

# Quarterly Results

## January – June 2007

**TELEFONICA S.A.**

July 30th, 2007



This presentation is being broadcast live on the Internet

# Disclaimer





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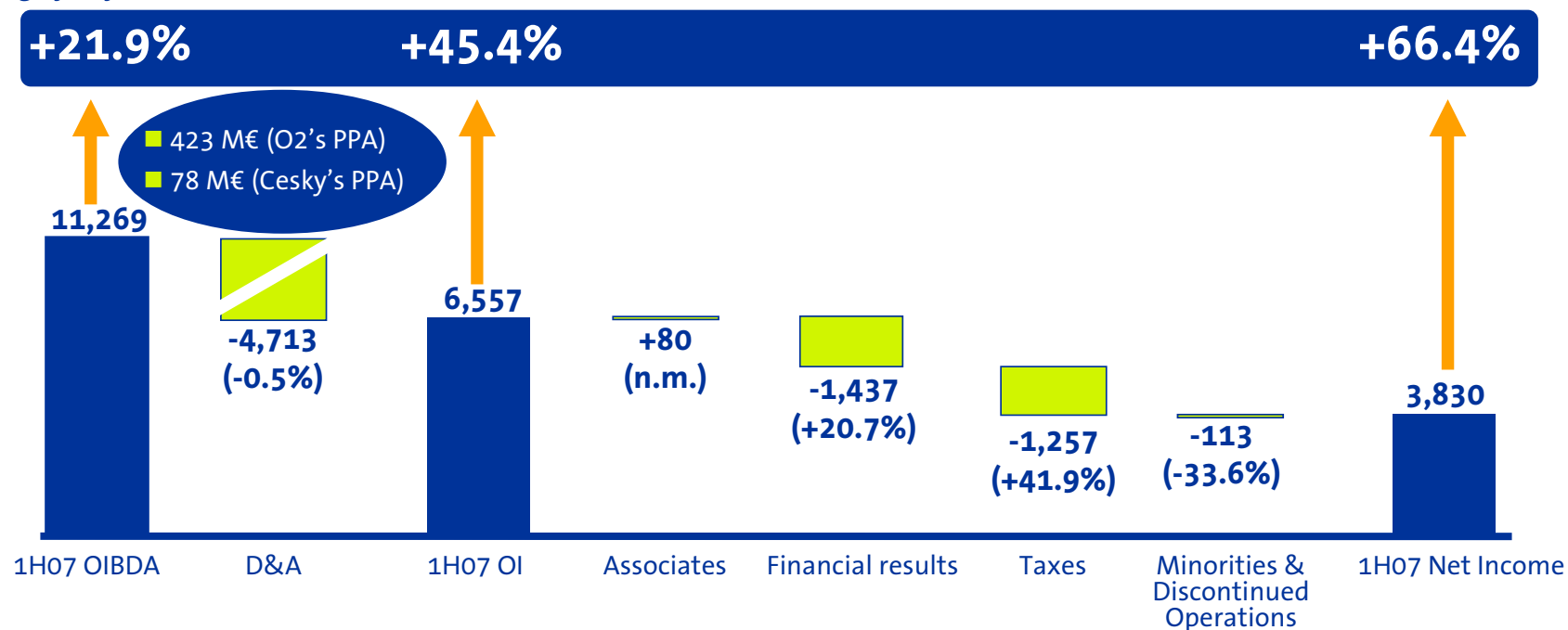
# 1H07 results: growth and returns well ahead of the pack...

€ in millions (% change y-o-y)	Jan-Jun 2007	Jan-Jun 2006	% Change 1H07/1H06		% Change 1H07/1H06 organic <sup>1</sup>
<b>Revenues</b>	27,826	25,163	<b>+10.6%</b>		<b>+7.4%</b>
<b>Operating Income before D&amp;A (OIBDA)</b>	11,269	9,242	<b>+21.9%</b>		<b>+7.1%</b>
<b>Operating Income (OI)</b>	6,557	4,508	<b>+45.4%</b>		<b>+21.8%</b>
<b>Net Income</b>	3,830	2,302	<b>+66.4%</b>		
<b>OpCF (OIBDA-CapEx)</b>	8,062	6,220	<b>+29.6%</b>		<b>+10.9%</b>

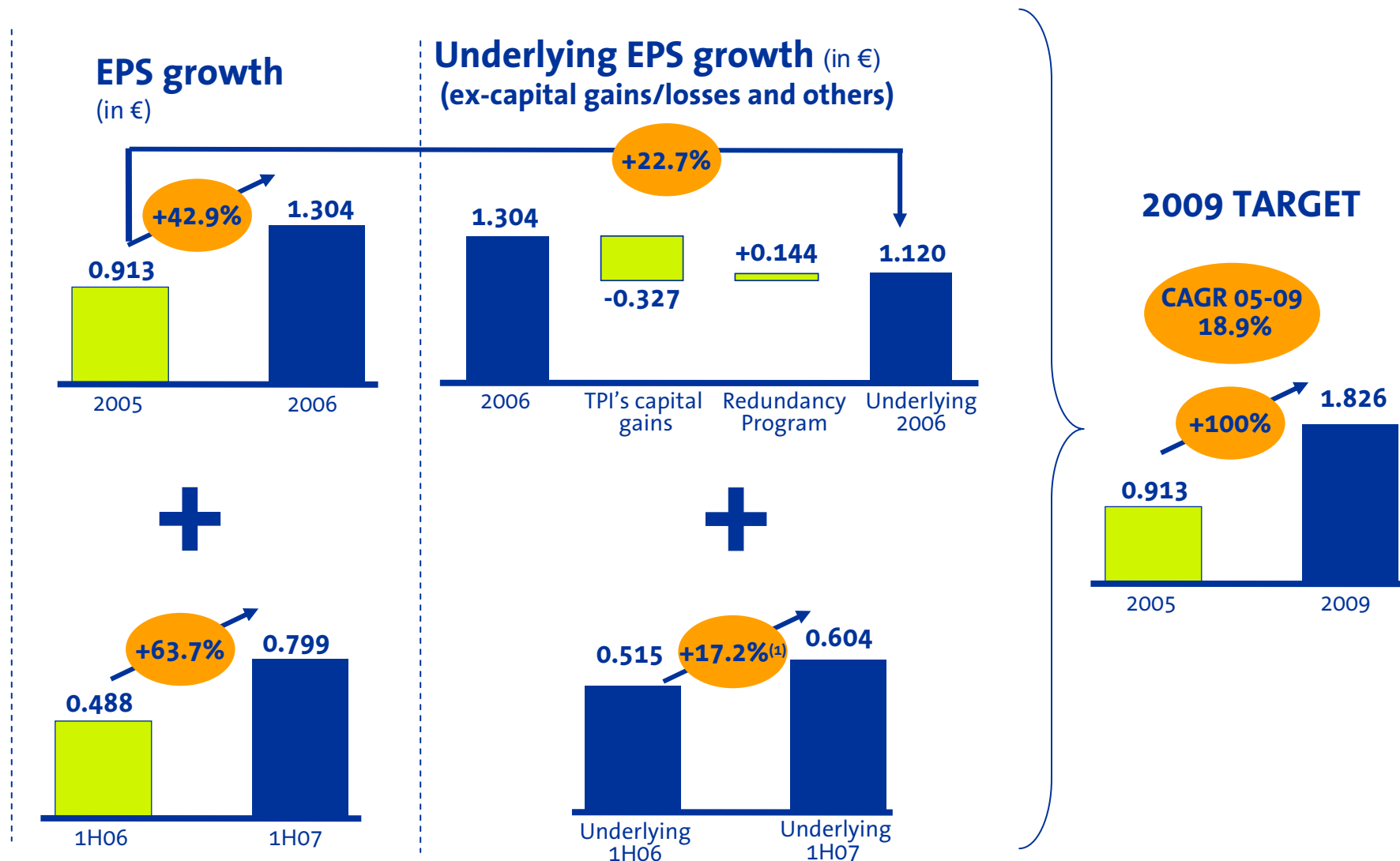
■ Forex improved its trend and deducted 1.4 p.p. to nominal growth rates of revenues vs 2.6 pp at 1Q07

# ...fully flowing into solid net income growth, up by more than 66.4%

€ in millions  
(% change y-o-y)

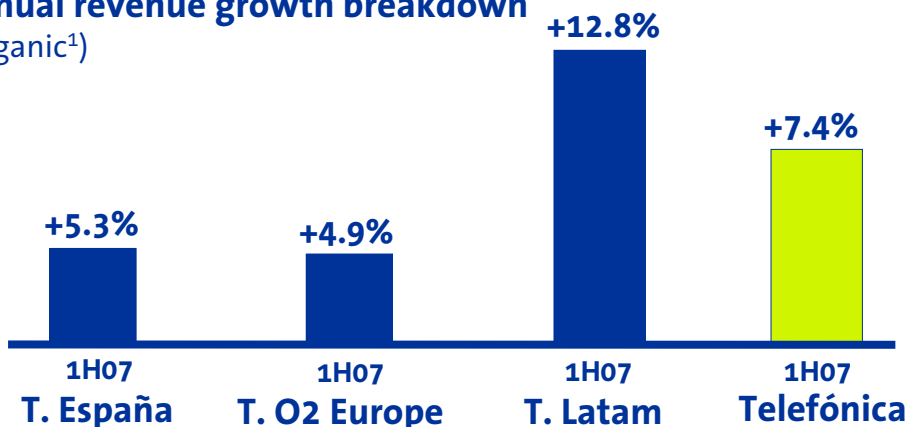


# We are progressing fast on our commitment to double EPS by 2009, with very solid nominal and underlying rates



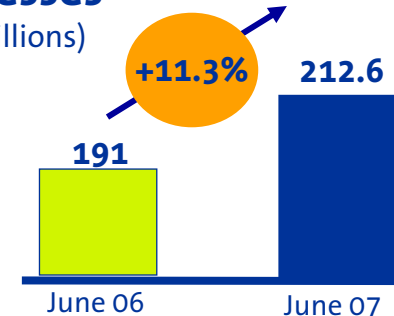
# Solid organic growth across the board and diversification

Annual revenue growth breakdown  
(Organic<sup>1</sup>)



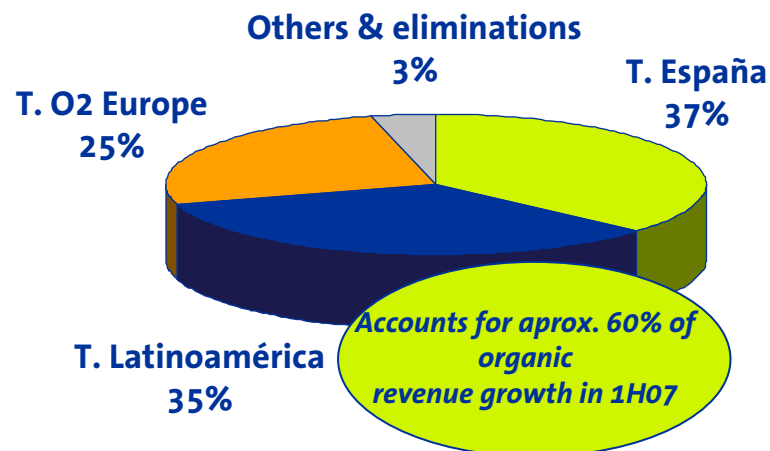
## Accesses

(in millions)



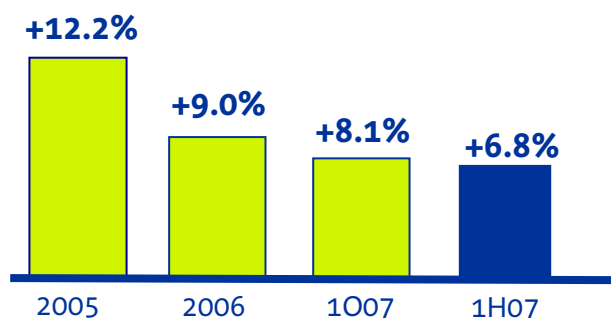
**Mobile: +15%**  
**Broadband: +35%**  
**Pay-TV: +65%**

