TELEFONICA S A
Form 6-K
July 31, 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 July, 2008
Commission File Number: 001-09531
Telefónica, S.A.
(Translation of registrant s name into English)
Distrito C, Ronda de la Comunicación s/n,
28050 Madrid, Spain
3491-482 85 48
(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 þ Form 40-F o

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 o No þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes o No þ

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 o No þ

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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TELEFÓNICA, S.A. AND SUBSIDIARIES
Consolidated Condensed Interim Financial Statements
for the six-month period ended
June 30, 2008

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REPORT ON REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Translation of a report and condensed consolidated interim financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails (see Note 14)

To the Shareholders of Telefónica, S.A., at the request of Management

1. We have carried out a review of the accompanying condensed consolidated interim financial statements (hereinafter the interim financial statements) of Telefónica, S.A. (hereinafter the Parent Company) and subsidiaries (hereinafter the Group), which comprise the balance sheet at June 30, 2008, the income statement, the cash flow statement, the statement of recognized income and expense, and selected explanatory notes, all of which have been consolidated, for the six-month period then ended. It is the Parent Company s directors responsibility to prepare said interim financial statements in accordance with the requirements established by International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union for the preparation of condensed interim financial reporting as per article 12 of Royal Decree 1362/2007. Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our review.

2. Our review was performed in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Reporting Performed by the Independent Auditor of the Entity . A review of the interim financial statements consists of making inquiries, primarily of personnel responsible for financial and accounting matters, and applying certain analytical and other review procedures. A review is substantially less in scope than an audit and therefore, does not enable us to obtain assurance that we have become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

3. As explained in the Note 2 of the accompanying interim financial statements, these statements do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and therefore the accompanying interim financial statements should be read together with the Group s consolidated financial statements for the year ended December 31, 2007.

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4. During the course of our review, which under no circumstances can be considered an audit of financial statements, nothing has come to our attention which would lead us to conclude that the accompanying condensed consolidated interim financial statements for the six-month period ended June 30, 2008 have not been prepared, in all material respects, in accordance with the requirements established by International Accounting Standard (IAS) 34, Interim Financial Reporting , as adopted by the European Union in conformity with article 12 of Royal Decree 1362/2007 for the preparation condensed interim financial statements.

5. The accompanying interim consolidated management report for the six-month period ended June 30, 2008 contains such explanations as the Parent Company s directors consider necessary regarding the events which occurred during said period and their effect on the interim financial statements, of which it is not an integral part, as well as on the information required in conformity with article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the abovementioned report agrees with the interim financial statements for the six-month period ended June 30, 2008. Our work is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the consolidated companies accounting records.

6. This report has been prepared at the request of Management of the Parent Company with regard to the publication of the semi-annual financial report required by article 35 of Securities Market Law 24/1988, of July 28, by Royal Decree 1362/2007, of October 19.

ERNST & YOUNG, S.L.

/s/ José Luis Perelli Alonso

José Luis Perelli Alonso

July 30, 2008

TELEFÓNICA GROUP
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED ANNUAL ACCOUNTS) AND INTERIM CONSOLIDATED MANAGEMENT REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2008

INTERIM CONSOLIDATED BALANCE SHEET

Millions of euros	Note	UNAUDITED 06/30/2008	AUDITED 12/31/2007
A) NON-CURRENT ASSETS		**84,701**	**87,395**
Intangible assets	6	17,379	18,320
Goodwill	6	19,627	19,770
Property, plant and equipment	6	31,773	32,460
Investment properties		8	9
Investments in associates	7	3,027	3,188
Non-current financial assets	9	5,315	5,819
Deferred tax assets		7,572	7,829
B) CURRENT ASSETS		**19,166**	**18,478**
Inventories		1,121	987
Trade and other receivables		10,251	9,662
Current financial assets	9	1,736	1,622
Tax receivables		987	1,010
Cash and cash equivalents	9	4,946	5,065
Non-current assets held for sale		125	132
TOTAL ASSETS (A + B)		**103,867**	**105,873**
A) EQUITY	**8**	**21,283**	**22,855**
Equity attributable to equity holders of the parent	8	18,377	20,125
Minority interests	8	2,906	2,730
B) NON-CURRENT LIABILITIES		**58,274**	**58,044**
Interest-bearing debt	9	46,268	46,942
Trade and other payables		1,041	1,015
Deferred tax liabilities		5,314	3,926
Provisions		5,651	6,161
C) CURRENT LIABILITIES		**24,310**	**24,974**
Interest-bearing debt	9	6,796	6,986
Trade and other payables		13,799	14,556
Current tax payables		2,513	2,157

Provisions	1,202	1,275
TOTAL EQUITY AND LIABILITIES (A+B+C)	**103,867**	**105,873**

Condensed notes 1 to 14 and Appendix I are an integral part of the interim consolidated balance sheet.

INTERIM CONSOLIDATED INCOME STATEMENT

		Six months ended June 30	
Unaudited (Millions of euros)	**Note**	**2008**	**2007**
Revenues from operations	5	28,149	27,826
Other income		908	1,773
Supplies		(8,662)	(8,843)
Personnel expenses		(3,389)	(3,645)
Other expenses		(5,883)	(5,841)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	**5**	**11,123**	**11,270**
Depreciation and amortization	5	(4,521)	(4,713)
OPERATING INCOME	**5**	**6,602**	**6,557**
Share of (loss) profit of associates		(4)	80
Finance income		425	342
Exchange gains		2,811	1,032
Finance expenses		(1,829)	(1,736)
Exchange losses		(2,795)	(1,075)
Net financial expenses		**(1,388)**	**(1,437)**
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**5,210**	**5,200**
Corporate income tax		(1,520)	(1,257)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**3,690**	**3,943**
Profit after taxes from discontinued operations			
PROFIT FOR THE PERIOD		**3,690**	**3,943**
Minority interests		(97)	(113)

PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**3,593**	**3,830**
Basic and diluted earnings per share for continuing operations attributable to equity holders of the parent (euros)	**0.767**	**0.799**

Condensed notes 1 to 14 and Appendix I are an integral part of the interim consolidated income statement.

INTERIM CONSOLIDATED CASH FLOW STATEMENT

	Six months ended June 30	
Unaudited (Millions of euros)	**2008**	**2007**
Cash received from customers	33,566	31,670
Cash paid to suppliers and employees	(24,318)	(22,551)
Dividends received	83	116
Net interest and other financial expenses paid	(1,819)	(1,756)
Taxes paid	(629)	(772)
Net cash from operating activities	**6,883**	**6,707**
Proceeds on disposals of property, plant and equipment and intangible assets	65	79
Payments on investments in property, plant and equipment and intangible assets	(3,767)	(3,617)
Proceeds on disposals of companies, net of cash and cash equivalents disposed	683	3,032
Payments on investments in companies, net of cash and cash equivalents acquired	(206)	(223)
Proceeds on financial investments not included under cash equivalents	17	3
Payments made on financial investments not included under cash equivalents	(63)	(42)
Interest received	48	167
Capital grants received	2	25
Net cash flows used in investing activities	**(3,221)**	**(576)**
Dividends paid	(1,915)	(1,522)
Operations with equity holders	(1,150)	(1,460)
Proceeds on issue of debentures and bonds	1,306	2,266
Proceeds on loans, credits and promissory notes	4,846	2,883
Cancellation of debentures and bonds	(548)	(1,562)
Repayments of loans, credits and promissory notes	(6,250)	(6,407)
Net cash flow used in financing activities	**(3,711)**	**(5,802)**
Effect of foreign exchange rate changes on collections and payments	**(86)**	**(54)**
Effect of changes in consolidation methods and other non-monetary effects	**16**	**(67)**
Net (decrease)/increase in cash and cash equivalents during the period	**(119)**	**208**
Cash and cash equivalents at January 1	**5,065**	**3,792**

CASH AND CASH EQUIVALENTS AT JUNE 30	**4,946**	**4,000**
Reconciliation of cash and cash equivalents with the balance sheet		
BALANCE AT JANUARY 1	**5,065**	**3,792**
Cash on hand and at banks	2,820	2,375
Other cash equivalents	2,245	1,417
BALANCE AT JUNE 30	**4,946**	**4,000**
Cash on hand and at banks	2,557	2,349
Other cash equivalents	2,389	1,651

Condensed notes 1 to 14 and Appendix I are an integral part of the interim consolidated cash flow statement.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN RECOGNIZED INCOME AND EXPENSE

	Six months ended June 30	
Unaudited (Millions of euros)	**2008**	**2007**
(Loss) gain on available-for-sale investments	(489)	204
Gains on hedges	328	406
Translation differences	(752)	126
Actuarial gains and losses and impact of limit on assets for defined benefit pension plans	6	
Share of income (loss) directly recognized in equity of associates	(87)	4
Tax effect of items recognized directly in equity	(65)	(165)
Net (loss) income recognized directly in equity	**(1,059)**	**575**
Profit for the period	**3,690**	**3,943**
Total income and expense recognized in the period	**2,631**	**4,518**
Attributable to:		
Equity holders of the parent	2,427	4,411
Minority interests	204	107
	2,631	**4,518**

Condensed notes 1 to 14 and Appendix I are an integral part of the interim consolidated statement of recognized income and expense.

TELEFÓNICA, S.A. AND SUBSIDIARIES COMPOSING THE TELEFÓNICA GROUP

CONDENSED EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED ANNUAL ACCOUNTS) FOR THE SIX MONTHS ENDED JUNE 30, 2008.

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica Group organizational structure

Telefónica, S.A. and its subsidiaries and investees make up an integrated group of companies (the Telefónica Group or the Group) operating primarily in the telecommunications, media and contact center industries.

The parent company of the Group is Telefónica, S.A. (Telefónica or the Company), a public limited company incorporated for an indefinite period on April 19, 1924. Its registered office is at calle Gran Vía 28, Madrid (Spain).

Corporate structure of the Group

Telefónica s basic corporate purpose, pursuant to Article 4 of its bylaws, is the provision of all manner of public or private telecommunications services, including ancillary or complementary telecommunications services or related services. All the business activities that constitute this stated corporate purpose may be performed either in Spain or abroad and wholly or partially by the Company, either through shareholdings or equity interests in other companies or legal entities with an identical or a similar corporate purpose.

The Telefónica Group follows a regional, integrated management model based on three business areas by geographical market and combining the wireline and wireless telephony businesses:

Telefónica Spain

Telefónica Latin America

Telefónica Europe

The business activities carried out by most of the Telefónica Group companies are regulated by broad-ranging legislation, pursuant to which permits, concessions or licenses must be obtained in certain circumstances to provide the various services.

In addition, certain wireline and wireless telephony services are provided under regulated rate and price systems.

(2) BASIS OF PRESENTATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six months ended June 30, 2008 (the interim financial statements) have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* and Article 12 of Royal Decree 1362/2006. Therefore, they do not contain all the information and disclosures required in complete annual consolidated financial statements and, for adequate interpretation, they should be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2007.

The accompanying interim financial statements were prepared by the Company s Board of Directors at its meeting on July 30, 2008.

Unless indicated otherwise, the figures in these interim financial statements are expressed in millions of euros and rounded.

(3) COMPARATIVE INFORMATION

Comparative data in the interim financial statements refer to the six-month periods ended June 30, 2008 and 2007, except the balance sheet, which presents data at June 30, 2008 and December 31, 2007.

Appendix I of the interim financial statements presents the main changes in consolidation scope occurring in the first half of 2008.

The main changes in scope in 2007 that could affect the comparative information are as follows:

In the first half of 2007, the Group solid its entire shareholding in Airwave O2, Ltd, for 1,932 million pounds sterling (equivalent to 2,841 million euros at the transaction date). The sale resulted in a gain of 1,296 million euros, recognized under Other income in the 2007 interim consolidated income statement.

With respect to seasonality, the historical performance of consolidated results shows minimal variations in the Group s operations between the first and second half of the year.

