

*Telefonica*

**January - December  
2003 Results**

**This presentation is being broadcast live on the Internet**



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## FINANCIAL HIGHLIGHTS

### OUR FINANCIAL PRIORITIES...

BUILDING CONSISTENT  
TOP LINE GROWTH

+

INCREASING  
PROFITABILITY

+

IMPROVING ALL NON-OPERATING  
RESULTS TO DRIVE NET INCOME

ENHANCING CASH FLOW  
GENERATION AND ROCE

### ... WE HAVE REACHED THROUGH AN ACTIVE MANAGEMENT OF OPERATIONS

€ in Millions	FY03	FY02	% Change FY03/FY02
Operating Rev.	28,399.8	28,411.3	-0.04%
EBITDA	12,602.1	11,724.2	+7.5%
EBITDA margin	44.4%	41.3%	+3.1 p.p.
EBIT (*)	6,327.9	5,031.7	+25.8%
Net Income	2,203.6	-5,576.8	c.s
OpCF (**)	8,875.0	7,935.2	+11.8%

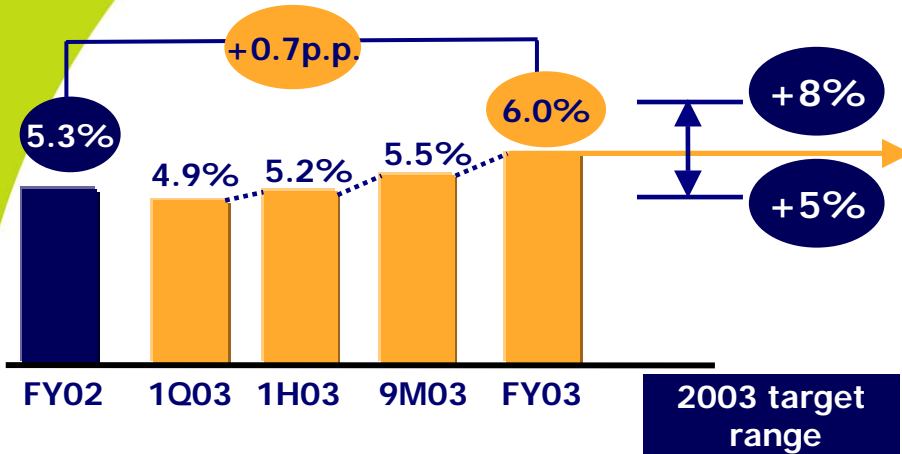
(\*) EBITDA-depreciation

(\*\*) EBITDA-Capex

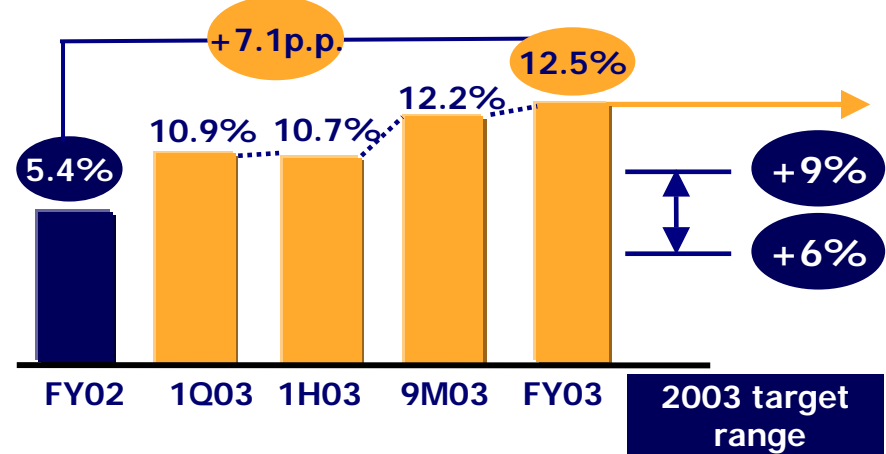
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# BUILDING CONSISTENT TOP LINE GROWTH: outperforming 2003 guidance

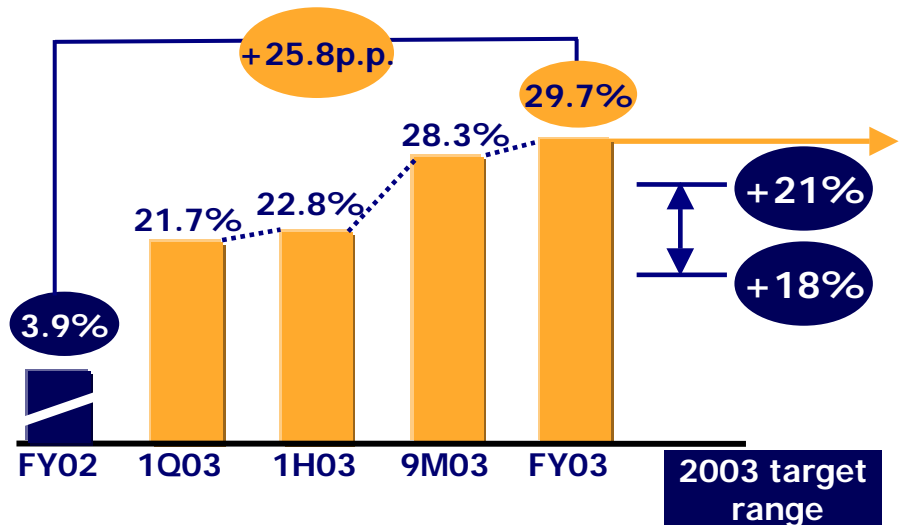
REVENUES GROWTH (\*)



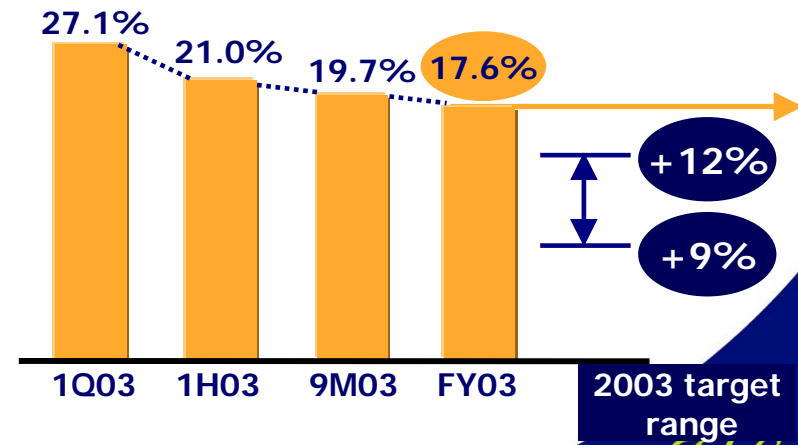
EBITDA GROWTH (\*)



EBIT GROWTH (\*)



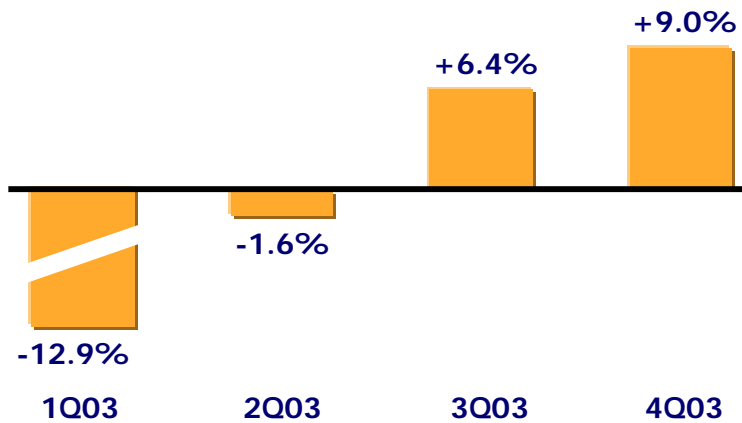
OpCF (EBITDA-CAPEX) GROWTH (\*)



