Results
January-September 2011

Telefónica

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9M 11 Highlights: Steady revenue growth and solid margin

- **Strong customer growth**, good contract mobile net adds, booming MBB adoption
- **Solid top line expansion: +5.4%** driven by T. Latam (+18%) and mobile data (+18%)
- **Robust profitability amid increased commercial activity: 36% OIBDA margin**
- **Leveraging our highly diversified asset mix:**
  - ~45% of revenues, OIBDA & OpCF came from T. Latam
  - Stabilising underlying trends in Spain
  - Strong momentum in Germany continues; challenging macro in other European markets
- **Sound FCF generation: +11.6%**
- **New organization to bolster growth and improve efficiency**
- **2011 guidance reiterated, shareholder remuneration policy confirmed**

All figures refer to 9M 11 and y-o-y changes in underlying terms.
FCF in reported terms

Financial Summary

€ in millions	Jan-Sep 2011 Reported	Jan-Sep 2011 Underlying	Jan-Sep 2010 Underlying	Underlying Change y-o-y	Underlying Change y-o-y ex-MTRs	Reported Change y-o-y
Revenues	46,672	46,672	44,280	+5.4%	+6.8%	+5.4%
OIBDA	14,251	16,739	16,719	+0.1%	+1.0%	-30.0%
OIBDA Margin	30.5%	35.9%	37.8%	-1.9 p.p.		-15.5 p.p.
OI	6,696	10,029	10,766	-6.8%		-50.8%
Net income	2,733	5,437	6,079	-10.6%		-69.1%
EPS	0.60	1.20	1.34	-10.4%		-69.0%
OpCF (OIBDA-CapEx)	7,626	11,209	11,867	-5.6%		-41.9%

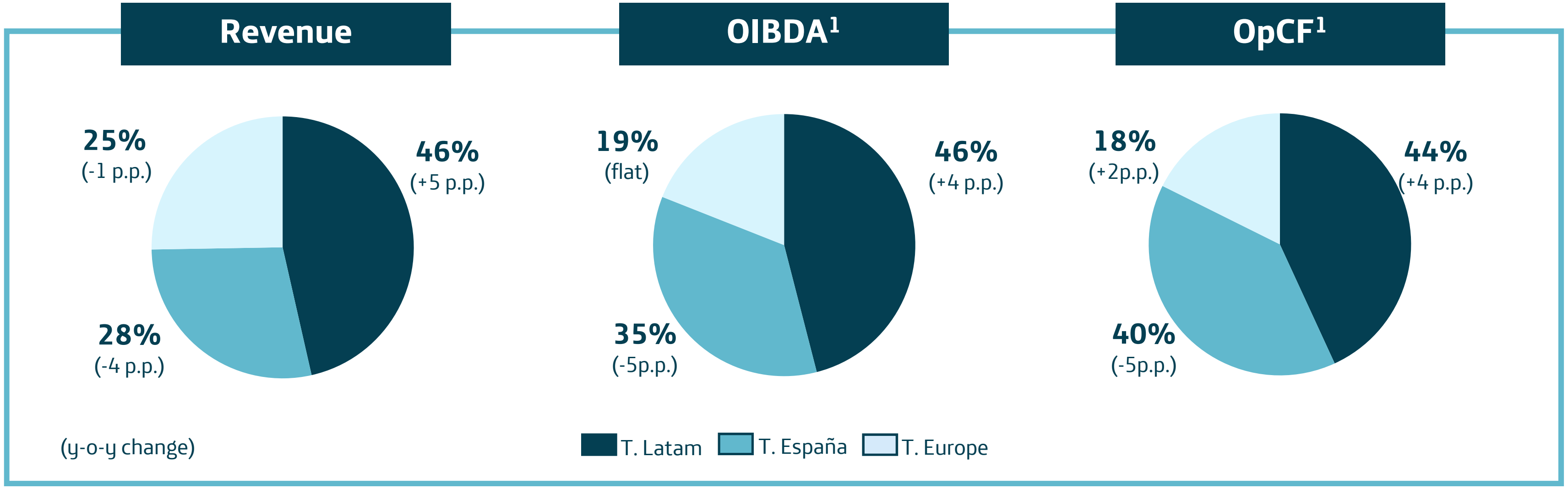
Exceptional items[1]

OIBDA	€ -2,489 m	€ 3,649 m
Net Income	€ -2,704 m	€ 2,756 m
Spectrum	€ -1,094 m	€ -2,390 m

Underlying performance: reported figures excluding exceptional items and spectrum acquisition.

1. In 2011 (all figures net of taxes): Workforce Reduction Plan in T. Spain (€ -1,870 m), PT capital gain (€+183 m), Reduction in the value of TI investment (€ -353 m) and PPAs (€ -664 m). In 2010 (all figures net of taxes): VIVO's capital gain (€ +3,476 m), Restructuring expenses in Germany (€ -141 m), Manx capital gain (€ +61 m), T. capital write-down (€ -6 m) and PPAs (€ -633 m).

Capitalizing our highly diversified portfolio of operations



Steady revenue growth

- **T. Latam** contributed with 7.4 p.p to consolidated sales growth
- **BB & SbC** [2] continue to gain traction: 26% over total (+3 p.p. y-o-y), with double digit growth

Balancing profitability with higher commercial activity

- **Limited OIBDA margin erosion**
- Continue to leverage on cost contention efforts, scale and global initiatives

Healthy cash flow generation

- **€ 11.2 m OpCF pre-investment in spectrum acquisition and exceptional items**
- **Higher CapEx for future growth**
- € 1,094 m in **spectrum acquisition** (Brazil, Spain and C. Rica)

1. Underlying figures: reported excluding exceptional items and spectrum acquisitions.
2. Services beyond connectivity.

Financial Summary: Organic performance

€ in millions	Jan-Sep 2011 Reported	Jan-Sep 2011 Organic	Jan-Sep 2010 Organic	Organic Change y-o-y	Organic Change y-o-y ex-MTRs	Guidance fulfillment
Revenues	46,672	46,850	46,729	**+0.3%**	**+1.6%**	✓
OIBDA	14,251	16,791	17,598	**-4.6%**	**-3.7%**	
OIBDA Margin	30.5%	35.8%	37.7%	**-1.8 p.p.**		✓
Operating Income	6,696	9,319	10,191	**-8.6%**		**CapEx** ✓
OpCF (OIBDA-CapEx)	7,626	11,358	12,423	**-8.6%**		

Organic: assumes constant average exchange rates as of 9M 10 and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Further details included at the end of the document.

Debt reduction in the quarter, with financial effective cost lower than last year

