

# The best combination of growth and returns in the industry

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**Telefónica S.A.**

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# Index

## ■ 1Q07 results reaffirm our unique profile

1. Non-stop growth in all financial metrics for 11 consecutive quarters
2. Organic growth well ahead of peers
3. Fully benefiting from the value of being diversified
4. Delivering on our commitments

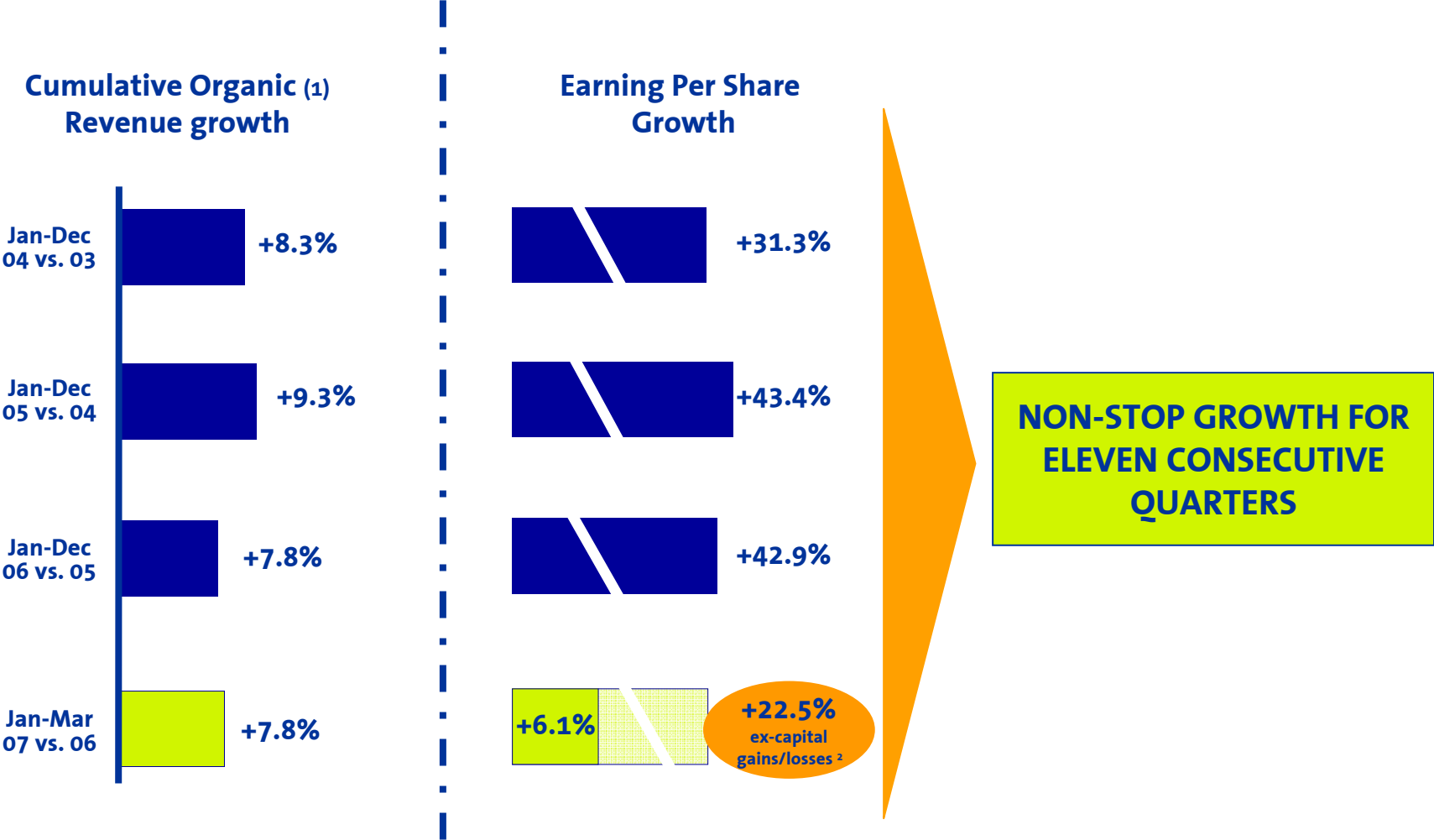
## ■ We are facing your main concerns

1. Is sustainable our superior performance in Spain?
2. UK margin erosion
3. Turning around German operations
4. Underperformance of Brazilian mobile asset
5. Sustainability of Mexican turn-around

## ■ What are you maybe missing?

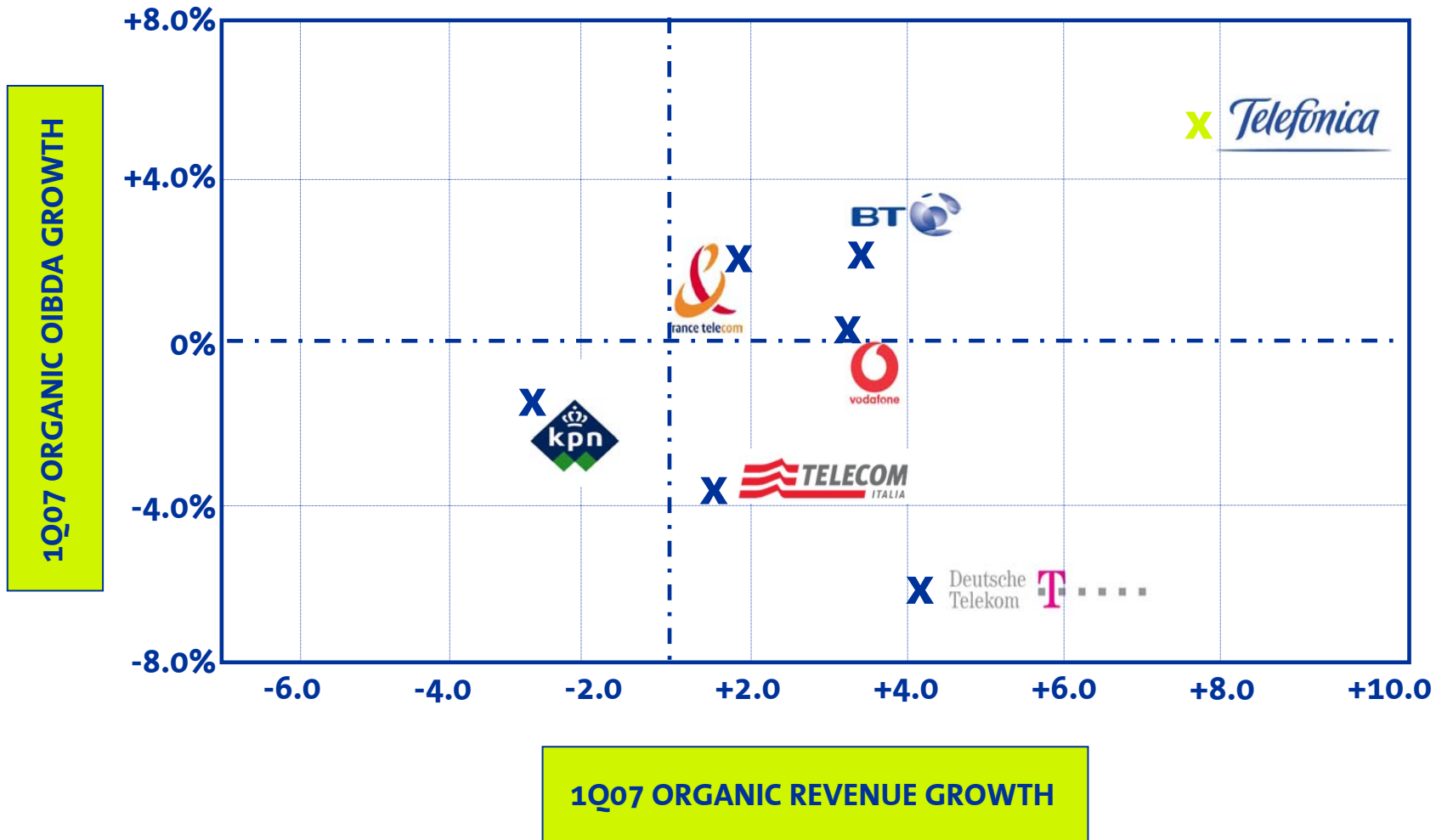
1. Mobile growth & profitability prospects in Latin America

