

TELEFONICA: “Back to fundamentals”

CÉSAR ALIERTA

TELEFONICA, EXECUTIVE CHAIRMAN AND CEO

October 1st, 2nd, 2008



TELEFONICA S.A.

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Solid performance in H1 08



Addressing investors' concerns

Robust set of financials in H1 08

€ in millions	Jan-Jun 2008	Change H1 08/H1 07	Change organic ⁽¹⁾ H1 08/H1 07
Revenues	28,149	+1.2%	+6.7%
OIBDA	11,123	-1.3%	+12.0%
OIBDA Margin	39.5%	-1.0 p.p.	+1.8 p.p.
OI	6,602	+0.7%	+24.0%
			Change ⁽²⁾ H1 08/H1 07
Net income	3,593	-6.2%	+29.0%
EPS	0.767€	-4.0%	+32.1%

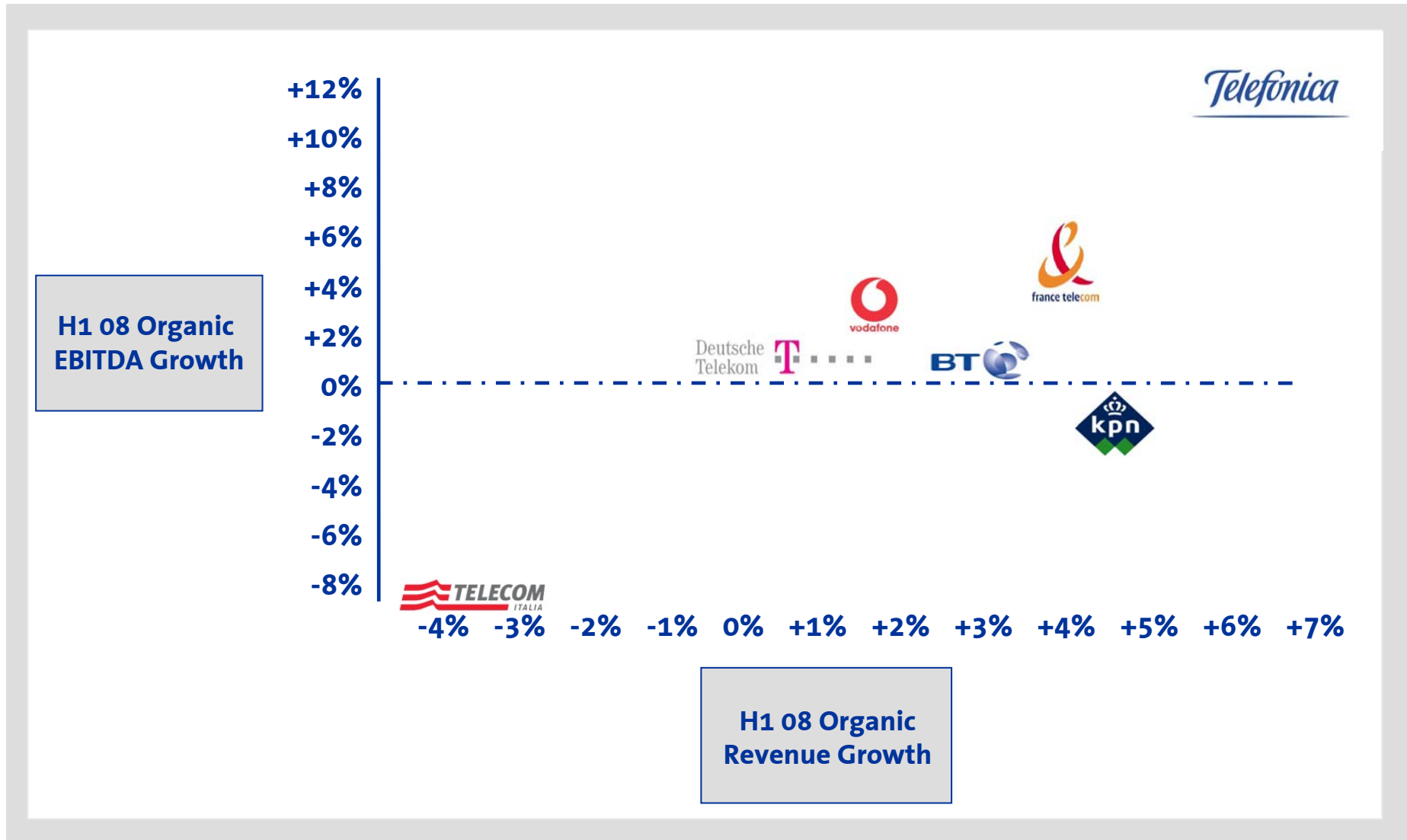
■ **Strong earnings, exploiting our differential profile:**

- *Execution*
- *Diversification*
- *Integrated management model*

(1) Assuming constant exchange rates and including the consolidation of TVA in January-June 2007 and Telemig in April-June 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-67.9 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave and Sogecable) in both periods is excluded.

(2) Excluding only the impacts from assets disposals (Airwave and Sogecable).

Delivering once again a superior performance...



Source: company press releases.

BT: Reported figures for April-June 08 vs. 07; EBITDA before specific items and leaver costs.

DT: H1 08 vs H1 07 organic revenue growth and adjusted EBITDA growth on an organic basis.

KPN: H1 08 vs H1 07 excluding Getronics in H1 08.

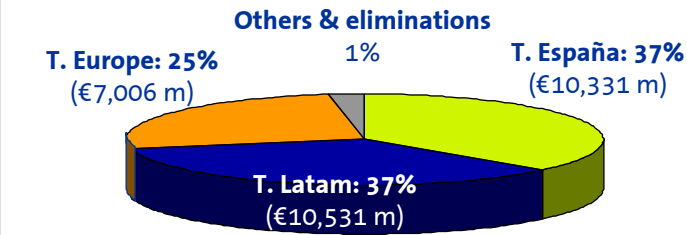
FT: H1 08 vs H1 07 growth on comparable basis (adjusted for forex, perimeter & other impacts).

TI: H1 08 vs H1 07 organic revenue and EBITDA growth.

