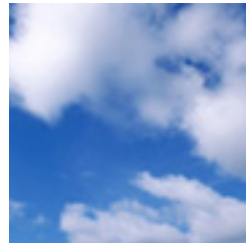


# TMT CONFERENCE

***Ezequiel Nieto, Deputy General Manager Investor Relations  
Telefónica Group***



Madrid, January 17<sup>th</sup>, 2007



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## Contents

# 01 Achieving a Distinctive Profile by Leveraging on Scale and Financial Discipline

02 Strong Operating Performance Across The Group in 3Q05

03 Led to Benchmark Results, Based on Which We Upgraded Guidance



# 01 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**, for an attractive shareholder remuneration package

## ...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**

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# 01 There Are at Least Eleven Benefits of Scale We Are Extracting Value From With Current Footprint

Scale Impact	GLOBAL SCALE	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 MNCs		
	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 Telefónica Latinoamérica: An Example of Regional Management

## COMMERCIAL INITIATIVES

- Transfer of commercial best practices
- Reduction of “time to market” in the development of products and services
- Joint development of campaigns and regional brand image
- Design of regional offers tailored to Corporates

## EFFICIENCY INITIATIVES

- Transfer of best practices in the management of OpEx and CapEx
- Integration of headquarter functions
- Improved conditions on supplier’s contracts
- Development of integrated technological platforms
- Centralizing support functions



## 04 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

Annualized OIBDA. Including Český Telecom January-September 2005 OIBDA  
GBP 17.7 bn, assuming 100% acceptance in the tender offer  
Interim figures as of 30/9/05, Source: Company reports. Translation into Euros based on an exchange rate of 1.47



## 04 ...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

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



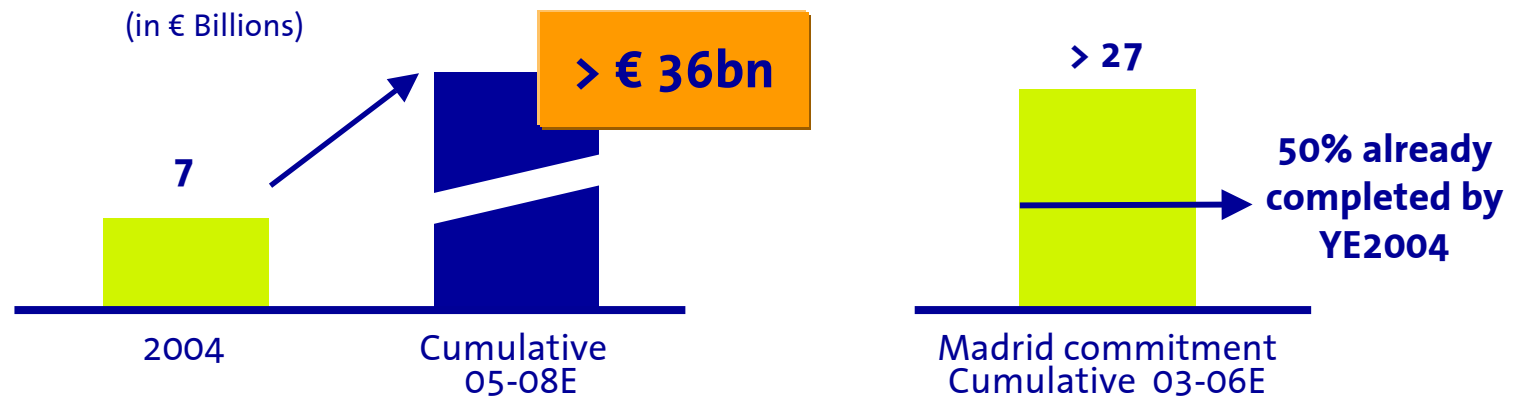


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## 04 Debt reduction capacity supported by an expected cash flow generation above €36 bn until 2008

### TEF stand-alone pre-acquisition - Free Cash Flow (FCF)\*



- 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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**01 Achieving a Distinctive Profile by Leveraging on Scale and Financial Discipline**

