TELEFÓNICA: Solid fundamentals and high returns

CESAR ALIERTA
EXECUTIVE CHAIRMAN
March 10-11th, 2008
Disclaimer

This document contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. 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.

Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. 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. Analysts and investors are encouraged to consult the Company’s Annual Report as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator.

The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is un-audited and, therefore, is subject to potential future modifications.
Index

1. 2007 results confirm our strong momentum
2. 2008 guidance reassures our differentiated growth profile
3. Excess FCF allocated to our 1st priority: shareholder remuneration
In 2007 we recorded a solid performance across the board…

<table>
<thead>
<tr>
<th>€ in millions (% change y-o-y)</th>
<th>Jan-Dec 2007</th>
<th>% Change FY 07/FY 06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>56,441</td>
<td>+6.7%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>22,825</td>
<td>+19.3%</td>
</tr>
<tr>
<td>OI</td>
<td>13,388</td>
<td>+42.1%</td>
</tr>
<tr>
<td>OpCF (OIBDA-CapEx)</td>
<td>14,797</td>
<td>+33.0%</td>
</tr>
</tbody>
</table>

% Change organic\(^1\)
- +7.4%
- +6.8%
- +18.1%
- +11.8%

Growth rates acceleration from top to bottom line

<table>
<thead>
<tr>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>+7.4%</td>
</tr>
<tr>
<td>+6.8%</td>
</tr>
<tr>
<td>+18.1%</td>
</tr>
<tr>
<td>+11.8%</td>
</tr>
</tbody>
</table>

Note: TPI was discontinued in 2006 following Telefónica’s acceptance of Yell’s offer in July 4th, 2006. Figures are presented considering the Purchase Price Allocation of O2 as of February 2006.

(1) Assuming constant exchange rates and including the consolidation of the O2 Group, Telefónica Telecom and Iberbanda in January-December 2006. It excludes the consolidation of Telefónica O2 Slovakia in January-December 2007, the consolidation of TVA in October-December 2007, the consolidation of Airwave in April-December 2006 and the consolidation of Endemol in July-December 2006. OIBDA and OI exclude Airwave and Endemol capital gains.

(2) Excludes both in 2006 and 2007 PPAs (O2 and T. O2 CR)
... meeting or exceeding our upgraded guidance ...

- Consistently delivering on our commitments
- 2007 initial guidance upgraded for 3rd consecutive year
- 2007 targets across all regional units met or exceeded
... delivering once again a superior performance

Source: company press releases
BT: April-December 07 vs. 06; EBITDA before specific items and leaver costs.
DT: EBITDA growth adjusted for special factors. Revenue growth in nominal terms
KPN: Organic Revenue/EBITDA growth: adjusted Revenue/EBITDA for guidance calculation
FT: 2007/2006 growth on comparable basis (adjusted for forex, perimeter & other impacts)
TI: 2007/2006 organic revenue and EBITDA growth
We are capitalizing our scale and diversification, driving customer growth ...

Strong customer expansion across markets & businesses

**Accesses** (Dec-07/Dec-06)

- **T. España**: +16.9%, 134.1 million
- **T. Europe**: +8.7%, 41.9 million
- **T. Latam**: +6.9%, 228.5 million
- **Total**: +12.5%, 464.6 million
- **Mobile**: +16.6%, 169.2 million
- **BB**: +28.9%, 10.3 million
- **Pay TV**: +64.3%, 1.7 million
- **Fixed**: -0.9%

Increasing value from our customers:
- Cross selling & upselling
- Capturing bundling opportunities

34% with voice, BB and TV bundles (+8 p.p. vs Dec-06)
2007 Revenue growth by regions (Organic\(^1\) y-o-y growth)

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF Group</td>
<td>7.4%</td>
</tr>
<tr>
<td>T. España</td>
<td>4.6%</td>
</tr>
<tr>
<td>T. Europe</td>
<td>4.5%</td>
</tr>
<tr>
<td>T. Latam</td>
<td>13.0%</td>
</tr>
</tbody>
</table>

