

# The best combination of growth and returns in the industry

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THE BEST COMBINATION OF  
GROWTH AND RETURNS

*Telefónica*

Paris - June 2<sup>nd</sup>, 2006





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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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## 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.



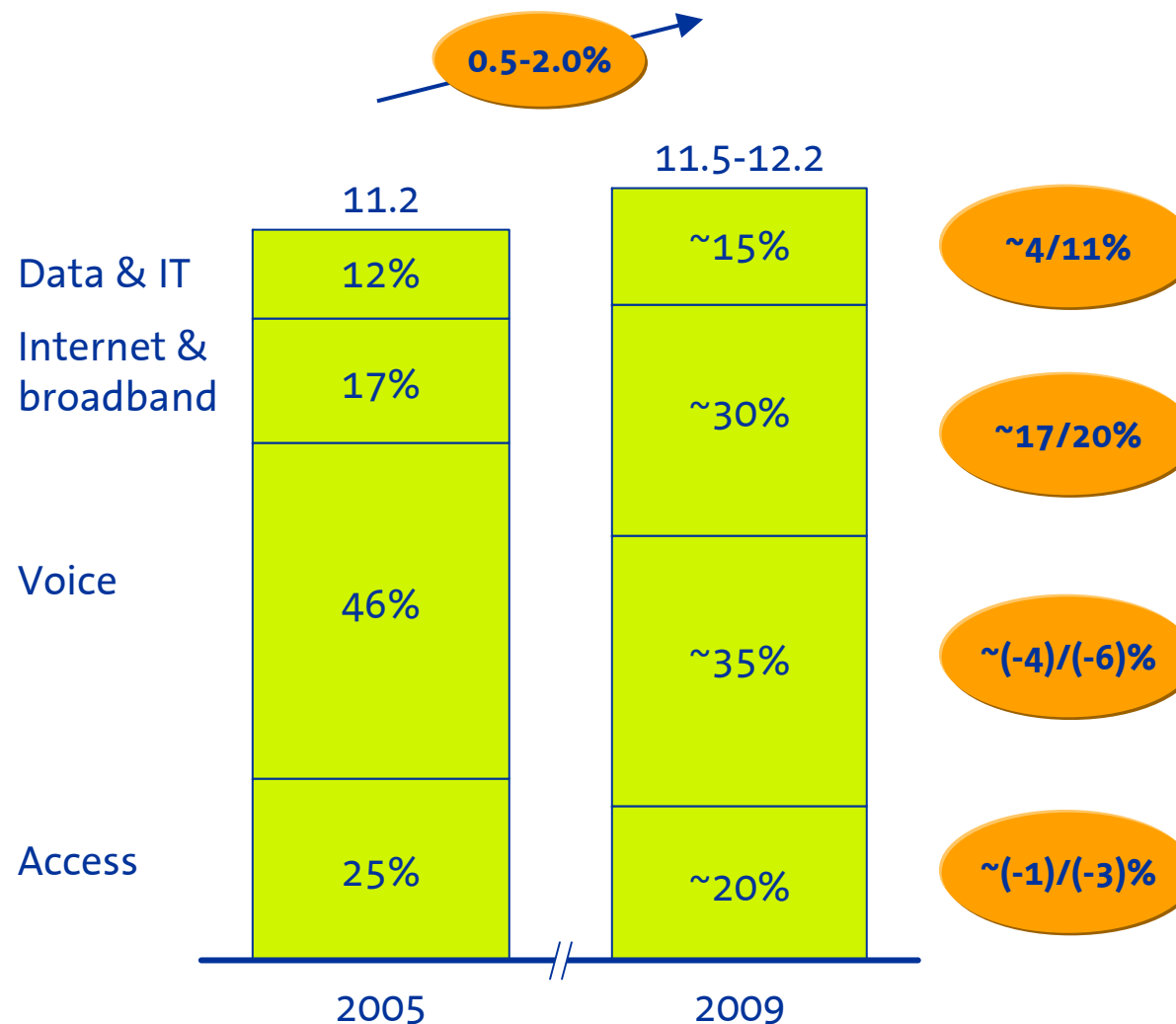
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# TdE will maintain solid revenue growth for the following years...

● CAGR

Revenues. EUR billion



Note: TdE Parent Company (excluding Terra, Telyco, TTP and other affiliates)



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# ... through bundling and integrated solutions

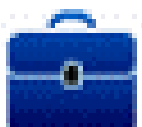
Three focused visions to deliver value to customers

## Digital Home



- Broadband Internet access
- Imagenio
- Duos, Trios
- ...

## Digital Business



- Integrated Desktop
- Services & applications
- ...

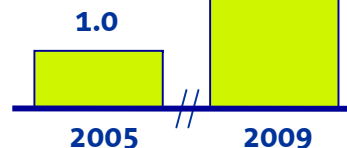
## Digital Corp.



- Tailor-made ICT solutions
- ...

