

Annual Results

January – March 2007

TELEFONICA S.A.

May 16th, 2007



This presentation is being broadcast live on the Internet

Disclaimer





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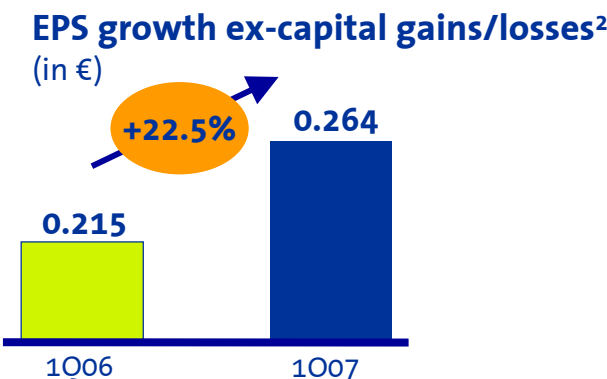
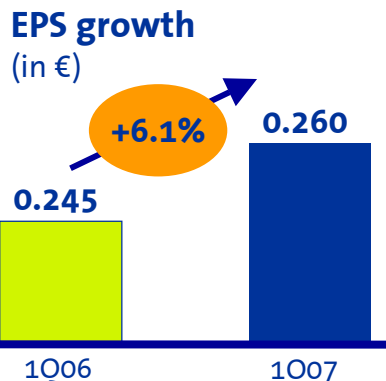
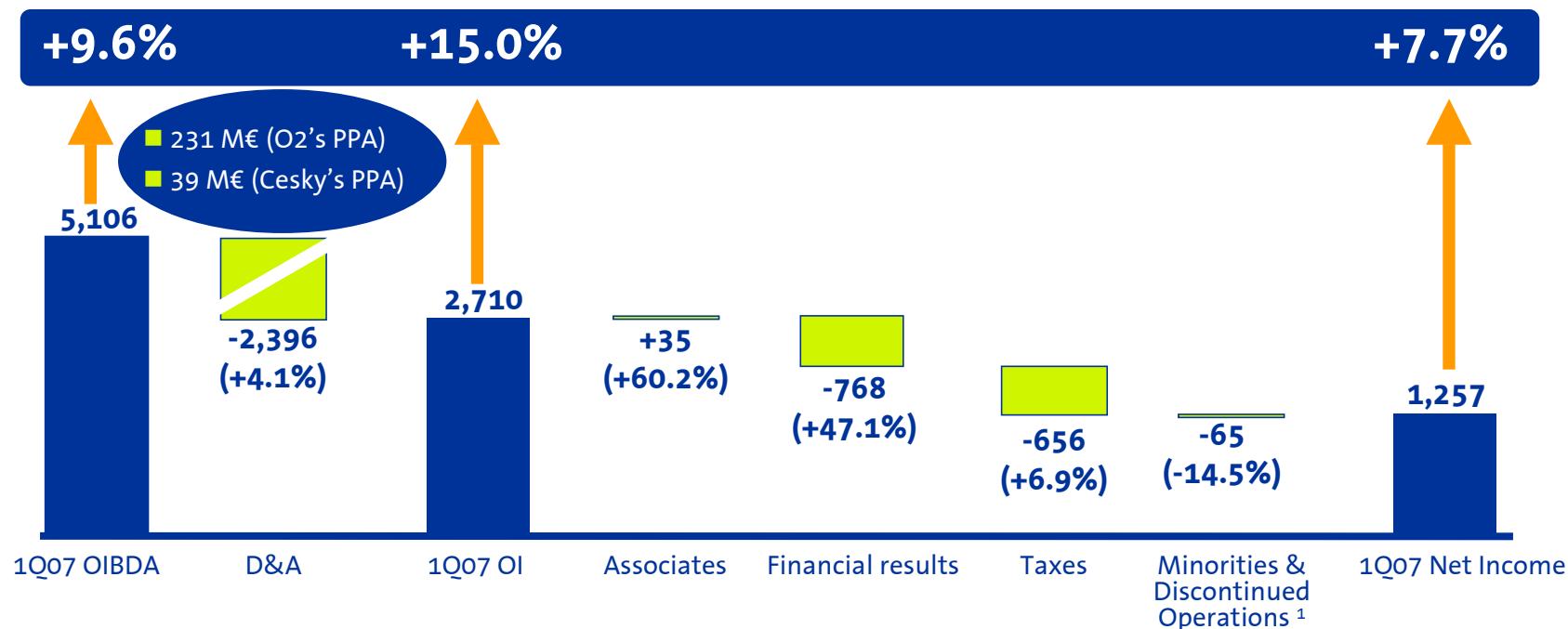
Sustaining top financial performance in 1Q07...

€ in millions (% change y-o-y)	Jan-Mar 2007	Jan-Mar 2006	% Change 1Q07/1Q06		% Change 1Q07/1Q06 organic ¹
Revenues	13,747	11,946	+15.1%		+7.8%
Operating Income before D&A (OIBDA)	5,106	4,657	+9.6%		+5.9%
Operating Income (OI)	2,710	2,356	+15.0%		+19.6%
Net Income	1,257	1,167	+7.7%		
OpCF (OIBDA-CapEx)	3,718	3,354	+10.8%		+12.9%

- Guidance reiterated for Group and business lines
- Forex deducted around 2.5 p.p. to nominal growth rates of major metrics

...with solid underlying EPS, up by more than 20%...

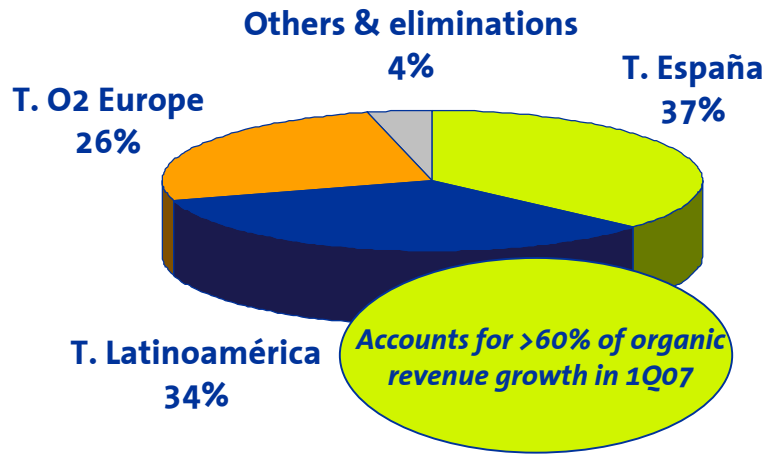
€ in millions
(% change y-o-y)



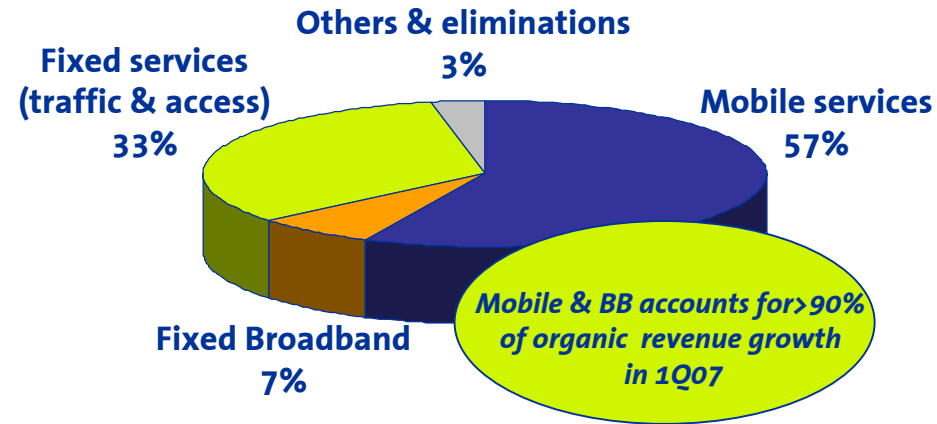
(1) TPI has been discontinued in 2006 following Telefónica's acceptance of Yell's offer in July 4th, 2006
(2) Sale of shares in Sogecable in 1Q06 (6.57%), related to Prisa's take over bid over the company and sale of Endemol France in 1Q07

...as we leveraged our diversification, with a solid position in each business...

