

XI Annual Telecom Seminar

***Santiago Fernández Valbuena, CFO
Telefónica Group***



A SUPERIOR COMBINATION
OF GROWTH
&
CASH RETURNS

Telefonica

Marbella, June 24th 2005

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01 **A very solid performance in 1Q05, ahead of the industry**

02 **A clear business strategy that will lead to a superior combination of growth and cash returns**

03 **Conclusions**

01 A very solid performance all through the P&L in 1Q05...



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	Jan-Mar 2005	Jan-Mar 2004	% Change 1Q05/1Q04	% Change 1Q05/1Q04 ex-forex ⁽¹⁾	% Change 1Q05/1Q04 Organic ⁽²⁾
Revenues	8,278.8	7,093.4	+16.7%	+17.3%	+9.2%
Operating Expenses ⁽³⁾	(4,993.6)	(4,225.4)	+18.2%		
Operating Income before D&A (OIBDA)	3,414.7	2,937.6	+16.2%	+16.4%	+9.5%
D&A	(1,526.4)	(1,432.9)	+6.5%		
Operating Income (OI)	1,888.3	1,504.7	+25.5%	+25.4%	+21.3%
Net Income	912.2	671.4	+35.9%		

(1) Assuming constant exchange rates as of 1Q04

(2) Assuming constant exchange rates as of 1Q04. 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 Telefonía Latinoamérica Group, from January 1st 2004

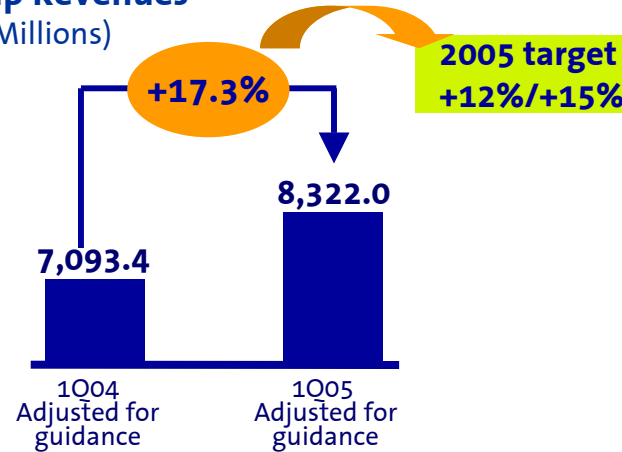
(3) Supplies, Personnel Expenses, External Services and Taxes

01 ...to stand in line with our year-end guidance...

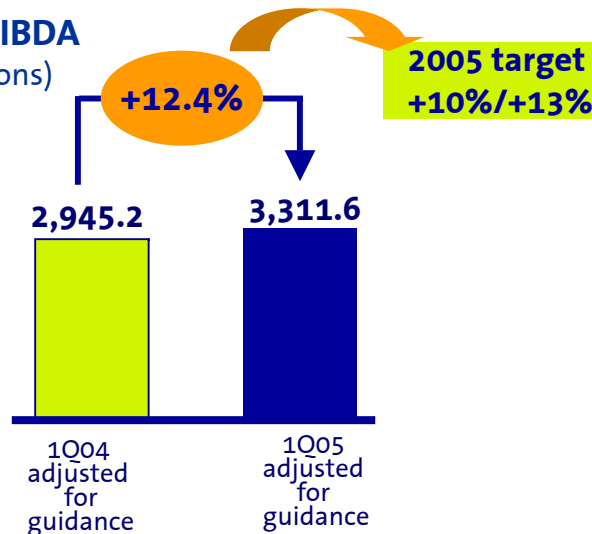


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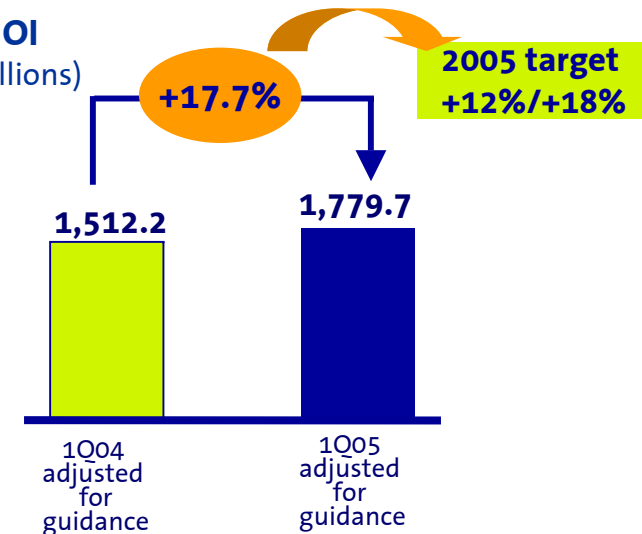
Group Revenues
(€ in Millions)



Group OIBDA
(€ in Millions)



Group OI
(€ in Millions)



Notes

1Q05 adjusted for guidance assumes constant exchange rates as of 1Q04 (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 1Q04 are also deducted from reported figures in terms of guidance calculation

