TELEFÓNICA: Solid fundamentals and high returns
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1. Q1 08 results confirm our solid performance

2. Our guidance reassures our differentiated growth profile

3. Excess FCF allocated to our 1st priority: shareholder remuneration

4. Other non fundamental hints
In Q1 08 we recorded a solid performance across the board...

| € in millions | Jan-Mar 2008 | Change Q1 08/Q1 07 | % Change ex-forex | % Change organic  

| Revenues | 13,896 | +1.1% | +3.4% | +7.0% |
| Operating Income before D&A (OIBDA) | 5,376 | +5.3% | +6.6% | +8.2% |
| OIBDA Margin | 38.7% | +1.5p.p. |  | +0.4p.p. |
| Operating Income (O1) | 3,099 | +14.4% | +15.6% | +17.2% |
| Net income | 1,538 | +22.4% |  | +11.9% |
| OpCF (OIBDA-CapEx) | 4,057 | +9.1% | +10.3% |  |

Negative impacts from changes in consolidation and FX

Q1 08 EPS grew 25.8% y-o-y to €0.328

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(1) Constant exchange rate as of Q1 07.
(2) Assuming constant exchange rates as of Q1 07 and including the consolidation of TVA in January-March 2007 and the impact in T. España revenues for new public voice telephony services business model (€ -31.7 m). It excludes the consolidation of Airwave and Endemol in January-March 2007.
... delivering once again a superior performance

Source: company press releases.
BT: Reported figures for January-March 08 vs. 07; EBITDA before specific items and leaver costs.
DT: EBITDA growth adjusted for special factors. Revenue growth in nominal terms.
KPN: Q1 08 vs Q1 07 excluding Getronics in Q1 08.
FT: Q1 08 vs Q1 07 growth on comparable basis (adjusted for forex, perimeter & other impacts.
TI: Q1 08 vs Q1 07 organic revenue and EBITDA growth.
We are capitalizing our scale and diversification

Strong customer expansion across markets & businesses

Accesses (Mar-08/Mar-07) millions

<table>
<thead>
<tr>
<th></th>
<th>T. España</th>
<th>T. Europe</th>
<th>T. Latam</th>
<th>Total</th>
<th>Mobile</th>
<th>BB</th>
<th>Pay TV</th>
<th>Fixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 08</td>
<td>+4.5%</td>
<td>+8.8%</td>
<td>+17.7%</td>
<td>+12.9%</td>
<td>+16.3%</td>
<td>+26.8%</td>
<td>1.9</td>
<td>+0.2%</td>
</tr>
<tr>
<td>Q1 07</td>
<td>46.8</td>
<td>42.8</td>
<td>137.7</td>
<td>233.5</td>
<td>171.7</td>
<td>10.9</td>
<td>43.5</td>
<td>0</td>
</tr>
</tbody>
</table>

Revenue and OIBDA diversification

Q1 08 Revenue breakdown

T. España: 37% (€5,158 m)
T. Europe: 25% (€3,472 m)
T. Latam: 37% (€5,131 m)
Others & eliminations: 1%

Q1 08 OIBDA breakdown

T. España: 48% (€2,597 m)
T. Latam: 35% (€1,877 m)
T. Europe: 17% (€912 m)
Our superior performance is driven by the strong growth in Latam and the high CF generation in Europe

**CONTRIBUTION TO ORGANIC GROWTH BY REGIONS**

<table>
<thead>
<tr>
<th>Q1 08 Revenue ¹</th>
<th>T. España</th>
<th>T. Europe</th>
<th>T. Latam</th>
<th>TEF Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic growth rate</td>
<td>+0.6 p.p.</td>
<td>+1.7 p.p.</td>
<td>+4.4 p.p.</td>
<td>+7.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q1 08 OIBDA²</th>
<th>T. España</th>
<th>T. Europe</th>
<th>T. Latam</th>
<th>TEF Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic growth rate</td>
<td>+3.1 p.p.</td>
<td>+0.9 p.p.</td>
<td>+4.0 p.p.</td>
<td>+8.2%</td>
</tr>
</tbody>
</table>

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**Q1 08 OpCF (OIBDA-CapEx)**

(€ in millions)

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>T. Latam</th>
<th>Others &amp; Eliminations (³)</th>
<th>Total (³)</th>
</tr>
</thead>
<tbody>
<tr>
<td>T. España</td>
<td>2,134</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T. Europe</td>
<td>530</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,664</td>
<td></td>
<td>1,419</td>
<td>4,057</td>
</tr>
<tr>
<td>Organic growth rate</td>
<td></td>
<td></td>
<td></td>
<td>+11.9%</td>
</tr>
</tbody>
</table>

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³ Airwave is not consolidated since the second quarter of 2007.

