

A superior combination of growth and cash returns

Closing remarks

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Telefónica Group*



ACCELERATE TO INCREASE
OUR LEADERSHIP

Telefónica

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We have a single goal and clear strategy to make it happen

GOAL

To provide the best combination of growth and cash returns in the industry

STRATEGY

Maximisation of free cash flow

- Accelerating top line growth
- Financing organic growth projects
- Improving operational excellence

+

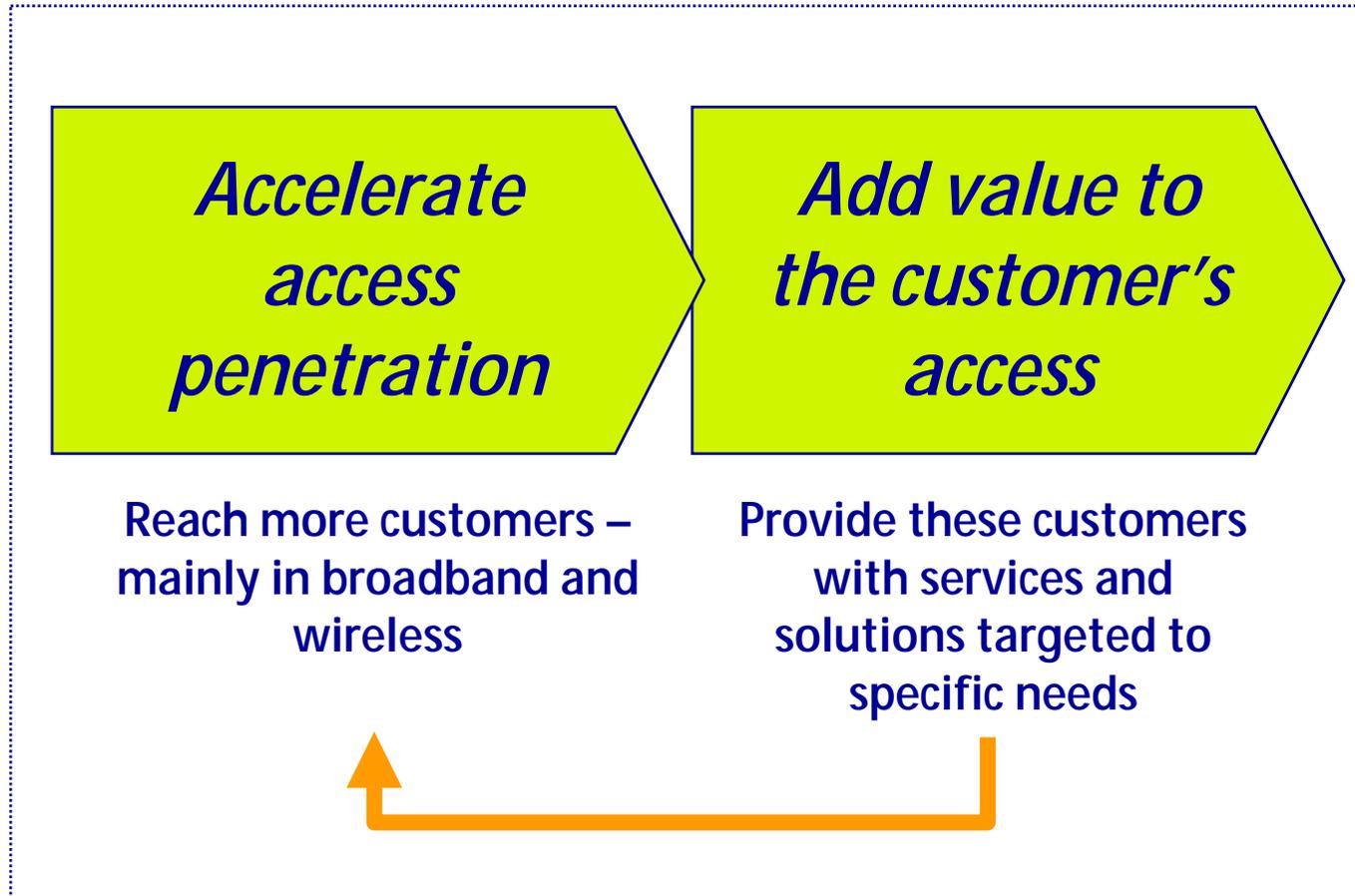
Clear cash flow allocation

Top – notch shareholder returns

Strong balance sheet

Selective expansion

Accelerating top line growth...