(\*) Assuming constant exchange rates as of 2002. All figures exclude changes in consolidation

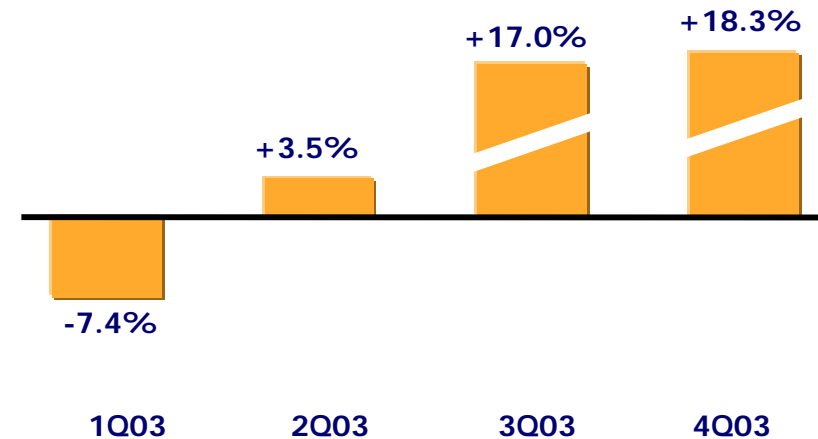
***BUILDING CONSISTENT TOP LINE GROWTH:  
underlying growth is translating into € terms and accelerates***

**QUARTERLY REVENUE GROWTH**



Forex drained 6.6 p.p. to revenues growth in 2003, compared to 17.2 p.p. in 1Q03

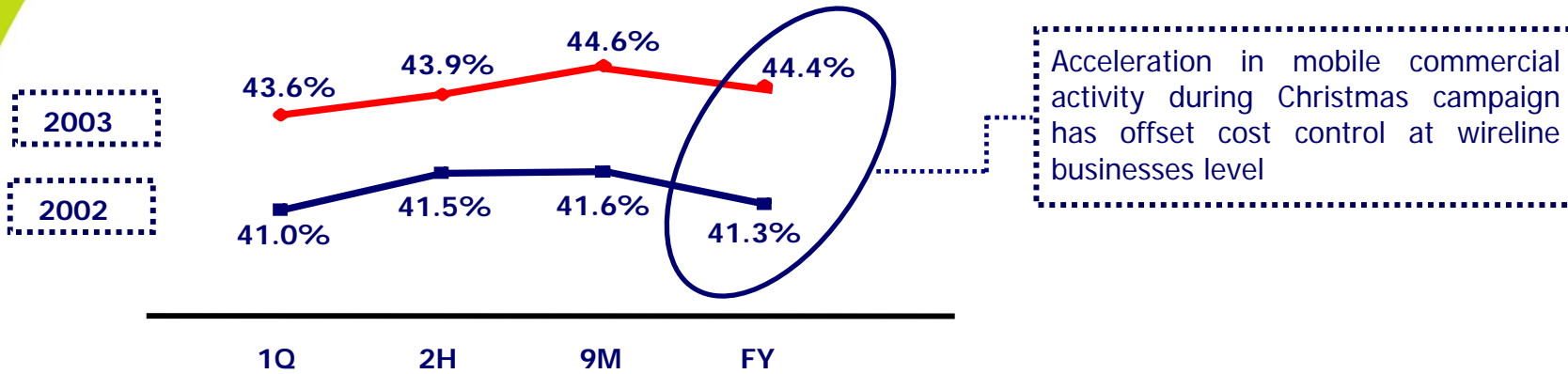
**QUARTERLY EBITDA GROWTH**



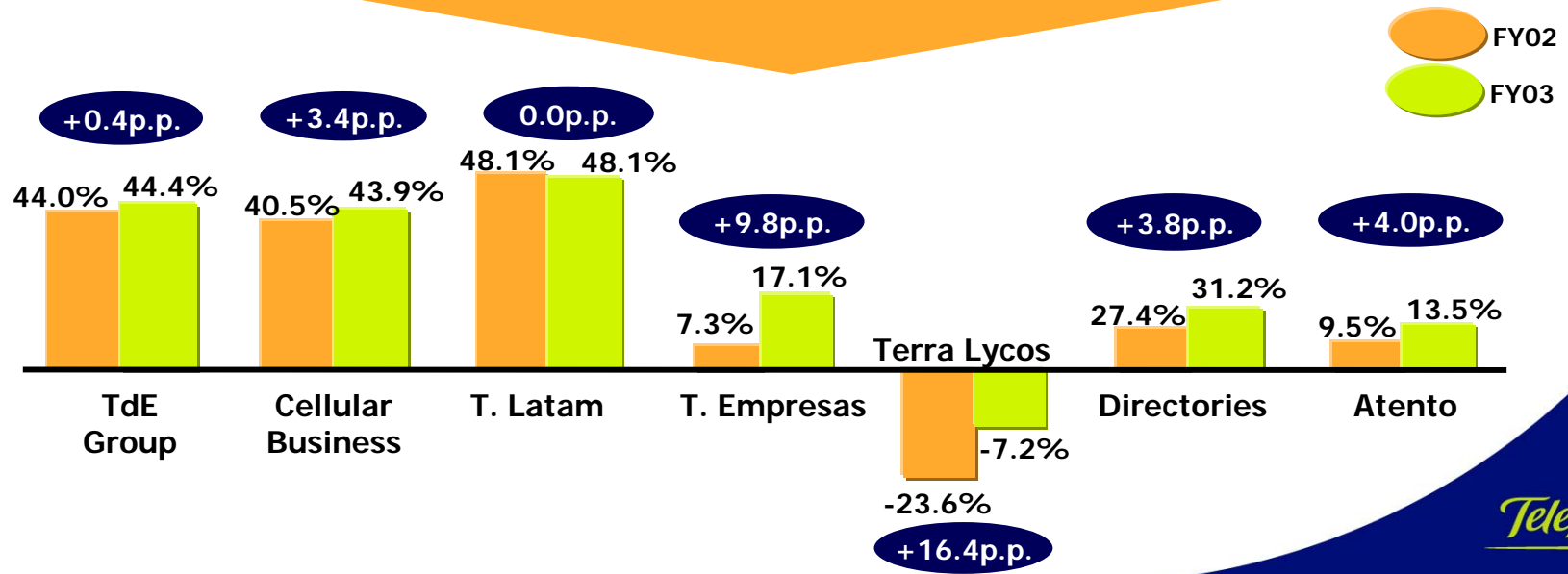
Forex drained 6.0 p.p. to EBITDA growth in 2003, compared to 18.4 p.p. in 1Q03

