TELEFONICA: "A return to fundamentals"

Santander

GLOBAL BANKING & MARKETS

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TELEFONICA S.A.

Telefónica

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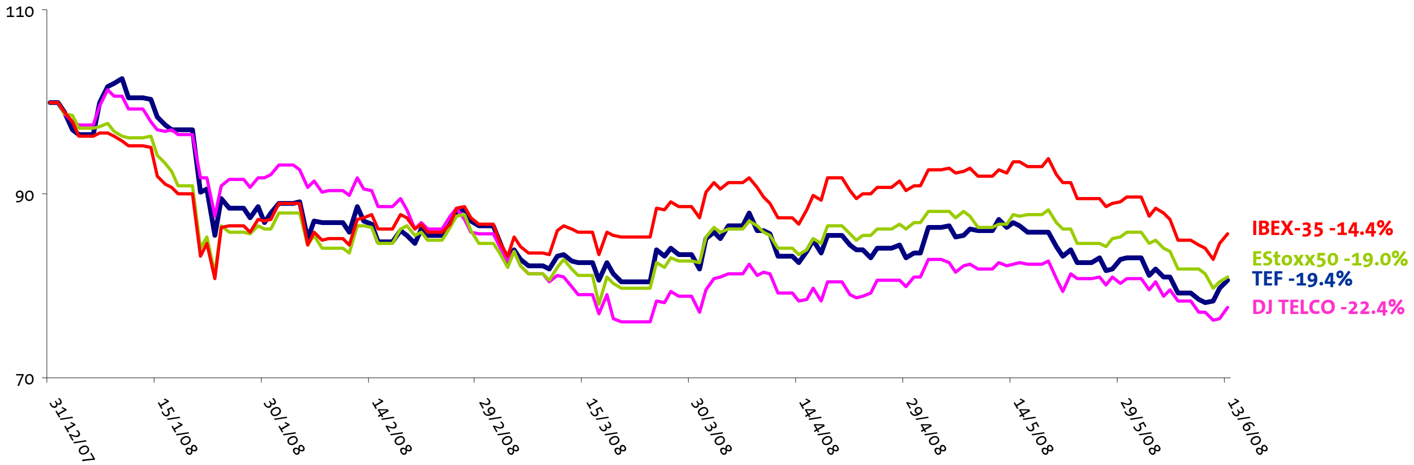
Addressing your concerns in a highly volatile market

YTD[1] (%)



Factors affecting our performance

- **Economic slowdown in Spain**
- **Impact of the US economy and inflation concerns in Latin America**
- **Regulatory noise on MTRs in Europe and more recently in Brazil**
- **Need for further increases in CapEx**
- **Financial flexibility**
- **M&A ambitions and use of cash flow**

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- **High liquidity**

Big disconnection between TEF's stock price performance and our solid fundamentals

1 Until June 13th,2008

How are you facing the economic slowdown in Spain?

- **Telecom expenditure** in our market only represents **3% of the total family expenses**
- **Industry's performance** is more dependent on the **evolution of households** than on new houses
- **60% of wireline revenues are fixed and over 45% of its total OpEx are variable**

Solid performance in an unchartered territory

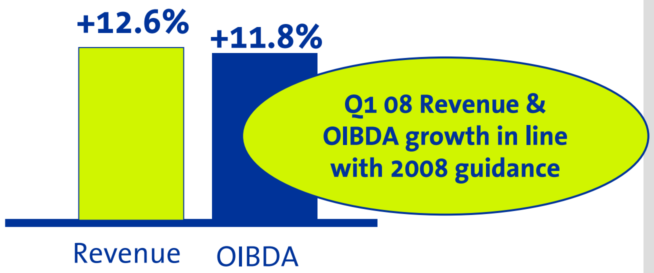
Q1 08

- Fixed line losses explained by development of naked shared ULL
- Sustaining BB leadership market share around 57%E
- Record Q1 08 net adds in Pay TV since Q1 06
- Maintained leadership in wireless despite increased competition
- Lower MoU

