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*Executive Chairman and CEO
Telefónica, S.A.*

THIRD
INVESTOR
CONFERENCE

MADRID 2003

Telefonica

Safe harbor

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Enhancing cash returns through growth and transformation

October 9, 2003

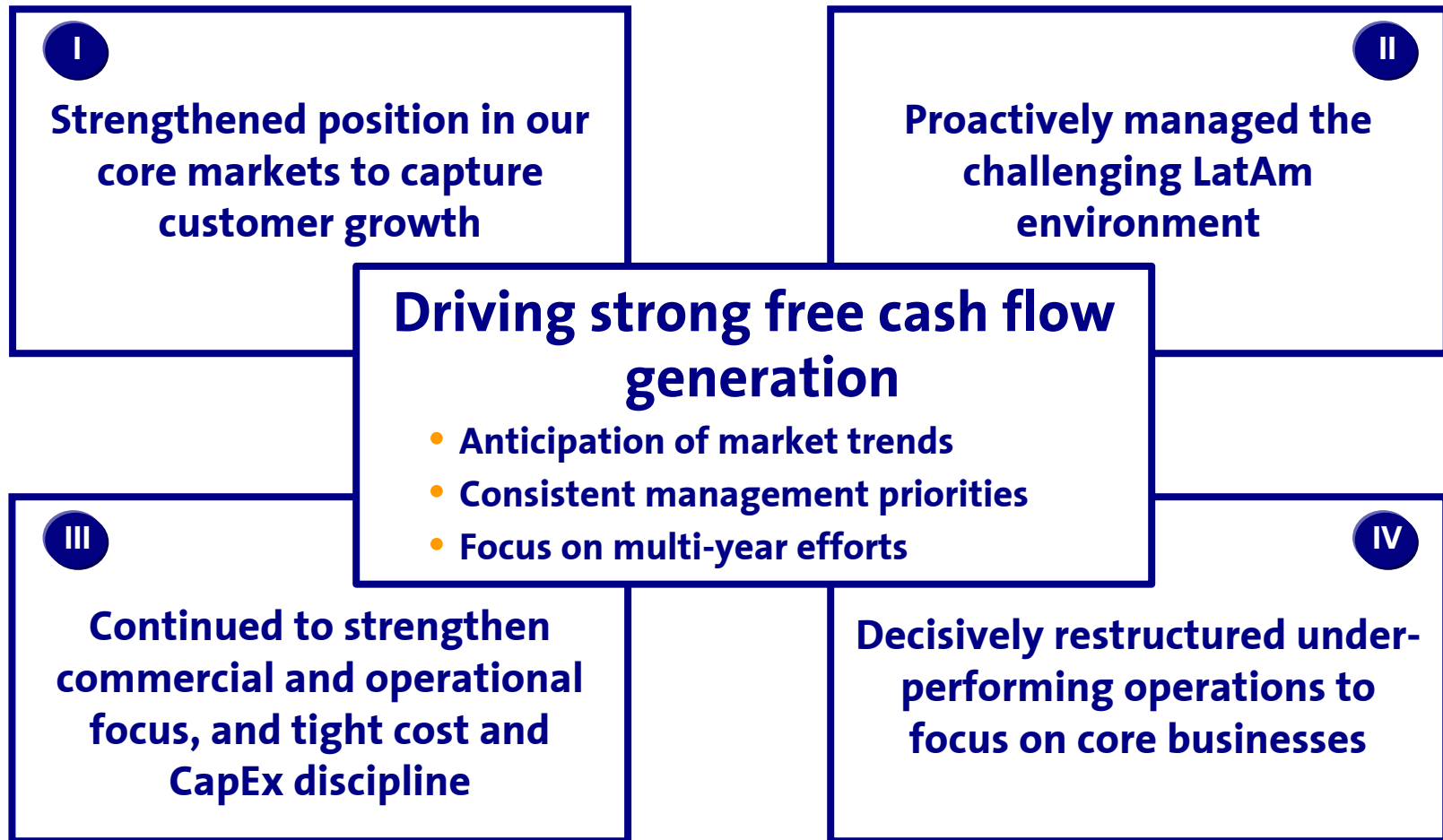


Contents

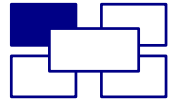
- **Successful management through a difficult environment: progress over the past 18 months**
- **A strong position allowing for improved shareholder returns**
- **Our strategy going forward will enable us to continue enhancing cash returns through growth and transformation**



Since our last meeting early in 2002, we have successfully managed the company through a tough environment



In Spanish wireline, we are managing top-line pressure and over-performing on cash generation



Managing revenue challenges in wireline voice through innovation and loyalty management...

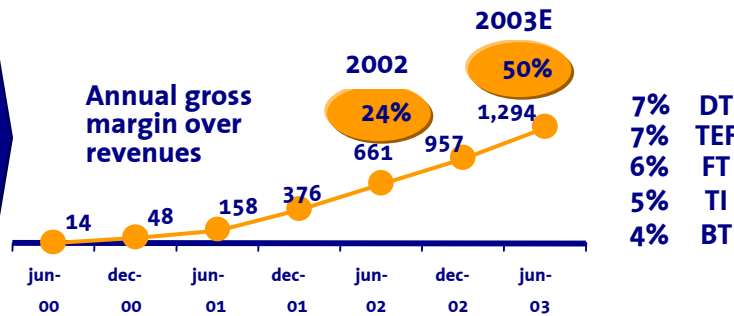
- Bundled traffic offers
- Recurring retention and loyalty campaigns
- Launched advanced VAS (SMS service, innovative handsets, PBX solutions)

...And exceeding expectations of CapEx reduction and FCF generation maintaining competitive position and high quality of operations

...Profitably boosting DSL take-up...

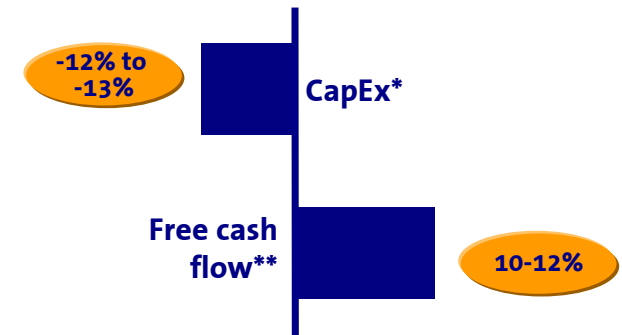
DSL lines and gross margin over revenues
Total market (000)

DSL over total access lines
(as of June 03)



Source: 1H 03 Results from DT, FT, TI; 1Q 04 from BT Group

CAGR 2001-2003

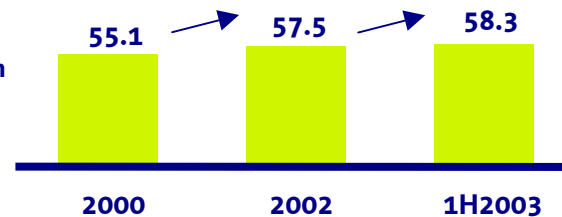


*Parent company

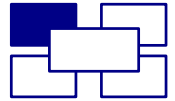
**Parent company FCF= EBITDA – CapEx– redundancy payments

...And increasing overall ARPU...

ARPU
€/month

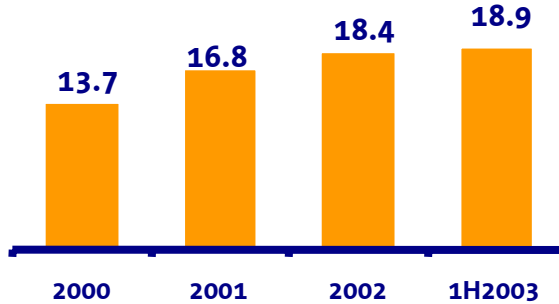


In wireless, our Spanish operation is performing outstandingly...



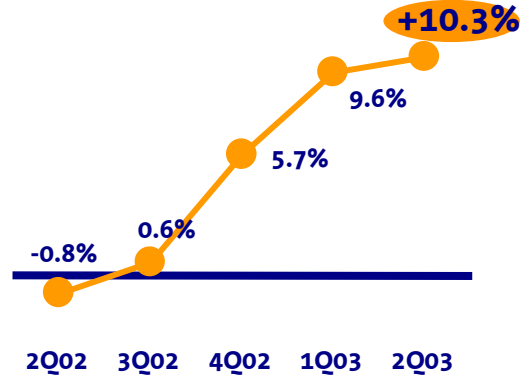
Sustained customer growth

Subscribers
(End of Year; Million)



Growing monthly usage per customer

Inter-annual MoU growth

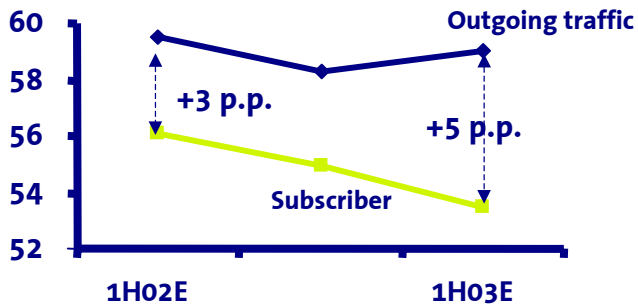


Best-in-class among major European wireless operators

- Highest EBITDA margin (54% in 1H03)
- Highest domestic market share (53.5%)
- Highest customer loyalty (0.8% monthly churn in 1H03)
- Highest headcount productivity (4,285 customers per employee in 1H03)

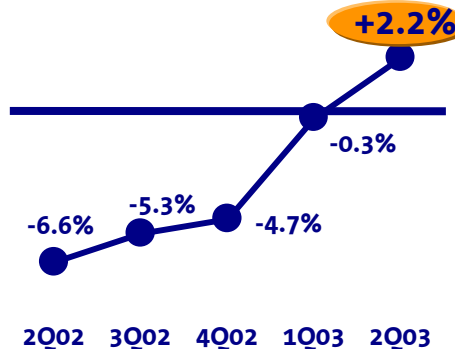
Attracting and retaining most valuable customers

Gap between outgoing traffic and subscriber market share Mobile Spain

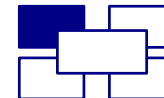


ARPU decline trend reversed

Inter-annual ARPU growth



...while we work to capture the wireless growth momentum in LatAm



...Launch of JV's Vivo brand and acquisition of TCO in Brazil...

