TELEFONICA: “A return to fundamentals”
Disclaimer

This document contains statements that constitute forward looking statements about the Company including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and other important factors that could cause actual developments or results to differ materially from those expressed in our forward looking statements. These risks and uncertainties include those discussed or identified in the documents filed by Telefónica with the relevant Securities Markets Regulators, and in particular, with the Spanish Market Regulator.

Except as required by applicable law, Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica’s business or acquisition strategy or to reflect the occurrence of unanticipated events.

Neither this presentation nor any of the information contained herein constitutes an offer of purchase, sale or exchange, nor a request for an offer of purchase, sale or exchange of securities, or any advice or recommendation with respect to such securities.

The information contained in this document is subject to, and must be read in conjunction with, all other publicly available information, including if it is necessary, any fuller disclosure document published by Telefónica.

Finally, please note that this information contained in the document has not been verified or revised by the Auditors of Telefónica.
Addressing your concerns in a highly volatile market

Factors affecting our performance

- Economic slowdown in Spain
- Impact of the US economy and inflation concerns in Latin America
- Regulatory noise on MTRs in Europe and more recently in Brazil
- Need for further increases in CapEx
- Financial flexibility
- M&A ambitions and use of cash flow

Big disconnection between TEF’s stock price performance and our solid fundamentals

High liquidity

1 Until June 13th, 2008
How are you facing the economic slowdown in Spain?

- **Telecom expenditure** in our market only represents **3% of the total family expenses**
- **Industry’s performance** is more dependent on the **evolution of households** than on new houses
- **60% of wireline revenues are fixed and over 45% of its total OpEx are variable**

**Solid performance in an unchartered territory**

- Fixed line losses explained by development of naked shared ULL
- Sustaining BB leadership market share around 57%E
- Record Q1 08 net adds in Pay TV since Q1 06
- Maintained leadership in wireless despite increased competition
- Lower MoU

**Q1 08**

Revenue & OIBDA growth in line with 2008 guidance
Have you noticed any impact of the US economy in your Latin American operations?

- **Q1 08 Organic\(^1\) y-o-y growth**
  - Revenue: +12.6%
  - OIBDA: +11.8%

- **Wireless penetration in Latin America**
  - Dec-06: 56%
  - Mar-07: 59%
  - Dec-07: 69%
  - Mar-08: 71%

- **Broadband penetration\(^2\) in Latin America**
  - Dec-06: 10%
  - Mar-07: 11%
  - Dec-07: 15%
  - Mar-08: 16%

**Solid results from the main growth driver of Telefónica**

- High commercial activity YTD, exceeding internal estimates:
  - Strong volumes during Mother’s Campaigns across markets (May 08)

- **Sound y-o-y increases in wireless and BB penetration despite higher levels vs. 2007**

- **T. Latam’s wireless customer growth acceleration:**
  - +23% y-o-y in Q1 08 vs. +15.5% in Q1 07
  - Stable churn rate

- **Healthy usage patterns:**
  - Outgoing wireless MoU and ARPU\(^3\) up 20.6% and 4.5% y-o-y respectively
  - Average revenue per fixed line\(^3\) access up 1.9% y-o-y

1. Assuming constant exchange rates and including the consolidation of TVA in January-March 2007
2. Over households
3. Ex-forex
How is the global economic slowdown impacting Telefónica?

Delivering once again a superior performance

Q1 08 Organic EBITDA Growth

Q1 08 Organic Revenue Growth

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.
How can you manage higher inflation in Latin America?

- Single digit inflation\(^1\) in all markets except Venezuela and Argentina
- Y-o-y increases\(^2\) mainly driven by food inflation:
  - >46% in average; 90% in Peru

**Price adjustments**

- Traditional fixed line:
  - Tariffs revisions linked to inflation except in Argentina where revenues up 10.4% y-o-y in Q1 08
- ADSL and Pay TV prices liberalized
- Wireless prices liberalized:
  - Increased rates in high inflation countries

**Costs measures**

- Workforce reorganization programs
- Lower subsidies
- Enhanced quality service & commercial efficiency
- Churn reduction
- Scale benefits

---

1 Source: Bloomberg, May Index CPI (YoY)
2 Source: JP Morgan Report “Latin America Outlook” June 08
What is your view on MTRs across your markets?

