A new world of Broadband Solutions

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Telefónica de España

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01  Strong delivery and sound fundamentals

02  Good positioning for the future

03  Two pillars of our strategy looking forward
    - Develop client-specific communication, information and entertainment Broadband Solutions
    - Deepen our transformation into a more commercially oriented and operationally excellent company

04  Commitments to continue delivering very strong results
Index

01 Strong delivery and sound fundamentals

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04 Commitments to continue delivering very strong results
Anticipation and transformation have driven dramatic changes in our company...

We are a more BB company

<table>
<thead>
<tr>
<th>Year</th>
<th>#ADSL (thousands)</th>
<th>BB VAS (thousands)</th>
<th>ADSL coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>2001</td>
<td>376</td>
<td>0</td>
<td>82%</td>
</tr>
<tr>
<td>2002</td>
<td>957</td>
<td>108</td>
<td>90%</td>
</tr>
<tr>
<td>2003</td>
<td>1,660</td>
<td>418</td>
<td>93%</td>
</tr>
<tr>
<td>2004</td>
<td>2,490</td>
<td>1,187</td>
<td>95%</td>
</tr>
</tbody>
</table>

We are a leaner, more efficient and stronger commercial company

<table>
<thead>
<tr>
<th>Year</th>
<th>#employees</th>
<th>% commercial employees</th>
<th>EBITDA margin</th>
<th>CAPEX/revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>58,127</td>
<td>22%</td>
<td>52%</td>
<td>22.6%</td>
</tr>
<tr>
<td>2001</td>
<td>40,856</td>
<td>27%</td>
<td>44%</td>
<td>18.9%</td>
</tr>
<tr>
<td>2002</td>
<td>40,659</td>
<td>28%</td>
<td>44%</td>
<td>17.3%</td>
</tr>
<tr>
<td>2003</td>
<td>35,216</td>
<td>29%</td>
<td>46%</td>
<td>14.3%</td>
</tr>
<tr>
<td>2004</td>
<td>32,942</td>
<td>30%</td>
<td>48%</td>
<td>11.4%</td>
</tr>
</tbody>
</table>
...allowing us to achieve all the financial commitments announced in Madrid ...

**EBIT = EBITDA – depreciation and amortization**

**FCF = EBITDA – CAPEX - redundancy payments**

**Commitment CAGR 02-06**
- Revenue growth
  - 0.5-2.5%
  - 0.7%

**CAGR 02-04**
- Revenue growth
  - 21%
  - 14%

- EBITDA growth
  - 1%-4%
  - 3.8%

- CAPEX reduction
  - 8%-11%
  - -5%-7%
  - -18.5%

- CAPEX / revenues
  - <12%
  - 11.4%

- FCF** growth
  - 8%-11%
  - 26.6%

Note: Parent Company TdE, integrating T-Empresas
...and strengthen our sound operational fundamentals

...containing the lines decrease...

Access lines net losses* (Thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses</td>
<td>-493</td>
<td>-334</td>
<td>-186</td>
</tr>
</tbody>
</table>

-493 | -39%

- Differentiated offering:
  - Holidays line
  - Immigrant line
  - Pre-pay line
- Free connection fee promotions

...boosting the number of DSL lines...

(Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wholesale</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1.0</td>
<td>0.4</td>
</tr>
<tr>
<td>2003</td>
<td>1.7</td>
<td>1.1</td>
</tr>
<tr>
<td>2004</td>
<td>0.9</td>
<td>1.6</td>
</tr>
</tbody>
</table>

- New pricing schemes
- Upgrade (x2) for the same price
- New channels of distribution

...fighting voice traffic erosion...

(% growth y-o-y)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>-4%</td>
<td>-10%</td>
<td>-11%</td>
</tr>
</tbody>
</table>

- New traffic packages
- Access + traffic modules
- Communication VAS (Caller ID, voice mail, SMS)
- New terminals with more features (e.g. SIM card reader, video telephone)

...increasing retail ADSL ARPU

(Euro/month)

<table>
<thead>
<tr>
<th>Year</th>
<th>VAS</th>
<th>Connectivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>2.946</td>
<td>44</td>
</tr>
<tr>
<td>2003</td>
<td>3.481</td>
<td>45</td>
</tr>
<tr>
<td>2004</td>
<td>4.501</td>
<td>45</td>
</tr>
</tbody>
</table>

- A more complete VAS offer (#VAS-Dec. 2004)
  - Security (260K)
  - Soluciones ADSL (653K)
  - Mundo ADSL (153K)
  - Maintenance (100K)
- Better commercial performance

*PSTN + Basic Access ISDN
As a consequence, we are delivering in 2004 the best performance in growth and efficiency of the top 5 European incumbents in local markets.

