

JANUARY/MARCH

Investor Relations
May 13th, 2009

2009
Results



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Q1 09 results key highlights

Delivering 2009 Group priorities

- **Capturing growth opportunities in expanding businesses:**
 - Superior organic⁽¹⁾ revenue and OIBDA growth rates, leveraging our highly diversified portfolio
 - Strong performance in T. Latam and solid results from T. Europe outstrip a lower contribution from T. España
- **Increasing OpCF in an economic downturn:**
 - OpEx and CapEx discipline, adapting quickly to current environment
 - Steady OIBDA margin expansion to 39.1% in Q1 09
 - Organic growth⁽¹⁾ in OpCF ahead of revenue growth: 75.3% efficiency ratio⁽²⁾
- **Growing DPS:** proposed 15% increase in DPS to 1.15€ in 2009

+

Sound EPS growth: +12.9% y-o-y

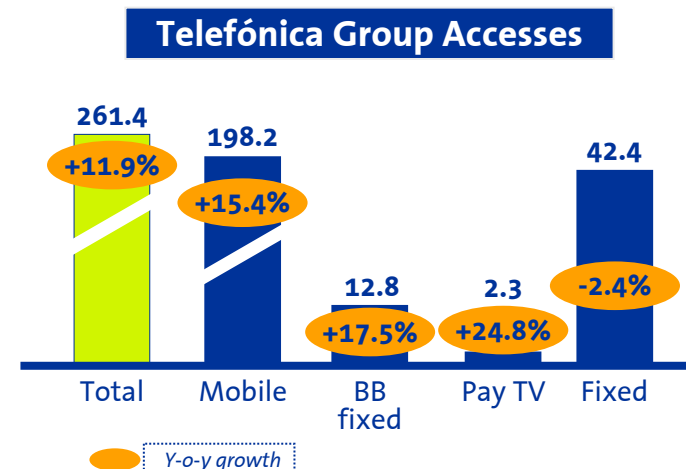
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Strong financial position

Full commitment to maintain our track record of delivering Group guidance: 2009&2010 guidance reiterated

Solid Group performance leveraging diversified portfolio

€ in millions	Jan-Mar 2009	Change Q1 09/Q1 08	Change organic ⁽¹⁾ Q1 09/Q1 08
Revenues	13,703	-1.4%	+2.8%
Operating Income before D&A (OIBDA)	5,354	-0.4%	+2.5%
OIBDA Margin	39.1%	+0.4 p.p.	-0.1 p.p.
Operating Income (OI)	3,190	+2.9%	+3.9%
Net income	1,690	+9.8%	
OpCF (OIBDA-CapEx)	4,154	+2.4%	+4.5%



Contribution by regions

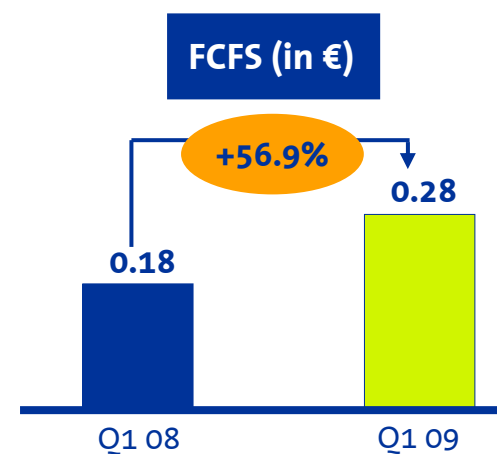
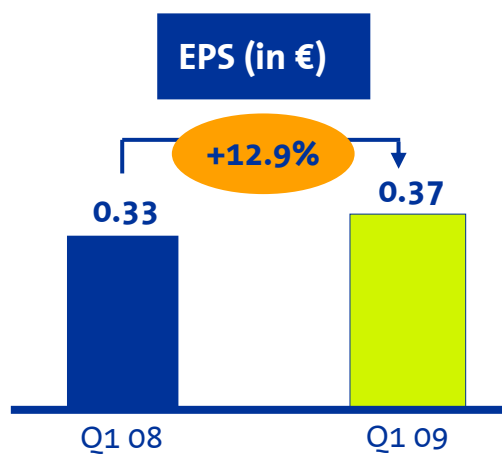
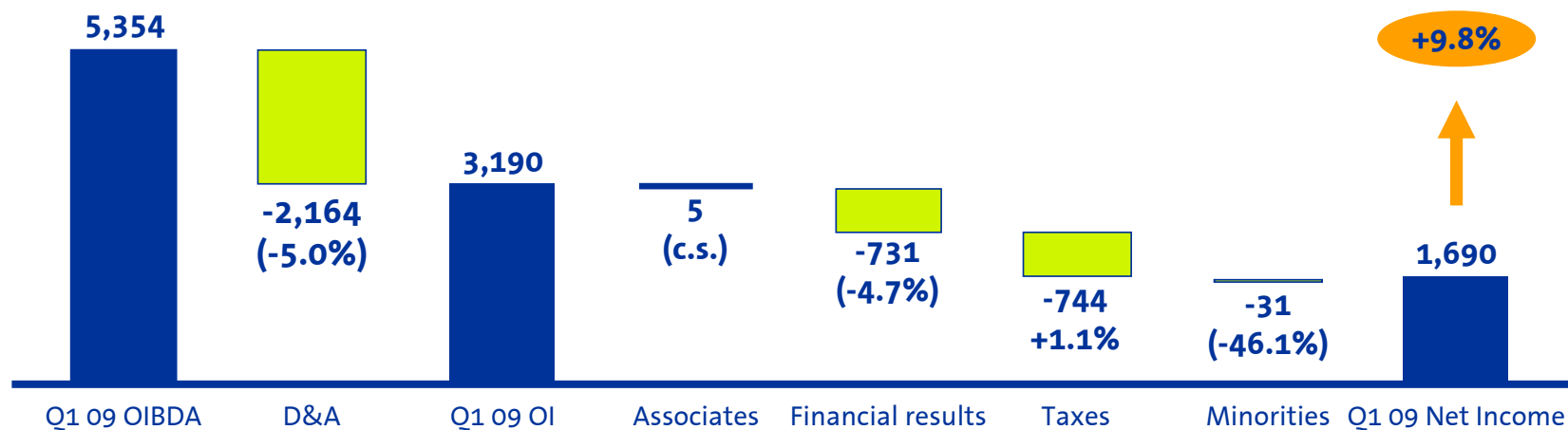
% Group	Revenues Q1 09	OIBDA Q1 09
T. España	35.9%	44.9%
T. Latam	39.4%	38.9%
T. Europe	23.7%	16.5%

■ Negative impacts in nominal growth rates due to FX, deducting:

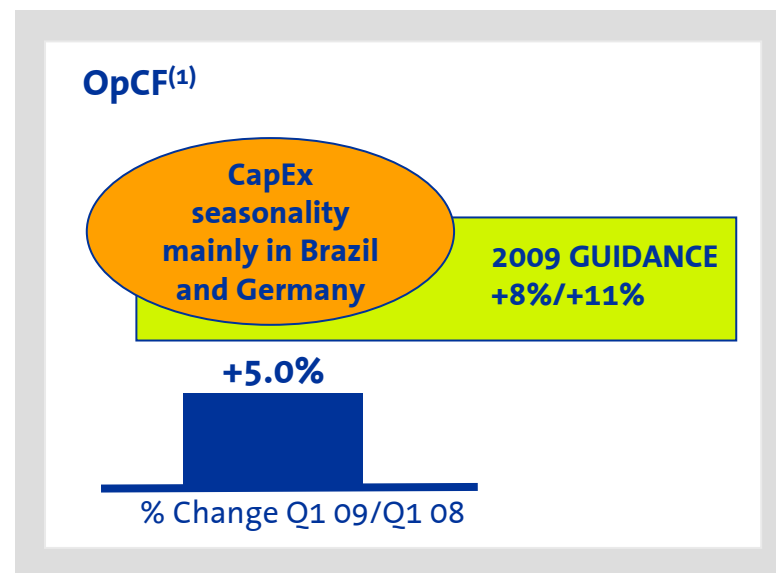
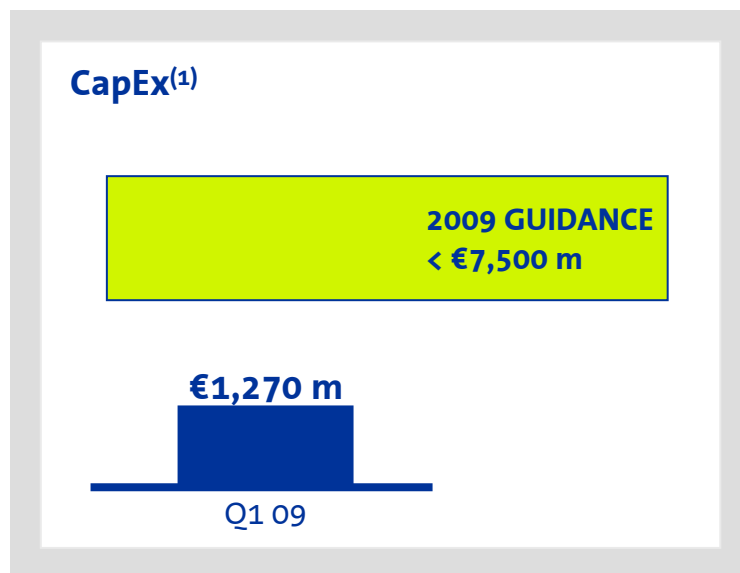
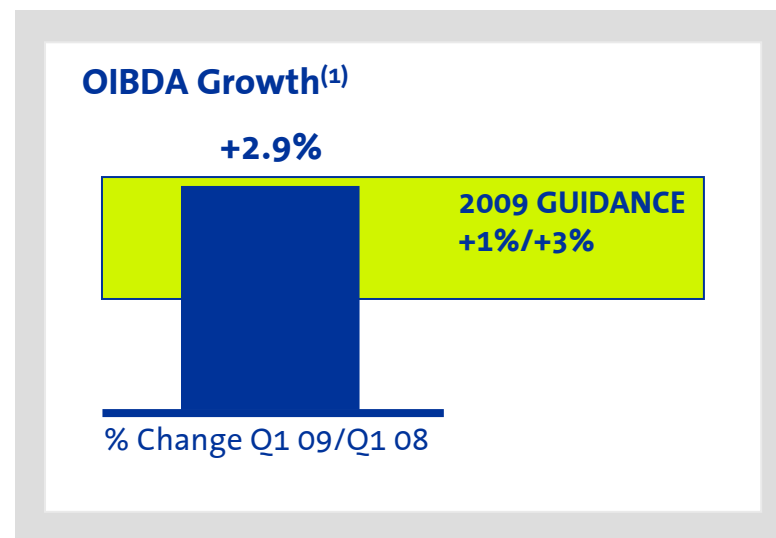
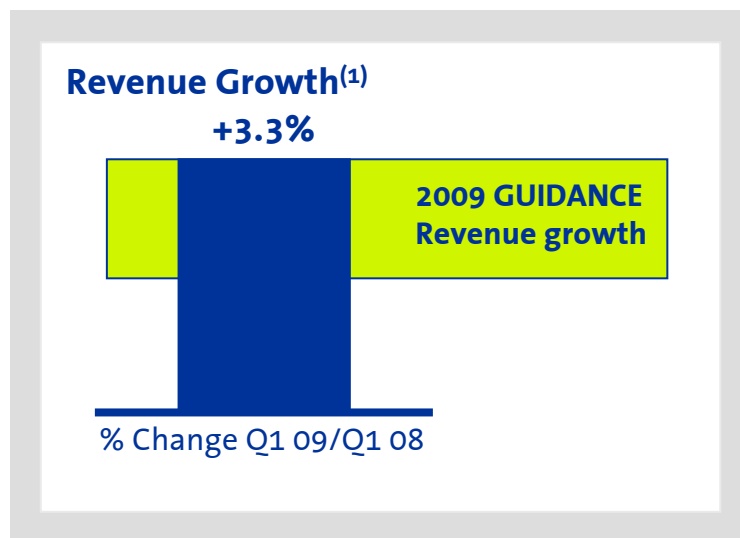
- Revenues: -4.7 p.p.
- OIBDA: -3.3 p.p.
- OI: -1.3 p.p.

Double digit EPS and FCFS growth

€ in millions
(% change y-o-y)



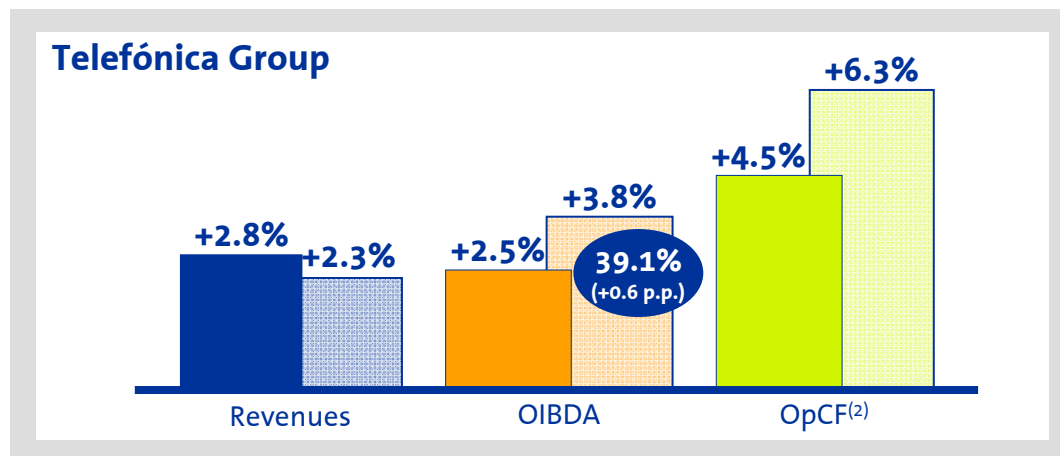
Fully on track to meet 2009 guidance



(1) Full year 2008 adjusted figures for guidance exclude Sogecable capital gain (€ 143 m), the application of provisions made in T. Europe in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized (€ 174 m) and includes 9 months of consolidation of Telemig in T. Latam. 2009 figures for guidance assume 2008 constant FX (average FX in 2008). In terms of guidance calculation OIBDA exclude capital gains and losses from sale of companies and write-offs. Group CapEx excludes Real Estate Efficiency Program of T. España and spectrum licenses.

