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Investor Relations



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## Telefonica: a set of differentiating strengths

- Top-class businesses in domestic markets (wireline and wireless): benchmark in terms of revenue growth and profitability
- Higher growth profile due to Latin American exposure
- Solid free cash flow generation and disciplined use of free funds
  - Selective M&A that reinforces market positioning and sets the basis for future revenue growth: i.e. Bellsouth
  - Transparent and long term shareholder remuneration policy in place
  - Sound financial management
- No overhang risk

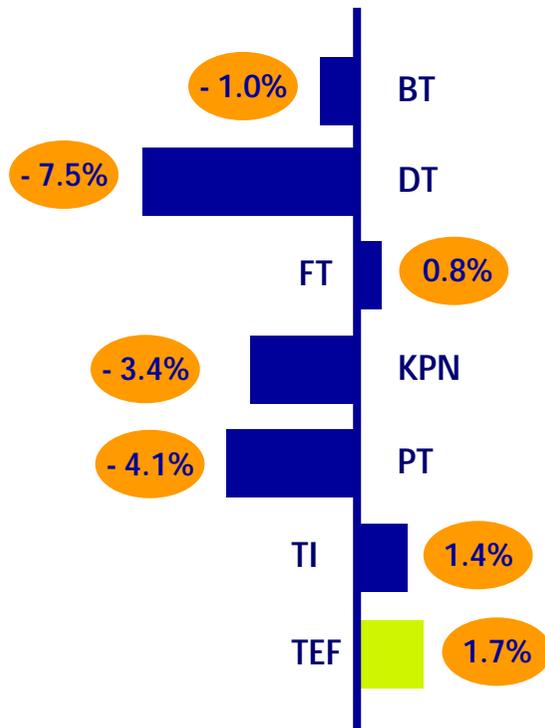


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# Telefónica de España: Revenue growth and profitability benchmark

Operating revenues  
Growth 1Q04\*



- A more intense commercial effort is easing competitive pressure:
  - 28,600 access lines (PSTN + ISDN BA) lost in 1Q04 compared to 97,000 in 1Q03
  - +51,900 preselected lines in 1Q04 compared to +90,700 in 1Q03
- 1.97 Mill. ADSL connections as of May 2004. EBITDA margin of 33.6% in 1Q04
- 4.35% PSTN monthly fee increase up to €13.13, effective April 1<sup>st</sup>, 2004

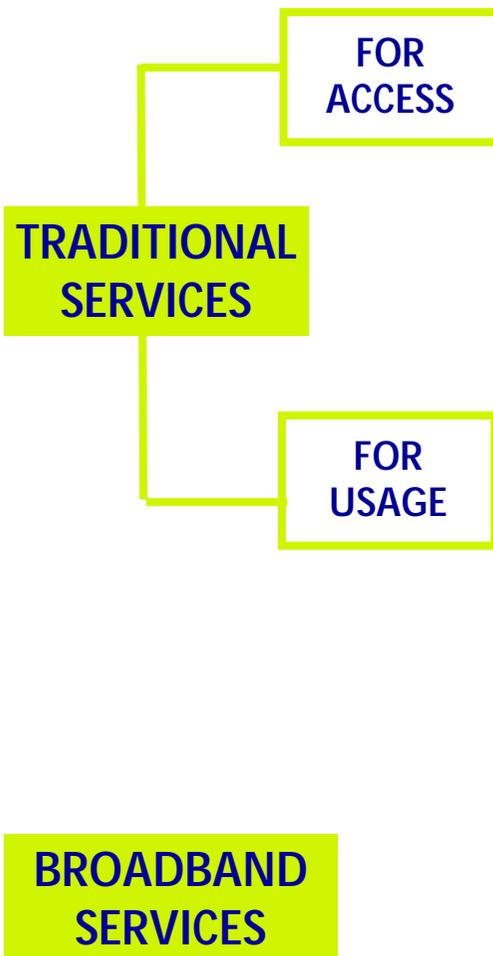
ADSL business is offsetting  
Traditional Service revenue decline



