

TELEFONICA S A  
Form 6-K  
February 28, 2008

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Report of Foreign Private Issuer**

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of February, 2008

Commission File Number: 001-09531

**Telefonica, S.A.**

(Translation of registrant's name into English)

**Gran Vía, 28**

28013 Madrid, Spain

3491-459-3050

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F            Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes            No

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Yes      No

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Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes

No

X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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## ADDENDA

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

The English language translation of the consolidated financial statements originally issued in Spanish has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation, certain omissions or approximations may subsist. Telefónica, its representatives and employees decline all responsibility in this regard. In the event of a discrepancy, the Spanish-language version prevails.

## TELEFÓNICA GROUP

Market Size

*(Data in thousands)*

## TELEFÓNICA GROUP ACCESSES

Unaudited figures (thousands)

	January - December		
	2007	2006	% Chg
<b>Final Clients Accesses</b>	<b>225,910.3</b>	<b>200,700.7</b>	<b>12.6</b>
Fixed telephony accesses (1)	41,974.2	42,340.7	(0.9)
Internet and data accesses	12,968.4	12,170.9	6.6
Narrowband	2,532.9	3,997.7	(36.6)
Broadband (2)	10,277.8	7,974.8	28.9
Other (3)	157.7	198.4	(20.5)
Mobile accesses	169,219.7	145,125.1	16.6
Pay TV	1,748.1	1,064.0	64.3
<b>Wholesale Accesses</b>	<b>2,628.0</b>	<b>2,479.4</b>	<b>6.0</b>
Unbundled loops	1,396.5	962.2	45.1
Shared ULL	776.4	527.7	47.1
Full ULL	620.1	434.5	42.7
Wholesale ADSL (4)	575.5	1,288.6	(55.3)
Other (5)	656.0	228.6	n.m.
<b>Total Accesses</b>	<b>228,538.3</b>	<b>203,180.2</b>	<b>12.5</b>

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included.

(2) ADSL, satellite, optical fibre, cable modem and broadband circuits.

(3) Remaining non-broadband final client circuits.

(4) Includes Unbundled Lines by T. Deutschland.

(5) Circuits for other operators.

Note: Mobile accesses, Fixed telephony accesses and Broadband accesses include MANX customers.

## TELEFÓNICA GROUP

### Financial Highlights

Key highlights of the Telefónica Group's 2007 results:

- Revenues rose +6.7%, OIBDA jumped +19.3%, OI, +42.1% and net profit, +42.9% year-on-year in 2007, driven by significant geographical and business diversification.
- OIBDA 2007 is heavily impacted by the personnel reorganization announced by the company that will boost efficiency in the coming years. Personnel reorganization expenses at Telefónica Group stood at 1,199 million euros in 2007 (1,084 million euros in 2006) and 900 million euros in the fourth quarter of 2007 (651 million euros in 2006).
- Additionally, in 2007 the Company has recorded other expenses related to operations restructuring, amounting to 199 million euros (16 million euros in 2006), mainly related to the cessation of the national roaming contract with T-Mobile.
- Telefónica posted consolidated net profit<sup>1</sup> of 8,906 million euros:
- Basic earnings per share rose 43.5% to 1.872 euros (1.304 euros per share in December 2006), the fourteenth consecutive increase.

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<sup>1</sup> Includes the capital gains of 1,296 million euros and 1,368 million euros from the disposals of Airwave and Endemol respectively.

- Strong organic revenue growth<sup>2</sup>, up 7.4% from 2006.
- By region, Telefónica Latinoamérica reported a 13.0% year-on-year revenue growth, while Telefónica España and Telefónica Europe reported increases of 4.6% and 4.5%, respectively.

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<sup>2</sup> Assuming constant exchange rates and including the consolidation of the O2 Group, Telefónica Telecom and Iberbanda in January-December 2006. It excludes the consolidation of Telefónica O2 Slovakia in January-December 2007, the consolidation of TVA in October-December 2007, the consolidation of Airwave in April-December 2006 and the consolidation of Endemol in July-December 2006.

- Commercial activity was boosted by the success of the Company's customer acquisition and retention schemes, resulting in a sharp year-on-year rise in total accesses (+12.5%) to 228.5 million, underpinned by wireless and broadband accesses:
- The wireless customer base increased by 16.6% year-on-year to 169.2 million.
- The number of retail broadband accesses stood above 10.2 million at the end of 2007, an increase of 28.9% from 2006.
- Pay TV customer base grew 64.3% year-on-year to 1.7 million.
- Operating cash flow (OIBDA-CapEx) amounted to 14,797 million euros thanks to synergies stemming from the integrated management of operations, cost optimisation and growing diversification.
- Telefónica Group's results for 2007 provide further evidence of the differential profile of the Company. Once again, the Group met all its financial targets<sup>3</sup>:
- Consolidated revenue growth of 9.8% versus the forecast range of 8%-10%;
- Operating income before depreciation and amortisation (OIBDA) growth stood at 12.8%, towards the top of the forecast range of 10% - 13%.
- Operating income (OI) increased by 27.6%, above the given range of 19% to 23%.
- CapEx totalled 8,087 million euros, lower than the forecast investment of 8,100 million euros.

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3 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), three months of start-up losses in Slovakia, and exclude Endemol and Airwave results. 2007 guidance assumes constant exchange rates as of 2006 and excludes changes in consolidation (TVA). In terms of guidance calculation, OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses, with the exception of the ones decided after the guidance communication at the beginning of the year. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures. CapEx excludes investments related to Real Estate Efficiency Plan.

- The Group's strong business performance allows to announce sound growth prospects in 2008 and to reiterate the long-term growth targets announced in October 2007. For 2008, the Company forecasts<sup>4</sup>:
- Consolidated revenue growth in the range of +6.0%/+8.0%;
- Consolidated OIBDA growth in the range of +7.5%/+11.0%;
- Consolidated OI growth in the range of +13.0%/+19.0%;
- CapEx is expected to stand around 8,600 million euros.

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<sup>4</sup> 2007 adjusted figures exclude Airwave and Endemol, include 3 months of consolidation of TVA. 2007 T. España revenues are adjusted for new public voice telephony services business model. Group revenues are also adjusted accordingly. 2008 figures include TVA, Deltax and Telemig (from April 2008). Telefónica's CapEx excludes Real Estate Efficiency Program. Guidance growths assume 2007 constant FX. In terms of guidance calculation OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007 and 2008.

#### 2007 Bases for Guidance purposes:

- Consolidated revenues: 55,550 million euros;
- Consolidated OIBDA: 20,863 million euros;
- Consolidated OI: 11,467 million euros;
- CapEx: 7,975 million euros.
- The Company reinforces its shareholder remuneration policy:
- The dividend of 1 euro per share corresponding to 2008 fiscal year announced back in October is now complemented with a new share buy-back programme, announced on February, 27th, 2008, for a total amount of 100 million shares, representing close to 2.095% of the Company's share capital. The programme will be effective during 2008 and the first half of 2009.

## TELEFÓNICA GROUP

### Consolidated Results

**Telefónica Group organizational restructuring by Regional Business Units: Telefónica España, Telefónica Latinoamérica and Telefónica Europe, in accordance with the new regional and integrated management model, defines that the companies legal structure is not relevant for the presentation of the Telefónica Group financial information. In this sense, operating results of each regional business units are presented independently of their legal structure.**

**In line with this new structure, Telefónica Group has incorporated in Telefónica España and Telefónica Latinoamérica regional businesses units all the information corresponding to fixed, cellular, cable and Internet businesses.**

**Likewise, Telefónica O2 Europe includes O2 Group results and Telefónica O2 Czech Republic results.**

**In the caption Other companies and Eliminations Content and Media Business is included, where the results of Telefonica S.A. direct stake has been integrated in the share capital of Endemol Entertainment Holding, N.V.**

**For the presentation of the segment reporting, revenue and expenses arising from the use of the trademark and that do not affect the Group's consolidated results have been eliminated from the operating results of each Group segment.**

Telefónica Group's 2007 results continue to show the differential profile of the Company, underpinned by its strong execution of operations and its ability to consistently meet its financial targets. The solid growth achieved in 2007 highlights the Group's potential for organic growth, the value of its geographic and business line diversification, an efficient cost structure and the synergies tapped through the integrated management of the Company.

In a context of a strong expansion of the customer base (+12.5%), revenues (+6.7%), OIBDA (+19.3%), OI (+42.1%) and net profit (+42.9%) all rose sharply compared with 2006, while operating cash flow (OIBDA-CapEx) increased by 33.0% year-on-year to 14,797 million euros (+9.1% ex-capital gains from the Airwave and Endemol disposals).

