Results

January-September 2012

Telefónica

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Highlights: Visible results from execution of our strategy

Consolidation of sequential improvement in OIBDA flowing into EPS

- **OIBDA growth and margin expansion q-o-q**
- **Outstanding improvement in underlying EPS**
- **Significant savings from transformational initiatives to enhance business model already flowing into P&L**
- **Continued growth in key revenue levers: Latin America and mobile data**

Increased financial flexibility

- **Over € 2.3 bn debt reduction in Q3 (-4% q-o-q) on the back of strong FCF generation and disposals**
- **Further leverage reduction in Q4 close to € 3.2 bn on fast execution of assets divestments and preferred share swap for treasury shares**
- **Proactive refinancing of over € 13 bn YTD enlarges liquidity cushion to € 18 bn**
- **TEF Deutschland largest IPO in Europe YTD**

Transitioning from "Telco" to "Digital Telco" model

- **Further progress in our journey, globally and locally**

Key financials: improved performance from OIBDA to net income in Q3

€ in millions	Reported 9M 12	Reported 9M 12 y-o-y	Reported Q3 12 y-o-y	Underlying 9M 12	Underlying 9M 12 y-o-y	Underlying Q3 12 y-o-y
Revenues	46,519	(0.3%)	(1.6%)	46,519	(0.3%)	(1.6%)
OIBDA	15,782	10.7%	81.6%	15,879	(5.1%)	(3.0%)
OIBDA Margin	33.9%	3.4 p.p.	15.8 p.p.	34.1%	(1.7 p.p.)	(0.5 p.p.)
OI	8,009	19.6%	n.s.	8,835	(11.9%)	(7.8%)
Net income	3,455	26.4%	c.s.	4,414	(17.4%)	(2.0%)
EPS	0.77	28.9%	c.s.	0.98	(15.8%)	0.5%
OpCF (OIBDA-CapEx ex-spectrum)	10,122	16.1%	n.s.	10,219	(8.8%)	(1.8%)
CapEx (ex-spectrum)/sales	12.2%	+0.3 p.p.	-0.5 p.p.	12.2%	+0.3 p.p.	-0.5 p.p.

Exceptional items	9M 12	9M 11	Q3 12	Q3 11
OIBDA	**(97)**	**(2,489)**	**(97)**	**(2,671)**
OI	(826)	(3,332)	(334)	(2,951)
Net Income	**(959)**	**(2,609)**	**(216)**	**(2,058)**

Capital loss on sale of stake in CU

Reduction of value of TI investment

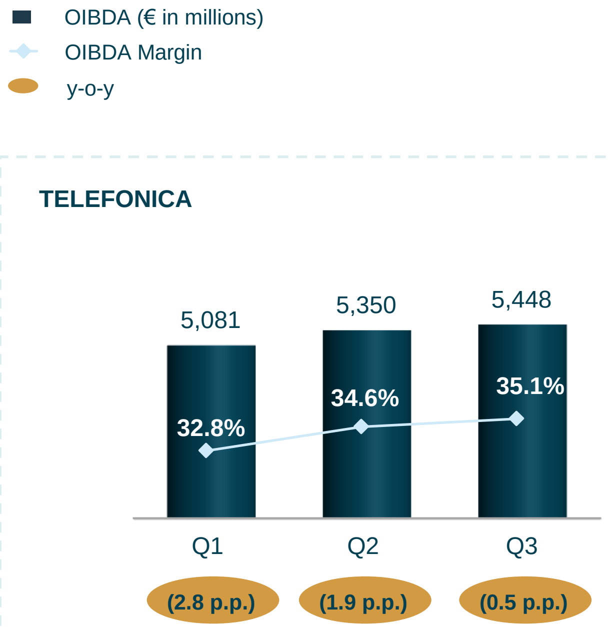
Workforce reduction plan in Spain & sale of stake in PT

Workforce reduction plan in Spain

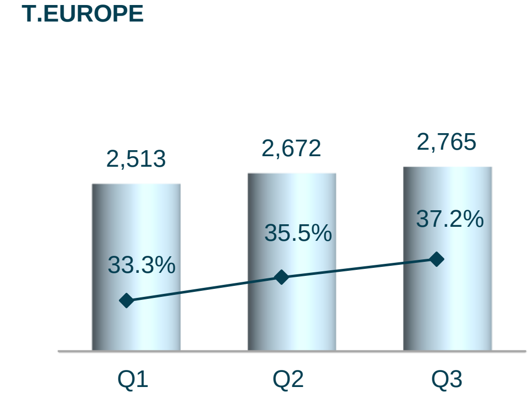
Underlying growth: Reported figures excluding major exceptional items and spectrum acquisition.
Q3 11: Workforce Reduction Plan in Spain (impact in OIBDA: € -2,671 m and in net income: € -1870 m).

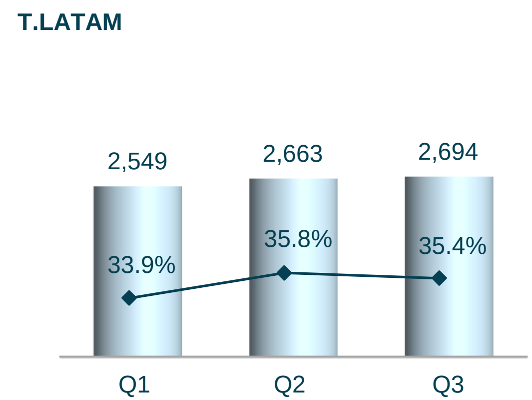
Second consecutive quarter of OIBDA growth and margin expansion q-o-q

2012 Underlying OIBDA and OIBDA Margin



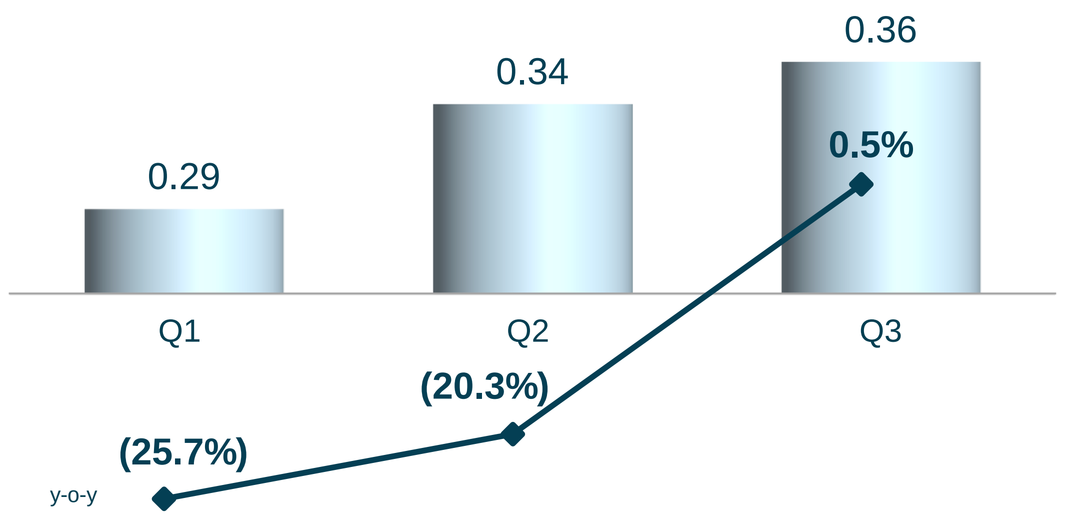
- **Consistent improvement in y-o-y trends, in line with internal estimates**





