

Quarterly Results

January – March 2008

TELEFONICA S.A.
May 14th, 2008



TELEFONICA S.A.
Investor Relations

Telefonica

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Q1 08 Results Highlights

- **Solid performance across regions, on track to deliver 2008 guidance**
- **Continued fast customer growth**, driven by mobile, broadband and TV
- **Strong growth rates, crystallizing value from our diversification and integrated management model:**
 - 17th consecutive quarter with **organic revenue growth higher than 7%**
 - 15th sequential quarter with **simultaneous growth in revenues, OIBDA, OI, net income and EPS**
 - Growth ramp **from top to bottom line**
 - **EPS growth above 25%**
- **Sound balance sheet**, financial flexibility
- **Robust OpCF**, with positive contribution from all countries
- **Returning value to shareholders**, accelerated execution of share buyback program

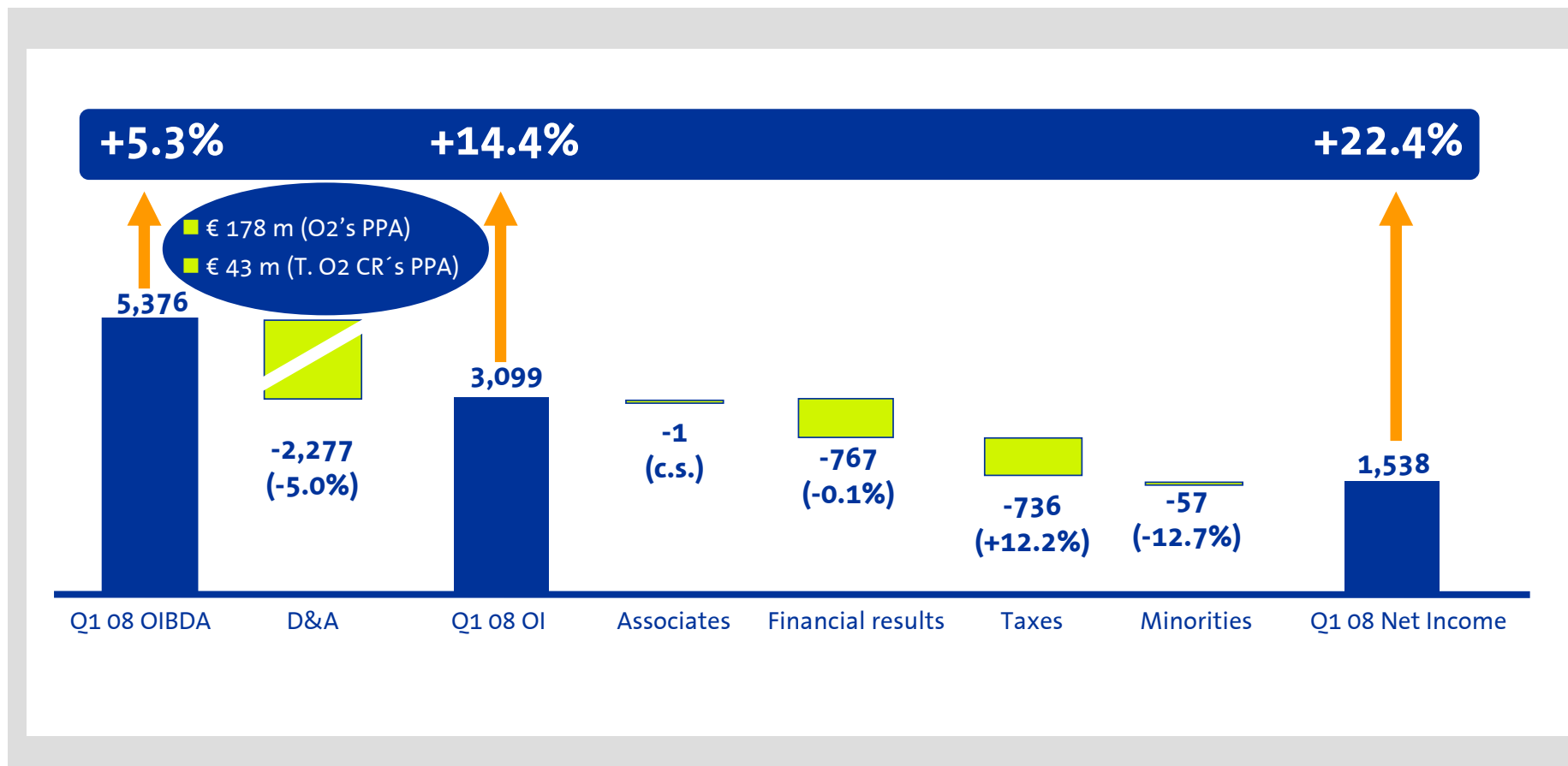
Robust growth profile from top to bottom

€ in millions	Jan-Mar 2008	Change Q1 08/Q1 07	Change ex-forex ⁽¹⁾ Q1 08/Q1 07	Change organic ⁽²⁾ Q1 08/Q1 07
Revenues	13,896	+1.1%	+3.4%	+7.0%
Operating Income before D&A (OIBDA)	5,376	+5.3%	+6.6%	+8.2%
OIBDA Margin	38.7%	+1.5p.p.		+0.4p.p.
Operating Income (OI)	3,099	+14.4%	+15.6%	+17.2%
Net income	1,538	+22.4%		
OpCF (OIBDA-CapEx)	4,057	+9.1%	+10.3%	+11.9%

