

# TELEFONICA: Solid fundamentals and high returns

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



*Telefonica*

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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.

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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



**2007 results confirm our strong momentum**

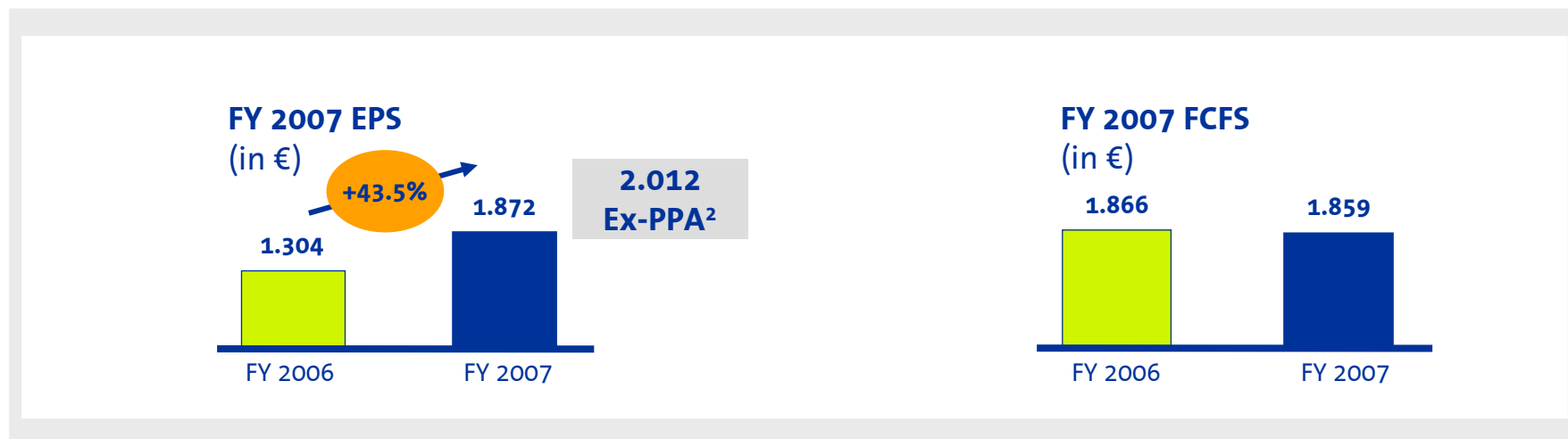
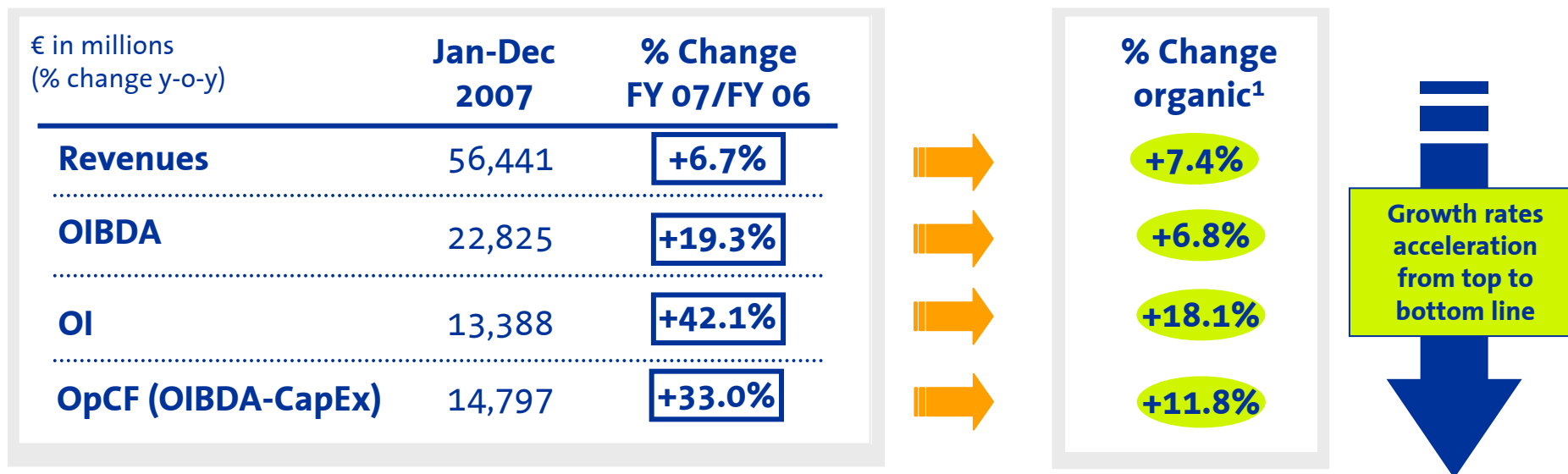


2008 guidance reassures our differentiated growth profile



Excess FCF allocated to our 1st priority: shareholder remuneration

# In 2007 we recorded a solid performance across the board...



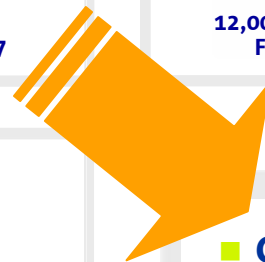
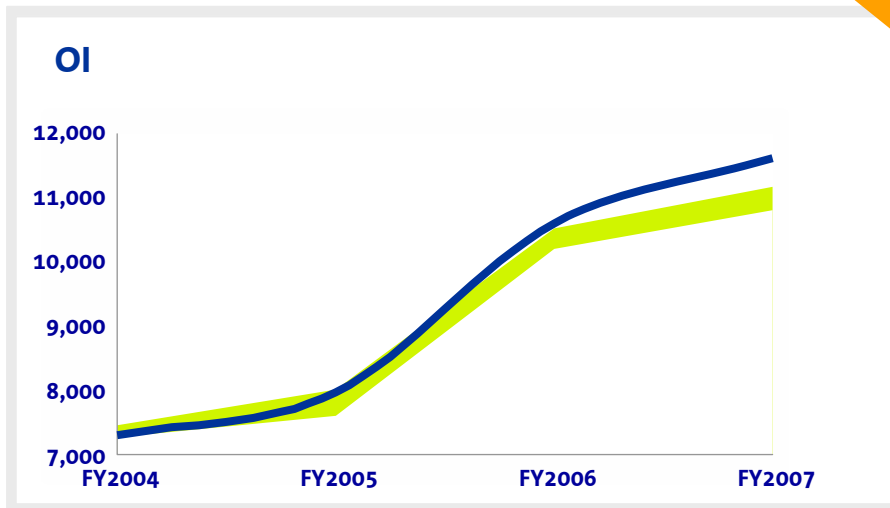
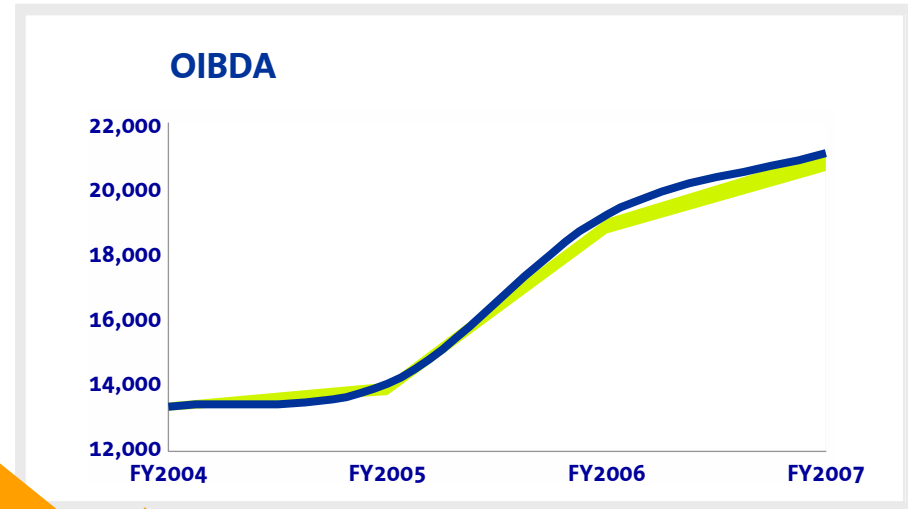
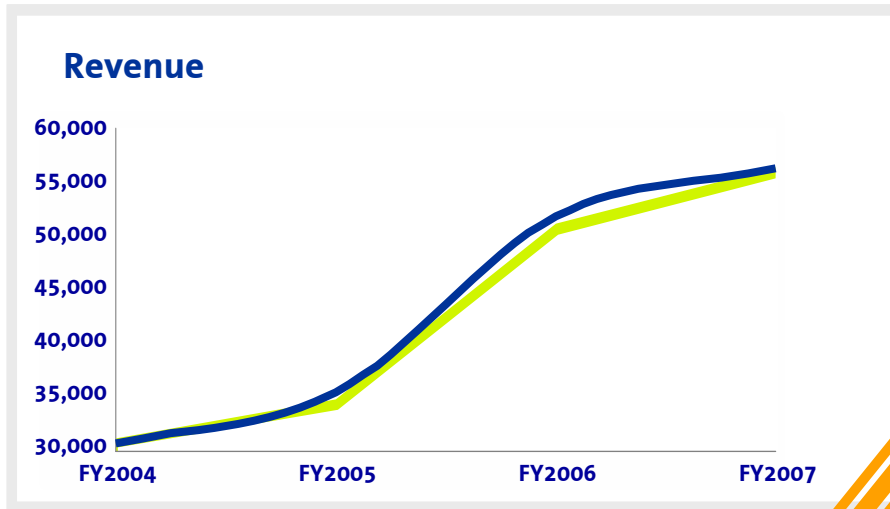
Note: TPI was discontinued in 2006 following Telefónica's acceptance of Yell's offer in July 4<sup>th</sup>, 2006 . Figures are presented considering the Purchase Price Allocation of O2 as of February 2006.