# INCREASING PROFITABILITY managing the cost structure across business lines

**CUMULATIVE GROUP MARGIN**



**SOLID MARGINS ACROSS THE GROUP WITH ALL BUSINESS LINES IMPROVING THEIR PERFORMANCE**

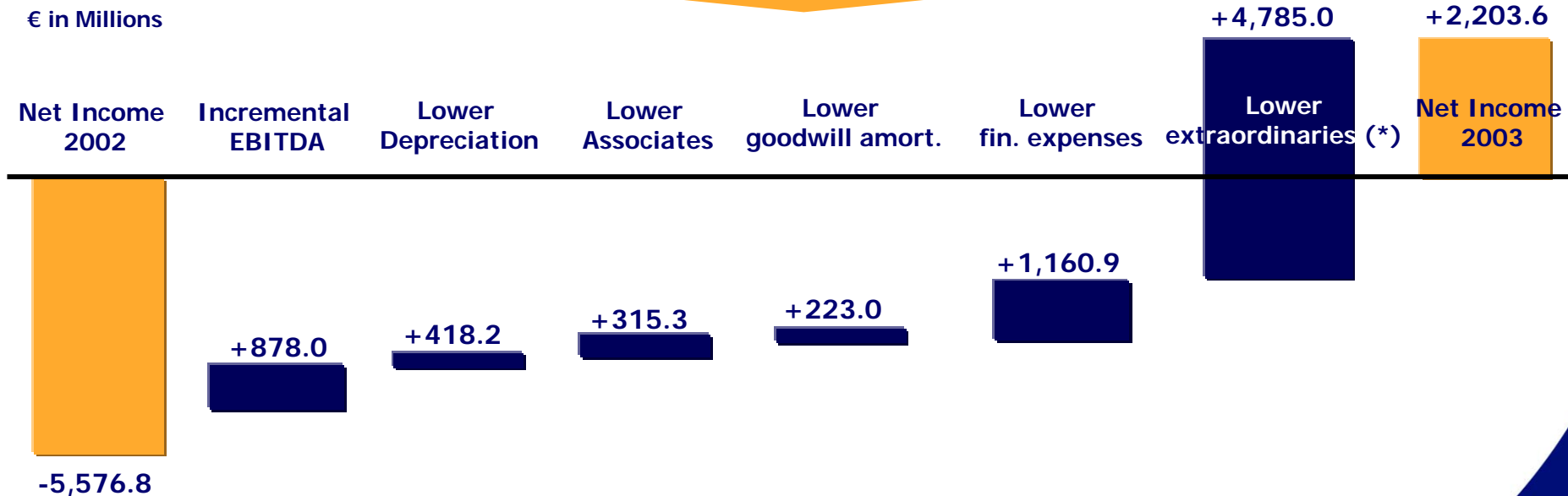


# IMPROVING ALL NON OPERATING RESULTS TO DRIVE NET INCOME

*restructuring is paying at the bottom line*



**BOOSTING THE GROUP'S NET INCOME**



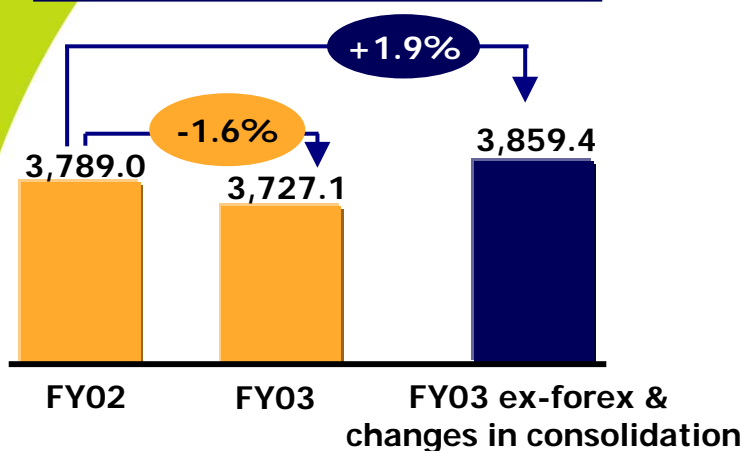
**ADJUSTED NET INCOME (\*\*) EXCEEDED THE 3 Bn € MARK, CLOSE TO A 30% INCREASE VS 2002 ADJUSTED FIGURE**

(\*) Net of taxes and Minorities

(\*\*) Reported Net Income adjusted for extraordinaries and effect of Peso depreciation (net of taxes and minorities), and goodwill amortization

## ENHANCING CASH FLOW GENERATION AND ROCE rationalizing Capex while pushing on BB & cellular

### CAPEX EVOLUTION (€ in Millions)



### INCREASING EFFORT ON TRANSFORMATION

Transformation (\*)  
43%



Traditional Services  
57%

- In line with Capex guidance of 0%/+3% (\*\*) for the Group
- Keeping Capex over revenues at 2002 level of 13%

### CAPEX BREAKDOWN

	Total € in Millions	% Change FY03/FY02 (**)	2003 Target Range (**)	% over Revenues
TdE Group	1,406.5	-19.4%	-15%/-20%	13.8%
T. LATAM	591.3	-9.4%	-2%/+1%	9.3%
Cell Business	1,339.7	+41.7%	-	12.8%

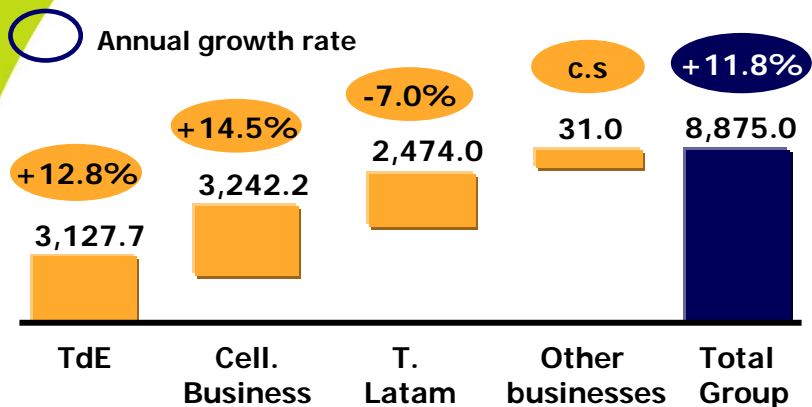
(\*) Including Broadband, UMTS, GSM roll-out in Chile and Mexico, and Others

(\*\*) Assuming constant exchange rates as of 2002. All figures exclude changes in consolidation



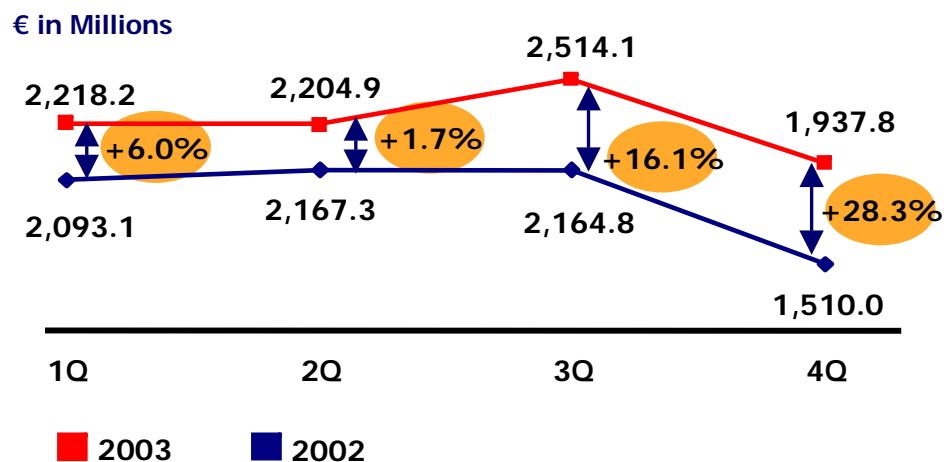
# ENHANCING CASH FLOW GENERATION AND ROCE strong performance across the year

