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CFO of Telefónica Group






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September 16th, 2004
London (UK)

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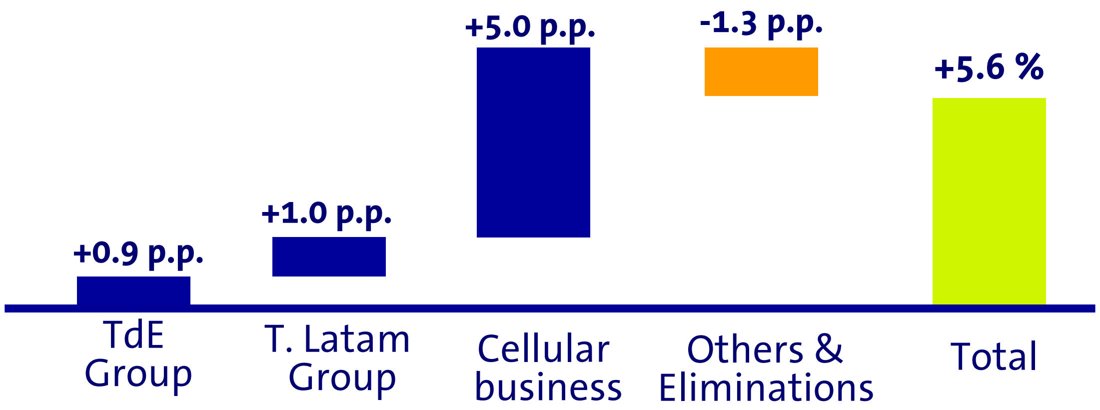
Achieving attractive top line expansion, to which all business lines contribute positively…

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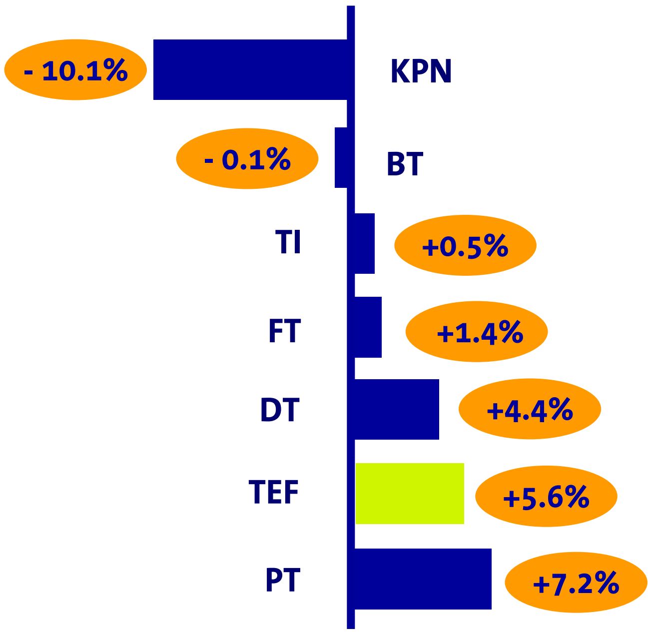
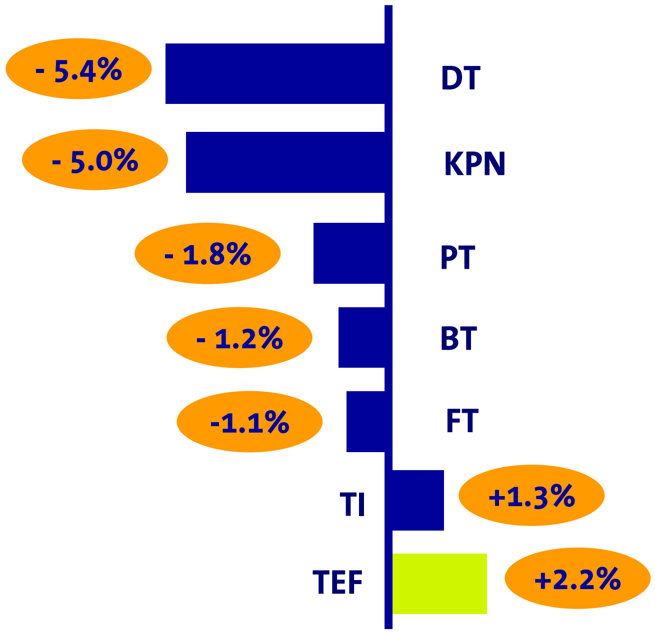
... placing the company at the top of sector performance

