

Let the cash flow and get the cash-flow

*Santiago Fernández Valbuena, CFO
Telefónica Group*



ACCELERATE TO INCREASE
OUR LEADERSHIP

Telefónica

Barcelona, April 26th, 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.

Index

01 C-F Generation: TEF delivers

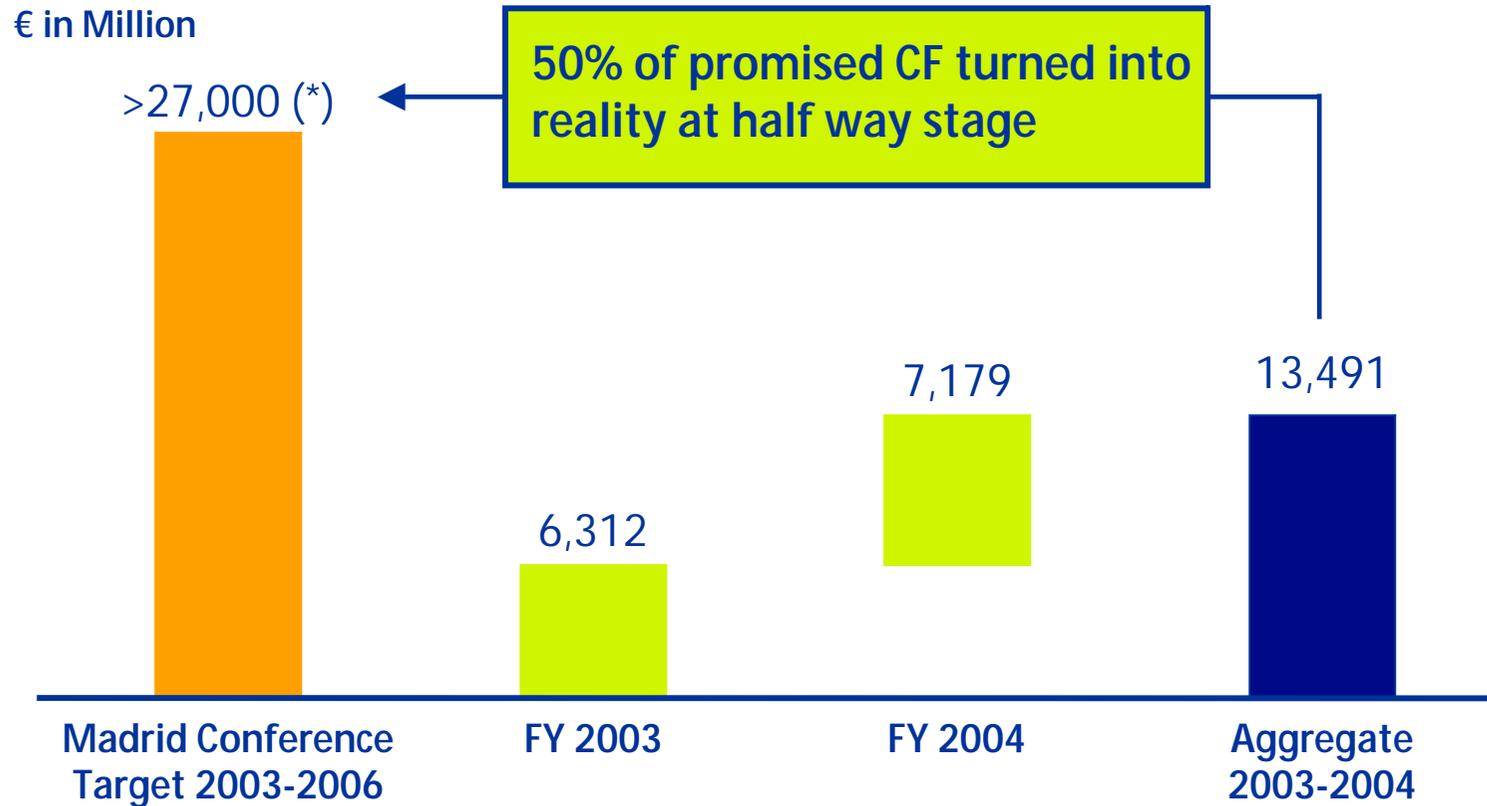
02 TEF targets a superior combination of growth and returns

03 C-F Projections 2004-2008

04 Český Telecom: What it will do for us, what it will do for you

05 Conclusions

01 We have delivered on our commitments of cash generation and returns presented in Madrid



5,635 MM € devoted to shareholder remuneration in 03-06, close to 50% of the amount committed in Madrid

