"This presentation contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those in the forward looking statements as a result of various factors.

Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica´s business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator"
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.

1. Strengthened position in our core markets to capture customer growth
2. Proactively managed the challenging LatAm environment
3. Continued to strengthen commercial and operational focus, and tight cost and CapEx discipline
4. Decisively restructured under-performing operations to focus on core businesses

Driving strong free cash flow generation
- Anticipation of market trends
- Consistent management priorities
- Focus on multi-year efforts
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)

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

...And increasing overall ARPU...

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...And increasing overall ARPU...
In wireless, our Spanish operation is performing outstandingly...

- Sustained customer growth
- Growing monthly usage per customer
- Attracting and retaining most valuable customers
- ARPU decline trend reversed

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

- 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

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

...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

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

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

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

-4.5 € Bn

Impact of FX on Telefonica’s rev. and EBITDA growth

...with significant impact on 2002 financials

Impact of FX on Telefonica’s rev. and EBITDA growth

...but lower impact in recent months

Average depreciation of Local currencies vs. Euro (Interannual change)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>1H03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazilian Real</td>
<td>-23.6%</td>
<td>-38.5%</td>
</tr>
<tr>
<td>Argentinean Peso</td>
<td>-70.0%</td>
<td>-26.8%</td>
</tr>
</tbody>
</table>

* FX as end of period. Source: Bloomberg

* Operating Cash Flow = EBITDA - Capex
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)

Revenues  
-0.7%  0.6%  7.0%  8.0%
9M02 FY02 1Q03 1H03

EBITDA  
-4.1% -3.4%  6.8%  7.0%

Significant operating cash flow generation ...

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

20.8%  38.2%  39.4%
2001 2002 1H03

* 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

- 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

Operating leverage *

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>00</td>
<td>47.5</td>
</tr>
<tr>
<td>01</td>
<td>45.2</td>
</tr>
<tr>
<td>02</td>
<td>43.7</td>
</tr>
<tr>
<td>1H03</td>
<td>44.8</td>
</tr>
</tbody>
</table>


Total CapEx as % of revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>27.1%</td>
</tr>
<tr>
<td>2002</td>
<td>13.3%</td>
</tr>
<tr>
<td>1H03</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

* Fixed costs as % of total costs
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...
...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

<table>
<thead>
<tr>
<th></th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>1H03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireless</td>
<td>1,521</td>
<td>1,450</td>
<td>1,642</td>
</tr>
<tr>
<td>Wireline.Latam</td>
<td>2,788</td>
<td>4,260</td>
<td>4,423</td>
</tr>
<tr>
<td>Wireline Spain</td>
<td>1,571</td>
<td>1,537</td>
<td>1,608</td>
</tr>
<tr>
<td>Others</td>
<td>1,164</td>
<td>996</td>
<td>783</td>
</tr>
</tbody>
</table>

Free cash flow € m

<table>
<thead>
<tr>
<th></th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>1H03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full year</td>
<td>4,881</td>
<td>4,458</td>
<td>2,872</td>
</tr>
<tr>
<td>1H01</td>
<td>1,521</td>
<td>1,450</td>
<td>1,642</td>
</tr>
<tr>
<td>1H02</td>
<td>1,537</td>
<td>1,526</td>
<td>1,608</td>
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<tr>
<td>1H03</td>
<td>1,642</td>
<td>1,642</td>
<td>1,608</td>
</tr>
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*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...

- Leading player in Spanish and Portuguese speaking markets: both in wireline and wireless services
- 93m customers* worldwide (+15m since Seville 02)
- 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

Wireline LIS

<table>
<thead>
<tr>
<th>Company</th>
<th>LIS 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF</td>
<td>36%</td>
</tr>
<tr>
<td>Telemar</td>
<td>14%</td>
</tr>
<tr>
<td>Telmex</td>
<td>13%</td>
</tr>
<tr>
<td>Brasil Telecom</td>
<td>8%</td>
</tr>
<tr>
<td>PT</td>
<td>5%</td>
</tr>
</tbody>
</table>

Wireless subs.

