

Quarterly Results

January-September 2008

TELEFONICA, S.A.

November 14th, 2008



TELEFONICA S.A.

Investor Relations

Telefonica

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Benchmark results in the industry

- **Unmatched organic⁽¹⁾ growth rates, above peers**, leveraging a strategically diversified portfolio and strong competitive position in most markets:
 - Top line growth acceleration vs. H1 08 driven by robust performance in Latin America
- **Solid conversion rate of top line growth into cash-flow**, showing our ability to manage OpEx and CapEx, benefits from integration and scale economies:
 - Organic⁽¹⁾ OpCF growth exceeds revenue growth by 3.1 p.p.
 - Growing OpCF generation across regions
- **Strong financial position to face the current financial turmoil with flexibility:**
 - Balanced maturity profile & active hedge policy to manage FX fluctuations risk
- **Fully on track to fulfill 2008 guidance**
- **Prioritizing shareholders returns for the use of Free Cash Flow:**
 - Initial 2008 share buyback expanded by 50%. 9% of current market cap devoted to shareholder returns YTD⁽²⁾
 - Growing pace in DPS in the future reiterated
 - Selective M&A to foster growth in current markets

Delivering a superior combination of growth and strong CF generation

€ in millions	Jan-Sep 2008	Change 9M 08/9M 07		Change ex-forex ⁽¹⁾ 9M 08/9M 07	Change organic ⁽²⁾ 9M 08/9M 07
Revenues	43,141	+2.7%	→	+5.2%	+7.0%
Operating Income before D&A (OIBDA)	17,026	-6.7%	→	-5.2%	+9.8%
OIBDA Margin	39.5%	-4.0 p.p.	→	-4.3 p.p.	+1.0 p.p.
Operating Income (OI)	10,223	-9.2%	→	-7.9%	+18.0%
Net income	5,596	-28.7%			
OpCF (OIBDA-CapEx)	11,621	-12.1%	→	-10.8%	+10.1%

Negative impacts from capital gains registered in 2007, changes in consolidation and FX

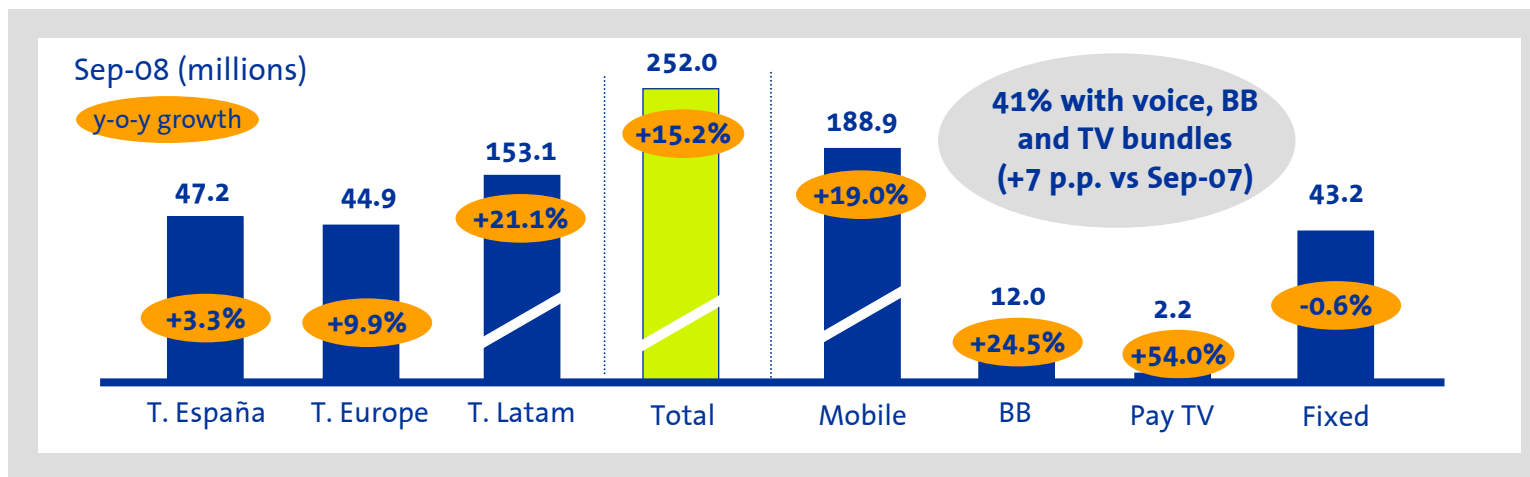
Underlying EPS up by more than 26%



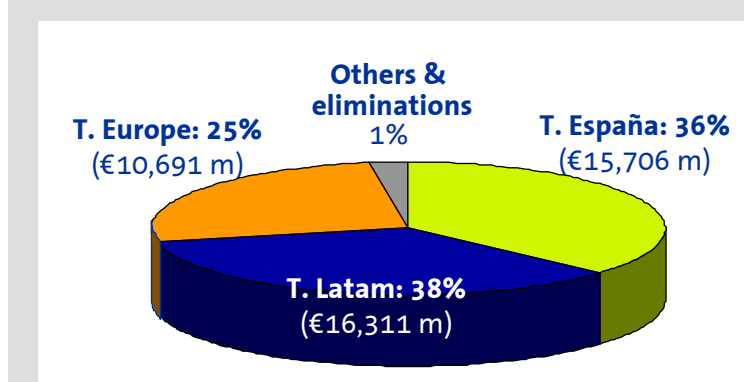
Capitalising on our highly diversified operations

Balance portfolio of assets

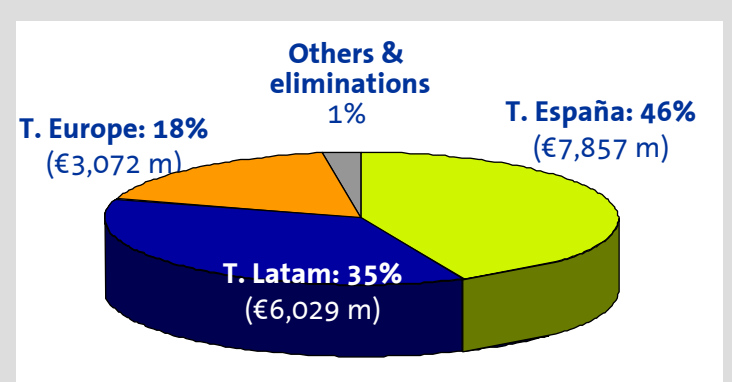
Accesses



9M 08 Revenue



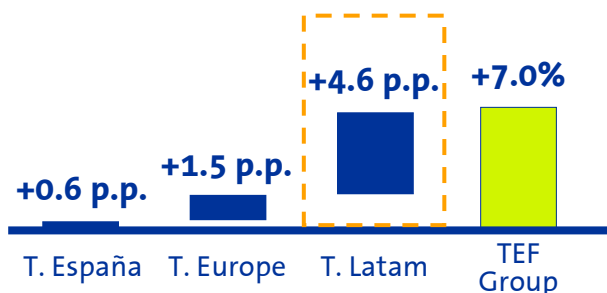
9M 08 OIBDA



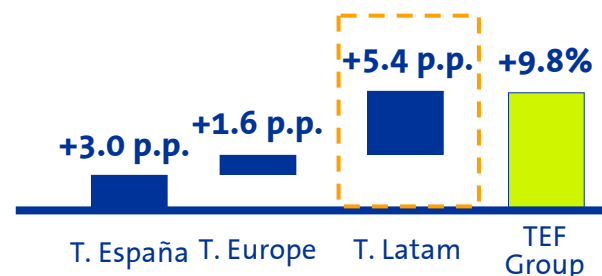
Capturing the potential growth in each market

