

The best combination of growth and returns in the industry

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THE BEST COMBINATION OF
GROWTH AND RETURNS

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Telefónica offers to shareholders a SUPERIOR value proposition:

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

A high growth & returns stock, that **will double** both
EPS and dividend by 2009



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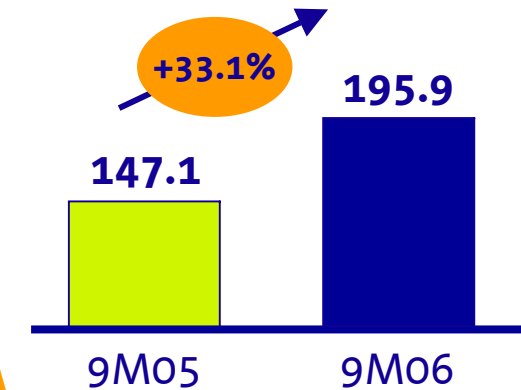
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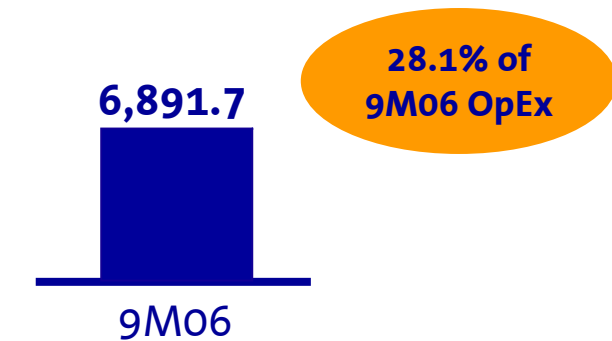
9M06 results show we are keeping our distinctive growth profile in the sector...

	% Change 9M06/9M05
Revenues	+43.1%
Operating Income before D&A (OIBDA)	+35.9%
Operating Income (OI)	+24.5%
Net Income	+59.4%
EPS	+64.0%

Accesses
(million)



Commercial Spending
(million €)





... well ahead of peers

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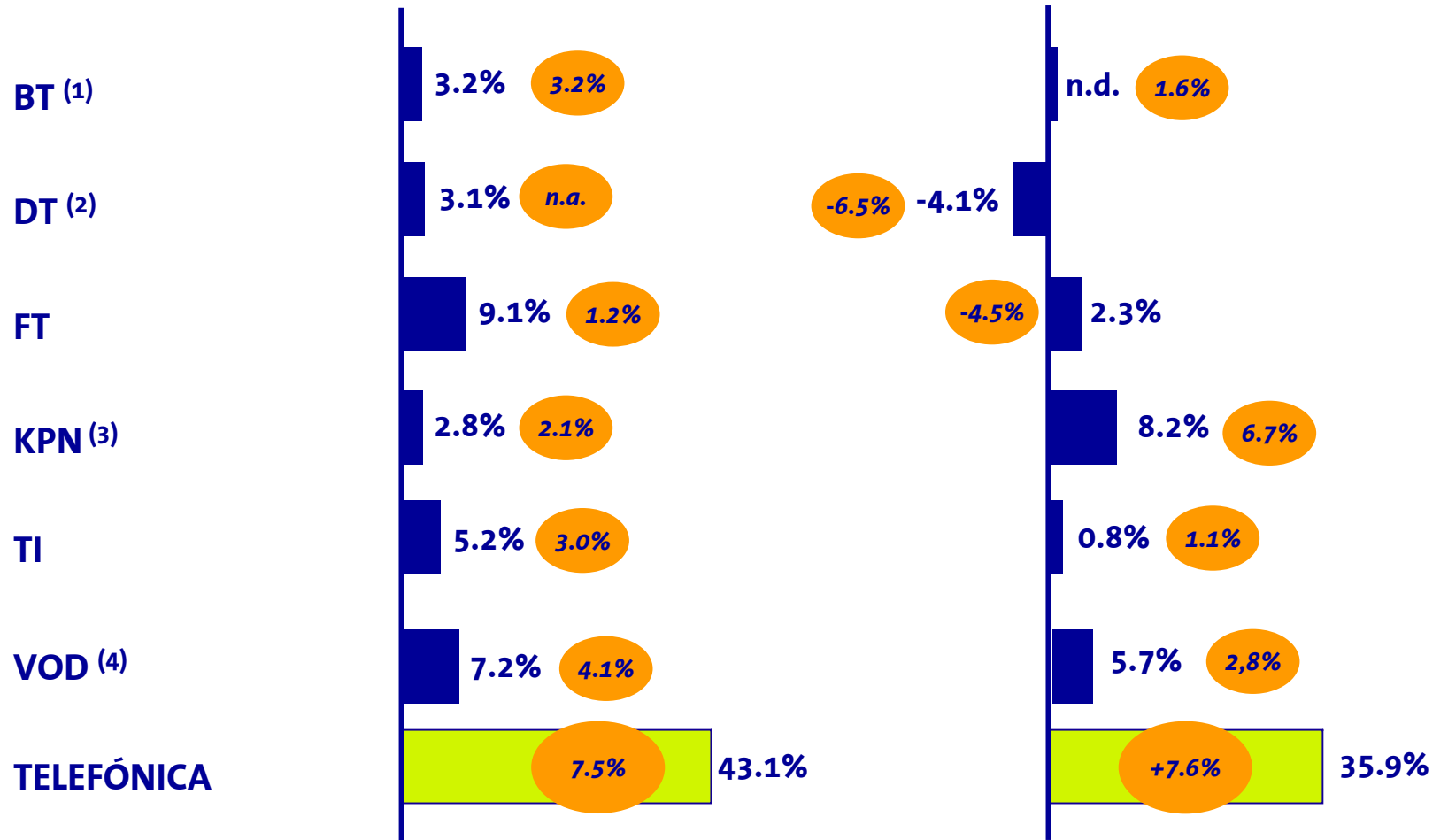
Revenue Growth