NEGATIVE IMPACTS FROM CHANGES IN CONSOLIDATION AND FX

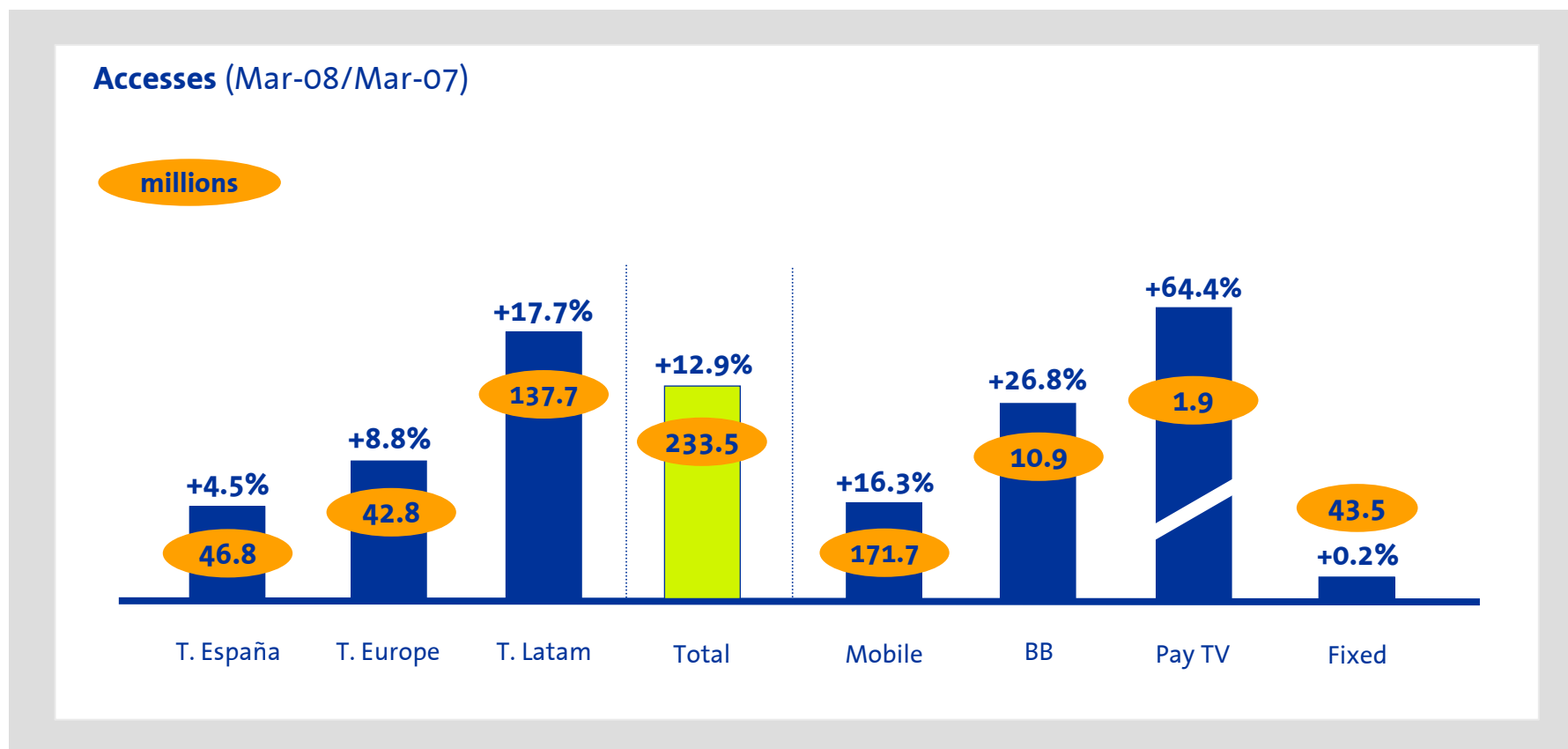
Net income up by more than 20%

€ in millions
(% change y-o-y)



25.8% ANNUAL GROWTH IN EPS TO 0.328 € IN Q1 08

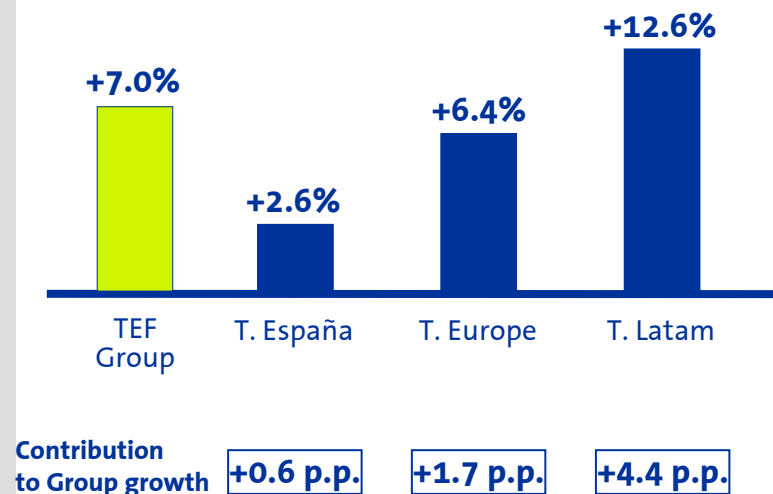
Fast customer growth, capturing bundling potential



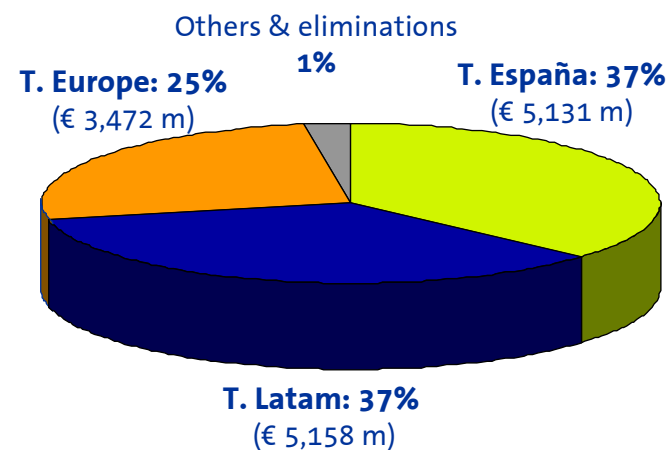
- 4.7 m net adds in Q1 08: +41.8% y-o-y
- 36% of total accesses with bundles: +7 p.p. vs. Mar-07

Distinctive top line performance

Q1 08 Revenue growth by regions
(Organic¹ y-o-y growth)



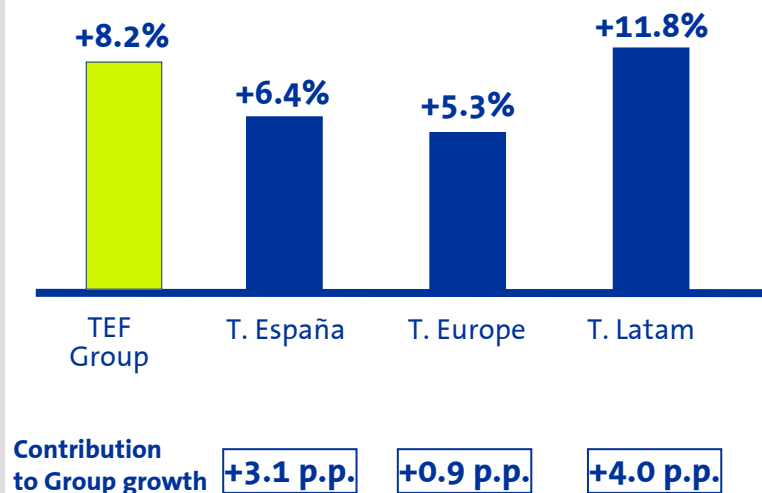
Q1 08 Revenue breakdown



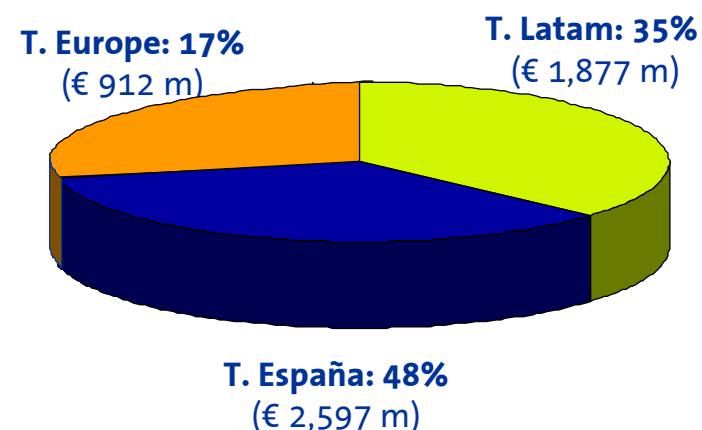
- **Strong growth in Broadband revenues:**
 - Mobile Broadband: +27.0% y-o-y organic growth
 - Fixed Broadband & VAS: +13.6% y-o-y organic growth