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

Source, company´s press releases

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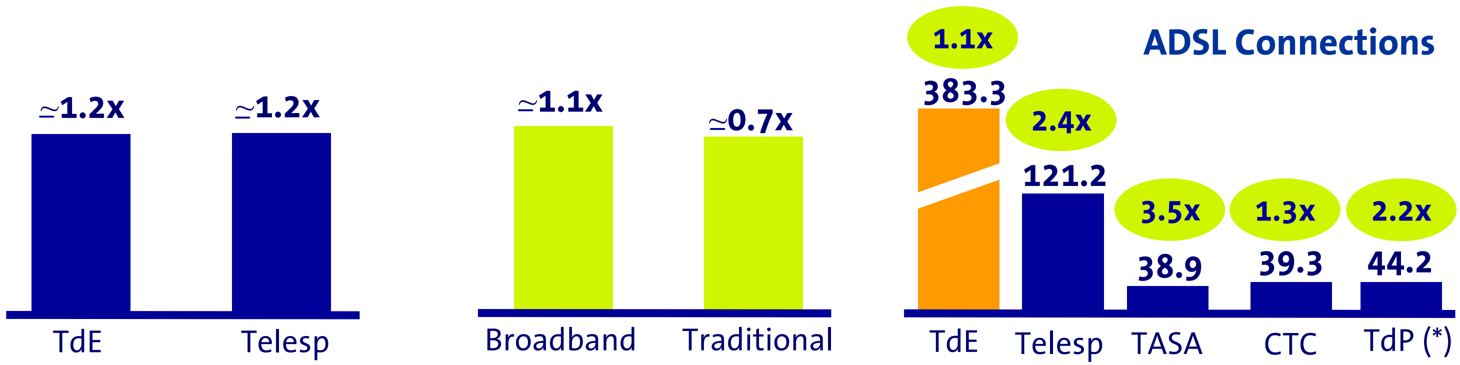
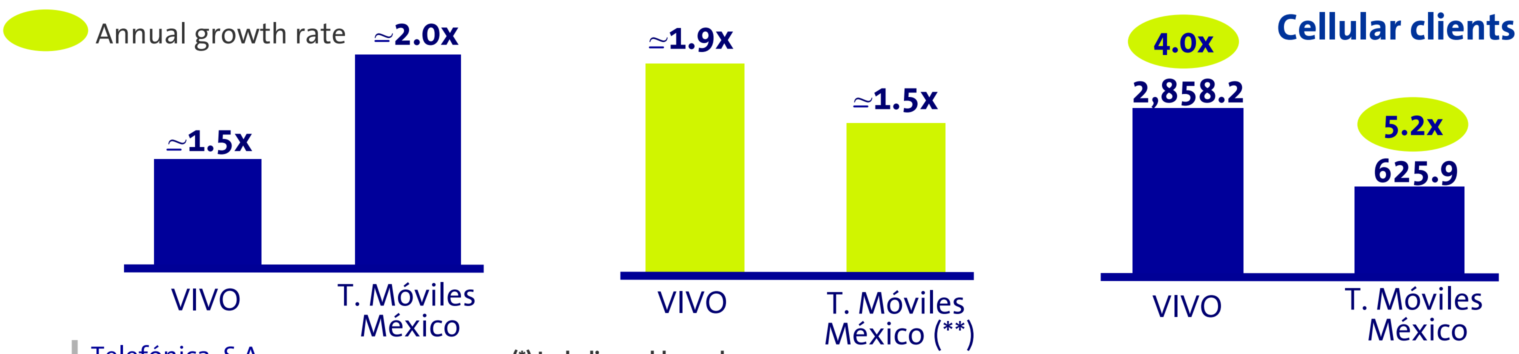
Our active approach to the market is setting the basis to sustain our growth profile...

Jun 04/Jun 03 commercial expenses growth (local currency)	Jun 04/Jun 03 CapEx growth (local currency)	1H04 net adds (thousands)

FIXED TELEPHONY



CELLULAR



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

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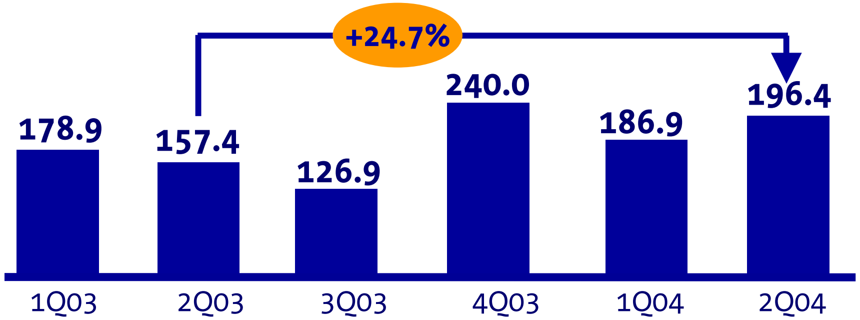
...by developing the broadband opportunity in Spain...

