

# MORGAN STANLEY VII EUROPEAN TMT CONFERENCE

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**CFO, TELEFONICA S.A.**

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*Telefonica*

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The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is un-audited and, therefore, is subject to potential future modifications.

# The best ever Telefónica

1. A leading integrated telco platform
2. A unique track-record of **organic growth**
3. The right scale and diversification for an outstanding business performance
4. Consistently delivering on commitments
5. A trusted company



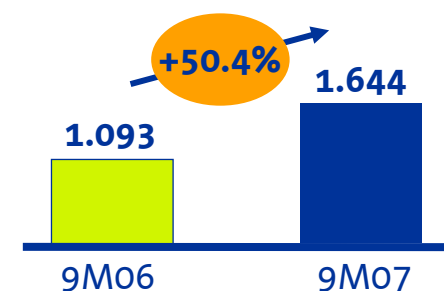
**A growth stock in a promising industry**

# 9M07 results in line with our long term vision...

€ in millions  
(% change y-o-y)

	% YoY change	% YoY organic change <sup>1</sup>
Revenues	+8.6%	+7.6%
Operating Income before D&A (OIBDA)	+24.5%	+6.8%
Operating Income (OI)	+51.0%	+19.2%
OpCF (OIBDA-CapEx)	+37.9%	+12.1%

EPS growth  
(in €)

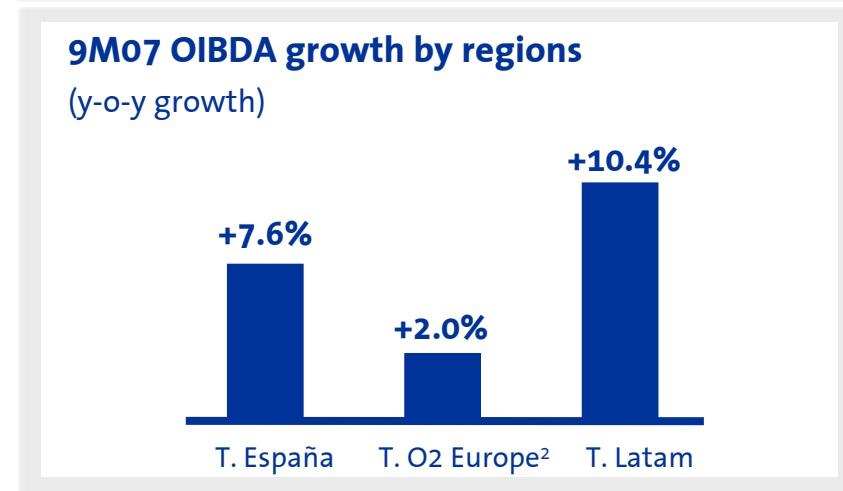
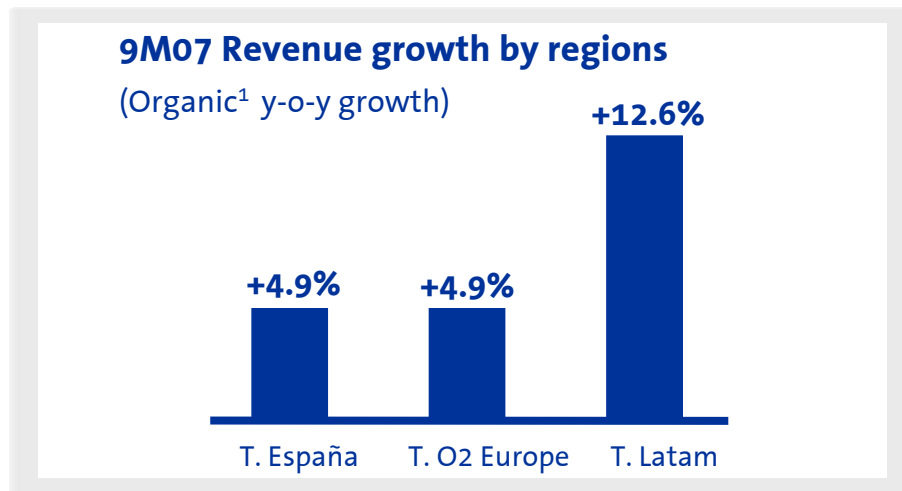
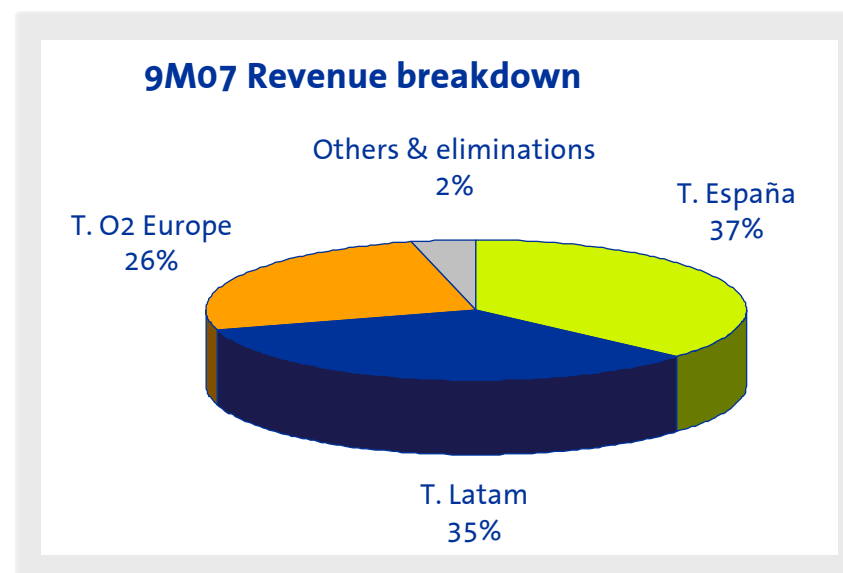
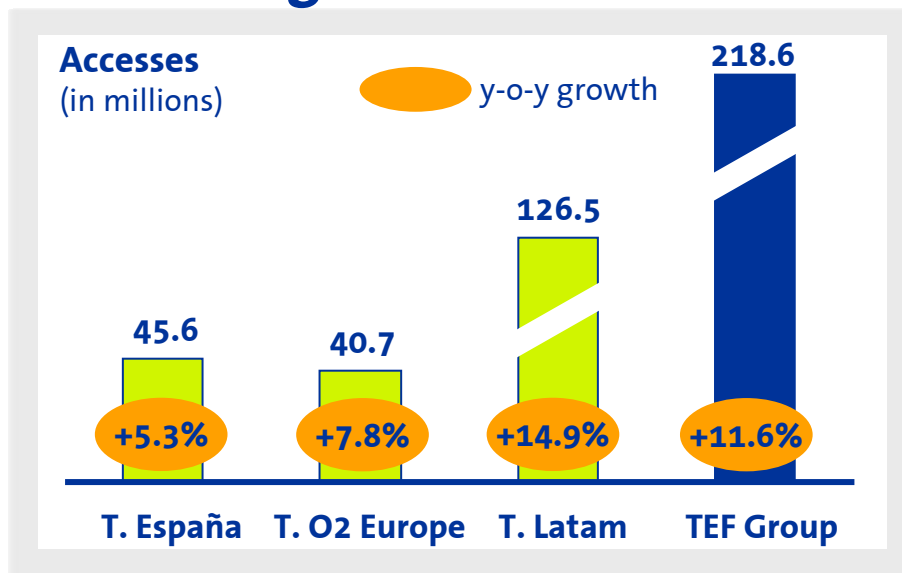