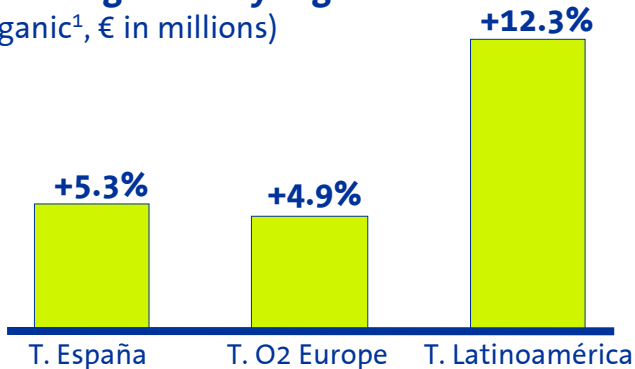
1Q07 Revenue breakdown by region



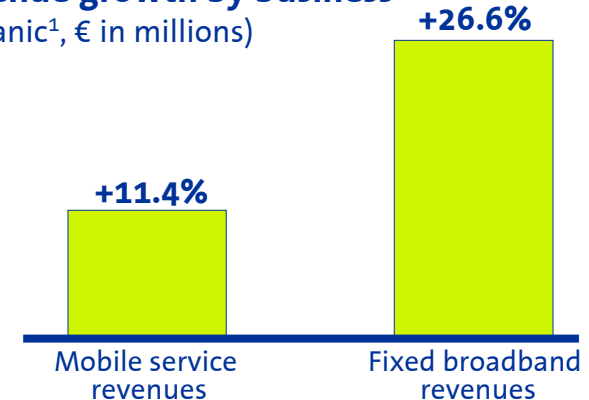
1Q07 Revenue breakdown by business



Revenue growth by region
(Organic¹, € in millions)

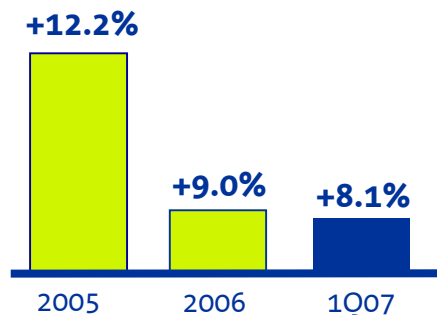


Revenue growth by business
(Organic¹, € in millions)

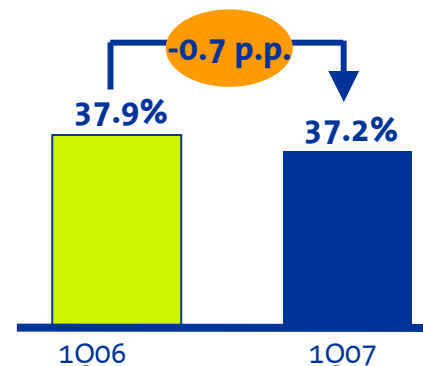


...and a continuous focus on cost management to keep profitability

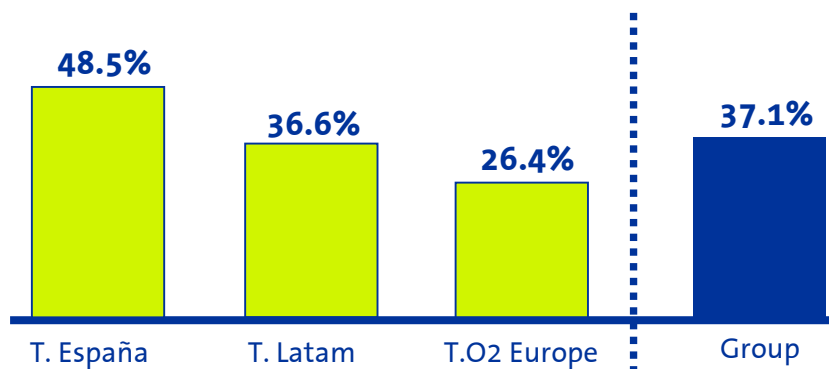
OpEx¹ Organic² Growth



Organic² OIBDA Margin

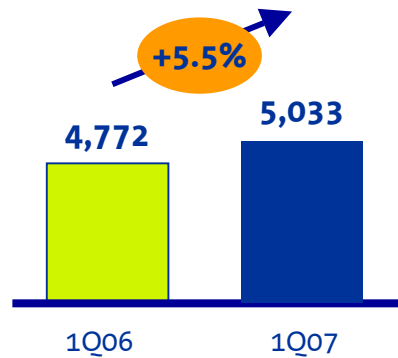


1Q07 OIBDA Margin

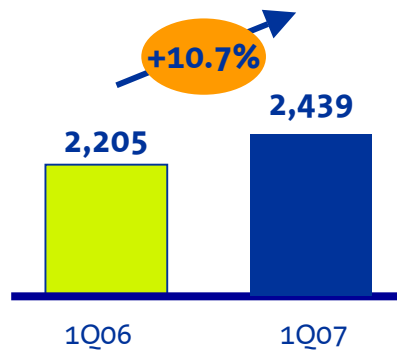


Telefónica España: strong quarter on growth & profitability

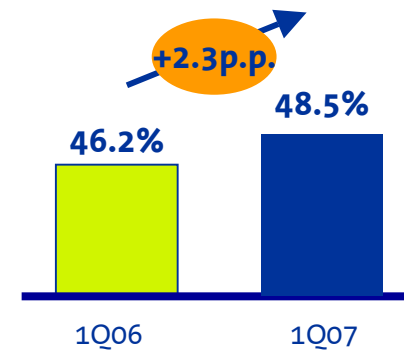
Revenues
(€ in millions)



OIBDA
(€ in millions)



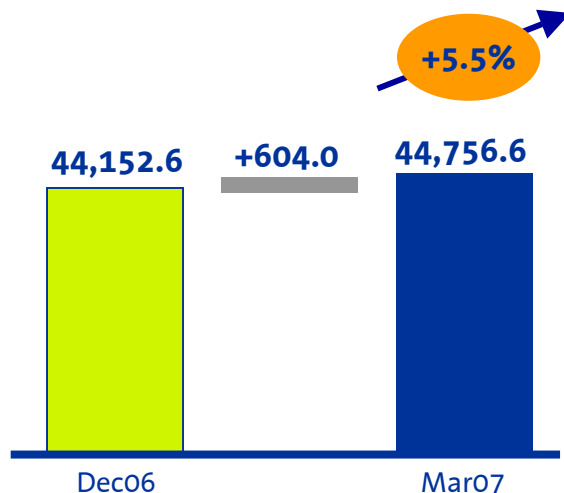
OIBDA Margin
(%)



- Sound top line growth driven by customer expansion
- Healthy profitability across businesses

Telefónica España: high commercial activity focused on value customers

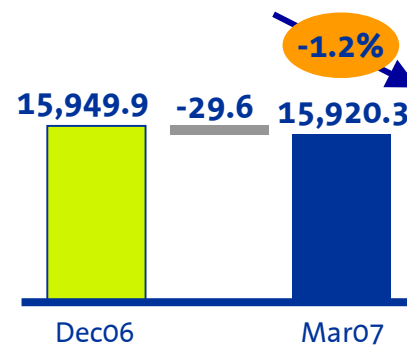
Total accesses
(in thousands)



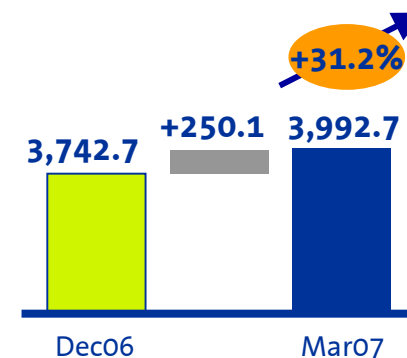
Strong competitive position maintained



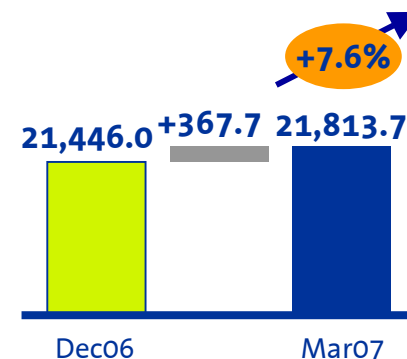
Fixed Telephony
Accesses
(in thousands)



Retail Internet
Broadband Accesses
(in thousands)



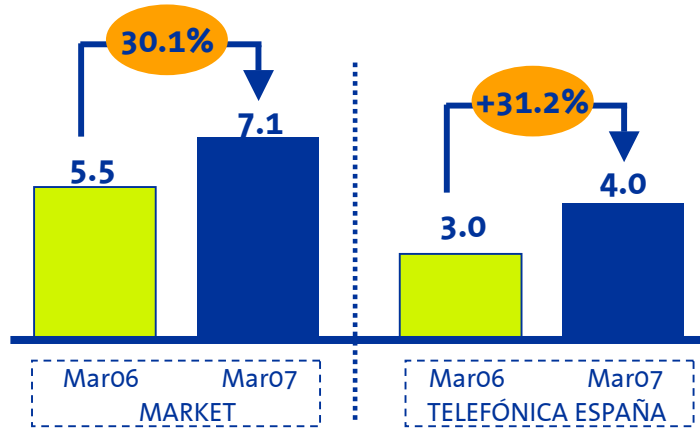
Wireless Customers
(in thousands)



