



FIFTH **INVESTOR** CONFERENCE

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

Telefonica

The best combination of growth and returns in the industry

César Alierta

Chairman and CEO, Telefónica



Valencia - May 25, 2006



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- 01 Telefónica: a new and better company in a growth market
- 02 Our unique profile
- 03 Our strategic guidelines to lead the sector's evolution

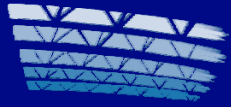


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- 01 Telefónica: a new and better company in a growth market
- 02 Our unique profile
- 03 Our strategic guidelines to lead the sector's evolution

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01 Since we met one year ago, Telefónica has become a new Company



We have been **proactive to acquire the best available growth platforms to achieve the right balance** by businesses and geographies **and to benefit from the full potential for economies of scale...**

... to continue offering the best combination of growth and returns now and in the future



The integration of Bellsouth Latam assets and Cesky Tel. has finished, and the take over of O2 and Colombia Tel. is being executed **at a record speed with no business disruption at all**

- **2004 and 2005 guidance fully delivered and even upgraded in a context of profit warnings in Telecoms**
- **Q1 results well in guidance 06**



Our new profile shows that **we have already achieved the appropriate scale and diversification.** Now, successful execution is even more important...

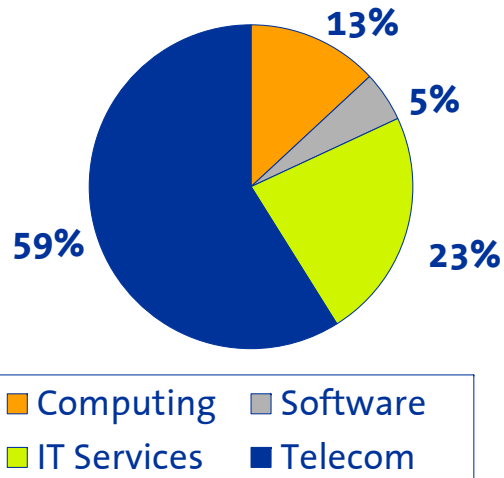
... to extract value from scale and diversity through an integrated management of operations



01 A new Company that will take the best from the very promising growth opportunities of the ICT industry

2005 Global ICT Market

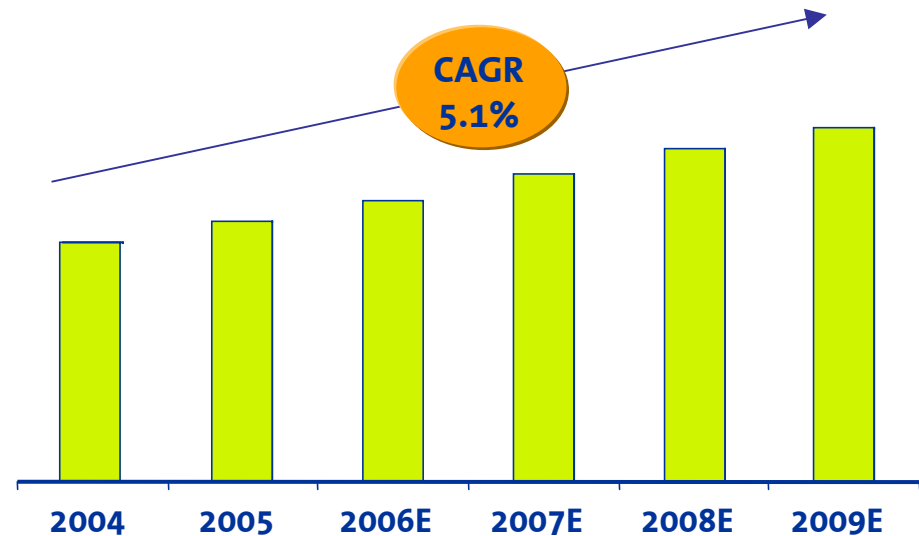
(US\$ Bn)



Source: Gartner, May 2006

Total ICT Spending (2004-2009E)

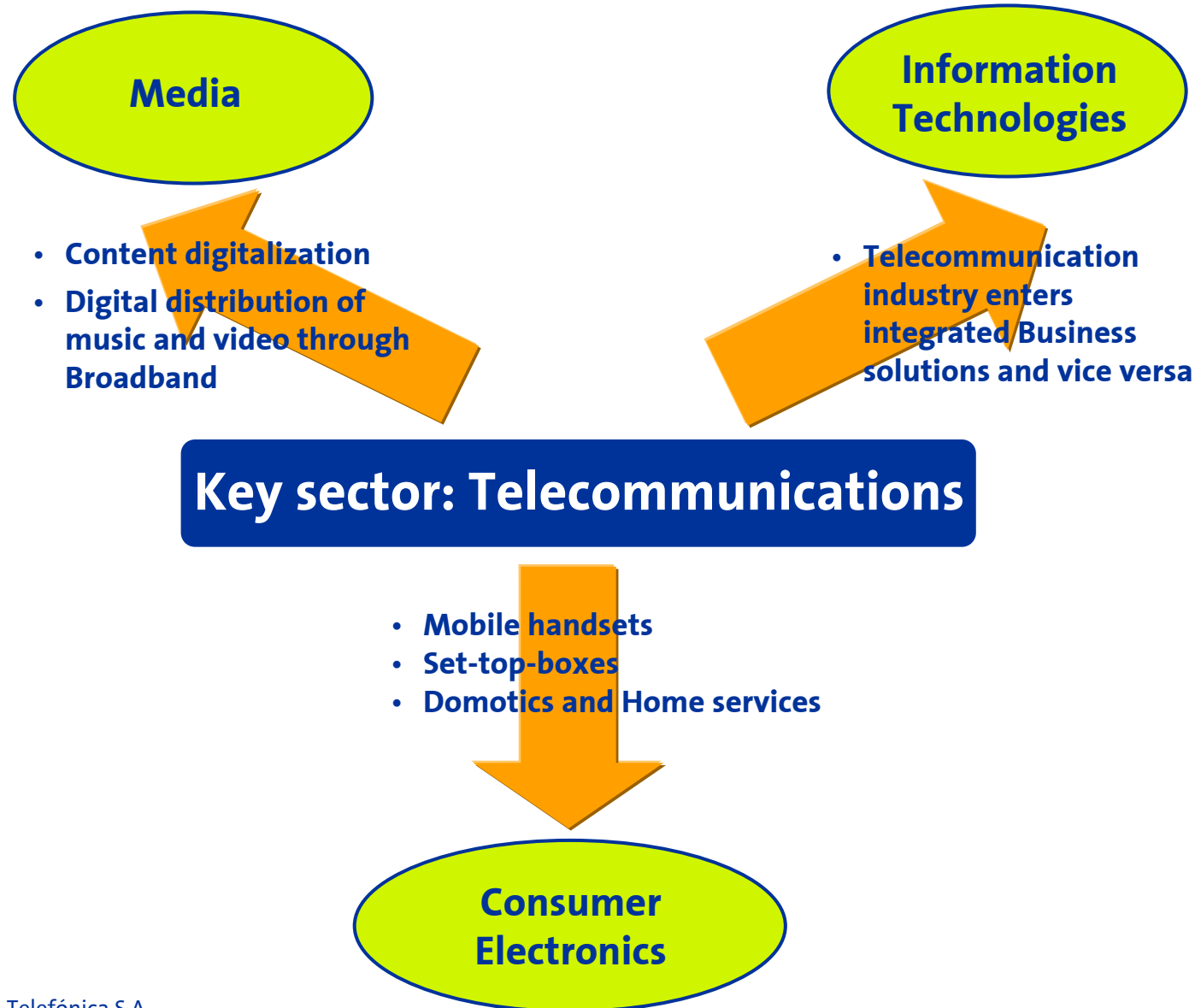
(US\$ Bn)

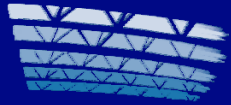


The sector is growing in size and economic impact, as ICT becomes an essential tool to enhance the competitiveness of the economy and to improve the standards of living