VOD: April-June 08 vs. April-June 07 organic revenue growth; Jan-08-Mar-08 vs. Jan-07-Mar-07 organic OIBDA growth.

...capitalizing on our high diversification and strong CF generation

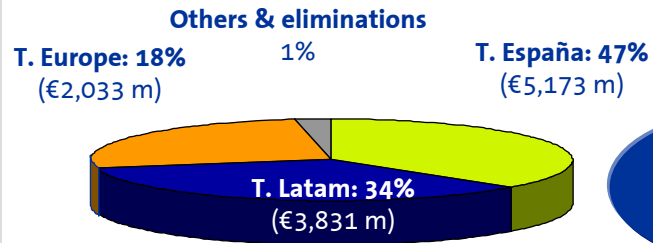
H1 08 Revenue



Contribution to organic Group growth (+6.7%)

Region	Contribution to organic Group growth (p.p.)
T. Latam	+4.3 p.p.
T. Europe	+1.6 p.p.
T. España	+0.5 p.p.

H1 08 OIBDA



Contribution to organic Group growth (+12.0%)

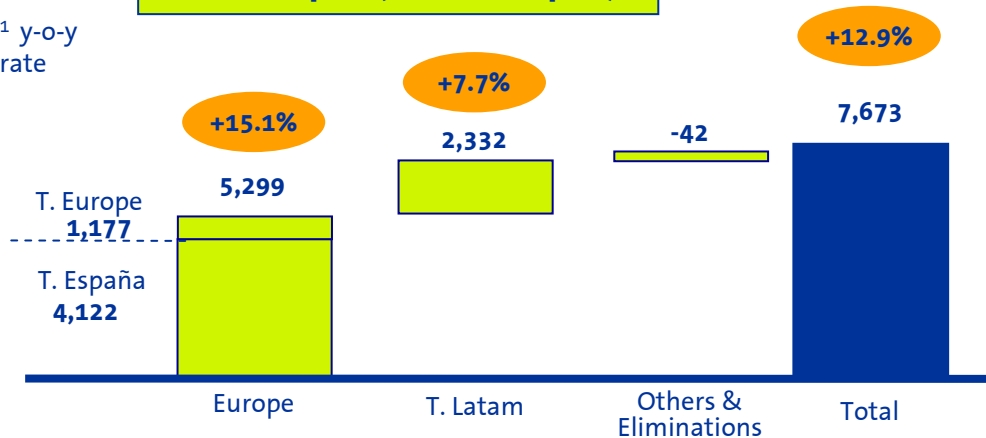
Region	Contribution to organic Group growth (p.p.)
T. Latam	+5.5 p.p.
T. España	+4.6 p.p.
T. Europe	+2.2 p.p.

Organic¹ OIBDA Margin: 38.2% +1.8 p.p.

(€ in millions)

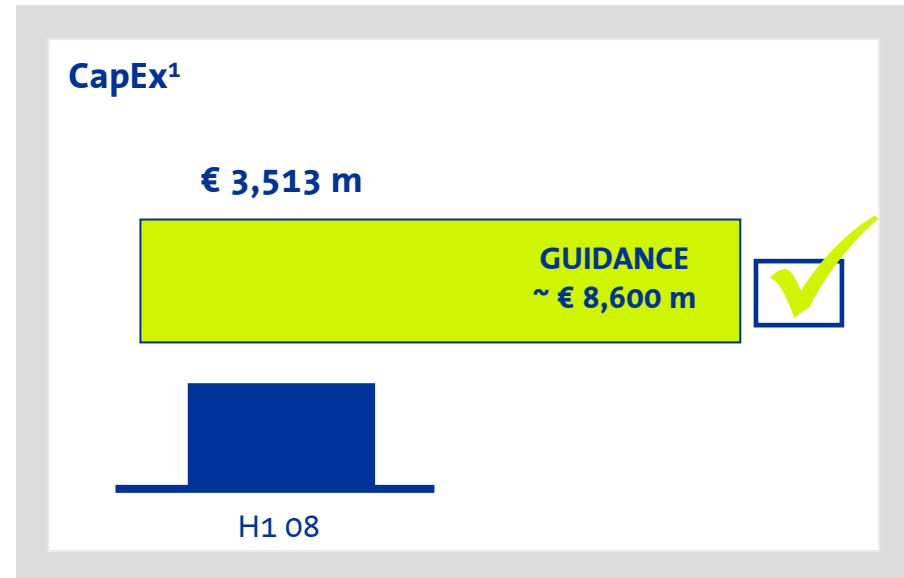
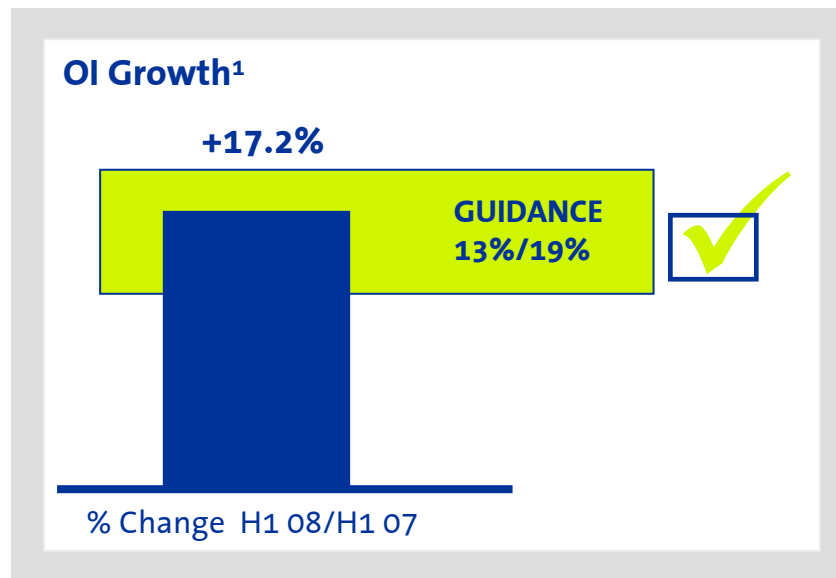
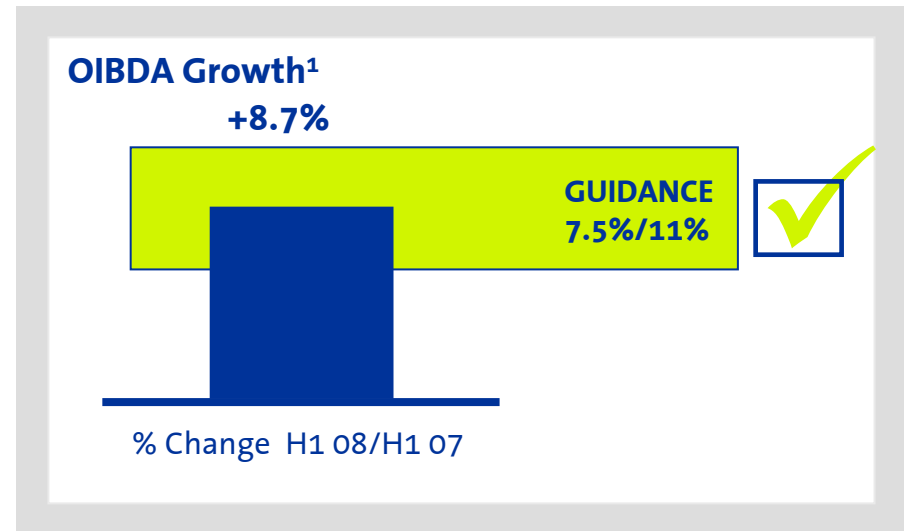
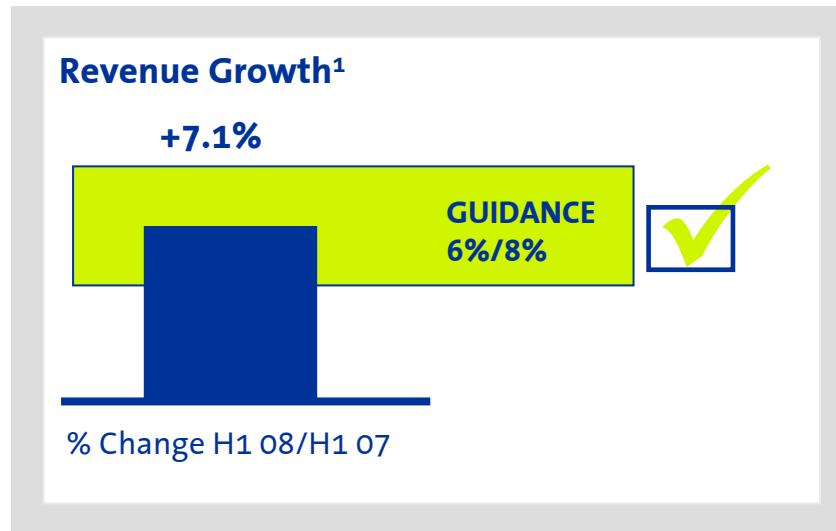
H1 08 OpCF (OIBDA-CapEx)