...by boosting access penetration...



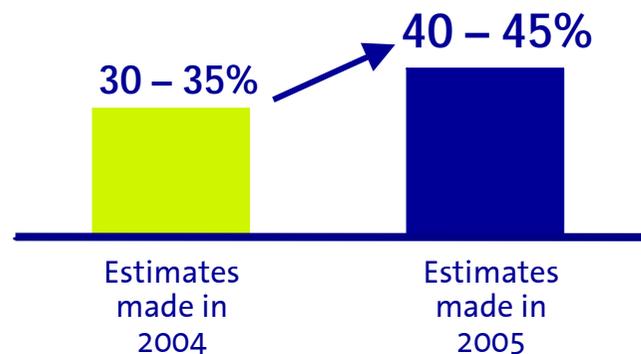
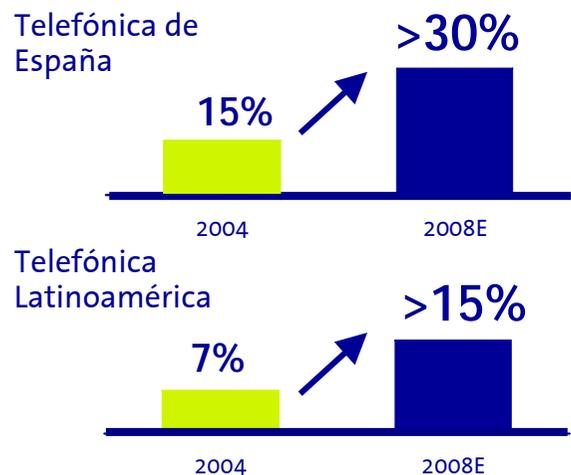
Huge opportunity to grow our access base

Broadband

Wireless LatAm

% DSL lines/Total lines*

Penetration in LatAm** by 2008



More than 8m retail DSL accesses by 2008 (x 2.7 from 2004)

More than 125 m wireless customers worldwide by 2008* (x 1.7 from 2004)**

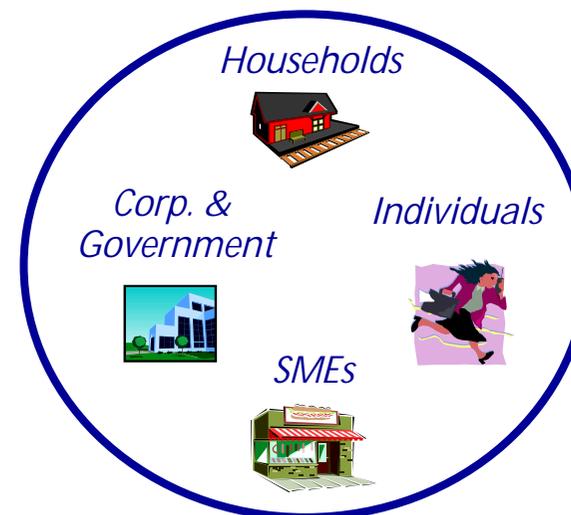
- * Includes wholesale
- **Source: Pyramid
- *** Not including Český Telecom

...and adding value to the customer's access



- Increasing our share of wallet beyond access revenues
- Becoming a broadband solutions provider
- Growing value added services and content revenues in wireless

