The best combination of growth and returns in the industry

Santiago Fernández Valbuena, CFO
Telefónica S.A.
June 6th, 2007

Disclaimer

This document contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and other important factors that could cause actual developments or results to differ materially from those expressed in our forward looking statements.

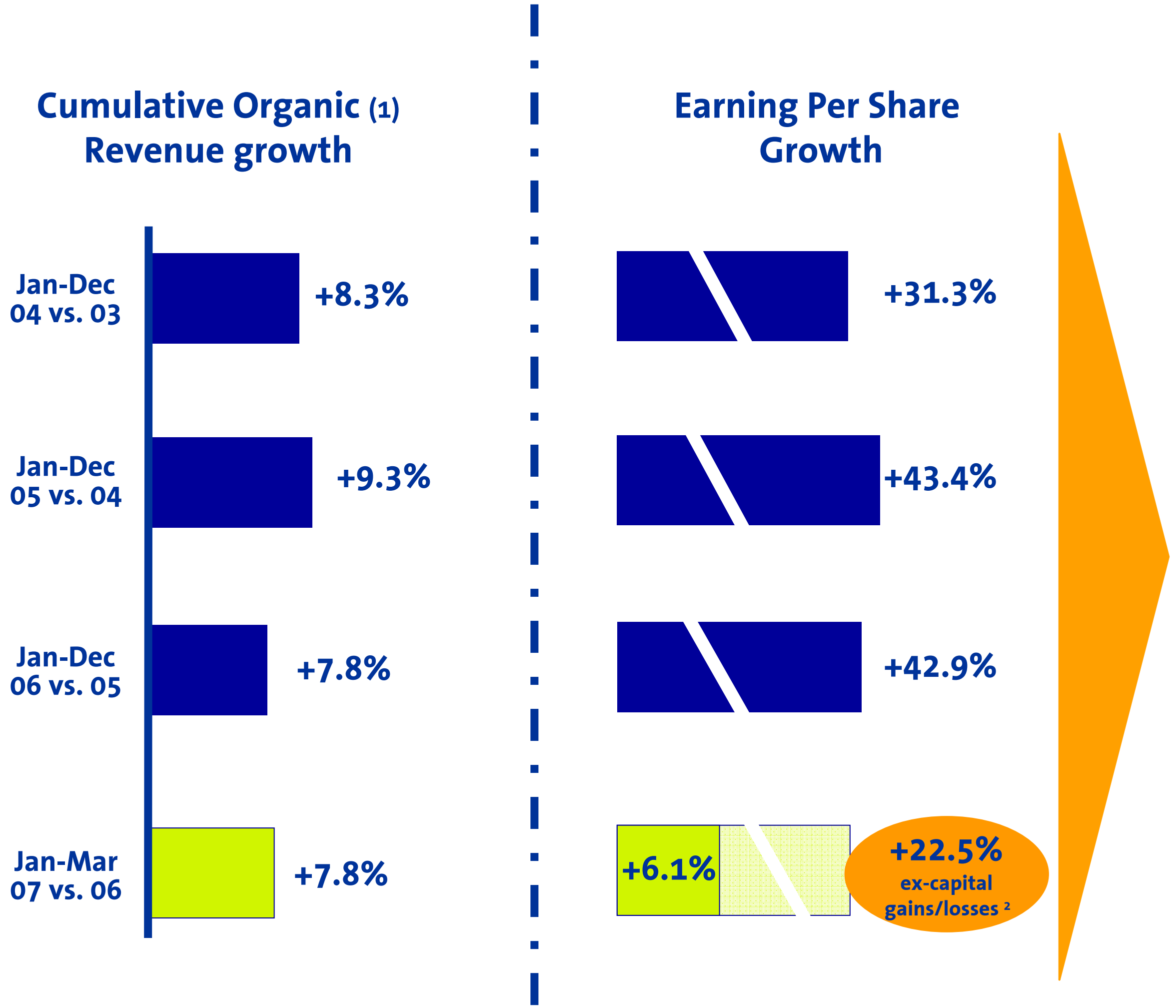
Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica´s business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator.

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.

Index

- **1Q07 results reaffirm our unique profile**
  1. Non-stop growth in all financial metrics for 11 consecutive quarters
  2. Organic growth well ahead of peers
  3. Fully benefiting from the value of being diversified
  4. Delivering on our commitments
- **We are facing your main concerns**
  1. Is sustainable our superior performance in Spain?
  2. UK margin erosion
  3. Turning around German operations
  4. Underperformance of Brazilian mobile asset
  5. Sustainability of Mexican turn-around
- **What are you maybe missing?**
  1. Mobile growth & profitability prospects in Latin America