01 ... and beat all of our European peers



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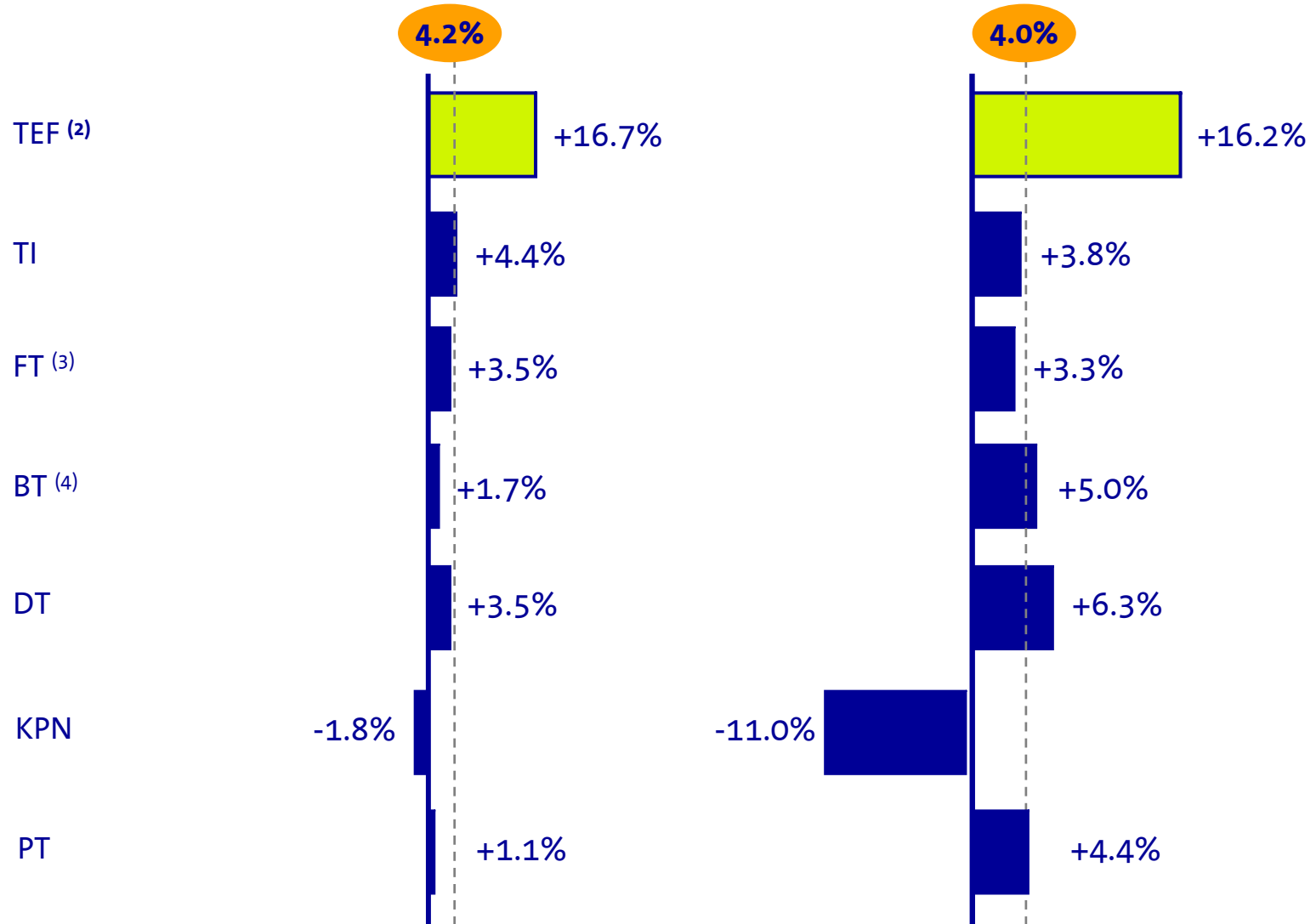
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Revenue growth⁽¹⁾

Jan-Mar 05 vs. Jan-Mar 04

EBITDA growth⁽¹⁾

Jan-Mar 05 vs. Jan-Mar 04



(1) Based on data published by companies

(2) EBITDA figures relate to Operating Income Before Depreciation and Amortization (as reported by TEF)

(3) EBITDA = Gross operating margin; does not include employee profit-sharing or expenses for shared-based compensation schemes