Index

01 C-F Generation: TEF delivers

02 TEF targets a superior combination of growth and returns

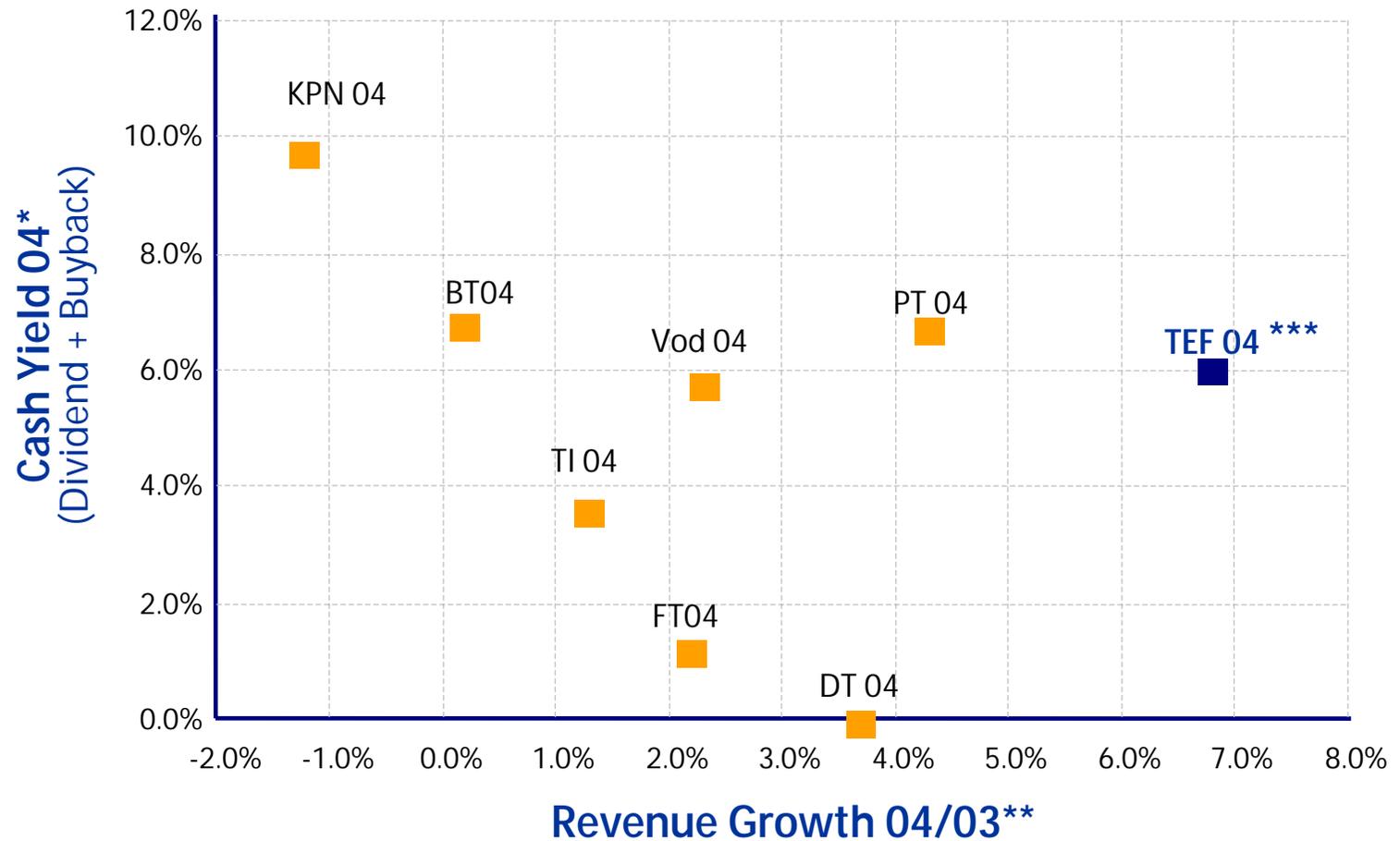
03 C-F Projections 2004-2008

04 Český Telecom: What it will do for us, what it will do for you

05 Conclusions

02 TEF targets a superior combination of growth and returns

DELIVERING THE BEST COMBINATION OF GROWTH AND CASH RETURNS: 2004



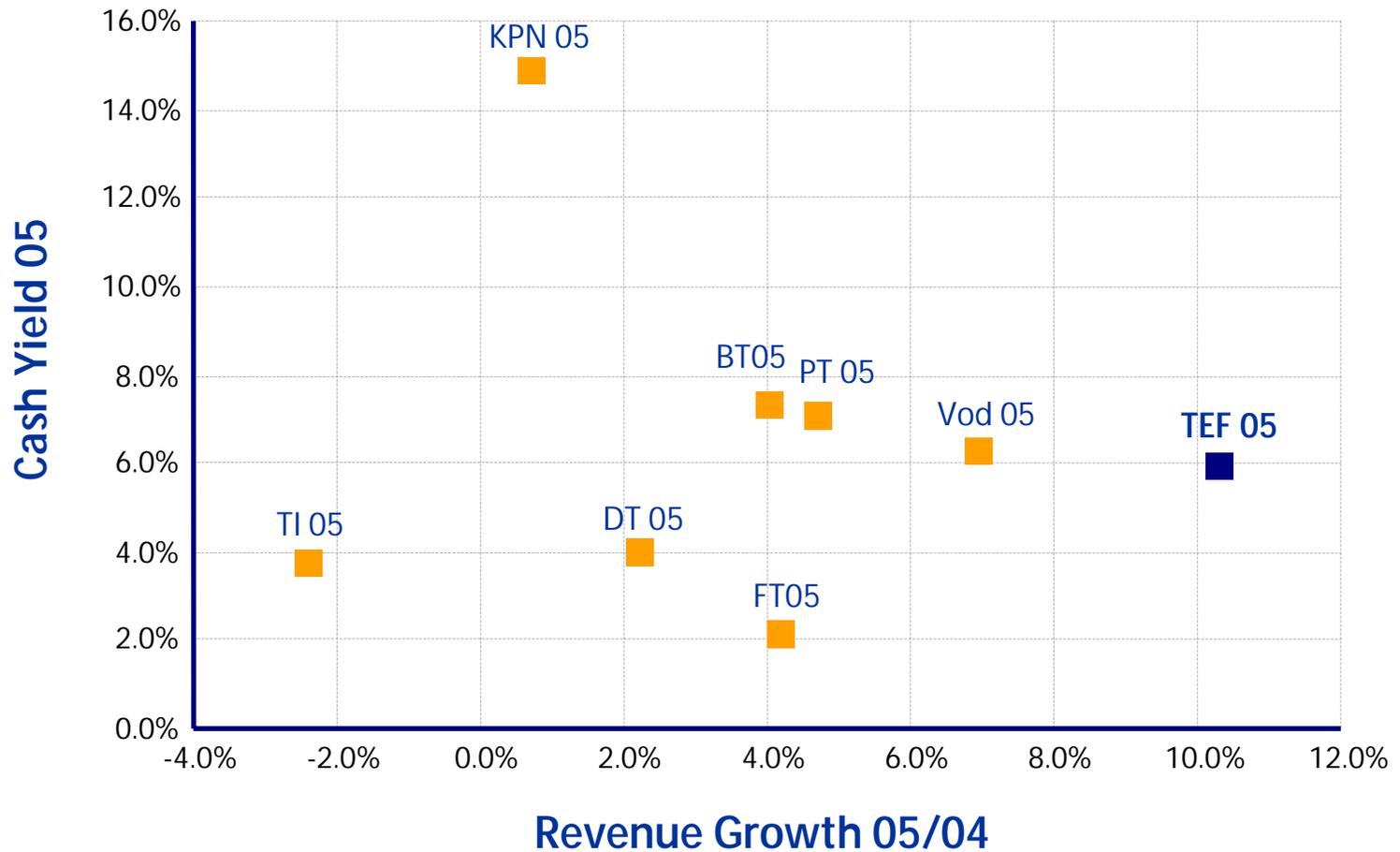
*Source: Merrill Lynch (April 2005), Goldman Sachs for TI (April 2005).

** Source: Press releases

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

02 ... that we have delivered in 2004 and expect to honour again in 2005

DELIVERING THE BEST COMBINATION OF GROWTH AND CASH RETURNS: 2005



Source: Merrill Lynch, April 05. Goldman Sachs (13/04/05) for Revenue Growth at Telecom Italia