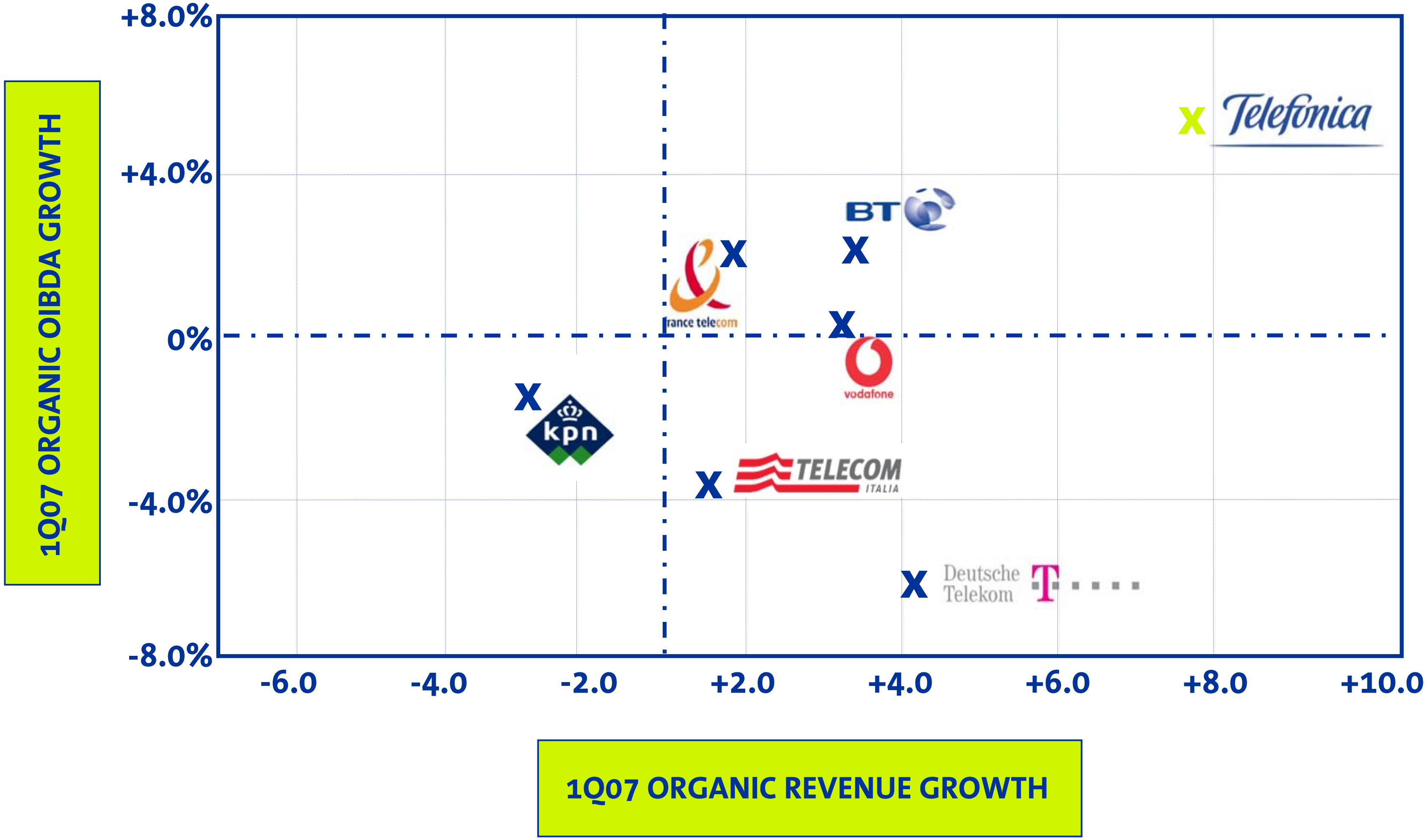
1Q07 performance reaffirms our profile as the best combination of growth & returns in the industry…



NON-STOP GROWTH FOR ELEVEN CONSECUTIVE QUARTERS

(1) Excluding exchange rate impact and changes in the consolidation perimeter
(2) Sale of shares in Sogecable in 1Q06 (6.57%), related to Prisa's take over bid over the company and sale of Endemol France in 1Q07

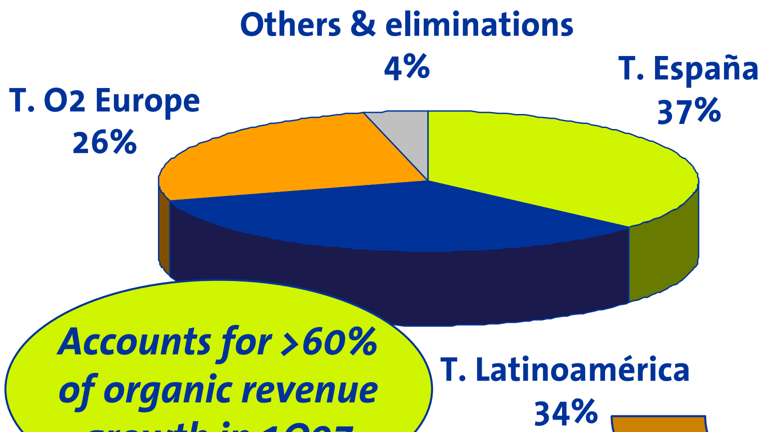
...once again outperforming the peer group on ORGANIC terms...



Source: company press releases
BT: April-March 07 vs. 06; EBITDA excludes specific items; organic EBITDA excludes specific items and leaver costs. Nominal growth rates for revenues
DT: EBITDA growth adjusted for special factors. Revenue growth in nominal terms
FT: Organic Revenue/EBITDA growth: on a comparable basis
KPN: Organic Revenue/EBITDA growth: adjusted Revenue/EBITDA for guidance calculation
VOD: April-March 07 vs. 06

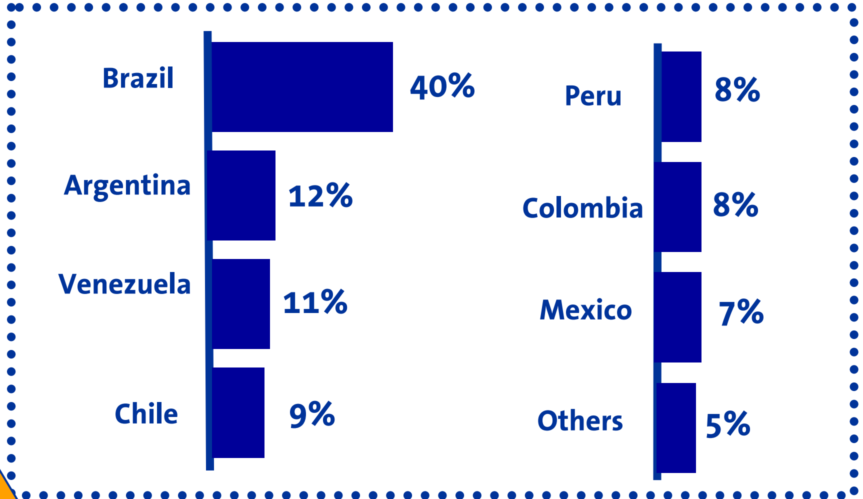
...fully benefiting from the value of being diversified