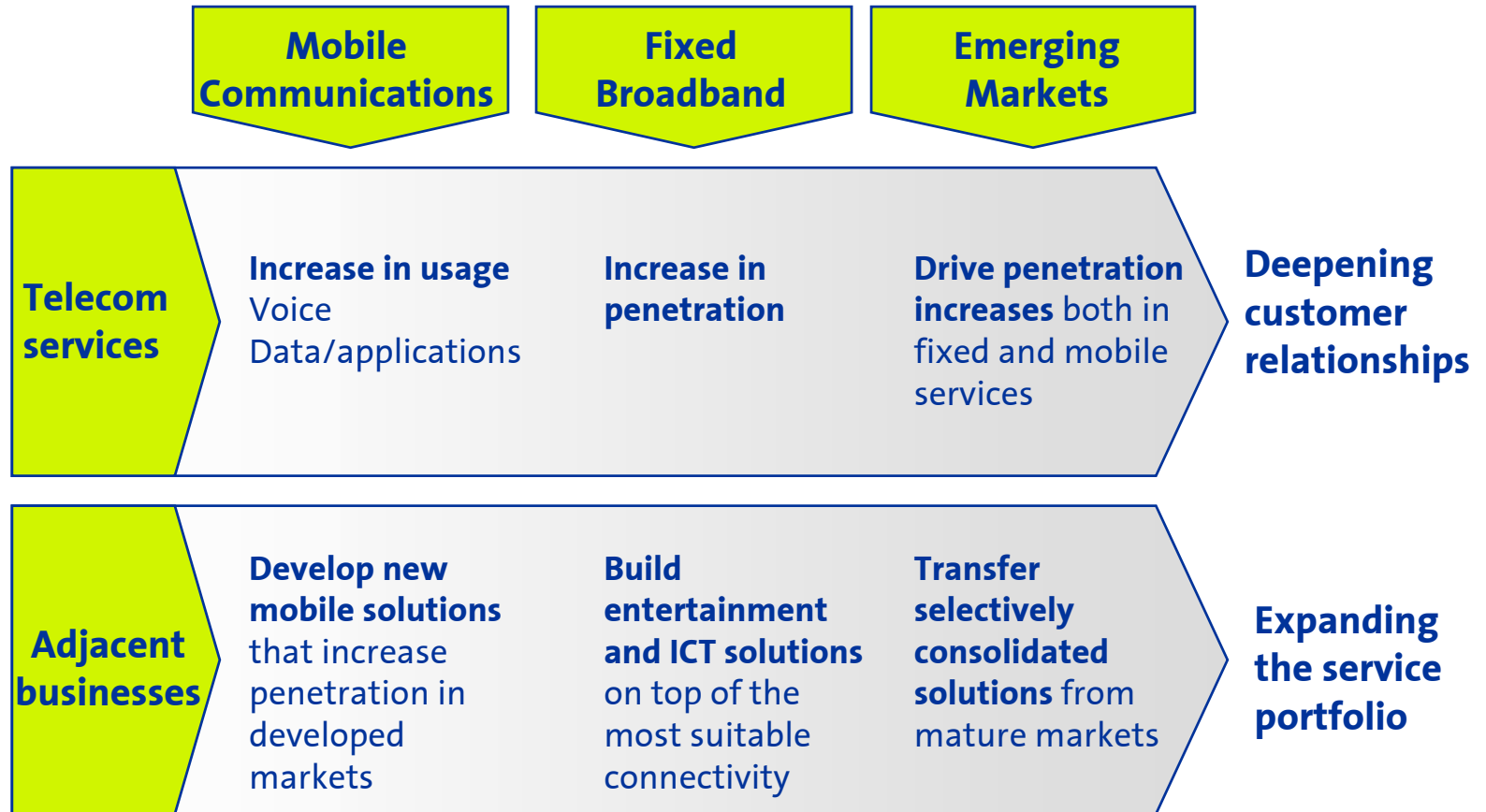
01 Telecoms, which are key to fuel the ICT expansion, will lead this growth to boost its revenues...



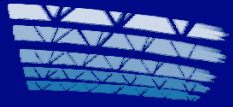


01

...leveraging on four key growth levers...



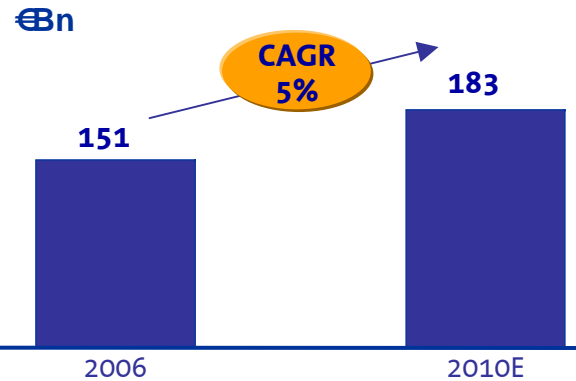
*These growth opportunities will be accelerated by a **growing demand for new “digital lifestyles” (at home and at work)**, and by the increasingly important role of telecommunications in society*



01 ... offering a large potential in the coming years

Mobile communications

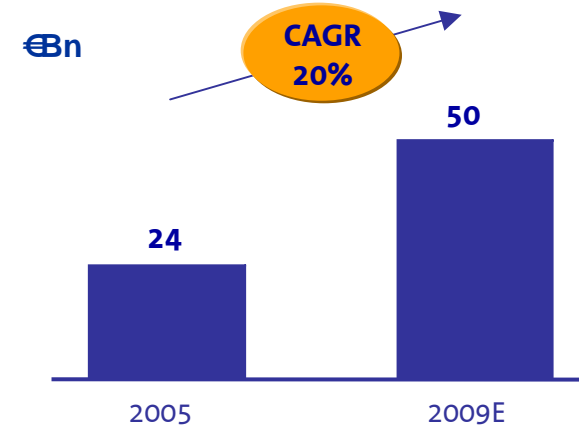
Estimated mobile revenues in Western Europe
(2006-2010E)



Source: Gartner Datarequest, March 2006.

Fixed Broadband communications

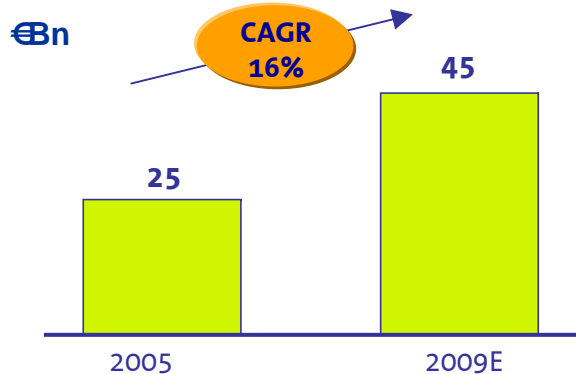
Estimated BB revenues in Europe
(2005-2009E)



Source: Yankee Group, December 2005

Opportunities in emerging markets

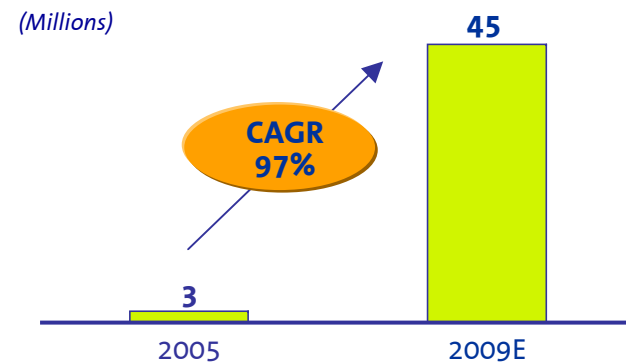
Estimated mobile revenues in LATAM
(2005-2009E)



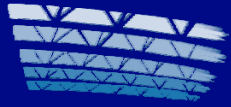
Source: Ovum, September 2005. Includes voice and data (Exchange rate: 1,2\$/€)

Development of adjacent businesses

Estimated global IPTV users (2005-2009E)



Source: IDC, 2005



01 But only those companies adapted to sector trends will fully exploit these opportunities

Major industry trends

Globalization

Competition that fosters market dynamism

Convergence

Winners will be companies having...

Regional scale

- Global communities of clients
- Regional leadership
- Global brands

Local commercial strength

- Close to customers
- Differentiated positioning

Operating efficiency

- Competitive margins

Innovation

- Source of sustainable differentiation

Adaptability

- Capacity to anticipate value migrations or extensions between sectors
- Ability to adapt to changes on technologies, business models and regulatory environments



