

A nighttime photograph of a city street in London, featuring classical architecture and modern skyscrapers in the background. Light trails from traffic are visible in the center of the street. The text 'Anticipating the future to transform the present' is overlaid in the top left corner.

Anticipating the future
to transform the present

Investor Conference

London, 13 - 14 April 2011

César Alierta

Chairman and Chief Executive Officer, Telefónica

Telefonica

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- 01 Progress made in the last 18 months
- 02 Improved outlook for a dynamic and growth industry
- 03 Telefónica's strategy and long term guidance

01

Progress made in the last 18 months

Significant progress since our last Investor Conference

- We are **delivering on our commitments**
- We **continue transforming our company**
- We have **outperformed the market**
- We have **reinforced our scale**

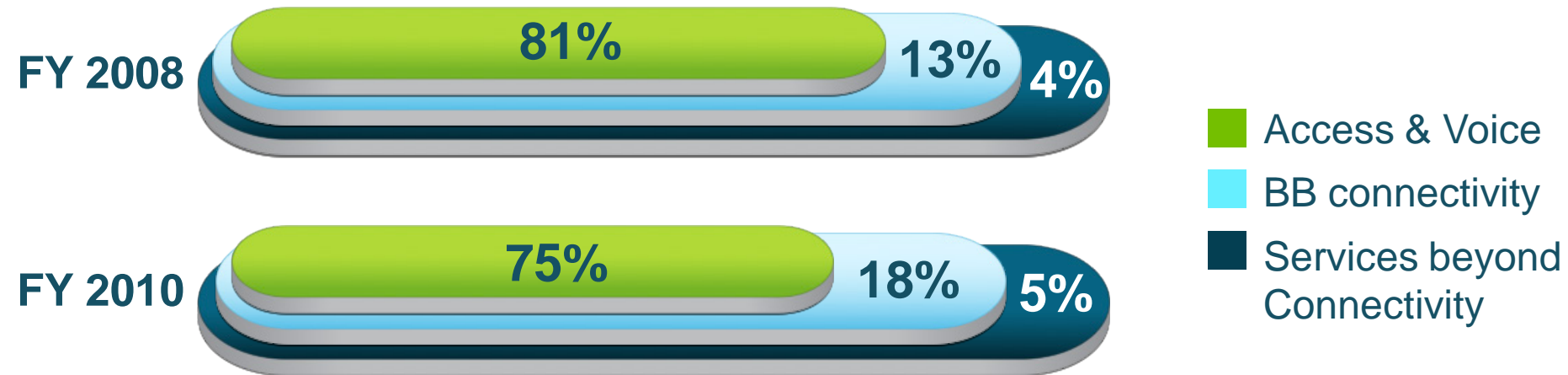


We have **strengthened our growth capabilities**

We are better positioned to continue leading this growth industry

Fully capturing revenue growth potential ...

Revenue mix¹ evolving in the right direction



More customer focus



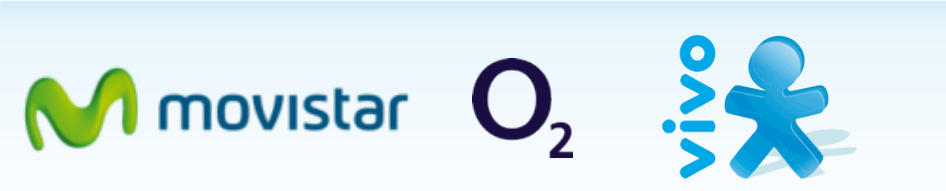
- CSI Improvement to over 7
- Positive evolution of CSI gap with competitors

Brand consolidation

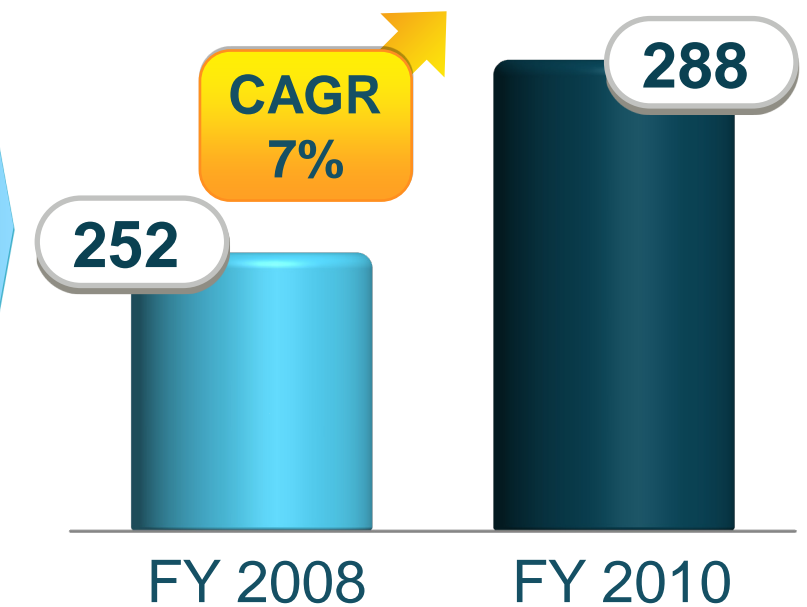


- The most admired telecom company worldwide by Fortune
- # 1 / #2 in brand consideration in most markets

Telefonica



Total Accesses² (million)



1. Revenues from other subsidiaries and other companies not shown in the graph
 2. Morocco and Manx Telecom accesses excluded in 2008 for comparison reasons

...while transforming to continue growing profitably

Advancing in a more efficient and growth enabling operating model



Network: Multiaccess

- | | |
|-------------------------------------------------|--------------|
| | 08/10 |
| ● Selective deployment of high speed FBB access | x 4 |
| ● Expansion of MBB capacity and coverage | x 1.6 |
| ● Increase integrated backbone capacity | x 2.2 |

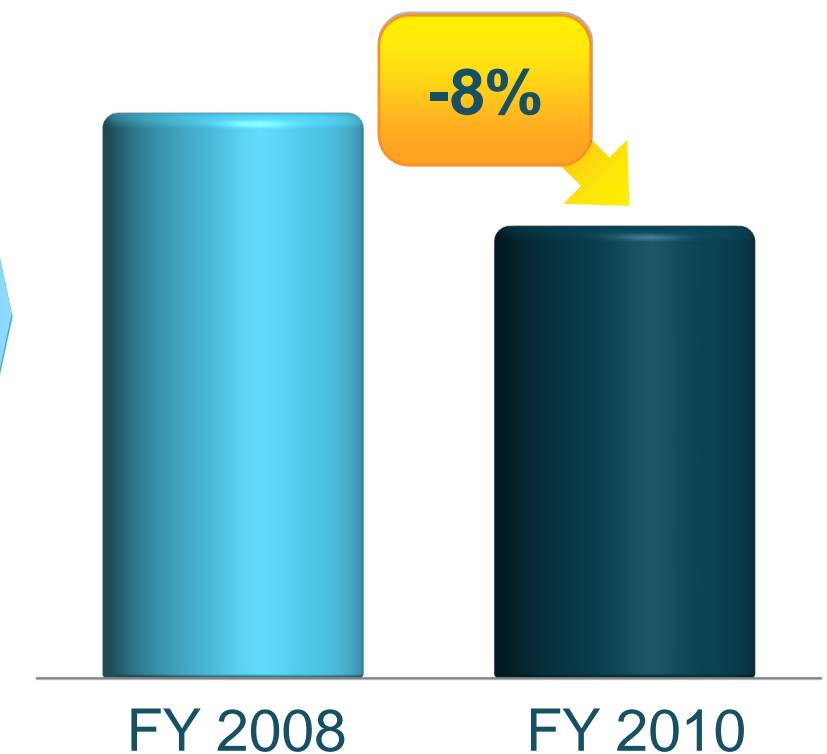
IT enabler

- TTM improvement: **-18%** vs. FY 2009
- Maintaining IT OpEx+CapEx / revenues **~4%**

Processes: On-line @core

- Share of online transactions **x5** vs. FY 2008
- Agile contact with suppliers: **90%** purchases online

(OpEx + CapEx)¹/Accesses



TTM: Time to market

1. OpEx: Operating expenses + Own Worked Capitalized, excluding non-recurrent restructuring expenses. CapEx: excludes Real Estate Efficiency Program of T.España and spectrum licenses