- Revenues, OIBDA, OI and Net income continue to show outstanding growth rates
- Reinforced organic growth
- Guidance upgrade for 2007 fiscal year reiterated

Note: TPI has been discontinued in 2006 following Telefónica's acceptance of Yell's offer in July 4<sup>th</sup>, 2006. Figures are presented considering the Purchase Price Allocation of O2 as of February 2006.

(1) Assuming constant exchange rates and including the consolidation of the O2 Group, Telefónica Telecom and Iberbanda in January-September 2006. It excludes the consolidation of Telefónica O2 Slovakia in January-September 2007, the consolidation of Airwave in April-September 2006 and the consolidation of Endemol in July-September 2006. OIBDA and OI exclude Airwave and Endemol capital gains.

# ...in all geographies, backed on strong customer base growth



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(2) 9M07 excludes Airwave capital gain.

# Telefónica España leads wireline Broadband and Pay-TV growth...

## FIXED TELEPHONY

- Maintaining inter anual access loss rate at record low levels: **-0.7%** (Sep-07 vs. Sep-06)

## INTERNET BROADBAND

- Maintaining market share slightly over **56%**:  
**4.3M** retail **BB** accesses (Sep-07)

## PAY TV

- Increasing market share to reach **12%**:  
**469K** PayTV customers (Sep-07)

Enhancing Broadband offering to tap all market segments

LAUNCHED  
Q3 07

### ■ New 1 Mbps DÚO

Entry price reduced (cap on downloads)



### ■ New REFERENCE offer

1Mbps clients migrated to 3Mbps



### ■ New IMPROVED DÚO offer

1Mbps clients migrated to 3Mbps



### ■ New IMAGENIO

- PAST TV
- SHIFT TV
- INSTANT REWIND
- PVR
- NEW CHANNEL BUNDLES (ASIATIC, CARIBBEAN, ...)



