

Santiago Fernández Valbuena CFO of Telefónica Group



June 17th, 2004
Marbella (Spain)



Disclaimer



X ANNUAL TELECOM
SEMINAR

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.

Telefonica

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

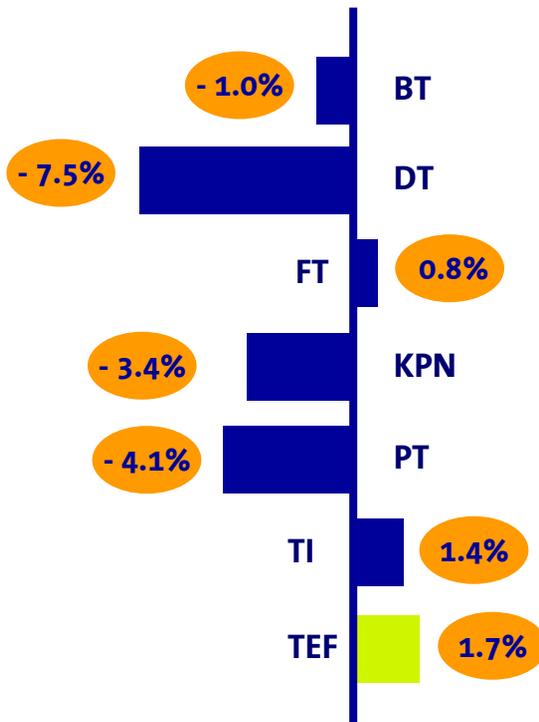


X ANNUAL TELECOM
SEMINAR

Telefonica

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 1st, 2004**

ADSL business is offsetting Traditional Service revenue decline



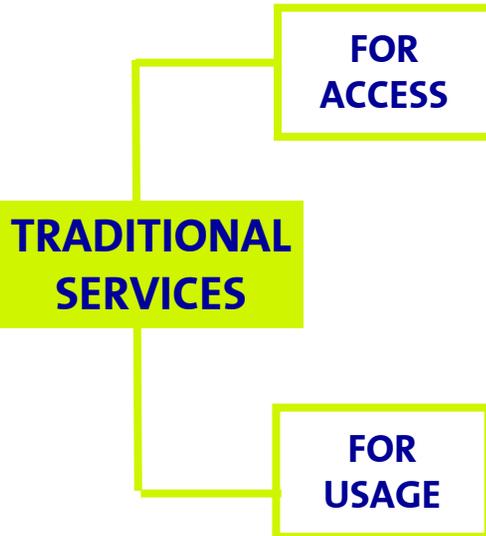
X ANNUAL TELECOM SEMINAR

Telefónica de España: Commercial innovation to push demand and usage



X ANNUAL TELECOM
SEMINAR

Telefonica



BROADBAND SERVICES

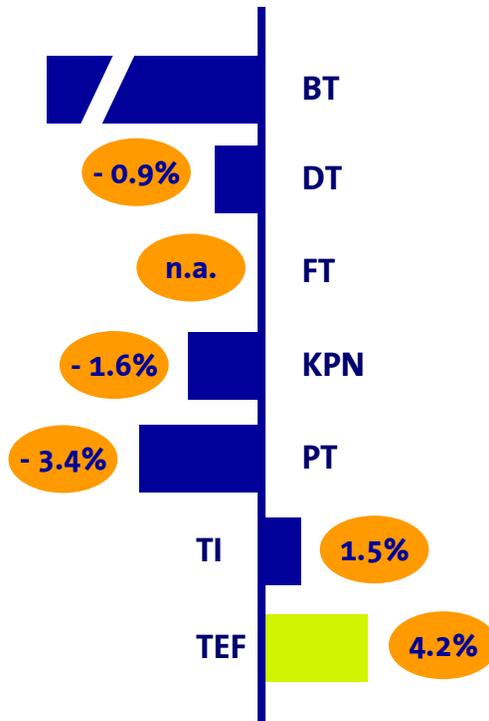
- **“Free connection fee”** promotion to PSTN lines from March 8th to March 14th, **renewed from June 8th to June 19th**
- Launch of **“holiday” line** in April 2004, an on/off connection to second homes
- Launch of **“youth” line** (Nov.03), associated with bucket plans & spending control
- New handset **“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 24th to November 30th, 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 10th
- New **“ADSL Empresas”** (512 Mbps, 1 Mbps & 2 Mbps), launched in June 2004, with a **50% speed guarantee**
- **“ADSL summer promotion”**, offering free monthly fee for new subscriptions from June 15th to August 31st
- **Proposal to upgrade all speeds already submitted to CMT**