Contribution to organic revenue and OIBDA growth

9M 08 Revenue⁽¹⁾

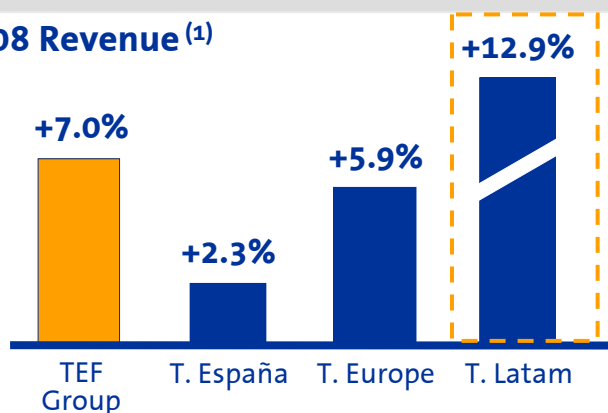


9M 08 OIBDA⁽²⁾

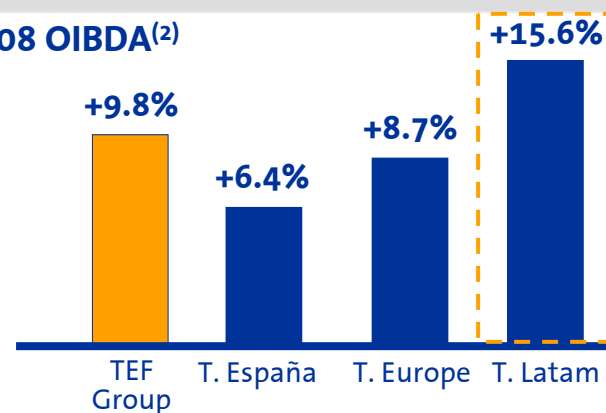


Organic growth by regions

9M 08 Revenue⁽¹⁾



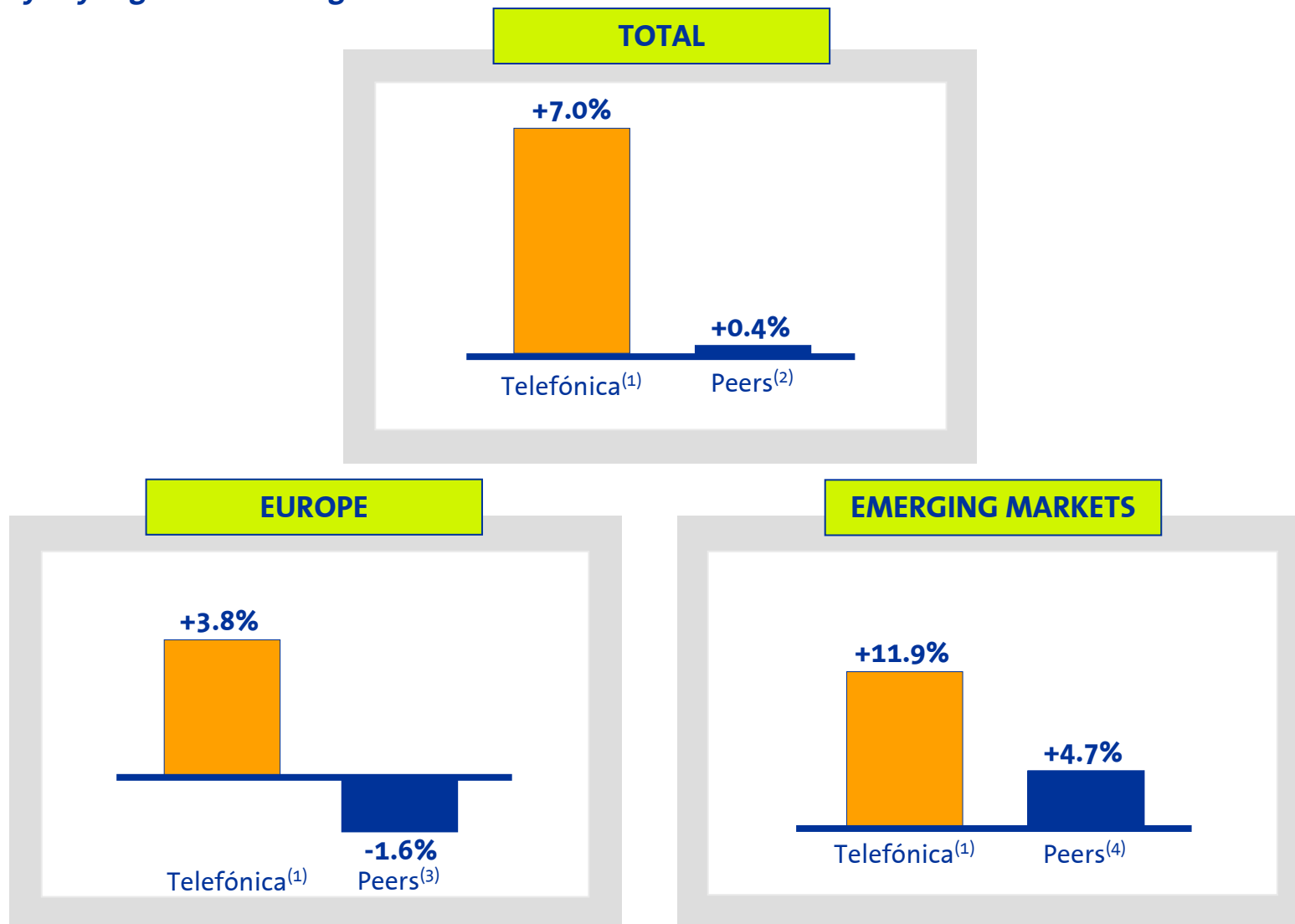
9M 08 OIBDA⁽²⁾



(1) Assuming constant exchange rates as of 9M 07 and including the consolidation of TVA in January-September 2007, Telemig in April-September 2007 and the impact in T. España revenues for new public voice telephone services business model (€ -106.1 m). It excludes the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007.
 (2) Assuming constant exchange rates as of 9M 07 and including the consolidation of TVA in January-September 2007 and Telemig in April-September 2007. It excludes the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007 and the impact coming from assets disposals (Airwave, Endemol and Sogecable) in both periods.

Outperforming our peers

9M 08 y-o-y organic revenue growth

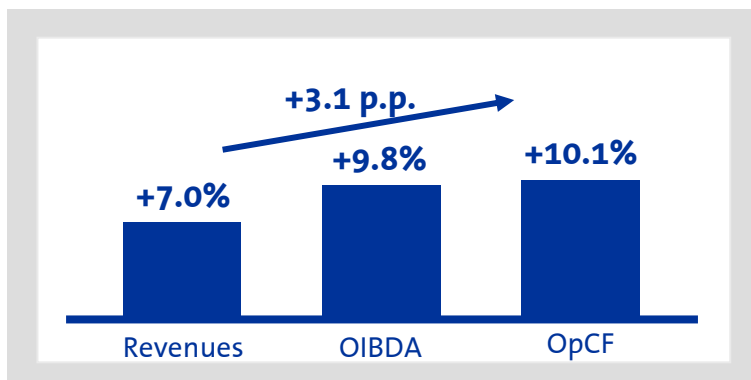


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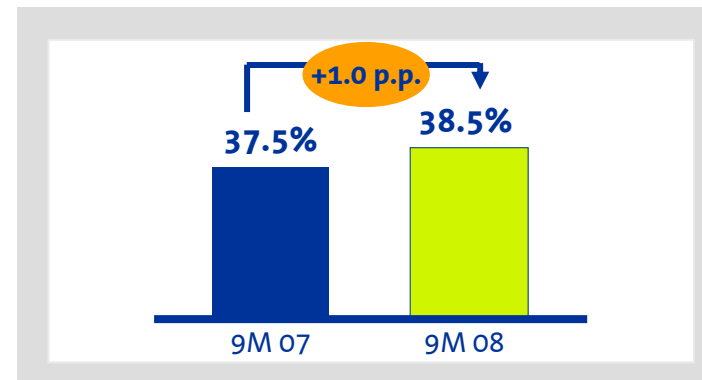
(1) Assuming constant exchange rates as of 9M 07 and including the consolidation of TVA in January-September 2007, Telemig in April-September 2007 and the impact in T. España revenues for new public voice telephone services business model (€ -106.1 m). It excludes the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. Europe includes T. España and T. O2 Europe, but in T. O2 Europe excludes T. O2 CR (included in Emerging Markets).
 (2) France Telecom, Deutsche Telekom, KPN, Telecom Italia, Vodafone (H1 08), América Móvil, Telmex, and Telmex International.
 (3) France Telecom, KPN, Telecom Italia and Vodafone (H1 08).
 (4) América Móvil, Telmex, Vodafone (H1 08), France Telecom, Telecom Italia and Telmex International.

Solid conversion rate of top line growth into cash-flow

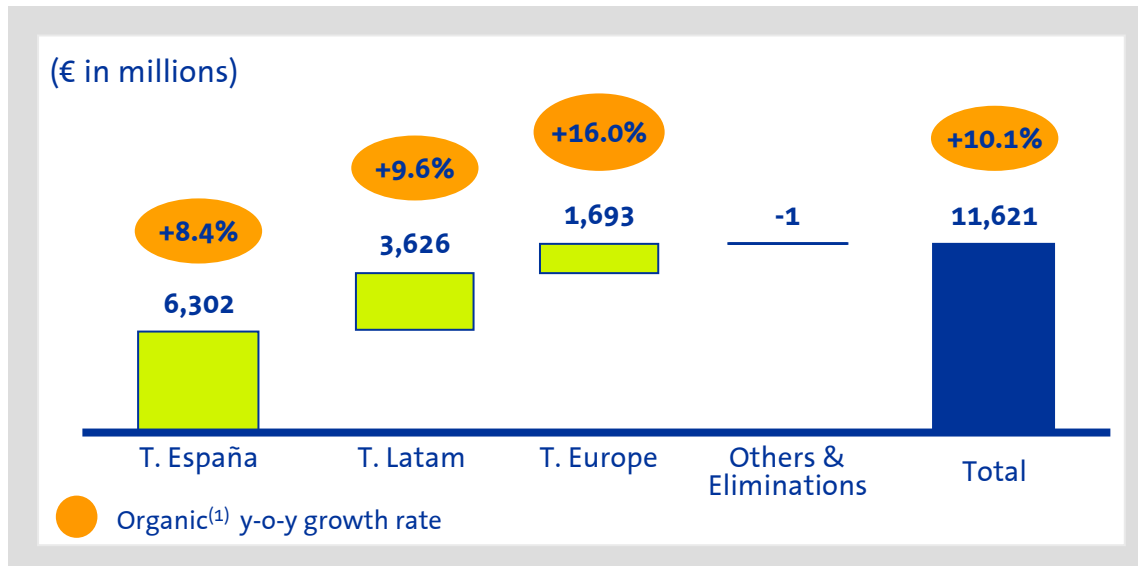
9M 08 Organic⁽¹⁾ growth (y-o-y)



Organic⁽¹⁾ OIBDA margin (y-o-y)



9M 08 OpCF (OIBDA-CapEx)



87% of Group OpCF from Investment Grade countries

75% of Group CapEx devoted to growth

FCFS 9M 08: € 1.346 vs. € 1.249 in 9M 07

(1) Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-September 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 (€ -106.1 m) is included. In OIBDA, the impact of sales of assets (Airwave, Endemol and Sogecable) in both periods is excluded.