Xmas  
LAUNCHING

# ... while mobile customer growth remains focused on value and usage increase

## CHURN CONTAINMENT

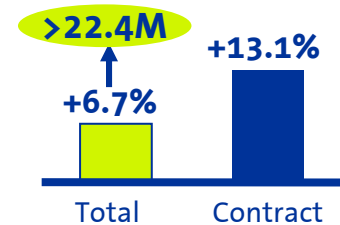
- Top post-pay churn performance below 1%
- Leveraging community effect across the Group
- Summer and Pre-Xmas campaign



## FOCUS ON VALUE CUSTOMER GROWTH

- Already 59% post-pay base
- Segmented offer: SME's specific plans, seniors
- Strong Loyalty program

### Customer growth (y-o-y)



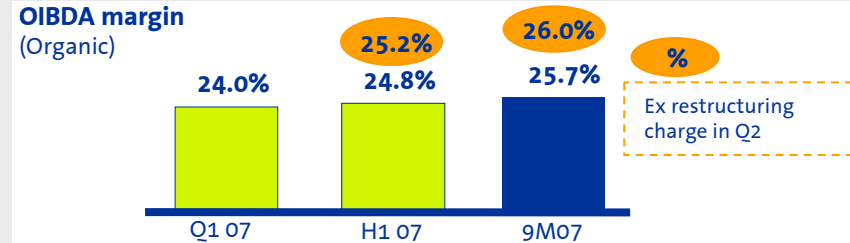
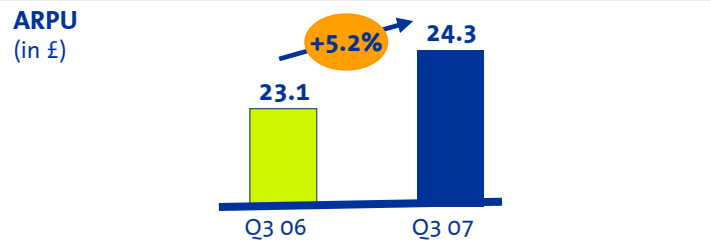
## USAGE

- **Voice:** Traffic promotions in Q3 07 increased traffic by 14.9%
- **Data:** New data tariffs & services drive Q3 07 outgoing data ARPU 6.3% up y-o-y
- **Roaming:** Roamer growth outpaces customer growth

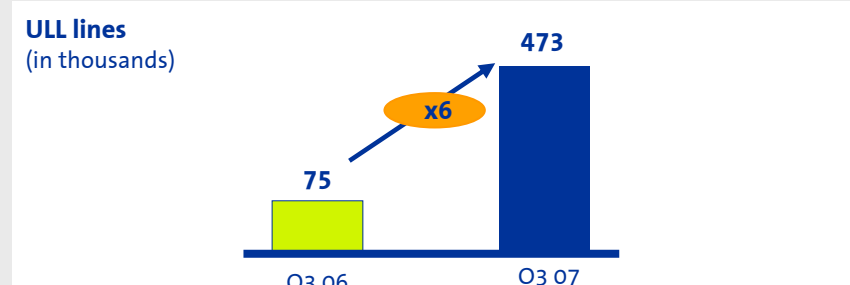
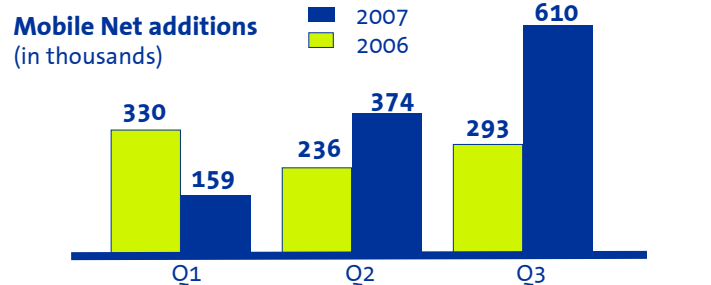