Once again, the Company's outstanding performance in 2007 has enabled the Telefónica Group to meet all its financial targets<sup>1</sup> for the year. In accordance with the criteria applied for setting its targets for 2007:

- Revenue growth stood at 9.8% vs. the forecast range of 8%-10%;
- Operating income before depreciation and amortisation (OIBDA) grew 12.8%, in the upper part of the forecast range of 10%-13%.
- Operating income increased by 27.6%, above the given range of 19% to 23%.
- CapEx totalled 8,087 million euros, lower than the forecast investment of 8,100 million euros.

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<sup>1</sup> 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), three months of start-up losses in Slovakia, and exclude Endemol and Airwave results. 2007 guidance assumes constant exchange rates as of 2006 and excludes changes in consolidation (TVA). In terms of guidance calculation, OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses, with the exception of the ones decided after the guidance communication at the beginning of the year. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures. CapEx excludes investments related to Real Estate Efficiency Plan.

Commercial activity picked up in the fourth quarter due to successful customer acquisition and retention campaigns, boosting **total accesses** by 12.5% to 228.5 million from 2006.

Telefónica España



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has 46.4 million accesses, an increase of 5.0% on 2006, underpinned by growth in wireless and broadband customers together with the contention of fixed lines losses, at -0.3% year-on-year, the smallest decline since 2001.

Growth in the number of total accesses at **Telefónica Latinoamérica** picked up the pace (+16.9% year-on-year to 134.1 million) thanks to the strong growth in broadband, a robust wireless market, which registered a new record for net adds in the fourth quarter (7.3 million customers), and an expanding Pay TV customer base, which increases close to 75% compared with 2006.

### Telefónica Europa

reported growth of 8.7% in its customer base to 42 million, driven by the strong performance of its wireless business, especially in the contract segment.

By access type, growth **in mobile accesses** at the Telefónica Group accelerated to 16.6% year-on-year to 169.2 million. In Latin America, it is worth highlighting the quarterly net adds registered in Brazil (2.2 million, close to seven-fold increase on the same period in 2006), and in Mexico (almost 1.5 million, up 32% year-on-year). In Spain, net adds in the quarter totalled 406,837 thousand, exceeding the figures seen in the last three quarters and boosting the customer base to over 22.8 million, up 6.4% compared with 2006. In Europe, the customer base increased by 8.6% to 38.3 million, with net adds of 1.0 million customers in the quarter.

### Retail Internet broadband accesses

at the Telefónica Group surged 28.9% year-on-year to over 10.2 million at the end of December. Take-up for ADSL, TV and voice bundles remained strong, making a significant contribution to developing the broadband market and forging customer loyalty. In Spain, retail broadband accesses surpassed 4.5 million (up +22.1% year-on-year), in Latin America, 5.0 million (+33.2%) and in Europe, 670,000 (+48.3%). Net adds in the quarter stood at 227,500 in Spain, while this figure amounted to 332,300 and 97,500 in Latin America and Europe respectively.

### Pay TV accesses

at the end of the quarter exceeded 1.7 million, 64.3% more than in 2006, with operations up and running in Spain, the Czech Republic, Peru, Chile, Colombia and Brazil.

Thanks to the sound increase in the Group's customer base, **revenues** in 2007 totalled 56,441 million euros, a year-on-year increase of 6.7%. Negative exchange rate effects detracted 1.2 percentage points from top-line growth (-1.0 percentage points to September, -1.4 percentage points to June, -2.6 percentage points to March), while changes in the consolidation perimeter contributed 0.5 percentage points to this growth (vs. +1.9 percentage points to September, +4.5 percentage points to June, +9.8 percentage points to March). Organic revenue growth<sup>2</sup> was 7.4%, with Telefónica Latinoamérica (4.4 percentage points) and Telefónica España (1.6 percentage points) making the largest contributions. By business, mobile services and broadband were the main revenue drivers underpinning organic growth, up 11.1% and 22.6% year-on-year respectively.

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2 Assuming constant exchange rates and including the consolidation of the O2 Group, Telefónica Telecom and Iberbanda in January-December 2006. It excludes the consolidation of Telefónica O2 Slovakia in January-December 2007, the consolidation of TVA in October-December 2007, the consolidation of Airwave in April-December 2006 and the consolidation of Endemol in July-December 2006.

In absolute terms, **Telefónica España** contributed most to Telefónica Group revenues, accounting for 36.6% of the total. Telefónica España reported revenues of 20,683 million in 2007, up 4.7% from 2006. Revenues at Telefónica España's wireline business amounted to 12,401 million euros in the year, a year-on-year increase of 3.7%. This was largely underpinned by strong Internet and broadband service revenues and, to a lesser extent, data and IT services, not forgetting the noteworthy performance of voice and traditional access revenues. Telefónica España's wireless business reported full-year revenues of 9,693 million euros, up 5.4% year-on-year, driven by

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strong service revenues (+4.5%), which in turn were buoyed by customer revenues (+8.0%).

### Telefónica Latinoamérica

(35.6% of consolidated revenues) recorded revenues of 20,078 million euros in 2007, 11.0% more than in 2006 (14.5% in constant euros). In organic terms<sup>3</sup>, revenues grew by 13.0%. In constant currency terms, Mexico and Venezuela contribute most to topline growth with respective contributions of 3.2 and 3.1 percentage points. Brazil continues to make the largest contribution to Telefónica Latinoamérica's revenues (38.2%) followed by Venezuela (11.9%) and Argentina (11.3%). TASA remains the best performing fixed operator in the region, reporting 9.9% growth in local currency thanks to higher broadband revenues (+45.7% in local currency) and a robust traditional business (+5.4% in local currency). In Brazil, Vivo (revenues up 16.5% in local currency) should be highlighted, where results reflect the impact of the management measures implemented in 2006 and 2007 to achieve profitable growth and improved customer satisfaction.

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3 Assuming constant exchange rates and including the consolidation of Telefónica Telecom in 2006. It excludes the consolidation of TVA in October-December 2007.

### Telefónica Europe

contributed 14,458 million euros (25.6%) to the Telefónica Group's total revenues in 2007. Telefónica Europe's 2006 revenues included the O2 Group for February-December 2006, as well as Telefónica Deutschland and Telefónica O2 Czech Republic for January-December 2006. In the UK, the continued growth of the customer base and ARPU boosted revenues, in comparable terms, by 9.5% in local currency vs. 2006 despite the strong competitive pressure in the market. At Telefónica O2 Czech Republic, 2007 revenues rose 2.9% year-on-year boosted by the wireless business (+4.4% in local currency) and a stable fixed business. At O2 Germany, in comparable terms, revenues fell by 1.9% vs. 2006 as traffic growth failed to offset the major price cuts made over the year in a highly competitive market.

In 2007, Telefónica Group's **operating expenses** grew 7.0% vs. 2006 to 37,431 million euros. These higher costs are mainly due to changes in the consolidation perimeter, higher commercial efforts carried out in Latin America and Europe and the impact of operational and personnel reorganization plans announced by the Company that will boost efficiency in the coming years.

### Supplies

rose 7.7% year-on-year in 2007 to 17,907 million euros (up 9.0% excluding the exchange rate effect). Stripping out also changes to the consolidation perimeter, supplies would have risen 9.2%, mainly due to higher interconnection expenses at Telefónica Latinoamérica and O2 UK.

### Personnel expenses

rose 3.6% year-on-year to 7,893 million (+4.6% in constant euros). The average number of employees in the period was 244,052, 16,915 more than the previous year, due to net hires at the Atento Group and the inclusion of new companies in the consolidation perimeter. Excluding the Atento Group workforce, the average number of employees at the Telefónica Group would have been virtually flat year-on-year at 127,102 employees. Personnel reorganization expenses at Telefónica Group stood at 1,199 million euros in 2007 (1,084 million euros in 2006):

- Telefónica España: 667 million euros, including the 2003-2007 redundancy programme and a new personnel reorganization programme for 2008 started in 2007;
- Telefónica Latin America: 318 million euros booked for personnel reorganization programmes carried out in different companies of the Group corresponding to plans implemented in 2007 and in force throughout 2008;
- Telefónica Europe: 158 million euros relating to personnel reorganization programmes implemented in Germany, the UK and Ireland.

### External service expenses

(9,991 million euros) grew by 8.2% year-on-year (+9.5% in constant currency), partly due to the cessation of the roaming agreement in Germany with T-Mobile in the fourth quarter. In organic terms, this increase was mainly due to increased commercial activity at Telefónica Latinoamérica

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and in Telefónica España's wireline business.

Also, **gains on sale of fixed assets** in 2007 totalled 2,766 million euros due to the recognition in the second quarter of 1,296 million euros in capital gains from the sale of Airwave and in the third quarter of 1,368 million euros in capital gains from the disposal of Endemol. Meanwhile a capital loss of 45 million euros was recorded in the second quarter in connection with the disposal of the Group's 6.9% stake in CANTV.