Strengthening our organization to further reinforce cash-flow generation levers

Leverage our integrated business model to capture additional synergies derived from our market power, skills, scale and diversity

**GLOBAL
INNOVATION UNIT**

Global New Services

New Businesses

R&D

Developing new growth dynamics to be in the forefront of the ICT sector development to continue recording differential revenue growth in the medium term



**GLOBAL
TRANSFORMATION
UNIT**

Global IT

Global Technology

Shared Services

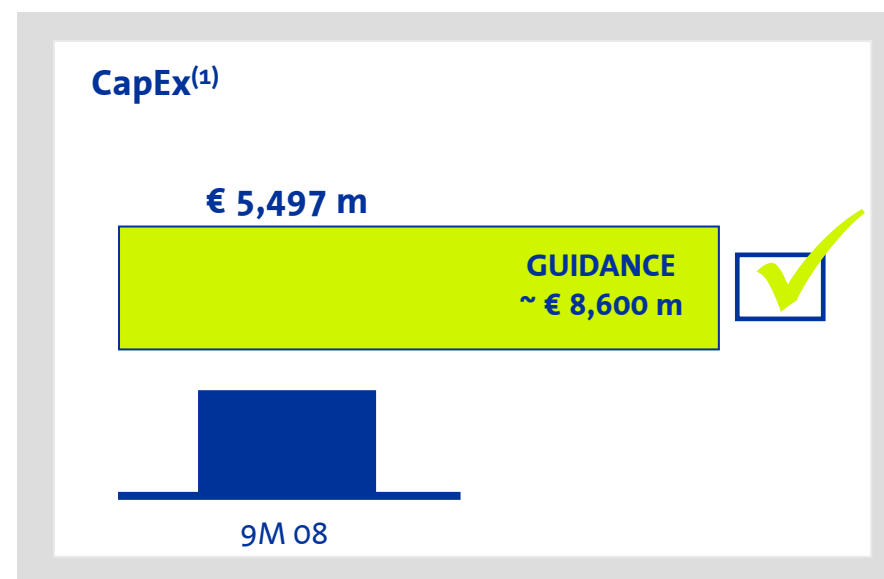
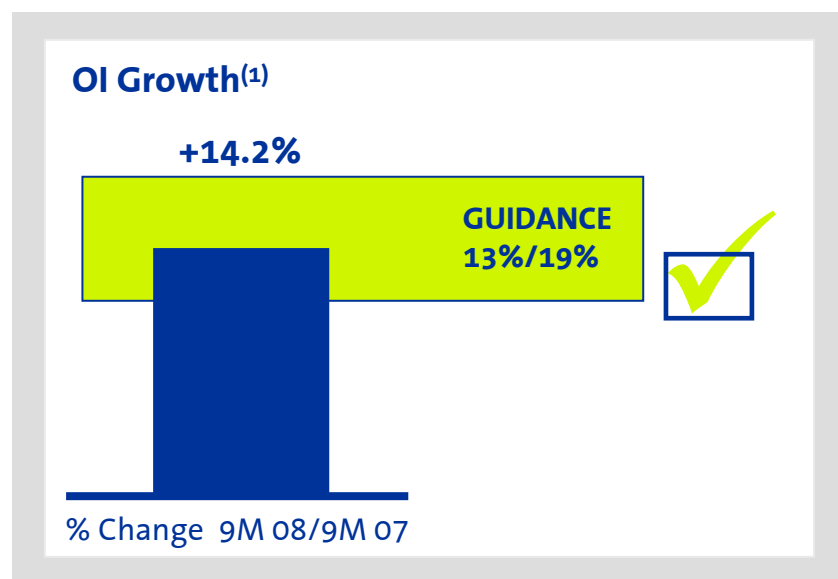
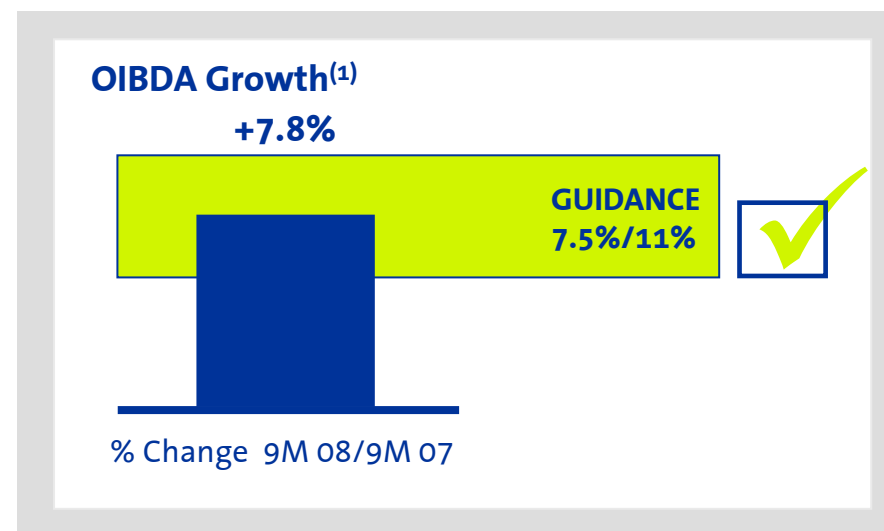
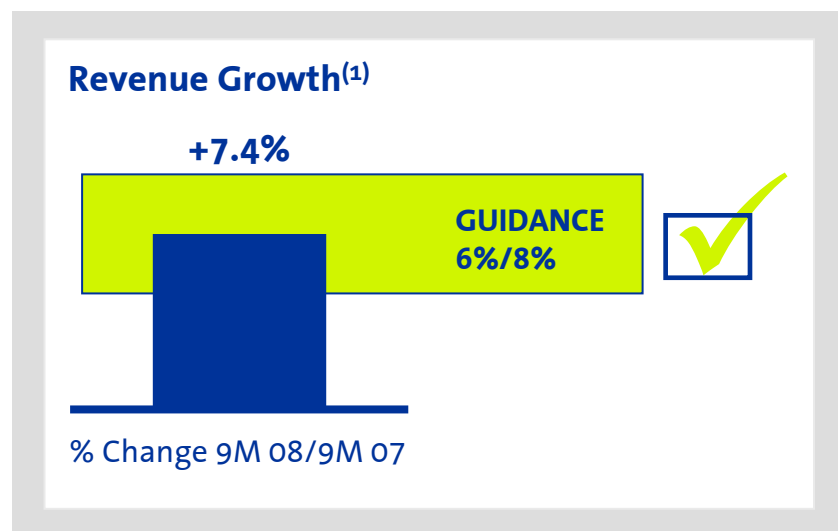
Fostering the operating model transformation to maximize efficiency