Million Subscribers  
(only households)

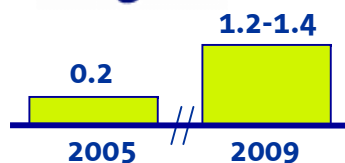
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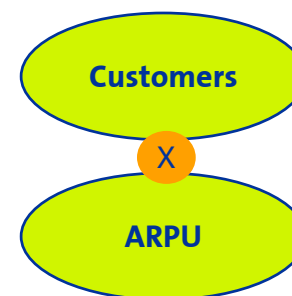
Million of Pay TV  
Subscribers

(includes households, SOHO and SME)

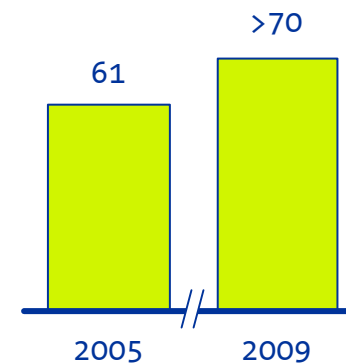
imagenio



Our growth strategy



Average revenue per customer\*  
EUR/month



\* Retail revenues / number of customers



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## While at the same time, revenue threat of VoIP in Spain has been reduced and is now limited

	Voice customers	Broadband customers
Households	Due mainly to the existence of <b>capacity interconnection fees</b> in Spain, there is <b>no substantial improvement on economics</b> that would allow more aggressive pricing to ULL competitors	The <b>double play offers</b> outperform VoIP value proposition
SoHos & SMEs		Our <b>integrated desktop offer</b> provides a better value to our customers, bundling voice and other VAS
Large companies	We are offering <b>tailor-made ICT solutions which are including VoIP</b> according to our customers needs	

VoIP will base its development in Spain on a 'more service' basis instead on a 'lower price for voice service' basis

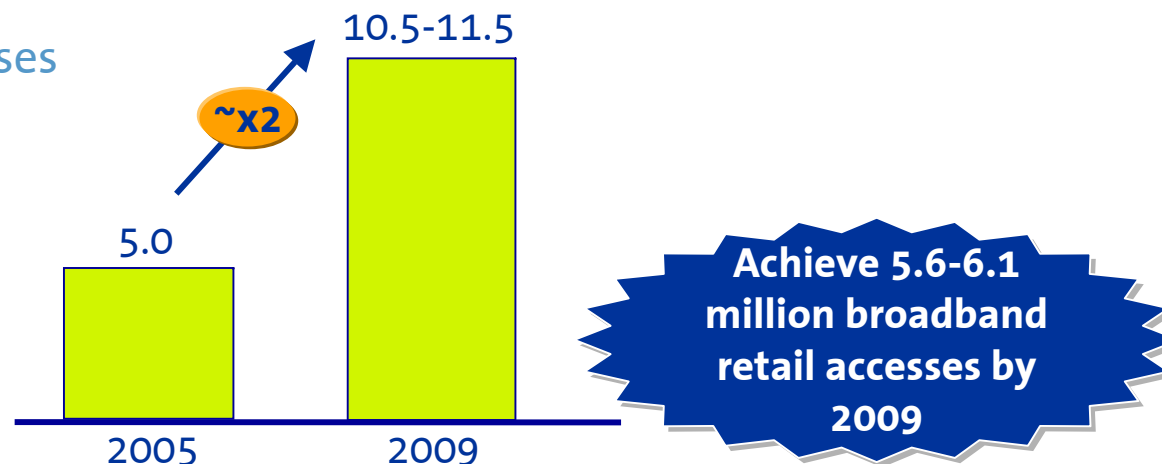


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## TdE has set as priority increase broadband penetration and defend broadband market share ...

Broadband Accesses  
in Spain, millions



## ... leading to a set of financial commitments

€ in Millions	FY 2005 *	CAGR 2005-09E **
Revenues	11,755	0.5 - 2%
Operating Income before D&A ***	4,765	3 - 6%
Operating Income ***	2,627	9-14%
CAPEX	1,401	6,000 – 6,500 (Cumulative CAPEX 2006-2009)

