FIFTH INVESTOR CONFERENCE
Valencia. May 25th - 26th. Ciudad de las Artes y las Ciencias
Leading a world of broadband solutions

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Executive Chairman, Telefónica de España

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THE BEST COMBINATION OF GROWTH AND RETURNS

Valencia - May 25, 2006
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01 During 2005 we continued to deliver top results while strengthening capabilities for future sustainability

02 Going forward we will leverage our competitive advantages to grow even further

- Positive socioeconomic landscape
- Sustainable growth based on a distinctive offering
- Higher efficiency levels
- Thoughtful investments to support future growth

03 As a result, we commit to ambitious financial and operational targets
Once again, we have delivered strong financial results and met or even exceeded our targets.

Revenue* growth

- Guidance '05: 0.5-2.0%
- Growth 04-05: 4.6%

OIBDA* growth

- Guidance '05: 2.5%
- Growth 04-05: 5.1%

OI* growth

- Guidance '05: 13.0-20.0%
- Growth 04-05: 21.5%

Capex/revenues**

- Guidance ‘05: <12%
- 2005: 12.0%

Note: Financial Data for TdE Group (including associates and excluding Terra)
* Foreseeable Revenue, OIBDA and OI. Figures reported for 2005 are: +4.8% Revenues growth, +4.5% OIBDA growth and +19.9% OI growth.
** CAPEX/Revenues ratio for TdE (not including associates) was 12.4%
We are one of the top incumbents in terms of revenue and profitability growth
Fixed business, 2005

* OIBDA for TdE, EBITDA for the other companies
Source: Companies reports (FT: revenues and GOM for HCS+ECS; Ti: revenues and EBITDA for domestic wireline; DT: revenues and adjusted EBITDA for Broadband/Fixedline + Business Customers; BT: revenues and EBITDA for BT Retail + BT Wholesale April05/March 06)
These results were possible due to excellent operational performance (1/2)

Access growth

Total access growth*

<table>
<thead>
<tr>
<th>Million</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>21.3</td>
<td>21.9</td>
</tr>
</tbody>
</table>

** Includes basic accesses, narrowband Internet, broadband Internet, ULL and IPTV

Internet broadband access growth**

<table>
<thead>
<tr>
<th>Million</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.9</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Retail TdE

** Excluding fully unbundled local loop, Wholesale and cable modem. Retail includes Terra and ISP friendly

Broadband is the key contributor to access growth boosted mainly by the growth in bundles
These results were possible due to excellent operational performance (2/2)

Broadband ARPU, bundles and “flat-fees”

<table>
<thead>
<tr>
<th>Broadband ARPU</th>
<th>VAS penetration over DSL</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR/month</td>
<td>(%)</td>
</tr>
<tr>
<td><strong>VAS</strong></td>
<td></td>
</tr>
<tr>
<td>Access</td>
<td>2004</td>
</tr>
<tr>
<td>45.1</td>
<td>45.1</td>
</tr>
<tr>
<td>4.9</td>
<td>6.2</td>
</tr>
<tr>
<td>50.0</td>
<td></td>
</tr>
</tbody>
</table>

VAS ARPU increase has been critical to minimize overall ARPU reduction for broadband services.

<table>
<thead>
<tr>
<th>Duo and Trio subscribers</th>
<th>Voice traffic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thousand</td>
<td>Minute split, %</td>
</tr>
<tr>
<td></td>
<td>Pay-per minute</td>
</tr>
<tr>
<td></td>
<td>Flat fee</td>
</tr>
<tr>
<td></td>
<td>3Q’05</td>
</tr>
<tr>
<td>0</td>
<td>29%</td>
</tr>
<tr>
<td>1,063</td>
<td>71%</td>
</tr>
</tbody>
</table>

The increasing importance of bundling and “flat-fees” reduces the relevance of voice traffic as a key issue as it has been proven after the launch of Duos and Trios (sep05).
We are confident about our future revenue and return growth prospects