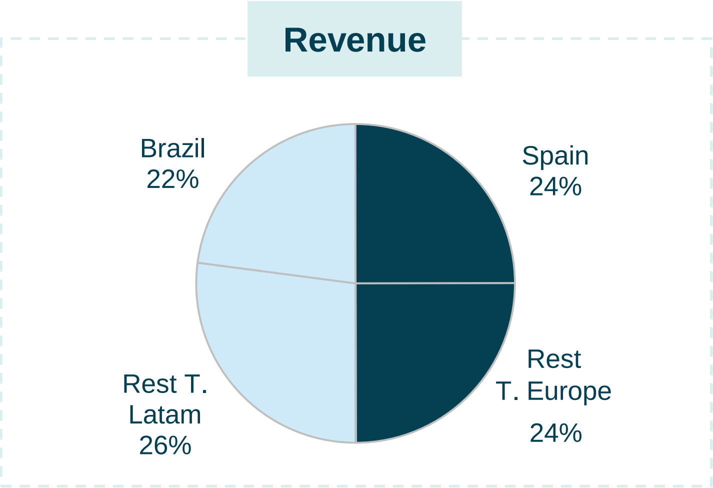
Outstanding improvement in underlying EPS

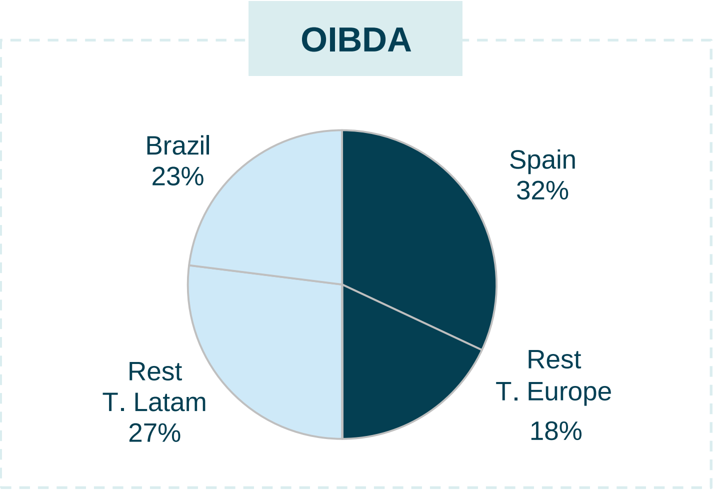
2012 Underlying EPS (Euros/share)

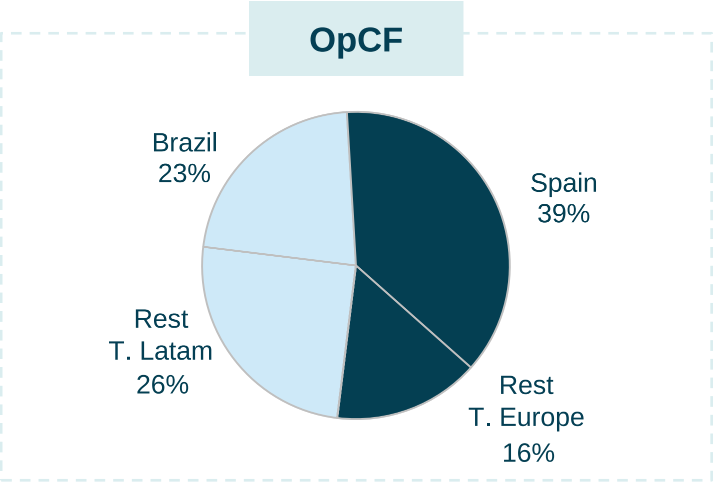


Well diversified operations, growing exposure to Latin America

9M 12



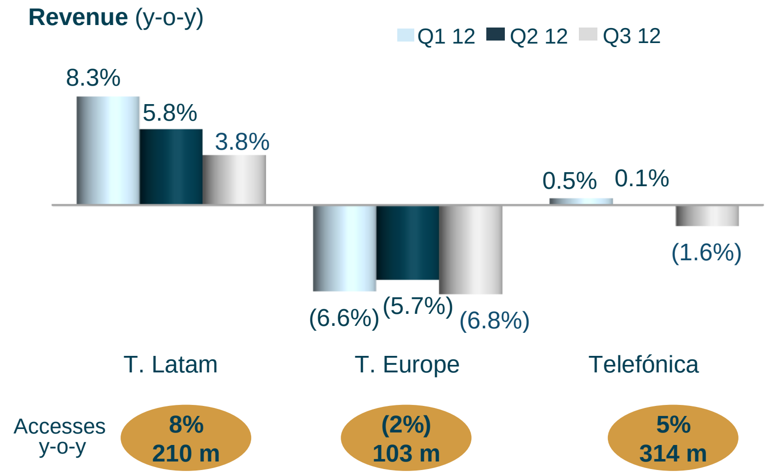




OIBDA and OpCF are underlying.
OpCF: OIBDA-CapEx ex-spectrum.
Differences up to and over 100% are due to “Others & Eliminations”.

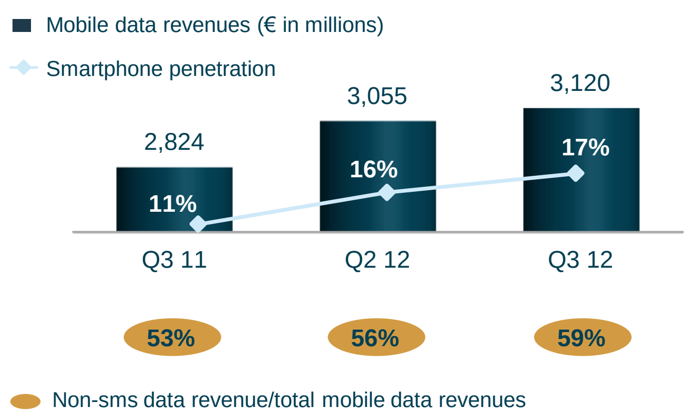
Continued revenue growth in strategic areas

Solid expansion at T. Latam



- **1.1% consolidated revenue** (y-o-y growth in 9M 12) **ex-regulation**
- **Revenue growth acceleration in Latam in organic terms ex-regulation to 8.2%** in Q3 12 y-o-y (+6.7% in Q2)
- **European revenues** continue to be **impacted by challenging economic conditions, intense competition and regulatory drag**

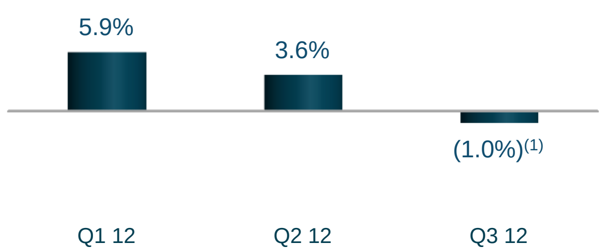
Double digit growth in mobile data revenues



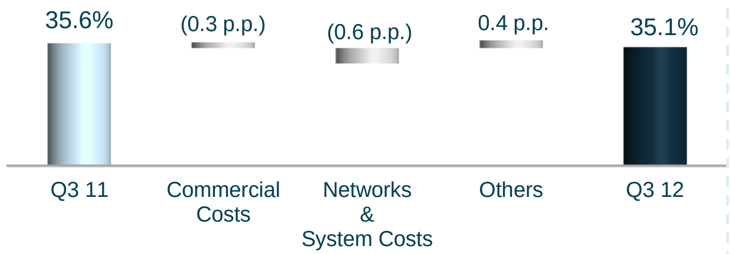
- **Fast growth of non-SMS data sales in Q3** (+22.0% y-o-y)
- **Smartphone net adds** up 14% y-o-y in 9M 12 to 10.0 m
- **40% y-o-y growth in MBB base** to 48 m
- **Focus on pricing consistent with data monetisation** (tiered pricing, integrated tariffs)

Delivering targeted efficiency gains

OpEx (y-o-y)



Underlying OIBDA Margin evolution



- **One more quarter of strong hold on costs:**
  - **Key transformational efficiency initiatives and scale benefits through T. Global resources already driving savings:** lower subsidies, managing commissions, optimising advertising costs, overheads, outsourcing…
  - **Commercial costs down 0.2% y-o-y in Q3** (+2.4% y-o-y in Q2) on easier comps, handset subsidies removal in Spain and lower upgrades in T. Europe
  - **Double digit decline in interconnection costs driven by** MTRs cuts

(1) Excluding Workforce Reduction Plan provision in T.España in Q3 11 (€ -2,671 m).