Retaining benchmark profitability

Q1 08 OIBDA growth by regions
(Organic¹ y-o-y growth)



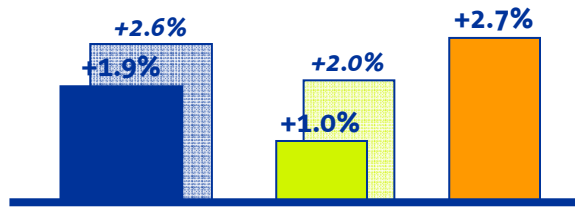
Q1 08 OIBDA breakdown



- **Enhanced profitability: 38.7% OIBDA margin (+1.5 p.p.)**
 - T. España: 50.6% (+2.1 p.p. vs. Q1 07)
 - T. Latam: 36.4% flat vs. Q1 07
 - T. Europe: 26.3% flat vs. Q1 07

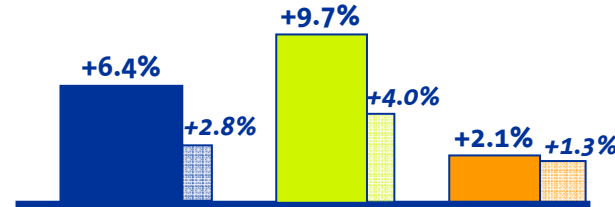
Telefónica España: Solid performance in Q1

Revenue growth (Q1 08 y-o-y change)



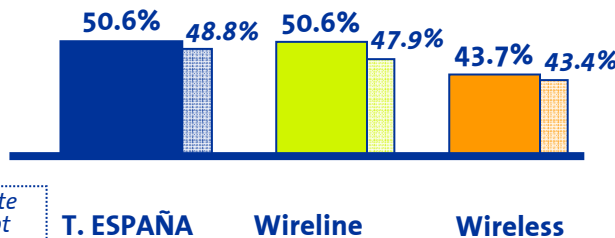
Including PUT effect

OIBDA growth (Q1 08 y-o-y change)



Excluding Real Estate Program and Bad debt recovery

OIBDA margin (Q1 08)



Excluding Real Estate program & Bad debt recovery and including PUT effect

T. ESPAÑA Wireline Wireless

Sustained revenue growth in wireline:

- +9.8% growth in Internet & BB revenues
- Healthy trends in access and traditional voice services

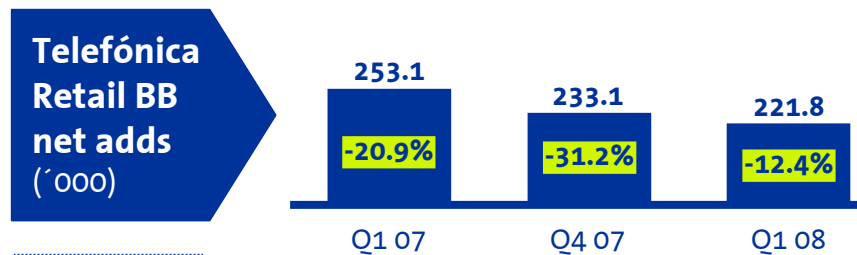
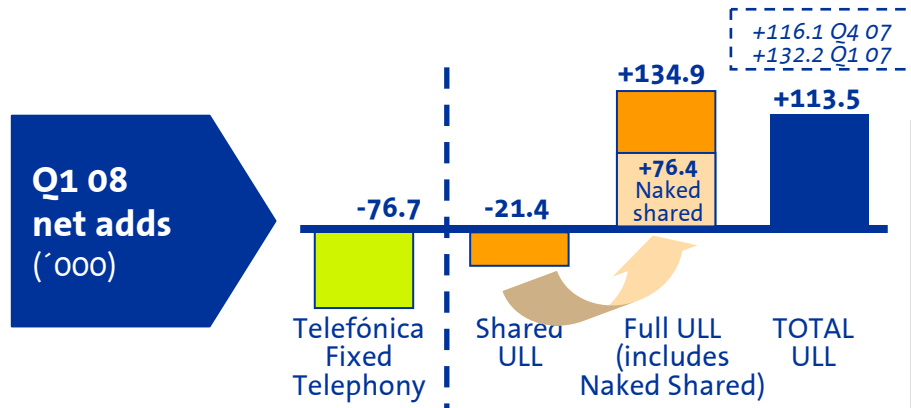
2% y-o-y growth in mobile service revenue:

- +3.4% advance in customer revenue driven by robust wireless data growth (+16.7%)
- Lower interconnection revenues partially offset by good growth in roaming-in revenues

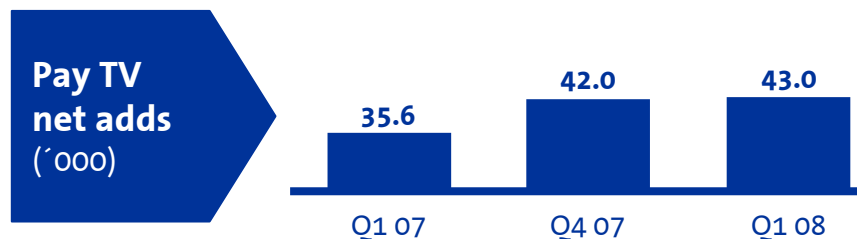
Continuous focus on efficiency gains sustains outstanding profitability:

- Strong underlying growth
- Reaping the benefits of workforce reorganization measures
- +0.9 p.p like for like advance in wireline OIBDA margin
- Flattish margins in wireless vs. Q1 07

