

Sixth Investor Conference

Turning organic growth into superior shareholder value

César Alierta

Executive Chairman and CEO of Telefónica

London, October 11th 2007



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Telefónica: an unmatched organic growth profile with the strongest fundamentals

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A new guidance for the next level of Telefónica's value creation

1 The best ever Telefónica

- A leading integrated telco platform
- A unique track-record of **organic growth**
- The right scale and diversification for an outstanding business performance
- ✓ A trusted company

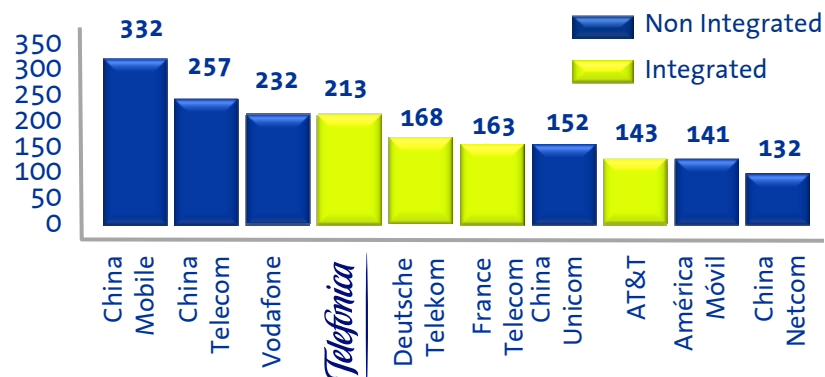


A growth stock in a promising industry

1 The best ever Telefónica

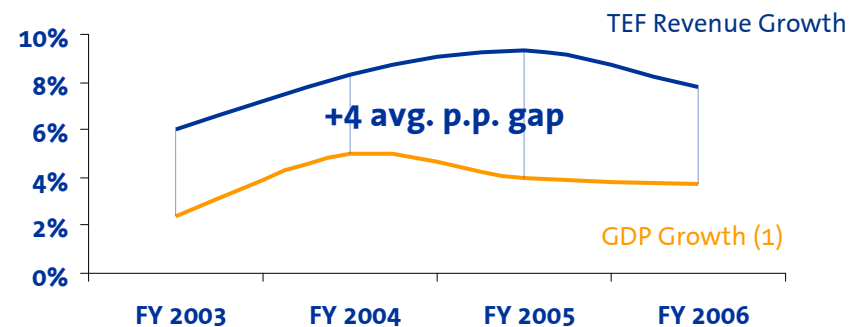
VISUAL SUPPORT

Accesses Jun-07



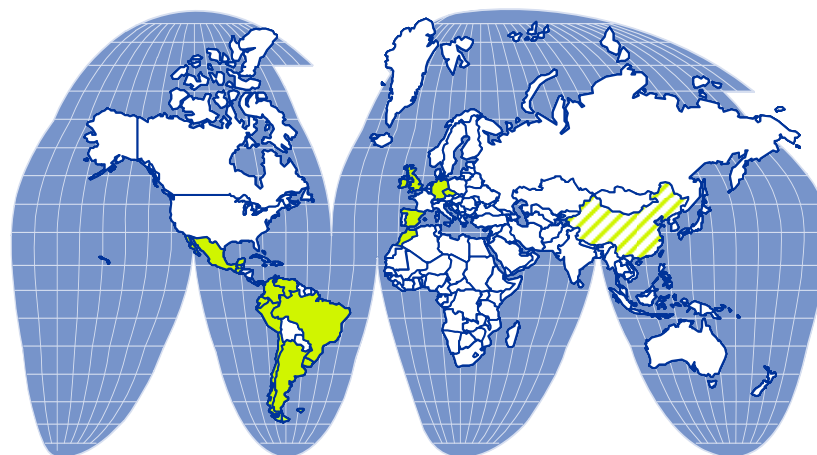
Source: Companies Press Releases

Real GDP growth where TEF operates vs. TEF revenue organic growth



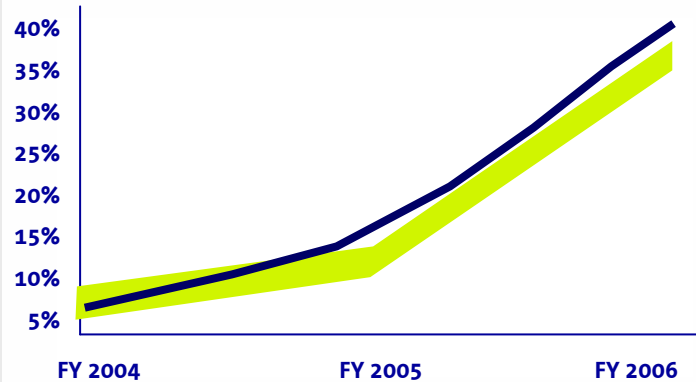
(1) Source: International Monetary Fund, World Economic Outlook Database, April 2007