- Integration of all TEM and PT operators into a single company
- Leading nationwide offer with the broadest coverage
- 17.5m active customers (3.3 m from TCO): 60% average market share in current areas with operations

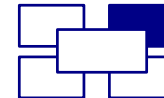
Strong leadership in gross adds (over 50%; +711 k net adds 1H03) despite intense competition

...While gaining momentum in Mexico

- Operational integration of Pegaso, building the #2 operator in Mexico (2.5 m subs in 1H03)
- Launch of a single brand (MoviStar)
- Acceleration of GSM deployment, with services in 17 main cities in Sept. 2003

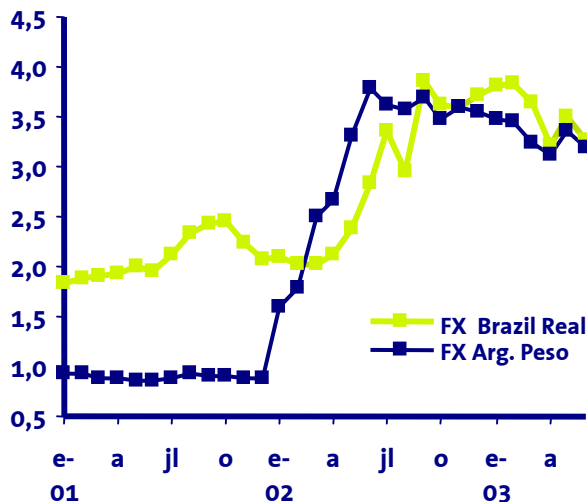
Significant growth of net adds since GSM launched (net adds 2Q03 10 times higher than 1Q03).

LatAm's economic downturn has negatively impacted our operations



Adverse environment...

Real and Peso FX vs. Euro*
January 2001 to June 2003



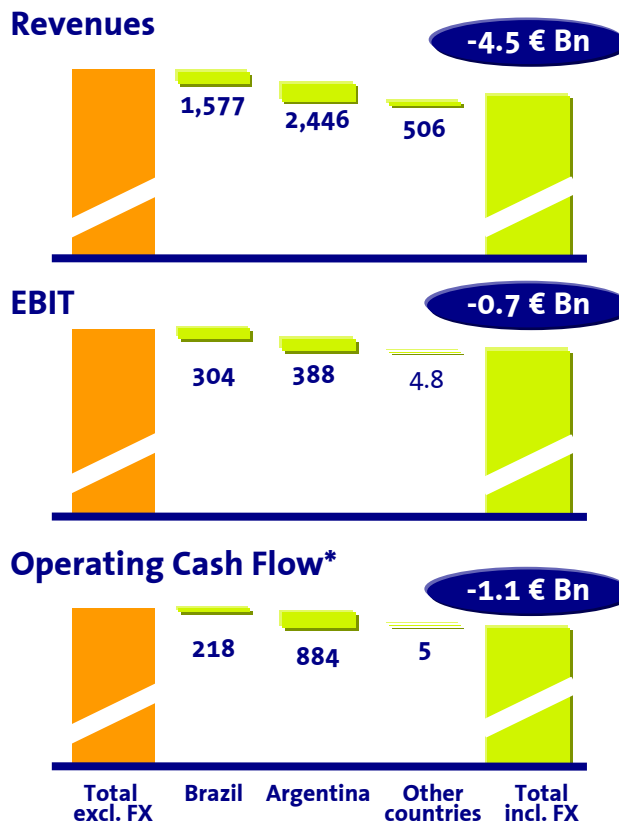
Average depreciation of Local currencies vs. Euro

(Interannual change)	2002	1H03
Brazilian Real	-23.6%	-38.5%
Argentinean Peso	-70.0%	-26.8%

*FX as end of period. Source: Bloomberg

...with significant impact on 2002 financials

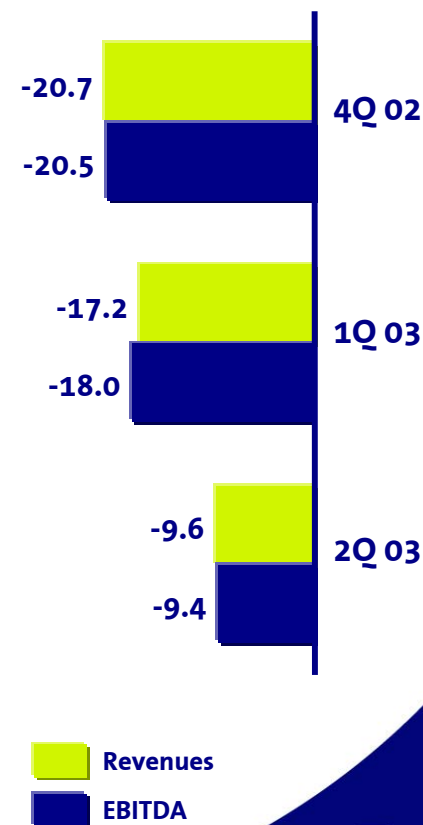
Impact of LatAm currencies's FX on Telefónica's operating results in 2002
€m



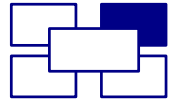
* Operating Cash Flow = EBITDA - Capex

...but lower impact in recent months

Impact of FX on Telefónica's rev. and EBITDA growth



Despite this, we have limited the impact through our proactive management of this challenging environment

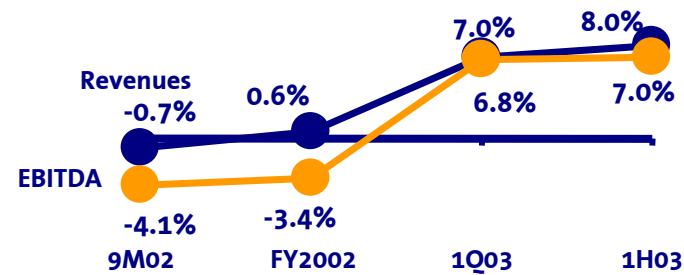


- ✓ **Tight control of OpEx and CapEx across all operations:**
 - Workforce reduction and efficiency programs (OPEX) underway for last two years
 - Contracts renegotiation
- ✓ **Effective management of bad debt**
- ✓ **Cash control**
- ✓ **Proactive financial management**
(3.5 € bn savings from debt reduction due to FX)



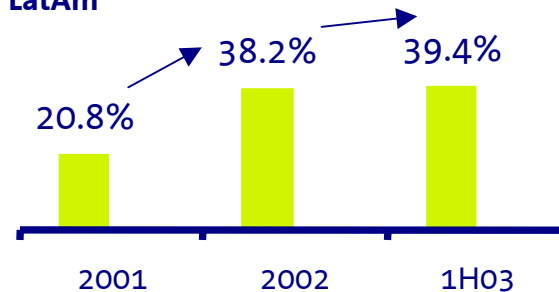
T.LatAm shows healthy organic growth in local currencies...

Interannual growth
(Figures exclude FX effects)



Significant operating cash flow generation ...