Organic¹ y-o-y growth rate

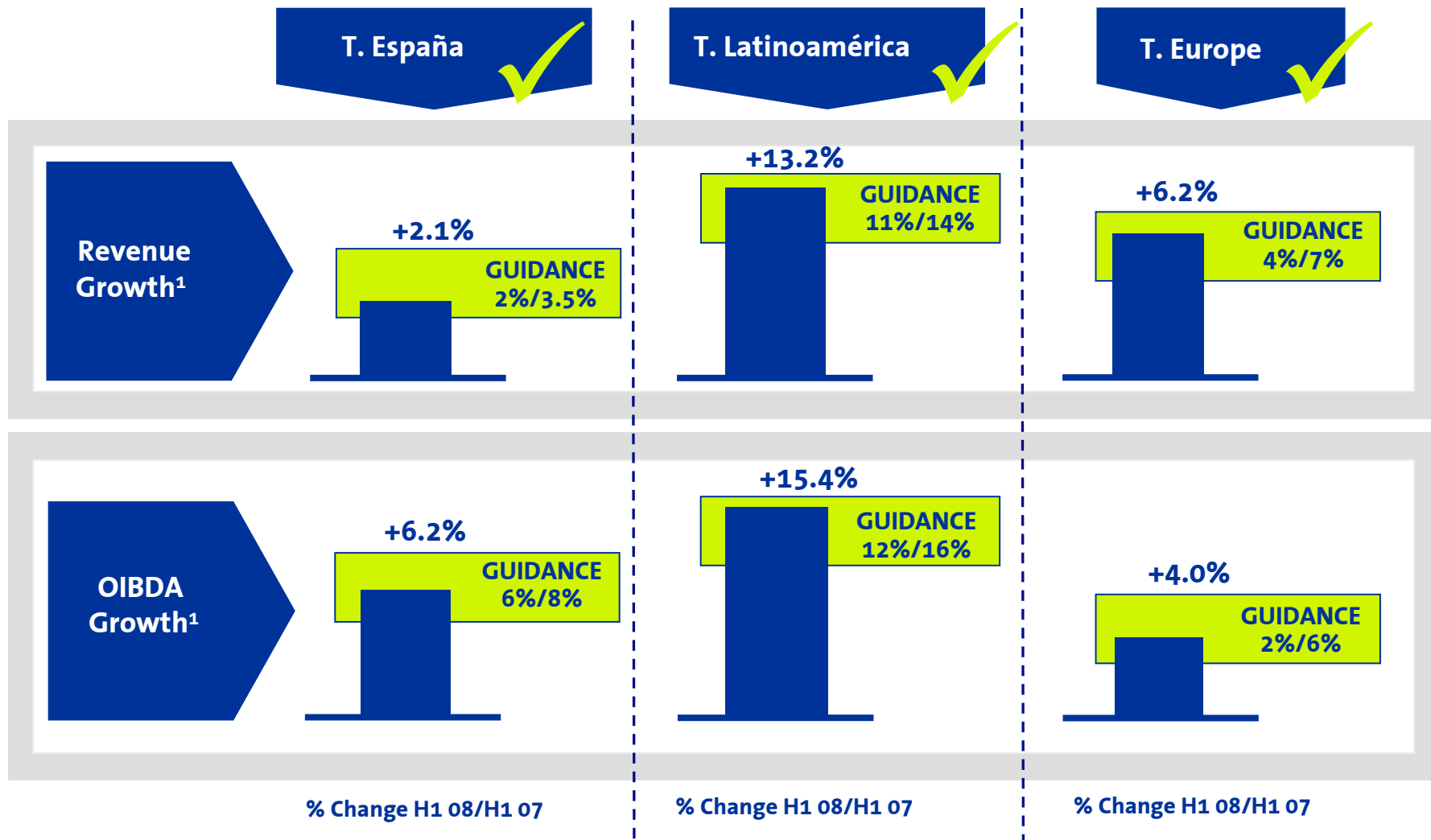


FCFS: 0.731€ vs. 0.725€ in H1 07

We are fully on track to meet 2008 Group guidance...



