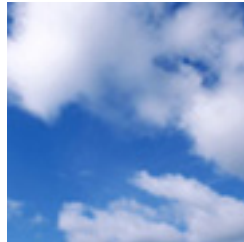


# Telefónica Credit Quality & Financing Plan



10 January 2006

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# 01 Telefónica is a leading operator in the telecommunications sector in various dimensions...



**147.7m accesses  
(>90m in Mobile),  
64% in Latam**



**Provider of  
Telecommunications  
Services in the Spanish and  
Portuguese speaking markets**



**Revenue\*: EUR 30,322m  
Assets\*: EUR 63,465m**



**High Operating Cash Flow  
generation:  
EBITDA\*: EUR 13,215m  
OpCF\*: EUR 9,605m**



**Integrated  
Telecommunications  
company in Europe and  
Latam by market  
capitalisation**



**EUR 65 bn of  
Market Capitalisation  
as at 9 Jan 2006**

\*Revenues, EBITDA and OpCF (EBITDA-Capex) of 2004, and Assets as of YE 2004.  
Estimated operating data as of Q3' 2005

# 01 ...that is achieving a distinctive profile by leveraging on the benefits of scale...

## WE HAVE AN AMBITIOUS ASPIRATION...

- To **grow top-line faster** than peers through better servicing our clients
- To **keep efficiency levels high in the long run** even in tough conditions (regulation, competition, technology)
- To achieve a **high cash flow conversion ratio**

## ...AND THE VISION OF WHAT WE NEED TO SUCCEED

- To **achieve critical mass** in each of our local markets
- To exploit an **integrated management of operations** to enhance competitive positions and extract the full value of synergies
- To **leverage on a diversified** portfolio of assets by businesses and regions

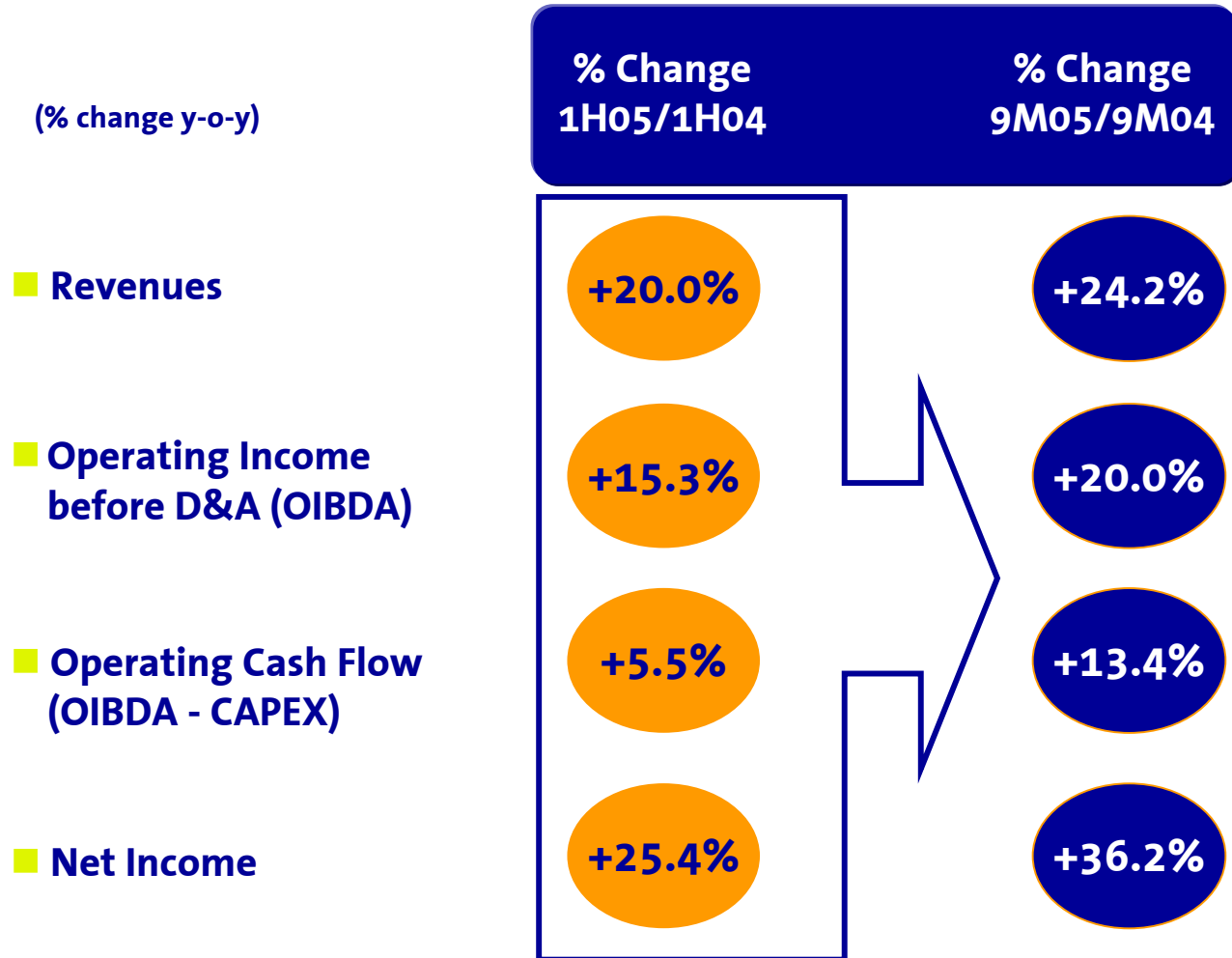
The Best Combination of Growth and Cash Returns in the Industry...

...By Leveraging on Scale, Which Does Increasingly Matter

# 01 ...extracting value from at least eleven of them with current footprint

Scale Impact	GLOBAL SCALE	PAN REGIONAL SCALE	LOCAL SCALE
COSTS & CAPEX	1 Handset & equipment purchasing		
	2 Advertising		
	3 Content purchasing		
	4 Software development & IT operations		
		5 Network efficiency	
	6 Headquarter rationalisation		
SALES	7 Corporate solutions development		
	8 Multinational Corporations		
	9 Roaming		
	10 New services		
		11 Distribution	
OTHER	<ul style="list-style-type: none"> <li>■ R&amp;D</li> <li>■ Regulatory influence</li> <li>■ Attracting talent</li> </ul>		