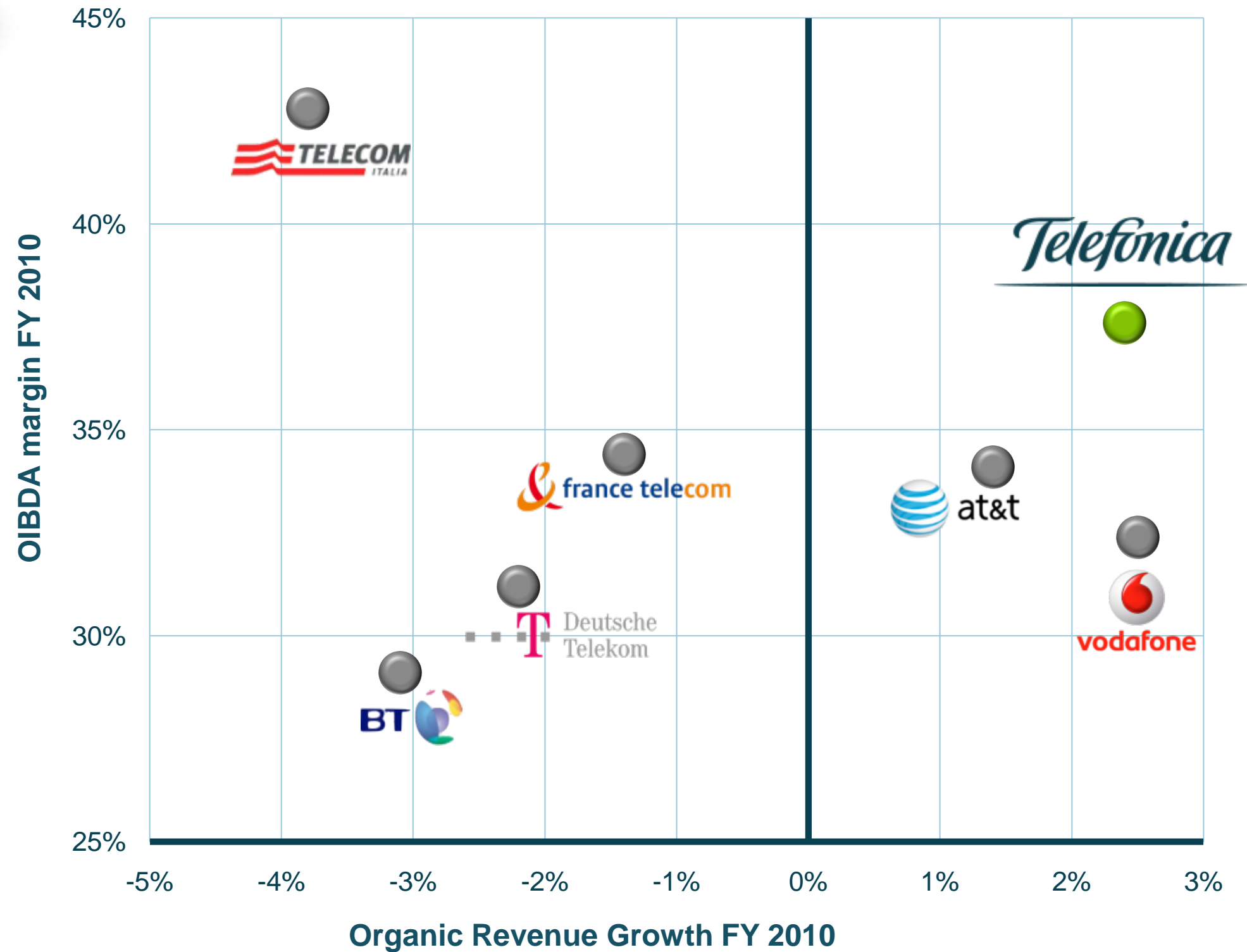
Telefónica: A highly predictable and reliable company

Delivering on our commitments



- Meeting our annual targets for 8 years in a row (from 2003 to 2010)
- Robust financial position: leverage ratio within target range
- €1.40 DPS in 2010

Outperforming the market



We have reinforced our asset base in an industry where scale and spectrum are key...

Through organic growth...

- ~28 m new organic accesses in the last 18 months
- #5 on worldwide accesses ranking (Dec-10)



... selective M&A ...

In-market consolidation



Spectrum auctions



Increase shareholding in CU

Recently announced 9.7%



... and strategic & industrial alliances



...and we have strengthened our capabilities to capture the new digital world opportunities

P&S Global Units



Financial services



eHealth



M2M



Cloud



Video & DH



Apps



Security

OTT companies



The leading digital media company in Latin America








The most innovative IP communication company



The most engaging social network in Spain

We are the most diversified integrated company in the world...

% outside country of origin (Dec-10)

	Accesses	Revenues	OIBDA
	95%	89%	92%
<i>Telefonica</i>	83%	68%	64%
	68%	59%	46%
	66%	49%	39%
	60%	60%	51%
	45%	27%	18%

Source: Companies Press Releases

1 DT excluding US assets: 52% Accesses, 46% Revenues and 37% OIBDA



...with a unique global profile

Latin American Footprint

- Population: 526 m people
- ICT market value: US\$ 227 bn
- TEF accesses: 184 m
- TEF Revenue share¹: 29%

European Footprint

- Population: 164 m people
- ICT market value: € 307 bn
- TEF accesses: 56 m
- TEF MSR share: 25%

Spanish Footprint

- Population: 46 m people
- ICT market value: US\$ 64 bn
- TEF accesses: 48 m
- TEF Revenue share²: 53%

288 m
accesses
#1 & #2 in
most of our
markets

Telefonica

TELECOM
ITALIA

China
unicom 中国联通

>730 million combined customers

Data as of December 2010

MSR: Mobile Service Revenue

Sources: IMF (2011), IDC (2011), Telefonica (2011), and Pyramid Research (2011)

1. Constant FX 2009. Footprint share: only mobile in Mexico, Venezuela, Ecuador, Uruguay and Central America. Excluding TV in Argentina

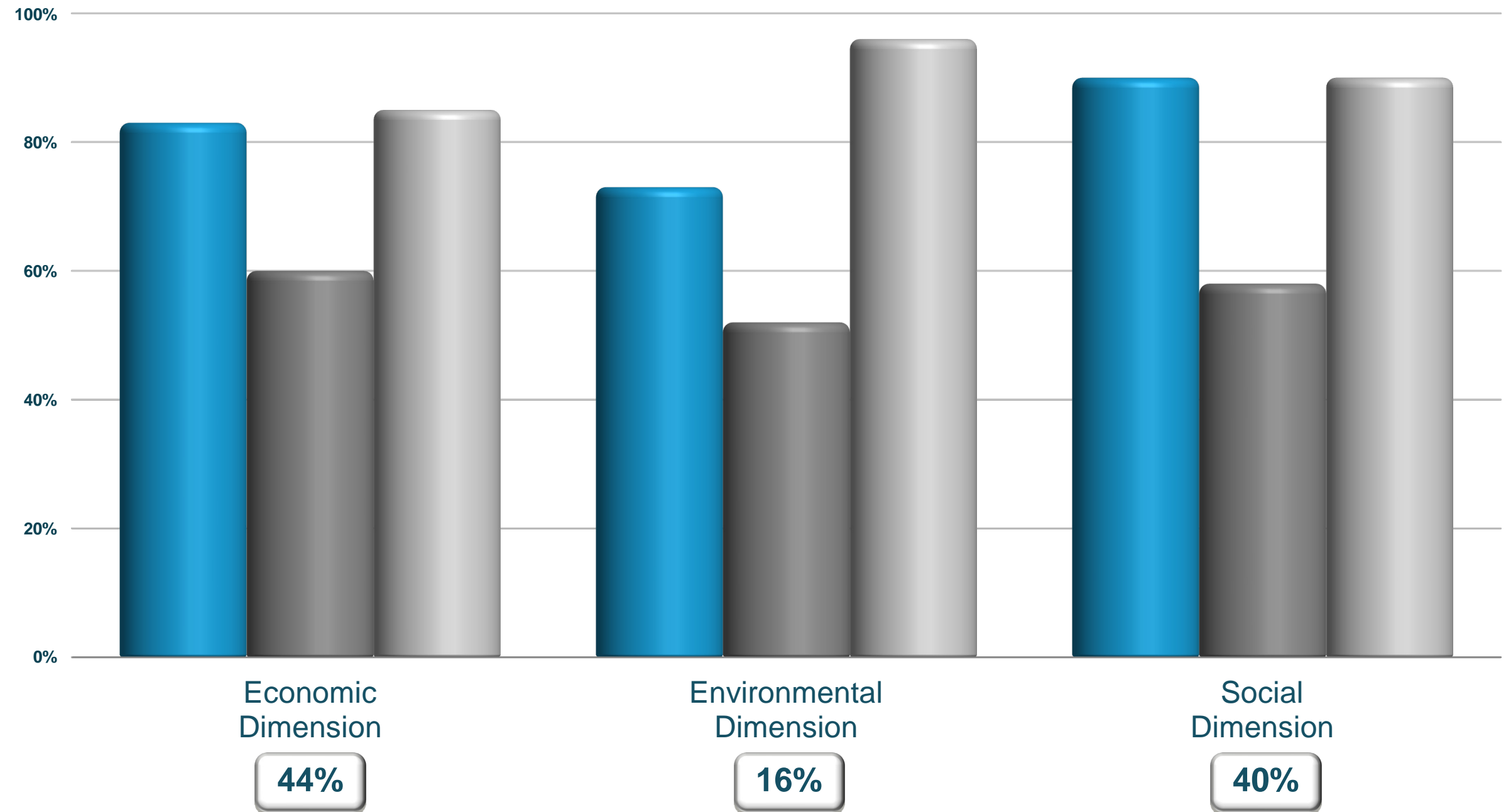
2. Retail communication revenue market share

We are leading DJSI in our industry for the second year in a row

DJSI: “Corporate Sustainability is a business approach that fosters value creation in the long term for shareholders taking advantage of the opportunities and the effective risk management, related to social, economic and environmental development”



- Telefónica
- DJSI sector average
- Best company within DJSI sector
- Dimension Weight



