Telefónica España: Benchmark results

8th Annual European & Emerging Markets Telecoms Conference

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London, March 17, 2008

Telefónica

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Index

- **Benchmark set of results in 2007**

- Setting the basis to sustain our leadership and superior performance

Telefonica España has maintained a strong momentum, both in Q4 and FY07

Strong commercial push

- Leading the growth in the **mobile market**
- **Lowest fixed telephony lines loss** since 2001
- **Increasing market share in BB and Pay TV** businesses

46.4 MM accesses (+5.0%)

Outstanding top line growth and profitability

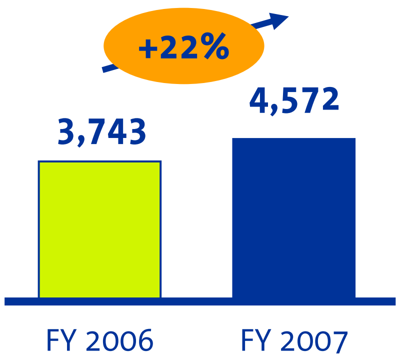
- **Robust top-line growth** driven by customer base expansion and ARPU
- **Increasing operational efficiency:** underlying OIBDA growth above top line growth
- **Strong cash generation** while transforming our network

Sound Q4 07 performance

In the wireline business, we have strengthened our competitive position …

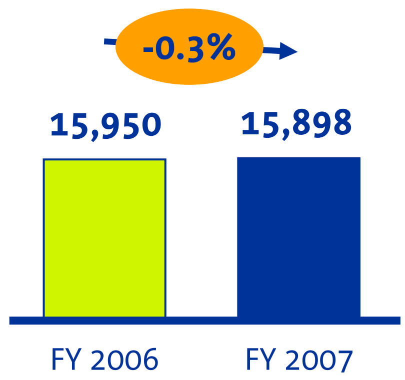
Leading Broadband and Pay TV growth and containing line loss

Retail Internet BB Accesses
(in thousands)



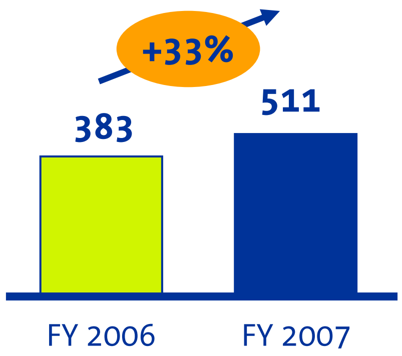
- Market share **>56%E**
- 2007: **>0.8 million net adds**
- Net adds Q4 07/Q3 07: **x1.6**

Fixed Telephony Accesses
(in thousands)



- Stable market share: **81%**
- Line losses in 2007 reduced by **72%** (vs. 2006)
- **Positive net adds** in Q4 07, boosted by free connection campaigns

Pay TV subscribers
(in thousands)

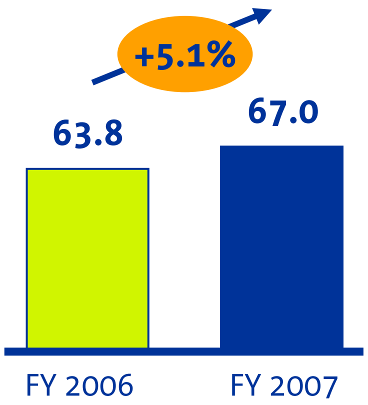


- Market share **≈13%** (vs. 10% in Dec-06)
- Net adds Q4 07/Q3 07: **x2.3**

... while increasing value from customers

Solid revenue growth in all business units

Total ARPU
(€)

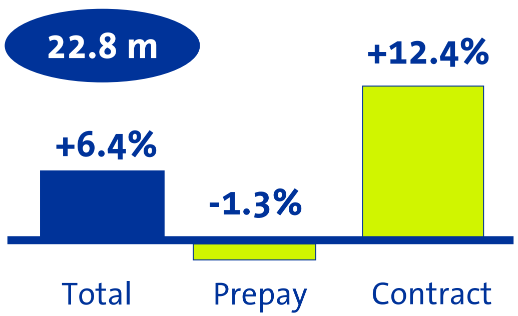


- **+2.0% PSTN** monthly fee increase in 2007 (+2.0% in 2008)
- **>80% of BB accesses with 2P/3P** (vs. >70% in Dec-06)
- **Sustained BB ARPU** at €45.3
- **Strong increase** in number of **Workstations** in SMEs and SoHo
- **>70% VPNs** already migrated from traditional to **advanced VPNs**
- **Positive results in IT areas** such as Data Centers and Digital Asset Management

In the wireless business, strong focus on value customers ...

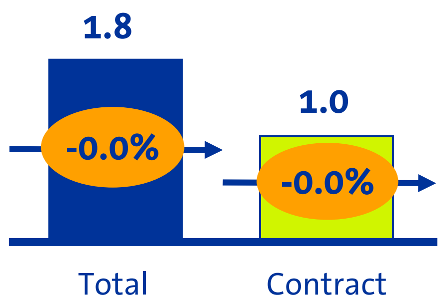
Growth driven by contract segment, containing churn levels

Customer
(y-o-y growth)



- **+12.0%** contract **gross adds** vs. 2006
- **238K** portability **net adds in contract in 2007**

Churn 2007
(%)

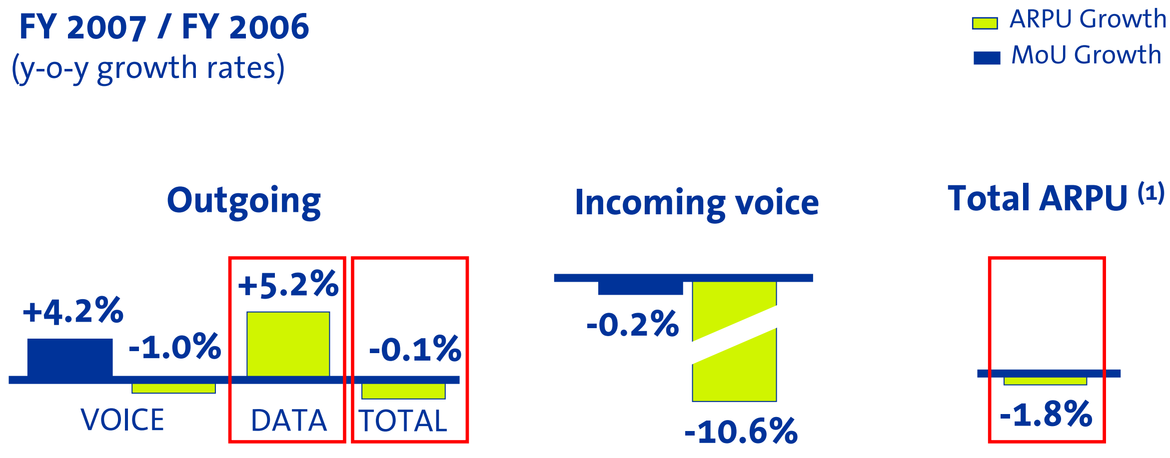


- **Best in class churn**
- Focus on **customer loyalty**
- Attractive **on-net tariffs**