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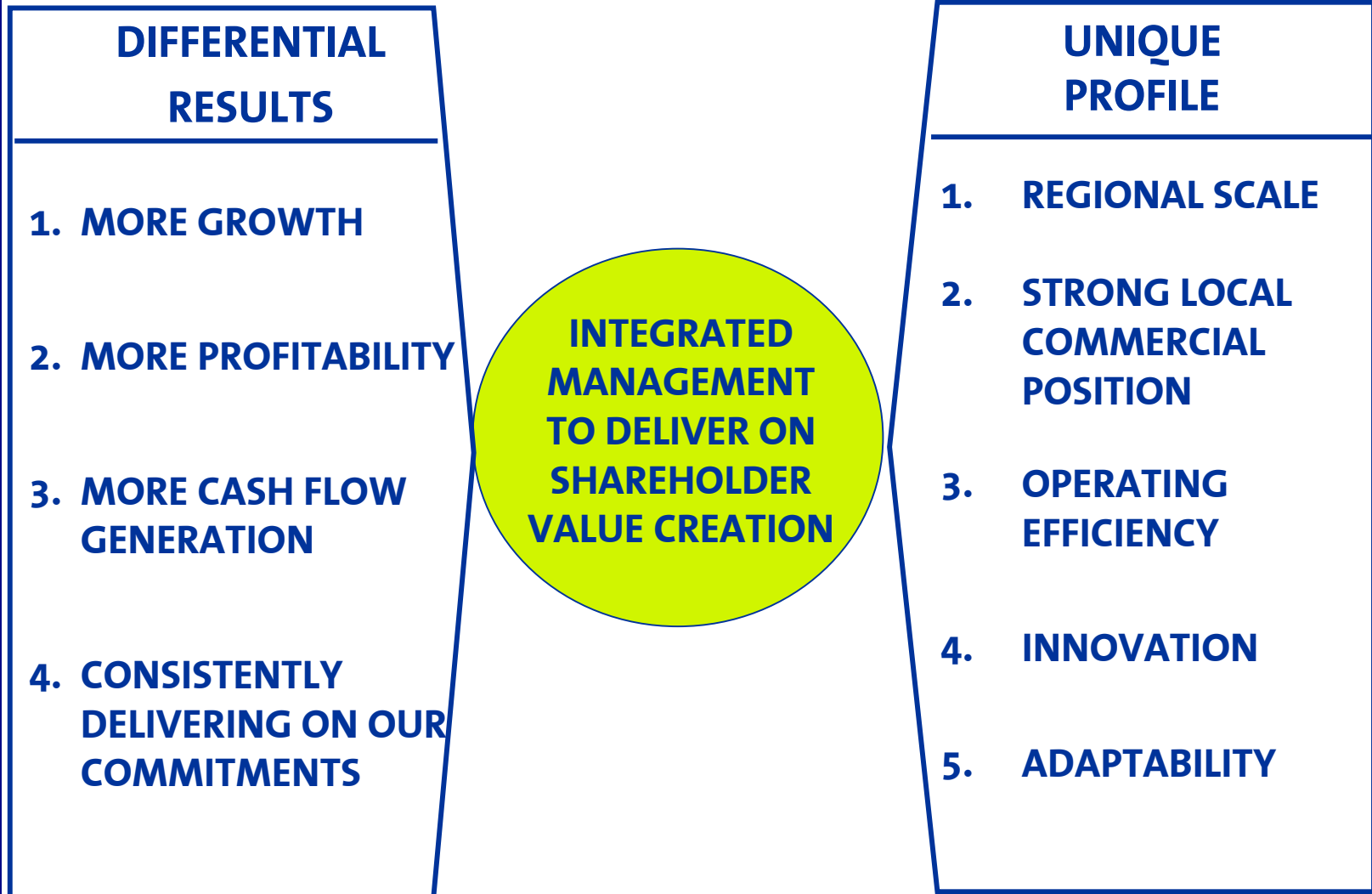
01 Telefónica: a new and better company in a growth market

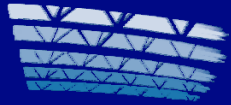
02 Our unique profile

03 Our strategic guidelines to lead the sector's evolution



02 We have achieved differentiated results thanks to a unique profile in our industry





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02 Our results top the best performances in the sector in terms of growth at the operating level,

Revenue growth⁽¹⁾

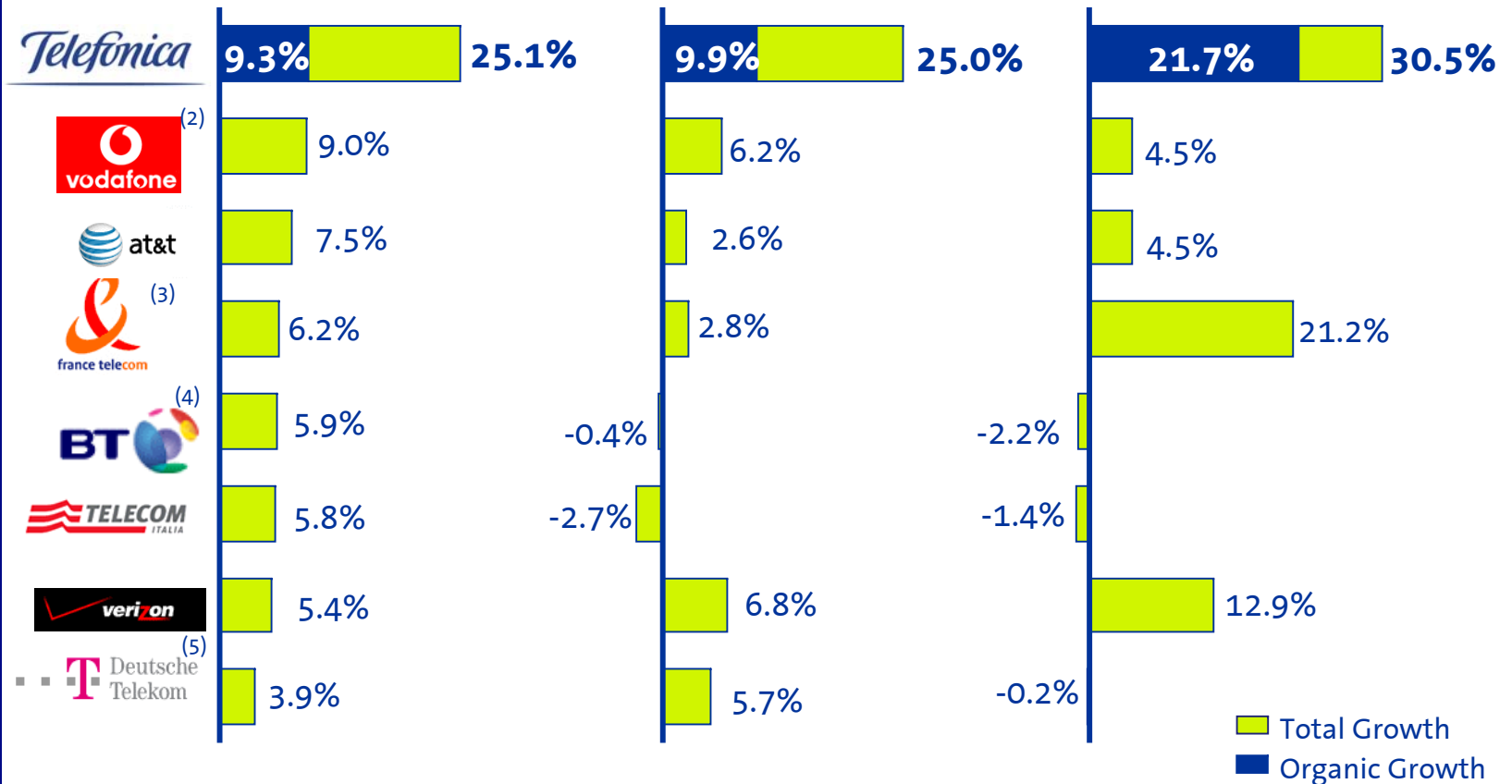
2005 vs. 2004

OIBDA growth⁽¹⁾

2005 vs. 2004

OI growth⁽¹⁾

2005 vs. 2004



(1) Based on information published by the companies

(2) Results for the six months to 30 September 2005. Adjusted EBIT.

(3) EBITDA = gross operating margin defined as revenues less supplies, operating expenses (net of operating results) and wages and salaries, excluding pension plans and stock options.

(4) Results for the twelve months to 31 March 2006. Adjusted EBITDA and EBIT.

(5) Adjusted EBITDA and EBIT.

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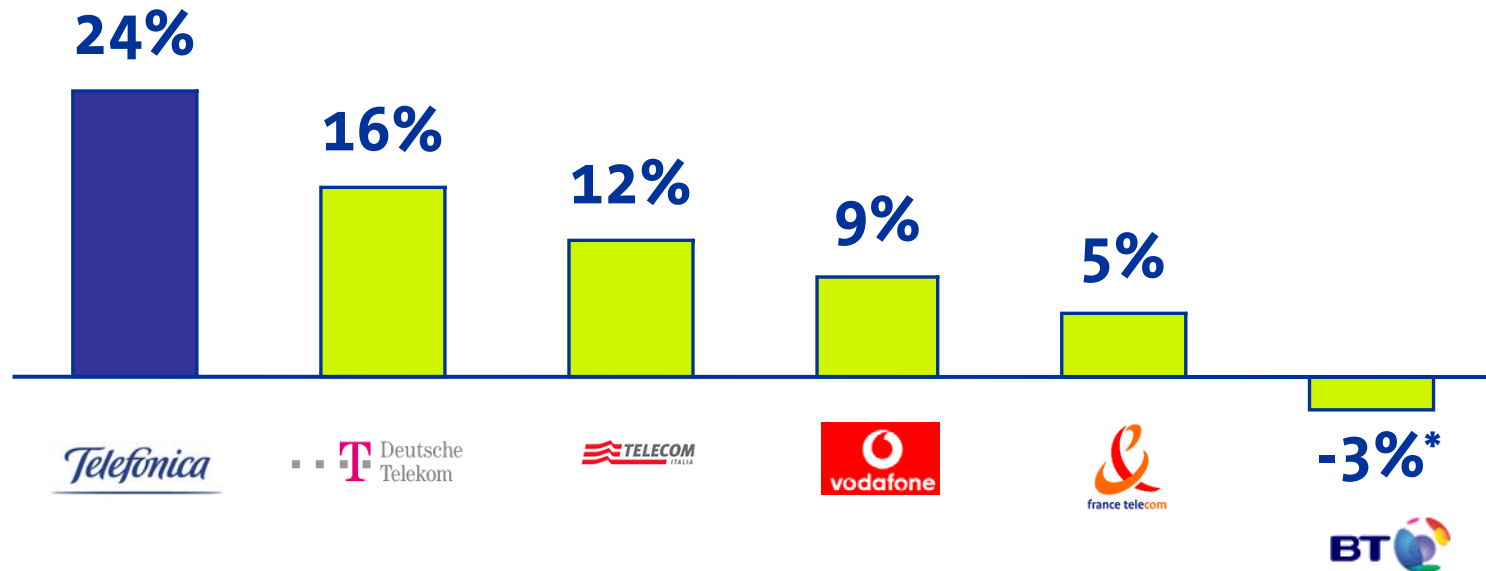
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02 ... in terms of earnings momentum ...