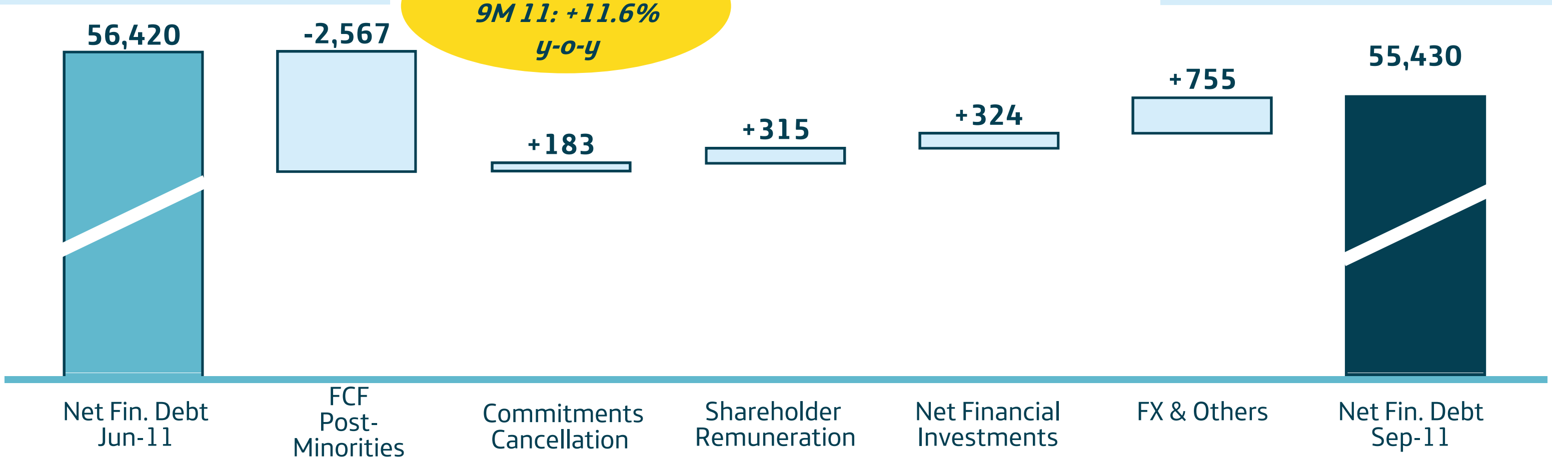
Net Financial Debt Evolution

€ in millions

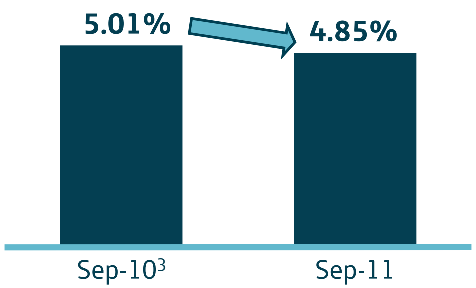
Total Net Debt + Commitments 2.56x OIBDA[1]

Total Net Debt + Commitments 2.55x OIBDA[2]

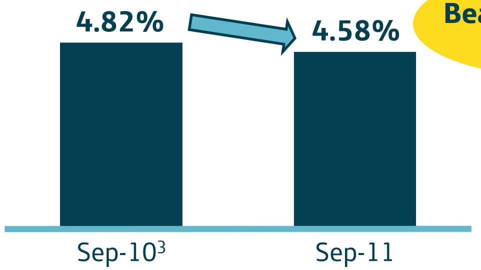
€ 5.7 Bn FCF in 9M 11: +11.6% y-o-y



Effective Financial Cost



Effective Interest Cost



Beating guidance 5%-6%

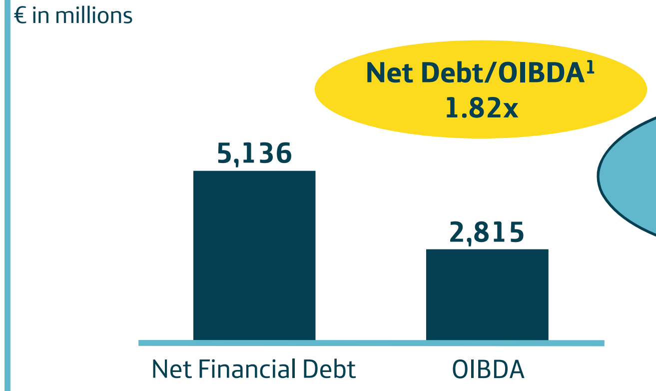
Solid FCF generation, ramp-up in H2 11

€1.7 Bn cash repatriated from Latam in 9M 11

1. LTM OIBDA as of Jun-11 including 100% of Vivo's OIBDA, excluding results on the sale of fixed assets and the provision related to the Telefónica Foundation's social activities.
2. LTM OIBDA including 100% of Vivo's OIBDA, excluding results on the sale of fixed assets, the provision related to the Telefónica Foundation's social activities and the provision related to workforce reduction in Spain.
3. Sep-10 Financial expense rate excluding the adjustment of the value of our stake in BBVA to its current market value.

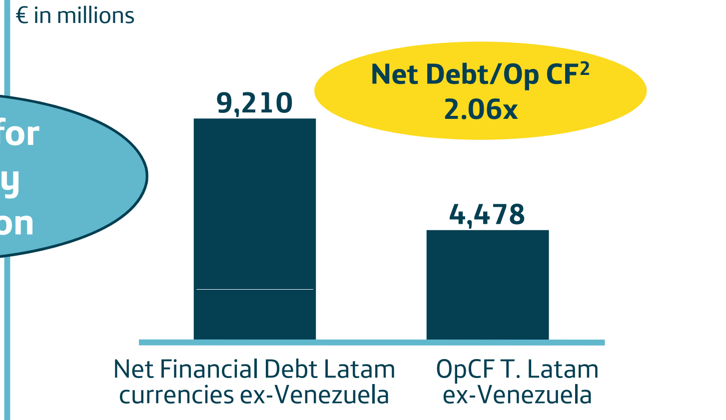
Limited FX impact despite recent volatility

Net Debt/OIBDA (T. UK & T. CR)

