

# Telefónica España: Benchmark results

 **8th Annual European & Emerging Markets Telecoms Conference**

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# Index

- **Benchmark set of results in 2007**
- Setting the basis to sustain our leadership and superior performance

# Telefonica España has maintained a strong momentum, both in Q4 and FY07

## Strong commercial push

- Leading the growth in the **mobile market**
- **Lowest fixed telephony lines loss** since 2001
- **Increasing market share in BB and Pay TV** businesses

**46.4 MM  
accesses  
(+5.0%)**

## Outstanding top line growth and profitability

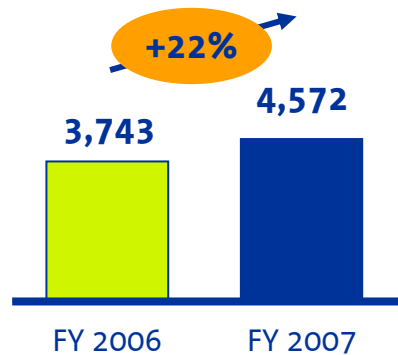
- **Robust top-line growth** driven by customer base expansion and ARPU
- **Increasing operational efficiency:** underlying OIBDA growth above top line growth
- **Strong cash generation** while transforming our network

**Sound Q4 07 performance**

# In the wireline business, we have strengthened our competitive position ...

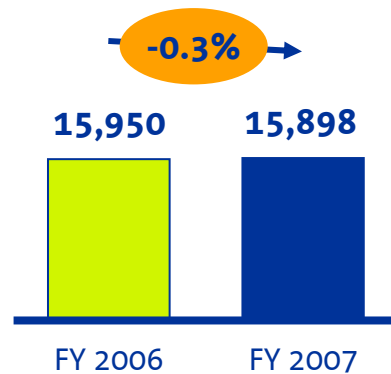
## Leading Broadband and Pay TV growth and containing line loss

### Retail Internet BB Accesses (in thousands)



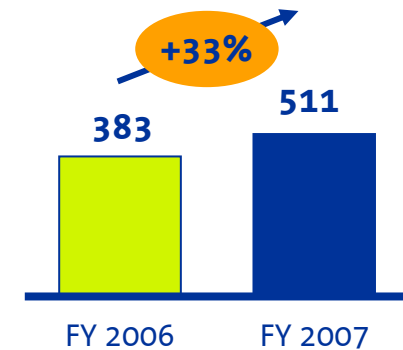
- Market share >56%E
- 2007: >0.8 million net adds
- Net adds Q4 07/Q3 07: x1.6

### Fixed Telephony Accesses (in thousands)



- Stable market share: **81%**
- Line losses in 2007 reduced by **72%** (vs. 2006)
- **Positive net adds** in Q4 07, boosted by free connection campaigns

### Pay TV subscribers (in thousands)

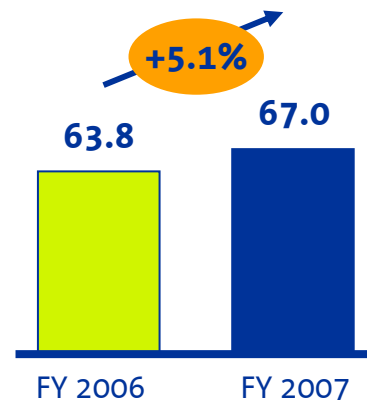


- Market share ≈**13%** (vs. 10% in Dec-06)
- Net adds Q4 07/Q3 07: **x2.3**

## ... while increasing value from customers

### Solid revenue growth in all business units

Total ARPU  
(€)

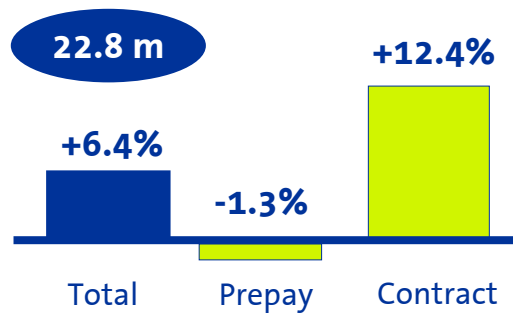


- **+2.0% PSTN** monthly fee increase in 2007 (+2.0% in 2008)
- **>80% of BB accesses with 2P/3P** (vs. >70% in Dec-06)
- **Sustained BB ARPU** at €45.3
- **Strong increase** in number of **Workstations** in SMEs and SoHo
- **>70% VPNs** already migrated from traditional to **advanced VPNs**
- **Positive results in IT areas** such as Data Centers and Digital Asset Management

# In the wireless business, strong focus on value customers ...

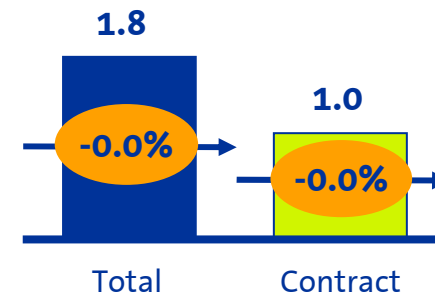
## Growth driven by contract segment, containing churn levels

**Customer**  
(y-o-y growth)



- **+12.0% contract gross adds** vs. 2006
- **238K portability net adds in contract in 2007**

**Churn 2007**  
(%)



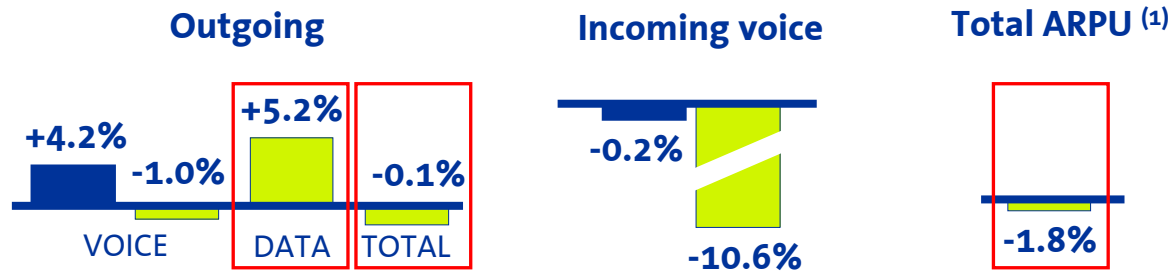
- **Best in class churn**
- Focus on **customer loyalty**
- Attractive **on-net tariffs**

# ... while sustaining outgoing ARPU

## Strong Data ARPU growth, fostering connectivity usage

FY 2007 / FY 2006  
(y-o-y growth rates)

■ ARPU Growth  
■ MoU Growth





- Cumulative 14.9% MTR cut in Apr-07 & Oct-07
- Strong increase in Data Revenues:
  - >70% increase in connectivity revenues
  - Pushing up 3G customer base



# Robust top line growth while improving efficiency: Wireline business

- Strong Internet & BB, and IT revenues growth
- Good behaviour of access and traditional voice services
- Robust profitability
- Personnel reorganization provision of €513m<sup>(4)</sup>



€ in Millions	2007	FY 2007/06
<b>Revenues</b>	<b>12,401</b>	<b>+3.7%</b> 
Access services	2,772	+0.1%
Traditional voice services	4,792	-1.6%
Internet and BB revenues	2,775	<b>+15.5%</b>
Data revenues	1,160	+7.8%
IT revenues	437	<b>+11.6%</b>
<b>OIBDA</b>	<b>5,249</b>	<b>+14.8%</b> <b>+15.8%</b> <sup>(1)</sup> 
<b>OIBDA margin</b>	<b>42.3%</b>	<b>+4.1 p.p.</b> <b>+1.3p.p.</b> <sup>(2)</sup>

