

Telefónica España: Strong Momentum

 **7th Annual European & Emerging Markets Telecoms Conference**

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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

**44.2MM
accesses (+5.6%)**

Superior performance

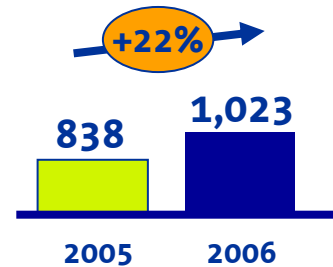
- **Healthy top-line growth** driven by ARPU and customer base expansion
- **High operating profitability**, leveraging higher commercial efficiency
- **Strong cash generation** despite efforts in network transformation

Unique growth & profitability profile

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

■ Leading broadband growth

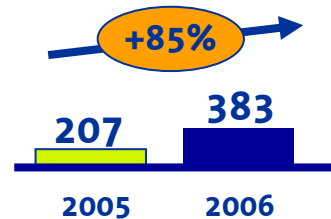
TdE Retail BB net adds (000)



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

■ Containing line loss

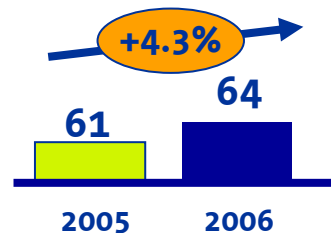
Imagenio accesses (000)



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

■ Gaining share in pay-TV

Total ARPU (€)



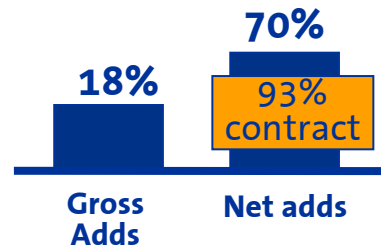
- 23.5% of lines with BB
- 71% of BB accesses with 2P/3P: +32 p.p.
- Retail BB VAS ARPU: +19%
- IT revenues in Corporate: +20%

■ Increasing ARPU

01 ... and in wireless ...

■ Maintaining commercial pressure

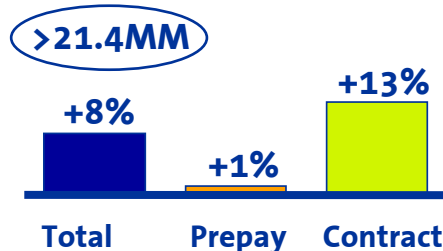
2006/2005



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

■ Driving customer retention

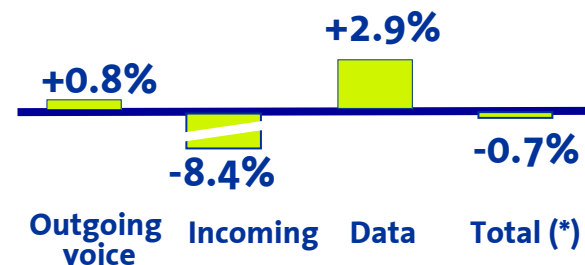
Customers (2006/2005)



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

■ Focusing on value

Total ARPU (€)



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

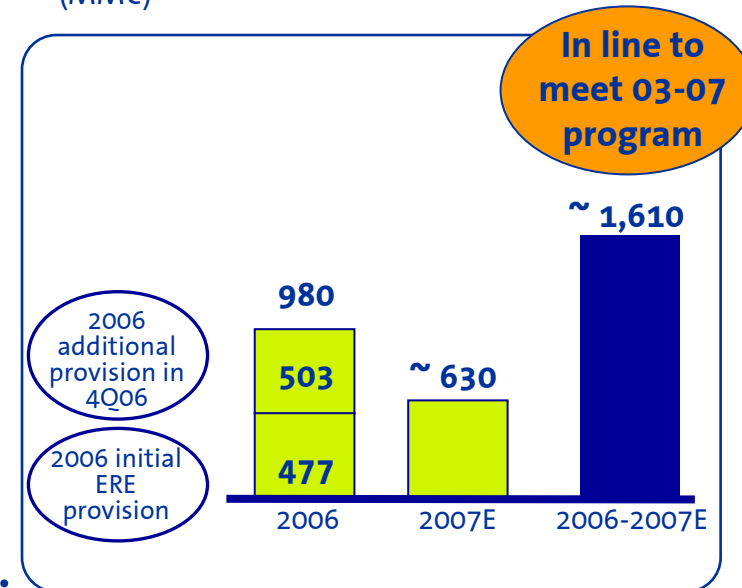
■ Fostering usage

(*) 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€)

