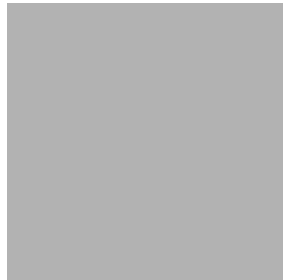
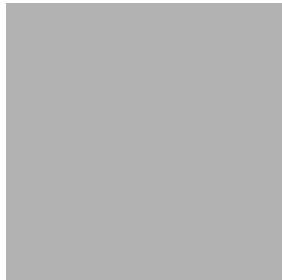


Quarterly Results January – June 2004



July 29th, 2004



Quarterly Results
January – June 2004

Telefonica

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.



Quarterly Results
January – June 2004

Telefonica

Financial highlights: combining top line growth, profitability and cash generation

(€ in Millions)

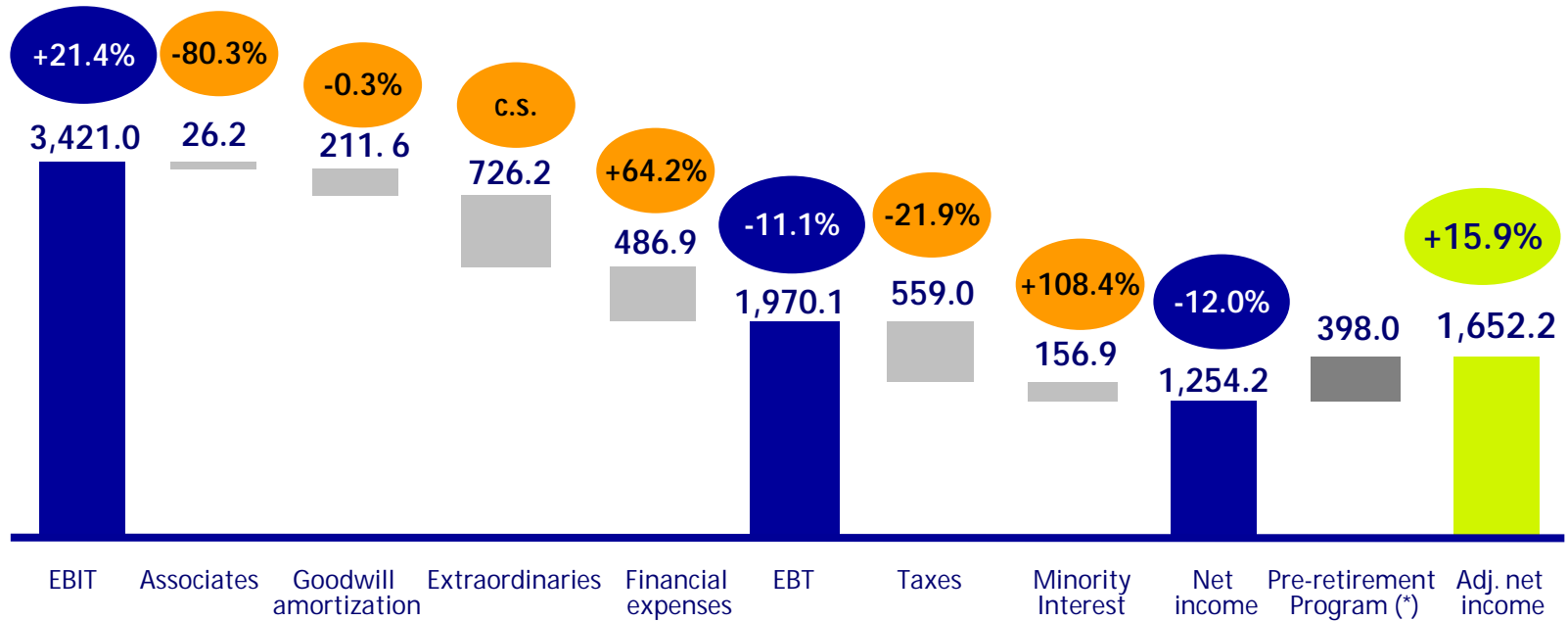
| | Jan-Jun 04 | Jan-Jun 03 | % Change 1H04/1H03 |
|-----------------|------------|------------|-----------------------|
| Operating Rev. | 14,324.5 | 13,563.3 | +5.6% |
| Operating Costs | (8,093.5) | (7,700.6) | +5.1% |
| EBITDA | 6,367.3 | 5,956.0 | +6.9% |
| EBITDA Margin | 44.5% | 43.9% | +0.5 p.p. |
| D&A | (2,946.4) | (3,138.0) | (6.1%) |
| EBIT | 3,421.0 | 2,818.0 | +21.4% |
| Net Income | 1,254.2 | 1,425.6 | (12.0%) |
| OpCF (*) | 5,016.9 | 4,423.1 | +13.4% |



Quarterly Results
January – June 2004

Net Income is affected by the full provision of 2004 Pre-retirements

(€ in Millions)



Adjusting for Pre-retirements, Net Income would have ended just above 1.65 Billion €, equivalent to a 16% annual increase



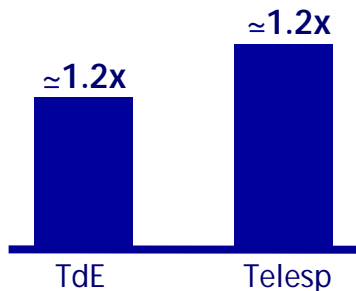


Quartely Results
January – June 2004

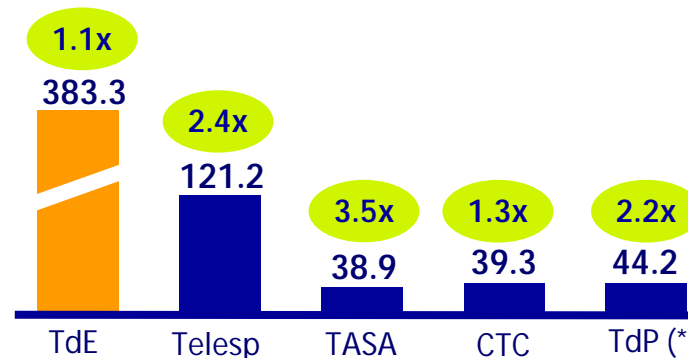
Operating highlights: sustaining commercial focus to grow the client base

FIXED TELEPHONY

Jun 04/Jun 03 commercial expenses growth (local currency)



1H04 ADSL net adds ('000)

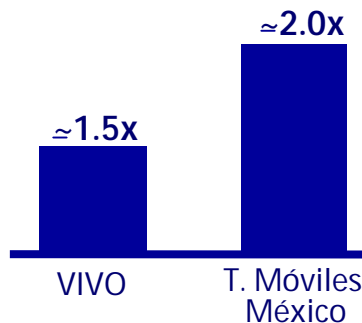


Surpassing the 2 Million and 1 Million clients mark in Spain and Latam, respectively.