**FY03 OpCF BREAKDOWN (\*)**  
(€ in Millions)



2003 OpCF (\*) stood at 31.3% of revenues (27.9% in 2002)

**FY03 OpCF (\*) : ACCELERATING GROWTH SEQUENTIALLY** (€ in Millions)

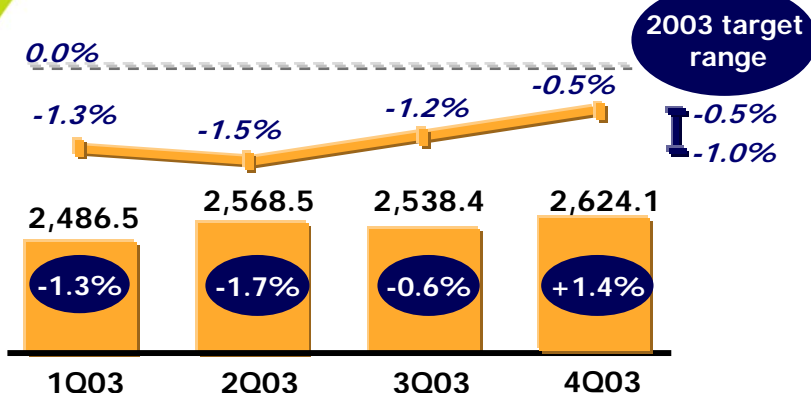


**WE ARE FULLY ALIGNED WITH OUR TARGET TO BECOME A SOLID DOUBLE DIGIT ROCE COMPANY BY 2005, THROUGH THE SOLID COMBINATION OF ORGANIC GROWTH AND A REDUCED ASSET BASE**

(\*) EBITDA-Capex

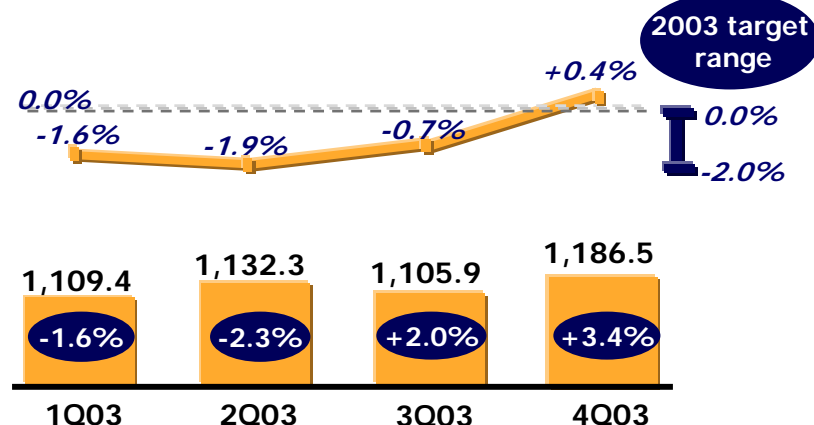
# TELEFONICA DE ESPAÑA GROUP: IMPROVING THROUGH 2003

## OPERATING REVENUES (€ in Millions)



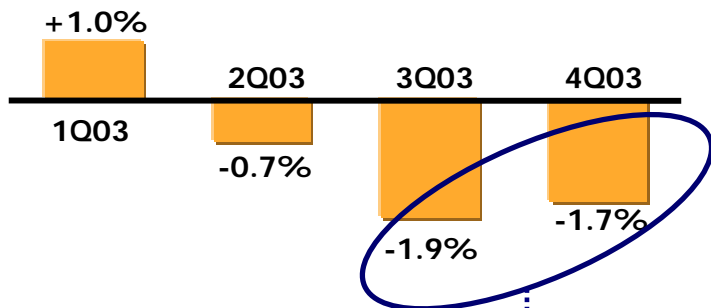
Quarterly annual growth rate Cumulative annual growth rate

## EBITDA (€ in Millions)

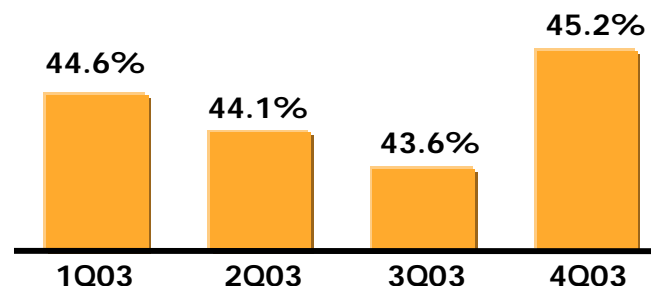


Quarterly annual growth rate Cumulative annual growth rate

## OPERATING EXPENSES GROWTH (PARENT)



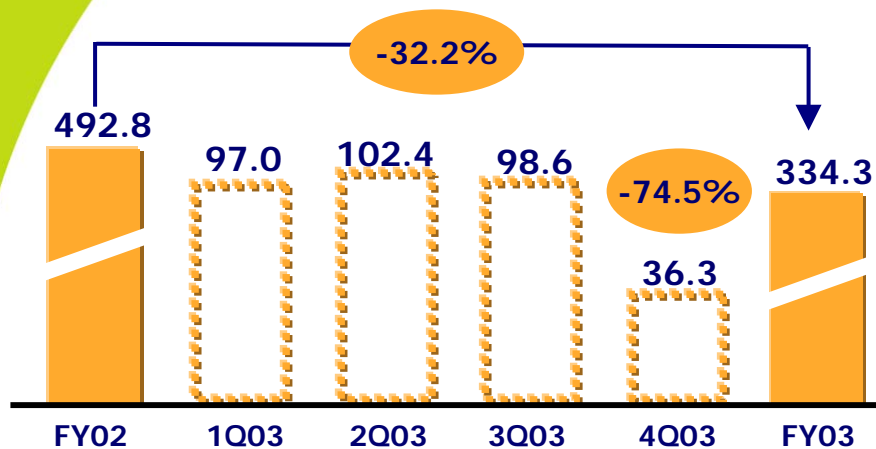
## EBITDA MARGIN



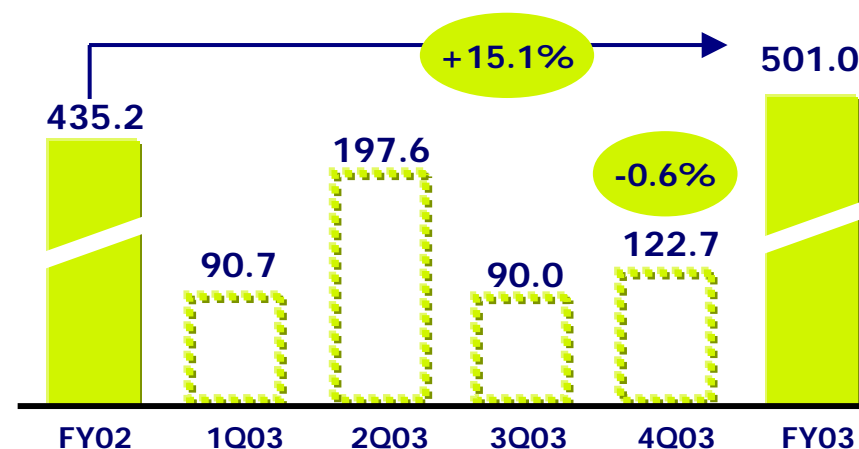
■ Savings of 56 Million € related to 5,489 pre-retirements (4Q03 personnel expenses annual decline of 6.7%). **2,000 pre-retirements expected in 2004**  
 ■ Additional commercial expenses related to Modular Offer Schemes, and ADSL Christmas campaign