... with all our regions delivering 2008 commitments



(1) Guidance criteria: 2007 adjusted figures exclude Airwave and Endemol, include 3 months of consolidation of TVA. 2007 T. España revenues are adjusted for new public voice telephony services business model. Group revenues are also adjusted accordingly. 2008 figures Includes TVA, Deltax and Telemig (from April 2008). Telefónica's CapEx excludes Real Estate Efficiency Program. Guidance growths assume 2007 constant FX. In terms of guidance calculation OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007 and 2008.

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Solid performance in H1 08

2

Addressing investors' concerns

How is the economic growth affecting your business in Spain?

HARD DATA FOR THE MARKET

- **Telecom expenditure** in our market **only represents 3%¹ of the total family expenses**
- **Industry's performance is more dependent on the evolution of households** than on new houses:
 - Fixed line telephony market continues to grow: +1.9% E y-o-y in June 08
- **Population will keep growing**

**Capitalizing
on our unique
profile as a
leading
integrated
player to post
solid results**

- **Leading position in high value segments**
- **Integrated approach:**
 - Capturing traffic from changes in usage patterns
 - Integrated approach to Corporates
 - Integrated distribution channel to upsell products & retain customers
 - OpEx/CapEx synergies
 - 60% of our wireline revenues are fixed
 - >45% of our OpEx are variable

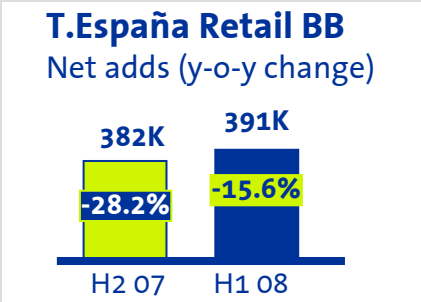
H1 08 performance

- Sustained growth in Internet & BB wireline revenues $\approx +10%$ y-o-y
- Wireless customer revenue up 3.0% driven by robust wireless data growth (+15.8%)
- Churn contention in mobile, BB & Pay TV
- Higher bad debt levels; <1% of revenues
- Solid wireline ARPU: +3.5% y-o-y to 69.2€
- Wireless ARPU (-5.1%) impacted by MTRs cuts, lower voice usage and promotions
- Strong margins across businesses: +3.7 p.p. to 50.1%
- Preserving OIBDA & OpCF (+11.6% y-o-y in H1 08)

How are you facing intense competition in Spain?

Strong commercial push to sustain our leadership

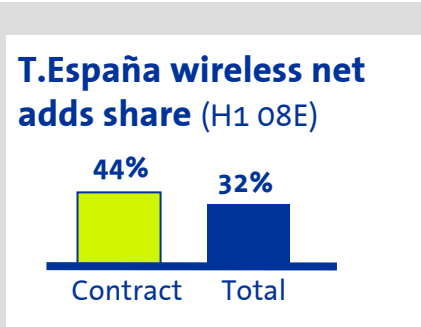
Leading the growth in fixed BB and wireless



**> 57%
E
MARKET
SHARE**

- **High quality BB offering:**
 - +18.3% y-o-y in retail BB accesses
 - Enhanced market share
 - > 83% of retail BB accesses with 2P & 3P
- **Solid BB ARPU performance: -3.4% vs. H1 07**
- **Precommercial launch of Fiber offer**

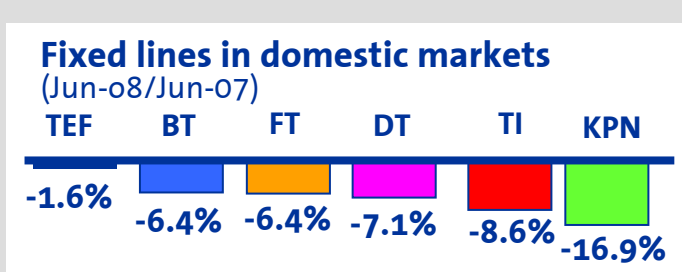
Limited fixed line losses



**45%
E
MARKET
SHARE**

**New entrants
market share:
2.5%E**

- **Leveraging best in class churn rate:**
 - +5.1% y-o-y in wireless customers; +10.4% in contract to >61% of customer base
 - Stable blended churn rate at 1.8% & contract churn at 1.1%
 - Leading the growth in 3G



**>78%
E
MARKET
SHARE**

- **Line losses due to change in ULL mix and higher competition**

What factors will contribute to sustain revenue growth in Spain in H2 08?

1 The deceleration started to be noticed in H2 07:

- Assuming current trends, y-o-y comparison should improve

2 Negative impact from roaming tariff cuts should ease:

- Sharp price cuts in force from September 07

3 Higher revenue stream from roaming agreement with Yoigo:

- Most of the traffic is already being carried through our networks

4 Sustained revenue growth in wireless data and positive impact from i-phone launch

5 Expected positive performance from the Public Sector after the general elections

6 Positive impact from CMT's resolution regarding 2003/05 Universal Service Fund:

- It should result in additional revenues in H2 08

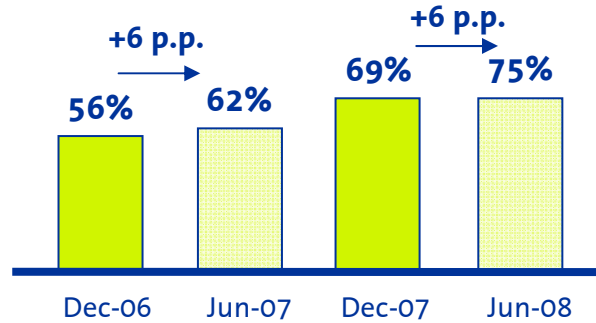
7 Launch of fiber based services in Q4 08:

- Regulatory approval obtained in August

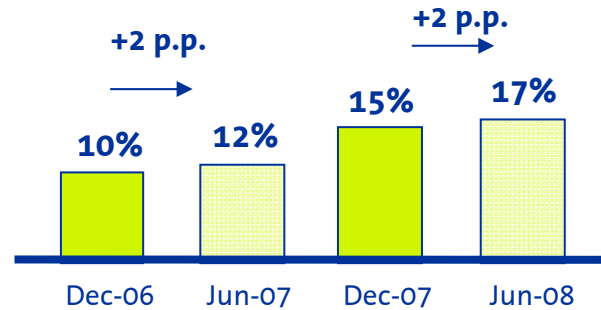
Most impacts to be reflected in Q4 08

Are you noticing any impact from higher inflation in Latin America? (Revenue)

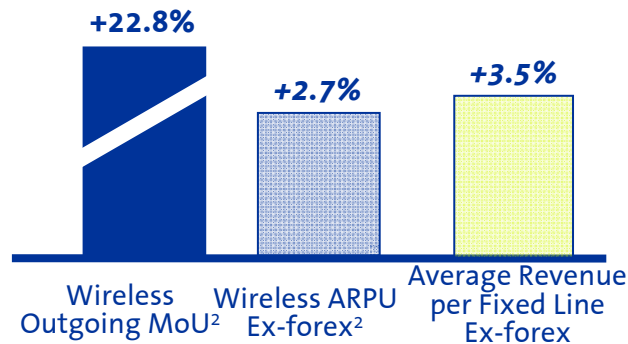
Wireless penetration in Latin America



Broadband penetration¹ in Latin America



Usage metrics (H1 08 y-o-y change)



- Sound y-o-y increases in wireless and BB penetration despite higher levels vs. 2007
- Strong customer expansion across markets and businesses:

- Wireless customers: +23.2%³ y-o-y to Jun-08, leveraging strong adds & churn containment
- High double digit BB accesses growth: +26%
- Fixed lines up 1.9% y-o-y
- Robust bundling offering uptake

- Solid usage performance

- Ability to adjust prices:

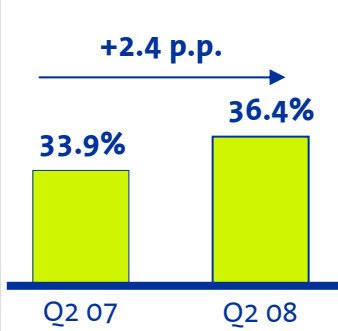
- Traditional fixed line: Tariff revisions linked to inflation except in Argentina where revenues up +11.3% y-o-y in H1 08⁴
- ADSL, Pay TV and bundles prices liberalized.

Increased weight of internet & TV revenues to 18% of wireline revenues (+3.4 p.p.)

- Wireless prices liberalized: Increase rates in high inflation countries

Are you concerned about costs inflation in Latin America?

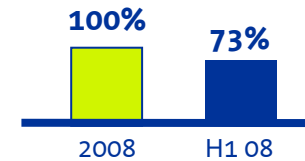
Solid OIBDA margin expansion (T. Latam)



Leveraging scale benefits and cost measures:

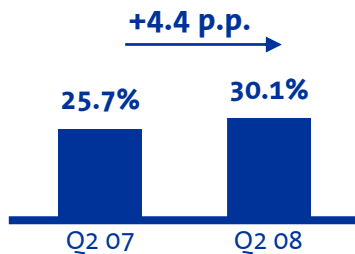
- Workforce reorganization programs
- Lower subsidies
- Enhanced quality service & commercial efficiency
- Churn reduction

Total employees to leave in 2008 (Index)



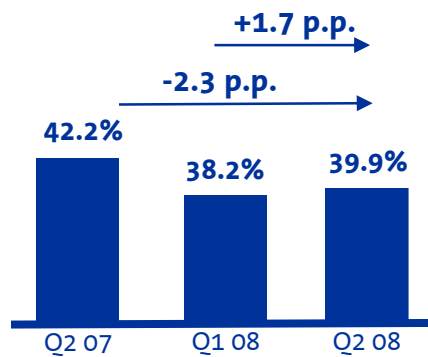
Significant y-o-y advances in mobile margins across markets

T. Latam Wireless OIBDA margin¹

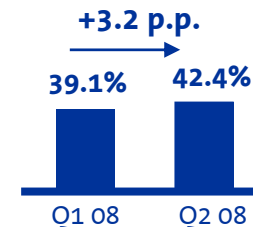


Wireline margins impacted by business transformation
Enhanced margins q-o-q driven by major operations

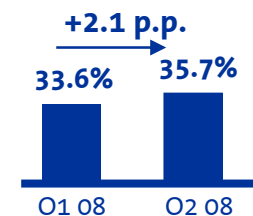
T. Latam Wireline OIBDA margin¹



TELESP



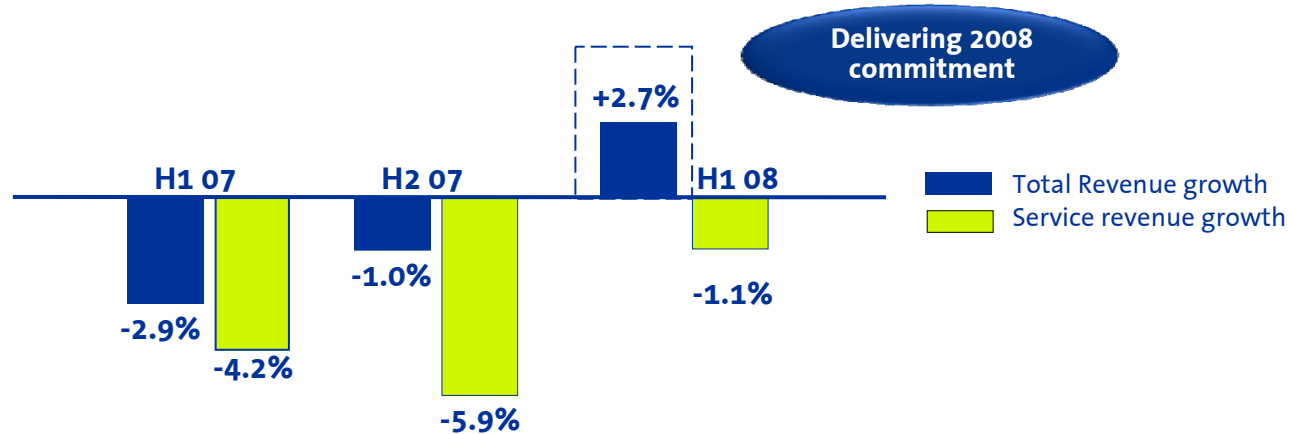
TASA



(1) Aggregate figures.