(4) ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim financial statements for the six-month period ended June 30, 2008 are consistent with those followed in the preparation of the 2007 consolidated annual financial statements except for the interpretation of the International Financial Reporting Interpretations Committee (IFRIC) 11 IFRS 2: *Group and Treasury Share Transactions*, applied from January 1, 2008. The adoption of this interpretation has not had a significant impact on the Group s financial position in the initial period of application.

At the date of preparation of these interim consolidated financial statements, the following IFRIC interpretations, with effect on annual periods beginning on or after January 1, 2008, have been published by the International Accounting Standards Board (IASB) but not adopted by the European Union:

IFRIC 12: *Service Concession Arrangements*.

IFRIC 14: *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

The Group is currently analyzing the impact of the application and estimates that the application of the aforementioned standards, amendments and interpretations will not have a material impact on the consolidated financial statements in the period of their initial application.

(5) SEGMENT INFORMATION

The following table presents profit and capital expenditure information regarding the Group s operating segments for the six months ended June 30, 2008 and 2007.

Six months ended June 30, 2008

Millions of euros	Telefónica Spain	Telefónica Latin America	Telefónica Europe	Other and eliminations	Total Group
External sales	10,176	10,435	6,983	555	28,149
Inter-segment sales	155	96	23	(274)	
Other operating income and expenses	(5,158)	(6,700)	(4,973)	(195)	(17,026)
OIBDA (*)	**5,173**	**3,831**	**2,033**	**86**	**11,123**
Depreciation and amortization	(1,140)	(1,781)	(1,541)	(59)	(4,521)
OPERATING INCOME	**4,033**	**2,050**	**492**	**27**	**6,602**
INVESTMENTS IN PP&E	**1,051**	**1,499**	**856**	**44**	**3,450**

Six months ended June 30, 2007

Millions of euros	Telefónica Spain	Telefónica Latin America	Telefónica Europe	Other and eliminations	Total Group
External sales	10,104	9,542	7,046	1,134	27,826
Inter-segment sales	87	86	22	(195)	
Other operating income and expenses	(5,468)	(6,237)	(3,968)	(883)	(16,556)
OIBDA (*)	**4,723**	**3,391**	**3,100**	**56**	**11,270**

Depreciation and amortization	(1,207)	(1,704)	(1,750)	(52)	(4,713)
OPERATING INCOME	**3,516**	**1,687**	**1,350**	**4**	**6,557**
INVESTMENTS IN PP&E	**1,030**	**1,131**	**963**	**84**	**3,208**

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

The following table compares segment assets, liabilities and investments in associates at June 30, 2008 and December 31, 2007.

At June 30, 2008

Millions of euros	**Telefónica Spain**	**Telefónica Latin America**	**Telefónica Europe**	**Other and eliminations**	**Total Group**
INVESTMENTS IN ASSOCIATES	91	65		2,871	3,027
NON-CURRENT ASSETS	14,329	22,893	30,363	1,194	68,779
TOTAL ALLOCATED ASSETS	35,967	37,591	36,372	(6,063)	103,867
TOTAL ALLOCATED LIABILITIES	25,372	22,100	7,891	27,221	82,584

At December 31, 2007

Millions of euros	**Telefónica Spain**	**Telefónica Latin America**	**Telefónica Europe**	**Other and eliminations**	**Total Group**
INVESTMENTS IN ASSOCIATES	95	70		3,023	3,188
NON-CURRENT ASSETS	14,451	23,215	31,658	1,226	70,550
TOTAL ALLOCATED ASSETS	34,423	37,618	39,144	(5,312)	105,873
TOTAL ALLOCATED LIABILITIES	22,014	22,205	10,215	28,584	83,018

6) INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND GOODWILL

The movements in Intangible assets and Property, plant and equipment in the first half of 2008 are as follows:

Millions of euros	**Intangible assets**	**Property, plant and equipment**	**Total**
Balance at December 31, 2007	**18,320**	**32,460**	**50,780**
Additions	720	2,730	3,450
Depreciation and amortization	(1,389)	(3,132)	(4,521)
Decreases	(12)	(221)	(233)
Changes in consolidation scope	22	126	148
Translation differences	(282)	(190)	(472)

Balance at June 30, 2008	**17,379**	**31,773**	**49,152**

The movement in Goodwill in the first half of 2008 is as follows:

Millions of euros	**Goodwill**
Balance at December 31, 2007	**19,770**
Additions	231
Translation differences	(374)
Balance at June 30, 2008	**19,627**

Noteworthy is the impact of translation differences on these three headings caused by fluctuations in the exchange rates of currencies, primarily pound sterling, of the countries where the Group operates.

7) RELATED PARTIES

Significant shareholders:

The main transactions carried out between Group companies and significant shareholders Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and Caja de Ahorros y Pensiones de Barcelona (La Caixa), and their subsidiaries are as follows:

Revenue and expenses	**Six months ended June 30**	
(Millions of euros)	**2008**	**2007**
Finance cost	23	19
Leases	4	
Receipt of services	8	21
Other expenses	2	
EXPENSES	**37**	**40**
Finance revenue	38	10
Dividends received	15	14
Leases		4
Services rendered	116	125
Sale of goods (finished or in progress)	23	48
REVENUE	**192**	**201**

Other transactions	**Six months ended June 30**	
(Millions of euros)	**2008**	**2007**
Finance arrangements: loans and capital contributions (lender)	1,378	1,098
Sale of PP&E, intangible or other assets		37
Finance arrangements: loans and capital contributions (loanee)	625	702
Finance leases (lessee)	15	15
Repayment or cancellation of loans and lease arrangements (lessee)	2	
Guarantees and deposits given	18	49
Guarantees and deposits received	4	
Dividends and other earnings distributed	232	185
Other transactions (derivatives)	7,442	4,496

Associates

The breakdown of amounts recognized in the consolidated balance sheet corresponding to associates is as follows:

Millions of euros	06/30/2008	12/31/2007
Investments in associates	3,027	3,188
Long-term loans to associates	76	75
Short-term loans to associates	46	45
Current payables to associates	59	84

The main transactions carried out with associates in the first half of 2008 and 2007 are as follows:

	Six months ended June 30	
Millions of euros	2008	2007
Revenue from operations with associates	84	76
Expenses from operations with associates	239	164

Joint ventures

On December 27, 2002, Telefónica Móviles, S.A. and PT Movéis Serviços de Telecomunicaçoes, SGPS, S.A. (PT Movéis) set up a 50/50 joint venture, Brasilcel, N.V., (VIVO Group) via the contribution of 100% of the groups direct and indirect shares in Brazilian cellular operators. This company is consolidated in the consolidated financial statements of the Telefónica Group by the proportionate method.

The contributions of Brasilcel, N.V. to the Telefónica Group s consolidated balance sheet at June 30, 2008 and December 31, 2007 are as follows:

Millions of euros	06/30/2008	12/31/2007
Current assets	1,450	1,193
Non-current assets	5,049	4,358
Current liabilities	1,640	1,328
Non-current liabilities	1,009	644

In addition, the main contributions to operating results in the consolidated financial statements for the six-month period ended June 30, 2008 and 2007 are as follows:

	Six months ended June 30	
Millions of euros	**2008**	**2007**
Revenue from operations	1,243	976
Expenses from operations	1,144	909

Directors and senior executives compensation and other information

The following table presents the compensation and other benefits paid to members of the Board of Directors in the first six months of 2008 and 2007 in accordance with the disclosure established in *Circular 1/2008, of January 30, of the Spanish National Securities Market Commission (la Comisión Nacional del Mercado de Valores) on interim financial reporting by issuers of securities*.

Directors:

	Six months ended June 30	
(Thousands of euros)	**2008**	**2007**
Fixed remuneration	4,638	4,554
Variable remuneration (3)	7,886	9,878
Attendance fees	108	111
Other (2)	831	747
TOTAL	**13,463**(1)	**15,290**

(1) In addition, Mr. Antonio Viana-Baptista, who stepped down from his executive duties on January 31, 2008, received 8,584,000 euros of severance in accordance with Clause Nine, section 1 of his senior management contract dated October 21, 1998.

Also in the first half of 2008, he received other remuneration fixed, variable, in kind and other- amounting to 3,289,971 euros (including the long-term incentive he was entitled to receive in 2008 and which accrued during the previous three years, as well as the settlement of accrued credits and similar receivable).

(2) Other includes amounts paid for: (i) medical and dental insurance; (ii) fees for membership to the Catalonia, Andalusia and Valencia advisory committees; and (iii) contributions by the Telefónica Group to the Pension Plan for Managers (Retirement Plan).

(3) Variable compensation in the first half of 2008 includes an additional variable payment compared to 2007 related to the Extraordinary Cash Incentive Program, for which payment (carried out in March 2008) was tied to meeting certain targets and

operating and business metrics established for the entire Group for 2005-2007.

Other directors benefits:

(Thousands of euros)	Six months ended June 30 2008	2007
Pension plans and funds: contributions	19	16
Life insurance premiums	90	30
TOTAL	**109**	**46**

The following table presents the total remuneration (including the Extraordinary Cash Incentive Program indicated in Note 3) received by the Company s senior executives (excluding those who are also members of the Board of Directors) in the first six months of 2008 (six executives) and 2007 (four executives).

Senior executives:

(Thousands of euros)	Six months ended June 30 2008	2007
Total remuneration received by senior executives	10,582	3,407

8) EQUITY

The detail and movements in equity accounts in the six-month periods ended June 30, 2008 and 2007 are as follows:

		Attributable to equity holders of the parent									
Millions of euros	**No. of shares**	**Share capital**	**Share premium**	**Legal reserve**	**Revaluation reserve**	**Treasury shares**	**Retained earnings**	**Translation differences**	**Total**	**Minority interests**	**Total equity**
Balance at December 31, 2007	**4,773,496,485**	**4,773**	**522**	**984**	**180**	**(232)**	**13,801**	**97**	**20,125**	**2,730**	**22,855**
Dividends paid							**(1,869)**		**(1,869)**	**(227)**	**(2,096)**
Net movement in treasury shares			**1,074**			**(2,088)**	**(232)**		**(1,246)**		**(1,246)**
Acquisitions and disposals of minority interests										**155**	**155**
Income and expense recognized in the period							**3,291**	**(864)**	**2,427**	**204**	**2,631**
Other movements							**(1,060)**		**(1,060)**	**44**	**(1,016)**
Balance at June 30, 2008	**4,773,496,485**	**4,773**	**1,596**	**984**	**180**	**(2,320)**	**13,931**	**(767)**	**18,377**	**2,906**	**21,283**
Balance at December 31, 2006	**4,921,130,397**	**4,921**	**2,869**	**984**	**1,358**	**(329)**	**5,851**	**1,524**	**17,178**	**2,823**	**20,001**
Dividends paid							**(1,425)**		**(1,425)**	**(228)**	**(1,653)**
Capital decrease	**(147,633,912)**	**(148)**	**(2,054)**			**2,202**					
Net movement in treasury shares			**656**			**(1,997)**	**(138)**		**(1,479)**		**(1,479)**
Income and expense recognized in the period							**4,278**	**133**	**4,411**	**107**	**4,518**
Other movements							**(119)**		**(119)**	**(18)**	**(137)**
Balance at June 30, 2007	**4,773,496,485**	**4,773**	**1,471**	**984**	**1,358**	**(124)**	**8,447**	**1,657**	**18,566**	**2,684**	**21,250**

Other movements in retained earnings

To December 31, 2007, the declines in the equity of investees related to fluctuations in their functional currencies (foreign currency translation losses) led in some cases to tax deductions on declines in equity investments for the owners of the investment, which were shown net of translation differences. The application of the New Spanish General Chart of Accounts from January 1, 2008 entailed changes in the accounting and tax treatment of the declines in equity investments in subsidiaries. In the presentation of consolidated financial statements, this basically meant the elimination of most of these tax deductions.