T. Global Resources contributing to capture the value of our global scale

Global Sourcing

- Increased savings from aggregation: +4pp in last 9 months to > 40%
- Full end-to-end global sourcing for 12 categories (~45% of total value)

Global Devices

- Already 2 rounds of global negotiations setting the basis for a global approach
- Increasing to 80% of the value negotiated globally
- More balanced OS map and market relevance
- As a consequence, reduced number of references (95% value in <100 references)

Network and Operations

- Network sharing deals on track (UK, Mexico)
- Global agreement for network management support systems
- Global standards defined for key categories (site build, support contracts, RAN)

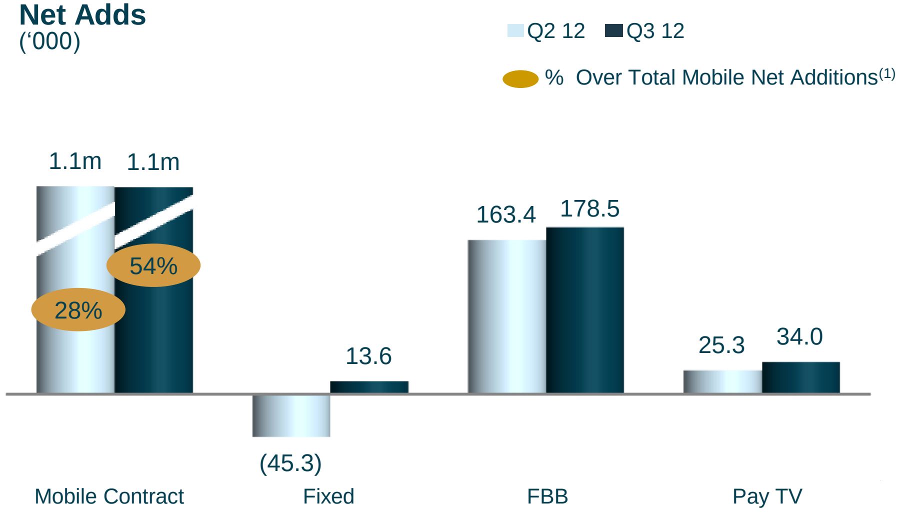
IT

- Production consolidation into hubs under-way
  - Brazil data centre completed and Alcala data centre finished by year-end
- Application simplification with good results in Latam and Spain in the last 9 months

Latam: Diversified sources for revenue acceleration

Solid commercial activity

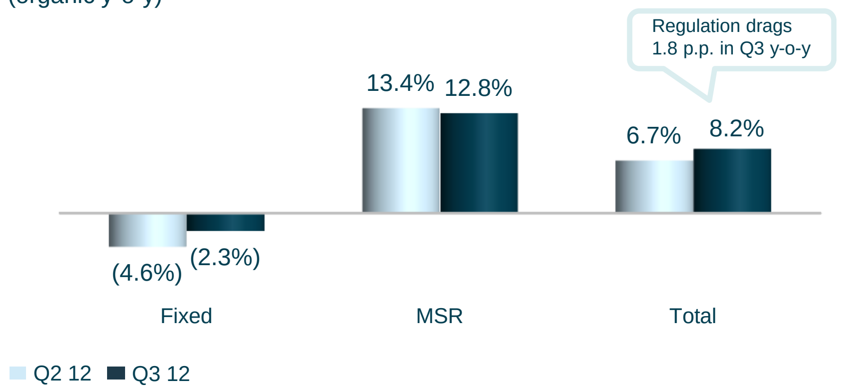
Net Adds
('000)



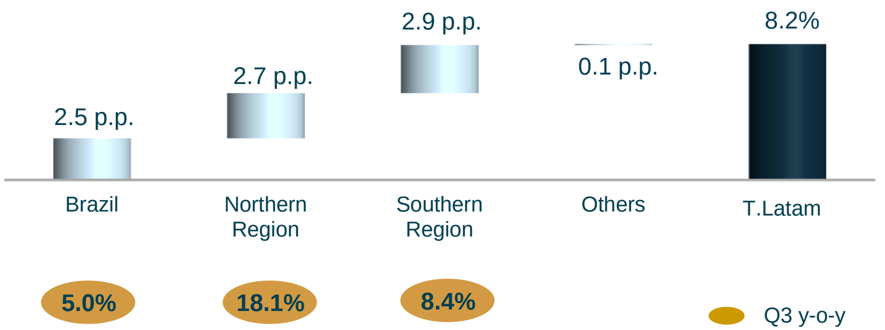
- **Mobile growth focused on high value customers**
- **Smartphone accesses x2 y-o-y**
- **Improved performance in fixed business**

Revenue improvement with solid growth across regions

Revenue growth ex-regulation
(organic y-o-y)



Revenue growth ex-regulation by region
(organic y-o-y)

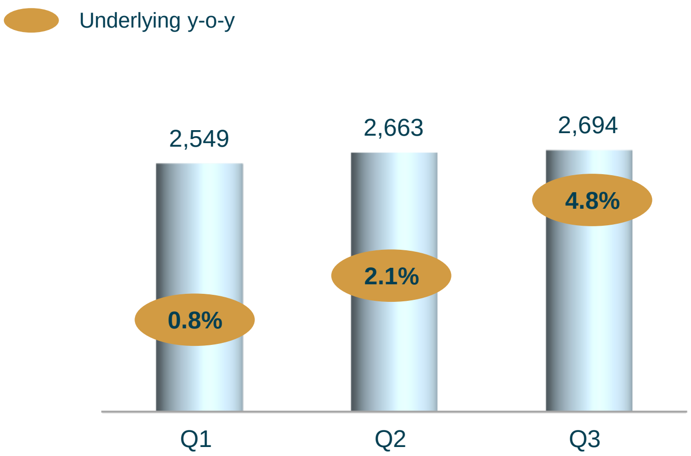


(1) Excluding the disconnection of 1,600k inactive prepay mobile accesses in Brazil in Q2 12.