1H07 Revenue breakdown

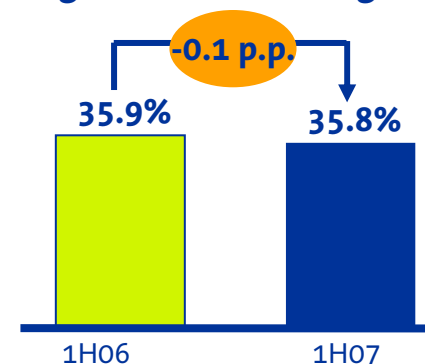


# ...and scale is paying off in terms of efficiency

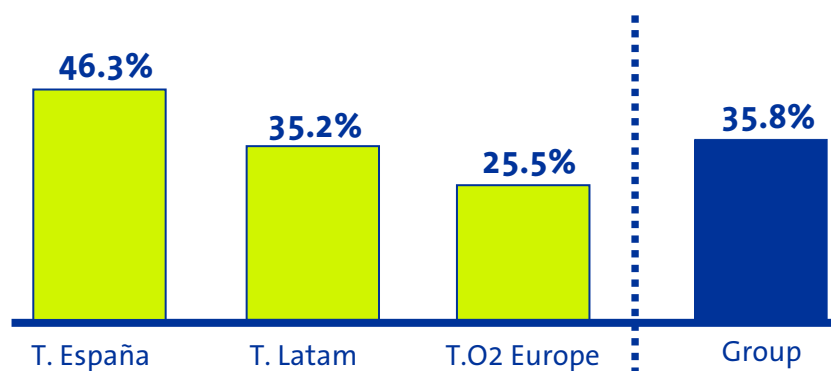
OpEx<sup>1</sup> Organic<sup>2</sup> Growth



Organic<sup>2</sup> OIBDA Margin

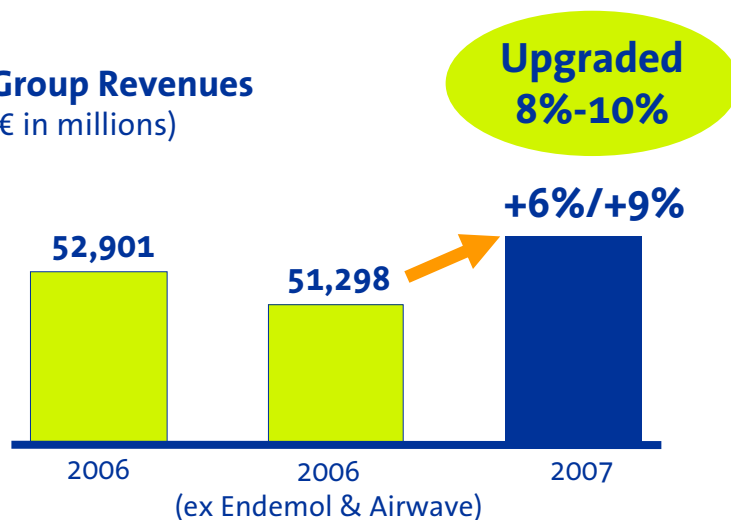


1H07 OIBDA Margin (ex-Airwave capital gain)

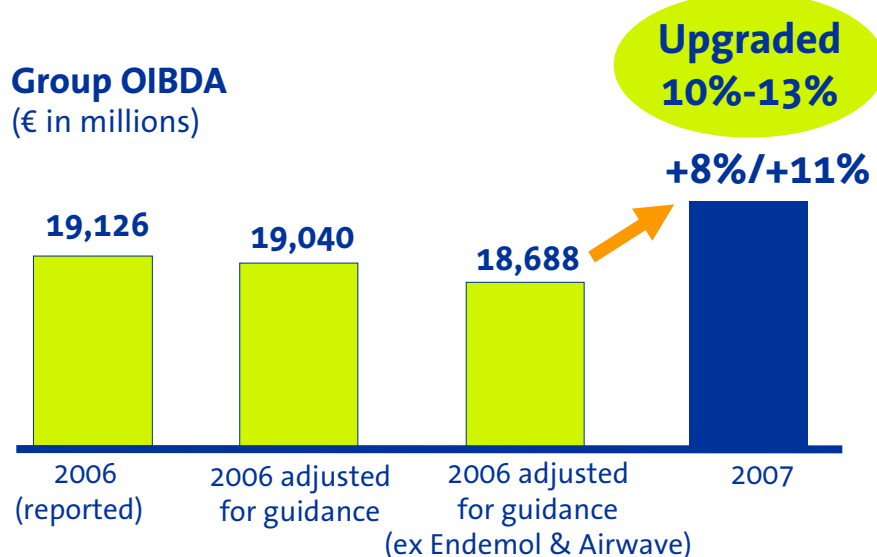


# This positive evolution drives our 2007 guidance upgrade

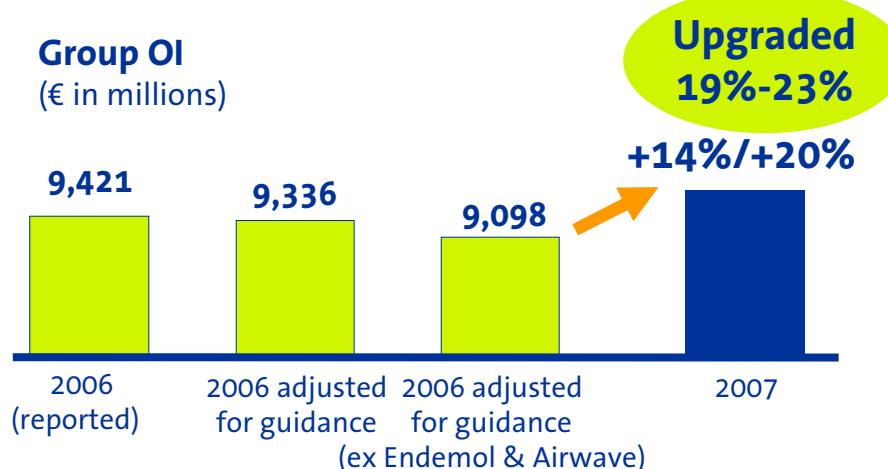
**Group Revenues**  
(€ in millions)



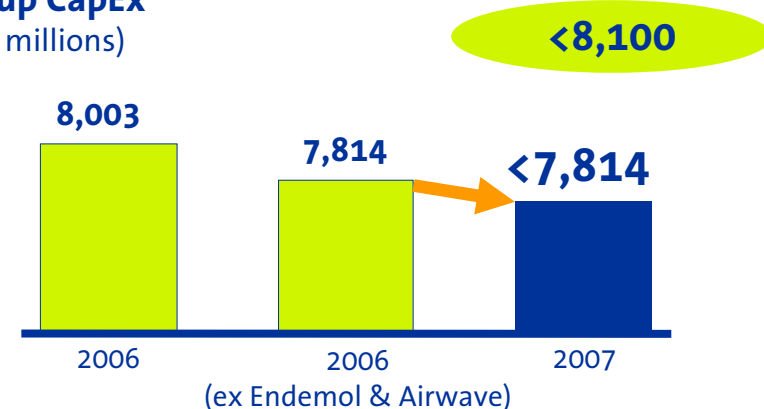
**Group OIBDA**  
(€ in millions)



**Group OI**  
(€ in millions)



**Group CapEx**  
(€ in millions)



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), three months of start-up losses in Slovakia, and exclude Endemol and Airwave results. 2007 guidance assumes constant exchange rates as of 2006 and excludes changes in consolidation. In terms of guidance calculation, OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses, with the exception of the ones decided after the guidance communication at the beginning of the year. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures. CapEx excludes investments related to Real Estate Efficiency Plan.



## 2007 targets, a guide to calculations

FROM 2007 REVENUES GUIDANCE TO 2007 REPORTED REVENUES : please include

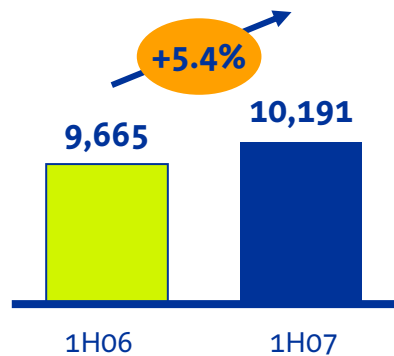
- **2007 forex impact**
- **1Q07 Airwave** results and **1H07 Endemol** results

FROM 2007 OIBDA GUIDANCE TO 2007 REPORTED OIBDA : please include

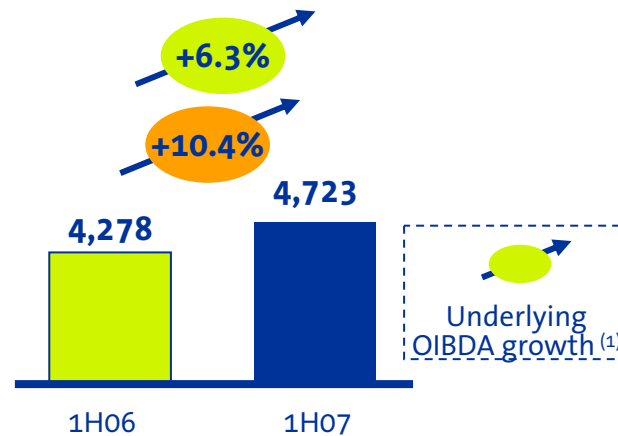
- **2007 forex impact**
- **1Q07 Airwave** results and **1H07 Endemol** results
- **2Q07 provision for EU fine (152 Million Euros)**
- **2Q07 Telefónica O2 Europe restructuring charge (114 Million Euros)**
- **Capital gain and losses (1)**
  - ✓ **2Q07: Airwave (+1,296 Million Euros) & CANTV (-45 Million Euros)**
  - ✓ **3Q07: Endemol (aprox +1,400 Million Euros)**

# Telefónica España: Sustained strong results in Spain

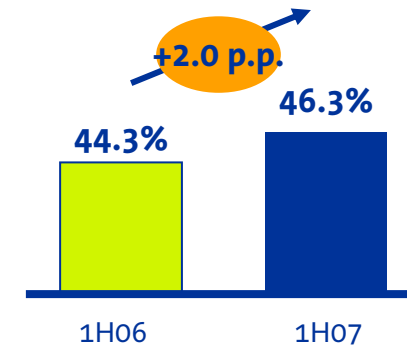
Revenues  
(€ in millions)



OIBDA and Underlying OIBDA <sup>(1)</sup>  
(€ in millions)



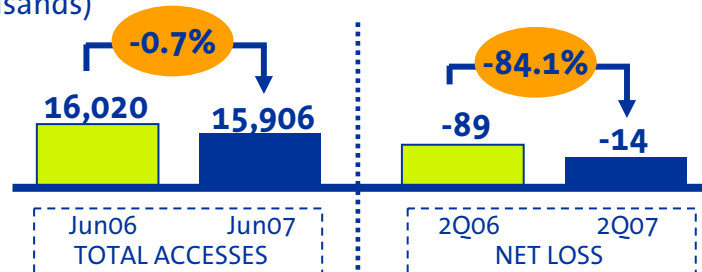
OIBDA Margin  
(%)



- **Total accesses increased by 5.5%** (Jun-07 vs. Jun-06) exceeding **45 Million**
- **Revenues growing by 3.8% and 7.5% in wireline and wireless operations** respectively
- **Minimizing losses of fixed telephony access and Broadband growth** led to **increase revenues and secure clients**
- **New mobile tariffs** to maintain **low churn, boost data usage** and achieve **healthy customer growth**

