

TELEFONICA: Solid fundamentals and high returns

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TELEFONICA CFO

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Q1 08 results confirm our solid performance



Our guidance reassures our differentiated growth profile



Excess FCF allocated to our 1st priority: shareholder remuneration



Other non fundamental hints

In Q1 08 we recorded a solid performance across the board...

€ in millions	Jan-Mar 2008	Change Q1 08/Q1 07	% Change ex-forex ¹ Q1 08/Q1 07	% Change organic ² Q1 08/Q1 07
Revenues	13,896	+1.1%	+3.4%	+7.0%
Operating Income before D&A (OIBDA)	5,376	+5.3%	+6.6%	+8.2%
OIBDA Margin	38.7%	+1.5p.p.		+0.4p.p.
Operating Income (OI)	3,099	+14.4%	+15.6%	+17.2%
Net income	1,538	+22.4%		
OpCF (OIBDA-CapEx)	4,057	+9.1%	+10.3%	+11.9%

Growth rates acceleration from top to bottom line

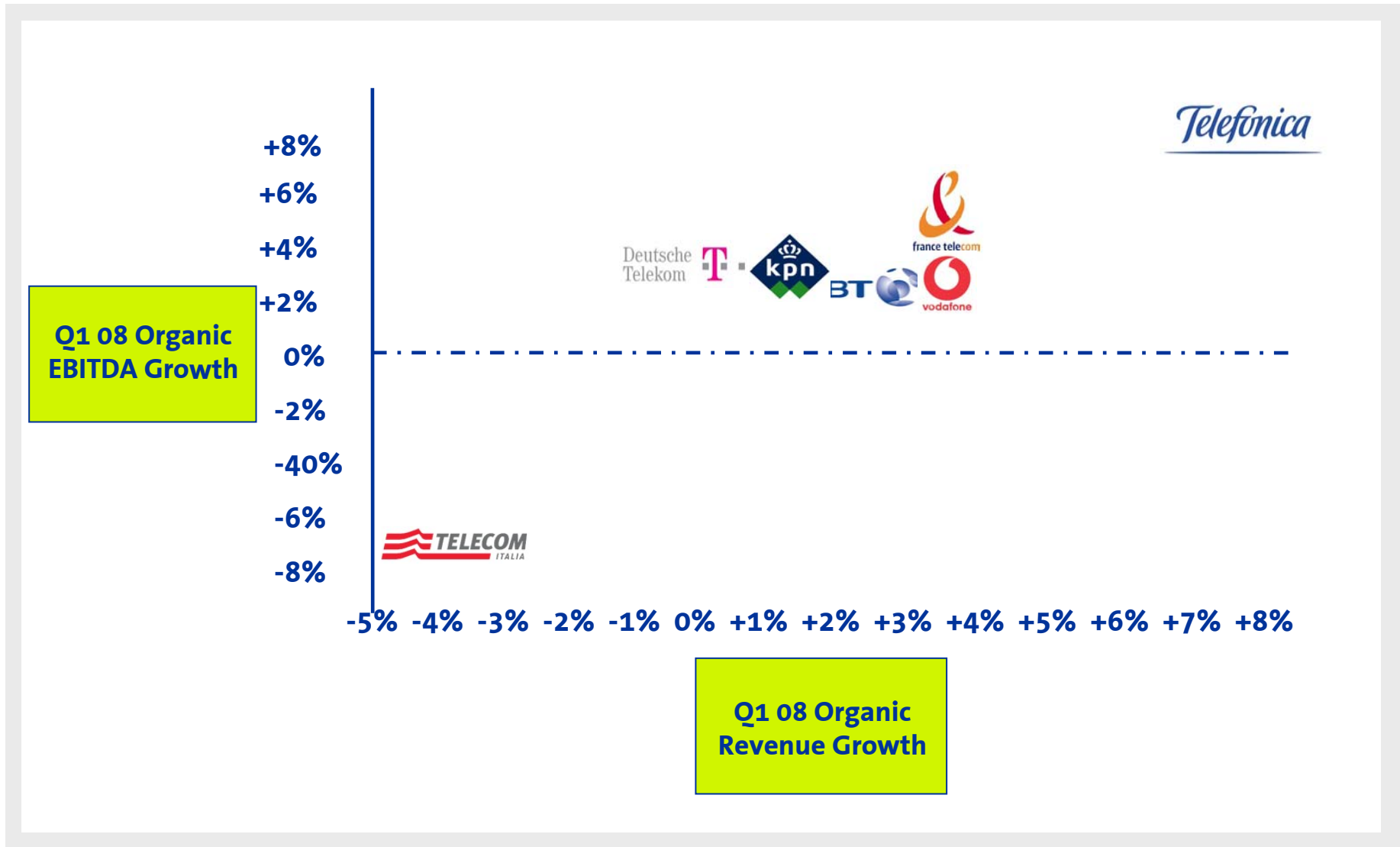
Negative impacts from changes in consolidation and FX

Q1 08 EPS grew 25.8% y-o-y to €0.328

TELEFONICA S.A. (1) Constant exchange rate as of Q1 07.

Investor Relations (2) Assuming constant exchange rates as of Q1 07 and including the consolidation of TVA in January-March 2007 and the impact in T. España revenues for new public voice telephony services business model (€ -31.7 m). It excludes the consolidation of Airwave and Endemol in January-March 2007.

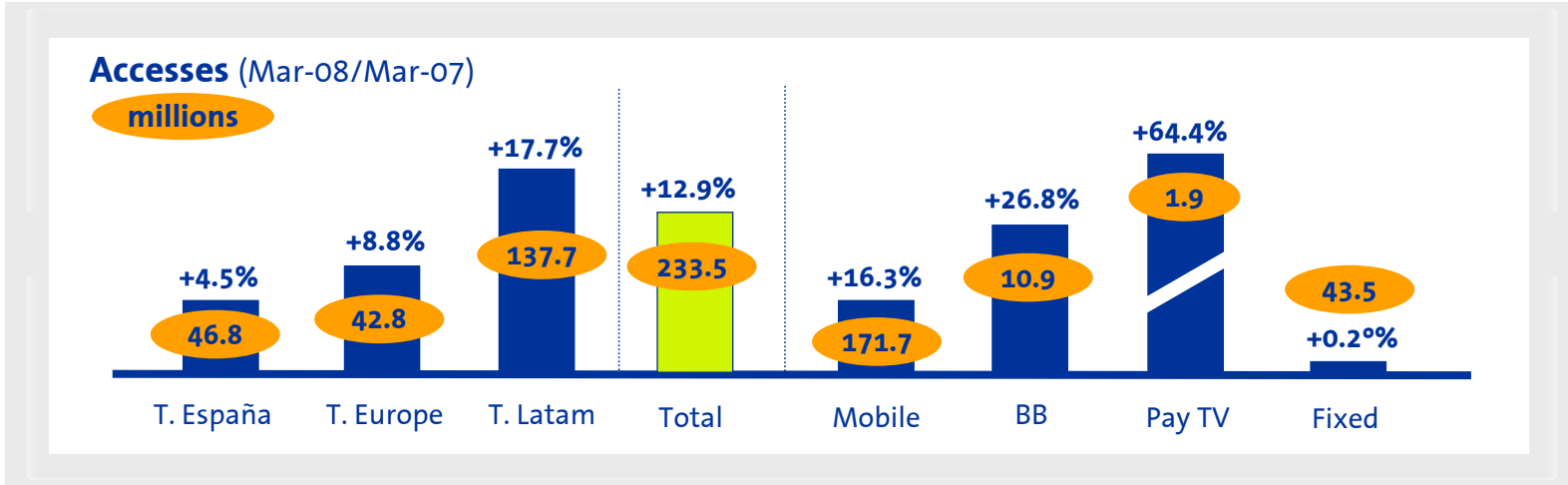
... delivering once again a superior performance



