

Sixth Investor Conference

Telefónica España: A Winning Mindset

Antonio Viana-Baptista

London, October 11th 2007



Disclaimer

This presentation contains statements that constitute forward looking statements in its general meaning and within the meaning of the United States Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

Although Telefónica believes that these statements are based on reasonable assumptions, such forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those in the forward looking statements as a result of various factors, most of which are difficult to predict and are generally beyond Telefónica's control.

Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica's business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator.

The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). Part of this financial information is un-audited and, therefore, is subject to potential future modifications. Telefónica may present financial information herein that is not prepared in accordance with IFRS. This non-GAAP financial information should be considered in addition to, but not as a substitute for, financial information prepared in accordance with IFRS. Telefónica has included such non-GAAP financial information because Telefónica's management uses such financial information as part of its internal reporting and planning process and to evaluate Telefónica's performance. Accordingly, Telefónica believes that investors may find such information useful. However, such non-GAAP financial information is not prepared in accordance with IFRS or any other generally accepted accounting principles, and such non-GAAP financial information, as defined and calculated by us, may be different from similarly-titled financial information used by other companies. Investors are cautioned not to place undue reliance on such non-GAAP financial information.

Telefónica España ...

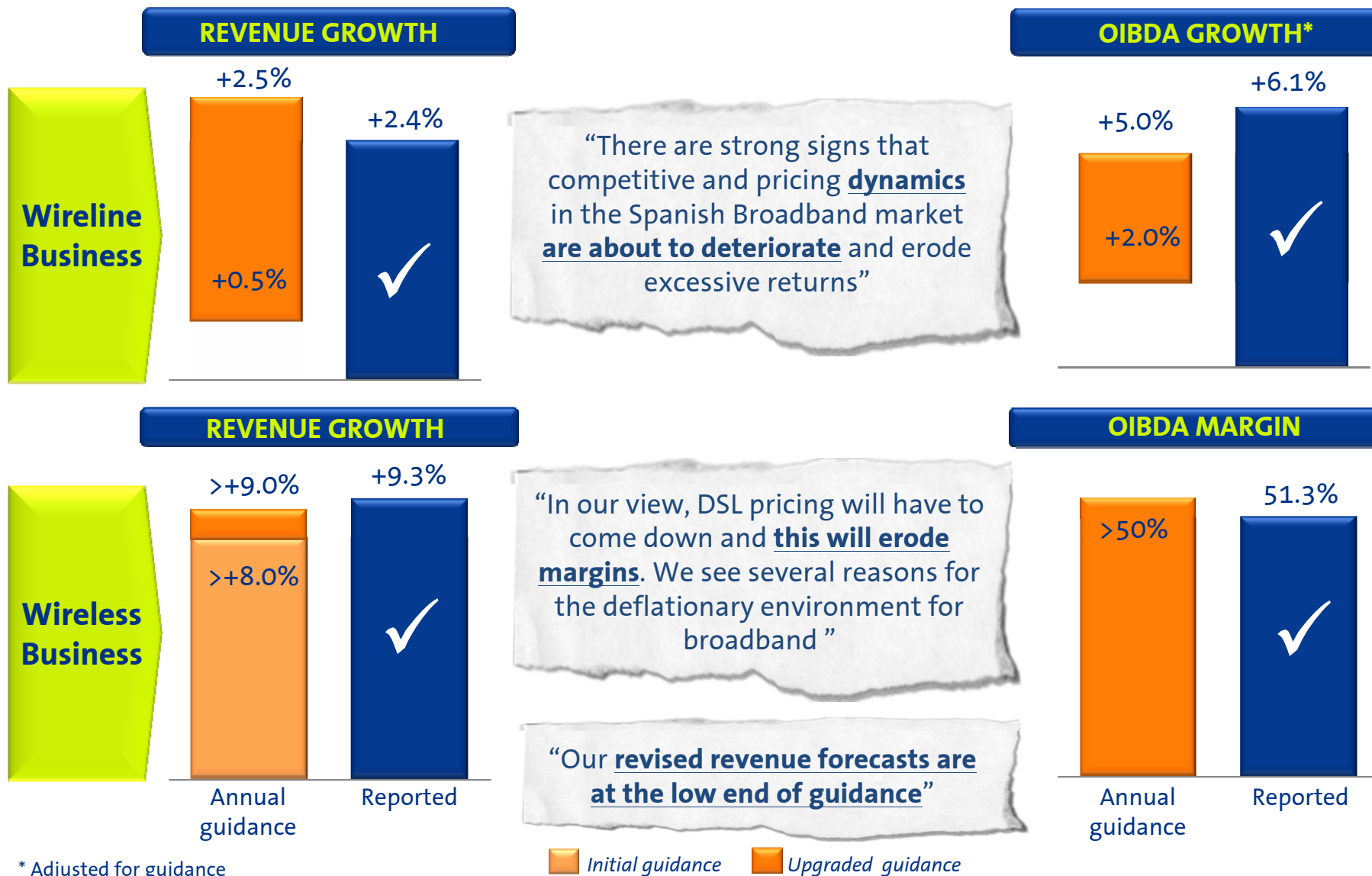
1 A track record of strong delivery

2 A growth environment

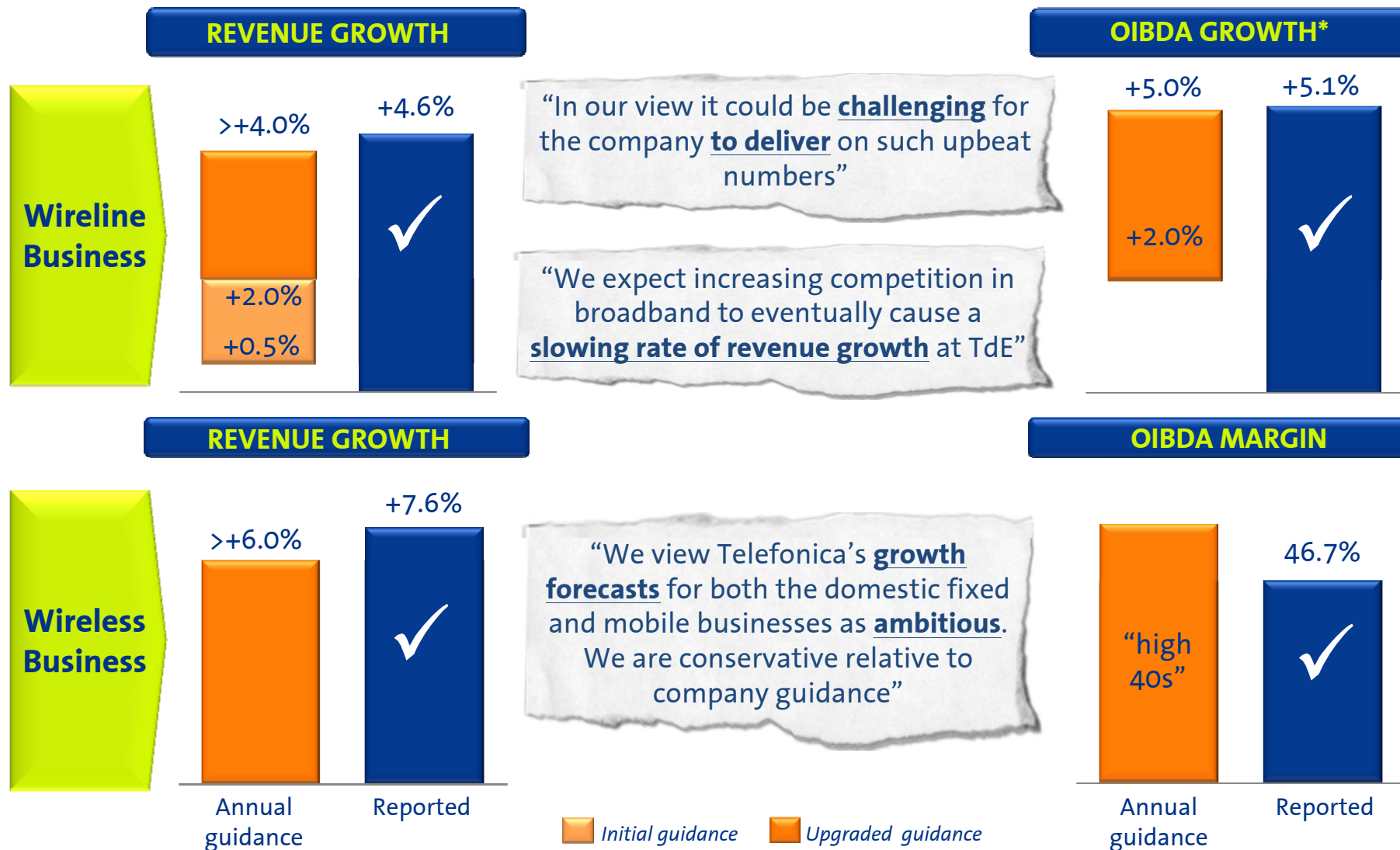
3 The best starting position

4 An ambitious strategy that will extend our leadership

Strong execution: consistent delivery above expectations 2004

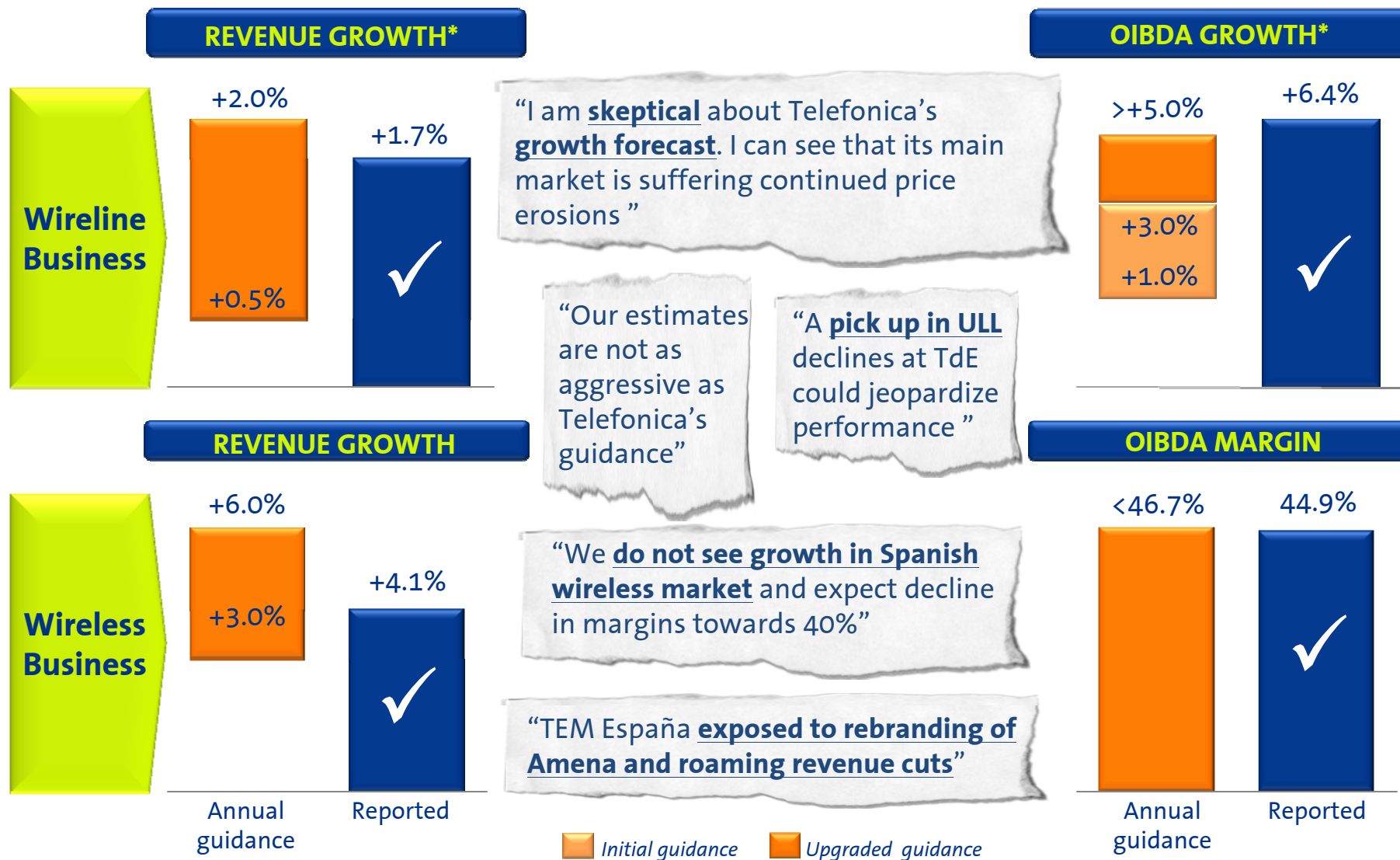


Strong execution: consistent delivery above expectations 2005



* Adjusted for guidance

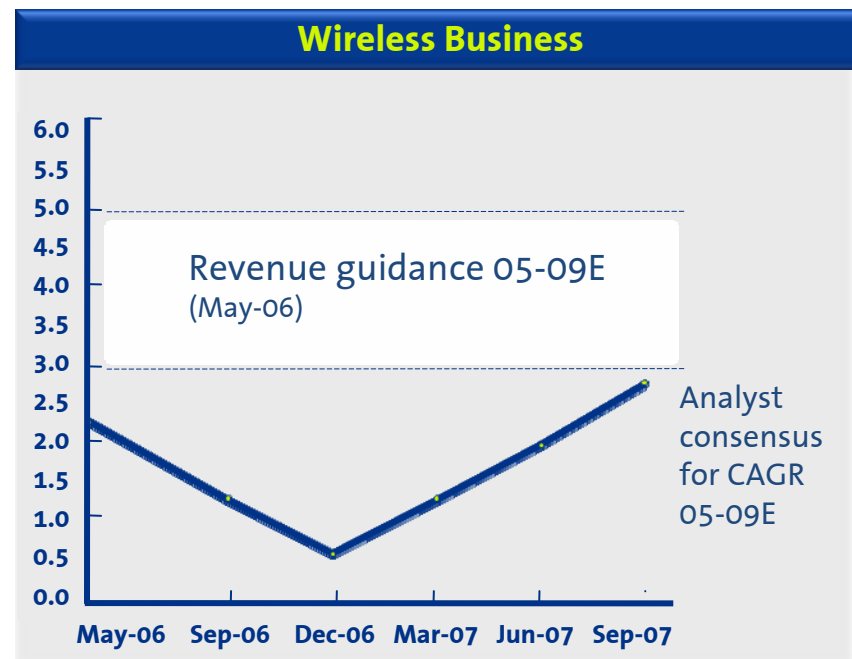
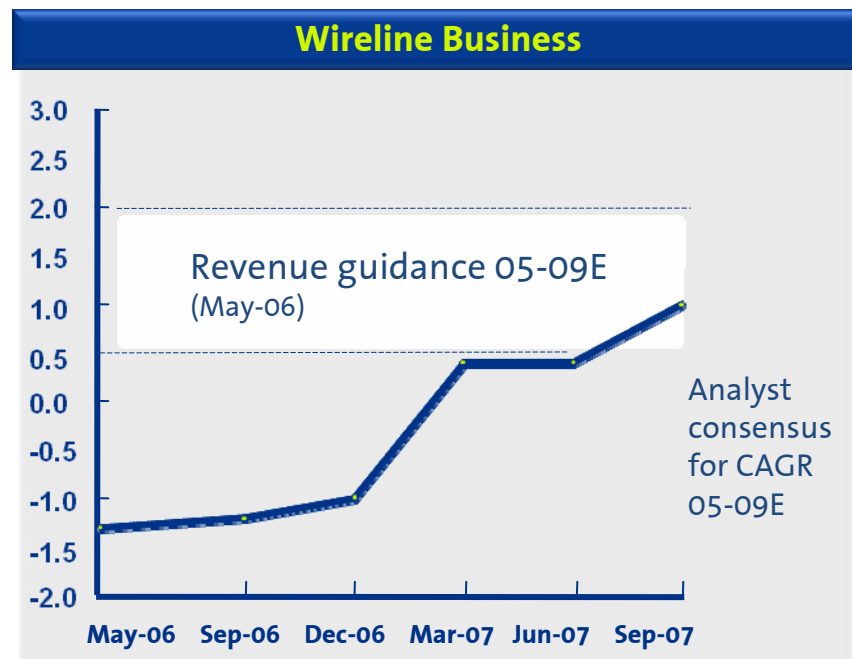
Strong execution: consistent delivery above expectations 2006



* Adjusted for guidance

Progressively, we get some credit for our results and the gap narrows

PERCENT



“2Q07 should definitely eliminate doubts for those skeptics about TEF’s ability to meet guidance. **Catastrophist scenarios about the domestic market are being confronted with a very different reality**”

“Although we expected a strong performance again from Spain, the **results even outperformed our high expectations**”

“2Q07 results **demonstrate to us that fears of a material step up in domestic competition are currently unfounded**”

Source: Telefónica, Analyst Consensus

This year, we are even more confident about our future performance

CAGR 05-09E

	REVENUE	OIBDA		REVENUE	OIBDA
Wireline	+0.5%/+2.0%	+3.0%/+6.0%	Telefónica España*	+1.5%/+3.0%	+1.5%/+4.0%
Wireless	+3.0%/+5.0%	+0.0%/+2.0%			