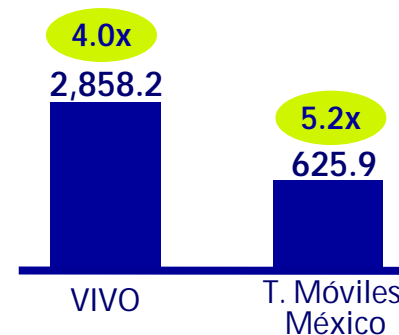
Annual growth rate

CELLULAR

Jun 04/Jun 03 commercial expenses growth (local currency)



1H04 Cellular net adds ('000)



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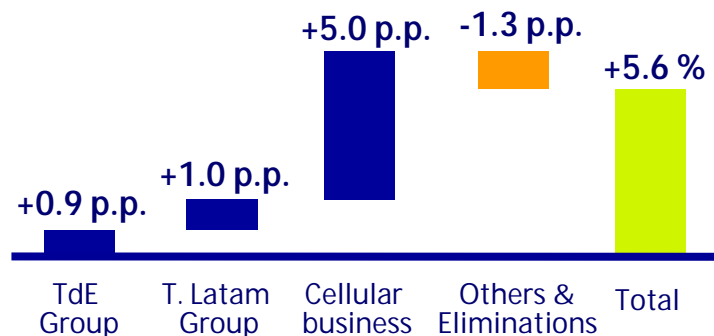


Quartely Results
January – June 2004

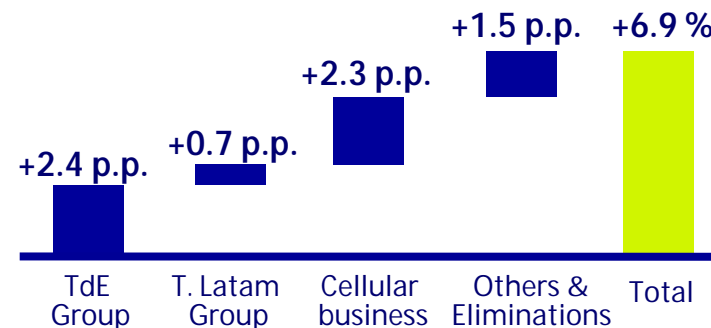
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Major business lines are keeping their sound contribution to growth

Revenue contribution to growth



EBITDA contribution to growth



Revenue growth evolution

| | % Change 1Q04/1Q03 | % Change 1H04/1H03 |
|----------------|-----------------------|-----------------------|
| TdE Group | 1.7% | 2.2% |
| Cell. Business | 20.4% | 14.1% |
| T. LATAM | 8.8% | 4.6% |
| TOTAL | 7.7% | 5.6% |

EBITDA growth evolution

| | % Change 1Q04/1Q03 | % Change 1H04/1H03 |
|----------------|-----------------------|-----------------------|
| TdE Group | 4.2% | 6.2% |
| Cell. Business | 12.2% | 6.2% |
| T. LATAM | 5.8% | 2.8% |
| TOTAL | 10.4% | 6.9% |

- TdE accelerates its growth rate, while T. Latam smoothing is fully explained by forex
- Cellular quarterly growth profile runs as expected and is fully aligned with year-end guidance



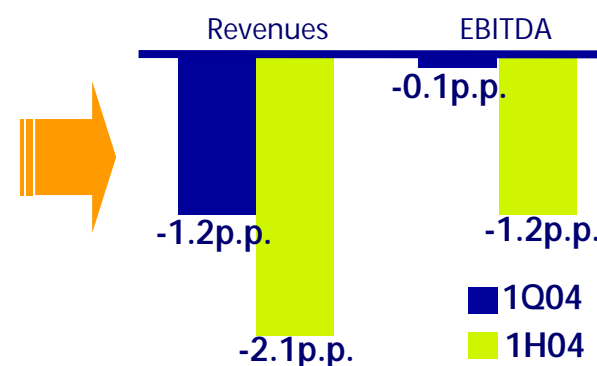
Quartely Results
January – June 2004

Although slightly accelerating, FOREX is not significantly diluting organic growth...

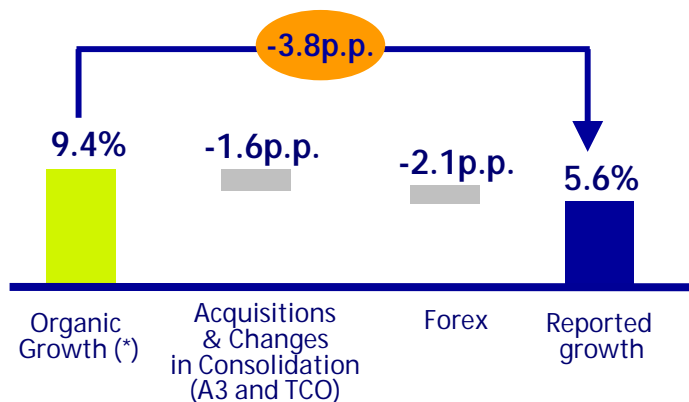
Yearly comparison of main currencies

| | P&L Fx 1H03 (Average) | P&L Fx 1H04 (Average) | % CHANGE 1H04/1H03 | % CHANGE 1Q04/1Q03 |
|-------------|-----------------------------|-----------------------------|-----------------------|-----------------------|
| BRAZIL/€ | 3.549 | 3.641 | -2.5% | +3.3% |
| ARGENTINA/€ | 3.306 | 3.562 | -7.2% | -6.5% |
| CHILE/€ | 771.080 | 780.309 | -1.2% | +1.9% |
| PERU/ € | 3.829 | 4.258 | -10.1% | -13.7% |
| MEXICO/ € | 11.560 | 13.994 | -17.4% | -17.1% |