… while sustaining outgoing ARPU

Strong Data ARPU growth, fostering connectivity usage

FY 2007 / FY 2006
(y-o-y growth rates)



- **Cumulative 14.9% MTR cut** in Apr-07 & Oct-07
- **Strong increase in Data Revenues:**
  - >70% increase in connectivity revenues
  - Pushing up 3G customer base

(1) Excludes roaming-in

Robust top line growth while improving efficiency: Wireline business

- Strong **Internet & BB,** and **IT revenues** growth
- **Good behaviour of access and traditional voice services**
- Robust **profitability**
- **Personnel reorganization** provision of €513m(4)

€ in Millions	2007	FY 2007/06	
Revenues	**12,401**	**+3.7%**	
Access services	2,772	**+0.1%**	
Traditional voice services	4,792	**-1.6%**	
Internet and BB revenues	2,775	**+15.5%**	
Data revenues	1,160	**+7.8%**	
IT revenues	437	**+11.6%**	
OIBDA	**5,249**	**+14.8%**	**+15.8%**(1)
OIBDA margin	**42.3%**	**+4.1 p.p.**	**+1.3p.p.**(2)

Underlying OIBDA growth: 5.1%(3)

y-o-y growth according to guidance criteria

Meeting 2007 guidance

(1) According to guidance criteria.
(2) Excludes provisions related to personnel reorganization plans in 2006 & 2007, and EU fine accounted for in Q2 07.
(3) Underlying OIBDA growth excludes specific effects such as personnel reorganization provisions, real estate program capital gains and subsidies in 2006 and 2007, as well as the EU fine in 2007.
(4) €345m 2003-2007 Redundancy program and €168m for new program

Robust top line growth while improving efficiency: Wireless business

- Outstanding **customer revenues growth**
- **Interconnection and roaming-in** revenues affected by price cuts
- **Solid margin expansion**
- **Personnel reorganization** provision of €154m

€ in Millions	2007	FY 2007/06		
Revenues	**9,693**	**+5.4%**		
Handset revenues	**1,184**	**+11.9%**		
Service revenues	**8,509**	**+4.5%**		☑
Customer revenues	6,861	**+8.0%**		
IntX and roaming-in	1,591	**-9.1%**		
OIBDA	**4,241**	**+2.8%**	**+6.5%** (1)	☑
OIBDA margin	**43.8%**	**-1.1 p.p.**	**+0.5p.p.** (2)	

y-o-y growth according to guidance criteria

☑ Meeting 2007 guidance

(1) According to guidance criteria.
(2) Excludes personnel reorganization provision impact in 2007

Telefónica España: solid results & strong cash generation, meeting our guidance ...

€ in Millions	2007	FY 2007/06		2007 target	
Revenues	20,683	+4.7%		+3.5%/4.5%	✓
OIBDA	9,448	+9.3%	+11.6% (1)	+9%/+11%	✓
CapEx	2,346	+2.3%		<2,400	✓
Op. Cash Flow (2)	7,067	+11.4%			

y-o-y growth according to guidance criteria

✓ Meeting 2007 guidance

Personnel reorganization provision 2007
(€m)

New program:
- €168m in wireline
- €154m in wireless

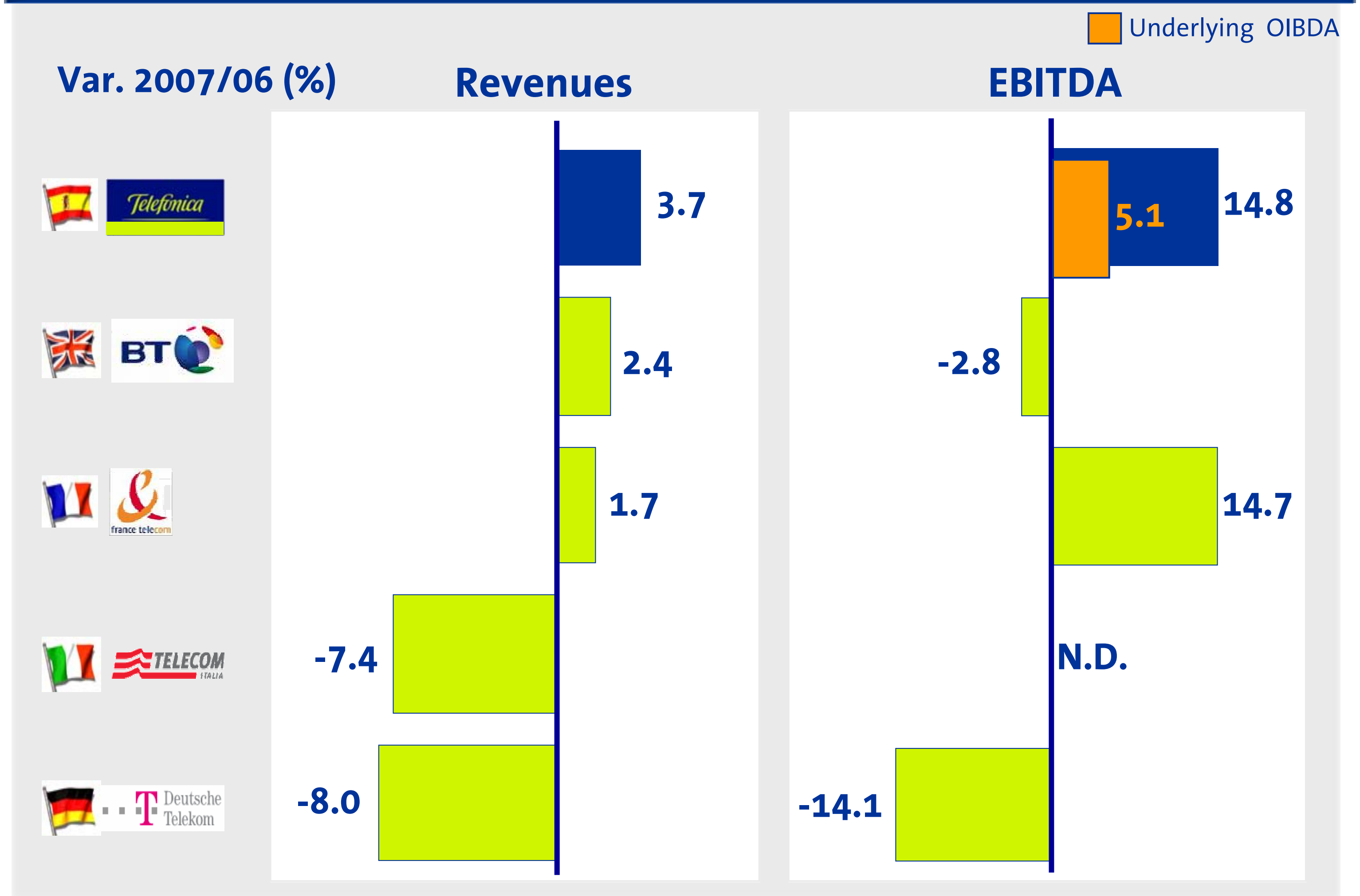
2003-2007 ERE Program

Underlying OIBDA growth: 5.6% (3)

(1) According to guidance criteria.
(2) OIBDA – CapEx. CapEx includes PEI
(3) Underlying OIBDA growth excludes specific effects such as personnel reorganization provisions, real estate program capital gains and subsidies in 2006 and 2007, as well as the EU fine in 2007.