Revenue growth**

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>TdE*</td>
<td>-0.5%</td>
</tr>
<tr>
<td>TI</td>
<td>2.4%</td>
</tr>
<tr>
<td>FT</td>
<td>1.8%</td>
</tr>
<tr>
<td>BT</td>
<td>-1.4%</td>
</tr>
<tr>
<td>DT</td>
<td>-4.8%</td>
</tr>
</tbody>
</table>

EBITDA growth**

<table>
<thead>
<tr>
<th>Company</th>
<th>EBITDA Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>TdE*</td>
<td>6.1%</td>
</tr>
<tr>
<td>TI</td>
<td>2.0%</td>
</tr>
<tr>
<td>FT</td>
<td>4.2%</td>
</tr>
<tr>
<td>BT</td>
<td>-5.8%</td>
</tr>
<tr>
<td>DT</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Operating costs/access***

<table>
<thead>
<tr>
<th>Company</th>
<th>Operating Costs/Access (Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TdE*</td>
<td>265</td>
</tr>
<tr>
<td>TI</td>
<td>305</td>
</tr>
<tr>
<td>FT</td>
<td>350</td>
</tr>
<tr>
<td>BT</td>
<td>519</td>
</tr>
<tr>
<td>DT</td>
<td>283</td>
</tr>
</tbody>
</table>

*TdE Group  
**2003-04  
***Including PSTN + ISDN B.A. + ADSL 2004  
Source: Infocom, internal estimates
Index

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Regarding the future, we foresee increasing demand, mainly driven by broadband adoption...

**Fixed access**
- Access will increase due to household growth and broadband penetration and will offset mobile substitution and VoIP deployment.

**Voice traffic**
- Traffic will continue its decline due to mobile and e-mail substitution and VoIP deployment, but it will be partially minimized by access increasing and wider use of flat rate traffic packages.

**Broadband**
- Broadband adoption will be generalized, driven by new pricing schemes and new compelling services over a BB connection.

---

*Including only residential BB accesses*
...and a progressive convergence among adjacent businesses driven by new technologies that enable a wide range of opportunities.

**Convergence**
- Audiovisual services
- Telecommunications
- Information technologies
- Consumer electronics

**Technological innovations**

**Devices**
- Multi-access, multi-functional handsets
- Gateways integrating all services

**Access**
- DSL (ADLS2+, VDSL)
- Fiber (FTTN, FTTH)
- Wireless (Bluetooth, WiFi, WiMax)

**Network**
- All-over-IP networks (NGN)

**Services**
- Easy-to-provide services (standard interfaces)
- Advanced video compression

**New services alternatives for wireline operators**
- Enhanced communication services based on data and voice integration into IP network
- Sophisticated value-added information services based on telecom and IT convergence
- More interactive and personalized entertainment services
Our wireline competitors are also trying to take advantage of these opportunities, resulting in an increasing competitive pressure.

**Current situation**
- Consolidation process (from 12 in 1998 to 5 in 2004)
- Regional focus
- Bundled offers (2P, 3P, even 4P including mobile)

**Likely evolution**
- Greater consolidation (2/3?) of cable operators, evolving towards a more nation-wide commercial strategy
- Increase BB coverage through use of DSL over ULL

**Cable operators**
- Aggressive 2P (DSL+Voice) offers launched in 2004 with the objective of capturing market quickly
- Increasing use of ULL

**DSL-based operators**
- Enhanced competitive position through a better quality of service
- Reinforcement of current movements from adjacent businesses (e.g. System Integrators, IT providers)

**Business-focused operators**
- Moving to 3P and 4P offers
- Improving economics but higher risk through a more extended use of ULL and VoIP-based infrastructures

**Difficult business feasibility for operators without scale:**
- Fragmented market (15 major operators)
- Limited market share (largest operator controls 7% of total revenues)
Moreover, we expect regulatory policies to foster the development of infrastructure-based models for telecommunications. Here are some expected changes:

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Expected changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing and commercial flexibility</td>
<td>- Liberalization of tariffs and progressive elimination of existing commercial restrictions once the analyses of the 18 relevant markets is concluded</td>
</tr>
<tr>
<td></td>
<td>- Possibility of geographically adapted value propositions</td>
</tr>
<tr>
<td>Regulation of new services and</td>
<td>- Light regulatory framework for IP-based services (VoIP, IPTV, ..)</td>
</tr>
<tr>
<td>infrastructure</td>
<td>- No regulation of new infrastructures (e.g. fiber)</td>
</tr>
<tr>
<td>Wholesale services</td>
<td>- Focus of wholesale regulation on bottlenecks (local loop) and areas where there is no effective competition</td>
</tr>
<tr>
<td>Universal service</td>
<td>- Extension of our obligation until 2007</td>
</tr>
<tr>
<td></td>
<td>- Likely reduction of universal service obligations (e.g. information services, higher connection fees for high-cost lines)</td>
</tr>
<tr>
<td></td>
<td>- Establishment of financial fund</td>
</tr>
</tbody>
</table>
In this environment, we believe we are in a great position to face the future.

- **Market evolution:** increasing demand for communication services mainly driven by BB growth
- **Technology and industry dynamics:** progressive convergence among adjacent businesses and availability of new technologies
- **Competitive landscape:** intensifying fight to capture the new opportunities by evolving to wider bundles
- **Regulation:** regulatory policies to favor infrastructure-based models

**TdE is ready**

- Strong client base (more than 12 million customers) and higher customer focus
- Complete and compelling offering (Voice, BB, IPTV, VoD, Data&IT Services) to address customer needs putting us ahead of cable and ULL based operators
- Advanced network infrastructure ready for future service demand
- Flexible cost structure, leaner processes, and lightened asset base
- More reasonable regulatory environment with higher liberalization and commercial flexibility

We need to maintain our leadership as the most innovative, reliable and efficient company in the market.
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Our main asset is our strong relationship with 12.5 M clients through 21 M accesses
ARPU per access (euro/month), December 2004

Wireline is increasingly becoming a more access-oriented business and less dependent on traffic

Wholesale relationship

Residential accesses

Business accesses

<table>
<thead>
<tr>
<th>Service Type</th>
<th>No. of accesses* (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice services</td>
<td>~1,000</td>
</tr>
<tr>
<td>Voice + Data services</td>
<td>~9,900</td>
</tr>
<tr>
<td>Voice + Data + IT services</td>
<td>~930</td>
</tr>
<tr>
<td>Voice services</td>
<td>~6</td>
</tr>
<tr>
<td>Voice + Data services</td>
<td>~3,800</td>
</tr>
<tr>
<td>Voice + Data + IT services</td>
<td>~850</td>
</tr>
<tr>
<td></td>
<td>~1,250</td>
</tr>
</tbody>
</table>

*Total accesses calculated as: (1) wholesale + (1) single play + (2) double play + (3) triple play + (1) voice services + (2) voice + data services + (2) voice + data + IT services
Customers demand simpler solutions to cover all their communication, information and entertainment needs...

- **Homes**: Simple and affordable solutions that satisfy all home communication, information, and entertainment needs.

- **SMEs**: Complete, integrated, and flexible communication and IT solutions, from a sole provider under an end-to-end scheme, that allow SMEs to behave like big companies.

- **Large clients**: Very personalized, reliable, cost-effective, and integrated communications and IT solutions, that free large clients to focus on their core businesses.

Our focus is on satisfying customer needs.
and we are taking a further step to evolve our services towards complete and integrated Broadband Solutions
BB Solutions will accelerate migration to more valuable services while protecting our access base.

Access distribution by services, Thousands

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single play</td>
<td>Double play</td>
</tr>
<tr>
<td>Business accesses</td>
<td>~9,900</td>
<td>~930</td>
</tr>
<tr>
<td>Voice serv.</td>
<td>~3,800</td>
<td>~850</td>
</tr>
<tr>
<td>Voice+Data serv.</td>
<td>~10%</td>
<td>~35%</td>
</tr>
<tr>
<td>Voice+Data+IT serv.</td>
<td>~10%</td>
<td>~35%</td>
</tr>
</tbody>
</table>

% clients with BB

Residential accesses

Business accesses
We are building client-specific BB Solutions around access with a wide range of operational and payment options.

From a “parts provider” … to a full range provider of complete, integrated and client-specific Broadband Solutions around access.

