

Quarterly Results

January – December 2004



February 28th, 2005

Disclaimer



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January – December
2004

Telefonica

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2004 key highlights



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1. A very solid financial performance from top to bottom, within targets
 - Mid-single digit revenues and EBITDA growth
 - EBIT increase in low-teens
 2. A strong commitment to support organic growth across the Group
 - Intense commercial focus to expand the client base
 - Focused CapEx, oriented to growth opportunities
 3. A resilient capacity to improve cash flow generation and returns
 4. A confirmation of our lead in terms of shareholder remuneration among the peer group
- +
5. The BellSouth acquisition: gaining scale and enhancing the Group growth profile even further

A set of positive financial results...

(€ in Millions)

	Jan-Dec 04	Jan-Dec 03	% Change FY04/FY03	% Change FY04/FY03 ex-BellSouth (*)
Operating Rev.	30,321.9	28,399.8	+6.8%	+5.3%
Operating Costs	(17,539.1)	(16,136.9)	+8.7%	
EBITDA	13,215.4	12,602.1	+4.9%	+4.3%
EBIT	7,235.2	6,327.9	+14.3%	+14.0%
Net Income	2,877.3	2,203.6	+30.6%	

Excluding pre-retirements provisioned in 2004, net income would have ended almost at 3.3 Billion Euros (**)

(*) Excluding BellSouth assets that started to be consolidated in November (Venezuela, Guatemala, Nicaragua, Panama, Ecuador, Colombia, Peru, Uruguay)

(**) Excluding the impact net of taxes of 2003-2007 Pre-retirement Program in 2004



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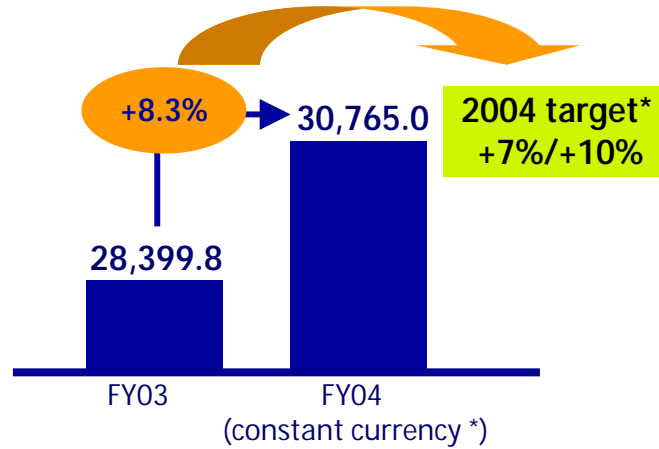
...with organic growth, which ended in line with year-end targets...



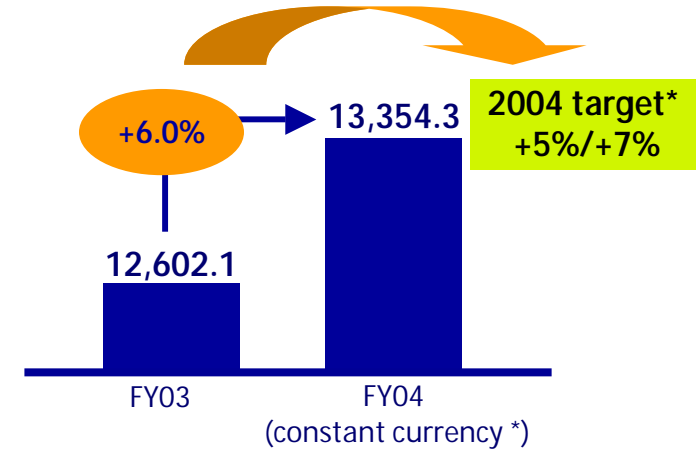
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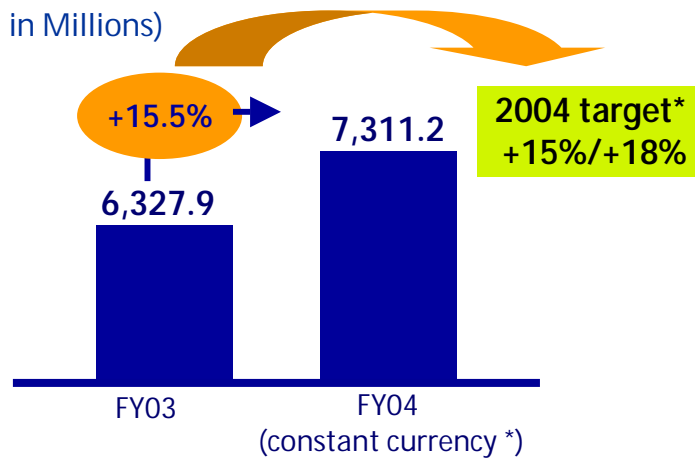
Revenues
(€ in Millions)



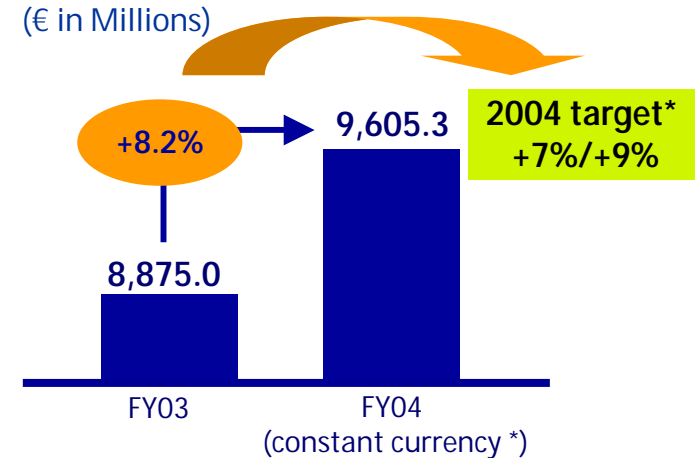
EBITDA
(€ in Millions)



EBIT
(€ in Millions)



OpCF
(€ in Millions)



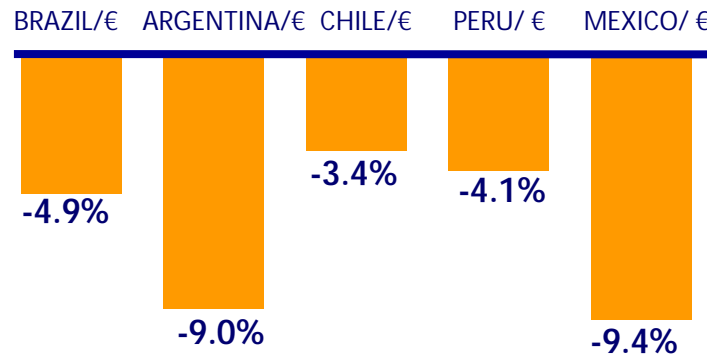
...flowing into the P&L due to the limited impact of Forex



