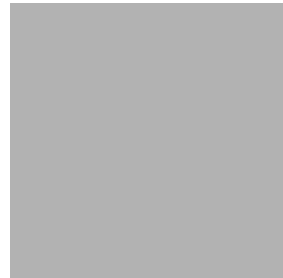


# Quarterly Results January – June 2005



July 28th, 2005



# Disclaimer

This document 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 document contains financial information/data reported under IFRS. This data is preliminary as full compliance with International Financial Reporting Standards is not required until 31 December 2005, unaudited, and is therefore subject to potential 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 full year consolidated financial statements and, consequently, does not represent a complete and final information under these regulations. In addition, the IFRS financial information contained herein may not be comparable to financial information published by Telefónica that was prepared under Spanish GAAP.



# 1H05 financial highlights: nurturing top-line growth...

Quarterly Results  
January – June 2005

	Jan-Jun 2005	Jan-Jun 2004	% Change 1H05/1H04		% Change 1H05/1H04 organic <sup>(1)</sup>
Revenues	17,359.7	14,469.9	+20.0%		+10.1%
Operating Expenses <sup>(2)</sup>	(11,022.2)	(8,945.2)	+23.2%		
Operating Income before D&A (OIBDA)	6,621.4	5,740.3	+15.3%		+6.6%
D&A	(3,093.0)	(2,833.3)	+9.2%		
Operating Income (OI)	3,528.4	2,907.0	+21.4%		+12.6%
Net Income	1,835.1	1,464.0	+25.4%		

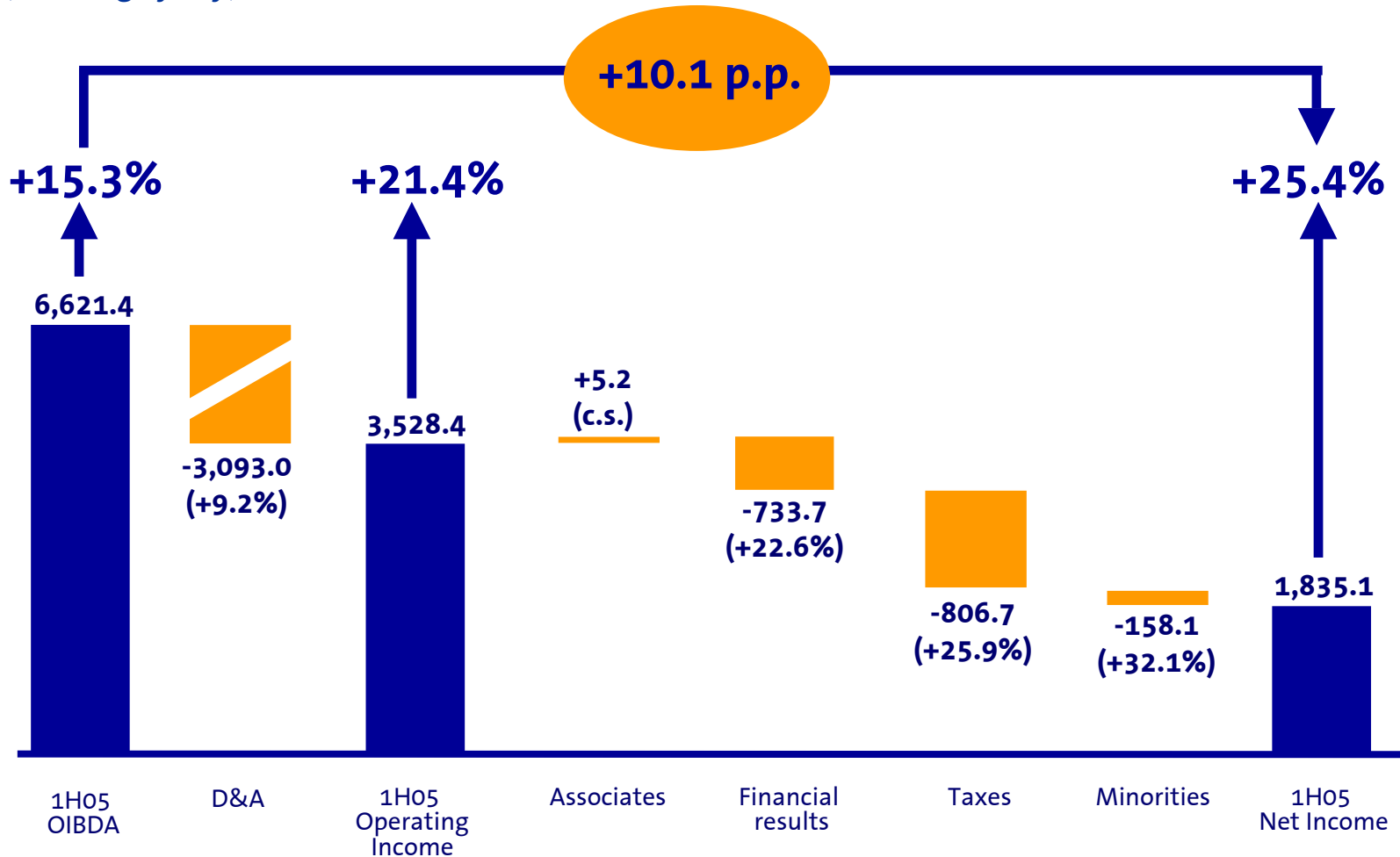
(1) Assuming constant exchange rates as of 1H04. Incorporating the assets acquired to BellSouth in Argentina, Colombia, Chile, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay and Venezuela into the mobile business and Atrium into Telefónica Latinoamérica Group, from January 1st 2004

(2) Supplies, Personnel Expenses, External Services and Taxes



# ...that flows down the P&L by successfully managing non-operating results

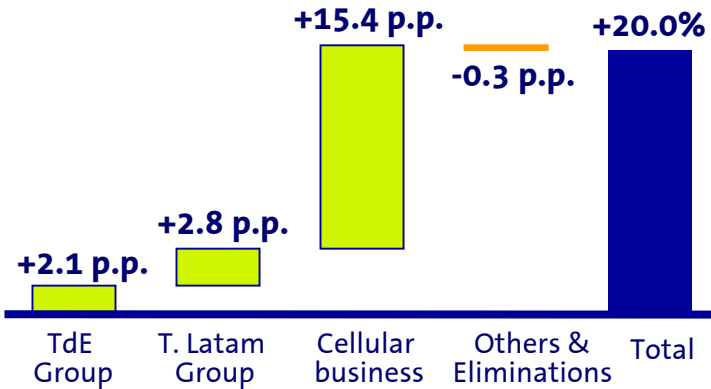
€ in Millions  
(% change y-o-y)



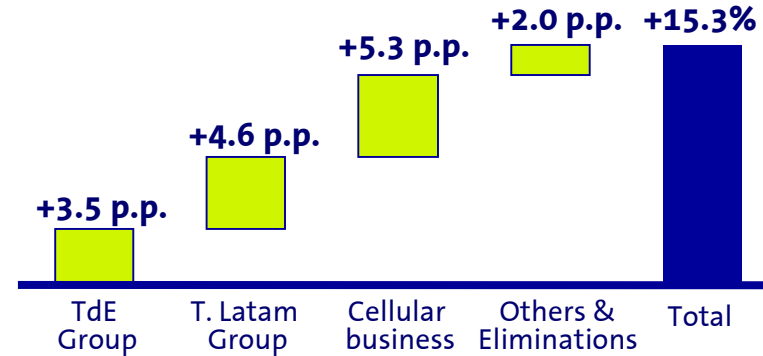


# The diversification advantage, leveraging on the value of being an integrated operator

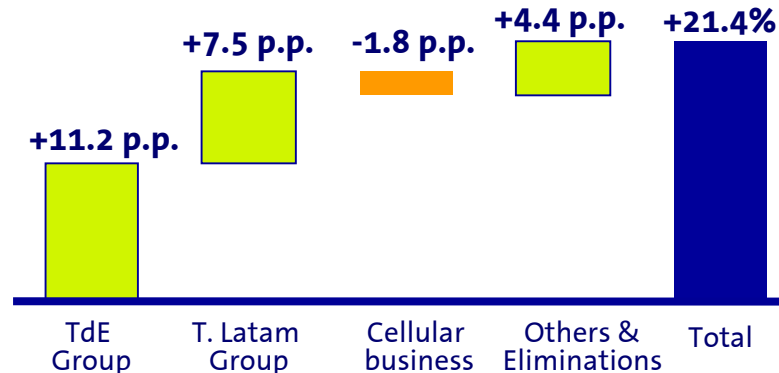
## Contribution to revenue growth



## Contribution to Operating Income before D&A (OIBDA) growth



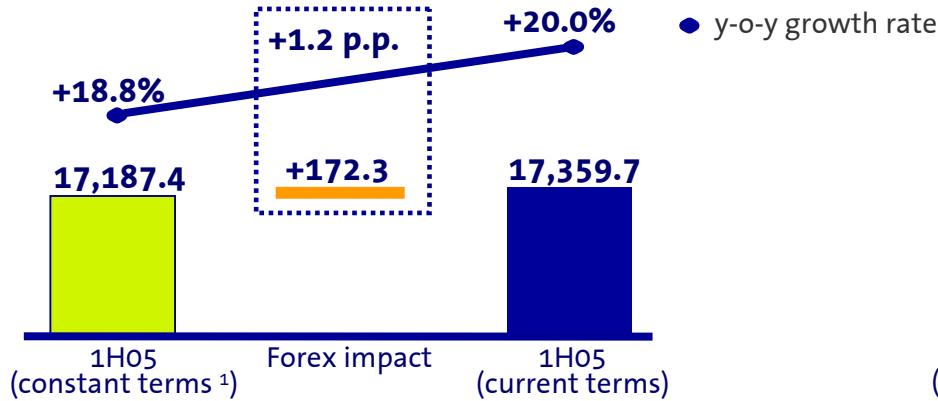
## Contribution to Operating Income growth