Countries with Telefónica presence

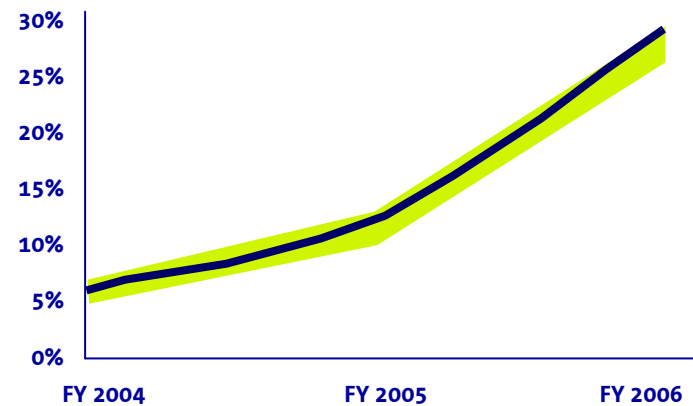


1 We are consistently delivering on our commitments...

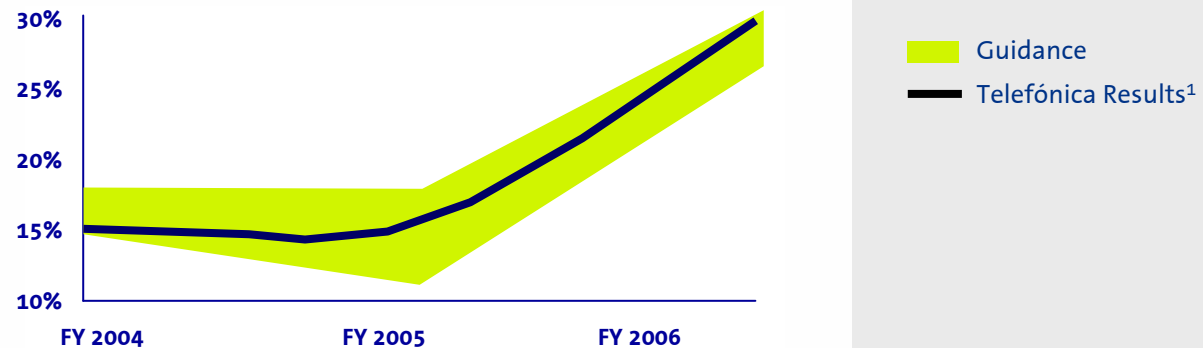
REVENUE GROWTH



OIBDA GROWTH



OI GROWTH

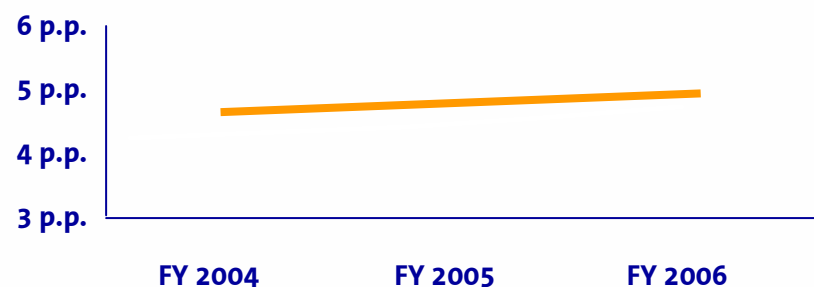


(1) According to guidance criteria

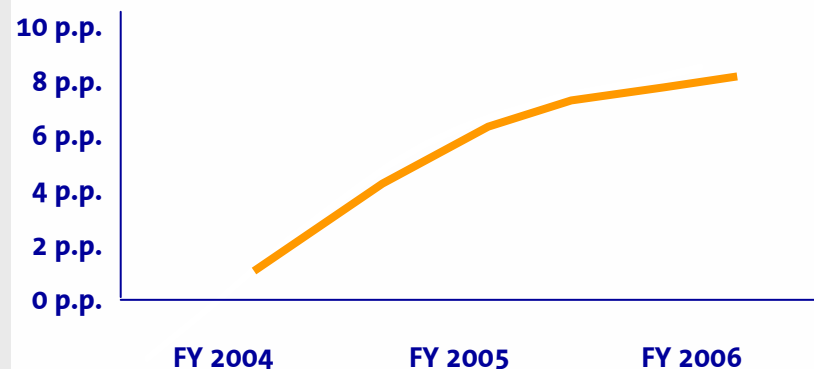
1 ...achieving organic growth well ahead of peers...

GAP BETWEEN TELEFÓNICA AND MARKET¹ GROWTH

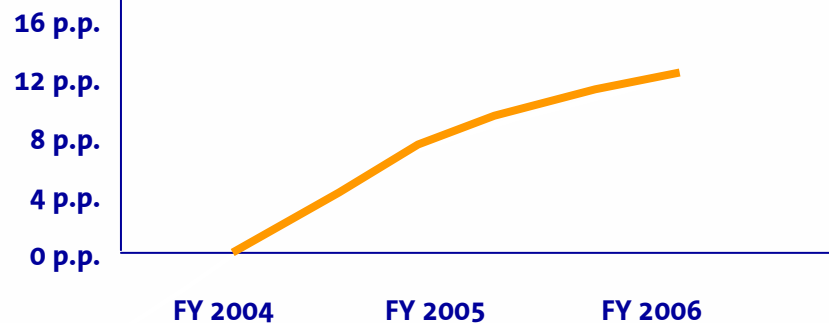
Revenue organic growth gap (p.p.)



OIBDA² organic growth gap (p.p.)