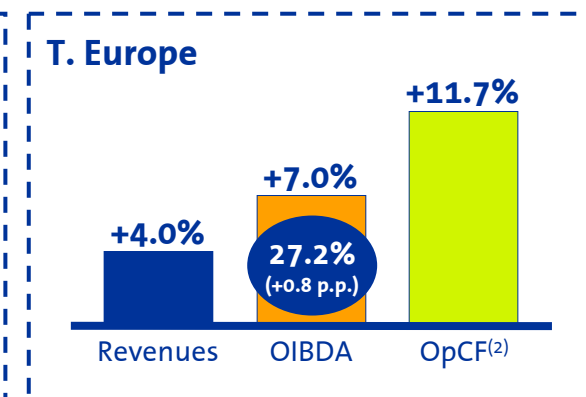
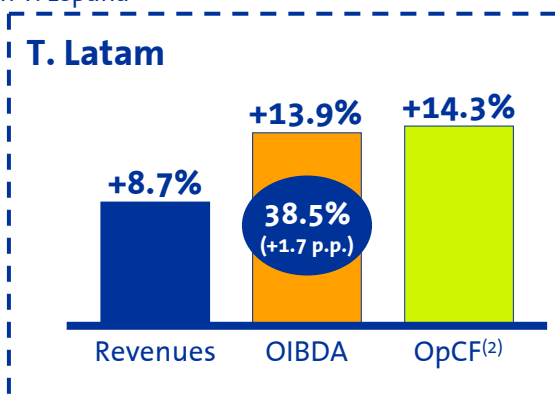
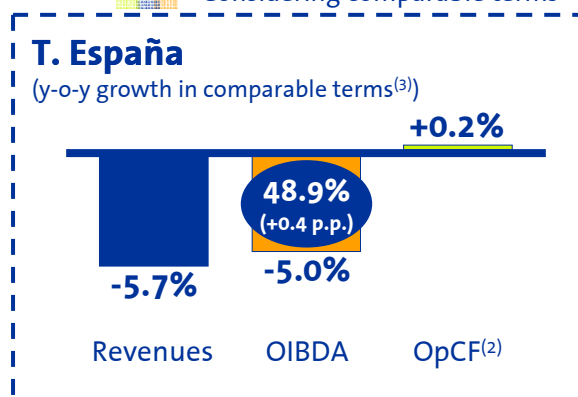
Delivering our priorities

Q1 09 Organic growth⁽¹⁾ (y-o-y growth)



Capturing growth opportunities & increasing OpCF in an economic downturn

Considering comparable terms⁽³⁾ in T. España



- Sustaining leading competitive position across businesses: **FOCUS ON REVENUE SHARE**
- Strong focus on OpCF

- Capture structural growth in the region
- Further OIBDA margin expansion & enriched OpCF profile

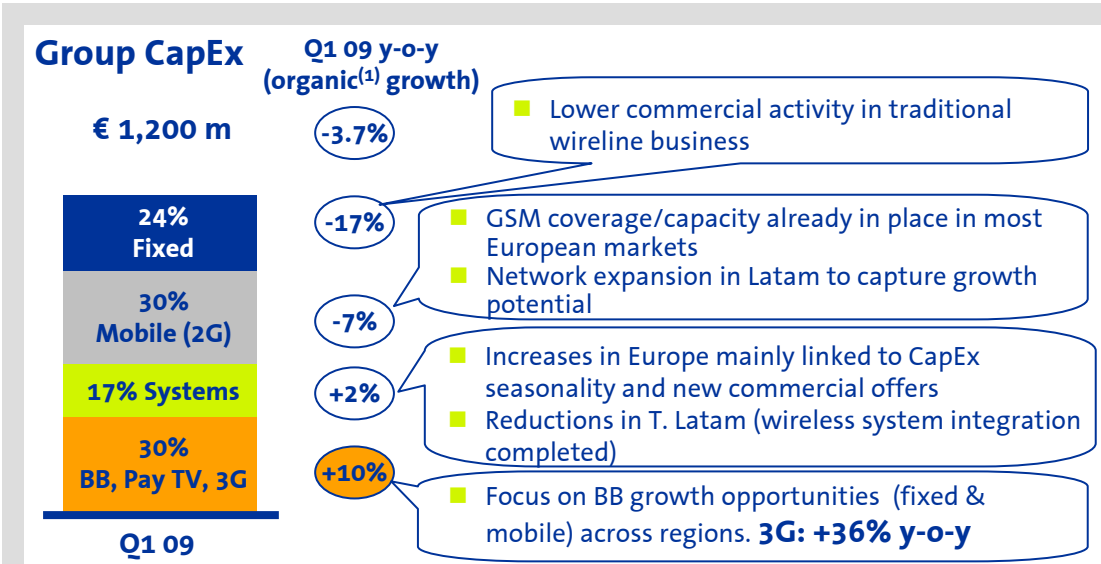
- Continue to outperform the market in the UK and drive growth in Germany
- Delivering increased OpCF

● OIBDA margin reported (y-o-y organic growth and in comparable terms)

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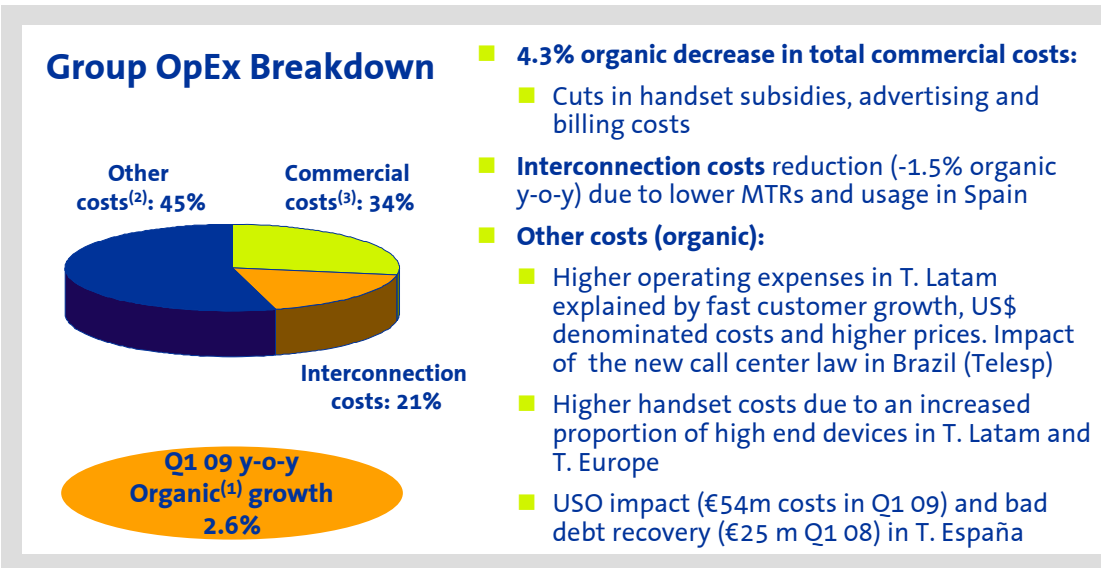
(1) Organic growth: Assumes constant exchange rates and includes the consolidation of Telemig in January-March 2008.
 (2) OpCF: OIBDA-CapEx.
 (3) Excludes impact on revenues (Wireline: € 75.3 m) and OIBDA (Wireline: € 45.6 m; Wireless: € -23.9 m) of USO in Q1 09, as well as bad debt recovery in Q1 08 (Wireline: € 17 m; Wireless: € 8 m) and Real Estate capital gains (Wireline: € 0.4 m Q1 09 and € 67 m Q1 08).