**Underlying OIBDA growth: 5.1%**<sup>(3)</sup>

 y-o-y growth according to guidance criteria  
Meeting 2007 guidance

# Robust top line growth while improving efficiency: Wireless business



- Outstanding customer revenues growth
- Interconnection and roaming-in revenues affected by price cuts
- Solid margin expansion
- Personnel reorganization provision of €154m

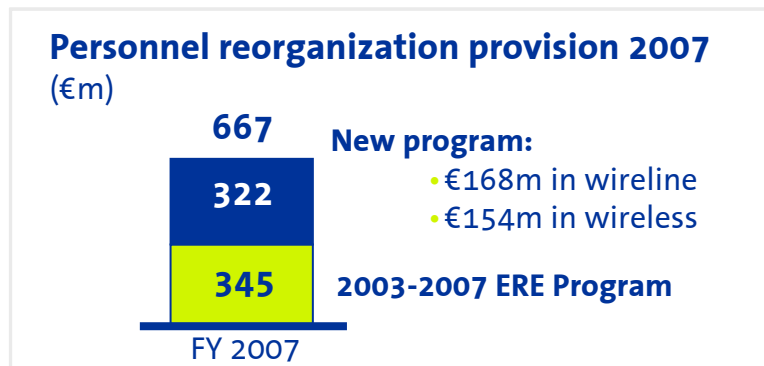
€ in Millions	2007	FY 2007/06
<b>Revenues</b>	<b>9,693</b>	<b>+5.4%</b>
<b>Handset revenues</b>	<b>1,184</b>	<b>+11.9%</b>
<b>Service revenues</b>	<b>8,509</b>	<b>+4.5%</b> 
Customer revenues	6,861	<b>+8.0%</b>
IntX and roaming-in	1,591	<b>-9.1%</b>
<b>OIBDA</b>	<b>4,241</b>	<b>+2.8%</b>  <b>+6.5%</b> <sup>(1)</sup>
<b>OIBDA margin</b>	<b>43.8%</b>	<b>-1.1 p.p.</b> <b>+0.5p.p.</b> <sup>(2)</sup>

 y-o-y growth according to guidance criteria  
 Meeting 2007 guidance

# Telefónica España: solid results & strong cash generation, meeting our guidance ...

€ in Millions	2007	FY 2007/06	2007 target	
Revenues	20,683	+4.7%	+3.5%/4.5%	<input checked="" type="checkbox"/>
OIBDA	9,448	+9.3% <b>+11.6%</b> <sup>(1)</sup>	+9%/+11%	<input checked="" type="checkbox"/>
CapEx	2,346	+2.3%	<2,400	<input checked="" type="checkbox"/>
Op. Cash Flow <sup>(2)</sup>	7,067	+11.4%		

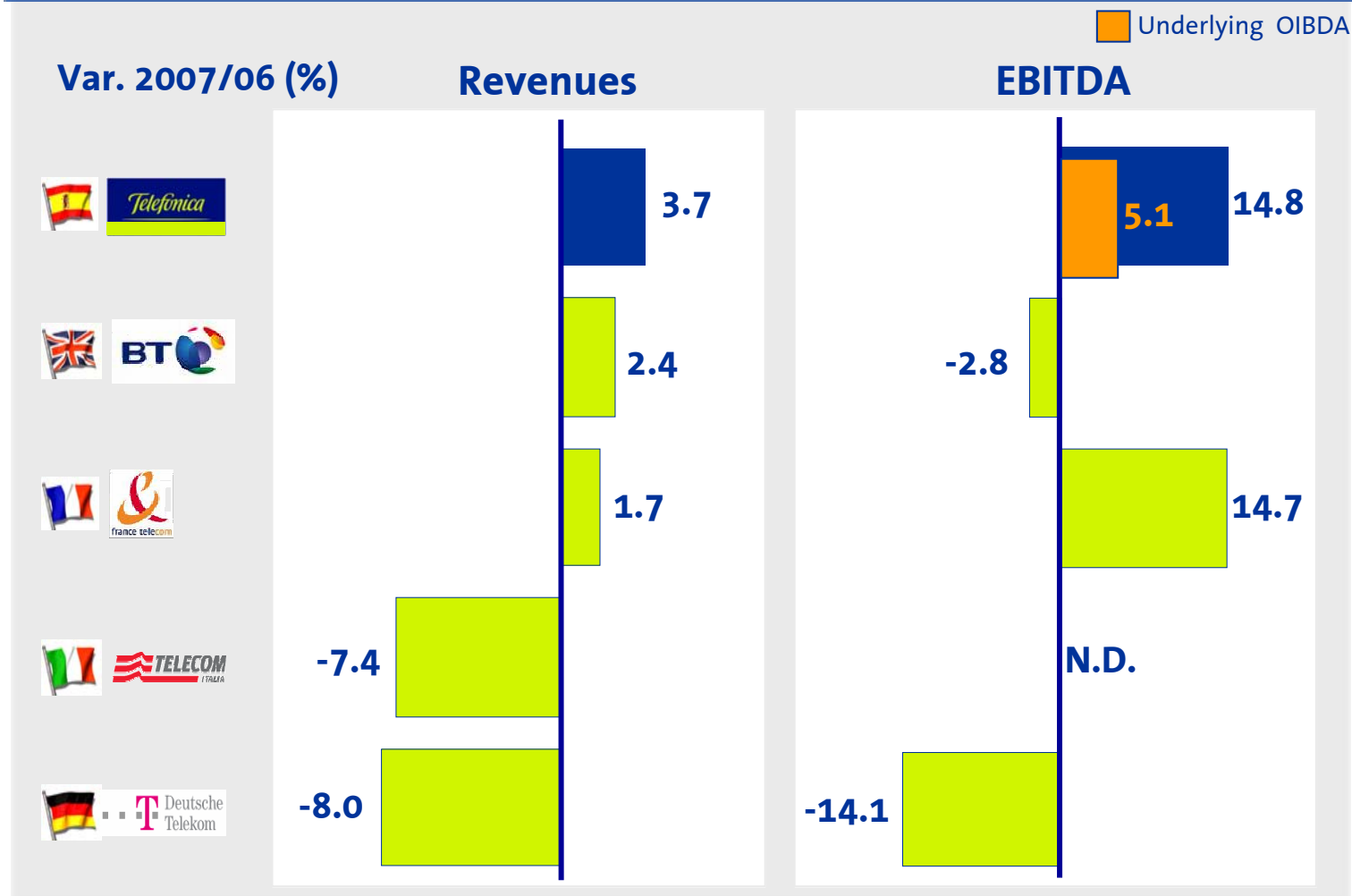
 y-o-y growth according to guidance criteria  
 Meeting 2007 guidance