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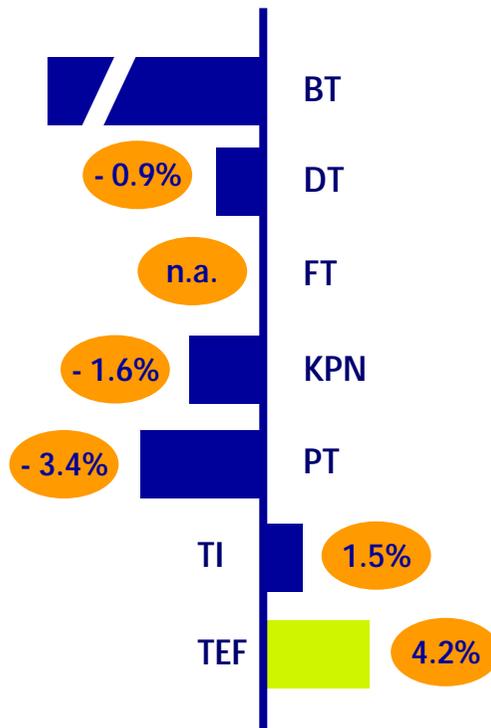
# Telefónica de España: Commercial innovation to push demand and usage



- “Free connection fee” promotion to PSTN lines from March 8<sup>th</sup> to March 14<sup>th</sup>
- Launch of “**holiday**” line in April 2004, an on/off connection to second homes
- Launch of “**youth**” line (Nov.03), associated with bucket plans & spending control
- New handset “**Famitel Agenda**” offering colour screen, polyphonic rings, games and the option to transfer up to 200 contacts from the mobile SIM 
- 90% reduction in **F2F SMS** to 0.01€ from May 24<sup>th</sup> to November 30<sup>th</sup>,2004
- 2.15% **cut in international calls** overall, allocating major declines to countries of origin for immigrants
- “Free connection fee” promotion to ADSL until June 10<sup>th</sup>
- New “**ADSL Empresas**” (512 Mbps, 1 Mbps & 2 Mbps), launched in June 2004, with a **50% speed guarantee**
- **Proposal to upgrade all speeds already submitted to CMT**

# Telefónica de España: Revenue growth and profitability benchmark

EBITDA Growth 1Q04\*



- Best performance among peers in spite of a renewed commercial approach (+12% increase in external services in 1Q04)
- Effective Redundancy Program in place (E.R.E. 2003-2007)
  - Personnel costs amount to 55% of total costs\*\*
  - 7,851 employees have joined in 2003-2004
  - 52% of total program (up to 15,000 employees) already accomplished
  - 10% reduction in personnel expenses in 1Q04, with savings of 76 Million € cashed-in

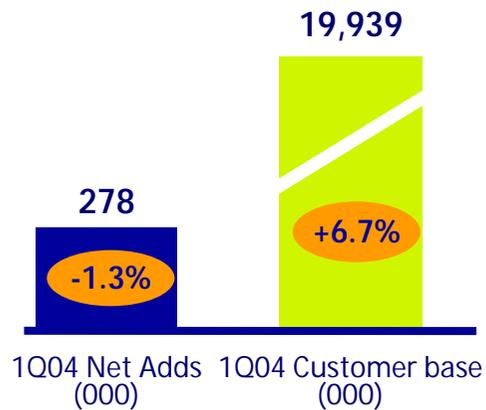


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# TEM España: Revenue growth and profitability benchmark