Wireline Business: leading Broadband and PayTV

Retail Internet BB Accesses

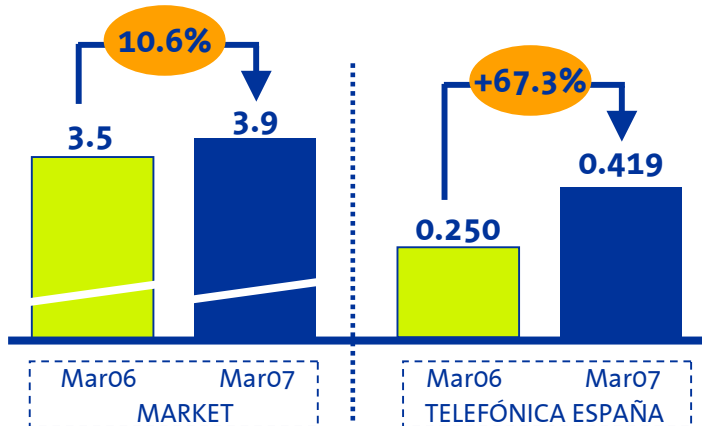
(in millions)



Sustained market share at 56% after capturing same share of net adds

Pay TV subscribers

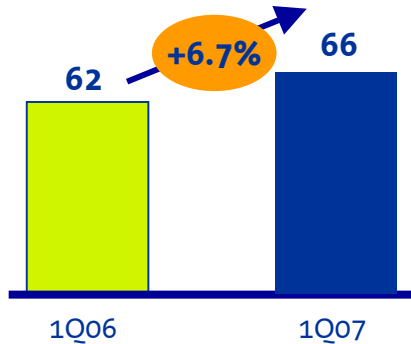
(in millions)



- 44% share of net adds
- 11% Pay TV market share

Wireline Business: ongoing ARPU growth to push top line

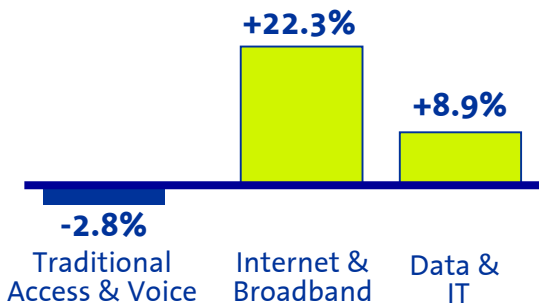
ARPU
(€/month)



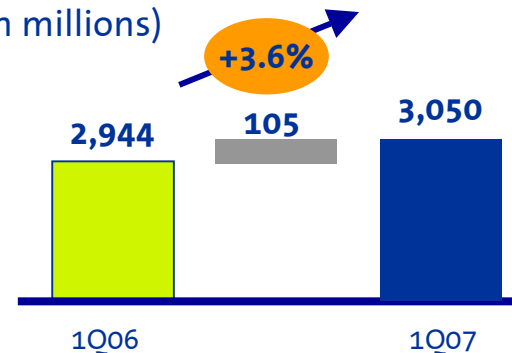
MAJOR DRIVERS

- **Expanding BB customer base**
 - ✓ 25.1% of lines have BB (18.9% in 1Q06)
- **Promoting 2P/3P (ARPU uplift & loyalty)**
 - ✓ 75% of retail BB accesses with 2P/3P
 - ✓ Retail BB VAS ARPU growing to reach 7.7 euros.
- **2.0% PSTN monthly fee increase** as of January 1st 2007

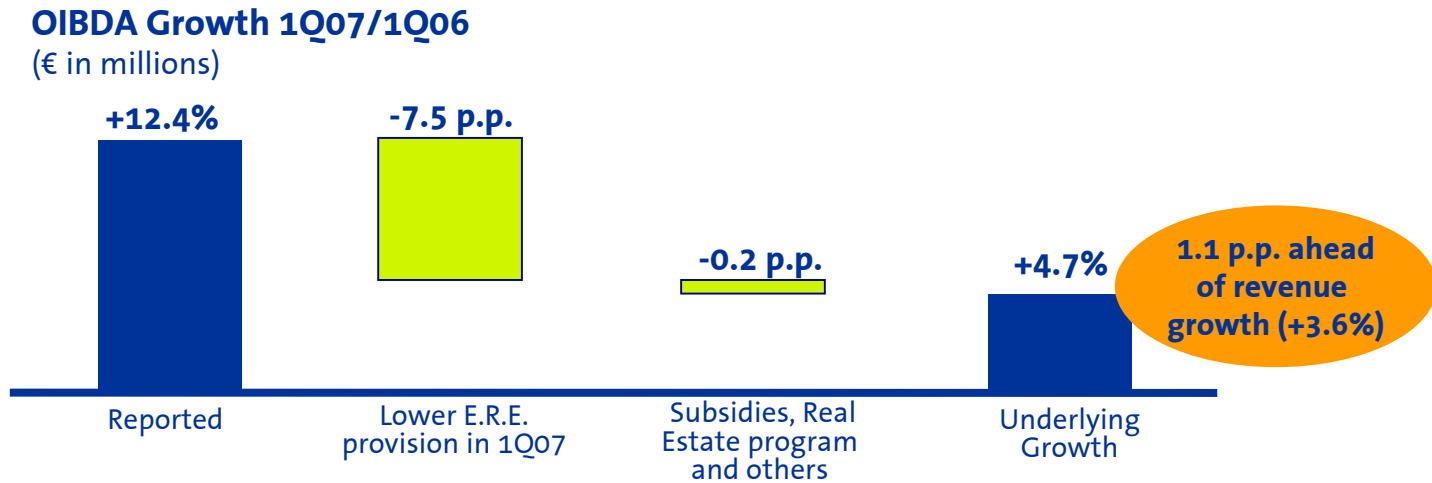
Revenues evolution
(% change 1Q07/1Q06)



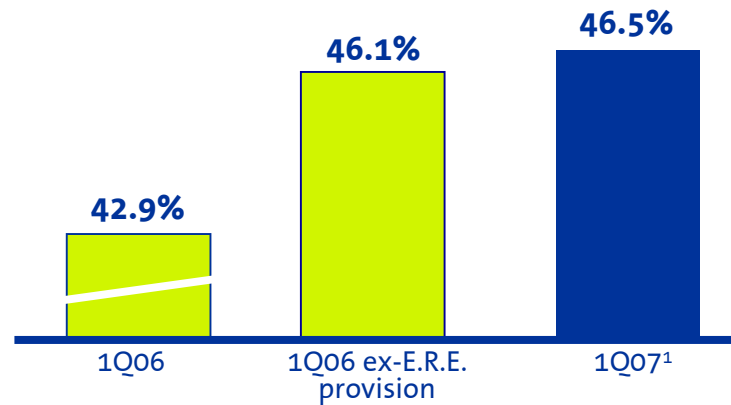
Revenues
(€ in millions)



Wireline Business: strong focus on operational efficiency leading to margin improvement

