Telefónica España: Strong Momentum

citigroup 7th Annual European & Emerging Markets Telecoms Conference

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Telefónica

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01 Solid set of results in 2006, outperforming sector average

Strong commercial push

- Shaping the market
- Strengthening our competitive position across all businesses

44.2MM accesses (+5.6%)

Superior performance

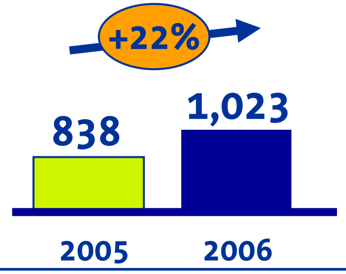
- **Healthy top-line growth** driven by ARPU and customer base expansion
- **High operating profitability,** leveraging higher commercial efficiency
- **Strong cash generation** despite efforts in network transformation

Unique growth & profitability profile

01 Strengthening our leadership and stimulating usage in wireline ...

- **Leading broadband growth**

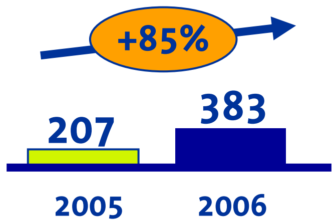
TdE Retail BB net adds (000)



- Share of net adds > 60%
- >3.7MM accesses: +38%
- 56% market share

- **Containing line loss**
- **Gaining share in pay-TV**

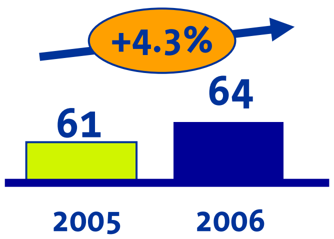
Imagenio accesses (000)



- 10% market share: +4 p.p.

- **Increasing ARPU**

Total ARPU (€)

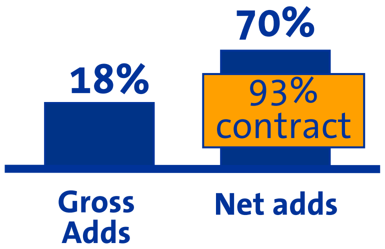


- 23.5% of lines with BB
- 71% of BB accesses with 2P/3P: +32 p.p.
- Retail BB VAS ARPU: +19%
- IT revenues in Corporate: +20%

01 ... and in wireless ...

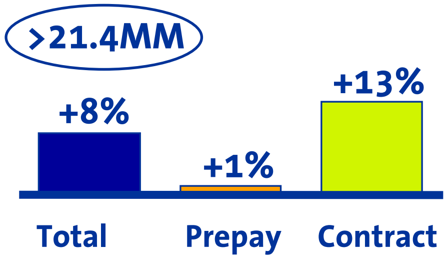
- **Maintaining commercial pressure**
- **Driving customer retention**
- **Focusing on value**
- **Fostering usage**

2006/2005



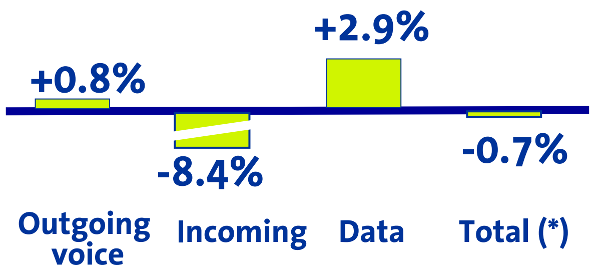
- #1 in net adds in 2006
- +175K NP net adds (278k in contract)
- Best in class contract churn: <1%

Customers (2006/2005)



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

Total ARPU (€)



