The best combination of growth and returns in the industry

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Telefónica S.A.
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Index

■ 2006 results underpin our unique profile
   High top-line growth, through commercial focus & diversification
   Solid profitability, gaining further efficiencies & synergies
   Strong cash generation, despite CapEx effort

■ We are facing your main concerns
   1. Renewed competition in broadband & mobile in Spain
   2. Potential loss of momentum in the UK
   3. Price erosion in the German mobile market
   4. Underperformance of Brazilian mobile asset
   5. Sustainability of Mexican turn-around

■ What are you maybe missing?
   1. Mobile growth & profitability prospects in Latin America
2006 performance strengthens our profile as the best combination of growth & returns in the industry...

4 areas of management focus in 2006...

1. Fuelling our unique growth profile
2. Extracting value from deeper integration
3. Re-building a solid financial structure
4. Yielding attractive returns

...that delivered tangible results

- +42.9% EPS growth
- >1 bn.€ of synergies cashed-in (OIBDA-CapEx)
- Net Debt\(^1\)/OIBDA progressing towards our 2.5x target
- >3.5 bn.€ returned to shareholders (40% of FCF\(^2\))

(1) Including financial commitments
(2) FCF post minorities
...clearly outperforming the peer group...

Source: company press releases

<table>
<thead>
<tr>
<th>Company</th>
<th>2006 Organic EBITDA Growth</th>
<th>2006 Organic Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT</td>
<td>+6.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>KPN</td>
<td>+4.0%</td>
<td>+2.0%</td>
</tr>
<tr>
<td>VOD</td>
<td>+2.0%</td>
<td>+4.0%</td>
</tr>
<tr>
<td>Telecom</td>
<td>0.0%</td>
<td>+6.0%</td>
</tr>
<tr>
<td>Telefónica</td>
<td>+8.0%</td>
<td>+9.0%</td>
</tr>
</tbody>
</table>

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BT: April-December 06 vs. 05; EBITDA excludes specific items; organic EBITDA excludes specific items and leaver costs. Nominal growth rates for revenues
DT: EBITDA growth adjusted for special factors. Revenue growth in nominal terms
KPN: Organic Revenue/EBITDA growth: adjusted Revenue/EBITDA for guidance calculation
VOD: April-September 06 vs. 05; Next reporting period April06-March07
...and consistently delivering or outperforming on guidance, hitting again 2006 P&L targets...

<table>
<thead>
<tr>
<th>GUIDANCE</th>
<th>RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>5% / 8%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>6% / 9%</td>
</tr>
<tr>
<td>EBIT</td>
<td>18% / 21%</td>
</tr>
<tr>
<td>2004</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>7% / 10%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>5% / 7%</td>
</tr>
<tr>
<td>EBIT</td>
<td>15% / 18%</td>
</tr>
<tr>
<td>2005</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>12% / 15%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>10% / 13%</td>
</tr>
<tr>
<td>OI</td>
<td>12% / 18%</td>
</tr>
<tr>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>34% / 37%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>26% / 29%</td>
</tr>
<tr>
<td>OI</td>
<td>26% / 30%</td>
</tr>
</tbody>
</table>

(1) According to guidance criteria
...benefiting from the value of being diversified

Revenues by region

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>51%</td>
<td>38%</td>
</tr>
<tr>
<td>LatAm</td>
<td>42%</td>
<td>35%</td>
</tr>
<tr>
<td>Europe</td>
<td>6%</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>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>58%</td>
<td>44%</td>
</tr>
<tr>
<td>LatAm</td>
<td>36%</td>
<td>36%</td>
</tr>
<tr>
<td>Europe</td>
<td>6%</td>
<td>20%</td>
</tr>
<tr>
<td>ROW</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>
Index

2006 results underpin our unique profile
1. High top-line growth, through commercial focus & diversification
2. Solid profitability, gaining further efficiencies & synergies
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We are facing your main concerns
Renewed competition in broadband & mobile in Spain
Potential loss of momentum in the UK
Price erosion in the German mobile market
Underperformance of Brazilian mobile asset
Sustainability of Mexican turn-around

What are you maybe missing?
1. Mobile growth & profitability prospects in Latin America
Spain fixed: can we sustain market leadership without a significant pressure on ARPU?