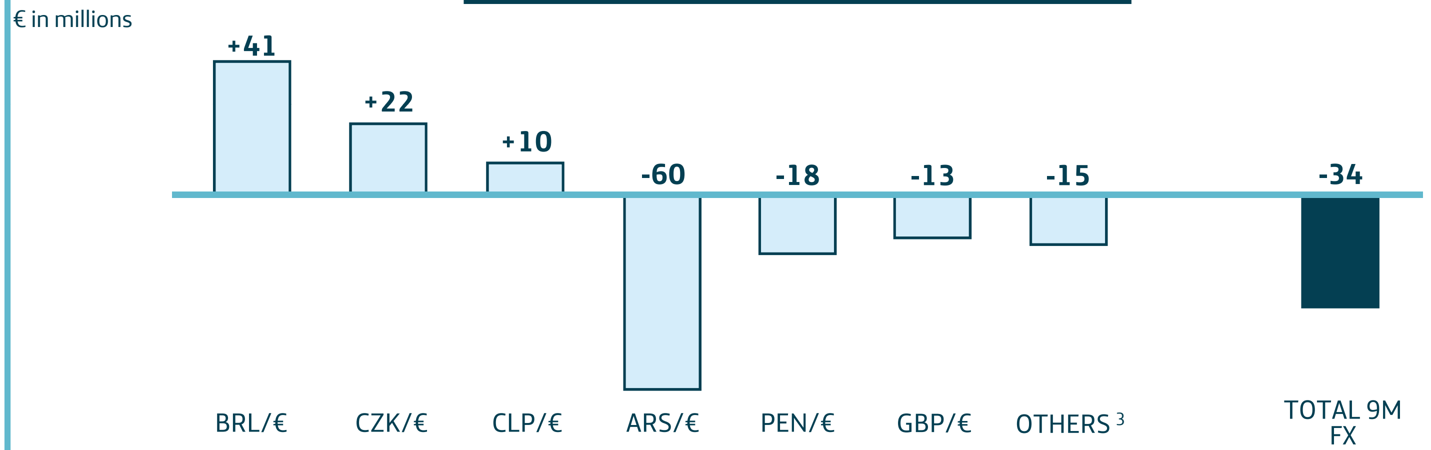


FX debt for solvency protection

Net Debt/OpCF T. LatAm ex-Venezuela



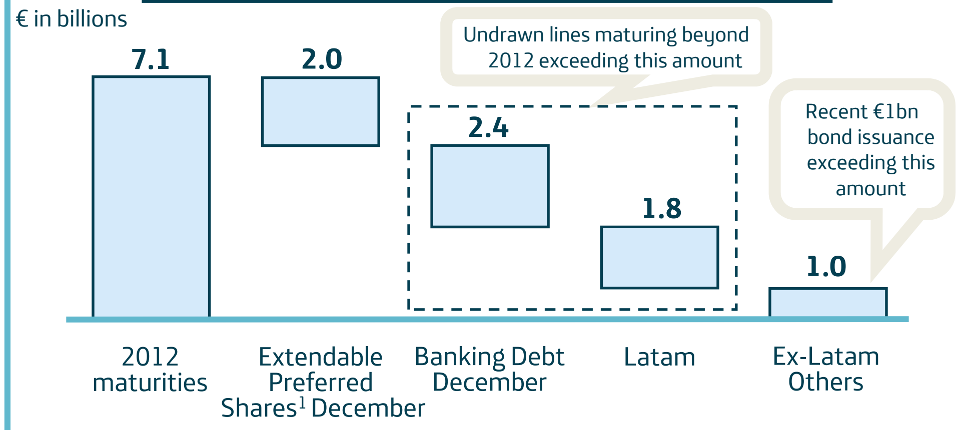
FX impact OpCF ex-Venezuela 9M 11



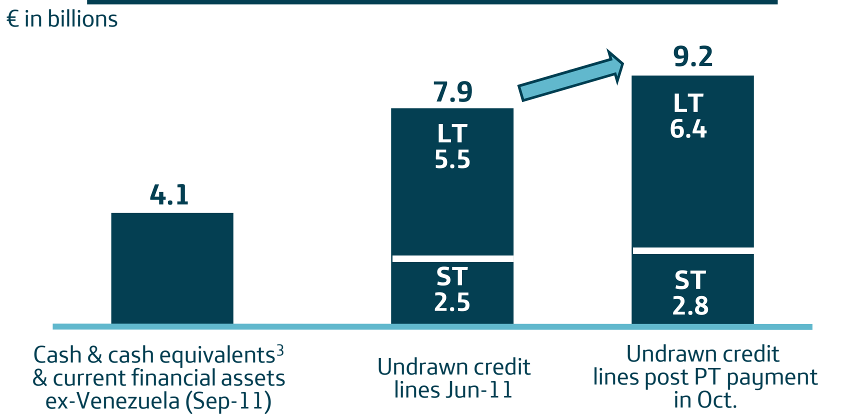
1. LTM OIBDA.
2. LTM OpCF.
3. COP/€, MXN/€, GTQ /€, CRC/€, NIO/€, USD/€, UYU/€.

Comfortable refinancing, solid liquidity position

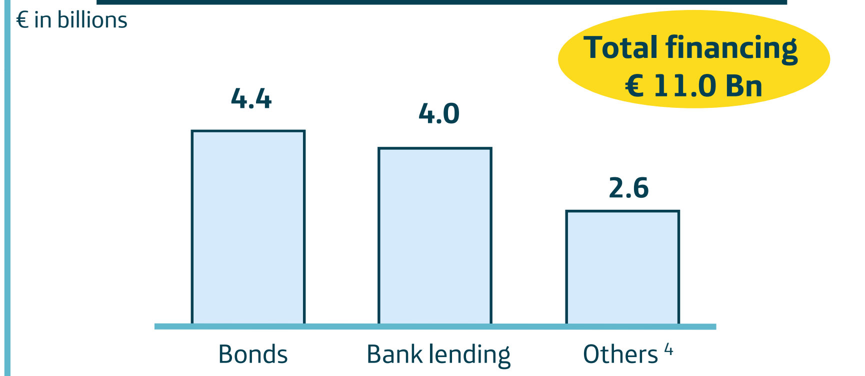
2012 Net Maturities (Sep-11)



Cash & Increased available credit lines[2]



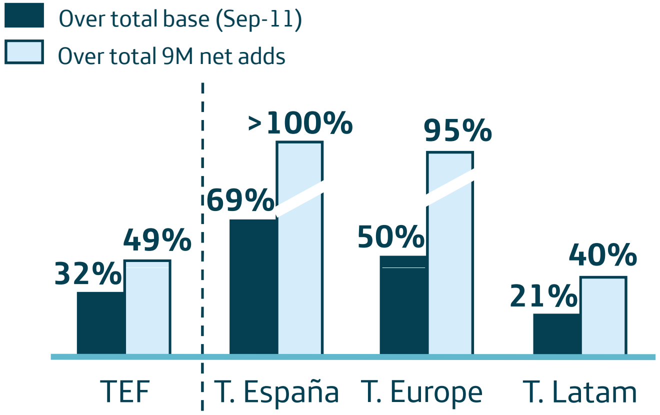
Balanced access to markets



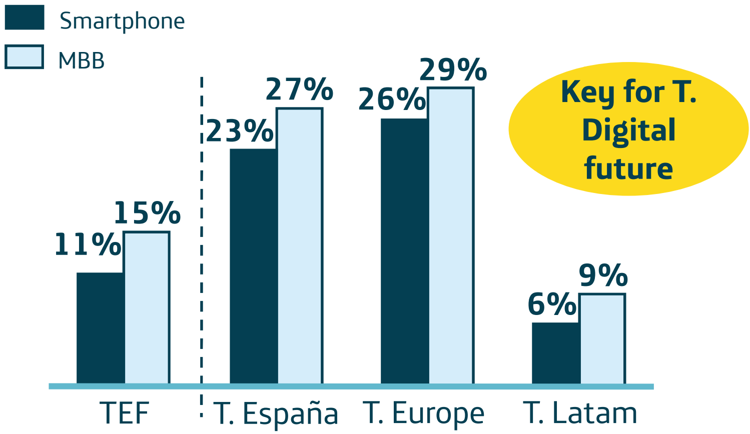
1. Preferred Shares contain a call option on Telefónica for extending this financing with a step up.
2. Credit lines exclude unused amount of Vivo facility (€ 2 bn)
3. Cash and cash equivalents ex-Venezuela.
4. LatAm & public entities.

Very intense targeted commercial activity

Mobile contract base

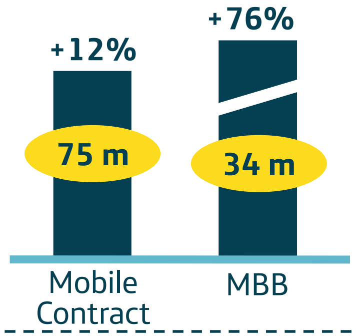


Data penetration (Sep-11)

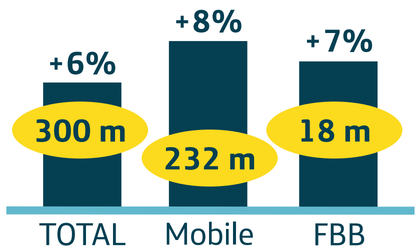


Accesses (Sep-11 y-o-y)

Double digit growth



High single digit growth



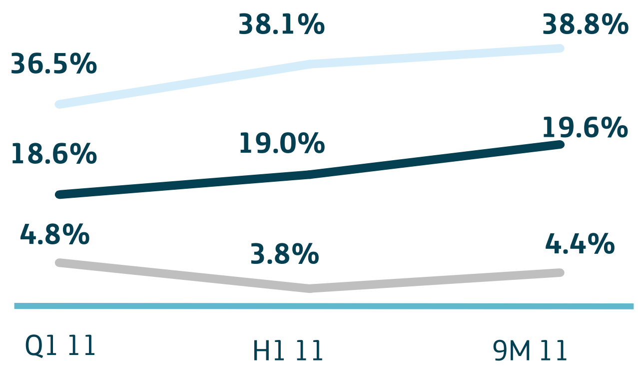
9M 11 net adds excludes accesses disconnections recorded in Q3 11 (360k prepaid customers in Chile).
MBB penetration: MBB accesses (dongles and smartphones) with data attached rate/total mobile customer base.
Smartphone penetration: Smartphones with data attached rate/total mobile base excluding dongles and M2M.

