

# Our Body

Strength

Leadership

Innovation

Scale

More than **228** million customer accesses

**169** million wireless telephony accesses

**42** million fixed telephony accesses

More than **10** million Broadband accesses

**1.7** million pay-TV accesses

Present in **24** countries

Over **56.4** billion euros in revenues

More than **63%** of revenues from outside Spain

Net profit of over **8.9** billion euros

**42%** shareholder return in 2007

Market cap of **106.1** billion euros

Annual Capex of **8** billion euros

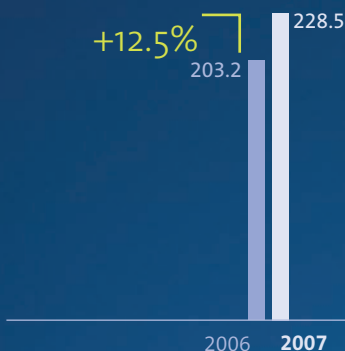
Over **4.35** billion euros invested in R&D+i

Over **248,000** professionals

## TOTAL ACCESSES

Millions

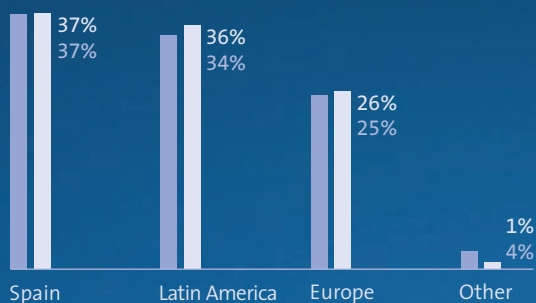
■ Dec 2007  
■ Dec 2006



## REVENUES BREAKDOWN BY BUSINESS UNIT

% of total

■ 2007  
■ 2006



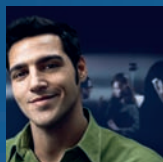
### Geography

Services offered in 20 countries, with an indirect presence in another four

### Telefónica is present in 24 countries

By region, Telefónica has the most balanced geographical profile of any telecommunications operator, with foreign operations contributing 63% of Group revenues.

In 2007, Telefónica rolled out its regional organisational model, structured into three large geographic regions: Spain, Latin America and Europe.



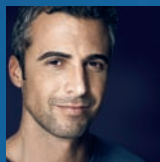
### Customers

Over 228 million customer accesses in 2007

### Telefónica is the world's largest integrated operator by customer accesses

Telefónica has closed financial year 2007 with over 228 million customer accesses, 12.5% more than in 2006, thanks to the Group's intense sales efforts.

The main increases in our customer bases were in Broadband, fixed and mobile telephony, and pay-TV services. By region, Latin America grew the fastest, at 16.9%.



### Company Value

Market capitalization of 106.1 billion euros

### Returns to Telefónica shareholders in 2007 totalled 42%

In 2007, Telefónica Group strengthened its position as the fastest growing and profitable European integrated operator; it was also the fourth ranked global telecom operators by market cap.

Earnings per share jumped 43.5% in 2007 to 1.872 euros, notching up 14 straight quarters of growth.

Telefónica's shares rallied 37.8%, above the 14.6% gain by the European comparable index (DJ Stoxx Telecommunications), the 7.3% rise by the Ibex-35 and the 6.8% increase by the Eurostoxx-50.



### Financial results

Improvement in the financial parameters

### Telefónica posted record net profit of 8.9 billion euros in 2007

The Company met its guidance again in 2007 and obtained the most net profit of any integrated operator in the world.

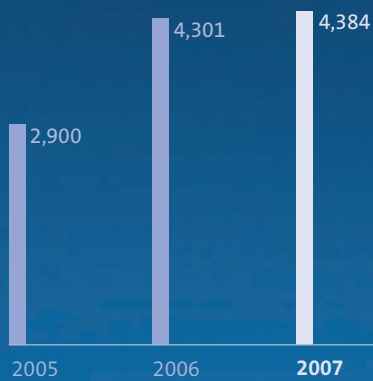
Revenue rose 6.7% in 2007 to 56,441 million euros.

OIBDA totalled 22,823 million euros, leaving an OIBDA margin of 40.4%.

Capex stood at 8,027 million euros. Meanwhile, operating cash flow soared 33% in 2007 to 14,797 million euros, while debt was cut by 6,861 million euros.

## TECHNOLOGICAL INNOVATION

Millions of euros



### Employees

The Group employees over a half a million people directly and indirectly

**Telefónica directly employs over 248,000 professionals**

By region, Latin America accounts for 66% of total headcount. Spain, at 22%, is the second most important region, while Europe accounts for 12%.

Atento, with a staff of over 123,000, is the largest employer among the Telefónica Group companies.



### Innovation

594 million euros invested in R&D

**Telefónica spent more than 4.4 billion euros in 2007 on technological innovation**

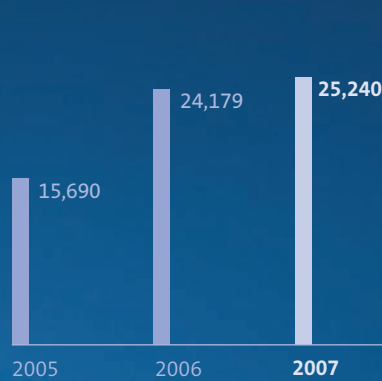
Last year, Telefónica ranked fourth among telecoms operators in R&D spend based on OECD criteria and spent the most of any Spanish company.

