



FIFTH **INVESTOR** CONFERENCE

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

Telefónica

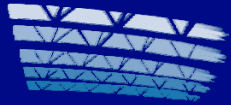
T-Latam: a story of transformation, growth and delivery

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Executive Chairman, Telefónica Latinoamérica



Valencia - May 25, 2006



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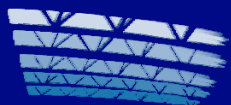
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01 Consistently delivering on our commitments

02 Our management priorities to fully exploit our growth potential

03 A set of ambitious financial and operational targets



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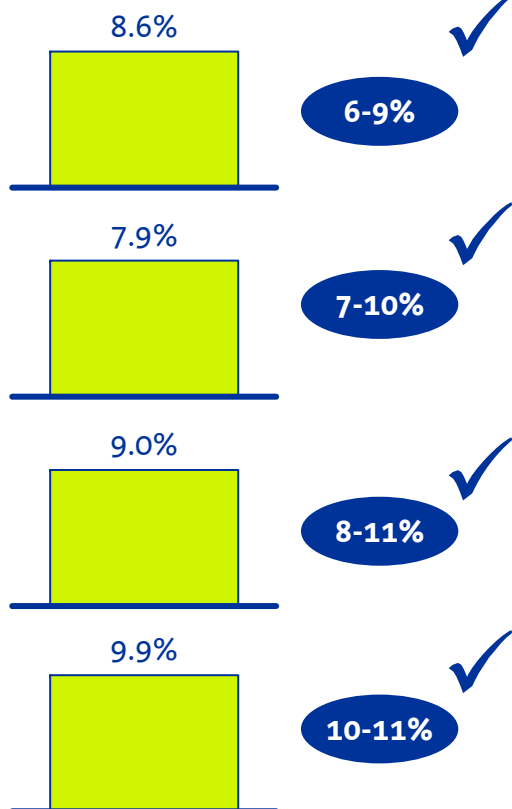
01 T-Latam: consistent delivery on commitments

CAGR in fixed exchange rates

We have met the commitments
made in 2003 ...

Actual⁽¹⁾
2002-05

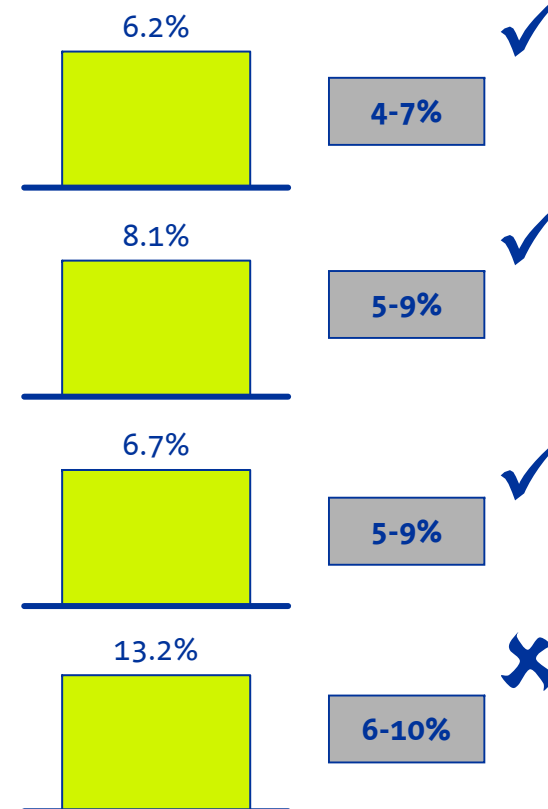
Commitment⁽²⁾
2002-06



... and we are on the right track to
continue doing so

Actual⁽¹⁾
2004-05

Commitment
2004-08



- 1 Aggregated figures for fixed telephony operators, T.Empresas and TIWS
- 2 Aggregated figures for fixed telephony operators
- 3 OIBDA for 2004 and 2005
- 4 Adjusted OIBDA-CAPEX for 2004 and 2005

Note: Excluding Terra Latam

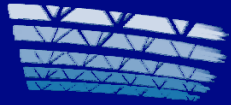
Telefónica Latinoamérica

ROCE increased
by 2.7 p.p. in
2005

01 A year ago we committed to transforming the company and we are making good progress

2005 figures



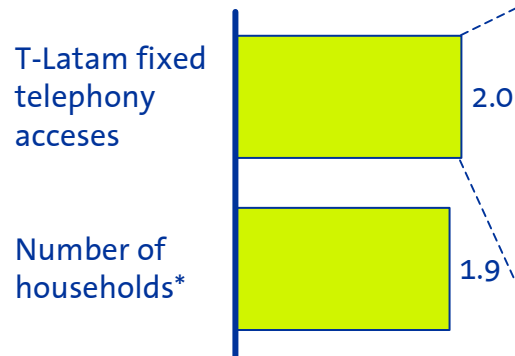


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01 100% customer focus: reinventing the traditional business ...

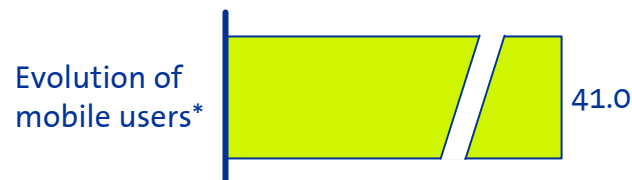
We have captured population growth ...

2003-05 CAGR. Percentage

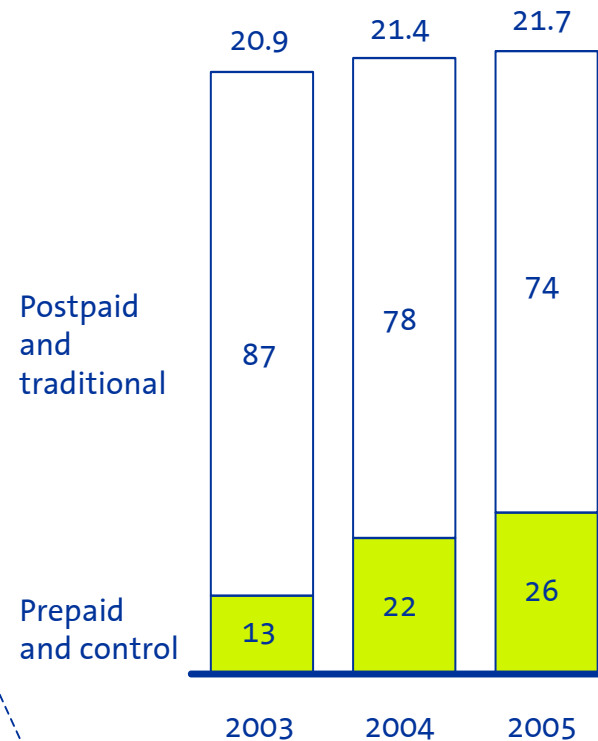


... despite the significant increase in mobile users

2003-05 CAGR. Percentage



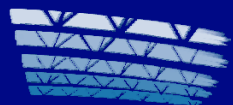
T-Latam fixed telephony accesses mix
Millions. Percentage



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* Includes Sao Paulo, Argentina, Chile and Peru
Source: Yankee, EMC, Anatel, Teleco

Telefónica Latinoamérica

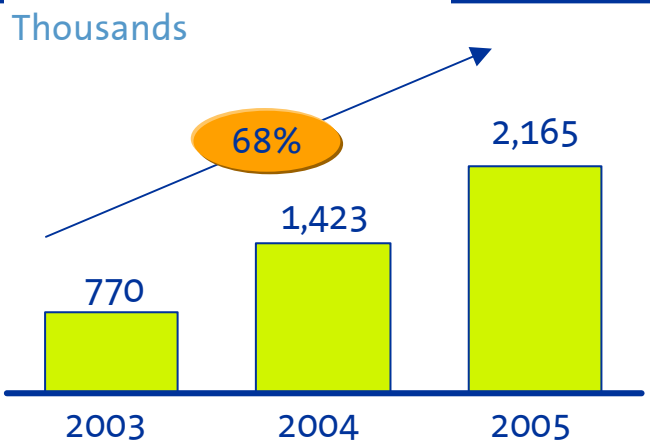


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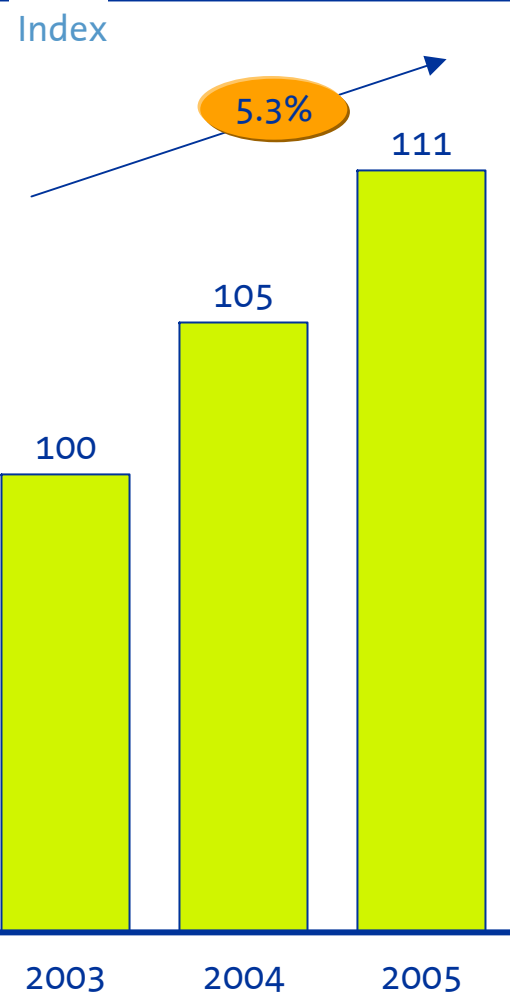
01 ... and driving the broadband market to increase ARPU

% CAGR 2003-05*

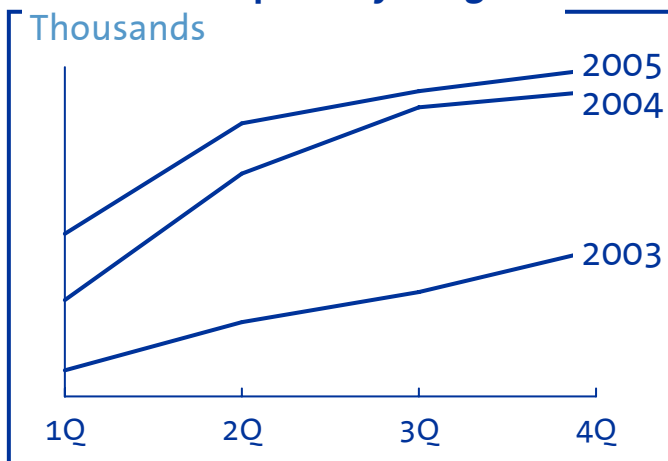
Evolution of DSL accesses**



ARPU



DSL accesses quarterly net gain**



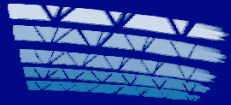
* Fixed exchange rate 2003

** Includes retail and wholesale accesses

Note: Figures excluding Terra Latam



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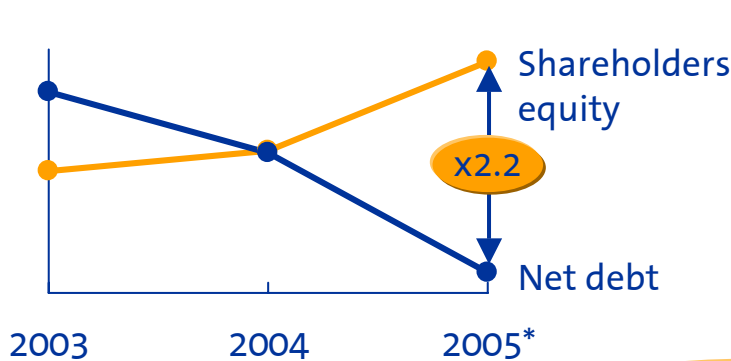


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01 Leaner and flexible: improving our efficiency ...