# Telefónica O2 Europe is maintaining momentum while positioned to exploit opportunities as an integrated operator

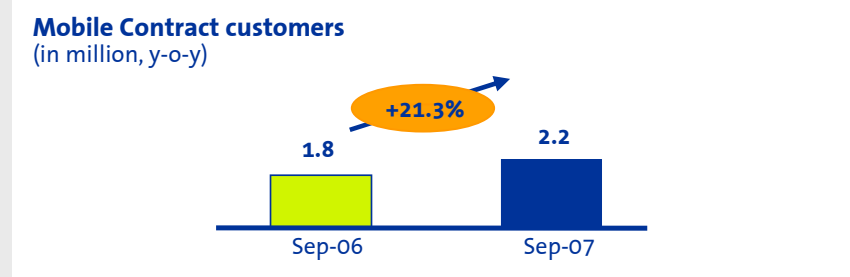
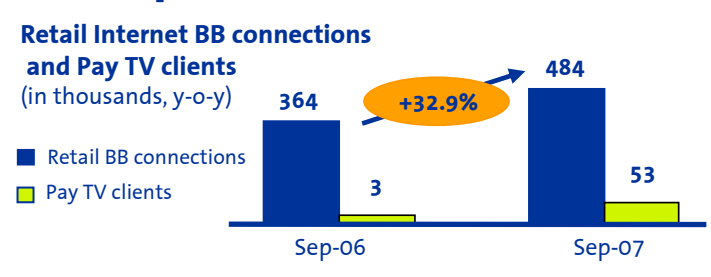
## UK: managing growth / margin balance



## Germany: segmented approach to capture growth in mobile and fixed BB market



## Czech Republic: maintaining top line growth



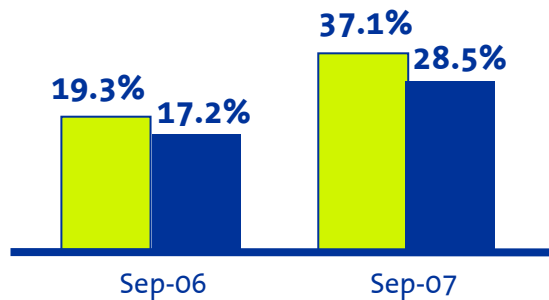


# Telefónica Latinoamérica stands out as main growth driver

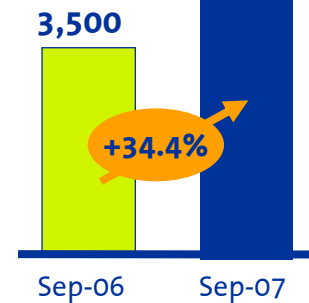
## WIREFLINE: FOCUS ON TRANSFORMATION

### Bundles weight

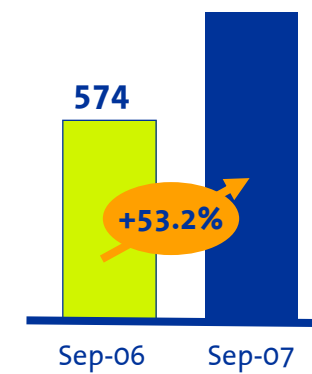
- Local bundles+2P&3P/Fixed Accesses
- 2P&3P/DSL Accesses



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



### Pay TV clients (in thousands)



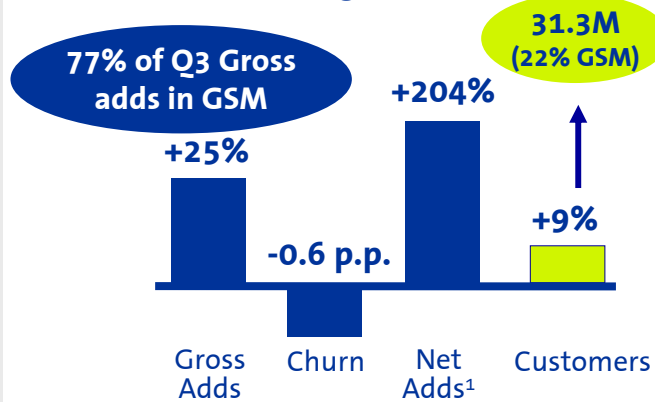
## WIRELESS: FOCUS ON PROFITABLE GROWTH

- Strong increase in mobile penetration (+11 p.p. vs. Sep-06)
- Robust ARPU growth (+8.4% 9M07 vs. 9M06)
- Strong mobile customer base expansion (+20.2%)

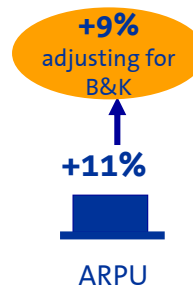
# Brazil & Mexico wireless: strong commercial activity along with robust top line and enhanced profitability

