

Annual Results

January – December 2006

TELEFONICA S.A.

March 1st, 2007



This presentation is being broadcast live on the Internet

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Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and other important factors that could cause actual developments or results to differ materially from those expressed in our forward looking statements.

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The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is un-audited and, therefore, is subject to potential future modifications.

2006 performance strengthens our profile as the best combination of growth & returns in the industry

4 areas of management focus in 2006...

...that delivered tangible results

1
Fuelling our unique growth profile

2
Extracting value from deeper integration

3
Re-building a solid financial structure

4
Yielding attractive returns

+42.9% EPS growth

>1 bn.€ of synergies cashed-in (OIBDA-CapEx)

Net Debt¹/OIBDA progressing towards our 2.5x target

>3.5 bn.€ returned to shareholders (40% of FCF²)

A solid set of results in 2006, outperforming sector average...



€ in millions
(% change y-o-y)

	Jan-Dec 2006	Jan-Dec 2005	% Change 2006/2005	% Change 2006/2005 organic ¹	
Revenues	52,901	37,383	+41.5%	+7.8%	
Operating Income before D&A (OIBDA)	19,126	15,056	+27.0%	+6.4%	
Operating Income (OI)	9,421	8,363	+12.7%	+4.8%	Before PPA² +15.6%
Net Income	6,233	4,446	+40.2%		
OpCF (OIBDA-CapEx)	11,122	9,903	+12.3%	+5.5%	

Forex added 1.2 p.p. to 2 p.p. to nominal growth rates of major metrics

Note: TPI has been discontinued in 2006 and 2005 following Telefónica's acceptance of Yell's offer in July 4th

TELEFONICA S.A.
Investor Relations

(1) Assuming constant exchange rates as of 2005. Incorporating Telefónica O2 Czech Republic and O2 from Jan. and Feb. 1st 2005, respectively, and excluding Telefónica Telecom in Colombia (consolidated since May 2006), Iberbanda (consolidated since July 2006) and Slovakia (start-up in 4Q06) Excluding TdE's additional ERE registered in 4Q06 (503 M€) and New Management Pension Scheme (133.5 M€)
(2) Excluding O2's Purchase Price Allocation (861 M€ in 2006) and T. O2 Czech Republic's PPA (155 M€ in 2006)

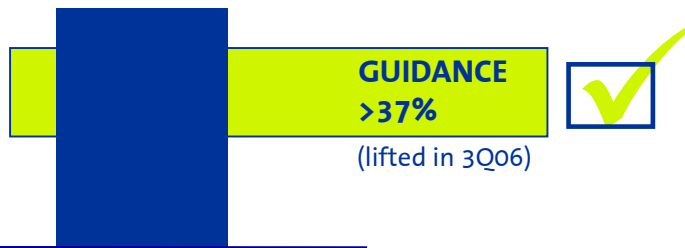
Telefonica

...hitting our P&L targets at the Group level, after 3Q06 upgrade



Revenue Growth

+38.8%



% Change 2006/2005

OIBDA Growth

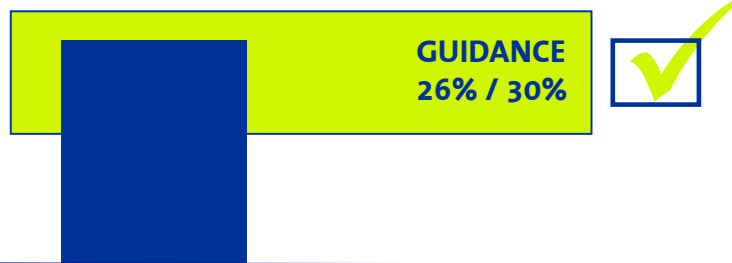
+28.9%



% Change 2006/2005

OI Growth

+29.2%



% Change 2006/2005

CapEx

7,749



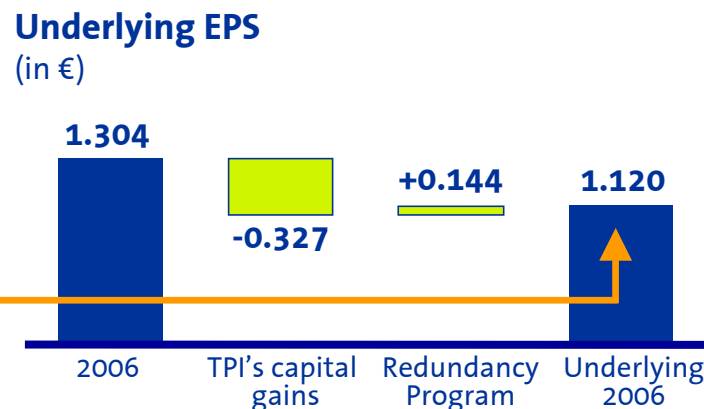
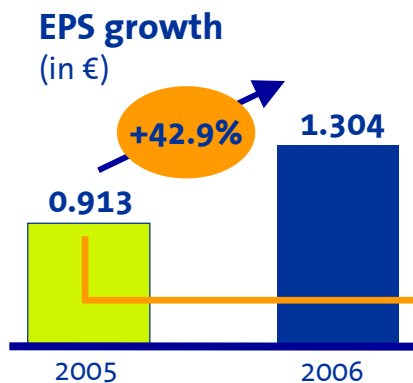
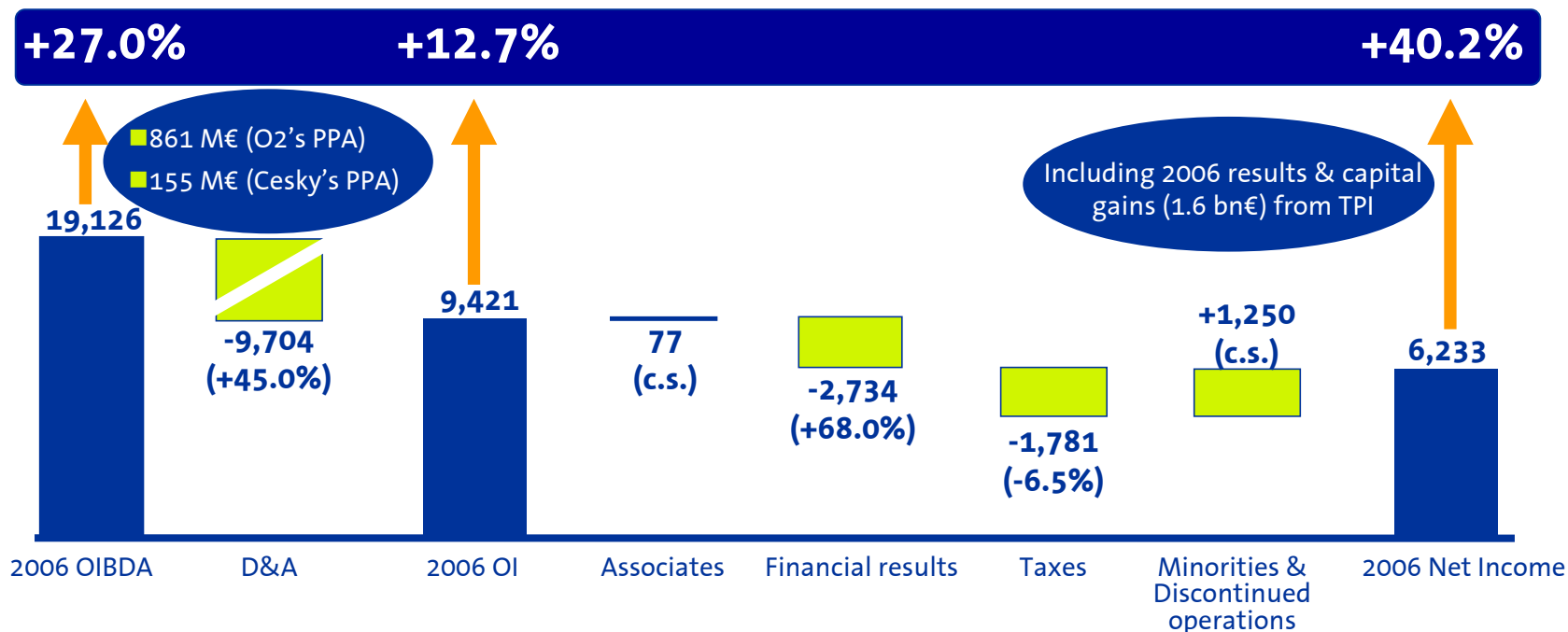
2006

Notes

2006 adjusted for guidance assumes constant exchange rates as of 2005 and excludes TPI, Telefónica Telecom, Iberbanda and Slovakia 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 (except the 503 M€ additional provision accounted for in 4Q06 by TdE) and Real Estate Programs are included as operating revenues/expenses. For homogeneous comparison TPI is also excluded from 2005 numbers, and the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures in terms of guidance calculation.

...and pushing underlying EPS up by almost 23%...

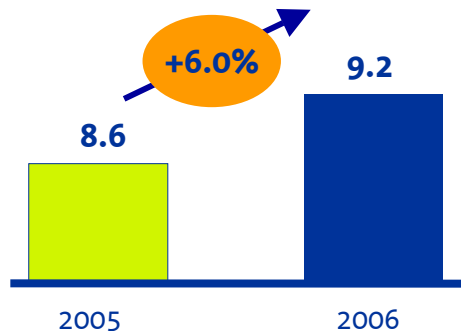
€ in millions
(% change y-o-y)



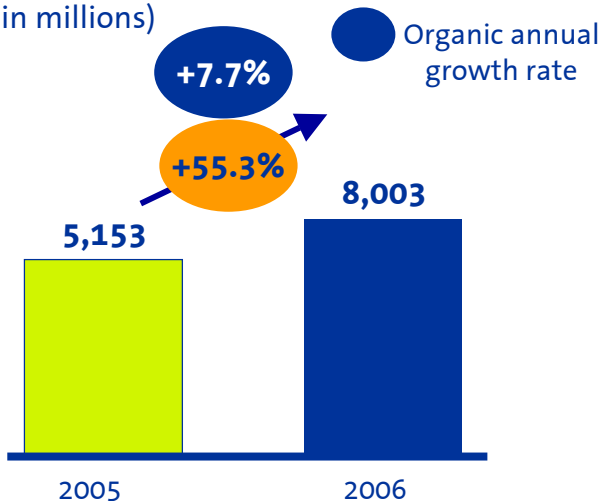
...as we leveraged our drive on subscriber acquisition and retention



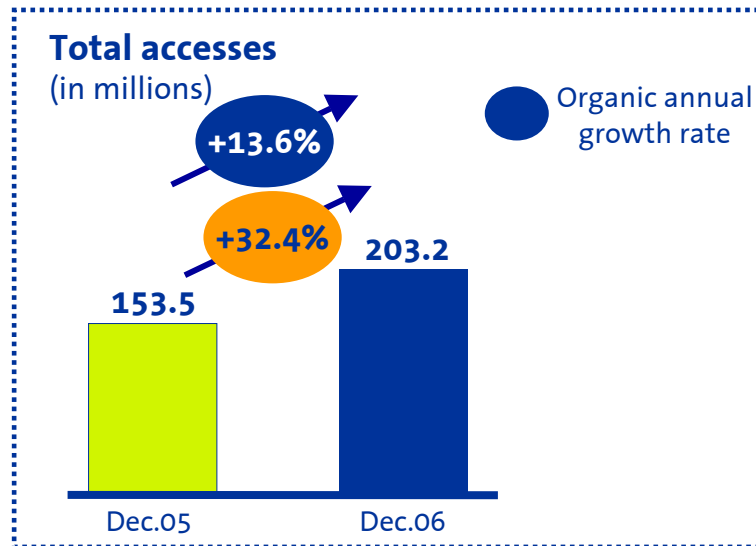
Commercial expenses ¹
(€ in billions)



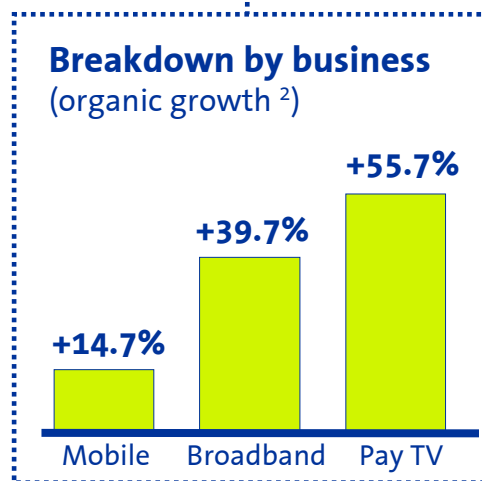
CapEx spending
(€ in millions)



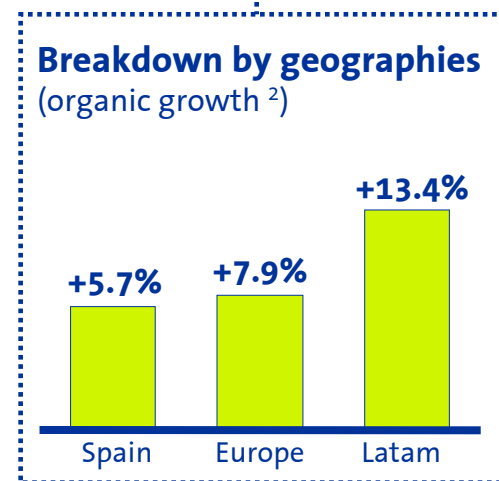
Total accesses
(in millions)



Breakdown by business
(organic growth ²)



Breakdown by geographies
(organic growth ²)

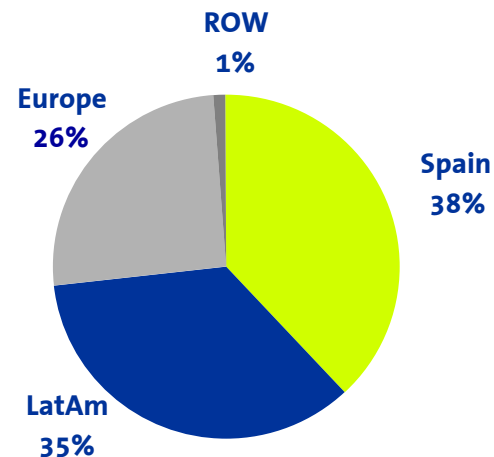
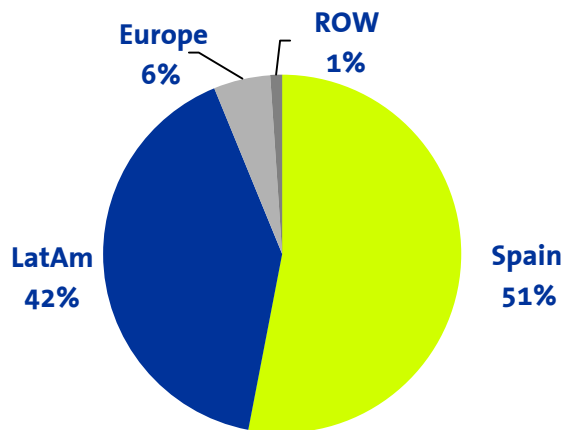


A highly diversified financial performance...