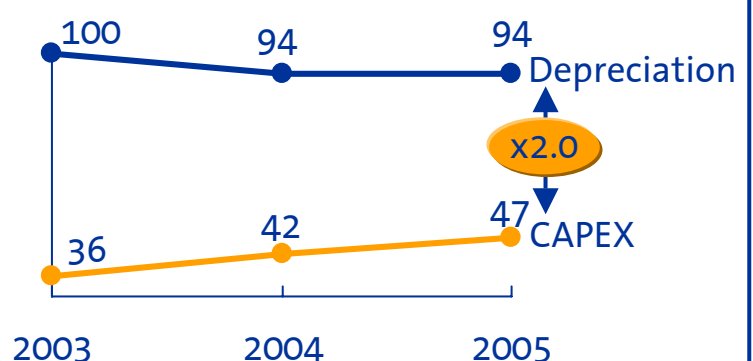
Balance sheet key parameters

Millions of current euros



CAPEX and depreciation evolution**

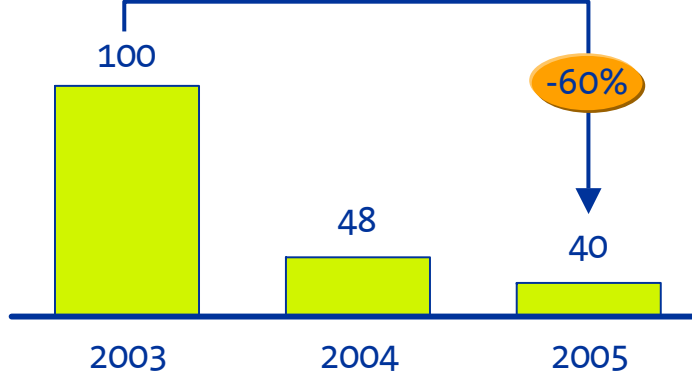
Index



Asset turnover
increased by 14.2 p.p.
since 2003

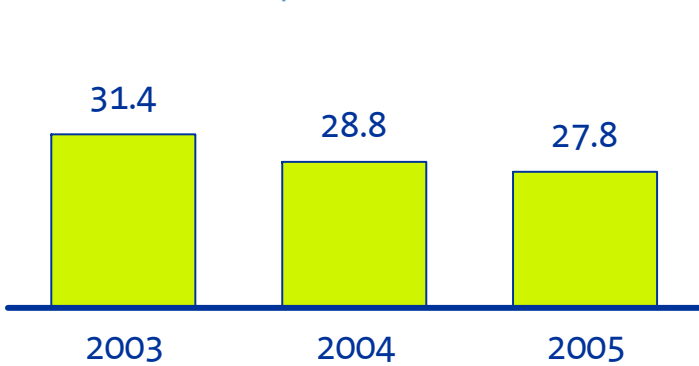
Unitary CAPEX for DSL

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Unitary network cost

Constant euros per line***

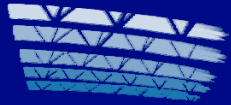


* Includes T.Empresas, TIWS and Terra Latam

** Depreciation 2004 according to IFRS

*** Fixed exchange rate 2004

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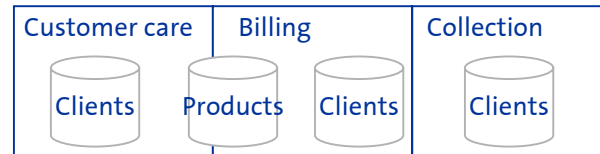
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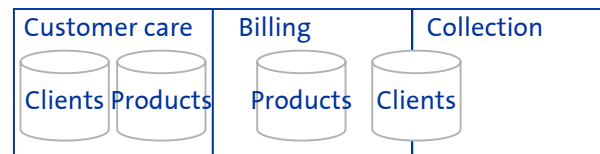
01 ... through regional operational projects

From:
Many local systems with multiple databases...

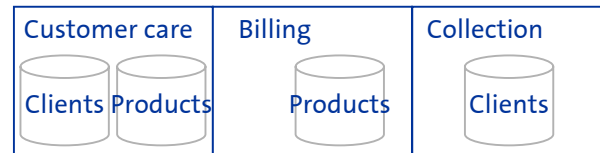
Brazil



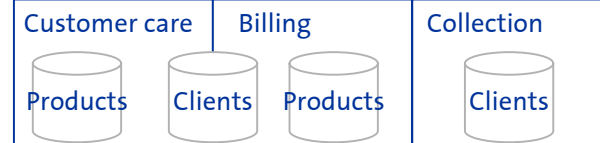
Argentina



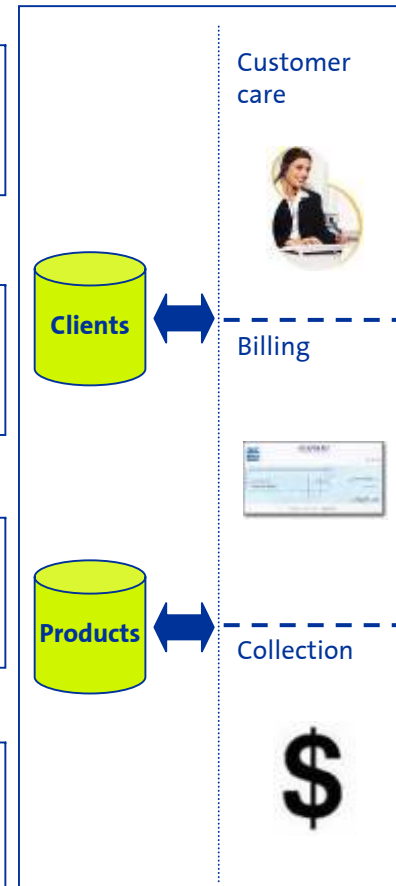
Chile



Peru



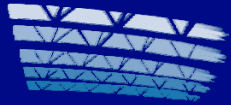
**To: ...a “world class”
regional system and
database (ATIS)**



ATIS' competitive advantage ...

- **Commercial intelligence:** all client and product information in one database
- **Improved time-to-market:** flexibility to sell/bill new products in all countries
- **Process homogenization** and exchange of best practices through the new platform
- **Reduced IT cost** leveraging regional scale

Billing & collection of 100%
of residential clients under new system



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01 Additionally, we have entered Colombia to leverage Telefónica's success model

2005 figures

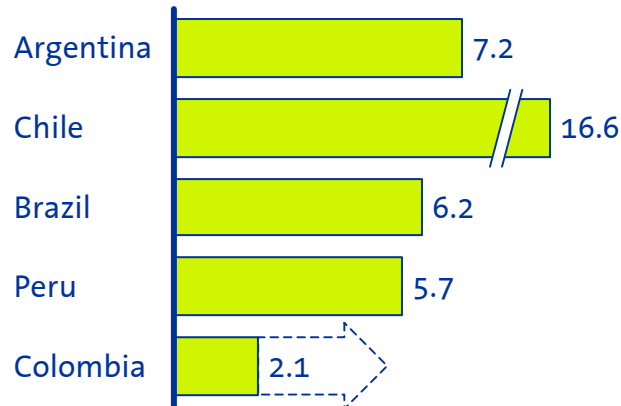
Colombian Telecom: a solid platform for growth ...

■ The market leader ...

- Revenues: EUR 731 millions
- EBITDA margin: 46%
- 2.6 million fixed telephony accesses in services
- National coverage with high capillarity

■ ... in a large market with significant potential

Broadband penetration
Percentage



... with clear levers for value creation

Optimize traditional business

- Develop new products tailored to each client and region
- Develop access network
- Upgrade systems to support commercial efforts



Accelerate broadband

- Enhance coverage
- Install advanced switching technology
- Increase international interconnection capacity



Capture Group synergies

- Capture regional/global best practices and economies of scale
- Leverage fixed-mobile initiatives

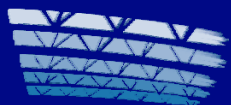


Telefonía

Source: Pyramid

Telefonía Latinoamérica



We have already started
the integration of Colombia
Telecom



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01 Despite strong competition, we have increased our regional leadership

 Growth DSL 2004–05 in thousands
 Colombia Telecom

Market consolidation ...