**Customer perception improvement**
- Telefonica has been valued by the Spanish Consumers Association as the fixed telco operator with the best quality/price ratio*

**Strong P/S innovation**
- Our positioning in broadband stresses service value, not only speed
- In households:
  - We are spearhead in video on-demand and many other interactive TV services
  - Flat-fee high-quality services embedded in bundles (Duo, Trio and fixed-mobile) have deactivated VoIP threat
- In businesses we have designed a broad new range of business solutions (e.g. design of new national ID)

**Efficient and flexible cost base**

<table>
<thead>
<tr>
<th>Personnel costs/Operating costs**</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>38.0%</td>
</tr>
<tr>
<td>2003***</td>
<td>33.3%</td>
</tr>
<tr>
<td>2004</td>
<td>31.7%</td>
</tr>
<tr>
<td>2005</td>
<td></td>
</tr>
</tbody>
</table>

Lines/Employee****
- 515
- 566
- 624

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* According to a study released in January 2006 by Unión de Consumidores Españoles
** Excluding ERE provisions
*** Prior to IFRS adoption
**** Parent Company.
Content

01 During 2005 we continued to deliver top results while strengthening capabilities for future sustainability

02 **Going forward we will leverage our competitive advantages to grow even further**

- Positive socioeconomic landscape
  - Sustainable growth based on a distinctive offering
  - Higher efficiency levels
  - Thoughtful investments to support future growth

03 As a result, we commit to ambitious financial and operational targets
The Spanish positive socioeconomic outlook will support telecom sector growth
Spain figures, 2005-2009

+ 2M new households

+ 0.8M increase in occupied second homes

+ 2M increase in population

+ 3.6p.p. GDP per capita gap reduction with EU average (from 91.0% to 94.6%)

+ 10% growth in telecom and media expenditure per capita

More potential customers

More potential ARPU

Source: Global Insight World Market Monitor, Yankee Group, Pyramid Research, IDC, PwC
And a solid, upward evolution of our key market indicators can be forecasted

**Expected Basic access trend**
Million users

- 2005: 18.9
- 2006: 19.0-19.1
- 2007: 19.3
- 2008: 19.8

**Expected Internet Broadband access trend**
Million users

- 2005: 5.0
- 2006: 6.6-6.9
- 2007: 10.5
- 2008: 11.5

**Expected pay TV market trend**
Million users

- 2005: 3.4
- 2006: 3.8-4.1
- 2007: 5.5
- 2008: 6.5

*Includes DSL and Cable accesses

Source: Telefónica de España analysis

Broadband adoption and services offered over a broadband connection will still be the key growth driver for the future.
Regulatory framework will be in line with EU guidelines

- **Retail regulations**
  - End of price regulation except for accesses (CPI–x, +2% in 2007)
  - Bundle authorisation will be based on replicability and the existence of related wholesale services in all cases

- **Wholesale regulations**
  - Need to offer wholesale services (bitstream, ATM, IP) that allow replication of all broadband and voice offers
  - Voice traffic interconnection price asymmetry

- **Universal service**
  - New universal service regulation starting January 2008
  - New services will not be affected by universal service rules (e.g. Broadband)
Content

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03 As a result, we commit to ambitious financial and operational targets
02 We will maintain solid revenue growth for the following years
Revenues. EUR billion

<table>
<thead>
<tr>
<th>Category</th>
<th>2005</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data &amp; IT</td>
<td>11.2</td>
<td>11.5-12.2</td>
</tr>
<tr>
<td>Internet &amp; broadband</td>
<td>12%</td>
<td>~15%</td>
</tr>
<tr>
<td>Voice</td>
<td>17%</td>
<td>~30%</td>
</tr>
<tr>
<td>Voice</td>
<td>46%</td>
<td>~35%</td>
</tr>
<tr>
<td>Voice</td>
<td>25%</td>
<td>~20%</td>
</tr>
</tbody>
</table>