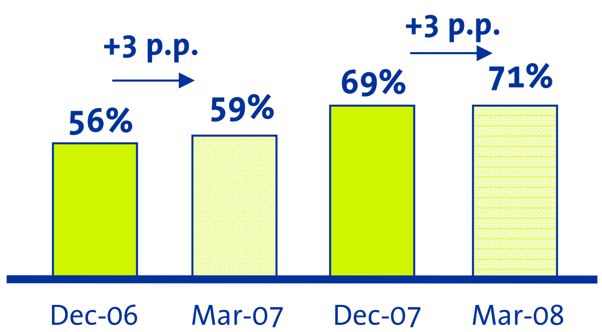
Q1 08 Revenue & OIBDA growth in line with 2008 guidance

Have you noticed any impact of the US economy in your Latin American operations?

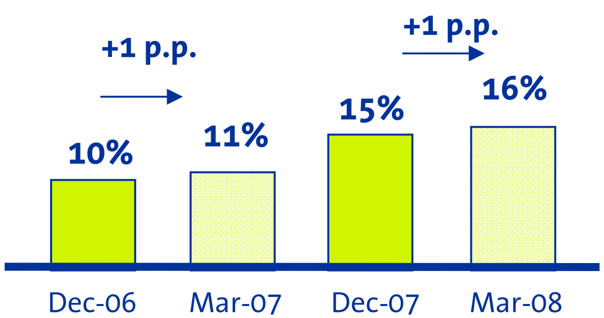
Q1 08 Organic[1] y-o-y growth



Wireless penetration in Latin America



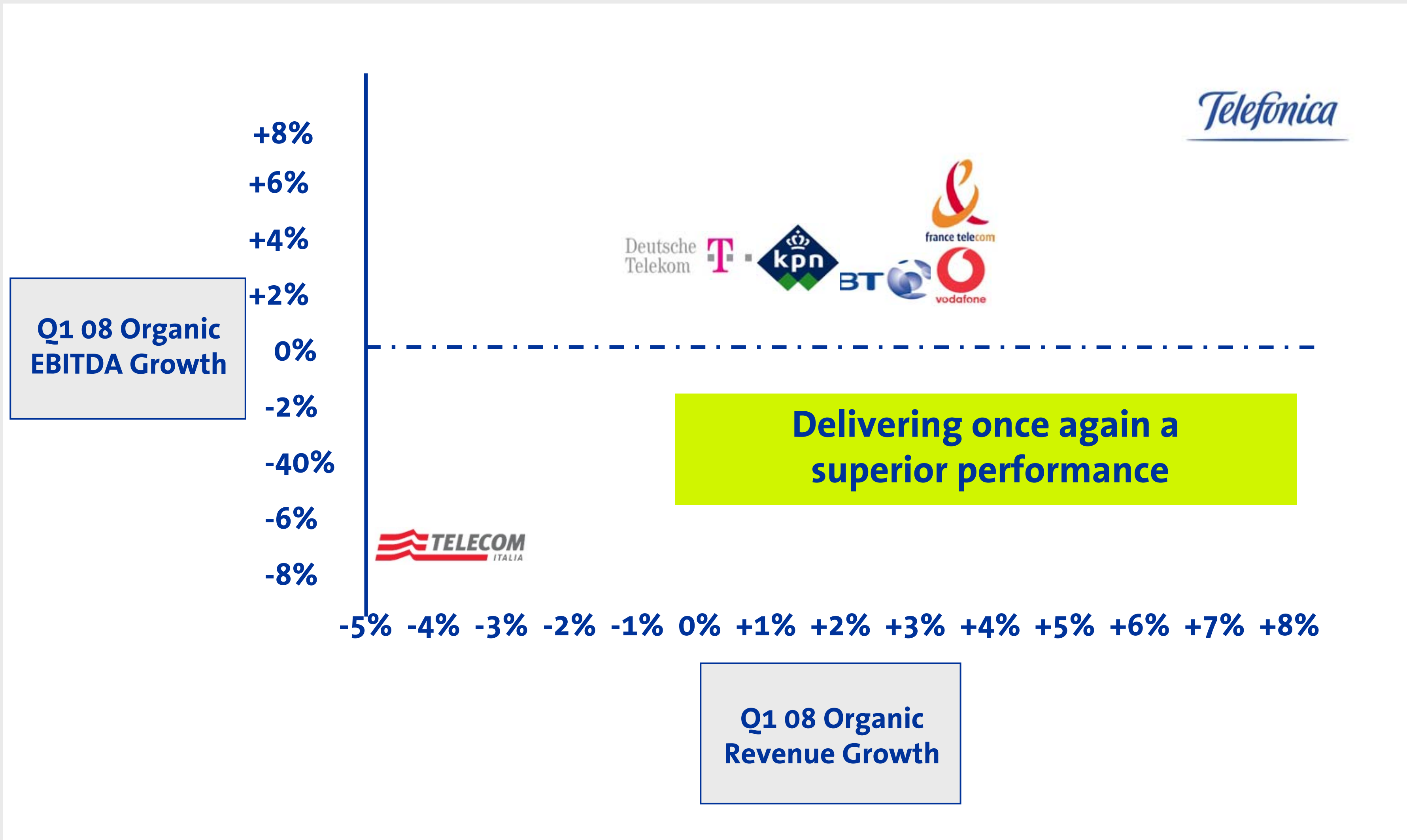
Broadband penetration[2] in Latin America