Latam: Further OIBDA and margin expansion

Sustained OIBDA acceleration

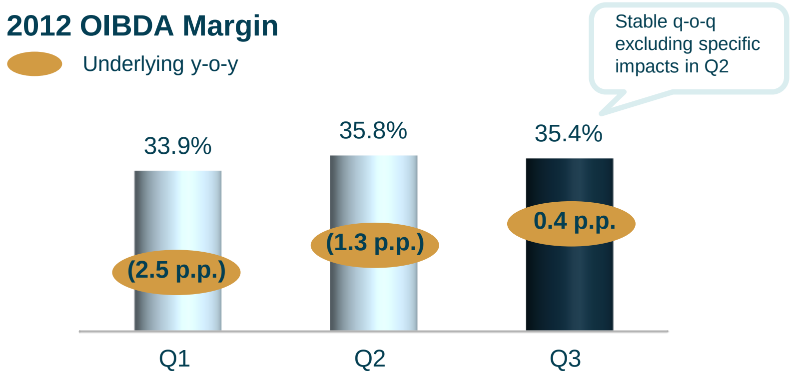
2012 OIBDA (€ in millions)



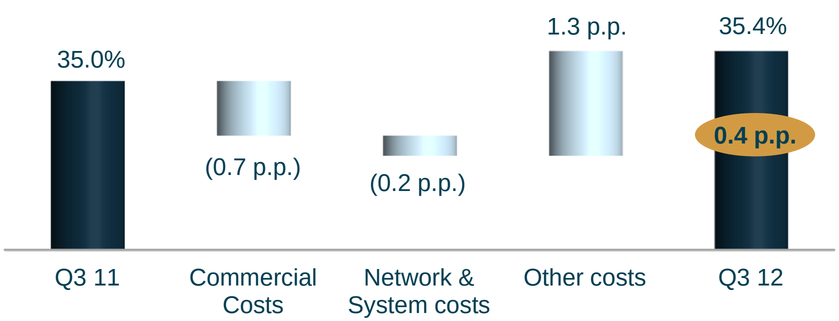
- **OIBDA y-o-y improvement on the back of:**
  - Easier comparable commercial costs basis in Q3 y-o-y
  - Ongoing efficiency measures
- **Regulation dragging OIBDA growth by 1.4 p.p.**

Outstanding OIBDA margin performance

2012 OIBDA Margin



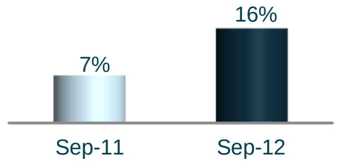
OIBDA margin breakdown (underlying y-o-y)



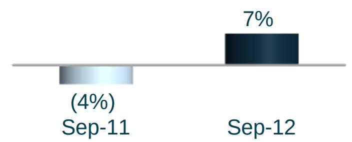
Brazil: Focus on quality paying-off

Expanding CSI lead and improved access performance on integration

Mobile CSI
(Gap vs competitors avg.)



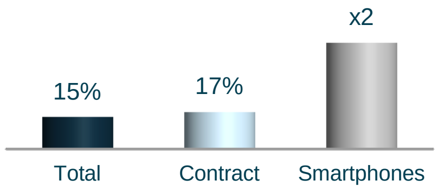
Fixed CSI
(Gap vs competitors avg.)



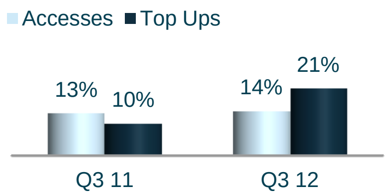
- **Increased gap in mobile CSI from selling ban to competitors**
- **VIVO rebranding fuelling fixed CSI turnaround**
- **Improved access performance across segments** leveraging "VIVO Favoritos"

More selective commercial approach focus on value

Mobile accesses
(Sep-12 y-o-y)



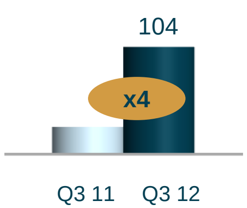
Higher Value in Prepaid
(y-o-y)



- **Increased total mobile market share** to 29.7%
- **Strengthening position in the most valuable segments** (36.9% contract share)
- Prepaid top ups growing at a faster pace than accesses

Transforming the fixed business

Fiber UBB accesses
('000)



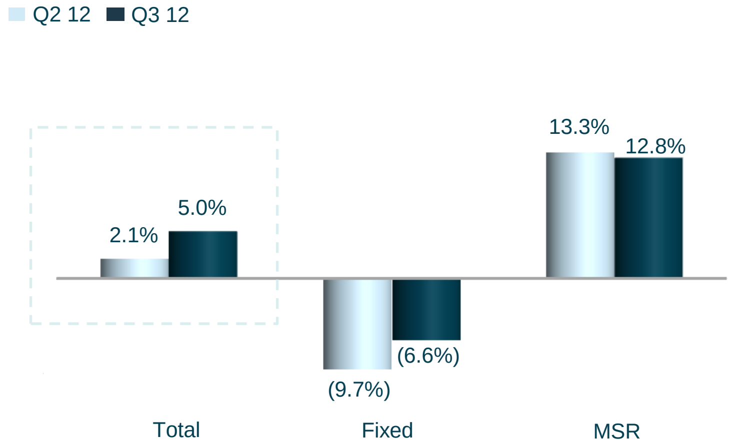
200 MEGA

- **Fiber uptake acceleration: 1.0 m homes passed** (Sep-12)
  - New 200Mb offer launched in Oct
- **Reinforcing positioning in Pay-TV**
  - New IPTV Platform launched in Oct

Brazil: Strong acceleration in revenue and OIBDA growth

Yearly and quarterly improvement across businesses

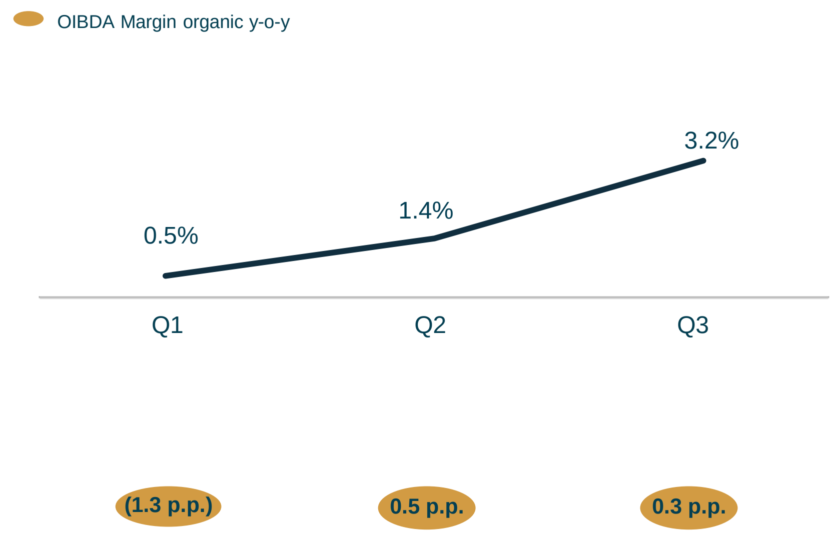
Revenue growth ex-regulation (organic y-o-y)



- **Regulation dragging 2.7 p.p.** of revenue growth
- **Better revenue performance of both fixed and mobile businesses** on a sequential basis (+3.1% vs. Q2 12 ex-regulation)