# TELEFONICA DE ESPAÑA PARENT: TRADITIONAL SERVICES OPERATING PERFORMANCE

## ACCESS LINES NET LOSSES (PSTN + B.A. ISDN; Thousands)



## PRESELECTED LINES NET ADDS (Thousands)



## TRAFFIC (estimated)

(million minutes)	Jan-Dec 03	Jan-Dec 02	% Change 03 vs 02
<b>OUTGOING</b>	<b>84,180</b>	<b>96,312</b>	<b>-12.6%</b>
<i>Voice</i>	56,479	62,140	-9.1%
Local	29,704	34,436	-13.7%
Provincial	8,308	8,855	-6.2%
DLD	6,903	7,598	-9.1%
International	1,669	1,693	-1.4%
F2M	5,856	5,729	2.2%
IN (*) & Others	4,039	3,829	5.5%
<i>Internet</i>	27,701	34,172	-18.9%
<b>INCOMING</b>	<b>53,993</b>	<b>47,033</b>	<b>14.8%</b>
<b>TOTAL</b>	<b>138,174</b>	<b>143,345</b>	<b>-3.6%</b>

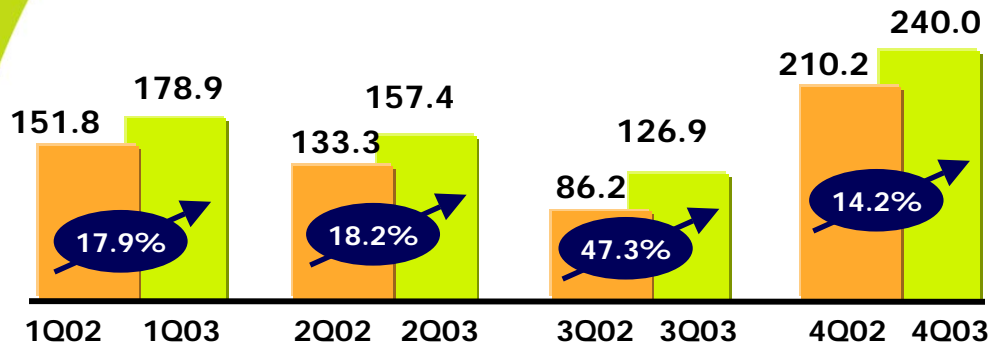
(\*) Intelligent Network

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# TELEFONICA DE ESPAÑA: ADSL, A PROFITABLE STORY

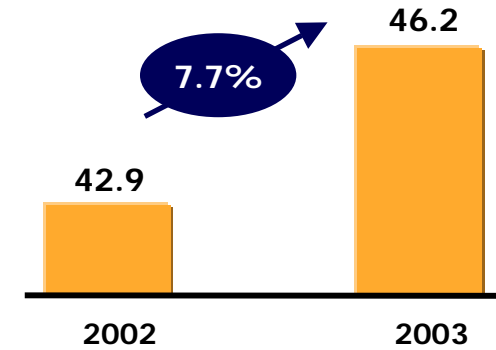
**ADSL CONNECTIONS (Net Adds, thousands)**

ADSL CONNECTIONS	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03
	957.2	1,136.1	1,293.6	1,420.5	1,660.5



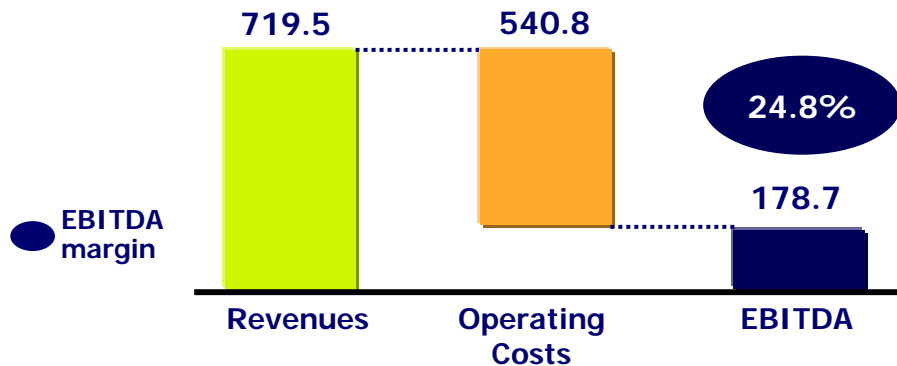
**WITH 1.66 Mill. ADSL CONNECTIONS AT 2003 YEAR END, TARGET FOR 2003 SURPASSED BY 4%**

**ADSL RETAIL ARPU (€)**



**CLOSE TO 28% OF RETAIL CUSTOMERS ARE PAYING FOR VALUE ADDED SERVICES**

**FY03 ADSL EBITDA MARGIN (Euros in millions)**

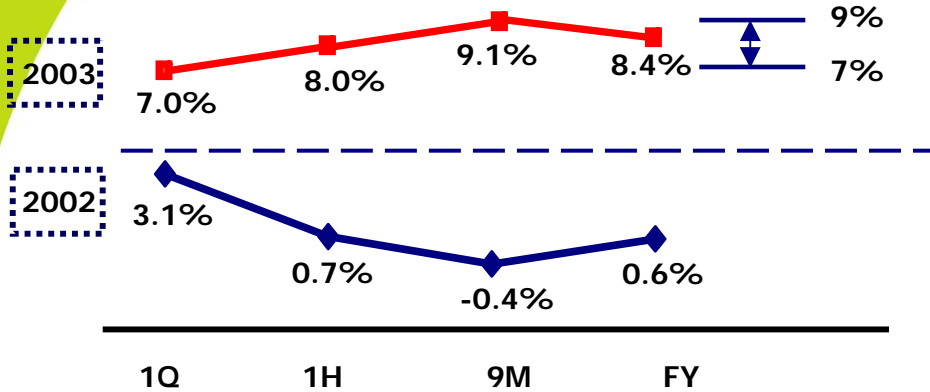


**EBITDA BREAK-EVEN SINCE 1Q03**

# TELEFONICA LATINOAMERICA: STRONG UNDERLYING PERFORMANCE IN TERMS OF GROWTH AND MARGINS...

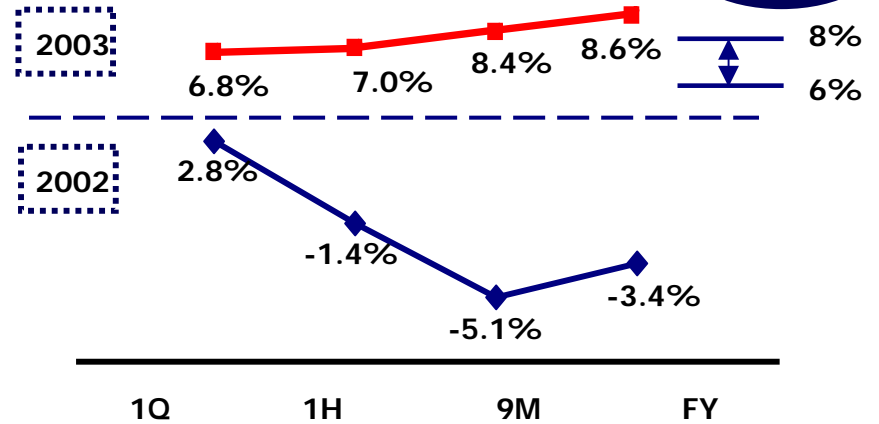
## REVENUE GROWTH (Ex-Fx)