# 1Q07 performance reaffirms our profile as the best combination of growth & returns in the industry...



(1) Excluding exchange rate impact and changes in the consolidation perimeter  
 (2) Sale of shares in Sogecable in 1Q06 (6.57%), related to Prisa's take over bid over the company and sale of Endemol France in 1Q07

# ...once again outperforming the peer group on ORGANIC terms...



Source: company press releases

BT: April-March 07 vs. 06; EBITDA excludes specific items; organic EBITDA excludes specific items and leaver costs. Nominal growth rates for revenues

DT: EBITDA growth adjusted for special factors. Revenue growth in nominal terms

FT: Organic Revenue/EBITDA growth: on a comparable basis

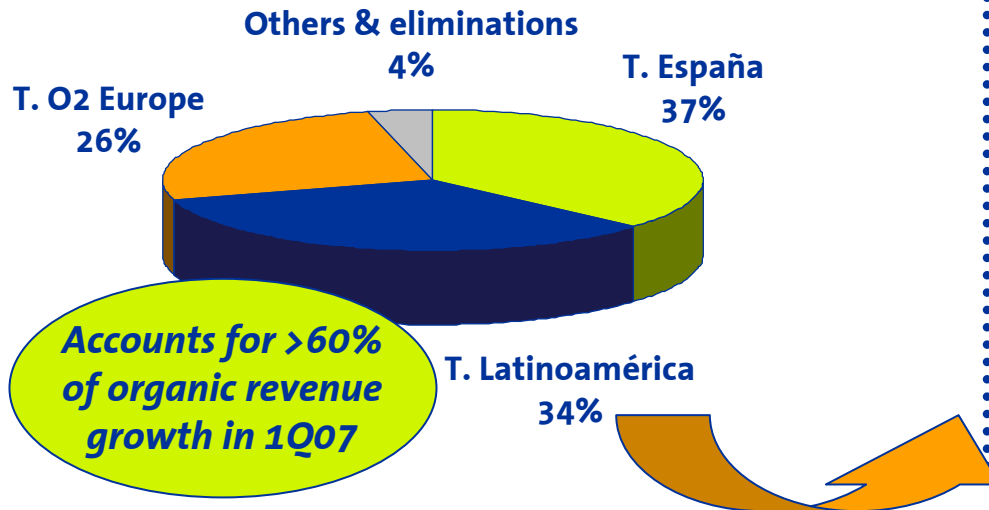
KPN: Organic Revenue/EBITDA growth: adjusted Revenue/EBITDA for guidance calculation

VOD: April-March 07 vs. 06

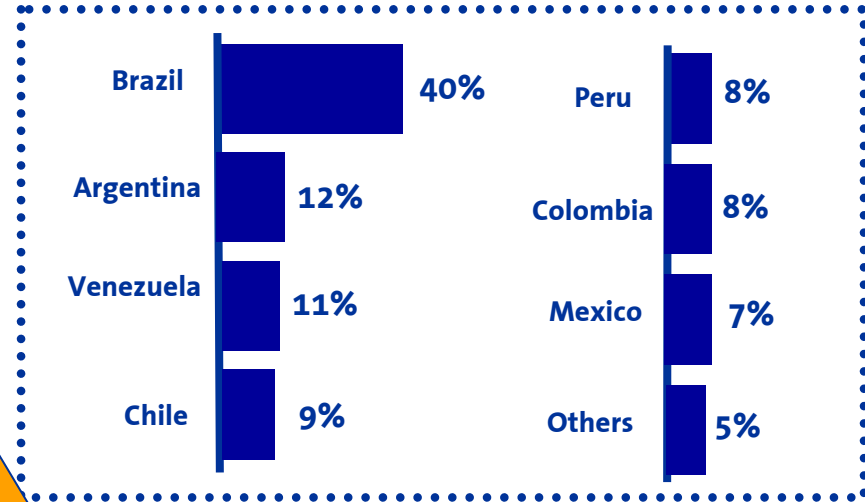
TELEFONICA S.A.