Consolidating best-in-class profitability

2012 OIBDA (organic y-o-y)



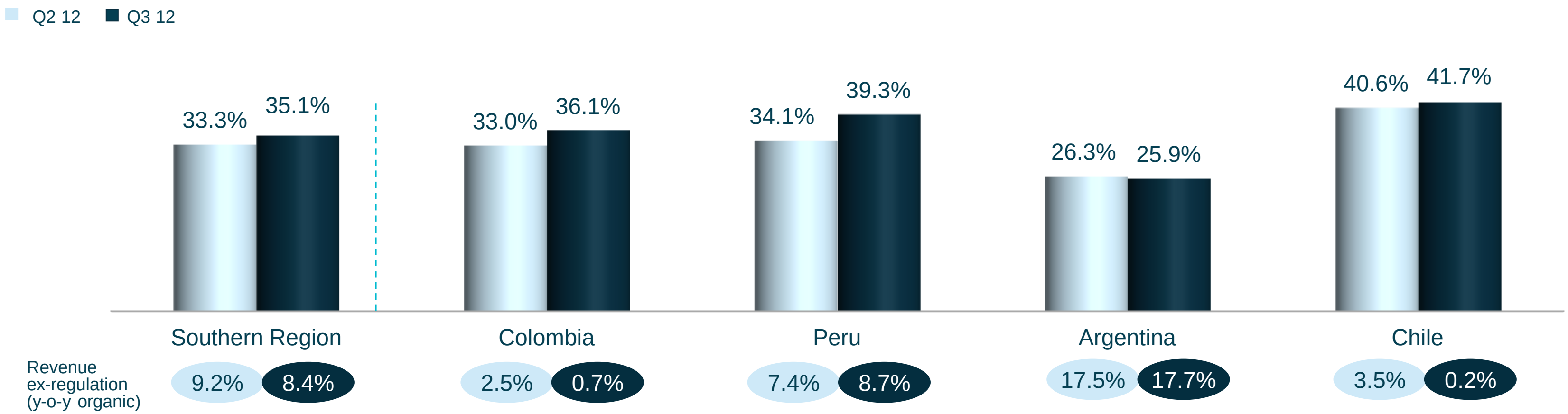
- **Accelerating OIBDA y-o-y growth** despite higher negative impact from regulation
- **OIBDA margin expansion y-o-y to 34.5% in Q3 12**
- **Increased efficiency in personnel expenses and G&A** leveraging integration

Organic growth: Local currency and excludes the positive impact of the partial sale of our stake in PT in Q2 11.

Latam: Widespread improvement in OIBDA performance (i)

Southern Region

OIBDA margin



Contribution to TEF 9M Revenue

COLOMBIA: 2.8%

- **Significant OIBDA and margin improvement** driven by the integration process and efficiency measures
- **Revenue performance negatively impacted by regulation and IT projects seasonality**

PERU: 3.8%

- **Very strong commercial momentum across all businesses**
- **Acceleration in revenue and OIBDA in Q3**

ARGENTINA: 5.9%

- **Sustained double digit revenue growth**
- **OIBDA margin** in Q3 impacted by strong commercial momentum

CHILE: 4.1%

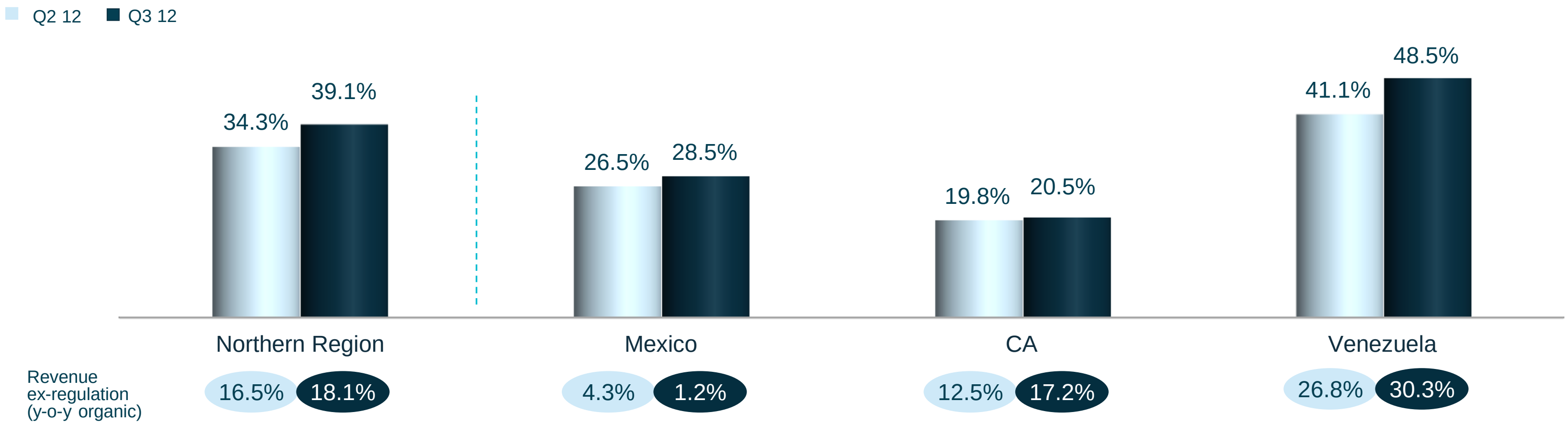
- **Increased competition** on number portability across businesses affecting revenue growth. OIBDA margin remains strong

Organic growth: assumes average constant exchange rates and excludes changes in the consolidation perimeter in both years.

Latam: Widespread improvement in OIBDA performance (ii)

Northern Region: Increased profitability across the countries

OIBDA margin



Contribution to TEF 9M Revenue

5.0%

VENEZUELA:

- **Growth acceleration and margin expansion amid strong commercial activity**

2.5%

MEXICO:

- **Ongoing turnaround process to accelerate growth:** ARPU acceleration drives inflection point in MSR
- **Margin expansion y-o-y (+7 p.p.)** on the back of higher commercial efficiency**. Iusacell agreement effective from Q3**

1.1%

CENTRAL AMERICA:

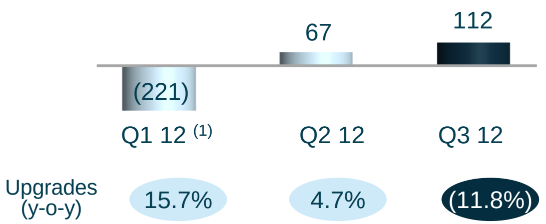
- **Sustained acceleration in revenue**
- **Progress on OIBDA margin** driven by efficiency measures

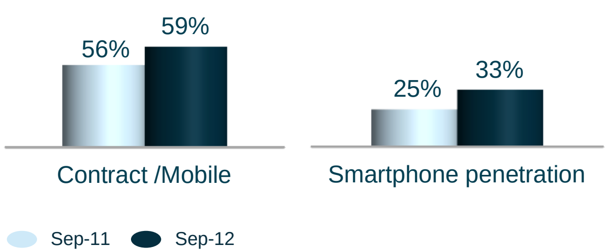
Organic growth: assumes average constant exchange rates and excludes changes in the consolidation perimeter and hyperinflation accounting in Venezuela in both years.

T. Europe: Changes in business model delivering results

Focus on higher quality customer base

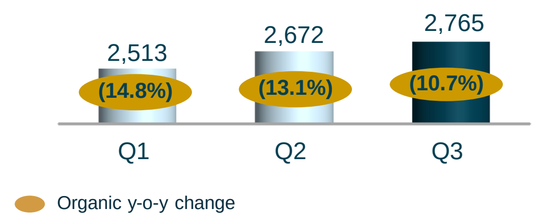
Mobile Net Adds ('000)



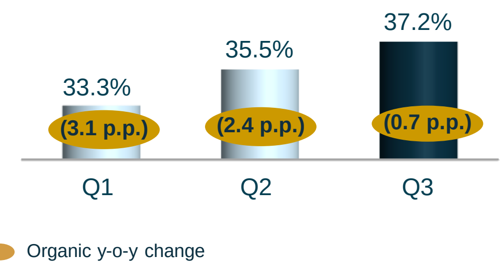


Sequential improvement in profitability

2012 OIBDA (€ millions)



2012 OIBDA margin



- **Commercial performance driven by refreshed propositions**
- **Low churn** sustains growth in mobile
- **Upgrades delayed** to Q4 ahead of Fusion and new devices launch
- **Higher customer satisfaction on enhanced quality**

- **Strict cost cutting** (-9.0% in Q3 y-o-y organic; -2.6% in H1) on efficiency gains across countries amid **top line pressure** (Q3: -9.0% y-o-y organic)

(1) Excluding disconnections in Spain in Q1 12.