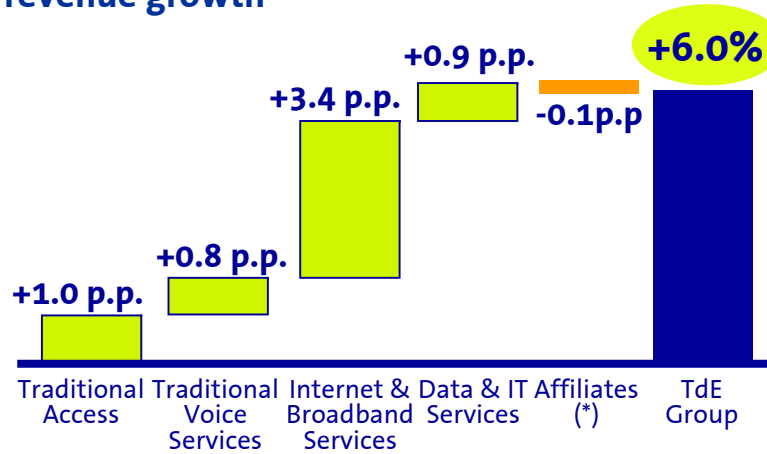
(4) Data for EBITDA before exceptionals

01 We are fully exploiting the broadband opportunity to drive wireline top line growth both in Spain...

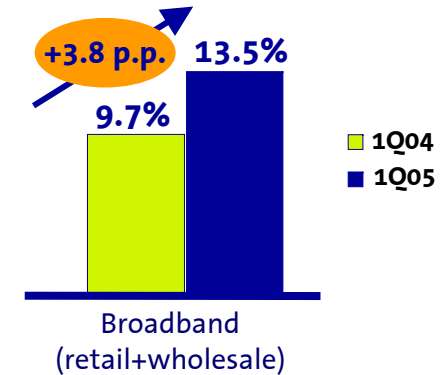


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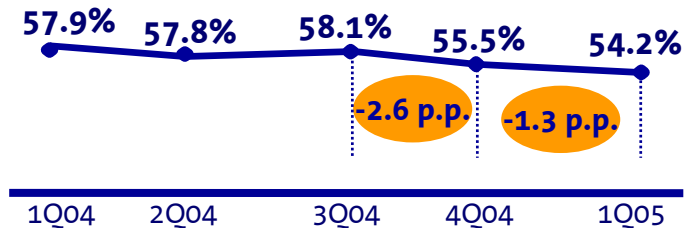
Contribution to TdE Group revenue growth



Weight over Operating revenues (parent company)



Estimated Group retail broadband market share



BB market share erosion halved through wide range of actions ...



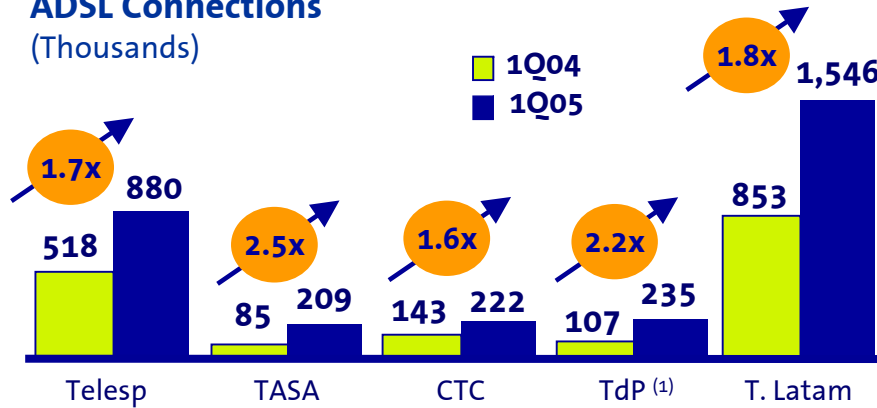
(*) Telyco, TTP, T. Cable

01 ...and in Latin America, pushing broadband access across markets

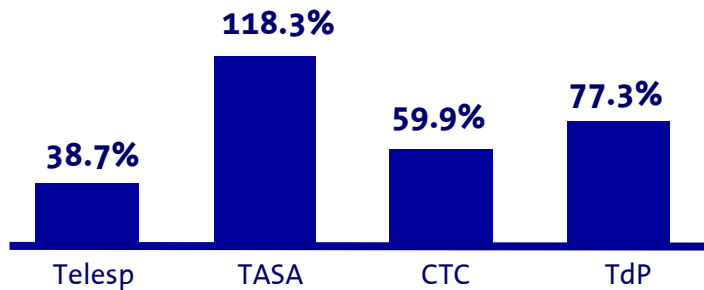


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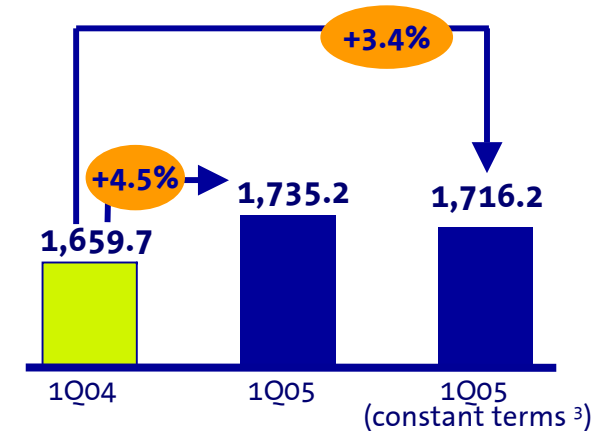
ADSL Connections
(Thousands)



Broadband revenue growth
(1Q05/1Q04, local currency)



Revenues
(€ in Millions)



