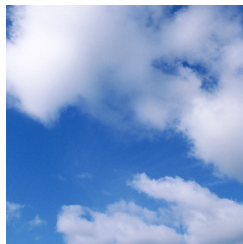


Santiago Fernández Valbuena CFO of Telefónica Group



September 16th, 2004
London (UK)


Smith Barney

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Telefonica: a differentiated asset within the telecom sector

- Achieving attractive top line growth ahead of peers
- Our active approach to the market is setting the basis to sustain our growth profile
 - ✓ Developing the broadband opportunity
 - ✓ Taking full advantage of our mobile exposure
- We have a proven track record transforming growth into profitability and cash-flow generation
- We have a disciplined strategy for the use of cash-flows



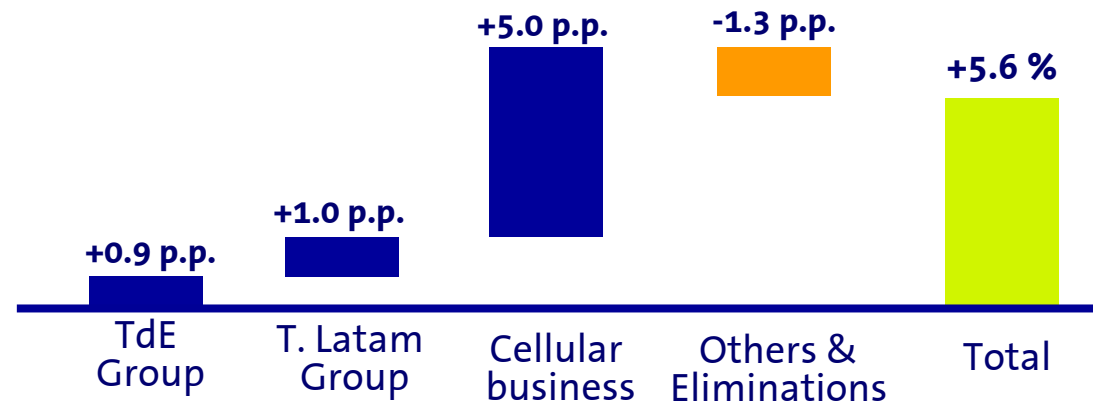
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Achieving attractive top line expansion, to which all business lines contribute positively...

Telefónica Group 1H04
Contribution to revenue growth



Revenue Growth
(€)

	% Change 1H04/1H03
TdE Group	+2.2%
Cell. Business	+14.1%
T. LATAM	+4.6%



- A more intense commercial effort to offset competitive pressures in Spanish traditional business (34,400 pre-selected lines recover in 2Q04) & Broadband contributing with 3.5 p.p. to TdE's top line growth
- Revenues at TME growing by 12.5%, with Latam cellular sales up by 21.5% in local currency
- Telesp's revenues growing at 20% in local currency, with Broadband up by 76%



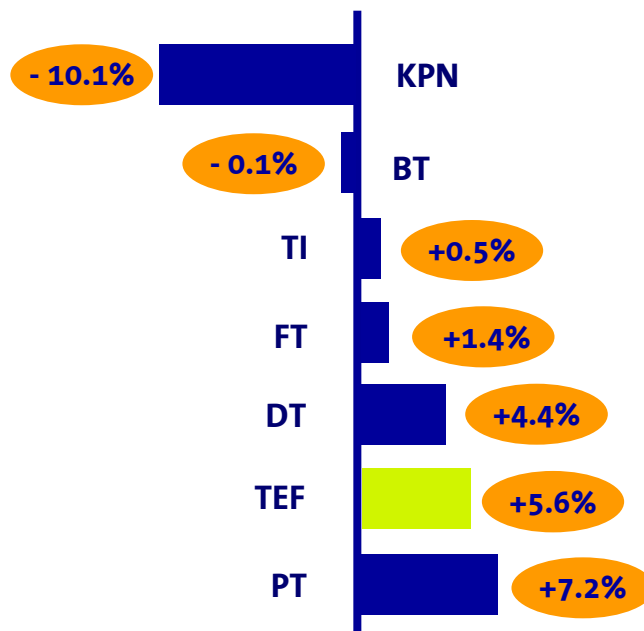
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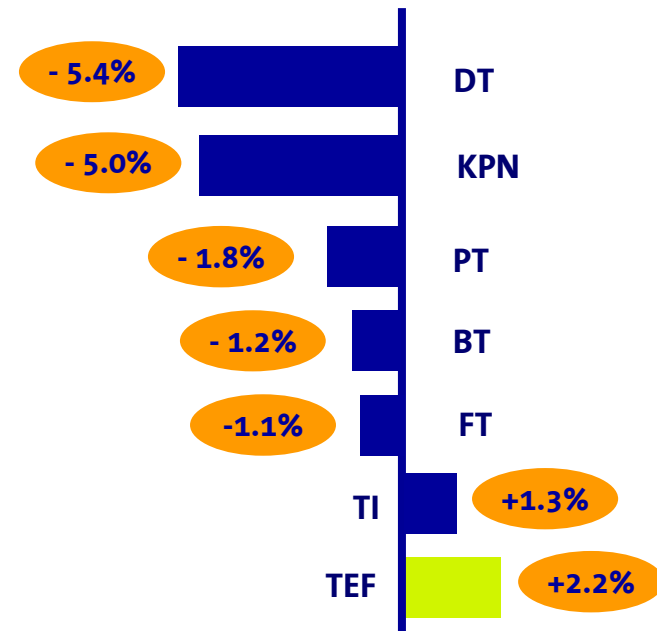
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... placing the company at the top of sector performance