02 We continue to serve this goal (growth + return) by building financial flexibility

Diversifying across markets

- Low volatility operating metrics
- Declining volatility stock

Targeting Single A over the medium term

- To ensure smooth access to markets

Applying demanding criteria for expansion

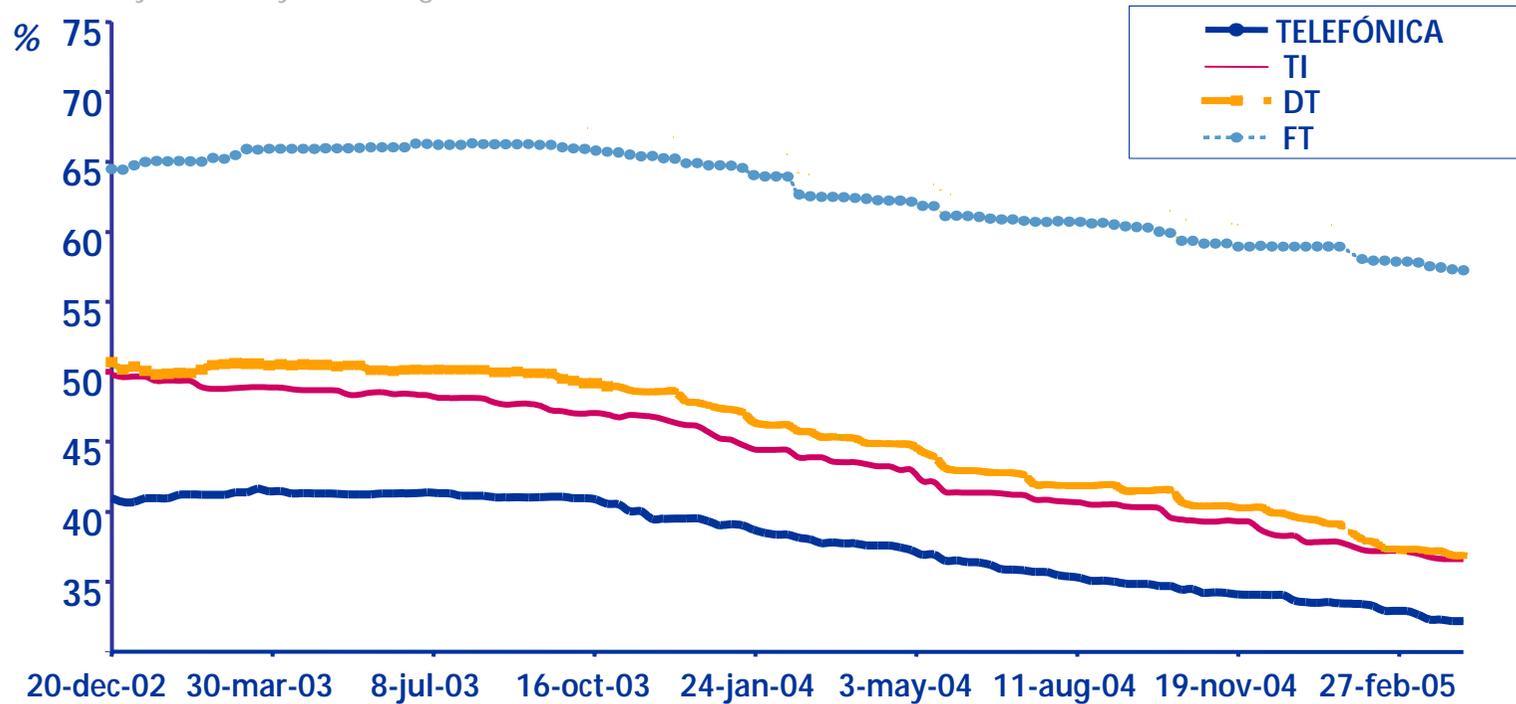
- Value creation through high quality asset returns, not liability engineering
- Leverage is not a target, but a consequence

02 TEF displays the lowest stock volatility



HISTORICAL ANNUAL VOLATILITY

weekly data & 4year rolling window



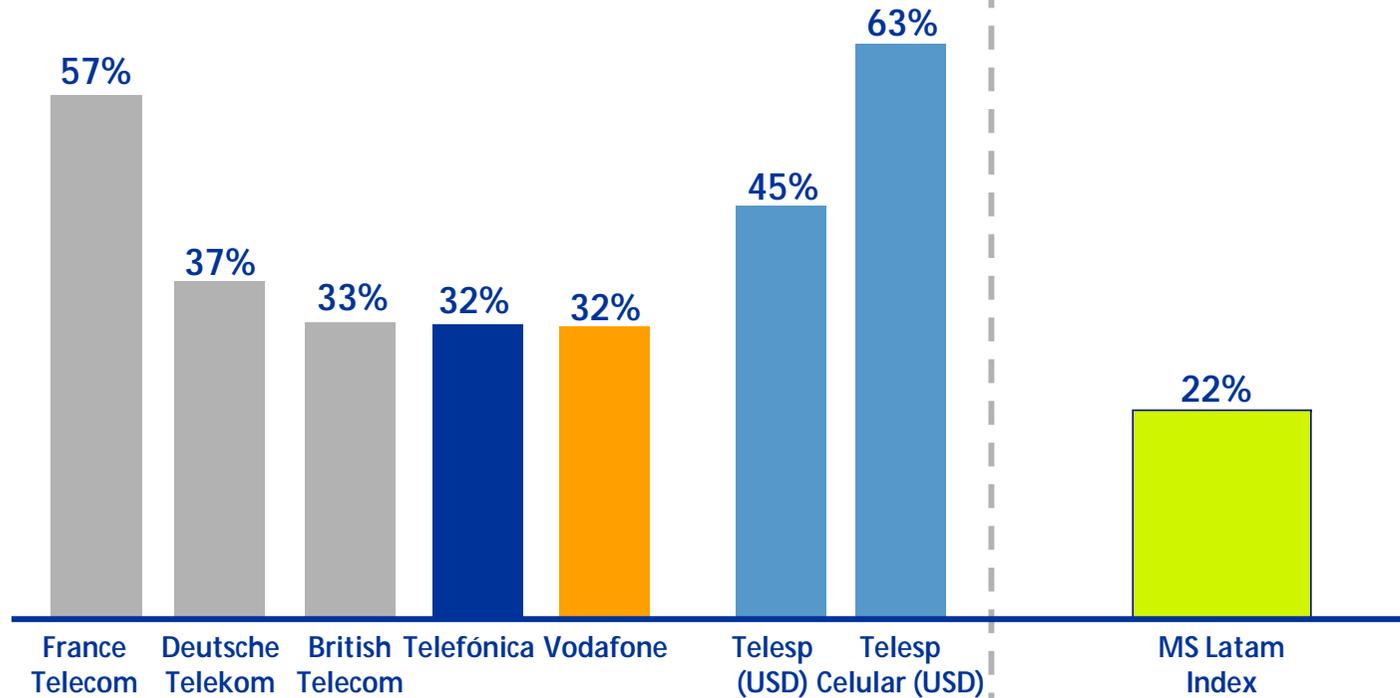
Source: Bloomberg

02 TEF displays the lowest stock volatility

4-YEAR STOCK VOLATILITY

...despite high volatility of individual Latam stocks ...