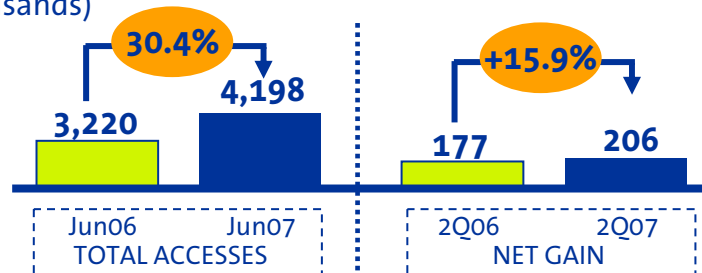
# Wireline Business: healthy Broadband and Pay-TV growth led by TEF

## Fixed Telephony Accesses (in thousands)



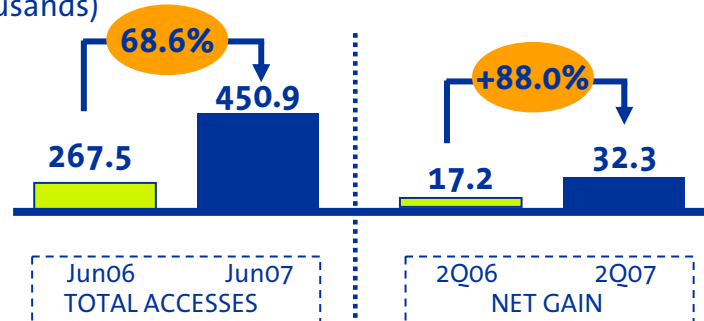
- Successful customer retention
- Lowest quarterly fixed telephony accesses loss since 4Q04

## Retail Internet BB Accesses (in thousands)



- Sustained market share at 56% after capturing 60% of net adds in 2Q07

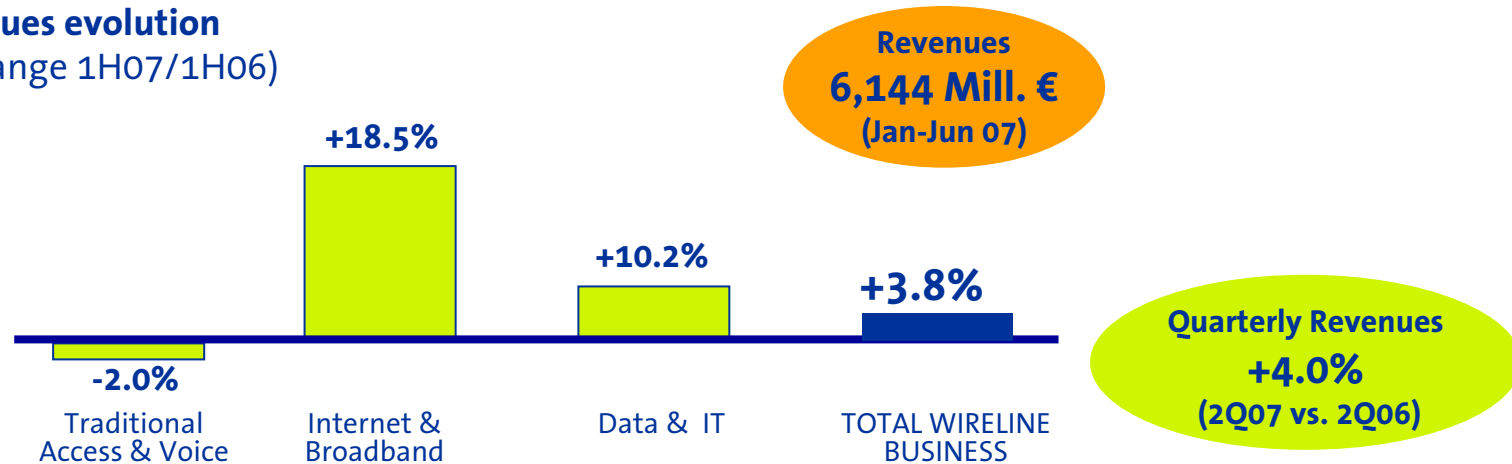
## Pay TV subscribers (in thousands)



- Close to 12% Pay TV market share as of June 2007

# Wireline Business: superior top line growth

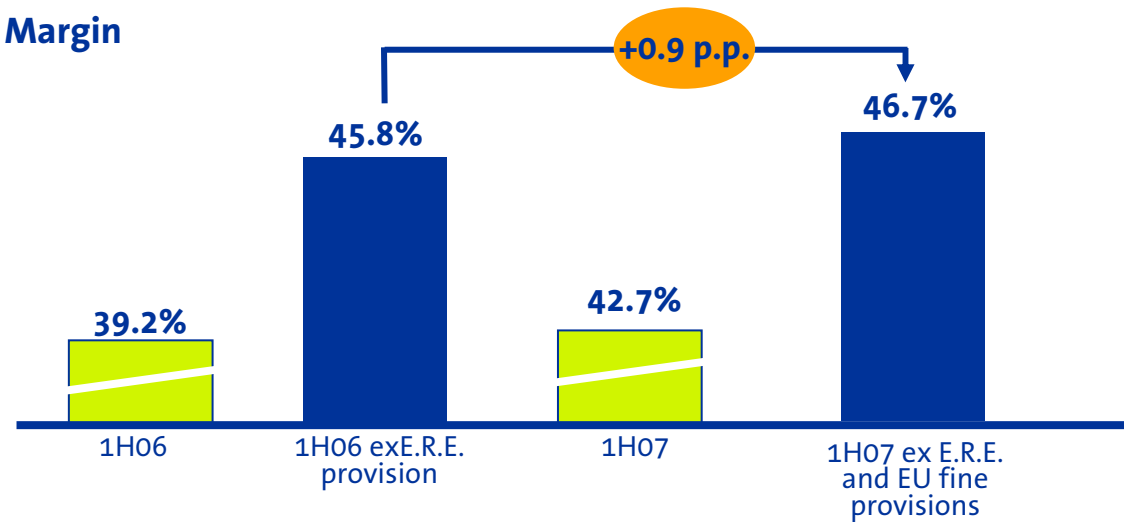
Revenues evolution  
(% change 1H07/1H06)



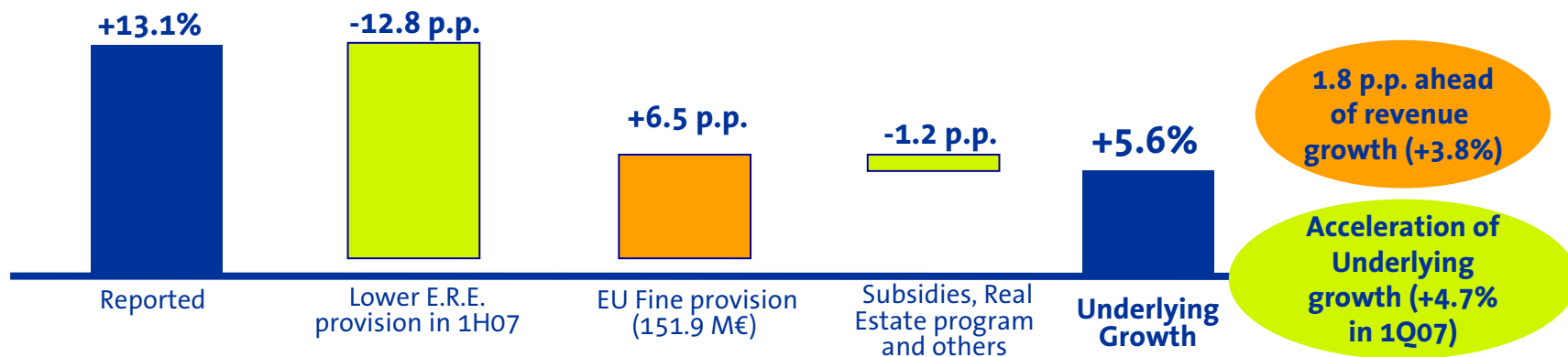
- **Expanding BB** customer base
  - ✓ 26.4% of lines have BB (20.1% in Jun06)
- **Promoting 2P/3P** (ARPU uplift & loyalty)
  - ✓ 78% of retail BB accesses with 2P/3P
  - ✓ VAS ARPU growing 7.2% to account for 18% of Retail BB ARPU.
- **2.0% PSTN monthly fee increase** as of January 1<sup>st</sup> 2007
- **Improving traditional access** business trends
  - ✓ **Lowest** fixed telephony accesses **loss in 1H07 since 1H01**
- **Better voice performance** based on **improving traffic and new prices**
- **Solid IT and Data** performance

# Wireline Business: strong focus on operational efficiency leading to margin improvement

OIBDA Margin



OIBDA Growth 1H07/1H06



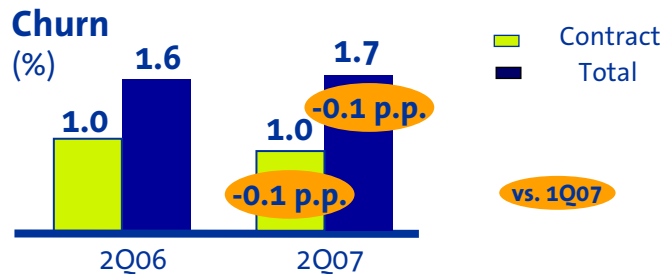
# Wireless Business: solid 2Q07 performance with strong focus on value

## NEW TARIFFS LAUNCHED

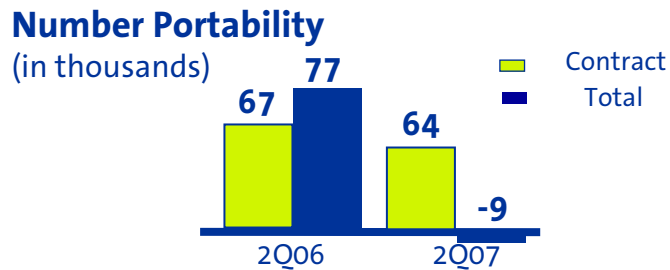
- Simplified offer (4 options)
- Leveraging “community effect”