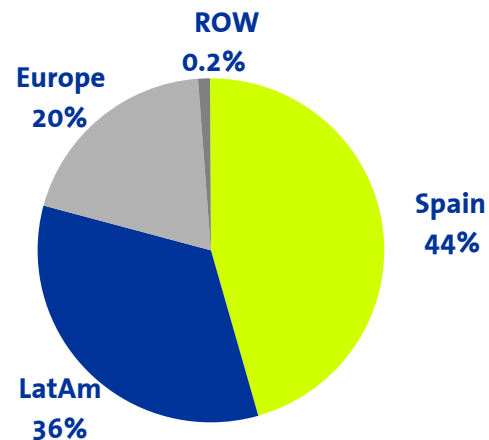
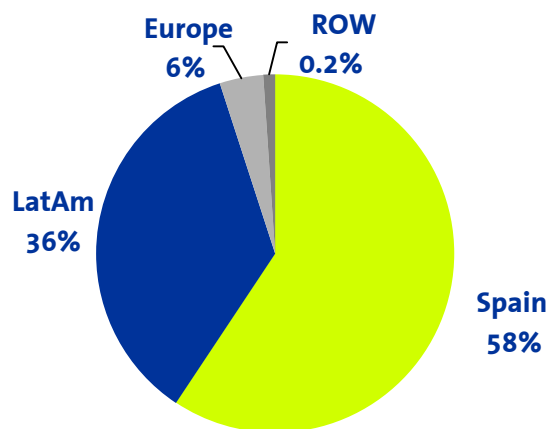


2005 2006

Revenues
by
region



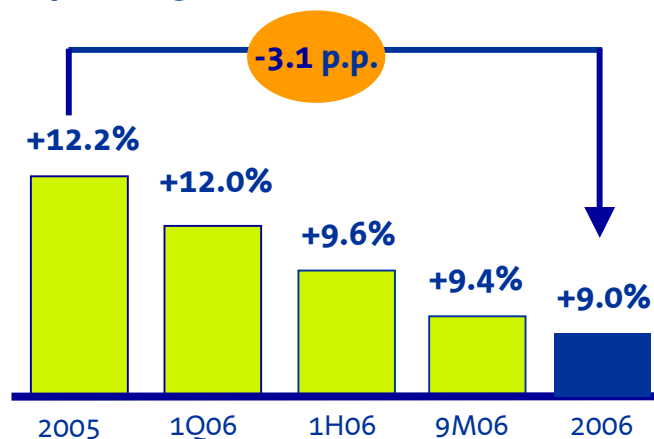
OIBDA
by
region



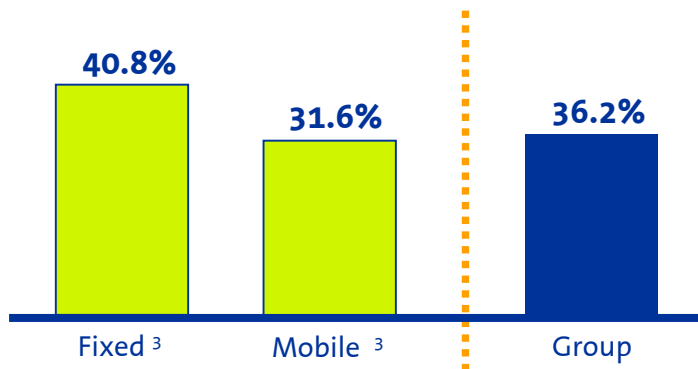


...and a continuous focus on cost management to keep profitability despite our commercial efforts

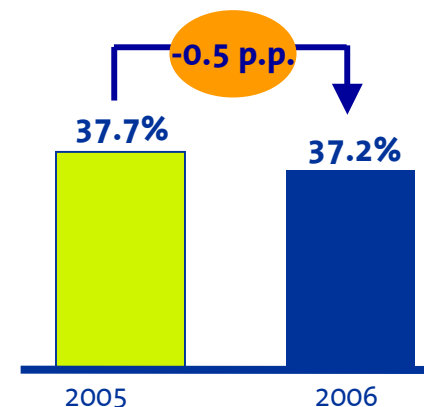
OpEx¹ Organic² Growth



2006 OIBDA Margin



Organic² OIBDA Margin



(1) Supplies, Personnel Expenses (ex-restructuring costs), External Services, Bad Debt Expenses and Taxes

(2) Assuming constant exchange rates as of 2005. Incorporating Telefónica O2 Czech Republic and O2 from January and February 1st 2005, respectively, and excluding Telefónica Telecom (consolidated since May 2006), Iberbanda (consolidated since July 2006), and Slovakia. For OIBDA, excluding TdE's additional redundancy provision registered in 4Q06 (503 M€) and New Management Pension Scheme (133.5 M€)

(3) Fixed & Mobile: aggregates of TdE+T.Latam, and of TEM+O2 Group (T. O2 CR not included).



Spain: reinforced market position in 2006

Unique growth & profitability profile

TdE (Wireline)

- Strengthening the lead in the BB market through the development of 2P & 3P and capturing market share in Pay TV, while limiting traditional lines losses
- Strong top-line performance with the transformation towards BB & IT services pushing total ARPU up
- Solid underlying OIBDA growth, beating upgraded target
- 503 M€ additional ERE provision recorded in 4Q06 for a total 980 M€ for the full year 2006, is impacting reported OIBDA

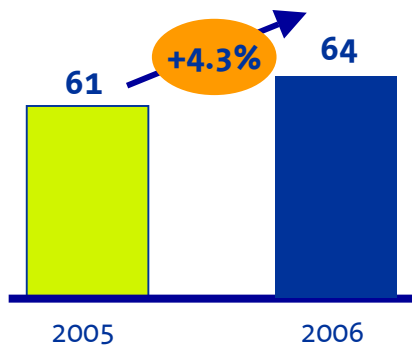
TME (Wireless)

- Sound commercial delivery. Very successful Xmas campaign. Solid net adds powered by churn control
- Healthy revenue performance: stable ARPU and strong customer growth
- Sound profitability: higher commercial efficiency



Telefónica de España: a push in ARPU that leads to unique top line growth

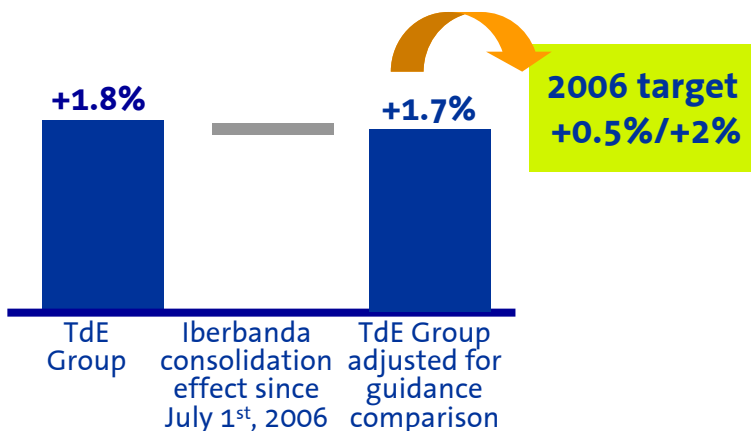
ARPU
(€/month)



TRANSFORMING THROUGH THREE KEY AXIS

- **Expanding BB** customer base
 - 23.5% of lines have BB (16.9% in 2005)
- **Promoting 2P/3P** (ARPU uplift & loyalty)
 - 71% of retail BB accesses with 2P/3P
- **Developing VAS and Solutions**
 - Retail BB VAS ARPU: +19% y-o-y to top 7 €/month
 - Corporate IT revenues: +20% y-o-y

2006 Revenue Growth

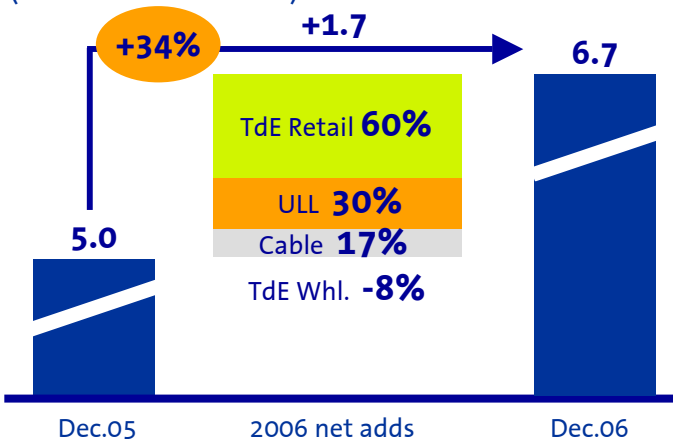


- **Retail Broadband revenues:**
+46.4% to reach 1.9 bn€
- **IT & Data revenues:**
+8.1% to top 1.5 bn€

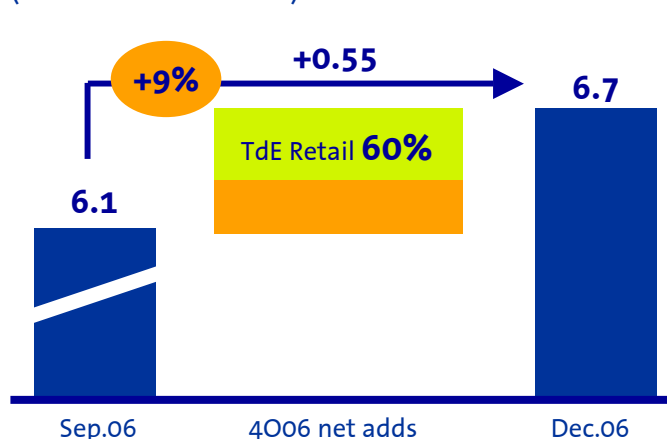
Leading broadband development in the Spanish market...



Spanish BB market
(accesses in millions)

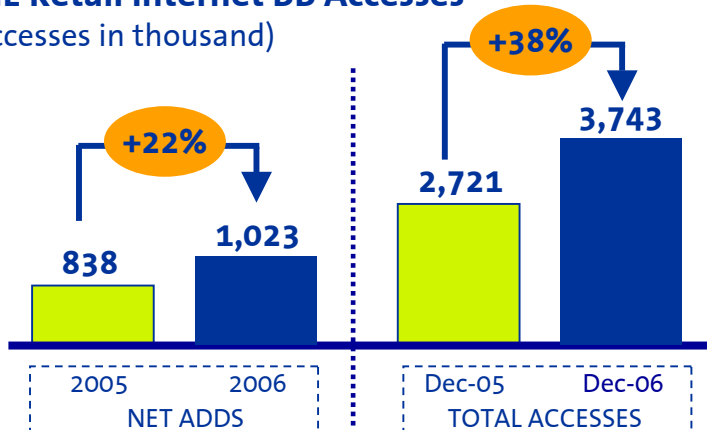


Spanish BB market
(accesses in millions)



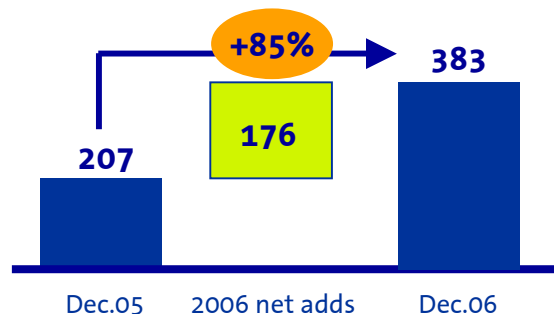
TEF's momentum maintained in 4Q06

TdE Retail Internet BB Accesses
(accesses in thousand)



■ **56% BB market share, leveraging premium service quality**

TdE Pay TV subscribers
(in thousand)

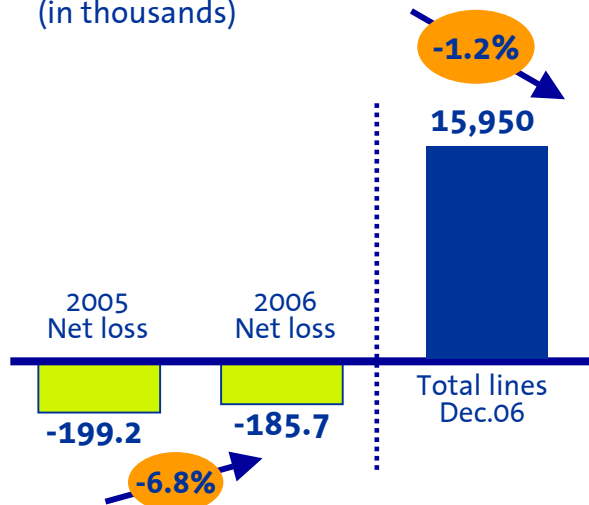


■ **10% Pay TV market share end 2006 (+4 p.p. y-o-y)**
 ■ **Over 40% share of net adds in 4Q06.**

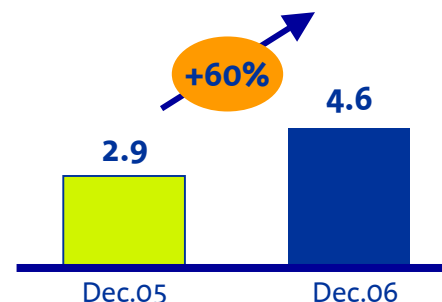
...and containing traditional business erosion...



