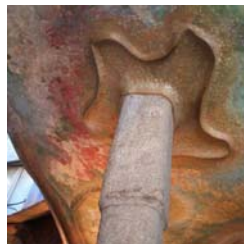


# Santiago Fernández Valbuena CFO of Telefónica Group



Morgan Stanley

*Telefonica*

November 18<sup>th</sup>, 2004  
Barcelona (Spain)

Telefónica, S.A.  
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## Telefónica offers a unique combination of growth, efficiency and shareholder value focus among incumbents

### Top line growth

- Wireline Spain: Broadband expansion
- Wireline Latam: Positive Net Adds, Broadband, revenue expansion
- Wireless: Market leader, high growth, new markets

### Efficiency

- EBITDA margins among best-in-class in all business lines.
- Group margin increasingly diversified.
- Anticipation in future efficiency gains.

### Shareholder value

- One of the highest conversion ratios of EBITDA into FCF.
- Explicit, multiyear, two-pillar shareholder remuneration package.

# Telefónica: leading top line expansion among incumbents through customer growth

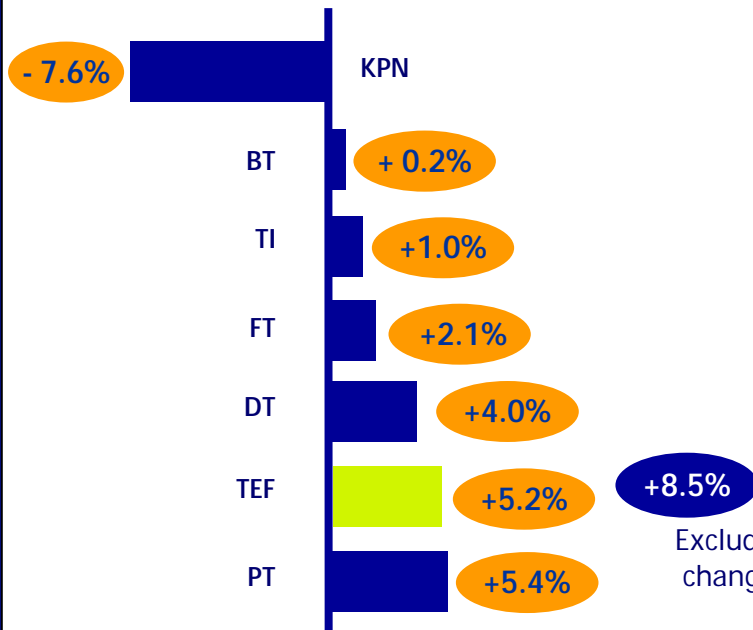


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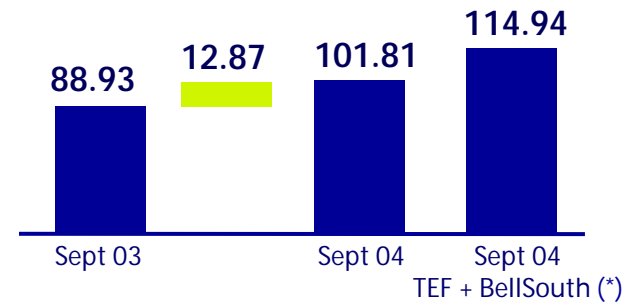
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CONSOLIDATED GROUP  
Sept 04/Sept 03 operating  
revenues growth



Excluding exchange rates variations and changes in the consolidation perimeter

Telefónica Group Managed  
Customer Growth (millions)



Source, company's press releases

(\*) Including 13.1 million subscribers from BellSouth, at the end of August 2004, last month of the third fiscal quarter of BellSouth