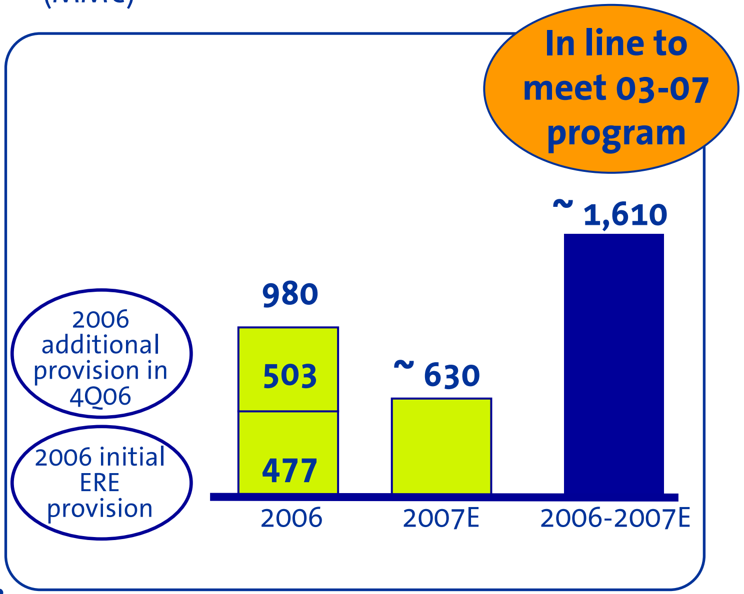
- Positive elasticity in outgoing voice
- Non P2P SMS revenue:+24%

(*) ARPU does not include roaming-in

01 Strong performance of both business lines: WIRELINE

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

ERE provision
(MM€)

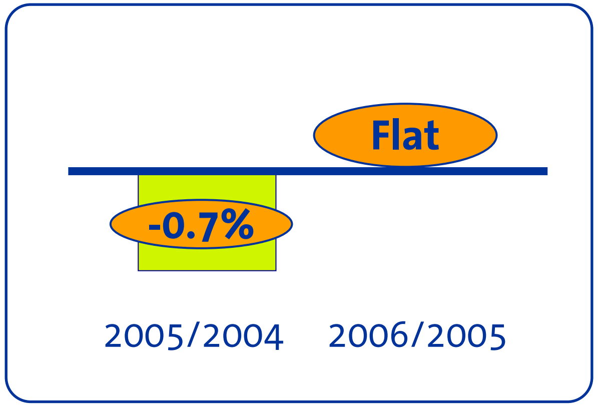


Underlying OIBDA: +3.7%

01 Strong performance of both business lines: WIRELESS

MM€ (unaudited figures)	2006	% Var. 2006/2005
Revenues	9,199	+4.1%
Customer revenues	6,353	+6.5%
IntX and roaming	1,751	-2.5%
OIBDA	4,128	+0.0%
OIBDA margin	44.9%	-1.9 p.p.

Y-o-y OIBDA growth



01 Telefónica España, solid results & strong cash generation

MM€ (unaudited figures)	2006	% Var. 2006/2005
Revenues	19,750	**+3%**
OIBDA[1]	9,627	**+2%**
Capex	2,293	**+9%**
Free Cash Flow[2]	**7,334**	

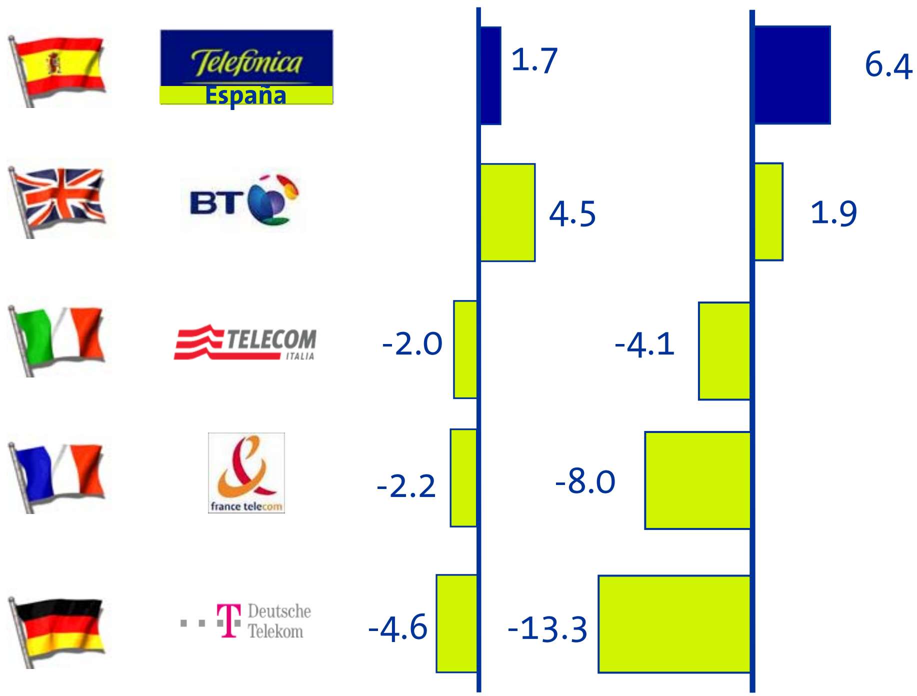
Meeting or beating again our guidance for both wireline and wireless

