Telefónica España: Strong Momentum

Antonio Viana-Baptista
General Manager
London, March 29, 2007
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Index

01 Benchmark set of results in 2006

02 Strong opportunities to continue delivering a premium performance

03 Differential strengths to exploit market opportunities
01 Solid set of results in 2006, outperforming sector average

**Strong commercial push**
- Shaping the market
- Strengthening our competitive position across all businesses

**Superior performance**
- **Healthy top-line growth** driven by ARPU and customer base expansion
- **High operating profitability**, leveraging higher commercial efficiency
- **Strong cash generation** despite efforts in network transformation

Unique growth & profitability profile

44.2MM accesses (+5.6%)
01 Strengthening our leadership and stimulating usage in wireline...

- **Leading broadband growth**
  - TdE Retail BB net adds (000)
  - 2005: 838
  - 2006: 1,023
  - Share of net adds > 60%
  - >3.7MM accesses: +38%
  - 56% market share

- **Containing line loss**
  - Imagenio accesses (000)
  - 2005: 207
  - 2006: 383
  - 10% market share: +4 p.p.

- **Gaining share in pay-TV**
  - 2005: 61
  - 2006: 64
  - 23.5% of lines with BB
  - 71% of BB accesses with 2P/3P: +32 p.p.
  - Retail BB VAS ARPU: +19%
  - IT revenues in Corporate: +20%

- **Increasing ARPU**
  - 2005: 207
  - 2006: 383

**Notes**: London, March 29, 2007

**TELEFÓNICA ESPAÑA**
... and in wireless ...

- **Maintaining commercial pressure**
  - #1 in net adds in 2006
  - +175K NP net adds (278k in contract)
  - Best in class contract churn: <1%

- **Driving customer retention**
  - 57% in contract
  - #1 in customer satisfaction
  - Market share erosion below 1p.p.

- **Focusing on value**

- **Fostering usage**

- **Customers (2006/2005)**

- **Total ARPU (€)**
  - Positive elasticity in outgoing voice
  - Non P2P SMS revenue:+24%

(*) ARPU does not include roaming-in

**Data**

- **Incoming**
- **Data**
- **Total (*)**
- **Outgoing voice**

**Telefónica España**
London, March 29, 2007
01 Strong performance of both business lines: WIRELINE

<table>
<thead>
<tr>
<th>MM€ (unaudited figures)</th>
<th>2006</th>
<th>% Var. 2006/2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>11,964</td>
<td>+1.8%</td>
</tr>
<tr>
<td>Internet and BB revenues</td>
<td>2,403</td>
<td>+26.2%</td>
</tr>
<tr>
<td>IT revenues</td>
<td>392</td>
<td>+19.9%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>4,572</td>
<td>-4.4%</td>
</tr>
<tr>
<td>OIBDA margin</td>
<td>38.2%</td>
<td>-2.5 p.p.</td>
</tr>
</tbody>
</table>

ERE provision (MM€)

- In line to meet 03-07 program
- Underlying OIBDA: +3.7%

2006 initial ERE provision in 4Q06
- 2006 additional provision in 4Q06
- 2006-2007E ~ 1,610

~ 503
~ 477
~ 630
Strong performance of both business lines: WIRELESS

<table>
<thead>
<tr>
<th>Revenues</th>
<th>2006</th>
<th>2006/2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>9,199</td>
<td>+4.1%</td>
</tr>
<tr>
<td>Customer revenues</td>
<td>6,353</td>
<td>+6.5%</td>
</tr>
<tr>
<td>IntX and roaming</td>
<td>1,751</td>
<td>-2.5%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>4,128</td>
<td>+0.0%</td>
</tr>
<tr>
<td>OIBDA margin</td>
<td>44.9%</td>
<td>-1.9 p.p.</td>
</tr>
</tbody>
</table>

Y-o-y OIBDA growth:
- Flat
- 2005/2004: -0.7%
01 Telefónica España, solid results & strong cash generation

