XI Annual Telecom Seminar

Santiago Fernández Valbuena, CFO
Telefónica Group

A SUPERIOR COMBINATION OF GROWTH & CASH RETURNS

Marbella, June 24th 2005
Disclaimer

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.

This presentation contains financial results and estimates reported under IFRS. These results and estimates are preliminary, as only full compliance with International Financial Reporting Standards issued at 31/12/2005 is required, and unaudited, being potentially not final and subject to future modifications. This financial information has been prepared based on the principles and regulations known to date, and on the assumption that IFRS principles presently in force will be the same as those that will be adopted to prepare the 2005 consolidated financial statement and, consequently, does not represent a complete and final adoption of these regulations.
A very solid performance in 1Q05, ahead of the industry

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

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 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>+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>
</tr>
<tr>
<td>Operating Income before D&amp;A (OIBDA)</td>
<td>3,414.7</td>
<td>2,937.6</td>
<td>+16.4%</td>
<td>+9.5%</td>
</tr>
<tr>
<td>D&amp;A</td>
<td>(1,526.4)</td>
<td>(1,432.9)</td>
<td>+6.5%</td>
<td></td>
</tr>
<tr>
<td>Operating Income (OI)</td>
<td>1,888.3</td>
<td>1,504.7</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>
</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>Year</th>
<th>€ in Millions</th>
<th>Increase (%)</th>
<th>2005 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q04</td>
<td>7,093.4</td>
<td></td>
<td>+12%/+15%</td>
</tr>
<tr>
<td>1Q05 Adjusted</td>
<td>8,322.0</td>
<td>+17.3%</td>
<td></td>
</tr>
</tbody>
</table>

**Group OIBDA**

<table>
<thead>
<tr>
<th>Year</th>
<th>€ in Millions</th>
<th>Increase (%)</th>
<th>2005 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q04</td>
<td>2,945.2</td>
<td></td>
<td>+12%</td>
</tr>
<tr>
<td>1Q05 Adjusted</td>
<td>3,311.6</td>
<td>+12.4%</td>
<td>+10%/+13%</td>
</tr>
</tbody>
</table>

**Group OI**

<table>
<thead>
<tr>
<th>Year</th>
<th>€ in Millions</th>
<th>Increase (%)</th>
<th>2005 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q04</td>
<td>1,512.2</td>
<td></td>
<td>+17.3%</td>
</tr>
<tr>
<td>1Q05 Adjusted</td>
<td>1,779.7</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), and Atrium (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

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF (^{(2)})</td>
<td>+16.7%</td>
</tr>
<tr>
<td>TI</td>
<td>+4.4%</td>
</tr>
<tr>
<td>FT (^{(3)})</td>
<td>+3.5%</td>
</tr>
<tr>
<td>BT (^{(4)})</td>
<td>+1.7%</td>
</tr>
<tr>
<td>DT</td>
<td>+3.5%</td>
</tr>
<tr>
<td>KPN</td>
<td>-1.8%</td>
</tr>
<tr>
<td>PT</td>
<td>+1.1%</td>
</tr>
</tbody>
</table>

EBITDA growth\(^{(1)}\)
Jan-Mar 05 vs. Jan-Mar 04

<table>
<thead>
<tr>
<th>Company</th>
<th>EBITDA Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF (^{(2)})</td>
<td>+16.2%</td>
</tr>
<tr>
<td>TI</td>
<td>+3.8%</td>
</tr>
<tr>
<td>FT (^{(3)})</td>
<td>+3.3%</td>
</tr>
<tr>
<td>BT (^{(4)})</td>
<td>+5.0%</td>
</tr>
<tr>
<td>DT</td>
<td>+6.3%</td>
</tr>
<tr>
<td>KPN</td>
<td>-11.0%</td>
</tr>
<tr>
<td>PT</td>
<td>+4.4%</td>
</tr>
</tbody>
</table>

---

\(^{(1)}\) 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

Traditional Access +1.0 p.p.  +3.4 p.p. +0.9 p.p.  +6.0%
Traditional Voice Services +0.8 p.p.  +3.4 p.p. +0.9 p.p.  +6.0%
Internet & Broadband Services TdE Group
Data & IT Affiliates (*)
TdE Group