(1) OIBDA excluding E.R.E. provisions in 2006 (980M€) and 2005 (595 M€)
(2) OIBDA[1] – Capex

01 We maintain a differential growth profile

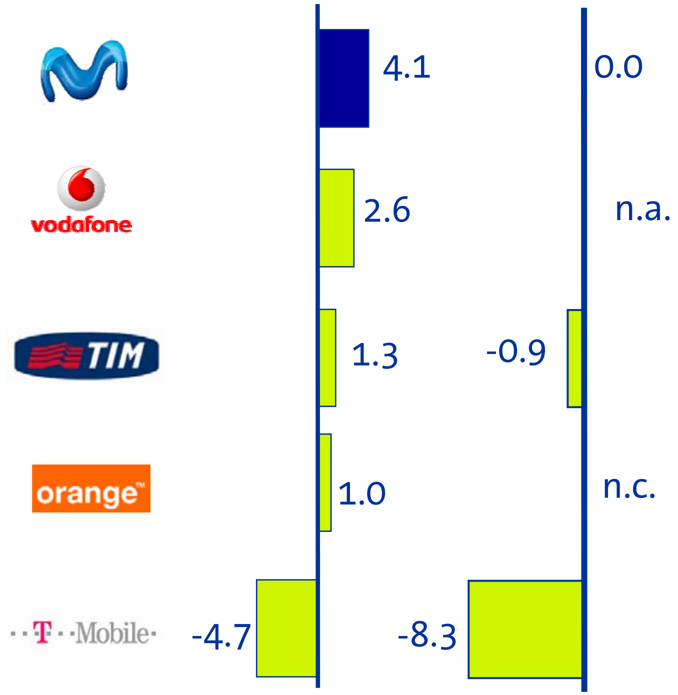
Wireline operators

Var. 06/05 (%) Revenue EBITDA



Wireless operators

Revenue EBITDA



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.
Vodafone: Service revenues for Vodafone UK for April-December periods (2006 vs. 2005).

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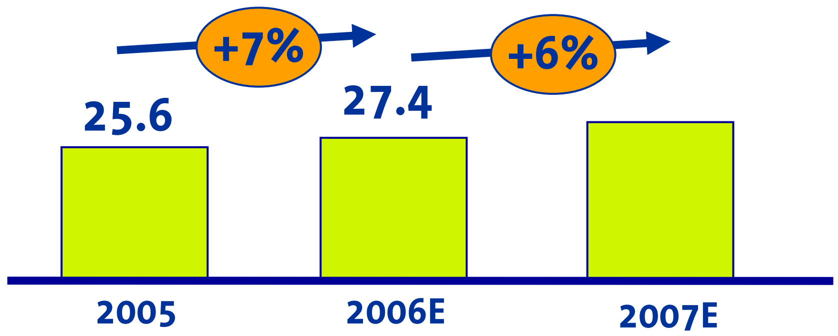
02 High growth potential in our market

Strong momentum in telecoms

Total market customer revenues (€Bn)



Favourable macro context

	2007E
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

02 Strong opportunities to capture

	We have enjoyed great successes …	… but we still have long way to go
	■ **1MM ADSLs sold in 2006**	■ Only **30% of households** have ADSL
	■ **Imagenio's customer base** almost **doubled**	■ Our **market share is only 10%**
	■ Innovative solutions launched	■ Nearly **90% of our clients DO NOT have "desktops"**, and "Wireless Desktop" is yet to explode
	■ **300,000 e-mail devices**	■ Only **5%** of our clients **have a 3G device**
	■ Analyzing new business models	■ **Models based on advertising, content, … are yet to take off**

02 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

02 Solid expectations for Telefónica España

MM€ (data not audited)