We are committed with the societies where we operate

Fundación Telefónica's social activities

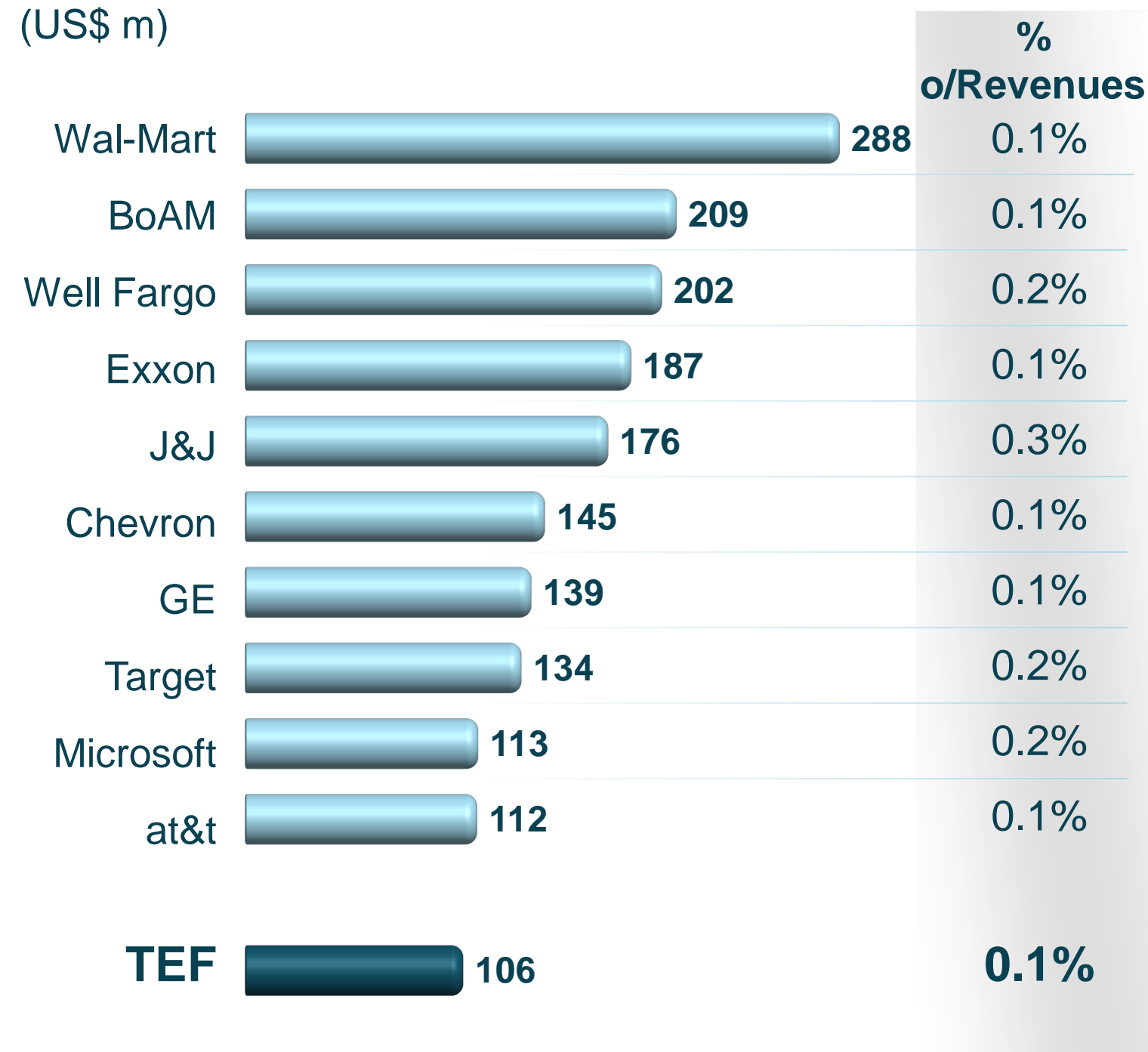
- **€400 million committed** to finance short and medium term activities
- Mainly to fund "Proniño" program

Proniño

Contributing to the progressive eradication of child labour through ongoing and high quality education

	FY 2010	FY 2013E
# Children	~ 211,000	357,000

FY 2009 US Cash Donation Ranking¹ (US\$ m)



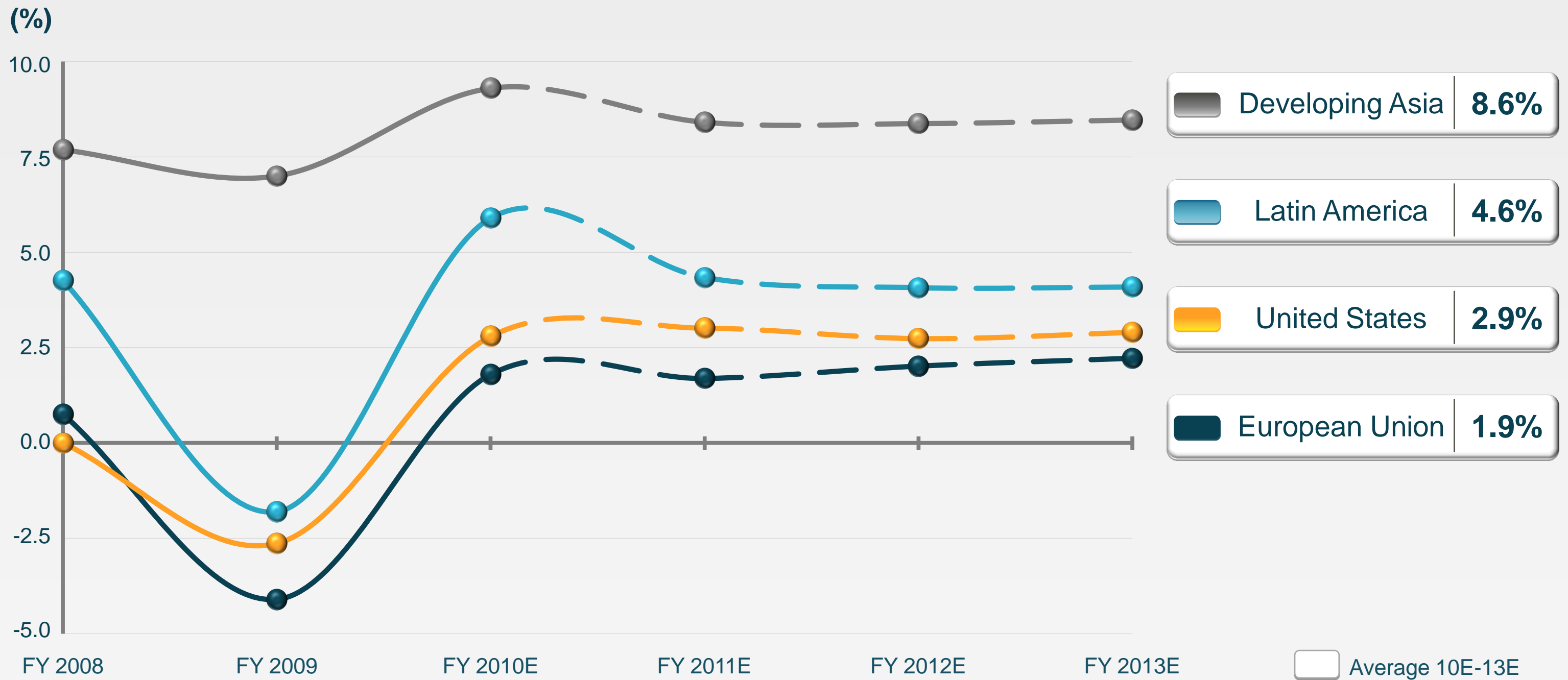
¹ Source: The Chronicle of the Philanthropy and Fundación Telefónica

02

Improved outlook for a dynamic
and growth industry





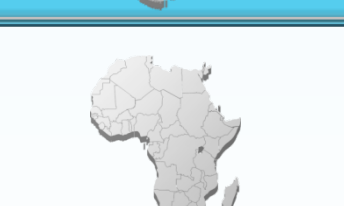

Steady global growth ahead

Real GDP Growth



Source: IMF (Jan2011)

ICT Global growth

	ICT Market CAGR 10E-13E
 North America	3.6%
 Europe	2.6%
 Asia-Pacific	6.6%
 Latin America	7.7%
 MEA	7.2%
 Worldwide	4.6%