At the end of 2007, **operating income before depreciation and amortisation (OIBDA)** stood at 22,825 million euros, up 19.3% from 2006. Stripping out gains from the sale of Airwave and Endemol, OIBDA growth would have been 5.4% year-on-year. Organic OIBDA growth<sup>4</sup> would have stood at 20.8% (+6.8% stripping out both capital gains). The OIBDA margin in 2007 was 40.4% (35.7% excluding the Airwave and Endemol capital gains vs. 36.2% the previous year).

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4 Assuming constant exchange rates and including the consolidation of the O2 Group, Telefónica Telecom and Iberbanda in January-December 2006. It excludes the consolidation of Telefónica O2 Slovakia in January-December 2007, the consolidation of TVA in October-December 2007, the consolidation of Airwave in April-December 2006 and the consolidation of Endemol in July-December 2006.

### Telefónica España

(46.9% of consolidated OIBDA) reported OIBDA of 9,448 million euros in 2007, up 9.3% from 2006. The OIBDA margin stood at 45.7%, 1.9 percentage points higher than one year ago.

OIBDA at **Telefónica Latinoamérica** (7,121 million euros) represented 35.3% of consolidated OIBDA for 2007<sup>5</sup>, a year-on-year increase of 8.4%. In organic terms<sup>6</sup> OIBDA growth was 10.6%. In constant currency terms, OIBDA growth in Latin America was 11.5%. By country, Venezuela contributed most to OIBDA growth (5.2 percentage points), followed by Mexico (3.1 percentage points). In absolute terms, Brazil was the largest contributor to Telefónica Latinoamérica's OIBDA, accounting for 43.1% of the total, followed by Venezuela (14.9%) and Argentina (11.1%). Telefónica Latinoamérica's OIBDA margin in 2007 amounted to 35.5%, 0.9 percentage points lower than in 2006, affected by the personnel reorganization provisions outlined above. Excluding these provisions, the margin would have been 37.1% (0.3 percentage points higher than the one recorded in 2006).

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5 2007 OIBDA for Telefonica Group does not consider the capital gains of 1,296 million euros and 1,368 million euros from the disposals of Airwave and Endemol respectively.

6 Assuming constant exchange rates and including the consolidation of the O2 Group, Telefónica Telecom and Iberbanda in January-December 2006. It excludes the consolidation of Telefónica O2 Slovakia in January-December 2007, the consolidation of TVA in October-December 2007, the consolidation of Airwave in April-December 2006 and the consolidation of Endemol in July-December 2006.

### Telefónica Europe

generated OIBDA<sup>7</sup> of 4,977 million in 2007 including the 1,296 million euro capital gain from the sale of Airwave recorded in the second quarter, a contribution of 18.3% to total Group OIBDA<sup>7</sup>. In 2006 Telefónica Europe reported OIBDA of 3,708 million euros; this figure reflected the consolidation of the O2 Group in February-December and Telefónica O2 Czech Republic and Telefónica Germany for the full twelve months. The OIBDA margin excluding the Airwave capital gain was 25.5% vs. 28.2% in 2006.

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7 Excluding the capital gain from Airwave (1,296 million euros) from Telefónica Europe and from Group OIBDA the Airwave capital gains and the capital gain of 1,368 million euros from the disposal of Endemol.

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In the fourth quarter O2 UK's OIBDA fell by 4.9% year-on-year in local currency due to a 20.5 million euros charges, mainly due to personnel reorganization costs at its IT and technology business aimed at achieving future efficiencies. Stripping out this expense, OIBDA would have been almost flat vs. 2006. At O2 Germany, fourth-quarter OIBDA fell by 77.9% year-on-year due to non-recurrent charges of 151 million euros. Most of these were accounted for by the early cancellation of the roaming agreement in Germany with T-Mobile mentioned earlier and the personnel reorganization plan initiated in the second quarter of the year. Telefónica O2 Czech Republic recorded a fall of approximately 1.1 percentage points in its OIBDA margin partly explained by the negative contribution of its operations in Slovakia.

### Depreciation and amortisation

in 2007 totalled 9,437 million euros, 2.8% lower than 2006 figure. Both Telefónica España and Telefónica Latinoamérica contributed the most to lower depreciation and amortisation (6.0% and 3.0% less year-on-year, respectively). Telefónica Europe recorded a decrease (0.4% year-on-year) owing to the purchase price allocations in the O2 Group acquisition (802 million euros) and the Telefónica O2 Czech Republic acquisition (158 million euros). In organic terms<sup>8</sup>, depreciation and amortisation for the Telefónica Group fell 3.7% in 2007 year-on-year, with Telefónica España and Telefónica Europe chiefly responsible for this decline.

The sharp rise in OIBDA and fall in depreciation and amortisation drove **operating income (OI)** 42.1% higher in the year to 13,388 million euros. Stripping out the impact of the Airwave and Endemol disposals, OI would have increased by 13.8%. Organic growth<sup>8</sup> was 47.0% (+18.1% excluding the capital gains from the disposals of Airwave and Endemol).

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<sup>8</sup> Assuming constant exchange rates and including the consolidation of the O2 Group, Telefónica Telecom and Iberbanda in January-December 2006. It excludes the consolidation of Telefónica O2 Slovakia in January-December 2007, the consolidation of TVA in October-December 2007, the consolidation of Airwave in April-December 2006 and the consolidation of Endemol in July-December 2006.

### Profit from associates

jumped 83.3% in 2007 to 140 million euros. The bulk of the increase was due to Portugal Telecom and Lycos Europe, which in April sold its investment in the Czech-based IP provider Seznam, c.z. The improvement was also underpinned by the fact that Sogecable and The Link have not been consolidated under the equity method since the fourth quarter of 2006.

### Net financial results

at the end of 2007 amounted to 2,844 million euros, 4.0% above those of the same period of 2006. This variation arises mainly from the increase in the average cost of debt for Telefónica Group due to higher interest rates in Europe and higher percentage of debt in Latinoamérica, that drives financial expenses up by 207 million euros. The increase in the average cost of debt is offset by the 200 million euros reduction due to the decrease of average total debt in 2007. Management of the present value of pre-retirement plan commitments and other positions associated to marked-to-market positions, have a positive impact of 84 million euros, 42 million euros behind the figure reported for 2006. The average cost calculated on average total net debt for 2007 is 5.59% and 5.61% when excluding FX results.

### Free cash flow

generated by the Telefónica Group in 2007 amounted 8,847 million euros of which 2,113 and 3,076 million euros were assigned to Telefónica's share buyback program and dividend payment respectively, and 781 million euros to commitment cancellations derived mainly from the pre-retirements plans. Due to the fact that financial divestitures for the period amounted to 2,512 million euros, mainly due to Airwave and Endemol disposals and TELCO participation, net financial debt decreased in 5,389 million euros. Also, net debt was reduced by an additional 1,472 million euros because of FX impact, changes in the consolidation perimeter and other effects on financial accounts. All this has been translated in a decrease of 6,861 million euros in respect to the net financial debt of the fiscal year 2006 (52,145 million euros), reaching the net financial debt of Telefónica Group at 2007 45,284 million euros.

The **tax provision** for 2007 totalled 1,565 million euros, a tax rate of 14.65% in the year. However, the cash outflow for the Group will be lower as it offsets loss carryforwards generated in previous years and which have not yet been

used.

In 2007 the tax rate was affected by several issues that resulted in it being significantly reduced. Chief among these were the disposal of Endemol, which generated a fiscal loss, the tax reforms in the UK, which resulted in a reduction in deferred liabilities, and the disposal of Airwave, which had no fiscal impact.

#### Minority interests

subtracted 213 million euros in 2007, a 38.5% year-on-year decrease mainly due to the merger by absorption of Telefónica Móviles by Telefónica S.A. in July 2006. Minority stakes in Telesp and Telefónica O2 Czech Republic accounted for the bulk of profit attributable to minority interests.

#### In all, consolidated net profit

to December totalled 8,906 million euros, up 42.9% year-on-year. Basic earnings per share jumped 43.5% to 1.872 euros. In the fourth quarter, net profit amounted to 1,058 million euros, up 2.3% year-on-year, while earnings per share stood at 0.224 euros compared to 0.213 euros per share in the fourth quarter of 2006.

#### CapEx

in 2007 totalled 8,027 million euros, an increase of 0.3% year-on-year. Exchange rate effects detracted 1.4 percentage points.