... and maintaining a differential growth profile

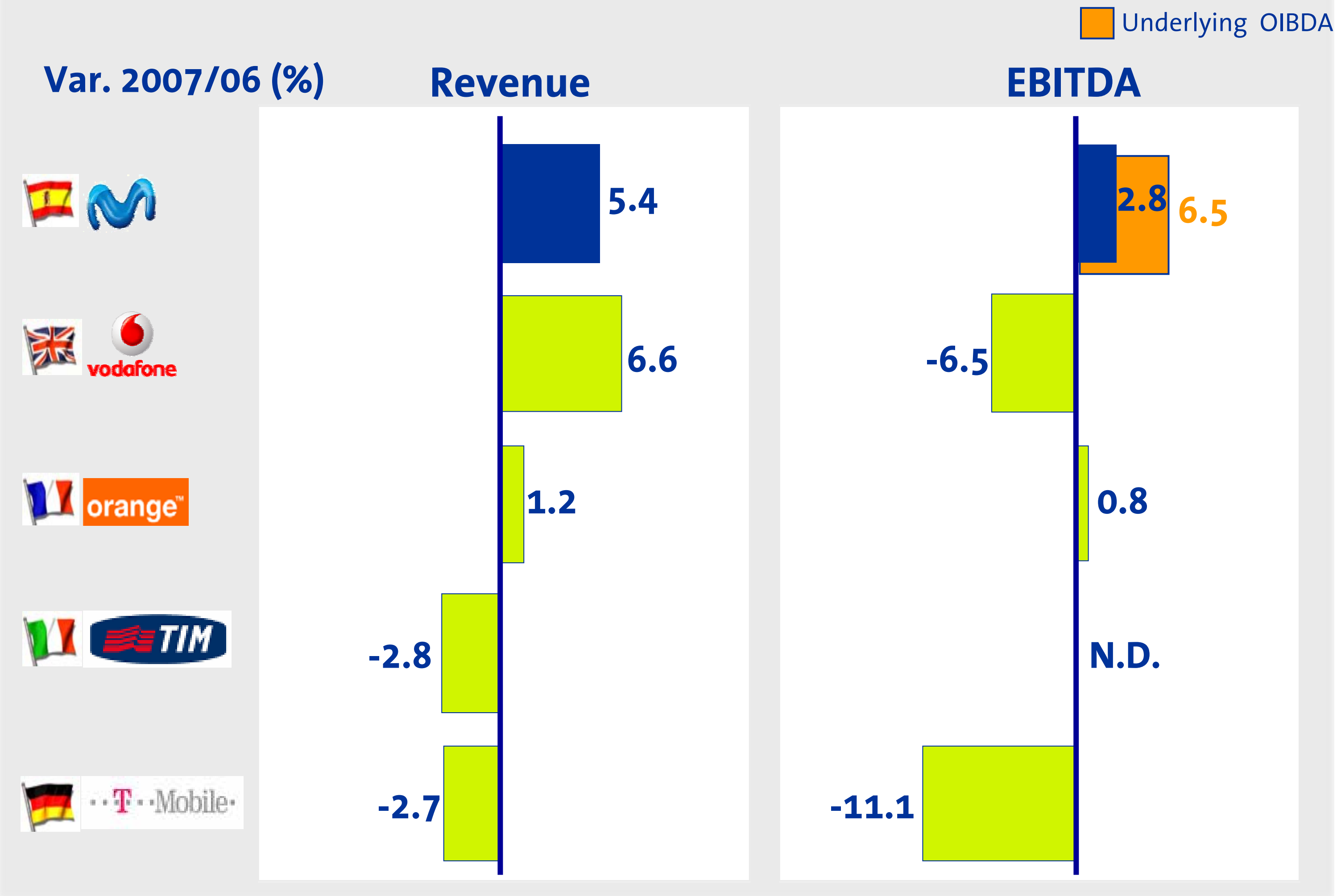
Wireline Operations



Source: Companies press releases.
For France Telecom we include Home Communications France
For BT we include consolidated results for (April – December) 2007 vs. (April – December) 2006
Underlying OIBDA growth excludes specific effects such as personnel reorganization provisions, real estate program capital gains and subsidies in 2006 and 2007, as well as the EU fine in 2007.

… and maintaining a differential growth profile

Wireless Operations



Source: Companies press releases.
Vodafone financial data for (April – September) 2007 vs. (April – September) 2006
Underlying OIBDA growth excludes personnel reorganization provisions

Telefonica

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- Benchmark set of results in 2007

- **Setting the basis to sustain our leadership and superior performance**

We are transforming our organization to better serve our customers …

Since 2006 and during 2007 …

Integrated management

Fixed

Mobile

Corporate

Technology, Operations & Systems

Support Areas

- **Excellent results from business units**

+

- **Capturing integration value:**
  - Capturing, retaining and winning back clients
  - Enhancing operational efficiency and increasing synergies

… and early in 2008

Residential

"Joint customer vision"

SMEs and SoHo

"New customer approach"

Wholesale

"A new business to exploit jointly"

Corporate

"Further benefit from integration"

Technology, Operations & Systems

Support Areas

"Further synergies"

… exploiting our commercial strength …

Sales Force

- Integrated sales force in Corporate
- Joint objectives in SMEs and SoHo sales force

Points of sale

- Indirect channel sells complete fixed and mobile offer

Call centres

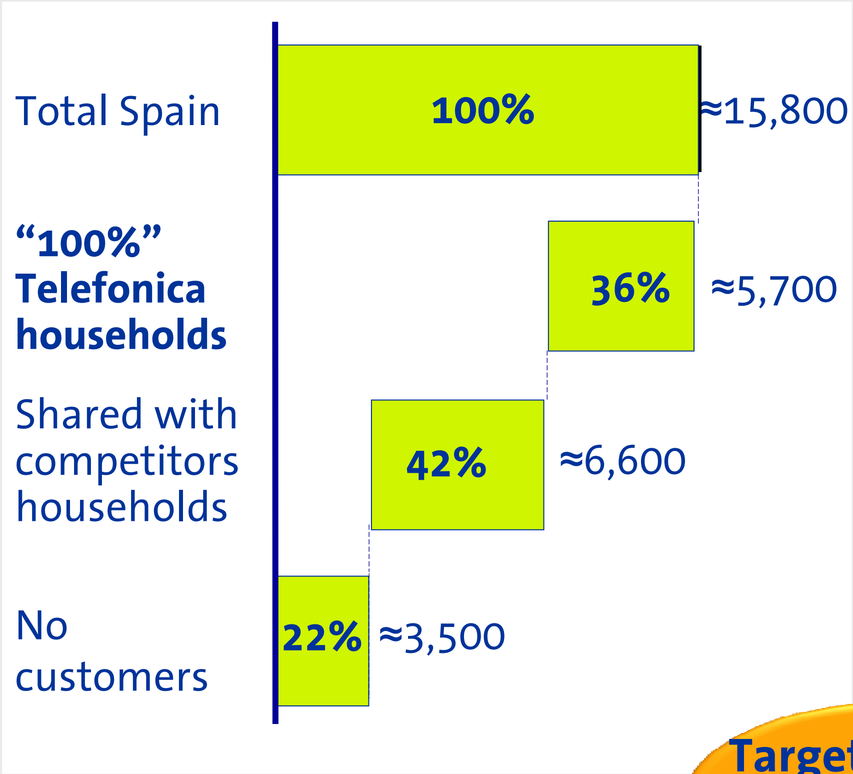
- Organizative and operative integration of call centres in Corporate Segment
- Signalling and transferring between fixed and mobile call centres