People have embraced a fascinating journey towards a total digital life

08:05 AM PM **News**

Flipboard

e-Banking

uno e

e-Government

Chile CLIC

e-Health

iHealthBeat

Mobile shopping

ShopSavvy amazon

01:20 AM PM **Geolocation**

Gowalla foursquare

09:15 AM PM **Social Networks**

facebook twitter tuenti

Ask an Expert

O₂ Apple

Music

Spotify pixbox

TDT HD

Imagenio

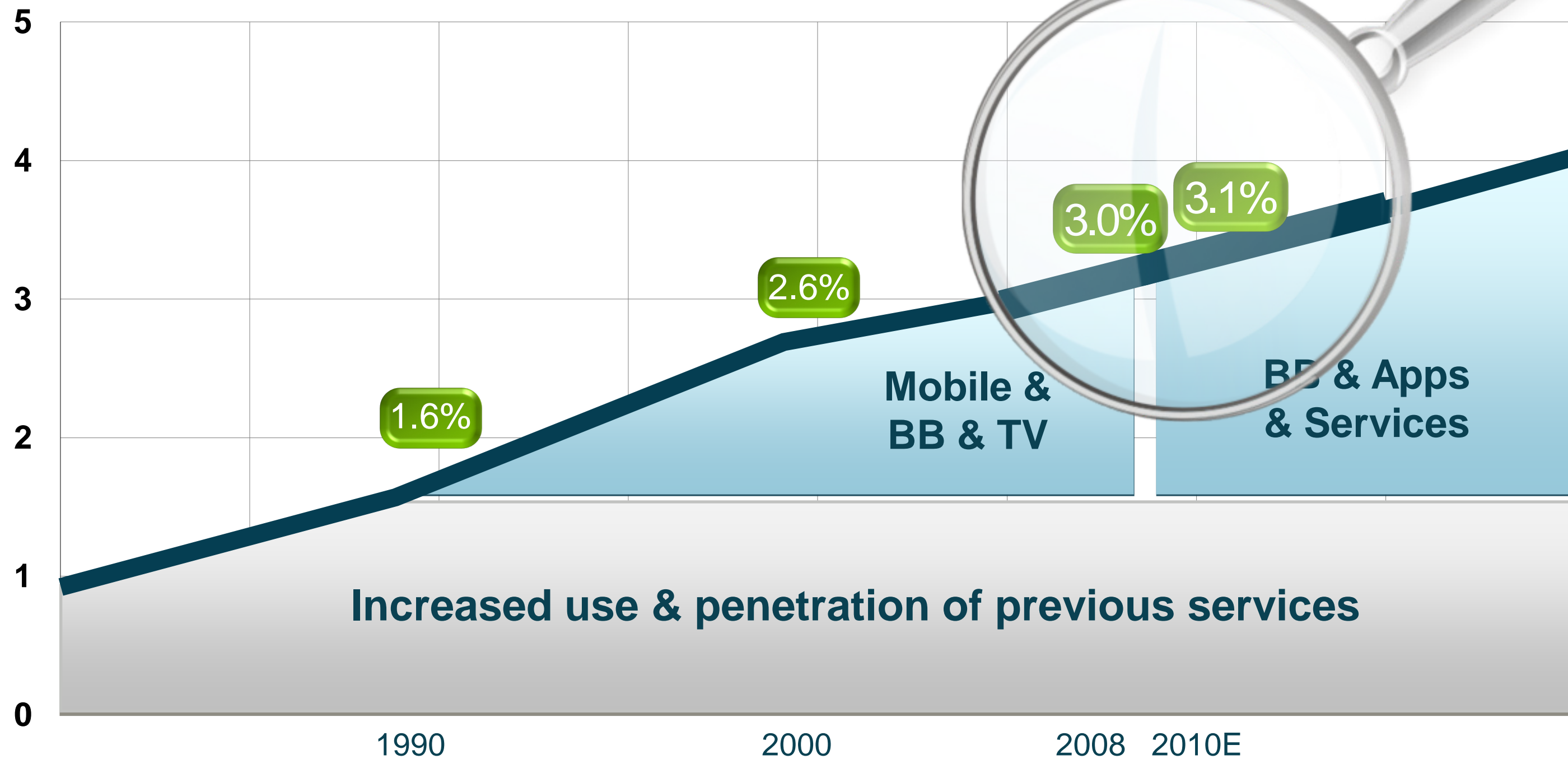
05:30 AM PM **Augmented reality**

layar CYCLOPEDIA

Even more – the world will be truly connected

Industry growth will be fostered by the digitalisation of the real economy that is already happening

Communication expenditure/Total Consumer expenditure



Source: Euromonitor International. Bain Analysis (2011)



Industry trends are already anticipating this growth



Customers will continue growing



Worldwide data FY 2010

Total Accesses



6.6 bn

6%

Mobile Accesses



5.0 bn

8%

FBB Accesses



0.5 bn

9%

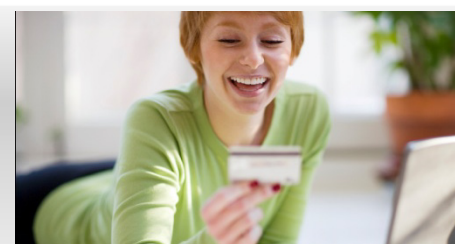
MBB Accesses



0.7 bn

46%

Internet Users



2.0 bn

13%

Social Networking Users



767 m

14%

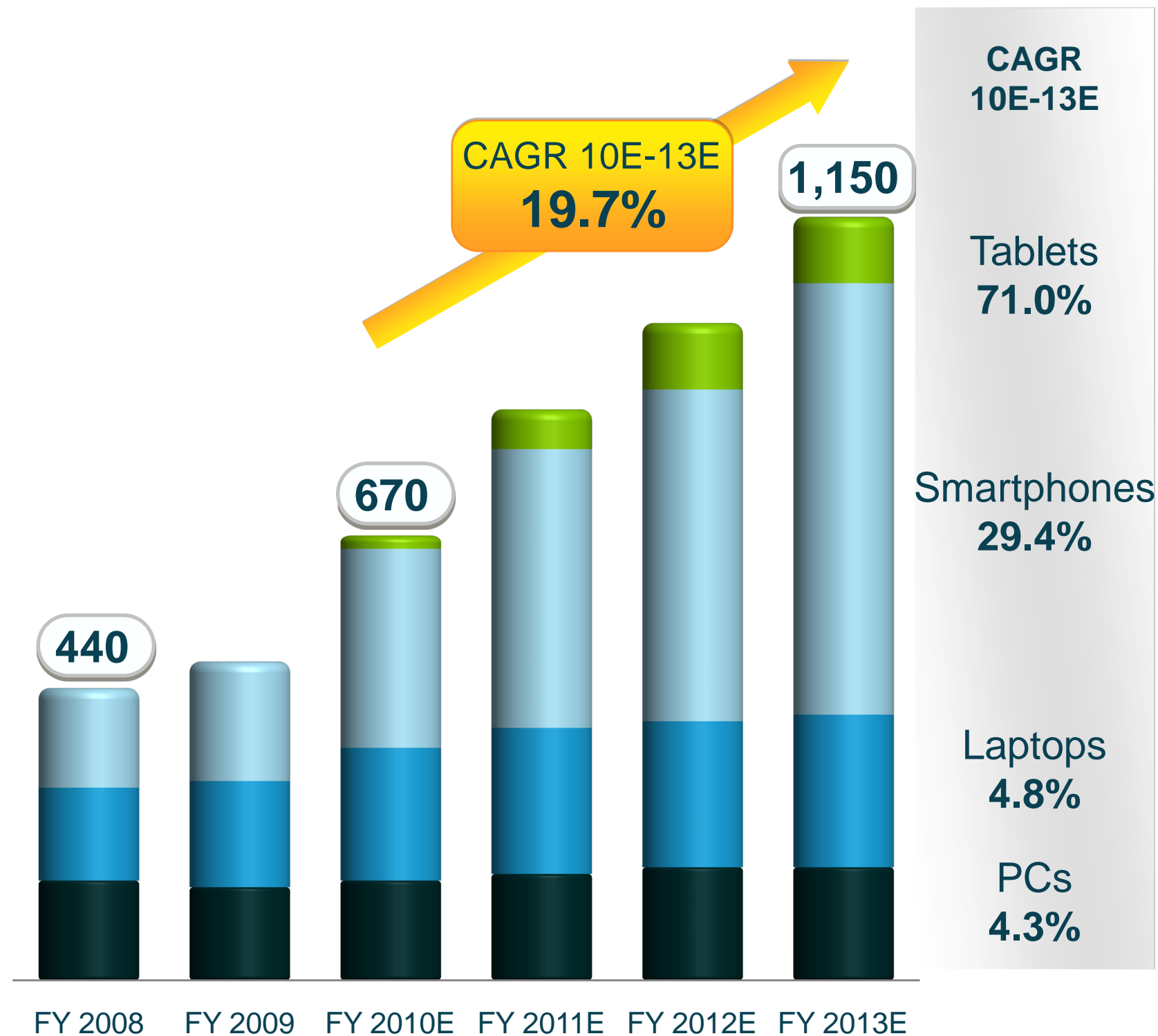
CAGR 10-13E

Device explosive demand driven by Smartphones...



Personal Devices evolution

Annual Global Sales - Million Units



- Rapid growth in Smartphones & Tablets
- Smartphones are increasing customer average lifetime value

Total installed base 2013E:
>6 bn personal devices

Source: Morgan Stanley (2010) and Strategy Analytics (2010)

...while M2M devices will grow exponentially



M2M Devices explosion

- Automotive
- Fleet management
- Smart cities
- Smart meters
- Consumer electronics
- eHealth, eFinance, security, ...

