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The best combination of growth and returns in the industry

César Alierta
Chairman and CEO, Telefónica

Valencia - May 25, 2006
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01 Telefónica: a new and better company in a growth market

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01 Since we met one year ago, Telefónica has become a new Company

We have been proactive to acquire the best available growth platforms to achieve the right balance by businesses and geographies and to benefit from the full potential for economies of scale...

... to continue offering the best combination of growth and returns now and in the future

The integration of Bellsouth Latam assets and Cesky Tel. has finished, and the take over of O2 and Colombia Tel. is being executed at a record speed with no business disruption at all

- 2004 and 2005 guidance fully delivered and even upgraded in a context of profit warnings in Telecoms
- Q1 results well in guidance 06

Our new profile shows that we have already achieved the appropriate scale and diversification. Now, successful execution is even more important...

... to extract value from scale and diversity through an integrated management of operations
A new Company that will take the best from the very promising growth opportunities of the ICT industry

The sector is growing in size and economic impact, as ICT becomes an essential tool to enhance the competitiveness of the economy and to improve the standards of living.

2005 Global ICT Market

<table>
<thead>
<tr>
<th>(US$ Bn)</th>
<th>Computing</th>
<th>Software</th>
<th>IT Services</th>
<th>Telecom</th>
</tr>
</thead>
<tbody>
<tr>
<td>59%</td>
<td>23%</td>
<td>13%</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

Total ICT Spending (2004-2009E)

- 2004
- 2005
- 2006E
- 2007E
- 2008E
- 2009E

CAGR 5.1%

Source: Gartner, May 2006
01 Telefónica S.A.

Key sector: Telecommunications

- Telecommunication industry enters integrated Business solutions and vice versa

Media

- Content digitalization
- Digital distribution of music and video through Broadband

Information Technologies

- Telecommunication industry enters integrated Business solutions and vice versa

Key sector: Telecommunications

- Mobile handsets
- Set-top-boxes
- Domotics and Home services

Consumer Electronics
...leveraging on four key growth levers...

**Telecom services**
- Increase in usage
  - Voice
  - Data/applications

**Adjacent businesses**
- Develop new mobile solutions that increase penetration in developed markets
- Build entertainment and ICT solutions on top of the most suitable connectivity
- Transfer selectively consolidated solutions from mature markets

These growth opportunities will be accelerated by a **growing demand for new “digital lifestyles” (at home and at work)**, and by the increasingly important role of telecommunications in society.
... offering a large potential in the coming years

### Mobile communications

**Estimated mobile revenues in Western Europe (2006-2010E)**

- **€Bn**
  - 2006: 151
  - 2010E: 183

**CAGR**
- 5%

### Fixed Broadband communications

**Estimated BB revenues in Europe (2005-2009E)**

- **€Bn**
  - 2005: 24
  - 2009E: 50

**CAGR**
- 20%

### Opportunities in emerging markets

**Estimated mobile revenues in LATAM (2005-2009E)**

- **€Bn**
  - 2005: 25
  - 2009E: 45

**CAGR**
- 16%

### Development of adjacent businesses

**Estimated global IPTV users (2005-2009E)**

- **(Millions)**
  - 2005: 3
  - 2009E: 45

**CAGR**
- 97%

Source: Gartner Datalquest, March 2006.


Source: Ovum, September 2005. Includes voice and data (Exchange rate: 1.2$/€)

But only those companies adapted to sector trends will fully exploit these opportunities

<table>
<thead>
<tr>
<th>Major industry trends</th>
<th>Winners will be companies having...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Globalization</td>
<td>Regional scale</td>
</tr>
<tr>
<td></td>
<td>- Global communities of clients</td>
</tr>
<tr>
<td></td>
<td>- Regional leadership</td>
</tr>
<tr>
<td></td>
<td>- Global brands</td>
</tr>
<tr>
<td>Competition that fosters market dynamism</td>
<td>Local commercial strength</td>
</tr>
<tr>
<td></td>
<td>- Close to customers</td>
</tr>
<tr>
<td></td>
<td>- Differentiated positioning</td>
</tr>
<tr>
<td>Convergence</td>
<td>Operating efficiency</td>
</tr>
<tr>
<td></td>
<td>- Competitive margins</td>
</tr>
<tr>
<td></td>
<td>Innovation</td>
</tr>
<tr>
<td></td>
<td>- Source of sustainable differentiation</td>
</tr>
<tr>
<td></td>
<td>Adaptability</td>
</tr>
<tr>
<td></td>
<td>- Capacity to anticipate value migrations or extensions between sectors</td>
</tr>
<tr>
<td></td>
<td>- Ability to adapt to changes on technologies, business models and regulatory environments</td>
</tr>
</tbody>
</table>
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01 Telefónica: a new and better company in a growth market