<table>
<thead>
<tr>
<th>MM€ (unaudited figures)</th>
<th>2006</th>
<th>2006/2005 % Var.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>19,750</td>
<td>+3%</td>
</tr>
<tr>
<td>OIBDA¹</td>
<td>9,627</td>
<td>+2%</td>
</tr>
<tr>
<td>Capex</td>
<td>2,293</td>
<td>+9%</td>
</tr>
<tr>
<td>Free Cash Flow²</td>
<td>7,334</td>
<td></td>
</tr>
</tbody>
</table>

Meeting or beating again our guidance for both wireline and wireless

(1) OIBDA excluding E.R.E. provisions in 2006 (980M€) and 2005 (595 M€)  
(2) OIBDA¹ – Capex
We maintain a differential growth profile

<table>
<thead>
<tr>
<th>Wireline operators</th>
<th>Revenue</th>
<th>EBITDA</th>
<th>Wireless operators</th>
<th>Revenue</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Var. 06/05 (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Teléfonica España</strong></td>
<td>1.7</td>
<td>6.4</td>
<td><strong>Vodafone</strong></td>
<td>4.1</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>BT</strong></td>
<td>4.5</td>
<td>1.9</td>
<td><strong>TIM</strong></td>
<td>2.6</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Telecom Italia</strong></td>
<td>-2.0</td>
<td>-4.1</td>
<td><strong>Orange</strong></td>
<td>1.3</td>
<td>-0.9</td>
</tr>
<tr>
<td><strong>France Télécom</strong></td>
<td>-2.2</td>
<td>-8.0</td>
<td></td>
<td>1.0</td>
<td>n.c.</td>
</tr>
<tr>
<td><strong>Deutsche Telekom</strong></td>
<td>-4.6</td>
<td>-13.3</td>
<td><strong>T-Mobile</strong></td>
<td>-4.7</td>
<td>-8.3</td>
</tr>
</tbody>
</table>

TEF: TdE growth rates adjusted for guidance comparison.
BT: Jan-Dec. 2006 vs. 2005 periods for BT Consolidate Group (Global Services includes international operations) EBITDA before specific and leaver costs.
TI: TI Domestic Wireline (excluding European Broadband project). Organic EBITDA.
FT: Domestic Wireline business=Home France+Business (Business includes non-domestic operations). 2005 data on comparable basis. Data not comparable for Orange France (Personal France); reported OIBDA growth 5.4%.
DT: Domestic Wireline business = BBFN Germany + T-Systems (T-Systems includes non-domestic operations). Adjusted OIBDA.
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01 Benchmark set of results in 2006

02 Strong opportunities to continue delivering a premium performance

03 Differential strengths to exploit market opportunities
High growth potential in our market

**Total market customer revenues (€Bn)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006E</th>
<th>2007E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25.6</td>
<td>27.4</td>
<td></td>
</tr>
</tbody>
</table>

- **GDP growth** above Euro-zone average: +3.2%
- **Population** growth: +1.1%
- Sustained growth in **businesses and freelancers**: +3.6%
- **Household** increase above population growth: +700,000

**Strong momentum in telecoms**

**Favourable macro context**
**02 Strong opportunities to capture**

<table>
<thead>
<tr>
<th>We have enjoyed great successes ...</th>
<th>... but we still have long way to go</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 1MM ADSLs sold in 2006</td>
<td>- Only 30% of households have ADSL</td>
</tr>
<tr>
<td>- Imagenio’s customer base almost doubled</td>
<td>- Our market share is only 10%</td>
</tr>
<tr>
<td>- Innovative solutions launched</td>
<td>- Nearly 90% of our clients DO NOT have “desktops”, and “Wireless Desktop” is yet to explode</td>
</tr>
<tr>
<td>- 300,000 e-mail devices</td>
<td>- Only 5% of our clients have a 3G device</td>
</tr>
<tr>
<td>- Analyzing new business models</td>
<td>- Models based on advertising, content, … are yet to take off</td>
</tr>
</tbody>
</table>
Priorities to exploit our distinctive growth profile