## VIVO

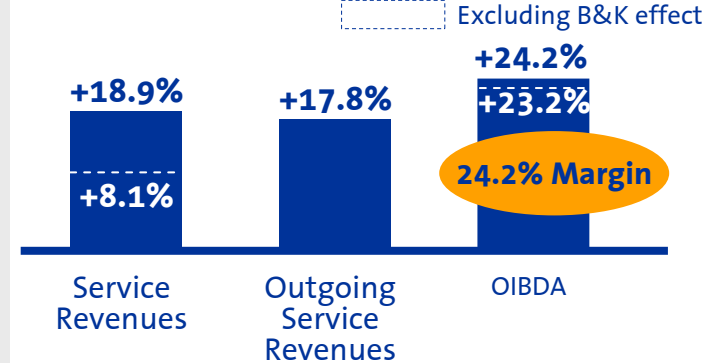
### 9M07/9M06 change



### Q3 07/Q3 06 change (in local currency)

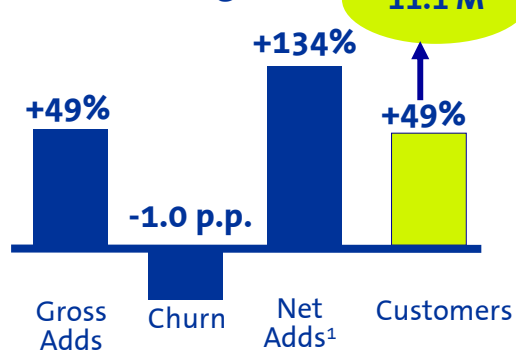


### 9M07/9M06 growth (in local currency)



## MEXICO

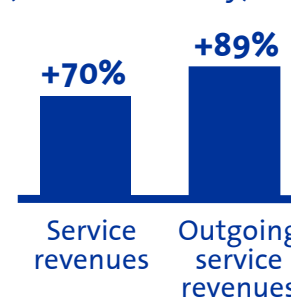
### 9M07/9M06 change



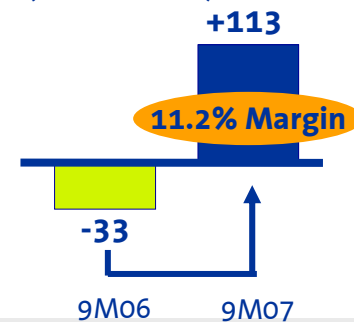
### Q3 07/Q3 06 change (in local currency)