Operating cash flow* as % of revenues:
T. LatAm

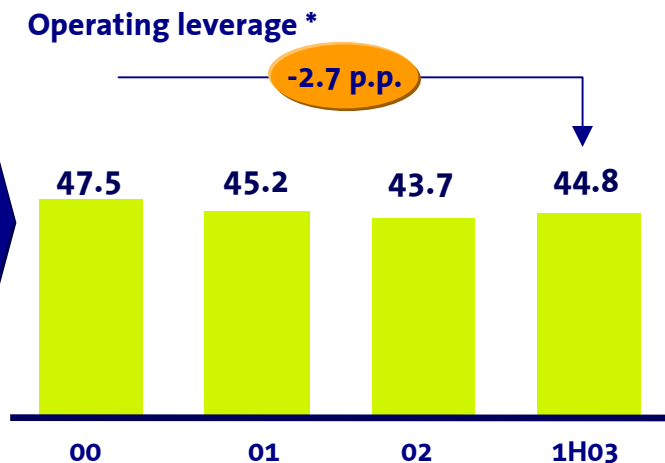


* Operating cash flow = EBITDA - CapEx

We have continued to improve operational efficiency and capital intensity



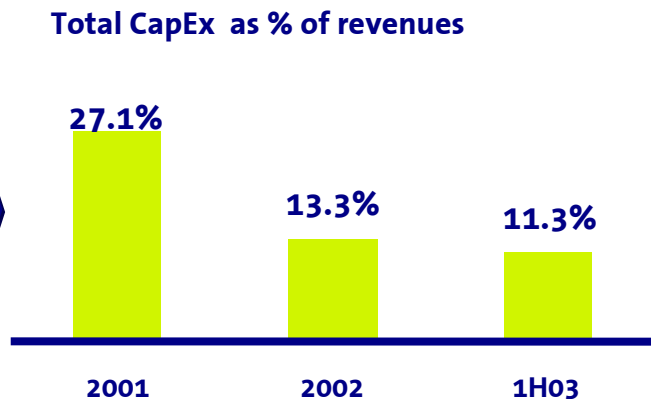
Ambitious efforts to improve OpEx efficiency and flexibility across business lines



* Fixed costs as % of total costs

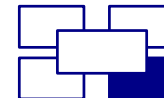
- Integrated efficiency programmes under way for more than two years in TdE
- Workforce reduction programs underway at T-LatAm for last two years
- Operational efficiency gains in TEM in Brazil and Mexico from newly acquired scale

Sustained CapEx rationalisation to decrease asset intensity



- Multi-year efforts to sustain lower CapEx levels and capital focused metrics (EBIT/ROCE, as well as EBITDA) as key operating performance benchmark

We have decisively restructured under-performing operations to focus on core businesses



European UMTS operations

- Closure of UMTS operations outside Spain to prevent further cash outflows with little upside
- First mover to recognise the benefits of withdrawal
- Savings of €2.4bn in net income over 2002-2005

Media

- Divestiture of broadcast TV assets (Antena 3, Azul TV)

Via Digital

- Merger agreement with Sogecable to set up the leading and strongest multichannel pay-TV access platform in Spain with more than 2.5m customers, minimising the business risk associated with DTH business

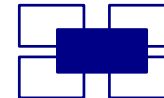
Terra Lycos

- Buy-out of Terra completed (71.97% of ownership after transaction)
- Terra is the integrator of portal offers for the residential segment
- New Strategic Agreement between Terra and Telefónica is fully developed

Corporate data and solutions businesses

- Divestitures of under-scale, mid-term unprofitable operations
- Refocus of T. Data, a product oriented company, into Telefónica Empresas, a customer oriented company
- Operational integration of T. Data companies with our wireline operators

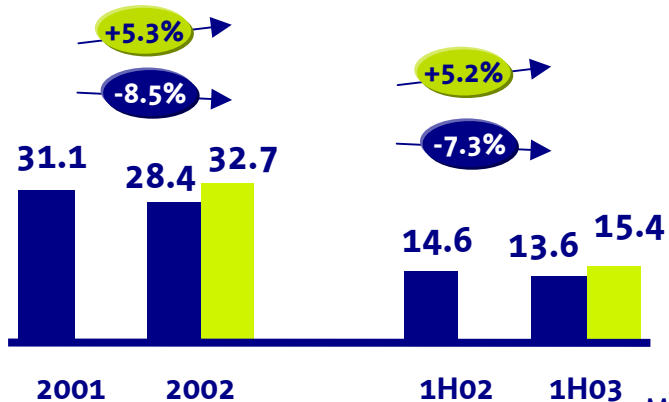
As a result, we have delivered organic revenue and margin growth in constant exchange rates ...



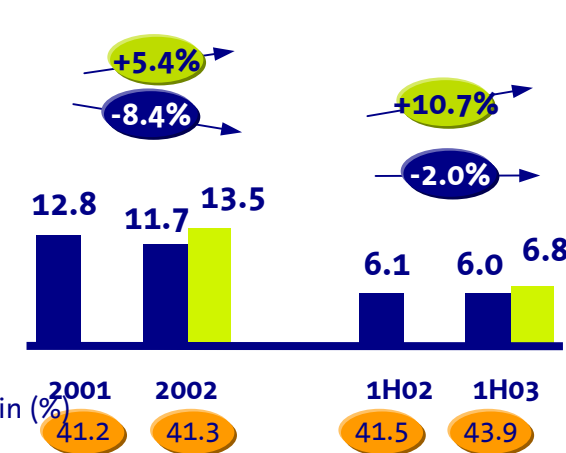
Strong organic revenue growth...

...and operating margin evolution in constant FX

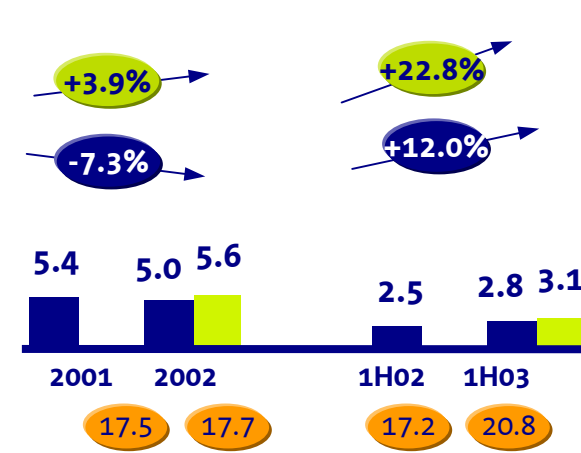
Group Revenues
€ bn



EBITDA
€ bn



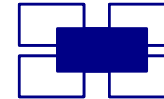
EBIT
€ bn



Margin (%)

- Constant exchange rates and perimeter
- Real exchange rates

...and boosted stable and predictable growing cash flow generation

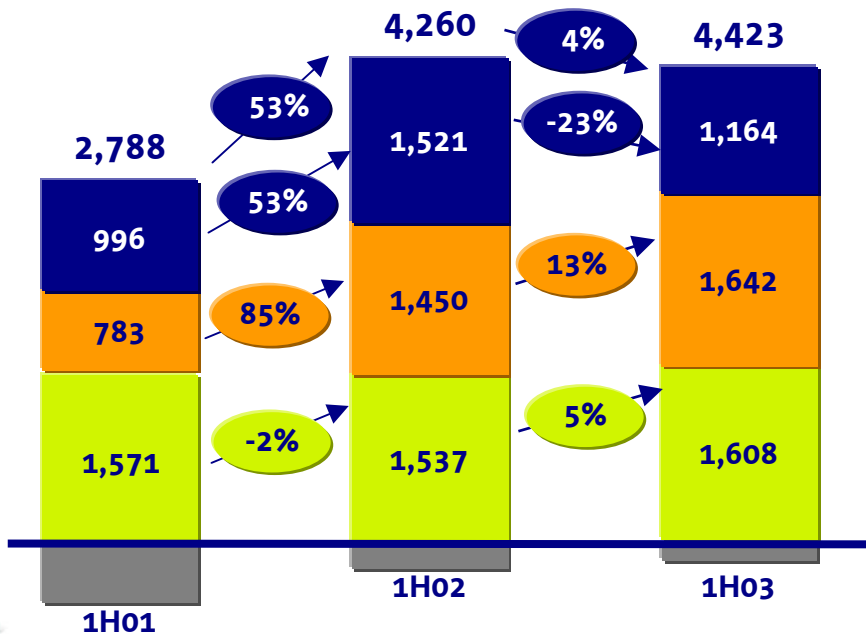


Growing, better balanced operating cash flows from core businesses...

Operating cash flow by business line

€ m

- Wireline.Latam
- Wireless
- Wireline Spain
- Others



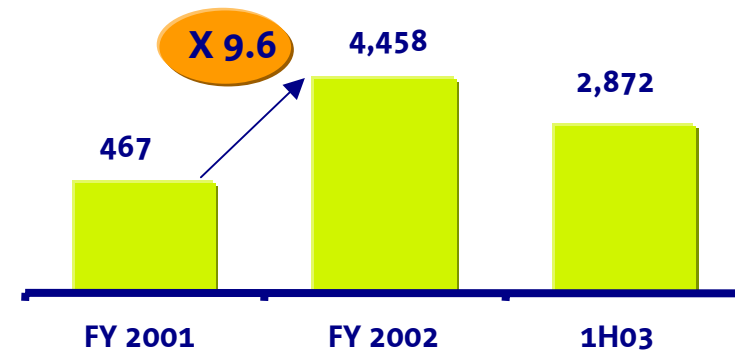
Full year 4,881 → 63% → 7,935

Operating cash flow = EBITDA - CapEx

...leading to outstanding free cash flow evolution

Free cash flow

€ m



*FCF= EBITDA-Capex-Net financial expenses-Calls on Cash-Cash taxes-minorities-working capital

Contents

- **Successful management through a difficult environment:
progress over the past 18 months**
- **A strong position allowing for improved shareholder returns**
- **Our strategy going forward will enable us to continue enhancing
cash returns through growth and transformation**



Today, we enjoy a very strong competitive and strategic position in the industry...

**93m customers*
worldwide (+15m since
Seville 02)**

**Leading player in
Spanish and
Portuguese speaking
markets: both in
wireline and wireless
services**

Telefónica

**Track record of strong
operating cash flow
performance**

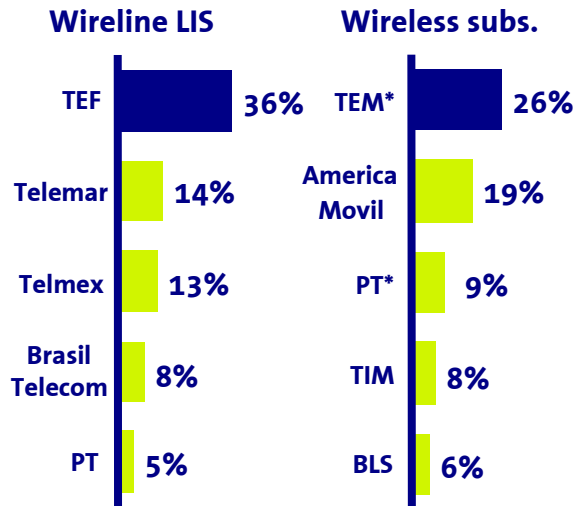
**Consistently one of the
top European telcos by
market cap**

* Figures as of June'03.