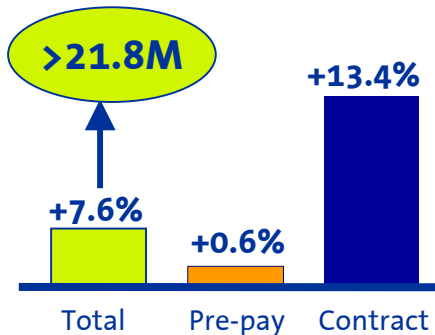


OIBDA Margin

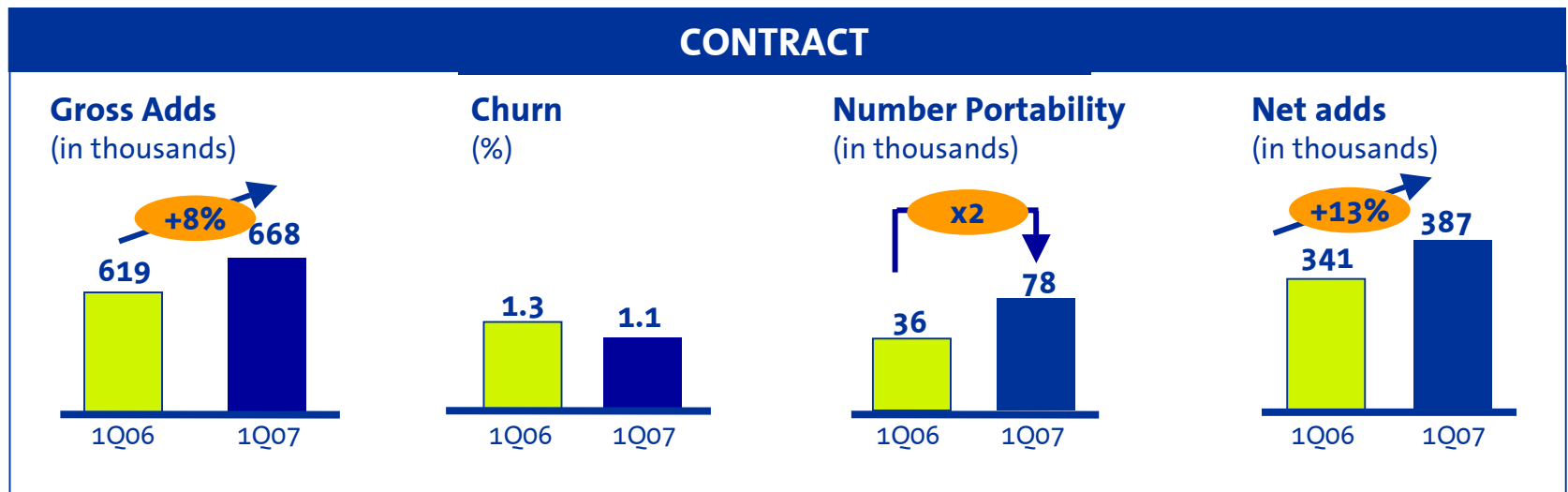


Wireless Business: strong 1Q07 performance focused on value

Customer growth (y-o-y)

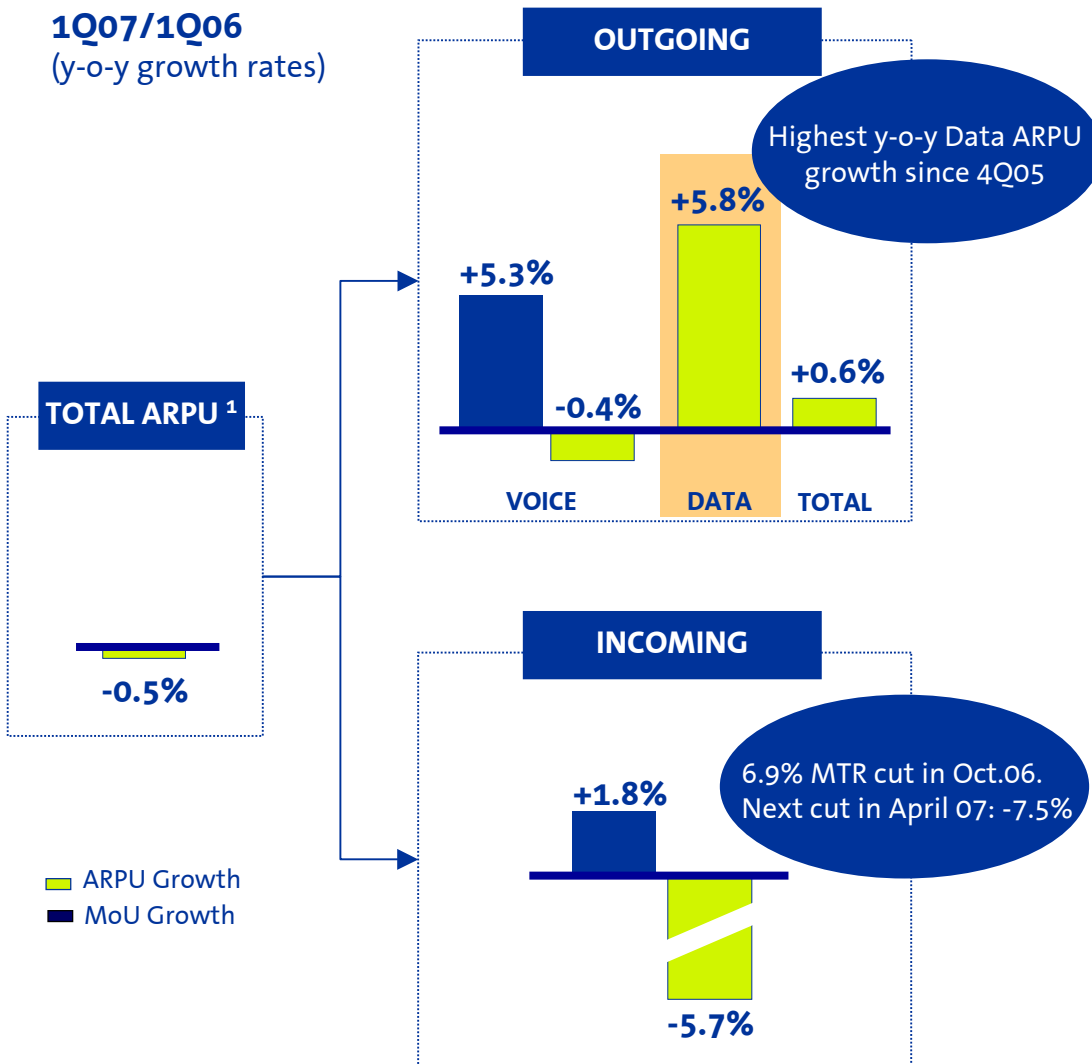


- 57% contract mix (54% in Mar06)
- Total net adds: 368,000 in 1Q07 vs 387,000 in 1Q06
- Blended churn: 1.8% (-0.1 p.p. vs 1Q06)
- Strong push on loyalty: ~1.2 M handset upgrades in 1Q07 (+7.4% vs 1Q06)
- Positive total portability results in 1Q07 (negative in 1Q06)

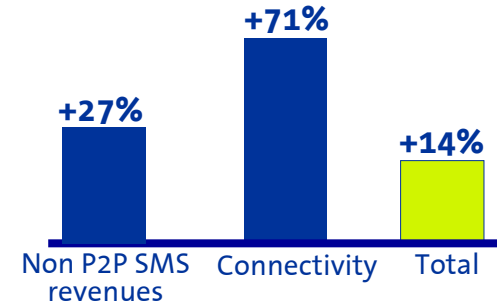


Wireless Business: stimulation of voice and data usage

1Q07/1Q06
(y-o-y growth rates)



1Q07/1Q06 Data Revenue growth

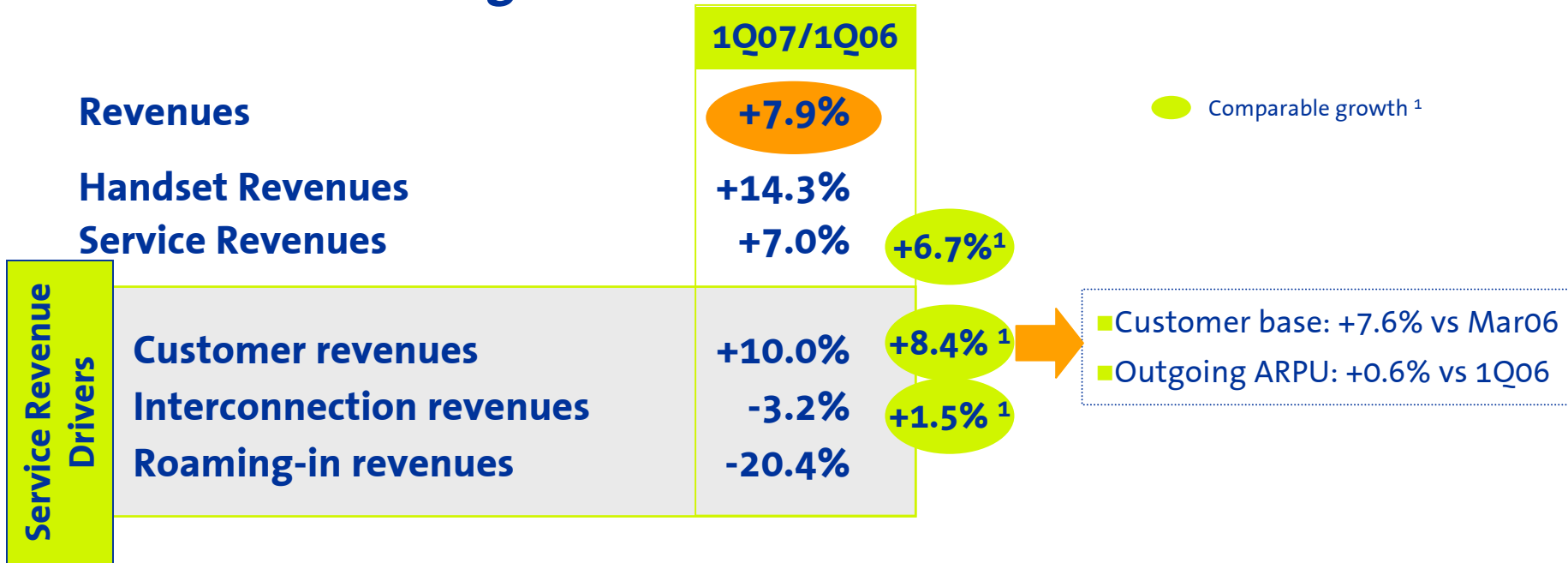


Data revenues split

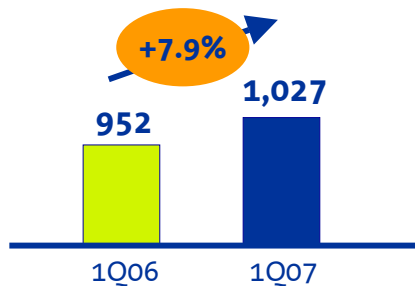
	1Q06	1Q07
P2P Communications	59%	54%
<i>P2P SMS</i>	57%	52%
Content	33%	34%
Connectivity	8%	12%

