Sixth Investor Conference

Telefónica España: A Winning Mindset

Antonio Viana-Baptista
London, October 11th 2007

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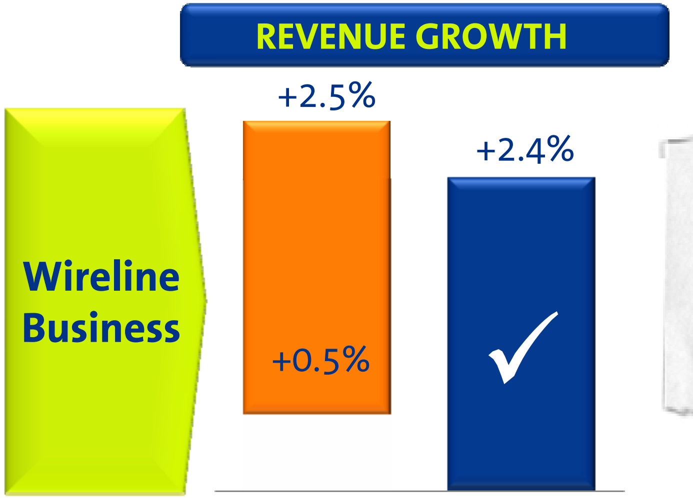
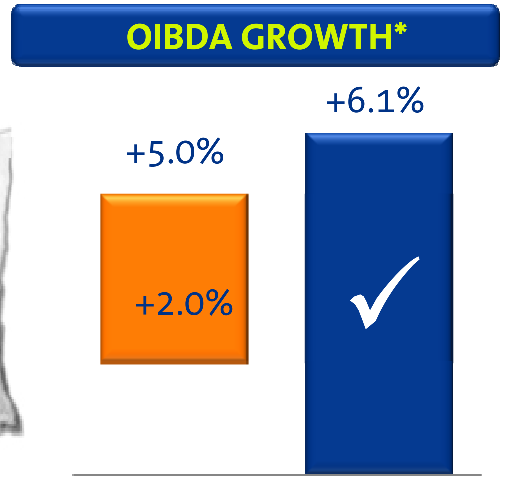
Telefónica España ...

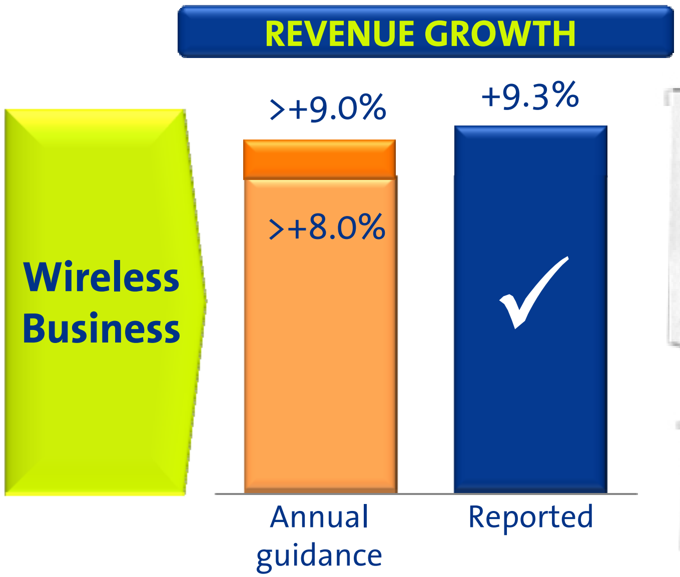
1. **A track record of strong delivery**
2. A growth environment
3. The best starting position
4. An ambitious strategy that will extend our leadership

Strong execution: consistent delivery above expectations 2004



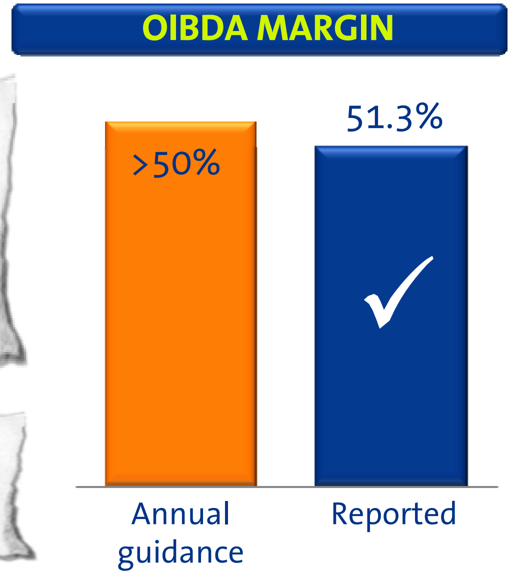
"There are strong signs that competitive and pricing **dynamics** in the Spanish Broadband market **are about to deteriorate** and erode excessive returns"





"In our view, DSL pricing will have to come down and **this will erode margins**. We see several reasons for the deflationary environment for broadband "

"Our **revised revenue forecasts are at the low end of guidance**"



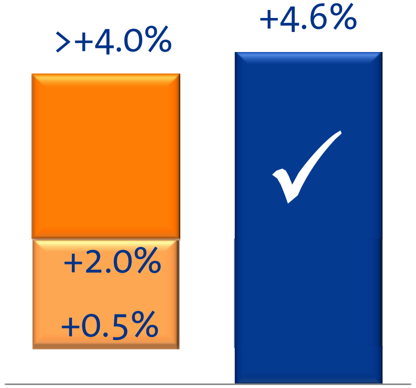
* Adjusted for guidance

Initial guidance *Upgraded guidance*

Strong execution: consistent delivery above expectations 2005

Wireline Business

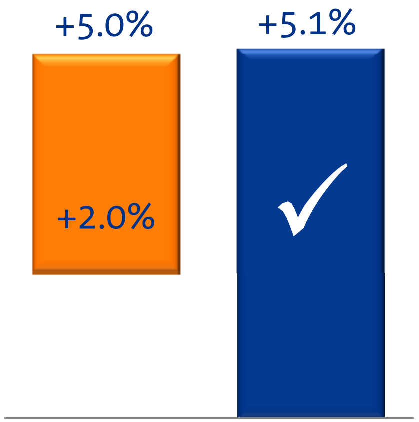
REVENUE GROWTH



"In our view it could be **challenging** for the company **to deliver** on such upbeat numbers"

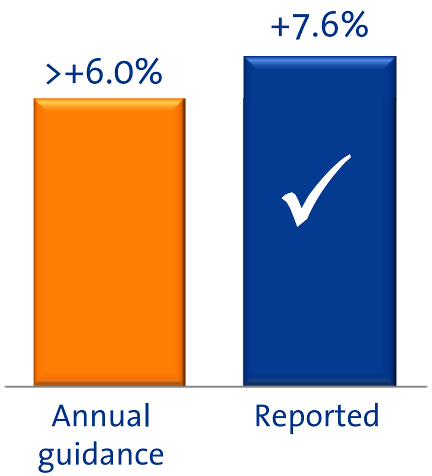
"We expect increasing competition in broadband to eventually cause a **slowing rate of revenue growth** at TdE"

OIBDA GROWTH*



Wireless Business

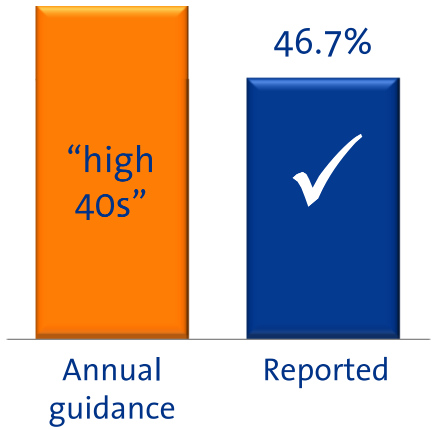
REVENUE GROWTH



"We view Telefonica's **growth forecasts** for both the domestic fixed and mobile businesses as **ambitious**. We are conservative relative to company guidance"

Initial guidance *Upgraded guidance*

OIBDA MARGIN

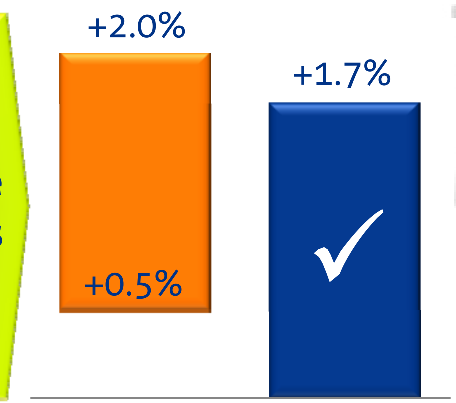


* Adjusted for guidance

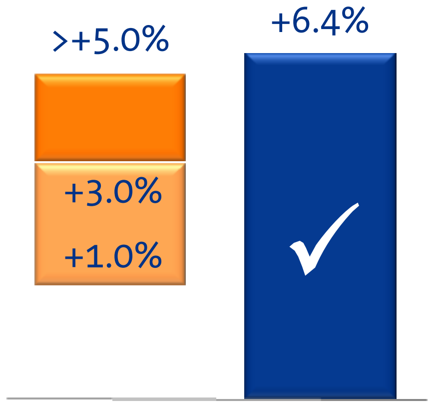
Strong execution: consistent delivery above expectations 2006