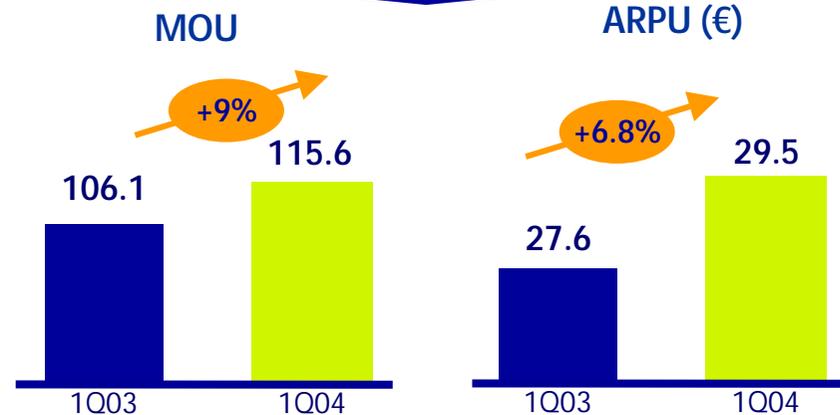
Sustained customer growth



● y-o-y growth

- Increasing Corporate, SME & SoHo Net Adds
- Advance in contract weight to 41.7% (36.4% in 1Q03)

Healthy voice & data usage



- 14.8% y-o-y growth in billable traffic; 18.5% in on-net
- Positive impact from prepaid to contract migrations
- 9.2% y-o-y growth in outgoing voice ARPU
- 17% y-o-y increase in data revenues boosted by ongoing uptake of non SMS services
- Launch of UMTS services



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# Latin America provides us with higher growth profile: Telefónica Latinoamérica



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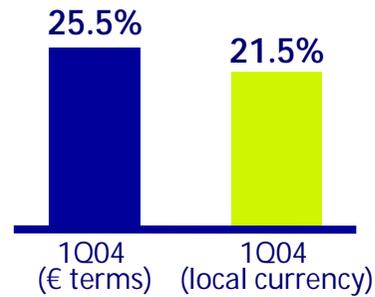
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Active commercial approach to drive top line



Managing resources to generate cash flow

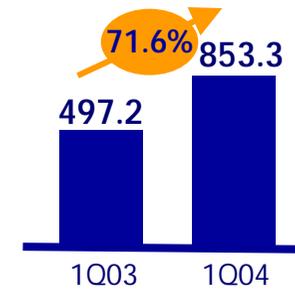
Telesp revenue growth



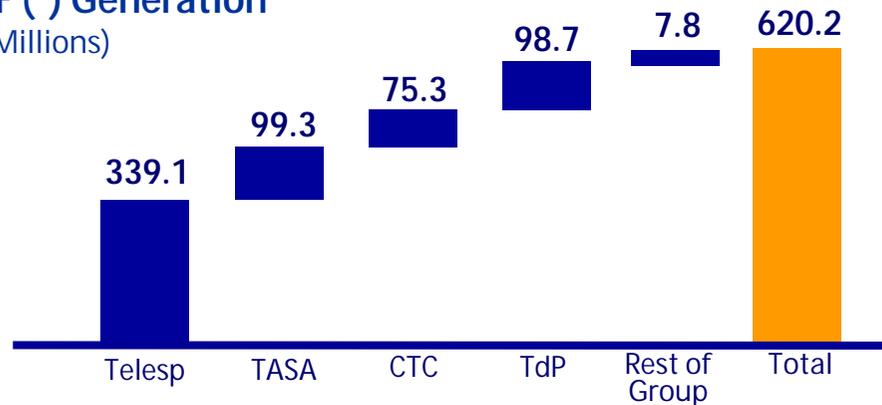
TASA revenue growth



Latam ADSL Connections (Thousands)



OpCF (\*) Generation (€ in Millions)

