TELEFONICA: “A return to fundamentals”

CÉSAR ALIERTA
TELEFONICA, EXECUTIVE CHAIRMAN AND CEO
September 2nd, 2008
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1. Solid performance in H1 08
2. Addressing investors’ concerns
Robust set of financials in H108

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

- **Strong earnings, exploiting our differential profile:**
  - **Execution**
  - **Diversification**
  - **Integrated management model**

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(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).
Strong cash-flow generation, leveraging our proven track record to manage costs and CapEx

(€ in millions)

Organic\(^1\) y-o-y growth rate

<table>
<thead>
<tr>
<th>Region</th>
<th>H1 08 OpCF (OIBDA-CapEx)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>5,299</td>
</tr>
<tr>
<td>T. España</td>
<td>4,122</td>
</tr>
<tr>
<td>T. Latam</td>
<td>2,332</td>
</tr>
<tr>
<td>Others &amp;</td>
<td>-42</td>
</tr>
<tr>
<td>Eliminations</td>
<td>7,673</td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

H1 08 FCFS: 0.731€ vs. 0.725€ in H1 07

Organic\(^1\) OIBDA Margin

<table>
<thead>
<tr>
<th>Period</th>
<th>OIBDA Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 07</td>
<td>36.4%</td>
</tr>
<tr>
<td>H1 08</td>
<td>38.2%</td>
</tr>
</tbody>
</table>

Solid H1 08 OIBDA margins across regions:
- T. España: 50.1%
- T. Latam: 36.4%
- T. Europe: 29.0%

\(1\) 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, the impact of sales of assets (Airwave and Sogecable) in both periods is excluded.
Distinctive growth profile, capitalising on our high diversification...

**H1 08 Revenue**

- **T. España:** 25% (€7,006 m)
- **T. Europe:** 18% (€2,033 m)
- **T. Latam:** 37% (€10,531 m)

**H1 08 OIBDA**

- **T. España:** 47% (€5,173 m)
- **T. Europe:** 34% (€3,831 m)
- **T. Latam:** 37% (€10,331 m)

**Bundles: 38% of total accesses (+7 p.p. vs. Jun-07)**

Jun-08/Jun-07

- **T. España:** +3.9% (47.0 millions)
- **T. Europe:** +9.8% (43.8 millions)
- **T. Latam:** +21.4% (147.9 millions)
- **Total:** +15.2% (245.1 millions)
- **Mobile:** +19.0% (182.7 millions)
- **BB:** +25.1% (11.5 millions)
- **Pay TV:** +57.4% (2.0 millions)
- **Fixed:** -0.1% (43.4 millions)

**Accesses**

**First Quarter 2008**

- **BB**: +15.2%
- **Total**: +21.4%
- **Fixed**: +3.9%
... driven by the strong growth in Latam

**Contribution to organic revenue and OIBDA growth by region**

**H1 08 Revenue**

<table>
<thead>
<tr>
<th>Region</th>
<th>T. España</th>
<th>T. Europe</th>
<th>T. Latam</th>
<th>TEF Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 08</td>
<td>+0.5 p.p.</td>
<td>+1.6 p.p.</td>
<td>+4.3 p.p.</td>
<td>+6.7%</td>
</tr>
</tbody>
</table>

**H1 08 OIBDA**

<table>
<thead>
<tr>
<th>Region</th>
<th>T. España</th>
<th>T. Europe</th>
<th>T. Latam</th>
<th>TEF Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 08</td>
<td>+4.6 p.p.</td>
<td>+2.2 p.p.</td>
<td></td>
<td>+5.5 p.p. +12.0%</td>
</tr>
</tbody>
</table>

**Organic growth by regions**

**H1 08 Revenue**

<table>
<thead>
<tr>
<th>Region</th>
<th>TEF Group</th>
<th>T. España</th>
<th>T. Europe</th>
<th>T. Latam</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 08</td>
<td>+6.7%</td>
<td>+2.1%</td>
<td>+6.2%</td>
<td>+12.2%</td>
</tr>
</tbody>
</table>

**H1 08 OIBDA**

<table>
<thead>
<tr>
<th>Region</th>
<th>TEF Group</th>
<th>T. España</th>
<th>T. Europe</th>
<th>T. Latam</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 08</td>
<td>+12.0%</td>
<td>+9.5%</td>
<td>+12.4%</td>
<td>+15.8%</td>
</tr>
</tbody>
</table>

---

(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 is included. In OIBDA, the impact of sales of assets (Airwave and Sogecable) in both periods is excluded.
We are fully on track to meet 2008 Group guidance...