02 Our unique profile

03 Our strategic guidelines to lead the sector’s evolution
We have achieved differentiated results thanks to a unique profile in our industry

**DIFFERENTIAL RESULTS**
1. MORE GROWTH
2. MORE PROFITABILITY
3. MORE CASH FLOW GENERATION
4. CONSISTENTLY DELIVERING ON OUR COMMITMENTS

**UNIQUE PROFILE**
1. REGIONAL SCALE
2. STRONG LOCAL COMMERCIAL POSITION
3. OPERATING EFFICIENCY
4. INNOVATION
5. ADAPTABILITY
Our results top the best performances in the sector in terms of growth at the operating level.

**Revenues growth**

2005 vs. 2004

- **Telefónica** 9.3% (25.1%)
- **Vodafone** 9.0%
- **AT&T** 7.5%
- **France Télécom** 6.2%
- **BT** 5.9%
- **Telecom Italia** 5.8%
- **Verizon** 5.4%
- **Deutsche Telekom** 3.9%

**OIBDA growth**

2005 vs. 2004

- **Telefónica** 9.9% (25.0%)
- **Vodafone** 6.2%
- **AT&T** 2.6%
- **France Télécom** 2.8%
- **BT** -0.4%
- **Telecom Italia** -2.7%
- **Verizon** 6.8%
- **Deutsche Telekom** 5.7%

**O1 growth**

2005 vs. 2004

- **Telefónica** 21.7% (30.5%)
- **Vodafone** 4.5%
- **AT&T** 4.5%
- **France Télécom** 21.2%
- **BT** -2.2%
- **Telecom Italia** -1.4%
- **Verizon** 12.9%
- **Deutsche Telekom** -0.2%

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(1) Based on information published by the companies
(2) Results for the six months to 30 September 2005. Adjusted EBIT.
(3) EBITDA = gross operating margin defined as revenues less supplies, operating expenses (net of operating results) and wages and salaries, excluding pension plans and stock options.
(4) Results for the twelve months to 31 March 2006. Adjusted EBITDA and EBIT.
(5) Adjusted EBITDA and EBIT.
... in terms of earnings momentum ...

Adjusted EPS Growth

2005/2004

24%

16%

12%

9%

5%

-3%*

Adjusted EPS: excluding extraordinary results before goodwill and adjusting deferred taxes. Fully diluted.
*Data as of 2006E
...and in terms of Cash Generation, as the basis of our shareholder remuneration policy

**Free Cash Flow** as % of revenues

<table>
<thead>
<tr>
<th>2005A</th>
<th>Telefonica</th>
<th>Vodafone</th>
<th>Telecom</th>
<th>Deutsche Telekom</th>
<th>France Télécom</th>
<th>BT</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td>18%**</td>
<td>16%</td>
<td>15%</td>
<td>15%</td>
<td>7%**</td>
<td></td>
</tr>
</tbody>
</table>

FCF* Growth

<table>
<thead>
<tr>
<th>2005/2004</th>
<th>Telefonica</th>
<th>Vodafone</th>
<th>Telecom</th>
<th>Deutsche Telekom</th>
<th>France Télécom</th>
<th>BT</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.9%</td>
<td>-3.6%**</td>
<td>-4.8%</td>
<td>-4.9%</td>
<td>-8.3%</td>
<td>-12.7%**</td>
<td></td>
</tr>
</tbody>
</table>