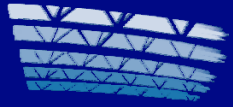
Adjusted EPS Growth

2005/2004



Adjusted EPS: excluding extraordinary results before goodwill and adjusting deferred taxes. Fully diluted.
Source: SG, Telecom Weekly, (4th of May).

*Data as of 2006E



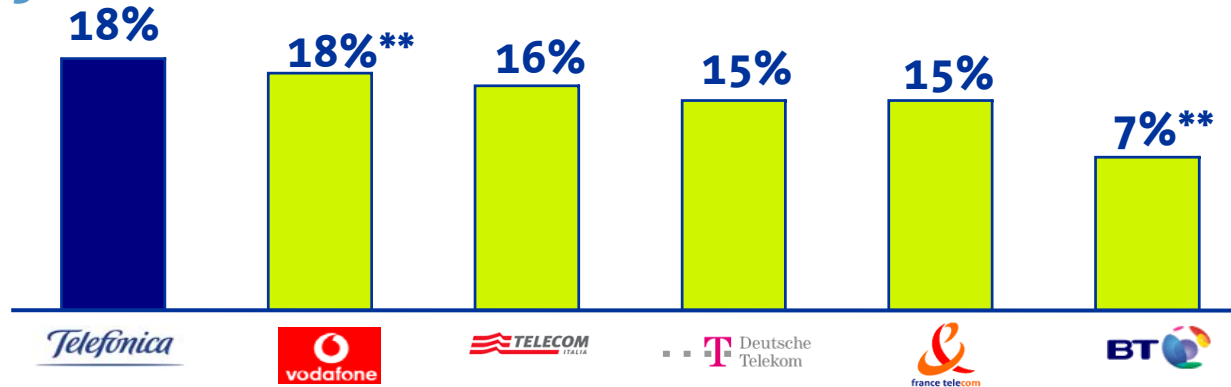
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02 ...and in terms of Cash Generation, as the basis of our shareholder remuneration policy



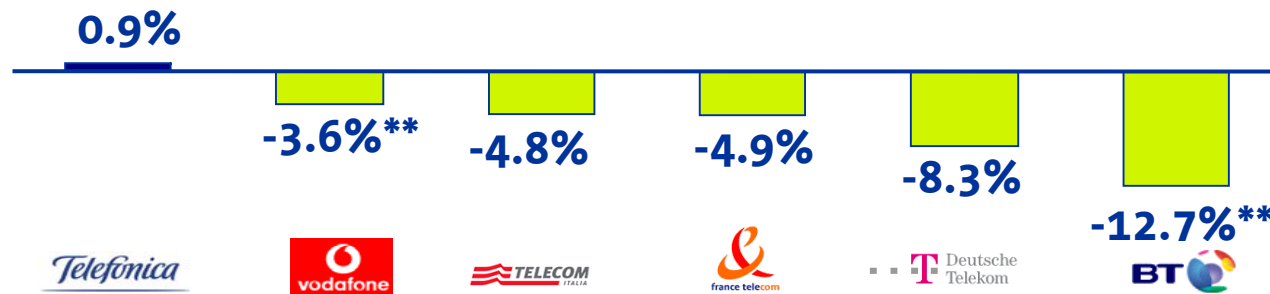
Free Cash Flow* as % of revenues

2005A



FCF* Growth

2005/2004



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Source: Merrill Lynch "European Telecoms Valuation Monitor (Mar'06)

*FCF: EBITDA-CapEx-Interese expenses- Taxes-Working Capital-Dividend to minorities-Others

**Data as of 2006E



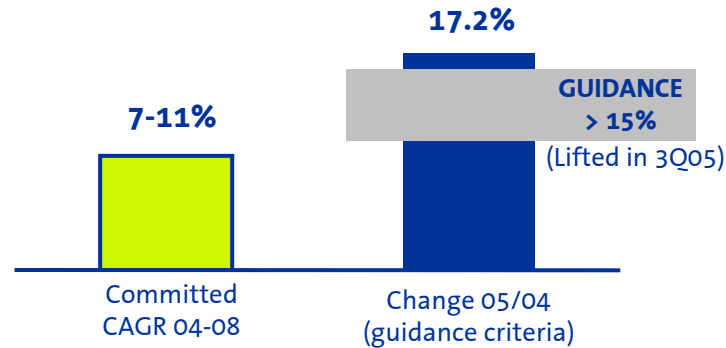
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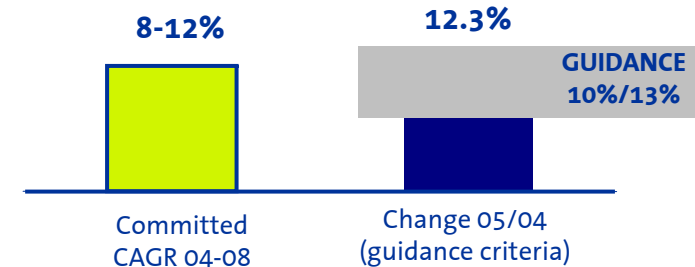
02 We consistently deliver on our commitments



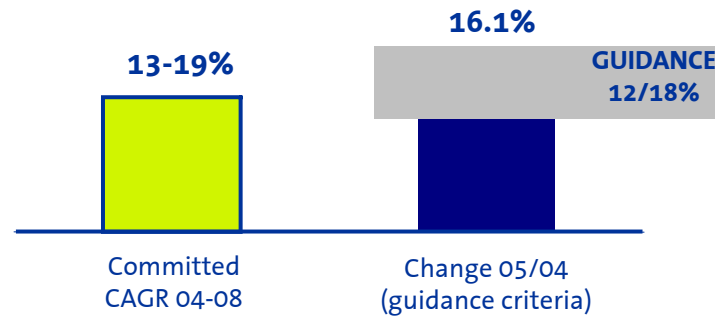
Revenue growth* ✓



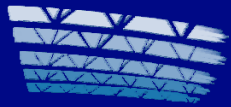
OIBDA growth* ✓



OI growth* ✓

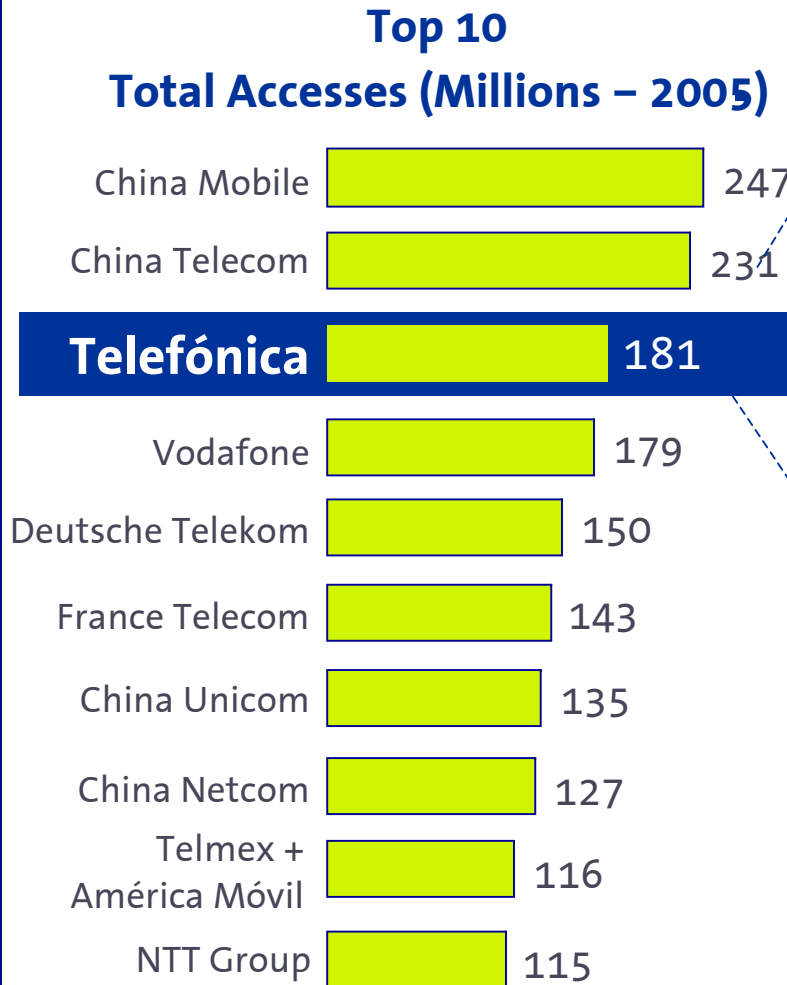


*Constant exchange rates as of 2004.
Barcelona committed CAGR 04-08 calculated under Spanish GAAP.