# 01 9M05 financial highlights: building an attractive growth profile...

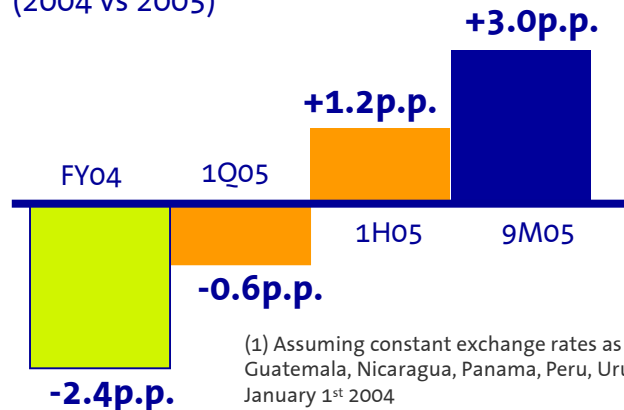


**Strong operating performance across the group in 3Q05 has led to benchmark results**

# 01 ...by capitalizing on our very healthy organic growth supported by currencies...

Organic Revenue Growth Evolution <sup>(1)</sup>	% Change 1Q05/1Q04	% Change 1H05/1H04	% Change 9M05/9M04
TdE Group <sup>(2)</sup>	+6.0%	+5.4%	+5.0%
Cell. Business	+17.5%	+19.5%	+18.0%
T. Latam <sup>(2)</sup>	+3.2%	+6.2%	+6.2%
<b>Group</b>	<b>+9.5%</b>		<b>+9.9%</b>

## Forex Impact Comparison <sup>(3)</sup> (2004 vs 2005)



- Positive contribution of forex for the first time in four years
- +16% appreciation of BRL/€ in 2005

(1) Assuming constant exchange rates as of 9M04. Incorporating the assets acquired to BellSouth in Argentina, Colombia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela into the mobile business and Atrium into Telefónica Latinoamérica's Group, from January 1<sup>st</sup> 2004

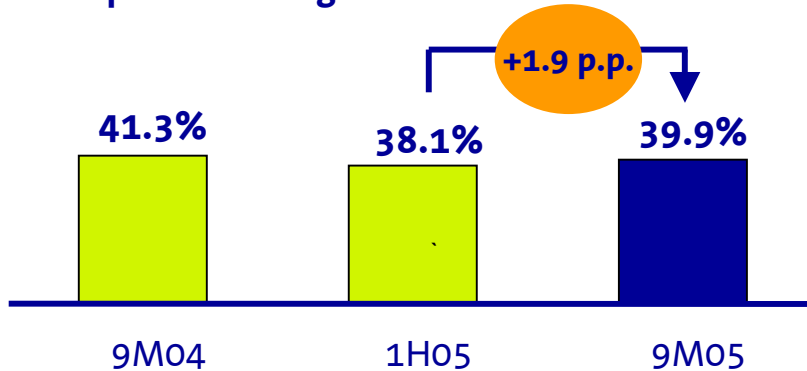
(2) Excluding 3Q05 revenues of Terra's Spanish and Latam units, which are consolidated under TdE and T.Latam since July 2005, respectively

(3) Exchange rates used to translate local currency P&Ls into €

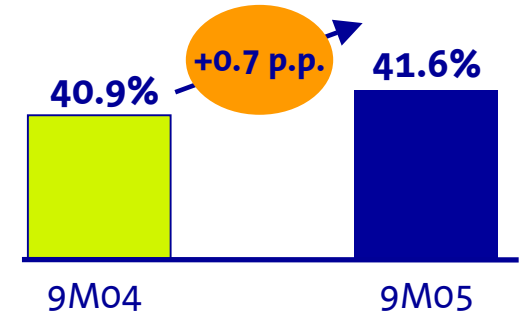


# 01 ...with margins and cash generation remaining healthy, backed by wireline

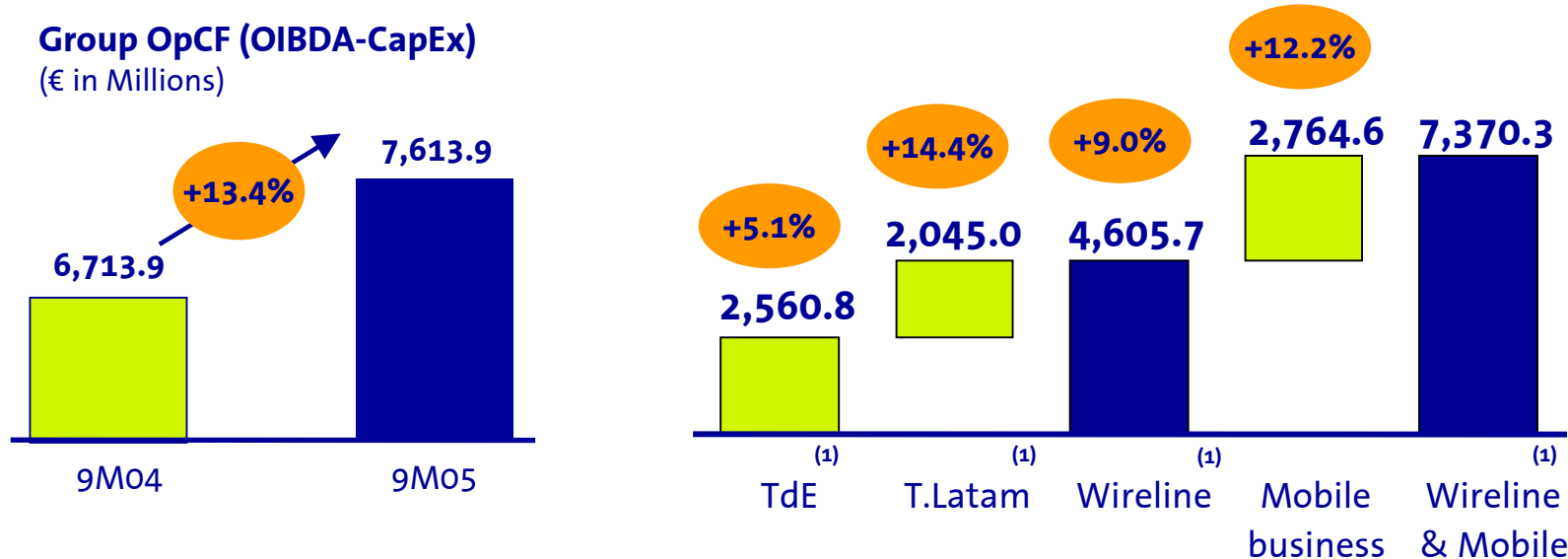
**Group OIBDA Margin**



**Wireline OIBDA Margin**  
(Aggregate TdE+T.Latam <sup>1</sup>)



**Group OpCF (OIBDA-CapEx)**  
(€ in Millions)



(1) Including Terra's Spanish & Latam units, respectively, since July 2005. For T.Latam, OIBDA margin is calculated pre-capital gains (77.5 MM€ mainly from the sale of Infonet in 2005, and 426.8 MM€ mainly from the sale of CTC mobile unit in 2004, respectively), 9M04 OIBDA excludes capital gains from the sale of CTC mobile unit as it is an intra-group benefit (425.5 MM€) for OpCF calculation  
Telefónica, S.A.