How are you progressing in Germany?

On track with execution of our turnaround strategy



Building Foundations

- Advancing in the rollout of our own mobile network
- Further expansion of distribution channel
- ULL base as of June 08 at 1.1 million (x3 vs. June 07)
- Broadband coverage 60%

Service revenue impacted in H1 08 by

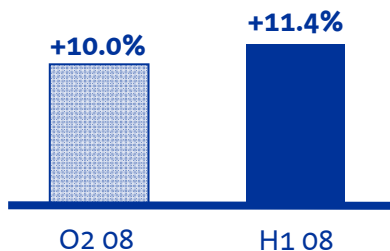
- ARPU dilution from new tariffs, promotions, MTR reductions and partners
- Migrations to new tariffs
 - 61% of contract base are already on new tariffs
 - ~75% of expected migrations have already taken place
- Total market service revenue still contracting y-o-y

Improving trend expected towards the end of 08 as:

- Impacts of migrations should be reduced
- Significant customer growth of 1.1 million net adds in H1

How are you facing the current operating environment in UK?

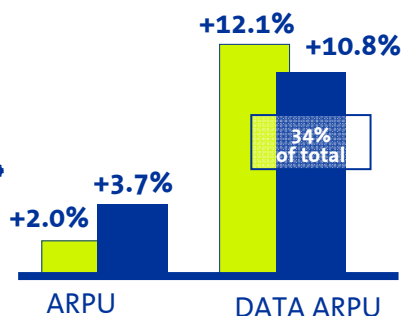
Mobile service revenue (y-o-y change in l.currency)



Continue to outperform the market:

- Very strong contract net adds (344 k; +121% y-o-y)
- Contract churn down to 1.4% in Q2 vs. 1.8% in Q2 07: #1 in the market

ARPU (y-o-y change in local currency)



■ Q2 08
■ H1 08

Mature prepay market:

- Prepay to contract migrations, increasing popularity of SIM only tariffs, deceleration in prepay top ups

Retaining value:

- ARPU increase driven by data and change in customer mix
- Q2 MoU growing 10.4% y-o-y
- Contract ARPU decline (-1% y-o-y in H1 08) due to customer optimization of bundles usage

Broadband

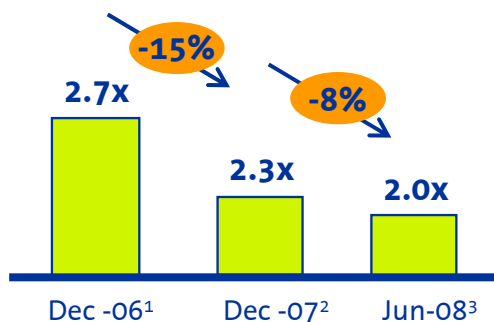
- Mobile dongle proposition launched
- 124k net adds in H1 08 on DSL to reach 194k customers
- 12 m promotion: Free home broadband when you buy Mobile Broadband for £20/month

What is your view on MTRs across your markets?

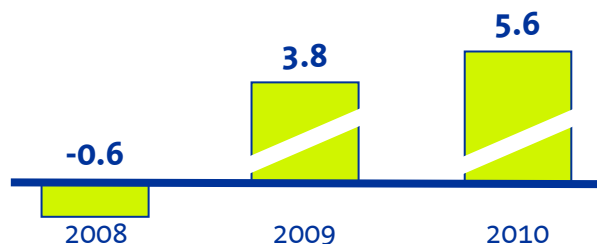


How are you facing the credit crunch?

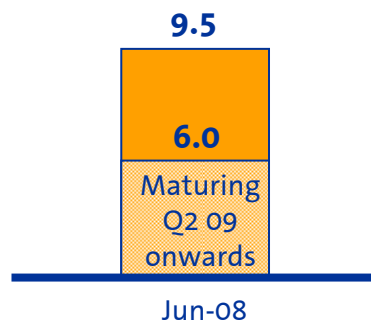
Net Financial Debt/OIBDA



Jun-08 Net Financial Debt Maturity (€ in billions)



Unused committed credit facilities (€ in billions)