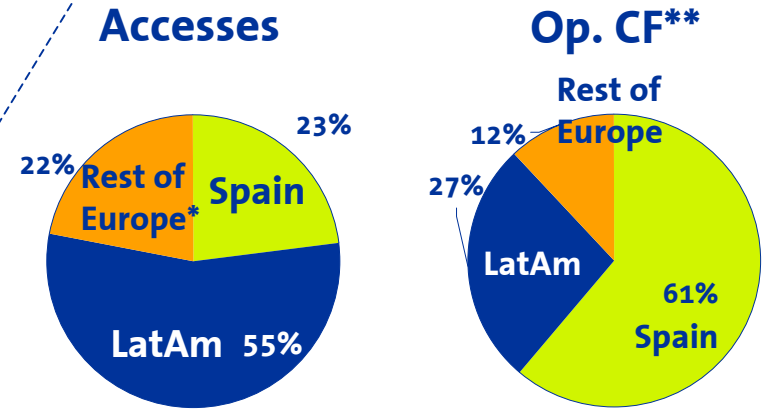


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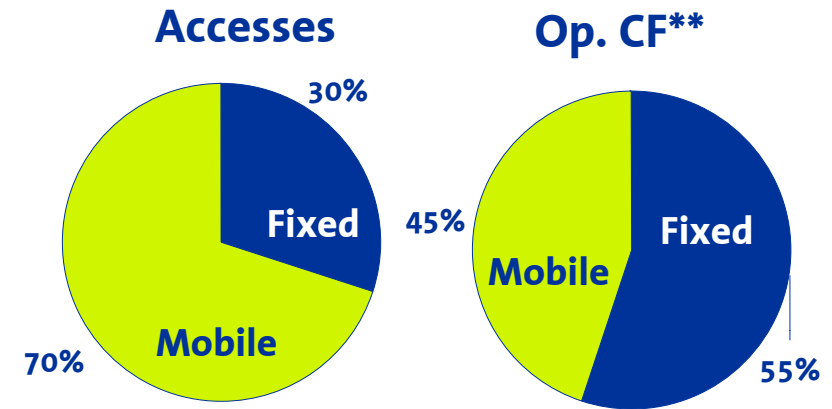
02 Our unique profile: Benefiting from regional scale...



GEOGRAPHICALLY DIVERSIFIED

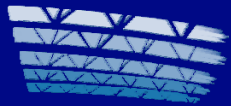


BUSINESS DIVERSIFIED***



Note: 2005PF: Full year Cesky and O2 included.
 * Includes Morocco
 ** Op. CF = OIBDA – Capex Avg Exchg Rate.
 *** Fixed includes Narrowband, BB and Pay-TV
 Total Accesses based on information published by the companies. Fixed lines+Mobile subscribers+NarrowBand&BB+PayTV





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02 ... that we actively manage



The value of being part of Telefónica

(Illustrative)

OIBDA growth(%)

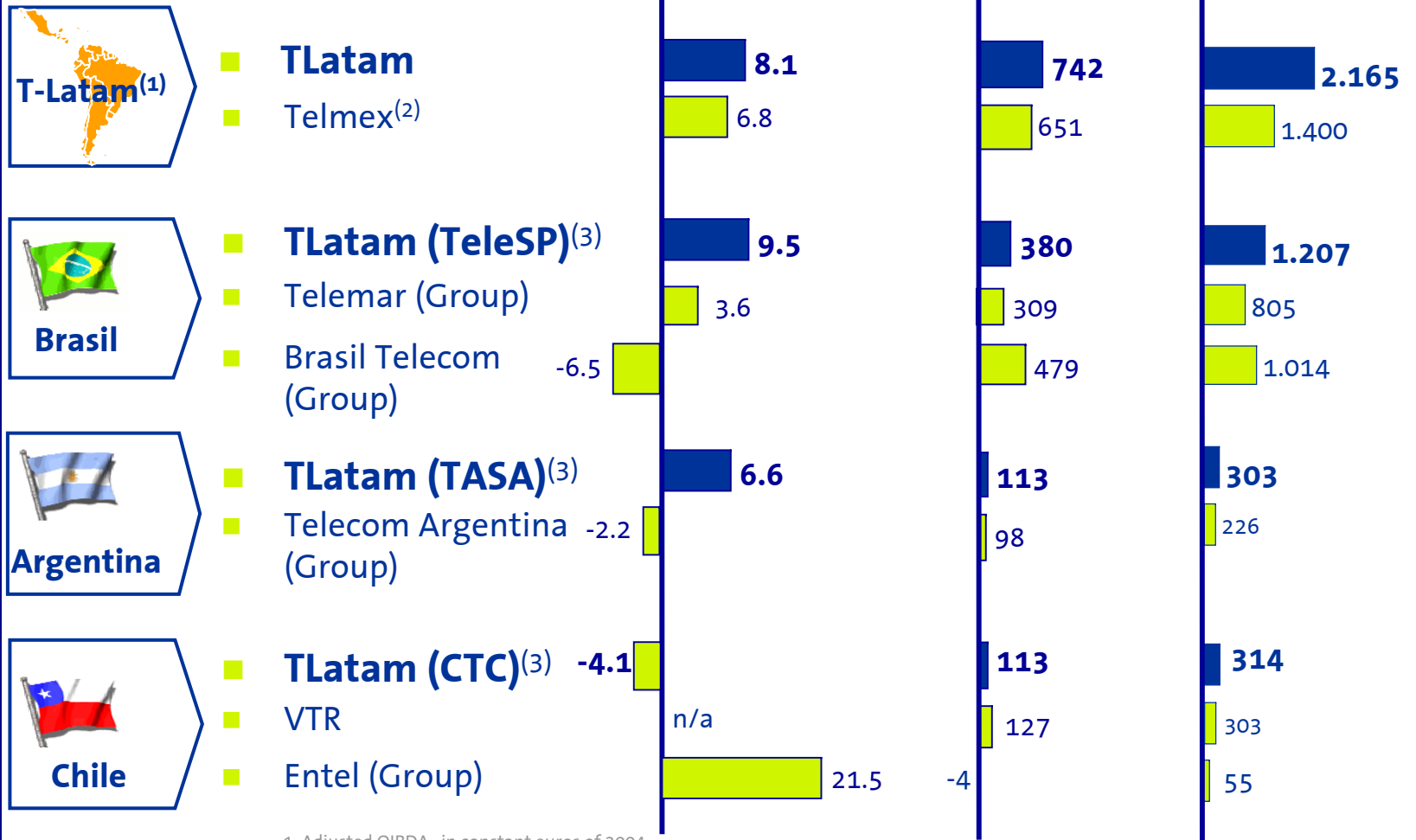
2005 vs. 2004

Net DSL
accesses⁴

2005 A ('000)

Tot. DSL
accesses⁴

2005 A ('000)



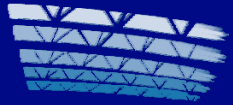
1. Adjusted OIBDA in constant euros of 2004.