- Flat rate
- Options based on:
  - Time
  - Downloading

- Consulting
- Provision and set-up
- Maintenance
- Support
- Management
- Update

- Financing
- Renting
- Per-use
- Outsourcing

- Voice
- Internet
- Data
- Entertainment
- IT
- Business applications

End-user devices

Services

Operations

Payment flexibility

Digital Home

ICT fully managed for Large C.

ICT outsourced for Large C.
Specific BB Solutions for each customer segment

**Homes**

Digital home
“We have all the services you need for communication, information and entertainment in your home”

**SMEs**

**Large clients**
The residential market is a real future opportunity

Over a growing household base...

Household growth in Spain is continuing, with more than 700,000 new houses in 2004

<table>
<thead>
<tr>
<th>Total houses</th>
<th>Main households</th>
<th>Vacation households</th>
<th>Unoccupied</th>
</tr>
</thead>
<tbody>
<tr>
<td>23.0 MM</td>
<td>14.7 MM</td>
<td>3.5 MM</td>
<td>4.8 MM</td>
</tr>
<tr>
<td>10.2 MM</td>
<td>3.3 MM (22%)</td>
<td>2.1 MM (60%)</td>
<td>4.8 MM (100%)</td>
</tr>
</tbody>
</table>

Without fixed line

...we expect the “home revolution”

Spanish households have growth potential

- PC: 49% (53% European average)
- Internet: 28% (39%)
- BB: 12% (12%)
- Pay TV: 24% (44%)

Source: Information Society Report 2004
Our main objective for the residential segment is to develop a highly competitive triple play offering.

1. Capture market potential growth to extend the current 1.2 million BB accesses and 0.5 million BB VAS base that generate a BB ARPU of 39€/month.

2. Be positioned ahead of cable operators by focusing on key competitive factors:
   - Coverage
   - Bandwidth
   - New interactive services
   - Quality of service

3. Anticipate ULL-based operators with a distinctive and competitive triple play offer.
Imagenio is a distinctive and competitive entertainment service for home use.

**Key features**

- **Wide range of channels**
  - 40 TV channels + 15 music channels
  - PPV Spanish football league

- **Full interactivity**
  - Video on Demand (+300 movies, TV series, documentaries, news, music)
  - Enhanced services (e.g., e-commerce)
  - Internet access from the TV set

- **Advanced home gateway**
  - VoIP capability
  - Wi-Fi capability for Internet access
  - Home Plug capability for video transmission within the house
  - Decoder ready for Digital Terrestrial Television

- **Simple installation**
  - Plug and play: easy installation and no additional wiring or antennas required

- **Competitive pricing**
  - Basic fee from 12€
  - Movie (on-demand) from 1€
  - Football match from 5€

**Positioning against competitors**

- Basic fee from 12€
- Movie (on-demand) from 1€
- Football match from 5€
With Imagenio we will be able to provide entertainment to more than 50% of homes by 2008

Top 104 cities with Imagenio coverage in April-05
With Imagenio we will be able to provide entertainment to more than 50% of homes by 2008.

All province capital and major cities (top 138) with Imagenio coverage in July-05.
With Imagenio we will be able to provide entertainment to more than 50% of homes by 2008

Homes with Imagenio coverage
Million households

<table>
<thead>
<tr>
<th>Year</th>
<th>Homes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1.7</td>
</tr>
<tr>
<td>Today</td>
<td>3.5</td>
</tr>
<tr>
<td>2005</td>
<td>4.3</td>
</tr>
<tr>
<td>2008</td>
<td>&gt;7.5</td>
</tr>
</tbody>
</table>

% of homes

- 2004: 12%
- Today: 24%
- 2005: 30%
- 2008: >50%

Additional lever to foster broadband penetration growth (+50% of new adds are only TV)

All province capital and major cities (top 138) with Imagenio coverage in July-05

- Badajoz
- Càceres
- Cérida
- Cáceres
- Ciudad Real
- Córdoba
- Gerona
- Huesca
- Huelva
- Málaga
- Murcia
- Palma
- Pontevedra
- Lugo
- Orense
- Oviedo
- Pontevedra

Additional lever to foster broadband penetration growth (+50% of new adds are only TV)
Therefore, we have completed our portfolio of services and we are developing compelling bundling options.

