Sixth Investor Conference
Turning organic growth into superior shareholder value

César Alierta
Executive Chairman and CEO of Telefónica
London, October 11th 2007
1. Telefónica: an unmatched organic growth profile with the strongest fundamentals

2. Organic growth opportunities in every business

3. Dedicating our resources to foster organic growth

4. A new guidance for the next level of Telefónica’s value creation
The best ever Telefónica

- A leading integrated telco platform
- A unique track-record of **organic growth**
- The right scale and diversification for an outstanding business performance

A trusted company

A growth stock in a promising industry
The best ever Telefónica

Accesses Jun-07

Countries with Telefónica presence

Real GDP growth where TEF operates vs. TEF revenue organic growth

Source: Companies Press Releases

Source: International Monetary Fund, World Economic Outlook Database, April 2007
We are consistently delivering on our commitments...

1. **Revenue Growth**
   - FY 2004: 5%
   - FY 2005: 15%
   - FY 2006: 30%

2. **OIBDA Growth**
   - FY 2004: 0%
   - FY 2005: 5%
   - FY 2006: 30%

3. **OI Growth**
   - FY 2004: 10%
   - FY 2005: 15%
   - FY 2006: 30%

(1) According to guidance criteria
...achieving organic growth well ahead of peers...

GAP BETWEEN TELEFÓNICA AND MARKET¹ GROWTH

Revenue organic growth gap (p.p.)

<table>
<thead>
<tr>
<th></th>
<th>FY 2004</th>
<th>FY 2005</th>
<th>FY 2006</th>
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OI growth gap (p.p.)

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<tr>
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<th>FY 2004</th>
<th>FY 2005</th>
<th>FY 2006</th>
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(1) Includes Deutsche Telekom, France Telecom, Telecom Italia, BT and Vodafone. Organic variations except DT and BT.
(2) OIBDA growth as of 2006 excludes TdE’s additional ERE registered in Q4 06 and New Management Pension Scheme.
...and translating it into a much higher EPS growth

<table>
<thead>
<tr>
<th></th>
<th>Cumulative organic (1) Revenue growth</th>
<th>Earnings per share growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2004/FY2003</td>
<td>+8.3%</td>
<td>+31.3%</td>
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<tr>
<td>FY2005/FY2004</td>
<td>+9.3%</td>
<td>+43.4%</td>
</tr>
<tr>
<td>FY2006/FY2005</td>
<td>+7.8%</td>
<td>+42.9%</td>
</tr>
<tr>
<td>H1 07/H1 06</td>
<td>+7.4%</td>
<td>+63.7%</td>
</tr>
</tbody>
</table>

(1) Excluding exchange rate impact and changes in the consolidation perimeter

NON-STOP GROWTH FOR TWELVE CONSECUTIVE QUARTERS

OPERATING & FINANCIAL LEVERAGE BOOST EVEN HIGHER GROWTH AT THE BOTTOM LINE
In 2007 we are on track to deliver on our financial targets...

**Net debt & Commitments (€ in millions)**

- **H1 06**: 58,258
- **H1 07**: 52,267

- **2.9x OIBDA**
- **2.6x OIBDA**

**Target of ≤ 2.5x medium term**

**EPS Growth (€)**

- **Reported**
  - **FY 2005**: 0.488
  - **H1 06**: 0.515
  - **H1 07**: 0.604
  - **+63.7%**

- **Ex-capital gains/losses & others**
  - **FY 2005**: 0.913
  - **H1 06**: 0.799
  - **H1 07**: 0.604
  - **+17.2%**

- **Underlying FY 2006**
  - **HY 2005**: 0.913
  - **FY 2006**: 1.304
  - **+22.7%**

**(1) Excluding Airwave capital gains**

**(2) Ex-capital gains/losses & others (TPI’s capital gain & redundancy program in Spain)**

**(3) Capital gains/losses includes Sogecable in H1 06, and Airwave, CANTV and Endemol France in H1 07. Others includes Redundancy Program in Spain, TO2 restructuring charge and provision for Telefónica España’s EU fine**
...and outperforming on our net €1.5 bn M&A commitment set in May-06

| Main transactions 2006-2007  (€ in billions) |
|------------------------------|------------------|
| Divestitures                |                  |
| AIRWAVE                     | 2.9              |
| ENDEMOL                      | 2.6              |
| Committed Acquisitions      |                  |
| TELECOM ITALIA\(^{(1)}\)    | 3.8              |
| CHINA NETCOM                |                  |
| OTHERS IN BRAZIL\(^{(2)}\)  |                  |