\* TdE numbers are pro-forma, including Terra's Spanish unit since January 2005

\*\* CAGR 2005-2009E guidance excludes changes in consolidation

\*\*\* 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

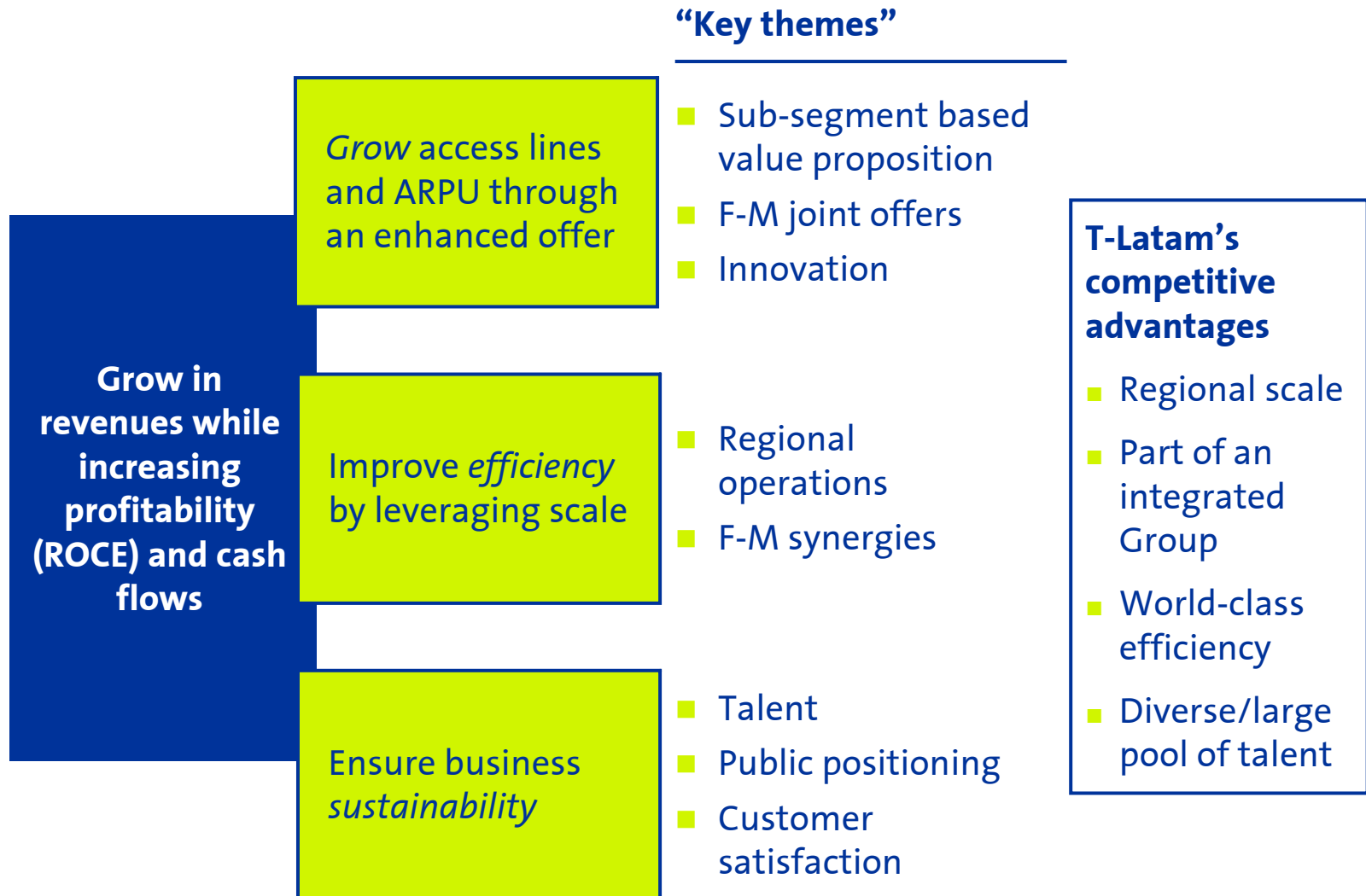
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# T-Latam is a transformed company uniquely positioned to consolidate growth





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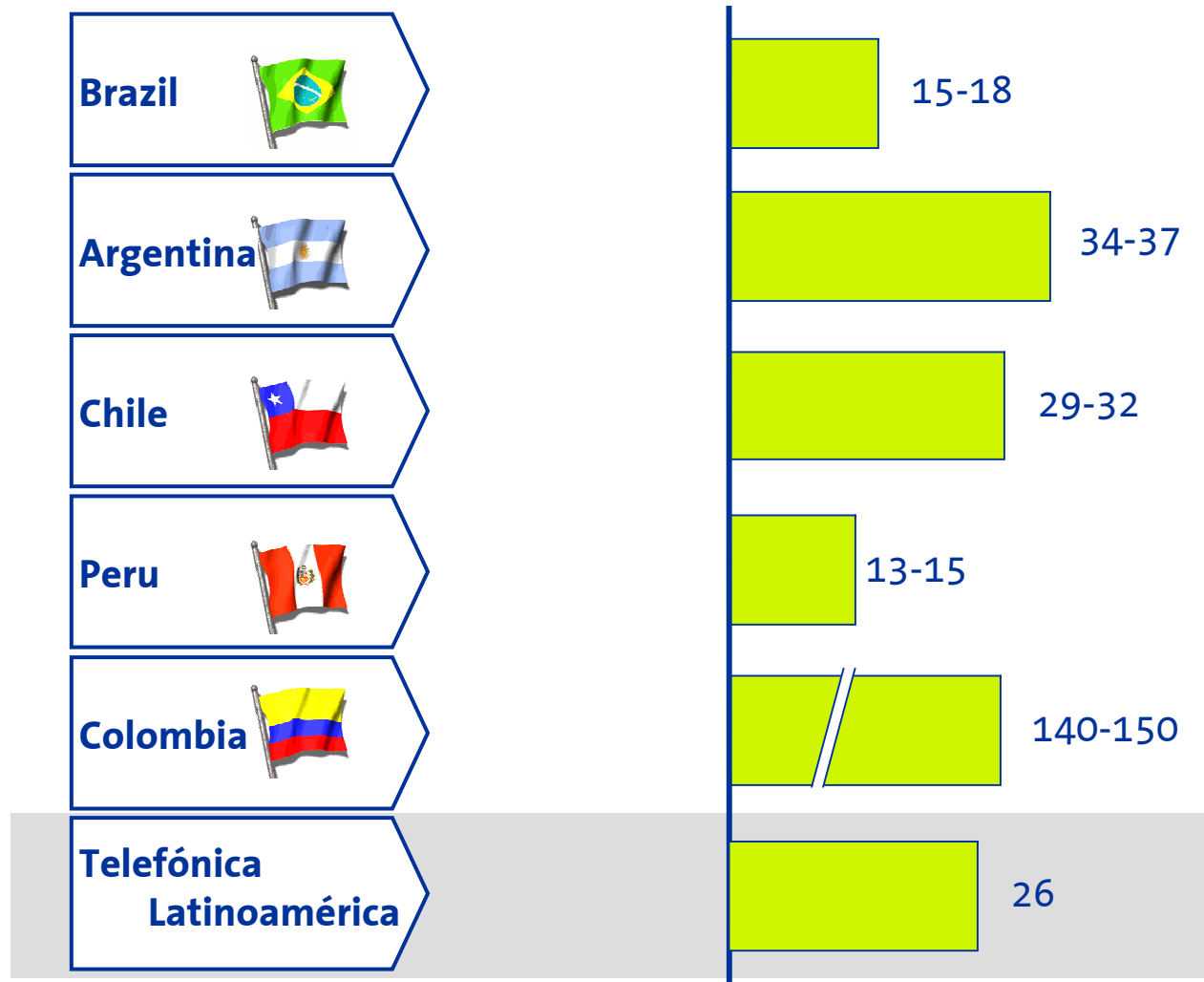
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# With an ambitious goal, accelerate growth in all countries...

