The best combination of growth and returns in the industry

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THE BEST COMBINATION OF GROWTH AND RETURNS

Telefónica

London - June 6th, 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
- Ceský Telecom´s full integration is a new opportunity
- Ongoing revenue upside from new businesses
- Additional revenue enhancement from integrated mgmt.

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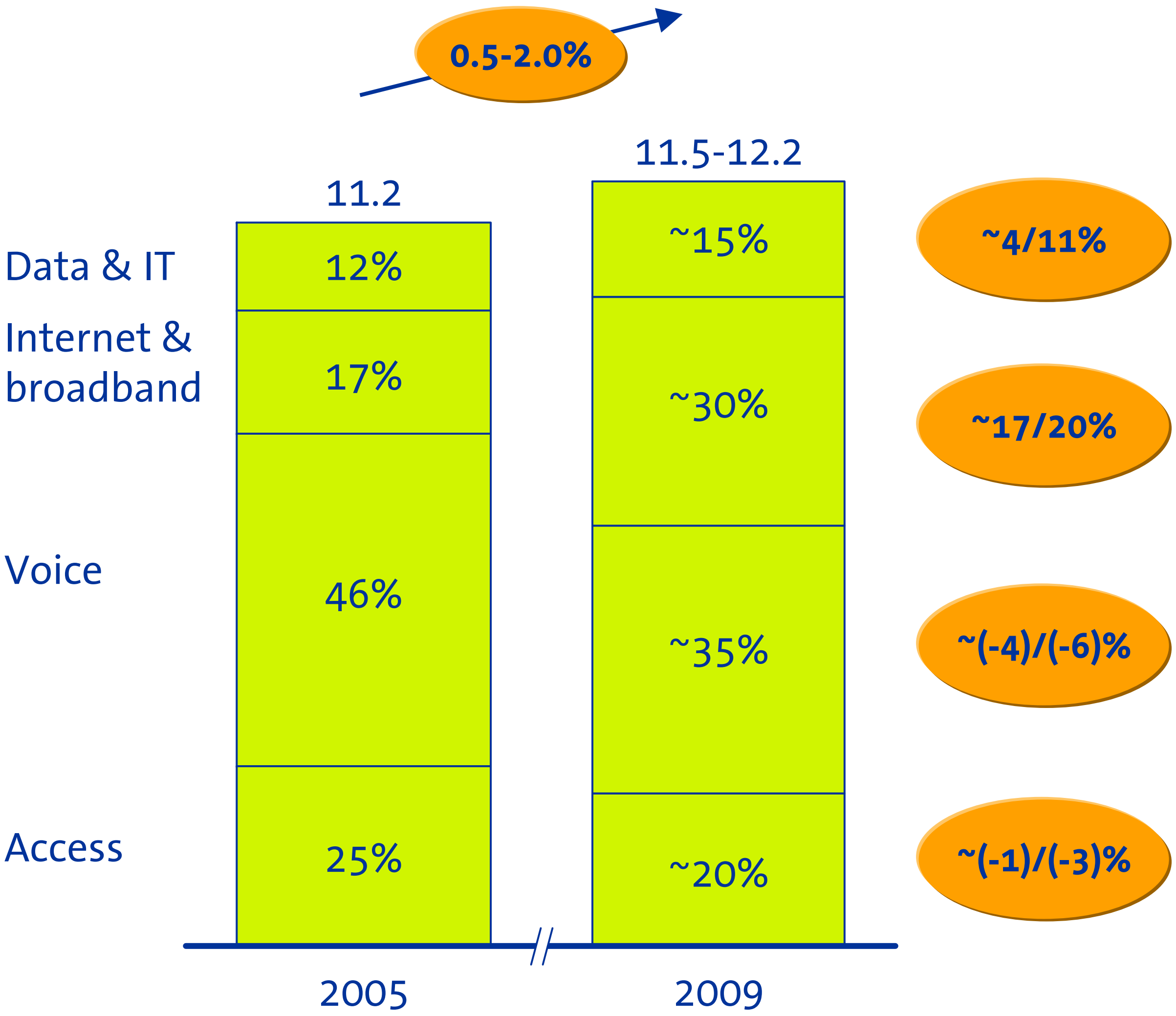
TdE will maintain solid revenue growth for the following years...