2007 Revenue breakdown

- T. España: 37%
- T. Europe: 26%
- T. Latam: 36%
- Others & eliminations: 1%

2007 OIBDA growth by regions (y-o-y growth\(^2\))

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF Group</td>
<td>6.8%</td>
</tr>
<tr>
<td>T. España</td>
<td>9.3%</td>
</tr>
<tr>
<td>T. Europe</td>
<td>34.2%</td>
</tr>
<tr>
<td>T. Latam</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

2007 OIBDA breakdown

- T. Europe: 47%
- T. España: 47%
- T. Latam: 35%

... fostering top line and OIBDA expansion...

---

(1) Assuming constant exchange rates and including the consolidation of the O2 Group, Telefónica Telecom and Iberbanda in January-December 2006. It excludes the consolidation of Telefónica O2 Slovakia in January-December 2007, the consolidation of TVA in October-December 2007, the consolidation of Airwave in April-December 2006 and the consolidation of Endemol in July-December 2006. OIBDA excludes Airwave and Endemol capital gains.

(2) Organic growth for TEF Group. For business lines, reported growth in €. In T. Europe, 2007 corresponds to the Jan-Dec period, 2006 corresponds to the Feb-Dec period.
...with a high OpCF generation despite strong CapEx in transformation

2007 OpCF (OIBDA-CapEx) growth
(€ in millions)

<table>
<thead>
<tr>
<th></th>
<th>T. España</th>
<th>T. Latam</th>
<th>T. Europe</th>
<th>Others &amp; Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 OpCF</td>
<td>7,067</td>
<td>3,778</td>
<td>2,852</td>
<td>1,100</td>
<td>14,797</td>
</tr>
</tbody>
</table>

- T. España: +11.4%
- T. Latam: +0.5%
- T. Europe: +34.6%
- Others & Eliminations: +11.8%
- Total: +33.0%

Organic y-o-y growth rate

OpCF/Revenues: 21.6% (+0.8 p.p. vs. FY 2006)

Total CapEx: €8,027 bn 75% in growth

(*) Exclude Airwave capital gain
(1) Assuming constant exchange rates and including the consolidation of the O2 Group, Telefónica Telecom and Iberbanda in January-December 2006. It excludes the consolidation of Telefónica O2 Slovakia in January-December 2007, the consolidation of TVA in October-December 2007, the consolidation of Airwave in April-December 2006 and the consolidation of Endemol in July-December 2006. OIBDA and Op exclude Airwave and Endemol capital gains.
Telefónica España maintains a strong momentum, both in Q4 and FY07 ...

**Revenues (€ in millions)**

<table>
<thead>
<tr>
<th></th>
<th>FY 2006</th>
<th>FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>19,750</td>
<td>20,683</td>
</tr>
</tbody>
</table>

**OIBDA (€ in millions)**

<table>
<thead>
<tr>
<th></th>
<th>FY 2006</th>
<th>FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIBDA</td>
<td>8,647</td>
<td>9,448</td>
</tr>
</tbody>
</table>

**Wireline**

- Lowest fixed telephony access loss since 2001
- Higher access base and ARPU increase (+5.1% to 67€) led to 4.7% revenue growth
- 2003-2007 Redundancy program concluded: over 30% of the workforce (13,870 employees) left in 5 years
- Robust profitability\(^{(1)}\) (47.7%; +1.3 p.p.)

**Wireless**

- Sustained leadership
- Strong Service Revenues growth underpinned by the robust 6.5% advance in Customer Revenues
- Lower incoming revenues (interconnection+roaming-in) due to price cuts
- Solid 2007 margins: 0.5 p.p. expansion to 45.3% ex-provisions

**Telefónica España**

- Strong commercial push
- Underlying OIBDA growth\(^{(2)}\) of +5.6% (2007 vs. 2006)
- Capturing further efficiencies from new organizational model:
  - New personnel reorganization program

---

\(^{(1)}\) Excludes provisions related to personnel reorganization plans in 2006 & 2007, and EU fine accounted for in Q2 07.