... although our diversified Latam portfolio provides additional volatility protection

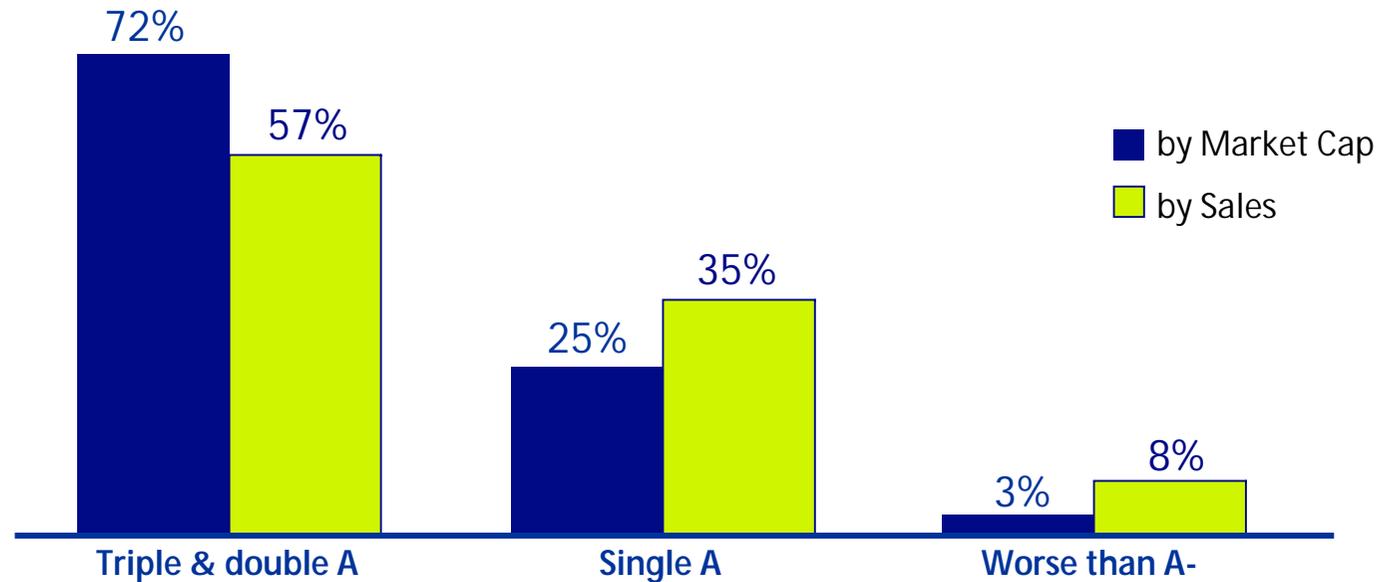


Source: Bloomberg

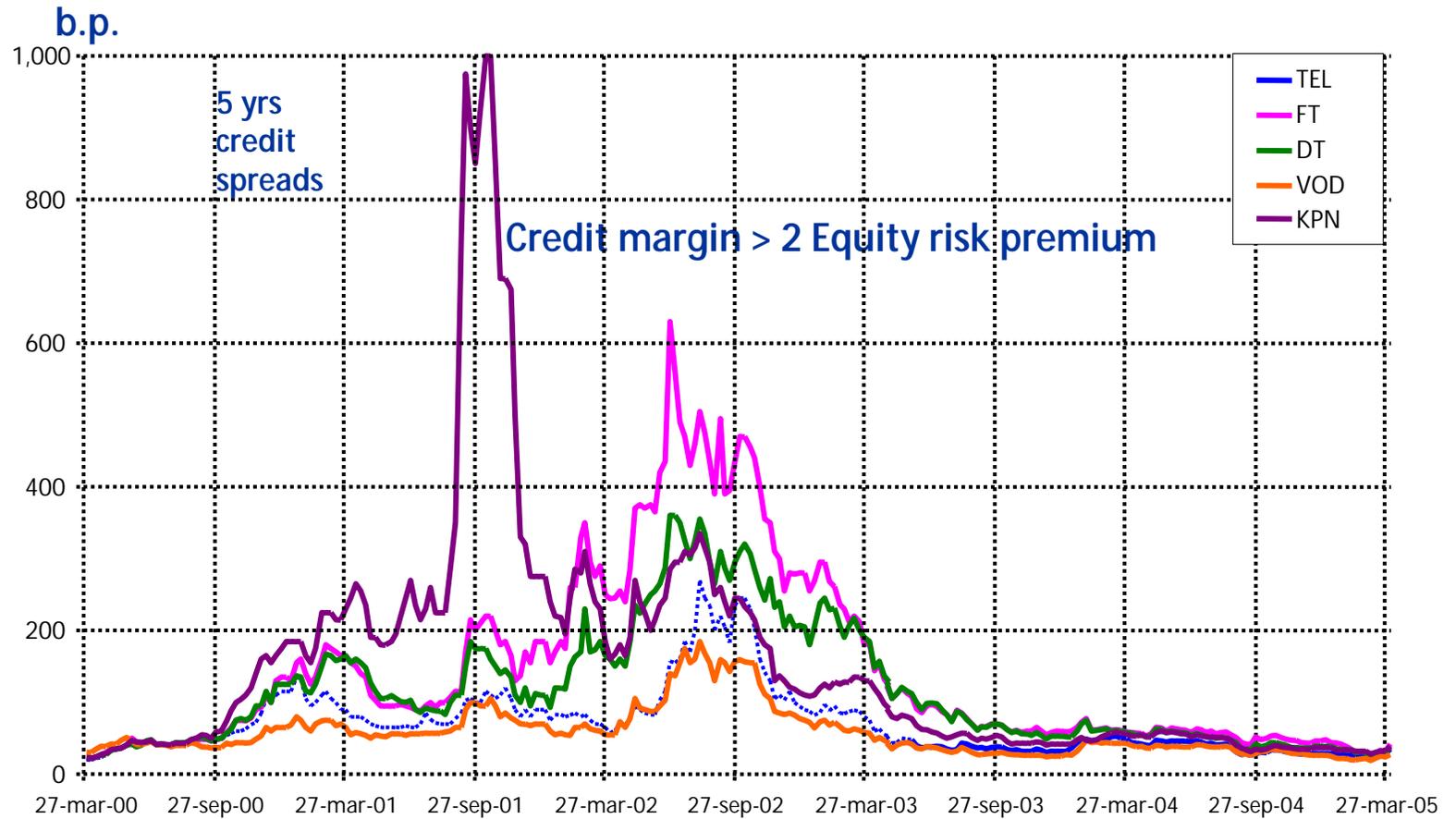
02 Top companies have top credit ratings

