The best combination of growth and returns in the industry

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Telefónica S.A.
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1Q07 results reaffirm our unique profile
1. Non-stop growth in all financial metrics for 11 consecutive quarters
2. Organic growth well ahead of peers
3. Fully benefiting from the value of being diversified
4. Delivering on our commitments

We are facing your main concerns
1. Is sustainable our superior performance in Spain?
2. UK margin erosion
3. Turning around German operations
4. Underperformance of Brazilian mobile asset
5. Sustainability of Mexican turn-around

What are you maybe missing?
1. Mobile growth & profitability prospects in Latin America
1Q07 performance reaffirms our profile as the best combination of growth & returns in the industry...

Cumulative Organic (1) Revenue growth

- Jan-Dec 04 vs. 03: +8.3%
- Jan-Dec 05 vs. 04: +9.3%
- Jan-Dec 06 vs. 05: +7.8%
- Jan-Mar 07 vs. 06: +7.8%

Earning Per Share Growth

- +31.3%
- +43.4%
- +42.9%

NON-STOP GROWTH FOR ELEVEN CONSECUTIVE QUARTERS

(1) Excluding exchange rate impact and changes in the consolidation perimeter
(2) Sale of shares in Sogecable in 1Q06 (6.57%), related to Prisa’s take over bid over the company and sale of Endemol France in 1Q07
...once again outperforming the peer group on **ORGANIC** terms...

Source: company press releases

**BT**: April-March 07 vs. 06; EBITDA excludes specific items; organic EBITDA excludes specific items and leaver costs. Nominal growth rates for revenues

**DT**: EBITDA growth adjusted for special factors. Revenue growth in nominal terms

**FT**: Organic Revenue/EBITDA growth: on a comparable basis

**KPN**: Organic Revenue/EBITDA growth: adjusted Revenue/EBITDA for guidance calculation

**VOD**: April-March 07 vs. 06

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**1Q07 ORGANIC OIBDA GROWTH**
...fully benefiting from the value of being diversified

1Q07 Revenue breakdown by region

- T. España: 37%
- T. O2 Europe: 26%
- T. Latinoamérica: 34%
- Others & eliminations: 4%

Accounts for >60% of organic revenue growth in 1Q07

1Q07 LatAm Revenue contribution by country

- Brazil: 40%
- Argentina: 12%
- Venezuela: 11%
- Chile: 9%
- Peru: 8%
- Colombia: 8%
- Mexico: 7%
- Others: 5%

Domestic Revenues over Total Revenues (1Q07)

- 92%
- 80%
- 71%
- 53%
- 50%
- 37%
- 17%

(1) Source: company press releases
...and consistently delivering or outperforming on financial guidance...

<table>
<thead>
<tr>
<th></th>
<th>GUIDANCE</th>
<th>RESULTS (^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>5% / 8%</td>
<td>6.0%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>6% / 9%</td>
<td>12.5%</td>
</tr>
<tr>
<td>EBIT</td>
<td>18% / 21%</td>
<td>29.7%</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>7% / 10%</td>
<td>8.6%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>5% / 7%</td>
<td>6.0%</td>
</tr>
<tr>
<td>EBIT</td>
<td>15% / 18%</td>
<td>15.5%</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>12% / 15%</td>
<td>17.2%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>10% / 13%</td>
<td>12.3%</td>
</tr>
<tr>
<td>OI</td>
<td>12% / 18%</td>
<td>16.1%</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>34% / 37%</td>
<td>38.8%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>26% / 29%</td>
<td>28.9%</td>
</tr>
<tr>
<td>OI</td>
<td>26% / 30%</td>
<td>29.2%</td>
</tr>
</tbody>
</table>

\(^1\) According to guidance criteria
...on de-leveraging and on EPS guidance...