\(^{(2)}\) Underlying OIBDA growth excludes specific effects such as personnel reorganization provisions, real estate program capital gains and subsidies in 2006 and 2007, as well as the EU fine in 2007.
... leading the wireline Broadband and Pay-TV growth...

**FIXED TELEPHONY**
- Improving y-o-y access loss rate to record low levels: -0.3% (Dec-07 vs. Dec-06)

**INTERNET BROADBAND**
- Sustaining leadership with market share slightly over 56%: 4.6 m retail BB accesses (Dec-07)

**PAY TV**
- Increasing market share to just below 13%: 511K PayTV customers (Dec-07)
- New features included in Imagenio Q4 07 & Q1 08

---

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

- Preferred BB provider (19-Dec-07)
- 18%

**FIXED TELEPHONY**
- High quality BB offering to tap all market segments

**INTERNET BROADBAND**
- Sustaining leadership with market share slightly over 56%: 4.6 m retail BB accesses (Dec-07)

**PAY TV**
- Increasing market share to just below 13%: 511K PayTV customers (Dec-07)
- New features included in Imagenio Q4 07 & Q1 08

---

**Full range BB offering**

<table>
<thead>
<tr>
<th>DUO Price (€/month)</th>
<th>Reference offer</th>
<th>VDSL and fiber based, To be launched</th>
<th>Increase ARPU &amp; loyalty</th>
<th>Lower entry price, Market growth &amp; retention tool</th>
</tr>
</thead>
<tbody>
<tr>
<td>44.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>39.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

Note: All market data based on Telefónica España’s estimates.

(1) According to study published by ADSLzone.net (over 1.2 Mill. Speed tests performed) on December, 19th, 2007. Access to the report: http://www.adslzone.net/descargas/iestudiovelocidad.pdf
... and shaping the market in wireless...

**Customers**
- (thousands)
- Dec-06: 21,446
- Dec-07: 22,827
- 57% contract
- 60% contract

**2007 Net adds**
- (in thousands)
- Total Contract:
  - Dec-06: 1,381
  - Dec-07: 1,502
  - Q4 07 Churn: -23
- #2:
  - Dec-06: 1,346
  - Dec-07: 1,233
  - +1.3%
- #3:
  - Dec-06: 536
  - Dec-07: 536
  - +2.3%

- Data based on companies press releases
- (1)#3 reports 12-month rolling

**Limited impact from new entrants**
- **High contract commercial activity:** +12.0% in gross adds vs. 2006
- **Higher customer satisfaction**
- **Top-postpay churn:** below 1% leveraging attractive on-net tariffs and strong loyalty program

**Data revenues growth**
- (FY 2007 vs. FY 2006)
- Total: +12.4%
- P2P Commun.: +5%
- Content: +12%
- Connectivity: +72%

- ~500K flat & daily rates

**3G over Customer Base ex-M2M**
- Dec-06: 5.2%
- Dec-07: 15.9%

- Leading the push in Q4 07: +687K devices
- ~3.5M 3G devices at Dec-07
Telefónica Latinoamérica recorded a robust performance in 2007...