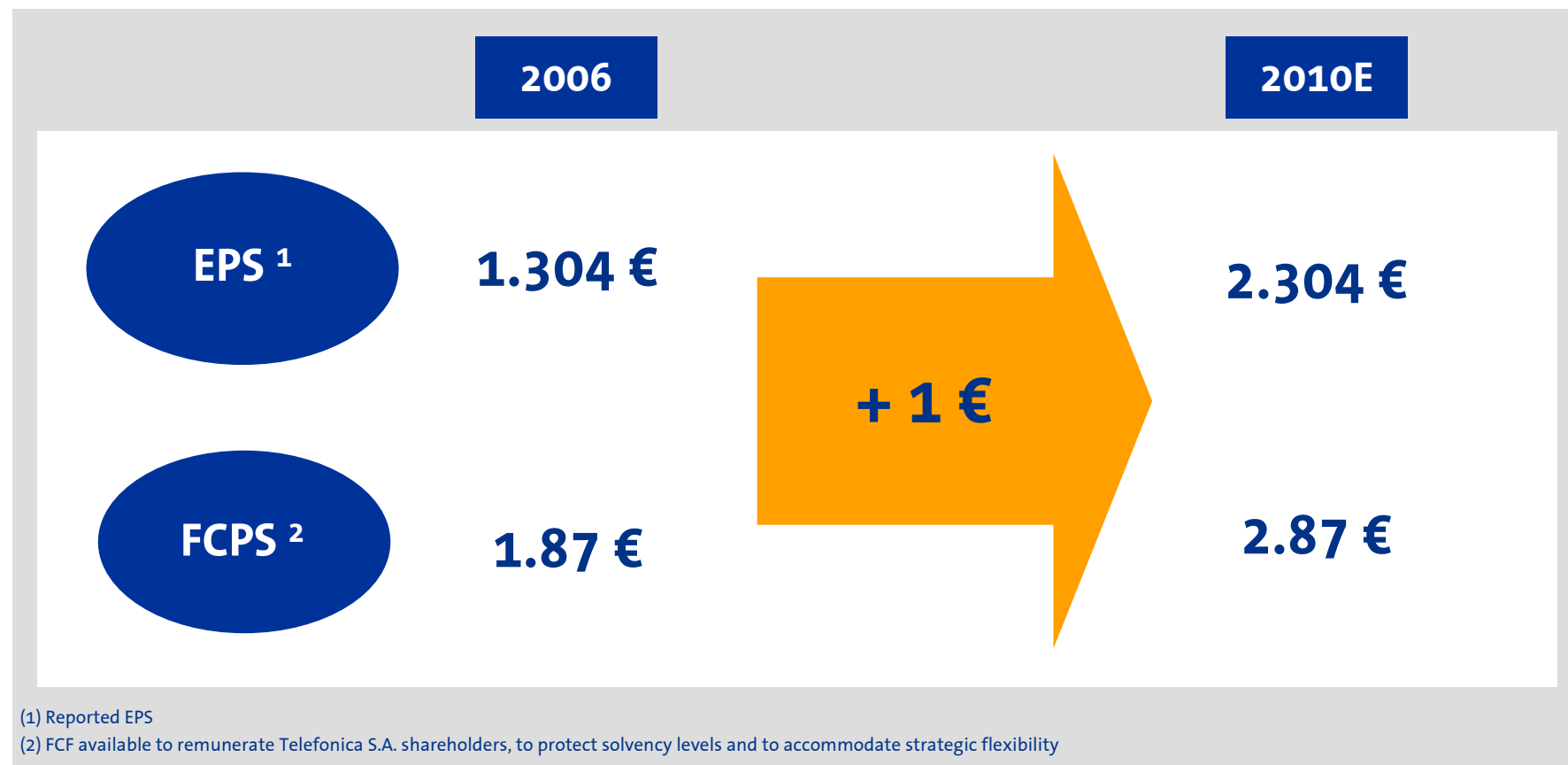
- **Continued de-leverage with a comfortable liquidity position:**
 - €44.0 bn of net fin. debt in Jun-08
- **5.96% effective interest rate in H1 08:**
 - 6% target for the year
- **Average debt life around 6 years, longer than time needed for full repayment**
- **Next 12 months payment obligations already 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**

Opportunistic access to the market:

- **€1.25Bn 7 years deal in May-08**

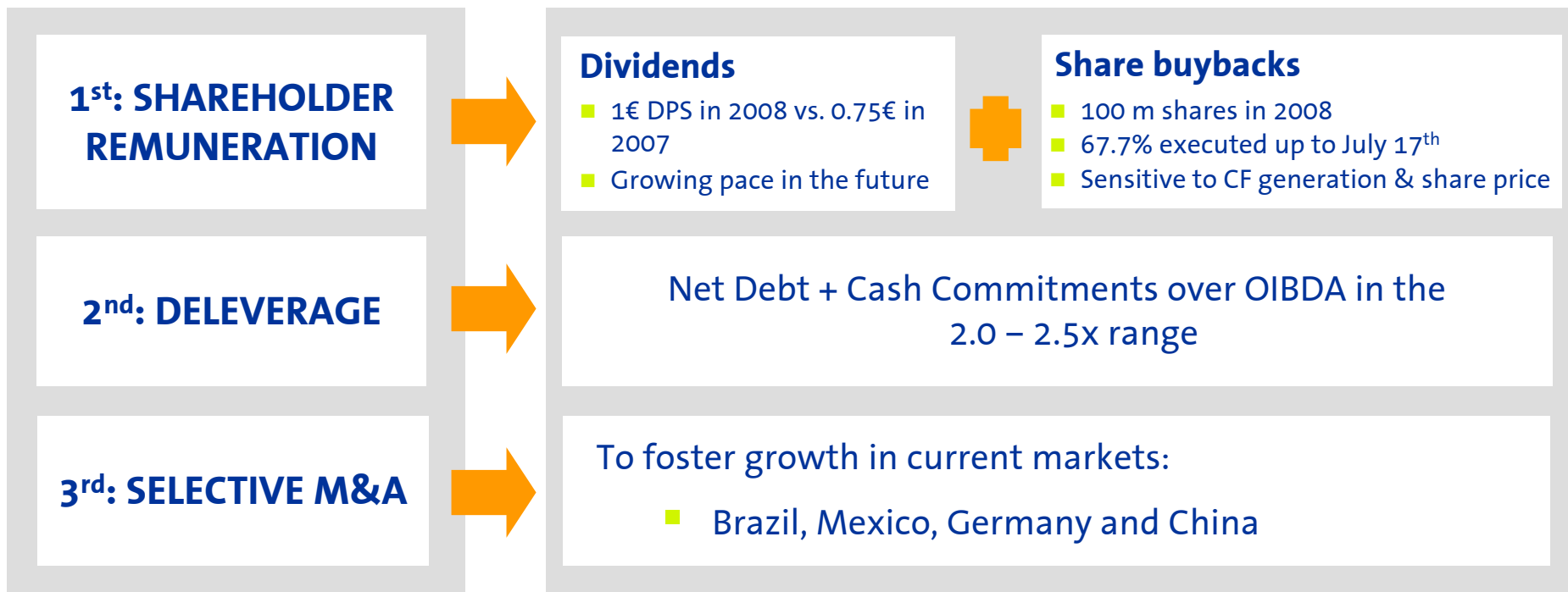
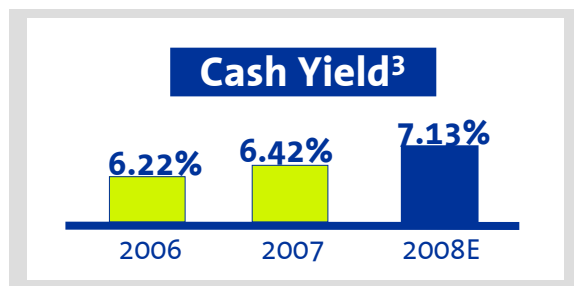
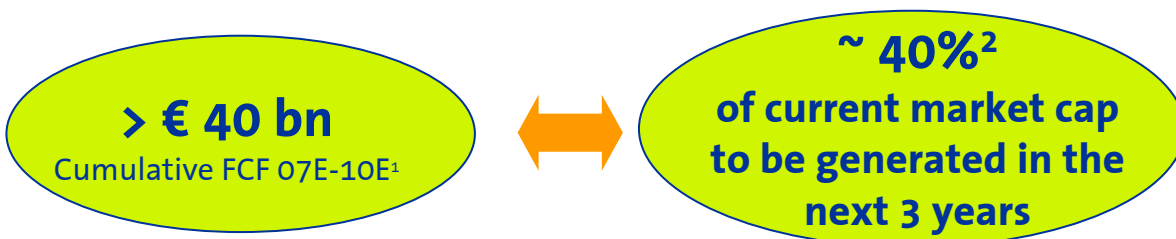
How achievable is your guidance?