Spain: OIBDA stabilisation driven by new business model

1 New Tariffs to recover competitiveness

- **76% of FBB customers and 57% of mobile base** on new tariffs in Sep-12:
  - Limited commercial activity in Q3 ahead of "Fusión" launch
- **Sharp reduction in churn in Q3 12 y-o-y:**
  - 1.4% in mobile contract (-0.4 p.p.)
  - 1.9% in FBB (-0.4 p.p.)
- **Lower OpEx and CapEx** on lower churn
- **ARPU pressure in Q3 12 y-o-y:**
  - -16.1% in mobile
  - -15.1% in FBB

2 Removal of subsidies in acquisition

- **Lower acquisition costs**

3 Efficiency actions

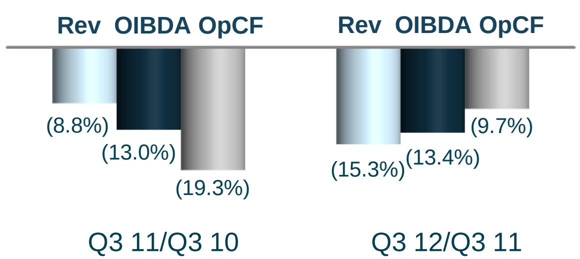
- **Redundancy program: 6,500 net reduction in headcount**
- **Improved quality of service y-o-y:**
  - Highest CSI in Sep-12 (+0.2 p.p.)
  - Customer claims down 45% in Q3 12
- **Simplification across areas** (catalogue of products, devices, processes…)

4

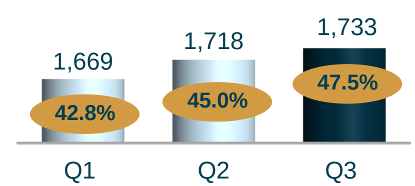
- More than € 250 m savings in commercial costs in 9M 12
- Sustainable 17% y-o-y CapEx reduction in 9M 12

- Savings in personnel costs on track (€ 183 m in 9M 12)
- CapEx savings in IT and services development due to simplification (~ € 90 m in 9M 12)

Visible results from turn around plan after 1 year of execution



2012 OIBDA (€ millions)



	Q1	Q2	Q3
Margin y-o-y	(1.4 p.p.)	(0.5 p.p.)	1.0 p.p.

Penetration of new tariffs in the residential segments.
OIBDA, CapEx and OpCF y-o-y change excluding provision for redundancy program and spectrum in Q3 11.

Spain: Recovering leadership in the market

4

The best convergent offer in the market leveraging our core assets

Movistar Fusión

Monitoring the right mix of loyalty and growth to enhance revenue performance & profitability

Leading experience
- Simple & transparent 3P/4P offer
- Single bill
- Convergent call centre attention

Flexible handset solutions
- Handset financing facilities with special handset catalogue
- No handset subsidies

Add-ons for tailor-made offerings
- Additional mobile lines, multi-sims, voice minutes
- VAS

Fixed Voice | Internet | Mobile Voice+ Data | 100Mb Fiber | TV

- Fixed telephony line (monthly fee included)
- Fixed broadband access
- 500 min. F-M weekends + 50 min. week-days
- 500 min. mobile traffic
- 1 GB mobile data

+ 12 months contract commitment

Defending profitability of existing "totalised" customers
- Lower revenues on ARPU dilution (best value for money) partially offset with upselling potential
- Lower churn on increased customer satisfaction
- Lower commercial costs

Upselling and lower churn from existing customers
- Additional revenues from FBB customers taking mobile/ mobile customers taking FBB partially offset by ARPU dilution on existing services
- Upside from add-ons
- Lower churn
- Lower commercial costs

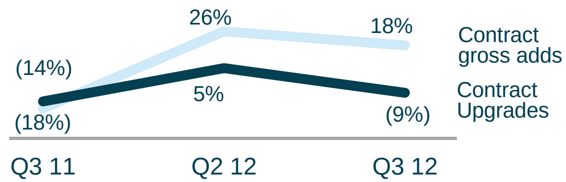
Capturing new customers
- New revenue streams with low acquisition costs

430 k "Fusión" customers one month after launch

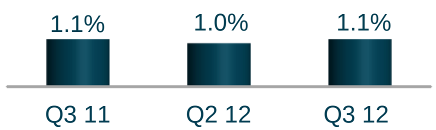
UK: Stabilisation of revenue trends

Maintained commercial momentum

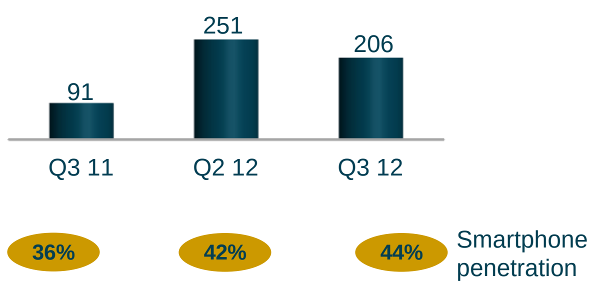
Solid trading with customers delaying upgrades to Q4



Sustained levels of benchmark contract churn

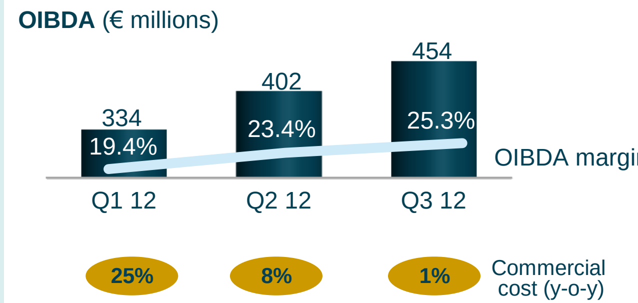


Solid contract net adds (‘000)



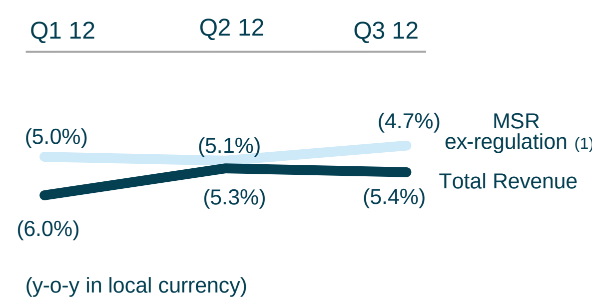
Sustained sequential OIBDA and margin improvement

OIBDA margin expansion on contained commercial expenses



- OIBDA positively impacted by ladder pricing ruling

Revenue performance stabilising

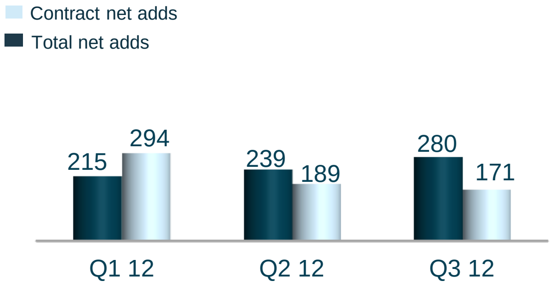


(1) Excluding MTR cuts and new roaming regulation.