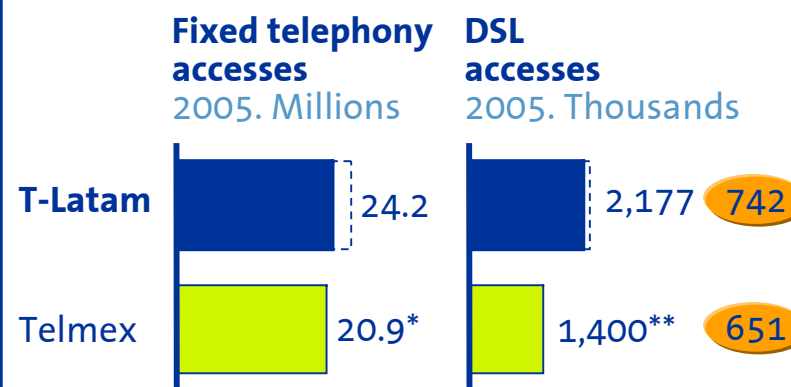
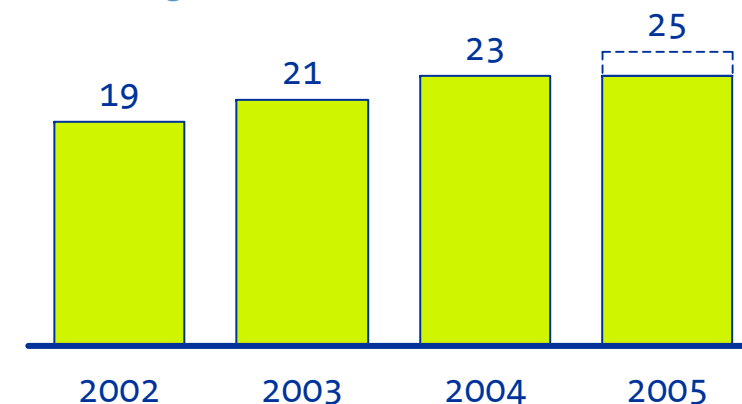


... stronger presence of cable operators through duo/trio packages



T-Latam's leadership

Regional market share in revenues Percentage



* Includes estimated number of 64KB lines

** Includes Net Brazil

Source: Pyramid

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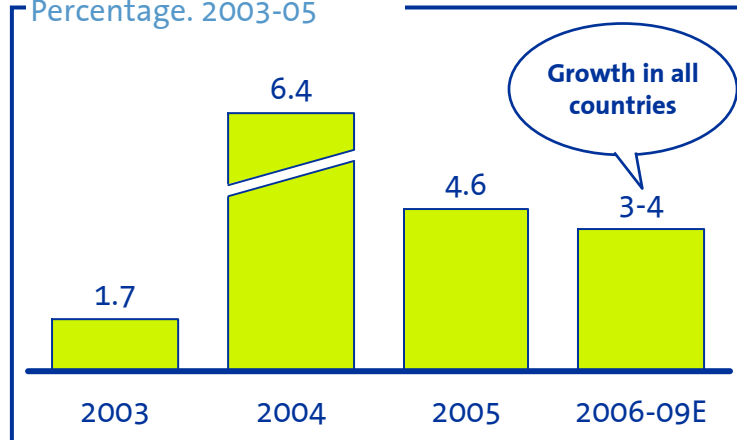
Telefonica

02 Latam: solid macroeconomic fundamentals and higher stability ...

% CAGR
2003-05

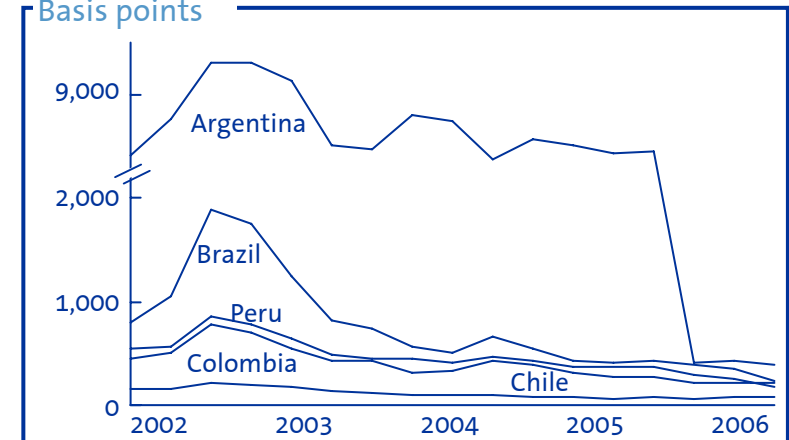
Latam real GDP growth

Percentage. 2003-05



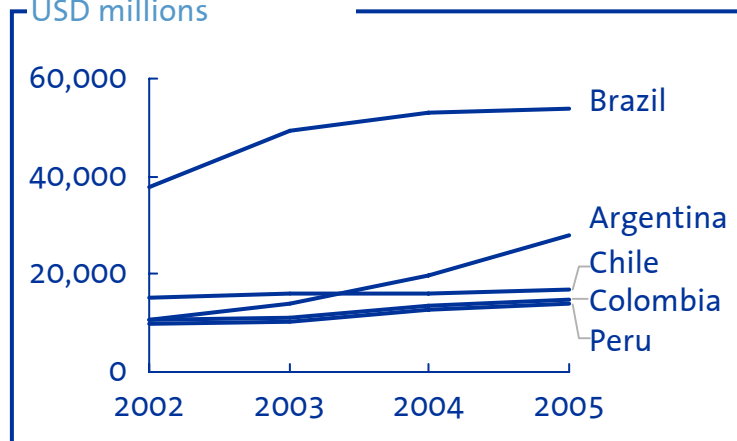
Country risk

Basis points



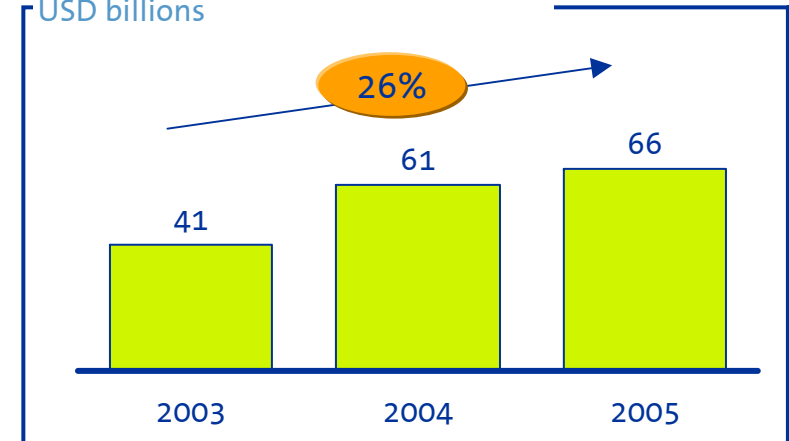
International reserves

USD millions

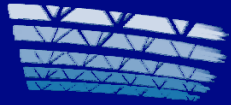


Foreign Direct Investment in Latam

USD billions



Source: Global Insight; EIU; Bloomberg



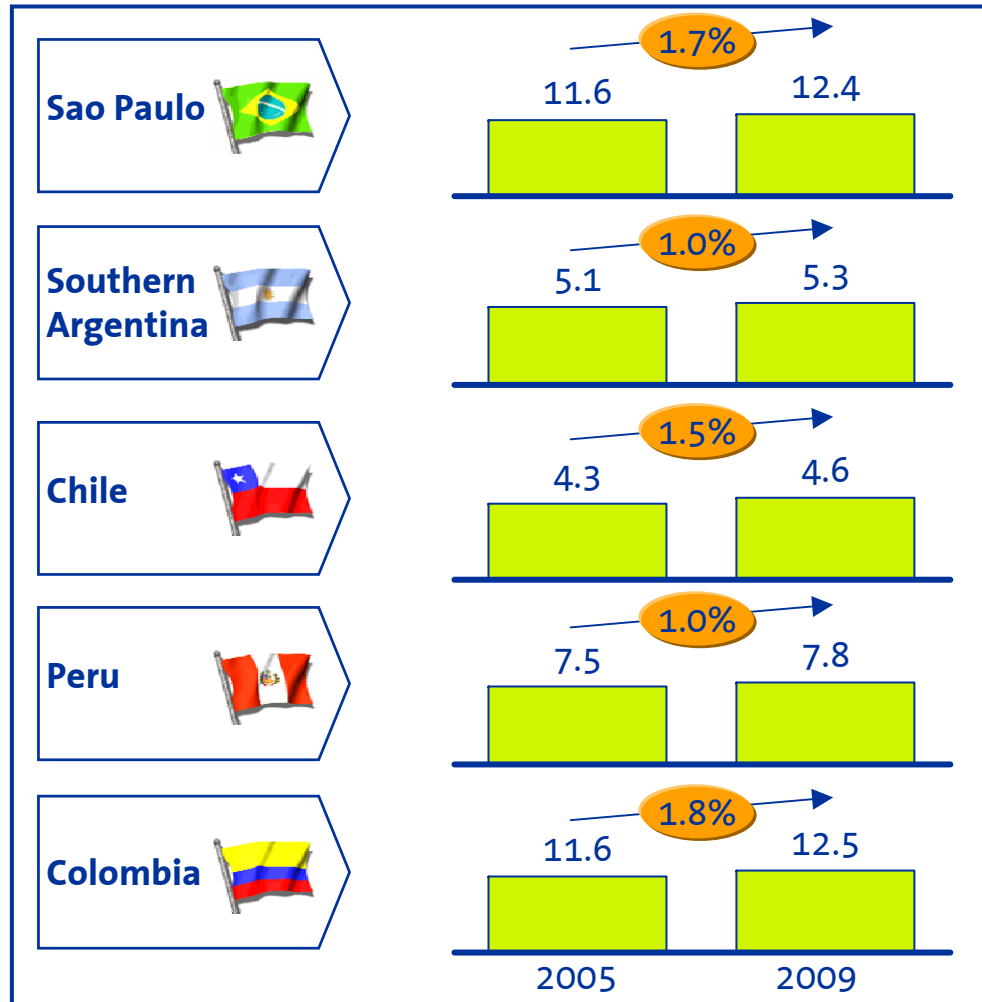
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02 ... favorable demographics...