Through innovative and targeted value – added offers



Spain

More than 1 m
Imagenio clients
by 2008

More than 40%
of total customers
with UMTS
handsets by 2008

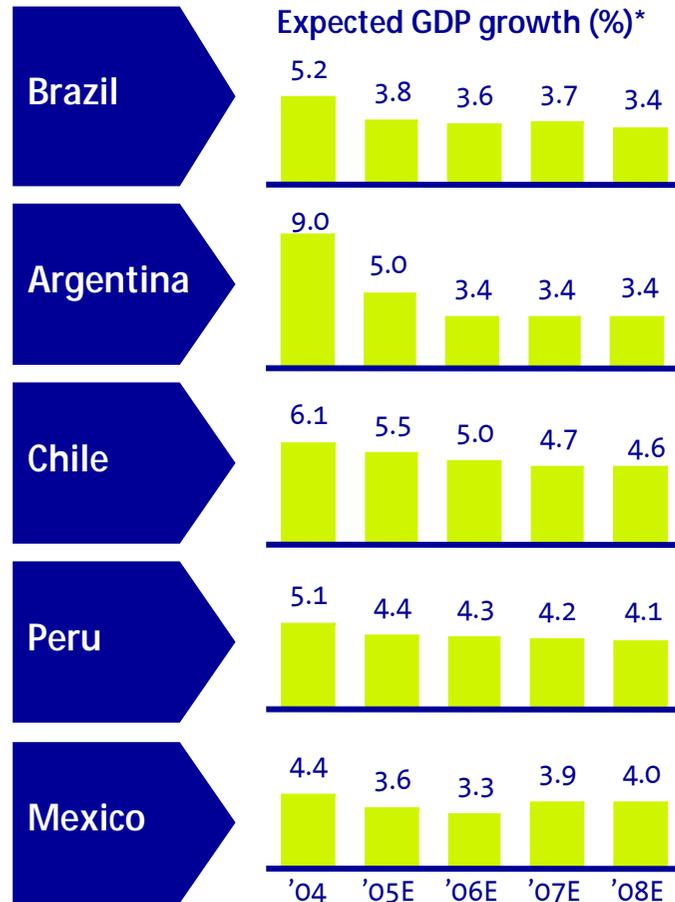
LatAm

More than 10%
of wireless
service revenues
from data by
2008

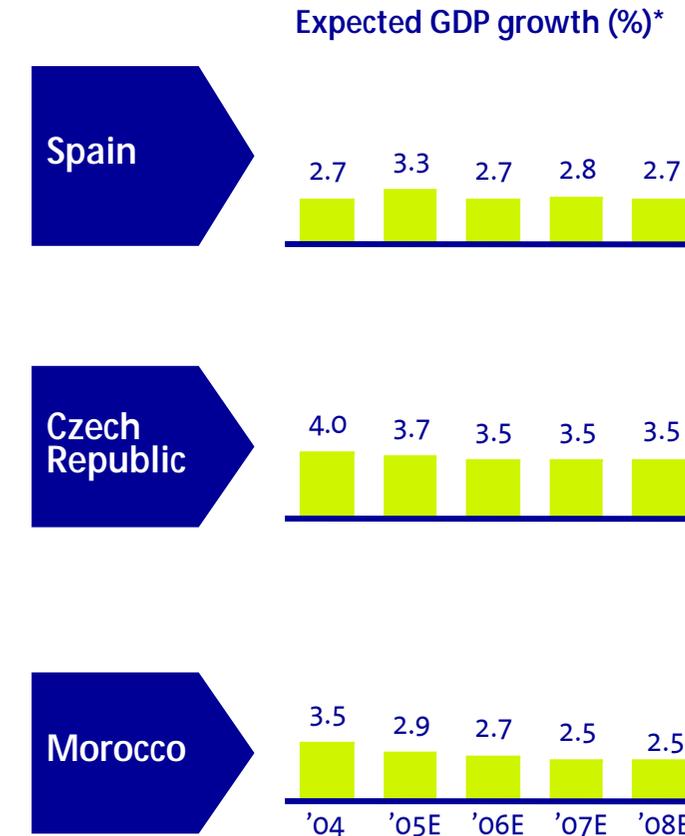
More than 20%*
of wireline
revenues from
Internet and new
services by 2008

On top of this, our businesses enjoy a favourable macro outlook to support our growth expectations

Both In LatAm...



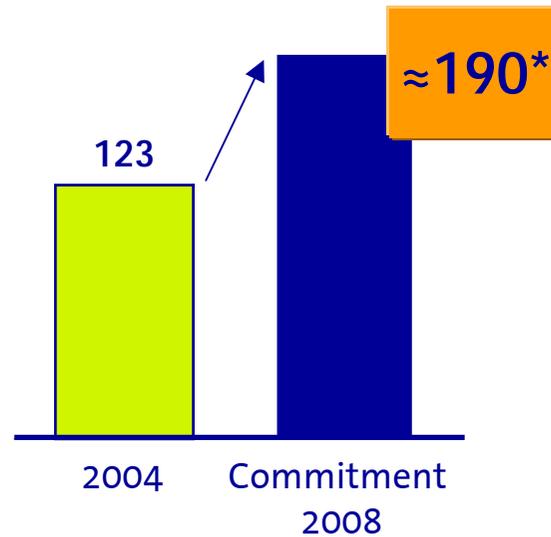
...and in Europe and Morocco



We expect our strategy to accelerate top line growth...