Telefónica de España: Revenue growth and profitability benchmark



X ANNUAL TELECOM SEMINAR

EBITDA Growth 1Q04*



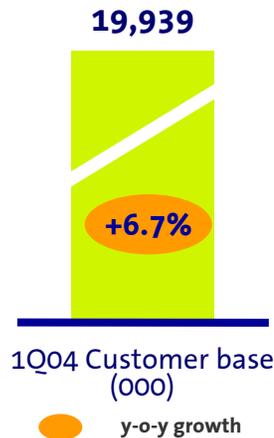
- **Best performance among peers in spite of a renewed commercial approach** (+12% increase in external services in 1Q04)

- **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

TEM España: Revenue growth and profitability benchmark

Customer growth



Healthy usage



- Increasing Corporate, SME & SoHo Net Adds
- Advance in contract weight to 41.7% (36.4% in 1Q03)
- Focus on high value customers. Rebound in prepaid churn
- Positive balance from number portability

- Double digit growth in billable traffic
- ARPU y-o-y increase despite termination rate cuts
- 9.2% y-o-y growth in outgoing voice ARPU
- Rational price performance
- Positive impact from prepaid to contract migrations

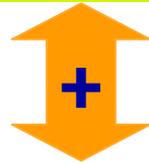


Latin America provides us with higher growth profile: Telefónica Latinoamérica



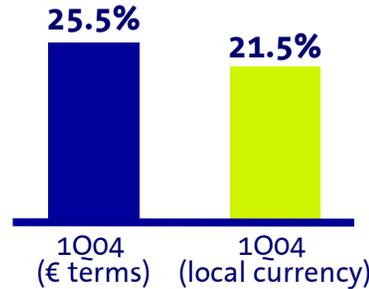
X ANNUAL TELECOM SEMINAR

Active commercial approach to drive top line

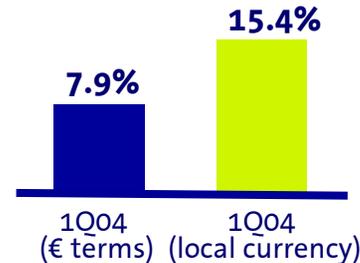


Managing resources to generate cash flow

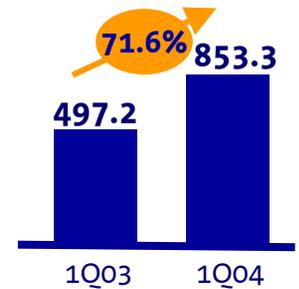
Telesp revenue growth



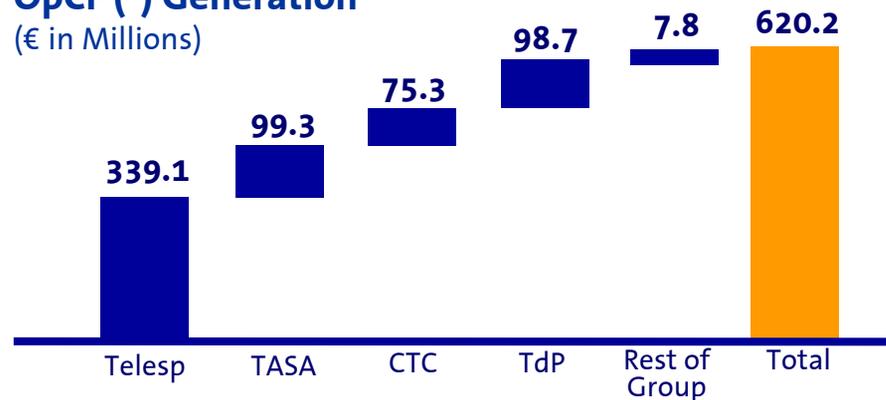
TASA revenue growth



Latam ADSL Connections (Thousands)



OpCF (*) Generation (€ in Millions)