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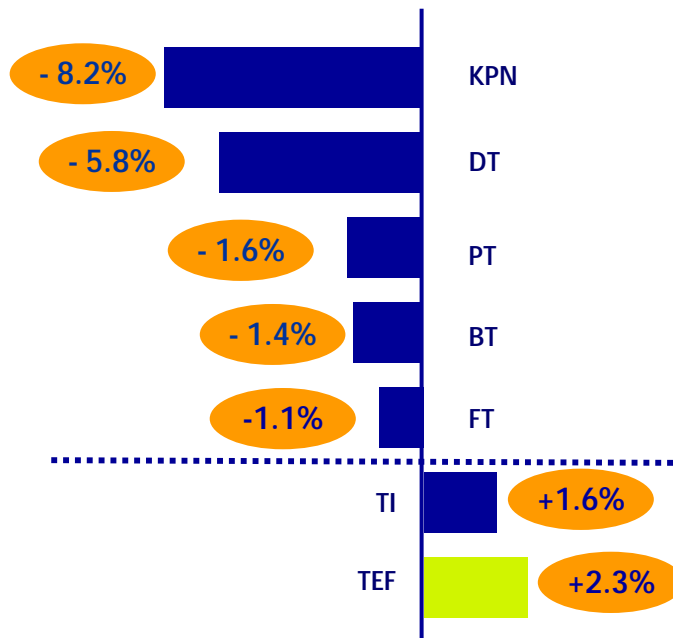
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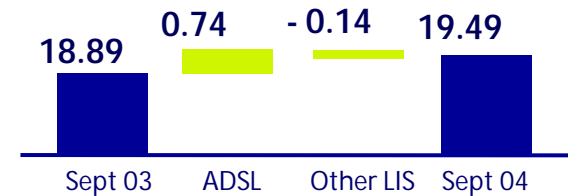
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# TdE is the benchmark in Europe in terms of growth...

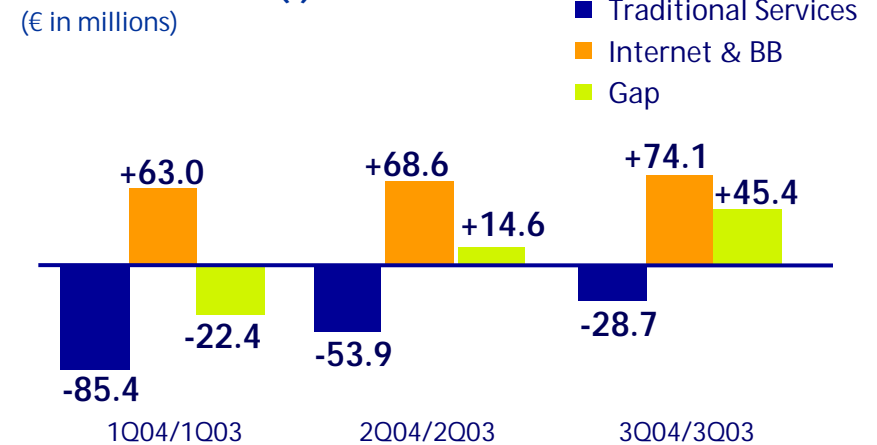
DOMESTIC WIRELINE  
Sept 04/Sept 03 operating revenue growth



Managed Customer Growth  
(millions)



Telefónica de España Revenue contribution gap:  
BB vs traditional (\*)



Internet and Broadband more than compensating traditional services revenues shortfall

# ... combining strong operating performance with a profitable growth profile

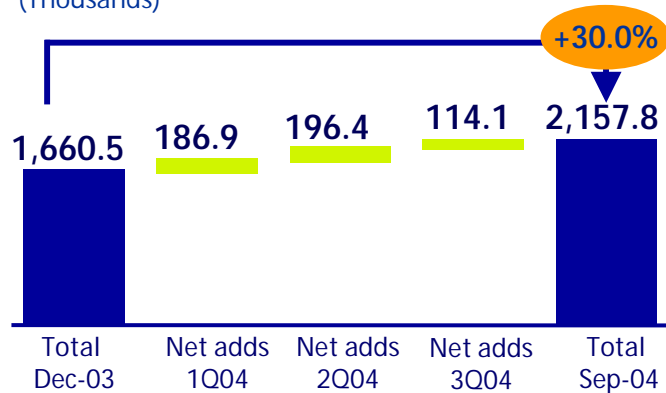


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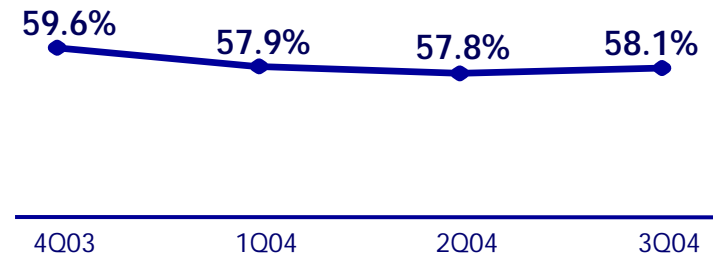
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ADSL Connections  
(Thousands)



