

Quarterly Results January-June 2008

TELEFONICA, S.A.

July 31 st, 2008



TELEFONICA S.A.
Investor Relations

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H1 08 Results Highlights

- **Strong earnings, leveraging execution, unmatched diversification and integrated business model:**
 - Healthy organic¹ growth rates, ramping from revenue to OI
 - Solid results in Europe, outperforming competitors in key markets
 - Robust growth in Latin America
- **Enhanced margins and high cash-flow generation prove our skills to contain costs, capitalizing on integration and scale economies:**
 - Organic¹ OIBDA growth acceleration vs. Q1 08 (+3.8 p.p.) to 12.0% in H1 08
 - Organic¹ margin expansion to 38.2% in H1 08 (+1.8 p.p y-o-y) led by mobile in Latin America and robust profitability in Spain
 - Strong H1 08 OpCF in the European region (€ 5.3 bn) and growing contribution from Latam (€ 2.3 bn)
- **Sound balance sheet, financial flexibility**
- **Fully on track to fulfill 2008 guidance**
- **Prioritizing shareholders remuneration: 68% execution of 2008 share buyback program as of July 17th, 2008**

Robust set of financials in H108, ahead of the pack...

€ in millions	Jan-Jun 2008	Change H1 08/H1 07		Change ex-forex ⁽¹⁾ H1 08/H1 07	Change organic ⁽²⁾ H1 08/H1 07
Revenues	28,149	+1.2%	→	+3.9%	+6.7%
Operating Income before D&A (OIBDA)	11,123	-1.3%	→	+0.5%	+12.0%
OIBDA Margin	39.5%	-1.0 p.p.	→	-1.3 p.p.	+1.8 p.p.
Operating Income (OI)	6,602	+0.7%	→	+2.5%	+24.0%
Net income	3,593	-6.2%			
OpCF (OIBDA-CapEx)	7,673	-4.8%	→	-3.2%	+12.9%

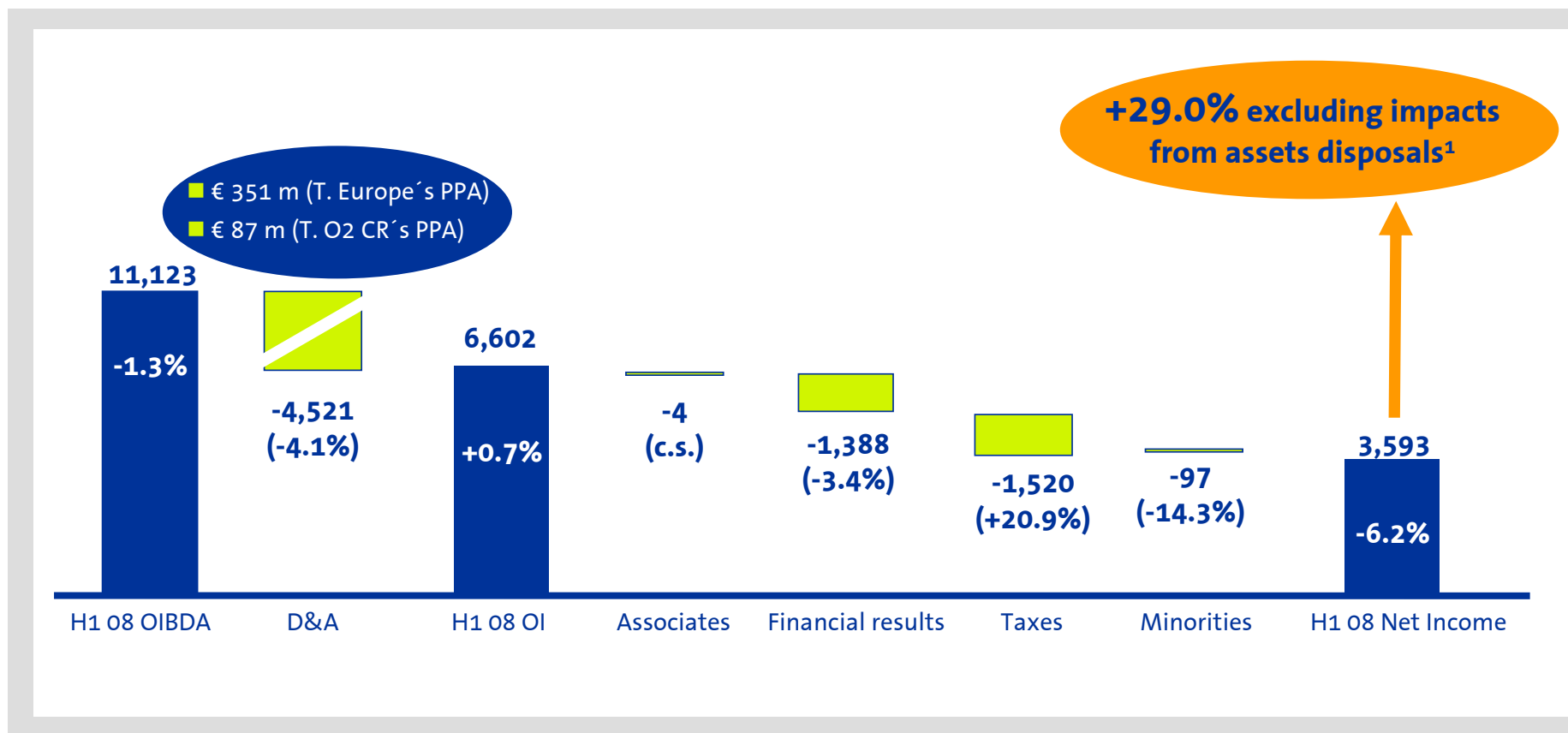
**Negative impacts from changes in consolidation, FX and capital gain
booked in Q2 07**

(1) Constant exchange rate as of H1 07.

(2) Assuming constant exchange rates and including the consolidation of TVA in January-June 2007 and Telemig in April-June 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-67.9 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave and Sogecable) in both periods is excluded.

...with a strong underlying bottom line growth...

€ in millions
(% change y-o-y)



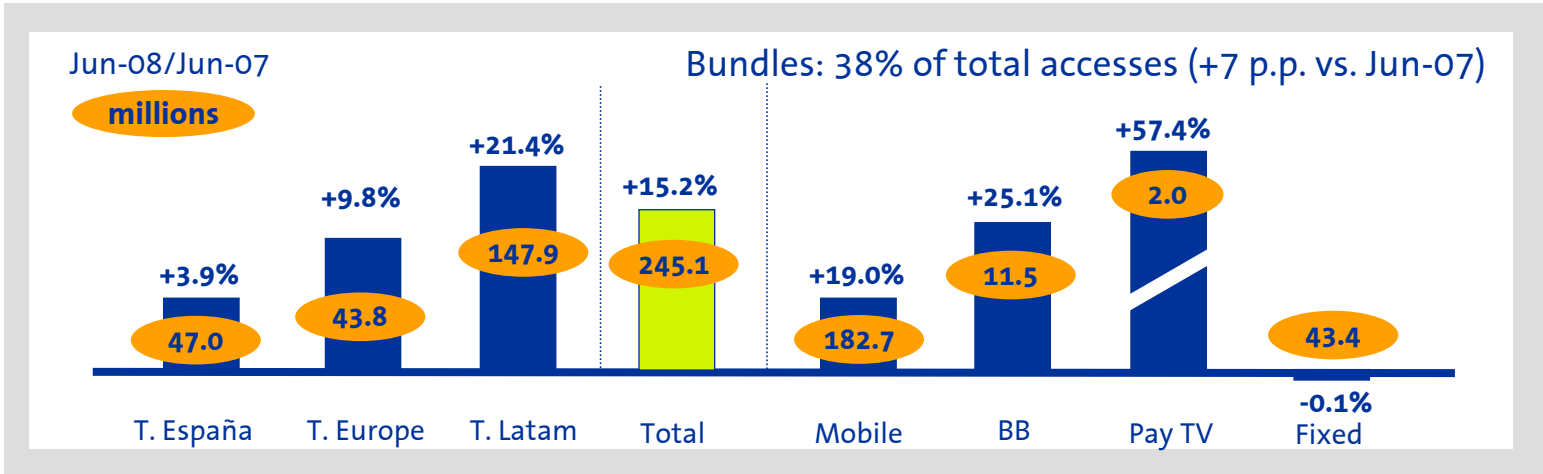
H1 08 EPS reached € 0.767 (+32.1% y-o-y underlying²)

(1) Airwave and Sogecable.
(2) Excluding the impacts from assets disposals (Airwave and Sogecable).

