A superior combination of growth and cash returns

César Alierta, Chairman and CEO
Telefónica Group

ACCELERATE TO INCREASE OUR LEADERSHIP

Barcelona, April 25th, 2005
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01 Telefónica, ahead of the industry

02 Delivering on our commitments

03 A superior combination of growth and cash returns
Telefónica has made dramatic progress since our first meeting in Rio 2001.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our customer base*</td>
<td>68 m x 2</td>
<td>140 m</td>
</tr>
<tr>
<td>Our operational efficiency**</td>
<td>6% x 2</td>
<td>12%</td>
</tr>
<tr>
<td>Our cash flow generation</td>
<td>€ 2.8 bn x 3</td>
<td>€ 9.4 bn</td>
</tr>
<tr>
<td>Our position in the global</td>
<td>#11 by</td>
<td>#3</td>
</tr>
<tr>
<td>telco industry</td>
<td>market cap</td>
<td></td>
</tr>
</tbody>
</table>

*Total accesses, Today includes Český Telecom's EOY 04 figures. Český Telecom will be consolidated from 2H05.
**Today's data for 2004 (end of year).
***Operating cash flow = EBITDA - CapEx.
The company’s transformation has placed us ahead of the industry

1. Ahead in the market
2. Ahead in client focus
3. Ahead in efficiency
4. Ahead in financial strength
We already serve more than 140 million customers in 18 countries

Very broad customer base...

... spanning healthily across geographies and businesses

Accesses evolution
Million

2000 2003 2004 Today

x2.1

68 98 123* 140**

Current breakdown of customer accesses
After Český Telecom; March 2005

Today total accesses: 140 m**

Source: Company data

*Not including new customers from Bellsouth assets in Chile and Argentina (3.8 m)
**Today’s accesses including Český Telecom’s EDY 04 figures. Český Telecom will be consolidated from 2H05
*** Includes Meditelecom and DSL operations in Germany and UK and Český Telecom

Source: Company data
We lead most of the markets we’re in, a critical factor to capture market growth opportunities

**Telefónica Móviles is now the second largest multinational mobile operator by number of subscribers**

**In the LatAm region, leaders in wireline (22.8m lines vs. Telmex’s 17.8m)**

* Leader in São Paulo
** Does not include China Mobile and China Unicom as these operators are not multinational
The company has been mobilized around the customer

Transitioning towards a customer-oriented company

- Commercial expenses as % of OpEx
  Telefónica de España + Telefónica Latinoamérica
  - 2000: 25%
  - 2004: 40%
  Source: Company data

- Non traditional revenues as % of Total revenues*
  Telefónica de España + Telefónica Latinoamérica
  - 2000: ≈ 2%
  - 2004: ≈ 11%
  Source: Company data

≈ 8 million daily customer contacts

* Non traditional revenues = Broadband revenues + Narrow revenues + VAS

Continued portfolio extension through tariff and product innovation

- Tariff innovation and advanced solutions
- Financing solutions
- TVoDSL (Imagenio)

- Offers targeted to specific segments
- New content and applications
- UMTS

- New price schemes
- New handsets
- Information and value-added services
Telefónica is now best in class in operational efficiency...

Workforce rationalization for improved productivity

- Spanish wireline*: 36% of total workforce to be cut in 2003-2007, 52% already completed (7,717 employees)

- Spanish wireline: steadily improving profitability

- LatAm wireline: steadily decreasing operating costs

- Spanish wireless: best EBITDA margin among major EU operators (51.3% in 2004)

Operating costs per access**
Telefónica de España; Euros

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>293</td>
<td>265</td>
</tr>
</tbody>
</table>

EU avg ’04 364*** (Range being 283-519)

Source: Infocom report (March 2005) and company data for TEF

Wireline EBITDA margin
Telefónica de España

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>46%</td>
<td>46%</td>
<td>48%</td>
</tr>
</tbody>
</table>

EU avg ’04 38.2%*** (Range being 30.4-48.4%)

Source: Citigroup for EU average (Feb. 2005) and company data for TEF

LatAm wireline unitary network direct costs
Telefónica Latinoamérica; Constant Euros/LIS 2001

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>50.0</td>
<td>38.4</td>
<td>31.4</td>
<td>28.6</td>
</tr>
</tbody>
</table>

Source: Company data

*Not included Telefónica Empresas and Telefónica Soluciones
** Includes PSTN + ISDN B.A. + ADSL
*** Includes DT, BT, FT and TI
01...and also leads the sector in CapEx efficiency

**Sustained rationalisation of CapEx**

CapEx as % of Revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>Maintenance/Traditional Business</th>
<th>Transformation/Fixed &amp; Mobile Broadband</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>2004</td>
<td>45%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: Company data

**EU avg ’04* 14.0%**
(Range being 11.5-16.4%)

Source: Citigroup for EU average (January 2005) and company data for TEF

**Focus on growth investments**

**Boost to ROCE**

<table>
<thead>
<tr>
<th>Year</th>
<th>ROCE** (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6%</td>
</tr>
<tr>
<td>2003</td>
<td>10%</td>
</tr>
<tr>
<td>2004</td>
<td>&gt;12% x2</td>
</tr>
</tbody>
</table>

Highest ROCE among large EU integrated operators

* Includes DT, BT, FT and TI
** ROCE = EBIT x (1-Effective Tax Rate)/Average capital employed
Last, the company’s financial strength is ahead of our peers

One of the strongest balance sheets in the industry …

<table>
<thead>
<tr>
<th>Intangible assets/Equity 2004</th>
<th>Net debt/Market Cap 2004 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF</td>
<td>0.98x</td>
</tr>
<tr>
<td>DT</td>
<td>1.28x</td>
</tr>
<tr>
<td>TI</td>
<td>1.66x</td>
</tr>
<tr>
<td>FT</td>
<td>2.66x</td>
</tr>
</tbody>
</table>

Source: Morgan Stanley report (March 2005)

Source: Company press releases, Bloomberg

...providing for higher flexibility to fuel growth
As a result, the company has built a superior ability to generate FCF... leading to a superior ability to transform revenues into free cash flow.

A simple portfolio of cash-generating units with no loss making businesses...

Operating cash flow by business line*
€ bn

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireline Spain</td>
<td>-1.9</td>
<td>-0.1</td>
<td>3.8</td>
</tr>
<tr>
<td>LatAm</td>
<td>2.3</td>
<td>3.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Wireless</td>
<td>0.2</td>
<td>2.4</td>
<td>9.4</td>
</tr>
<tr>
<td>Others</td>
<td>2.1</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Wireless</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As % of revenues
Driven by efficiency gains
Driven by top line growth

Free cash flow** as % of revenues 2004

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF</td>
<td>2.8</td>
<td>8.9</td>
<td>22.2</td>
</tr>
<tr>
<td>DT</td>
<td>16.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FT</td>
<td>16.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BT</td>
<td>8.4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Merrill Lynch (April 2005)

Source: Company data

*Operating cash flow = EBITDA - CapEx
**FCF=EBITDA - CapEx - Interest expense - Taxes - Working Capital - Dividend leakage - Others
...and is already offering a superior combination of growth and shareholder returns

** Source: Press releases
*** Revenue growth is up to 5.3%, excluding LatAm BellSouth assets acquisition
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01  Telefónica, ahead of the industry

02  Delivering on our commitments

03  A superior combination of growth and cash returns
Since we last met in October 2003, we are well on track to deliver on all of our commitments.

**Customer base**

<table>
<thead>
<tr>
<th>Million</th>
<th>Wireline</th>
<th>Wireless</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;115</td>
<td>&gt;45</td>
<td>&gt;65</td>
</tr>
</tbody>
</table>

Commitment 2006E vs. 2004*

**Revenue growth**

<table>
<thead>
<tr>
<th>%</th>
<th>Committed CAGR 02-06</th>
<th>CAGR 02-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-10%</td>
<td>8.4%</td>
<td></td>
</tr>
</tbody>
</table>

**EBIT growth**

<table>
<thead>
<tr>
<th>%</th>
<th>Committed CAGR 02-06</th>
<th>CAGR 02-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-23%</td>
<td>22.6%</td>
<td></td>
</tr>
</tbody>
</table>

**Free Cash Flow***

<table>
<thead>
<tr>
<th>€bn</th>
<th>Commitment Cumulative 03-06</th>
<th>Cumulative 03-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;27</td>
<td>50%</td>
<td>13.5</td>
</tr>
</tbody>
</table>

Close to 50% directly devoted to shareholder remuneration.


*Accesses figures. Not including new customers from Bellsouth assets in Chile and Argentina (3.8 m)

**Constant exchange rates as of 2002

***FCF = EBITDA - CapEx - Net financial expenses - Calls on Cash - Cash taxes - Minorities - Working capital
We have also surpassed our shareholder remuneration commitments.

- Buyback commitment progressing ahead of time
  - 67% completed in 42% of the time
  - Distributing treasury stock (1x25) to execute buyback

- Increasing 2005 dividend payment
  - € per share: Planned 2005 = 0.4, New 2005 (minimum for 2006) = 0.5, +25%

Cash yield clearly above EU average:
- EU avg '04: 4.6%
- Telefónica 2004: 6%

* Includes TI (Goldman Sachs, April 2005), PT, DT, FT, KPN, BT
Besides financial performance, we have been consistent in following our management priorities...

<table>
<thead>
<tr>
<th>Priorities established in 2001 to 2003</th>
<th>...and observed since</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extending growth in wireless</td>
<td>✓</td>
</tr>
<tr>
<td>Accelerating towards mass-market DSL</td>
<td>✓</td>
</tr>
<tr>
<td>Keep developing our LatAm businesses</td>
<td>✓</td>
</tr>
<tr>
<td>Transforming wireline</td>
<td>✓</td>
</tr>
<tr>
<td>No loss making businesses</td>
<td>✓</td>
</tr>
<tr>
<td>Focusing on FCF delivery</td>
<td>✓</td>
</tr>
<tr>
<td>Optimising capital structure</td>
<td>✓</td>
</tr>
</tbody>
</table>

Priorities established in 2001 to 2003:
- Extending growth in wireless
- Accelerating towards mass-market DSL
- Transforming wireline
- No loss making businesses
- Focusing on FCF delivery
- Optimising capital structure

...and observed since:
- ✓ indicates priorities observed since establishment.
...and we have maintained this consistency as we pursued deals to expand the business

We defined a clear set of principles...

- Core business only
- Manageable geographies
- Complementary with existing operations
- Reasonable price / upside balance
- No greenfield operations
- Not affecting our solvency profile or our shareholder commitment

...and observed them when acquiring Bellsouth’s LatAm assets...

...and Český Telecom
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We have a single goal and clear strategy to make it happen.

**GOAL**

To provide the best combination of growth and cash returns in the industry.

**STRATEGY**

- Maximisation of free cash flow
  - Accelerating top line growth
  - Financing organic growth projects
  - Improving operational excellence

- Clear cash flow allocation
  - Top-notch shareholder returns
  - Strong balance sheet
  - Selective expansion
Growth is the key to our strategy, and we will actively pursue it on two fronts:

**Accelerate access penetration**
- Reach more customers – mainly in broadband and wireless

**Add value to the customer’s access**
- Provide these customers with services and solutions targeted to specific needs
  - ...and we will leverage on these customer relationships to extend growth beyond the access...
  - Customer access is Telefónica’s key competitive asset and a major source of growth ...
  - ...and to make the access itself more attractive
Broadband and wireless are Telefónica's two key growth opportunities in the access.

- **Wireline broadband**: a basic need for households and businesses as the information society develops. Broadband's penetration ceiling is very high, and future uses are beyond our imagination.

- **Wireless**: high penetration upside in LatAm. Ample room for growth in wireless, in all of our markets.

- Continuing growth in wireless usage.
We will leverage on our wireline access position to grow DSL aggressively...

Making broadband a truly mass-market service...

**Spain**
- Intensive advertising and promotional campaigns
- Massive use of retail channels
- Improved quality and performance of service

**LatAm**
- Maximise penetration in low income segments with basic services of reduced ARPU
- Selective narrowband migration and rollout of bandwidth on demand

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**DSL lines in Spain**
Million; Retail market

- 2004: 1.6
- 2008E: >4

x 2.6

**DSL lines in LatAm**
Million; Retail market

- 2004: 1.4
- 2008E: 4

x 2.7

~Includes São Paulo, South region of Argentina, Chile and Peru

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...through offer innovation, intensive marketing and sales proactivity

- Tariff innovation
- Bundling with products (PC) and services
- Financing solutions
...and will aggressively develop the wireless business, specially in LatAm

Spain: continuing growth on top of a solid revenue base

Telefónica's Spanish wireless revenues
€ million

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8,192</td>
<td></td>
</tr>
</tbody>
</table>

CAGR +4–6%

Telefónica's 3G wireless customers in Spain
Million

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.03</td>
<td></td>
</tr>
</tbody>
</table>

More than 40% of total customers with UMTS handsets by 2008

LatAm: high penetration upside + consolidated leadership after the BellSouth deal

Penetration
Presence in 13 markets, #1 in 7, #2 in 5 others

Penetration
2008E (%)

- Brazil*: 40% 55-60
- Argentina: 36% 55-60
- Mexico: 36% 50-55
- Colombia: 23% 55-60

Strong penetration growth...

...which we are in the best position to reap

*In areas of operation
Regarding LatAm, the macro outlook supports our growth expectations in the region.

**Good economic prospects**

- **Brazil**
  - Expected GDP growth (%)*:
    - 5.2, 3.8, 3.6, 3.7, 3.4

- **Argentina**
  - 9.0, 5.0, 3.4, 3.4, 3.4

- **Chile**
  - 6.1, 5.5, 5.0, 4.7, 4.6

- **Peru**
  - 5.1, 4.4, 4.3, 4.2, 4.1

- **Mexico**
  - 4.4, 3.6, 3.3, 3.9, 4.0

*Source: Euromonitor, Feri and Global Insight

**Attractive framework for foreign investment**

- Contained inflation rates, well below 7%
- Improving country ratings
- Currency stability expected

A €10.5 billion** business with OpCF worth €2.2 bn** …

…which stands to benefit in a fast growing region with penetration and usage upside.

*Aggregated figures, including total LatAm businesses
On top of the access, we will drive growth by adding value to customer connections

- As broadband takes up, clients’ consumption in items beyond pure connectivity becomes accessible
- Customers demand simple solutions catering for their specific needs
- Wireless users are going to do more things with their mobile handsets

We can increase our share of wallet beyond access revenues

Opportunity in evolving from a pure access provider to a broadband solutions provider

Room for growing value added services and content revenues in wireless
We will manage broadband ARPU through innovative, targeted value-added offers.

Households
Communications + Information + Entertainment

SMEs
Advise, sell, install, maintain and manage communications & IT solutions for a fee

Corp & Govt
Customized, outsourced, end to end solutions for communications and IT

Broadband ARPU
Telefónica de España; Euros/month

2004 2008E

Services and devices

Connectivity

More than 1m imagenio clients by 2008
In wireless, we will also drive ARPU on top of the traditional access.

Developing the value-added services market...

- Innovative handsets and service/content offers
- 3G a key factor in developing value-added revenues from wireless customers

Data ARPU / Total ARPU
TEM Spain 2004: 13.2%, 2008E: 20-25%
TEM LatAm 2004: 4.0%, 2008E: >10%
All growth initiatives will be supported by a tight focus on CapEx and sustained operational excellence.

Redirecting investments towards organic growth projects…

<table>
<thead>
<tr>
<th>CapEx mix</th>
<th>2004</th>
<th>2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>39%</td>
<td>61%</td>
</tr>
<tr>
<td>Recurring</td>
<td>28%</td>
<td>72%</td>
</tr>
</tbody>
</table>

...and improving our operational excellence

Operating costs per access*
Telefónica de España; Euros

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost per Access</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>265</td>
</tr>
<tr>
<td>2008E</td>
<td>-10%</td>
</tr>
</tbody>
</table>

Regionalization efforts
LatAm wireless and wireline

- Network & IT infrastructure
- Billing and customer care
- Commercial operations
- Structure/shared services

* Includes PSTN + ISDN B.A. + ADSL

5% - 10% cumulative CapEx savings 2005-08 in wireless
≈ €100m OpEx plus CapEx annual savings by 2008 in wireline
Together, growth and efficiency will allow Telefónica to maximize cash flow growth and shareholder returns.

- **Accelerate access penetration**
- **Add value to customer’s access**
- **Efficiency and growth-focused investments**
- **Maximisation of free cash flow**
- **Delivery of top-notch shareholder returns**
Lead the industry in customer focus and operational performance + Grow faster and more profitably than other integrated operators

Telefonica

The best combination of growth and shareholder returns, now and in the long run
**Taking the company forward: initiatives by LoB**

**April 25th**

- **Spanish wireline**
  - Robust performance, broadband, and commercial & operational transformation
  - **12:00**
  - Mr. Julio Linares
  - Executive Chairman
  - Telefónica de España

- **LatAm wireline**
  - Customer focus and pan-regional integration in an improving business context
  - **15:15**
  - Mr. José María Álvarez-Pallete
  - Executive Chairman
  - Telefónica Latinoamérica

**April 26th**

- **Wireless**
  - Expanded reach, consolidation of competitive position and operational excellence
  - **9:00**
  - Mr. Antonio Viana-Baptista
  - Executive Chairman
  - Telefónica Móviles Group

- **Financial management**
  - Cash flow allocation, debt management and financial prospects
  - **11:00**
  - Mr. Santiago Fernández Valbuena
  - CFO
  - Telefónica Group

- **Strategy wrap-up and guidance**
  - Providing the best combination of growth and returns: 2005-08 outlook
  - **12:00**
  - Mr. César Alierta
  - Chairman & CEO
  - Telefónica Group