OpEx & CapEx discipline & flexibility to ensure OpCF generation



Global OpEx and CapEx initiatives already launched in Q1 to leverage our scale

>€100 m savings expected for 2009

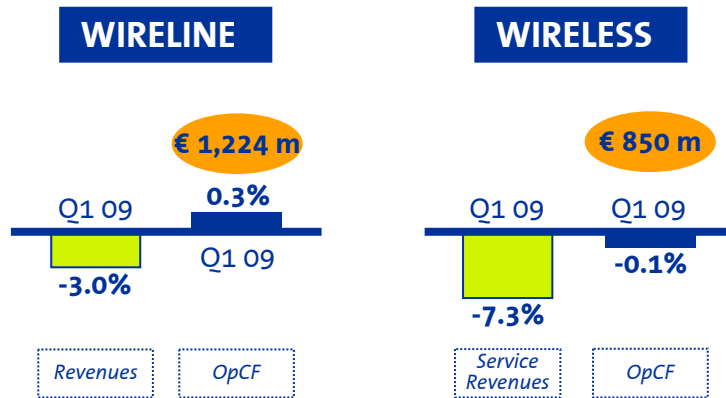


- Speed up 3G deployment on costs optimization
- Application Maintenance & Development Model (Spain, LatAm and Czech Republic)
- Transport and energy optimization in Europe
- Network sharing agreements in Europe

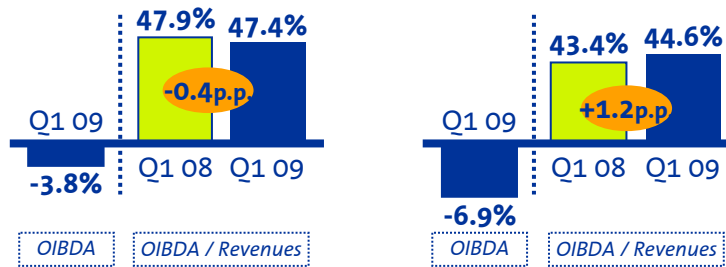
T.España: Successfully managing OpEx and CapEx to maximize OpCF

Revenues & OpCF growth
(comparable ⁽¹⁾ y-o-y change)

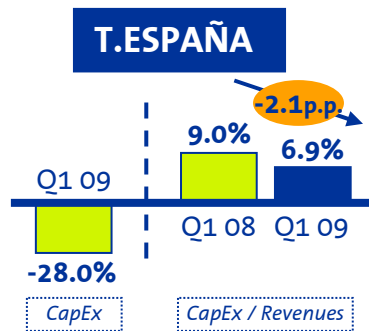
Reported OpCF



OIBDA growth and OIBDA margin
(comparable ⁽¹⁾ y-o-y change)



CapEx growth and CapEx over revenues;
(comparable ⁽¹⁾)



- Focus on OpCF maximization across businesses without jeopardizing revenue share leadership
- Limiting top line pressure with efficiency gains and CapEx discipline
 - Sustaining solid margins: flat in wireline, while expanding in wireless
 - CapEx adapted to current trading environment

T. España OpCF: €2,068m; +0.2%⁽¹⁾ y-o-y

(1) Excludes impact on revenues (Wireline: € 75.3 m) and OIBDA (Wireline: € 45.6 m; Wireless: € -23.9 m) of USO in Q1 09, as well as bad debt recovery in Q1 08 (Wireline: € 17 m; Wireless: € 8 m) and Real Estate capital gains (Wireline: € 0.4 m Q1 09 and € 67 m Q1 08).

Revenue performance impacted by worse trading conditions

POSITIVES	NEGATIVES
<ul style="list-style-type: none"> ■ Strong IT revenue growth (+24.5% y-o-y) on sound evolution of wireline data revenues (+3.6% y-o-y) ■ Sustained healthy wireless connectivity revenues (+50.4% y-o-y), driving total mobile data revenues up 7.0% ■ 2006 USO revenues (€75.3 m in wireline) 	<ul style="list-style-type: none"> ■ Regulatory actions: 17.4% cut in MTRs; 20% reduction in full ULL prices and flat PSTN monthly fee ■ Wireless handset sales (-22.8% y-o-y) due to different phasing of handset shipments to the channel ■ Lower usage patterns both in wireline and wireless ■ Decrease in wireless roaming in revenues (-32.3% y-o-y) driven by price cuts and lower visitors traffic

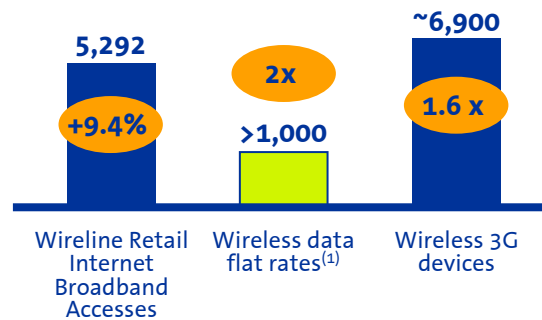
**Focus on
revenue
share ⁽¹⁾
leadership**

- Maintaining leadership in outgoing service revenues market share in wireless: **+4/5 p.p. estimated gap vs. customer base market share, up y-o-y**
- **Improving gap** between revenue (62% E) and accesses market share **in wireline**

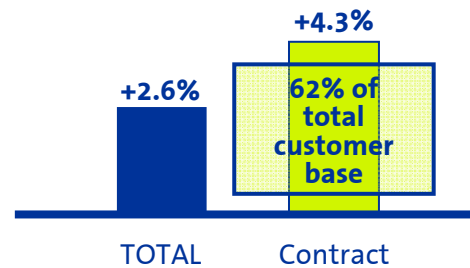
KPIs performance

Broadband KPIs (Mar-09; '000)

