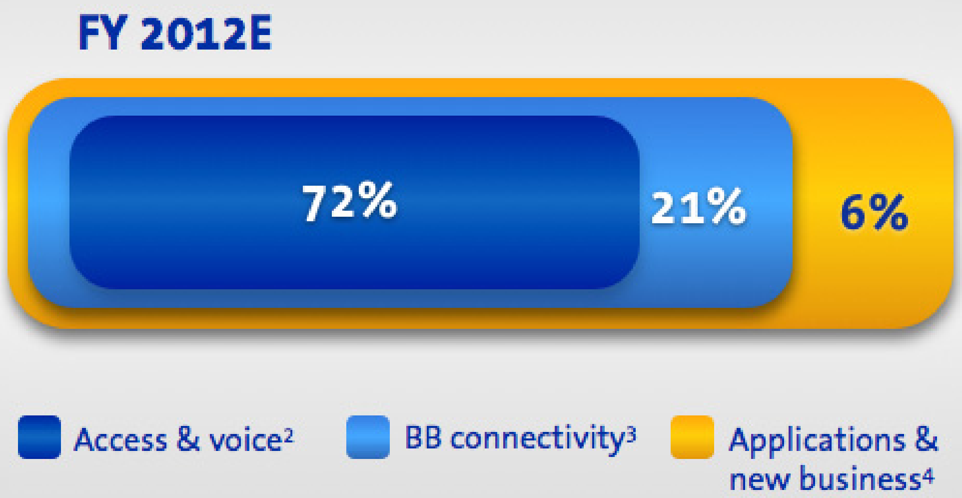
1. **FBB:** Fixed Broadband
2. **MBB:** Mobile Broadband. Growth considers only Big Screen
3. Telefónica markets: total markets from Telefónica's footprint. CAGR 08-12E number of accesses and traffic
4. Telefónica's market revenue: estimated market evolution in Telefónica footprint (countries & services), including fixed, mobile, MBB, FBB and Pay TV
5. Assumes constant exchange rates as of 2008 (average FX in 2008)

02 Customer focus and consistency will drive our strategic actions

02 We will fully capture revenue growth potential...

1. **Customer focus & consistency**
2. **Development of applications & new business**
3. **Massive MBB development**
4. **DSL upgrade & selective FO deployment**
5. **Defense & growth of traditional business**

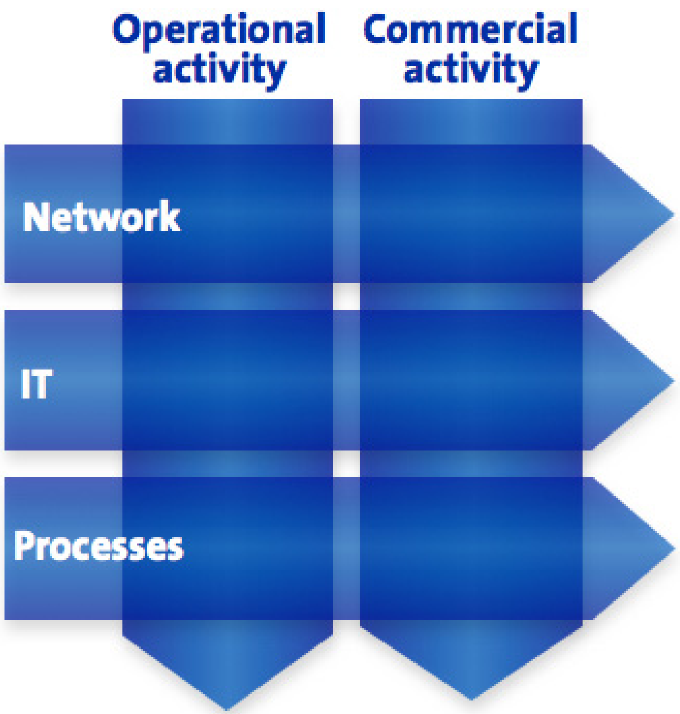
Revenue Mix[1]