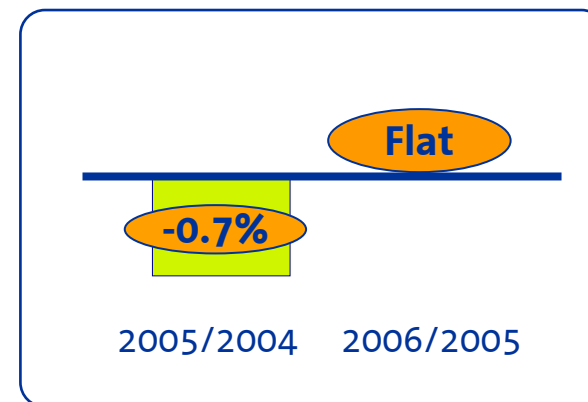


Underlying OIBDA:
+3.7%

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

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

Meeting or beating again our guidance for both wireline and wireless

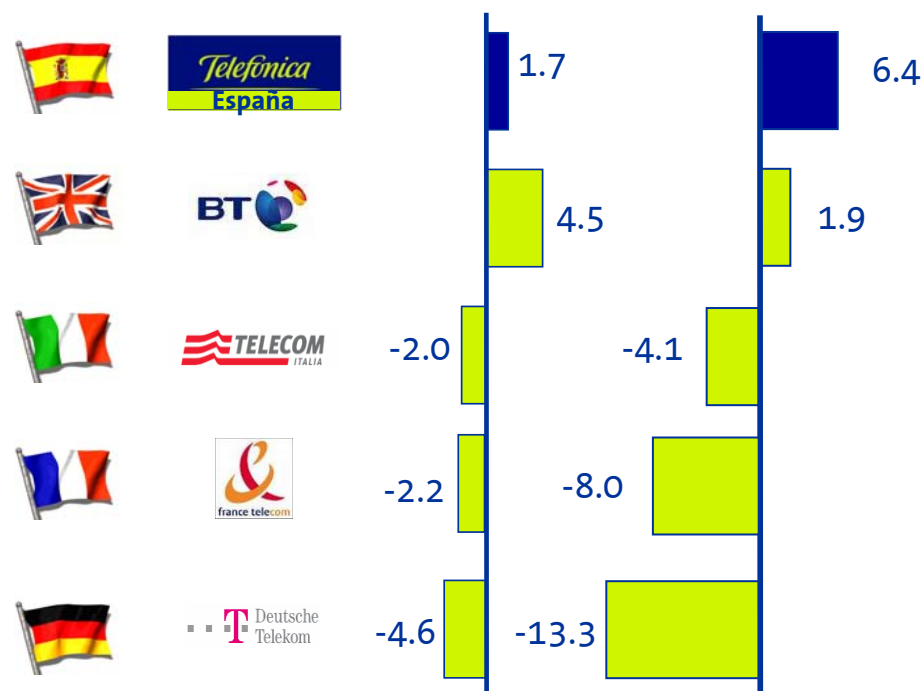
(1) OIBDA excluding E.R.E. provisions in 2006 (980M€) and 2005 (595 M€)