- **Solid results from the main growth driver of Telefónica**
- **High commercial activity YTD, exceeding internal estimates:**
  - Strong volumes during Mother's Campaigns across markets (May 08)
- **Sound y-o-y increases in wireless and BB penetration despite higher levels vs. 2007**
- **T. Latam's wireless customer growth acceleration:**
  - +23% y-o-y in Q1 08 vs. +15.5% in Q1 07
  - Stable churn rate
- **Healthy usage patterns:**
  - Outgoing wireless MoU and ARPU[3] up 20.6% and 4.5% y-o-y respectively
  - Average revenue per fixed line[3] access up 1.9% y-o-y

1 Assuming constant exchange rates and including the consolidation of TVA in January-March 2007
2 Over households
3 Ex-forex

How is the global economic slowdown impacting Telefónica?



Source: company press releases.
BT: Reported figures for January-March 08 vs. 07; EBITDA before specific items and leaver costs.
DT: EBITDA growth adjusted for special factors. Revenue growth in nominal terms.
KPN: Q1 08 vs Q1 07 excluding Getronics in Q1 08.
FT: Q1 08 vs Q1 07 growth on comparable basis (adjusted for forex, perimeter & other impacts.
TI: Q1 08 vs Q1 07 organic revenue and EBITDA growth.
VOD: Jan-Mar 08 vs. Jan-Mar 07 organic revenue growth; Oct-07-Mar-08 vs. Oct-06-Mar-07 organic OIBDA growth.

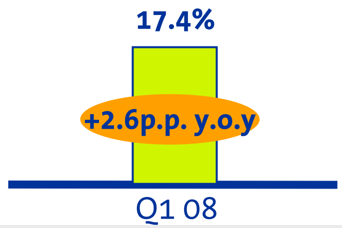
How can you manage higher inflation in Latin America?