Average annual growth 2005-2009

Percentage

DSL accesses  
growth\*



\* Includes retail and wholesale accesses

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## while focusing on profitability, as T-Latam financial guidelines show

€ in Millions	FY 2005 *	CAGR 2005-09E **
Revenues	8,352	5-8%
Operating Income before D&A***	3,638	6-9%
Operating Income***	1,839	10-15%
CAPEX	991****	5,000 – 5,500 (Cumulative CAPEX 2006-2009)

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

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

\*\*\*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)

\*\*\*\* Calculated using 2005 average exchange rates



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## TEM has defined a clear strategy for the coming years



**Maximizing cash flow generation while continuing to invest in our sound growth platform**



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# Spanish mobile market presents strong growth potential in a tough competitive environment

## Macro economic environment

- Growing population (CAGR 05/09E: +1%)
- Superior GDP growth (CAGR 05/09E: +3%)<sup>1</sup>

## Competition

- Further competition from existing players
- Change of control of #3 player
- Entry of MVNOs

## Regulation

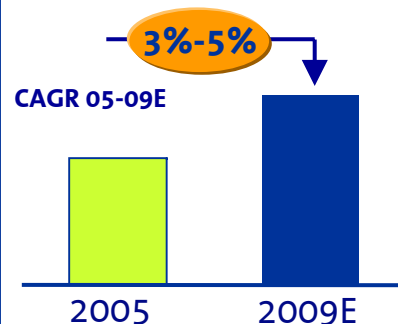
- Cuts in interconnection rates
- Potential regulation of roaming charges (EC)

**Total Market customer revenues  
CAGR 05-09E<sub>1</sub> of 7%-9%**



- Higher penetration
- Increase of voice ARPU
- Increase of Data ARPU

## TEM Spain Revenues (€MM)



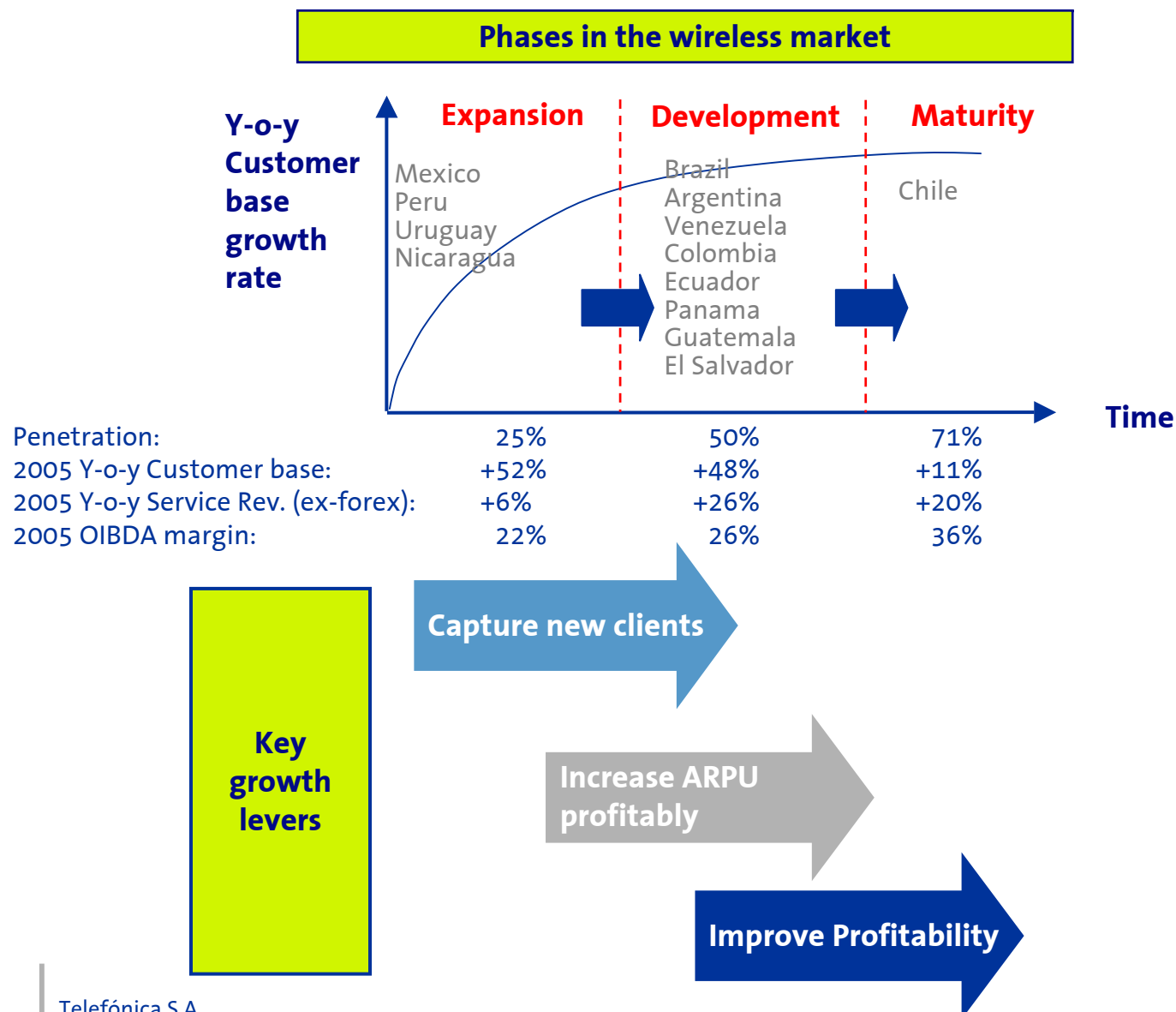
- Further **segmentation**
- **Churn containment**
- **Voice initiatives**
- **Innovative data offer**
- **Technological leadership**
- **Collaboration with TdE and O2**