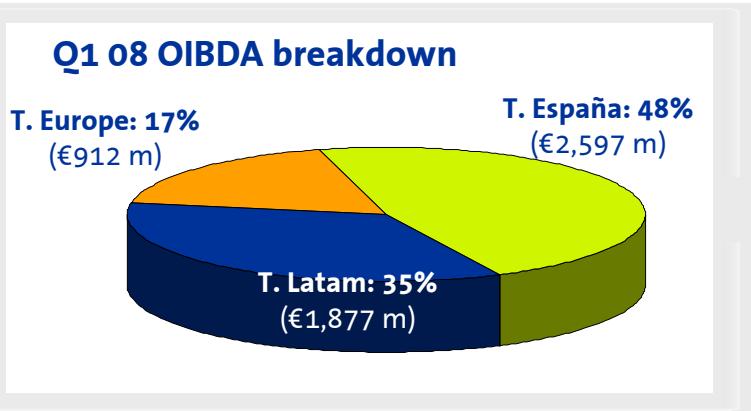
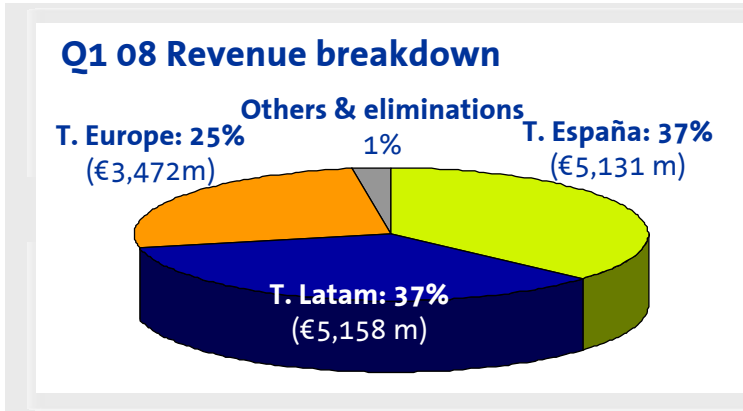
Source: company press releases.
 BT: Reported figures for January-Marh 08 vs. 07; EBITDA before specific items and leaver costs.
 DT: EBITDA growth adjusted for special factors. Revenue growth in nominal terms.
 KPN: Q1 08 vs Q1 07 excluding Getronics in Q1 08.
 FT: Q1 08 vs Q1 07 growth on comparable basis (adjusted for forex, perimeter & other impacts).
 TI: Q1 08 vs Q1 07 organic revenue and EBITDA growth.
 VOD: Jan-Mar 08 vs. Jan-Mar 07 organic revenue growth; Oct07-Mar08 vs. Oct06-Mar07 organic OIBDA growth.

We are capitalizing our scale and diversification

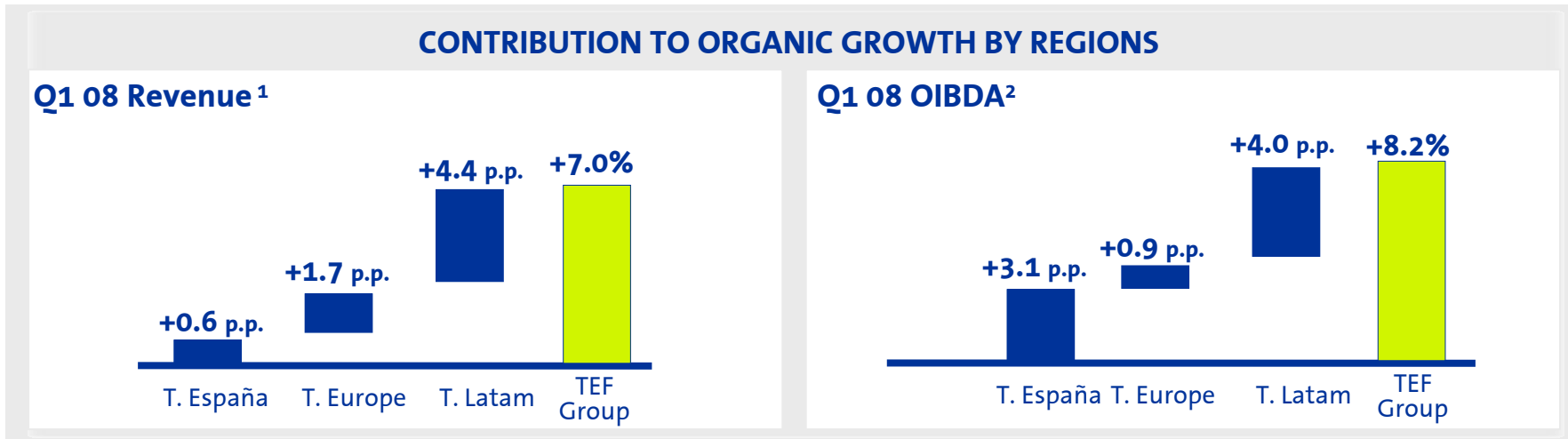
Strong customer expansion across markets & businesses



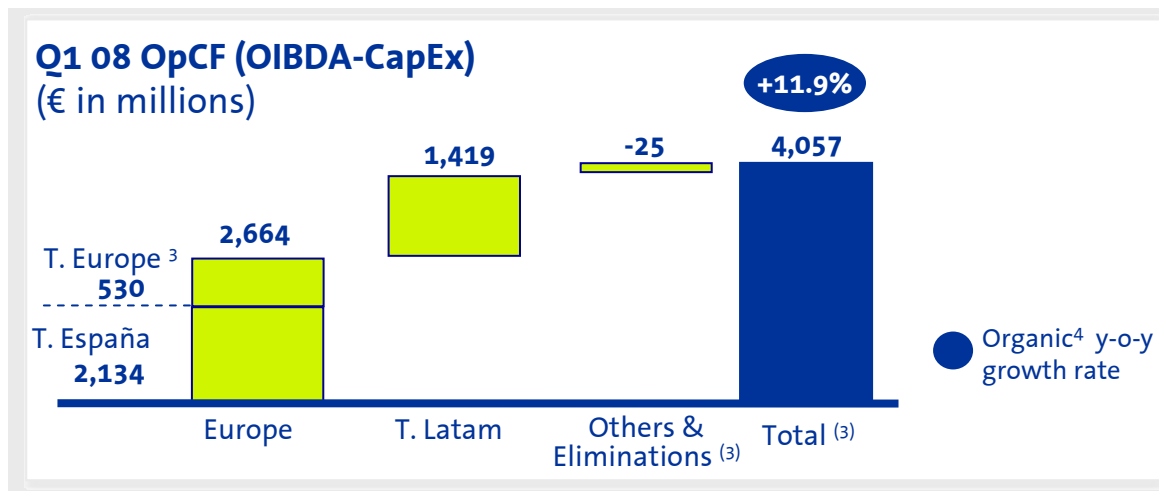
Revenue and OIBDA diversification



Our superior performance is driven by the strong growth in Latam and the high CF generation in Europe



- (1) Assuming constant exchange rates and including the consolidation of TVA in January-March 2007 and the impact in T. España revenues for new public voice telephony services business model (€ -31.7 m). It excludes the consolidation of Airwave and Endemol in January-March 2007
- (2) Assuming constant exchange rates and including the consolidation of TVA in January-March 2007. It excludes the consolidation of Airwave and Endemol in January-March 2007



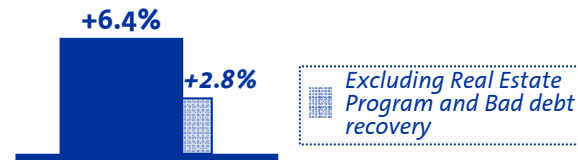
TELEFONICA S.A. Investor Relations (3) Airwave is not consolidated since the second quarter of 2007.
 (4) Assuming constant exchange rates as of Q1 07 and including the consolidation of TVA in January-March 2007 and the impact in T. España revenues for new public voice telephony services business model (€ -31.7 m). It excludes the consolidation of Airwave and Endemol in January-March 2007.