(2) OIBDA¹ – Capex

01 We maintain a differential growth profile

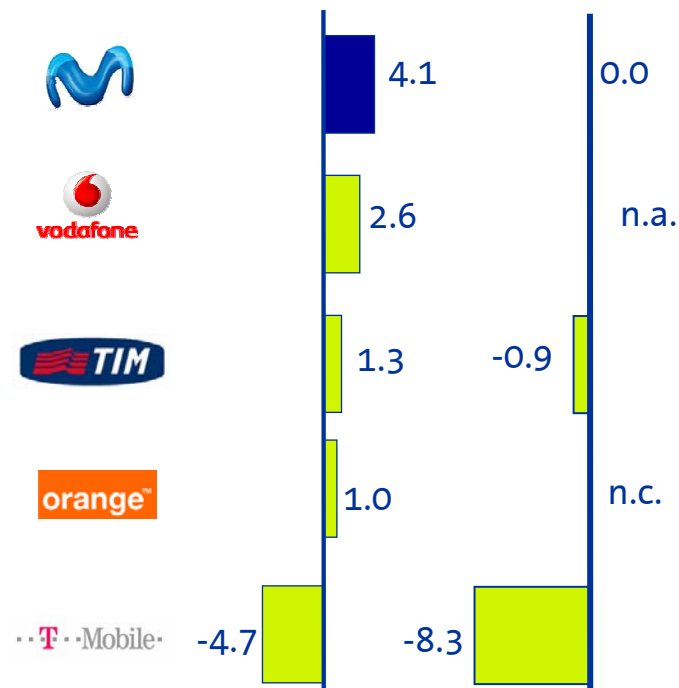
Wireline operators

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).

Index

01 **Benchmark set of results in 2006**

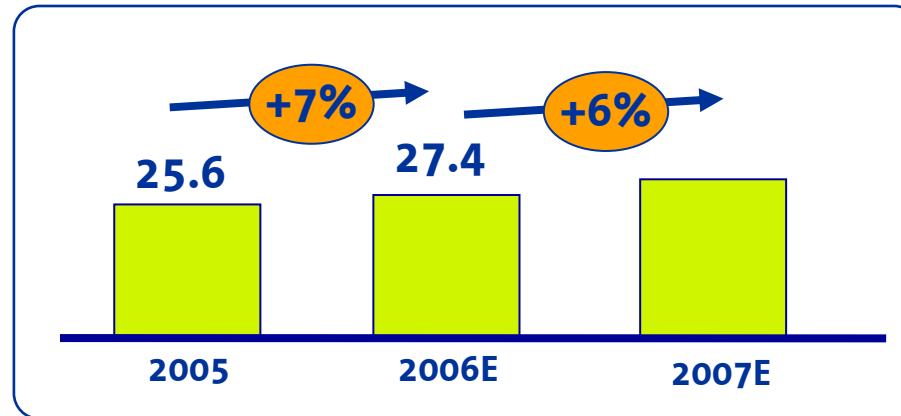
02 **Strong opportunities to continue delivering a premium performance**

