



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

Closing remarks

César Alierta

Chairman and CEO, Telefónica



Valencia - May 26, 2006



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Telefónica is now a new Company with a unique profile

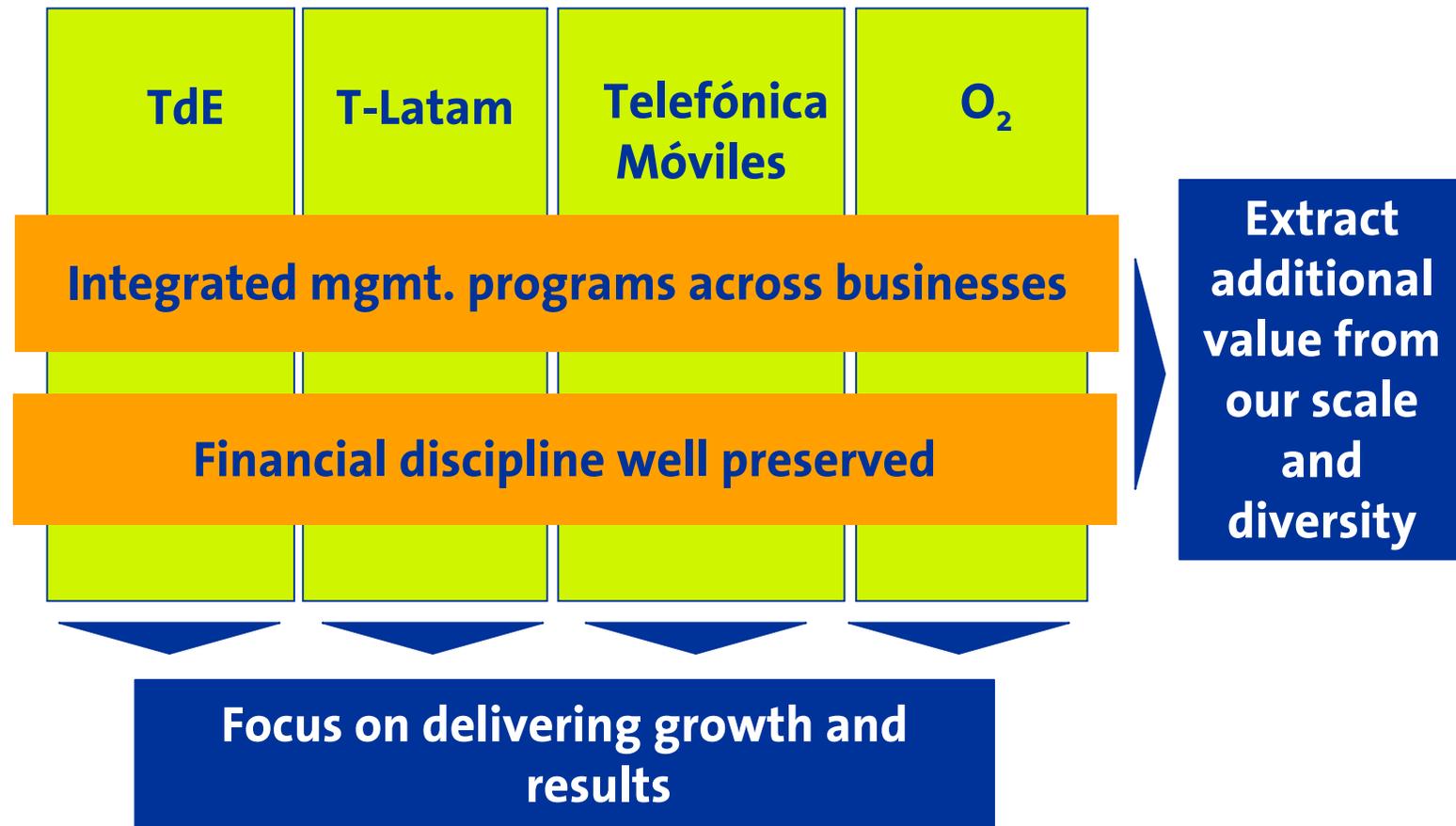
UNIQUE PROFILE

1. REGIONAL SCALE
2. STRONG LOCAL COMMERCIAL POSITION
3. OPERATING EFFICIENCY
4. INNOVATION
5. ADAPTABILITY

**INTEGRATED
MANAGEMENT
TO DELIVER ON
SHAREHOLDER
VALUE CREATION**



We have a concrete mgmt. agenda to deliver on Shareholder value creation





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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**