**02 Strong Operating Performance Across The Group in 3Q05**

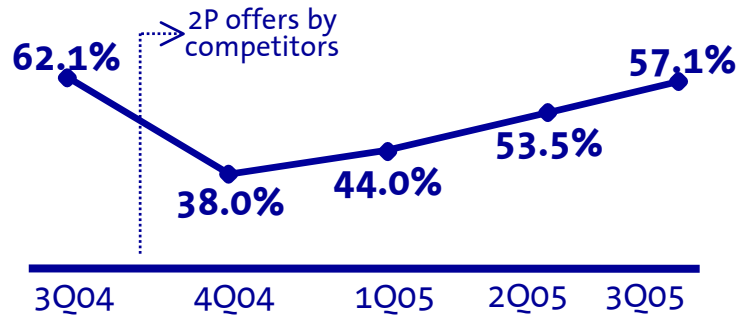
**03 Led to Benchmark Results, Based on Which We Upgraded Guidance**



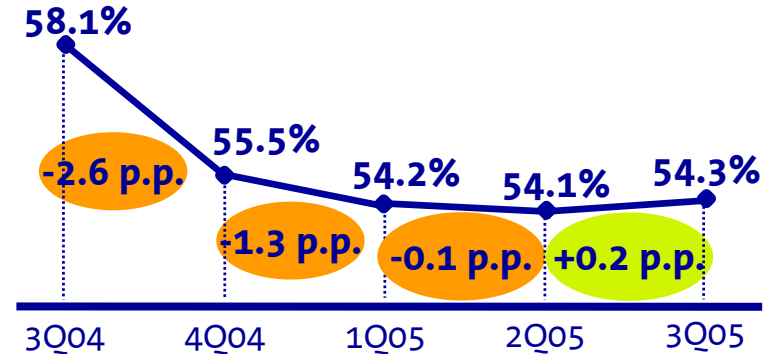
# 02 Telefónica de España: Recovering BB Market Share Through a Leading Commercial Approach



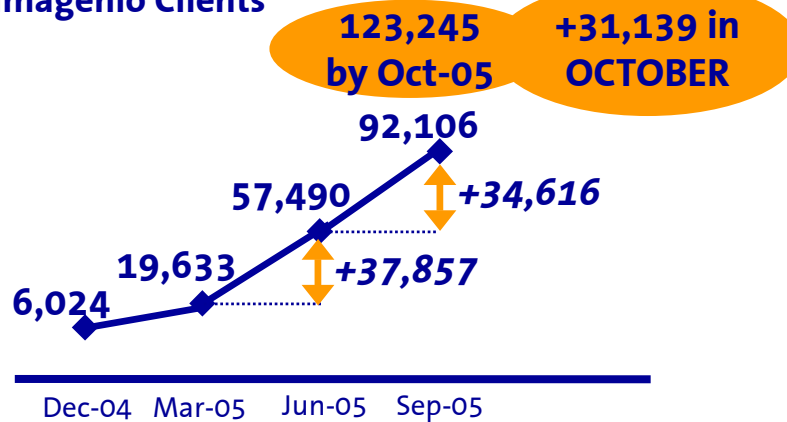
Retail BB Net Adds Market Share <sup>(1)</sup>



Retail BB Market Share <sup>(1)</sup>



Imagenio Clients



- Speed upgrades, **introducing ADSL2+**
- Timely promotions of products, services & devices
- Innovation in portfolio of services, **Unique Spanish player offering VoD**
- Innovation in pricing packages, with a compelling 2P/3P strategy, **Sole ADSL player with 3P (IP TV)**