### 2008 FINANCIAL TARGETS

In accordance with the criteria used to establish its financial targets for 2008<sup>9</sup>, Telefónica Group expects:

- Annual growth in consolidated revenues to be in the range of 6.0%-8.0% for 2008 (2007 Base for guidance purposes: 55,550 million euros). By regions:
  - o Telefónica España : +2.0%/+3.5% (2007 Base for guidance purposes: 20,536 million euros);
  - o Telefónica Latinoamérica: +11.0%/+14.0% (2007 Base for guidance purposes: 20,078 million euros);
  - o Telefónica Europe: +4.0%/+7.0% (2007 Base for guidance purposes: 14,358 million euros).
- Annual OIBDA growth in 2008 to be in the range of 7.5%-11.0% (2007 Base for guidance purposes: 20,863 million euros). By regions:
  - o Telefónica España : +6.0%/+8.0% (2007 Base for guidance purposes: 9,635 million euros);
  - o Telefónica Latinoamérica: +12.0%/+16.0% (2007 Base for guidance purposes: 7,408 million euros);
  - o Telefónica Europe: +2.0%/+6.0% (2007 Base for guidance purposes: 3,974 million euros);
- Annual operating income (OI) growth in 2008 to be in the range of 13.0%-19.0% (2007 Base for guidance purposes: 11,467 million euros).
- CapEx in 2008 will stand around 8,600 million euros (2007 Base for guidance purposes: 7,975 million euros).

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<sup>9</sup> 2007 adjusted figures exclude Airwave and Endemol, include 3 months of consolidation of TVA. 2007 T. España revenues are adjusted for new public voice telephony services business model. Group revenues are also adjusted accordingly. 2008 figures Includes TVA, Deltax and Telemig (from April 2008). Telefónica's CapEx excludes Real Estate Efficiency Program. Guidance growths assume 2007 constant FX. In terms of guidance calculation OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007 and 2008.

## TELEFÓNICA GROUP

### Financial Data

#### SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - December		
	2007	2006	% Chg
Revenues	56,441	52,901	6.7
Operating income before D&A (OIBDA)	22,825	19,126	19.3
Operating income (OI)	13,388	9,421	42.1
Income before taxes	10,684	6,764	58.0
Net income	8,906	6,233	42.9
<b>Basic earnings per share</b>	<b>1.872</b>	<b>1.304</b>	<b>43.5</b>
<b>Weighted average number of ordinary shares outstanding during the period (millions)</b>	<b>4,758.7</b>	<b>4,779.0</b>	<b>(0.4)</b>

Note: Figures are presented considering the Purchase Price Allocation of O2 as of February 2006.

Note: For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IFRS rule 33 "Earnings per share". Thereby, there are not taking into account as outstanding shares the weighted average number of shares held as treasury stock during the period.

**TELEFÓNICA  
GROUP**

**RESULTS BY REGIONAL BUSINESS UNITS**

Unaudited figures (Euros in millions)

	REVENUES			OIBDA			OPERATING INCOME		
	January - December			January - December			January - December		
	2007	2006	% Chg	2007	2006	% Chg	2007	2006	% Chg
Telefónica España	20,683	19,750	4.7	9,448	8,647	9.3	7,067	6,113	15.6
Telefónica Latinoamérica	20,078	18,089	11.0	7,121	6,571	8.4	3,562	2,900	22.8
Telefónica Europe (1)	14,458	13,159	9.9	4,977	3,708	34.2	1,591	309	n.m.
Other companies and eliminations (2)	1,221	1,903	(35.8)	1,278	200	n.m.	1,168	99	n.m.
<b>Total Group</b>	<b>56,441</b>	<b>52,901</b>	<b>6.7</b>	<b>22,825</b>	<b>19,126</b>	<b>19.3</b>	<b>13,388</b>	<b>9,421</b>	<b>42.1</b>

Note: Figures are presented considering the Purchase Price Allocation of O2 as of February 2006.

Note: OIBDA for wireline operations in Latin America is presented after management fees.

(1) Telefónica Europe includes in 2006 Telefónica O2 Czech Republic (January-December), T. Deutschland (January-December), O2 Group (February-December) and O2 Germany (February-December). OIBDA figures exclude brand fee.

(2) OIBDA and Operating Income exclude the variation in investment valuation allowances accounted by Telefónica, S.A.

## CAPEX BY REGIONAL BUSINESS UNITS

Unaudited figures (Euros in millions)

	January - December		
	2007	2006	% Chg
Telefónica España	2,381	2,304	3.4
Telefónica Latinoamérica	3,343	2,811	18.9
Telefónica Europe (1)	2,125	2,552	(16.7)
Other companies and eliminations	178	336	(47.1)
<b>Total Group</b>	<b>8,027</b>	<b>8,003</b>	<b>0.3</b>

Note: Group CapEx in 2006 at cumulative average exchange rate.

(1) Telefónica Europe includes in 2006 Telefónica O2 Czech Republic (January-December), T. Deutschland (January-December), O2 Group (February-December) and O2 Germany (February-December).

**TELEFÓNICA GROUP**  
**CONSOLIDATED INCOME STATEMENT**

Unaudited figures (Euros in millions)

	January - December			October - December		
	2007	2006	% Chg	2007	2006	% Chg
Revenues	56,441	52,901	6.7	14,426	14,196	1.6
Internal exp capitalized in fixed assets (1)	708	719	(1.5)	211	195	8.3
Operating expenses	(37,431)	(34,995)	7.0	(10,381)	(9,992)	3.9
Supplies	(17,907)	(16,629)	7.7	(4,653)	(4,645)	0.2
Personnel expenses	(7,893)	(7,622)	3.6	(2,578)	(2,421)	6.5
Subcontracts	(9,991)	(9,230)	8.2	(2,771)	(2,578)	7.5
Bad Debt Provisions	(666)	(609)	9.4	(130)	(125)	3.5
Taxes	(974)	(905)	7.7	(249)	(224)	11.4
Other net operating income (expense)	358	346	3.3	192	127	51.2
Gain (loss) on sale of fixed assets	2,766	236	n.m.	132	12	n.m.
Impairment of goodwill and other assets	(17)	(81)	(79.2)	(4)	(66)	(94.5)
<b>Operating income before D&amp;A (OIBDA)</b>	<b>22,825</b>	<b>19,126</b>	<b>19.3</b>	<b>4,577</b>	<b>4,472</b>	<b>2.3</b>
Depreciation and amortization	(9,437)	(9,704)	(2.8)	(2,452)	(2,510)	(2.3)
<b>Operating income (OI)</b>	<b>13,388</b>	<b>9,421</b>	<b>42.1</b>	<b>2,125</b>	<b>1,962</b>	<b>8.3</b>
Profit from associated companies	140	77	83.3	34	16	n.m.
Net financial income (expense)	(2,844)	(2,734)	4.0	(749)	(805)	(7.0)
<b>Income before taxes</b>	<b>10,684</b>	<b>6,764</b>	<b>58.0</b>	<b>1,409</b>	<b>1,172</b>	<b>20.2</b>
Income taxes	(1,565)	(1,781)	(12.1)	(294)	(64)	n.m.
<b>Income from continuing operations</b>	<b>9,119</b>	<b>4,983</b>	<b>83.0</b>	<b>1,115</b>	<b>1,108</b>	<b>0.6</b>
Income (Loss) from discontinued ops.	0	1,596	n.m.	0	0	n.m.
Minority interest	(213)	(346)	(38.5)	(57)	(73)	(22.5)
<b>Net income</b>	<b>8,906</b>	<b>6,233</b>	<b>42.9</b>	<b>1,058</b>	<b>1,035</b>	<b>2.3</b>
<b>Weighted average number of ordinary shares</b>	<b>4,758.7</b>	<b>4,779.0</b>	<b>(0.4)</b>	<b>4,718.5</b>	<b>4,853.6</b>	<b>(2.8)</b>



**outstanding during the period  
(millions)**

<b>Basic earnings per share</b>	<b>1.872</b>	<b>1.304</b>	<b>43.5</b>	<b>0.224</b>	<b>0.213</b>	<b>5.2</b>
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Note: Figures are presented considering the Purchase Price Allocation of O2 as of February 2006.

"Bad debt provisions" have been reclassified from "Other net operating income (expense)" to "Operating expenses".

(1) Including work in process.

Note: For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IFRS rule 33 "Earnings per share". Thereby, there are not taking into account as outstanding shares the weighted average number of shares held as treasury stock during the period.