TdE fixed lines trend
(in thousands)



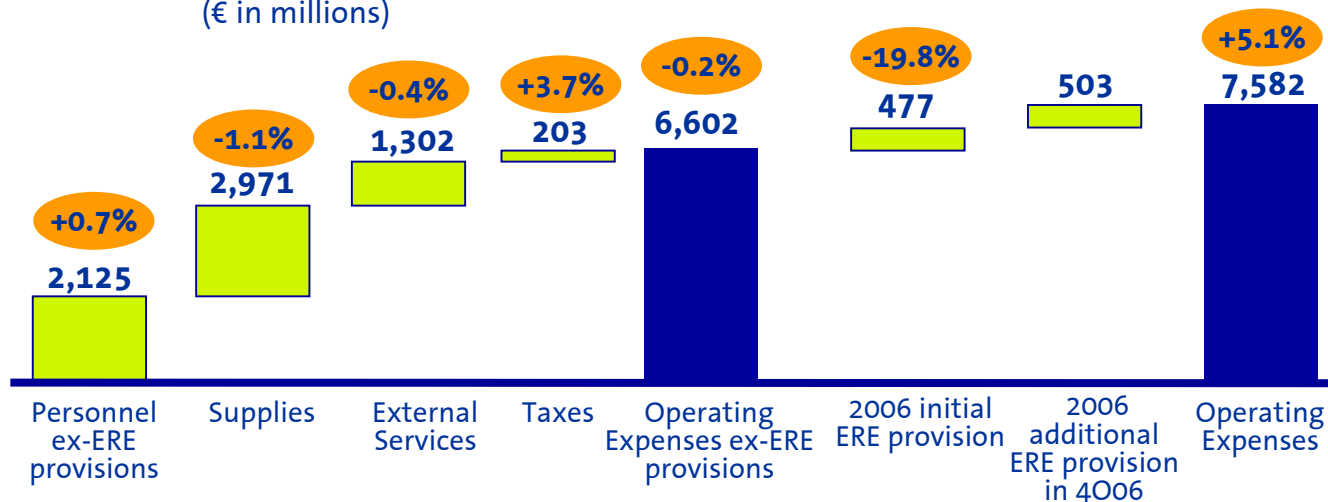
Flat & Semi-Flat Rates for voice
(customers in millions)



Estimated Traffic (Million minutes)	2006	2005	% Change 2006 / 2005
OUTGOING	54,426	59,418	-8.4%
Voice ¹	43,369	43,932	-1.3%
National	33,087	33,525	-1.3%
International	2,094	1,967	+6.4%
F2M	5,431	5,684	-4.4%
IN ² & Others	2,756	2,755	+0.0%
Internet	11,057	15,486	-28.6%
INCOMING	44,781	50,789	-11.8%
TOTAL	99,208	110,207	-10.0%

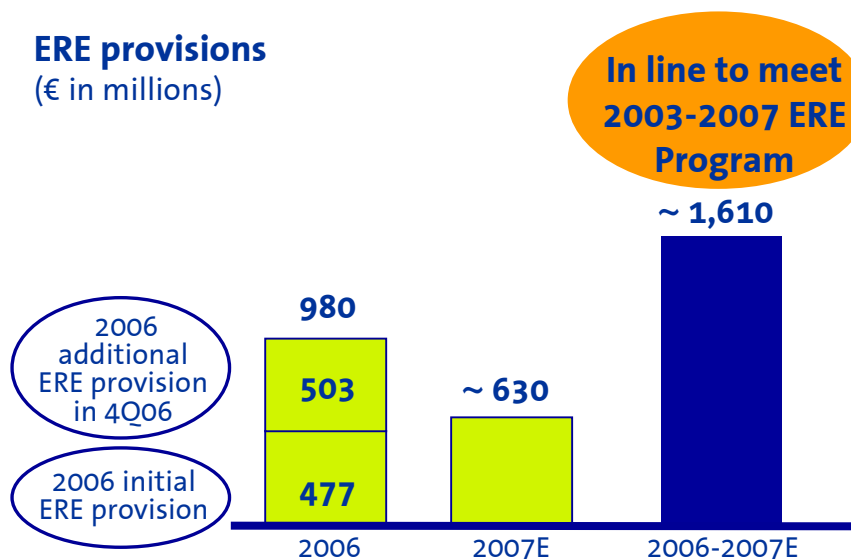
...with a strong focus on operational efficiency

Group OpEx Breakdown
(€ in millions)



Annual growth rate

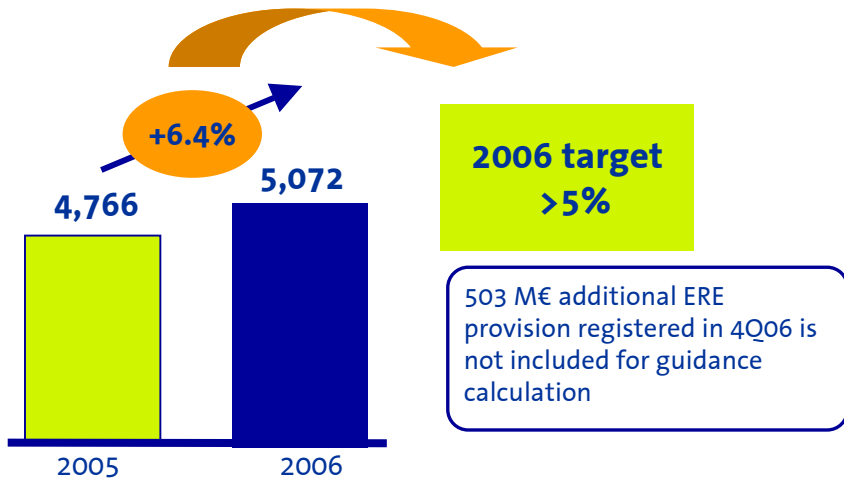
ERE provisions
(€ in millions)



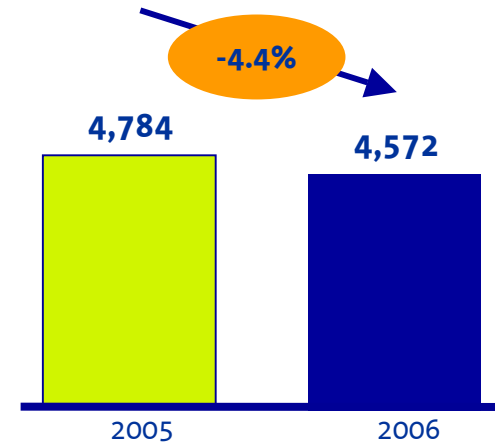


Unique profile in terms of profitability

Group Adjusted OIBDA¹ for guidance calculation
(€ in millions)



Group OIBDA
(€ in millions)

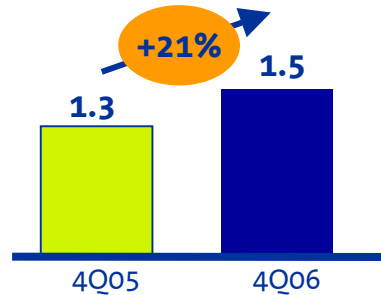


Telefónica Móviles Spain: A record Xmas campaign since 2001...

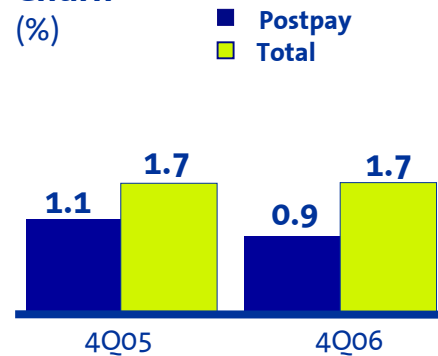


4Q06 performance

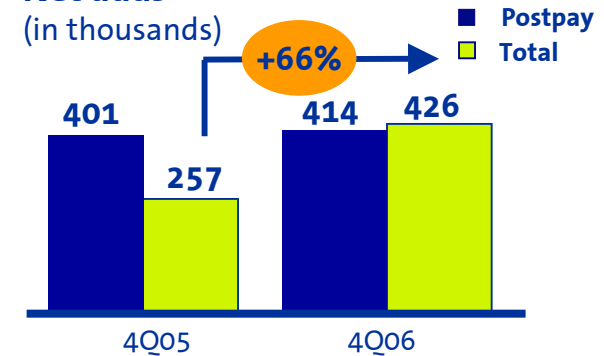
Gross Adds
(in millions)



Churn
(%)



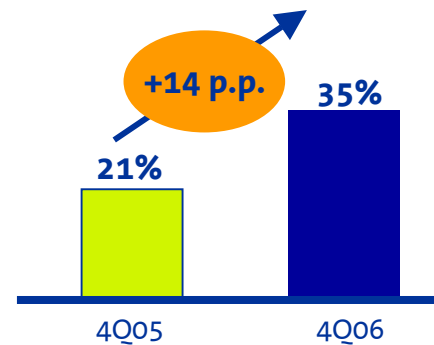
Net adds
(in thousands)



- > 1.2M customers joined on-net Xmas traffic promotion
- Attractive acquisition campaign: wider handset portfolio & lower entry barriers
- Strong loyalty campaign based on new attractive portfolio (+25% in handset upgrades vs. 4Q05)

3 new entrants and re-launch of 3rd player

Market share of net adds



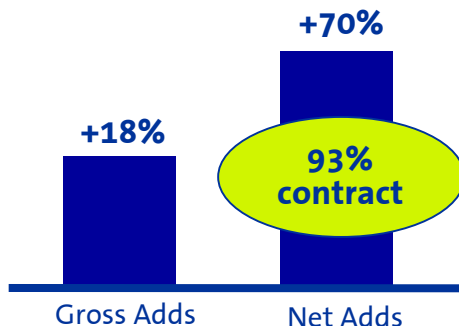
Strong results leveraging exclusive distribution channel

...which has reinforced the success of our commercial strategy, focused on value...

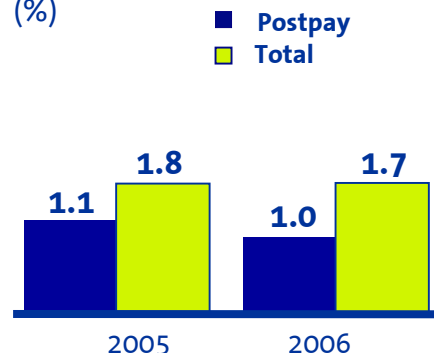


2006 performance

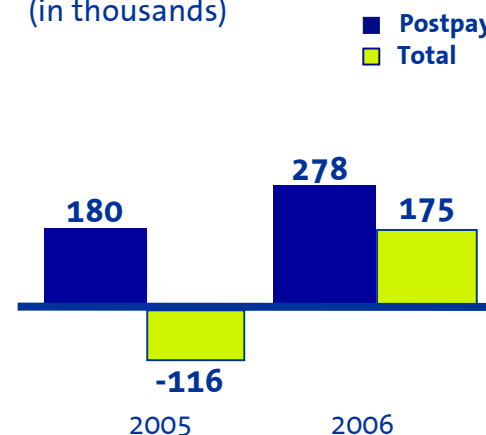
2006/2005



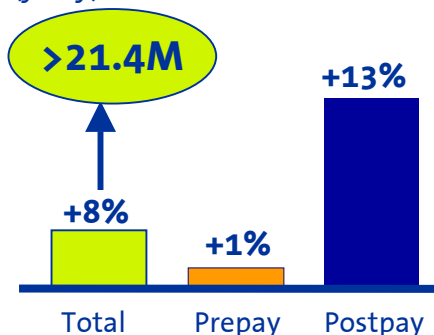
Churn (%)



Number Portability (in thousands)



Customer growth (y-o-y)

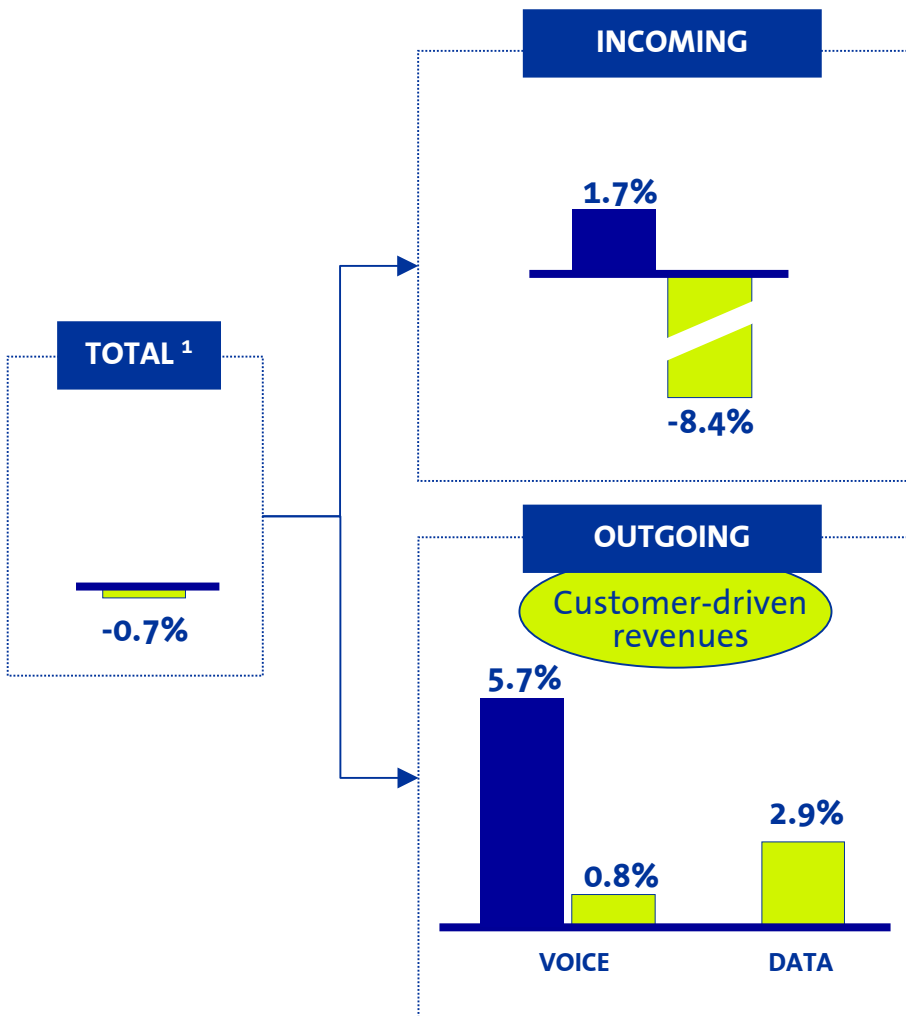


- Company with largest absolute net adds in 2006
- Only operator with enhanced customer satisfaction in the market
- Market Share >45% (less than 1p.p. reduction vs. Dec.05)
- 57% postpay weight over total customer base (54% in Dec.05)



... and on the stimulation of voice and data usage

2006
(y-o-y growth rates)



■ ARPU Growth
■ MOU Growth

Data revenues split	2005	2006
P2P Communications	63%	58%
<i>P2P SMS</i>	61%	56%
Content	31%	33%
Connectivity	6%	9%