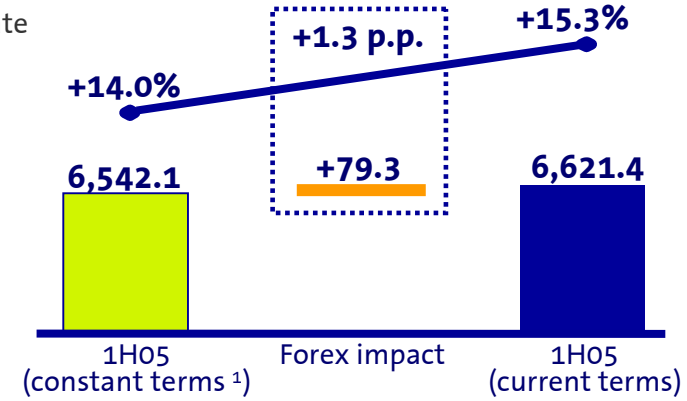


# The evolution of foreign currencies is positively contributing to Group's growth...

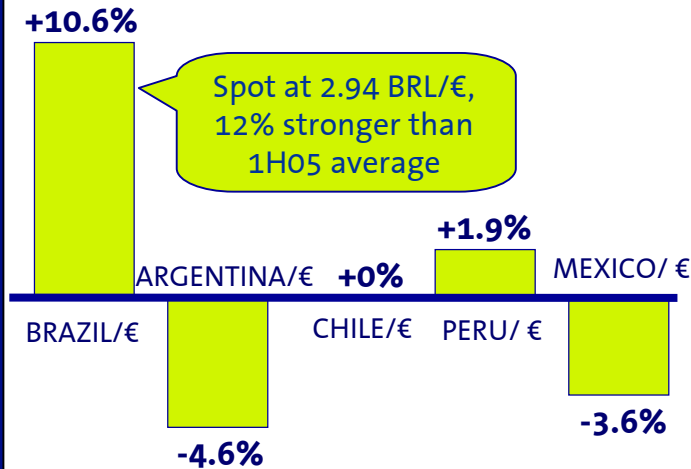
**Revenues: constant vs current**  
(€ in Millions)



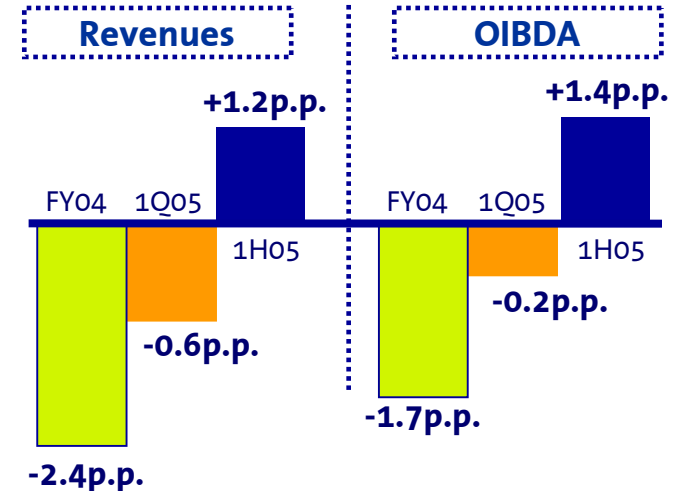
**OIBDA: constant vs current**  
(€ in Millions)



**Yearly movement of main currencies (2)**



**Forex impact comparison (2004 vs 2005)**





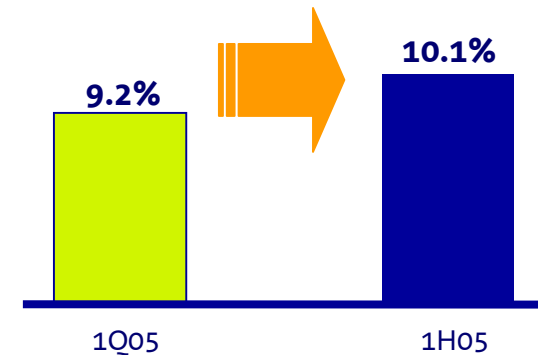
# ...supporting our solid underlying revenue performance...

Quarterly Results  
January – June 2005

## Revenue growth evolution <sup>(1)</sup> (constant currency)

	% Change 1Q05/1Q04	% Change 1H05/1H04
TdE Group	+6.0%	+5.4%
Cell. Business	+36.6%	+40.6%
T. LATAM	+3.4%	+6.5%
<b>Group</b>	<b>+17.3%</b>	<b>+18.8%</b>

## Organic revenue growth <sup>(2)</sup>





# ...that is being driven by commercial initiatives to strengthen market position

## Repositioning our brands



## Marketing new products & pricing schemes

**imagenio**  
Elige hasta 5 números movistar

**conectame**  
Dê um play no futuro  
Con la compra de tu nuevo movistar con cámara

conectate a la banda ancha de Speedy con 2 meses gratis! modem sin cargo

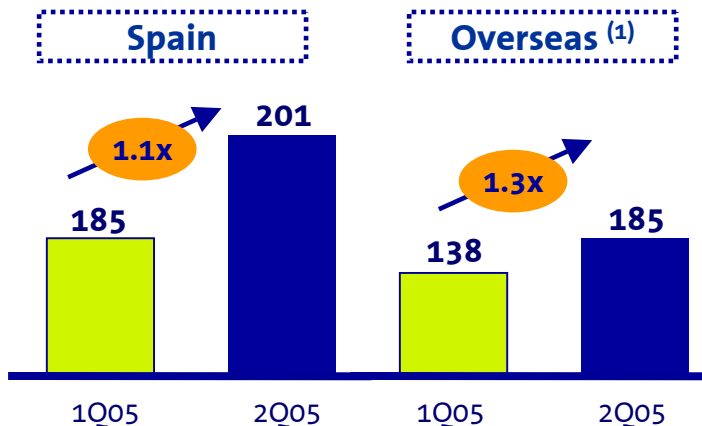
**Speedy**  
Aproveite. São até 3 meses de Speedy grátis\*  
Mas corre, senão a promoção acaba e quem samba é você.

## Running focused promotions

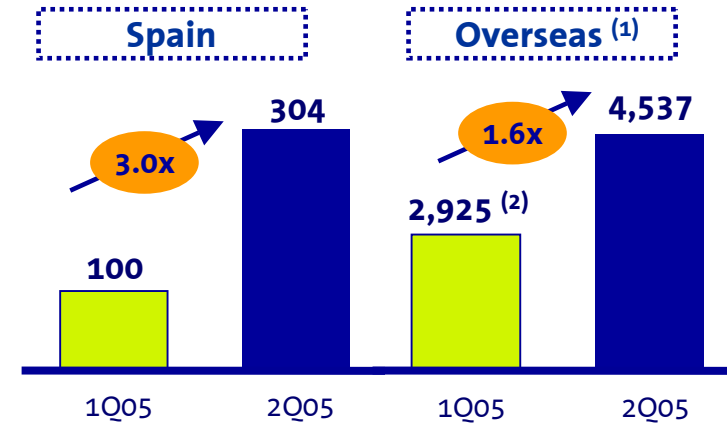
**ADSL Verano 2005**  
» El alta, las cuotas mensuales hasta septiembre y las llamadas metropolitanas GRATUITAS + Regalo seguro

**pídemelo 100x1**  
Habla 100 min. y paga 1.  
Apúntate ya en el 4404.

## Group retail ADSL net additions (Thousands)



## Group cellular net additions (Thousands)



(1) Latin America only

(2) proforma, based on a 2004 client base including the operators acquired from BellSouth in Chile (1.4 MM. clients as of 31/12/04) and Argentina (2.1 MM. clients as of 31/12/04)

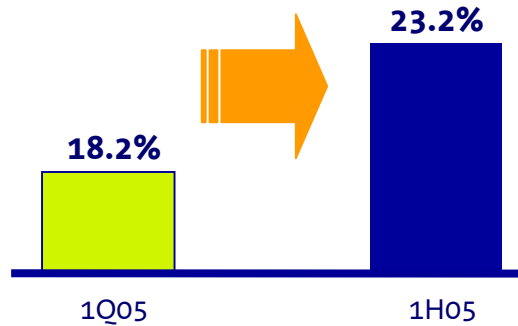




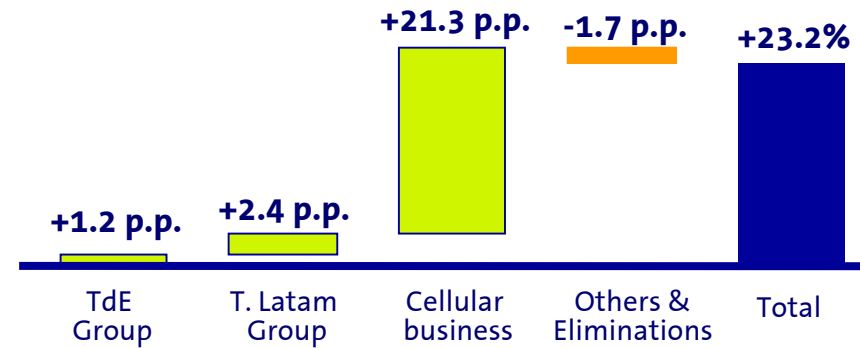
# The drive on revenues and customers are impacting costs and margins...