(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)

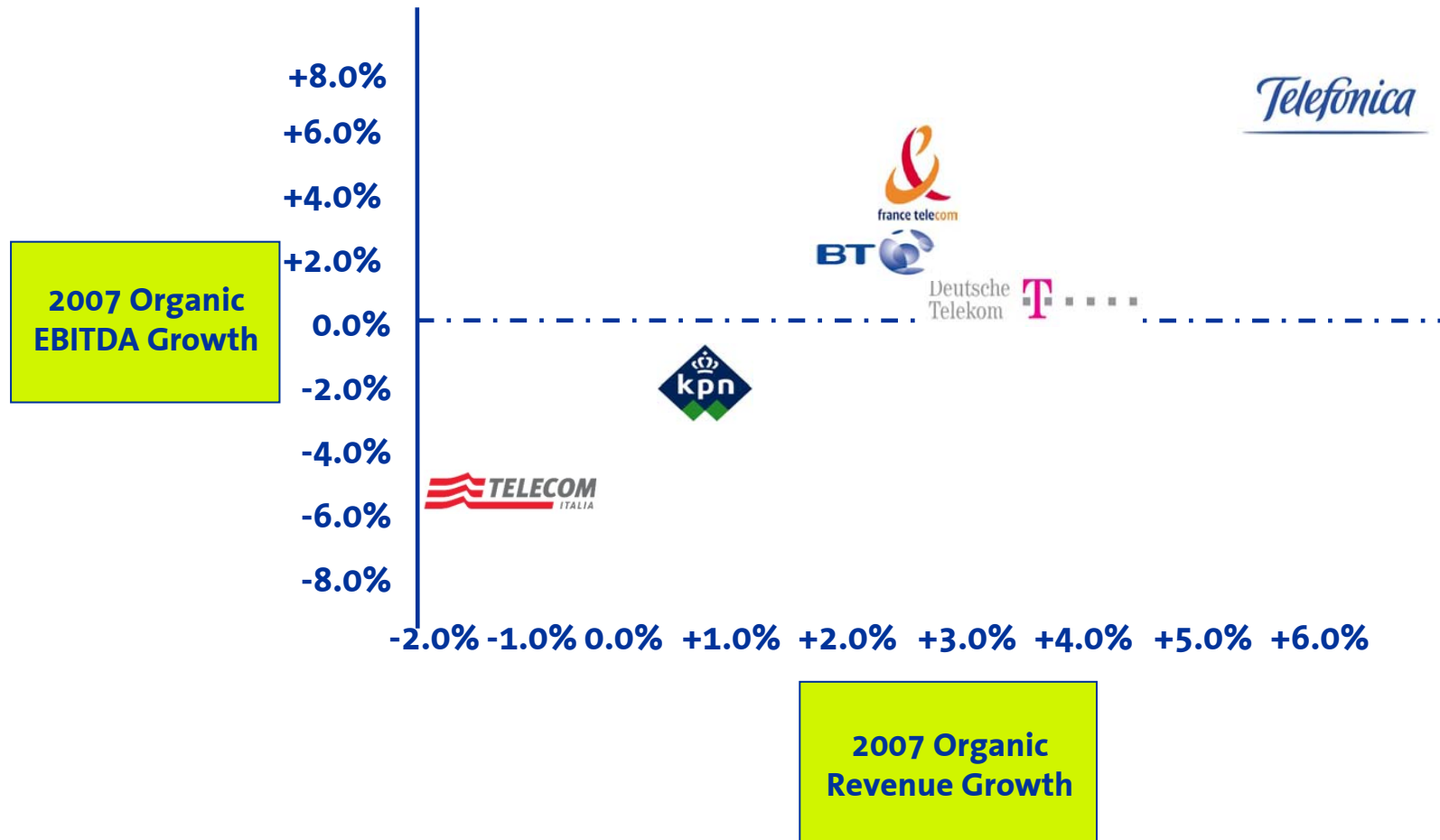
# ... meeting or exceeding our upgraded guidance ...

■ Guidance  
 ■ Telefónica results<sup>1</sup>



- Consistently delivering on our commitments
- 2007 initial guidance upgraded for 3<sup>rd</sup> 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 lever costs.

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

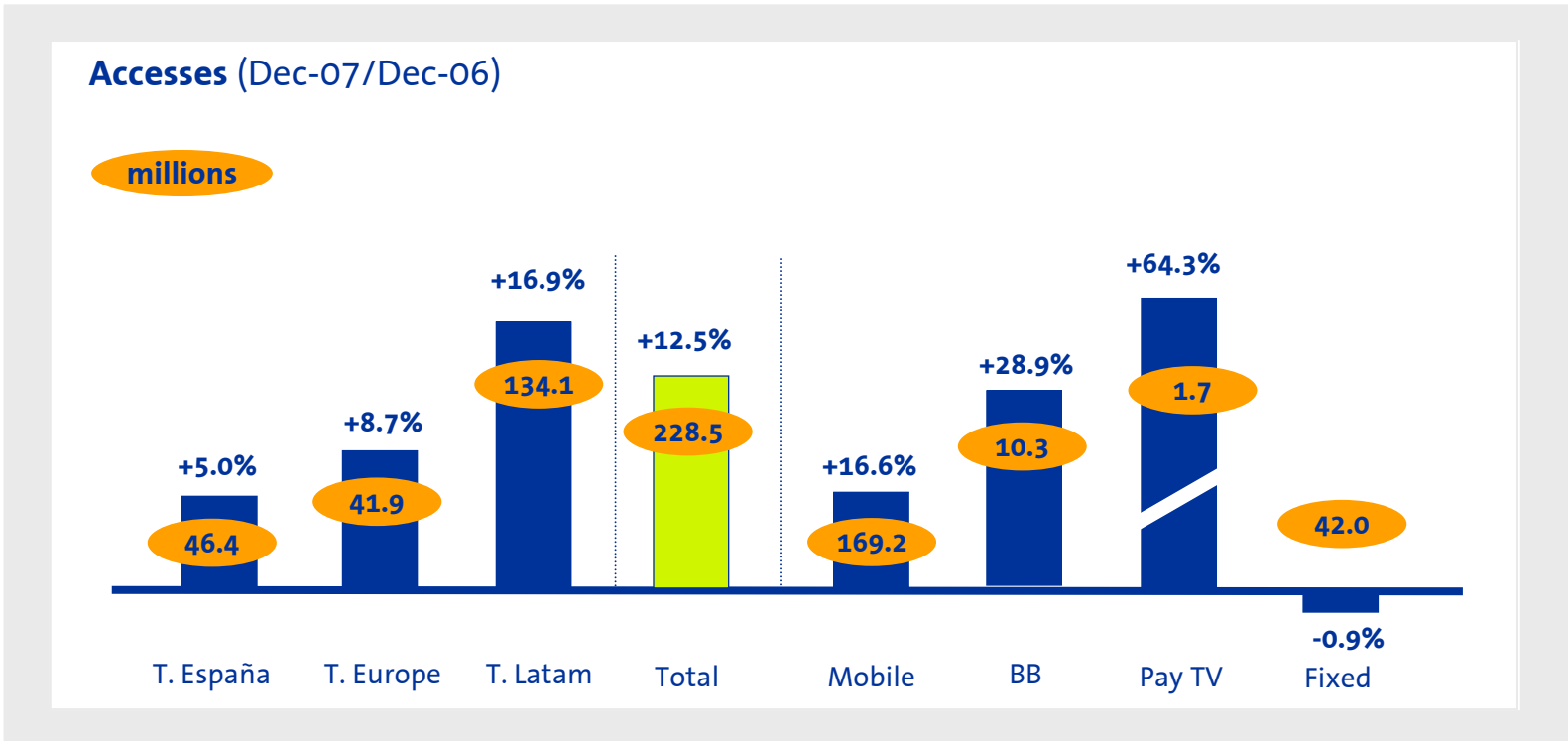
KPN: Organic Revenue/EBITDA growth: adjusted Revenue/EBITDA for guidance calculation

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



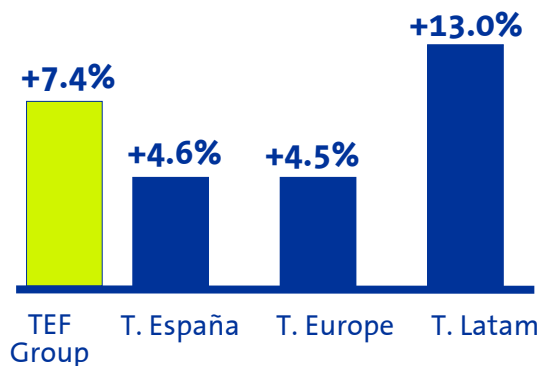
**Increasing value from our customers:**