...comparing favorably to our peers

Leadership in Spanish/ Portuguese markets

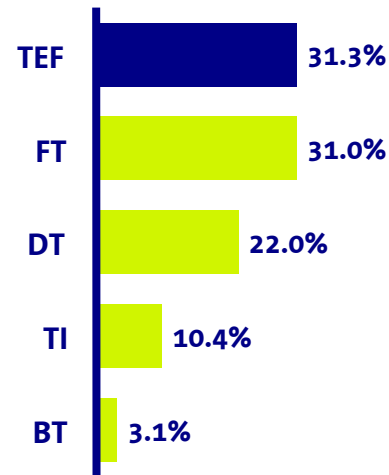
Total market share
2002



* Both TEM and PT include 100% of Brazil-JV subsidiaries

High share of profit coming from non-domestic markets

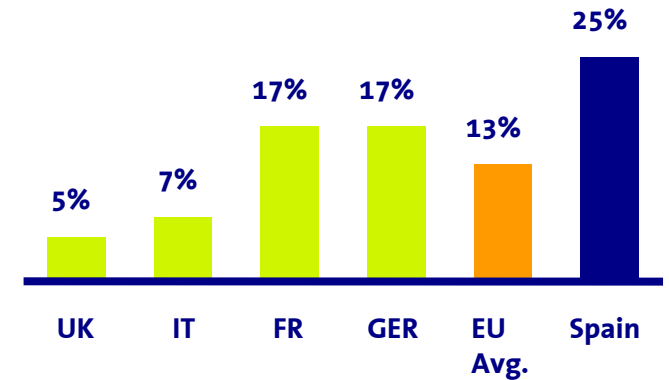
% of total consolidated EBITDA from non-domestic markets
2002



Source: Deutsche Bank estimates

Leading DSL penetration in Europe

DSL connections over Internet households



Source: Jupiter 2003

Also, the company now has a significantly better risk profile

- Sound investments
- Divesting and restructuring operations of uncertain profitability or strategic fit

- Improved macroeconomic outlook
- Tight CapEx and OpEx management
- Proactive hedging of financial risk

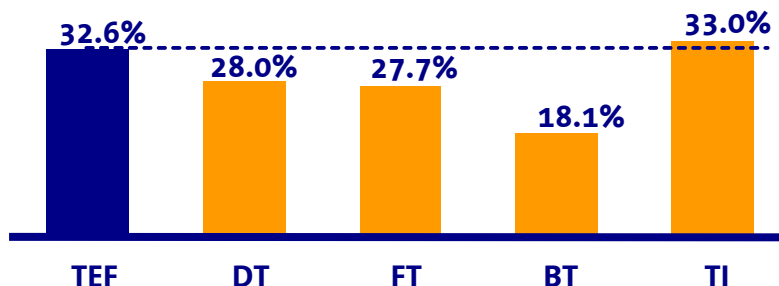


- Balanced set of platforms and services ensuring the best position for future scenarios
- Adoption of advanced technologies with the most attractive payback
- More predictable regulatory environment in Spain under the new EU framework, fostering innovation and investment.

We enjoy a solid financial position, clearly beyond that of our peers

First-class cash flow generation

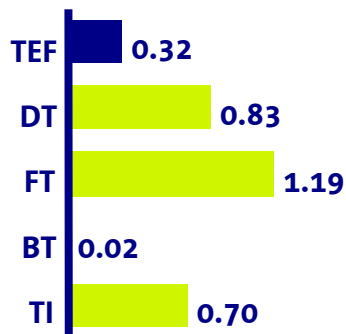
Operating cash flow* as % of revenues
1H03



* Operating cash flow = EBITDA - CapEx
Source: JP Morgan

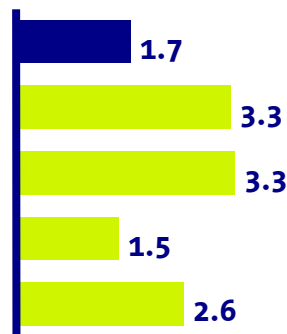
The best credit rating

Intangible assets over equity
FY 2002



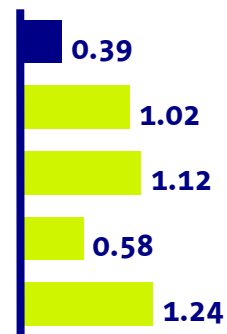
Source: Bloomberg

Net debt*/EBITDA
2002



* Net debt as of June 2003
Source: JP Morgan

Net debt*/Market Cap
(As of 30/09/03)



* Net debt as of June 2003
Source: JP Morgan

S&P Rating
September 2003



This strong position has enabled us to make a sustained and secure dividend commitment...

July 2003 proposal to the General Shareholders' Meeting approved by the Board

2003

- Dividend reinstated
- €0.25/share in 2003
- Shares buy-back (2%)
- Antena 3 dividend in kind

Dividend increased to a competitive amount per share*

- €0.40/share payable in 2004, 60% increase
- 3.9% yield compared with major EU players' average of 2.8% *

A sustained commitment over time

- €0.40/share per year in 2004, 2005 and 2006
- Equivalent to €6bn over the period

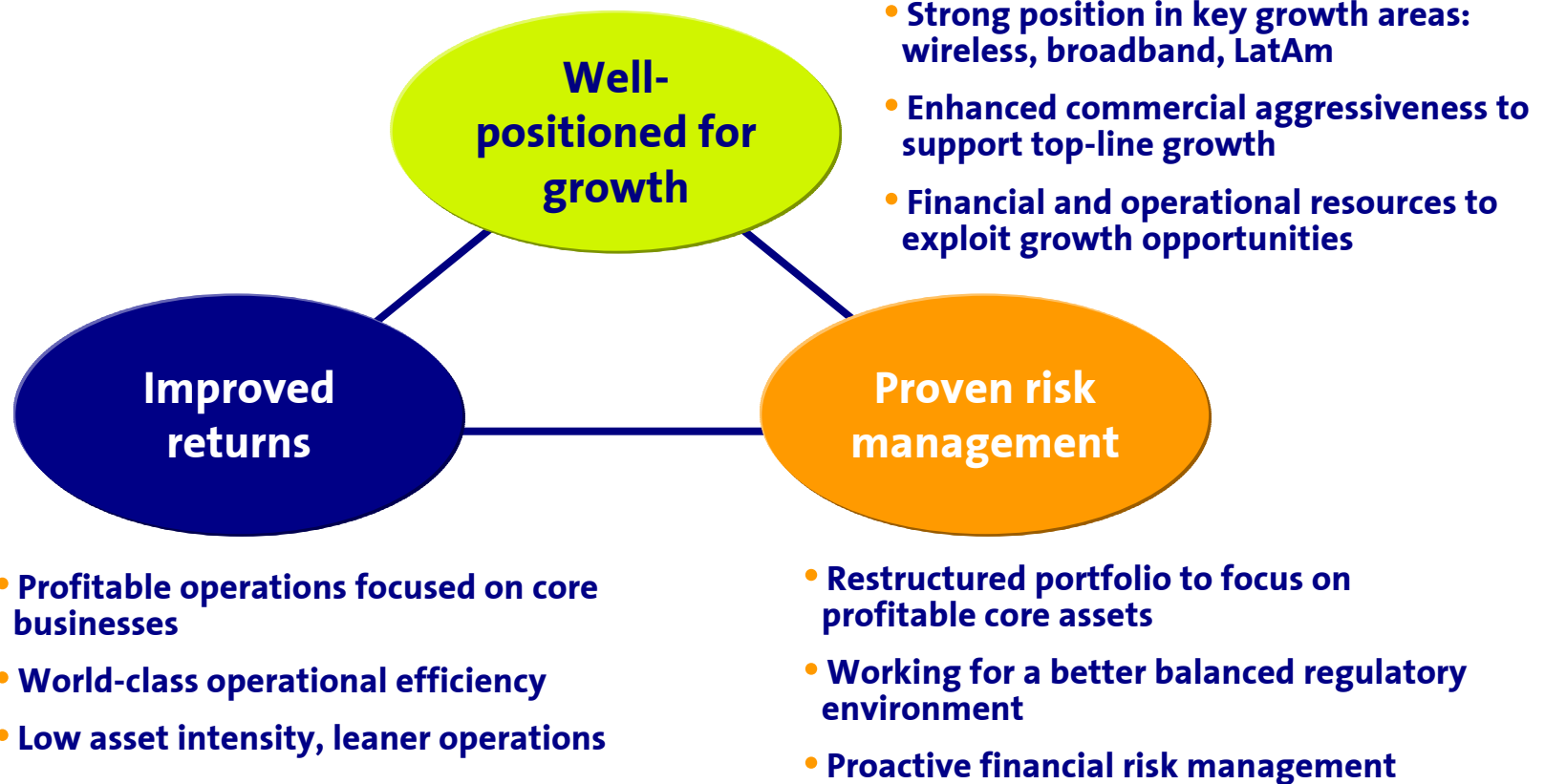
Scope for further remuneration

- A committed dividend floor

The most explicit and the only long term dividend policy amongst EU integrated telcos