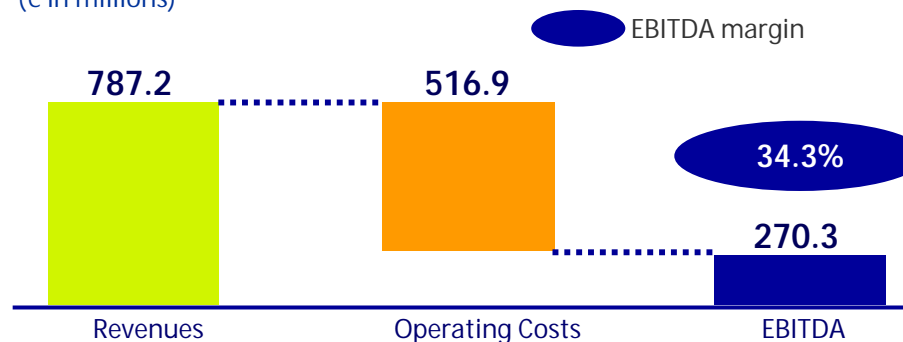
More than 1.4 million retail connections (+54% y-o-y)

Estimated Group broadband market share



Group net adds accounted for 62% of total Broadband net adds in 3Q04

9M04 ADSL EBITDA margin  
(€ in millions)



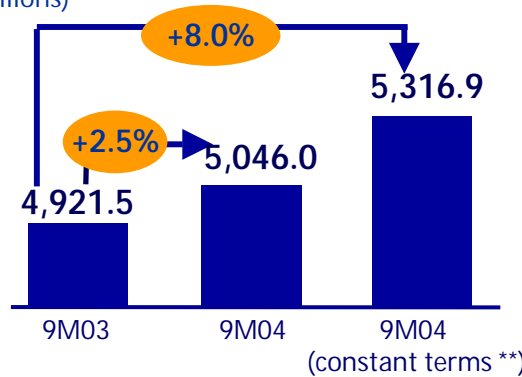
# Telefónica Latinoamérica(\*): a wireline growing at a high single digit...



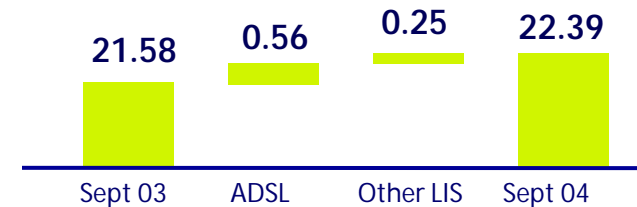
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Revenues  
(€ in Millions)

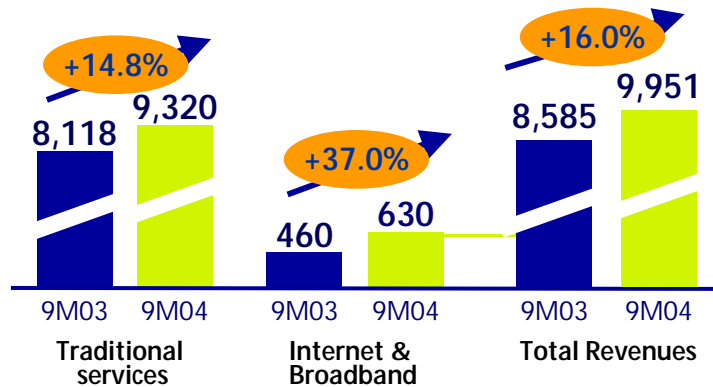


Managed Customer Growth  
(millions)

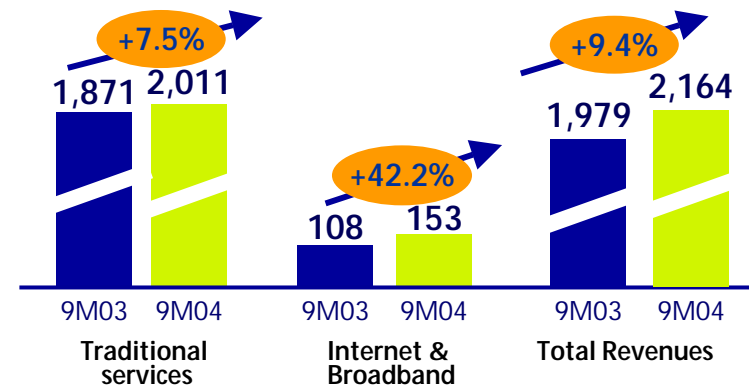


Helped by solid figures at Telesp & TASA

Telesp: operating revenues  
(Reais in Millions)



