



FIFTH **INVESTOR** CONFERENCE

Valencia. May 25 th - 26 th. Ciudad de las Artes y las Ciencias

Telefonica

The best combination of growth and returns in the industry

Closing remarks

César Alierta

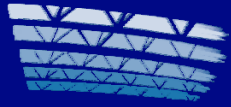
Chairman and CEO, Telefónica



THE BEST COMBINATION OF
GROWTH AND RETURNS

Telefonica

Valencia - May 26, 2006



FIFTH INVESTOR
CONFERENCE

Telefonica

Disclaimer

This presentation 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.

Although Telefónica believes that these statements are based on reasonable assumptions, such forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those in the forward looking statements as a result of various factors, most of which are difficult to predict and are generally beyond Telefónica's control.

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). Telefónica may present financial information herein that is not prepared in accordance with IFRS. This non-GAAP financial information should be considered in addition to, but not as a substitute for, financial information prepared in accordance with IFRS. Telefónica has included such non-GAAP financial information because Telefónica's management uses such financial information as part of its internal reporting and planning process and to evaluate Telefónica's performance. Accordingly, Telefónica believes that investors may find such information useful. However, such non-GAAP financial information is not prepared in accordance with IFRS or any other generally accepted accounting principles, and such non-GAAP financial information, as defined and calculated by us, may be different from similarly-titled financial information used by other companies. Investors are cautioned not to place undue reliance on such non-GAAP financial information.

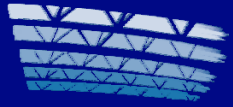


Telefónica is now a new Company with a unique profile

UNIQUE PROFILE

1. REGIONAL SCALE
2. STRONG LOCAL COMMERCIAL POSITION
3. OPERATING EFFICIENCY
4. INNOVATION
5. ADAPTABILITY

**INTEGRATED
MANAGEMENT
TO DELIVER ON
SHAREHOLDER
VALUE CREATION**



We have a concrete mgmt. agenda to deliver on Shareholder value creation





FIFTH INVESTOR
CONFERENCE

Our superior value proposition to Shareholders is driven by

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

Telefonica



FIFTH INVESTOR
CONFERENCE

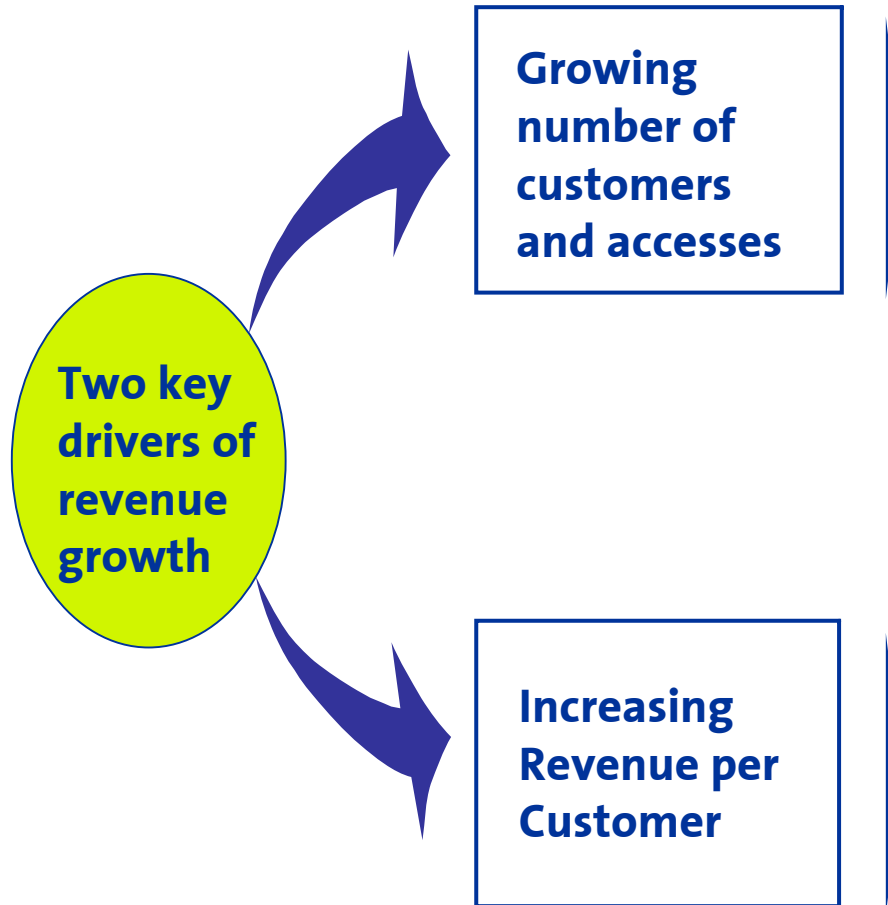
Differentiated top line growth well ahead of peers

- Unique high growth Latam businesses
- O2 has a growth momentum in Europe
- Superior revenue growth of Spanish assets within the European market
- Český Telecom's full integration is a new opportunity
- Ongoing revenue upside from new businesses
- Additional revenue enhancement from integrated mgmt.