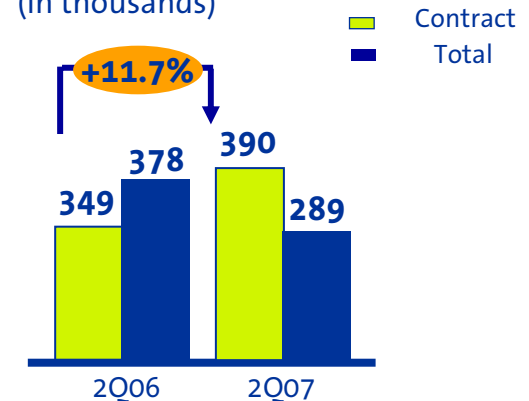
## STRONG CHURN PERFORMANCE



## FOCUS ON VALUE CUSTOMERS

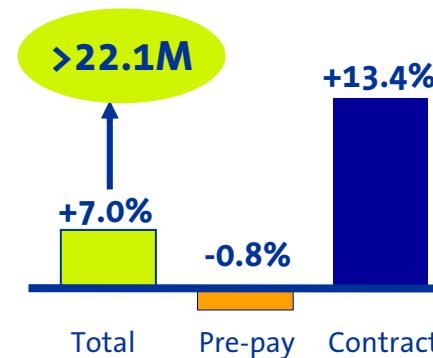


## Net adds (in thousands)



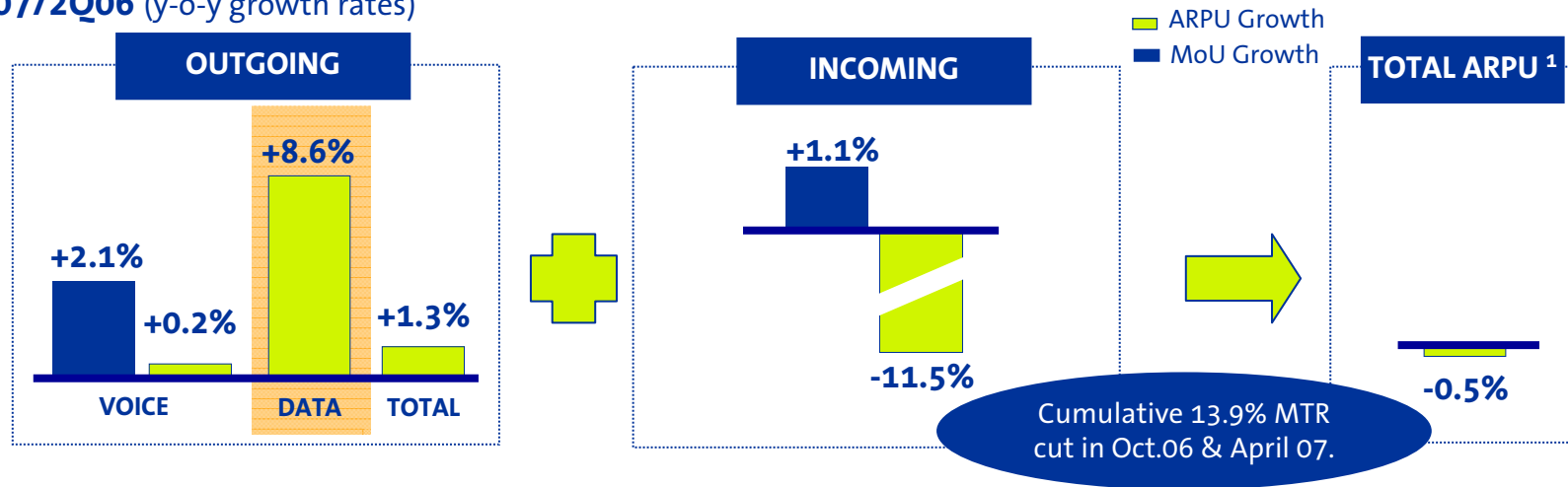
- 58% contract mix (55% in Jun06)
- Residential post-pay handset upgrades (+8.1% vs. 2Q06)
- New tariffs launched in 2Q07

## Customer growth (y-o-y)



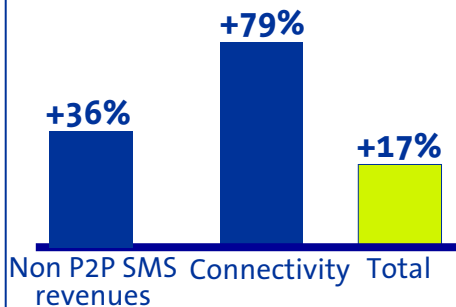
# Wireless Business: data revenue acceleration drives ARPU performance

2Q07/2Q06 (y-o-y growth rates)



## STRONG DATA REVENUE GROWTH ON INNOVATIVE PRICING SCHEMES

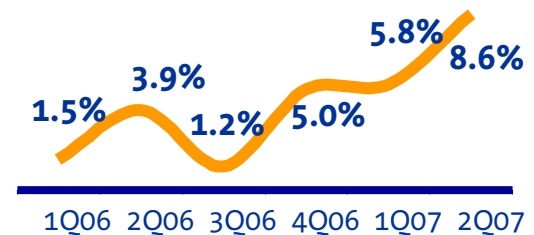
2Q07/2Q06 Data Revenue growth



Data revenues split

	2Q06	2Q07
P2P Communications	59%	53%
P2P SMS	58%	50%
Content	32%	34%
Connectivity	9%	13%

Outgoing data ARPU growth

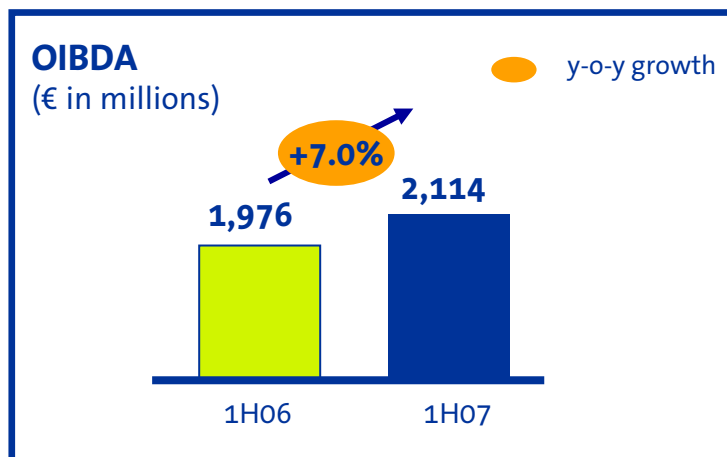


- Data traffic: **x7** (2Q07 vs. 2Q06); **x2** (2Q07 vs. 1Q07)
- ~2.1M** 3G devices (~275,000 PC Cards)

# Wireless Business: healthy top line performance & robust OIBDA growth

	1H07 (€ in millions)	2Q07/2Q06	1H07/1H06
Revenues	4,751	+7.1% <b>+6.9%<sup>1</sup></b>	<b>+7.5%</b> <b>+7.3%<sup>1</sup></b>
Handset Revenues	598	+20.2%	+17.1%
Service Revenues	4,153	+5.5% <b>+5.3%<sup>1</sup></b>	+6.2% <b>+6.0%<sup>1</sup></b>
<b>Service Revenue Drivers</b>	Customer revenues	+9.3% <b>+7.8%<sup>1</sup></b>	+9.6% <b>+8.1%<sup>1</sup></b>
	Interconnection revenues	-8.1% <b>-3.1%<sup>1</sup></b>	-5.7% <b>-0.8%<sup>1</sup></b>
	Roaming-in revenues	-11.9%	-15.6%

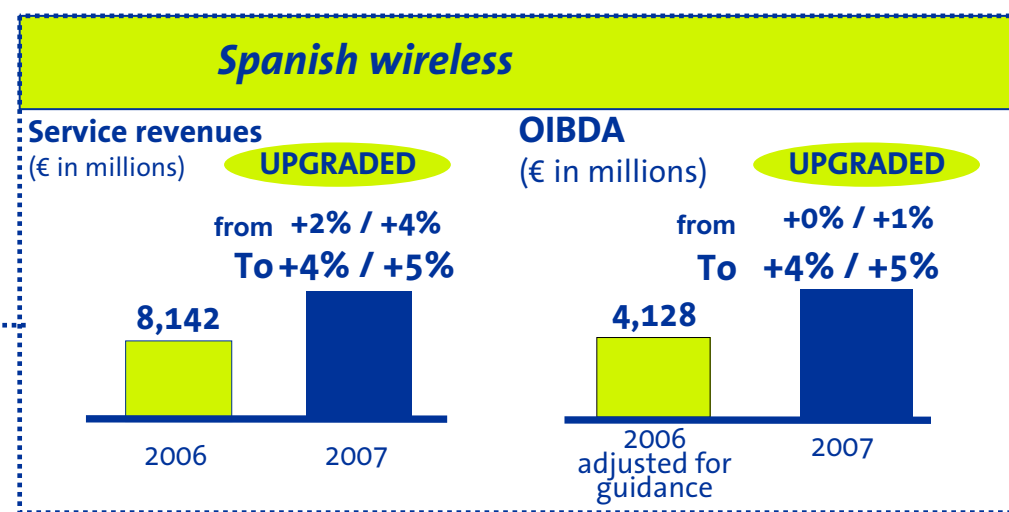
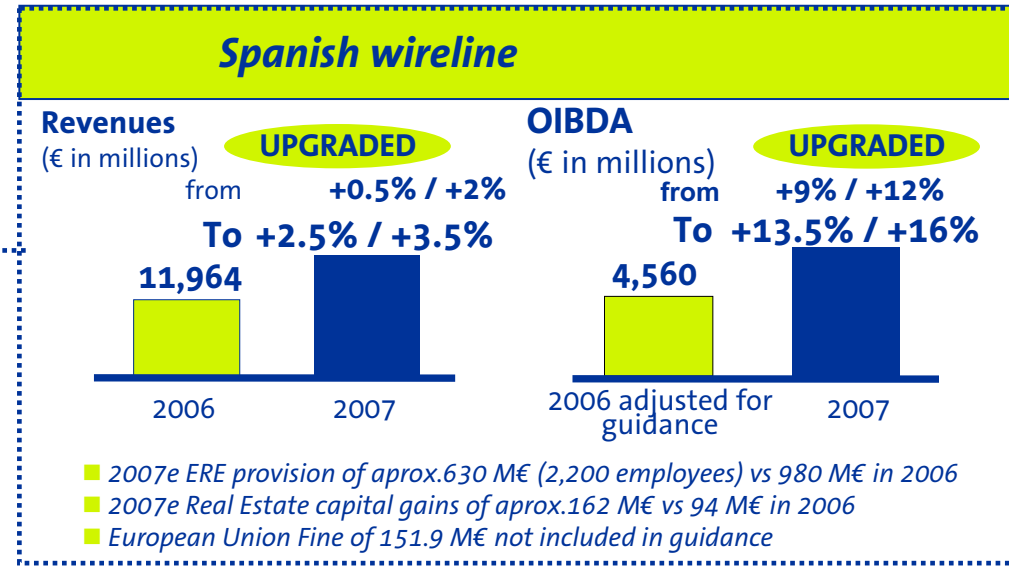
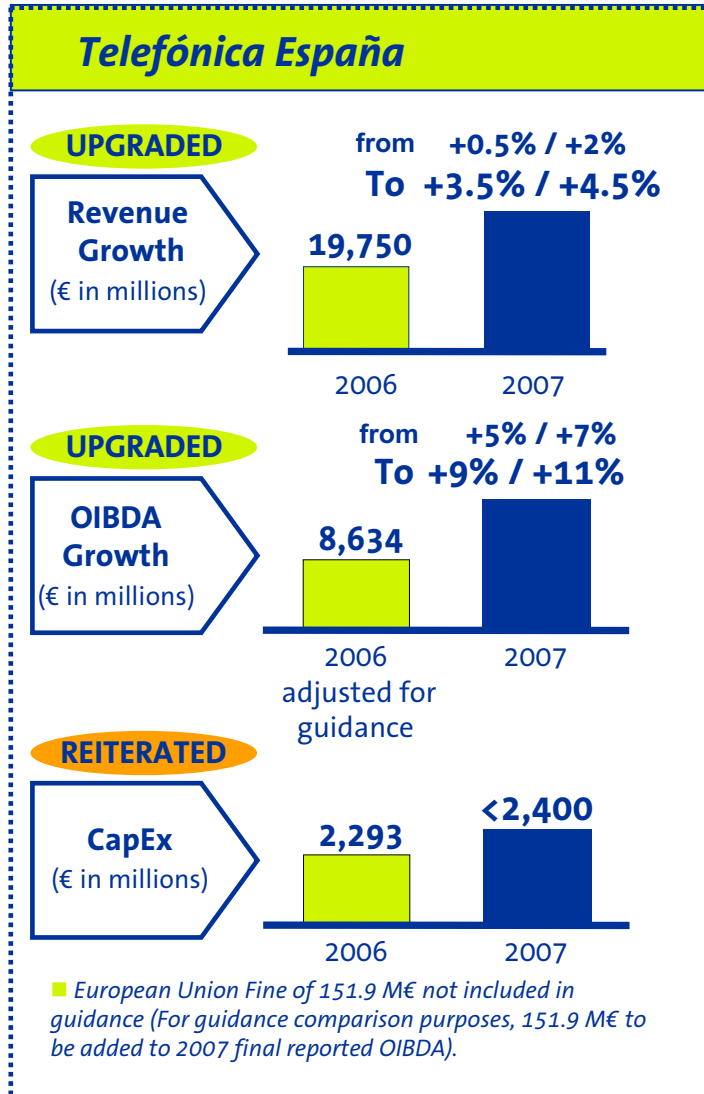
 Comparable growth <sup>1</sup>