Revenues. EUR billion



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

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… through bundling and integrated solutions

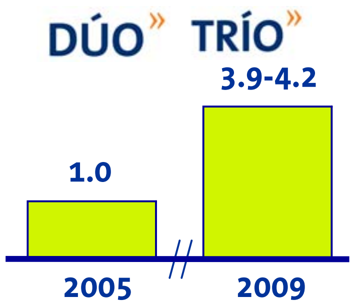
Three focused visions to deliver value to customers

Digital Home
- Broadband Internet access
- Imagenio
- Duos, Trios
- …

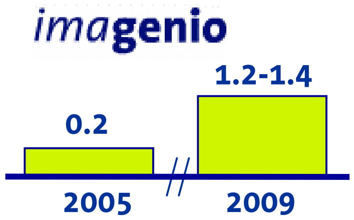
Digital Business
- Integrated Desktop
- Services & applications
- …

Digital Corp.
- Tailor-made ICT solutions
- …

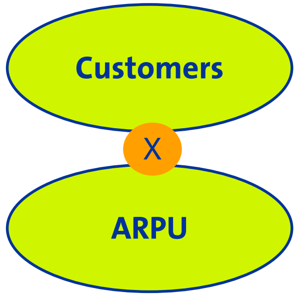
Million Subscribers
(only households)



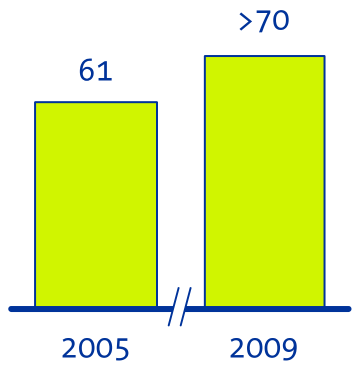
Million of Pay TV Subscribers
(includes households, SOHO and SME)



Our growth strategy



Average revenue per customer*
EUR/month



* Retail revenues / number of customers

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

Grow in revenues while increasing profitability (ROCE) and cash flows

"Key themes"

Grow access lines and ARPU through an enhanced offer
- Sub-segment based value proposition
- F-M joint offers
- Innovation

Improve *efficiency* by leveraging scale
- Regional operations
- F-M synergies

Ensure business *sustainability*
- Talent
- Public positioning
- Customer satisfaction

T-Latam's competitive advantages
- Regional scale
- Part of an integrated Group
- World-class efficiency
- Diverse/large pool of talent