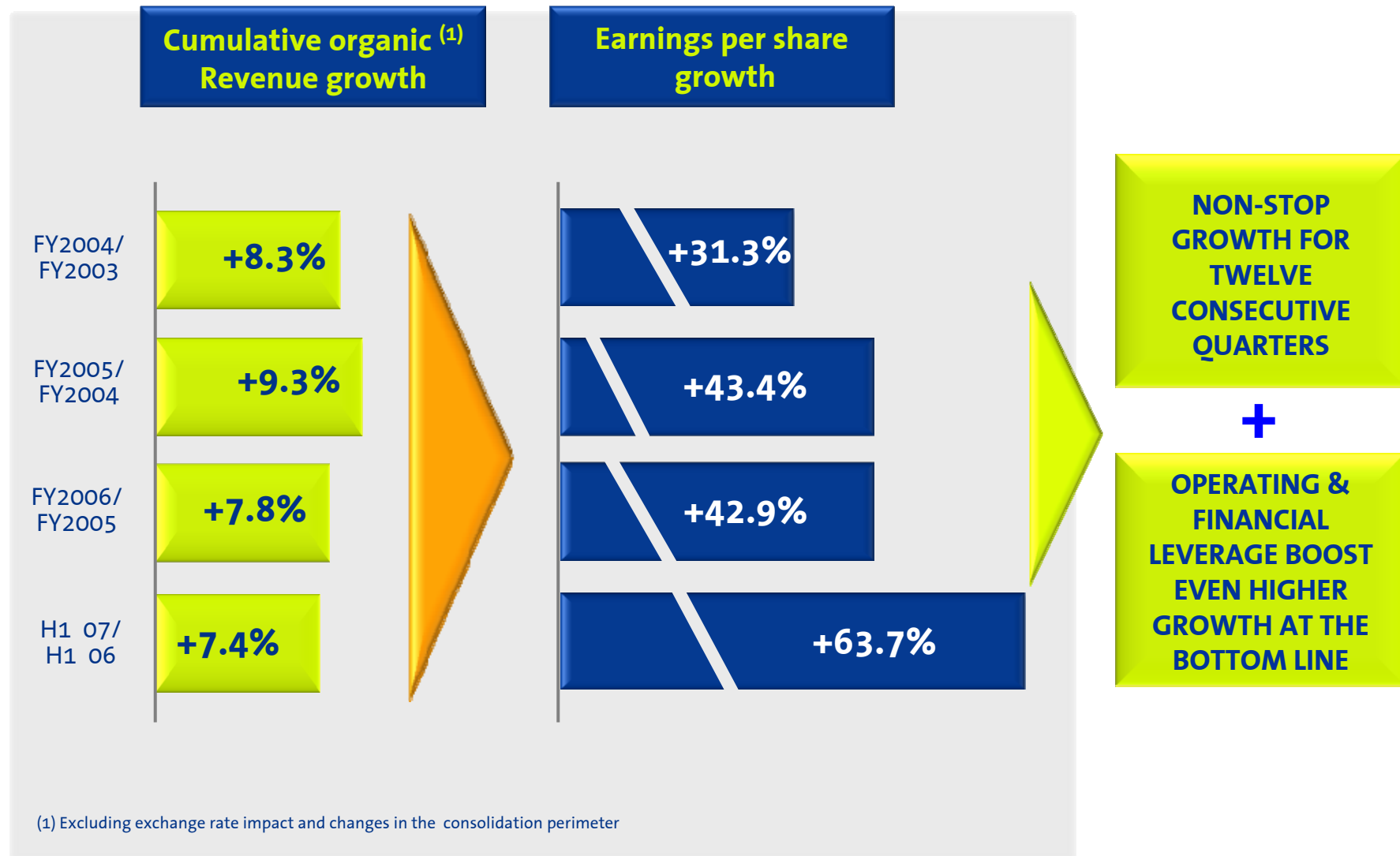


OI growth gap (p.p.)



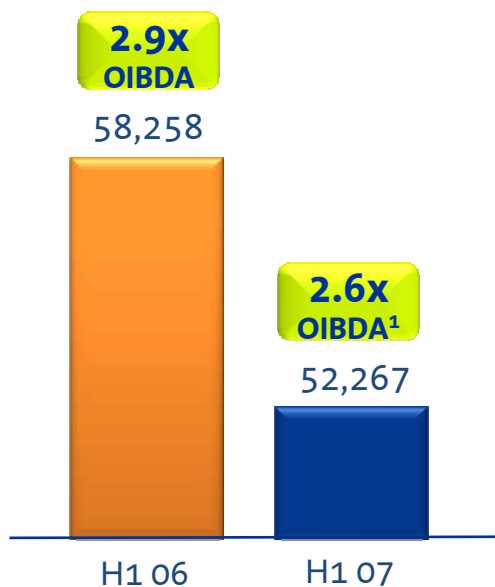
- (1) Includes Deutsche Telekom, France Telecom, Telecom Italia, BT and Vodafone. Organic variations except DT and BT.
(2) OIBDA growth as of 2006 excludes TdE's additional ERE registered in Q4 06 and New Management Pension Scheme

1 ...and translating it into a much higher EPS growth



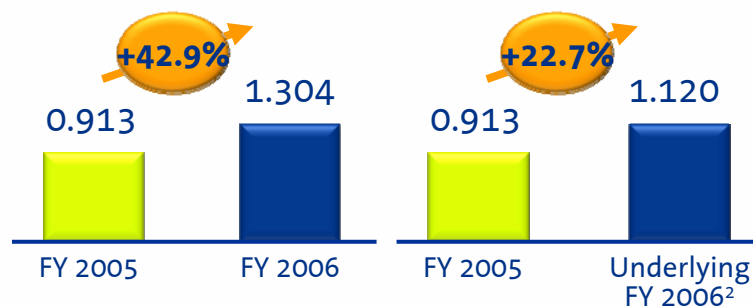
1 In 2007 we are on track to deliver on our financial targets...

Net debt & Commitments (€ In millions)



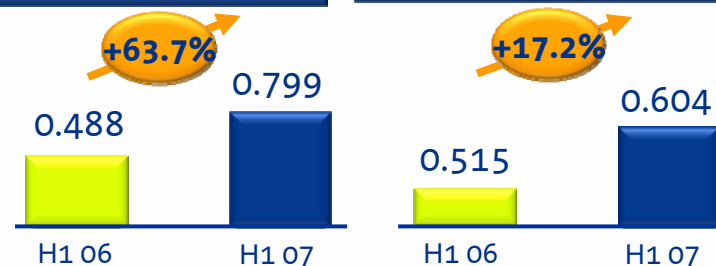
TARGET OF ≤ 2.5x medium term

EPS Growth (€)



Reported

Ex-capital gains/losses & others³



**EPS TO DOUBLE
by 2009E vs 2005
(CAGR 05 – 09E: +18.9%)**

(1) Excluding Airwave capital gains

(2) Ex-capital gains/losses & others (TPI's capital gain & redundancy program in Spain)

(3) Capital gains/losses includes Sogecable in H1 06, and Airwave, CANTV and Endemol France in H1 07. Others includes Redundancy Program in Spain, TO2 restructuring charge and provision for Telefónica España's EU fine

1 ...and outperforming on our net €1.5 bn M&A commitment set in May-06

Main transactions 2006-2007 (€ in billions)