**Today**

**Voice**
- Flat rates
- Voice VAS (caller ID, voice mail)
- Innovative handsets (SIM card reader, SMS, video telephony)

**BB Internet**
- 512K basic flat rate (39€)
- Time-based tariff (22-29€)
- Download-based tariff (29€)
- BB VAS (Mundo ADSL, antivirus, Canguronet)
- PC+ADSL bundles

**IPTV**
- 40 TV channels
- 15 music channels
- VoD
- E-commerce
- Basic fee: 12-19€

**Evolution**

**New flat rates**
- VoIP
- New VAS (MMS)
- F2M convergent services:
  - Unified voice mail
  - Interoperable video telephony
  - 4-mode handset (GSM, GPRS, UMTS and Wi-Fi)
  - Home control via mobile

**Triple play**
- TV
- BB Internet
- National calls

**From 42 €/month**

**New up-grade**
- New pricing schemes
- New ADSL2+ based services
- New BB VAS
- New attractive PC+ADSL bundles

**Double play**
- TV
- National calls

**From 27 €/month**

**Complete bundling options with more competitive 2P, 3P and 4P offering**

- More channels and contents (x2 VoD capacity)
- Several channels simultaneously
- More interactive services
- TV-based video telephony
Specific BB Solutions for each customer segment

Homes

SMEs

Large clients

Fully managed ICT
“We advise, sell, install, maintain, and manage your communication and IT solutions for a set monthly fee”
The SMEs and SOHOs market represents a great opportunity for those who understand their needs.

In a dynamic environment that shows significant new business creation...

<table>
<thead>
<tr>
<th>#businesses</th>
<th>2004</th>
<th>2005E</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs</td>
<td>49%</td>
<td>50%</td>
</tr>
<tr>
<td>SOHOs</td>
<td>51%</td>
<td>50%</td>
</tr>
</tbody>
</table>

...business segment will be more technology intensive

<table>
<thead>
<tr>
<th>SMEs penetration</th>
<th>Spain</th>
<th>European average</th>
</tr>
</thead>
<tbody>
<tr>
<td>PC</td>
<td>87%</td>
<td>94%</td>
</tr>
<tr>
<td>Internet</td>
<td>76%</td>
<td>94%</td>
</tr>
<tr>
<td>BB</td>
<td>50%</td>
<td>55%</td>
</tr>
<tr>
<td>LAN</td>
<td>58%</td>
<td>61%</td>
</tr>
<tr>
<td>Intranet</td>
<td>23%</td>
<td>48%</td>
</tr>
</tbody>
</table>

“We advise, sell, install, maintain, and manage your communication and IT solutions for a set monthly fee”

Source: Information Society Report 2004, Gaptel, Dirce
On top of BB connectivity, we are building ICT solutions, having already achieved encouraging results...

- 807,000 “Soluciones ADSL”
- ~11€ Solutions ARPU (~83% last year increase) in addition to 51 € of connectivity
- Solutions revenues multiplied by 3 last year

**Current status (March 2005)**

- ~580,000 business applications provided on ASP mode
- ~1,800 surveillance service
- ~90 vertical applications

- ~40,000 IP-VPN remote sites

- ~684,000 DSL lines (52% of penetration)
- ~185,000 safe lines (antivirus, firewall,..)

- ~5,800 PCs
- ~2,000 advanced IP PBXs
- ~445 WiFi zones

**Current offering**

Horizontal business applications
- Surveillance
- Intranet
- Accounting
- E-commerce

Vertical business applications
- Lawyers
- Shoe makers

- Traditional voice services
- VoIP services
- Data services
- VPN services

BB Connectivity
- Network management
- Voice equipment
- Computer equipment
- Access mobility (WiFi)
- LAN management

- ~684,000 DSL lines (52% of penetration)
- ~185,000 safe lines (antivirus, firewall,..)

- ~5,800 PCs
- ~2,000 advanced IP PBXs
- ~445 WiFi zones

Telefónica
...and we will further enhance our offering for fully managed solutions to capture ICT growth opportunities.

- **Applications**: CRM, ERP, Background music, Business contents
- **Services**: F2M convergent services, Unified offers for specific segments, VoIP Services, “Solution ADSL Oficina Integral” – Centrex IP
- **Connectivity**: BB Connectivity, New up-grade, IP-VPN point of sales payment solutions
- **CPE**: Voice equipment, Computer equipment, Access mobility (WIFI), LAN management
- **Number of Solutions**: Thousands
  - 2004: 653
  - 2008: >2,000
- **Services**: Installation, Configuration, Maintenance, Support, Help desk, Payment flexibility

- **25% of clients with fully managed solutions**
With this complete and integrated offering we are leading and shaping this market segment.