% CAGR
2005-09

Total households Millions

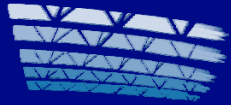


13 million Latin Americans climbed **out of poverty** in 2004 and 2005

Higher income segments growing twice as fast as lower income

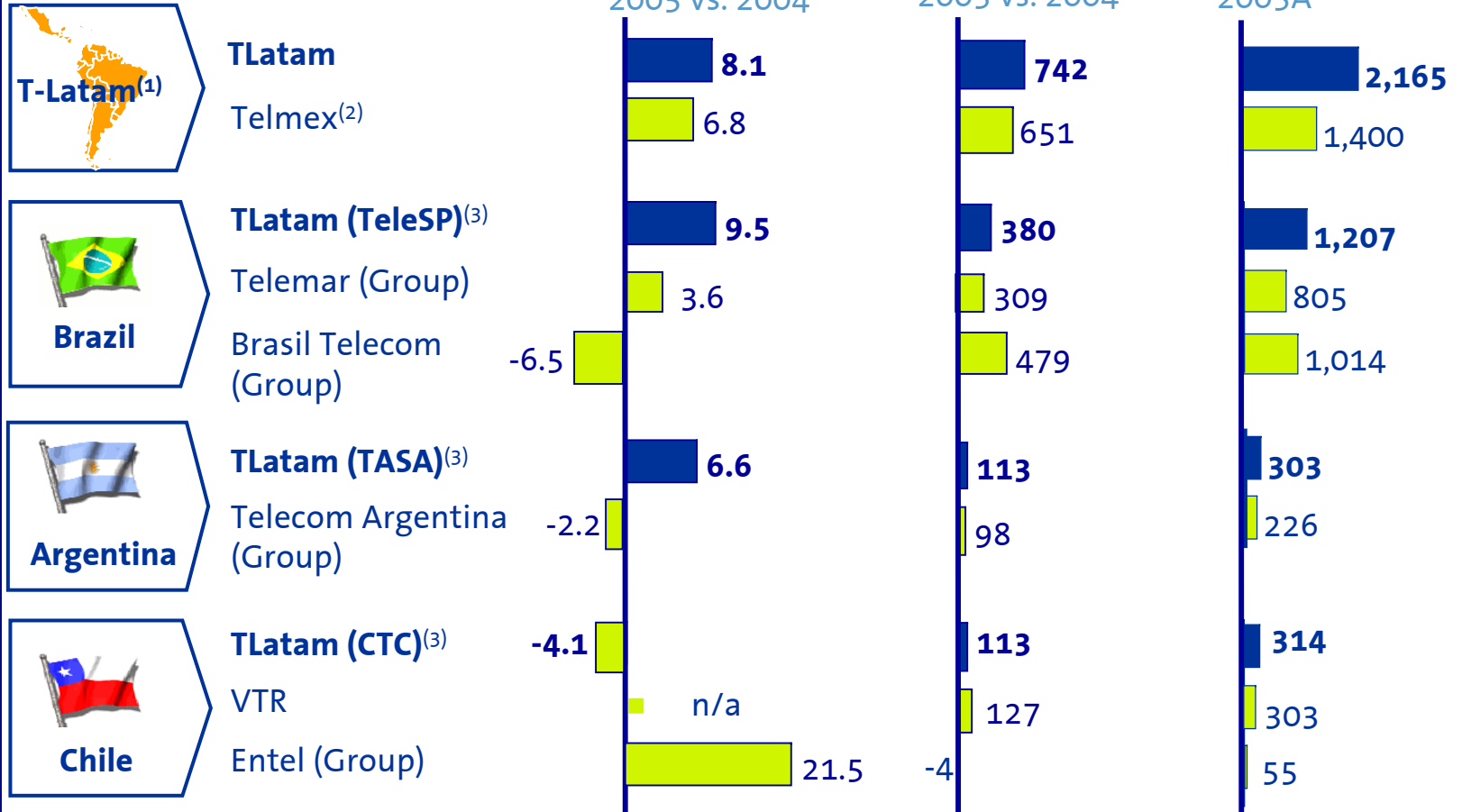
Over **1 million** new **ABC-segments households** by 2009

Source: Pyramid; National Institutes for Statistics of each country; internal estimates



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02 ... where we have a clear competitive advantage being part of Telefónica

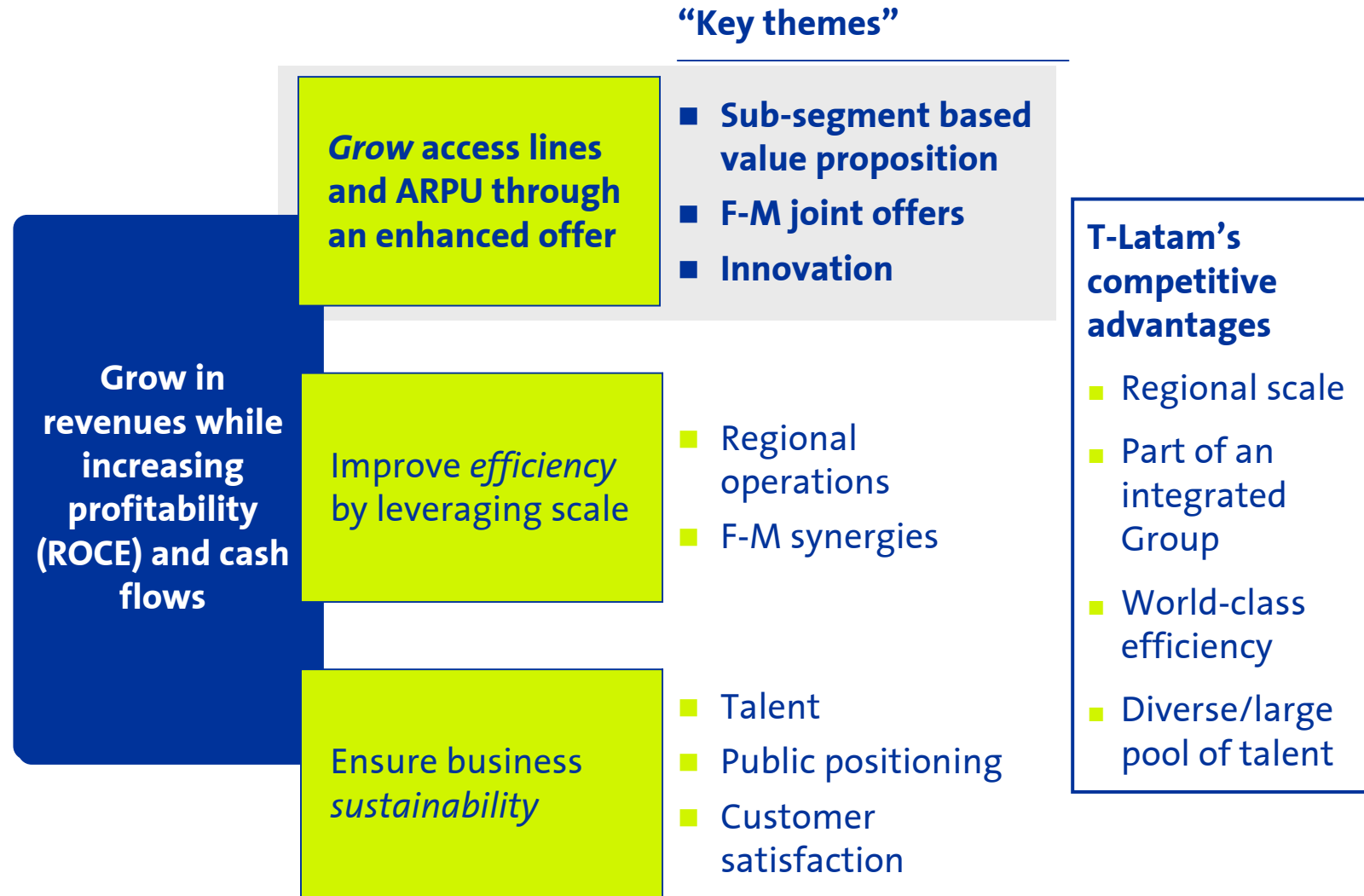


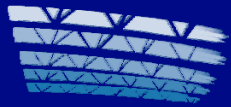
**By leveraging Group synergies,
our companies outperform
competitors in all markets**

- 1 Adjusted OIBDA, in constant 2004 euros
- 2 Includes Net Brazil
- 3 Reported OIBDA in local currency
- 4 Wholesale and retail DSLs included. Terra not included

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02 T-Latam: a transformed company uniquely positioned to consolidate growth





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02 Households: a sub-segment based strategy already in place ...



Different client needs ... requiring a tailored strategy ...

... already providing good results



■ Develop and retain premium customers

- Bundles (voice, broadband, TV, mobile)
- Differentiated customer service levels



■ Develop traditional customers

- Massive deployment of broadband and VAS
- New price plans
- Joint fixed-mobile offers

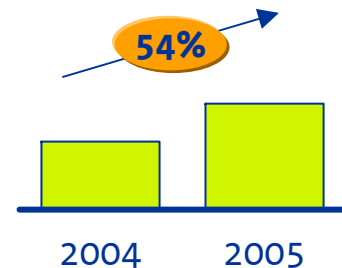


■ Serve low-income customers profitably

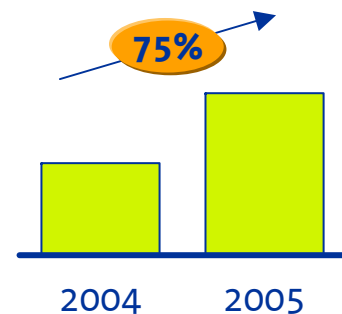
- Tailored pricing strategy
- Reduced service costs and CAPEX requirements
- Prepaid products penetration



Call center cross-selling effectiveness



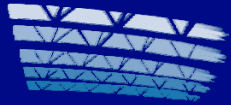
Direct sales force effectiveness



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* Example of TASA

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02 ... consolidating growth ...

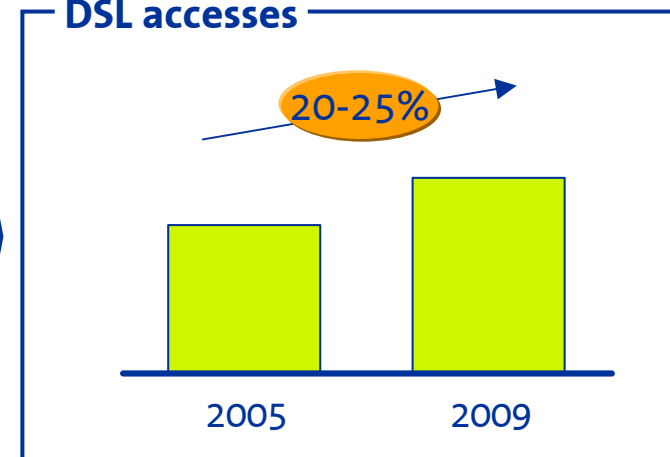


% CAGR 2005-09

Boosting DSL deployment

- Reinforce **Speedy brand** and develop aggressive **marketing** campaigns
- Develop **value-added service** as a differentiating factor
- Launch high/impact **retention** actions
- Promote **PC penetration**

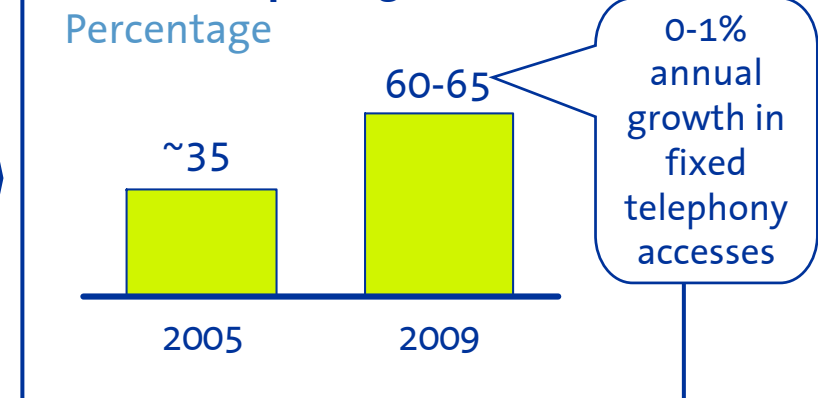
DSL accesses

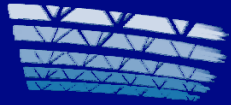


Renovating the traditional business

- Deepen **customer knowledge** and homogenize **segmentation** criteria
- Optimize **channel mix** by transferring best practices in each country
- Extend product offer to **increase ARPU**

Clients with prepaid/control and traffic packages





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02 ... leveraging Terra's unique assets to reinforce Speedy value proposition ...