- Cross selling & upselling
- Capturing bundling opportunities

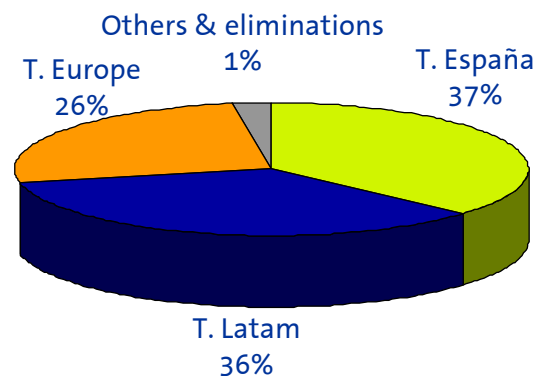
34% with voice, BB and TV bundles (+8 p.p. vs Dec-06)

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

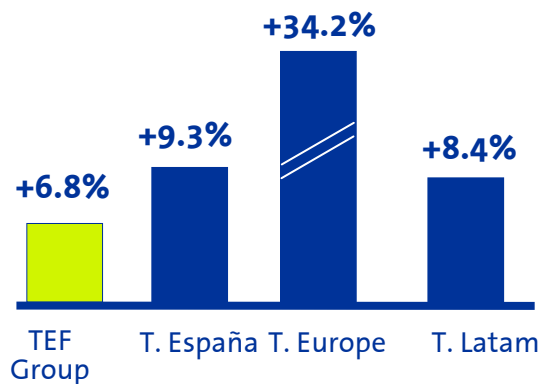
**2007 Revenue growth by regions**  
(Organic<sup>1</sup> y-o-y growth)



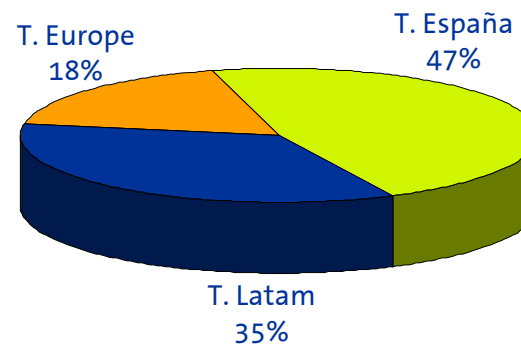
**2007 Revenue breakdown**



**2007 OIBDA growth by regions**  
(y-o-y growth<sup>2</sup>)



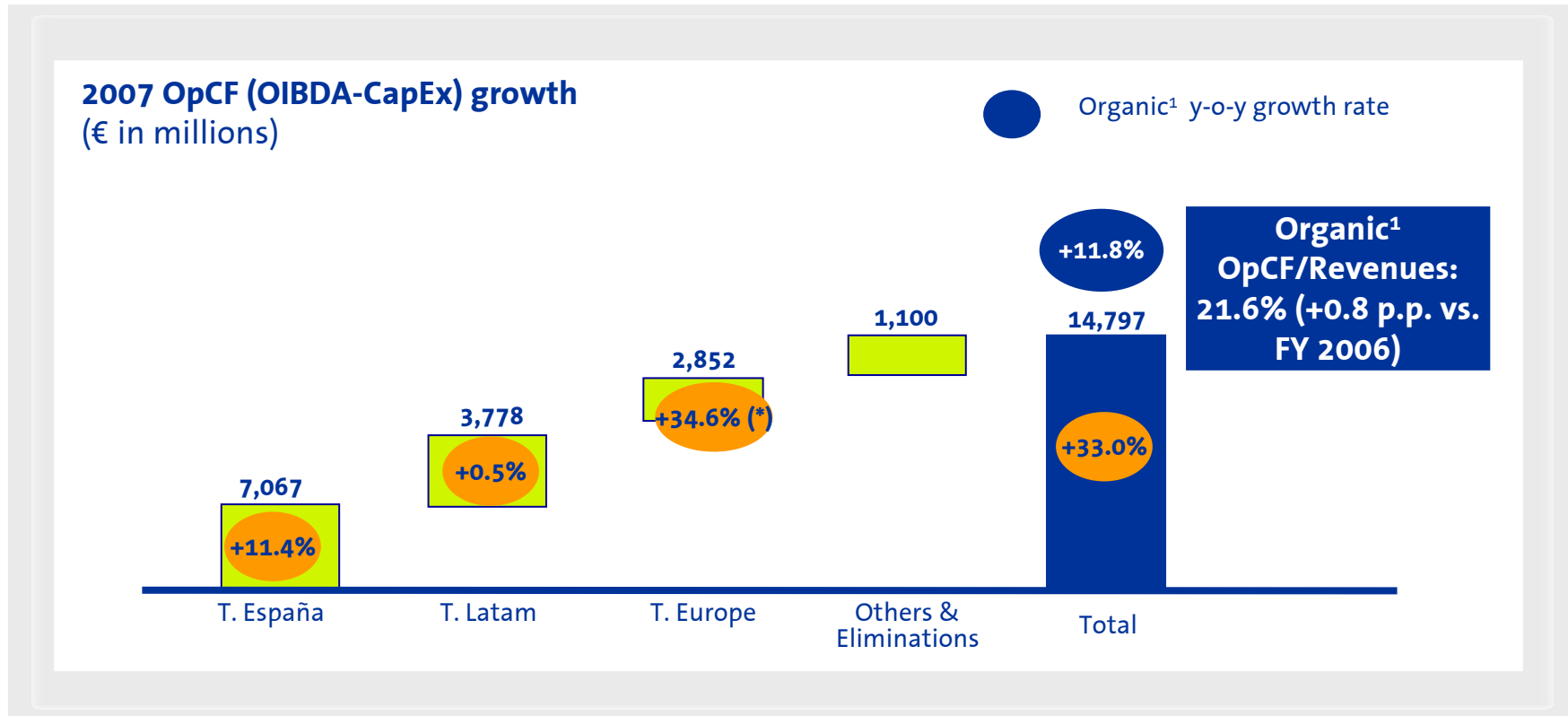
**2007 OIBDA breakdown**



(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

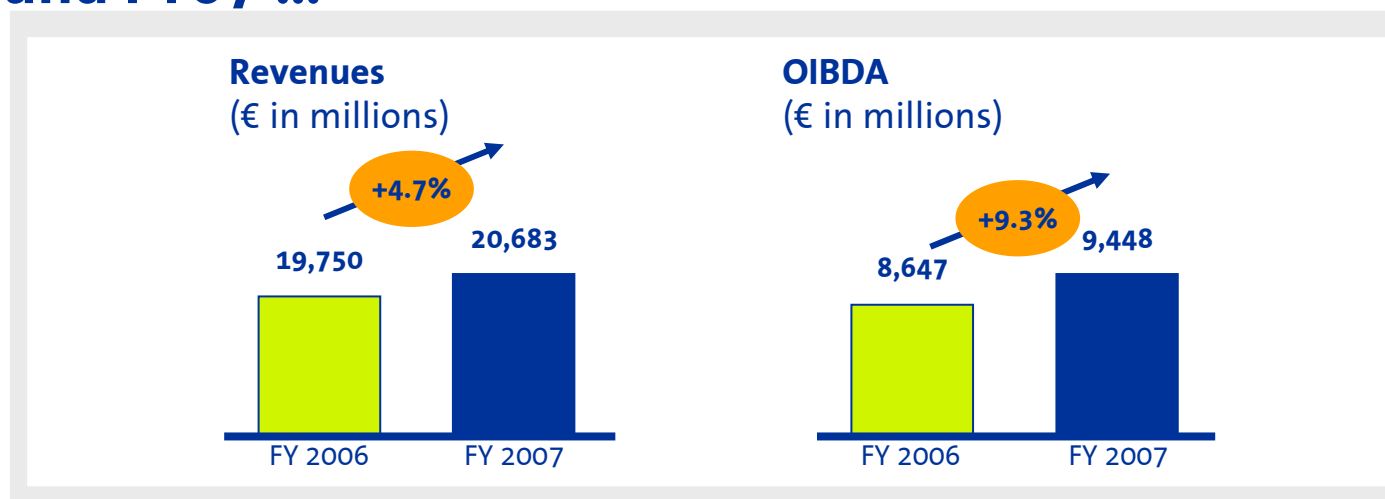


**Total CapEx: €8,027 bn      75% in growth**

(\*) 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 OI exclude Airwave and Endemol capital gains.