03 **Differential strengths to exploit market opportunities**

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**

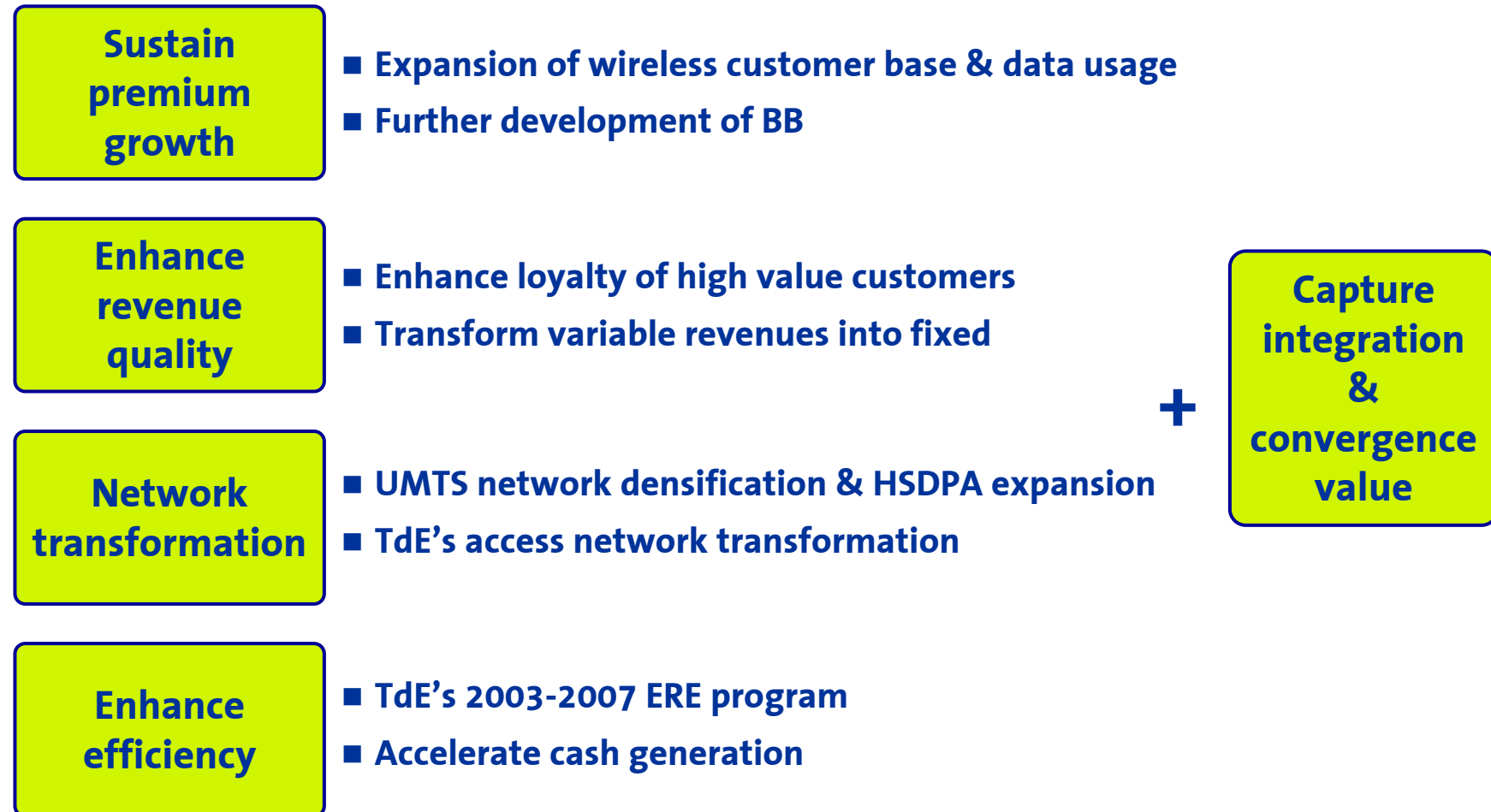
■ **Only 5% of our clients have a 3G device**



■ **Analyzing new business models**

■ **Models based on advertising, content, ... are yet to take off**

02 Priorities to exploit our distinctive growth profile



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%
■ 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	8,142	2%/4%
	OIBDA	4,128	0%/1%

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

Index

- 01 **Benchmark set of results in 2006**
- 02 **Strong opportunities to continue delivering a premium performance**
- 03 **Differential strengths to exploit market opportunities**

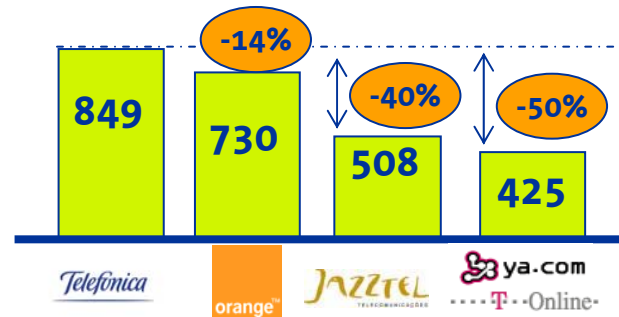
03 Strong position based on our strengths as an integrated player