Wireline Business: Expanding access base by upselling and getting new customers

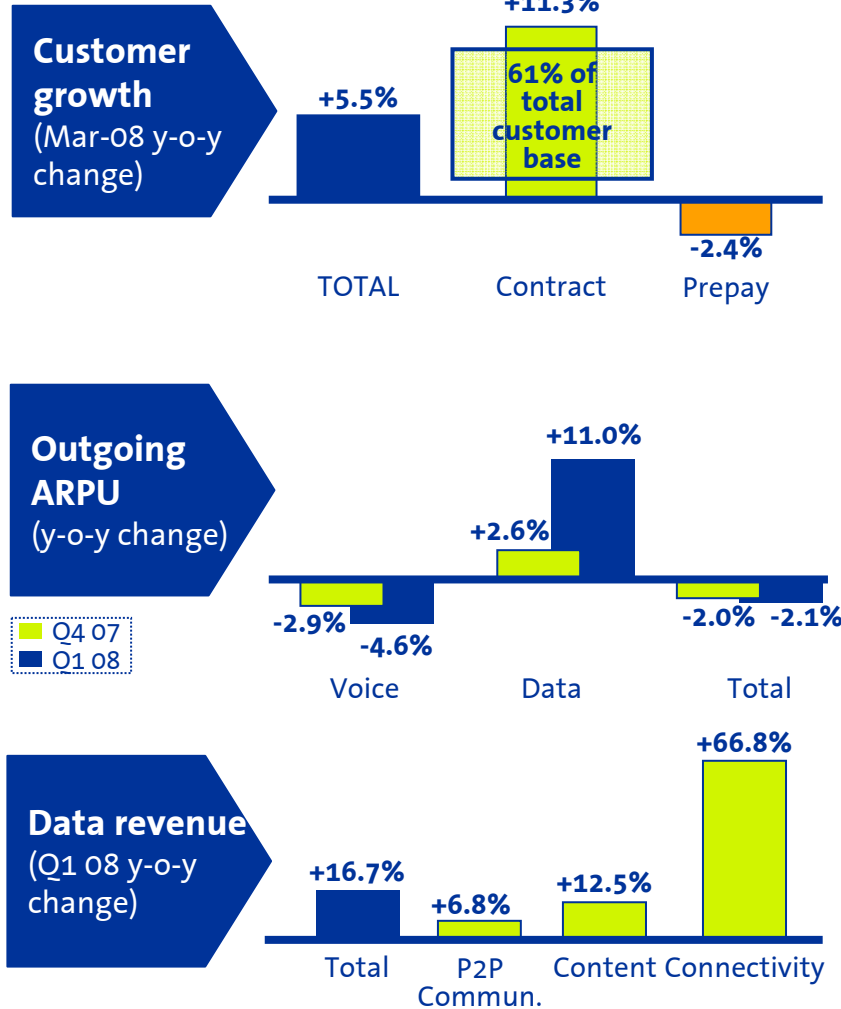


■ y-o-y change



- **Sustain expansion of fixed line market:**
 - +1.9% E y-o-y
 - Accelerated uptake of naked shared loops (included as Full ULL)
- **Strengthened competitive position, capitalizing on a high quality BB offer:**
 - +20.2% y-o-y growth in retail BB accesses to 4.8 m
 - Stable 57% BB market share at the end of March 08
 - 82% of retail BB accesses with 2P & 3P
- **Steady growth in Pay TV:**
 - 554,045 Imagenio customers (+32.4% y-o-y growth)
- **Increased value from our customers:**
 - Total wireline ARPU +2.4% up to 68.2€

Wireless Business: Steady customer growth and continued push in data usage

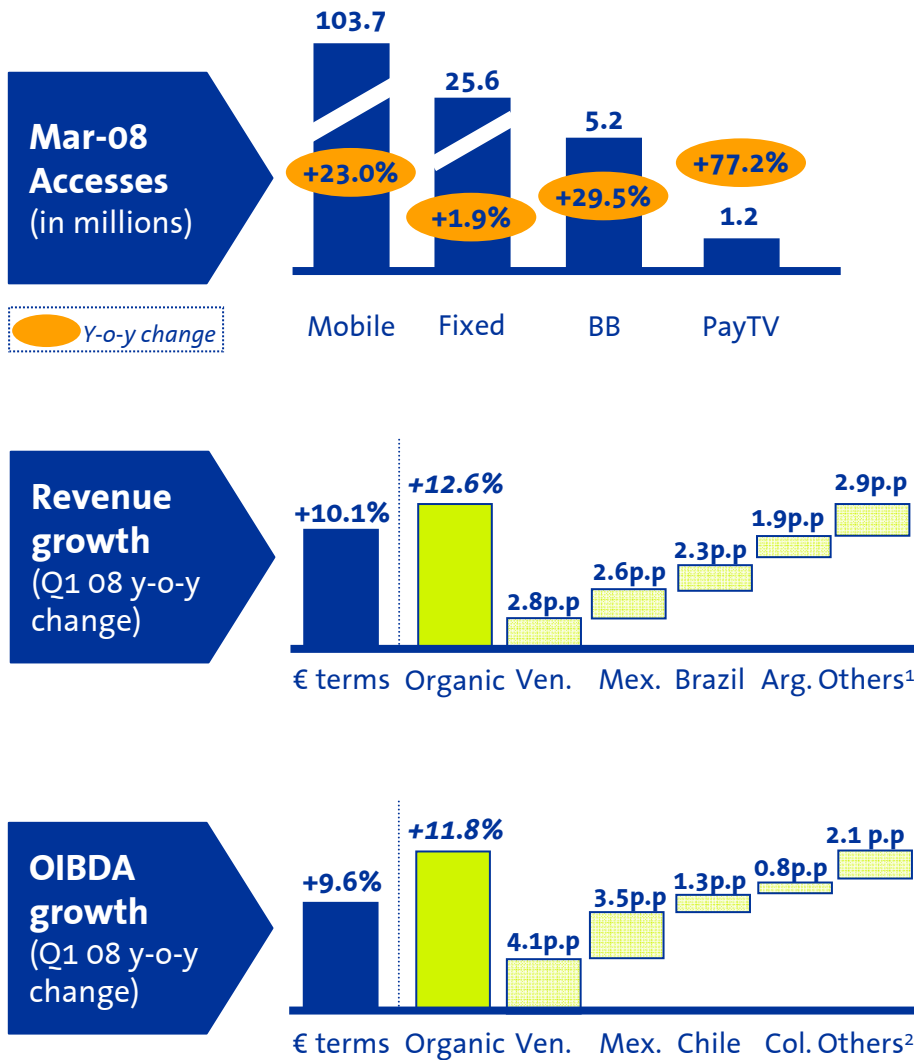


- **Sound leadership despite new entrants, leveraging market leading churn rate:**
 - 23.0 m accesses in a 112% penetration market
 - 305.2K contract net adds in Q1; 181.8K in total
 - Stable blended churn rate at 1.8%; further reductions in contract churn to 1.1%

- **ARPU & MoU performance in line with Q4 07:**
 - 30.5€ ARPU in Q1 08 (-3.7% y-o-y vs. -3.6% in Q4 07)
 - Incoming ARPU impacted by MTR cuts
 - Lower outgoing MoU:
 - Less traffic promotions in Q1 08 vs. Q1 07
 - Lower usage