REVENUE GROWTH*

Wireline Business



OIBDA GROWTH*



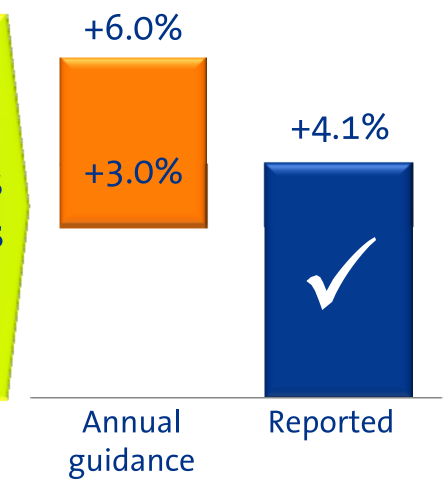
"I am **skeptical** about Telefonica's **growth forecast**. I can see that its main market is suffering continued price erosions "

"Our estimates are not as aggressive as Telefonica's guidance"

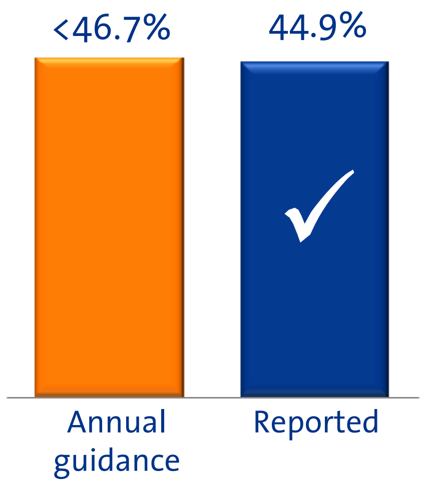
"A **pick up in ULL** declines at TdE could jeopardize performance "

REVENUE GROWTH

Wireless Business



OIBDA MARGIN



"We **do not see growth in Spanish wireless market** and expect decline in margins towards 40%"

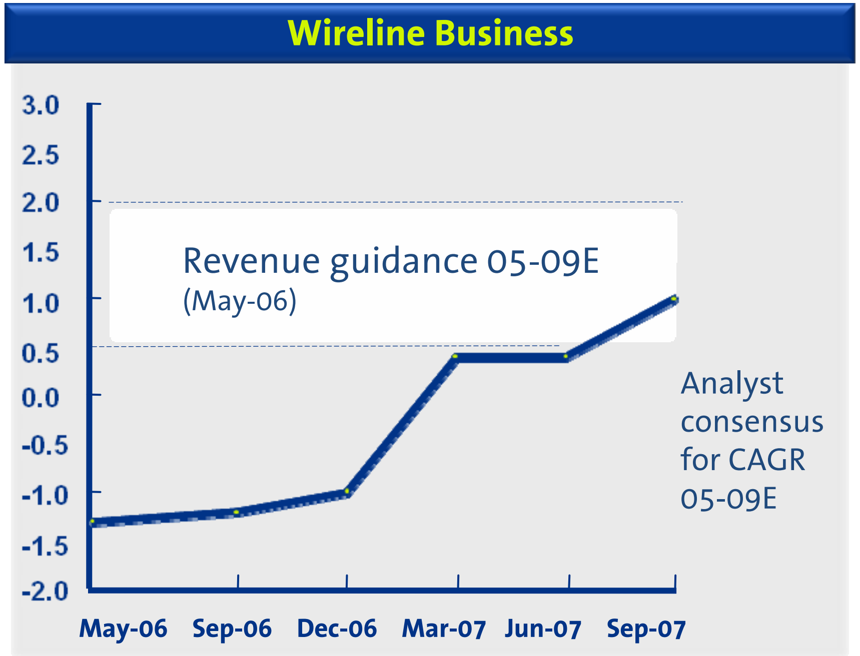
"TEM España **exposed to rebranding of Amena and roaming revenue cuts**"

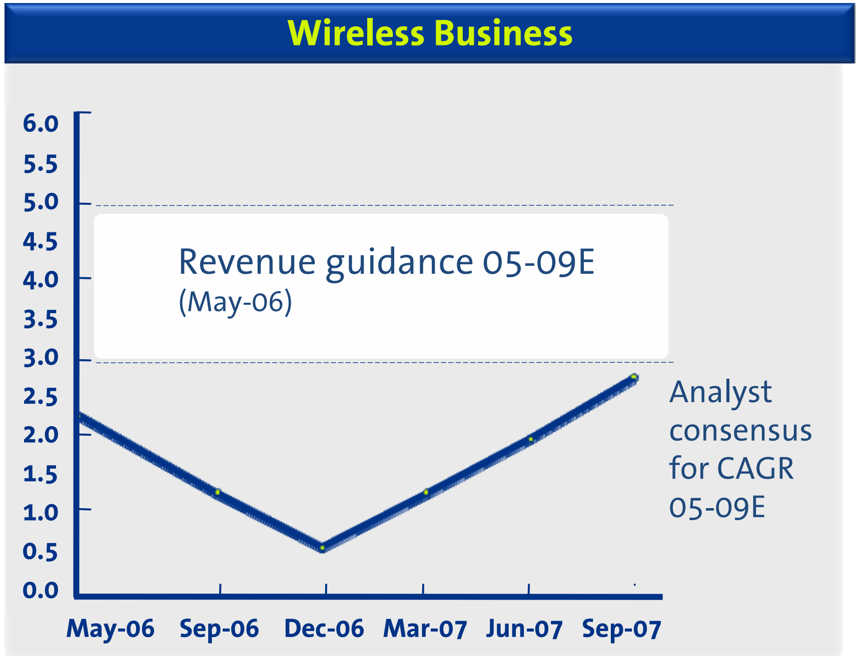
Initial guidance *Upgraded guidance*

* 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
Wireline	+0.5%/+2.0%	+3.0%/+6.0%
Wireless	+3.0%/+5.0%	+0.0%/+2.0%

	REVENUE	OIBDA
Telefónica España*	+1.5%/+3.0%	+1.5%/+4.0%

* Implicit 05-09E proforma guidance

WE CONTINUE TO INCREASE OUR LEVEL OF AMBITION

CAGR 06-10E

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

- 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 ...

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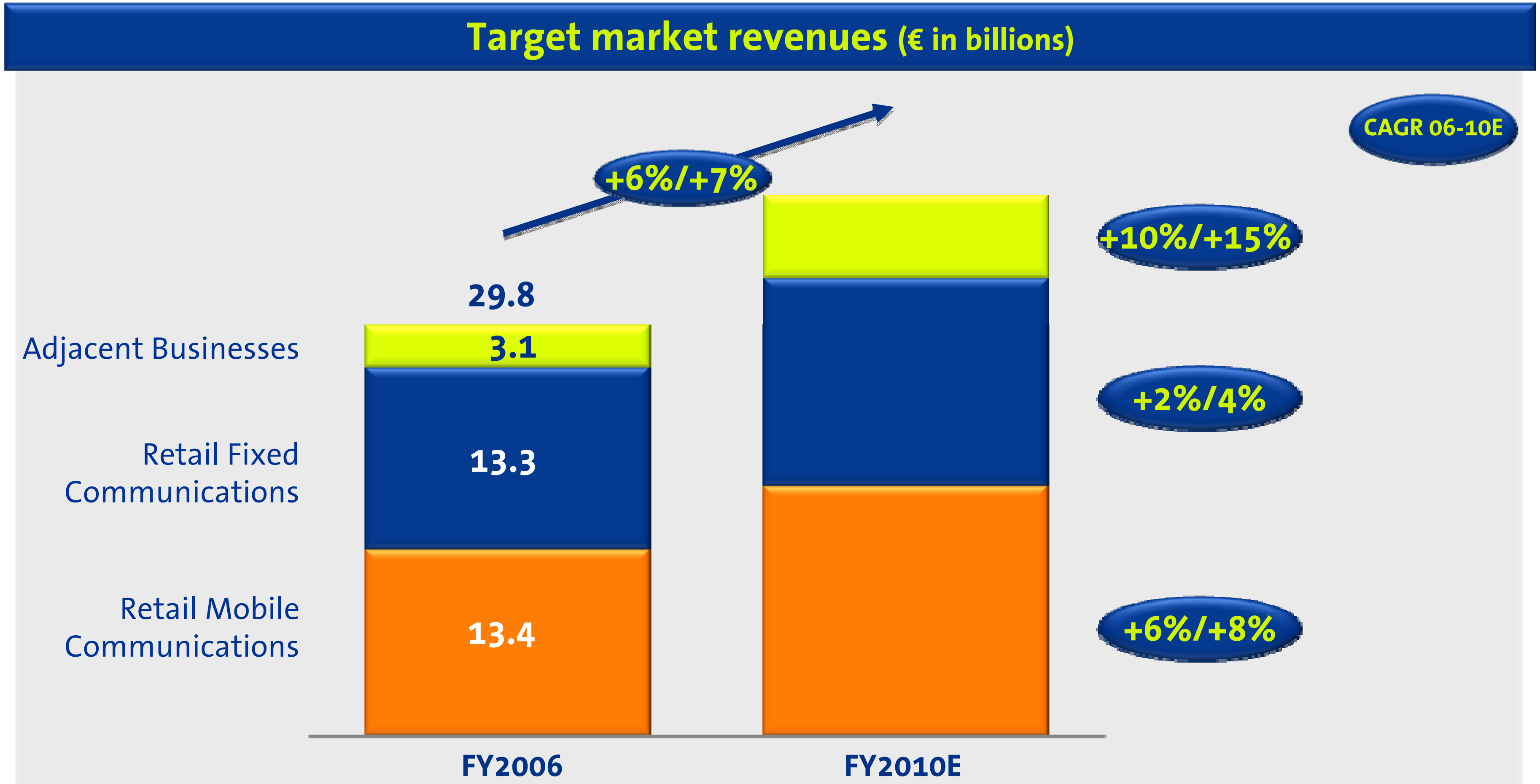
Our market offers significant growth opportunities…