- Strong commercial activity in a high growth region: **134.1 m customers**, +16.9% vs. Dec. 2006
- Wireline broadband and mobile business stand out as **growth drivers**
  - BB revenues offset pressure on traditional fixed line revenues
- Personnel reorganization measures to further enhance efficiency
- Robust OpCF\(^1\) generation across markets: **€3,778m**

### Key Figures

**Revenues (€ in millions)**
- FY 2006: 18,089
- FY 2007: 20,078
  - +11.0%
  - +14.5%

**OIBDA (€ in millions)**
- FY 2006: 6,571
- FY 2007: 7,121
  - +8.4%
  - +11.5% (€ terms, Constant FX)
... capturing the growth opportunities of the region

**WIRELINE: FOCUS ON TRANSFORMATION**

**Bundles weight**
- Local & Control bundles+2P&3P/Fixed Accesses
- Local bundles+2P&3P/Fixed Accesses
- 2P&3P/DSL Accesses

Dec-06 | Dec-07
--- | ---
38% | 53%
21% | 33%
21% | 31%

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

Dec-06 | Dec-07
--- | ---
3,780 | 5,036
+33.2%

**Pay TV clients**
(in thousands)

Dec-06 | Dec-07
--- | ---
665 | 1,164
+74.9%
+45.4% ex TVA impact

---

**WIRELESS: FOCUS ON PROFITABLE GROWTH**

- **Strong increase in mobile penetration** to surpass the 70% mark (+12 p.p. vs. Dec-06)
- **Record mobile net adds** in Q407 expanding customer base in the year by 18.7 m
- **Robust ARPU growth** (+6.3% 2007 vs. 2006)

---

**TELEFONICA S.A. Investor Relations**

(1) Including Terra Latam.
(2) Includes 196,300 accesses from TVA
In Brazil & Mexico our wireless operations combined solid top line with enhanced profitability

**VIVO**

2007/2006 change

- **Gross Adds**:
  - +36%
- **Churn**:
  - -0.6 p.p.
- **Net Adds**:
  - x4.1
  - +15%
- **Customers**:
  - 33.5m (34% GSM)

2007/2006 change (in local currency)

- **ARPU**:
  - +7%
  - adjusted for B&K

2007/2006 growth (in local currency)

- **Service Revenues**:
  - +18.4%
  - Excluding B&K effect
- **Outgoing Service Revenues**:
  - +10.2%
- **OIBDA**:
  - +18.6%
  - 24.5% Margin

**MEXICO**

2007/2006 change

- **Gross Adds**:
  - +43%
- **Churn**:
  - -0.8 p.p.
- **Net Adds**:
  - +82%
  - +47%
- **Customers**:
  - 12.5m

2007/2006 change (in local currency)

- **ARPU**:
  - +16%

2007/2006 growth (in local currency)

- **Service Revenues**:
  - +65%
- **Outgoing Service Revenues**:
  - +82%

OIBDA (€ in millions)

- 2006: -11
- 2007: +179
  - 12.5% Margin

---

(1) ex adjustment of 1.8M inactive pre-pay lines at the end of H1 06
Telefónica Europe increased commercial activity to foster revenue growth ...

- Steady expansion of our wireless customer base: 38.3m lines in 2008 (+9% y-o-y)
  - Successful launch of new commercial initiatives: iPhone in the UK; FONIC (200k) and Genion SML tariffs (+2.1million) in Germany
- Further developing our retail DSL businesses: 670K customers (+48% y-o-y).
  - Highest quality perception in the UK
  - New bundles and speed upgrades in the Czech Rep
  - New BB proposition launched in Germany gaining traction
- Personnel reorganization measures to enhance future efficiency & cancellation of T-Mobile national roaming agreement

---

<table>
<thead>
<tr>
<th>Revenues¹</th>
<th>OIBDA¹</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(€ in millions)</td>
</tr>
<tr>
<td>FY2006</td>
<td>13,159</td>
</tr>
<tr>
<td>FY2007</td>
<td>+9.9%</td>
</tr>
<tr>
<td></td>
<td>+11.7%</td>
</tr>
</tbody>
</table>

FY2007 corresponds to the January-December period. FY 2006 corresponds to the February-December period.
... maintaining momentum while positioned to exploit opportunities as an integrated operator