Strong cross-selling potential ...

- **Top 3 player in all countries** in ISP and portal businesses with revenues of EUR 267 million
- **Strong brand** in the region and “top of mind” in Brazil and Chile
- ~3 million **VAS subscribers***
- ~35 million **unique visitors**



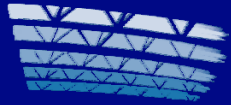
Terra's goal: the leading audiovisual portal and internet service provider in Latam

* Does not include access subscribers

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... and complementary commercial strategy

- Offer **bundles** with Terra's VAS in every Speedy access (Terra TV, e-mail, etc.)
- Implement an integrated **channel** management strategy and launch **joint promotions**
- Leverage Terra's **innovation** capacity/ know-how



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02 ... and strengthening our offer with pay TV



CAGR 2005-09



A regional strategy ...

- Initial launch in **Chile and roll-out to other countries** leveraging regional synergies
- Implement **dual satellite and IPTV strategy** to:
 - Reduce time-to-market
 - Increase coverage
 - Increase CAPEX efficiency
- Focus on commercialization of duo and trio packages

... leveraging Telefónica's experience ...

Telefónica is already successful in pay TV...

- **Cable Mágico:**
 - 450,000 + subscribers
 - 15% of revenues from ads and shopping channel
- **Imagenio:** 250,000 subscribers in Spain

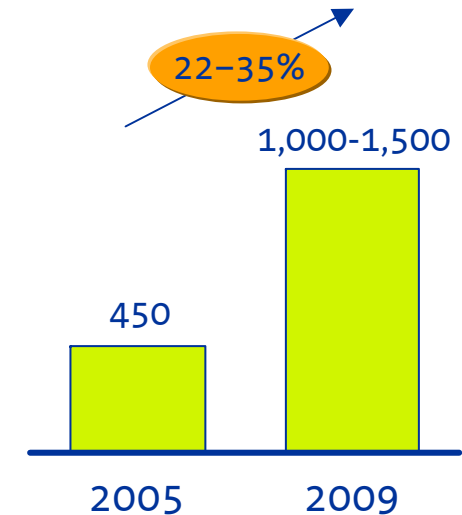
... which gives us a clear advantage to deploy the service

- Proven technological platform
- Deep market knowledge
- Strong relationships with content suppliers
- Some exclusive content

... to become a leading player in the region

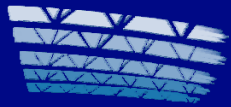
Regional target

Thousands of customers



Satellite product launched in May in Chile with a time to market of less than 5 months





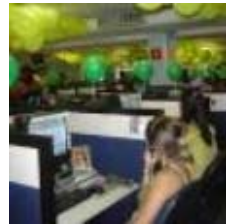
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02 SMEs: grow faster than the market by tailoring the offer to client sub-segments ...



A heterogeneous
client base ...

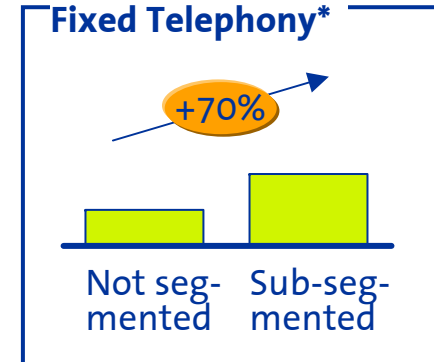


... requiring a sub-segmented
commercial approach ...

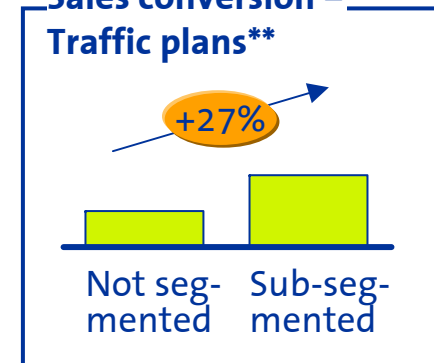
- Deepen **customer knowledge** to increase the rate of sales per contact
 - Advanced **segmentation** (propensity models)
 - Strengthened **commercial intelligence** (regional customer database)
- **Expand channels** to interact with clients (indirect channels, internet, technicians visits, etc.)
- Increase penetration of alternative **traffic plans** to increase ARPU

... already providing
good results

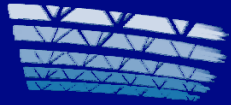
Sales conversion –
Fixed Telephony*



Sales conversion –
Traffic plans**



* Telesales inbound Brazil
** Telesales outbound Brazil



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02 ... and by boosting broadband and new services

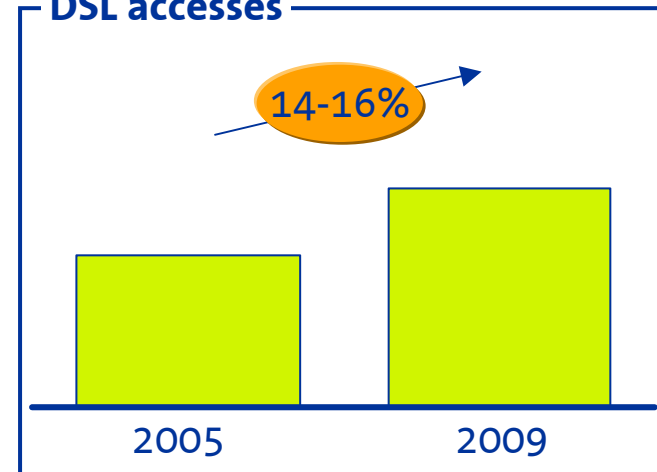


% CAGR 2005-09

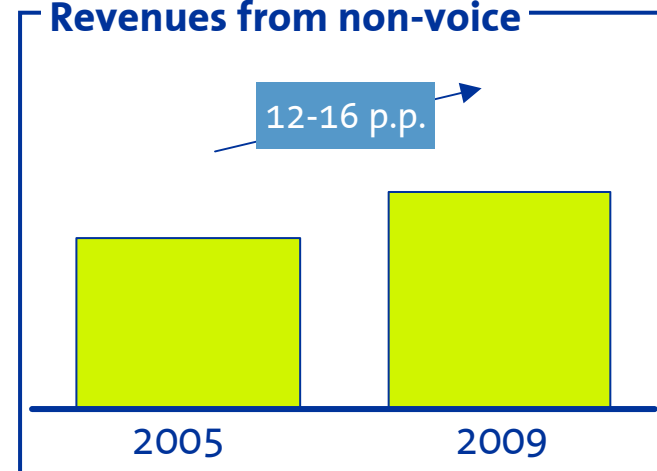
Key initiatives

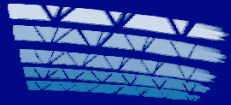
- Accelerate **DSL penetration** through new packages, bundles, and PC services
- Expand **product offer** by moving up the customer's **value chain** into desktop management (equipment, PC support, Speedy business, etc.)
- Leverage DSL platform to increase adoption of **value-added services** (antivirus, virtual disk, etc.)
- Work closely with **T. Móviles** to foster **cross-selling**

DSL accesses



Revenues from non-voice





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02 Corporations: transforming the segment ...



Customer needs are changing ...



Higher demand for integrated solutions ...

... tailored to specific needs of each sector



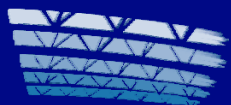
Need for advice and agility ...

... more regionalization/ globalization in managing their businesses



... which requires a commercial transformation

- **Integrated solutions**
- **Sector-specific** product offering
- Role as **advisor/** consultant
- **Hybrid execution** developing alliances/ partnerships



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02 ... to provide advanced and integrated telecommunications solutions



Key initiatives

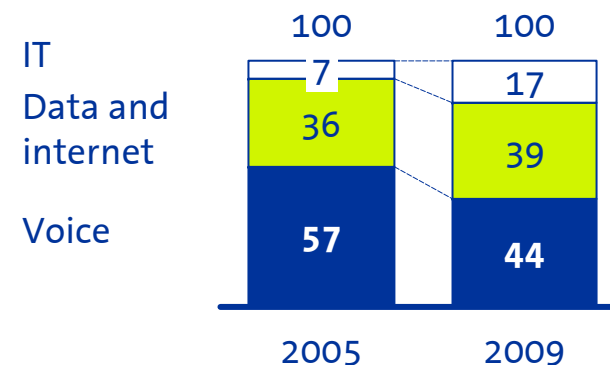
- Continue to **move up the value-chain**:
 - Providing regional portfolio of IT solutions
 - Offering sector-specific solutions
 - Leveraging Group infrastructure and alliances
- **Manage customer relationship jointly with T. Móviles**
 - Channels
 - Shared incentives/objectives
 - Market intelligence
- Consolidate **Global Clients** management model
 - Homogenized processes
 - Increased share of wallet with VASs
- Increase market share of **International Services**

* Fixed exchange rate 2005

Telefónica Latinoamérica

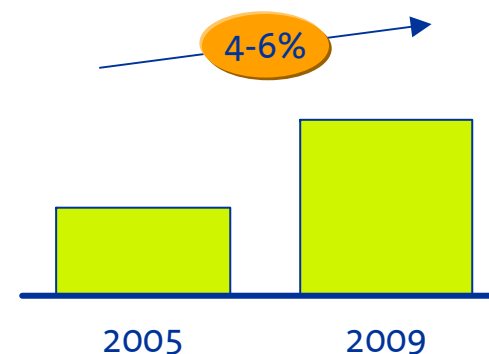
Revenues by product

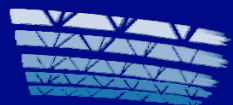
Percentage



ARPU

Index





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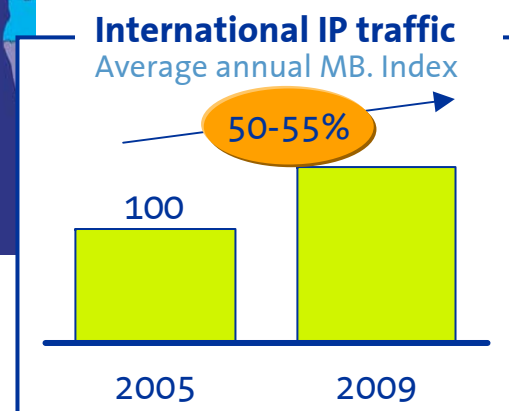
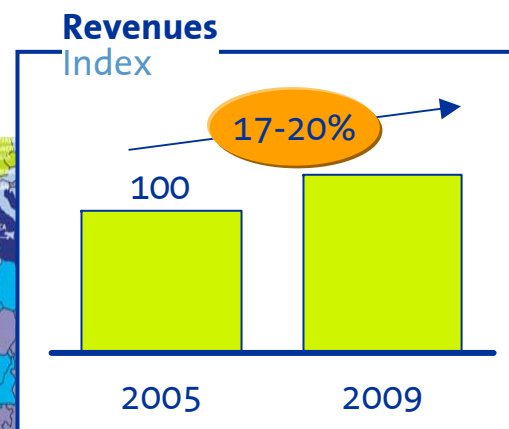
02 TIWS: reinforcing our value proposition

Key initiatives

- Reinforce **value proposition for corporations** by providing global solutions
- Manage wholesale international business globally by **leveraging Group scale**:
 - Rationalization of interconnections and investments
 - Increased bargaining power for termination call costs
 - Switching optimization
- Lead **international broadband development** through **global reach expansion**
- Innovate and deploy **new convergent services** around a centralized platform (roaming Wi-Fi, VoIP, etc.)