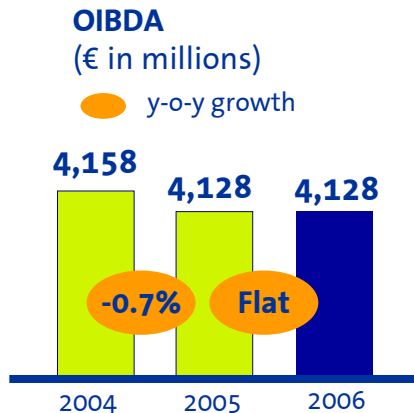
- 24% increase in non P2P SMS revenues vs. 2005
- >1.1M 3G customers (>165,000 PC Cards)
- 78% increase in connectivity revenues vs. 2005

Maintaining strong margin and absolute OIBDA despite interconnection & roaming tariffs reductions



	4Q06/4Q05	2006/2005
Revenues	+5.4%	+4.1%
Handset Revenues	+15.7%	+1.7%
Service Revenues	+4.2%	+4.5%
<i>Customer revenues</i>	+4.7%	+6.5%
<i>Interconnection revenues</i>	+0.5%	-2.0%
<i>Roaming-in revenues¹</i>	+3.8%	-5.5%

2006 target
+3%/+6%



- 45% OIBDA margin in 2006 (-1.9 p.p. vs. 2005) with 14% increase in commercial activity involving handsets
- 43% OIBDA margin in 4Q06 impacted by high acquisition & retention activity: +21% gross adds 4Q06/4Q05, +25% handset upgrades 4Q06/4Q05



Europe: exploiting mobile growth opportunities and extracting value from the turn-around of fixed

European Mobile

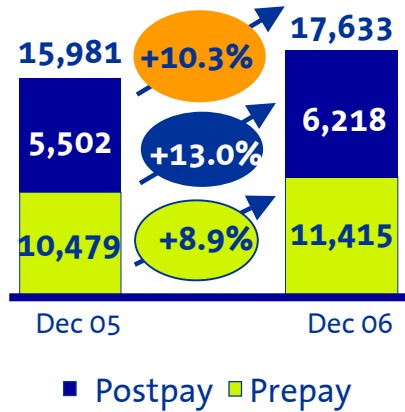
- Keeping the lead in service revenue growth in the UK, driven by solid subscriber additions and improved ARPU
- Sustained healthy commercial performance in Germany, with a focus on contract segment, in a context of competitive pressures
- Encouraging response to ADSL offering in Germany and project to launch in the UK by mid-07 on track

TO2 Czech Republic

- A noticeable turn-around of financial performance, with both positive revenues and OIBDA growth rates
- An active push of broadband and mobile customer bases, driven by improved connectivity, and the development of data and VAS services
- A sustained improvement of margins despite re-branding, renewed commercial activity and the launch of operations in Slovakia in 4Q06

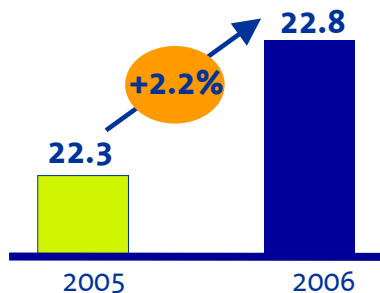
O2 UK: strong service revenue growth driven by solid customer expansion and strong voice usage

Evolution of client base (in thousands)



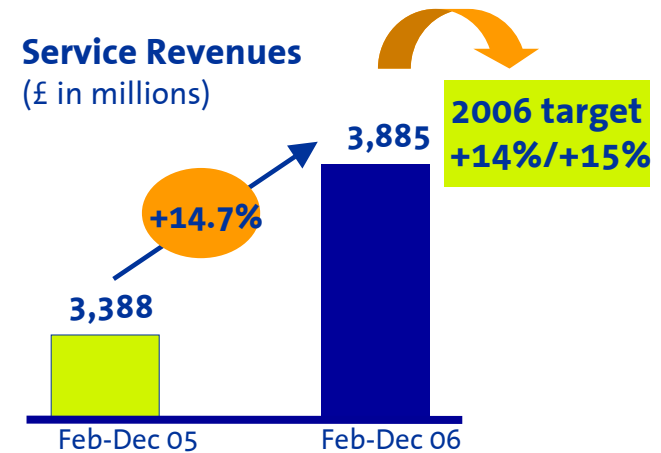
- 1.65M net new clients added in 2006
- 295k net new clients in 4Q06
- 12 months rolling postpay churn 4 p.p. below last year

Average Revenue per User (quarterly monthly average, in £)

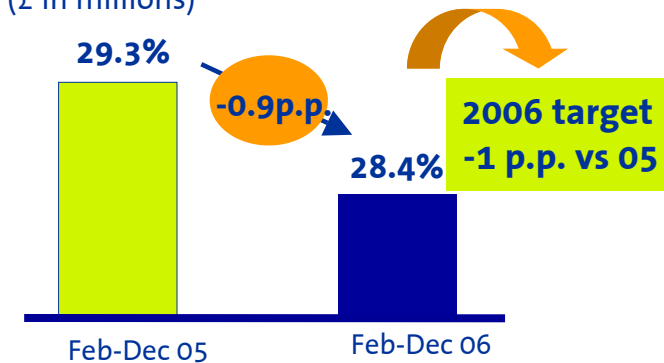


- Better client mix, 35% of base on postpay (+1 p.p. vs. 2005)
- +9.2% in MoU¹ in 4Q06 to 180 minutes per month driven by new propositions
- +5.9% increase in data ARPU¹ in 4Q06

Service Revenues (£ in millions)



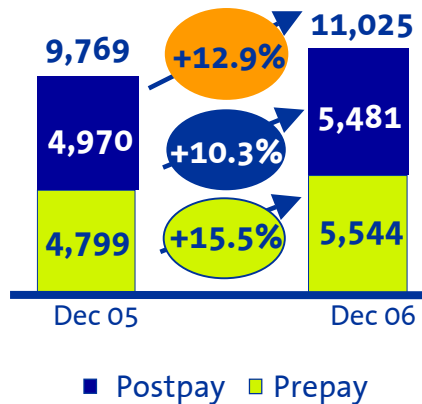
OIBDA margin (£ in millions)





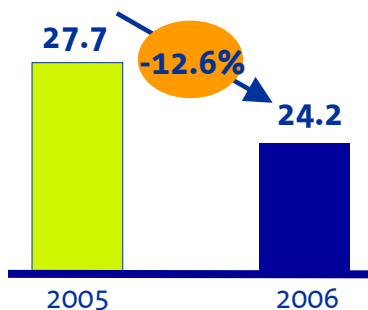
O2 Germany: sustained positive performance on contract within a highly competitive scenario

Evolution of client base
(in thousands)



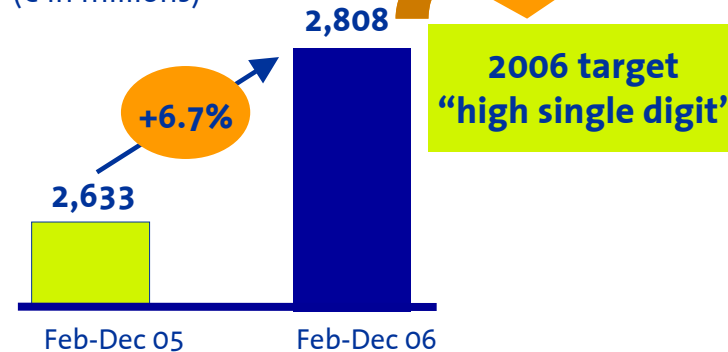
- 396,000 net new customers added in 4Q06
- 49% of 4Q06 net adds were on postpay
- 4Q06 contract net adds up 80% vs 9M06 average

Average revenue per User
(quarterly monthly average, in €)

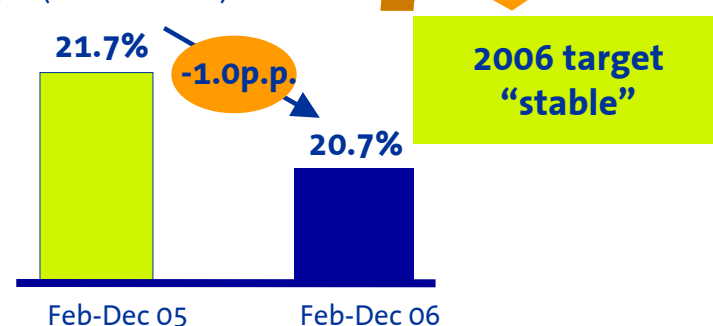


- +4% in MoU¹ to 129 minutes per month
- Over 50% of base on prepay
- Pricing pressure led by termination rate cuts and competition

Service Revenues
(€ in millions)



OIBDA margin
(€ in millions)

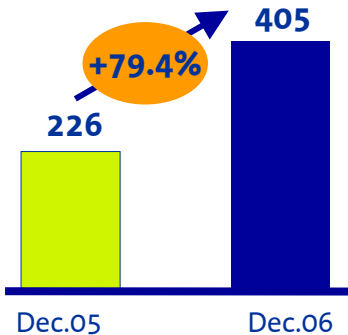


21.8% ex redundancies accounted for in 4Q06

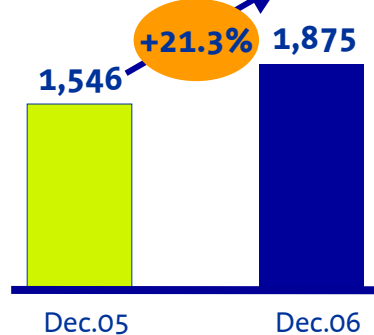


T.O2 Czech Republic: BB and mobile are driving P&L turn-around

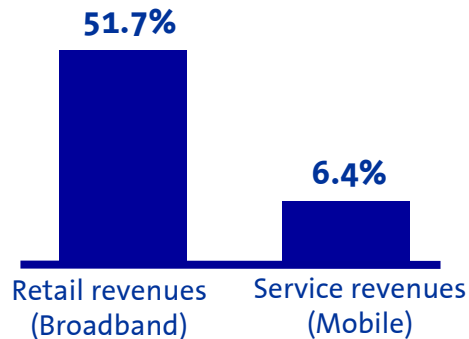
Retail BB connections
(in thousands)



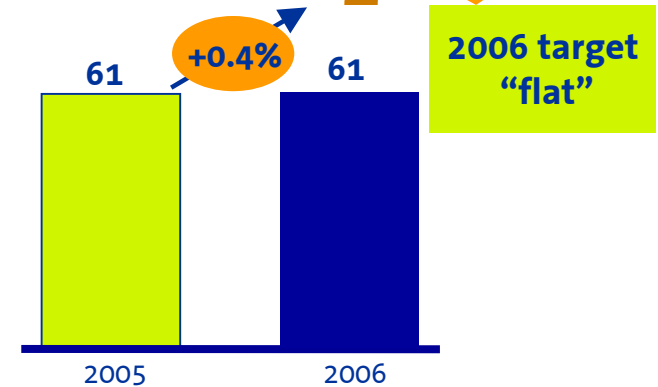
Postpay mobile clients
(in thousands)



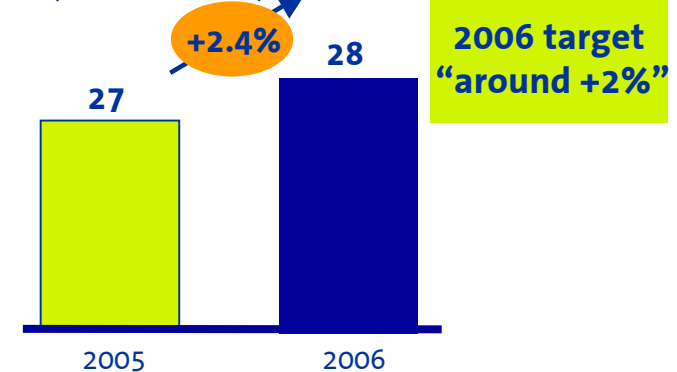
Growth of revenue drivers
(2006/2005, local currency)



Revenue evolution
(CZK in billions)



OIBDA evolution
(CZK in billions)



2006 margin at 45.8% (+0.9 p.p. y-o-y)



Latam: a successful management of growth and profitability

T.Latam (Wireline)

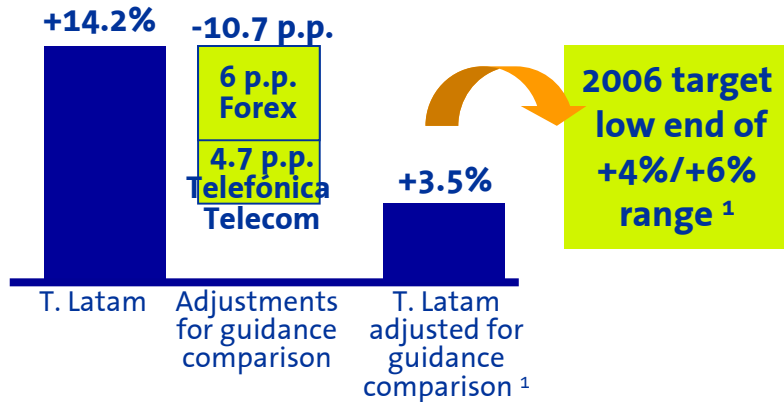
- Strong growth in broadband & Pay TV across all countries, improving market positioning through gradual introduction of 2P & 3P
- Broadband and VAS growth drive revenue expansion across all the region, with ongoing active management of traditional services
- Growth and profitability remains well-balanced, sustaining OIBDA growth, as we capitalized on regional & local management

T.Latam (Wireless)

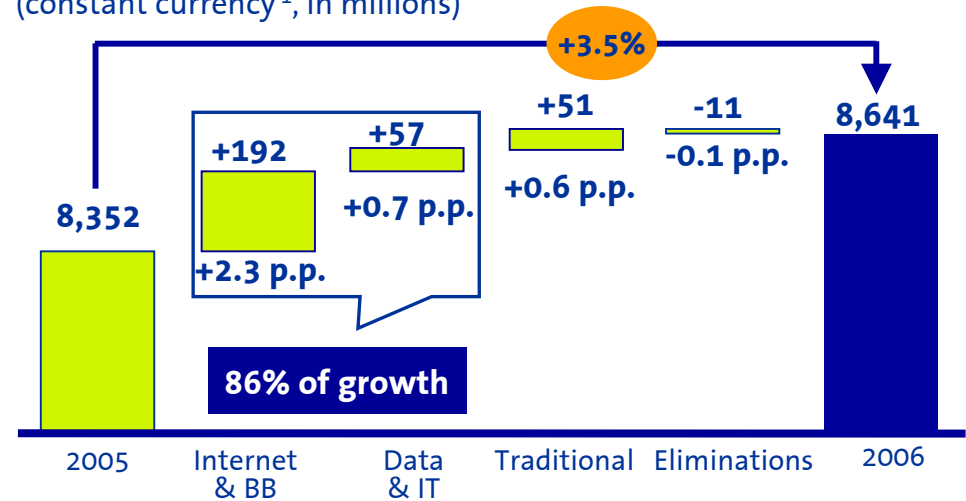
- Service revenue growth outpacing customer base expansion, led by very solid outgoing revenues
- Strong margins enhancement despite high commercial activity
- More than tripling cash generation, fully led by enhanced profitability

T.Latinoamérica: BB and IT services are driving top-line performance...