1Q07 Revenue breakdown by region

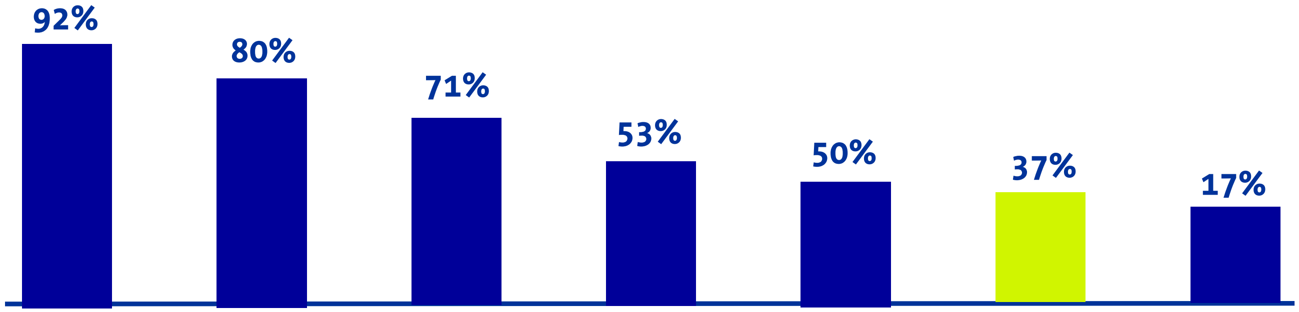


Accounts for >60% of organic revenue growth in 1Q07

1Q07 LatAm Revenue contribution by country



Domestic Revenues over Total Revenues (1Q07) (1)



(1) Source: company press releases

...and consistently delivering or outperforming on financial guidance...

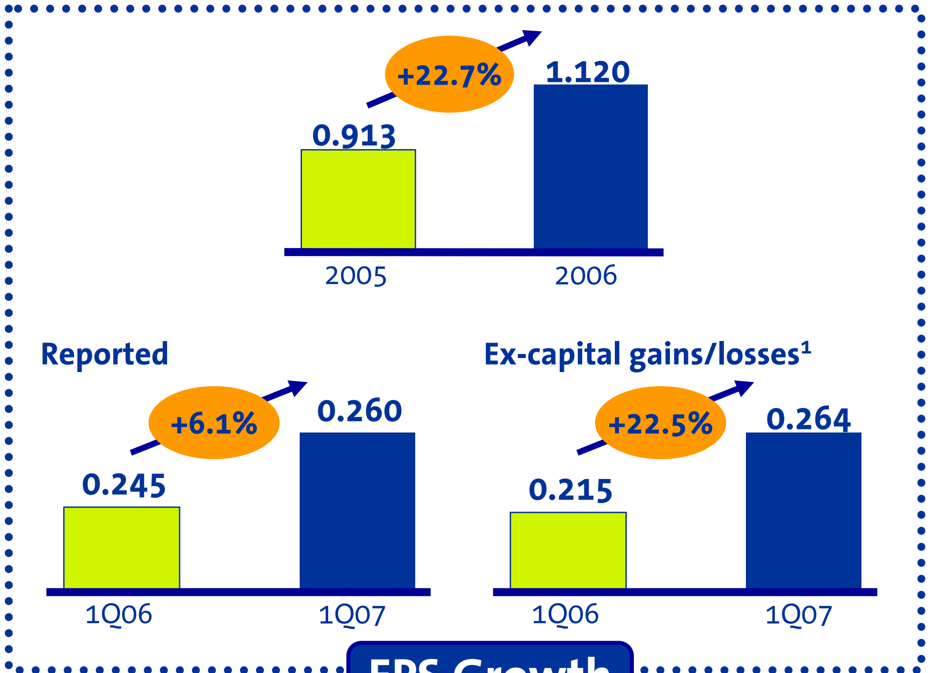
		GUIDANCE	RESULTS [1]
2003	Revenues	5% / 8%	*6.0%*
	EBITDA	6% / 9%	*12.5%*
	EBIT	18% / 21 %	*29.7%*
2004	Revenues	7% / 10%	*8.6%*
	EBITDA	5% / 7%	*6.0%*
	EBIT	15% / 18 %	*15.5%*
2005	Revenues	12% / 15%	*17.2%*
	OIBDA	10% / 13%	*12.3%*
	OI	12% / 18 %	*16.1%*
2006	Revenues	34% / 37%	*38.8%*
	OIBDA	26% / 29%	*28.9%*
	OI	26% / 30%	*29.2%*

(1) According to guidance criteria

...on de-leveraging and on EPS guidance...

On track to double underlying 2005 EPS by 2009

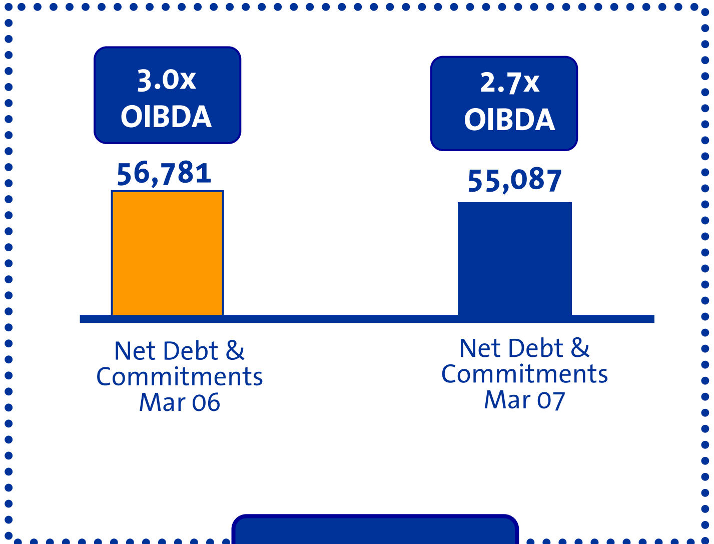
(in €)



EPS Growth in-line to double DPS by 2009

Progressing on de-leveraging

(€ in million)



Target of 2.5x by 2008

+

(1) Sale of shares in Sogecable in 1Q06 (6.57%), related to Prisa's take over bid over the company and sale of Endemol France in 1Q07

...and fully delivering on our 1.5 bn € M&A commitment set on May-06...