**Underlying OIBDA growth: 5.6%**<sup>(3)</sup>

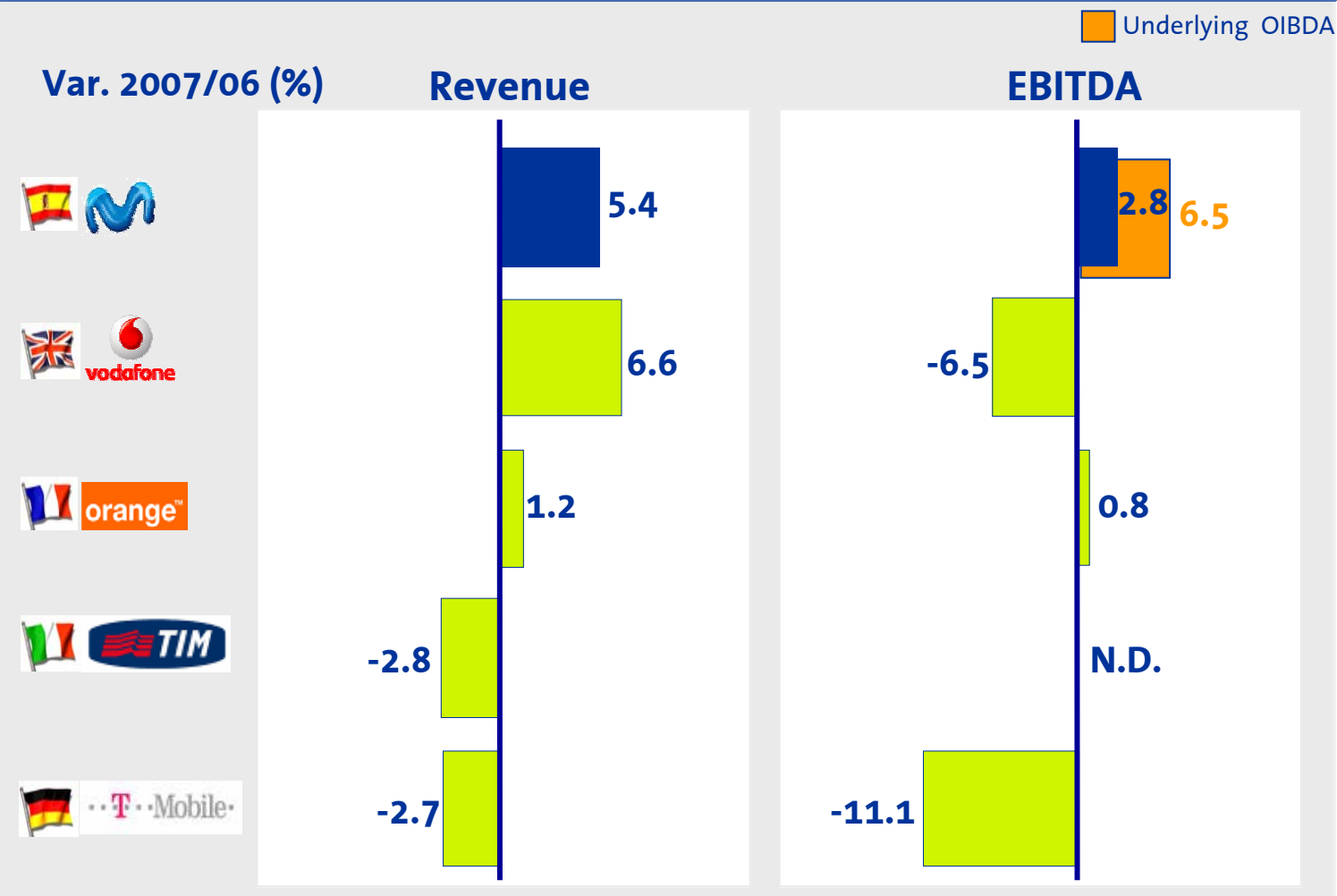
# ... and maintaining a differential growth profile

## Wireline Operations



# ... and maintaining a differential growth profile

## Wireless Operations



# Index

- Benchmark set of results in 2007

- **Setting the basis to sustain our leadership and superior performance**

# We are transforming our organization to better serve our customers ...

*Since 2006 and during 2007 ...*

 Integrated management



■ **Excellent results from business units**



■ **Capturing integration value:**

- Capturing, retaining and winning back clients
- Enhancing operational efficiency and increasing synergies

*... and early in 2008*



**“Joint customer vision”**

**“New customer approach”**

**“A new business to exploit jointly”**

**“Further benefit from integration”**

**“Further synergies”**

## ... exploiting our commercial strength ...

### Sales Force



- Integrated sales force in Corporate
- Joint objectives in SMEs and SoHo sales force

### Points of sale



- Indirect channel sells complete fixed and mobile offer

### Call centres



- Organizational and operative integration of call centres in Corporate Segment
- Signalling and transferring between fixed and mobile call centres