<table>
<thead>
<tr>
<th>Company</th>
<th>Subs. 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF</td>
<td>TEM* 26%</td>
</tr>
<tr>
<td>Telemar</td>
<td>America Movil 19%</td>
</tr>
<tr>
<td>Telmex</td>
<td>PT* 9%</td>
</tr>
<tr>
<td>Brasil Telecom</td>
<td>TIM 8%</td>
</tr>
<tr>
<td>PT</td>
<td>BLS 6%</td>
</tr>
</tbody>
</table>

High share of profit coming from non-domestic markets

% of total consolidated EBITDA from non-domestic markets
2002

<table>
<thead>
<tr>
<th>Company</th>
<th>EBITDA 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF</td>
<td>31.3%</td>
</tr>
<tr>
<td>FT</td>
<td>31.0%</td>
</tr>
<tr>
<td>DT</td>
<td>22.0%</td>
</tr>
<tr>
<td>TI</td>
<td>10.4%</td>
</tr>
<tr>
<td>BT</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Leading DSL penetration in Europe

DSL connections over Internet households

<table>
<thead>
<tr>
<th>Country</th>
<th>DSL Connections</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>5%</td>
</tr>
<tr>
<td>IT</td>
<td>7%</td>
</tr>
<tr>
<td>FR</td>
<td>17%</td>
</tr>
<tr>
<td>GER</td>
<td>17%</td>
</tr>
<tr>
<td>EU Avg.</td>
<td>13%</td>
</tr>
<tr>
<td>Spain</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: Deutsche Bank estimates

Source: Jupiter 2003

* Both TEM and PT include 100% of Brazil-JV subsidiaries
Also, the company now has a significantly better risk profile

- Sound investments
- Divesting and restructuring operations of uncertain profitability or strategic fit
- Balanced set of platforms and services ensuring the best position for future scenarios
- Adoption of advanced technologies with the most attractive payback
- Improved macroeconomic outlook
- Tight CapEx and OpEx management
- Proactive hedging of financial risk
- 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

<table>
<thead>
<tr>
<th></th>
<th>TEF</th>
<th>DT</th>
<th>FT</th>
<th>BT</th>
<th>TI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H03</td>
<td>32.6%</td>
<td>28.0%</td>
<td>27.7%</td>
<td>18.1%</td>
<td>33.0%</td>
</tr>
</tbody>
</table>

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

Intangible assets over equity
FY 2002

<table>
<thead>
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<th>FT</th>
<th>BT</th>
<th>TI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.32</td>
<td>0.83</td>
<td>1.19</td>
<td>0.02</td>
<td>0.70</td>
</tr>
</tbody>
</table>

Net debt*/EBITDA
2002

<table>
<thead>
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<th></th>
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<th>DT</th>
<th>FT</th>
<th>BT</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>1.7</td>
<td>3.3</td>
<td>3.3</td>
<td>1.5</td>
</tr>
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Net debt*/Market Cap
(As of 30/09/03)

<table>
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<tr>
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<th>BT</th>
<th>TI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.39</td>
<td>1.02</td>
<td>1.12</td>
<td>0.58</td>
<td>1.24</td>
</tr>
</tbody>
</table>

* Net debt as of June 2003
Source: JP Morgan

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

The best credit rating

Source: Bloomberg

S&P Rating
September 2003

A
BBB+
BBB
A-
BBB+
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
Telefónica, S.A.

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

**Well-positioned for growth**
- Strong position in key growth areas: wireless, broadband, LatAm
- Enhanced commercial aggressiveness to support top-line growth
- Financial and operational resources to exploit growth opportunities

**Improved returns**
- Profitable operations focused on core businesses
- World-class operational efficiency
- Low asset intensity, leaner operations

**Proven risk management**
- Restructured portfolio to focus on profitable core assets
- Working for a better balanced regulatory environment
- Proactive financial risk management

...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

Customer orientation

Growth
- Broadband
- Wireless
- LatAm Wireline

Transformation
- Commercial oriented company
- Leaner, more efficient business model
The customer is the starting point of this strategy, the center of everything we will be doing in the near future.

- 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:

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

- First to recognise potential and invest in top 5 European countries
- Maximum coverage achieved with limited CapEx
- Positive contribution in early phases of deployment

Broadband penetration in Spain
Thousand accesses

<table>
<thead>
<tr>
<th>Year</th>
<th>TEF</th>
<th>DT</th>
<th>FT</th>
<th>TI</th>
<th>BT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>446</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>1,223</td>
</tr>
<tr>
<td>2002</td>
<td>1,223</td>
<td>440</td>
<td>440</td>
<td>440</td>
<td>440</td>
<td>2,185</td>
</tr>
<tr>
<td>2003E</td>
<td>2,185</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>3,960</td>
</tr>
</tbody>
</table>

CAGR 02-06: 42-45%

Broadband penetration in Brazil (Sao Paulo)
Thousand accesses

<table>
<thead>
<tr>
<th>Year</th>
<th>TEF</th>
<th>DT</th>
<th>FT</th>
<th>TI</th>
<th>BT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>79%</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>946</td>
</tr>
<tr>
<td>2002</td>
<td>68%</td>
<td>440</td>
<td>440</td>
<td>440</td>
<td>440</td>
<td>1,360</td>
</tr>
<tr>
<td>2003E</td>
<td>68%</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>2,960</td>
</tr>
</tbody>
</table>