Main transactions 2006-2007

	Transaction	Bn €	Multiple
Divestitures	Airwave	2.86	21.8x EV/OIBDA-06
	Endemol[1]	2.63	17.2x EV/OIBDA-06
Acquisitions	Telecom Italia[2]	2.31	

VERY ATTRACTIVE MULTIPLES

AS OF MARCH 2007, NET FINANCIAL INVESTMENTS COMPLETED OR COMMITTED AMOUNTED TO A FIGURE OF ≈-2.6 Bn € (vs. +1.5 Bn € COMMITMENT)

(1) Disposal announced on May 14th 2007. Execution pending subject to the pertinent administrative authorisations.
(2) Acquisition announced on April 28th 2007. Execution pending subject to the mandatory authorisations.

Index

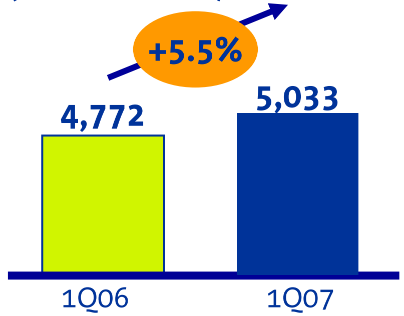
- **1Q07 results reaffirm our unique profile**
  1. Non-stop growth in all financial metrics for 11 consecutive quarters
  2. Organic growth well ahead of peers
  3. Fully benefiting from the value of being diversified
  4. Delivering on our commitments

- **We are facing your main concerns**
  1. Is sustainable our superior performance in Spain?
  2. UK margin erosion
  3. Turning around German operations
  4. Underperformance of Brazilian mobile asset
  5. Sustainability of Mexican turn-around

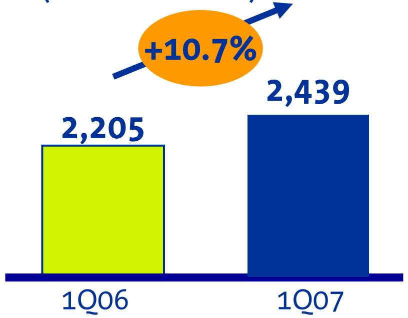
- **What are you maybe missing?**
  1. Mobile growth & profitability prospects in Latin America

Spain: is sustainable our superior performance?

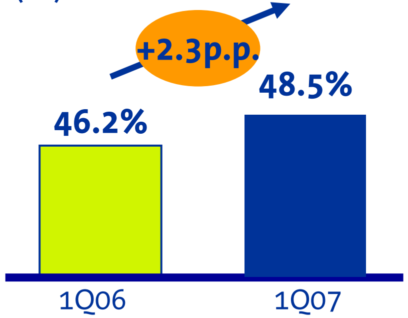
Revenues
(€ in millions)



OIBDA
(€ in millions)



OIBDA Margin
(%)



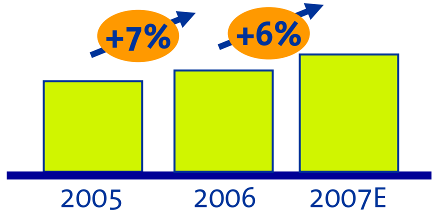
HIGH GROWTH POTENTIAL IN OUR MARKET

FAVORABLE MACRO CONTEXT

	2007E
GDP growth above Euro-zone average	+3.2%
Population growth	+1.1%
Sustained growth in **businesses and**	+3.6%
freelancers	+700K
Household increase above population growth	

STRONG MOMENTUM IN TELECOMS

Total market customer revenues

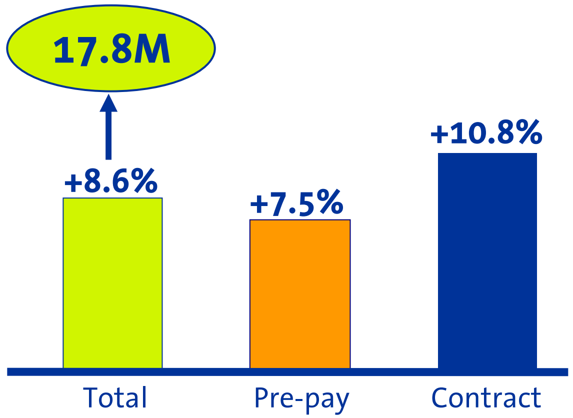


WE KEEP BEING MARKET MOVERS

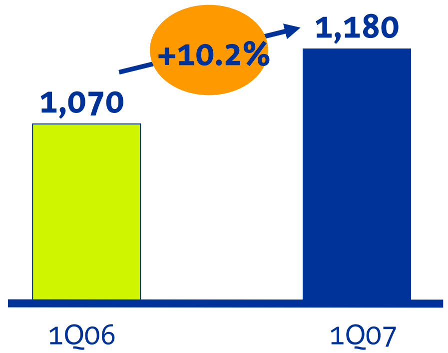
- New price plans for **wireless Internet**, **Residential** and **SOHO & SMEs**
- Pioneers in the **deployment of BB VAS**

UK: Margin erosion

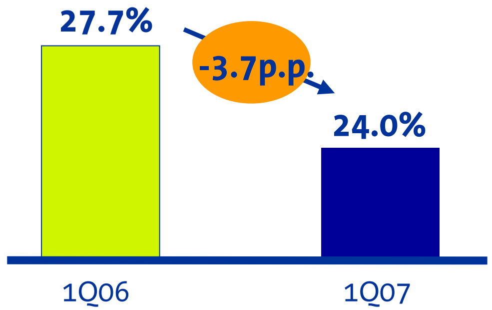
Mobile customer growth
(y-o-y)