TASA: operating revenues  
(Pesos in Millions)



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(\* New management perimeter, including data operations and TIWS.  
(\*\*) Assuming constant exchange rates as of 9M03 (as of 2003 for year-end target).  
All figures exclude changes in consolidation.



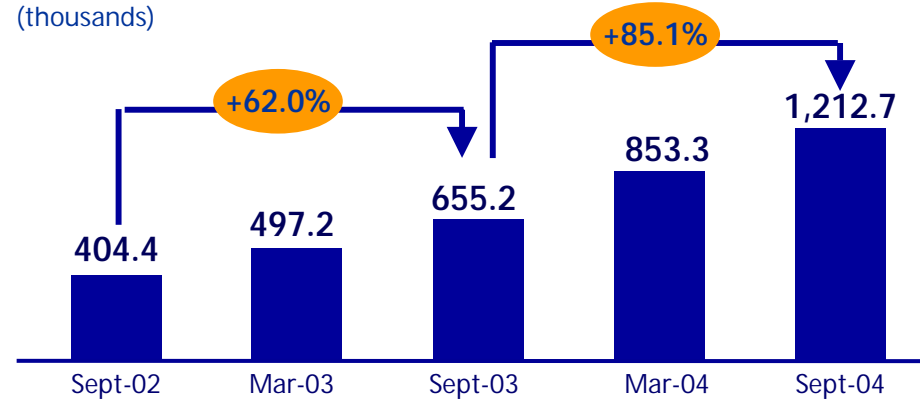
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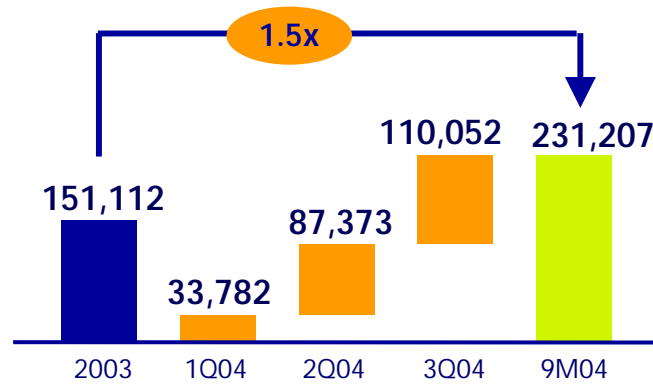
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# ...leveraging on our efforts to expand ADSL growth

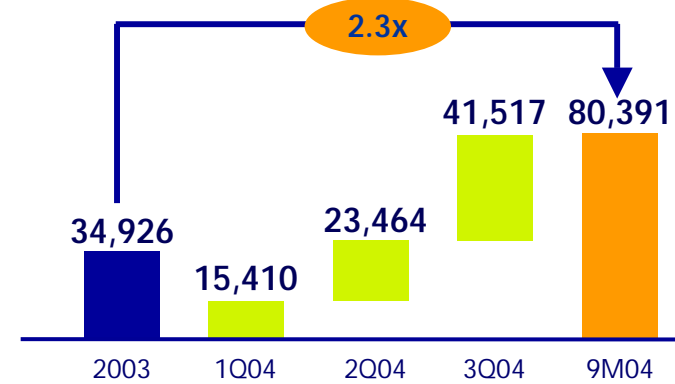
### T. LatAm ADSL Connections (thousands)



### TELESP: ADSL Net Adds (Thousands)



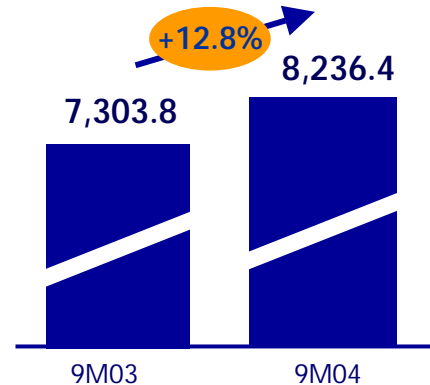
### TASA: ADSL Net Adds(Thousands)



