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Telefónica España ...

1. A track record of strong delivery

2. A growth environment

3. The best starting position

4. An ambitious strategy that will extend our leadership
Strong execution: consistent delivery above expectations 2004

**Wireline Business**

- Revenue Growth: +2.5% (Annual guidance), +2.4% (Reported)
- OIBDA Growth: +5.0% (Initial guidance), +2.0% (Upgraded guidance)

**Wireless Business**

- Revenue Growth: +9.3% (Reported), +9.0% (Annual guidance)
- OIBDA Margin: 51.3% (Reported), >50% (Annual guidance)

"There are strong signs that competitive and pricing dynamics in the Spanish Broadband market are about to deteriorate and erode excessive returns."

"In our view, DSL pricing will have to come down and this will erode margins. We see several reasons for the deflationary environment for broadband."

"Our revised revenue forecasts are at the low end of guidance."

*Adjusted for guidance*
Strong execution: consistent delivery above expectations 2005

**REVENUE GROWTH**

**Wireline Business**
- Initial guidance: +4.0%
- Reported: +4.6%
- We expect increasing competition in broadband to eventually cause a slowing rate of revenue growth at TdE

**Wireless Business**
- Initial guidance: +6.0%
- Reported: +7.6%
- We view Telefonica’s growth forecasts for both the domestic fixed and mobile businesses as ambitious. We are conservative relative to company guidance

**OIBDA GROWTH**

- +5.0%
- +5.1%

**OIBDA MARGIN**

- “high 40s”

* Adjusted for guidance
Strong execution: consistent delivery above expectations 2006

*I am skeptical about Telefonica’s growth forecast. I can see that its main market is suffering continued price erosions.*

“Our estimates are not as aggressive as Telefonica’s guidance”

“A pick up in ULL declines at TdE could jeopardize performance”

“We do not see growth in Spanish wireless market and expect decline in margins towards 40%”

“TEM España exposed to rebranding of Amena and roaming revenue cuts”

---

**Wireline Business**

- **REVENUE GROWTH**
  - Initial guidance: +2.0%
  - Upgraded guidance: +1.7%
- **OIBDA GROWTH**
  - Initial guidance: +5.0%
  - Upgraded guidance: +6.4%

**Wireless Business**

- **REVENUE GROWTH**
  - Initial guidance: +6.0%
  - Upgraded guidance: +3.0%
  - Reported: +4.1%
- **OIBDA MARGIN**
  - Initial guidance: <46.7%
  - Reported: 44.9%

---

* Adjusted for guidance
Progressively, we get some credit for our results and the gap narrows

PERCENT

**Wireline Business**

Revenue guidance 05-09E (May-06)

Analyst consensus for CAGR 05-09E

**Wireless Business**

Revenue guidance 05-09E (May-06)

Analyst consensus for CAGR 05-09E

“2Q07 should definitely eliminate doubts for those skeptics about TEF’s ability to meet guidance. Catastrophist scenarios about the domestic market are being confronted with a very different reality”

“Although we expected a strong performance again from Spain, the results even outperformed our high expectations”

“2Q07 results demonstrate to us that fears of a material step up in domestic competition are currently unfounded”

Source: Telefónica, Analyst Consensus
This year, we are even more confident about our future performance

<table>
<thead>
<tr>
<th>CAGR 05-09E</th>
<th>REVENUE</th>
<th>OIBDA</th>
<th>REVENUE</th>
<th>OIBDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireline</td>
<td>+0.5%/+2.0%</td>
<td>+3.0%/+6.0%</td>
<td>Telefónica España*</td>
<td>+1.5%/+3.0%</td>
</tr>
<tr>
<td>Wireless</td>
<td>+3.0%/+5.0%</td>
<td>+0.0%/+2.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CAGR 06-10E</th>
<th>REVENUE</th>
<th>OIBDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telefónica España</td>
<td>+2.0%/+3.5%</td>
<td>+3.0%/+6.0%</td>
</tr>
</tbody>
</table>

* Implicit 05-09E proforma guidance

- Base 2006 figures for T. España Wireline include six months of Iberbanda
- In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007E-2010E. Personnel Restructuring (€980 m in 2006) and Real State Programs (€94 m in 2006) are included as operating revenues/expenses. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.
- CAGR 06-10E guidance excludes changes in consolidation

WE CONTINUE TO INCREASE OUR LEVEL OF AMBITION
Telefónica España ...