1. 1% of revenues from subsidiaries and other companies not shown in the graph
2. **Access & voice**: fixed and mobile access & voice (SMS included), fixed and mobile equipment, narrowband internet and M2M revenue
3. **BB connectivity (MBB & FBB)**. FBB connectivity: (DSL, FO, cable modem,..), fixed data services, retail and wholesale and equipment. MBB connectivity: big and small screen, mobile email, and WAP browsing revenue
4. **Apps & new business**: TV, ICT solutions, on line advertising (e-Commerce, Terra), MBB VAS (mobile content/application downloaded), other FBB VAS, new growth sources and other digital content services revenue

02 ...and transformation will reinforce profitable and sustainable growth

A new operating model



Reinforced by our scale and strategic alliances

1. One Multiaccess network to enable growth and efficiency
2. IT strategy as a key transformation enabler
3. Evolve towards a complete online company
4. Operational excellence will release resources for growth
5. Commercial efficiency tailored to local market conditions

02 Operating targets to become the best Company in the digital world

Growth Strategy

Strategic pillars

- Fully capturing revenue **growth** potential
- **Transformation** to keep growing profitably

FY 2012E Operational Targets

- **CSI leaders across footprint by 2012**
- **Outperforming the industry in market share**
- **Churn improvement to 1.9% (-0.3 p.p.** from 2008 to 2012E)
- **Efficiency ratio[1] improvement of ~ 4 p.p vs 2008**

1. **Efficiency ratio:** (Operating expenses + CapEx - Internal expenses capitalized in fixed assets)/Revenue. CapEx figure excludes Real Estate Efficiency Program of T.España and spectrum licenses

02 What makes us a differential player in this growth industry?

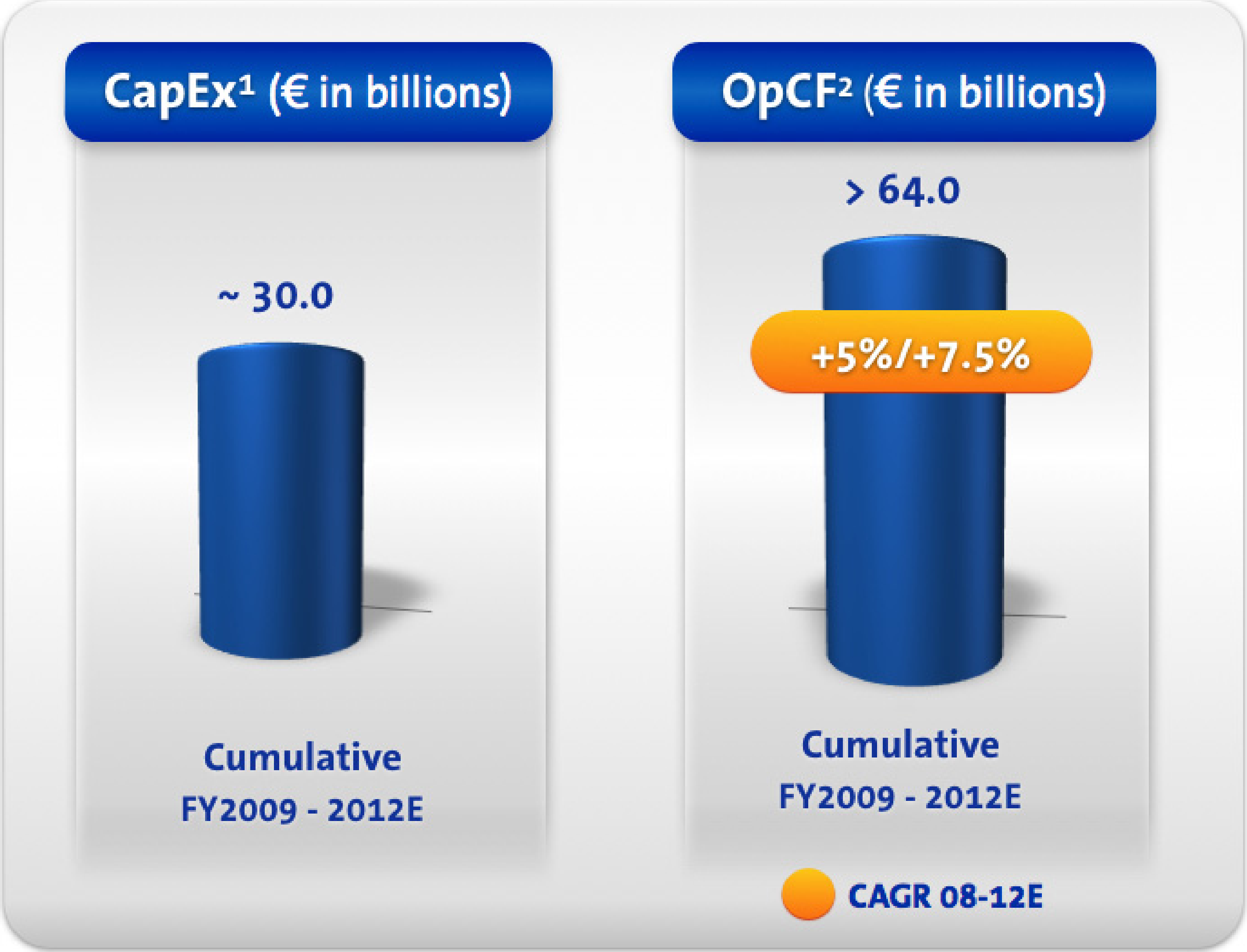
02 Guidance will lead to a sustainable growth and an even lower risk profile ...