On line channels

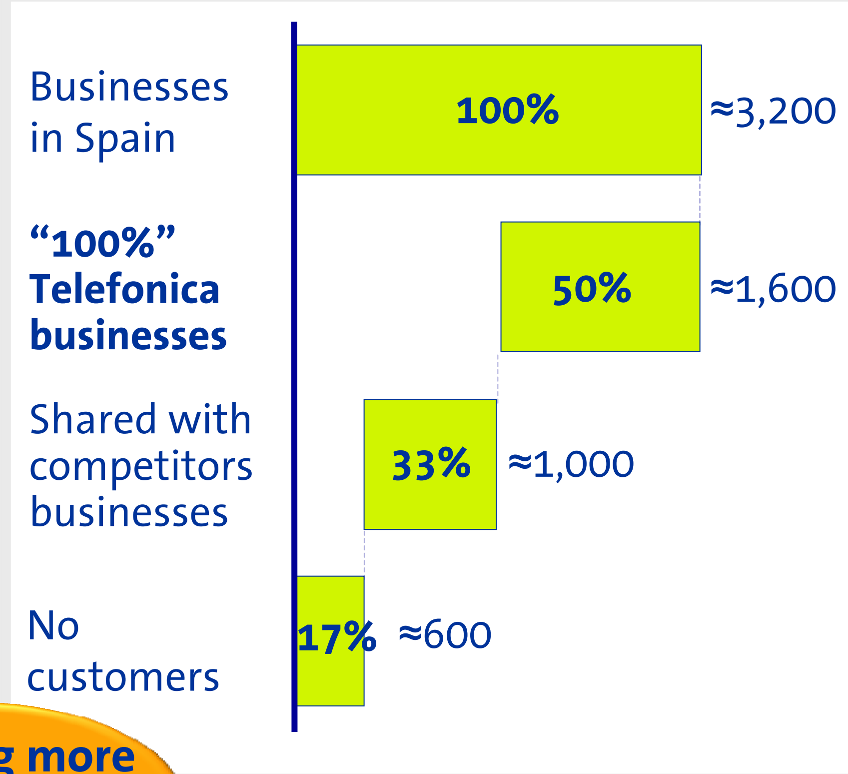
- Joint front end, redirectioning and bundle sales

… and maximizing our potential in “cross selling”

Residential
Thousands of households



SMEs and SoHo
Thousands of SMEs and SoHo



Targeting more “100%” Telefonica customers

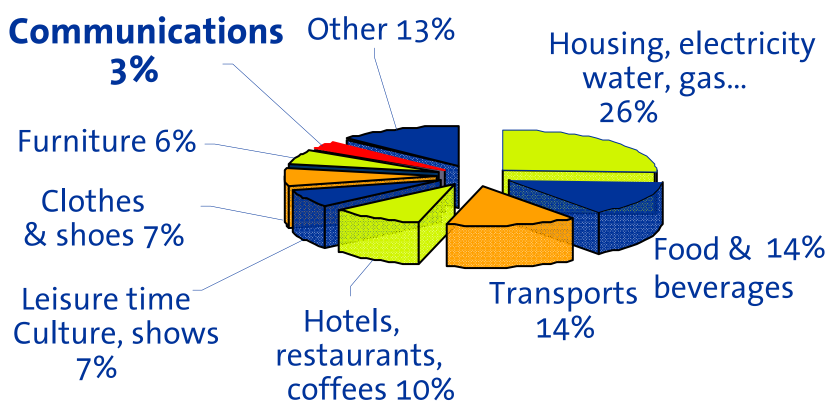
“100% Telefonica households” have all the services with Telefonica (Fixed + Mobile + BB +Pay TV) and “100% Telefonica SMEs and SoHo” have Fixed + Mobile + BB services with Telefonica. “100%” customers of competitors are included in “no customers”
Source: Telefónica Market Research (2H 2007)

The Spanish market continues to grow

Some hard data …

- Although the Spanish economy is slowing down, it is **expected to continue outgrowing the EU**
- **Population will keep growing**
- **Telecom expenditure** in our market only represents **3% of the total family expenses**
- **The Telecom sector performance** is more dependent on the **evolution of households** than on new houses:
    - **number of households continues to grow**
    - **<40% of new fixed lines in 2007** were **linked to new buildings**

Family Budget Survey
(INE 2006)



Sources: INE, Telefonica Estimates

There are opportunities to capture in 2008, and we have a very strong starting position

	Fixed business	Mobile business

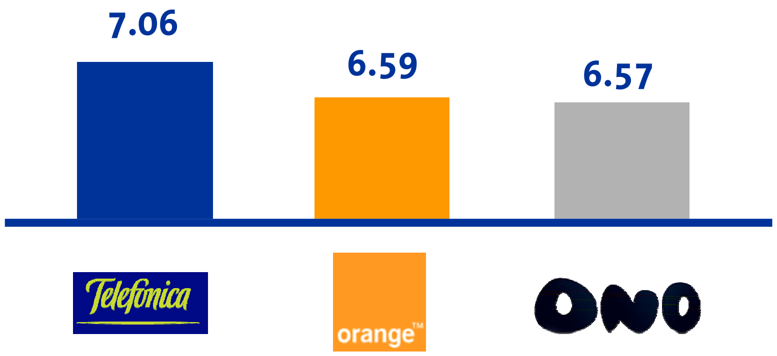
Spanish market	▪ **Fixed BB penetration** is 35% of total households
	  ▪ BB penetration in households with fixed access is 52% as of Dec-07. 2010E target of 75%
	▪ **Pay TV penetration** among the lowest in W.European markets
	▪ Strong potential growth in **VoD and PPV usage**
	▪ **HDTV** and other services …
		▪ **Lower mobile penetration** than in main Western European markets.
		  ▪ 111% as of Dec-07. 2010E target of 135%
		▪ **Mobile BB penetration** of total households is below 3% as of Dec. 2007.
		▪ **Outgoing voice MoU and Data ARPU** are low compared to other Western European markets
		▪ Strong potential growth in **mobile e-mail, TV, music, content, m-commerce, advertising …**

Telefonica España Position	▪ **≈60%** of our revenues are **"fixed"** ▪ **>80% of our BB** customers have **bundles** (lower churn) ▪ **Workstations strategy**, increasing loyalty in BB ▪ **Long term** contracts with **corporate clients**	▪ **Largest on-net community:** ≈23 million accesses ▪ **60%** of our customers are **contract customers** ▪ **Benchmark** loyalty programs and **churn rate in the industry** ▪ **Only 16% of our customers have 3G devices:** strong potential growth

In Broadband, we sustain a quality premium...

