



our soul

TELEFÓNICA IN 2006

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Corporate Identity

Telefónica's Vision delimits and defines the Group's brand strategy.

For this reason, the Group's brand strategy pursues a double objective. On the one hand, to build its institutional profile in order to transfer the value of its brand, Telefónica, as a world leaders in telecommunications. And on the other hand, to configure our offering through our commercial brands (Movistar, O2, Terra) and a wide range of products (duo, trio, imagenio, speedy, superquince, etc.)

In order to achieve these two objectives, Telefónica has created a system to link and express the portfolio of the group's brands: the brand "family system".

The family system

The family system organizes the relationship of the binomial made up by the Telefónica brand (Master Brand) and by the Group's commercial brands (especially Movistar, O2 and Terra) to create a positive pairing. This system is characterized by:

- The definition of the brand roles.
- The definition of the commercial brand icons or symbols.
- The creation of a coexisting system or connecting device in graphic and image terms between the Master Brand and the commercial brands, and, finally, the organization of the brand portfolio by customer segments: people/mobility; homes, businesses.

Telefónica's Role

The Telefónica Master Brand provides the binomial stature: financial solvency, management capacity, leadership, international projection, credibility, solidity and the know-how of one of the major telecommunication groups in the world.

Therefore:

- Telefónica is the primary brand for all the Group businesses
- The values and positioning of the Telefónica brand are the starting point for all Group relationships and communication
- Telefónica is the only valid speaker from an institutional standpoint, with its shareholders, society and the regulator
- No activity should work against the Telefónica brand, independently of the commercial benefit it may provide in the short term
- The entire organization must work pro-actively in the constant strengthening of the Telefónica brand

The Role of the Commercial Brands

The commercial brands (Movistar, O2, Terra) provide the binomial with the role of "freshness": and closeness, humanity, a personal and privileged relationship and commitment. However, the products (duo, trio, imagenio, speedy, superquince, etc...), are not commercial brands, and therefore they are subordinated to the Master brand and have no identity, graphic image or strategy. Therefore, the commercial brands:

- Develop, communicate and sell the entire commercial strength of the Telefónica Group to customers.
- They are responsible for the arrival of new services, thus helping to expand the Telefónica brand.
- With simplicity and clarity to transfer the benefit and meaning of the commercial offering to customers.

Trademark and Domain Portfolio, Telefónica S.A.¹

Brands: Telefónica S.A. Ownership	10,664
Telefónica Móviles S.A. Ownership	9,454
Domains	2,925
Patents and Models	1,349
Intellectual property	1,811

(1) As of 31 December 2006

Telefónica Fixed Line Brand Recognition¹

Country	Top of Mind	Total References
Argentina	68	98
Chile**	21	75
Peru	98	100
Spain	59	95
Brazil*	56	90

Source: 2006 Brand Advertising and Health Tracking. Millward Brown

Data from Telefónica (Compiled in 2006)

(*) Data from Telefónica (Compiled from December 2006 – January 2007)

(**) Data from Telefónica Chile, Telefónica Long Distance, Telefónica CTC

(1) As of 31 December 2006

Telefónica Mobile Brand Recognition

Country	Top of Mind	Total References
Spain	49	95
Argentina	39	89
Peru	61	95
Chile	39	89
Mexico	25	88
Colombia	26	97
Venezuela	46	96
Guatemala	33	89
El Salvador	30	89
Uruguay	38	97
Panama	44	95
Nicaragua	44	97
Ecuador	31	98

Data from Telefónica Movistar (Compiled in 2006)

Integration between the Telefónica and O2 Brand identities

After the acquisition of O2, a process began to associate and align the O2 brand with the aforementioned family system. For this work, two different situations were established:

Historical O2 Markets (Germany, United Kingdom and Ireland).

From the first two weeks of October 2006, O2 incorporated the endorsement formula "A Telefónica company" in all communication with institutional groups of interest such as employees, investors, suppliers, corporations, etc. The expression "A Telefónica company" made it possible to exploit very relevant synergies within the institutional territory and above all, in manufacturing and support aspects.

With respect to commercial communication with customers, the O2 brand is being maintained for now.

New European O2 Markets

(Czech Republic, Slovakia, and others in the future)

Telefónica family system is adapted to what is known in agreements as a "sophisticated family system". This adaptation of the family system is characterized by:

The Telefónica Master Brand, which provides "stature" value, appears in all communication with no exceptions (including commercial communication) and acts as support, height and presentation.

The coexistence system or connecting device in graphic and image terms between the Master Brand and the commercial brands follows the blue O2 "layout".

Therefore, while in the Czech Republic and Slovak markets, the Telefónica brand, through the "family system" assumes its role as the master brand, in the natural markets, it plays a role which is more like an institutional guarantee in relationships with non-commercial stakeholders.