(4) Assuming constant exchange rates as of Q1 07 and including the consolidation of TVA in January-March 2007 and the impact in T. España revenues for new public voice telephony services business model (€ -31.7 m). It excludes the consolidation of Airwave and Endemol in January-March 2007.
Telefónica España maintained a solid performance in Q1 08...

- **Sustained 2.0% wireline revenue growth (like for like):**
  - +9.8% growth in Internet & BB revenues
  - Healthy trends in access and traditional voice services
- **2% y-o-y growth in mobile service revenue:**
  - +3.4% advance in customer revenue driven by robust wireless data growth (+16.7%)
  - Lower interconnection revenues partially offset by good growth in roaming-in revenues
- **Continuous focus on efficiency gains sustains outstanding profitability:**
  - Reaping the benefits of workforce reorganization measures
  - +0.9 p.p like for like advance in wireline OIBDA margin to 47.9%
  - Flattish margins in wireless vs. Q1 07, exceeding 43%
... leading the wireline Broadband and Pay-TV growth...

**FIXED TELEPHONY**
- Spanish market keeps growing at **1.9%** rate
- TEF loses 76.7K lines in Q1 08 on accelerated uptake of naked shared loops

**INTERNET BROADBAND**
- Sustaining leadership market share around **57%**

**PAY TV**
- Increasing market share to above **13%**

**Superior customer satisfaction and service quality**

**Traditional lines evolution in domestic market**
(Mar-08; y-o-y change)
- TEF (Spain) -0.6%
- BT (UK) -5.7%
- TI (Italy) -6.5%
- DT (Germany) -6.5%
- FT (France) -7.7%
- KPN (Holland) -19.1%

**Residential market: Q1 08 Duo Prices (€/month)**
- 1Mb **39.9€**
- Upgrade to 3Mb **39.9€**
- Limited Download Capacity up to 2Gb Additional 2Gb for **€5**

**Best BB offering...**

\(=\) Superior customer satisfaction and service quality
... and shaping the market in wireless

- Sound leadership despite new entrants, leveraging market leading churn rate:
  - 23.0 m accesses in a 112% penetration market
  - TEF market share at March-08 44.9 % (-0.3 p.p. y-o-y)
  - MVNOs + Yoigo E market share ≈2%
  - Stable churn at 1.8%; reductions in contract to 1.1%

- ARPU & MoU performance in line with Q4 07:
  - 30.5€ ARPU in Q1 08 (-3.7% y-o-y vs. -3.6% in Q4 07)
  - Incoming ARPU impacted by MTR cuts
  - Lower outgoing MoU

- Continued strong growth in data services
  - 4.2m 3G devices by Mar-08 (2.8x vs. Mar-07)
  - ~550k flat & daily rates
  - Strong push in content SMS
Telefónica Latinoamérica recorded robust Q1 08 results...

- **Accelerated customer expansion led by mobile businesses & fixed-line transformation:**
  - 137.7 m accesses, 17.7% up y-o-y
  - Robust mobile net adds
  - Fostering bundles to capture the BB & Pay TV potential

- **Leveraging a sound macroeconomic scenario:**
  - Brazil & Peru upgraded to Investment Grade

- **Solid top-line performance:**
  - Wireline broadband & mobile drive the growth

- **OIBDA growth driven by mobile services:**
  - Healthy margin (36.4%) despite a strong commercial push

- **Positive OpCF generation in all markets, Mexico included**
  - 65% of our revenues and 62% of our OIBDA from Investment Grade economies