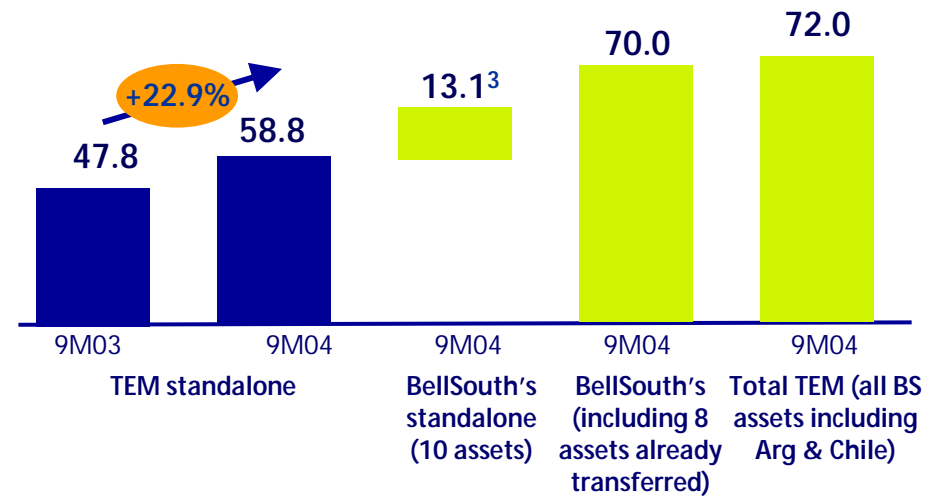


# Telefónica Móviles is leading revenues and clients growth...

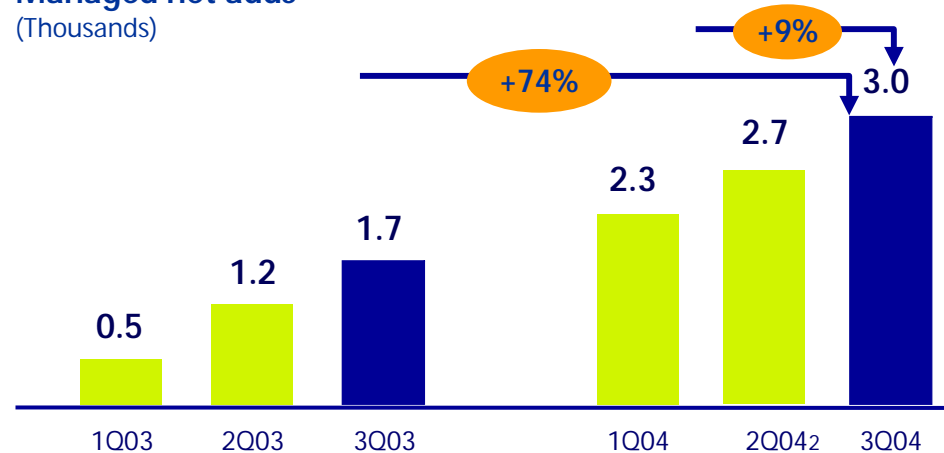
TEM OPERATING REVENUE GROWTH (Sept 04/Sept 03)



TEM' managed customer base 30/09/04 (millions)



Managed net adds<sup>1</sup> (Thousands)



1 All figures including TCO.  
 2 Q04 figures exclude the impact of the adjustment of 1.3MM inactive prepaid SIM cards in TM Spain from 2Q04 for reporting purposes.  
 3 At the end of August 2004, last month of the third fiscal quarter of BellSouth



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# ...through intensive commercial efforts