- **Single digit inflation[1] in all markets except Venezuela and Argentina**
- **Y-o-y increases[2] mainly driven by food inflation:**
  - >46% in average; 90% in Peru

Price adjustments

- **Traditional fixed line:**
  - Tariffs revisions linked to inflation except in Argentina where revenues up 10.4% y-o-y in Q1 08
- **ADSL and Pay TV prices liberalized**
- **Wireless prices liberalized:**
  - Increased rates in high inflation countries

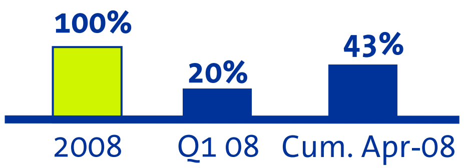
BB & Pay TV revenue/ Total wireline revenue



Costs measures

- **Workforce reorganization programs**
- **Lower subsidies**
- **Enhanced quality service & commercial efficiency**
- **Churn reduction**
- **Scale benefits**

Total employees to leave in 2008 (Index)



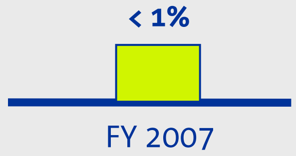
1 Source : Bloomberg. May Index CPI (YoY)
2 Source: JP Morgan Report "Latin America Outlook" June 08

What is your view on MTRs across your markets?

Europe

- Medium term glide paths approved by national regulators in most countries
- EC to release a draft recommendation in late June/beginning of July

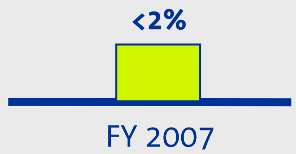
Group net exposure[1] to MTRs in Europe



Latin America

- Termination rates in most countries are converging to European levels
- Recent reductions already approved in Colombia, Mexico, Peru and Venezuela
- Commercial agreements for MTRs in Brazil in force until 2010

Group net exposure[2] to MTRs in Latin America



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- Lower interconnections costs in wireline operations

1 Interconnection revenues –interconnection costs of European wireless operations/Group revenue

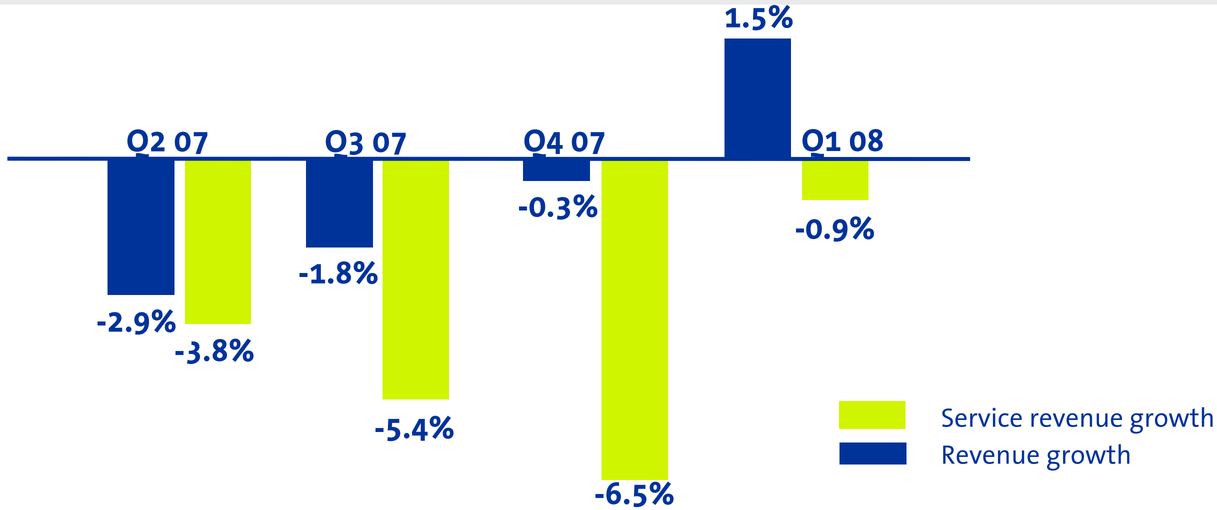
2 Interconnection revenues –interconnection costs of Latin America wireless operations/Group revenue

What is your strategy in Germany?

