The best combination of growth and returns in the industry

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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**
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
- Ceský Telecom’s full integration is a new opportunity
- Ongoing revenue upside from new businesses
- Additional revenue enhancement from integrated mgmt.
**TdE will maintain solid revenue growth for the following years...**

Revenues. EUR billion

<table>
<thead>
<tr>
<th>Service</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></td>
<td>17%</td>
<td>~30%</td>
</tr>
<tr>
<td>Voice</td>
<td>46%</td>
<td>~35%</td>
</tr>
<tr>
<td>Access</td>
<td>25%</td>
<td>~20%</td>
</tr>
</tbody>
</table>

Note: TdE Parent Company (excluding Terra, Telyco, TTP and other affiliates)
... through bundling and integrated 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
- ...

**Million Subscribers**
- (only households)
- **DÚO** TRÍO
- 1.0
- 3.9-4.2
- 2005
- 2009

**Million of Pay TV Subscribers**
- (includes households, SOHO and SME)
- **imagenio**
- 0.2
- 1.2-1.4
- 2005
- 2009

**Our growth strategy**

**Customers**

**ARPU**

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

* Retail revenues / number of customers
T-Latam is a transformed company uniquely positioned to consolidate growth

"Key themes"

- Sub-segment based value proposition
- F-M joint offers
- Innovation

T-Latam’s competitive advantages

- Regional scale
- Part of an integrated Group
- World-class efficiency
- Diverse/large pool of talent

Grow in revenues while increasing profitability (ROCE) and cash flows

Grow access lines and ARPU through an enhanced offer

Improve efficiency by leveraging scale

Ensure business sustainability

■ Regional operations
■ F-M synergies
■ Talent
■ Public positioning
■ Customer satisfaction

Telefónica S.A.
With an ambitious goal, accelerate growth in all countries

Average annual growth 2005-2009

Percentage

<table>
<thead>
<tr>
<th>Country</th>
<th>DSL accesses growth*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>15-18</td>
</tr>
<tr>
<td>Argentina</td>
<td>34-37</td>
</tr>
<tr>
<td>Chile</td>
<td>29-32</td>
</tr>
<tr>
<td>Peru</td>
<td>13-15</td>
</tr>
<tr>
<td>Colombia</td>
<td>140-150</td>
</tr>
<tr>
<td>Telefónica Latinoamérica</td>
<td>26</td>
</tr>
</tbody>
</table>

* Includes retail and wholesale accesses
TEM has defined a clear strategy for the coming years

- Capture of remaining penetration potential in our markets
- Deeper customer segmentation to enhance customer value
- Stimulation of voice usage
- Innovation in new data services
- Reinforcement of our brand equity
- Leverage of our competitive position

Foster Top Line Growth

Enhance Operational Excellence

- Sustain best in class operating efficiency in Spain
- Continue improving efficiency in Latam
- Leverage Telefónica's unique scale and diversity

Maximizing cash flow generation while continuing to invest in our sound growth platform
Spanish mobile market presents strong growth potential in a tough competitive environment

**Macro economic environment**
- Growing population (CAGR 05/09E: +1%)
- Superior GDP growth (CAGR 05/09E: +3%)

**Competition**
- Further competition from existing players
- Change of control of #3 player
- Entry of MVNOs

**Regulation**
- Cuts in interconnection rates
- Potential regulation of roaming charges (EC)

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**TEM Spain Revenues (€MM)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2009E</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAGR</td>
<td>3%-5%</td>
<td>3%-5%</td>
</tr>
</tbody>
</table>

**Total Market customer revenues**
- CAGR 05-09E: of 7%-9%

- Higher penetration
- Increase of voice ARPU
- Increase of Data ARPU

- Further segmentation
- Churn containment
- Voice initiatives
- Innovative data offer
- Technological leadership
- Collaboration with TdE and O2

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1 Source: Consensus Forecast, April 06
In Latam, TEM is leveraging on know-how in markets with different maturity

