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Independent expert report in relation to the plan for the merger by absorption of Terra Networks, S.A. by Telefónica, S.A.

KPMG Auditores, S.L.
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To the Directors of
Telefónica, S.A. and
Terra Networks, S.A.

Pursuant to the provisions of article 236 of the Revised Text of the Spanish Corporations Law Ms. Eloísa Bermejo Zofio, Mercantile Registrar number IV for Madrid and its province, appointed KPMG Auditores, S.L. as independent expert to prepare this single report regarding the plan to carry out a merger by absorption of Terra Networks, S.A. by Telefónica, S.A. (hereinafter jointly referred to as the Companies) and about the net equity contributed by the company that will disappear and, in particular, as to whether or not the share exchange ratio is justified, the methods that have been used to calculate it and whether these are appropriate, stating the values determined and any specific valuation difficulties that may exist, as well as stating whether the net equity contributed by the company that will be dissolved is at least equal to the increase in share capital of the acquiring company.

1 Description of the Transaction

1.1 Identification of the entities participating in the merger

- Telefónica, S.A. (hereinafter Telefónica)

Telefónica, domiciled in Madrid, at Gran Vía, 28, was incorporated for an indefinite period by means of a notarial instrument executed before Mr. Alejandro Roselló Pastor, a Madrid Notary, on April 19, 1924, at entry No. 141 in his notarial register.

Telefónica is registered with the Commercial Registry of Madrid, in Book 12.534, Folio 21, Page M-6.164.

Telefónica's Taxpayer ID number is A-28.015.865.

- Terra Networks, S.A. (hereinafter Terra)

Terra, domiciled in Barcelona, at Nicaragua, 54, was incorporated for an indefinite period as Telefónica Comunicaciones Interactivas, S.A. by means of a notarial instrument executed before Mr. José Antonio Escartín Ipiens, a Madrid Notary, on December 4, 1998, at entry No. 5,276 in his notarial register, and changed its name to the current one by virtue of an instrument dated October 1, 1999, drawn up before Mr. Francisco Arriola Garrote, a Madrid Notary, and recorded under entry No. 1,269 in his notarial register. Terra moved to its current domicile by resolution adopted at the ordinary general shareholders' meeting held on June 8, 2000, converted into a public instrument before Mr. Nicolás Ferrero López, a Notary of Pozuelo de Alarcón, on August 3, 2000, and recorded under entry No. 2,893 in his notarial register.

Terra is registered with the Commercial Registry of Barcelona, in Book 32.874, Folio 165, Page B-217.925.

Terra's Taxpayer ID number is A-82.196.080.

1.2 Merger share exchange ratio

In accordance with the Merger Plan prepared by the boards of directors of Telefónica and Terra (hereinafter, the Plan or the Merger Plan), approved on February 23, 2005, the exchange ratio for the shares of the entities participating in the merger, which was determined by the Boards of Directors of Telefónica and Terra on the basis of the actual value of the corporate assets and liabilities of Telefónica and Terra, will be as follows (with no supplemental cash compensation):

> Two (2) shares of Telefónica, each having a par value of one euro (€1), for every nine (9) Terra shares, each having a par value of two euro (€2).

The dividends that both companies plan to distribute (see section 1.6) have been taken into consideration in determining the share exchange ratio.

Furthermore, as mentioned in the Plan, Morgan Stanley & Co. Limited, (hereinafter Morgan Stanley) as Telefónica's financial advisor for this transaction (hereinafter, the Transaction) has expressed to the company's board of directors in its fairness opinion that the agreed-upon exchange ratio to be paid by Telefónica was fair from a financial point of view to Telefonica's shareholders. For their part, Lehman Brothers Europe Limited International (Europe), Spanish Branch, (hereinafter the Lehman) and Citigroup Global Markets Limited, (hereinafter the Citigroup) as Terra's financial advisors for the Transaction, have expressed to the latter company's board of directors in their fairness opinion that from a financial point of view the agreed-upon exchange ratio is fair for the shareholders of Terra other than its majority shareholder, Telefónica.

1.3 Merger balance sheets

For the purposes set forth in Article 239 of the Revised Text of the Spanish Corporations Law, the balance sheets for the merger shall be deemed to be the individual balance sheets of Telefónica and Terra as of December 31, 2004. These balance sheets were prepared by the respective boards of directors on February 23, 2005 and verified by the auditors of both companies and will be submitted for the approval of the shareholders at the general shareholders' meetings of each of the companies that must decide on the merger, prior to the adoption of the merger resolution itself.

The merger balance sheet as at December 31, 2004 of Telefónica has been audited by Deloitte, S.L. who issued an unqualified audit report thereon dated March 4, 2005.

The merger balance sheet as at December 31, 2004 of Terra has been audited by Deloitte, S.L who issued an audit report on the individual annual accounts dated February 24, 2005 including the following emphasis paragraphs which are transcribed literally:

"3) Since the Company is the head of a group and meets certain requirements, it is obliged under current legislation to prepare separate consolidated financial statements, on which we issued our auditors' report on this same date which was qualified for the same uncertainty as that described in paragraph 5 to this report. The effect of consolidation, which was performed on the basis of the individual accounting records of the companies composing the Terra Group, with respect to the individual financial statements referred to above, was to decrease assets and the income for the year by €303,399 thousand and €26,945 thousand, respectively, and to increase reserves by €27,717 thousand (see Note 4-c to the financial statements referred to above).

4) On February 23, 2005, the Board of directors of Terra Networks, S.A., approved the plan for the merger of Telefónica, S.A. and the Company. This merger has not yet been approved by the respective Stockholders' Meetings. In this connection, the financial statements referred to above were prepared without taking into account the effects, if any, that could arise from the aforementioned merger.

   As of December 31, 2004, the "Long-Term Investments" caption included a balance of €287,009 thousand, relating to prepaid income taxes and tax assets capitalized for tax losses incurred in 2001 and prior years (see Note 9). The directors of Terra Networks, S.A. consider that, subject to the materialization of certain circumstances and the fulfillment of certain assumptions, and based on the projections and business plans prepared by their external advisers for the next ten years, in the context of the aforementioned merger, this amount is recoverable in the aforementioned period of time. In view of the nature of any business plan, which is based on future expectations, significant differences may arise between the projected and actual results. Management of Terra Networks, S.A. intends to update the plan every year and, in any case, whenever the evolution of the business makes this necessary."

The report also includes the following qualification:

"5) As indicated in Note 14-d)1, as of the date of this Auditors' Report no decision had yet been handed down in relation to the claim for damages of an unquantified amount, filed by IDT (International Discount Telecommunications Corporation) against Terra Networks, S.A., Terra Networks USA, Inc. and Telefónica, S.A. The Company's directors and their external legal advisers consider that Terra Networks, S.A., has solid arguments on which to oppose the claims; although at the present stage of the proceedings they consider that they cannot predict the final outcome thereof."

1.4 Maximum increase in capital of Telefónica

The Merger Plan states that, at the date of the Plan, Telefónica held four hundred and thirty-six million two hundred and five thousand four hundred and nineteen (436,205,419) Terra shares, representing seventy five point eighty seven percent (75.87%) of the share capital.

The share capital of Terra is represented by 574,941,513 shares. The report also states that at that date, Terra held seven million (7,000,000) treasury stock, which were allocated for redemption following the amendment of the hedging system for the various Terra stock option plans for employees and management. The above-mentioned seven million (7,000,000) shares will not be part of the exchange, in compliance with the provisions of Article 249 of the Revised Text of the Spanish Corporations Law and similar provisions, although, following the registration of the merger, Telefónica will succeed Terra as the entity bound by such plans, which will be amended in accordance with the share exchange ratio established in this Plan. To avoid prejudice to the interests of the beneficiaries of these plans, Telefónica will establish, if necessary, mechanisms to ensure that due attention will be given to the commitments assumed by Terra in connection with the above-mentioned stock option plans.

Considering that the share capital of Terra is represented by 574,941,513 shares and that at the date of the merger Terra will hold 7,000,000 treasury stock, the maximum number of Terra shares that may be subject to the exchange would be 131,736,094 and, therefore, the maximum number of Telefónica shares to be conveyed to the Terra shareholders in the exchange would amount to 29,274,687.555.

Considering that the shares are indivisible and that fractions of shares cannot be issued or conveyed, it is imperative that the total number of Terra shares on the market for the share exchange must be a multiple of the share exchange ratio for the exchange to be properly carried out. Consequently, Telefónica plans to acquire seven additional Terra shares. In this case, the maximum number of shares necessary to perform the share exchange would be 29,274,686.

The Plan states that, if necessary, Telefónica will increase its share capital by the exact amount needed to make the exchange for Terra shares in accordance with the exchange ratio established in the Merger Plan.

The increase would be carried out through the issuance of the precise number of shares, each having a nominal value of one euro (€1), belonging to the same single class and series as the current Telefónica shares, as represented by book-entry accounts, with the application, in any event, of the provisions of Article 249 of the Corporations Law. In particular, the Terra shares held by Telefónica will not be exchanged, and will be cancelled.

The difference between the net book value of the assets and liabilities received by Telefónica by virtue of the merger covered by the Plan and the par value of the new shares issued by Telefónica – adjusted, if necessary, by the proportion represented by the new shares of the total shares delivered in exchange – shall be treated as share issuance premium.

Both the par value of such shares and the corresponding share issuance premium shall be entirely paid-up as a result of the *en bloc* conveyance of the corporate assets and liabilities of Terra to Telefónica, which, through universal succession, shall acquire the rights and obligations of Terra.

Based on Terra's individual annual accounts at December 31, 2004, the value of shareholders' equity of Terra amounted to Euros 1,633,964 thousand at that date. The value of shareholders' equity of Terra, net of treasury stock, at that date amounted to Euros 1,618,844 thousand.

Prior to execution of the merger, Terra plans to distribute a dividend of €0.60 per share issued with dividend-receipt rights, which should be taken into account in determining the book value of the assets and liabilities of Terra that will be transferred to Telefónica. The total amount of this dividend, considering that Terra's treasury stock currently totals 7,000,000 shares, would be Euros 340,765 thousand.

Consequently, the total amount of the share capital increase that Telefónica would be required to make would amount to Euros 29,274,686. The maximum share issuance premium, calculated on the basis of the net assets and liabilities of Terra at December 31, 2004 less the total amount of the dividends that Terra plans to distribute prior to the inscription of the merger in the Commercial Registry would amount to Euros 267,180 thousand.

Not withstanding the above, the maximum amount of the capital increase to be carried out by Telefónica pursuant to the established exchange ratio may be reduced through the delivery to Terra shareholders of old own shares held by Telefónica as treasury stock.

1.5 Date from which the shares delivered in exchange will carry the right to participate in corporate earnings

Shares that may be issued by Telefónica in connection with the capital increase mentioned in the previous paragraph, will entitle their owners to participate in the corporate earnings obtained by Telefónica as from January 1, 2005.

Previously existing Telefónica shares and shares delivered or issued in connection with the exchange will participate, with equal rights in proportion to the par value of each share, in distributions made after the date that the merger deed is recorded with the Commercial Registry.

1.6 Dividends

For the preparation of this Merger Plan and the determination of the share exchange ratio indicated in Section 1.2 above, the boards of directors of Telefónica and Terra took into consideration the following dividend-payment plans:

a) Telefónica plans to make the following distributions:

i. Payment of an interim dividend on account of the earnings for the fiscal year ended December 31, 2004, which will be paid on May 13, 2005. This dividend was announced by the board of directors at its meeting held on January 26, 2005 and amounted to €0.23 per share.

As indicated in Section 1.5 above, Terra shareholders who become Telefónica shareholders as a result of the merger will not benefit from this dividend. This has been taken into consideration in the calculation of the share exchange ratio.

ii) The distribution of Telefónica's treasury stock, at the ratio of one share of treasury stock for every twenty-five shares owned by the shareholders, to be charged against the share issuance premium. The proposal for this distribution plan was approved by the board of directors at its meeting held on November 24, 2004. The distribution is subject to the corresponding approval by the shareholders of Telefónica at their ordinary general meeting. The payment is expected to be made during the days following the meeting and, in any event, before the merger of Telefónica and Terra is recorded with the Commercial Registry.

Terra shareholders who become Telefónica shareholders as a result of the merger will not benefit from such distribution. This was therefore taken into consideration in the determination of the share exchange ratio.

iii) The payment of a dividend with a charge against the share issuance premium which should be paid on November 11, 2005. The proposal for this dividend was announced by the board of directors at its meeting held on November 24, 2004. The distribution is subject to the corresponding approval by shareholders at the ordinary general shareholders' meeting of Telefónica. The exact amount of this dividend is expected to be €0.27 per share.

Unlike the provisions for dividends described above in subsections (i) and (ii), this dividend will be received by both the Telefónica shareholders and the Terra shareholders who become Telefónica shareholders as a result of the merger. This was therefore not taken into consideration in the determination of the share exchange ratio.

b) Terra expects to distribute a dividend of €0.60 per share, with a charge to the share issuance premium. The proposal for this distribution was approved by the board of directors at its meeting held on February 23, 2005. The distribution is subject to the corresponding approval by the shareholders at the ordinary general shareholders' meeting of Terra. Payment is expected to be made during the days following the meeting and, in any event, before the merger of Telefónica and Terra is recorded with the Commercial Registry.

Only the shareholders of Terra will benefit from such distribution. This was therefore taken into consideration in the determination of the share exchange ratio.

1.7 Date of the accounting effects of the merger

January 1, 2005 is established as the date from which the transactions of Terra shall be deemed for accounting purposes to be for the account of Telefónica.

1.8 Administrative authorizations

The effectiveness of the planned merger shall be subject to the provision of notices and the procurement of the applicable relevant authorizations and registrations in Spain and in the other jurisdictions in which both companies are present.

2 Valuation methods used to determine the share exchange ratio

A description of the methods followed by the Board of Directors of Telefónica and Terra to determine the share exchange ratio, based on information received from these companies, is as follows:

2.1 Telefónica

The actual value of Telefónica used by the Board of Directors to determine the share exchange ratio amounted to €66,361 million. This amount has been calculated based on the closing trading price of Telefónica on February 21, 2005 (€14.19 per share), discounting a total of €0.80 per share. This adjustment has been made on the basis of the dividends that Telefónica intends to distribute prior to registration of the merger and which, accordingly, will not be attributable to the shareholders of Terra once the share exchange has taken place. The dividends considered are as follows: (i) a dividend of €0.23 per share on account of profits for the year ended December 31, 2004, which will be paid to the current shareholders of Telefónica on May 13, 2005; and (ii) a non-monetary dividend, with a charge to the share issuance premium, of one share from Telefónica treasury stock for every twenty five shares held by the Telefónica shareholders which is planned to be paid immediately after the ordinary general meeting of shareholders is held to decide upon the merger. The estimated value of this dividend is €0.57 per share. The €0.27 dividend per share that is planned to be paid on November 11, 2005 has not been taken into consideration in making the adjustment because it will be paid subsequent to the registration of the merger and, consequently will benefit both the shareholders of Telefónica and the shareholders of Terra and will therefore not affect the share exchange ratio.

The closing trading price of Telefónica shares adjusted for the aforementioned dividends amounts to €13.39 per share and, multiplied by a total of 4,956 million Telefónica shares amounts to €66,361 million.

The Companies, after consultation with their financial advisors, consider that the valuation method based on the market quotation of the company is justified given the high level of liquidity of Telefónica shares.

Based on the information received from Telefónica, management of Telefónica contracted the services of Morgan Stanley as financial advisors for the Transaction, and to assist Telefónica with the valuation process of the Companies and Telefónica's determination and justification of the merger exchange ratio.

Appendix I includes the report prepared by Telefónica summarizing the valuation analyses and the justification of the share exchange ratio prepared by Telefónica with the financial advice of Morgan Stanley.

2.2 Terra

The actual value of Terra used by the Board of Directors to determine the share exchange ratio is €1,690 million. This actual value has been based on the sum-of-the-parts method, principally based on the discounting of cash flows, which has been contrasted with the following valuation methods: (i) multiples of comparable quoted companies, (ii) multiples paid in comparable transactions (iii) market quotations, and (iv) target prices of equity analysts. Furthermore, a dividend of €0.60 has been discounted which Terra plans to distribute prior to the registration of the merger. The resulting unit value of the Terra share is €2.98.

Based on the information received, Terra contracted the services of Citigroup and Lehman as financial advisors for the Transaction, and to assist Terra with the valuation process of the Companies and Terra´s determination and justification of the merger share exchange ratio.

Appendix II includes the reports prepared by Terra summarizing the valuation analyses and the justification of the share exchange ratio prepared by Terra based on the advice of its financial advisors Citigroup and Lehman.

3 Scope and procedures applied in our work

Our analyses and confirmations have been carried out solely to comply with the requirements of article 236 of the Revised Text of the Spanish Corporations Law. The following procedures have been employed in our work:

3.1 Procurement and analysis mainly of the following information:

- The Merger Plan of February 23, 2005 formulated and approved by the boards of directors of Telefónica and Terra.

- Certificates of agreements of the boards of directors of Telefónica and Terra relating to the approval of the Merger Plan of February 23, 2005.

- Fairness opinions and valuation analysis documents on the Companies prepared by Morgan Stanley & Co. Limited, Lehman Brothers International (Europe), Spanish Branch and Citigroup, upon request of the respective boards of directors of the respective Companies.

- Information prepared by Terra and Telefónica in reply to the information required by the CNMV relating to the merger transaction dated February 25, 2005 and March 23, 2005.

- Individual and consolidated audited annual accounts of Telefónica and Terra for the years ended December 31, 2003 and 2004, audited by Deloitte, S.L. Audited annual accounts of Terra Networks España, S.A., Sociedad Unipersonal for the year ended December 31, 2004 audited by BDO Audibería Aduitores, S.L.

- Strategic Plan of Terra for the period from 2005 to 2008 both inclusive.
- Budget for Terra in respect of 2005.
- Financial projections of the statements of profit and loss of Terra prepared by management for the period from January 1, 2005 to December 31, 2008.
- Analytical financial information for Terra, by line of business, for the years ended December 31, 2003 and 2004.
- Financial projections of the statements of profit and loss of Telefónica prepared by management for the period from January 1, 2005 to December 31, 2008.
- Tax and legal reports relating to the planned merger, prepared for or by the management of each Company.
- Strategic Alliance Framework Agreement signed between Telefónica and Terra.
- Other commercial and shareholder contracts of the Companies, including those relating to options and binding offers for the purchase/sale of significant shareholdings or those under negotiation, which were considered relevant to the performance of our work.
- Stock exchange information on the quotations of Telefónica and Terra shares.
- Stock exchange information on shares of companies comparable to Telefónica and Terra.
- Public information on transactions concerning shares of companies with similar activities to those of Terra and Telefónica or any of their businesses, where appropriate.
- Financial reports prepared by equity research analysts on Telefónica and Terra.
- Other information considered relevant to our work.

3.2 Review and analysis using available information of each of the valuation analysis documents and the Fairness Opinions provided by the respective investment banks.

3.3 Review of the valuation methodologies employed and the respective parameters used by the Board of Directors to determine the share exchange ratio for the projected merger, with available supporting documentation.

3.4 Sensitivity analysis of the most significant variables which could affect the business of the Companies and, consequently, their estimated values and the corresponding share exchange ratio.

3.5 Meetings with management of both Companies and their advisors and auditors to gather other information, where applicable, which may be considered relevant to our work.

3.6 Procurement of a letter signed by the management of each Company confirming that, to the best of their knowledge, we have been provided with all information considered relevant for the preparation of our independent expert report, and that no other events have taken place between the date of the auditors' reports of Telefónica and Terra for the year ended December 31, 2004 and the date of our report that have not been brought to our attention and which may substantially modify the true and fair view of the Companies' net equity and/or financial position at that date and, consequently, affect the merger share exchange ratio.

Our work has been based on audited and/or unaudited information provided by Management of the Companies. For the purposes of our work we have assumed that this information is complete and accurate, and that it reflects the Companies' Management's best estimates of the future operating and financial prospects of the businesses.

Our work has also been based on information taken from public sources. However, our work did not include contrasting this information with external evidence. Nonetheless, we have confirmed, to the extent possible, that information provided is consistent with other data that has been provided to us during the course of our work.

We have assumed that all the required authorisations and registrations in Spain and other jurisdictions, in which the companies are present necessary to carry out the proposed merger transaction will be obtained without any adverse effect to Telefónica or Terra or the expected benefits of the merger transaction which could have a significant effect on our analysis.

We would also point out that our work is of an independent nature and therefore does not represent any kind of recommendation to Companies' management, shareholders or to third parties in relation to the position which should be taken regarding the planned merger Transaction or other transactions involving the Companies' shares. Our work does not address the relative merits of the current or past business strategies of the Companies or the planned merger transaction as compared to other business strategies or transactions that might be available to the Companies, nor does it address the underlying business decision of the Companies to proceed with the proposed merger transaction.

4 Special valuation difficulties

4.1 In addition to objective factors, all valuation work involves subjective factors which require the use of judgment. Consequently, the "value" obtained represents only a point of reference for the parties interested in carrying out a transaction. It is therefore not possible to provide assurance that third parties would necessarily agree with the conclusions reached.

4.2 It should also be taken into consideration that, in the context of an open market, different prices could exist for a particular business due to a number of subjective factors.

4.3 The discounted cash flow method used, among others, by the Companies and their financial advisors for the valuation of Terra and Telefónica has been based on the financial projections of the Companies prepared in accordance with the assumptions determined by the Companies' management, comprising their best estimates and judgments based on current circumstances and expected developments. Given the uncertainties inherent in any information concerning the future, certain assumptions may not materialize as initially defined and unexpected events could occur. It should be also taken into consideration that Terra forms part of the Telefónica group and the policies of both companies could therefore be more closely inter-related. Considering both of these circumstances, the estimated results and cash flows may not materialize as defined. If Telefónica were not a shareholder of Terra, the results and cash flows could differ from those used and the values obtained could therefore be affected.

4.4 Based on the information received in relation with Terra's sale of its participation in Lycos Inc. in 2004, Telefónica is considering the possibility of reporting additional tax losses for the 2004 tax year, under the procedure established in the third additional provision of Royal Decree 1163 of 21 September 1990, up to a maximum additional amount of €7,418 million. The additional tax loss carried forward would arise as a result of using, as the tax acquisition value of the shares in Lycos Inc, their fair market value at acquisition date rather than their net book value at which they were accounted for. Although, based on the interpretation of applicable tax legislation, certain technical arguments exist to support the rectification of the income tax return to claim the additional tax losses, the absence of identical or similar precedents that permit their application gives rise to reasonable uncertainties as to their possible acceptance by the tax authorities and, consequently, the possible effective use of such tax credits by the consolidated tax group of Telefónica, as well as the period in which these tax credits would become available for use.

4.5 We would point out that in accordance with information obtained and meetings held it is not possible to reliably estimate the terms or probability of renewal of the Strategic Alliance Framework contract between Telefónica and Terra dated February 12, 2003 when it expires on December 31, 2008. By virtue of this contract Telefónica guaranteed Terra a minimum margin of €78.5 million per annum until December 31, 2008 measured as the difference between the income resulting from the services rendered as a result of this agreement and the directly associated costs and investments.

4.6 The audit report on the consolidated annual accounts of Terra for the year ended December 31, 2004 included the following qualification:

"5) As indicated in Note 17-d)1, as of the date of this Auditors' Report no decision had yet been handed down in relation to the claim for damages of an unquantified amount, filed by IDT (International Discount Telecommunications Corporation) against Terra Networks, S.A., Terra Networks USA, Inc. and Telefónica, S.A. The Company's directors and their external legal advisers consider that Terra Networks, S.A., has solid arguments on which to oppose the claims; although at the present stage of the proceedings they consider that they cannot predict the final outcome thereof."

Consequently, the estimated range of values might have been affected had the outcome of the current uncertainty regarding this claim been known.

5 Conclusions

Based on the work carried out, with the sole purpose of complying with article 236 of the Revised Text of the Spanish Corporations Law and considering those matters described in section 4 above, we consider that:

- The valuation methodologies used by the Board of Directors to determine the actual value of the Companies are appropriate in the context and the circumstances of the proposed transaction, and justify the share exchange ratio proposed in the Merger Plan.

- The net equity transferred by the company that will be dissolved is at least equal to the maximum increase in capital of the acquiring company as foreseen in the Merger Plan.

Our conclusion should be interpreted within the context of the scope of our verifications, which does not include responsibilities other than those relating to the reasonableness of the methods employed and the proposed share exchange ratio.

This report has been prepared exclusively to comply with the provisions of article 236 of the Revised Text of the Spanish Corporations Law and should not be used for any other purpose.

(Signed)

Ana Martínez Ramón
Partner

12 April 2005

Appendix I

Telefónica engaged Morgan Stanley & Co. Limited (hereinafter Morgan Stanley) to provide financial advisory services, including the assistance to Telefónica in the valuation of the companies, and the determination of the proposed merger exchange ratio. On February 23, 2005 Morgan Stanley rendered a fairness opinion to the Board of Directors of Telefónica in relation to the Transaction, in which it concluded that, based upon and subject to the considerations set forth in the said document, the exchange ratio to be paid by Telefónica and the extraordinary dividend of €0.60 per share to be distributed by Terra to its shareholders pursuant to the Merger Plan were fair from a financial point of view for Telefónica.

Telefónica determined the financial terms of the Transaction reflected in the Merger Plan based on valuation work performed, the advisory services of Morgan Stanley and negotiations with Terra under market conditions.

As part of its financial advisory services to Telefónica, Morgan Stanley carried out various analyses of the valuation of the companies in relation to the preparation of its fairness opinion. The analyses, summarized below, were based on closing prices for the ordinary shares of Telefónica and Terra as of February 21, 2005, adjusted to reflect the following dividend distributions announced by each of the two companies:

i. Telefónica's share price: adjusted for a total of €0.80 per share in dividends announced by Telefónica (which will not be payable to Terra's current shareholders in respect of the Telefónica shares they will receive following the merger, pursuant to the Merger Plan) as follows: (a) €0.23 per share cash dividend payable to Telefónica's current shareholders on May 13, 2005; on account of profits for the year ended December 31, 2004; and (b) the distribution of one Telefónica share held in treasury stock for every 25 Telefónica shares held by current Telefónica shareholders with a charge to the share premium reserve following the annual general shareholders' meeting to be held on May 25, 2005 (estimated at €0.57 per share at Telefónica's closing share price as of February 21, 2005).

ii. Terra's share price: adjusted for the extraordinary cash dividend of €0.60 per share announced by Terra's board on February 23, 2005, which will be distributed to Terra's current shareholders prior to inscription of the merger in the Commercial Registry.

Trading Range Analysis

Morgan Stanley reviewed the range of closing prices of Telefónica and Terra ordinary shares for various periods ended February 21, 2005. Morgan Stanley observed the following:

Period ended February 21, 2005	Telefónica	Terra
Last Three Months	€12.18 - €13.76	€2.20 - €2.70
Last Six Months	€10.66 - €13.76	€2.17 - €2.70
Last Twelve Months	€10.40 - €13.76	€2.17 - €2.70

Morgan Stanley calculated that the exchange ratio of 2 Telefónica ordinary shares for every 9 Terra ordinary shares pursuant to the Merger Plan represented a 15% premium on the unaffected share price of Terra ordinary shares as of February 11, 2005, and a 14% premium on the average price of Terra ordinary shares for the 30 trading days prior to February 21, 2005.

Comparable Companies Analysis

Morgan Stanley compared certain financial information of Telefónica and Terra with publicly available consensus financial projections in analysts' reports for other companies that shared similar business characteristics to Telefónica and Terra, respectively. The companies used in this comparison were as follows:

i. With respect to Telefónica: Belgacom, British Telecom, Deutsche Telekom, France Telecom, KPN, Hellenic Telecommunications (OTE), Portugal Telecom, Swisscom, Tele Danmark (TDC), Telecom Italia, TeliaSonera, Telekom Austria and Telenor; and

ii. With respect to Terra: using as reference the unaffected closing share price of T-Online as of October 8, 2004 (prior to Deutsche Telekom's announcement of a minority buy-out tender offer followed by a merger with T-Online)

For the purposes of this analysis, Morgan Stanley analyzed the ratio of enterprise value (defined as market capitalization plus total debt less cash and cash equivalents, plus other adjustments) to estimated calendar year 2005 earnings before interest, taxes, depreciation and amortization for Telefónica and to estimated calendar year 2006 earnings before interest, taxes, depreciation and amortization for Terra. Morgan Stanley applied this multiple to Telefónica's 2005 and Terra's 2006 earnings before interest, taxes, depreciation and amortization, utilizing as information sources for Telefónica, publicly available consensus financial projections analysts' reports, and for Terra, financial projections prepared by the management of Terra.

Based on Telefónica's and Terra's current number of outstanding ordinary shares and options, Morgan Stanley estimated the implied value per Telefónica and Terra ordinary share, respectively, as of February 21, 2005, as follows:

Financial data	**Relevant data Statistic** (EBITDA)	**Comparable Companies' Multiples**	**Implied Value Per Share**
Telefónica Aggregate Value to Estimated 2005 Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	€14,301 million	5.6x - 6.6x	€10.89 - €13.77
Terra Aggregate Value to Estimated 2006 Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	€60 million	12.6x	€2.67

None of the companies utilized in the comparable companies analysis are identical to Telefónica or Terra. In evaluating comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Telefónica or Terra, such as the impact of competition on the businesses of Telefónica or Terra and the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of Telefónica or Terra or the industry or in the financial markets in general. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable company data.

Discounted Cash Flow Analysis

Morgan Stanley calculated the range of equity values per ordinary share for Telefónica and Terra based on a discounted cash flow analysis. With respect to Telefónica, Morgan Stanley relied on publicly available consensus financial projections in analysts' reports for calendar years 2005 through 2010 and extrapolations from these projections for calendar years 2011 through 2014. In arriving at a range of equity values per share of Telefónica ordinary shares, Morgan Stanley calculated the terminal value by applying a range of perpetual growth rates ranging from 1.0% to 1.5%. The unlevered free cash flows for calendar year 2005 through 2014 and the terminal value were then discounted to present values using a range of discount rates (weighted average cost of capital) of 8.0% to 9.0%. With respect to Terra, Morgan Stanley relied on Terra's financial projections provided by the management of Telefónica (which in turn had received them from Terra) for calendar years 2005 through 2008 and extrapolations from such projections for calendar years 2009 through 2014.

With respect to those financial projections and other information and data relating to Terra, including information as to Terra's tax situation, Morgan Stanley was advised by the Telefónica management that these projections and other information and data were prepared on bases of best current estimates and judgments of the management of Telefónica as to the future financial performance of Terra and of its tax situation. In arriving at a range of equity values per share of Terra ordinary shares, Morgan Stanley calculated the terminal value by applying a range of perpetual growth rates from 3.0% to 4.0%. The unlevered free cash flows from calendar year 2005 through 2014 and the terminal value were then discounted to present values using a range of discount rates of 11.5% to 12.5%. The unlevered free cash flows included the benefits for Telefónica resulting from the business or future tax or other savings of Terra, as well as payments to be received by Terra under its strategic alliance agreement signed with Telefónica.

The following table summarizes the results of Morgan Stanley's analysis:

Key Assumptions	**Implied Equity Value (millions)**	**Implied Equity Value Per Share (€)**
Telefónica: 1.0% - 1.5% perpetual growth rate, 8.0% - 9.0% discount rate	€69,928 - €88,215	€14.11 - €17.80
Terra: 3.0% - 4.0% perpetual growth rate, 11.5% - 12.5% discount rate	€1,448 - €1,522	€2.55 - €2.68

Equity Research Analysts' Price Targets

Morgan Stanley reviewed and analyzed the public market trading price targets for Telefónica and Terra ordinary shares prepared and published by equity research analysts. These price targets reflect each analyst's estimate of the future public market trading price of Telefónica and Terra ordinary shares. The range of equity analyst price targets reviewed for Telefónica and Terra were €13.70 - €15.70 and €2.30 - €2.65, respectively.

The public market trading price targets published by equity research analysts do not necessarily reflect current market trading prices for Telefónica or Terra ordinary shares and these estimates are subject to uncertainties, including the future financial performance of Telefónica and Terra and future financial market conditions.

Precedent Transactions Analysis

Morgan Stanley reviewed Deutsche Telekom's minority buy-out tender offer for the 26% free float of T-Online it did not own and the follow-on merger between Deutsche Telekom and T-Online announced on October 9, 2004.

For the purposes of this analysis, Morgan Stanley analyzed the ratio of enterprise value, defined as market capitalization plus total debt less cash and cash equivalents plus other adjustments, to estimated calendar year 2005 earnings before interest, taxes, depreciation and amortization and applied this multiple to Terra's 2005 earnings before interest, taxes, depreciation and amortization, included in the financial forecasts prepared by the management of Terra. Based on Terra's current number of outstanding ordinary shares and options, Morgan Stanley estimated the implied value per Terra ordinary share as of February 21, 2005 as follows:

Financial data	**Financial Statistic**	**Multiple applied based on precedent transaction**	**Implied Value Per Share**
Enterprise Value of Terra to Estimated 2005 Earnings Before Interest, Taxes, Depreciation and Amortization	€52 million	17.7x	€2.96

None of the companies or transactions utilized in the precedent transaction analyses were identical to Terra or the merger. In evaluating the precedent transaction, Morgan Stanley made judgments and assumptions with regards to general business, market and financial conditions and other matters, many of which are beyond the control of Terra, such as the impact of competition on the business of Terra or the industry generally, industry growth and the absence of any adverse material change in the financial condition of Terra or the industry or in the financial markets in general, which could affect the public trading value of the company or enterprise value of the transactions to which they are being compared.

Exchange Ratio Analysis

Morgan Stanley reviewed the ratios of the closing prices of Terra ordinary shares divided by the corresponding closing prices of Telefónica ordinary shares over various periods ended February 21, 2005. Morgan Stanley examined the premiums represented by from the merger exchange ratio of 0.2222, as set forth in the Merger Plan, using the benchmarks mentioned below and found them to be as follows:

	Telefónica (€/share)	**Terra (€/share)**	**Implied exchange ratio**	**Implied premium[1]**
last 90-day average	€12.18 - € 13.76	€2.20 - €2.70	0.181 - 0.196	23% - 13%
last six-month average	€10.66 - €13.76	€2.17 - €2.70	0.196 - 0.204	9% - 13%
last twelve-month average	€10.40 - €13.76	€2.17 - €2.70	0.196 - 0.209	6% - 13%

[1]Implied premium defined as announced exchange ratio of 0.2222 divided by implied exchange ratio for each average valuation

Appendix II

Terra engaged Citigroup Global Markets Limited (hereinafter Citigroup) and Lehman Brothers Europe Limited (hereinafter Lehman Brothers) to provide financial advisory services in connection with the Transaction and to assist Terra with the valuation process of Terra and Telefónica and Terra's determination and justification of the proposed exchange ratio for the merger. On February 23, 2005 both entities rendered a fairness opinion to the Board of Directors of Terra in relation to the Transaction in which they concluded that, based upon and subject to the considerations set forth in their reports, the merger exchange ratio and the extraordinary dividend of €0.60 per share to be distributed by Terra to its shareholders pursuant to the Merger Plan were fair from a financial point of view for the shareholders of Terra other than Telefónica.

Terra determined the financial terms of the Transaction reflected in the Merger Plan based on valuation work performed, the advisory services of both firm and advisors and negotiations with Telefónica under market conditions.

As part of their financial advisory services to Terra, Citigroup and Lehman Brothers carried out various analyses of the valuation of Companies in relation to the preparation of their respective fairness opinions. A summary of the analysis carried out by each of the aforementioned advisors is set out below:

1 Citigroup

A summary of the principal financial analyses performed by Citigroup in connection with the preparation of its fairness opinion is set out below. For these purposes, Citigroup considered, inter alia, the proposed dividend of €0.23 per share to be distributed by Telefónica with a charge to 2004 and the distribution proposed by Telefónica of 1 Telefónica share for every 25 Telefónica shares, in which holders of Terra shares would not benefit, as well as the proposed dividend of €0.60 per Terra share, which would be paid to all holders of Terra shares.

Historical Share Price Performance

Citigroup reviewed the relationship between movements in prices of Terra ordinary shares and the implied offer price for the merger for the period from July 25, 2003, the date on which Telefónica officially announced to the CNMV the number of Terra ordinary shares it had acquired in the tender offer, through February 11, 2005, the last trading day before Telefónica publicly announced its intention to make an offer for a merger transaction with Terra. The implied offer price for the merger was calculated by multiplying the adjusted Telefónica share price by the exchange ratio of 2/9 and then adding €0.60 for the effect of the anticipated dividend on Terra ordinary shares to be paid before consummation of the merger. The adjusted Telefónica share price was arrived at by subtracting the anticipated cash dividend of €0.23 from the Telefónica unadjusted share price and then adjusting the result for the anticipated dividend in shares on Telefónica ordinary shares of one share for every 25 shares. Terra shareholders will not participate in these cash and stock dividends. Citigroup also adjusted the Terra share price for the €2.00 cash dividend per Terra ordinary share paid in July 2004 in the period prior to the payment of such dividend.

In addition, Citigroup compared the implied offer price with the trading price of a Terra ordinary share on February 11, 2005 (the last trading day prior to the public announcement of Telefónica's intention to make an offer) and the one-, three- and six-month averages trading prices in the periods prior and up to February 21, 2005, in the case of Telefónica, and up to February 11, 2005, in the case of Terra. The following table sets forth the results of this analysis:

	Terra Ordinary Share Price(€)	**Implied Offer Price (€)**	**Premium**
February 11, 2005	3.19	3.58	12%
Last Month Average	3.11	3.56	14%
Last 3-Month Average	2.96	3.49	18%
Last 6-Month Average	2.90	3.35	16%

Precedent Transactions Analysis

Considering that Telefónica currently controls Terra, Citigroup compared the premium that the implied offer price for the merger represented over the price on the last trading day before announcement and over the three- and six-month trailing averages with the premia paid similar last trading days and for similar trailing periods represented by:

- the cash consideration for four recent de-listing tender offers by Spanish companies;

- the consideration in three recent mergers involving significant shareholders (owning less than half of the equity) of Spanish companies acquiring the remainder of the equity of those companies; and

the consideration for two recent offers by controlling shareholders (owning over half of the equity) of European internet service providers to acquire the remainder of the equity of those companies.

The precedent transactions considered by Citigroup were the following:

Spanish De-Listing Offers

Date Announced	Company
April 22, 2002	Hidroelectrica del Cantabrico
December 9, 2003	Aceralia Corporacion Siderurgica SA
May 31, 2004	Centros Comerciales Carrefour SA
June 4, 2004	Cementos Molins SA

Mergers with Significant Spanish Shareholder

Date Announced	Acquiror	Target
April 16, 2002	FCC	Portland Valderrivas
July 1, 2003	ACS	Dragados Group
August 1, 2003	Metrovacesa	Bami

Offers by Controlling Shareholders of European Internet companies

Date Announced	Acquiror	Target
February 23, 2004	France Telecom	Wanadoo
October 9, 2004	Deutsche Telekom	T-Online

Citigroup relied on publicly available for financial information for the precedent transactions and the companies involved therein. The following table summarizes the median premia (discount) offered in these transactions over the price on the last trading day before announcement and the three- and six-month trailing averages and, in the far right column, sets forth for comparative purposes the same information for the implied offer price in the proposed merger between Terra and Telefónica:

Period	Median Spanish De-Listing Offer Premia (Discount)	Median Spanish Merger Consideration Premia	Median European ISP Premia	Implied Offer Price Premium For Proposed Merger
1 day	(2.2)%	9.3%	8.6%	12%
3 month	2.7%	2.4%	17.3%	18%
6 month	7.0%	7.0%	19.0%	16%

Citigroup observed that none of the precedent transactions were identical to the proposed merger of Terra and Telefónica.

Terra Valuation

Discounted Cash Flow Analysis

Citigroup's primary methodology for reviewing the value of Terra was a sum-of-the-parts discounted cash flow analysis for each of Terra's individual operating assets and certain non-operating assets. Citigroup applied country-specific discount rates based on weighted average cost of capital assumptions to calculate the net present value of Terra management's forecast free cash flows from its operating assets, the benefits of future tax savings relating to net operating losses and payments to be received by Terra under its strategic alliance agreement with Telefónica. Citigroup applied greater discount rates, however, to calculate the net present value of a potential additional tax credit resulting from the August 2, 2004 sale by Terra of Lycos Inc. as Terra's ability to realize value from this contingent asset is speculative and difficult to predict. Citigroup then adjusted the value of Terra to reflect Terra's net cash (including amounts due from Telefónica under tax sharing arrangements) and other non-operating assets (including investments in unconsolidated entities and other non-wholly owned affiliates and anticipated proceeds from disposals). The result of this sum-of-the-parts discounted cash flow analysis was an implied value per Terra ordinary share of €2.90 to €3.71.

Comparable Companies Analysis

Using publicly available information, Citigroup reviewed the relative share price performance from July 2003 to February 2005 of Terra and the following five listed European internet service providers, as well as a market-weighted index comprised of these companies:

- freenet.de
- Iliad
- Telecom Italia Media
- Tiscali
- United Internet

Citigroup also compared the listed companies' multiples of firm value (equal to equity value plus straight debt, minority interests, straight preferred stock, all out-of-the-money convertibles, less investments in unconsolidated affiliates and cash) to forecasted revenues, gross profit and projected EBITDA for 2005 - 2007 with such multiples for Terra. Citigroup then calculated a range of illustrative valuations for Terra's operating assets by applying variances of plus or minus 10% from the medians of such multiples for the comparable companies to Terra's management's forecasts and then adding Terra's net cash and other non-operating assets valued in a manner consistent with the methodology employed in the analysis described above under the section "Discounted Cash Flow Analysis". The result of this comparable companies analysis was an implied value per Terra ordinary share of €2.73 to €3.77.

Citigroup observed that none of the selected companies were identical to Terra. In particular, Citigroup noted that Terra's lower expected profitability for 2005-2007 would suggest a valuation of Terra toward the lower end of the valuation range.

Research Analysts' Target Prices

Citigroup reviewed research analysts' target prices for Terra ordinary shares published between July 1, 2004 (after adjusting for the €2.00 cash dividend per Terra ordinary share paid in July 2004) and February 15, 2005. The range of these target prices (excluding the highest and lowest values) was from €2.80 to €3.17.

Telefónica Valuation

Citigroup was not provided with any non-publicly available business or financial information, including financial projections, for Telefónica and Citigroup had no access to Telefónica's management. This limited the valuation analyses with respect to Telefónica that were available to Citigroup.

Citigroup reviewed the value of Telefónica using a sum-of-the-parts analysis that used various valuation methodologies for Telefónica's primary operating assets, including trading comparables and market value, and then adjusted for overhead costs, non-operating assets and liabilities and minority interests. For Telefónica's principal operating assets—Telefónica Moviles, the fixed-line Spanish telecommunications business and Telefónica International—which collectively represent the majority of Telefónica's firm value, Citigroup's primary valuation methodology was based on a comparable companies analysis. Citigroup compared Telefónica Moviles to Telecom Italia Mobile and Vodafone and its market value; the Spanish fixed-line business was compared to British Telecom, and Telefónica International to Telmex, Telesp, Brasil Telecom and Tele Norte Leste. The result of this analysis was an implied value in the range of €13.36 to €16.39 per Telefónica share, as compared to a market price of €14.19 per Telefónica share as of February 21, 2005.

Citigroup also reviewed research analysts' target prices for Telefónica ordinary shares published between June 18, 2004 and February 11, 2005. The range of these target prices (excluding the three highest and the three lowest values) was from €13.50 to €16.50.

2 Lehman Brothers

A summary of the financial analysis utilized by Lehman Brothers in relation with the issue of its fairness opinion to Terra's Board of Directors is outlined below. For this purpose, Lehman Brothers took into account, amongst other factors, the proposed dividend of €0.23 per Telefónica share on account of 2004 profits and the distribution proposed by Telefónica of 1 Telefónica share for every 25 Telefónica shares, from which the holders of Terra shares would not benefit, and the proposed dividend of €0.60 per Terra share which Terra would pay to all Terra shareholders.

Terra Valuation

Sum-of-the-Parts Analysis

Lehman Brothers has carried out the valuation of Terra on the basis of a sum-of-the-parts approach, utilizing different valuation methodologies depending on the type of asset. For Terra's cash position, Lehman Brothers used book value as of December 31, 2004. For financial investments and interests in other companies, Lehman Brothers used market value, option value or net present value of future proceeds from the sale of interests subject to an offer or a commitment to buy from a third party. For the strategic alliance contract between Terra and Telefónica and Terra's joint venture interests, operating assets and tax credits, Lehman Brothers used the discounted cash flow method, whereby forecast free cash flows attributable to such assets were discounted to net present value by weighted average cost of capital rates.

In addition to using a discounted cash flow methodology, as a supplemental method, Terra's Spanish operating assets were also valued by using a comparable companies approach, whereby multiples derived from implied values from transactions involving companies in comparable businesses and from EBITDA and revenue of comparable companies were applied to Terra's Spanish access business and its other Spanish divisions. Multiples derived from subscriber acquisition costs and gross margins of companies in comparable businesses of Terra España were also applied to Terra's Spanish access business.

The result of Lehman Brother's sum-of-the-parts analysis was an implied value per Terra ordinary share of €3.18.

Other Value Effects

Lehman Brothers then observed that potential synergies, loss of historical tax credits and the potential ability to realize value from a tax credit relating to Terra's sale of Lycos Inc. were other potential sources of value or of loss of value not included in the sum-of-the parts analysis of Terra. Accordingly, Lehman Brothers calculated an adjustment to its sum-of-the-parts implied value per Terra ordinary share described above to take into account an estimate of the aggregate impact of these other potential effects on value to arrive at an adjusted merger value per Terra ordinary share of €3.57.

Comparable Companies Analysis

Lehman Brothers compared Terra as a whole against the following eight other companies:

- easynet
- freenet.de
- Iliad
- TI Media
- T-Online
- Tiscali
- United Internet
- Web.de

Lehman Brothers applied the average multiple of the comparable companies' enterprise values to the forecast EBITDA for each of 2005 and 2006 to Terra's forecast EBITDA for such years to calculate implied firm values for Terra, and then made adjustments to such firm values for other assets and liabilities. The results of this analysis were implied equity values of €3.05 and €3.18 per Terra ordinary share based on Terra's forecast EBITDA for 2005 and 2006, respectively.

Lehman Brothers noted that, while the review of comparable companies served as comparative information, due to the different profitability and risk profile of Terra, the comparable companies analysis should not be deemed a meaningful valuation methodology.

Research Analyst Valuation

Lehman Brothers also reviewed research analyst target prices for Terra ordinary shares in reports published between April 2004 and February 8, 2005. Lehman Brothers adjusted two of the target prices published in April 2004 for the €2.00 dividend on Terra ordinary shares paid in July 2004. The average of these target prices was €3.00 and the median was €3.00.

Telefónica Valuation

Lehman Brothers was not provided with any non-publicly available business or financial information, including financial forecasts, for Telefónica. Therefore, Lehman Brothers Limited analyzed Telefónica's valuation using a market-based approach.

Research Analyst Valuation

Lehman Brothers reviewed research analyst target prices for Telefónica ordinary shares in reports published between November 11, 2004 and February 21, 2005. The average of these target prices was €14.92 and the median was €14.55.

Historical Share Price Performance

Lehman Brothers reviewed the historical share price performance and trading volumes of Telefónica ordinary shares from May 25, 2003, the launch date of Telefónica's 2003 tender offer for Terra shares, through to February 14, 2005, the date that Telefónica announced its intention to make an offer for a merger transaction with Terra. Lehman Brothers also calculated the average market price of Telefónica ordinary shares for the one-month, six-month and one-year periods prior to February 14, 2005 and for the period from May 25, 2003 to February 14, 2005. The following table sets forth the results of this analysis:

Period	Average Share Price (€)
1 month	14.02
6 months	13.05
1 year	12.67
Since Launch of Tender Offer on May 28, 2003	11.52

Relative Valuation

Lehman Brothers performed on analysis of relative valuation by comparing market prices of Terra ordinary shares (as adjusted for the extraordinary dividend payment of €2.00 per share on July 29, 2004) to market prices of Telefónica ordinary shares during the period from May 28, 2003 to February 1, 2005. Lehman Brothers also calculated the average ratio of the market price of a Telefónica ordinary share to the adjusted price of a Terra ordinary share for the month of January 2005, the six-month period of August 2004 through January 2005, the one-year period of February 2004 through January 2005 and for the period from May 25, 2003 to January 4, 2005. The following table sets forth the results of this analysis:

Period	Average Ratio
1 month	4.49:1
6 months	4.45:1
1 year	4.30:1
Since Launch of Tender Offer on May 28, 2003	4.02:1

Lehman Brothers noted that the ratios set forth in the table above were not adjusted to include the effect of the anticipated cash dividend of €0.60 to be paid to Terra shareholders prior to consummation of the merger.

Public Market Valuation of Consideration

Lehman Brothers then analyzed the implied offer price for the proposed merger based on the exchange ratio of 4.5:1 Term shares for Telefónica share, the high and low market prices for Telefónica ordinary shares during the one month period prior to February 22, 2005 and the market price on such date, and adding the effect of the €0.60 anticipated dividend on Terra ordinary shares. The results of this analysis are set forth in the table below:

	Low	High	As of February 22, 2005
Implied Terra Share Price in Offer (€)	3.59	3.84	3.69

Lehman Brothers observed that the range of the implied offer price set forth in the table above is greater than the adjusted merger value of €3.57 per Terra ordinary share discussed above under the heading “Terra Valuation — Other Value Effects”.