- **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)



“Best quality ISP”
AI. January 07

Source: Asociación de Internautas (AI). 2007



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

pixbox beta

Canales a la carta **imagenio»**

Banda Ancha Rural

Dúo/Trío y ADSL 3Mb

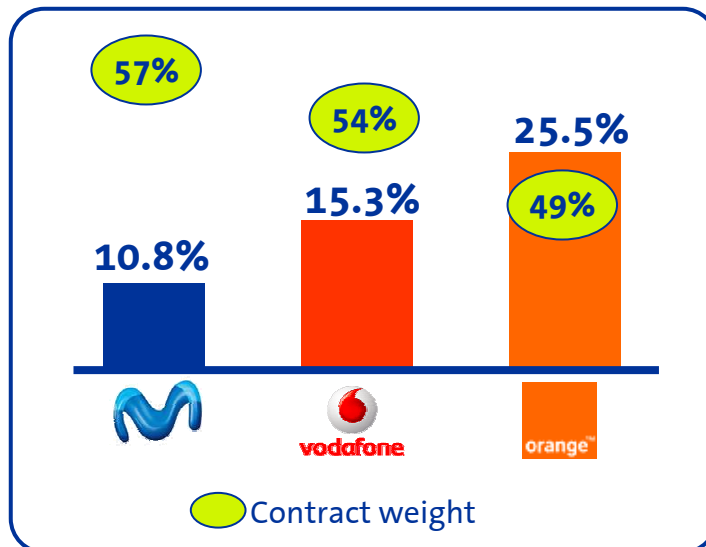
terratv beta

imagenio Básico

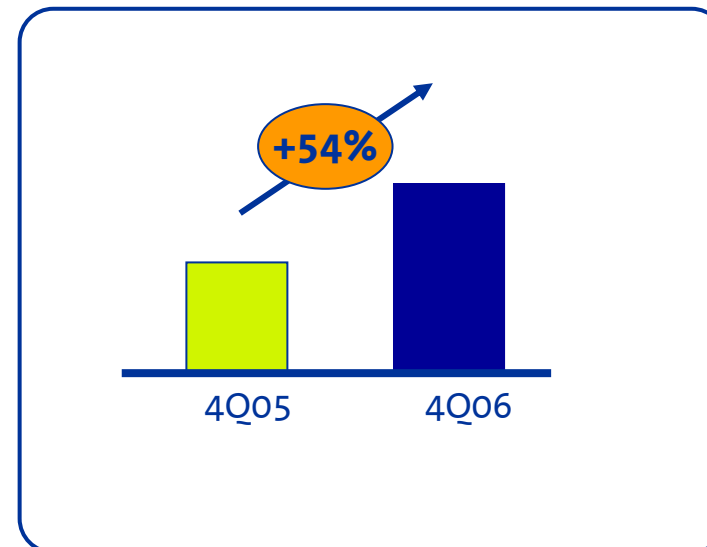
03 Wireless: High performance loyalty tools

- **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 churn¹ (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

10,000 Call centre positions

Strong online channels

~7,300 Points of sale

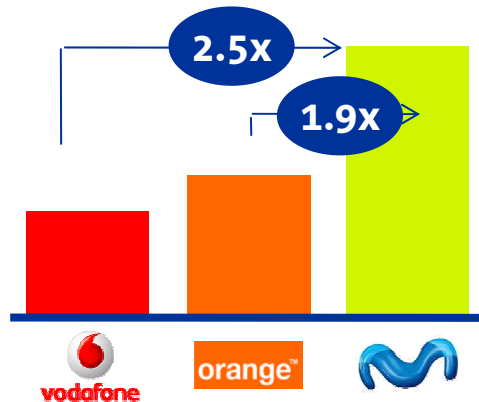
- Integrated sales force in Corporate & joint objectives for small businesses