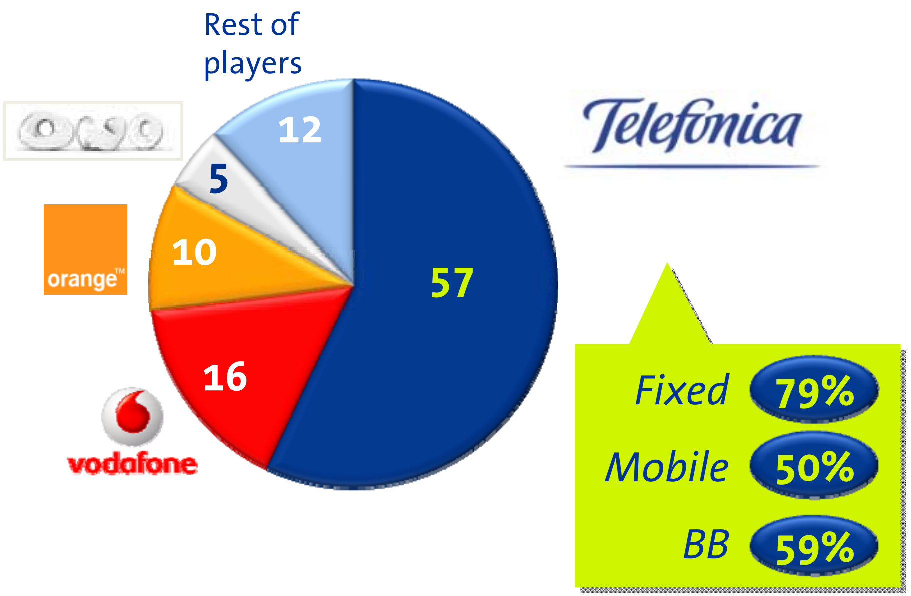


Target market: telephony, broadband, Pay TV, target IT areas (includes CPD outsourcing, LAN and Workstations management, Security, Contact Centers, Relationship Solutions, Digital Asset Management, GIS), Online Advertisement, Online contents and Digital Home

Source: Telefónica

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

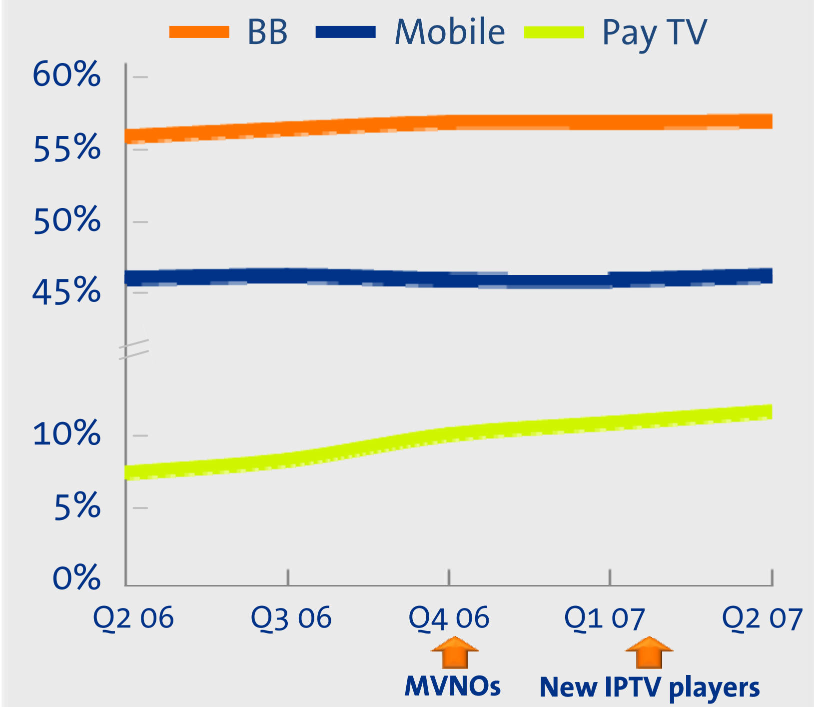
Revenue Market Share (%). FY2006



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

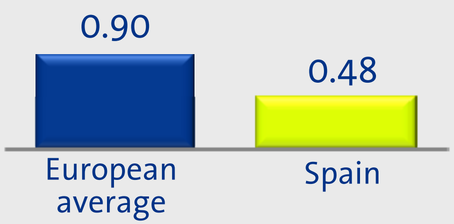
Spanish regulatory conditions are comparable to that in other European countries…

- **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

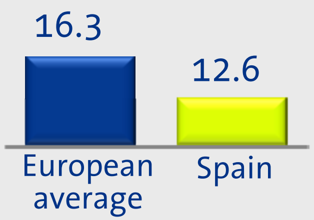
- Capacity based **fixed line interconnection prices**, leading to the lowest effective price per minute in Europe

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 …

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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 ...

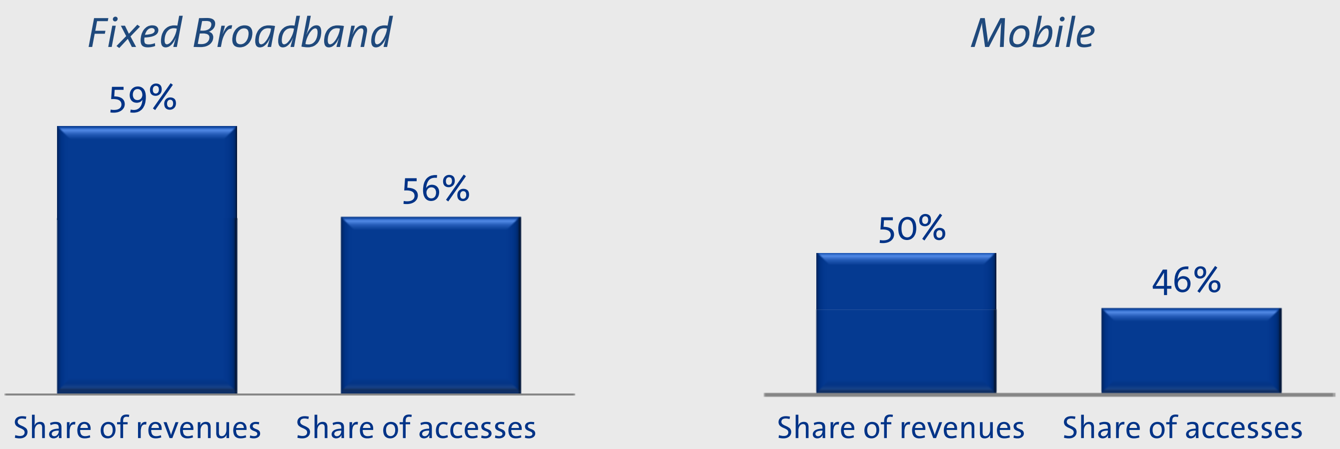
> 45 million accesses

... the deepest ...