(9M06 vs. 9M05)

x% Reported
X% Organic

OIBDA Growth

(9M06 vs. 9M05)



(1) April-September 06 vs. 05; Organic EBITDA: excluding leaver costs

(2) OIBDA growth adjusted for special factors

(3) Organic EBITDA growth: adjusted EBITDA for guidance calculation

(4) Revenue growth April-September 06 vs. 05



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Our differentiated growth profile is based on the value of diversification

Spain: a push on commercial activity for superior growth profile

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

LatAm: growing high value businesses with a focus on profitability

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

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

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



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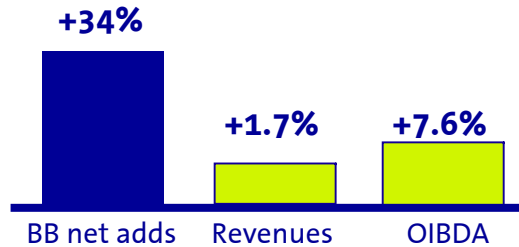
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Spain: a push on commercial activity for superior growth profile

Fixed

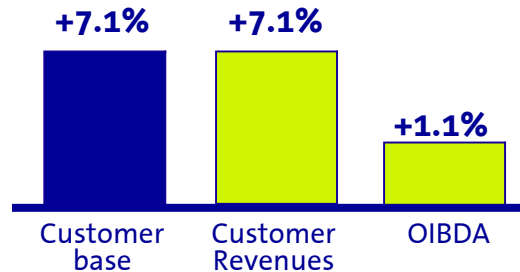
9M06/9M05 growth rates



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

Mobile

9M06/9M05 growth rates



- Strong net adds: 365,000 in 3Q06 (+45%) & 1.1 million in 9M06 (72%)
- 62,500 portability net adds in 3Q06, highest 3Q figure ever
- 3Q06 monthly churn at 1.76% & below 1% for the contract segment



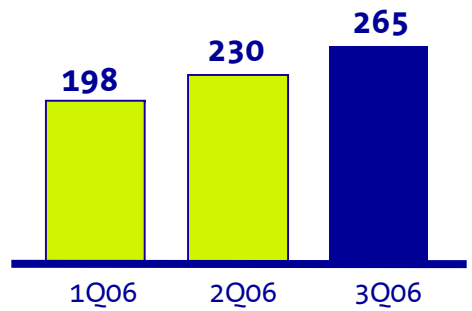
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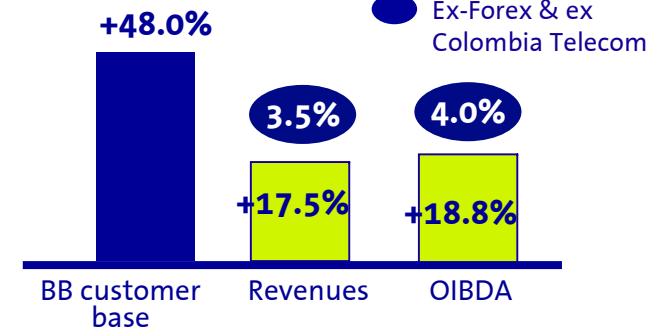
LatAm: growing high value businesses with a focus on profitability