Automotive



Smart meters



Consumer Electronics



Smart cities

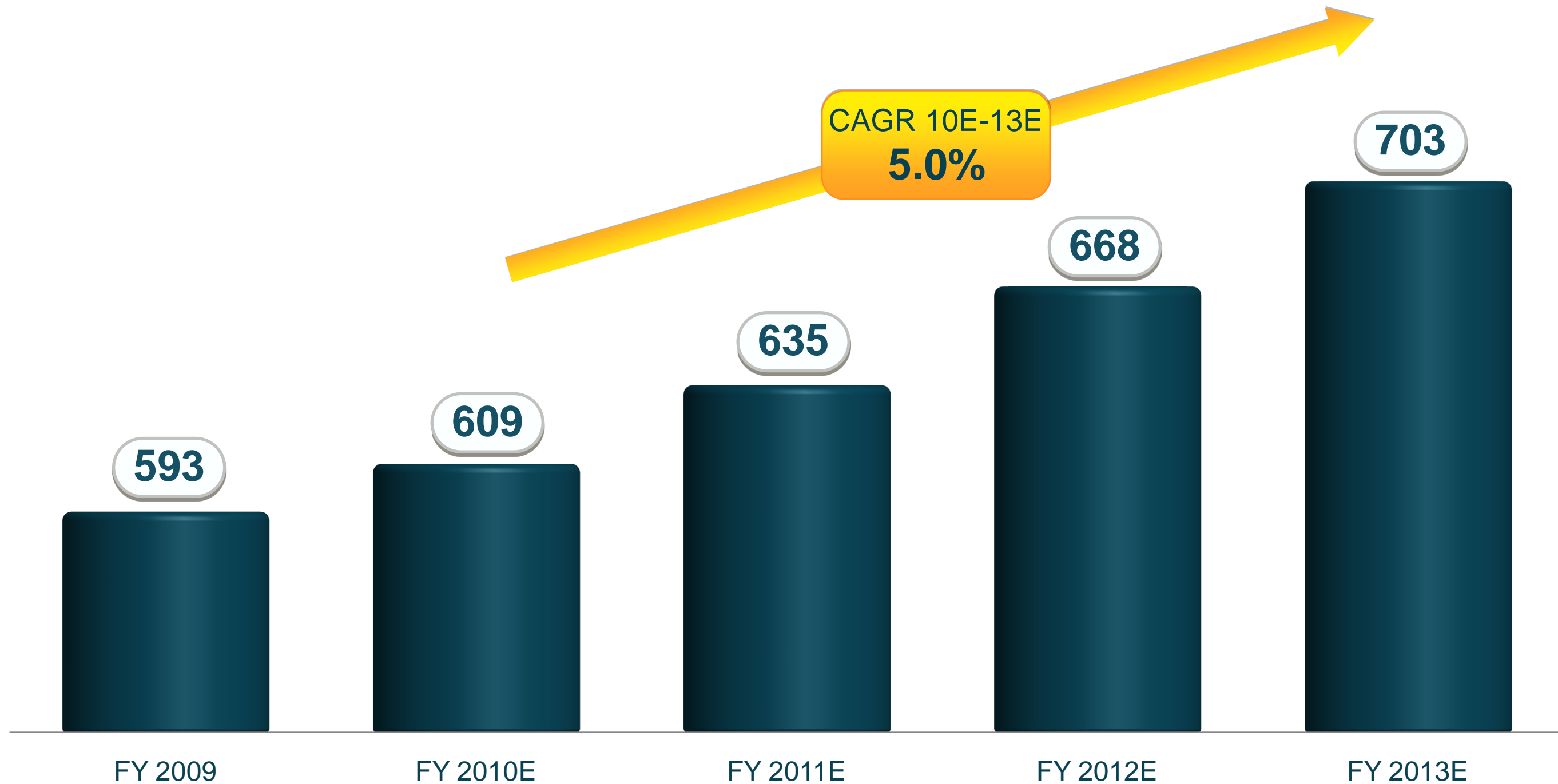


Almost every device will be connected by 2020

New services and applications will support new business opportunities



Services beyond Connectivity – Worldwide Revenues
US\$ bn



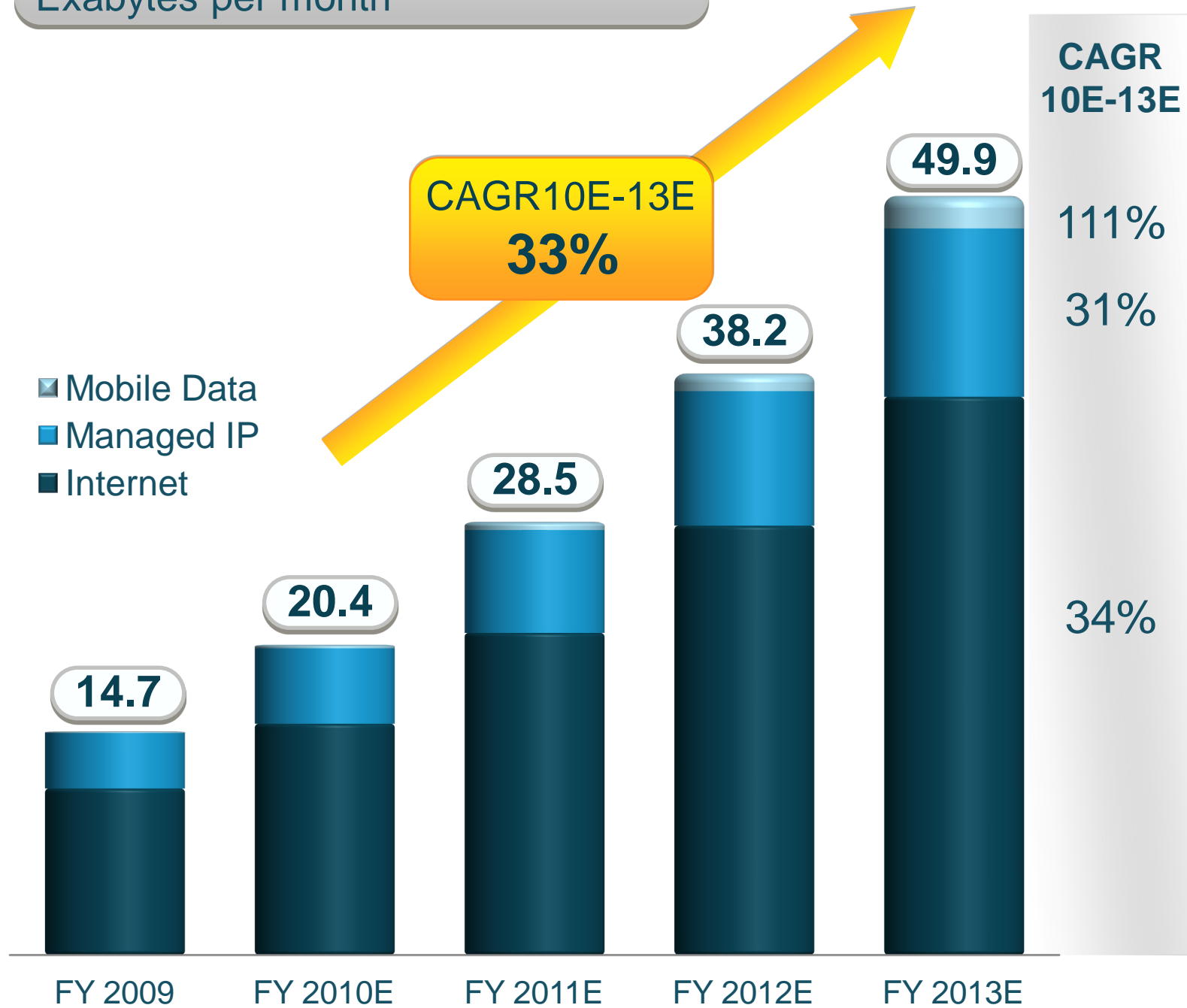
Source: IDC (2011) and Analysis Mason (2010)

Data traffic is booming and new technological developments will allow this growth