### 9M07/9M06 growth (in local currency)




### OIBDA (€ in millions)



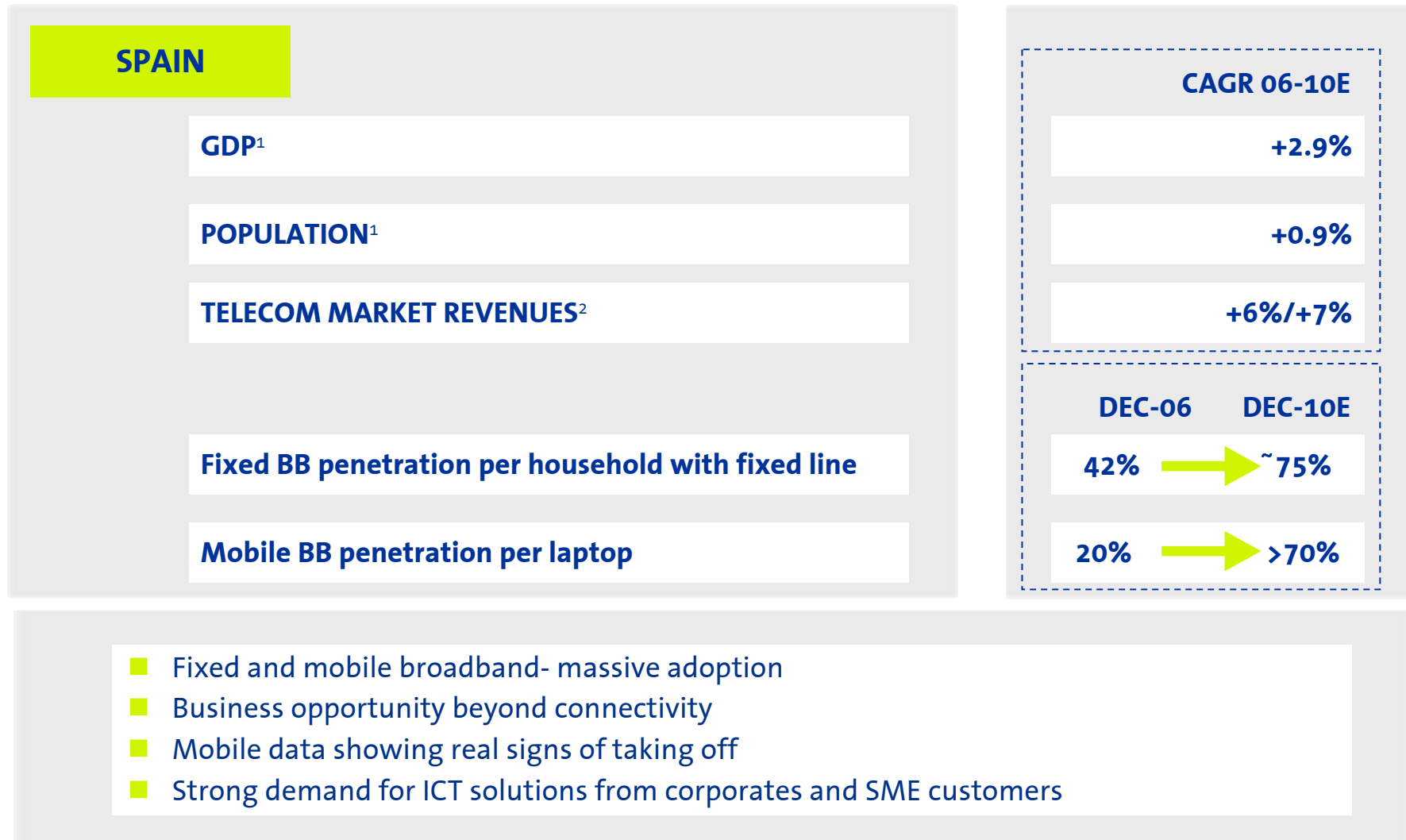
# Telefónica has set ambitious targets for the 2007-2010 period

## TELEFONICA GROUP

(€ in millions)	FY2006 <sup>(1)</sup>	FY2006 (Adj) <sup>(2)</sup>	CAGR 06-10E <sup>(3)</sup>
<b>REVENUES</b>	52,901	51,298	<b>+5%/+8 %</b>
<b>OIBDA</b>	19,126	18,688	<b>+7%/+11 %</b>
<b>OI</b>	9,421	9,098	<b>+16%/+20 %</b>
	<b>FY2006</b>		<b>2010E</b>
<b>EPS <sup>(4)</sup></b>	1.304 €		2.304 €
<b>FCPS <sup>(5)</sup></b>	1.87 €		2.87 €

1. 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) and three months of start-up losses in Slovakia
2. In terms of guidance calculation, Endemol and Airwave results are excluded from the base 2006. OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007E-2010E. 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 assumes constant exchange rates as of 2006. All figures exclude changes in consolidation, other than Telemig acquisition (50% through TEF stake in Vivo), TVA and Deltax (Czech Republic)
4. Reported EPS
5. FCF available to remunerate Telefónica S.A. shareholders to protect solvency levels and to accommodate strategic flexibility

# Leveraging a sound growing Spanish market ...



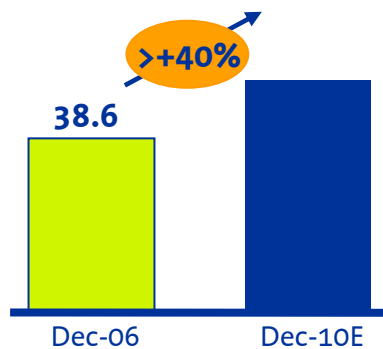
(1) Source: "Consensus Forecast" for GDP; INE and Eurostat for population

(2) 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

## ... together with additional growth at Telefonica O2 Europe

### EUROPE

Telefónica O2 Europe Accesses  
(millions)



