Annual Results
January – December 2006

TELEFONICA S.A.
March 1st, 2007

This presentation is being broadcast live on the Internet

Disclaimer

This document contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

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.

Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica´s business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator.

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…

1. Fuelling our unique growth profile
2. Extracting value from deeper integration
3. Re-building a solid financial structure
4. Yielding attractive returns

…that delivered tangible results

+42.9% EPS growth

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

Net Debt[1]/OIBDA progressing towards our 2.5x target

>3.5 bn.€ returned to shareholders (40% of FCF[2])

(1) Including financial commitments
(2) FCF post minorities

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

€ in millions
(% change y-o-y)

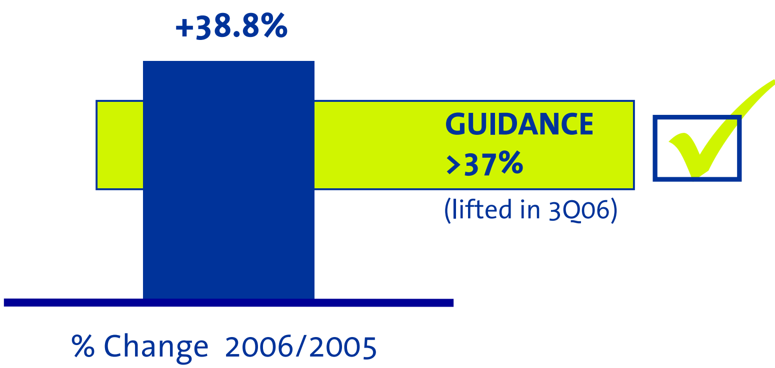
	Jan-Dec 2006	Jan-Dec 2005	% Change 2006/2005	% Change 2006/2005 organic [1]
Revenues	52,901	37,383	**+41.5%**	**+7.8%**
Operating Income before D&A (OIBDA)	19,126	15,056	**+27.0%**	**+6.4%**
Operating Income (OI)	9,421	8,363	**+12.7%**	**+4.8%** (Before PPA[2] +15.6%)
Net Income	6,233	4,446	**+40.2%**	
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

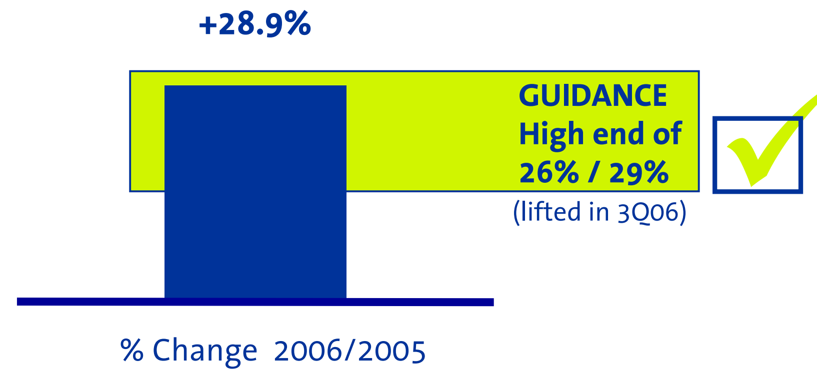
Note: TPI has been discontinued in 2006 and 2005 following Telefónica's acceptance of Yell's offer in July 4th
(1) Assuming constant exchange rates as of 2005. Incorporating Telefónica O2 Czech Republic and O2 from Jan. and Feb. 1st 2005, respectively, and excluding Telefónica Telecom in Colombia (consolidated 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)

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

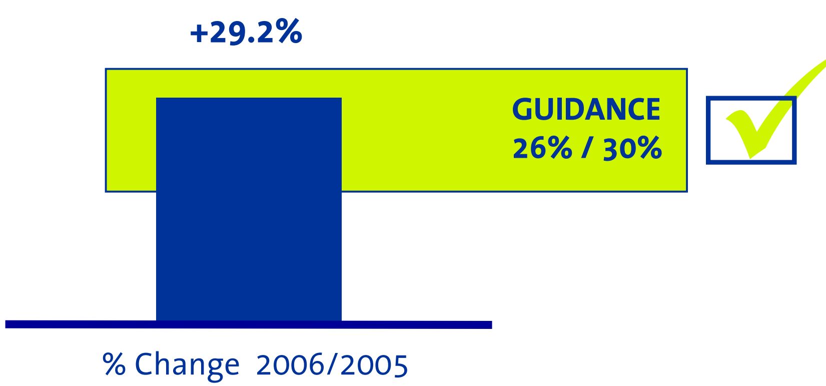
Revenue Growth



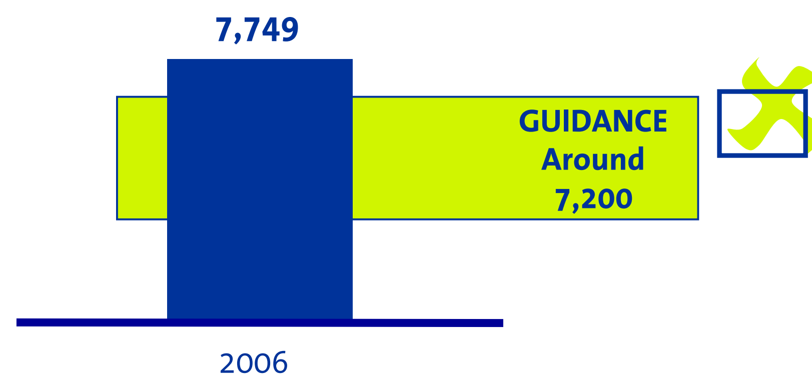
OIBDA Growth



OI Growth



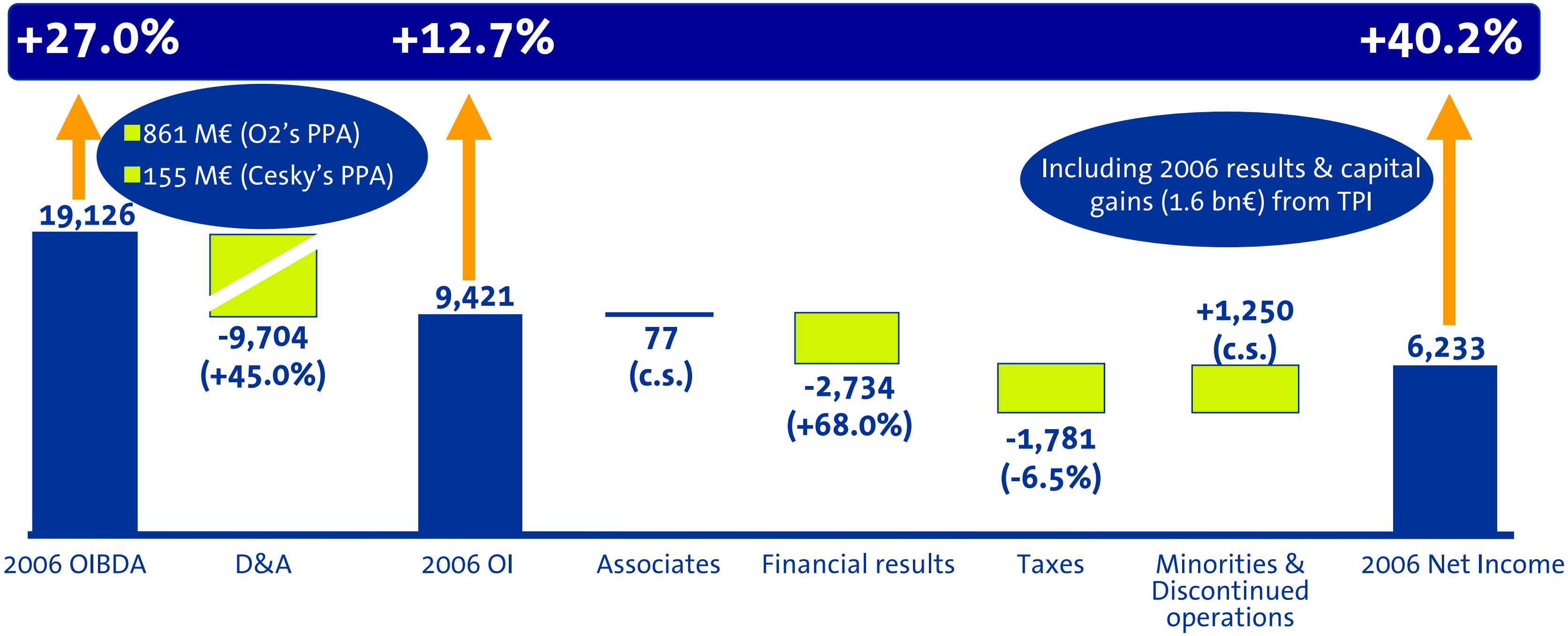
CapEx

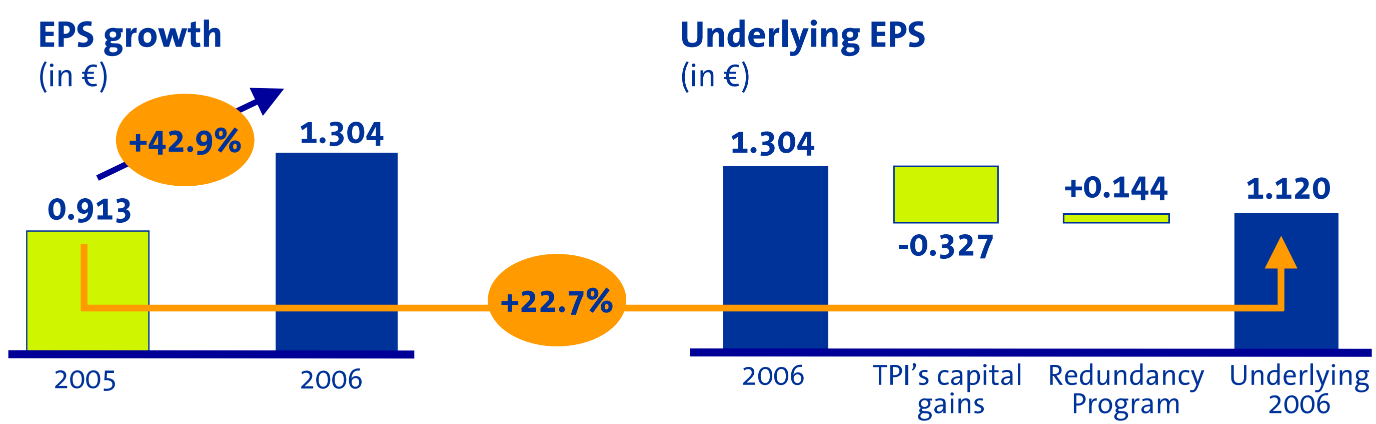


Notes
2006 adjusted for guidance assumes constant exchange rates as of 2005 and excludes TPI, Telefónica Telecom, Iberbanda and Slovakia results. In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2006. Personnel 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)

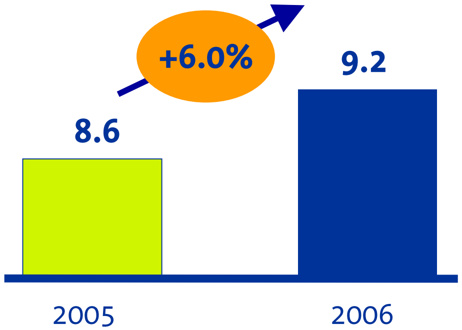




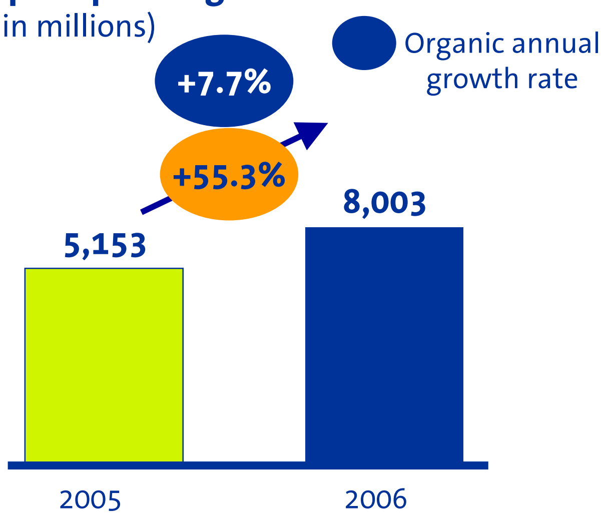
Note: TPI has been discontinued in 2006 and 2005 following Telefónica's acceptance of Yell's offer in July 4th, 2006

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

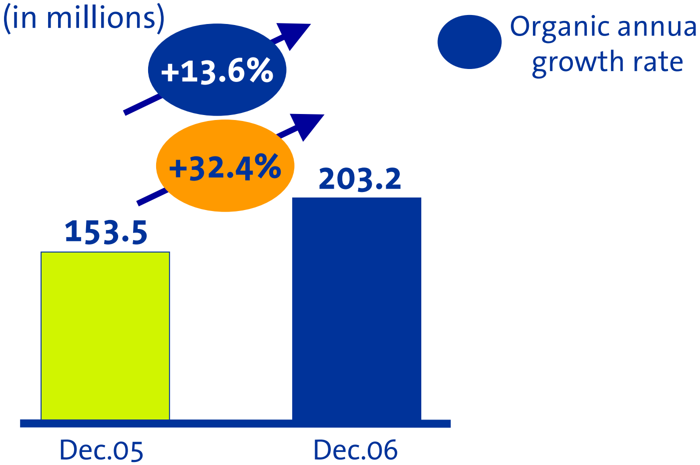
Commercial expenses [1]
(€ in billions)



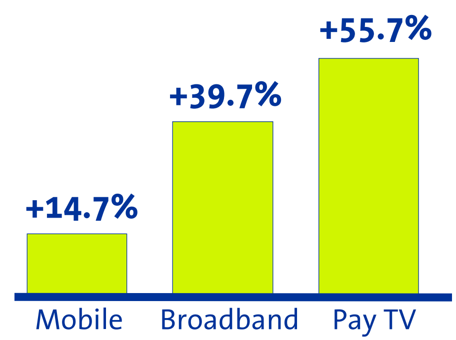
CapEx spending
(€ in millions)