Telefónica sponsors 825 initiatives in 2006

Telefónica, as an institution, takes part in a range of activities in society, generally speaking by sponsoring sporting, cultural and social events. In total, during 2006, the company sponsored some 825 initiatives.

Sponsorship policy

Telefónica's sponsorship policy includes:

- Support for events and activities that, due to their important repercussions in society, can help the companies promote their products and services. Highlights include sponsorship of sporting or musical events.
- Events and activities where the presence of Telefónica, as an institution, has repercussions in terms of associating its brands with cultural or social events that are valued by the general public.

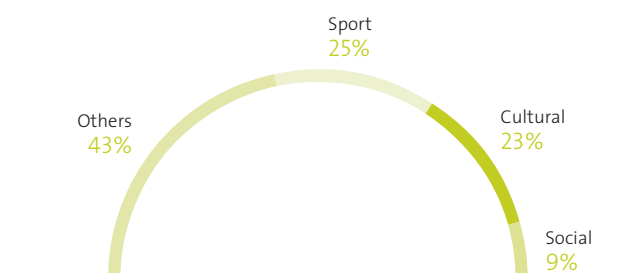
The Sponsorship Department in Spain is the only channel for receiving requests for sponsorship from institutions and companies with sponsorship proposals. Each month, Committees meet to present and debate sponsorship proposals for all of the Telefónica Group's lines of business. This sponsorship is approved by the lines of business and supported by the budget.

At Telefónica we sponsor sporting, cultural and technological events. In 2006, we received 3,138 requests for sponsorship from around the world, which were handled internally by Telefónica. We supported over 25% of all of these (825 sponsorships), of which 25% (208) were sports related, 23% (192) and cultural and 9% (73) were social activities.

Sports

- We support football as sponsors and exclusive telecommunications suppliers for three important Spanish clubs: Real Madrid, FC Barcelona and Real Zaragoza.
- During 2006, we continued to support Spanish driver Fernando Alonso and the Renault F1 Team, who, for the second consecutive year, won the Formula 1 World Championship, both for drivers and manufacturers.
- We support the Movistar Cultures Cup and the Immigration and Solidarity World Cup, both of which are aimed at an important section of society, ie immigrants. This is aimed to use a sport that is as widely popular as football as a catalyst for integration.
- Alongside the important sponsorship initiatives mentioned above, we also look to establish close links with the societies in which we operate by supporting activities in the local communities, whether these be cultural or sporting events. Thus, in 2006, we continued to sponsor in Spain, the Madrid Marathon, the Tennis Master's Series in Madrid and other events of interest.

Distribution of sponsorship by activity*



(*) Not including information for Telefónica O2 Europa.

Music and culture

- Telefónica Movistar continues to establish close links with the younger audience through music. Highlights include its participation as a sponsor of the concerts for the 40th anniversary of the radio station “40 principales”, a tour involving stars such as Shakira and Alejandro Sanz.
- We created the Espacio Movistar, a marquee offering a range of contents that is designed to be a pioneering centre and point of reference for technology, offering people the chance to get a closer look at the latest trends in technology, innovation, art, cinema and music. It is designed to act as a point of reference in Spain for these subjects.
- We have become exclusive sponsors for telecommunications at the International Expo Zaragoza 2008.
- Through Telefónica Móviles España, we launched an exclusive Cinema on Tuesdays promotion in 2006, offering our customers 2 tickets for the price of 1, to establish closer links with society through culture.
- In 2006, we signed a sponsorship agreement for the branding of the Telefónica Arena Madrid. Thus, we have joined the international trend to name spaces, ie to associate our brand with an emblematic place. In this case, we have associated our brand with the former Rockódromo de la Casa de Campo, now known as the Telefónica Arena Madrid.

Sponsorship by country*

Region/Country	Nº of sponsorships
Spain	371
Latin America	454
Argentina	87
Brazil	72
Chile	20
Peru	68
Colombia	6
Ecuador	55
El Salvador	14
Guatamala	24
México	2
Nicaragua	9
Panama	24
Venezuela	73
Total	825

(*) Not including information for Telefónica O2 Europa.

Society

- In 2006, we have continued to support projects to benefit society and offer our support to institutions that work in this area by collaborating with programmes to promote information technology. Highlights from this collaboration include work with the FAD (Foundation for Support against Drug Addiction), the Spanish Association Fighting Cancer, the Spanish Red Cross and other non-profit organisations.
- In Brazil, we supported the Guri project, which aimed to promote social integration amongst children and adolescents living in run-down areas through music.
- In Venezuela, we have taken part in two Health for All the Family Fairs organised by the Fundafarmacia (the social arm of the pharmaceutical industry).
- This social action is complemented by the work carried out by the Telefónica Foundation and its programmes, (Proniño, EducaRed, Voluntarios, etc).