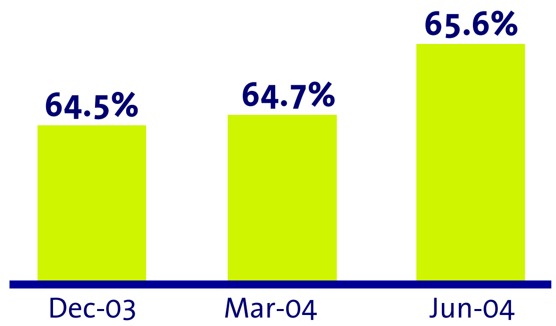
ADSL Connections
(Net adds, thousands)

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

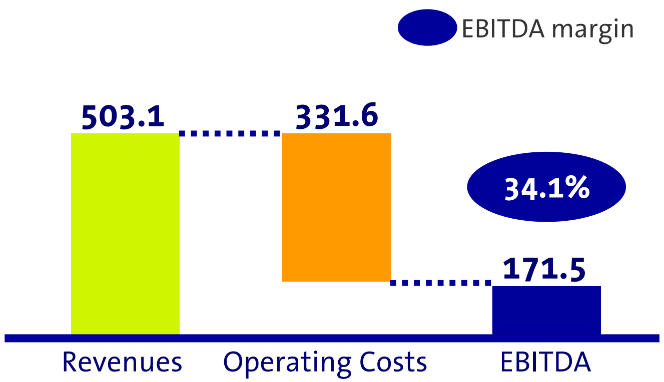


More than 1.3 million retail connections (+58% y-o-y)

Retail ADSL market share
(over total ADSL)



1H04 ADSL EBITDA margin
(€ in millions)



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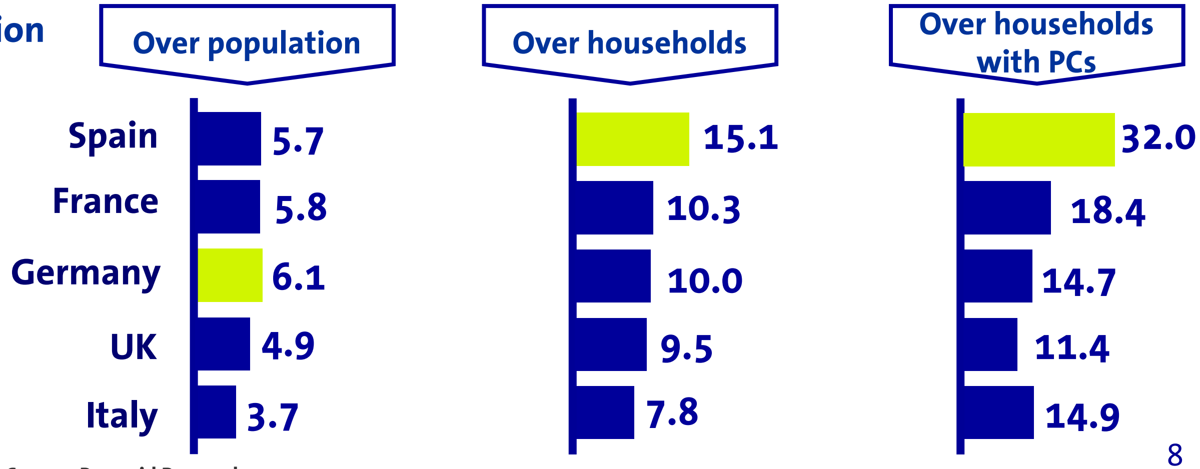
...with a new battery of initiatives to lead Broadband penetration...