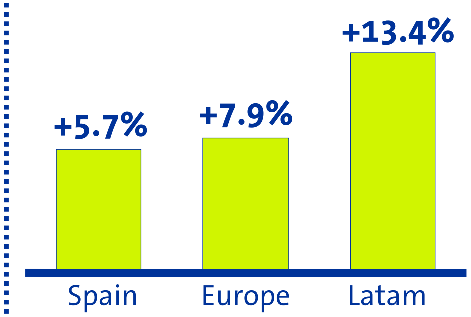
Total accesses
(in millions)



Breakdown by business
(organic growth [2])

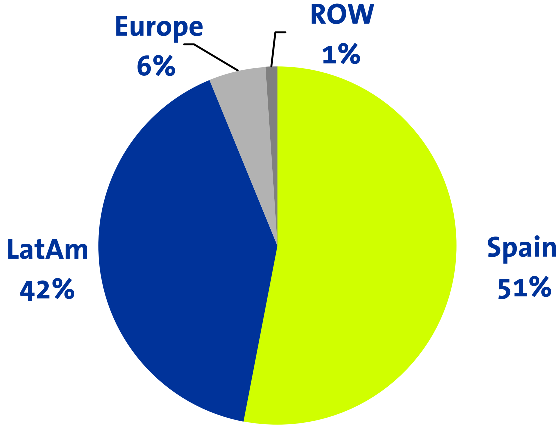
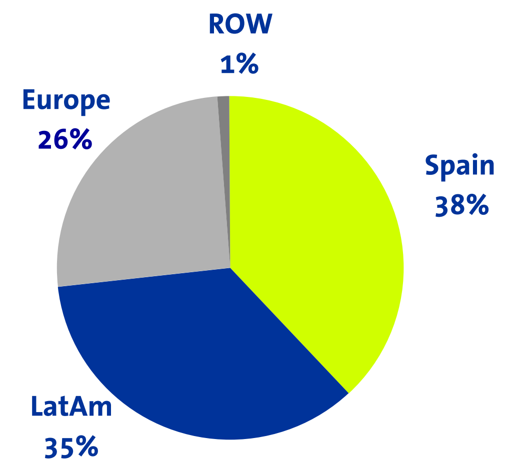
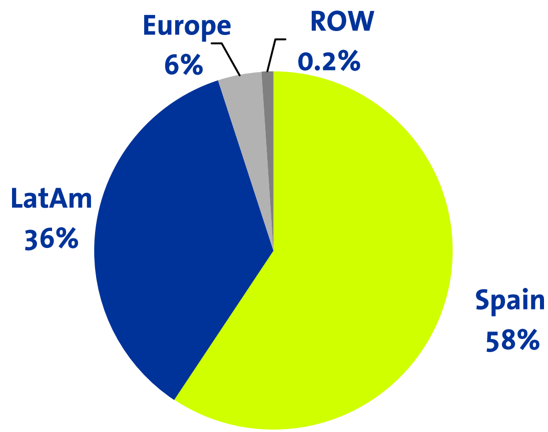
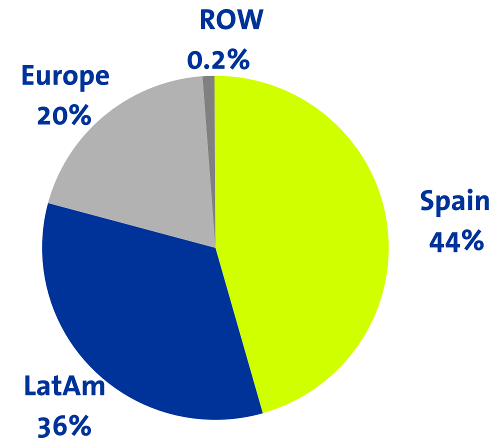


Breakdown by geographies
(organic growth [2])



(1)Aggregate figure. Excluding T.O2 Czech Republic
(2)Including O2 in 2005 and excluding Telefónica Colombia from 2006

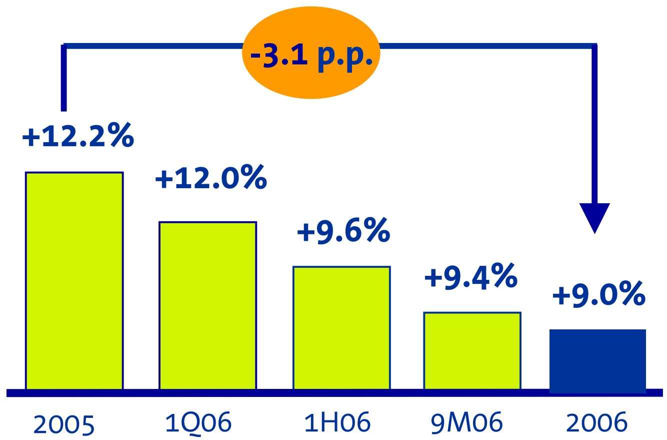
A highly diversified financial performance...

	2005	2006
Revenues by region		
OIBDA by region		

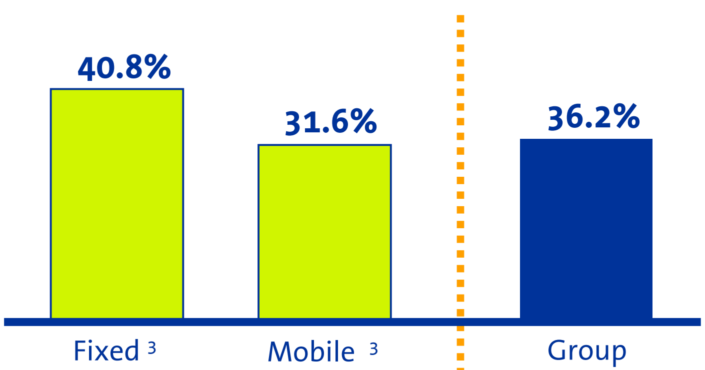
Note: before eliminations

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

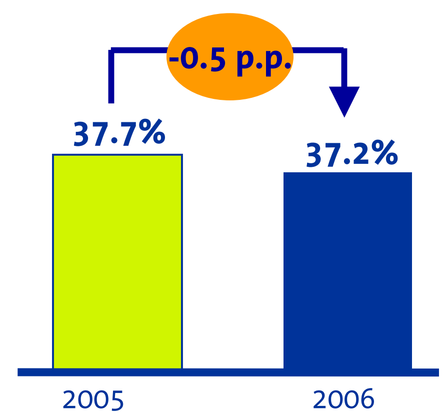
OpEx[1] Organic [2] Growth



2006 OIBDA Margin



Organic[2] 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)

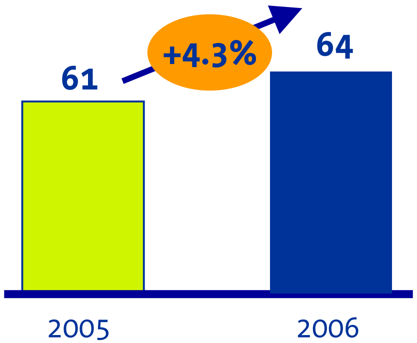
- Strengthening the lead in the BB market through the development of 2P & 3P and capturing market share in Pay TV, while limiting traditional lines losses
- Strong top-line performance with the transformation towards BB & IT services pushing total ARPU up
- Solid underlying OIBDA growth, beating upgraded 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

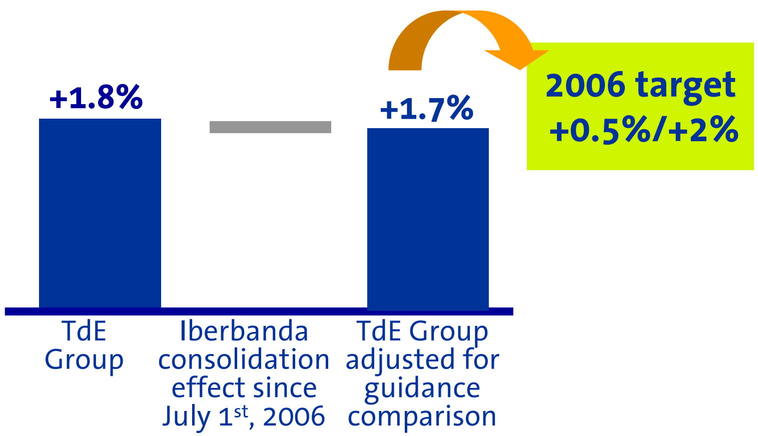
ARPU
(€/month)



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

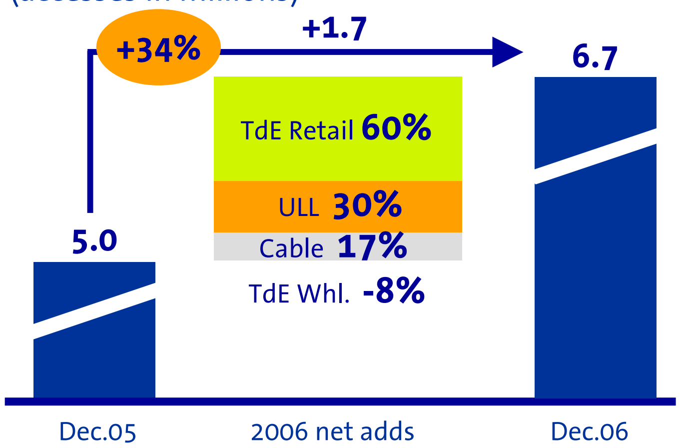
2006 Revenue Growth



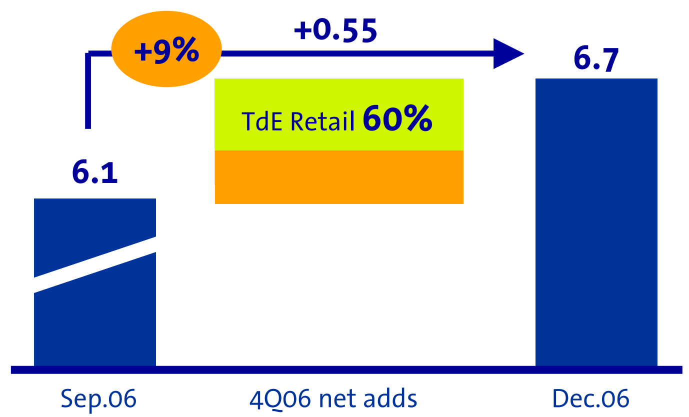
- **Retail Broadband revenues:** **+46.4%** to reach 1.9 bn€
- **IT & Data revenues:** **+8.1%** to top 1.5 bn€

Leading broadband development in the Spanish market...

Spanish BB market
(accesses in millions)

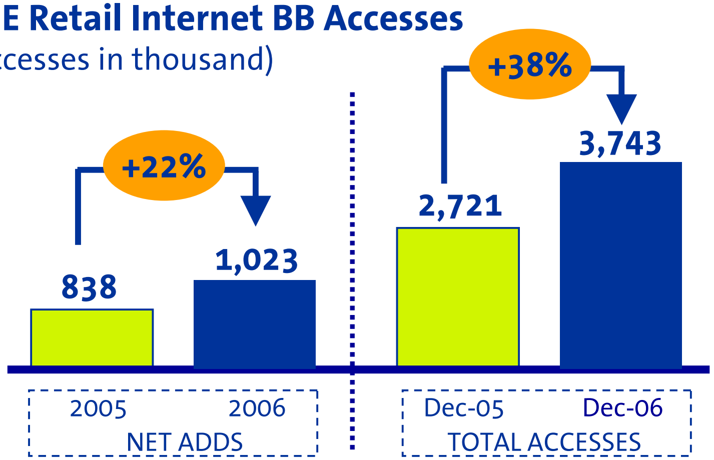


Spanish BB market
(accesses in millions)



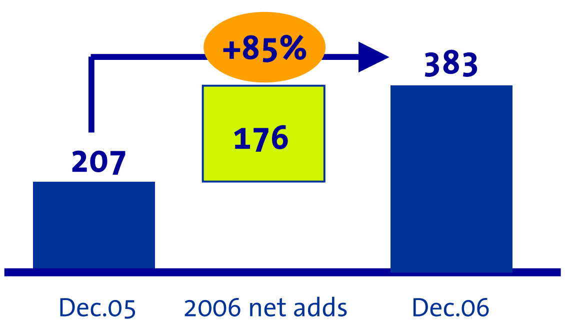
TEF's momentum maintained in 4Q06

TdE Retail Internet BB Accesses
(accesses in thousand)



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

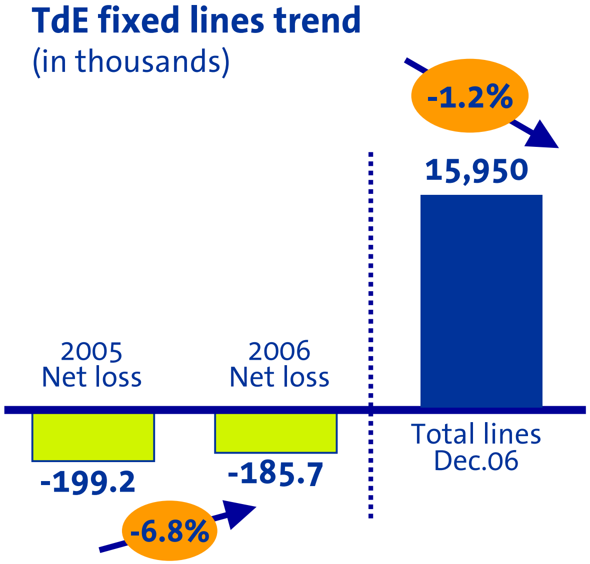
TdE Pay TV subscribers
(in thousand)

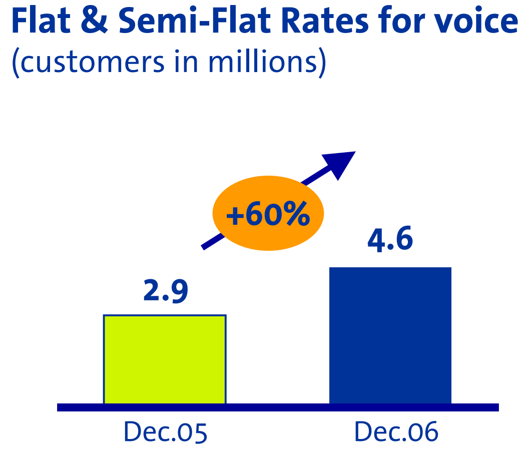


- **10%** Pay TV **market share** end 2006 (+4 p.p. y-o-y)
- Over **40% share of net adds** in **4Q06**.