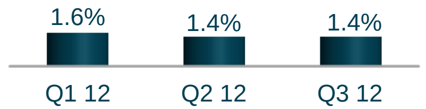
Germany: Sustained outperformance, additional share gains

Continued strong commercial performance, capturing the mobile data opportunity

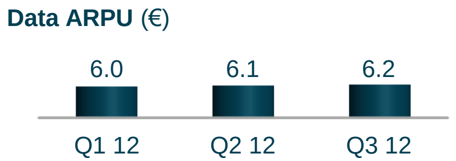
Consistent trading momentum (‘000)

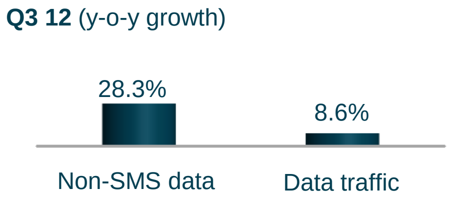


Sustained low contract churn



Monetising data

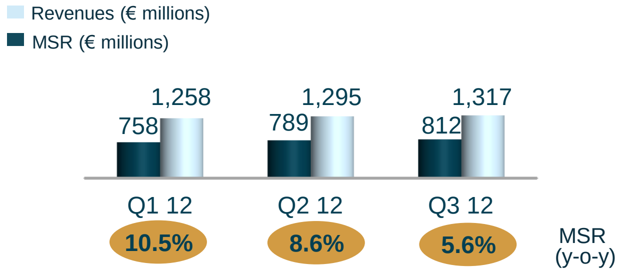




- Smartphone penetration up 6 p.p. y-o-y to 24% in Q3

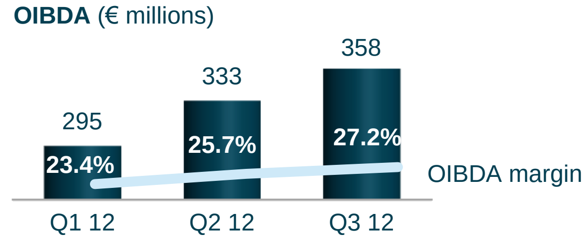
Strong MSR growth, further OIBDA margin expansion

MSR outperformance



- Slowing revenue growth y-o-y due to momentum built mainly in Q3 11
- Non-SMS data revenue acceleration in Q3
- Continued focus on value management with sequential improvement

OIBDA acceleration on further efficiencies



- OIBDA growth accelerates sequentially (+13.9% y-o-y in Q3 vs. +12.0% y-o-y in Q2)
- Further efficiencies, increased scale and revenue growth drive OIBDA margin expansion (+2.4 p.p. y-o-y in Q3)

Further progress in our journey to become a Digital Telco

3 As digital service providers

- **Collaboration with 172 start-ups**
- Amérigo — **Launch of VC**
- **Mobile payments & advertising** JV in the UK approved by EU authorities
- **Agreement with the world's leading augmented reality platform**
- **New IPTV platform in Brazil**

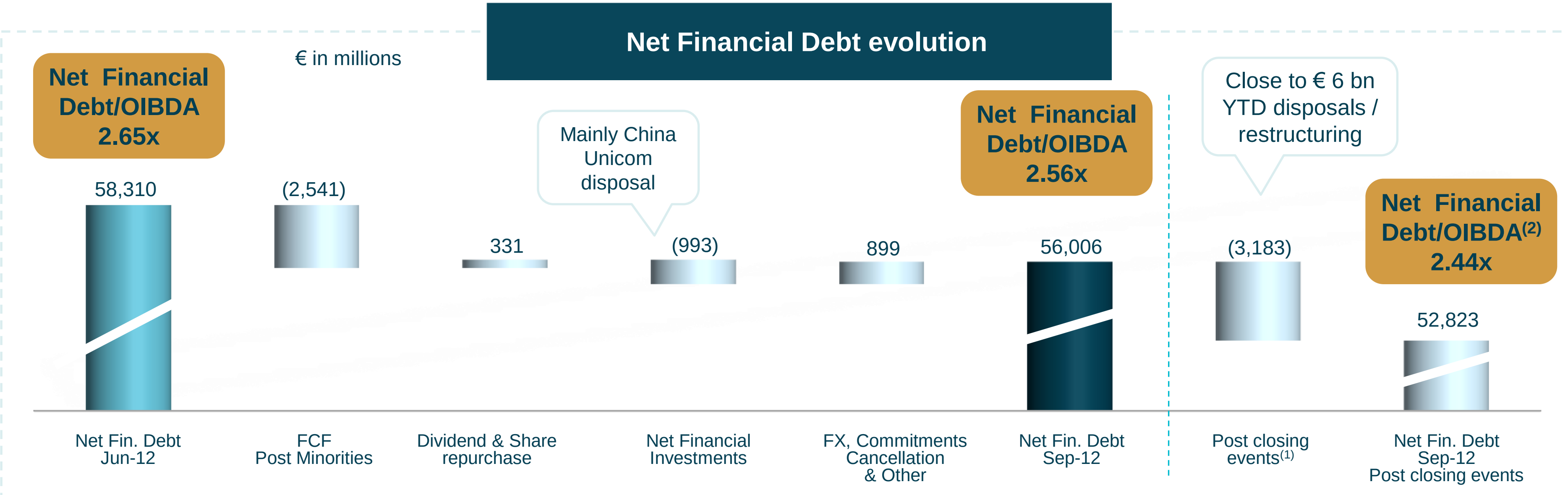
2 As an enabler/retailer of digital services

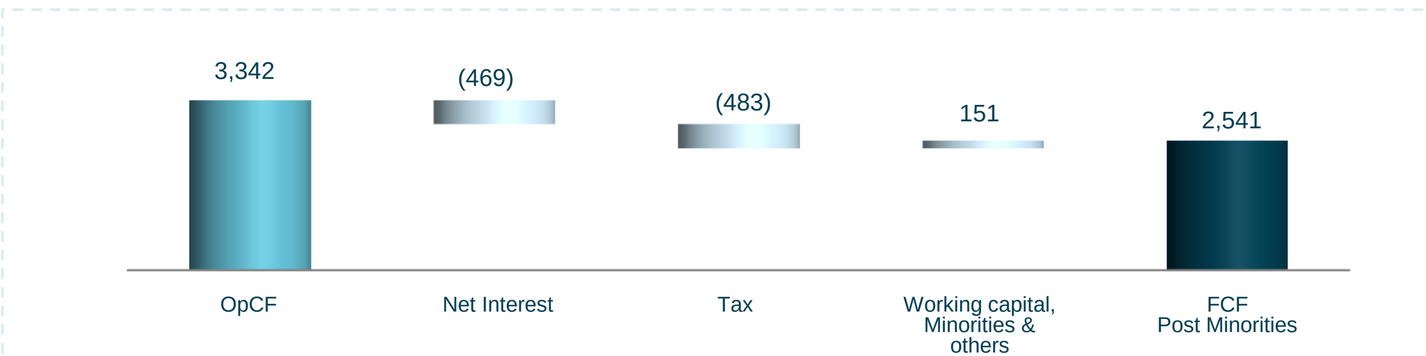
- **Extension of operator billing agreements to new countries**
- **3.0 m customers in Brazil**
- **M2M services developed** in a number of key industry areas
- **HTML5-based Firefox OS** for mobile. First product launches planned for **Q1 13 in Brazil**

1 As smart connectivity provider

- **New convergent offer in Spain** launched in October
- **First convergent tariffs in Colombia**
- **Mobile tiered pricing in all markets**
- **Selective UBB rollout in key markets** (Brazil & Spain)
- **Ongoing LTE deployment** (networks + spectrum)

Substantial net debt reduction since June driven by FCF generation and disposals





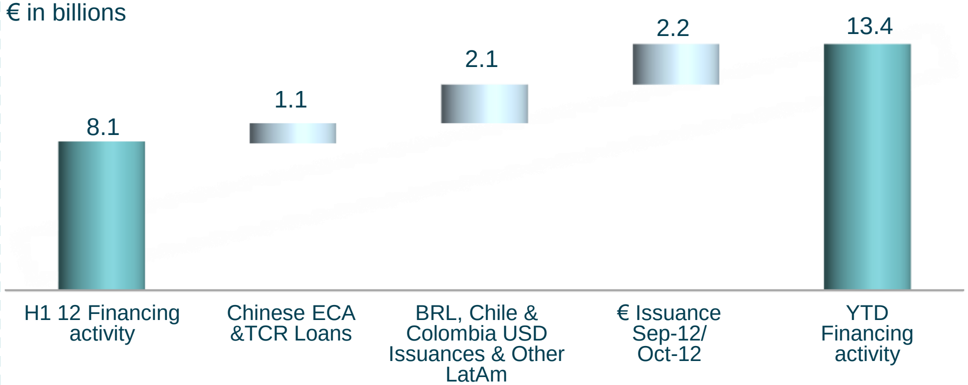
Net financial debt/12 months rolling OIBDA. Excludes the provision for Workforce Reduction in Spain in Q3 11.

