

Telefónica España: Solid performance, strong trends

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General Manager
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TMT Conference



Telefonica

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01 Benchmark set of results in 1Q07

02 Set to continue delivering a premium performance

03 Differential strengths to exploit market opportunities

01 There are sceptics about the sustainability of our superior performance

Analysts reports 1Q07

*“France suffered in 2005,
Germany in 2006...
Spain should be next...”*

*“TEF is facing increasing
pressure from regulators and
competitors, specially in its
home market”*

*“We are concerned that a weakening domestic economy
could compound more meaningful competition in fixed.
In mobile the risk to revenues from renewed price
pressure has substantially escalated”*

*“Spain is not that different
from other EU markets”*

01 Our view

- **The Spanish economy maintains its strength:**

- +4.1% GDP growth in 1Q07
- Growing population

- **We have been consistently proactive in the market, unlike others:**

1

Shaping the market:

- Aggressive customer acquisition strategy
- High performance loyalty tools to sustain benchmark churn rates in wireless and to enhance loyalty in wireline

2

Launching innovative solutions to foster usage

3

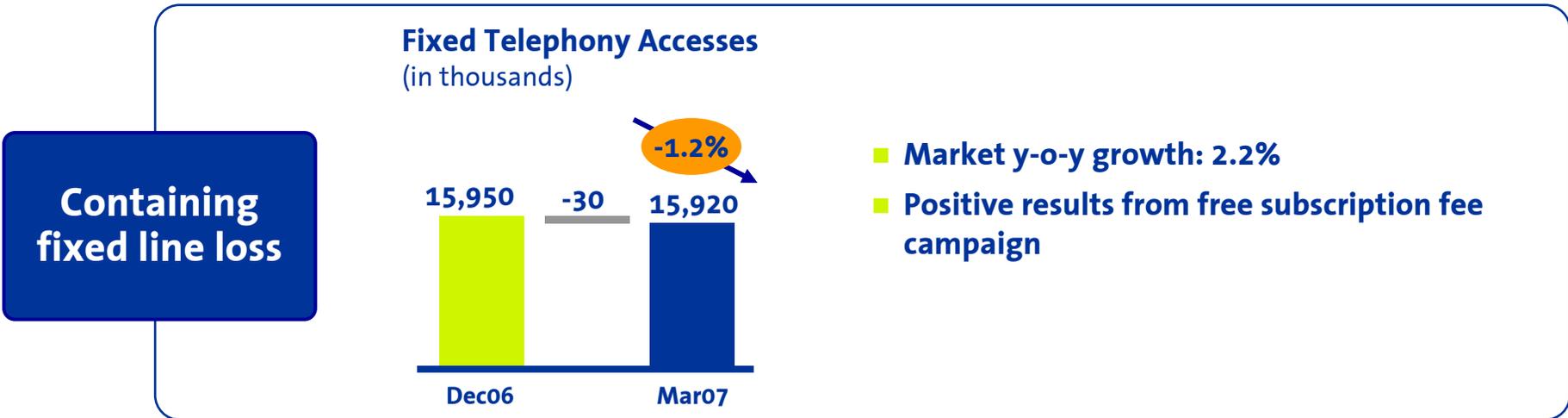
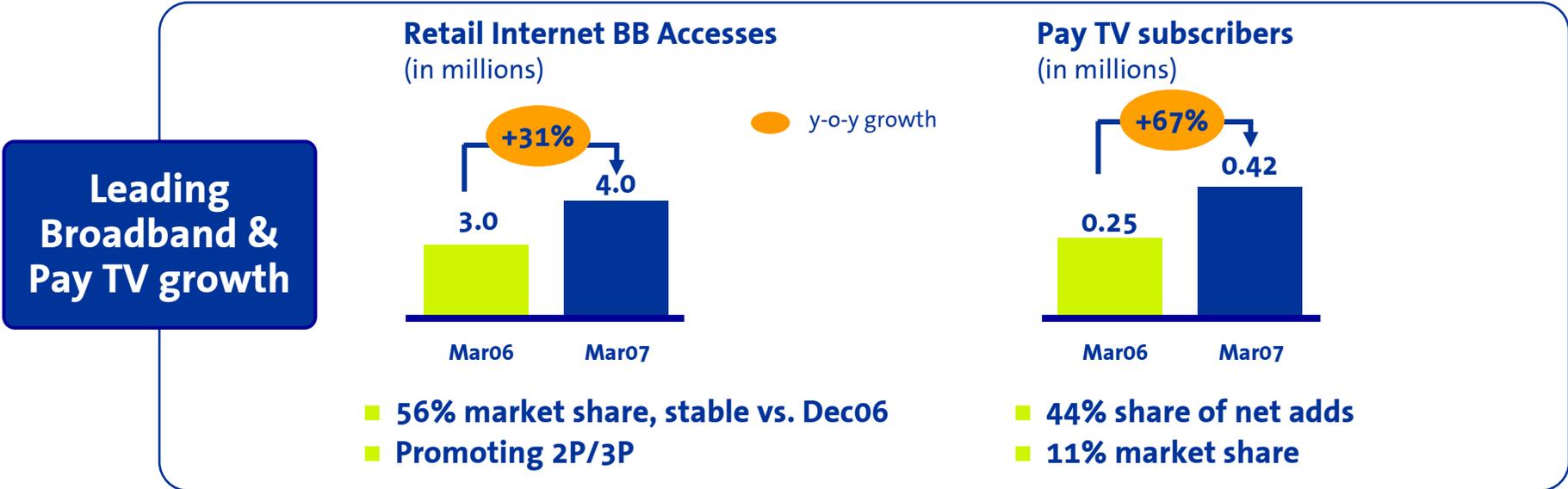
Leading price reductions in wireless to position our on-net offer as the most competitive in the market

4

Maintaining a quality premium

We continued to deliver a benchmark set of results in 1Q07

01 **1** Shaping the market, both in wireline ...



01 1 ... and in wireless ...