Quarterly Results  
January – June 2005

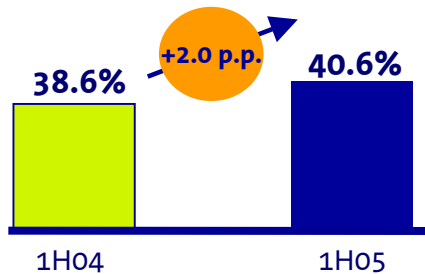
### Operating costs growth <sup>(1)</sup>



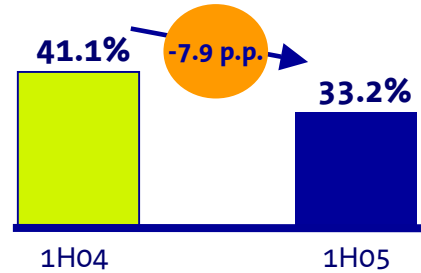
### 1H05 contribution to OpEx<sup>(1)</sup> growth



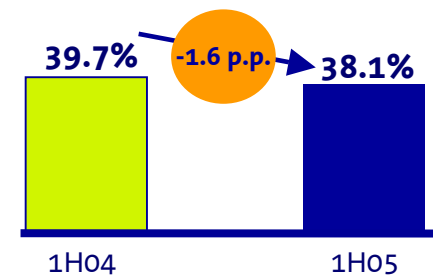
### Wireline OIBDA Margin (aggregate TdE+T.Latam)



### Cellular OIBDA Margin



### Group OIBDA Margin



Commercial efforts and one-off integration costs largely explain margin contraction



# ...with cash generation remaining at healthy levels backed by wireline

## CapEx breakdown by division

(€ in Millions)

	Group Total	% Change 1H05/1H04	% Change 1H05/1H04 ex-fx
TdE Group	620.7	+17.7%	+17.7%
Cell. Business	847.0	+64.4%	+52.7%
T. LATAM	378.1	+60.8%	+34.3%
<b>TOTAL</b>	<b>1,989.7</b>	<b>+47.6%</b>	<b>+38.2%</b>

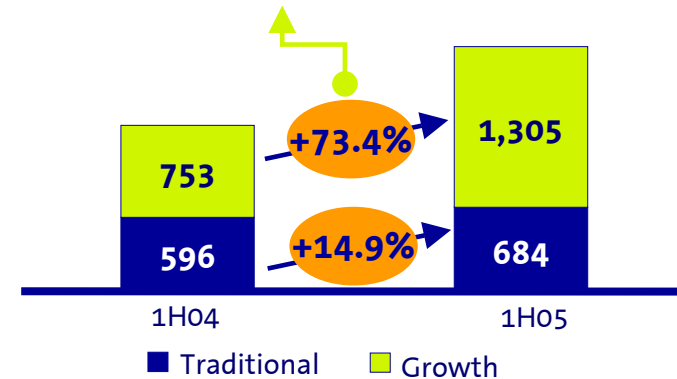


**2005 guidance: 4,600 MME<sup>(1)</sup>**

## CapEx breakdown: traditional vs growth

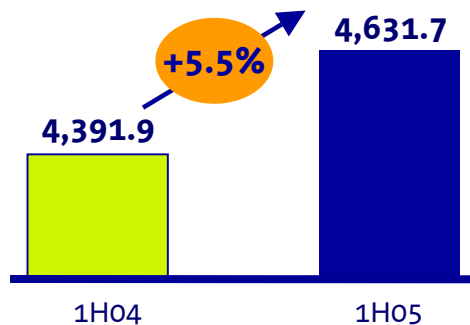
(€ in Millions)

- 50% of growth at TEM (GSM/CDMA + 2.5G/3G).
- 35% of growth devoted to BB Spain+Latam



## OpCF (OIBDA-CapEx)

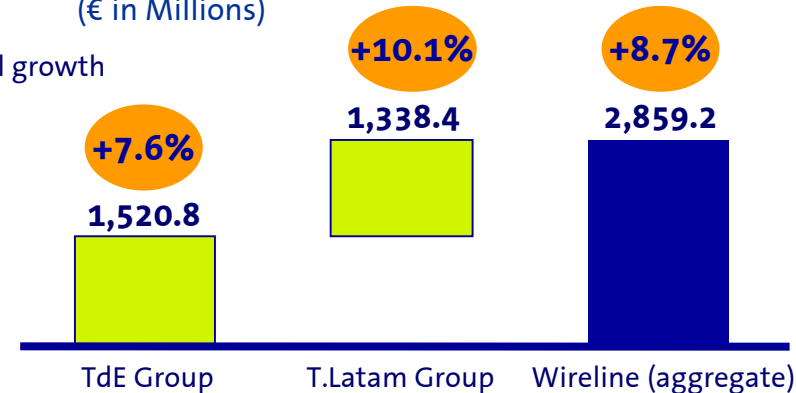
(€ in Millions)



## Wireline OpCF (OIBDA-CapEx)

(€ in Millions)

● Annual growth



**Wireline represents >60% of Group's OpCF**

Quarterly Results  
January – June 2005

Telefonica

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Investor Relations

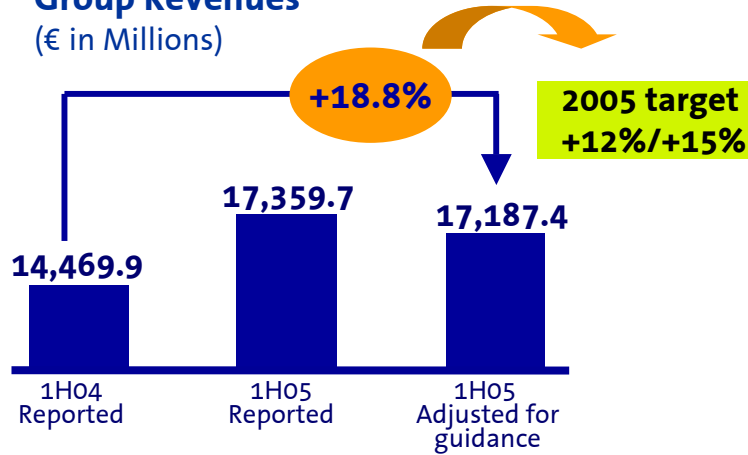
(1) Assuming constant exchange rates as of 2004. Excluding changes in consolidation other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (T.Latam)



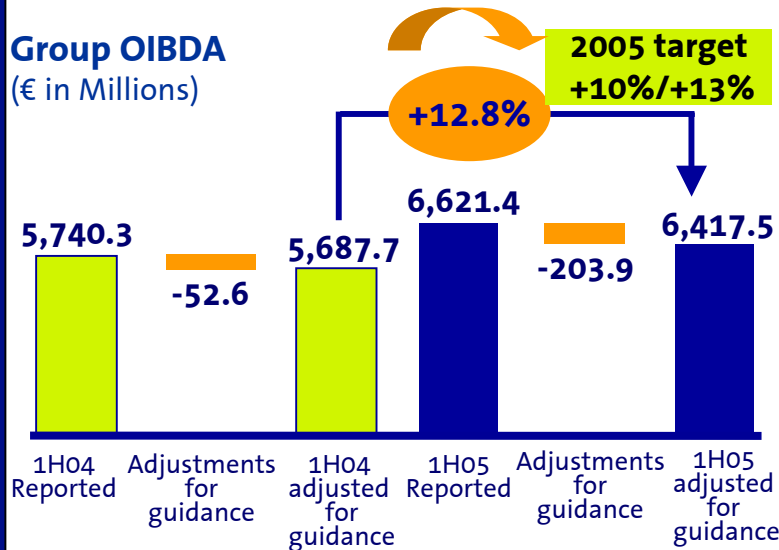
# Evolution of guidance

Quarterly Results  
January – June 2005

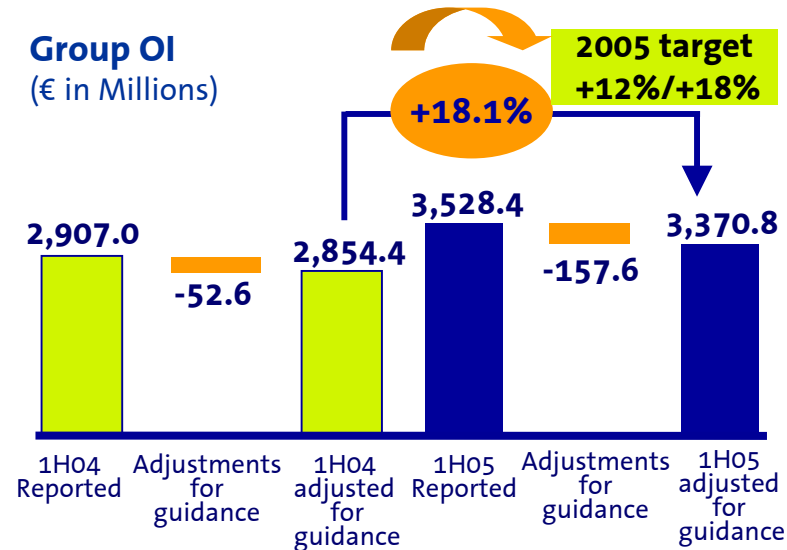
**Group Revenues**  
(€ in Millions)