(1) Post closing events include € 934 m (Atento, Hispasat, Rumbo), € 1,449 m Telefónica Deutschland IPO and up to € 800 m Preferred shares swapped for treasury shares.

(2) Net Financial Debt and OIBDA adjusted by post closing events.

Over € 13 bn long term diversified financing raised year-to-date

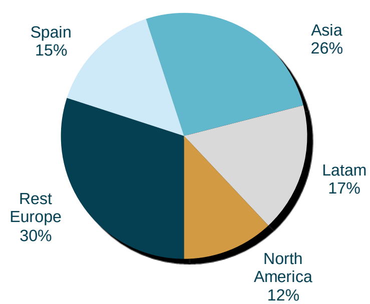
Strong financing activity YTD …



- Above € 5 bn financing since Jun-12
- Topping € 11.5 bn full year financing in 2011
- +500 credit investors in Europe, +400 credit investors in LatAm

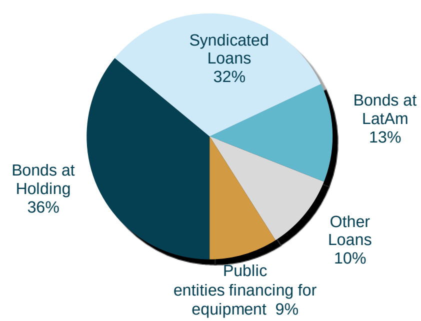
… and well diversified

Geographic split by banking financing



77% undrawn credit lines with non-domestic financial entities

Ample diversification by funding instruments



All markets open

Very strong demand and…

- Bonds at Holding

$€_1$ 750 m Sep-12	9.3x	ms+485	5yr
$€_2$ 250 m Sep-12	3.3x	ms+390	5yr
$€_3$ 1.200 m Oct-12	6.7x	ms+330	7yr

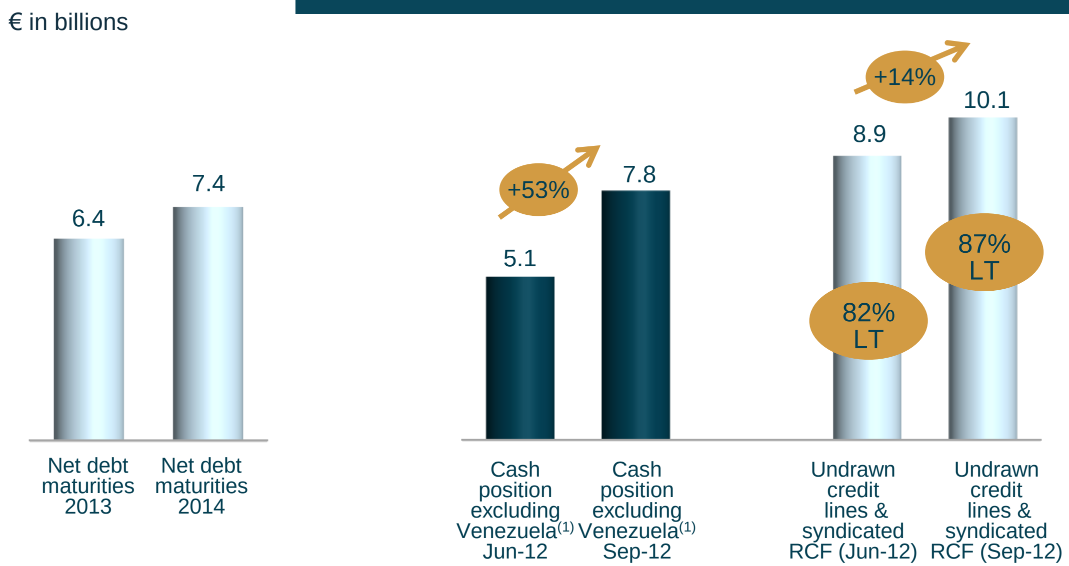
- Bonds at LatAm

Col USD 750 m Sep-12	10.7x	UST+361	10yr
Chi USD 500 m Oct-12	10.6x	UST+225	10yr

…costs dropping

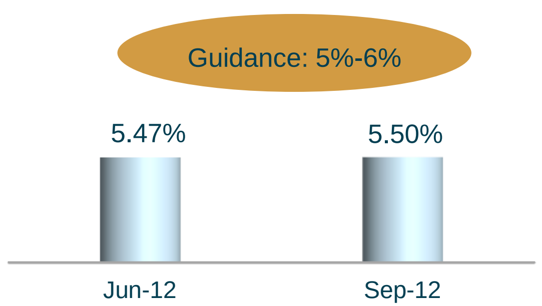
Dramatically improved liquidity and interest cost contained

Net debt maturities Sep-12 & Liquidity position



- € 18 bn total liquidity
- Circa € 4 bn liquidity increase in Q3 (+28%)
- Maturities covered beyond 2014

Effective interest cost and average debt maturity within guidance



- Average debt maturity above 6 years

(1) Cash & cash equivalents + Current Financial Assets excluding Venezuela

Closing remarks

Delivering visible results from continued execution of our strategy

- **Consolidation of sequential improvement in underlying EPS leveraging growth in OIBDA q-o-q. Full year outlook and dividend reiterated**
- **Increased financial flexibility**
- **Further progress in our journey to become a Digital Telco**

We are accelerating our business transformation

Organic growth: In financial terms, it assumes constant average exchange rates as of January-September 2011, and excludes hyperinflation accounting in Venezuela. Therefore, in OIBDA and OI terms, the first nine months of 2011 exclude the positive impact of the partial sale of our stake in Portugal Telecom (+183 million euros), and the provisions for the redundancy program in Spain (-2,671 million euros). In OIBDA and OI terms, the first nine months of 2012 exclude the capital loss of China Unicom (-97 million euros). Telefónica's CapEx excludes spectrum investment and, in 2011, real estate commitments in relation to the new Telefónica headquarters in Barcelona.

Underlying growth: Reported figures, excluding exceptional impacts and spectrum acquisition. The first nine months of 2012 also exclude the reduction in the value of the Telecom Italia investment and operating synergies achieved (-542 million euros; -379 million euros net of taxes), and also PPAs (-799 million euros; -513 million euros net of taxes and minority interests), the capital loss of China Unicom (-97 million euros; -45 million euros net of taxes) and the difference in market value of the BBVA stake (-30 million euros; -21 net of taxes). Figures for the first nine months of 2011 exclude the provision for the redundancy program in Spain (-2,671 million euros; -1,870 million euros net of taxes), value adjustments in relation to the stake in Telecom Italia and the operating synergies achieved (-505 million euros; -353 million euros net of tax), the positive impact arising from a partial reduction of Telefónica's economic exposure to Portugal Telecom (+183 million euros) and also PPAs (-928 million euros; -569 million euros net of taxes and minority interests).