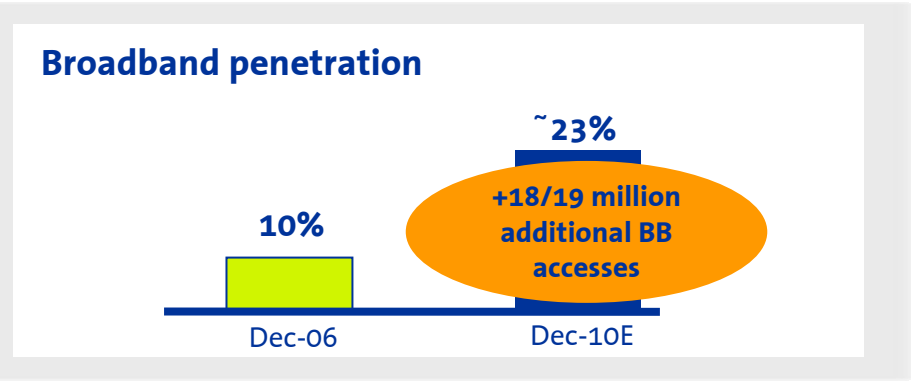
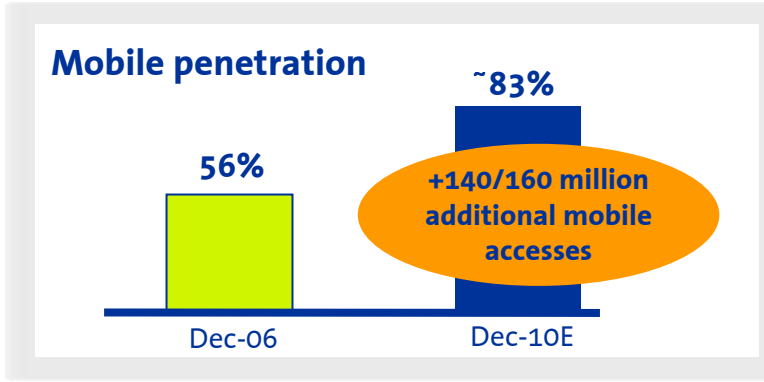
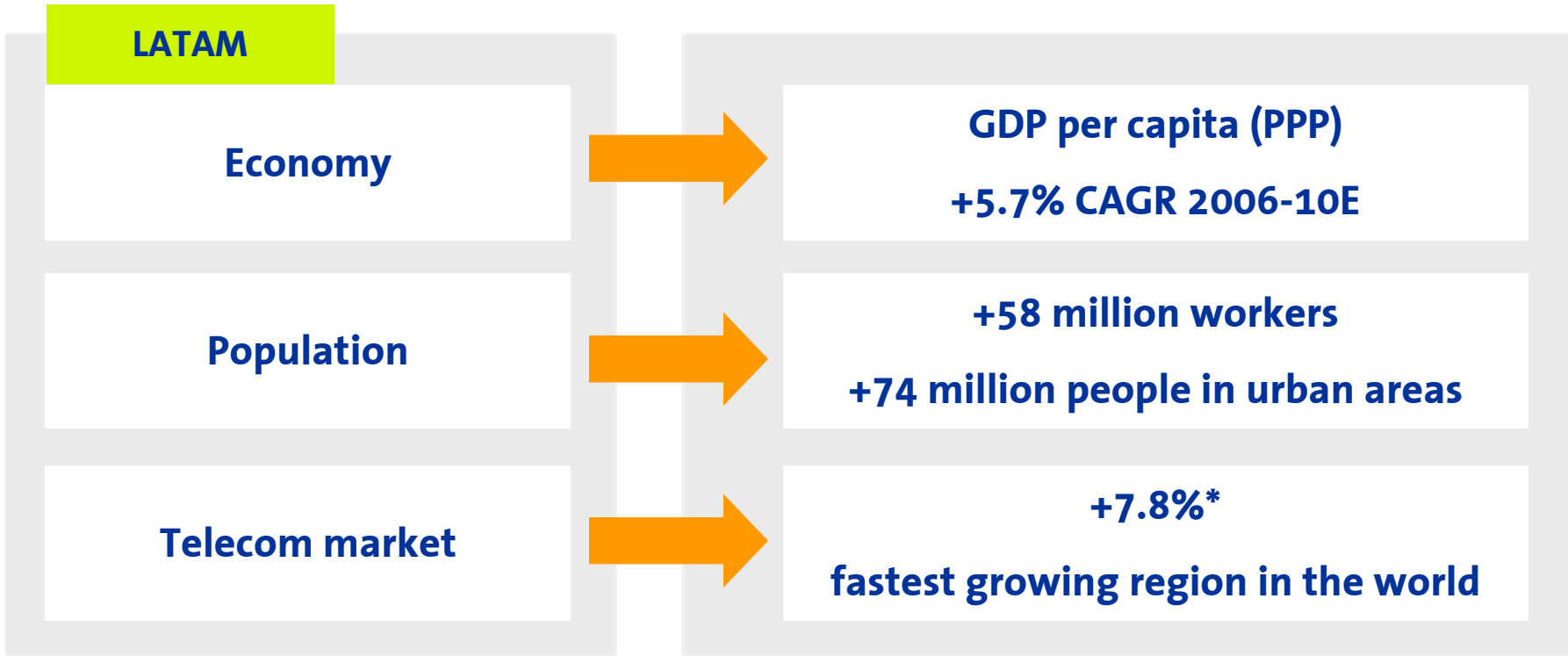
- Become an integrated operator and exploit cross-selling opportunities