- +25% in advanced data users (vs Dec06)
- +25% in Data Flat Rates (vs Dec06)
- Data traffic **x4** (1Q07 vs 1Q06)
- ~**1.5M** 3G devices (~220,000 PC Cards)

Wireless Business: healthy top line performance & robust OIBDA growth



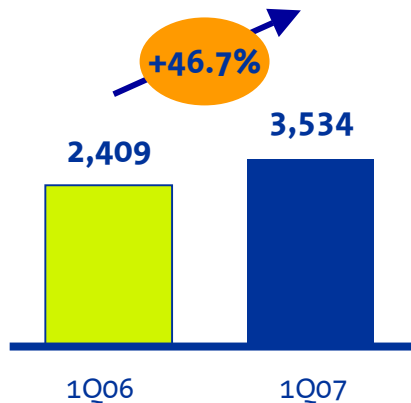
OIBDA
(€ in millions) ● y-o-y growth



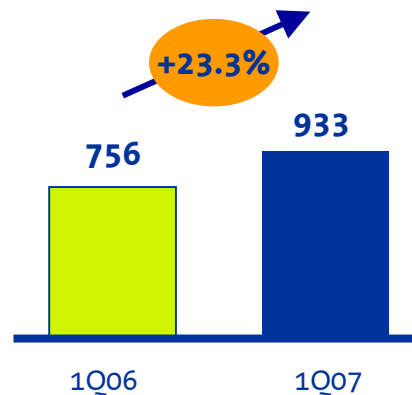
44.0% 1Q07 reported OIBDA margin (flat vs 1Q06)

Telefónica O2 Europe: proactively tackling mobile pressures & selectively exploiting BB growth opportunities

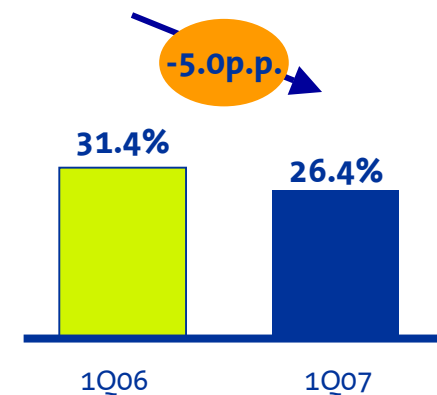
Revenues ¹
(€ in millions)



OIBDA ¹
(€ in millions)



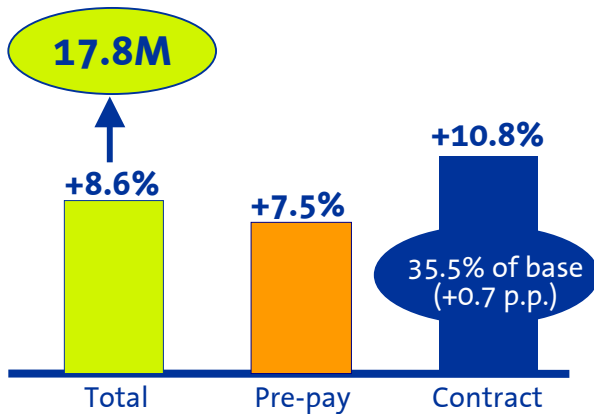
OIBDA Margin ¹
(%)



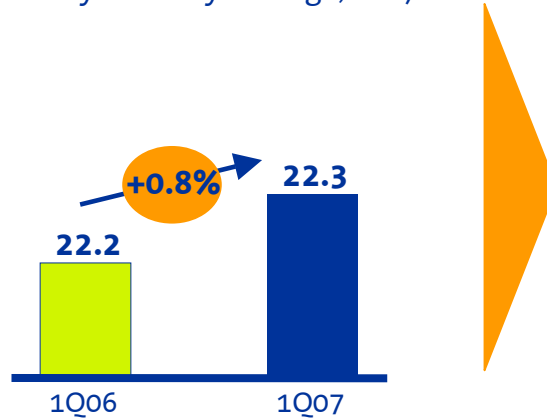
- UK: positive top-line performance driven by client & ARPU expansion
- Germany: sustained pricing pressure reflected in ARPU, with plans to boost growth
- Czech Republic: stabilization of fixed through BB, and mobile growth focused on high value
- Promising results of mobile launch in Slovakia

O2 UK: healthy top-line pushed by customer and ARPU growth

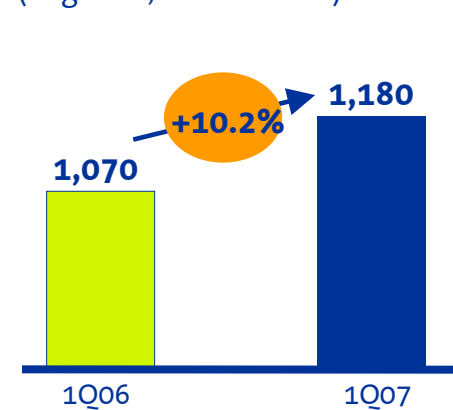
Mobile customer growth
(y-o-y)



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

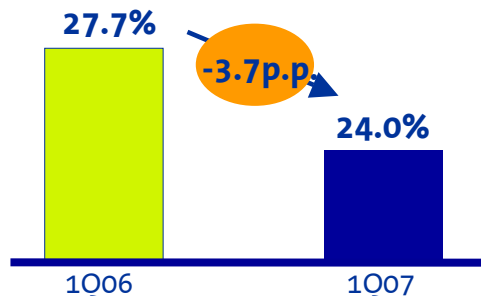


Revenues
(Organic¹, £ in millions)



- MoU²: +10.6% y-o-y to 179 minutes
- Data ARPU²: +10.2% y-o-y to 7.4 £

OIBDA margin
(Organic¹)

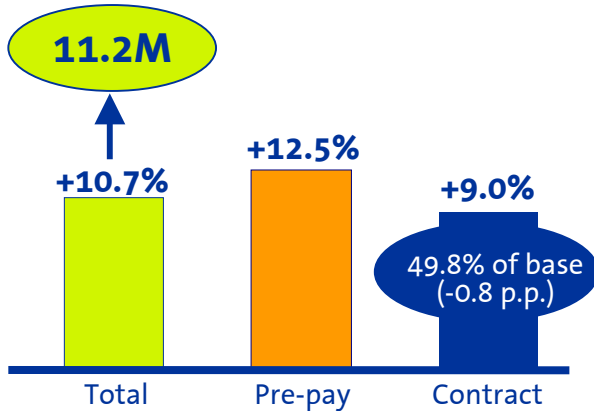


- Higher commercial costs related to change of year end from March to December
- Focus on retention: +22% in upgrades

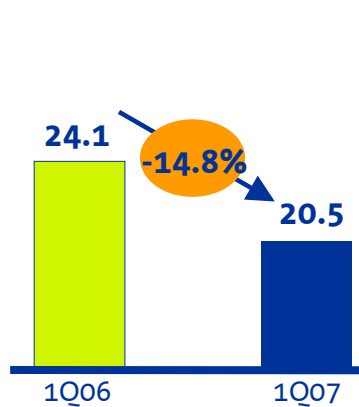
Margin levels for the rest of the year are expected to be above 1Q07 level

O2 Germany: management focus on ARPU potential amid competitive pressures

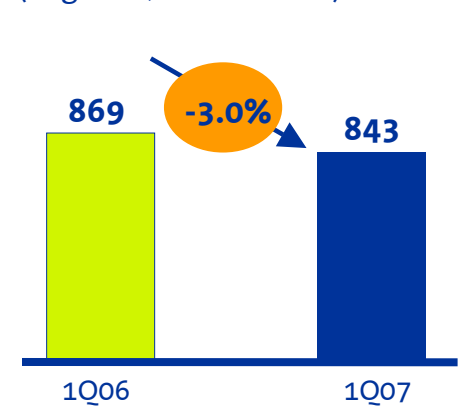
Mobile customer growth
(y-o-y)