Fixed

Retail Internet BB Net Adds ¹
(in thousands)



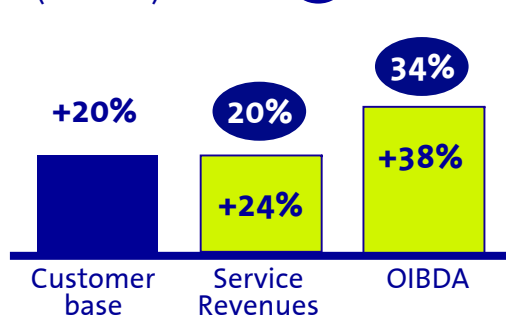
9M06/9M05 growth rates
(€ terms)



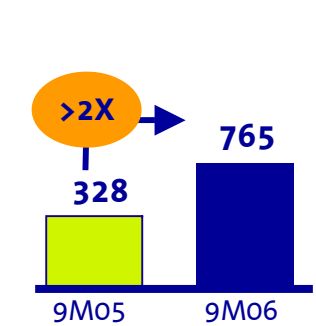
- 75% of organic sales growth generated by BB and Data & IT
- 2.2 p.p. of OIBDA margin improvement since the beginning of the year

Mobile

9M06/9M05 growth rates
(€ terms)



OpCF (€ in Millions)



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





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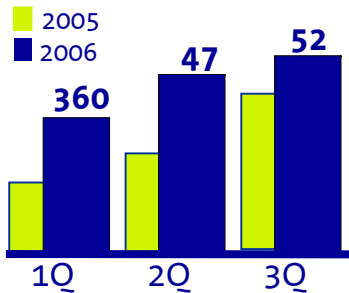
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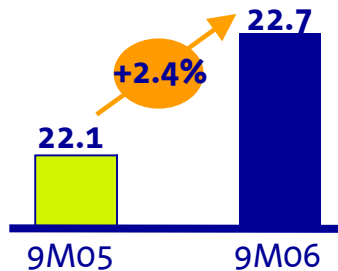
Europe: solid mobile growth in the UK and Germany

O2 UK

Trend in net adds
(in thousands)

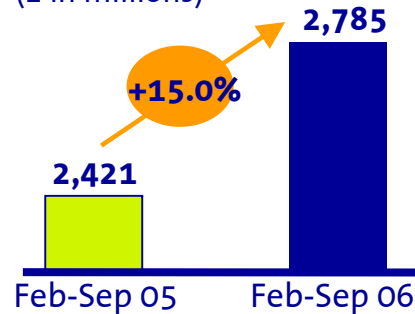


ARPU
(Qtly. monthly average, in £)



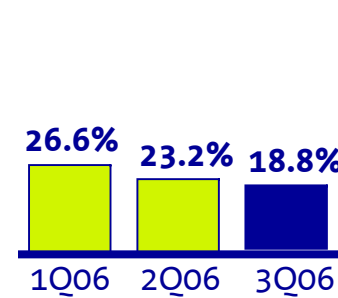
- Customer growth (acquisition and retention)
- ARPU up q-o-q led by higher MOU and data

Service Revenues
(£ in millions)

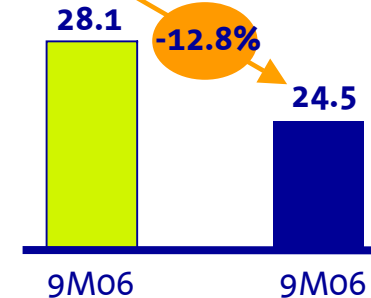


O2 GERMANY

Client growth
(y-o-y)

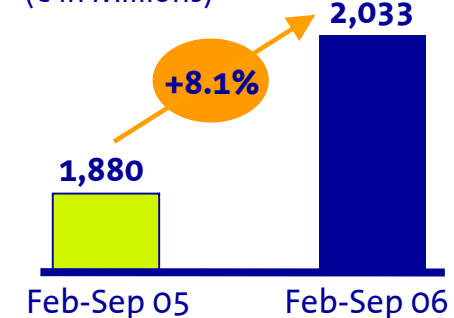


ARPU
(Qtly. monthly average, in €)