1. A track record of strong delivery

2. A growth environment

3. The best starting position

4. An ambitious strategy that will extend our leadership
Our market offers significant growth opportunities...

Target market revenues (€ in billions)

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY2006</th>
<th>FY2010E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Mobile Communications</td>
<td>13.4</td>
<td></td>
</tr>
<tr>
<td>Retail Fixed Communications</td>
<td>13.3</td>
<td></td>
</tr>
<tr>
<td>Adjacent Businesses</td>
<td>3.1</td>
<td></td>
</tr>
</tbody>
</table>

Target market: telephony, broadband, Pay TV, target IT areas (includes CPD outsourcing, LAN and Workstations management, Security, Contact Centers, Relationship Solutions, Digital Asset Management, GIS), Online Advertisement, Online contents and Digital Home

Source: Telefónica
...and we are leaders in a healthy competitive environment

- 3 major nationwide competitors
- Other players, including new entrants, with limited nationwide impact

Retail revenues from fixed and mobile telephony, Internet, Pay TV and Corporate Communications
Source: CMT, companies press releases, Telefónica

- We maintain our competitive position in the traditional business
- We keep increasing market share on new businesses (Pay TV)

Source: CMT, companies press releases, Telefónica
No regulatory free ride

<table>
<thead>
<tr>
<th>Spanish regulatory conditions are comparable to that in other European countries...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreasing roaming prices identical to other European markets, in a roaming-in country</td>
</tr>
<tr>
<td>Mobile termination regime equivalent to European countries: €7 cents/min by Q2 09</td>
</tr>
<tr>
<td>Obligation to identify new and existing prepaid users in the near future</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>...and in several topics are even more severe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity based fixed line interconnection prices, leading to the lowest effective price per minute in Europe</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rates for single transit, peak hour (€ cents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>European average</td>
</tr>
<tr>
<td>0.90</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Demanding conditions for LL access (prices, supply deadlines and penalties)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FULL monthly rates. € (*)</td>
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</table>

<table>
<thead>
<tr>
<th>European average</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.3</td>
<td>12.6</td>
</tr>
</tbody>
</table>

| Wide range of universal service obligations, financed solely by Telefónica |

* Includes connection and monthly fees
Source: Telefónica and latest available official information
Our regulatory environment going forward is now more predictable

**SEVERAL KEY ISSUES DEFINED FOR THE NEXT 2-3 YEAR PERIOD...**

- Markets definition (2009)
- Wireline monthly fee (2009)
- Mobile termination rates framework (2009)
- International roaming voice prices (2010)

**SOME NEW AREAS...**

- Access to FTTX Networks
- Spectrum management policy
- DVBH
Spain will maintain a positive macro environment

### Positive macro environment...

- **GDP:** +€119bn  
  - Spain: +2.9%  
  - Euro zone: +2.2%
- **Private consumption:** +€66bn  
  - Spain: +2.8%  
  - Euro zone: +1.8%
- **Population:** +1.5m people  
  - Spain: +0.9%  
  - Euro zone: +0.2%

---

### ... and market trends

- Increasing demand for telecommunication services
  - New users
  - Room to increase adoption rates
- Business opportunity beyond connectivity

Source: “Consensus Forecast” for GDP and private consumption; INE and Eurostat for population
Telefónica España ...

1. A track record of strong delivery

2. A growth environment

3. The best starting position

4. An ambitious strategy that will extend our leadership
We are in the best starting position to capture this growth

- THE BROADEST AND DEEPEST RELATIONSHIPS
- THE MOST SATISFIED CUSTOMERS
- THE STRONGEST COMMERCIAL REACH
- A REFERENCE IN EFFICIENCY
The broadest and deepest customer relationships

| The broadest ... | > 45 million accesses |
| ... the deepest ... | >35% exclusivity in Households |
| | >50% exclusivity in SMEs and SOHO |
| | >70% exclusivity in Corporate |

... with the best customers

<table>
<thead>
<tr>
<th>Market share (FY2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Broadband</strong></td>
</tr>
<tr>
<td>Share of revenues</td>
</tr>
<tr>
<td>Share of accesses</td>
</tr>
<tr>
<td><strong>Mobile</strong></td>
</tr>
<tr>
<td>Share of revenues</td>
</tr>
<tr>
<td>Share of accesses</td>
</tr>
</tbody>
</table>

Source: CMT, Telefónica, companies press releases
We have the most satisfied customers

The strength of our networks and operations allow us to offer the best customer experience.