* Implicit 05-09E proforma guidance

CAGR 06-10E

	REVENUE	OIBDA
Telefónica España	+2.0%/+3.5%	+3.0%/+6.0%

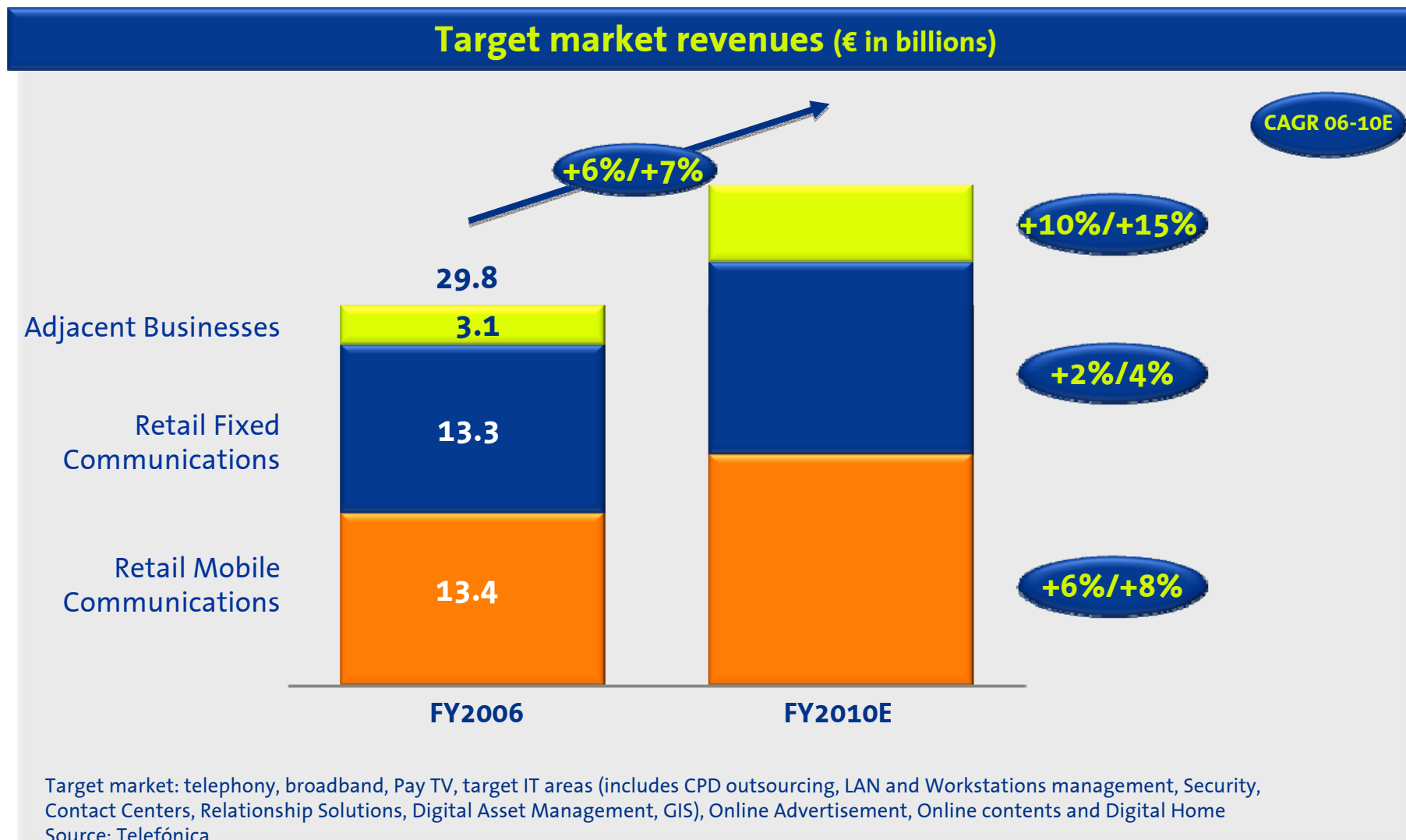
**WE CONTINUE
TO INCREASE
OUR LEVEL OF
AMBITION**

- Base 2006 figures for T. España Wireline include six months of Iberbanda
- In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007E-2010E. Personnel Restructuring (€980 m in 2006) and Real State Programs (€94 m in 2006) are included as operating revenues/expenses. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.
- CAGR 06-10E guidance excludes changes in consolidation

Telefónica España ...

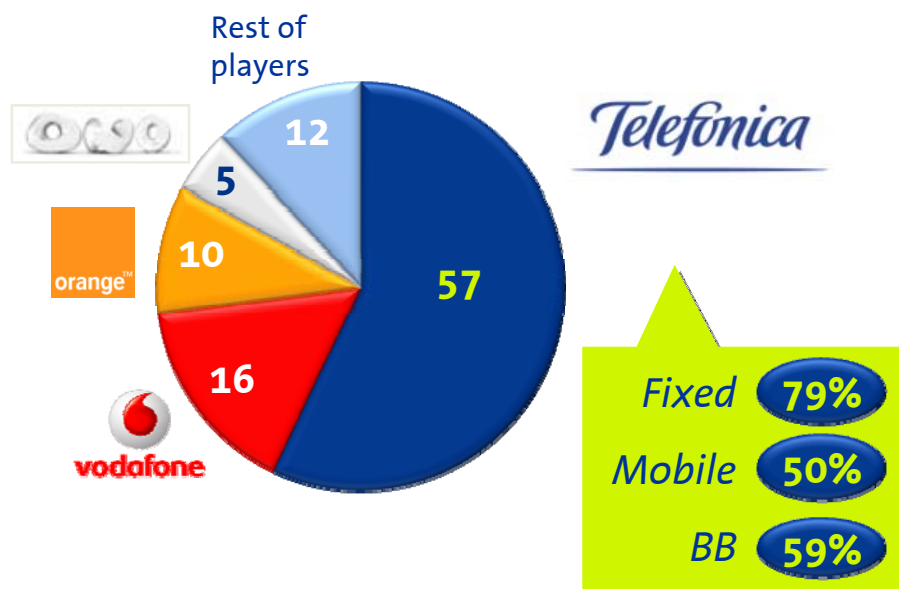
- 1 A track record of strong delivery
- 2 **A growth environment**
- 3 The best starting position
- 4 An ambitious strategy that will extend our leadership

Our market offers significant growth opportunities...



...and we are leaders in a healthy competitive environment

Revenue Market Share (%). FY2006

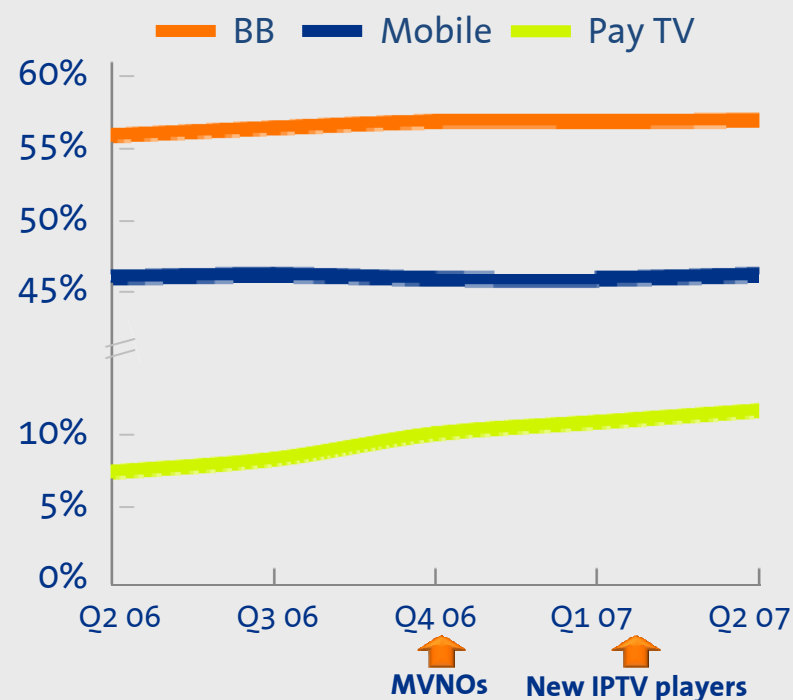


Retail revenues from fixed and mobile telephony, Internet, Pay TV and Corporate Communications

Source: CMT, companies press releases, Telefónica

- 3 major nationwide competitors
- Other players, including new entrants, with limited nationwide impact

Evolution of Telefónica's Access Market Share



Source: CMT, companies press releases, Telefónica

- We maintain our competitive position in the traditional business
- We keep increasing market share on new businesses (Pay TV)

No regulatory free ride

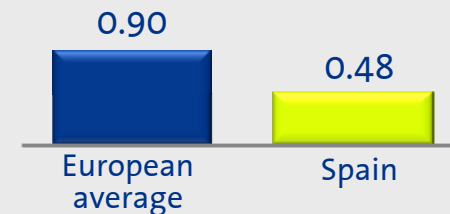
Spanish regulatory conditions are comparable to that in other European countries...

- **Decreasing roaming prices** identical to other European markets, in a roaming-in country
- **Mobile termination** regime equivalent to European countries: €7 cents/min by Q2 09
- Obligation to **identify new and existing prepaid users** in the near future

...and in several topics are even more severe

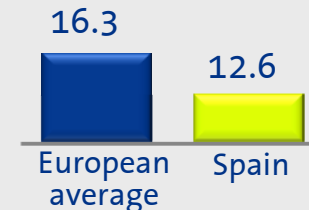
- Capacity based **fixed line interconnection prices**, leading to the lowest effective price per minute in Europe

Rates for single transit, peak hour (€ cents)



- **Demanding conditions for LL access (prices, supply deadlines and penalties)**

FULL monthly rates. € (*)



- Wide range of **universal service obligations**, financed solely by Telefónica

* Includes connection and monthly fees

Source: Telefónica and latest available official information

Our regulatory environment going forward is now more predictable

SEVERAL KEY ISSUES DEFINED FOR THE NEXT 2-3 YEAR PERIOD...

- Markets definition (2009)
- Wireline monthly fee (2009)
- Mobile termination rates framework (2009)
- International roaming voice prices (2010)

SOME NEW AREAS...

- Access to FTTX Networks
- Spectrum management policy
- DVBH

Spain will maintain a positive macro environment

Positive macro environment...

CAGR 06-10E

	Spain	Euro zone
■ GDP: +€119bn	+2.9%	+2.2%
■ Private consumption: +€66bn	+2.8%	+1.8%
■ Population: +1.5m people	+0.9%	+0.2%

Source: "Consensus Forecast" for GDP and private consumption; INE and Eurostat for population

... and market trends

- Increasing demand for telecommunication services
 - New users
 - Room to increase adoption rates
- Business opportunity beyond connectivity

Telefónica España ...

- 1 A track record of strong delivery
- 2 A growth environment
- 3 The best starting position**
- 4 An ambitious strategy that will extend our leadership

We are in the best starting position to capture this growth

THE BROADEST AND DEEPEST RELATIONSHIPS

THE MOST SATISFIED CUSTOMERS

THE STRONGEST COMMERCIAL REACH

A REFERENCE IN EFFICIENCY

The broadest and deepest customer relationships

The broadest ...

> 45 million accesses

... the deepest ...

- >35% exclusivity in Households
- >50% exclusivity in SMEs and SOHO
- >70% exclusivity in Corporate

... with the best customers

Market share (FY2006)

