



FIFTH **INVESTOR** CONFERENCE

Valencia. May 25 th - 26 th. Ciudad de las Artes y las Ciencias

Telefonica

Telefónica: Extracting the value of a new integrated management

Julio Linares

Managing Director for Coordination, Business Development and Synergies



Valencia - May 26th, 2006



FIFTH INVESTOR
CONFERENCE

Telefonica

Disclaimer

This presentation contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

Although Telefónica believes that these statements are based on reasonable assumptions, such forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those in the forward looking statements as a result of various factors, most of which are difficult to predict and are generally beyond Telefónica's control.

Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica's business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator.

The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). Telefónica may present financial information herein that is not prepared in accordance with IFRS. This non-GAAP financial information should be considered in addition to, but not as a substitute for, financial information prepared in accordance with IFRS. Telefónica has included such non-GAAP financial information because Telefónica's management uses such financial information as part of its internal reporting and planning process and to evaluate Telefónica's performance. Accordingly, Telefónica believes that investors may find such information useful. However, such non-GAAP financial information is not prepared in accordance with IFRS or any other generally accepted accounting principles, and such non-GAAP financial information, as defined and calculated by us, may be different from similarly-titled financial information used by other companies. Investors are cautioned not to place undue reliance on such non-GAAP financial information.



The new Telefónica has great growth opportunities and benefits from its scale and diversity

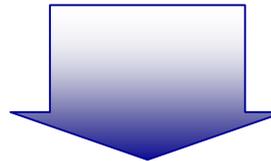
Growth opportunities

- Telefónica has unique growth opportunities well ahead of peers
 - Position in Latam
 - Momentum in Europe
 - Distinctive leadership in Spain



Scale and diversity

- Scale
 - >180 million accesses
 - 19 countries
- Diversity*
 - Businesses
 - 44% Fixed
 - 56% Mobile
 - Geographies
 - 43% Spain
 - 24% Europe
 - 33% Latam



Business guidelines**

- TEM: 8-12%
- O2: 7-11%
- TdE: 3-6%
- T-Latam: 6-9%

* Based on revenues pro forma 2005

** OIBDA growth (CAGR 2006-09)



FIFTH INVESTOR
CONFERENCE

Telefonica

Content

Our new integrated management is...

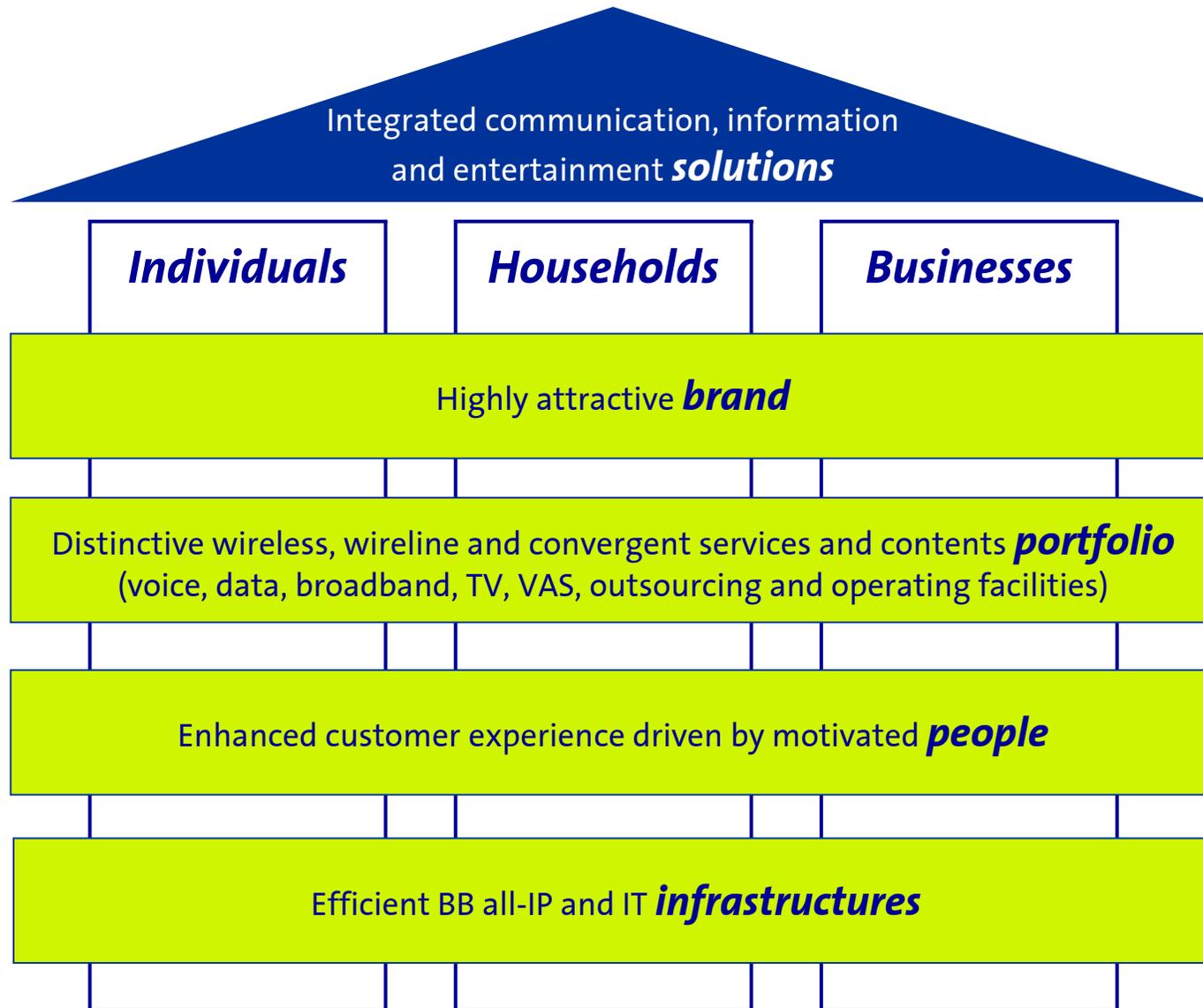
01 ... driven by a shared customer value proposition

02 ... being developed based on a dual approach

03 ... allowing us to capture the maximum value from our scale and diversity



Our new integrated management is driven by a shared value proposition: to serve the full set of customer needs





We are pursuing our shared value proposition in every market independently of the organizational model ...

		Current situation	Market approach
Collaboration among market leaders	<i>Spain</i> <i>Brazil</i> <i>Argentina</i> <i>Chile</i> <i>Peru</i> <i>Colombia</i>	<ul style="list-style-type: none"> ■ Leading position in both fixed and mobile ■ Opportunities for higher cooperation or market growth 	Develop cross-selling and resource sharing programs (network, IT, purchasing)
Fully integrated telco	<i>Czech Republic</i>	<ul style="list-style-type: none"> ■ Intense fixed to mobile substitution ■ Convergence in broadband market 	Pursue fixed-mobile integration to reinforce commercial approach and efficiency
Emerging markets mobile-based operations	<i>Mexico</i> <i>Venezuela</i> <i>Morocco</i> <i>Rest of only mobile countries</i>	<ul style="list-style-type: none"> ■ #1 or #2 competitive position in the market ■ Growth opportunity by increasing penetration and usage 	Continue growth in customer base and selective expansion into broadband services (e.g., WiMax)
European mobile-based operations	<i>UK</i> <i>Germany</i> <i>Ireland</i>	<ul style="list-style-type: none"> ■ Strong position in the market ■ Large potential growth in market share and broadband 	Integrate broadband offer on top of existing mobile (e.g., mobile + ADSL)



... with a pragmatic and flexible approach that will gradually evolve

The **evolution** of our model will be **driven** by:

- **Client interest in convergence:** Customer demand and response for segmented bundles or integrated fixed-mobile offers
- **New value creation opportunities:** new businesses or products & services that could be captured through a stronger businesses cooperation or integration
- **Market development:** competitive movements or regulatory changes that may require a new market approach

Best approach to:

- **Strengthening competitiveness**
- **Delivering benefits from convergent options**
- **Capturing growth and opportunities**



FIFTH INVESTOR
CONFERENCE

Content

Our new integrated management is...

01 ... driven by a shared customer value proposition

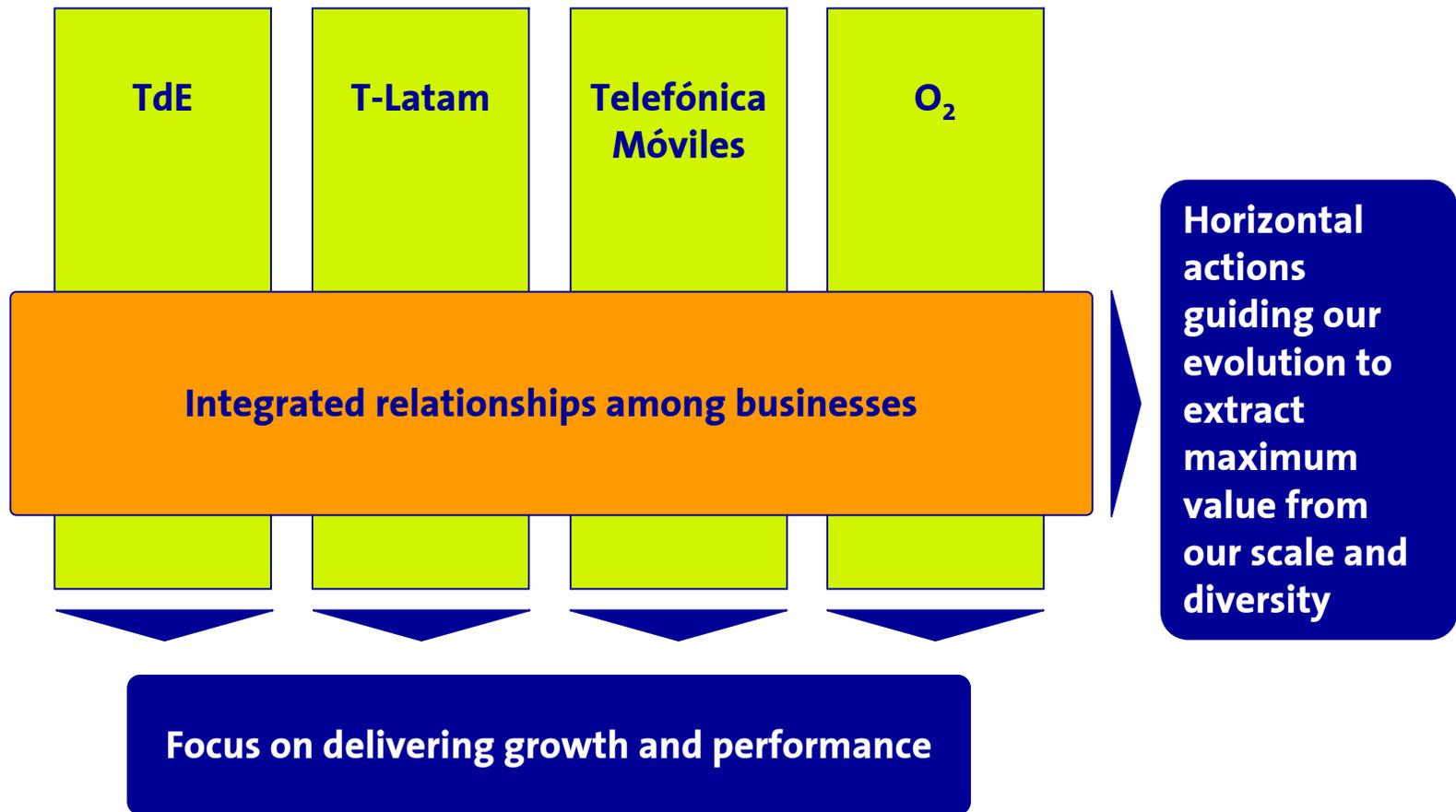
02 ... being developed based on a dual approach

03 ... allowing us to capture the maximum value from our scale and diversity

Telefonica



Our new integrated management is being developed based on a dual approach





Specific horizontal actions focused on our strategic priorities are guiding our common evolution

Specific horizontal actions

Customers

- Multi business customer insight
- Integrated channel management
- Refreshed and segmented brand strategy

Innovation

- Convergent services
- Personal TV services
- New Internet-based business models
- Shared broadband all-IP network

Efficiency

- Opex and Capex improvements from NGN
- IT consolidation and standardization
- Evolved procurement model

People

- Compensation based on share performance
- Talent retention
- New working culture

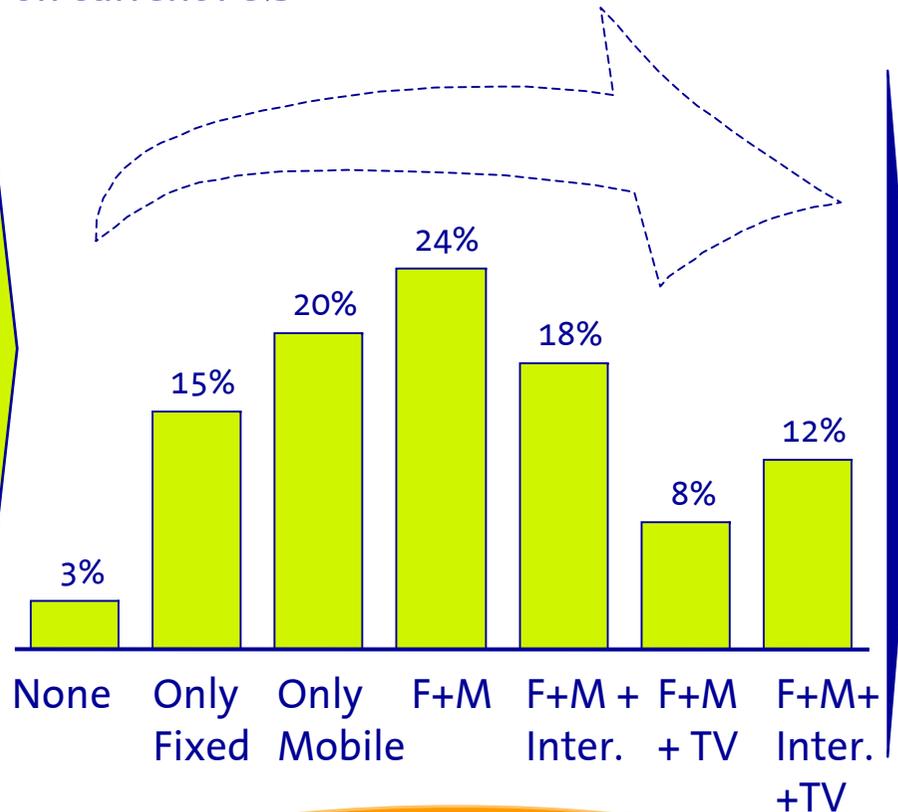


Multi business customer insight allows us to identify new growth opportunities



In addition to the segmentations used in each business, an integrated and deeper customer insight is allowing us to develop multi-business-based opportunities

Example of identification of opportunities
Spanish residential market segmentation based on current P&S



- Focused commercial actions
 - Up selling within fixed and mobile businesses (e.g. 2P/3P)
 - Cross selling between them (e.g. FM bundles in Telefónica stores)
 - Delivering our integrated solutions

50% of revenues by 2009 will come from bundles and integrated solutions



To capture these opportunities, we are evolving towards a more integrated channel management ...

Customers

Customer reach evolution



Channel mix evolution

Sales force

- Sales forces collaboration for SMEs and Corporate clients

- ~10,500 sales representatives



Call centers

- Cross-selling and customer care interoperability between fixed and mobile call centers

- ~ 30,000 call center positions



Own stores/ exclusive distribution

- Complete fixed and mobile portfolio available in own stores and in exclusive and non-exclusive dealers and retailers

- ~65,000 POS both exclusive and non exclusive



Non-exclusive distribution

- One single access point to fixed and mobile online stores

- ~ 3% of sales



• Higher collaboration among channels
 • Transfer of best practices
 • 100% of Telefónica products available at almost every point of contact

Increase activity in sales reps, exclusive POS and on-line channel



... reinforced with a refreshed and segmented brand strategy



Telefónica brand awareness



Brand strategy

Leverage awareness and image of our master brand at every opportunity

In Spain and Latam...

- **Reinforce Movistar** as the reference brand for individuals
- **Consolidate current commercial brands** for households into **one single brand**
- **Maintain Telefónica** as the prestigious, innovative and excellent quality brand for businesses

In European operations...

- **Maintain and capitalize on O2's** cut through with customers while building on the institutional **strength of Telefónica**





To sustain our commercial leadership, we are innovating in our P&S portfolio

Innovation

Main innovation initiatives

Convergent services

- Fixed and mobile convergence
 - Voice VPNs, home zone and single handsets
 - Wireline and wireless Internet access anywhere
- Telecom and IT convergence
 - Integrated IP-based services
 - Network-based solutions

Personal TV services

- Flexible content selection
- TV experience: DVR, past TV, shift TV, picture in picture,...
- Interactive services: Messaging, videoconference
- Mobile TV

New Internet-based business models

- Advertisement-based model: Portal and TV services through PC and mobile
- User payment model: Legal P2P, advanced VAS (blogs, etc.)

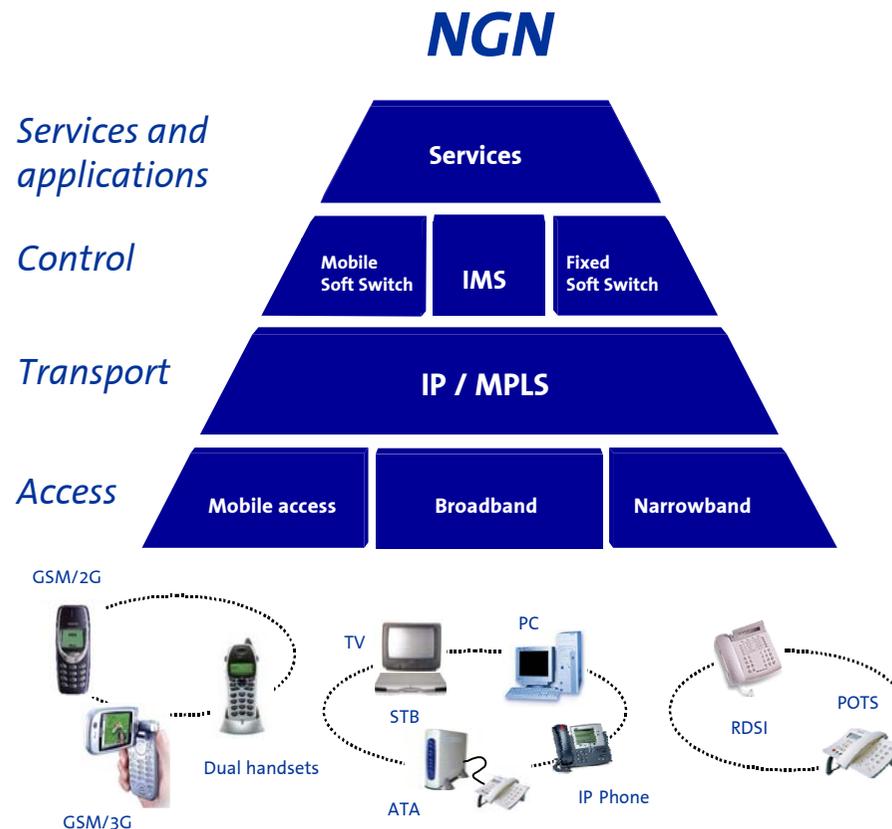


Top-notch content

- Aggregation and distribution for portals, TV and mobiles
- Preferred revenue-sharing model
- Agreements with multiple vendors:
 - VoD: Warner, Paramount, Sogecable
 - TV channels: Disney Channel, Fox, HBO, Paramount Comedy, Sogecable
 - PPV: Spanish football league
 - Football World Cup rights for mobile and Internet
 - Music download for mobile and Internet (Pix Box platform): Universal Music, Sony BMG



To support new P&S, we are evolving towards a shared broadband all-IP network



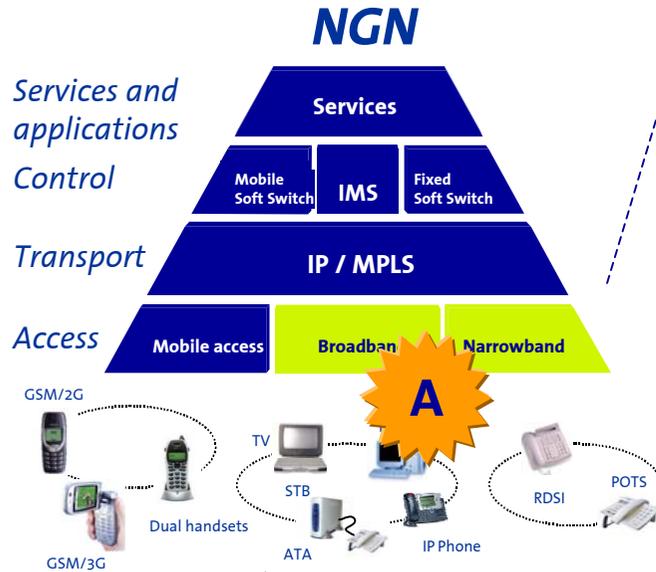
■ NGN = IP network + NGA

– **IP network** provides a great opportunity for convergence, developing new services and efficiency improvements

– **Next generation access** is a “must” to support new customer demands with competitive and differentiated services



To support new P&S, we are evolving towards a shared broadband all-IP network



A Fixed next generation access

Coverage	2005	2009
----------	------	------

Spain

Basic (1 MB)	89%	>90%
Standard (>10 MB)	49%	>70%
Premium (>25 MB)	-	>40%

Latam

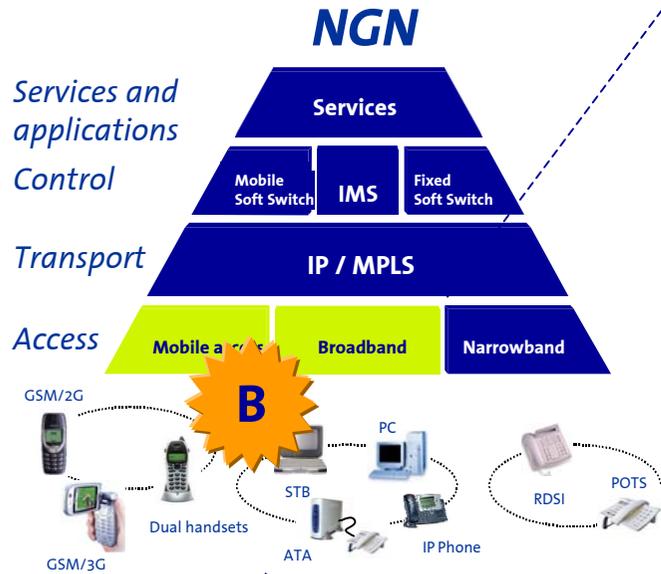
Basic (1 MB)	78%	>90%
Standard (>10 MB)	30%	>50%
Premium (>25 MB)	-	>20%

Selective deployment of new multimedia fixed access network through an optimized mix of technologies (ADSL2+, VDSL2, Fiber)



To support new P&S, we are evolving towards a shared broadband all-IP network

Innovation



B Mobile next generation access

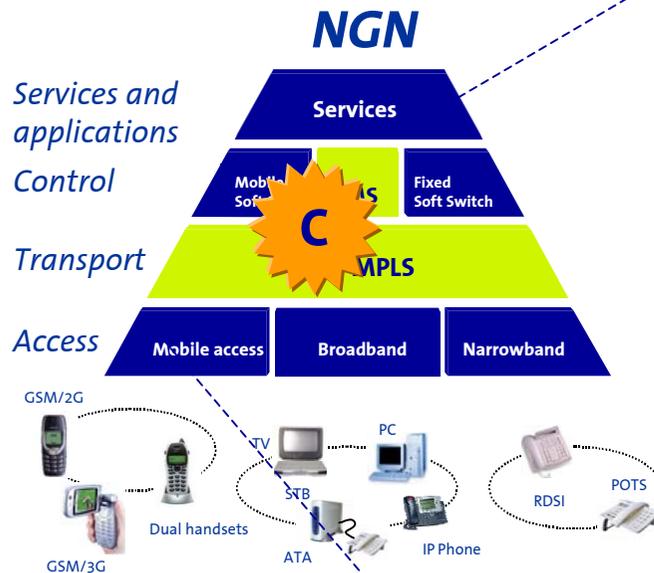
Coverage*	2005	2009
Europe	50%	80%
Latam	5%	50%

Selective deployment of new mobile access network through an optimized mix of technologies (UMTS, HSxPA)

* Population coverage



To support new P&S, we are evolving towards a shared broadband all-IP network



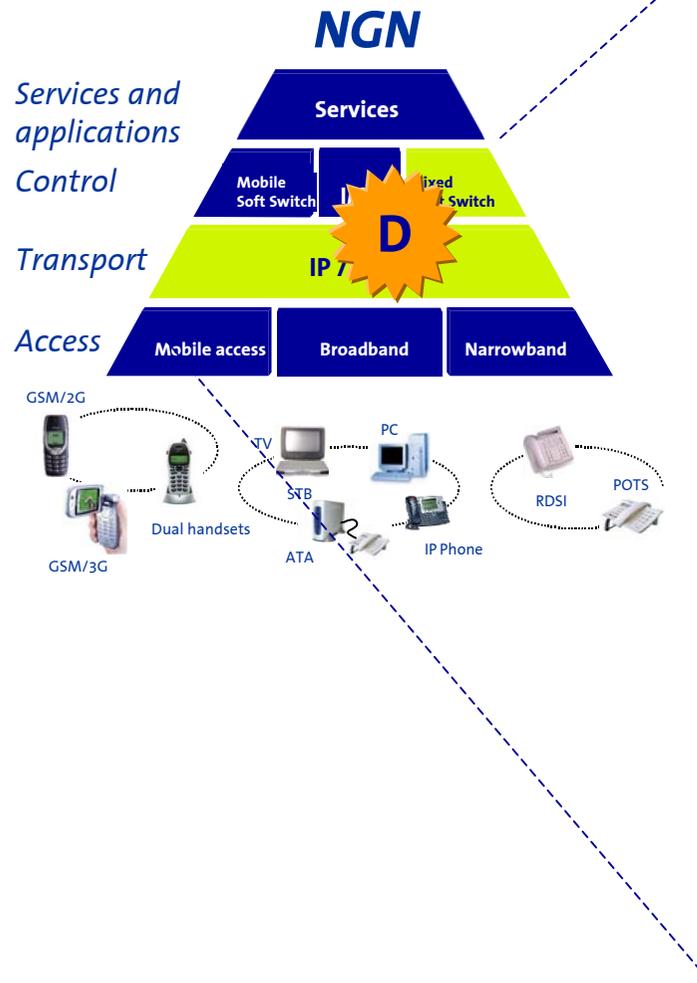
IP network evolution

- A single IP network for fixed and mobile services
 - Based on common backbone and O&M
 - Featured with IMS as a key element to:
 - Support all data, multimedia and convergent services
 - Differentiate level of QoS and security among customers

Common and integrated fixed-mobile network with higher level of intelligence



To support new P&S, we are evolving towards a shared broadband all-IP network



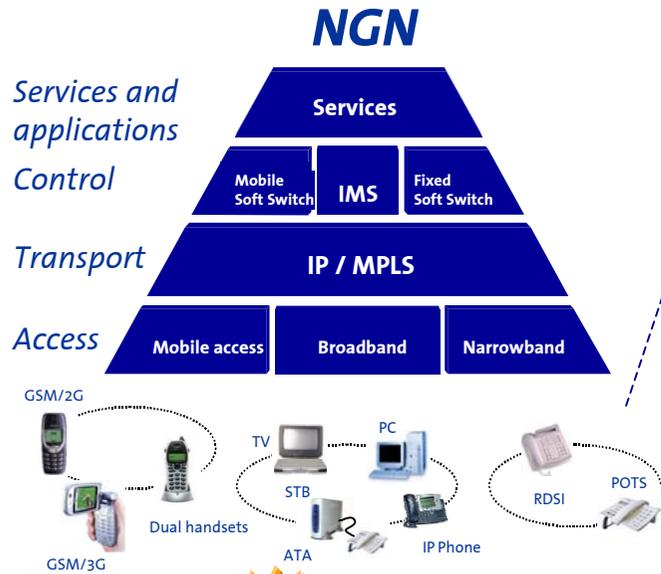
Fixed voice network evolution

- TDM network investments frozen and secured
- Starting in 2007, an increasing number of new adds in new areas will be delivered via broadband

Progressive evolution towards voice over BB



To support new P&S, we are evolving towards a shared broadband all-IP network



Customer network evolution

- A more efficient model to manage customer network based on “plug & play” concept taking advantage of home networking possibilities (e.g. home plug, PLC, WiFi, ...)
- Additionally, new services will be delivered for the advanced digital home (e.g. domotics, tele-assistance services)



Plug & play multimedia customer network



Our shared NGN will also have a significant impact on our efficiency...

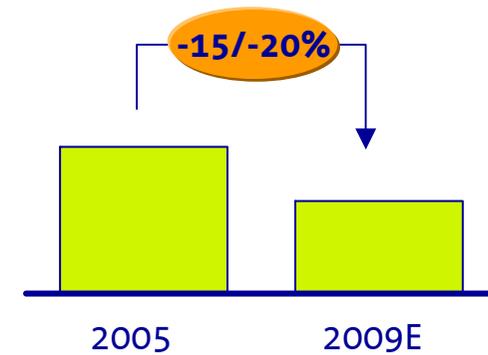


Economic benefits from NGN

- **Customer premises** (Opex reduction)
 - Foster self installation
 - One single visit for any installation activity
- **New access infrastructure** (Opex reduction)
 - Decrease in maintenance costs
 - Increase of automated processes
- **IP technology** (Optimization of Opex and Capex)
 - Single and simpler architecture to deliver all services
 - Remote monitoring

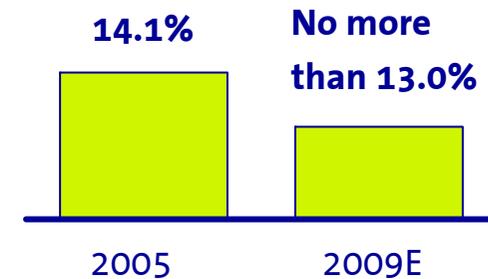
Network operating cost per access

Total 2005-09E change



Capex control

Capex to revenues





... reinforced by a common vision and evolution of our IT systems ...

Efficiency

Infrastructures

Data centers and servers

- Reduced number of data centers in two macro-regions: Latam and Europe (from +50 to less than 8)

Desktop management

- Desktop services standardization (e.g. Distrito C)

Applications

Enterprise management systems

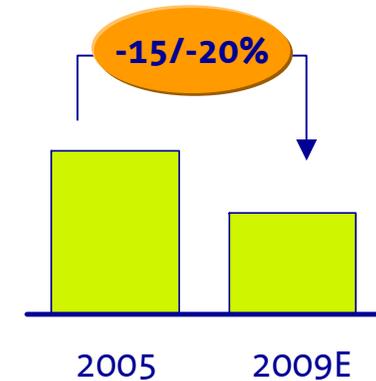
- Completed first phase of SAP (ERP) multi-company integration in Spain and in progress in Latam

Operating and commercial systems

- Extensive roll-out of management tools (e-procurement, HR)
- Progressive shared development of new systems: customer care and billing systems evolution (e.g. ATIS)

IT expenses over revenues

Total 2005-09E change



+

■ Productivity improvement

■ Shorter time-to-market

■ Higher flexibility



... and an evolved procurement model to maximize savings in the purchase area

Efficiency

Procurement categorization

- Items classification in different categories:
 - Align business priorities with purchase process
 - Rationalize number and quality of suppliers
 - Avoid redundant activities

Shared purchase process

- Shared and unique purchase process to leverage our scale (volume of ~ EUR 24 bn in purchases – #1/#2 in global ranking):
 - Better pricing conditions
 - Faster access to new technologies

E-procurement

- Online e-commerce suite of tools for the whole company:
 - Cost savings (better prices and terms, less stock, fewer licenses and less maintenance)
 - Higher flexibility and faster time-to-market

We have achieved significant savings from integrating new companies*:

- 15% on first year of implementation
- 5% recurrently every year

*Based on past acquisitions experience



Motivated and talented people will make our common strategy a reality

Aligning management with company objectives ...

- Compensation based on Telefónica's share performance
 - 1,900 top managers
 - Indexed to relative performance versus FTSE global telecom index
 - Total compensation limited

... developing and retaining our talent ...

- Creation of the "Universidad Corporativa Telefónica"
- Career paths for key managers to develop individual capabilities
- Retention plans and special focus on maintaining knowledge and expertise from acquisitions

... while taking a step forward in our culture transformation

- Fostering a new working culture
 - Distrito C concept with non-exclusive and paper-free offices
 - Risk taking, innovation and entrepreneur encouragement
- Flatter organizational structures
 - Team work promotion
 - 360° evaluation for 100% of the managers



FIFTH INVESTOR
CONFERENCE

Content

Our new integrated management is...

01 ... driven by a shared customer value proposition

02 ... being developed based on a dual approach

03 ... allowing us to capture the maximum value from our scale and diversity

Telefonica



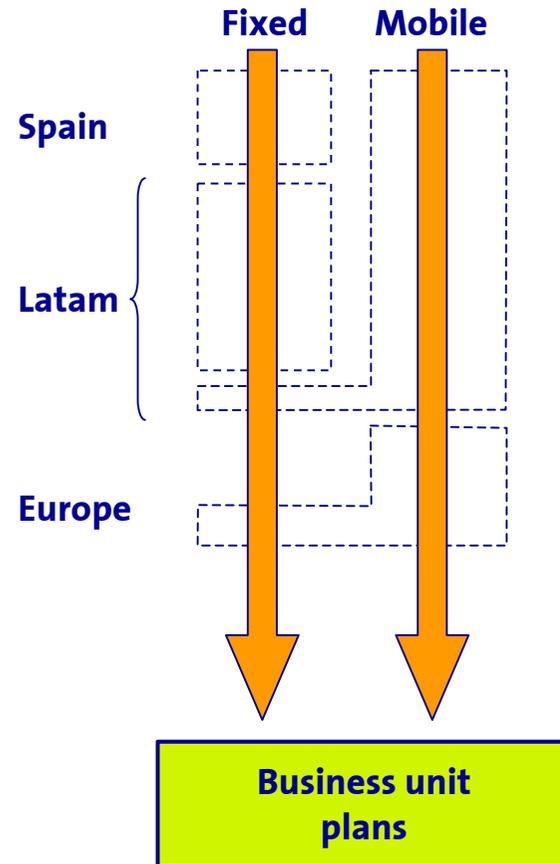
The development of our horizontal strategic priorities will allow us to extract the maximum value from our scale and diversity



The valuable results of our new integrated management



We will continue moving forward with our business unit plans started in 2004



- Main business unit plans:
 - Mobile Latam regionalization
 - Fixed Latam regionalization (Candelaria)
 - Integration of Spanish fixed assets
 - Fixed Spain-Latam resources sharing
- Main common actions:
 - New P&S roadmap
 - Network and IT evolution
 - Resources sharing
 - Operating network centers
 - Services platforms
 - Support functions



Continuing previous efforts, we have launched new business unit plans sharing resources between fixed operations in Spain and Latam

IPTV services

Transfer of best practices (“Quick wins”)

Competence center (Future upgrades)

- TdE is transferring its knowledge in Imagenio service
 - Network deployment
 - Service operation
 - Commercial approach
- Lucent agreement is supporting platform development
- A single competence center will be responsible for:
 - Services roadmap
 - Technical providers management
 - Commercial and operating best practice transferring

Reduction of time-to-market

Reduction of ~12 months in IPTV service launch, getting income in advance

Faster learning curve

Churn reduction ~1 p.p./month

Cost efficiency

Savings up to EUR 30M/year in platform evolution



FIFTH INVESTOR
CONFERENCE

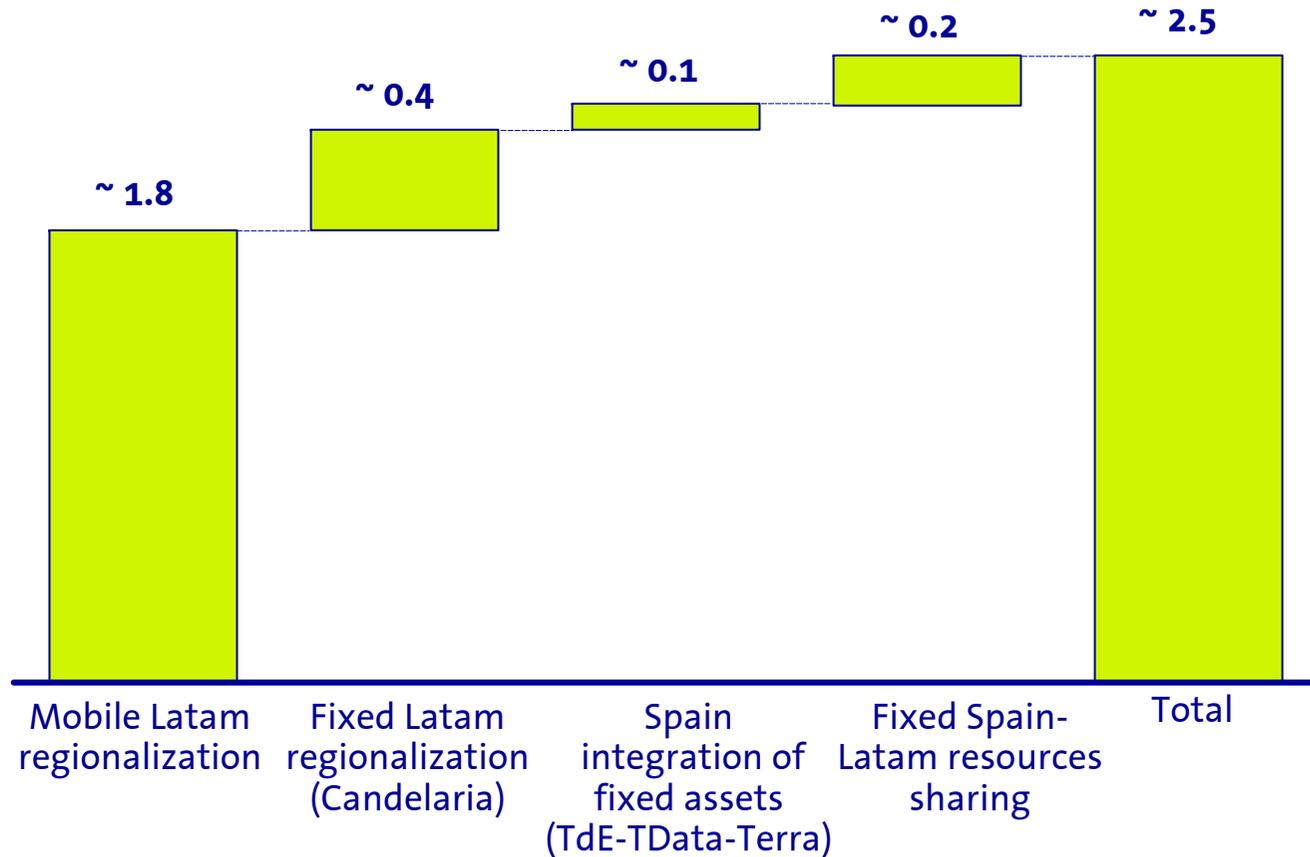
Telefonica

All business unit plans will deliver ~EUR 2.5 bn in operating cash flow

ESTIMATE

Business unit plans operating cash flow (OIBDA- CAPEX) 2006-2009

EUR Billion



Started in ... (2004)

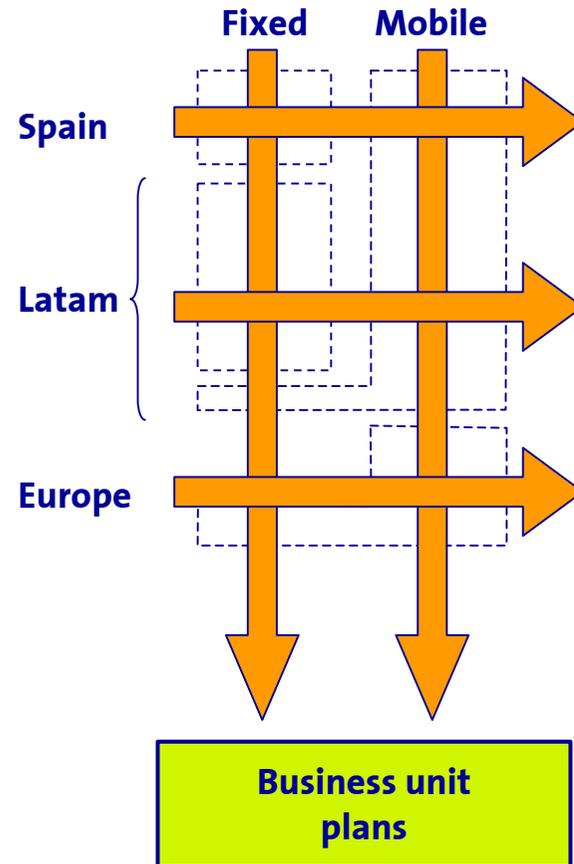
(2005)

(2005)

(2006)



Country plans will deliver the value from fixed and mobile cooperation



- Country plans in Spain, Brazil, Argentina, Chile, Peru, Colombia and Czech Republic
- Main common actions:
 - Roadmap for convergent P&S
 - Resources sharing
 - Sales channels
 - Network and IT infrastructures
 - Support functions



Spain plan: a clear example of fixed and mobile cooperation

Products and services

- **Convergent offer**
 - Creation of voice solutions for groups: integrated price plans based on flat rate VPNs
 - Internet anywhere
 - Video services from/to fixed/wireless
- **Loyalty program:** Introduction of TdE products in Movistar's loyalty program

Network

- Network elements sharing
- Integration of IP backbones
- Common IMS development
- Imagenio 3G

Support functions

- Centralized in t-Gestiona

Channels

- **Sales forces:** joint effort focused on win-back and cross-selling
- **Call Centers:** cross selling through transferring inbound calls
- **Retail:** joint management of retailers (portfolio, negotiation, logistics...)
- **On-line:** integration of homepages of three major commercial sites

IT

- Adjustments in commercial systems for provisioning and billing to deliver convergent products
- Homogenization of desktop management (Distrito C)
- One single maintenance contract

In the next six months 8 new convergent products will be launched

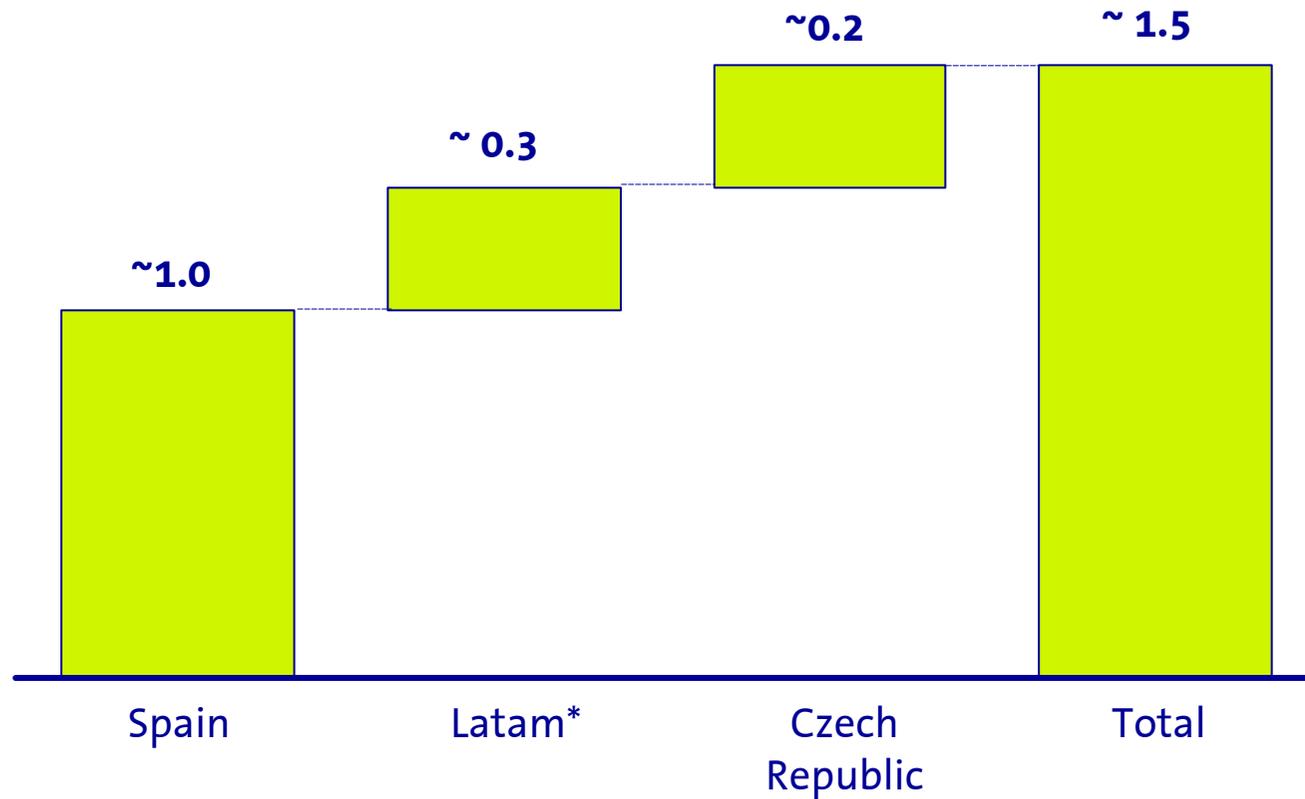
Collaboration channel efforts in execution stage



All country plans will deliver ~EUR 1.5 bn in operating cash flow

ESTIMATE

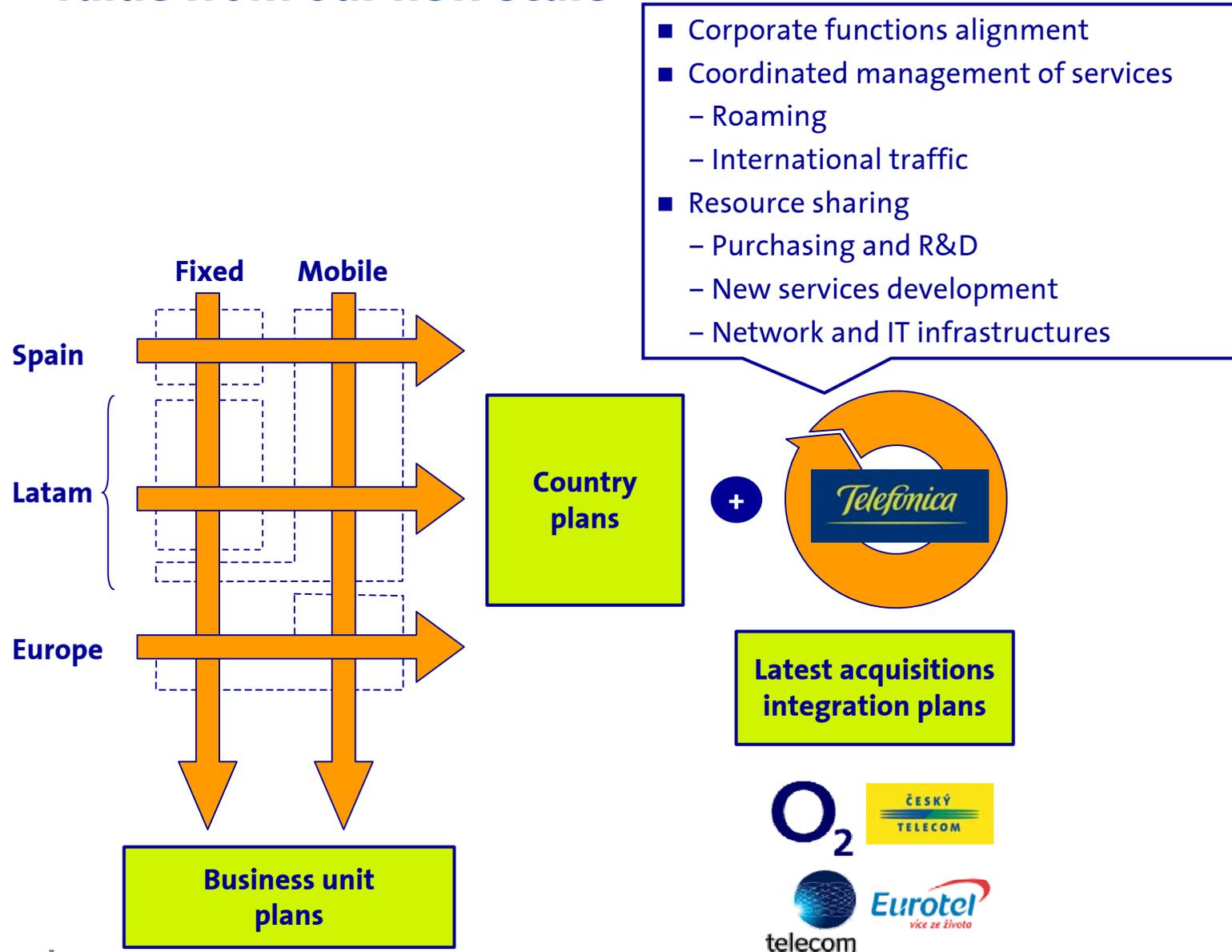
Country plans operating cash flow (OIBDA-CAPEX) 2006-2009
EUR Billion



* Includes Brazil, Argentina, Chile, Peru and Colombia



Latest acquisitions integration plans will deliver the value from our new scale





O₂ integration plan is running at full speed

We have achieved significant milestones during the last four months ...

... and we continue working in additional efforts

Functional initiatives	Alignment of processes and systems	<ul style="list-style-type: none"> Relevant progress in all functional teams: <ul style="list-style-type: none"> Centralization of cash pooling Single Brussels Office Agreement in brand Inclusion of O2 managers into compensation system based on share performance First people exchange 	<ul style="list-style-type: none"> Full unification of functional processes
	Business initiatives	Mobile	<ul style="list-style-type: none"> Several work streams in place: <ul style="list-style-type: none"> Joint cooperation agreements with major device suppliers Launch first roaming service (e.g. "My Europe", joint promotions with TME for summer 2006 and high roamers proposition) First integrated offer for multinational clients Progressive portfolio alignment
Germany		<ul style="list-style-type: none"> T.Deutschland fully integrated into O2 	<ul style="list-style-type: none"> Development of convergent DSL-Mobile offers Enhance position in business segment
Cesky Telecom		<ul style="list-style-type: none"> Cesky Telecom integrated into O2 organization 	<ul style="list-style-type: none"> Integration into O2 processes and systems New brand launch
International traffic		<ul style="list-style-type: none"> International traffic routed via TIWS 	<ul style="list-style-type: none"> Joint negotiation with international traffic wholesalers



