

TELEFONICA ESPAÑA: Benchmark results



GLOBAL BANKING & MARKETS

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June 20th, 2008



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1 Solid performance in Q1 08



2 Addressing investors' concerns

T.España has maintained a strong momentum in Q1 08

Strong commercial push

- Sustaining robust competitive position in BB
- Steady growth in Pay TV
- Sound leadership despite new entrants in the mobile market
- Continued strong growth in mobile data services

46.8 m accesses (+4.5% y-o-y)

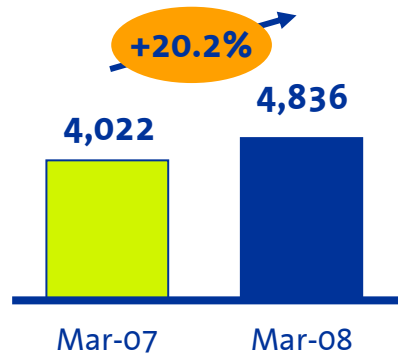
Continuous focus on efficiency to sustain outstanding profitability

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

In the wireline business, we are maintaining our competitive position ...

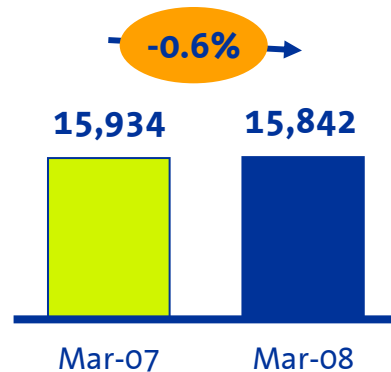
Expanding our access base by upselling and getting new customers

Retail Internet BB Accesses
(in thousands)



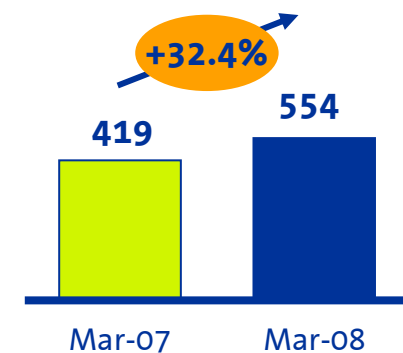
- Market share \approx 57%E
- Q1 08: > 200k net adds

Fixed Telephony Accesses
(in thousands)



- Market share \approx 80%E in a growing market
- Accelerated uptake of naked shared loops

Pay TV clients
(in thousands)

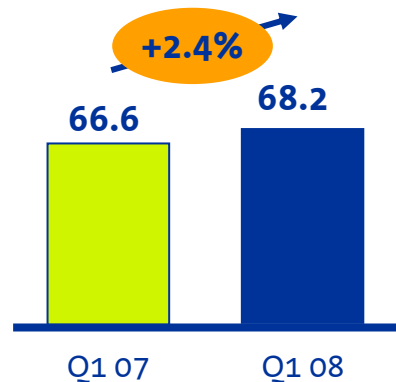


- Market share >13%E
- Steady growth in Pay TV

... while increasing value from our customers

Sustained revenue growth

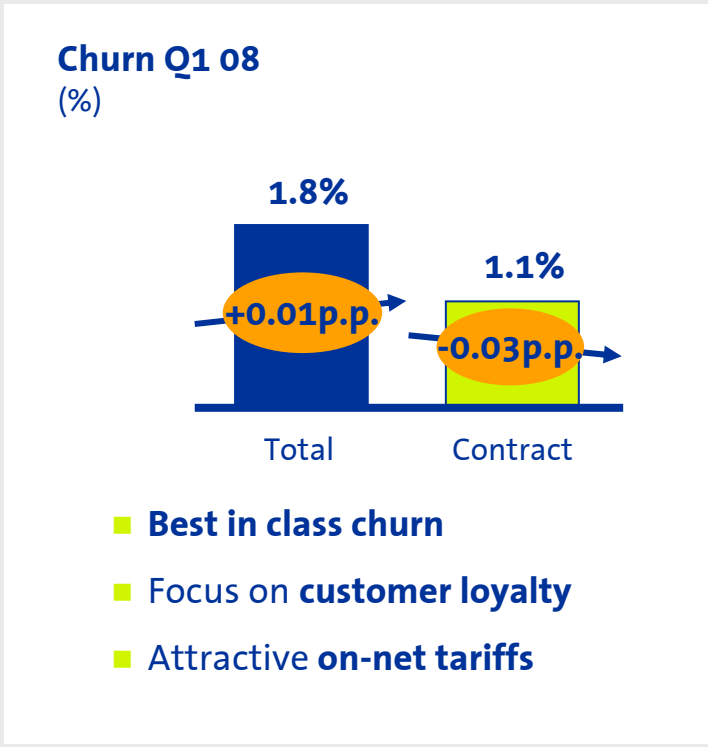
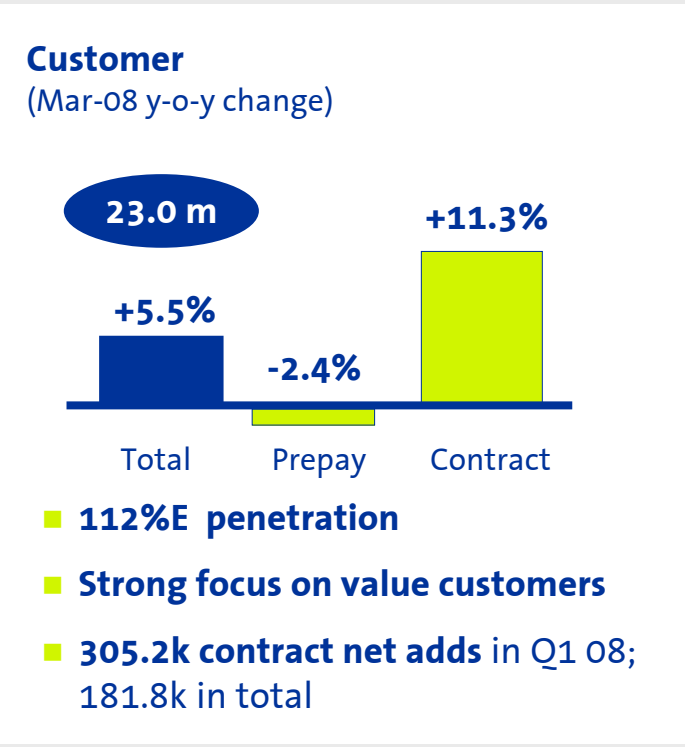
Total ARPU
(€)