**Group OIBDA**  
(€ in Millions)



**Group OI**  
(€ in Millions)



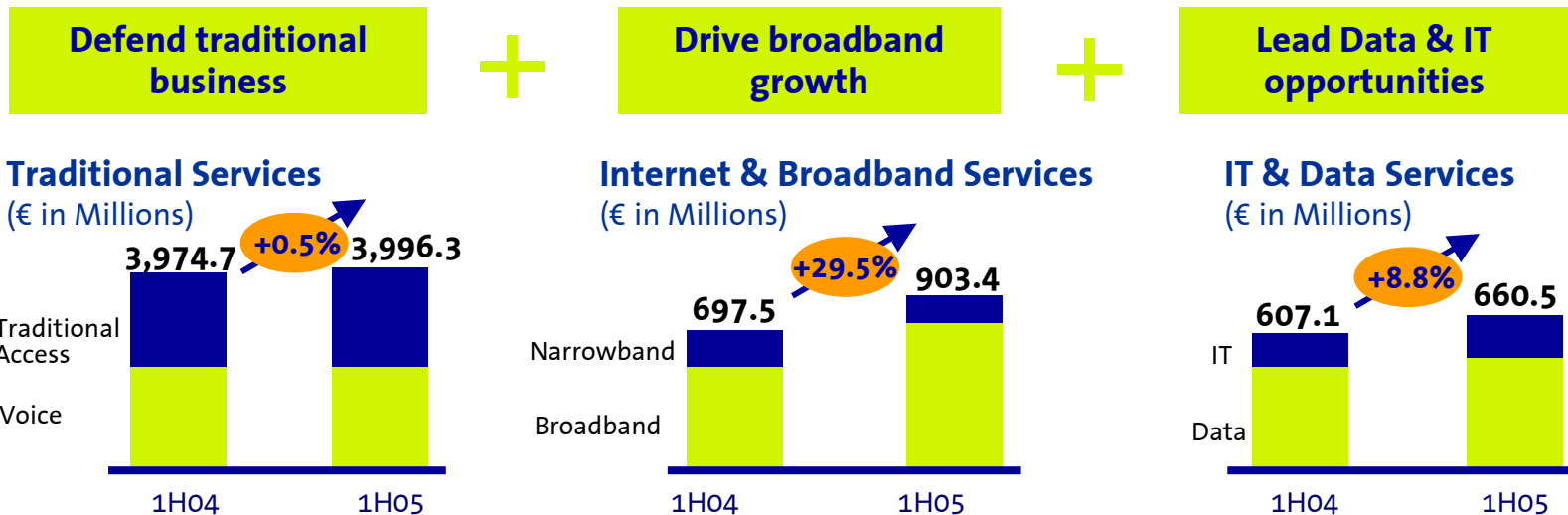
**Notes**

1H05 adjusted for guidance assumes constant exchange rates as of 1H04 (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 1H04 are also deducted from reported figures in terms of guidance calculation

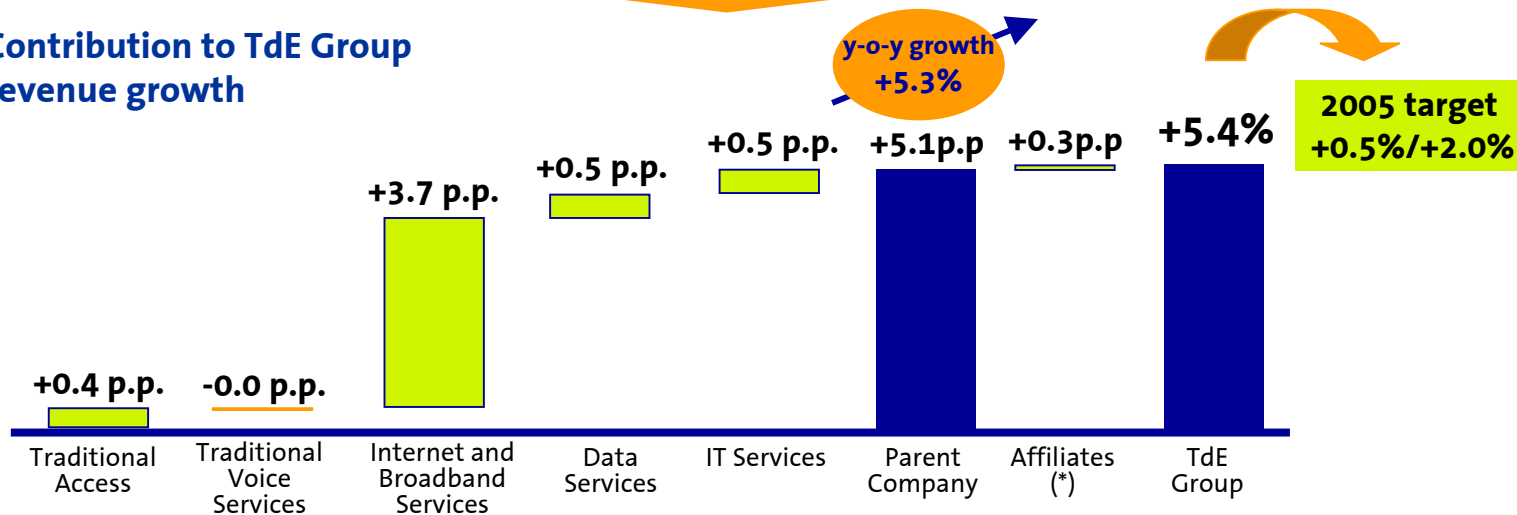


# Telefónica de España Group: managing business lines to drive top line growth...

Quarterly Results  
January – June 2005



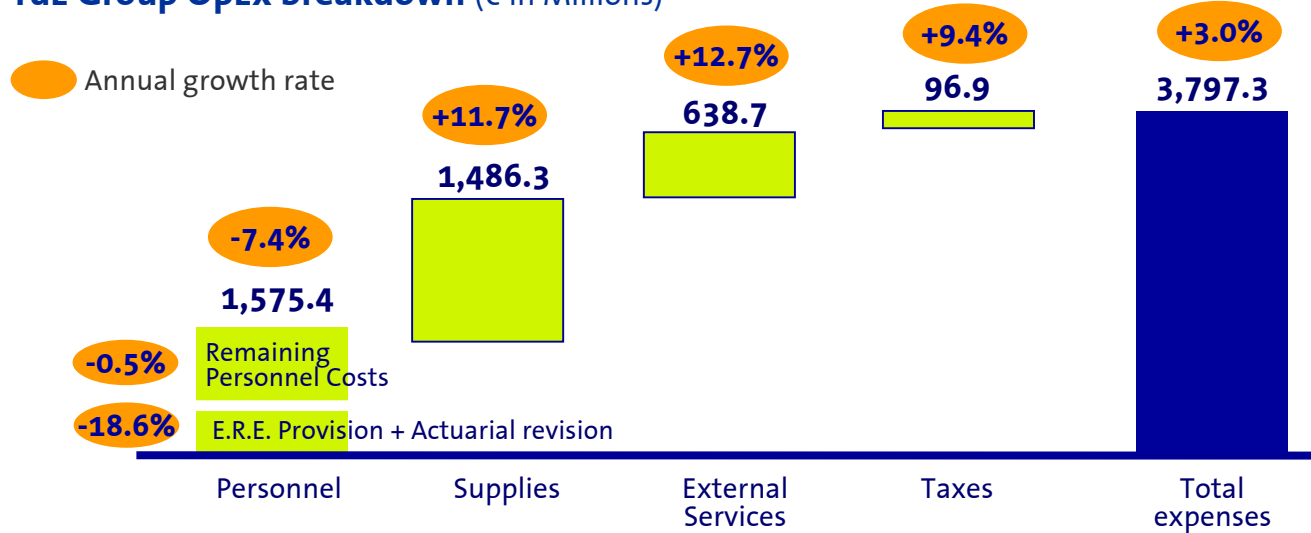
## Contribution to TdE Group revenue growth



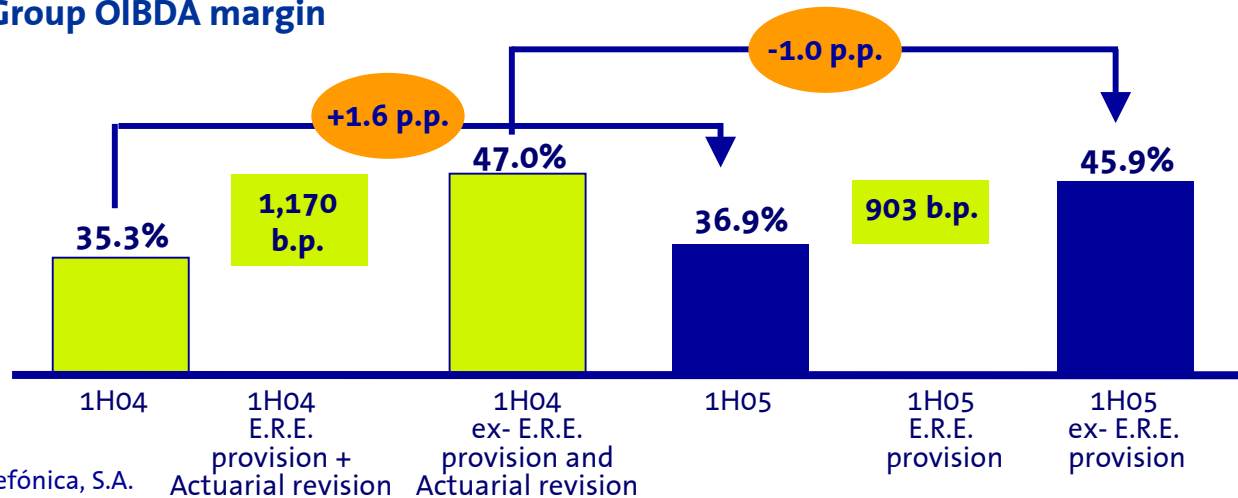


# ... and keep a solid OIBDA margin despite the increase in supplies and commercial costs...

TdE Group OpEx breakdown (€ in Millions)