# ...fully benefiting from the value of being diversified

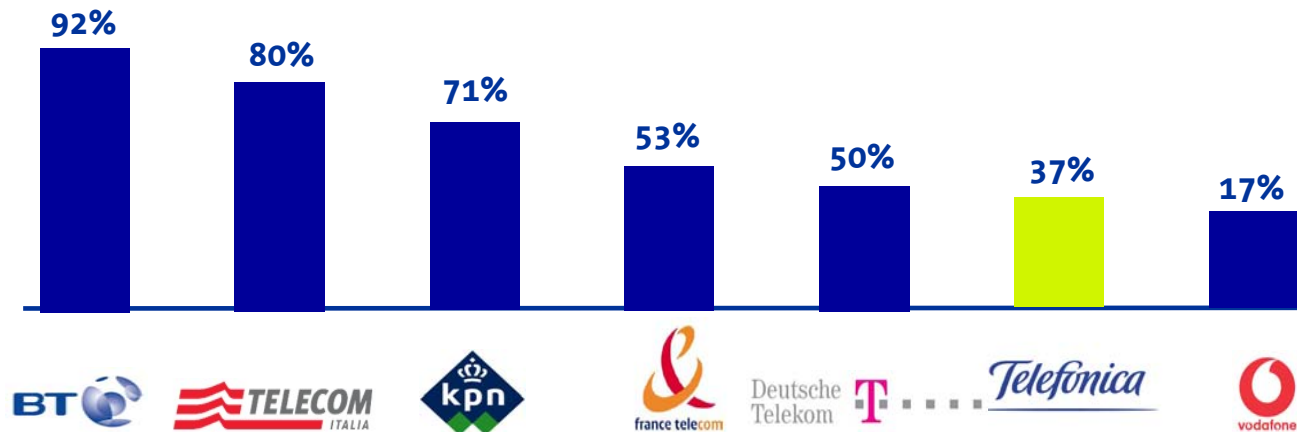
1Q07 Revenue breakdown by region







1Q07 LatAm Revenue contribution by country



**Domestic Revenues over Total Revenues (1Q07) (1)**



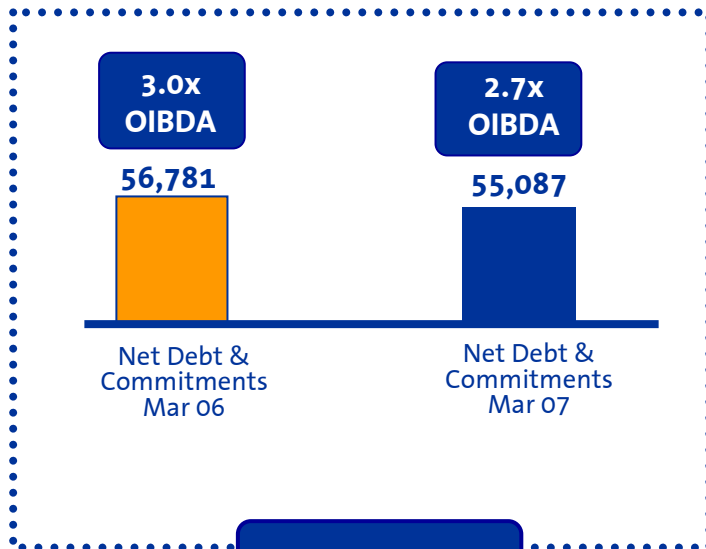
## ...and consistently delivering or outperforming on financial guidance...

		GUIDANCE	RESULTS <sup>1</sup>	
<b>2003</b>	Revenues	5% / 8%	<b>6.0%</b>	
	EBITDA	6% / 9%	<b>12.5%</b>	
	EBIT	18% / 21 %	<b>29.7%</b>	
<b>2004</b>	Revenues	7% / 10%	<b>8.6%</b>	
	EBITDA	5% / 7%	<b>6.0%</b>	
	EBIT	15% / 18 %	<b>15.5%</b>	
<b>2005</b>	Revenues	12% / 15%	<b>17.2%</b>	
	OIBDA	10% / 13%	<b>12.3%</b>	
	OI	12% / 18 %	<b>16.1%</b>	
<b>2006</b>	Revenues	34% / 37%	<b>38.8%</b>	
	OIBDA	26% / 29%	<b>28.9%</b>	
	OI	26% / 30%	<b>29.2%</b>	

# ...on de-leveraging and on EPS guidance...

## Progressing on de-leveraging

(€ in million)

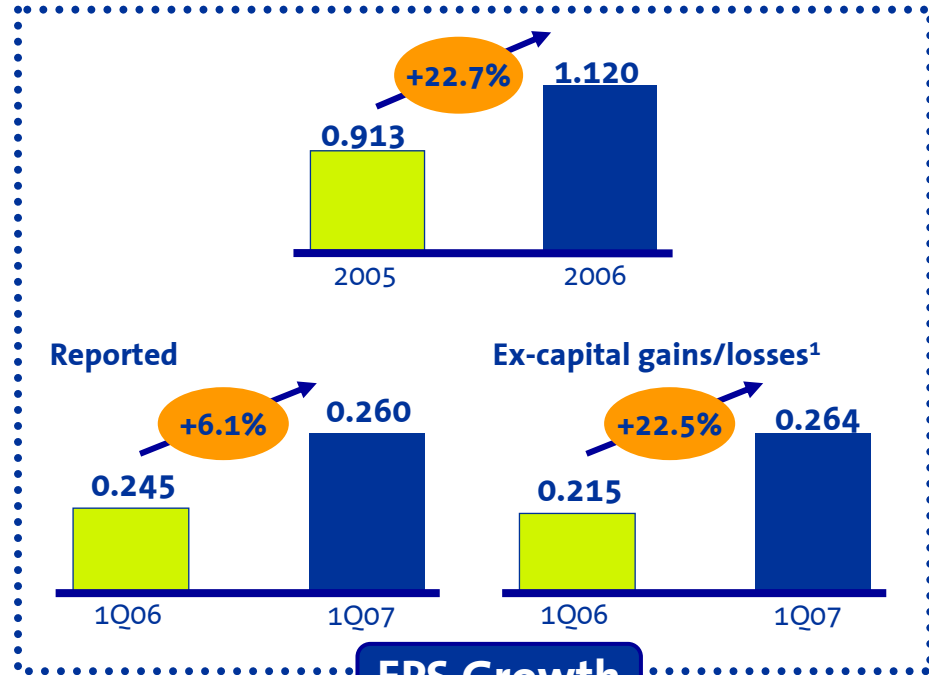


**Target of 2.5x by 2008**



## On track to double underlying 2005 EPS by 2009

(in €)