Note: All market data based on Telefónica de España's estimates

...and containing traditional business erosion...



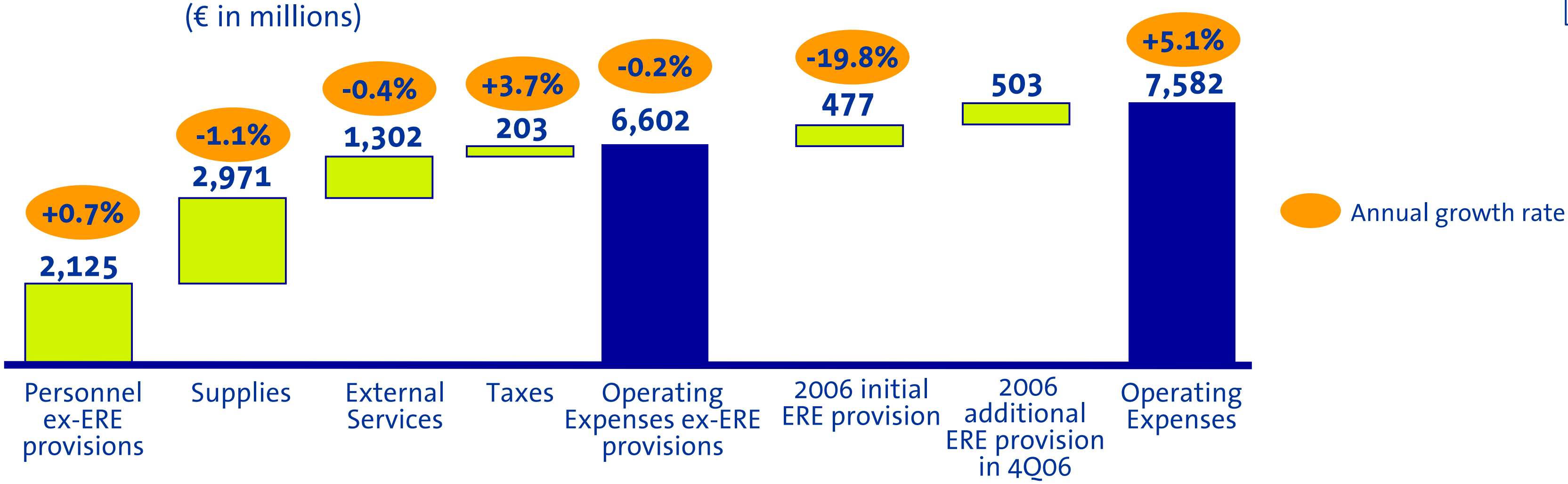


Estimated Traffic (Million minutes)	**2006**	**2005**	**% Change 2006 / 2005**
OUTGOING	54,426	59,418	-8.4%
Voice [1]	**43,369**	**43,932**	**-1.3%**
National	33,087	33,525	-1.3%
International	2,094	1,967	+6.4%
F2M	5,431	5,684	-4.4%
IN [2] & Others	2,756	2,755	+0.0%
Internet	11,057	15,486	-28.6%
INCOMING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

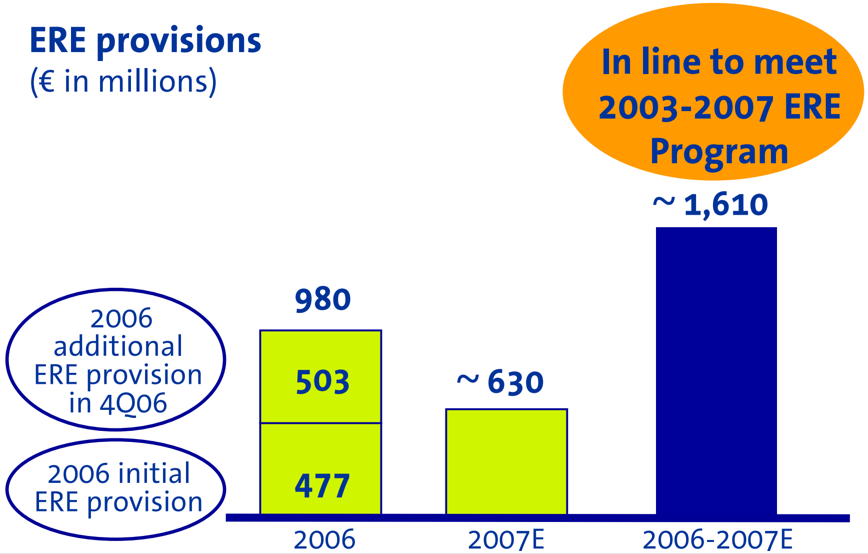
(1) Outgoing - Internet
(2) Intelligent Network

...with a strong focus on operational efficiency

Group OpEx Breakdown
(€ in millions)

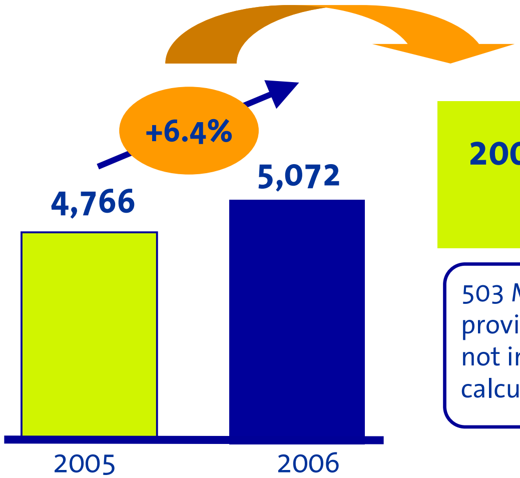


ERE provisions
(€ in millions)



Unique profile in terms of profitability

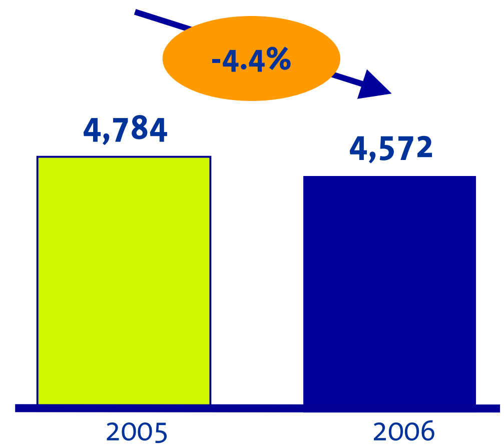
Group Adjusted OIBDA[1] for guidance calculation
(€ in millions)



2006 target >5%

503 M€ additional ERE provision registered in 4Q06 is not included for guidance calculation

Group OIBDA
(€ in millions)

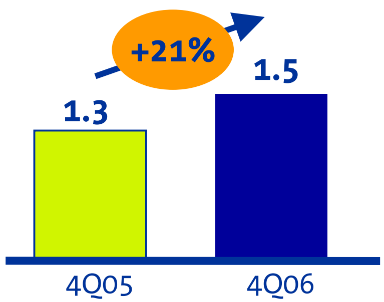


(1) Exclude other exceptional revenues/expenses not foreseeable in 2006. Personnel Restructuring (excluding additional ERE provision of 503M€ registered in 4Q06) and Real Estate Programs are included as operating revenues/expenses

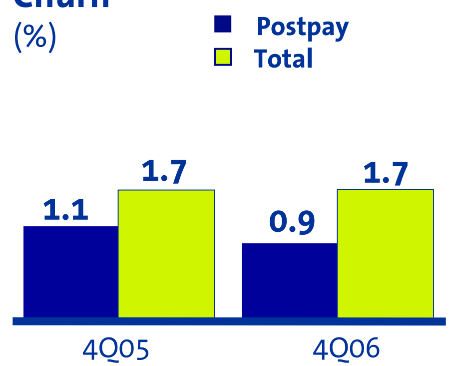
Telefónica Móviles Spain: A record Xmas campaign since 2001…

4Q06 performance

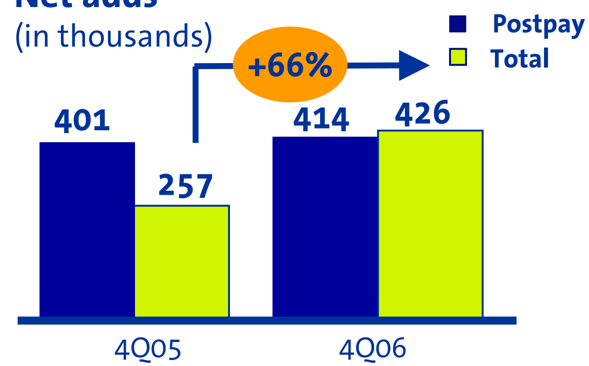
Gross Adds
(in millions)



Churn
(%)



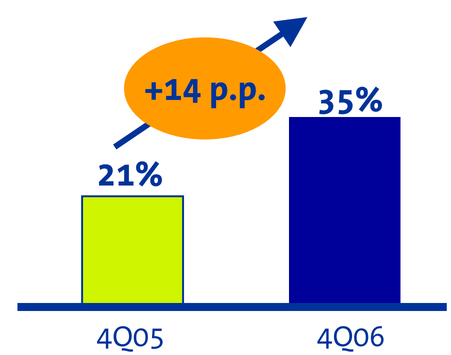
Net adds
(in thousands)



- > 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

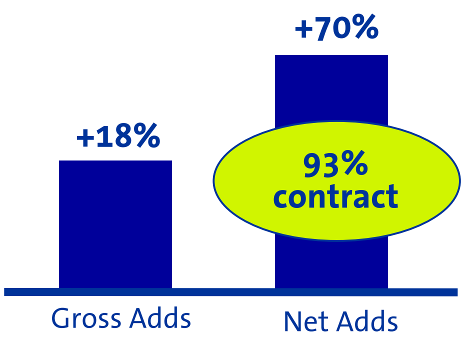


Strong results leveraging exclusive distribution channel

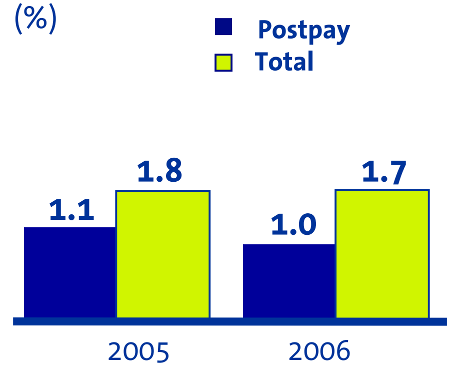
…which has reinforced the success of our commercial strategy, focused on value…

2006 performance

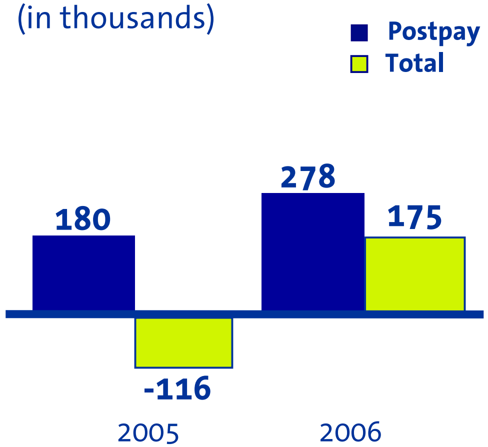
2006/2005



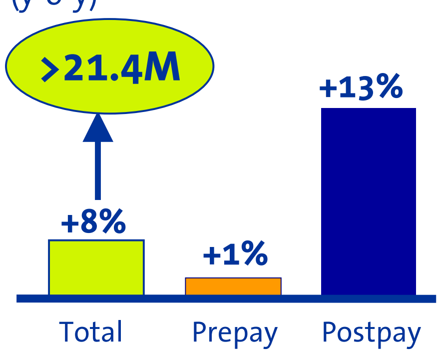
Churn
(%)



Number Portability
(in thousands)



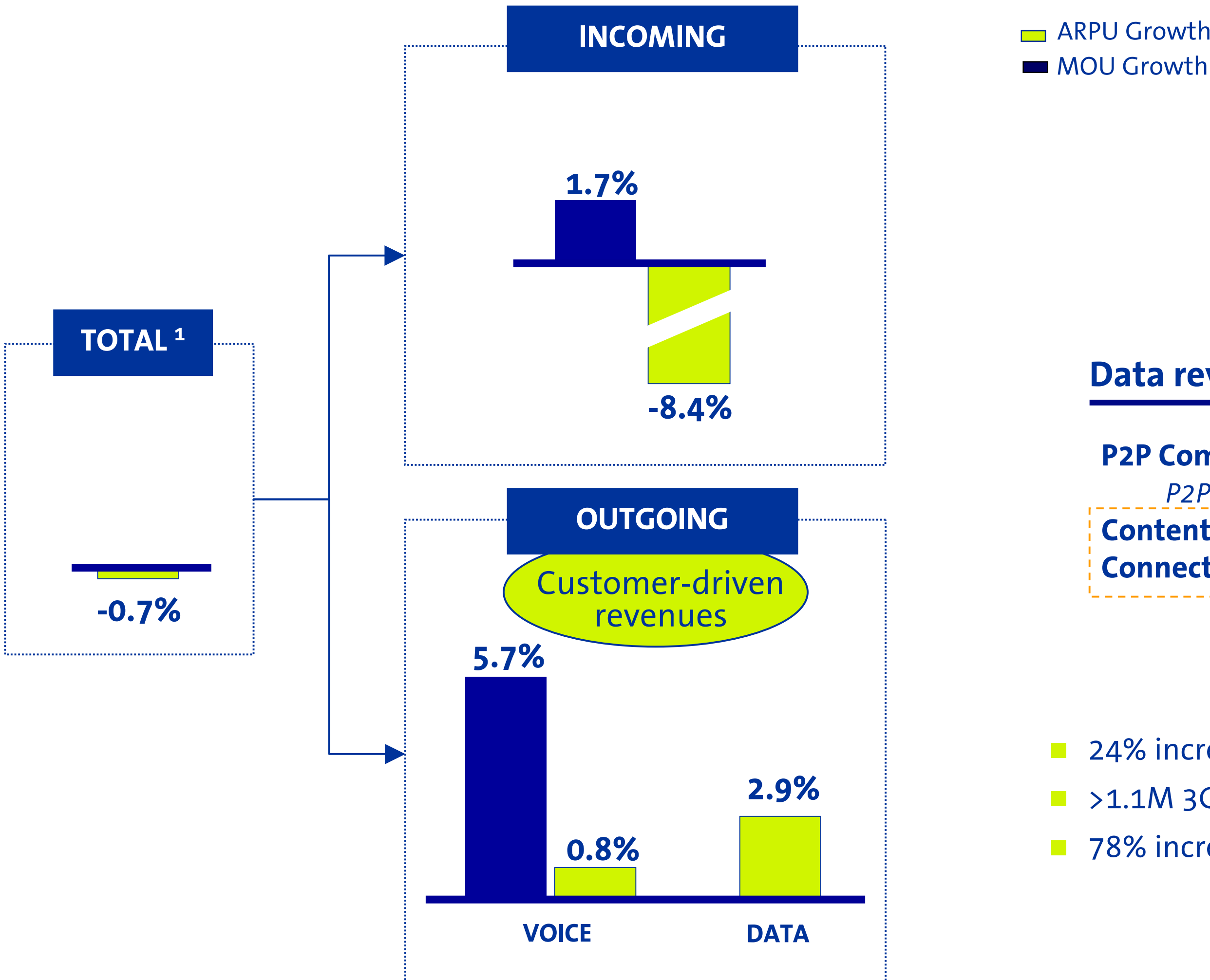
Customer growth
(y-o-y)