TdE Group OIBDA margin



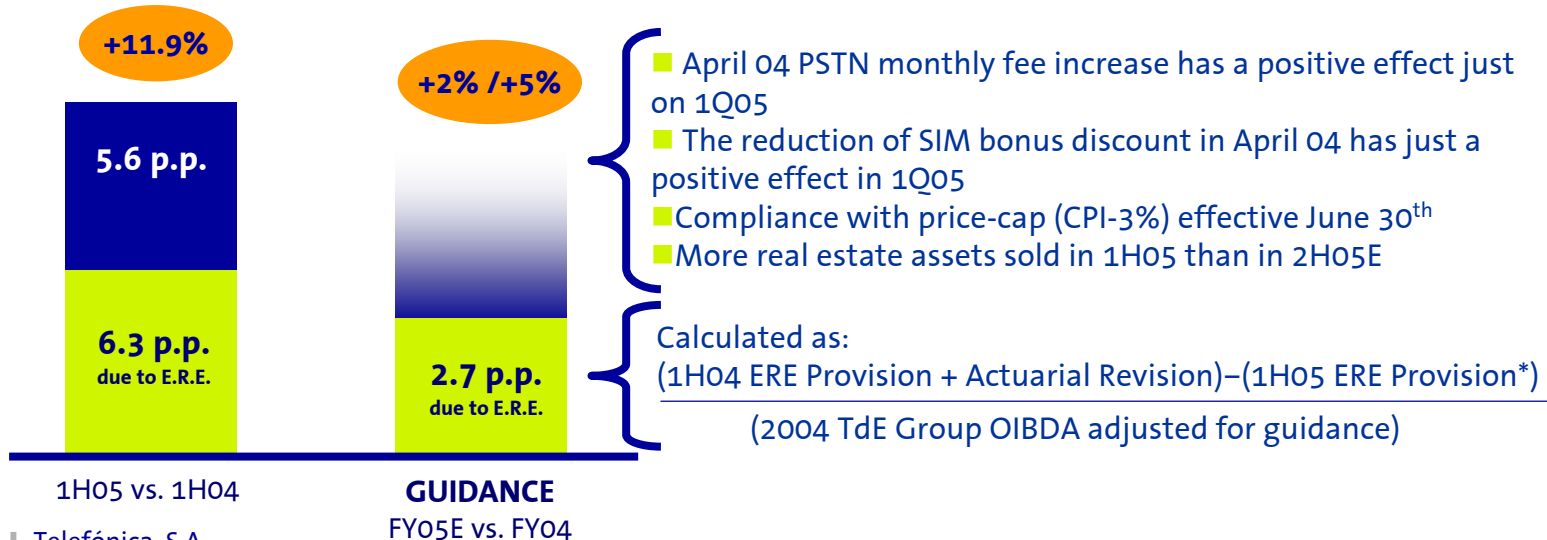


# ...to close the quarter in line with our expectations for the end of the year

## TdE Group OIBDA guidance (€ in Millions)

	OIBDA	Adjustments for guidance calculations	
1H04	1,941.1	-46.2	1,894.9
1H05	2,141.5	-20.5	2,121.0
Growth	10.3%		+11.9%

## TdE Group OIBDA: 1H05 vs guidance



1H05 vs. 1H04

GUIDANCE  
FY05E vs. FY04

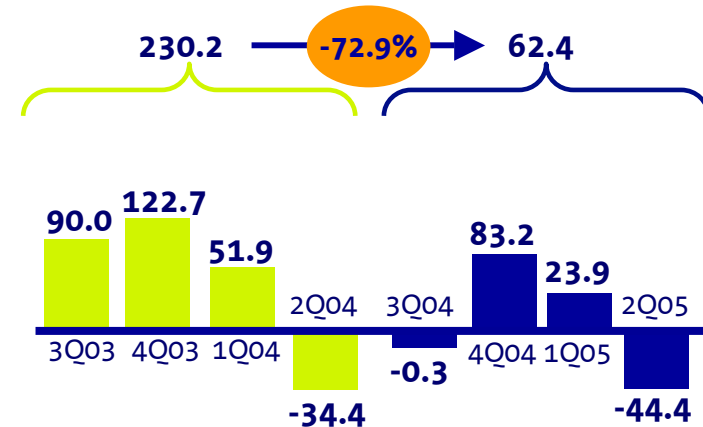


# Telefónica de España parent: traditional services

## Lines evolution (Thousands)

	2Q04	3Q04	4Q04	1Q05	2Q05
<b>Access lines net losses</b>	69.9	70.1	17.4	85.1	29.9
- Full ULL net adds	17.0	16.6	20.7	21.8	20.2
<b>Shared ULL net adds</b>	2.1	12.2	23.2	55.5	83.3

## Pre-selected lines net adds (Thousands)



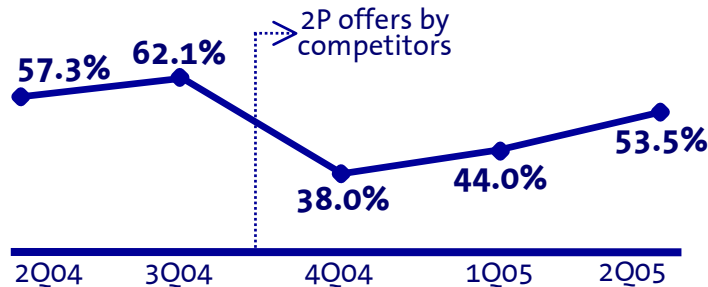
## Estimated Traffic (Million minutes)

	1H05	1H04	% Change 1H05/1H04
<b>OUTGOING</b>	31,442	36,301	-13.4%
Voice (*)	22,765	24,746	-8.0%
Local	11,730	13,322	-11.9%
Provincial	2,777	3,127	-11.2%
DLD	3,005	3,263	-7.9%
International	965	838	15.2%
F2M	2,876	2,872	0.1%
IN (**) & Others	1,413	1,324	6.7%
Internet	8,676	11,555	-24.9%
<b>INCOMING</b>	26,063	28,182	-7.5%
<b>TOTAL</b>	<b>57,504</b>	<b>64,483</b>	<b>-10.8%</b>

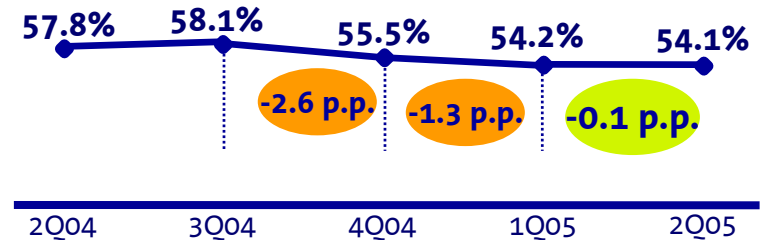


# Telefónica de España: Keeping BB market share under a highly competitive scenario

Retail BB net adds market share (\*)



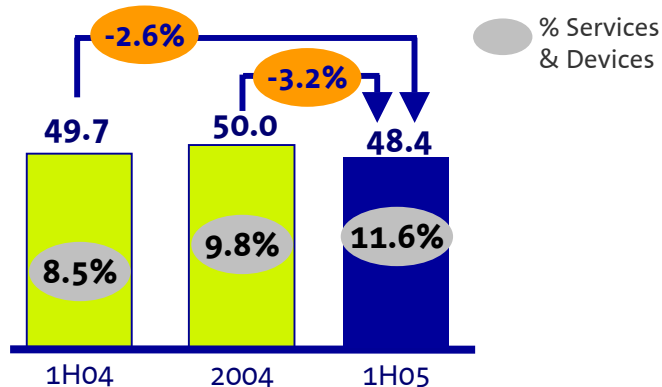
Retail BB market share (\*)



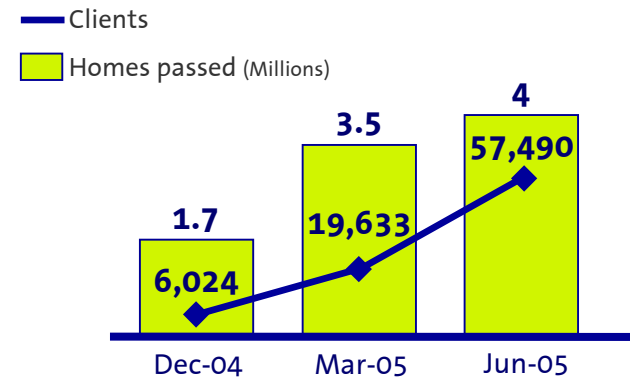
(\*) Estimated for Telefónica Group

Successful commercial strategy based on excelling customer care, innovation in portfolio of services, speed upgrades, promotions and 2P & 3P offers.

ADSL Retail ARPU, TdE parent (€)



IMAGENIO: Homes passed and Clients



Over 60% of retail customers have purchased at least one VAS

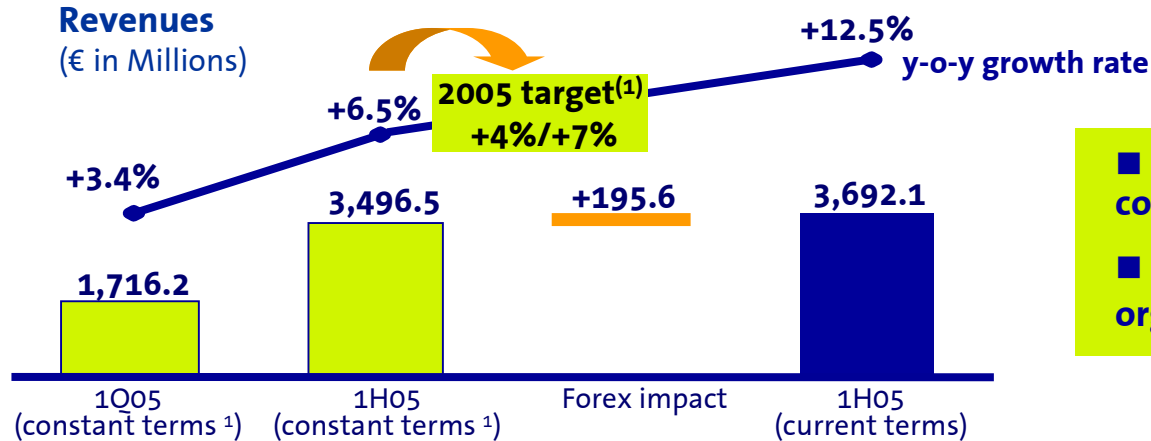
Imagenio clients more than doubled in the second quarter