Revenues
(Organic[1], £ in millions)



OIBDA margin
(Organic[1])



FOCUS ON CLIENT RETENTION

- Handset upgrades in 1Q07: +22%
- 118.000 customers added in 1Q07
- +80.000 net new contracts, to represent 35.5% of customer base (+0.7 p.p.)
- 70% of new post-pay on 18-month contracts

REVENUES ON CUSTOMER GROWTH

- MoU up 10.6% y-o-y
- Blended ARPU +0.8% to 33.3€
- Data ARPU: +10.2%
- Service revenues: +9.7%

MARGINS TO IMPROVE FROM 1Q07

- Higher commercial activity in retention during 1Q07
- Commercial costs to be reduced throughout 2007
- BB launch delayed to September

(1) On a comparable basis (January-March for both 1Q06 and 1Q07)

Germany: can we turn-around the operations?

REVENUES INITIATIVES

ATTRACTIVE AND SIMPLE PRODUCT PORTFOLIO WITH SML TARIFF LOGIC

- **O2 Loop** pre-pay, SML: Full cost control and no base fee
- **O2 Genion**, SML: The alternative mobile solution at home and on the move
- **O2 Active**: minutes bundle for post-pay offer
- **O2 Mobile Data Pack**: Surfing the Internet on the move via laptop and mobile at best price
- **O2 DSL**, SML: Fixed network telephony and Internet

EARLY SIGNS OF ELASTICITY

- Over 750K customers signing up during last four months
- MoU 2x to 3x
- Proactively migrating existing customer base since April-07

RENEWED COMMERCIAL ACTIVITY

- Relaunching BB to mobile base in the summer

Expanded STRATEGIC ALLIANCE with HanseNet

- Telefónica to provide access to 60% of German households for HanseNet's Alice service
- HanseNet to offer Alice's customers O2 mobile service

COSTS INITIATIVES

COST SAVING PROGRAMS to remain robust on OIBDA

- Efficiency improvement in processes
- IT development & operations
- Redundant marketing activities
- Network and IT external services reduction
- Increase channel efficiency & effectiveness

- Yearly savings amounting to:
  - 40 M€ in 2006
  - HIGH DOUBLE digit M€ in 2007E
  - LOW TRIPLE digit M€ in 2008E

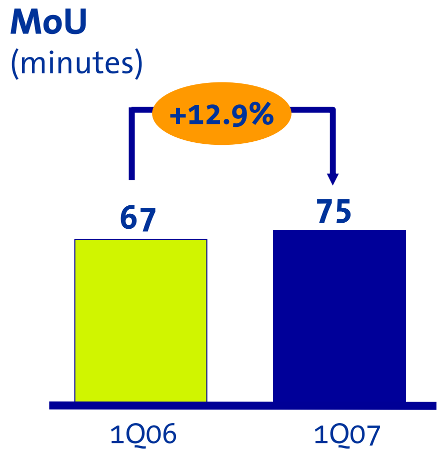
Brazil: can we strengthen our competitive position to recover the path of profitable growth?

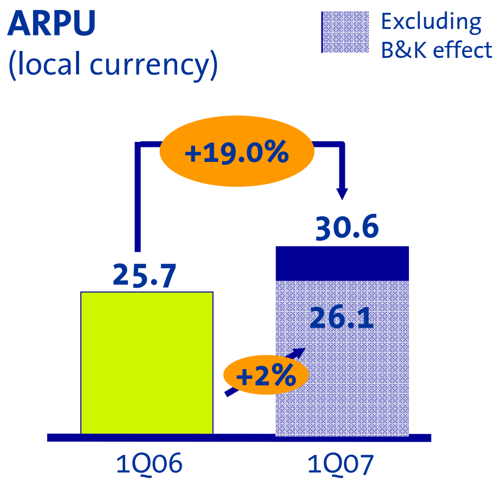
MANAGING CURRENT OPERATIONS TO IMPROVE OUR COMPETITIVE POSITIONING

- Focus on value clients
- Strong reduction of fraud
- New pricing plans drive MoU & ARPU increases
- Highest number of points of sale in the market
- Unified systems: 100% of customer base within one common platform