- Signalling and transferring

- Joint front-end, redirectioning and bundle sales

- Joint indirect channel management

Exclusive POS¹



- 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

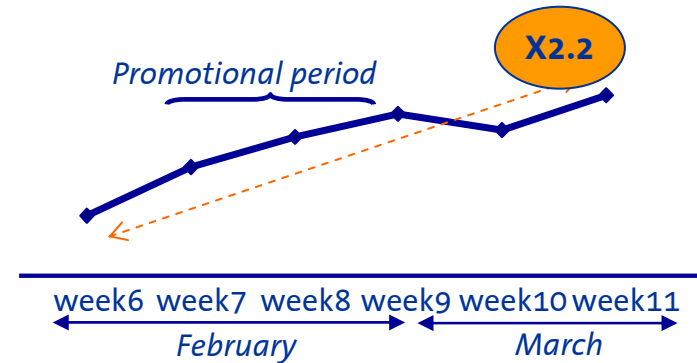
03 Unmatched profile to exploit convergence

EXAMPLES

Channel convergence

- Stimulating demand through cross selling

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



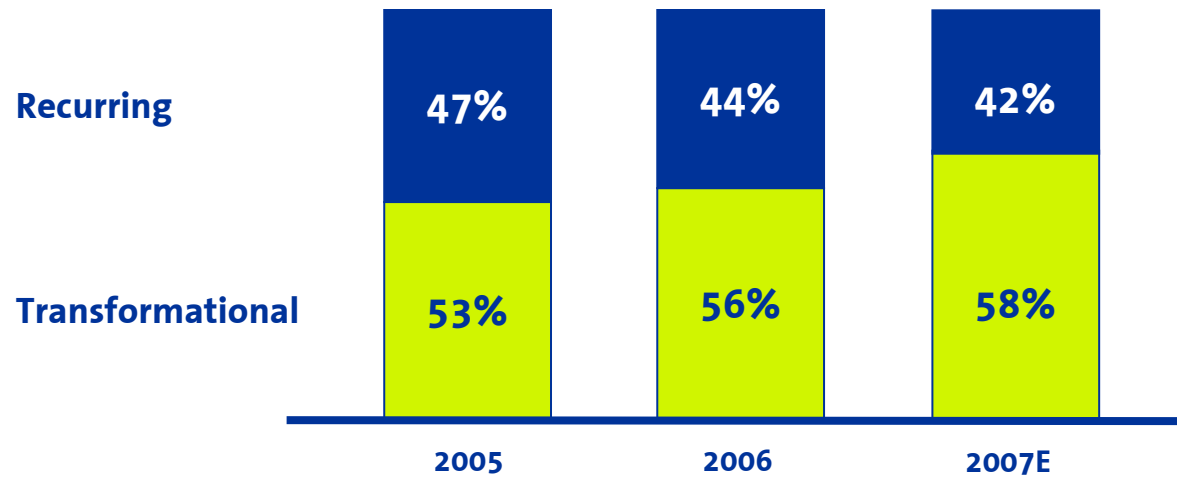
Integrated sales force & convergent offering