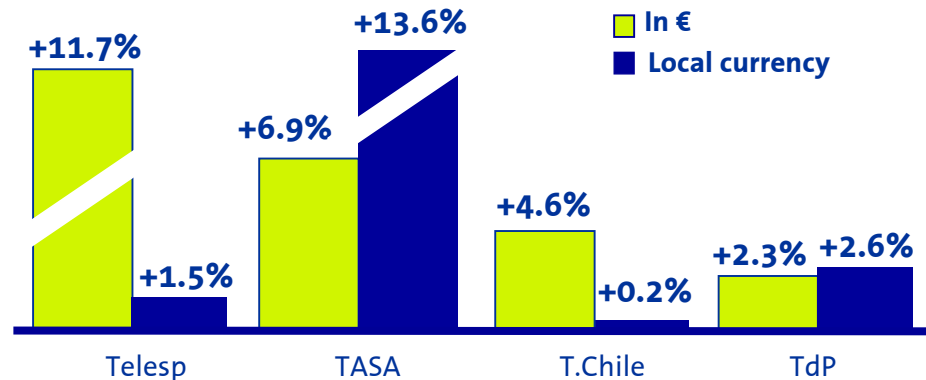
2006 Revenue growth



Breakdown of consolidated revenue growth (constant currency¹, in millions)



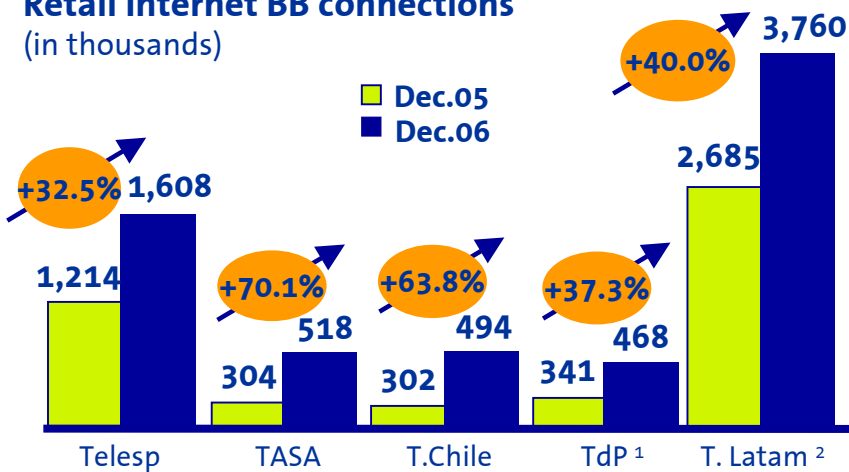
2006 Revenue growth by company



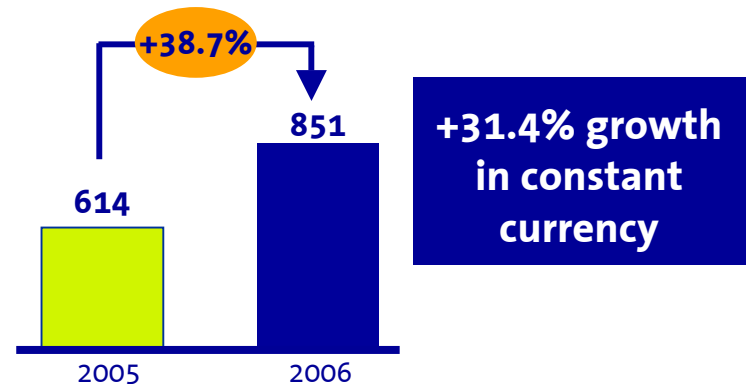
...BB connectivity & VAS to drive top-line growth...



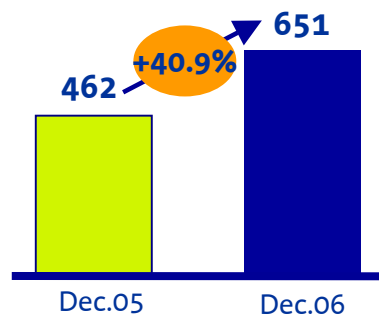
Retail Internet BB connections
(in thousands)



Broadband revenues
(€ in millions)



Pay TV
(in thousands)



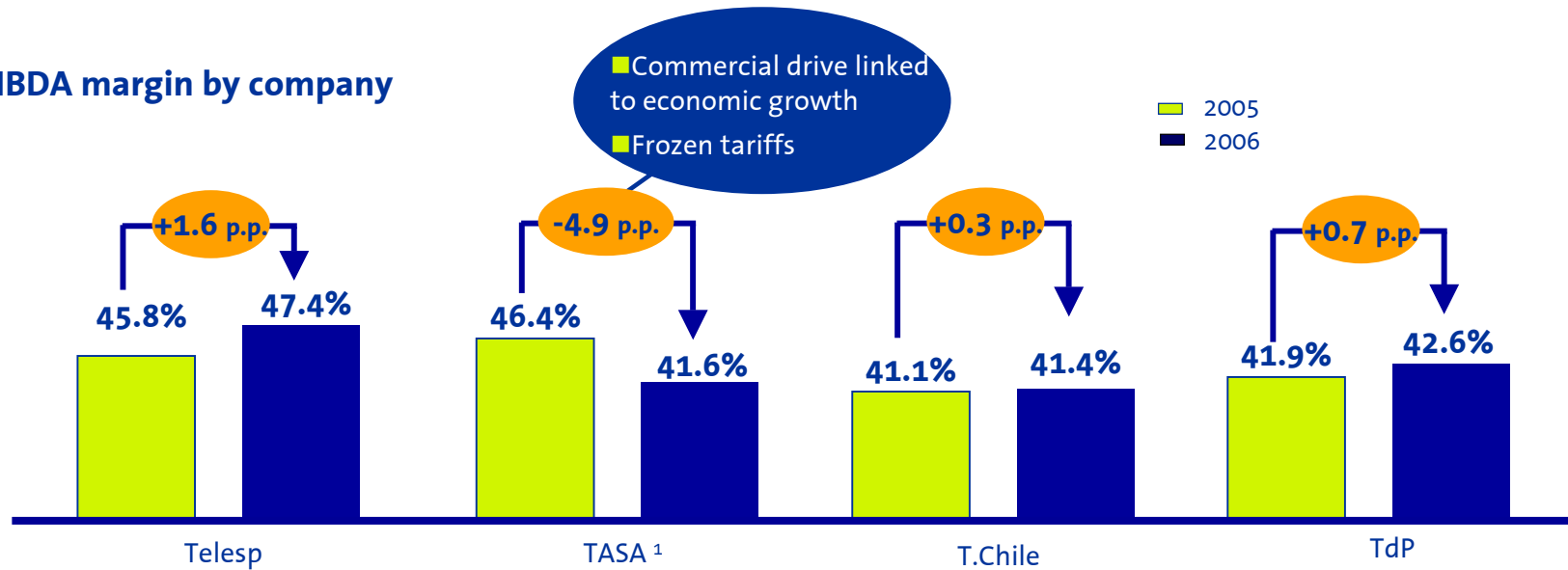
DTH launched in Peru & Chile during 2006

- 94,000 clients in Chile as of Dec.06
- 26,000 clients in Peru as of Dec.06

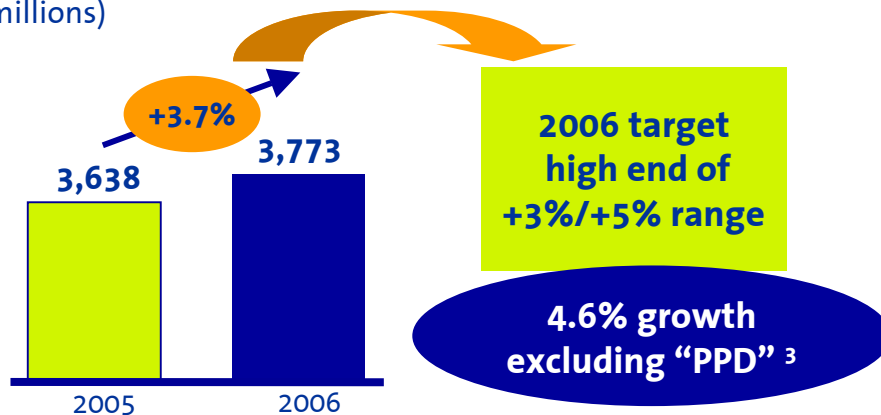
... while sustaining healthy margins across the board



OIBDA margin by company



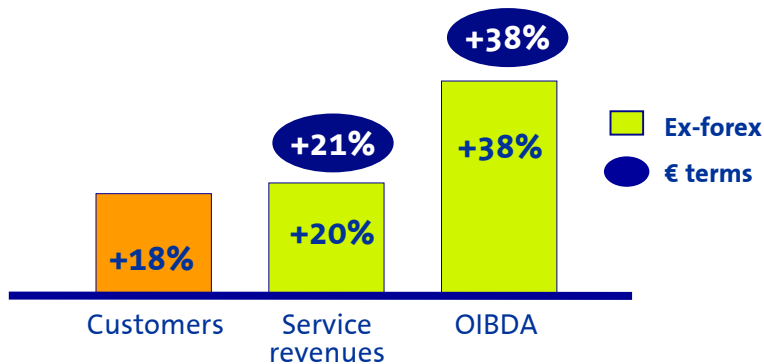
Adjusted OIBDA² for guidance calculation
(€ in millions)



T. Móviles Latam: strong service revenue growth & enhanced profitability boost cash flow generation

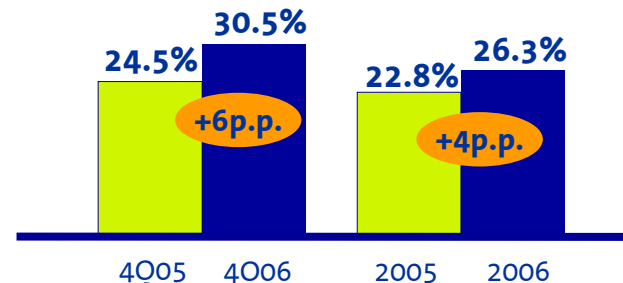


2006/2005 growth rates



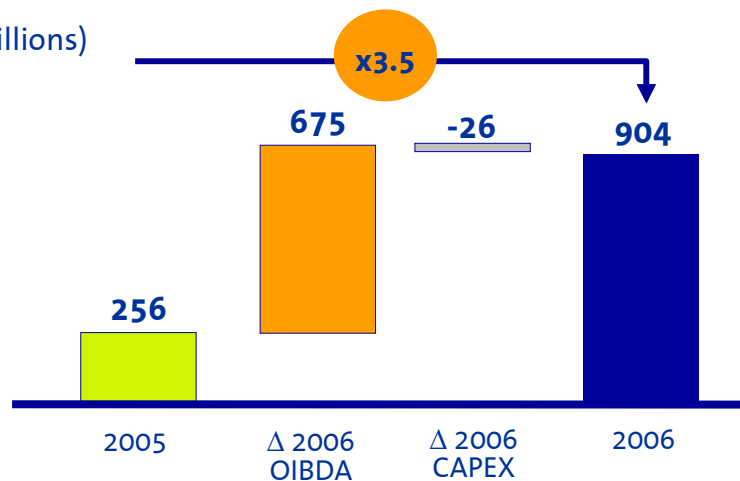
■ **Outgoing revenues:** +27.7% in € & local currency

OIBDA margin



■ **Commercial activity:** +26% 2006/2005

OpCF
(€ in millions)

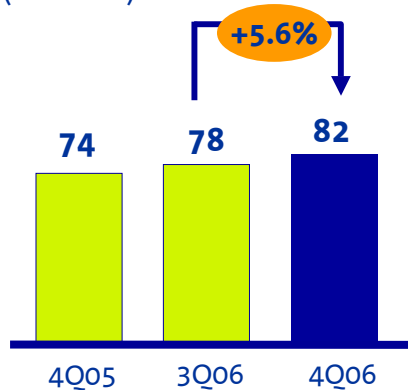


- GSM networks in **every country in Latam**: rapid deployment in Brazil & Venezuela in 2H06
- Strong increase in OpCF, despite higher CapEx, driven by 675 M€ OIBDA increase in 2006

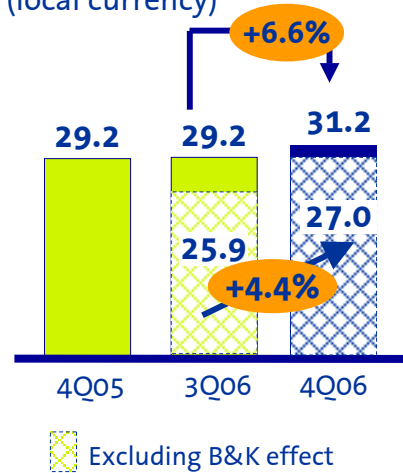


Brazil: working towards enhancing our competitive position & delivering progressive improvements

MoU
(minutes)

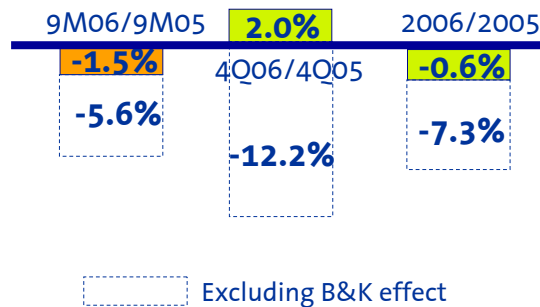


ARPU
(local currency)

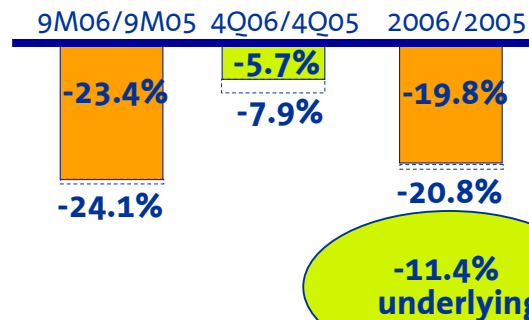


- Corporate restructuring into a **single company** finalised
- **Strong reduction of fraud** and cloning-related losses
- **Highest number of points of sale** in the market
- GSM/EDGE project:
 - Network deployed in a **record time**
 - **Prepay GSM available:** 7,000 customers in January
 - **On track** with announced investment