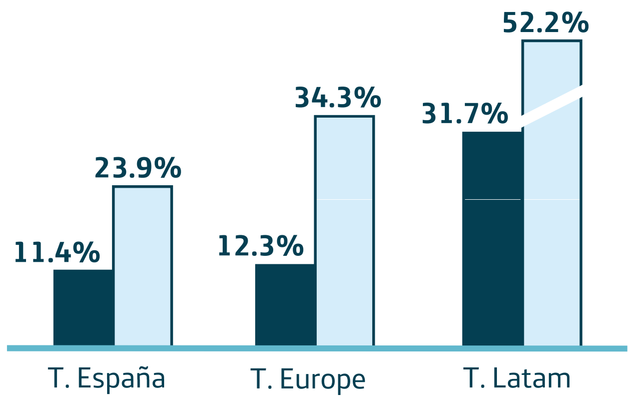
Accelerating data revenue growth

9M 11 mobile data revenue growth (organic y-o-y)

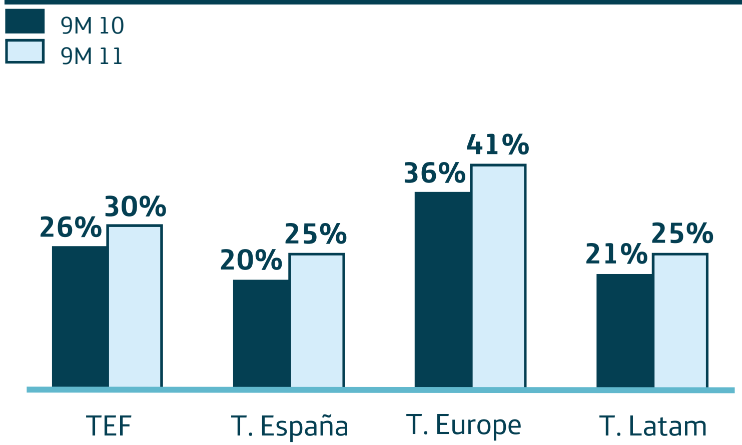
Mobile data | Non-P2P SMS | P2P SMS

Telefónica

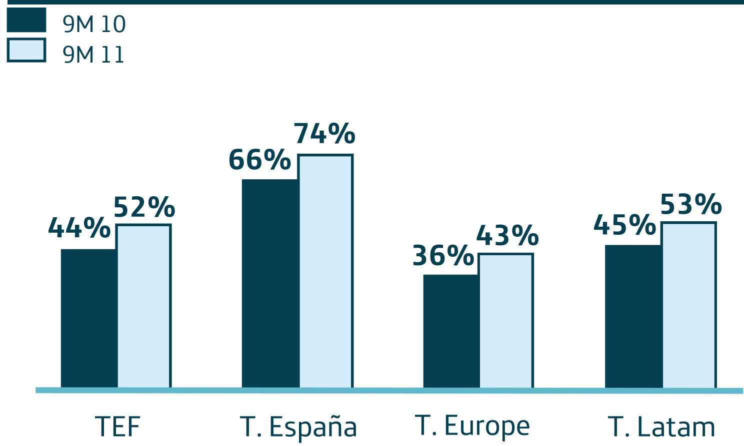




Mobile data/MSR



Non-P2P SMS/Mobile data revenue



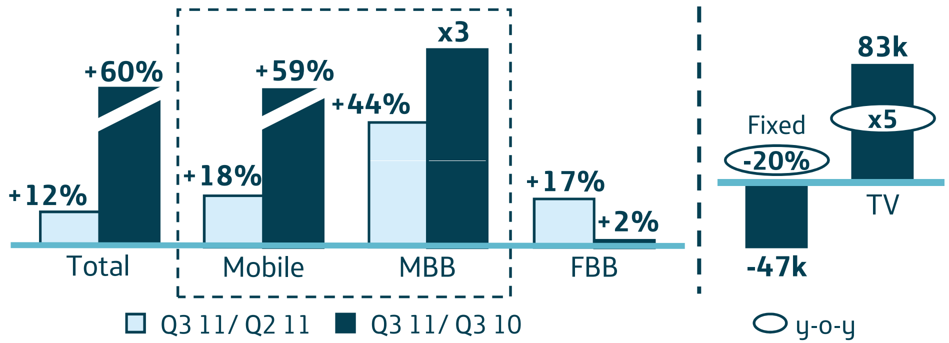
Aggregate figures for mobile service revenue, mobile data revenue, P2P SMS and non-P2P SMS data revenue.

Latam: strong commercial activity across businesses

Historical record in Q3 net adds

- Increased volumes y-o-y and q-o-q across businesses

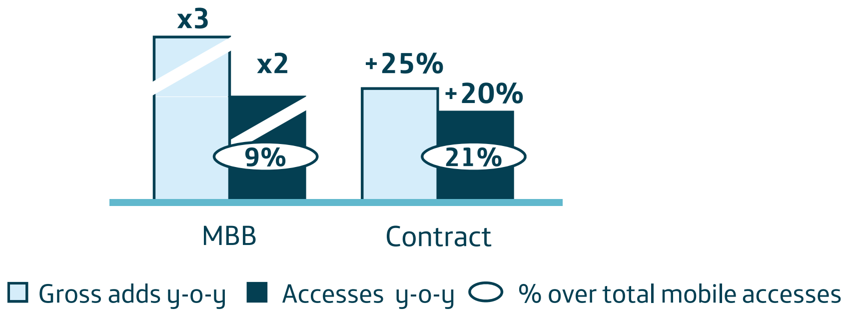
Q3 11 Net adds[1]



Superior quality of mobile commercial activity

- MBB and contract segment sequentially increasing their weight over total mobile accesses

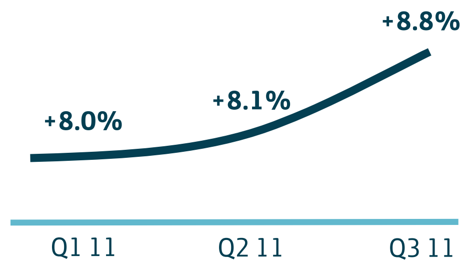
Q3 11 Mobile gross adds & accesses



Sustained ramp up in accesses

- Double digit accesses growth in mobile, FBB and TV
- Stable fixed traditional accesses y-o-y

Accesses growth (y-o-y organic)



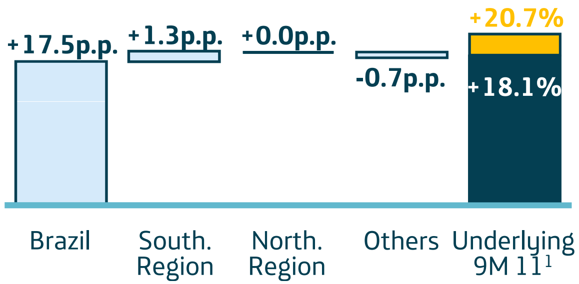
Organic growth: assumes average constant exchange rates as of 9M 10 and excludes changes in the consolidation perimeter and hyperinflation accounting in Venezuela in both years. Further details included at the end of the document.

1. Excludes the disconnection of 360k inactive prepay mobile accesses in Chile.

Latam: solid top line, healthy profitability

Regional contributions

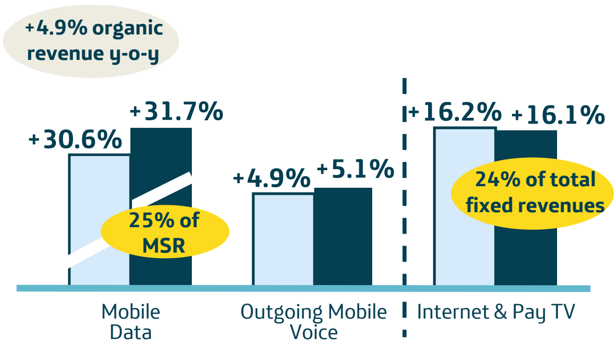
Ex-Mexico

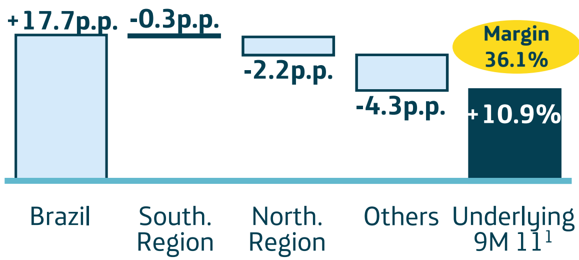


Strong revenue performance

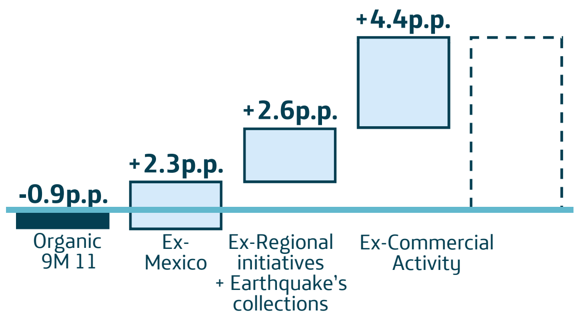
Key drivers

H1 11 (organic y-o-y)
9M 11 (organic y-o-y)