**UK: continued outperformance**

- 18.4m mobile customers (+4.2% y-o-y)
- 37% in contract

**Contract net adds (in thousands)**

<table>
<thead>
<tr>
<th>Q4 06</th>
<th>Q4 07</th>
</tr>
</thead>
<tbody>
<tr>
<td>136</td>
<td>276</td>
</tr>
</tbody>
</table>

75% of 2007 net adds (43% in 2006)

**ARPU (in £)**

<table>
<thead>
<tr>
<th>FY 06</th>
<th>FY 07</th>
</tr>
</thead>
<tbody>
<tr>
<td>22.7</td>
<td>23.5</td>
</tr>
</tbody>
</table>

+3.6% Data ARPU

**OIBDA margin**

<table>
<thead>
<tr>
<th>Q1 07</th>
<th>...</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>24.0%</td>
<td>26.0%</td>
<td>Ex one-offs</td>
</tr>
</tbody>
</table>

**Germany: increasing commercial activity to capture growth**

- 12.5m mobile customers (+13.1% y-o-y)
- 50% in contract

**Contract net adds (in thousands)**

<table>
<thead>
<tr>
<th>FY 2006</th>
<th>Q1 07</th>
<th>...</th>
<th>Q4 07</th>
<th>FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>511</td>
<td>94</td>
<td>94</td>
<td>244</td>
<td>756</td>
</tr>
</tbody>
</table>

+48.0%

**ULL lines (in thousands)**

<table>
<thead>
<tr>
<th>Net adds Q4 06</th>
<th>Net adds Q4 07</th>
<th>Base FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>93</td>
<td>38</td>
<td>75</td>
</tr>
</tbody>
</table>

Order book of ~50,000 O2 DSL

**Revenue growth (y-o-y)**

<table>
<thead>
<tr>
<th>Q1 07</th>
<th>Q4 07</th>
</tr>
</thead>
<tbody>
<tr>
<td>-3.0%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

**Czech Republic: maintaining growth**

- 5.1m mobile customers (+5.4% y-o-y)
- 44% in contract

**Mobile contract customers (in million, y-o-y)**

<table>
<thead>
<tr>
<th>Dec-06</th>
<th>Dec-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.9</td>
<td>2.2</td>
</tr>
</tbody>
</table>

+19.7%

**Fixed Telephony net adds (in thousands)**

<table>
<thead>
<tr>
<th>Q1 07</th>
<th>Q2 07</th>
<th>Q3 07</th>
<th>Q4 07</th>
</tr>
</thead>
<tbody>
<tr>
<td>-114</td>
<td>-81</td>
<td>-72</td>
<td>-66</td>
</tr>
</tbody>
</table>

**Retail BB connections/ Pay TV clients (in thousands, y-o-y)**

<table>
<thead>
<tr>
<th>Dec-06</th>
<th>Dec-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>405</td>
<td>509</td>
</tr>
</tbody>
</table>

+25.7%
Index

1. 2007 results confirm our strong momentum

2. 2008 guidance reassures our differentiated growth profile

3. Excess FCF allocated to our 1st priority: shareholder remuneration
Solid 2008 guidance, in line with our long term targets...

<table>
<thead>
<tr>
<th>Group Revenues (€ in millions)</th>
<th>Group OIBDA (€ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2007</td>
</tr>
<tr>
<td>56,441</td>
<td>22,825</td>
</tr>
<tr>
<td>2007 adjusted for guidance</td>
<td>2007 adjusted for guidance</td>
</tr>
<tr>
<td>55,550</td>
<td>20,863</td>
</tr>
<tr>
<td>2008E</td>
<td>2008E</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.