...as we leverage our distinctive portfolio...

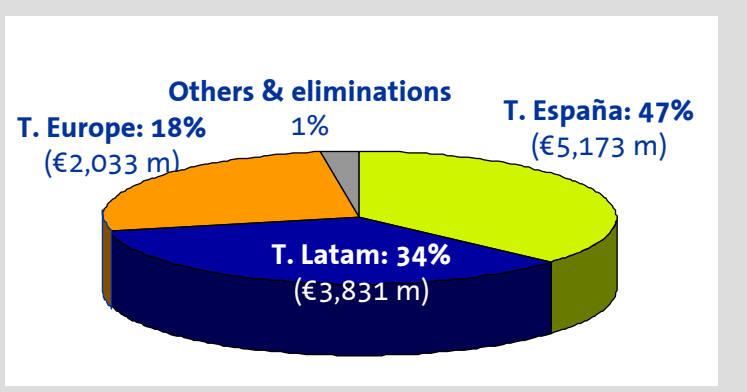
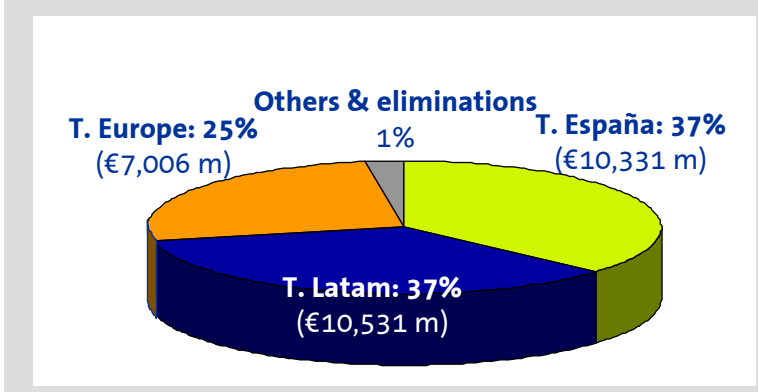
High diversification across markets & businesses

Accesses



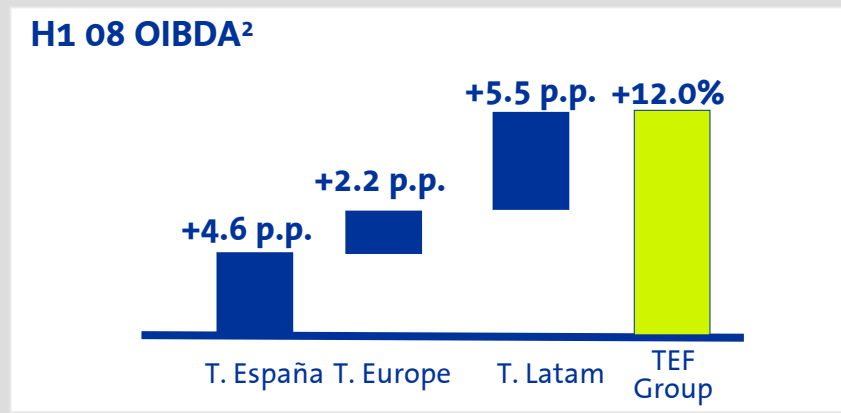
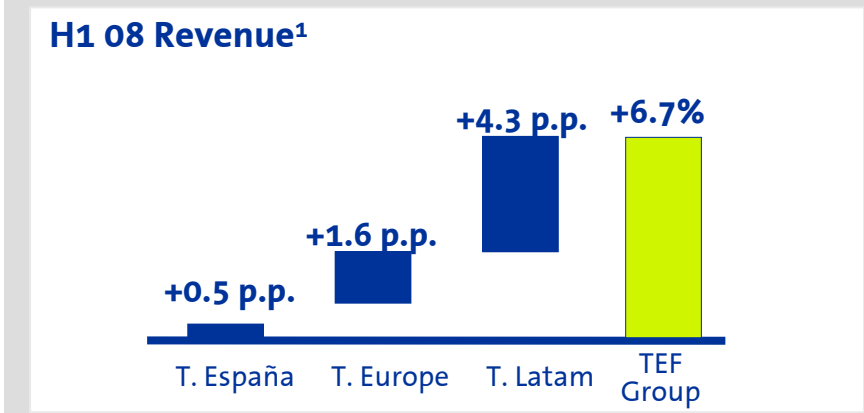
H1 08 Revenue

H1 08 OIBDA

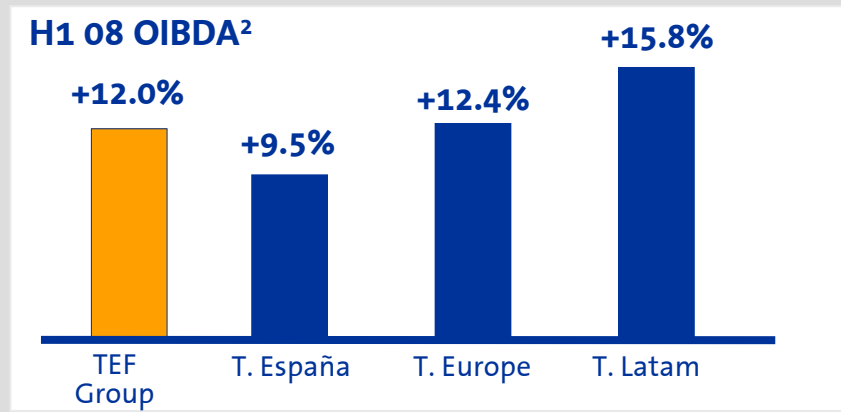
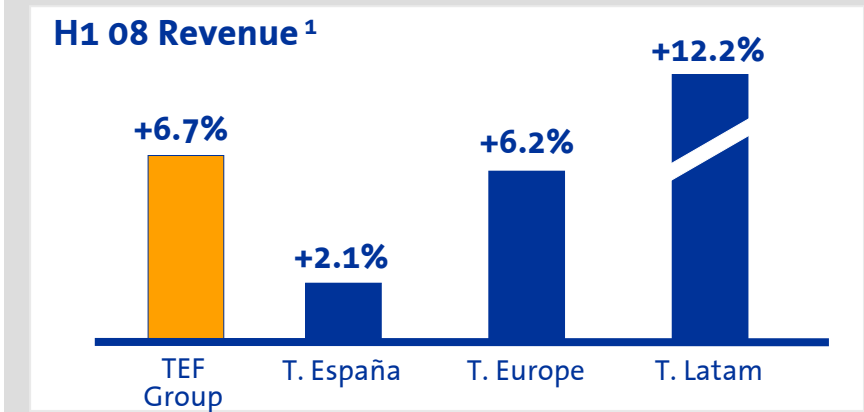


... translating into a superior organic growth driven by Latin America ...

Contribution to organic revenue and OIBDA growth by region



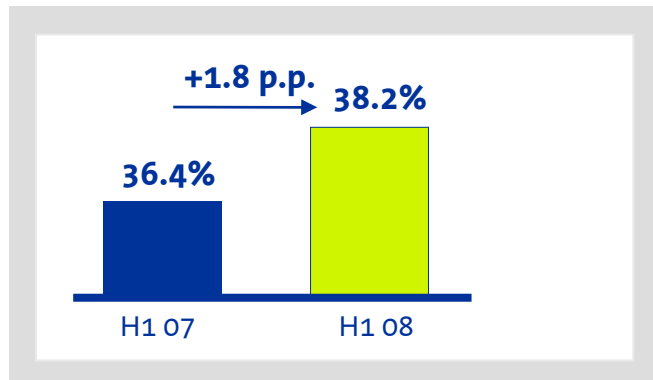
Organic growth by regions



(1) Assuming constant exchange rates as of H1 07 and including the consolidation of TVA in January-June 2007, Telemig in April-June 2007 and the impact in T. España revenues for new public voice telephony services business model (€ -67.9 m). It excludes the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007.
 (2) Assuming constant exchange rates as of H1 07 and including the consolidation of TVA in January-June 2007 and Telemig in April-June 2007. It excludes the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007 and the impact coming from assets disposals (Airwave and Sogecable) in both periods.