Fixed Broadband

59%

56%

Share of revenues Share of accesses

Mobile

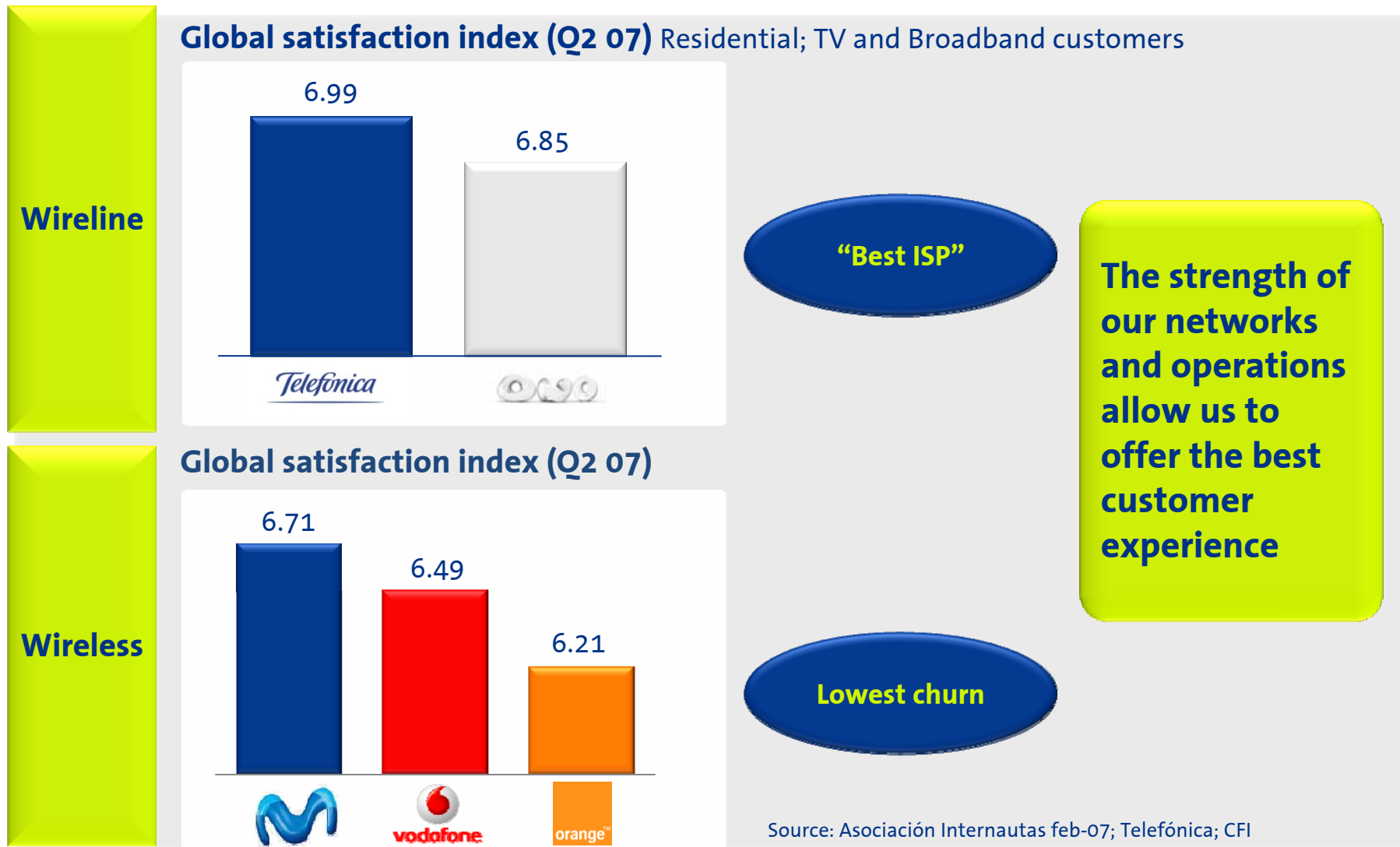
50%

46%





Share of revenues Share of accesses

Source: CMT, Telefónica, companies press releases

We have the most satisfied customers



The strongest commercial reach with outstanding growth opportunities

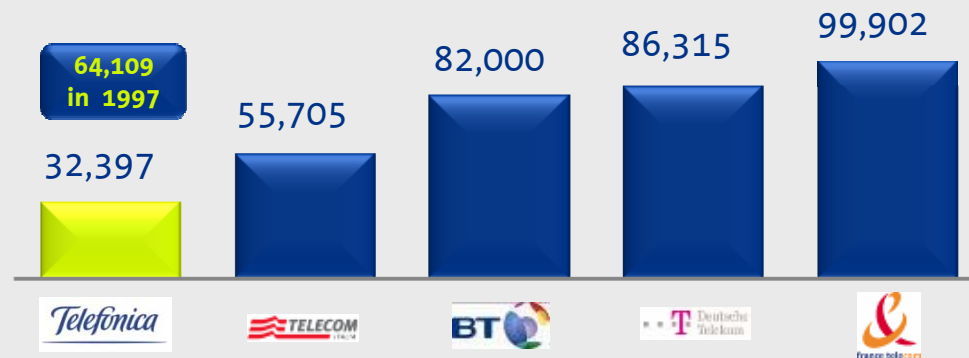
	>7,300 points of sale	... >4 million customers/month ... more than twice the number of exclusive points than any other competitor
	>2,600 sales force for Corporate and SMEs	... >80,000 interactions/month
	≈10,000 call center positions	... 13.5 million contacts/month
	Online channels	... >15 million visits/month

We are a reference in efficiency

>1/3 reduction in wireline business workforce in Dec.02-Dec.07E:

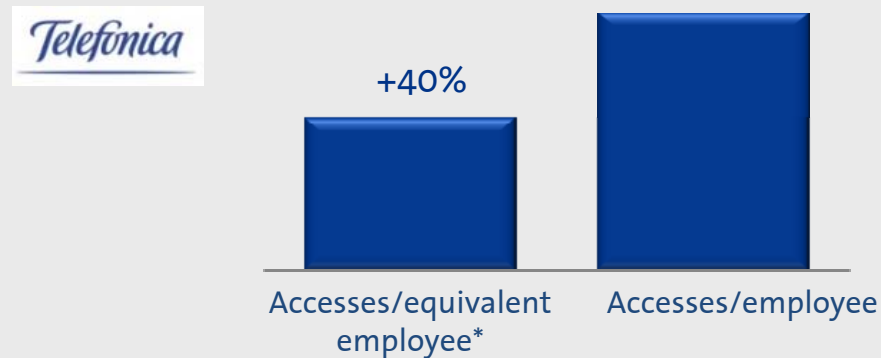
- Redundancy plan (ERE)
- Application of “lean operations” to all business processes

Employees (wireline) Dec-06



Increase in Accesses per Employee (wireline)

(Dec.07E/Dec.02)



Source: ML European Broadband Matrix Q2 07, Telefónica

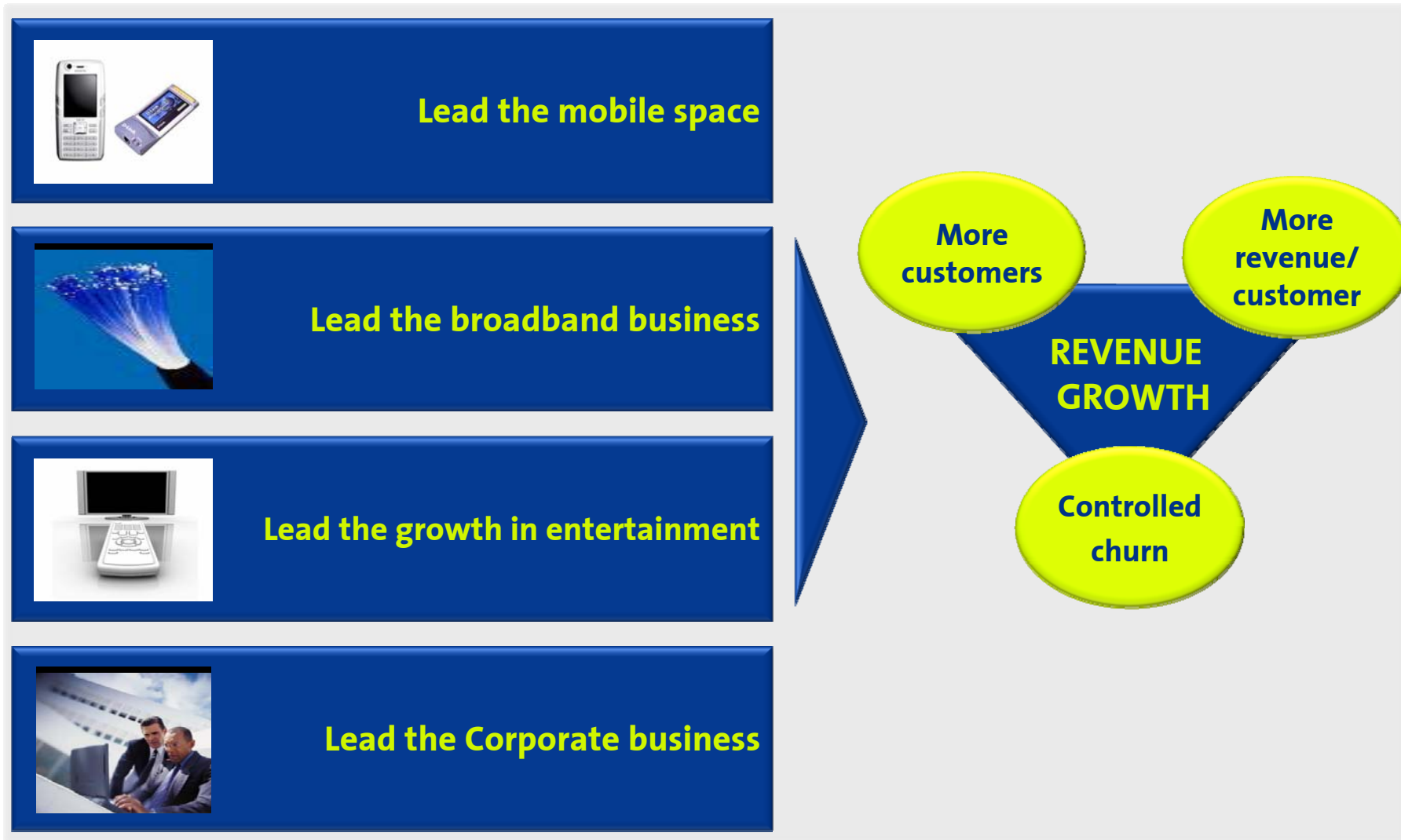
* Includes own workforce and outsourced employees

Telefónica España ...

- 1 A track record of strong delivery
- 2 A growth environment
- 3 The best starting position

4 An ambitious strategy that will extend our leadership

Our winning mindset is our key value driver

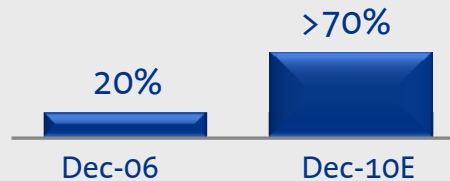


We will lead the rapid growth of the mobile data business



Strong data adoption and usage ...