Divestitures

AIRWAVE	2.9
ENDEMOL	2.6

Committed Acquisitions

TELECOM ITALIA ⁽¹⁾	3.8
CHINA NETCOM	
OTHERS IN BRAZIL ⁽²⁾	

EXPECTED NET FINANCIAL INVESTMENTS END OF 2007E: €-1.7 bn

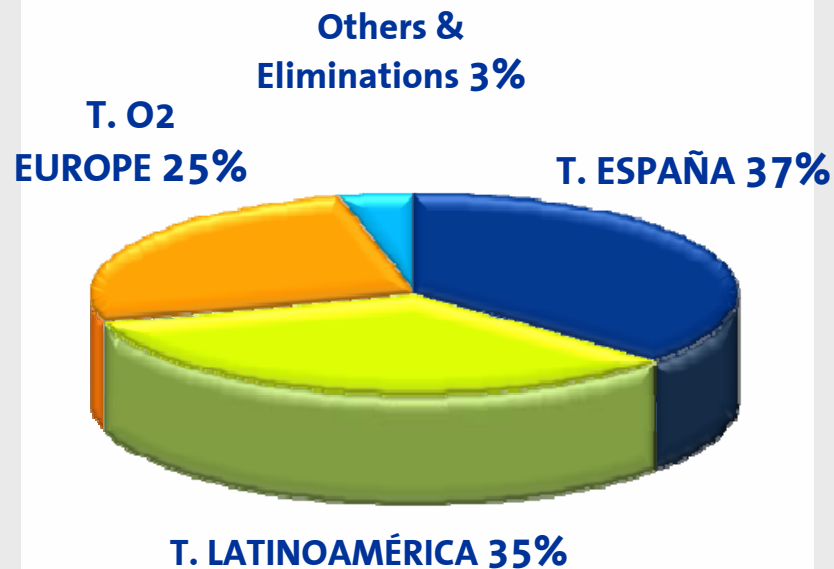
NET FINANCIAL INVESTMENTS COMMITMENT END OF 2007: €+1.5 bn

(1) Acquisition announced on April 28th 2007. Execution pending.

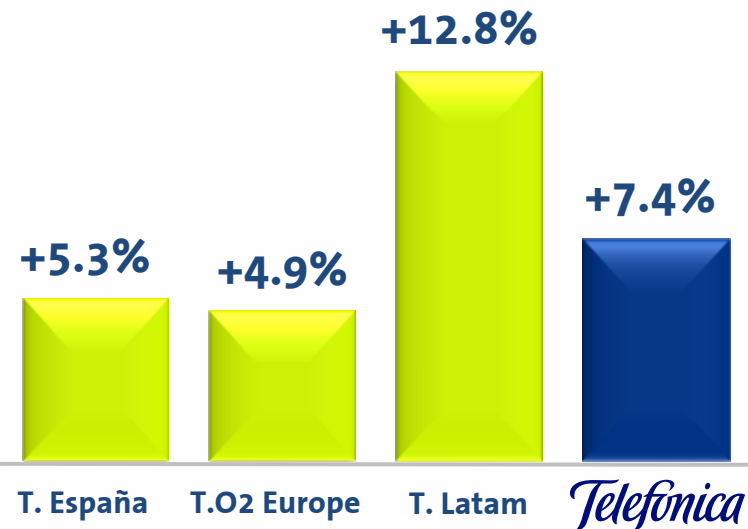
(2) Telemig/Telenorte and TVA

1 And finally, this year Telefónica is starting to benefit from the value of having the right scale and diversification

H1 07 Revenue breakdown



Organic revenue growth by regional business unit (H1 07 / H1 06)



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2 Growth opportunities coming from all our businesses



TELEFÓNICA ESPAÑA

**“Superior performance
sustainable
in the long-term”:**

- Strong demand for telecom services
- Telefónica’s flagship with a winning mindset
- An upcoming quantum leap in commercial orientation



TELEFÓNICA O2 EUROPE

**“Further strengthening
position”:**

- Growing above mobile industry average
- Exploiting the integrated Telco opportunity
- Leveraging group scale to increase efficiency



TELEFÓNICA LATINOAMÉRICA

“Top growth engine”:

- High demand telecom market and the best ever macroeconomic outlook
- Well positioned to capture future growth and a higher market share
- KPI’s improvement in all operations

Telefonica

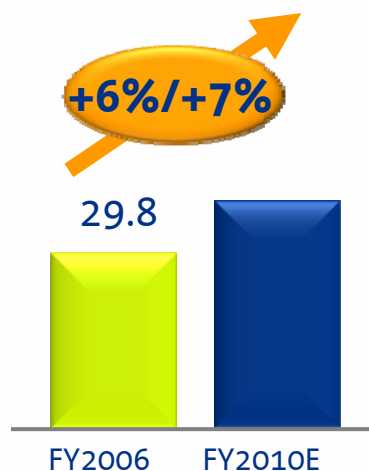
“Much higher growth than anticipated from exploiting new market opportunities and extracting value from integration”

2 Telefónica España: One of the fastest growing European telecom markets and economies...



Is the Spanish Telecom market still a high growth market?

Target market revenues¹
(€ in billions)



- ~ €8/9 bn increase in target Spanish telecom market¹ between 2006-2010E
- Fixed and mobile broadband-massive adoption
- Business opportunity beyond connectivity
- Mobile data showing real signs of taking off
- Strong demand for ICT solutions from corporates and SME customers

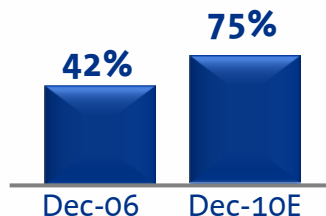
(1) Target market: telephony, broadband, Pay TV, target IT areas (includes CPD outsourcing, LAN and workstations management, Security, Contact Centers, Relationship Solutions, Digital Asset Management, GIS), Online Advertisement, Online contents and Digital Home
Source: Telefónica

2 Telefónica España: Telefónica's flagship with a superior performance sustainable in the long-term



Strong growth of fixed BB market?

BB penetration in households with fixed access

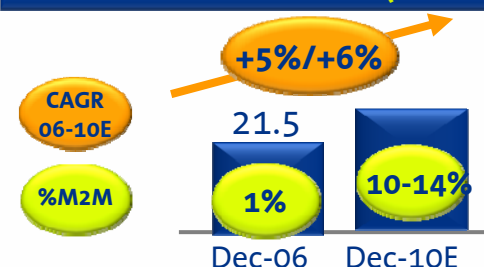


- Telefónica BB customers to grow to 6.1-6.8m by 2010E
- Sustaining BB revenue per access
- Enhanced offer leveraging FTTX deployment

Still room for high mobile growth?