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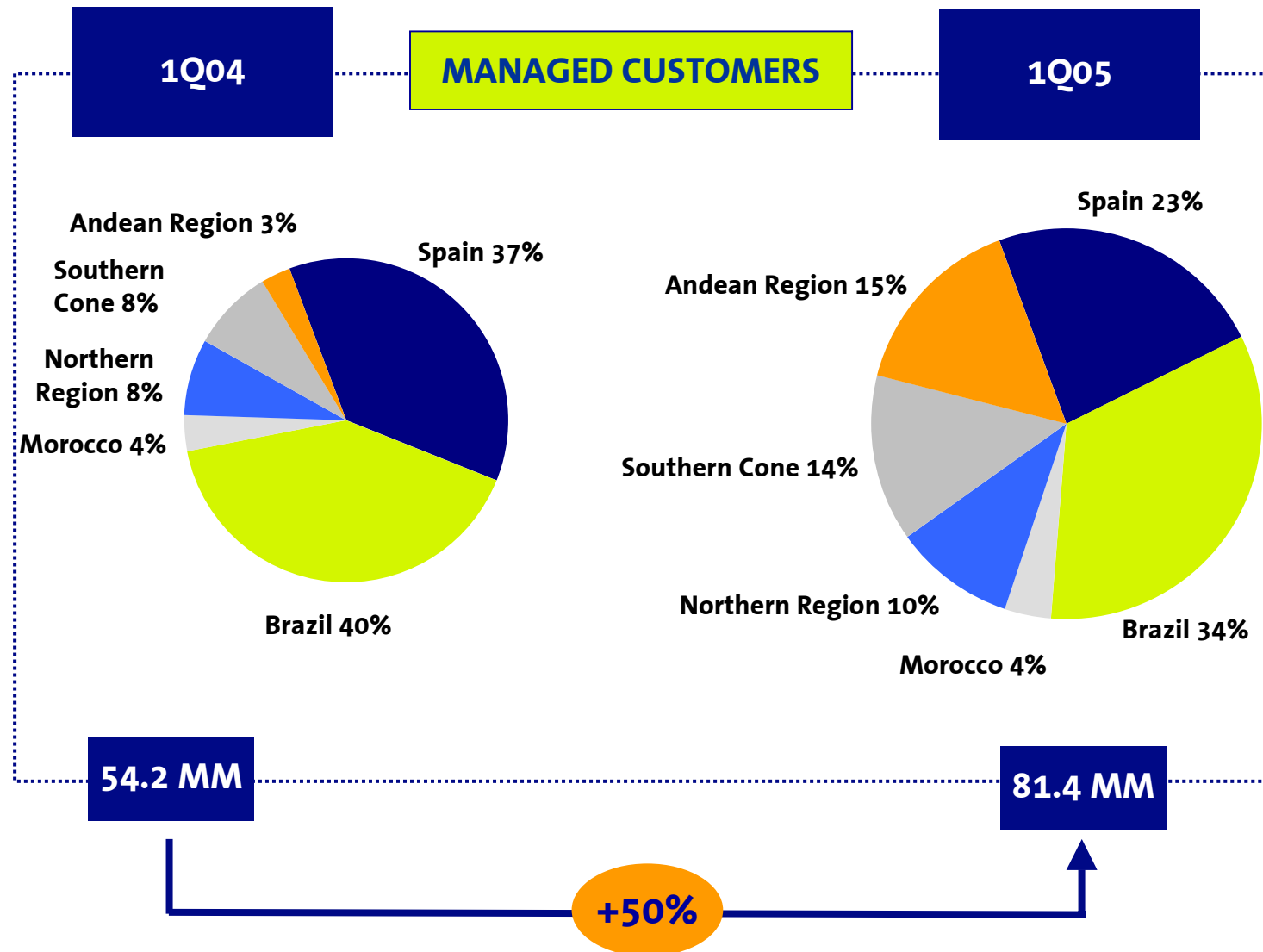
(1) Including cable modem
 (2) Including Narrowband Internet
 (3) Assuming constant exchange rates as of 1Q04 (as of 2004 for year-end target).

01 The incorporation of BellSouth's assets has taken TEM into a new dimension: The NEW TEM



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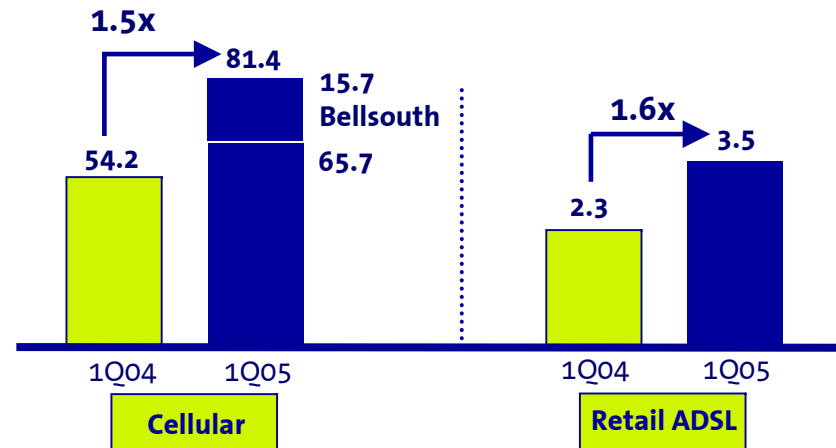
01 Our efforts to grow our markets are impacting commercial costs but not profitability and returns...