Revenue Growth\(^1\)

\[+7.1\%\]

Guidance

6%\%/8%

% Change H1 08/H1 07

OIBDA Growth\(^1\)

\[+8.7\%\]

Guidance

7.5%\%/11%

% Change H1 08/H1 07

O1 Growth\(^1\)

\[+17.2\%\]

Guidance

13%\%/19%

% Change H1 08/H1 07

CapEx\(^1\)

€ 3,513 m

Guidance

~ € 8,600 m

H1 08

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\(1\) 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.
... with all our regions delivering 2008 commitments

T. España

Revenue Growth\(^1\)

+2.1%

GUIDANCE

2%/3.5%

% Change H1 08/H1 07

T. Latinoamérica

OIBDA Growth\(^1\)

+6.2%

GUIDANCE

6%/8%

% Change H1 08/H1 07

T. Europe

GUIDANCE

11%/14%

% Change H1 08/H1 07

GUIDANCE

4%/7%

% Change H1 08/H1 07

GUIDANCE

12%/16%

% Change H1 08/H1 07

GUIDANCE

2%/6%

% Change H1 08/H1 07

(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 include TVA, Deltax and Telemig (from April 2008). Telefonica’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.
Delivering once again a superior performance

Source: company press releases.
BT: Reported figures for March-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.
Index

1. 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% 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% y-o-y in June 08
- **Population will keep growing**

**1H08 performance**

- Sustained growth in Internet & BB wireline revenues ≈+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 H108)

**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
How are you facing intense competition in Spain?

**Strong commercial push to sustain our leadership**

**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

**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

**Limited fixed line losses**

**Fixed lines in domestic markets (Jun-08/Jun-07)**

<table>
<thead>
<tr>
<th></th>
<th>TEF</th>
<th>BT</th>
<th>FT</th>
<th>DT</th>
<th>TI</th>
<th>KPN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change</td>
<td>-1.6%</td>
<td>-6.4%</td>
<td>-6.4%</td>
<td>-7.1%</td>
<td>-8.6%</td>
<td>-16.9%</td>
</tr>
</tbody>
</table>

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

**New entrants market share:** 2.5%

**T.España wireless net adds share (H1 08E)**

<table>
<thead>
<tr>
<th></th>
<th>Contract</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>44%</td>
<td>32%</td>
</tr>
</tbody>
</table>

**T.España Retail BB**

<table>
<thead>
<tr>
<th>Net adds (y-o-y change)</th>
<th>2H07</th>
<th>1H08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adds</td>
<td>382K</td>
<td>391K</td>
</tr>
<tr>
<td>% Change</td>
<td>-28.2%</td>
<td>-15.6%</td>
</tr>
</tbody>
</table>

**MARKET SHARE**

- > 57% E
- 45% E
- >78% E

**MARKET SHARE**

- High performance BB offering:
- > 57% E
- > 78% E
- 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

- 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

- Limited fixed line losses

- Fixed lines in domestic markets (Jun-08/Jun-07)
  - TEF  -1.6%
  - BT  -6.4%
  - FT  -6.4%
  - DT  -7.1%
  - TI  -8.6%
  - KPN -16.9%

- Line losses due to change in ULL mix and higher competition
What factors will contribute to sustain revenue growth in Spain in H208?

1. **The deceleration started to be noticed in 2H 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
- Dec-06: 56%
- Jun-07: 62%
- Dec-07: 69%
- Jun-08: 75%

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

Broadband penetration¹ in Latin America
- Dec-06: 10%
- Jun-07: 12%
- Dec-07: 15%
- Jun-08: 17%

Solid usage performance

Usage metrics (H1 08 y-o-y change)
- Outgoing MoU²: +22.8%
- Wireless Ex-forex²: +2.7%
- Average Revenue per Fixed Line Ex-forex: +3.5%

Ability to adjust prices:
- Traditional fixed line: Tariff revisions linked to inflation except in Argentina where revenues up +11.3% y-o-y in H108²
- 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

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(1) Over households.
(2) Includes Telemig in June 2007.
(3) In local currency.
Are you concerned about costs inflation in Latin America?