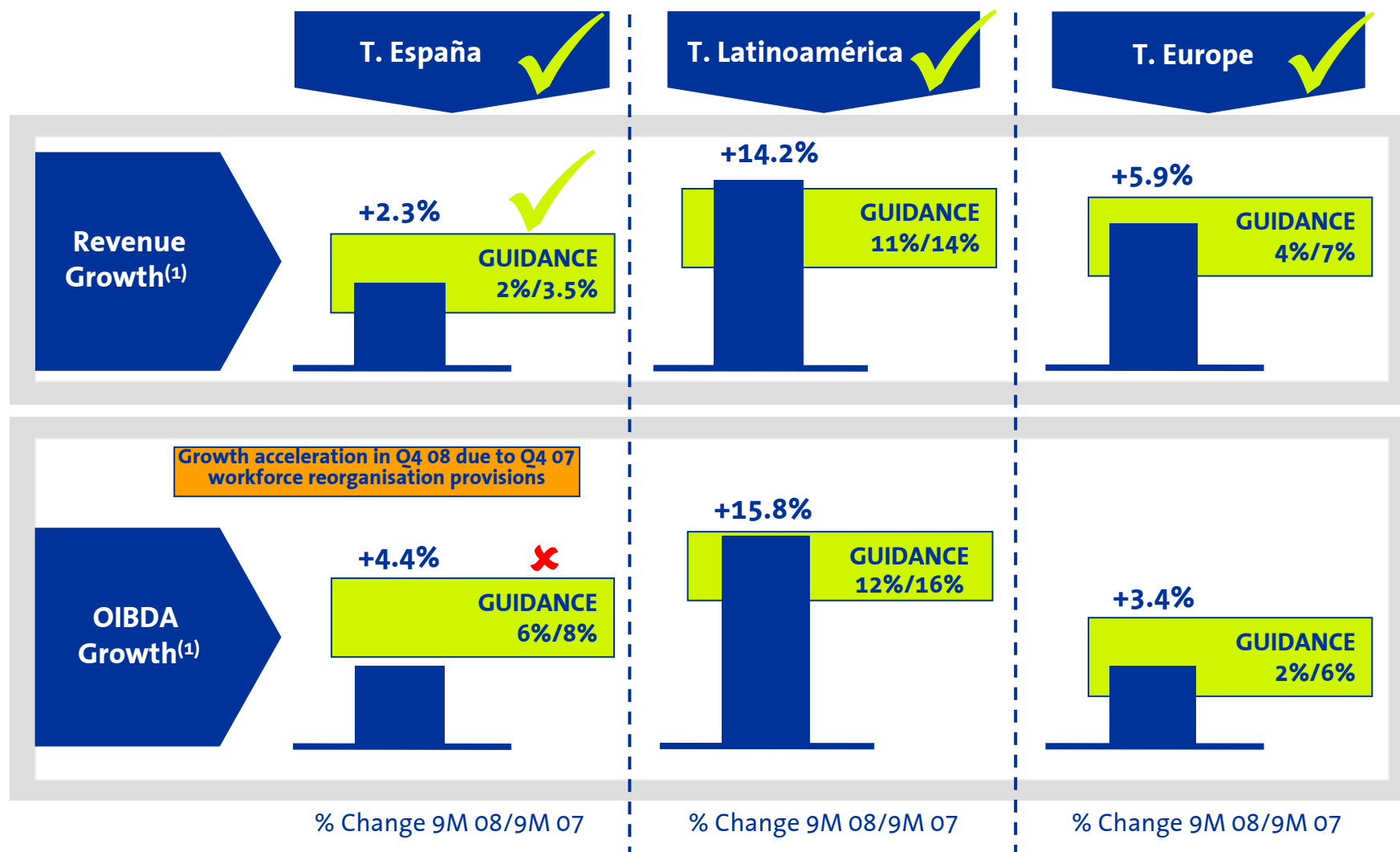
**NEW OPERATING
COMMITTEE**

Supporting the development and implementation of global initiatives to capture synergies

9M 08 performance in-line with year-end targets



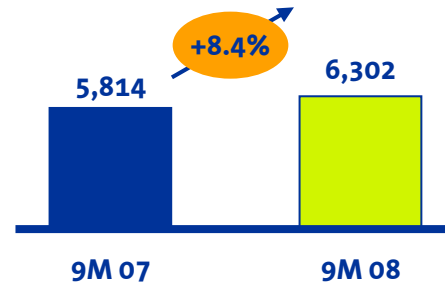
On track to meet 2008 regional and Group guidance



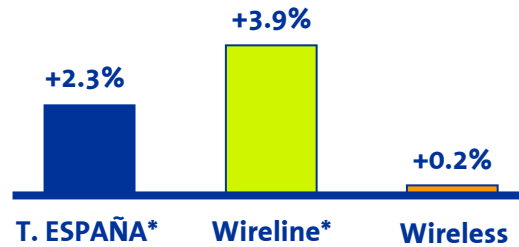
(1) Guidance criteria: 2007 adjusted figures exclude Airwave and Endemol, include 3 months of consolidation of TVA. 2007 T. España revenues are adjusted for new public voice telephone services business model. 2008 figures Includes TVA, Deltax and Telemig (from April 2008). Telefónica's CapEx excludes 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.

Telefónica España: preserving strong margins and high CF generation

T.España OpCF
(OIBDA-CapEx;
€ in millions)

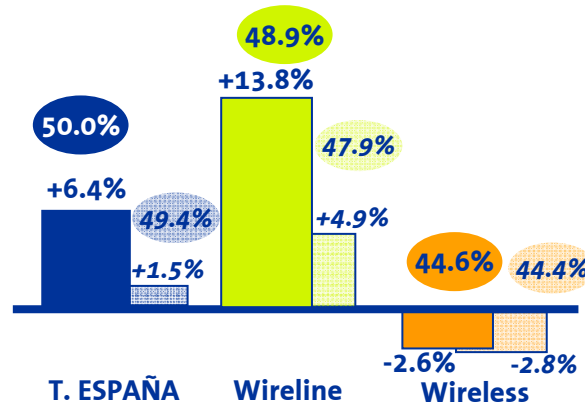


Revenue growth
(9M 08 y-o-y change)



*Including PUT effect

OIBDA growth
(9M 08 y-o-y change)

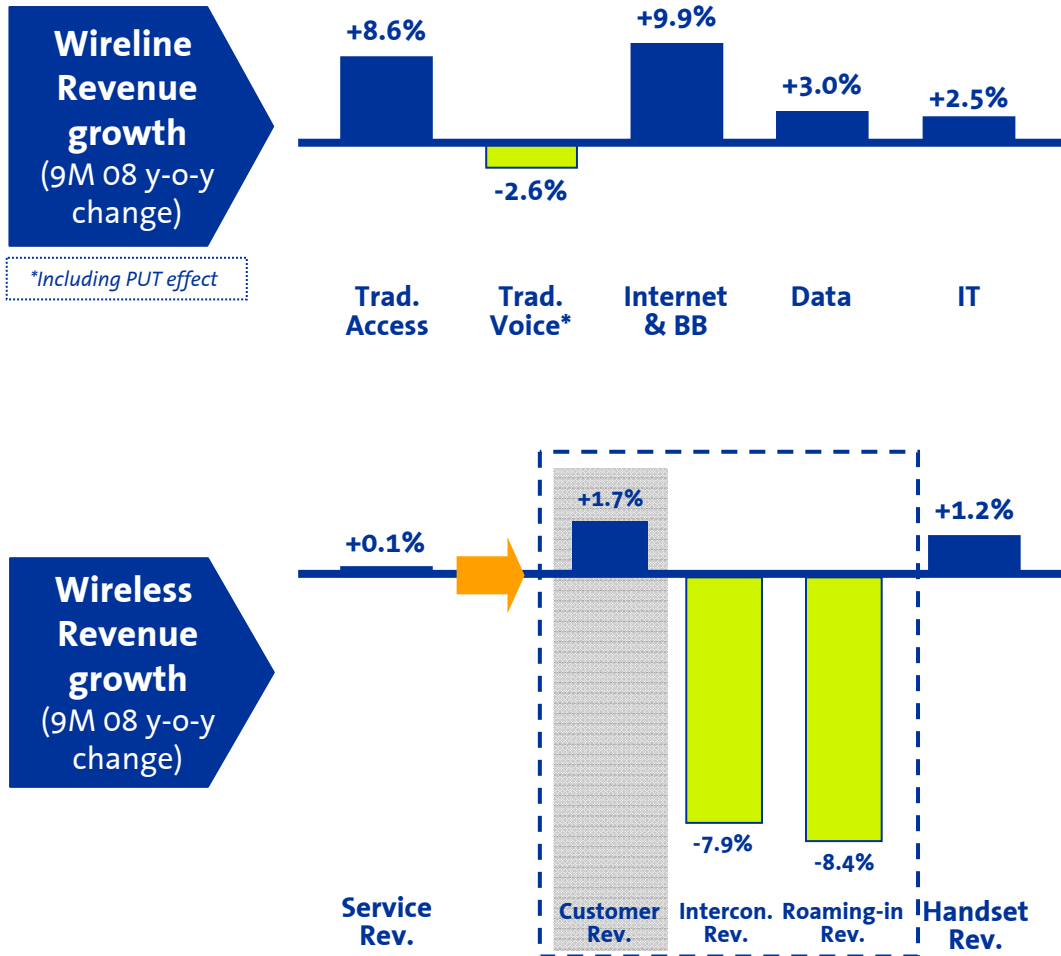


Excluding Real Estate program, Bad Debt Recovery, EU Fine and Personnel provisions

OIBDA Margin

- Preserving OpCF, growing above 8%
- Top line expansion
- Sustaining solid margins across businesses:
 - Leveraging cost efficiency measures to expand margins by 2.3 p.p. vs. 9M 07
 - Sequential improvement in wireless margins: 43.7% in Q1 08, 45.4% in Q2 08 and 46.9% in Q3 08 (ex-USO⁽¹⁾ effect)
 - Bad debt remains under 1% of revenues in 9M 08
 - Ongoing cost cutting initiatives (IT contract renegotiation, commercial costs rationalization, rental agreement optimization,...)
- Capturing synergies from fixed & mobile integration