2003 target range

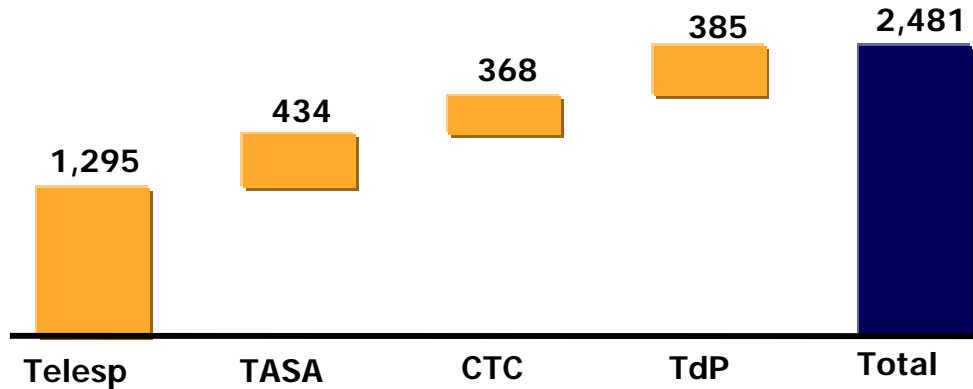


## EBITDA GROWTH (Ex-Fx)

2003 target range



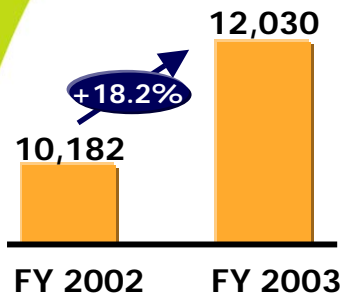
## CASH FLOW BREAKDOWN (\*) (€ in Millions)



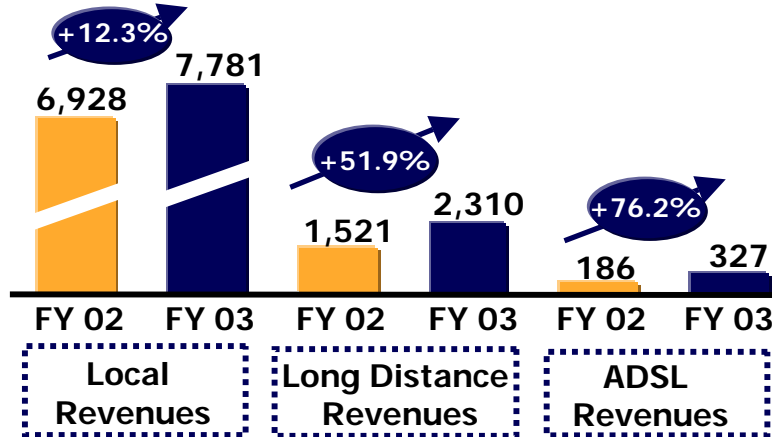
(\*) EBITDA-Capex

# ... WITH TELESP CONTRIBUTING CONSISTENTLY AND TASA SHOWING CLEAR PROGRESS ON RECOVERING

## TELESP REVENUES (BRL in millions)



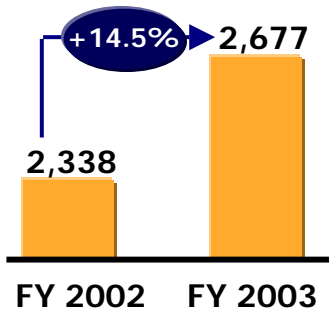
## TELESP REVENUES BREAKDOWN (BRL in millions)



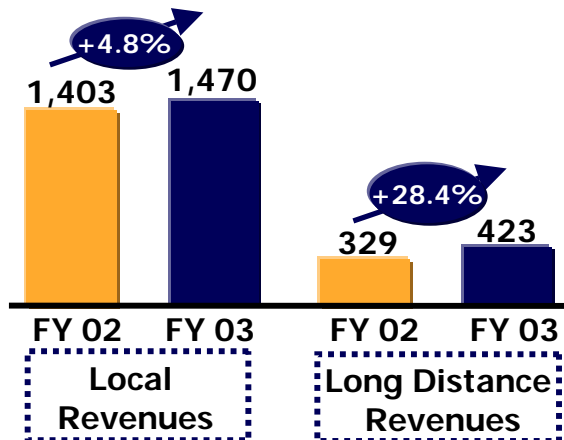
## OPERATING DRIVERS

- Local: 2002/03 tariff increases & a 2.5% voice traffic annual increase
- LD: 51% market share in DLD (+15 p.p. y-o-y) & 39% in ILD (+7 p.p. y-o-y)
- ADSL: +45% y-o-y in connections (close to 485,000) & higher ARPU related to price rises

## TASA REVENUES (ARS in millions)



## TASA REVENUES BREAKDOWN (ARS in millions)

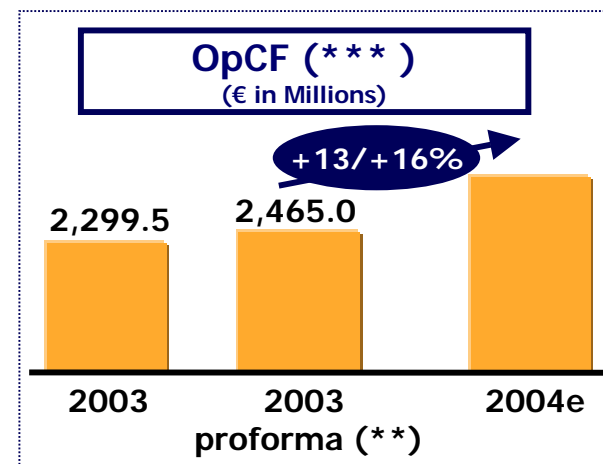
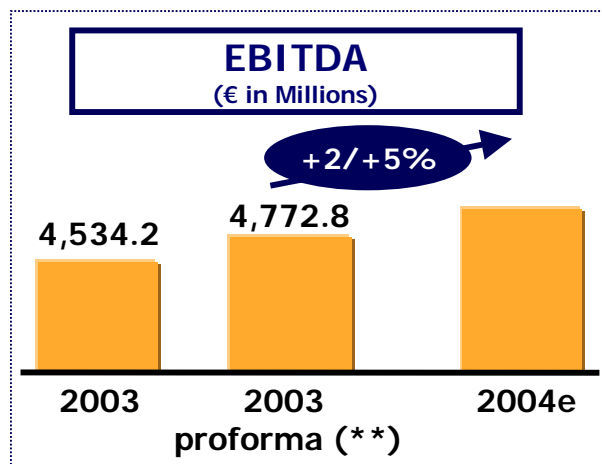
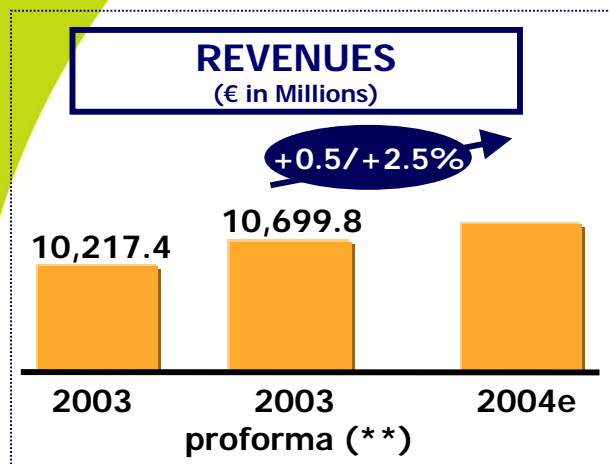