# 01 3Q05 numbers strengthen our confidence on year-end revenue guidance...

Revenue Growth <sup>(1)</sup>  
(2005 Guidance)

PREVIOUS

NEW

*Telefonica*  
de España

0.5%/2%

>4%

 TPI

3%/5%

5.5%/6.5%

*Telefonica*

12%/15%

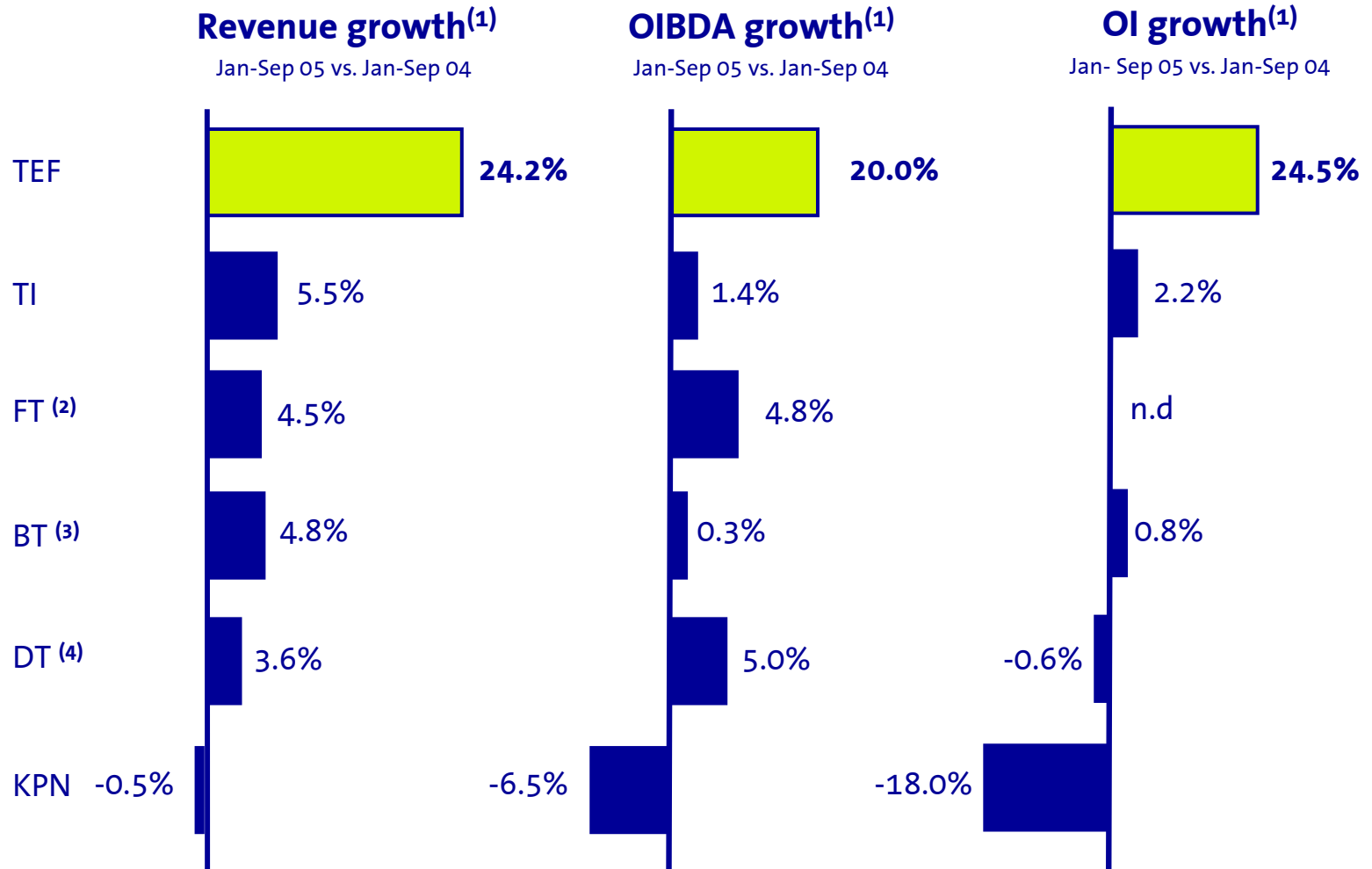
>15%

The rest of Group and divisional targets maintained

<sup>(1)</sup> Guidance assumes constant exchange rates as of 2004. All figures exclude changes in consolidation, other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (T.Latam).

# 01 ...and positions Telefónica at the top of peer's performance in 2005

*Telefonica*



(1) Based on data published by companies

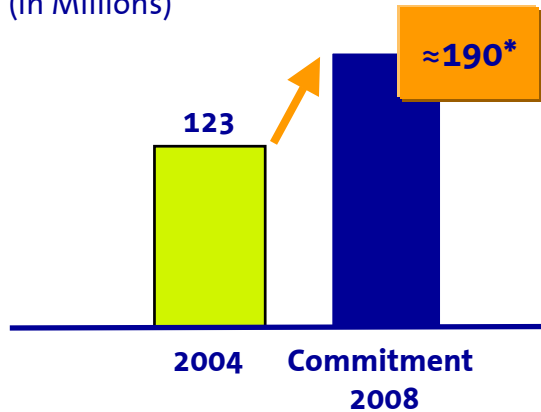
(2) EBITDA = Gross operating margin as Revenues minus external purchases, operating costs (net of operating income) and wages and payroll expenses (labour costs). Labour costs do not include employee profit-sharing and shared-based payments

(3) Half year results to September 30, 2005. Data for EBITDA/EBIT is before specific items

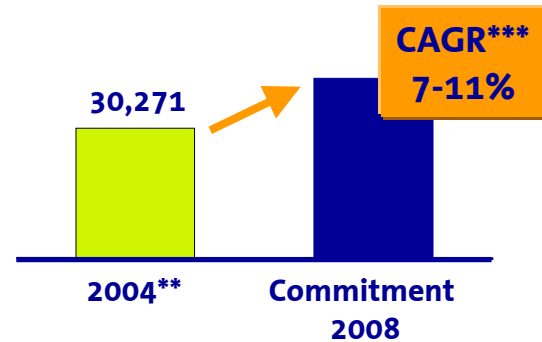
(4) EBITDA and EBIT adjusted for special factors

# 01 We expect our strategy to accelerate top line growth while improving operational excellence and financing growth projects until 2008

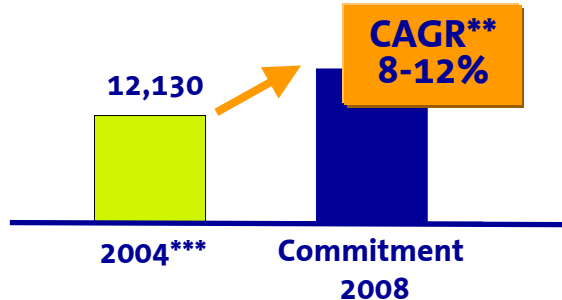
**Customer base growth (# accesses)**  
(in Millions)



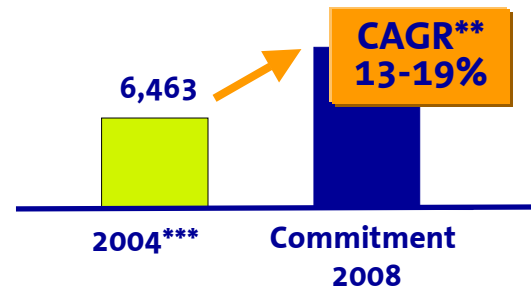
**Revenue growth**  
(in € Millions)



**Op. Income before D&A\***  
(in € Millions)



**Op. Income\***  
(in € Millions)



\*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.