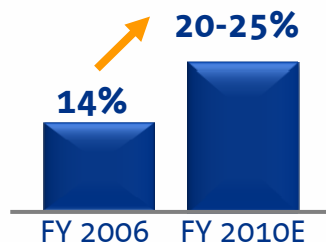
- From 104% to ~135%¹ penetration in 2010E
- Customer acquisition focus on value
- Strong usage upside

Telefónica mobile accesses (Millions)



Rapid growth of mobile data business?

Data ARPU / ARPU



- More than 70% of laptops with mobile BB in 2010E (20% in 2006)
- 3G handsets over customer base over 70% in 2010E vs 5% in 2006
- 80% population coverage with HSDPA by 2010E

(1) Including M2M

2 Telefónica O2 Europe: a growing telecom market...



**Momentum to
continue in
Telefónica O2
Europe?**

**Telefónica O2 Europe Accesses
(Millions)**



TELEFÓNICA O2 EUROPE:

- Become an integrated operator and exploit cross-selling opportunities
- **UK:** Continue to grow above the market
- **Germany:** investing for the long term to increase growth rate
- **Czech Republic:** Maintain share and leverage integrated offerings

2 ... where we will profit from our strong momentum



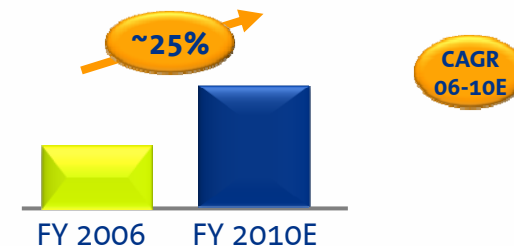
Will Telefónica O2 Europe succeed in Germany?

- Transforming German operations to become a strong challenger
- Credible **integrated operator** alternative to DT
- Re-fresh core proposition and focus on under-penetrated segments
- Reduce cost-base
- O2 DSL + Converged services

When will non-SMS mobile data revenue take off?

- Already growing
- Rollout of HSDPA Networks
- Content and handset partnerships

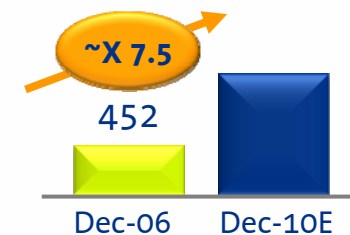
Non SMS Data ARPU (O2 UK & O2 Germany)



Can Telefónica O2 Europe make an impact in fixed Broadband?

- Quality of execution
- Customer experience
- Duo & Trio offers
- Distinctive applications

Telefónica O2 Europe DSL customers¹ (000)



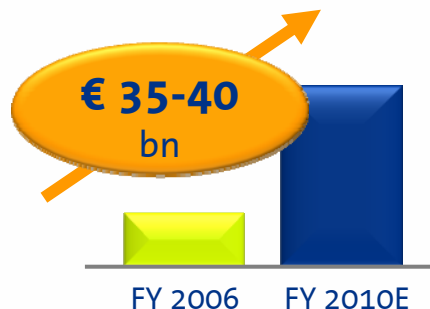
(1) Wholesale DSL lines not included

2 Telefónica Latinoamérica's growth potential...



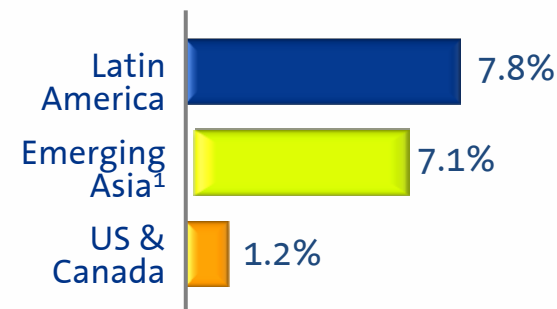
Are there still high growth prospects for Latin American markets?

Latin America Telecom Market



Source: Telefónica

Telecom market growth forecast (CAGR 06-10E)



(1) Excluding Japan, Korea, Hong Kong, Singapore & Taiwan
Source: IDC

Sustainable positive macroeconomics perspective to improve socioeconomic indicators?

A region with profitable growth and investors confidence

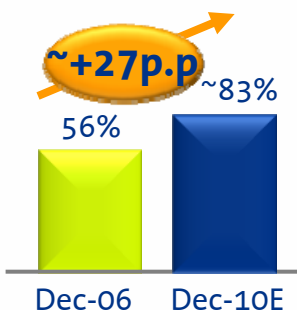
- Simultaneous growth of top 7 Latin American countries
- >75% of Latin America GDP in “expected investment grade” countries by 2010
- Higher purchasing power due to growth of middle class (15 m new middle class households during 2006-2010E)

2 ...Telefónica Latinoamérica well positioned to capture this growth



Will T.Latam continue to capture mobile growth in the region?

Latin America mobile market penetration

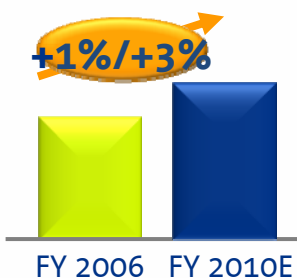


- **+ 55/60 m T.Latam new mobile customers**
- **México: +8-10 p.p.** mobile market share increase by 2010E
- **Brazil:** consolidation of market leadership & efficiency improvement

Still room to improve mobile business economics?