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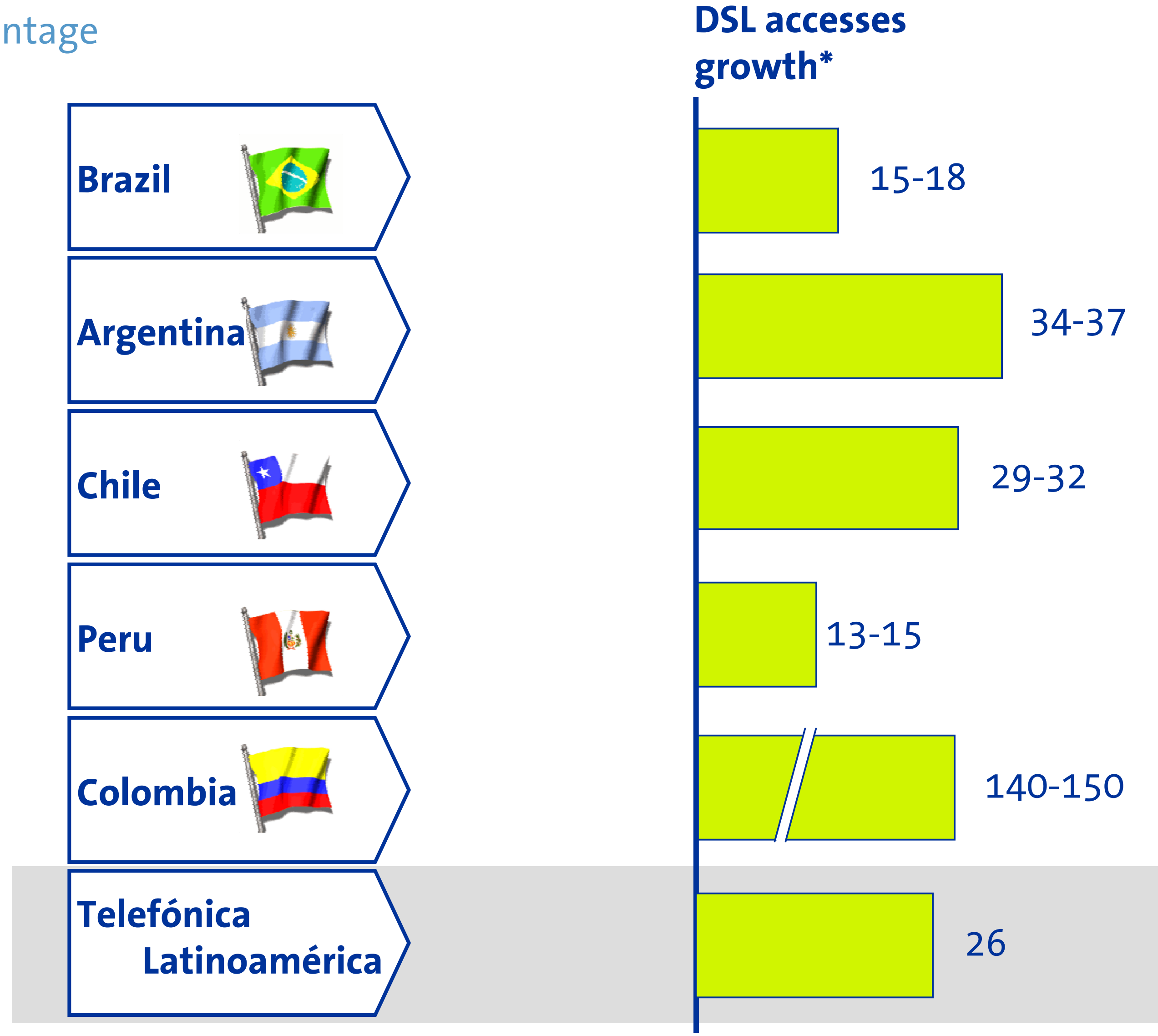
With an ambitious goal, accelerate growth in all countries

Average annual growth 2005-2009

Percentage



* Includes retail and wholesale accesses

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TEM has defined a clear strategy for the coming years

Foster Top Line Growth

- Capture of remaining **penetration** potential in our markets
- Deeper customer segmentation **to enhance** customer value
- Stimulation of voice usage
- **Innovation in new data services**
- Reinforcement of our **brand** equity
- Leverage of our **competitive position**

Enhance Operational Excellence

- Sustain **best in class** operating efficiency in Spain
- Continue **improving efficiency** in Latam
- **Leverage** Telefónica's **unique scale and diversity**

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

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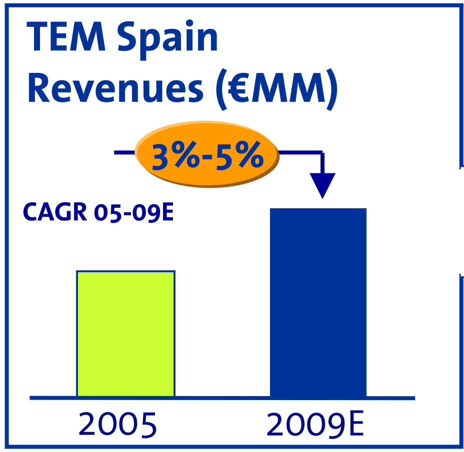
Spanish mobile market presents strong growth potential in a tough competitive environment

Macro economic environment	Competition	Regulation
Growing population (CAGR 05/09E: +1%) Superior GDP growth (CAGR 05/09E: +3%)[1]	Further competition from existing players Change of control of #3 player Entry of MVNOs	Cuts in interconnection rates Potential regulation of roaming charges (EC)