Mexico, commercial activity and non-recurrent dragging OIBDA



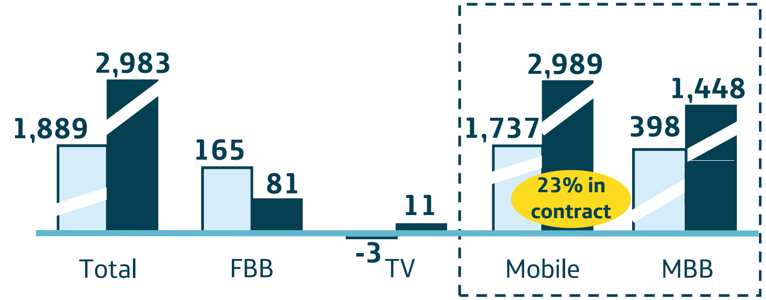
Y-o-y organic growth: assumes average constant exchange rates as of 9M 10 and excludes changes in the consolidation perimeter and hyperinflation accounting in Venezuela in both years. Further details included at the end of the document.

1. 2010 excludes the impact of our pre-existing stake in Vivo (€ 3,797 m in Q3 10) and 2011 excludes PT capital gain (€ 36 m).

Brazil: good momentum, strengthened leadership

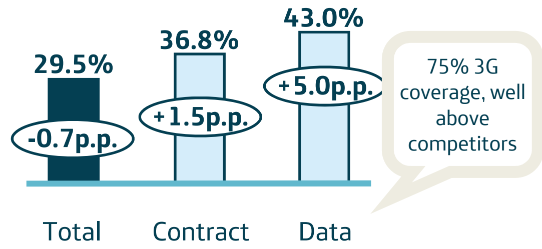
Record net adds, consistent lead

Net adds ('000)



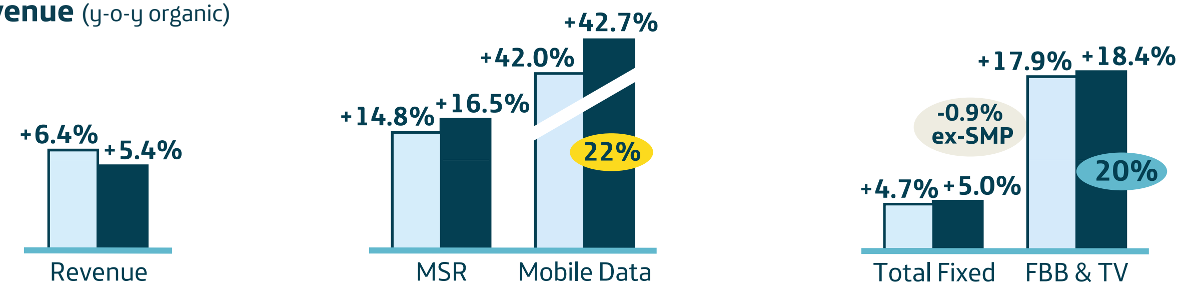
Q3 11 | Q3 10 | % Contract over total accesses

Mobile market share (Sep-11) (1)



Solid top line growth

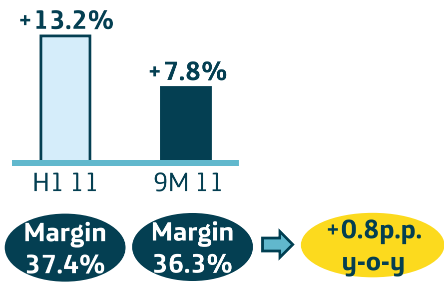
Revenue (y-o-y organic)



H1 11/H1 10
9M 11/9M 10
% Data Revenue/MSR
% FBB&TV / Total Rev ex-SMP

Robust profitability amid higher activity

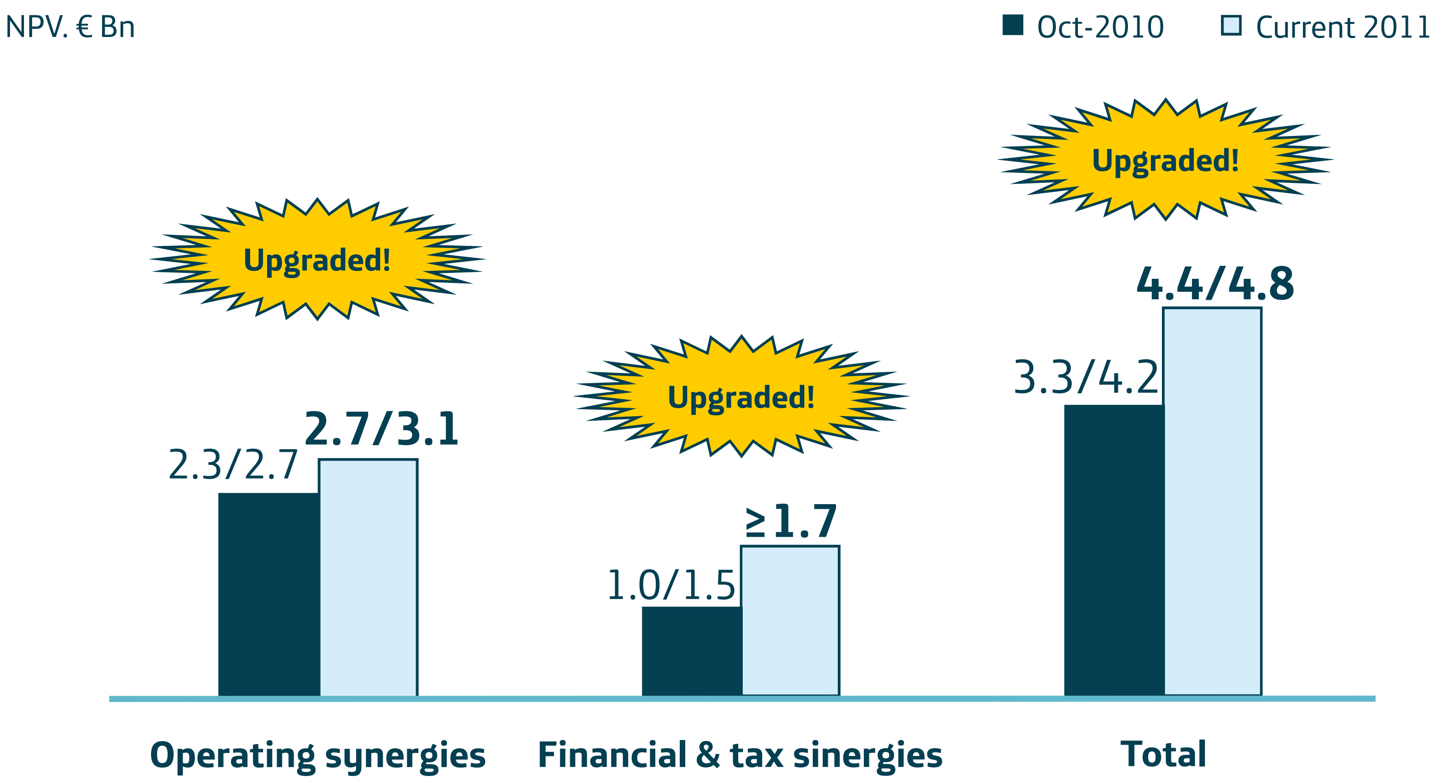
OIBDA & margin (y-o-y organic)