**45% 2Q07 reported OIBDA margin (-0.4 p.p. vs. 2Q06) despite +4.7% increase in commercial actions involving handsets**



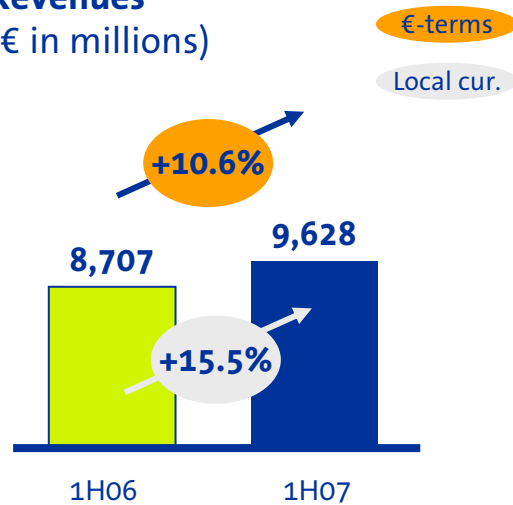
# Telefónica España: Upgrading 2007 guidance on sound wireline and wireless performance



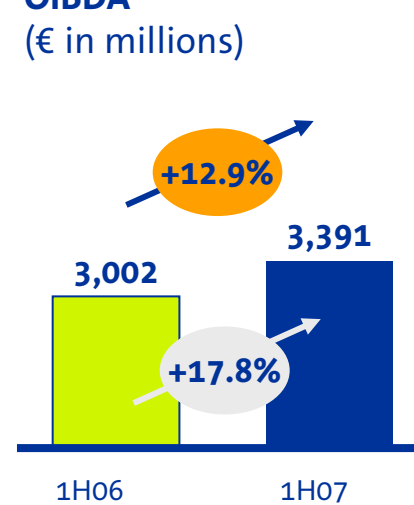
2006 base figures for T. España Wireline include 6 months of Iberbanda. 2007 guidance exclude changes in consolidation. OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007 (EU fine of 151.9 million euros). T España Wireline' Personnel Restructuring (980 million euros in 2006 and an estimated 630 million euros in 2007) and Real Estate (94 million euros in 2006 and an estimated 162 million euros in 2007) programmes 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 Estate Efficiency Plan

# Telefónica Latinoamérica: sound operating trends lead to very strong revenue and OIBDA growth

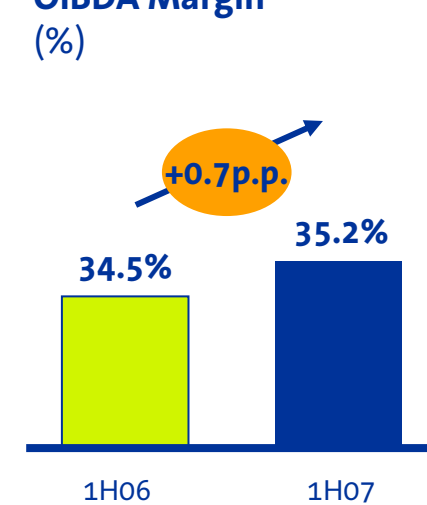
Revenues  
(€ in millions)



OIBDA  
(€ in millions)



OIBDA Margin  
(%)



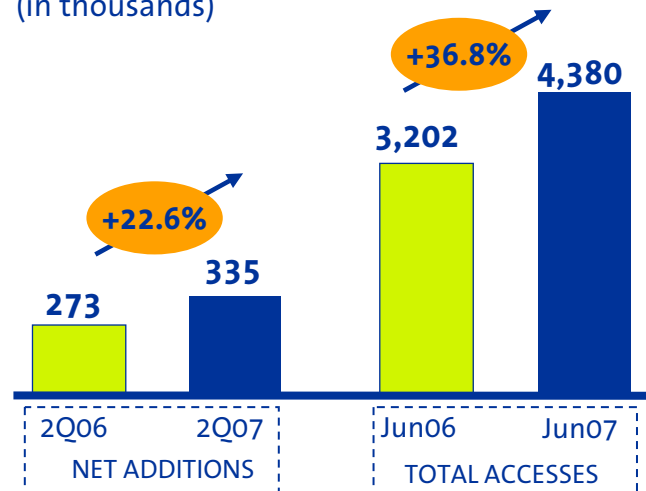
- Revenue growth accelerates vs. 1Q07 (+8.5%) led by solid mobile and broadband performance
- Margin expansion pushed by Mexico and Venezuela
- Strong growth of BB and Pay TV
- Maintenance of mobile momentum in major markets with strong customer growth (+18.9% vs. June 06)

## Healthy growth in revenues and OIBDA in all major markets

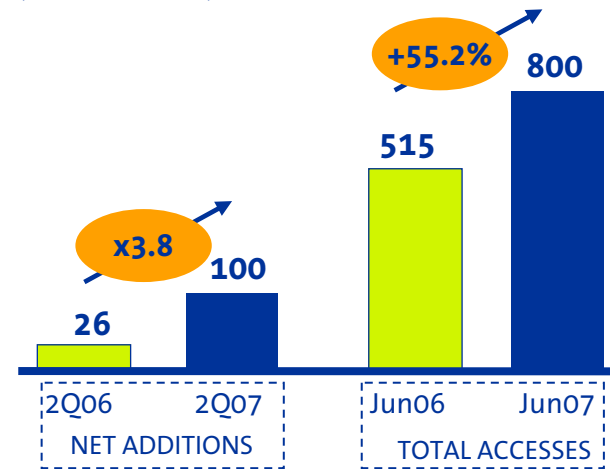
	Revenues		OIBDA	
	1H07 (€ in millions)	% change <sup>1</sup>	1H07 (€ in millions)	% change <sup>1</sup>
<b>Integrated</b>				
■ <b>Brazil</b> <sup>2</sup>	3,690	+3.6%	1,493	+1.2%
■ <b>Argentina</b>	1,113	+18.8%	394	+17.6%
■ <b>Chile</b>	864	+11.8%	329	+14.0%
■ <b>Peru</b>	743	+11.2%	279	+0.4%
■ <b>Colombia</b>	746	n.m	209	n.m.
<b>Mobile</b>				
■ <b>Venezuela</b>	1,123	+27.7%	469	+48.3%
■ <b>Mexico</b>	653	+60.3%	61	c.s.
■ <b>Central America</b> <sup>3</sup>	297	+21.4%	99	+35.7%
■ <b>Ecuador</b>	138	-1.8%	34	-0.6%
■ <b>Uruguay</b>	47	+45.5%	11	+92.4%

# Strong broadband and Pay TV development across the region

**Retail Internet BB connections<sup>1</sup>**  
(in thousands)



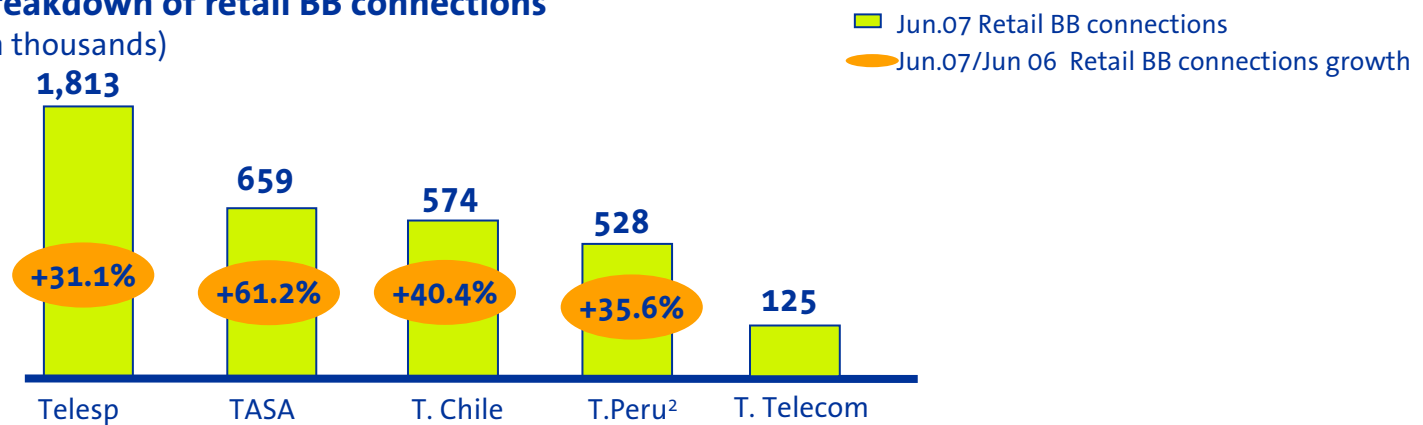
**Pay TV clients**  
(in thousands)



Close to 30% on DTH

- 171,400 clients in Chile
- 59,700 clients in Peru
- 28,300 clients in Colombia

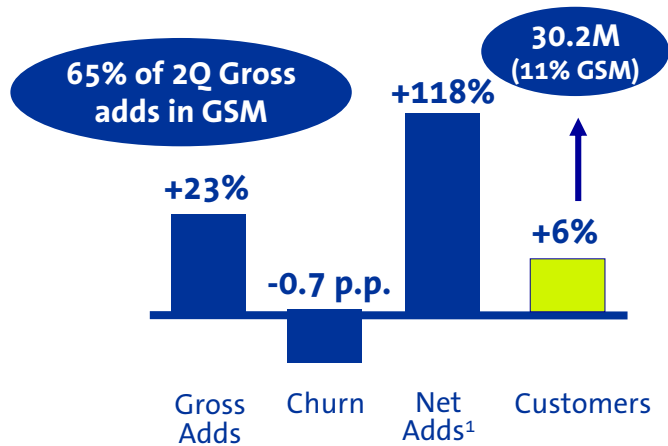
**Breakdown of retail BB connections**  
(in thousands)



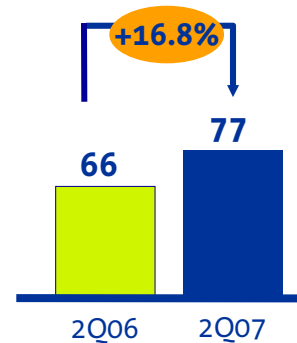
TELEFONICA S.A. Investor Relations (1)Including Terra Latam and Telefónica Telecom since May 2006  
(2)Including cable modem

# Brazil wireless: improving operating trends fully flowing into financial results

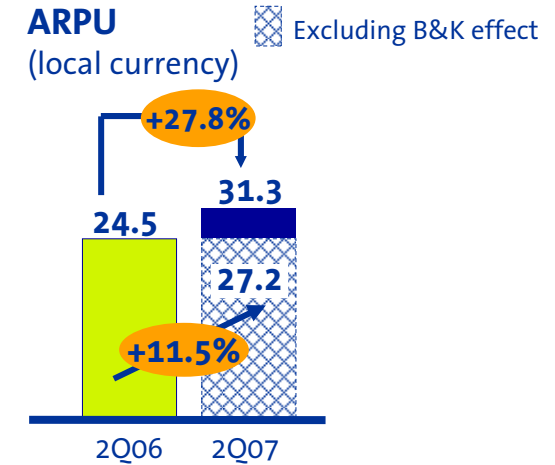
1H07/1H06 change



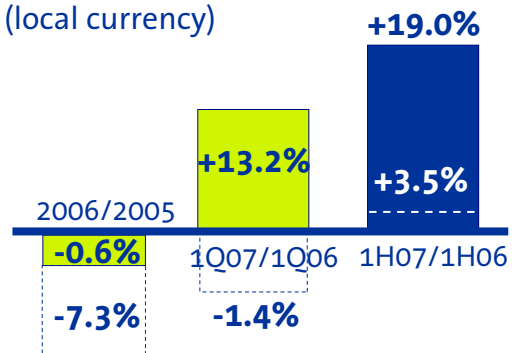
MoU (minutes)