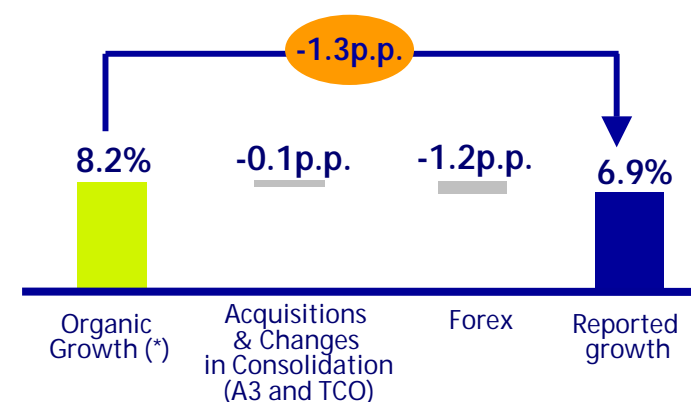
Forex impact in 2004



Organic vs Reported revenue growth



Organic vs Reported EBITDA growth



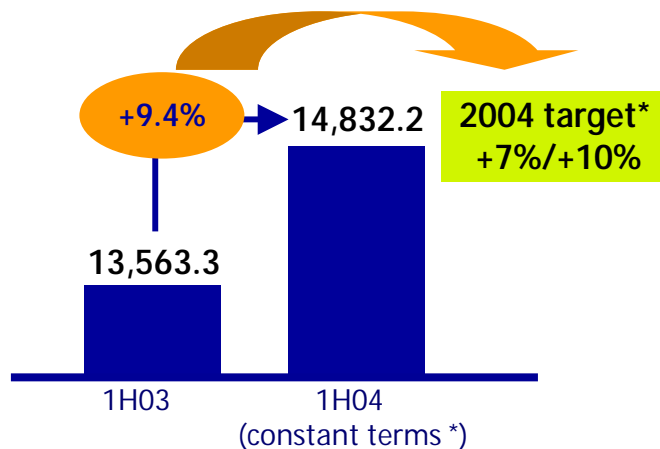


Quarterly Results
January – June 2004

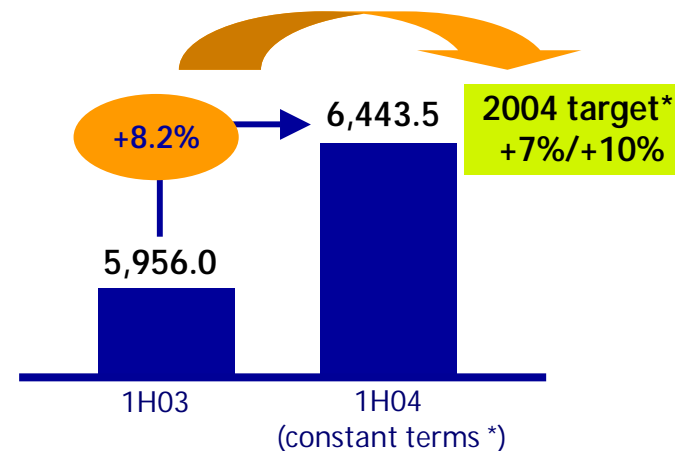
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... which remains solid and in line with year-end guidance

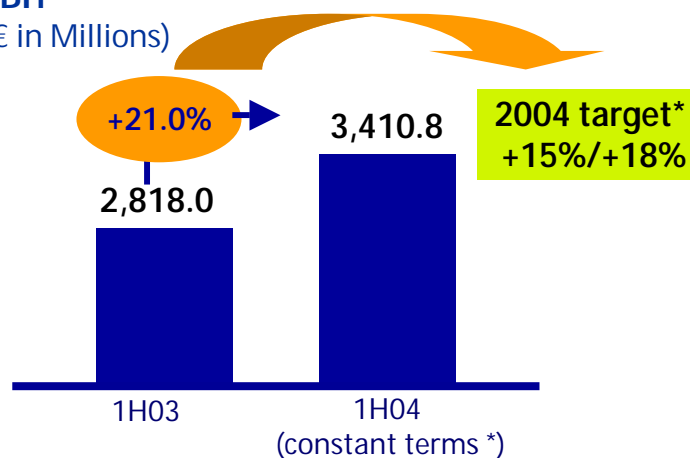
Revenues
(€ in Millions)



EBITDA
(€ in Millions)



EBIT
(€ in Millions)





Quartely Results
January – June 2004

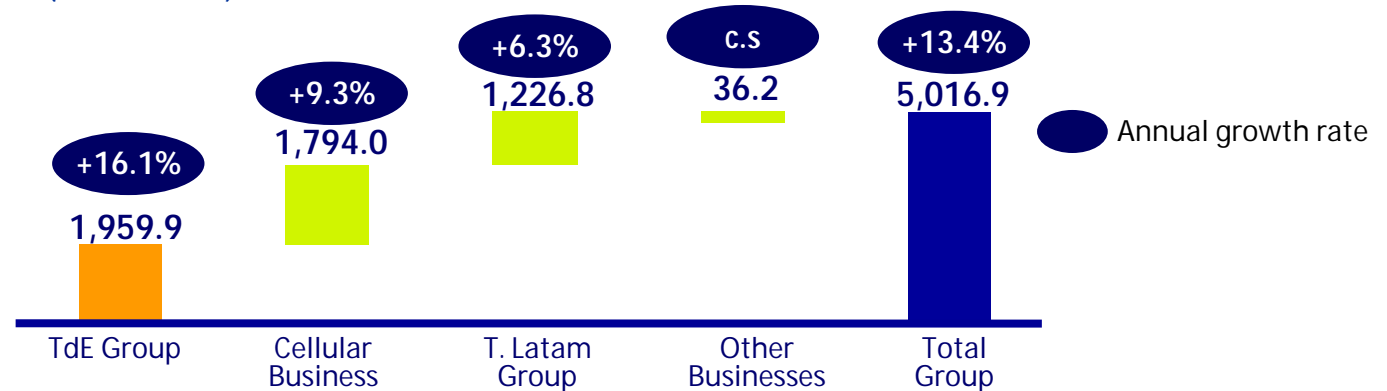
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Reinforcing cash generation in all businesses

CapEx breakdown (€ in Millions)

| | Group Total | % Change 1H04/1H03 |
|----------------|----------------|--------------------|
| TdE Group | 527.6 | -19.4% |
| Cell. Business | 515.2 | -3.4% |
| T. LATAM | 237.2 | -12.1% |
| TOTAL | 1,350.4 | -11.9% |

OpCF (EBITDA-CapEx) breakdown
(€ in Millions)



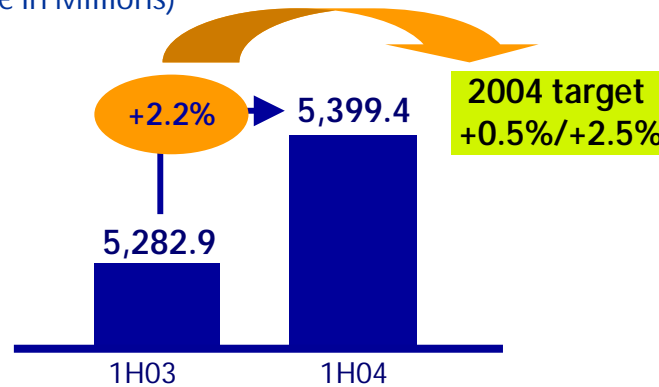


Quartely Results
January – June 2004

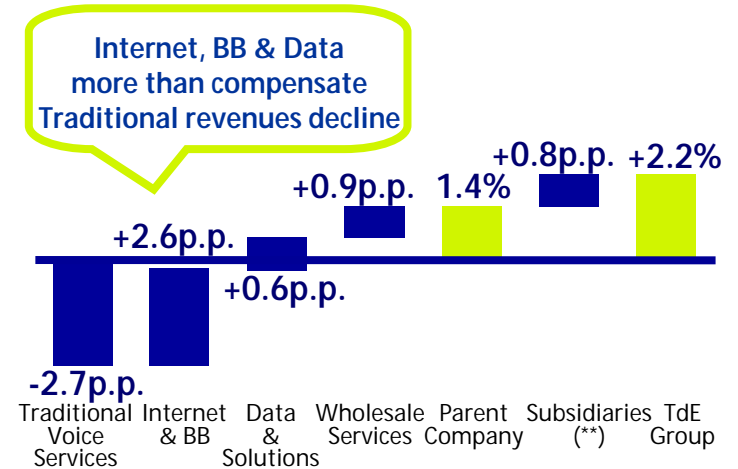
Telefonica

Telefónica de España Group: Deeper commercial efforts are leading to accelerate top line growth...