- 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)



Data revenues split	2005	2006
P2P Communications	**63%**	**58%**
P2P SMS	*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

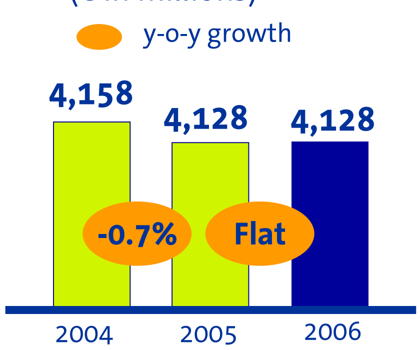
(1) Excludes roaming-in

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%
Customer revenues	+4.7%	+6.5%
Interconnection revenues	+0.5%	-2.0%
Roaming-in revenues[1]	+3.8%	-5.5%

2006 target +3%/+6%

OIBDA
(€ in millions)



- 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

(1)Roaming-in revenue growth ex adjustments would have been -2.5% 4Q06/4Q05 and -7.4% 2006 vs. 2005

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

European Mobile

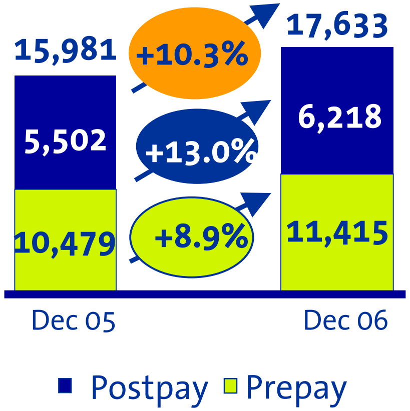
- Keeping the lead in service revenue growth in the UK, driven by solid subscriber additions and improved ARPU
- Sustained healthy commercial performance in Germany, with a focus on contract segment, in a context of competitive pressures
- Encouraging response to ADSL offering in Germany and project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

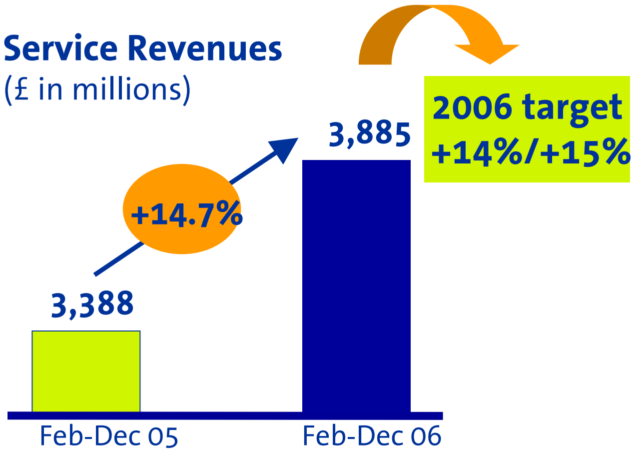
O2 UK: strong service revenue growth driven by solid customer expansion and strong voice usage

Evolution of client base
(in thousands)

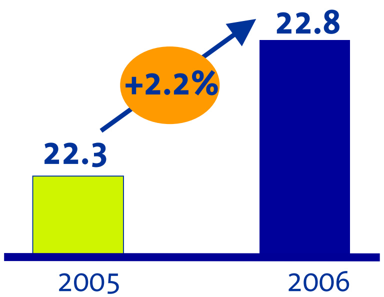


- 1.65M net new clients added in 2006
- 295k net new clients in 4Q06
- 12 months rolling postpay churn 4 p.p. below last year

Service Revenues
(£ in millions)

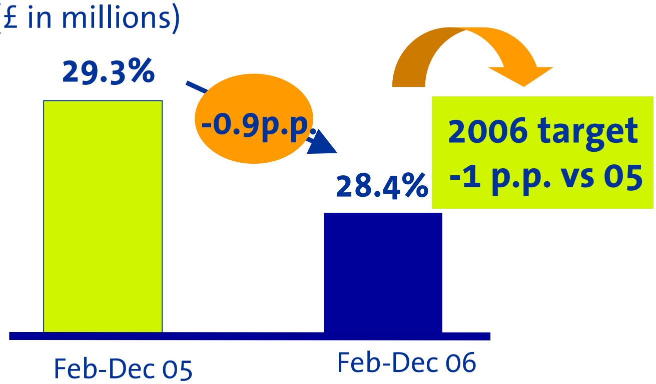


Average Revenue per User
(quarterly monthly average, in £)



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

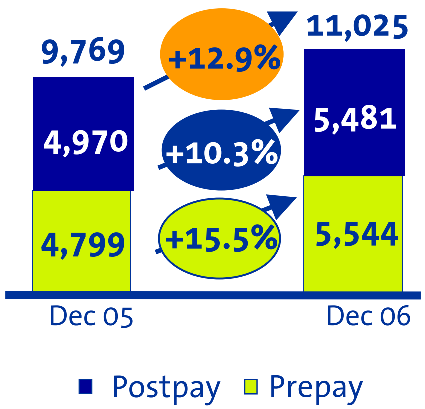
OIBDA margin
(£ in millions)



(1) Quarterly Monthly Average

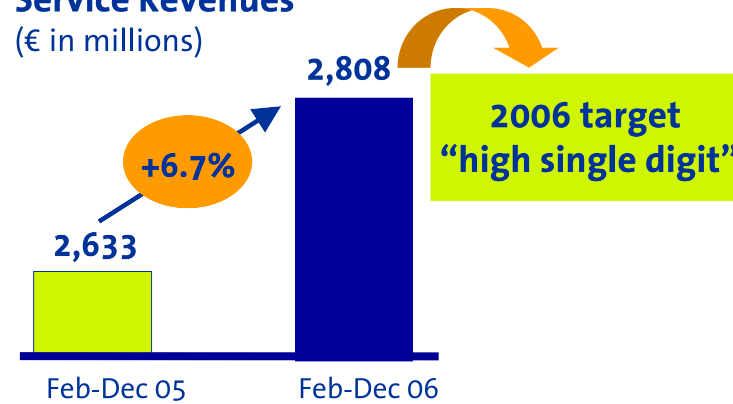
O2 Germany: sustained positive performance on contract within a highly competitive scenario

Evolution of client base
(in thousands)

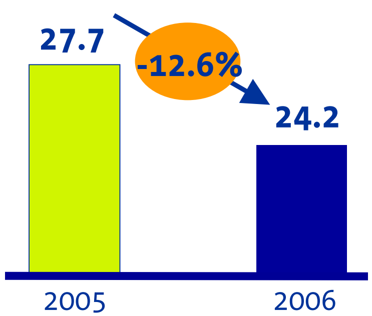


- 396,000 net new customers added in 4Q06
- 49% of 4Q06 net adds were on postpay
- 4Q06 contract net adds up 80% vs 9M06 average

Service Revenues
(€ in millions)

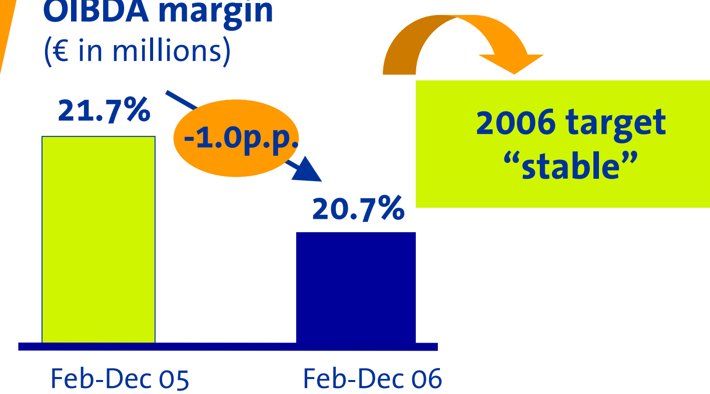


Average revenue per User
(quarterly monthly average, in €)



- +4% in MoU[1] to 129 minutes per month
- Over 50% of base on prepay
- Pricing pressure led by termination rate cuts and competition

OIBDA margin
(€ in millions)

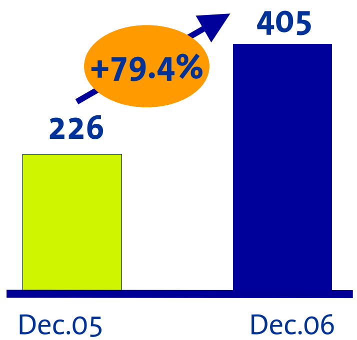


21.8% ex redundancies accounted for in 4Q06

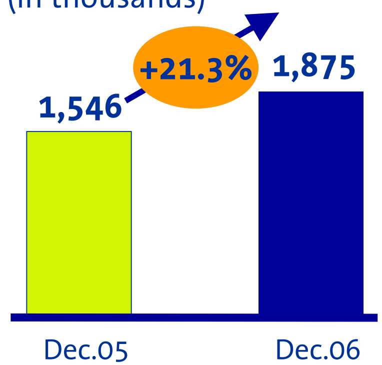
(1) Quarterly Monthly Average

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

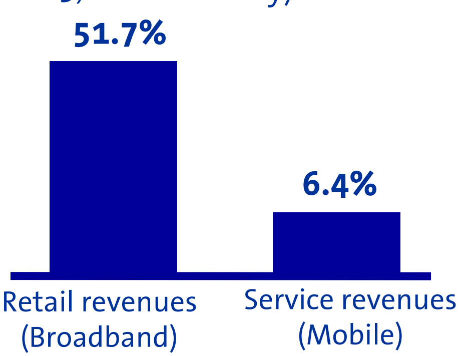
Retail BB connections
(in thousands)



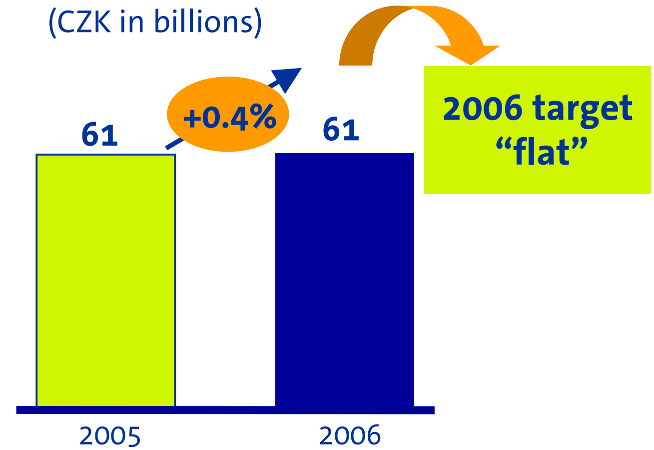
Postpay mobile clients
(in thousands)



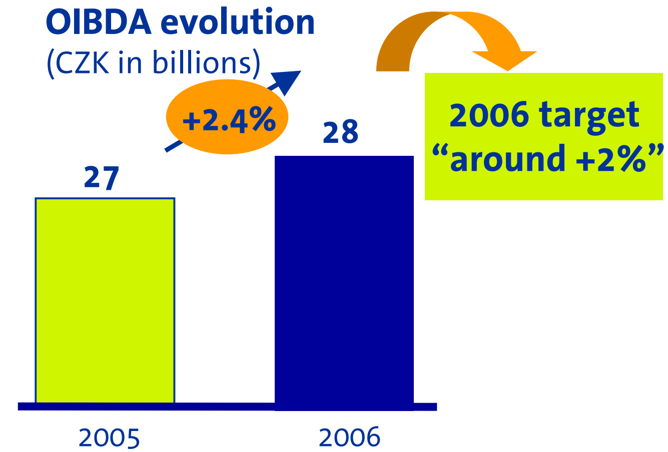
Growth of revenue drivers
(2006/2005, local currency)



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)

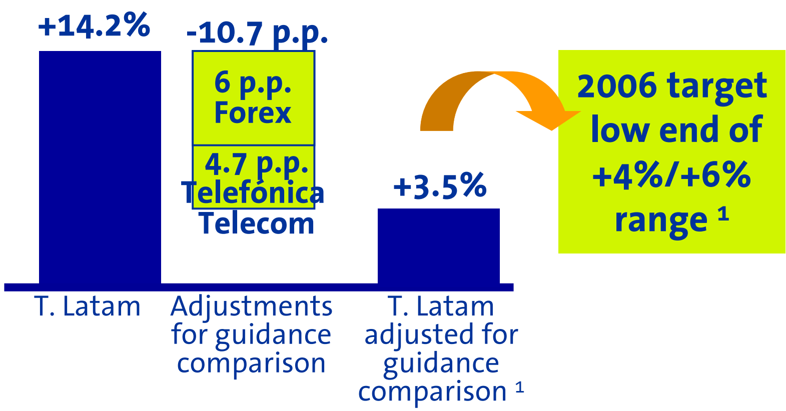
- Strong growth in broadband & Pay TV across all countries, improving market positioning through gradual introduction of 2P & 3P
- Broadband and VAS growth drive revenue expansion across all the region, with ongoing active management of traditional services
- Growth and profitability remains well-balanced,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

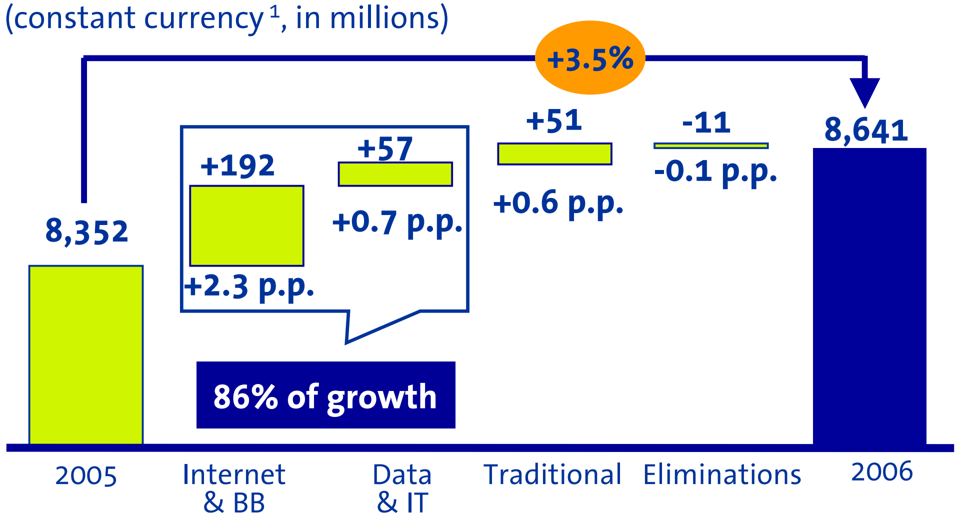
T.Latinoamérica: BB and IT services are driving top-line performance...