# Telefónica Latinoamérica: accelerating top-line performance across divisions...

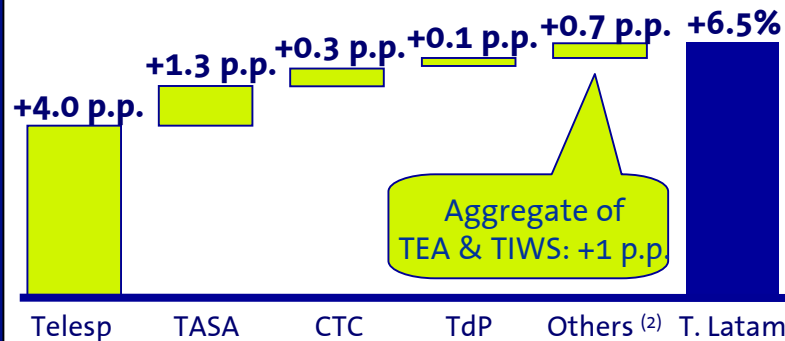
Quarterly Results  
January – June 2005



- 2Q05 growing at 9.7% in constant currency terms
- Forex adding 6 p.p. to organic growth in the 1H05

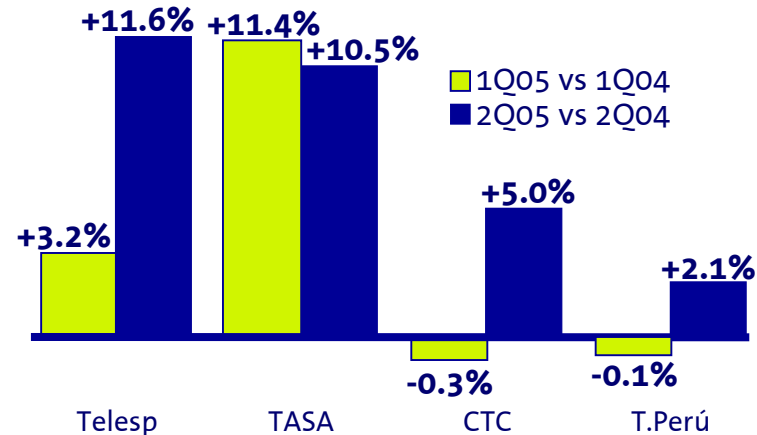
## 1H05 contribution to revenue growth by operating company

(in €, constant currency terms)



## Revenue growth by operating company

(Local currency)



*Telefónica*

Telefónica, S.A.  
Investor Relations

(1) Assuming constant exchange rates as of 1H04 (as of 2004 for year-end target).

Excluding changes in consolidation other than Atrium

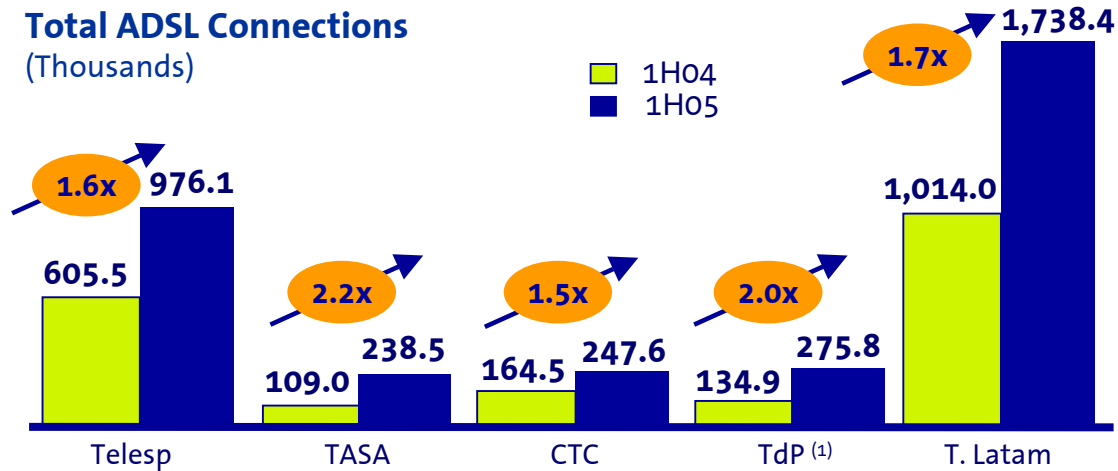
(2) TEA, TIWS and Others & Eliminations



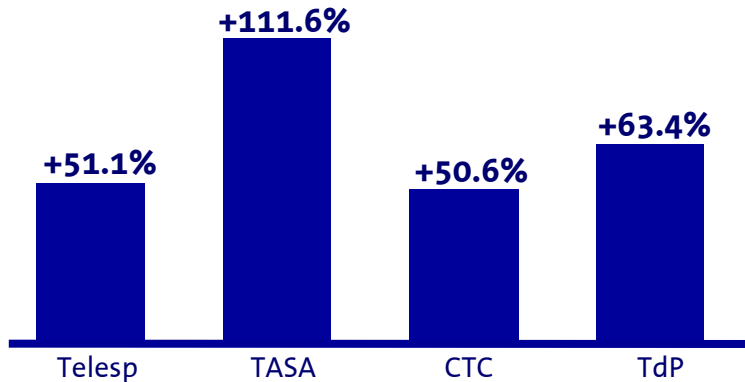
# ...with the fast progression of broadband connectivity in the region...

Quarterly Results  
January – June 2005

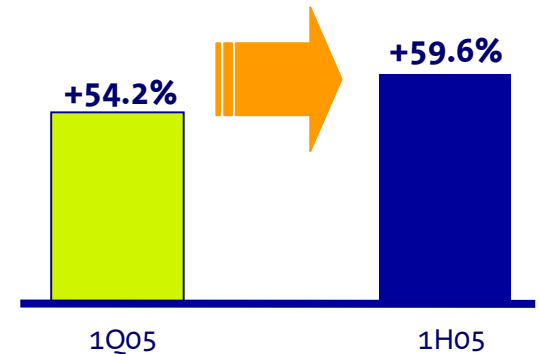
Total ADSL Connections  
(Thousands)



Broadband revenue growth by operating company  
(1H05/1H04, local currency)



Consolidated broadband revenue growth  
(constant currency)

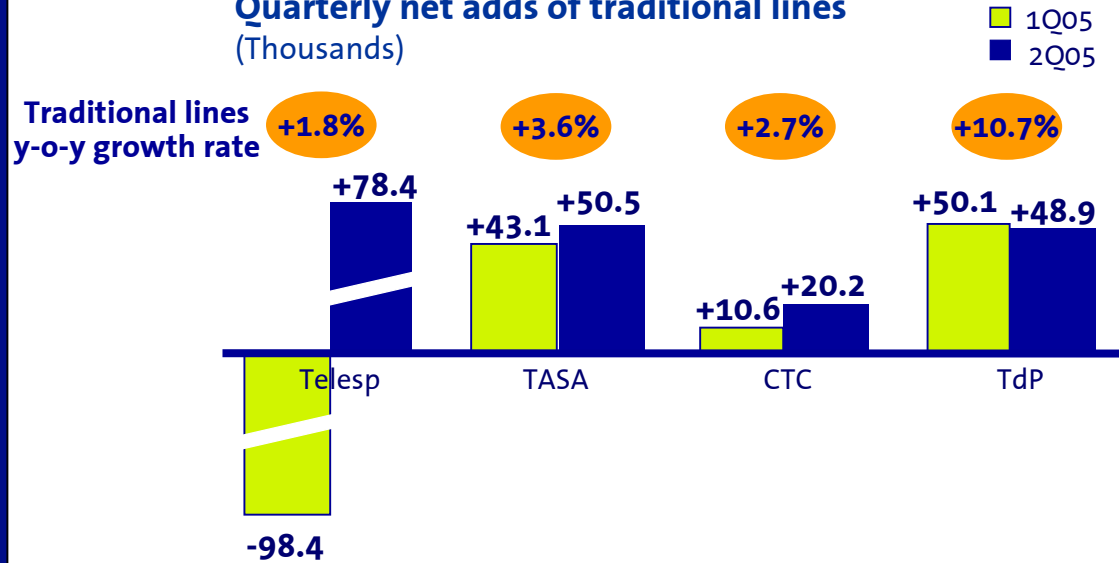




# ...being coupled with our capacity to extract value from the traditional business

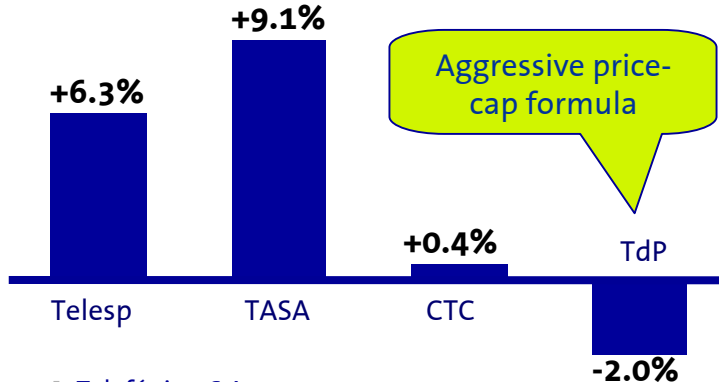
Quarterly Results  
January – June 2005

Quarterly net adds of traditional lines  
(Thousands)

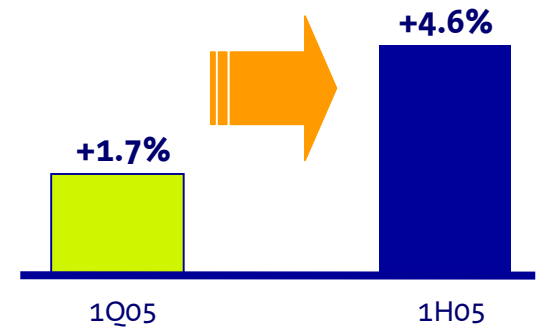


- GDP & population growth
- Customized offering: 24% of LIS on prepay in June, +8p.p. vs 1H04