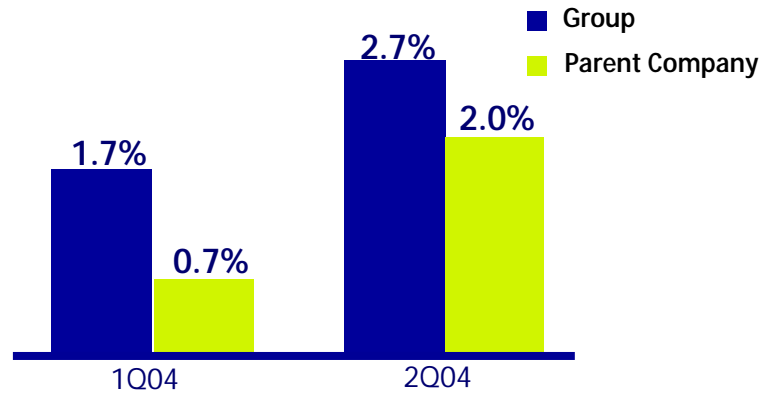
Operating revenues (*)
(€ in Millions)



Contribution to revenue growth (*)



Evolution of Operating revenues (*)

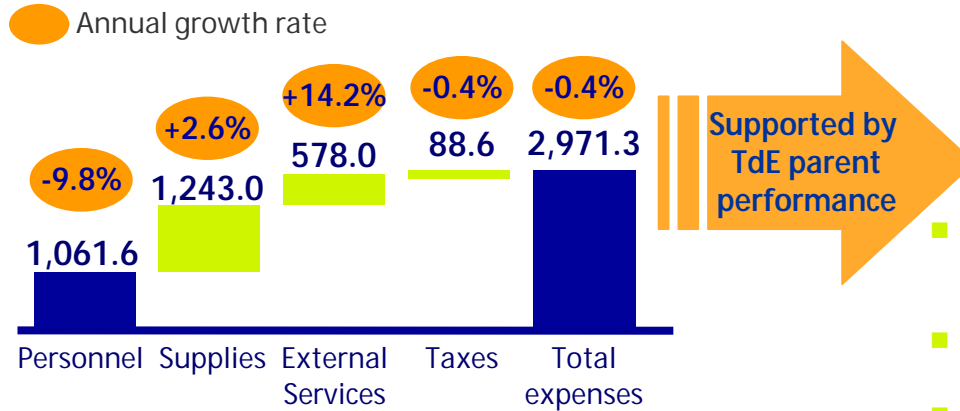




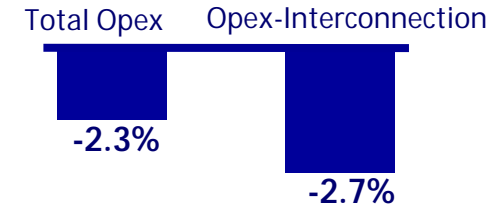
Quartely Results
January – June 2004

... which is amplified at the EBITDA level through higher efficiencies

TdE Group OpEx breakdown (*)
(€ in Millions)

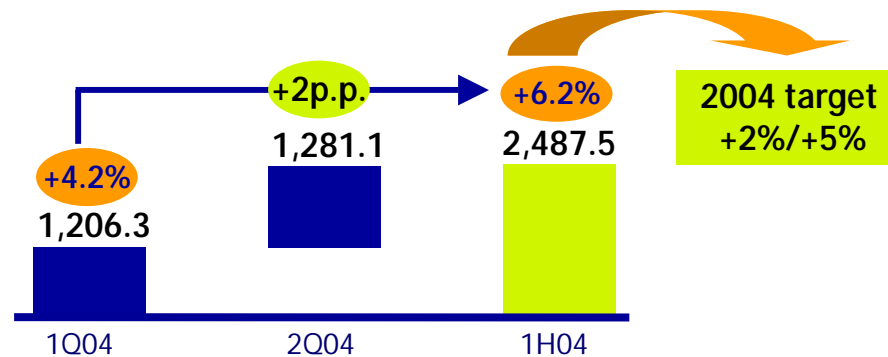


TdE Parent OpEx evolution (*)

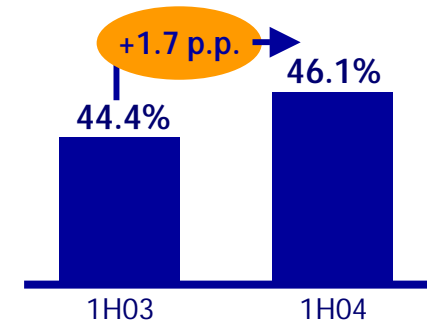


- 10% in personnel expenses (1,356 employees having left in the first half of 2004 because of 2nd phase of Pre-retirement Program)
- 2.5% in supplies linked to reduced F2M interconnection charges
- +14.8% in external services, a result of a more dynamic commercial approach

TdE Group EBITDA (*) Annual growth rate
(€ in Millions)



TdE Group EBITDA margin (*)

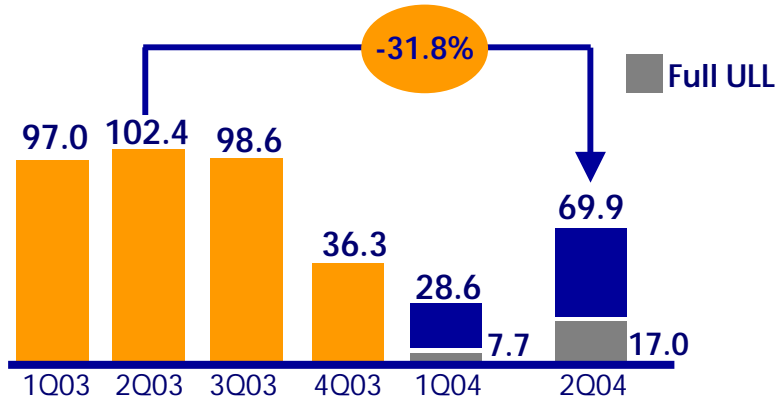


Telefónica de España parent: traditional services

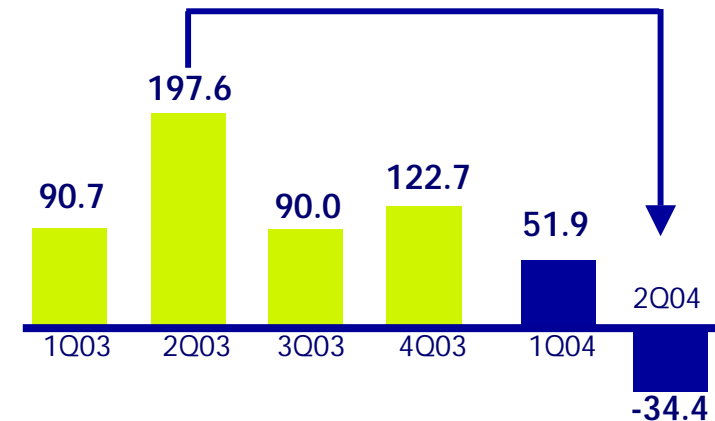


Quarterly Results
January – June 2004

Access lines net losses
(PSTN + B.A. ISDN; thousands)



Pre-selected lines net adds
(Thousands)