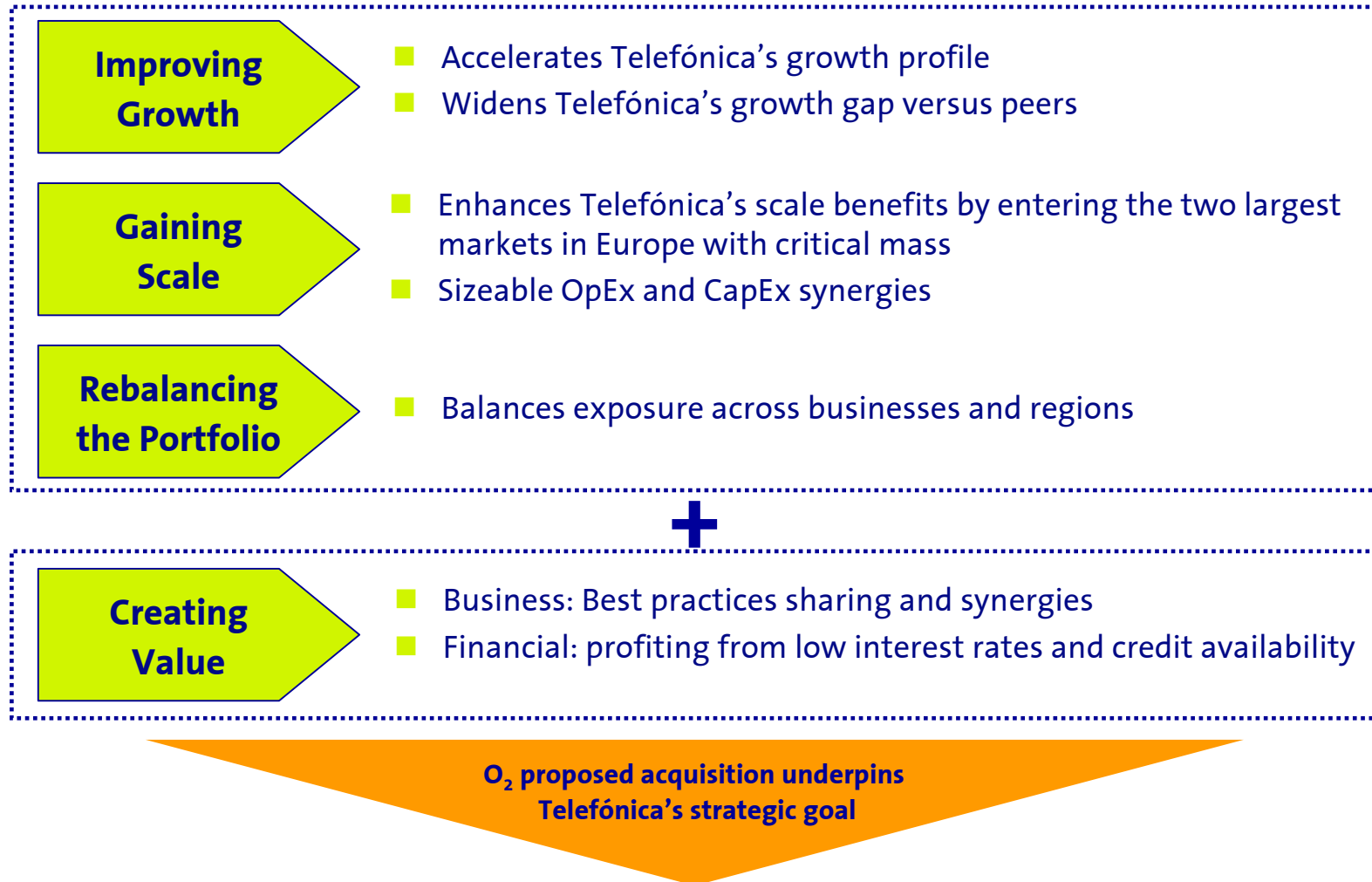
\*\* Local currency (constant exchange rates as of 2004) and exclude changes in consolidation other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (TLatAm). Includes Český Telecom from 2H05.

\*\*\* Reported 2004 under IFRS

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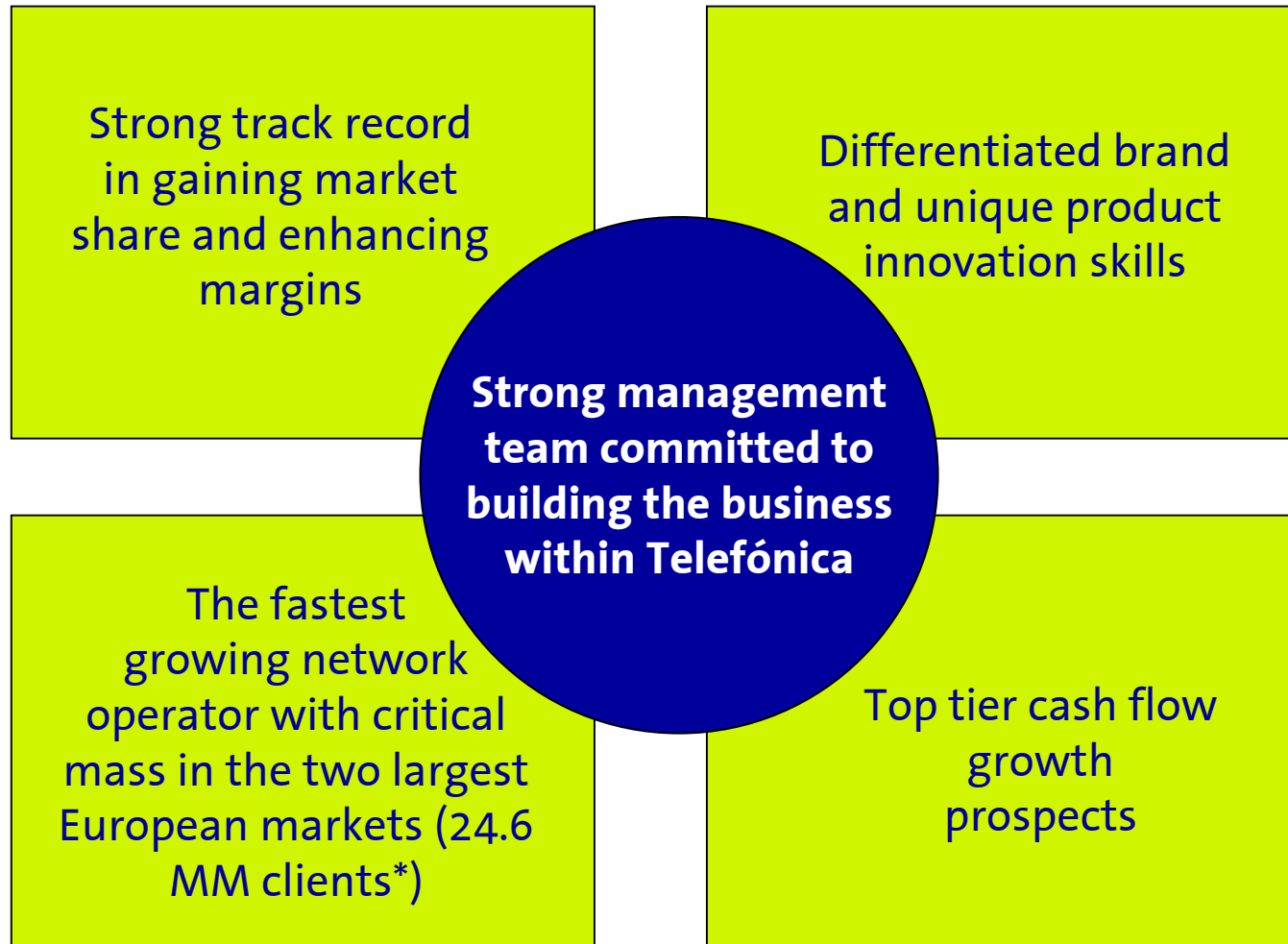
## 02 Proposed acquisition rationale: strategic benefits of O2