- **Continued strong growth in data services, both in Residential and Corporate customers:**
 - ~700K new 3G devices in Q1 08 to 4.2M (2.8x vs. Mar-07)
 - ~550K flat & daily rates
 - Strong push in content SMS (“Superconcurso”)

Telefónica Latinoamérica: Solid results in a high growth region

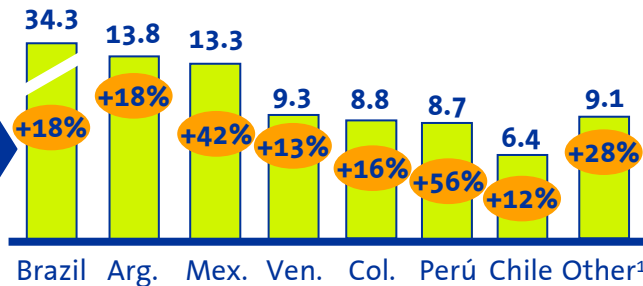


- **Accelerated customer expansion led by mobile businesses & fixed-line transformation:**
 - 137.7 m accesses, 17.7% up y-o-y
 - Robust mobile net adds
 - Fostering bundles to capture the BB & Pay TV potential
 - Leveraging a sound macroeconomic scenario: Brazil & Peru upgraded to Investment Grade
- **Solid top-line performance:**
 - Wireline broadband & mobile drive the growth
- **OIBDA growth driven by mobile services:**
 - Healthy margin (36.4%) despite a strong commercial push
- **Positive OpCF generation in all markets, Mexico included**

(1) Includes Central América, Colombia, Perú, Ecuador, Chile, Uruguay and Others
 (2) Includes Central América, Perú, Ecuador, Brazil, Argentina, Uruguay and Others

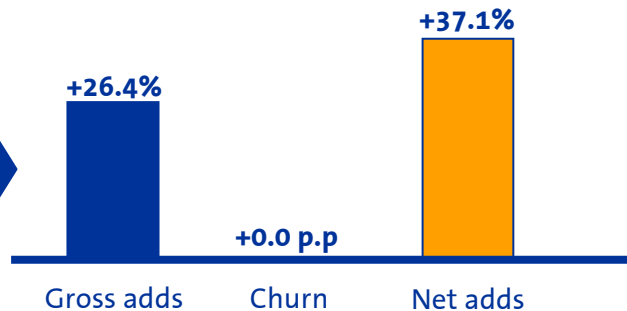
Wireless Business: Fast customer growth & sound outgoing ARPU

Mar-08 mobile customers (in millions)

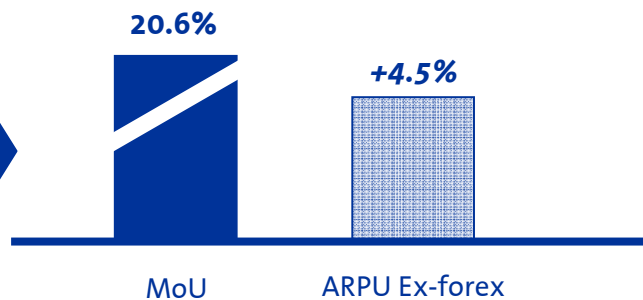


y-o-y change

Customer Growth drivers (Q1 08 y-o-y change)



Outgoing MoU & ARPU (Q1 08 y-o-y change)



Solid gross adds in most markets:

- Strong uptake in Brazil, leveraging GSM push
- Flat churn rate (2.7%) despite the high commercial activity in Q4 07
- 3.1M net adds without strong commercial campaigns

Double digit customer growth in most markets:

- 69% of total customer base in GSM (+25.7 p.p. y-o-y)
- 71% average mobile penetration (+12 p.p. y-o-y)

Healthy ARPU performance despite lower MTR:

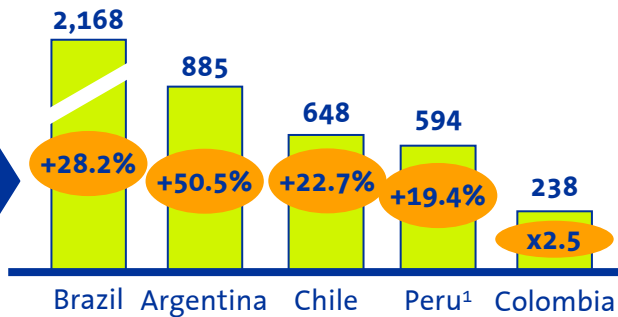
- New commercial offerings fostering usage
- Flat blended ARPU, positive outgoing performance
- Increased traction of mobile data services (+39.9% vs. Q1 07), weighing only 13% of service revenues

Progressive 3G launch:

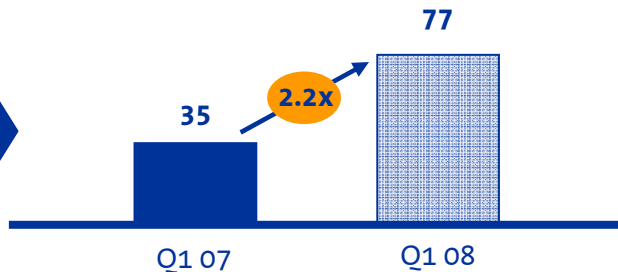
- CDMA/EVDO 3G services in Brazil & Venezuela
- 3G already launched in Argentina, Chile & Uruguay

Wireline business: Further advance in business transformation

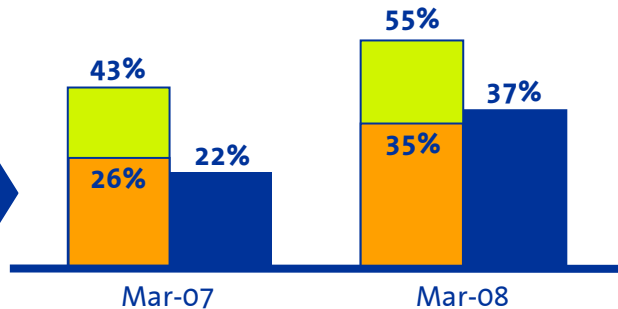
Mar-08 Retail BB accesses ('000)



Pay TV net adds ('000)



Bundles weight



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

- Outstanding BB accesses growth (+29.5% y-o-y) to reach 5.2 M
 - Push in bundling offering
- Higher speeds in ADSL portfolio (Telesp, Chile)
- Expanded broadband coverage in Colombia with positive impact in gross adds (Mar-08: +53% vs. Feb-08)
- TV offering in Brazil starting to take off leveraging enhanced products (Globo content):
 - 51.4K net adds in Q1 08