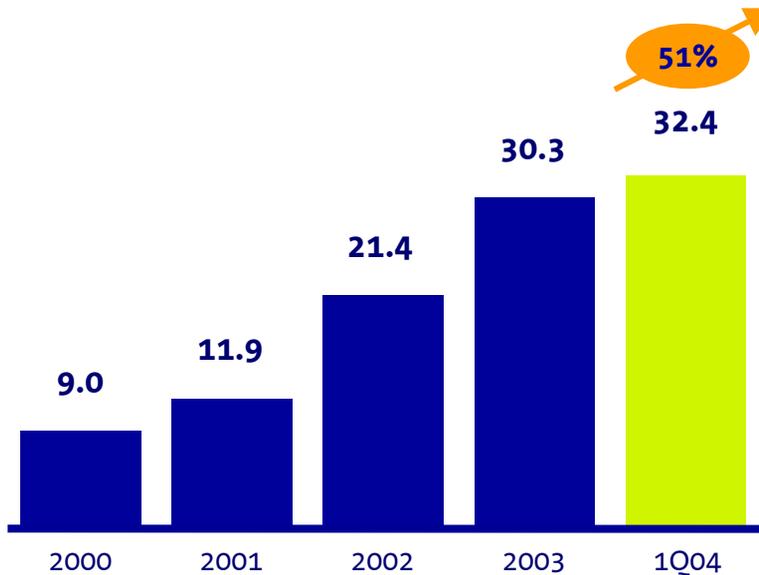


Latin America provides us with higher growth profile: Telefónica Móviles

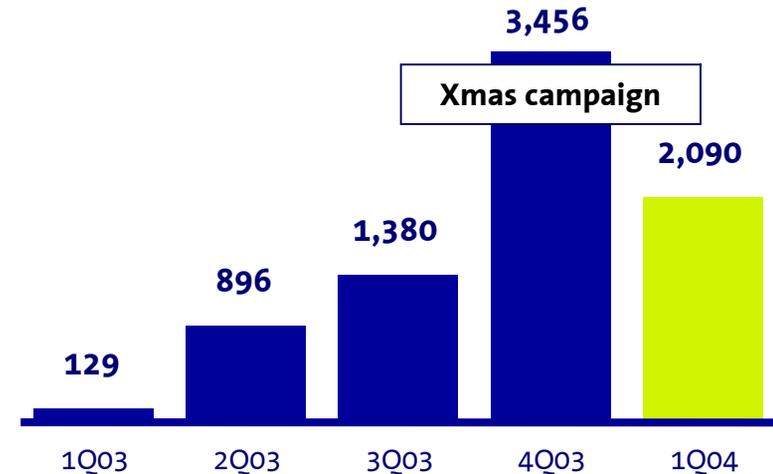


X ANNUAL TELECOM SEMINAR

TEM's managed customers in Latin America (MM)¹



TEM's net adds in Latin America (Thousands)²



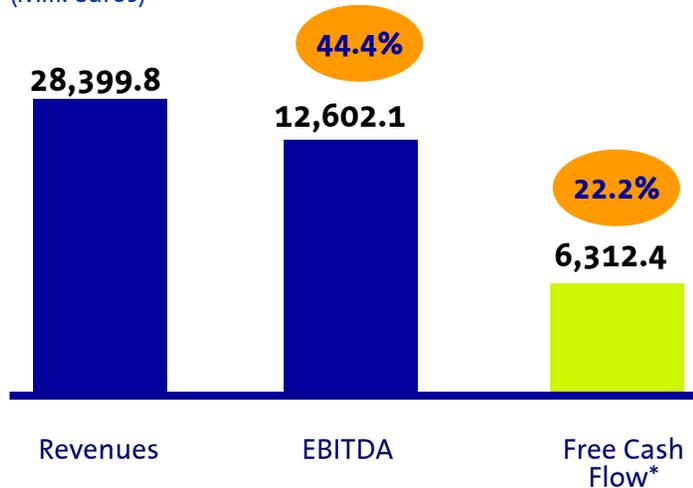
● y-o-y growth

+29.6% revenue growth in 1Q04 in € terms

Solid cash flow generation and disciplined use of free funds

Basic financial Indicators 2003

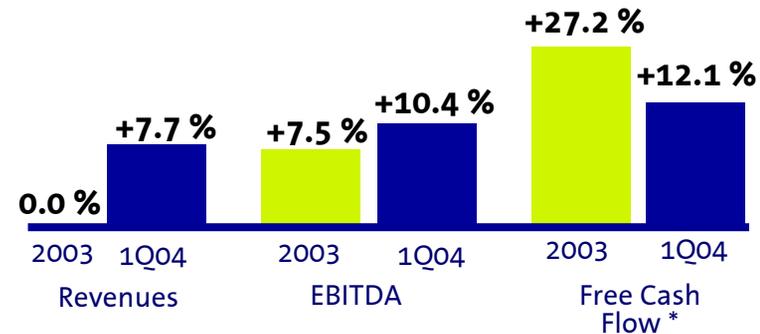
(Mill. euros)



% over revenues

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



X ANNUAL TELECOM SEMINAR

Telefonica

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 3.4% dividend yield(*) in 2004**