**TO PROVIDE THE BEST COMBINATION OF GROWTH AND CASH RETURNS IN THE INDUSTRY**

## 02 A top quality asset for Telefónica to build on...

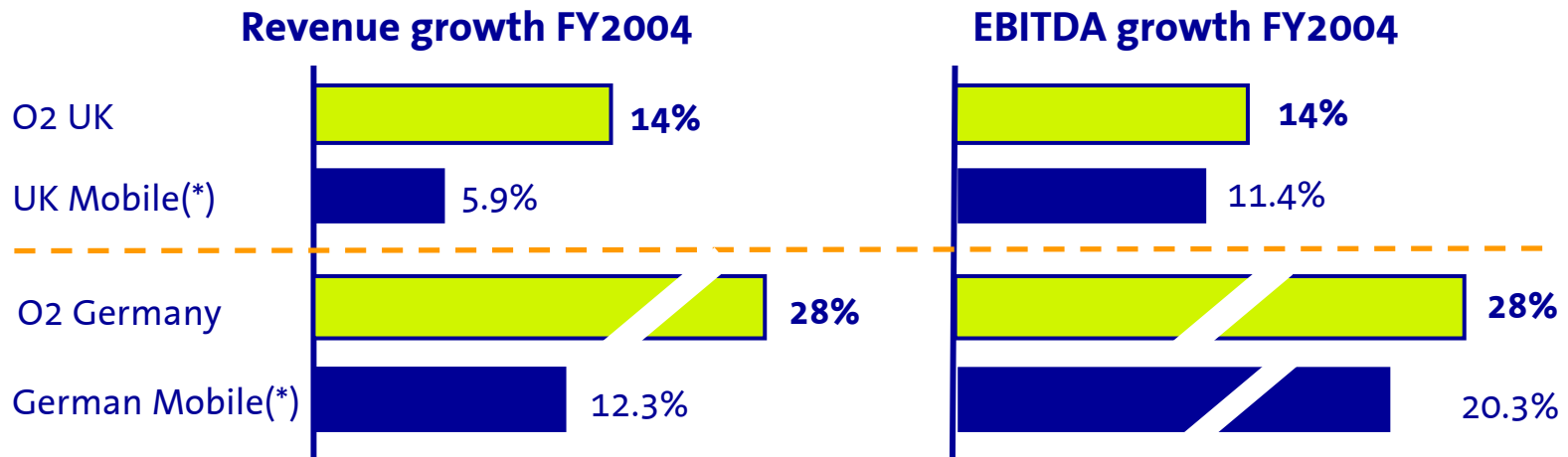
*Telefónica*



# 02 ...with superior growth profile

*Telefonica*

## Above-market performance in its two major markets

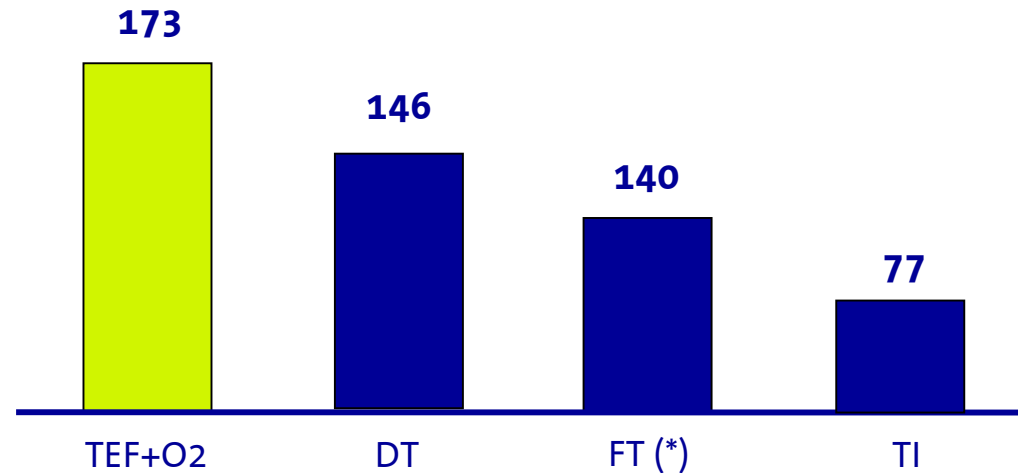


\*Arithmetic average of companies's Revenue and EBITDA growth. Source: Companies Reports



## 02 Adding critical mass globally and in the European mobile markets

**Total Customers (millions)**  
(Sep 2005A)



**FY2005E REVENUES  
(EUR Bn) (\*\*)**

48

60

48

30

- Nearly **120** million mobile customers worldwide
- Doubling the European mobile customers

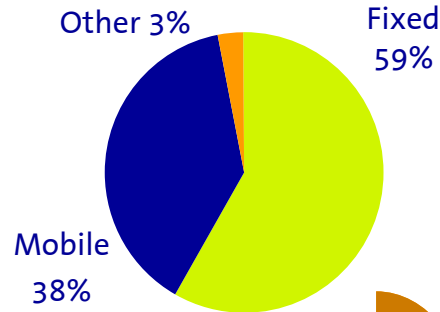
\* Amena subscribers figures as of 30/6/05

\*\*FY 2005E Revenues, Source: Bloomberg

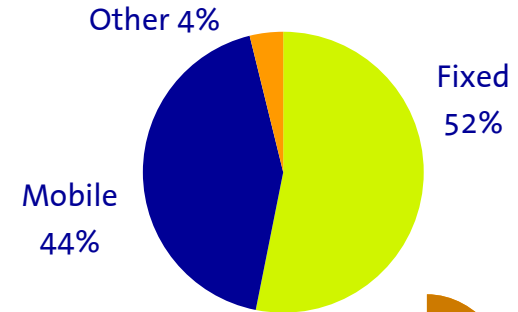
# 02 Český Telecom & O2 - two significant steps to diversify exposure across businesses...