Telefónica España maintained a solid performance in Q1 08...

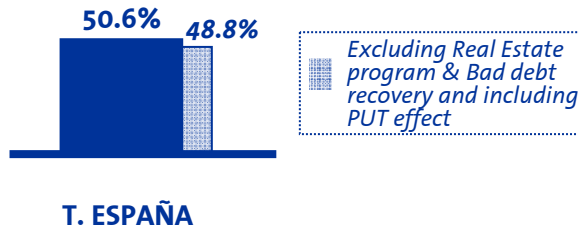
Revenue growth
(Q1 08 y-o-y change)



OIBDA growth
(Q1 08 y-o-y change)



OIBDA margin
(Q1 08)



■ **Sustained 2.0% wireline revenue growth (like for like):**

- +9.8% growth in Internet & BB revenues
- Healthy trends in access and traditional voice services

■ **2% y-o-y growth in mobile service revenue:**

- +3.4% advance in customer revenue driven by robust wireless data growth (+16.7%)
- Lower interconnection revenues partially offset by good growth in roaming-in revenues

■ **Continuous focus on efficiency gains sustains outstanding profitability:**

- Reaping the benefits of workforce reorganization measures
- +0.9 p.p like for like advance in wireline OIBDA margin to 47.9%
- Flattish margins in wireless vs. Q1 07, exceeding 43%

... leading the wireline Broadband and Pay-TV growth...

FIXED TELEPHONY

- Spanish market keeps growing at 1.9% rate
- TEF loses 76.7K lines in Q1 08 on accelerated uptake of naked shared loops

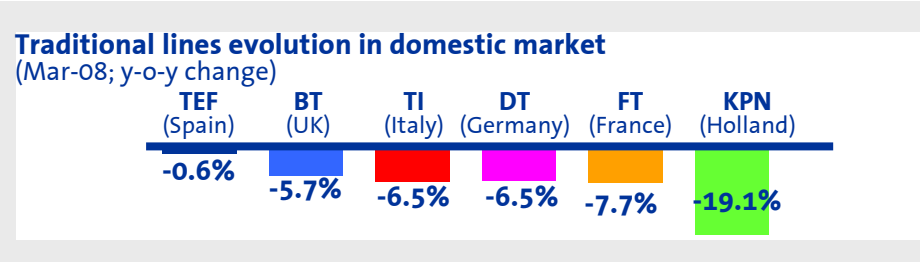
INTERNET BROADBAND

- Sustaining leadership market share around 57%E

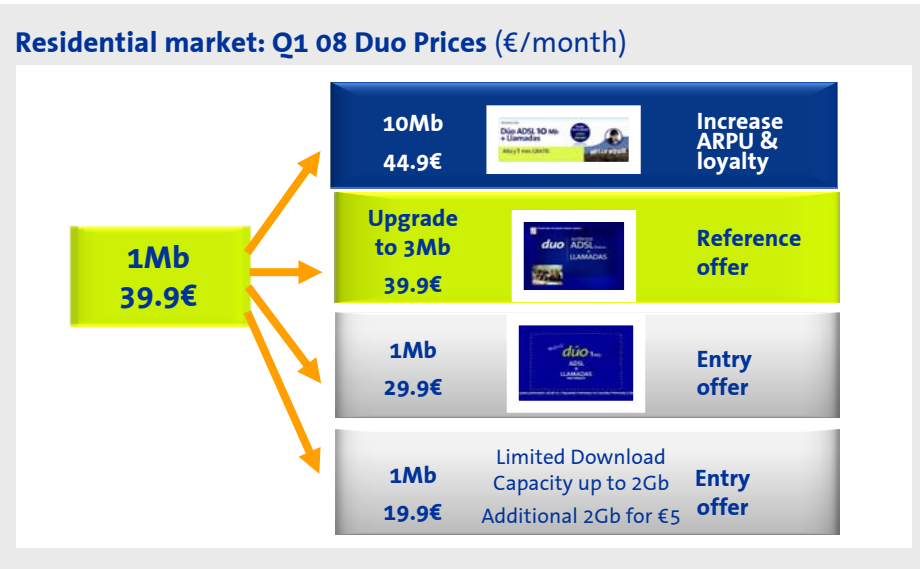
PAY TV

- Increasing market share to above 13%

Differential profile...



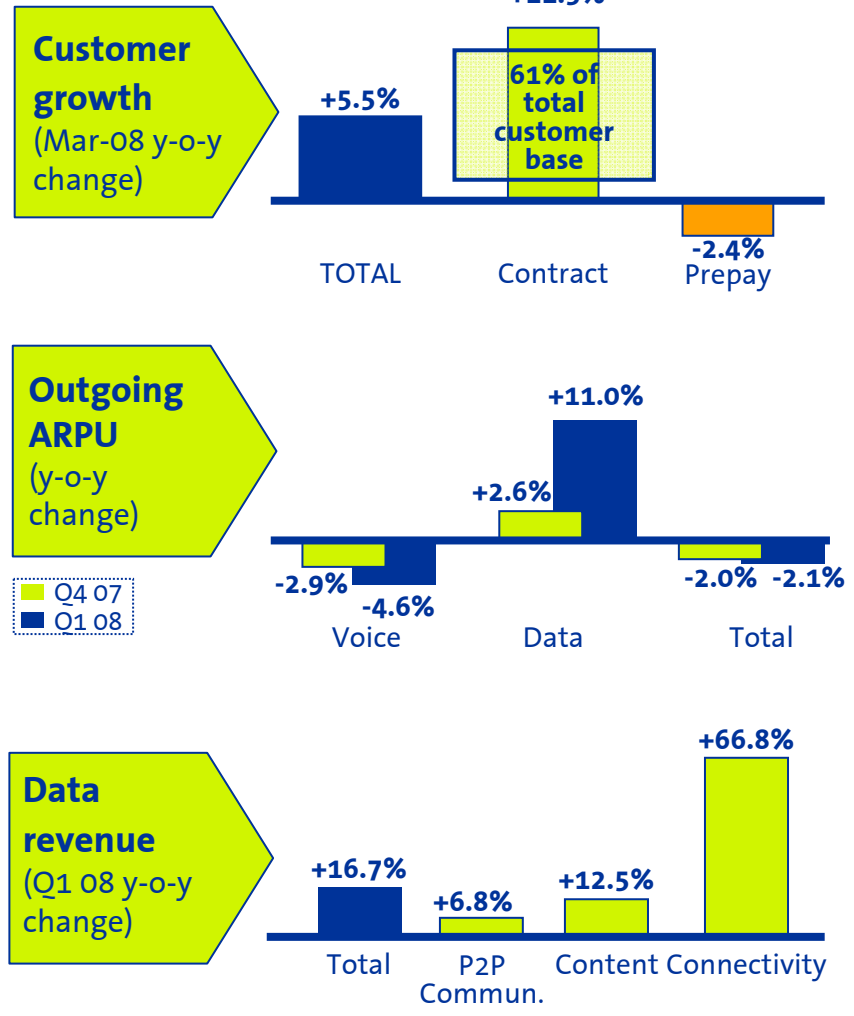
Tapping all market segments...



Best BB offering...