- **+2.0% PSTN** monthly fee increase in January
- **Healthy trends** in traditional voice services
- **>82% of BB accesses with 2P/3P**
- **+9.8% growth** in Internet & BB revenues
- **Steady increase** in number of **Workstations** in SMEs and SoHo
- **>75% VPNs** already migrated from traditional to **advanced VPNs**

In the wireless business, we recorded a healthy customer growth ...

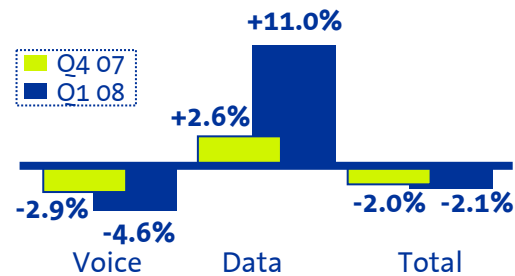
Sound leadership despite new entrants, leveraging market leading churn rate



... and continued pushing data usage

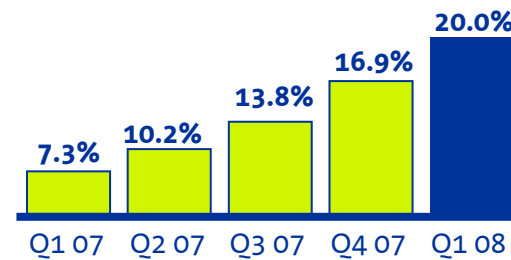
ARPU performance in line with Q4 07 Strong growth in data services

Outgoing ARPU
(y-o-y change)



3G Penetration

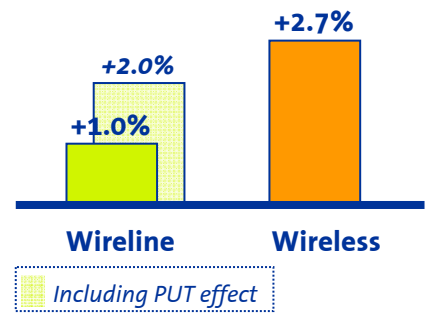
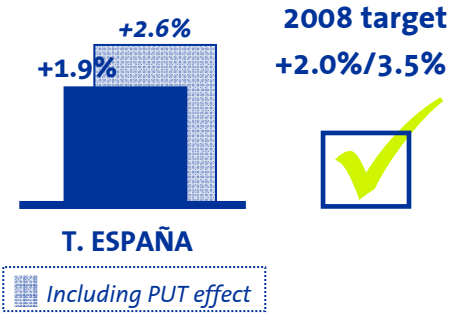
(3G devices over customer base ex-M2M)



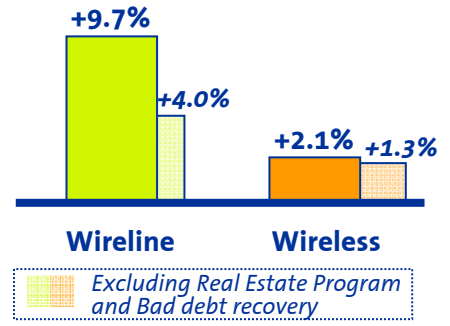
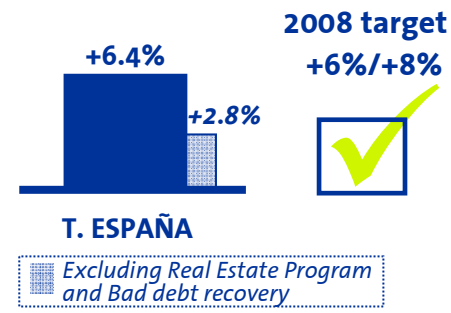
- 30.5€ ARPU in Q1 08 (-3.7% y-o-y in Q1 08 vs. -3.6% in Q4 07)
- Incoming ARPU impacted by MTR cuts
- ≈550K flat & daily rates subscriptions
- Strong push in content SMS (“Superconcursos”)

Q1 08 results in line with 2008 guidance ...