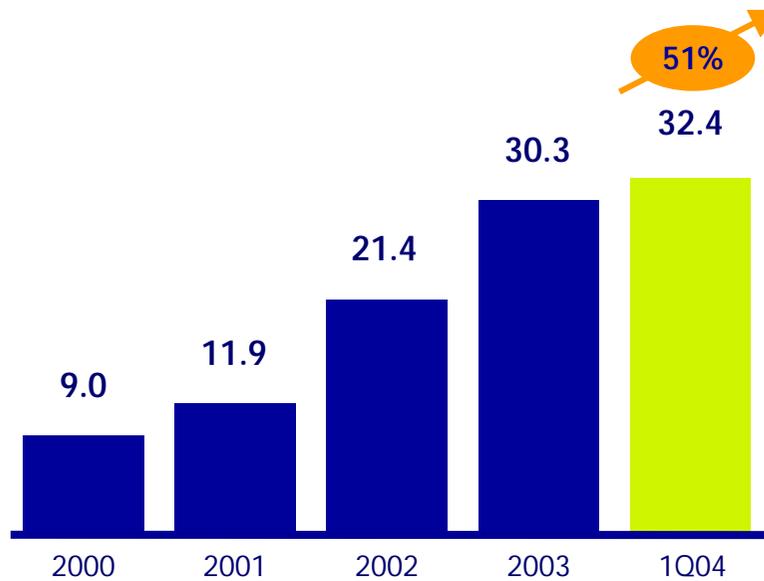


# Latin America provides us with higher growth profile: Telefónica Móviles

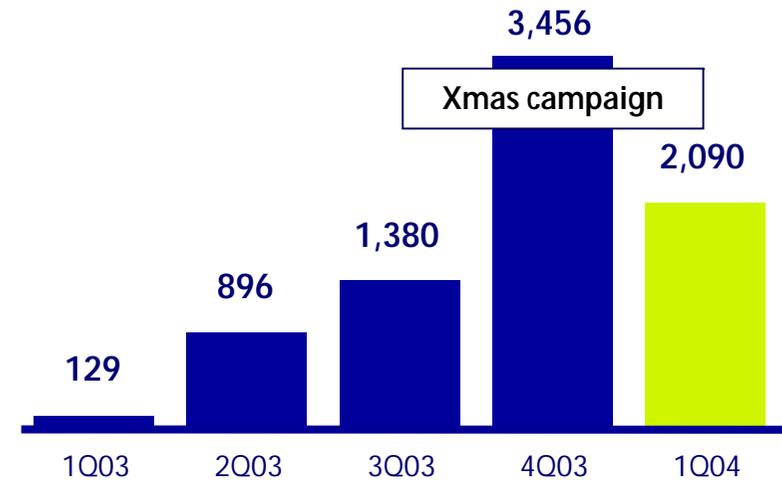


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TEM's managed customers in Latin America (MM)<sup>1</sup>



TEM's net adds in Latin America ('000)<sup>2</sup>



● y-o-y growth

**+29.6% revenue growth in 1Q04 in € terms**

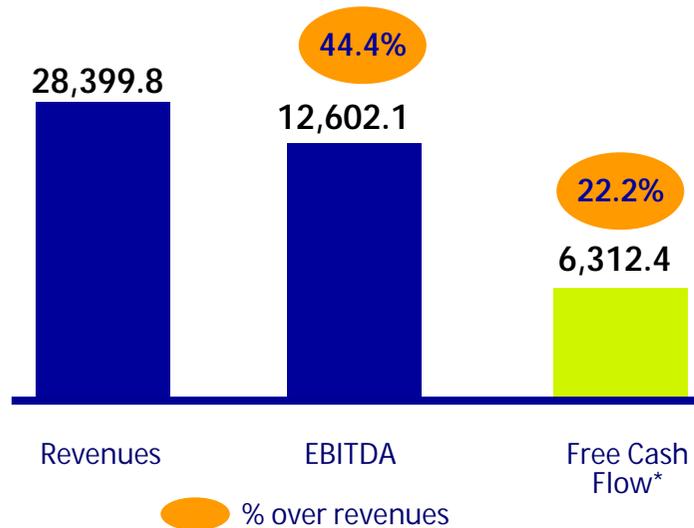
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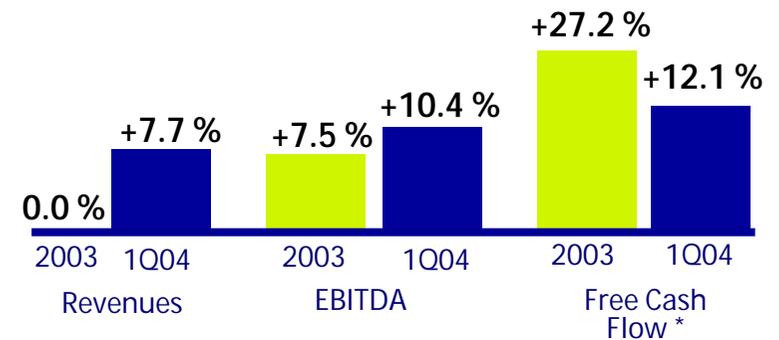
<sup>1</sup> 2003 figures includes the acquisition of TCO.  
<sup>2</sup> Includes TCO since January 1st 2002. Managed net adds.