TEF  
+  
CESKY

2005E EBITDA

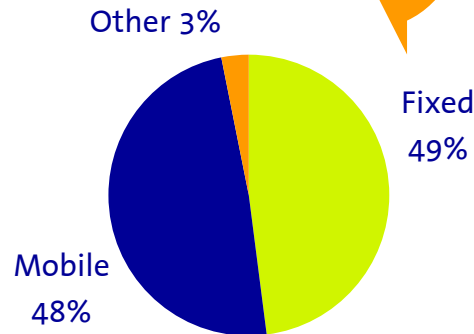


2008E EBITDA



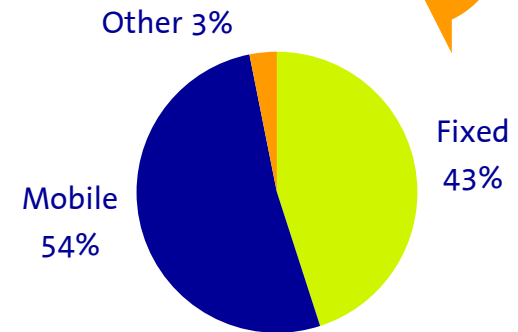
TEF  
+  
CESKY  
+  
O2

2005PF EBITDA



Total EBITDA: ~EUR 17.5bn

2008PF EBITDA



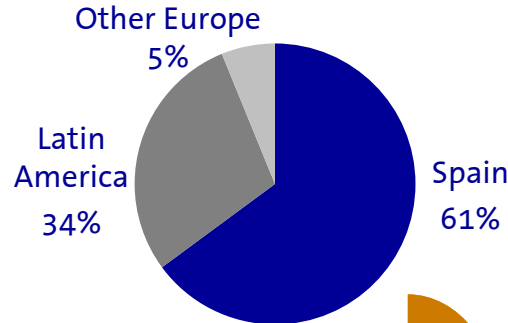
Total EBITDA: >EUR 22.0bn

Source: Average of Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch and Morgan Stanley research reports on each company as available excluding consolidation adjustments. No synergies considered.

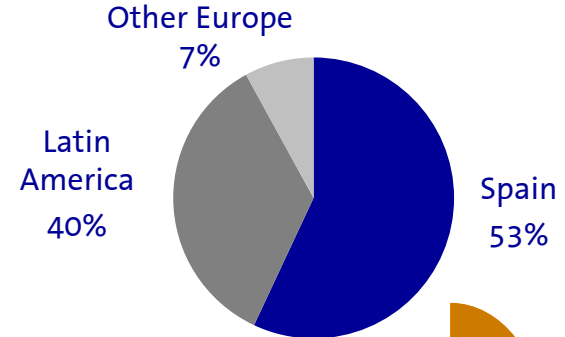
# 02 ...and regions: increasing the weight of Europe ex-Spain

TEF

2005E EBITDA

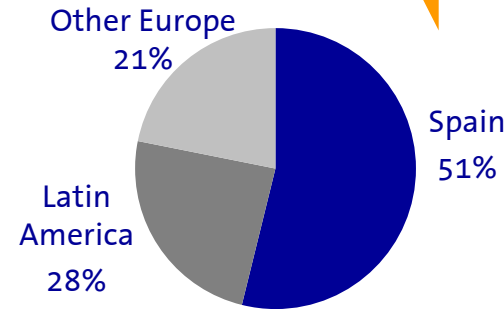


2008E EBITDA



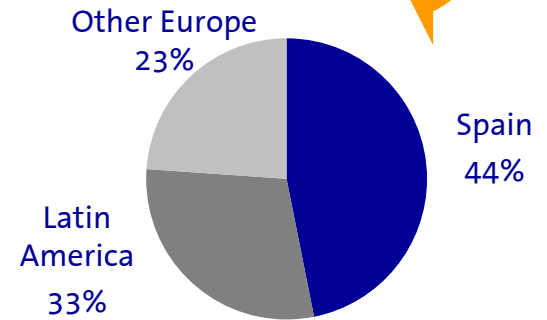
TEF + O2

2005PF EBITDA



Total EBITDA: ~EUR 17.5bn

2008PF EBITDA



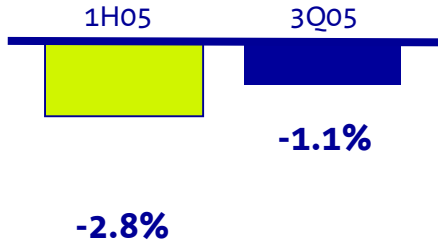
Total EBITDA: >EUR 22.0bn

Source: Average of Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch and Morgan Stanley research reports on each company as available excluding consolidation adjustments. No synergies considered.

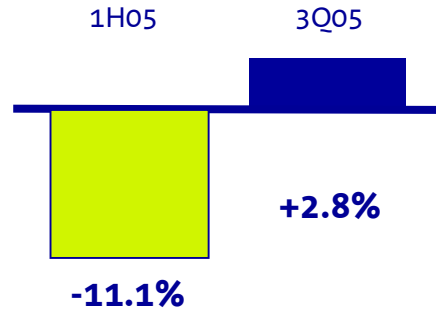
# Creating value in Český Telecom : progressing at all levels in just three months since we took over

## Improvement in operating indicators...

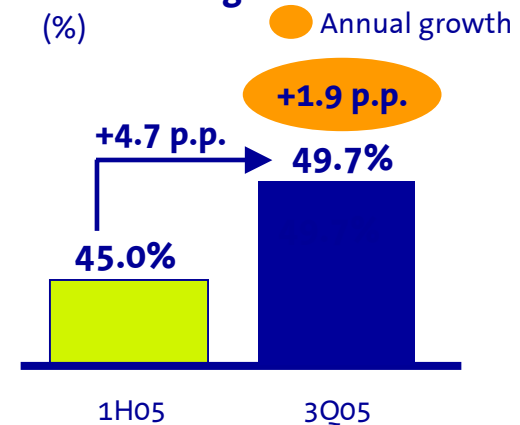
**Annual Revenue Growth**  
(Local currency)