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**Mar-08 Accesses**

<table>
<thead>
<tr>
<th>Mar-08 Accesses</th>
<th>in millions</th>
<th>y-o-y change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>103.7</td>
<td>+23.0%</td>
</tr>
<tr>
<td>Fixed</td>
<td>25.6</td>
<td>+1.9%</td>
</tr>
<tr>
<td>BB</td>
<td>5.2</td>
<td>+29.5%</td>
</tr>
<tr>
<td>PayTV</td>
<td>1.2</td>
<td>+77.2%</td>
</tr>
</tbody>
</table>

**Revenue growth**

<table>
<thead>
<tr>
<th>Revenue growth</th>
<th>(Q1 08 y-o-y change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>€ terms</td>
<td>+10.1%</td>
</tr>
<tr>
<td>Organic Ven.</td>
<td>+12.6%</td>
</tr>
<tr>
<td>Mex. Brazil</td>
<td>2.8p.p</td>
</tr>
<tr>
<td>Arg. Others²</td>
<td>2.6p.p</td>
</tr>
<tr>
<td>Arg. Others²</td>
<td>2.3p.p</td>
</tr>
<tr>
<td>Arg. Others²</td>
<td>1.9p.p</td>
</tr>
<tr>
<td>Arg. Others²</td>
<td>2.9p.p</td>
</tr>
</tbody>
</table>

**OIBDA growth**

<table>
<thead>
<tr>
<th>OIBDA growth</th>
<th>(Q1 08 y-o-y change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>€ terms</td>
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<tr>
<td>Organic Ven.</td>
<td>+11.8%</td>
</tr>
<tr>
<td>Mex. Brazil</td>
<td>4.1p.p</td>
</tr>
<tr>
<td>Col. Others³</td>
<td>3.5p.p</td>
</tr>
<tr>
<td>Col. Others³</td>
<td>1.3p.p</td>
</tr>
<tr>
<td>Col. Others³</td>
<td>0.8p.p</td>
</tr>
<tr>
<td>Col. Others³</td>
<td>2.1p.p</td>
</tr>
</tbody>
</table>

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1. Includes Terra Latam
2. Includes Central América, Colombia, Perú, Ecuador, Chile, Uruguay and Others
3. Includes Central América, Perú, Ecuador, Brazil, Argentina, Uruguay and Others
... capturing the growth opportunities of the region

**WIRELESS: FAST CUSTOMER GROWTH AND SOUND OUTGOING ARPU**

- **Strong increase in mobile penetration** surpassing the 71% mark (+12 p.p. vs. Mar-07)
- **Double digit customer growth in most markets and stable churn**: 69% of total customer base in GSM (+25.7 p.p. y-o-y)
- **Healthy ARPU performance** despite lower MTR: Flat blended ARPU, growing outgoing ARPU, increased traction of mobile data services (+39.9% vs. Q1 07)

**Wireless Customers (in millions)**

<table>
<thead>
<tr>
<th></th>
<th>Mar-07</th>
<th>Mar-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>84.3</td>
<td>103.7</td>
<td></td>
</tr>
</tbody>
</table>

**WIRELINE: FURTHER ADVANCE ON BUSINESS TRANSFORMATION**

**Bundles weight**

<table>
<thead>
<tr>
<th>Bundles weight</th>
<th>Local &amp; Control bundles+2P&amp;3P/Fixed Accesses</th>
<th>Local bundles+2P&amp;3P/Fixed Accesses</th>
<th>2P&amp;3P/DSL Accesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-07</td>
<td>43%</td>
<td>22%</td>
<td>35%</td>
</tr>
<tr>
<td>Mar-08</td>
<td>26%</td>
<td>35%</td>
<td>37%</td>
</tr>
</tbody>
</table>

**Retail Internet BB connections** (in thousands)

<table>
<thead>
<tr>
<th>Mar-07</th>
<th>Mar-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,046</td>
<td>5,237</td>
</tr>
</tbody>
</table>

**Pay TV clients** (in thousands)

<table>
<thead>
<tr>
<th>Mar-07</th>
<th>Mar-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>700</td>
<td>1,240</td>
</tr>
</tbody>
</table>