		2006	2007/ 2006 growth
Telefónica España	Revenue	19,750	0.5%/2%
	OIBDA[1]	8,634	5%/7%
	CAPEX	2,293	<2,400
Spanish Wireline	Revenues	11,964	0.5%/2%
	OIBDA[1]	4,560	9%/12%
Spanish Wireless	Service Revenues	8,142	2%/4%
	OIBDA	4,128	0%/1%

- *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*

[1] 2006 figures adjusted for guidance calculation

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

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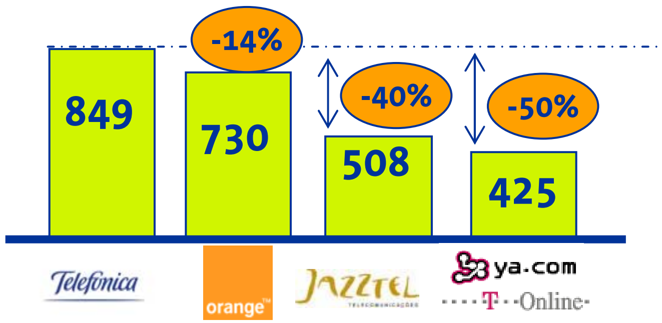
03 Strong position based on our strengths as an integrated player

- **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

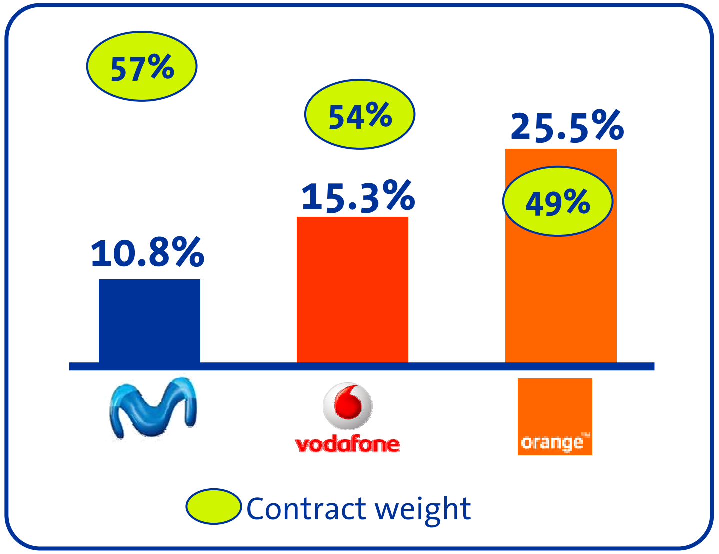
+

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

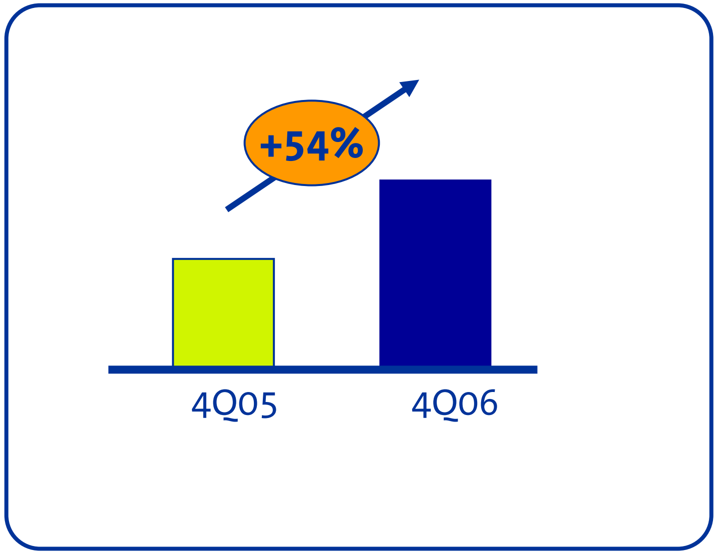
03 Wireless: High performance loyalty tools

- **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[1] (4Q06)



TME's residential contract handset upgrades



[1] Sources: press releases from companies. Rolling 12M data for Orange.