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

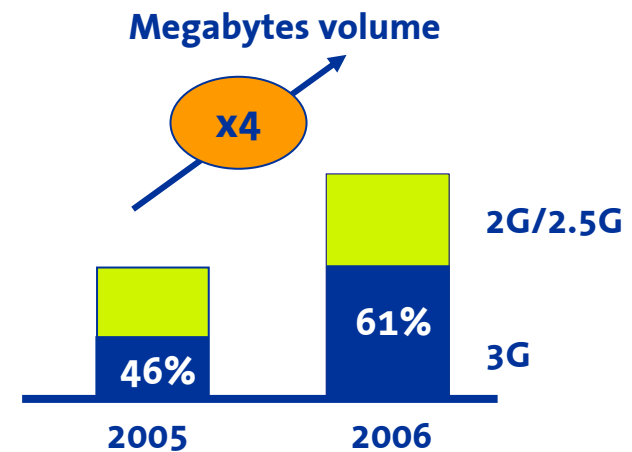


03 Transforming the network

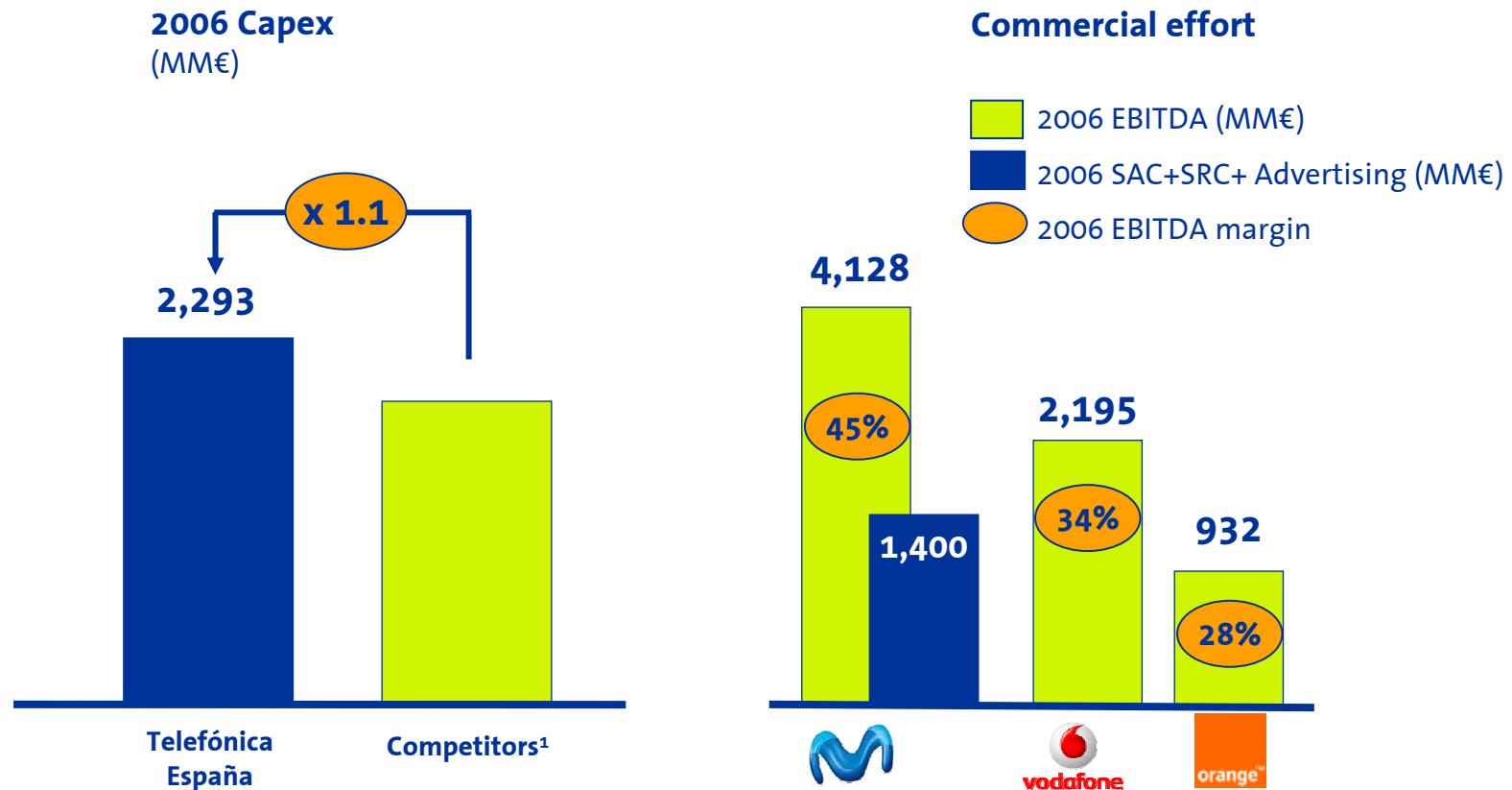
Telefónica España CAPEX



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



03 Financial strength



Unpararel resources allows to lead innovation and keep strong commercial push

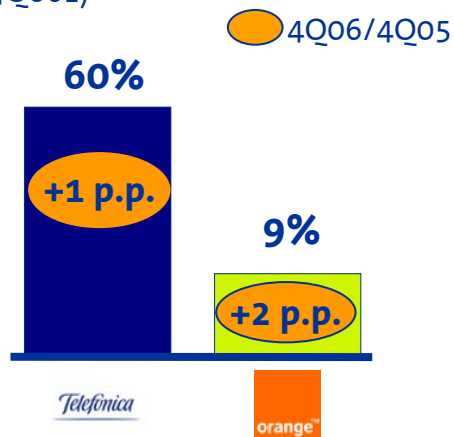
¹ Includes VOD, OGE, Ono & Jazztel.