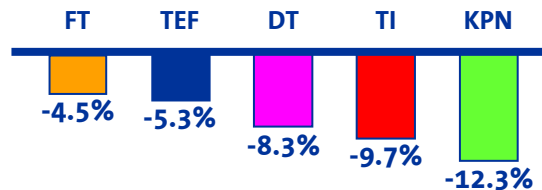
○ y-o-y growth rate



Wireless accesses (Mar-09 y-o-y change)



Fixed Domestic Telephony Lines⁽²⁾ (Mar 09 y-o-y change)



- **Strong leadership in a slowing down retail wireline Internet Broadband market:**
 - Market share higher than 56%
 - T. España wireline BB accesses: +9.4% y-o-y
 - Effective BB ARPU: -7.2% y-o-y
- **Strong uptake of mobile BB:**
 - 6.9 m 3G devices in 2008 (1.6x vs. Mar-08)
 - >1.0k flat rates (2x vs. Mar-08)

- Lower gross adds in a 118% penetration market
- Blended churn rate contained at 1.9% (1.4% in contract). Sustained lower economic churn
- Total ARPU: -9.5% to 27.6€ with outgoing ARPU declining 8.0%. Data ARPU up 4.0% y-o-y to 5.3€

- **Continue to outperform peers** despite tougher economic conditions
 - **53% of Q1 09 line losses are compensated by wholesale lines and continue to generate revenue stream**
 - Remaining 47% due to shrinking market and indirect access
 - **Lines lost have lower ARPU than average**

OpEx & CapEx discipline to preserve OpCF generation

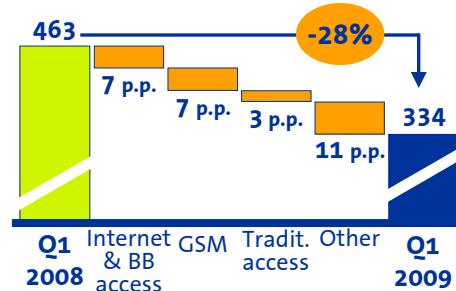
Q1 09 Further opportunities

- Focus on growth businesses: mobile data
- Enhanced CapEx efficiency: Significant vendors per unit cost reductions
 - Benefiting from Group purchasing power
 - Vendors adapting to economic downturn
- Lower investment in GSM and traditional access
- Fiber rollout adapted to current environment

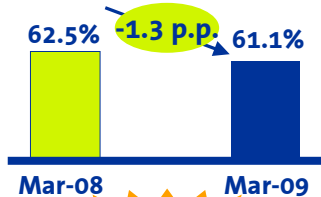
2009 committed CapEx as of March: <€ 600 m

- IT systems rationalization
- Network integration

CapEx
Q1 09 vs. Q1 08 (€ in millions)



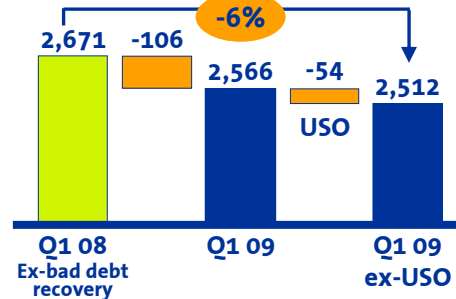
Efficiency ratio
(OpEx+CapEx) / Revenues⁽¹⁾
12 month rolling



IMPROVED!

Track record of capability to manage OpEx/CapEx

OpEx
Q1 09 vs. Q1 08 (€ in millions)

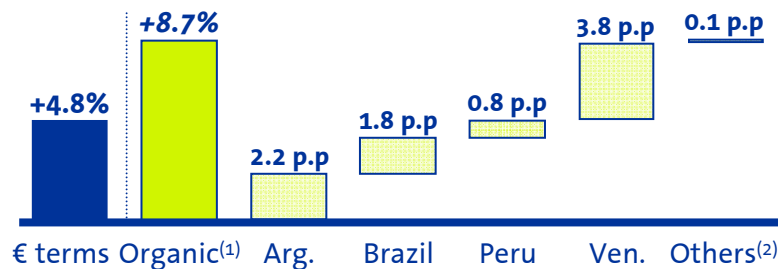


- Lowering pressure on personnel costs **+0.3%**
 - CPI reduction vs. 2008
 - 2008 Workforce adaptation program bearing fruit in 2009
- Lower commercial costs⁽²⁾ (as commercial activity and unit cost go down) **-11%**
- Lower mobile handset costs **-24%**
- Interconnection costs down on lower usage and prices **-12%**
- Energy rationalization & efficiency program
- Logistics and third party relations model simplification
- Mobile network sharing agreement

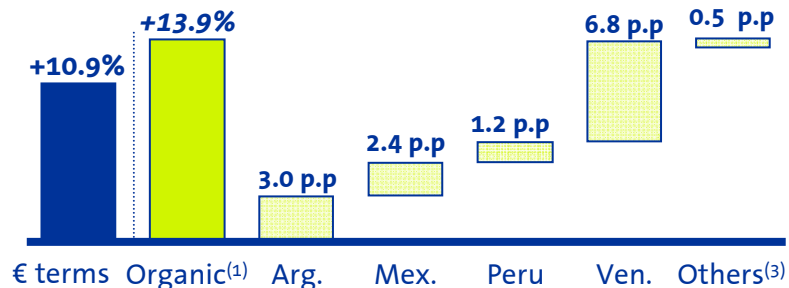
(1) ((OpEx+CapEx-Internal exp. Capitalized in fixed assets)/Revenues)
(2) Handset subsidies, commissions to dealers and advertising

T.Latam: sustained strong results combining growth & enhanced efficiency

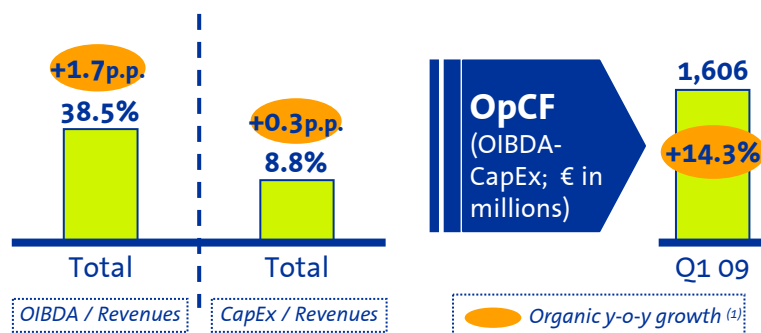
Revenue growth (Q1 09 y-o-y change)



OIBDA growth (Q1 09 y-o-y change)