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

Our ADSL approach is proving effective

Broadband penetration in Europe (%)
2003 data



Source, Pyramid Research

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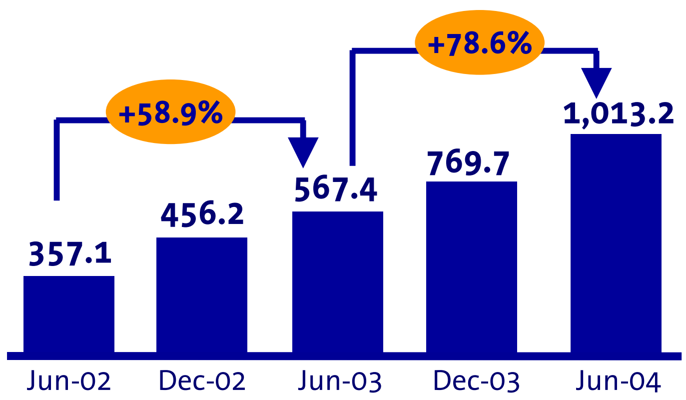
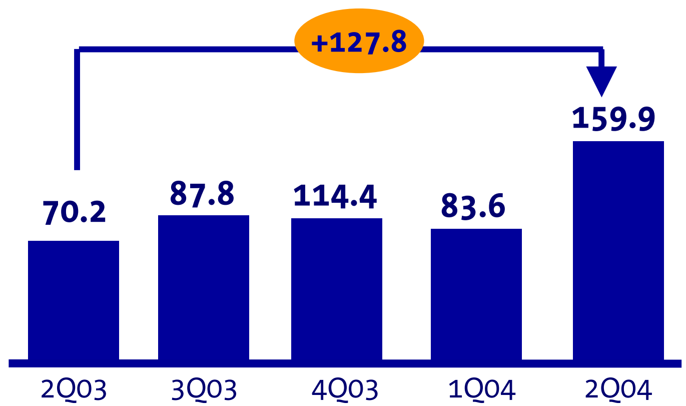
... and in Latin America ...

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%

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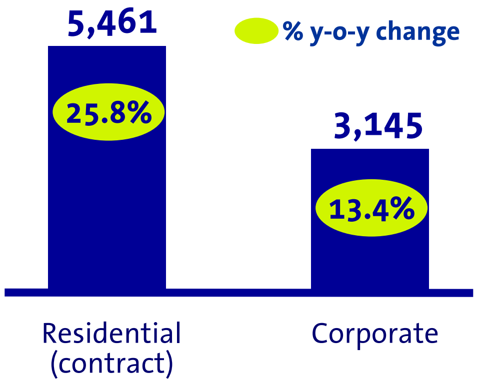
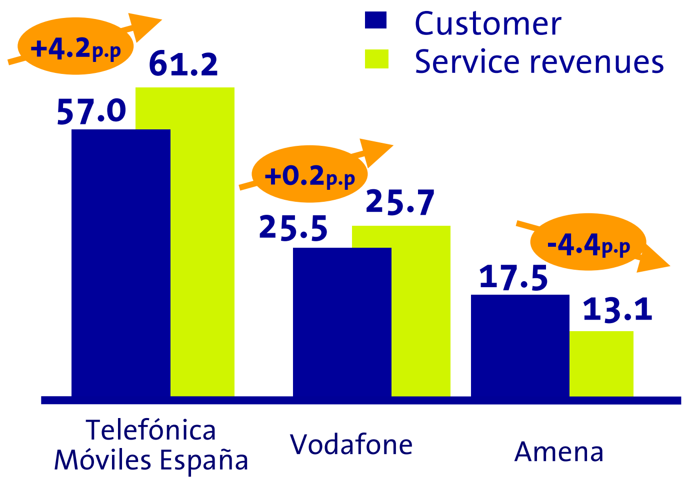
We are taking advantage of our mobile exposure with TME focused on high value clients...

Residential & Corporate customers
(thousands)



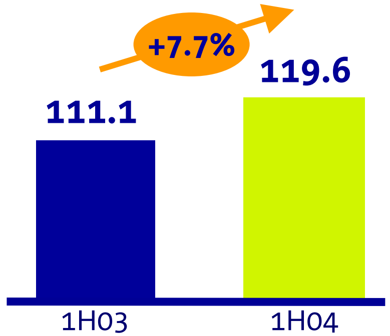
Better quality of customers

2003 market shares (*)
(%)