- Greater coverage
- Better product quality (speed & reliability)
- Stronger innovation (Imagenio & VAS)
- More attractive content (>80 channels, football, VoD)
- Better provisioning & customer care

TdE’s retail market share of net adds (4Q06)

- 60% Broadband
- 40% Pay TV

TdE’s total client ARPU (€/month)

- 61 in 2005
- 64 in 2006 +4.3%
Spain mobile: can we offset the pressure of new entrants?

Concerns on our mobile operations in Spain

Interconnection Framework
- 2006-09 framework approved in October 2006: fixed absolute cuts each six months
- 2G/3G termination rate
- End of asymmetry between operators

Yoigo & MVNO
- Population
- Penetration
- Customers in 1st month of operation

Re-branding of Orange

OGE Net adds market share
- 19% (9M06)
- 24% (4Q06)
- 21% (2006)

2006 figures
- OGE: +4.1%
- TME: +4.1%
- Flat

Spain (Yoigo & MVNO)
- Population: 45MM
- Penetration: 104%
- Customers in 1st month of operation: ~60K
- Xmas: >3x

Slovakia (Telefónica)
- Population: 5.4MM
- Penetration: 97%
- Customers in 1st month of operation: ~200K
- February: 3x

OGE EBITDA of 932 M€
TME 1.2 bn€ in SAC+SRC

(1) Company release for Yoigo. Internal estimates for the rest of MVNOs
Spain mobile: can we offset the pressure of new entrants?

DIFFERENTIATING FROM NEW ENTRANTS BY...

- **ON-NET EFFECT**
  - Biggest *on-net community*: >45% market share
  - Attractive *on-net prices* :: Xmas campaign joined by >1.2MM

- **CHURN CONTROL**
  - Clients with *on-net plans* have 45-50% lower churn
  - *Increasing* proportion of *long term contracts*

- **DATA OPPORTUNITY**
  - New platforms/devices (*handset upgrades with strong focus on 3G*: +25% vs. 4Q05)
  - Enhanced speeds (*3G/HSDPA*) to increase connectivity, browsing...
  - *Non-P2P* SMS data(+24% y-o-y)

IS HELPING TO MAINTAIN MOMENTUM

<table>
<thead>
<tr>
<th>4Q06 Churn (%)</th>
<th>Postpay</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.9</td>
<td></td>
<td>1.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market share of net adds</th>
</tr>
</thead>
<tbody>
<tr>
<td>4Q05</td>
</tr>
<tr>
<td>4Q06</td>
</tr>
<tr>
<td>21%</td>
</tr>
<tr>
<td>35%</td>
</tr>
<tr>
<td>97% contract</td>
</tr>
</tbody>
</table>
UK: can we keep current strong operational momentum?

- Focus growth on high value customers
  - 35% of base on contract (+1 p.p. vs. 2005)

- Loyalty initiatives to reduce churn
  - Over 6 million subs on “O2 Rewards”

- Value pricing to stimulate voice
  - +9.2% in MOU in 4Q06

- Exploit data uplift
  - +5.9% in data ARPU in 4Q06

- Direct channels (low churn & low SAC)
  - around 60% of 4Q06 gross adds through O2 shops and on-line

- Expand into Broadband
  - Market entry mid 07

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**Share of Net Adds**

(Dec 05-Dec 06)

- Tesco 11%
- O2 44%
- Rest of market 45%

**Service revenue growth**

(y-o-y)

0% 10% 20%

Dec-05 Mar-06 Jun-06 Sep-06 Dec-06

- O2
- Est. Mkt avg.

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(1) Quarterly Monthly Average
(2) Merrill Lynch and company estimates
Germany: can we offset price erosion and keep growing ahead of competitors?

- **Refreshing Genion**, leveraging O2’s leadership in HZ

- **Launching an integrated DSL offer**, capitalizing on T. Deutschland

  - Structured in “S,M,L” (€0 to €25)
  - Reduction from 11 to 2 price points
  - Reduction of price outside HZ and to off-net to 19 ct.
  - Genion Card L with Germany Flat rate

  - Structured in “S,M,L” (€40 to €55)
  - Bundle benefit: €5
  - 4 MBit/s and 16 MBit/s high-speed
  - Non-O2 mobile customers can also subscribe
Brazil: can we strengthen our competitive position to recover the path of profitable growth?