The impact has been recognized in the related heading (Translation differences) as it arose from a change in legislation. However, it has been transferred to Retained earnings as the translation differences were prior to January 1, 2004, the IFRS transition date and were restated to this heading in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Dividends

The following dividends were paid in the first half of 2008 and 2007:

	Six months ended June 30, 2008			**Six months ended June 30, 2007**		
Millions of euros	**% of nominal**	**Euros per share**	**Amount paid**	**% of nominal**	**Euros per share**	**Amount paid**
Dividends charged to voluntary reserves	40%	0.40	1,869	30%	0.30	1,425

Treasury shares

The following transactions were carried out involving treasury shares in the first half of 2008 and 2007:

	Number of shares	**Millions of euros**
Treasury shares at December 31, 2006	**75,632,559**	
Acquisitions	110,952,726	1,708
Disposals	(11,730,005)	(162)
Share Cancellation	(147,633,912)	(2,202)
Treasury shares at June 30, 2007	**27,221,368**	

	Number of shares	**Millions of euros**
Treasury shares at December 31, 2007	**64,471,368**	
Acquisitions	62,216,603	1,155
Disposals	(68,759)	(1)
Treasury shares at June 30, 2008	**126,619,212**	

At June 30, 2008 and 2007, the Group held options on 35.56 and 19 million Telefónica, S.A. shares, respectively.

At the General Shareholders Meeting of Telefónica, S.A. on April 22, 2008 an agreement was reached to reduce capital by means of the cancellation of 68,500,000 treasury shares. This capital decrease was formally carried out on July 18, 2008 (see Note 13).

9) FINANCIAL ASSETS AND LIABILITIES

The breakdown of the Telefónica Group s financial assets and liabilities by category at June 30, 2008 and December 31, 2007 is as follows:

	At June 30, 2008					
	Fair value through profit or loss					Total
Millions of euros	**Held for trading**	**Fair value option**	**Available-for-sale**	**Amortized cost**	**Hedges**	**carrying amount**
Non-current financial assets	**1,070**	**205**	**1,973**	**1,135**	**932**	**5,315**
Investments		3	1,241			1,244
Long-term credits	16	202	732	464		1,414
Long-term prepayments				92		92
Deposits and guarantees				967		967
Derivative instruments	1,054				932	1,986
Provisions				(388)		(388)
Current financial assets	**247**	**163**	**303**	**5,853**	**116**	**6,682**
Short-term investments	20		223	374		617
Short-term credits	7		65	441		513
Deposits and guarantees				133		133
Derivative instruments	220				116	336
Provisions				(37)		(37)
Cash and cash equivalents			9	4,937		4,946
Other financial assets		163	6	5		174
Total financial assets	**1,317**	**368**	**2,276**	**6,988**	**1,048**	**11,997**

	At June 30, 2008				
	Fair value through profit or loss				Total
Millions of euros	**Held for trading**	**Fair value option**	**Amortized cost**	**Hedges**	**carrying amount**
Non-current financial liabilities	**581**		**43,176**	**2,511**	**46,268**
Interest-bearing debt			17,601		17,601
Issues			25,375		25,375
Derivatives	581			2,511	3,092
Other financial liabilities			200		200
Current financial liabilities	**126**		**6,169**	**501**	**6,796**
Interest-bearing debt			2,232		2,232
Issues			3,937		3,937

Derivatives	126		501	627
Other financial liabilities				
Total financial liabilities	**707**	**49,345**	**3,012**	**53,064**

	At December 31, 2007					
	Fair value through profit or loss					**Total**
Millions of euros	**Held for trading**	**Fair value option**	**Available-for-sale**	**Amortized cost**	**Hedges**	**carrying amount**
Non-current financial assets	**525**	**52**	**2,701**	**1,461**	**1,080**	**5,819**
Investments	122		2,113			2,235
Long-term credits		52	588	932		1,572
Long-term prepayments				97		97
Deposits and guarantees				813		813
Derivative instruments	403				1,080	1,483
Provisions				(381)		(381)
Current financial assets	**151**	**284**	**6**	**6,187**	**59**	**6,687**
Short-term investments				768		768
Short-term credits				210		210
Deposits and guarantees				224		224
Derivative instruments	151				59	210
Provisions				(90)		(90)
Cash and cash equivalents				5,065		5,065
Other financial assets		284	6	10		300
Total financial assets	**676**	**336**	**2,707**	**7,648**	**1,139**	**12,506**

	At December 31, 2007				
	Fair value through profit or loss				**Total**
Millions of euros	**Held for trading**	**Fair value option**	**Amortized cost**	**Hedges**	**carrying amount**
Non-current financial liabilities	**109**		**44,626**	**2,207**	**46,942**
Interest-bearing debt			17,753		17,753
Issues			26,667		26,667
Derivatives	109			2,207	2,316
Other financial liabilities			206		206
Current financial liabilities	**183**		**6,459**	**344**	**6,986**
Interest-bearing debt			3,069		3,069
Issues			3,390		3,390
Derivatives	183			344	527
Other financial liabilities					

Total financial liabilities	**292**	**51,085**	**2,551**	**53,928**

The change in Available-for-sale assets mainly relates to the changes in the fair values of these investments and the disposal of the investment in Sogecable, S.A., after the take over bid launched by Prisa Group over this company.

The result before taxes obtained in this disposal amounts to 143 million euros recognized under Other income in the interim consolidated income statement for the six months ended June 30, 2008.

The movements in the Group s issues in the six-month periods ended June 30, 2008 and 2007 are as follows:

Issues (Millions of euros)	Balance at 12/31/2007	Issues	Repurchases or redemptions	Exchange-rate effects and other	Balance at 06/30/2008
Debt securities issued in a EU Member State requiring the registry of a prospectus	17,674	3,850	(3,560)	(560)	17,404
Debt securities issued in a EU Member State not requiring the registry of a prospectus	172			(10)	162
Other debt securities issued outside an EU Member State	12,211	68	(14)	(519)	11,746
TOTAL	**30,057**	**3,918**	**(3,574)**	**(1,089)**	**29,312**

Issues (Millions of euros)	Balance at 12/31/2006	Issues	Repurchases or redemptions	Exchange-rate effects and other	Balance at 06/30/2007
Debt securities issued in a EU Member State requiring the registry of a prospectus	17,938	3,920	(3,726)	(534)	17,598
Debt securities issued in a EU Member State not requiring the registry of a prospectus	181			(3)	178
Other debt securities issued outside an EU Member State	11,023	46	(64)	(317)	10,688
TOTAL	**29,142**	**3,966**	**(3,790)**	**(854)**	**28,464**

The description of the conditions of the main issues or redemptions in the first half of 2008 is as follows:

Name of issuer	ISIN code	Issue/ cancellation	Type of security	Transaction date	Nominal amount	Issue currency	Outstanding balance	Interest rate	Listing market
T. Emisiones, S.A.	XS0368055959	Issue	Bond	6/12/2008	1,250	EUR	1,230	5.580%	London
T. Europe B.V.	Misc.	Issue	Commercial paper	Misc.	2,140	EUR	892	4.600%	N/A
T. Europe B.V.	Misc.	Cancellation	Commercial paper	Misc.	(2,165)	EUR		4.551%	N/A

Telefónica, S.A.	Misc.	Cancellation	Promissory note	Misc.	(274)	EUR		4.217%	AIAF
Telefónica, S.A.	Misc.	Issue	Promissory note	Misc.	460	EUR	478	4.772%	AIAF
Telefónica, S.A.	Misc.	Cancellation	Promissory note	Misc.	(575)	EUR		6.236%	AIAF
Telefónica, S.A.	XS0368055959	Cancellation	Bond	3/3/1998	(421)	EUR		4.840%	AIAF

All these issues are rating Baa1/BBB+/BBB+.

10) AVERAGE NUMBER OF GROUP EMPLOYEES

The Group s average headcount in the first half of 2008 and 2007 is as follows:

Average number of employees	**At June 30, 2008**	**At June 30, 2007**
Men	124,211	123,871
Women	125,674	116,960
Total	**249,885**	**240,831**

11) INCOME TAX

The comparison of the accompanying six month income statements shows an increase in the income tax expense for the first half of 2008 relative to the same period the year before.

The annual change in the effective tax rate is affected by changes in the tax rates applicable in the various countries where the Telefónica Group operated in the second half of 2007. The main decreases were registered in the tax rates in Spain, from 32.5% in 2007 to 30% from January 1, 2008, in the UK from 30% to 28% in 2008, in Germany from 38.6% to 29.8% and in the Czech Republic from 24% to 21% in 2008. In the Czech Republic the tax rate will be further reduced to 20% in 2009 and to 19% in 2010.

Finally, the comparability of the tax burden between the periods is affected by the recognition of expenses and revenues related to capital gains and losses and provisions giving rise to temporary and permanent differences in the calculation of income tax expense and the related impact on the tax burden.

On June 27, 2006, a tax audit was initiated at some of the Spanish subsidiaries included in the Telefonica Consolidated tax group 24/90 in which Telefonica, S.A. is the holding company. The audits of the group s income tax returns covered the fiscal years 2001 to 2004 and the audits of the group s returns value-added tax, personnel taxes, property taxes, and foreign income taxes related to fiscal years 2002 to 2004.

The procedures related to the audit of the Group s income tax returns were finalized on May 20, 2008 and the formal notification of the audit s final assessment was received on July 4, 2008. The Group has initiated procedures with the Central Administrative Economic Court to dispute the conclusions of the tax audit as we consider the tax returns to have been prepared in accordance with the applicable tax legislation. Therefore, we have not reflected any liability for this issue in our financial statements.

Related to the other tax audits, no material liability has been recognized or is expected to be recognized in the future.

12) OTHER INFORMATION

a. Litigation

With regard to ongoing litigation, the main developments in the first six months of 2008 in the litigation reported in Note 21.a) to the consolidated annual financial statements for the year ended December 31, 2007 are as follows:

Claim at the ICSID

As the period envisaged in the memorandum of understanding once again expired, Telefónica, S.A. has requested an additional six-month extension starting on April 7, 2008, which was approved by the ICSID Arbitration Court.

Proceeding initiated by Telefónica O2 Czech Republic, a.s. against the ruling of the Czech Telecommunications Office (CTO) dated December 22, 2003 (Reference nº 27865/2003-603/IV).

Regarding the request by T-Mobile before Prague District Court 3 to execute the ruling of December 23, 2003 entailing an amount of 1,859.28 million Czech crowns (in principal and interest) and in order to pre-empt the impact of a potential execution and lift the precautionary embargo on Telefónica O2 Czech Republic s assets, this company paid the amount. Nonetheless, the procedure is still in the courts. Telefónica O2 Czech Republic considers that there are sufficient guarantees that a ruling in its favor will be issued.

b. Commitments

The main developments in the first six months of 2008 in the commitments reported in Note 21.b to the consolidated financial statements for the year ended December 31, 2007 are as follows:

Guarantees provided for Ipse 2000 (Italy)

The Telefónica Group has provided guarantees for the Italian company Ipse 2000 S.p.A. (holder of a UMTS license in Italy) in which it owns an indirect stake through Solivella, B.V. for the 365 million euros payable to the Italian government in connection with the grant of the license.

Telefónica, S.A. (together with the other strategic partners of Ipse 2000, S.p.A.) arranged a counterguarantee for a bank which, in turn, issued a bank guarantee for the Italian authorities as security for the deferred payment of the UMTS license.

In the wake of the decision by the Italian government to revoke the UMTS license granted to IPSE, the Company, in defense of its interests, filed a series of civil and administrative suits. These cases were held during the first half of 2008, with all the rulings going against IPSE 2000. The company is currently deciding which strategy to adopt to enforce these commitments.

The contingencies arising from the commitments described above were evaluated in the preparation of the interim condensed consolidated financial statements at June 30, 2008, as described in the consolidated financial statements for the year ended December 31, 2007, and the provisions recorded with respect to the commitments taken as a whole are not material.

13) EVENTS AFTER THE BALANCE SHEET DATE

The following events affecting the Group took place between the date of the accompanying interim consolidated financial statements and July 30, 2008:

At the General Shareholders Meeting held on April 22, 2008 was approved the reduction of Telefónica, S.A.´s Share Capital by cancelling share of our treasury stock.

