A SUPERIOR COMBINATION OF GROWTH & CASH RETURNS

London, June 8th, 2005
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01 A very solid performance in 1Q05, ahead of the industry

02 A clear business strategy that will lead to a superior combination of growth and cash returns

03 Conclusions
A very solid performance all through the P&L in 1Q05...

<table>
<thead>
<tr>
<th></th>
<th>Jan-Mar 2005</th>
<th>Jan-Mar 2004</th>
<th>% Change 1Q05/1Q04</th>
<th>% Change 1Q05/1Q04 ex-forex (1)</th>
<th>% Change 1Q05/1Q04 Organic (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>8,278.8</td>
<td>7,093.4</td>
<td>+16.7%</td>
<td>+17.3%</td>
<td>+9.2%</td>
</tr>
<tr>
<td>Operating Expenses (3)</td>
<td>(4,993.6)</td>
<td>(4,225.4)</td>
<td>+18.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Income</td>
<td>3,414.7</td>
<td>2,937.6</td>
<td>+16.2%</td>
<td>+16.4%</td>
<td>+9.5%</td>
</tr>
<tr>
<td>before D&amp;A (OIBDA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D&amp;A</td>
<td>(1,526.4)</td>
<td>(1,432.9)</td>
<td>+6.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Income (OI)</td>
<td>1,888.3</td>
<td>1,504.7</td>
<td>+25.5%</td>
<td>+25.4%</td>
<td>+21.3%</td>
</tr>
<tr>
<td>Net Income</td>
<td>912.2</td>
<td>671.4</td>
<td>+35.9%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Assuming constant exchange rates as of 1Q04
(2) Assuming constant exchange rates as of 1Q04. Incorporating the assets acquired to BellSouth in Argentina, Colombia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela into the mobile business and Atrium into Telefónica Latinoamérica Group, from January 1st 2004
(3) Supplies, Personnel Expenses, External Services and Taxes
...to stand in line with our year-end guidance...

**Group Revenues**

<table>
<thead>
<tr>
<th></th>
<th>1Q04 Adjusted for guidance</th>
<th>1Q05 Adjusted for guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>7,093.4</td>
<td>8,322.0</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005 target</td>
<td>+17.3%</td>
<td>+12%/+15%</td>
</tr>
</tbody>
</table>

**Group OIBDA**

<table>
<thead>
<tr>
<th></th>
<th>1Q04 Adjusted for guidance</th>
<th>1Q05 Adjusted for guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>2,945.2</td>
<td>3,311.6</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005 target</td>
<td>+12.4%</td>
<td>+10%/+13%</td>
</tr>
</tbody>
</table>

**Group OI**

<table>
<thead>
<tr>
<th></th>
<th>1Q04 Adjusted for guidance</th>
<th>1Q05 Adjusted for guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1,512.2</td>
<td>1,779.7</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005 target</td>
<td>+17.7%</td>
<td>+12%/+18%</td>
</tr>
</tbody>
</table>

Notes:
1Q05 adjusted for guidance assumes constant exchange rates as of 1Q04 (as of 2004 for year-end target). All figures exclude changes in consolidation, other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), andAtlantium (T.Latam). In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/ expenses not foreseeable in 2005. Personnel Restructuring and Real Estate Programs are included as operating revenues/ expenses. For homogeneous comparison the equivalent other exceptional revenues/ expenses registered in 1Q04 are also deducted from reported figures in terms of guidance calculation.
...and beat all of our European peers

### Revenue growth (1)
Jan-Mar 05 vs. Jan-Mar 04

- **TEF (2)**: +16.7%
- **TI**: +4.4%
- **FT (3)**: +3.5%
- **BT (4)**: +1.7%
- **DT**: +3.5%
- **KPN**: -1.8%
- **PT**: +1.1%

### EBITDA growth (1)
Jan-Mar 05 vs. Jan-Mar 04

- **TEF (2)**: +16.2%
- **TI**: +3.8%
- **FT (3)**: +3.3%
- **BT (4)**: +5.0%
- **DT**: +6.3%
- **KPN**: -11.0%
- **PT**: +4.4%

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(1) Based on data published by companies
(2) EBITDA figures relate to Operating Income Before Depreciation and Amortization (as reported by TEF)
(3) EBITDA = Gross operating margin; does not include employee profit-sharing or expenses for shared-based compensation schemes
(4) Data for EBITDA before exceptionals
We are fully exploiting the broadband opportunity to drive wireline top line growth both in Spain...

Contribution to TdE Group revenue growth

<table>
<thead>
<tr>
<th>Service Type</th>
<th>1Q04</th>
<th>2Q04</th>
<th>3Q04</th>
<th>4Q04</th>
<th>1Q05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Access</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Voice Services</td>
<td>+1.0 p.p.</td>
<td>+0.8 p.p.</td>
<td>+3.4 p.p.</td>
<td>+0.9 p.p.</td>
<td>+6.0%</td>
</tr>
<tr>
<td>Internet &amp; Data &amp; IT Affiliates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TdE Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Estimated Group retail broadband market share

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q04</td>
<td>57.9%</td>
</tr>
<tr>
<td>2Q04</td>
<td>57.8%</td>
</tr>
<tr>
<td>3Q04</td>
<td>58.1%</td>
</tr>
<tr>
<td>4Q04</td>
<td>55.5%</td>
</tr>
<tr>
<td>1Q05</td>
<td>54.2%</td>
</tr>
</tbody>
</table>

BB market share erosion halved through wide range of actions...

PROMOTIONS

SERVICES ENHANCEMENT

NEW SERVICES
...and in Latin America, pushing broadband access across markets

**ADSL Connections**

(Thousands)

- **Telesp**
  - 1Q04: 518
  - 1Q05: 880
  - Growth: 1.7x

- **TASA**
  - 1Q04: 85
  - 1Q05: 209
  - Growth: 2.5x

- **CTC**
  - 1Q04: 143
  - 1Q05: 222
  - Growth: 1.6x

- **TdP (1)**
  - 1Q04: 107
  - 1Q05: 235
  - Growth: 2.2x

- **T. Latam**
  - 1Q04: 853
  - 1Q05: 1,546
  - Growth: 1.8x

**Revenues**

(€ in Millions)

- **1Q04**: 1,659.7
- **1Q05**: 1,735.2
- **1Q05 (constant terms 3)**: 1,716.2

**Broadband revenue growth**

(1Q05/1Q04, local currency)

- **Telesp**
  - 118.3%

- **TASA**
  - 77.3%

- **CTC**
  - 59.9%

- **TdP**
  - 38.7%

(1) Including cable modem
(2) Including Narrowband Internet
(3) Assuming constant exchange rates as of 1Q04 (as of 2004 for year-end target).
The incorporation of BellSouth’s assets has taken TEM into a new dimension: The NEW TEM

1Q04

- Andean Region 3%
- Southern Cone 8%
- Northern Region 8%
- Morocco 4%
- Brazil 40%

MANAGED CUSTOMERS

1Q05

- Spain 23%
- Andean Region 15%
- Southern Cone 14%
- Northern Region 10%
- Morocco 4%
- Brazil 34%

54.2 MM

+50%

81.4 MM
Our efforts to grow our markets are impacting commercial costs but not profitability and returns…

Group cellular & ADSL accesses (Millions)

1Q04 | 1Q05
---|---
Cellular | 54.2 | 81.4
Retail ADSL | 2.3 | 3.5

+18.2% growth of operating expenses in 1Q05 (vs. 1Q04)

OIBDA Margin

1Q04 | 1Q05
---|---
41.4% | 41.2%

Operating Income Margin

1Q04 | 1Q05
---|---
21.2% | 22.8%

OpCF (OIBDA-CapEx) (€ in Million)

1Q04 | 1Q05
---|---
2,318.1 | 2,670.7

(*) Supplies, Personnel Expenses, External Services and Taxes
...placing our fixed operations clearly apart from current wireline sector trends...

### Domestic Wireline

**Revenue Growth**

Jan-Mar 05 vs. Jan-Mar 04

- **TEF (2)**: -0.5%
- **TI (3)**: 0.4%
- **FT**: -2.3%
- **BT (4)**: +1.7%
- **DT (T-Com)**: -4.8%
- **KPN**: -6.7%
- **PT**: -2.7%
- **TLatam**: 4.5%

### Domestic Wireline

**EBITDA Growth**

Jan-Mar 05 vs. Jan-Mar 04

- **TEF (2)**: 11.9%
- **TI (3)**: +3.4%
- **FT**: n.a.
- **BT (4)**: +5.0%
- **DT (T-Com)**: < 0%
- **KPN**: -6.4%
- **PT**: +11.1%
- **TLatam**: 17.9%

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(1) Based on data published by companies
(2) EBITDA figures relate to Operating Income Before Depreciation and Amortization (as reported by TEF)
(3) Revenue Growth for TI considers revenues of TIDW excluding European Project in 1Q04 and 1Q05
(4) Data for EBITDA before exceptionals
...and our mobile operations ahead of European average

Service Revenues growth (1Q05/1Q04)

- TM Spain: +7%
- European Average (1): 2%

OIBDA margin (1Q05)

- TM Spain: 47.5%
- European Average (2): 40.3%

- Solid revenue growth driven by increased usage:
  - +12% in billable traffic vs. 1Q04
  - Increased contribution from non SMS - Data
  - +4.8% y-o-y in ARPU

- Margin performance highly impacted by strong commercial efforts:
  - +12% in commercial activity vs. 1Q04
  - +67% y-o-y growth in number portability gross adds
  - 66.3% normalised margin

1. European average including TIM Italy, T-Mobile Germany, Orange France, TMN, KPN-Mobile (The Netherlands) & Vodafone UK. Source: Company press releases
2. European average including TIM Italy, T-Mobile Germany, TMN, KPN-Mobile (The Netherlands) & T-Mobile (UK). Source: Company press releases.
01 A very solid performance in 1Q05, ahead of the industry

02 A clear business strategy that will lead to a superior combination of growth and cash returns

03 Conclusions
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

- Accelerating top line growth
- Financing organic growth projects
- Improving operational excellence

Maximisation of free cash flow

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
  
  **Customer access is Telefónica’s key competitive asset and a major source of growth…**

  …and we will leverage on these customer relationships to extend growth beyond the access…

  …and to make the access itself more attractive
We will leverage on our wireline access position to grow DSL aggressively...

Making broadband a truly mass-market service...

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

- 2004: 1.6
- 2008E: >4

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

- 2004: 1.4
- 2008E: 4

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

- Intensive advertising and promotional campaigns
- Massive use of retail channels
- New attractive 2P & 3P services
- Improved quality and performance of service

**Spain**

- Tariff innovation
- Bundling with products (PC) and services
- Financing solutions

**LatAm**

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

*Includes Sao Paulo, South region of Argentina, Chile and Peru*
...and will aggressively develop the wireless business, specially in LatAm

Spain: continuing growth on top of a solid revenue base

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

Spain: 3G wireless customers in Spain

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

Penetration

2004

Penetration 2008E (%)

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

Presence in 13 markets, #1 in 7 of them and #2 in 5 others

Large operating synergies (US$ 100m 2005E up to US$ 250m 2008E)

In areas of operation

Telefónica
We expect our strategy to accelerate top line growth while improving operational excellence and financing growth projects.

Customer base growth (in million, # accesses):
- 2004: 123
- Commitment 2008: circa 190

Revenue growth (in €m):
- 2004: 30,271
- Commitment 2008: 7-11%

Op. Income before D&A (€m, CAGR 8-12%):
- 2004: 12,130
- Commitment 2008

Op. Income (€m, CAGR 13-19%):
- 2004: 6,463
- Commitment 2008

CapEx (€m, CAGR 3-7%):
- 2004: 3,772
- Commitment 2008

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(1) Includes Český Telecom
(2) Reported 2004 under IFRS
(3) 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.
(4) 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.
As a result, our Free Cash Flow generation will accelerate in the coming years.

Free Cash Flow
€ in Million

Madrid Conference
Target 03-06

2005-2008

>27,000

≥36,000

1.3x
...while maintaining 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.
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02 A clear business strategy that will lead to a superior combination of growth and cash returns

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Conclusions

- Telefónica to lead the industry in customer focus and operational performance
- Growing faster and more profitably than other integrated operators
- Committed company to shareholders and to preserve a healthy balance sheet

Telefónica

The best combination of growth and shareholder returns, now and in the long run
Visit our website
www.telefonica.es/investors