New innovative products launched in Q3 impacting commercial costs

1. Source: Anatel. Data Market Share includes M2M and dongles.

Brazil: higher value creation through upgraded synergies



- **Increased synergies targets driven by higher value from integration**
- **Conservative approach to goodwill amortization in Brazil**

Solid performance in other key operations

Contribution to TEF 9M Revenue | Revenue 9M y-o-y organic

South Region

Argentina

4.9% | +15.2%

- **Solid double digit top line growth**
- **Steady accesses growth in FBB** (+13% y-o-y) **and contract mobile** (+9% y-o-y)

Chile

3.7% | +6.1%

- **Healthy revenue growth** led by customer value strategy
- **Robust OIBDA performance** with benchmark profitability (44.5% margin in 9M 11)

Peru

3.2% | +5.7%

- **Historical record net adds in Q3** across businesses (x2.3 vs. Q3 10)
- **Acceleration in top line growth and healthy OIBDA margin** (up q-o-q to 37.8%)

Colombia

2.5% | +4.9%

- **Robust revenue performance** with steady improvement in MSR (+8.2% y-o-y in Q3)
- **Consistent double digit y-o-y accesses growth** on mobile contract (+21%), FBB (+15%) and Pay TV (+33%)

North Region

Venezuela

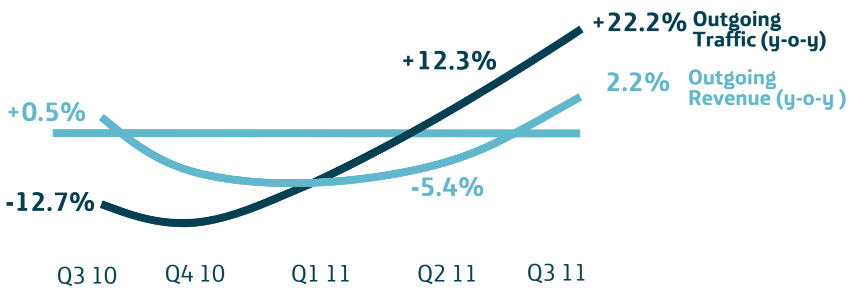
3.9% | +10.8%

- **Acceleration in top line growth** boosted by outgoing revenues (+14.9% organic y-o-y)
- **Sound OIBDA margin** (44.2%) despite higher commercial activity

Mexico

2.5% | -12.6%

- **OIBDA margin impacted by higher commercial activity, 3G network rollout and MTRs cut** (€-33 m in 9M 11)
- **Enhanced revenue trend** (q-o-q) despite MSR negatively impacted by MTRs cuts (€ -74 m in 9M 11)
- **Steady better performance on Outgoing Traffic & Outgoing ARPU**



Growth rates in financials are given in local currency. In Venezuela, excludes also hyperinflation accounting in both years.

Spain: enhanced commercial offer and no further deterioration

Positive signals from enhanced commercial offer

Setting new price points in the market

Fixed BB: € 24.9+mobile contract
- Launched in September
- Not applicable to customers enjoying other promotions

- Inflection point in net adds
- Attracting new customers

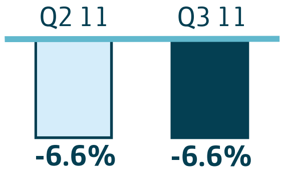
Mobile: €6cents/min
- Launched in July
- € 0.15 set up fee + Monthly fee € 6

- >1 m customers signed, lower churn

Revenue stabilization sequentially

- Strong push in mobile data contains MSR erosion (-8.8% in Q3; -8.1% in Q2)
- Stabilization of contract ARPU q-o-q
- MSR share > 5 p.p. access share (E)
- FBB ARPU flat q-o-q; lower decline y-o-y

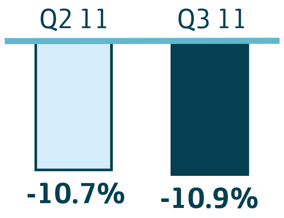
Revenue (y-o-y)



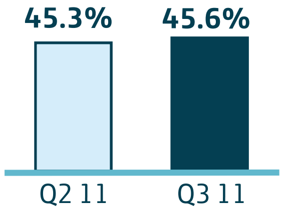
Contained OIBDA deterioration, stable margin q-o-q

- Cost benefits from workforce reduction & new collective agreement to come (2012E)
- Stable commercial costs
- Asset disposals starting despite difficult market conditions

OIBDA (y-o-y)



OIBDA margin



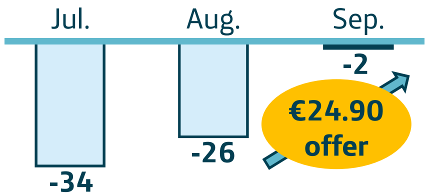
All data in comparable terms: y-o-y changes excluding Universal Service (€ 56 m in revenues; € 18 m in OIBDA), bad debt recovery (€ 20 m in OIBDA) and sale of application rights (€ 52 m in revenues and OIBDA) booked in Q3 10. In Q3 11 excludes provision for workforce restructuring plan (€2,591 m) and sale of non-core assets(€ 33 m in OIBDA).

Spain: a new FBB offer capitalising on our integrated position

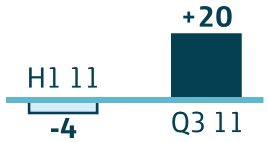
Net adds trend improved by new offer

- Modest promotional activity in July/Aug.
- Ramp-up in pay TV gross adds in Sep. leveraging new content (best football content)

Retail FBB. Net adds ('000)



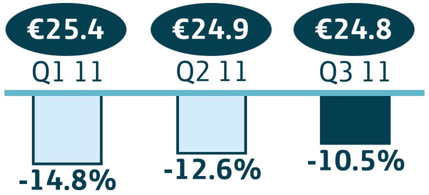
Pay TV. Net adds ('000)



FBB erosion easing

- Sustained improvement of FBB connectivity ARPU
- Pay TV ARPU keeps growing (+3.0% y-o-y)

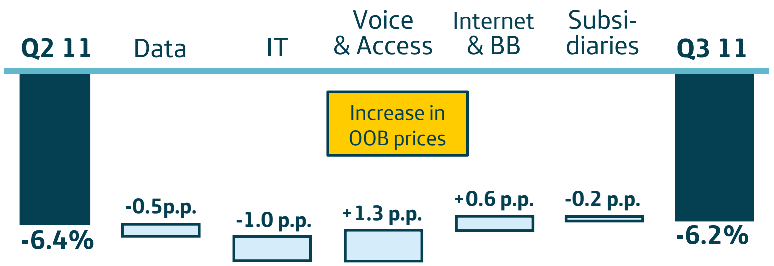
Connectivity ARPU (y-o-y change)



Similar top-line drivers

- Internet & BB revenue driven by lower ARPU and customer base
- Fixed revenues showing slight q-o-q improvement due to voice & BB

Fixed Revenue (y-o-y change)



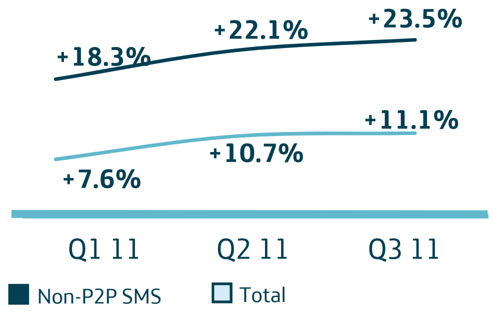
All data in comparable terms: y-o-y changes excluding Universal Service (€ 56 m in revenues) and sale of application rights (€ 26 m in revenues) booked in Q3 10.