**TELEFÓNICA GROUP  
CONSOLIDATED BALANCE SHEET**

Unaudited figures (Euros in millions)

	<b>January - December</b>		
	<b>2007</b>	<b>2006</b>	<b>% Chg</b>
<b>Non-current assets</b>	<b>87,395</b>	<b>91,269</b>	<b>(4.2)</b>
Intangible assets	18,320	20,758	(11.7)
Goodwill	19,770	21,739	(9.1)
Property, plant and equipment and Investment property	32,469	33,888	(4.2)
Long-term financial assets and other non-current assets	9,007	6,183	45.7
Deferred tax assets	7,829	8,702	(10.0)
<b>Current assets</b>	<b>18,478</b>	<b>17,713</b>	<b>4.3</b>
Inventories	987	1,012	(2.4)
Trade and other receivables	9,662	9,666	(0.0)
Current tax receivable	1,010	1,555	(35.0)
Short-term financial investments	1,622	1,679	(3.4)
Cash and cash equivalents	5,065	3,792	33.6
Non-current assets classified as held for sale	132	9	n.s.
<b>Total Assets = Total Equity and Liabilities</b>	<b>105,873</b>	<b>108,982</b>	<b>(2.9)</b>
<b>Equity</b>	<b>22,855</b>	<b>20,001</b>	<b>14.3</b>
Equity attributable to equity holders of the parent	20,125	17,178	17.2
Minority interest	2,730	2,823	(3.3)
<b>Non-current liabilities</b>	<b>58,044</b>	<b>62,644</b>	<b>(7.3)</b>

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Long-term financial debt	46,942	50,675	(7.4)
Deferred tax liabilities	3,926	4,700	(16.5)
Long-term provisions	6,161	6,287	(2.0)
Other long-term liabilities	1,015	982	3.4
<b>Current liabilities</b>	<b>24,974</b>	<b>26,337</b>	<b>(5.2)</b>
Short-term financial debt	6,986	8,382	(16.7)
Trade and other payables	8,729	8,533	2.3
Current tax payable	2,157	2,841	(24.1)
Short-term provisions and other liabilities	7,102	6,580	7.9
<b>Financial Data</b>			
Net Financial Debt (1)	45,284	52,145	(13.2)

Note: Figures are presented considering the Purchase Price Allocation of O2 as of February 2006.

(1) Net Financial Debt = Long term financial debt + Other long term liabilities + Short term financial debt - Short term financial investments - Cash and cash equivalents - Long term financial assets and other non-current assets.

## TELEFÓNICA GROUP

### FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

		January - December		
		2007	2006	% Chg
<b>I</b>	<b>Cash flows from operations</b>	<b>20,132</b>	<b>18,824</b>	<b>6.9</b>
II	Net interest payment (1)	(3,097)	(2,296)	
III	Payment for income tax	(1,457)	(1,100)	
<b>A=I+II+III</b>	<b>Net cash provided by operating activities</b>	<b>15,578</b>	<b>15,428</b>	<b>1.0</b>
B	Payment for investment in fixed and intangible assets	(7,205)	(6,828)	
<b>C=A+B</b>	<b>Net free cash flow after CAPEX</b>	<b>8,373</b>	<b>8,600</b>	<b>(2.6)</b>
D	Net Cash received from sale of Real Estate	129	24	
E	Net payment for financial investment	2,383	(21,574)	
F	Net payment for dividends and treasury stock (2)	(5,496)	(5,542)	
<b>G=C+D+E+F</b>		<b>5,389</b>	<b>(18,492)</b>	<b>c.s.</b>

	<b>Free cash flow after dividends</b>			
H	Effects of exchange rate changes on net financial debt	(819)	(511)	
I	Effects on net financial debt of changes in consolid. and others	(653)	4,097	
J	Net financial debt at beginning of period	52,145	30,067	
<b>K=J-G+H+I</b>	<b>Net financial debt at end of period</b>	<b>45,284</b>	<b>52,145</b>	<b>(13.2)</b>

(1) Including cash received from dividends paid by subsidiaries that are not under full consolidation method.

(2) Dividends paid by Telefónica S.A. and dividend payments to minorities from subsidiaries that are under full consolidation method and treasury stock.

## RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited figures (Euros in millions)

	January - December		
	2007	2006	% Chg
<b>OIBDA</b>	<b>22,825</b>	<b>19,126</b>	<b>19.3</b>
- CapEx accrued during the period	(8,027)	(8,003)	
- Payments related to commitments	(781)	(830)	
- Net interest payment	(3,097)	(2,296)	
- Payment for income tax	(1,457)	(1,100)	
- Results from the sale of fixed assets	(2,766)	(236)	
- Invest. in working cap. and other deferred income and exp	1,676	1,939	
<b>= Net Free Cash Flow after CapEx</b>	<b>8,373</b>	<b>8,600</b>	<b>(2.6)</b>
+ Net Cash received from sale of Real Estate	129	24	
- Net payment for financial investment	2,383	(21,574)	
- Net payment for dividends and treasury stock	(5,496)	(5,542)	
<b>= Free Cash Flow after dividends</b>	<b>5,389</b>	<b>(18,492)</b>	<b>c.s.</b>

Note: The concept "Free Cash Flow" reflects the amount of cash flow available to remunerate Telefónica S.A. Shareholders, to protect solvency levels (financial debt and commitments), and to accommodate strategic flexibility.

The differences with the caption "Net Free Cash Flow after CapEx" included in the table presented above, are related to "Free Cash Flow" being calculated before payments related to commitments (workforce reductions and guarantees) and after dividend payments to minorities, due to cash recirculation within the Group.

Jan-Dec  
2007

Jan-Dec 2006

Net Free Cash Flow after CapEx	8,373	8,600
+ Payments related to cancellation of commitments	781	830
- Ordinary dividends payment to minorities	(307)	(514)
= Free Cash Flow	8,847	8,916
Weighted average number of ordinary shares outstanding during the period (millions)	4,758.7	4,779.0
= Free Cash Flow per share	1.859	1.866

## NET FINANCIAL DEBT AND COMMITMENTS

Unaudited figures (Euros in millions)

	December 2007
Long-term debt	47,269
Short term debt including current maturities	6,986
Cash and Banks	(5,065)
Short and Long-term financial investments (1)	(3,906)
<b>A Net Financial Debt</b>	<b>45,284</b>
Guarantees to IPSE 2000	365
<b>B Commitments related to guarantees</b>	<b>365</b>
Gross commitments related to workforce reduction (2)	5,437
Value of associated Long-term assets (3)	(676)
Taxes receivable (4)	(1,472)
<b>C Net commitments related to workforce reduction</b>	<b>3,289</b>
<b>A + B + C Total Debt + Commitments</b>	<b>48,938</b>
<b>Net Financial Debt / OIBDA (5)</b>	<b>2.3x</b>
<b>Total Debt + Commitments/ OIBDA (5)</b>	<b>2.4x</b>

(1) Short term investments and certain investments in financial assets with a maturity profile longer than one year, whose amount is included in the caption "Investment" of the Balance Sheet.

(2) Mainly in Spain. This amount is detailed in the caption "Provisions for Contingencies and Expenses" of the Balance Sheet, and is the result of adding the following items: "Provision for Pre-retirement, Social Security Expenses and Voluntary Severance", "Group Insurance", "Technical Reserves", and "Provisions for Pension Funds of Other Companies".

(3) Amount included in the caption "Investment" of the Balance Sheet, section "Other Loans". Mostly related to investments in fixed income securities and long-term deposits that cover the materialization of technical reserves of the Group insurance companies.

(4) Net present value of tax benefits arising from the future payments related to workforce reduction commitments.

(5) Calculated based on December 2007 OIBDA, excluding results on the sale of fixed assets.

## TELEFÓNICA GROUP

### EXCHANGES RATES APPLIED

	P&L and CapEx (1)		Balance Sheet (2)	
	Jan - Dec 2007	Jan - Dec 2006	December 2007	December 2006
USA (US Dollar/Euro)	1.368	1.255	1.472	1.317
United Kingdom (Sterling/Euro)	0.685	0.682	0.733	0.672
Argentina (Argentinean Peso/Euro)	4.263	3.857	4.636	4.033
Brazil (Brazilian Real/Euro)	2.661	2.728	2.608	2.816
Czech Republic (Czech Crown/Euro)	27.756	28.338	26.620	27.495
Chile (Chilean Peso/Euro)	714.637	665.336	731.472	701.262
Colombia (Colombian Peso/Euro)	2,837.126	2,949.853	2,965.928	2,949.853
El Salvador (Colon/Euro)	11.974	10.977	12.881	11.524
Guatemala (Quetzal/Euro)	10.502	9.548	11.234	10.004
Mexico (Mexican Peso/Euro)	14.953	13.664	15.996	14.330
Nicaragua (Cordoba/Euro)	25.229	22.031	27.827	23.703
Peru (Peruvian Nuevo Sol/Euro)	4.282	4.108	4.409	4.205
Uruguay (Uruguayan Peso/Euro)	32.101	30.183	31.724	32.201
Venezuela (Bolivar/Euro)	2,942.254	2,695.418	3,165.015	2,832.861

(1) These exchange rates are used to convert the P&L and CapEx accounts of the Group foreign subsidiaries from local currency to euros.