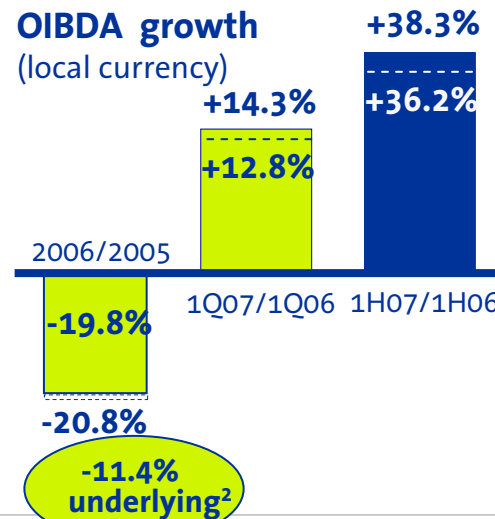
ARPU (local currency)



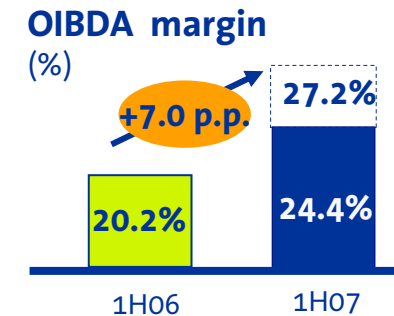
Service revenue growth (local currency)



OIBDA growth (local currency)

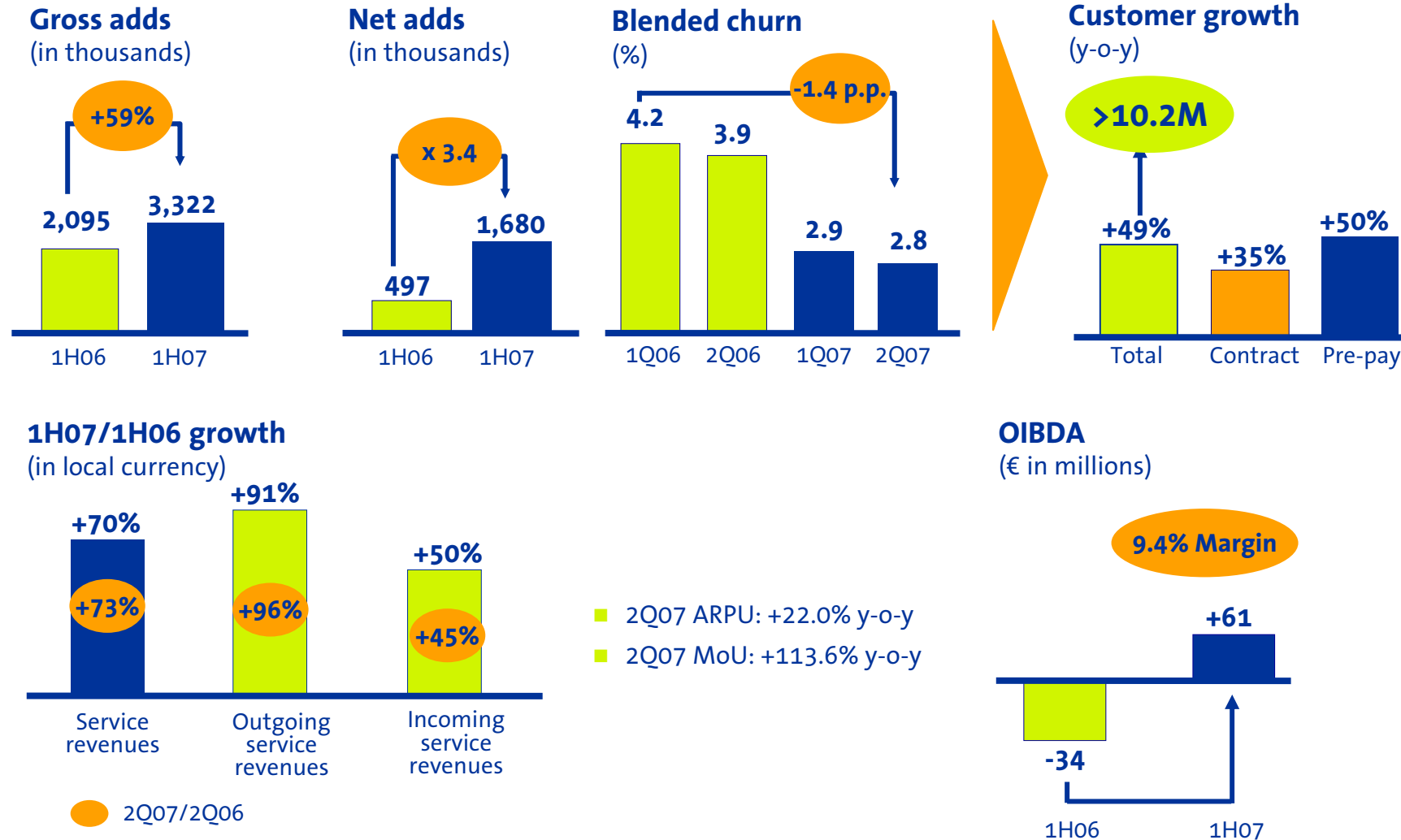


OIBDA margin (%)




















Excluding B&K effect

# Mexico wireless: sustained healthy commercial activity leads to very strong revenue & OIBDA growth



# Key highlights for other Latam mobile operations

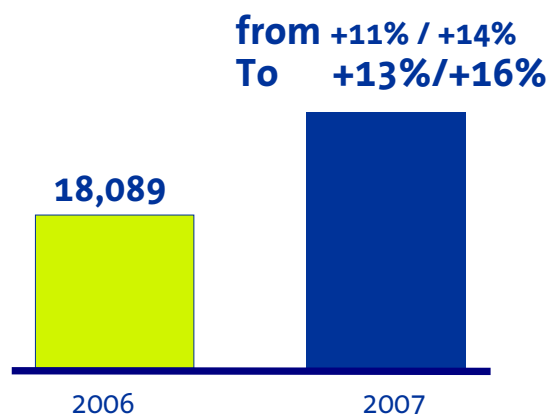
 y-o-y growth

	1H07 customer base (M)	1H07/1H06 service revenue growth <sup>1</sup>	1H07/1H06 outgoing service revenue growth <sup>1</sup>	1H07/1H06 OIBDA margin	
ARGENTINA	12.4 	+24%	+26%	26.5% 	<i>Solid revenue growth</i> backed by <i>strong customer growth &amp; margin improvement</i> despite high commercial activity
VENEZUELA	9.7 	+33%	+37%	41.8% 	
CENTRAL AMERICA	4.5 	+23%	+31%	33.2% 	
URUGUAY	1.0 	+54%	+68%	23.9% 	
PERU	6.4 	+59%	+89%	24.7% 	<i>Very high commercial activity</i> leads to strong customer growth <i>fully flowing to revenue growth</i>
COLOMBIA	7.6 	+13%	+14%	13.9% 	<i>Selective commercial activity</i> leads to <i>improved revenue</i> growth and <i>slight margin expansion</i>
CHILE	5.9 	+20%	+17%	34.5% 	<i>Service revenue</i> growth <i>outpaces customer growth</i> leveraging <i>strong ARPU expansion with enhanced profitability</i>
ECUADOR	2.6 	-9%	-8%	24.3% 	New tariffs launched to <i>turn-around</i> operations

# This strong set of results drives 2007 guidance upgrade

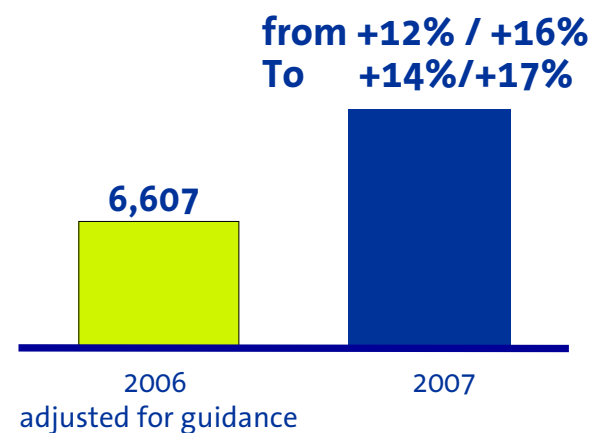
**Revenue Growth**  
(€ in millions)

**UPGRADED**



**OIBDA Growth**  
(€ in millions)

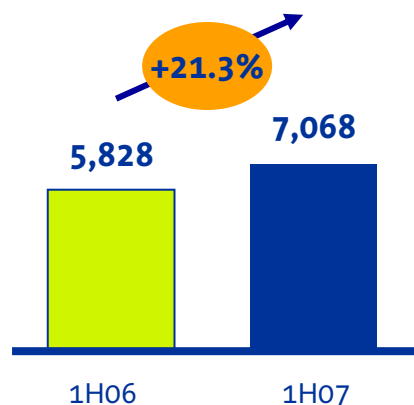
**UPGRADED**



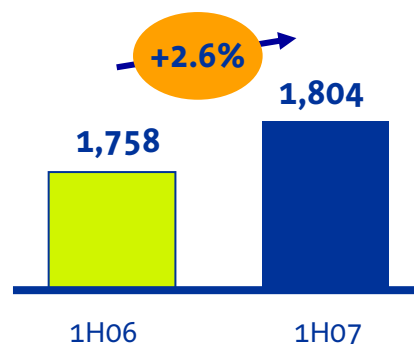


# Telefónica O2 Europe: proactively tackling mobile pressures & selectively exploiting BB growth opportunities

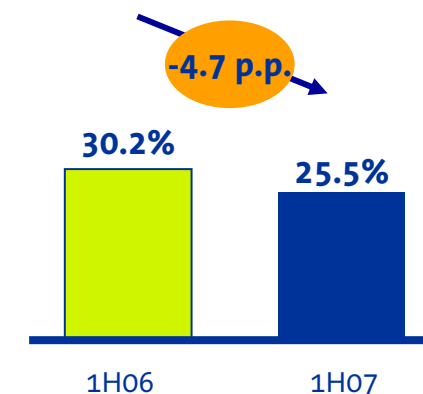
Revenues <sup>1</sup>  
(€ in millions)



OIBDA <sup>1</sup>  
(€ in millions)



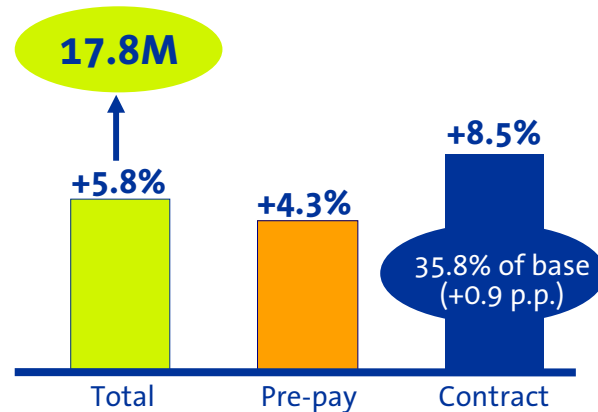
OIBDA Margin <sup>1</sup>  
(%)



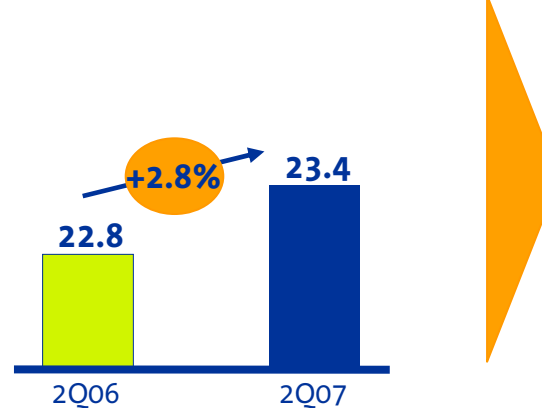
- UK: healthy top line pushed by customer and ARPU growth and margin improvement
- Germany: a new management to address market opportunities
- Czech Republic: solid financial performance through a tight operational focus