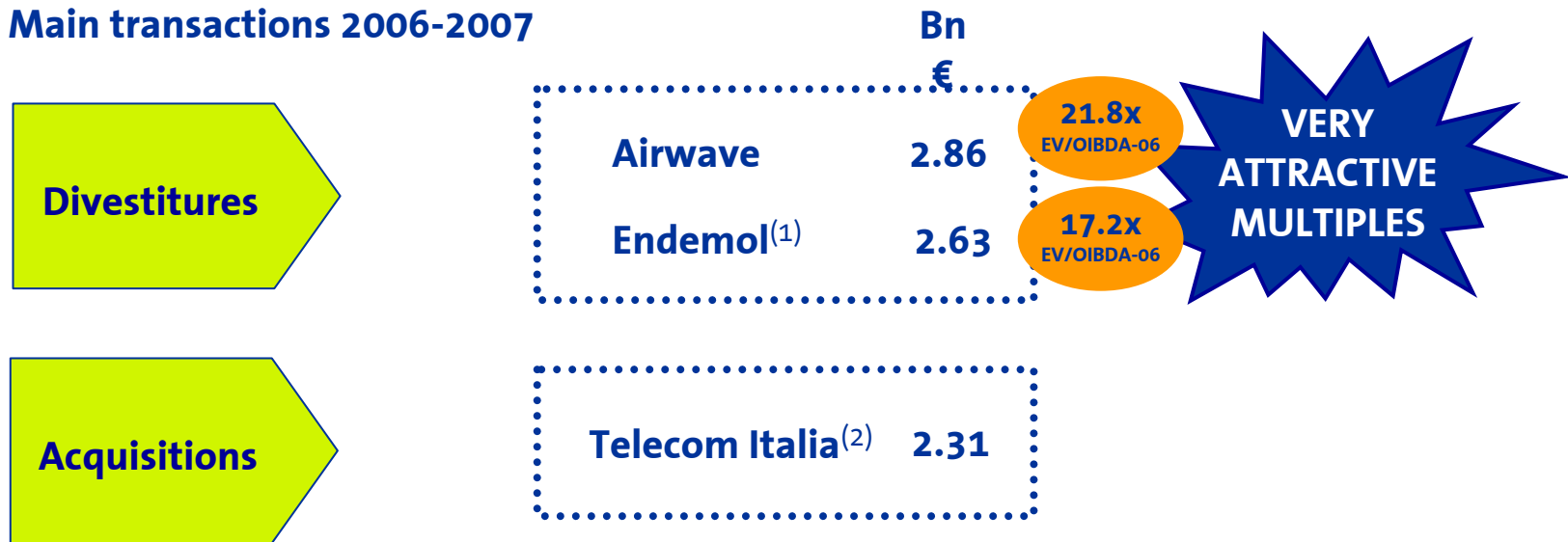


**EPS Growth in-line to double DPS by 2009**



# ...and fully delivering on our 1.5 bn € M&A commitment set on May-06...

## Main transactions 2006-2007



**AS OF MARCH 2007, NET FINANCIAL INVESTMENTS COMPLETED OR COMMITTED AMOUNTED TO A FIGURE OF ≈-2.6 Bn € (vs. +1.5 Bn € COMMITMENT)**

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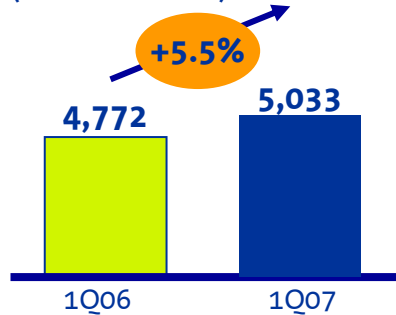
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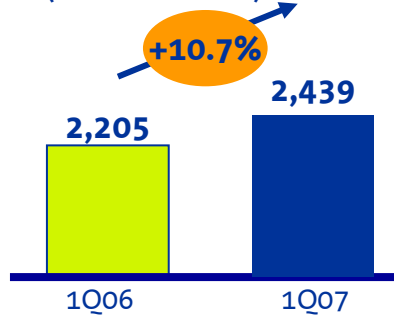
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# Spain: is sustainable our superior performance?

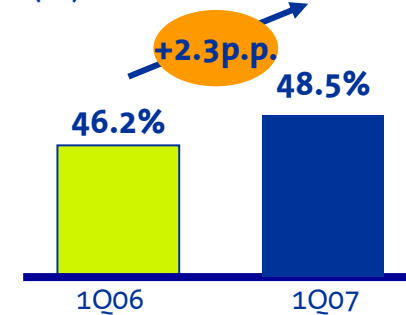
Revenues  
(€ in millions)



OIBDA  
(€ in millions)



OIBDA Margin  
(%)



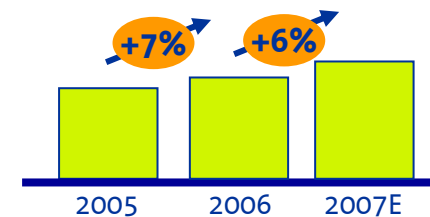
**HIGH GROWTH POTENTIAL IN OUR MARKET**

## FAVORABLE MACRO CONTEXT

	2007E
GDP growth above Euro-zone average	+3.2%
Population growth	+1.1%
Sustained growth in <b>businesses and freelancers</b>	+3.6%
<b>Household</b> increase above population growth	+700K

## STRONG MOMENTUM IN TELECOMS

Total market customer revenues



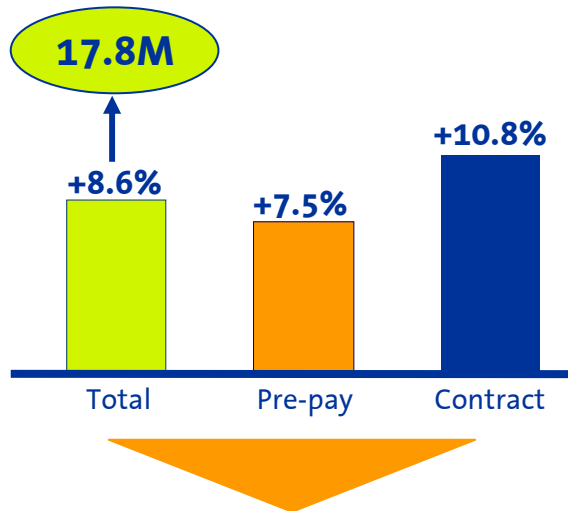
**WE KEEP BEING MARKET MOVERS**

- New price plans for **wireless Internet, Residential and SOHO & SMEs**
- Pioneers in the **deployment of BB VAS**



# UK: Margin erosion

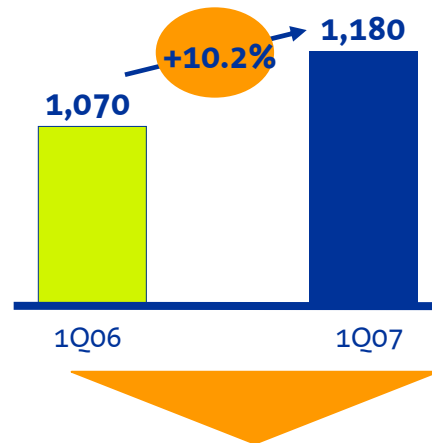
**Mobile customer growth**  
(y-o-y)