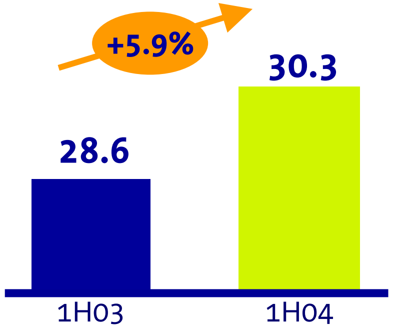


Healthy usage

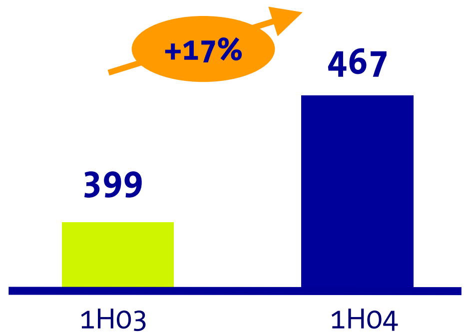
MOU



ARPU (€)



Data revenues
(euros in million)



(*) 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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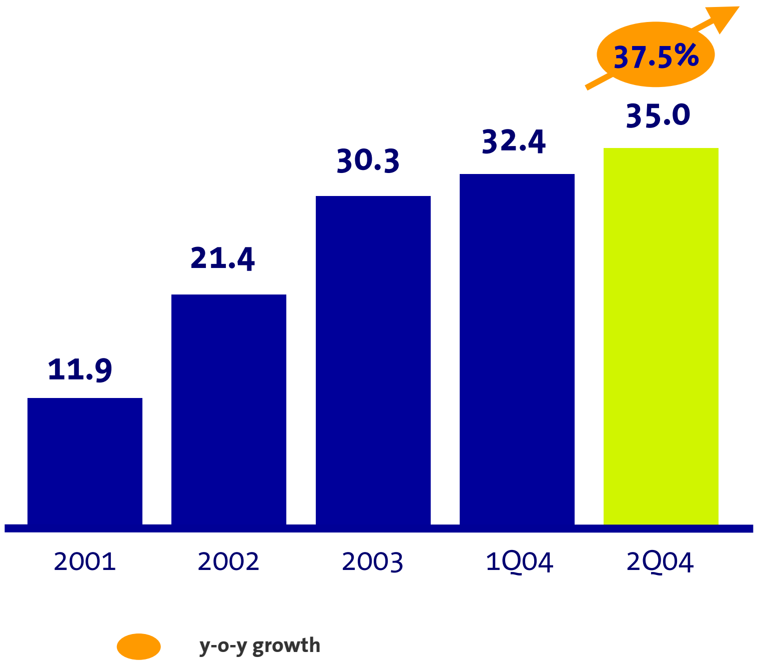
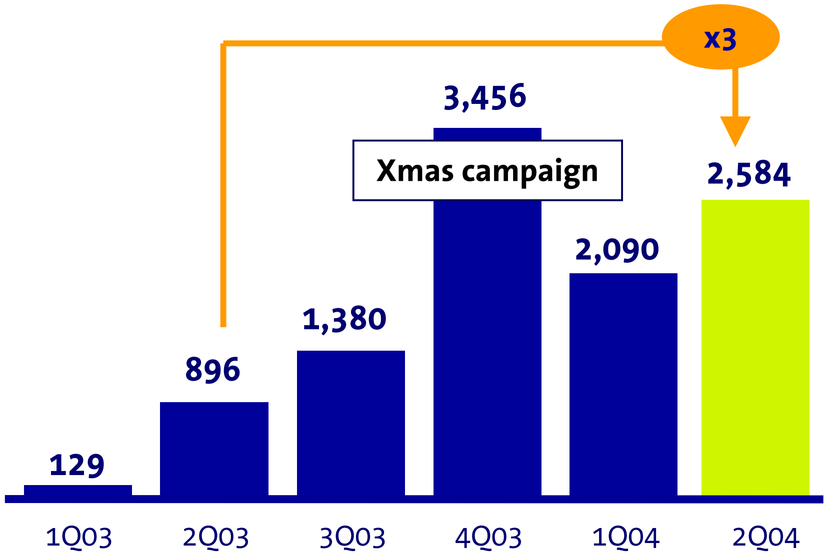
TEM's managed customers in Latin America

(MM)[1]



TEM's net adds in Latin America

(Thousands)[2]



+19.3% revenue growth in 1H04 in € terms

1 2003 figures includes the acquisition of TCO.
2 Includes TCO since January 1st 2003. Managed net adds.