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## In Latam, TEM is leveraging on know-how in markets with different maturity





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## In summary, TEM presents a growth promise with tangible Cash Flow generation

Sound top line growth via a segmented approach to capture upside in penetration & enhance customer value

+

Increased profitability leveraging our skills & the unique set of synergies opportunities within Telefónica

Strong track record in delivering on commitments

€ in Millions	FY 2005	CAGR 2005-09E <sup>1</sup>
Revenues	16,514	7%-10%
Operating Income before D&A <sup>2</sup>	5,834	8%-12%
Operating Income <sup>2</sup>	3,460	11%-17%
CAPEX <sup>3</sup>	2,185	<€9Bn Cum 06-09E

<sup>1</sup> CAGR 2005-2009E guidance assumes constant exchange rates as of 2005 and excludes changes in consolidation.

<sup>2</sup> In terms of guidance calculation, Operating Income before D&A and Operating Income excludes other exceptional revenues/expenses not foreseeable in 2006-2009. For comparison purpose, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures.

<sup>3</sup> Capex excluding licenses.



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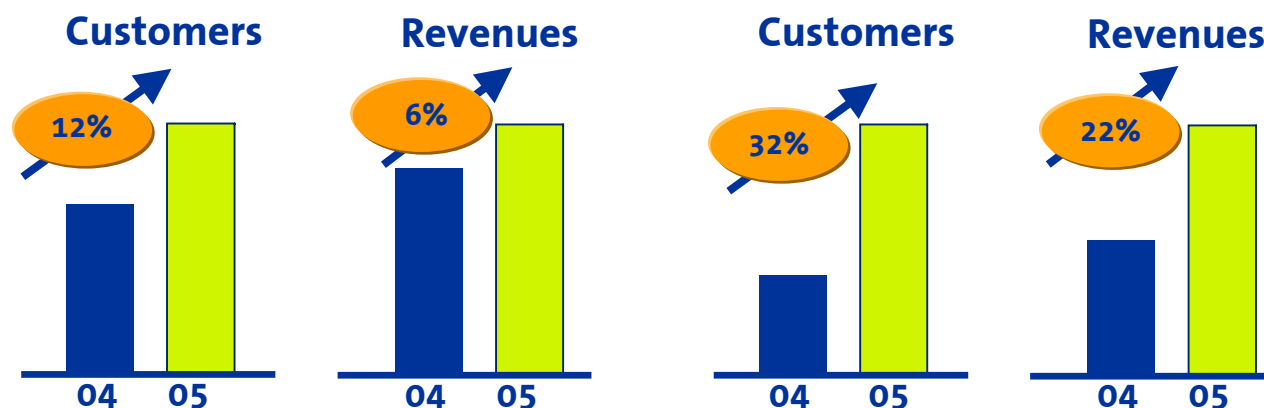
## O2 - Strong operational performance in 2005

### UK

- Superior growth in a highly competitive market
- Successful execution of Customer Plan

### Germany

- Grew share of customers and revenues in highly competitive market
- 2.4 m customers added



- Ireland – continued ARPU and MOU growth
- Airwave – over £1 billion of new contracts won in last 12 months



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## Growth momentum continues, leading to set ambitious financial targets