## FOCUS ON CLIENT RETENTION

- Handset upgrades in 1Q07: +22%
- 118.000 customers added in 1Q07
- +80.000 net new contracts, to represent 35.5% of customer base (+0.7 p.p.)
- 70% of new post-pay on 18-month contracts

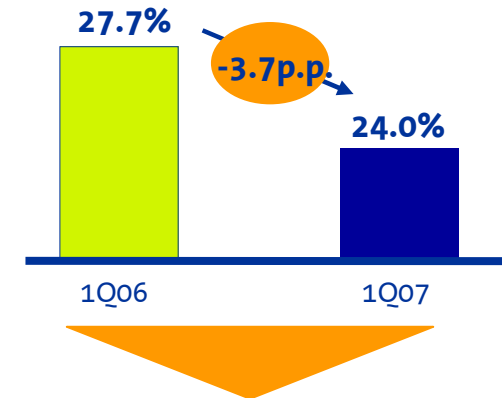
**Revenues**  
(Organic<sup>1</sup>, £ in millions)



## REVENUES ON CUSTOMER GROWTH

- MoU up 10.6% y-o-y
- Blended ARPU +0.8% to 33.3€
- Data ARPU: +10.2%
- Service revenues: +9.7%

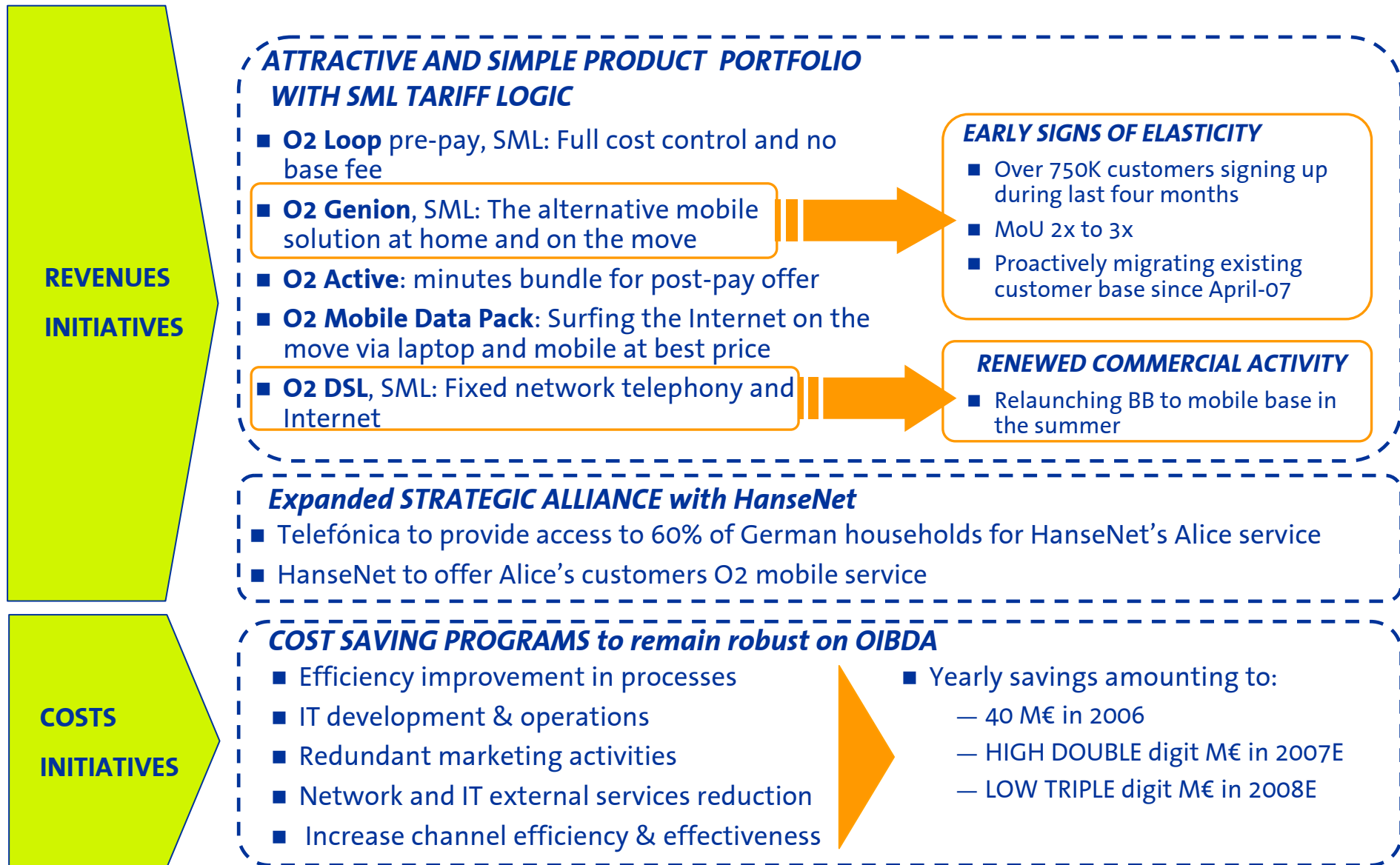
**OIBDA margin**  
(Organic<sup>1</sup>)



## MARGINS TO IMPROVE FROM 1Q07

- Higher commercial activity in retention during 1Q07
- Commercial costs to be reduced throughout 2007
- BB launch delayed to September

# Germany: can we turn-around the operations?



# Brazil: can we strengthen our competitive position to recover the path of profitable growth?

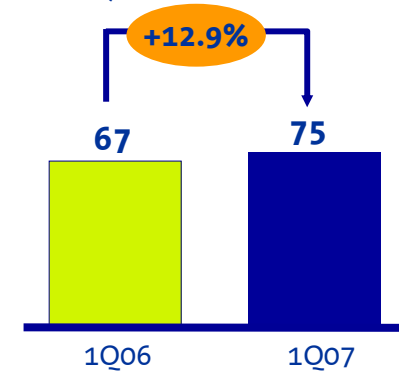
## MANAGING CURRENT OPERATIONS TO IMPROVE OUR COMPETITIVE POSITIONING

- Focus on value clients
- Strong reduction of fraud
- New pricing plans drive MoU & ARPU increases
- Highest number of points of sale in the market
- Unified systems: 100% of customer base within one common platform

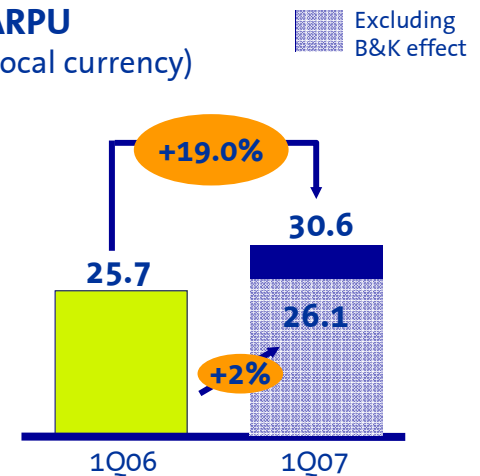
## FAST EXECUTION OF MIGRATION TO GSM

- GSM network deployed in a record time
- Superior coverage due to launch in 850MHz
- 960,000 GSM customers in April (launched on January 2007)
- 17% share of net adds in April-07 (121K net adds in Apr-07 vs. negative 22.8K net adds in 1Q07)

MoU  
(minutes)



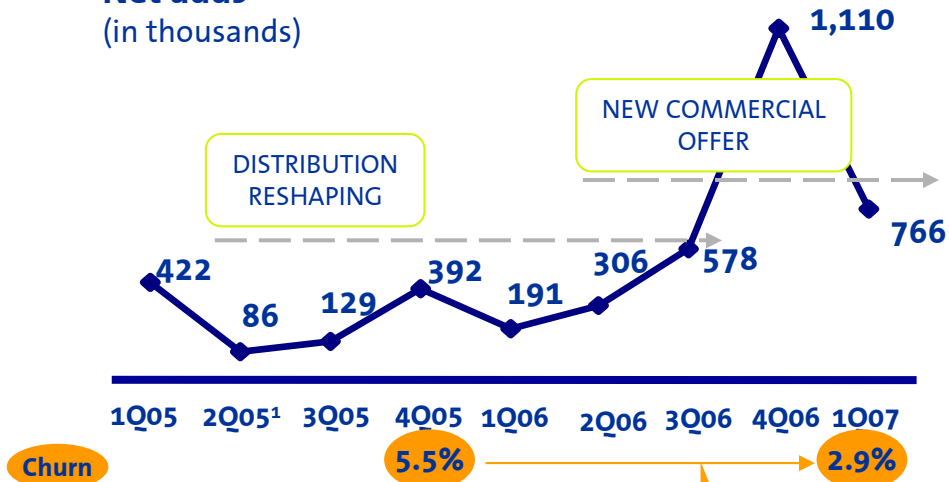
ARPU  
(local currency)



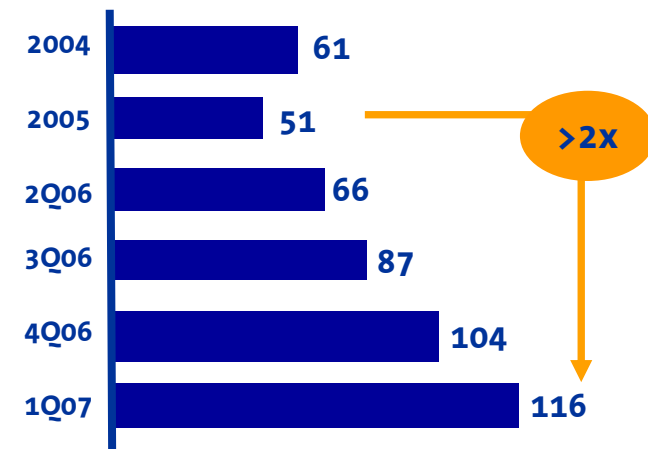
# Mexico: can we sustain operational turn-around?

## Net adds

(in thousands)

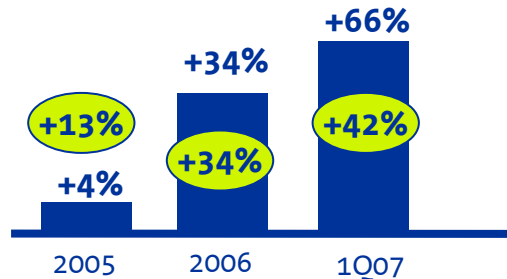


## MoU Evolution



## Service revenue y-o-y growth

(change in local currency)

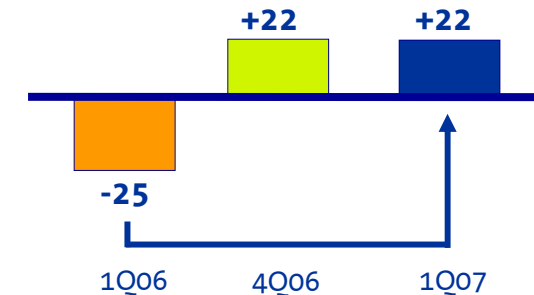


Customer growth

- Incoming service revenues positively impacted by national CPP
- Early sign of regulatory advances (national CPP, portability)

## OIBDA

(€ in millions)



**PRIORITIZE QUALITY GROWTH RATHER THAN SPEED OF GROWTH**

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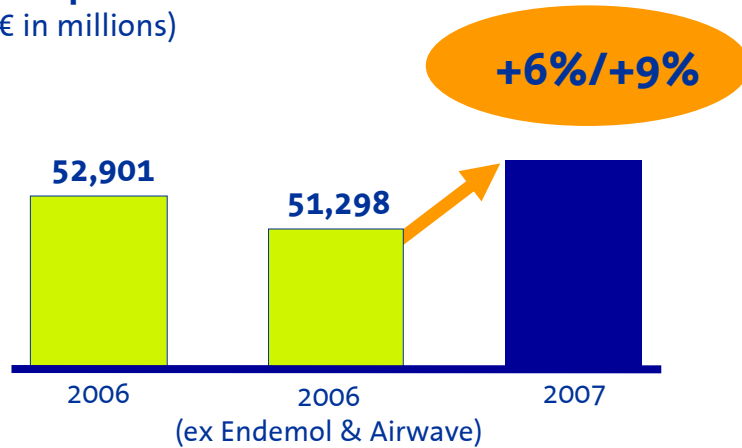
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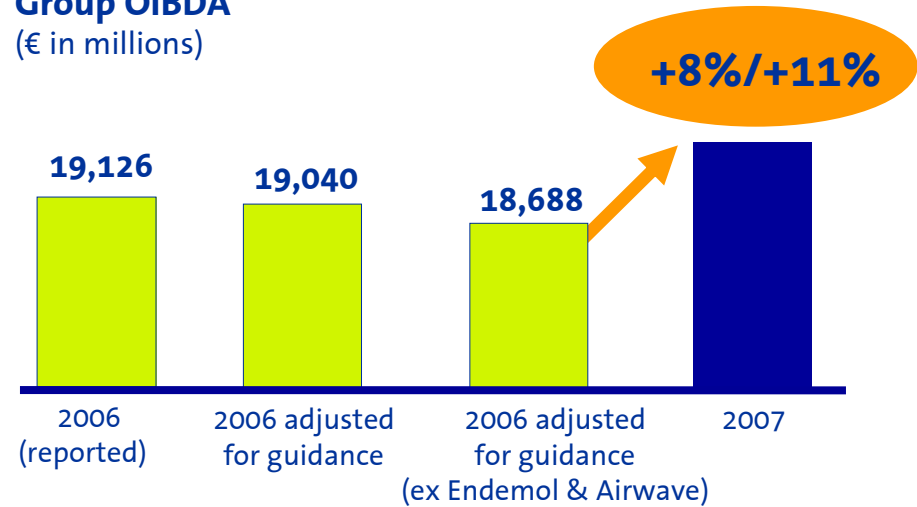


