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TELEFÓNICA BRINGS CAPEX FORWARD TO MEET INCREASING DEMAND IN THE BROADBAND MARKET

- **The significant growth in the ADSL and wireless telephony businesses has led the Company to increase CapEx in 2006 of just under €8 billion**
- **The increase in demand, as evidenced by higher than forecast growth in the customer base, traffic and services, has enabled the Company to raise its revenue growth guidance (from a range of 34%-37% to above 37%¹) for 2006**
- **Telefónica's 2009 target for broadband accesses is between 5.6 and 6.1 million in the retail market in Spain alone, compared to the 3.4 million registered as of 30 September, 2006**

The speed with which broadband has been developing in Spain and Latin America and the mobile telephony coverage requirements of Europe and Latin America have led Telefónica to bring its planned CapEx forward in time, as part of its strategic focus on customers and their needs. Accordingly, Telefónica plans to end 2006 with CapEx (primarily investment in infrastructure) of just under €8 billion, an increase of over 50% on the previous year's figure and above the CapEx forecast for 2007.

This additional CapEx corresponds primarily to greater investment in broadband networks in Spain and Latin America in response to the need to bring higher capacity and new services to households, triggered by higher than forecast customer and market growth.

In addition to the investment opportunity in fixed and wireless broadband, the reasons for bringing CapEx forward also lie with a faster roll out of third generation networks, mainly in Germany. In order to meet growing traffic and customer needs investments have also been made in second generation networks (GSM) in Latin America (mainly Brazil), which have in turn translated into higher than forecast revenues for 2006 for Telefónica Group.

At September 2006, Telefónica had 196 million customers worldwide, of which 138 million were mobile telephony customers and 7.3 million were retail broadband users, 45% more than in the same period the year earlier. Broadband accesses in Spain and Brazil are particularly noteworthy, standing at 3.4 million and 1.5 million, respectively. As for Latin America, the total number of broadband accesses amounted to 3.5 million.

In Spain alone, Telefónica aims to have between 5.6 and 6.1 million retail broadband users by 2009, compared to the 3.4 million registered as of 30 September, 2006. As part of the

¹ Assuming constant 2005 exchange rates and excluding changes to the consolidation perimeter with the exception of O2 Group (included in February-December 2006)



Telefónica Group's commitment to the development of broadband access in its operating markets, it is worth highlighting the announcement of investment in both fixed broadband and wireless - in Spain alone - of €9 billion between 2006 and 2009.

TELEFÓNICA RETAIL BROADBAND CONNECTIONS

| <i>At 30 September 2006</i> | <i>Millions</i> | <i>Yoy change, %</i> |
|-----------------------------|-----------------|----------------------|
| Total SPAIN | 3.41 | + 42.3% |
| Total LATIN AMERICA | 3.47 | + 43.3% |
| Total EUROPE | 0.37 | +103.8% |
| Total | 7.2 | +45% |

In line with this commitment and as part of the company's goal to remain leader in the digital era, the effort to provide an increasing number of value added services over broadband is noteworthy. At 30 September 2006, Telefónica de España had over 2.9 million operative services, of which ADSL Solutions stands out with over 328,967 units. Imagenio, another service that has underpinned the spread of broadband in Spain, has over 304,000 active customers.

The investment effort by Telefónica is equally the result of its leadership position in the overall telecommunications industry thanks to its large business and geographical scale, which in turn enables the company to leverage the growth opportunities provided by the sector. With its customer-centric focus, Telefónica is seeking to make its service offering tailored, easy to use and reliable.

One year ago, the Company announced a CapEx forecast of approximately €7.2 billion². The result of the acceleration of the investment plan is to raise this figure to an estimate of €7.700-7.750 billion². Factoring in real exchange rates and the consolidation of the Colombia Telecom and Iberbanda businesses will bring the final total investment figure of just under €8 billion.

For further information, please contact:

Investor relations

Tel: (+34) 91 584 4713 - (+34) 91 584 4700

Ezequiel Nieto

ezequiel.nieto@telefonica.es

Dolores García

dgarcia@telefonica.es

Diego Maus

dmaus@telefonica.es

² Assuming constant 2005 exchange rates and excluding changes to the consolidation perimeter with the exception of O2 Group (included in February-December 2006)

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