Superior customer satisfaction and service quality

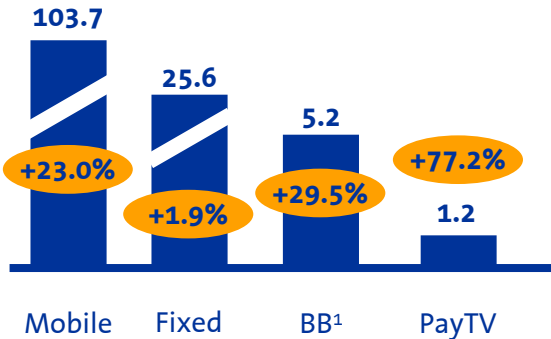
... and shaping the market in wireless



- **Sound leadership despite new entrants, leveraging market leading churn rate:**
 - 23.0 m accesses in a 112% penetration market
 - TEF market share at March-08 44.9 % (-0.3 p.p. y-o-y)
 - MVNOs + Yoigo E market share ≈2%
 - Stable churn at 1.8%; reductions in contract to 1.1%
- **ARPU & MoU performance in line with Q4 07:**
 - 30.5€ ARPU in Q1 08 (-3.7% y-o-y vs. -3.6% in Q4 07)
 - Incoming ARPU impacted by MTR cuts
 - Lower outgoing MoU
- **Continued strong growth in data services**
 - 4.2m 3G devices by Mar-08 (2.8x vs. Mar-07)
 - ~550k flat & daily rates
 - Strong push in content SMS

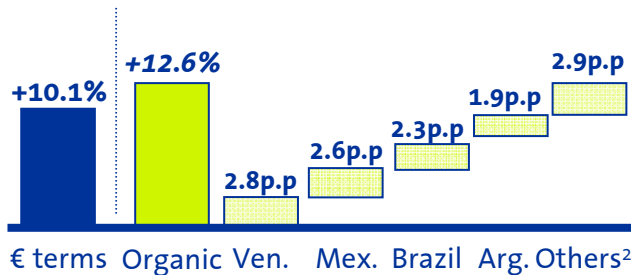
Telefónica Latinoamérica recorded robust Q1 08 results...

Mar-08 Accesses (in millions)

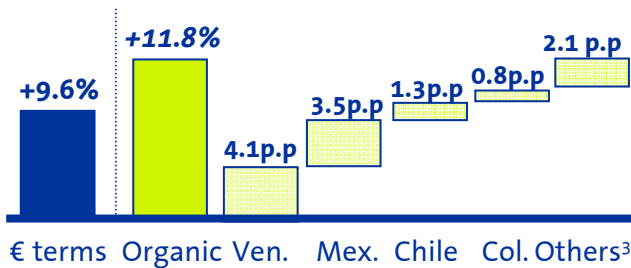


○ y-o-y change

Revenue growth (Q1 08 y-o-y change)



OIBDA growth (Q1 08 y-o-y change)



■ Accelerated customer expansion led by mobile businesses & fixed-line transformation:

- 137.7 m accesses, 17.7% up y-o-y
- Robust mobile net adds
- Fostering bundles to capture the BB & Pay TV potential

■ Leveraging a sound macroeconomic scenario: Brazil & Peru upgraded to Investment Grade

■ Solid top-line performance:

- Wireline broadband & mobile drive the growth

■ OIBDA growth driven by mobile services:

- Healthy margin (36.4%) despite a strong commercial push

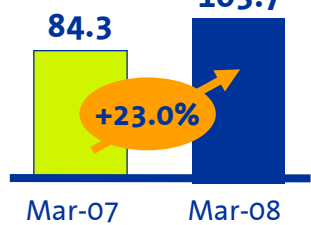
■ Positive OpCF generation in all markets, Mexico included

65% of our revenues and 62% of our OIBDA from Investment Grade economies

... capturing the growth opportunities of the region

WIRELESS: FAST CUSTOMER GROWTH AND SOUND OUTGOING ARPU

Mobile Customers
(in millions)

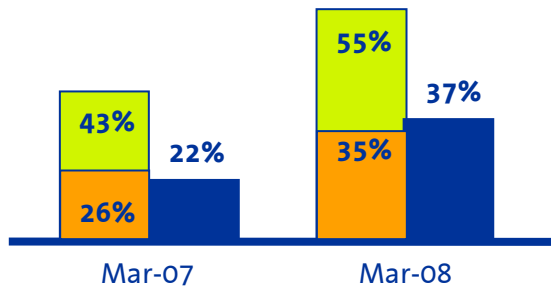


- Strong increase in mobile penetration surpassing the 71% mark (+12 p.p. vs. Mar-07)
- Double digit customer growth in most markets and stable churn: 69% of total customer base in GSM (+25.7 p.p. y-o-y)
- Healthy ARPU performance despite lower MTR: Flat blended ARPU, growing outgoing ARPU, increased traction of mobile data services (+39.9% vs. Q1 07)

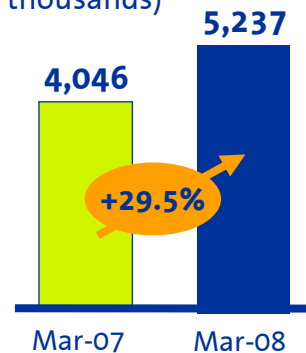
WIREFIX: FURTHER ADVANCE ON BUSINESS TRANSFORMATION

Bundles weight

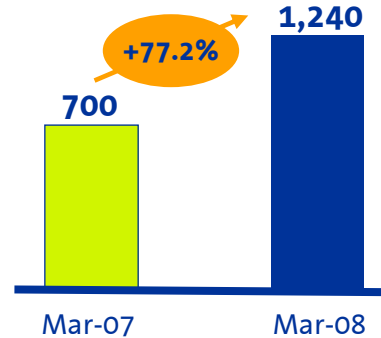
- Local & Control bundles+2P&3P/Fixed Accesses
- Local bundles+2P&3P/Fixed Accesses
- 2P&3P/DSL Accesses



Retail Internet BB connections¹
(in thousands)



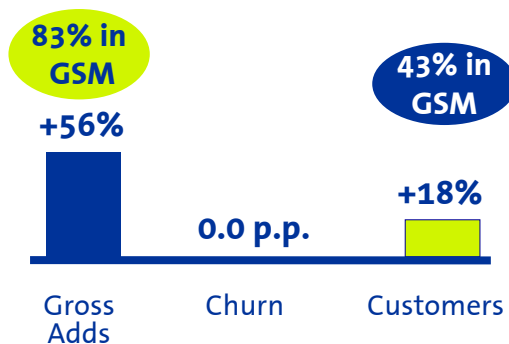
Pay TV clients
(in thousands)



In Brazil & Mexico our wireless operations combined solid top line with enhanced profitability

VIVO

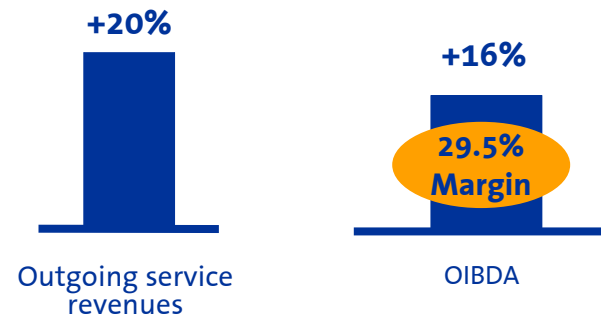
Q1 08 y-o-y growth



Q1 08 y-o-y growth (in local currency)

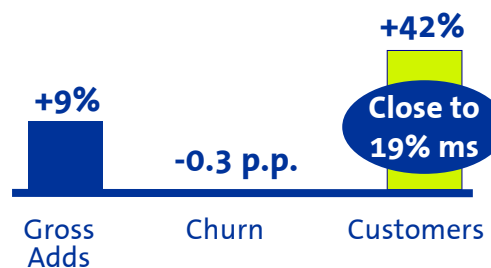


Q1 08 y-o-y growth (in local currency)