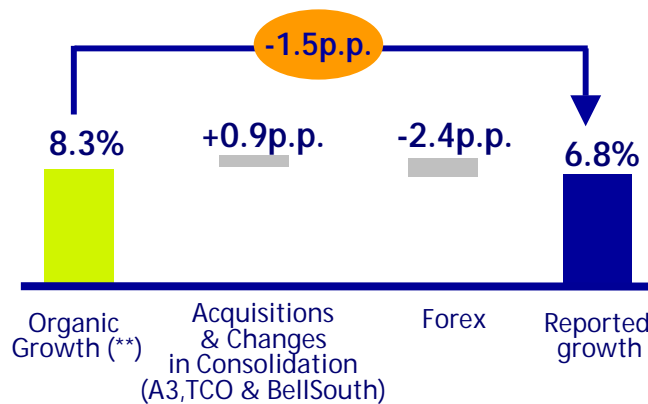
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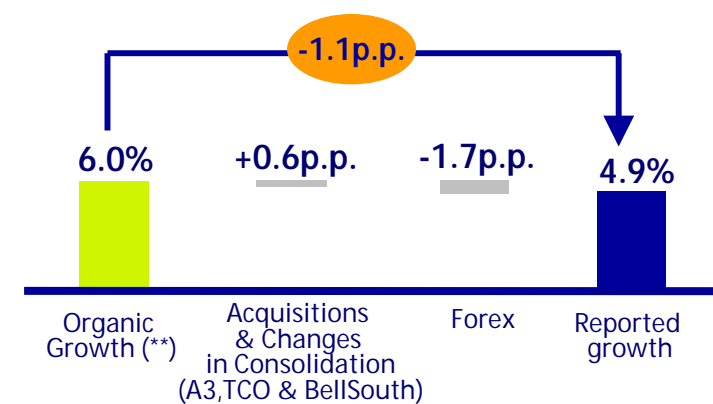
Yearly movement of main currencies (*)



Organic vs Reported revenue growth



Organic vs Reported EBITDA growth



2004 has been a year of strong commitment to lead organic growth across the Group...

By renewing commercial initiatives

- ✓ New products/services
- ✓ Innovative pricing & promotions
- ✓ Deeper customer segmentation
- ✓ Stronger advertising

TARGETING TOP LINE EXPANSION

By investing in high growth opportunities

- ✓ Broadband in Spain & Latam
- ✓ Mobile in Latam (VIVO & TM México)

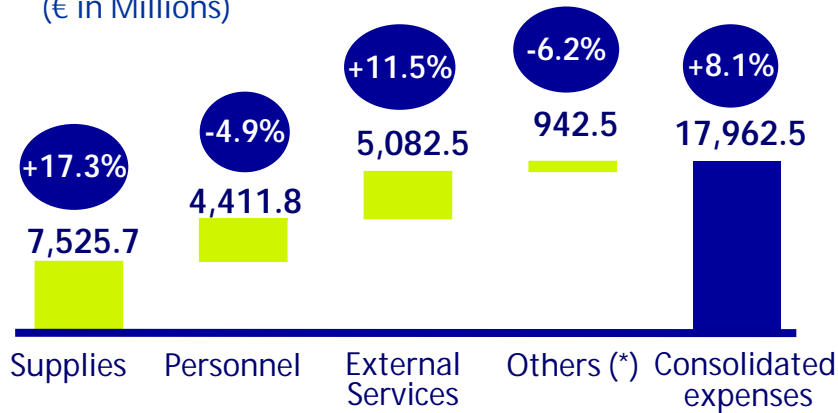
Organic revenue growth evolution (*)

	% Change 1Q04/1Q03	% Change 1H04/1H03	% Change 9M04/9M03	% Change FY04/FY03
TdE Group	+1.7%	+2.2%	+2.3%	+2.4%
Cell. Business	+19.4%	+14.7%	+13.2%	+12.8%
T. LATAM	+10.3%	+10.3%	+8.0%	+7.5%



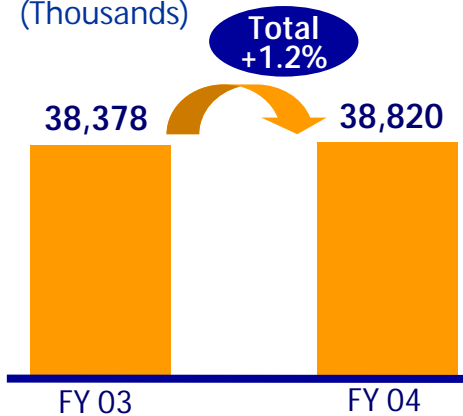
...through a deeper commercial approach to be at the forefront of market expansion...

Consolidated costs breakdown (€ in Millions)

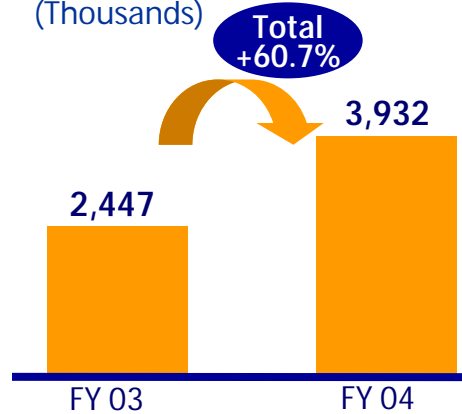


- Around 85% of the increase in supplies and external services is related to TEM's commercial effort with its impact in handset purchases and SACs+SRCs, respectively
- TdE pre-retirement program is the driver behind cuts in personnel expenses

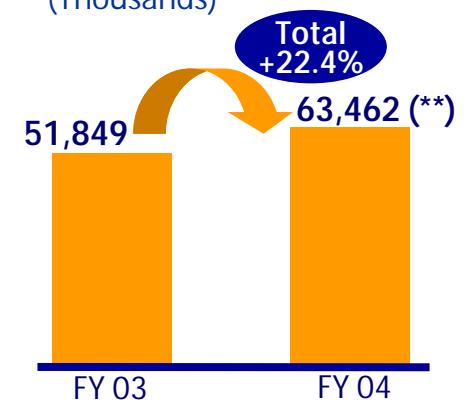
Lines in service (Thousands)



ADSL Subscribers (Thousands)



Mobile Subscribers (Thousands)



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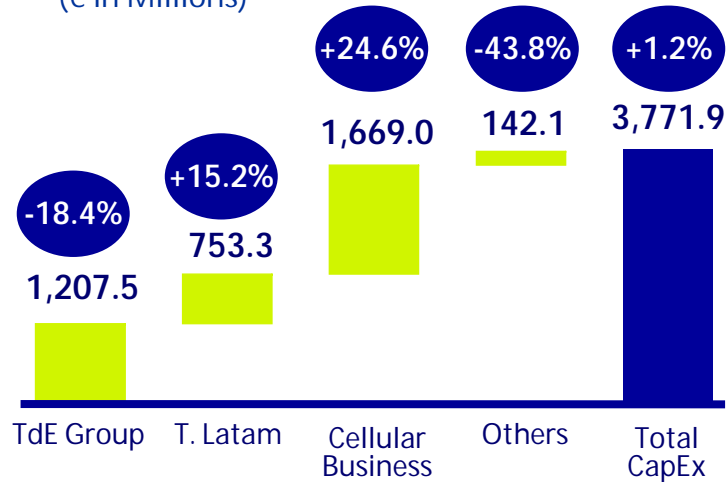
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(*) Bad debt expenses and other expenses

(**) Excluding BellSouth assets that started to be consolidated in November (Venezuela, Guatemala, Nicaragua, Panama, Ecuador, Colombia, Peru, Uruguay)

...and a focused CapEx to promote current growth opportunities

CapEx Annual growth
(€ in Millions)



- In constant currency (*), CapEx grew by 0.6%, in line with year-end target (+0%/+3%)
- Keeping CapEx to sales below 12.5%

- >850 Million Euros devoted to Broadband in Spain & Latam
- Close to 630 Million Euros invested in our domestic mobile market, of which 26% was allocated to UMTS
- CapEx dedicated to mobile network deployment in Latin America topped 1 Billion Euros

Close to 55% of CapEx was allocated to growth areas

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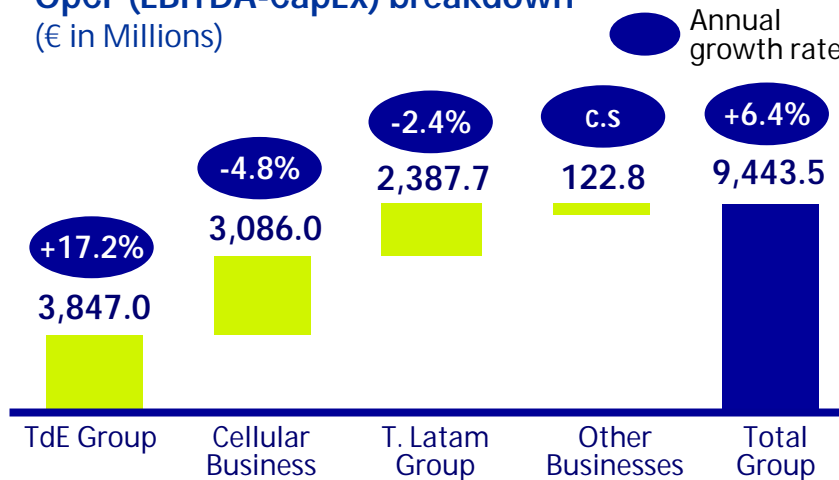
Despite investing for growth, we are keeping top quality cash flow generation and returns...