Estimated Traffic
(Million minutes)

| | 1H04 | 1H03 | % Change 1H04/1H03 |
|------------------|---------------|---------------|-----------------------|
| OUTGOING | 36,305 | 43,229 | -16.0% |
| <i>Voice (*)</i> | 24,755 | 27,646 | -10.5% |
| Local | 13,326 | 15,362 | -13.3% |
| Provincial | 3,128 | 3,487 | -10.3% |
| DLD | 3,264 | 3,591 | -9.1% |
| International | 838 | 822 | 1.9% |
| F2M | 2,875 | 2,904 | -1.0% |
| IN (**)& Others | 1,324 | 1,480 | -10.6% |
| <i>Internet</i> | 11,550 | 15,583 | -25.9% |
| INCOMING | 28,182 | 26,009 | 8.4% |
| TOTAL | 64,487 | 69,237 | -6.9% |

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Investor Relations

(*) Outgoing - Internet
(**) Intelligent Network

Most relevant promotions & offerings 2Q04

- **"Holiday"** line (April): on/off connection to 2nd homes
- New handset **"Famitel Agenda"**: mobile handset agenda (SIM) download, colour screen, games, polyphonic rings, SMS...
- Advertising campaigns for modular plans (**"combinados"**), adding more than 500,000 in the January-June period
- **Win-back** campaigns targeted to pre-selection

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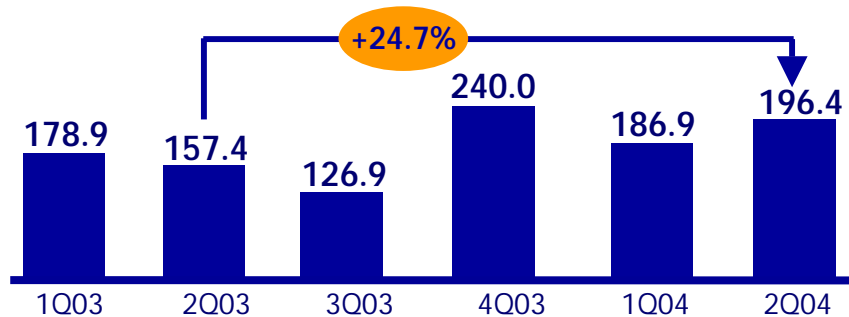
Quartely Results
January – June 2004



Telefónica de España parent: ADSL, a profitable story

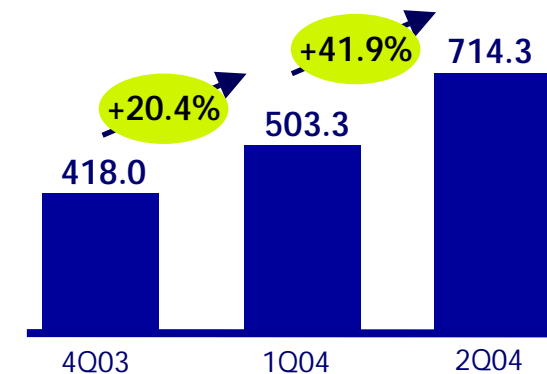
ADSL Connections
(Net adds, thousands)

| ADSL CONNECTIONS | Mar-03 | Jun-03 | Sep-03 | Dec-03 | Mar-04 | Jun-04 |
|------------------|---------|---------|---------|---------|---------|---------|
| | 1,136.1 | 1,293.6 | 1,420.5 | 1,660.5 | 1,847.3 | 2,043.7 |



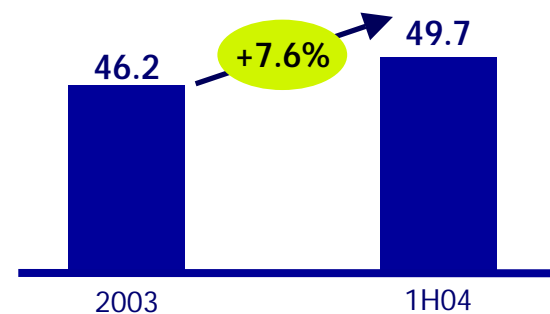
More than 1.3 million retail connections (+58% y-o-y)

Evolution of operative VAS
(‘000)

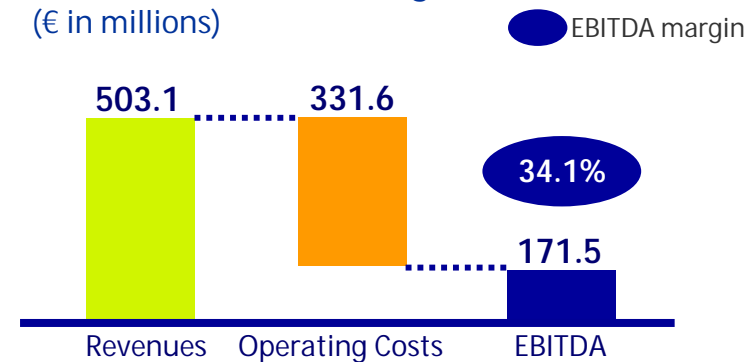


VAS represents 8.5% of ARPU

ADSL Retail ARPU
(€)



1H04 ADSL EBITDA margin
(€ in millions)





Quartely Results
January – June 2004

Telefonica

Telefónica de España: a new ADSL strategy to foster broadband penetration

- Upgrade of speeds (2x) already approved by Regulator (CMT)

| Actual Speed Kbps (Downstream) | New Speed Kbps (Downstream) | Retail Monthly fee (€) |
|-----------------------------------|--------------------------------|---------------------------|
| Off-peak flat rate 256 | Off-peak flat rate 512 | 29.90 |
| 256 | 512 | 39.07 |
| 512 | 1,024 | 74.98 |
| 1,024 | 2,048 | 120.00 |
| 2,048 | 4,096 | 150.57 |

- Reinforce **VAS penetration** on ADSL for the different market segments: Close to 36% of retail customers are paying for value added services
 - **IMAGENIO**: increase commercial push for **faster penetration**
- New set of VAS & ADSL portfolio to be launched during 2H04
- Deploy **intense commercial campaigns** along 2004:
 - 2Q04 {
 - **"Free connection fee"** until June 10th
 - **"Summer promotion"**, offering free monthly fee for new subscriptions from June 15th to August 31st
 - Commercial intensity will continue in 2H04
- Reinforce our quality differentiation and recognition