Spain: a new mobile offer to foster growth in data

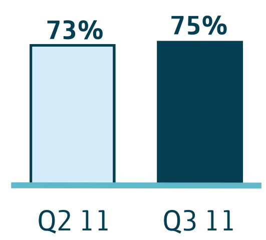
Strong data growth

- MBB base 6.4 m (+48% vs. Sep-10)
- Sustained ramp-up in data ARPU
- Data is 25% of MSR (+5 p.p. y-o-y)
- 73% of total contract activations are smartphones

Data ARPU (y-o-y)



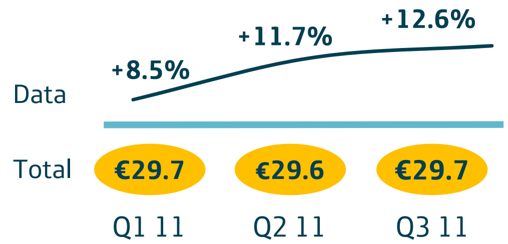
Non P2P SMS/Data



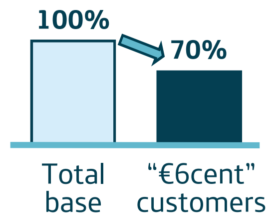
Stable trends in contract

- Contract is 69% of total base
- Customers up 3.5% y-o-y
- Better economics vs. prepaid:
  - ARPU = 3.1x prepaid
  - Churn = 0.4x prepaid

Contract ARPU



Contract churn



New data centric commercial offer for contract

- Bundling voice + SMS + Data
- First to launch bundles with unlimited SMSs in the market
- Taylor-made options
- Fostering cross-selling: € 5 discount for FBB customers

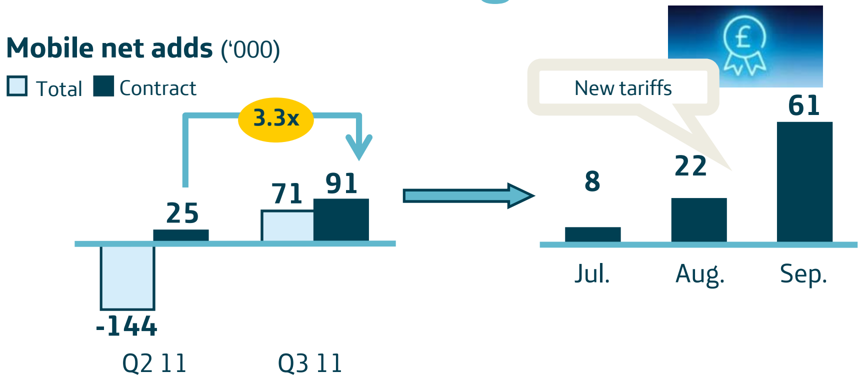
Habla y Navega 21	Habla y Navega 30	Habla y Navega 40	Habla y Navega 50
6 cents/min + WEEKENDS FOR FREE	150 min/month	300 min/month	500 min/month
500 MB at max. speed SMS unlimited	500 MB at max. speed SMS unlimited	500 MB at max. speed SMS unlimited	500 MB at max. speed SMS unlimited
16 €/month	25 €/month	35 €/month	45 €/month

Including €5 discount for FBB costumers

UK: Re-gaining momentum, mobile data strength

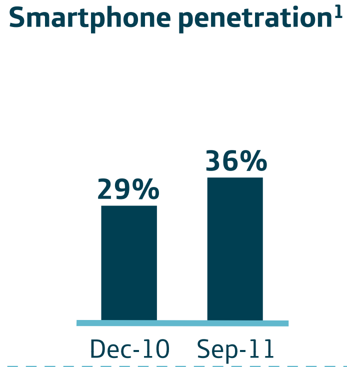
Improved commercial activity

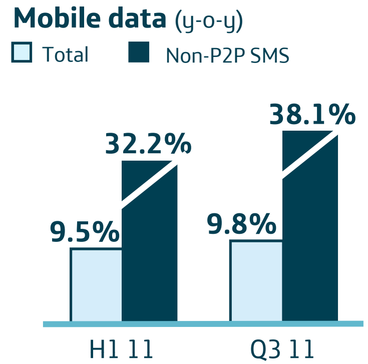
- New smartphone tariffs from end-Aug driving gross adds
- Contract churn stable at 1.1%



Increased smartphone adoption

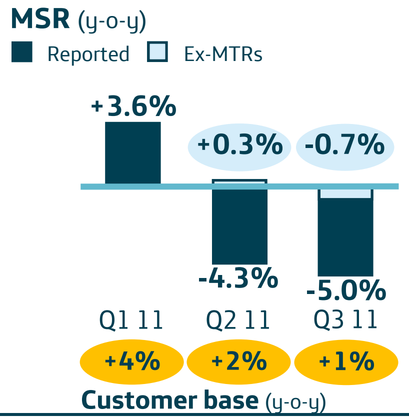
- Favourable tiered plans adoption
  - 60% consumer contract
  - ~80% taking £6-10 bolt-on

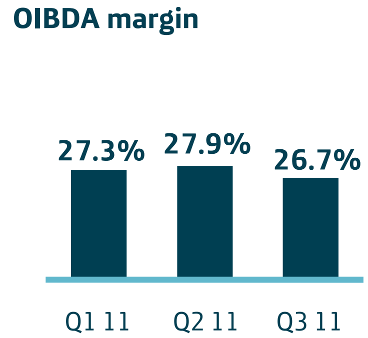




Solid OIBDA amid revenue pressure in a tough environment

- Customer y-o-y growth slowdown
- Stable outgoing ARPU y-o-y decline over Q2 11
  - OOB and tariff optimization
- No signs of competition relief





1. Smartphones with data attached rate/total mobile base excluding dongles and M2M.

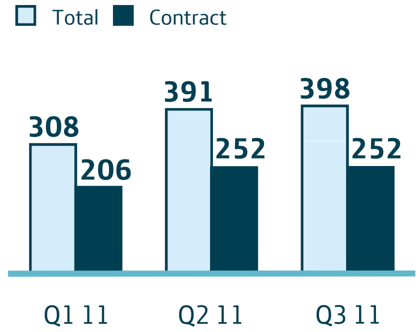
Growth rates in financials are given in local currency.

Germany: delivering operating and financial growth

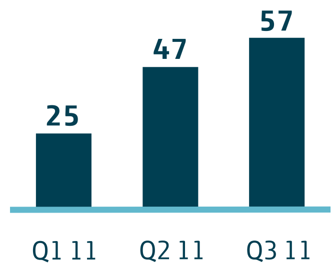
Solid commercial momentum

- Most satisfied[1] mobile customer base
- New O2 Blue tariffs & <€ 100 devices through exclusive partners (e.g. Fonic)

Mobile net adds ('000)



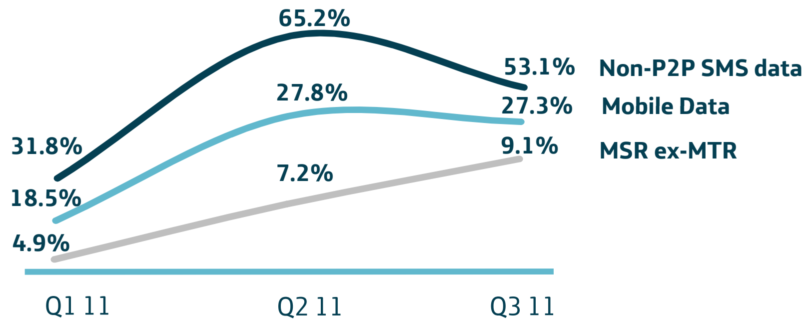
O2 Blue 250 tariff net adds ('000)



Sustained revenue acceleration

- Better customer mix, strong data usage
- MSR drag from MTR cuts : -7 p.p. in 9M 11
- Smartphone adoption leadership through "My Handy" model
  - ~100% data plan attachment rate

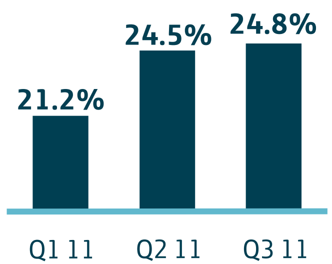
Revenue growth (y-o-y)



Robust OIBDA

- OIBDA growth (+2.3%[2] y-o-y in 9M) on increased scale, higher efficiencies and restructuring savings

OIBDA margin



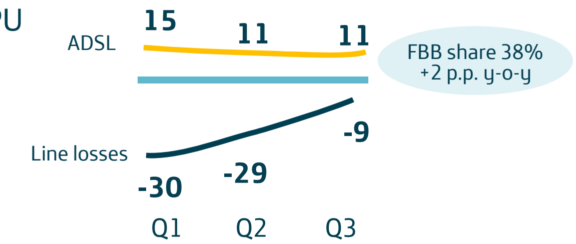
1. Kundenmonitor Deutschland 2011.
2. In organic terms.