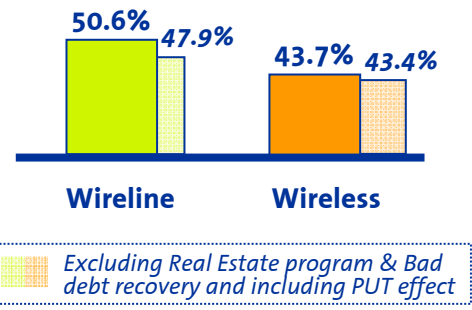
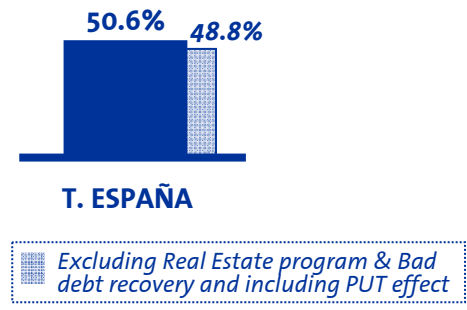
Revenue growth
(Q1 08 y-o-y change)



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

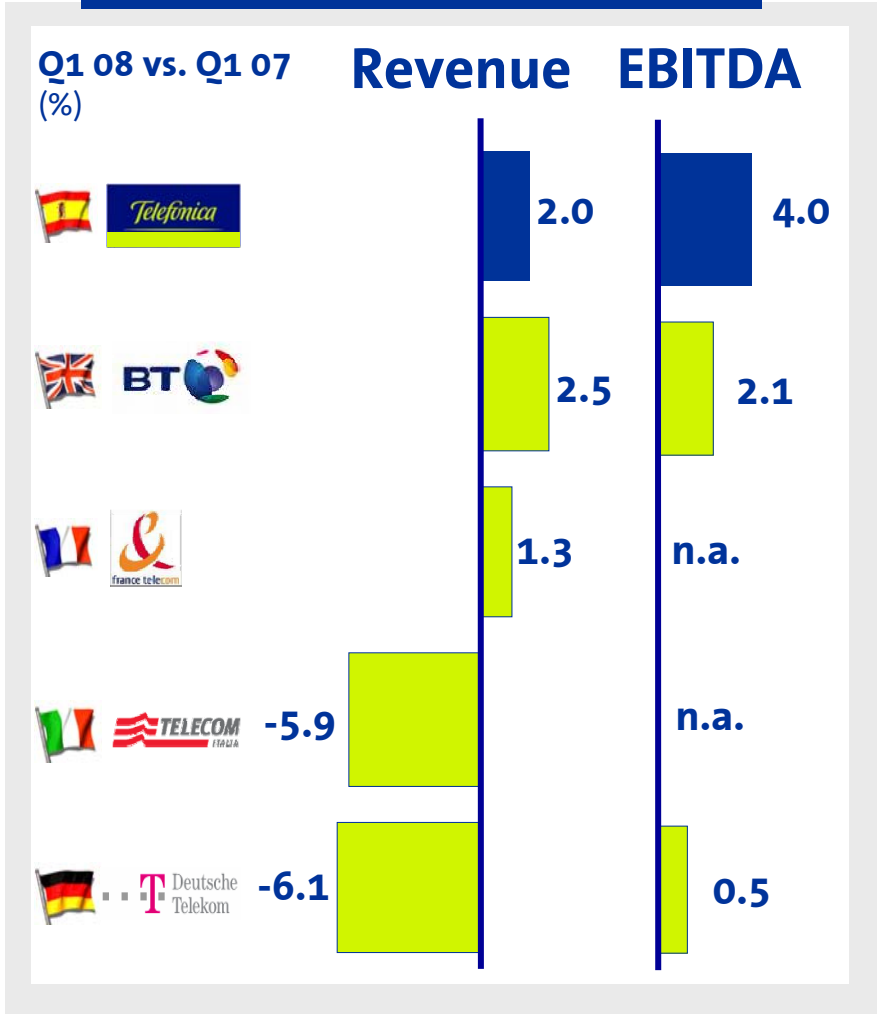


OIBDA margin
(Q1 08)