# Solid cash flow generation and disciplined use of free funds

Basic financial Indicators 2003 (Mill. euros)



Growth profile (Annual Change)



**3 pillars to allocate this rapid cash conversion ratio**

- Remunerate shareholders attractively and consistently: Cash dividends + share buy-backs, selective based on price and pace of cash flow generation
- Manage debt load and financial commitments to remain "single A"
- Pursue M&A that adds value to our current market position: i.e. Bellsouth



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## We have a transparent and long term shareholder remuneration policy in place...

### 2003

- €0.25 per share
- €200 Mill. share buy-back executed in 1H03
- Dividend In-kind: A3TV shares (equivalent to €0.08 per share)

### 2004-2006

- Minimum €0.40 per share, annually
  - €0.20 per share paid May 14th, 2004
  - €0.20 per share November 12th, 2004
- Minimum €4 Bn share buy-back in 2003-2006
  - 80.2 Mill. shares in treasury 05-May-04
  - Option-based purchases for an additional 43 Mill. expiring mid-04

**37% of share buy-back accomplished**

**€11.4 Bn TO BE DEVOTED TO SHAREHOLDER REMUNERATION FOR 2003-2006**

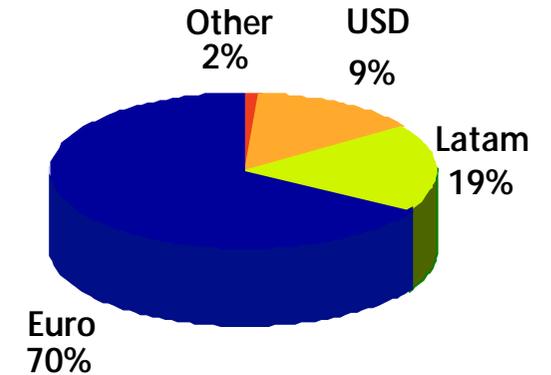
- Equivalent to 19% of Market Cap.(\*)
- Equivalent to a 3.3% dividend yield(\*) in 2004