CAGR 02-06: 46-49%
... innovating to make broadband a truly “mass-market” service

Households and Individuals

Broadband as a truly “mass-market” product

Push our own initiatives

SMEs and Corporations

Broadband as a “must-have” for businesses

Cooperate with service providers to stimulate market growth

- New products: eBA, Soluciones ADSL, Mundo ADSL, Imagenio...
- New segments
- New devices: WiFi, consoles...
- Pricing innovation

2006 ASPIRATIONS
- Over 6 million Telefónica Group DSL connections
- SME’s Broadband penetration of 65% and 100% in Corporations in Spain
**Telefónica, S.A.**

**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 aggregator 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**

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

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

MoU
- 2002: 28
- 2006E: 105
- CAGR: 7-10%

Data as % of total ARPU
- 2002: 12%
- 2006E: 20%
- ARPU: 28.7 €
- CAGR: 17-20%

...and in LatAm, given the huge market potential

Potential for strong growth in market*

2002  
65

2006E  
+80-83%

* 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

**GROWTH**

- 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

- 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>6,954</td>
</tr>
<tr>
<td>2006E</td>
<td></td>
</tr>
</tbody>
</table>

CAGR* 6-9%

* Constant exchange rate as of 2002
At the same time, we are transforming the company to support growth and cash returns.
A transformation centered around the customer and focused on two key aspects:

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

- 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”
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

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network and Operations</td>
<td>39%</td>
<td>29%</td>
</tr>
<tr>
<td>Commercial</td>
<td>39%</td>
<td>55%</td>
</tr>
<tr>
<td>Support Services</td>
<td>23%</td>
<td>16%</td>
</tr>
</tbody>
</table>

* 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

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

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance/</td>
<td></td>
<td></td>
</tr>
<tr>
<td>traditional business</td>
<td>66%</td>
<td>47%</td>
</tr>
<tr>
<td>Transformation</td>
<td>34%</td>
<td>53%</td>
</tr>
<tr>
<td>Fixed and Mobile</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broadband</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**CAGR * 02-06**

-10% 9%

* Constant exchange rates as of 2002

**CapEx mix: Telefónica de España**

<table>
<thead>
<tr>
<th>Growth</th>
<th>2001</th>
<th>2002</th>
<th>2003E</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>40%</td>
<td>46%</td>
<td>50%</td>
<td>63%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Traditional</th>
<th>2001</th>
<th>2002</th>
<th>2003E</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60%</td>
<td>54%</td>
<td>50%</td>
<td>37%</td>
</tr>
</tbody>
</table>
...and becoming a much less capital intensive business

**CapEx significantly below amortisation reflecting less capital intensity**

**Significantly decreasing our total asset base in absolute terms**

Depreciation and CapEx over Revenues

- **2000**: Deprec. to Revs. 31.9%, CapEx to Revs. 24.4%
- **2002**: Deprec. to Revs. 23.6%, CapEx to Revs. 13.3%
- **1H2003**: Deprec. to Revs. 23.1%, CapEx to Revs. 11.3%
- **2006E**: Deprec. to Revs. 16-19%, CapEx to Revs. 9-12%

* Excluding UMTS related costs

Total assets

- **2000**: €92bn
- **2002**: €68bn
- **2006E**: €-12%/-15%
Our ultimate aim is to deliver “best-in-class” returns …

Increasingly high Asset Turnover…

Total Group revenues/Total average assets

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>1H03*</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>34.7%</td>
<td>36.8%</td>
<td>40.3%</td>
<td>56%-59%</td>
</tr>
</tbody>
</table>

*1H03 results annualized

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

Group ROCE** (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2005E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.7%</td>
<td>7.4%</td>
<td></td>
</tr>
</tbody>
</table>

Double-digit ROCE

Free Cash Flow***

€ bn

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>Cumulative 2003-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.5</td>
<td>4.5</td>
<td>&gt;27 € bn</td>
</tr>
</tbody>
</table>

** 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 vision
- Customer-centred, commercially oriented
- One integrated telecom Group, lean business model
- Transparent and consistent

Business upside, growth capability

Profitability and cash for shareholders

Risk control, financial and operational effectiveness and stability
**Our clear priorities towards cash flow growth and improved capital returns unfold in multiple initiatives in the different business lines**

<table>
<thead>
<tr>
<th>Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>October 9th</strong></td>
</tr>
</tbody>
</table>
| 10:30  | **Mr. Julio Linares**  
Executive Chairman  
Telefónica de España |
| 12:15  | **Mr. José María Álvarez-Pallete**  
Executive Chairman  
Telefónica Lationamérica |
| 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 |