Note: TdE Parent Company (excluding Terra, Telyco, TTP and other affiliates)
02 We will achieve this solid revenue through bundling and integrated solutions

Three main trends

- Demand for customized solutions
- Communications
- Multimedia/Multiservice solutions
- Information
- Entertainment
- IT
- Multidevice solutions

Three focused visions to deliver value to customers

- Digital Home
  - Broadband Internet access
  - Imagenio
  - Duos, Trios
  - ...
- Digital Business
  - Integrated Desktop
  - Services & applications
  - ...
- Digital Corp.
  - Tailor-made ICT solutions
  - ...

Our growth strategy

- Customers
- ARPU
  - Average revenue per customer*: EUR/month
  - 2005: 61
  - 2009: >70

* Retail revenues / number of customers
In households, we are offering bundles and solutions for all our customer segments, increasing overall ARPU.

### Household customers

<table>
<thead>
<tr>
<th>Description</th>
<th>Million of subs</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advanced digital households</strong></td>
<td>10.2</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>9.3 – 9.8</td>
<td>2009</td>
</tr>
<tr>
<td><strong>Connected digital households</strong></td>
<td>~2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>~22%</td>
<td></td>
</tr>
<tr>
<td><strong>Basic households</strong></td>
<td>~23%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>~55%</td>
<td></td>
</tr>
</tbody>
</table>

### Average revenue per household customer

<table>
<thead>
<tr>
<th>Description</th>
<th>EUR/month</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advanced</strong>: Voice + Broadband</td>
<td>&gt;36</td>
</tr>
<tr>
<td>+ Digital home services (Imagenio /InternetTV, videocommunications, security, health,...)</td>
<td></td>
</tr>
<tr>
<td><strong>Connected</strong>: Voice + Medium Speed Broadband Internet</td>
<td></td>
</tr>
<tr>
<td><strong>Basic</strong>: Voice</td>
<td>32</td>
</tr>
</tbody>
</table>

The increase in ARPU will be achieved, despite foreseeable price reduction, with the migration of customers to higher value segments.

* Residential retail revenues / number of residential customers

Telefónica de España, S.A.
Our digital household customers are already enjoying new solutions: Duo, Trio and Imagenio are the first steps to the Digital Home Concept.

Our customers will keep on adopting bundles in the future.

**DÚO**
Million of subscribers*

**TRÍO**
Million of subscribers*

3.9-4.2

2005

2009

Our Imagenio–based entertainment offering is the first step of our digital household offering.

**Imagenio**
Million of pay TV subscribers**

1.2-1.4

2005

2009

* Only households

** Includes SOHO and SME subscribers
We are already working in Digital Home market development

*Trio TV spot*
02 We are working on offering our Digital Home customers an increasing array of services and solutions

- The Digital Home strategy is the result of the integration of three building blocks:
  - Broadband access
  - Multiple devices connected through a domestic area network
  - Services and applications

- In this context we can further segment in:
  - Connected Digital Homes (medium speed Internet connection)
  - Advanced Digital Homes. Multiple application and services on top of multiple devices/electronic equipment: TV, security content management, domotics.

1 A high-capacity broadband access

2 Multiple devices connected through a domestic area network

3 Services and applications
**In the short term we have an ambitious P/S roadmap for digital households**

<table>
<thead>
<tr>
<th>Broadband Access</th>
<th>High-speed connectivity as a basis for Advanced and Connected Digital Homes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Area Network with multiple devices</td>
<td>TV videoconference with 3G interworking</td>
</tr>
<tr>
<td></td>
<td>Domotics: Integrated home devices and remote management</td>
</tr>
<tr>
<td></td>
<td>Seamless Fixed and mobile services</td>
</tr>
<tr>
<td>Services and Applications</td>
<td>Personal TV: HDTV, Shift TV, DVR, flexible content selection.</td>
</tr>
<tr>
<td></td>
<td>Internet multimedia (Pixbox)</td>
</tr>
<tr>
<td></td>
<td>Connectivity Bundled with VAS: Home content management</td>
</tr>
<tr>
<td></td>
<td>Family management (education, security and health)</td>
</tr>
</tbody>
</table>
The integration of Terra will allow us to strengthen our leadership in the digital household market.