* Figures at 30/09/03

...and, more importantly, reflects the transformation of the company's returns profile into a better one



Contents

- **Successful management through a difficult environment: progress over the past 18 months**
- **Strong position now allowing for improved shareholder returns**
- **Our strategy going forward will enable us to continue enhancing cash returns through growth and transformation**



Looking ahead, we have a clear strategy to grow cash flows and improve returns

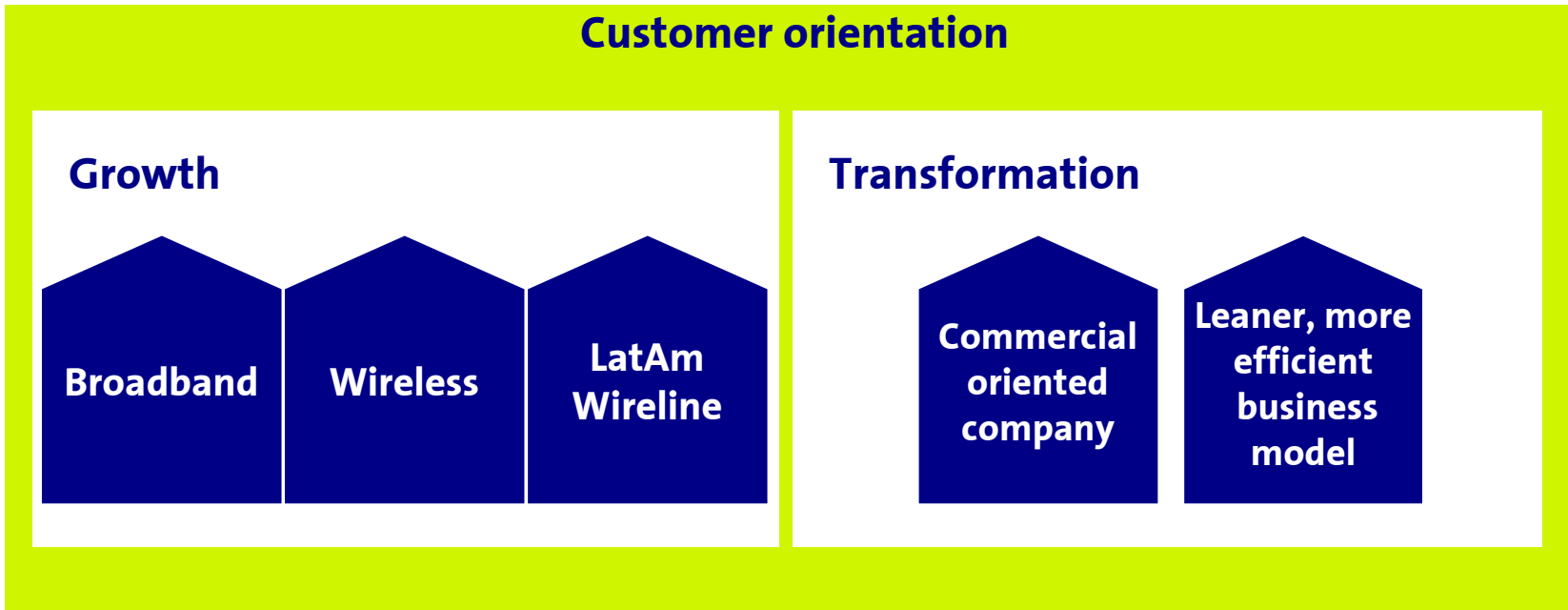
Objectives

Sustainable cash flow growth

Improved returns on capital



Lines of action





The customer is the starting point of this strategy, the center of everything we will be doing in the near future

Households



- Basic communications
- Digital home services: broadband access, multimedia entertainment, domotics

Individuals



- Full mobility
- Ubiquitous broadband
- Premium services

SMEs



- Robust, simple communications
- Multimedia services
- Bundled business solutions / applications

Corporations & Govment.



- Advanced solutions built on new technologies
- Outsourcing of communications infrastructure

- Differentiated solutions for each customer need
- Built for the customer, not from the product
- Driving both:
 - The number of customers (wireless, LatAm wireline...)
 - Service usage and overall ARPU (broadband, wireless...)

We will make revenue growth happen through three key levers

Objectives

Sustainable cash flow growth

Improved returns on capital



Customer orientation

Lines of action

Growth

Broadband Wireless LatAm Wireline

Transformation

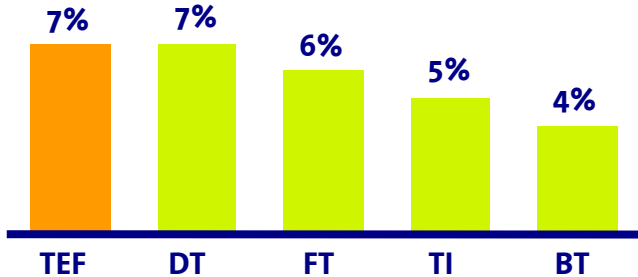
Commercial oriented company Leaner, more efficient business model

In broadband we will continue to develop the market ...

Telefónica has been a successful pioneer in massive/profitable broadband deployment

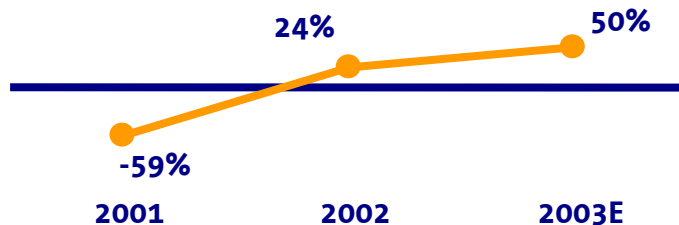
- First to recognise potential and invest in top 5 European countries

DSL over total lines (percentage as of June 03)



- Maximum coverage achieved with limited CapEx
- Positive contribution in early phases of deployment

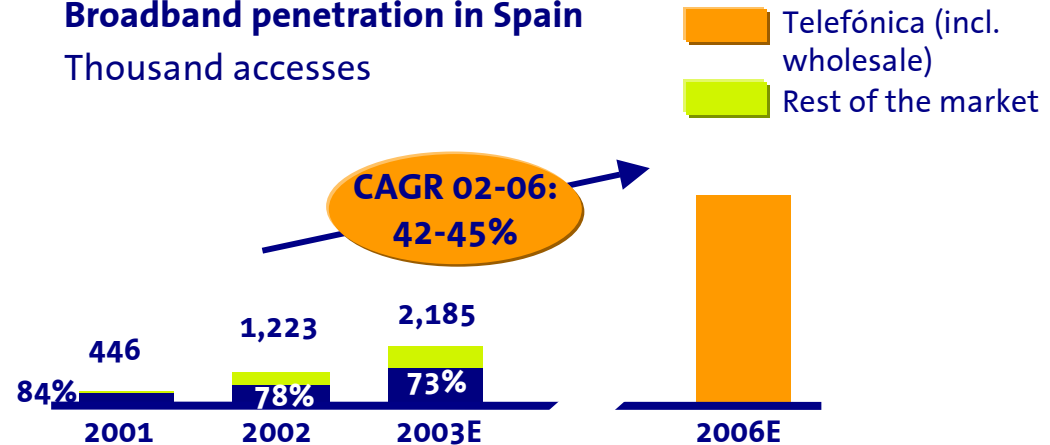
DSL gross margin at TdE



... and will continue to develop broadband into a true mass-market

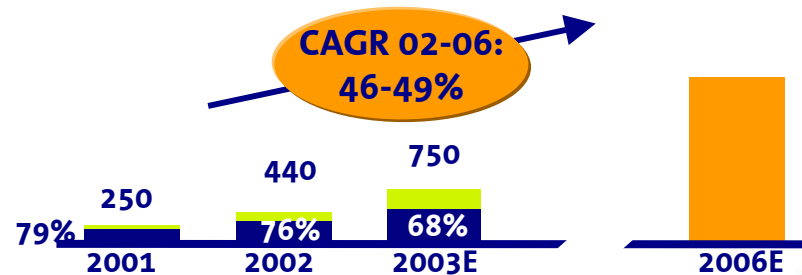
Broadband penetration in Spain

Thousand accesses



Broadband penetration in Brazil (Sao Paulo)

Thousand accesses



... innovating to make broadband a truly “mass-market” service



2006 ASPIRATIONS

- Over 6 million Telefónica Group DSL connections
- SME’s Broadband penetration of 65% and 100% in Corporations in Spain



Terra will play a critical role developing the Residential Broadband-Internet demand

Commercial strategy

- Improving use of narrow and broadband-internet access
- Differentiating a complementary access offer
- Providing e-mail and other internet communications services

Portal + Contents

- Terra is the Group portal agregator for the residential segment
- Terra+Telefónica will manage the on-line contents offer
- Mundo ADSL is the main example of this strategy, as a lever to develop the broadband demand

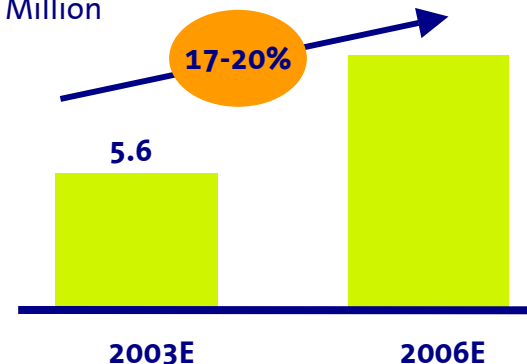
The Strategic Alliance is the main tool

Households



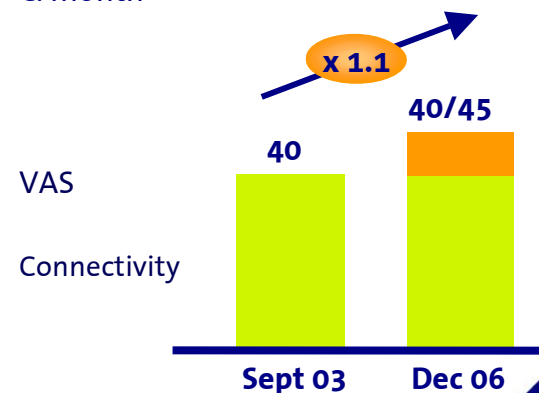
• In 2006 more than 3.7 Million Telefónica Residential customers will access to broadband-internet through Terra Portal.