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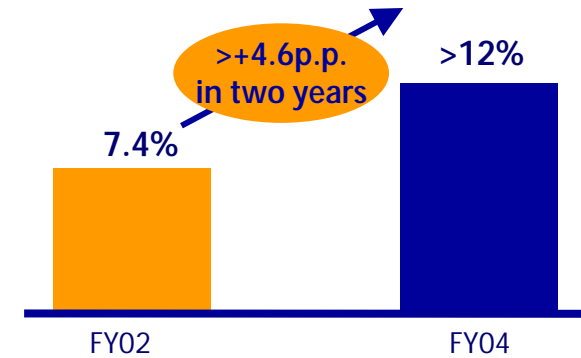
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OpCF (EBITDA-CapEx) breakdown
(€ in Millions)



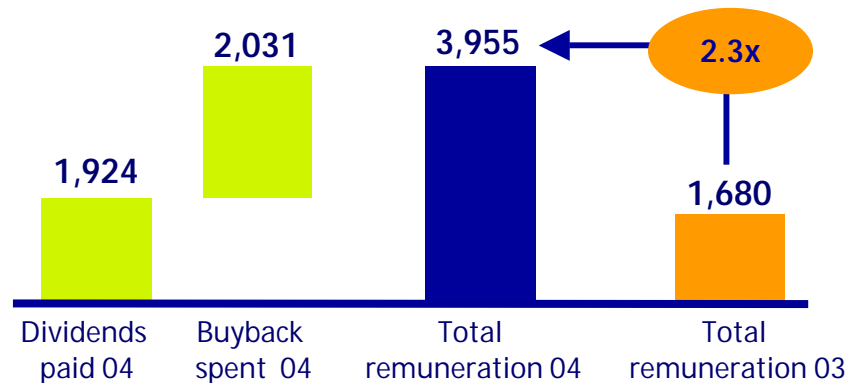
OpCF to sales at 31%

ROIC evolution



...and we stick to our disciplined policy in the use of funds to benefit both our shareholders...

Evolution of shareholder remuneration
(Amount spent, € in Millions)



Our latest decisions underpin our shareholder friendly approach

- Anticipating buyback program: 67.0% already completed
- Distributing treasury stock (1x25) to execute buyback
- Increasing 2005 dividend payment by 25% to 0.5€/share



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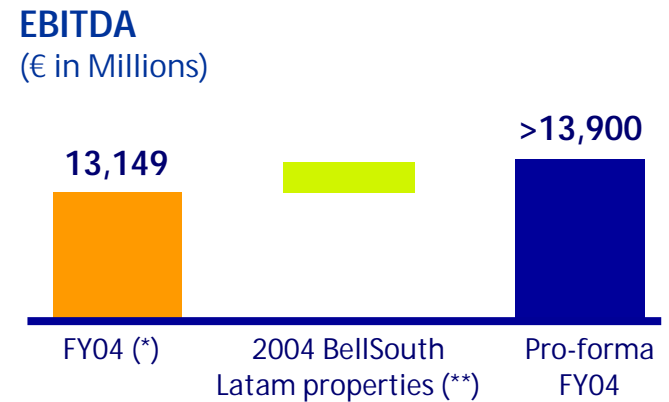
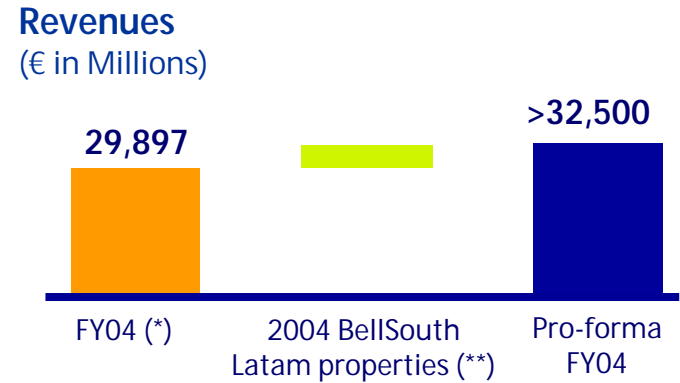
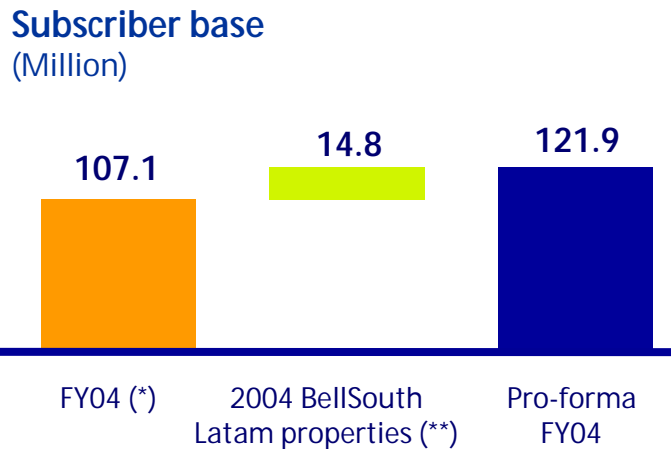
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..and the Group's future prospects, with BellSouth bringing growth to a new level



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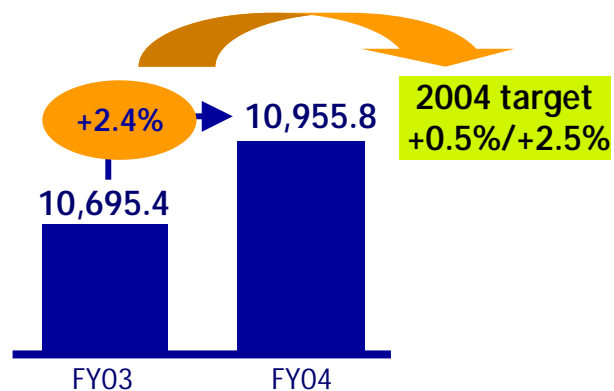
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(*) Excluding BellSouth Latam properties consolidated in November (Venezuela, Guatemala, Nicaragua, Panama, Ecuador, Colombia, Peru, Uruguay)

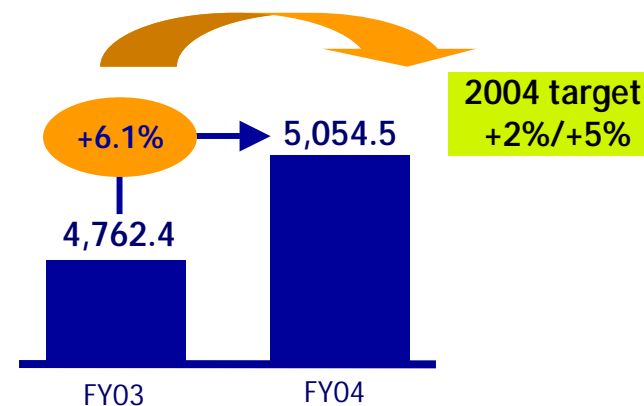
(**) Aggregated figures of all 10 BellSouth Latam properties (Venezuela, Guatemala, Nicaragua, Panama, Ecuador, Colombia, Peru, Uruguay, Chile and Argentina)