Service revenue growth
(local currency)

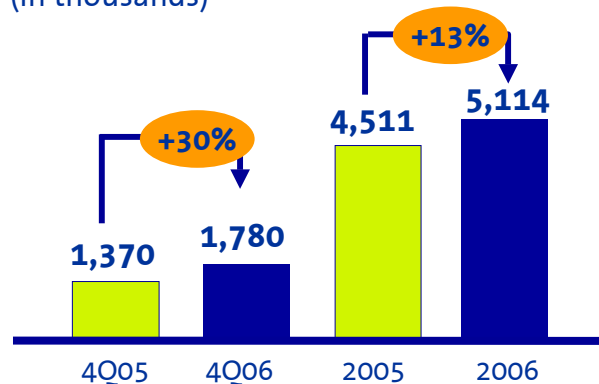


OIBDA growth
(local currency)

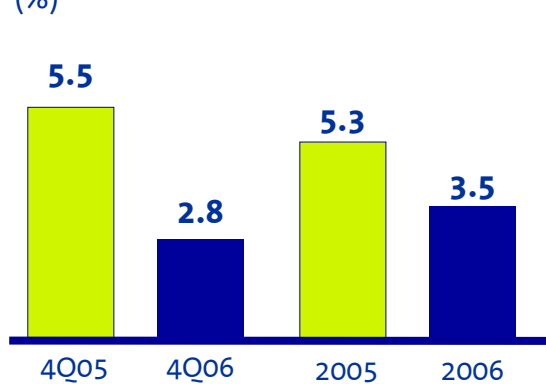


Mexico: strong operating momentum leads to outstanding service revenue growth & OIBDA improvement

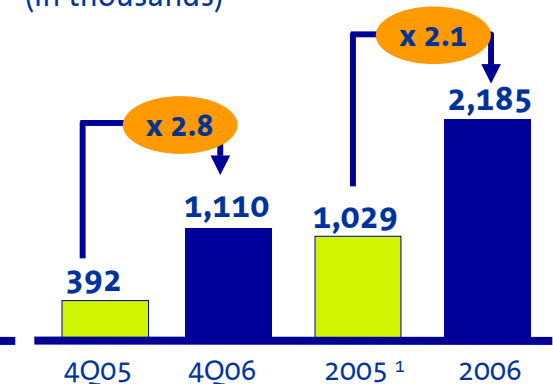
Gross adds
(in thousands)



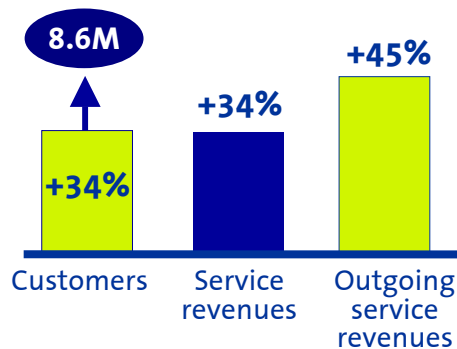
Blended churn
(%)



Net adds
(in thousands)

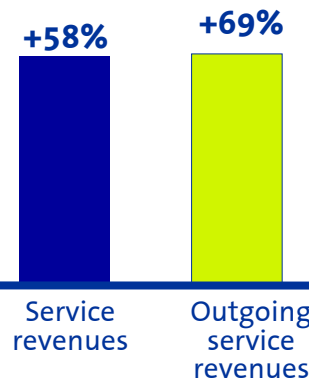


2006/2005 growth



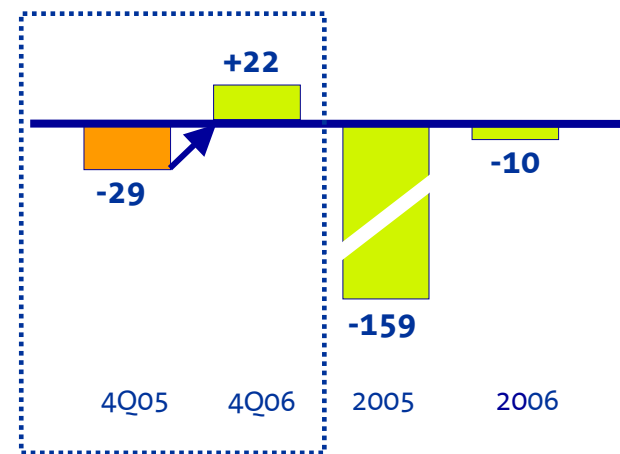
- ARPU: +12.1% y-o-y
- MoU: +56.0% y-o-y

4Q06/4Q05 growth



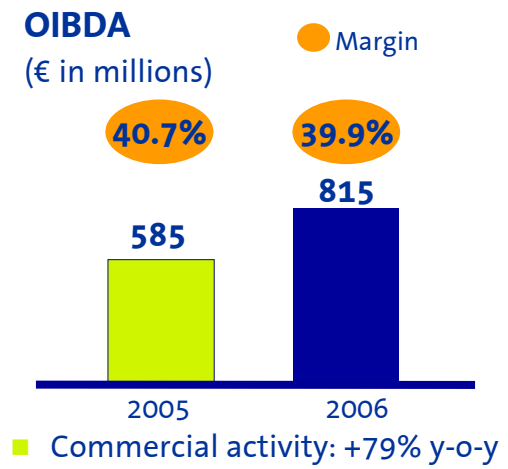
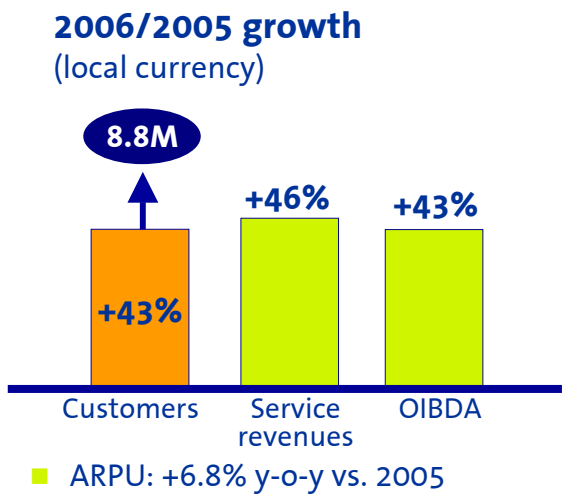
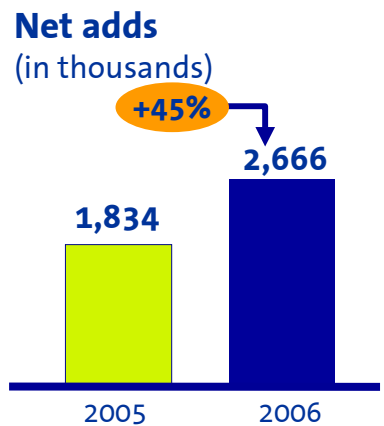
- ARPU: +21.6% y-o-y
- MoU: +108.1% y-o-y

OIBDA
(€ in millions)

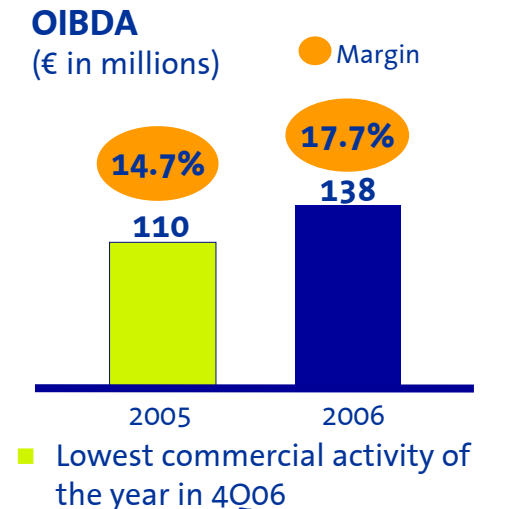
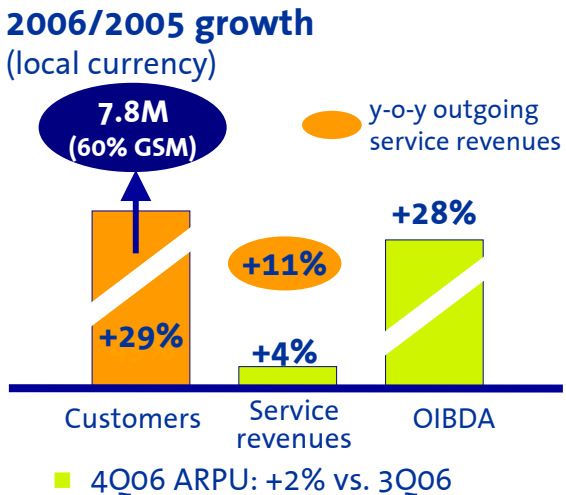
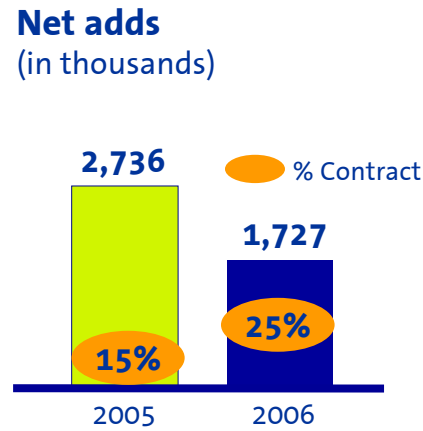


Other major operations (I)

VENEZUELA: Sound revenues performance leveraging customer & ARPU growth



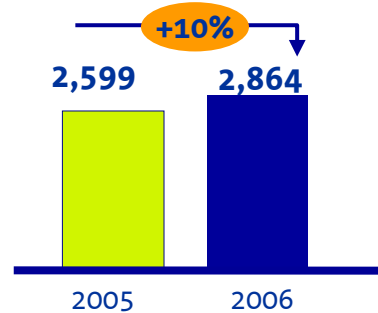
COLOMBIA: Selective commercial activity allows to expand margins



Other major operations (II)

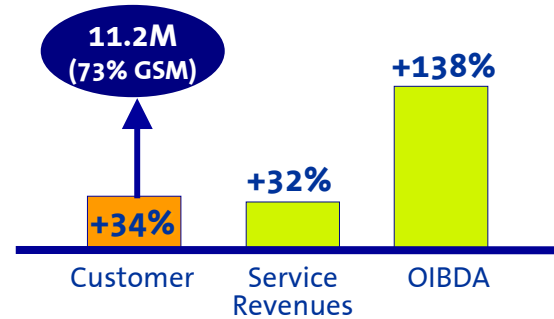
ARGENTINA: Sound operating and financial performance

Net adds (in thousands)



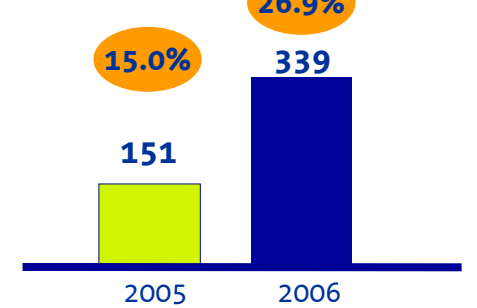
Very strong 4Q06 with >1M net adds (+11.6% vs. 4Q05)

2006 y-o-y growth (local currency)



OIBDA

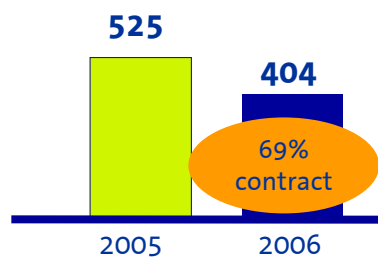
(€ in millions)



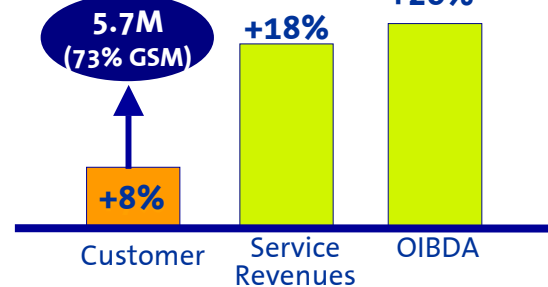
Strong commercial activity: +24% 2006 vs. 2005

CHILE: Service revenue backed by good ARPU performance & customer base

Net adds (in thousands)



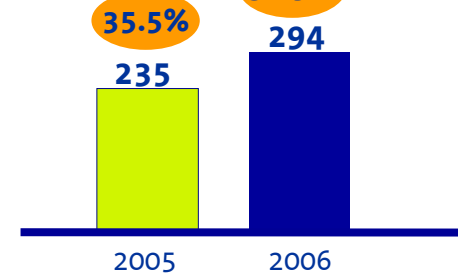
2006 y-o-y growth (local currency)



ARPU: +11.8%y-o-y
Strong focus in contract segment: 21% of total base (+3.7 p.p. vs 05)

OIBDA

(€ in millions)





Deeper integration is generating already sizeable tangible benefits, ahead of initial expectations...