CONSOLIDATED GROUP
Jun 04/Jun 03 operating
revenues growth



DOMESTIC WIRELINE
Jun 04/Jun 03 operating
revenues growth



Group's domestic wireline subsidiary is one of the few European assets showing resilient financials

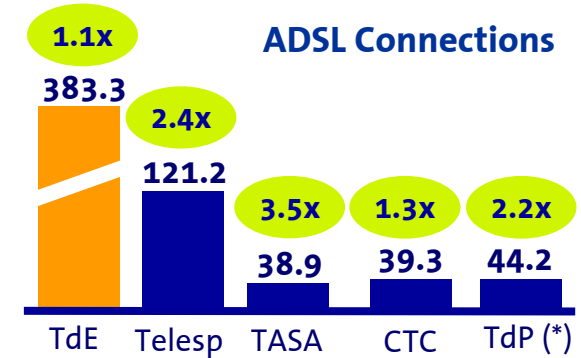
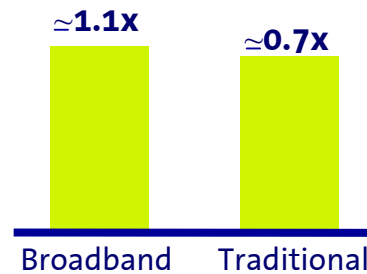
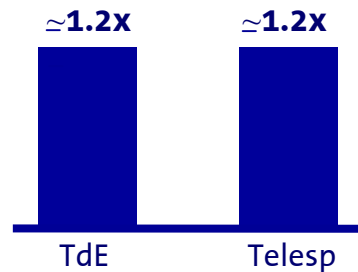
Our active approach to the market is setting the basis to sustain our growth profile...

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

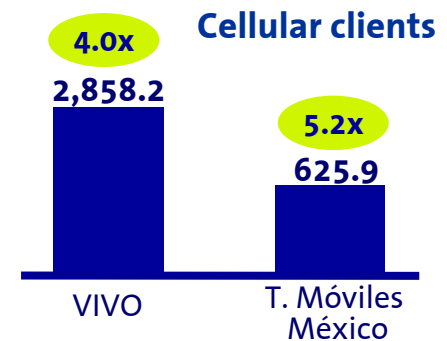
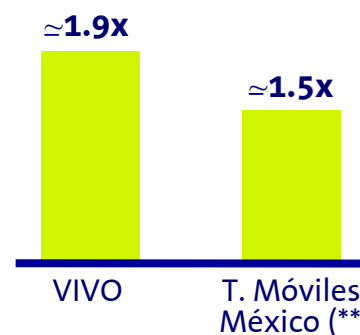
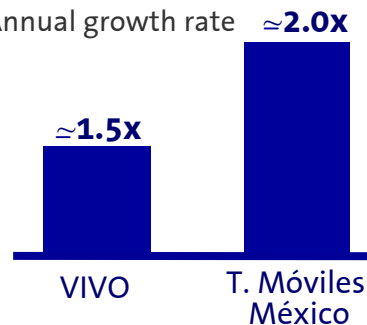
Jun 04/Jun 03 CapEx growth
(local currency)

1H04 net adds
(thousands)

FIXED TELEPHONY



CELLULAR



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(*) Including cable modems
(**) Committed CapEx

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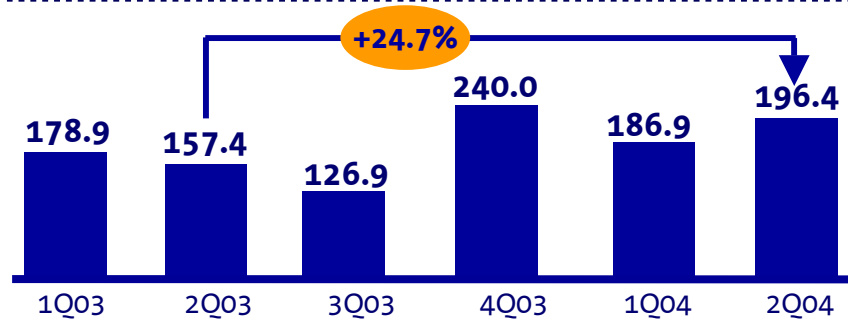
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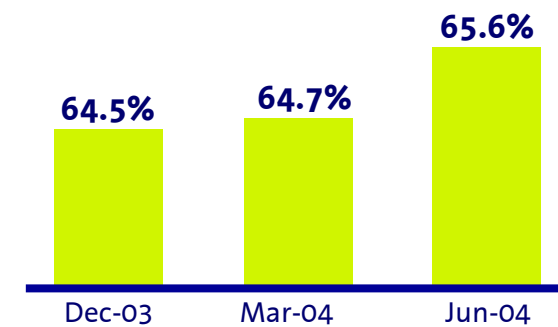
...by developing the broadband opportunity in Spain...