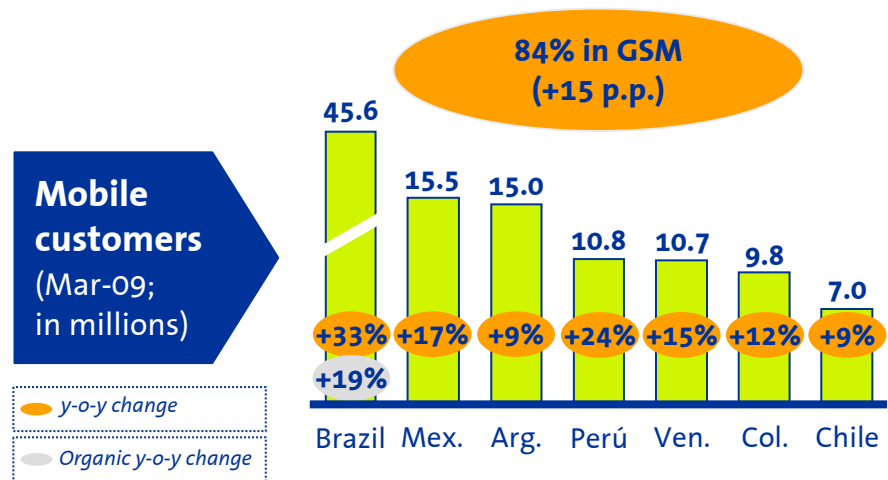


Margins over Revenues (Q1 09)

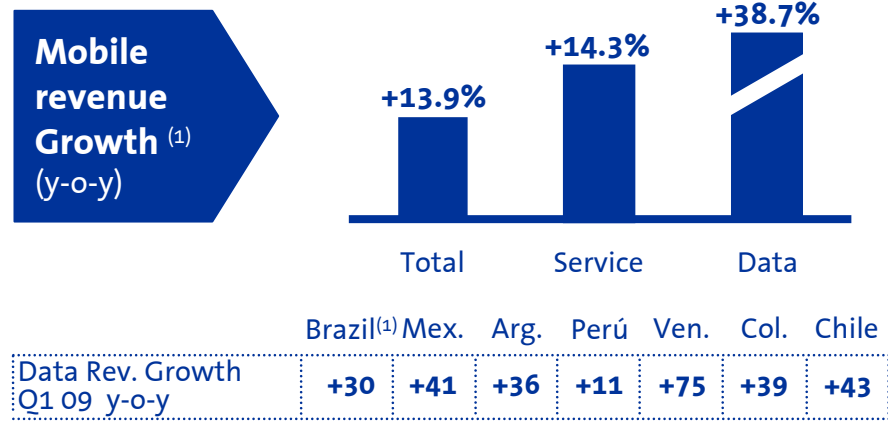


- **Healthy customer growth** across businesses: total accesses up 12.6%⁽⁴⁾ y-o-y driven by mobile (+15.8%⁽⁴⁾) and BB (+18.6%)
- **Strong y-o-y organic revenue growth** driven by robust mobile and Internet & TV revenue growth
- **Outstanding OIBDA margin expansion** supported by mobile business leveraging scale economies and lower commercial activity
- **Significant OIBDA margin expansion across every mobile operation:** +5.6 p.p. in Argentina, +9.8 p.p. in Mexico, +8.3 p.p. in Peru
- **Solid OpCF** despite strong investments in growth platforms

Wireless business: Robust customer growth fully flowing into financials



Penetration E (%)	Brazil	Mex.	Arg.	Perú	Ven.	Col.	Chile
	80	72	112	62	103	92	98



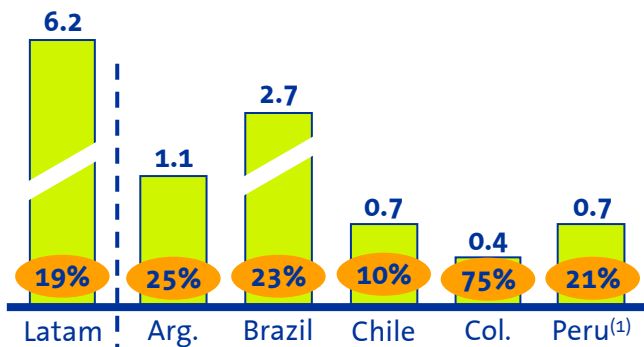
- **Very healthy mobile access growth despite higher penetration**
 - Average penetration in the region: 83% (+12 p.p. vs. Mar-08)
 - 1.3m net adds in Q109, on the back of lower gross adds (-10.1%¹ vs. Q1 08) & churn reduction (-0.2 p.p.¹ vs Q1 08)
- **ARPU evolution driven by rapid customer growth & lower MTRs:**
 - Traffic up 16.6% boosted by outgoing traffic (+17.7% y-o-y)
 - Organic⁽¹⁾ ARPU (-4.3% y-o-y) impacted by fast customer growth and MTR cuts
- **Significant top line expansion, boosted by wireless data and outgoing traffic**
 - Robust mobile data organic⁽¹⁾ revenue growth to weigh 17.2% of service revenue (+3.0 p.p.⁽¹⁾ y-o-y)

(1) Assumes constant exchange rates and includes Telemig in Jan-Mar 2008.

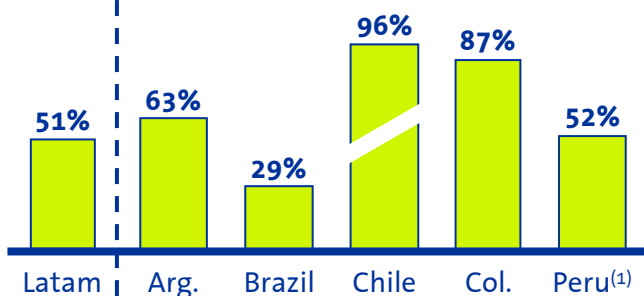
Wireline business: Sustained business transformation

Retail BB accesses (Mar-09; in millions)

Y-o-y growth

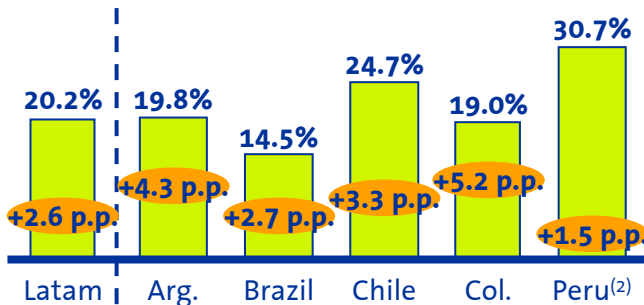


2P&3P/BB Accesses (Mar-09)



Internet & PayTV rev/ Total rev (Mar-09)

Y-o-y growth



Outstanding BB accesses growth to surpass 6.2m:

- Strong push in bundles
 - 2P&3P/BB: +14 p.p. y-o-y
 - Total bundles/fixed lines: +5 p.p. y-o-y
- 142k net adds in Q1 09
- Targeting new segments through innovative propositions (Prepay broadband in Chile, Residential workstations in Chile and Peru)

Sustained Internet & Pay TV revenue growth to weight 20.2% of total wireline revenues