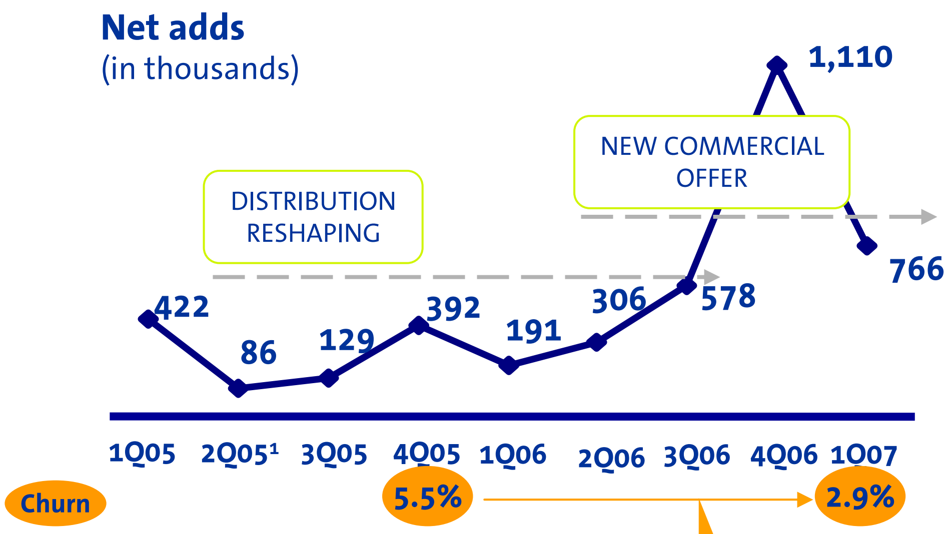
FAST EXECUTION OF MIGRATION TO GSM

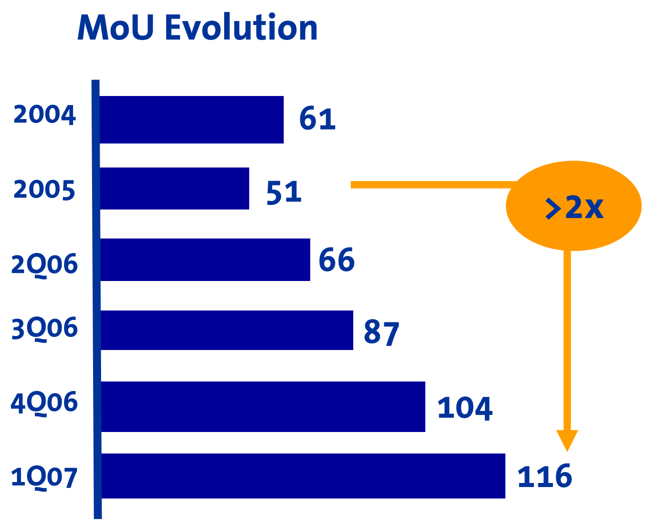
- GSM network deployed in a record time
- Superior coverage due to launch in 850MHz
- 960,000 GSM customers in April (launched on January 2007)
- 17% share of net adds in April-07 (121K net adds in Apr-07 vs. negative 22.8K net adds in 1Q07)

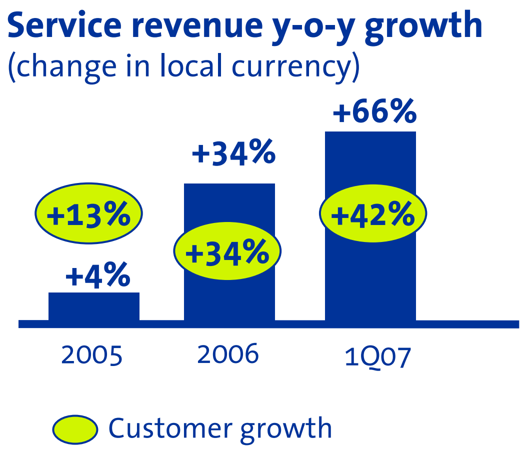




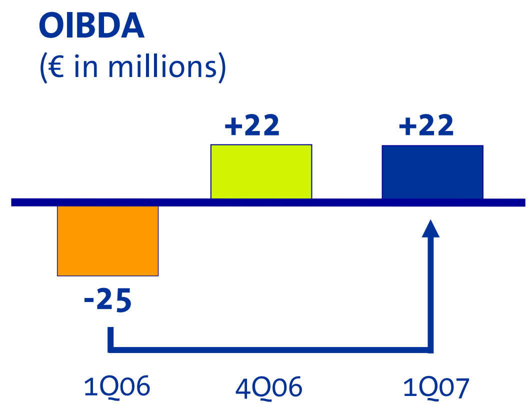
Mexico: can we sustain operational turn-around?







- **Incoming service revenues positively impacted by national CPP**
- **Early sign of regulatory advances** (national CPP, portability)



PRIORITIZE QUALITY GROWTH RATHER THAN SPEED OF GROWTH

(1) Ex-adjustment of 300,000 pre-pay lines

Index

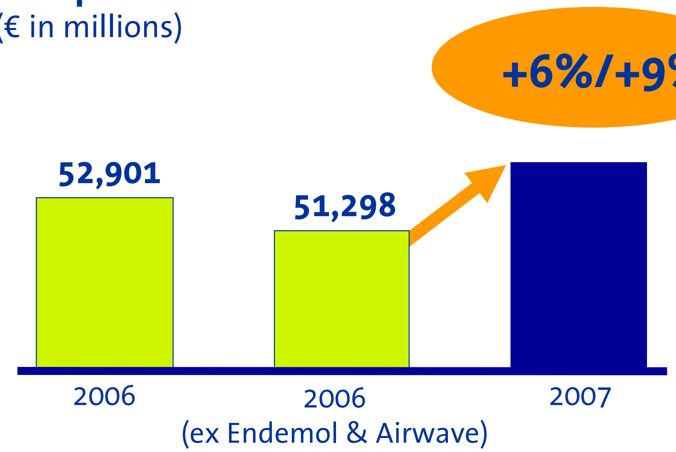
- **1Q07 results reaffirm our unique profile**
  1. Non-stop growth in all financial metrics for 11 consecutive quarters
  2. Organic growth well ahead of peers
  3. Fully benefiting from the value of being diversified
  4. Delivering on our commitments

- **We are facing your main concerns**
  1. Is sustainable our superior performance in Spain?
  2. UK margin erosion
  3. Turning around German operations
  4. Underperformance of Brazilian mobile asset
  5. Sustainability of Mexican turn-around

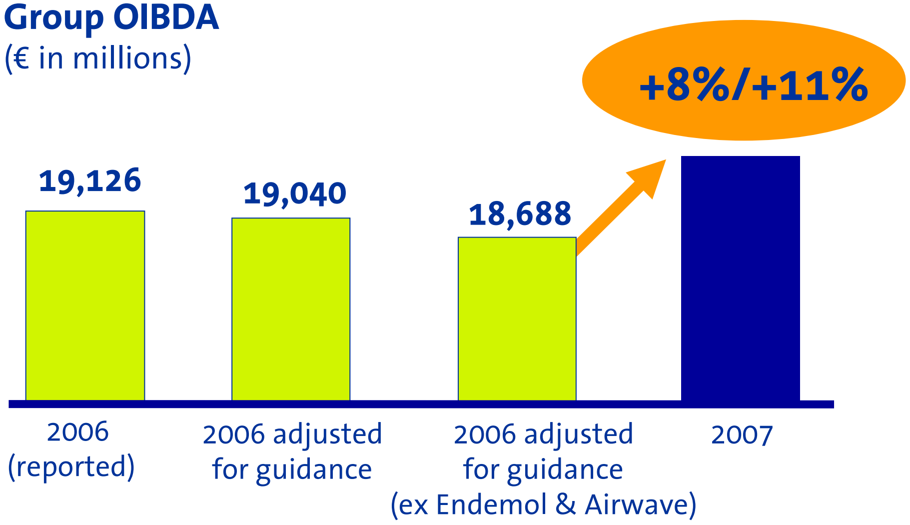
- **What are you maybe missing?**
  1. Mobile growth & profitability prospects in Latin America

We are setting benchmark targets again for 2007...