(2) Exchange rates as of 31/Dec/07 and 31/Dec/06.

## RESULTS BY REGIONAL BUSINESS UNITS

### Telefónica Espa#241a

Telefónica Espa#241a successfully bolstered its position in an extremely active and competitive market, meeting all the financial targets announced for 2007.

#### Revenues

grew by 4.7% in 2007 to 20,683 million euros, beating the growth target of 3.5% - 4.5%. **Operating income before depreciation and amortisation (OIBDA)** jumped by 9.3% to 9,448 million euros, putting the OIBDA margin at 45.7%. For purposes of comparison with the OIBDA growth target for 2007 of between 9% and 11%, factoring in the factors taken into consideration when this target was set, OIBDA growth stood at 11.6%, meeting the target upgraded in July 2007.

#### CapEx

amounted to 2,381 million euros, an increase of 3.4% from 2006. CapEx target for 2007, which excluded investments related to Real Estate Efficiency Plan, was set at keeping the figure below 2,400 million euros in 2007. Investment effort has been mainly devoted to growing the Internet and Broadband businesses, with significant investments related to ADSL and IP services (Imagenio). Worth to highlight is the launching of the mobile and fixed network transformation processes.

#### Operating Cash Flow (OIBDA-CapEx)

for the year amounted to 7,067 million euros, growing by 11.4% compared to the January-December 2006 period.

As with regards to the Redundancy Plan (E.R.E. 2003-2007) at the Wireline Business, it should be noted its conclusion after registering 1,102 sign-ups in the final year of the programme, with a related provision of 345 million euros.

During the last quarter of 2007, Telefónica took decisions of organizational nature aiming to foster a structure to ease technological convergence and services delivering in the businesses where the company operates. With this objective, and within the integration model adopted, ongoing efforts on personnel reorganization are being implemented. This has resulted in a new personnel reorganization programme approved, which by December 31st 2007 had already been initiated. The estimated cost of this programme amounts to 322 million euros (168 million euros at the Wireline Business and 154 million euros at the Wireless Business), with the corresponding provision already included in 2007 accounts.

Total personnel reorganization costs for year 2007 amount to 667 million euros at Telefónica Espa#241a, of which 551 million euros were accounted for in the last quarter.

#### Highlights of Telefónica Espa#241a s Wireline Business:

- Sustained topline growth (+3.7% in 2007) underpinned by the good performance of Internet and broadband services and, to a lesser extent, data and IT services.
- Strong competitive position in the Broadband market, maintaining its estimated market share above 56%. At the end of December Telefónica's retail broadband accesses reached 4.6 million.
- Losses in the number of fixed telephony lines were contained at just 0.3% year-on-year (December 2007 vs. December 2006) after posting 32,801 net adds in the fourth quarter. Net losses for the year 2007 stood at 51,901 lines, the best year-on-year performance since 2001.
- 5.1% underlying OIBDA growth in 2007 (stripping out specific effects such as personnel reorganization costs, the Real Estate Programme and subsidies among others).
- Conclusion of the Redundancy Plan (2003/2007), to which a total of 13,870 employees signed up during the five years it was in force.

**Highlights of Telefónica España's Wireless Business include:**

- Solid service revenues growth of 4.5% in 2007, driven by the strong performance of customer revenues (+8.0%).
- The customer base grew by 6.4% year-on-year to 22.8 million lines, with growth in the contract segment jumping 12.4%. Contract customers now account for almost 60% of the total customer base.
- Churn remained flat at 1.8% in the face of increased competitive pressure, similar to the 2006 figure, with a slight reduction in contract churn achieved down to 1.0%.
- Increasing contribution from data revenues (+12.4% in 2007 vs. 2006), with connectivity revenues posting the best performance, up over 70% in 2007.
- 6.5% increase in OIBDA under guidance criteria in year 2007 (excluding costs related to personnel reorganization). OIBDA reaches 4,395 million euros in 2007, with an OIBDA margin over revenues of 45.3%.

## RESULTS BY REGIONAL BUSINESS UNITS

### Telefónica España

#### WIRELINE BUSINESS

##### Revenues

in 2007 amounted to 12,401 million euros, with growth reaching 3.7% year-on-year in the fourth quarter. Cumulative growth to December stood at 3.7%, slightly exceeding the growth target of between 2.5% and 3.5%.

This rise was underpinned by growth in Internet and broadband services and data and IT services, not forgetting the noteworthy performance of traditional voice and access revenues, with the former falling slightly and the latter remaining stable.

##### Traditional access revenues

amounted to 2,772 million euros, a year-on-year increase of 0.1%, led by the 2.0% increase in the PSTN line monthly fee and fewer losses of fixed telephony accesses relative to 2006.

- The Spanish wireline access market grew by an estimated 1.9% over the course of the year. The Company's fixed telephony accesses totalled 15,897,966 at the end of 2007 in the wake of fourth quarter net line gains of

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32,801, stemming the pace of the year-on-year decline to 0.3% (-0.7% at September 2007). The strong performance during the fourth quarter, the best figure since the first quarter of 2001, means that net line losses in 2007 were contained at 51,901, down substantially on those recorded in 2006 (-185,696 net access losses). These figures make 2007 the best year since 2001 in terms of net adds.

- Telefónica's share of the wireline access market remained stable vs. September 2007 at 81%.

### Voice service revenues

continued to follow the positive trend seen in previous quarters, and fell by 1.6% in 2007 (-2.1% in the first nine months of the year). Voice service revenues remained flat in year-on-year terms in the fourth quarter, underpinned by a 12.5% jump in interconnection revenues, driven by higher incoming international and carrier traffic and falls in outgoing traffic (-1.4%) and handset sales (-6.1%).

- The number of pre-selected lines fell further, declining by 110,859 in 2007 to 1,795,660 at the end of December.
- In line with the positive revenue trend, Telefónica España's estimated share of wireline traffic remains stable at around 65%.

### Internet and broadband revenues

surged by 11.9% in the fourth quarter, boosted by revenues in the retail broadband segment which were 17.4% higher year-on-year. Internet and broadband revenues increased by 15.5% in 2007 from 2006.

Retail broadband service revenues were up +24.2% in December, accounting for 3.8 percentage points of the revenue growth registered by Telefónica España's Wireline Business. Growth in these revenues slowed through the year, to post a growth of 17.4% in the last quarter, due to the decline in retail broadband net adds in 2007 vs. 2006 (-19.0%).

At the same time, wholesale broadband service revenues fell 11.3% in 2007, mainly on account of the migration of wholesale ADSL to unbundled loops.

- Estimated net adds in the fixed broadband Internet access market amounted to 0.4 million in the fourth quarter, resulting in estimated net adds of around 1.4 million for the entire year, 18.9% down on 2006. The total estimated market in Spain in December 2007 stood at 8.1 million accesses.
- Telefónica's **retail Internet broadband accesses** net adds in the fourth quarter came to 227,480, taking total accesses to 4,571,599 at the end of December. This gave Telefónica continued segment leadership with an estimated market share of over 56%, slightly higher than in 2006.
- The estimated share of **unbundled loops** in the broadband Internet access market increased to almost 17% (14% in 2006). Net adds during the fourth quarter amounted to 116,088 loops, down 29.3% on that recorded in the same quarter of 2006. Total unbundled loops at the end of December amounted to 1,353,940, of which 57.3% were shared access loops.
- The **wholesale ADSL** service continued to lose steam during the fourth quarter due to the lower number of migrations to unbundled loops. In the wake of net fourth quarter losses of 13,658, total wholesale accesses amounted to 499,263 at the end of December.
- Telefónica continues to spearhead the development of the **pay TV** market in Spain, achieving an estimated market share below 13% (10% by December end 2006) after adding 42,020 new customers in the fourth quarter. As a result its customer base had risen to 511,087 by the end of December 2007.
- The total number of Duo and Trio bundles stood at 3,792,002 units at the end of December 2007. It is worth highlighting that over 80% of the Company's retail Internet broadband accesses are included in a double or triple play bundle (over 70% by December 2006 end).

### Data service



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revenues grew sharply in the fourth quarter to **14.1%** from 5.6% in the nine months to September 2007. This increase in the pace of growth is underpinned by the 12.0% increase in revenues from Virtual Private Networks (VPNs) in the fourth quarter of 2007, driven by the strong uptake in fibre and ADSL VPNs. Wholesale services also posted an impressive 22.8% growth in the fourth quarter, compared with growth of 6.8% in the January-September 2007 period.

### IT service revenues

grew 11.6% in 2007 versus 2006.