**Europe**
- Medium term glide paths approved by national regulators in most countries
- EC to release a draft recommendation in late June/beginning of July

**Latin America**
- Termination rates in most countries are converging to European levels
- Recent reductions already approved in Colombia, Mexico, Peru and Venezuela
- Commercial agreements for MTRs in Brazil in force until 2010

**Group net exposure\(^1\) to MTRs in Europe**
- < 1%
- FY 2007

**Group net exposure\(^2\) to MTRs in Latin America**
- <2%
- FY 2007

**Lower interconnections costs in wireline operations**

---

1. Interconnection revenues – interconnection costs of European wireless operations/Group revenue
2. Interconnection revenues – interconnection costs of Latin America wireless operations/Group revenue
What is your strategy in Germany?

**Building a sustainable business in Germany**

- **New management team and new strategic approach since mid 2007**
- **Building the foundations:**
  - Further expansion of distribution channel
  - Roll-out of our own mobile networks
  - Creating segmented propositions (integrated fixed and mobile offers, bundles, flat rates, no frills)

<table>
<thead>
<tr>
<th></th>
<th>Q2 07</th>
<th>Q3 07</th>
<th>Q4 07</th>
<th>Q1 08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth</td>
<td>-2.9%</td>
<td>-1.8%</td>
<td>-0.3%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Service revenue growth</td>
<td>-3.8%</td>
<td>-5.4%</td>
<td>-6.5%</td>
<td>-0.9%</td>
</tr>
</tbody>
</table>

- Share of gross adds >17% for past 2 quarters
Should we expect further increases in CapEx going forward?

<table>
<thead>
<tr>
<th>Group CapEx</th>
<th>2007A under guidance criteria (*)</th>
<th>2008E guidance (**)</th>
<th>Implicit 08E-10E to meet 2010 guidance</th>
<th>2007-2010E (***) guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ 8,087 m</td>
<td>±€ 8,600 m</td>
<td>±€ 8,000/year</td>
<td>&lt;€ 33,000 m</td>
</tr>
</tbody>
</table>

- **Total CapEx in 07-10 mainly driven by initiatives to foster top-line growth:**
  - **T. España:** investments in growth and transformation, expanding our broadband networks, both in wireline and wireless
    - € 1,000 m in fiber roll-out and € 1,300 m in UMTS/HSXPA
  - **T. Latam:** front loaded investments in customer growth and capacity, deployment of 2.5/3G networks and further expansion of BB and Pay TV services
  - **T. Europe:** accelerating the network build in Germany and further development our fixed broadband networks
    - € 3,500 m in Germany

(*) 2007 guidance assumes constant exchange rates as of 2006 and excludes changes in consolidation (TVA). CapEx excludes Real Estate Efficiency Program (REEP).

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

(***) CapEx excludes Real Estate Efficiency Program (REEP). 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)
How are you facing the credit crunch?

- Continued de-leverage with a comfortable liquidity position:
  - €44.4 bn of net fin. debt in Mar-08
- 6.21% effective interest rate in Q1 08:
  - 6% target for the year
- Average debt life above 6 years, longer than time needed for full repayment
- Next 12 months payment obligations already covered:
  - Liquid assets, cash flow generation and unused committed credit facilities
  - Negative net debt maturities for remaining 2008
- Rating outlook upgrades to positive by S&P’s and Fitch
- €1.25bn bond issue in May-08 with a spread below expectations

**Net Financial Debt/OIBDA**

<table>
<thead>
<tr>
<th></th>
<th>Dec -06</th>
<th>Dec -07</th>
<th>Mar-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>2.7x</td>
<td>2.3x</td>
<td>2.1x</td>
</tr>
</tbody>
</table>

-15%  -8%

**Mar-08 Net Financial Debt Maturity (€ in billions)**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>-0.1</td>
<td>4.2</td>
<td>5.8</td>
</tr>
</tbody>
</table>

**Unused committed credit facilities (€ in billions)**

<table>
<thead>
<tr>
<th></th>
<th>Mar-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>9.1</td>
</tr>
</tbody>
</table>

5.0
Maturing Q2 09 onwards

**Notes:**

1. Calculated based on 12 months rolling OIBDA including T. O2 CR, O2, T. Telecom and Iberbanda
2. Calculated based on 12 months rolling OIBDA excluding results on the sale of fixed assets
3. Calculated based on Q1 08 OIBDA figure annualized excluding results on the sale of fixed assets
Do you need further scale in Europe?