Annual mobile ARPU

CAGR 06-10E



- **Sustainable ARPU increase** based in consumption stimulation, driving data service usage (mobile, email, sms,...)
- **Churn reduction and OIBDA margin improvements**

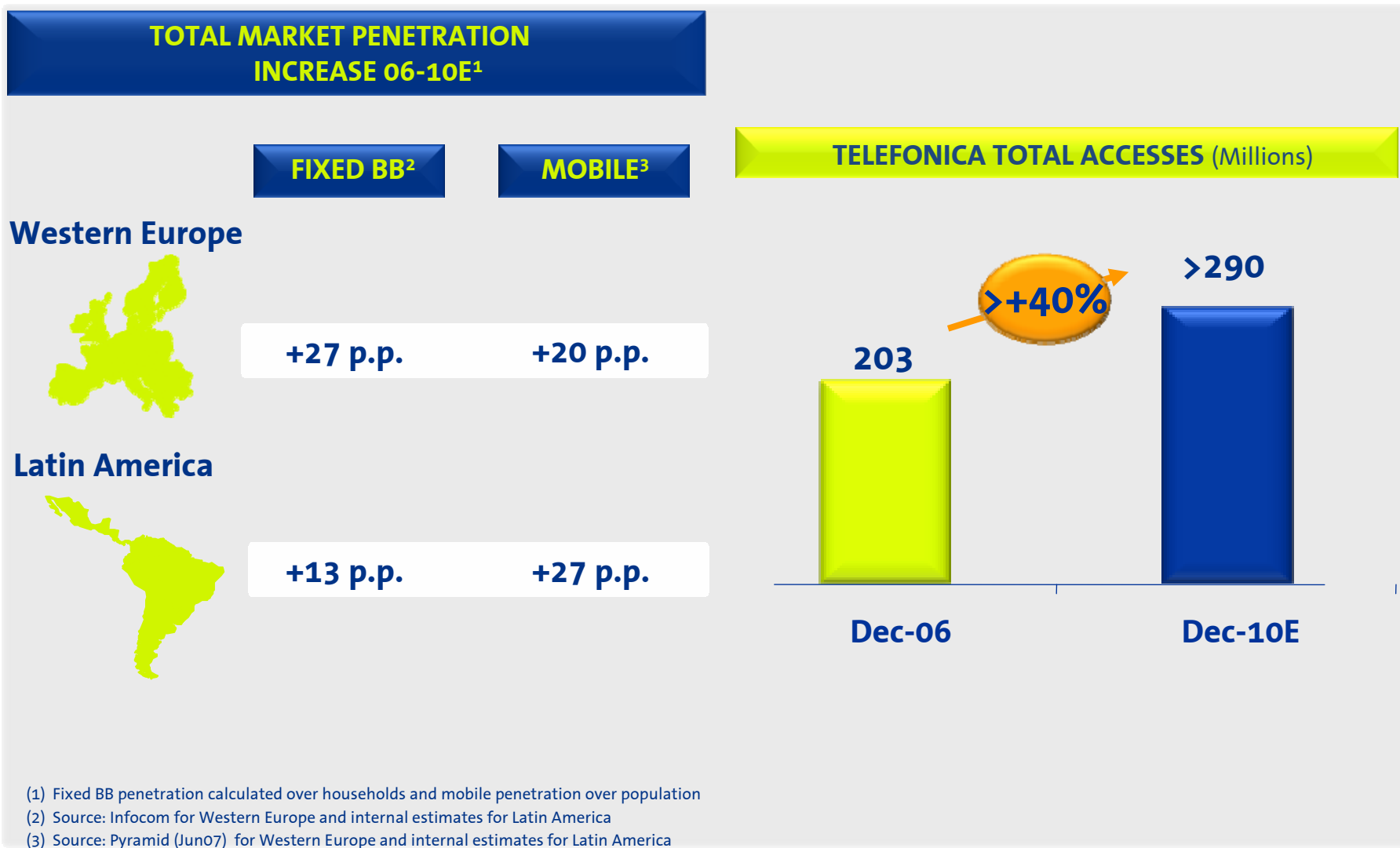
Significant BB penetration potential in the region?

Market BB penetration (over households)



- **+4/5 m T.Latam new BB accesses**
- **Bundled products** (85-90% of clients) and **40-45% of fixed telephony accesses** with 2P/3P by 2010E

2 These growth opportunities will translate into more than 40% organic growth of our customer base in 4 years



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3 To foster this organic growth, we will focus our resources on four major priorities

Best-in-class customer experience



- Improving customer satisfaction

Innovation as competitive advantage



- In-company innovation
- 3rd party agreements

A new operating model



- Integrated commercial processes
- Integration of networks, operations and IT systems

An integrated management model



- Global actions focused on leveraging scale across regions

3 Our integrated management model is key to leverage the benefits of our scale across regions



- Fostering regional integration
- Global actions to leverage scale



- **Synergies** guidance for the 2007E-2010E period exceeding Valencia guidance by 42%
- ~ **€7.5 bn Synergy¹** guidance for the 07E-10E period

(1) Already included in the overall guidance

3 By 2010, Telefónica will be an even better company

What Telefónica will NOT be ...	What Telefónica will be...
A company that depends on M&A to grow...	...A company with organic growth both in emerging and developed markets ✓
A telco with a defensive position against players from adjacent industries...	...A company that is capturing growth from adjacent industries ✓
An operator that is only focused on leveraging intra-regional scale...	...One company benefiting from not only intra-regional, but also inter-regional scale ✓
An organization with a centralised biasedAn empowered and agile organisation with an international mindset ✓
Achieving efficiency improvements only whenever necessary to defend margins...	...Anticipating efficiency gains to outpace competitors ✓
Focused on offering the broadest product portfolio...	...Focused on being the leader in customer satisfaction and innovation ✓
A highly efficient utility...	...The best combination of growth and returns in the industry ✓