# O2 UK: healthy top-line pushed by customer and ARPU growth and margin improvement

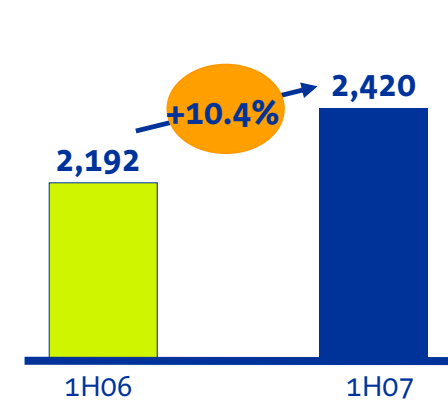
Mobile customer growth  
(y-o-y)



Average Revenue per user  
(blended quarterly monthly average, in £)

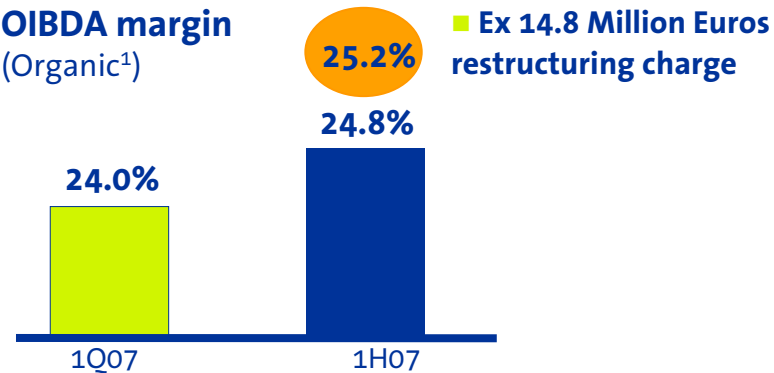


Revenues  
(Organic<sup>1</sup>, £ in millions)



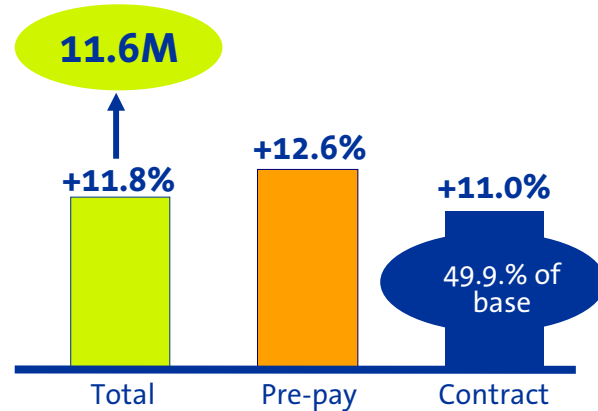
- MoU<sup>2</sup>: +11.7% y-o-y to 189 minutes
- Data ARPU<sup>2</sup>: +8.6% y-o-y to 7.5 £

OIBDA margin  
(Organic<sup>1</sup>)



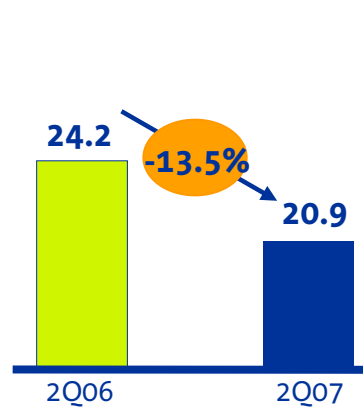
# O2 Germany: a new management to address market opportunities

Mobile customer growth  
(y-o-y)



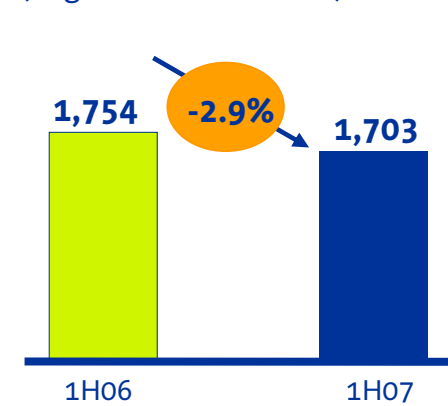
Improved customer base growth

Average revenue per user  
(blended quarterly monthly average, in €)

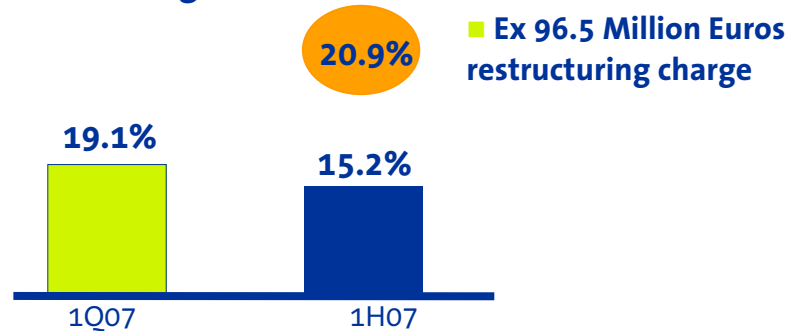


- MTR: 20% cut
- Pricing pressure
- Change in mix

Revenues  
(Organic<sup>1</sup>, € in millions)



OIBDA margin



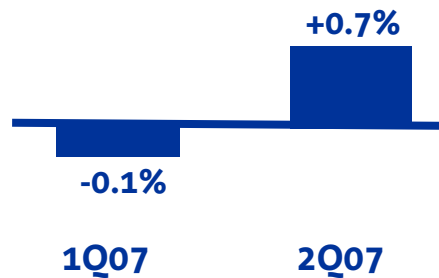
	1Q07	2Q07
Net adds	159,000	374,000
MoU (y-o-y)	1.6%	3.7%

1 Million clients on new S,M,L tariffs  
(higher MoU than average)

# T.O2 Czech Republic: solid financial performance through a tight operational focus

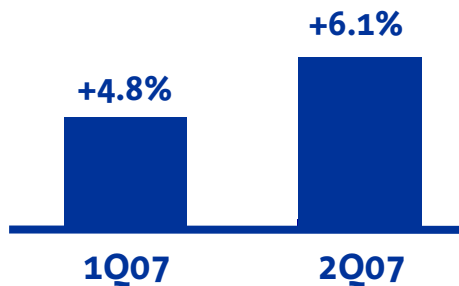
Turning around fixed & accelerating mobile performance

Fixed revenues  
(y-o-y)



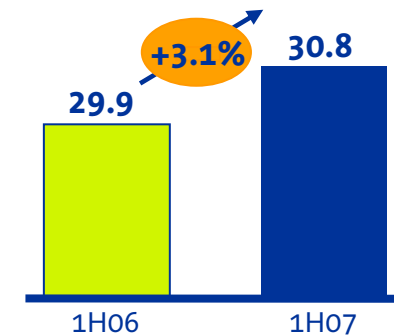
- **Line loss contention**  
(1Q07:-114,000 2Q07:-81,000)
- **Leadership in BB growth backed on bundles**  
(retail BB rev. up 48.6% y-o-y in 1H07)
- **1H07 ICT services up 265% y-o-y**

Mobile revenues  
(y-o-y)

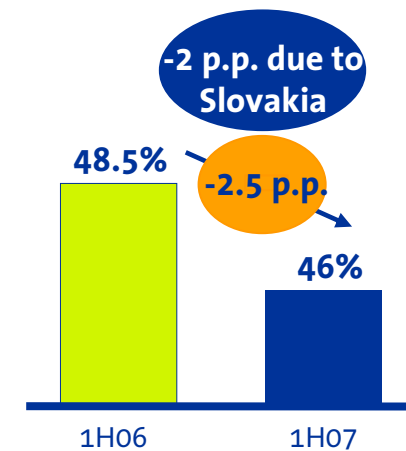


- **Contract customers up 20.3% y-o-y**
- **Foster Pre-pay to contract migrations**  
(42.4% of base on contract)
- **Blended ARPU up 3.4% y-o-y**
- **MoU up 16.9% y-o-y**

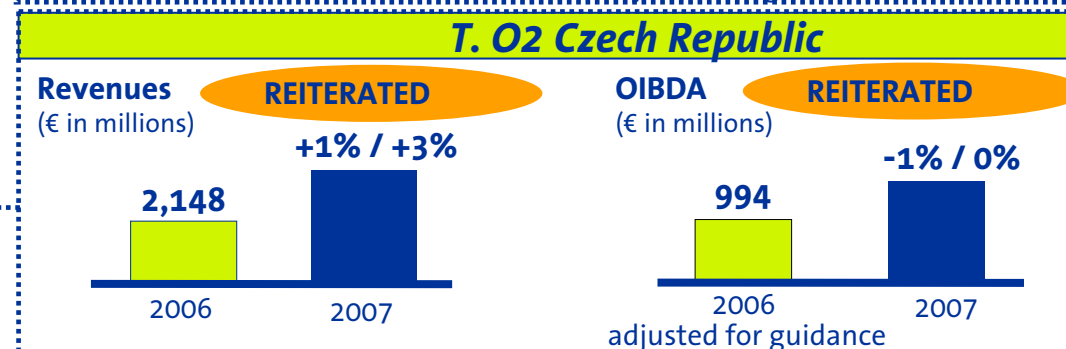
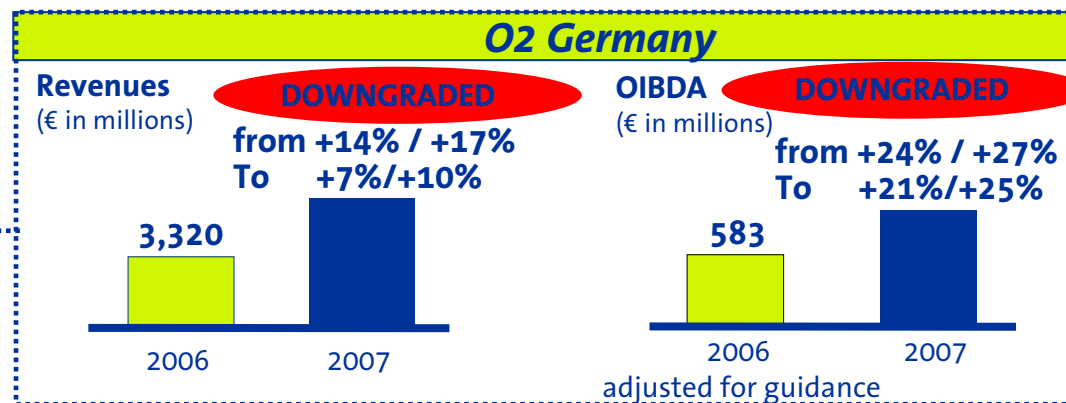
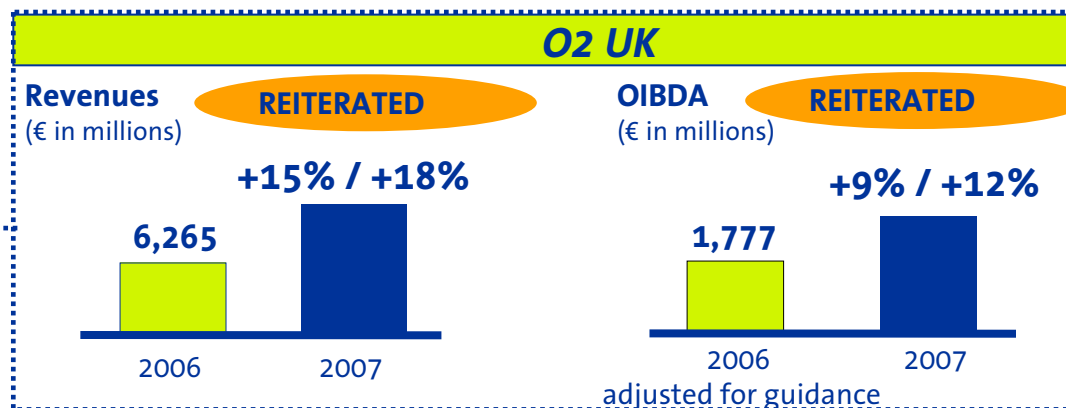
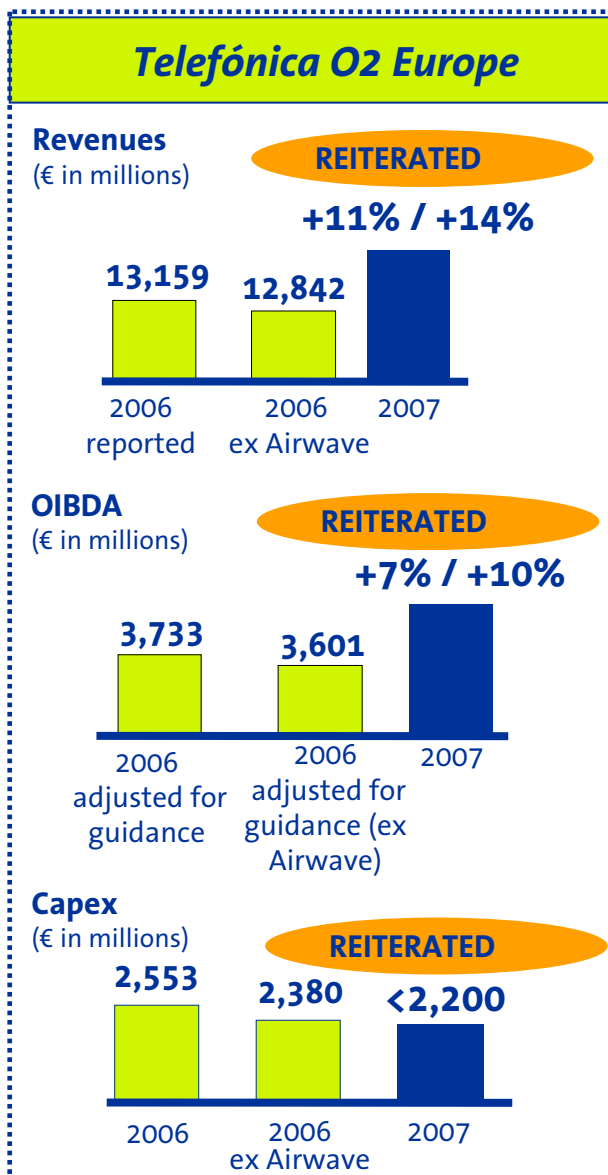
Operating revenues  
(CZK in billions)