- Sustain premium growth
  - Expansion of wireless customer base & data usage
  - Further development of BB

- Enhance revenue quality
  - Enhance loyalty of high value customers
  - Transform variable revenues into fixed

- Network transformation
  - UMTS network densification & HSDPA expansion
  - TdE’s access network transformation

- Enhance efficiency
  - TdE’s 2003-2007 ERE program
  - Accelerate cash generation

Capture integration & convergence value
### Solid expectations for Telefónica España

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007/2006 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>19,750</td>
<td>0.5%/2%</td>
</tr>
<tr>
<td><strong>OIBDA¹</strong></td>
<td>8,634</td>
<td>5%/7%</td>
</tr>
<tr>
<td><strong>CAPEX</strong></td>
<td>2,293</td>
<td>&lt;2,400</td>
</tr>
</tbody>
</table>

#### Spanish Wireline

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007/2006 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>11,964</td>
<td>0.5%/2%</td>
</tr>
<tr>
<td><strong>OIBDA¹</strong></td>
<td>4,560</td>
<td>9%/12%</td>
</tr>
</tbody>
</table>

1. **2006 figures adjusted for guidance calculation**
2. TdE’s base reported figures include Iberbanda since July 2006. 2007 guidance exclude changes in consolidation. OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. TdE’s Personnel Restructuring (980 M€ in 2006 and an estimated 630 M€ in 2007) 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. CapEx excludes investments related to Real Estate Efficiency Plan.

#### Spanish Wireless

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007/2006 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service Revenues</strong></td>
<td>8,142</td>
<td>2%/4%</td>
</tr>
<tr>
<td><strong>OIBDA</strong></td>
<td>4,128</td>
<td>0%/1%</td>
</tr>
</tbody>
</table>

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**MM€** (data not audited)
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01 Benchmark set of results in 2006

02 Strong opportunities to continue delivering a premium performance

03 Differential strengths to exploit market opportunities
03 **Strong position based on our strengths as an integrated player**

- **We are market leaders across businesses**
  - 82% in fixed line access
  - 56% in broadband
  - >45% in wireless

- **We know well our high quality customer base**
  - 57% of our wireless customers in postpay
  - Stronger market share in Corporate

- **We have higher customer satisfaction**
  - Best quality, service provisioning and customer care

- **We have a large exclusive distribution channel ready to sell all services and state of the art networks to back our commercial efforts**

- **We have strong financial resources to lead the commercial push**
03 Broadband: Best perceived offer

- Greater coverage
- Better product quality (speed & reliability)
- Better provisioning & customer care

ADSL: Broadband Speed test
1 Mbps connections (Kbps)

Source: Asociación de Internautas (AI). 2007

“Best quality ISP”
AI. January 07

+ 

- More attractive content (>80 channels, football, VoD)
- Stronger innovation (Imagenio & VAS)

Source: Asociación de Internautas (AI). 2007
03 Wireless: High performance loyalty tools

- **Biggest on-net community:** >45% market share
- **4.5MM customers with on-net plans:** 45-50% lower churn
- **Very attractive on-net prices:** Xmas campaign joined by >1.2MM
- **Warm reception to new loyalty points catalogue**
- **Increasing proportion of long term contracts**
- **Revenue share higher than customer share**

### Contract churn

<table>
<thead>
<tr>
<th></th>
<th>4Q06</th>
<th>4Q05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vodafone</td>
<td>15.3%</td>
<td>25.5%</td>
</tr>
<tr>
<td>Orange</td>
<td>54%</td>
<td>49%</td>
</tr>
<tr>
<td>Contract weight</td>
<td>57%</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

### TME’s residential contract handset upgrades

<table>
<thead>
<tr>
<th></th>
<th>4Q06</th>
<th>4Q05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract handset upgrades</td>
<td>+54%</td>
<td></td>
</tr>
</tbody>
</table>

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1 Sources: press releases from companies. Rolling 12M data for Orange.
03 Differential commercial strength