Global satisfaction index (Q2 07) Residential; TV and Broadband customers

- Wireline
  - Telefónica: 6.99
  - Other: 6.85

- Wireless
  - Telefónica: 6.71
  - Vodafone: 6.49
  - Orange: 6.21

"Best ISP"

Source: Asociación Internautas feb-07; Telefónica; CFI

Lowest churn
The strongest commercial reach with outstanding growth opportunities

<table>
<thead>
<tr>
<th>Channel</th>
<th>Key Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;7,300 points of sale</td>
<td>&gt;4 million customers/month</td>
</tr>
<tr>
<td></td>
<td>more than twice the number of exclusive points than any other competitor</td>
</tr>
<tr>
<td>&gt;2,600 sales force for Corporate and SMEs</td>
<td>&gt;80,000 interactions/month</td>
</tr>
<tr>
<td>≈10,000 call center positions</td>
<td>13.5 million contacts/month</td>
</tr>
<tr>
<td>Online channels</td>
<td>&gt;15 million visits/month</td>
</tr>
</tbody>
</table>
We are a reference in efficiency

>1/3 reduction in wireline business workforce in Dec.02-Dec.07E:

- Redundancy plan (ERE)
- Application of "lean operations" to all business processes

Employees (wireline) Dec-06

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-06</td>
<td>64,109</td>
</tr>
<tr>
<td>Dec-07</td>
<td>55,705</td>
</tr>
<tr>
<td>Dec-07E</td>
<td>82,000</td>
</tr>
<tr>
<td>Dec-07</td>
<td>86,315</td>
</tr>
<tr>
<td>Dec-08</td>
<td>99,902</td>
</tr>
</tbody>
</table>

Increase in Accesses per Employee (wireline)
(Dec.07E/Dec.02)

- Accesses/equivalent employee*: +40%
- Accesses/employee*: +70%

Source: ML European Broadband Matrix Q2 07, Telefónica
* Includes own workforce and outsourced employees
Telefónica España ...

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4. An ambitious strategy that will extend our leadership
Our winning mindset is our key value driver

- Lead the mobile space
- Lead the broadband business
- Lead the growth in entertainment
- Lead the Corporate business

REVENUE GROWTH

- More customers
- More revenue/customer
- Controlled churn
We will lead the rapid growth of the mobile data business

Mobile BB/laptops (market)

- Strong data adoption and usage...
  - 20% Dec-06
  - >70% Dec-10E

- New services:
  - Applications on the move
  - Access to leading services from mobile
  - Speed and ease of use

3G roll-out

- 80% population coverage with HSDPA by 2010E

3G handsets/customer base

- Progressive upgrade of handset base
  - 5% Dec-06
  - 9% Jun-07
  - >70% Dec-10E

Data ARPU / ARPU

- 14% 2006
- 20%-25% 2010E
- ≈80%

Non P2P SMS data revenue/data revenue
We will keep enhancing our services

- **P2P communications**
  - Enhanced messaging (SMS 2.0)
  - Fulfilling group communication and mobile-PC communication needs

- **Browsing & Connectivity**
  - Easing browsing system
  - New partnerships (GYM)
  - Open access navigation
  - Extending mail services to residential business
  - Enhanced handset navigation capabilities

- **Multimedia**
  - Strengthening content offer based on communities
  - Enhanced TV offering

- **New businesses**
  - Advertising: 1st Spanish mobile portal to include advertising
  - M-commerce
  - Betting...
We will lead the mobile voice business