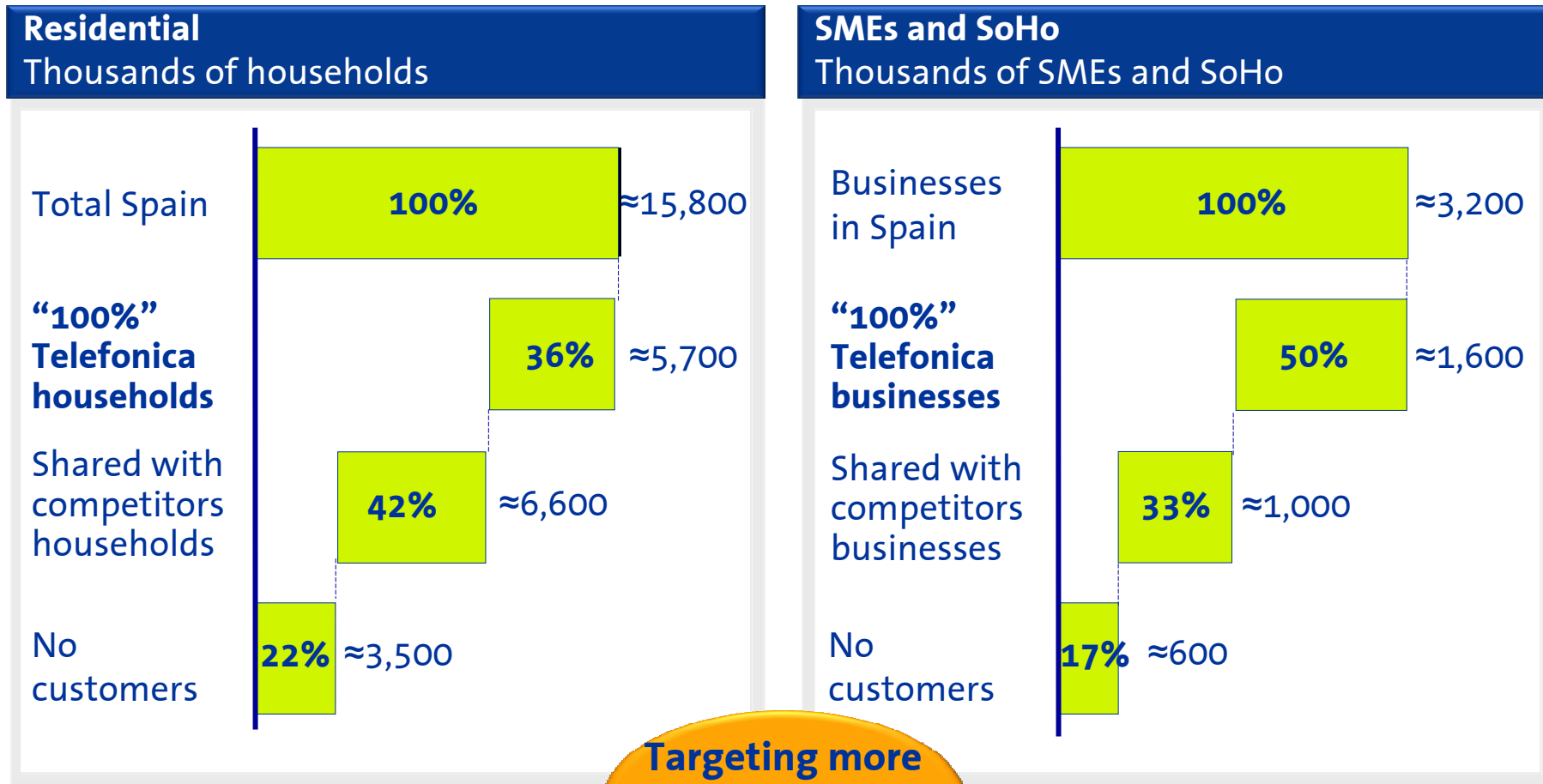
### On line channels



- Joint front end, redirection and bundle sales



# ... and maximizing our potential in “cross selling”



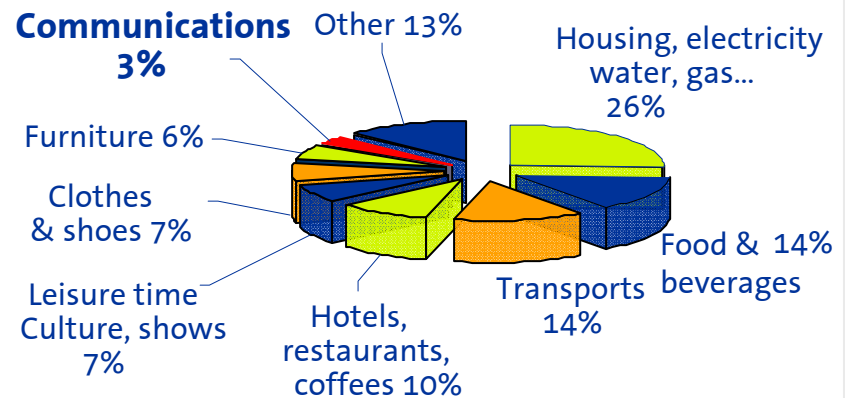
**Targeting more  
“100%” Telefonica  
customers**

# The Spanish market continues to grow

## Some hard data ...

- Although the Spanish economy is slowing down, it is **expected to continue outgrowing the EU**
- **Population will keep growing**
- **Telecom expenditure** in our market only represents **3% of the total family expenses**
- **The Telecom sector performance** is more dependent on the **evolution of households** than on new houses:
  - **number of households continues to grow**
  - **<40% of new fixed lines in 2007 were linked to new buildings**

**Family Budget Survey**  
(INE 2006)



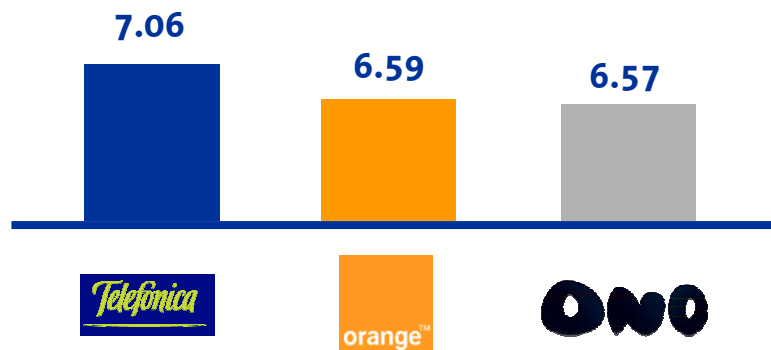
# There are opportunities to capture in 2008, and we have a very strong starting position

	Fixed business	Mobile business
<b>Spanish market</b>	<ul style="list-style-type: none"> <li>■ <b>Fixed BB penetration</b> is 35% of total households                             <ul style="list-style-type: none"> <li>■ BB penetration in households with fixed access is 52% as of Dec-07. 2010E target of 75%</li> </ul> </li> <li>■ <b>Pay TV penetration</b> among the lowest in W.European markets</li> <li>■ Strong potential growth in <b>VoD and PPV usage</b></li> <li>■ <b>HDTV</b> and other services ...</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Lower mobile penetration</b> than in main Western European markets.                             <ul style="list-style-type: none"> <li>■ 111% as of Dec-07. 2010E target of 135%</li> </ul> </li> <li>■ <b>Mobile BB penetration</b> of total households is below 3% as of Dec. 2007.</li> <li>■ <b>Outgoing voice MoU and Data ARPU</b> are low compared to other Western European markets</li> <li>■ Strong potential growth in <b>mobile e-mail, TV, music, content, m-commerce, advertising ...</b></li> </ul>
<b>Telefonica España Position</b>	<ul style="list-style-type: none"> <li>■ <b>≈60%</b> of our revenues are “<b>fixed</b>”</li> <li>■ <b>&gt;80%</b> of our <b>BB</b> customers have <b>bundles</b> (lower churn)</li> <li>■ <b>Workstations strategy</b>, increasing loyalty in BB</li> <li>■ <b>Long term</b> contracts with <b>corporate clients</b></li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Largest on-net community:</b> ≈23 million accesses</li> <li>■ <b>60%</b> of our customers are <b>contract customers</b></li> <li>■ <b>Benchmark</b> loyalty programs and <b>churn rate in the industry</b></li> <li>■ <b>Only 16%</b> of our customers have <b>3G devices:</b> strong potential growth</li> </ul>

# In Broadband, we sustain a quality premium...

## Internal Customer Satisfaction Index

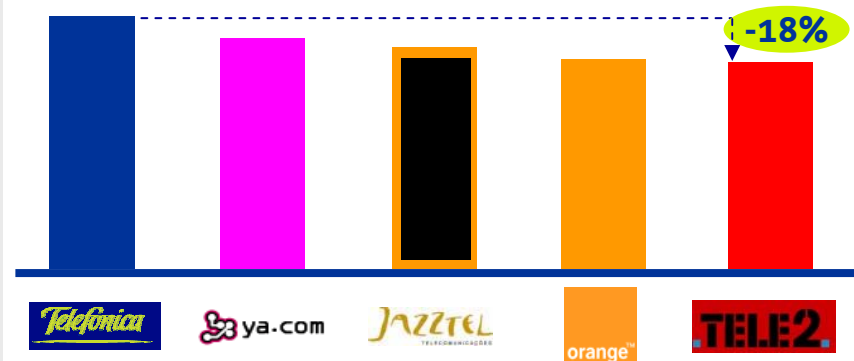
Telefonica customer satisfaction index  
Dec. 2007. Residential



**#1  
Price/Quality  
ratio in fixed  
telephony<sup>(2)</sup>**

## External study (by ADSLZone.net)

Real/Nominal download speed for 3Mb ADSL  
connections <sup>(1)</sup> (Telefónica base 100)