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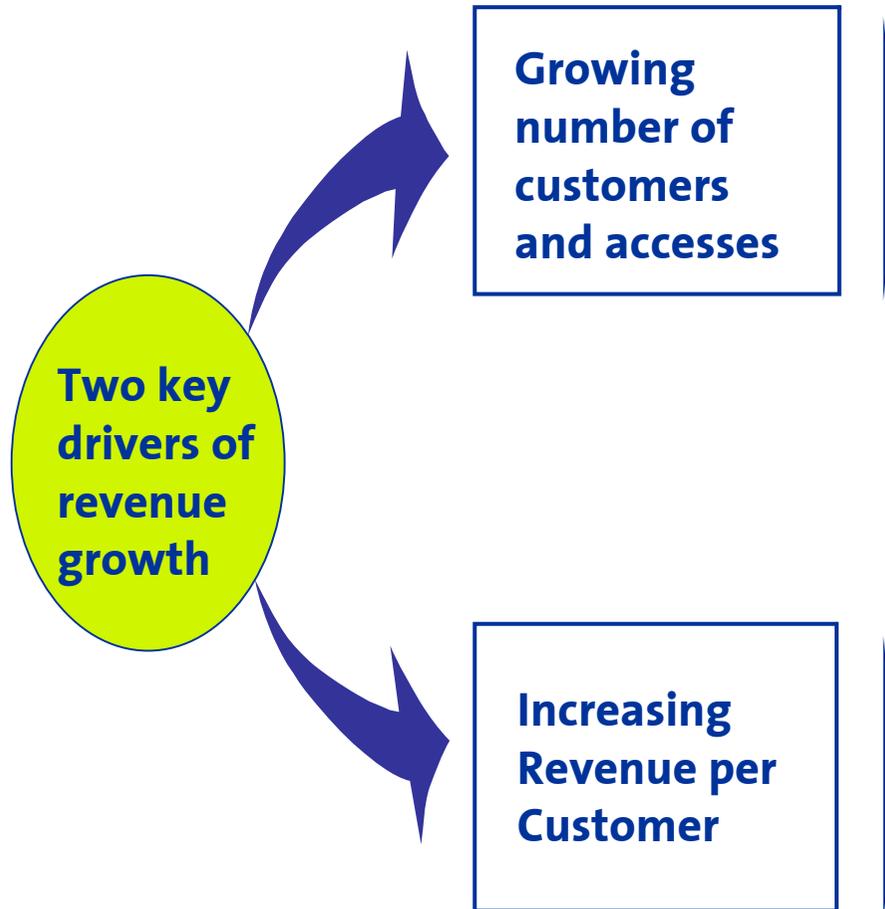
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Differentiated top line growth well ahead of peers

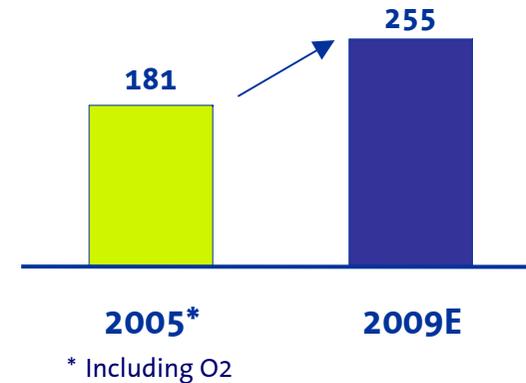
- Unique high growth Latam businesses
- O2 has a growth momentum in Europe
- Superior revenue growth of Spanish assets within the European market
- Český Telecom's full integration is a new opportunity
- Ongoing revenue upside from new businesses
- Additional revenue enhancement from integrated mgmt.