# Telefónica España maintains a strong momentum, both in Q4 and FY07 ...



## 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<sup>(1)</sup> (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<sup>(2)</sup> 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**

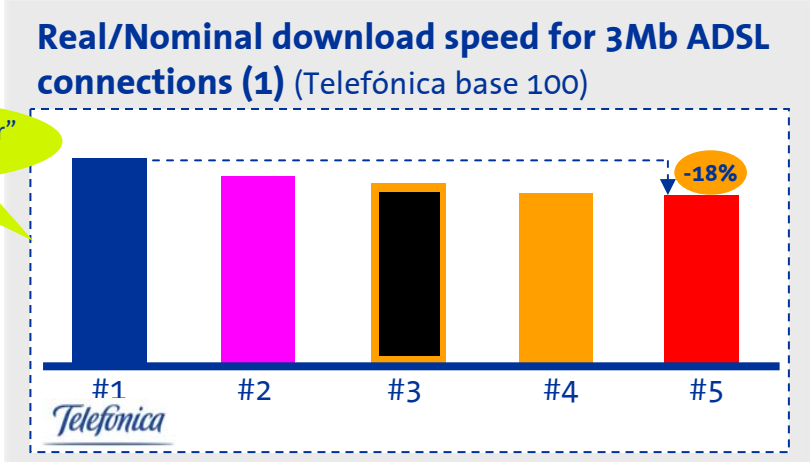
- Improving y-o-y access loss rate to record low levels: **-0.3%** (Dec-07 vs. Dec-06)

**INTERNET BROADBAND**

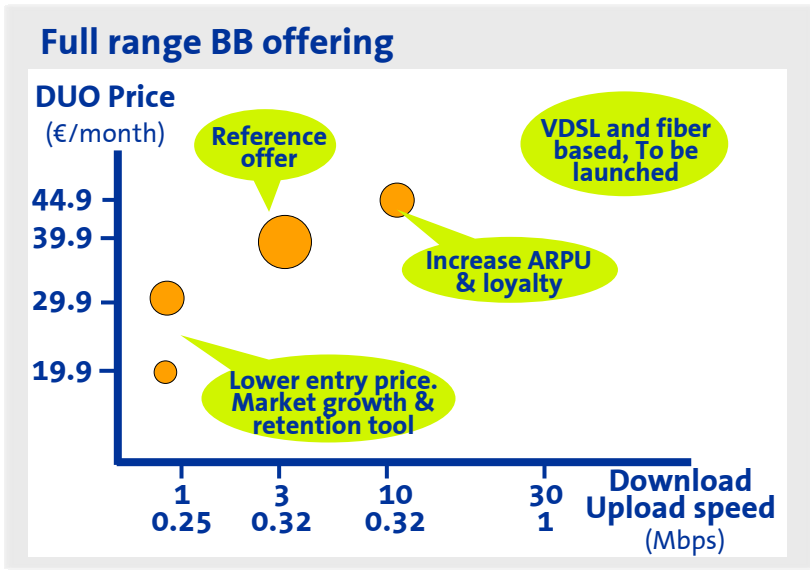
- Sustaining leadership with market share slightly over **56%E**: **4.6 m retail BB accesses** (Dec-07)

**PAY TV**

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

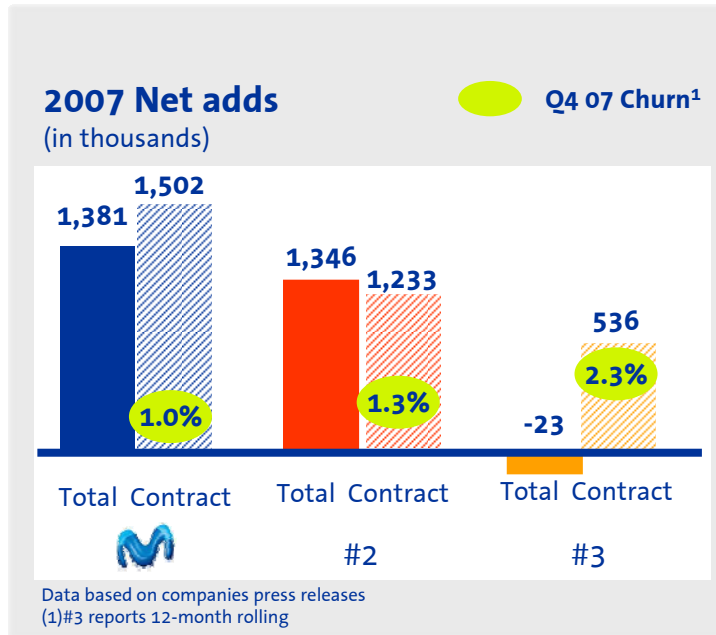
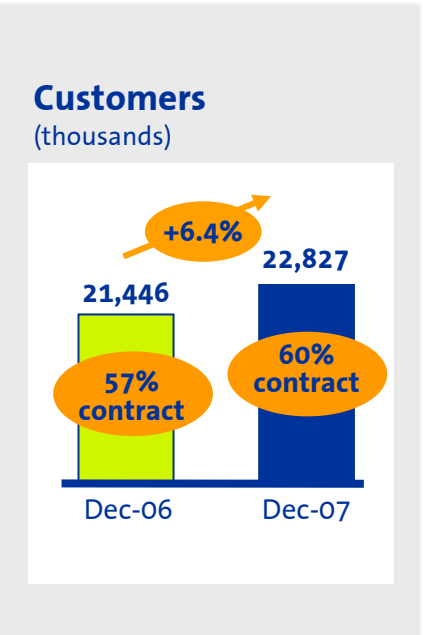


**Best provisioning and Customer attention**



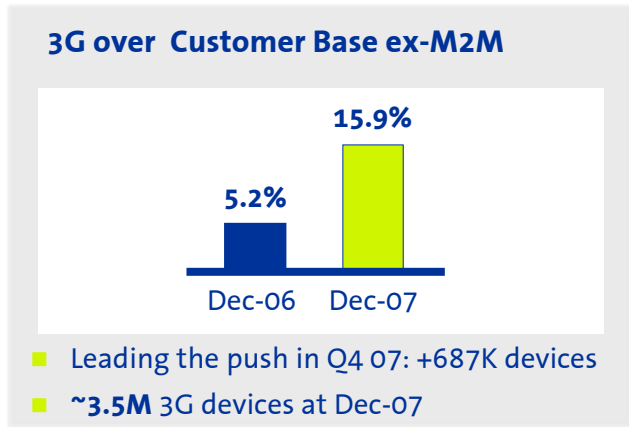
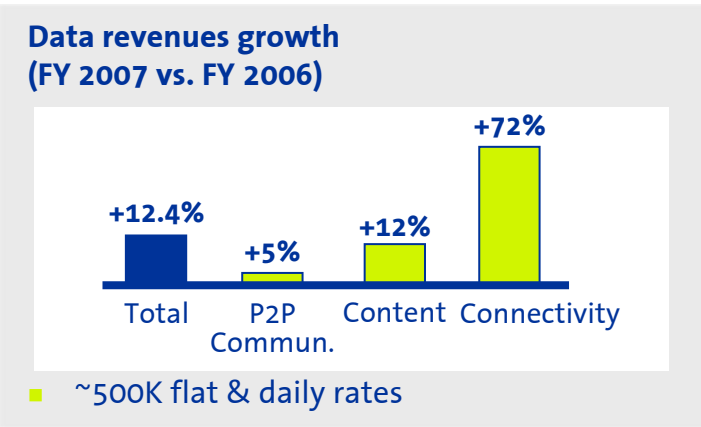
# ... and shaping the market in wireless...

**Leading the growth in the market with focus on value**

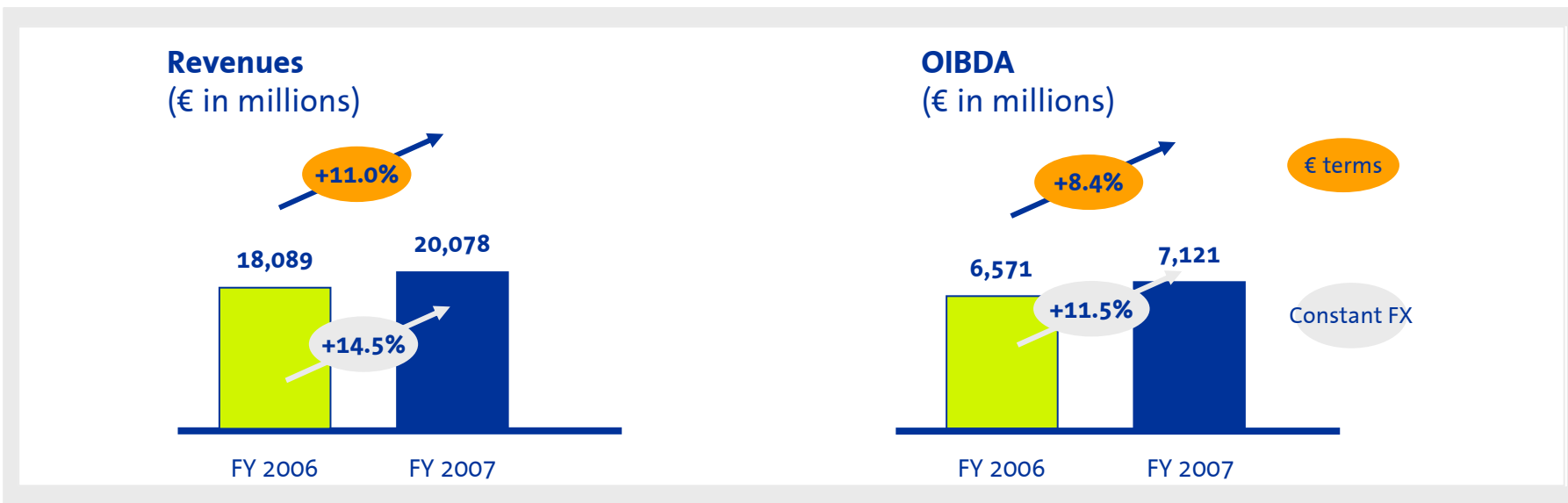


- Limited impact from new entrants
- High contract commercial activity: +12.0% in gross adds vs. 2006
- Higher customer satisfaction
- Top-postpay churn: below 1% leveraging attractive on-net tariffs and strong loyalty program