Most visited Internet brands
(thousands of unique residential visitors, march 2006)

According to Nielssen/Netratings, Terra is the fourth most visited Internet brand in Spain.

- Leveraging Terra’s online technology
- Enhancing the content offering
- Increasing monetization through advertising

As an example, our first product launch after the integration is PixBox.
Our aspirations are:

- To be leaders in the development of fixed-mobile broadband services
- To evolve from a separated product offering towards fixed-mobile solutions

**Already in the market**

- SMS to fixed wireline
- 3P with F-M calls
- Hotspot/GSM interworking
- Loyalty program
- Video Services from/to fixed/wireless
- Wireless Internet anywhere

**Short term solutions**

- 3G access to Imagenio TV guide: Imagenio Movil
- Imagenio/wireless video call: Imagenio Movil
- Voice Solutions for groups (Family and SME)

**Other future initiatives**

- GSM/home phone interworking dual solutions
- Domotics & home control via handset
- Instant Multimedia voice and text messaging
And we also have a bundle & solutions strategy for our Basic Households

Households subscribers
Million subs

- Innovative product offering (e.g. bundling access and voice) and pricing schemes (e.g. flat voice rates)
- Customized solutions developed for segments with special needs:
  - Immigrants
  - Euroresidents
  - 2nd residences
  - Young families

We are also creating value for our basic customers:

- Basic Households (84%)
- Basic Households (~55%)

2005  2009
10.2  9.3 - 9.8
Specifically, the revenue threat of VoIP in Spain is limited

<table>
<thead>
<tr>
<th>Voice customers</th>
<th>Broadband customers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Households</strong></td>
<td></td>
</tr>
<tr>
<td>Due mainly to the existence of <strong>capacity interconnection fees</strong> in Spain, there is <strong>no substantial improvement on economics</strong> that would allow more aggressive pricing to ULL competitors</td>
<td>The <strong>double play offers</strong> outperform VoIP value proposition</td>
</tr>
<tr>
<td><strong>SoHos &amp; SMEs</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Large companies</strong></td>
<td></td>
</tr>
<tr>
<td>We are offering <strong>tailor-made ICT solutions which are including VoIP</strong> according to our customers needs</td>
<td>Our <strong>integrated desktop offer</strong> provides a better value to our customers, bundling voice and other VAS</td>
</tr>
</tbody>
</table>

**VoIP will base its development in Spain on a ‘more service’ basis instead on a ‘lower price for voice service’ basis**
For SoHos and SMEs we are also targeting our specific customer needs

SoHos & SMEs customers

<table>
<thead>
<tr>
<th>Million subs</th>
<th>2005</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technological &amp; Advanced</td>
<td>1.8</td>
<td>1.7 - 1.9</td>
</tr>
<tr>
<td>Proactive &amp; Receptive</td>
<td>63%</td>
<td>31%</td>
</tr>
<tr>
<td>Basic &amp; Starters</td>
<td>6%</td>
<td>~40%</td>
</tr>
</tbody>
</table>

Description

- **Technological & Advanced**
  - Their day-to-day business is technology-dependant; Early new technology adopters

- **Proactive & Receptive**
  - Technology can facilitate their day-to-day business but is not critical to them; they are slow adopters
  - Their day-to-day business is not dependant on technology; they are slow in the adoption of new technologies

Average revenue per SoHo & SME customer*

<table>
<thead>
<tr>
<th>EUR/month</th>
<th>2005</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>63%</td>
<td>126</td>
<td>&gt;145</td>
</tr>
</tbody>
</table>