... with benchmark profitability and high OpCF generation

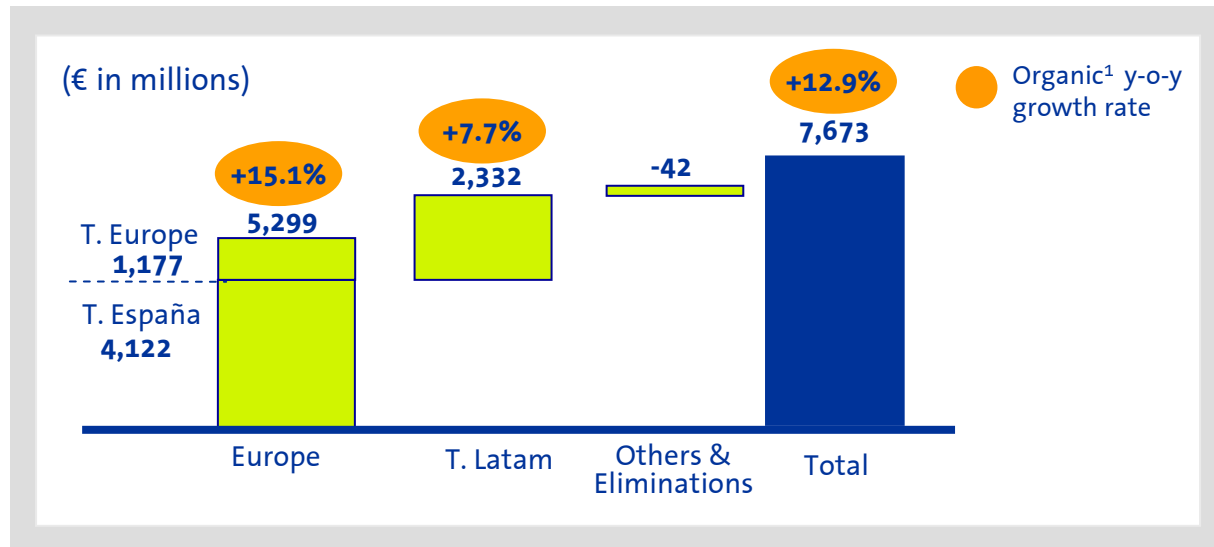
Organic¹ OIBDA Margin



Solid H1 08 OIBDA margins across regions:

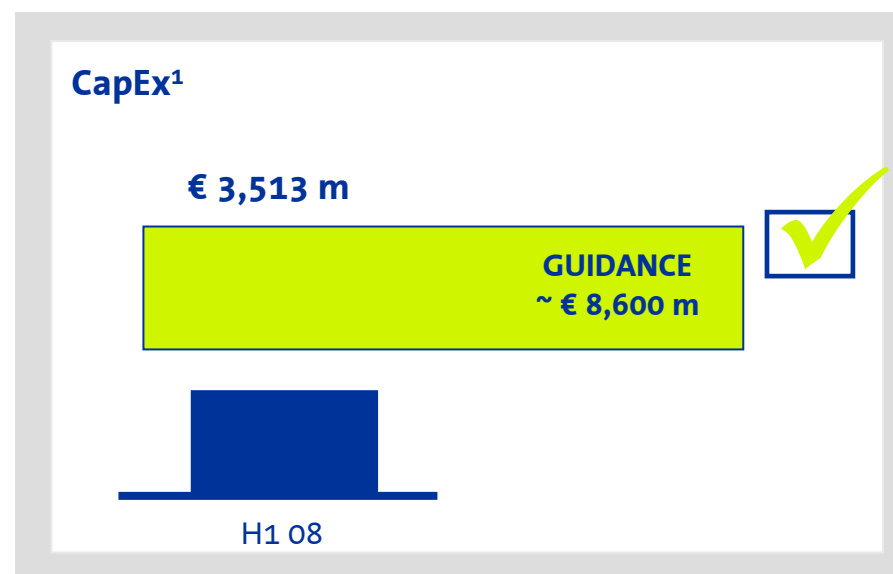
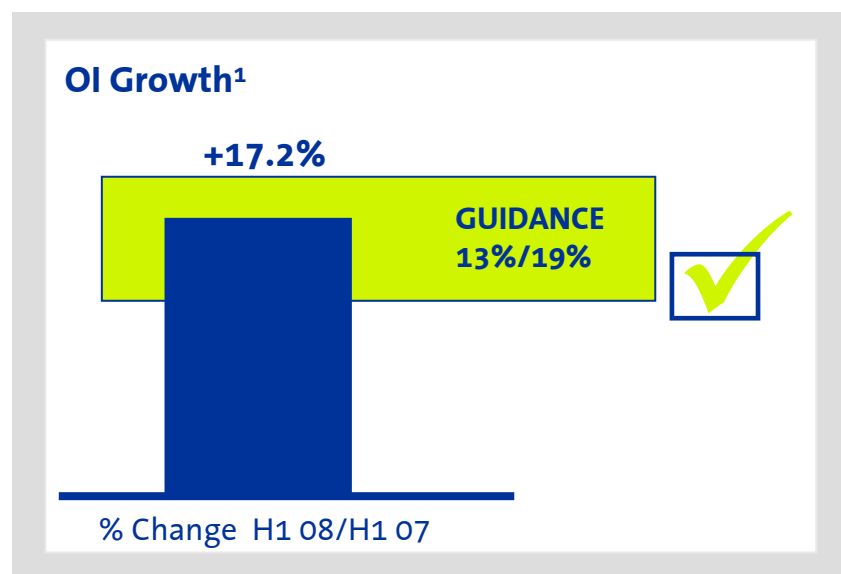
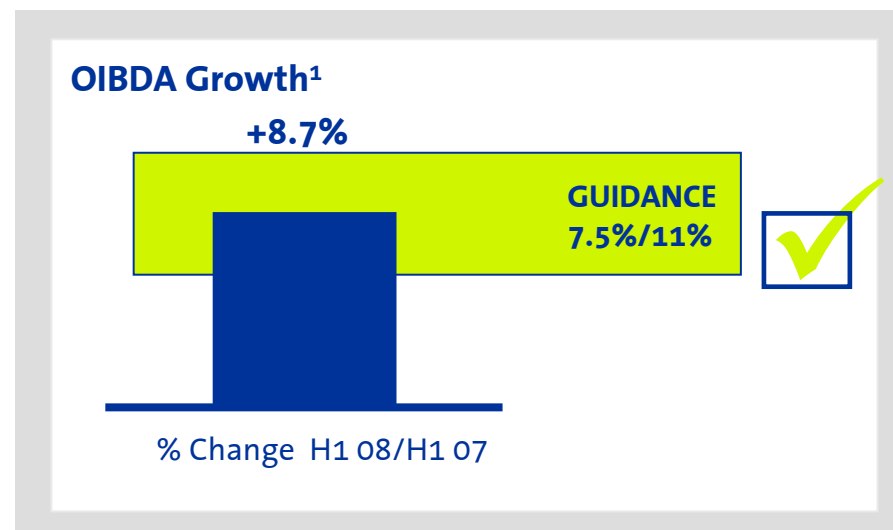
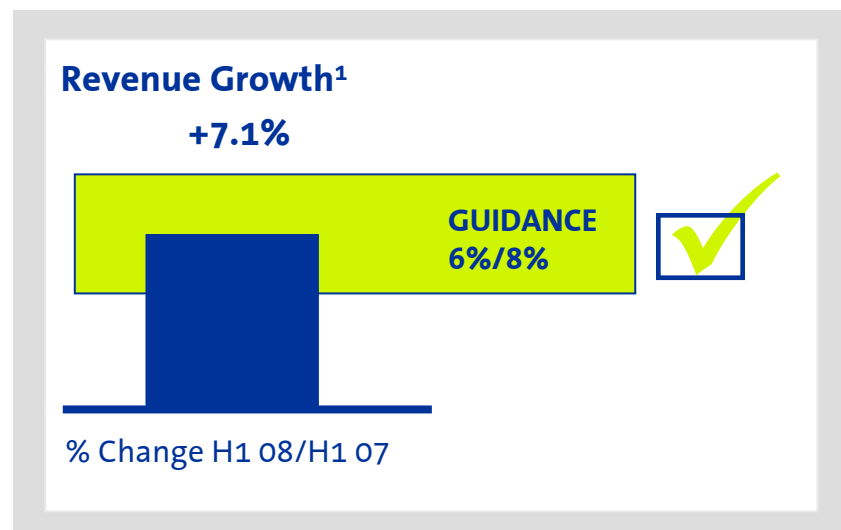
- T.España: 50.1%
- T. Latam: 36.4%
- T. Europe: 29.0%

H1 08 OpCF (OIBDA-CapEx)