Group Internet Residential Customers (Narrowband and Broadband) Million



VAS in Spain

Total ARPU €/month



In wireless, we stand to capture substantial further growth, both in Spain...

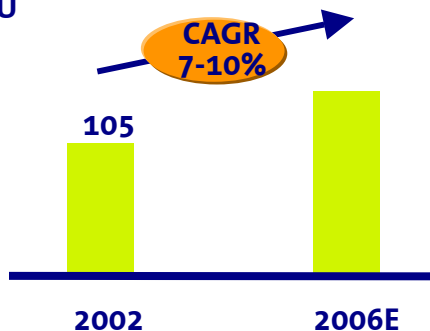
Short term growth: VOICE UPSIDE

- Increased penetration:
 - Intra-company and residential niches
- Tariff and service innovation
- Prepaid-to-contract migrations
- Loyalty schemes

Medium term growth: DATA SERVICES

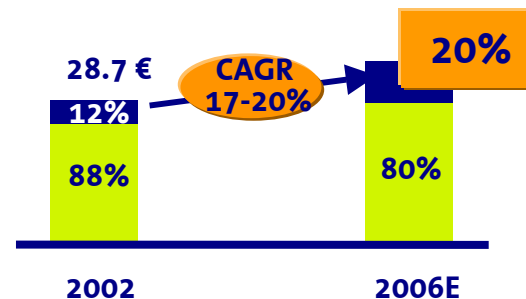
- Offer customized data services oriented to all customers by segment
- Enhance customer experience with new content & applications
- Guarantee access to affordable and enhanced handsets

MoU



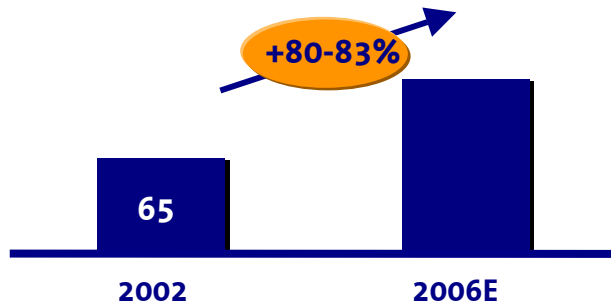
UMTS deployment will simultaneously support voice growth and guarantee the future contribution of data services

Data as % of total ARPU





Potential for strong growth in market*



* Includes Brazil (Vivo's areas of operations), Argentina, Chile, Peru, El Salvador, Guatemala, Mexico and Puerto Rico

+52m subs in 2003-06 in total current TEM 's LatAm markets

Our strategy to grow

Brazil

- Leverage on largest mobile community to lead market growth and customer usage
- Growing focus on customer loyalty
- Customer service becoming a market reference

Mexico

- Accelerate GSM network deployment
- Build up a strong commercial channel across the country

- Strengthen local branding
- Leverage scale in handset policies
- Improve channel reach and productivity
- Transfer best practices from TEM Spain and across Latam operations (e.g. channels, branding, loyalty programmes)....

Also, our LatAm wireline business will keep growing organically



Retain and grow customer base while stimulating usage and ARPU

Retain and grow customer base

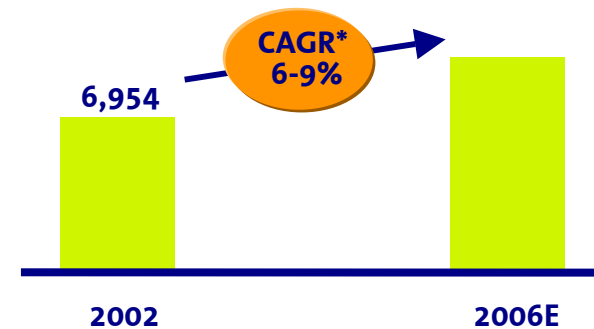
- Maximise penetration by income level
- Accelerate internet mass penetration (reaching over 2 million DSL in 2006)
- Retain customers through bundling and further segmentation
- Anticipate and minimise churn from high-value, high risk customers

Stimulate usage and ARPU

- Traffic bundling and flat rates, increasing weight of fixed fees
- Introduce new VAS
- Develop new businesses (telemergency, handsets, etc.) leveraging customer base

Continuous organic revenue growth

Telefónica LatAm
€m



* Constant exchange rate as of 2002

At the same time, we are transforming the company to support growth and cash returns

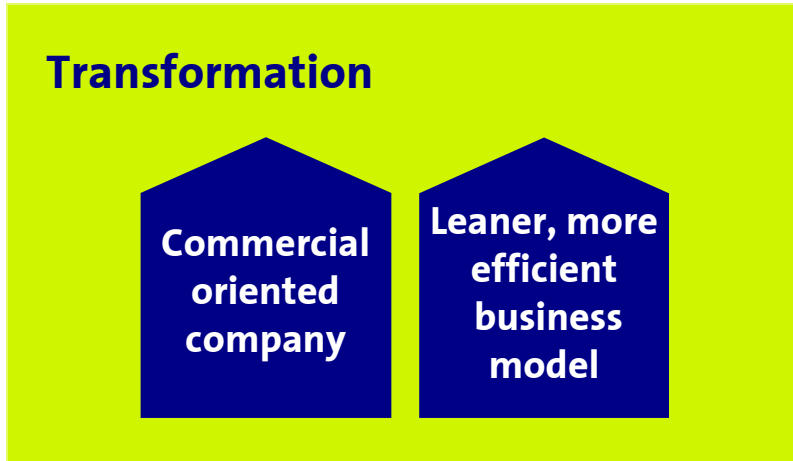
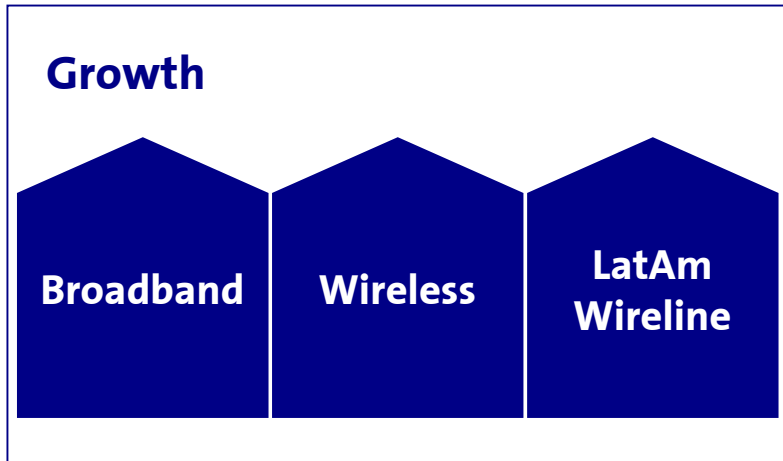
Objectives

Sustainable cash flow growth

Improved returns on capital



Lines of action





A transformation centered around the customer and focused on two key aspects:

Commercial oriented company

- Transition towards most commercially oriented organisation among incumbent telcos
- Build-up of excellent marketing and sales capabilities to ensure growth



Leaner, more efficient business model

- Less capital intensity through CapEx optimization towards growth activities
- Step-change increases in operational efficiency and flexibility

An integrated telecom Group serving all customer needs in each segment



We are developing commercial excellence across our business lines in order to stimulate growth

Moving wireline management towards the best commercial practices of our wireless and corporate data businesses

Management of distribution channels

Innovative product design tailored to segments

Mass-market brand management practices

Advanced loyalty and retention mechanisms

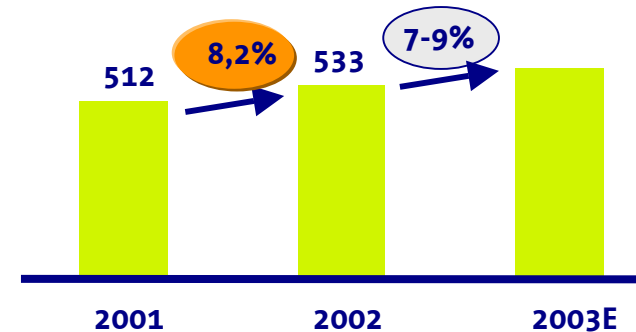
After-sales support and client development (SMEs)