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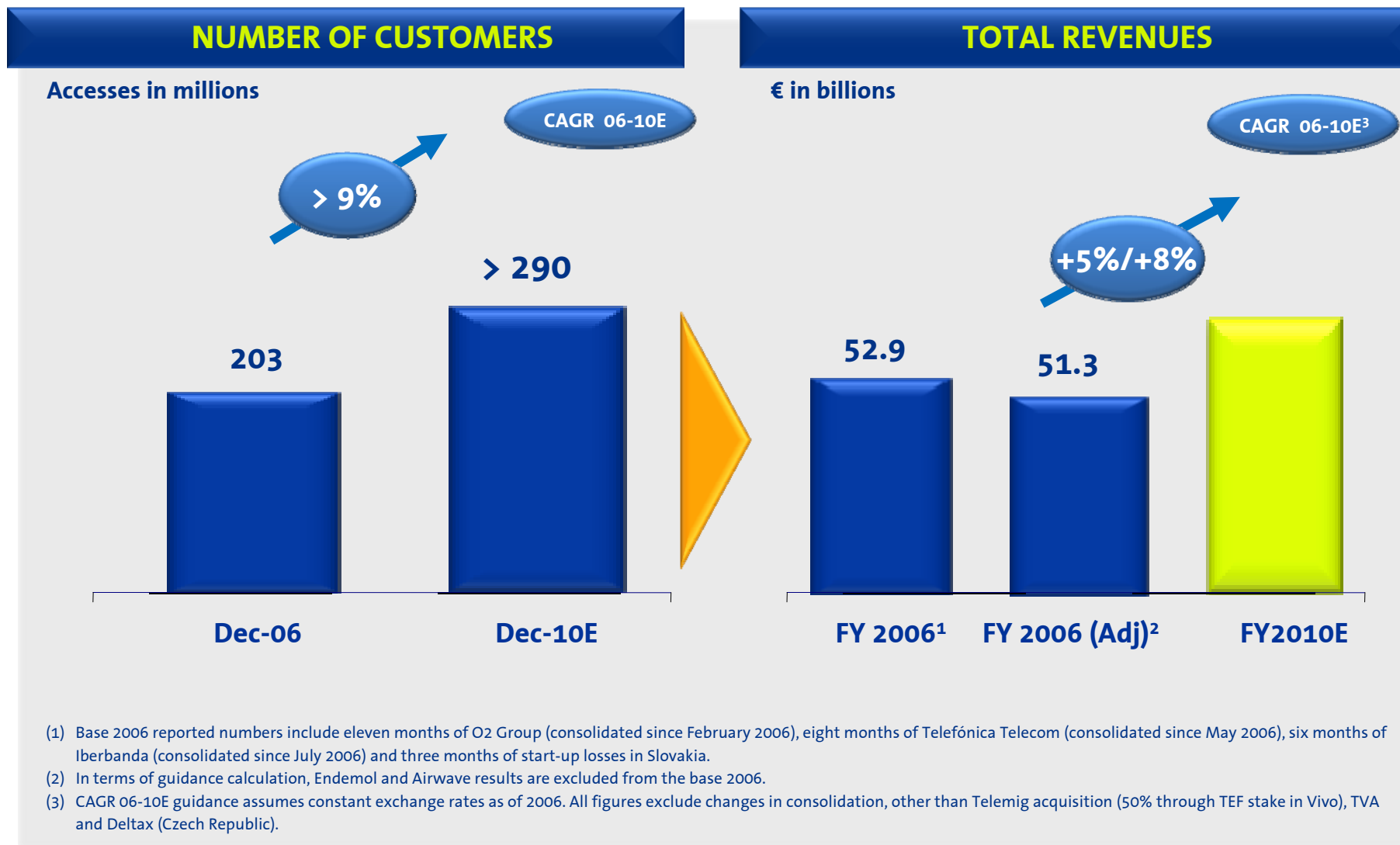
3

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A new guidance for the next level of Telefónica's value creation

4 Guidance will lead to a high organic growth rate



4 Increase in operating returns will outpace revenue growth due to our new operating model...

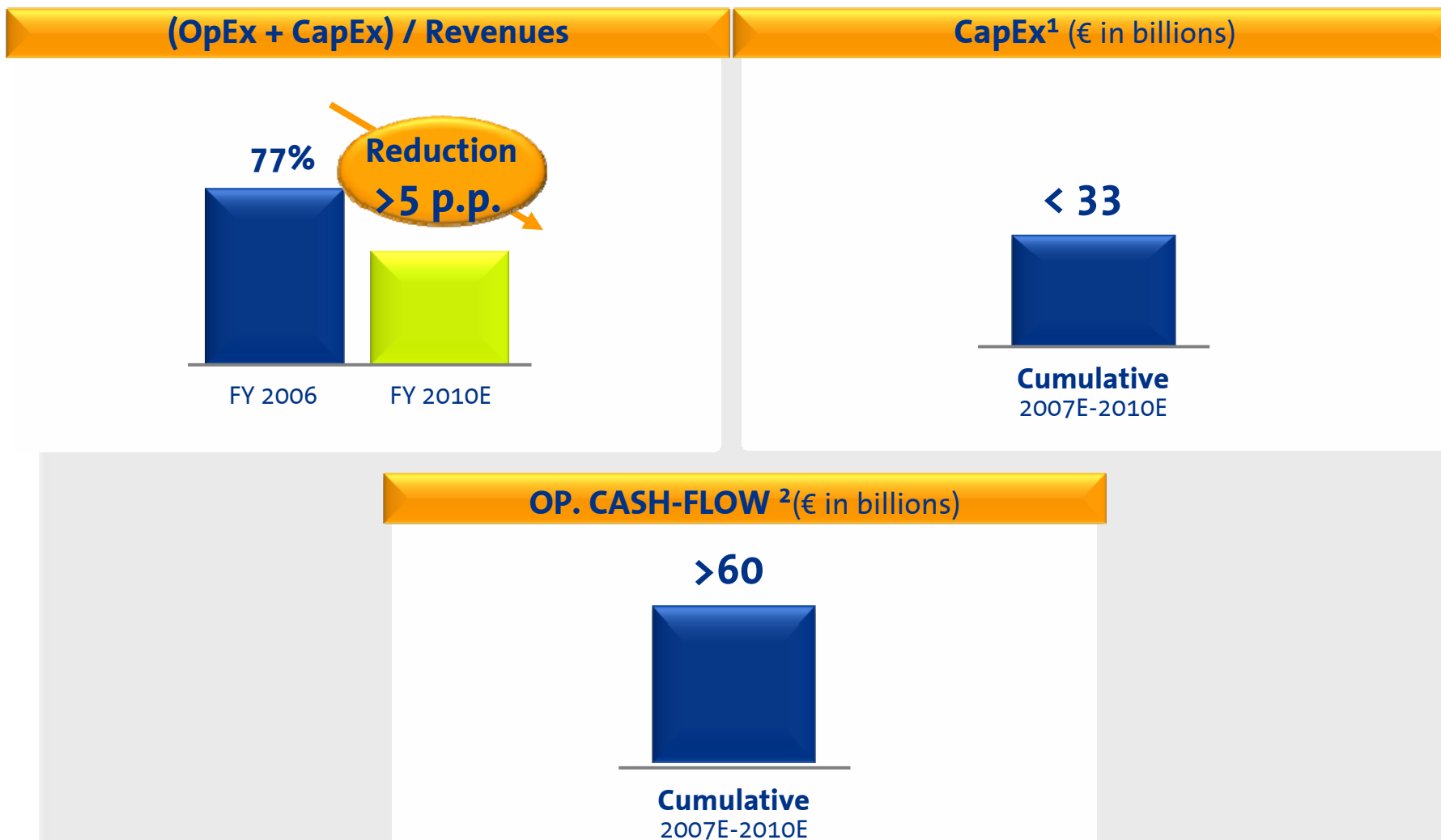
(€ in millions)	TELEFONICA GROUP		
	FY2006 ⁽¹⁾	FY2006 (Adj) ⁽²⁾	CAGR 06-10E ⁽³⁾
REVENUES	52,901	51,298	+5%/+8 %
OIBDA	19,126	18,688	+7%/+11 %
OI	9,421	9,098	+16%/+20 %