We are planning to increase the ARPU by shifting our customer base from basic customers to more advanced customers with higher ARPU

* SoHos and SMEs retail revenues / number of SoHo and SME customers
SMEs and SoHos also increasingly demand integrated solutions

Number of integrated desktops*

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Desktops</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>3</td>
</tr>
<tr>
<td>2009</td>
<td>~0%</td>
</tr>
</tbody>
</table>

2009: ~25%

* IT and integrated desktops

Telefónica de España, S.A.
We are already working in Digital Business market development
*Respuesta empresarios TV spot*
02 In the short term we have an ambitious P/S roadmap for small businesses

Business roadmap 2006-2007

Integrated Desktops (service + maintenance)

Voice: Click2Call
Data: Remote desktop control
LAN/Switchboard

Network Services

VPN
VoIP (centrex IP)

VAS

Network managed services
Horizontal ASP (web presence, firewall, PC back-up)
Vertical ASP (CRM applications, video security systems)

Customers build for themselves personalised services and pay a monthly fee for it: All included
We expect substantial revenue growth from contracts with large corporations

Revenue growth from large corporate contracts (EUR billion)

- 2005: 1.9
- 2009: >2.1

We intend to achieve this revenue growth providing our current customers with additional, tailor-made ITC solutions.
Telefonica is in the best position to provide ITC tailor-made solutions …

- IT competitors cannot easily replicate Telefonica’s **assets and know-how** in Communications

- We have the largest **sales force** in Spain, accounting for 400 account managers trained for consultative sales and 650 pre sales engineers

- … while it additionally develops **strategic partnerships** with relevant specialist players in adjacent industries...

- … creating a new world of **Sector Networking Solutions** that, while customizable, can be **replicated** for different companies in the same sector, allowing for interworking between them

We will leverage our strong foothold in Communications to respond to the arising demand of integrated ITC solutions by large corporations
02 Our new approach is already delivering real solutions

A new approach: ITC Solutions Provider for the Digital Corp. … delivering specific solutions

<table>
<thead>
<tr>
<th>Sector Networking Solutions</th>
<th>ITC Solutions</th>
<th>Integrated management and security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry, Distribution &amp; Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecom</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Allowing a first tier financial institution to provide **electronic billing services** to its customers
- Video-on-demand, **integrated with management system** for a large hotel chain
- zSeries based **BRS Solution**, including communications, platform delivery, storage & management for a medium size financial institution
- **Trial recording and storage** Solutions for the public sector
- Upgrade to **new MacroLAN**, full IP, high-availability multimedia network for a large retail chain
- Provision of **new e-DNI** Infrastructure for the public sector
In the short term we have an ambitious P/S roadmap to advance in the ITC world

<table>
<thead>
<tr>
<th>ITC roadmap 2006-2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Next generation corporate voice communications</strong></td>
</tr>
</tbody>
</table>
| **Corporate broadband** | New symmetric DSL accesses  
Customized, corporate quality SLAs |
| **Customized ITC management services** | Client-premises fully customized Service Management Centers (CSP) |
| **End-to-end desktop outsourcing solution** | Customized solutions (collaborative tools, security, ID, equipment, support, ...)  
Pay per worker/profile on a flat-rate basis |
| **Industry-focused solutions network** | Industry ITC solutions on a pay-per-use basis (Medical Prescriptions Management, Online Insurance Claim Valuation, e-Government, Clearing House Processes...) |
02 We enter a transformational period to become the ITC solutions provider leader

- IT solutions revenues as % of our revenues from large corporations (%)
  - 2005: 17%
  - 2009: >25%

- Revenues from multi-year contracts as % of our revenues from large corporations (%)
  - 2005: 30%
  - 2009: ~50%