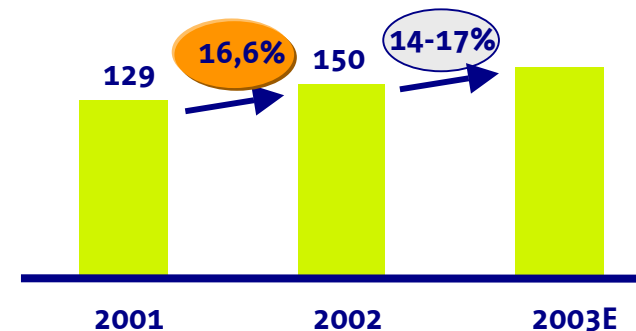
TPI: The sustained and profitable growth story of a customer driven organization

- “Improving the value proposition to advertisers...
 - Innovative and more specialized editorial products
 - Capturing and monetizing the internet opportunity
 - Transfer and implementation of best practices (LatAm)
- ...through a commercial oriented organization...
 - 70% headcount Marketing and Sales
 - Specialized and segmented sales force
 - CRM: customers loyalty, ARPA increase and churn rate reduction
- ... and achieving cost efficiencies”

Revenues



EBITDA



● FX 2001
 FX 2002

To do this, we are radically shifting the Group's operations towards commercial activities

**Deep workforce transformation in our wireline operations:
 E.g. Telefónica de España**

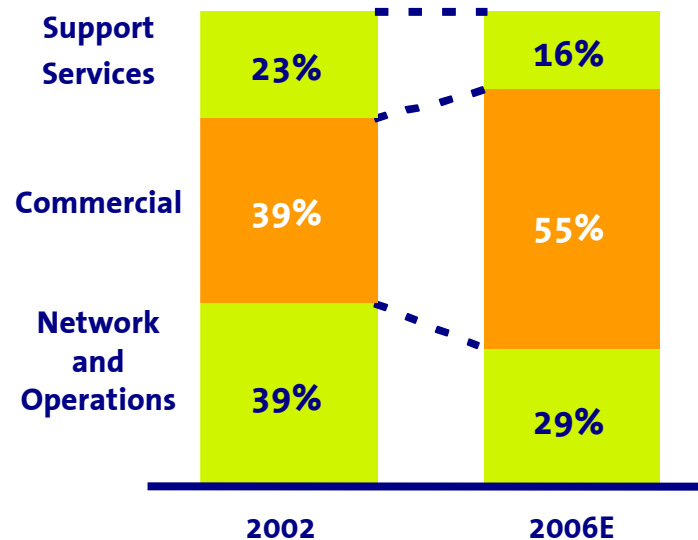
- Aggressive net headcount reduction plans of 14,700 employees in five years (36% of total workforce)
- Increase of 25% in commercial staff until 2007
- Launch commercial capabilities building programs



Commercial staff over 40% of total in 2007

Increased expenditure directed to commercial efforts

Telefónica Wireline business *



* Aggregated figures for TdE and T.LatAm



We are quickly evolving the Group's economic model towards a leaner one

Leaner business model going forward

More efficient operations

- **Simpler, more empowered organisation**
- **Significant reduction of indirect costs**
- **Less workforce intensive and streamlined processes and systems**

Lower capital intensity

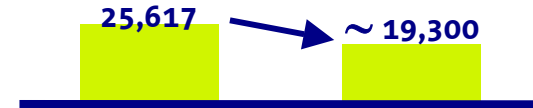
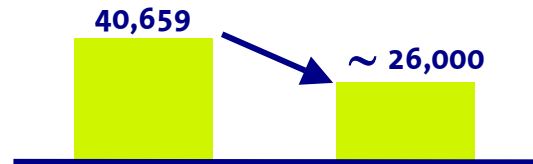
- **CapEx optimisation**
- **Higher asset turnover**
- **Real estate rationalization**

The transformation of our wireline businesses will set up a new industry standard among large European telcos

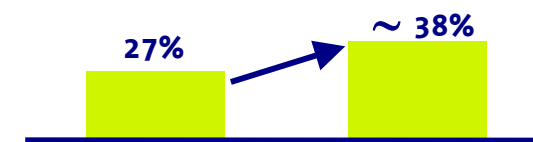
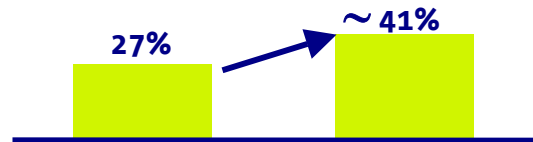
Telefónica de España

Telefónica LatAm

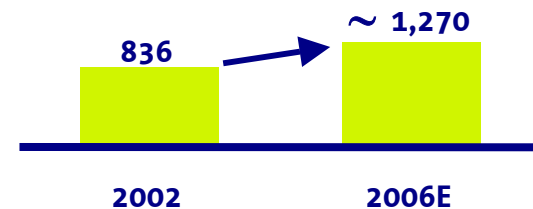
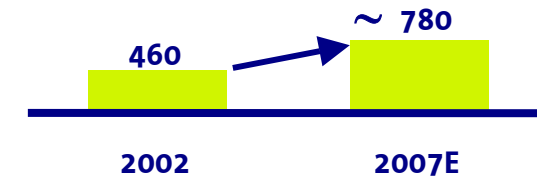
Total employees



% of commercial staff



Lines per employee



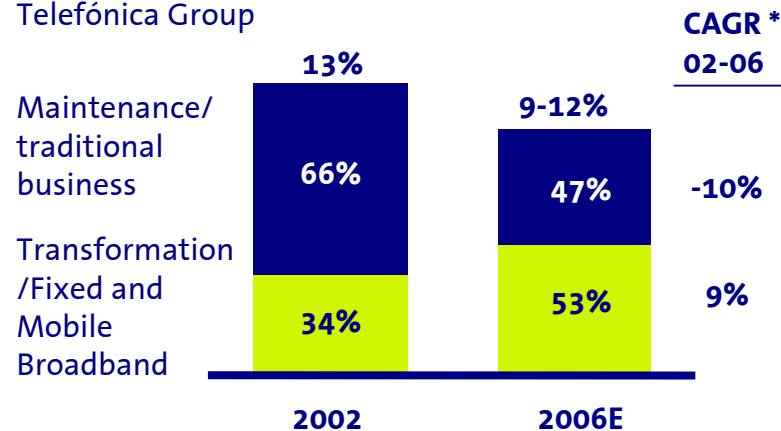
Moving from a product focus to a customer oriented company

We are optimising CapEx while redirecting more than 50% of it towards broadband and new services...

CapEx optimization without sacrificing growth potential or customer satisfaction...

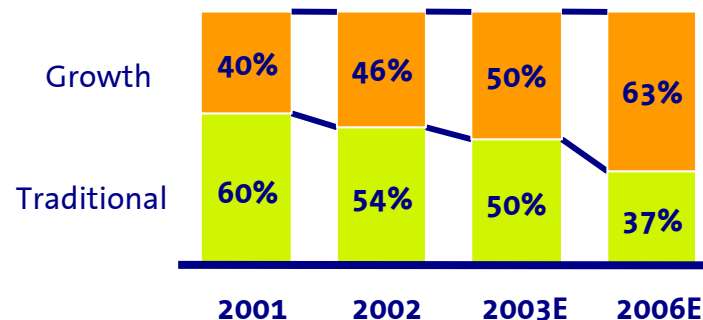
- Gradual deployment of new technology
 - No commitment to one single technology, benefiting from further innovations
- Maintaining investment flexibility
 - Avoidance of large upfront investments
- Leveraging cost reduction from technology trends
 - New technologies allow lower total costs
 - Delay unnecessary investments to benefit from quick price reduction in existing technologies
- Optimizing capacity and reutilization
 - Benefit from idle capacity due to decrease in fixed voice and narrowband traffic
 - Investments adapted to customer value in each micro-market

CapEx as % of revenues
Telefónica Group



* Constant exchange rates as of 2002

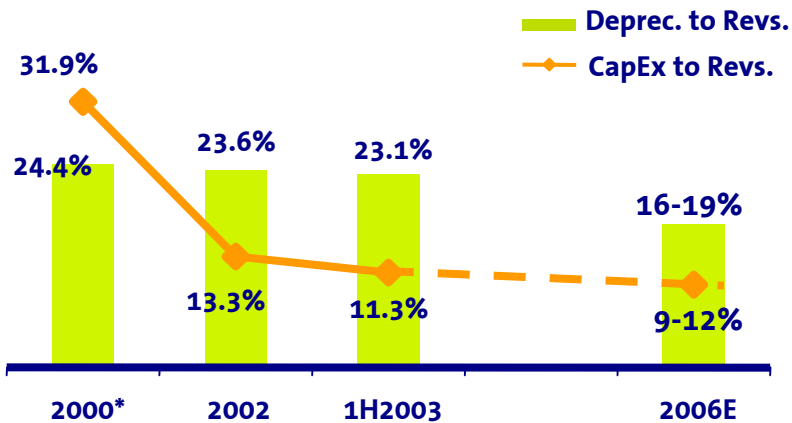
CapEx mix: Telefónica de España



CapEx significantly below amortisation reflecting less capital intensity

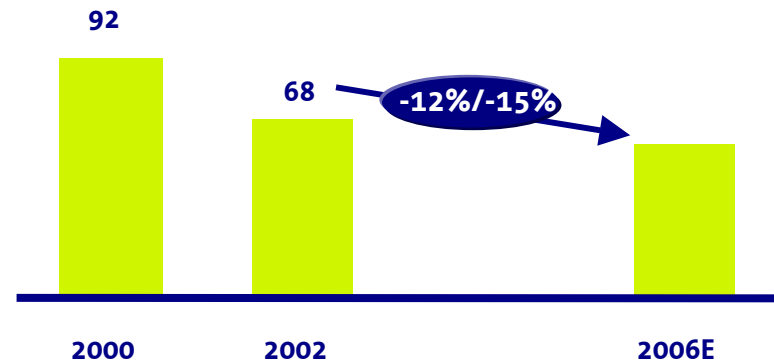
Significantly decreasing our total asset base in absolute terms