**Communication services (voice and data)**
- Voice equipment
- Voice service (traditional and IP)
- Data services
- VPN services

**Fully managed ICT solutions**
- Computer equipment (complete desktop management)
- LAN management
- Applications (ASP mode)

---

**TdE portfolio**

**Competitor’s portfolio**

Competitors are mainly focused on integration of voice and data services leveraging IP technologies.

TdE is the first mover into a complete and fully managed ICT Solution.

With this unique market positioning we will maintain our strong leadership in the SoHo & SMEs market.
Specific BB Solutions for each customer segment

Homes

SMEs

Large clients

ICT outsourced

“We offer customized and end-to-end solutions for all communication and IT needs under an outsourcing model”
Our main objective for large clients is to develop end-to-end outsourcing solutions to cover all their ICT needs.

- Stable number of clients (~2,000)
- Greater need for ICT to support national and international expansion

...and will be more technology intensive.

- Broadband (10M-1G) at all customer sites
- Voice and data integration to the desktop
- VAS focused on productivity enhancement
- Centralized IT infrastructure with quick and reliable access from any site

“...and will be more technology intensive”

Emerging | Growing | Mature
---|---|---
Government (~4%) | Financial Institutions (~15%) | Industry, Retail and Services (~3.7%)

(%)=% ICT expenditure over total costs

- Highest commercial capillarity based on ~400 account managers and specific multi-disciplinary account teams
- High levels of quality service
Our objective is to develop an innovative, complete, and customized offering...

1. Fostering broadband access that enables VoIP migration...
   - Broadband access in all customer sites (DSL+FTTP)
   - Integrated IP-based solution (voice+data VPN+advanced IP VAS) through Ibercom IP

2. ...extending our management to the LAN and desktop...
   - Extend traditional management (voice and data devices) to:
     - Desktop: PC, note-book, printer, mobile handset
     - LAN

3. ...and to hosting, ASP and centralized IT architectures
   - Managed hosting
   - Systems integration
   - Secure data storage
   - Applications on-demand
   - Business Continuity and Disaster Recovery solutions

<table>
<thead>
<tr>
<th>Fiber connections (x 1,000)</th>
<th>#VoIP positions (x 1,000)</th>
<th>#desktop positions managed (x 1,000)</th>
<th>Managed hosting (# of servers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2004</td>
<td>14 2004</td>
<td>55 2004</td>
<td>2,042 2004</td>
</tr>
<tr>
<td>x40</td>
<td>x43</td>
<td>x9</td>
<td>x3</td>
</tr>
<tr>
<td>40</td>
<td>600</td>
<td>~500</td>
<td>~6,000</td>
</tr>
</tbody>
</table>
...building long-term relationships with our customers through an outsourcing model

1. Fostering broadband access that enables VoIP migration...
2. ...extending our management to the LAN and desktop...
3. ...and to hosting, ASP and centralized IT Architectures

Current market references
- JUNTA DE ANDALUCIA: Voice and data outsourcing solution
- LA CAIXA: Communications and desktop outsourcing
- NH HOTELS: Centralized IT model (hosting data center, booking system and ERP)

2008 objective
To ensure sustainable revenues and ARPU we are evolving to end-to-end outsourcing solutions

# customers with outsourcing solutions
- 2004: 87
- 2008E: 350 (x4)

- Distinctive competitive positioning versus other telecom operators
- Defense against entrance by players from adjacent industries (e.g. IT, systems integrators)
Client-specific BB Solutions set the path for our future

**Homes**

“We have all the services you need for communication, information, and entertainment in your home”

**SMEs**

“We advise, sell, install, maintain, and manage your communication and IT solutions for a set monthly fee”

**Large clients**

“We offer customized and end-to-end solutions for all communication and IT needs under an outsourcing model”

Allowing us to continue growing through:
- Ambitious BB goals
- Defense of our traditional business
Our priority is to achieve our three main strategic goals in broadband...