The deed formalizing the Board of Director s resolution to reduce capital by 4,704,996,485 euros through the cancellation of 68,500,000 shares of our treasury stock was executed on July 15, 2008 and inscribed in the Madrid Mercantile Register on July 18, 2008.

14) ADDITIONAL NOTE FOR ENGLISH TRANSLATION

These interim financial statements were originally prepared in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

These interim financial statements are presented on the basis of International Accounting Standard (IAS) 34 Interim Financial Reporting and Article 12 of Royal Decree 1362/2007. Consequently, certain accounting practices applied by the Group not conform with generally accepted principles in other countries.

APPENDIX I: CHANGES IN THE SCOPE OF CONSOLIDATION

The main changes in the scope of consolidation in the first half of 2008 are as follows:

Telefónica Latin America

On April 3, 2008, pursuant to the terms of the purchase-sale agreement signed on August 2, 2007, after the appropriate administration authorizations were given, Vivo Participaçoes, S.A. (VIVO), a Brazilian company owned by Brasilcel, N.V. -50%-owned each by Telefónica, S.A. and Portugal Telecom SGPS- completed the acquisition of 53.90% of the voting stock and 4.27% of the preference shares of Telemig Celular Participaçoes, S.A., the parent company of Telemig Celular, S.A., the cellular operator in the state of Minas Gerais (Brazil). According to the terms of the agreement, the total acquisition price was 1,163 million reais (approximately 429 million euros). In addition, VIVO acquired the rights held by the seller, Telpart Participaçoes S.A. (TELPART), to subscribe to the remaining free shares of Telemig Celular Participaçoes S.A. for approximately 70 million reais (26 million euros). In May, Brazilian company Tele Centro Oeste IP, S.A., a wholly owned subsidiary of Vivo, S.A., bought 31.91% of the preferred shares of Telemig Celular Participaçoes, S.A. After these transactions, the Telefónica Group now owns, directly and indirectly, 13.46% of the Brazilian company s share capital and consolidates the company using proportionate consolidation method.

Other companies

In March, Telco S.p.A., 42.3%-owned by Telefónica, acquired 121.5 million shares of Italian company Telecom Italia, representing 0.9% of its share capital, at a price of 1.23 euros per share, raising the participation to reach a direct ownership of 24.5% of the voting stock and 16.9% of the shares with dividend rights. The transaction entailed a total payment of 149.8 million euros.

As a result, the Telefónica Group indirectly holds 10.4% of Telecom Italia s voting rights and 7.1% of its dividend rights. Telco, S.p.A. is included in the Telefónica Group s consolidated financial statements by the equity method.

INTERIM CONSOLIDATED MANAGEMENT REPORT
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, Internet and Television businesses.

Likewise, Telefonica Europe includes Telefonica O2 UK, Telefonica O2 Germany, Telefonica O2 Ireland, Telefónica O2 Czech Republic and Telefonica O2 Slovakia results.

In the caption Other companies and Eliminations the Call Center Business together with other companies and eliminations in the consolidation process are included.

For the presentation of the reporting by regions, revenue and expenses arising from the use of the trademark and management contracts that do not affect the Group s consolidated results have been eliminated from the operating results of each Group region.

From December 31, 2006 Group s accesses have been reclassified, being fixed wireless accesses now included within the fixed telephony accesses. Till December 2007 fixed wireless accesses were included, depending on the country, in mobile or fixed accesses. As from January 1, 2008, the fixed wireless accesses include public telephones with this technology.

Additionally, in order to provide comparable information, Iberbanda s accesses, a Telefónica España s subsidiary, have been included in the total accesses of Telefónica Group effective from 31st December 2006.

Moreover, in Latinoamérica, year-on-year organic growth rates including Telemig results for the period April-June 2007 are provided, with the best comparable information available at the closing of this document.

In the first half of 2008 Telefónica Group s results show significant organic[1] growth rates excluding capital gains, consolidating the positive performance recorded in the first quarter of the year. These growth rates reflect the high diversification of the Group, both in terms of geographies and services, and its distinctive capacity to enhance Telefónica s Group profitability through ongoing efforts to optimise costs and capture synergies through an integrated management.

Total accesses rose 15.2% compared to June 2007 to 245.1 million, due to the high commercial activity recorded across markets. This growth was underpinned by the increase in wireless (+19.0%), broadband (+25.1%) and pay TV (+57.4%) accesses.

1 Assuming constant exchange rates and including the consolidation of TVA in January-June 2007 and Telemig in April-June 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in

January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-67.9 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave and Sogecable) in both periods is excluded.

By type of access, Telefónica Group s **mobile accesses** stood close to 182.7 million at the end of June, with around 15 million additional customers (+54.3% year-on-year) in the six-month period. The main contributors were Brazil (nearly 7 million customers, around 3 million stripping out the incorporation of Telemig in April 2008), Mexico (1.6 million), Peru (1.3 million) and Germany (1.1 million). In the second quarter of 2008, the Company had net adds of 11 million customers (7.0 million excluding Telemig), with a growth of 18.6% compared to the same period of 2007 excluding the incorporation of Telemig, despite the higher levels of penetration in our markets.

Retail Internet broadband accesses stood at close to 11.5 million, with a year-on-year rise of 25.1%, driven by the growing penetration of voice, ADSL and Pay TV bundles. These bundles are key to expand the broadband market and increase customer loyalty. Accesses in Spain reached over 5.0 million (+18.3% year-on-year), 5.5 million in Latin America (+26.1% year-on-year), and 917,000 in Europe (+69.7% year-on-year). Net adds in the first half of 2008 totalled 1.1 million accesses, of which 390,923 were in Spain, 489,981 in Latin America and 247,026 in Europe.

Pay TV accesses stood at over 2.0 million at end of the first half of the year, up 57.4% on the prior year, due to net adds of close to 280,000 accesses in the first half (+25.0% compared to the same period of 2007). The Company currently offers Pay TV services in Spain, the Czech Republic, Peru, Chile, Colombia and Brazil.

The expansion of the Group s customer base and the increased usage led to **revenues** of 28,149 million euros in the first six months of 2008, for a year-on-year increase of 1.2%. Changes in the consolidation perimeter subtract 2.8 percentage points to revenue growth, while the impact of foreign exchange rates reduced the growth by another 2.8 percentage points. Year-on-year revenue growth was 1.2% in the April-June 2008 period.

In organic terms[2], revenue growth stood at 6.7% for the six-month period, mainly driven by the significant increase in Telefónica Latinoamérica (4.3 percentage points contribution to growth) and, to a lesser degree, in Telefónica Europe (1.6 percentage points contribution in the half-year period). By concept, wireless service revenues, with a growing contribution of data services, along with wireline broadband and Pay TV, were the main organic revenue growth drivers.

In absolute terms, Telefónica Latinoamérica consolidated its position as the largest contributor to total Group revenue, with a weight of 37.4%. Telefónica España and Telefónica Europe accounted for 36.7% and 24.9% of the Telefónica Group s total revenue, respectively.

Other operating income includes 114 million euros accounted for by Telefónica Europe in the first half of 2008 as a result of the application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks have dissipated or have not materialised.

In the first half of 2008 Telefónica Group s **operating expenses** totalled 17,846 million euros, 1.5% down year-on-year. Stripping out the effects of foreign exchange rates, operating expenses would be up 1.7%.

Supply costs in the first half of the year totalled 8,662 million euros, down 2.0% year-on-year. Stripping out the impact of foreign exchange rates, supply costs would have risen 2.0%, mainly due to higher interconnection expenses and circuit and infrastructure rentals in Telefónica Latinoamérica and Telefónica O2 UK.

[2] Assuming constant exchange rates and including the consolidation of TVA in January-June 2007 and Telemig in April-June 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in

January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-67.9 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave and Sogecable) in both periods is excluded.

Personnel expenses fell 7.0% year-on-year to 3,389 million in the first half of 2008 (-5.0% in constant euros). This reduction is primarily due to restructuring expenses booked in the first half of 2007 (256 million euros). The average number of employees in the period was 249,885, 9,054 more than the prior year, due to increased workforce at the Atento Group. Excluding the Atento Group workforce, the average headcount at the Telefónica Group fell by 3,718 from June 2007, to 124,481 employees.
External service expenses (4,941 million euros in the firs half of 2008) rose 3.1% year-on-year (+5.9% in constant currency), mainly due to higher expenses in Telefónica Latinoamérica, primarily in Brazil, Chile and Venezuela, and to greater subscriber retention costs in Telefónica O2 UK and higher subscriber acquisition expenses in Telefónica O2 Germany.
Gain on sale of fixed assets totalled 237 million euros in the first half of 2008 and were mainly generated on the sale of the stake in Sogecable (143 million euros) and the Real State programmes of Telefónica España and Telefonica Europe. In the first half of 2007, capital gains of 1,296 million euros were recognised on the sale of Airwave.
Operating income before depreciation and amortisation (OIBDA) stood at 11,123 million euros for the first half of 2008, down 1.3% on the same period of 2007, due to recognition of the aforementioned capital gains on the sale of Airwave in the second quarter of 2007. These capital gains also explain the year-on-year change in OIBDA in the second quarter of 2008 (-6.8%).
In organic terms[3], the rise in OIBDA in the first half of 2008 would be 1.5%. However, the organic[4] growth in OIBDA excluding capital gains would have reached 12.0% in the first half of 2008, significantly above revenue growth (+5.3 percentage points), showing an outstanding acceleration with respect to the first quarter of the year (+8.2% to March). Telefónica Latinoamérica (+5.5 percentage points) and Telefónica España (+4.6 percentage points) are the main contributors to this growth.
In absolute terms, Telefónica España accounted for 46.5% of total Group OIBDA, while Telefónica Latinoamérica and Telefónica Europe contributed 34.4% and 18.3% to the total Group OIBDA, respectively.
OIBDA margin for January-June 2008 stood at 39.5% (compared to 40.5% in the prior year, due to capital gains on the sale of Airwave). In organic terms[4] excluding capital gains, the OIBDA margin would be 38.2%, up 1.8 percentage points year-on-year, due to efficiency improvements and economies of scale in a context of high commercial activity.
Depreciation and amortisation in the first half of 2008 totalled 4,521 million euros, down 4.1% year-on-year. Telefónica Europe includes the amortisation of the purchase price allocation made following the O2 Group acquisition (351 million euros) and the Telefónica O2 Czech Republic acquisition (87 million euros). In organic terms[3] the Telefónica Group s depreciation and amortisation charges for the half-year fell 1.3% year-on-year, with Telefónica España and Telefónica Europe chiefly responsible for this decline.

3 Assuming constant exchange rates and including the consolidation of TVA in January-June 2007 and Telemig in April-June 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007.

4 Assuming constant exchange rates and including the consolidation of TVA in January-June 2007 and Telemig in April-June 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-67.9 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave and Sogecable) in both periods is excluded.

Operating income (OI) totalled 6,602 million euros for the period from January to June 2008, with 0.7% year-on-year growth, due to recognition in 2007 of the aforementioned capital gains on the sale of Airwave. In organic terms[5], growth in operating income would be 3.5%. Stripping out also impacts from capital gains (Sogecable and Airwave) year-on-year growth would stand at 24.0%.

Therefore, an acceleration in organic[6] growth rates (excluding capital gains) is reflected along the different income statement items below revenues (revenues: +6.7%; OIBDA: +12.0% and operating income: +24.0%).

Net losses from associates (-4 million euros in the first half of 2008) are mainly due to lower profits from Portugal Telecom and losses on the Company s interest in Telco SpA. In the same period of 2007 the Company recorded profits of 80 million euros for this concept, primarily from Portugal Telecom.

Cumulative **financial expense** totalled 1,388 million euros at June 2008, down 3.4% on the expense recognised in the same period of 2007, mainly due to the 11% decline in average debt, which has generated savings of 171 million euros. Nevertheless, this saving was offset by:

- the higher average cost of Group debt: financing costs rose 107 million euros due to the interest rate hikes in non-Latin American currencies

- the variations in present value of commitments derived from official redundancy programmes and other positions accounted for at market value, representing revenue of 22 million euros, which due to market volatility is 70 million euros lower than the cumulative at June 2007.