Depreciation and CapEx over Revenues



* Excluding UMTS related costs

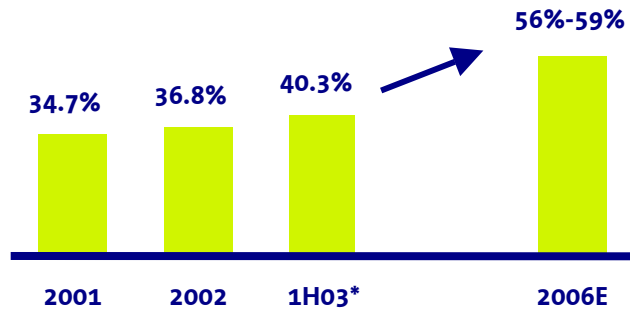
Total assets
€bn



Our ultimate aim is to deliver “best-in-class” returns ...

Increasingly high Asset Turnover...

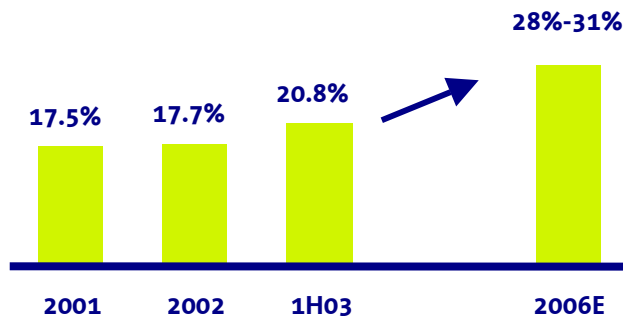
Total Group revenues/Total average assets



*1H03 results annualized

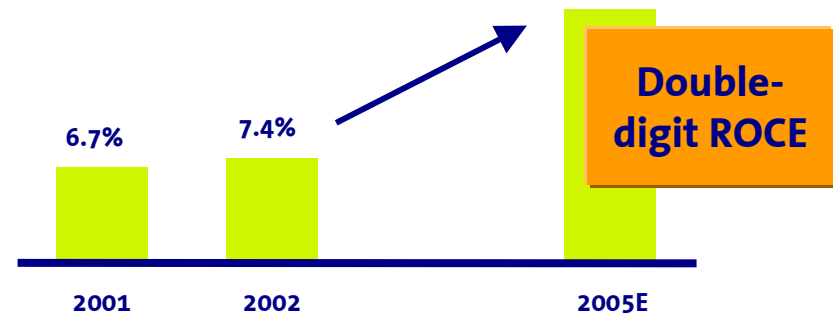
...mounting EBIT margins...

Group EBIT/revenues

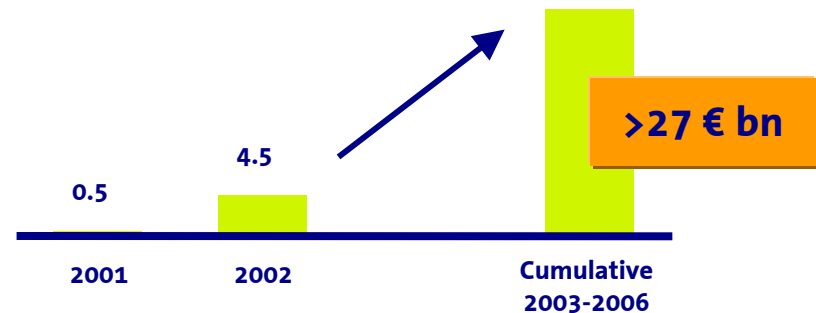


...and hence dramatically improving Return on Capital and Free Cash Flow

Group ROCE** (%)



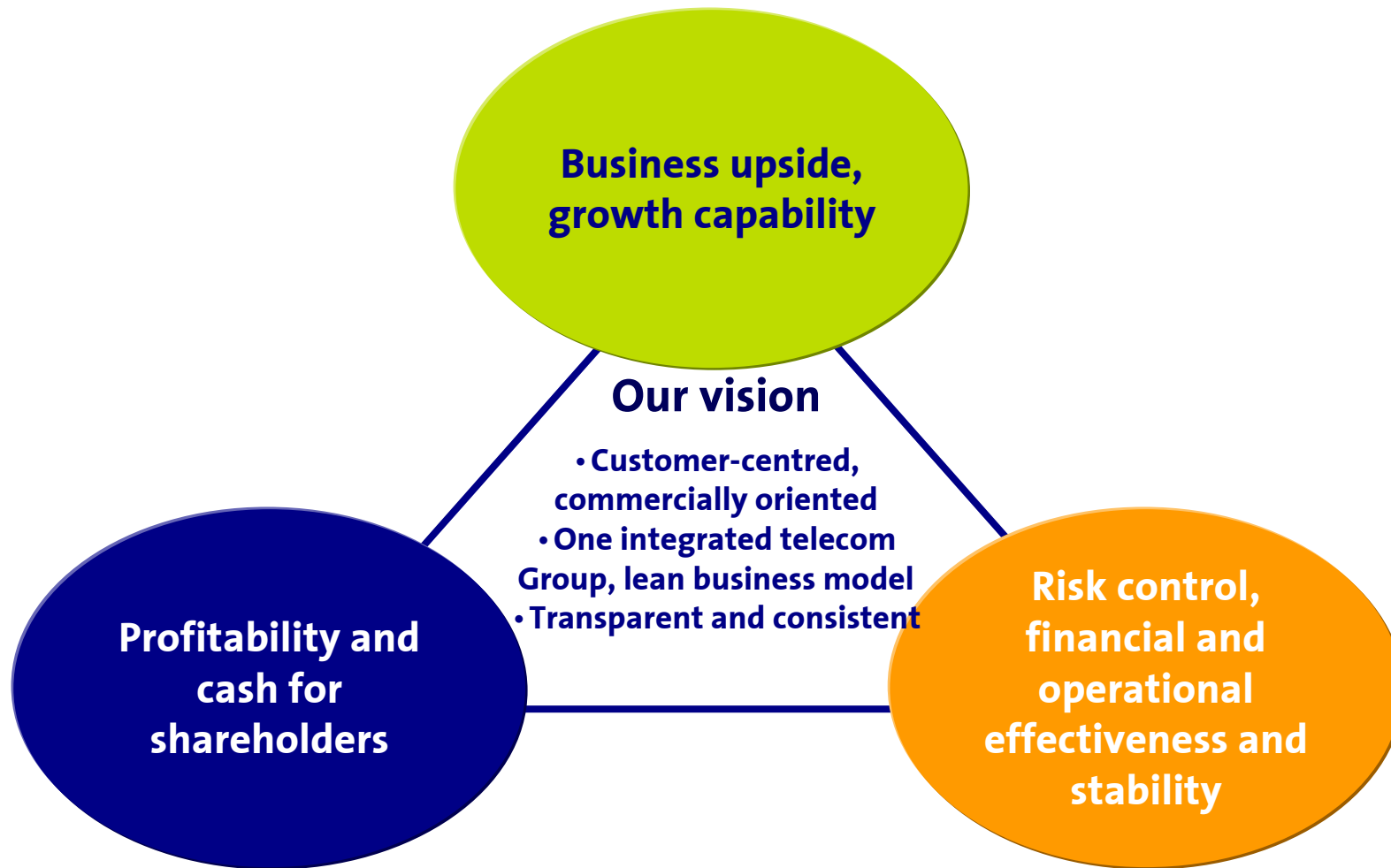
Free Cash Flow***
€ bn



** ROCE = EBIT *(1-effective tax rate)/Average Capital employed

*** FCF= EBITDA-CapEx-Net financial expenses-Calls on Cash-Cash taxes-minorities-working capital

...and to deliver to our shareholders the best combination of short-term results, risk profile, and medium-term upside



Our clear priorities towards cash flow growth and improved capital returns unfold in multiple initiatives in the different business lines

Agenda

— October 9th

10:30 **Mr. Julio Linares**
Executive Chairman
Telefónica de España

12:15 **Mr. José María Álvarez-Pallete**
Executive Chairman
Telefónica Latiamérica

15:30 **Mr. Eduardo Caride**
Executive Chairman
Telefónica Empresas

— October 10th

09:00 **Mr. Antonio Viana-Baptista**
Executive Chairman
Telefónica Móviles Group

11:00 **Mr. Santiago Fernández Valbuena**
CFO
Telefónica Group

12:00 **Mr. César Alierta**
Executive Chairman & CEO
Telefónica Group

Telefónica