EXPECTED NET FINANCIAL INVESTMENTS END OF 2007E: €-1.7 bn
NET FINANCIAL INVESTMENTS COMMITMENT END OF 2007: €+1.5 bn

\(^{(1)}\) Acquisition announced on April 28\(^{th}\) 2007. Execution pending.
\(^{(2)}\) Telemig/Telenorte and TVA
And finally, this year Telefónica is starting to benefit from the value of having the right scale and diversification.
1. Telefónica: an unmatched organic growth profile with the strongest fundamentals

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2 Growth opportunities coming from all our businesses

- **TELEFÓNICA ESPAÑA**
  - “Superior performance sustainable in the long-term”:
    - Strong demand for telecom services
    - Telefónica’s flagship with a winning mindset
    - An upcoming quantum leap in commercial orientation

- **TELEFÓNICA O2 EUROPE**
  - “Further strengthening position”:
    - Growing above mobile industry average
    - Exploiting the integrated Telco opportunity
    - Leveraging group scale to increase efficiency

- **TELEFÓNICA LATINOAMÉRICA**
  - “Top growth engine”:
    - High demand telecom market and the best ever macroeconomic outlook
    - Well positioned to capture future growth and a higher market share
    - KPI’s improvement in all operations

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“Much higher growth than anticipated from exploiting new market opportunities and extracting value from integration”
Telefónica España: One of the fastest growing European telecom markets and economies...

Is the Spanish Telecom market still a high growth market?

- ~ €8/9 bn increase in target Spanish telecom market¹ between 2006-2010E
- Fixed and mobile broadband - massive adoption
- Business opportunity beyond connectivity
- Mobile data showing real signs of taking off
- Strong demand for ICT solutions from corporates and SME customers

Target market revenues¹ (€ in billions)

 FY2006 FY2010E

29.8

+6%/+7%

CAGR 06-10E

(1) Target market: telephony, broadband, Pay TV, target IT areas (includes CPD outsourcing, LAN and workstations management, Security, Contact Centers, Relationship Solutions, Digital Asset Management, Gis), Online Advertisement, Online contents and Digital Home
Source: Telefónica
Telefónica España: Telefónica’s flagship with a superior performance sustainable in the long-term

**Strong growth of fixed BB market?**
- Telefónica BB customers to grow to 6.1-6.8m by 2010E
- Sustaining BB revenue per access
- Enhanced offer leveraging FTTX deployment

<table>
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<tr>
<th>BB penetration in households with fixed access</th>
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<tbody>
<tr>
<td>42% Dec-06 to 75% Dec-10E</td>
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</table>

**Still room for high mobile growth?**
- From 104% to ~135%¹ penetration in 2010E
- Customer acquisition focus on value
- Strong usage upside

<table>
<thead>
<tr>
<th>Telefónica mobile accesses (Millions)</th>
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<tbody>
<tr>
<td>CAGR 06-10E</td>
</tr>
<tr>
<td>10-14%</td>
</tr>
<tr>
<td>21.5</td>
</tr>
<tr>
<td>+5%/+6%</td>
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<table>
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<tr>
<th>%M2M</th>
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<tbody>
<tr>
<td>Dec-06: 1%</td>
</tr>
<tr>
<td>Dec-10E: 10-14%</td>
</tr>
</tbody>
</table>

**Rapid growth of mobile data business?**
- More than 70% of laptops with mobile BB in 2010E (20% in 2006)
- 3G handsets over customer base over 70% in 2010E vs 5% in 2006
- 80% population coverage with HSDPA by 2010E

<table>
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<tr>
<th>Data ARPU / ARPU</th>
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<tbody>
<tr>
<td>14% FY 2006</td>
</tr>
<tr>
<td>20-25% FY 2010E</td>
</tr>
</tbody>
</table>

(¹) Including M2M
Telefónica O2 Europe: a growing telecom market...

- **Momentum to continue in Telefónica O2 Europe?**

  - **Telefónica O2 Europe Accesses (Millions):**
    - Dec-06: 38.6
    - Dec-10E: >+40%

**TELEFÓNICA O2 EUROPE:**

- Become an integrated operator and exploit cross-selling opportunities
- **UK:** Continue to grow above the market
- **Germany:** investing for the long term to increase growth rate
- **Czech Republic:** Maintain share and leverage integrated offerings
... where we will profit from our strong momentum

Will Telefónica O2 Europe succeed in Germany?
- Transforming German operations to become a strong challenger
- Credible integrated operator alternative to DT
- Re-fresh core proposition and focus on under-penetrated segments
- Reduce cost-base
- O2 DSL + Converged services

When will non-SMS mobile data revenue take off?
- Already growing
- Rollout of HSDPA Networks
- Content and handset partnerships

Can Telefónica O2 Europe make an impact in fixed Broadband?
- Quality of execution
- Customer experience
- Duo & Trio offers
- Distinctive applications

Non SMS Data ARPU (O2 UK & O2 Germany)
- FY 2006: ~25%
- FY 2010E: CAGR 06-10E

Telefónica O2 Europe DSL customers (000)
- FY 2006: 452
- FY 2010E: ~X 7.5

(1) Wholesale DSL lines not included
Are there still high growth prospects for Latin American markets?

