The best combination of growth and returns in the industry

Santiago Fernández Valbuena
CFO, Telefónica, S.A.

Barcelona, November 16th, 2006
Disclaimer

This presentation contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as “expects”, “anticipates”, “intends”, “believes”, and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

Although Telefónica believes that these statements are based on reasonable assumptions, such forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those in the forward looking statements as a result of various factors, most of which are difficult to predict and are generally beyond Telefónica’s control.

Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica’s business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator.

The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). Telefónica may present financial information herein that is not prepared in accordance with IFRS. This non-GAAP financial information should be considered in addition to, but not as a substitute for, financial information prepared in accordance with IFRS. Telefónica has included such non-GAAP financial information because Telefónica's management uses such financial information as part of its internal reporting and planning process and to evaluate Telefónica's performance. Accordingly, Telefónica believes that investors may find such information useful. However, such non-GAAP financial information is not prepared in accordance with IFRS or any other generally accepted accounting principles, and such non-GAAP financial information, as defined and calculated by us, may be different from similarly-titled financial information used by other companies. Investors are cautioned not to place undue reliance on such non-GAAP financial information.
Telefónica offers to shareholders a **SUPERIOR** value proposition:

- **Highest growth profile**, well ahead of peers
- **Best diversification**, by business and geographies
- **Enormous potential to extract value** from scale and integrated management
  - ✓ **Reliability**, always delivering results
  - ✓ Well preserved **financial discipline**
  - ✓ Growing path on **shareholders’ returns**

**A high growth & returns stock, that will double both EPS and dividend by 2009**
9M06 results show we are keeping our distinctive growth profile in the sector...

<table>
<thead>
<tr>
<th></th>
<th>% Change 9M06/9M05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>+43.1%</td>
</tr>
<tr>
<td>Operating Income before D&amp;A (OIBDA)</td>
<td>+35.9%</td>
</tr>
<tr>
<td>Operating Income (OI)</td>
<td>+24.5%</td>
</tr>
<tr>
<td>Net Income</td>
<td>+59.4%</td>
</tr>
<tr>
<td>EPS</td>
<td>+64.0%</td>
</tr>
</tbody>
</table>

Accesses (million)

- 9M05: 147.1
- 9M06: 195.9
- +33.1%

Commercial Spending (million €)

- 9M06: 6,891.7
- 28.1% of 9M06 OpEx
... well ahead of peers

Revenue Growth (9M06 vs. 9M05)

<table>
<thead>
<tr>
<th>Company</th>
<th>Reported</th>
<th>Organic</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT (1)</td>
<td>3.2%</td>
<td>3.2%</td>
</tr>
<tr>
<td>DT (2)</td>
<td>3.1%</td>
<td>n.a.</td>
</tr>
<tr>
<td>FT</td>
<td>9.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>KPN (3)</td>
<td>2.8%</td>
<td>2.1%</td>
</tr>
<tr>
<td>TI</td>
<td>5.2%</td>
<td>3.0%</td>
</tr>
<tr>
<td>VOD (4)</td>
<td>7.2%</td>
<td>4.1%</td>
</tr>
<tr>
<td>TELEFÓNICA</td>
<td>7.5%</td>
<td>43.1%</td>
</tr>
</tbody>
</table>

OIBDA Growth (9M06 vs. 9M05)

<table>
<thead>
<tr>
<th>Company</th>
<th>Reported</th>
<th>Organic</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT (1)</td>
<td>n.d.</td>
<td>1.6%</td>
</tr>
<tr>
<td>DT (2)</td>
<td>2.3%</td>
<td>-6.5%</td>
</tr>
<tr>
<td>FT</td>
<td>2.3%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>KPN (3)</td>
<td>8.2%</td>
<td>6.7%</td>
</tr>
<tr>
<td>TI</td>
<td>0.8%</td>
<td>1.1%</td>
</tr>
<tr>
<td>VOD (4)</td>
<td>5.7%</td>
<td>2.8%</td>
</tr>
<tr>
<td>TELEFÓNICA</td>
<td>+7.6%</td>
<td>35.9%</td>
</tr>
</tbody>
</table>

(1) April-September 06 vs. 05; Organic EBITDA: excluding leaver costs
(2) OIBDA growth adjusted for special factors
(3) Organic EBITDA growth: adjusted EBITDA for guidance calculation
(4) Revenue growth April-September 06 vs. 05
Our differentiated growth profile is based on the value of diversification

**Spain:** a push on commercial activity for **superior growth profile**

- **Fixed:** strong BB, benchmark revenues, and OIBDA growth
- **Mobile:** service revenue growth in line with customer growth