T. MÉXICO

Q1 08 y-o-y growth



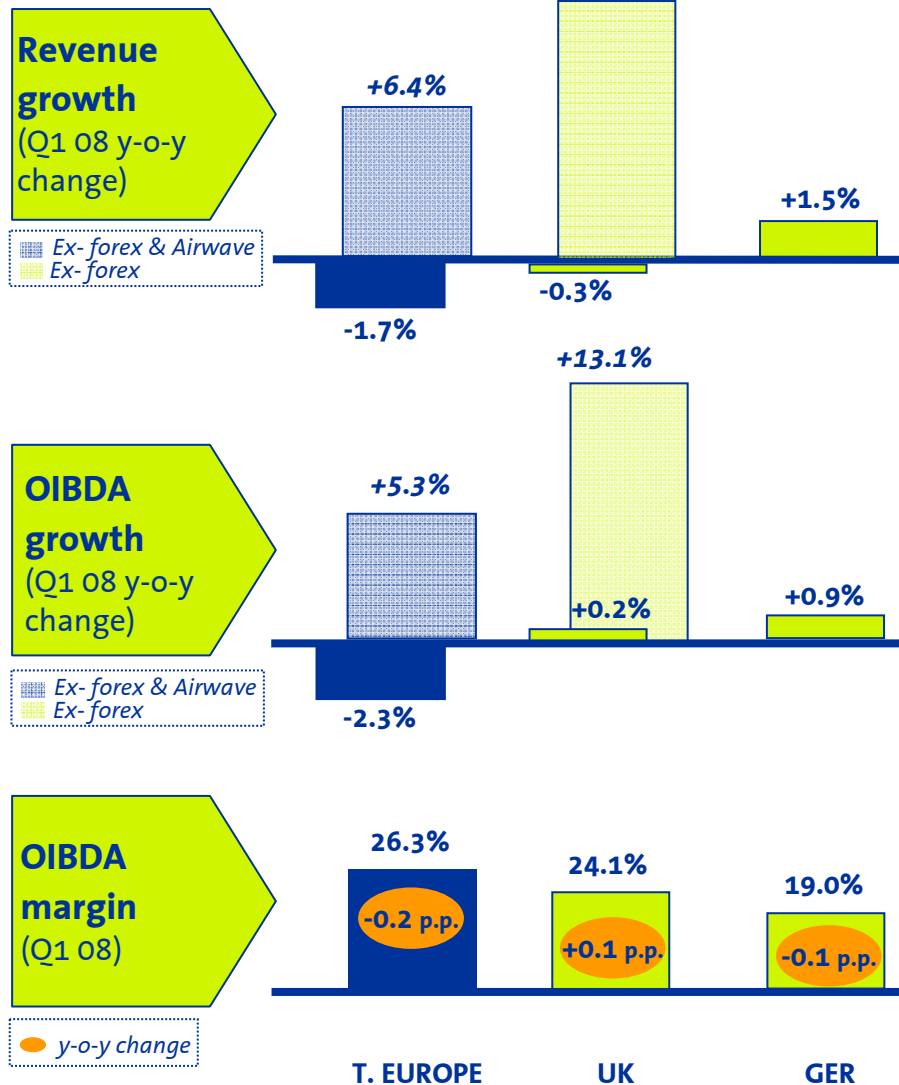
Q1 08 y-o-y growth (in local currency)



Q1 08 y-o-y growth (in local currency)



Telefónica Europe increased commercial activity to foster revenue growth ...



■ Good customer growth to 42.8 m (+8.8% y-o-y)

- Focus on quality growth: 89% of 564k mobile net adds in contract (2x Q1 07)
- 130k retail BB net adds (2.4x Q1 07) to reach > 800k customers (+58.4% y-o-y)
- “Simplicity” and value tariffs increasingly attractive

■ Maintaining momentum, managing growth/margin balance in the UK

■ First signs of turnaround in Germany

■ Managing fixed line loss and robust growth in mobile in the Czech Republic:

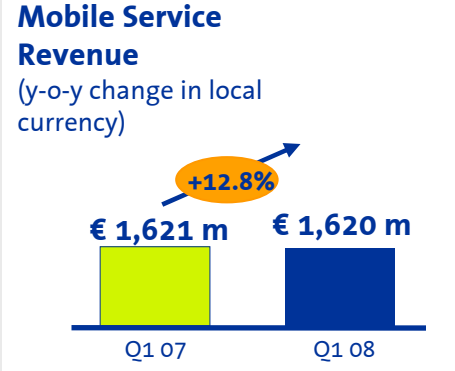
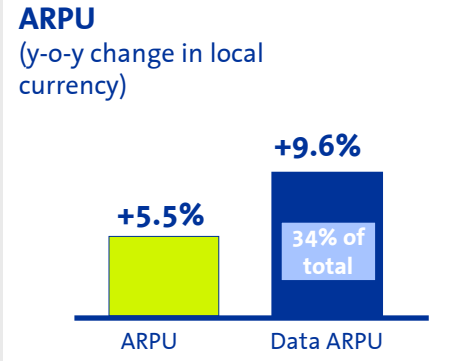
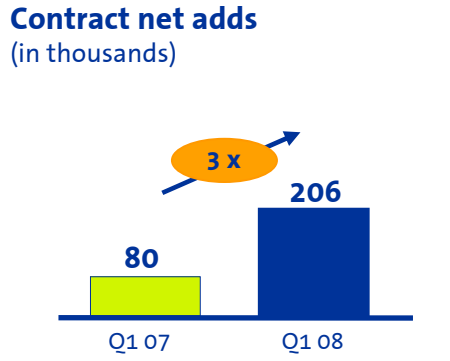
- Margin dilution mainly due to Slovakian operations

■ Strong contract performance while regaining momentum with prepay customer growth in Ireland

... maintaining momentum while positioned to exploit opportunities as an integrated operator

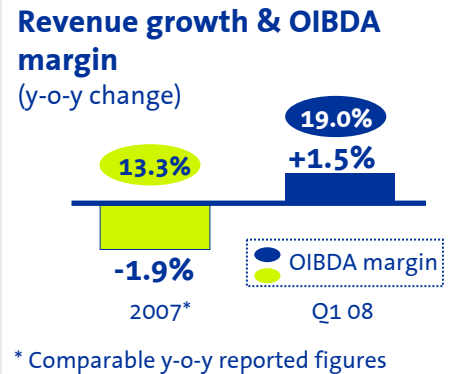
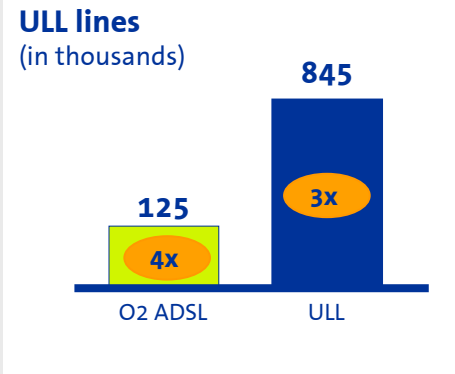
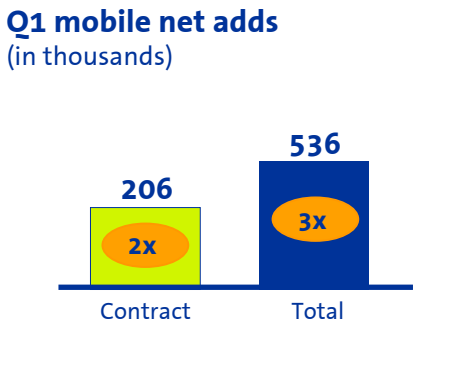
UK: continued momentum