03 Differential commercial strength

Driving cross selling

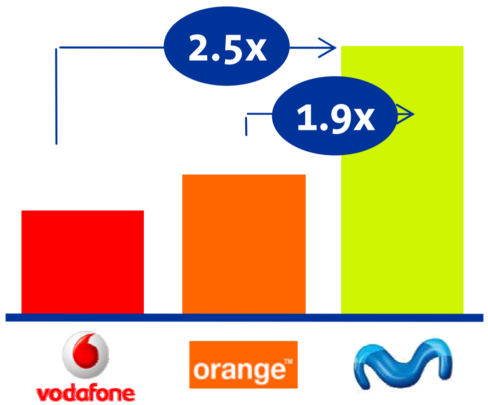
+2,500 sales people
- Integrated sales force in Corporate & joint objectives for small businesses

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 [1]



- 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

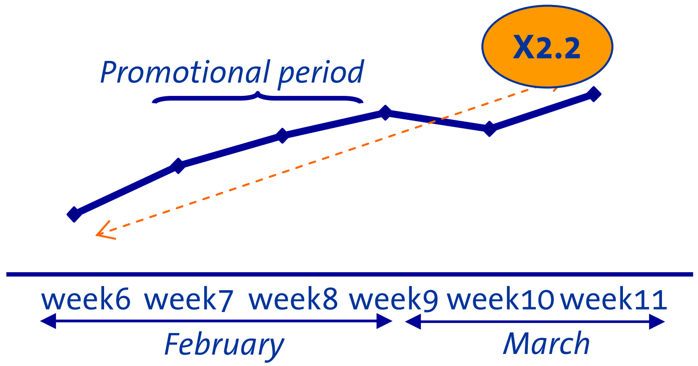
03 Unmatched profile to exploit convergence

EXAMPLES

Channel convergence

- Stimulating demand through cross selling

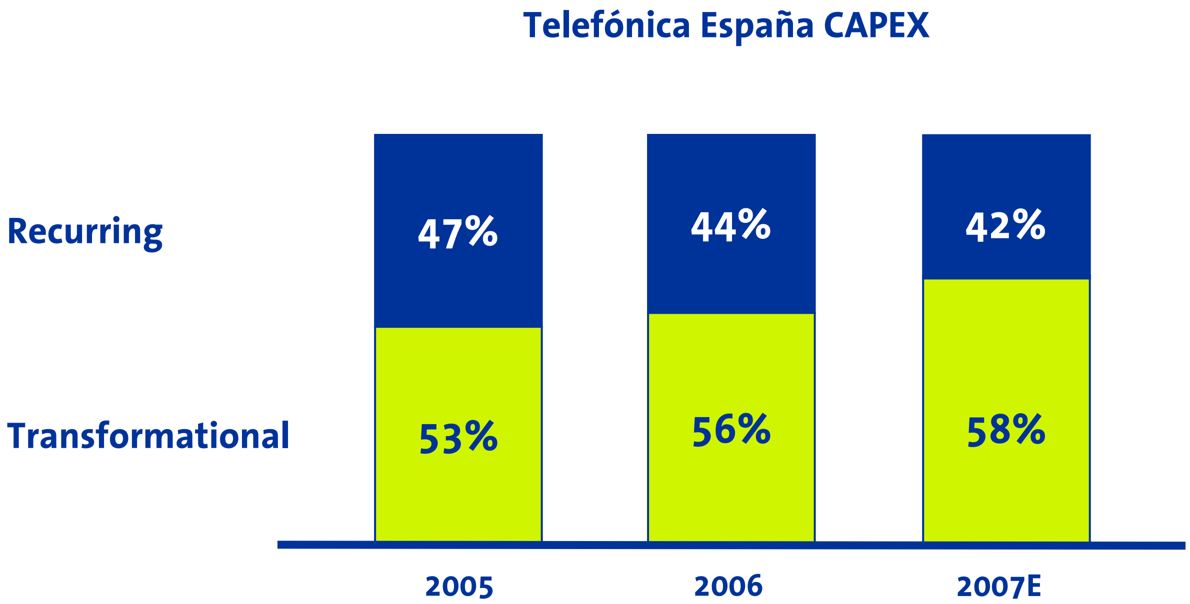
BB & Imagenio sales through TME's specialist channel
Units per week