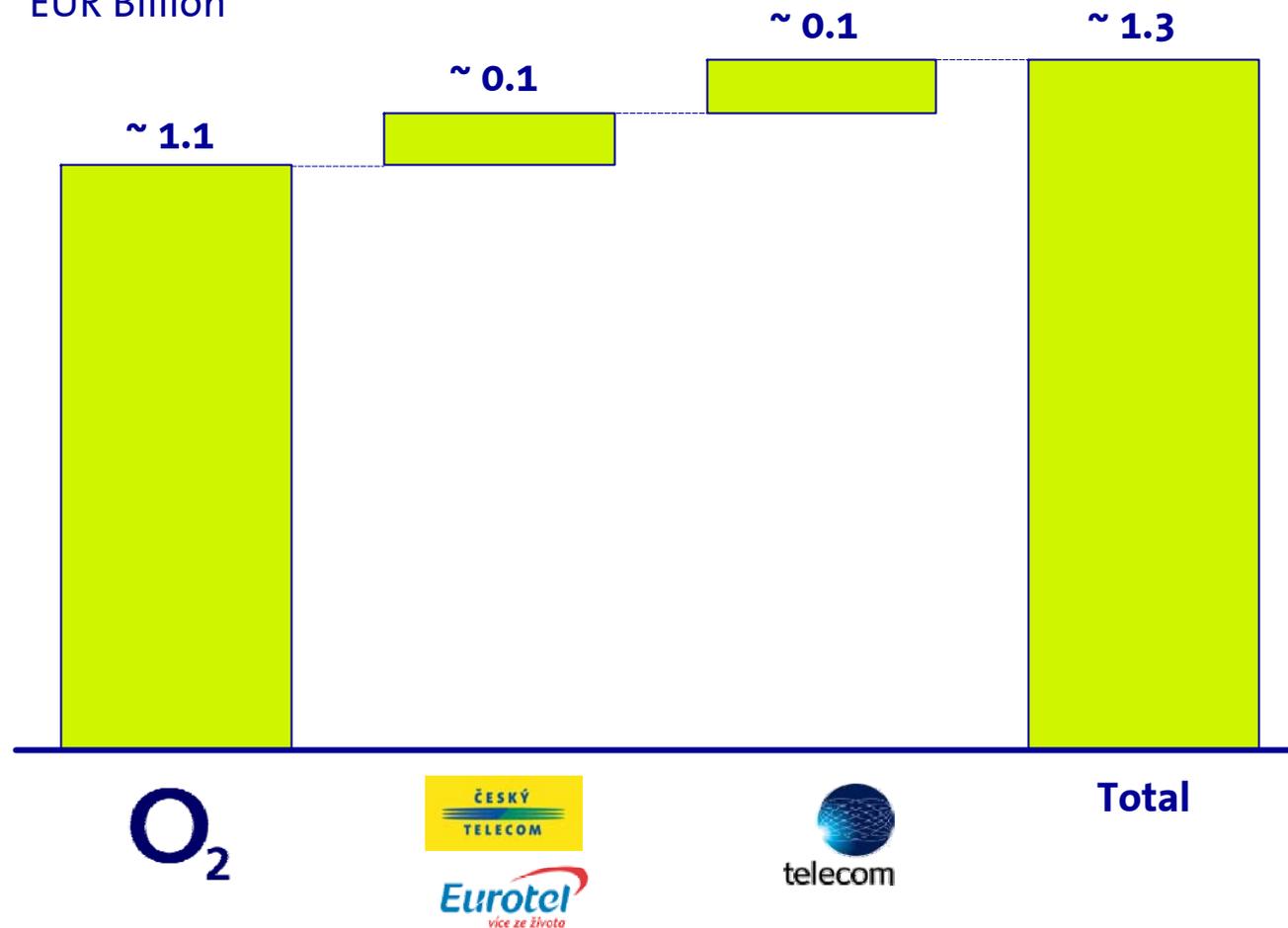
FIFTH INVESTOR
CONFERENCE

Latest acquisitions integration plans will deliver ~EUR 1.3 bn in operating cash flow

ESTIMATE

Latest acquisitions integration plans operating cash flow (OIBDA-CAPEX) 2006-2009

EUR Billion



Telefonica

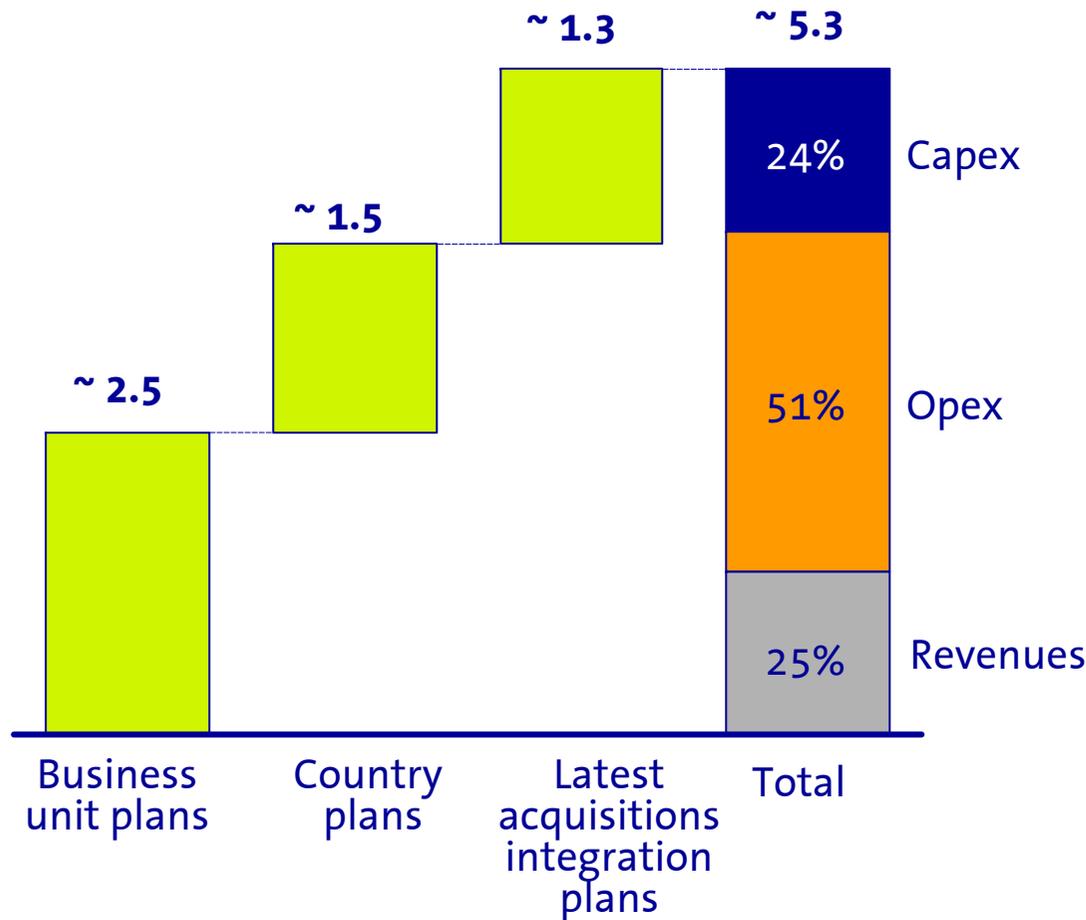


Our scale and diversity will create ~EUR 5.3 bn in operating cash flow through the three types of plans

ESTIMATE

Operating Cash flow (OIBDA-CAPEX) 2006-2009

EUR Billion



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



We have a rigorous follow-up scheme to control and measure the performance of the plans

	Plans	Main initiatives	OCF 2006-09
Business unit plans 2.5	Mobile Latam regionalization	<ul style="list-style-type: none"> Bell South integration Network and devices Etc 	1.8
	Fixed Latam regionalization (Candelaria)	<ul style="list-style-type: none"> Data center consolidation O&M centralization Etc 	0.4
	Spain integration of fixed assets (TdE-TData-Terra)	<ul style="list-style-type: none"> TData integration Terra integration EPR systems integration 	0.1
	Fixed Spain-Latam resources sharing	<ul style="list-style-type: none"> IPTV best practices transfer ADSL solutions Etc 	0.2
Country plans 1.5	Spain	<ul style="list-style-type: none"> Convergent products and services Channels cooperation Network and IT cooperation 	1.0
	Latam	<ul style="list-style-type: none"> Convergent products and services Channels cooperation Network and IT cooperation 	0.3
	Czech Republic	<ul style="list-style-type: none"> Convergent products and services Channels cooperation Network and IT cooperation 	0.2
Latest acquisitions integration plans 1.3	O2	<ul style="list-style-type: none"> Devices and infrastructures Roaming wholesale Etc 	1.1
	Cesky Telecom	<ul style="list-style-type: none"> Roaming Technology IPTV launching 	0.1
	Colombia Telecom	<ul style="list-style-type: none"> Commercial Network and IT Etc 	0.1

Specific teams

Clear milestones

Managers' compensation linked to achievements



In summary ...

- We have a new pragmatic and flexible integrated management driven by a shared customer value proposition as the best approach to:
 - Strengthen competitiveness
 - Deliver the benefits of convergent options
 - Capture growth opportunities
- Specific strategic horizontal actions around customers, innovation, efficiency and people are guiding our common evolution and will have a significant impact on our results
- To capture the value from our scale and diversity we have put in motion plans for cooperation and integration that will deliver EUR 5.3 bn in operating cash flow during the 2006-09 period

**This distinctive approach enables the new
Telefónica to deliver the best combination
of growth and returns in the industry**

Telefonica