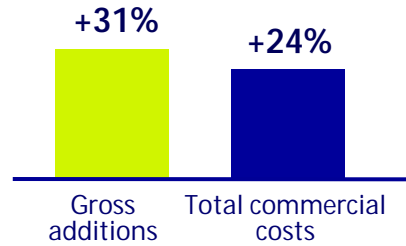


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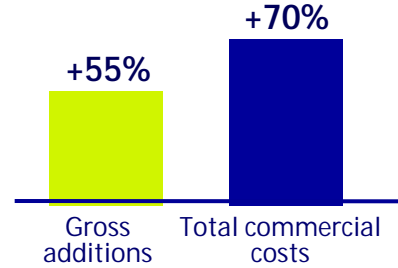
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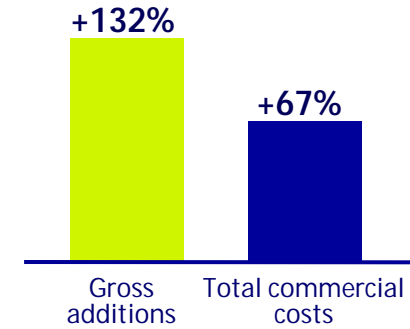
**TME SPAIN**  
9M04/9M03 change



**VIVO (BRAZIL)**  
9M04/9M03 change

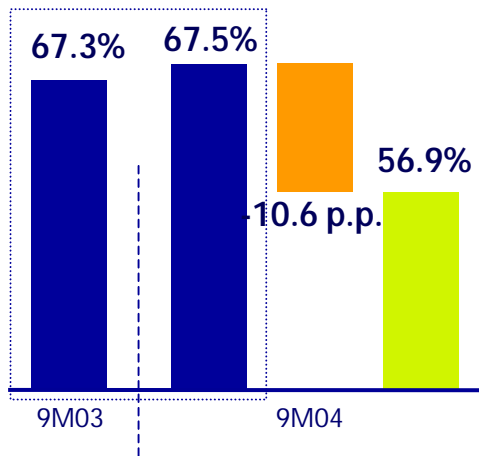


**TM MEXICO**  
9M04/9M03 change

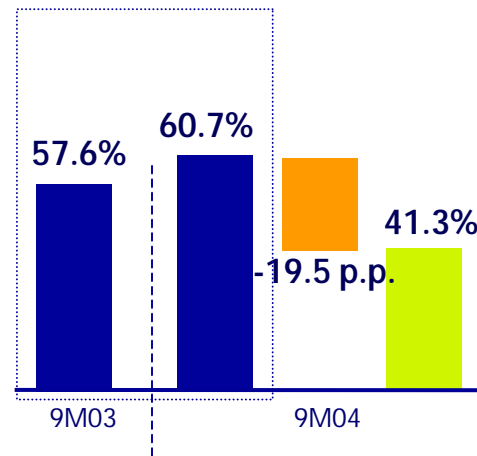


Impacting EBITDA margins in the short term

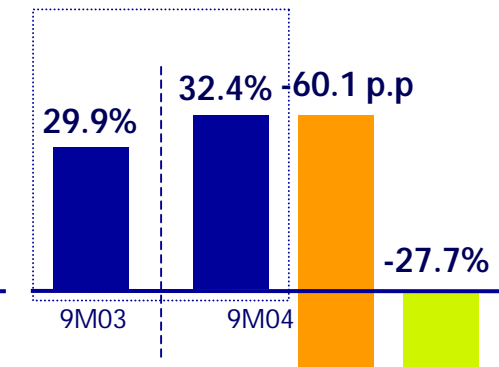
**TME SPAIN**



**VIVO (BRAZIL)**



**TM MEXICO**



■ Adjusted EBITDA margin<sup>1</sup>  
 ■ Commercial costs  
 ■ EBITDA margin over Service Revenues ex-loyalty points

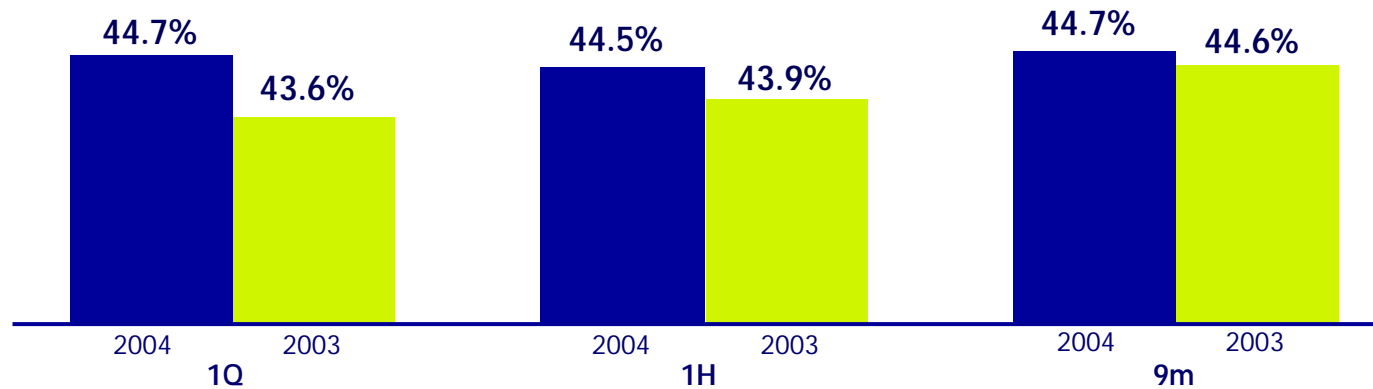
# Despite strong commercial activity, we manage to increase efficiency...