- Maintain **above average growth in UK**
- Superior execution of **Customer Plan**
- Maintain **above average growth in Germany**
- Exploit **DSL opportunity**
- **Grow margin**
- **Capitalize on wider TEF Group** size, scale and expertise

€ in Millions	FY 2005 (11 months)	CAGR 2005-09E <sup>1</sup>
Revenues	9,716	6% to 10%
Operating Income before D&A <sup>2</sup>	2,633	7% to 11%
Operating Income <sup>2</sup>	877	15% to 21%
CAPEX	1,987	6,800 to 7,500 (2006-2009 cumulative)

<sup>1</sup> CAGR 2005-2009E guidance assumes constant exchange rates as of 2005 and excludes changes in consolidation

<sup>2</sup> In terms of guidance calculation, Operating Income before D&A and Operating Income excludes other exceptional revenues/expenses not foreseeable in 2006-2009. For comparison purpose, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures

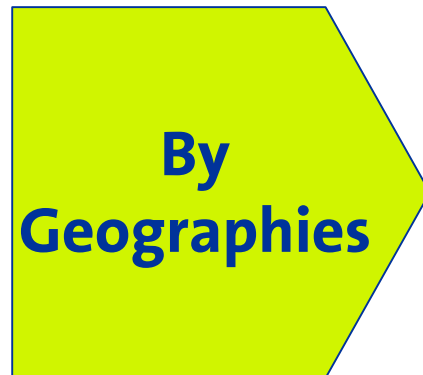
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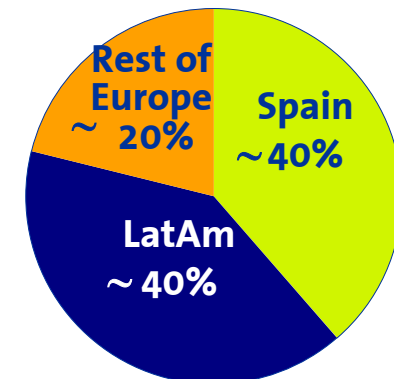
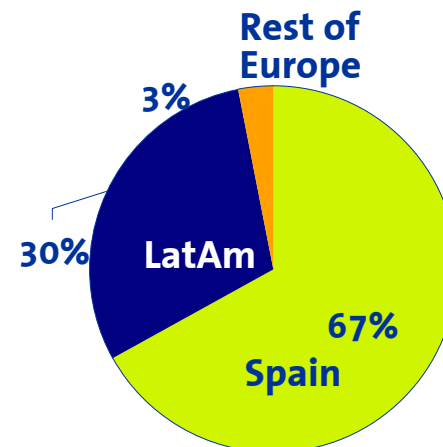
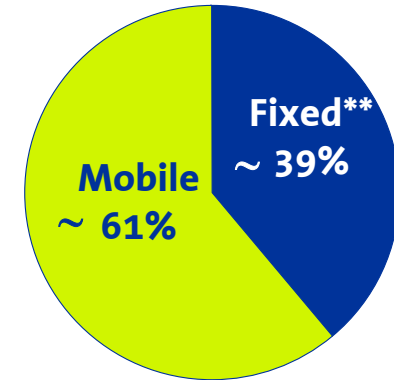
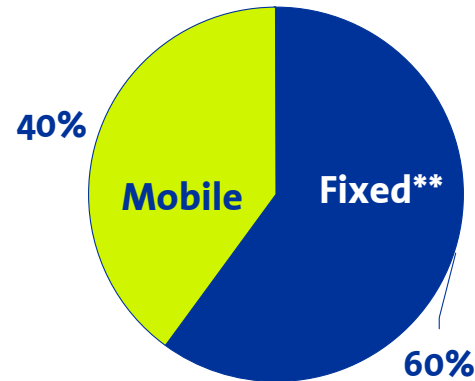
# Telefónica is well-balanced by business and geographies

OP. CF\*



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

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## We have a concrete management agenda to deliver on Shareholder value creation