Source: Merril Lynch "European Telecoms Valuation Monitor (Mar’06)
*FCF: EBITDA-CapEx-Interest expenses- Taxes-Working Capital-Dividend to minorities-Others
**Data as of 2006E
We consistently deliver on our commitments

Revenue growth*

- Committed CAGR 04-08: 7-11%
- Change 05/04 (guidance criteria): 17.2% (Lifted in 3Q05)

- GUIDANCE > 15%

OIBDA growth*

- Committed CAGR 04-08: 8-12%
- Change 05/04 (guidance criteria): 12.3%

- GUIDANCE 10%/13%

OI growth*

- Committed CAGR 04-08: 13-19%
- Change 05/04 (guidance criteria): 16.1%

- GUIDANCE 12/18%

*Constant exchange rates as of 2004.
Barcelona committed CAGR 04-08 calculated under Spanish GAAP.
02 Our unique profile: Benefiting from regional scale...

Top 10 Total Accesses (Millions – 2005)

- China Mobile: 247
- China Telecom: 231
- Telefónica: 181
- Vodafone: 179
- Deutsche Telekom: 150
- France Telecom: 143
- China Unicom: 135
- China Netcom: 127
- Telmex + América Móvil: 116
- NTT Group: 115

Accesses

Telefónica S.A.

Note: 2005PF: Full year Cesky and O2 included.
* Includes Morocco
** Op. CF = OIBDA – Capex Avg Exchg Rate.
*** Fixed includes Narrowband, BB and Pay-TV
Total Accesses based on information published by the companies. Fixed lines+Mobile subscribers+NarrowBand&BB+PayTV
The value of being part of Telefónica

<table>
<thead>
<tr>
<th>Region</th>
<th>OIBDA growth (%)</th>
<th>Net DSL accesses 2005 A (’000)</th>
<th>Tot. DSL accesses 2005 A (’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>T-Latam</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T-Latam</td>
<td>8.1</td>
<td>742</td>
<td>2.165</td>
</tr>
<tr>
<td>Telmex</td>
<td>6.8</td>
<td>651</td>
<td>1.400</td>
</tr>
<tr>
<td>Brasil</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T-Latam (TeleSP)</td>
<td>9.5</td>
<td>380</td>
<td>1.207</td>
</tr>
<tr>
<td>Telemar</td>
<td>3.6</td>
<td>309</td>
<td>805</td>
</tr>
<tr>
<td>Brasil Telecom</td>
<td>-6.5</td>
<td>479</td>
<td>1.014</td>
</tr>
<tr>
<td>Argentina</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T-Latam (TASA)</td>
<td>6.6</td>
<td>113</td>
<td>303</td>
</tr>
<tr>
<td>Telecom Argentina</td>
<td>-2.2</td>
<td>98</td>
<td>226</td>
</tr>
<tr>
<td>Chile</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T-Latam (CTC)</td>
<td>-4.1</td>
<td>113</td>
<td>314</td>
</tr>
<tr>
<td>VTR</td>
<td>n/a</td>
<td>127</td>
<td>303</td>
</tr>
<tr>
<td>Entel (Group)</td>
<td>21.5</td>
<td>-4</td>
<td>55</td>
</tr>
</tbody>
</table>

2. Includes Net Brazil.
3. Reported OIBDA in local currency.
4. Wholesale and retail DSLs included. TRR not included.
Our unique profile: Local commercial strength

Leadership and control of customer interface:

- **Connectivity**
  - High knowledge of our customers’ profile

- **Customer care and Billing**
  - 5 M daily contacts (globally)

- **Commercial network and branding**
  - Strong brand recognition and consistent leadership in individual markets
  - >65,000 points of sale worldwide
Our unique profile: Operating efficiency

Best in class  Fixed ...