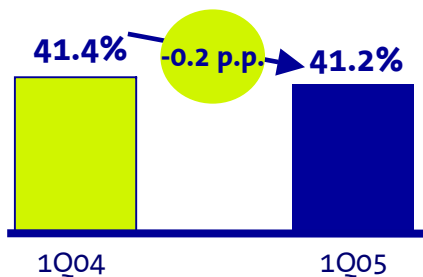
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+18.2% growth of operating expenses in 1Q05 (vs. 1Q04)

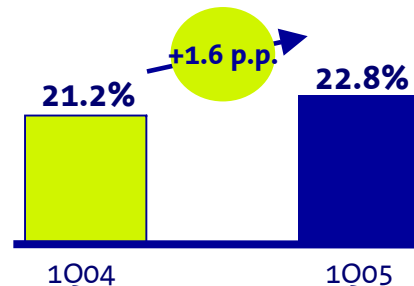
Group cellular & ADSL accesses (Millions)



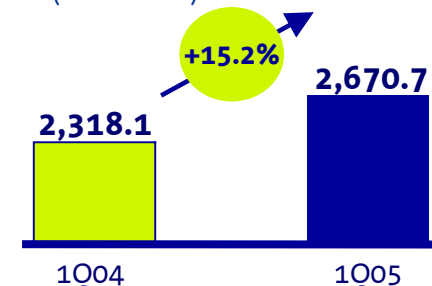
OIBDA Margin



Operating Income Margin



OpCF (OIBDA-CapEx) (€ in Million)



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

01 ... placing our fixed operations clearly apart from current wireline sector trends...

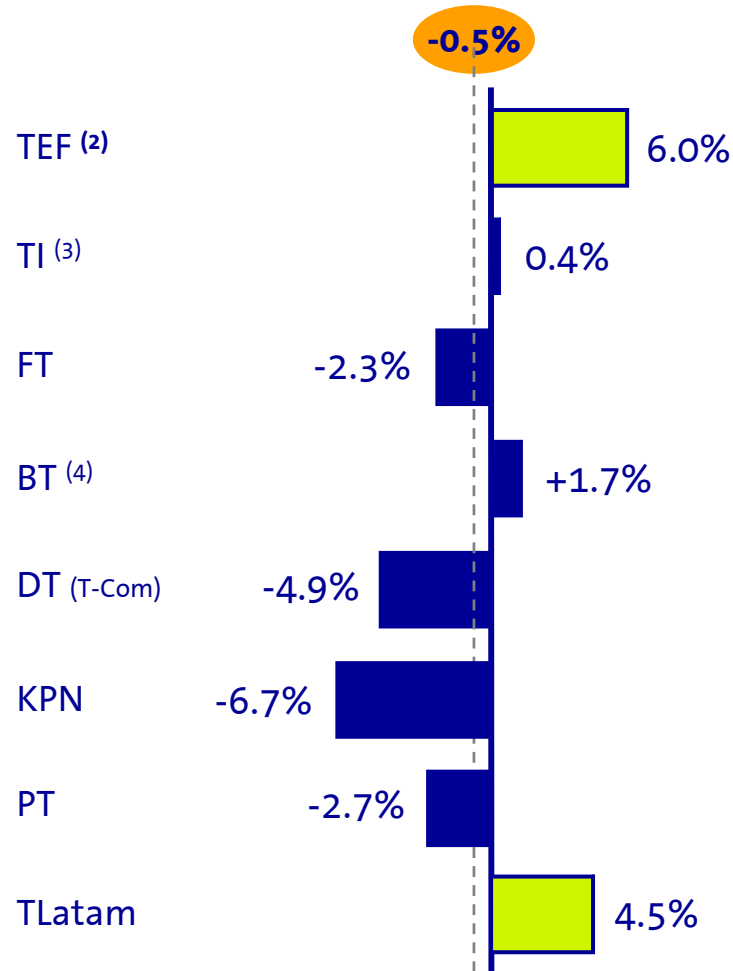


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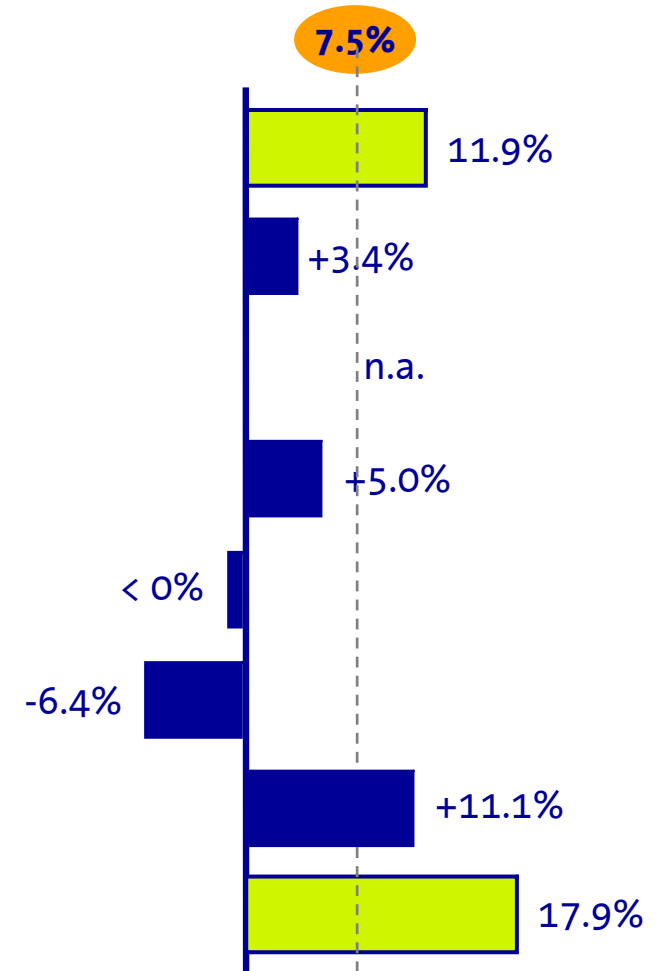
DOMESTIC WIRELINE Revenue growth⁽¹⁾