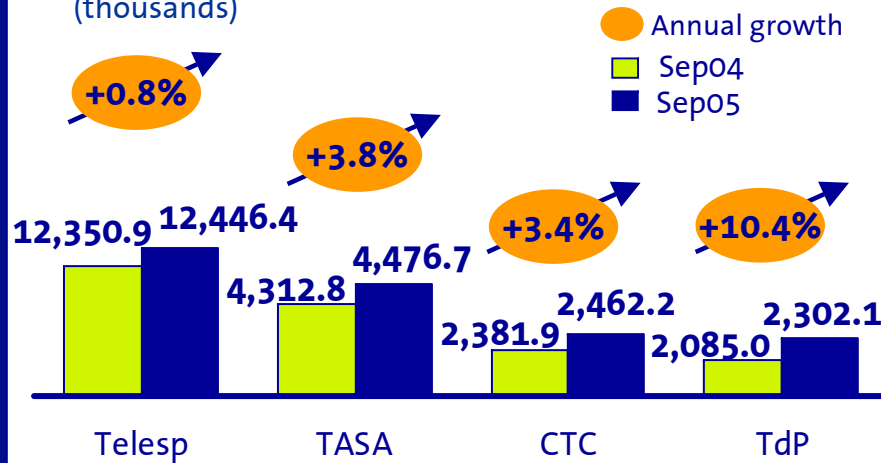


(1) Estimated for Telefónica de España Group

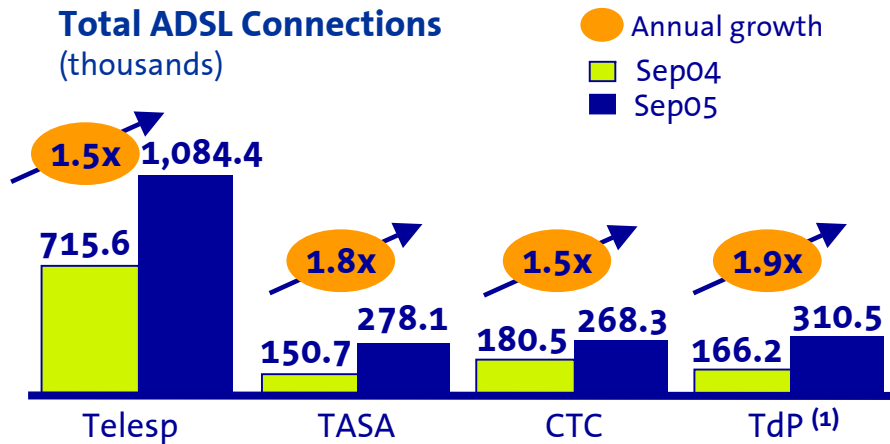


# 02 Telefónica Latinoamérica: Leveraging on Traditional and Broadband Growth

**Traditional Accesses in Service**  
(thousands)



**Total ADSL Connections**  
(thousands)



**2 Million ADSL clients in Latam by end of October (+57% y-o-y) (2)**

(1) Including cable modem  
(2) Excluding Terra Latam unit

## Active Commercial Strategy

- Promotion of Value Added Services
- Prepay & usage control schemes to tap the low income segment
- Traffic packages to segment the offering

## Dynamic advertising campaigns

- Taylor-made products, by time & by capacity, to widen penetration
- Speed upgrades to improve user experience
- Timely promotions of products, services & devices
- New "Wi-fi" solutions for Home, Corporates & Public Spaces

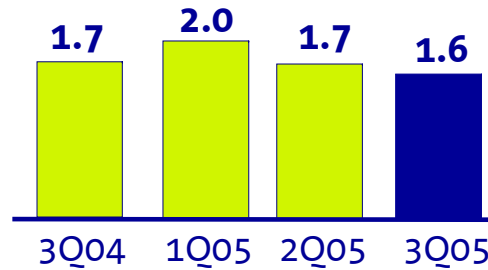


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## 02 Telefónica Móviles: Targeting Share of Revenues Through a Pro-active Commercial Approach

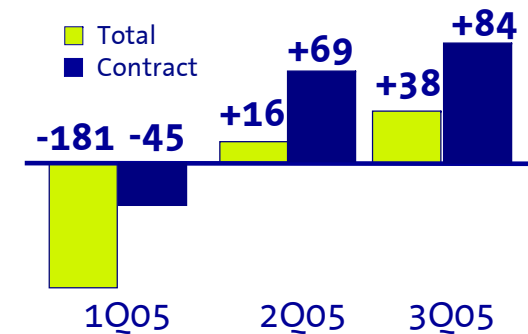
### Spanish Operations

Churn rate (%)



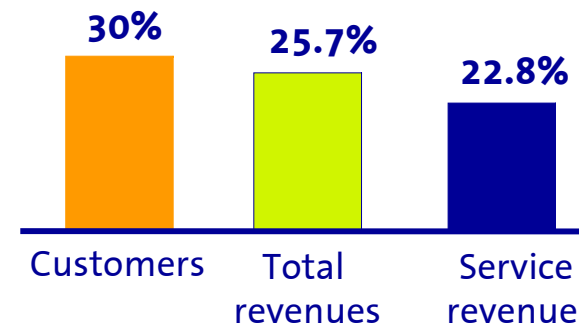
**Contract churn <1% in 3Q05**

Number portability (000s)