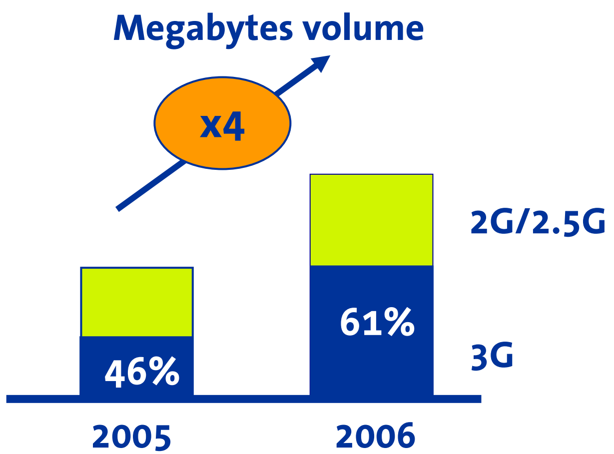
Integrated sales force & convergent offering

- Capturing, retaining and winning back corporate clients
- Lengthening commitment periods

03 Transforming the network

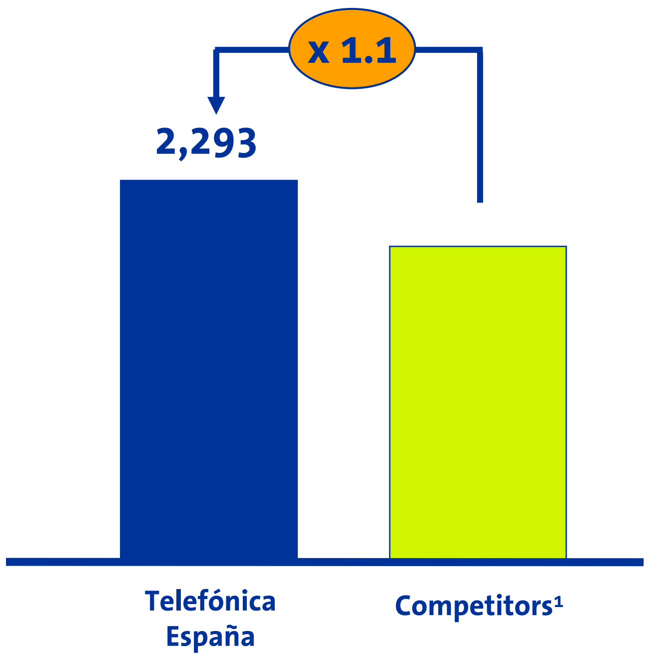


- UMTS network densification & HSDPA expansion, to back a commercial strategy fully aligned with market trends
- TdE's access network transformation (FTTx)