Telefónica de España Group (*): distinctive performance at the high-end of targets

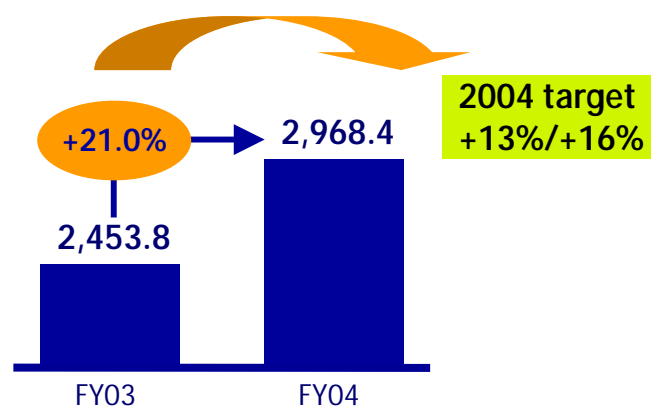
Revenues (*)
(€ in Millions)



EBITDA (*)
(€ in Millions)



OpCF (*) (**)
(€ in Millions)



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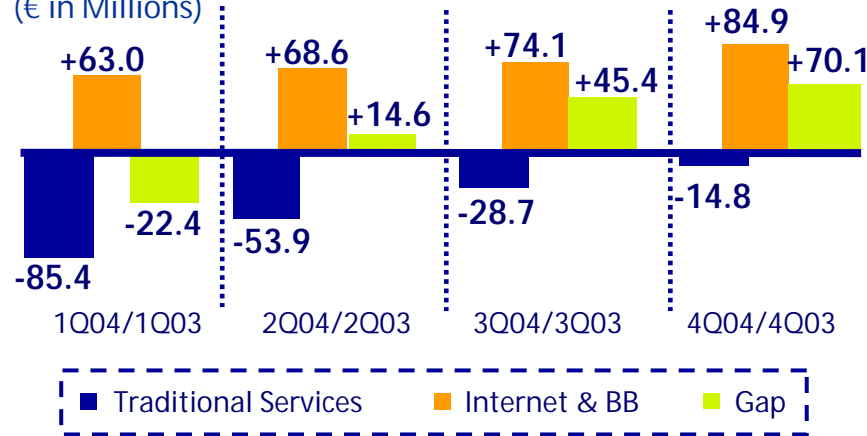
Telefónica de España Group (*): a combination of top line growth and profitability



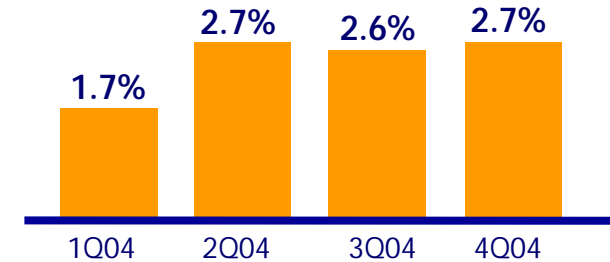
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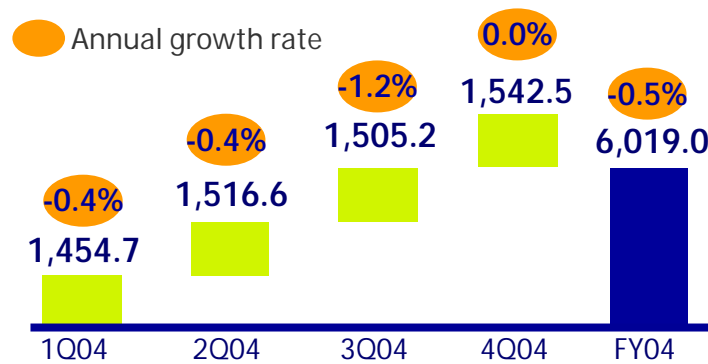
Rev. contribution gap: retail Internet&BB vs traditional (*)
(€ in Millions)



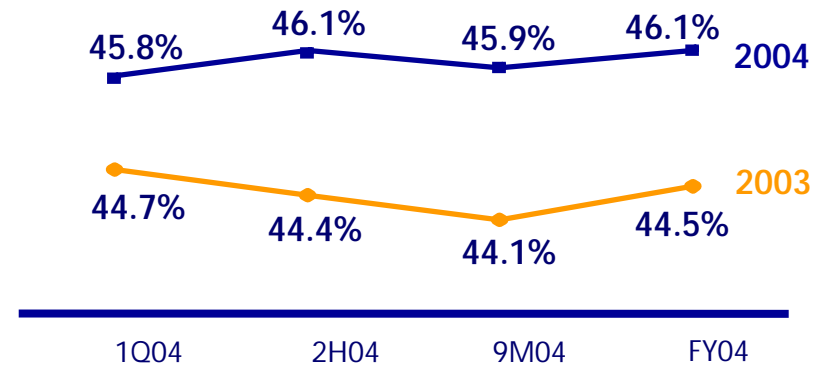
Quarterly evolution of revenues (*)
(% annual growth rate)



OpEx evolution (*)
(€ in Millions)



Cumulative EBITDA margin trend (*)



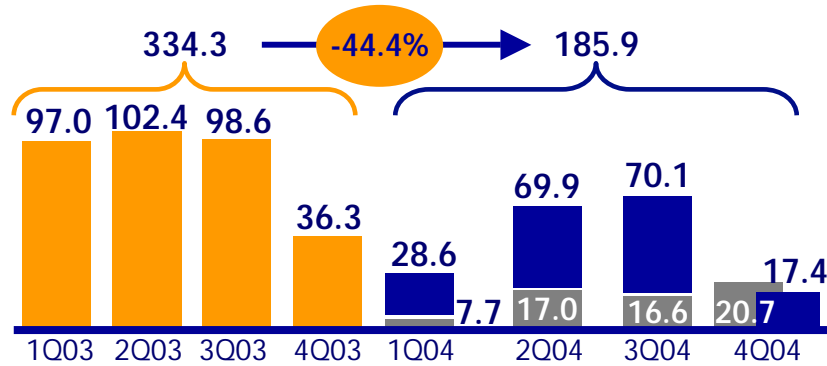
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(*) New management perimeter, including data & solutions operations

Telefónica de España parent: traditional services

Access lines net losses

(PSTN + B.A. ISDN; thousands) ■ Full ULL



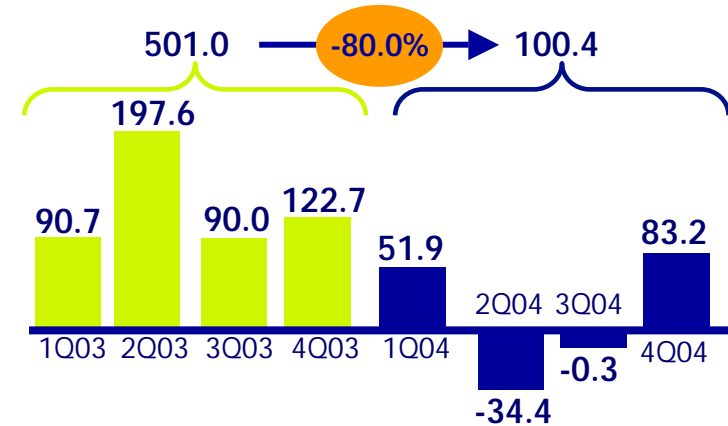
Shared ULL net adds

(thousands)