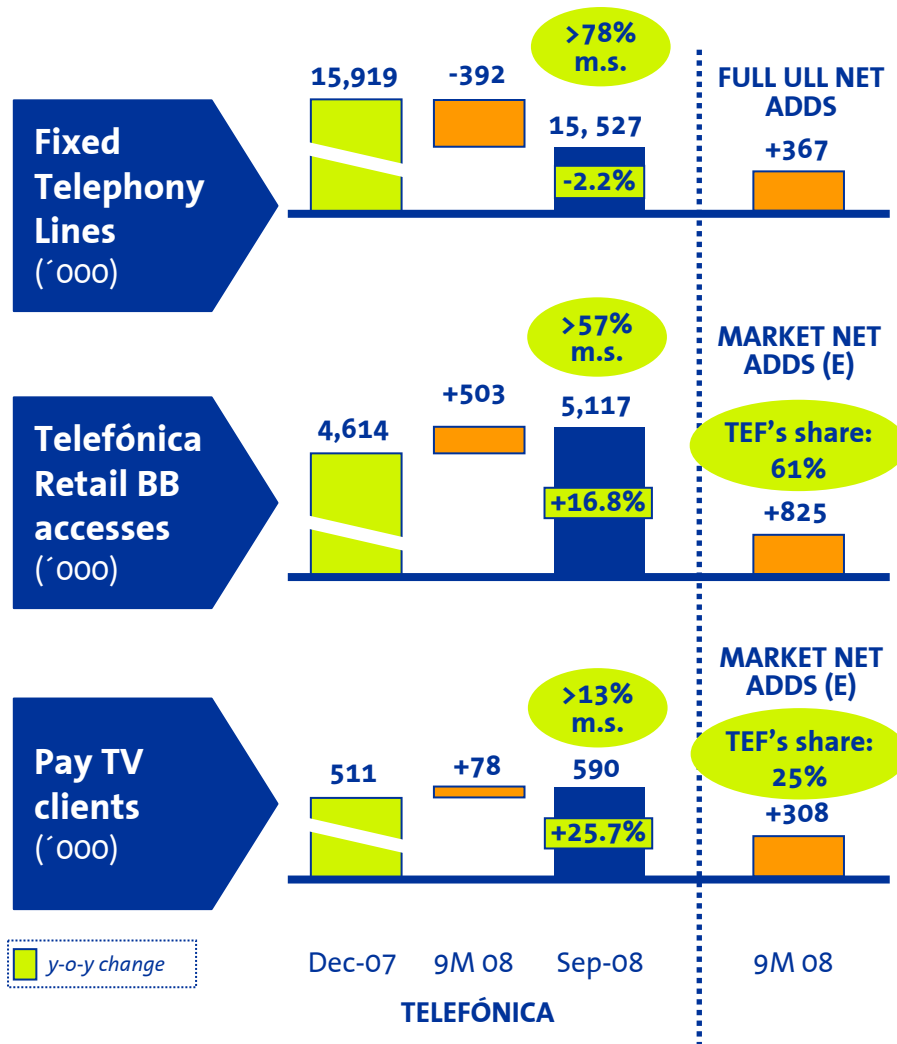
Revenue growth in a more difficult environment



- **3.9%⁽¹⁾ revenue growth at wireline in 9M 08 vs. +2.2%⁽¹⁾ in H1 08:**
 - € 182.8 m revenues in Q3 08 related to USO⁽²⁾
- **Flat wireless service revenues in 9M 08:**
 - Customer revenue up 1.7% driven by robust wireless data growth (+15.3%)
 - Lower interconnection and roaming-in revenues due to tariff reductions
- **Leveraging our differentiated profile:**
 - Exploiting benefits of being an **integrated and incumbent** player
 - Wireline / Wireless **business diversification**
 - Superior **quality customer base**

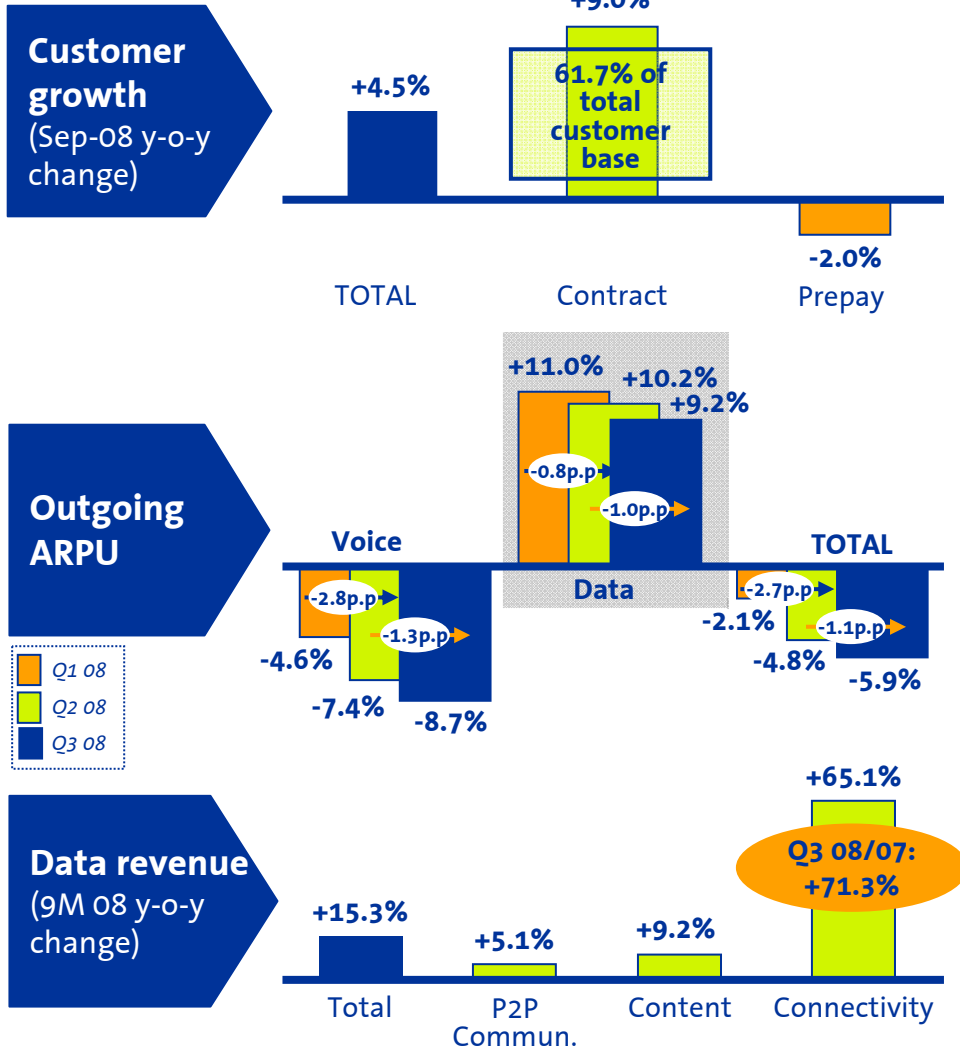
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 (1) Including PUT effect.
 (2) USO: Universal Service Obligation.

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



- **Line losses driven mainly by naked shared ULL and increased competitors' activity:**
 - +1.6% E y-o-y fixed line market growth
- **Strengthening our position in BB, leveraging our best in class offering:**
 - Best perceived BB provider by AI (Oct. 22nd, 2008)⁽¹⁾
 - Over 84% of retail BB accesses with 2P & 3P
 - Sustained BB ARPU performance: -3.4% vs. 9M 07 to 43.8€
- **Consolidating our position in the PayTV market:**
 - 590k Pay TV customers (+25.7% y-o-y)
 - HDTV to be launched in Q4 08
- **Bundling strategy to increase customer value:**
 - Total wireline ARPU: +3.6% y-o-y to 69€ in 9M 08

Wireless Business: Stabilization in ARPU trends



Strong focus in the value segment:

- 23.4 m mobile customers in a 115% penetration market
- 197k contract net adds in Q3; 211k in total
- i-Phone sales above expectations
- Stable blended churn rate at 1.8% & contract churn at 1.1% (9M 08 and Q3 08)

ARPU impacted by MTR cuts and lower voice usage

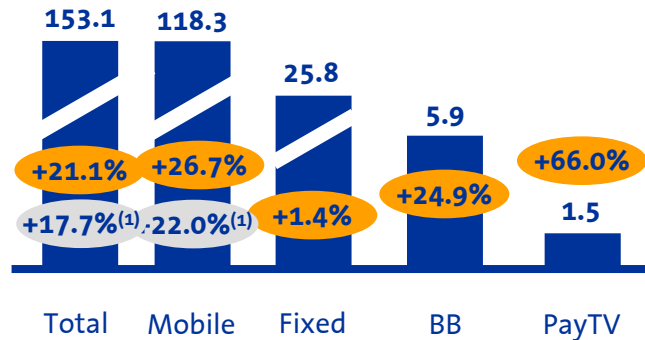
- MoU -2.6% in Q3 08 vs Q3 07
- 30.7€ ARPU in 9M 08 (-5.7% y-o-y), stabilization vs. previous quarters: -0.7 p.p. in Q3 vs. Q2 08 vs. -2.4 p.p. in Q2 vs. Q1 08
- Incoming voice ARPU (-13.2% y-o-y in 9M 08) impacted by 16.0% MTR cuts over last 12 months
- Strong data ARPU performance to represent 17.0% of ARPU in Q3 08 (+2.4 p.p. vs. Q3 07)

Solid results in mobile data:

- ~688k new 3G devices in Q3 08 to 5.6 m (1.9x vs. Sep-07)
- ~800k flat&daily rates (2x vs. Sep-07)

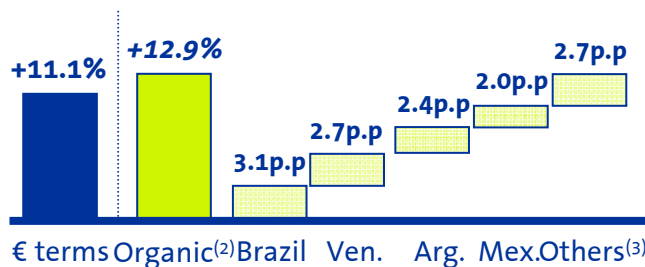
Telefónica Latinoamérica: Outstanding results in a growing region