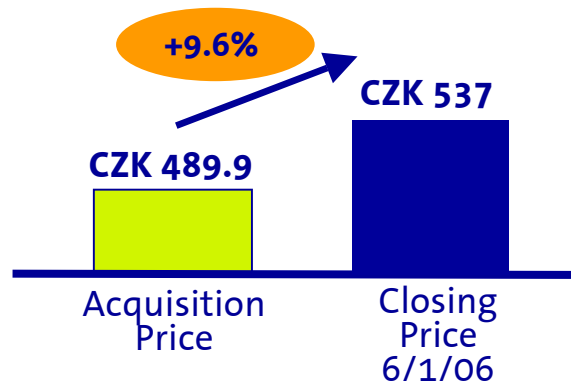
**Annual OIBDA Growth**  
(Local currency)



**OIBDA Margin**  
(%)



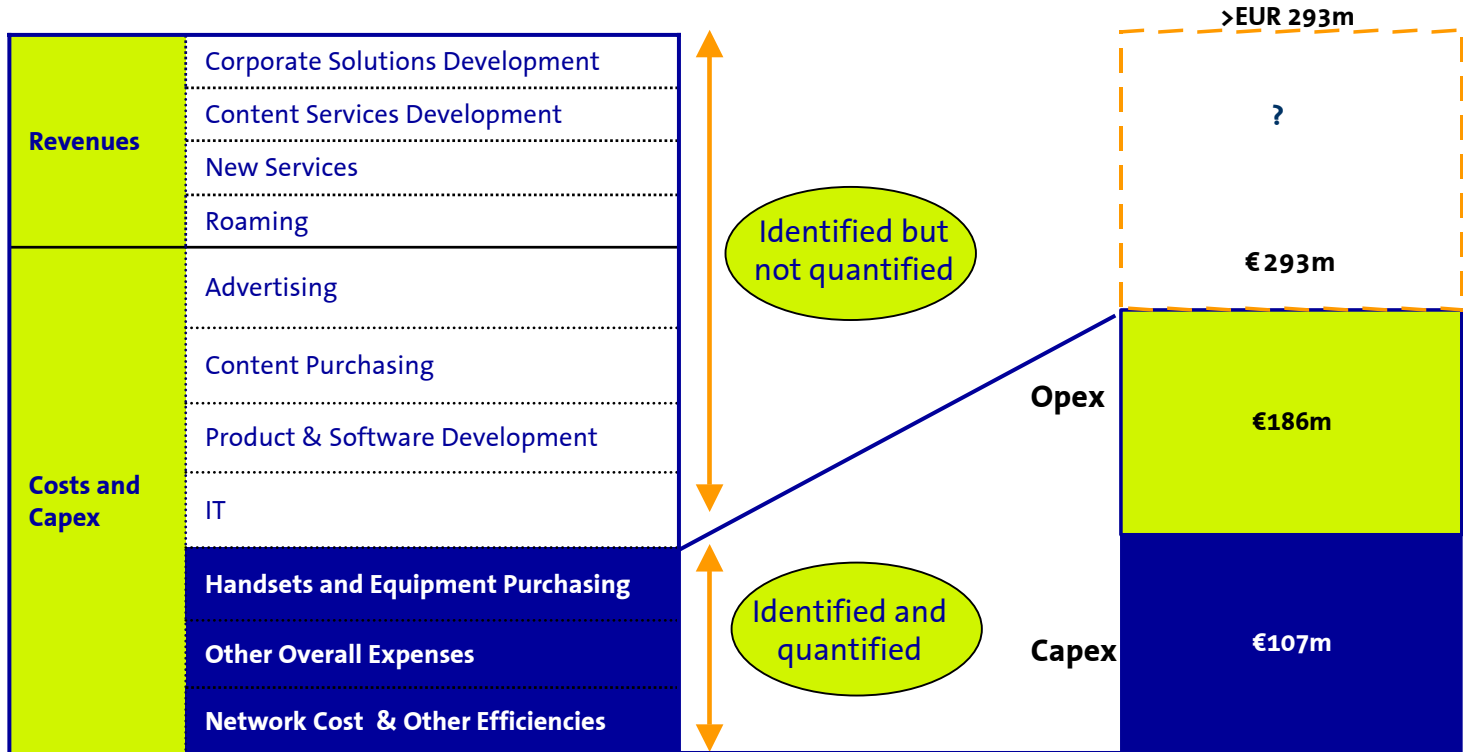
## ...which is driving share price up



# 02 Creating value with the proposed O2 acquisition: sizeable synergies from integration

## Potential Sources of Synergies

## Estimated Run-Rate of Annual Synergies \*



**NPV OF QUANTIFIED SYNERGIES\*\* EUR 3.3 bn**

- 89% at O2
- 11% at Telefónica

\* Run-rate from 2008  
 \*\* Including one-off implementation charges of EUR 39 m pre-tax

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03

## The proposed acquisition of O2 will leverage significantly Telefónica's balance sheet...

### Telefónica's interim results 9M05:

Net Financial Debt / OIBDA = 1.9x <sup>(1)</sup>

+ Debt for the O2 acquisition <sup>(2)</sup>

+ O2 proforma consolidation <sup>(3)</sup>

### Proforma figures as of 30/9/05:

Net Financial Debt=54,418

Annualized OIBDA=18,031

Net Financial Debt / OIBDA = 3.0x

(1) Annualized OIBDA. Including Český Telecom January-September 2005 OIBDA

(2) GBP 17.7 bn, assuming 100% acceptance in the tender offer

(3) Interim figures as of 30/9/05, Source: Company reports. Translation into Euros based on an exchange rate of 1.47

## 03 ...but we remain committed to financial discipline to maintain a sound credit profile

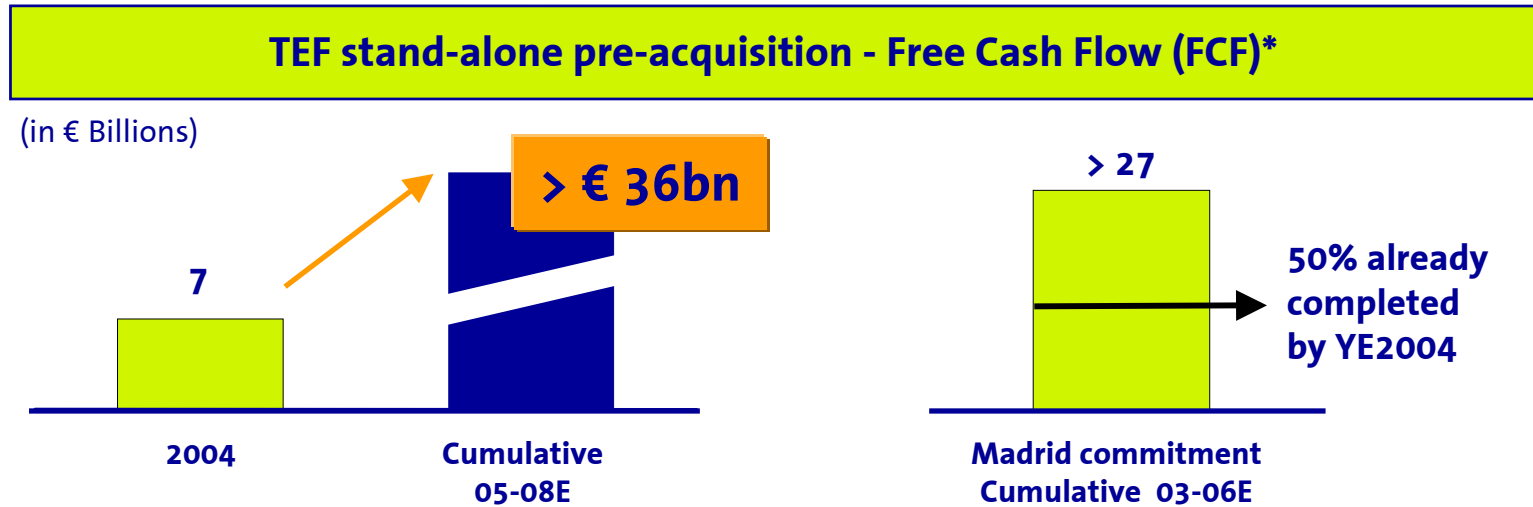
The new framework for the financial policy is based in two principles:

- Telefónica targets BBB+/Baa1 as rating floor
- Telefónica will deleverage through cash-flow retention to reach

$$\frac{\text{Net debt + cash commitments}}{\text{Operating Income before D\&A}} \leq 2.5x \text{ in the medium term}$$



# 03 Debt reduction capacity supported by an expected cash flow generation above €36 bn until 2008



- Roughly €9 bn (\*\*) committed for shareholder remuneration (dividends for 2006-2007 & pending share buy-back)
- O2 cash generation not included in the figures above

- \* FCF= EBITDA – CapEx – Investment in Working Capital – Net Interest Payment – Income Tax Payment – Non extraordinary Dividend – Payments to Minorities
- \*\* Assuming a dividend of €0,5 per share and deducting as executed tranche of the share buy-back program the value of 136,923,284 shares at the May-December 2005 average closing price

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# 04 O2 financing overview

OFFERING

## Key Dates

- Offer document posted on 21 November 2005
- Offer declared unconditional as to acceptances on 3 January
- Deadline for Phase I clearance by the European Commission on 10 January
- Offer open for acceptance until the next closing date on 20 January, extended from 12 January
- Telefónica expects that the Offer will be declared wholly unconditional during this month

ACQUISITION FACILITY

## Key Terms

- Total Amount: £18 bn – **Tranche A: £12 bn; Tranche B: £6 bn**
- Maturity is extendable to 2.0, 2.5 and 3.0 years (1/3 of Total Amount at each maturity)
- Margins subject to ratings. Initial margins: 32.5 bp for Tranche A and 37.5 bp for Tranche B

## Syndication

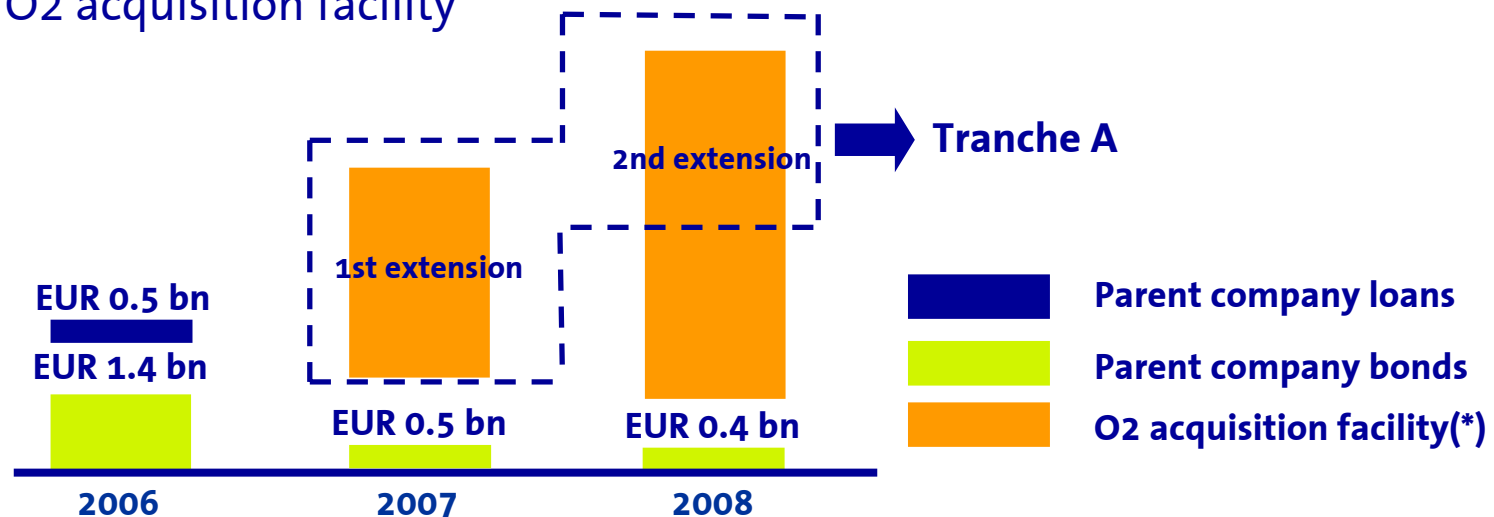
- **Commitments** in 1<sup>st</sup> phase of syndication **doubled Total Amount, 40 banks involved**
- **No syndication risk** before general syndication, expected to be launched in the coming weeks

\* Based on a EUR/GBP exchange rate of 1.47 used through this document. Based on a fully diluted number of shares of 8,906 m and net of cash proceeds from options exercised

# 04 We will concentrate on refinancing Tranche A with substantial anticipation to its extension options...

Telefónica's redemptions in 2006-2008 can be divided into 4 main categories:

- Latinamerican & other subsidiaries' maturities, to be refinanced on a non-recourse basis in ordinary course
- CP, which we intend to roll over
- Bonds issued or guaranteed by and bank financings of the Parent Company
- O2 acquisition facility



# 04 ...through balanced and diversified capital markets issuance

- **Priority: benchmark issuance in EUR, £ and USD senior bond markets**
  - **EUR and £:** two tranches in each currency with longer tenors in sterling
    - ✓ A successful transaction would achieve around **one third of our total refinancing goal**
  - **USD:** during 1<sup>st</sup> semester(\*)
    - ✓ Coupled with EUR and £, could exceed **50% of target amount in 1H2006**
- **2<sup>nd</sup> tier:**
  - We will consider approaching other currencies, instruments and markets for additional liquidity
  - Open to other options for 2H06

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# 05 Strong business will drive deleverage

- Telefonica will aim to **restore a strong financial profile...**
- ... while keeping more flexibility than under the previous framework
- **Business expectations support cash-flow availability for debt reduction:**
  - Higher diversification and balanced weight of all regions
  - Efficient operations
  - Higher growth than peers
- The goal of our debt capital markets strategy is to **balance early refinancing with an orderly management of supply**

*Telefónica*

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