Jan-Mar 05 vs. Jan-Mar 04



DOMESTIC WIRELINE EBITDA growth⁽¹⁾

Jan-Mar 05 vs. Jan-Mar 04



(1) Based on data published by companies

(2) EBITDA figures relate to Operating Income Before Depreciation and Amortization (as reported by TEF)

(3) Revenue Growth for TI considers revenues of TIDW excluding European Project in 1Q04 and 1Q05

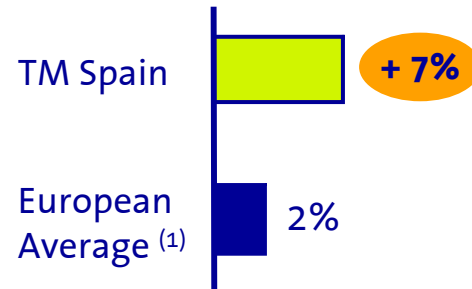
(4) Data for EBITDA before exceptionals

01 ... and our mobile operations ahead of European average

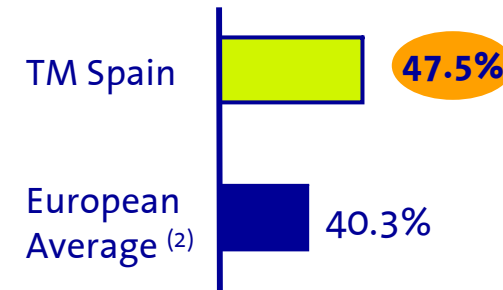


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Service Revenues growth
(1Q05/1Q04)



OIBDA margin (1Q05)



- **Solid revenue growth driven by increased usage:**

- **+12%** in billable traffic vs. 1Q04
- Increased contribution from non SMS- Data
- **+4.8% y-o-y in ARPU**

- **Margin performance highly impacted by strong commercial efforts:**

- **+12%** in commercial activity vs. 1Q04
- **+67%** y-o-y growth in number portability gross adds
- **66.3%** normalised margin

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1 European average including TIM Italy, T-Mobile Germany, Orange France, TMN, KPN-Mobile (The Netherlands) & Vodafone UK. Source: Company press releases
2 European average including TIM Italy, T-Mobile Germany, TMN, KPN-Mobile (The Netherlands) & T-Mobile (UK). Source: Company press releases.

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02 We have a single goal and clear strategy to make it happen



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GOAL

To provide the best combination of growth and cash returns in the industry

STRATEGY

Maximisation of free cash flow

- Accelerating top line growth
- Financing organic growth projects
- Improving operational excellence

+

Clear cash flow allocation

Top – notch shareholder returns

Strong balance sheet

Selective expansion

02 Growth is the key to our strategy, and we will actively pursue it on two fronts



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***Accelerate
access
penetration***

Reach more customers
–mainly in broadband
and wireless

**Customer access is
Telefónica's key
competitive asset and a
major source of growth ...**

***Add value to
the customer's
access***

Provide these customers
with services and solutions
targeted to specific needs

**... and we will leverage on
these customer relationships
to extend growth beyond
the access...**

... and to make the access itself more attractive

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02 We will leverage on our wireline access position to grow DSL aggressively...

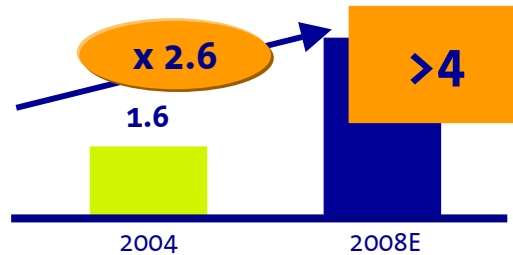


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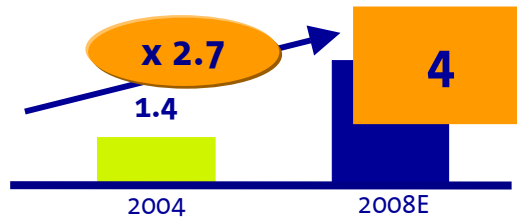
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Making broadband a truly mass-market service