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...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%

(*) EBITDA - CapEx

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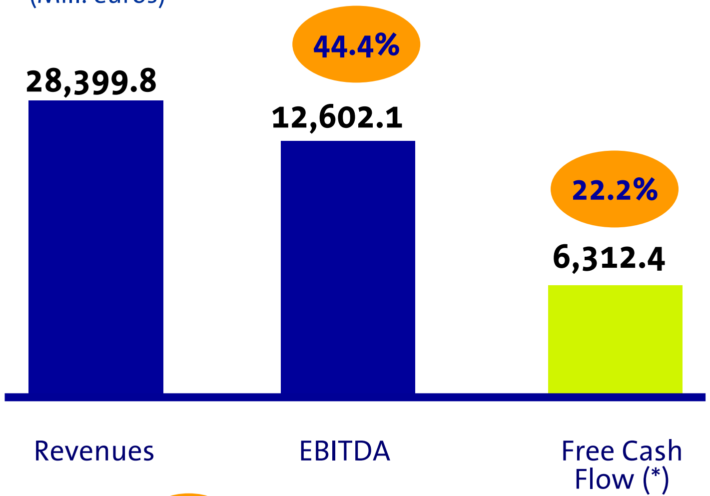
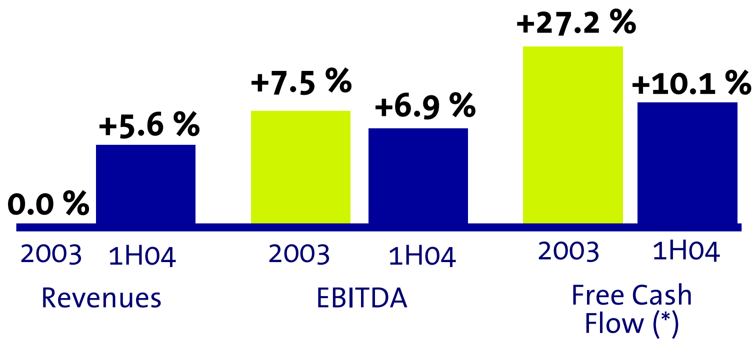
A proven track record transforming top line growth into profitability and cash generation…

Basic financial Indicators 2003
(Mill. euros)



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

(*) Madrid Conference criteria

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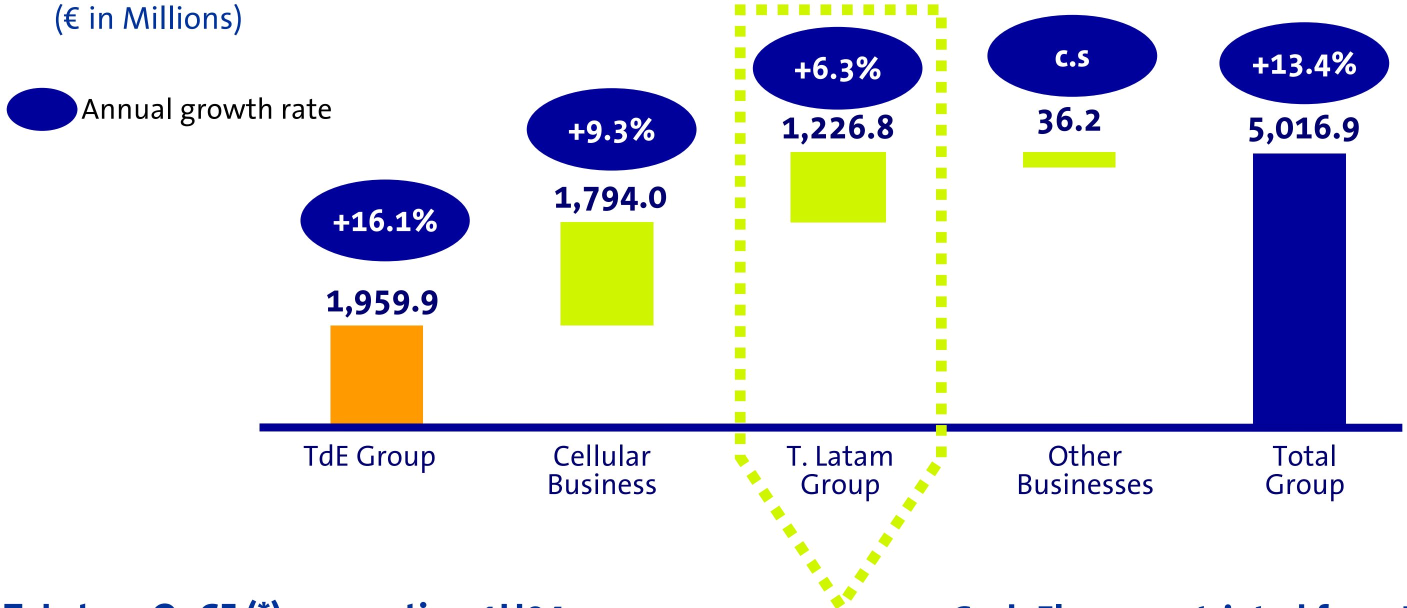
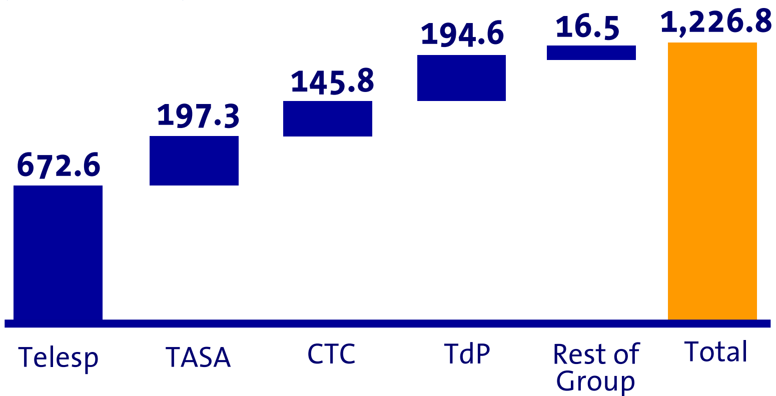
…which is well balanced, has in our Latin American wireline operations a robust contributor…