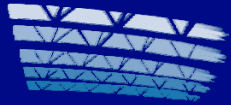
CAGR
2005-09*



Submarine cable maximum capacity
of 1.92 Tbps with marginal investment

* Fixed exchange rate 2005

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02 Develop innovative fixed-mobile solutions ...

New initiatives for 2006

Commercial synergies



Products & Services

Channels

Households



SMEs



Corporations



- Last mile “optimization”
- Bundled offers
- Integrated fixed-mobile services

- All Telefónica products available at all points of customer contact

20+ joint initiatives launched in 2005

Building on a proven track record:

■ Corporations:

- Collaboration/ integration of sales forces in all countries
- Integrated management for global customers

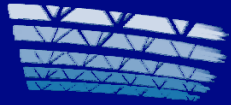
■ Distribution channels:

- Speedy sales in Movistar shops
- Call center signaling and coordination

■ Convergent offers:

- In-group minutes
- F-M Virtual Private Networks

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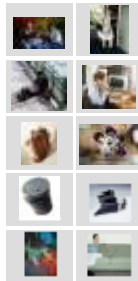
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02 ... and foster innovation to consolidate leadership and growth

Many projects being implemented ...

Attitudinal
segmentation



Pay TV



Internet TV



GICS



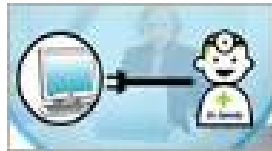
VASs



Low-income



Dr. Speedy



VoIP SMEs



FCR



Atl@s



Gaudi



... and many new opportunities being explored

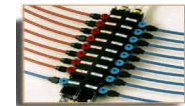
House-
holds

- Entertainment
- New channels
- Home support
- ...



SMEs

- Professional services
- Electronic payment
- ...

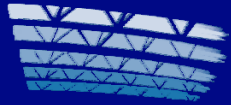


Corpora-
tions

- Mobility
- ITC on demand
- ...



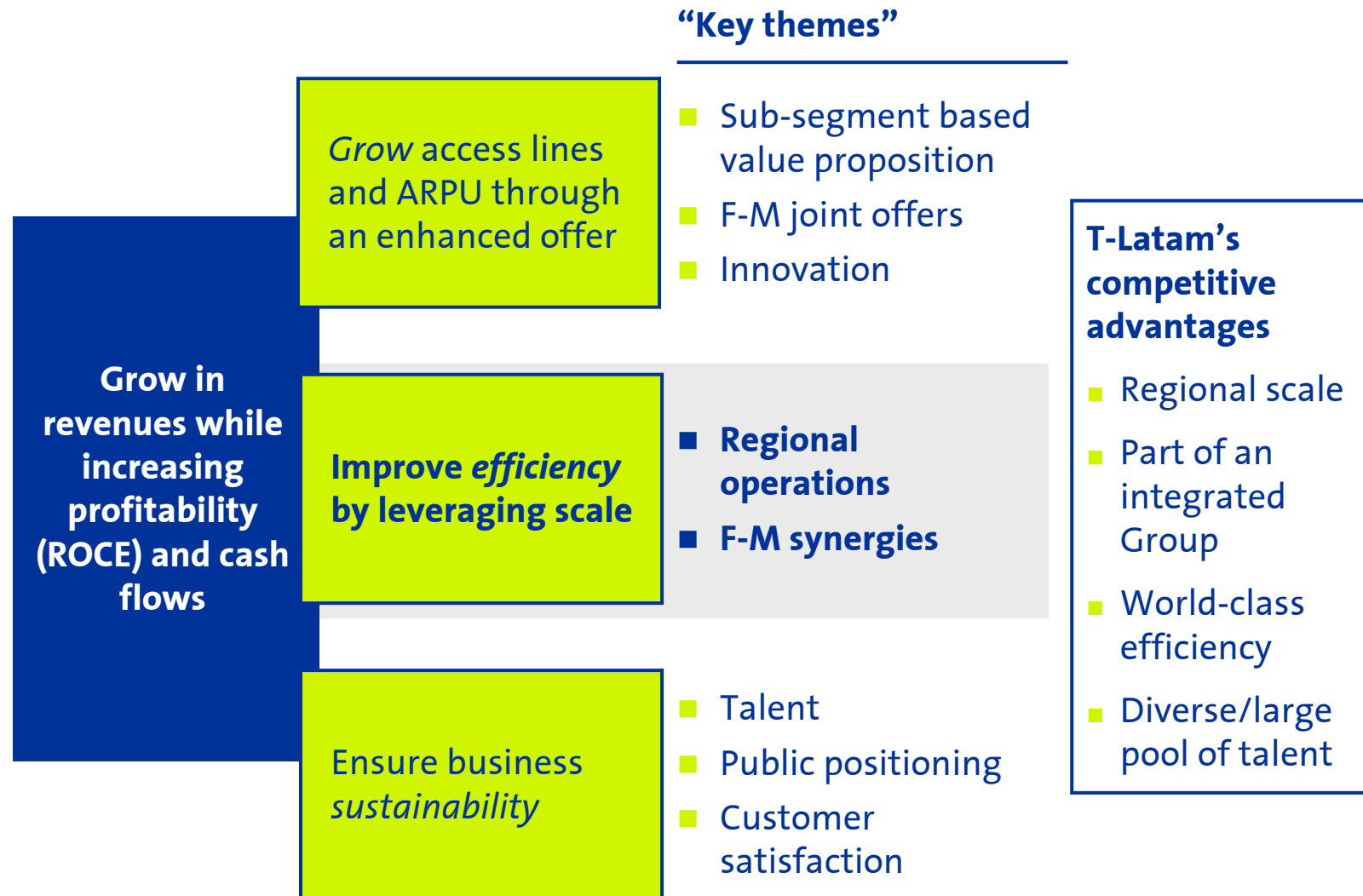
Target: EUR 350
million in revenues from
innovation by 2009

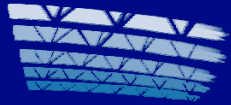


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02 T-Latam: a transformed company uniquely positioned to consolidate growth





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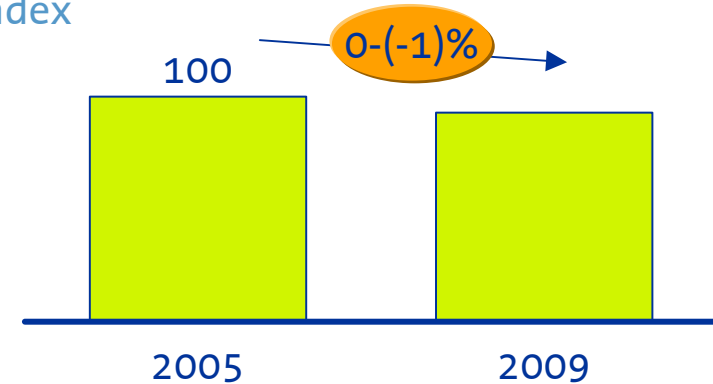
02 Improve operational efficiency...

CAGR 2005-09*

- Leverage our **modern network** to support new services (DSL, pay TV, entertainment, etc.)
- **Homogenize and consolidate** operations to benefit from economies of scale
- Capture **synergies** with other Telefónica businesses
- Increase **flexibility** through a higher proportion of variable costs
- Foster **best practice exchange**

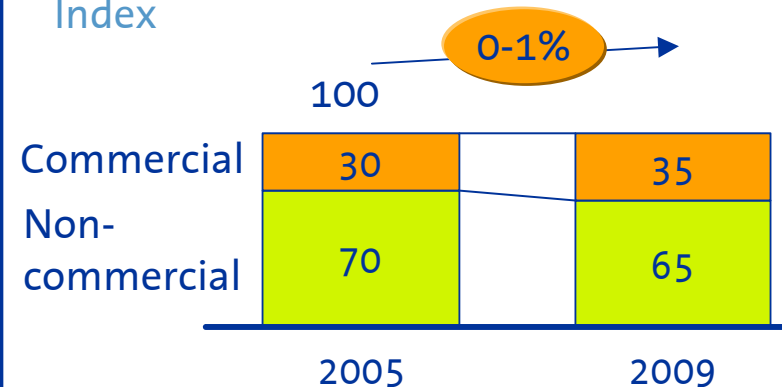
Unitary CAPEX for DSL

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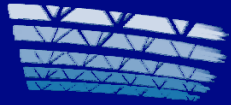


OPEX/line

Index



* Fixed exchange rate 2005



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02 ... through a regional operational model

Regional operations

Network



- Regional **supervision center**
- **Homogeneous** network **equipment**
- Regional **planning/design**

IT



- **Regional** IT strategy based on a common **application map**
- **Regional datacenters**
- Centralized **purchasing**

Support functions



- **Shared services:** Finance, HR, logistics, real estate, etc.