### Operating expenses

at Telefónica España's Wireline Business totalled 7,337 million euros in 2007, 4.0% less than in 2006. This fall relates to lower personnel reorganization costs (513 million euros in 2007 vs. 980 million euros in 2006), which fell by 47.7%. These costs are broken up into 345 million euros in connection with the E.R.E. 2003-2007 (Redundancy Plan) to which 1,102 employees have joined in 2007, the ending year of the program, plus 168 million euros of the new personnel reorganization programme initiated in 2007 and to be implemented through 2008.

Stripping out personnel reorganization costs in 2006 and 2007 and the actuarial review, operating expenses grew 2.5% in 2007. This growth was due to: i) the 8.5% rise in external services expenses to 1,413 million euros due to increased commercial activity and PUT (Public Use Telephony) expenses; ii) the 1.2% increase in supply expenses to 3,008 million euros, especially expenses associated with Internet and Imagenio; and iii) the 0.2% growth in personnel expenses, once stripped out personnel reorganization costs, amounting 2,129 million euros. Personnel expenses fell by 14.9% in the year as a whole to 2,642 million euros due to the impact of the above mentioned lower personnel reorganization costs.

Topline growth outpaced expenses excluding personnel reorganization costs. This, together with the decline of personnel reorganization costs, boosted **operating income before depreciation and amortisation (OIBDA)** by 14.8% to 5,249 million euros in 2007.

### OIBDA

in October-December 2007 totalled 1,181 million euros, substantially higher than the figure reported in the same period of 2006 (+47.1%). This was due primarily to the higher personnel reorganization costs accounted for in the last quarter of 2006 (588 million euros vs. 397 million euros in the fourth quarter of 2007).

Stripping out specific items such as the redundancy provision (E.R.E. 2003-2007), the new personnel programme, the real estate programme, subsidies, the fine imposed by the EU and recognised in the second quarter, and others, underlying OIBDA rose 5.1% in 2007, having grown by 3.5% in the fourth quarter of 2007. For purposes of comparison with the stated financial targets, if a total provision of 630 million euros had been booked for personnel reorganization costs (compared with the actual provision of 513 million euros), and capital gains from property sales and others stood at 162 million euros (compared with the reported amount of 163 million euros), OIBDA growth would have been 15.8%, at the top end of the growth target of 13.5% -16% (the 151.9 million euro fine imposed by the European Union is considered a unforeseeable expense and consequently is not included as part of the financial targets).

The **OIBDA margin** in 2007 stood at 42.3%. Excluding the effect of personnel reorganization programmes and the actuarial review in both years, along with the fine imposed by the European Union in the second quarter of 2007, **the OIBDA margin would have expanded by 1.3 percentage points year-on-year to 47.7%**.

## RESULTS BY REGIONAL BUSINESS UNITS

Telefónica Espa&#241a

## WIRELESS BUSINESS

The **Spanish wireless market** surpassed the 50.7 million-line mark by the end of 2007, with an estimated penetration rate of 111% (an increase of more than 6 percentage points vs. December 2006).

Against this backdrop, Telefónica Espa&#241a s Wireless Business achieved **net adds** of 406,837 customers in the fourth quarter (426,235 in the fourth quarter of 2006), beating the figures recorded in the first three quarters of the year. In cumulative terms, Telefónica Espa&#241a s net adds stood at 1,380,596 lines (1,556,027 in 2006), with a noteworthy number of customer gains in the **contract** segment (1,501,800, up 4.3% on 2006). This made Telefónica Espa&#241a clear leader in contract adds in the Spanish market, improving its share of net adds in this segment in an increasingly competitive market.

### Commercial activity

grew by 4.4% in the final quarter in year-on-year terms, with a total of more than 11.9 million commercial actions in the year, a 2.9% increase on 2006. **Customer base** now totals more than 22.8 million (+6.4% vs. December 2006), underpinned by growth in the contract segment (+12.4% vs. December 2006), which accounted for almost 60% of the total customer base at the end of 2007 (up more than 3 percentage points on December 2006).

In **portability**, lines balance was positive in the fourth quarter of 2007, underpinned by the strong performance of the highest value segment, specifically 36,593 net contract adds. In the year as a whole, the net portability balance was positive (494 lines), with net adds in the contract segment of 238,320 lines.

Strong **gross adds** (+3% in 2007 vs. 2006) and stable **churn** were key to the positive outcome of the company s commercial strategy. Particularly noteworthy was the growth in contract adds, which rose 12.0% year-on-year. Churn in 2007 stood at 1.8%, the same rate as in 2006 despite increased pressure from competition, and the company even achieved a slight reduction in contract churn (-0.03 percentage points) to 1.0%. Prepay churn in the final quarter of the year was lower than in the third quarter of 2007 (-0.3 percentage points) and than in the final quarter of 2006 (-0.1 percentage points). Handset upgrades once again played a key role in churn performance. Driven by loyalty campaigns, these grew by 7.8% versus the fourth quarter of 2006 and rose 7.4% in year-on-year terms.

In terms of **usage**, the volume of traffic carried in the final quarter grew by 6.2% year-on-year (more than 15,500 million minutes) and by 11.5% in the year as a whole (over 63,300 million minutes). On-net traffic rose 7.4% in the fourth quarter and by 14.0% in the year . MoU amounted to 161 minutes in 2007 (+3.0% vs. 2006). The drop in MoU in the fourth quarter of 2007 vs. the fourth quarter of 2006 was due to the different types of promotions carried out in the two periods.

### Voice ARPU

reached 26.7 euros in the final quarter of the year, 4.5% lower than in the same quarter of 2006. The main causes of this decrease were the April and October cuts in interconnection rates (14.9% in cumulative terms) and the regulation of roaming tariffs in the European Union. Year-on-year voice ARPU terms falls 2.8% to 27.6 euros. Outgoing voice ARPU in 2007 fell slightly to 22.9 euros (-1.0%), declining by 2.9% in the fourth quarter of 2007 to 22.3 euros.

Meanwhile, **data ARPU** reached 5.0 euros in the fourth quarter, with year-on-year growth of 1.8% (with an increase of +2.6% in outgoing data ARPU), and full-year growth of 4.8% (5.2% in outgoing data ARPU) to 4.8 euros. The lower data ARPU growth in the fourth quarter was due to the slowdown in content services, driven by the restructuring process affecting the sector and the regulatory uncertainty (although this was recently resolved). Stripping out content revenues both in the fourth quarter of 2007 and the year as a whole, data ARPU would be growing at a rate of over 6%, underpinned by connectivity revenues (over 70% growth versus the fourth quarter of

2006).

At the end of December Telefónica España's customers held more than 3.5 million UMTS/HSDPA handsets, representing a penetration of 16% excluding M2M, up 10 percentage points from 2006.

As a result, **total ARPU** in the fourth quarter of 2007 was 31.8 euros, 3.6% lower than in the fourth quarter of 2006 and down 1.8% in the full year at 32.3 euros. **Outgoing ARPU** in 2007 remained at a similar level to 2006 (27.1 euros).

With regard to data roaming, on January 14th the Wireless Business of Telefónica España and Telefónica Europe announced a range of new Internet roaming rates for users travelling in Europe. These will be between 42% and 61% lower than at present.

## Revenues

rose 5.4% in 2007 to 9,693 million euros vs. 2006 and by 3.2% in the fourth quarter to 2,407 million euros. It is worth noting that since January 1st 2007 the way prepay sales and top-up commissions are accounted has changed. Instead of being recognised as a decrease in revenues, they are now reported as costs. Also, revenues/costs of portability transit routing are now reported at the net amounts. The net effect of this change is neutral at OIBDA level, although revenues would have risen 2.9% in the fourth quarter and 5.1% in 2007 excluding these accounting changes. Highlights by revenue item:

- **Service revenues**

grew by 2.6% in the fourth quarter and by 4.5% in 2007 to 8,509 million euros, within the target of between 4.0% and 5.0% growth respectively. Growth was primarily driven by **customer revenues**, which surged 8.0% in 2007 (+5.8% in the quarter, impacted by the regulation of roaming tariffs in the EU from September 2007) to 6,861 million euros.

- **Interconnection revenues**

fell 8.6% in 2007 (-10.8% in the fourth quarter), due to the reduction in interconnection rates. **Roaming-in revenues** fell by 12.4% over the year due to the downward trend in wholesale prices (-6.3% in the fourth quarter).

- **Revenue from handset sales**

totalled 1,184 million euros, a year-on-year rise of 11.9% and of 7.6% in the fourth quarter.