Mobile BB/laptops (market)



New services:

- Applications on the move
- Access to leading services from mobile
- Speed and ease of use

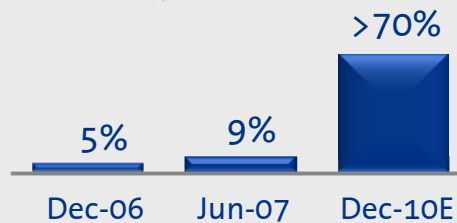
... supported by commercially oriented roll-out of 3G networks

3G roll-out

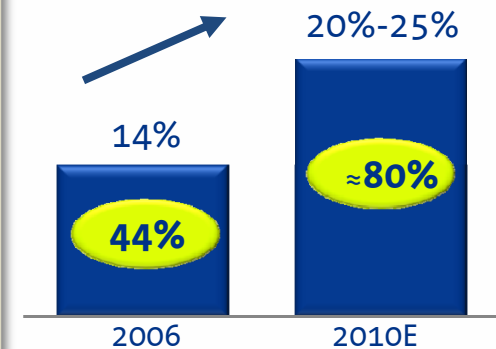
- 80% population coverage with HSDPA by 2010E

3G handsets/customer base

- Progressive upgrade of handset base



Data ARPU /ARPU



Non P2P SMS data revenue/data revenue

We will keep enhancing our services

MOBILE SPACE

P2P communications

- Enhanced messaging (SMS 2.0)
- Fulfilling **group communication** and **mobile-PC** communication **needs**



Browsing & Connectivity

- Easing browsing system
- New partnerships (GYM)
- Open access navigation
- Extending **mail services** to residential business
- Enhanced **handset navigation capabilities**



Multimedia

- Strengthening content offer based on communities
- Enhanced TV offering



New businesses

- **Advertising:** 1st Spanish mobile portal to include advertising
- **M-commerce**
- **Betting ...**



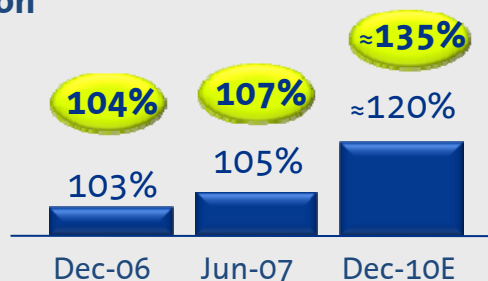
We will lead the mobile voice business



More customers

Mobile penetration (market)

Including M2M

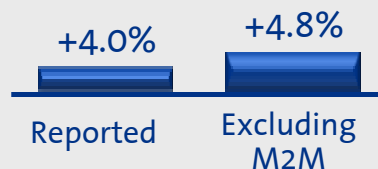


- Proactive customer acquisition focused on value
- Maintain a “Best in class” churn rate

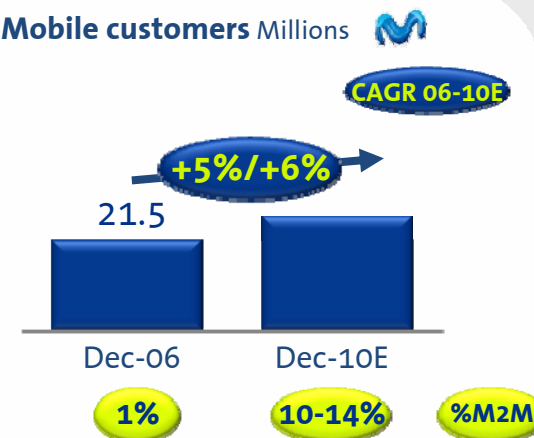
More voice usage

- Expanding MoU through innovative pricing schemes leveraging community effect

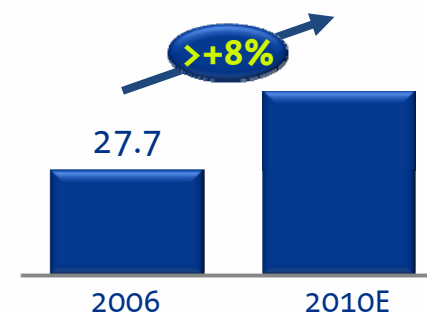
Outgoing MOU (H1 07/H1 06)



Mobile customers Millions



Outgoing traffic Bn minutes



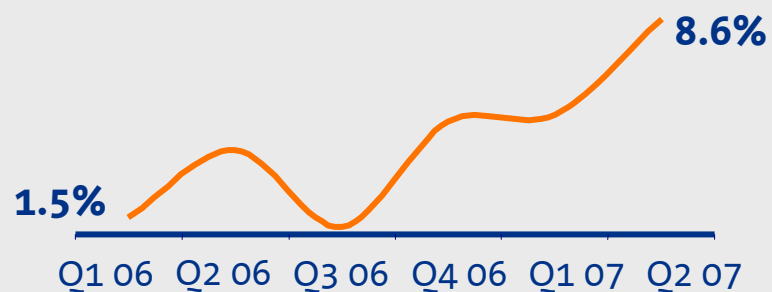
Our actions are yielding good results

MOBILE SPACE

Mobile Data



Outgoing ARPU Data Growth

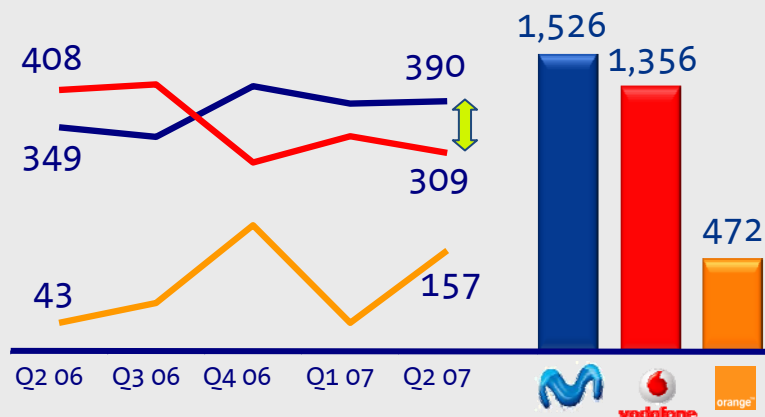


Increase in data usage in Q2 07:
x7 year-on-year
x2 quarter-on-quarter

Mobile voice



Postpaid net adds. Jun.07/Jun.06. Thousands



Source: Telefónica, companies' press releases

Last 12M

New services and enhanced functionalities in Q4 07

e-Mail for the mass market

- **Blackberry service** for 5€/month
- **"Mail Express"** for 2€/month



More functionalities

- 1st player in the world to launch:
 - **Smartphone Blackberry 8120**: convergence in access (WiFi/GPRS) and services (multimedia applications and e-mail)
 - **BlackBerry Unite**: downloads of content from a BlackBerry smartphone to a PC

New devices for laptops connectivity

- **Sony-Vaio laptops with embedded 3.5G modules**
- 1st player in the world to launch Novatel's **HSUPA modem**



Enhanced TV offering

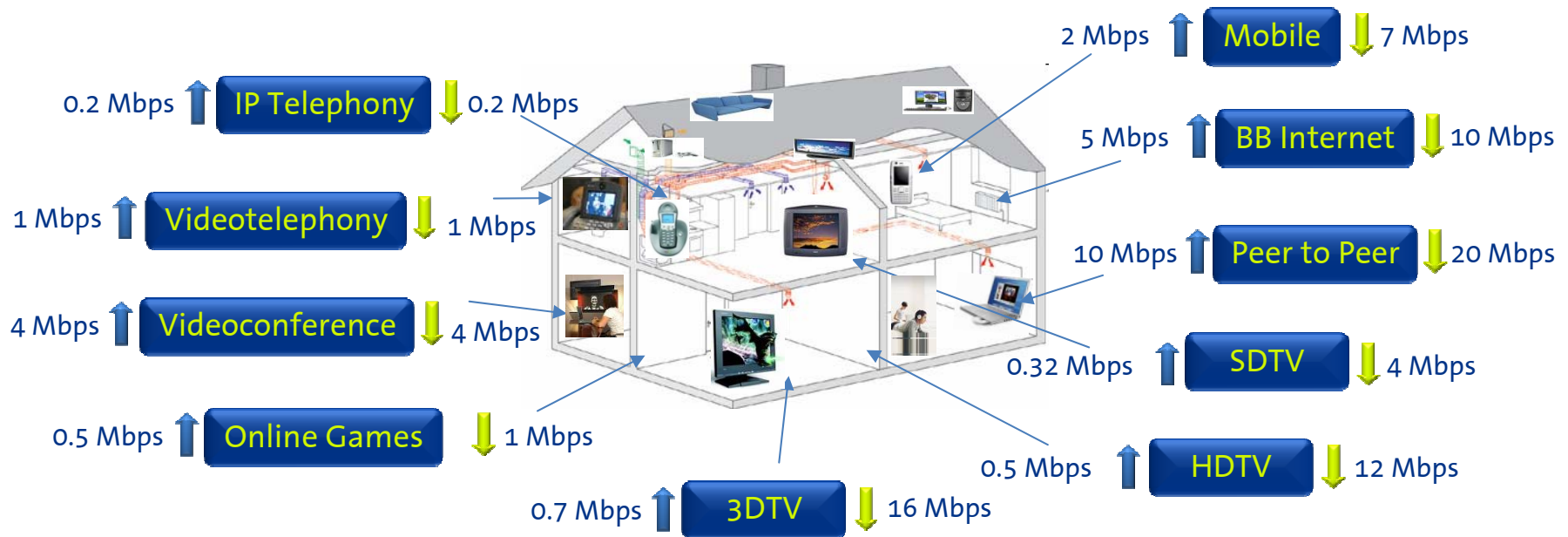
- From 26 to 42 TV channels
- Agreements with key players: FOX, CNN, Paramount Comedy, Cartoon Networks...