Sources: press releases from companies and ML Wireless Matrix (March 2007).

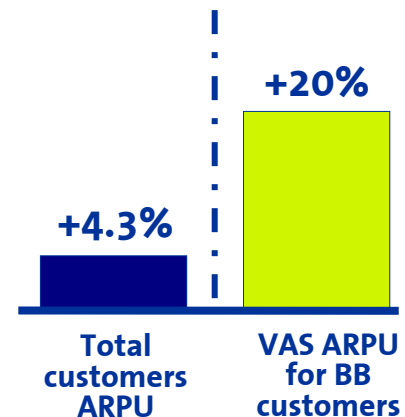
03 Proven track record of successfully facing our challenges

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)

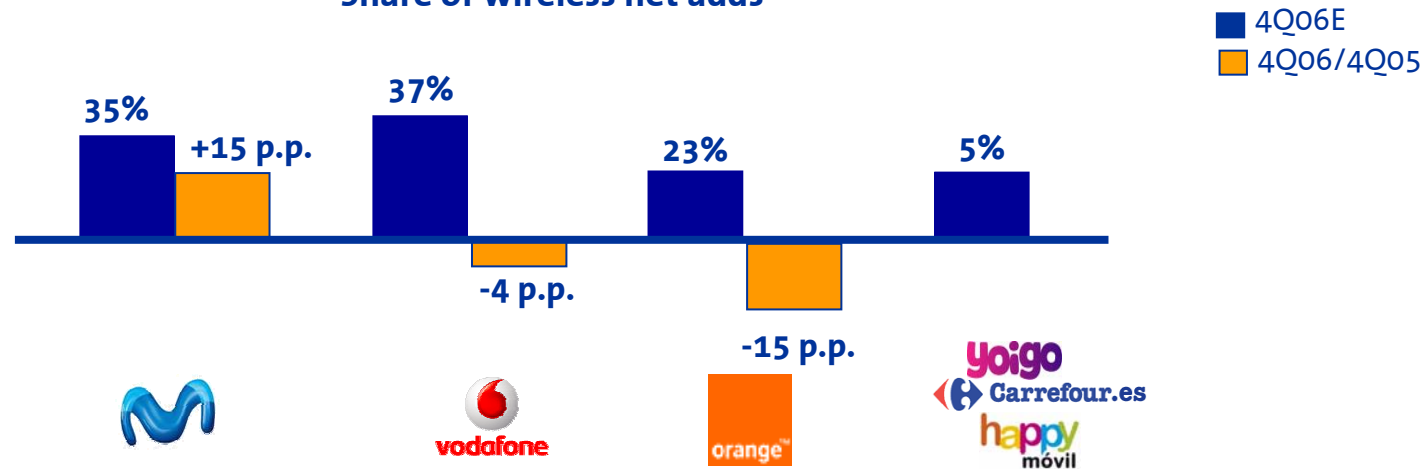
Imagenio
(4Q06E)



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 1 st month op.	~60K Xmas	~200 K February

>3x

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**

Telefónica