**MANAGING CURRENT OPERATIONS TO IMPROVE OUR COMPETITIVE POSITIONNING**

- Focus on value clients
- Eliminate fraud
- New pricing plans drive MoU & ARPU increases
- Improve client service

**MIGRATING TO GSM IN TWO YEARS FOR THE BENEFIT OF SALES & MARGINS**

- **Network deployed in a record time**
- Prepay GSM available: 7,000 customers in January
- On track **within announced investment** (400 M € 1:1 overlay)

**MoU (minutes)**

<table>
<thead>
<tr>
<th></th>
<th>3Q06</th>
<th>4Q06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>78</td>
<td>82</td>
</tr>
</tbody>
</table>

MoU: +5.6%

**ARPU (local currency)**

<table>
<thead>
<tr>
<th></th>
<th>3Q06</th>
<th>4Q06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>29.2</td>
<td>31.2</td>
</tr>
</tbody>
</table>

ARPU: +6.6%
Mexico: can we sustain operational turn-around?

A focused strategy that is making good progress

- Improve GSM network coverage & quality (around 80% total POPs covered as of Dec.06)
- Enhance capillarity of high quality distribution channels (>11,500 POS as of Dec.06, +22% vs. Dec.05)
- Develop high-standard customer service
- Renew commercial offer to play elasticity +12% in ARPU vs. 2005 & reduce churn

PRIORITIZE QUALITY GROWTH AGAINST SPEED OF GROWTH
Index

- **2006 results underpin our unique profile**
  1. High top-line growth, through commercial focus & diversification
  2. Solid profitability, gaining further efficiencies & synergies
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- **We are facing your main concerns**
  1. Renewed competition in broadband & mobile in Spain
  2. Potential loss of momentum in the UK
  3. Price erosion in the German mobile market
  4. Underperformance of Brazilian mobile asset
  5. Sustainability of Mexican turn-around

- **What are you maybe missing?**
  Mobile growth & profitability prospects in Latin America
We are setting benchmark targets again for 2007...

Group Revenues
(€ in millions)

- 2006: 52,901
- 2006 (ex Endemol & Airwave): 51,298
- 2007: 51,298

+6%/+9%

Group OIBDA
(€ in millions)

- 2006 (reported): 19,126
- 2006 adjusted for guidance (ex Endemol & Airwave): 19,040
- 2007: 18,688

+8%/+11%

Group OI
(€ in millions)

- 2006 (reported): 9,421
- 2006 adjusted for guidance (ex Endemol & Airwave): 9,336
- 2007: 9,098

+14%/+20%

Group CapEx
(€ in millions)

- 2006 (ex Endemol & Airwave): 8,003
- 2006 adjusted for guidance (ex Endemol & Airwave): 7,814
- 2007: <7,814

+6%/+9%

Base reported numbers include eleven months of O2 (consolidated since February 2006), eight months of Telefónica Telecom (consolidated since May 2006), six months of Iberbanda (consolidated since July 2006), three months of start-up losses in Slovakia (operations started in February 2007), and exclude Endemol and Airwave results. 2007 guidance assumes constant exchange rates as of 2006 and exclude changes in consolidation. In terms of guidance calculation, OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring (980 M€ in 2006 and estimated 630 M€ for 2007 for TdE) and Real Estate Programs are included as operating revenues/expenses. For comparison the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.
...supported by our distinctive growth profile in Latin America...

**Revenue Growth**
(€ in millions)

- 2006: 18,089
- 2007: +11% / +14%

**OIBDA Growth**
(€ in millions)

- 2006: 6,607
- 2007: +12% / +16%

**CapEx**
(€ in millions)

- 2006: 2,811
- 2007: <3,000

T. Latam base reported figures include eight months of Telefónica Telecom (consolidated since May 2006). 2007 guidance assumes constant exchange rates as of 2006. All figures exclude changes in consolidation. In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For comparison the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.
...leveraging the potential of mobile Latam operations...