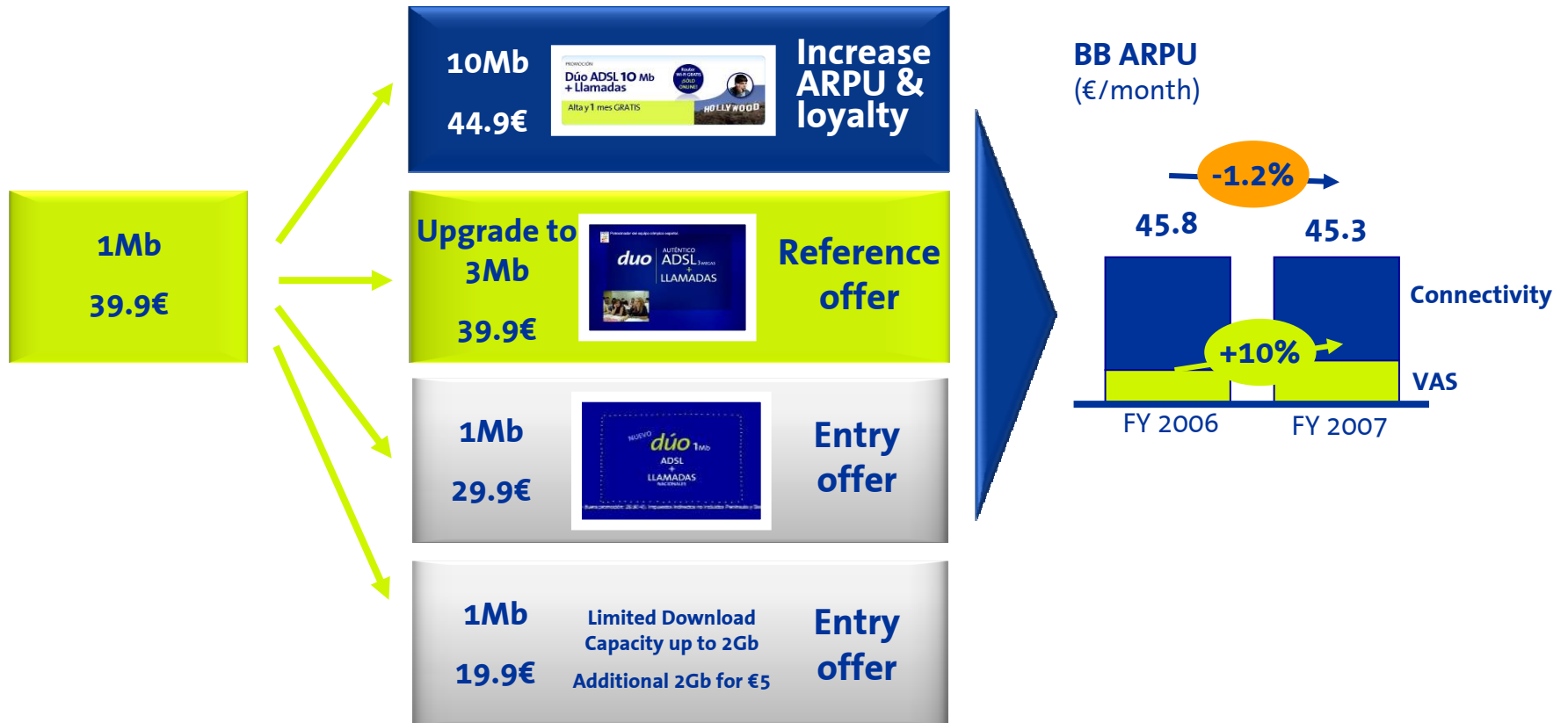


**“Preferred BB  
Provider”<sup>(1)</sup>**

# ... and a full range Broadband offer to tap all market segments

**RESIDENTIAL MARKET**  
Duo Prices (€/month)

2007



# We are further developing our local approach

Example: “Plan Valencia”

## “Valencia in blue”



### Objectives:

- Increase Market Share in BB and TV during next 3 years
- Identify key drivers in local strategy and actions to develop local approach plan

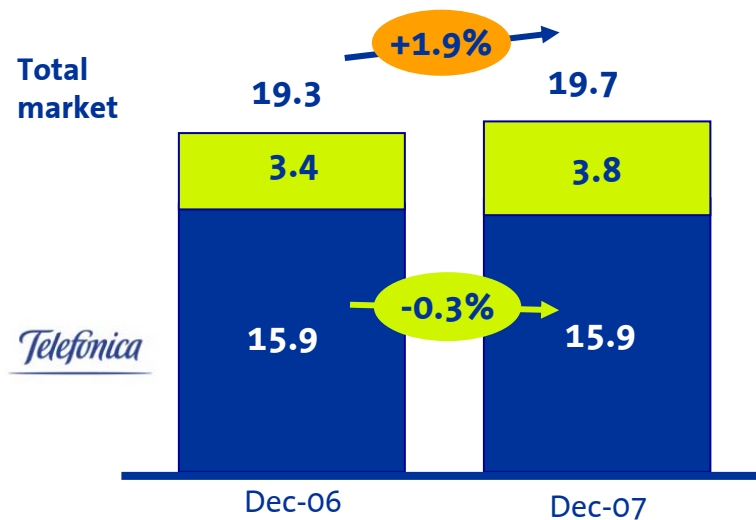
## Specific Commercial Actions in Valencia



# Our fixed lines evolution is a benchmark in Europe

## Lowest fixed telephony loss since 2001 ...

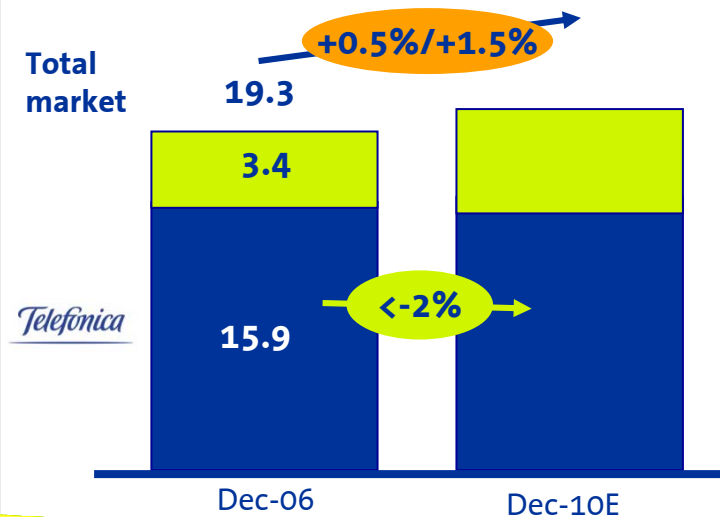
### Access trend Million users



## ... on track to meet our long term guidance

### Expected Access trend Million users

CAGR 06-10E



Increased competition in the market with the unbundled access regulation

# We are pushing “Respuesta Empresarios” strategy in SMEs ...

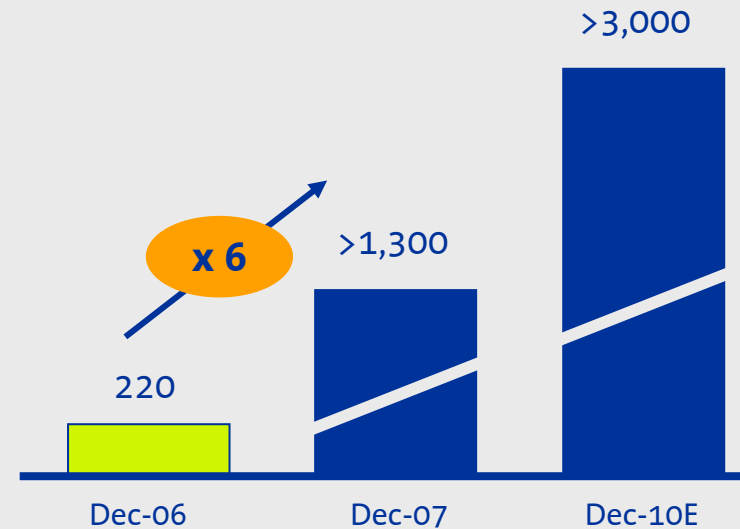
A complete value proposition ...