### Latin American Operations

9M05 y-o-y growth ex-forex <sup>(1)</sup>



**24% of 3Q05 Net Adds in Contract (15% in 2Q05)**

**Only operator with positive OpCF outside its home market**

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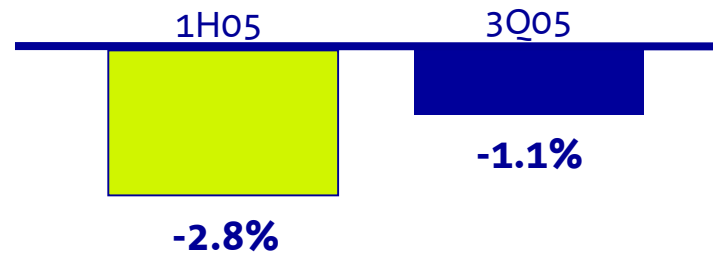
(1) Using exchange rates as of 9M04



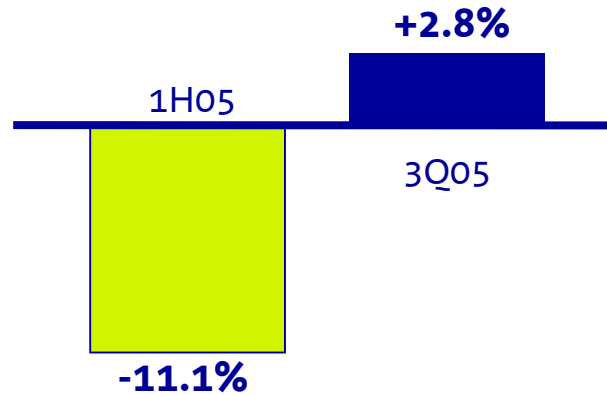
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## 02 Český Telecom: Progressing at All Levels in Just Three Months Since We Took Over

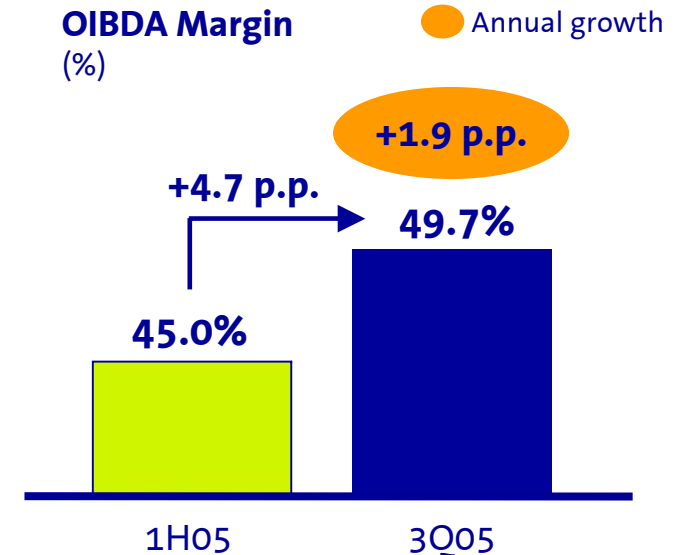
**Annual Revenue Growth**  
(Local currency)



**Annual OIBDA Growth**  
(Local currency)



**OIBDA Margin**  
(%)



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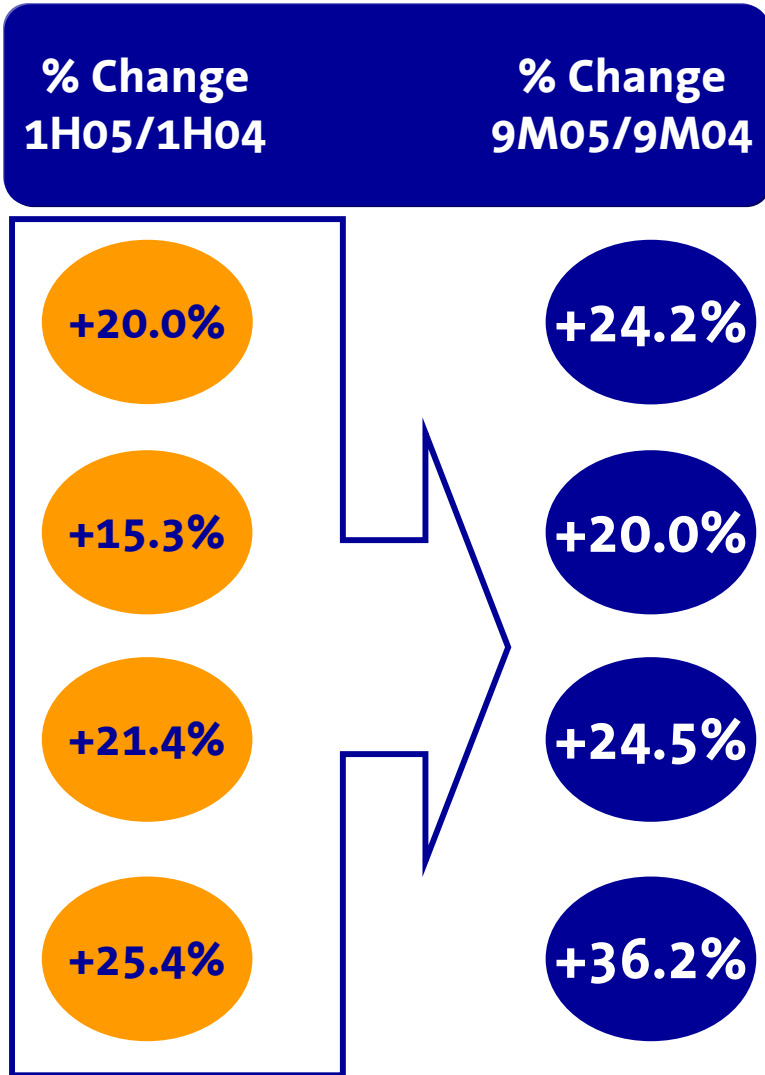
**03 Led to Benchmark Results, Based on Which We Upgraded Guidance**



# 03 9M05 Financial Highlights: Building an Attractive Growth Profile...

(% change y-o-y)

- Revenues
- Operating Income before D&A (OIBDA)
- Operating Income (OI)
- Net Income



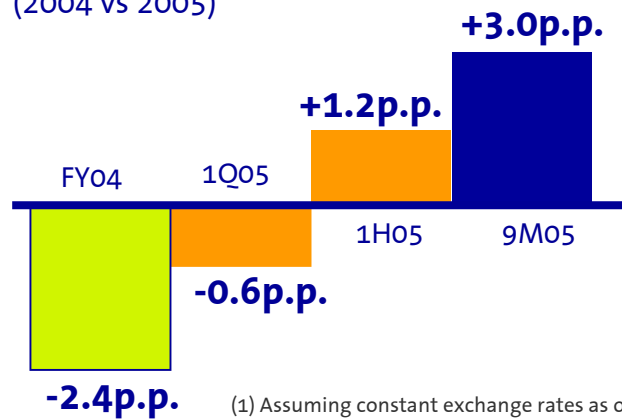




# 03 ...By Capitalizing on Our Very Healthy Organic Growth Supported by Currencies

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%
Group	+9.5%	+9.9%	+9.9%

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



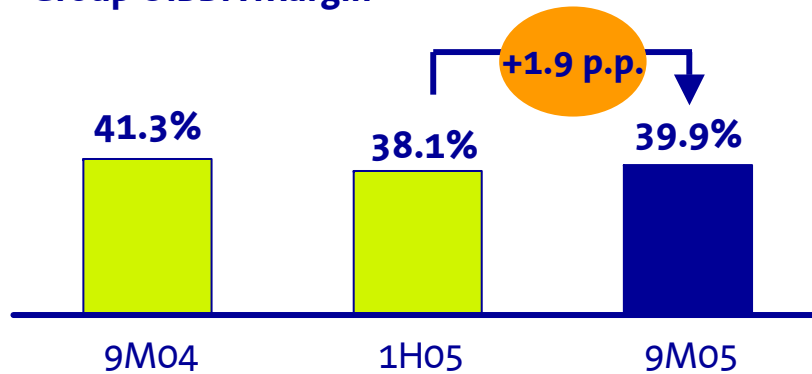
- Positive contribution of forex for the first time in four years
- +16% appreciation of BRL/€ in 2005

(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 €

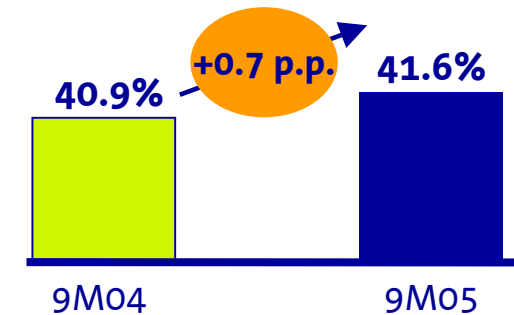


# 03 ...With Margins and Cash Generation Remaining Healthy, Backed by Wireline

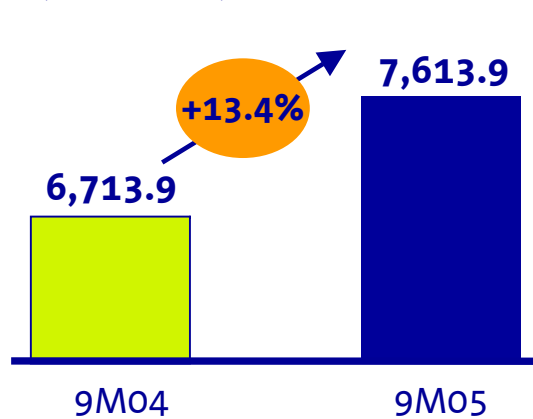
**Group OIBDA Margin**



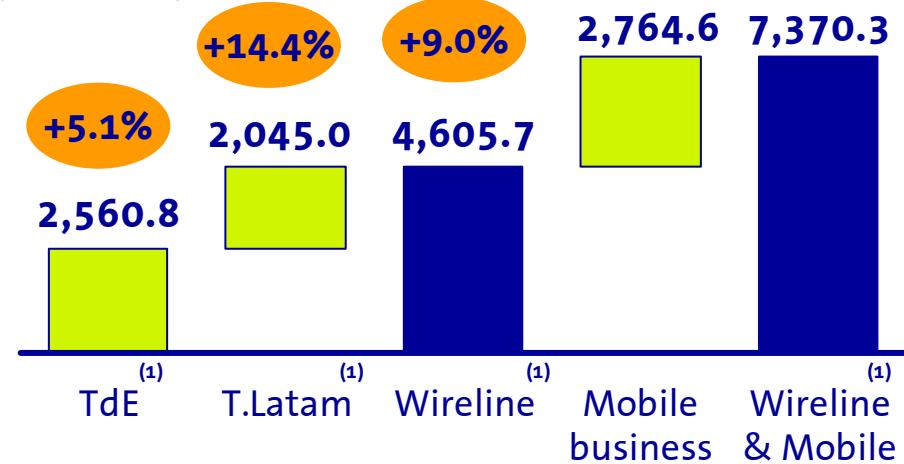
**Wireline OIBDA Margin**  
(Aggregate TdE+T.Latam <sup>1</sup>)



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



**OpCF (OIBDA-CapEx) Breakdown**  
(€ 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 MME mainly from the sale of Infonet in 2005, and 426.8 MME 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 MME) for OpCF calculation