- Growing proportion of prepay in base
- ARPU pressured by mix, competition & TRC

Service Revenues
(€ in Millions)





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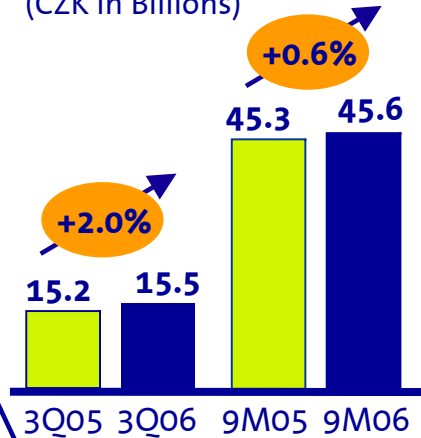
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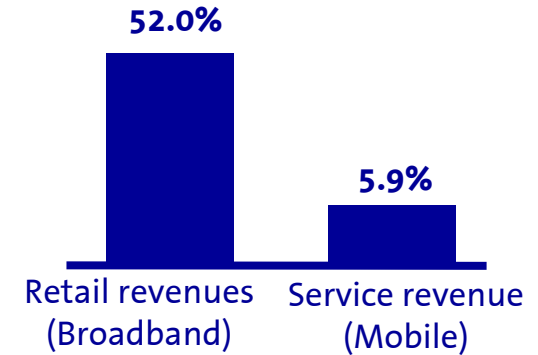
Europe: rapid turn-around of fixed business in the Czech Republic

- 1 Integration**
On track & neutral to OIBDA 2006
- 2 Product re-positioning**
 - *New pricing*
 - *O2 brand effective September 2006*
- 3 Convergence**
First products out, including IPTV

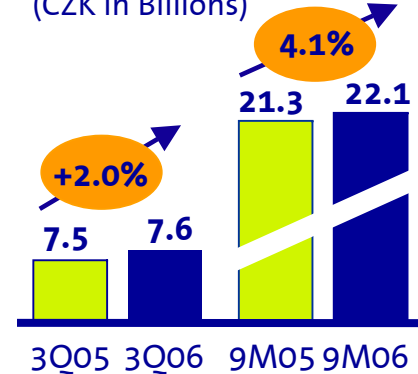
Revenue evolution (CZK in Billions)



Growth of revenue drivers



OIBDA evolution (CZK in Billions)



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

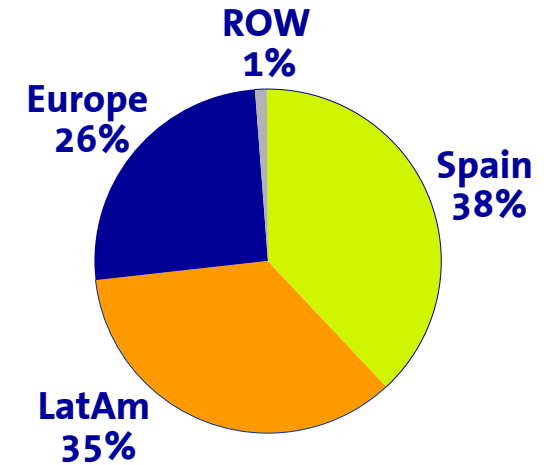
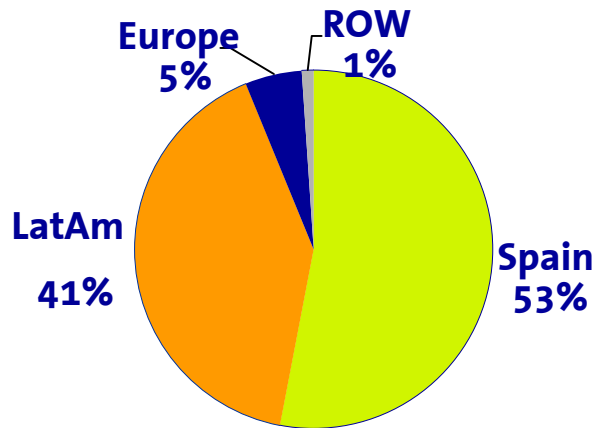