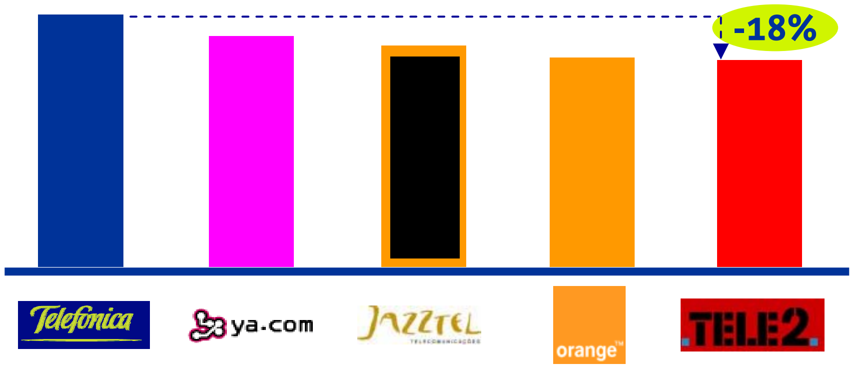
Internal Customer Satisfaction Index

Telefonica customer satisfaction index
Dec. 2007. Residential



External study (by ADSLZone.net)

Real/Nominal download speed for 3Mb ADSL connections [1] (Telefónica base 100)



#1 Price/Quality ratio in fixed telephony[2]

"Preferred BB Provider"[1]

(1) According to a study published by ADSLzone.net (over 1.2 Mill. Speed tests performed on December, 19th, 2007).
(2) According to a study published by UCE (Unión de Consumidores de España) in Dec. 2007.

... and a full range Broadband offer to tap all market segments

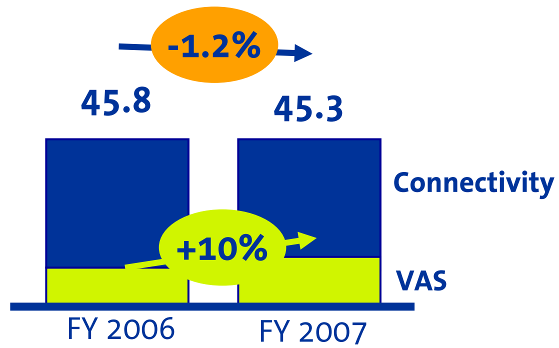
RESIDENTIAL MARKET
Duo Prices (€/month)

2007

1Mb
39.9€

Offer	Price	Description	Purpose
10Mb	44.9€	Dúo ADSL 10 Mb + Llamadas. Alta y 1 mes GRATIS	Increase ARPU & loyalty
Upgrade to 3Mb	39.9€	duo ADSL + LLAMADAS	Reference offer
1Mb	29.9€	dúo 1Mb ADSL + LLAMADAS	Entry offer
1Mb	19.9€	Limited Download Capacity up to 2Gb. Additional 2Gb for €5	Entry offer

BB ARPU
(€/month)



We are further developing our local approach

Example: "Plan Valencia"

"Valencia in blue"

Objectives:

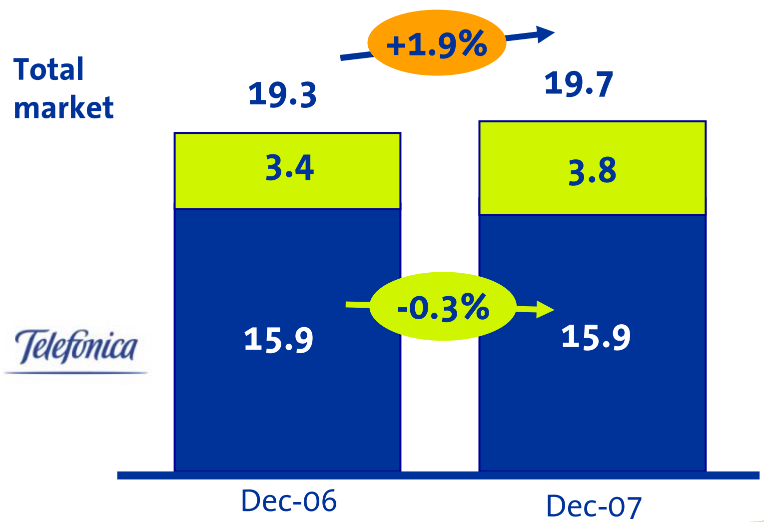
- **Increase Market Share in BB and TV** during next 3 years
- **Identify key drivers in local strategy** and actions to develop local approach plan

Specific Commercial Actions in Valencia

Our fixed lines evolution is a benchmark in Europe

Lowest fixed telephony loss since 2001 …

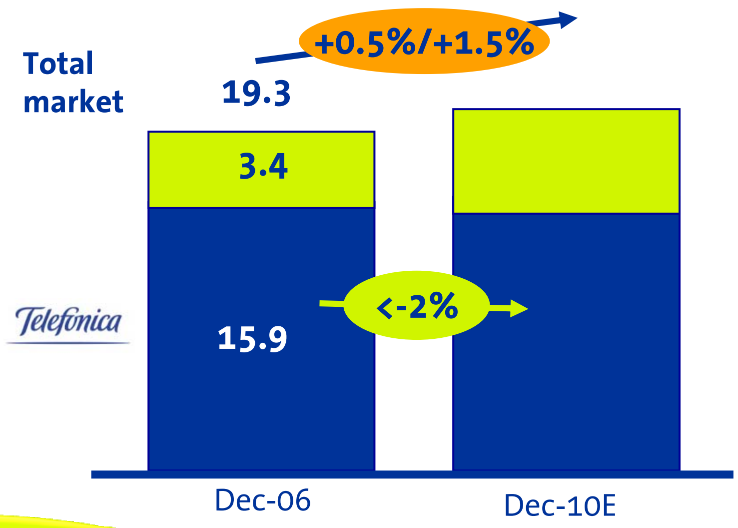
Access trend
Million users



… on track to meet our long term guidance

Expected Access trend
Million users

CAGR 06-10E



Increased competition in the market with the unbundled access regulation

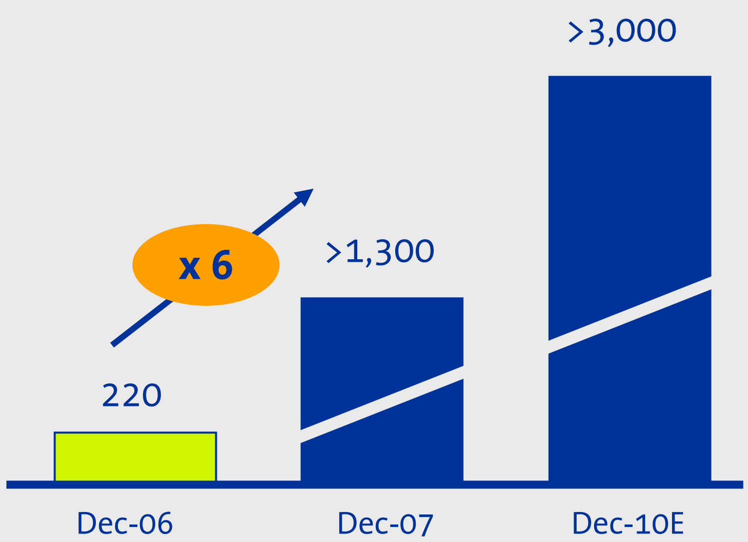
We are pushing "Respuesta Empresarios" strategy in SMEs ...