Solid customer expansion

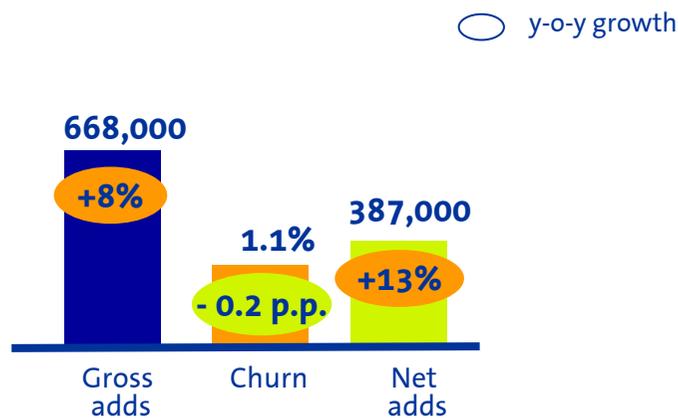
Customer growth (1Q07 y-o-y)



- 57% of customer base in contract (+3 p.p.)
- Total net adds: 368,000 in 1Q07
- Blended churn: 1.8% in 1Q07 (-0.1 p.p. vs. 1Q06)
- Positive results in number portability

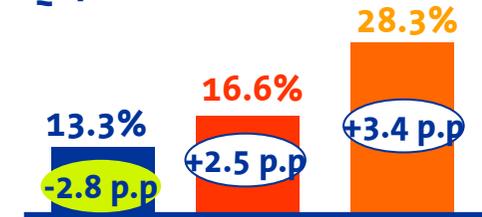
Focused on value customers

Contract segment (1Q07)

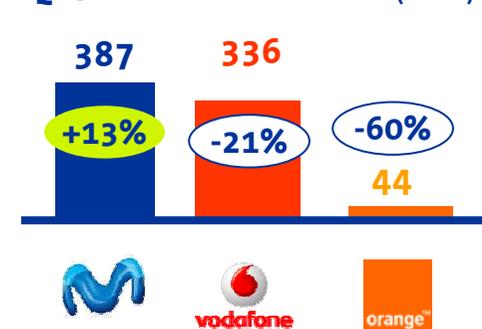


- Residential handset upgrades: +13%
- Long term contracts

1Q07 contract churn¹

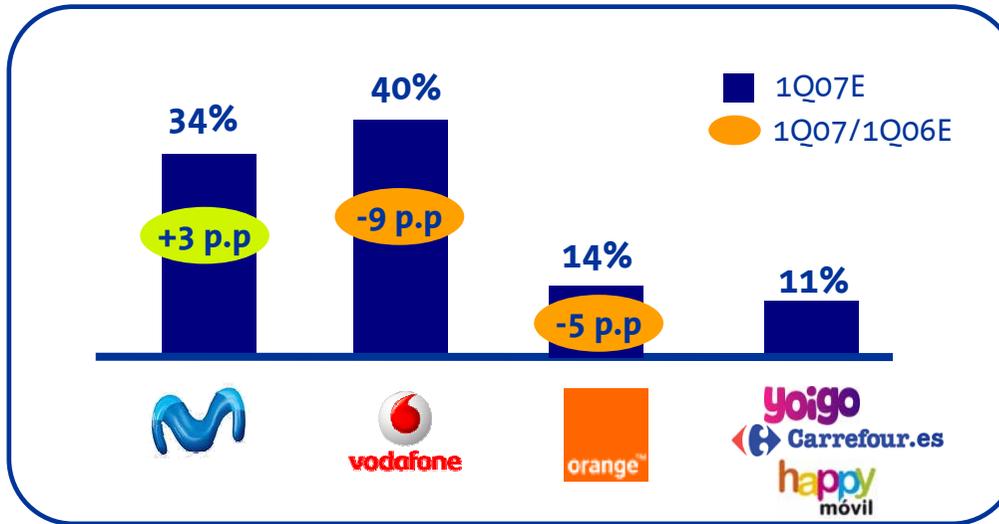


1Q07 contract net adds (000)

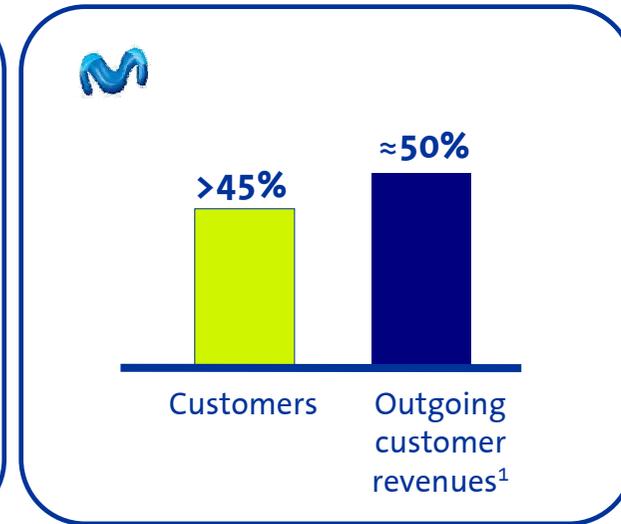


01 1 ... maintaining market share despite the competitive environment

Share of wireless net adds



1Q07E market shares



Yoigo & MVNOs launch

	SPAIN (Yoigo + MVNOs)	SLOVAKIA (Telefónica)
Population	45MM	5.4MM
Penetration at launch	104%	97%
Launch	Nov. 06	Feb. 07
1Q07 customers	~155K	~387 K

~ 2.5x

Sources: Telefónica estimates based on press releases from companies and internal estimates for MVNOs. Data for Orange excluding the impact of Euskaltel.

¹ Excludes loyalty points

01 **2** Launching innovative solutions to foster usage across businesses ...