2. Includes Net Brazil.

3. Reported OIBDA in local currency.

4. Wholesale and retail DSLs included. TRR not included.

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02 Our unique profile: Local commercial strength



Leadership and control of customer interface:

■ Connectivity

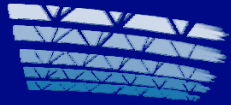
- High knowledge of our customers' profile

■ Customer care and Billing

- 5 M daily contacts (globally)

■ Commercial network and branding

- Strong brand recognition and consistent leadership in individual markets
- >65,000 points of sale worldwide

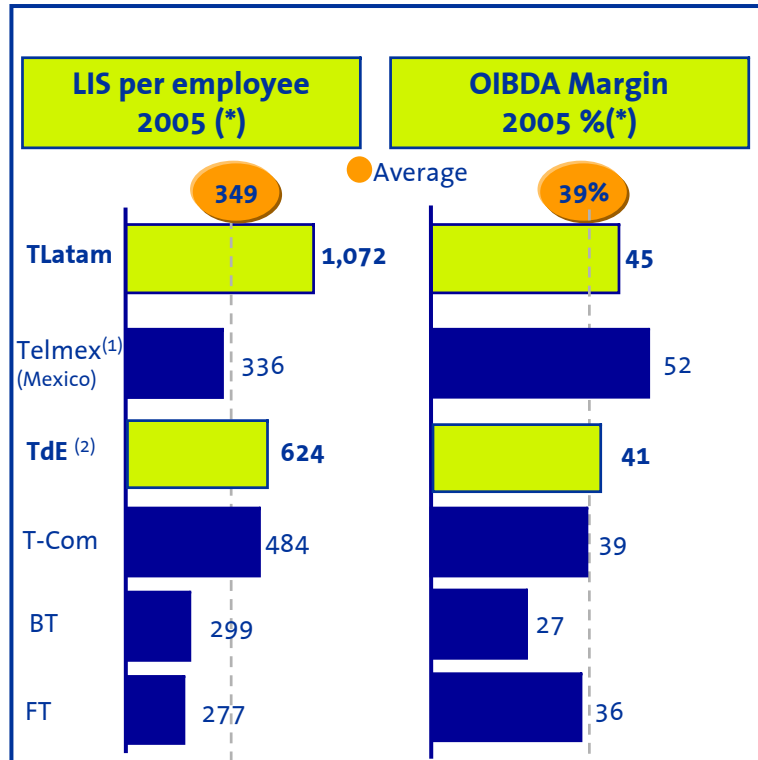


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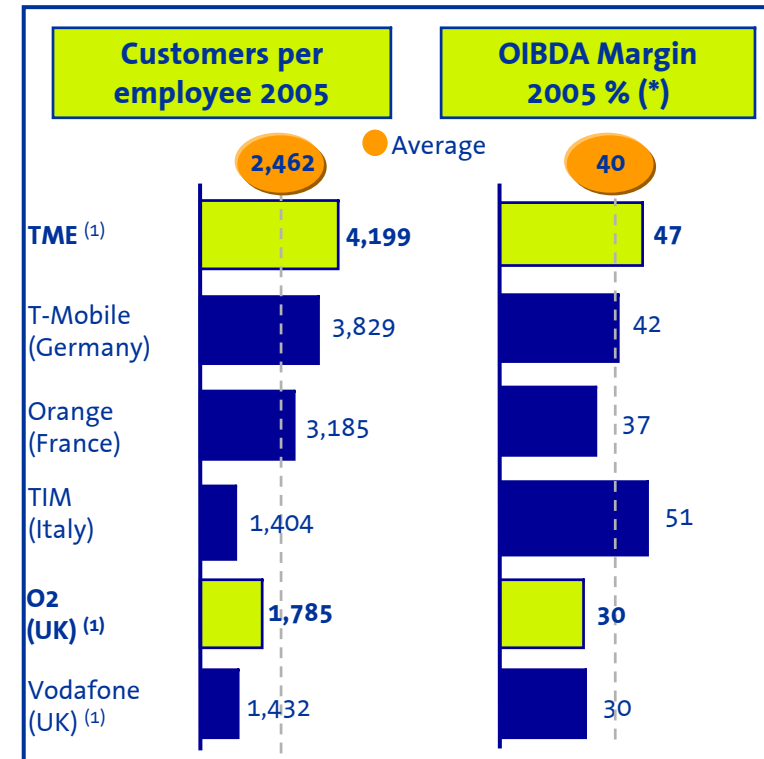
02 Our unique profile: Operating efficiency



Best in class Fixed ...



...and Mobile Telecom



We have begun the chase for efficiency before our competitors that still have to

Source: Morgan Stanley, May'06.
(*) Including PSTN and ADSL 2005
(1) Employees as of 2004, published by the company
(2) TdE Group
Note: Average excludes TdE and Tlatam

Information published by the companies as of 2005.
Note: Average excludes TdE and Tlatam

Source: Morgan Stanley, May'06
(1) Information published by the companies as of 2005.
Note: Average excludes TME and O2

Information published by the companies as of 2005.
Note: Average excludes TME and O2

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02 Our unique profile: Innovation for a distinctive competitive position



imagenio »

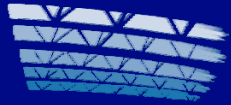


- Launch in 2003 as a pioneering IPTV service in Europe
- First replicated in early 2006. Still unique VoD feature in ADSL market
- >200,000 customers in Dec'05

O₂ Genion



- First in Europe, launched in 1999
- First replicated in late 2005
- 3.5M customers in Germany in 2005



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02 Our unique profile: Adaptability

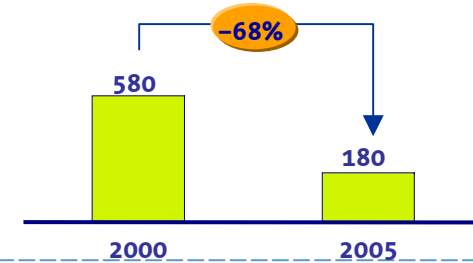


We've done the major restructuring this industry needs

Transforming our
asset base

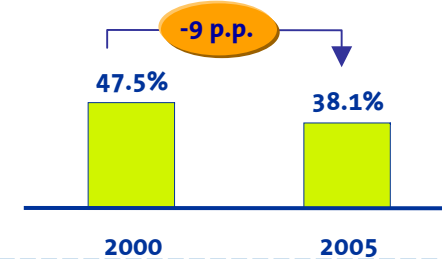
Fixed assets* / Total
accesses (€)

* Net of amortization



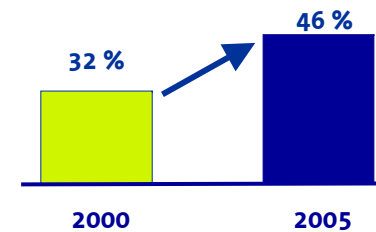
Transforming our
cost structure

Fixed Costs vs. Total
Costs



Strengthening our
commercial focus

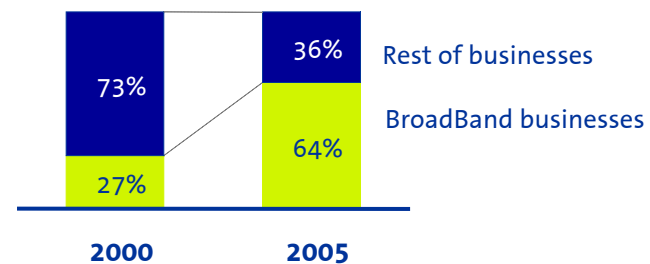
Commercial expenses as % of total
Expenses**



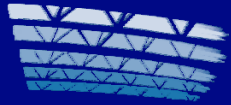
**Total expenses excluding supplies, variation in allowances for bad debts and operating taxes. TdE, TLatam and TEM considered

Focusing on
investments for
growth

Capex mix



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02 In summary, we have achieved differential results thanks to a unique profile in our industry

DIFFERENTIAL RESULTS

1. Highest organic growth in the European industry...
2. ...with earnings well above the market, growing by 24%...
3. ...supported by a strong cash flow generation of 18% over revenues with positive growth...
4. ...allowing us to consistently deliver on our commitments

INTEGRATED MANAGEMENT TO DELIVER ON SHAREHOLDER VALUE CREATION

UNIQUE PROFILE

1. A balanced portfolio of over 180 M accesses,...
2. ...with a #1/#2 position supported by strong capabilities and assets...
3. ...and high OIBDA margins based on the lowest rates of LIS/ customers per employee...
4. ...pioneering in the launching of new P&S like Imagenio or Genion...
5. ...while adapting ourselves through a more flexible and dynamic structure

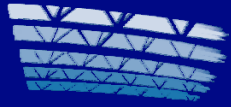


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03 Our Vision

Telefónica: the most competitive, customer oriented, solutions driven, integrated IP Company, with a clear goal...