*'All your ITC needs under a monthly fee: advice, sale, installation, maintenance, management and renewal'*

... obtaining very good results

Number of Workstations  
(in thousands)



Lower churn in Customers with Workstations

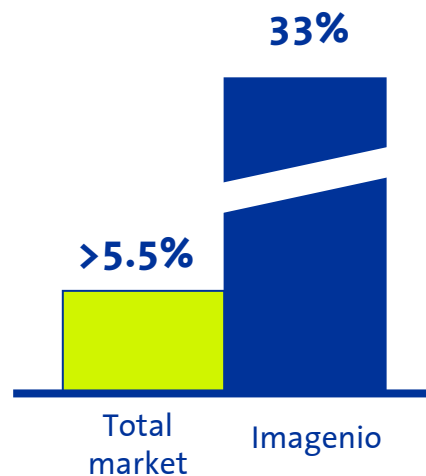


# ... and we are driving the Pay TV market growth

## Increasing market share ...

### Pay TV Market growth 2007

(Dec-07/Dec-06)



**"Most Competitive Pay TV offer"<sup>(1)</sup>**

**"Most advanced personal TV"<sup>(1)</sup>**

## ... and developing our offer

### Enhanced features in Q4 07 and Q1 08

**PAST TV**



- Access to content of 4 TV channels **broadcasted last week**

**SHIFT TV**

- Capability to **pause live TV channels**



**PVR**

- Rewind TV**
- Instant recorder**
- Personal recorder**

**Enriched content**



- From 120 to 160 channels**
- New thematic packages**
- Prescreening of series ...**

# In the mobile business, a tougher competitive environment has arisen in 2007 ...

From 3 players in 2006...

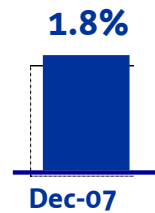


... to over 15 players in early 2008

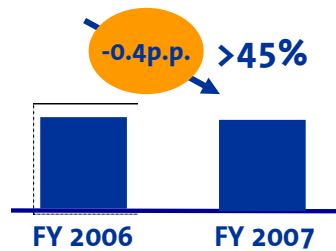


... we were prepared, and had a limited impact

New entrants market share

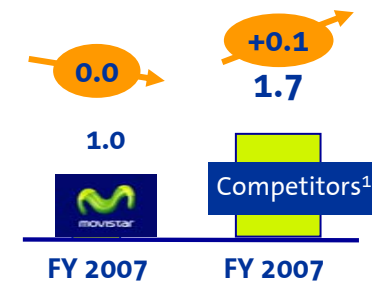


TEF Market Share



Revenue share > market share




Contract churn



# ... with new players claiming to be offering aggressive tariff schemes...

<p>National Calls</p> <p><b>12</b></p> <p>€cent/min.</p>	<p>Voice &amp; SMS</p> <p><b>8</b> €cent</p> <p>Con recarga MAS FACIL</p>	<p><b>9 cent.</b></p> <p>MINUTO SMS</p> <p>A todas horas A todos los operadores A todos los fijos de España Sin consumo mínimo Sin compromiso de permanencia Para prepago y contrato</p>
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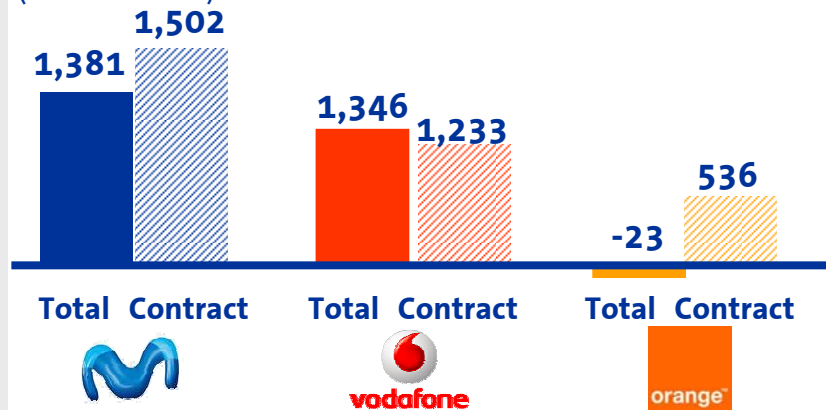
## ... that we were already offering to our clients

<p>NUEVA TARIFA MOVISTAR</p> <p>Habla más barato con 22 millones de personas</p>  <p><b>3</b> cent./ min.</p>	<p><b>3</b> €cents/min.</p> <p><b>ON NET TRAFFIC + ON NET TRAFFIC PROMOTIONS</b></p>	 <p><b>100x1</b></p> <p>GRATIS hasta viernes.</p> <p>VEN A MOVISTAR O PÁSALE A CONTRATO</p> <p><b>0€</b></p>
<p><b>LEVERAGING THE COMMUNITY EFFECT</b></p>		
<ul style="list-style-type: none"> <li>■ <b>Biggest on-net community &gt;45% M. share</b></li> <li>■ <b>Customers with on-net modules have lower churn</b></li> </ul>		
		 <p><b>QUE IDEA!</b></p> <p>Habla gratis con 22 millones de personas sin establecimiento de llamada.</p> <p><b>HABLA GRATIS</b></p> <p><b>4545</b></p>

# Our focus on value customers drives revenue growth...

## #1 Net adds in 2007

2007 Net adds  
(in thousands)



## Increasing the contract customer base weight

Contract over total customer base  
(%)



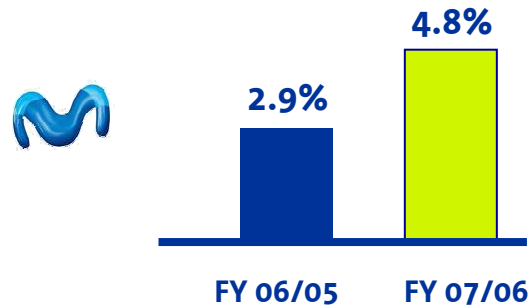
- **European benchmark contract churn at 1.0%**

Slightly reduced in 2007 (-0.03p.p.)

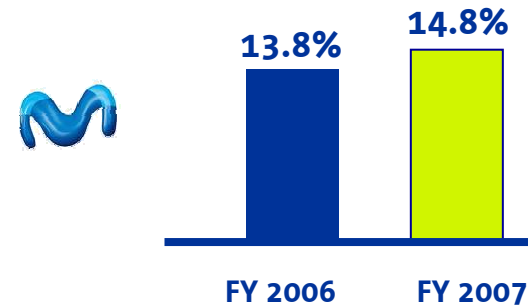
- **Higher market share in contract clients than global market share: >47% m. share in contract vs. >45% global market share**

# ...to be complemented by capturing the Data opportunity

## Data ARPU Growth

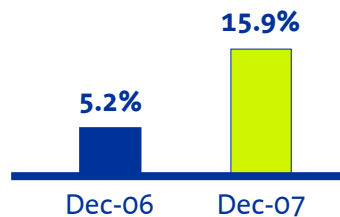


## Data weight in total ARPU



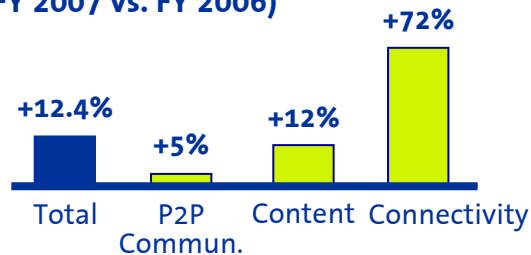
## ... Data ARPU sustained on...