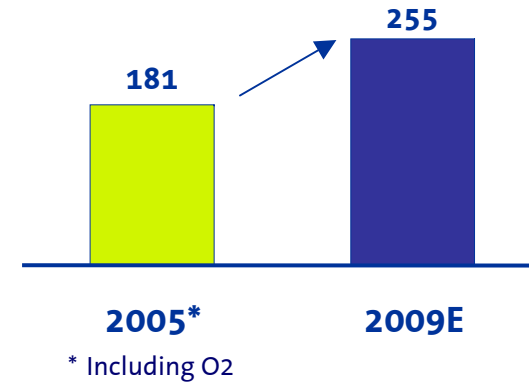
Telefonica



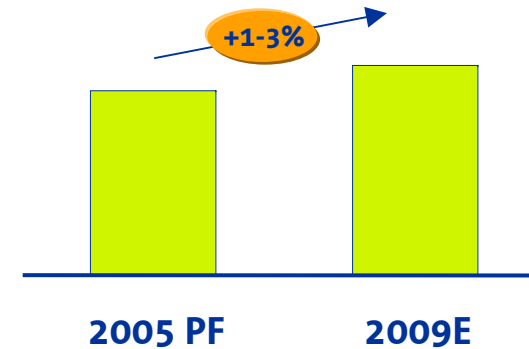
Enhanced growth prospects



Million Accesses



Revenue per Customer (€/month)



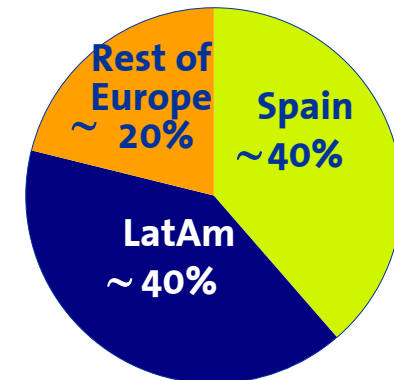
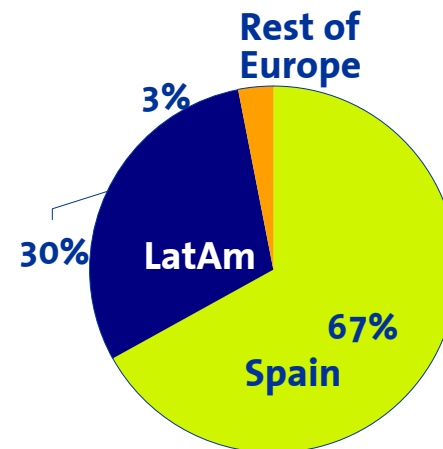
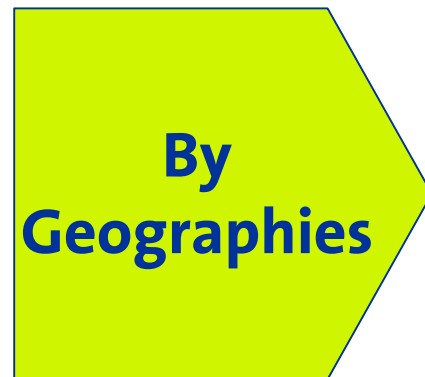
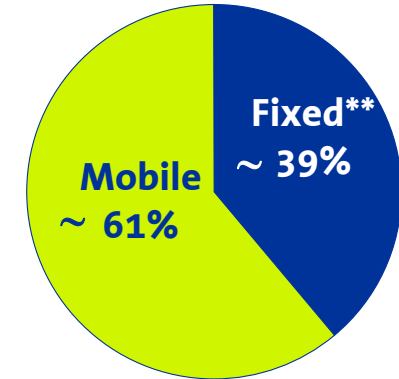
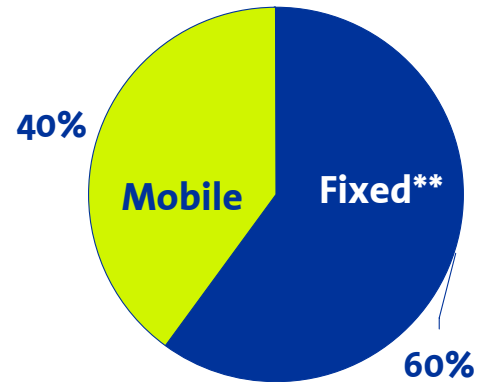


Well-balanced by business and geographies

OP. CF*

FY2005

2009E



* Op. CF= OIBDA - Capex Avg Exchg. Rate.

