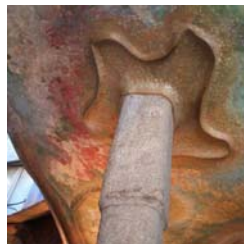


Santiago Fernández Valbuena

CFO of Telefónica Group



Morgan Stanley

Telefonica

November 18th, 2004
Barcelona (Spain)

Telefónica, S.A.
Investor Relations



Visit our website
www.telefonica.es/investors

Disclaimer



Morgan Stanley

IV EUROPEAN TMT
CONFERENCE

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

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those in the forward looking statements as a result of various factors.

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

Telefonica



Morgan Stanley

IV EUROPEAN TMT
CONFERENCE

Telefonica

Telefónica offers a unique combination of growth, efficiency and shareholder value focus among incumbents

Top line growth

- Wireline Spain: Broadband expansion
- Wireline Latam: Positive Net Adds, Broadband, revenue expansion
- Wireless: Market leader, high growth, new markets

Efficiency

- EBITDA margins among best-in-class in all business lines.
- Group margin increasingly diversified.
- Anticipation in future efficiency gains.

Shareholder value

- One of the highest conversion ratios of EBITDA into FCF.
- Explicit, multiyear, two-pillar shareholder remuneration package.

Telefónica: leading top line expansion among incumbents through customer growth

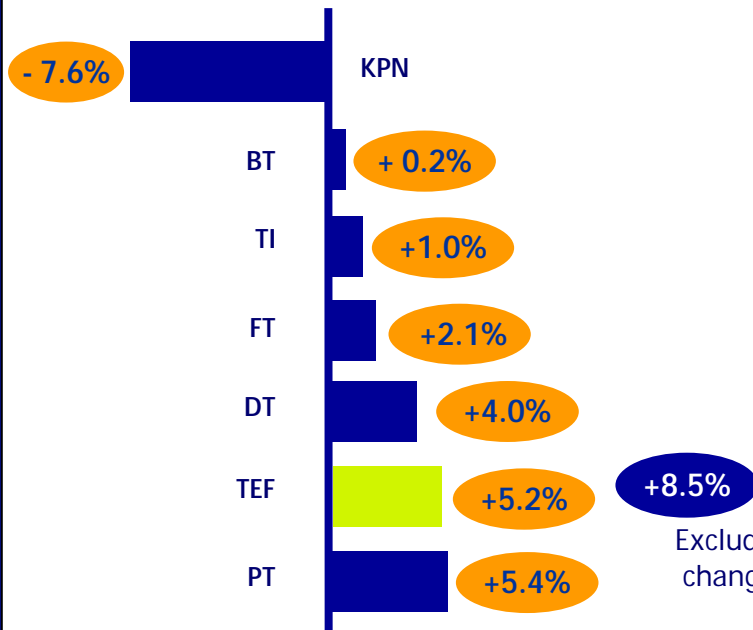


Morgan Stanley

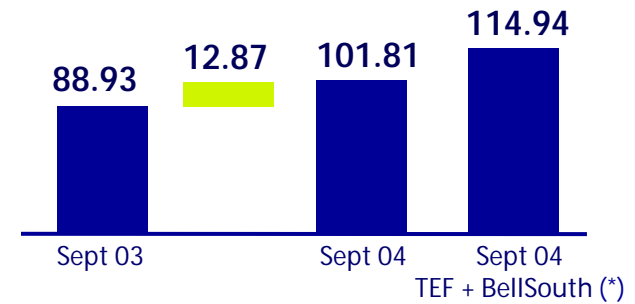
IV EUROPEAN TMT CONFERENCE

Telefonica

CONSOLIDATED GROUP
Sept 04/Sept 03 operating
revenues growth



Telefónica Group Managed
Customer Growth (millions)



Excluding exchange rates variations and changes in the consolidation perimeter

Source, company's press releases

(*) Including 13.1 million subscribers from BellSouth, at the end of August 2004, last month of the third fiscal quarter of BellSouth

Telefónica, S.A.
Investor Relations



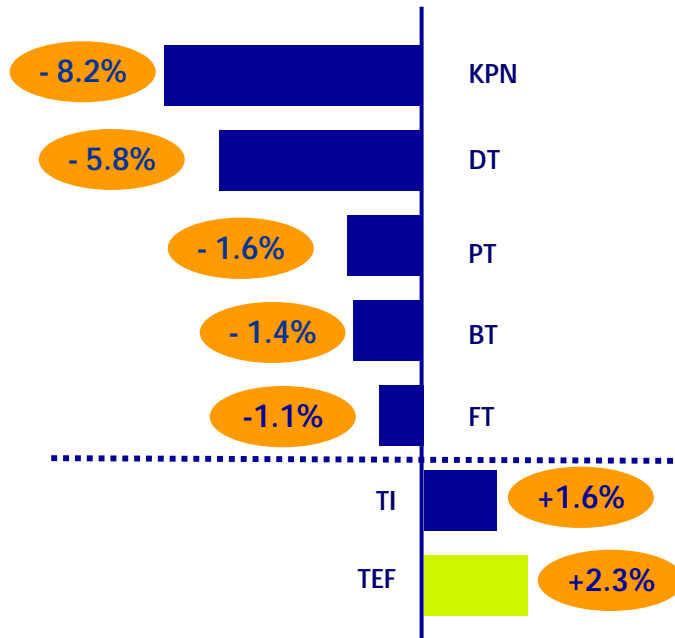
Morgan Stanley

IV EUROPEAN TMT CONFERENCE

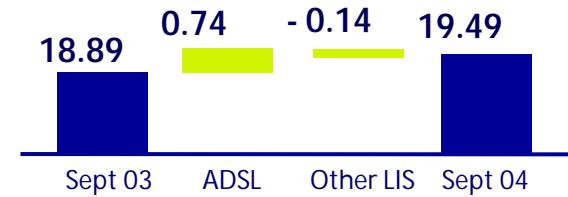
Telefonica

TdE is the benchmark in Europe in terms of growth...

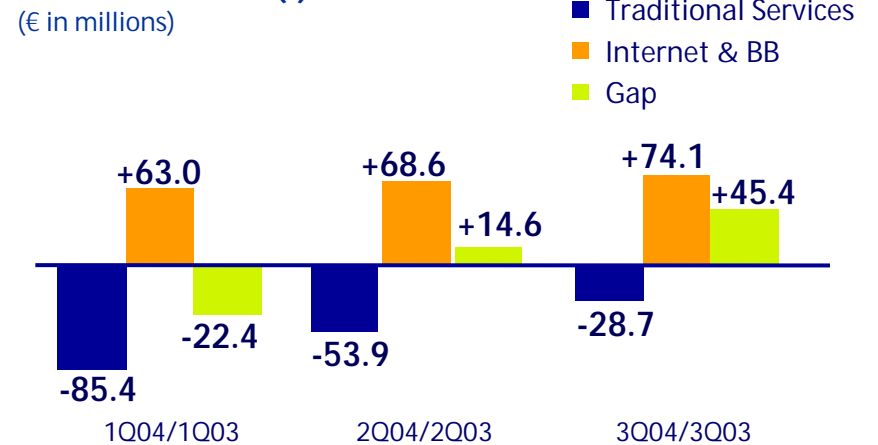
DOMESTIC WIRELINE
Sept 04/Sept 03 operating revenue growth



Managed Customer Growth
(millions)



Telefónica de España Revenue contribution gap:
BB vs traditional (*)



Internet and Broadband more than compensating traditional services revenues shortfall

... combining strong operating performance with a profitable growth profile

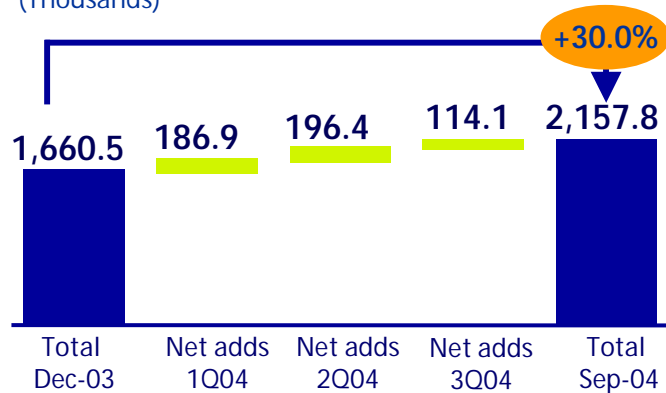


Morgan Stanley

IV EUROPEAN TMT CONFERENCE

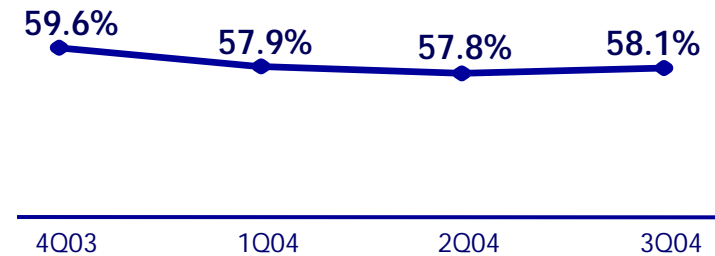
Telefonica

ADSL Connections (Thousands)



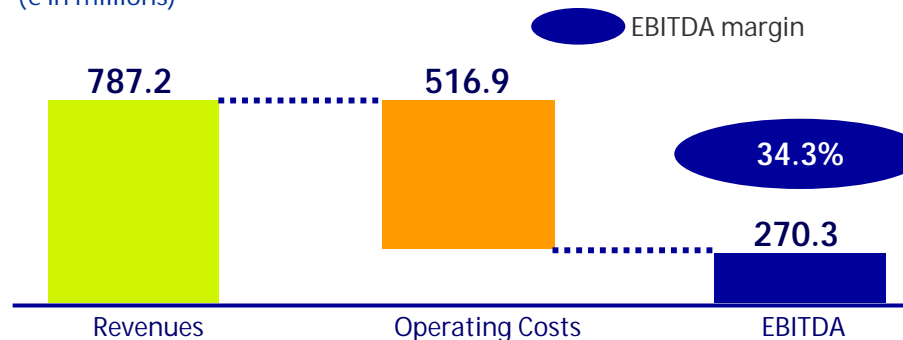
More than 1.4 million retail connections (+54% y-o-y)

Estimated Group broadband market share



Group net adds accounted for 62% of total Broadband net adds in 3Q04

9M04 ADSL EBITDA margin (€ in millions)



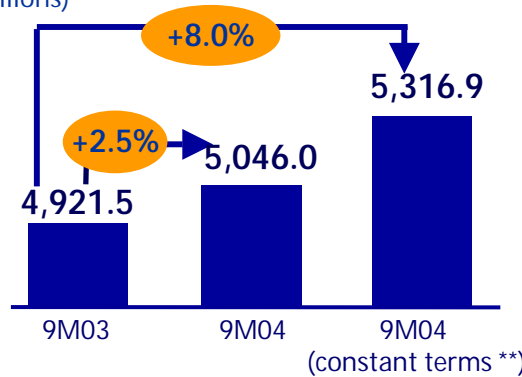
Telefónica Latinoamérica(*): a wireline growing at a high single digit...



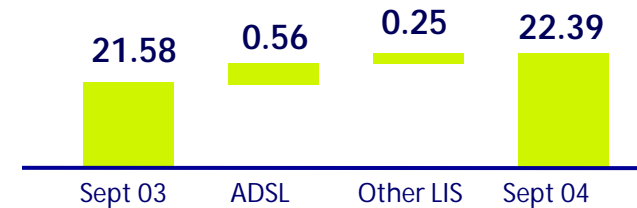
Morgan Stanley

IV EUROPEAN TMT CONFERENCE

Revenues
(€ in Millions)

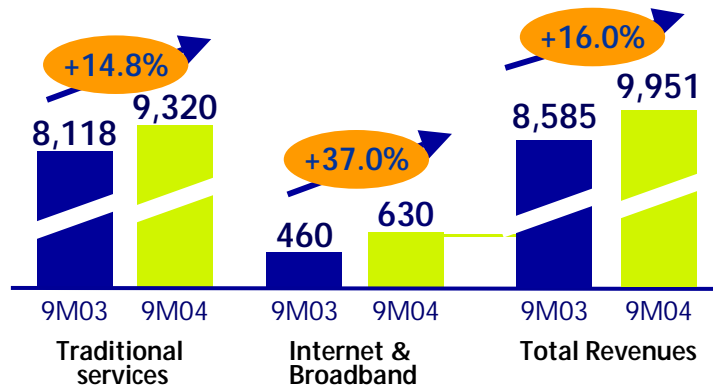


Managed Customer Growth
(millions)

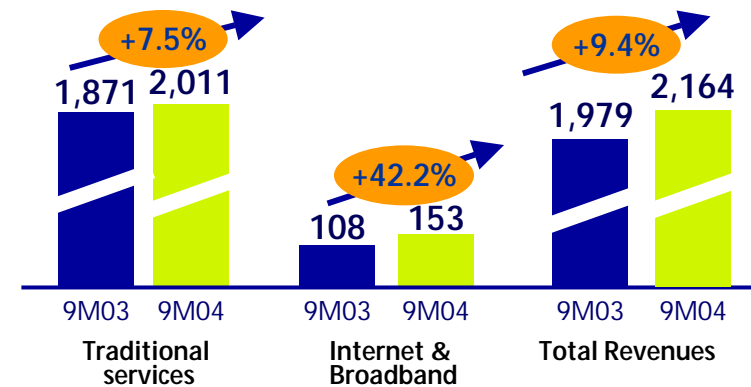


Helped by solid figures at Telesp & TASA

Telesp: operating revenues
(Reais in Millions)



TASA: operating revenues
(Pesos in Millions)



Telefonica

Telefónica, S.A.
Investor Relations

(*) New management perimeter, including data operations and TIWS.

(**) Assuming constant exchange rates as of 9M03 (as of 2003 for year-end target).

All figures exclude changes in consolidation.



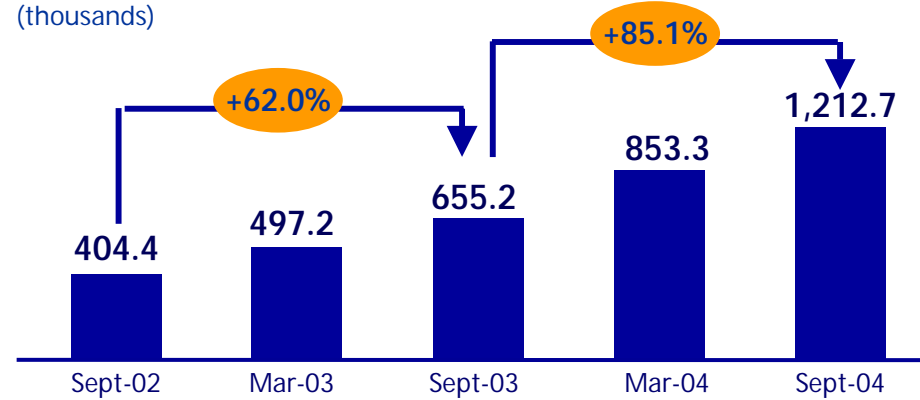
Morgan Stanley

IV EUROPEAN TMT CONFERENCE

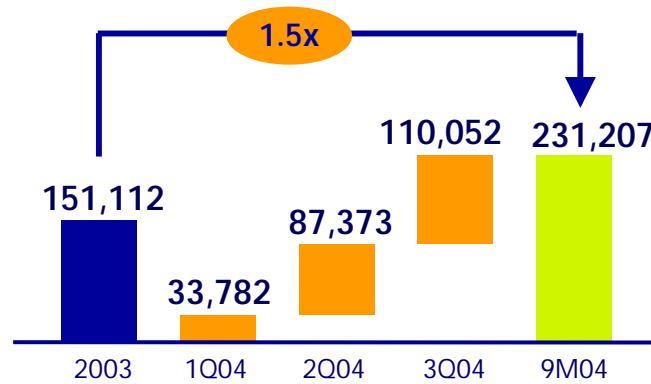
Telefonica

...leveraging on our efforts to expand ADSL growth

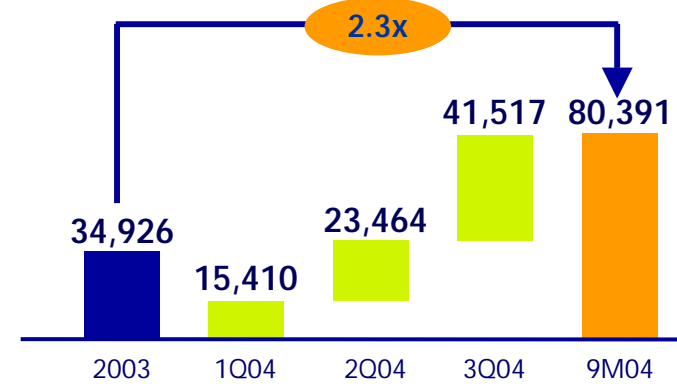
T. LatAm ADSL Connections (thousands)



TELESP: ADSL Net Adds (Thousands)

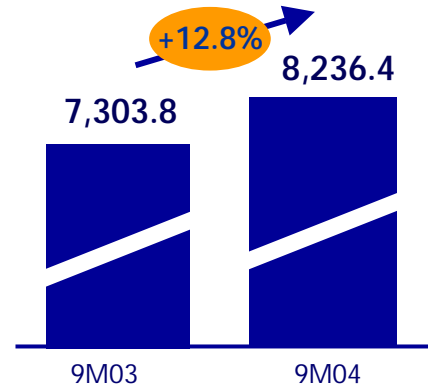


TASA: ADSL Net Adds(Thousands)

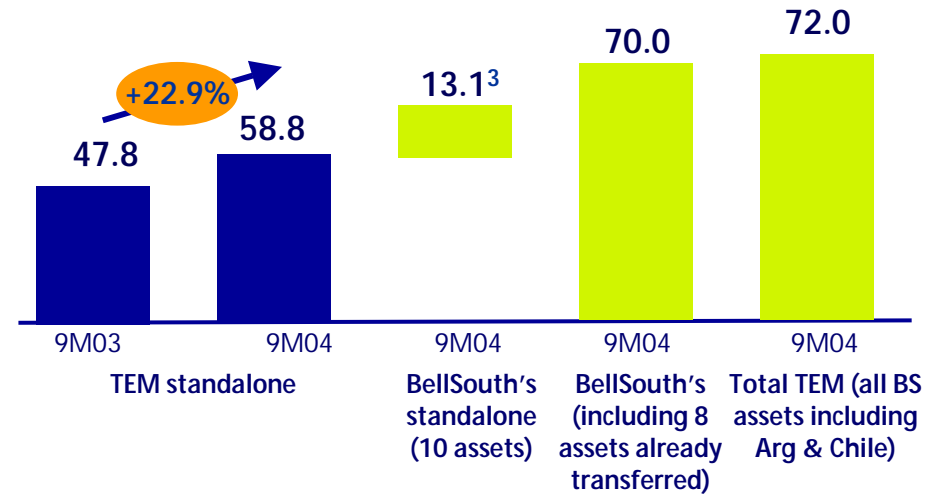


Telefónica Móviles is leading revenues and clients growth...

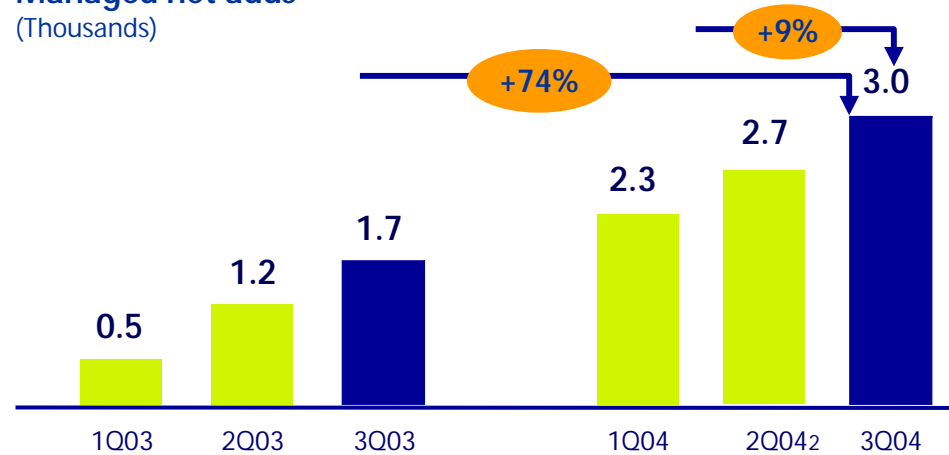
TEM OPERATING REVENUE GROWTH (Sept 04/Sept 03)



TEM' managed customer base 30/09/04 (millions)



Managed net adds¹ (Thousands)



1 All figures including TCO.
 2 Q04 figures exclude the impact of the adjustment of 1.3MM inactive prepaid SIM cards in TM Spain from 2Q04 for reporting purposes.
 3 At the end of August 2004, last month of the third fiscal quarter of BellSouth



Morgan Stanley

IV EUROPEAN TMT CONFERENCE

Telefonica

...through intensive commercial efforts

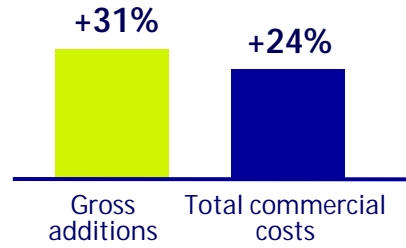


Morgan Stanley

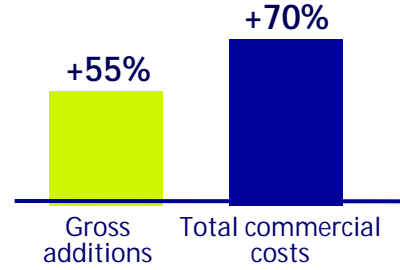
IV EUROPEAN TMT CONFERENCE

Telefonica

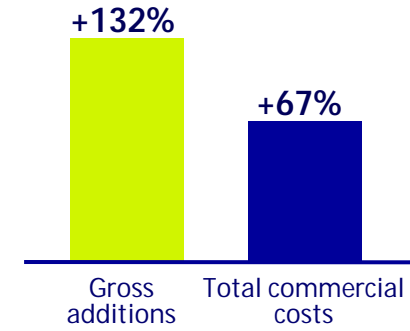
TME SPAIN
9M04/9M03 change



VIVO (BRAZIL)
9M04/9M03 change

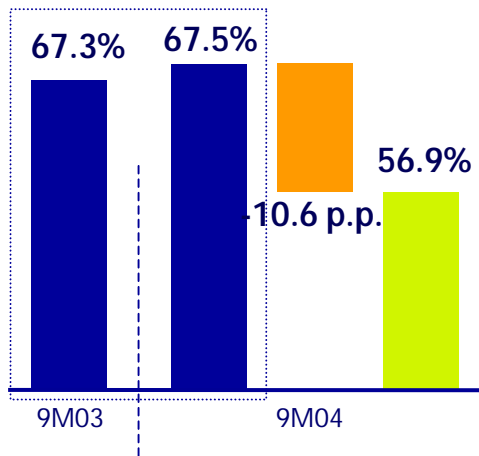


TM MEXICO
9M04/9M03 change

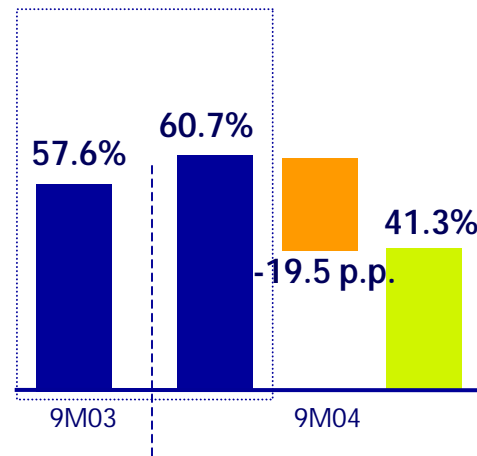


Impacting EBITDA margins in the short term

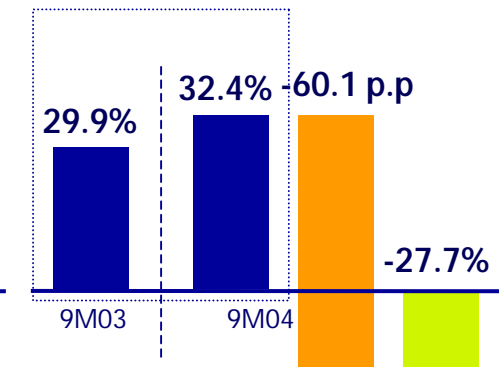
TME SPAIN



VIVO (BRAZIL)



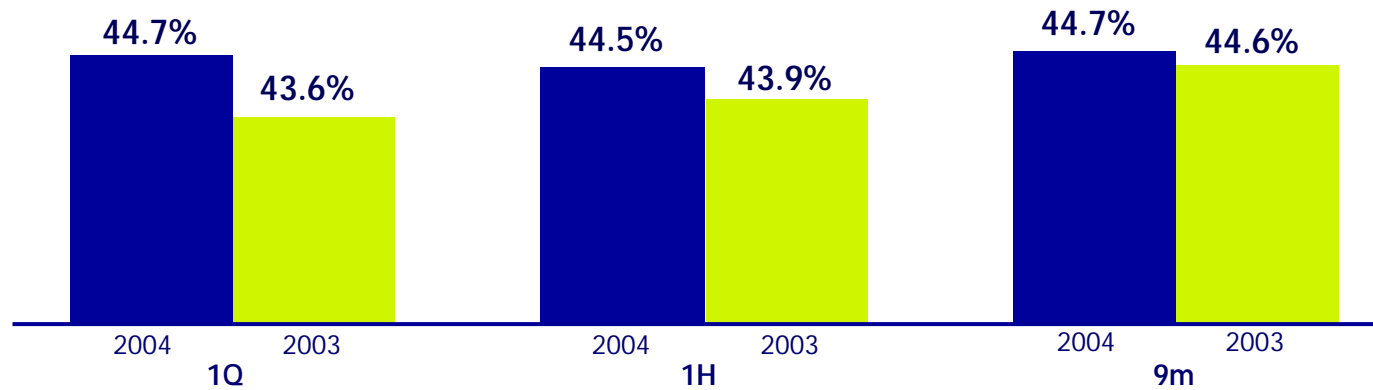
TM MEXICO



- Adjusted EBITDA margin¹
- Commercial costs
- EBITDA margin over Service Revenues ex-loyalty points

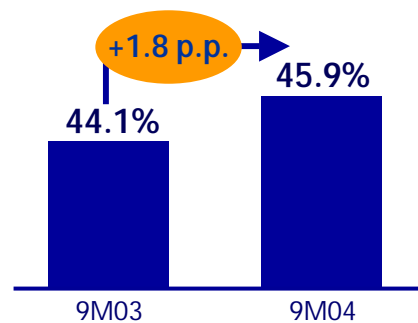
Despite strong commercial activity, we manage to increase efficiency...

TEF Group EBITDA margin



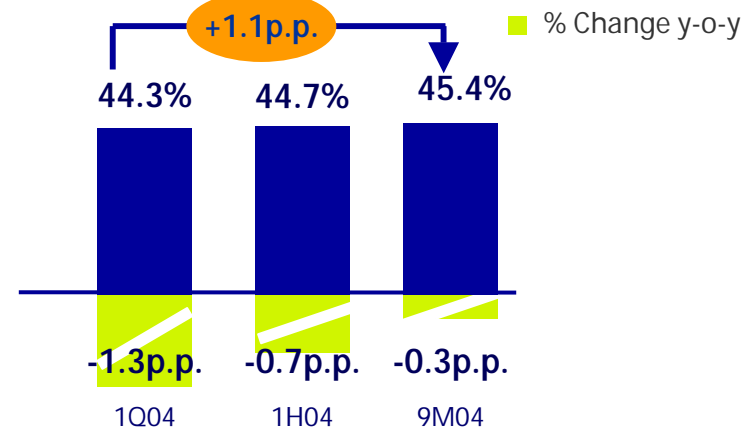
Based on strong efficiencies in wireline

TdE Group EBITDA margin (*)



TdE Group EBITDA growing at 6.6% rate in 9m04, ahead of guidance (2%-5%)

T. LatAm EBITDA margin (*)



■ Absolute terms
■ % Change y-o-y

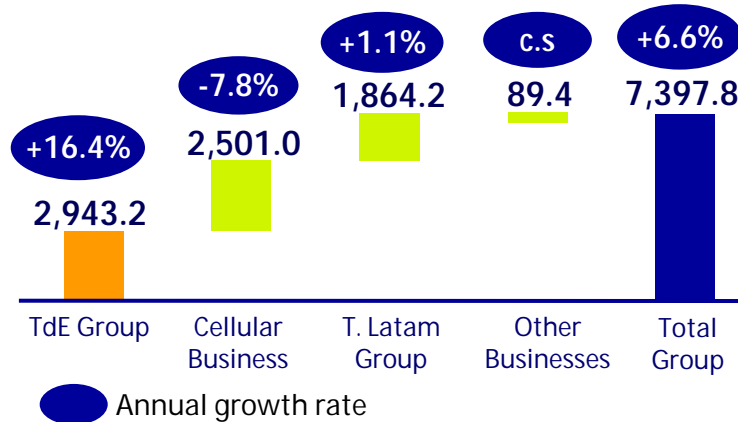
Morgan Stanley

IV EUROPEAN TMT CONFERENCE

Telefonica

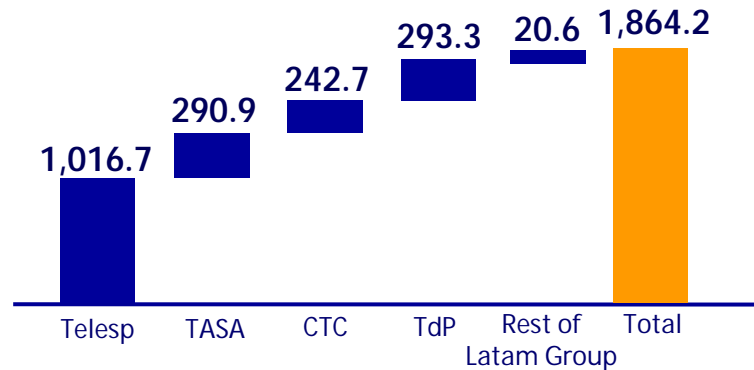
...and cash-flow generation at the group level, with LatAm as a solid contributor

Consolidated OpCF (EBITDA-CapEx) breakdown
(€ in Millions)

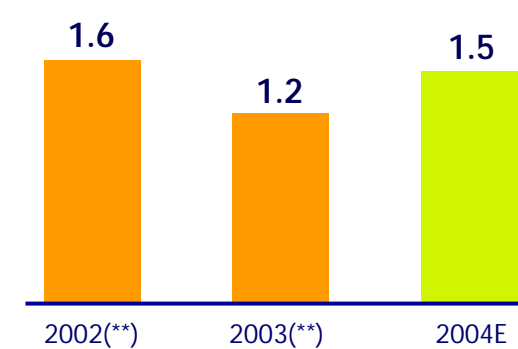


- Strong efficiency at TdE driven by cost rationale and broadband success
- Solid organic growth in EBITDA at T. LatAm partly offset by higher CapEx devoted to Broadband
- High commercial activity and network deployment investments lag the Cellular Business

LatAm OpCF (*) Generation
(€ in Millions)



Cash Flow repatriated from Latam
(\$ in Billions)



Morgan Stanley
IV EUROPEAN TMT
CONFERENCE

Telefonica

Telefónica, S.A.
Investor Relations

(*) EBITDA - Capex
(**) Average exchange rates \$/Euro of 2002 (0,942) and 2003 (1,129)



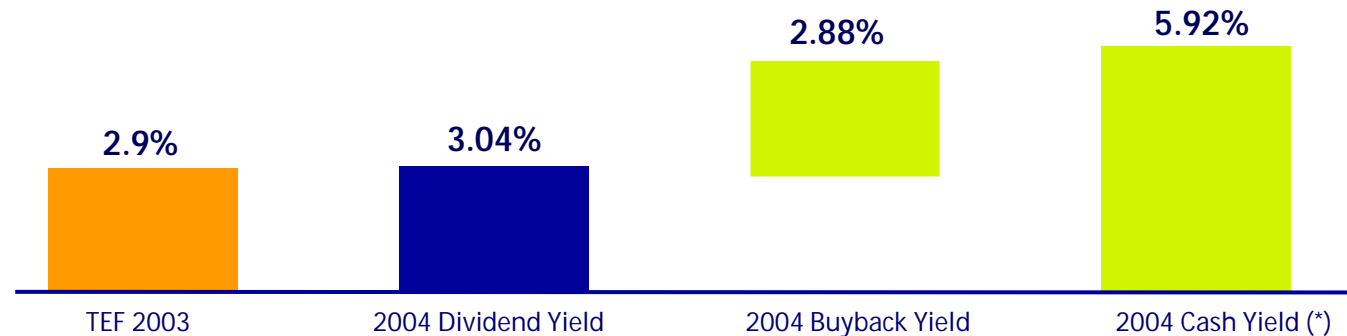
Morgan Stanley

IV EUROPEAN TMT
CONFERENCE

Telefonica

We have one of the most attractive shareholder remuneration programs in the industry

Cash Yield (div.+buybacks)



Shareholder remuneration

- **DIVIDENDS:** MINIMUM OF 0,4 EUROS/PER SHARE DURING THE PERIOD 04-06
- **BUY-BACKS:** MINIMUM OF EUR4BN UNTIL 2006
 - BUY-BACK PROGRESSING FASTER THAN TIME: 55.3% VS. 12/39 MONTHS (30.8%)
 - 183,4 MILLION SHARES, EQUIVALENT TO 3.8% OF CAPITAL



Morgan Stanley

IV EUROPEAN TMT
CONFERENCE

Telefonica

Conclusions

- A **solid revenue profile** across the Group, that ranks at the top of the sector,
- Built through the **balanced contribution** of our **three key** business lines, namely Telefónica de España, Telefónica Latinoamérica and Telefónica Móviles,
- Which are **sustaining** revenue performances by **extracting the full value of traditional fixed and expanding broadband** for wireline, and **pushing harder on commercial efforts to lead client growth** for mobile,
- Top line growth is being transferred down to **profitability and cash generation**
- We have a **disciplined strategy** for the use of cash flows
- One of the few incumbents with **no direct overhang risk**

We present a unique combination of top line growth, cash flow generation and shareholder remuneration in the industry

Telefonica



Visit our website
www.telefonica.es/investors