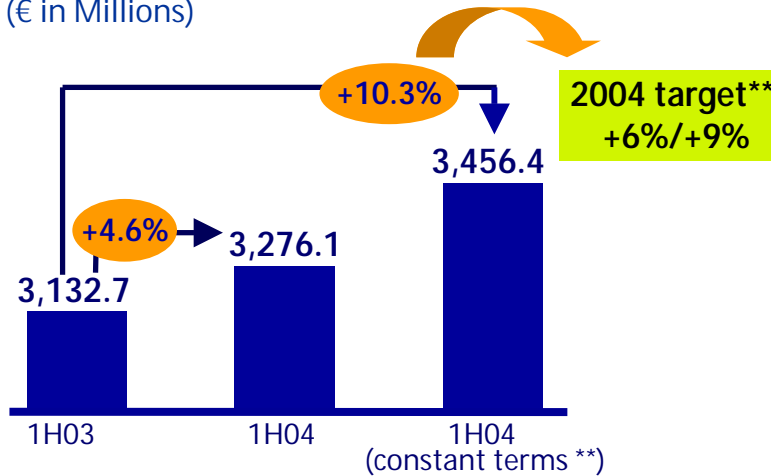


Quartely Results
January – June 2004

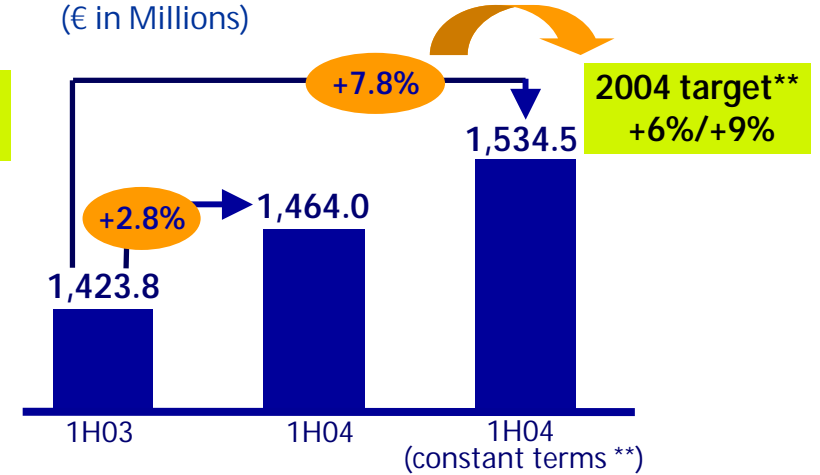
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Telefónica Latinoamérica (*): solid organic growth, well within year-end target...

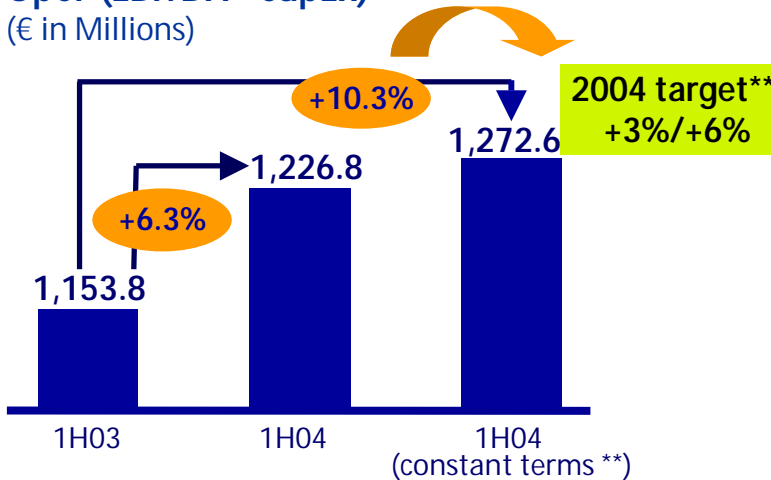
Revenues
(€ in Millions)



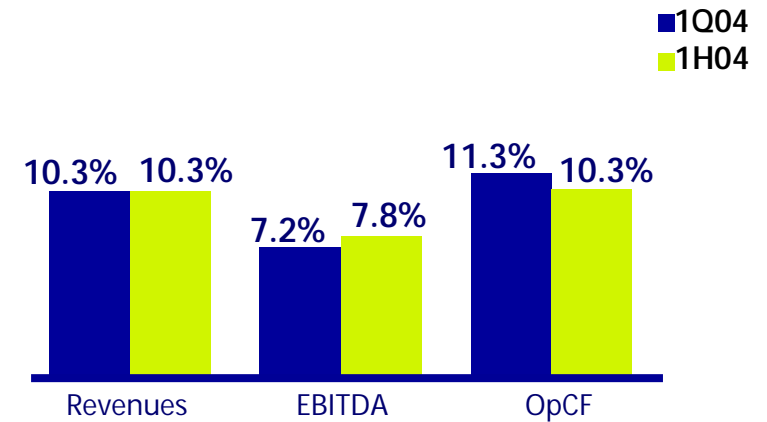
EBITDA
(€ in Millions)



OpCF (EBITDA - CapEx)
(€ in Millions)



Evolution of organic growth (**)



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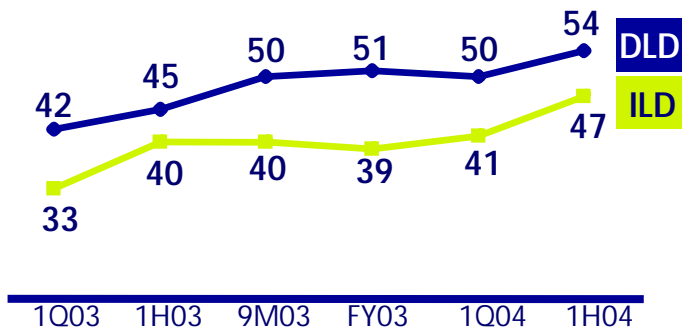
(*) New management perimeter, including data operations and TIWS
(**) Assuming constant exchange rates as of 1H03 (as of 2003 for year-end target).
All figures exclude changes in consolidation.



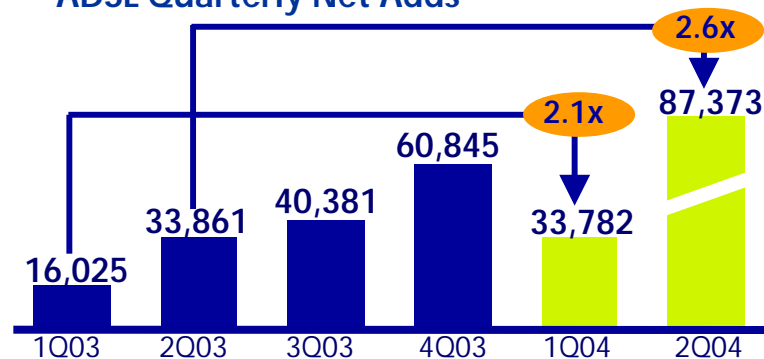
Quarterly Results
January – June 2004

... driven by robust top line growth for Telesp...