- **1st European Telco to launch IPTV (Imagenio)**
- **Pioneers in the deployment of BB VAS**
 - 3.2MM BB VAS
- **Integrated solutions for SoHo & SMEs**
- **Tailor-made ICT solutions for corporates**
- **Pioneer in the introduction of m-ticketing in Spain**
- **Mobilization of business applications**
- **Innovative /simpler pricing schemes to drive usage ...**



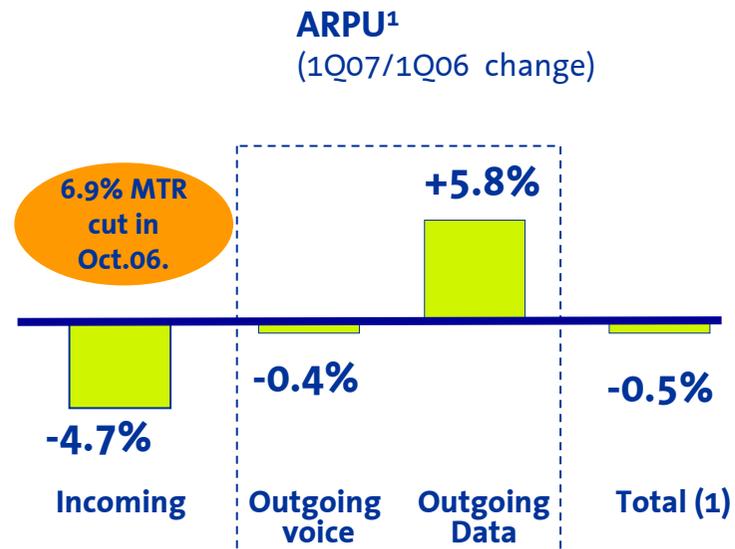
01 **2** ... that is bearing fruit ...

Wireline



- 25.1% of lines have BB (18.9% in 1Q06)
- 75% of retail BB accesses with 2P/3P
- Retail BB VAS ARPU: €7.7

Wireless



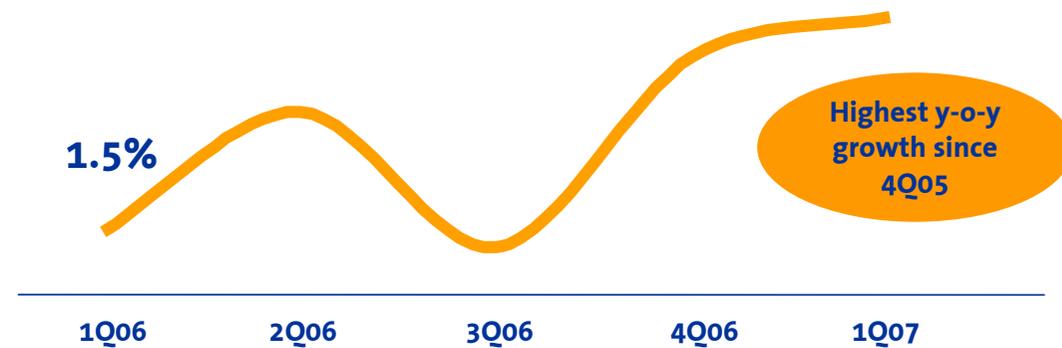
- +5.3% growth in outgoing MOU

(1) Excludes roaming-in

01 **2** ... with a strong trend in wireless data ARPU

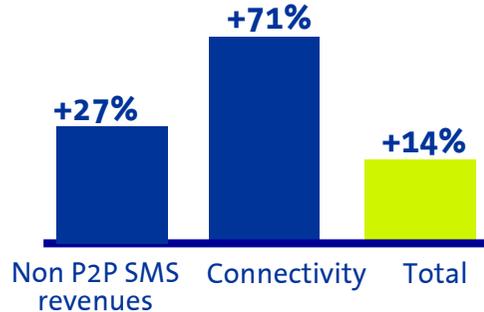
Fostering Data ARPU growth ...

Outgoing data ARPU y-o-y growth

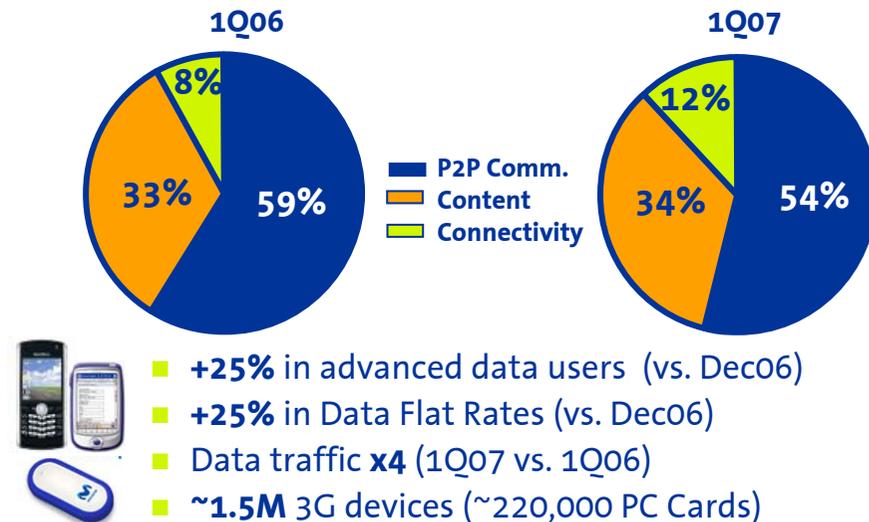


... based on connectivity & content development

1Q07/1Q06 Data Revenue growth

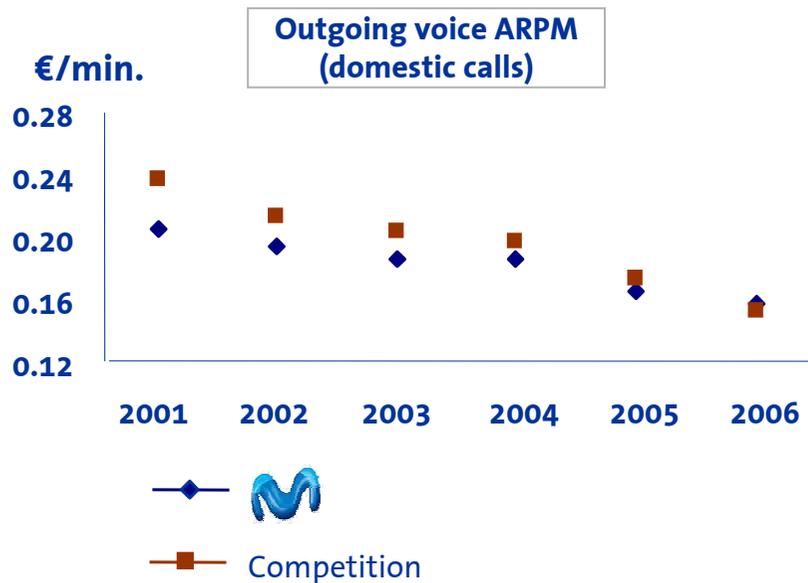


Data revenues split



01 **3** We have led price reductions in wireless to position our on-net offer as the most competitive in the market ...