Telefónica	FY 2008 Adjusted[2]	CAGR 08-12E[2]
Accesses[1] millions	252	> 320
Revenues € in millions	57,946	+1%/+4%
OIBDA € in millions	22,602	+2%/+4%
OI € in millions	13,556	+4%/+7%

1. Morrocco accesses excluded in 2008 for comparison reasons
2. 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. Figures for guidance assume 2008 constant FX (average FX in 2008) and exclude changes in consolidation. In terms of guidance calculation OIBDA exclude capital gains and losses from sale of companies and write-offs.

02 ... while improving our capacity to turn growth into CASH

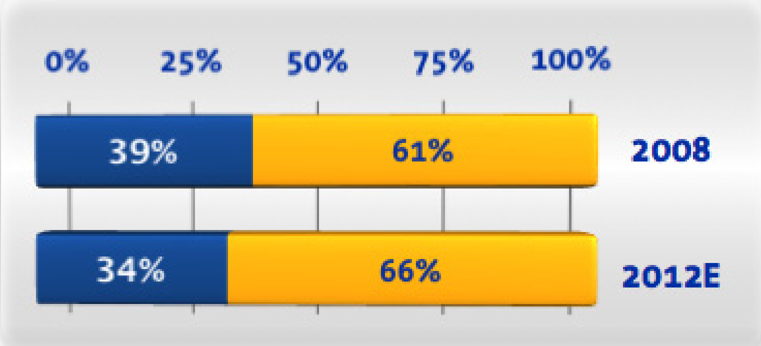
Guidance & S.R.



1. Assuming constant exchange rates as of 2008 and excludes changes in consolidation. Group CapEx excludes Real State Efficiency Program of T.España and spectrum licenses
2. **OpCF**: OIBDA-CapEx. 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. Figures for guidance assume 2008 constant FX (average FX in 2008) and exclude changes in consolidation. In terms of guidance calculation OIBDA exclude capital gains and losses from sale of companies and write-offs. Group CapEx excludes Real State Efficiency Program of T.España and spectrum licenses