**Solid data usage**



# Telefónica Latinoamérica recorded a robust performance in 2007 ...



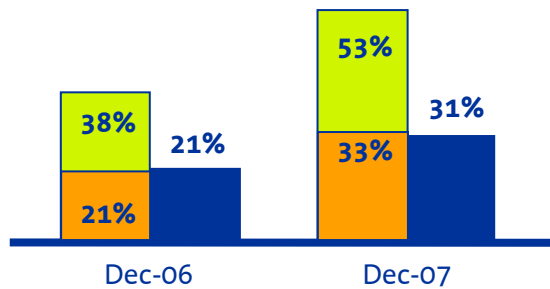
- **Strong commercial activity** in a high growth region: **134.1 m customers**, **+16.9%** vs. Dec. 2006
- **Wireline broadband and mobile** business stand out as **growth drivers**
  - **BB revenues offset pressure** on traditional fixed line revenues
- Personnel reorganization measures to further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

# ... capturing the growth opportunities of the region

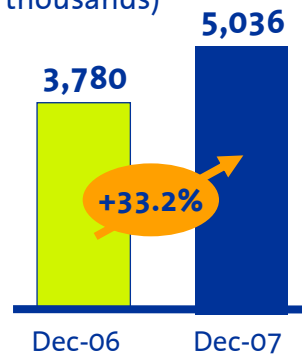
## WIREFLINE: FOCUS ON TRANSFORMATION

### Bundles weight

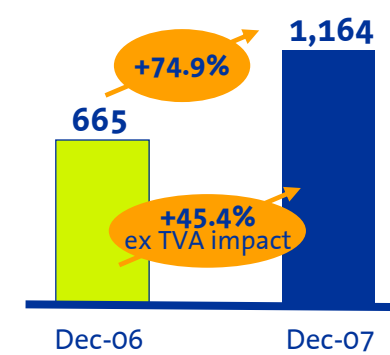
- Local & Control bundles+2P&3P/Fixed Accesses
- Local bundles+2P&3P/Fixed Accesses
- 2P&3P/DSL Accesses



### Retail Internet BB connections<sup>1</sup> (in thousands)

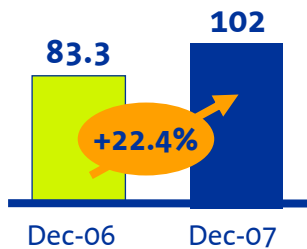


### Pay TV clients<sup>2</sup> (in thousands)



## WIRELESS: FOCUS ON PROFITABLE GROWTH

### Mobile Customers (in millions)

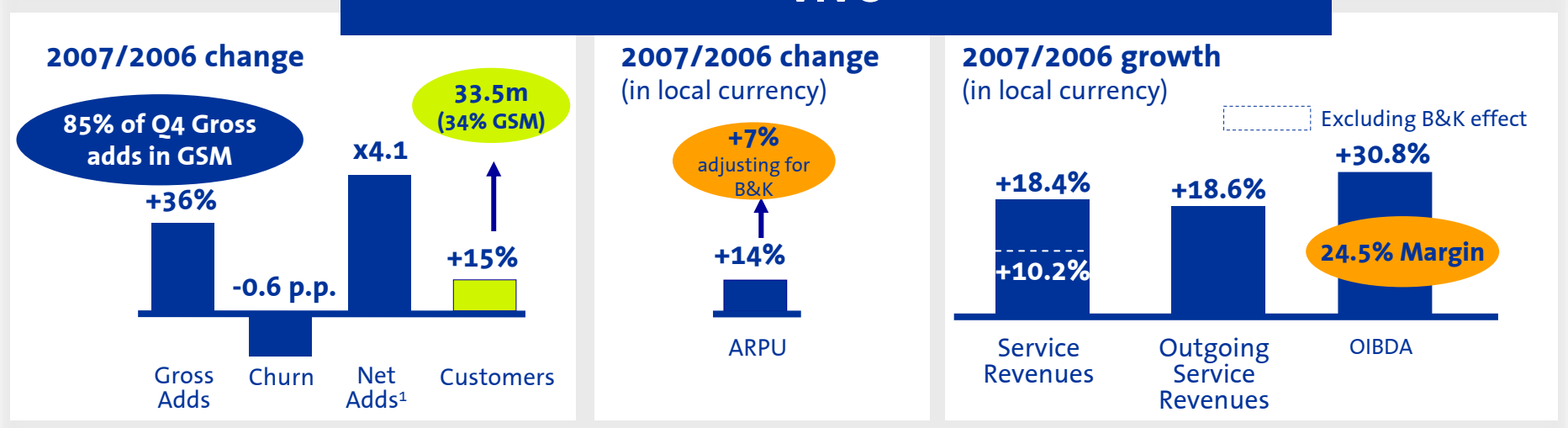


- **Strong increase in mobile penetration** to surpass the 70% mark (+12 p.p. vs. Dec-06)
- **Record mobile net adds** in Q407 expanding customer base in the year by 18.7 m
- **Robust ARPU growth** (+6.3% 2007 vs. 2006)

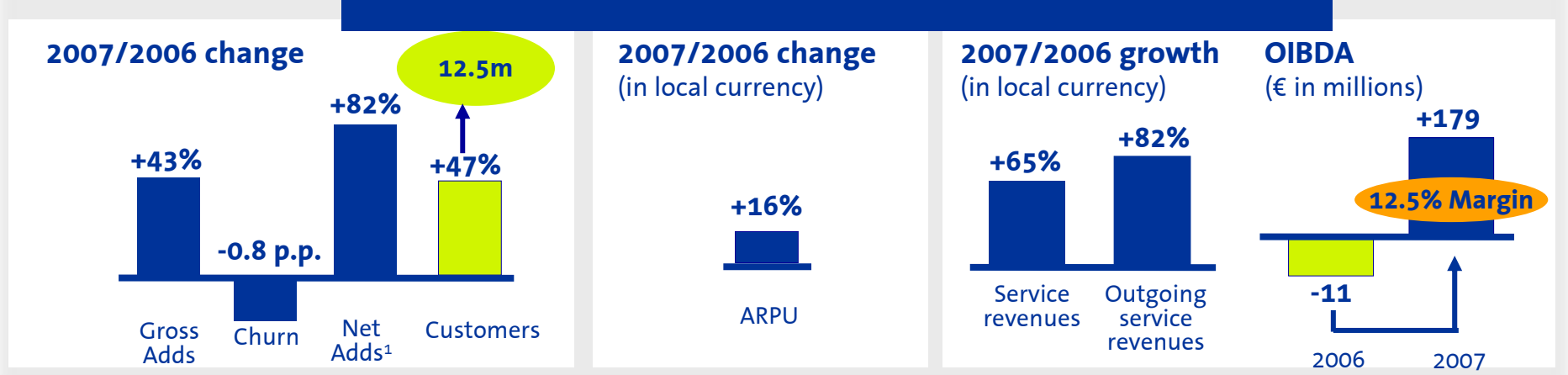
TELEFONICA S.A. (1) Including Terra Latam.  
Investor Relations (2) Includes 196,300 accesses from TVA

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

## VIVO

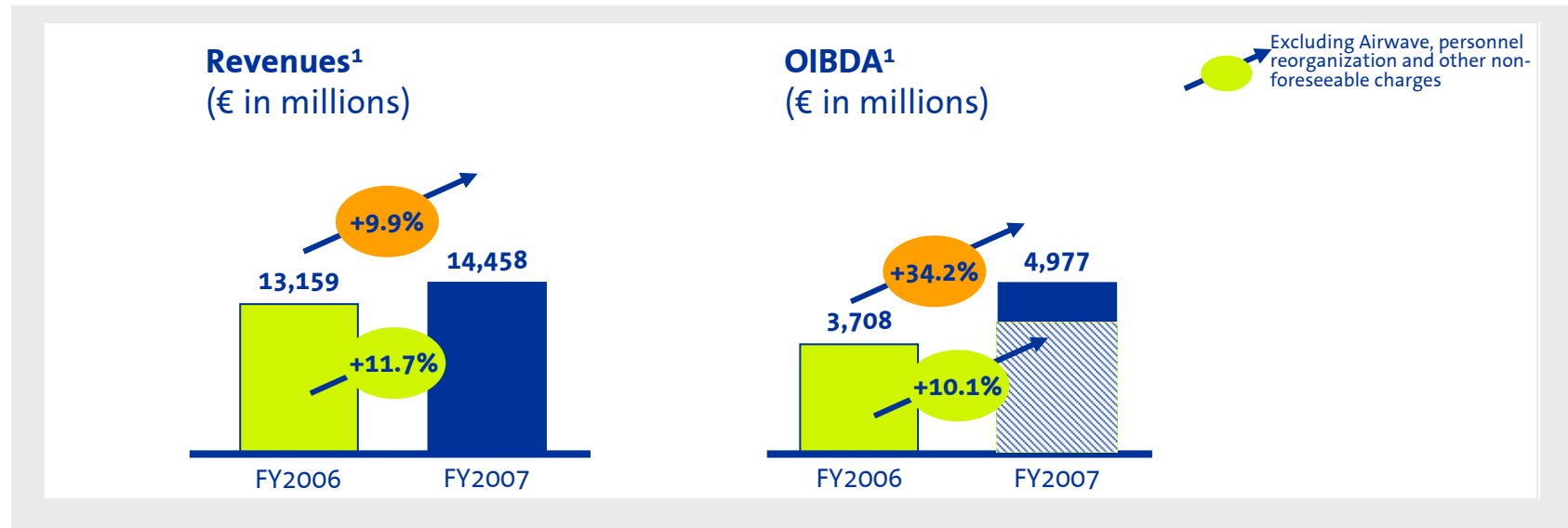


## MEXICO



TELEFONICA S.A. Investor Relations (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 ...