Progressing on de-leveraging

<table>
<thead>
<tr>
<th>Year</th>
<th>OIBDA (€ in million)</th>
<th>Net Debt &amp; Commitments Mar 06</th>
<th>Net Debt &amp; Commitments Mar 07</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>3.0x</td>
<td>56,781</td>
<td>55,087</td>
</tr>
<tr>
<td>2006</td>
<td>2.7x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Target of 2.5x by 2008

On track to double underlying 2005 EPS by 2009

<table>
<thead>
<tr>
<th>Year</th>
<th>EPS (in €)</th>
<th>OIBDA (€ in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>0.913</td>
<td>55,087</td>
</tr>
<tr>
<td>2006</td>
<td>1.120</td>
<td>56,781</td>
</tr>
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</table>

Reported

<table>
<thead>
<tr>
<th>Quarter</th>
<th>EPS</th>
<th>OIBDA (€ in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q06</td>
<td>0.245</td>
<td>55,087</td>
</tr>
<tr>
<td>1Q07</td>
<td>0.260</td>
<td>56,781</td>
</tr>
</tbody>
</table>

Ex-capital gains/losses

<table>
<thead>
<tr>
<th>Quarter</th>
<th>EPS</th>
<th>OIBDA (€ in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q06</td>
<td>0.215</td>
<td>55,087</td>
</tr>
<tr>
<td>1Q07</td>
<td>0.264</td>
<td>56,781</td>
</tr>
</tbody>
</table>

EPS Growth in-line to double DPS by 2009

(1) Sale of shares in Sogecable in 1Q06 (6.57%), related to Prisa’s take over bid over the company and sale of Endemol France in 1Q07
...and fully delivering on our 1.5 bn € M&A commitment set on May-06...

Main transactions 2006-2007

<table>
<thead>
<tr>
<th>Divestitures</th>
<th>Acquisitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airwave</td>
<td>Telecom Italia(2)</td>
</tr>
<tr>
<td>Endemol(1)</td>
<td>2.86</td>
</tr>
<tr>
<td></td>
<td>2.63</td>
</tr>
<tr>
<td></td>
<td>2.31</td>
</tr>
</tbody>
</table>

AS OF MARCH 2007, NET FINANCIAL INVESTMENTS COMPLETED OR COMMITTED AMOUNTED TO A FIGURE OF ≈-2.6 Bn € (vs. +1.5 Bn € COMMITMENT)

(1) Disposal announced on May 14th 2007. Execution pending subject to the pertinent administrative authorisations.

(2) Acquisition announced on April 28th 2007. Execution pending subject to the mandatory authorisations.
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What are you maybe missing?
1. Mobile growth & profitability prospects in Latin America
Spain: is sustainable our superior performance?

**Revenues** (€ in millions)

1Q06 | 1Q07
---|---
4,772 | 5,033

+5.5%

**OIBDA** (€ in millions)

1Q06 | 1Q07
---|---
2,205 | 2,439

+10.7%

**OIBDA Margin** (%)

1Q06 | 1Q07
---|---
46.2% | 48.5%

+2.3p.p.

**FAVORABLE MACRO CONTEXT**

- **GDP growth** above Euro-zone average: +3.2%
- **Population growth**:
  - +1.1%
- **Sustained growth in businesses and freelancers**:
  - +3.6%
- **Household increase** above population growth:
  - +700K

**STRONG MOMENTUM IN TELECOMS**

**Total market customer revenues**

2005 | 2006 | 2007E
---|---|---
+7% | +6%

**WE KEEP BEING MARKET MOVERS**

- New price plans for wireless Internet, Residential and SOHO & SMEs
- Pioneers in the deployment of BB VAS

TELEFONICA S.A.
**UK: Margin erosion**

**Mobile customer growth (y-o-y)**
- Total: 17.8M
- Pre-pay: +8.6%
- Contract: +10.8%

**Revenues (Organic, £ in millions)**
- 1Q06: 1,070
- 1Q07: 1,180
- OIBDA margin (Organic)
  - 1Q06: 27.7%
  - 1Q07: 24.0%

**FOCUS ON CLIENT RETENTION**
- Handset upgrades in 1Q07: +22%
- 118,000 customers added in 1Q07
- +80,000 net new contracts, to represent 35.5% of customer base (+0.7 p.p.)
- 70% of new post-pay on 18-month contracts