Weight over Operating revenues (parent company)

Broadband (retail+wholesale)

Estimated Group retail broadband market share

1Q04 2Q04 3Q04 4Q04 1Q05

57.9% 57.8% 58.1% 55.5% 54.2%

(*) Telyco, TTP, T. Cable

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: 518 → 880 (1.7x)
- TASA: 85 → 209 (2.5x)
- CTC: 143 → 222 (1.6x)
- TdP (1): 107 → 235 (2.2x)
- T. Latam: 853 → 1,546 (1.8x)

**Broadband revenue growth**
(1Q05/1Q04, local currency)

- Telesp: 38.7%
- TASA: 118.3%
- CTC: 59.9%
- TdP: 77.3%

**Revenues**
(€ in Millions)

- 1Q04: 1,659.7
- 1Q05: 1,735.2 (+3.4%)
- 1Q05: 1,716.2 (+4.5%)

(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%
- Spain: 37%

**1Q05**
- Spain: 23%
- Andean Region: 15%
- Southern Cone: 14%
- Northern Region: 10%
- Morocco: 4%
- Brazil: 34%

**Comparison**
- Total: 54.2 MM to 81.4 MM
- Increase: +50%
Our efforts to grow our markets are impacting commercial costs but not profitability and returns...

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

Group cellular & ADSL accesses (Millions)

1Q04 1Q05

Cellular

Retail ADSL

Bellsouth

54.2 81.4 15.7

65.7

2.3 3.5

OpCF (OIBDA-CapEx) (€ in Million)

1Q04 1Q05

OIBDA Margin

41.4% 41.2%

Operating Income Margin

21.2% 22.8%

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**
(1) Jan-Mar 05 vs. Jan-Mar 04

<table>
<thead>
<tr>
<th>Company</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF (2)</td>
<td>-0.5%</td>
</tr>
<tr>
<td>TI (3)</td>
<td>0.4%</td>
</tr>
<tr>
<td>FT</td>
<td>-2.3%</td>
</tr>
<tr>
<td>BT (4)</td>
<td>-0.5%</td>
</tr>
<tr>
<td>BT (T-Com)</td>
<td>-4.9%</td>
</tr>
<tr>
<td>KPN</td>
<td>-6.7%</td>
</tr>
<tr>
<td>PT</td>
<td>-2.7%</td>
</tr>
<tr>
<td>TLatam</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

**DOMESTIC WIRELINE EBITDA growth**
(1) Jan-Mar 05 vs. Jan-Mar 04

<table>
<thead>
<tr>
<th>Company</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF (2)</td>
<td>-0.5%</td>
</tr>
<tr>
<td>TI (3)</td>
<td>+3.4%</td>
</tr>
<tr>
<td>FT</td>
<td>+1.7%</td>
</tr>
<tr>
<td>BT (4)</td>
<td>+5.0%</td>
</tr>
<tr>
<td>BT (T-Com)</td>
<td>n.a.</td>
</tr>
<tr>
<td>KPN</td>
<td>-6.4%</td>
</tr>
<tr>
<td>PT</td>
<td>+11.1%</td>
</tr>
<tr>
<td>TLatam</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

(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.
Contents

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.

**GOAL**

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

**STRATEGY**

- 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
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

Customer access is Telefónica's key competitive asset and a major source of growth...

**Add value to the customer’s access**
Provide these customers with services and solutions targeted to specific needs

...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 ....

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

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

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

Weight of contract segment (% over total customer base)

Telefónica's 3G wireless customers in Spain
Million

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

- **Customer base growth**
  - Commitment 2008: ≈190 million
  - 2004: 123 million

- **Revenue growth**
  - Commitment 2008: €30,271 million
  - 2004: €30,271 million

- **Op. Income before D&A**
  - Commitment 2008: €12,130 million
  - 2004: €12,130 million

- **Op. Income**
  - Commitment 2008: €6,463 million
  - 2004: €6,463 million

- **CapEx**
  - Commitment 2008: €3,772 million
  - 2004: €3,772 million

---

(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 Český Telecom 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

>27,000

1.3x

>36,000

2005-2008
...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.
Contents

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
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