<table>
<thead>
<tr>
<th>LIS per employee 2005 (*)</th>
<th>OIBDA Margin 2005 %(*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TLatam</td>
<td>349</td>
</tr>
<tr>
<td>Telmex(1) (Mexico)</td>
<td>336</td>
</tr>
<tr>
<td>TdE (2)</td>
<td>624</td>
</tr>
<tr>
<td>T-Com</td>
<td>484</td>
</tr>
<tr>
<td>BT</td>
<td>299</td>
</tr>
<tr>
<td>FT</td>
<td>277</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>39%</strong></td>
</tr>
</tbody>
</table>

...and Mobile Telecom

<table>
<thead>
<tr>
<th>Customers per employee 2005</th>
<th>OIBDA Margin 2005 %(*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TME (1)</td>
<td>2,462</td>
</tr>
<tr>
<td>T-Mobile (Germany) (1)</td>
<td>3,829</td>
</tr>
<tr>
<td>Orange (France)</td>
<td>3,185</td>
</tr>
<tr>
<td>TIM (Italy)</td>
<td>1,404</td>
</tr>
<tr>
<td>O2 (UK) (1)</td>
<td>1,785</td>
</tr>
<tr>
<td>Vodafone (UK) (1)</td>
<td>1,432</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>40%</strong></td>
</tr>
</tbody>
</table>

We have begun the chase for efficiency before our competitors that still have to

Source: Morgan Stanley, May'06. (*) Including PSTN and ADSL. (1) Employees as of 2005. Note: Average excludes TdE and TLatam.
Our unique profile: Innovation for a distinctive competitive position

Imagenio
- Launch in 2003 as a pioneering IPTV service in Europe
- First replicated in early 2006. Still unique VoD feature in ADSL market
- >200,000 customers in Dec’05

O₂ Genion
- First in Europe, launched in 1999
- First replicated in late 2005
- 3.5M customers in Germany in 2005
Our unique profile: Adaptability

We’ve done the major restructurings this industry needs

Transforming our asset base

Fixed assets* / Total accesses (€)
* Net of amortization

Transforming our cost structure

Fixed Costs vs. Total Costs

Strengthening our commercial focus

Commercial expenses as % of total Expenses**

Focusing on investments for growth

Capex mix

* *Total expenses excluding supplies, variation in allowances for bad debts and operating taxes. TdE, TLatam and TEM considered
In summary, we have achieved differential results thanks to a unique profile in our industry.

**DIFFERENTIAL RESULTS**

1. Highest organic growth in the European industry...
2. ...with earnings well above the market, growing by 24%...
3. ...supported by a strong cash flow generation of 18% over revenues with positive growth...
4. ...allowing us to consistently deliver on our commitments

**UNIQUE PROFILE**

1. A balanced portfolio of over 180 M accesses, ...
2. ...with a #1/#2 position supported by strong capabilities and assets...
3. ...and high OIBDA margins based on the lowest rates of LIS/ customers per employee...
4. ...pioneering in the launching of new P&S like Imagenio or Genion...
5. ...while adapting ourselves through a more flexible and dynamic structure
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Our Vision

Telefónica: the most competitive, customer oriented, solutions driven, integrated IP Company, with a clear goal...

... to deliver the best combination of growth and returns in the industry to our shareholders
Our strategic focus will be developed through four major objectives:

1. **Revenue Growth**
2. **Lighter Cost and CAPEX Structure**
3. **Financial Excellence**
4. **New Integrated Management**

- Better Results
- Growing EPS
Our differentiated top line growth well ahead of peers is driven by

- Unique high growth Latam businesses
- O2 differential growth momentum in Europe
- Superior revenue growth of Spanish assets within the European market
- Ceský Telecom full integration as a new opportunity
- Ongoing revenue upside from new businesses
- Additional revenue enhancement from integrated mgmt.
Increasing our customer base and our revenues per customer will be the key drivers of revenue growth

Two key drivers of revenue growth

Growing number of customers and accesses

• High growth penetration potential
• Leadership position in covered areas
• Leveraging the growth in covered population (MPoPs)

Increasing the share of wallet

• Increasing Revenue per customer mainly from mobile, broadband and PayTV
• Reducing voice dependance
Leading us to manage a growing number of customers and services in a larger potential market...