- **Different service level agreed** based on customer's value and needs
- **Homogeneous** business processes

- EUR ~40 million of regional synergies (OPEX+CAPEX) captured in 2005
- Plus EUR ~400 million in cumulative Operating Cash Flow expected for 06-09

Client segments

Households

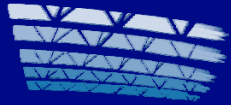


SMEs



Corporations



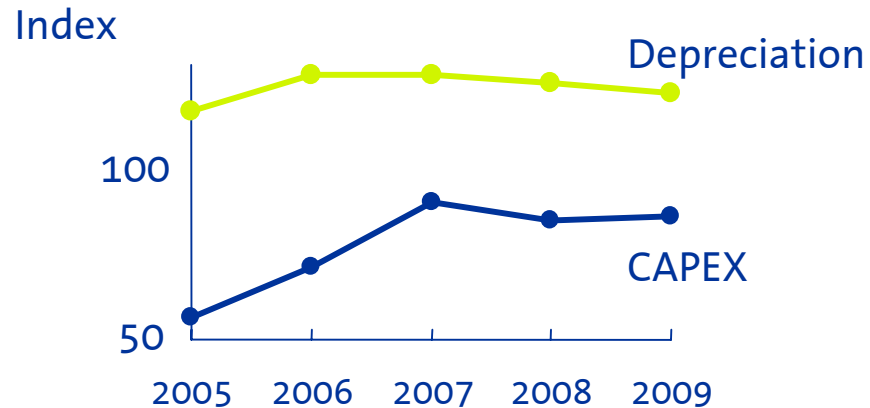


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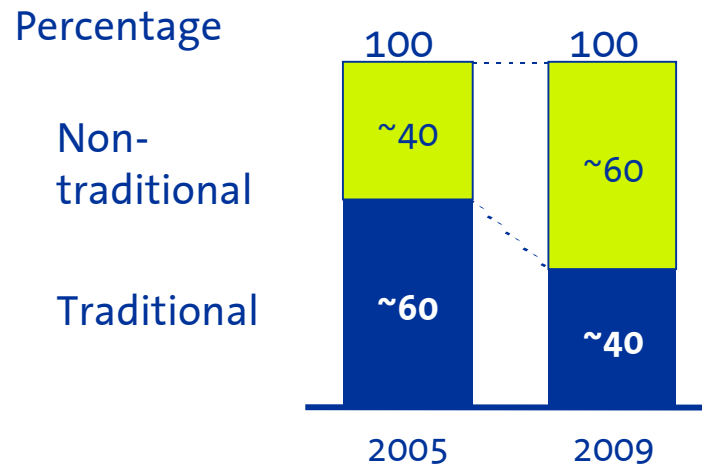
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02 CAPEX management will maximize the value of investments

CAPEX and depreciation evolution*



CAPEX breakdown



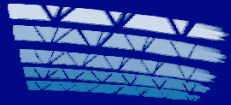
* Fixed exchange rate 2005

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■ Regionally optimize CAPEX by:

- Continuing the rigorous approval process
- Leveraging regional synergies

- ### ■ Increase CAPEX allocation to broadband, pay TV and new services to fuel growth



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02 T-Latam: a transformed company uniquely positioned to consolidate growth

“Key themes”

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

*Grow access lines
and ARPU through
an enhanced offer*

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

*Improve *efficiency*
by leveraging scale*

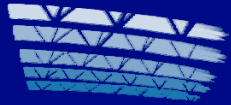
- Regional operations
- F-M synergies

**Ensure business
*sustainability***

- Talent
- Public positioning
- Customer satisfaction

T-Latam's competitive advantages

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



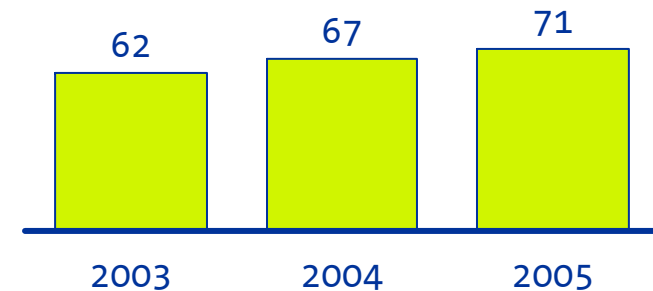
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02 Business sustainability will be driven by employee and customer satisfaction ...

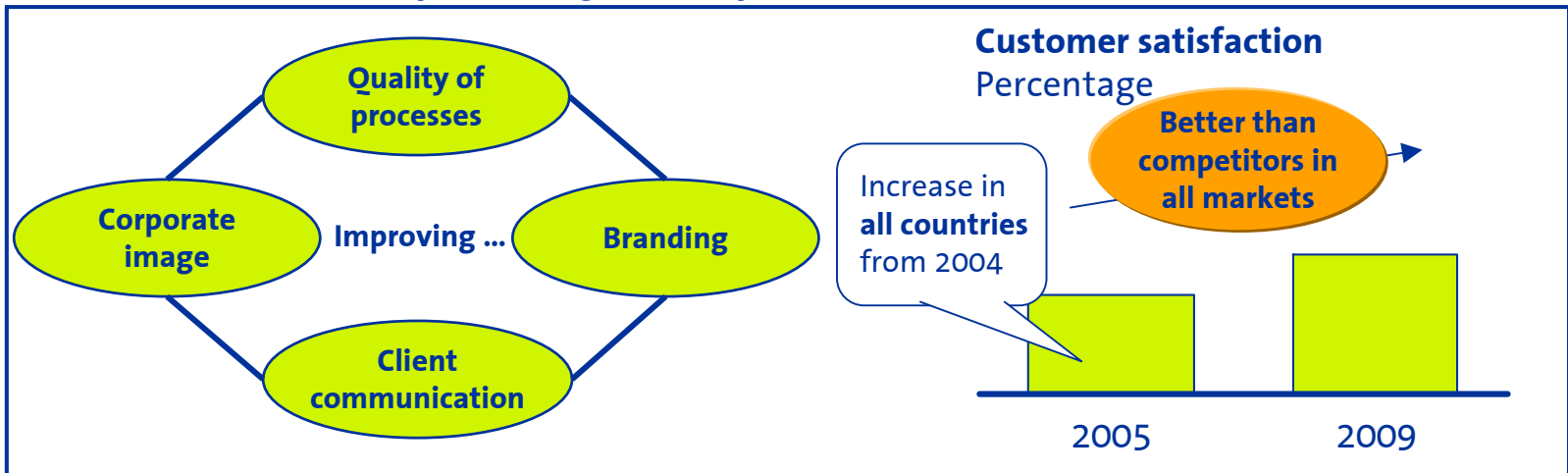
Our high employee satisfaction ...

- TeleSP/TASA selected in the top 50 ranking by the “Great Place to Work”
- Over 15 senior executives transferred to other Telefónica business lines
- 11% of managers rotated regionally in 2005

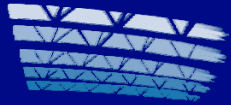
Employee satisfaction
Percentage



... will be the basis for outperforming our competitors in customer satisfaction



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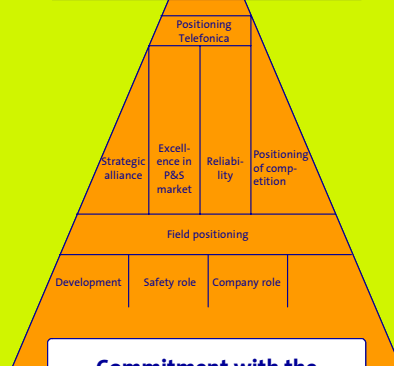
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02 ... and by strengthening our public positioning

- A strong public positioning is critical to ensure the **sustainability of the business** by ...
- ... getting **support/aligning all stakeholders** ...
- ... reinforcing our **reputation/brand**

Engine for the development
of the Society of Information



Commitment with the
countries

Llaqt@red



*"Reaches more than
140,000 people in
rural areas"*

Educared



*"More than 45,000
registered users"*

crece **PERÚ**

*"10 proposals for
stability in process"*

Alianza Brasil- España

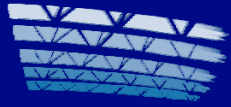


*"Proposal for the
creation of a
permanent
operational
structure"*

We are the
main investor in
the region

We have
developed the
market for D/E
segments

We **stayed**
in the region
through
economic crisis
while many
others left



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02 All in all, we are uniquely positioned to continue capturing the regional growth opportunities

Being part of the Telefónica Group



Regional scale



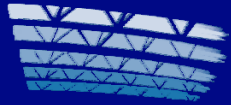
Anticipation,
transformation and synergies ...
... always focusing on
the customer

Operational efficiency



Best talent



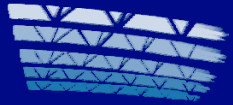


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- 01 Consistently delivering on our commitments
- 02 Our management priorities to fully exploit our growth potential
- 03 A set of ambitious financial and operational targets**

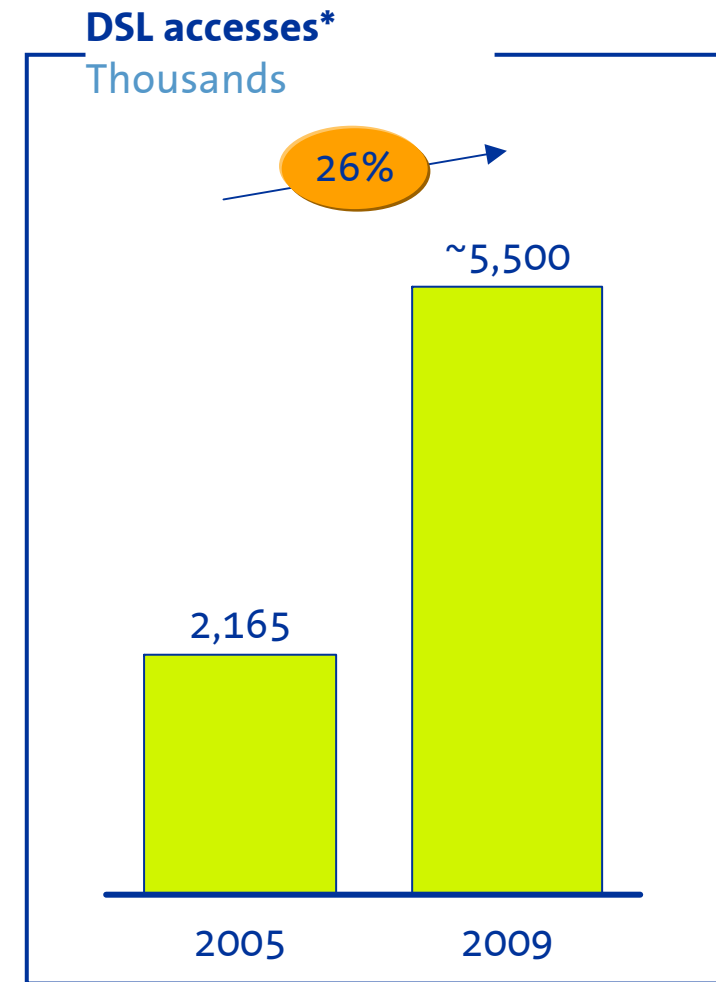
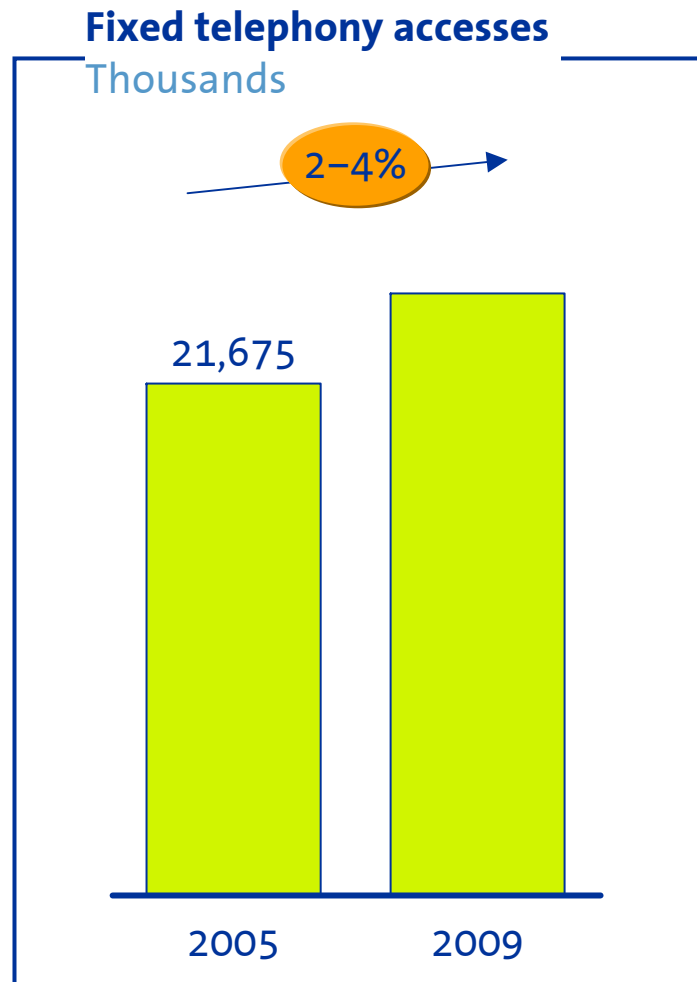