**LatAm:** **growing** high value businesses with a **focus on profitability**

- **Fixed:** top-line growth and profitability pushed by BB expansion
- **Mobile:** service revenue growth, acceleration of OIBDA margin, and strong cash generation

**Europe:** solid **mobile growth** and rapid **turn-around of fixed**

- **O2 UK:** strong momentum maintained, led by customer and ARPU growth
- **O2 Germany:** above average service revenue growth, continued subscriber and revenue market share gains despite lower commercial activity
- **Czech Republic:** healthy top-line growth for DSL and mobile for a visible turn-around
Spain: a push on commercial activity for superior growth profile

Fixed

9M06/9M05 growth rates

- BB net adds: +34%
- Revenues: +1.7%
- OIBDA: +7.6%

- 66% of Retail IBB accesses on 2P&3P (1.2MM 2P&3P Net adds in 9M06)
- Retail IBB market share at 55% level
- Pay TV market share >8% after 35% share of net adds in 3Q06

Mobile

9M06/9M05 growth rates

- Customer base: +7.1%
- Customer Revenues: +7.1%
- OIBDA: +1.1%

- Strong net adds: 365,000 in 3Q06 (+45%) & 1.1 million in 9M06 (72%)
- 62,500 portability net adds in 3Q06, highest 3Q figure ever
- 3Q06 monthly churn at 1.76% & below 1% for the contract segment
LatAm: growing high value businesses with a focus on profitability

**Fixed**

- **Retail Internet BB Net Adds** (in thousands):
  - 1Q06: 198
  - 2Q06: 230
  - 3Q06: 265

- **9M06/9M05 growth rates (€ terms)**:
  - BB customer base: +48.0%
  - Revenues: +17.5%
  - OIBDA: +18.8%

- **Key Points**:
  - 75% of organic sales growth generated by BB and Data & IT
  - 2.2 p.p. of OIBDA margin improvement since the beginning of the year

**Mobile**

- **9M06/9M05 growth rates (€ terms)**:
  - Customer base: +20%
  - Service Revenues: +24%
  - OIBDA: +38%

- **OpCF (€ in Millions)**:
  - 9M05: 328
  - 9M06: 765

- **Key Points**:
  - Commercial activity: +39% 3Q06/3Q05
  - OIBDA margin improved by over 2 percentage points to 24.7% in 9M06

---

Telefónica S.A. (1) Excluding Terra Latam and Colombia Telecom
Europe: solid mobile growth in the UK and Germany

**O2 UK**

**Trend in net adds** (in thousands)

- **2005**
  - 1Q: 360
  - 2Q: 47
  - 3Q: 52
- **2006**
  - 1Q: 26.6%
  - 2Q: 23.2%
  - 3Q: 18.8%

**ARPU** (Qtly. monthly average, in £)

- 9M05: 22.1
- 9M06: 22.7
- +2.4%

**Client growth** (y-o-y)

- 1Q06: 26.6%
- 2Q06: 23.2%
- 3Q06: 18.8%

**ARPU** (Qtly. monthly average, in €)

- 9M06: 28.1
- 9M06: 24.5
- -12.8%

**Growing proportion of prepay in base**

**ARPU pressured by mix, competition & TRC**

**Service Revenues** (£ in millions)

- Feb-Sep 05: 2,421
- Feb-Sep 06: 2,785
- +15.0%

**O2 GERMANY**

**Client growth** (y-o-y)

- 1Q06: 26.6%
- 2Q06: 23.2%
- 3Q06: 18.8%

**ARPU** (Qtly. monthly average, in €)

- 9M06: 28.1
- 9M06: 24.5
- -12.8%

**Growing proportion of prepay in base**

**ARPU pressured by mix, competition & TRC**

**Service Revenues** (€ in Millions)

- Feb-Sep 05: 1,880
- Feb-Sep 06: 2,033
- +8.1%
Europe: rapid turn-around of fixed business in the Czech Republic

1. Integration
   On track & neutral to OIBDA 2006

2. Product re-positioning
   - New pricing
   - O2 brand effective September 2006

3. Convergence
   First products out, including IPTV

Revenue evolution (CZK in Billions)

<table>
<thead>
<tr>
<th></th>
<th>3Q05</th>
<th>3Q06</th>
<th>9M05</th>
<th>9M06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15.2</td>
<td>15.5</td>
<td>45.3</td>
<td>45.6</td>
</tr>
</tbody>
</table>

+2.0% OIBDA evolution (CZK in Billions)

<table>
<thead>
<tr>
<th></th>
<th>3Q05</th>
<th>3Q06</th>
<th>9M05</th>
<th>9M06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.5</td>
<td>7.6</td>
<td>21.3</td>
<td>22.1</td>
</tr>
</tbody>
</table>