RATING OF TOP 50 COMPANIES	NUMBER OF COMPANIES
NOT RATED	7
AAA	9
AA	16
A	16
BBB	2

RATING OF THE WORLD'S TOP 40 COMPANIES

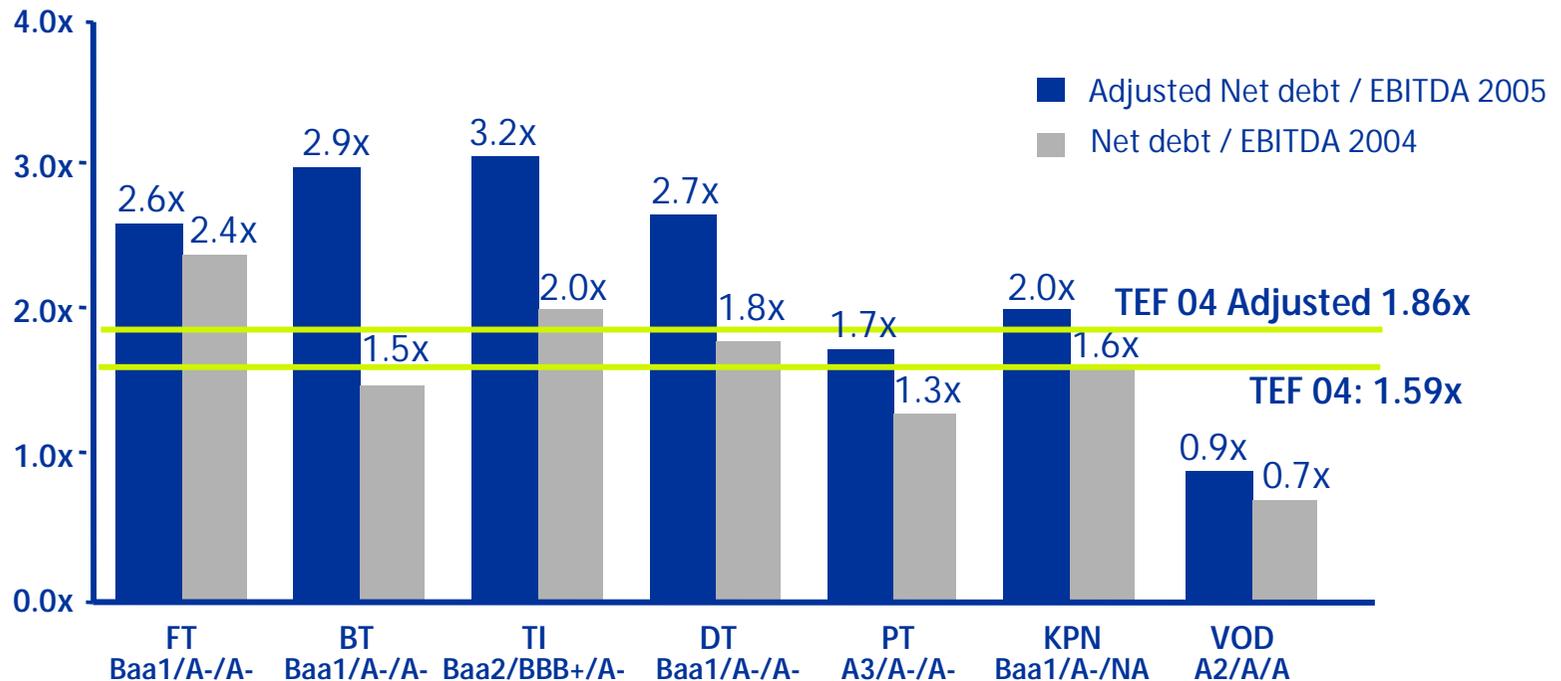


02 The true cost of credit



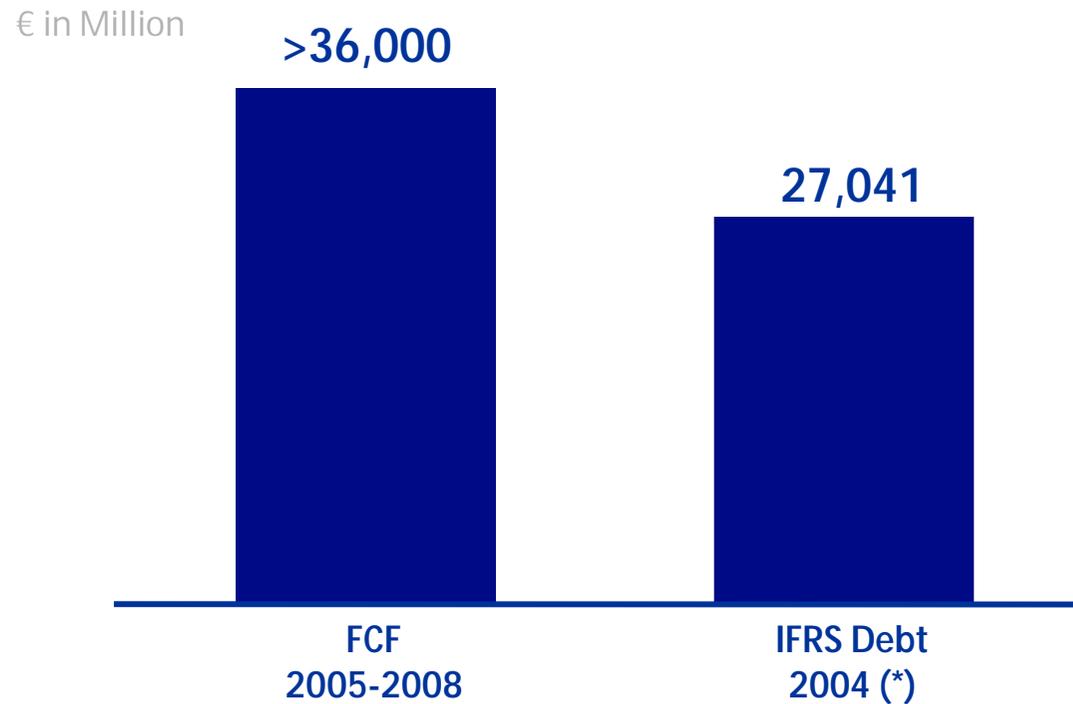
02 Strong credit ratios despite acquisitions

- We keep credit ratios significantly better than major European incumbents, despite their recent de-leveraging efforts.
- The value of the solvency/rating: our solid starting point has allowed us to pursue our strategic guidelines without constraints, and keep flexibility.



Source: EBITDA / Net Debt 2004 - company data, except BT and Vodafone - UBS Telemedia Year Ahead Outlook 2005 (8/12/04); Adjusted Net Debt/EBITDA - UBS Telemedia Year Ahead Outlook 2005- except Telefónica - company data.