2006 main initiatives (Spain & Latam)

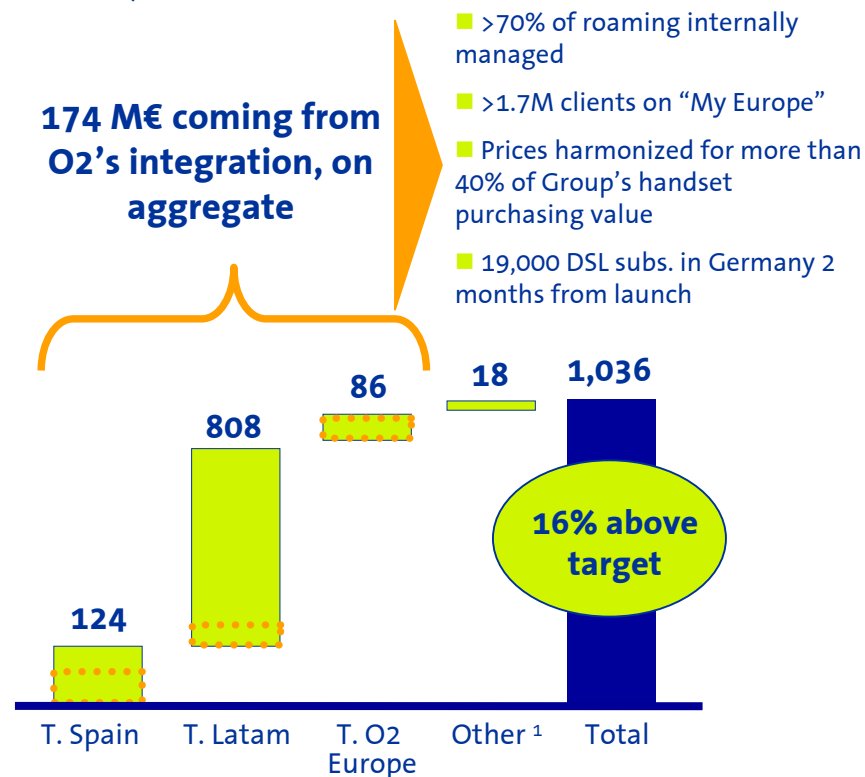
- Regionalization in Latam (Fixed & Mobile) & integration of fixed assets in Spain (TdE-TData-Terra)
- One stop-shopping for Corporates
- Early convergent P&S
- Joint management of sales channels
- Integration of Network, Operations & IT

2006 main initiatives (Europe)

- Integration TO2 CR (brand, channels & customer care, first convergent P&S), IPTV deployment
- ADSL roll-out & T.Deutschland/O2 Germany merger
- Roaming Retail & Wholesale
- Joint purchasing of handsets & networks

OpCF from synergies 2006 (€ in millions)

174 M€ coming from O2's integration, on aggregate



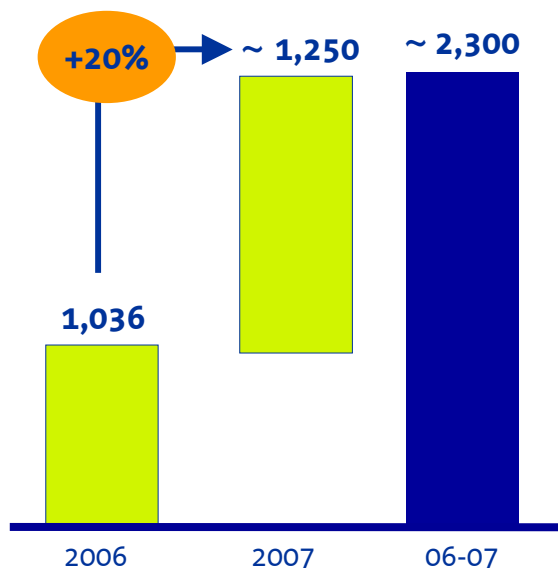
- >70% of roaming internally managed
- >1.7M clients on "My Europe"
- Prices harmonized for more than 40% of Group's handset purchasing value
- 19,000 DSL subs. in Germany 2 months from launch

⋯ Contribution of O2's integration

...and will continue to support operating performance in 2007, capitalizing on the new Group structure



OpCF from synergies 2007
(€ in millions)



Keeping the focus on ongoing initiatives

- Regional management (Spain, Latam & Europe)
- Global projects (Infrastructure & Systems, Resources, and Business Development)
- Commercial Convergence (P&S and Channels)
- Integrated Network, Operations, IT, and Corporate segment
- Centralized purchasing as essential tool for the execution of synergies



Working on new opportunities

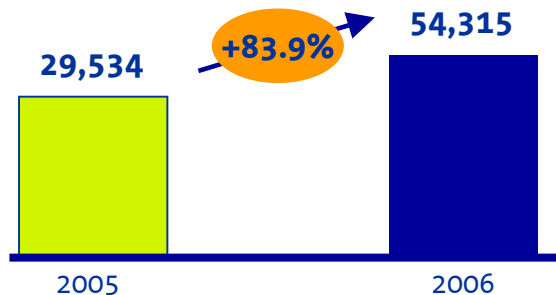
- ADSL+mobile in Europe
- IPTV/DTH in Latin America
- Mobile Data applications
- Digital Entertainment (PC, mobile, TV)

Reducing the average cost of debt

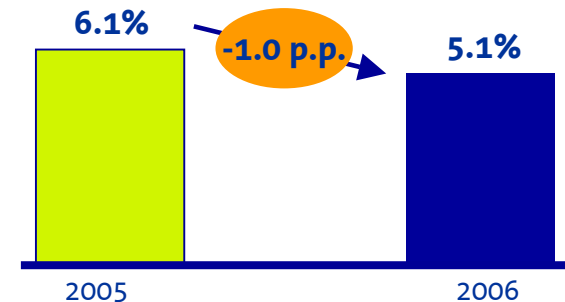


	2006	2005	
Net Interest Expenses	(2,795)	(1,792)	+55.9%
FX Results	61	165	
Reported Financial Expenses	(2,734)	(1,628)	+68.0%

Average Total Net Debt
(€ in millions)



Evolution of Average Effective Debt Service Rate ¹

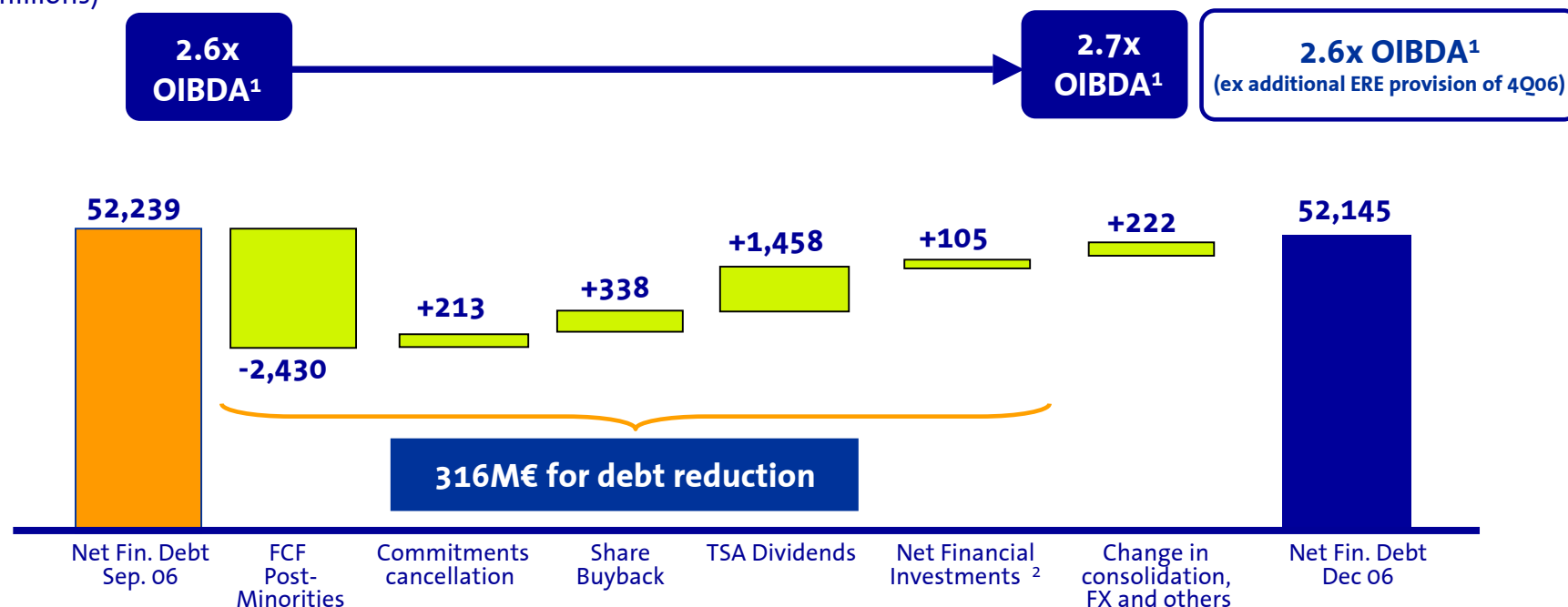


- Interest expenses have increased less than average total net debt (+83.9%), as the effective cost of debt stood at 5.1%, 1 p.p. lower than in 2005
- Hedging USD weakness vs. Euro has yielded most of the FX profits

Cash Flow & Debt: de-leverage reaffirmed and loan for the acquisition of O2 fully refinanced

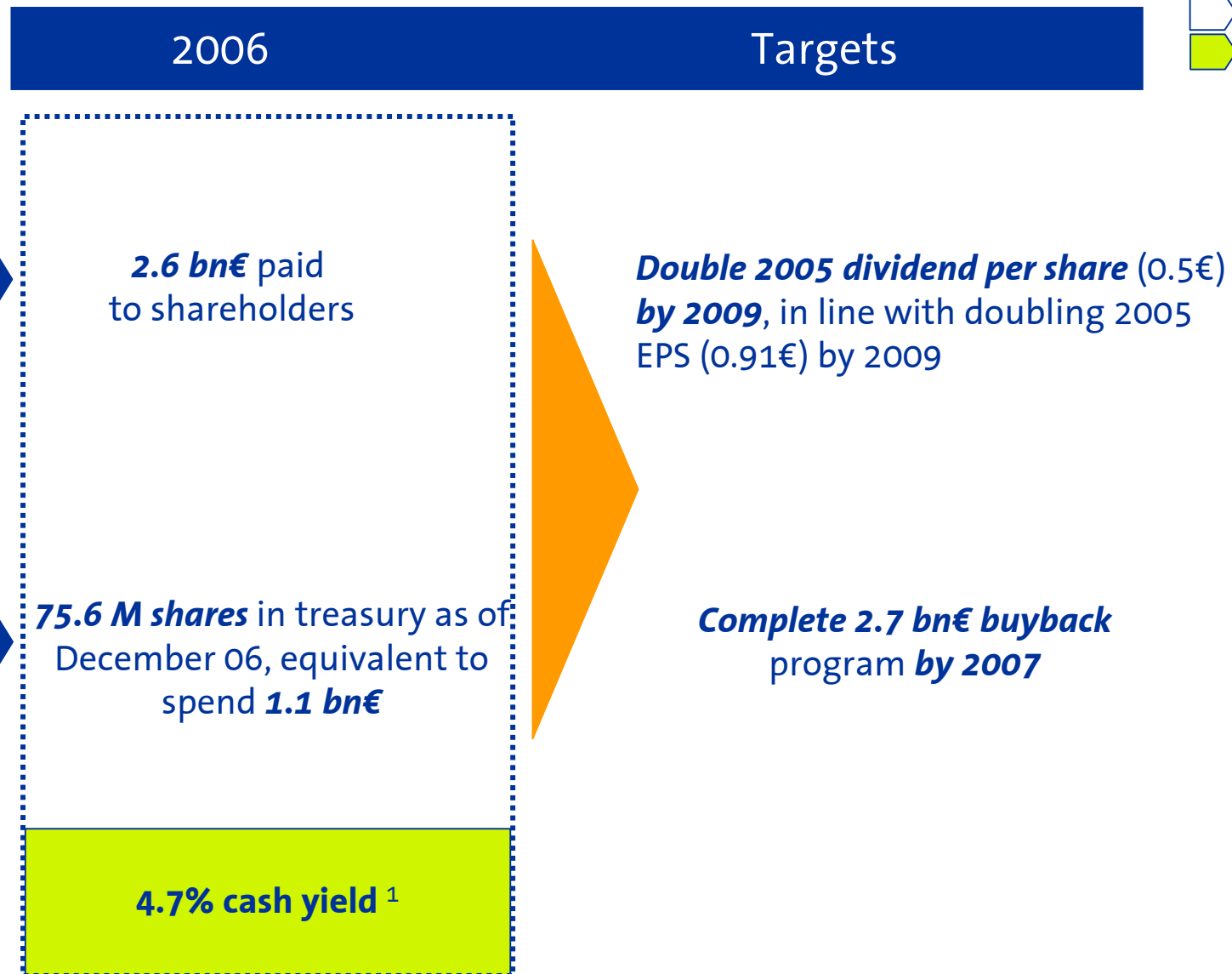
4Q06 Net Financial Debt Evolution

(€ in millions)



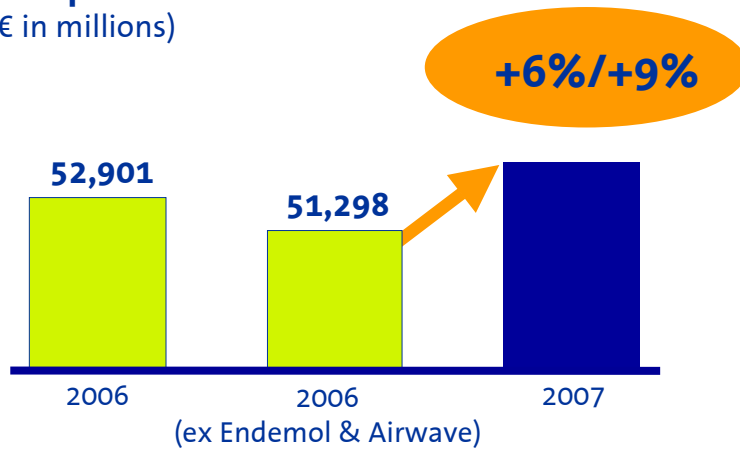
- Combining de-leverage with dividend payments
- The loan for O2's acquisition has been fully refinanced through bonds, long term loans, TPI's sale and by extending the outstanding amount of the facility.
- Average maturity of financial debt at close to 6.5 years (less than 4 years post-O2)

An attractive shareholder remuneration policy

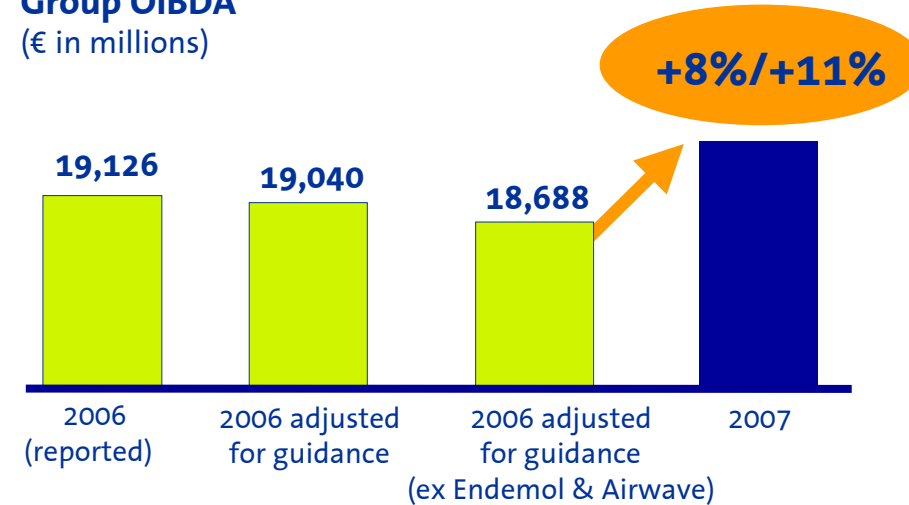


We are setting benchmark targets again for 2007...