# ...Coupled with a sound financial management

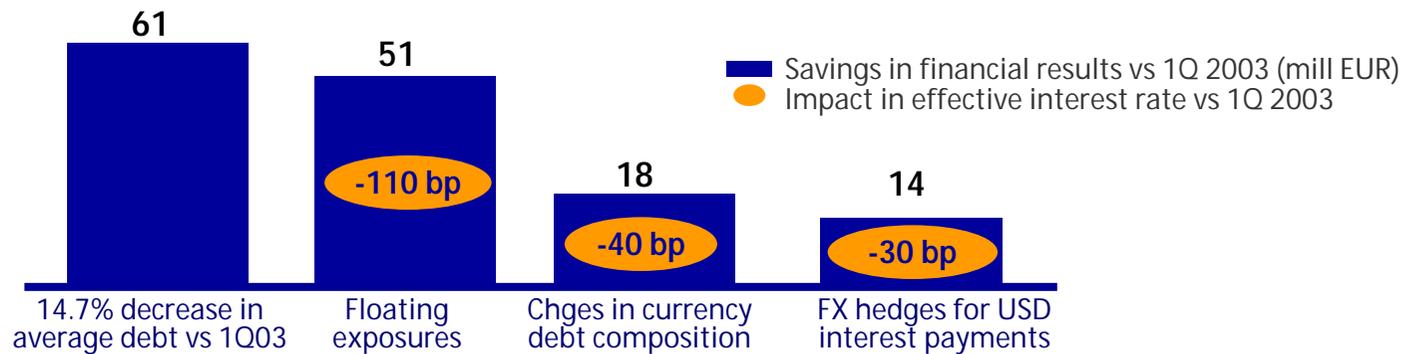
Net Debt Evolution 2002-1Q04



Debt by currencies March 04



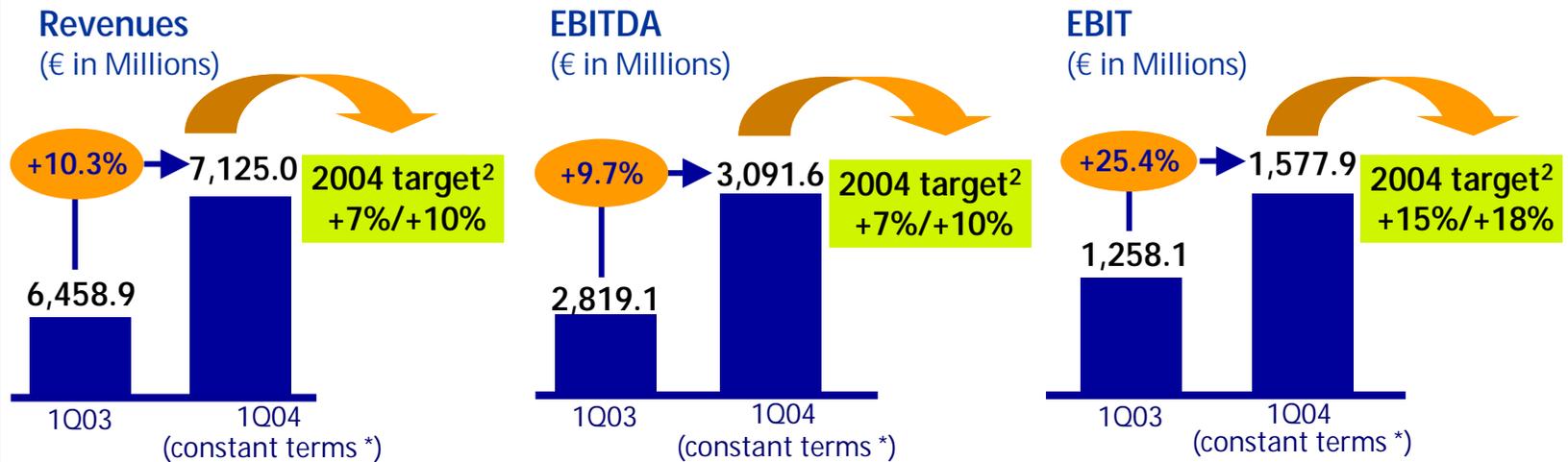
Basic factors behind 1Q04 savings in financial expenses



**Strong activity fixing future interest rates in the first quarter of 2004.**

# Our 1Q04 financials remains solid and in line with year-end guidance

	Jan-Mar 04	Jan-Mar 03	% Change 1Q04/1Q03	
Operating Rev.	6,959.0	6,458.9	+7.7%	TOP LINE GROWTH
Operating Costs	(3,896.9)	(3,695.4)	+5.5%	
EBITDA	3,112.2	2,819.1	+10.4%	
EBITDA Margin	44.7%	43.6%	+1.1 p.p.	+
D&A	(1,487.3)	(1,560.9)	(4.7%)	IMPROVED PROFITABILITY
EBIT	1,624.9	1,258.1	+29.1%	+
Net Income	558.2	543.4	+2.7%	CASH GENERATION
OpCF <sup>1</sup>	2,492.7	2,218.2	+12.4%	





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## Conclusions

- We have best in class businesses in domestic markets, wireline and wireless, becoming the benchmark in terms of revenue growth and profitability
- We present a higher growth profile due to our Latin American exposure
- Our selective M&A reinforces market positioning and sets the basis for future revenue growth: i.e. Bellsouth
- We are solid cash flow generators and maintain a sound financial management
- We present no overhang risk
- We have set a transparent and long term commitment with our shareholders to distribute excess cash through dividends and selective buy-backs

**We present a unique combination of top line growth, cash flow generation and shareholder remuneration in the industry**

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