<table>
<thead>
<tr>
<th>Group OI (€ in millions)</th>
<th>Group CapEx (€ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2007</td>
</tr>
<tr>
<td>13,388</td>
<td>8,027</td>
</tr>
<tr>
<td>2007 adjusted for guidance</td>
<td>2007 adjusted for guidance</td>
</tr>
<tr>
<td>11,467</td>
<td>7,975</td>
</tr>
<tr>
<td>2008E</td>
<td>2008E</td>
</tr>
</tbody>
</table>

Telefónica’s CapEx excludes Real Estate Efficiency Program. 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 (refer to slide 35 for full detail). Group revenues are also adjusted accordingly. 2008 figures include TVA, Deltax and Telemig (from April 2008).
... fully on track to meet 2010 targets ...

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>9.8%</td>
<td>2.2% / 7.1%</td>
<td>5% / 8%</td>
</tr>
<tr>
<td><strong>OIBDA</strong></td>
<td>12.8%</td>
<td>4.0% / 10.1%</td>
<td>7.0% / 11.0%</td>
</tr>
<tr>
<td><strong>Oi</strong></td>
<td>27.6%</td>
<td>12.1% / 16.9%</td>
<td>16.0% / 20.0%</td>
</tr>
<tr>
<td><strong>Capex</strong></td>
<td>€ 8,087 m</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).

TELEFÓNICA S.A.
Investor Relations
... flowing into significant increases in EPS and FCFS

<table>
<thead>
<tr>
<th>Year</th>
<th>EPS (^1)</th>
<th>FCFS (^2)</th>
<th>2006</th>
<th>2010E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.304 €</td>
<td>1.87 €</td>
<td></td>
<td>2.304 €</td>
</tr>
<tr>
<td>+ 1 €</td>
<td></td>
<td></td>
<td></td>
<td>2.87 €</td>
</tr>
</tbody>
</table>

(1) Reported EPS
(2) FCF available to remunerate Telefonica S.A. shareholders, to protect solvency levels and to accommodate strategic flexibility
Strong growth opportunities in Spain supports robust 2008 and long term guidance

T. ESPAÑA

**Revenues**

(€ in millions)

- **2007**: 20,356
- **2008E**: 20,536
- CAGR 06-10E°: +2.0% / +3.5%

**OIBDA**

(€ in millions)

- **2007**: 9,635
- **2008E**: 10,345
- CAGR 06-10E°: +3.0% / +6.0%

---

**Superior population and GDP growth vs. EU**

**Fixed and mobile broadband- massive adoption**

<table>
<thead>
<tr>
<th>Fixed BB penetration per household with fixed line</th>
<th>DEC-06</th>
<th>DEC-10E</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEC-06: 42%</td>
<td>~75%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mobile BB penetration per laptop</th>
<th>DEC-06</th>
<th>DEC-10E</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEC-06: 20%</td>
<td>&gt;70%</td>
<td></td>
</tr>
</tbody>
</table>

**Additional mobile penetration growth** with strong usage upside

<table>
<thead>
<tr>
<th>Mobile penetration (3)</th>
<th>DEC-06</th>
<th>DEC-10E</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEC-06: 104%</td>
<td>~135%</td>
<td></td>
</tr>
</tbody>
</table>

**New functionalities in PayTV to boost growth**

**Strong demand for ICT solutions** from corporates and SME customers

---

Results for our regional business units exclude brand fees

(1) 2007 T. España revenues are adjusted for new public voice telephony services business model. Expected 2008 Real Estate capital gains of approx. € 94 m (€ 162 m in 2007)

(2) According to guidance criteria provided at Telefónica’s 2007 ID. Please refer to page 43 of T. España presentation.