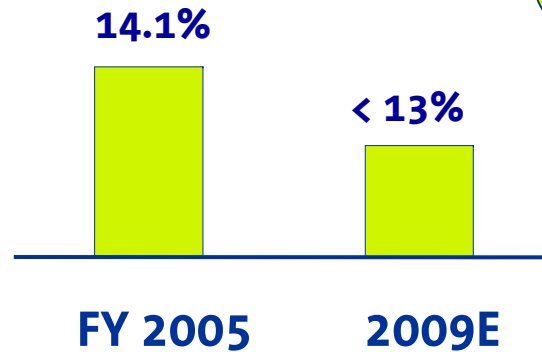
Guidance assumes constant exchange rate as of 2005. All figures exclude changes in consolidation, other than O2 (included since Feb06) and Colombia Telecom (included since May06)

** Fixed includes Narrowband, BB and Pay-TV



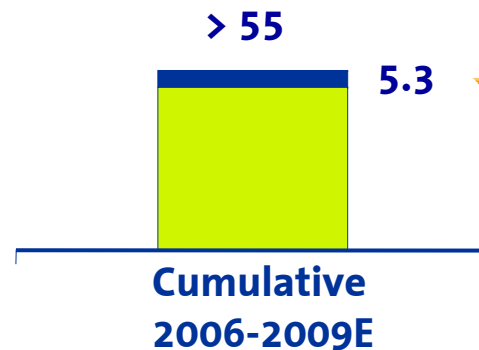
Enormous potential to extract value from scale and integrated management

CAPEX TO REVENUES



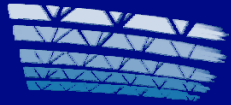
CUM. CAPEX 06-09E
< €31 bn

OP. CASH FLOW €Bn



IMPLEMENTING THREE TYPE OF PLANS

- Business collaboration plans
- Country collaboration plans
- Latest acquisitions integration plans



Financial discipline well preserved

WE COMMIT TO VERY SPECIFIC TARGETS FOR THE PERIOD 2006-2007

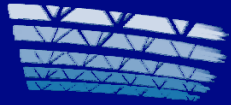
**De-leveraging to
re-build
financial
strength**

- BBB+/Baa1 as rating floor
- Net debt + commitments below 2.5x OIBDA in the medium term



**Effectively
freezing
acquisitions**

- Divestiture Program in place
- Less than €Bn. 1.5 in net financial investments* in 06-07 on aggregate
- No issuance of new shares



FIFTH INVESTOR
CONFERENCE

Telefonica

Growth guidance well ahead of peers

FY 2005*
(€ in Millions)

Valencia
CAGR 05-09E**

37,313.9

Revenues

10-14%

14,785.8

OIBDA***

10-14%

8,092.1

OI****

13-19%

0.913 €

EPS*****

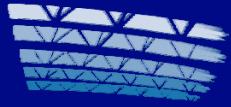
x2

* Base Reported numbers are calculated using average exchange rates for the period and include six months of Český Telecom (consolidated since July 2005). TPI is excluded

** CAGR 2005-2009E guidance assumes constant exchange rates as of 2005. All figures exclude changes in consolidation, other than Český Telecom (included since July 2005), O2 (included since Feb06) and Colombia Telecom (included since May06)

*** In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2006-2009. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For comparison purpose, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures. The assignment of goodwill arising from the acquisition of Colombia Telecom is not included in OI guidance calculation.

**** Reported EPS: constant currency and perimeter as of 2005. No extraordinary results considered in 2009. No cancellation of shares considered other than current buyback program.



Growth to fully flow to investors

A new long term remuneration pack more attractive and competitive

Dividends

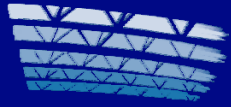
An ambitious target to double 2005 dividend per share (0.5€) by 2009, in line with EPS growth 05-09 guidance

- We will propose to the Board of Directors a **dividend increase for fiscal year 2006 from 0.5 Euros to 0.6 Euros**, to be paid in two tranches, 0.30€ in Nov.06 and 0.30€ in 1H'07



Buyback Program

- Reminder (2.7bn€) of buyback program to be completed. Shares will be cancelled.



FIFTH INVESTOR
CONFERENCE

Why invest in Telefónica?

- A unique profile of geographic and business diversification
- Top quality assets with leadership position in every market
- Pragmatic integrated management approach to maximize value creation
- Benchmark for execution thanks to high quality of human capital and long experienced top management
- Clear commitment on use of funds to a unique cash and value return to shareholders

Telefonica



FIFTH INVESTOR
CONFERENCE

Telefonica

**THE BEST COMBINATION OF GROWTH AND
RETURNS IN THE INDUSTRY TO OUR SHAREHOLDERS**

Telefonica

Telefonica