- 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



(*) 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?



(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 25th September, 2008.
 (3) Total Dividends paid + Share buy-back over market cap as of September 25th, 2008.

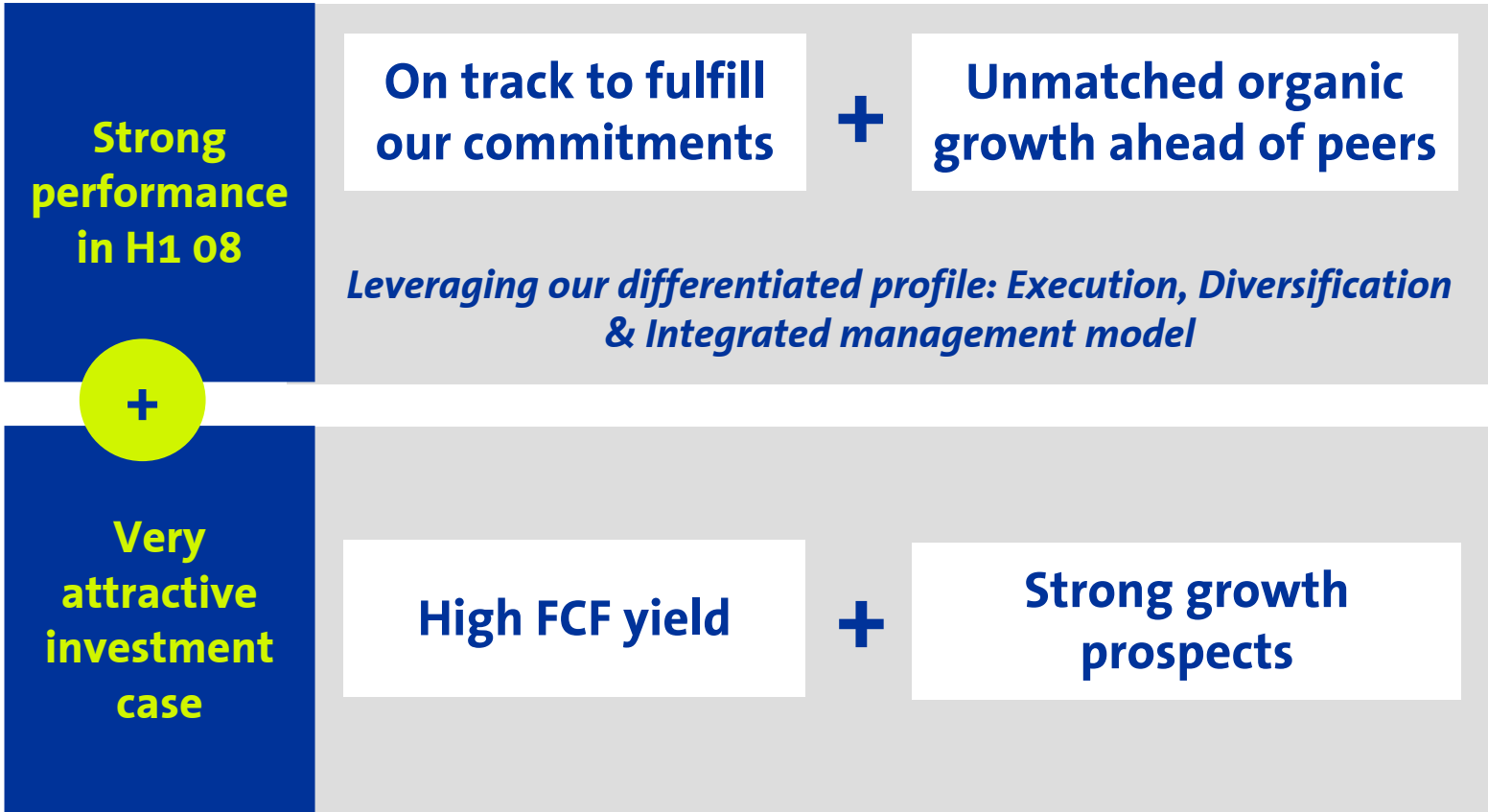
Are your interests aligned with those of your shareholders?

A management team highly committed to share price performance

	EXPOSURE TO TELEFÓNICA SHARE
César Alierta - EXECUTIVE CHAIRMAN	3.848 m shares + 10.2 m call options
Julio Linares – COO	0.121 m shares
Santiago Fernandez Valbuena – CFO	0.161 m shares
J. María Álvarez-Pallete – T LATINOAMÉRICA GM	0.069 m shares
Guillermo Ansaldo – T ESPAÑA GM	0.006 m shares
Matthew Key – T EUROPE GM	0.005 m shares
Board of Directors (*)	>1.6 m shares

In summary

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



Telefonica