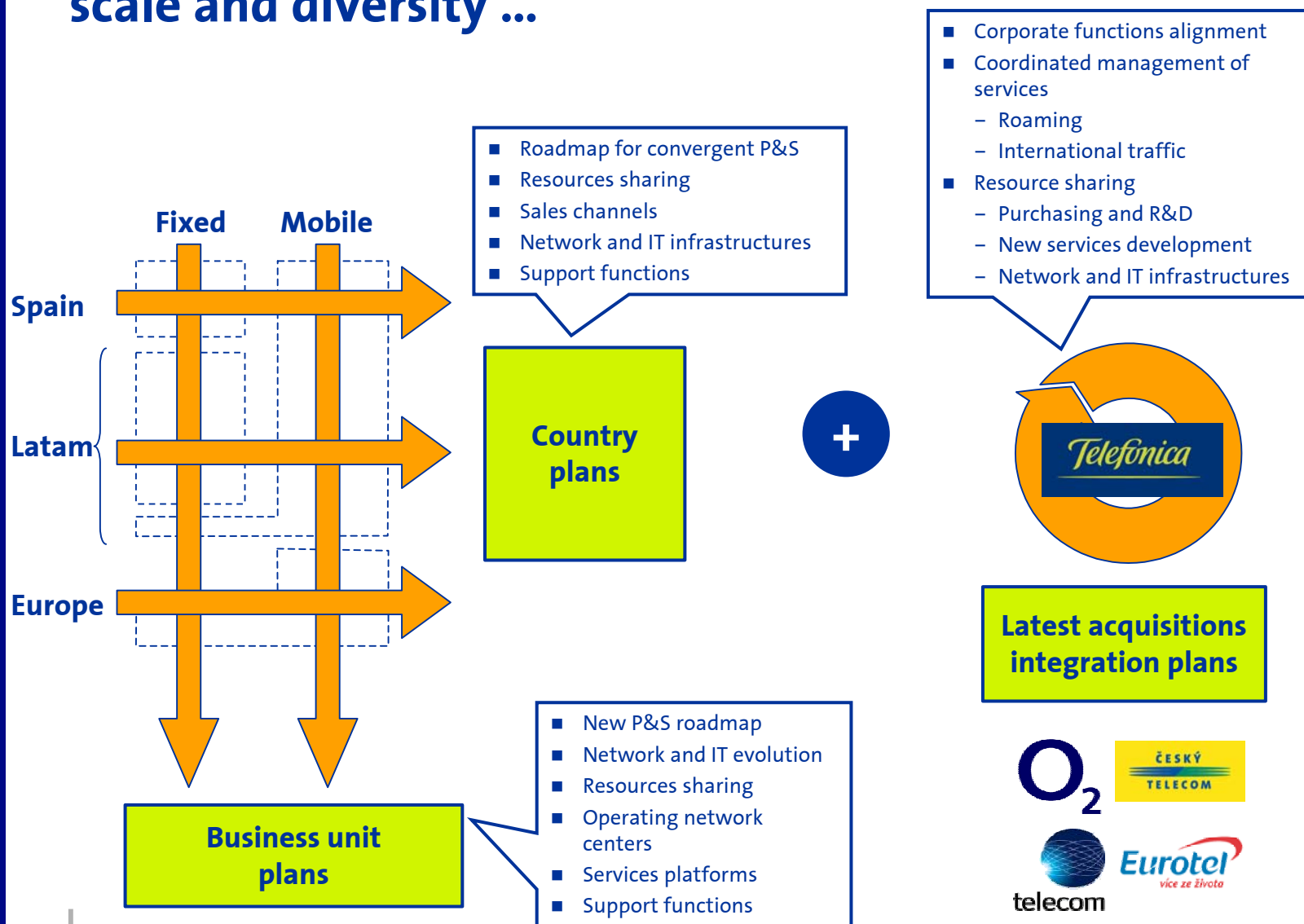




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## The development of our horizontal strategic priorities will allow us to extract the maximum value from our scale and diversity ...





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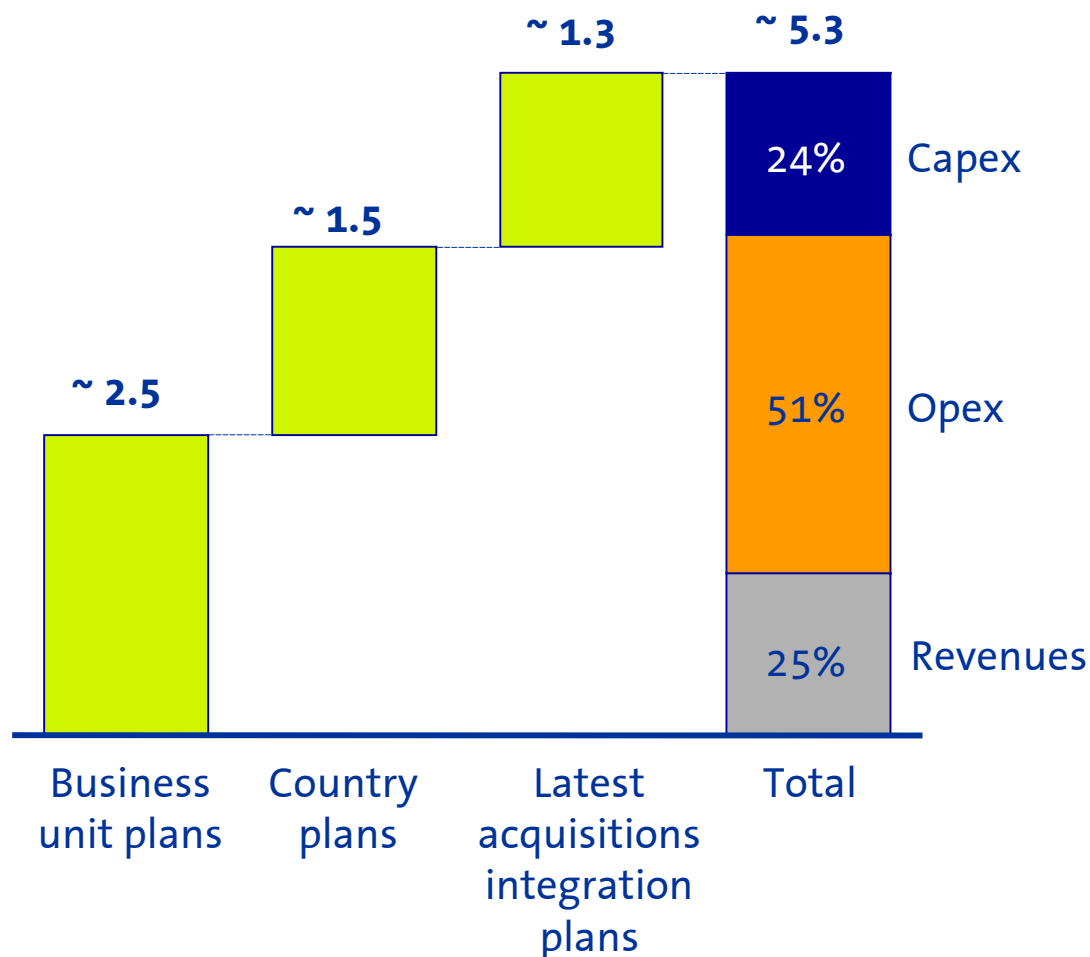
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## ... creating ~EUR 5.3 bn in operating cash flow through the three types of plans