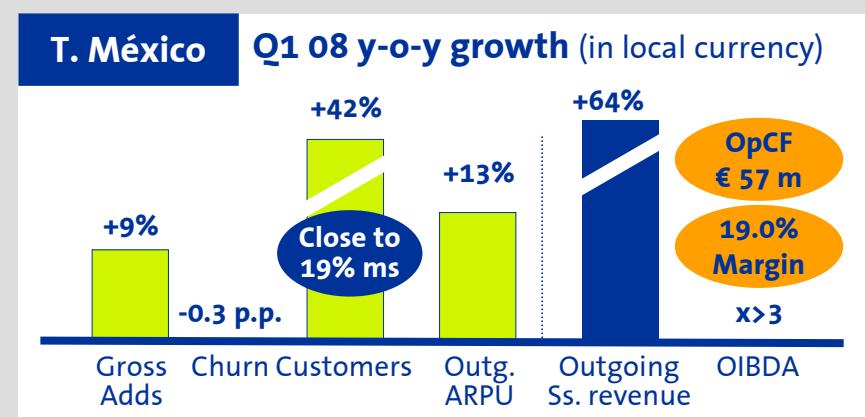
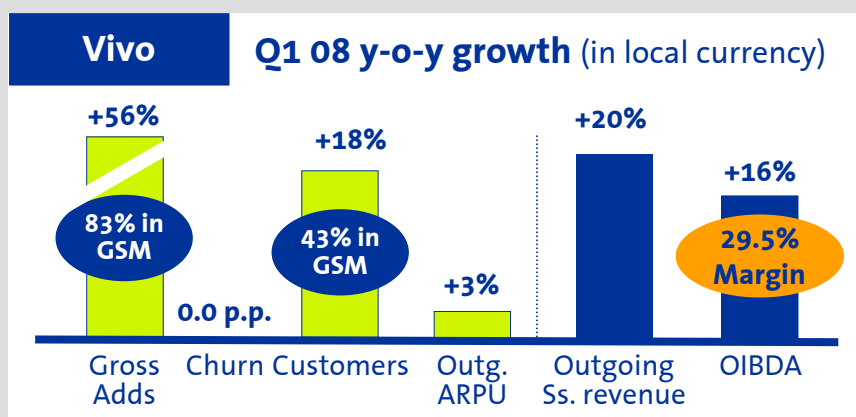
Q1 08	Internet & TV revenue/ total revenue	y-o-y change
Colombia	13.8%	+7.4 p.p.
Perú	29.4%	+6.6 p.p.
Chile	21.3%	+4.8 p.p.
Brazil	11.7%	+2.5 p.p.
Argentina	15.5%	+2.1 p.p.

- Total fixed line accesses up 1.9% y-o-y
- Fixed line revenue per access expansion: +1.9% y-o-y ex-forex

Sum-up: Capturing growth opportunities in our markets

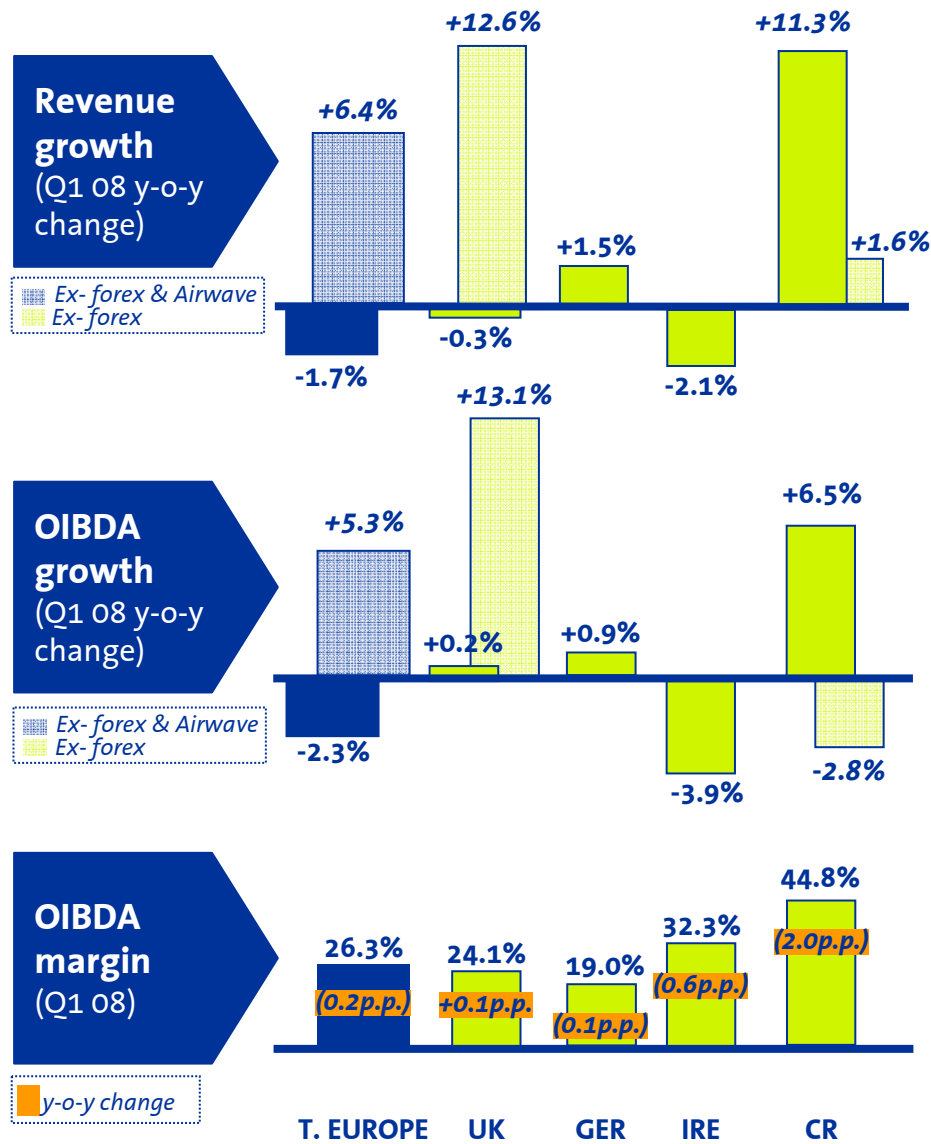
Q1 08 y-o-y growth (in local currency)		Total revenue	BB & TV revenue	Mobile service revenue	Mobile outgoing service revenue	Total OIBDA	Mobile OIBDA
Integrated	Brazil ¹	+6.7%	+32.8%	+16.6%	+20.2%	(3.6%) +0.4%	+16.3%
	Argentina	+16.1%	+32.7%	+21.8%	+24.9%	(1.3%)	+15.3%
	Chile	+16.8%	+37.2%	+29.0%	+28.8%	+13.3%	+36.9%
	Perú	+5.2%	+19.7%	+32.1%	+48.4%	(7.2%)	+28.6%
	Colombia	+2.8%	+119.8%	+1.2%	+22.5%	+13.2%	+88.5%
	C. América ²	+8.2%		+11.6%	+25.2%	+19.2%	
Mobile	Venezuela	+25.6%		+20.3%	+28.6%	+29.4%	
	México	+38.9%		+47.9%	+64.5%	x>3	
	Ecuador	+18.3%		+16.1%	+25.0%	+14.0%	
	Uruguay	+35.7%		+36.2%	+40.9%	+73.3%	