# 03 3Q05 Numbers Strengthen Our Confidence on Year-end Revenue Guidance...

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

	PREVIOUS	NEW
--	----------	-----

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de España

0.5%/2%

>4%



3%/5%

5.5%/6.5%

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12%/15%



>15%

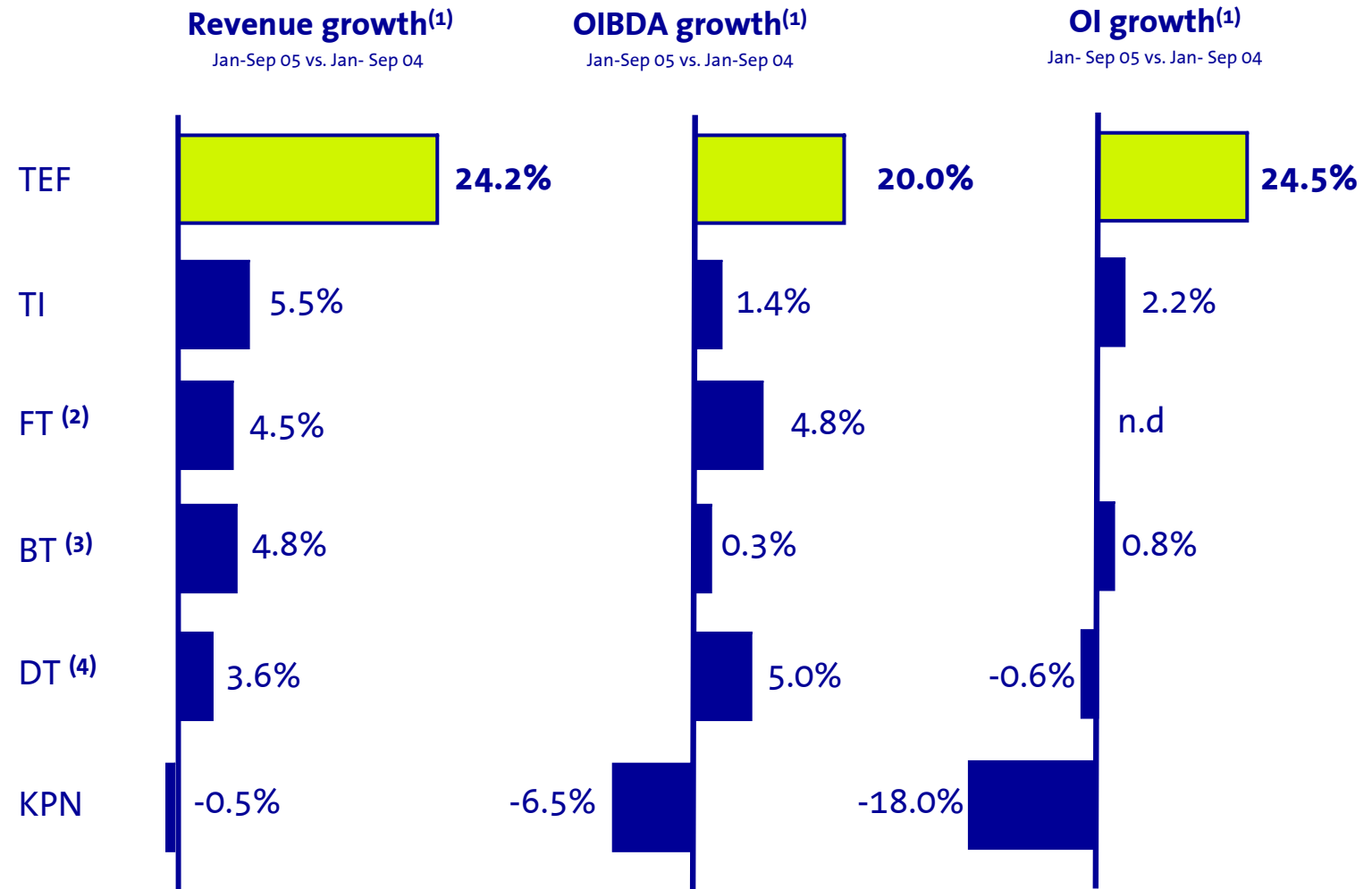
**The rest of Group and divisional targets are maintained**

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). For TPI, upgrade reflects the forthcoming acquisition of Telinver (Argentina) and the start of operations in the Italian Directory Assistance market



03

## ...And Positions Telefónica at The Top of Peer's Performance



(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



## Conclusion

- Our broadband lead and Latam exposure are pushing top-line growth ahead of that of peers
- Our confidence on year-end performance has led us to upgrade Group revenue profile for 2005
- Margins and Cash Flow remain healthy despite our commercial drive
- We remain committed to financial discipline to maintain a sound credit profile



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***The best combination of growth  
and shareholder returns, now and  
in the long run***

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