Operating drivers
Quarterly Market Share

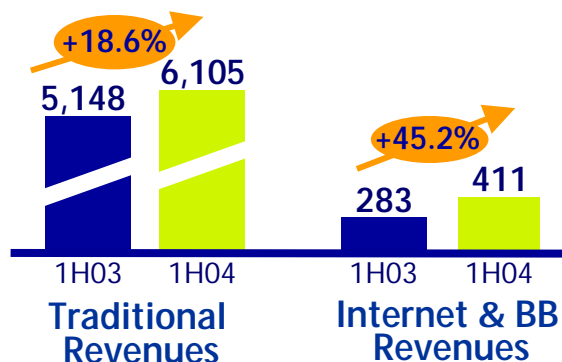


Operating drivers
ADSL Quarterly Net Adds

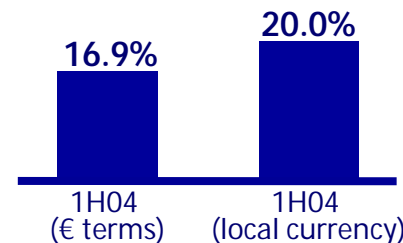


- ❑ combined with 2003 tariff increases (+16.04% local & +12.6% DLD)
- ❑ positive outlook on tariffs:
 - ✓ Anatel's approval of 2004 tariff adjustment: +6.89% local & +3.2% DLD
 - ✓ STJ's favourable ruling, granting Telesp the recovery of 2003 tariff shortfall

Telesp operating revenues
breakdown (BRL in millions)



Telesp operating revenue growth



Forex drained 3 p.p. to revenue growth in 1H04, compared to a 4 p.p. positive contribution in 1Q04



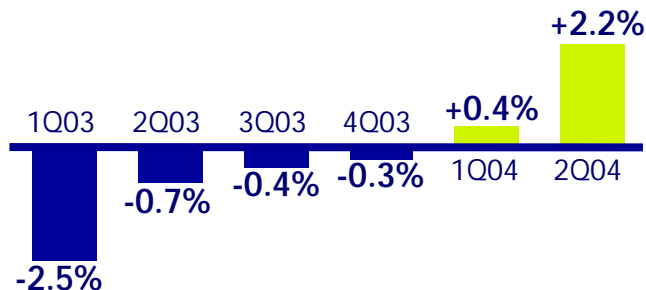


Quarterly Results
January – June 2004

... and TASA

Operating drivers

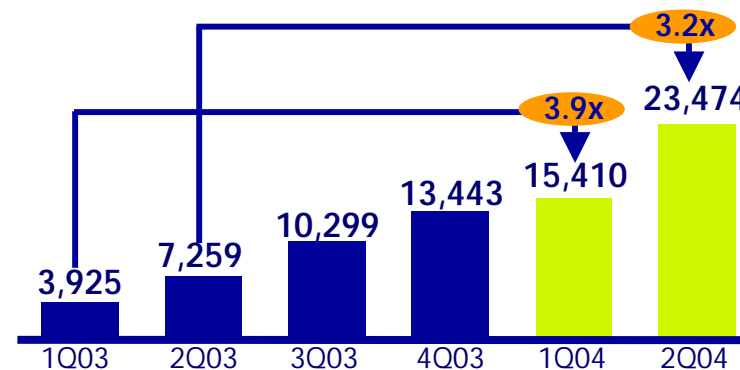
Traditional LIS (annual growth rate)



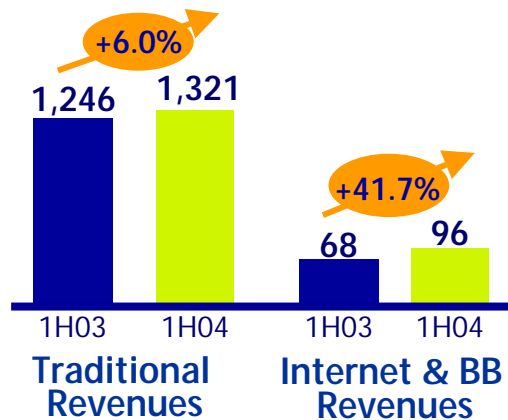
Traffic/line/day is growing at an 8.7% rate in 1H04

Operating drivers

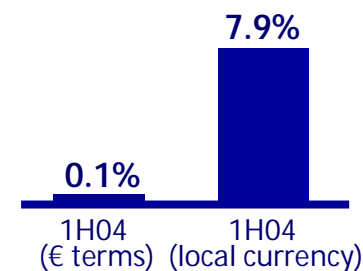
ADSL Quarterly Net Adds



TASA operating revenues breakdown (ARS in millions)



TASA revenue growth



Forex drained 7.8 p.p. to revenue growth in 1H04, similar to 1Q04 negative contribution

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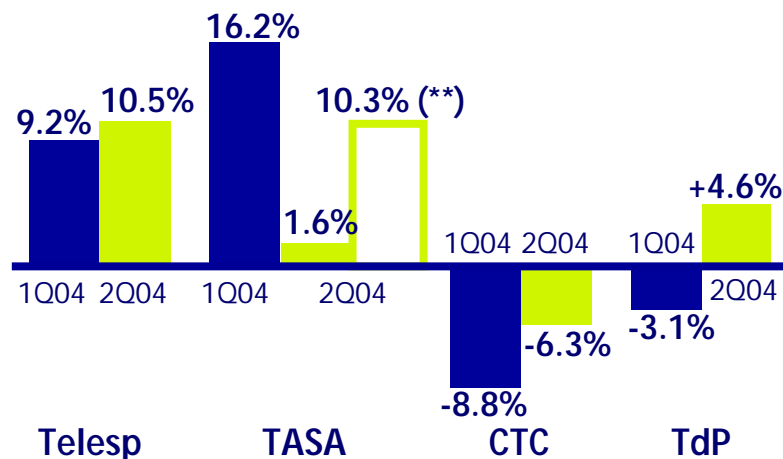


Quarterly Results
January – June 2004

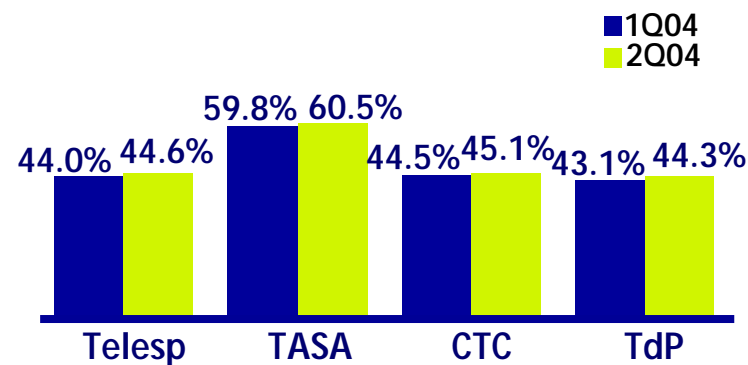
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Telefónica Latinoamérica: keeping the focus on efficiency and cash generation

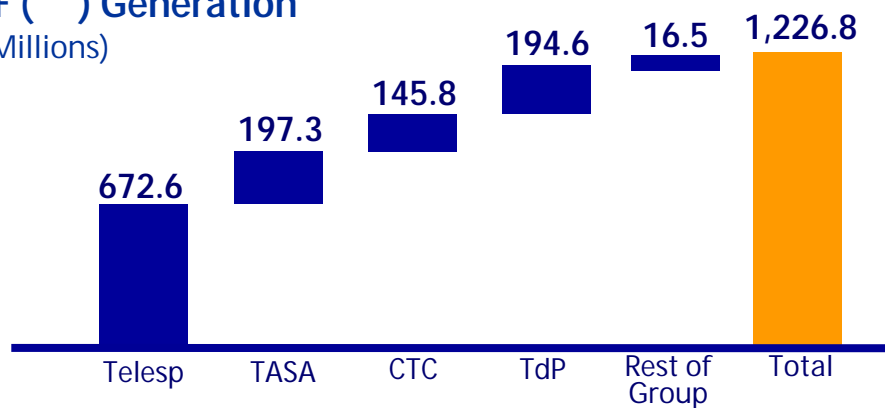
EBITDA growth rate (*) (local currency)



EBITDA margin



OpCF (***) Generation
(€ in Millions)



(*) 2Q04 growth rate is calculated based on the difference of cumulative figures as of March and June.