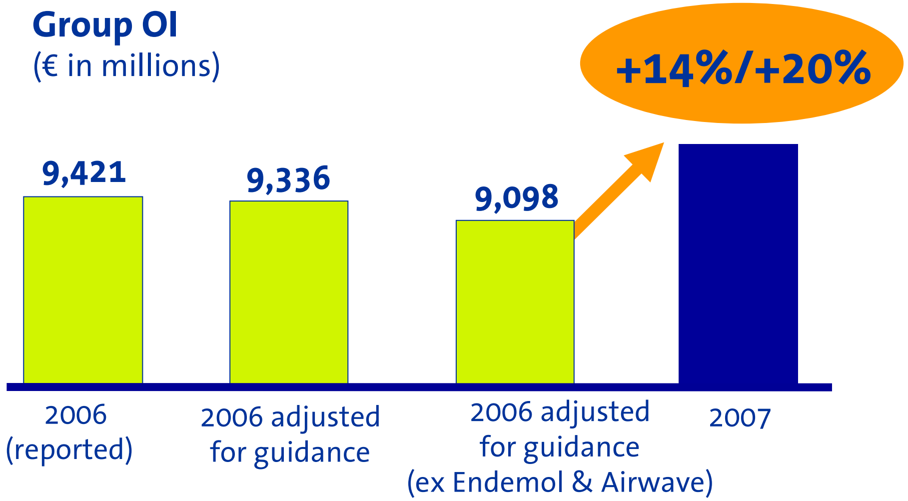
Group Revenues
(€ in millions)



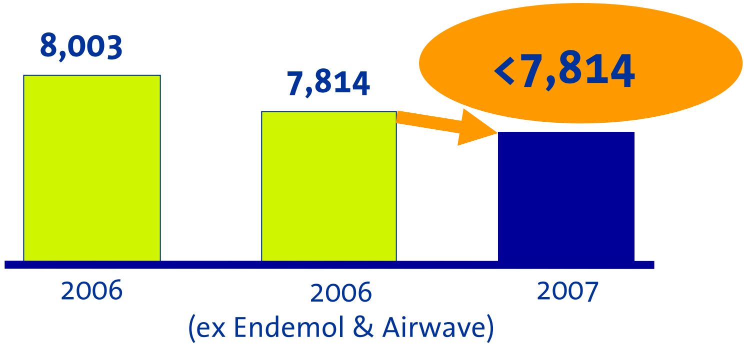
Group OIBDA
(€ in millions)



Group OI
(€ in millions)



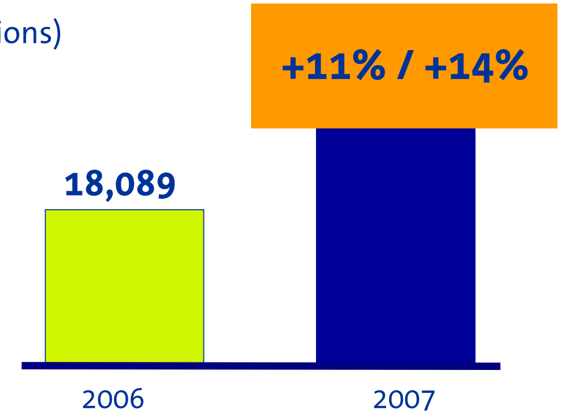
Group CapEx
(€ in millions)



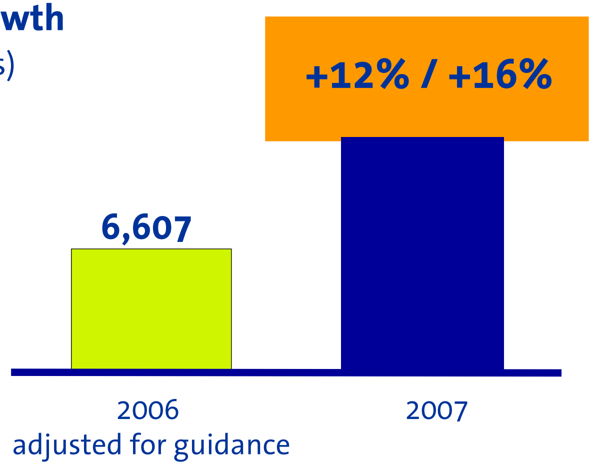
Base reported numbers include eleven months of O2 (consolidated since February 2006), eight months of Telefónica Telecom (consolidated since May 2006), six months of Iberbanda (consolidated since July 2006), three months of start-up losses in Slovakia (operations started in February 2007), and exclude Endemol and Airwave results. 2007 guidance assumes constant exchange rates as of 2006 and exclude changes in consolidation. In terms of guidance calculation, OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring (980 M€ in 2006 and estimated 630 M€ for 2007 for TdE) and Real Estate Programs are included as operating revenues/expenses. For comparison the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.

...supported by our distinctive growth profile in Latin America...