**Anticipation**

We early realized that...

- Scale DOES matter at the Telco sector
- Scale IS NOT size
- It is ALL ABOUT being integrated and diversified

**Expansion**

2005-2007 we were leaning against the wind

- Acquisitions to gain scale in Europe and strategic alliances were not always well received
  - O2 (UK, Germany, Ireland), Slovakia (mobile)
  - Industrial partner of TI

**Execution**

To buy the right asset at the right price is not enough

- Integration even more important that acquiring
- It is also about selling right
- We have proven management capabilities

157 million combined accesses in Europe as of Mar-08
Largest Telecom alliance in Europe, with ~19% market share¹
How achievable is your guidance?

- Revenue, OIBDA, OI and CapEx guidance (*) fully flowing in strong increases in reported (ALL FACTORS INCLUDED) EPS and FCPS
- Fully on track to meet 2008 and 2010 guidance

<table>
<thead>
<tr>
<th>Year</th>
<th>EPS ¹</th>
<th>FCPS ²</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1.304 €</td>
<td>1.87 €</td>
</tr>
<tr>
<td>2010E</td>
<td>2.304 €</td>
<td>2.87 €</td>
</tr>
</tbody>
</table>

+ 1 €

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

(*) 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 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. 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).
What are your priorities for use of FCF?

1st: SHAREHOLDER REMUNERATION

A growing path of dividends

37%\(^2\) of current market cap to be generated in the next 3 years

2nd: DELEVERAGE

Net Debt + Cash Commitments over OIBDA in the 2.0 – 2.5x range

3rd: SELECTIVE M&A

To foster growth in current markets:
- Brazil, Mexico, Germany and China

> € 40 bn
Cumulative FCF 07E-10E\(^1\)

(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) Based on TEF market cap of 13th June, 2008
Should we expect new announcements on shareholder remuneration in the short term?

- **Dividends**
  - 1€ DPS in 2008 vs. 0.75€ in 2007
  - Growing pace in DPS in the future

- **Buyback programs**
  - New program announced in February 2008:
    - 2008- H1 09: 100 m shares
  - New framework:
    - 2008: 100 m shares
    - 35.7% executed up to May 13th, 2008
  - Sensitive to cash flow generation and share price

**Cash Yield**

- 2006: 5.88%
- 2007: 6.07%
- 2008E: 6.98%

**Decisions on shareholders return timetable aligned with cash flow generation**

---

(1) (Total Dividends paid + Share buy-back) over market cap as of June 13th, 2008
Are your interests aligned with those of your shareholders?

A management team highly committed to share price performance

<table>
<thead>
<tr>
<th>EXPOSURE TO TELEFÓNICA SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.848 m shares</td>
</tr>
<tr>
<td>10.2 m call options</td>
</tr>
<tr>
<td>0.121 m shares</td>
</tr>
<tr>
<td>0.161 m shares</td>
</tr>
<tr>
<td>0.069 m shares</td>
</tr>
<tr>
<td>0.006 m shares</td>
</tr>
<tr>
<td>0.005 m shares</td>
</tr>
<tr>
<td>&gt;1.500 shares</td>
</tr>
</tbody>
</table>

| César Alierta - EXECUTIVE CHAIRMAN |
| Julio Linares – COO               |
| Santiago Fernandez Valbuena – CFO |
| J. María Álvarez-Pallete – T LATINOAMÉRICA GM |
| Guillermo Ansaldo – T ESPAÑA GM   |
| Matthew Key – T EUROPE GM         |
| Board of Directors (*)            |

Note: GM = General Manager
(*) Excluding Executive Comitte
In summary

- Strong performance in Q1 08
- On track to meet our commitments
- Unmatched organic growth ahead of peers
- High FCF yield
- Reinforced investment case
- Strong growth prospects

A value growth stock in an expanding industry