STABLE MACRO OUTLOOK

- **Mid-single digit rate GDP growth** for major economies
  - **+4.7% in 2007** for the Latam region

STRONG GROWTH PROSPECTS

- **Strong penetration growth of mobile market** (in T.Latam areas of operations)

LEADERSHIP IN MOBILE MARKET MANTAINED

- **Targeting a strong share of net adds** in 2007 by:
  - Pushing **Fixed/Mobile integration** and collaboration to capture growth potential (sharing of sales channel)
  - Capitalizing on our **GSM footprint in all the region** after Brazil & Venezuela GSM migration

LEVERAGING REGIONAL MANAGEMENT OF OPERATIONS

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(1) In millions of $US, constant prices as of 2000. Source: Cepal (Comisión Económica para América Latina y Caribe)
(2) Source: Pyramid
...whose financial profile has already shown tangible progress in 2006...

2006/2005 growth rates
(local currency)

- Customers: +18%
- Service revenues: +20%
- OIBDA: +38%

OIBDA margin

- 4Q05: 24.5%
- 4Q06: 30.5%
- 2005: 22.8%
- 2006: 26.3%


OpCF
(€ in millions)

- 2005: 256
- Δ 2006 OIBDA: 675
- Δ 2006 CAPEX: -26
- 2006: 904

Margin improvement fully flowing to OpCF

Δ 2006 OIBDA
Δ 2006 CAPEX
Telefónica offers shareholders a superior value proposition

- **Highest growth profile**, well ahead of peers
- **Best diversification**, by business and geographies
- **Clear potential to extract value** from scale and integrated management
- **A sound competitive position to face current challenges**

- ✓ **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**
Appendix
Operationally sound across our major divisions

Spain
- reinforced market position for a unique growth & profitability profile
  - **Fixed**: lead in BB, enhanced Pay TV market share. Benchmark top-line & OIBDA
  - **Mobile**: sound commercial delivery (top Xmas). Strong revenues & margins

Latam
- successfully managing growth and profitability
  - **Fixed**: development of BB and Pay TV. Sustained OIBDA margins
  - **Mobile**: rapid expansion of customer base. Tripling cash generation

Europe
- exploiting mobile growth and extracting value from fixed
  - **O2 UK**: solid net adds & ARPU. Top service revenue growth
  - **O2 Germany**: push in postpay. Pressure on revenues
  - **Czech Republic**: BB and mobile expansion. Financial turn-around
Spain: reinforced market position for a unique growth & profitability profile

2006/2005 growth rates

- Fixed
  - Retail BB connections: +38%
  - Pay TV clients: +85%
  - Revenues: +1.7%
  - OIBDA: +6.4%

- Mobile
  - Customer base: +7.8%
  - Service Revenues: +4.5%
  - OIBDA: Flat

- Retail BB market share of 56% as of Dec.06
- Pay TV market share of 10%
- +46% in retail BB revenues y-o-y
- +18% in gross adds and +70% in net adds, in 2006.
- >90% of net adds on postpay (postpay base up +13% y-o-y)
- Outgoing ARPU up annually by 1%

(1) Excluding Iberbanda (consolidated since July 2006). Excluding other exceptional revenues/expenses not foreseeable in 2006. Personnel Restructuring (excluding additional ERE provision of 503M€ registered in 4Q06) and Real Estate Programs are included as operating revenues/expenses.
Latam: successfully managing growth and profitability

2006/2005 growth rates (€ terms)

- 40.0% BB customer base
- +3.5% Revenues
- +3.7% OIBDA

- >30% annual growth in BB revenues in local currency
- All operators growing top-line
- >1 p.p. of OIBDA margin improvement since 1Q06

2006/2005 growth rates (€ terms)

- +18% Customers
- +20% Service revenues
- +38% OIBDA

OpCF (€ in millions)

- 2005: 256
- 2006: 675
- ∆ 2006 OIBDA: 419
- ∆ 2006 CAPEX: -26
- 2006: 904

(1) Assuming constant forex as of 2005. Excluding changes in consolidation (Telefónica Telecom). For OIBDA, excluding other exceptional revenues/expenses not foreseeable in 2006. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses.
Europe: exploiting mobile growth opportunities...