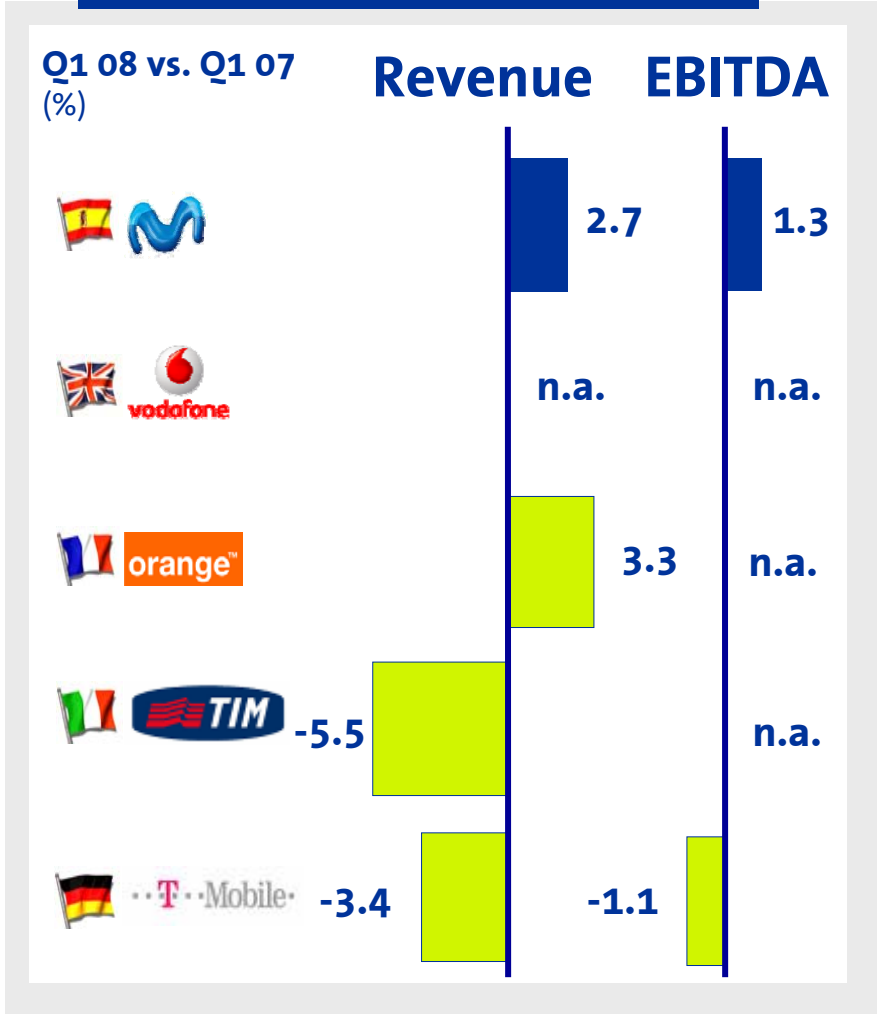


... delivering once more a superior performance

Wireline operators



Wireless operators



Source: Companies' press releases.

BT Group results (include international operations). Domestic data not available.

VOD information available for 2H (Oct-07 to Mar-08); Jan-Mar 08 Revenues and EBITDA not published for UK market.

TI EBITDA not disclosed for wireline and wireless operations but for the integrated business (-6.1% Jan-Mar 08 vs Jan-Mar 07)

FT does not disclose Gross Operating Margin but for H1 and FY results

T.España wireline revenue growth includes PUT effect; wireline and wireless OIBDA growth excludes Real Estate capital gains and bad debt recovery

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1 Solid performance in Q1 08

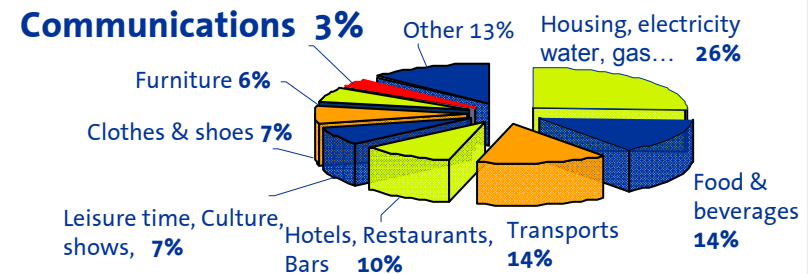
2 Addressing investors' concerns

What is your dependence on economic growth?

Some hard data for an uncharted territory...

- **Population will keep growing**
- **Sector performance** is more dependent on the **evolution of households** than on new houses:
- **≈ 60% of wireline revenues are fixed and over 45% of T.España OpEx are variable**

Family Budget Survey (INE 2006)



How is the economic growth affecting the wireline business?