Traditional revenue growth by operating company  
(1H05/1H04, local currency)



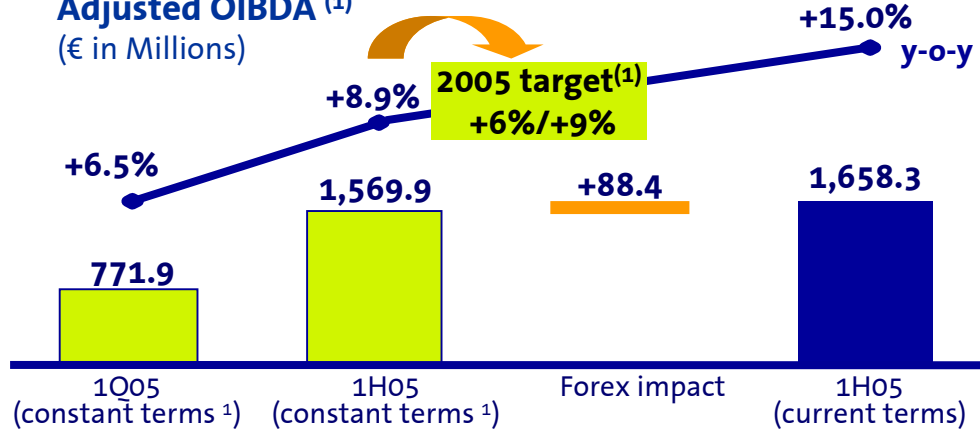
Consolidated traditional revenue growth  
(Constant currency)





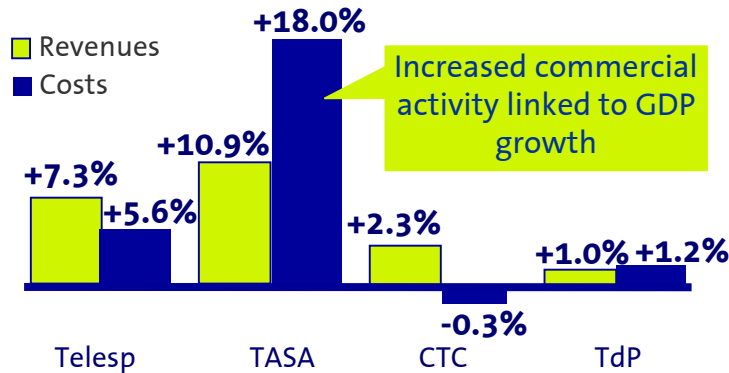
# And we are keeping our focus on profitable growth

## Adjusted OIBDA <sup>(1)</sup> (€ in Millions)

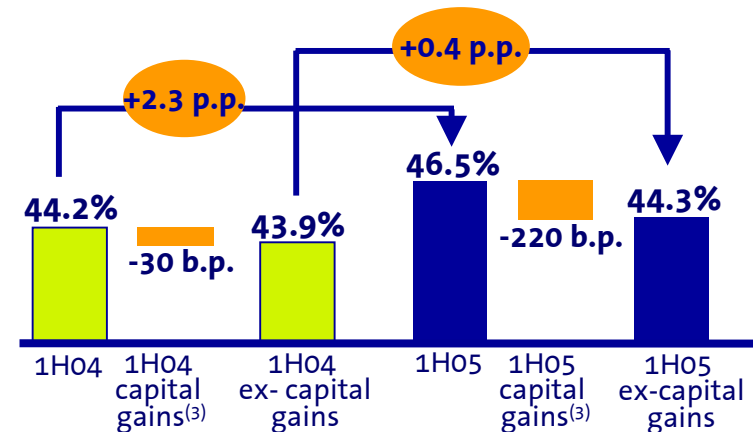


- 2Q05 growing at 11.6% in constant currency terms
- Forex adding 6 p.p. to organic growth in the 1H05

## Evolution of revenues & costs <sup>(2)</sup> (Local currency, 1H05/1H04)



## Group OIBDA margin



(1) Adjusted for exceptional revenues & expenses not foreseeable in 2005. 1H05 & target refer to local currency (constant exchange rates) and exclude changes in consolidation other than Atrium

(2) Personnel expenses, supplies, external services and taxes

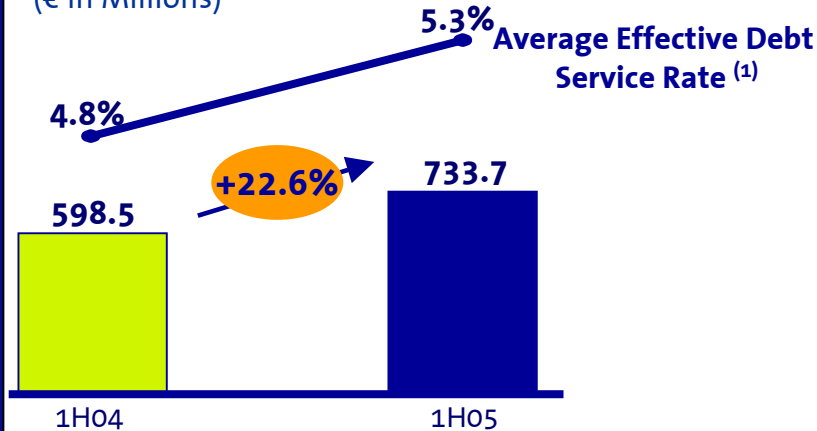
(3) Capital gains from the sale of assets (mainly Infonet in 2005)



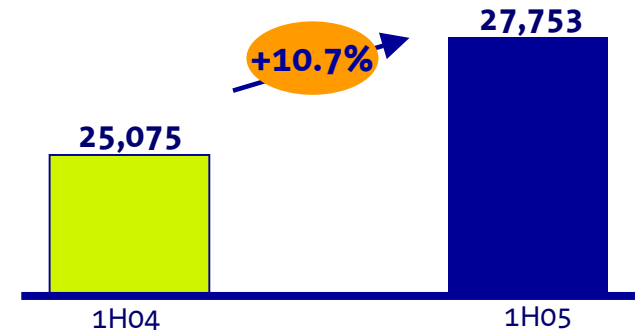
# Higher financial expenses due to a larger debt level in Latin America

Quarterly Results  
January – June 2005

Evolution of financial expenses  
(€ in Millions)

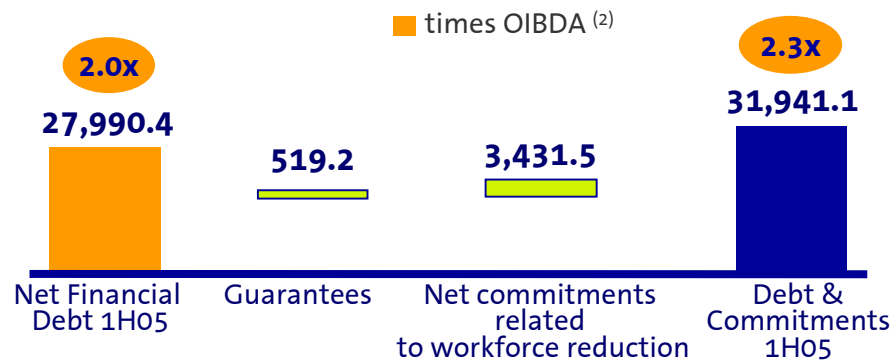


Evolution of average total debt  
(€ in Millions)



60% out of the 2.7 Bn.€ increase in average debt is denominated in Latin American currencies

Debt and Commitments breakdown  
(€ in Millions)



Net Financial Debt: 70% Euro, 19% Latam, 10% USD  
Average maturity: >6 years taking into account syndicated facilities

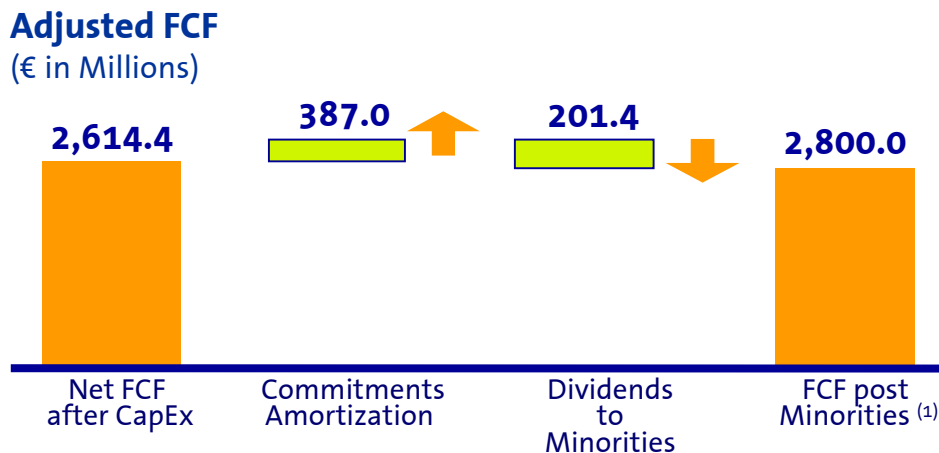
(1) Net financial expenses / Average total debt