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**Including Terra Latam.**
In Brazil & Mexico our wireless operations combined solid top line with enhanced profitability

### VIVO

**Q1 08 y-o-y growth**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Q1 08 y-o-y growth (in local currency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Adds</td>
<td>+83% in GSM +56%</td>
</tr>
<tr>
<td>Churn</td>
<td>0.0 p.p.</td>
</tr>
<tr>
<td>Customers</td>
<td>+18%</td>
</tr>
<tr>
<td>Outgoing ARPU</td>
<td>+3%</td>
</tr>
<tr>
<td>Outgoing service revenues</td>
<td>+20%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>+16% 29.5% Margin</td>
</tr>
</tbody>
</table>

### T. MÉXICO

**Q1 08 y-o-y growth**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Q1 08 y-o-y growth (in local currency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Adds</td>
<td>+9%</td>
</tr>
<tr>
<td>Churn</td>
<td>-0.3 p.p.</td>
</tr>
<tr>
<td>Customers</td>
<td>+42% Close to 19% ms</td>
</tr>
<tr>
<td>Outgoing ARPU</td>
<td>+13%</td>
</tr>
<tr>
<td>Outgoing service revenues</td>
<td>+64%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>OpCF € 57 m 19.0% Margin &gt; 3x</td>
</tr>
</tbody>
</table>
Telefónica Europe increased commercial activity to foster revenue growth...

- **Good customer growth to 42.8 m (+8.8% y-o-y)**
  - Focus on quality growth: 89% of 564k mobile net adds in contract (2x Q1 07)
  - 130k retail BB net adds (2.4x Q1 07) to reach > 800k customers (+58.4% y-o-y)
  - “Simplicity” and value tariffs increasingly attractive

- **Maintaining momentum, managing growth/margin balance in the UK**

- **First signs of turnaround in Germany**

- **Managing fixed line loss and robust growth in mobile in the Czech Republic:**
  - Margin dilution mainly due to Slovakian operations

- **Strong contract performance while regaining momentum with prepay customer growth in Ireland**

---

**Revenue growth (Q1 08 y-o-y change)**

- **Ex- forex & Airwave**
  - T. EUROPE: -1.7%
  - UK: +1.5%
  - GER: +12.6%

- **Ex- forex**
  - T. EUROPE: +0.3%
  - UK: +13.1%
  - GER: +1.5%

**OIBDA growth (Q1 08 y-o-y change)**

- **Ex- forex & Airwave**
  - T. EUROPE: -2.3%
  - UK: +0.2%
  - GER: +5.3%

- **Ex- forex**
  - T. EUROPE: +1.5%
  - UK: +0.9%
  - GER: +13.1%

**OIBDA margin (Q1 08)**

- **y-o-y change**
  - T. EUROPE: -0.2 p.p.
  - UK: +0.1 p.p.
  - GER: -0.1 p.p.

**Revenue growth (Q1 08 y-o-y change)**

- **Ex- forex & Airwave**
  - T. EUROPE: +1.5%
  - UK: +0.3%
  - GER: +12.6%

- **Ex- forex**
  - T. EUROPE: +13.1%
  - UK: +5.3%
  - GER: +1.5%

**OIBDA growth (Q1 08 y-o-y change)**

- **Ex- forex & Airwave**
  - T. EUROPE: +0.9%
  - UK: +0.2%
  - GER: +5.3%

- **Ex- forex**
  - T. EUROPE: +13.1%
  - UK: +5.3%
  - GER: +1.5%

**OIBDA margin (Q1 08)**

- **y-o-y change**
  - T. EUROPE: +0.1 p.p.
  - UK: -0.1 p.p.
  - GER: +19.0%
... maintaining momentum while positioned to exploit opportunities as an integrated operator

**UK: continued momentum**

- **18.4m mobile customers (+3.7% y-o-y)**
- **38.1% in contract**

<table>
<thead>
<tr>
<th>Contract net adds (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 07</td>
</tr>
<tr>
<td>80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ARPU (y-o-y change in local currency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 07</td>
</tr>
<tr>
<td>-1.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mobile Service Revenue (y-o-y change in local currency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 07</td>
</tr>
<tr>
<td>€1,621 m</td>
</tr>
</tbody>
</table>