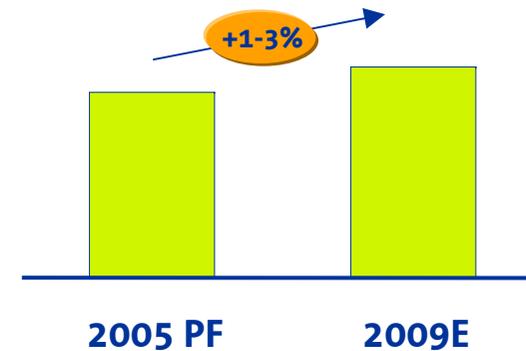
Enhanced growth prospects



Million Accesses



Revenue per Customer
(€/month)





Well-balanced by business and geographies

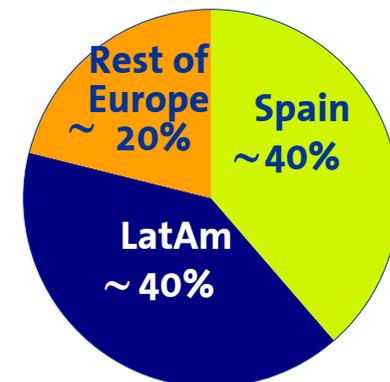
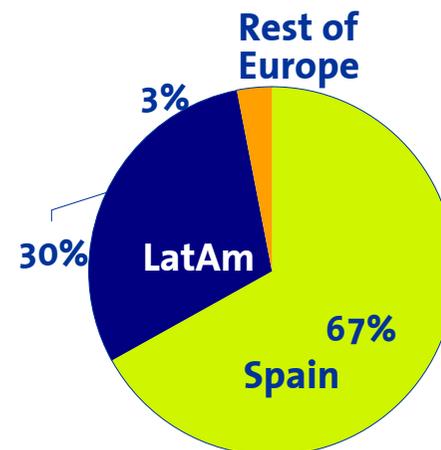
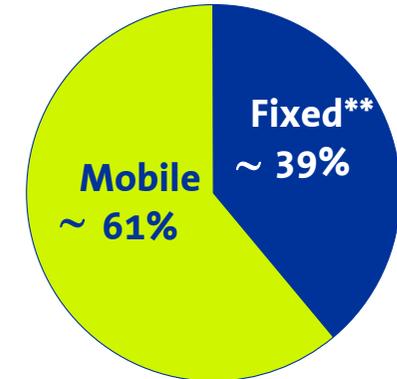
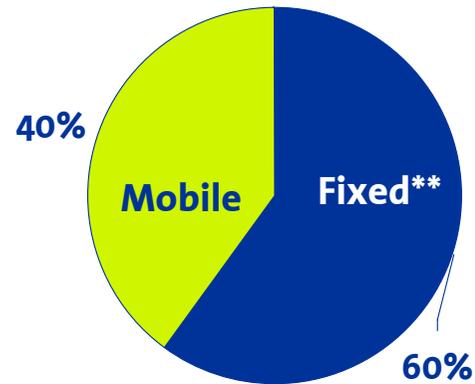
OP. CF*

By
Businesses

By
Geographies

FY2005

2009E



* 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



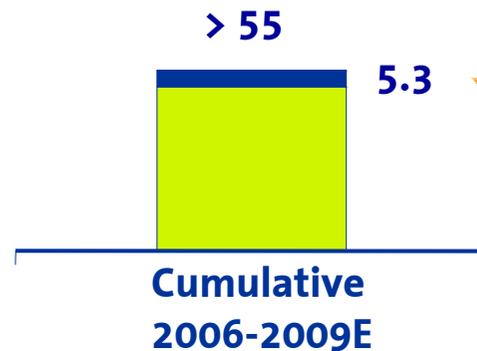
Enormous potential to extract value from scale and integrated management

CAPEX TO REVENUES



CUM. CAPEX 06-09E
< €31 bn

OP. CASH FLOW €Bn



IMPLEMENTING THREE TYPE OF PLANS

- Business collaboration plans
- Country collaboration plans
- Latest acquisitions integration plans



Financial discipline 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



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Growth guidance well ahead of peers



* 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.



Growth to fully flow to investors

A new long term remuneration pack more attractive and competitive

Dividends

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

- 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.



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Why invest in Telefónica?

- A unique profile of geographic and business diversification
- Top quality assets with leadership position in every market
- Pragmatic integrated management approach to maximize value creation
- Benchmark for execution thanks to high quality of human capital and long experienced top management
- Clear commitment on use of funds to a unique cash and value return to shareholders

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

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