### 3G over Customer Base ex-M2M



- ~3.5M 3G devices at Dec-07
- Leading the push in Q4 07: +687K devices

### Data revenues growth (FY 2007 vs. FY 2006)



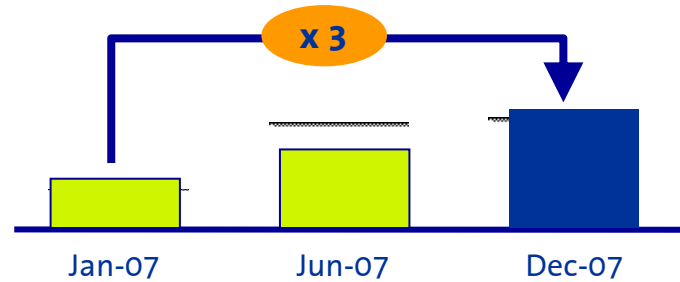
- ~500K flat & daily rates

### Data revenues split

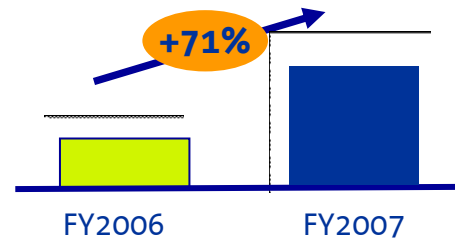
	2006	2007
P2P Communications	58%	54%
P2P SMS	56%	52%
Content	33%	32%
Connectivity	9%	14%

# Our Mobile Indirect Channel is selling our complete fixed & mobile offer with positive results

Number of PoS selling F&M offer



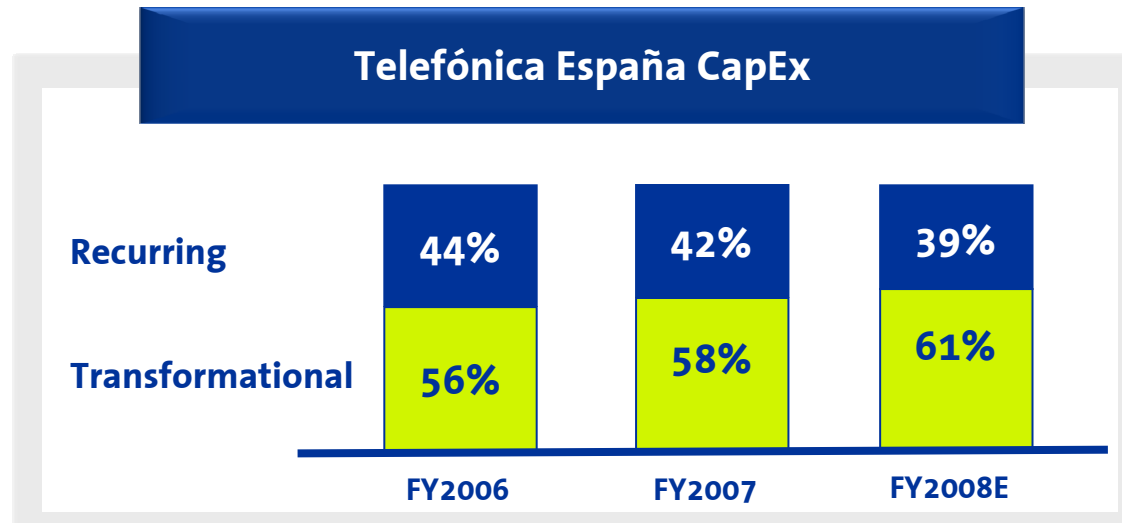
ADSL & Imagenio sales through Indirect PoS



Flag Ship Stores



# We are transforming our networks ...



## In Wireless ...



- UMTS network densification & HSDPA expansion
- Advance in network and sites sharing

**5 year contract with Yoigo including both 2G&3G networks**

## ... and in Wireline

- Access network transformation:
  - ADSL     10-25Mbps
  - VDSL2    25-50Mbps
  - FTTH     >50Mbps

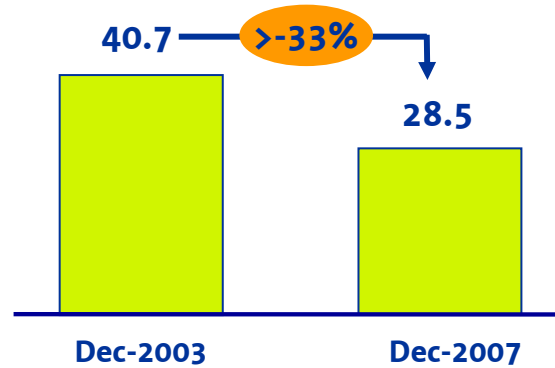
**Next launch of NGN services notified to CMT**



# ... and continue to be a reference in efficiency

Redundancy plan (ERE) 2003-2007 ended

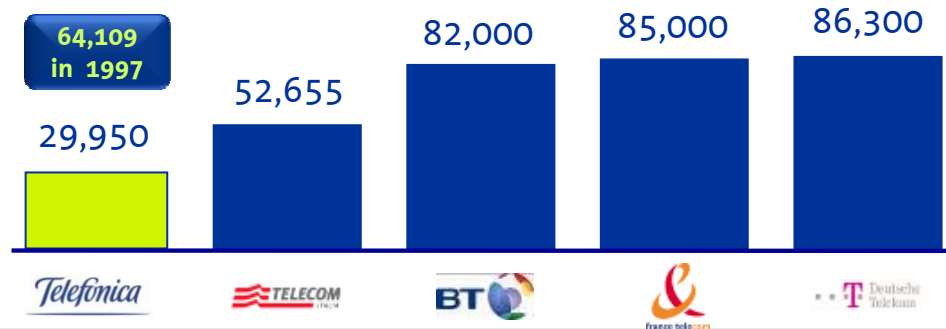
Wireline business – TdE workforce evolution (thousands)