**More customers**
- Proactive customer acquisition focused on value
- Maintain a “Best in class” churn rate

**Mobile penetration (market)**
- Including M2M
  - Dec-06: 103%
  - Jun-07: 105%
  - Dec-10E: 120%

**Mobile customers Millions**
- Dec-06: 21.5
- Dec-10E: >5%/+6%

**Outgoing traffic Bn minutes**
- 2006: 27.7
- 2010E: >+8%

**More voice usage**
- Expanding MoU through innovative pricing schemes leveraging community effect

**Outgoing MOU (H1 07/H1 06)**
- Reported: +4.0%
- Excluding M2M: +4.8%
Our actions are yielding good results

**Mobile Data**

Outgoing ARPU Data Growth

- Increase in data usage in Q2 07: 
  - x7 year-on-year
  - x2 quarter-on-quarter

**Mobile voice**

Postpaid net adds. Jun.07/Jun.06. Thousands

- Q2 06: 408
- Q3 06: 349
- Q4 06: 43
- Q1 07: 390
- Q2 07: 1,526

- Q2 06: 309
- Q3 06: 157
- Q4 06: 472
- Q1 07: 1,356
- Q2 07: Last 12M

Source: Telefónica, companies’ press releases
New services and enhanced functionalities in Q4 07

- **e-Mail for the mass market**
  - Blackberry service for 5€/month
  - “Mail Express” for 2€/month

- **More functionalities**
  - 1st player in the world to launch:
    - Smartphone Blackberry 8120: convergence in access (WiFi/GPRS) and services (multimedia applications and e-mail)
    - BlackBerry Unite: downloads of content from a BlackBerry smartphone to a PC

- **New devices for laptops connectivity**
  - Sony-Vaio laptops with embedded exclusive 3.5G modules
  - 1st player in the world to launch Novaltel’s HSUPA modem

- **Enhanced TV offering**
  - From 26 to 42 TV channels
  - Agreements with key players: FOX, CNN, Paramount Comedy, Cartoon Networks...
Increased demand for broadband

Average bandwidth 2010E: 10x vs. 2006

- IP Telephony: 0.2 Mbps (2006) vs. 2 Mbps (2010E)
- Videotelephony: 1 Mbps (2006) vs. 4 Mbps (2010E)
- Videoconference: 4 Mbps (2006) vs. 10 Mbps (2010E)
- Online Games: 0.5 Mbps (2006) vs. 1 Mbps (2010E)
- BB Internet: 0.32 Mbps (SDTV) vs. 4 Mbps (2010E)
- Peer to Peer: 10 Mbps (2006) vs. 20 Mbps (2010E)
- Mobile: 7 Mbps (2010E)
- SDTV: 0.5 Mbps (2006) vs. 4 Mbps (2010E)
- HDTV: 0.7 Mbps (2006) vs. 12 Mbps (2010E)
- 3DTV: 16 Mbps (2010E)

Total communications traffic in Spain*
Thousands Terabytes

- 2000: 300
- 2006: 2,200
- 2010E: 18,000

* Telefónica estimates
We will lead the massive adoption of broadband connectivity services

**Massive use of fixed Broadband**
- From 42% to 75% BB penetration in households with fixed access

**Wireline BB Coverage % loops**
- Selective deployment by zone

**Retail BB Market share**
- BB Market Million accesses
  - Dec-06: 6.7
  - Dec-10E: 11.0-12.0
- BB customers Millions
  - Dec-06: 3.7
  - Dec-10E: 6.1-6.8

**Retail BB Market share**
- 56%
- 53%-57%

**Sustaining BB revenue per access**
- Enhanced speeds
- Higher contribution from VAS (Imagenio, security, maintenance...):
  - ≈30% of BB ARPU in 2010E vs. 16% in 2006

**Market-driven fiber deployment**
- Selective deployment by zone
  - ~1bn capex 2007-2010E

**BB Market share**
- Retail BB Market share
  - 56%
  - 53%-57%

**Wireline BB Coverage % loops**
- Selective deployment by zone
  - 10 Mb: 54 Dec-06, 0 Dec-10E
  - 30 Mb: >80 Dec-06, >40 Dec-10E
  - 100 Mb: 0 Dec-06, 0 Dec-10E, =25 Dec-10E
We are using micro marketing to deploy fiber
Example: Madrid
Broadband growth will be sustained by a unique performance in the traditional business