Cumulative financial expense at June 2008 represents an average cost of 5.96% of total average net debt, excluding any exchange rate gains or losses.

Free cash flow generated by the Telefónica Group in 2008 amounted 3,422 million euros of which 1,124 million euros were assigned to Telefonica s share buyback program, 1,869 million euros to Telefónica S.A. dividend payment and 372 million euros to commitment cancellations derived mainly from the pre-retirements plans. Due to the fact that financial and real estate net divestments for the period amounted to 493 million euros (basically coming from the disposal of the Company s stake in Sogecable and for the payment for the acquisition of Telemig), net financial debt decreased in 550 million euros. Also, net debt was reduced by an additional 761 million euros because of foreign exchange impact, changes in the consolidation perimeter and other effects on financial accounts. All this has been translated in a decrease of 1,311 million euros with respect to the net financial debt at the end of the fiscal year 2007 (45,284 million euros), leaving the net financial debt of the Telefónica Group at June 2008 at 43,973 million euros.

[5] Assuming constant exchange rates and including the consolidation of TVA in January-June 2007 and Telemig in April-June 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007.

[6] Assuming constant exchange rates and including the

consolidation of TVA in January-June 2007 and Telemig in April-June 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-67.9 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave and Sogecable) in both periods is excluded.

Leverage ratio (net debt/OIBDA) continues to fall to 2.0 times at June 2008, compared to 2.1 times at March 2008, thanks to both the reduction in net financial debt in the period and higher OIBDA. Net financial debt + commitments over OIBDA[7] stood at 2.2 times, in line with the Company s objectives.

In the first half of the year, the Telefónica Group s **financing activity**, excluding short term Commercial Paper Programmes activity, stood at approximately 2,400 million euros. Financing activity was less intense than in previous periods due to the instability of the credit markets and the Group s liquidity position. It is worth highlighting that in the last quarter of 2007 a number of facilities were signed with multilateral bodies and several financial institutions totalling 1,039 million euros, initially forecast for 2008.

Group s financing activity has been largely focused on Latin America and on issues under the Group s short-term Commercial Paper Programmes. Nevertheless, in May 2008 Telefónica, S.A. launched a 1,250 million euro issue, taking advantage of a window opportunity of short-term improvement in the markets to strengthen its cash position. Furthermore, at the start of the year a loan for 75 million euros was signed with the European Investment Bank (EIB) through Telefónica Finanzas, S.A. a fully controlled subsidiary of Telefónica, S.A.

In this first half of the year, Telefónica S.A. and its holding companies remained active under its various Commercial Paper Programmes (domestic and European), for an outstanding balance of 1,783 million euros, 17% lower than 31 December 2007 figure. Spreads have been kept despite adverse market conditions.

During the first half of 2008, Latin American subsidiaries tapped the financial markets for 1,045 million euros, mainly to renew existing debt.

As a result of the Telefónica Group s activity in capital markets and refinancing debt with credit entities in recent months, the breakdown of consolidated **financial debt** is 59% bonds and debentures and 41% debt with financial institutions.

The **tax provision** for the first half of the year totalled 1,520 million euros, implying a tax rate of 29.2%. However, the Telefónica Group s cash outflow is being lower in 2008 as lower negative tax bases from past periods together with unused fiscal deductions are compensated.

Minority interests fell by 14.3% year-on-year and reduced cumulative net profit in the first half of 2008 by 97 million euros. Minority interests in Telesp and Telefónica O2 Czech Republic account for the bulk of profit attributable to minority interests in absolute terms.

As a result of the above, **consolidated net income** for the first half of 2008 amounted to 3,593 million euros, down 6.2% on the same period of 2007. This decrease is mainly due to the recognition in 2007 of capital gains on the sale of Airwave. Stripping out the impact of sale of assets (Airwave and Sogecable), net income at June 2008 would be up 29.0%.

Basic earnings per share stood at 0.767 euros for the half-year period.

[7] Calculated based on June 2008 OIBDA, excluding results on the sale of fixed assets and annualized.

In the period from January to June 2008, **CapEx** amounted to 3,450 million euros, with **operating cash flow (OIBDA-CapEx)** at 7,673 million euros. By region, Telefónica España contributed 4,122 million euros, Telefónica Latinoamérica accounted for 2,332 million euros and Telefónica Europe contributed 1,177 million euros. Operating Cash Flow grew 12.9% year-on-year in organic terms excluding capital gains[8].

The **free cash flow per share** stood at 0.731 euros in the first half of 2008, compared to 0.725 euros in the same period last year.

With respect to **shareholder returns**, the Company will pay a dividend of 1 euro per share on account of 2008 profits. In addition, from the start of the year to July 17 2008, the Company has executed 67.6% of its programme to buy back 100 million shares in 2008.

TELEFÓNICA GROUP

ACCESSES

Unaudited figures (thousands)

	January - June		
	2008	2007	% Chg
Final Clients Accesses	242,065.0	210,603.5	14.9
Fixed telephony accesses (1)	43,432.0	43,461.4	(0.1)
Internet and data accesses	13,924.1	12,335.0	12.9
Narrowband	2,314.6	3,022.0	(23.4)
Broadband (2)	11,448.1	9,152.6	25.1
Other (3)	161.4	160.4	0.7
Mobile accesses (4)	182,680.8	153,519.1	19.0
Pay TV	2,028.0	1,288.1	57.4
Wholesale Accesses	3,066.9	2,179.7	40.7
Unbundled loops	1,578.9	1,206.0	30.9
Shared ULL	683.6	664.5	2.9
Full ULL	895.4	541.5	65.3
Wholesale ADSL (5)	578.7	607.3	(4.7)
Other (6)	909.3	366.4	148.2
Total Accesses	245,131.9	212,783.2	15.2

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

(2)

ADSL, satellite, optical fibre, cable modem and broadband circuits.

(3) Remaining non-broadband final client circuits.

(4) Includes accesses of Telemig from April 2008.

(5) Includes Unbundled Lines by T. Deutschland.

(6) Circuits for other operators.

Notes:

- *Iberbanda accesses are included from December 2006.*

- *As of 31 December 2006, Group accesses have been reclassified, including fixed wireless accesses under the caption of fixed telephony. These accesses were previously classified, depending on the country, under mobile or fixed accesses.*

- *As of 1 January 2008,*

fixed wireless public telephony accesses are included under the caption of fixed telephony accesses.

8 Assuming constant exchange rates and including the consolidation of TVA in January-June 2007 and Telemig in April-June 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-67.9 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave and Sogecable) in both periods is excluded.

TELEFÓNICA GROUP
Financial Data
TELEFÓNICA GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - June			April - June		
	2008	2007	%Chg	2008	2007	%Chg
Revenues	28,149	27,826	1.2	14,253	14,079	1.2
Internal exp capitalized in fixed assets	353	337	4.6	185	184	0.6
Operating expenses	(17,846)	(18,124)	(1.5)	(9,068)	(9,296)	(2.5)
Supplies	(8,662)	(8,843)	(2.0)	(4,350)	(4,444)	(2.1)
Personnel expenses	(3,389)	(3,645)	(7.0)	(1,706)	(1,927)	(11.5)
Subcontracts	(4,941)	(4,794)	3.1	(2,554)	(2,487)	2.7
Bad Debt Provisions	(377)	(359)	5.2	(198)	(191)	3.4
Taxes	(476)	(483)	(1.4)	(261)	(246)	5.8
Other net operating income (expense)	237	(18)	C.S.	201	(55)	C.S.
Gain (loss) on sale of fixed assets	237	1,260	(81.2)	182	1,254	(85.5)
Impairment of goodwill and other assets	(8)	(11)	(30.5)	(6)	(3)	92.5
Operating income before D&A (OIBDA)	11,123	11,270	(1.3)	5,747	6,163	(6.8)
OIBDA margin	*39.5%*	*40.5%*	*(1.0 p.p.)*	*40.3%*	*43.8%*	*(3.5 p.p.)*
Depreciation and amortization	(4,521)	(4,713)	(4.1)	(2,245)	(2,317)	(3.1)
Operating income (OI)	6,602	6,557	0.7	3,503	3,846	(8.9)
Profit from associated companies	(4)	80	C.S.	(3)	46	C.S.
Net financial income (expense)	(1,388)	(1,437)	(3.4)	(621)	(670)	(7.3)
Income before taxes	5,210	5,200	0.2	2,879	3,222	(10.7)
Income taxes	(1,520)	(1,257)	20.9	(784)	(601)	30.4
Income from continuing operations	3,690	3,943	(6.4)	2,095	2,621	(20.1)
Income (Loss) from discontinued ops.	0	0	N.M.	(0)	0	C.S.
Minority interest	(97)	(113)	(14.3)	(40)	(48)	(16.5)
Net income	3,593	3,830	(6.2)	2,055	2,573	(20.2)
Weighted average number of ordinary shares outstanding during the period (millions)	4,683.0	4,793.6	(2.3)	4,669.2	4,759.3	(1.9)
Basic earnings per share (euros)	0.767	0.799	(4.0)	0.440	0.541	(18.6)

Notes:

- *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. ***Excluding the impact of asset disposals (Airwave and Sogecable) in both periods, net income grows 29.0% as of the end of June 2008.***

- *Airwave and Endemol are not consolidated since the second and third quarter of 2007, respectively. The disposal of Airwave generated a capital gain of 1,296 million euros, recorded in the second quarter of 2007.*

- *Sogecable capital gain amounting 143 million euros is recorded in the second quarter of 2008.*

- *Starting April 2008, Vivo consolidates Telemig.*

- ***Excluding the impact of asset disposals, organic OIBDA growth reaches 12.0% and organic OI growth reaches 24.0% in the period January-June 2008.***

TELEFÓNICA GROUP
RESULTS BY REGIONAL BUSINESS UNITS
Unaudited figures (Euros in millions)

	REVENUES January - June			OIBDA January - June			OIBDA MARGIN January - June		
	2008	2007	% Chg	2008	2007	% Chg	2008	2007	Chg
Telefónica España (1)	10,331	10,191	1.4	5,173	4,723	9.5	50.1%	46.3%	3.7 p.p.
Telefónica Latinoamérica (2)	10,531	9,628	9.4	3,831	3,391	13.0	36.4%	35.2%	1.2 p.p.
Telefónica Europe (3)	7,006	7,068	(0.9)	2,033	3,100	(34.4)	29.0%	43.9%	(14.8 p.p.)
Other companies and eliminations (4)	281	939	(70.0)	86	56	52.7	N.M.	N.M.	N.M.
Total Group (1)(2)(3)(4)	28,149	27,826	1.2	11,123	11,270	(1.3)	39.5%	40.5%	(1.0 p.p.)

	OPERATING INCOME January - June			CAPEX January - June			OPCF (OIBDA-CAPEX) January - June		
	2008	2007	% Chg	2008	2007	% Chg	2008	2007	% Chg
Telefónica España	4,033	3,516	14.7	1,051	1,030	2.0	4,122	3,693	11.6
Telefónica Latinoamérica (2)	2,050	1,687	21.5	1,499	1,131	32.5	2,332	2,260	3.2
Telefónica Europe (3)	492	1,350	(63.5)	856	963	(11.1)	1,177	2,137	(44.9)
Other companies and eliminations (4)	27	4	N.M.	44	84	(47.5)	42	(28)	C.S.
Total Group (2)(3)(4)	6,602	6,557	0.7	3,450	3,208	7.5	7,673	8,062	(4.8)

Notes:

- *OIBDA and OI are presented bebore brand fees and management fees.*

- *CapEx at cumulative average exchange rate.*

(1) *2008 figures reflect the new applicable framework for public telephony services (net revenues). 2007*

figures reported figures have not changed (gross revenues and gross expenses). Therefore, 2008/2007 variations are not homogeneous.