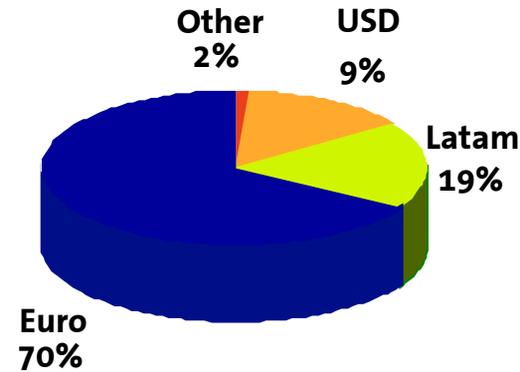


...Coupled with a sound financial management

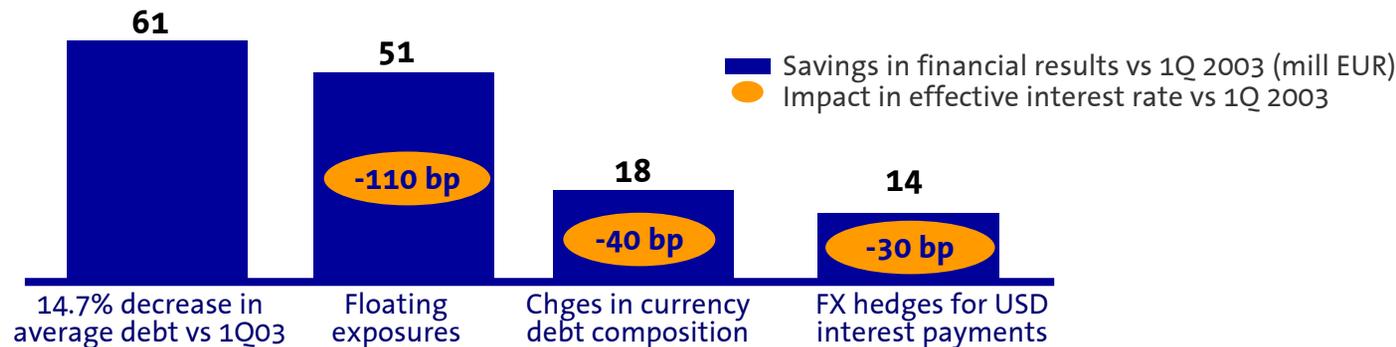
Net Debt Evolution 2002-1Q04



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.



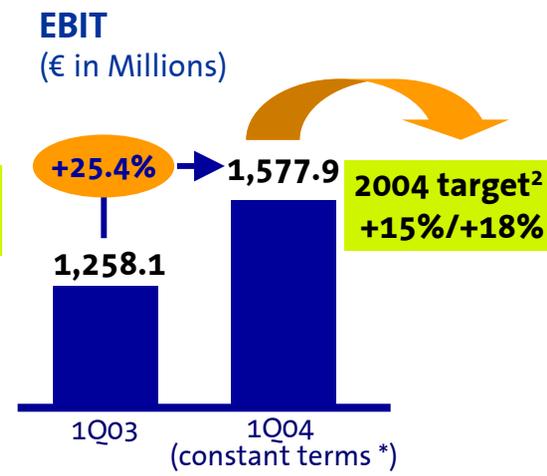
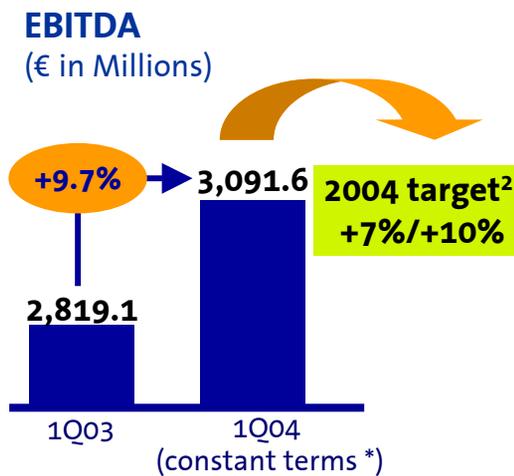
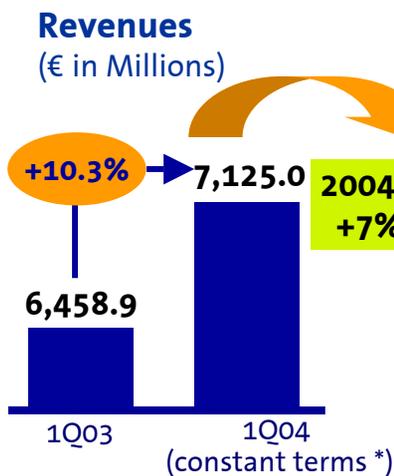
X ANNUAL TELECOM SEMINAR

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



X ANNUAL TELECOM SEMINAR

	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%	IMPROVED PROFITABILITY
EBITDA Margin	44.7%	43.6%	+1.1 p.p.	
D&A	(1,487.3)	(1,560.9)	(4.7%)	+
EBIT	1,624.9	1,258.1	+29.1%	
Net Income	558.2	543.4	+2.7%	CASH GENERATION
OpCF ¹	2,492.7	2,218.2	+12.4%	



Telefónica

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



X ANNUAL TELECOM
SEMINAR

Telefonica

Telefonica



Visit our new website
www.telefonica.es/investors