2006 Revenue growth

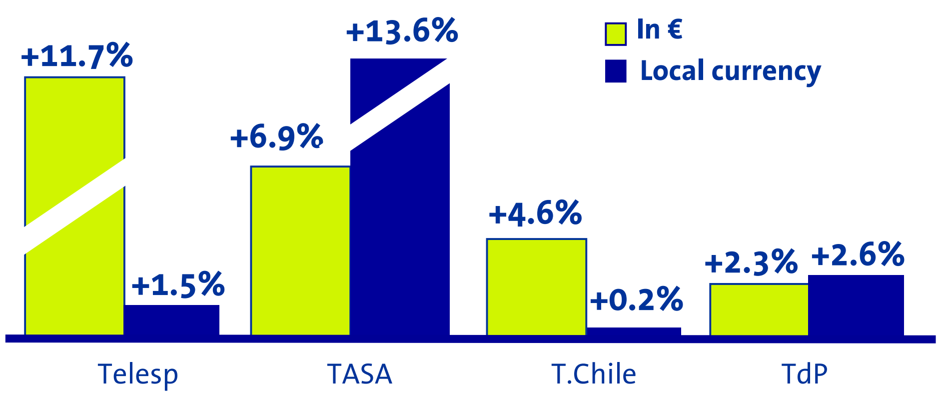


Breakdown of consolidated revenue growth

(constant currency ¹, in millions)



2006 Revenue growth by company

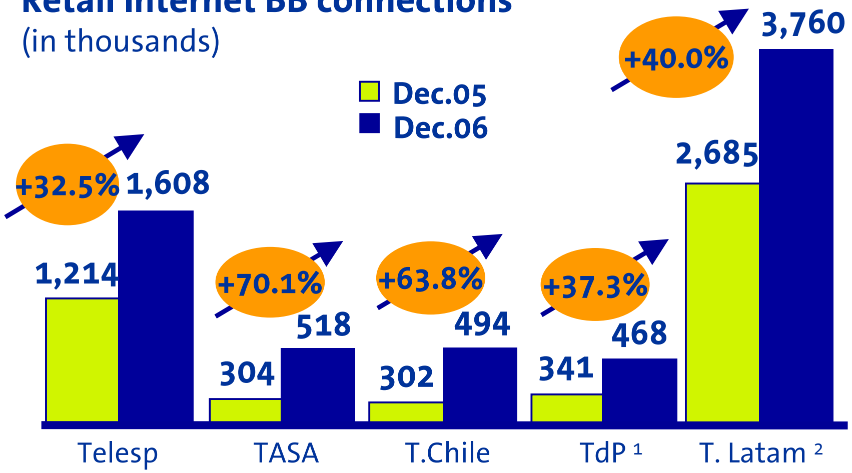


Operators' revenues include data & IT in 2005/2006. T. Latam includes Terra Latam since Jan. 05

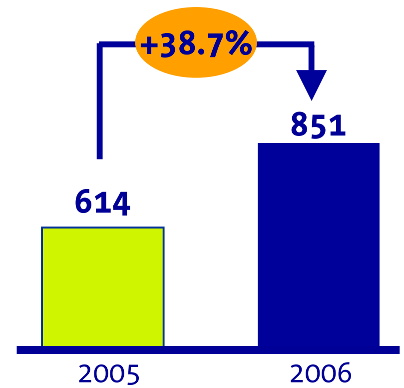
(1) Assuming constant forex as of 2005. Excluding changes in consolidation (Telefónica Telecom). Including accounting changes not factored-in in guidance, adding 0.6p.p. to sales growth: international accounting rates are included as expenses since 1/1/06 (previously netted from revenues) in Brazil, Argentina & Peru. Commissions for public telephony are included as expenses since 1/1/06 (previously netted from revenues) in Brazil.

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

Retail Internet BB connections
(in thousands)

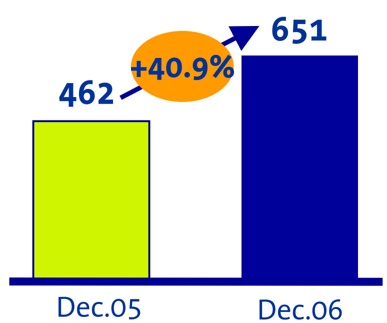


Broadband revenues
(€ in millions)



+31.4% growth in constant currency

Pay TV
(in thousands)



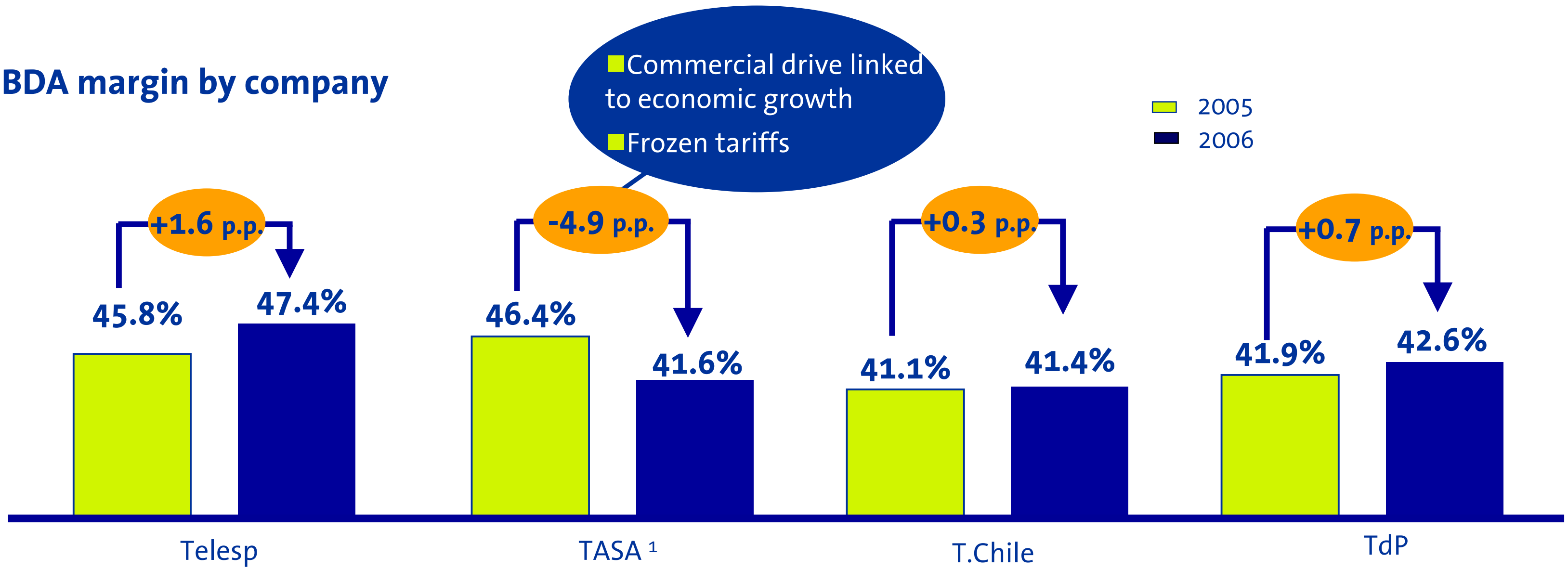
DTH launched in Peru & Chile during 2006

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

(1)Including cable modem
(2)Including Terra Latam and Telefónica Telecom

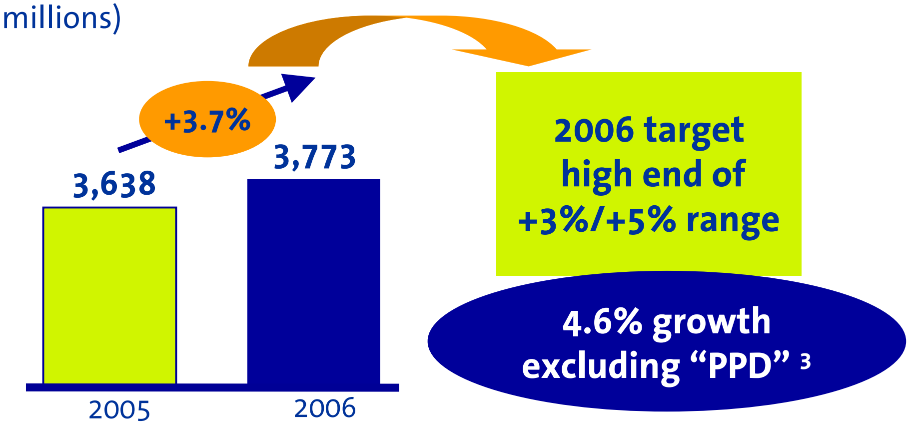
... while sustaining healthy margins across the board

OIBDA margin by company



Adjusted OIBDA[2] for guidance calculation

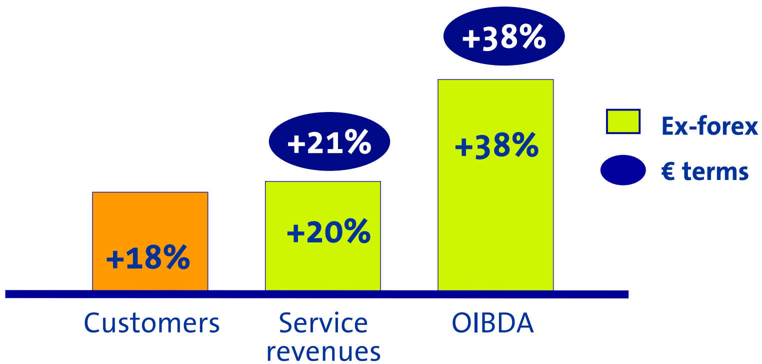
(€ in millions)



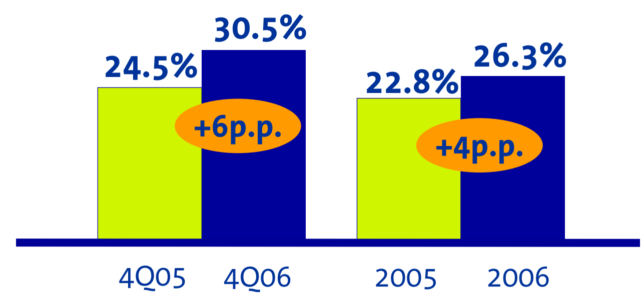
(1) 2005 OIBDA margin ex capital gains from the sale of Telinver. 2006 OIBDA margin ex the re-classification of international termination rates
(2)Assuming constant forex as of 2005. Excluding changes in consolidation (Telefónica Telecom). Exclude other exceptional revenues/expenses not foreseeable in 2006. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses
(3)New Management Pension Scheme(30.9 M€ in constant currency terms)

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

2006/2005 growth rates

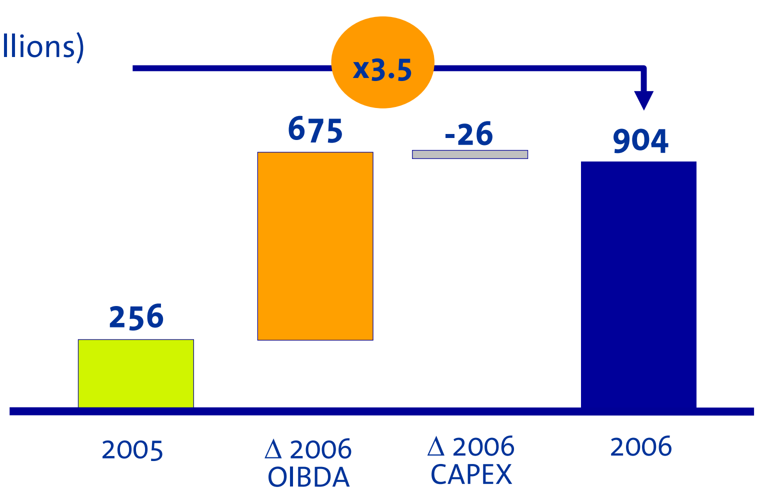


OIBDA margin



- **Outgoing revenues:** +27.7% in € & local currency
- **Commercial activity:** +26% 2006/2005

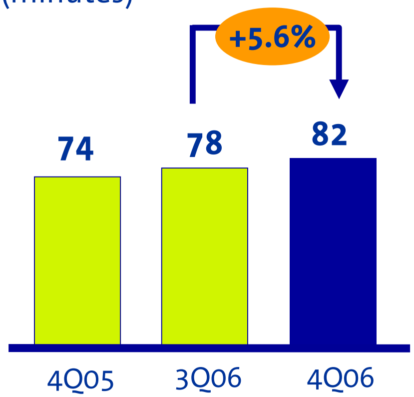
OpCF
(€ in millions)