OIBDA margin

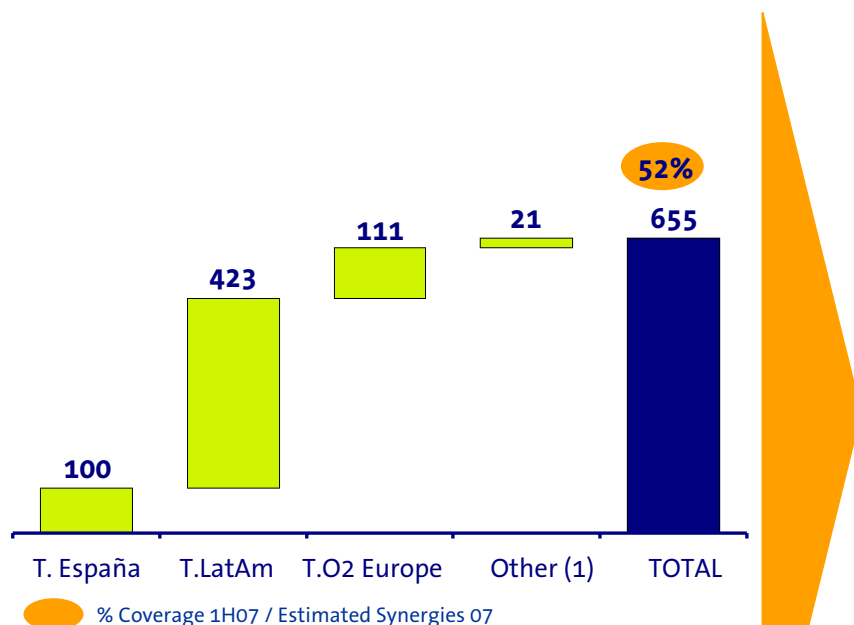


# Telefónica O2 Europe guidance



# 1H07 synergies are totally aligned with year-end target, leveraging our top initiatives

**OpCF from synergies 1H07**  
(€ in millions)



**OpCF from synergies 2007E**  
(€ in millions)

<ul style="list-style-type: none"> <li>■ <b>Regionalization</b> <ul style="list-style-type: none"> <li>✓ Branding &amp; commercial campaigns</li> <li>✓ Handset &amp; SIMs purchases</li> <li>✓ Mundo Movistar</li> <li>✓ Service platforms</li> </ul> </li> </ul>	~23%
<ul style="list-style-type: none"> <li>■ <b>Convergence &amp; Integration</b> <ul style="list-style-type: none"> <li>✓ Technology, Operations &amp; Systems</li> <li>✓ Products &amp; Services</li> <li>✓ Sales channels</li> </ul> </li> </ul>	~47%
<ul style="list-style-type: none"> <li>■ <b>Scale, Best practices &amp; Management of Resources</b> <ul style="list-style-type: none"> <li>✓ Bargaining power (roaming, handsets &amp; technology)</li> <li>✓ Internal mgmt of international &amp; roaming traffic</li> <li>✓ Business Development (roaming retail &amp; MNCs)</li> <li>✓ Distrito C &amp; Contents' Unit</li> </ul> </li> </ul>	~30%
<b>2007 TOTAL ESTIMATED SYNERGIES</b>	
<b>~ 1,250</b>	

## Active financial risk management

### Reducing cost of debt to 5.45%

1H 2007

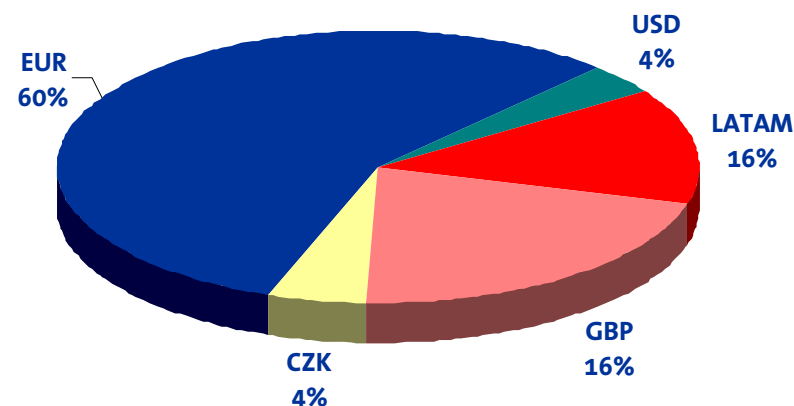
<b>Net Interest Expenses</b>	<b>(1,437)</b>
<b>Total Average Debt</b>	<b>53,194</b>
<b>Effective Interest rate</b>	<b>5.45%</b>

### Improving debt maturity profile

1H 2007

<b>Bond issuance</b>	<b>4.1 bn Eur</b>
<b>Average maturity</b>	<b>6.4 years</b>
<b>Average credit spread</b>	<b>41 bps</b>

### Changing currency mix

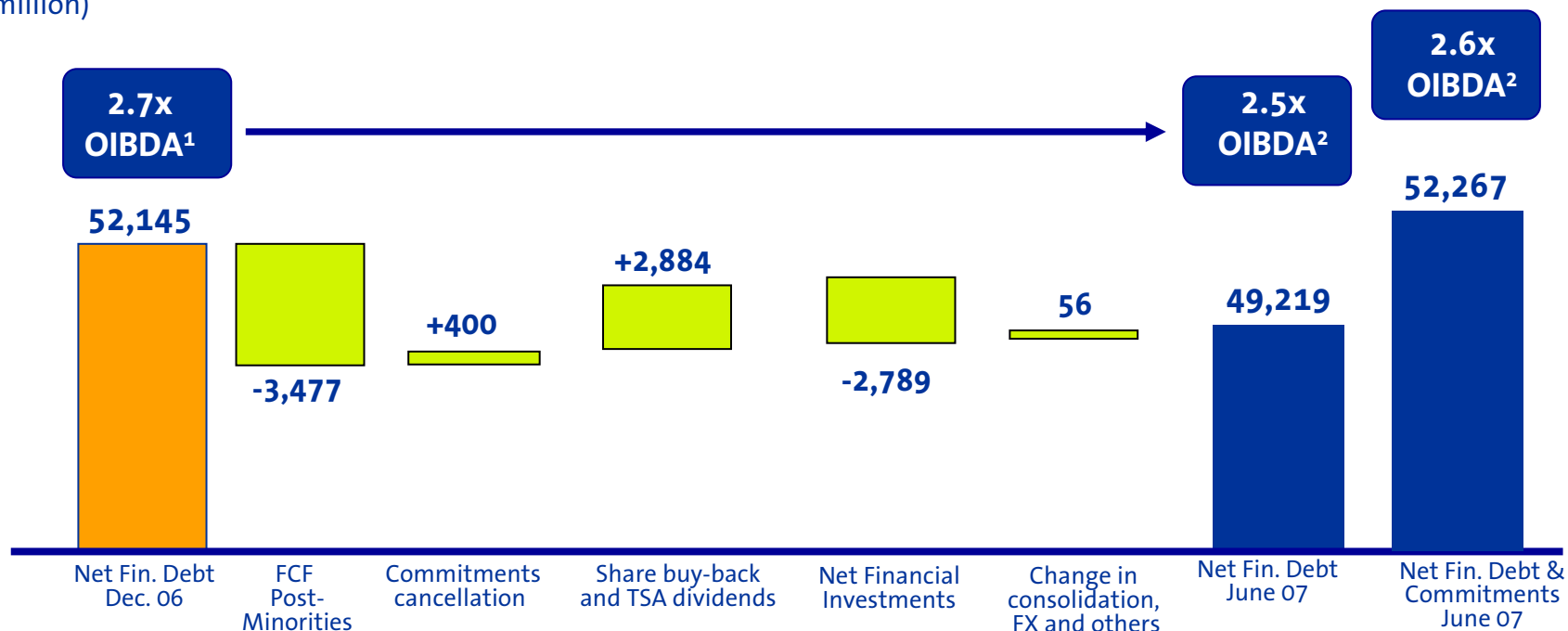


- 23 bps decrease in the cost of debt vs. 1Q07
- Lower weight of GBP debt following Airwave sale.
- Average debt maturity increased to 6.7 years following bond issuance and divestments

# De-leveraging on track

## 1H07 Net Financial Debt Evolution

(€ in million)



### ■ Meeting Financial Commitments:

- Net Debt approaching 2.5x OIBDA ahead of time
- More than 92% of 2007 buyback already completed
- Net divestments for Eur 2.8 bn (before Endemol & TI)

■ Shareholder remuneration = close to 3 bn Eur = Debt reduction



# Conclusions

1. **Growth and returns** well ahead of the pack
  - From +10.6% revenues to 63.7% EPS growth
  - Twelve consecutive quarters growing simultaneously revenues, OIBDA, OI and net income
2. Solid **Organic growth** across the board
  - +7.4% and 7.1% organic<sup>(\*)</sup> revenues & OIBDA growth rates
3. Benefiting from **diversification, efficiency and commercial momentum**
  - +212.6 million accesses (+11.3%)
4. A better outlook: Group **guidance upgraded !**

*Telefonica*

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