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

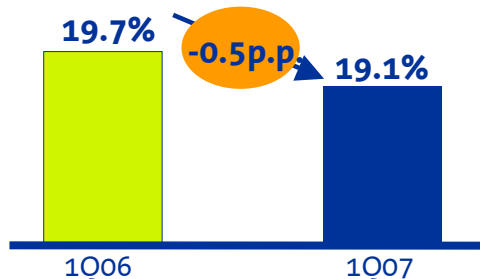


Revenues
(Organic¹, € in millions)



- MTR: 20% cut (1€ of lower ARPU)
- Pricing pressure
- MoU²: +2% y-o-y to 129 minutes
- Change in mix

OIBDA margin
(Organic¹)



- Higher commercial costs related to change of year end from March to December
- Focus on retention: +24% in upgrades
- Genion refreshed tariffs & DSL

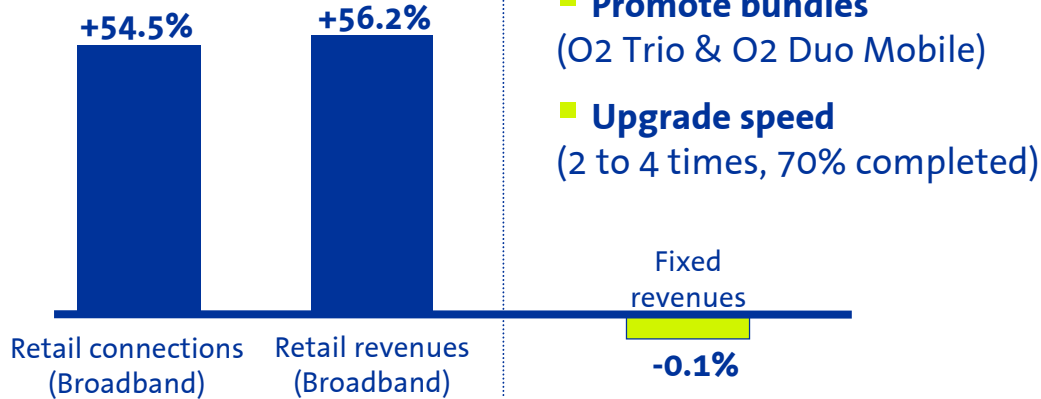
758,000 clients on new S,M,L tariffs
(~ 3x higher MoU than average)

T.O2 Czech Republic: delivering a solid financial performance through a tight operational focus

**Increasing the value proposition
for fixed and mobile**

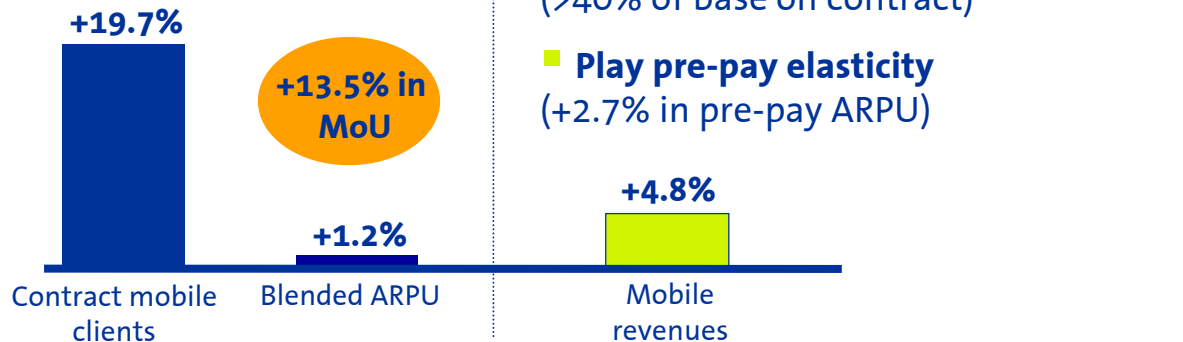
Broadband 1Q07 trends

(y-o-y)

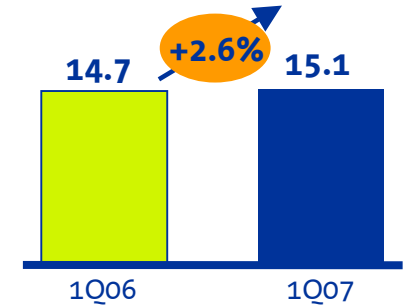


Mobile 1Q07 trends

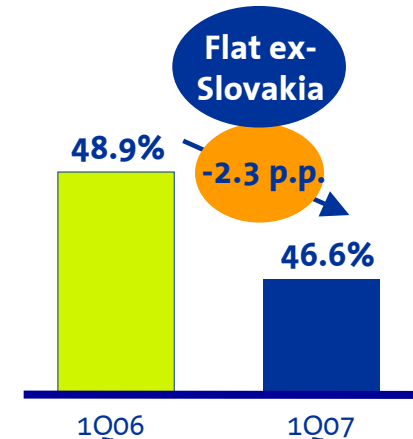
(y-o-y)



Operating revenues (CZK in billions)

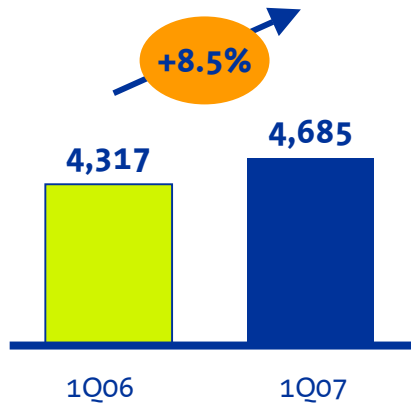


OIBDA margin

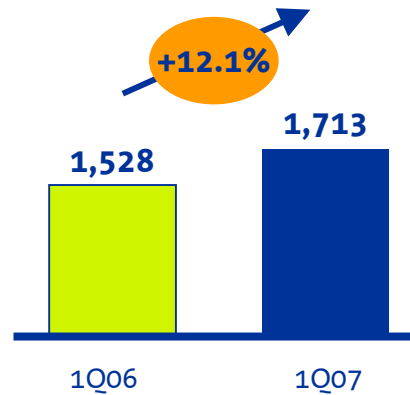


Telefónica Latinoamérica: solid fundamentals driven by mobile and broadband

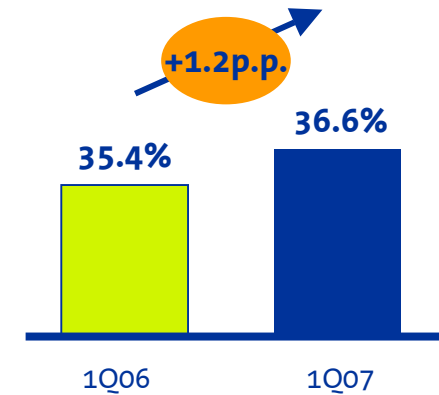
Revenues
(€ in millions)



OIBDA
(€ in millions)



OIBDA Margin
(%)



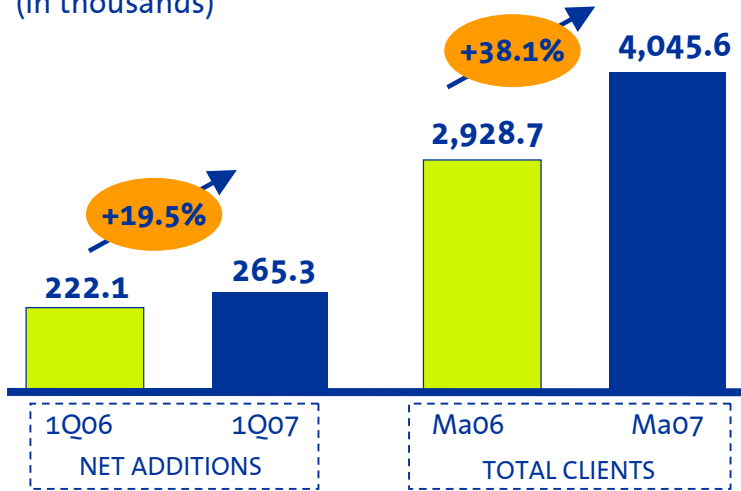
- Sound top line growth driven by mobile expansion
- Healthy profitability across countries
- Strong leadership in the development of BB and Pay TV
- Maintenance of mobile momentum in major markets