**Germany: green shoots**

- **13.0m mobile customers (+16.3% y-o-y)**
- **50% in contract**

<table>
<thead>
<tr>
<th>Q1 mobile net adds (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract</td>
</tr>
<tr>
<td>206</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ULL lines (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 ADSL</td>
</tr>
<tr>
<td>125</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue growth &amp; OIBDA margin (y-o-y change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007*</td>
</tr>
<tr>
<td>-1.9%</td>
</tr>
</tbody>
</table>

- **13.3% OIBDA margin**

* Comparable y-o-y reported figures
Index

1. 2007 results confirm our solid performance
2. Our guidance reassures our differentiated growth profile
3. Excess FCF allocated to our 1st priority: shareholder remuneration
4. Other non fundamental hints
Solid 2008 guidance, in line with our long term targets...

**Group Revenues**

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2007 adjusted for guidance</th>
<th>2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>56,441</td>
<td>55,550</td>
<td></td>
</tr>
</tbody>
</table>

+6.0%/+8.0%

**Group OIBDA**

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2007 adjusted for guidance</th>
<th>2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIBDA</td>
<td>22,825</td>
<td>20,863</td>
<td></td>
</tr>
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</table>

+7.5%/+11%

**Group OI**

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2007 adjusted for guidance</th>
<th>2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td>OI</td>
<td>13,388</td>
<td>11,467</td>
<td></td>
</tr>
</tbody>
</table>

+13%/+19%

**Group CapEx**

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2007 adjusted for guidance</th>
<th>2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td>CapEx</td>
<td>8,027</td>
<td>7,975</td>
<td>≈8,600</td>
</tr>
</tbody>
</table>

Guidance growths assume 2007 constant FX. In terms of guidance calculation OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007 and 2008.
... fully on track to meet 2010 targets ...

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>9.8%</td>
<td>6.0% / 8.0%</td>
<td>2.2% / 7.1%</td>
<td>5% / 8%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>12.8%</td>
<td>7.5% / 11%</td>
<td>4.0% / 10.1%</td>
<td>7.0% / 11.0%</td>
</tr>
<tr>
<td>OI</td>
<td>27.6%</td>
<td>13% / 19%</td>
<td>12.1% / 16.9%</td>
<td>16.0% / 20.0%</td>
</tr>
<tr>
<td>Capex</td>
<td>€ 8,087 m</td>
<td>±€ 8,600</td>
<td>±€ 8,000 m/year</td>
<td>Cum. 07-10E &lt;€ 33,000 m</td>
</tr>
</tbody>
</table>

(*) 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), three months of start-up losses in Slovakia, and exclude Endemol and Airwave results. 2007 guidance assumes constant exchange rates as of 2006 and excludes changes in consolidation (TVA). In terms of guidance calculation, OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses, with the exception of the ones decided after the guidance communication at the beginning of the year. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures. CapEx excludes Real Estate Efficiency Program (REEP).

(**) 2008 guidance assumes constant exchange rates as of 2007

(***) 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. 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 2007-2010E. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures. CapEx excludes Real Estate Efficiency Program (REEP). 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).
... flowing into significant increases in EPS and FCFS

2006 | 2010E
---|---
EPS \(^1\) | 1.304 € | 2.304 €
FCFS \(^2\) | 1.87 € | 2.87 €

\(^1\) Reported EPS
\(^2\) FCF available to remunerate Telefonica S.A. shareholders, to protect solvency levels and to accommodate strategic flexibility
Index

1. 2007 results confirm our solid performance

2. 2008 guidance reassures our differentiated growth profile

3. Excess FCF allocated to our 1st priority: shareholder remuneration

4. Other non fundamental hints
We set a disciplined use of FCF with clear priorities...

![Diagram showing priorities]

1st: SHAREHOLDER REMUNERATION

A growing path of dividends

Share buybacks to be considered, as stated below

2nd: DELEVERAGE

Net Debt + Cash Commitments over OIBDA in the 2.0 – 2.5x range: 2.2x OIBDA Mar-08

3rd: SELECTIVE M&A

To foster growth in current markets

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

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(1) Free Cash Flow is the cash flow available to remunerate Telefónica’s shareholders, to protect solvency levels (financial debt and commitments), and to accommodate strategic flexibility.