Building a sustainable business in Germany

- **New management team and new strategic approach since mid 2007**
- **Building the foundations:**
  - Further expansion of distribution channel
  - Roll-out of our own mobile networks
  - Creating segmented propositions (integrated fixed and mobile offers, bundles, flat rates, no frills)

Green shoots



- **Share of gross adds >17% for past 2 quarters**

Should we expect further increases in CapEx going forward?

	2007A under guidance criteria (*)	2008E guidance (**)	Implicit 08E-10E to meet 2010 guidance	2007-2010E (***) guidance
Group CapEx	€ 8,087 m	±€ 8,600 m	±€ 8,000/year	**Cum. 07-10E <€ 33,000 m**

- **Total CapEx in 07-10 mainly driven by initiatives to foster top-line growth:**
  - **T. España: investments in growth and transformation, expanding our broadband networks, both in wireline and wireless**
    - € 1,000 m in fiber roll-out and € 1,300 m in UMTS/HSXPA
  - **T. Latam: front loaded investments in customer growth and capacity, deployment of 2.5/3G networks and further expansion of BB and Pay TV services**
  - **T.Europe: accelerating the network build in Germany and further development our fixed broadband networks**
    - € 3,500 m in Germany

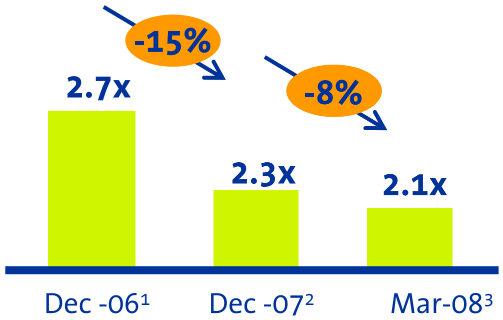
(*) 2007 guidance assumes constant exchange rates as of 2006 and excludes changes in consolidation (TVA). CapEx excludes Real Estate Efficiency Program (REEP).

(**) 2008 guidance assumes constant exchange rates as of 2007

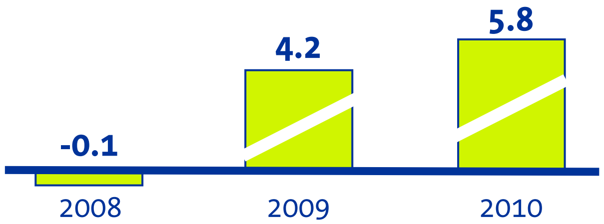
(***) CapEx excludes Real Estate Efficiency Program (REEP). Guidance assumes constant exchange rates as of 2006. All figures exclude changes in consolidation, other than Telemig acquisition (50% through TEF stake in Vivo), TVA and Deltax (Czech Republic)

How are you facing the credit crunch?

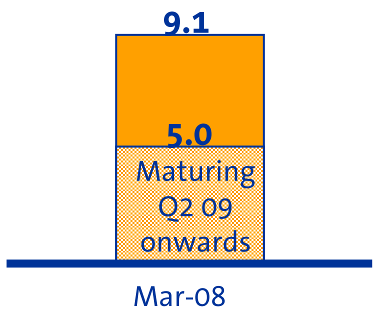
Net Financial Debt/OIBDA



Mar-08 Net Financial Debt Maturity
(€ in billions)



Unused committed credit facilities
(€ in billions)



- **Continued de-leverage with a comfortable liquidity position:**
  - €44.4 bn of net fin. debt in Mar-08
- **6.21% effective interest rate in Q1 08:**
  - 6% target for the year
- **Average debt life above 6 years, longer than time needed for full repayment**
- **Next 12 months payment obligations already covered:**
  - Liquid assets, cash flow generation and unused committed credit facilities
  - Negative net debt maturities for remaining 2008
- **Rating outlook upgrades to positive by S&P's and Fitch**
- **€1.25bn bond issue in May-08 with a spread below expectations**

(1) Calculated based on 12 months rolling OIBDA including T. O2 CR, O2, T. Telecom and Iberbanda
(2) Calculated based on 12 months rolling OIBDA excluding results on the sale of fixed assets
(3) Calculated based on Q1 08 OIBDA figure annualized excluding results on the sale of fixed assets

Do you need further scale in Europe?