Total Market customer revenues CAGR 05-09E[1] of 7%-9%

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



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

[1] Source: Consensus Forecast, April 06

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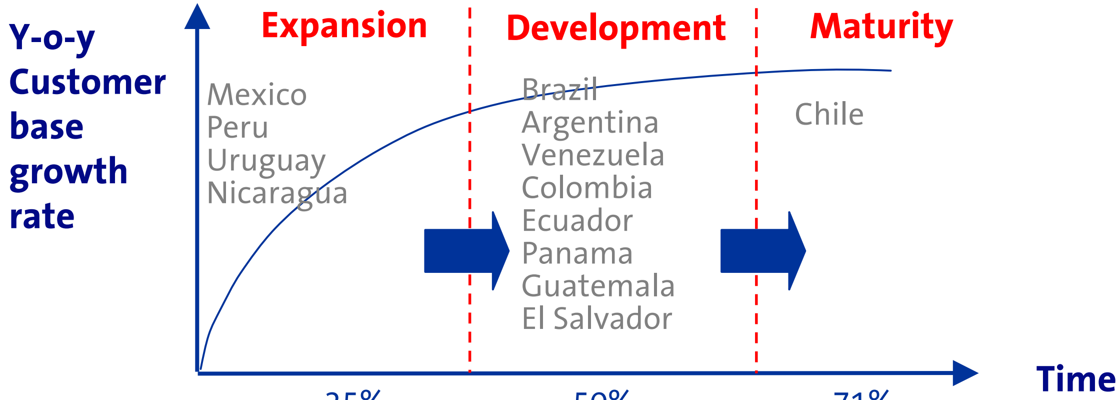
In Latam, TEM is leveraging on know-how in markets with different maturity

Phases in the wireless market



	Expansion	Development	Maturity
Penetration:	25%	50%	71%
2005 Y-o-y Customer base:	+52%	+48%	+11%
2005 Y-o-y Service Rev. (ex-forex):	+6%	+26%	+20%
2005 OIBDA margin:	22%	26%	36%

Key growth levers

- Capture new clients
- Increase ARPU profitably
- Improve Profitability

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O2 - Strong operational performance in 2005

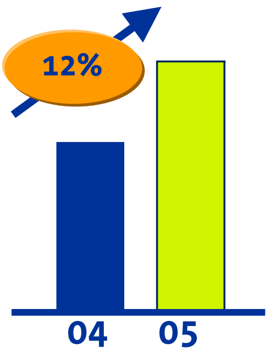
UK

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

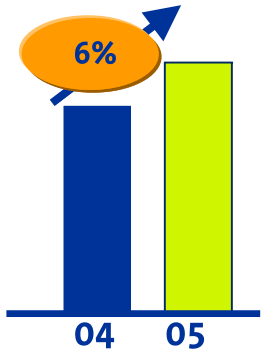
Germany

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

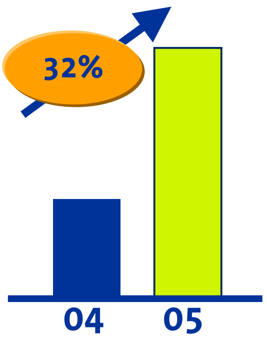
Customers



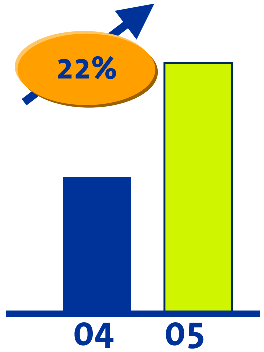
Revenues



Customers



Revenues



- 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 at O2

- 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

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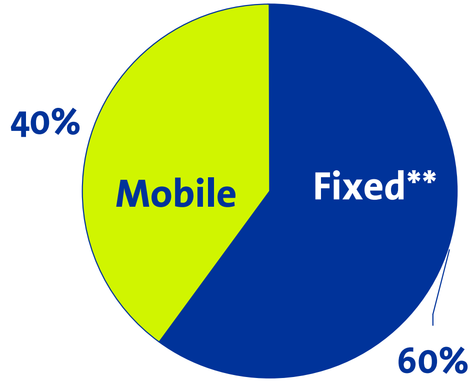
Telefónica is well-balanced by business and geographies