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

... with the best customers

Market share (FY2006)

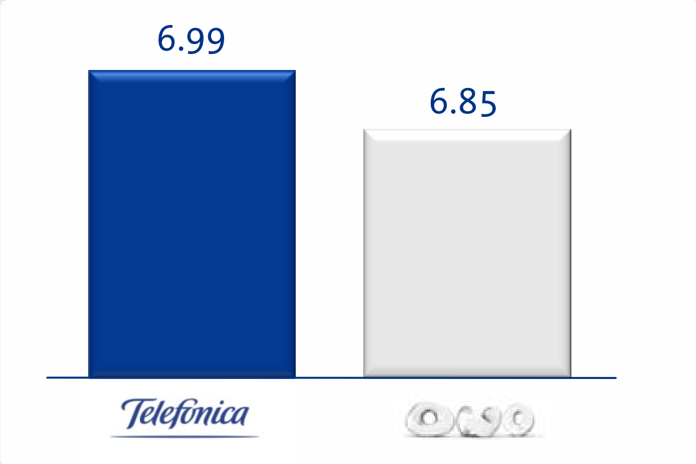


Source: CMT, Telefónica, companies press releases

We have the most satisfied customers

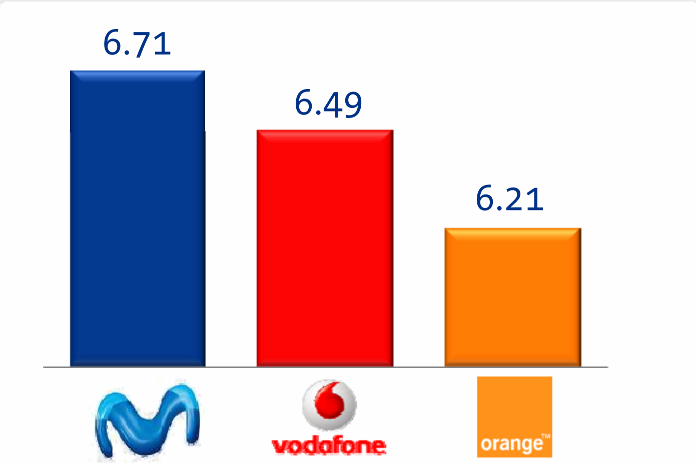
Wireline

Global satisfaction index (Q2 07) Residential; TV and Broadband customers



Wireless

Global satisfaction index (Q2 07)



"Best ISP"

Lowest churn

The strength of our networks and operations allow us to offer the best customer experience

Source: Asociación Internautas feb-07; Telefónica; CFI

The strongest commercial reach with outstanding growth opportunities

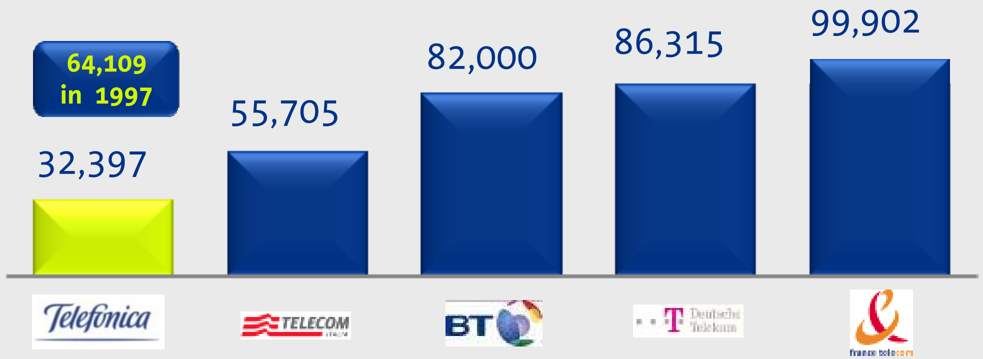
	>7,300 points of sale	… >4 million customers/month … more than twice the number of exclusive points than any other competitor
	>2,600 sales force for Corporate and SMEs	… >80,000 interactions/month
	≈10,000 call center positions	… 13.5 million contacts/month
	Online channels	… >15 million visits/month

We are a reference in efficiency

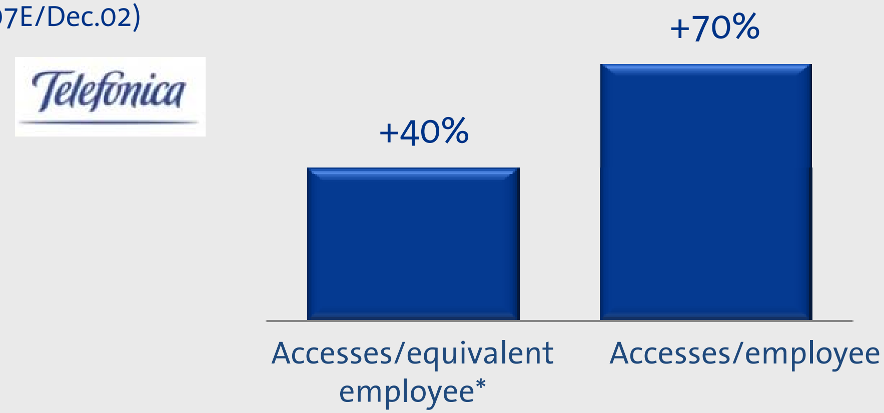
>1/3 reduction in wireline business workforce in Dec.02-Dec.07E:

- **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 ...

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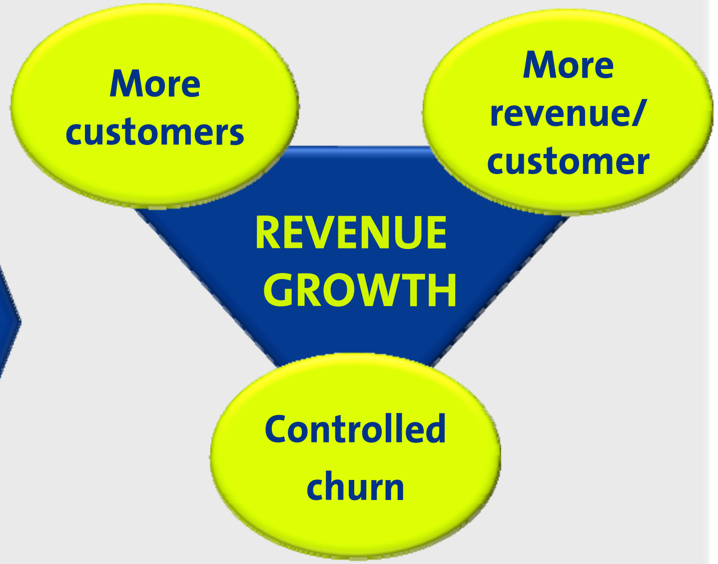
Our winning mindset is our key value driver

Lead the mobile space

Lead the broadband business

Lead the growth in entertainment

Lead the Corporate business

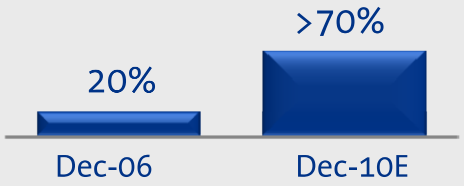


We will lead the rapid growth of the mobile data business

MOBILE SPACE

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

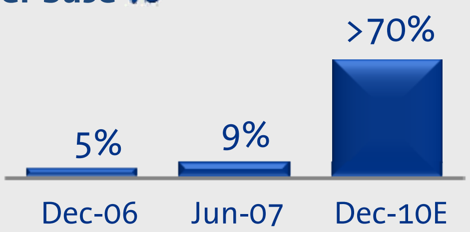
… supported by commercially oriented roll-out of 3G networks

3G roll-out

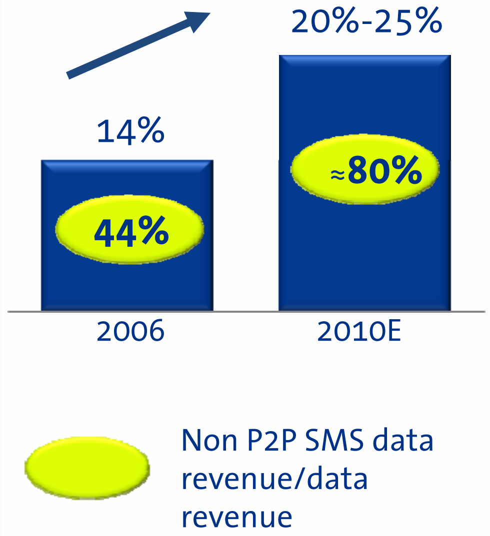
- 80% population coverage with HSDPA by 2010E

3G handsets/customer base

- Progressive upgrade of handset base



Data ARPU /ARPU



We will keep enhancing our services

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**

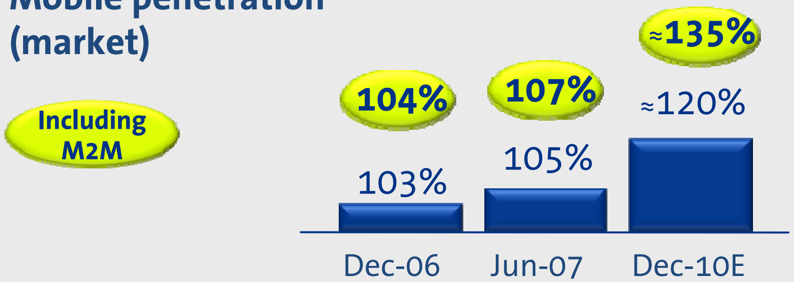
New businesses

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

We will lead the mobile voice business

More customers

Mobile penetration (market)