- Aggressive reductions in ARPM in the market: -34% in 2001-2006
- Movistar pricing schemes have been always very competitive



Source: CMT / INE



Capitalising our scale:

- Biggest on-net community: >45% market share
- 4.8MM customers with on-net plans: :
 - 70% in contract (vs. 57% of total base)
 - 45%-50% lower churn
 - Above average ARPU

2004

- 1st community plan

2005

- Cheapest on-net price in the market: €0.01/min
- "Mis Cinco": €0.03/min. (on-net and fixed)

2006

- On-net prices to other movistar numbers abroad
- Uno Familiar (wireline and wireless): €0.03/min

01 **3** ... and in 2007 “we are not resting on our laurels following the strong first quarter”¹

New voice and data pricing to stimulate usage & increase loyalty

April
New daily rate for wireless internet



- Best rates for wireless internet
- Targeted at non intensive Internet Users
- 1€/10 Mb contract
- 3€/10 Mb prepay

May
New tariffs for residential customers



- Simplified offer (4 options)
- Leveraging “community effect”:

 - €0.03/minute contract on-net calls (€0.30/min off-net)
 - €0.05/min pre-pay (€0.59/min off-net)

- Opt-in

May
New tariffs for SOHO and SMEs



- Leveraging “community effect”
- New flat rates for:

 - intra-company calls or SMS
 - on-net calls ...

Factored in guidance

¹ Fidentiis. May 18, 2007

01 4 Maintaining a quality premium

**Broadband:
Best
perceived
offer**

ADSL: Broadband Speed test
1 Mbps connections (Kbps)

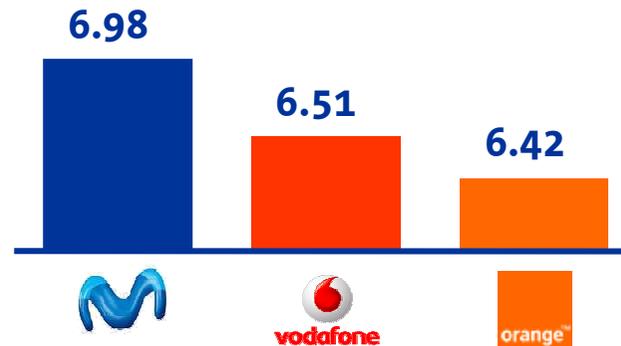


“Best quality ISP”
AI. January 07

Source: Asociación de Internautas (AI). 2007

**Wireless:
Highest
customer
satisfaction**

Global satisfaction index (2006)



**Only operator with
enhanced customer
satisfaction in the
market**

Source: Telefónica, based on external surveys

01 Our proactive operating approach allowed us to post a benchmark set of results in 1Q07

Telefónica España

Sound top-line growth driven by customer expansion

Total accesses
(in millions)



Revenues
(€ in millions)



- Internet and BB revenues: +22.3%
- Data & IT revenues: +8.9%
- Wireless customer revenues¹: +8.4% vs. +7.6% in customer base
- Incoming wireless revenue¹: -0.5%

Healthy profitability

OIBDA
(€ in millions)



OIBDA Margin

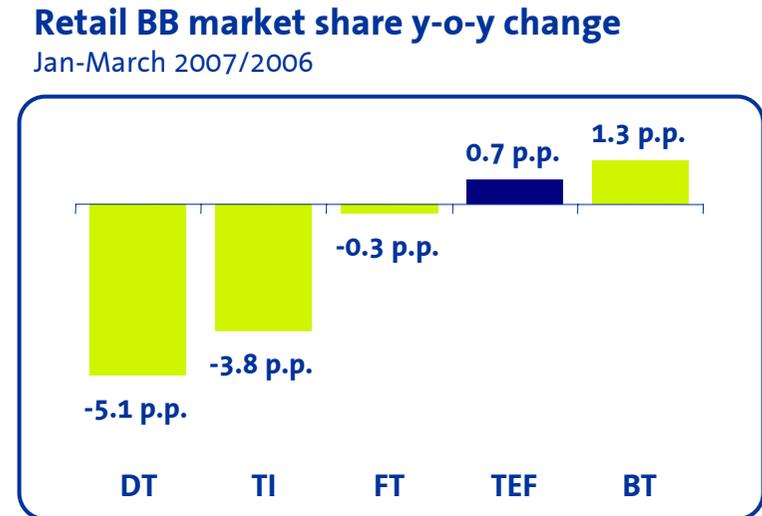
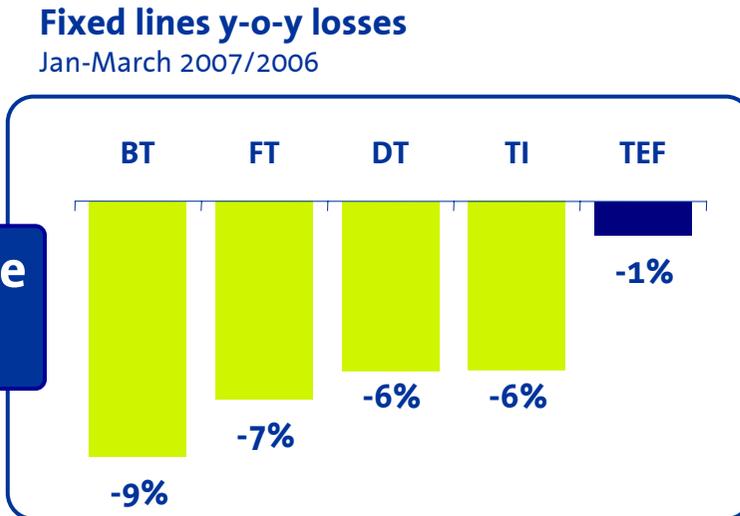