The Company established an open innovation network, with inputs from each of the Group companies and a corporate innovation program spearheaded by Telefónica I+D. In addition, it participated in 190 projects sponsored by Spanish and European public funds and collaborated with 920 institutions.

Last year the Company launched over 600 products and services worldwide.

## PURCHASE VOLUME

Millions of euros



### Infrastructure

Network transformation continued with fibre optic and 3G and 3.5G technologies

**Telefónica offers wireless services via 80,499 base stations**

Telefónica began the roll out of fibre to the home (FTTH) technology, the first to do so in Spain. In terms of wireless accesses, work continued on making 3G and 3.5G technology more broadly available across all operators to increase wireless data connection capacity. In 2007, the Group had 80,499 base stations.

In 2007, Telefónica continued the process of extending its fixed-to-mobile architectures to boost convergent services. The work in this field was concentrated in Spain, Argentina, Brazil, Chile, Colombia, Peru, UK, Germany and Czech Republic.



### Suppliers

Spain and Brazil, the most important markets in terms of by purchasing volumes

**Telefónica awarded more than 25 billion euros to its suppliers**

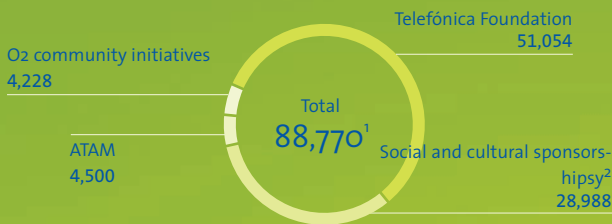
In 2007 more than 28,000 suppliers were awarded business.

Most of its procurement came under the category of Services, which along with Market Products (including mobile handsets) and Network Infrastructure made up over 80% of total purchasing. The rest was split between IT systems, Advertising and Marketing and Content.

Telefónica E-sourced 84% of its Spanish and Latin American operators' purchases, with than 33,000 transactions, including over 4,100 e-auctions.

## COMMUNITY INVESTMENT IN SOCIAL AND CULTURAL PROJECTS

Thousands of euros



<sup>1</sup> Based on LBG methodology.

<sup>2</sup> All projects that have a positive impact on society, culture and art are considered social and cultural sponsorships in accordance with LBG.



### Business Principles

More than 80% of employees will receive training in 2008

Over 36,000 Telefónica Group employees received training on Business Principles

In 2006 Telefónica approved its Business Principles. Throughout 2007, following approval by the Board of Directors, 81% of Group companies and subsidiaries ratified the Business Principles.

Based on its Vision and Business Principles, the Company is building a new corporate culture

In 2007, the Company approved the Corporate Guidelines for Extending these principles to the Supply Chain and Responsible Supplier Contracting Guidelines. An internal communications program was rolled out to support the implementation of these principles.



### Social and cultural action

Telefónica Foundation as the driving force

Telefónica spent almost 90 million euros on social and cultural initiatives in 2007

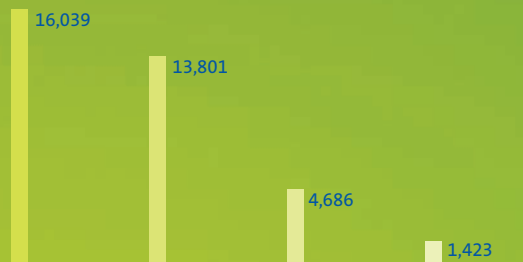
In order to measure and evaluate its social action, last year Telefónica adopted the LBG model, an internationally renowned method to improve the management, evaluation and measurement of the company's community contributions.

Telefónica Foundation channelled 51.1 million euros into more than 700 projects, benefiting 39.8 million people. The most important programs are: Proniño (the company's initiative to eradicate child labour in Latin America), EducaRed (a program designed to enhance education standards through the application of new technologies), Telefónica Volunteers, Forum (concerned with knowledge creation under the umbrella of the information society), and Art & Technology.

ATAM also channelled over 13 million euros to integrate the disable within society.

## EMPLOYEES TRAINED ON BUSINESS PRINCIPLES

■ Telefónica Latin America  
■ Telefónica O2 Europe  
■ Telefónica Spain  
■ Other business units



Note: It does not include Atento, as the Company has different training schemes for the business principles targeting teleoperators.



### Corporate responsibility

Telefónica is included in the main indices: DJSI and FTSE4good

Telefónica published 14 corporate responsibility reports at 17 of its operations

In order to extend its Business Principles to the supply chain, Telefónica designed a self-assessment questionnaire for suppliers to evaluate their CR performance. Over 1,000 suppliers will be evaluated in 2008.

In 2007 the Company set up the Corporate Environmental Unit, as well as by Regional Committees to ensure implementation of the 2008-1012 Environmental Action Plan. In addition, Telefónica made 15,167 measurements of radio wave emissions and invested 5.2 million euros to minimise the visual impact of its infrastructure.