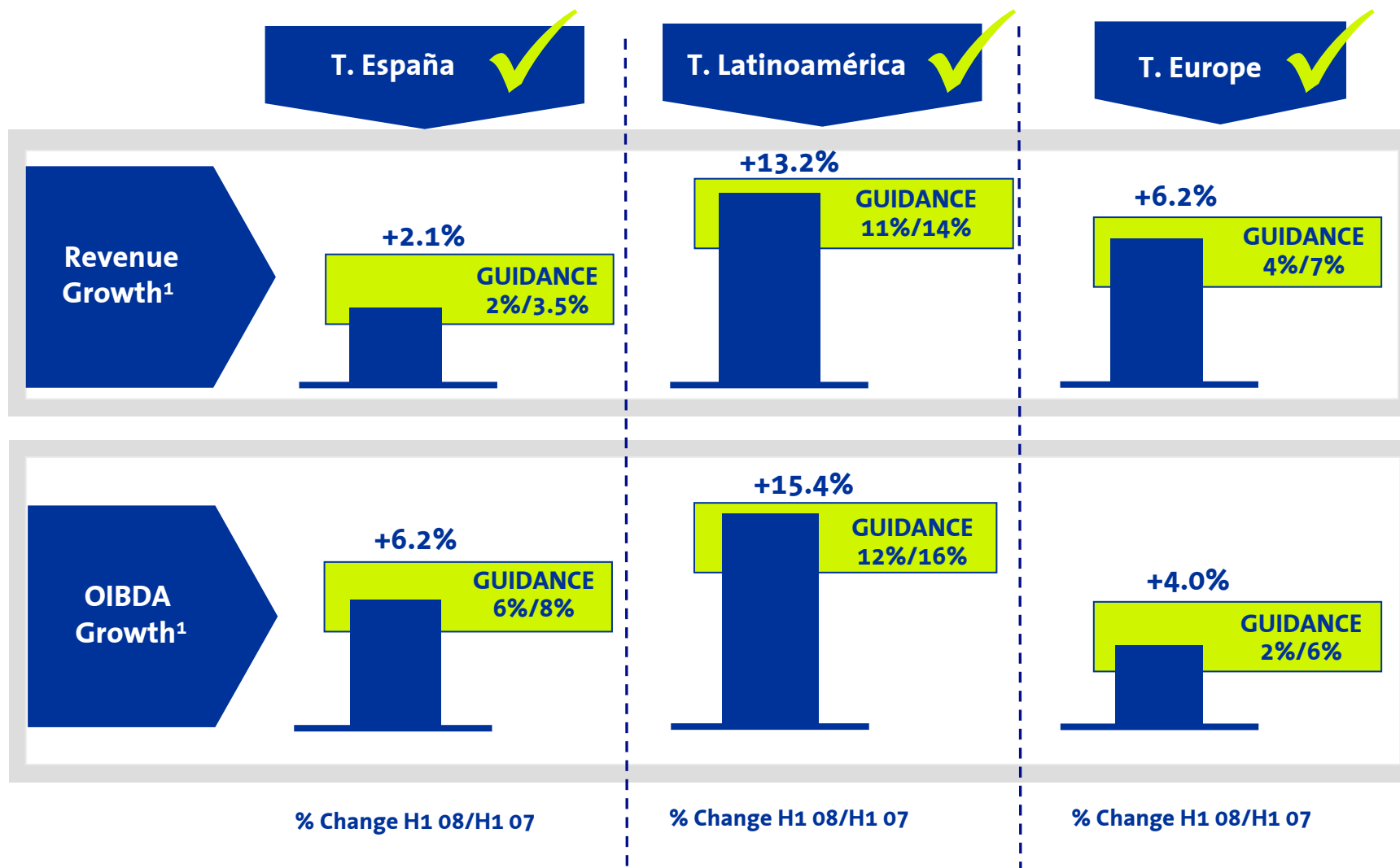


Preserving CF generation

We are fully on track to meet 2008 Group guidance...



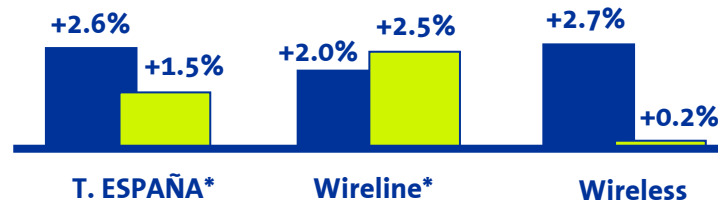
... with all our regions delivering 2008 commitments



(1) Guidance criteria: 2007 adjusted figures exclude Airwave and Endemol, include 3 months of consolidation of TVA. 2007 T. España revenues are adjusted for new public voice telephony services business model. Group revenues are also adjusted accordingly. 2008 figures Includes TVA, Deltax and Telemig (from April 2008). Telefónica's CapEx excludes Real Estate Efficiency Program. Guidance growths assume 2007 constant FX. In terms of guidance calculation OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007 and 2008.

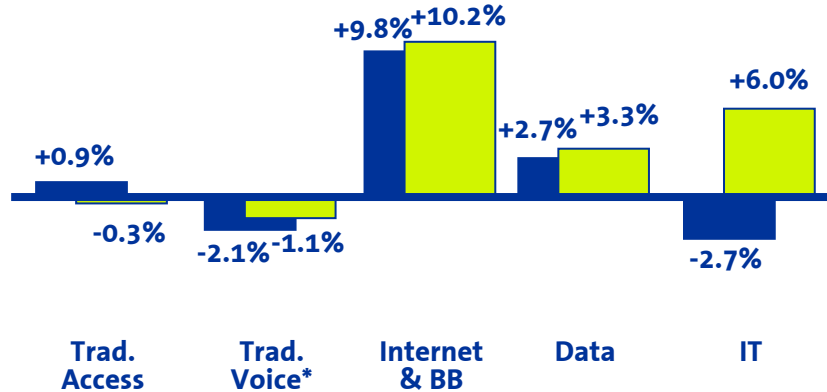
Telefónica España: Solid results ...

Revenue growth



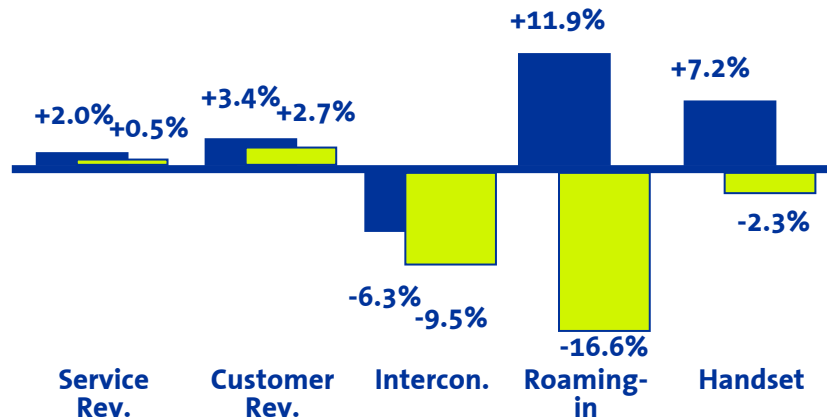
■ Q1 08 y-o-y growth
■ Q2 08 y-o-y growth
*Including PUT effect

Wireline Revenue growth



■ Q1 08 y-o-y growth
■ Q2 08 y-o-y growth
*Including PUT effect

Wireless Revenue growth



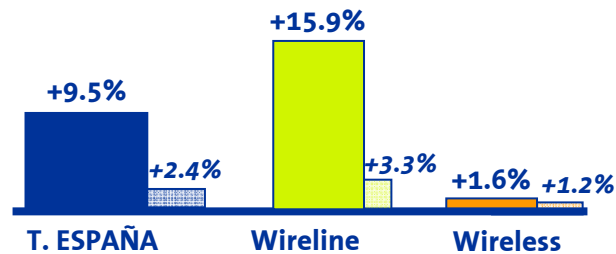
■ Q1 08 y-o-y growth
■ Q2 08 y-o-y growth

- **Improved revenue growth in wireline (+2.2%¹ vs. H1 07):**
 - Sustained growth rate in Internet & BB revenues ≈10% (Q1 08 and Q2 08)
- **+1.2% H1 08 y-o-y growth in mobile service revenue:**
 - Customer revenue up 3.0% driven by robust wireless data growth (+15.8%)
 - Lower interconnection and roaming-in revenues due to tariff reductions
- **Churn contention in mobile, BB and PayTV**
- **Capitalizing our leading position in high value segments**
- **Benefiting from integrated approach:**
 - Capturing traffic from changes in usage patterns
 - Integrated approach to Corporates
 - Integrated distribution channel to upsell products and retain customers