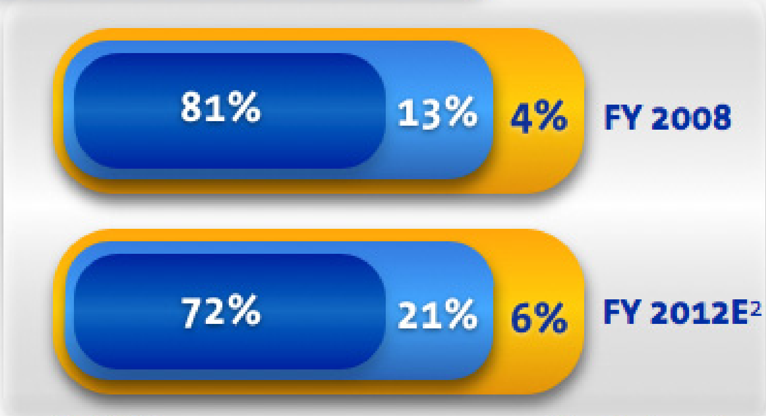
02 With this Plan, Telefónica will become a company more...

... diversified (accesses)



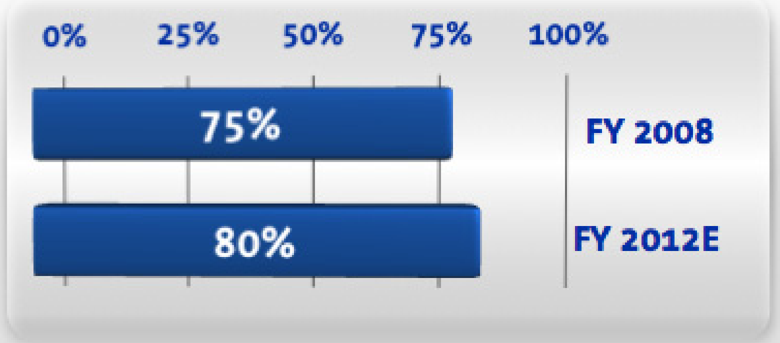
Europe[1] (7 markets) Latam (13 markets)

... innovative (revenues)[2]



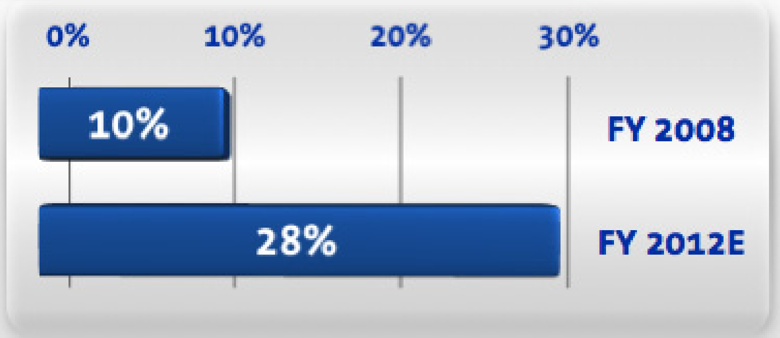
Voice & accesses BB Connectivity Applications & new businesses

... mobile[3] (over total accesses)



Total Mobile (MBB included)