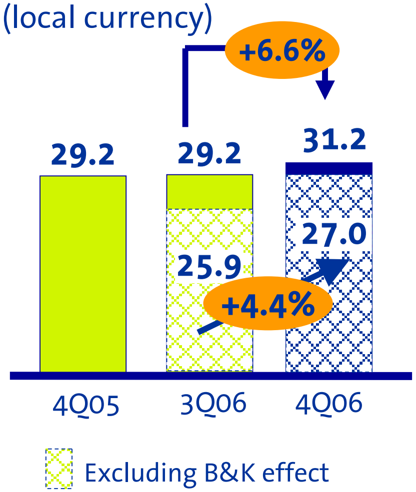
- GSM networks in **every country in Latam**: rapid deployment in Brazil & Venezuela in 2H06
- Strong increase in OpCF, despite higher CapEx, driven by 675 M€ OIBDA increase in 2006

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

MoU
(minutes)

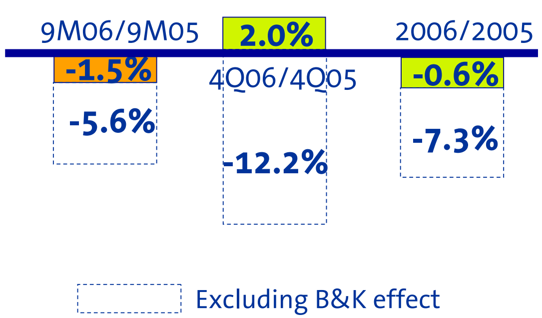


ARPU
(local currency)

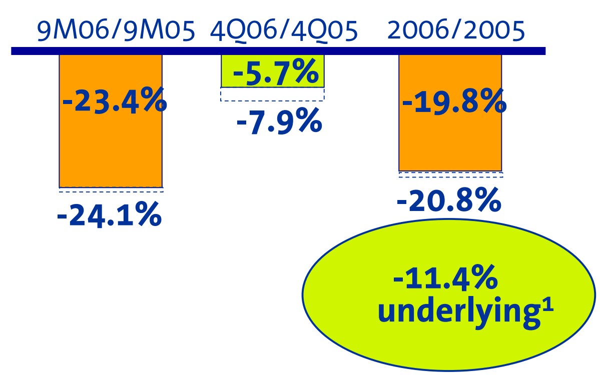


- Corporate restructuring into a **single company** finalised
- **Strong reduction of fraud** and cloning-related losses
- **Highest** number of **points of sale** in the market
- GSM/EDGE proyect:
  - Network deployed in a **record time**
  - **Prepay GSM available**: 7,000 customers in January
  -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

Service revenue growth
(local currency)



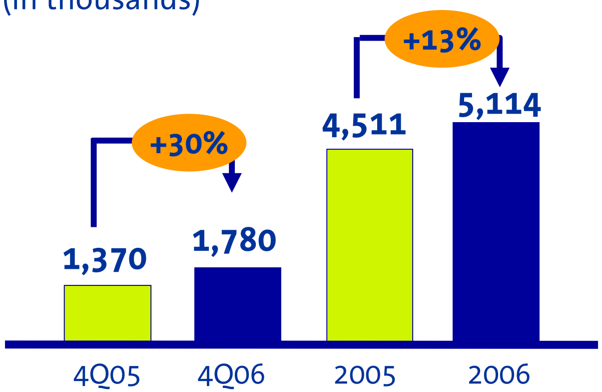
OIBDA growth
(local currency)



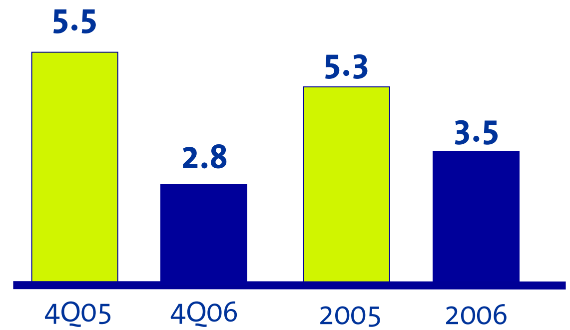
(1) ex B&K and impairments

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

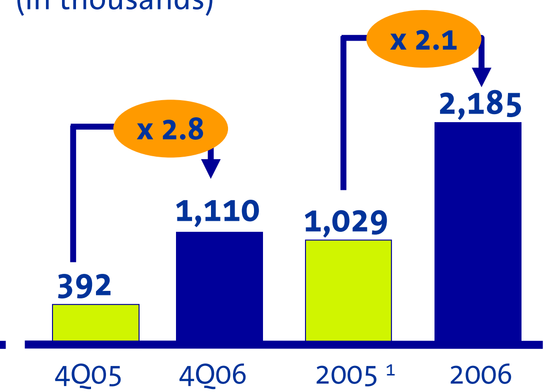
Gross adds
(in thousands)



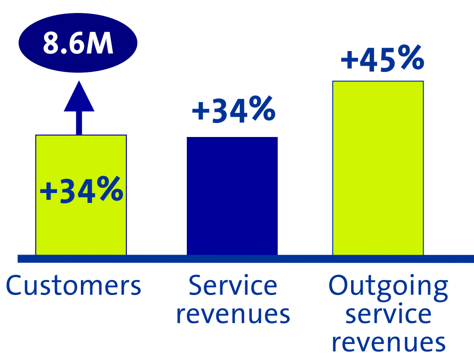
Blended churn
(%)



Net adds
(in thousands)

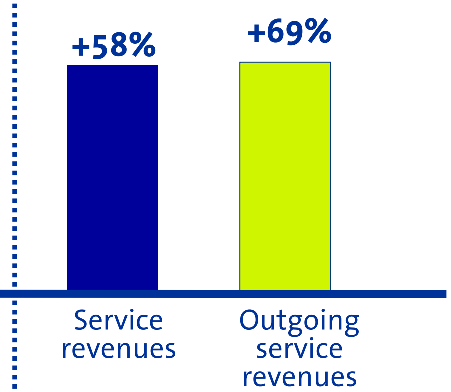


2006/2005 growth



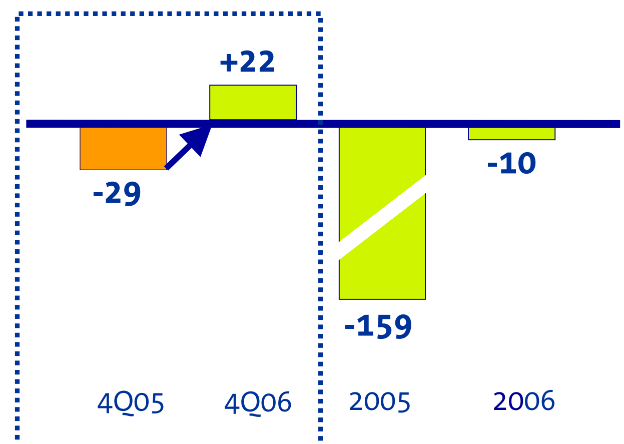
- ARPU: +12.1% y-o-y
- MoU: +56.0% y-o-y

4Q06/4Q05 growth



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

OIBDA
(€ in millions)

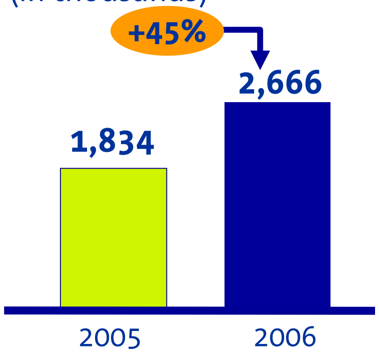


(1) ex adjustment of 300,000 inactive prepay lines in 2Q05

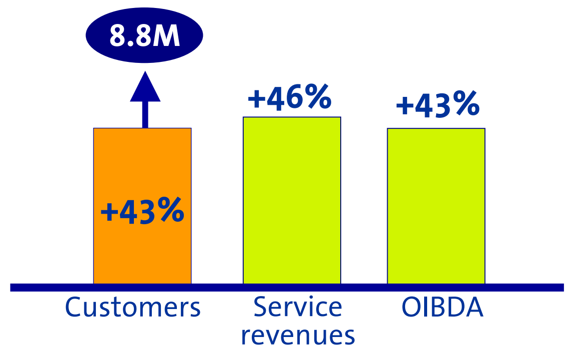
Other major operations (I)

VENEZUELA: Sound revenues performance leveraging customer & ARPU growth

Net adds
(in thousands)

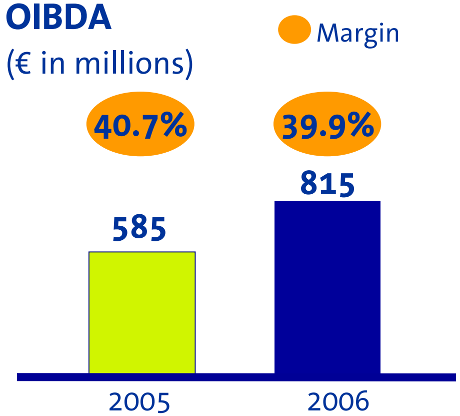


2006/2005 growth
(local currency)



- ARPU: +6.8% y-o-y vs. 2005

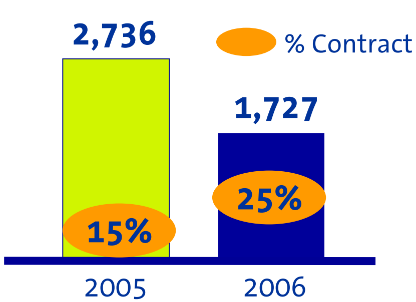
OIBDA
(€ in millions)



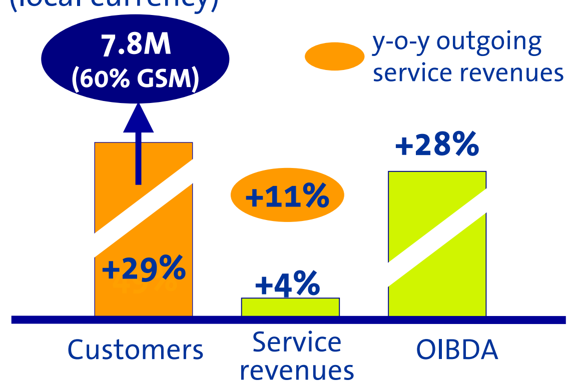
- Commercial activity: +79% y-o-y

COLOMBIA: Selective commercial activity allows to expand margins

Net adds
(in thousands)

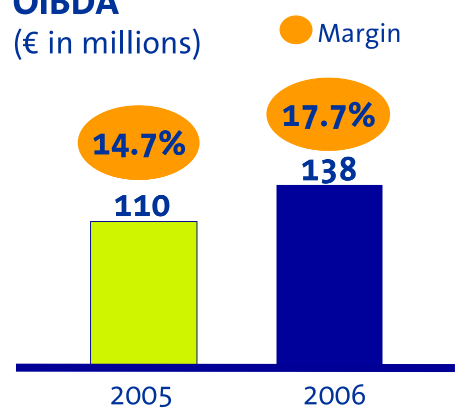


2006/2005 growth
(local currency)



- 4Q06 ARPU: +2% vs. 3Q06

OIBDA
(€ in millions)

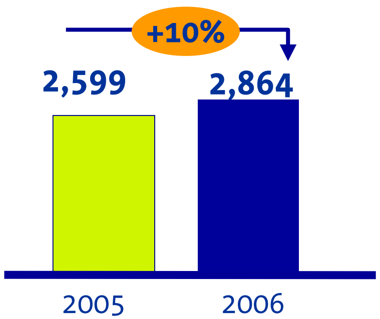


- Lowest commercial activity of the year in 4Q06

Other major operations (II)

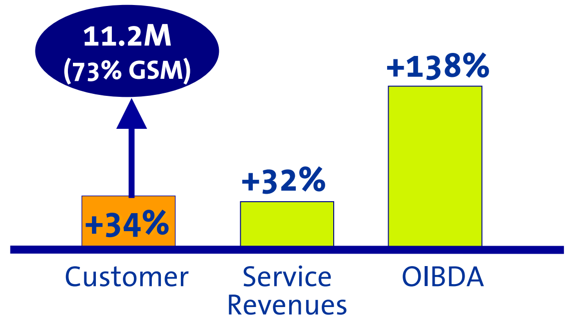
ARGENTINA: Sound operating and financial performance

Net adds
(in thousands)

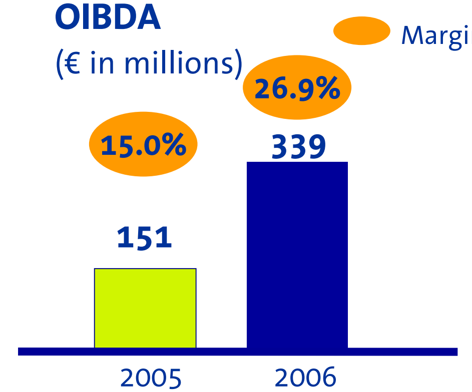


- Very strong 4Q06 with >1M net adds (+11.6% vs. 4Q05)

2006 y-o-y growth
(local currency)



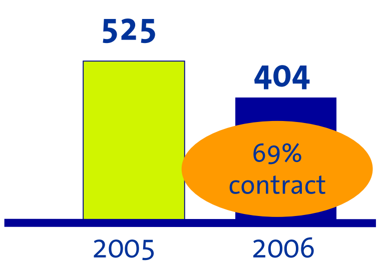
OIBDA
(€ in millions)



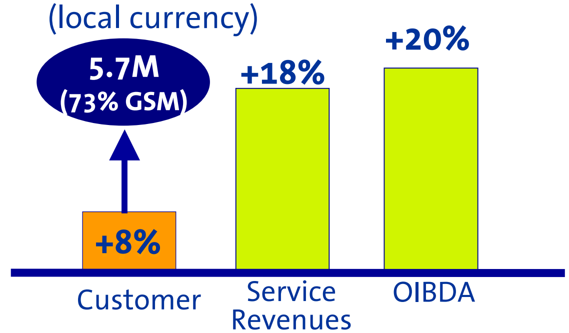
- Strong commercial activity: +24% 2006 vs. 2005

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

Net adds
(in thousands)