Differential profile compared to other European operators

**Expected Access trend**
Million users

- Total market:
  - Dec-06: 19.3
  - Dec-10E: 21.9
- **Telefónica**
  - Dec-06: 15.9
  - Dec-10E: 17.6

**Lost fixed accesses**
Jun.07/Jun.06

- -1%
- -5%
- -6%
- -7%
- -9%

- Growth in households
- Increased penetration of bundles
  - ≈95% BB customers with bundles by Dec-10E (71% in Dec-06)
  - >65% SMEs with workstations by Dec-10E (4% in Dec-06)

Source: Telefónica, companies’ press releases
Entertainment: A new digital TV in Q4 07

Enhanced functionalities and new content

- **PAST TV**
  - Access to most of the content of the 4 leading TV channels in Spain broadcasted during the last week

- **SHIFT TV**
  - Capability to pause live TV channels

- **PVR**
  - Rewind TV
  - Instant recorder
  - Personal recorder

- **Enriched content**
  - From 120 to 160 channels
  - New thematic packages (immigrants, children ...)
  - Prescreening of series
  - Soccer summaries
  - New theatrical releases
Entertainment: the consumer as the decision maker

Entertainment value proposition

**Today**
- Real video on demand
- Most flexible Pay TV offer in the market
- EPG
- T-commerce

**Q4 07**
- Past TV
- Shift TV
- PVR:
  - Rewind TV
  - Instant recorder
  - Personal recorder
- New content

**Q3 08E**
- HDTV
- Multiroom
- Advanced EPG
- Advanced PVR
- Photo and video sharing
- Interactive advertising

**To be developed**
-Imagenio on the move
- Advanced T-commerce
- Other advanced functionalities
This will support the growth of the Pay TV market

We are driving the growth of Pay TV market...

Pay TV Market growth

- Total market
- Areas with Imagenio coverage

Jun.07/Jun.06

>20%

>8%

...and new functionalities will boost the growth

Imagenio customers

Millions

- Additional growth potential leveraging new functionalities

Dec-06  |  Dec-10E

0.4  |  1.0

1.2-1.4

- Commercialization in bundles
- Continuous learning to improve customer experience
We will continue to successfully execute our strategy in SMEs with ‘Respuesta Empresarios’ and ‘Puestos de Trabajo’

**Our value proposition responds to the market demands**

- Convergent, fully ‘on the move’ workstations:
  - multidevice
  - multiaccess
  - multiplatform

**Number of Workstations Thousand**

<table>
<thead>
<tr>
<th></th>
<th>Dec-06</th>
<th>Jun-07</th>
<th>Dec-10E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count</td>
<td>220</td>
<td>850</td>
<td>&gt;3,000</td>
</tr>
</tbody>
</table>

‘All your ITC needs under a monthly fee: advice, sale, installation, maintenance, management and renewal’

>65% of our customers with workstations by Dec-10E
We will leverage our unique position to offer an integrated approach to Corporate clients

**INTEGRATED APPROACH**

- Single point of contact
- Integrated F+M+IT offer

**FOCUSED APPROACH ON IT AREAS**

- Unique commercial teams
- Unified customer care, support and engineering
- Integrated services to enhance customers’ productivity and take advantage of new business opportunities

<table>
<thead>
<tr>
<th>CPD outsourcing</th>
<th>LAN &amp; Workstations Mgmt</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managed Hosting &amp; Business Recovery Services</td>
<td>LAN &amp; Workstation management</td>
<td>Security operating center</td>
</tr>
<tr>
<td>Hosting Virtualization</td>
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</tbody>
</table>

- Contact center on demand
- Contact Centers

<table>
<thead>
<tr>
<th>Relationship Solutions</th>
<th>Digital Asset Mgmt</th>
</tr>
</thead>
<tbody>
<tr>
<td>e-billing</td>
<td>Dynamic marketing</td>
</tr>
<tr>
<td>Net centric e-government</td>
<td>Video-surveillance</td>
</tr>
</tbody>
</table>

- Geographic Info. Systems
  - Geomarketing

**Industry oriented**

- Public Sector
- Financial institutions
- Industry, Distribution & Services
- Technology & Mobility
All this will further enhance our market leadership ...