- 1.6m Pay TV accesses, up 30.2% vs. Mar-08
- Flat total fixed line accesses

Solid performance across major operations

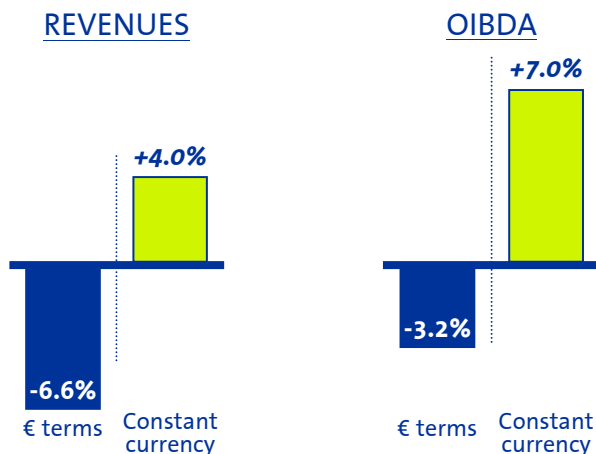
Q1 09 y-o-y growth (in local currency)	Total revenue	Mobile service revenue	Total Wireline revenue	BB & TV revenue	Total OIBDA	Mobile OIBDA	Wireline OIBDA
Brazil ⁽¹⁾	+7.8%	+10.0% ⁽²⁾	+2.2%	+26.0%	+4.4%	+11.7% ⁽²⁾	-1.8%
Argentina	+20.6%	+23.9%	+17.4%	+50.4%	+30.8%	+45.7%	+14.3%
Chile	+1.9%	+2.2%	-1.0%	+14.3%	+4.1%	+10.3%	-3.1%
Peru ⁽³⁾	+10.9%	+5.9%	+3.7%	+9.2%	+17.6%	+57.2%	+1.0%
Colombia	-6.2%	-6.2%	+0.5%	+37.9%	+7.0%	+27.8%	-5.1%
Venezuela	+34.5%	+33.3%			+47.3%		
Mexico	+6.5%	+16.7%			+61.4%		

- **Sound performance in Mexico:** continue to increase customer & revenue share while expanding margins (28.8% in Q1 09) with very robust OpCF growth (+41.3% in local currency vs. Q1 08)
- **Strong growth at Vivo coupled with higher OIBDA margin** (30.0% in Q1 09; +0.4 p.p.⁽²⁾ y-o-y) in a highly competitive environment, maintaining its leadership
- **Telesp** continues advancing in its transformation strategy
- **Outstanding revenue and OIBDA growth rates in Argentina** driven by a strong push in on-net traffic in mobile while increasing bundled services in wireline
- **Venezuela:** very solid commercial and financial performance

T. Europe: Delivering on cash flow generation through a more rebalanced portfolio while maintaining momentum

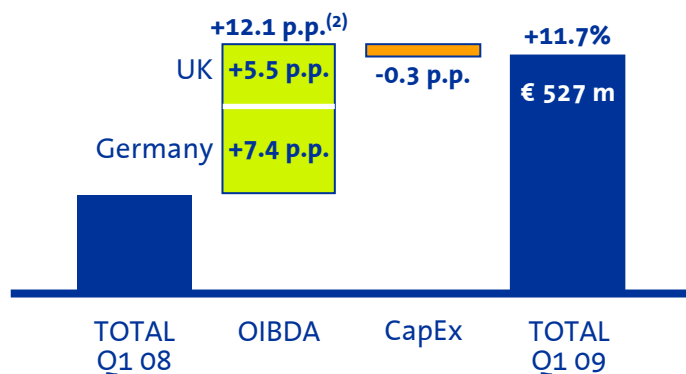
Revenues & OIBDA

(Q1 09 vs. Q1 08)



Contribution to OpCF Growth

(Q1 09 vs. Q1 08 in constant currency)



■ Solid Q1 09 performance across markets in an increasingly tough trading environment

- +9.0% y-o-y increase in total customer base
- Increasing value through product innovation and customer insight: flat rates, SIM-only, Mobile BB and retention activity:
 - Exceptional performance in mobile contract: 82% of new total accesses added in Q1 09
 - Solid mobile BB adoption, leading to a +28.5% y-o-y growth in non P2P-SMS data revenue⁽¹⁾
- Continued optimizing behaviour of customers using bundles, less prepay and roaming activity

■ Ongoing efficiency programmes and improved customer retention to deliver strong OpCF

- OIBDA margin up 0.8 p.p.⁽¹⁾ year-on year to reported 27.2%
- More streamlined commercial approach, mainly through direct channels
- Lower non Commercial costs (-2.1% y-o-y⁽¹⁾) despite increased activity levels
- Improved profitability of fixed BB on increased scale
- Keeping flexibility on CapEx commitments

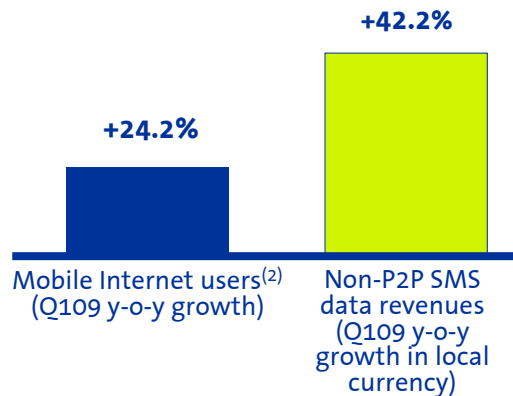
T. O2 UK: Sustained outperformance in a slower market

Mobile contract net adds ('000)

Y-o-y growth (%)

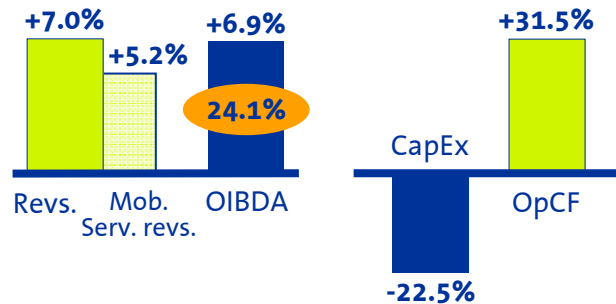


Mobile Data (Non P2P-SMS)



Financial metrics (Q1 09 y-o-y growth in local currency)

OIBDA Margin (%)



Keeping momentum, driving growth:

- Lowest contract churn in the market at 1.2% (-0.2 p.p. vs. Q1 08)
- Contract: 42.6% of mobile base (+2.3 p.p. vs. Mar-08)
- Leading customer satisfaction across all segments
- Innovative propositions: top up surprises, new Simplicity tariffs, prepay iphone, prepay mobile broadband, laptops
- ARPU decline (Q1 09 -3.6% y-o-y⁽¹⁾) reflecting customer optimizing bundles and increasing Simplicity customer base

Delivering ongoing efficiencies:

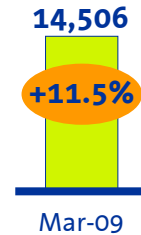
- Optimising customer investment costs (lowest churn and more SIM-only)
- Improved contribution from DSL business
- Continued operating efficiencies in non-commercial costs

T. O2 Germany: New commercial approach and innovation

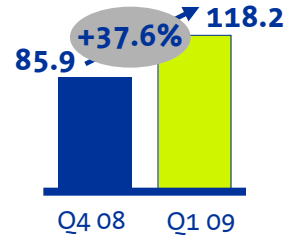
Mobile customers ('000)