- Lower ERE provision vs. 1Q06
- Wireline underlying growth: +4.7%
- Stable margin in wireless: 44%

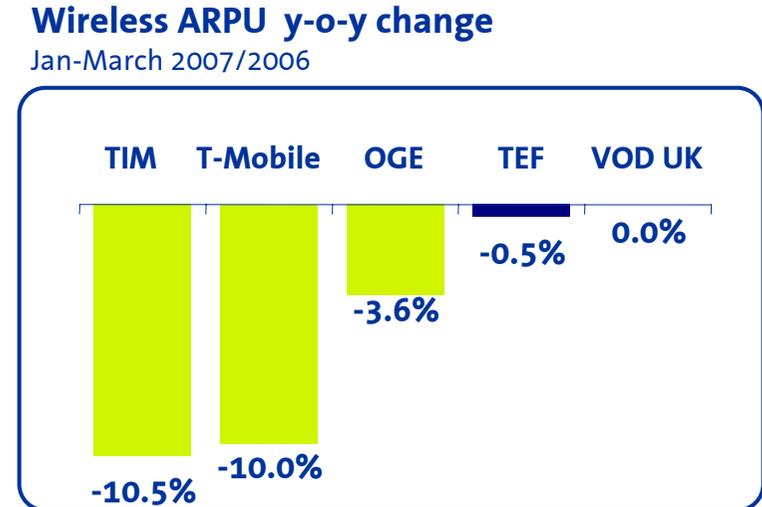
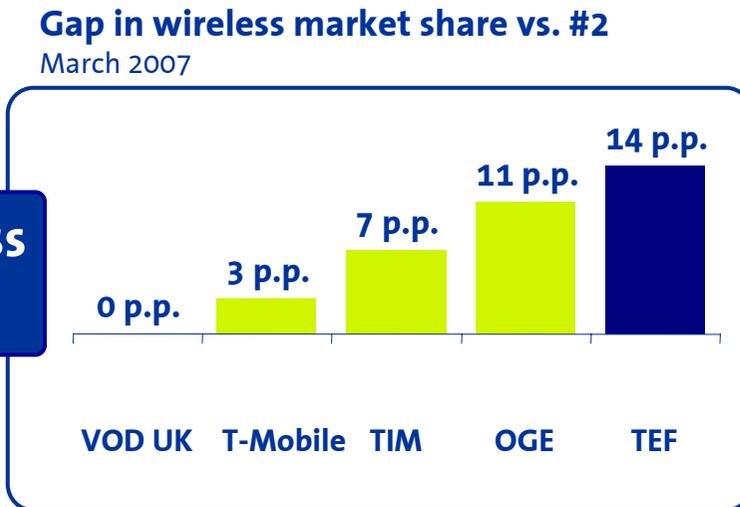
(1) Comparable growth rates. Pre-pay sales and top-up commissions are accounted for as costs in 1Q07 (netted from revenues in 1Q06). Revenues/costs of portability transit routing are now registered for their net amounts

01 We have delivered a superior operating performance ...

Wireline
(domestic markets)



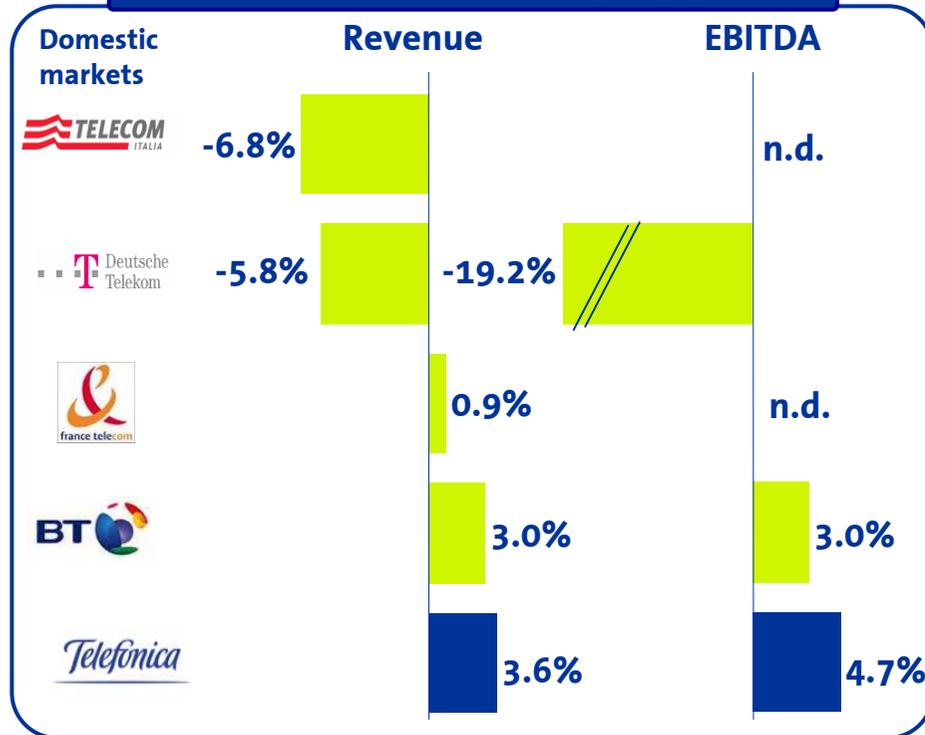
Wireless
(domestic markets)