Telefónica is well-balanced by business and geographies

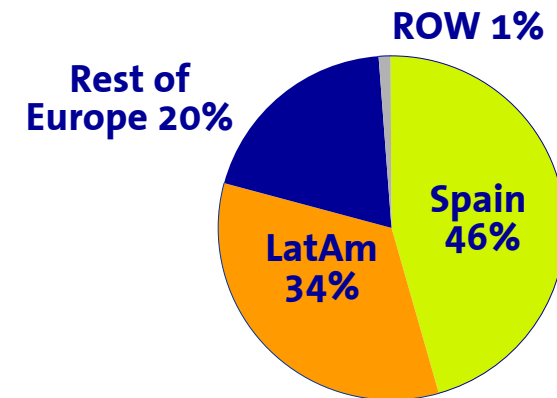
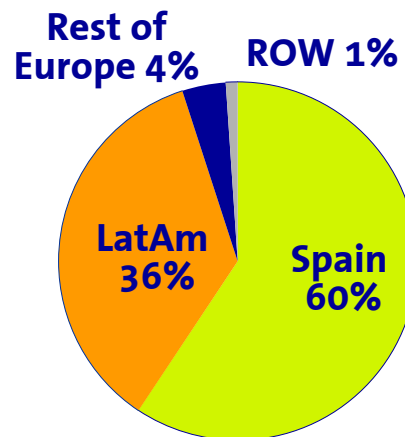
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Revenues
by region



OIBDA
by region



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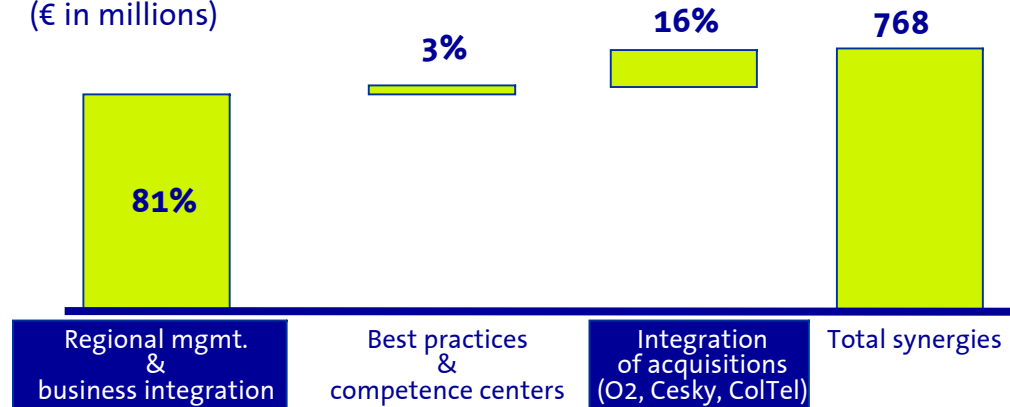
Potential from scale and integrated management

Our commitment

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

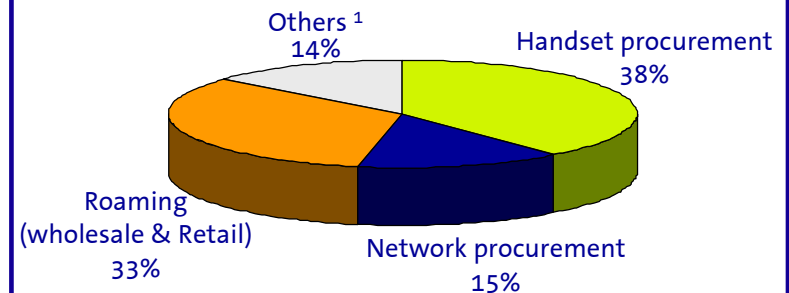
OpCF from synergies 9M06
(€ in millions)