**Solid OIBDA margin expansion (T. Latam)**

<table>
<thead>
<tr>
<th></th>
<th>Q2 07</th>
<th>Q2 08</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>33.9%</td>
<td>36.4%</td>
</tr>
<tr>
<td>+2.4 p.p.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>T. Latam Wireless OIBDA margin¹</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 07</td>
<td>25.7%</td>
<td></td>
</tr>
<tr>
<td>Q2 08</td>
<td>30.1%</td>
<td></td>
</tr>
</tbody>
</table>

**Leveraging scale benefits and cost measures:**

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

**Wireline margins impacted by business transformation**

**Enhanced margins q-o-q driven by major operations**

<table>
<thead>
<tr>
<th>T. Latam Wireline OIBDA margin¹</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 07</td>
<td>42.2%</td>
<td>38.2%</td>
<td>39.9%</td>
<td></td>
</tr>
<tr>
<td>Q1 08</td>
<td></td>
<td>+1.7 p.p.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2 08</td>
<td></td>
<td>-2.3 p.p.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total employees to leave in 2008 (Index)**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>H1 08</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td></td>
<td>73%</td>
</tr>
</tbody>
</table>

**LEVERAGING SCALE BENEFITS AND COST MEASURES:**

Enhanced margins q-o-q driven by major operations

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

**Total employees to leave in 2008 (Index)**

- Index 100%: 2008
- Index 73%: H1 08

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(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

Delivering 2008 commitment

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 facing the current operating environment in UK?

- **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

- **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

- **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?

Europe
- Medium term glide paths approved by national regulators in most countries
- EU draft recommendation published on June 08 for convergence for MTRs in Europe

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 the end of 2009

Group net exposure\(^1\) to MTRs in Europe
- \(< 1\%\)
- H1 08

Group net exposure\(^2\) to MTRs in Latin America
- \(< 2\%\)
- H1 08

Lower interconnections costs in wireline operations
How are you facing the credit crunch?

**Net Financial Debt/OIBDA**

- Dec -06: 2.7x
- Dec -07: 2.3x
- Jun-08: 2.0x

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

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

- 2008: -0.6
- 2009: 3.8
- 2010: 5.6

Next 12 months payment obligations already covered:
- Liquid assets, cash flow generation and unused committed credit facilities
- Negative net debt maturities for remaining 2008

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

- Jun-08: 9.5
- Maturing Q2 09 onwards

Rating outlook upgrades to positive by S&P’s and Fitch

Price a prudent & opportunistic €1.25Bn 7 years deal in May-08

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(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 H1 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

>160 million combined accesses in Europe
Largest Telecom alliance in Europe, with ~19% market share¹

(¹) Europe 25. 2007 estimated market share.
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></th>
<th>2006</th>
<th>2010E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS 1</td>
<td>1.304 €</td>
<td>2.304 €</td>
</tr>
<tr>
<td>FCPS 2</td>
<td>1.87 €</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

(*) 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?

> € 40 bn
Cumulative FCF 07E-10E

> 40%²
of current market cap
to be generated in the
next 3 years

1st: SHAREHOLDER REMUNERATION

2nd: DELEVERAGE

3rd: SELECTIVE M&A

A growing path of dividends

Share buybacks to be considered

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

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

(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 29th August, 2008.
Should we expect new announcements on shareholder remuneration in the short term?

Prioritizing shareholder remuneration

Dividends + Buyback programs

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

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

New framework:
- 2008: 100 m shares
- 67.7% executed up to July 17th, 2008
- Sensitive to cash flow generation and share price

Cash Yield\(^1\)

- 2006: 6.47%
- 2007: 6.68%
- 2008E: 7.25%

Decisions on shareholders return timetable aligned with cash flow generation

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\(^1\) Total Dividends paid + Share buy-back over market cap as of August 29th, 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>
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<tr>
<td>0.069 m shares</td>
</tr>
<tr>
<td>0.006 m shares</td>
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<tr>
<td>0.005 m shares</td>
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<tr>
<td>&gt;1.6 m shares</td>
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</tbody>
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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 Committee
In summary

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

On track to fulfill our commitments + Unmatched organic growth ahead of peers

Leveraging our differentiated profile: Execution, Diversification & Integrated management model

Strong performance in H1 08

Very attractive investment case

High FCF yield + Strong growth prospects