<table>
<thead>
<tr>
<th>Market</th>
<th>Dec-06</th>
<th>Dec-10E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed BB penetration per household with fixed line</td>
<td>42%</td>
<td>≈ 75%</td>
</tr>
<tr>
<td>Mobile BB penetration per laptop</td>
<td>20%</td>
<td>&gt;70%</td>
</tr>
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<table>
<thead>
<tr>
<th>Telefónica España</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>3G handsets over customer base</td>
<td>5%</td>
<td>&gt;70%</td>
</tr>
<tr>
<td>Loops 100Mb</td>
<td>-</td>
<td>25%</td>
</tr>
<tr>
<td>HSDPA population coverage</td>
<td>25%</td>
<td>80%</td>
</tr>
</tbody>
</table>
... and it will radically transform our revenue profile

Telefónica España revenue structure

Fixed and mobile data
- FY2002: €15.7bn, 11%
- FY2006: €19.8bn, 20%
- FY2010E: 30%-32%

Mobile and fixed voice and access
- FY2002: €15.7bn, 69%
- FY2006: €19.8bn, 62%
- FY2010E: 52%-55%

Wholesale and other*
- FY2002: €15.7bn, 19%
- FY2006: €19.8bn, 18%
- FY2010E: 14%-16%

* Includes Wholesale, Interconnection, consolidation adjustments and others (Group companies, handsets, others)

Capturing the full potential of BB and wireless data

CAGR 06-10E +2.0%/+3.5%
We will also increase our efficiency and effectiveness

Make the best use of our resources

Leverage Integration

New operating model

Lead the mobile space

Lead the broadband business

Lead the growth in entertainment

Lead the Corporate business
We are leveraging integration to better serve our customers and to be more efficient...

- Full integration of key functions: single management team
- Full integration of IT and operations to capture synergies and develop common platforms under a new operating model
- Full integration in Corporate business
- Integrated stores
- In Residential and SMEs, convergent market research, cross selling and convergent P&S

...while maintaining our commercial focus
We are developing a new operating model

**Objectives**
- Put customer needs first
- More resources in commercial areas
- Cost structure adapted to business evolution

**Actions**
- Externalize non-core activities
- Capture fixed-mobile integration synergies
- Leverage new technologies focusing on quality and efficiency
- Excellence in end-to-end processes

**Results**
- ~€130 million savings from network upgrade (common servers, single IP network, shared mobile infrastructure, etc.)

OpEx/access ex-commercial costs

100%  
-2%/-4%

FY2006  FY2010E
We are transforming our networks and IT to further enhance efficiency and meet customer needs.

- Access network transformation
  - ~€1.0bn in FTTx
  - ~€1.3bn in UMTS/HSXPA
- Transformation of aggregation, transport & IP networks
- Etc.

- Customer premises equipment
- Provisioning & customer care
- Wholesale services
- Tailor-made customer projects
- Etc.

Total CapEx 2007-2010E: ~€9.2–9.7bn
- Network: ~50%
- Commercial & Customer-driven investments: ~30%
- IT Systems: ~10%-15%
- Other: ~5%-10%
This will lead us to a unique growth profile

<table>
<thead>
<tr>
<th>(€ in millions)</th>
<th>TELEFONICA ESPAÑA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY2006 (1)</td>
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<tr>
<td><strong>REVENUES</strong></td>
<td>19,750</td>
</tr>
<tr>
<td><strong>OIBDA</strong></td>
<td>8,647</td>
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<tr>
<td><strong>CAPEX</strong></td>
<td>2,293</td>
</tr>
</tbody>
</table>

Cum (07E-10E)

1) Base 2006 figures for T. España Wireline include six months of Iberbanda

2) In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007E-2010E. Personnel Restructuring (€980 m in 2006) and Real State Programs (€94 m in 2006) are included as operating revenues/expenses. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures. CapEx excludes investments related to Real State Efficiency Plan

3) CAGR 06-10E guidance excludes changes in consolidation
Telefónica: a unique incumbent

ON MARKET LEADERSHIP

WITH A WINNING MINDSET

ON GROWTH