# We are setting benchmark targets again for 2007...

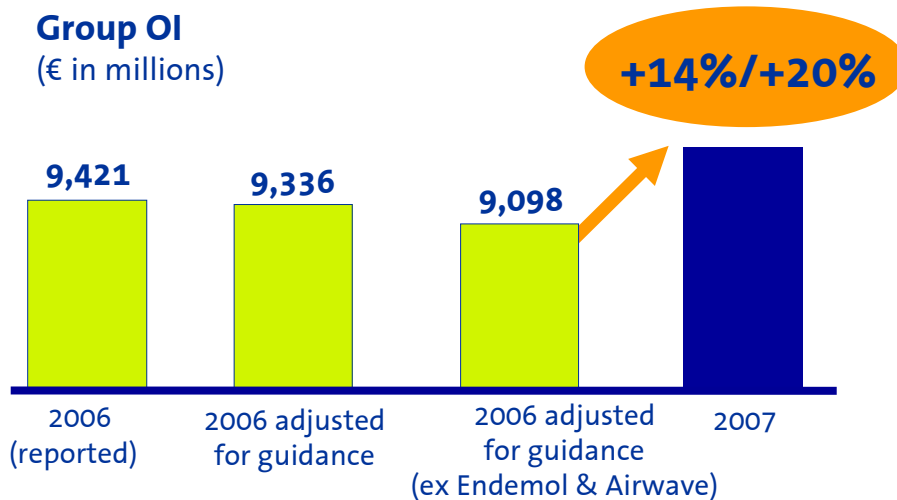
**Group Revenues**  
(€ in millions)



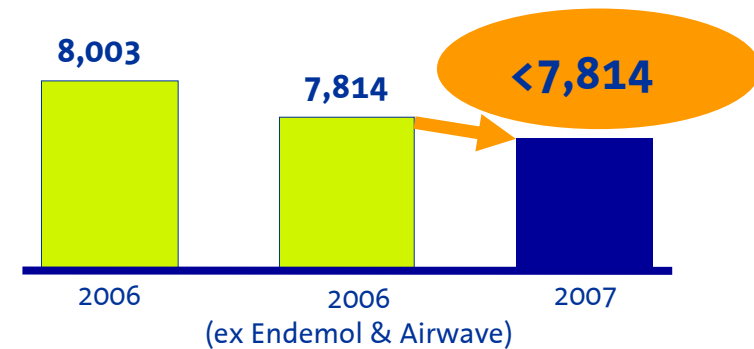
**Group OIBDA**  
(€ in millions)



**Group OI**  
(€ in millions)



**Group CapEx**  
(€ in millions)



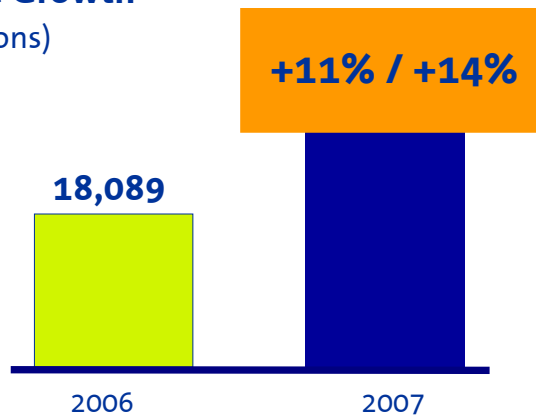
**TELEFONICA S.A.**

Base reported numbers include eleven months of O2 (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 (operations started in February 2007), and exclude Endemol and Airwave results. 2007 guidance assumes constant exchange rates as of 2006 and exclude changes in consolidation. In terms of guidance calculation, OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring (980 M€ in 2006 and estimated 630 M€ for 2007 for TdE) and Real Estate Programs are included as operating revenues/expenses. For comparison the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.

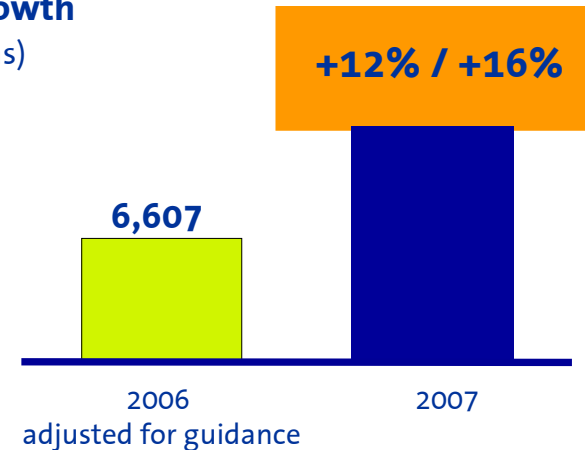
*Telefonica*

# ...supported by our distinctive growth profile in Latin America...

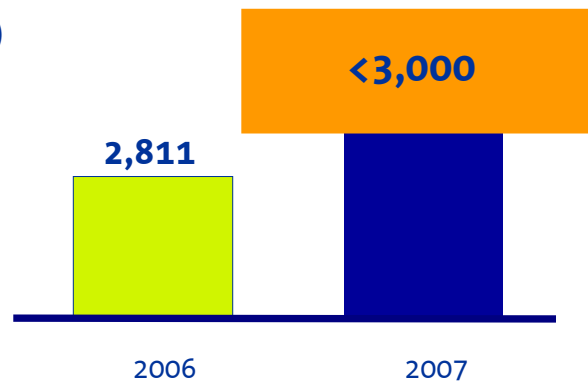
**Revenue Growth**  
(€ in millions)



**OIBDA Growth**  
(€ in millions)



**CapEx**  
(€ in millions)



**TELEFONICA S.A.**

T. Latam base reported figures include eight months of Telefónica Telecom (consolidated since May 2006). 2007 guidance assumes constant exchange rates as of 2006. All figures exclude changes in consolidation. In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For comparison the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.