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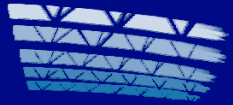
Telefonica

03 Our goal: accelerate growth ...

% CAGR 2005–09



* Only fixed telephony operators; includes retail and wholesale accesses

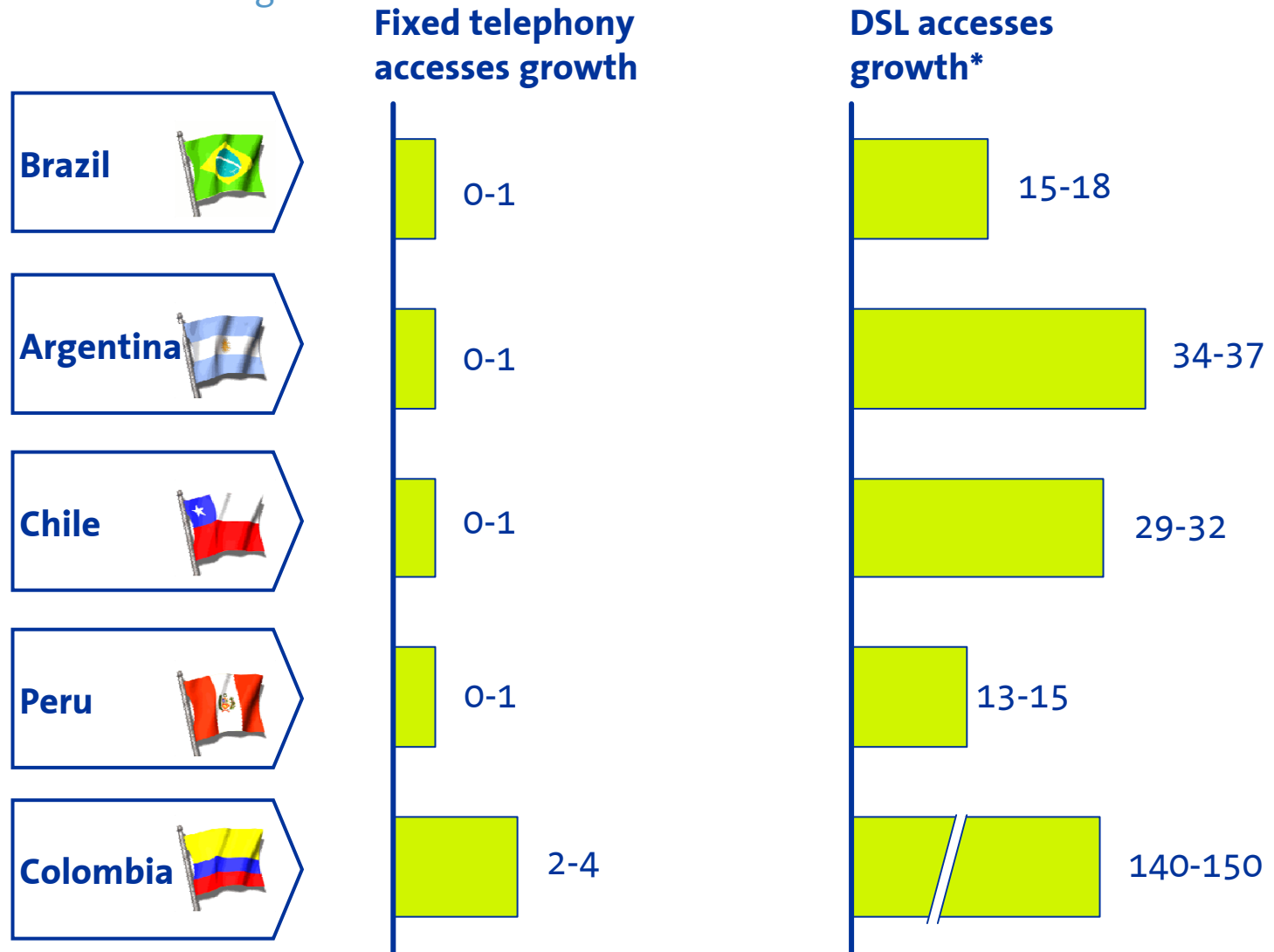


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03 ... in all countries ...

Average annual growth 2005-09
Percentage



* Includes retail and wholesale accesses



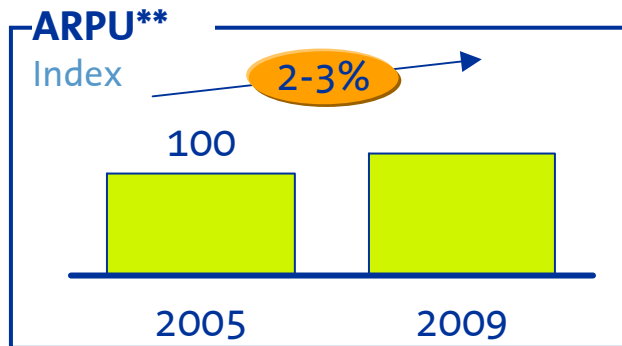
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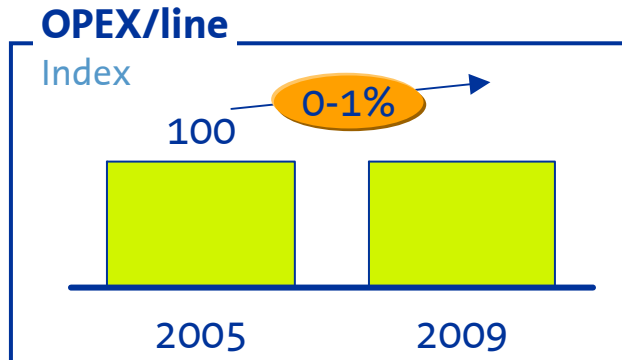
03 ... with a focus on profitability

% CAGR 2005-09*

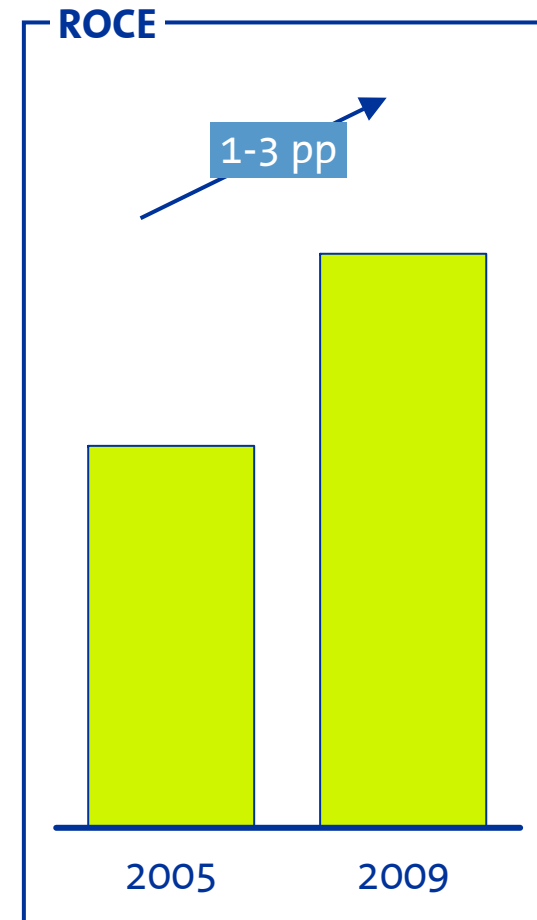
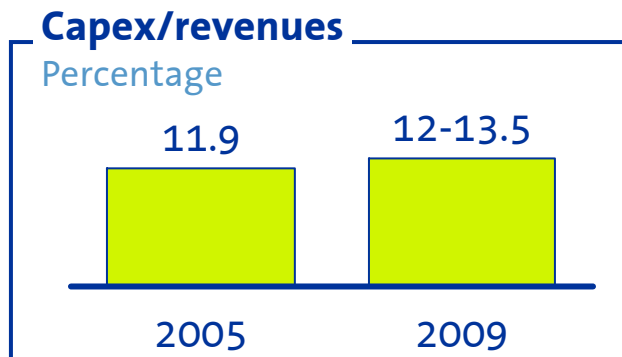
Higher
ARPU



Leaner



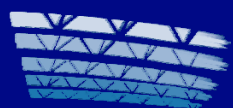
Stable
CAPEX



* Fixed exchange rate 2005

** Only fixed telephony operators

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03 T-Latam financial commitments

EUR millions	FY 2005 ⁽¹⁾	CAGR 2005-09E ⁽²⁾
Revenues	8,352	5-8%
Operating Income before D&A ⁽³⁾	3,638	6-9%
Operating Income ⁽³⁾	1,839	10-15%

EUR millions	FY 2005 ⁽¹⁾	Cumulative 2006-09E ⁽²⁾
CAPEX	991 ⁽⁴⁾	5,000-5,500

1 T-Latam fiscal year numbers are pro-forma, including Terra's Latam unit since January 2005

2 Assumes constant exchange rates as of 2005 and excludes changes in consolidation other than Colombia Telecom, which starts to be consolidated in May 2006

3 In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2006-2009. For comparison purposes, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures (EUR 128 million from Infonet and Telinver)

4 Calculated using 2005 average exchange rates

Key messages

- We have a **consistent track record** of meeting commitments by continuously anticipating the market and transforming the business
- We pioneered the international expansion of Telefónica and proved that being part of a **global and integrated leader** gives us an unrivalled advantage
- Looking forward, we expect a **bright future for the region** rooted in solid fundamentals
- We are **uniquely positioned** to capture the growth opportunities by deepening our transformation as a regional company within the Telefónica Group

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