... to deliver the best combination of growth and returns in the industry to our shareholders

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03 Our strategic focus will be developed through four major objectives





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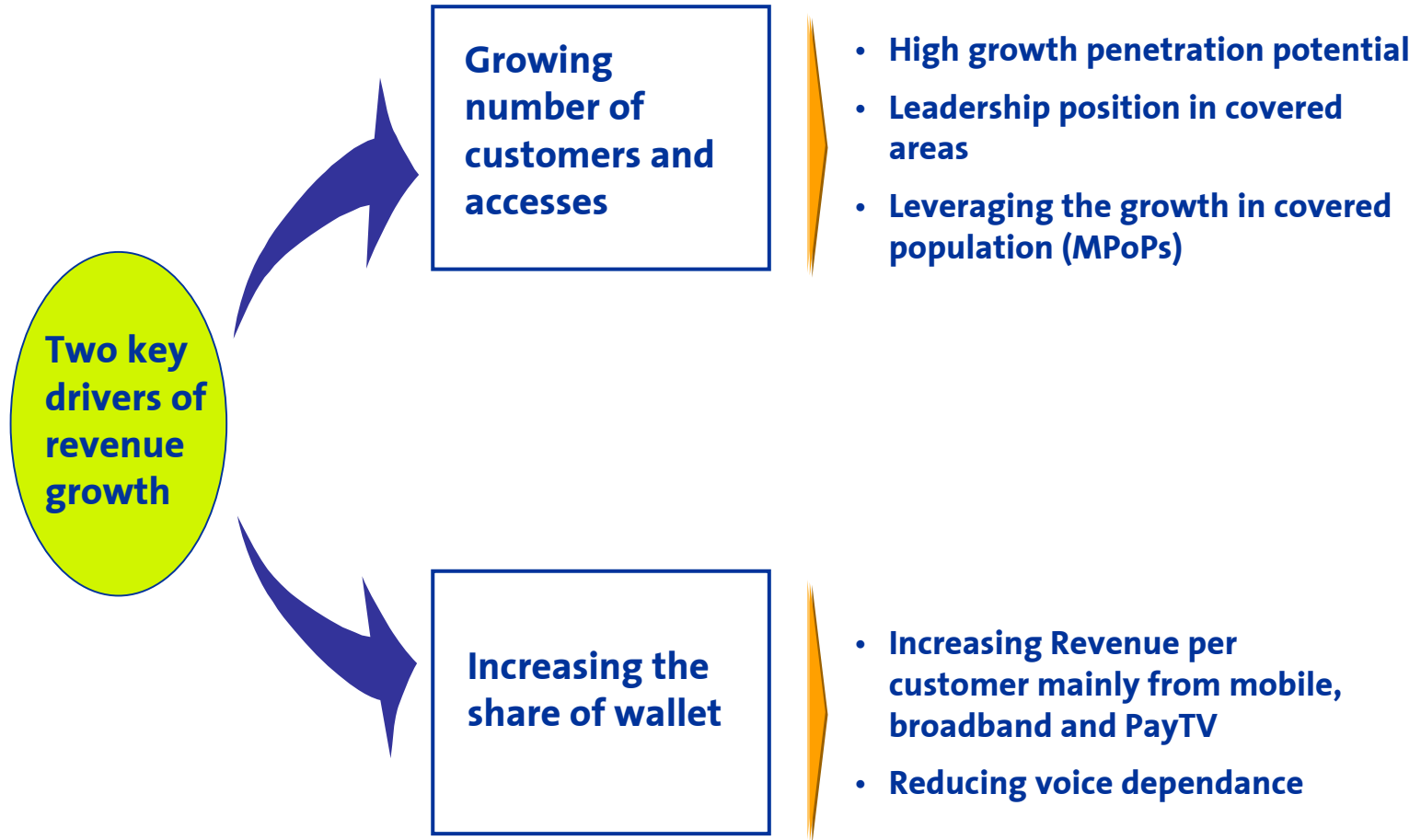
03 Our differentiated top line growth well ahead of peers is driven by

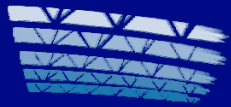
1

- Unique high growth Latam businesses
- O2 differential growth momentum in Europe
- Superior revenue growth of Spanish assets within the European market
- Český Telecom full integration as a new opportunity
- Ongoing revenue upside from new businesses
- Additional revenue enhancement from integrated mgmt.



03 Increasing our customer base and our revenues per customer will be the key drivers of revenue growth





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03 Leading us to manage a growing number of customers and services in a larger potential market...

1

High Growth Penetration potential

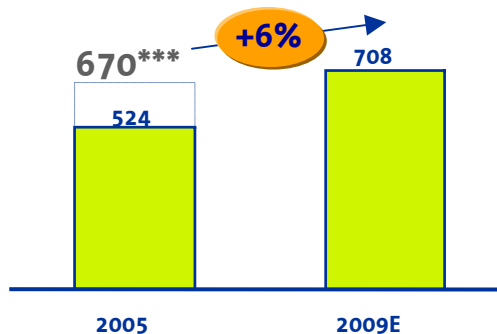
Penetration Inc. 05-09E*	Fixed BB	Mobile
Spain	+22pp	+11pp
Rest of Europe*	+21pp	+12pp
Latam (e.g. Brazil)	+8pp	+33pp

+

Leadership in covered areas

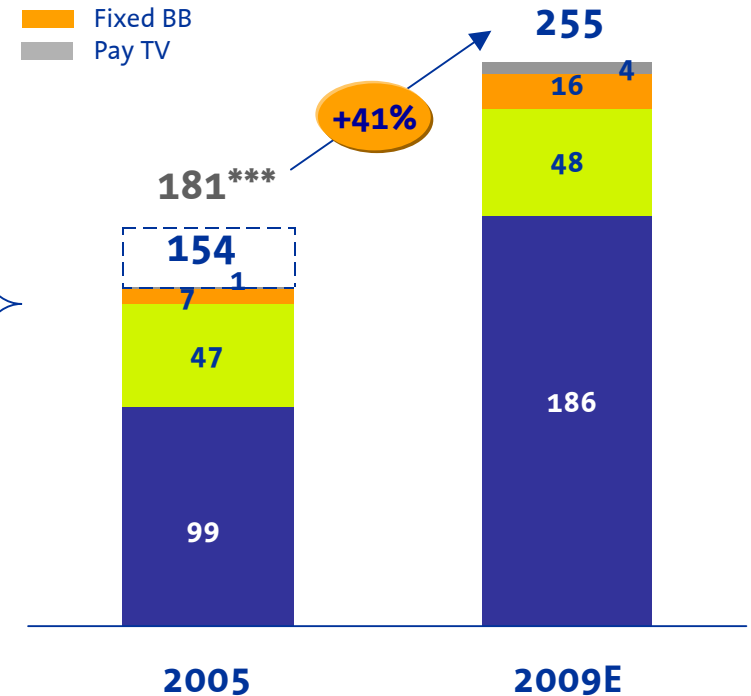
+

Covered Population Growth (MPoPs)



Number of Accesses (M)

- Mobile
- Fixed **
- Fixed BB
- Pay TV



* Sources: Yankee Group, Ovum and Pyramid. Rest of Europe: UK, Germany and Czech Republic

** Includes narrowband, leased circuits and leased local loops

*** Including O2



03 ... and to increase total Revenues per customer...

1

- **Increasing revenue per customer** while strongly accelerating the growth of our access base

- **Delighting our customers with innovative proposals** of integrated solutions for communication, information and entertainment



03 A clear set of management actions to continue growing our top line...

Customers

Multi business customer insight

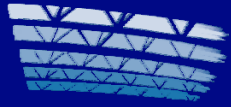
Integrated channel management

Refreshed and segmented brand strategy

Innovation

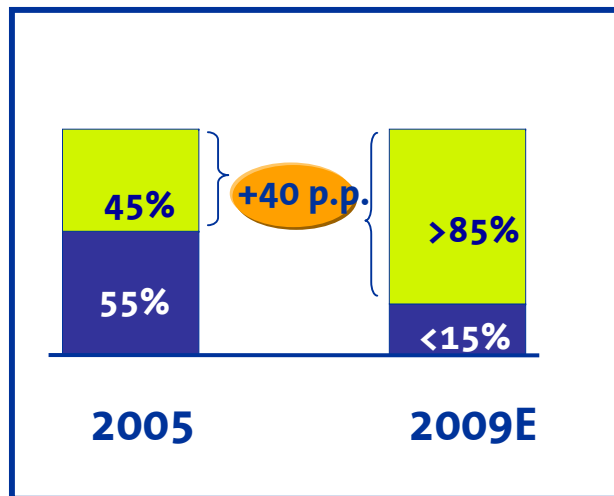
New portfolio of P&S:
Convergent Services, New Internet-based business models,
Personal TV services

Top-notch content offer



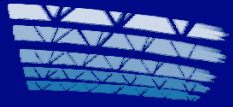
03 ... while evolving the revenue business model...