Anticipation — We early realized that…

- Scale DOES matter at the Telco sector
- Scale IS NOT size
- It is ALL ABOUT being integrated and diversified

Expansion — 2005-2007 we were leaning against the wind

- Acquisitions to gain scale in Europe and strategic alliances were not always well received
  - O2 (UK, Germany, Ireland), Slovakia (mobile)
  - Industrial partner of TI

Execution — To buy the right asset at the right price is not enough

- Integration even more important that acquiring
- It is also about selling right
- We have proven management capabilities

157 million combined accesses in Europe as of Mar-08
Largest Telecom alliance in Europe, with ~19% market share[1]

1 Europe 25.

How achievable is your guidance?

- **Revenue, OIBDA, OI and CapEx guidance (*) fully flowing in strong increases in reported (ALL FACTORS INCLUDED) EPS and FCPS**
- **Fully on track to meet 2008 and 2010 guidance**

	2006		2010E
EPS [1]	1.304 €	+ 1 €	2.304 €
FCPS [2]	1.87 €	+ 1 €	2.87 €

(1) Reported EPS

(2) FCF available to remunerate Telefonica S.A. shareholders, to protect solvency levels and to accommodate strategic flexibility

(*) 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. 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. 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).

What are your priorities for use of FCF?

> € 40 bn
Cumulative FCF 07E-10E[1]

37%[2]
of current market cap to be generated in the next 3 years

1st: SHAREHOLDER REMUNERATION	A growing path of dividends + Share buybacks to be considered, as stated below
2nd: DELEVERAGE	Net Debt + Cash Commitments over OIBDA in the 2.0 – 2.5x range
3rd: SELECTIVE M&A	To foster growth in current markets: Brazil, Mexico, Germany and China

(1) Free Cash Flow is the cash flow available to remunerate Telefónica´s shareholders, to protect solvency levels (financial debt and commitments), and to accommodate strategic flexibility
(2) Based on TEF market cap of 13th June, 2008

Should we expect new announcements on shareholder remuneration in the short term?

Dividends

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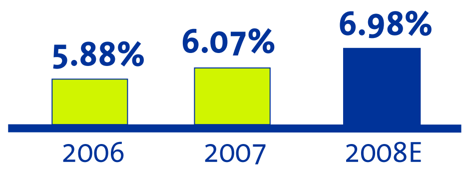
Buyback programs

- **1€ DPS in 2008 vs. 0.75€ in 2007**
- **Growing pace in DPS in the future**

- **New program announced in February 2008:**
  - 2008- H1 09: 100 m shares
- **New framework:**
  - **2008: 100 m shares**
  - **35.7% executed up to May 13th, 2008**
- Sensitive to cash flow generation and share price

Cash Yield[1]



Decisions on shareholders return timetable aligned with cash flow generation

(1) (Total Dividends paid + Share buy-back) over market cap as of June 13th, 2008

Are your interests aligned with those of your shareholders?

A management team highly committed to share price performance

	EXPOSURE TO TELEFÓNICA SHARE
César Alierta - EXECUTIVE CHAIRMAN	3.848 m shares + 10.2 m call options
Julio Linares – COO	0.121 m shares
Santiago Fernandez Valbuena – CFO	0.161 m shares
J. María Álvarez-Pallete – T LATINOAMÉRICA GM	0.069 m shares
Guillermo Ansaldo – T ESPAÑA GM	0.006 m shares
Matthew Key – T EUROPE GM	0.005 m shares
Board of Directors (*)	>1.500 shares

Note: GM = General Manager
(*) Excluding Executive Comitte

In summary

Strong performance in Q1 08

On track to meet our commitments

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Unmatched organic growth ahead of peers

+

Reinforced investment case

High FCF yield

+

Strong growth prospects

A value growth stock in an expanding industry

Telefonica