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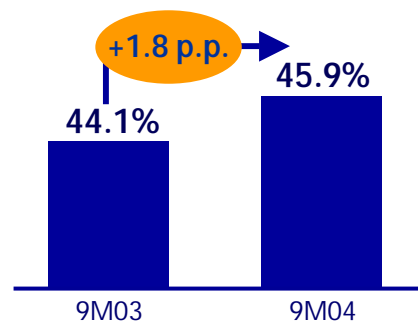
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TEF Group EBITDA margin



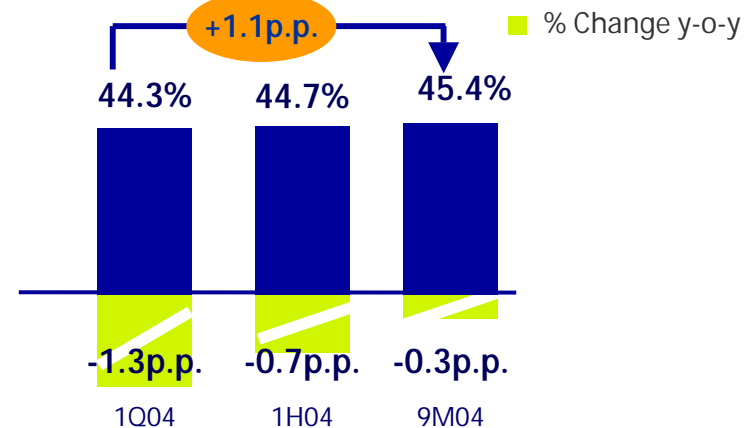
Based on strong efficiencies in wireline

TdE Group EBITDA margin (\*)



TdE Group EBITDA growing at 6.6% rate in 9m04, ahead of guidance (2%-5%)

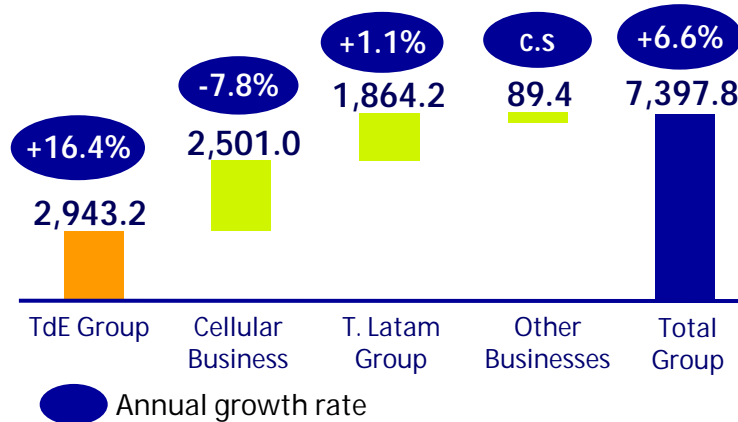
T. LatAm EBITDA margin (\*)



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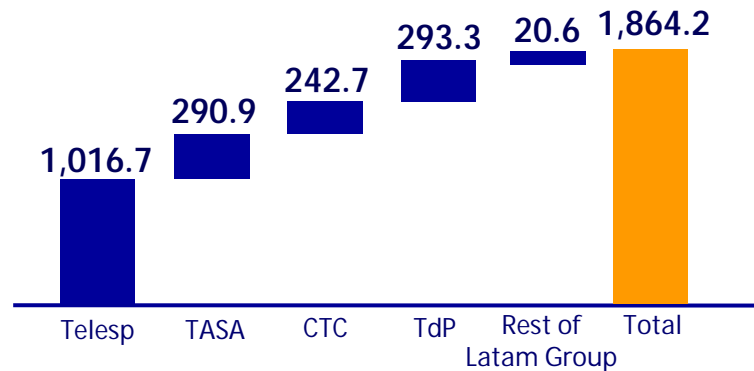
# ...and cash-flow generation at the group level, with LatAm as a solid contributor