0.2 2.1 12.2 23.2

Pre-selected lines net adds

(Thousands)



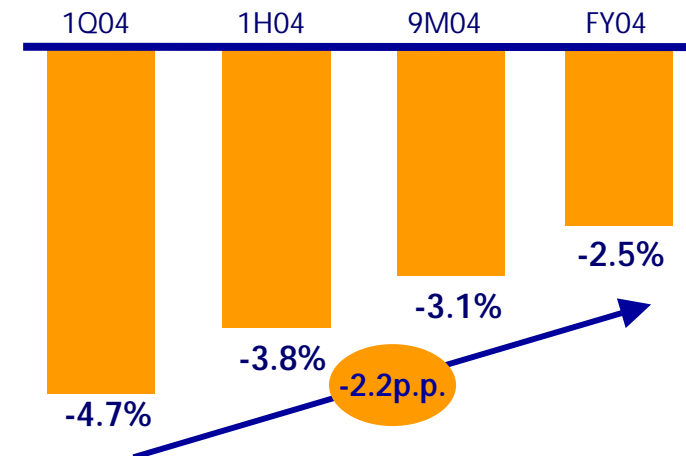
Estimated Traffic

(Million minutes)

	2004	2003	% Change 2004/2003
OUTGOING	68,787	80,822	-14.9%
<i>Voice (*)</i>	47,334	53,127	-10.9%
Local	24,929	28,882	-13.7%
Provincial	6,053	6,796	-10.9%
DLD	6,242	6,894	-9.5%
International	1,734	1,667	4.0%
F2M	5,777	5,855	-1.3%
IN (**)& Others	2,600	3,033	-14.3%
<i>Internet</i>	21,453	27,696	-22.5%
INCOMING	54,239	51,075	6.2%
TOTAL	123,026	131,897	-6.7%

Traditional revenue performance

(% growth y-o-y)



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

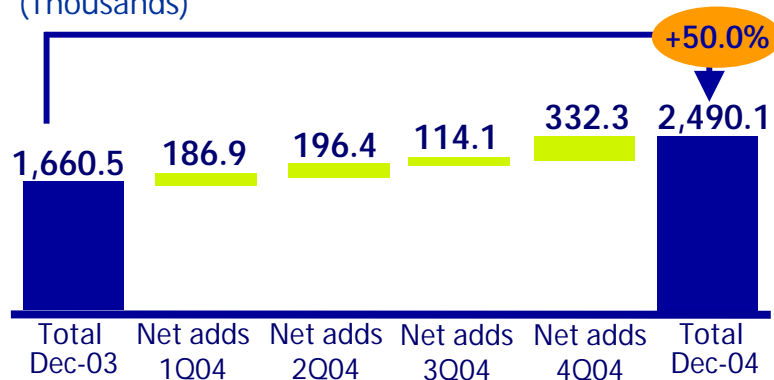
Telefónica de España parent: strong ADSL take-up within a highly competitive market



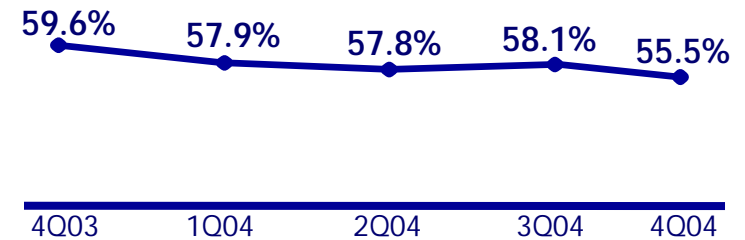
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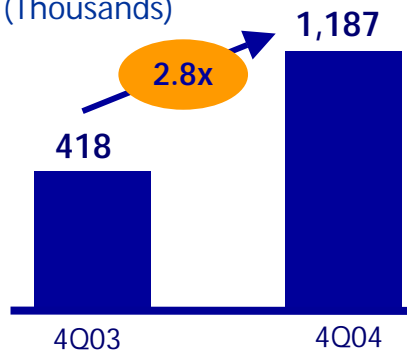
ADSL Connections
(Thousands)



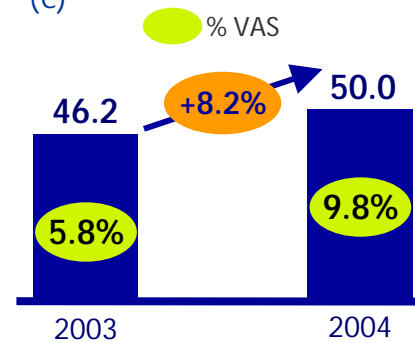
Estimated Group broadband market share



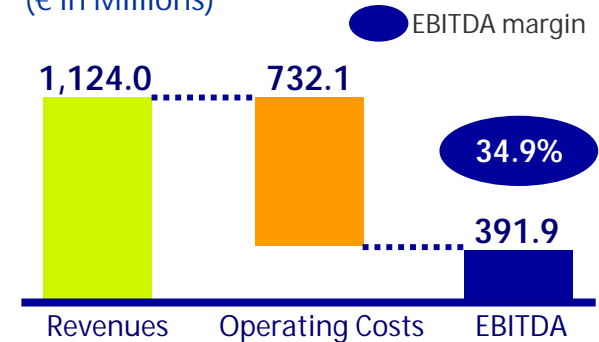
Operative VAS
(Thousands)



ADSL Retail ARPU
(€)



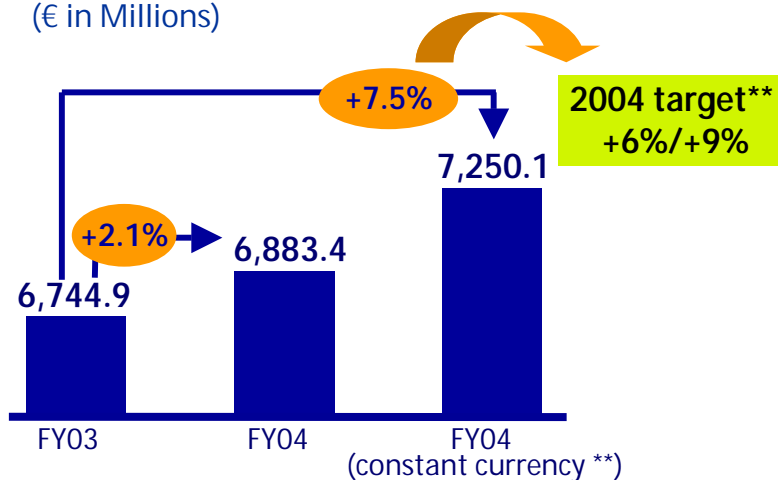
2004 ADSL EBITDA margin
(€ in Millions)



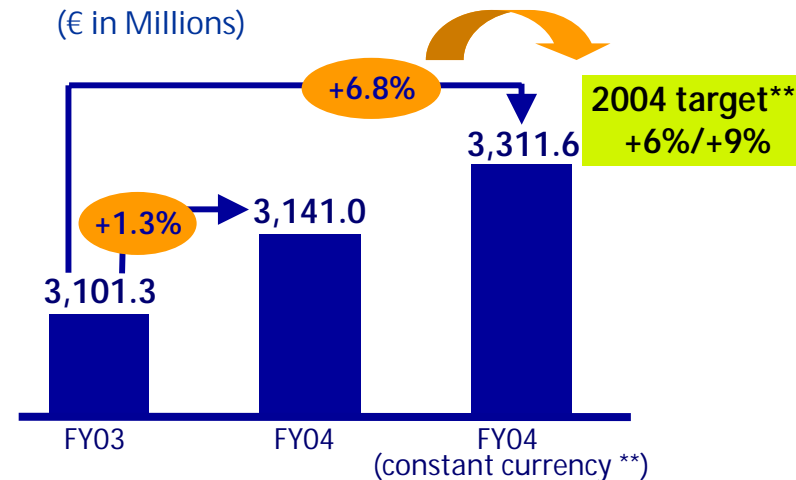
Imagenio nearly covers 1.6 Million households and has close to 8,000 subscribers by mid-February 05