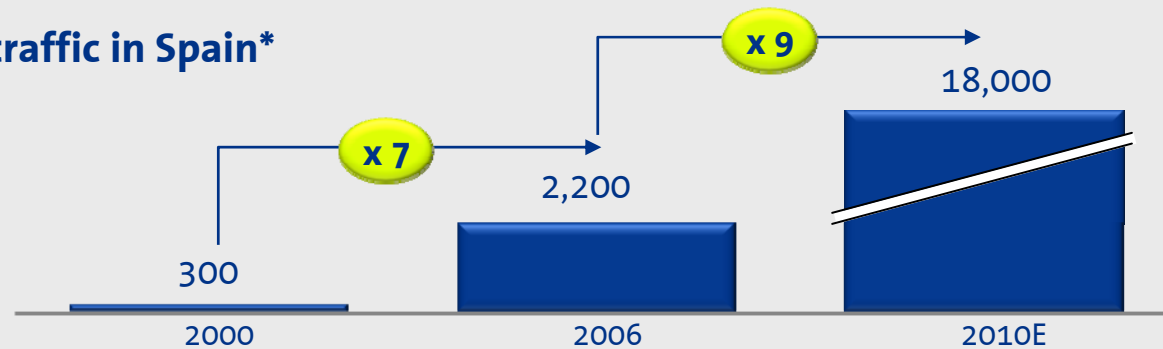
Increased demand for broadband

BROADBAND

Average bandwidth 2010E: 10x vs. 2006



Total communications traffic in Spain*
Thousands Terabytes



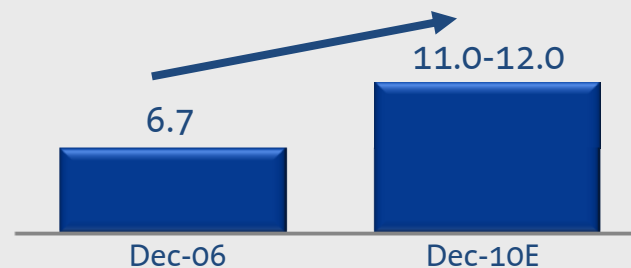
* Telefónica estimates

We will lead the massive adoption of broadband connectivity services



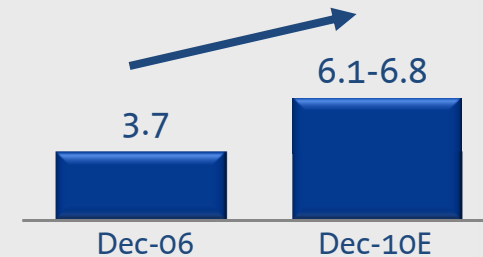
Massive use of fixed Broadband

BB Market Million accesses



- From 42% to 75% BB penetration in households with fixed access

BB customers Millions *Telefonica*



Retail BB Market share

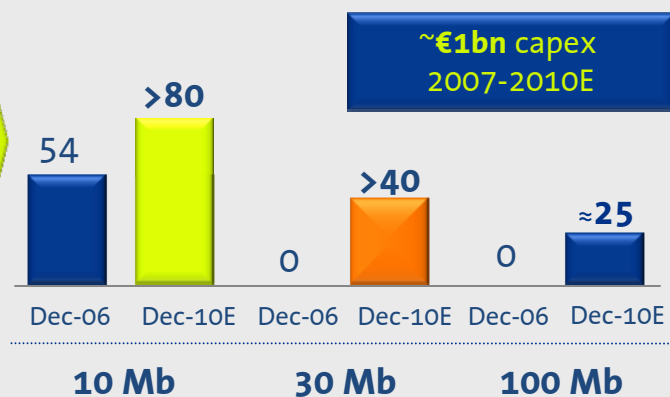
56%

53%-57%

Market-driven fiber deployment

Wireline BB Coverage % loops *Telefonica*

- Selective deployment by zone



Sustaining BB revenue per access

- Enhanced speeds
- Higher contribution from VAS (Imagenio, security, maintenance...): ~30% of BB ARPU in 2010E vs. 16% in 2006

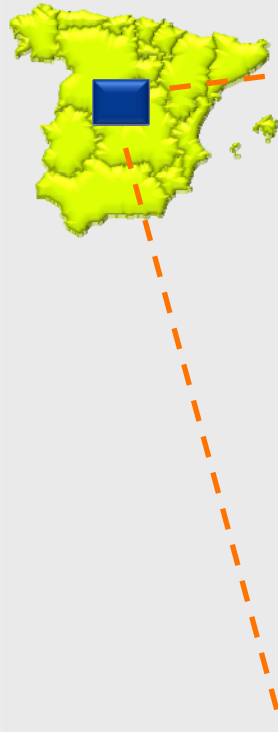


We are using micro marketing to deploy fiber

Example: Madrid



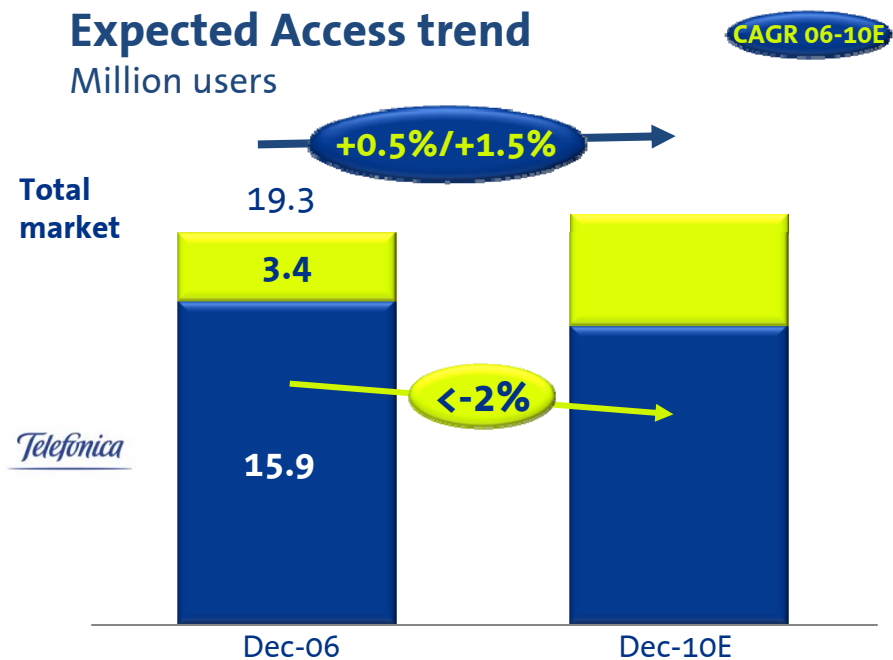
ILLUSTRATIVE



Broadband growth will be sustained by a unique performance in the traditional business



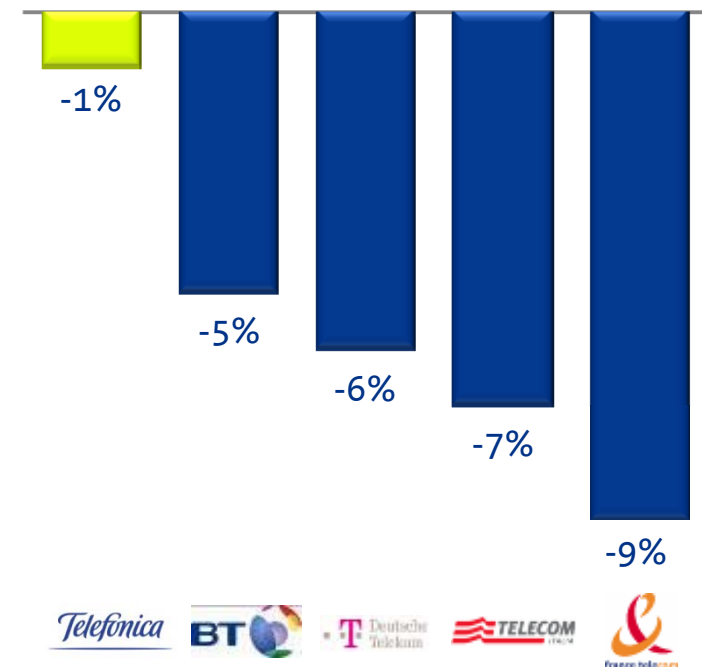
Differential profile compared to other European operators



- Growth in households
- Increased penetration of bundles *Telefonica*
 - ≈95% BB customers with bundles by Dec-10E (71% in Dec-06)
 - >65% SMEs with workstations by Dec-10E (4% in Dec-06)

Source: Telefónica

Lost fixed accesses Jun.07/Jun.06



Source: Telefónica, companies' press releases

Entertainment: A new digital TV in Q4 07



Enhanced functionalities and new content

PAST TV

- Access to most of the content of the 4 leading TV channels in Spain **broadcasted during the last week**



SHIFT TV

- Capability to pause live TV channels



PVR

- Rewind TV
- Instant recorder
- Personal recorder

Enriched content

- From 120 to 160 channels
- New thematic packages (immigrants, children ...)
- Prescreening of series
- Soccer summaries
- New theatrical releases



Entertainment: the consumer as the decision maker



Entertainment value proposition

Today

- Real video on demand
- Most flexible Pay TV offer in the market
- EPG
- T-commerce

Q4 07

- Past TV
- Shift TV
- PVR:
 - Rewind TV
 - Instant recorder
 - Personal recorder
- New content

Q3 08E

- HDTV
- Multiroom
- Advanced EPG
- Advanced PVR
- Photo and video sharing
- Interactive advertising

To be developed

- Imagenio on the move
- Advanced T-commerce
- Other advanced functionalities

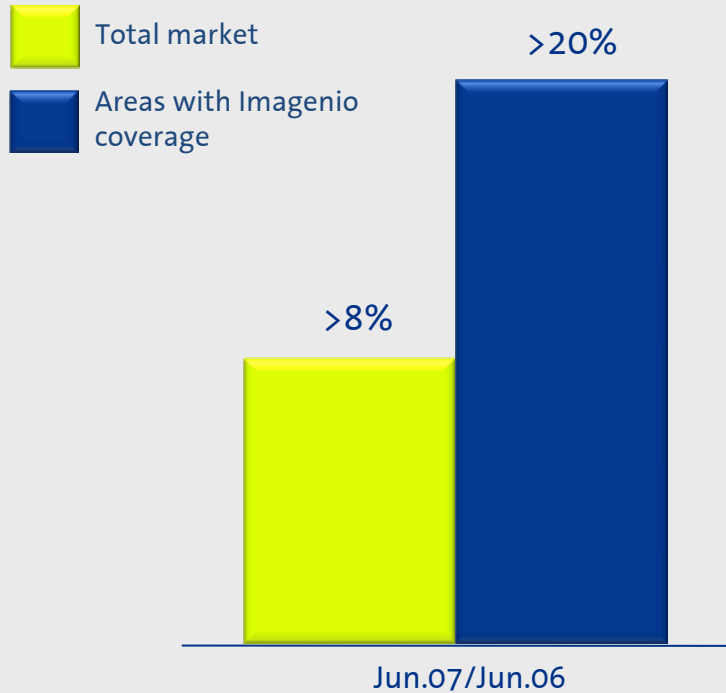


This will support the growth of the Pay TV market



We are driving the growth of Pay TV market...