(2) *Starting April 2008, Vivo consolidates Telemig.*

(3) *Airwave is not consolidated since the second quarter of 2007 (the disposal of Airwave generated a capital gain of 1,296 million euros, recorded in the second quarter of 2007).*

(4) *Endemol is not consolidated since the third quarter of 2007. Sogecable capital gain amounting 143 million euros is recorded in the second quarter of 2008.*

TELEFÓNICA GROUP
CONSOLIDATED BALANCE SHEET
Unaudited figures (Euros in millions)

	June 2008	Dec 2007	% Chg
Non-current assets	84,701	87,395	(3.1)
Intangible assets	17,379	18,320	(5.1)
Goodwill	19,627	19,770	(0.7)
Property, plant and equipment and Investment property	31,781	32,469	(2.1)
Long-term financial assets and other non-current assets	8,342	9,007	(7.4)
Deferred tax assets	7,572	7,829	(3.3)
Current assets	19,166	18,478	3.7
Inventories	1,121	987	13.6
Trade and other receivables	10,251	9,662	6.1
Current tax receivable	987	1,010	(2.3)
Short-term financial investments	1,736	1,622	7.1
Cash and cash equivalents	4,946	5,065	(2.4)
Non-current assets classified as held for sale	125	132	(5.6)
Total Assets = Total Equity and Liabilities	103,867	105,873	(1.9)
Equity	21,283	22,855	(6.9)
Equity attributable to equity holders of the parent	18,377	20,125	(8.7)
Minority interest	2,906	2,730	6.4
Non-current liabilities	58,274	58,044	0.4
Long-term financial debt	46,268	46,942	(1.4)
Deferred tax liabilities	5,314	3,926	35.4
Long-term provisions	5,651	6,161	(8.3)
Other long-term liabilities	1,041	1,015	2.5
Current liabilities	24,310	24,974	(2.7)
Short-term financial debt	6,796	6,986	(2.7)
Trade and other payables	8,575	8,729	(1.8)
Current tax payable	2,513	2,157	16.5
Short-term provisions and other liabilities	6,426	7,102	(9.5)
Financial Data			
Net Financial Debt (1)	43,973	45,284	(2.9)

(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 - June		
		2008	2007	% Chg
I	Cash flows from operations	9,249	9,143	1.2
II	Net interest payment (1)	(1,735)	(1,640)	
III	Payment for income tax	(629)	(772)	
A=I+II+III	Net cash provided by operating activities	6,885	6,731	2.3
B	Payment for investment in fixed and intangible assets	(3,763)	(3,557)	
C=A+B	Net free cash flow after CapEx	3,122	3,174	(1.7)
D	Net Cash received from sale of Real Estate	62	19	
E	Net payment for financial investment	431	2,770	
F	Net payment for dividends and treasury stock (2)	(3,065)	(2,982)	
G=C+D+E+F	Free cash flow after dividends	550	2,981	
H	Effects of exchange rate changes on net financial debt	(285)	173	
I	Effects on net financial debt of changes in consolid. and others	(476)	(118)	
J	Net financial debt at beginning of period	45,284	52,145	
K=J-G+H+I	Net financial debt at end of period	43,973	49,219	

(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 minoritaries 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 - June		
	2008	2007	% Chg
OIBDA	11,123	11,270	(1.3)
- CapEx accrued during the period	(3,450)	(3,208)	
- Payments related to commitments	(372)	(400)	
- Net interest payment	(1,735)	(1,640)	
- Payment for income tax	(629)	(772)	
- Results from the sale of fixed assets	(237)	(1,260)	
- Investment in working capital and other deferred income and expenses	(1,578)	(816)	
= Net Free Cash Flow after CapEx	3,122	3,174	(1.7)
+ Net Cash received from sale of Real Estate	62	19	
- Net payment for financial investment	431	2,770	
- Net payment for dividends and treasury stock	(3,065)	(2,982)	
= Free Cash Flow after dividends	550	2,981	(81.6)

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 accomodate 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 minoritaries, due to cash recirculation within the Group.

Unaudited figures (Euros in millions)

	January - June 2008	2007
Net Free Cash Flow after CapEx	3,122	3,174
+ Payments related to cancellation of commitments	372	400
- Ordinary dividends payment to minoritaries	(72)	(98)
= Free Cash Flow	3,422	3,477
Weighted average number of ordinary shares outstanding during the period (millions)	4,683	4,794
= Free Cash Flow per share (euros)	0.731	0.725

NET FINANCIAL DEBT AND COMMITMENTS

Unaudited figures (Euros in millions)

		June 2008
	Long-term debt (1)	46,608
	Short term debt including current maturities	6,796
	Cash and Banks	(4,946)
	Short and Long-term financial investments (2)	(4,484)
A	Net Financial Debt	43,973
	Guarantees to IPSE 2000	365
B	Commitments related to guarantees	365
	Gross commitments related to workforce reduction (3)	4,825
	Value of associated Long-term assets (4)	(649)
	Taxes receivable (5)	(1,441)
C	Net commitments related to workforce reduction	2,735
A + B + C	Total Debt + Commitments	47,073
	Net Financial Debt / OIBDA (6)	2.0x
	Total Debt + Commitments/ OIBDA (6)	2.2x

(1) Includes long-term financial debt and 340 million euros of other long-term debt .

(2) Short-term investments and 2,748 million euros recorded under the caption of financial assets and other long-term

assets .

(3) *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 .*

(4) *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.*

(5)

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

(6) Calculated based on June 2008 OIBDA, excluding results on the sale of fixed assets and annualized.

DEBT STRUCTURE BY CURRENCY

Unaudited figures

	June 2008				
	EUR	LATAM	GBP	CZK	USD
Currency mix	63%	15%	11%	8%	3%

CREDIT RATINGS

	Long-Term	Short-Term	Perspective	Last review
Moody s	Baa1	P-2	Stable	3-May-07
S&P	BBB+	A-2	Positive	12-Nov-07
Fitch/IBCA	BBB+	F-2	Positive	29-Feb-08

TELEFÓNICA GROUP

EXCHANGES RATES APPLIED

	P&L and CapEx (1)		Balance Sheet (2)	
	Jan - Jun 2008	Jan - Jun 2007	June 2008	December 2007
USA (US Dollar/Euro)	1.529	1.329	1.576	1.472
United Kingdom (Sterling/Euro)	0.774	0.675	0.792	0.733
Argentina (Argentinean Peso/Euro)	4.797	4.106	4.769	4.636
Brazil (Brazilian Real/Euro)	2.595	2.716	2.509	2.608
Czech Republic (Czech Crown/Euro)	25.207	28.143	23.895	26.620
Chile (Chilean Peso/Euro)	713.267	709.100	829.187	731.472
Colombia (Colombian Peso/Euro)	2,808.989	2,815.373	3,030.303	2,965.928
El Salvador (Colon/Euro)	13.379	11.629	13.793	12.881
Guatemala (Quetzal/Euro)	11.610	10.199	11.899	11.234
Mexico (Mexican Peso/Euro)	16.250	14.551	16.212	15.996
Nicaragua (Cordoba/Euro)	29.251	24.214	30.531	27.827
Peru (Peruvian Nuevo Sol/Euro)	4.360	4.227	4.673	4.409
Uruguay (Uruguayan Peso/Euro)	31.105	32.115	30.611	31.724
Venezuela (Bolivar/Euro)	3.287	2.857	3.389	3.165

(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 30/June/08 and 31/Dec/07.*

Information on risks and uncertainties

The most significant risks and uncertainties faced by the Group, which could affect its businesses, its financial position and its earnings are the following:

- socio-political risks (country risk) linked to the Group s major international presence, primarily in Latin America;
- the impact that the economic and financial market conditions could have on Telefónica Group s businesses at any time;
- the possibility that the Group s exposure to exchange rate and interest rate risk may not be managed effectively;
- the highly competitive market in which the Group operates, and the constant technological development within the sector;
- the possible adoption of regulatory measures and policies which could impact negatively on the Group s businesses;
- the conditions and limitations resulting from the provision of services under licences or concessions;
- the adoption of certain regulatory policies that could affect the radio spectrum, which, along with the spectrum s capacity constraints, could have a negative impact on the wireless telephony business;
- the risk that certain changes in the economic, political, regulatory or business environment in which the Group operates could alter the estimates used in the valuation of its assets and require an eventual adjustment of these valuations.

Broader and more detailed information on the risks and uncertainties affecting the Telefónica Group s business is available in the Company s 2007 Management Report.

RESULTS BY REGIONAL BUSINESS UNITS

Telefónica España

Telefónica España s **accesses** totalled 47.0 million at the end of the first half of 2008, up 3.9% year-on-year. Underpinning this increase was the growth in wireless telephony (+5.1% year-on-year to over 23.2 million accesses) and in wireline, Internet broadband (+18.3% to over 5.0 million accesses).

Considering current operating environment, Telefónica España obtained solid first half 2008 results, showing the defensive profile of the company as well as the differential advantages of being an integrated operator. Thus, the better revenues performance of the wireline business -with a higher percentage of fixed revenues (60% of total revenues)-, offsets the greater impact of current environment in wireless voice usage; moreover, greater businesses integration enables a more efficient cost management and getting synergies.

Revenues grew 1.4% year-on-year in the first six months to 10,331 million euros, with year-on-year growth of 0.8% posted in the second quarter of 2008. In the first half of 2008, like-for-like revenue growth[1] stands at 2.1%, after posting a 1.5% like-for-like growth in the second quarter.

Operating income before depreciation and amortisation (OIBDA) rose by 12.8% in the second quarter, to give a year-on-year growth of 9.5% in the first half of 2008 to 5,173 million euros, leaving an OIBDA margin of 50.1%. Excluding one-off effects[2] accounted for in the first half of 2007 and 2008, OIBDA growth would stand at 2.0% in the quarter and at 2.4% in the year to date.

CapEx at Telefónica España totalled 1,051 million euros in the first half, with investment focused on growing the Broadband businesses and on optical fiber and 3G deployment.

Telefónica España generated **operating cash flow (OIBDA-CapEx)** of 4,122 million euros in the January-June 2008 period, posting a 11.6% year-on-year growth.

WIRELINE BUSINESS

The Spanish wireline access market grew by an estimated 1.9% year-on-year (June 2008 vs. June 2007).

The company s **wireline telephony accesses** totalled 15.7 million at the end of June 2008 (-1.6% vs. June 2007) after registering a net loss of 172,028 lines in the second quarter of 2008 and 248,725 in the first six months of 2008, mainly related to loop unbundling and to an increase of competitive intensity in the market. Telefónica s estimated share of the wireline access market stood at just below 79% at the end of the first half of 2008.

The number of pre-selected lines fell further, declining by 110,694 in the second quarter of 2008 and 179,242 in the first half to 1.6 million lines at the end of June.

1 Including the impact at T. España due to the new model for the public use telephony service (-67.9 million euros in January-June 2007).

2 Bad debt recovery amounting to 25 million euros accounted for in the first quarter of 2008, the 152 million euros

fine imposed by the European Union during second quarter 2007, the January-June 2007 provision of 94 million euros associated with the redundancy programme, and Real Estate capital gains amounting to 68 million euros in January-June 2008 (8 million euros in same period 2007).

Telefónica España Wireline Business estimated share of traffic has remained stable over the last five quarters at around 65%.

Estimated net adds in the Spanish wireline broadband internet access market in the second quarter amounted to 0.3 million (-11.4% vs. the same period in 2007), a slight improvement on the previous quarter (-13.2%). Accordingly, at the end of June 2008 estimated size of the wireline broadband Internet access market topped 8.7 million accesses, up 17.4% on June 2007.

Telefónica s **retail Internet broadband accesses** net adds totalled 169,098 in the second quarter and 390,923 in the first half of 2008 (-15.6% vs. net adds in the January-June 2007 period), resulting in an 18.3% year-on-year increase in accesses to over 5.0 million at the end of June 2008. The company remains market leader with an estimated share of over 57%.

The estimated share of unbundled loops in the broadband Internet access market remained at over 17%. Net adds in the second quarter amounted to 65,200 loops (-34.0% vs. the second quarter of 2007) and 178,706 in the year to date. Total unbundled loops amounted to more than 1.5 million, of which 44.6% (683,561) were shared access loops. The remainder 849,085 were fully unbundled loops (including 168,218 naked shared access loops). Fully unbundled loops grew by 136,623 in the quarter, of which 82,571 (60.4%) are naked shared access loops. Shared loops fell by 71,423 in the quarter (net loss).