Healthy growth in revenues and OIBDA in all major markets

	Revenues		OIBDA	
	1Q07 (€ in millions)	% change ¹	1Q07 (€ in millions)	% change ¹
Integrated				
■ Brazil ²	1,801	+2.8%	749	+2.8%
■ Argentina	561	+21.0%	217	+29.7%
■ Chile	423	+10.0%	164	+22.5%
■ Peru	370	+9.7%	144	+0.3%
■ Colombia	352	n.m	100	n.m.
Mobile				
■ Venezuela	520	+25.4%	242	+39.3%
■ Mexico	315	+66.2%	22	c.s.
■ Central America ³	147	+25.1%	47	+26.5%
■ Ecuador	67	-4.9%	16	-2.3%
■ Uruguay	24	+50.0%	6	+66.6%

A consistent push to lead broadband across the region

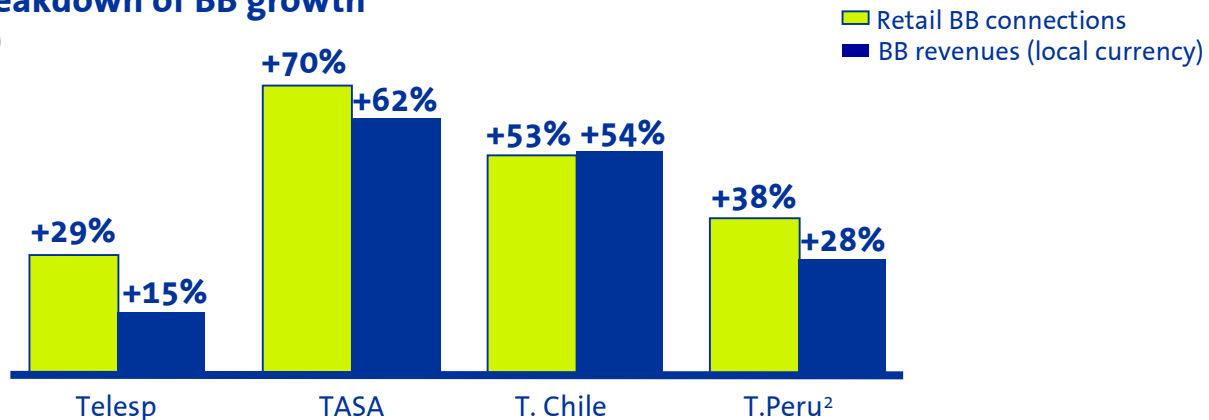
Retail Internet BB connections¹
(in thousands)



Pay TV clients
(in thousands)

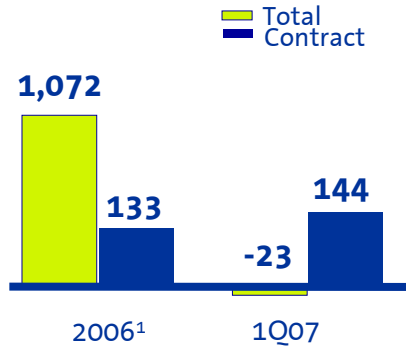


Breakdown of BB growth
(%)

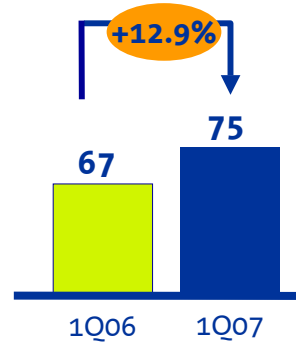


Brazil wireless: improving financial results amid a very competitive environment

Net Adds
(Thousands)

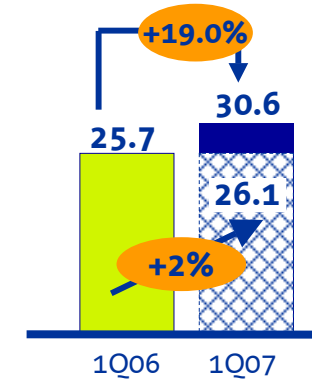


MoU
(minutes)

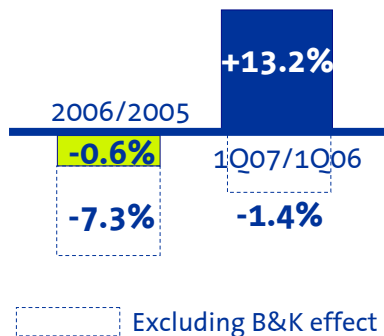


ARPU
(local currency)

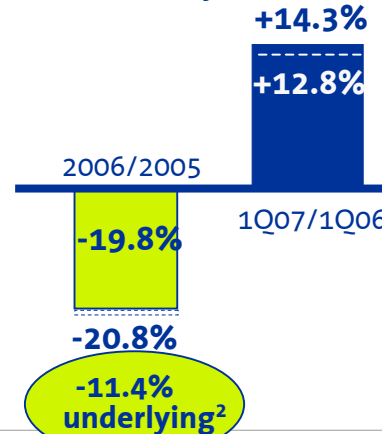
Excluding B&K effect



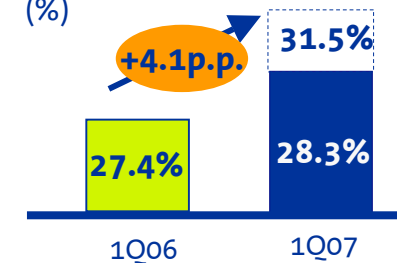
Service revenue growth
(local currency)



OIBDA growth
(local currency)

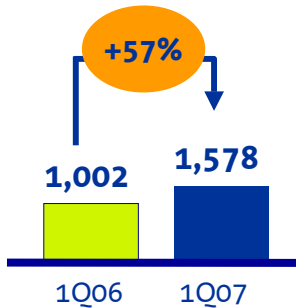


OIBDA margin
(%)

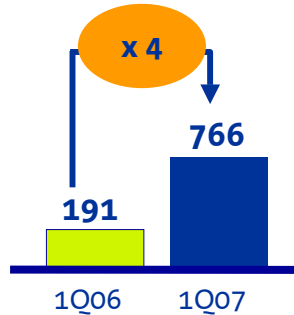


Mexico wireless: strong commercial momentum leads to very healthy revenue & OIBDA growth

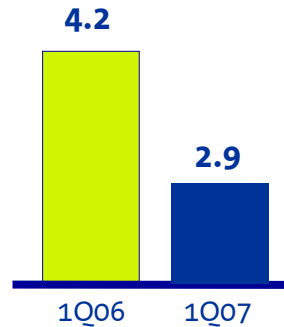
Gross adds
(in thousands)



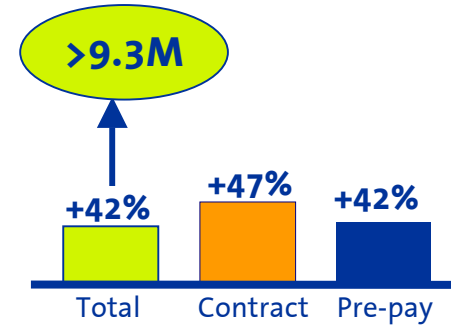
Net adds
(in thousands)



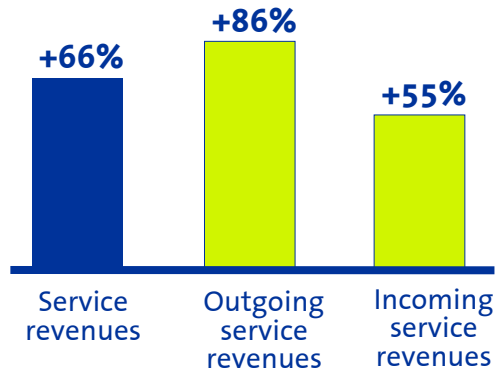
Blended churn
(%)



Customer growth
(y-o-y)



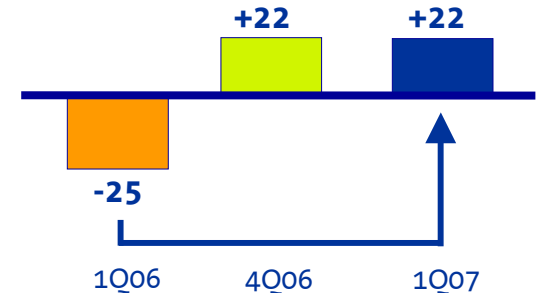
1Q07/1Q06 growth



Incoming service revenues positively impacted by national CPP (43.9% growth in 4Q06/4Q05)

- ARPU: +25.8% y-o-y
- MoU: +112.2% y-o-y

OIBDA
(€ in millions)