ADSL Connections (Net adds, thousands)

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

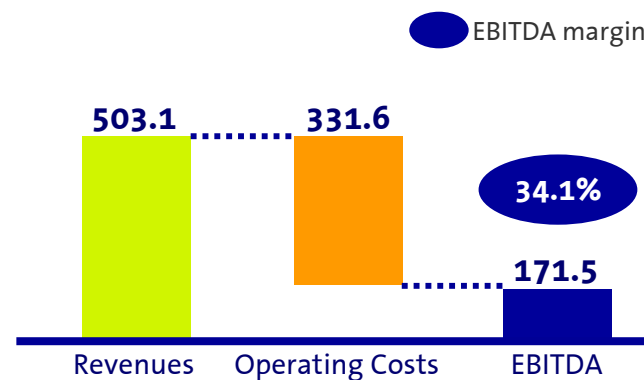


Retail ADSL market share (over total ADSL)



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

1H04 ADSL EBITDA margin (€ in millions)





...with a new battery of initiatives to lead Broadband penetration...

A battery of initiatives to lead BB penetration and VAS up-take

- Active commercial campaigns to reduce barriers to entry (free connection-monthly fees campaigns) & new services offering
- Launch of ADSL PC, an offering linking an ADSL connection to a PC, financed for up to 12 months through the telephone bill
- Doubling of speeds starting September 29th, at no costs, migration completed by year-end
- New tariff scheme presented for approval at the CMT
 - 11 hours per month at €9.9
 - 2 packages: Nights & Weekends at €12 each. Both at €18.
 - Additional minute at € 0.024

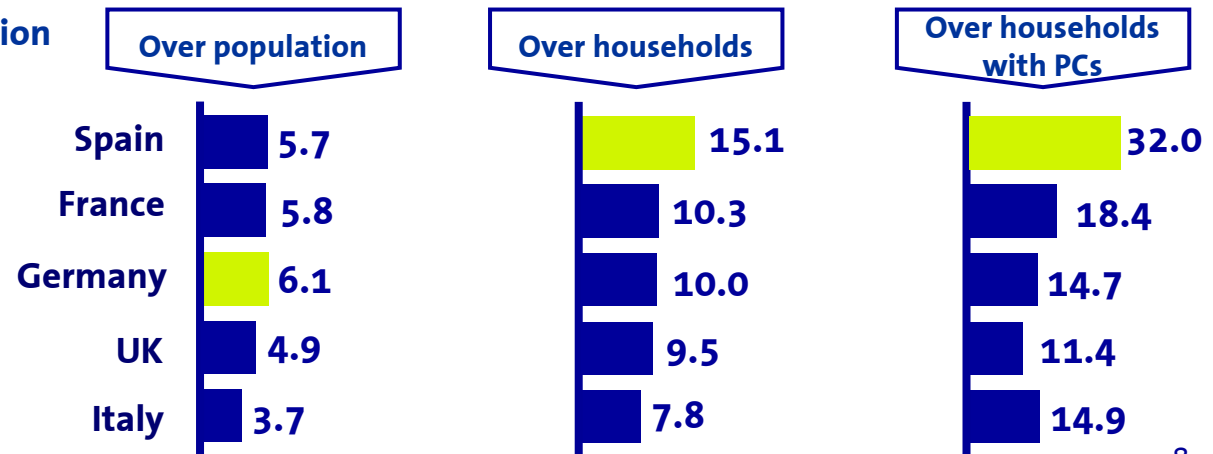
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Our ADSL approach is proving effective

Broadband penetration in Europe (%)