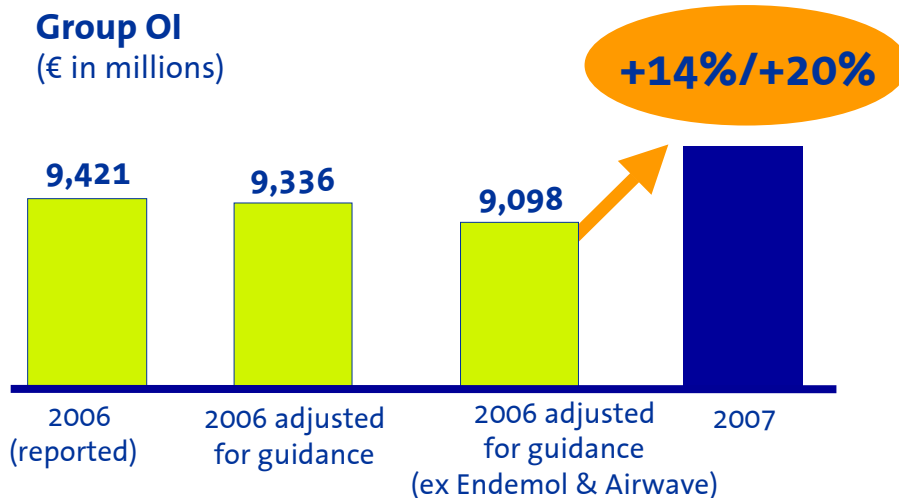
Group Revenues
(€ in millions)



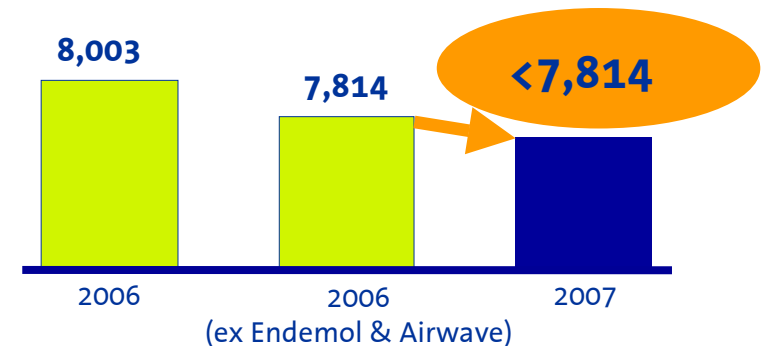
Group OIBDA
(€ in millions)



Group OI
(€ in millions)



Group CapEx
(€ in millions)

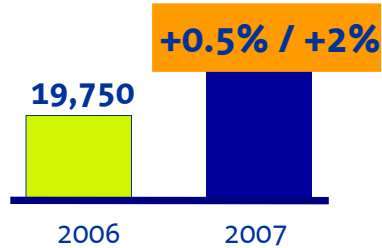


Base reported numbers include eleven months of O2 (consolidated since February 2006), eight months of Telefónica Telecom (consolidated since May 2006), six months of Iberbanda (consolidated since July 2006), three months of start-up losses in Slovakia (operations started in February 2007), and exclude 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.

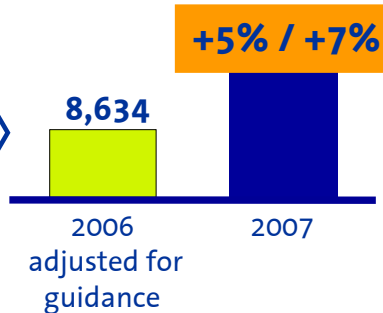
...leveraging on very solid expectations for domestic...

Telefónica España

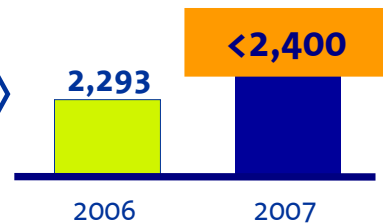
Revenue Growth
(€ in millions)



OIBDA Growth
(€ in millions)

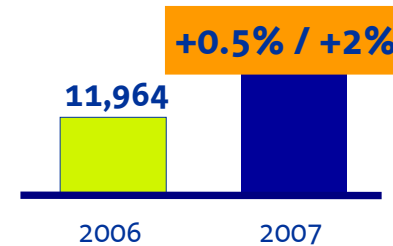


CapEx
(€ in millions)

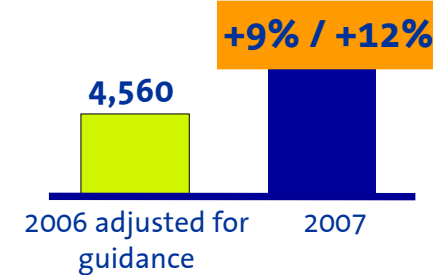


Spanish wireline

Revenues
(€ in millions)



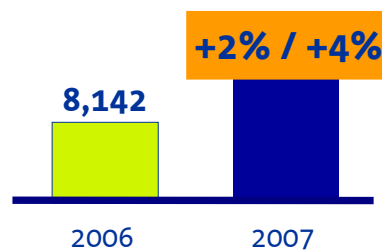
OIBDA
(€ in millions)



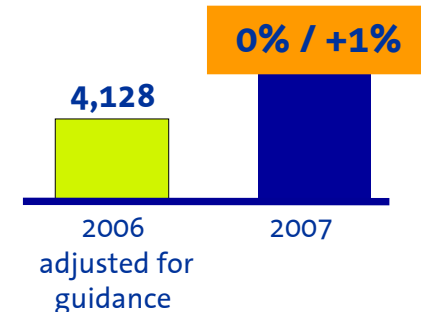
- 2007e ERE provision of aprox.630 M€ (2,200 employees) vs 980 M€ in 2006
- 2007e Real Estate capital gains of aprox.162 M€ vs 94 M€ in 2006

Spanish wireless

Service revenues
(€ in millions)



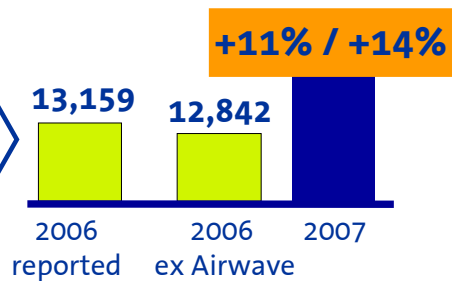
OIBDA
(€ in millions)



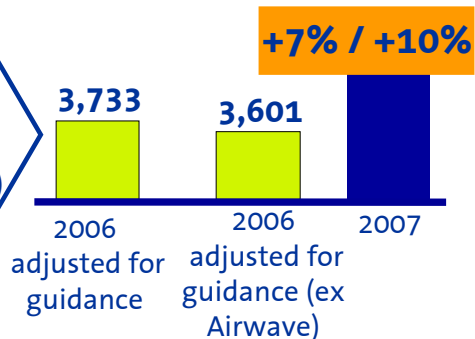
...continuing out-performance of European businesses...

Telefónica O2 Europe

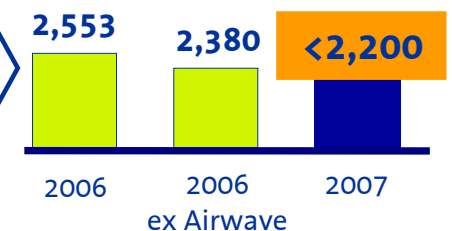
Revenue Growth
(€ in millions)



OIBDA Growth
(€ in millions)

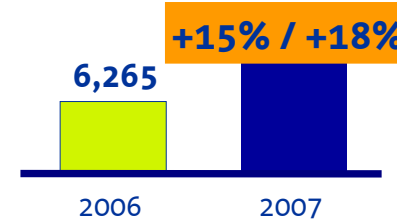


CapEx
(€ in millions)

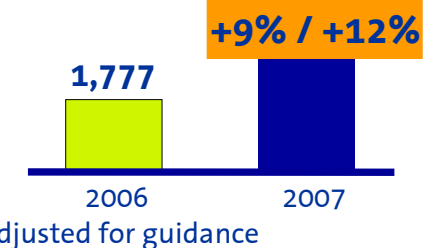


O2 UK

Revenues
(€ in millions)

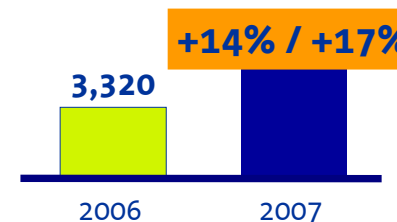


OIBDA
(€ in millions)

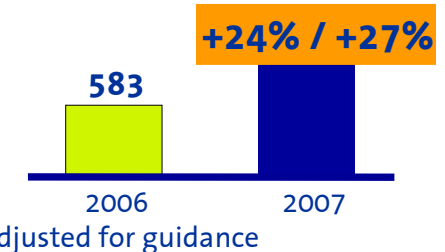


O2 Germany

Revenues
(€ in millions)

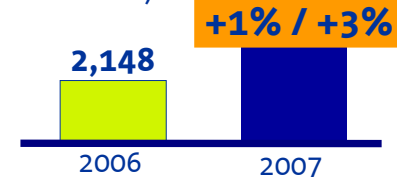


OIBDA
(€ in millions)



T. O2 Czech Republic

Revenues
(€ in millions)

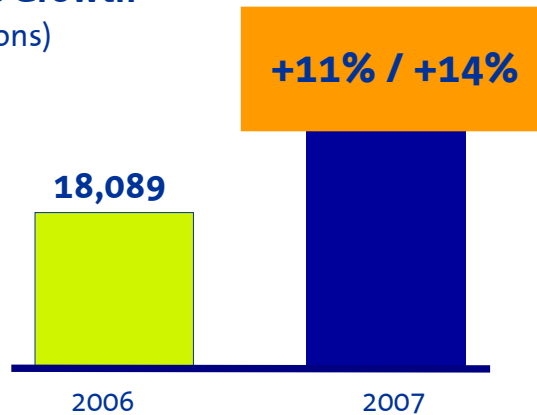


OIBDA
(€ in millions)

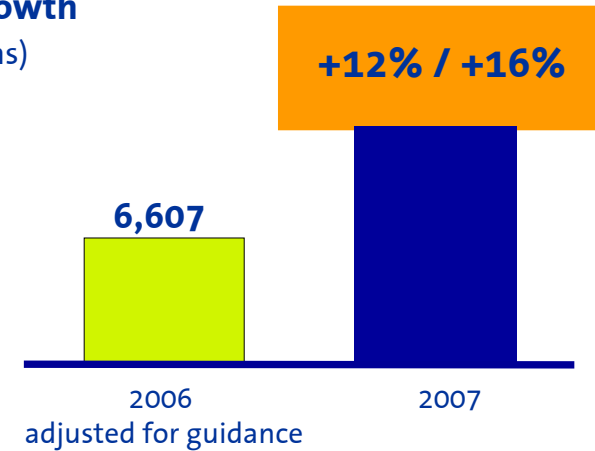


...and exploiting our distinctive growth profile in Latin America

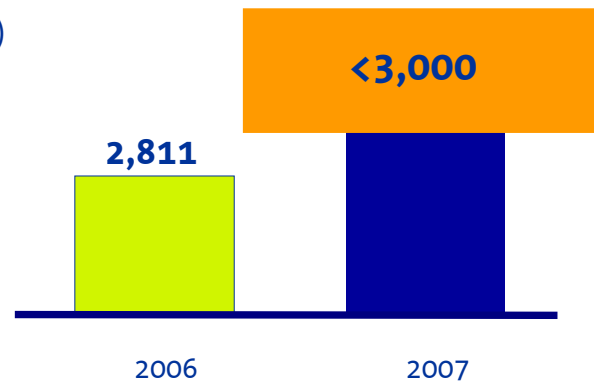
Revenue Growth
(€ in millions)



OIBDA Growth
(€ in millions)



CapEx
(€ in millions)



2007 targets, a guide to calculations

- 2006 include
 - ✓ **11 months of O2** (consolidated since February 2006)
 - ✓ **8 months of Telefónica Telecom¹** (consolidated since May 2006 under T. Latam)
 - ✓ **6 months of Iberbanda** (consolidated since July 2006 under T. España)
 - ✓ **3 months of start-up losses in Slovakia** (operations started in February 2007 and consolidated under T. O2 Europe)
- **2006 & 2007 exclude Endemol and Airwave**
- 2007 guidance assumes **constant exchange rates as of 2006** and **excludes changes in consolidation**
- In terms of guidance calculation, **OIBDA excludes** other exceptional revenues/expenses **not foreseeable in 2007** as capital gains and impairments. Equivalent other exceptional revenues/expenses are also deducted from 2006 figures
- **Personnel Restructuring** and **Real Estate Programs are included as operating revenues/expenses**. 2007 estimated redundancy provision for T. España will amount to 630M€ (2,200 employees) versus 980M€ registered in 2006

Our commitments are based on the execution of key management initiatives in each region

4 basic priorities at the Group level...

- **Develop our markets further**, exploiting the penetration gap
- **Promote higher usage & enhance our competitive position** through
 - ✓ A push on **mobility & Internet** services
 - ✓ A **Pragmatic approach to convergence**, seeking a better customer experience
- **Keep investing** in growth and business transformation
- **Strengthen integration/convergence** (networks & channels) to drive efficiency

... that translate into a set of common key operating levers for 2007

1 Fixed businesses

- Develop BB & IPTV/DTH
- Extend 2P/3P/4P offerings based on market conditions
- Develop VAS and IT solutions

2 Mobile businesses

- Improve “customer experience” for the benefit of market share & churn
- Play elasticity to promote voice ARPU
- Develop data offerings based on network deployment (2.5G/3G)

Conclusions

- Stimulating growth, extracting synergies, re-structuring the debt, and yielding attractive returns have been our four management priorities this year, and translated into a 43% EPS growth
- 2006 financial results have remained solid across the year, ahead of the peer Group, and totally in-line with a guidance that we upgraded in the 3Q06
- Organic growth is well diversified, and has accelerated during the year to reach high single digits, leveraging our drive on subscriber acquisition and retention
- We are proving our capacity to extract value from a deeper integration of operations, saving 1 billion euros this year
- In Spain, we are reinforcing market positioning in 2006 and are keeping a benchmark profile in terms of growth and profitability
- In Europe, we are exploiting mobile growth opportunities and extracting value from the turn-around of fixed
- In Latam, we are successfully managing growth and profitability in a context of strong competition

Telefonica