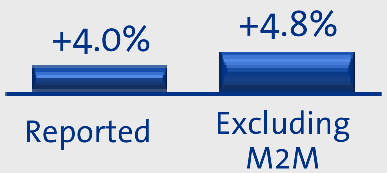


- Proactive customer acquisition focused on value
- Maintain a "Best in class" churn rate

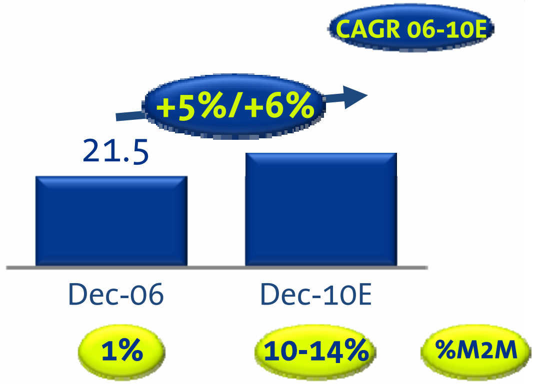
More voice usage

- Expanding MoU through innovative pricing schemes leveraging community effect

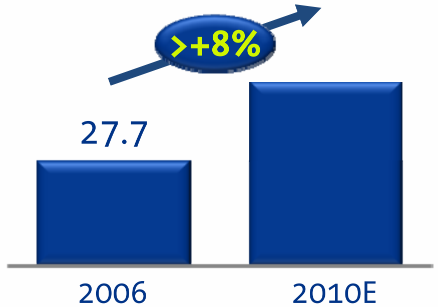
Outgoing MOU (H1 07/H1 06)



Mobile customers Millions



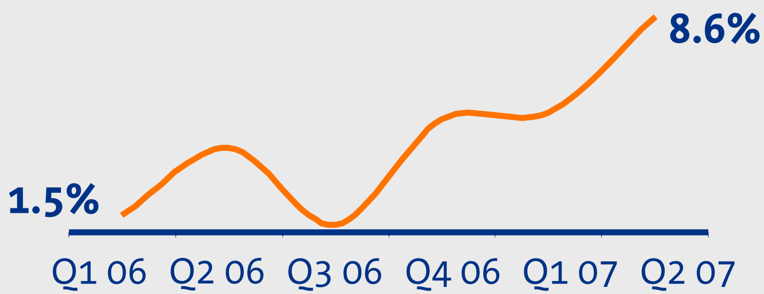
Outgoing traffic Bn minutes



Our actions are yielding good results

Mobile Data

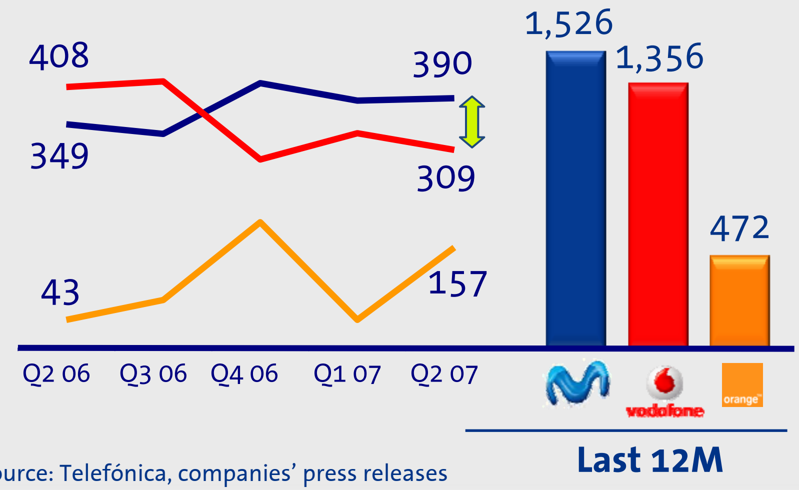
Outgoing ARPU Data Growth



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

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

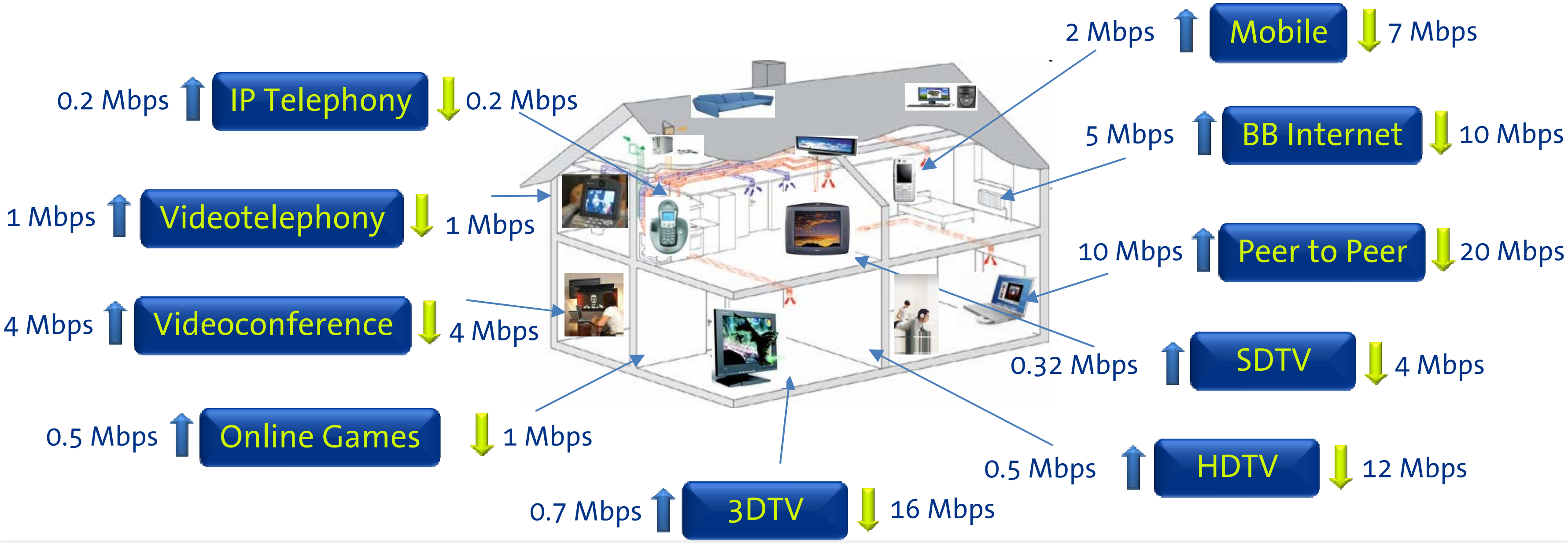
- **Sony-Vaio** laptops **with embedded** **exclusive 3.5G modules**
- 1st player in the world to launch Novaltel's **HSUPA modem**

Enhanced TV offering

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

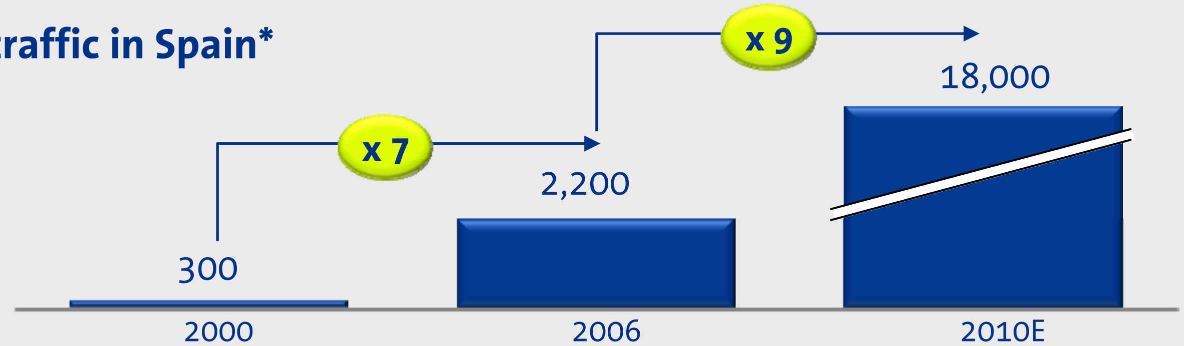
Increased demand for broadband

Average bandwidth 2010E: 10x vs. 2006



Total communications traffic in Spain*

Thousands Terabytes



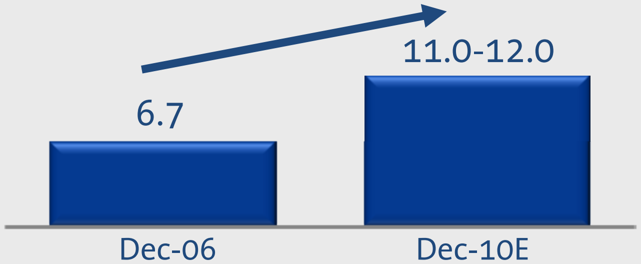
* Telefónica estimates

We will lead the massive adoption of broadband connectivity services

BROADBAND

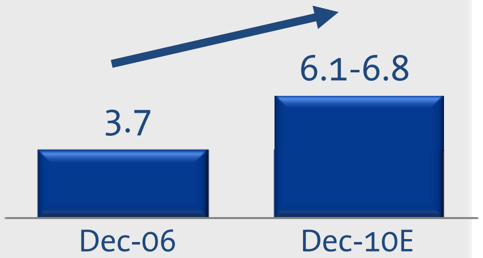
Massive use of fixed Broadband

BB Market Million accesses



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

BB customers Millions Telefonica



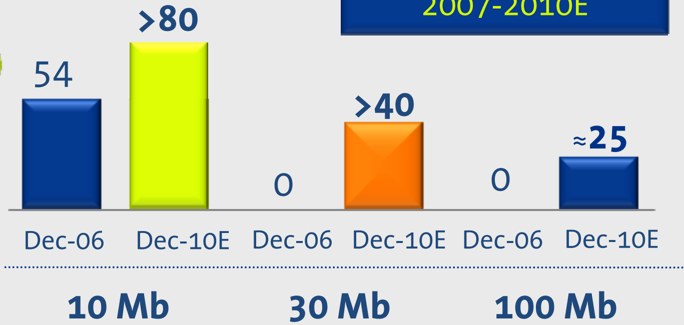
Retail BB Market share: 56% (Dec-06), 53%-57% (Dec-10E)

