

Shareholder information

Earnings per share increased by 42.9% in 2006

Return for shareholders stood at 31.16%

In 2006, all of the variables that reflect the returns for shareholder evolved favourably: the share closed 2006 at 16.12 euros / share, representing an increase of 26.8%; earnings per share increased by 42.9%; the dividend amounted to 0.55 euros per share. As a result, the total returns for shareholders in 2006 stood at 31.16%.

Returns for Shareholders

Returns for shareholders in 2006 were 31.16%. This return is a result of two parameters: on the one hand, the favourable stock performance recorded in 2006, period in which the Telefónica share increased by 26.8%, and, on the other hand, the payment of two dividends for the sum of 0.25 and 0.30 euros per share. The performance of these two variables is detailed below.

Shareholder Remuneration in 2006

In 2006, the Telefónica Group has been consolidated as the European incumbent operator with the greatest growth and profitability in the sector. During 2006, a new shareholder remuneration policy, which is more attractive and more competitive in the long term, was announced, and which aims to double, by 2009, both earnings per share and dividend per share from the 0.91 euros and 0.5 euros per share corresponding to 2005.

On 12th May 2006, a dividend for a gross value of 0.25 euros per share was paid out as a result of the profits for 2005.

On 10th November 2006, a dividend of 0.3 euros per share was paid, charged against the results of the financial year 2006. These returns will be complemented during the first quarter of 2007, when a dividend of 0.3 euros per share will be paid.

On the other hand, the share buyback programme for a value of 2,700 million euros will be completed by the end of 2007 and the shares will be cancelled. On 22nd January 2006, Telefónica's treasury stock stood at 79,030,886 own shares, which represents 1.606% of the Company's current share capital.

Earnings for a shareholder that purchased 100 Telefónica shares on 1st January 2006

	Number of Shares	Net Amount
Value of 100 shares on 1st January 2006	100.00	1,271.00
Cash Dividend 2005	100.00	0.25 €/share (gross)
Cash Dividend 2006	100.00	0.30 €/share (gross)
Value of 100 shares on 1st January 2007	100.00	1,612.00
Total value of portfolio of 100 shares		1,667.00
Earnings 2006		31.16%

Evolution of share performance in 2006

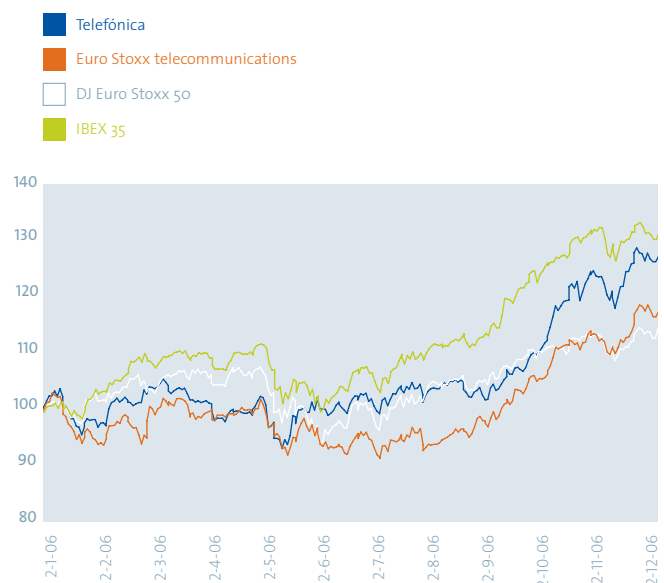
During 2006, Telefónica's share performance presented a positive profitability of 26.8%, in a context of widespread increases in the leading international stock markets. Telefónica's 26.8% increase to 16.12 euros/share, has been far higher than that of the rest of the reference sector in Europe (Dow Jones Europe Stoxx Telecommunications +16.9%) and that of the Eurostoxx-50 general index (+15.1%). The Ibex-35 was increased by 31.8%. Similarly, the relative performance of Telefónica in 2006 was also better than that of its European counterparts, which ended the year with negative profitability in the case of Telecom Italia (-6.9%), Deutsche Telekom (-1.7%) and France Telecom (-0.2%) or lower profitability in the case of Vodafone (+12.9%), with the exception of BT, which was increased by 35.4%.