Pay TV Market growth



- Commercialization in bundles
- Continuous learning to improve customer experience

...and new functionalities will boost the growth

Imagenio customers Millions



We will continue to successfully execute our strategy in SMEs with 'Respuesta Empresarios' and 'Puestos de Trabajo'



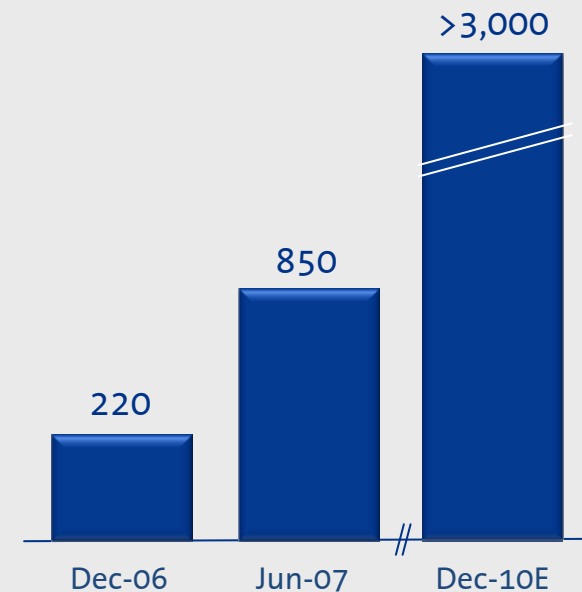
Our value proposition responds to the market demands



'All your ITC needs under a monthly fee: advice, sale, installation, maintenance, management and renewal'

- Convergent, fully 'on the move' workstations:
 - multidevice
 - multiaccess
 - multiplatform

Number of Workstations Thousand



>65% of our customers with workstations by Dec-10E

We will leverage our unique position to offer an integrated approach to Corporate clients



INTEGRATED APPROACH

Single point of contact

Integrated F+M+IT offer

- Unique commercial teams
- Unified customer care, support and engineering
- Integrated services to enhance customers' productivity and take advantage of new business opportunities

Industry oriented

Public Sector

Financial institutions

Industry, Distribution & Services

Technology & Mobility



FOCUSED APPROACH ON IT AREAS

CPD outsourcing

- Managed Hosting & Business Recovery Services
- Hosting Virtualization

Contact Centers

- Contact center on demand



LAN & Workstations Mgmt

- LAN & Workstation management

Relationship Solutions

- e-billing
- Net centric e-government

Geographic Info. Systems

- Geomarketing

Security

- Security operating center



Digital Asset Mgmt

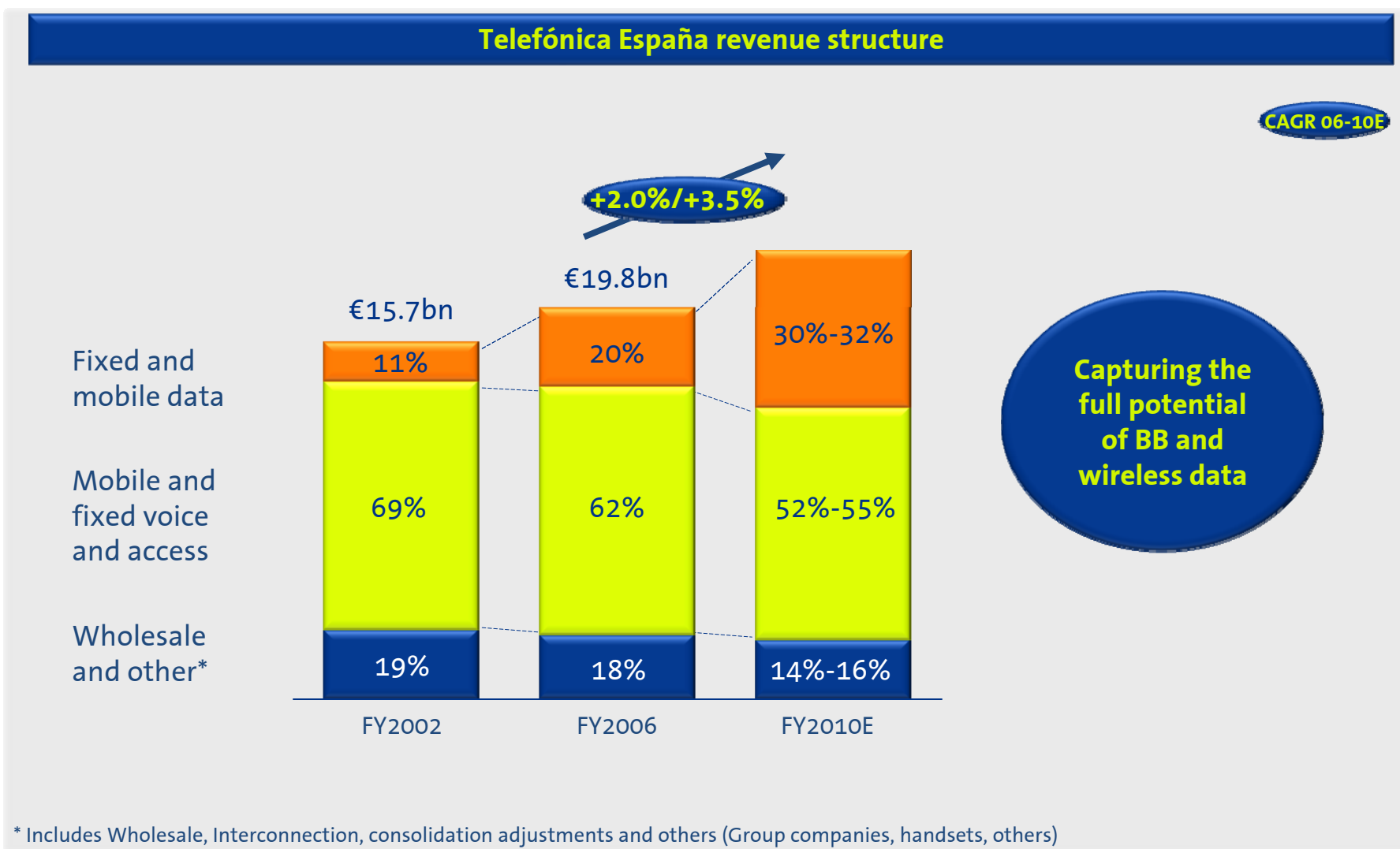
- Dynamic marketing
- Video-surveillance



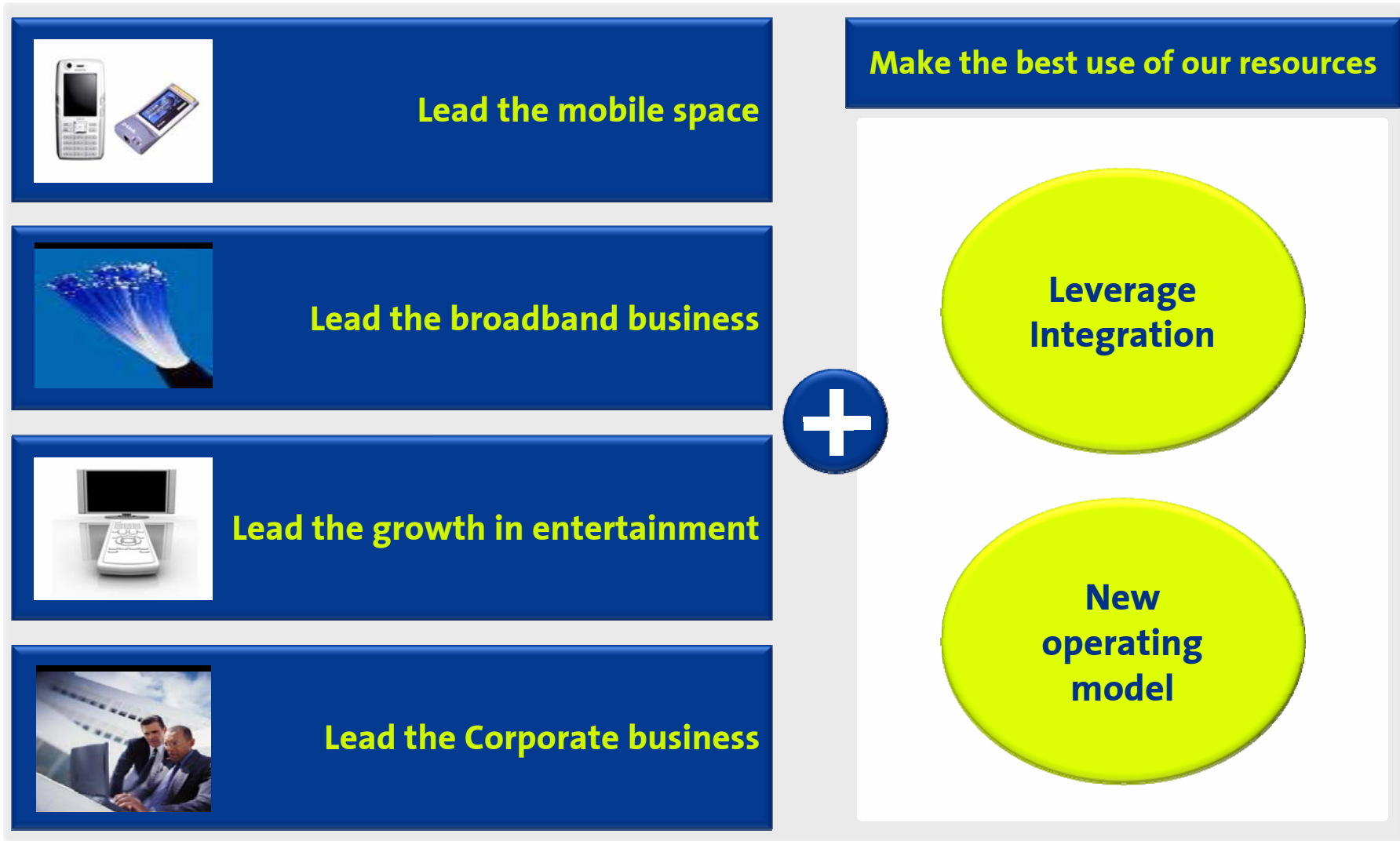
All this will further enhance our market leadership ...