**Phases in the wireless market**

- **Expansion**
  - Mexico
  - Peru
  - Uruguay
  - Nicaragua

- **Development**
  - Brazil
  - Argentina
  - Venezuela
  - Colombia
  - Ecuador
  - Panama
  - Guatemala
  - El Salvador

- **Maturity**
  - Chile

**Y-o-y Customer base growth rate**

- Penetration:
  - Mexico: 25%
  - Peru: +52%
  - Uruguay: +6%
  - Nicaragua: 22%

- 2005 Y-o-y Customer base:
  - Mexico: +52%
  - Peru: +6%
  - Uruguay: 22%

- 2005 Y-o-y Service Rev. (ex-forex):
  - Mexico: +48%
  - Peru: +26%
  - Uruguay: 26%

- 2005 OIBDA margin:
  - Mexico: +26%
  - Peru: +22%
  - Uruguay: 36%

**Key growth levers**

- **Capture new clients**
- **Increase ARPU profitably**
- **Improve Profitability**
O2 - Strong operational performance in 2005

- Superior growth in a highly competitive market
- Successful execution of Customer Plan

**UK**

- Grew share of customers and revenues in highly competitive market
- 2.4 m customers added

**Germany**

- Ireland – continued ARPU and MOU growth
- Airwave – over £1 billion of new contracts won in last 12 months
Growth momentum continues at O2

- Maintain **above average growth in UK**
- Superior execution of **Customer Plan**
- Maintain **above average growth in Germany**
- Exploit **DSL opportunity**
- **Grow margin**
- **Capitalize on** wider **TEF Group** size, scale and expertise
Telefónica is well-balanced by business and geographies

**OP. CF***

### By Businesses
- **Mobile**: 40%
- **Fixed**: 60%

### By Geographies
- **Spain**: 67%
- **Rest of Europe**: 3%
- **LatAm**: 30%

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**FY2005**
- **Fixed**: 60%
- **Mobile**: 40%

**2009E**
- **Fixed**: ~39%
- **Mobile**: ~61%
- **Spain**: ~40%
- **Rest of Europe**: ~20%
- **LatAm**: ~40%

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* 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
We have a concrete management agenda to deliver on Shareholder value creation

- Extract additional value from our scale and diversity
- Integrated mgmt. programs across businesses
- Financial discipline well preserved
- Focus on delivering growth and results
The development of our horizontal strategic priorities will allow us to extract the maximum value from our scale and diversity ...

- Corporate functions alignment
- Coordinated management of services
  - Roaming
  - International traffic
- Resource sharing
  - Purchasing and R&D
  - New services development
  - Network and IT infrastructures

- Roadmap for convergent P&S
- Resources sharing
- Sales channels
- Network and IT infrastructures
- Support functions

- New P&S roadmap
- Network and IT evolution
- Resources sharing
- Operating network centers
- Services platforms
- Support functions

Country plans

Business unit plans

Latest acquisitions integration plans
... creating ~EUR 5.3 bn in operating cash flow through the three types of plans

Operating Cash flow (OIBDA-CAPEX) 2006-2009
EUR Billion

<table>
<thead>
<tr>
<th></th>
<th>Business unit plans</th>
<th>Country plans</th>
<th>Latest acquisitions integration plans</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>~ 2.5</td>
<td>~ 1.5</td>
<td>~ 1.3</td>
<td>~ 5.3</td>
<td></td>
</tr>
<tr>
<td>OpEx</td>
<td>51%</td>
<td>24%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These cash flows are included in the guidance provided by each business unit
Telefónica’s Financial discipline is 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

* Excluding TPI sale
... and Growth, to fully flow to investors

A new long term remuneration pack more attractive and competitive

Dividends

- 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.

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

**FY 2005**

- Revenues: €37,313.9
- OIBDA***: €14,785.8
- OI***: €8,092.1
- EPS****: €0.913

**Valencia CAGR 05-09E**

- 10-14%
- 10-14%
- 13-19%

**Valencia Cumulative 06-09E**

- OP. CASH FLOW €Bn
  - > 55
  - 2006-2009E

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