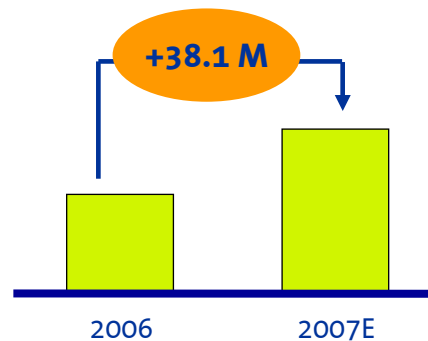
# ...leveraging the potential of mobile Latam operations...

## STABLE MACRO OUTLOOK

- Mid-single digit rate GDP growth for major economies

+4.7% in 2007 for the Latam region <sup>1</sup>

- Strong penetration growth of mobile market (in T.Latam areas of operations)<sup>2</sup>



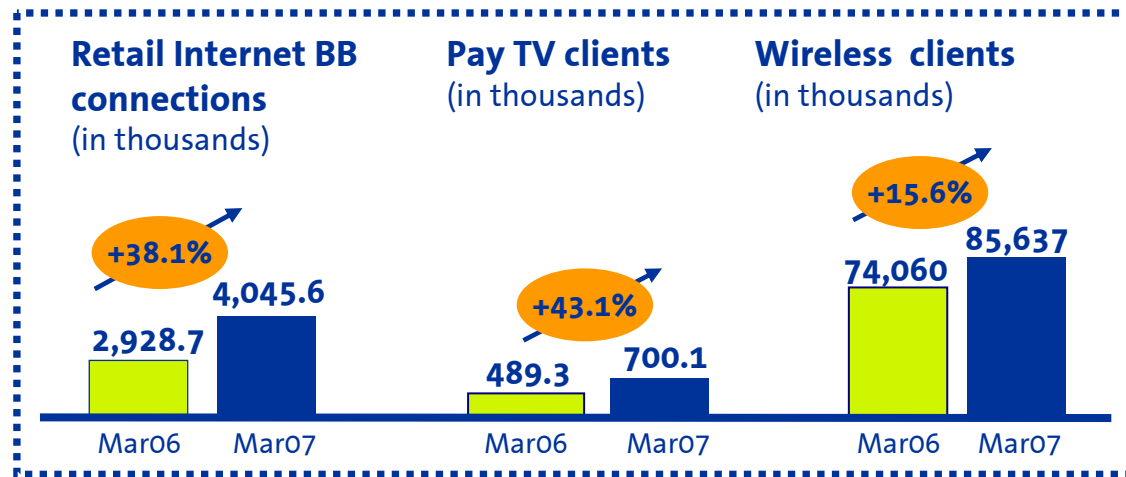
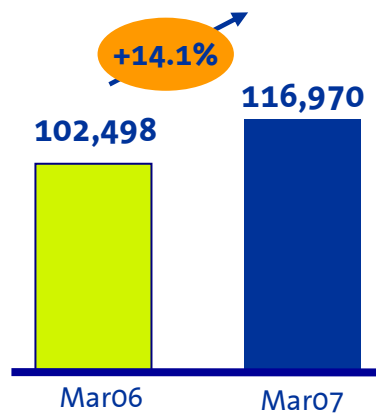
- Targeting a strong share of net adds in 2007 by:

- ✓ Capitalizing on our **GSM footprint in all the region** after Brazil & Venezuela GSM migration
- ✓ Pushing **Fixed/Mobile integration** and collaboration to capture growth potential

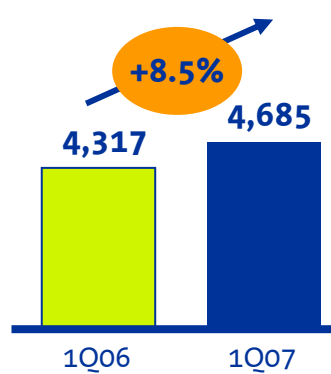
## LEVERAGING REGIONAL MANAGEMENT OF OPERATIONS

# Telefónica Latinoamérica profile keeps showing tangible progress in 1Q07...

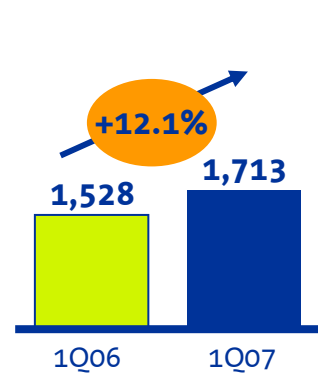
**Total Accesses**  
(in thousands)



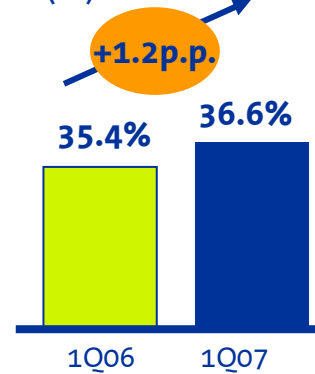
**Revenues**  
(€ in millions, change in €)



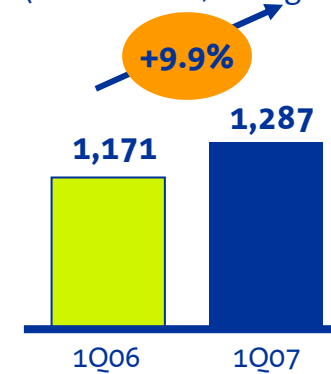
**OIBDA**  
(€ in millions, change in €)



**OIBDA Margin**  
(%)



**Operating CF**  
(€ in millions, change in €)



# Telefónica offers shareholders a superior value proposition

- **Highest growth profile**, well ahead of peers
- **Best diversification**, by business and geographies
- **Clear potential to extract value** from scale and integrated management
- **A sound competitive position to face current challenges**
  - ✓ **Reliability**, always delivering results
  - ✓ Well preserved **financial discipline**
  - ✓ Growing path on **shareholders' returns**

A high growth & returns stock, that **will double** both  
**EPS and dividend by 2009**

*Telefonica*

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