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.
Telefónica: a differentiated asset within the telecom sector

- Achieving attractive top line growth ahead of peers
- Our active approach to the market is setting the basis to sustain our growth profile
  - Developing the broadband opportunity
  - Taking full advantage of our mobile exposure
- We have a proven track record transforming growth into profitability and cash-flow generation
- We have a disciplined strategy for the use of cash-flows
Achieving attractive top line expansion, to which all business lines contribute positively...

Telefónica Group 1H04
Contribution to revenue growth

Revenue Growth
(€)

<table>
<thead>
<tr>
<th>% Change 1H04/1H03</th>
<th>TdE Group</th>
<th>Cell. Business</th>
<th>T. LATAM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+2.2%</td>
<td>+14.1%</td>
<td>+4.6%</td>
</tr>
</tbody>
</table>

- A more intense commercial effort to offset competitive pressures in Spanish traditional business (34,400 pre-selected lines recover in 2Q04) & Broadband contributing with 3.5 p.p. to TdE´s top line growth
- Revenues at TME growing by 12.5%, with Latam cellular sales up by 21.5% in local currency
- Telesp’s revenues growing at 20% in local currency, with Broadband up by 76%
...placing the company at the top of sector performance

Group’s domestic wireline subsidiary is one of the few European assets showing resilient financials

Source, company’s press releases
Our active approach to the market is setting the basis to sustain our growth profile...

**Fixed Telephony**

- **Jun 04/Jun 03 commercial expenses growth (local currency)**
  - TdE: ≈ 1.2x
  - Telesp: ≈ 1.2x

- **Jun 04/Jun 03 CapEx growth (local currency)**
  - Broadband: ≈ 1.1x
  - Traditional: ≈ 0.7x

- **1H04 net adds (thousands)**
  - ADSL Connections:
    - TdE: 383.3
    - Telesp: 121.2
    - TASA: 38.9
    - CTC: 39.3
    - TdP (*): 44.2

**Cellular**

- **Jun 04/Jun 03 commercial expenses growth (local currency)**
  - VIVO: ≈ 1.5x
  - T. Móviles México: ≈ 2.0x

- **1H04 net adds (thousands)**
  - Cellular clients:
    - VIVO: 2,858.2
    - T. Móviles México (**): 625.9

---

(*) Including cable modems
(**) Committed CapEx
...by developing the broadband opportunity in Spain...

ADSL Connections (Net adds, thousands)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>ADSL Connections</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q03</td>
<td>178.9</td>
</tr>
<tr>
<td>2Q03</td>
<td>157.4</td>
</tr>
<tr>
<td>3Q03</td>
<td>126.9</td>
</tr>
<tr>
<td>4Q03</td>
<td>240.0</td>
</tr>
<tr>
<td>1Q04</td>
<td>186.9</td>
</tr>
<tr>
<td>2Q04</td>
<td>196.4</td>
</tr>
</tbody>
</table>

More than 1.3 million retail connections (+58% y-o-y)

Retail ADSL market share (over total ADSL)

- Dec-03: 64.5%
- Mar-04: 64.7%
- Jun-04: 65.6%

1H04 ADSL EBITDA margin (€ in millions)

- Revenues: 503.1
- Operating Costs: 331.6
- EBITDA: 171.5
- EBITDA margin: 34.1%
...with a new battery of initiatives to lead Broadband penetration...

- Active commercial campaigns to reduce barriers to entry (free connection-monthly fees campaigns) & new services offering
- Launch of ADSL PC, an offering linking an ADSL connection to a PC, financed for up to 12 months through the telephone bill
- Doubling of speeds starting September 29th, at no costs, migration completed by year-end
- New tariff scheme presented for approval at the CMT
  - 11 hours per month at €9.9
  - 2 packages: Nights & Weekends at €12 each. Both at €18.
  - Additional minute at €0.024

Our ADSL approach is proving effective

<table>
<thead>
<tr>
<th>Broadband penetration in Europe (%)</th>
<th>Over population</th>
<th>Over households</th>
<th>Over households with PCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>5.7</td>
<td>15.1</td>
<td>32.0</td>
</tr>
<tr>
<td>France</td>
<td>5.8</td>
<td>10.3</td>
<td>18.4</td>
</tr>
<tr>
<td>Germany</td>
<td>6.1</td>
<td>10.0</td>
<td>14.7</td>
</tr>
<tr>
<td>UK</td>
<td>4.9</td>
<td>9.5</td>
<td>11.4</td>
</tr>
<tr>
<td>Italy</td>
<td>3.7</td>
<td>7.8</td>
<td>14.9</td>
</tr>
</tbody>
</table>

2003 data

Source, Pyramid Research
Internet and Broadband revenues growing over 40% (local currency) in our Latin American wireline companies

Telesp’s ADSL penetration (ADSL over total lines) is at European levels of 5.0%
We are taking advantage of our mobile exposure with TME focused on high value clients...

Residential & Corporate customers (thousands)

- Residential (contract): 5,461 (25.8%) to 3,145 (13.4%)
- Corporate: 3,145

Better quality of customers

- MOU: 111.1 to 119.6 (+7.7%)
- ARPU (€): 28.6 to 30.3 (+5.9%)

2003 market shares (*) (%)

- Telefónica Móviles España: 57.0 (+14.2pp)
- Vodafone: 61.2 (+0.2pp)
- Amena: 25.5 (+4.4pp)

Data revenues (euros in million)

- 1H03: 399
- 1H04: 467 (+17%)

Healthy usage

(*) Source: CMT, based on data provided by operators.
...with our wireless presence in Latin America providing us with a higher growth profile...

TEM’s managed customers in Latin America (MM)\(^1\)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>1Q04</th>
<th>2Q04</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11.9</td>
<td>21.4</td>
<td>30.3</td>
<td>32.4</td>
<td>35.0</td>
</tr>
</tbody>
</table>

TEM’s net adds in Latin America (Thousands)\(^2\)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>1Q03</th>
<th>2Q03</th>
<th>3Q03</th>
<th>4Q03</th>
<th>1Q04</th>
<th>2Q04</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>129</td>
<td>896</td>
<td>1,380</td>
<td>2,090</td>
<td>3,456</td>
<td>x3</td>
</tr>
</tbody>
</table>

\(x3\) Xmas campaign

+19.3% revenue growth in 1H04 in € terms

1. 2003 figures includes the acquisition of TCO.
...that we have reinforced by acquiring BellSouth Latin American properties

A transaction with a clear strategic fit...

- Mobile (one of our core businesses) in Latam (our natural area of expansion)
- Adding 12.5 Million clients
- Strengthening our current market position in Chile, Argentina, Peru & Guatemala
- Entering in 6 new markets, those key as #1/#2 player
- NPV of synergies (OpEx+CapEx) > 1 Bn.€

...that enhances our financial performance

<table>
<thead>
<tr>
<th></th>
<th>Cellular Business</th>
<th>BellSouth Latam</th>
<th>Aggregate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>11.8</td>
<td>2.5</td>
<td>14.3</td>
</tr>
<tr>
<td>EBITDA</td>
<td>5.2</td>
<td>0.9</td>
<td>6.1</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>44%</td>
<td>36%</td>
<td>43%</td>
</tr>
<tr>
<td>OpCF (*)</td>
<td>3.5</td>
<td>0.6</td>
<td>4.1</td>
</tr>
</tbody>
</table>

2003 figures
($US in Billions)

The combination will increase Cellular Business revenues, and EBITDA/OpCF by 21% and 17%, while keeping profitability at a healthy 43%
A proven track record transforming top line growth into profitability and cash generation...

**Basic financial Indicators 2003**
(Mill. euros)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>28,399.8</td>
<td>34,712.2</td>
</tr>
<tr>
<td>EBITDA</td>
<td>12,602.1</td>
<td>14,850.1</td>
</tr>
<tr>
<td>Free Cash Flow (*)</td>
<td>6,312.4</td>
<td>7,425.0</td>
</tr>
</tbody>
</table>

**Growth profile**
(Annual Change)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>1H04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>+6.9%</td>
<td>+10.1%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>+27.2%</td>
<td>+5.6%</td>
</tr>
<tr>
<td>Free Cash Flow (*)</td>
<td>+7.5%</td>
<td>+6.9%</td>
</tr>
</tbody>
</table>

3 pillars to generate this solid cash conversion ratio:

- Exploit current growth opportunities such as broadband and mobile across our markets to drive consistent top line growth
- Manage cost structures efficiently, supporting the transformation of the business from a network oriented organization to a client oriented one
- Rationalize CapEx, shifting efforts from mature to high growth businesses

(*) Madrid Conference criteria
...which is well balanced, has in our Latin American wireline operations a robust contributor...

OpCF (*) breakdown 1H04
(€ in Millions)

- TdE Group: +16.1% (1,959.9)
- Cellular Business: +9.3% (1,794.0)
- T. Latam Group: +6.3% (1,226.8)
- Other Businesses: +13.4% (5,016.9)

Annual growth rate

T. Latam OpCF (*) generation 1H04
(€ in Millions)

- Telesp: 672.6
- TASA: 197.3
- CTC: 145.8
- TdP: 194.6
- Rest of Group: 16.5
- Total: 1,226.8

Cash Flow repatriated from T. Latam (**)
(€ in Billions)

- 2002: 1.5
- 2003: 1.3

(*) EBITDA - CapEx
(**) Wireline operators only
...and ranks at the top of the peer Group

**EBITDA Growth 1H04**

- TdE
  - KPN
  - -19.2%
- TdE
  - BT
  - -7.3%
- Cellular
  - TI
  - +2.4%
- Cellular
  - DT
  - +3.2%
- Cellular
  - FT
  - +4.5%
- Cellular
  - TEF
  - +6.9%
- Cellular
  - PT
  - +8.6%

**EBITDA margin 1H04**

- BT
  - 29%
- DT
  - 33%
- FT
  - 38%
- KPN
  - 40%
- PT
  - 40%
- TEF
  - 44%
- TI
  - 47%

- TdE and cellular are contributing to Group growth by close to 2.5 p.p. each
- We are keeping solid margins in domestic markets despite tough competition, with TdE at 46% driven by its 2003-2007 Redundancy Program, and TME at 53%
- Achieving EBITDA margins for wireline operations in Latin America clearly above European standards, hitting a consolidated level of 45%

Source, company's press releases
We do have a disciplined use of free funds

2003-1H04 use of free funds (*)
(€ in Millions)

>80% of Free Funds generated in the last 18 months have been allocated to remunerate shareholders and retain our “single A” balance sheet

Total Free Funds (*) Shareholder remuneration (dividends + buybacks) Solvency Protection (reduction of debt + commitments) Financial Investments

Cash Yield (div.+buybacks)

2003-1H04 use of free funds (*)

Net Debt Evolution 2002-1H04

Rating recently reaffirmed by agencies, outlook stable after Bellsouth announcement

(*) Madrid Conference criteria
(**) Source, Merrill Lynch European Incumbents Report (13 Sep.-04)
Conclusions

- A **solid revenue profile** across the Group, that ranks at the top of the sector,

- Top line growth **is sustainable** through broadband, mobile, and selective M&A,

- and is being transferred down to **profitability and cash generation**,

- We have a **disciplined strategy** for the use of cash flows

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