(2) Calculated based on January-March 2008 OIBDA, excluding results on the sale of fixed assets and annualized.
... leading to a growing path on shareholders returns

Dividends

+ 

Buyback programs

DPS (in €)

- 5.2 Bn€ paid to shareholders in 2007

Initial program announced in February 2008:
- 2008- H1 09: 100 m shares

New framework:
- 2008: 100 m shares
- Sensitive to cash flow generation and share price

Cash Yield

- 35.7% of the program up to May 13th, 2008

Growing path on shareholders returns

(1) Paid in H2 07 (0.35€) and 0.4€ to be paid in H1 08
(2) Fiscal year 2008, to be paid in H2 08 and H1 09
(3) Dividends + Share buy back
(4) (Total Dividends paid + Share buy-back) over market cap as of June 2nd, 2008
Index

1. 2007 results confirm our solid performance
2. 2008 guidance reassures our differentiated growth profile
3. Excess FCF allocated to our 1st priority: shareholder remuneration
4. Other non fundamental hints
We have opened new horizons through strategic and industrial alliances

**STRATEGIC ALLIANCE**

- 5.0% stake\(^1\) in China Netcom
  - **131 million accesses** (Mar-08)
  - In a country with a population of **1,300 million**
  - **Huge ICT growth potential: 21%** of forecasted world telecom revenue growth 2007-2010\(^2\)

CNC to benefit from the telco industry restructuring process recently announced in China

**INDUSTRIAL ALLIANCE**

Combined Accesses in Europe (Mar-08; in millions)
- Telefónica.............................. 90
- Telecom Italia.......................... 67

**TOTAL INDUSTRIAL ALLIANCE...** 157

- First Telecom alliance in Europe with ~19% Market share\(^3\)
- Presence in 9 European countries
- Total **cash synergies of €1.3 bn** in the period 2008-2010 (55% TI and 45% TEF)

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\(^1\) Pending closing of additional 2.22%
\(^2\) Yankee Group Forecast, Oct-07
\(^3\) Europe 25
We can shape our market

**EXCITE REVENUE GROWTH**

- Keeping a strong commercial push to stimulate demand
- Continue to invest in growth opportunities (BB, Pay TV, wireless data...)

**COOL DOWN OPEX AND CAPEX**

- Over 45% of our costs are variable
- 61% of our 2008 CapEx budget is linked to transformation

- Our leadership allows us to influence market trends
- Experience shows how in more uncertain times focus and resilience pays
- We leverage proven skills to ensure our ultimate goal: *preserve cashflow generation*
A management team with a long expertise, strong track record in the telco sector and highly committed to share price performance (I)

**WORKING FOR TELEFÓNICA**

- César Alierta - EXECUTIVE CHAIRMAN since July 2000
- Julio Linares – COO
- Santiago Fernandez Valbuena – CFO
- José María Álvarez-Pallete – T LATINOAMÉRICA GM since Feb-99
- Guillermo Ansaldo – T ESPAÑA GM since April-00
- Matthew Key – T EUROPE GM since Feb-02
- Board of Directors (*) since Jan-97

**EXPOSURE TO TELEFÓNICA SHARE**

- 3.848 m shares + 10.2 m call options
- 0.121 m shares since 1970
- 0.161 m shares since Jan-97
- 0.069 m shares since Feb-99
- 0.006 m shares since April-00
- 0.005 m shares since Feb-02
- >1.500 shares

Note: GM = General Manager; c.p. = current position

(*) Excluding Executive Comittee
A management team with a long expertise, strong track record in the telco sector and highly committed to share price performance (II)

SHARE PRICE EVOLUTION AND ACQUISITIONS BY MANAGEMENT
In summary

**Strong performance in Q1 08**

- On track to meet our commitments
- Unmatched organic growth ahead of peers

**Reinforced investment case**

- High FCF yield
- Strong growth prospects

A value growth stock in an expanding industry