● Y-o-y growth (%)
● Q-o-q growth (%)

Total Mobile

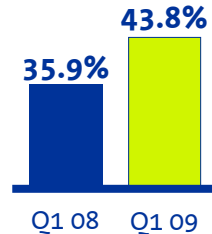


Contract net adds

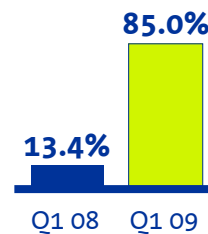


Business foundations

% Direct Sales (Contract segment)

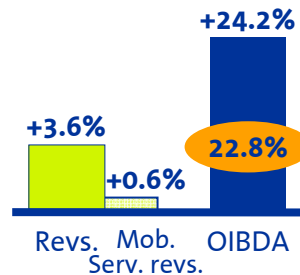


Own data network coverage (%)⁽¹⁾



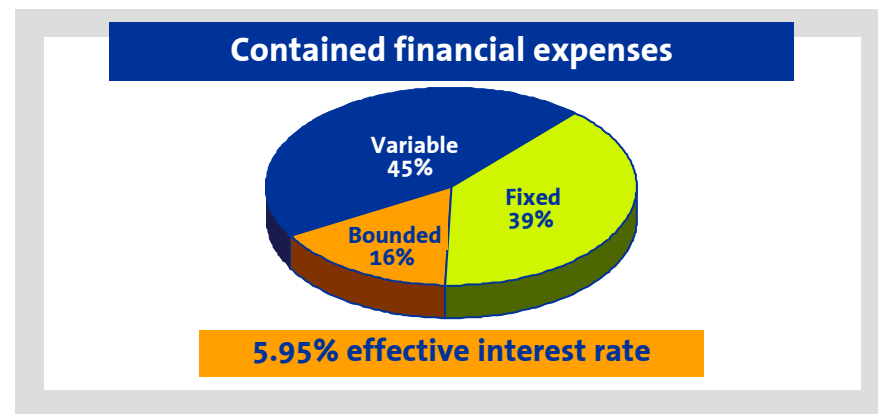
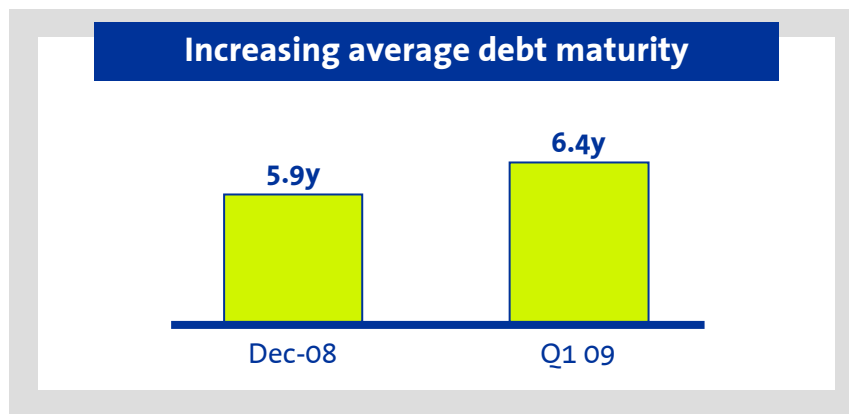
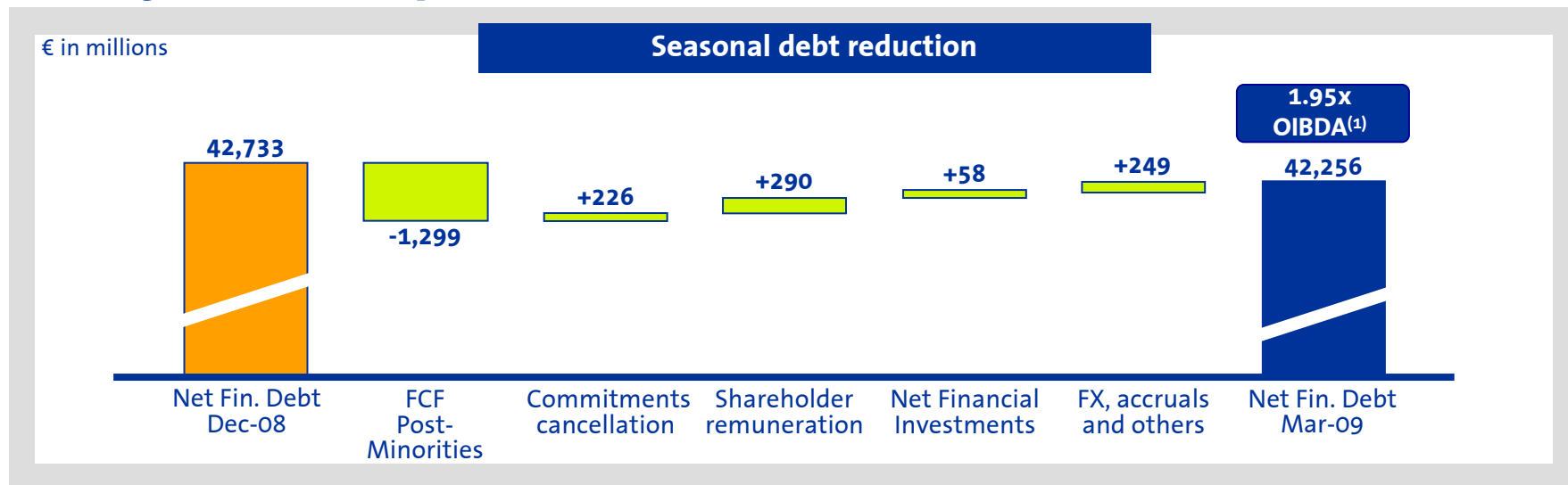
Q1 09 Financial Metrics (Q1 09 y-o-y growth)

● OIBDA Margin (%)



- Sustained mobile and fixed BB performances to reach 3.6% revenue growth
 - Q1 09: Handy Flat Rate and mobile BB driving growth on Q408 new commercial approach
 - From Q2 09 (May, 5th): Innovative propositions to reinforce our mobile voice & data portfolio ("O2 o" and new bundles)
- Profitable growth leveraging foundations put in place over the past year:
 - Increased own network usage
 - Improved distribution: lower SACs & SRCs
 - Positive OIBDA contribution from the fixed business
 - CapEx +34.7% y-o-y on acceleration of distribution & own infrastructure network

Steady financial profile



- € 7.4 Bn financing in Q1 09: € 3 Bn bond issuance & € 4 Bn facility extension to 2012 & 2013
- Leverage target, including commitments, kept in the low range (2.08x OIBDA)

Conclusions

Delivering 2009 Group priorities

- Capturing growth opportunities in expanding businesses
- Increasing OpCF in an economic downturn
- Growing DPS

+

Sound EPS growth:
+12.9% y-o-y

+

Strong financial position

**Full commitment to maintain our track record of delivering
Group guidance: 2009&2010 guidance reiterated**

Telefonica