Latin America Telecom Market

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2006</td>
<td>€ 35-40 bn</td>
</tr>
<tr>
<td>FY 2010E</td>
<td></td>
</tr>
</tbody>
</table>

Source: Telefónica

Telecom market growth forecast (CAGR 06-10E)

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>7.8%</td>
</tr>
<tr>
<td>Emerging Asia</td>
<td>7.1%</td>
</tr>
<tr>
<td>US &amp; Canada</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Source: IDC

(1) Excluding Japan, Korea, Hong Kong, Singapore & Taiwan

A region with profitable growth and investors confidence

- Simultaneous growth of top 7 Latin American countries
- >75% of Latin America GDP in “expected investment grade” countries by 2010
- Higher purchasing power due to growth of middle class (15 m new middle class households during 2006-2010E)
2. Telefónica Latinoamérica well positioned to capture this growth

Will T.Latam continue to capture mobile growth in the region?

- +55/60 m T.Latam new mobile customers
- México: +8-10 p.p. mobile market share increase by 2010E
- Brazil: consolidation of market leadership & efficiency improvement

Still room to improve mobile business economics?

- Sustainable ARPU increase based in consumption stimulation, driving data service usage (mobile, email, sms, ...)
- Churn reduction and OIBDA margin improvements

Significant BB penetration potential in the region?

- +4/5 m T.Latam new BB accesses
- Bundled products (85-90% of clients) and 40-45% of fixed telephony accesses with 2P/3P by 2010E

- Latin America mobile market penetration
  - Dec-06: 56%
  - Dec-10E: 83%

- Annual mobile ARPU
  - FY 2006: +1%
  - FY 2010E: +3%

- Market BB penetration (over households)
  - Dec-06: 10%
  - Dec-10E: ~23%
  - CAGR 06-10E: x2.3
These growth opportunities will translate into more than 40% organic growth of our customer base in 4 years.

<table>
<thead>
<tr>
<th>Total Market Penetration Increase 06-10E¹</th>
<th>FIXED BB²</th>
<th>MOBILE³</th>
</tr>
</thead>
</table>

(1) Fixed BB penetration calculated over households and mobile penetration over population
(2) Source: Infocom for Western Europe and internal estimates for Latin America
(3) Source: Pyramid (Jun07) for Western Europe and internal estimates for Latin America
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To foster this organic growth, we will focus our resources on four major priorities:

1. **Best-in-class customer experience**
   - Improving customer satisfaction

2. **Innovation as competitive advantage**
   - In-company innovation
   - 3rd party agreements

3. **A new operating model**
   - Integrated commercial processes
   - Integration of networks, operations and IT systems
   - Global actions focused on leveraging scale across regions

4. **An integrated management model**
Our integrated management model is key to leverage the benefits of our scale across regions

- Fostering regional integration
- Global actions to leverage scale

**Synergies** guidance for the 2007E-2010E period exceeding Valencia guidance by 42%

~ €7.5 bn Synergy\(^1\) guidance for the 07E-10E period

\(^1\) Already included in the overall guidance
### By 2010, Telefónica will be an even better company

<table>
<thead>
<tr>
<th>What Telefónica will NOT be ...</th>
<th>What Telefónica will be...</th>
</tr>
</thead>
<tbody>
<tr>
<td>A company that depends on M&amp;A to grow...</td>
<td>...A company with organic growth both in emerging and developed markets</td>
</tr>
<tr>
<td>A telco with a defensive position against players from adjacent industries...</td>
<td>...A company that is capturing growth from adjacent industries</td>
</tr>
<tr>
<td>An operator that is only focused on leveraging intra-regional scale...</td>
<td>...One company benefiting from not only intra-regional, but also inter-regional scale</td>
</tr>
<tr>
<td>An organization with a centralised biased ...</td>
<td>...An empowered and agile organisation with an international mindset</td>
</tr>
<tr>
<td>Achieving efficiency improvements only whenever necessary to defend margins...</td>
<td>...Anticipating efficiency gains to outpace competitors</td>
</tr>
<tr>
<td>Focused on offering the broadest product portfolio...</td>
<td>...Focused on being the leader in customer satisfaction and innovation</td>
</tr>
<tr>
<td>A highly efficient utility...</td>
<td>...The best combination of growth and returns in the industry</td>
</tr>
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Guidance will lead to a high organic growth rate