**To increase BB penetration**
- Million BB accesses
  - Cable: 3.4 → 7.5
  - ADSL*: 0.9 → 2.5
- ~2.5

**To defend BB market share**
- Group retail BB market share
  - 2004: 55.5%
  - 2008: >50%

**To manage BB ARPU**
- Euros/month
  - 2004: 50
  - 2008: -4 to -2%

---

*Retail, Wholesale (bit stream) and ULL-based DSL

Achieve more than 4 million of ADSL retail accesses by 2008 (Telefónica Group)
...while defending our traditional business...
leading to our primary objective: to continue growing

- IT services: 2% (2004) → 5-6% (2008E)
- Data services: 9% (2004) → 8-9% (2008E)
- Traditional voice services: 49% (2004) → 32-35% (2008E)

CAGR: 0.5-2.0%
03...leading to our primary objective: to continue growing

<table>
<thead>
<tr>
<th>Services</th>
<th>2004</th>
<th>2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT services</td>
<td>2%</td>
<td>5-6%</td>
</tr>
<tr>
<td>Data services</td>
<td>9%</td>
<td>8-9%</td>
</tr>
<tr>
<td>Broadband services</td>
<td>14%</td>
<td>25-29%</td>
</tr>
<tr>
<td>Traditional voice services</td>
<td>49%</td>
<td>32-35%</td>
</tr>
<tr>
<td>Traditional accesses</td>
<td>26%</td>
<td>25-26%</td>
</tr>
<tr>
<td>Terminals &amp; maintenance</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Interconnection</td>
<td>14%</td>
<td>12-13%</td>
</tr>
<tr>
<td>F2M &amp; international</td>
<td>17%</td>
<td>7-9%</td>
</tr>
<tr>
<td>Domestic LD and local</td>
<td>14%</td>
<td>4-6%</td>
</tr>
</tbody>
</table>

While lowering our dependence on revenues from traditional voice services

- CAGR 0.5-2.0%
- 49% 9% 32-35%
- 26% 25-26%
- 25-29%
- 32-35%
- 4-6%
01 Strong delivery and sound fundamentals

02 Good positioning for the future

03 Two pillars of our strategy looking forward
   - Develop client-specific communication, information and entertainment Broadband Solutions
   - Deepen our transformation into a more commercially oriented and operationally excellent company

04 Commitments to continue delivering very strong results
We need to continue our company transformation efforts

Continuously challenging environment

Opportunity to go deeper into adjacent services
Increasing competitive pressure
Traditional businesses erosion

Implications for TdE

New capabilities are required
Customer satisfaction as a key loyalty lever
Pressure on margins

Deepen our transformation into an operationally excellent and commercially oriented company

Commercial drive

- Build capabilities throughout the commercial areas
- Enhance customer care performance in call centers
- Manage web of commercial channels

Operational excellence

- Quality improvement focused on client satisfaction
- OPEX reduction mainly based on efficiency programs
- CAPEX optimization
To provide BB Solutions we are reinforcing our commercial drive

We are building capabilities throughout the commercial areas…

- Enhanced consulting skills in sales force
- Commercial capabilities building program
- More than 1,000 additional commercial hires by 2008

…and moving our call center to a higher level of performance

- Customer value based model
- Proactive cross-selling
- Integrated care model from sale to complaint resolution

We are developing a web of channels for higher effectiveness

- More than 2,500 point of sales (March 2005)
  - 200 in large retailers (El Corte Inglés, Alcampo)
  - 104 in Telefónica Stores
  - 2,200 in Distributors
- Develop a multichannel strategy focused on increased capillarity and proximity

Channel mix evolution

<table>
<thead>
<tr>
<th>Channel Type</th>
<th>2004</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call centers</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Sales force</td>
<td>22%</td>
<td>29%</td>
</tr>
<tr>
<td>Retail, distributors, and Telefónica stores</td>
<td>15%</td>
<td>27%</td>
</tr>
<tr>
<td>On-line</td>
<td>2%</td>
<td>6%</td>
</tr>
</tbody>
</table>
Operational excellence goes beyond efficiency and productivity improvement

We have launched specific and horizontal programs that address both quality and efficiency:

- Customer care: redesign of client interaction processes/systems
- BB services provisioning: increase effectiveness and efficiency by applying 6-sigma and lean techniques
- Corporate billing: sophistication of billing system as competitive advantage
- Network evolution: opex saving through a higher IP infrastructure
- Additional efficiency programs: 5 specific efficiency programs linked to quality improvements

---

**Quality of service**
- Customer satisfaction (Indexed to 100)
  - 2004: 100
  - 2008E: 100
  - Change: 10-15 pp

**Efficiency**
- Personnel cost*/operating revenues (Percentage)
  - 2004: 19%
  - 2008E: 17%
  - Change: -1/-2 pp

- Operating cost/access** (Euro)
  - 2004: 265
  - 2008E: 230
  - Change: -7/-10%

---

*Do not include cost provision due to workforce reduction program
**PSTN + ISDN B.A. + ADSL
Our main efficiency effort is to continue our redundancy program without more outsourcing.