- Differential offering, wrapping together Communications & IT wherever …:
  - … our communications business gives us a cost edge over competitors
  - … communications leverage the value of the solution
  - … the solution is a natural extension of our traditional business

- Building long-term, confidence driven relationships to ensure sustainable revenue
- Helping clients grow, focusing in their core business while ensuring technological evolution
Content

01 During 2005 we continued to deliver top results while strengthening capabilities for future sustainability

02 Going forward we will leverage our competitive advantages to grow even further

- Positive socioeconomic landscape
- Sustainable growth based on a distinctive offering
- Higher efficiency levels
- Thoughtful investments to support future growth

03 As a result, we commit to ambitious financial and operational targets
We are completing the execution of our current workforce reduction program

Number of employees, TdE Group*

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Former perimeter</td>
<td>40,659</td>
<td>7,717</td>
<td>32,942</td>
<td>1,778</td>
<td>31,164</td>
<td>~4,900</td>
<td>~26,300</td>
</tr>
</tbody>
</table>

* Includes all TdE companies (TData España, Terra España, T Soluciones, TSS and TdE). Does not include TdE Group subsidiaries: TTP, Telyco and T-Cable

- The program will affect ~15,200 employees
- ~75% of the redundancy program already achieved
- ~1,250 people joined the program ytd
- ~4,000 people left to complete the program
We are designing a more efficient operating model to maintain our solid cost base in the future.

**Estimated operating cash flow yearly impact (€ Million)**

- **2006**
  - Integration of Infrastructure & Operations field activities
  - Back-Office and support areas process optimization
  - Outsourcing optimization (especially IT)
  - TData + Terra Redundancy Programs
  - Network synergies (TData + TdE)
  - Commercial access costs synergies (Terra + TdE)
  - Infrastructure costs: Provisioning, maintenance...

- **2009**
  - Integration of Infrastructure & Operations field activities
  - Back-Office and support areas process optimization
  - Outsourcing optimization (especially IT)
  - TData + Terra Redundancy Programs
  - Network synergies (TData + TdE)
  - Commercial access costs synergies (Terra + TdE)
  - Infrastructure costs: Provisioning, maintenance...

**Additional Levers**

- **Distrito C**
  - Organizational efficiency
  - Advanced workplace conception

- **Moviles España**
  - Sales channels
  - Network, IT and operation synergies
These efforts will help us move towards a more flexible and competitive cost structure.

- Total operating costs evolution fully aligned with revenue growth
- More intense and variable third party collaboration model
Content

01 During 2005 we continued to deliver top results while strengthening capabilities for future sustainability

02 Going forward we will leverage our competitive advantages to grow even further

- Positive socioeconomic landscape
- Sustainable growth based on a distinctive offering
- Higher efficiency levels
- Thoughtful investments to support future growth

03 As a result, we commit to ambitious financial and operational targets
Our total investment will amount to € 6.0-6.5 billion for the 2006-2009 period

EUR Billion

- Includes all direct client-driven investments, such as:
  - Customer premises equipment
  - Provisioning & customer care
  - Wholesale services
  - Tailor-made customer projects
  - Etc …

- Includes:
  - Access network transformation
  - NGN
    - Backbone transformation
    - New Service platforms

- 2006-2009 CapEx
  - Commercial & Customer-driven investments ~45%
  - Network and service platforms ~35%
  - IT Systems ~10%
  - Other ~10%
Access network transformation will be achieved with a thoughtful investment approach.

Deployment criteria:

- We are making local loops shorter in order to provide higher speeds.
- Deployment will take into account:
  - The best technical solution is chosen on a case by case basis (ADSL2+/VDSL2, Copper/FTTx)
  - The solution can easily scale in the future
  - Deployment is prioritized according to micro-area value

- Total investment will amount to ~800* million EUR for the 2006-2009 period

Our goal is to create a more flexible and higher capacity network.