Market-driven fiber deployment

Wireline BB Coverage % loops Telefonica

- Selective deployment by zone

~**€1bn** capex 2007-2010E



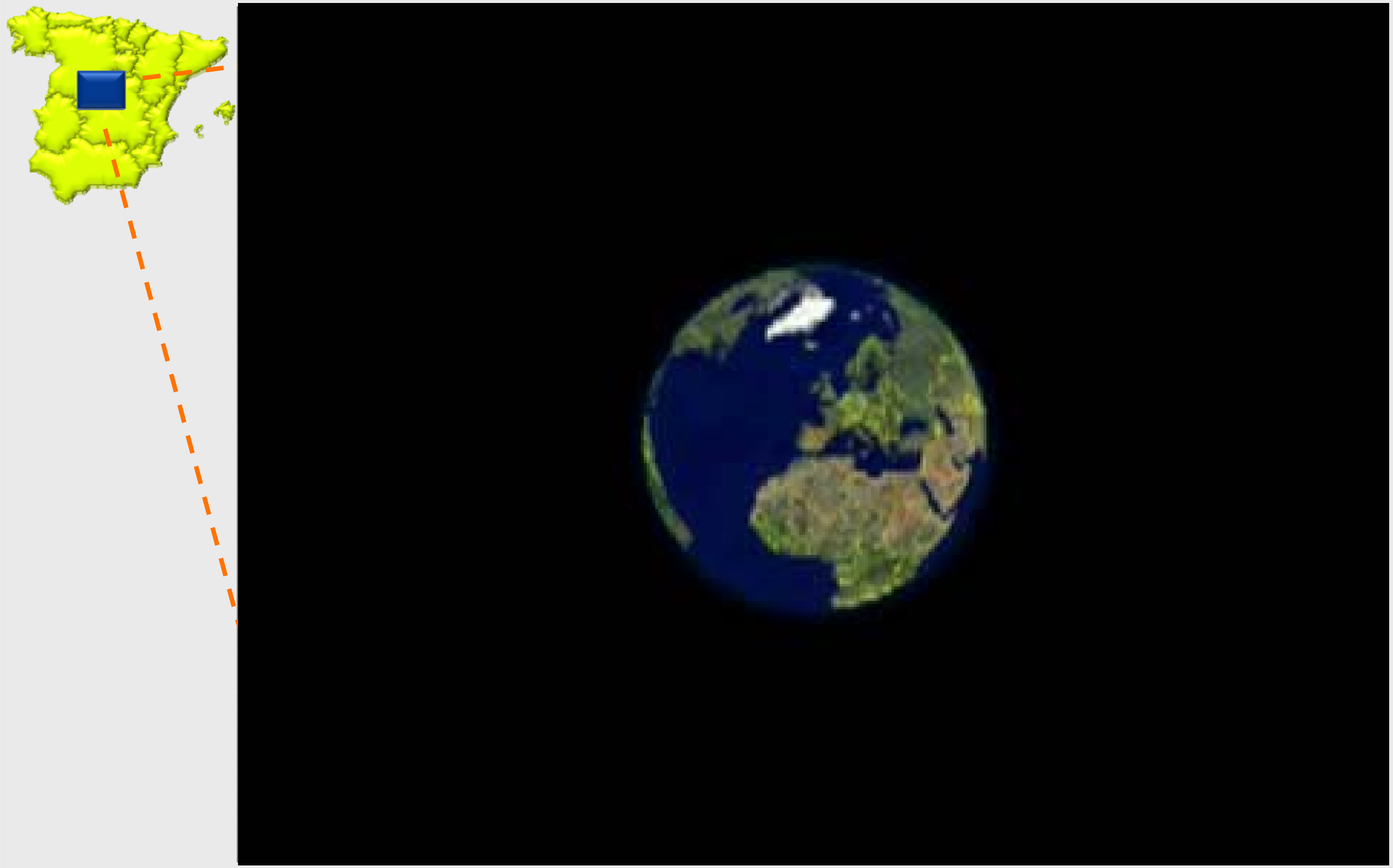
Sustaining BB revenue per access

- 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

BROADBAND

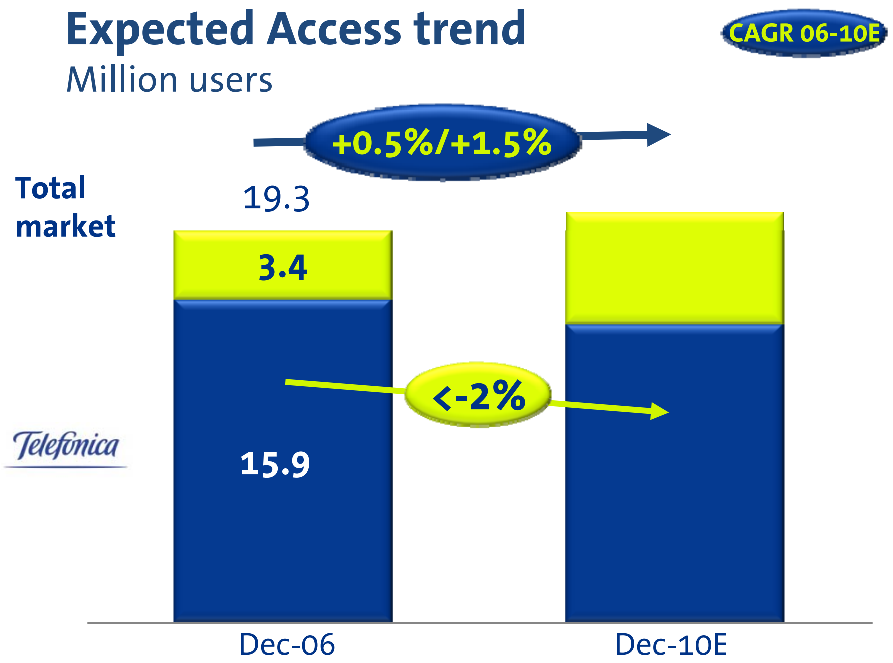
ILLUSTRATIVE



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

Differential profile compared to other European operators

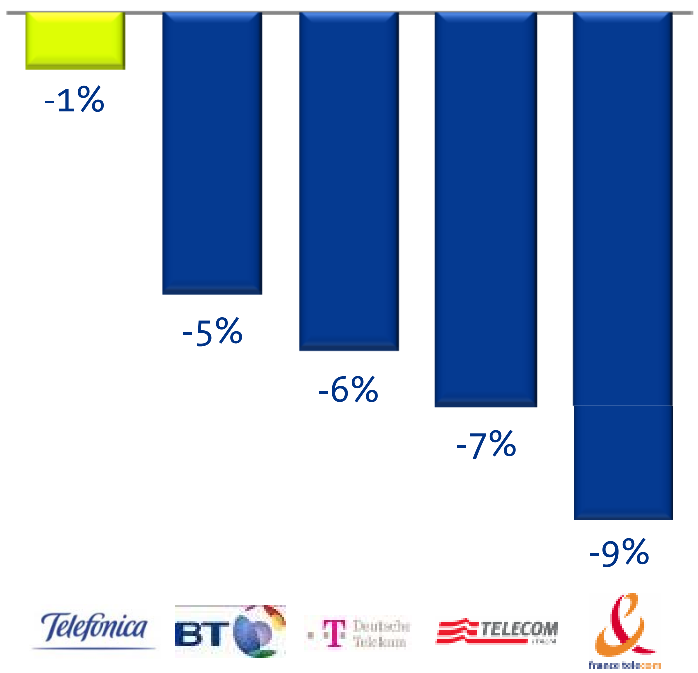
Expected Access trend
Million users



- Growth in households
- Increased penetration of bundles Telefónica
  - ≈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