Driving cross selling

+2,500 sales people

Integrated sales force in Corporate & joint objectives for small businesses

10,000 Call centre positions

Signalling and transferring

Strong online channels

Joint front-end, redirectioning and bundle sales

~7,300 Points of sale

Joint indirect channel management

Exclusive POS

- Largest channel: >45% of total PoS in the market
- >75% of wireless commercial activity carried out through exclusive PoS
- Exclusive specialists PoS, a competitive advantage:
  - PoS over any other operator total exclusive PoS
  - Key channel for high value segments

1 Source: Telefónica estimates. Based on research in cities over 20,000 inhabitants
03 Unmatched profile to exploit convergence

**Examples**

Channel convergence
- Stimulating demand through cross selling

Integrated sales force & convergent offering
- Capturing, retaining and winning back corporate clients
- Lengthening commitment periods

**BB & Imagenio sales through TME’s specialist channel**
Units per week

Promotional period

Week 6 - Week 9: X2.2

February - March

**4Q06**

Telefónica España
London, March 29, 2007
**03 Transforming the network**

*Telefónica España CAPEX*

<table>
<thead>
<tr>
<th>Year</th>
<th>Recurring</th>
<th>Transformational</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>2006</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>2007E</td>
<td>42%</td>
<td>58%</td>
</tr>
</tbody>
</table>

- UMTS network densification & HSDPA expansion, to back a commercial strategy fully aligned with market trends
- TdE’s access network transformation (FTTx)

*Megabytes volume*

- 2G/2.5G: 46% (2005) → 61% (2006)
- 3G: x4 increase
03 Financial strength

Unparallel resources allows to lead innovation and keep strong commercial push

1 Includes VOD, OGE, Ono & Jazztel.
Sources: press releases from companies and ML Wireless Matrix (March 2007).
03 Proven track record of successfully facing our challenges

Leveraging our distinctive assets both in wireline …

<table>
<thead>
<tr>
<th>Share of retail BB net adds (4Q06E)</th>
<th>2006/2005 Var.</th>
</tr>
</thead>
<tbody>
<tr>
<td>60%</td>
<td>+1 p.p.</td>
</tr>
<tr>
<td>9%</td>
<td>+2 p.p.</td>
</tr>
<tr>
<td>4Q06/4Q05</td>
<td>+4.3%</td>
</tr>
<tr>
<td>Total customers ARPU</td>
<td>+20%</td>
</tr>
<tr>
<td>VAS ARPU for BB customers</td>
<td></td>
</tr>
</tbody>
</table>

- 3.1MM active BB VAS at Dec-06 (2.6MM Dec-05)

Imagenio (4Q06E)

<table>
<thead>
<tr>
<th>Share of net adds</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
<td>10%</td>
</tr>
<tr>
<td>4Q06/4Q05</td>
<td></td>
</tr>
</tbody>
</table>
Proven track record of successfully facing our challenges

... and in wireless

Share of wireless net adds

<table>
<thead>
<tr>
<th></th>
<th>4Q06E</th>
<th>4Q06/4Q05</th>
</tr>
</thead>
<tbody>
<tr>
<td>23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Yoigo & MVNOs launch

<table>
<thead>
<tr>
<th>SPAIN (Yoigo + MVNOs)</th>
<th>SLOVAKIA (Telefónica)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>45MM</td>
</tr>
<tr>
<td>Penetration</td>
<td>104%</td>
</tr>
<tr>
<td>Customers in 1st month op.</td>
<td>~60K Xmas</td>
</tr>
</tbody>
</table>

Sources: Telefónica estimates based on press releases from companies and internal estimates for MVNOs.
03 Conclusions

- Once again we have delivered solid results in 2006, meeting or exceeding 2006 demanding guidance

- Proven capacity to grow further our revenues through new accesses and increased usage of our services

- Strong opportunities to keep a benchmark profile

- Exploiting convergence opportunities and extracting value from integration

- Our track record reflects our strengths and execution capabilities to capture this growth potential