DSL lines in Spain
Million; Retail market



DSL lines in LatAm
Million; Retail market



... through offer innovation, intensive marketing and sales proactivity

Spain

- Intensive advertising and promotional campaigns
- Massive use of retail channels
- New attractive 2P & 3P services
- Improved quality and performance of service

- **Tariff innovation**
- **Bundling with products (PC) and services**
- **Financing solutions**

LatAm

- Maximise penetration in low income segments with basic services of reduced ARPU
- Selective narrowband migration and rollout of bandwidth on demand

*Includes Sao Paulo, South region of Argentina, Chile and Peru

02 ...and will aggressively develop the wireless business, specially in LatAm



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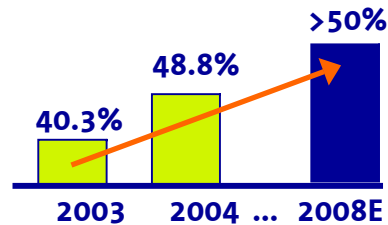


Spain: continuing growth on top of a solid revenue base

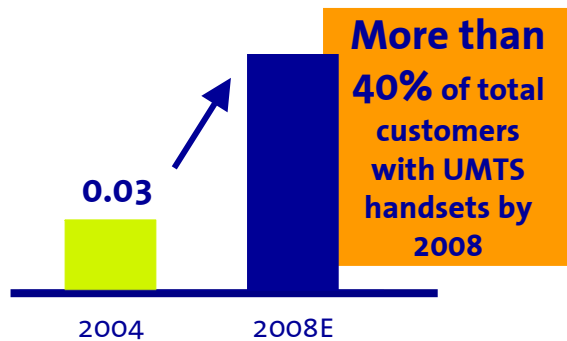
+

LatAm: high penetration upside + consolidated leadership after the BellSouth deal

Weight of contract segment
(% over total customer base)



Telefónica's 3G wireless customers in Spain
Million



Strong penetration growth...

	Penetration 2004	Penetration 2008E (%)
Brazil*	40%	55-60
Argentina	36%	55-60
Mexico	36%	50-55
Colombia	23%	55-60

...which we are in the best position to reap

- Presence in 13 markets, #1 in 7 of them and #2 in 5 others
- Large operational synergies (US\$ 100m 2007, up to US\$ 250m 2008)



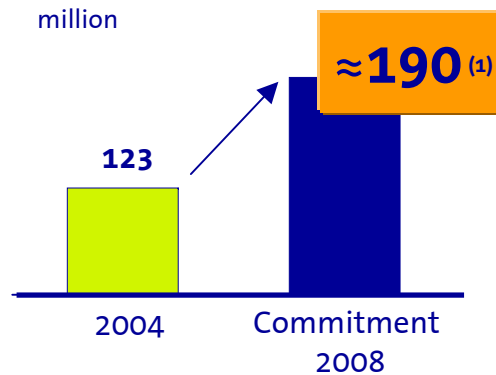
*In areas of operation

02 We expect our strategy to accelerate top line growth while improving operational excellence and financing growth projects

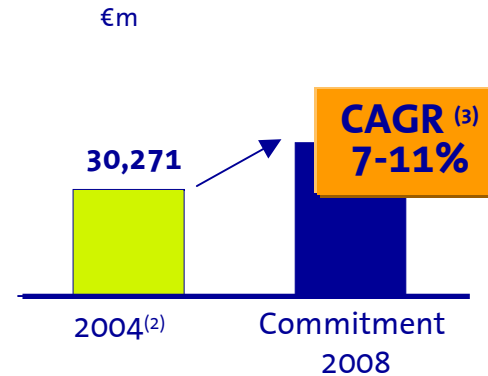


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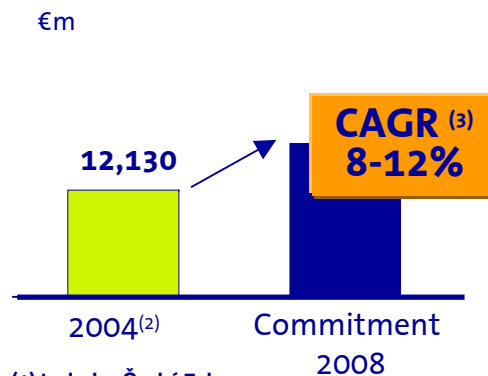
Customer base growth
(# accesses)