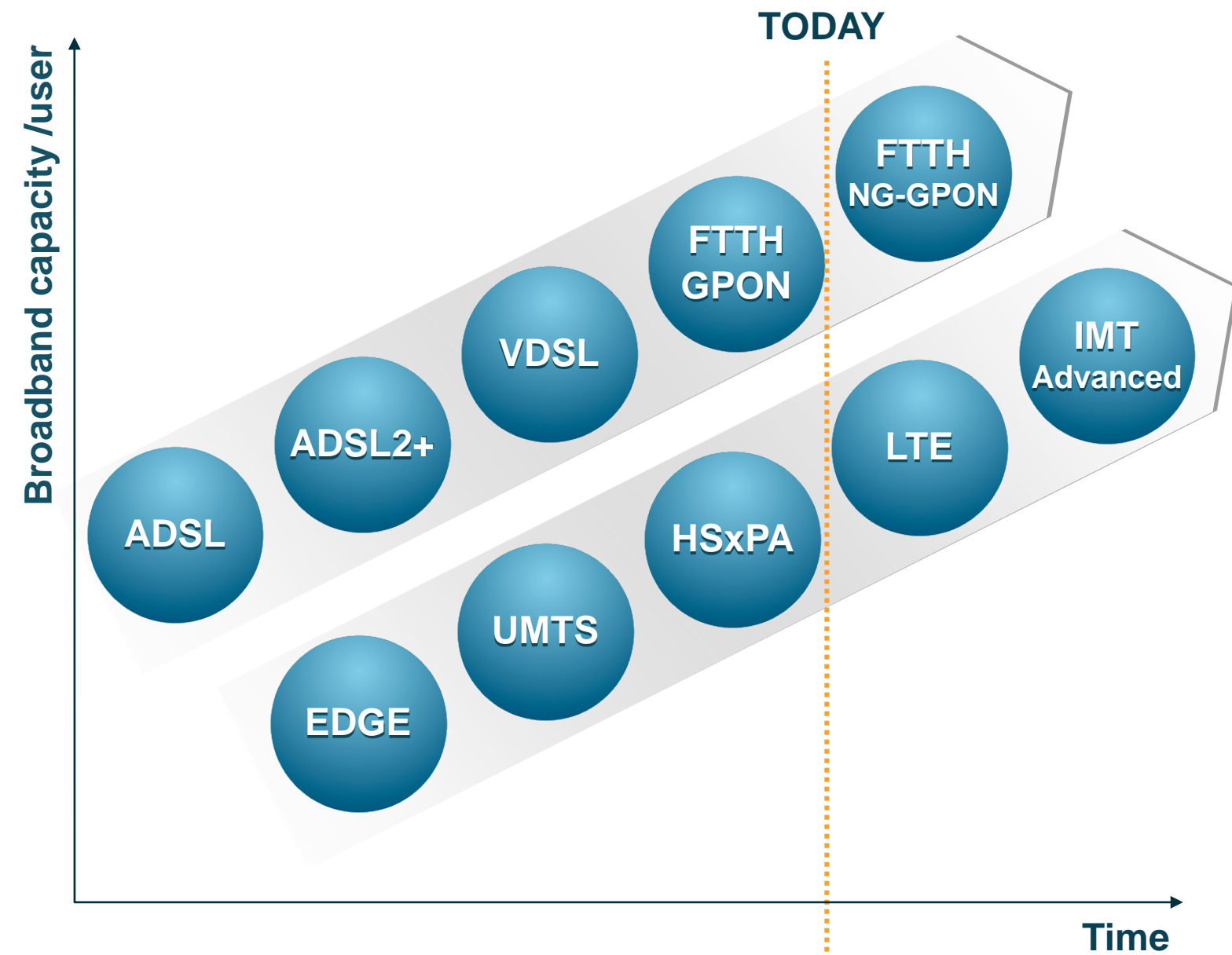


Global Data Traffic

Exabytes per month



Technology evolution



New spectrum much more efficient

ICT, one of the industries with the best growth prospects

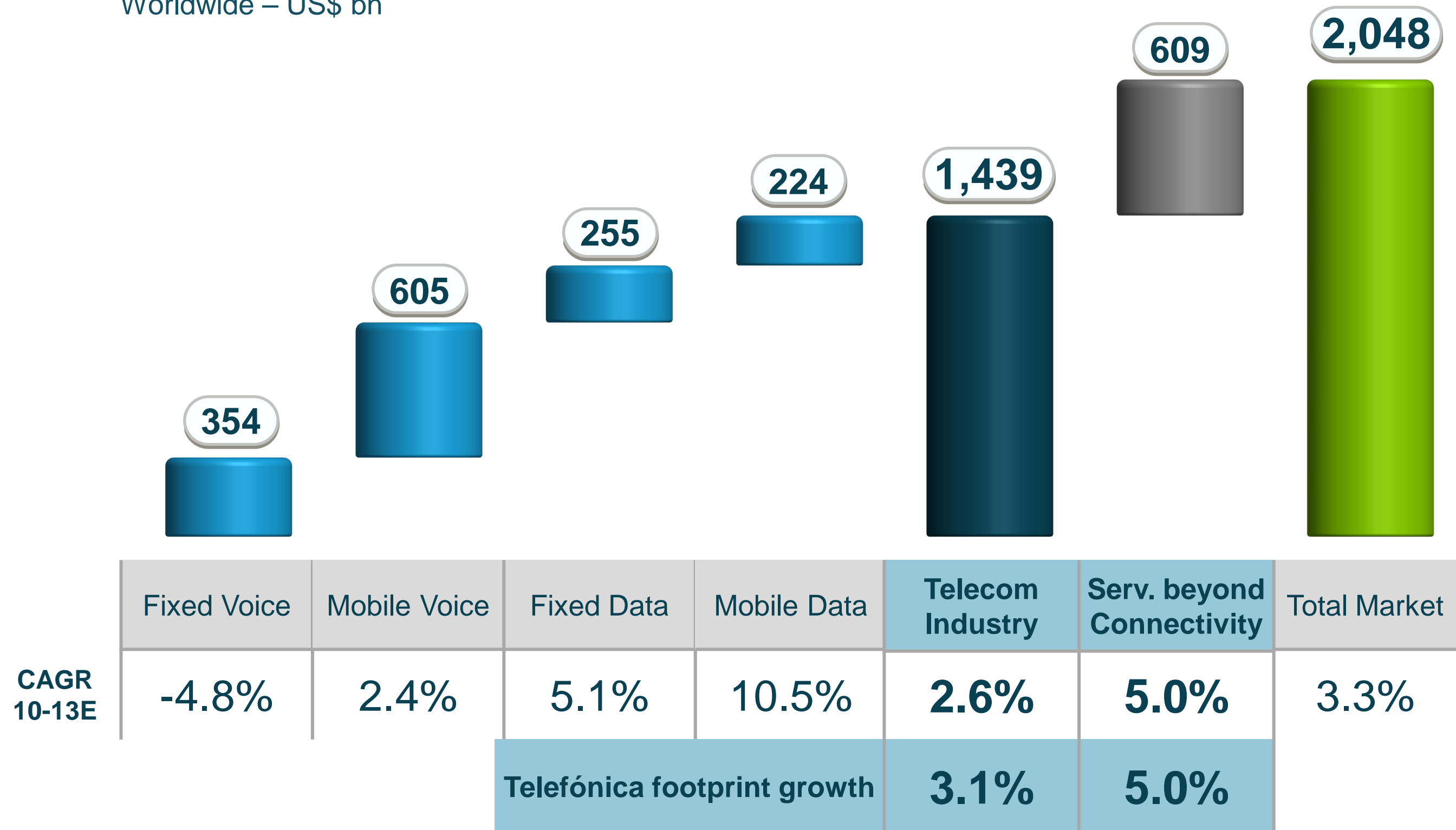


A great opportunity to be monetised

Enlarged and growing scope for Telcos

2010 Global Revenue Breakdown

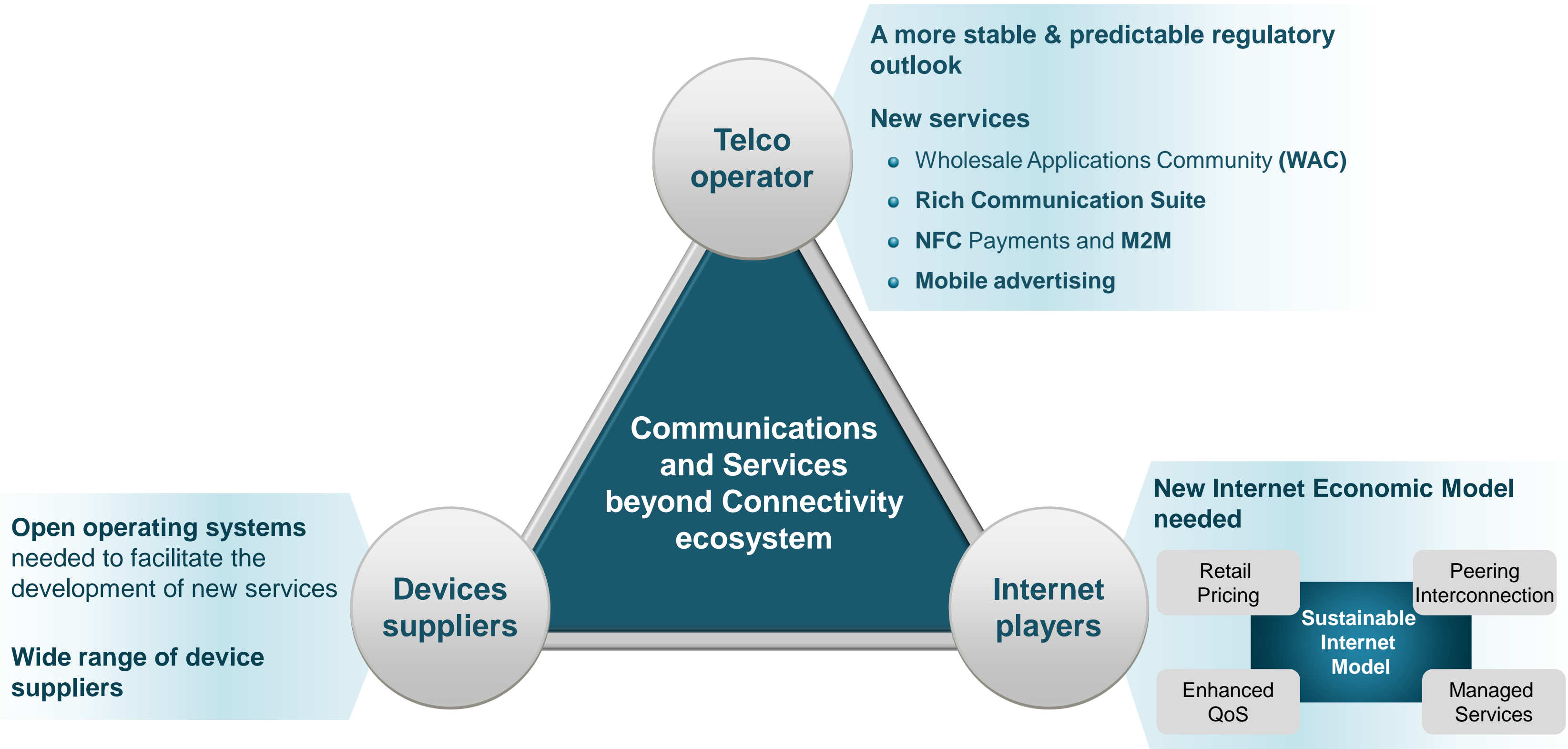
Worldwide – US\$ bn



Source: IDC (Jan2011) and Analysys Mason (2010)



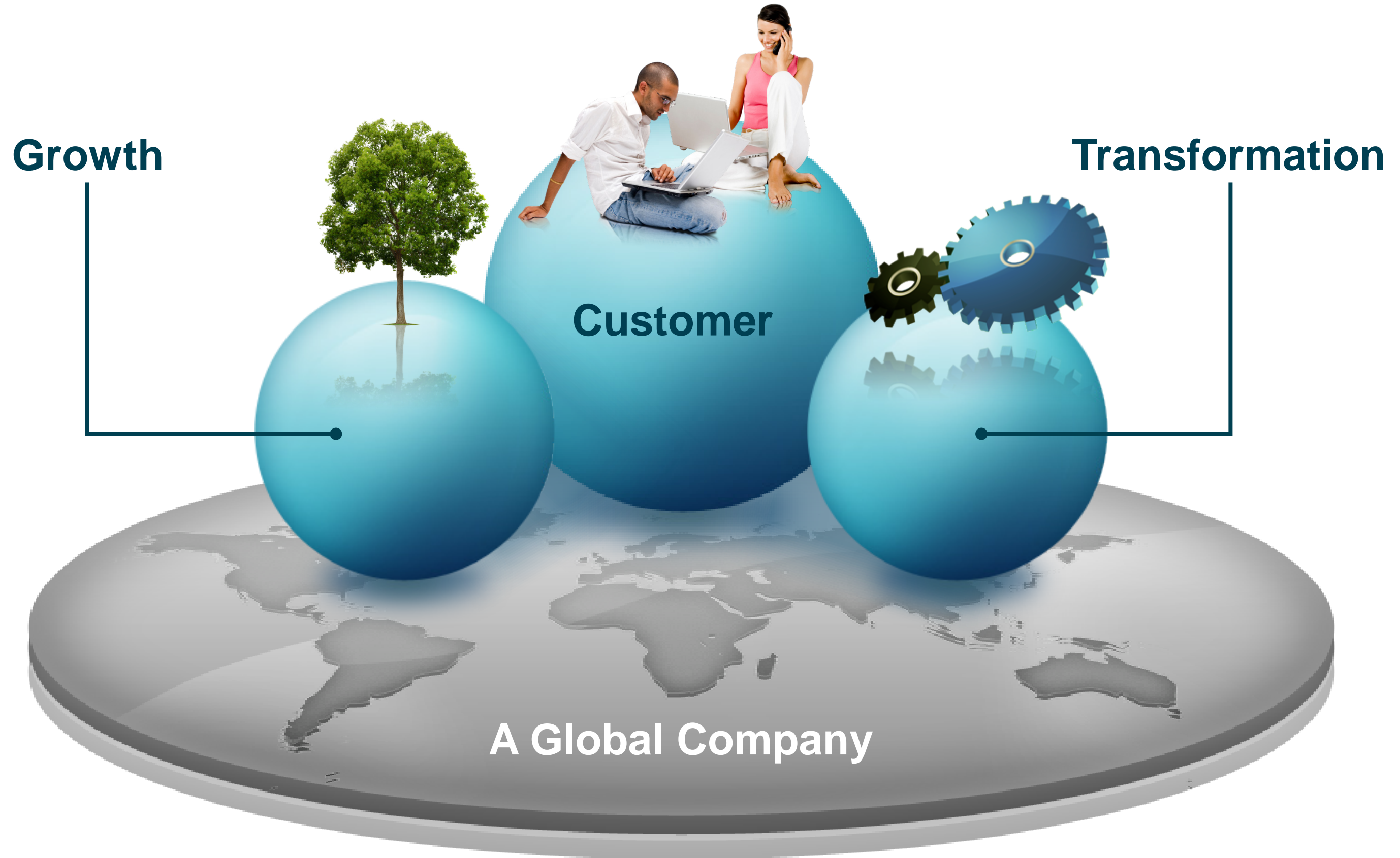
Active cooperation among ICT players key to address industry challenges