Market	Dec-06		Dec-10E
Fixed BB penetration per household with fixed line	42%	➡	≈ 75%
Mobile BB penetration per laptop	20%	➡	>70%
Telefónica España			
3G handsets over customer base	5%	➡	>70%
Loops 100Mb	-	➡	25%
HSDPA population coverage	25%	➡	80%

... and it will radically transform our revenue profile



We will also increase our efficiency and effectiveness



We are leveraging integration to better serve our customers and to be more efficient...



Full integration of key functions:
single management team



Full integration of IT and operations
to capture synergies and develop common
platforms under a new operating model



Full integration in Corporate business



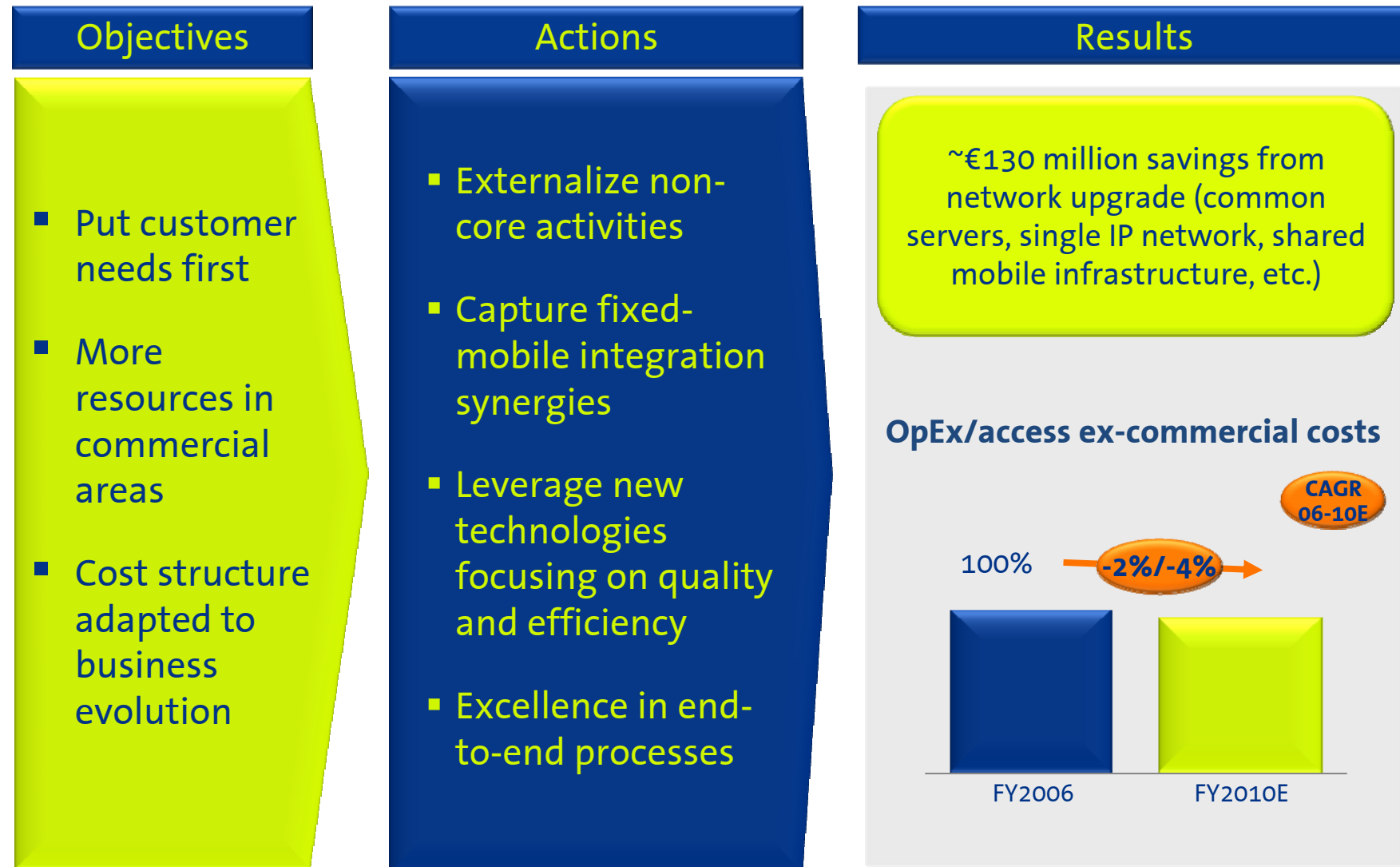
Integrated stores



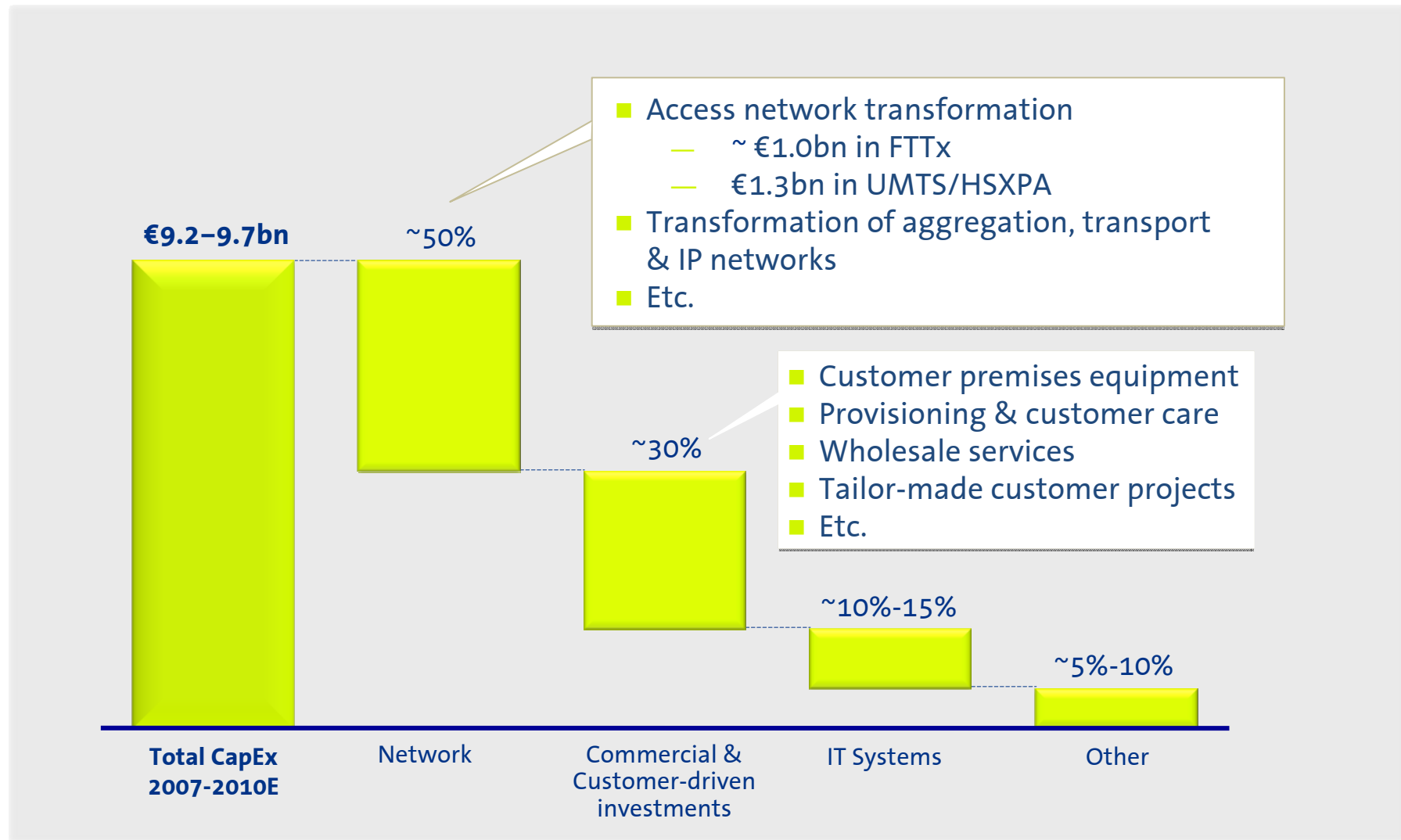
In **Residential and SMEs**, convergent market
research, cross selling and convergent P&S



We are developing a new operating model



We are transforming our networks and IT to further enhance efficiency and meet customer needs



This will lead us to a unique growth profile

(€ in millions)	TELEFONICA ESPAÑA		
	FY2006 ⁽¹⁾	FY2006 (Adj.) ⁽²⁾	CAGR 06-10E ⁽³⁾
REVENUES	19,750	19,750	+2.0%/+3.5%
OIBDA	8,647	8,634	+3.0%/+6.0%
CAPEX	2,293	2,293	€9.2-9.7bn Cum (07E-10E)

¹⁾ Base 2006 figures for T. España Wireline include six months of Iberbanda

²⁾ In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007E-2010E. Personnel Restructuring (€980 m in 2006) and Real State Programs (€94 m in 2006) are included as operating revenues/expenses. 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

³⁾ CAGR 06-10E guidance excludes changes in consolidation

Telefónica: a unique incumbent

ON MARKET LEADERSHIP

ON GROWTH

WITH A WINNING MINDSET



Telefonica