...leveraging our integrated management model

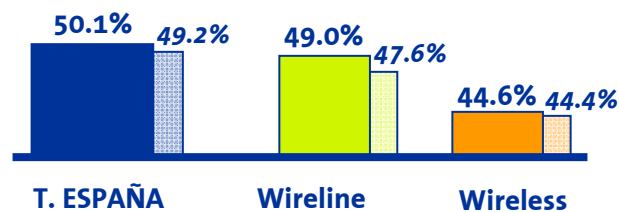
OIBDA growth (H1 08 y-o-y change)

Excluding Real Estate program, Bad Debt Recovery, EU Fine and Personnel provisions

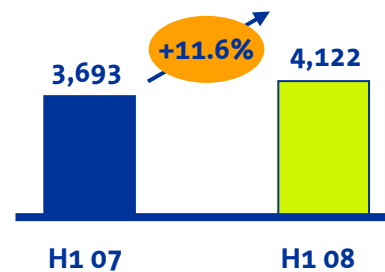


OIBDA margin (H1 08)

Excluding Real Estate program, Bad Debt Recovery, EU Fine and Personnel provisions and including PUT effect



T.España OpCF (OIBDA-CapEx; € in millions)



- OIBDA growth ahead of revenue growth both in wireline and wireless in Q2 08

- Solid margins across businesses and healthy expansion in OIBDA:

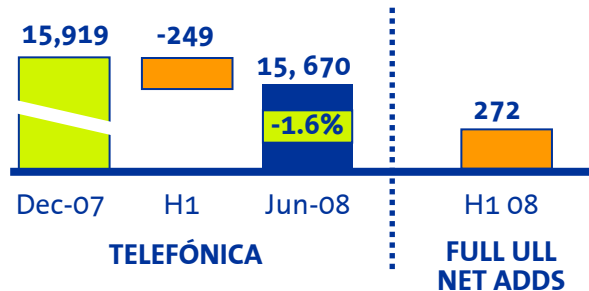
- Leveraging cost efficiency measures to expand margins by 3.7 p.p. vs. H1 07
- Sequential improvement in wireless margins: 43.7% in Q1 08 and 45.4% in Q2 08

- Capturing synergies from fixed & mobile integration

- Preserving OIBDA & OpCF

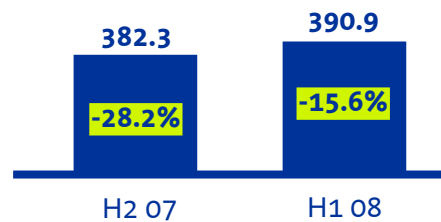
Wireline Business: Sustained commercial activity fostering 2P & 3P adoption

Fixed Telephony Lines ('000)



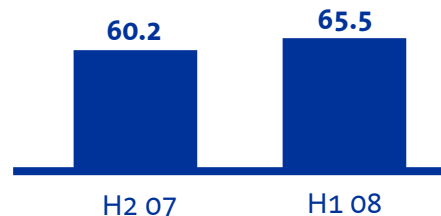
y-o-y change

Telefónica Retail BB net adds ('000)



y-o-y change

Pay TV net adds ('000)



Limited line losses in a growing market:

- +1.9%E y-o-y fixed line market growth

High quality BB offering to sustain leadership:

- +18.3% y-o-y in retail BB accesses to over 5 m
- Enhanced market share to >57% as of Jun-08
- Over 83% of retail BB accesses with 2P & 3P
- Solid BB ARPU performance: -3.4% vs. H1 07

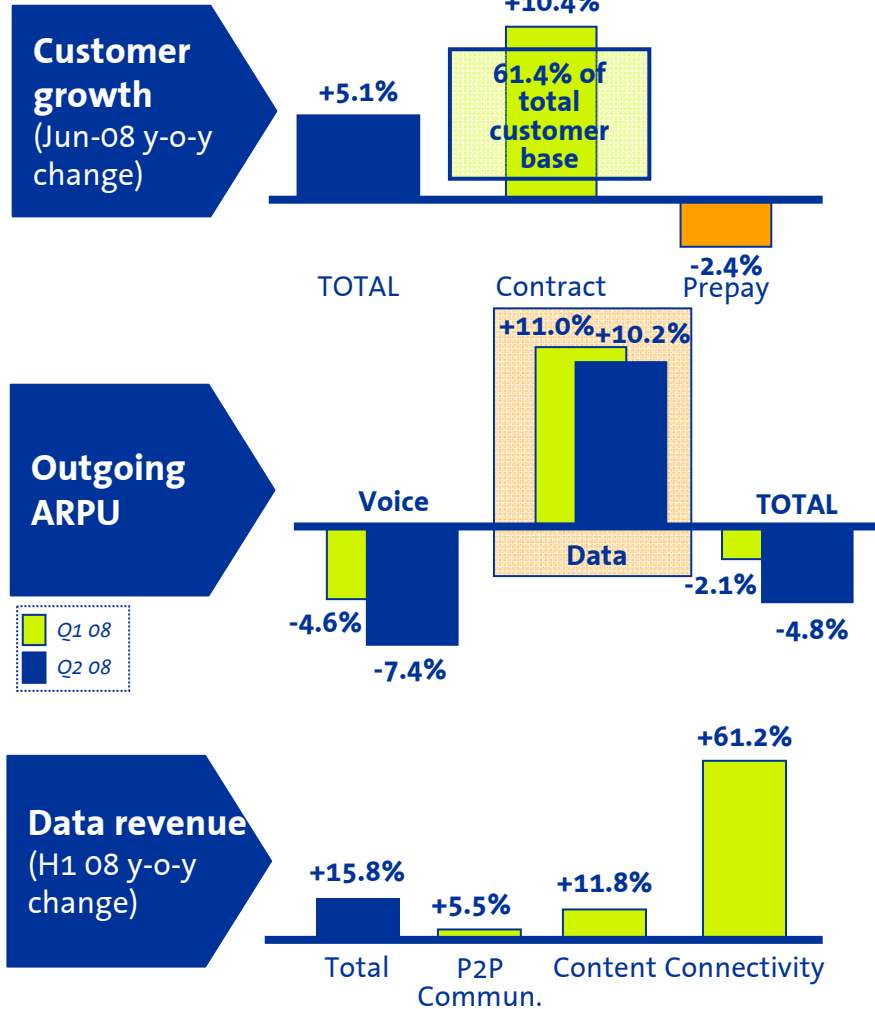
Further growth in Pay TV:

- 576,558 PayTV customers (+27.9% y-o-y)

Upselling initiatives result in increasing customer value:

- Total wireline ARPU: +3.5% y-o-y to 69.2€ in H1 08

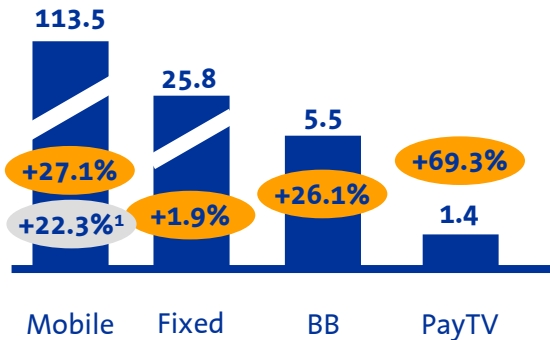
Wireless Business: Further customer growth while fostering usage



- **Sound leadership despite new entrants, leveraging market leading churn rate:**
 - 23.2 m mobile customers in a 113% penetration market
 - 311K contract net adds in Q2; 217k in total
 - Stable blended churn rate at 1.8% & contract churn at 1.1% (H1 08 and Q2 08)
- **ARPU impacted by MTR cuts, lower voice usage and promotions:**
 - MoU stabilization in Q2 08 (-0.2% vs Q2 07) due to consumption fostering initiatives (-3.0% y-o-y in H1 08)
 - 30.6€ ARPU in H1 08 (-5.1% y-o-y)
 - Incoming voice ARPU (-13.5% y-o-y in H1 08) impacted by 16.0% MTR cuts over last 12 months
 - Strong data ARPU performance
- **Mobile Data continues to gain traction:**
 - ~670K new 3G devices in Q2 08 to 4.9m (2.3x vs. H1 08)
 - Strong push in content SMS (“Superconcursos”) during H1 08

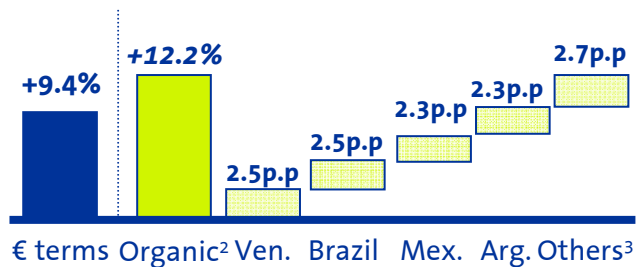
Telefónica Latinoamérica: Very robust results in a fast growth region