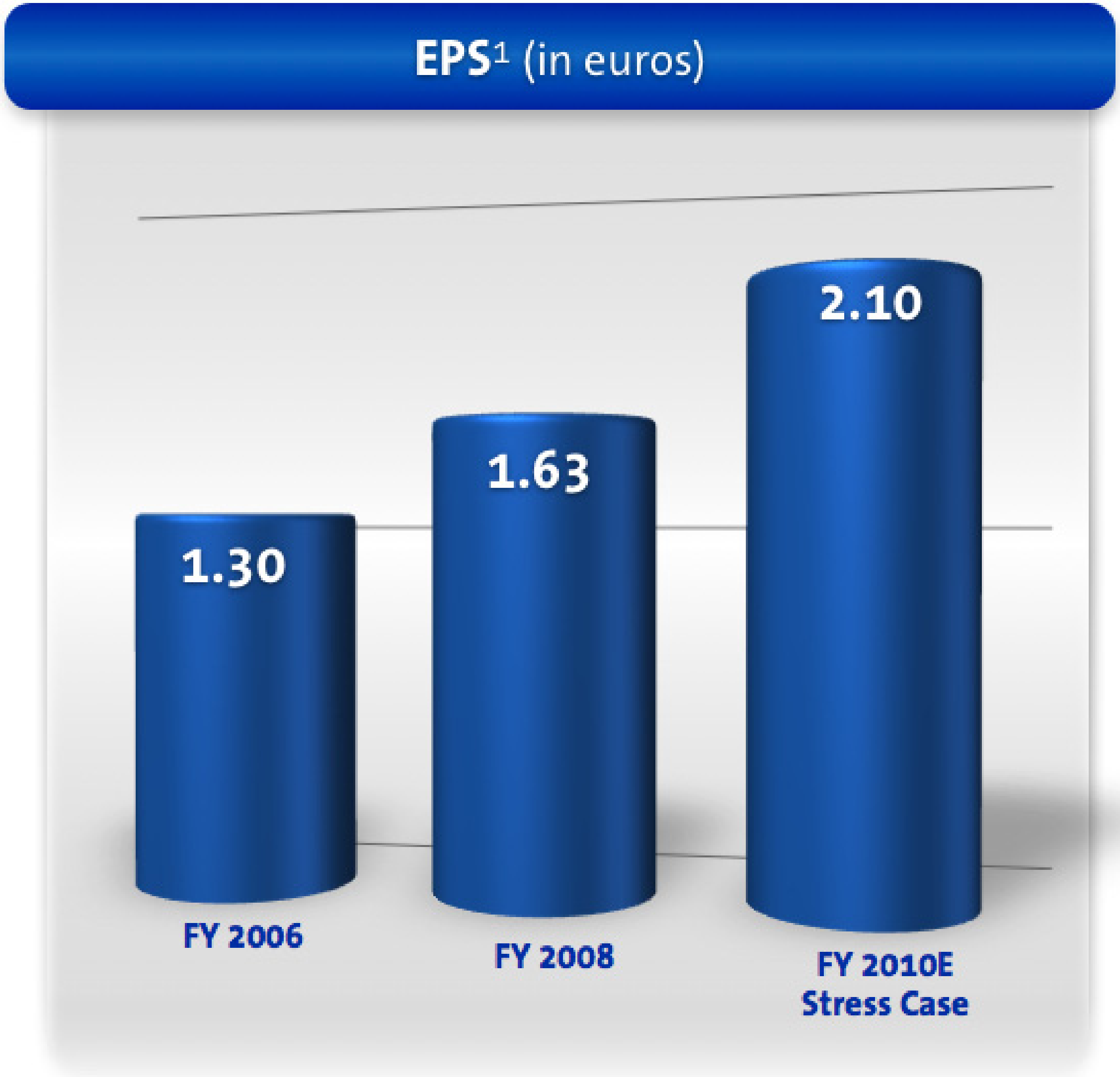
... broadband[4] (over total accesses)



MBB accesses includes small & big screen

1. Includes T. España and T. Europe
2. Assuming constant exchange rates as of 2008 (average FX08) and excludes changes in consolidation. % of revenues from subsidiaries and other companies not shown in the graph
3. Mobile voice and access. SIMs consuming voice and small screen connectivity are counting both in mobile and BB accesses
4. Includes MBB, FBB and wholesale accesses