A complete value proposition ...

'All your ITC needs under a monthly fee: advice, sale, installation, maintenance, management and renewal'

... obtaining very good results

Number of Workstations
(in thousands)



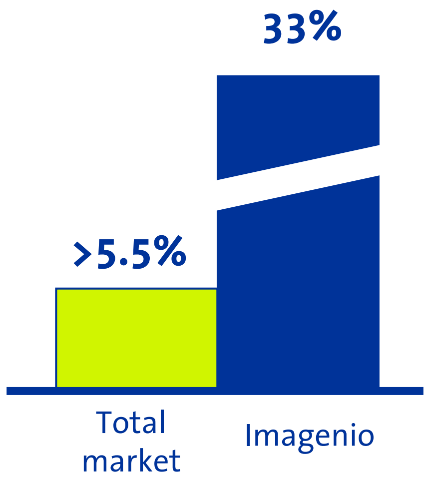
Lower churn in Customers with Workstations

… and we are driving the Pay TV market growth

Increasing market share …

Pay TV Market growth 2007

(Dec-07/Dec-06)



”Most Competitive Pay TV offer”(1)

“Most advanced personal TV”(1)

… and developing our offer

Enhanced features in Q4 07 and Q1 08

PAST TV

- **Access to content** of 4 TV channels **broadcasted 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**
- **Prescreening of series …**

(1) According to study published by Asociación de Usuarios de la Comunicación on Dec 2007.

In the mobile business, a tougher competitive environment has arisen in 2007 …

From 3 players in 2006…

movistar · vodafone · orange

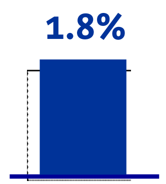
… to over 15 players in early 2008

4 Network operators: movistar, vodafone, orange, yoigo

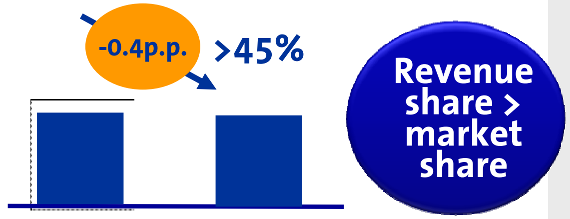
MVNOs: euskaltel, LEBARA MOBILE, EROSKI MÓVIL, Carrefour MÓVIL, ONO, simyo, BT, pepephone.com, happy móvil, móbil R, MAS movil

… we were prepared, and had a limited impact

New entrants market share



TEF Market Share



Contract churn

Data based on companies press releases and internal estimates
(1) Source: Vodafone and Orange Q4 07 results releases

Telefonica

… with new players claiming to be offering aggressive tariff schemes…

National Calls
12
€cent/min.

Voice & SMS
8 €cent
Con recarga
MAS FACIL

9 cent.
MINUTO
SMS
A todas horas
A todos los operadores
A todos los fijos de España
Sin consumo mínimo
Sin compromiso de permanencia
Para prepago y contrato

… that we were already offering to our clients

3 €cents/min.
ON NET TRAFFIC

+

ON NET TRAFFIC PROMOTIONS

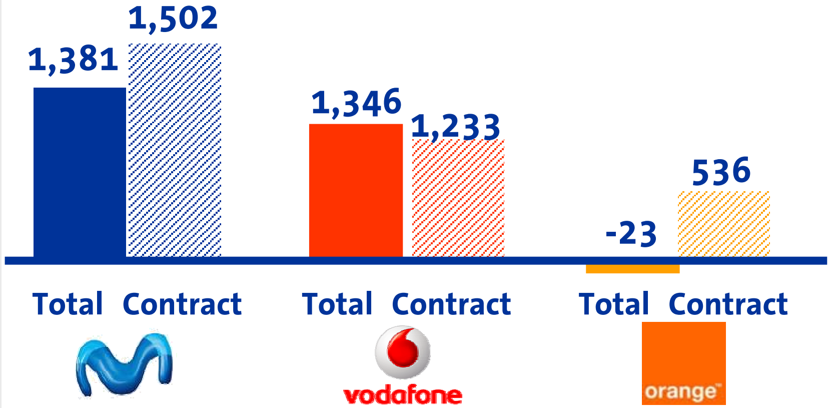
LEVERAGING THE COMMUNITY EFFECT

- **Biggest on-net community** >45% M. share
- Customers with **on-net modules have lower churn**

Our focus on value customers drives revenue growth...

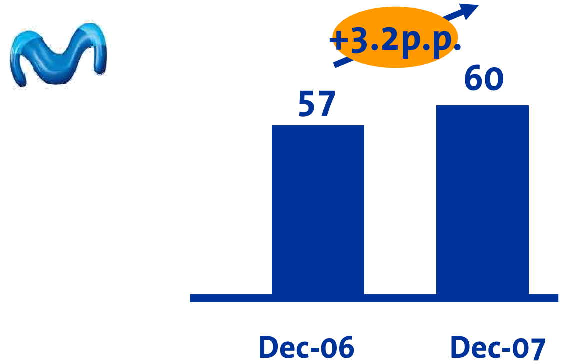
#1 Net adds in 2007

2007 Net adds
(in thousands)



Increasing the contract customer base weight

Contract over total customer base
(%)



- **European benchmark contract churn at 1.0%**

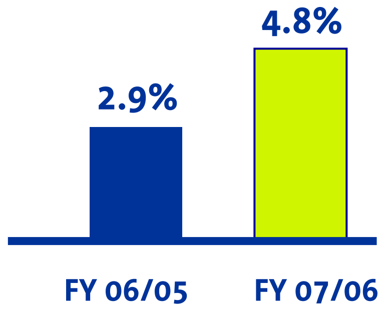
  Slightly reduced in 2007 (-0.03p.p.)

- **Higher market share in contract clients than global market share:** >47% m. share in contract vs. >45% global market share

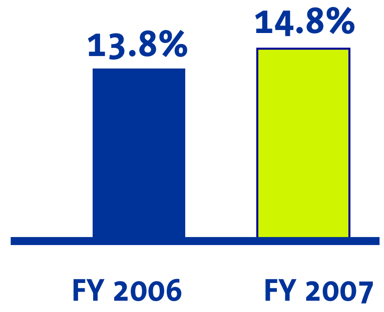
Data based on companies press releases and internal estimates

...to be complemented by capturing the Data opportunity

Data ARPU Growth

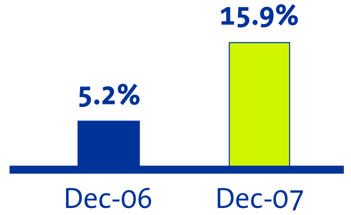


Data weight in total ARPU



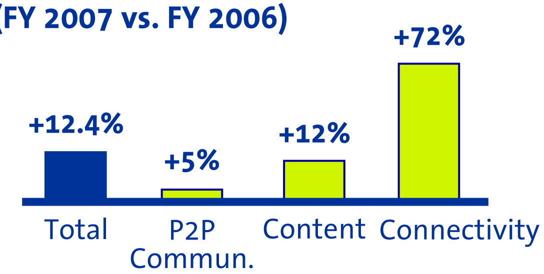
... Data ARPU sustained on...