Telefónica, S.A. (***) Excluding CER (inflation indexing of Wholesale Offerings) corresponding to 2002 but retroactively registered in June 03.

Investor Relations (***) EBITDA-Capex.



Quarterly Results
January – June 2004

Debt reduction and active liability management are driving net financial expenses cut

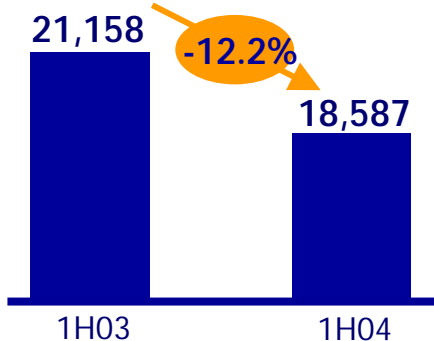
| € in Millions | 1H04 | 1H03 | |
|-------------------------------|--------------|--------------|----------------|
| Net Financial Expenses | 488.8 | 802.4 | (39.1%) |
| Argentinean Peso effects | (1.9) | (238.4) | |
| USD debt amortization | | (267.5) | |
| Financial Results | 486.9 | 296.5 | |

SOLVENCY PROTECTION

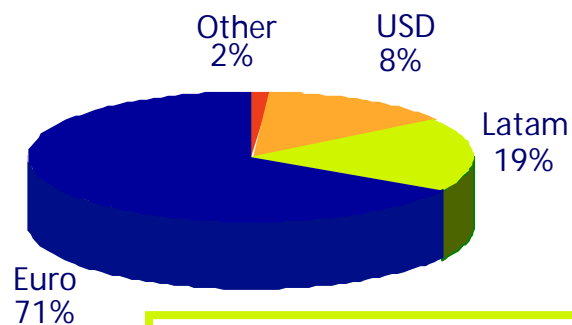
+

LIABILITY MANAGEMENT, BENEFITING FROM INTEREST RATES DECREASE

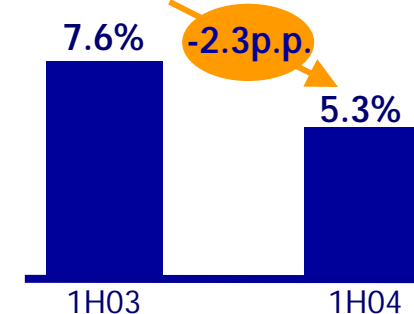
Average net debt (€ in Millions)



Debt by currencies



Effective interest rate



Brazilian CDI and 3m Euribor have been cut by 990 b.p. and 45 b.p. in the last twelve months

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Quarterly Results
January – June 2004

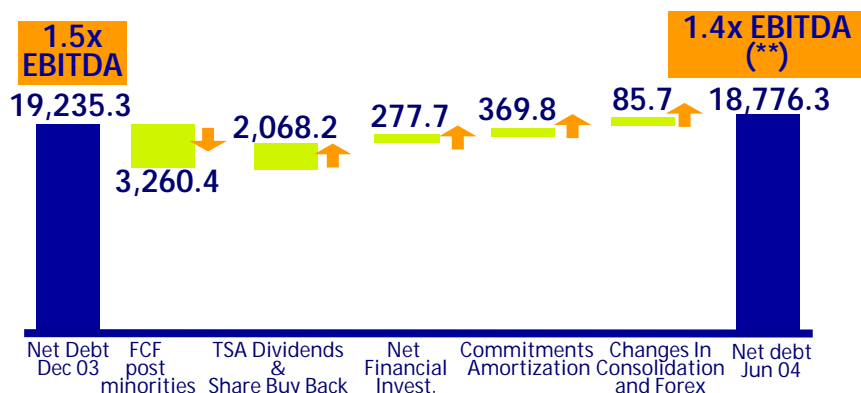


Cash flow generation and debt evolution

(Euros in millions)

| | | 1H04 | 1H03 | |
|--------------------------|--|----------------|----------------|--------------|
| A | EBITDA | 6,367.3 | 5,956.0 | 6.9% |
| I | CapEx accrued during the period (EoP exchange rate) | (1,350.4) | (1,532.9) | |
| II | Extraordinary payments related to operating activities & commitments | (467.1) | (443.7) | |
| III | Net interest payment | (446.4) | (759.7) | |
| IV | Payment for income tax | (66.8) | (114.4) | |
| V | Investment in working capital | (982.9) | (367.3) | |
| B=A-I-II-III-IV-V | Net Free Cash Flow after CapEx | 3,053.7 | 2,738.0 | 11.5% |
| VI | Payments related to cancellation of commitments | 369.8 | 358.2 | |
| VII | Dividends paid to minorities | (163.1) | (134.2) | |
| C= B+VI-VII | Free Cash Flow (*) | 3,260.4 | 2,962.0 | 10.1% |

Debt evolution breakdown (Euros in millions)



Net Debt + Commitments of 22,874 Million Euros as of 30/06/04, equivalent to 1.8x EBITDA (**)

- **Comfortable level**, adequate to our “single A” rating recently reaffirmed by agencies, and 2H04 pending outflows:
 - Acquisition of CTC mobile unit and BellSouth, pending closing
 - 2nd dividend payment and execution of buy-back
 - Terra dividend payment
- **In line** to achieve (net debt + commitments)/EBITDA 2006 target of **1.4x-1.7x**



Quarterly Results
January – June 2004

Telefonica

Share buy-back program progress report

Principles

- Minimum € 4.0 bn.
- Up to end '06
- Conditioned on
 - FCF generation
 - Share price

Treasury stock (n° of shares in Millions)

| DATE | CASH | OPTION-BASED | TOTAL % OF CAPITAL |
|-----------|-------|--------------|--------------------|
| 30-JUN-03 | 17.6 | -- | 0.4 |
| 30-SEP-03 | 25.6 | -- | 0.5 |
| 31-DEC-03 | 40.5 | 33.0 | 1.5 |
| 31-MAR-04 | 64.8 | 33.0 | 2.0 |
| 30-JUN-04 | 131.1 | 15.0 | 2.9 |

- Average price TEF 1/1/04-30/6/04: € 12.50
- Market value of treasury stock (*): € 1,740 M
- Percentage of buy-back program: 43.5%

- **BUY BACK COMMITMENT PROGRESSING FASTER THAN TIME (43.5% VS. 9/39 MONTHS)**
- **OPTION-BASED PURCHASES HAVE SHORT TERM MATURITIES**



Quarterly Results
January – June 2004

Telefonica

Conclusions

- We are intensifying commercial initiatives across the Group as a key lever to foster top line growth in all subsidiaries
- Organic growth remains solidly within year-end targets and translates into Euro denominated financials as forex impact continue to be mild
- All major business lines are keeping sound contributions to Group revenues and EBITDA growth, and are fully aligned with guidance
- We are keeping a tight management of resources, both costs and CapEx, setting the basis for the improvement of margins and cash generation

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