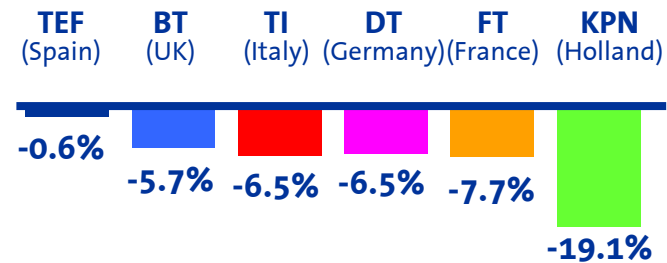
Traditional lines

Spanish market

- Mar-08 y-o-y growth +1.9%, in line with previous quarter
- +1.8% in Jan-08 and +2.0% in Apr-08 (CMT data)

■ The fixed line market **continues to grow**

Domestic markets (Mar-08)

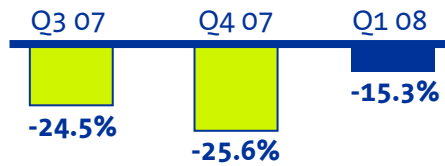


■ Line losses due to **change in ULL mix (Naked Shared ULL)**

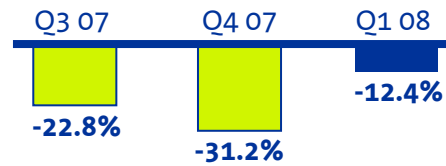
And your Broadband and Pay TV businesses?

Quarterly Broadband Net Adds growth

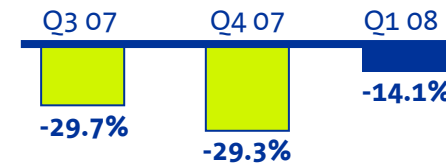
Spanish Market
(y-o-y change)



T.España Retail BB
(y-o-y change)



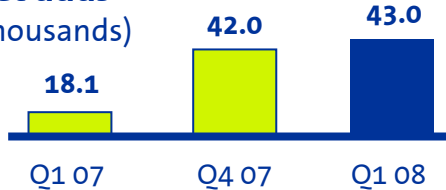
ULL
(y-o-y change)



■ Sustaining market share close to 57%

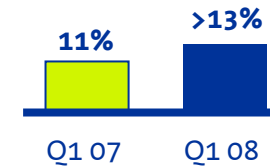
T.España Pay TV business

Net adds
(thousands)



Best Q1 in the last 3 years in net adds

Market Share
(%E)



Are you taking measures to stimulate wireless voice usage?

Promotional Actions



Promotion of “*Mi Favorito*” for high elasticity clients

Summer Campaigns



0 €cents/min.
ON NET TRAFFIC

5€/month
0€ cents weekends (Jun, Jul & Aug)
0€ cents August Mon-Fri 22-10h



SMS PROMOTIONS

4€/month:
100 On net SMS/day (M-F: 8h-20h)
100 On net SMS/day (M-S: 20h-8h)
300 On net SMS/weekend (F-S)



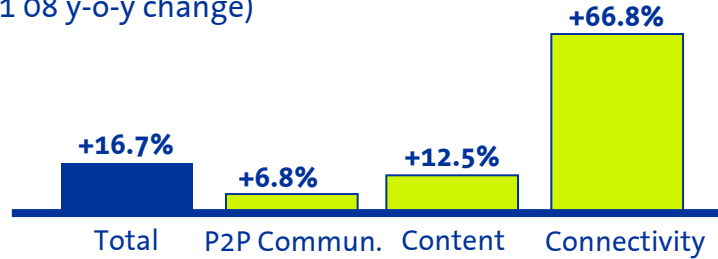
LEVERAGING THE COMMUNITY EFFECT

- **Biggest on-net community**
- **Customers with on-net modules have lower churn**

Have you noticed any impact in wireless data usage?

Strong data momentum

Data revenue
(Q1 08 y-o-y change)



- Progressive uptake of **wireless BB**
- **Healthy performance in connectivity**
- Strong push in **content SMS (“Superconcursos”)**

Fostering BB penetration

19.5 €/month **1GB** + **0** € **3.5G MODEM**

1.0 €/day **10 MB**

Este verano no se olvide del bronceador, el bañador y... de Internet
Con la Nueva **Tarifa Plana Internet Plus** para conectarse sin límites a alta velocidad desde su portátil

Ahora con un **50%** de descuento en la cuota mensual durante los cuatro primeros meses **sólo 19,5€/mes*** (22,62 IVA incluido) | Y este **Módem Novatel MC 950D 3.5G** desde **0€**

Desede de alta llamando al **3537** desde su **movistar** y consiga **GRATIS** su **Módem**

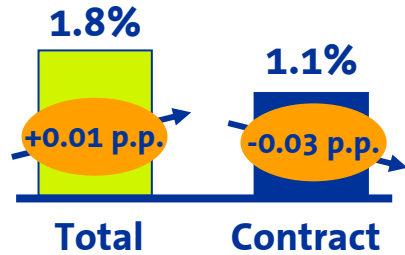
* IVA Módem USB con alta o portabilidad hasta 31/08/08 con Contrato Internet y Tarifa Plana Internet Plus y un contrato permanencia de 36 meses. Tarifa Plana Internet Plus 19,5€ IVA incluido + 4 primeros meses para alta hasta 31/08/08. Resto meses 19€ IVA incluido. Límite consumo 1GB. Superado el límite, la velocidad máx. de descarga será 128kbit/s y (64kbit/s de subida. PVP en territorio nacional. IVA incluido en hotspot de telefónica.