3G over Customer Base ex-M2M



- **~3.5M** 3G devices at Dec-07
- Leading the push in Q4 07: +687K devices

Data revenues growth (FY 2007 vs. FY 2006)

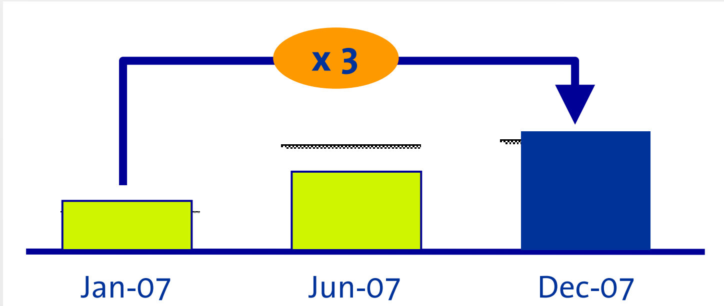


- ~500K flat & daily rates

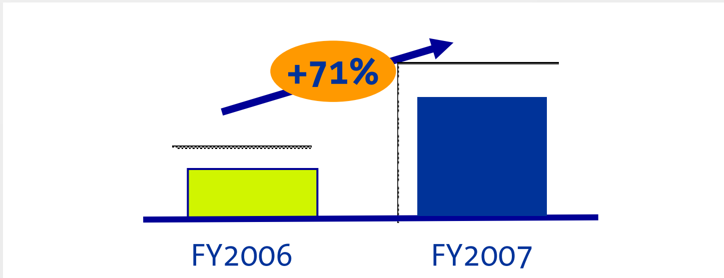
Data revenues split	2006	2007
P2P Communications	**58%**	**54%**
P2P SMS	*56%*	*52%*
Content	**33%**	**32%**
Connectivity	**9%**	**14%**

Our Mobile Indirect Channel is selling our complete fixed & mobile offer with positive results

Number of PoS selling F&M offer



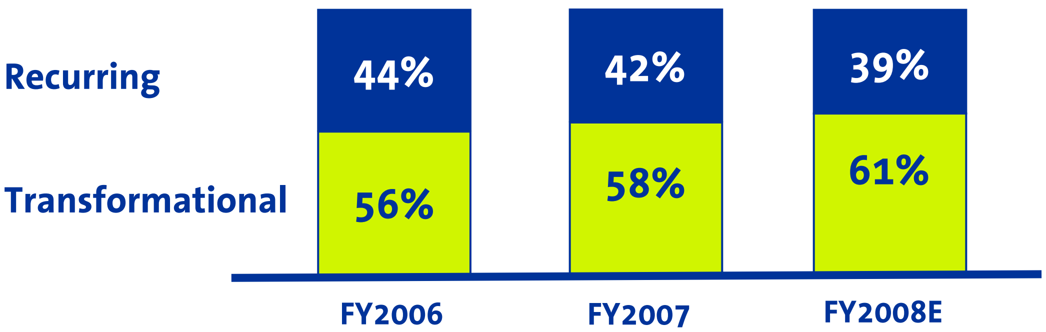
ADSL & Imagenio sales through Indirect PoS



Flag Ship Stores

We are transforming our networks …

Telefónica España CapEx



In Wireless …

- UMTS network densification & HSDPA expansion
- Advance in network and sites sharing

5 year contract with Yoigo including both 2G&3G networks

… and in Wireline

- Access network transformation:

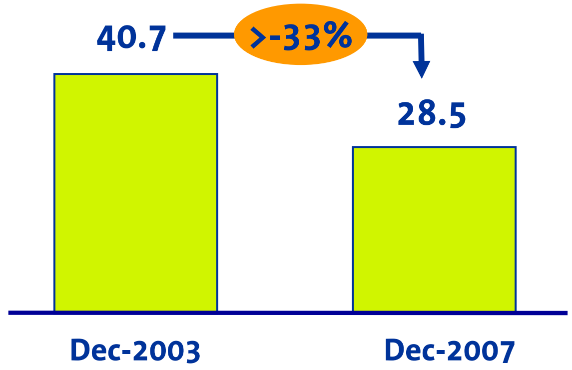
ADSL	10-25Mbps
VDSL2	25-50Mbps
FTTH	>50Mbps

Next launch of NGN services notified to CMT

… and continue to be a reference in efficiency

Redundancy plan (ERE) 2003-2007 ended

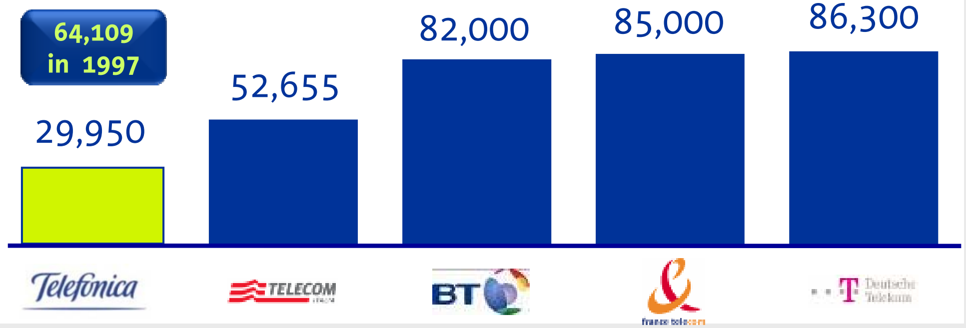
Wireline business – TdE workforce evolution (thousands)