- 18.4m mobile customers (+3.7% y-o-y)
- 38.1% in contract



Germany: green shoots

- 13.0m mobile customers (+16.3% y-o-y)
- 50% in contract



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2007 results confirm our solid performance

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Our guidance reassures our differentiated growth profile

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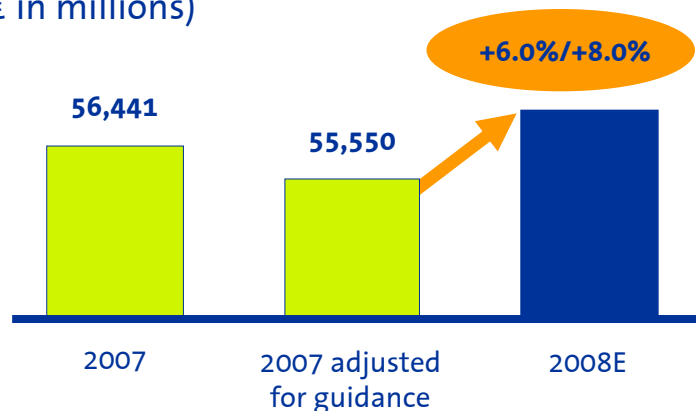
Excess FCF allocated to our 1st priority: shareholder remuneration

4

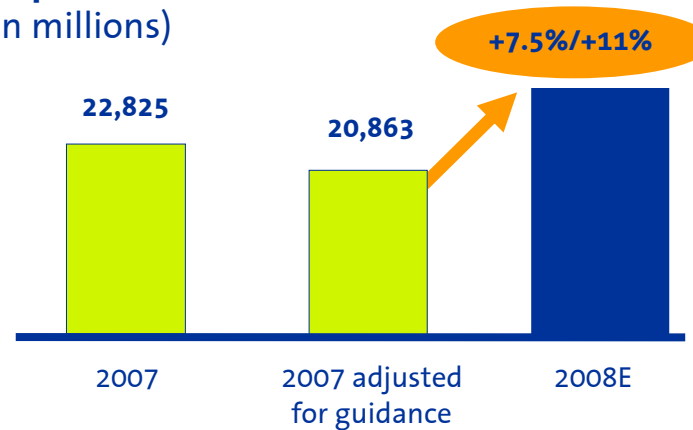
Other non fundamental hints

Solid 2008 guidance, in line with our long term targets...

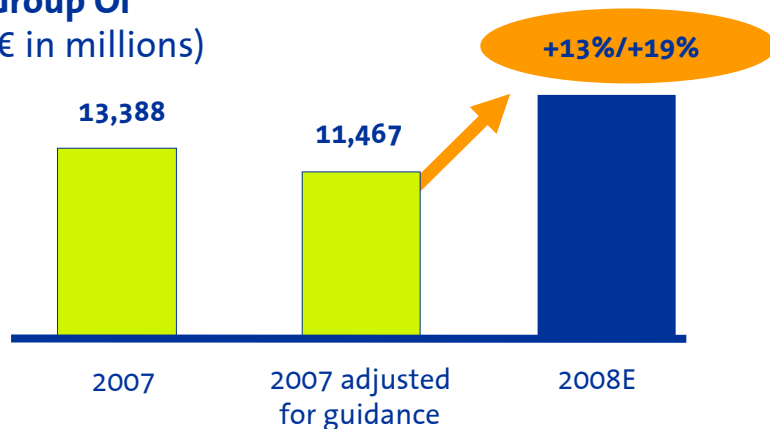
Group Revenues
(€ in millions)



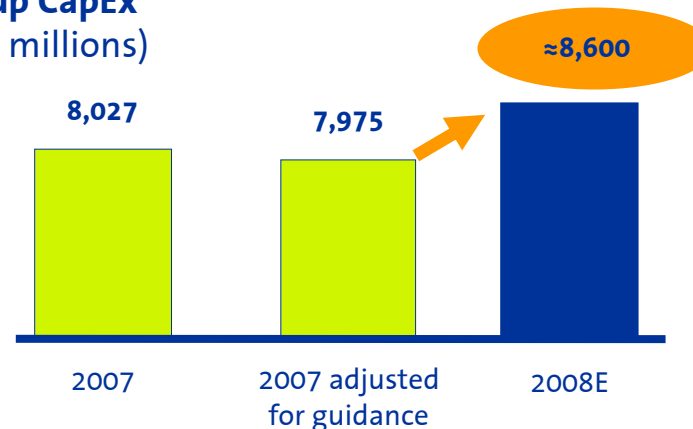
Group OIBDA
(€ in millions)



Group OI
(€ in millions)



Group CapEx
(€ in millions)



... fully on track to meet 2010 targets ...

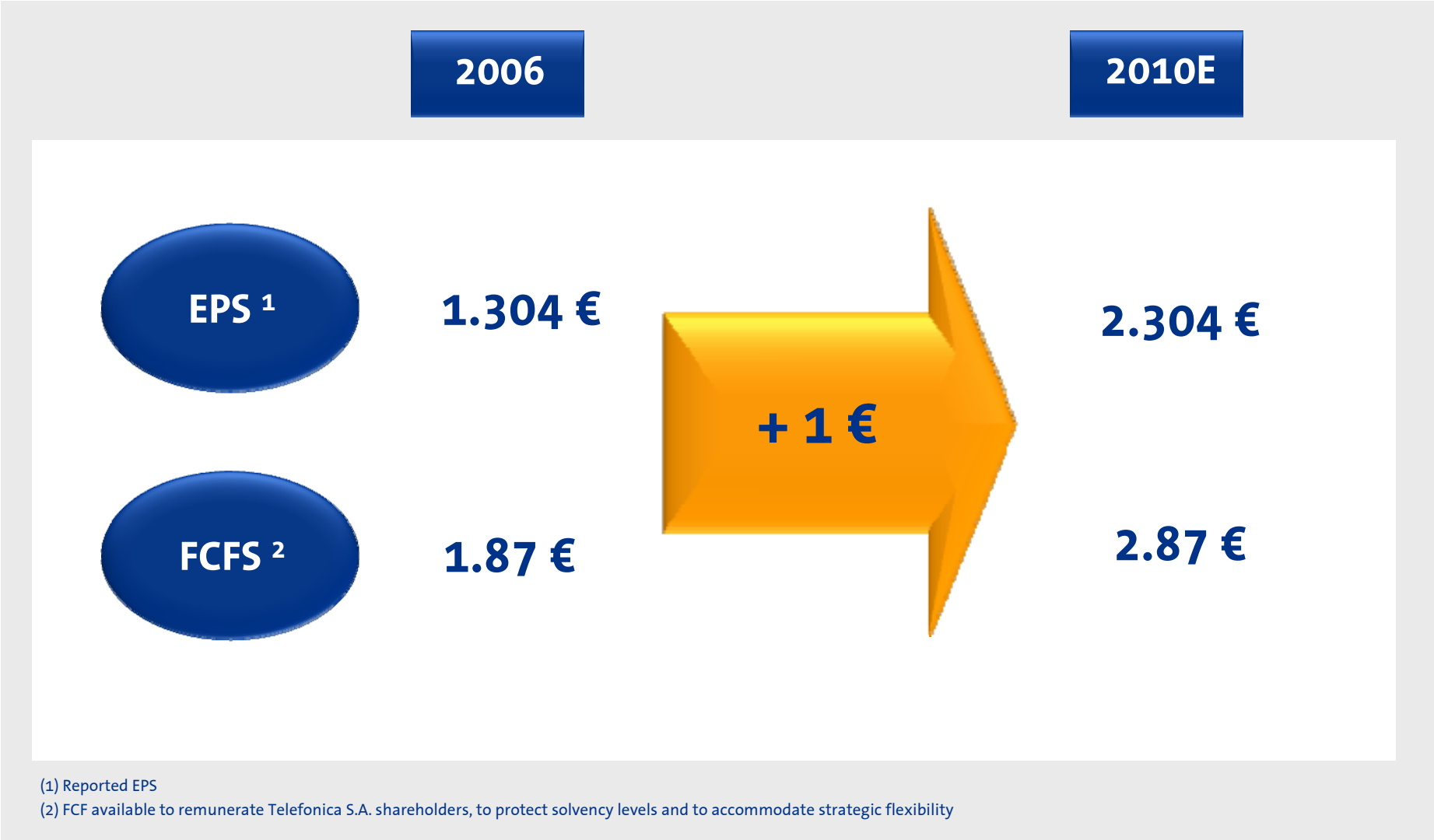
	2006-2007A under guidance criteria (*)	2007-2008E guidance (**)	Implicit 08E-10E CAGR to meet 2010 guidance	2006-2010E (***) CAGR guidance
Revenues	9.8%	6.0% / 8.0%	2.2% / 7.1%	5% / 8%
OIBDA	12.8%	7.5% / 11%	4.0% / 10.1%	7.0% / 11.0%
OI	27.6%	13% / 19%	12.1% / 16.9%	16.0% / 20.0%
Capex	€ 8,087 m	±€ 8,600	±€ 8,000 m /year	Cum. 07-10E <€ 33,000 m