Coverage of hi-capacity local loops
% of TdE local loops

<table>
<thead>
<tr>
<th>Year</th>
<th>Basic BB: Entry level</th>
<th>Standard BB: Supports services that require &gt;10 Mbps</th>
<th>Premium BB: Supports services that require &gt;25 Mbps</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>89%</td>
<td>&gt;70%</td>
<td>49%</td>
</tr>
<tr>
<td>2009</td>
<td>&gt;90%</td>
<td>&gt;40%</td>
<td>49%</td>
</tr>
</tbody>
</table>

* Includes street cabinets, fiber, transmission equipment, full equipped nodes except cards, ... Does not include VDSL deployment.

Telefónica de España, S.A.
We are sharing with Moviles España the development of a next generation network (NGN).

- Future migration to an all-IP backbone...
- ...shared by both TdE and Moviles

Service platforms (IMS):
- Service platform already in place able to provide advanced broadband IP services:
  - VoIP
  - Centrex/IP
  - Videotelephony
- Currently collaborating with Moviles to develop a convergent shared IMS platform

- 45 projects in place for NGN with more than 200 people involved from both TdE and Moviles
- Lab test results expected at year-end
- Real-life pilot scheduled for end 2007
Content

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03 This strategy will allow us to achieve our main 2009 access goals

<table>
<thead>
<tr>
<th>Category</th>
<th>2005</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail broadband Internet accesses (million)</td>
<td>2.7</td>
<td>5.6 – 6.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Advanced Digital Homes* (million)</td>
<td>0.2</td>
<td>2.0 – 2.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Duo and Trio customers** (million)</td>
<td>1.1</td>
<td>5.5 – 6.0</td>
<td>4.4</td>
</tr>
</tbody>
</table>

<2% reduction on a yearly basis, reaching ~40% of accesses with bundled voice or broadband in 2009

* More than 50% will be pay TV subscribers
** Includes Residential, SOHO and SME subscribers
Our priority is to increase broadband penetration and defend our broadband market share

Broadband Accesses, millions

Telefonica retail BB market share

Achieve 5.6-6.1 million broadband retail accesses by 2009
### Telefonica de España financial commitments

<table>
<thead>
<tr>
<th></th>
<th>€ in Millions</th>
<th>FY 2005 *</th>
<th>CAGR 2005-09E **</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>11,755</td>
<td></td>
<td>0.5 - 2%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>4,765</td>
<td></td>
<td>3 - 6%</td>
</tr>
<tr>
<td>before D&amp;A***</td>
<td>2,627</td>
<td></td>
<td>9-14%</td>
</tr>
<tr>
<td>Operating Income***</td>
<td>1,401</td>
<td></td>
<td>6,000 – 6,500</td>
</tr>
<tr>
<td>CAPEX</td>
<td></td>
<td></td>
<td>(Cumulative CAPEX 2006-2009)</td>
</tr>
</tbody>
</table>

* TdE numbers are pro-forma, including Terra’s Spanish unit since January 2005  
** CAGR 2005-2009E guidance excludes changes in consolidation  
*** 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.
Summary

- Strong financial results and solid position and strength to keep on competing in the future taking advantage of a positive socioeconomic environment
- Three-pillar strategy equally focused on growth and cash returns:
  
  1. **Top-line growth.** Based on **Integrated solutions** for each of our customer segments:
     - Our **Digital Home** offer will cover all communication, entertainment and information needs for Households
     - The **Digital Business** concept will provide increasingly customized IT and communication solutions on a per-user monthly fee
     - For large companies we will strengthen our position as an **ITC solutions** provider, offering fully customized ITC solutions for each individual customer

  2. End of our current workforce reduction plan and continue working towards reducing costs while **increasing** both our **efficiency** and **effectiveness** as well as our overall **quality** levels.

  3. Thoughtful investments to **upgrade our network** for the kind of advanced services that we are developing

- As a result, we expect to keep delivering solid top-line growth (0.5-2%) and Operating Income (9-14%)