ENTERTAINMENT

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

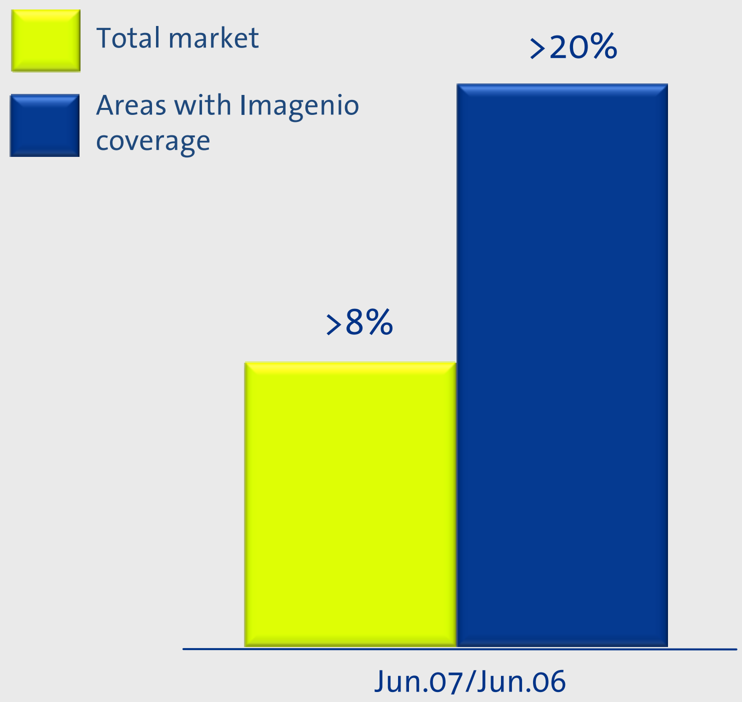
To be developed
- Imagenio on the move
- Advanced T-commerce
- Other advanced functionalities

This will support the growth of the Pay TV market

ENTERTAINMENT

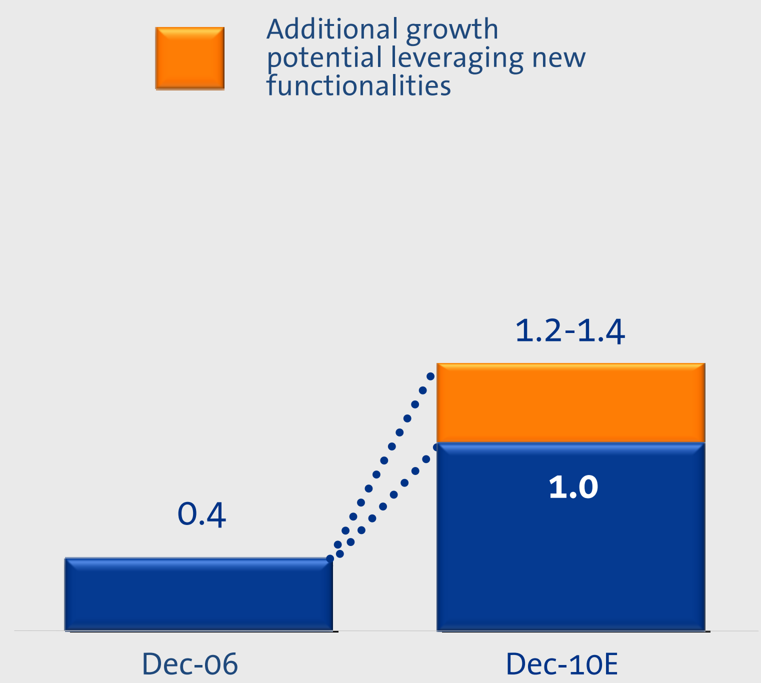
We are driving the growth of Pay TV market... | **...and new functionalities will boost the growth**

Pay TV Market growth



- Commercialization in bundles
- Continuous learning to improve customer experience

Imagenio customers Millions



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

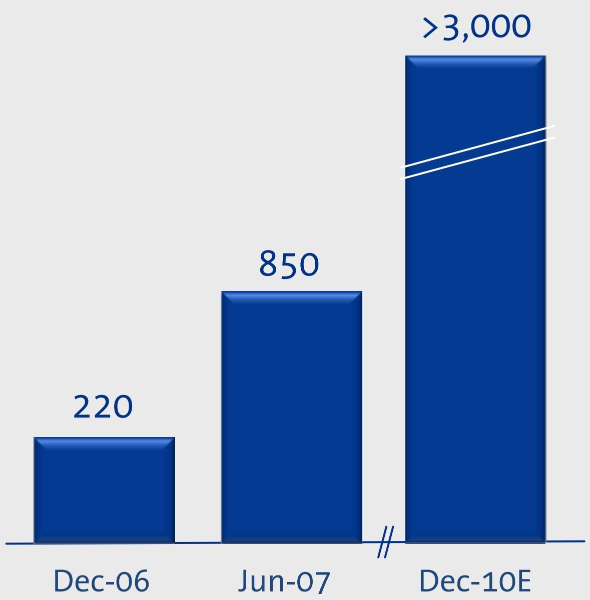
SMEs & SOHO

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
- Unique commercial teams
- Unified customer care, support and engineering

Integrated F+M+IT offer
- 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

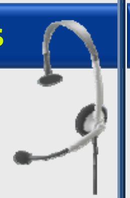
CPD outsourcing
- Managed Hosting & Business Recovery Services
- Hosting Virtualization

LAN & Workstations Mgmt
- LAN & Workstation management

Security

- Security operating center

Contact Centers



- Contact center on demand

Relationship Solutions
- e-billing
- Net centric e-government

Digital Asset Mgmt
- Dynamic marketing
- Video-surveillance

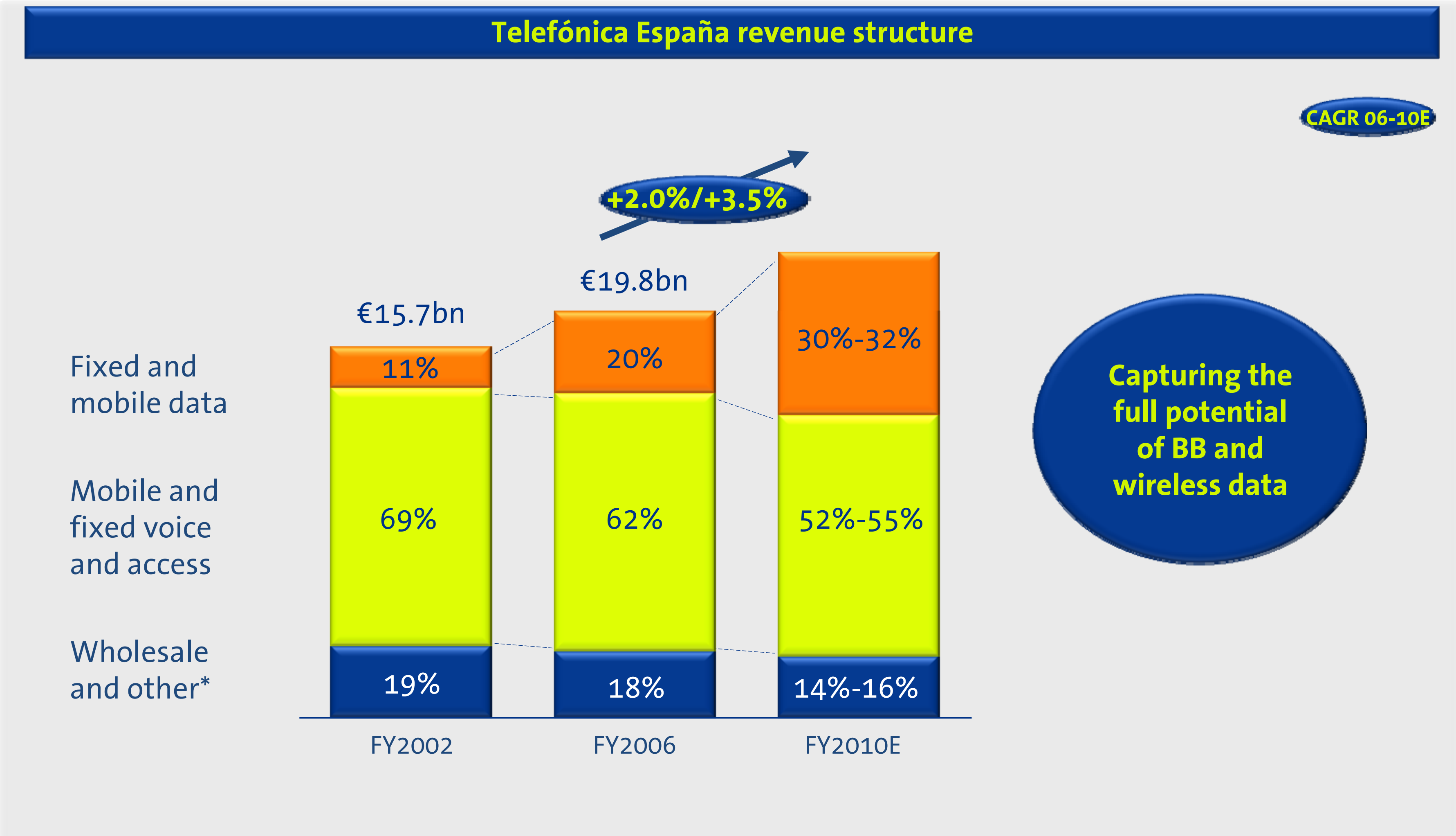
Geographic Info. Systems
- Geomarketing

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



* Includes Wholesale, Interconnection, consolidation adjustments and others (Group companies, handsets, others)