2003 data



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Source, Pyramid Research



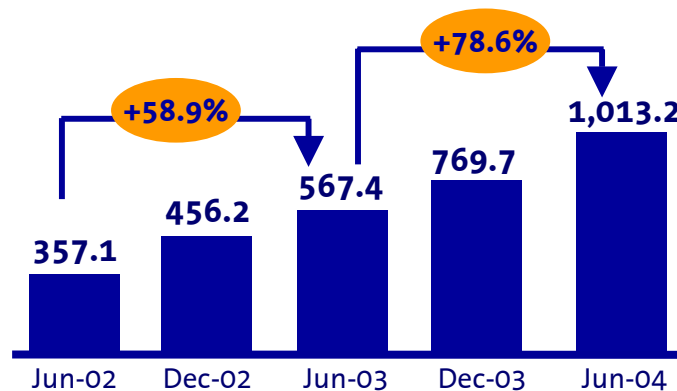
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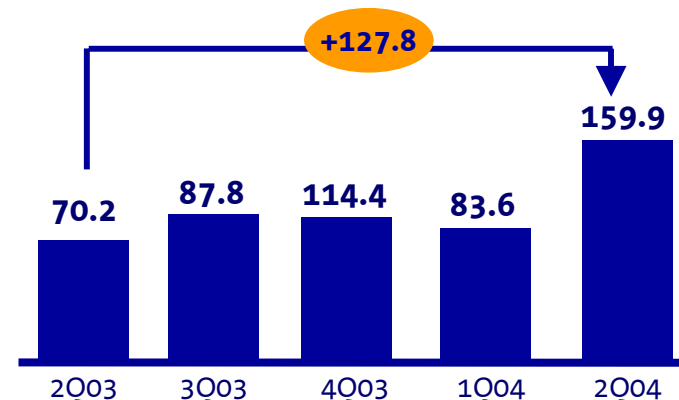
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... and in Latin America ...

ADSL Connections
(thousands)



ADSL Quarterly Net Adds
(thousands)



- Internet and Broadband revenues growing over 40% (local currency) in our Latin American wireline companies
- Telesp's ADSL penetration (ADSL over total lines) is at European levels of 5.0%

We are taking advantage of our mobile exposure with TME focused on high value clients...

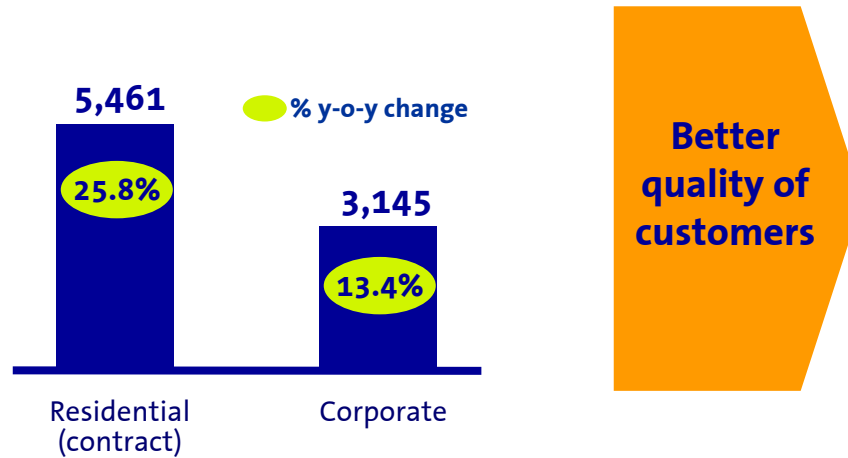


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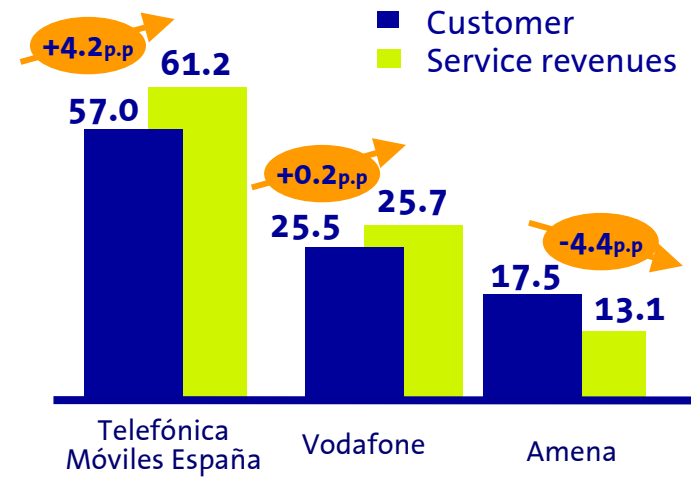


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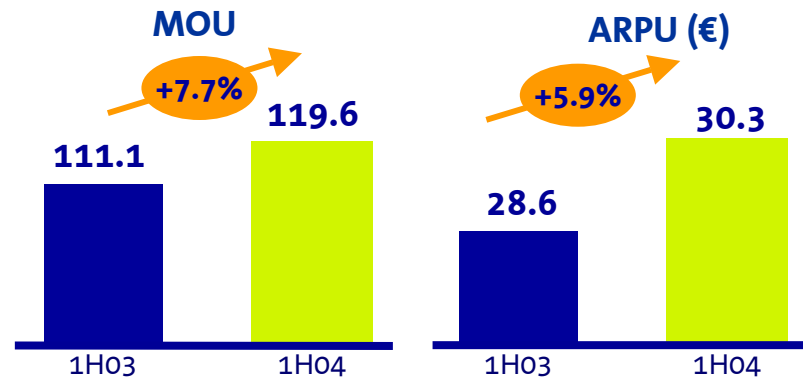
Residential & Corporate customers (thousands)