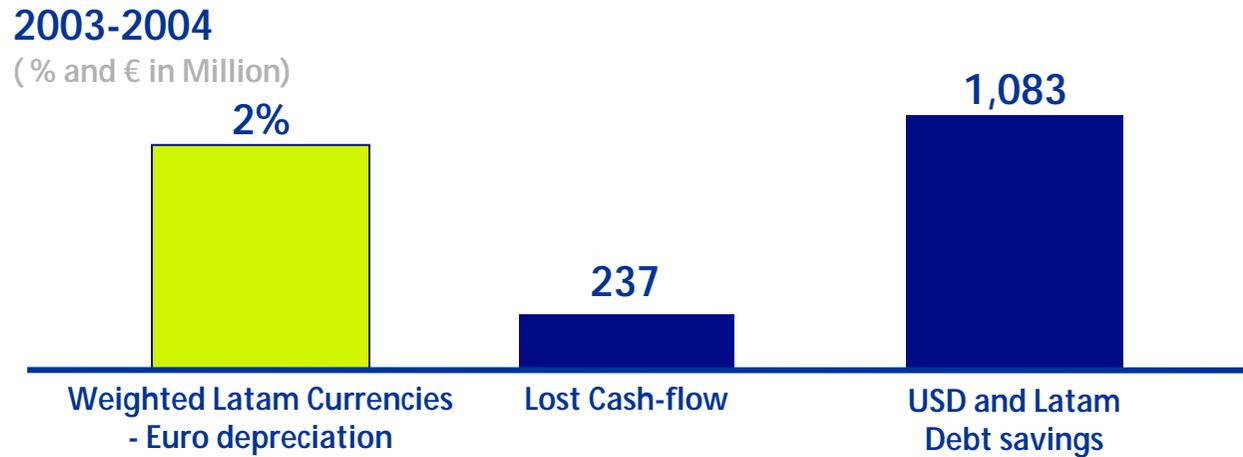
02 Telefónica could fully pay its debt in less than 4 years



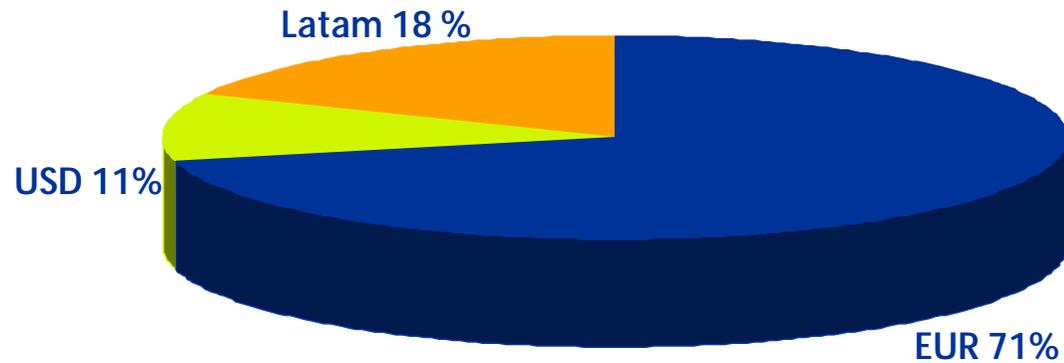
Average debt maturity is 1 year longer

*Net Debt + Commitments

02 Proactive Liability Management



2004 DEBT BREAKDOWN BY CURRENCIES

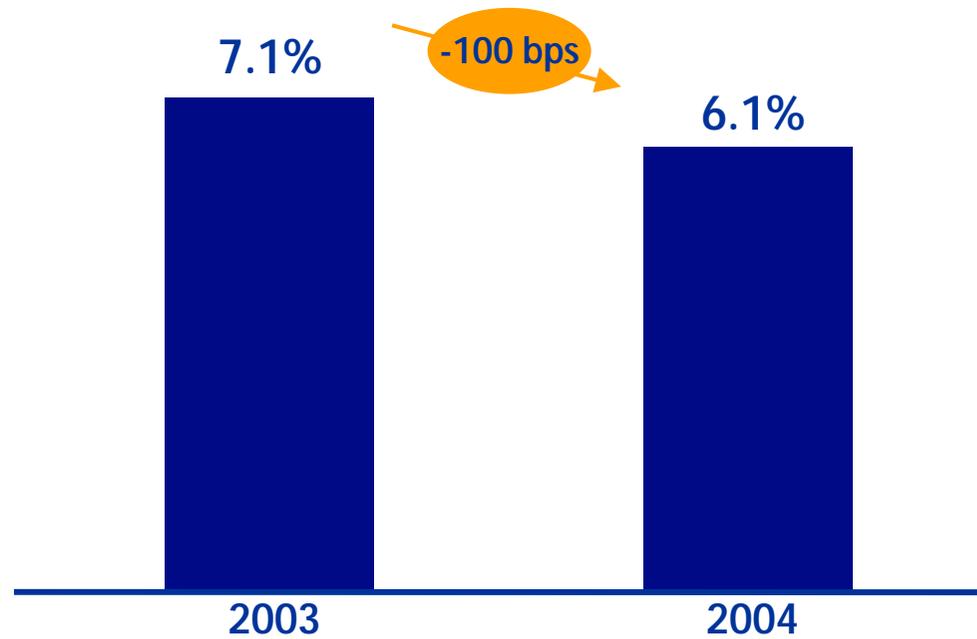


Debt savings more than offset cash-flow shortfall
2003-2004 due to FX depreciation