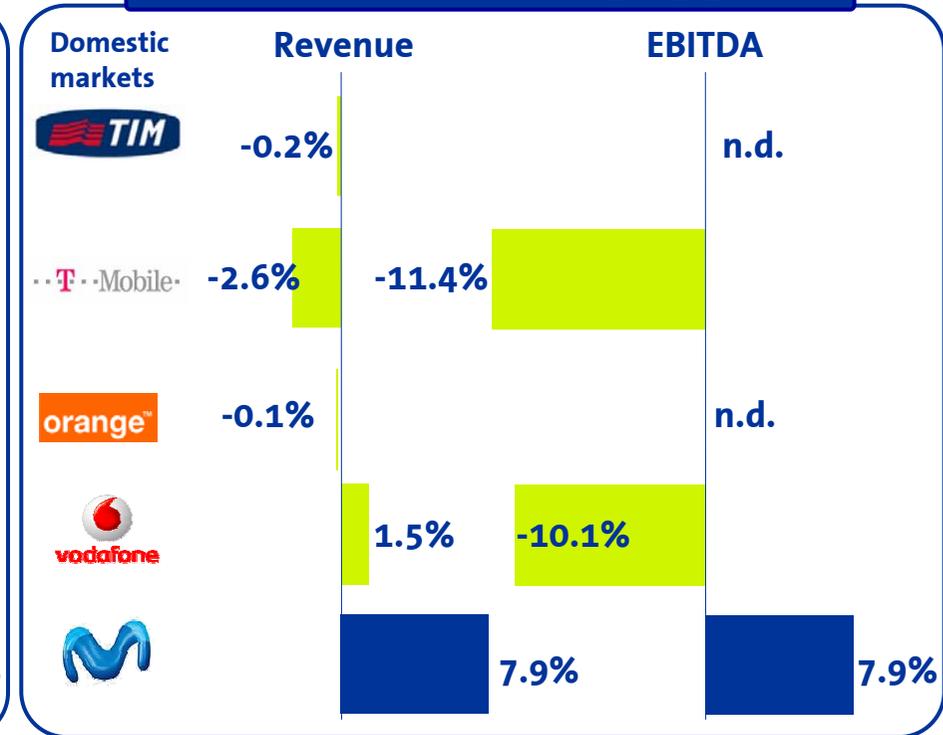
Source: Company press releases; ML European BB and Wireless matrix (May 2007)
BT and Vodafone: April 06-March 07 y-o-y comparison

01 ... maintaining our differential profile

Wireline (Jan-March 2007 y-o-y growth)



Wireless (Jan-March 2007 y-o-y growth)



Superior growth, profitability and disclosure

TI: TI Domestic Wireline (excluding European Broadband project). Organic EBITDA.

DT: Domestic Wireline business = BBFN Germany + T-Systems (T-Systems includes non-domestic operations). Adjusted OIBDA.

FT: Domestic Wireline business=Home France+Business (Business includes non-domestic operations).

BT: Jan-March 2007 vs. 2006 periods for BT Consolidate Group. EBITDA before specific and leaver costs.

Vodafone: April 2006-March 2007 y-o-y growth for Vodafone UK

TEF: Underlying EBITDA growth for wireline division

01 1Q07 results crystallize confidence in our execution capabilities to successfully face our challenges

Analysts reports post 1Q07 results

“Spanish business particularly strong, which should reduce market concerns on BB competition and Yoigo impact”

“The strength in Spain allays fears held by some that the Spanish market is now ex growth as competition hits”

“Spanish business confounds the skeptics ... This should re-assure those worried that the increase in competition with the launch of Orange, the entry of a 4th player in mobile and of MVNOs would hurt TEF”

“Spain good. Telefónica bears will find little here.”

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01 **Benchmark set of results in 1Q07**

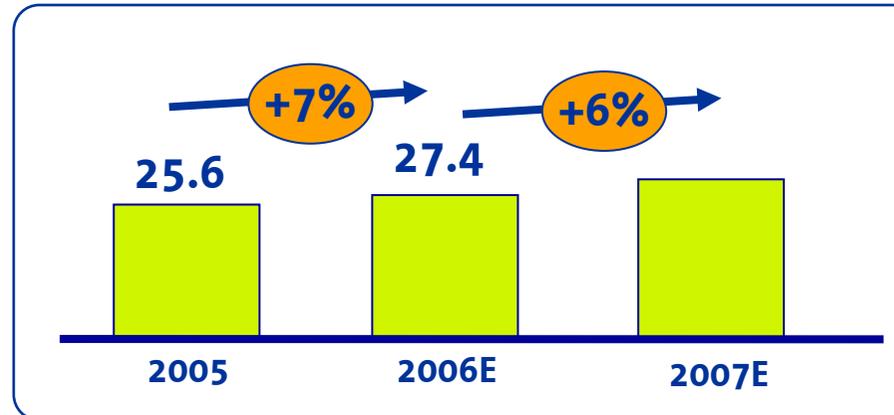
02 **Set to continue delivering a premium performance**

03 **Differential strengths to exploit market opportunities**

02 High growth potential in our market

Strong momentum in telecoms

Total market customer revenues (€Bn)



Favourable macro context



Source: INE, Telefónica

TELEFONICA ESPAÑA
London, June 6, 2007

02 Strong opportunities to capture

We have enjoyed great successes ...

... but we still have long way to go



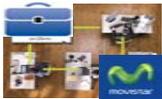
■ **Almost 4MM ADSLs accesses**

■ **Only 34% of households have ADSL**



■ **Imagenio's customer base almost doubling**

■ **Our market share is only 11%**



■ **Innovative solutions launched**

■ **Nearly 90% of our clients DO NOT have "desktops", and "Wireless Desktop" is yet to explode**



■ **>380,000 e-mail devices**

■ **Only 7% of our clients have a 3G device**



■ **Analyzing new business models**

■ **Models based on content, advertising ... are yet to take off**

02 Priorities to exploit our distinctive growth profile

Sustain premium growth

- Expansion of wireless customer base & data usage
- Further development of BB

Enhance revenue quality

- Enhance loyalty of high value customers
- Transform variable revenues into fixed

Network transformation

- UMTS network densification & HSDPA expansion
- TdE's access network transformation

Enhance efficiency

- TdE's 2003-2007 ERE program
- Accelerate cash generation

+

Capture integration & convergence value

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01 **Benchmark set of results in 1Q07**

02 **Set to continue delivering a premium performance**

03 **Differential strengths to exploit market opportunities**

03 Strong position based on our strengths as an integrated player

- **We are market leaders across businesses**
 - 82% in fixed line access
 - 56% in broadband
 - >45% in wireless
- **We know well our high quality customer base**
 - 57% of our wireless customers in contract
 - Stronger market share in Corporate
- **We have higher customer satisfaction**
 - Best quality, service provisioning and customer care
- **We have a large exclusive distribution channel ready to sell all services and state of the art networks to back our commercial efforts**
- **We have strong financial resources to lead the commercial push**