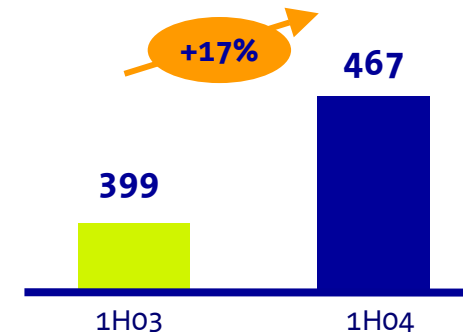
2003 market shares (*) (%)



Healthy usage



Data revenues (euros in million)



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(*) Source: CMT, based on data provided by operators.

...with our wireless presence in Latin America providing us with a higher growth profile...

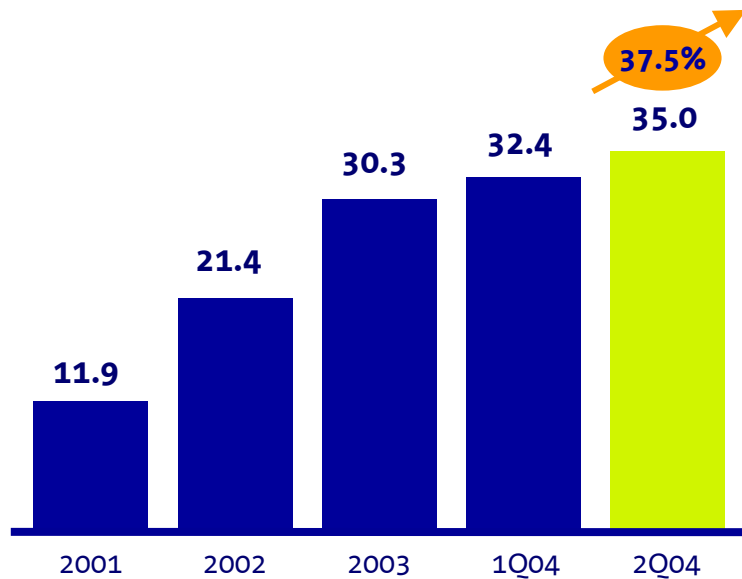


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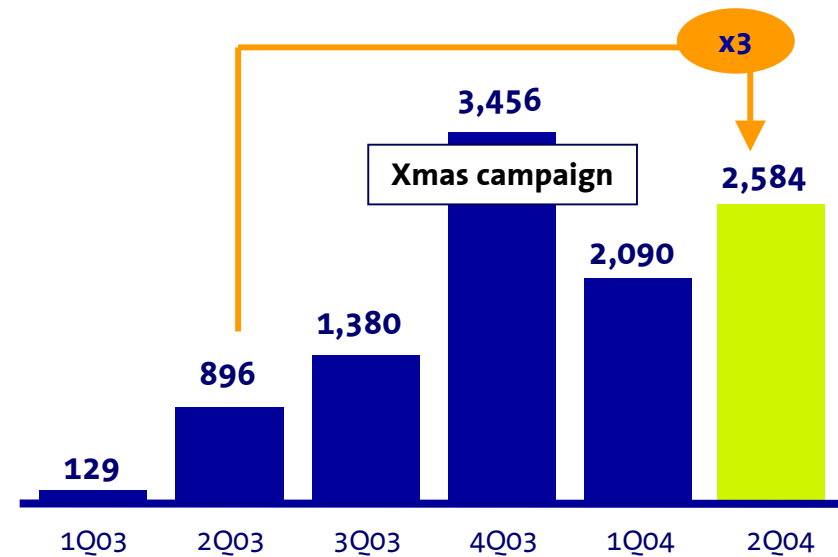


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TEM's managed customers in Latin America (MM)¹



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



● y-o-y growth

+19.3% revenue growth in 1H04 in € terms



...that we have reinforced by acquiring BellSouth Latin American properties

A transaction with a clear strategic fit...

- Mobile (one of our core businesses) in Latam (our natural area of expansion)
- Adding 12.5 Million clients
- Strengthening our current market position in Chile, Argentina, Peru & Guatemala
- Entering in 6 new markets, those key as #1/#2 player
- NPV of synergies (OpEx+CapEx) > 1 Bn.€

...that enhances our financial performance

2003 figures
(\$US in Billions)

	Cellular Business	BellSouth Latam	Aggregate
Revenues	11.8	2.5	14.3
EBITDA	5.2	0.9	6.1
EBITDA margin	44%	36%	43%
OpCF (*)	3.5	0.6	4.1

The combination will increase Cellular Business revenues, and EBITDA/OpCF by 21% and 17%, while keeping profitability at a healthy 43%