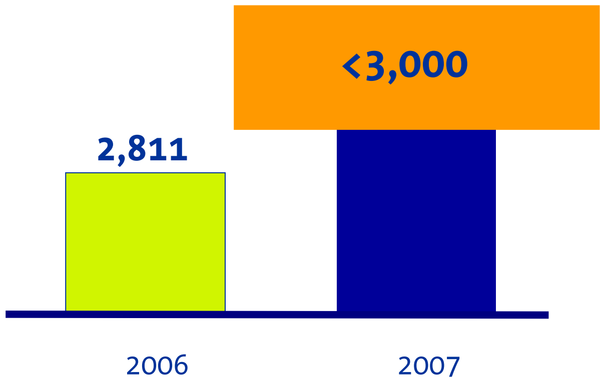
Revenue Growth
(€ in millions)



OIBDA Growth
(€ in millions)



CapEx
(€ in millions)



T. Latam base reported figures include eight months of Telefónica Telecom (consolidated since May 2006). 2007 guidance assumes constant exchange rates as of 2006. All figures exclude changes in consolidation. In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For comparison the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.

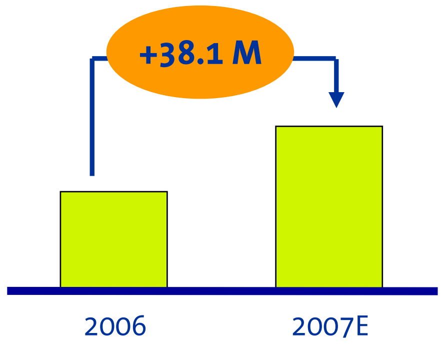
...leveraging the potential of mobile Latam operations...

STABLE MACRO OUTLOOK

- **Mid-single digit rate GDP growth** for major economies

  +4.7% in 2007 for the Latam region [1]

- **Strong penetration** growth of **mobile market** (in T.Latam areas of operations)[2]



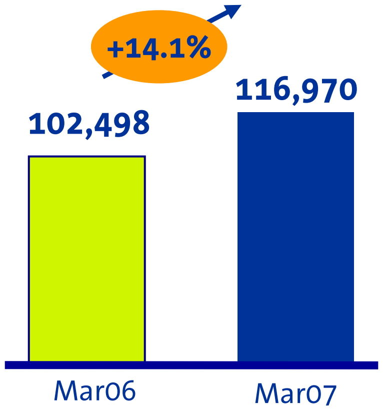
- **Targeting a strong share of net adds** in 2007 by:
  - ✓ Capitalizing on our **GSM footprint in all the region** after Brazil & Venezuela GSM migration
  - ✓ Pushing **Fixed/Mobile integration** and collaboration to capture growth potential

LEVERAGING REGIONAL MANAGEMENT OF OPERATIONS

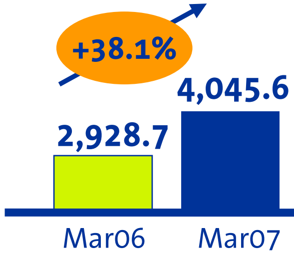
(1) In millions of $US, constant prices as of 2000. Source: Cepal (Comisión Económica para América Latina y Caribe)
(2) Source: Pyramid

Telefónica Latinoamérica profile keeps showing tangible progress in 1Q07…

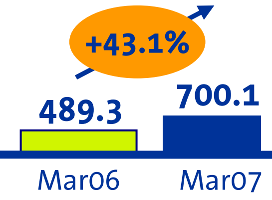
Total Accesses
(in thousands)



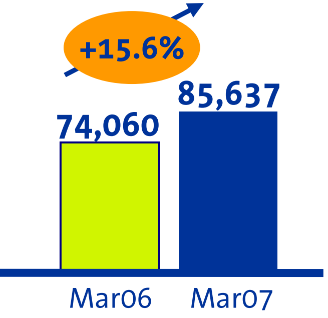
Retail Internet BB connections
(in thousands)



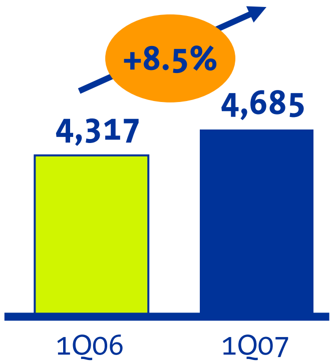
Pay TV clients
(in thousands)



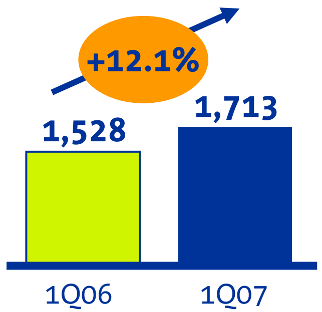
Wireless clients
(in thousands)



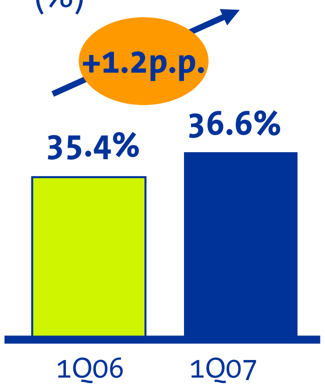
Revenues
(€ in millions, change in €)



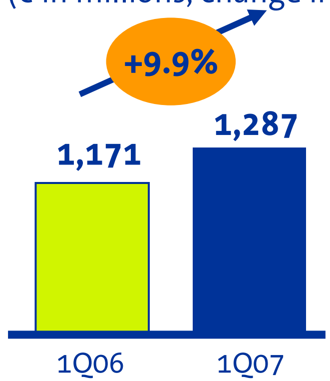
OIBDA
(€ in millions, change in €)



OIBDA Margin
(%)



Operating CF
(€ in millions, change in €)



Telefónica offers shareholders a superior value proposition

- **Highest growth profile**, well ahead of peers
- **Best diversification,** by business and geographies
- **Clear potential to extract value** from scale and integrated management
- **A sound competitive position to face current challenges**

✓ **Reliability**, always delivering results

✓ Well preserved **financial discipline**

✓ Growing path on **shareholders' returns**

A high growth & returns stock, that **will double** both **EPS and dividend by 2009**