Jun-08 Accesses (in millions)



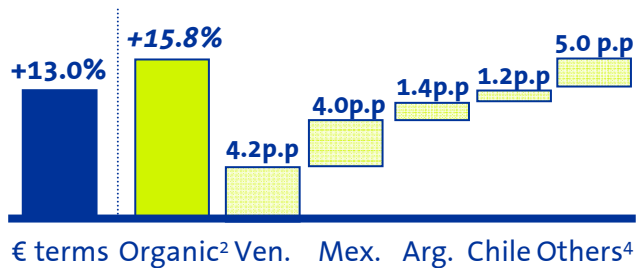
● y-o-y change

Revenue growth (H1 08 y-o-y change)



€ terms Organic² Ven. Brazil Mex. Arg. Others³

OIBDA growth (H1 08 y-o-y change)



€ terms Organic² Ven. Mex. Arg. Chile Others⁴

■ Strong customer expansion across markets and businesses:

- 147.9 m accesses, 21.4% up y-o-y (+18.0% org¹)
- Robust organic⁵ mobile net adds in Q2 08 (+16.7%⁶ vs. Q2 07)
- Increased bundle penetration, capturing the BB & Pay TV opportunity

■ Solid y-o-y organic revenue growth driven by:

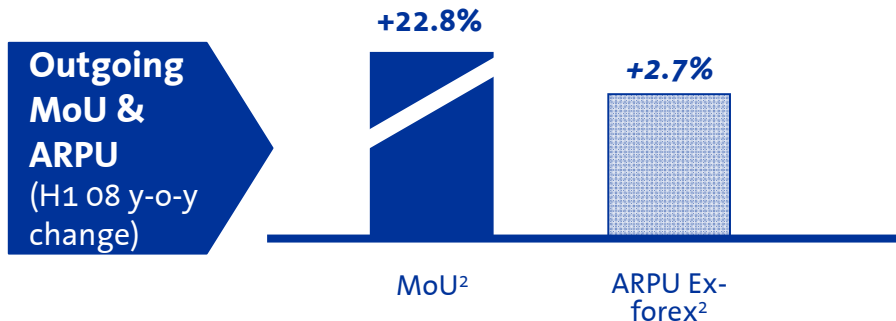
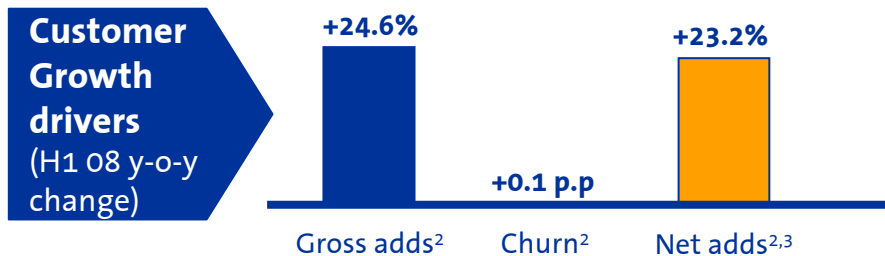
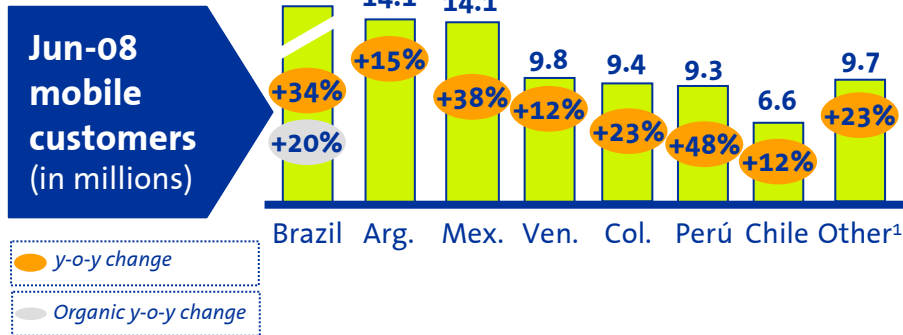
- Strong mobile outgoing service revenues
- Higher contribution of Internet & Pay TV revenue

■ Significant OIBDA growth acceleration driven by mobile and better performance of wireline:

- +4.0 p.p. ramp in organic² y-o-y growth vs. Q1 08
- Margin up +1.2 p.p. to 36.4% in H1 08 despite strong commercial activity

■ Growing OpCF: €2.3 bn in H1 08

Wireless business: Strong commercial push & increased usage



■ Double digit customer growth in most markets:

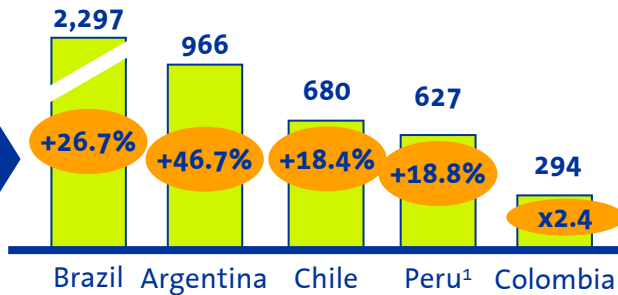
- Mobile penetration up 13 p.p. y-o-y to 75% in Jun-08
- 14.4 m gross adds in Q2 08 (+23.2%² vs. Q207) leveraging successful “Mother Campaigns”
 - + 41.2% in Brazil²; + 61.8% in Colombia
- Churn containment despite 26 m gross adds ytd
- 5.8 m net adds³ in Q2 08
- 72% of total customer base in GSM (+21 p.p. y-o-y)

■ ARPU evolution impacted by strong customer expansion & lower MTRs:

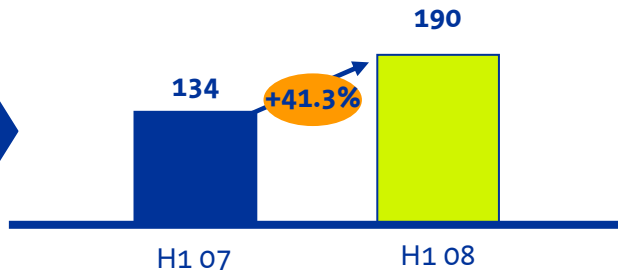
- New commercial offerings fostering usage
- -2.8% Blended ARPU² decline vs. H1 07, impacted by lower MTRs
- Positive outgoing performance
- Robust mobile data revenue growth² (+41.5% vs. H1 07), weighting 14.3% of service revenues (+2.3 p.p.² vs. H1 07)

Wireline business: Transformation to capture the BB opportunity

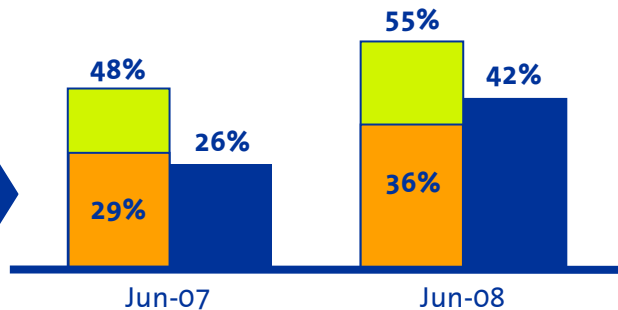
**Jun-08
Retail
BB accesses
('000)**



**Pay TV
net adds
('000)**



**Bundles
weight**



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

- **Sound BB accesses growth (+26.1% y-o-y) to 5.5 m**
 - Robust bundling offering uptake
 - Higher BB speeds (Brazil & Chile) and expanded coverage in Colombia
- **Top line y-o-y growth acceleration in Brazil and Argentina** driven by better traditional service performance and solid Internet & TV revenue growth

H1 08 (Local currency)	Internet & TV revenue/ total revenue	y-o-y change
Colombia	15.1%	+7.5 p.p.
Peru	29.8%	+6.2 p.p.
Chile	21.7%	+4.4 p.p.
Brazil	12.4%	+3.2 p.p.
Argentina	16.4%	+2.6 p.p.
T. LATAM WIRELINE	18.0%	+3.4 p.p.