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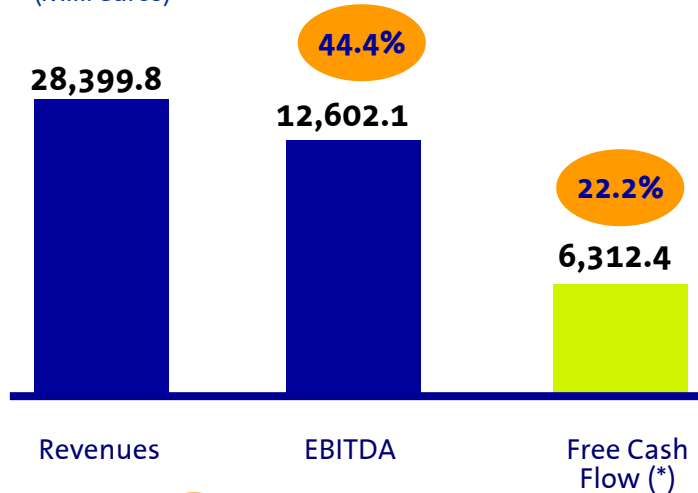


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A proven track record transforming top line growth into profitability and cash generation...

Basic financial Indicators 2003

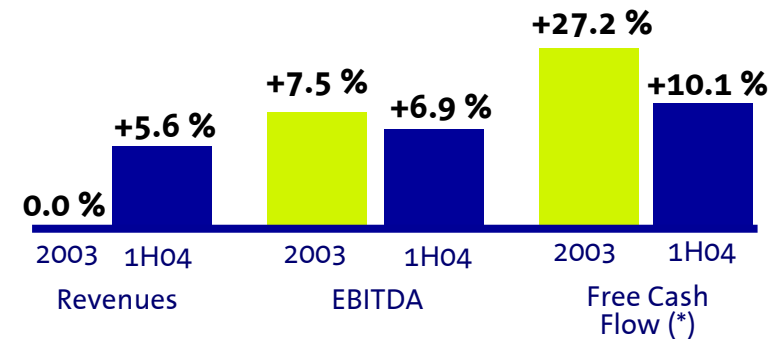
(Mill. euros)



● % over revenues

Growth profile

(Annual Change)



3 pillars to generate this solid cash conversion ratio

- Exploit current growth opportunities such as broadband and mobile across our markets to drive consistent top line growth
- Manage cost structures efficiently, supporting the transformation of the business from a network oriented organization to a client oriented one
- Rationalize CapEx, shifting efforts from mature to high growth businesses



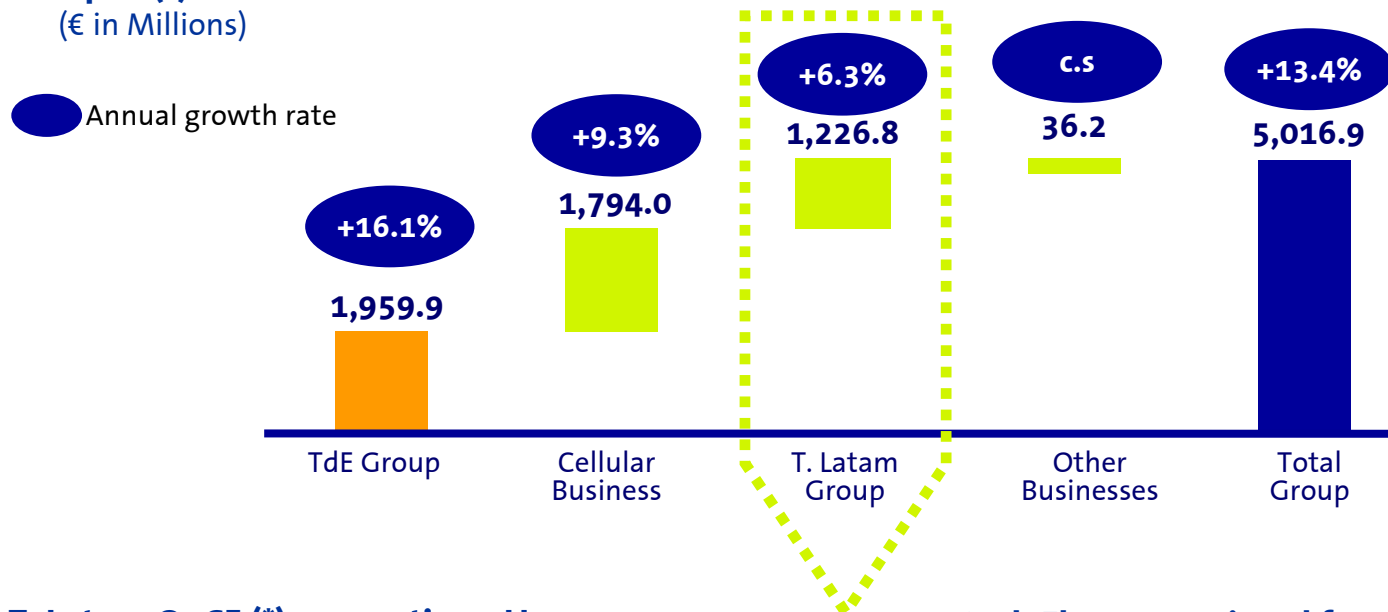
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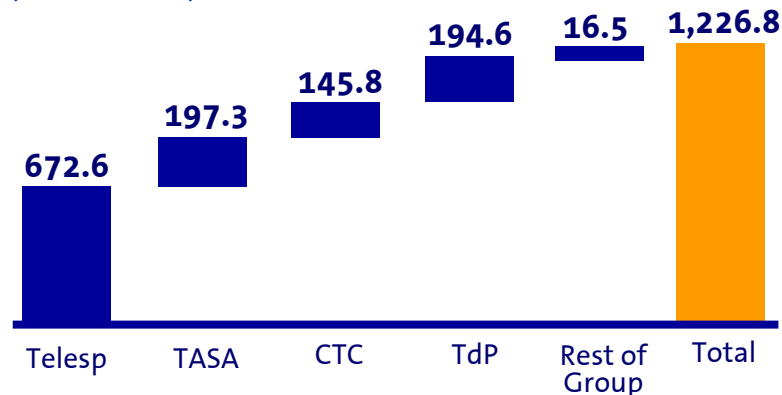
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...which is well balanced, has in our Latin American wireline operations a robust contributor...