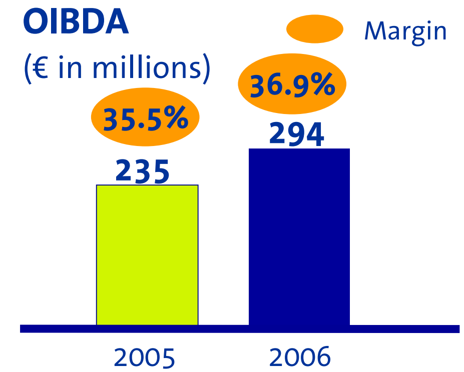


2006 y-o-y growth
(local currency)



- 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)

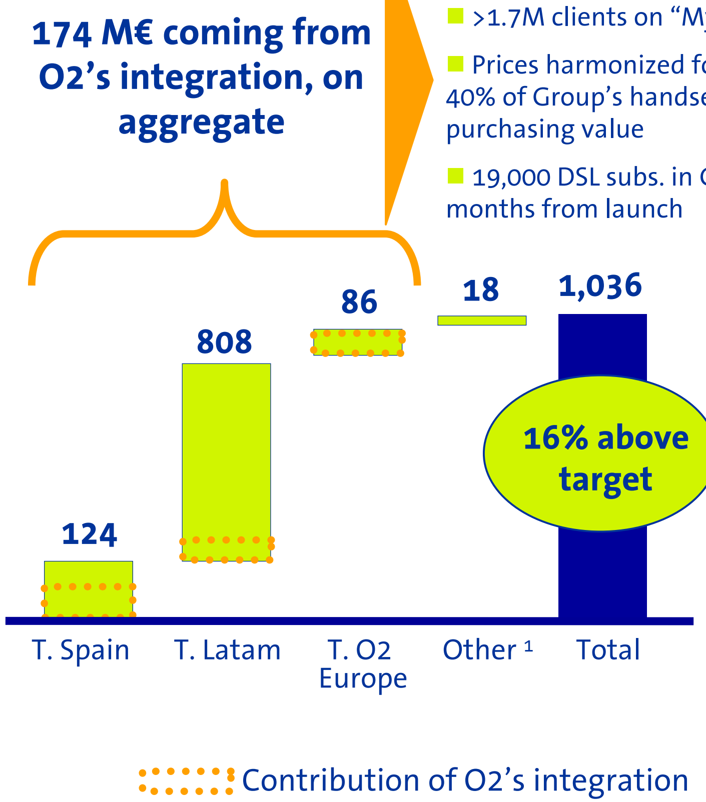
- Regionalization in Latam (Fixed & Mobile) & integration of fixed assets in Spain (TdE-TData-Terra)
- One stop-shopping for Corporates
- Early convergent P&S
- Joint management of sales channels
- Integration of Network, Operations & IT

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)

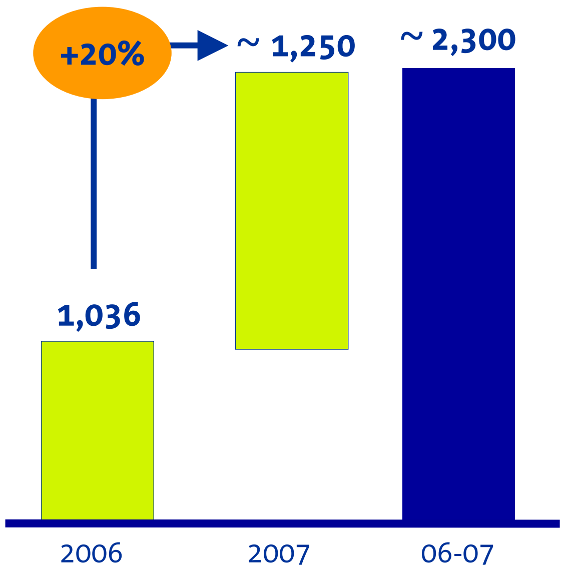
- >70% of roaming internally managed
- >1.7M clients on "My Europe"
- Prices harmonized for more than 40% of Group's handset purchasing value
- 19,000 DSL subs. in Germany 2 months from launch



(1) Group initiatives yet to be allocated to business lines (IPTV Competence Center, Contents, Distrito C, IT)

...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

+

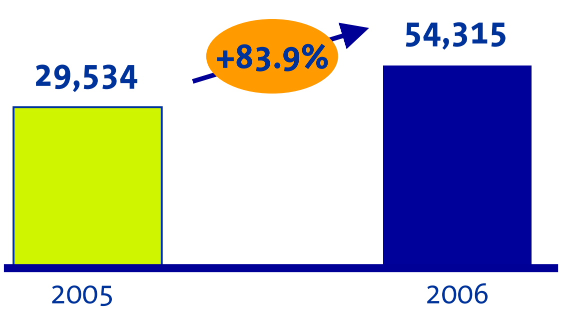
Working on new opportunities

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

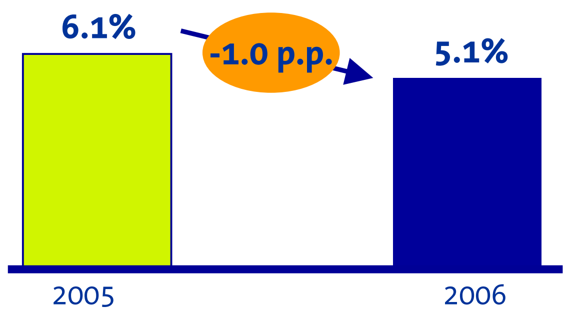
Reducing the average cost of debt

	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]

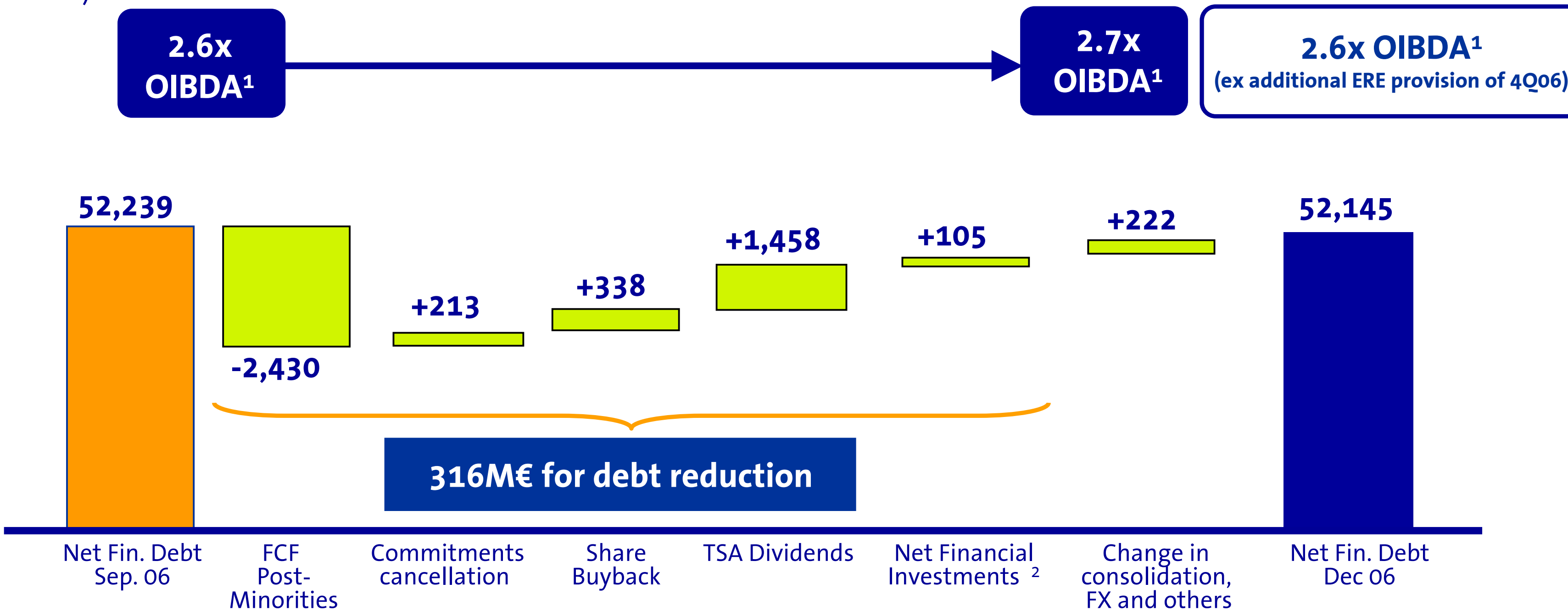


- Interest expenses have increased less than average total net debt (+83.9%), as the effective cost of debt stood at 5.1%, 1 p.p. lower than in 2005
- Hedging USD weakness vs. Euro has yielded most of the FX profits

(1) Reported Net financial expenses excluding fx results / Average total net debt

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)

(1)Based on 12 months rolling OIBDA including Telefónica O2 Czech Republic, O2, Telefónica Telecom, and Iberbanda. Additional ERE provision registered in 4Q06 by TdE amounted to 503 M€
(2) Excluding purchases of financial assets for liability management

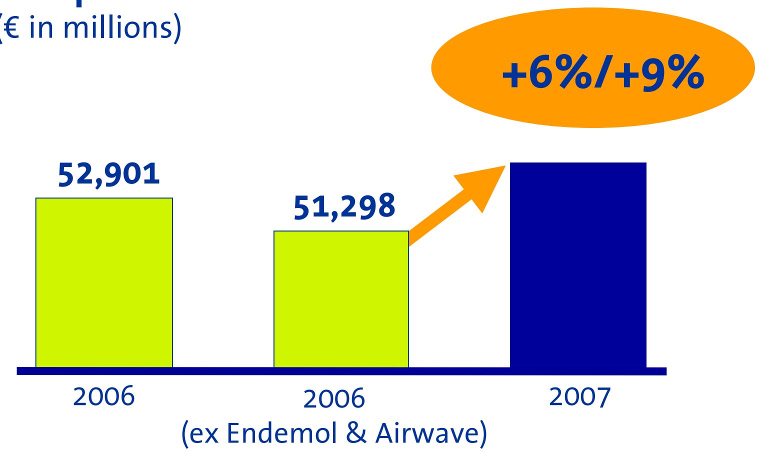
An attractive shareholder remuneration policy

	2006	Targets
Dividends	***2.6 bn€*** paid to shareholders	***Double 2005 dividend per share*** (0.5€) ***by 2009***, in line with doubling 2005 EPS (0.91€) by 2009
Buyback Program	***75.6 M shares*** in treasury as of December 06, equivalent to spend ***1.1 bn€***	***Complete 2.7 bn€ buyback*** program ***by 2007***
	4.7% cash yield [1]	

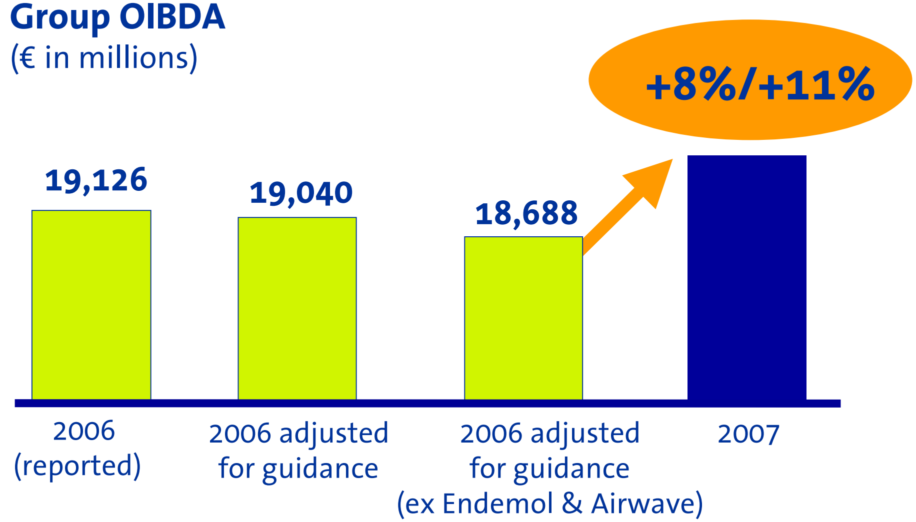
(1) Based on market capitalization as of 1/1/07 (79.3 bn€)

We are setting benchmark targets again for 2007…

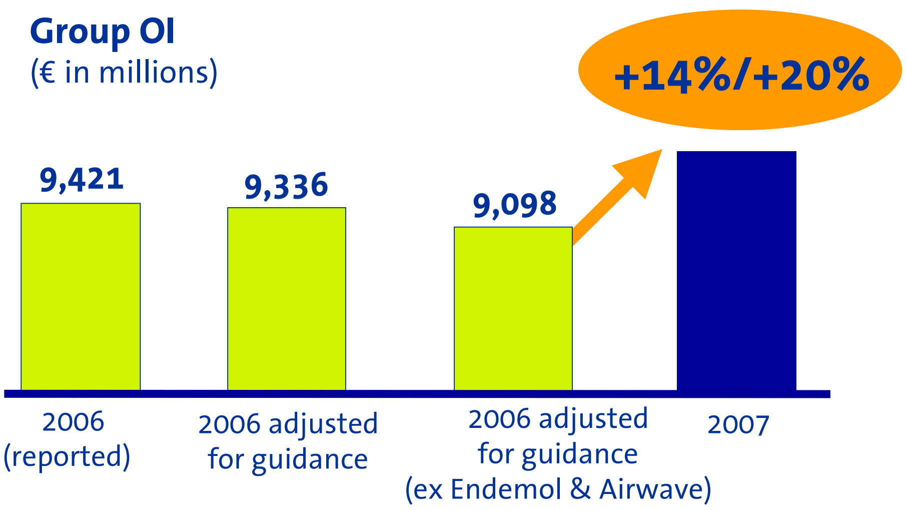
Group Revenues
(€ in millions)



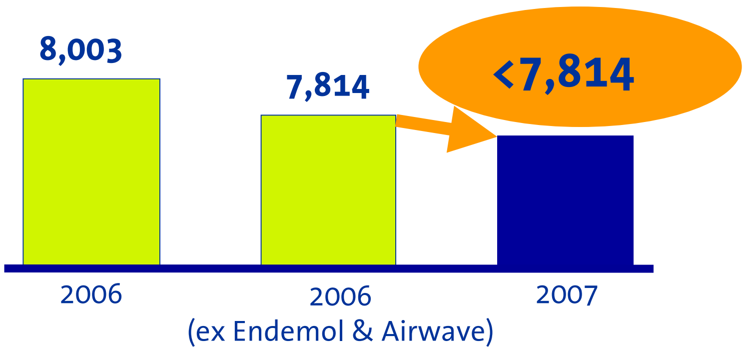
Group OIBDA
(€ in millions)



Group OI
(€ in millions)



Group CapEx
(€ in millions)

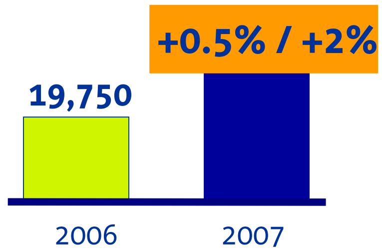


Base reported numbers include eleven months of O2 (consolidated since February 2006), eight months of Telefónica Telecom (consolidated since May 2006), six months of Iberbanda (consolidated since July 2006), three months of start-up losses in Slovakia (operations started in February 2007), and exclude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

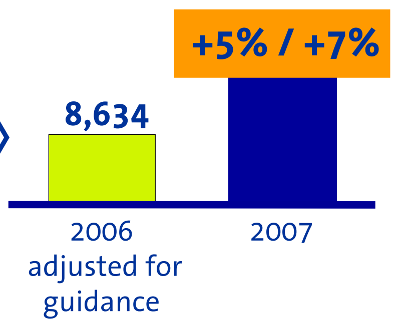
...leveraging on very solid expectations for domestic...