ESTIMATE

Operating Cash flow (OIBDA-CAPEX) 2006-2009

EUR Billion



These cash flows are included in the guidance provided by each business unit



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## Telefónica's Financial discipline is 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

\* Excluding TPI sale



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## ... and 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

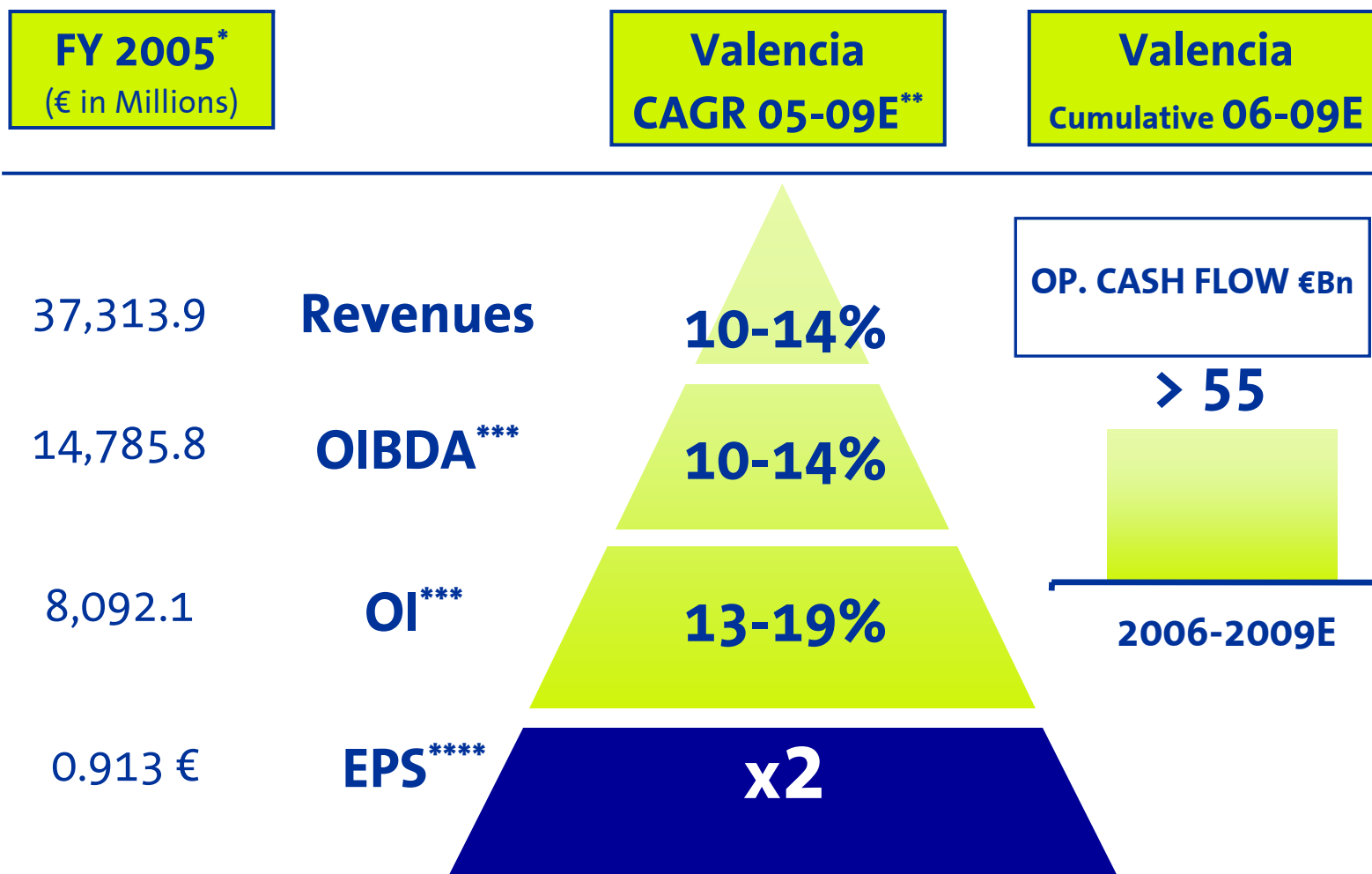
- Reminder (2.7bn€) of buyback program to be completed. Shares will be cancelled.



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## 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.



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IN THE INDUSTRY TO OUR SHAREHOLDERS**

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