Sep-08 Accesses (in millions)

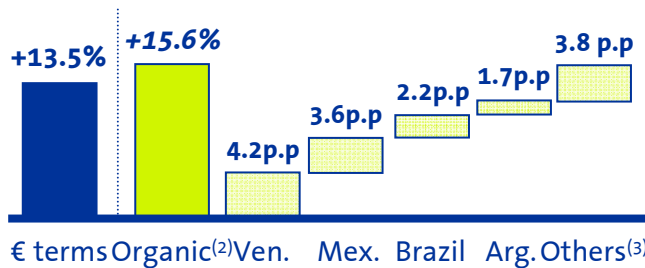


● y-o-y change
● y-o-y change⁽¹⁾

Revenue growth (9M 08 y-o-y change)



OIBDA growth (9M 08 y-o-y change)

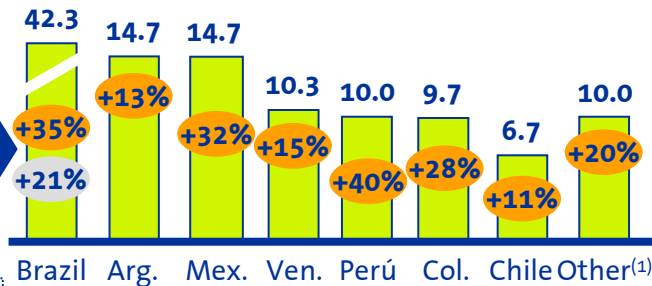


Differential profile in Latam:

- Strong customer growth
- Acceleration in y-o-y organic revenue growth (+0.7 p.p. vs. H1 08) driven by solid mobile outgoing service revenues and increased contribution of Internet & Pay TV revenue
- OIBDA Margin expansion (+0.8 p.p. vs. 9M 07) in a context of strong commercial activity and transformation of the wireline business
- Sustained customer growth levels vs. Jun-08 in a higher penetration environment with strong growth potential:
 - Robust mobile net adds in Q3 08 (+15.6%⁽⁴⁾ y-o-y)
 - Ongoing transformation of the wireline business with strong focus on the bundling strategy
- Significant OIBDA growth driven by mobile expansion and better performance in wireline
- Growing OpCF: €3.6 bn in 9M 08 (+9.6% y-o-y ex-forex)

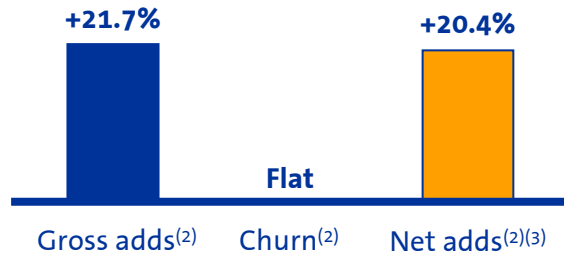
Wireless business: Capturing the growth potential and fostering usage

Sep-08 mobile customers (in millions)

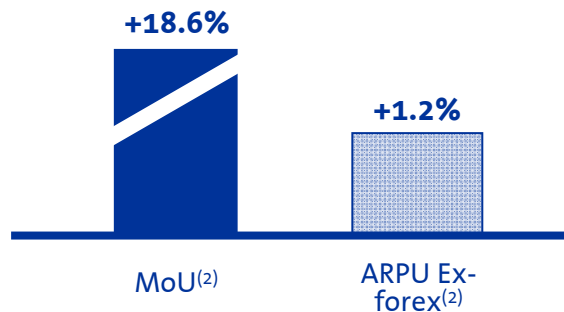


● y-o-y change
 ◐ Organic y-o-y change

Customer Growth drivers (9M 08 y-o-y change)



Outgoing MoU & ARPU (9M 08 y-o-y change)



Steady customer expansion in most markets:

- Mobile penetration up +13 p.p. y-o-y to 78% in Sep-08
- 12.9 m gross adds in Q3 08 (+16.2%⁽⁴⁾ vs. Q3 07)
 - + 41.2% in Brazil⁽⁴⁾; + 66.2% in Colombia
- Slight churn reduction in Q3 08 vs. Q3 07 despite 38.9 m gross adds YTD
- 4.8 m net adds in Q3 08 (+15.6%⁽⁴⁾ y-o-y)
- 76% of total customer base in GSM (+19 p.p. y-o-y)

ARPU performance driven by strong customer growth & lower MTRs:

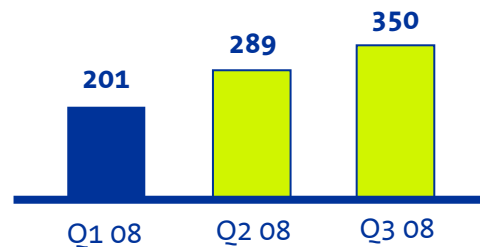
- Commercial initiatives to foster usage: “Duplicame”, “Triplícame”, targeted enriched bonuses to lever higher top ups and loyalty
- 3.5% Blended ARPU⁽²⁾ decline ex-forex vs. 9M 07, impacted by lower MTRs and promotions
- Robust mobile data revenue growth⁽²⁾ (+39.3% vs. 9M 07 ex-forex)

Strong mobile OIBDA margin⁽⁵⁾ expansion to 32.4% (+3.5 p.p. vs. 9M 07)

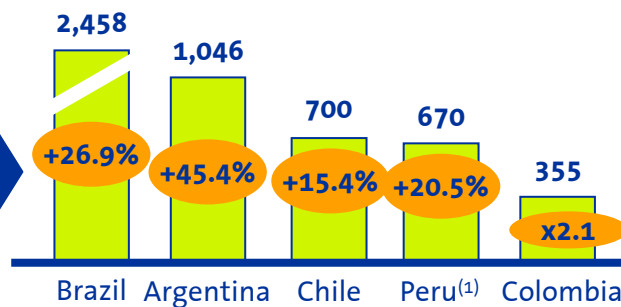
(1) Includes Central America, Ecuador and Uruguay.
 (2) Includes Telemig in April-Sep 2007.
 (3) The Telemig customers incorporated to the Group in April (3,986,439 customers) are not considered as net adds.
 (4) Includes Telemig in June-Sep 2007.
 (5) Aggregated margin.

Wireline business: Strong advances in business transformation

Retail BB net adds ('000)

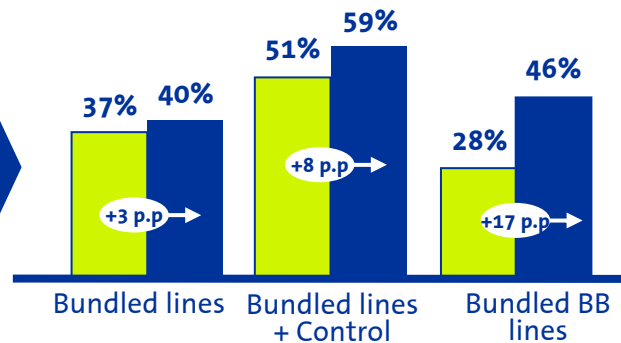


Sep-08 Retail BB accesses ('000)



Bundle weights

■ Sep-07
■ Sep-08



Bundled lines+ Control: Local & Control bundles+2P&3P/Fixed Accesses
Bundled lines: Local bundles+2P&3P/Fixed Accesses
Bundled BB lines: 2P&3P/DSL Accesses

■ Robust BB accesses growth (+24.9% y-o-y) to 5.9 m

- Further developing the bundle strategy (+5 p.p. vs. Jun-08 in 2P&3P/DSL accesses)
- Higher BB speeds (Brazil & Chile) and expanded coverage in Colombia
- Net adds acceleration: +21.2% in Q3 08 vs. Q2 08
 - +24.6% in Brazil, +32.1% in Peru and +9.8% in Colombia
- 297k net adds YTD in PayTV to 1.5m customers (+66.0% vs. Sep-07)