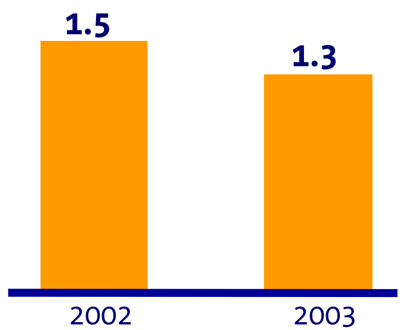
OpCF (*) breakdown 1H04
(€ in Millions)



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



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



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

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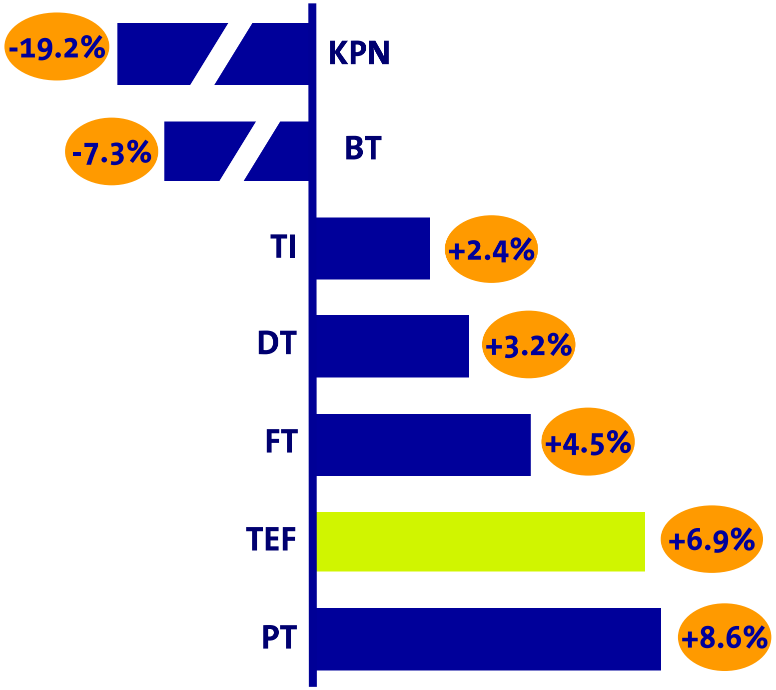
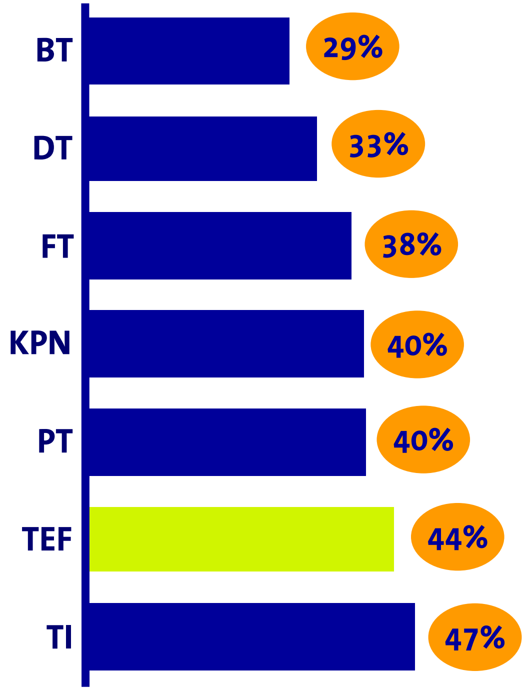
...and ranks at the top of the peer Group