(*)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)

... flowing into significant increases in EPS and FCFS



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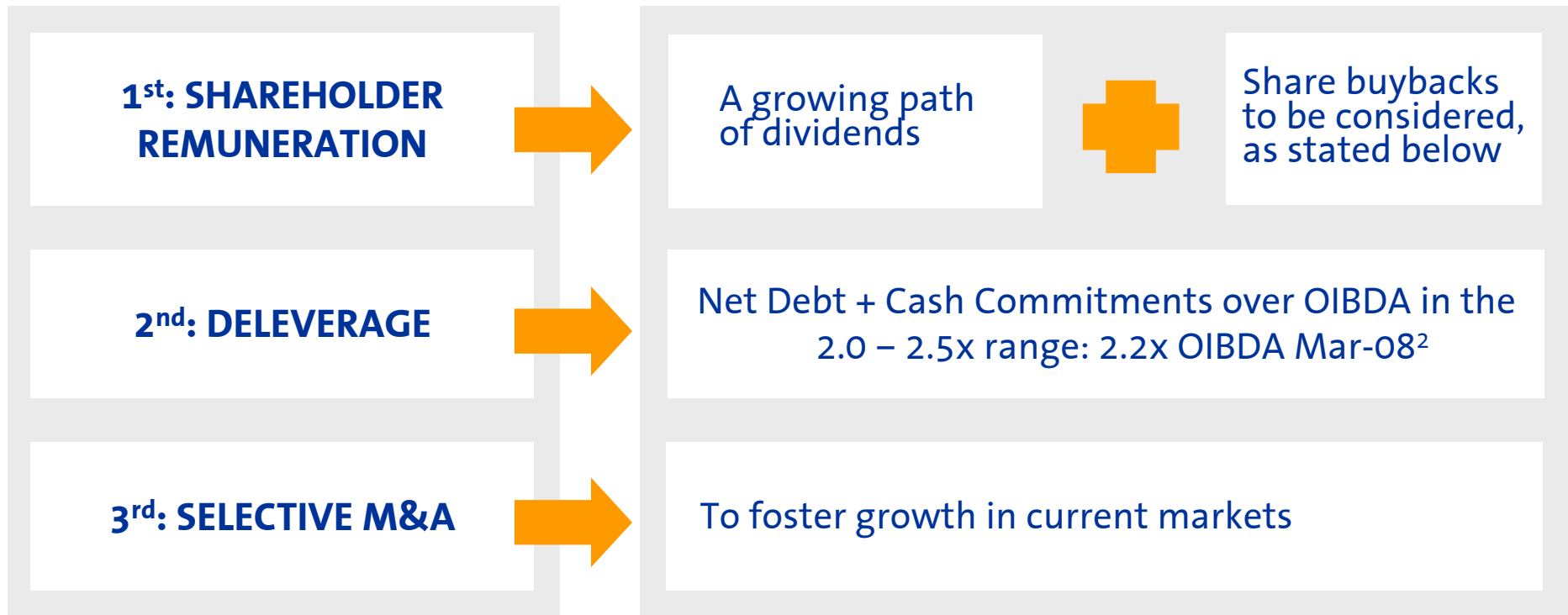
Excess FCF allocated to our 1st priority: shareholder remuneration

4

Other non fundamental hints

We set a disciplined use of FCF with clear priorities...