100% of Sep.06 target achieved



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

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



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

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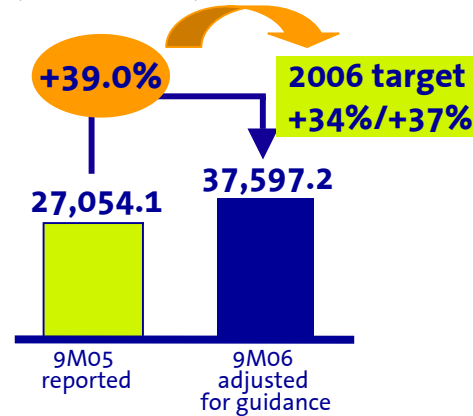
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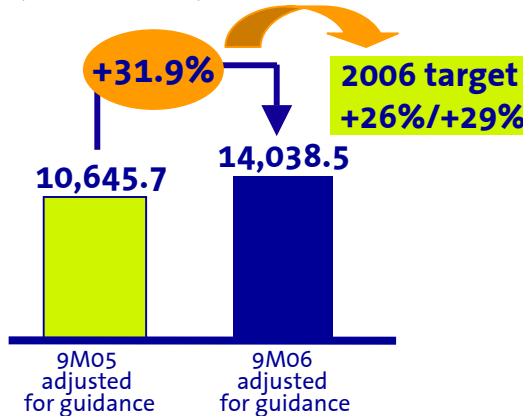
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9M06 results supports guidance upgrade

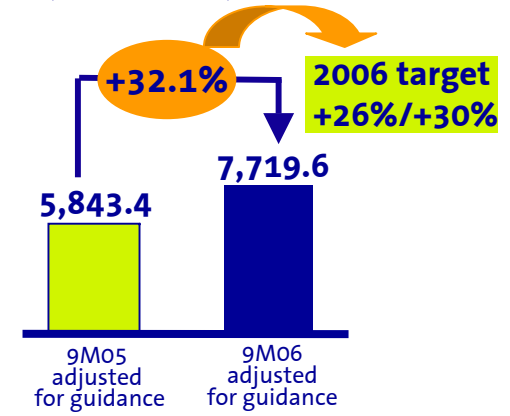
Group Revenues
(€ in Millions)



Group OIBDA
(€ in Millions)



Group OI
(€ in Millions)



UPGRADED TO ABOVE +37%

REINFORCED TO HIGH END OF +26/+29%

REITERATED AT +26/+30%

A RELIABLE COMPANY

Proven track record of delivering on guidance (2003-2005)

Notes

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



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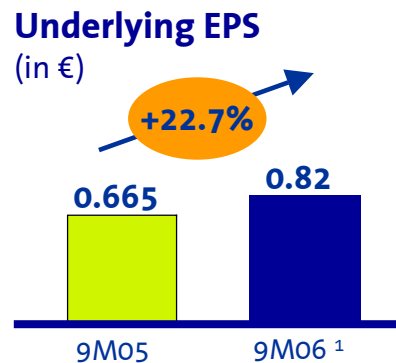
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Our commitment to shareholders: growing returns while preserving financial discipline

Shareholder remuneration

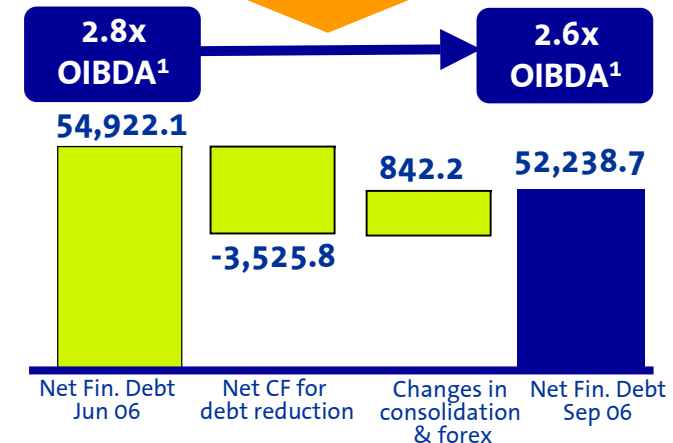
- **Double 2005 DPS (0.5€) by 2009**, in line with doubling 2005 EPS by 2009 (0.91€)
- Devote **2.7 Bn.€ to buyback** shares and cancel them by 2007



51.1 M shares in treasury at the end of 3Q06

Financial discipline

- **BBB+/Baa1** as rating floor & Net debt + commitments **below 2.5x OIBDA** in the medium term
- **<1.5 Bn.€** in net financial investments³ in 06-07 on aggregate & **no issuance of new shares** for acquisitions



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

(1) Excluding TPI's capital gains(-0.33€/share) & 9M06 Redundancy provision (+0.05€/share)

(2) Based on 12 months rolling OIBDA including Telefónica O2 Czech Republic, O2, and Colombia Telecom

(3) Excluding TPI sale



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 - **Best diversification**, by business and geographies
 - **Enormous potential to extract value** from scale and integrated management
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