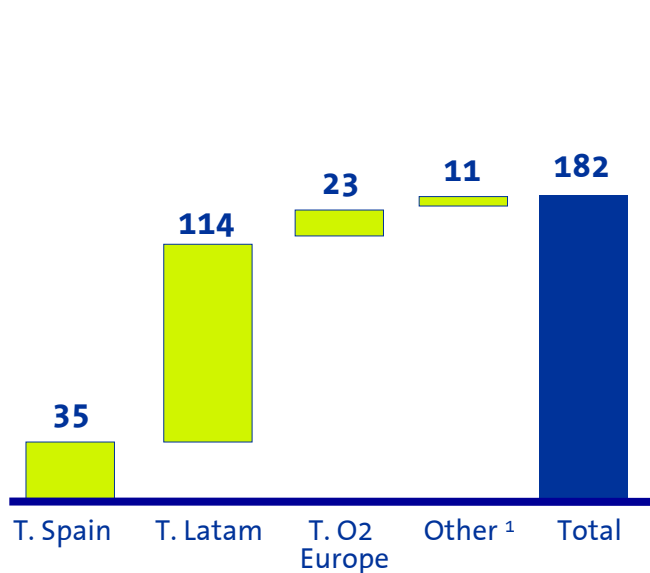
Key highlights for other Latam mobile operations

	1Q07customer base (M)	1Q07/1Q06 service revenue growth ¹	1Q07/1Q06 outgoing service revenue growth ¹	1Q07/1Q06 OIBDA margin	
ARGENTINA	11.8 +33%	+27%	+31%	29.0% +6.3 p.p.	Strong <i>customer growth</i> fully flowing to <i>outgoing service revenue growth</i> and <i>enhanced profitability</i>
VENEZUELA	9.1 +36%	+36%	+41%	46.5% +4.7 p.p.	
PERU	5.7 +54%	+54%	+82%	28.2% +0.3 p.p.	
CENTRAL AMERICA	4.0 +30%	+26%	+37%	31.7% +0.4p.p.	
URUGUAY	0.9 +75%	+58%	+73%	26.5% +2.6p.p.	
COLOMBIA	7.5 +11%	+10%	+10%	11.9% -6.9 p.p.	<i>Balance commercial strategy & revenue growth</i> , and strengthen competitive position through <i>active GSM migration</i>
CHILE	5.8 +8%	+18%	+15%	34.2% +3.8 p.p.	<i>Strong service revenue</i> backed by <i>higher ARPU</i> , and <i>margin improvement</i>
ECUADOR	2.5 +7%	-10%	-12%	24.5% +0.7 p.p.	New tariffs launched for <i>operating turn-around</i>

 y-o-y growth

1Q07 synergies are totally aligned with year-end target, leveraging our top initiatives

OpCF from synergies 1Q07 (€ in millions)



1Q07 fully aligned with guidance, which is affected by seasonality of CapEx & commercial campaigns

OpCF from synergies 2007E (€ in millions)

2007 top priorities for synergies generation

■ Regionalization

- ✓ Branding & commercial campaigns
- ✓ Handset & SIMs purchases
- ✓ Mundo Movistar
- ✓ Service platforms

~23%

■ Convergence & Integration

- ✓ Technology, Operations & Systems
- ✓ Products & Services
- ✓ Sales channels

~47%

■ Scale, Best practices & Management of Resources

- ✓ Bargaining power (roaming, handsets & technology)
- ✓ Internal mgmt of international & roaming traffic
- ✓ Business Development (roaming retail & MNCs)
- ✓ Distrito C & Contents' Unit

~30%

2007 TOTAL ESTIMATED SYNERGIES

~ 1,250

Pro-active management of cost of debt

	1Q07	1Q06	
Net Interest Expenses	(751)	(517)	+45.1%
FX Results	(17)	(5)	
Reported Financial Expenses	(768)	(522)	+47.1%

Evolution of effective debt service rate ¹ (1Q07/2006)

2006 average effective service cost

5.15%

+Higher interest rates

0.16%

+Higher proportion of Latam Cur. Debt

0.10%

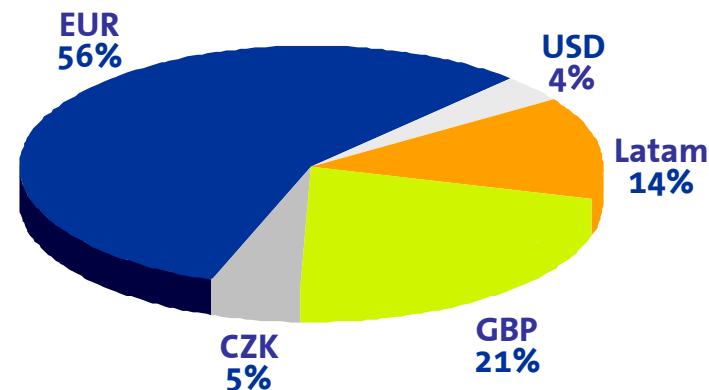
+Lack of 2006 MTM savings

0.15%

1Q07 average effective service cost

5.56%

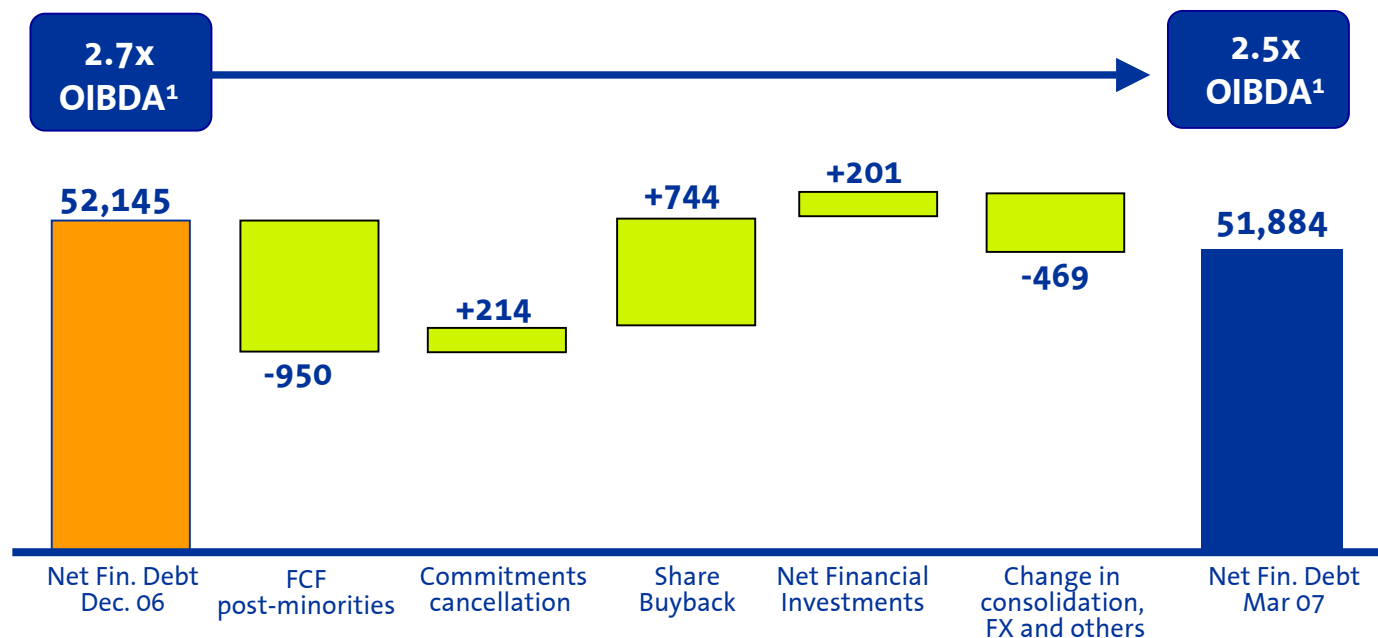
Breakdown of net debt by currency (March 07)



44% of debt denominated in currencies different from Euro

Progressing on de-leveraging

1Q07 Net Financial Debt Evolution (€ in million)



- De-leveraging in progress, with Debt & Commitments at 2.7x OIBDA
- Debt reduction supported by FX savings and interest accrual lower than payments
- Average maturity of financial debt at close to 6.5 years

Conclusions

1. Showing **commercial momentum** across countries and businesses
 - 206.5 M accesses, +11.4%
2. Retaining **benchmark organic growth** from top to bottom
 - +7.8% in Revenues & +22.5% in EPS
3. Benefiting from **diversification**, pushing on our **distinctive growth levers**
 - +11.4% organic growth of mobile service revenues
 - +26.6% organic growth of BB revenues
4. Keeping the **focus on efficiency**, helped by **integrated management**
 - +8.1% organic growth in operating expenses for a 37% margin

Telefonica