- **UK:** Continue to grow above the market

- **Germany:** Investing for the long term to increase growth rate

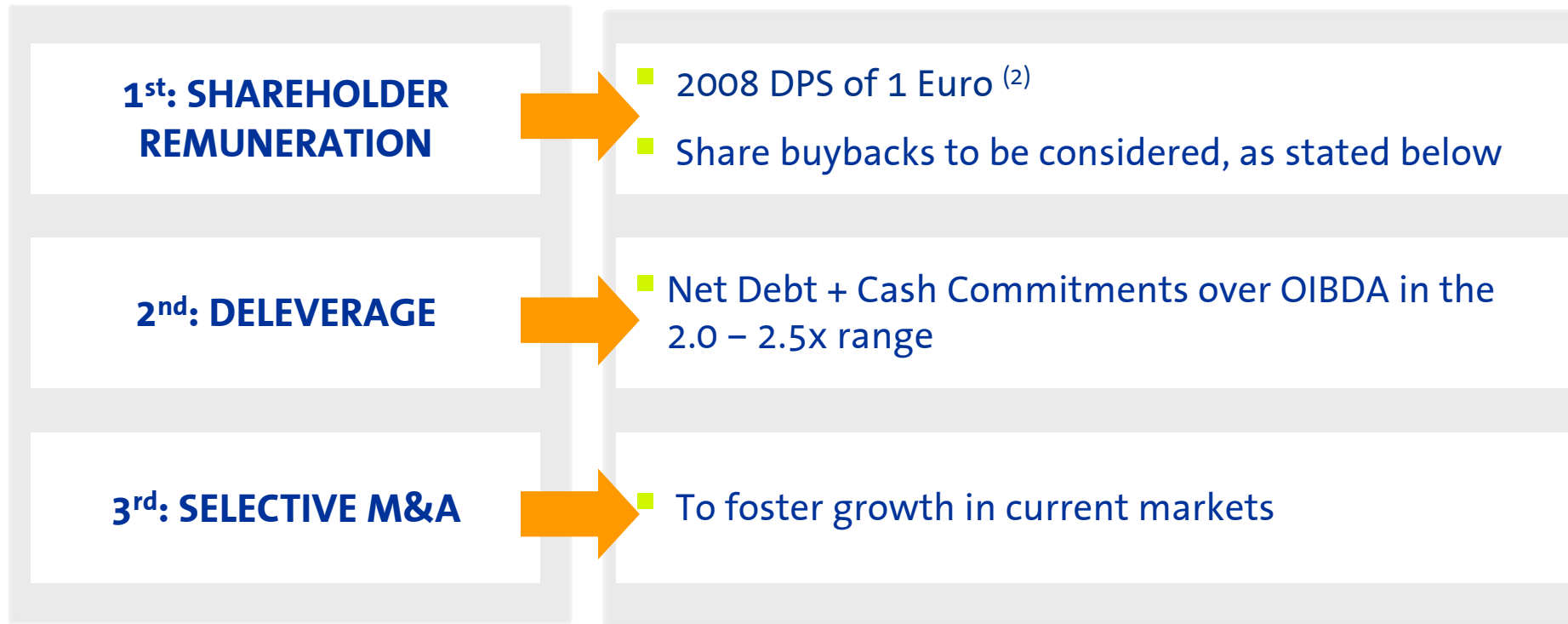
- **Czech Republic:** Maintain share and leverage integrated offerings

# T-Latam is uniquely positioned for further growth



# Telefónica has set a disciplined use of FCF with clear priorities

**> € 40 bn**  
Cumulative FCF 07E-10E <sup>(1)</sup>



**Excess FCF will be allocated once it is generated and following these priorities**

## This is our investment value proposition

- Unique organic growth opportunities, putting the customer at the heart of everything we do
- The right scale & diversification
- Further opportunities in efficiency gains
- A great track-record of delivering on what we promised



**TELEFÓNICA: A growth stock in a promising industry**



*Telefonica*

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