(3) Including M2M
We are advancing in our strategy to capture growth potential and build a bigger business at Telefónica Europe

**T. O2 EUROPE**

**Revenues**  
(€ in millions)

- **2007**  
  - Adjusted for guidance: €14,358

- **2008E**  
  - CAGR 06-10E: +4.0% / +8.0%

**OIBDA**  
(€ in millions)

- **2007**  
  - Adjusted for guidance: €3,974

- **2008E**  
  - CAGR 06-10E: +5.0% / +9.0%

**UK:** Continue to grow above the market

- **Mobile penetration** <sup>(1)</sup>  
  - DEC-06: 108%  
  - DEC-10E: ~120%

- **Gain revenue market share:** +1.5 p.p. by 2010E

- **Drive MoU up:** 8/10% CAGR 06-10E

- **Broadband proposition:** >1 million customer by 2010E

**Germany:** Investing for the long term to increase growth rate

- **Significant opportunity:** 82 m pops, GDP of €2,300bn, lower usage of mobile

- **Mobile penetration** <sup>(1)</sup>  
  - DEC-06: 104%  
  - DEC-10E: ~120%

- **Roll-out of a high quality 2G, 3G & ULL network**

- **Accelerate growth in DSL, converged products & wider commercial offer to target all segments**

---

**Notes:**
1. **Including M2M**
2. **According to guidance criteria provided at Telefónica’s 2007 ID. Please refer to page 43 of T. Europe presentation.**

**Growth rates assume 2006 constant FX.**
We are well positioned to capture the huge growth opportunity in Latin America

**T. LATAM**

### Revenues

(€ in millions)

<table>
<thead>
<tr>
<th></th>
<th>DEC-06</th>
<th>DEC-10E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile Penetration</td>
<td>56%</td>
<td>~83%</td>
</tr>
<tr>
<td>BB Penetration</td>
<td>10%</td>
<td>~23%</td>
</tr>
</tbody>
</table>

**OIBDA**

(€ in millions)

<table>
<thead>
<tr>
<th></th>
<th>DEC-06</th>
<th>DEC-10E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile Penetration</td>
<td>7,408</td>
<td>140/160 million additional mobile accesses</td>
</tr>
<tr>
<td>BB Penetration</td>
<td>7,408</td>
<td>18/19 million additional broadband accesses</td>
</tr>
</tbody>
</table>

**Unique macro momentum:** GDP per capita (PPP): +5.7% CAGR 2006-10E

**Improving demographics** in the next 10 years:
- +58 million workers
- +74 million people in urban areas

**Fastest growing telecom market in the world:** +7.8%* CAGR 2006-10E

**TELEFONICA**

**Over 55/60 million** additional mobile accesses

**Wireless ARPU up**

**Over 4/5 million** additional BB accesses

**Adoption of bundled offers in fixed residential and SMEs**

---

**Results for our regional business units exclude brand fees**

(1) Includes 3 months of consolidation of TVA in 2007. In 2008 includes TVA (12 months), Telemig (9 months) and Deltax (12 months)6(2) According to guidance criteria provided at Telefónica’s 2007 ID. Please refer to page 44 of T. Latam presentation. **Growths assume 2006 constant FX.**
Index

1. 2007 results confirm our strong momentum

2. 2008 guidance reassures our differentiated growth profile

3. Excess FCF allocated to our 1st priority: shareholder remuneration
We set a disciplined use of FCF with clear 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: 2.3x OIBDA Dec-07

3rd: SELECTIVE M&A

To foster growth in current markets

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

> € 40 bn
Cumulative FCF 07E-10E

(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 FY 2007 OIBDA excluding results on the sale of fixed assets.
... leading to a growing path on shareholders returns

Dividends + Buyback programs

- 0.6 € in 2006
- 0.75 € in 2007
- 1.0 € in 2008

5.2 Bn€ paid to shareholders in 2007

- € 2.7 Bn completed in 2007
- 2008- H1 09 program: 100 m shares, sensitive to cash flow generation and share price

- 5.2 Bn€ paid to shareholders in 2007

Enhanced shareholder remuneration

Cash Yield³

- 5.77% in 2006
- 5.95% in 2007
- 6.08% in 2008E

(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) (Total Dividends paid + Share buy-back) over market cap as of March 7th, 2008
In summary

- Strong performance in 2007
  - Ahead of 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