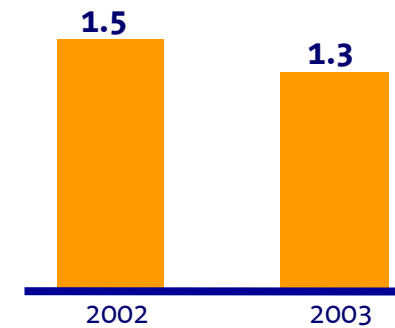
OpCF (*) breakdown 1H04
(€ in Millions)



T. Latam OpCF (*) generation 1H04
(€ in Millions)



Cash Flow repatriated from T. Latam (**)
(€ in Billions)



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(*) EBITDA - CapEx
(**) Wireline operators only



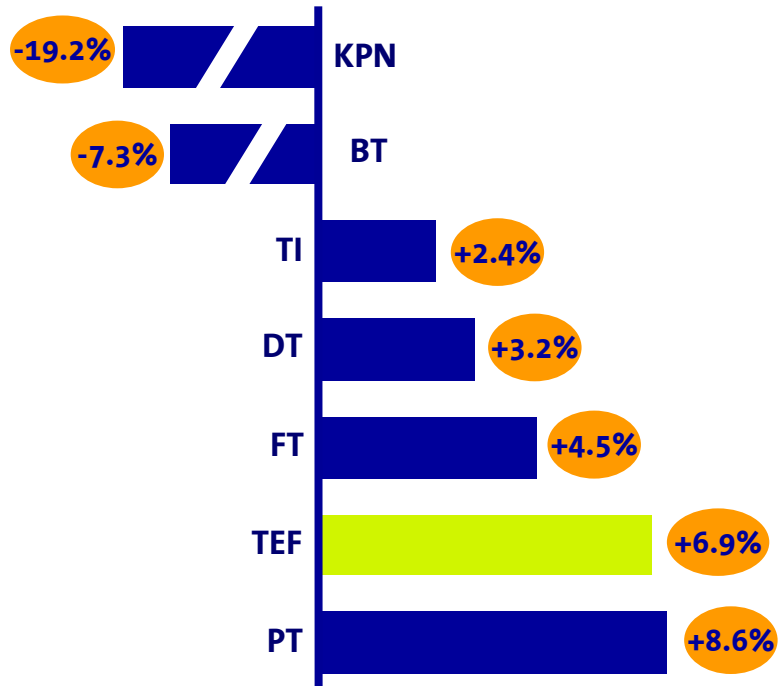
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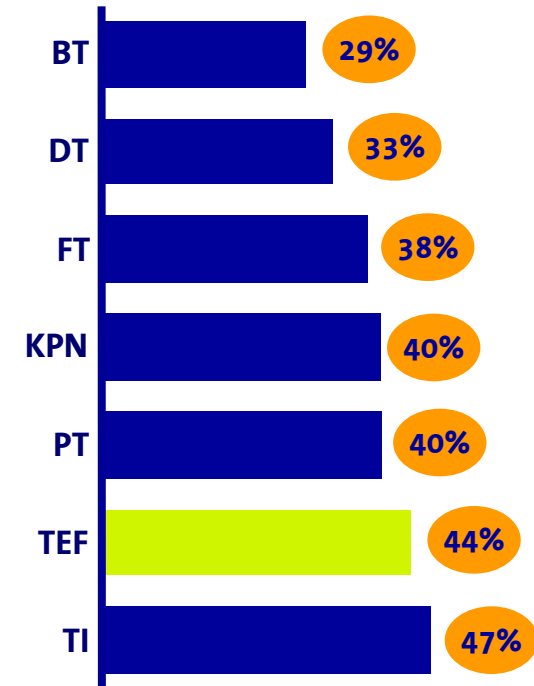
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...and ranks at the top of the peer Group