+2.0% Retail revenues (Broadband)

52.0% Service revenue (Mobile)

5.9% 9M06 margin at 48.9% (+1.7 p.p. y-o-y)

Growth of revenue drivers

On track & neutral to OIBDA 2006

"New pricing"

"O2 brand effective September 2006"

First products out, including IPTV
Telefónica is well-balanced by business and geographies

**Revenues by region**

<table>
<thead>
<tr>
<th>Region</th>
<th>9M05</th>
<th>9M06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>53%</td>
<td>38%</td>
</tr>
<tr>
<td>LatAm</td>
<td>41%</td>
<td>35%</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>5%</td>
<td>26%</td>
</tr>
<tr>
<td>ROW</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

**OIBDA by region**

<table>
<thead>
<tr>
<th>Region</th>
<th>9M05</th>
<th>9M06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>60%</td>
<td>46%</td>
</tr>
<tr>
<td>LatAm</td>
<td>36%</td>
<td>34%</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>4%</td>
<td>20%</td>
</tr>
<tr>
<td>ROW</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Potential from scale and integrated management

Our commitment
5.3bn.€ in OpCF from synergies in 2006-2009

OpCF from synergies 9M06
(€ in millions)

100% of Sep.06 target achieved

Regional mgmt. & business integration
Best practices & competence centers
Integration of acquisitions (O2, Cesky, CoTel)
Total synergies

81%
3%
16%
768

Mobile Latam regionalization
Fixed Latam regionalization (Candelaria)
Spain integration of fixed assets (Tde-TData-Terra)
Convergence of channels, P&S, network, IT in Spain & Latam
F-M integration in TO2 Czech Republic

O2 synergies since take-over: OpCF breakdown
(Mar.-Sep. 2006)

Handset procurement 38%
Network procurement 15%
Roaming (wholesale & Retail) 33%
Others 1 14%

Deeper collaboration in new areas: e.g. insurance mgmt, mobile data and ADSL roll-out

(1) Corporate centers, business integration in Germany and international traffic management
9M06 results supports guidance upgrade

**Group Revenues**
(E€ in Millions)

- **2006 target +34%/+37%**
- **9M05 reported** 27,054.1
- **9M06 adjusted for guidance** 37,597.2
- **2006 target**
- **Group OIBDA**
(E€ in Millions)

- **2006 target +26%/+29%**
- **9M05 adjusted for guidance** 10,645.7
- **9M06 adjusted for guidance** 14,038.5
- **2006 target**
- **Group OI**
(E€ in Millions)

- **2006 target +26%/+30%**
- **9M05 adjusted for guidance** 5,843.4
- **9M06 adjusted for guidance** 7,719.6
- **2006 target**

**Notes**
9M06 adjusted for guidance assumes constant exchange rates as of 9M05 and excludes TPI and Colombia Telecom results. In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2006. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For homogeneous comparison TPI is also excluded from 9M05 numbers, and the equivalent other exceptional revenues/expenses registered in 9M05 are also deducted from reported figures in terms of guidance calculation.

**A RELIABLE COMPANY**
Proven track record of delivering on guidance (2003-2005)
Our commitment to shareholders: growing returns while preserving financial discipline

Shareholder remuneration

- Double **2005 DPS (0.5€) by 2009**, in line with doubling 2005 EPS by 2009 (0.91€)
- Devote **2.7 Bn.€ to buyback** shares and cancel them by 2007

Underlying EPS (in €)

<table>
<thead>
<tr>
<th></th>
<th>9M05</th>
<th>9M06 ¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.665</td>
<td>0.82</td>
<td></td>
</tr>
</tbody>
</table>

+22.7%

51.1 M shares in treasury at the end of 3Q06

Financial discipline

- **BBB+/Baa** as rating floor & Net debt + commitments **below 2.5x OIBDA** in the medium term
- **<1.5 Bn.€** in net financial investments³ in 06-07 on aggregate & **no issuance of new shares** for acquisitions

Sale of TPI for 2.0 Bn.€ cashed in 3Q06

(1) Excluding TPI’s capital gains (-0.33€/share) & 9M06 Redundancy provision (+0.05€/share)
(2) Based on 12 months rolling OIBDA including Telefónica O2 Czech Republic, O2, and Colombia Telecom
(3) Excluding TPI sale
Our superior value proposition to Shareholders is driven by

- **Highest growth profile**, well ahead of peers
- **Best diversification**, by business and geographies
- **Enormous potential to extract value** from scale and integrated management

- ✔ **Reliability**, always delivering results
- ✔ Well preserved **financial discipline**
- ✔ Growing path on **shareholders’ returns**