03

Telefónica's strategy and long term guidance

We have a clear strategy to capture the opportunities of the new Digital World



The customer continues to be the centre of our strategy

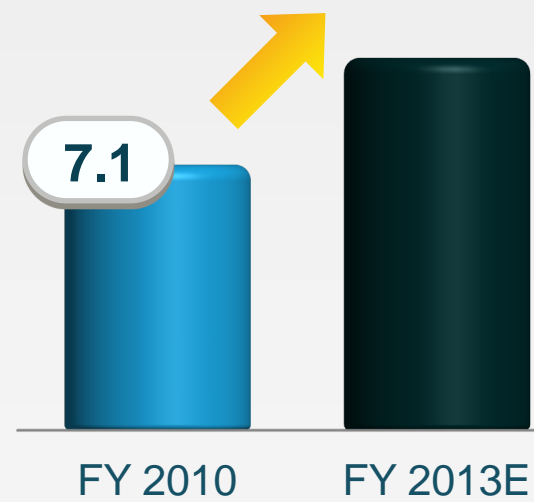


Telefónica quality main initiatives

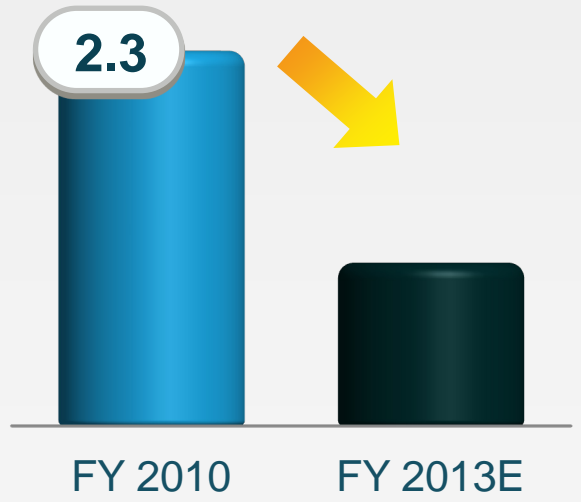


Customer Satisfaction

Customer Satisfaction Index (%)



Churn Rate (%)



Maximizing customer value

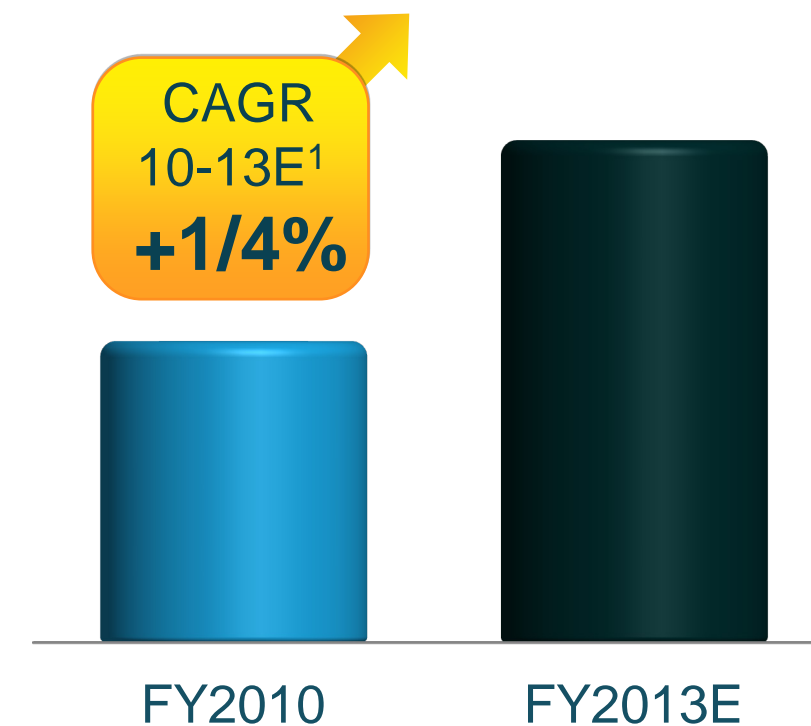
Yield Management

We are increasingly capturing growth opportunities



- 1 Profitable mobile data growth monetisation
- 2 Continue to enhance Fixed Broadband portfolio
- 3 Development of applications and new services
- 4 Capturing remaining mobile and fixed voice opportunities

Telefónica's Revenues



million

Accesses 2013E

>340

1. Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela in both years and changes in the perimeter of consolidation
Note: 2010 adjusted figures for guidance include full consolidation of Vivo, Hansenet and Tuenti in the whole year (12 months) and excludes Manx Telecom's results in January-June 2010.



Investor
Conference

Telefonica

Our main strategic pillars to lead growth ...



1 Profitable mobile data growth monetisation

- Tiered pricing
- ARPU management
- Customer innovation
- Yield management



3 Development of applications and new services

- Broaden our portfolio of apps and new services
- Leverage P&S global units and OTT assets



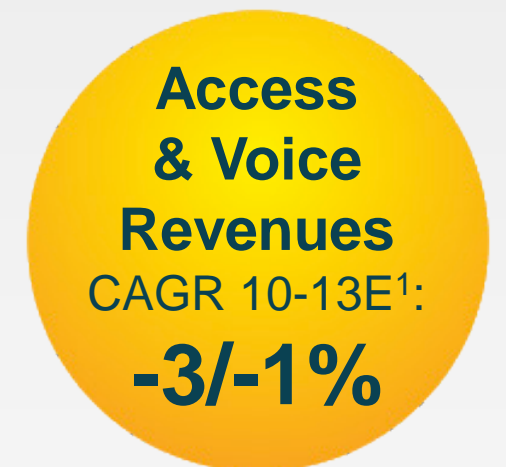
2 Continue to enhance Fixed Broadband portfolio

- Full FBB proposals with increasingly higher bandwidth
- Full IP services from voice to video
- Full bundles



4 Capturing remaining mobile and fixed voice opportunities

- Increase penetration and usage in mobile
- Defend ARPU through additional services in fixed
- Reinforce position in SME and MNC

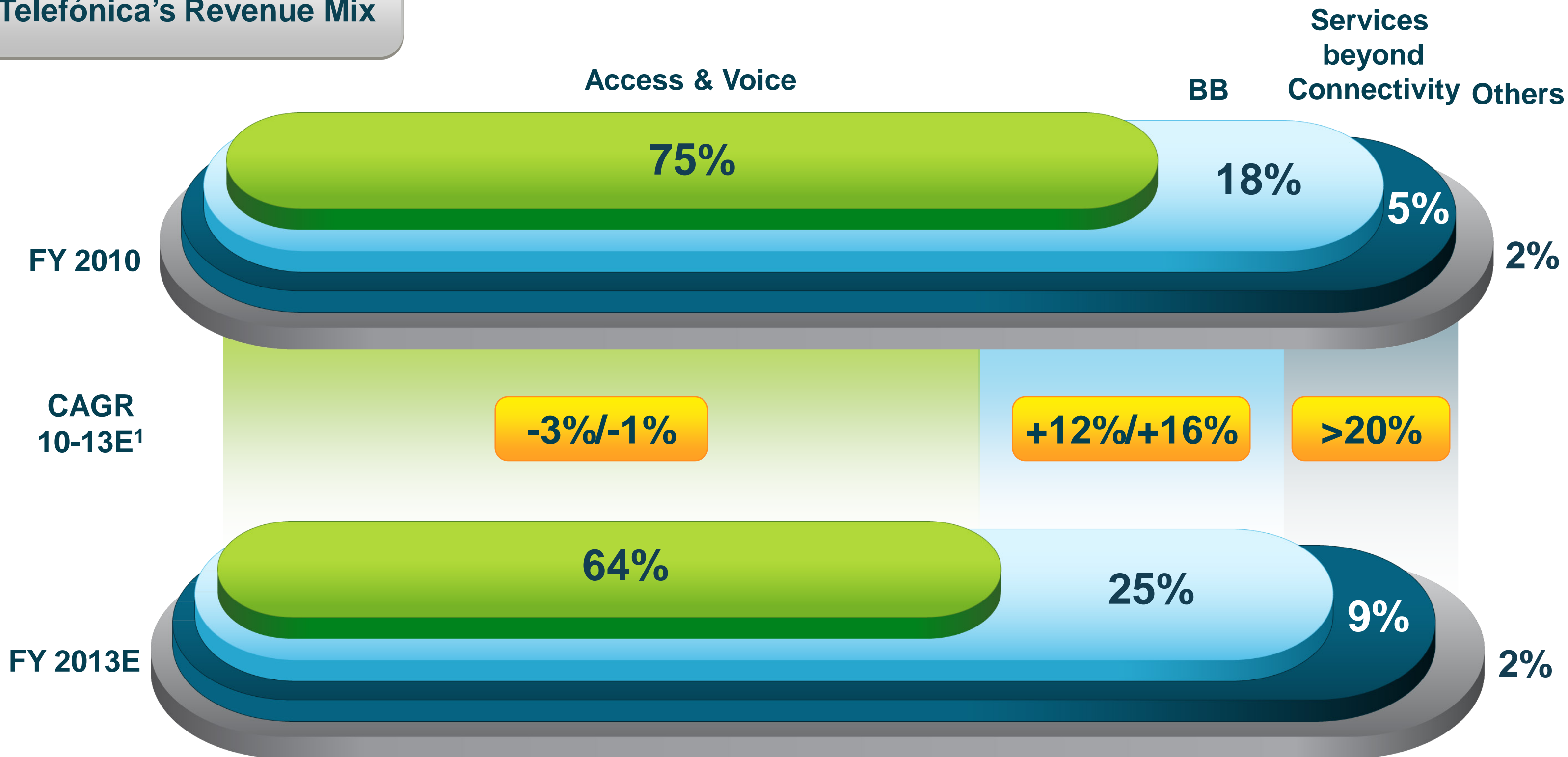


1. Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela in both years and changes in the perimeter of consolidation
MBB Revenues: Include revenues from smartphones, smart devices and connectivity MBB, mobile mail, MBB equipment (PCMCIAAs, Dongles), roaming, and WAP browsing. SMS and M2M excluded
FBB Revenues: Include Retail FBB connectivity, VAS, wholesale FBB, fixed data services and equipment revenues
Services beyond Connectivity Revenues: Include content, digital services, ICT solutions and vertical units revenues
Voice and Access Revenues: Include fixed/mobile access & voice (SMS included), narrowband and mobile & fixed equipment revenues