Telefónica España

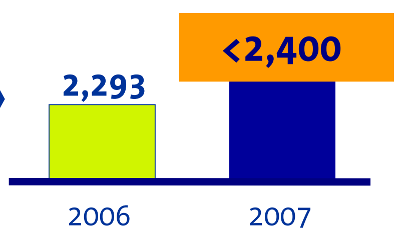
Revenue Growth
(€ in millions)



OIBDA Growth
(€ in millions)

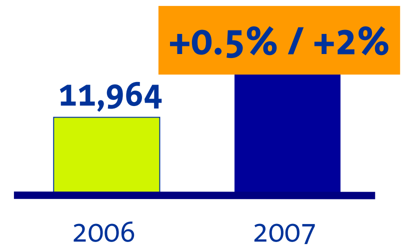


CapEx
(€ in millions)

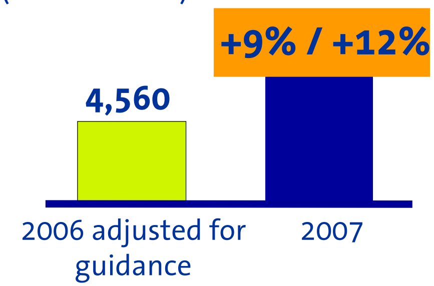


Spanish wireline

Revenues
(€ in millions)



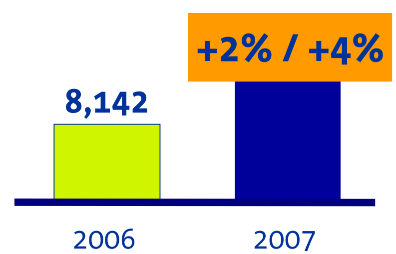
OIBDA
(€ in millions)



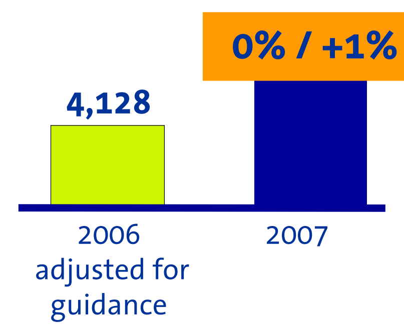
- *2007e ERE provision of aprox.630 M€ (2,200 employees) vs 980 M€ in 2006*
- *2007e Real Estate capital gains of aprox.162 M€ vs 94 M€ in 2006*

Spanish wireless

Service revenues
(€ in millions)

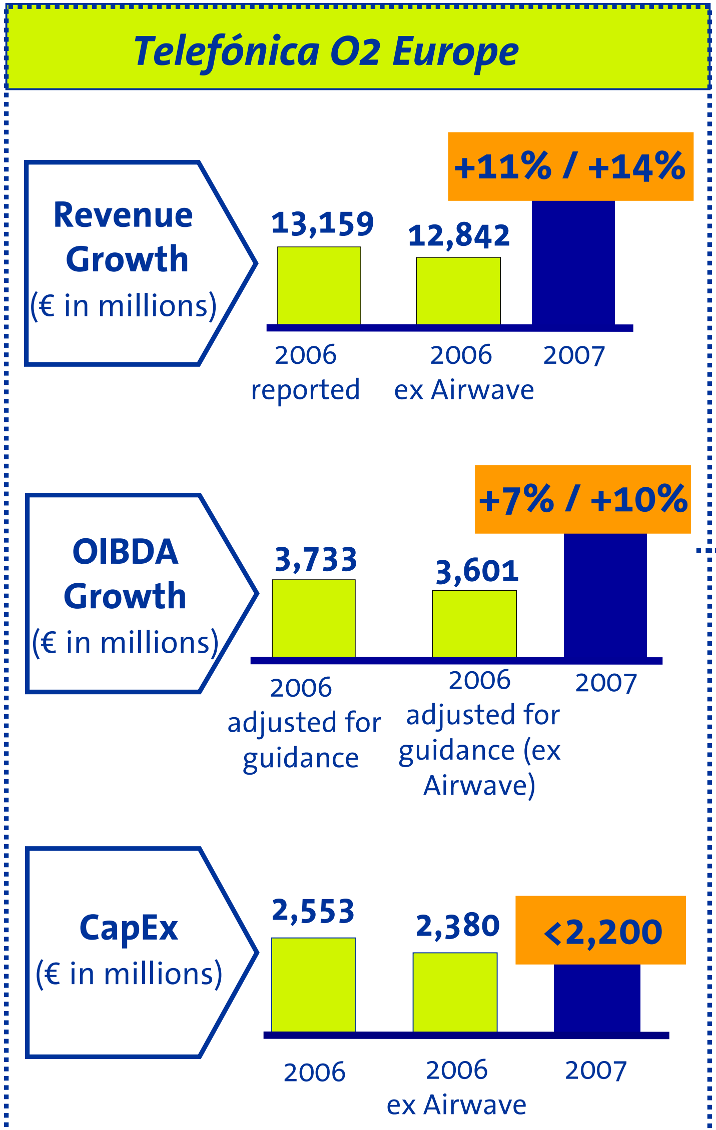


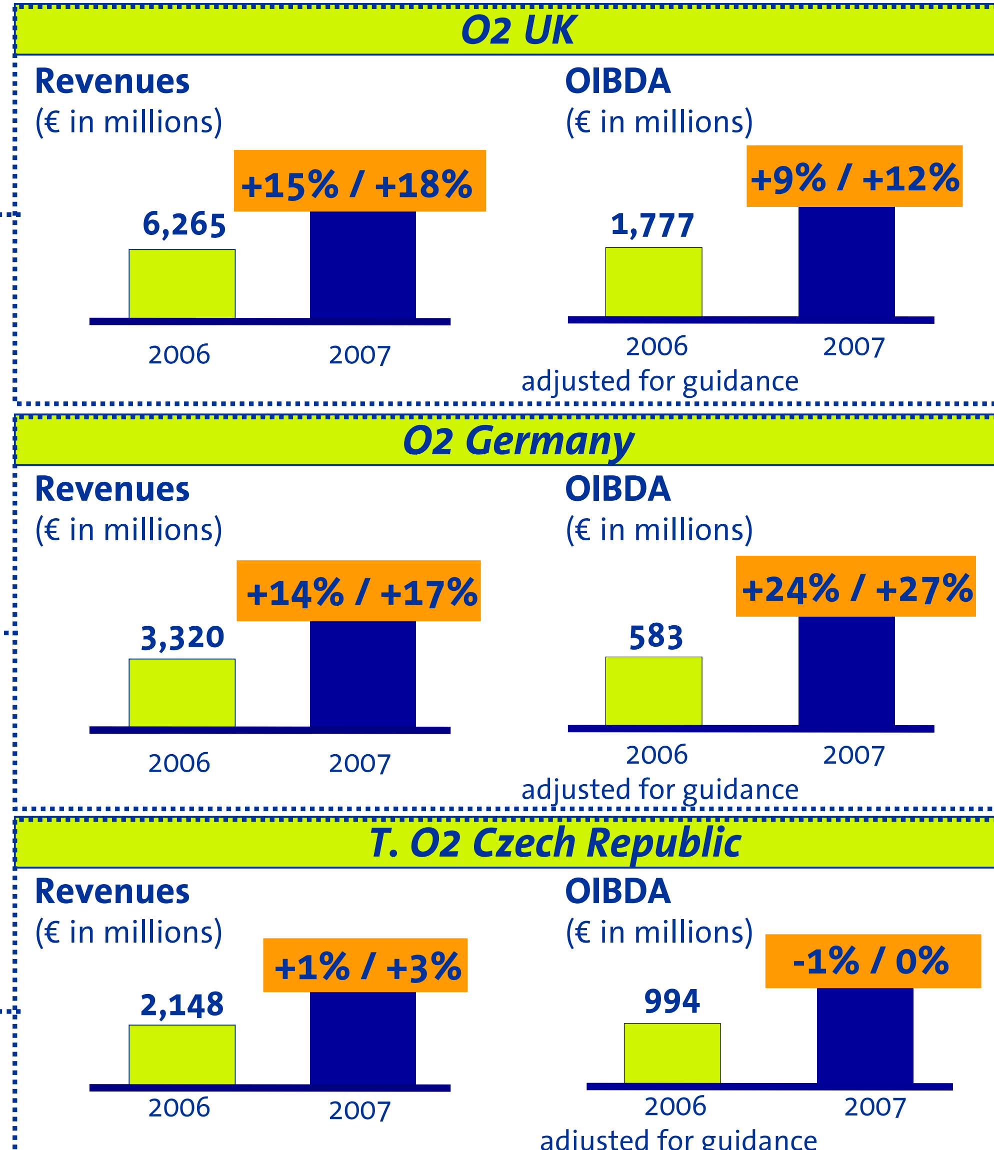
OIBDA
(€ in millions)



TdE's base reported figures include six months of Iberbanda (consolidated 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

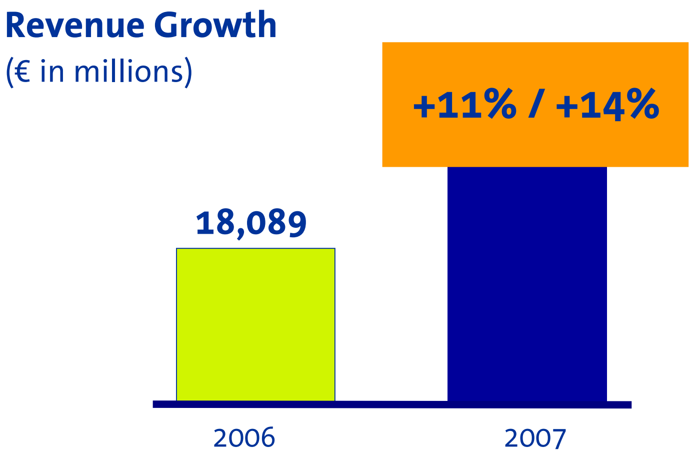
...continuing out-performance of European businesses...

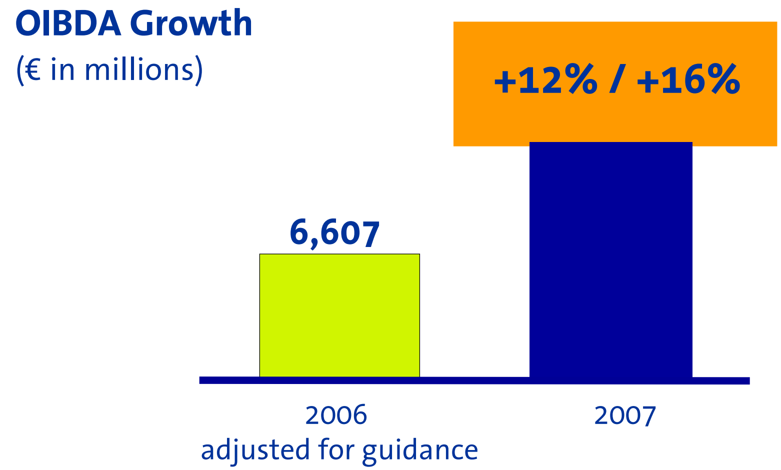


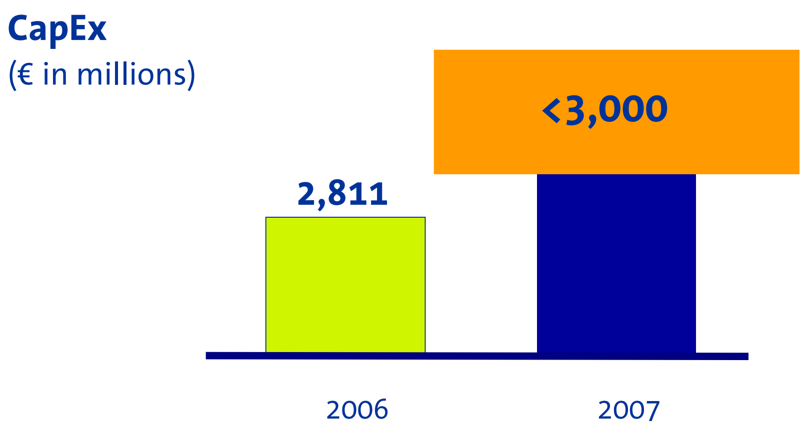


T. O2 Europe reported figures include eleven months of O2 (consolidated since Feb.06), three months of start-up losses in Slovakia (operations started in Feb.07), and exclude Airwave results. 2007 guidance assumes constant exchange rates as of 2006, and exclude changes in consolidation. OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring 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.

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







T. Latam base reported figures include eight months of Telefónica Telecom (consolidated since May 2006). 2007 guidance assumes constant exchange rates as of 2006. All figures exclude changes in consolidation. In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring 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.

2007 targets, a guide to calculations

- 2006 include
  - ✓ ***11 months of O2*** (consolidated since February 2006)
  - ✓ ***8 months of Telefónica Telecom***[1] (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

(1) formerly Colombia Telecom

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