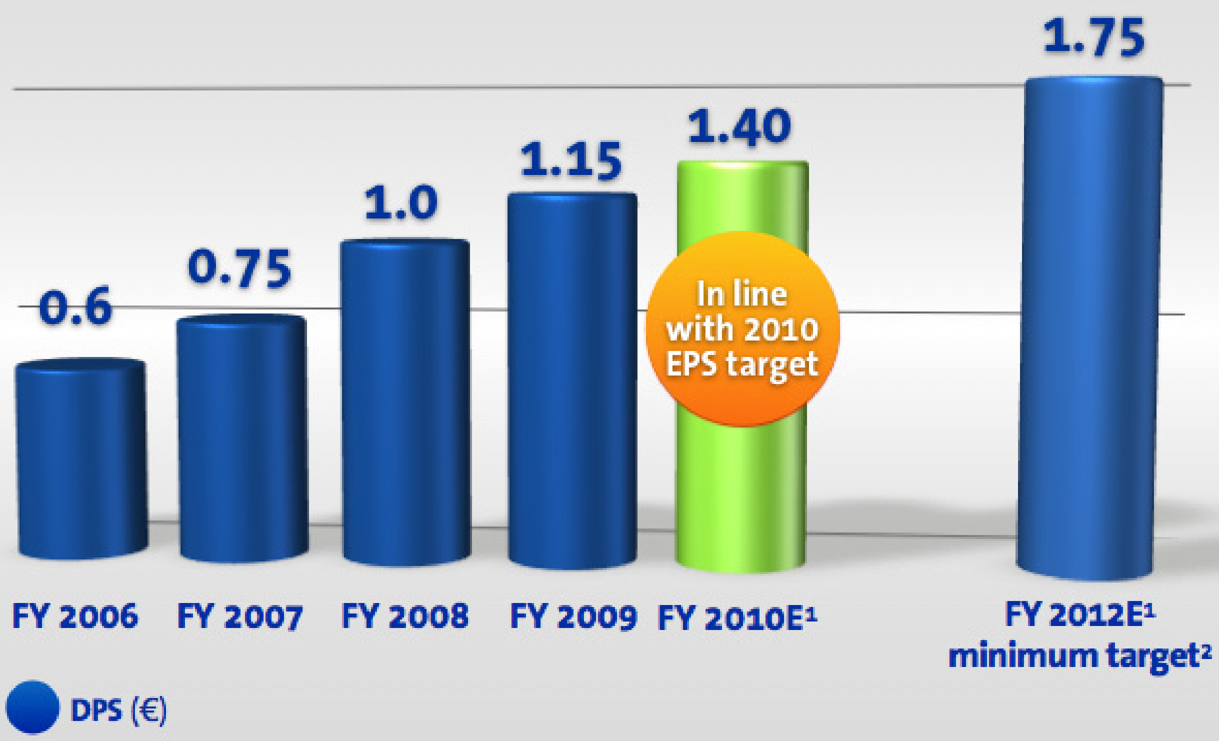
02 We will continue with a great track record of turning organic growth into EARNINGS ...



1. Reported EPS

02 ... and into CASH

Growing shareholders' remuneration via dividens



Reassurance of growing DPS policy

1. It is Company's intention to maintain its current practice so that dividends will be payable in two tranches
2. Targeted under current guidance hypothesis

02 A company that will continue offering outstanding shareholders' returns

Guidance & S.R.

>€ 40 bn cumulative FCF[1] FY2009 - 2012E

Disciplined use of FCF:

Growing dividends	• € 1.40[2] in FY 2010E (+21.7% y-o-y) • € 1.75[2,3] DPS minimum target for FY 2012E
Stable leverage	• Net debt + Cash commitments/OIBDA in the 2.0-2.5x range
Selective M&A	• Spectrum auctions in current markets to foster growth • In-market consolidation • Increase shareholding in China Unicom to 10%

+

Tactical share buybacks to be considered for FCF excesses

Recently announced stake increase in China Unicom to be paid with treasury stock

1.FCF available to remunerate Telefónica's shareholders, to protect solvency levels (financial debt and commitments), and to accommodate strategic flexibility. Figures assuming 2008 constant exchange rates (average exchange rates in 2008) and excluding changes in consolidation

2. It is Company's intention to maintain its current practice so that dividends will be payable in two tranches

3. Targeted under current guidance hypothesis

Main take-aways

Telefonica

- We are one of the **best positioned** players to take advantage of this **growth industry**
- We have the right **growth strategy**
- We consistently **deliver on our commitments** thus we are **a lower risk investment case**
- We have a **committed management team for value creation**
- We will continue to be a company **focused on enhancing shareholders' returns**

Telefonica