Telefónica Latinoamérica (*): solid organic growth that stays within year-end targets

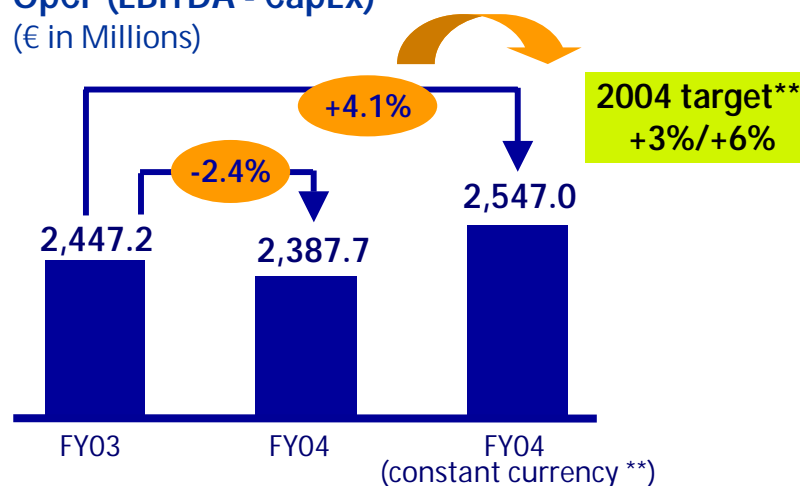
Revenues
(€ in Millions)



EBITDA
(€ in Millions)



OpCF (EBITDA - CapEx)
(€ in Millions)



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(*) New management perimeter, including data operations and TIWS

(**) Assuming constant exchange rates as of 2003. All figures exclude changes in consolidation

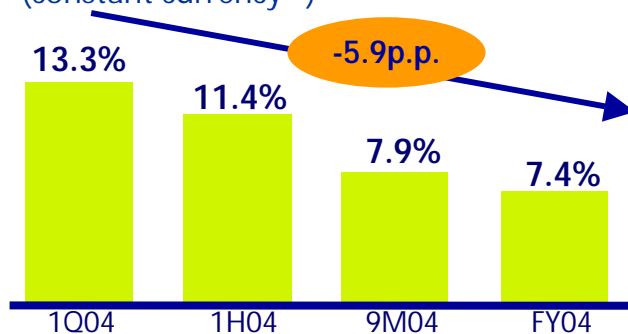
Telefónica Latinoamérica (*): cost and CapEx efficiency to drive margins and cash generation



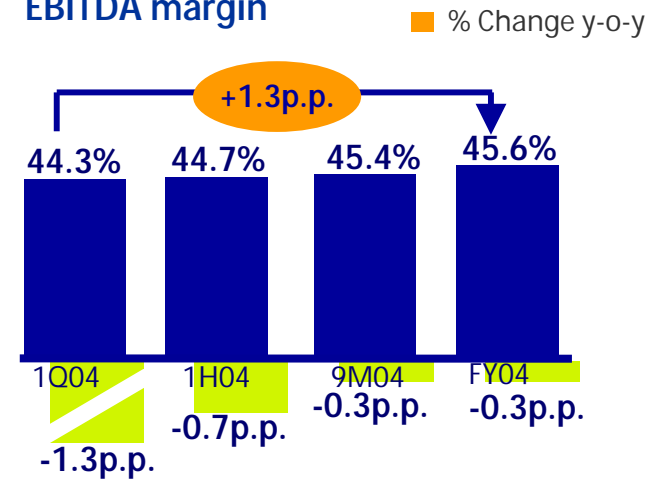
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Annual change in OpEx
(constant currency**)

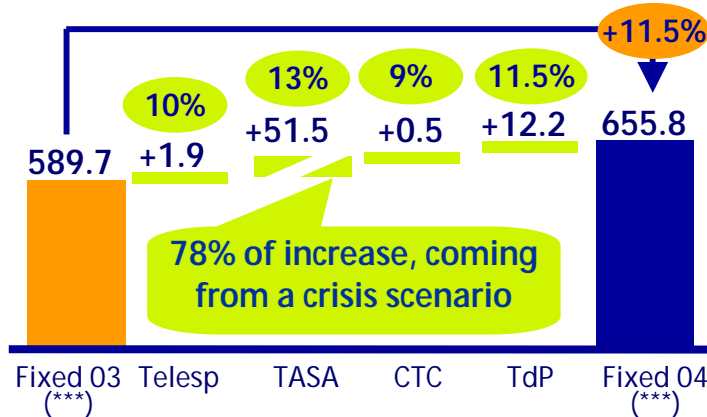


EBITDA margin



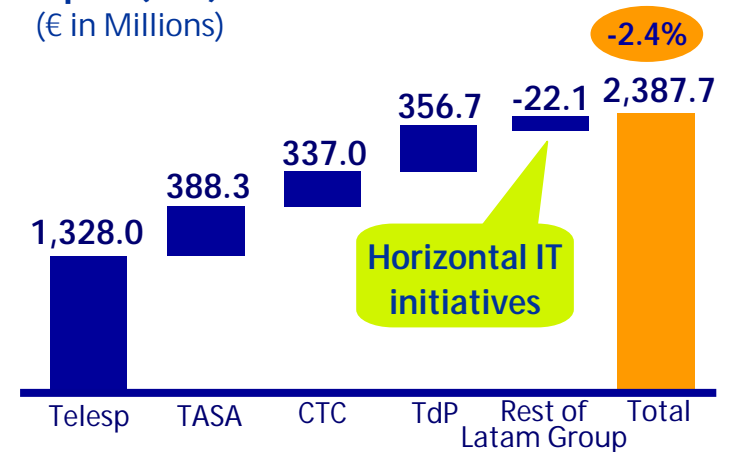
CapEx increase 2004/2003
(€ in Millions)

% 2004 CapEx/sales
local currency



OpCF (****) Generation
(€ in Millions)

% Change y-o-y



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(*) New management perimeter, including data operations and TIWS
 (**) Assuming constant exchange rates as of 2003. All figures exclude changes in consolidation
 (***) Telesp, TASA, CTC and TdP only
 (****) EBITDA-CapEx

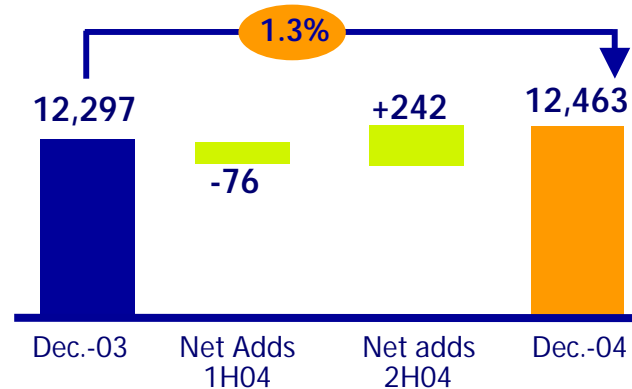
Telefónica Latinoamérica: Telesp stands as key contributor to organic growth...