The decline of the wholesale ADSL service eased due to the lower number of migrations to unbundled loops. In the wake of net second quarter losses of 16,969 accesses, total wholesale ADSL accesses amounted to 463,284 at the end of June, down 12.1% from June 2007.

In the **pay TV** business, Telefónica s estimated market share stood at over 13% at the end of June 2008, with 22,513 new customers added in the second quarter (32,307 in the same period in 2007) and 65,471 in the first half of 2008. Pay TV customers totalled 576,558 (+27.9% year-on-year).

The total number of Duo and Trio bundles surpassed 4.2 million units at the end of June 2008. This means that more than 83% of the Company s retail broadband accesses were part of a double or triple offer bundle at the end of June 2008.

Revenues totalled 6,213 million euros in the first half of 2008 (+1.1% year-on-year), with a 1.3% year-on-year growth posted in the second quarter. Growth in like-for-like terms[3] was 2.2% in January-June 2008 and 2.5% in the second quarter.

Traditional access revenues fell by 0.3% year-on-year in the second quarter and amounted to 1,394 million euros in January-June 2008, a year-on-year increase of 0.3%. Revenue performance was led by the 2.0% rise in the PSTN line monthly fee, which offset the lower number of accesses to June.

The decline in **voice service revenues** slowed to 1.1% like-for-like[3] in the second quarter (-5.0% reported), maintaining the positive trend seen in previous quarters. These revenues fell by 1.6% in the first half vs. the same period a year earlier (-5.3% reported).

Growth in the second quarter of **Internet and broadband revenues** was similar to the rate in the first quarter (+10.2%), with first-half revenues rising 10.0% to 1,511 million euros.

Retail broadband service revenues grew 14.4% in the quarter and 14.2% in the first six months, contributing 2.7 percentage points to revenue growth at Telefónica España s wireline business.

The lower wholesale broadband revenues (-4.3% in the quarter, -3.6% in the first half) reflect the tariff reductions applied since the start of the year and the decline in wholesale broadband accesses, which are partially offset by the revenue growth associated with the higher number of unbundled loops.

[3] Including the impact at T. España due to the

new model for the public use telephony service (-67.9 million euros in January-June 2007 in revenues and -89.7 million euros in voice service revenues).

Data service revenues grew +3.0% year-on-year in the first half (+3.3% year-on-year in the second quarter) to 585 million euros.

IT service revenues rose a noteworthy 6.0% in the quarter, and totalled 206 million euros in the first half, up 2.0% year-on-year.

Operating expenses totalled 3,299 million euros in the first half of 2008 (-4.8% year-on-year), having fallen by 6.1% in the second quarter. This decline is due to: i) the 2.8% decline in external service expenses to 671 million euros due to the new model for the PUT and call centres business; ii) the 1.7% fall in supply costs to 1,450 million euros due to lower interconnection, equipment purchasing and special projects costs; and iii) the 9.7% decline in personnel expenses to 1,050 million euros due to the lower average headcount in the period and the workforce reoganization expenses of 94 million euros in the second quarter of 2007 (zero workforce reoganization expenses accounted for in the first half of 2008) -stripping out the impact of workforce adaptation, personnel expenses would have fallen by 1.8% to June-; iv) the 17 million euro reduction in the bad debt provision following the bad debt recovery, booked in the first quarter. In like-for-like terms[4], operating expenses would have declined by 2.9% in the first half and 4.1% in the second quarter.

Operating income before depreciation and amortisation (OIBDA) in the second quarter grew by a noteworthy 23.3% year-on-year, partly due to the lower provisions associated with the workforce restructuring programme and other special effects. Stripping out these impacts[5], OIBDA growth would stand at 2.7%. OIBDA amounted to 3,045 million euros in the first half, up 15.9% year-on-year (+3.3% excluding one-off effects[6]).

The **OIBDA margin** stood at 47.5% in the quarter and 49.0% in the first half of 2008. Stripping out special effects[6] accounted for in first half of 2007 and 2008, margin would increase by 0.5 percentage points to stand at at 47.6% in the January-June 2008 period.

CapEx amounted to 702 million euros in the first half of 2008, leaving **operating cash flow (OIBDA-CapEx)** of 2,343 million euros.

WIRELESS BUSINESS

The **Spanish wireless market** surpassed 51.9 million lines at the end of June 2008, with an estimated penetration rate of 113% (+7.0 percentage points higher vs. June 2007).

In this context, Telefónica España reported **net adds** of 217,060 lines in the second quarter of 2008 (289,006 in the second quarter of 2007) and continued to target higher value customers, reporting a solid 310,868 net contract gain (389,887 in the same period of 2007). Net adds in the first half of 2008 totalled 398,885 lines, highlighting the 616,101 contract adds achieved (776,860 in the same period of 2007).

[4] Including the impact at T. España due to the new model for the public use telephony service.

[5] 94 million euros provision accounted for in the second quarter 2007 related to the Redundancy programme (zero in same period 2008), the

152 million euros European Union fine booked in the second quarter of 2007, and Real Estate capital gains of 1.3 million euros in the second quarter 2008 and 5.2 million euros in the second quarter 2007.

6 Real Estate capital gains (68 million euros in January-June 2008 and 8 million euros in same period 2007), bad debt recovery of 17 million euros in the first quarter of 2008, the 152 million euros European Union fine in the second quarter of 2007, 94 million euros provision accounted for in the January-June 2007 period related to the Redundancy programme (zero in same period 2008) and including the impact on revenues and expenses of the application of the new model for the PUT and call centres business.

At the end of June 2008 the customer base topped 23.2 million, up 5.1% year-on-year, underpinned by a 10.4% rise in contract customers, which now make up 61.4% of the total customer base (+2.9 percentage points vs. June 2007).

In terms of **portability**, Telefónica España s wireless business achieved a positive balance of 14,798 customers in the second quarter (-6,871 year-to-date), also underpinned by the efforts made to capture higher-value customers. As a result, net contract gain in portability stood at 31,547 in the second quarter and 43,480 in January-June 2008.

Particularly noteworthy was the solid **churn** performance, which remained virtually unchanged vs. 2007 both in the second quarter and the first half at 1.8%, despite increased competition. Contract churn was contained at 1.1%, also stable to 2007 levels.

In terms of usage, minutes of traffic carried in the network grew 7.0% year-on-year in the second quarter and 3.8% in the first six months of 2008. The measures adopted by the company to boost usage resulted in a **MoU** of 159 minutes in the second quarter (-0.2% vs. the same period of 2007) and 155 minutes in the first half (-3.0% year-on-year).

Voice ARPU was affected by the cuts in interconnection rates made over the last twelve months (-16.0% following the latest cut in April 2008). As a result, voice ARPU fell by 8.6% year-on-year in the quarter, to 25.6 euros in the half year (-7.3% vs. the same period in 2007). Outgoing ARPU posted a lower y-o-y decline, impacted by the commercial initiatives focused to stimulate usage and by the change in consumption patterns of customer segments more linked to usage in the current economic context. These customers show a higher use of more economic voice and data (SMS) traffic, but are allowing to post a solid churn performance.

Data ARPU grew at the same healthy rate noted since the start of the year, advancing 8.9% year-on-year in the second quarter of 2008. In the first half, data ARPU increased 9.5% year-on-year to 5.1 euros. Underpinning this growth is the increased contribution of wireless content revenues (Superconcursos : grand contests) in the first half of the year and the jump in connectivity revenues, which grew by more than 60% in the first half of the year.

The number of 3G handsets held by customers continued to rise in the second quarter to reach 4.9 million, 2.3 times more than in June 2007, attaining a penetration rate of total customer base excluding M2M of 22% (+12 percentage points from June 2007).

Consequently, **total ARPU** in the second quarter fell 6.1% year-on-year (-4.8% outgoing). Total ARPU in the first half of 2008 stood at 30.6 euros (-5.1% year-on-year) and outgoing ARPU amounted to 25.9 euros (-3.6% vs. the same period a year earlier).

Revenues increased slightly (+0.2%) in the second quarter of 2008, held back by the smaller contribution of wholesale revenues (interconnection, roaming...) and lower handset sales, that offset the better evolution of customer revenues. Year-to-date, revenues stood at 4,817 million euros, up 1.4% year-on-year. Highlights by revenue item are as follows:

Service revenues rose slightly in the second quarter (+0.5%) and by 1.2% year-on-year in the first six months of 2008.

This increase was driven by **customer revenues**, which climbed 2.7% in the second quarter and 3.0% year-on-year.

Interconnection revenues, hit by the cut in interconnection tariffs, fell 9.5% year-on-year in the second quarter and 7.9% in the first half.

The **lower roaming in revenues** in the quarter (-16.6%) reflect the reduction in wholesale roaming prices, which fell 5.0% in the first half vs. the same period in 2007.

Revenues from handset sales fell 2.3% in the quarter and rose by 2.6% in the first half year-on-year, reflecting the different rates of uptake in the distribution channel.

Meanwhile, operating expenses dropped 0.4% vs. the same quarter a year earlier due to the company s improved efficiency, totalling in the first six months of the year 2,714 million euros, a slight year-on-year increase of 1.4%.

Operating income before depreciation and amortisation (OIBDA) grew 1.1% vs. the second quarter of 2007 and 1.6% in the first half to 2,147 million euros. The company has therefore maintained its operating efficiency, with an OIBDA margin in the quarter of 45.4% and of 44.6% in the year to date (+0.1 p.p. vs. the period January-June 2007).

CapEx in the first half stood at 349 million euros, generating **operating cash flow (OIBDA-CapEx)** of 1,798 million euros.

TELEFÓNICA ESPAÑA
ACCESSES
Unaudited figures (thousands)

	2007			2008		
	June	September	December	March	June	% Chg y-o-y
Final Clients Accesses	43,558.2	43,939.7	44,578.2	44,872.9	45,019.7	3.4
Fixed telephony accesses (1)	15,922.8	15,882.8	15,918.8	15,842.1	15,670.0	(1.6)
Internet and data accesses	5,081.8	5,168.1	5,321.8	5,468.4	5,547.6	9.2
Narrowband	798.1	736.5	660.8	589.5	502.3	(37.1)
Broadband (2)	4,231.7	4,381.0	4,614.0	4,835.9	5,005.0	18.3
Other (3)	52.0	50.7	47.0	43.1	40.4	(22.3)
Mobile accesses	22,102.7	22,419.7	22,826.6	23,008.4	23,225.4	5.1
Pre-Pay	9,182.9	9,158.0	9,181.8	9,058.4	8,964.6	(2.4)
Contract	12,919.8	13,261.7	13,644.7	13,950.0	14,260.8	10.4
Pay TV	450.9	469.1	511.1	554.0	576.6	27.9
Wholesale Accesses	1,704.4	1,753.7	1,855.5	1,953.3	2,001.3	17.4
Unbundled loops	1,170.0	1,237.9	1,353.9	1,467.4	1,532.6	31.0
Shared ULL	664.5	713.5	776.4	755.0	683.6	2.9
Full ULL (4)	505.5	524.4	577.6	712.5	849.1	68.0
Wholesale ADSL	527.0	509.3	495.5	480.3	463.3	(12.1)
Other (5)	7.4	6.5	6.0	5.7	5.3	(27.8)
Total Accesses	45,262.6	45,693.4	46,433.6	46,826.3	47,020.9	3.9

(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)

Includes naked shared loops.

(5) *Wholesale circuits.*

Note: Iberbanda s accesses are included from December 2006.