Nueva Tarifa Diaria Internet Móvil
Conectate donde quieras por sólo **1 euro** al día. Y si no te conectas, no pagas.
1€/día hasta 10 MB.
SÓLO PARA CONTRATO

Are you seeing higher churn rates and bad debt levels?

Churn

Mobile Churn Q1 08
(% and y-o-y change)



Stable Churn across businesses

- Unchanged Churn in BB & PayTV
- Slight improvement in contract churn (mobile)

Bad debt in T.España

- Contained increases in bad debt levels
- Still on low levels: <1% of revenues

Low bad debt levels

How are you facing competition in fixed Broadband?

Wide range Broadband offer to tap all market segments

RESIDENTIAL MARKET Duo Prices (€/month)

2007

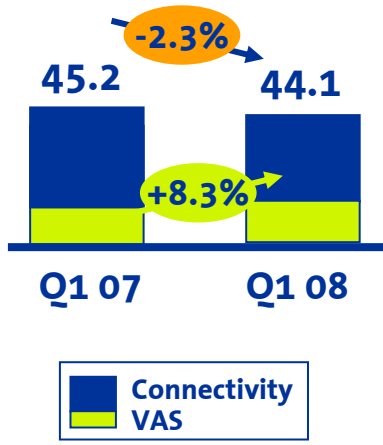
3 Mb
40.9 €

2008

30 Mb	Coming up!!	Increase ARPU & loyalty
10 Mb	44.9 €	Increase ARPU & loyalty
Upgrade to 6Mb started	40.9€	Reference offer
1 Mb	29.9 €	Entry offer
1 Mb	19.9 €	Entry offer

Limited Download Capacity up to 2Gb
Additional 2Gb for €5

BB ARPU (€/month)



How are you facing competition in fixed Broadband?

We are further developing our local approach

Example “Plan Valencia”



Specific commercial actions in 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



How is competition developing in wireless?

From 3 player in 2006 ...



... to over 15 players in early 2008

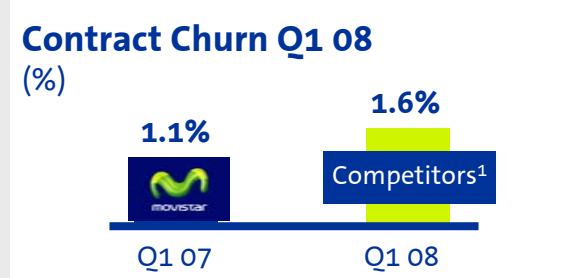
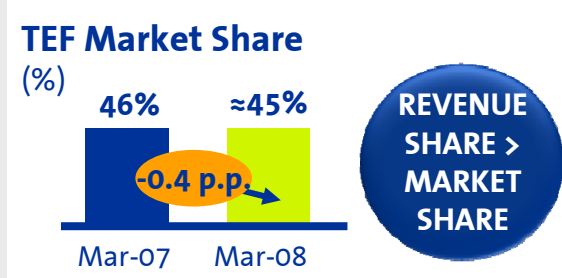


Limited impact from new entrants

3 €cents/min.
ON NET TRAFFIC

8 €cent
 Voice & SMS
 Con recarga MAS FACIL

9 cent.
 MINUTO SMS



How is competition developing in wireless?

Focus on value customers

#1 Net adds over last 12 months

12 months Net adds

(in thousands; Apr-07 to Mar-08)



- Increasing the contract customer base weight
- European benchmark contract churn at 1.1%

Slightly reduction in Q1 08 vs Q1 07 (-0.03 p.p.)

61% of contract customers

How are you facing increased competition in wireless?

Further developing our local and segmented approach



Examples: Barcelona

Objectives:

- **Increase Market Share** in those regions where our competitors show stronger position
- **Identify key drivers in local strategy** and actions to develop local approach plan

Local Specific commercial actions

Consigue GRATIS uno de estos móviles 3G con El Periódico y movistar

Por: 0€ + 100x1* hasta septiembre

Nokia 6555 Classic
3.2", 4MP, Cámara 2 megapíxels, Bluetooth®

Nokia 6555
3.2", 4MP, Cámara 2 megapíxels, Bluetooth®

En exclusiva con:

Local newspaper ("El Periódico") agreement.

EL TEU MÒBIL EL TEU ESTIL

Aconseguix el teu pack movistar des de 49€* + 100€** de crèdit

1 fins a 100x1 a cada trucada a movistar! Per a 100 minuts i pagament 100x1. Ajusta't hi al 3507

Prepay Packs. 100x1 (talk 100 minutes and pay only one) and 100€ extra promotional credit

Segmented approach

- **Tarifa Juntos.** Communication in main immigrant foreign language.

انتهى الحنين

9 10

How are you facing increased competition in wireless?