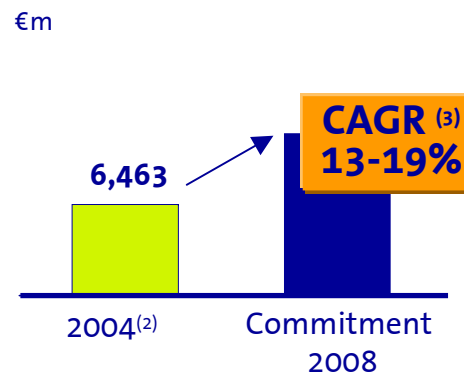
Revenue growth



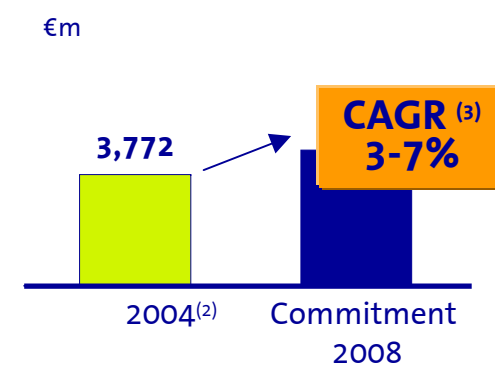
Op. Income before D&A⁽⁴⁾



Op. Income⁽⁴⁾



CapEx



(1) Includes Český Telecom

(2) Reported 2004 under IFRS

(3) Local currency (constant exchange rates as of 2004) and exclude changes in consolidation other than assets acquired to BellSouth in Argentina & Chile in 2005 (TEM), and Atrium (TLatAm). Includes Český Telecom from 2H05.

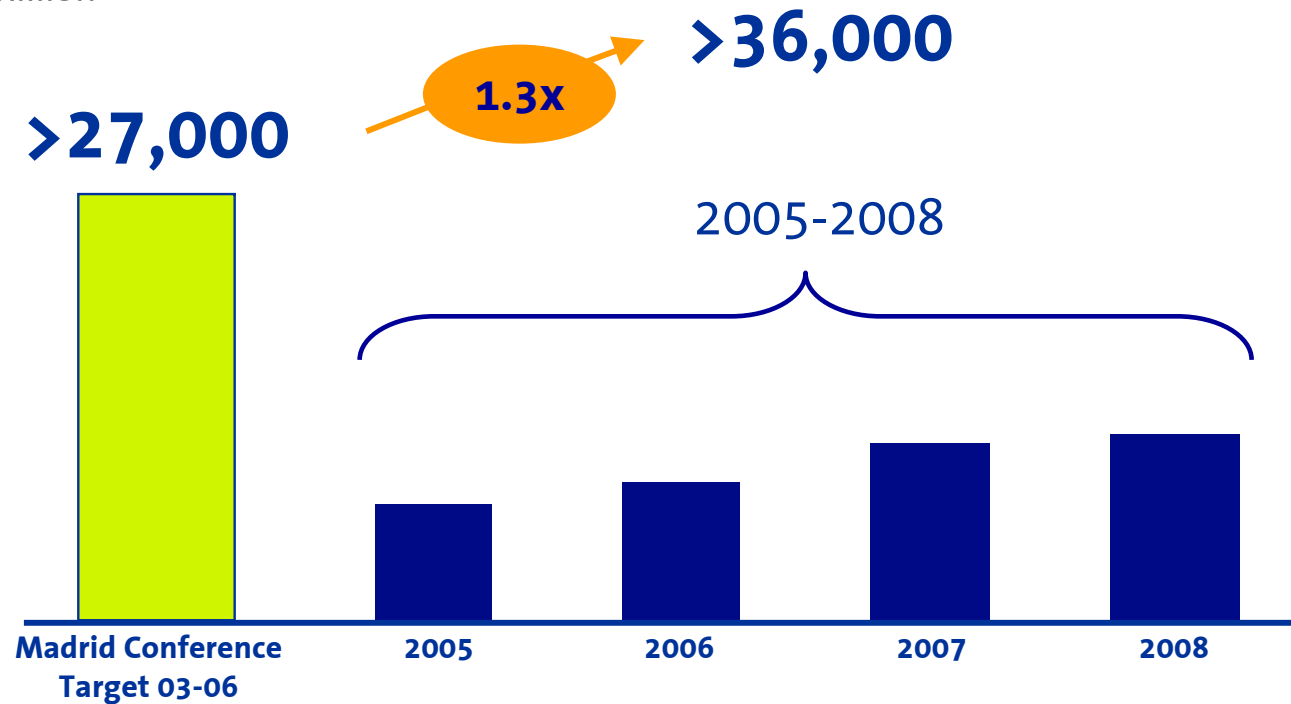
(4) In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2005-2008. These exceptional amounted to -303.5 MM€ in 2004 and are therefore also excluded, meaning a calculation base for guidance of 12,433 MM€ for OIBDA and 6,767 MM€ for OI, respectively. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses.

02 As a result, our Free Cash Flow generation will accelerate in the coming years



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Free Cash Flow
€ in Million



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02 ...while maintaining a clear cash flow allocation criteria



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OUR DISTRIBUTION PRIORITIES CONTINUE TO HOLD

**Delivering top-notch
shareholder returns**

**Expanding the business
selectively**

**Preserving a strong
balance sheet**

... AND WE UPDATE OUR DISTRIBUTION RATIONALE

0.5 €/share annual minimum dividend

A renewed and extended 6 Bn.€ buyback until 2007: sensitive to cash flow generation and share price

Strict discipline that follows a set of clear M&A principles

Targeting Net Debt (*) + cash commitments/Operating Income before D&A < 1.85x in 2006

(*) Including preference shares.

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03 Conclusions



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- **Telefónica to lead the industry in customer focus and operational performance**
- **Growing faster and more profitably than other integrated operators**
- **Committed company to shareholders and to preserve a healthy balance sheet**



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***The best combination of growth
and shareholder returns, now and
in the long run***

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www.telefonica.es/investors