... and further evolve our revenue mix



Telefónica's Revenue Mix



1. Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela in both years and changes in the perimeter of consolidation

Access & Voice: Include fixed/mobile access & voice (SMS included), narrowband and mobile & fixed equipment revenues

BB: MBB and FBB revenues

Services beyond connectivity: Include content, digital services, ICT solutions and vertical units revenues

Others: subsidiaries and other companies



Our transformation strategy to enable growth and maximize efficiency



1 Best in class networks

- Leveraging fixed and mobile technologies to meet customer demands
- Managing efficiently coverage and traffic growth

2 IT as a key transformation accelerator

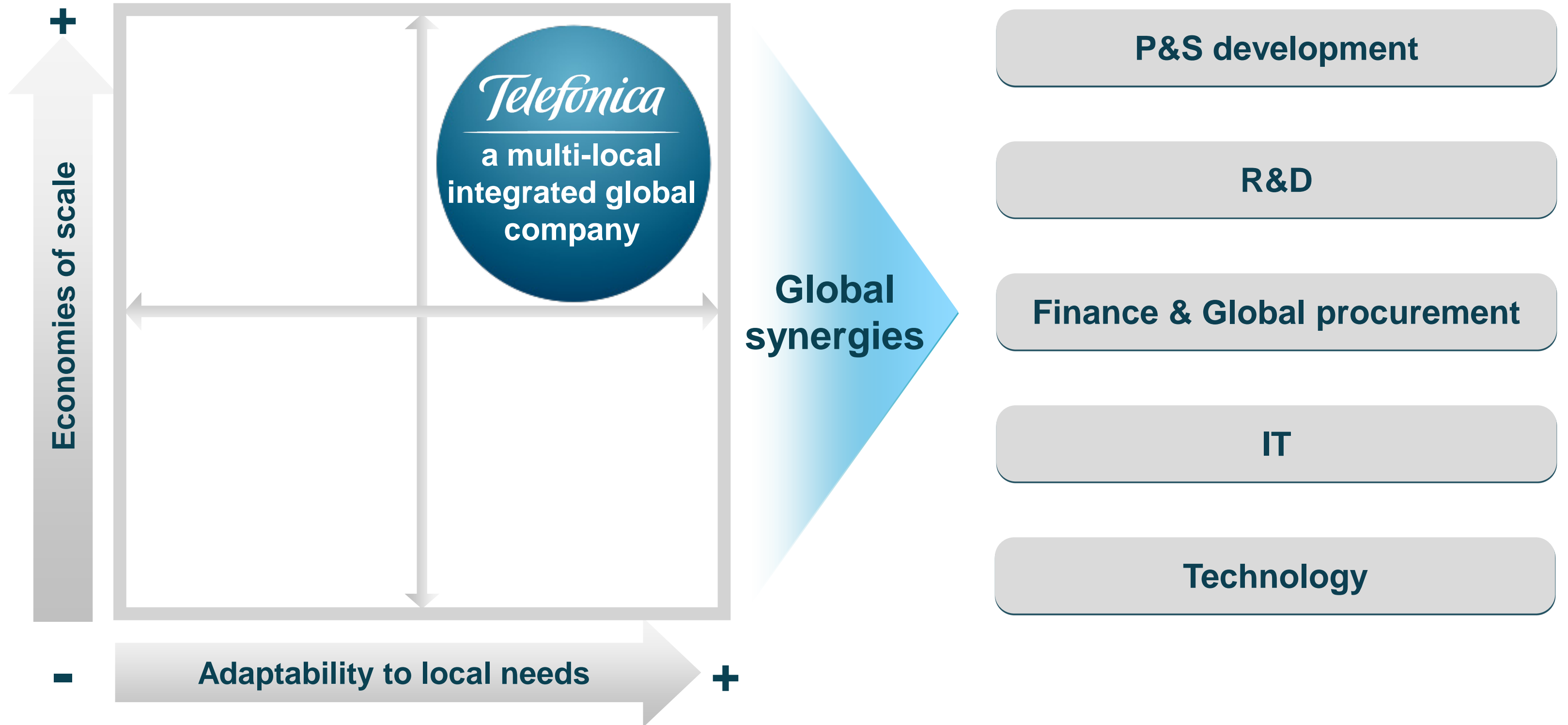
- Highly resilient 6 **Global Data Centres**
- **Global Applications** when applicable focused on business requirements

3 Online company

- **Increase online processes** to improve engagement with our customers, employees and vendors
- Process and system simplification and **end-to-end integration**

**Continuous
focus on
efficiency
improvement**

We continue maximizing the benefits of our scale and diversity...



... and further leveraging on our strategic and industrial alliances



Execution of Industrial Partnership:

- Technological alignment
- Combined scale and volumes
- New customer proposition

Delivered Synergies for FY 2008-10:

€1.3 bn

Synergy Program for FY 2011E-13E:

~ €500 m/year



Strategic cooperation:

- Services to multinationals
- Procurement
- Technology and new services

Growth value:

- Over 600 million new accesses in China since Telefónica's establishment
- CU: The fastest revenue growth operator in China (+11.3% y-o-y FY 2010)

Strong commitment to the Alliance:

- Cross ownership
- Cross board representation

Our strategic priorities by regions



Telefónica Latinoamérica



- **Capturing growth through a full offer**
 - § **Driving voice** to the limit of its potential
 - § **Boosting broadband**
 - § **Building new opportunities**
- **Leveraging on a unique platform and reinforcing our global scale and regional skills**
- **Maximizing the value** of a diversified portfolio and of our **clear leadership in Brazil**

Telefónica España



- **Defend our OIBDA and our value leadership**
 - § A differential **Customer Experience and value oriented portfolio**
 - § **A leading approach to growth opportunities** in connectivity and Services beyond Connectivity
 - § **Increase flexibility** reshaping our cost structure
- **Improve use of capital efficiency** through a growth oriented CapEx and asset optimization policies

Telefónica Europe



- **Outperform the market** by focusing on
 - § **Revenue share growth**
 - § **Data penetration**
 - § **Return per customer**
- **Accelerate growth in Germany** with mobile data as the catalyst
- **Continue to outperform in the UK** and shape the market with business model extensions
- **Total aggregated cash flow to increase from Czech, Slovak and Irish businesses**

We have the best committed and motivated team in the industry



A committed management team

- Highly committed management with vast experience in our business
- Telefónica Executive Committee and Board of Directors exposure to Telefónica share (> 7.8 m shares)

Committed and engaged employees

- PSP linked to stock performance
- Global Employee Share Plan in 2010

Creating a great place to work

- Employee commitment expected to increase
- High correlation between employee commitment and customer satisfaction
- 26 companies in GPTW



Incentives linked to our operating and financial KPIs

Long term guidance

CAGR 10/13E

Revenues

+1/4%

2011E-2013E

OIBDA margin

Upper
30s

limited erosion
from 2010

Cumulative 2011E-2013E

CapEx

< €27 bn

Note: 2010 adjusted figures for guidance include full consolidation of Vivo, Hansenet and Tuenti in the whole year (12 months) and excludes Manx Telecom's results in January-June 2010. 2010 adjusted OIBDA excludes the capital gain from the revaluation of Telefónica's pre-existing stake in Vivo at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom, non-recurrent restructuring expenses registered in the second half of 2010, and the capital gain derived from the disposal of Manx Telecom

2013 guidance assumes constant exchange rates as of 2010 (average FX in 2010), excludes hyperinflationary accounting in Venezuela and changes in the perimeter of consolidation. At the OIBDA level guidance for 2013 excludes write-offs (impairments of subsidiaries), capital gains/losses from companies disposals and significant exceptionals mainly related with restructuring costs. Results from the operation in Costa Rica are excluded from guidance calculation. Group CapEx excludes Real Estate Efficiency Program of T. España, the Real State commitments associated to the new Telefónica premises in Barcelona and spectrum licenses



Financial policy centred in Cash-flow allocation

Shareholder remuneration

- €1.60 DPS for FY 2011E (14.3% y-o-y)
- €1.75 DPS minimum target for FY 2012E
- €1.75 minimum annual shareholder remuneration beyond 2012

Solvency Protection

- Net debt + cash commitments within the range 2.0 to 2.5x OIBDA

Predictable M&A strategy

- Spectrum auctions in current markets to foster growth
- Product & Service innovation to further strengthen our growth capabilities

In summary

We are **better positioned to lead our growing industry: the right scale, capabilities and strategy**

We are **focused on value growth and on capturing new services opportunities**

We continue **transforming our company to enable growth and maximize efficiency**

We maintain a **solid financial position while investing in our business and committing best in class shareholders' remuneration**

Telefónica