02 Proactive Liability Management

4
Investor
Conference

AVERAGE EFFECTIVE DEBT SERVICE RATE*



* Before extraordinary results

Telefonica

Index

01 C-F Generation: TEF delivers

02 TEF targets a superior combination of growth and returns

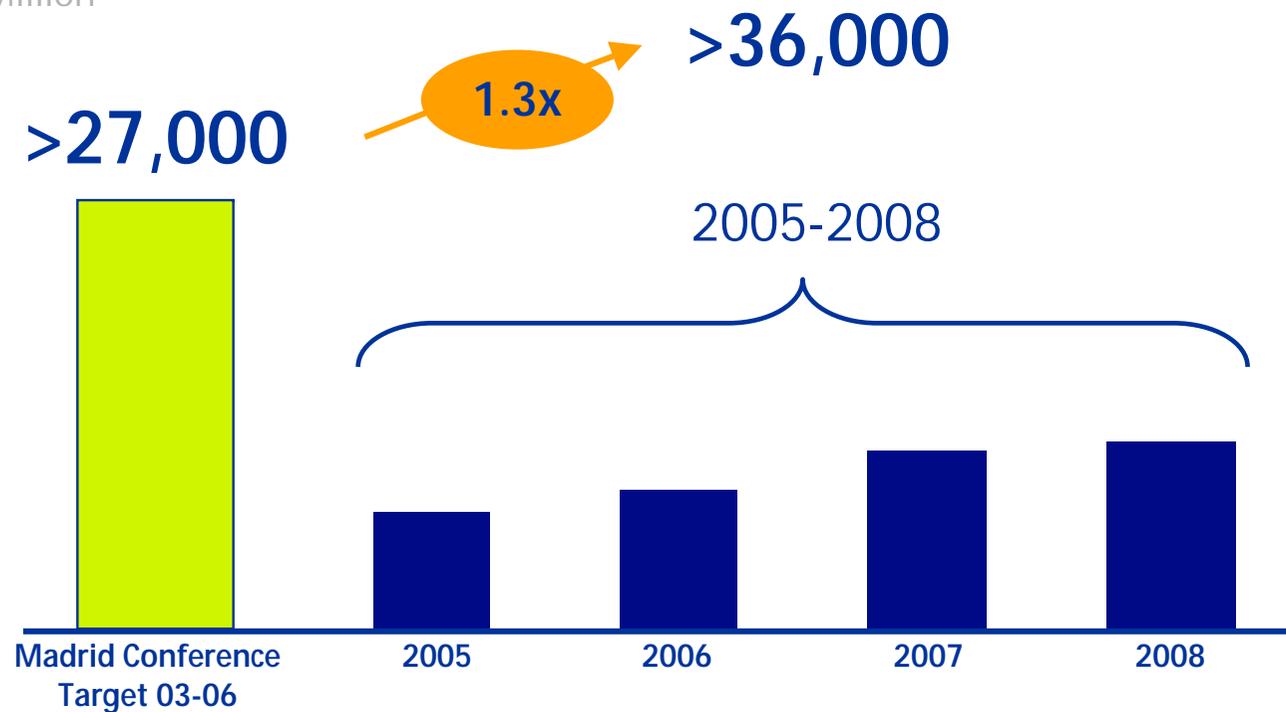
03 C-F Projections 2004-2008

04 Český Telecom: What it will do for us, what it will do for you

05 Conclusions

03 Our Free Cash Flow generation will accelerate in the coming years

Free Cash Flow
€ in Million



03 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.

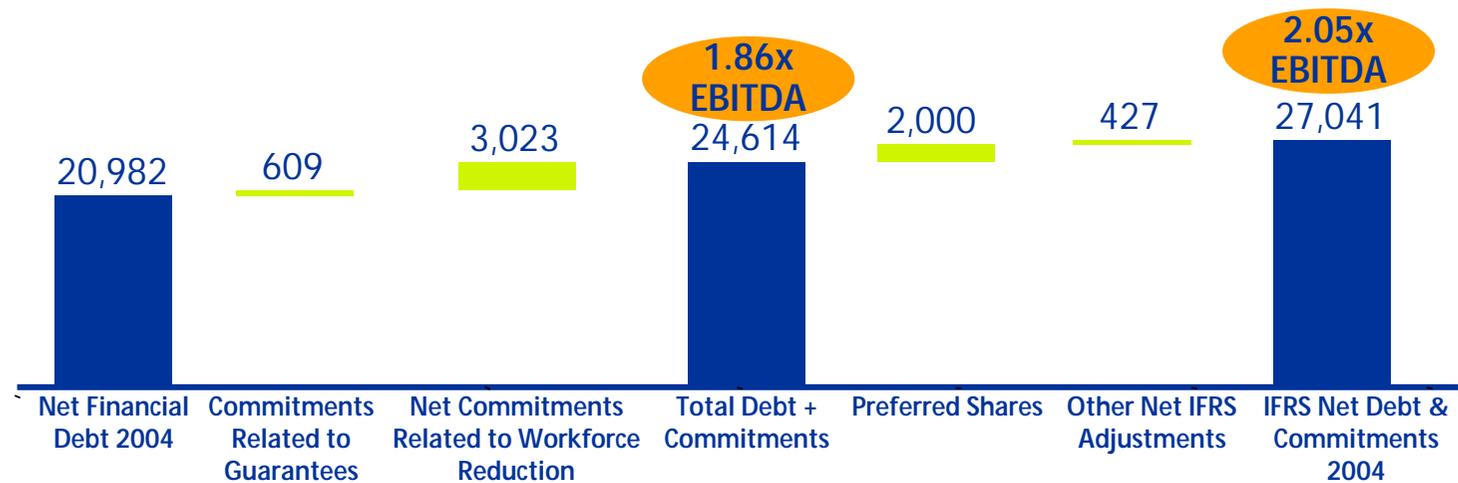
03 Our 2005 cash commitments are already ambitious

	<u>€ in billion</u>
Dividends	2.5
BellSouth (Chile & Argentina)	1.1
Český Telecom	5.0 (*)
January-February old buyback	0.2
TOTAL COMMITMENTS up to June	8.6

(*) Assuming 100% of minorities acquired in tender at 85% of controlling purchase price

03 We keep our conservative leverage target ratio

4
Investor
Conference



* Including preference shares

03 We keep our conservative leverage target ratio

What we committed
in October 2003...

$$\frac{\text{Net debt + cash commitments}}{\text{EBITDA}} = 1.4x - 1.7x \text{ in 2006}$$

...and what we
delivered

$$\frac{\text{Net debt + cash commitments}}{\text{EBITDA}} = 1.83x \text{ in 2003}$$

$$\frac{\text{Net debt + cash commitments}}{\text{EBITDA}} = 1.86x \text{ in 2004}$$

And we renew the
same commitment
(under IFRS)

SPANISH GAAP

$$\frac{\text{Net debt + cash commitments}}{\text{EBITDA}} = <1.7x \text{ in 2006}$$

IFRS

$$\frac{\text{Net debt + cash commitments}}{\text{Operating Income before D\&A}} = <1.85x \text{ in 2006}$$



* Including preference shares

Index

01 C-F Generation: TEF delivers

02 TEF targets a superior combination of growth and returns

03 C-F Projections 2004-2008

04 Český Telecom: What it will do for us, what it will do for you

05 Conclusions

04 Český Telecom: seizing an attractive opportunity at a reasonable price, favoring Telefónica shareholders

A high quality asset...

...that matches our M&A criteria...

...and whose full value we have the capacity to extract

- EPS and FCF accretive from year 1
- Preserving shareholder remuneration
- Impacting TEF's leverage mildly
- Self financed

04 Český Telecom: a high quality asset...



Earnings growth potential on the basis of a solid starting position

- Market leader in Czech fixed and mobile telecom services
- Excellent operational performance, high margins and cash flow generation
- Strong management team, with proven financial discipline
- Resilient business with limited risk profile
- Significant projected growth in cash flow and earnings

- >80% & >40% of revenues market share in fixed & mobile, respectively
- FCF margin of 31% of revenues in 2004, with FCF yield at 16% (*)
- Under-leveraged, with a Net Debt/EBITDA ratio of 0.9x in 2004
- High investment grade rating, stable for the last 7 years

Extending reach into best-in class EU country

- Stable Czech economy and converging towards EU levels
- Projected usage to increase as income per capita converges

- Member of EU since May 1st 2004 and EMU membership expected in 2009-2010
- 3.9% Real GDP growth in 2004
- Fully convertible stable currency

04 ...that matches our M&A criteria...

We defined a clear set of principles ...

... and observed them when acquiring 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 ✓

04 ...and whose full value we have the capacity to extract, as opposed to the average investor

Value of Český Telecom on a stand-alone basis

+

Extract full potential from the BB & mobile usage opportunity: we have a proven track-record of success

Add efficiency in marketing, procurement and operations to derive synergies

+

Leverage the asset appropriately: combine local & international debt through the support of an A-rated issuer

Use a favorable tax regime: goodwill tax deductibility

=

Value of Český for a Telefónica shareholder

EV/EBITDA 04 of 6.4x
EV/OpCF 04 of 8.0x

Managing the asset with a telecoms background

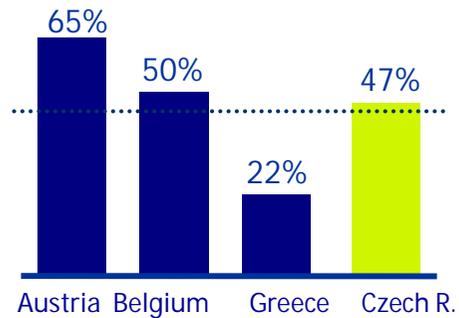
Managing the asset with a financial background

04 Extract full value from the BB opportunity...

THE BROADBAND GROWTH POTENTIAL IS THERE...