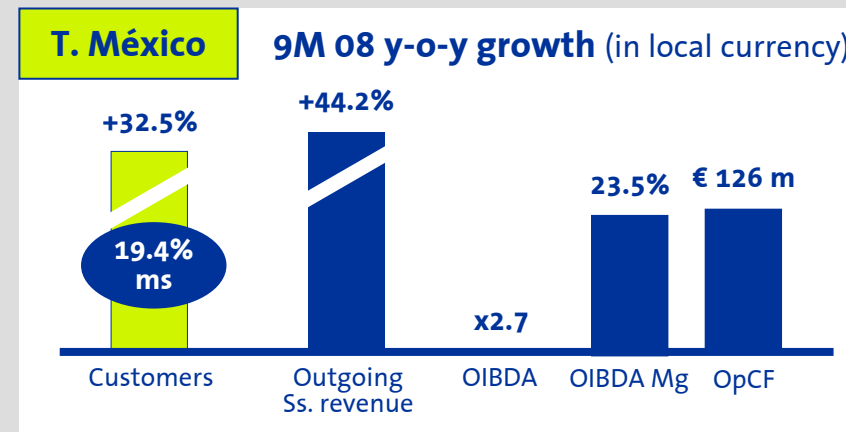
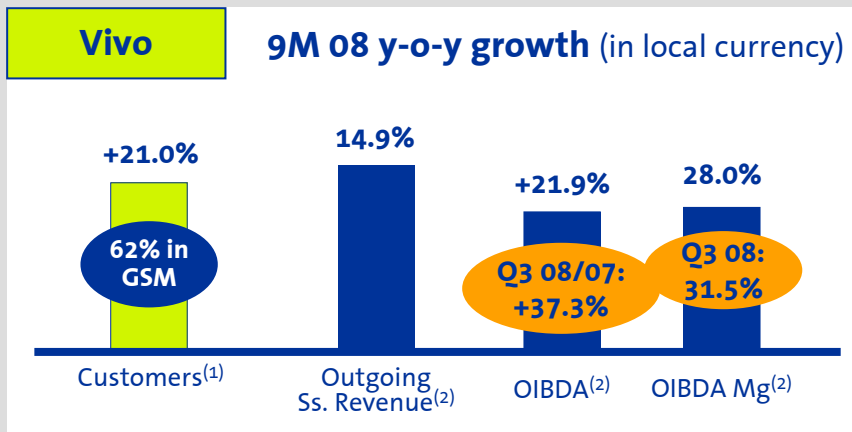
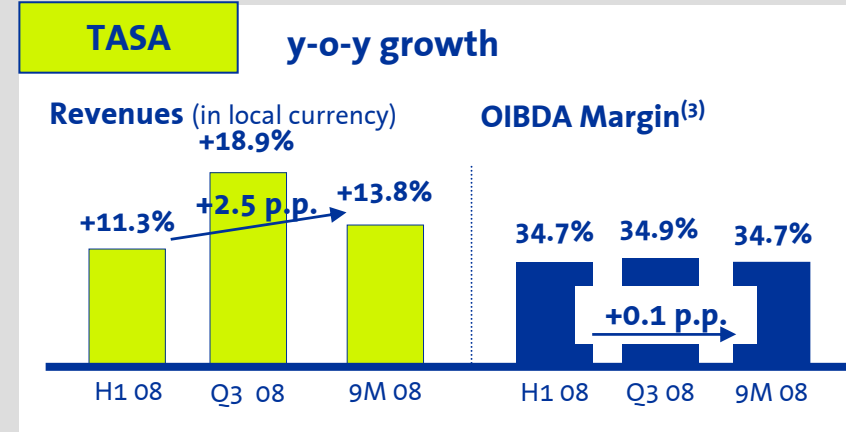
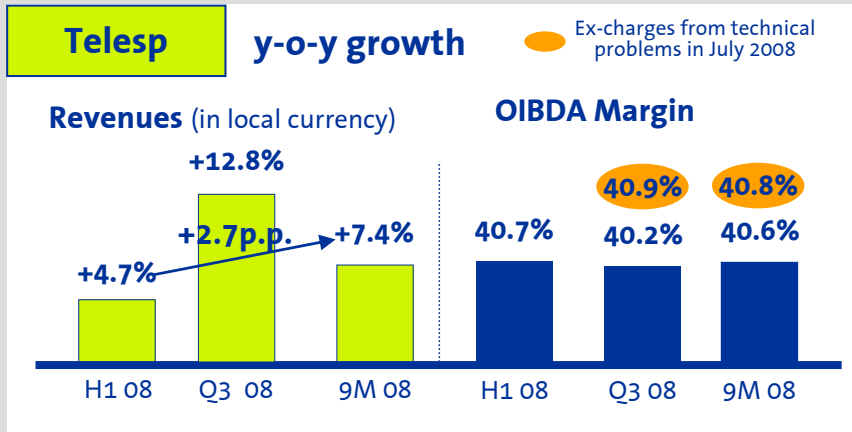
■ Revenue y-o-y growth accelerates in Brazil, Argentina & Colombia driven by improved traditional service evolution and robust Internet & TV revenue growth

9M 08 (Local currency)	Internet & Pay TV revenue/ Total revenue	y-o-y change
Colombia	15.7%	+7.3 p.p.
Peru	30.2%	+5.7 p.p.
Chile	21.9%	+3.8 p.p.
Brazil	12.5%	+3.1 p.p.
Argentina	16.9%	+2.9 p.p.
T. LATAM WIRELINE	18.3%	+3.1 p.p.

■ Total fixed line accesses up 1.4% y-o-y

■ Fixed line revenue per access acceleration: +5.5% y-o-y in 9M 08 ex-forex (+3.5% in H1 08)

Main operations review



Sum-up: Very robust growth across the region leveraging our integrated and diversified profile

9M 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⁾	+11.0%	+42.9%	+13.5% ⁽²⁾	+14.9% ⁽²⁾	+7.4%	+21.9% ⁽²⁾
	Argentina	+21.5%	+37.1%	+28.4%	+31.1%	+14.9%	+30.2%
	Chile	+14.4%	+29.0%	+22.5%	+22.8%	+8.3%	+23.9%
	Peru	+6.2%	+14.4%	+18.5%	+27.8%	+3.8%	+67.5%
	Colombia	(0.0%)	+89.5%	-4.2%	+14.1%	+11.8%	+38.8%
	C. America ⁽³⁾	+6.1%		+7.9%	+16.6%	-1.9%	+8.4%
Mobile	Venezuela	+23.3%		+20.6%	+29.1%	+29.6%	
	Mexico	+29.5%		+35.2%	+44.2%	x2.7	
	Ecuador	+20.6%		+20.5%	+25.1%	+33.5%	
	Uruguay	+40.4%		+37.5%	+38.7%	+66.1%	

 Ex sale of Spectrum in 2007

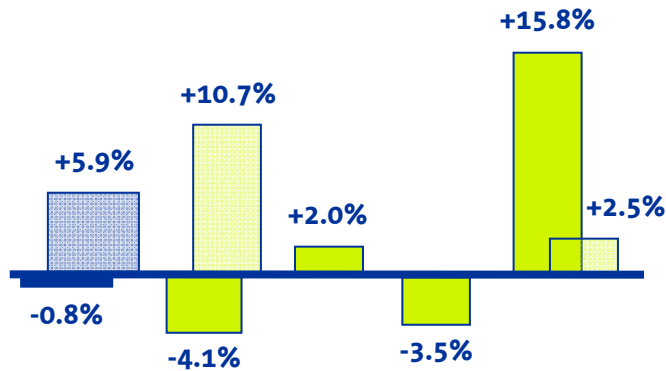
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(1) Includes 50% of Vivo.
 (2) Includes Telemig in April-September 2007.
 (3) Guatemala, El Salvador, Panama and Nicaragua. Year-on-year variation in constant currency

Telefónica Europe: robust performance across markets

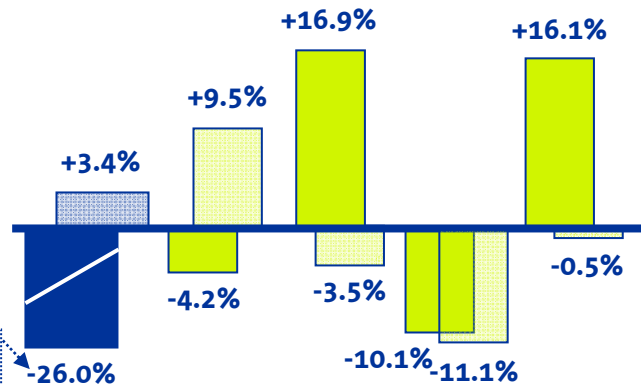
Revenue growth
(9M 08 y-o-y change)

Ex-forex & Airwave
Ex-forex



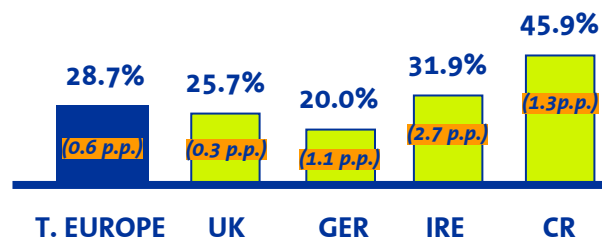
OIBDA growth
(9M 08 y-o-y change)

like for like⁽¹⁾
Impacted by Airwave capital gain



OIBDA margin
(9M 08)

y-o-y change like for like⁽¹⁾



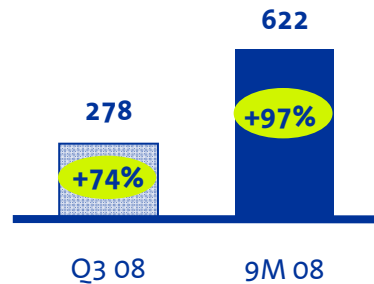
- Total customer base 44.9 m, +9.9% y-o-y
- 2.2 mobile net adds in 9M 08, +8.3% y-o-y
 - Mobile base +8.6% y-o-y, fostered by the strong growth in contract (+14.5% y-o-y)
- Anticipating customer needs
 - Best ever quarter for contract net adds in the UK leveraged lowest churn in the market
 - Fostering SIM-only contracts and comprehensive DSL-mobile BB across markets
 - Accelerated migrations to new value tariffs and best value flat rates gaining traction in Germany
- Gaining revenue share in the UK while keeping margins
- OIBDA margins sequentially improved in Germany
- Encouraging take up of propositions launched in the Czech Republic, Slovakia and Ireland

(1) Excluding foreign exchange impacts and the exit 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.