EBITDA Growth 1H04



EBITDA margin 1H04



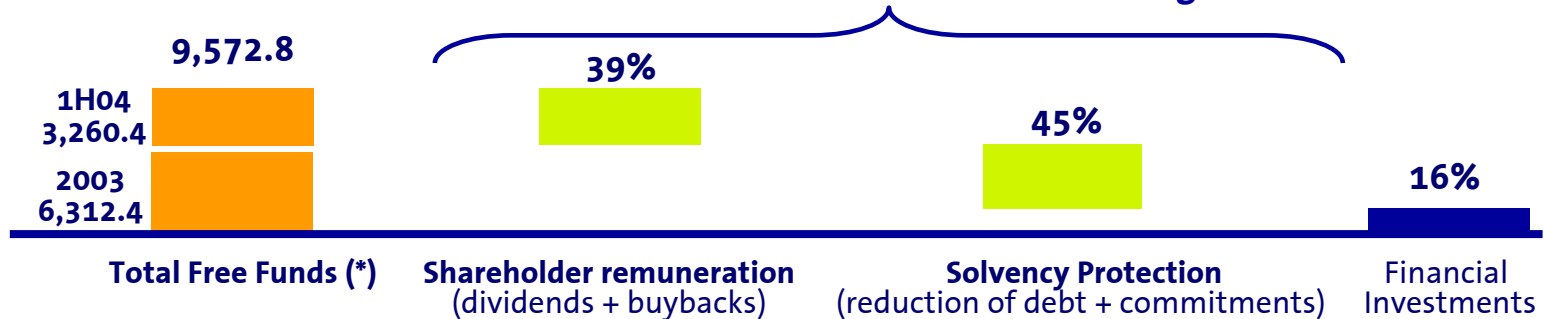
- TdE and cellular are contributing to Group growth by close to 2.5 p.p. each
- We are keeping solid margins in domestic markets despite tough competition, with TdE at 46% driven by its 2003-2007 Redundancy Program, and TME at 53%
- Achieving EBITDA margins for wireline operations in Latin America clearly above European standards, hitting a consolidated level of 45%



We do have a disciplined use of free funds

2003-1H04 use of free funds (*)
(€ in Millions)

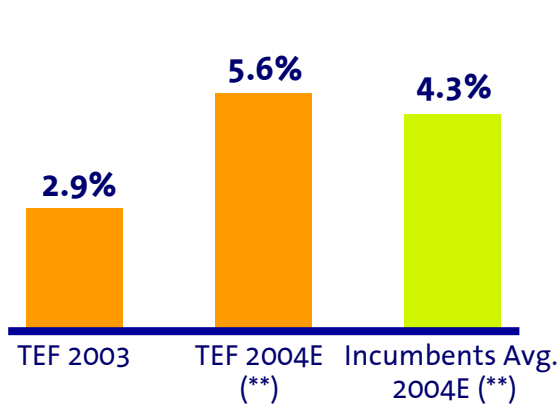
>80% of Free Funds generated in the last 18 months have been allocated to remunerate shareholders and retain our "single A" balance sheet



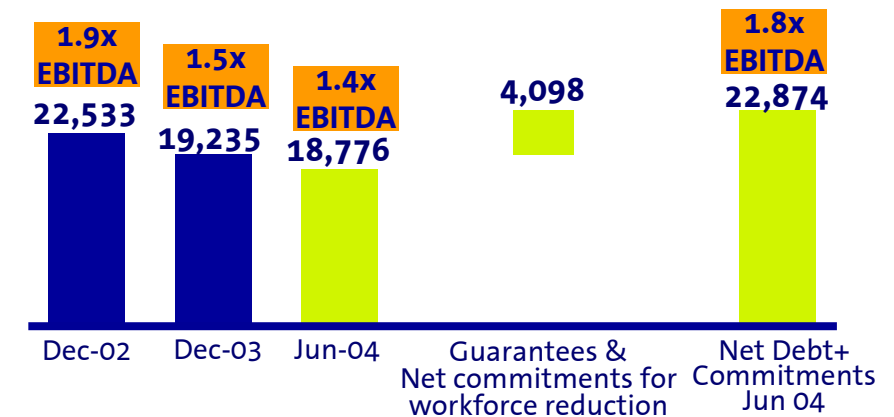
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Cash Yield (div.+buybacks)



Net Debt Evolution 2002-1H04



Rating recently reaffirmed by agencies, outlook stable after Bellsouth announcement

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Conclusions

- A **solid revenue profile** across the Group, that ranks at the top of the sector,
- Top line growth **is sustainable** through broadband, mobile, and selective M&A,
- and is being transferred down to **profitability and cash generation**,
- We have a **disciplined strategy** for the use of cash flows

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

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