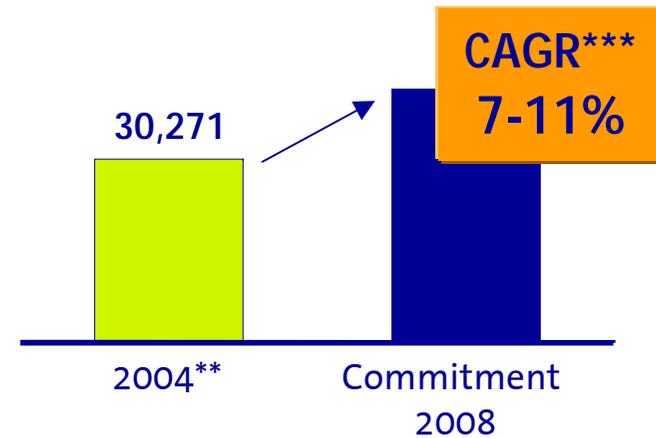
Customer base growth (# accesses)

Million



Revenue growth

€m

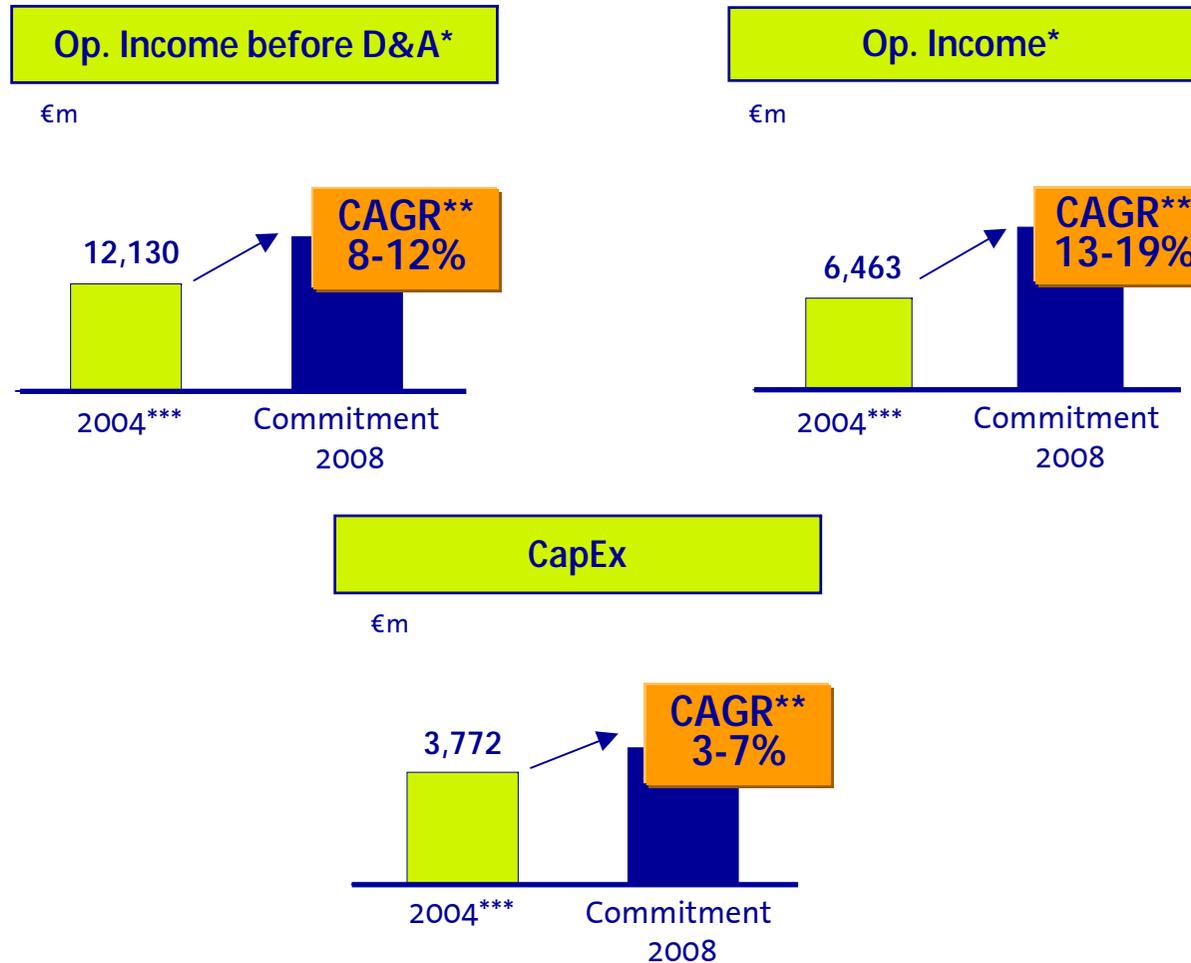


* Includes Český Telecom

** Reported 2004 under IFRS

*** Local currency (constant exchange rates as of 2004) and exclude changes in consolidation other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (TLatAm). Includes ČeskýTelecom from 2H05.

...while improving operational excellence and financing growth projects



*In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2005-2008. These exceptional amounted to -303.5 MM€ in 2004 and are therefore also excluded, meaning a calculation base for guidance of 12,433 MM€ for OIBDA and 6,767 MM€ for OI, respectively. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses.

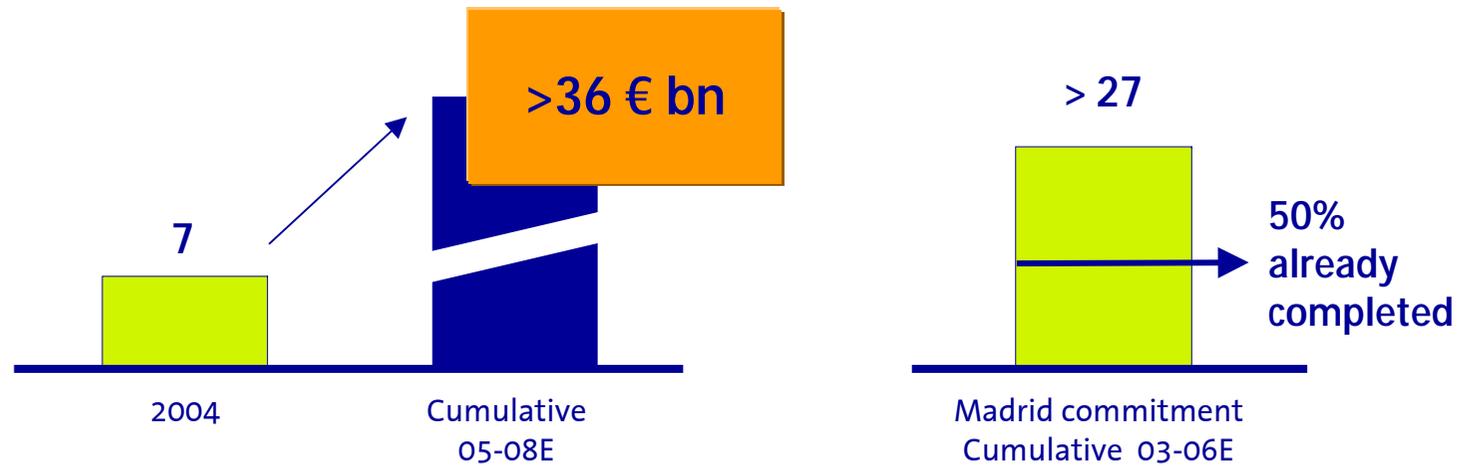
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As a result, the company will maximise free cash flow



€bn



Telefónica is a company committed to shareholders and to preserve a healthy balance sheet...

Top – notch shareholder returns

- €0.5/share minimum annual dividend
- A renewed and extended €6bn buyback until 2007, sensitive to cash flow generation and share price

Strong balance sheet

- Targeting $\frac{\text{Net debt} + \text{cash commitments}}{\text{Operating income}}$ < 1.85 in 2006 before D&A

Stick to the selective expansion principles

In summary

Lead the industry
in customer focus
and operational
performance



Grow faster and
more profitably
than other
integrated
operators



Telefonica

*The best combination of growth
and shareholder returns, now and
in the long run*



Telefonica

Investor
Conference