Total ERE Redundancies: 13,870

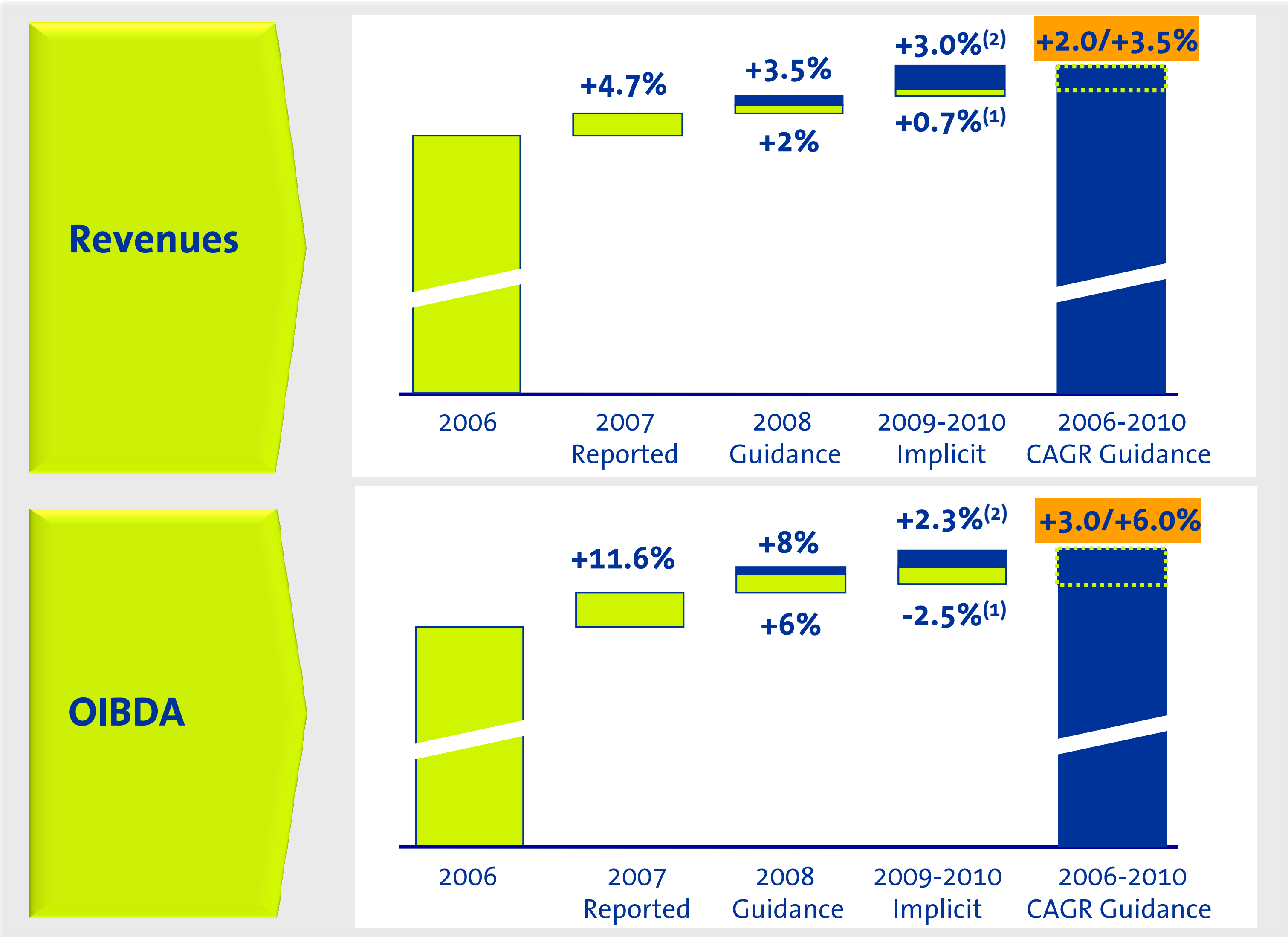
Clearly ahead of the pack

Employees (wireline) Dec-07[1]



(1) Source: Telefonica TdE + T. Soluciones workforce, and for competitors Merrill Lynch estimates for Dec-07

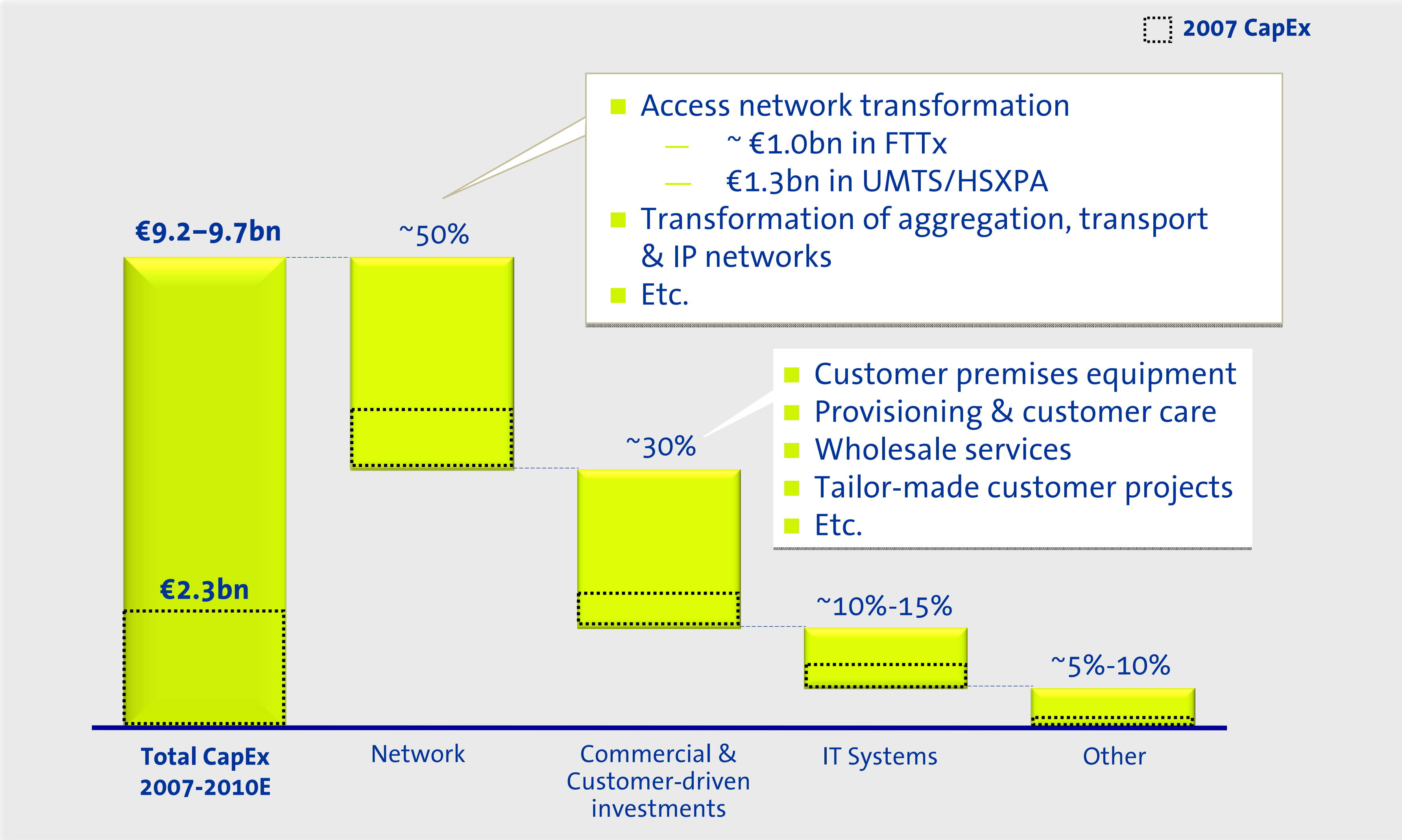
On track to meet 2010 targets



(1) Calculated applying low end of 2008 & low end of 2006-2010 CAGR guidance

(2) Calculated applying high end of 2008 & high end of 2006-2010 CAGR guidance

On track to meet 2010 targets



Conclusions

- **Solid results in 2007**, exceeding 2007 guidance
- Transforming our company **to extract more value from integration**
- **Best starting position** to keep a benchmark profile **and a superior performance**
- **On track to** continue growing in 2008 and to **meet long term guidance**

Telefonica