Total ERE Redundancies: 13,870

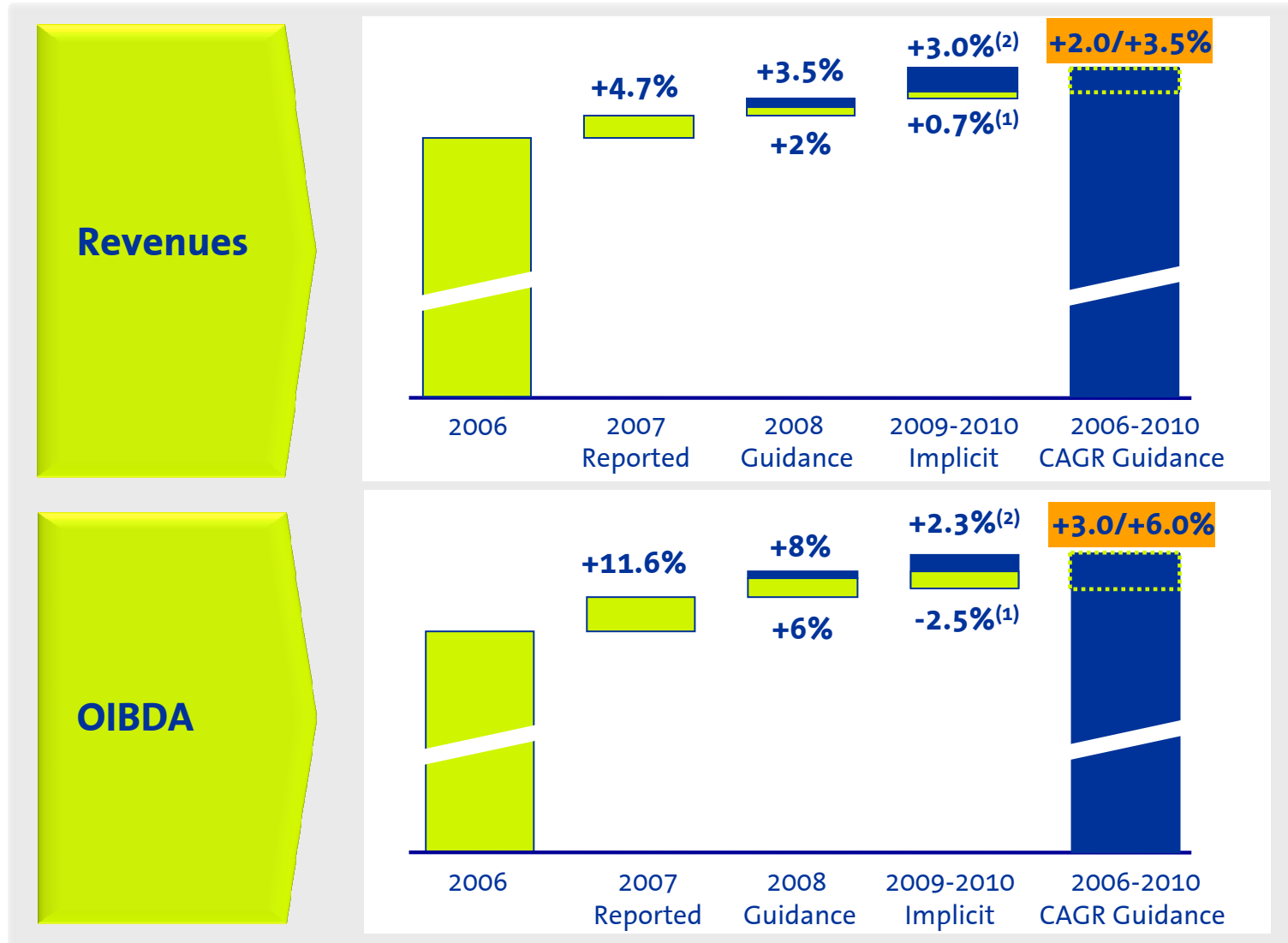
Clearly ahead of the pack

Employees (wireline) Dec-07<sup>(1)</sup>



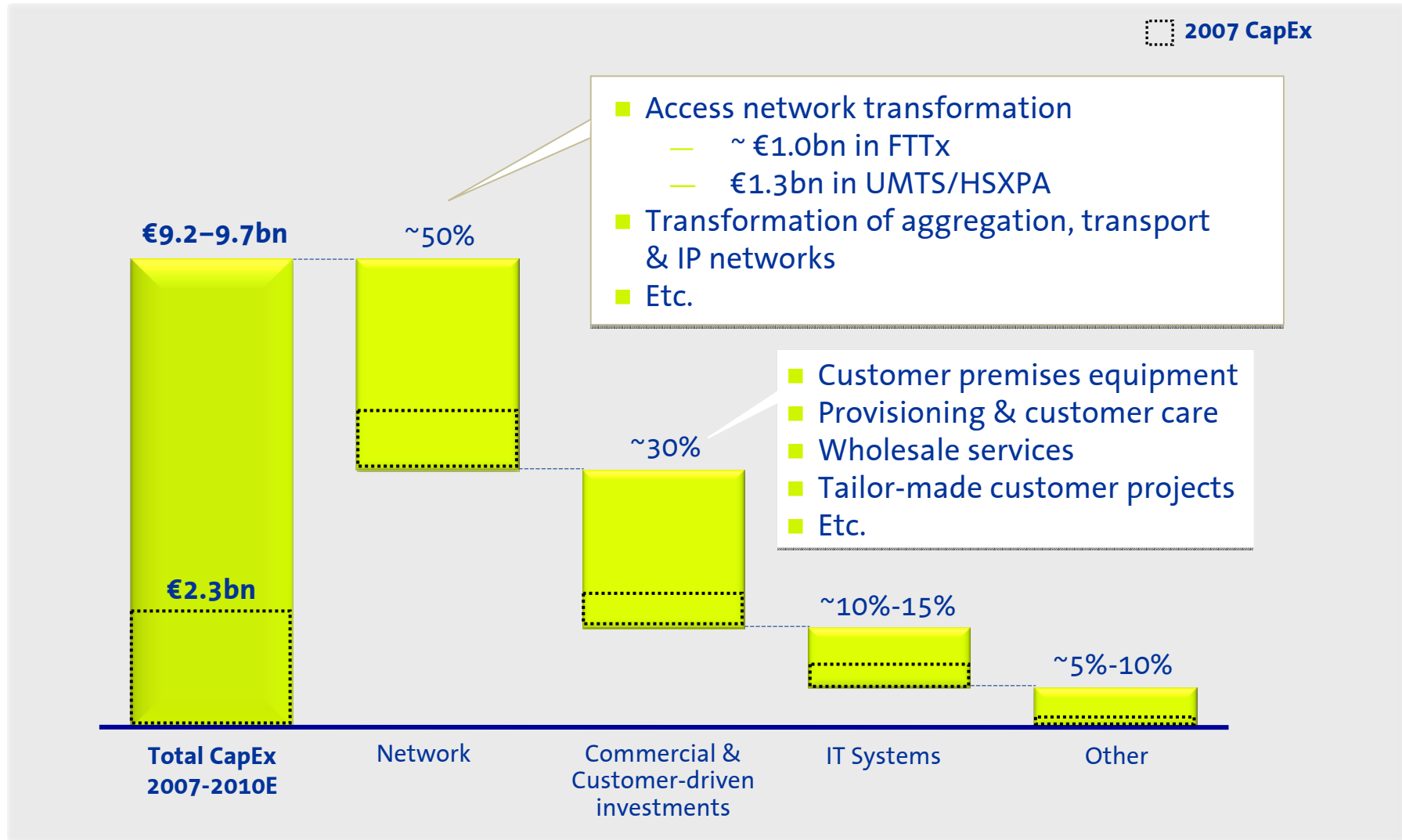


# On track to meet 2010 targets



(1) Calculated applying low end of 2008 & low end of 2006-2010 CAGR guidance  
(2) Calculated applying high end of 2008 & high end of 2006-2010 CAGR guidance

# On track to meet 2010 targets



# Conclusions

- **Solid results in 2007**, exceeding 2007 guidance
- Transforming our company **to extract more value from integration**
- **Best starting position** to keep a benchmark profile and a superior performance
- **On track to** continue growing in 2008 and to **meet long term guidance**

*Telefonica*

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