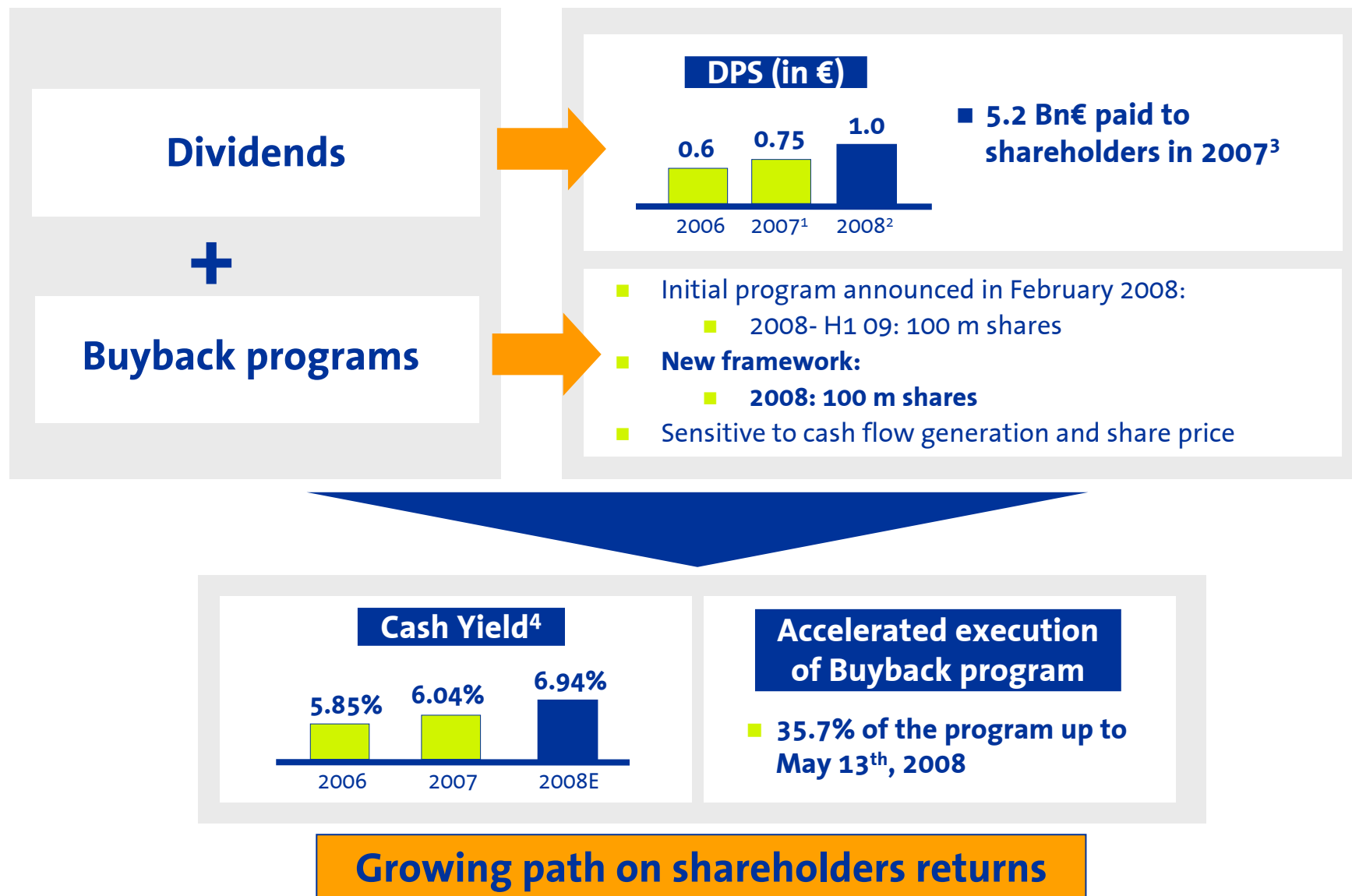
> € 40 bn
Cumulative FCF 07E-10E¹



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

TELEFONICA S.A. (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
Investor Relations (2) Calculated based on January-March 2008 OIBDA, excluding results on the sale of fixed assets and annualized.

... leading to a growing path on shareholders returns



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- 1 2007 results confirm our solid performance
- 2 2008 guidance reassures our differentiated growth profile
- 3 Excess FCF allocated to our 1st priority: shareholder remuneration
- 4 **Other non fundamental hints**

We have opened new horizons through strategic and industrial alliances

STRATEGIC ALLIANCE



- **5.0% stake¹ in China Netcom**
 - ✓ **131 million accesses** (Mar-08)
 - ✓ In a country with a population of **1,300 million**
 - ✓ **Huge ICT growth potential: 21%** of forecasted world telecom revenue growth 2007-2010²

CNC to benefit from the **telco industry restructuring process** recently announced in China

INDUSTRIAL ALLIANCE



Combined Accesses in Europe (Mar-08; in millions)

- Telefónica.....	90
- Telecom Italia.....	67

TOTAL INDUSTRIAL ALLIANCE...	157
-------------------------------------	------------

- First Telecom alliance in Europe with ~19% Market share³
- Presence in 9 European countries
- Total **cash synergies of €1.3 bn** in the period 2008-2010 (55% TI and 45% TEF)

TELEFONICA S.A.
Investor Relations

(1) Pending closing of additional 2.22%
(2) Yankee Group Forecast, Oct-07
(3) Europe 25

We can shape our market

Example: Spain



EXCITE REVENUE GROWTH

- Keeping a strong commercial push to stimulate demand
- Continue to invest in growth opportunities (BB, Pay TV, wireless data...)



COOL DOWN OPEX AND CAPEX

- Over 45% of our costs are variable
- 61% of our 2008 CapEx budget is linked to transformation

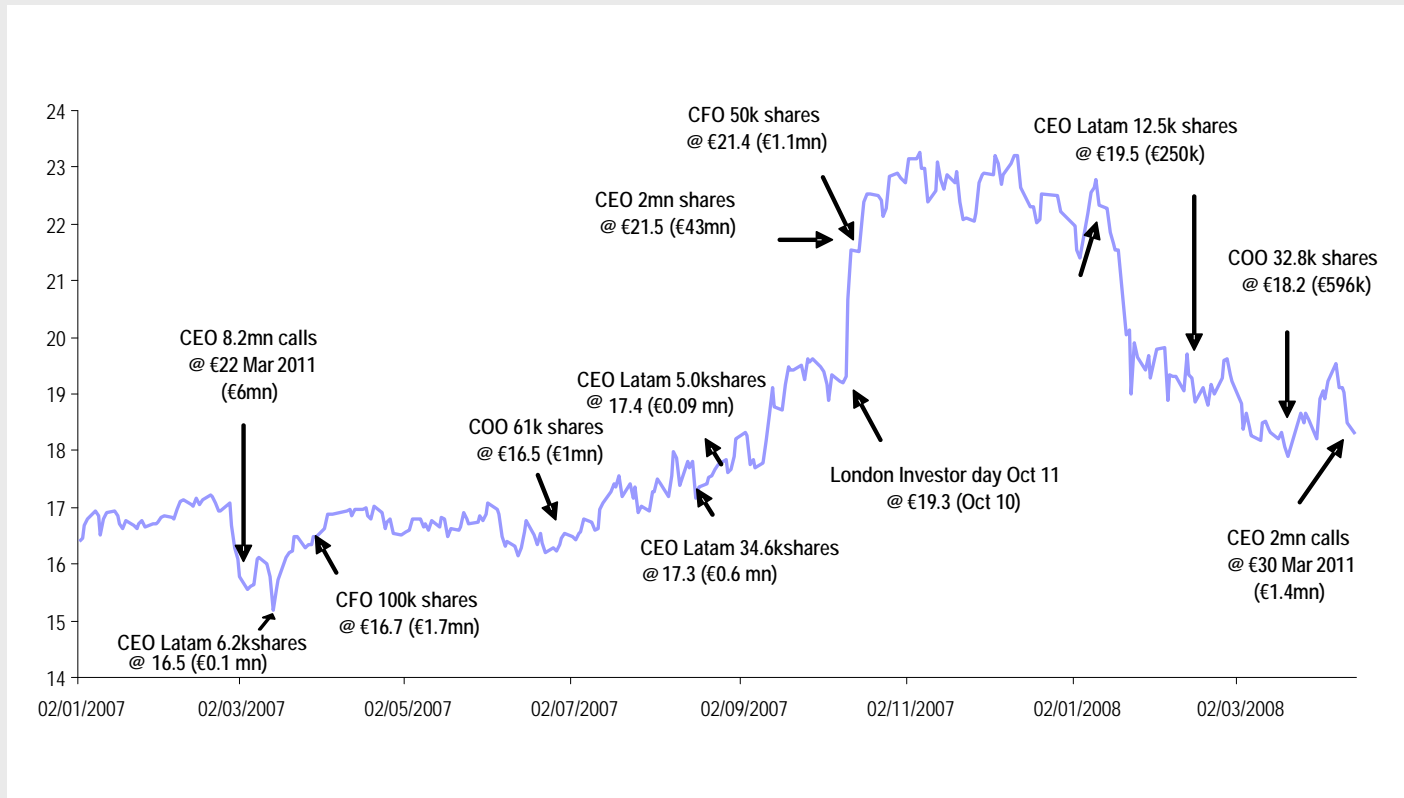
- Our leadership allows us to influence market trends
- Experience shows how in more uncertain times focus and resilience pays
- We leverage proven skills to ensure our ultimate goal: preserve cashflow generation

A management team with a long expertise, strong track record in the telco sector and highly committed to share price performance (I)

	WORKING FOR TELEFÓNICA	EXPOSURE TO TELEFÓNICA SHARE
César Alierta - EXECUTIVE CHAIRMAN	since July 2000	3.848 m shares + 10.2 m call options
Julio Linares – COO	since 1970 c.p. since Dec-07	0.121 m shares
Santiago Fernandez Valbuena – CFO	since Jan-97 c.p. since July-02	0.161 m shares
José María Álvarez-Pallete – T LATINOAMÉRICA GM	since Feb-99 c.p. since Jul-02	0.069 m shares
Guillermo Ansaldo – T ESPAÑA GM	since April-00 c.p. since Dec-07	0.006 m shares
Matthew Key – T EUROPE GM	since Feb-02 c.p. since Dec-07	0.005 m shares
Board of Directors (*)		>1.500 shares

A management team with a long expertise, strong track record in the telco sector and highly committed to share price performance (II)

SHARE PRICE EVOLUTION AND ACQUISITIONS BY MANAGEMENT



In summary



Telefonica