The increase in 2006 of both Telefónica and the telecommunications sector was produced from October, as its performance had been negative until then. This change was brought about by a sectoral rotation among investors towards the telecommunications sector, due, among other reasons, to a greater visibility of the regulatory situation for interconnection rates and relatively attractive valuations with respect to other sectors.

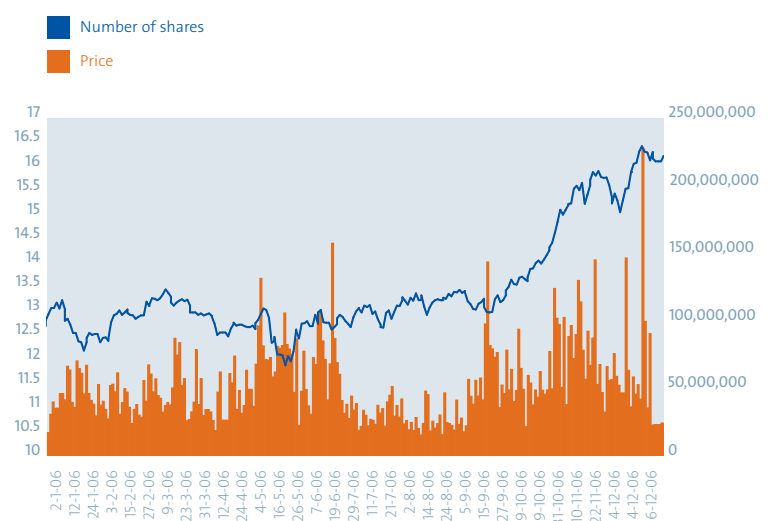
The main factors which account for Telefónica's favourable evolution in 2006 include its greater growth profile, above average for the sector, profitability, financial discipline, geographical and business diversification, credibility by meeting the financial objectives set by the Group and attractive remuneration for shareholders.

The average daily trading volume on the Spanish stock market in 2006 was 53.4 million shares, up from the 44.5 million shares traded in 2005. The Company's market capitalisation at the end of 2006 was 79,329 million euros (104,722 million dollars).

Stock Performance 2006



Price / Volume



Stock Exchanges where Telefónica shares are traded

- Spanish Trading System (within the “Ibex 35” index) and the four Spanish Stock Exchanges (Madrid, Barcelona, Bilbao and Valencia)
- London Stock Exchange
- Paris Stock Exchange
- Frankfurt Stock Exchange
- Tokyo Stock Exchange
- New York Stock Exchange
- Buenos Aires Stock Exchange
- Lima Stock Exchange
- Sao Paulo Stock Exchange

Returns for Shareholders

In the financial year 2006, Telefónica obtained the best results in its history, positioning it as a world leader in the telecommunications sector. The net profit for the company increased by 40.2% with respect to 2005, reaching a record figure of 6,233 million euros. As a result, earnings for Telefónica shareholders were 1.304 euros per share in 2006, with an inter-annual growth of 42.9%.

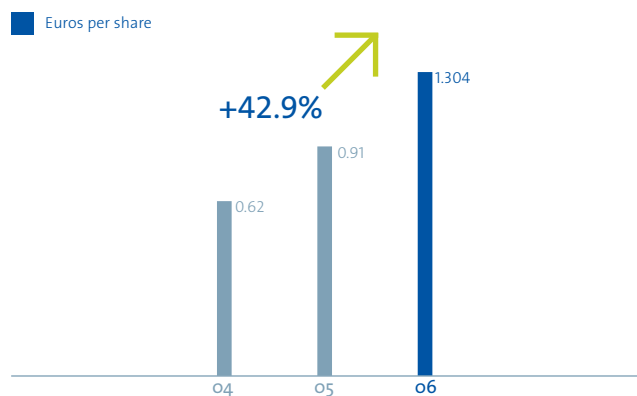
Share Capital

The latest share capital modification took place in June 2005 as a result of the reduction of the capital with the amortisation of treasury stock shares (for an amount of 34,760,964 euros), placing corporate share capital at 4,921,130,397 euros, which was maintained throughout financial year 2006.