Ex-one-offs



(1) Includes 50% of Vivo
(2) Guatemala, El Salvador, Panama and Nicaragua

Telefónica Europe: Building scale across markets



Good customer growth to 42.8 m (+8.8% y-o-y)

- Focus on quality growth: 89% of 564K mobile net adds in contract (2x Q1 07)
- 130K retail BB net adds (2.4x Q1 07) to reach > 800k customers (+58.4% y-o-y)
- “Simplicity” and value tariffs increasingly attractive

Maintaining momentum, managing growth/margin balance in the UK

First signs of turnaround in Germany

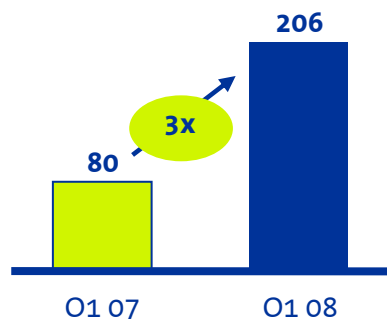
Managing fixed line loss and robust growth in mobile in the Czech Republic:

- Margin dilution mainly due to Slovakian operations

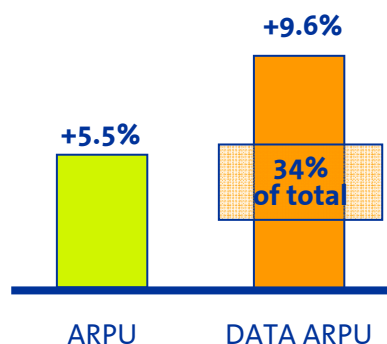
Strong contract performance while regaining momentum with prepay customer growth in Ireland

O2 UK: Continued momentum, managing growth/margin

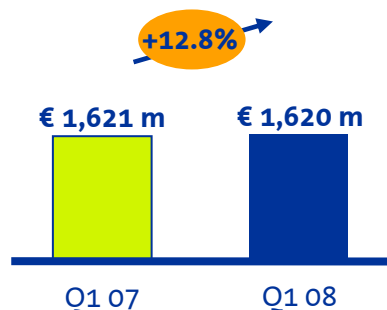
Mobile contract net adds
(`000)



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



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



■ Focus on contract: 38.1% weight (+2.6 p.p.)

- Robust contract net adds
- Contract churn down to 1.5% from 2.0%

■ Mature prepay market:

- Prepay to contract migrations (Simplicity)
- Retaining value: ARPU up 7.5% y-o-y in local currency

■ Gaining momentum in BB:

- 61k net adds in Q1 to reach 131k customers
- Best quality perception in the UK
- New mobile broadband offer launched

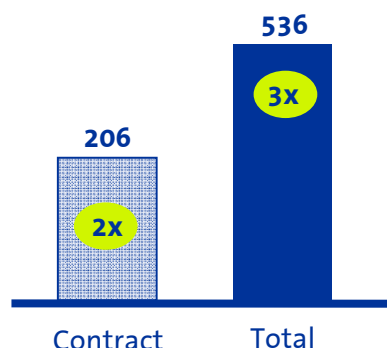
■ Growth / margin balance

- Sustained ARPU: +3.5% in voice; +50% in non-SMS data
- Margin flat y-o-y on the back of retention and acquisition spend early in year

O2 Germany: First signs of turnaround

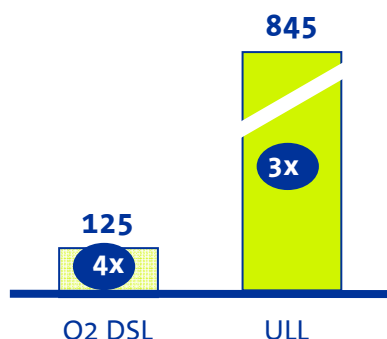
Q1 08
mobile
net adds
(`000)

y-o-y change



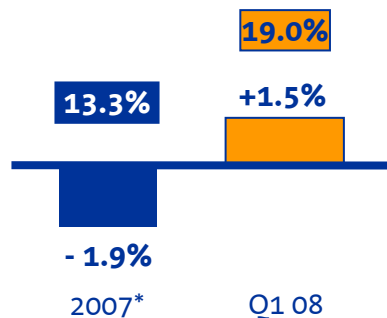
Mar-08
ULL lines
(`000)

y-o-y change



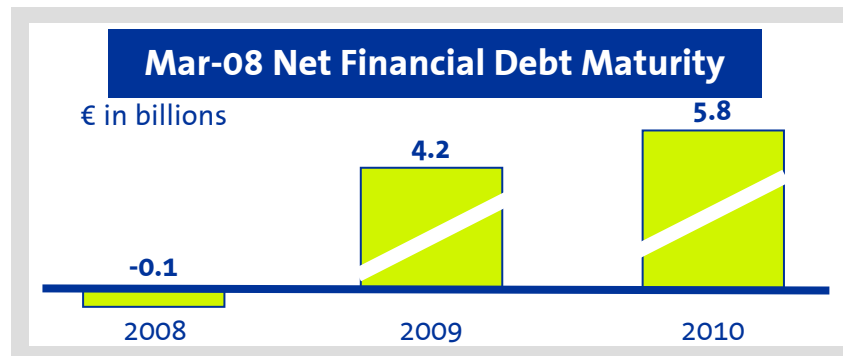
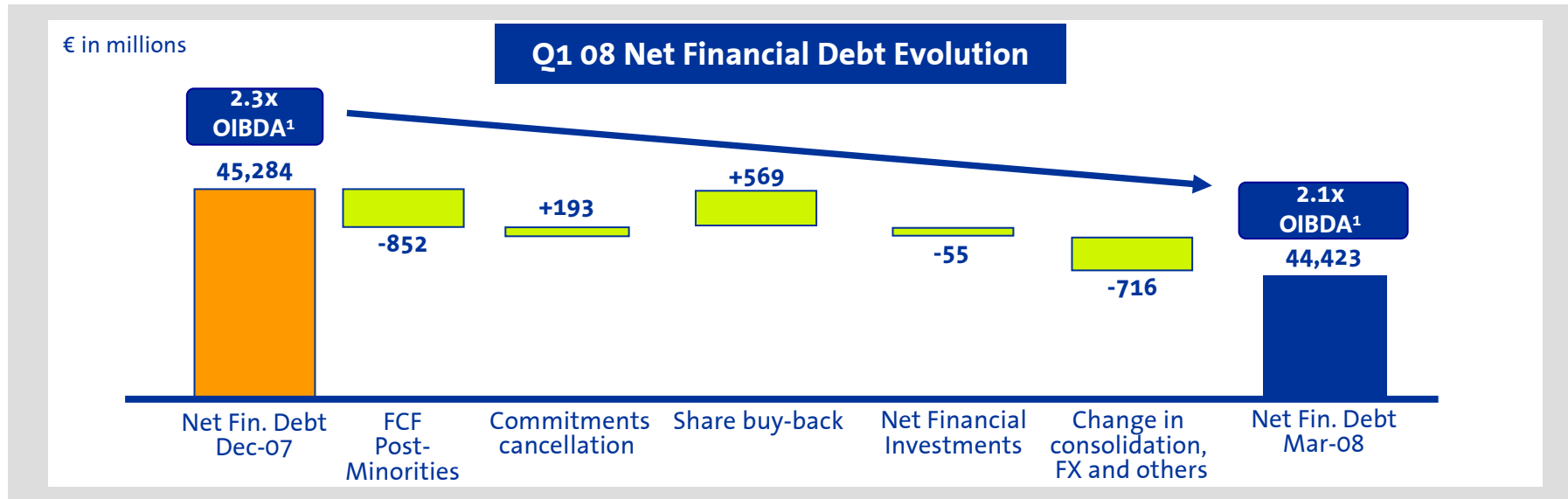
Revenue
growth &
OIBDA
margin (y-o-y
change)