Consolidated OpCF (EBITDA-CapEx) breakdown  
(€ in Millions)

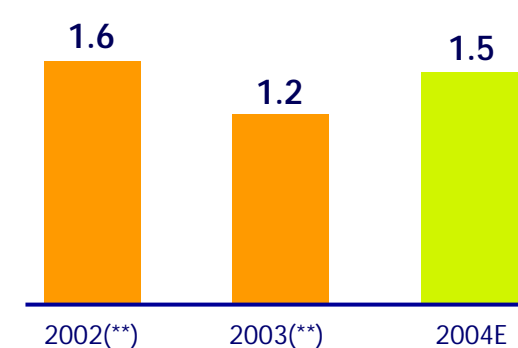


- Strong efficiency at TdE driven by cost rationale and broadband success
- Solid organic growth in EBITDA at T. LatAm partly offset by higher CapEx devoted to Broadband
- High commercial activity and network deployment investments lag the Cellular Business

LatAm OpCF (\*) Generation  
(€ in Millions)



Cash Flow repatriated from Latam  
(\$ in Billions)



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(\*) EBITDA - Capex  
(\*\*) Average exchange rates \$/Euro of 2002 (0,942) and 2003 (1,129)



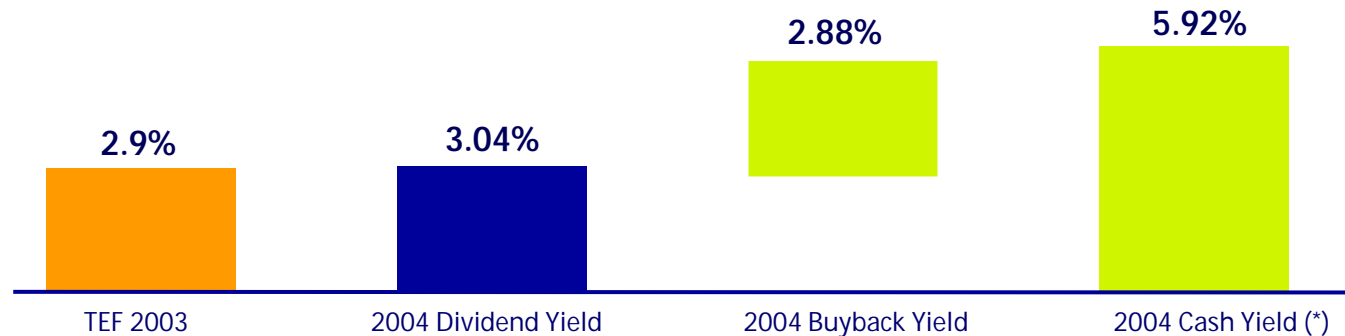
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## We have one of the most attractive shareholder remuneration programs in the industry

Cash Yield (div.+buybacks)



### Shareholder remuneration

- **DIVIDENDS:** MINIMUM OF 0,4 EUROS/PER SHARE DURING THE PERIOD 04-06
- **BUY-BACKS:** MINIMUM OF EUR4BN UNTIL 2006
  - BUY-BACK PROGRESSING FASTER THAN TIME: 55.3% VS. 12/39 MONTHS (30.8%)
  - 183,4 MILLION SHARES, EQUIVALENT TO 3.8% OF CAPITAL



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## Conclusions

- A **solid revenue profile** across the Group, that ranks at the top of the sector,
- Built through the **balanced contribution** of our **three key** business lines, namely Telefónica de España, Telefónica Latinoamérica and Telefónica Móviles,
- Which are **sustaining** revenue performances by **extracting the full value of traditional fixed and expanding broadband** for wireline, and **pushing harder on commercial efforts to lead client growth** for mobile,
- Top line growth is being transferred down to **profitability and cash generation**
- We have a **disciplined strategy** for the use of cash flows
- One of the few incumbents with **no direct overhang risk**

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

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