(2) Annualized OIBDA. Including Cesky Telecom January-June 2005 OIBDA

# Cash flow & Debt reconciliation

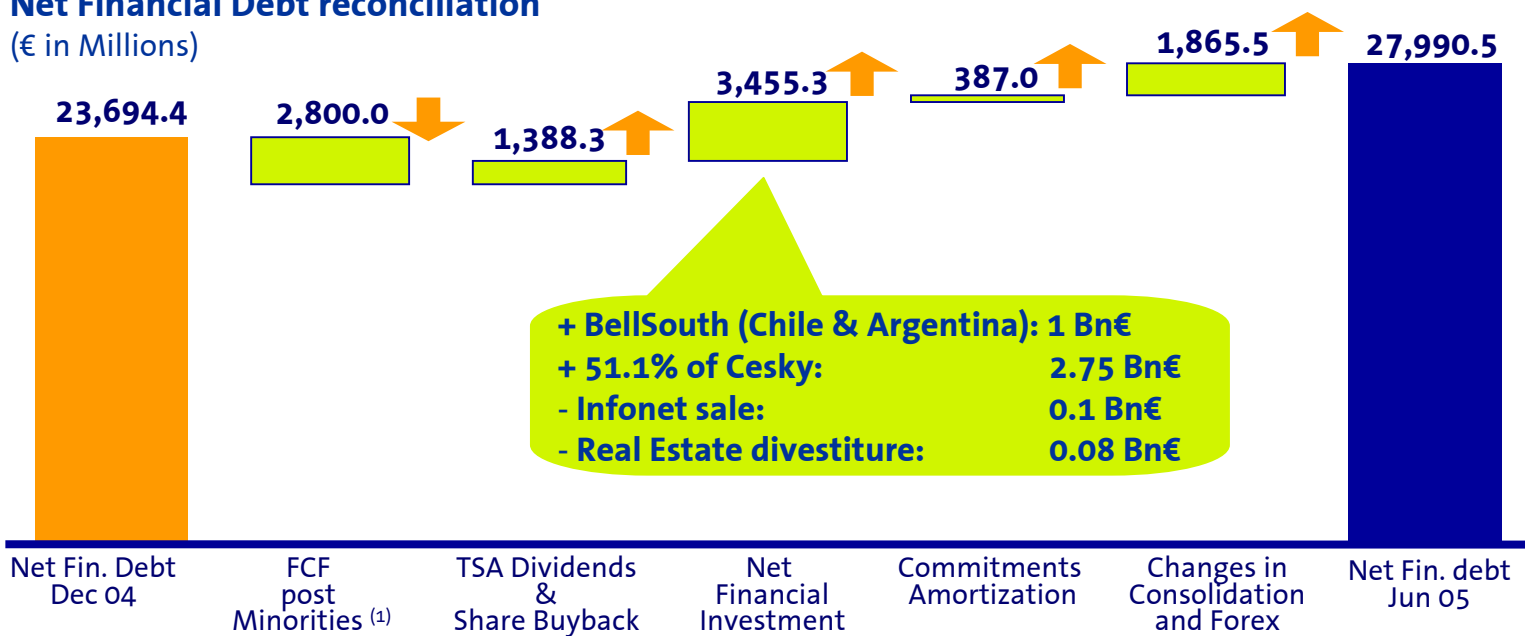


Quarterly Results  
January – June 2005



## Net Financial Debt reconciliation

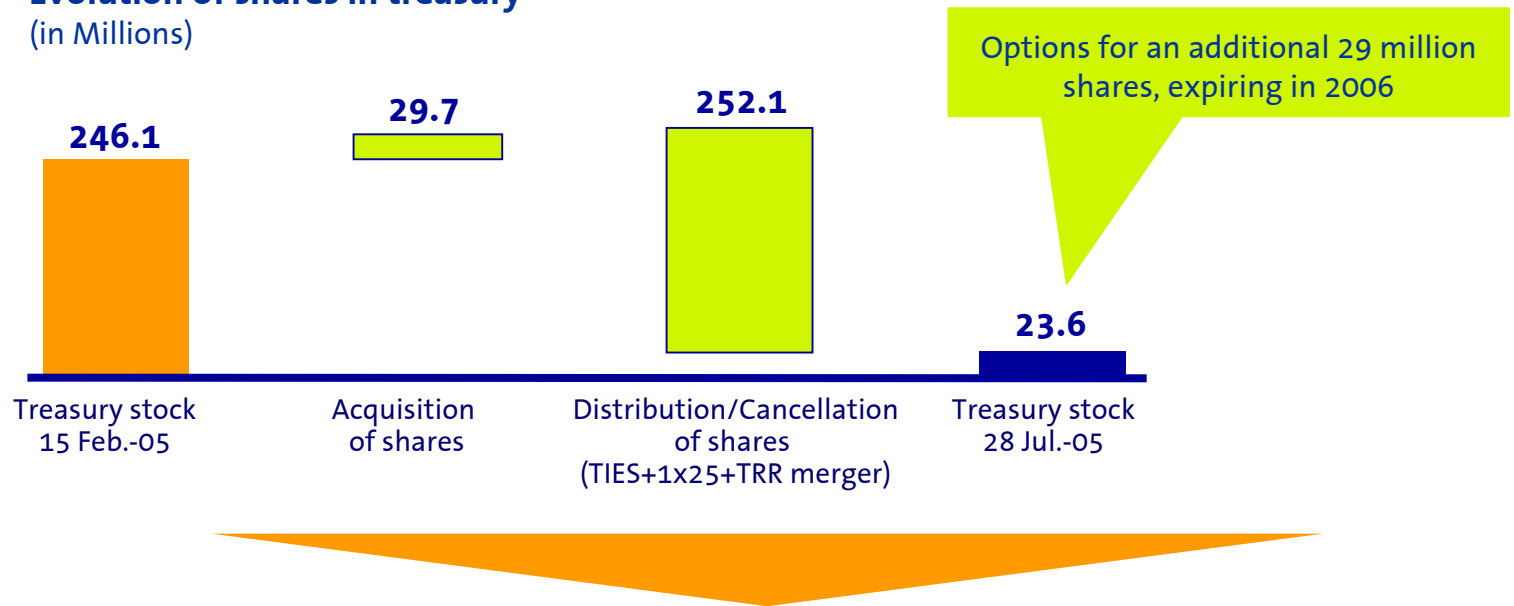
(€ in Millions)





# Share buyback program progress report

## Evolution of shares in treasury (in Millions)



- **PRINCIPLES: 6 BILLION EUROS UNTIL END 2007 (START IN MAY 2005), SENSITIVE TO CASH FLOW GENERATION AND SHARE PRICE**



# Conclusions

- We are delivering on our commitment to push top-line up, with organic growth accelerating sequentially, mainly driven by the cellular business
- The evolution of foreign currencies is adding to the Group's underlying performance, a reflection of stable current macro conditions and positive prospects
- Operationally, we are having success in competing in our markets through a deeper commercial focus that is negatively impacting profitability in the short term
- Wireline divisions continue to excel in terms of revenue growth, margins and cash generation, setting a benchmark for the sector





Quarterly Results  
January – June 2005

## Appendix: updated 2004 IFRS key financial metrics

# Reconciliation of Equity 31/12/04 under IFRS

€ in Millions

As of December 31, 2004

<b>Parent shareholder's equity under Spanish GAAP</b>	<b>16,225.1</b>
Goodwill and fair value adjustments in business combinations	(3,341.7)
Treasury shares and equity instruments	(846.8)
Revenue recognition	(340.5)
Income taxes	(403.5)
Capitalised costs (start-up costs & cost associated to the issue of capital)	(207.7)
Post-Employment benefits	(316.1)
Inflation adjustment (Hyperinflationary economies)	(163.3)
Financial instruments (measurement & recognition)	(123.3)
Associates (significant influence)	(17.2)
Other adjustments	(25.2)
<b>Total adjustments</b>	<b>(5,785.3)</b>
<b>Parent shareholders equity under IFRS</b>	<b>10,439.8</b>
Minority interest (reclassification)	1,520.3
<b>Total shareholder's equity under IFRS</b>	<b>11,960.0</b>

Quarterly Results  
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# Reconciliation of Debt 31/12/04 under IFRS

€ in Millions

As of December 31, 2004

<b>Consolidated Net Financial Debt &amp; Commitments under Spanish GAAP</b>	<b>24,614</b>
Net Financial Debt	20,982
Commitments related to guarantees	609
Net commitments related to workforce reduction	3,023
Preference Shares	1,930
Financial instruments (measurement & recognition)	262
Treasury shares and equity instruments	214
Factoring	179
Put options to minorities	128
<b>Total adjustments to Net Financial Debt</b>	<b>2,713</b>
Adjustments to commitments related to guarantees	(80)
Adjustments to net commitments related to workforce reduction	(162)
<b>Total adjustments to Commitments</b>	<b>(242)</b>
<b>Consolidated Net Financial Debt &amp; Commitments IFRS</b>	<b>27,084</b>
Net Financial Debt	23,695
Commitments related to guarantees	529
Net commitments related to workforce reduction	2,861

Quarterly Results  
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# Reconciliation of P&L metrics under IFRS

FY 2004  
€ in Millions

	Revenues	Operating Income Before D&A	Operating Income	Net profit
<b>Spanish GAAP</b>	<b>30,321.9</b>	<b>13,215.4</b>	<b>7,235.3</b>	<b>2,877.3</b>
Goodwill & Fair Value adjust. in Business Combinations	(60.1)	9.7	84.8	455.0
Financial Instruments	0.0	5.9	36.4	(49.6)
Income Taxes	0.0	0.0	0.0	(133.5)
Revenue Recognition	208.3	85.5	88.5	60.7
Post-employment Benefits	0.0	(35.0)	(35.0)	(88.7)
Inflation Adjustment	(204.0)	(63.7)	11.9	(75.8)
Capitalized Costs	0.0	(18.6)	98.9	67.5
Other Adjustments	14.8	99.6	112.0	62.8
<b>Total Adjustments</b>	<b>(41.0)</b>	<b>83.4</b>	<b>397.5</b>	<b>298.4</b>
Presentational Adjustments	0.0	(1,076.8)	(1,076.8)	0.0
<b>IFRS</b>	<b>30,280.9</b>	<b>12,222.0</b>	<b>6,556.0</b>	<b>3,175.7</b>



*Telefónica*

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