### High Growth Penetration potential

<table>
<thead>
<tr>
<th>Penetration Inc. 05-09E*</th>
<th>Fixed BB</th>
<th>Mobile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>+22pp</td>
<td>+11pp</td>
</tr>
<tr>
<td>Rest of Europe*</td>
<td>+21pp</td>
<td>+12pp</td>
</tr>
<tr>
<td>Latam (e.g. Brazil)</td>
<td>+8pp</td>
<td>+33pp</td>
</tr>
</tbody>
</table>

### Leadership in covered areas

### Covered Population Growth (MPoPs)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2009E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>524</td>
<td>708</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2009E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>524</td>
<td>708</td>
</tr>
</tbody>
</table>

### Number of Accesses (M)

<table>
<thead>
<tr>
<th></th>
<th>Mobile</th>
<th>Fixed **</th>
<th>Fixed BB</th>
<th>Pay TV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>154</td>
<td>47</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>2009E</td>
<td>186</td>
<td>181***</td>
<td>48</td>
<td>4</td>
</tr>
</tbody>
</table>

* Sources: Yankee Group, Ovum and Pyramid. Rest of Europe: UK, Germany and Czech Republic
** Includes narrowband, leased circuits and leased local loops
*** Including O2
... and to increase total Revenues per customer...

- **Increasing revenue per customer** while strongly accelerating the growth of our access base

- **Delighting our customers with innovative proposals** of integrated solutions for communication, information and entertainment
A clear set of management actions to continue growing our top line...

Customers
- Multi business customer insight
- Integrated channel management
- Refreshed and segmented brand strategy

Innovation
- New portfolio of P&S: Convergent Services, New Internet-based business models, Personal TV services
- Top-notch content offer
... while evolving the revenue business model...

**REVENUE MIX EVOLUTION**

- Our dependence of traditional voice will be reduced by 40 p.p. during the period 2005-2009E
- Voice will increasingly be sold in flat rates and bundles with other services, as a component of complete solutions for our customers’ needs
- Data revenues will be our main growth source in the period

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2009E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data, Broadband and other Revenues, including bundled minutes</td>
<td>55%</td>
<td>&gt;85%</td>
</tr>
<tr>
<td>Outgoing Traditional Voice traffic Revenues</td>
<td>45%</td>
<td>&lt;15%</td>
</tr>
</tbody>
</table>
... and keep on transforming our cost and CapEx structure

A very Efficient Operating model

**PRODUCTIVITY INCREASE**

Network operating cost per Access
Total 05-09 Change

-15/-20%

<table>
<thead>
<tr>
<th>2005 PF</th>
<th>2009E</th>
</tr>
</thead>
</table>

**CAPEX CONTROL**

CapEx to revenues

14.1% < 13%

<table>
<thead>
<tr>
<th>2005</th>
<th>2009E</th>
</tr>
</thead>
</table>

Economic benefits from an integrated broadband all-IP-based network and NGA...

... reinforced by a common vision and evolution of our IT systems...

... and an integrated procurement model to maximize savings in the purchase area
Financial discipline is a key element of our management strategy

COMMITMENTS

- BBB+/Baa1 as rating floor
- Net debt + commitments below 2.5x OIBDA in the medium term, as of 1Q06 is 2.8x OIBDA
New integrated management of our businesses will allow us to extract additional value.
Telefónica delivers results through focused individual businesses and integrated relationships

**MANAGEMENT PROGRAM**

- **TdE**
  - Luis Lada
  - “Leading a world of BB solutions”

- **T-Latam**
  - J.M.A-Pallete
  - “A story of transformation & delivery”

- **TEM**
  - Antonio Viana
  - “Growth with cash returns”

- **O₂**
  - Peter Erskine
  - “Building on Momentum”

**INTEGRATION**

- Integrated relationships among businesses
  - Julio Linares
  - “Extracting the value of a new integrated management”

- Financial discipline well preserved
  - Santiago Fdez. Valbuena
  - “Value addition by cost subtraction”

**EXECUTION**

- Focus on delivering growth and results

**MAXIMIZE VALUE CREATION FOR OUR SHAREHOLDERS**

Extract the maximum value from our scale and diversity
Telefónica as a new and better Company: a new and unique profile to capture the very promising growth opportunities

- Enhanced growth prospects, well ahead of peers
- Well-balanced by business and geographies
- Enormous potential to extract value from scale and diversity through a new integrated management
- Financial discipline well preserved
- Growth to fully flow to investors

Superior proposition to Shareholders