Focusing on innovation through strategic agreements to assure exclusive products for our customers



Regular voice tariff portfolio + Flat Rate Data Module + Binding contract

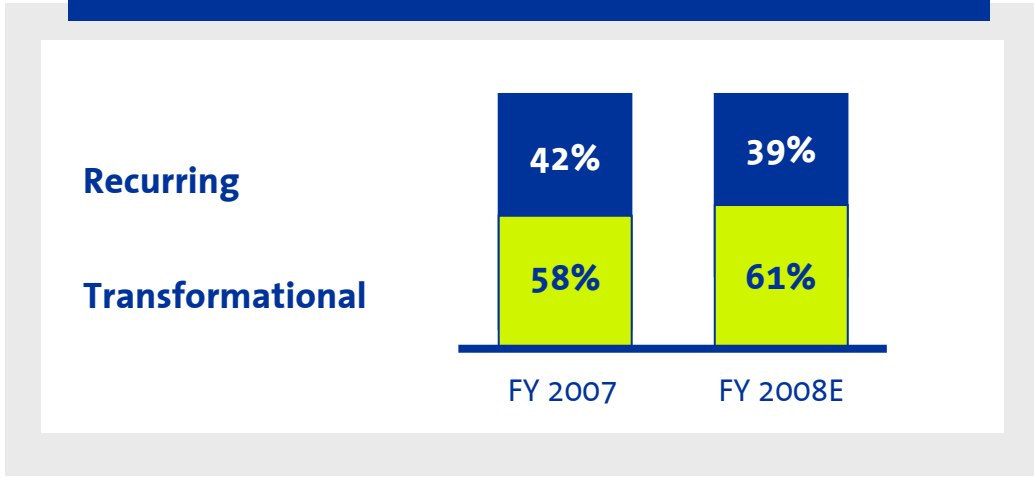
OBJECTIVES

- Technological leadership image
- Attracting high value clients from our competitors
- Loyalty developer element for high value existing customers

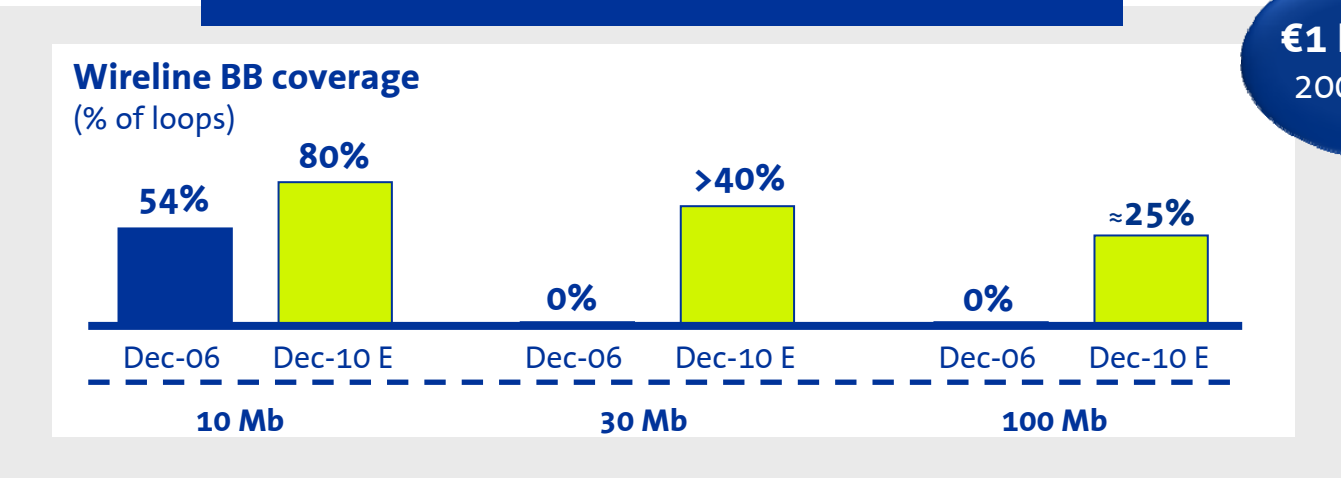
Exclusivity clauses will reduce churn of those clients buying an iPhone
From July 11th

What are your fiber investment plans?

T.España CapEx plans



Fiber deployment plan

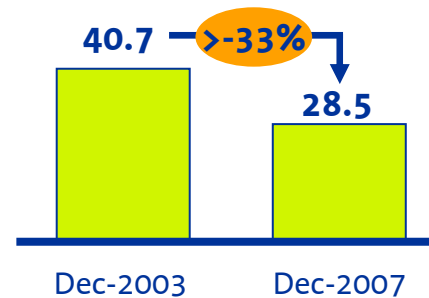


**€1 Bn CapEx
2007-2010 E**

How flexible are you to cut OpEx and CapEx?