- **During the last quarter of 2007, Telefónica took decisions of organizational nature aiming to foster a structure to ease technological convergence and services delivering in the businesses where the company operates. With this objective, and within the integration model adopted, ongoing efforts on personnel reorganization are being implemented. This has resulted in a new personnel reorganization programme approved, which by December 31st 2007 had already been initiated. The estimated cost of this programme amounts to 154 million euros, with the corresponding provision already included in 2007 accounts.**

- **Operating costs**

amounted to 5,541 million euros in 2007, up 7.6% on the 2006 total, underpinned by greater cost efficiency and impacted by the provision mentioned. In the fourth quarter, operating costs were 13.1% up year-on-year, totalling 1,531 million euros. Excluding this provision, the operating costs would have amounted to 5,387 million euros in 2007 (1,378 million euros in the fourth quarter), up 4.6% vs. 2006 (+1.8% in the quarter).

## Operating income before depreciation and amortisation (OIBDA)

grew by 2.8% in 2007 in relation to 2006 to 4,241 million euros. Fourth-quarter OIBDA amounted to 902 million euros, a year-on-year decline of 10.0%.

Excluding the aforementioned provision, the OIBDA would have increased by 6.5% vs. 2006 amounting 4,395 million euros comfortably beating the target of between 4.0% and 5.0% growth. In the fourth quarter, the OIBDA excluding the provision reached 1,056 million euros, up 5.3% year-on-year. The OIBDA margin stood at 43.9% in the

fourth quarter (43.0% in the same period of 2006), and 45.3% in cumulative terms vs. 44.9% in 2006, despite increasing commercial activity in a highly competitive market.

## TELEFÓNICA ESPAÑA

### ACCESSES

Unaudited figures  
(thousands)

	2006	2007				% Chg y-o-y
	December	March	June	September	December	
<b>Final Clients Accesses</b>	<b>42,620.8</b>	<b>43,115.8</b>	<b>43,508.2</b>	<b>43,885.2</b>	<b>44,514.9</b>	<b>4.4</b>
Fixed telephony accesses (1)	15,949.9	15,920.3	15,906.2	15,865.2	15,898.0	(0.3)
Internet and data accesses	4,842.0	4,963.2	5,048.4	5,131.3	5,279.3	9.0
Narrowband	1,040.5	916.0	798.1	736.5	660.8	(36.5)
Broadband (2)	3,742.7	3,992.7	4,198.4	4,344.1	4,571.6	22.1
Other (3)	58.8	54.4	52.0	50.7	47.0	(20.1)
Mobile accesses	21,446.0	21,813.7	22,102.7	22,419.7	22,826.6	6.4
Pre-Pay	9,303.0	9,283.8	9,182.9	9,158.0	9,181.8	(1.3)
Contract	12,142.9	12,529.9	12,919.8	13,261.7	13,644.7	12.4
Pay TV	383.0	418.6	450.9	469.1	511.1	33.4
<b>Wholesale Accesses</b>	<b>1,531.8</b>	<b>1,640.8</b>	<b>1,707.8</b>	<b>1,757.2</b>	<b>1,859.2</b>	<b>21.4</b>
Unbundled loops	939.0	1,071.2	1,170.0	1,237.9	1,353.9	44.2
Shared ULL	527.7	605.2	664.5	713.5	776.4	47.1
Full ULL	411.3	466.0	505.5	524.4	577.6	40.4
Wholesale ADSL	586.4	561.7	530.5	512.9	499.3	(14.9)
Other (4)	6.4	7.8	7.4	6.5	6.0	(5.4)
<b>Total Accesses</b>	<b>44,152.6</b>	<b>44,756.6</b>	<b>45,216.0</b>	<b>45,642.5</b>	<b>46,374.2</b>	<b>5.0</b>

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included.

(2) ADSL, satellite, optical fibre, cable modem and broadband circuits.

(3) Leased lines.

(4) Wholesale circuits.

Note: Does not include Iberbanda's accesses

**TELEFÓNICA  
ESPAÑA**  
**CONSOLIDATED  
INCOME STATEMENT**

Unaudited figures (Euros  
in millions)

	January - December			October - December		
	2007	2006	% Chg	2007	2006	% Chg
Revenues	20,683	19,750	4.7	5,222	5,030	3.8
Internal exp capitalized in fixed assets (1)	220	215	2.5	59	65	(9.3)
Operating expenses	(11,505)	(11,429)	0.7	(3,366)	(3,328)	1.2
Other net operating income (expense)	(71)	48	c.s.	8	25	n.m.
Gain (loss) on sale of fixed assets	137	80	72.6	145	(3)	c.s.
Impairment of goodwill and other assets	(17)	(17)	1.1	(3)	(5)	(41.7)
<b>Operating income before D&amp;A (OIBDA)</b>	<b>9,448</b>	<b>8,647</b>	<b>9.3</b>	<b>2,064</b>	<b>1,783</b>	<b>15.7</b>
	(2,382)	(2,533)	(6.0)	(587)	(619)	(5.1)

Depreciation and amortization						
<b>Operating income (OI)</b>	<b>7,067</b>	<b>6,113</b>	<b>15.6</b>	<b>1,476</b>	<b>1,164</b>	<b>26.8</b>

Note: "Bad debt provisions" have been reclassified from "Other net operating income (expense)" to "Operating expenses".

(1) Including work in process.

## TELEFÓNICA ESPAÑA: WIRELINE BUSINESS

### SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - December			October - December		
	2007	2006	% Chg	2007	2006	% Chg
Revenues	12,401	11,964	3.7	3,183	3,070	3.7
OIBDA	5,249	4,572	14.8	1,181	803	47.1
OIBDA margin	42.3%	38.2%	4.1 p.p.	37.1%	26.1%	11.0 p.p.
CapEx	1,614	1,555	3.8	552	506	9.2

## TELEFÓNICA ESPAÑA: WIRELINE BUSINESS

### SELECTED REVENUES DATA

Unaudited figures (Euros in millions)

	January - December			October - December		
	2007	2006	% Chg	2007	2006	% Chg
<b>Traditional Access (1)</b>	<b>2,772</b>	<b>2,768</b>	<b>0.1</b>	<b>688</b>	<b>689</b>	<b>(0.2)</b>
<b>Traditional Voice Services</b>	<b>4,792</b>	<b>4,868</b>	<b>(1.6)</b>	<b>1,203</b>	<b>1,203</b>	<b>0.0</b>
Domestic Traffic (2)	2,921	3,014	(3.1)	729	740	(1.4)

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Interconnection (3)	952	907	5.0	237	211	12.5
Handsets sales and others (4)	918	947	(3.1)	237	252	(6.1)
<b>Internet Broadband Services</b>	<b>2,775</b>	<b>2,403</b>	<b>15.5</b>	<b>716</b>	<b>640</b>	<b>11.9</b>
Narrowband	95	143	(33.4)	18	26	(30.2)
Broadband	2,679	2,260	18.6	698	615	13.6
Retail (5)	2,361	1,901	24.2	624	532	17.4
Wholesale (6)	318	359	(11.3)	74	83	(10.2)
<b>Data Services</b>	<b>1,160</b>	<b>1,076</b>	<b>7.8</b>	<b>309</b>	<b>270</b>	<b>14.1</b>
<b>IT Services</b>	<b>437</b>	<b>392</b>	<b>11.6</b>	<b>133</b>	<b>136</b>	<b>(2.0)</b>

Note: Telefónica de España parent company's operating revenues includes Terra España's revenues as of the first quarter 2006.

(1) Monthly and connection fees (PSTN, Public Use Telephony, ISDN and Corporate Services) and Telephone booths surcharges.

(2) Local and domestic long distance (provincial, interprovincial and international) fixed to mobile traffic, Intelligent Network Services, Special Valued Services, Information Services (118xy), bonuses and others.

(3) Includes revenues from fixed to fixed incoming traffic, mobile to fixed incoming traffic, and transit and carrier traffic.

(4) Managed Voice Services and other businesses revenues.

(5) Retail ADSL services and other Internet Services.

(6) Includes Megabase, Megavía, GigADSL and local loop unbundling.

## TELEFÓNICA ESPAÑA: WIRELESS BUSINESS

### SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - December			October - December		
	2007	2006	% Chg	2007	2006	% Chg
Revenues	9,693	9,199	5.4	2,407	2,333	3.2
OIBDA	4,241	4,128	2.8	902	1,002	(10.0)
OIBDA margin	43.8%	44.9%	(1.1 p.p.)	37.5%	43.0%	(5.5 p.p.)
CapEx	767	750	2.4	257	341	(24.5)

**TELEFÓNICA ESPAÑA: WIRELESS  
BUSINESS**

**SELECTED REVENUES  
DATA**

Unaudited figures (Euros in millions)

<b>January - December</b>			<b>October - December</b>
<b>2007</b>	<b>2006</b>	<b>% Chg</b>	