## OPERATING DRIVERS

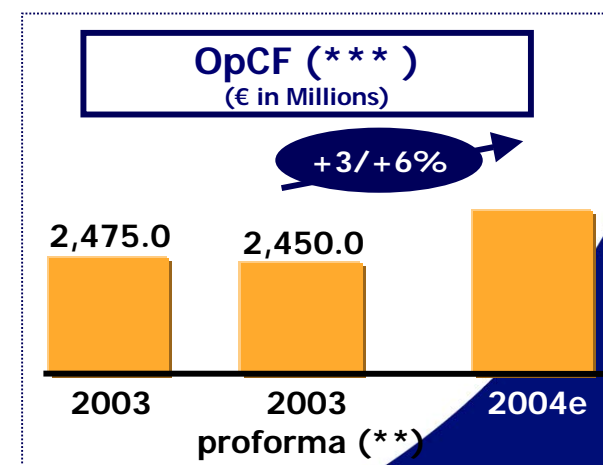
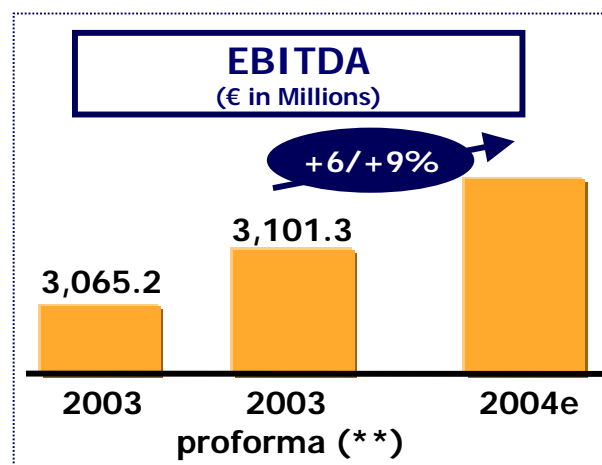
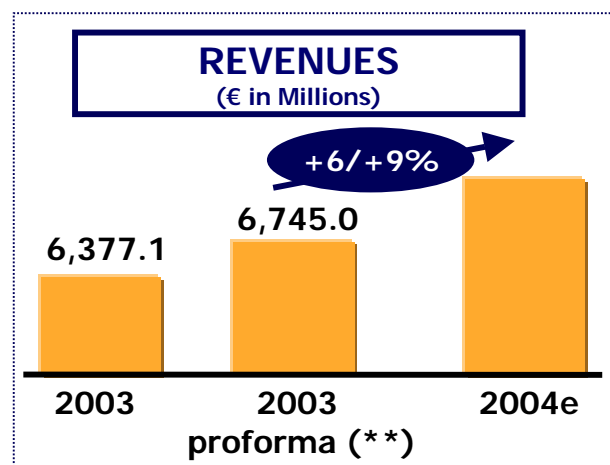
- Local: LIS remained stable (-0.3% y-o-y) & +12% local traffic/line/day
- LD: LIS performance & +9% LD traffic/line/day

## 2004 WIRELINE OUTLOOK (\*)

### TELEFONICA DE ESPAÑA GROUP



### TELEFONICA LATINOAMERICA



(\*) Assuming constant exchange rates as of 2003. All figures exclude changes in consolidation

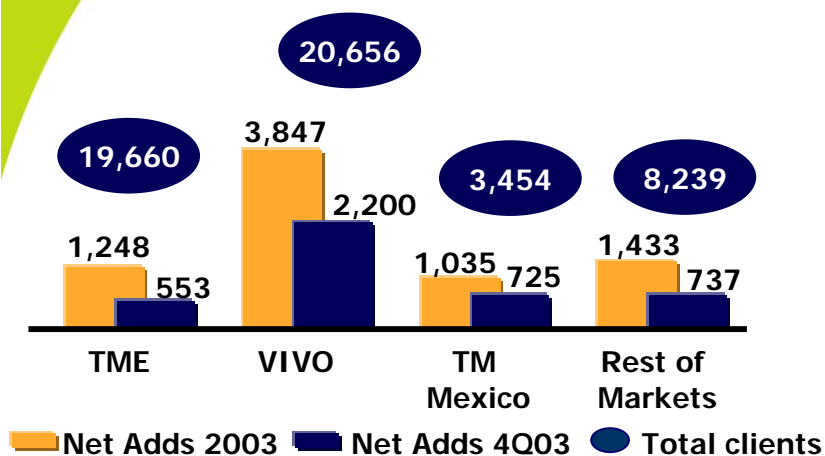
(\*\*) Including Telefónica Empresas Spanish and Latam businesses into Telefónica de España Group and Telefónica Latam, respectively

(\*\*\*) EBITDA-Capex. For Telefónica de España, payments related to pre-retirees are also deducted

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# TELEFONICA MOVILES: SOLID COMMERCIAL AND FINANCIAL PERFORMANCES THAT SET THE BASIS FOR 2004 GUIDANCE

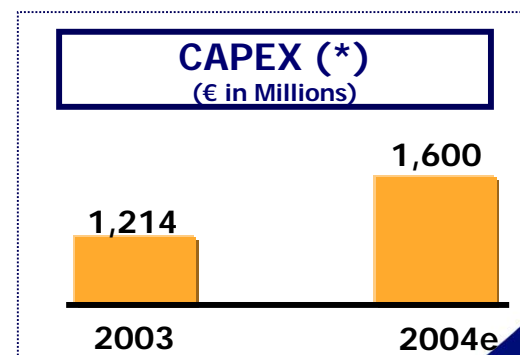
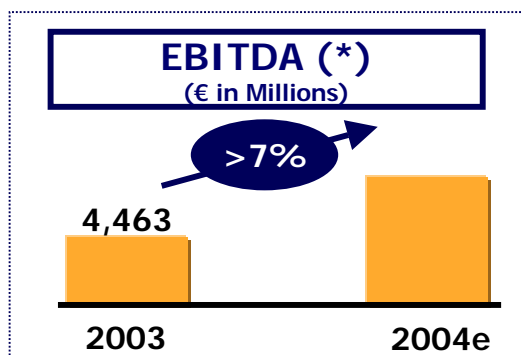
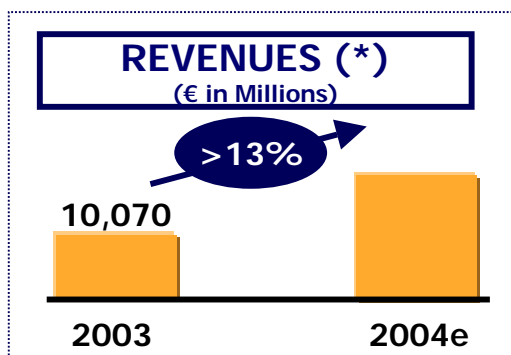
## EXCELLING IN CLIENT ACQUISITION ACROSS MARKETS ('000)



## COMBINING GROWTH AND PROFITABILITY

	2003	2003 vs 2002	4Q03	4Q03 vs 4Q02
Operating revenues	10,070.3	10.2%	2,766.5	19.9%
EBITDA	4,462.9	19.5%	1,094.2	22.0%
EBITDA margin	44.3%	+3.4 p.p.	39.6%	+0.7 p.p.