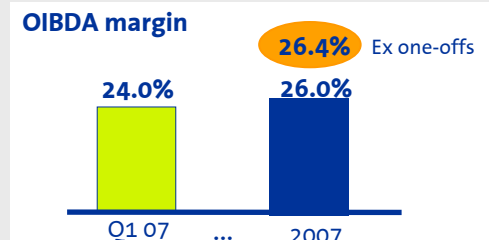
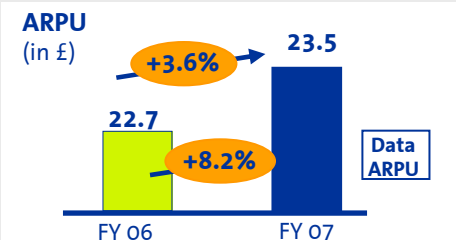
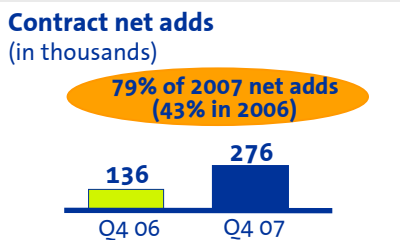
- **Steady expansion of our wireless customer base: 38.3m lines in 2008 (+9% y-o-y)**
  - Successful launch of new commercial initiatives: iPhone in the UK; FONIC (200k) and Genion SML tariffs (+2.1million) in Germany
- **Further developing our retail DSL businesses: 670K customers (+48% y-o-y).**
  - 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**



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

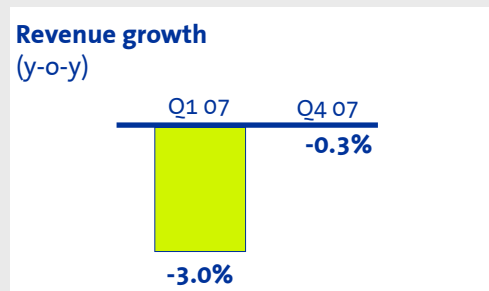
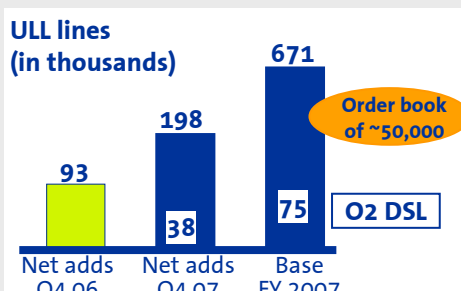
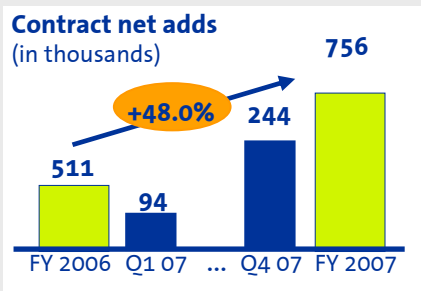
## UK: continued outperformance

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



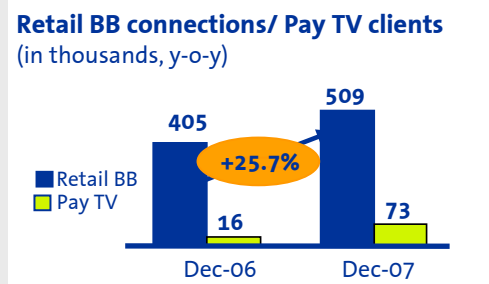
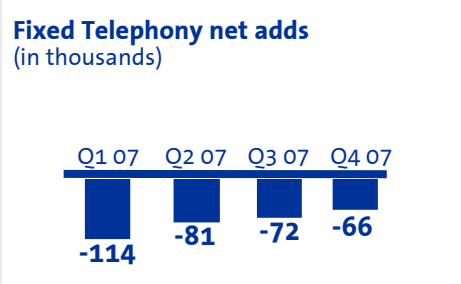
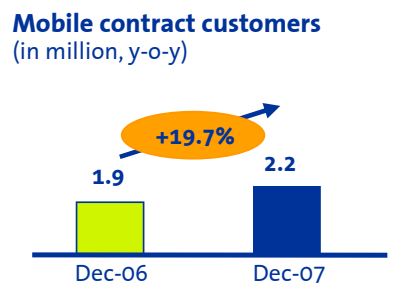
## Germany: increasing commercial activity to capture growth

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



## Czech Republic: maintaining growth

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



# Index

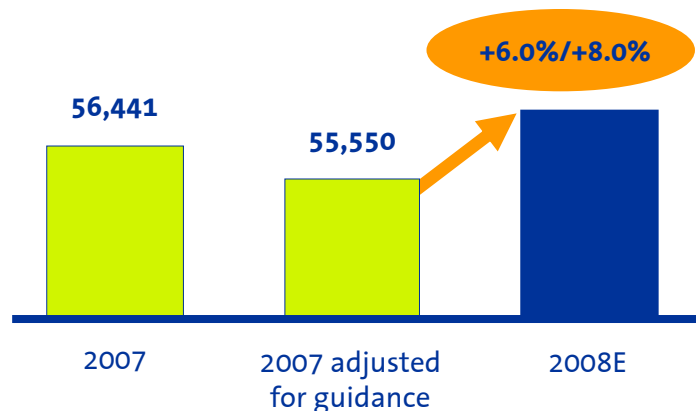
**1** 2007 results confirm our strong momentum

**2** 2008 guidance reassures our differentiated growth profile

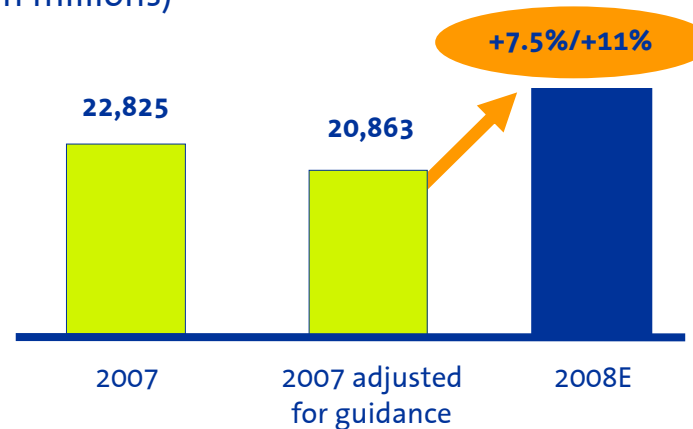
**3** Excess FCF allocated to our 1st priority: shareholder remuneration

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

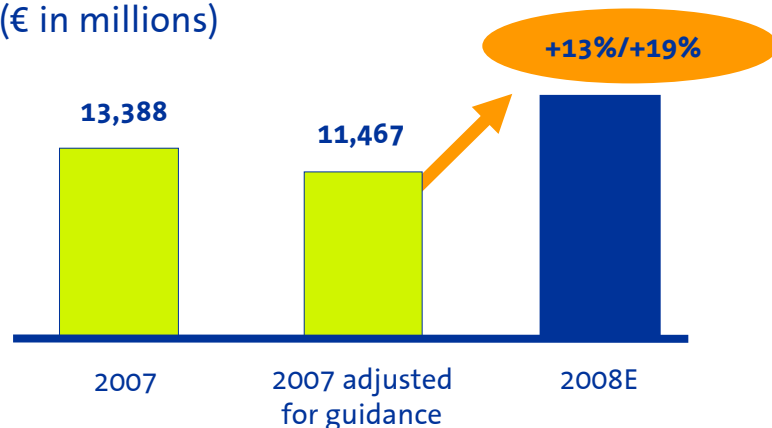
**Group Revenues**  
(€ in millions)