T-España Wireline Redundancy Plan

Workforce evolution
(in thousands)

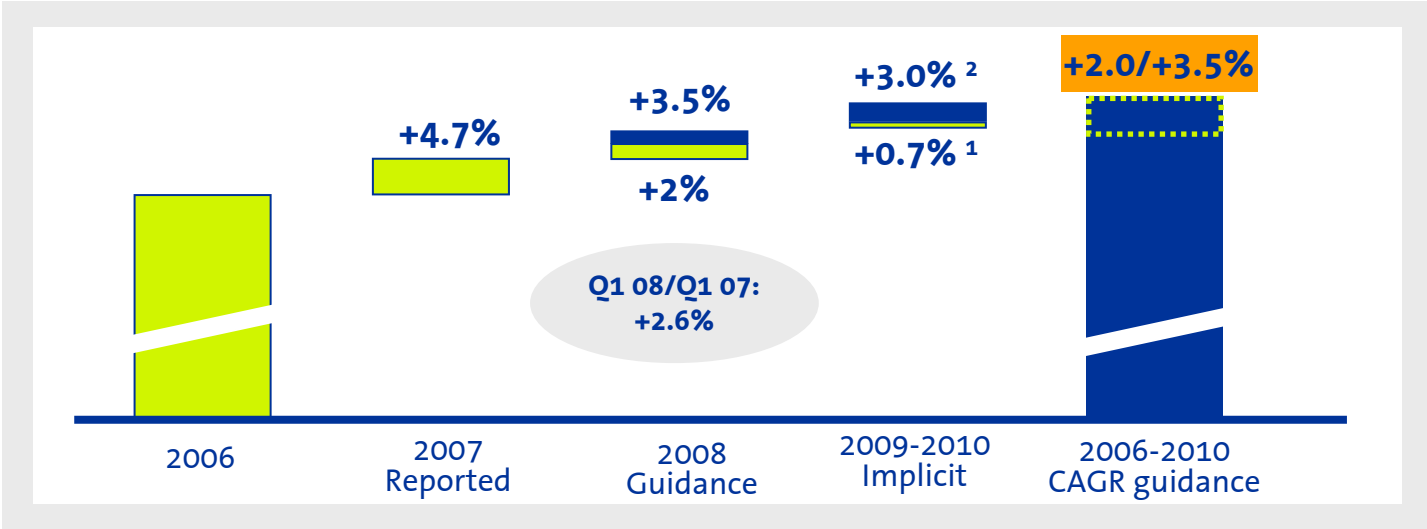


- **Additional personnel reorganization programme announced in Q4 07 for 2008**
- Over **45%** of T.España's **costs are variable** (handsets & CPE, commercial costs, interconnection, ...)
- **Further benefits of Fixed-Wireless integration** to be captured

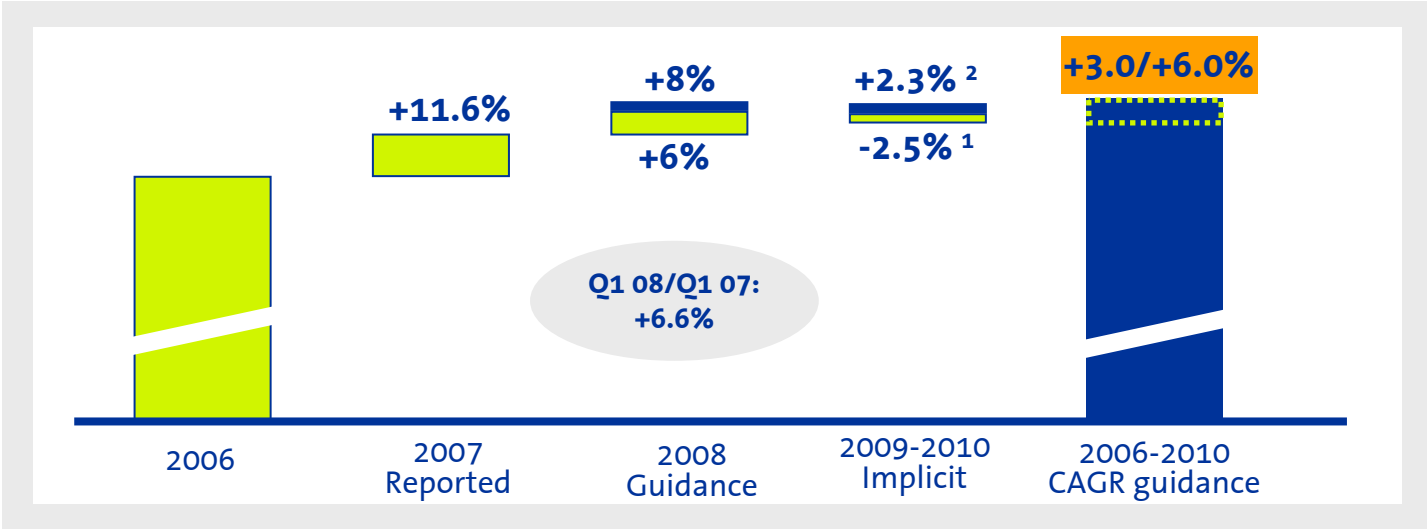
Do you uphold your guidance?

2008 and 2010 targets

REVENUES



OIBDA



(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

Closing remarks

- Solid **performance in Q1 08, within guidance**, well above peers
- Sustaining our **strong position** in a very competitive market
- Exploiting **synergies from integration**
- **Capturing growth opportunities** in our market

Telefonica