TELEFÓNICA ESPAÑA
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - June			April - June		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	10,331	10,191	1.4	5,200	5,157	0.8
Internal exp capitalized in fixed assets	106	112	(5.0)	55	60	(8.7)
Operating expenses	(5,331)	(5,451)	(2.2)	(2,685)	(2,799)	(4.1)
Other net operating income (expense)	18	(117)	C.S.	12	(132)	C.S.
Gain (loss) on sale of fixed assets	53	(1)	C.S.	(5)	0	C.S.
Impairment of goodwill and other assets	(4)	(11)	(64.6)	(3)	(3)	(22.0)
Operating income before D&A (OIBDA)	5,173	4,723	9.5	2,576	2,284	12.8
OIBDA margin	*50.1%*	*46.3%*	*3.7 p.p.*	*49.5%*	*44.3%*	*5.3 p.p.*
Depreciation and amortization	(1,139)	(1,207)	(5.6)	(562)	(596)	(5.7)
Operating income (OI)	4,033	3,516	14.7	2,014	1,687	19.4

Notes:

- *OIBDA and OI before brand fees.*

- *2008 figures reflect the new applicable framework for public telephony services (net revenues). 2007 figures reported figures have not changed (gross revenues and gross expenses). Therefore,* *2008/2007 variations are not homogeneous.*

TELEFÓNICA ESPAÑA: WIRELINE BUSINESS
SELECTED FINANCIAL DATA
Unaudited figures (Euros in millions)

	January - June			April - June		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	6,213	6,144	1.1	3,134	3,095	1.3
OIBDA	3,045	2,626	15.9	1,488	1,207	23.3
OIBDA margin	*49.0%*	*42.7%*	*6.3 p.p.*	*47.5%*	*39.0%*	*8.5 p.p.*
CapEx	702	724	(3.1)	403	433	(6.8)
OpCF (OIBDA-CapEx)	2,343	1,902	23.2	1,085	774	40.1

Notes:

- *OIBDA before brand fee.*
- *2008 figures reflect the new applicable framework for public telephony services (net revenues). 2007 figures reported figures have not changed (gross revenues and gross expenses). Therefore, 2008/2007 variations are not homogeneous.*

TELEFÓNICA ESPAÑA: WIRELINE BUSINESS
SELECTED REVENUES DATA
Unaudited figures (Euros in millions)

	January - June			April - June		
	2008	2007	% Chg	2008	2007	% Chg
Traditional Access (1)	1,394	1,390	0.3	691	693	(0.3)
Traditional Voice Services	2,262	2,388	(5.3)	1,136	1,195	(5.0)
Domestic Traffic (2)	1,335	1,466	(9.0)	663	730	(9.2)
Interconnection (3)	470	462	1.6	235	235	0.1
Handsets sales and others (4)	457	460	(0.5)	237	230	3.1
Internet Broadband Services	1,511	1,373	10.0	770	698	10.2
Narrowband	35	54	(36.2)	15	25	(38.5)
Broadband	1,476	1,319	11.9	754	673	12.1
Retail (5)	1,314	1,150	14.2	673	588	14.4

Wholesale (6)	162	169	(3.6)	82	85	(4.3)
Data Services	585	568	3.0	296	287	3.3
IT Services	206	202	2.0	115	108	6.0

(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), bonusses 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.*

Note: *2008 figures reflect the new applicable framework for public telephony services (net revenues). 2007 figures reported figures have not changed (gross revenues and gross expenses). Therefore, 2008/2007 variations are not homogeneous.*

TELEFÓNICA ESPAÑA: WIRELESS BUSINESS
SELECTED FINANCIAL DATA
Unaudited figures (Euros in millions)

	January - June			April - June		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	4,817	4,751	1.4	2,419	2,415	0.2
OIBDA	2,147	2,114	1.6	1,099	1,087	1.1
OIBDA margin	*44.6%*	*44.5%*	*0.1 p.p.*	*45.4%*	*45.0%*	*0.4 p.p.*
CapEx	349	306	14.1	185	171	8.0
OpCF (OIBDA-CapEx)	1,798	1,808	(0.6)	914	916	(0.2)

Note: OIBDA before brand fee.

TELEFÓNICA ESPAÑA: WIRELESS BUSINESS
SELECTED REVENUES DATA
Unaudited figures (Euros in millions)

	January - June			April - June		
	2008	2007	% Chg	2008	2007	% Chg
Service Revenues	4,204	4,153	1.2	2,132	2,121	0.5
Customer Revenues	3,444	3,343	3.0	1,752	1,706	2.7
Interconnection	639	694	(7.9)	315	348	(9.5)
Roaming In	89	93	(5.0)	46	55	(16.6)
Other	33	23	40.9	19	12	59.3
Handset	613	598	2.6	287	294	(2.3)

TELEFÓNICA ESPAÑA: WIRELESS BUSINESS
SELECTED OPERATING DATA
Unaudited figures

	2007			2008		
	Q2	Q3	Q4	Q1	Q2	% Chg y-o-y
MoU (minutes)	159	168	156	151	159	(0.2)
Pre-pay	67	89	64	63	69	2.5
Contract	225	223	218	209	216	(4.2)
ARPU (EUR)	32.8	33.1	31.8	30.5	30.8	(6.1)
Pre-pay	15.7	16.5	15.0	14.6	14.5	(7.8)
Contract	45.1	44.8	43.2	41.0	41.1	(8.9)
Data ARPU	4.6	4.9	5.0	5.1	5.0	8.9
%non-P2P SMS over data revenues	49.5%	48.4%	47.7%	52.7%	53.6%	4.1 p.p.

Note: MoU and ARPU calculated as monthly quarterly *average.*

TELEFÓNICA ESPAÑA: WIRELESS BUSINESS
SELECTED OPERATING DATA
Unaudited figures

	January - June		
	2008	2007	% Chg y-o-y
MoU (minutes)	155	160	(3.0)
Pre-pay	66	71	(7.1)
Contract	213	225	(5.6)
ARPU (EUR)	30.6	32.3	(5.1)
Pre-pay	14.5	15.3	(5.3)
Contract	41.1	44.8	(8.2)
Data ARPU	5.1	4.6	9.5
%non-P2P SMS over data revenues	53.1%	47.6%	5.5 p.p.

Note: MoU and ARPU calculated as monthly H1 average.

RESULTS BY REGIONAL BUSINESS UNITS

Telefónica Latinoamérica

The second quarter of the year saw further significant expansion of the Latin American telecommunications market in all the countries in the region, both in wireless and in the growth areas of the fixed business: broadband and pay TV.

In this context, Telefónica Latinoamérica focus continues on the capture of growth in the region based on two key levers: commercial strength in its mobile business and progress in the transformation of its fixed business activities, with a growing weight of Internet, broadband and pay TV services.

Thanks to these successful policies, Telefónica Latinoamérica s customer base totalled 147.9 million **accesses** at the end of June 2008, an increase of 26.1 million over the last 12 months and up 21.4% year-on-year.

After reporting 5.8 million net adds[1] in the quarter and 8.9 million in the year to date, Telefónica Latinoamérica reached a total of 113.5 million **mobile accesses** (+27.1% from June 2007; +22.3% organic[2]), with solid growth across all its operations. Of particular note were the performance in Brazil, where Telefónica strengthened its position as market leader with over 40.4 million accesses (10.2 million more customers than in June 2007, from which almost 4 million were added following the acquisition of Telemig in April 2008), Mexico, where Telefónica continued to gain market share thanks to the 38.0% year-on-year growth in its customer base, and Peru, where customer base increased 48.1% year-on-year. The company also performed well in markets with high penetration levels such as Argentina and Chile where it continues to achieve significant year-on-year growth in its customer base (+14.9% in Argentina and +11.5% in Chile).

Along with the sharp growth in wireless accesses, Telefónica Latinoamérica continued to achieve solid ARPU performance thanks to its commitment to higher consumption levels. **MoU** grew sharply in the first half of 2008 (+13.8% year-on-year), while **ARPU** fell in organic terms[3] by 2.8% in the first half due to the reduction in interconnection tariffs in several countries. Outgoing voice ARPU climbed organically[3] 2.7% year-on-year, in a customer base with 24.2 million more accesses than in June 2007.

In **fixed telephony** Telefónica Latinoamérica pressed ahead with the transformation of its operations, with the contribution of growth businesses (broadband, pay TV and data) continuing to improve significantly. Here the company is redoubling its efforts to promote bundled services.

Telefónica manages a portfolio of services with a segmented offering, permitting it to both maximise the value of customers with 2P and 3P offers and maintain the mass customer base with specific offers such as prepay and consumption controlled lines and the future development of low-cost broadband services.

1 The Telemig customers incorporated to the Group in April (3,986,439 customers) are not considered as net adds.

2 Including Telemig accesses in June 2007.

3 Assuming constant exchange rates and including Telemig in

April-June 2007.

As a result, Telefónica Latinoamérica s fixed business now has a customer base of almost 34.4 million accesses (fixed telephony, broadband and pay TV), year-on-year growth of 5.7%. Highlights include:

In **broadband**, net adds over the last 12 months totalled 1.1 million (489,981 in the first half of 2008), taking the customer base to 5.5 million. Of particular note are the expansion of the service in Colombia (+135.2% year-on-year), the steady growth achieved in Argentina (+46.7% year-on-year) and the consolidation of growth in Brazil (+26.7% year-on-year).

Telefónica Latinoamérica now has 1.4 million **pay TV** customers, up from 799,627 in June 2007, with operations in Peru, Chile, Colombia and Brazil.

Fixed telephony accesses stood at 25.8 million at the end of the quarter, 1.9% up from June 2007, with net adds of 376,609 customers in the first half. Particularly noteworthy was the IRIS fixed-wireless project in Peru. Driven by the growth in fixed wireless accesses, year-on-year growth in wireline telephony accesses in Peru stood at 8.1%.

At the same time, Telefónica Latinoamérica succeeded in increasing **average revenue per fixed telephony access** (+3.5% in constant euros) thanks to the companies improved commercial offering and the growing contribution of bundled services. At the end of June 42% of broadband accesses had a Duo or Trio bundle (up 15.7 percentage points from June 2007). Including local and controlled consumption bundles, the figure exceeds 55% of total fixed telephony accesses (up 7.6 percentage points from June 2007).

The company s strong commercial performance underpinned solid growth in its financial results in constant currency, which are negatively impacted by exchange rate trends when translated into euros. Year-on-year, most of the currencies in the countries in which Telefónica Latinoamérica operates continued to depreciate vs. the euro (except the Brazilian real and the Colombian peso), resulting in negative impacts on revenue and OIBDA growth of 3.8 and 3.7 percentage points respectively. These are higher than the impacts in the first quarter (-2.8 and -2.4 percentage points, respectively).

Revenues in the first half of 2008 amounted to 10,531 million euros, 9.4% more than in the same period of 2007 in current euros. Organic[4] revenue growth in the first six months stood at 12.2%, in line with the figure for the first quarter of the year. The countries contributing most to topline growth include Brazil and Venezuela, each with 2.5 percentage points, followed by Mexico and Argentina, with 2.3 percentage points, each. Brazil continues to account for the largest portion of Telefónica Latinoamérica s revenues in current euros (39.9%), and has even increased its weight over total revenues (38.3% in the same period of 2007) thanks to the positive evolution of earnings at Vivo, and, to a lower extent, to the consolidation of Telemig since April 2008. The next largest contributions were made by Venezuela (11.3%) and Argentina (10.8%).

Operating expenses lagged revenue growth (+7.6% in current euros and +11.5% in constant euros).

Operating income before depreciation and amortisation (OIBDA) grew 13.0% in constant euros in the first half 2008 to 3,831 million euros, and by 15.8% in organic terms[4], a sharp rise compared with the first quarter (+11.8%). By country, Venezuela contributed most to organic OIBDA growth (4.2 percentage points), followed by Mexico (4.0 percentage points). In absolute terms and in current euros, Brazil is the largest contributor to Telefónica Latinoamérica OIBDA, accounting for 42.0% of the total, followed by Venezuela (13.9%), and Argentina (10.1%). Particularly noteworthy is the higher contribution of the Mexican business to Telefónica Latinoamérica s OIBDA (up from 1.8% in the first half of 2007 to 4.6% at the end of June 2008).

[4] Assuming constant exchange rates and the consolidation of TVA in January-June 2007 and Telemig in April-June 2007.