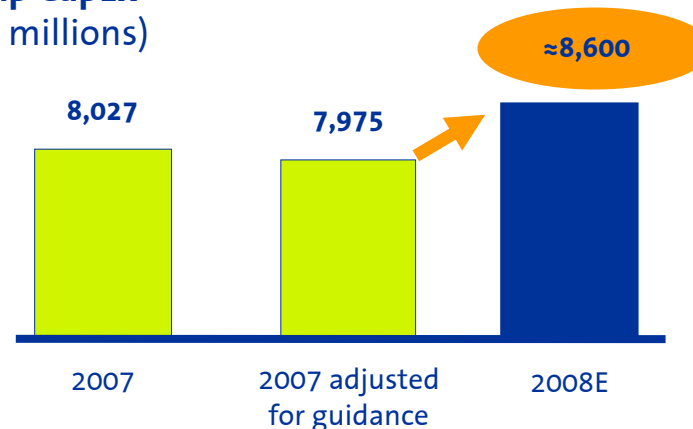
**Group OIBDA**  
(€ in millions)



**Group OI**  
(€ in millions)



**Group CapEx**  
(€ in millions)



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

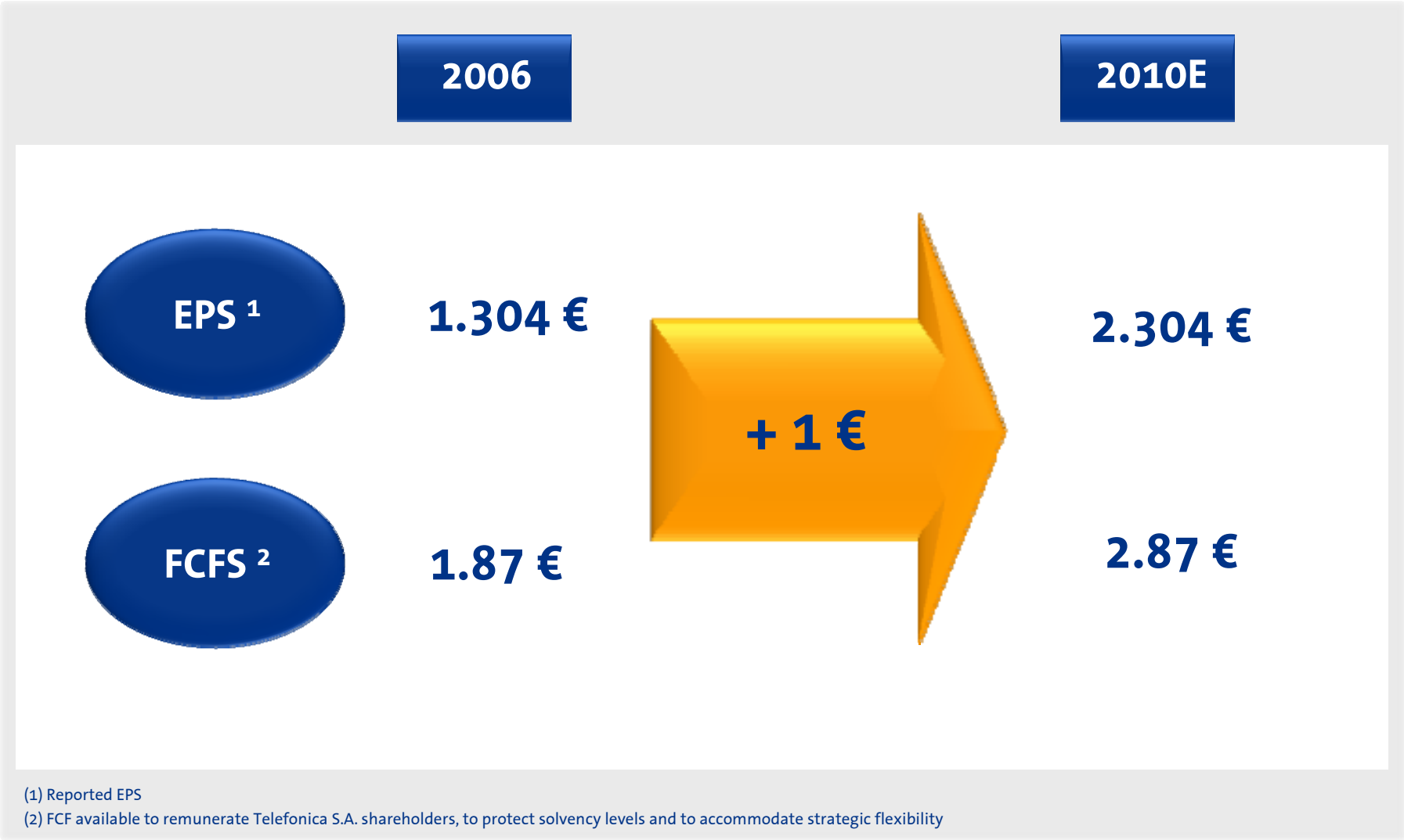
	2006-2007A under guidance criteria (*)	2007-2008E guidance (**)	Implicit 08E-10E CAGR to meet 2010 guidance	2006-2010E (***) CAGR guidance
<b>Revenues</b>	9.8%	6.0% / 8.0%	2.2% / 7.1%	5% / 8%
<b>OIBDA</b>	12.8%	7.5% / 11%	4.0% / 10.1%	7.0% / 11.0%
<b>OI</b>	27.6%	13% / 19%	12.1% / 16.9%	16.0% / 20.0%
<b>Capex</b>	€ 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)

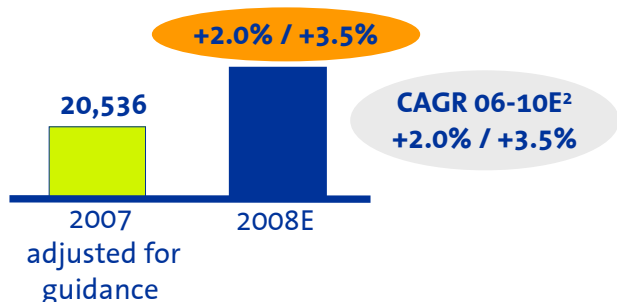
# ... flowing into significant increases in EPS and FCFS



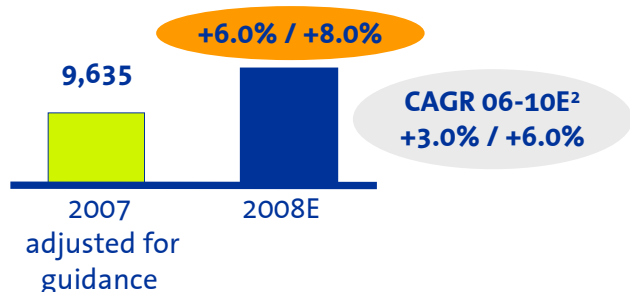
# Strong growth opportunities in Spain supports robust 2008 and long term guidance

## T. ESPAÑA<sup>1</sup>

### Revenues (€ in millions)



### OIBDA (€ in millions)



- Superior population and GDP growth vs. EU

- Fixed and mobile broadband- massive adoption

	DEC-06	DEC-10E
Fixed BB penetration per household with fixed line	42%	~75%
Mobile BB penetration per laptop	20%	>70%

- Additional mobile penetration growth with strong usage upside

	DEC-06	DEC-10E
Mobile penetration <sup>(3)</sup>	104%	~135%

- 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

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

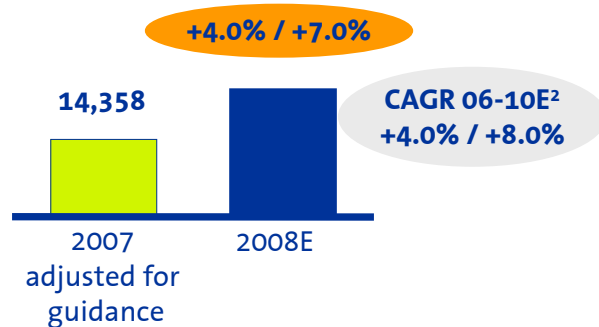
Investor Relations (2) According to guidance criteria provided at Telefónica's 2007 ID. Please refer to page 43 of T. España presentation.

(3) Including M2M

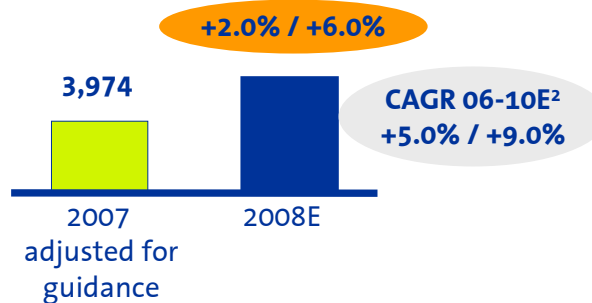
# We are advancing in our strategy to capture growth potential and build a bigger business at Telefónica Europe

## T. O2 EUROPE

### Revenues (€ in millions)



### OIBDA (€ in millions)



- Become an integrated operator and exploit cross-selling opportunities

- UK: Continue to grow above the market

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

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

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

- Broadband proposition: >1million 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

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

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

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

TELEFONICA S.A. Results for our regional business units exclude brand fees

Investor Relations (1) Including M2M

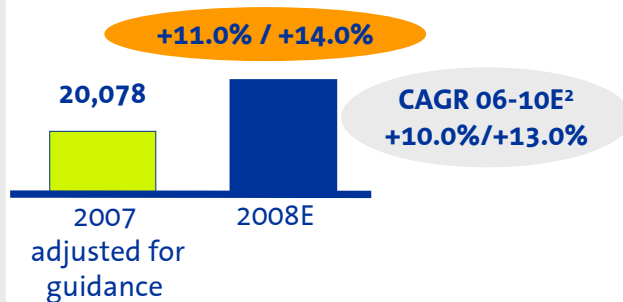
(2) According to guidance criteria provided at Telefónica's 2007 ID. Please refer to page 43 of T. Europe presentation. Growths assume 2006 constant FX.