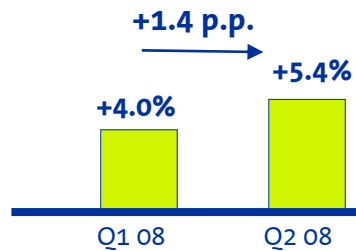
- **Total fixed line accesses up 1.9% y-o-y**
- **Fixed line revenue per access expansion: +3.5% y-o-y in H1 08 ex-forex**

Main operations review

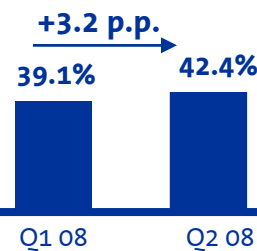
Telesp

y-o-y growth

Revenues (in local currency)



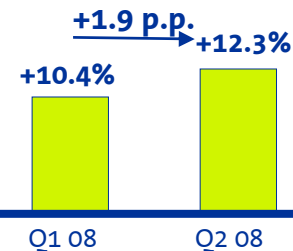
OIBDA Margin



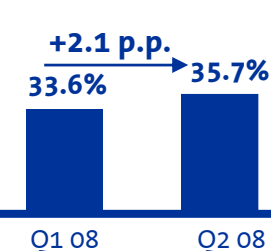
TASA

y-o-y growth

Revenues (in local currency)

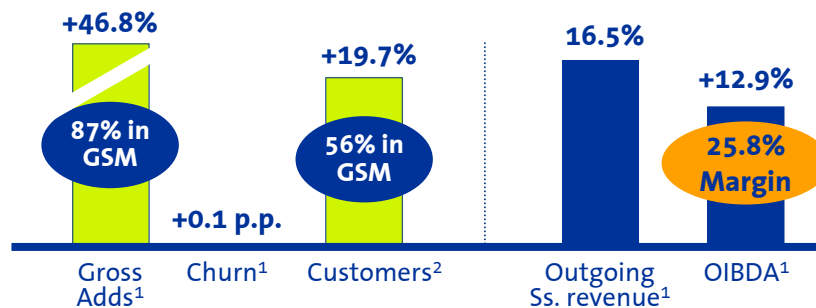


OIBDA Margin³



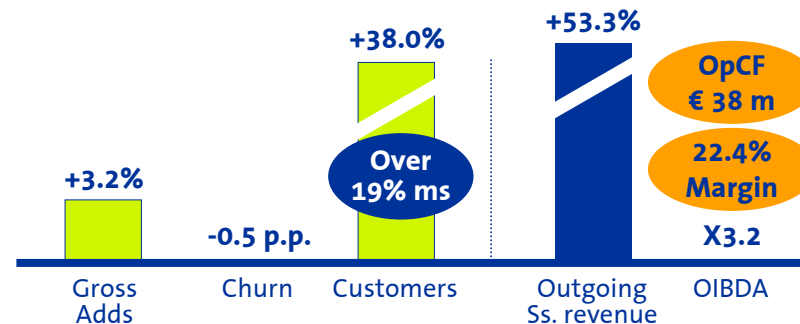
Vivo

H1 08 y-o-y growth (in local currency)



T. México

H1 08 y-o-y growth (in local currency)



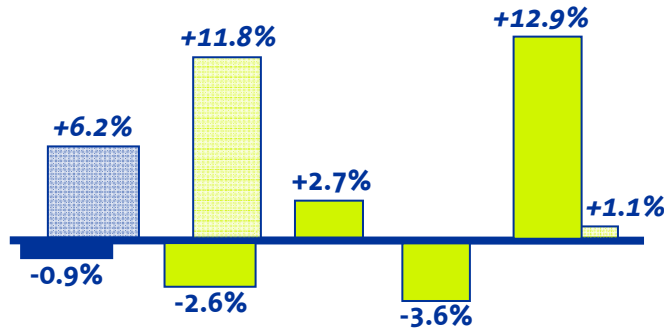
Sum-up: Strong growth profile in the region capitalizing our unique integrated approach

H1 08 y-o-y growth (in local currency)		Total revenue	BB & TV revenue	Mobile service revenue	Mobile outgoing service revenue	Total OIBDA	Mobile OIBDA
Integrated	Brazil ¹	+8.8%	+40.6%	+14.2%²	+16.5% ²	+2.0%	+12.9%²
	Argentina	+19.9%	+32.6%	+26.3%	+29.6%	+12.2%	+31.5%
	Chile	+15.2%	+33.7%	+24.8%	+26.5%	+12.6%	+32.7%
	Peru	+5.1%	+16.5%	+23.8%	+33.2%	(0.0%)	+58.2%
	Colombia	+1.5%	+101.9%	-2.3%	+16.8%	+8.1%	+59.1%
	C. America ³	+6.1%		+8.6%	+19.4%	+11.4%	
Mobile	Venezuela	+21.5%		+20.3%	+27.8%	+30.7%	
	Mexico	+34.1%		+40.5%	+53.3%	x3.2	
	Ecuador	+21.8%		+20.0%	+23.8%	+23.5%	
	Uruguay	+40.5%		+39.1%	+41.2%	+70.3%	

Telefónica Europe: Sound results, strong commercial activity

Revenue growth (H1 08 y-o-y change)

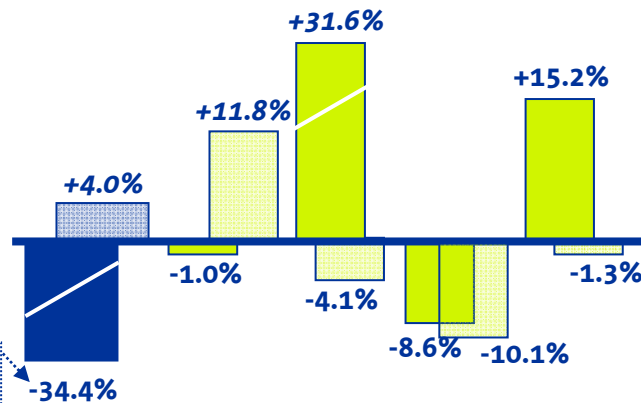
Ex-forex & Airwave
Ex-forex



OIBDA growth (H1 08 y-o-y change)

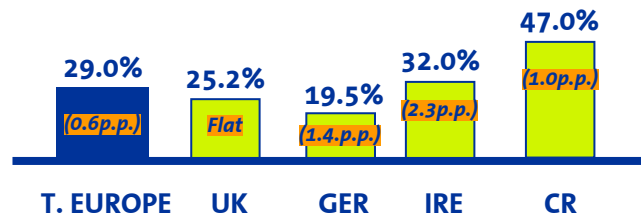
Like for Like⁽¹⁾

Impacted by Airwave capital gain



OIBDA margin (H1 08)

y-o-y change like for like⁽¹⁾



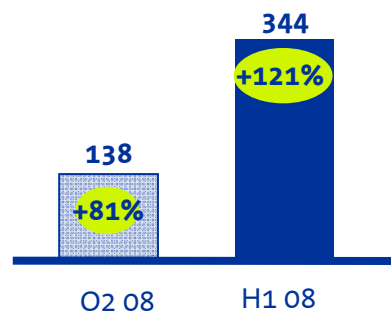
- Total customer base 43.8 m, 9.8% growth y-o-y
 - Mobile net adds in Q2 +44.0% y-o-y
 - Net adds: total +13.5% vs. H1 07; contract +51.0% vs. H1 07
 - Solid contract churn performance in key markets
 - “Simplicity” tariff being rolled out to other countries
-
- Continued healthy customer growth in the UK
 - On track with execution of our turnaround strategy in Germany
 - Managing fixed line losses and growth in mobile in the Czech Republic:
 - Slovak operations dilutes margin
 - Strong contract performance with new momentum in prepay in Ireland

(1) Excluding foreign exchange impacts and the exit of Airwave in the first quarter of 2007. Capital gain from the sale of Airwave is also excluded, as well as gains related to the real estate sale in the Czech Republic, restructuring and similar charges and the result of the application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized.