Telefonica O2 UK: Record contract growth while maintaining profitability

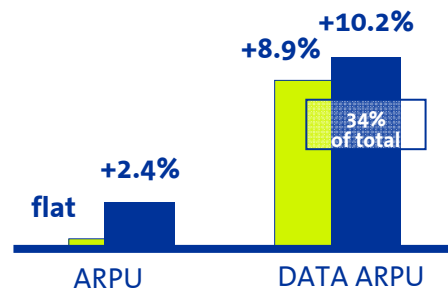
Churn 1.3% 1.4%
(y-o-y change) (-0.4 p.p) (-0.4 p.p)

Mobile contract net adds
(`000)



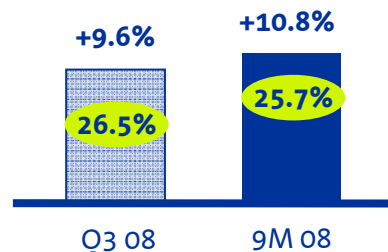
y-o-y change

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



Q3 08
9M 08

Mobile service revenue
(y-o-y change in l.currency)



OIBDA margin (%)

Highest ever quarterly contract net adds (278 K)

- Market leading contract churn at 1.3%
- Continued migrations from prepay segment
- Contract: 38.9% of mobile base (+2.4 p.p. vs. Sep-07)

Differential value in the current environment

- Above market revenue growth and maintained profitability despite increased commercial activity
- Market “polarising” – customers choosing SIM only tariffs at low end or iPhone at high end
- Strong performance in SMEs driven by new sales structure: 91% voice + data connections in Q3 08
- Contract ARPU performance (-1.5% y-o-y in 9M 08) due to customer optimization and SIM only tariffs

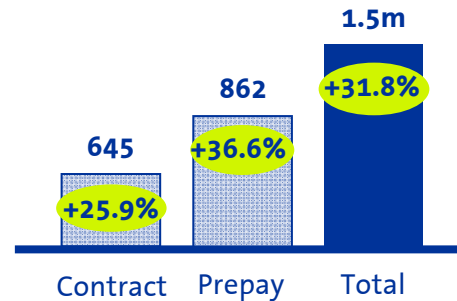
Broadband: keeping the right customer focus

- DSL net adds accelerated: 73k in Q3 08 vs. 63k in Q2 and 61k in Q1 to reach base of 267k customers
- Mobile BB proposition re-freshed & best value combined DSL-MBB offer in the market

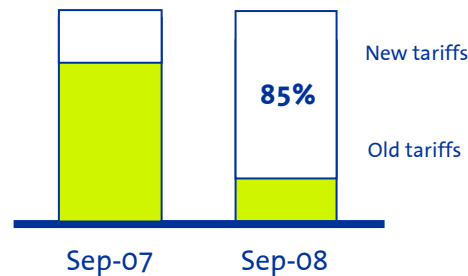
Telefonica O2 Germany: continued customer growth & profitability

9M 08
mobile
net adds
(`000)

y-o-y change

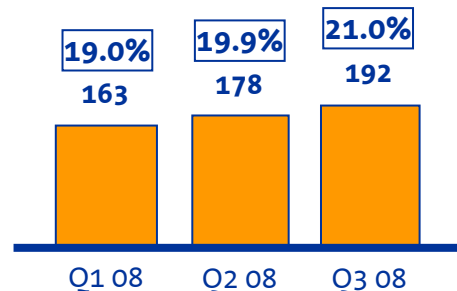


Migration
program
to contract
value
customers



Quarterly
OIBDA
Evolution
(€ m)

OIBDA Margin



Continued mobile customer growth (+14.9% y-o-y) leveraged on enhanced value mix and partnerships:

- 645k contract adds in 9M08 to reach 49.2% of base
- Good traction with mobile BB “Surfstick”
- Improved mix on O2 branded contract gross adds
- Partners⁽¹⁾ added 681k customers in 9M 08

Revenue growth 0.7% in Q3 (2.0% 9M 08):

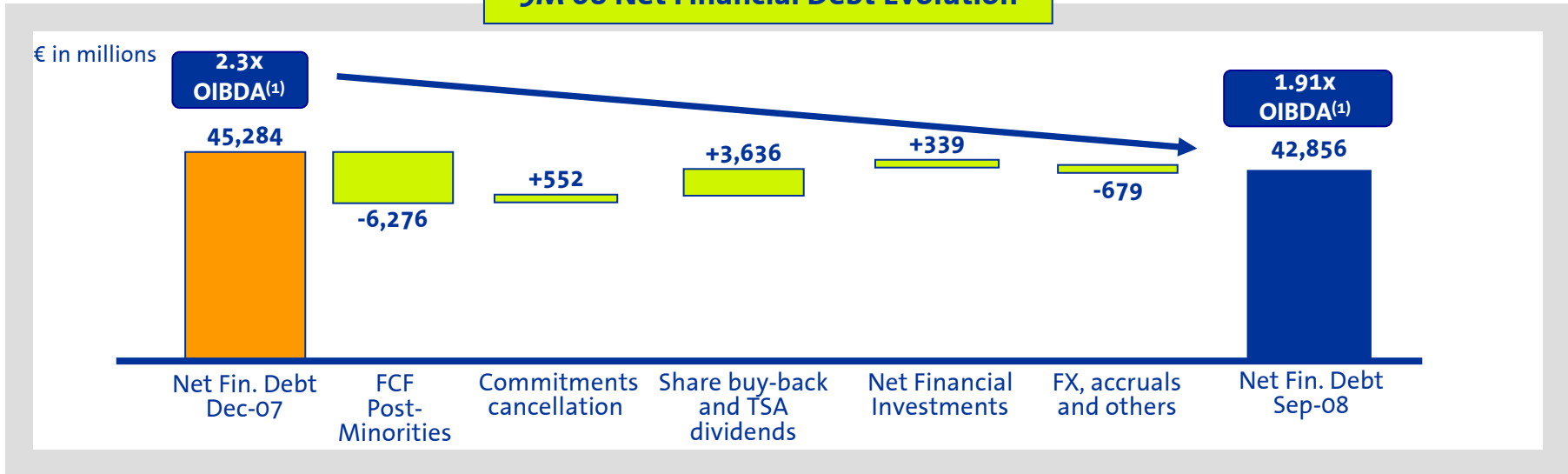
- ARPU dilution in the market
- Accelerated migrations to better value tariffs
- Impacting promotions launched from Q2 08
- Best value flat rate launched – SIM only, 6 months contract @ €15/month

Sequential OIBDA growth throughout Jan-Sep period:

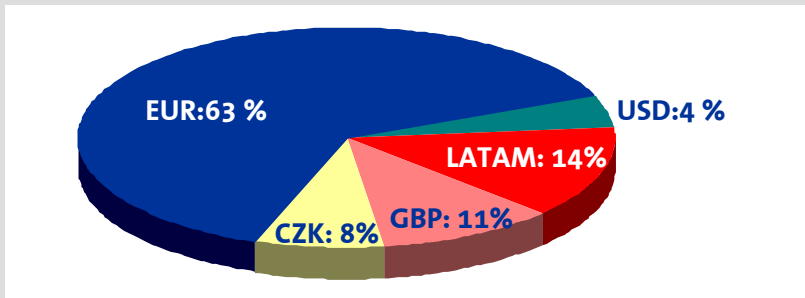
- Seeing benefits from restructuring in Q2 07 and higher usage of own infrastructure – plan on track
- Positive OIBDA contribution from wholesale ULL

Continuing leverage improvement

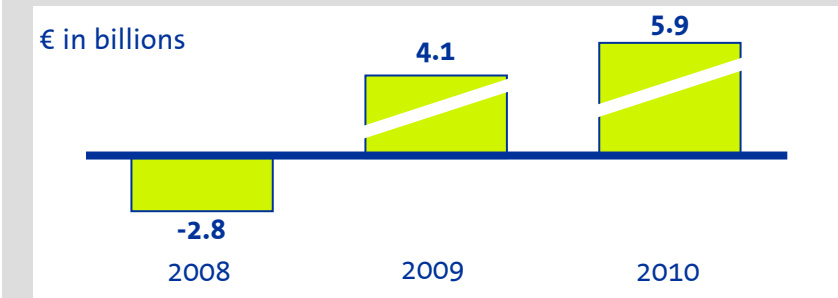
9M 08 Net Financial Debt Evolution



Sep-08 debt distribution by currency



Sep-08 Net Financial Debt Maturity



- Leverage target, including commitments, in the low range (2.05x OIBDA)
- € 528 m debt savings due to currencies depreciating vs. Euro, despite CZK appreciation
- 6.06% effective interest rate (in line with 6% target)

TELEFONICA S.A. (1) Calculated based on 9M 08 OIBDA figure annualized excluding results on the sale of fixed assets
Investor Relations

Closing remarks

Benchmark results in the telecoms industry

- Unmatched organic⁽¹⁾ growth rates, above peers
- Solid conversion rate of top line growth into cash-flow
- Strong financial position to face the current financial turmoil with flexibility
- Fully on track to fulfill 2008 guidance
- Prioritizing shareholders returns for the use of Free Cash Flow

Telefonica