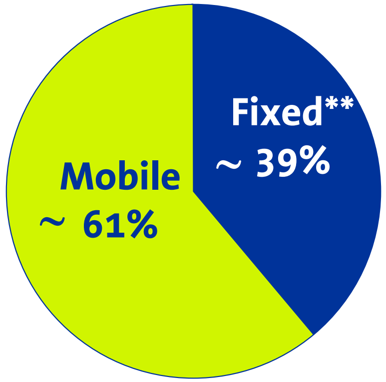
OP. CF*

By Businesses

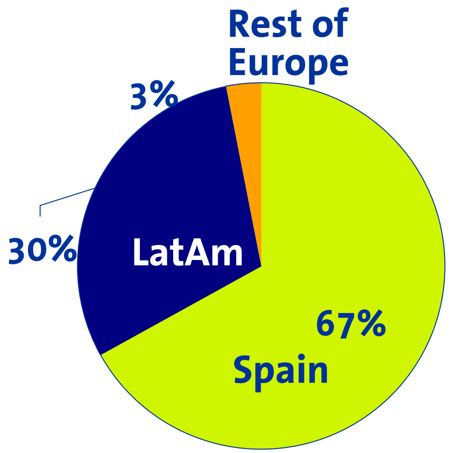
FY2005

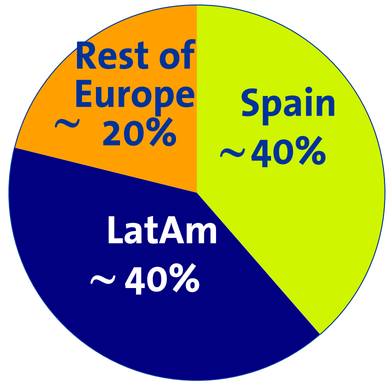


2009E



By Geographies





* 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

TdE | T-Latam | Telefónica Móviles | O_2

Integrated mgmt. programs across businesses

Financial discipline well preserved

Extract additional value from our scale and diversity

Focus on delivering growth and results

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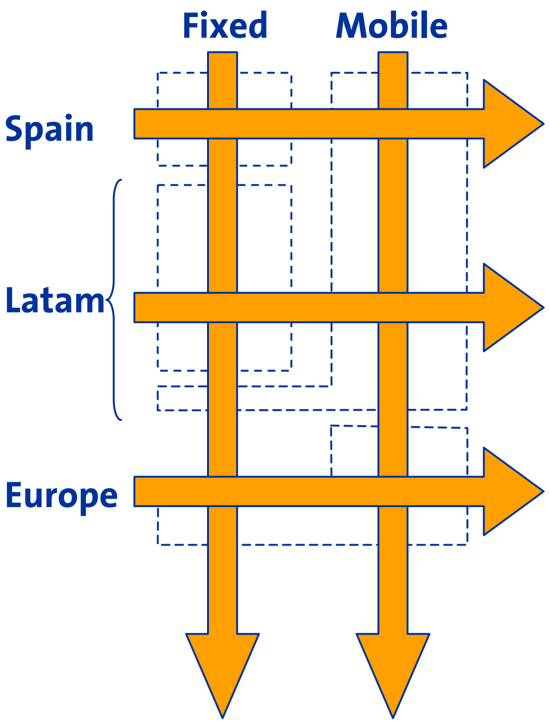
The development of our horizontal strategic priorities will allow us to extract the maximum value from our scale and diversity ...