REVENUE MIX EVOLUTION



- Data, Broadband and other Revenues, including bundled minutes
- Outgoing Traditional Voice traffic Revenues

- Our dependence of traditional voice will be reduced by 40 p.p. during the period 2005-2009E
- Voice will increasingly be sold in flat rates and bundles with other services, as a component of complete solutions for our customers' needs
- Data revenues will be our main growth source in the period



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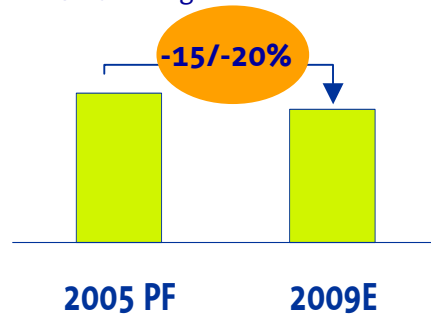
03 ... and keep on transforming our cost and CapEx structure

2

A very Efficient Operating model

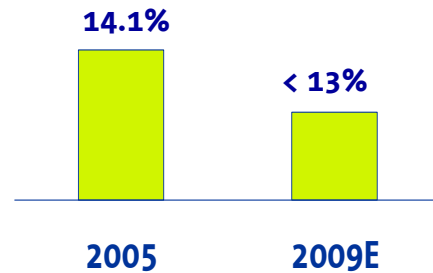
PRODUCTIVITY INCREASE

Network operating cost per Access
Total 05-09 Change



CAPEX CONTROL

CapEx to revenues



Economic benefits from an **integrated broadband all-IP-based network and NGA...**

... reinforced by a **common vision and evolution of our IT systems...**

... and an **integrated procurement model** to maximize savings in the purchase area



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03 Financial discipline is a key element of our management strategy

3

**De-leveraging
to re-build
financial
strength**

COMMITMENTS

- BBB+/Baa1 as rating floor
- Net debt + commitments below 2.5x OIBDA in the medium term, as of 1Q06 is 2.8x OIBDA

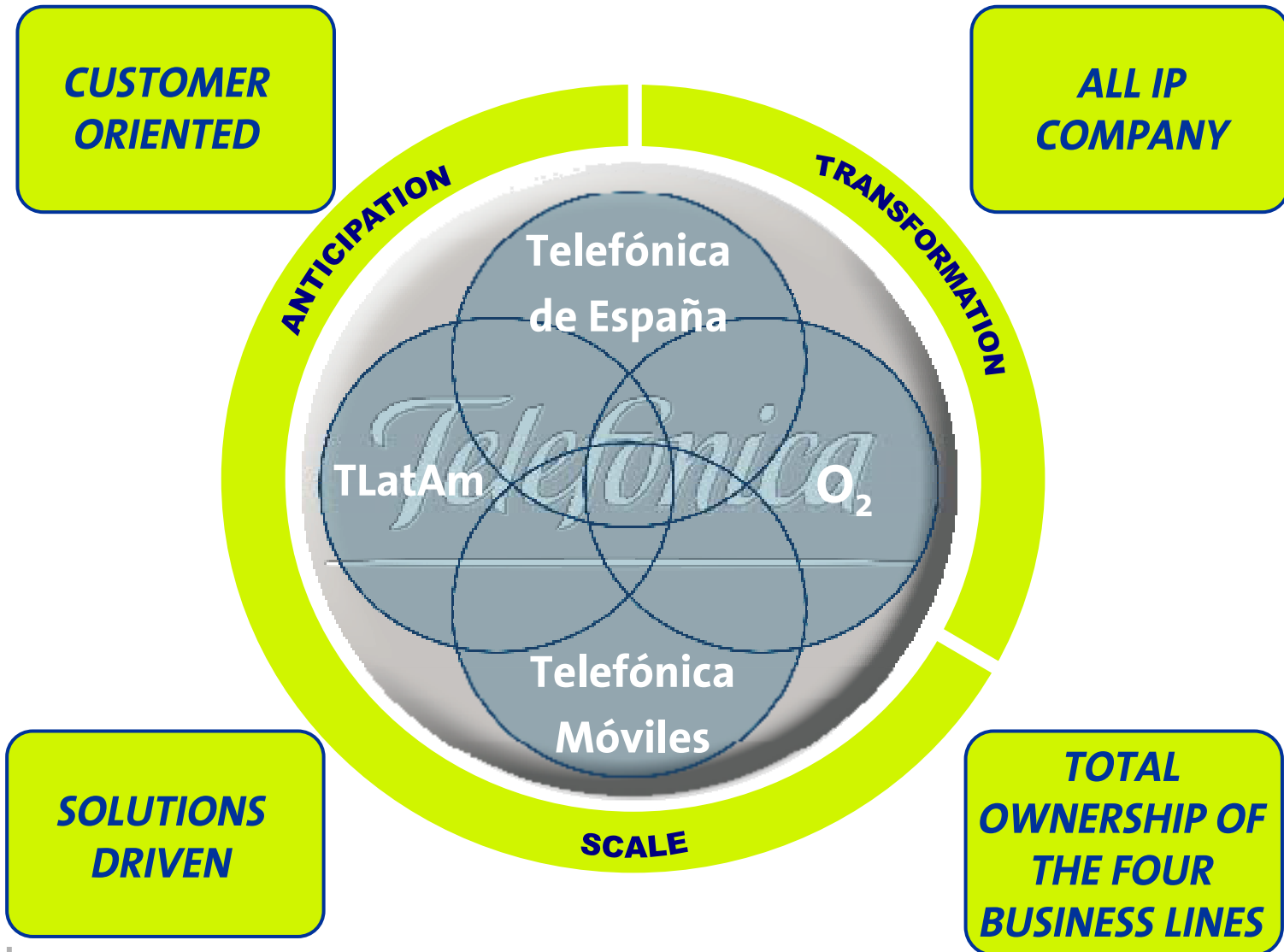


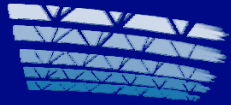
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03 New integrated management of our businesses will allow us to extract additional value

4



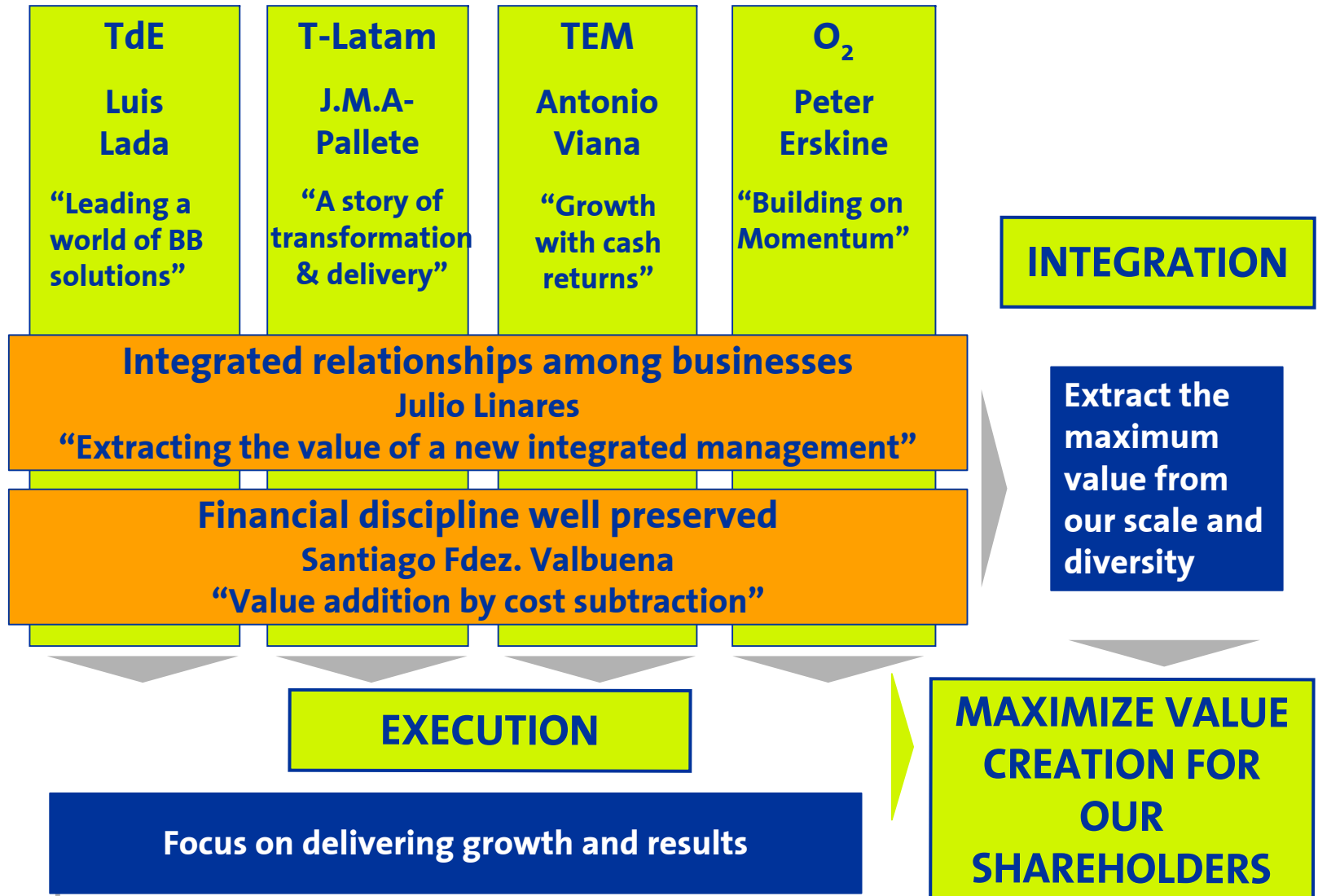


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03 Telefónica delivers results through focused individual businesses and integrated relationships 4

MANAGEMENT PROGRAM





03 Telefonica as a new and better Company: a new and unique profile to capture the very promising growth opportunities

- Enhanced growth prospects, well ahead of peers
- Well-balanced by business and geographies
- Enormous potential to extract value from scale and diversity through a new integrated management
- Financial discipline well preserved
- Growth to fully flow to investors



**Superior proposition to
Shareholders**

Telefonica