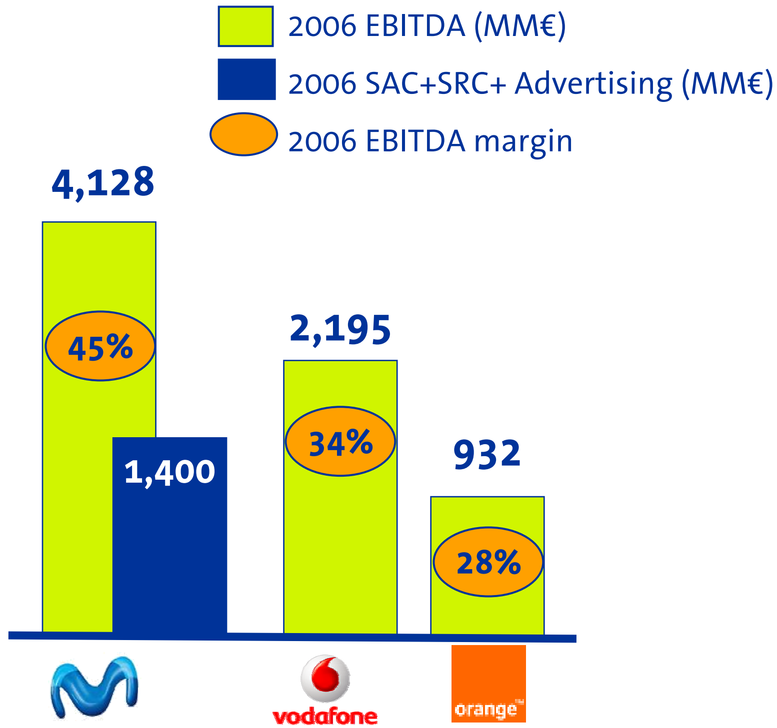


03 Financial strength

2006 Capex
(MM€)



Commercial effort



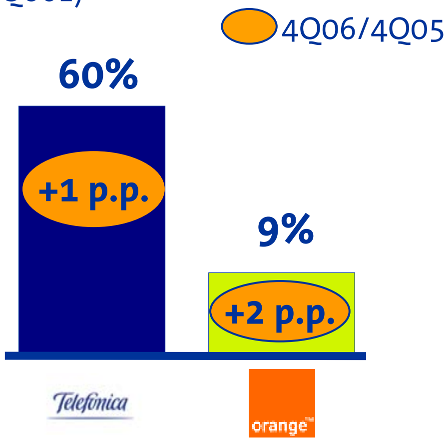
Unpararel resources allows to lead innovation and keep strong commercial push

[1] Includes VOD, OGE, Ono & Jazztel.
Sources: press releases from companies and ML Wireless Matrix (March 2007).

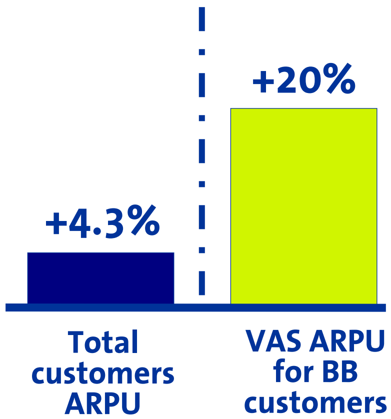
03 Proven track record of successfully facing our challenges

Leveraging our distinctive assets both in wireline …

Share of retail BB net adds
(4Q06E)



2006/2005 Var.



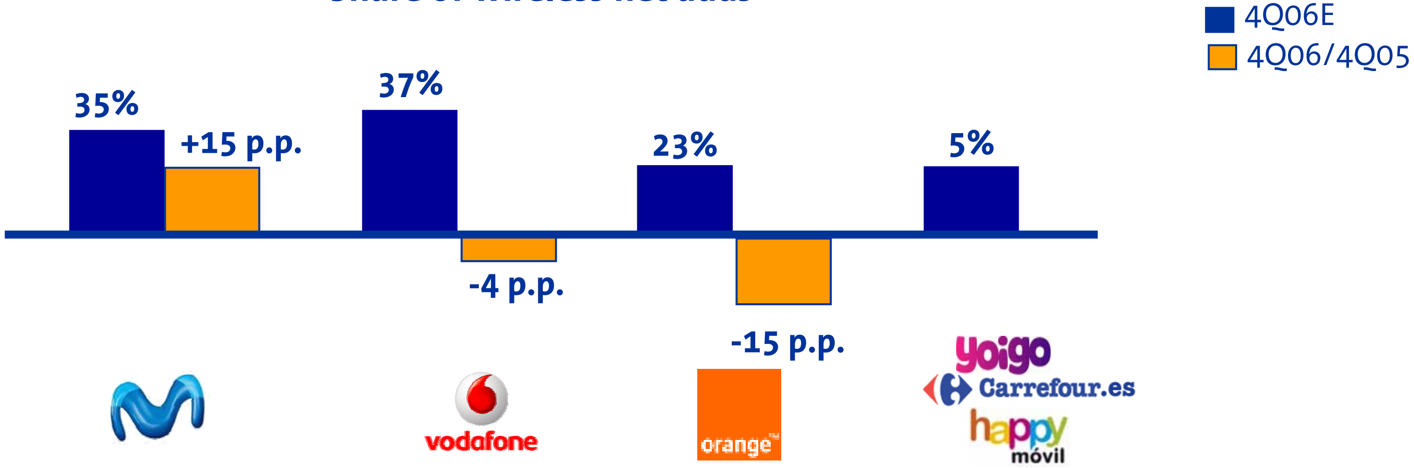
- 3.1MM active BB VAS at Dec-06 (2.6MM Dec-05)

Imagenio
(4Q06E)

03 Proven track record of successfully facing our challenges

... and in wireless

Share of wireless net adds



Yoigo & MVNOs launch

	SPAIN (Yoigo + MVNOs)		SLOVAKIA (Telefónica)
Population	45MM		5.4MM
Penetration	104%		97%
Customers in 1st month op.	~60K *Xmas*	>3x	~200 K *February*

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**

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