**UK**

- **2006/2005 growth rates (£)**
  - Customer base: 10.3%
  - Service Revenues: 14.7%

- **+13%** annual growth in postpay clients in 2006
- **35%** of base on postpay, +0.9 p.p. y-o-y
- 12 months **rolling postpay churn 4 p.p.** below last year
- **+2.2%** annual ARPU\(^1\) increase, led by MoU and data ARPU growth

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**Germany**

- **2006/2005 growth rates (€)**
  - Customer base: 12.9%
  - Service Revenues: 6.7%

- **49%** of 4Q06 net adds on postpay
- **51%** of postpay net adds signed to Genion in 2006 (3.9 M clients end of Dec.06)
- **+4%** y-o-y growth in MoU in 2006
- Pressure on ARPU\(^1\) (**-12.6%**), led by change in mix, MTR cuts and competition

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(1) Quarterly Monthly Average

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Telefónica
...and extracting value from the turn-around of fixed in the Czech Republic

Retail BB connections (in thousands)
- Dec.05: 226 (→ Dec.06: 405, +79.4%)

Postpay mobile clients (in thousands)
- Dec.05: 1,546 (→ Dec.06: 1,875, +21.3%)

Revenue evolution (CZK in billions)
- 2005: 61 (→ 2006: 61, +0.4%)

OIBDA evolution (CZK in billions)
- 2005: 27 (→ 2006: 28, +2.4%)

Growth of revenue drivers (2006/2005, local currency)
- Retail revenues (Broadband): 51.7%
- Service revenues (Mobile): 6.4%

2006 margin at 45.8% (+0.9 p.p. y-o-y)
The benefits from a deeper integration are supporting operating performance

1. Keeping the focus on ongoing initiatives
   - Regional management (Spain, Latam & Europe)
   - Global projects (Infrastructure & Systems, Resources, & Business Development)
   - Commercial Convergence (P&S and Channels)
   - Integrated Network, Operations, IT, & Corporates
   - Centralized purchasing

2. Working on new opportunities
   - ADSL+mobile in Europe
   - IPTV/DTH in Latin America
   - Mobile Data applications
   - Digital Entertainment (PC, mobile, TV)
Financial structure: de-leverage reaffirmed and active management of financial expenses

2006/2005 growth rates (€)

- Growth in average total net debt: +84%
- Growth in net interest expenses: +56%

Evolution of Average Effective Debt Service Rate

- 2005: 6.1%
- 2006: 5.1%

Net Debt (€ in millions)

- Jun.06: 54,922
- Net CF: -3,842
- Changes in consolidation & forex: 1,064
- Dec.06: 52,145

(1) Reported Net financial expenses excluding fx results / Average total net debt
An attractive shareholder remuneration policy

**Dividends**
- 2.6 bn€ paid to shareholders

**Buyback Program**
- 75.6 M shares in treasury as of December 06, equivalent to spend 1.1 bn€
- 4.7% cash yield

**Free Cash Flow**
- € in millions
- 2005: 7,108
- 2006: 8,916
- +25.4%

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(1) Available for shareholder remuneration, financial investments and debt reduction
(2) Based on market capitalization as of 1/1/07 (79.3 bn€)
A clear objective to grow 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

**Financial discipline**
- BBB+/Baa1 as rating floor & Net debt + commitments below 2.5x OIBDA in the medium term
- <1.5 Bn.€ in net financial investments\(^2\) in 07 & no issuance of new shares for M&A

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**Underlying EPS**
- 2005: 0.913 €
- 2006\(^1\): 1.120 €

\(+22.7\%\)

**1.6 Bn.€ left to buy shares in 2007**

**Leverage ratio**
- (Net Debt & Commitments / OIBDA \(^3\))
- Mar.06: 2.97x
- Dec.06: 2.85x

---

\(1\) Excluding TPI's capital gains(-0.33€/share) & 2006 Redundancy provision (+0.14€/share)
\(2\) Excluding TPI sale
\(3\) Based on 12 months rolling OIBDA including Telefónica O2 Czech Republic, O2, Telefónica Telecom, and Iberbanda