(1) 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

(2) 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 2007E-2010E. 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 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)

4 ...ensuring value creation across all our businesses



(1) All figures exclude changes in consolidation, other than Telemig acquisition (50% through TEF stake in Vivo), TVA and Deltax (Czech Republic).

(2) OIBDA - CapEx

4 Sound business execution together with a disciplined use of FCF...

Upgraded!

FIRST PRIORITY

Shareholder Remuneration

- **2008E DPS of 1 Euro¹**
- **Share buybacks** to be considered as stated below

SECOND PRIORITY

Deleverage

- **Net Debt + Cash Commitments** times OIBDA in the 2.0 – 2.5x range

THIRD PRIORITY

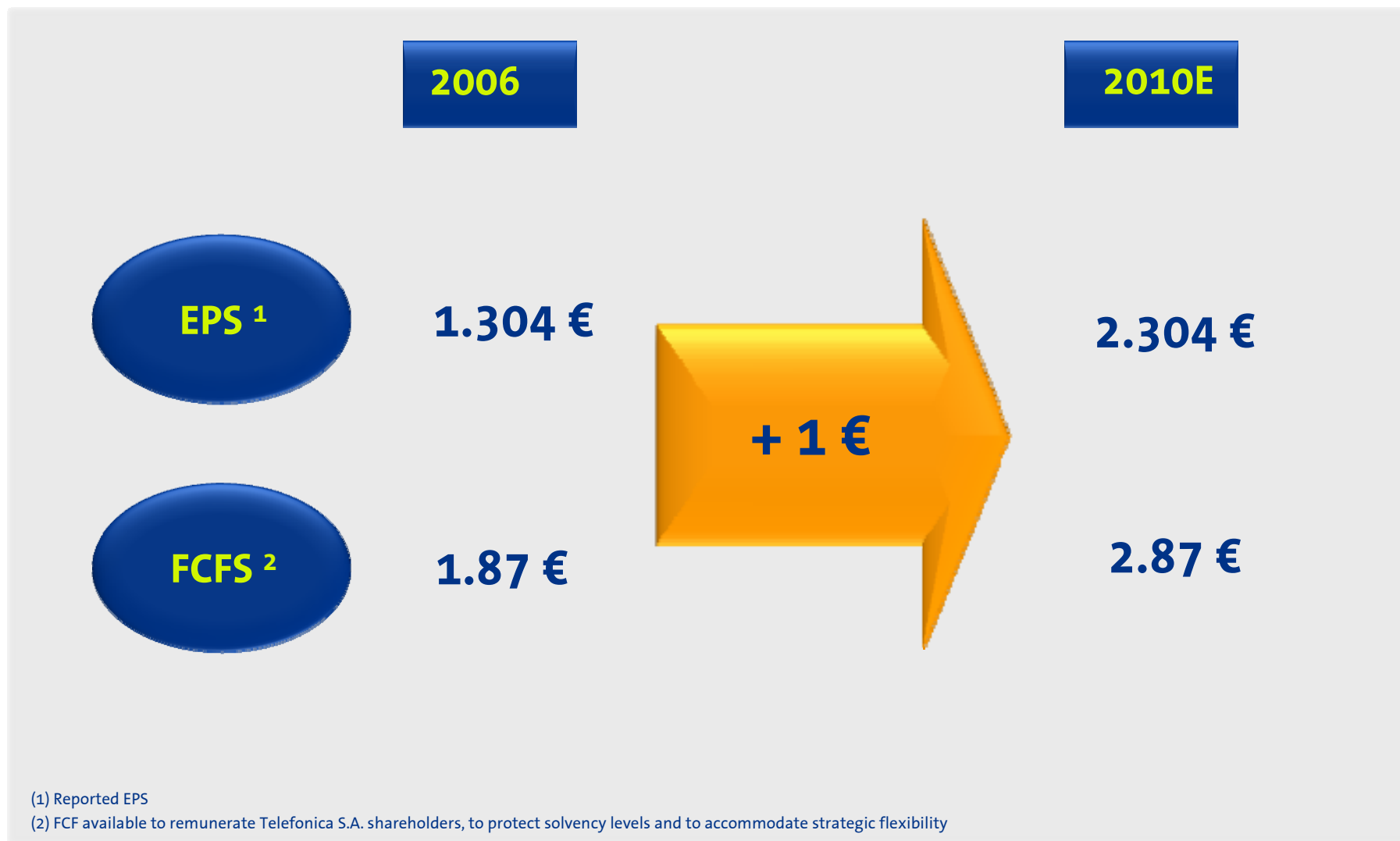
Selective M&A

- **Foster growth in current markets**

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

(1) Fiscal year 2008E, to be paid in H2 08 and H1 09

4 ...allow us to upgrade our previous commitments



4 In summary, why I think Telefónica is the best investment option in the industry

- We have a unique organic growth platform, putting customers at the heart of everything we do
- We have a unique mix of scale & diversification
- We will get new revenue streams from a widening telecom business scope
- We foresee a long run in efficiency gains
- We have a highly committed top management with a winning mindset
- We are turning organic growth into cash
- We have an even more favorable dividend policy
- We have a great track-record of delivering on what we promised



TELEFÓNICA: A growth stock in a promising industry

Telefonica