We will also increase our efficiency and effectiveness

Lead the mobile space

Lead the broadband business

Lead the growth in entertainment

Lead the Corporate business

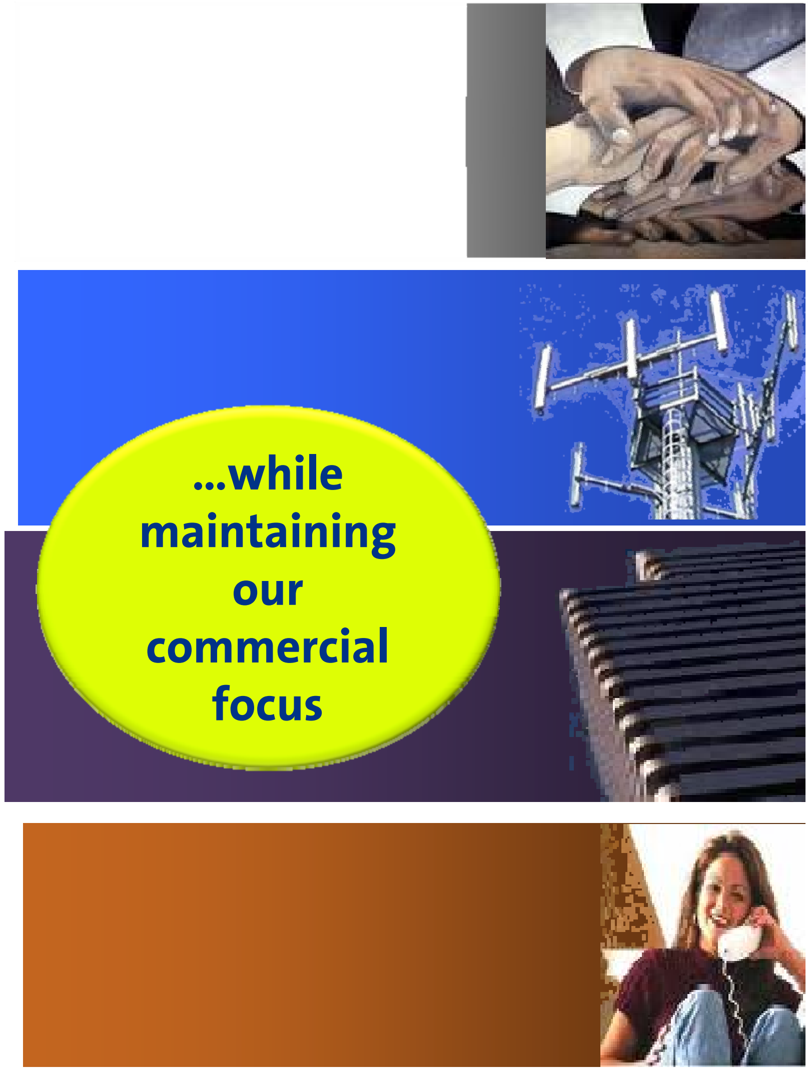
+

Make the best use of our resources

- Leverage Integration
- New operating model

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

Objectives

- Put customer needs first
- More resources in commercial areas
- Cost structure adapted to business evolution

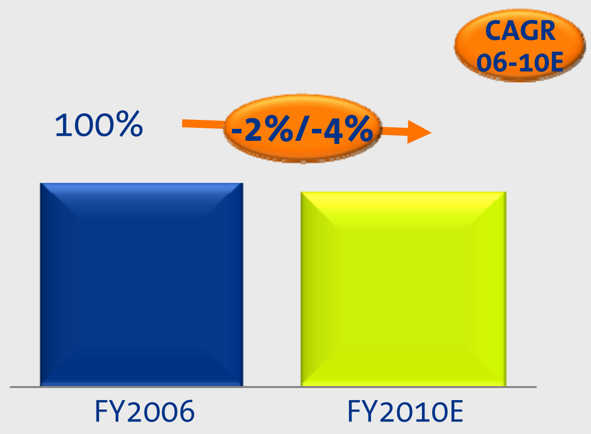
Actions

- Externalize non-core activities
- Capture fixed-mobile integration synergies
- Leverage new technologies focusing on quality and efficiency
- Excellence in end-to-end processes

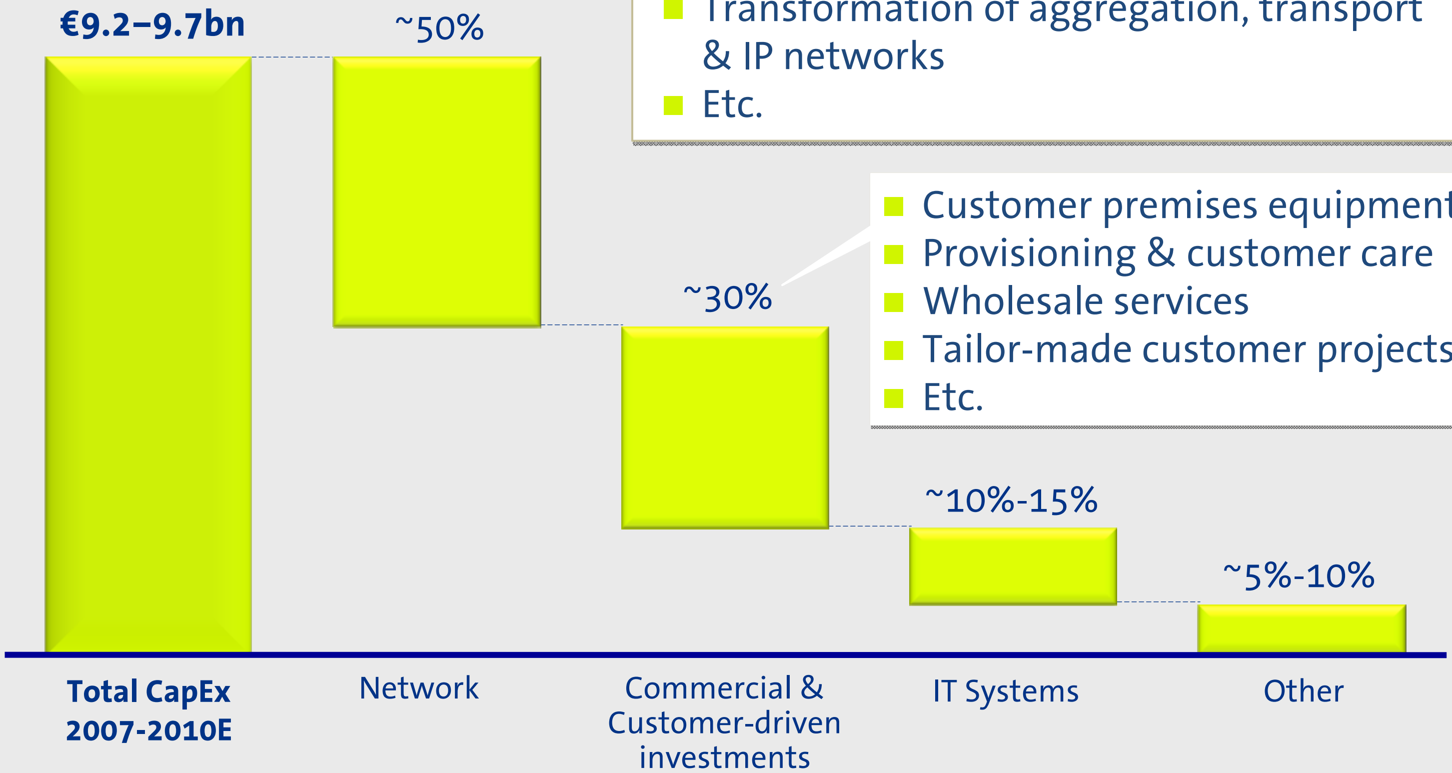
Results

~€130 million savings from network upgrade (common servers, single IP network, shared mobile infrastructure, etc.)

OpEx/access ex-commercial costs



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



- Access network transformation
  - ~ €1.0bn in FTTx
  - €1.3bn in UMTS/HSXPA
- Transformation of aggregation, transport & IP networks
- Etc.

- Customer premises equipment
- Provisioning & customer care
- Wholesale services
- Tailor-made customer projects
- Etc.

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

Telefónica