- Roadmap for convergent P&S
- Resources sharing
- Sales channels
- Network and IT infrastructures
- Support functions

Country plans

- New P&S roadmap
- Network and IT evolution
- Resources sharing
- Operating network centers
- Services platforms
- Support functions

Business unit plans

\+

- Corporate functions alignment
- Coordinated management of services
  - Roaming
  - International traffic
- Resource sharing
  - Purchasing and R&D
  - New services development
  - Network and IT infrastructures

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Latest acquisitions integration plans

O2 ČESKÝ TELECOM telecom Eurotel více ze života

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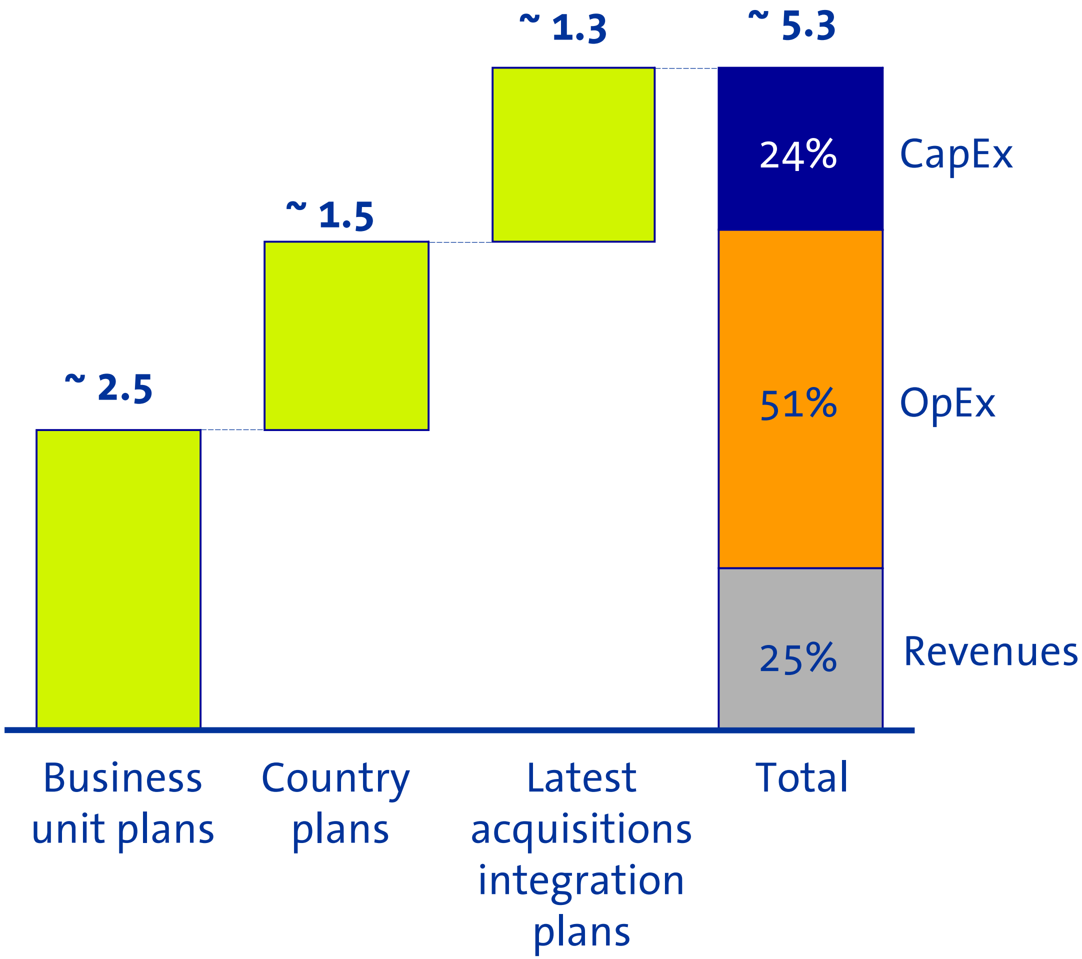
... creating ~EUR 5.3 bn in operating cash flow through the three types of plans

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

FY 2005* (€ in Millions)		Valencia CAGR 05-09E**
37,313.9	Revenues	10-14%
14,785.8	OIBDA***	10-14%
8,092.1	OI***	13-19%
0.913 €	EPS****	x2

Valencia Cumulative 06-09E

OP. CASH FLOW €Bn

> 55

2006-2009E

* 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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