Telefónica launched a strategy to fight climate change, comprising internal initiatives and others related to the customer services on offer.



### Digital inclusion

To help bridge the digital divide

Telefónica invests in infrastructure and services designed for people on low incomes or with disabilities

Last year in Latin America, the company's net contribution to providing Universal Telecommunications Service coverage was 161 million euros.

At year-end 2007, over 81% of our 102 million mobile accesses in Latin America were using pre-pay services. In addition, the Company had over 6 million pre-pay fixed and controlled lines, accounting for 25.9% of fixed telephony accesses in Latin America.

Telefónica upgraded its Accessible Telefónica Standards, which set minimum accessibility criteria in 13 areas, and began to implement the policy internally and its application in areas of accessibility: web, handsets, Telefónica stores and customer service.

# Contribution to progress

SPAIN	ECONOMIC IMPACT	REVENUE/GDP	MAGNITUDES
SPAIN	Revenue <b>20,806</b> Expense: 7,413 3,711 2,635 2,381	2.0%	Employees 53,300 Suppliers 4,065 (87.7%) Accesses 46,374
<b>LATIN AMERICA</b>			
ARGENTINA	Revenue <b>2,368</b> Expense: 905 413 470 289	1.3%	Employees 21,493 Suppliers 1,451 (95%) Accesses 19,471
BRAZIL	Revenue <b>8,139</b> Expense: 4,117 936 3,519 1,087	0.9%	Employees 75,839 Suppliers 3,231 (99.2%) Accesses 49,000
CENTRAL AMERICA	Revenue <b>587</b> Expense: 300 54 78 133	1.2%	Employees 5,786 Suppliers 2,005 (68.3%) Accesses 5,425
CHILE	Revenue <b>1,825</b> Expense: 988 231 248 418	1.6%	Employees 14,613 Suppliers 1,728 (90.7%) Accesses 9,377
COLOMBIA	Revenue <b>1,585</b> Expense: 836 128 302 360	1.3%	Employees 6,369 Suppliers 1,430 (89.4%) Accesses 10,974
ECUADOR	Revenue <b>281</b> Expense: 173 24 48 60	0.9%	Employees 773 Suppliers 390 (80%) Accesses 2,582
MEXICO	Revenue <b>1,571</b> Expense: 1,002 167 120 230	0.2%	Employees 16,589 Suppliers 1,111 (93.4%) Accesses 12,538
PERU	Revenue <b>1,506</b> Expense: 834 309 378 281	2.0%	Employees 14,554 Suppliers 2,143 (89.8%) Accesses 12,174
URUGUAY	Revenue <b>111</b> Expense: 94 7 0.3 15	0.7%	Employees 250 Suppliers 445 (72.8%) Accesses 1,148
VENEZUELA	Revenue <b>2,430</b> Expense: 961 135 652 370	1.5%	Employees 6,873 Suppliers 1,130 (89%) Accesses 10,430
<b>EUROPE</b>			
GERMANY	Revenue <b>3,560</b> Expense: 1,539 466 29 850	0.1%	Employees 5,101 Suppliers 2,179 (94%) Accesses 13,142
IRELAND	Revenue <b>966</b> Expense: 365 108 114 117	0.5%	Employees 1,617 Suppliers 824 (92.5%) Accesses 1,646
UK	Revenue <b>7,792</b> Expense: 5,280 780 597 832	0.4%	Employees 13,221 Suppliers 7,240 (98.6%) Accesses 18,453
CZECH REPUBLIC Including Slovakia	Revenue <b>2,233</b> Expense: 373 255 438 281	1.8%	Employees 9,049 Suppliers 481 (87.2%) Accesses 8,517

Purchases
  Salaries
  Taxes
  Investment

## Note:

Revenue, personnel expenses, payment of tax in the country, purchases and investment (capex) in millions of euros.

Revenue correspond to all Telefónica business units in the country.

Employees: direct employees of the Telefónica Group in the country (headcount at 31 December 2007).

Suppliers: suppliers awarded businesses in the country in 2007.

% in parentheses represents the % awarded to local suppliers (% awarded to suppliers domiciled in the country/total awards based on volume).

Accesses: number of fixed + mobile + ADSL + TV connections (thousand).

Revenue TEF/GDP: ratio between Telefónica revenue (contribution by the country to consolidated revenue of the Telefónica Group) and forecast GDP for the country (source: IMF).

# Our Soul

Vision

Values

Principles

Policies

**36,000** employees trained on our Business Principles, approved in 2006; in 2008 over 1,000 suppliers will be assessed under the corporate guidelines for extending these principles to the supply chain

Nearly **90** million euros on social and cultural projects, with more than **39.8** million people benefiting from initiatives in 2007

Some **19,000** employees are Telefónica Volunteers

More than **50,000** children saved from child labour and put in school in Latin America thanks to the Proniño program

A Customer Satisfaction Index of **6.84** (out of 10) at the end of 2007

Employment satisfaction at **65%**

More than **50%** of mobile companies environmentally certified according to ISO 14001