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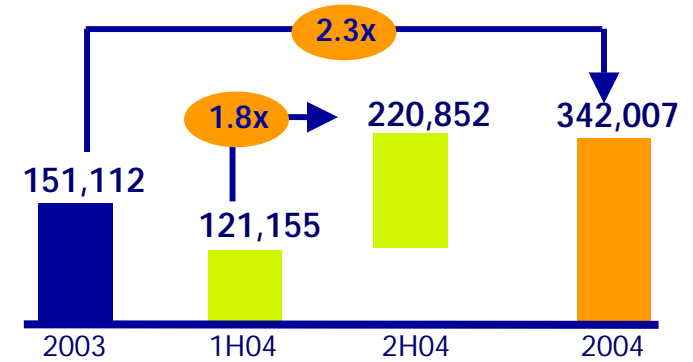
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Operating drivers
Traditional LIS (Thousands)



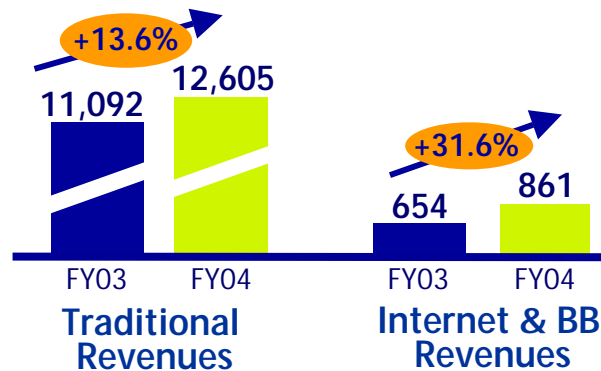
More than 1.9 Million pre-pay lines,
close to 16% of total

Operating drivers
ADSL Net Adds

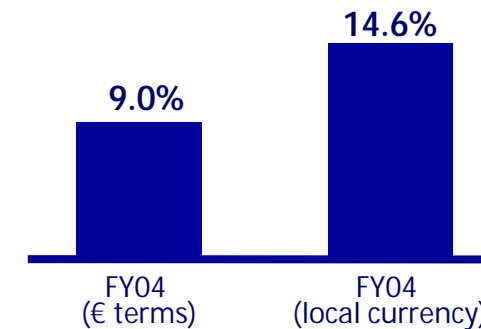


>826,000 connections at year-end,
+71% y-o-y

Telesp operating revenues breakdown
(BRL in Millions)



Telesp operating revenue growth
(% y-o-y)



... with TASA as a solid complement, benefiting from an improved macro scenario

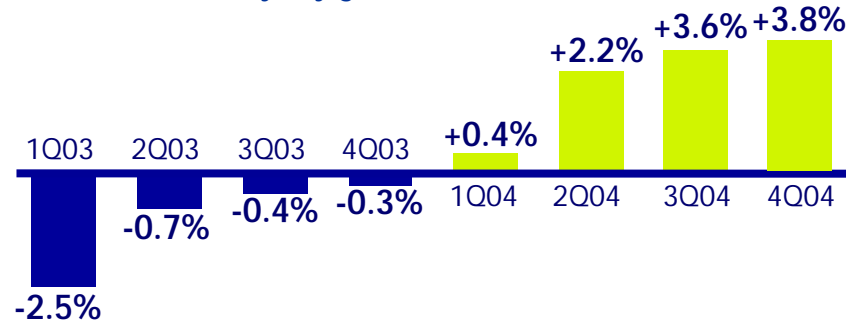


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Operating drivers

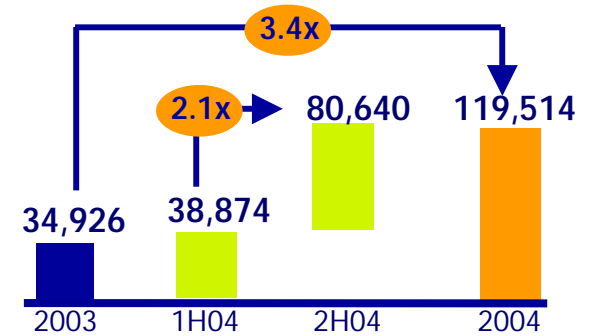
Traditional LIS (y-o-y growth rate)



- Around 160,000 net adds in 2004 vs -13,400 in 2003
- Traffic per line per day up by 7.2% in 2004

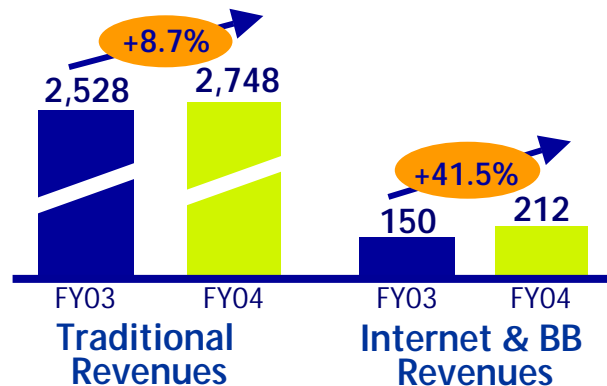
Operating drivers

ADSL Net Adds

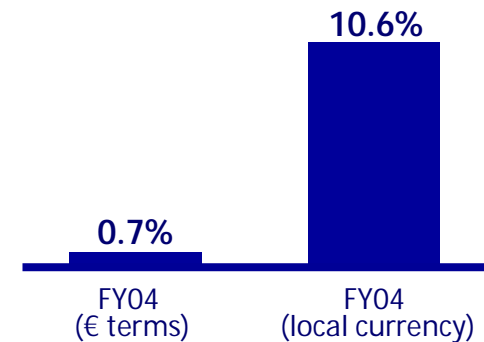


- Close to 189,000 connections at year-end, +172% y-o-y

TASA operating revenues breakdown (ARS in Millions)



TASA operating revenue growth (% y-o-y)

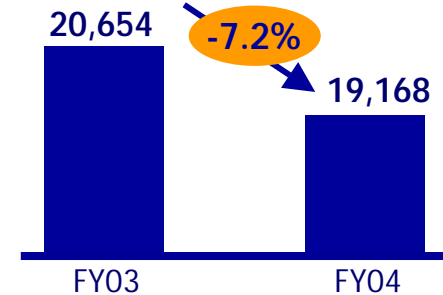


Debt reduction and active liability management are driving net financial expenses cut

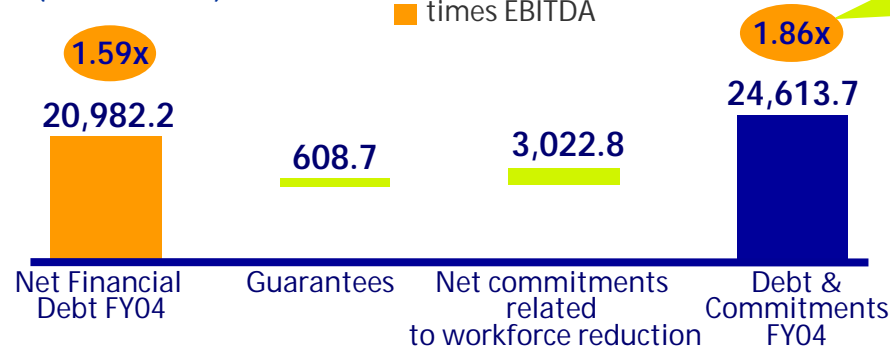
Reconciliation of Financial Expenses (€ in Millions)

	FY04	FY03	
Net Financial Expenses	(1,173.2)	(1,462.6)	(19.8%)
Argentinean Peso effects	(10.6)	134.4	
USD Debt Amortization		267.5	
Reported Financial Results	(1,183.8)	(1,060.7)	
Average Effective Debt Service Rate	6.1%	7.1%	