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%

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Source, company´s press releases

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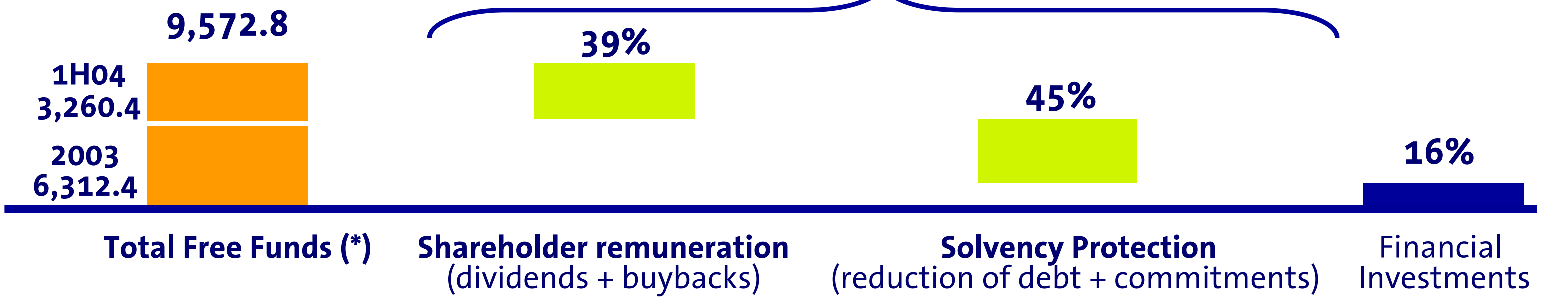
We do have a disciplined use of free funds

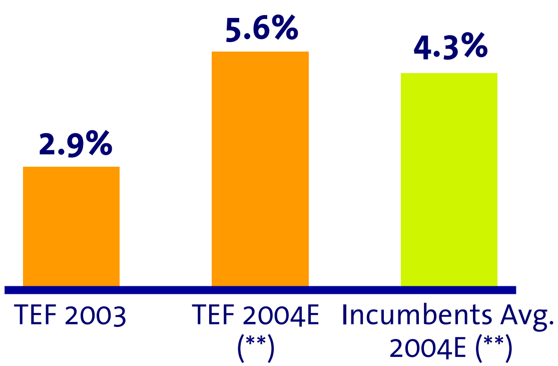
2003-1H04 use of free funds (*)

(€ in Millions)

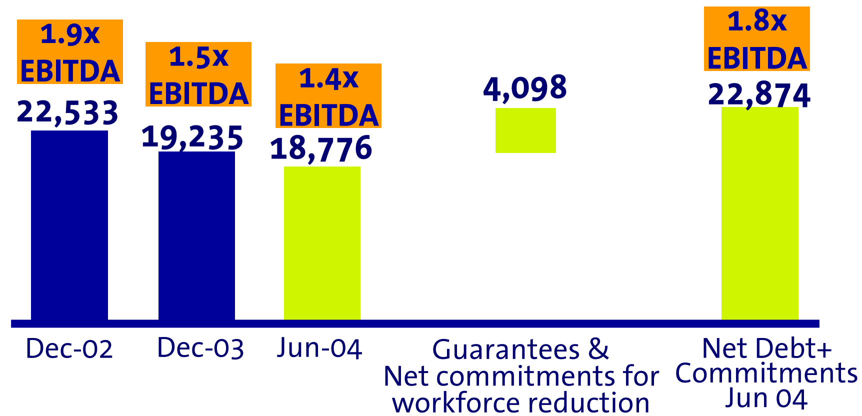
>80% of Free Funds generated in the last 18 months have been allocated to remunerate shareholders and retain our "single A" balance sheet



Cash Yield (div.+buybacks)



Net Debt Evolution 2002-1H04



Rating recently reaffirmed by agencies, outlook stable after Bellsouth announcement

(*) Madrid Conference criteria
(**) Source, Merrill Lynch European Incumbents Report (13 Sep.-04)

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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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