OIBDA Margin



- **Wireless customer growth increased to 16.3% y-o-y, leveraging enlarged distribution & partners:**
 - 13.0 m mobile customers
 - DM for Fonic; new Debitel contract; Tchibo, Hansenet
- **Segmented positioning:**
 - Best Value for Money in the mobile market
 - Integrated fixed and mobile offers
- **Building foundations for future growth:**
 - Further expansion of channels and mobile networks
- **Partnership renewal with main ISPs in the BB market**
- **Encouraging trend on service revenue and positive total revenue growth in Q1:**
 - Driven by mobile customer base, ARPU and ULL base
 - Non-SMS data revenues up 27% y-o-y
- **OIBDA growth:**
 - Savings from restructuring
 - Broadband scale benefits

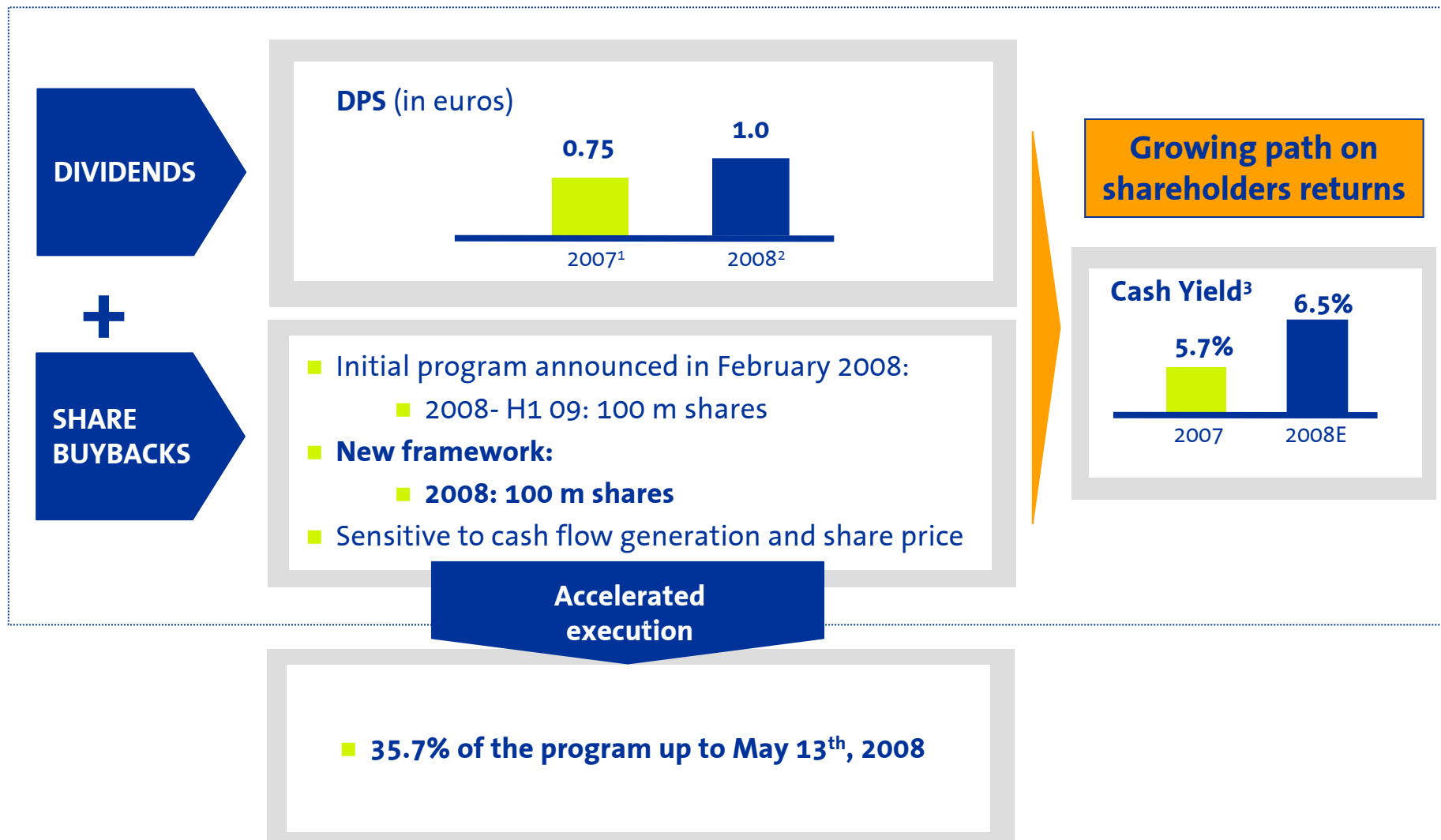
De-leverage continuing with a comfortable liquidity position



- ### Debt management
- 6.21% effective interest rate
 - € 395 m debt savings due to currencies depreciating versus the Euro
 - € 2.8 bn floating rate debt hedged with swaps and cap spreads

- Outlook upgrade to BBB+ positive by Fitch (Feb-08) supported by ongoing deleverage
- Negative net debt maturities for remaining 2008 and average debt life above 6 years
- 6% target for effective interest rate in the year

Returning value to shareholders



Conclusions

- **Solid performance across the P&L, on track to meet 2008 guidance**
- **Leveraging our diversification to consistently deliver sound organic growth:**
 - High single digit both in revenues and OIBDA
 - Double digit in OI
- **Double digit growth in EPS**
- **Continue focus on extract value through the transformation of our operating model to derive further efficiencies and sustain margins**
- **Continuing to monitor the economic slowdown in Europe**
- **Robust financial position, with leverage ratio in line with Company target**
- **Strong OpCF generation**
- **Returning value to shareholders, accelerated execution of share buyback program**

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