Number of Shareholders

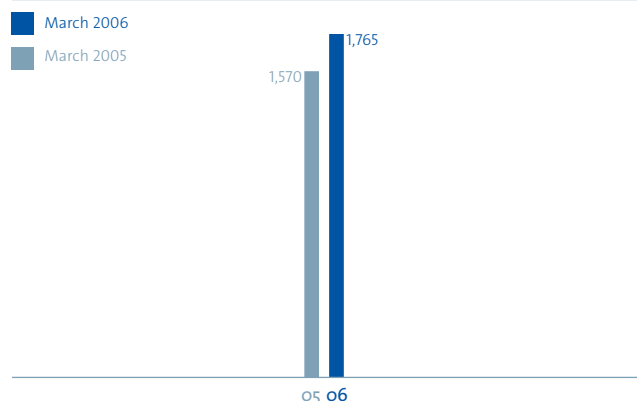
According to the information obtained from the “Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores” (Securities, Recording, Clearing and Settlement Systems Management Company) (Iberclear), dated 2nd March 2007, the number of shareholders in Telefónica, according to separate records in favour of legal and natural persons, amounted to 1,765,599 shareholders.

Earnings per share



Number of Shareholders

Figures in thousands



Shares held by members of the Board of Directors¹

April 2007

	Direct shareholding	Indirect shareholding	Number of shares
Mr. César Alierta Izuel ¹	1,910,333	78,000	1,988,333
Mr. Isidro Fainé Casas	144,978	0	144,978
Mr. Gregorio Villalabeitia Galarraga	55	0	55
Mr. Fernando de Almansa Moreno-Barreda	19,349	0	19,349
Mr. José María Álvarez-Pallete López	15,715	1,036	16,751
Mr. David Arculus	10,500	0	10,500
Mr. Maximino Carpio García	10,247	494	10,741
Mr. Carlos Colomer Casellas	564	25,700	26,264
Mr. Peter Erskine	500	0	500
Mr. Alfonso Ferrari Herrero	1,883	103,480	105,363
Mr. Gonzalo Hinojosa Fernández de Angulo	39,476	390,000	429,476
Mr. Pablo Isla Álvarez de Tejera	401	0	401
Mr. Julio Linares López	25,756	2,207	27,963
Mr. Antonio Massanell Lavilla	2,274	0	2,274
Mr. Vitalino Manuel Nafría Aznar	300	0	300
Mr. Enrique Used Aznar	36,000	34,000	70,000
Mr. Antonio Viana-Baptista	103,567	0	103,567
Total	2,321,898	634,917	2,956,814

¹ On 5th March 2007, the Chairman of Telefónica, César Alierta, announced to the CNMV, the acquisition of 8,200,000 European call options on Telefónica S.A. redeemable shares for differences, expiring on 2nd March 2011 and with a price of 22 euros.

Significant Shareholdings¹

As Telefónica shares are recorded by the book entry system and therefore the company does not keep a shareholders' registry, it is therefore difficult to know the exact ownership structure.

There are, however, certain shareholders with shareholdings that can be considered significant, in accordance with the Ministerial Order 3722/2003, of 26th December, which are listed below:

In any case, according to the information available in the Company, there is currently no natural or legal person that exercises, or may exercise control, directly or indirectly, individually or jointly, over Telefónica, according to the terms established in Article 4 of the Spanish Securities Exchange Act (Ley del Mercado de Valores).

Significant Shareholdings¹

	Percentage	Total shares	Percentage	Direct shareholding shares	Percentage	Indirect shareholding shares
BBVA	6.437%	316,764,189	6.43%	316,735,246	0.00%	28,943
La Caixa	5.080%	249,981,747	1.18%	58,103,174	3.90%	191,878,573

¹ 31/12/2006