Average net debt (€ in Millions)



Debt and Commitments breakdown (€ in Millions)



Down to 1.8x when consolidating 12 months of BellSouth Latam properties

- Net Debt to EBITDA (ex-Latam) below 2x
- 2 Billion Euros preferred issue to be accounted as debt under IFRS

- 75% Euro, 18% Latam, 7% USD
- Average maturity of 4.9 years

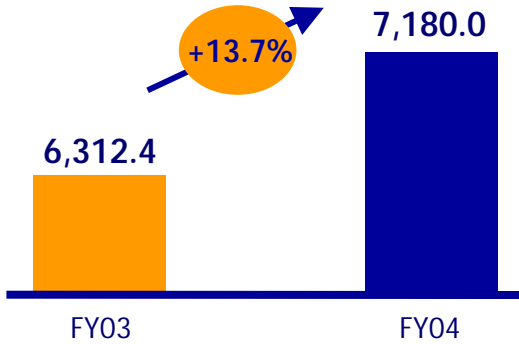


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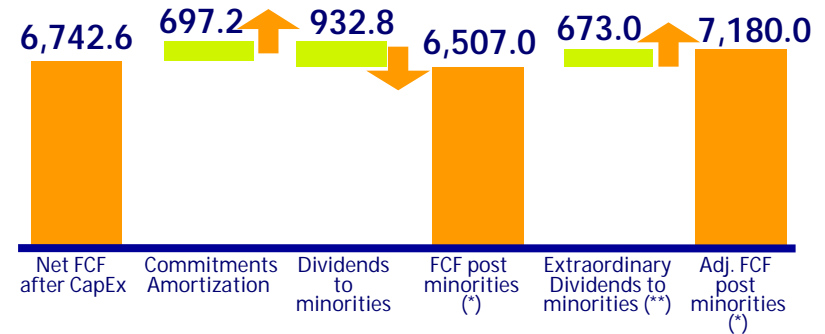
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Cash flow & Debt reconciliation

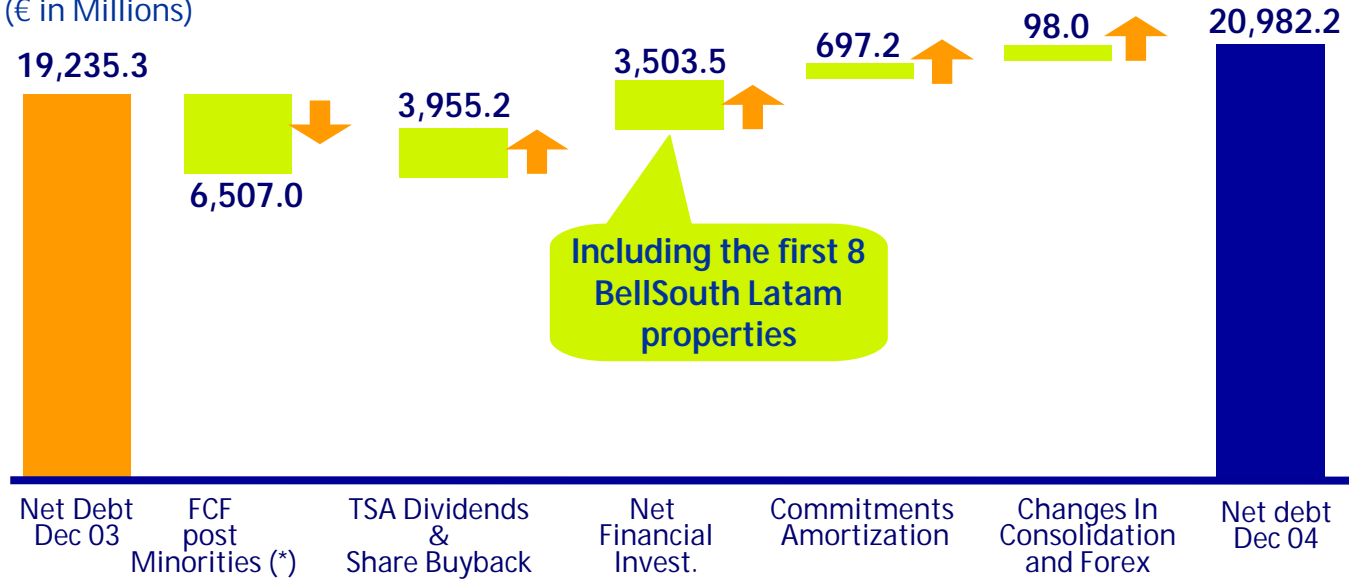
Trend in FCF
(€ in Millions)



Adjusted FCF
(€ in Millions)



Net Debt reconciliation
(€ in Millions)



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2004

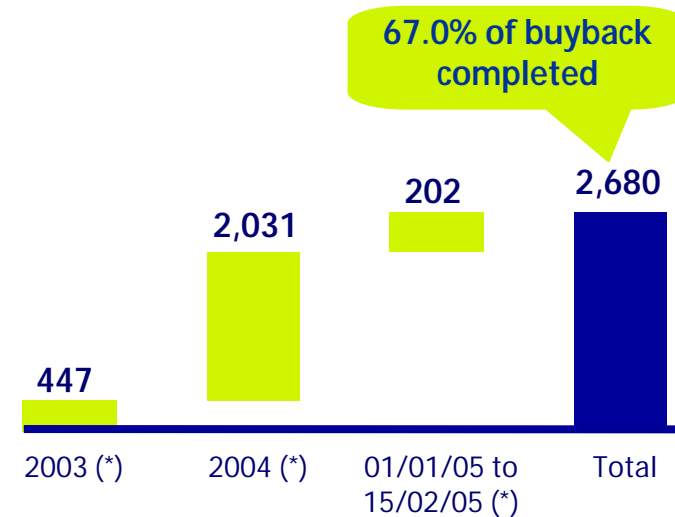


Share buyback program progress report

Treasury stock
(n° of shares in Millions)

DATE	CASH	OPTION BASED	TOTAL % OF CAPITAL
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
30-SEP-04	173.4	3.0	3.6
31-DIC-04	207.0	8.0	4.3
15-FEB-05	246.1	-	4.97

Average cost of treasury stock
(yearly amount spent, € in Millions)



Quarterly Results
January – December
2004

Telefonica

- PRINCIPLES: 4 BILLION EUROS UP TO END 2006, CONDITIONED TO FCF GENERATION AND SHARE PRICE
- BUYBACK COMMITMENT PROGRESSING FASTER THAN TIME: 67.0% VS. 16^{1/2}/39 MONTHS (42.3%)

Telefónica, S.A.
Investor Relations

(*) 50.0 MM on treasury acquired in 2003 valued at €8.94 (average acquisition price). 166.5 MM shares acquired in 2004 valued at €12.20 (average acquisition price), and 38.9 MM shares acquired between 01/01/05-15/02/05 valued at €5.196 (average acquisition price; 34.7 MM shares acquired in cancellation of the TIES program)

Conclusions

1. We are posting healthy organic top line growth, a key differentiating attribute we will continue to target through intense commercial action to expand our client base
2. The BellSouth acquisition brings additional scale and enhances the Group growth profile even further
3. Our wireline divisions are best in class, showing strong resilience to challenging operating environments and contributing decisively to consolidated financial performance
4. Despite short term pressures on profitability, particularly in mobile, our determination to grow top line is not impacting the company's cash flow generation capabilities and returns, which remained robust
5. We have a disciplined strategy for the use of funds and we firmly believe that we are in a unique position to combine growth and attractive shareholder returns

2005 GUIDANCE TO BE PROVIDED ON MARCH 30TH, 2005



Quarterly Results
January – December
2004

Telefónica

Telefónica