**REVENUES ON CUSTOMER GROWTH**
- MoU up 10.6% y-o-y
- Blended ARPU +0.8% to 33.3€
- Data ARPU: +10.2%
- Service revenues: +9.7%

**MARGINS TO IMPROVE FROM 1Q07**
- Higher commercial activity in retention during 1Q07
- Commercial costs to be reduced throughout 2007
- BB launch delayed to September

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**TELEFONICA S.A.**

(1) On a comparable basis (January-March for both 1Q06 and 1Q07)
Germany: can we turn-around the operations?

**Revenues Initiatives**

**Attractive and Simple Product Portfolio with SML Tariff Logic**

- **O2 Loop** pre-pay, SML: Full cost control and no base fee
- **O2 Genion**, SML: The alternative mobile solution at home and on the move
- **O2 Active**: minutes bundle for post-pay offer
- **O2 Mobile Data Pack**: Surfing the Internet on the move via laptop and mobile at best price
- **O2 DSL**, SML: Fixed network telephony and Internet

**Early Signs of Elasticity**

- Over 750K customers signing up during last four months
- MoU 2x to 3x
- Proactively migrating existing customer base since April-07

**Renewed Commercial Activity**

- Relaunching BB to mobile base in the summer

**Expanded Strategic Alliance with HanseNet**

- Telefónica to provide access to 60% of German households for HanseNet’s Alice service
- HanseNet to offer Alice’s customers O2 mobile service

**Costs Initiatives**

**Cost Saving Programs to remain robust on OIBDA**

- Efficiency improvement in processes
- IT development & operations
- Redundant marketing activities
- Network and IT external services reduction
- Increase channel efficiency & effectiveness

- Yearly savings amounting to:
  - 40 M€ in 2006
  - HIGH DOUBLE digit M€ in 2007E
  - LOW TRIPLE digit M€ in 2008E
Brazil: can we strengthen our competitive position to recover the path of profitable growth?

**Focus on value clients**
- Strong reduction of fraud
- New pricing plans drive MoU & ARPU increases
- Highest number of points of sale in the market
- Unified systems: 100% of customer base within one common platform

**GSM network deployed in a record time**
- Superior coverage due to launch in 850 MHz
- 960,000 GSM customers in April (launched on January 2007)
- 17% share of net adds in April-07 (121K net adds in Apr-07 vs. negative 22.8K net adds in 1Q07)

**MoU (minutes)**
- 1Q06: 67
- 1Q07: 75
  - +12.9%

**ARPU (local currency)**
- 1Q06: 25.7
- 1Q07: 26.1
  - +19.0%
  - +2% (Excluding B&K effect)
Mexico: can we sustain operational turn-around?

**Net adds** (in thousands)

**DISTRIBUTION RESHAPING**

- **NEW COMMERCIAL OFFER**
  - 1Q05: 422
  - 2Q05: 86
  - 3Q05: 129
  - 4Q05: 392
  - 1Q06: 191
  - 2Q06: 306
  - 3Q06: 578
  - 4Q06: 1110
  - 1Q07: 766

**Churn**
- 5.5%
- 2.9%

**Service revenue y-o-y growth** (change in local currency)

- **2005**
  - +13%
  - +4%

- **2006**
  - +34%
  - +34%

- **1Q07**
  - +66%
  - +42%

- **2006**
  - OIBDA:
    - 1Q06: -25
    - 4Q06: +22
    - 1Q07: +22

- **MoU Evolution**
  - 2Q06: 66
  - 3Q06: 87
  - 4Q06: 104
  - 1Q07: 116

- **Customer growth**

- **Incoming service revenues positively impacted by national CPP**
- **Early sign of regulatory advances** (national CPP, portability)

**Prioritize quality growth rather than speed of growth**

(1) Ex-adjustment of 300,000 pre-pay lines
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■ **What are you maybe missing?**
  1. Mobile growth & profitability prospects in Latin America
We are setting benchmark targets again for 2007...

