

# A superior combination of growth and cash returns

*César Alierta, Chairman and CEO  
Telefónica Group*



ACCELERATE TO INCREASE  
OUR LEADERSHIP

*Telefónica*

Barcelona, April 25th, 2005

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### 01 Telefónica, ahead of the industry

### 02 Delivering on our commitments

### 03 A superior combination of growth and cash returns

# 01 Telefónica has made dramatic progress since our first meeting in Rio 2001

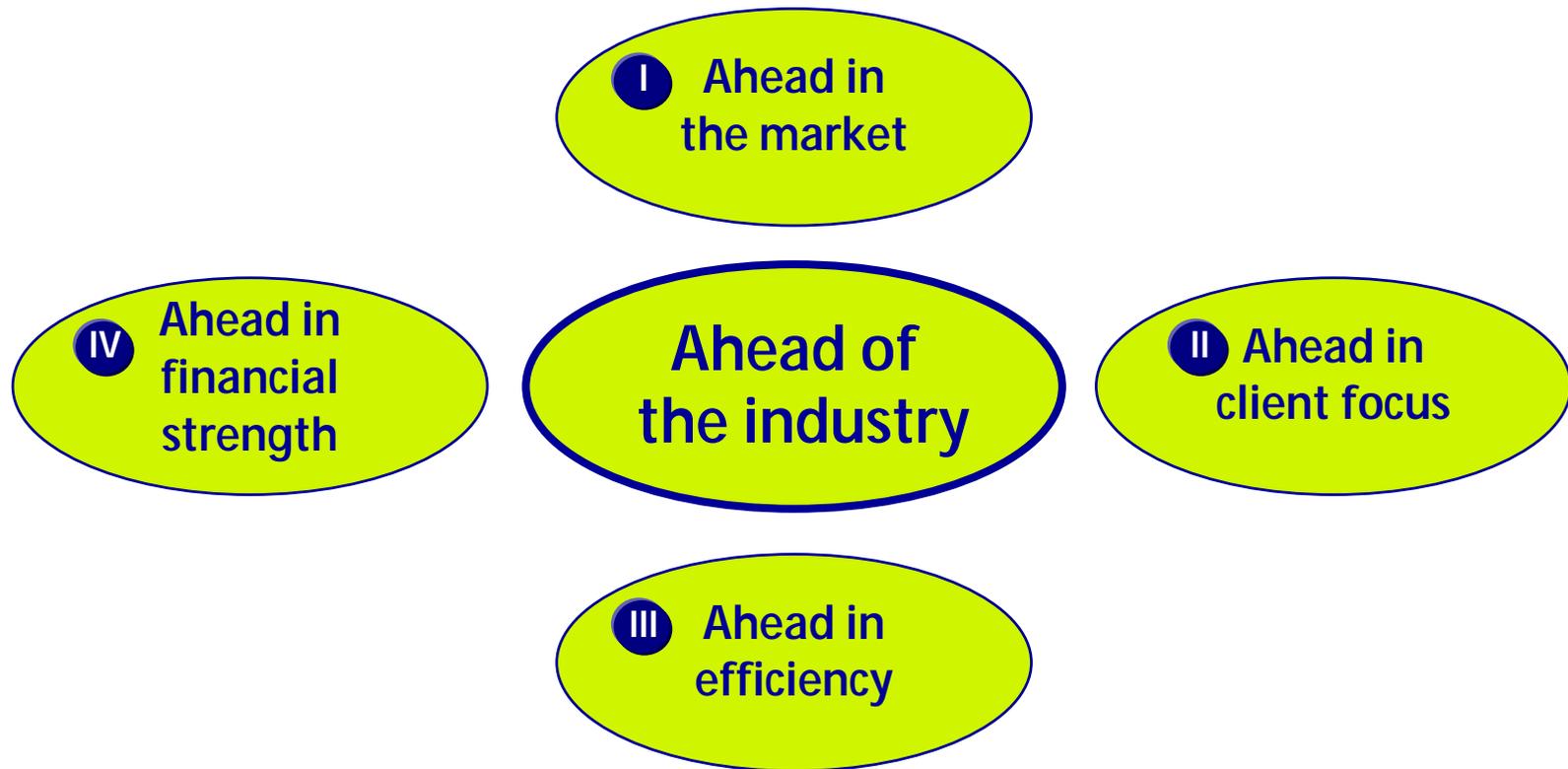
	<u>2000</u>		<u>Today</u>
 <b>Our customer base*</b>	68 m	<b>x 2</b>	140 m
 <b>Our operational efficiency**</b>	6% EBIT / assets	<b>x 2</b>	12%
 <b>Our cash flow generation capacity**</b>	€ 2.8 bn OpCF***	<b>x 3</b>	€ 9.4 bn
 <b>Our position in the global telco industry</b>	#11 by market cap	<b>+8</b>	#3

\* Total accesses. Today's accesses including Český Telecom's EOY 04 figures. Český Telecom will be consolidated from 2H05

\*\* Today's data for 2004 (end of year)

\*\*\*Operating cash flow = EBITDA – CapEx

# 01 The company's transformation has placed us ahead of the industry



# 01 We already serve more than 140 million customers in 18 countries



Very broad customer base ...

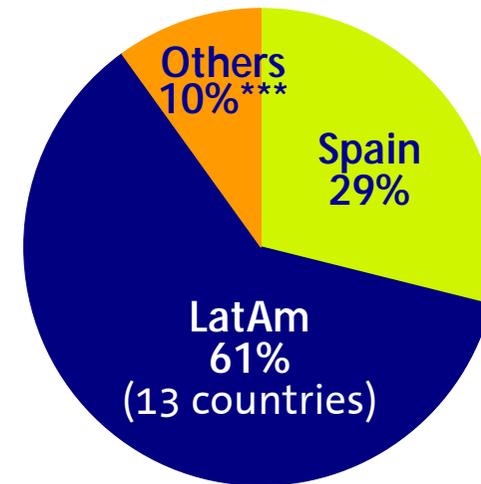
Accesses evolution  
Million



Source: Company data

... spanning healthily across geographies and businesses

Current breakdown of customer accesses  
After Český Telecom; March 2005



Today total accesses: 140 m\*\*

Source: Company data

\*Not including new customers from Bellsouth assets in Chile and Argentina (3.8 m)

\*\*Today's accesses including Český Telecom's EOY 04 figures. Český Telecom will be consolidated from 2H05

\*\*\* Includes Mediatecom and DSL operations in Germany and UK and Český Telecom

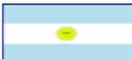
# 01 We lead most of the markets we're in, a critical factor to capture market growth opportunities



Consistent leadership in individual markets

Leadership on a multinational basis

Competitive position  
(Customer market share by geo, 2004)

	Wireless	Traditional wireline	Broadband
 Spain	#1	#1	#1
 Brazil	#1	#1*	#1
 Argentina	#1	#1	#1
 Chile	#1	#1	#1
 Peru	#1	#1	#1
 Mexico	#2	—	(Minor presence)
 Venezuela	#1	—	—
 Colombia	#2	—	—
 Czech Rep.	#1	#1	#1

- Telefónica Móviles is now the second largest multinational mobile operator by number of subscribers\*\*
- In the LatAm region, leaders in wireline (22.8m lines vs. Telmex's 17.8m)

\* Leader in São Paulo

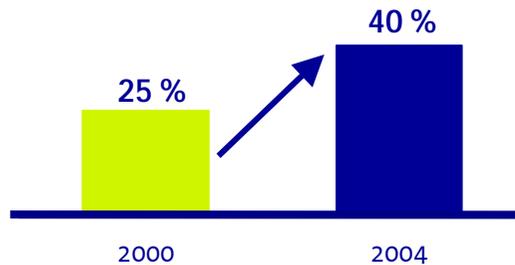
\*\* Does not include China Mobile and China Unicom as these operators are not multinational

# 01 The company has been mobilized around the customer



## Transitioning towards a customer-oriented company

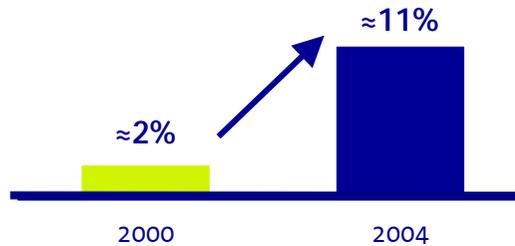
Commercial expenses as % of OpEx  
Telefónica de España + Telefónica Latinoamérica



Source: Company data

## Non traditional revenues as % of Total revenues\*

Telefónica de España + Telefónica Latinoamérica



Source: Company data

≈8 million daily customer contacts

## Continued portfolio extension through tariff and product innovation



- Tariff innovation and advanced solutions
- Financing solutions
- TVoDSL (Imagenio)



- Offers targeted to specific segments
- New content and applications
- UMTS



- New price schemes
- New handsets
- Information and value-added services

\* Non traditional revenues = Broadband revenues + Narrow revenues + VAS



# 01 Telefónica is now best in class in operational efficiency...

4  
Investor  
Conference

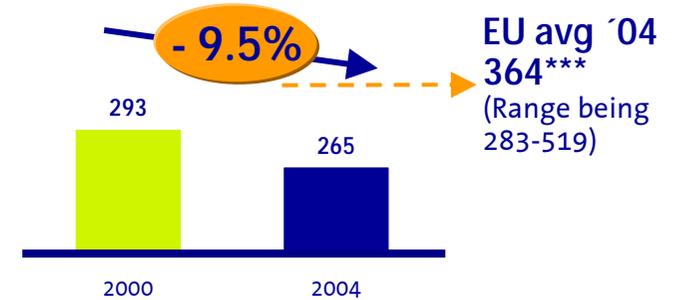
Workforce rationalization for improved productivity

- Spanish wireline\*: 36% of total workforce to be cut in 2003-2007, 52% already completed (7,717 employees)

Decisive cost efficiency measures in all business lines

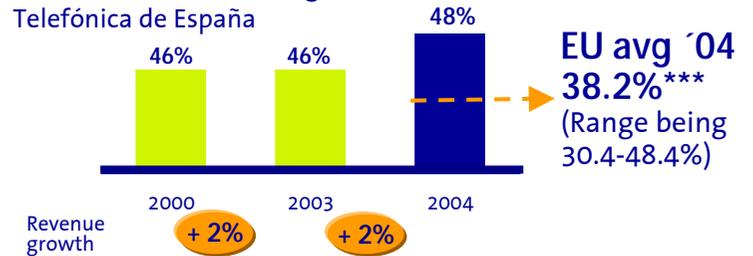
- Spanish wireline: steadily improving profitability
- LatAm wireline: steadily decreasing operating costs
- Spanish wireless: best EBITDA margin among major EU operators (51.3% in 2004)

Operating costs per access\*\*  
Telefónica de España; Euros



Source: Infocom report (March 2005) and company data for TEF

Wireline EBITDA margin  
Telefónica de España



Source: Citigroup for EU average (Feb. 2005) and company data for TEF

LatAm wireline unitary network direct costs  
Telefónica Latinoamérica; Constant Euros/LIS 2001



Source: Company data

\*Not included Telefónica Empresas and Telefónica Soluciones

\*\* Includes PSTN + ISDN B.A. + ADSL

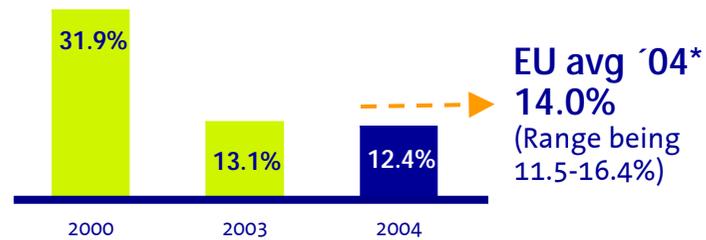
\*\*\* Includes DT, BT, FT and TI

# 01 ...and also leads the sector in CapEx efficiency



## Sustained rationalisation of CapEx

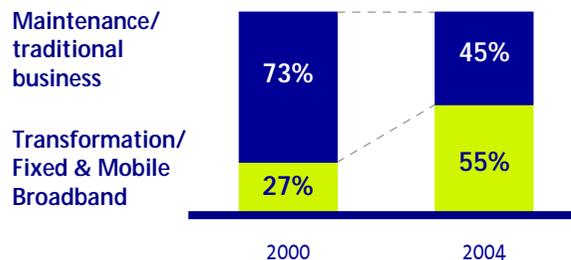
CapEx as % of Revenues



Source: Citigroup for EU average (January 2005) and company data for TEF

## Focus on growth investments

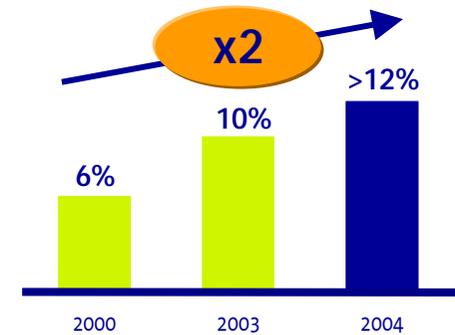
CapEx mix



Source: Company data

## Boost to ROCE

ROCE\*\* (%)



Source: Company data

## Highest ROCE among large EU integrated operators

\* Includes DT, BT, FT and TI

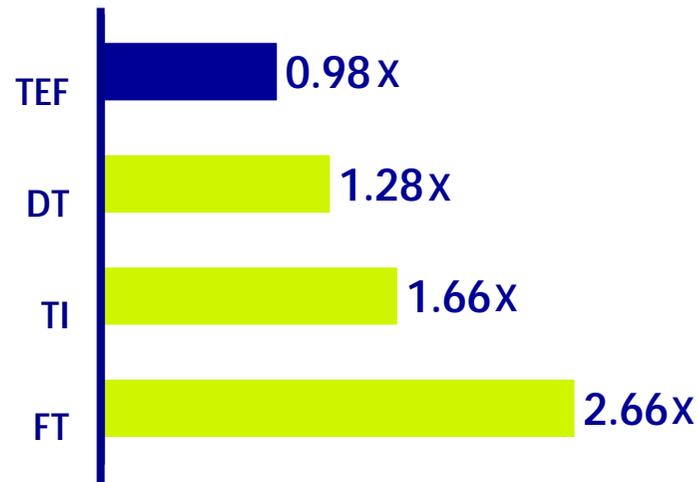
\*\* ROCE= EBIT x (1-Effective Tax Rate)/Average capital employed

# 01 Last, the company's financial strength is ahead of our peers



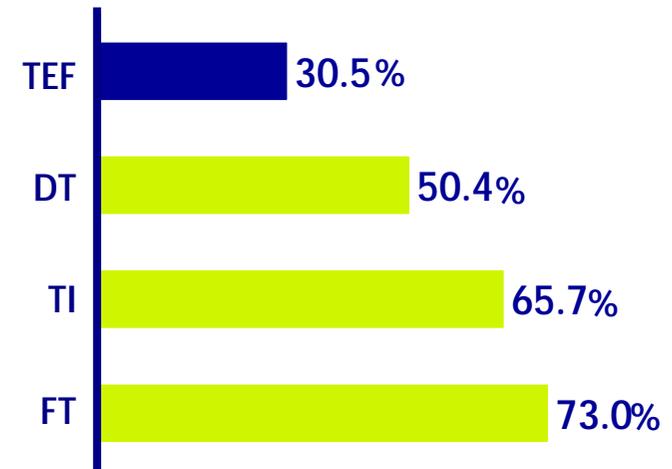
One of the strongest balance sheets in the industry ...

Intangible assets/Equity  
2004



Source: Morgan Stanley report (March 2005)

Net debt/Market Cap  
2004 (%)



Source: Company press releases, Bloomberg

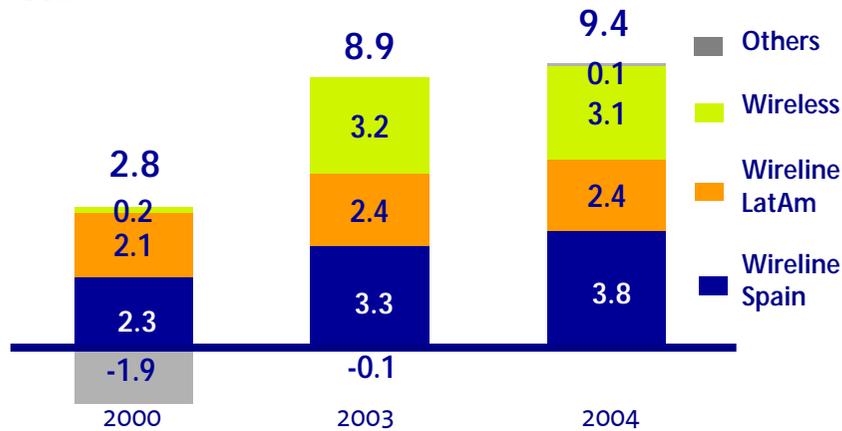
... providing for higher flexibility to fuel growth

# 01 As a result, the company has built a superior ability to generate FCF...

A simple portfolio of cash-generating units with no loss making businesses...

...leading to a superior ability to transform revenues into free cash flow

Operating cash flow by business line\*  
€ bn



10% → 31% → 31%

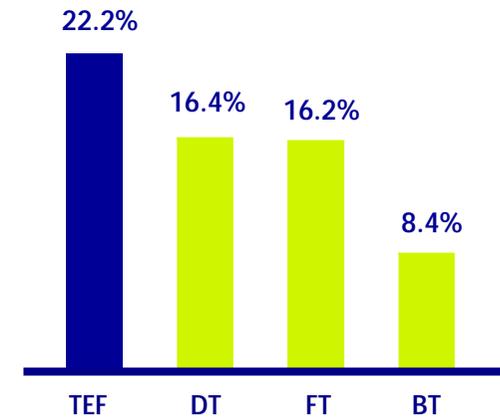
As % of revenues

Driven by efficiency gains

Driven by top line growth

Source: Company data

Free cash flow\*\* as % of revenues  
2004

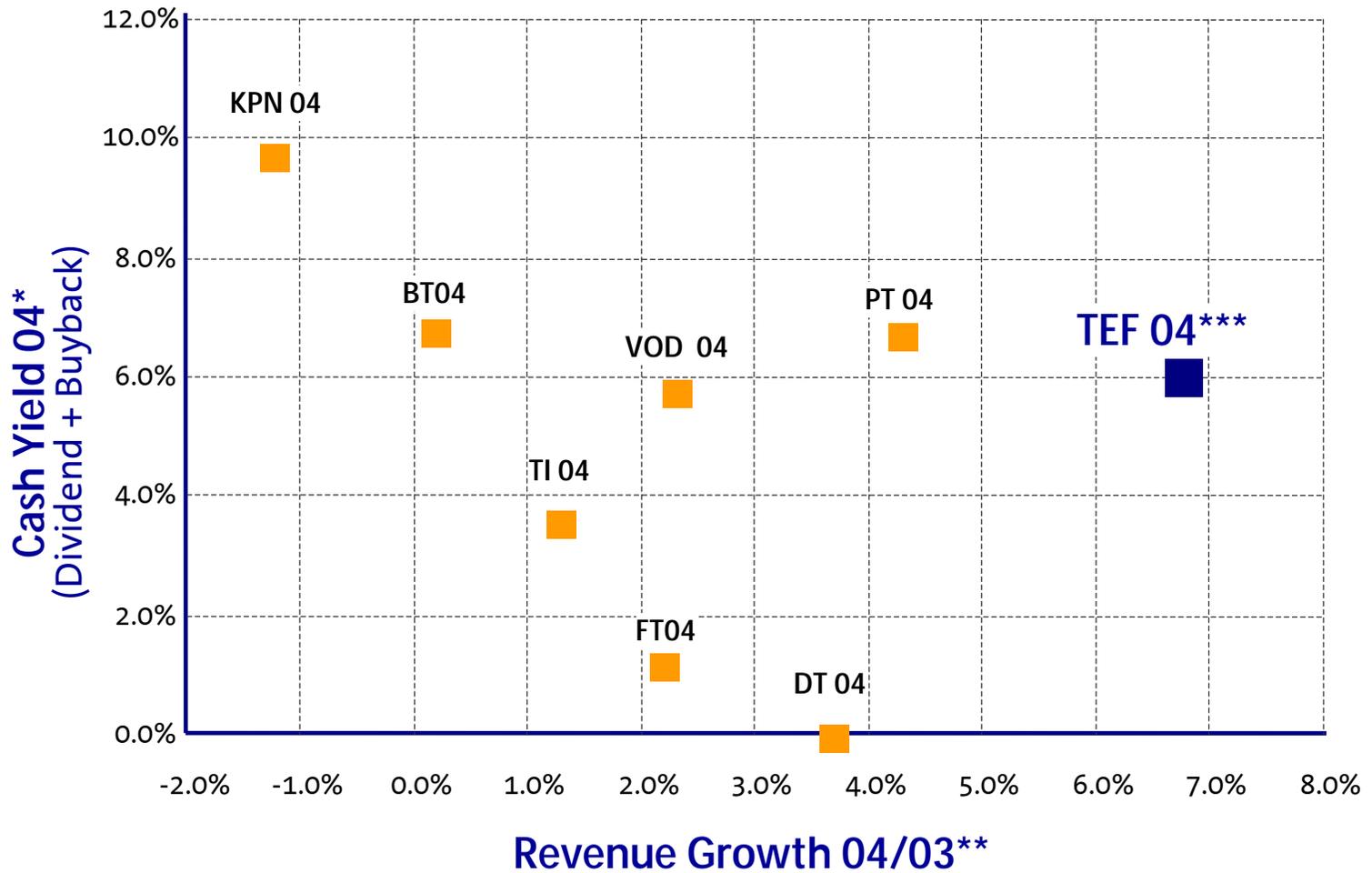


Source: Merrill Lynch (April 2005)

\*Operating cash flow = EBITDA – CapEx

\*\*FCF= EBITDA – CapEx – Interest expense – Taxes – Working Capital – Dividend leakage - Others

# 01 ... and is already offering a superior combination of growth and shareholder returns



\*Source: Merrill Lynch (April 2005), Goldman Sachs for TI (April 2005).

\*\* Source: Press releases

\*\*\* Revenue growth is up to 5.3%, excluding LatAm BellSouth assets acquisition

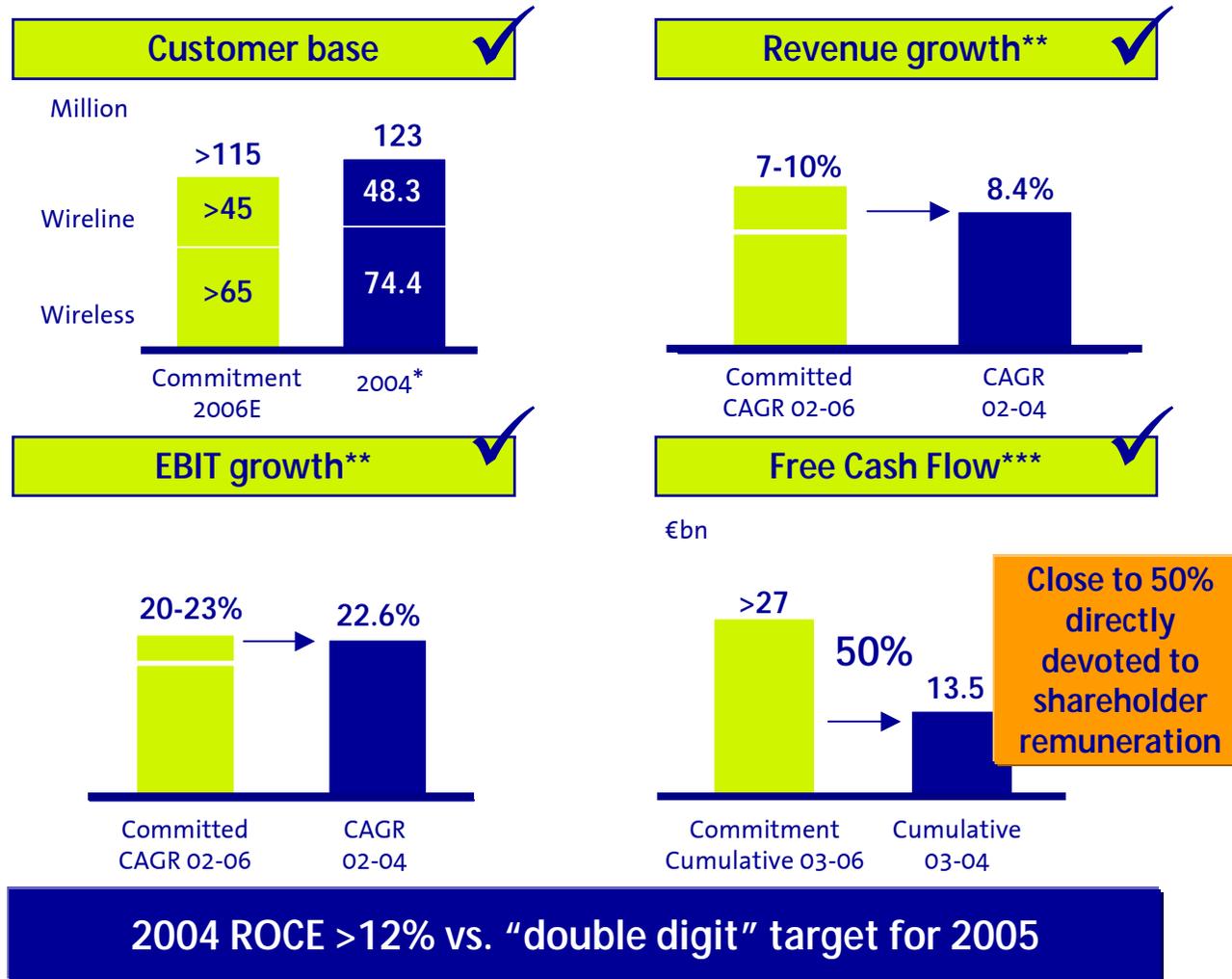
# Contents

01 Telefónica, ahead of the industry

**02 Delivering on our commitments**

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## 02 Since we last met in October 2003, we are well on track to deliver on all of our commitments



\*Accesses figures. Not including new customers from Bellsouth assets in Chile and Argentina (3.8 m)

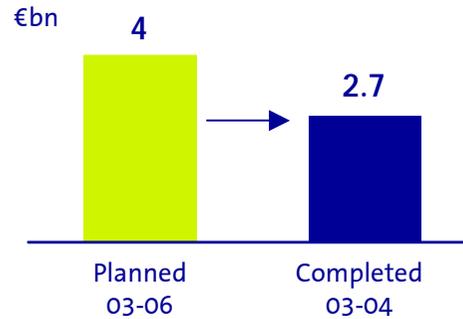
\*\*Constant exchange rates as of 2002

\*\*\*FCF= EBITDA – CapEx – Net financial expenses – Calls on Cash – Cash taxes – Minorities – Working capital

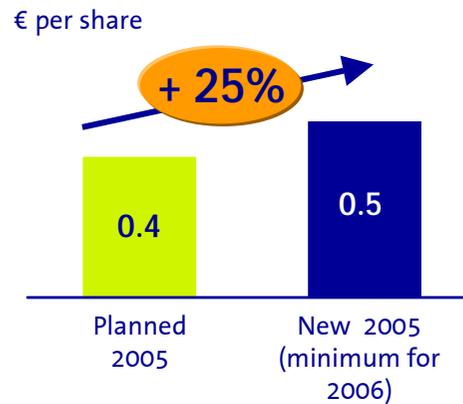
## 02 We have also surpassed our shareholder remuneration commitments

Buyback  
commitment  
progressing  
ahead of time

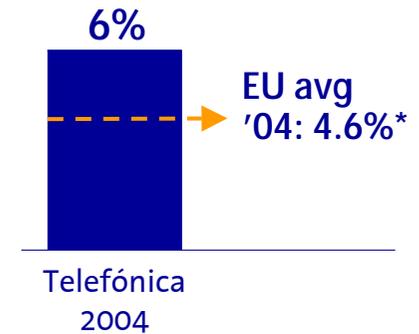
Increasing  
2005 dividend  
payment



- 67% completed in 42% of the time
- Distributing treasury stock (1x25) to execute buyback



Cash yield clearly  
above EU average



Source: Merrill Lynch (April 2005)

## 02 Besides financial performance, we have been consistent in following our management priorities ...

Priorities established in 2001 to 2003 ...	... and observed since
Extending growth in wireless	✓
Accelerating towards mass-market DSL	✓
Keep developing our LatAm businesses	✓
Transforming wireline	✓
No loss making businesses	✓
Focusing on FCF delivery	✓
Optimising capital structure	✓

## 02 ... and we have maintained this consistency as we pursued deals to expand the business

We defined a clear set of principles ...	... and observed them when acquiring Bellsouth's LatAm assets ...	... and 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	✓	✓

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# 03 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

+

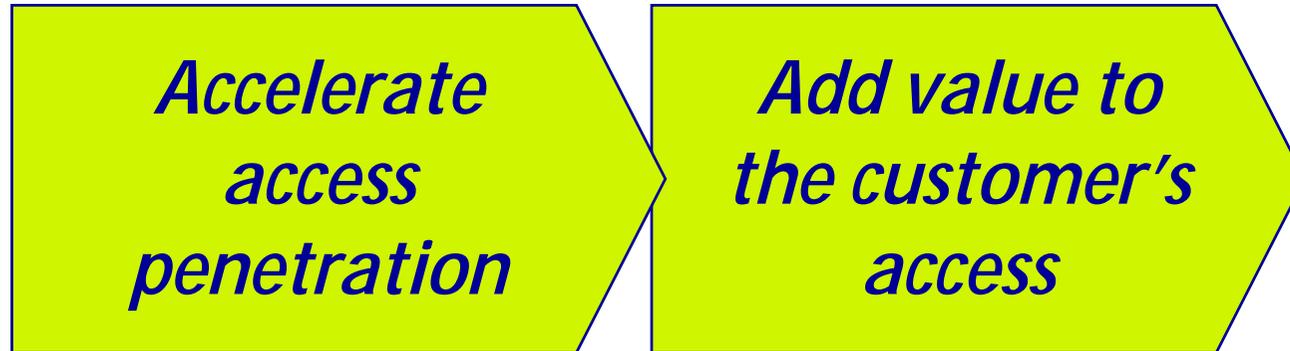
Clear cash flow allocation

Top – notch shareholder returns

Strong balance sheet

Selective expansion

### 03 Growth is the key to our strategy, and we will actively pursue it on two fronts



Reach more customers –  
mainly in broadband and  
wireless

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

## 03 Broadband and wireless are Telefónica's two key growth opportunities in the access



- Wireline broadband: a basic need for households and businesses as the information society develops



**Broadband's penetration ceiling is very high, and future uses are beyond our imagination**

- 
- Wireless: high penetration upside in LatAm
  - Continuing growth in wireless usage



**Ample room for growth in wireless, in all of our markets**

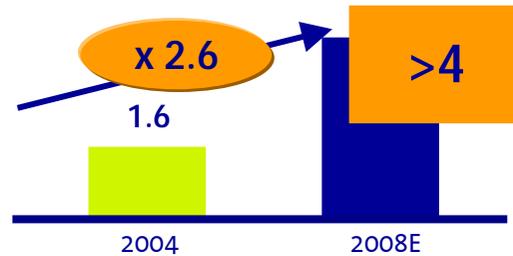
# 03 We will leverage on our wireline access position to grow DSL aggressively...



**Making broadband a truly mass-market service ....**

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

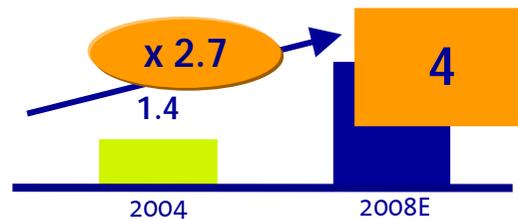
**DSL lines in Spain**  
Million; Retail market



**Spain**

- Intensive advertising and promotional campaigns
- Massive use of retail channels
- Improved quality and performance of service

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



**LatAm**

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

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

\*Includes São Paulo, South region of Argentina, Chile and Peru

# 03 ...and will aggressively develop the wireless business, specially in LatAm

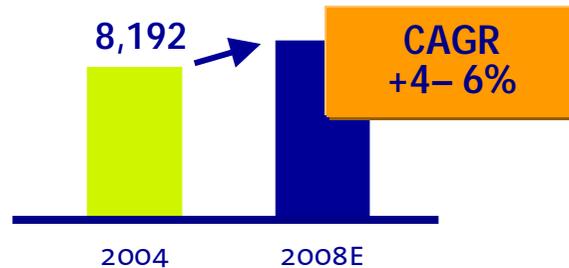


**Spain: continuing growth on top of a solid revenue base**

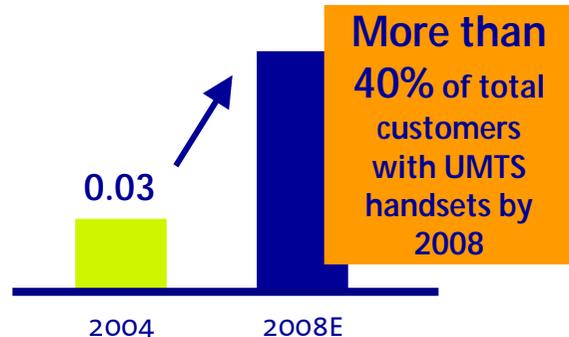
+

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

Telefónica's Spanish wireless revenues  
€ million



Telefónica's 3G wireless customers in Spain  
Million



**Strong penetration growth...**

**...which we are in the best position to reap**

	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 operational synergies (US\$ 100m 2005E up to US\$ 250m 2008E)



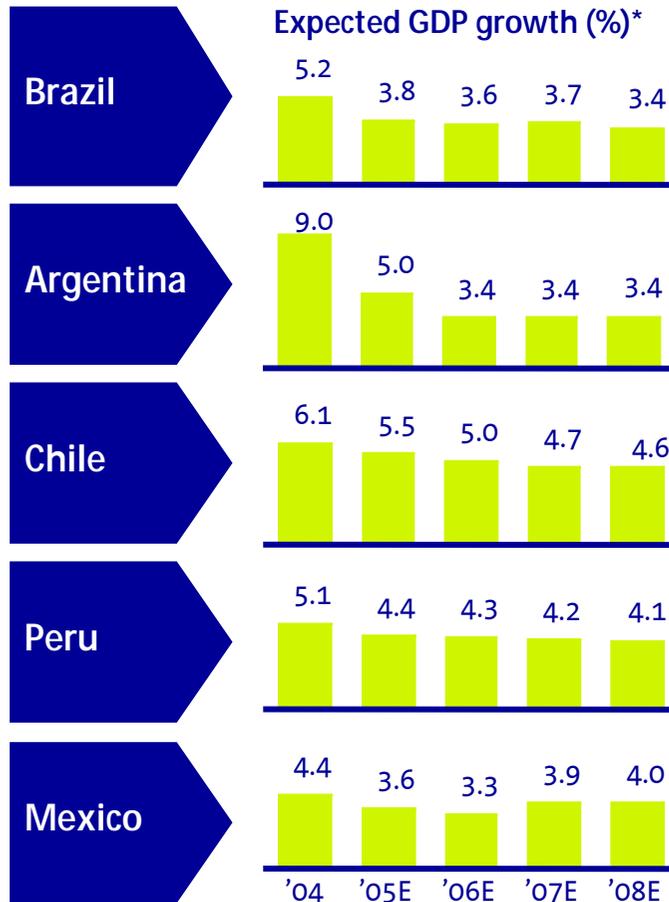
\*In areas of operation

# 03 Regarding LatAm, the macro outlook supports our growth expectations in the region



## Good economic prospects

## Attractive framework for foreign investment



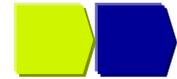
- Contained inflation rates, well below 7%
- Improving country ratings
- Currency stability expected



A € 10.5 billion\*\* business with OpCF worth € 2.2 bn\*\* ...  
... which stands to benefit in a fast growing region with penetration and usage upside

\* Source: Euromonitor, Feri and Global Insight  
\*\* Aggregated figures, including total LatAm businesses

## 03 On top of the access, we will drive growth by adding value to customer connections



- As broadband takes up, clients' consumption in items beyond pure connectivity becomes accessible



**We can increase our share of wallet beyond access revenues**

- 
- Customers demand simple solutions catering for their specific needs



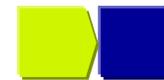
**Opportunity in evolving from a pure access provider to a broadband solutions provider**

- 
- Wireless users are going to do more things with their mobile handsets



**Room for growing value added services and content revenues in wireless**

# 03 We will manage broadband ARPU through innovative, targeted value-added offers



**Households**

Communications  
+ Information  
+ Entertainment

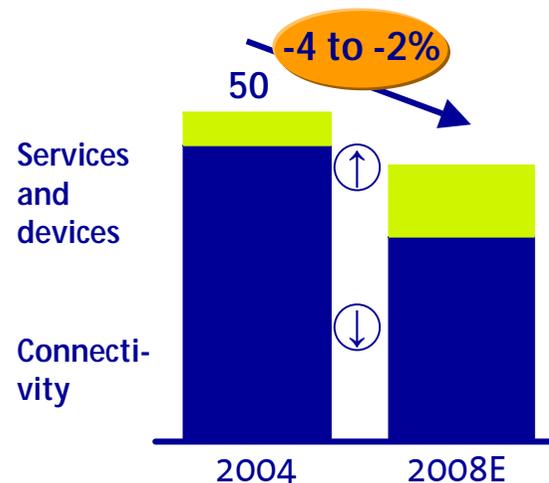
**SMEs**

Advise, sell, install,  
maintain and manage  
communications & IT  
solutions for a fee

**Corp & Govt**

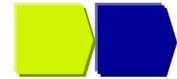
Customized, outsourced,  
end to end solutions for  
communications and IT

**Broadband ARPU**  
Telefónica de España; Euros/month



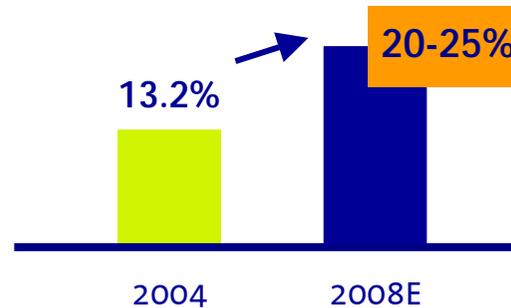
More than  
1m  
**imagenio** »  
clients by  
2008

# 03 In wireless, we will also drive ARPU on top of the traditional access

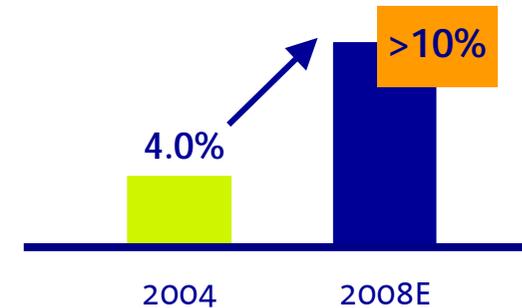


Developing the value-added services market...

Data ARPU / Total ARPU  
TEM Spain



TEM LatAm



...and driving revenue growth from wireless accesses

- Innovative handsets and service / content offers
- 3G a key factor in developing value-added revenues from wireless customers

# 03 All growth initiatives will be supported by a tight focus on CapEx and sustained operational excellence

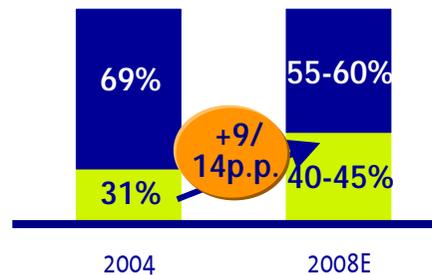
## Redirecting investments towards organic growth projects ...

CapEx mix ■ Growth ■ Recurring

Telefónica de España



Telefónica Latinoamérica

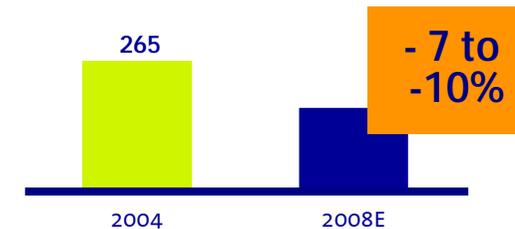


\* Includes PSTN + ISDN B.A. + ADSL

## ... and improving our operational excellence

Operating costs per access\*

Telefónica de España; Euros



Regionalization efforts

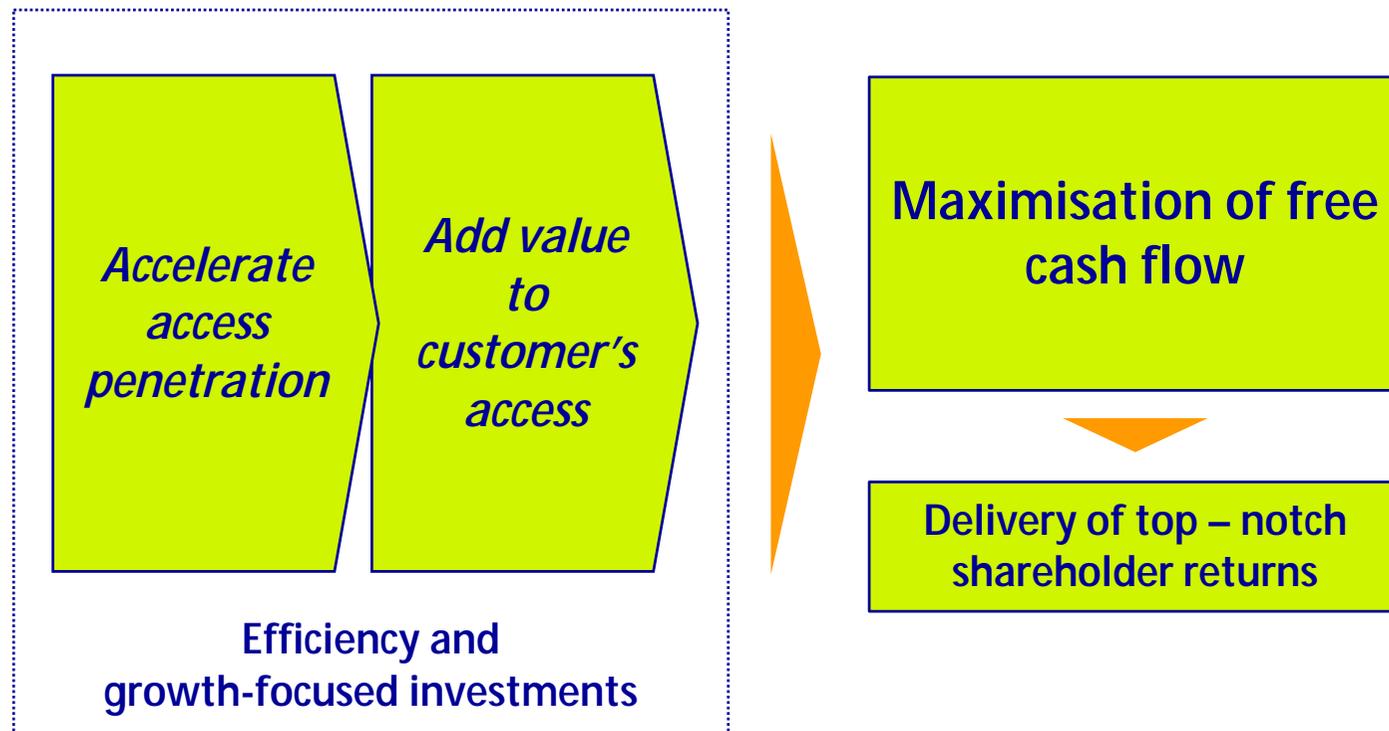
LatAm wireless and wireline

5% - 10%  
cumulative CapEx  
savings 2005-08  
in wireless

≈ €100m OpEx  
plus CapEx  
annual savings by  
2008 in wireline

- Network & IT infrastructure
- Billing and customer care
- Commercial operations
- Structure/ shared services

### 03 Together, growth and efficiency will allow Telefónica to maximize cash flow growth and shareholder returns



Lead the industry  
in customer focus  
and operational  
performance



Grow faster and  
more profitably  
than other  
integrated  
operators

*Telefonica*

*The best combination of growth  
and shareholder returns, now and  
in the long run*

## 03 Taking the company forward: initiatives by LoB

April 25th

### Spanish wireline

Robust performance, broadband, and commercial & operational transformation

12:00 Mr. Julio Linares  
Executive Chairman  
Telefónica de España

### LatAm wireline

Customer focus and pan-regional integration in an improving business context

15:15 Mr. José María Álvarez-Pallete  
Executive Chairman  
Telefónica Latinoamérica

April 26th

### Wireless

Expanded reach, consolidation of competitive position and operational excellence

9:00 Mr. Antonio Viana-Baptista  
Executive Chairman  
Telefónica Móviles Group

### Financial management

Cash flow allocation, debt management and financial prospects

11:00 Mr. Santiago Fernández Valbuena  
CFO  
Telefónica Group

### Strategy wrap-up and guidance

Providing the best combination of growth and returns: 2005-08 outlook

12:00 Mr. César Alierta  
Chairman & CEO  
Telefónica Group



Telefonica

Investor  
Conference