Telefonica

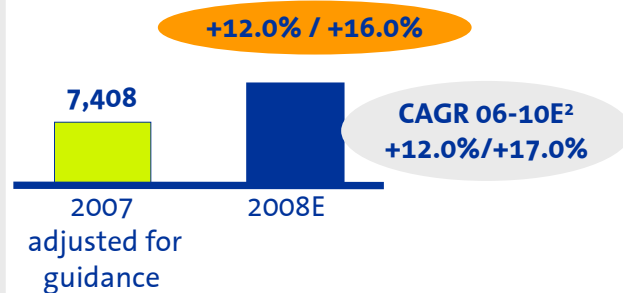
# We are well positioned to capture the huge growth opportunity in Latin America

## T. LATAM<sup>1</sup>

### Revenues (€ in millions)



### OIBDA (€ in millions)



- 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

	DEC-06	DEC-10E	
Mobile Penetration	56%	~83%	140/160 million additional mobile accesses
BB Penetration	10%	~23%	18/19 million additional broadband accesses

## 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



# Index

1

2007 results confirm our strong momentum

2

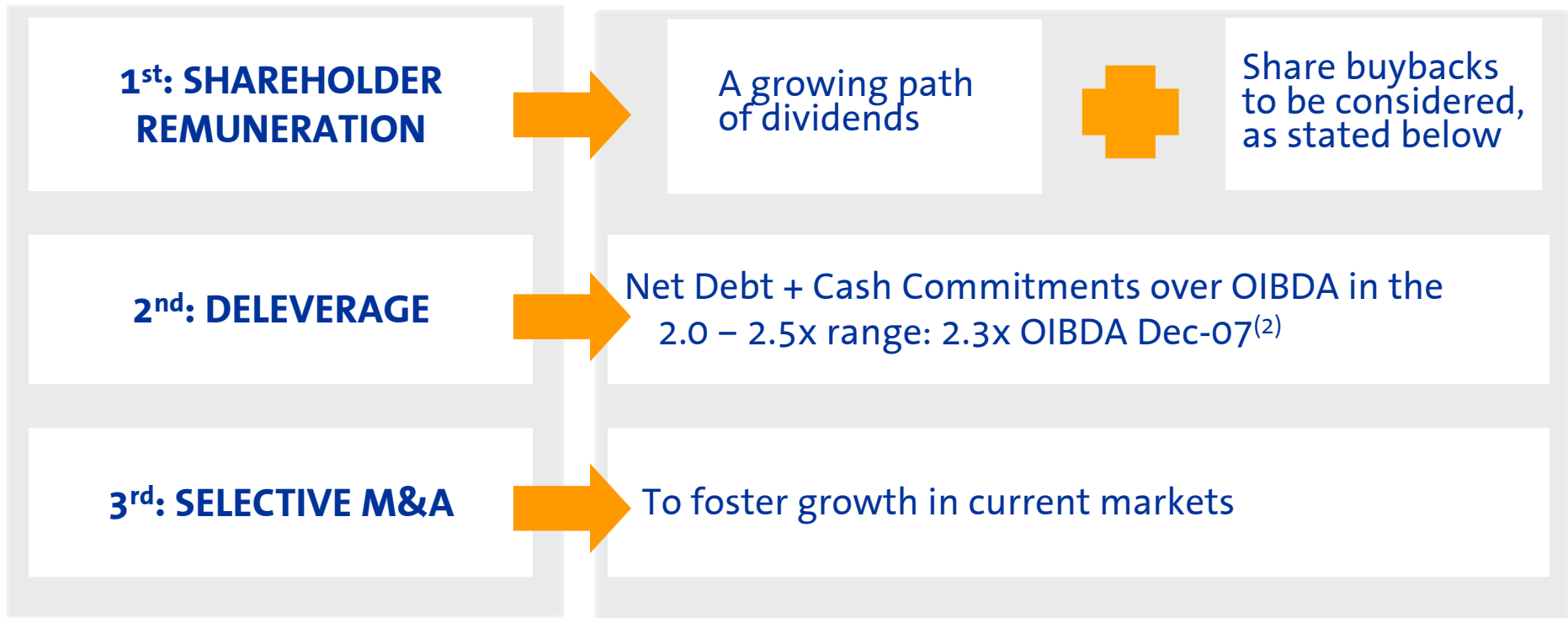
2008 guidance reassures our differentiated growth profile

3

**Excess FCF allocated to our 1<sup>st</sup> priority: shareholder remuneration**

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

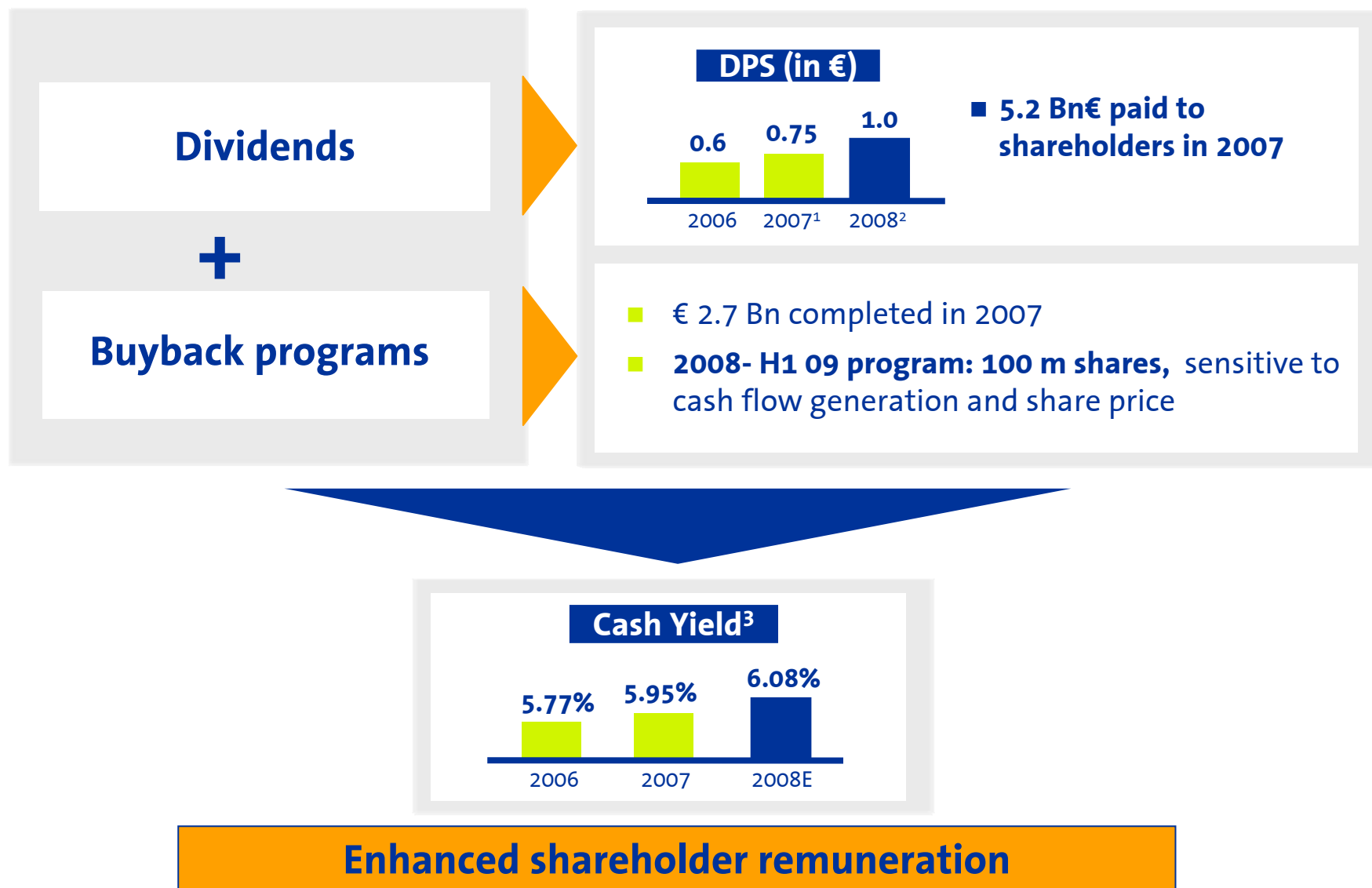
**> € 40 bn**  
Cumulative FCF 07E-10E <sup>(1)</sup>



**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 FY 2007 OIBDA excluding results on the sale of fixed assets.

## ... leading to a growing path on shareholders returns



## In summary



*Telefonica*

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