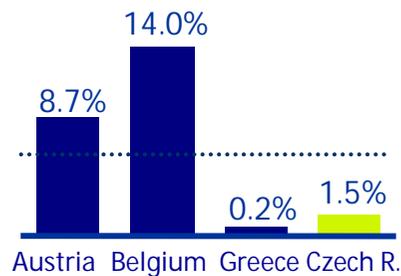
Nov-2002 PC penetration per Household

Average peers: 46%



2004 Broadband penetration

Average peers: 8.2%



Source: Eurostat (Broadband and PC penetration)

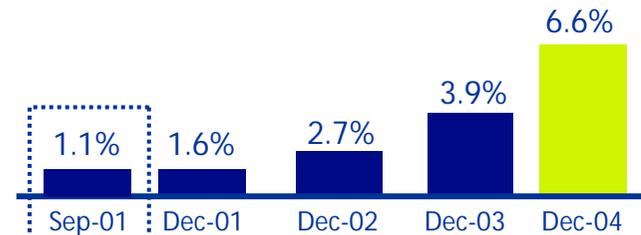
...AND WE KNOW HOW TO BENEFIT FROM AS OUR SUCCESSFUL TRACK RECORD SHOWS

ADSL penetration growth (%; ADSL lines over total lines) Telefónica de España



■ Similar PC penetration as of Czech Republic

ADSL penetration growth (%; ADSL lines over total lines) Telesp



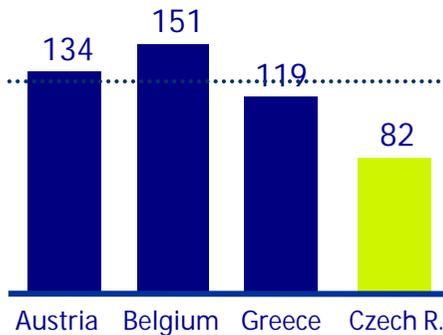
■ Lower GDP per capita in Sao Paulo than in Czech Republic

04 ...and mobile potential

MOBILE USAGE GROWTH POTENTIAL IS THERE...

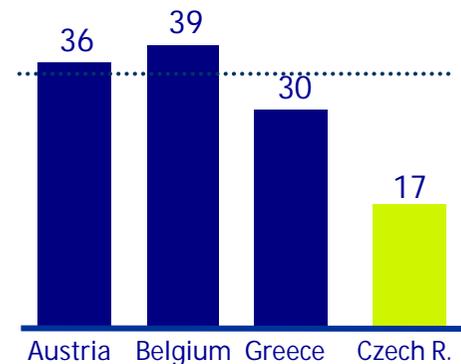
2004 Mobile MOU

Average peers: 134.7



2004 Mobile ARPU (€)

Average peers: € 35



Source: Merrill Lynch Global Mobile Matrix

...AND WE KNOW HOW TO BENEFIT FROM AS TEM SUCSESFUL TRACK RECORD SHOWS

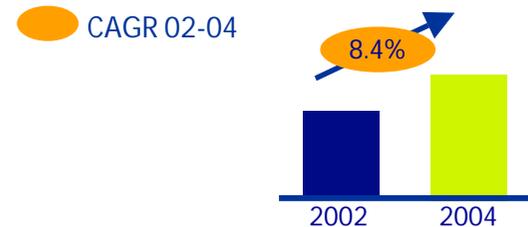
TM ESPAÑA BLENDED ARPU (€)



Growth driven by intensified commercial actions:

- Migration from prepaid to contract: from 35.2% contract customers in 2002 to 48.8% in 2004
- In-depth market segmentation & smart pricing to stimulate usage

TM ESPAÑA BLENDED MOU (MIN)



UMTS deployment in Spain on track, ahead of competitors (3,800 base stations at 2004 year end)

04 Add efficiency in marketing, procurement and operations to derive synergies

- Scale benefits (procurement for network, equipment, handsets)
- Optimization of IT and product & service development (costs, timing)
- Optimization of network maintenance costs
- Improvements in marketing, distribution and sales efforts
- Leverage on Telefónica group marketing umbrella
- Replicate successful outsourcing models
- Coordination of fixed-mobile (cost reductions, distribution channels, integrated product offerings)

Example: Český procurement costs vs TEF's average



Synergies from further efficiency and scale benefits conservatively valued in the range of:

- NPV of €250 – 280 million
- Approx. 4.5% of implied Firm Value
- Approx. 0.25% of combined Opex and Capex

Český Telecom amounts to approx. 10% of TEF's wireline & wireless business in Spain in economic terms and to approx. 20% in operating terms

04 Transaction overview

Price 51.1%	<ul style="list-style-type: none"> ■ CZK 502 per ordinary share 				
Control stake acquired	<ul style="list-style-type: none"> ■ 51.1% ■ 164.6m ordinary shares + 1 "golden share" converted into 10 ordinary shares 				
Consideration	<ul style="list-style-type: none"> ■ Cash ■ €2,745.87MM (payable in € at stipulated FX rate of CZK/€ 30.09) 				
Implicit multiples		51%	100%⁽¹⁾		
		04A	04A		
	■ EV/EBITDA	6.4x	6.0x		
	■ EV/OPCF	8.0x	7.5x		
	■ P/FCF	8.2x	7.6x		
Accretion (under IFRS)		51%	100%⁽¹⁾		
		06E	07E	06E	07E
	■ Reported EPS	+0.3%	+0.8%	+1.0%	+1.7%
	■ FCF/share	+2.8%	+2.5%	+5.4%	+5.0%
Other aspects	<ul style="list-style-type: none"> ■ Czech Anti monopoly European Commission Approvals, expected within 2-3 months from signing ■ Compulsory offer for 48.9% minorities in estimated 4-5 months, at an expected discount to control price 				

(1) Assuming tender offer price at 85% of control price and 100% acceptance

Index

01 C-F Generation: TEF delivers

02 TEF targets a superior combination of growth and returns

03 C-F Projections 2004-2008

04 Český Telecom: What it will do for us, what it will do for you

05 Conclusions

05 Conclusions

- Telefónica has delivered on Cash Flow generation and distribution
- Telefónica targets a €36 bn. FCF up to 2008
- Cash Flow distribution priorities remain unchanged: shareholder remuneration comes first
- Český Telecom is a case study on our expansion criteria: core, manageable, sound and leading



Telefonica

Investor
Conference