**Workforce reduction***

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net reduction</td>
<td>40,659</td>
<td>32,942</td>
<td>1,742</td>
<td>31,200</td>
<td>5,200</td>
<td>26,000</td>
</tr>
</tbody>
</table>

- **1,750** people joined the program this year.
- Estimated provision for payments in 2005 to pre-retirees of ~530 M€.
- 65% of the redundancy program already achieved.

*Not including T-Data and T-Soluciones
** 1,700 Parent company and 50 other TdE Group companies
Additionally, we will maintain strong capex control, while accelerating the investment in growth areas...

**Capex mix**

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth and transformation</th>
<th>Recurring</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>61%</td>
<td>39%</td>
</tr>
<tr>
<td>2008E</td>
<td>72%</td>
<td>28%</td>
</tr>
</tbody>
</table>

- **1.5-3.5%**
- **6% to 7%**
- **5% to 6%**

*Capex over revenues*

- **10.8%**
- **<12%**

**Growth mainly due to**
- BB consolidation
- Imagenio deployment
- FTTx growth
- NGN evolution

**Reduce traditional network investment**

*TuE Group Under IFRS*
...and developing an advanced infrastructure that will allow us to build the future around broadband

**Access**
- High capillary BB coverage in basic ADSL (512 K): ~95%
- Emerging IPTV service (6M): ~10%
- Wide FTTx coverage (10/100M): ~60%

**Backbone**
- Core IP network
  - Routing 73% of traffic
  - 99.999% availability
  - Backbone capacity up to 6 million DSL
- Freeze investments in ATM and continuously migrate to Ethernet MPLS
- Migrate progressively traffic to IP overlay network (94% in 2008)

**Service platforms**
- Ready to support a wide range of services:
  - Videotelephony
  - VoIP
  - IPTV and VoD
  - VPN
- Integrate different service platforms into a one NGN based platform
- Leverage IMS capabilities of NGN platform to develop F2M convergent services with TME

---

**From (2004) …**

- Increase bandwidth, keep coverage
- Increase basic IPTV coverage to >50%
- Launch premium IPTV
- Increase significantly the number of accesses with Ethernet technology

**…to (2008)**
Our dual strategy will allow us to differentiate our market positioning in the current price centric competitive arena

- The best customer care process:
  - First call resolution
  - Commitments in time and quality of service provision

- The most innovative offer in the telco market:
  - Residential: 3Play with VoD
  - SMEs: Fully managed ICT solutions
  - Large clients: ICT outsourcing

- The most powerful telco marketing machine:
  - More sophisticated segmentation
  - Higher marketing expenditure

- The leanest and most efficient company:
  - Higher flexibility
  - New ways of working

Develop client specific communication, information and entertainment Broadband Solutions

Deepen our transformation into a more commercially oriented and operationally excellent company
Index

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04 Commitments to continue delivering very strong results
This strategy will allow us to achieve our main 2008 operating KPIs…

Imagenio: x165  >1 M
ICT Solutions: x3  >2 M
Outsourced customers: x4  >350

Retail DSL accesses: x2  >4 M

Access base: maintain  ~17 M
with one ultimate objective: to continue delivering sound results
Telefónica de España Group, Million euros

<table>
<thead>
<tr>
<th></th>
<th>Reported 2004 under IFRS</th>
<th>CAGR 2004-08E*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>11,202.2</td>
<td>0.5-2.0%</td>
</tr>
<tr>
<td>Operating Income before D&amp;A**</td>
<td>4,560.0</td>
<td>3-6%</td>
</tr>
<tr>
<td>Operating Income**</td>
<td>2,192.4</td>
<td>12-16%</td>
</tr>
<tr>
<td>CAPEX/Revenues</td>
<td>10.8%</td>
<td>&lt;12%</td>
</tr>
</tbody>
</table>

* All projections exclude changes in consolidation
** In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2005-2008. These exceptionals amounted to 68.8 MM€ in 2004 and are therefore also excluded, meaning a calculation base for guidance of 4,491.2 MM€ for OIBDA and 2,123.6 MM€ for OI, respectively. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses.