Let the cash flow and get the cash-flow

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Telefónica Group

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01 C-F Generation: TEF delivers

02 TEF targets a superior combination of growth and returns

03 C-F Projections 2004-2008

04 Český Telecom: What it will do for us, what it will do for you

05 Conclusions
We have delivered on our commitments of cash generation and returns presented in Madrid.

5,635 MM € devoted to shareholder remuneration in 03-06, close to 50% of the amount committed in Madrid.

(*) Excluding forex
TEF targets a superior combination of growth and returns

DELIVERING THE BEST COMBINATION OF GROWTH AND CASH RETURNS: 2004

Revenue Growth 04/03**

Cash Yield 04* (Dividend + Buyback)

** Source: Press releases
*** Revenue growth is up to 5.3%, excluding LatAm BellSouth assets acquisition
... that we have delivered in 2004 and expect to honour again in 2005

DELIVERING THE BEST COMBINATION OF GROWTH AND CASH RETURNS: 2005

Source: Merrill Lynch, April 05. Goldman Sachs (13/04/05) for Revenue Growth at Telecom Italia
We continue to serve this goal (growth + return) by building financial flexibility

- Diversifying across markets
  - Low volatility operating metrics
  - Declining volatility stock

- Targeting Single A over the medium term
  - To ensure smooth access to markets

- Applying demanding criteria for expansion
  - Value creation through high quality asset returns, not liability engineering
  - Leverage is not a target, but a consequence
TEF displays the lowest stock volatility

**Diversification** + **Strong credit quality** ➔ A less risky stock with higher growth potential

### HISTORICAL ANNUAL VOLATILITY
weekly data & 4 year rolling window

- **TELEFÓNICA**
- **TI**
- **DT**
- **FT**

Source: Bloomberg
TEF displays the lowest stock volatility

4-YEAR STOCK VOLATILITY

...despite high volatility of individual Latam stocks …

...although our diversified Latam portfolio provides additional volatility protection

57%

37%

33%

32%

32%

45%

63%

22%

France Telecom
Deutsche Telekom
British Telecom
Telefónica
Vodafone
Telesp (USD)
Telesp Celular (USD)
MS Latam Index

Source: Bloomberg
Top companies have top credit ratings

<table>
<thead>
<tr>
<th>RATING OF TOP 50 COMPANIES</th>
<th>NUMBER OF COMPANIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOT RATED</td>
<td>7</td>
</tr>
<tr>
<td>AAA</td>
<td>9</td>
</tr>
<tr>
<td>AA</td>
<td>16</td>
</tr>
<tr>
<td>A</td>
<td>16</td>
</tr>
<tr>
<td>BBB</td>
<td>2</td>
</tr>
</tbody>
</table>

RATING OF THE WORLD’S TOP 40 COMPANIES

- Triple & double A: 72%
- Single A: 35%
- Worse than A-: 3%

by Market Cap

by Sales
The true cost of credit
Strong credit ratios despite acquisitions

- We keep credit ratios significantly better than major European incumbents, despite their recent de-leveraging efforts.
- The value of the solvency/rating: our solid starting point has allowed us to pursue our strategic guidelines without constraints, and keep flexibility.

![Credit Ratios Diagram]

Telefónica could fully pay its debt in less than 4 years

Average debt maturity is 1 year longer

€ in Million

- FCF 2005-2008
  - >36,000

- IFRS Debt 2004 (*)
  - 27,041

*Net Debt + Commitments
2003-2004 ( % and € in Million)

- Weighted Latam Currencies: 2%
- Lost Cash-flow: 237
- USD and Latam Debt savings: 1,083

2004 Debt Breakdown by Currencies

- EUR 71%
- USD 11%
- Latam 18%

Debt savings more than offset cash-flow shortfall 2003-2004 due to FX depreciation
Proactive Liability Management

AVERAGE EFFECTIVE DEBT SERVICE RATE*

-100 bps

7.1%  6.1%

2003  2004

* Before extraordinary results
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Our Free Cash Flow generation will accelerate in the coming years.
A clear cash flow allocation criteria

**OUR DISTRIBUTION PRIORITIES CONTINUE TO HOLD**

- Delivering top-notch shareholder returns
- Expanding the business selectively
- Preserving a strong balance sheet

**... AND WE UPDATE OUR DISTRIBUTION RATIONALE**

- 0.5 €/share annual minimum dividend
- A renewed and extended 6 Bn.€ buyback until 2007: sensitive to cash flow generation and share price
- Strict discipline that follows a set of clear M&A principles
- Targeting Net Debt (*) +cash commitments/Operating Income before D&A <1.85x in 2006

(*) Including preference shares.
Our 2005 cash commitments are already ambitious

<table>
<thead>
<tr>
<th>Dividends</th>
<th>€ in billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>BellSouth (Chile &amp; Argentina)</td>
<td>2.5</td>
</tr>
<tr>
<td>Český Telecom</td>
<td>1.1</td>
</tr>
<tr>
<td>January-February old buyback</td>
<td>5.0 (*)</td>
</tr>
<tr>
<td>TOTAL COMMITMENTS up to June</td>
<td>8.6</td>
</tr>
</tbody>
</table>

(*) Assuming 100% of minorities acquired in tender at 85% of controlling purchase price
We keep our conservative leverage target ratio

* Including preference shares
We keep our conservative leverage target ratio

What we committed in October 2003...

\[
\frac{\text{Net debt + cash commitments}}{\text{EBITDA}} = 1.4x - 1.7x \text{ in 2006}
\]

.. and what we delivered

\[
\frac{\text{Net debt + cash commitments}}{\text{EBITDA}} = 1.83x \text{ in 2003}
\]
\[
\frac{\text{Net debt + cash commitments}}{\text{EBITDA}} = 1.86x \text{ in 2004}
\]

And we renew the same commitment (under IFRS)

\[
\frac{\text{Net debt + cash commitments}}{\text{EBITDA}} = <1.7x \text{ in 2006}
\]
\[
\frac{\text{Net debt + cash commitments}}{\text{Operating Income before D&A}} = <1.85x \text{ in 2006}
\]

* Including preference shares
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Český Telecom: seizing an attractive opportunity at a reasonable price, favoring Telefónica shareholders

- A high quality asset...
- ...that matches our M&A criteria...
- ...and whose full value we have the capacity to extract

- EPS and FCF accretive from year 1
- Preserving shareholder remuneration
- Impacting TEF’s leverage mildly
- Self financed
Český Telecom: a high quality asset...

**Earnings growth potential on the basis of a solid starting position**

- Market leader in Czech fixed and mobile telecom services
- Excellent operational performance, high margins and cash flow generation
- Strong management team, with proven financial discipline
- Resilient business with limited risk profile
- Significant projected growth in cash flow and earnings

- >80% & >40% of revenues market share in fixed & mobile, respectively
- FCF margin of 31% of revenues in 2004, with FCF yield at 16% (*)
- Under-leveraged, with a Net Debt/EBITDA ratio of 0.9x in 2004
- High investment grade rating, stable for the last 7 years

**Extending reach into best-in class EU country**

- Stable Czech economy and converging towards EU levels
- Projected usage to increase as income per capita converges

- Member of EU since May 1st 2004 and EMU membership expected in 2009-2010
- 3.9% Real GDP growth in 2004
- Fully convertible stable currency

(*) 31/12/04 market capitalization
We defined a clear set of principles... and observed them when acquiring Český Telecom.

- 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 whose full value we have the capacity to extract, as opposed to the average investor.

Value of Český Telecom on a stand-alone basis

- Extract full potential from the BB & mobile usage opportunity: we have a proven track-record of success
- Add efficiency in marketing, procurement and operations to derive synergies
- Leverage the asset appropriately: combine local & international debt through the support of an A-rated issuer
- Use a favorable tax regime: goodwill tax deductibility

= Value of Český for a Telefónica shareholder
The broadband growth potential is there...

**Nov-2002 PC penetration per household**

Average peers: 46%

- Austria: 65%
- Belgium: 50%
- Greece: 22%
- Czech R.: 47%

2004 Broadband penetration

Average peers: 8.2%

- Austria: 14.0%
- Belgium: 8.7%
- Greece: 0.2%
- Czech R.: 1.5%

Source: Eurostat (Broadband and PC penetration)

..and we know how to benefit from as our successful track record shows

**ADSL penetration growth (%; ADSL lines over total lines)**

Telefónica de España

- Dec-01: 1.2%
- Dec-02: 2.1%
- Dec-03: 5.4%
- Dec-04: 9.5%
- Dec-05: 14.4%

**ADSL penetration growth (%; ADSL lines over total lines)**

Telesp

- Sep-01: 1.1%
- Dec-01: 1.6%
- Dec-02: 2.7%
- Dec-03: 3.9%
- Dec-04: 6.6%

Similar PC penetration as of Czech Republic

Lower GDP per capita in Sao Paulo than in Czech Republic

Source: Eurostat (Broadband and PC penetration)
.. AND WE KNOW HOW TO BENEFIT FROM AS TEM SUCCESSFUL TRACK RECORD SHOWS

**TM ESPAÑA BLENDED ARPU (€)**

- **CAGR 02-04**
  - 2002: 4.1%
  - 2004: 8.4%

**Growth driven by intensified commercial actions:**
- Migration from prepaid to contract: from 35.2% contract customers in 2002 to 48.8% in 2004
- In-depth market segmentation & smart pricing to stimulate usage

**TM ESPAÑA BLENDED MOU (MIN)**

- **CAGR 02-04**
  - 2002: 8.4%
  - 2004: 4.1%

**UMTS deployment in Spain on track, ahead of competitors (3,800 base stations at 2004 year end)**

**2004 Mobile MOU**

- Average peers: 134.7

**2004 Mobile ARPU (€)**

- Average peers: € 35

Source: Merrill Lynch Global Mobile Matrix
04 *Add efficiency in marketing, procurement and operations to derive synergies*

- Scale benefits (procurement for network, equipment, handsets)
- Optimization of IT and product & service development (costs, timing)
- Optimization of network maintenance costs
- Improvements in marketing, distribution and sales efforts
- Leverage on Telefónica group marketing umbrella
- Replicate successful outsourcing models
- Coordination of fixed-mobile (cost reductions, distribution channels, integrated product offerings)

**Example:** Český procurement costs vs TEF’s average

<table>
<thead>
<tr>
<th></th>
<th>Český Telecom</th>
<th>TEF’s average</th>
</tr>
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<tbody>
<tr>
<td>Mid range mobile handset</td>
<td>1.15x</td>
<td>1.20x</td>
</tr>
<tr>
<td>Mid range ADSL modem</td>
<td></td>
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</tbody>
</table>

**Synergies from further efficiency and scale benefits conservatively valued in the range of:**

- **NPV of €250 – 280 million**
- **Approx. 4.5% of implied Firm Value**
- **Approx. 0.25% of combined Opex and Capex**

Český Telecom amounts to approx. 10% of TEF’s wireline & wireless business in Spain in economic terms and to approx. 20% in operating terms
**Transaction overview**

**Price 51.1%**
- CZK 502 per ordinary share

**Control stake acquired**
- 51.1%
- 164.6m ordinary shares +1 “golden share” converted into 10 ordinary shares

**Consideration**
- Cash
- €2,745.87MM (payable in € at stipulated FX rate of CZK/€ 30.09)

**Implicit multiples**
- EV/EBITDA: 04A 6.4x / 04A 6.0x
- EV/OPCF: 04A 8.0x / 04A 7.5x
- P/FCF: 04A 8.2x / 04A 7.6x

**Accretion (under IFRS)**
- Reported EPS: 06E +0.3% / 07E +0.8% / 06E +1.0% / 07E +1.7%
- FCF/share: 06E +2.8% / 07E +2.5% / 06E +5.4% / 07E +5.0%

**Other aspects**
- Czech Anti monopoly European Commission Approvals, expected within 2-3 months from signing
- Compulsory offer for 48.9% minorities in estimated 4-5 months, at an expected discount to control price

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(1) Assuming tender offer price at 85% of control price and 100% acceptance
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Conclusions

- Telefónica has delivered on Cash Flow generation and distribution

- Telefónica targets a €36 bn. FCF up to 2008

- Cash Flow distribution priorities remain unchanged: shareholder remuneration comes first

- Český Telecom is a case study on our expansion criteria: core, manageable, sound and leading