+

**Superior
capacity to
anticipate
changes**

03 Differential commercial strength

Driving cross selling

+2,500 sales people

10,000 Call centre positions

Strong online channels

~7,300 Points of sale

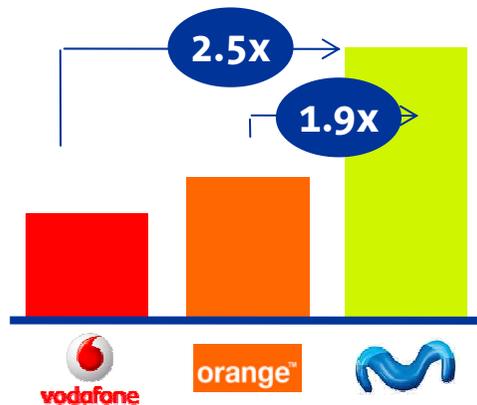
- Integrated sales force in Corporate & joint objectives for small businesses

- Signalling and transferring

- Joint front-end, redirectioning and bundle sales

- Strong indirect channel

Exclusive POS¹



- Largest channel: >45% of total PoS in the market

- >75% of wireless commercial activity carried out through exclusive PoS

- Exclusive specialists PoS, a competitive advantage:

- PoS over any other operator total exclusive PoS

- Key channel for high value segments

¹ Source: Telefónica estimates. Based on research in cities over 20,000 inhabitants

03 Unmatched profile to exploit convergence

EXAMPLES

Channel convergence

- Stimulating demand through cross selling

Integrated sales force & convergent offering for large corporations

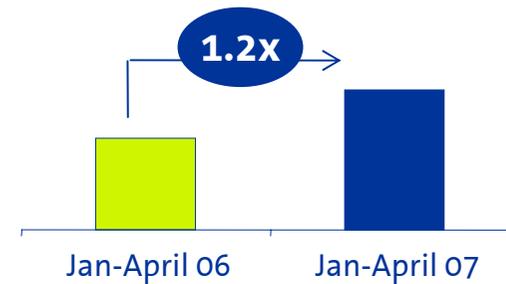
- Capturing, retaining and winning back corporate clients
- Lengthening commitment periods

Tactical offering for residential

- Bundles
- Pricing plans

BB & Imagenio sales through TME's specialist channel

Units per month

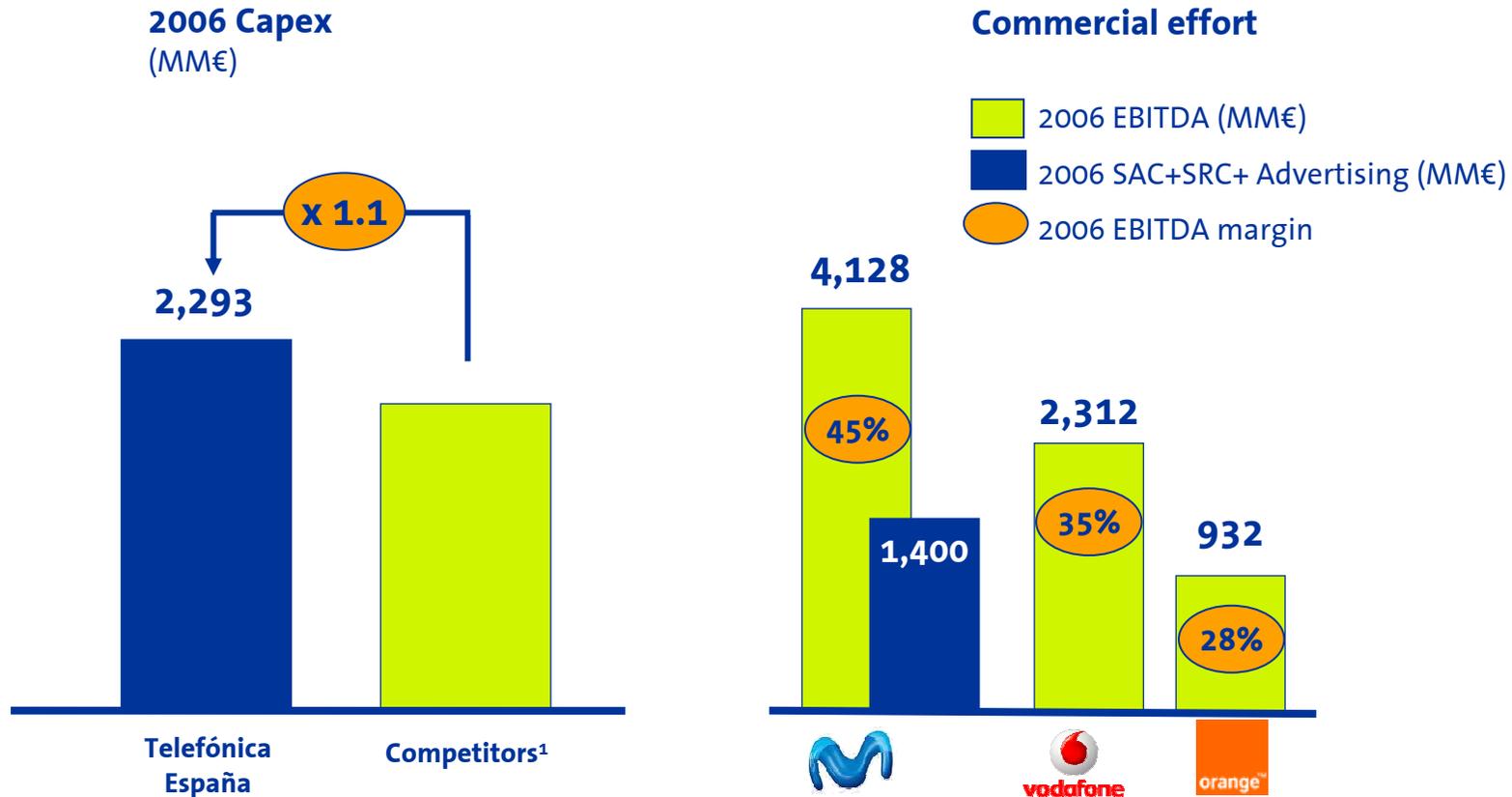


Flat rates for on-net wireless calls and fixed



UNO Pyme

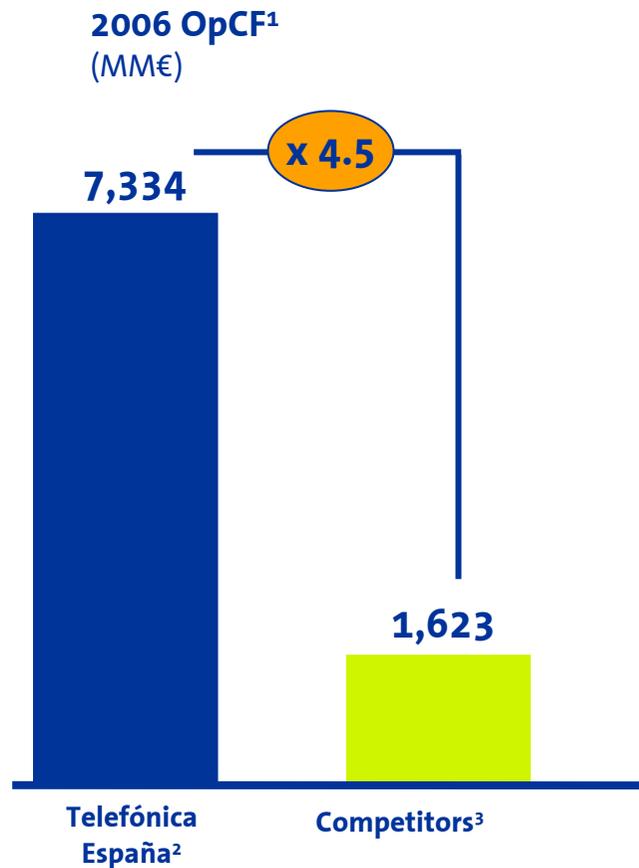
03 Financial strength



Unparel resources allow to lead innovation and keep strong commercial push

¹ Includes VOD, OGE, Ono & Jazztel.
Sources: press releases from companies and ML Wireless Matrix. Fiscal year for Vodafone (April 06 -March 07).

03 Strong cash-flow generation despite significant capex to transform the network



2006-2009E capex: ≈ €9,000MM

- UMTS network densification & HSDPA expansion, to back a commercial strategy fully aligned with market trends
- Wireline access network transformation (FTTx): €800MM

1 OIBDA- Capex

2 OIBDA excluding E.R.E. provisions

3 Includes VOD, OGE, Ono & Jazztel.

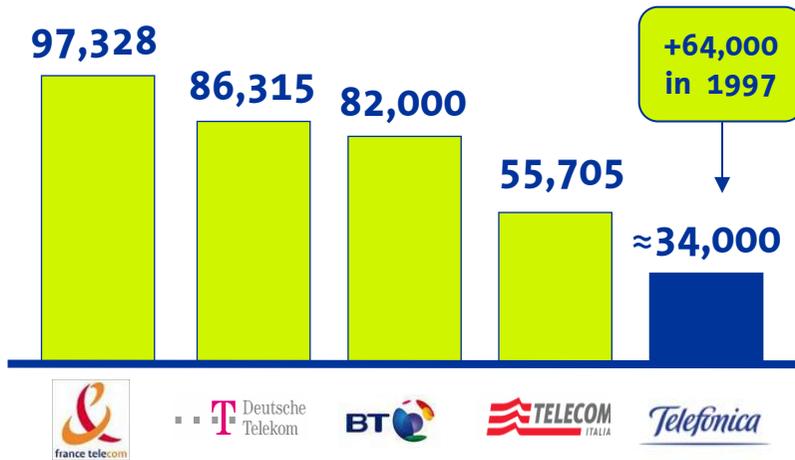
Sources: press releases from companies and ML Wireless Matrix. Fiscal year for Vodafone (April 06 -March 07).

03 Superior ability to anticipate changes in the industry

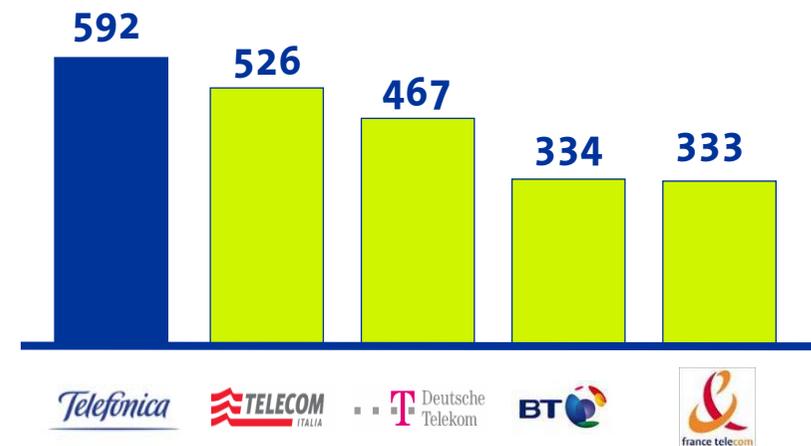
“Management implemented a large restructuring plan in its domestic fixed line operations at the end of the 90s ... TEF deserves credit for the “homework” done ... especially relative to some of the peers group (i.e. FT or DT)” Merrill Lynch, March 2007

Domestic wireline businesses

Employees 2006



Lines per employee 2006



ERE TdE ■ 15,000 employees
2003/07: ■ 37% workforce reduction

Source: Merrill Lynch European Broadband Matrix 1Q07, May 2007 and Telefonica Fixed lines + retail BB accesses/ wireline business total workforce

Conclusions

- **Once again we have delivered solid results in 1Q07**
- **Proven capacity to grow further our revenues** through new accesses and increased usage of our services
- **Strong opportunities to keep a benchmark profile**
- **Exploiting convergence opportunities and extracting value from integration**
- **Our track record reflects our strengths and execution capabilities to capture this growth potential**

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