**NUMBER OF CUSTOMERS**

- **Accesses in millions**
  - Dec-06: 203
  - Dec-10E: > 290

**TOTAL REVENUES**

- **€ in billions**
  - FY 2006¹: 52.9
  - FY 2006 (Adj)²: 51.3
  - FY 2010E: +5%/+8%

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1. Base 2006 reported numbers include eleven months of O2 Group (consolidated since February 2006), eight months of Telefónica Telecom (consolidated since May 2006), six months of Iberbanda (consolidated since July 2006) and three months of start-up losses in Slovakia.
2. In terms of guidance calculation, Endemol and Airwave results are excluded from the base 2006.
3. CAGR 06-10E guidance assumes constant exchange rates as of 2006. All figures exclude changes in consolidation, other than Telemig acquisition (50% through TEF stake in Vivo), TVA and Deltax (Czech Republic).
Increase in operating returns will outpace revenue growth due to our new operating model...

<table>
<thead>
<tr>
<th>(€ in millions)</th>
<th>TELEFÓNICA GROUP</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>FY2006</td>
</tr>
<tr>
<td>REVENUES</td>
<td>52,901</td>
</tr>
<tr>
<td>OIBDA</td>
<td>19,126</td>
</tr>
<tr>
<td>OI</td>
<td>9,421</td>
</tr>
</tbody>
</table>

(1) Base 2006 reported numbers include eleven months of O2 Group (consolidated since February 2006), eight months of Telefónica Telecom (consolidated since May 2006), six months of Iberbanda (consolidated since July 2006) and three months of start-up losses in Slovakia.

(2) In terms of guidance calculation, Endemol and Airwave results are excluded from the base 2006. OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007E-2010E. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures. CapEx excludes investments related to Real State Efficiency Plan.

(3) CAGR 06-10E guidance assumes constant exchange rates as of 2006. All figures exclude changes in consolidation, other than Telemig acquisition (50% through TEF stake in Vivo), TVA and Deltax (Czech Republic).
...ensuring value creation across all our businesses

\( \frac{\text{OpEx} + \text{CapEx}}{\text{Revenues}} \) / \( \text{CapEx}^1 \) (€ in billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Reduction</th>
<th>FY 2006</th>
<th>FY 2010E</th>
</tr>
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<tr>
<td></td>
<td>&gt;5 p.p.</td>
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<table>
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<tr>
<th>CapEx cumulative 2007E-2010E</th>
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<tr>
<td>&lt; 33</td>
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**Op. Cash-Flow** \(^2\) (€ in billions)

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<th>Cumulative 2007E-2010E</th>
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<tr>
<td>&gt;60</td>
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</table>

(1) All figures exclude changes in consolidation, other than Telemig acquisition (50% through TEF stake in Vivo), TVA and Deltax (Czech Republic).
(2) OIBDA - CapEx
Sound business execution together with a disciplined use of FCF...

**FIRST PRIORITY**
- Shareholder Remuneration
- 2008E DPS of 1 Euro¹
- Share buybacks to be considered as stated below

**SECOND PRIORITY**
- Deleverage
- Net Debt + Cash Commitments times OIBDA in the 2.0 – 2.5x range

**THIRD PRIORITY**
- Selective M&A
- Foster growth in current markets

Excess FCF will be allocated once it is generated and following these priorities

¹ Fiscal year 2008E, to be paid in H2 08 and H1 09
...allow us to upgrade our previous commitments

- **EPS** (1) $1.304\,€$ vs. $2.304\,€$ (2010E)
- **FCFS** (2) $1.87\,€$ vs. $2.87\,€$ (2010E)

(1) Reported EPS
(2) FCF available to remunerate Telefonica S.A. shareholders, to protect solvency levels and to accommodate strategic flexibility
In summary, why I think Telefónica is the best investment option in the industry

- We have a unique organic growth platform, putting customers at the heart of everything we do
- We have a unique mix of scale & diversification
- We will get new revenue streams from a widening telecom business scope
- We foresee a long run in efficiency gains
- We have a highly committed top management with a winning mindset
- We are turning organic growth into cash
- We have an even more favorable dividend policy
- We have a great track-record of delivering on what we promised

TELEFÓNICA: A growth stock in a promising industry