C. Republic: lead market positioning, robust improvement across the board

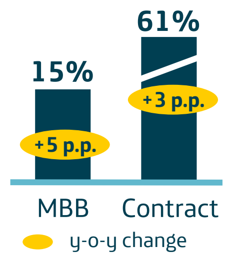
Solid performance in value customers

- VDSL launch helps manage FBB ARPU and reduces churn (-2 p.p. y-o-y)
- Contract base up 6% y-o-y
- Q3 MBB net adds 2.7x vs pre-campaign months

Fixed net adds 2011 ('000)



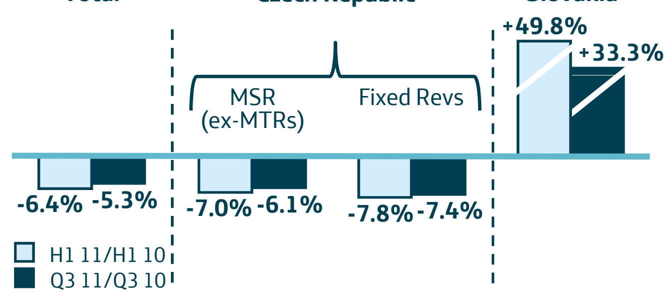
Mobile customer mix (Sep-11)



Improved revenue trends amid challenging conditions

- Better MSR q-o-q despite additional MTR cut in Q3 (drags 3.8 p.p.)
- Improving ICT and internet revenues y-o-y

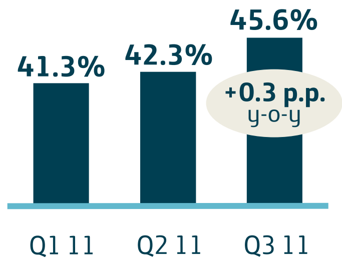
Revenue growth



Best in class OIBDA margin in CEE

- Efficiency agenda on track
- Positive and growing OIBDA in Slovakia
- Superior cash generation; OpCF of € 538 m in 9M

OIBDA margin



Growth rates in financials are given in constant terms.

New organizational structure for new development phase

Telefónica Digital

Telefónica Latam

Telefónica Europe

Telefónica Global Resources

- **Bolster Telefónica's place in the digital world, capturing growth** opportunities
- **Configuration of 2 large regions** to streamline and balance the geographical mix
- #1 or #2 in most markets of operations
- **Increased business profitability** by fully leveraging global scale

Reinforcing our status as a global player and leader in the digital world, strengthening our growth profile

T. Digital: The power to outperform in the digital world

- **Leading Telefónica's strategy in the Digital world:**
  - Exploiting new digital services, creating the capability for T. Europe and T.Latam to differentiate from our competitors
  - Developing best practices across the Group
  - Becoming a relevant player in the digital space through our differential assets
- **Reinforcing growth by exploiting scale through footprint, partners and OTT opportunities:**
  - Reaching partnerships with established and new players in the digital ecosystem
  - Investing in innovative digital business
- **≈3,000 highly skilled professionals in 5 centers: London, Spain, Silicon Valley, Sao Paolo and Tel Aviv**

The new Telefónica Digital

Existing digital companies	+ Developing digital markets	+ Direct benefits for Telefonica core business
Terra: Media content and services	Financial Services	VC programs
tuenti: Social Network	M2M	Global partnerships unit
jajah: Unified Communications	Cloud	Data pricing strategy
giffgaff: Social MVNO	Security	Business Intelligence
	eHealth	Devices/software strategy
	Media	Communication Services
	Advertising	

T. Global Resources: Increase efficiency by levering our global scale

We are already making significant progresses to capture benefits from our scale

- **Network & IT (Infrastructures & operations):**
  - Rationalization and concentration of data centers
  - Joint model for IT operations in UK & Spain
  - Network sharing agreements across regions
- **Procurement:**
  - Consolidation of global procurement center in Germany, with direct impact in volumes managed: 88% in 2011 vs. 65% in 2009
  - OpEx &CapEx savings reinvested in growth

We have set clear priorities for the short term to fully exploit our scale

- **Increase standardization in global sourcing:**
  - Streamline current device portfolio (~ -40% in 12/15 months) maintaining commercial competitiveness
  - Requirements and vendors rationalization in CPEs[1]
  - Common requirements and configurations for radio access and transport.
- **Increase aggregation in global purchases:**
  - 15% increase in current savings
- **IT:**
  - Continue with global infrastructure consolidation
- **Assets and services rationalization:**
  - Sale of non-strategic towers
  - Global NOCs[2] rationalization
  - Go deeper in active and passive network sharing
  - Focus on Financial and HR services through Shared services, levered in Global ERP[3]
- **Achieving our natural share in MNC's, leveraging the extended footprint opportunity:**
  - Sales increase >20% y-o-y in 2012E

1. CPE: Customer Premises Equipment.
2. NOC: Network Operating Center.
3. ERP: Enterprise Resource Planning.

Key management priorities in the short term

Drive growth and profitability & improve financial flexibility to deliver our commitments

LATAM

- **Maintain operating and financial leadership in Brazil**
- **Integrate fixed and mobile operations in Colombia** to fully exploit synergies
- **Complete operational turnaround in Mexico**

EUROPE

- **Balance commercial momentum and FCF protection in Spain**
- **Enhanced commercial activity in UK,** with MBB gaining traction
- **Consolidate strong momentum and further market share gains in Germany**
- **Deliver a superior cash profile in C. Republic**

T.DIGITAL & GLOBAL RESOURCES

- **Quick launch of new global units**
- **Foster growth in the digital world**
- **Further leverage scale benefits**

ACTIVE PORTFOLIO MANAGEMENT & DELEVERAGE

- **Selective monetization of assets across geographies**
- **Increased focus on co-investment opportunities**
- **Strict working capital /tax management**

Meet 2011 guidance

Remuneration policy reiterated

Leverage ratio target confirmed

Conclusions: Management priorities focused on shareholder value

- **Strong customer growth, building the foundations for future revenue growth**
- **On track to meet 2011 guidance, leveraging our diversification and strong growth in mobile data**
- **Sound FCF generation, strong liquidity position**
- **New organization to bolster growth and efficiency gains, enhancing execution**
- **Active portfolio management to optimize use of capital & improve financial flexibility**
- **Fully committed to our shareholder remuneration policy, backed by robust FCF generation**

Organic growth: In financial terms, it assumes constant average exchange rates as of January-September 2010, and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-September 2010 the consolidation of Vivo, HanseNet, Tuenti and Acens are included whereas the revaluation of our pre-existing stake in VIVO accounted for in Q3 10, the results of Manx Telecom and restructuring costs in Germany are excluded. In OIBDA terms, in January-September 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded, as well as workforce provision related to the Redundancy Program approved in Spain and the impact of the capital gain from the sale of Manx Telecom booked in Q2 10. Results from the Costa Rica operation are excluded from the organic growth calculation. Telefónica's Capex excludes the Real Estate Efficiency Programme at T. España, the real estate commitments associated with Telefónica's new headquarters in Barcelona and investments in spectrum.

Net additions exclude accesses disconnections made in the second quarter of 2010 and in the third quarter of 2011.

2011 Financial results and accesses include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007.