O2 UK: Continued healthy customer growth

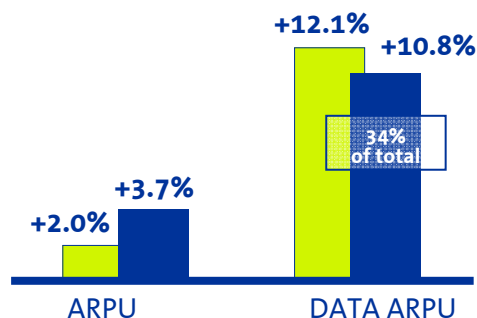
Mobile contract net adds ('000)

y-o-y change

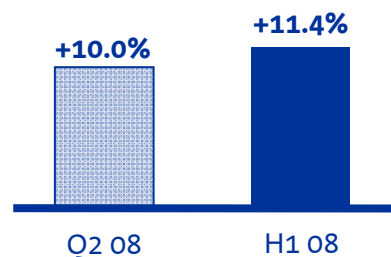


ARPU (y-o-y change in local currency)

Q2 08
H1 08



Mobile service revenue (y-o-y change in l. currency)



Contract 38.3% of mobile base (+2.5 p.p. vs. Jun-07)

- Very strong net adds on contract
- Contract churn down to 1.4% in Q2 vs. 1.8% in Q2 07: #1 in the market

Mature prepay market:

- Prepay to contract migrations (Simplicity)
- Increasing popularity of SIM only tariffs
- Deceleration in prepay top ups in the current operating environment

Retaining value:

- Continued healthy customer growth
- Q2 MoU growing 10.4% y-o-y
- Contract ARPU performance (-1.0% y-o-y in H1 08) due to customer optimization of bundles usage
- Simplicity meeting customer needs

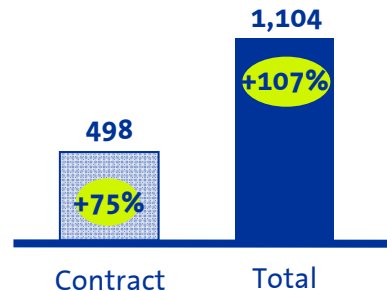
Broadband:

- Mobile dongle proposition launched
- 124k net adds in H1 08 on DSL to reach 194k customers

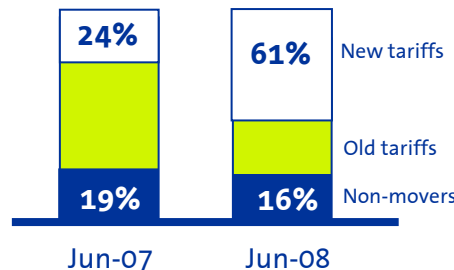
O2 Germany: on track with execution of our turnaround strategy

H1 08
mobile
net adds
(`000)

y-o-y change

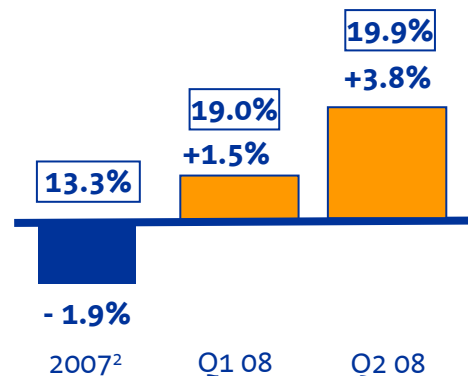


Proportion
of contract
customers on
new tariffs



Revenue
growth &
OIBDA
margin (y-o-y
change)

OIBDA Margin



■ **Wireless customer growth increased to 17.5% y-o-y reaching 13.6m, leveraging enlarged distribution & partners:**

- 0.6 m customers added in Q2 (+52.0% y-o-y)
- Partners¹ added 501k customers in H1 08

■ **Building foundations for future growth:**

- Further expansion of channels and mobile networks

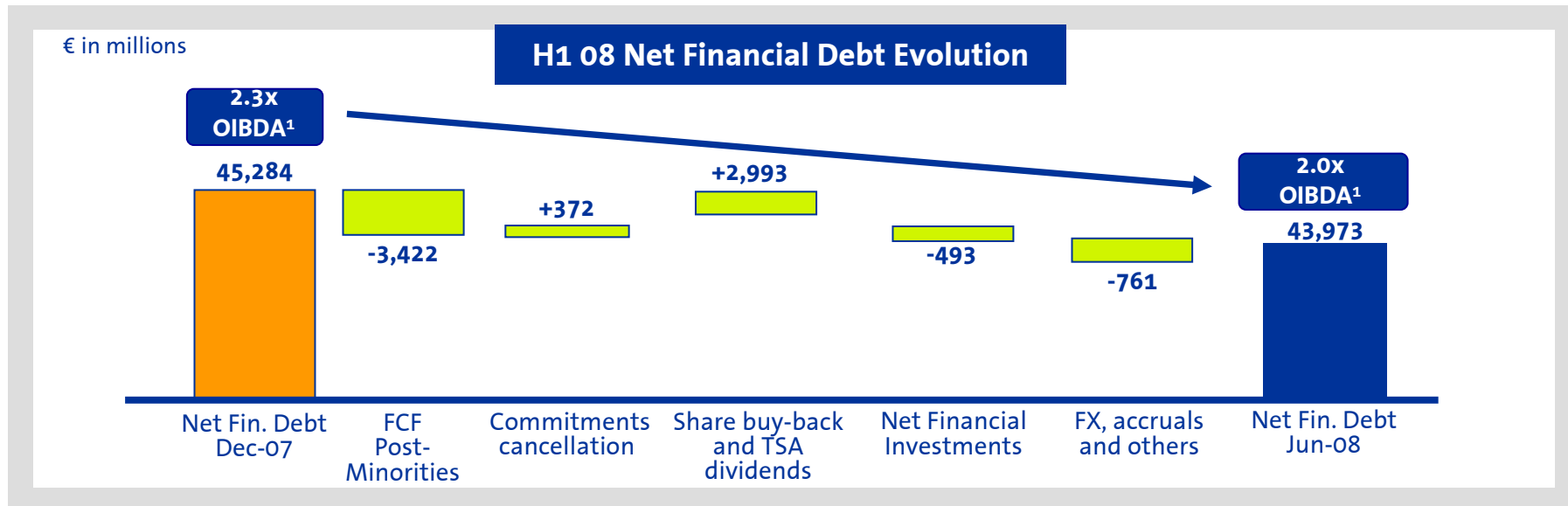
■ **Revenue growth acceleration from Q1 08:**

- Driven by growth in mobile customer base and ULL base (x3 vs. Jun-07)
- Service revenue impacted by migrations to new tariffs
- ARPU dilution from new tariffs and promotions, MTR reductions and partners

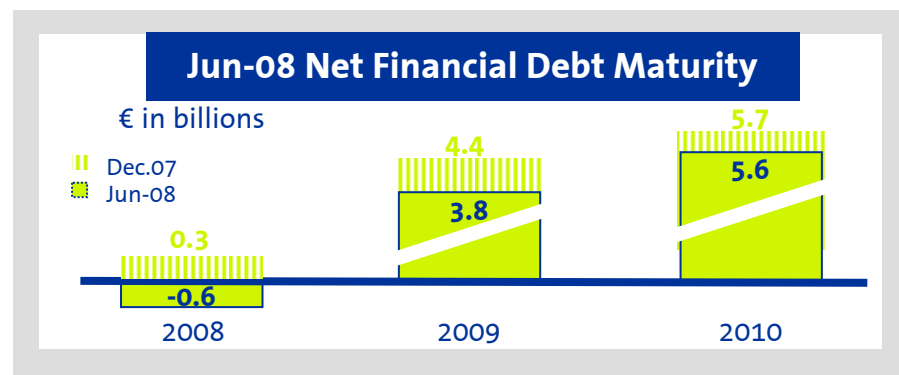
■ **Enhanced OIBDA Q2 08 vs Q1 08 (+9.6%):**

- Declined 8.2% y-o-y in Q2 08 (like for like) due to investment in growth
- Seeing benefits from restructuring in Q2 07
- Broadband scale benefits, with positive OIBDA

Improving leverage, financial cost and maturity profile



- ### Debt management
- 25bp effective interest rate reduction
 - € 285 m debt savings due to currencies depreciating vs. Euro, despite CZK appreciation



- Leverage target, including commitments, in the lower range (2.15x OIBDA)
- 5.96% effective interest rate (in line with 6% target)
- Prudent and opportunistic €1.25bn bond in May keeping avge. debt life around 6 years

(1) Calculated based on H1 08 OIBDA figure annualized excluding results on the sale of fixed assets.

Conclusions

- **Strong results, ahead of the pack**
- **Fully exploiting our differentiated profile (execution, diversification and integrated management) to post robust organic growth:**
 - Strong results in Latin America, the major growth engine
 - Sound delivery in Europe, outperforming competitors in key markets
 - Outstanding growth acceleration in organic¹ OIBDA and OI
 - Growing cash-flow generation, reinforcing our proven track record in cost and CapEx management
- **Robust financial position, with leverage ratio in line with Company target**
- **On track to fulfill 2008 guidance**
- **Prioritising shareholders returns:**
 - Accelerated execution of 2008 share buyback program (68% as of July, 17th 2008)

Telefonica
