A superior combination of growth and cash returns
Closing remarks

César Alierta, Chairman and CEO
Telefónica Group

Barcelona, April 26th, 2005
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We have a single goal and clear strategy to make it happen

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

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
Accelerating top line growth...

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
.. by boosting access penetration...

**Huge opportunity to grow our access base**

**Broadband**

<table>
<thead>
<tr>
<th>% DSL lines/Total lines*</th>
<th>2004</th>
<th>2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telefónica de España</td>
<td>15%</td>
<td>&gt;30%</td>
</tr>
<tr>
<td>Telefónica Latinoamérica</td>
<td>7%</td>
<td>&gt;15%</td>
</tr>
</tbody>
</table>

*Includes wholesale

**Wireless LatAm**

<table>
<thead>
<tr>
<th>Penetration in LatAm** by 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>30–35%</td>
</tr>
</tbody>
</table>

Estimates made in 2004

Estimates made in 2005

**More than 8m retail DSL accesses by 2008**

(x 2.7 from 2004)

**More than 125 m wireless customers worldwide by 2008***

(x 1.7 from 2004)

*Source: Pyramid

***Not including Český Telecom
...and adding value to the customer’s access

- Increasing our share of wallet beyond access revenues
- Becoming a broadband solutions provider
- Growing value added services and content revenues in wireless

Through innovative and targeted value-added offers

- More than 1 m Imagenio clients by 2008
- More than 40% of total customers with UMTS handsets by 2008

Spain

More than 10% of wireless service revenues from data by 2008

More than 20%* of wireline revenues from Internet and new services by 2008

LatAm

* Not including TEA and TIWS
On top of this, our businesses enjoy a favourable macro outlook to support our growth expectations.

### Both In LatAm...

<table>
<thead>
<tr>
<th>Country</th>
<th>'04</th>
<th>'05E</th>
<th>'06E</th>
<th>'07E</th>
<th>'08E</th>
</tr>
</thead>
<tbody>
<tr>
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<td>3.8</td>
<td>3.6</td>
<td>3.7</td>
<td>3.4</td>
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<tr>
<td>Argentina</td>
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<td>5.0</td>
<td>3.4</td>
<td>3.4</td>
<td>3.4</td>
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<tr>
<td>Chile</td>
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<td>5.5</td>
<td>5.0</td>
<td>4.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Peru</td>
<td>5.1</td>
<td>4.4</td>
<td>4.3</td>
<td>4.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>4.4</td>
<td>3.6</td>
<td>3.3</td>
<td>3.9</td>
<td>4.0</td>
</tr>
</tbody>
</table>

### ..and in Europe and Morocco

<table>
<thead>
<tr>
<th>Country</th>
<th>'04</th>
<th>'05E</th>
<th>'06E</th>
<th>'07E</th>
<th>'08E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>2.7</td>
<td>3.3</td>
<td>2.7</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Czech Republic</td>
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<td>3.7</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Morocco</td>
<td>3.5</td>
<td>2.9</td>
<td>2.7</td>
<td>2.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

* Source: Euromonitor, Feri and Global Insight
We expect our strategy to accelerate top line growth…

Customer base growth  
(*# accesses*)

Revenue growth

2004 Commitment 2008

Million

2004** Commitment 2008

€m

123

≈ 190*

30,271

*CAGR*** 7-11%*

*Includes Český Telecom*

**Reported 2004 under IFRS**

***Local currency (constant exchange rates as of 2004) and exclude changes in consolidation other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (TLatAm). Includes ČeskýTelecom from 2H05.*
..while improving operational excellence and financing growth projects

<table>
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<tr>
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<tbody>
<tr>
<td>€m</td>
<td>€m</td>
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</table>

- **2004***: 12,130€
- **Commitment 2008**: CAGR** 8-12%
- **2004***: 6,463€
- **Commitment 2008**: CAGR** 13-19%

**CapEx**

<table>
<thead>
<tr>
<th>CapEx</th>
<th>€m</th>
</tr>
</thead>
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- **2004***: 3,772€
- **Commitment 2008**: CAGR** 3-7%

*In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2005-2008. These exceptional amounted to -303.5 MM€ in 2004 and are therefore also excluded, meaning a calculation base for guidance of 12,433 MM€ for OIBDA and 6,767 MM€ for OI, respectively. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses.

**Local currency (constant exchange rates as of 2004) and exclude changes in consolidation other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (TlatAm). Includes Český Telecom from 2H05.

***Reported 2004 under IFRS.
As a result, the company will maximise free cash flow


€bn

Cumulative
05-08E

> 36 € bn

Madrid commitment
Cumulative
03-06E

> 27

50% already completed

2004

7
Telefónica is a company committed to shareholders and to preserve a healthy balance sheet...

**Top-notch shareholder returns**

- €0.5/share minimum annual dividend
- A renewed and extended €6bn buyback until 2007, sensitive to cash flow generation and share price

**Strong balance sheet**

- Targeting Net debt + cash commitments <1.85 in 2006
  Operating income before D&A

**Stick to the selective expansion principles**
In summary

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