**Group Revenues**  
€ in millions  
2006: 52,901  
2006 adjusted for guidance: 51,298  
2007: 52,901  

**Group OIBDA**  
€ in millions  
2006: 19,126  
2006 adjusted for guidance: 19,040  
2007: 18,688  

**Group OI**  
€ in millions  
2006: 9,421  
2006 adjusted for guidance: 9,336  
2007: 9,098  

**Group CapEx**  
€ in millions  
2006: 8,003  
2007: 7,814  

Base reported numbers include eleven months of O2 (consolidated since February 2006), eight months of Telefónica Telecom (consolidated since May 2006), six months of Iberbanda (consolidated since July 2006), three months of start-up losses in Slovakia (operations started in February 2007), and exclude Endemol and Airwave results. 2007 guidance assumes constant exchange rates as of 2006 and exclude changes in consolidation. In terms of guidance calculation, OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring (980 M€ in 2006 and estimated 630 M€ for 2007 for TdE) and Real Estate Programs are included as operating revenues/expenses. For comparison the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.
...supported by our distinctive growth profile in Latin America...

**Revenue Growth**
(€ in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>18,089</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td>+11% / +14%</td>
</tr>
</tbody>
</table>

**OIBDA Growth**
(€ in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>6,607</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td>+12% / +16% adjusted for guidance</td>
</tr>
</tbody>
</table>

**CapEx**
(€ in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2,811</td>
</tr>
<tr>
<td>2007</td>
<td>&lt;3,000</td>
</tr>
</tbody>
</table>

Telefónica S.A. T. Latam base reported figures include eight months of Telefónica Telecom (consolidated since May 2006). 2007 guidance assumes constant exchange rates as of 2006. All figures exclude changes in consolidation. In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For comparison the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.
...leveraging the potential of mobile Latam operations...

**STABLE MACRO OUTLOOK**

- **Mid-single digit rate GDP growth** for major economies

  +4.7% in 2007 for the Latam region

- **Strong penetration growth of mobile market** (in T.Latam areas of operations)

- **Targeting a strong share of net adds** in 2007 by:
  - Capitalizing on our **GSM footprint in all the region** after Brazil & Venezuela GSM migration
  - Pushing **Fixed/Mobile integration** and collaboration to capture growth potential

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**LEVERAGING REGIONAL MANAGEMENT OF OPERATIONS**

(1) In millions of $US, constant prices as of 2000. Source: Cepal (Comisión Económica para América Latina y Caribe)
(2) Source: Pyramid
Telefónica Latinoamérica profile keeps showing tangible progress in 1Q07...

**Total Accesses** (in thousands)
- Mar06: 102,498
- Mar07: 116,970
  - +14.1%

**Retail Internet BB connections** (in thousands)
- Mar06: 2,928.7
- Mar07: 4,045.6
  - +38.1%

**Pay TV clients** (in thousands)
- Mar06: 489.3
- Mar07: 700.1
  - +43.1%

**Wireless clients** (in thousands)
- Mar06: 74,060
- Mar07: 85,637
  - +15.6%

**Revenues** (€ in millions, change in €)
- 1Q06: 4,317
- 1Q07: 4,685
  - +8.5%

**OIBDA** (€ in millions, change in €)
- 1Q06: 1,528
- 1Q07: 1,713
  - +12.1%

**OIBDA Margin** (%)
- 1Q06: 35.4%
- 1Q07: 36.6%
  - +1.2p.p.

**Operating CF** (€ in millions, change in €)
- 1Q06: 1,171
- 1Q07: 1,287
  - +9.9%
Telefónica offers shareholders a superior value proposition

- **Highest growth profile**, well ahead of peers
- **Best diversification**, by business and geographies
- **Clear potential to extract value** from scale and integrated management
- **A sound competitive position to face current challenges**

- ✓ **Reliability**, always delivering results
- ✓ Well preserved **financial discipline**
- ✓ Growing path on **shareholders’ returns**

A high growth & returns stock, that will double both **EPS and dividend by 2009**