### GUIDANCE FOR THE YEAR AHEAD: INVESTING TO EXPAND THE CLIENT BASE AS THE LEVER FOR FUTURE GROWTH



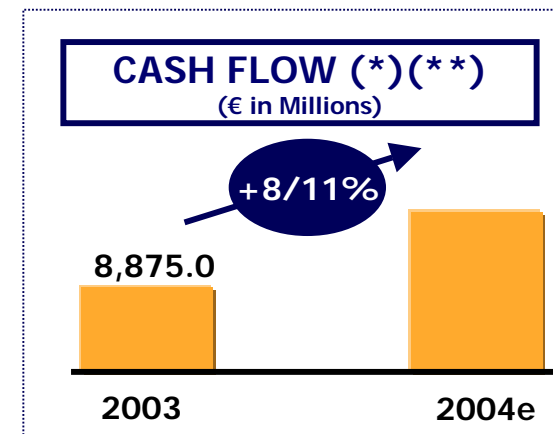
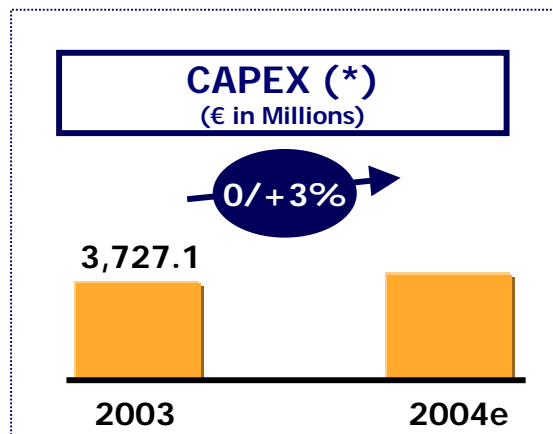
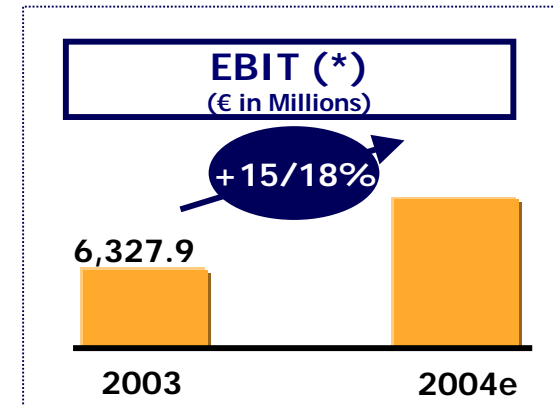
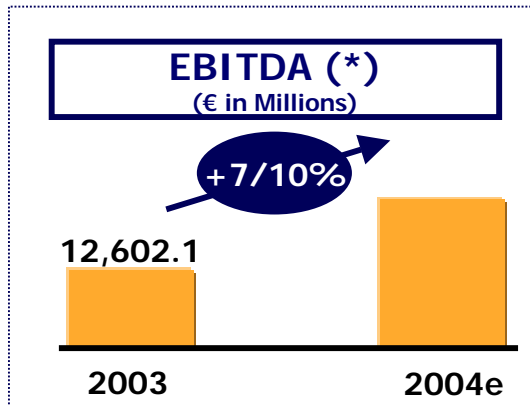
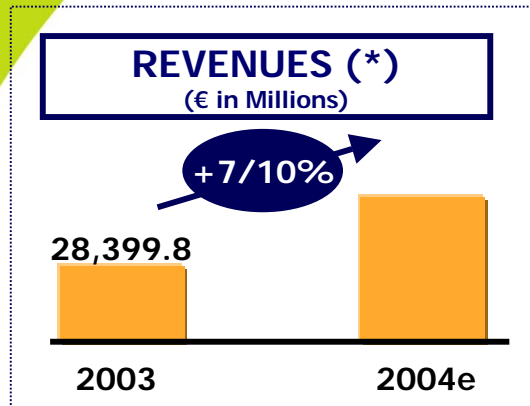
**KEEPING 02-06 GUIDANCE UNCHANGED AT 11-15% FOR REVENUES AND 13-17% FOR EBITDA**



(\*) Assuming constant exchange rates as of 2003. All figures exclude changes in consolidation

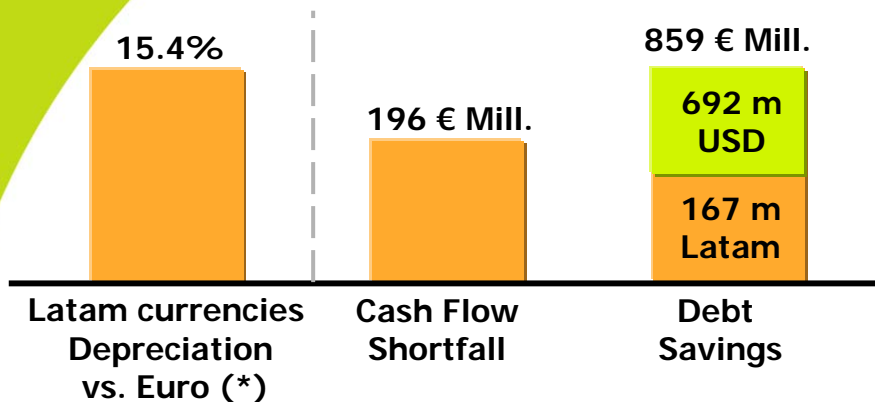


## 2004 TELEFONICA GROUP FINANCIAL PROJECTIONS: AT THE TOP END OF THE INCUMBENTS' PEER GROUP



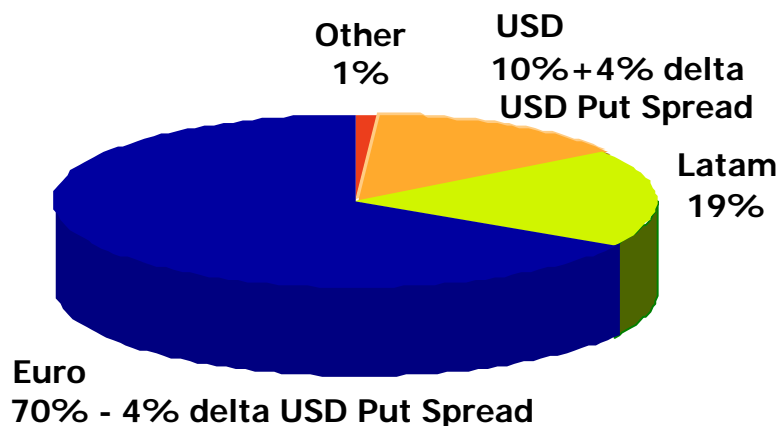
(\*) Assuming constant exchange rates as of 2003. All figures exclude changes in consolidation  
 (\*\*) EBITDA - Capex

# LIABILITY MANAGEMENT SAVINGS: 0.9 BN EUR DEBT REDUCTION DUE TO FX AND 1.2 BN EUR IMPROVEMENT IN FINANCIAL EXPENSES



**Debt savings = 4 x CF loss**

**DEBT BY CURRENCIES (Dec 03)**



(\*) Weighted by Cash Flow origin

	2003	2002	% Change
Net Financial Expense	1,462.6	1,692.8	-14%
Argentinean Peso effects	(134.4)	528.8	
Realised P&L USD debt cancellation	(267.5)		
<b>Financial Expenses</b>	<b>1,060.7</b>	<b>2,221.6</b>	<b>-52%</b>

**Financial Expenses: € 1.2 bn. improvement**

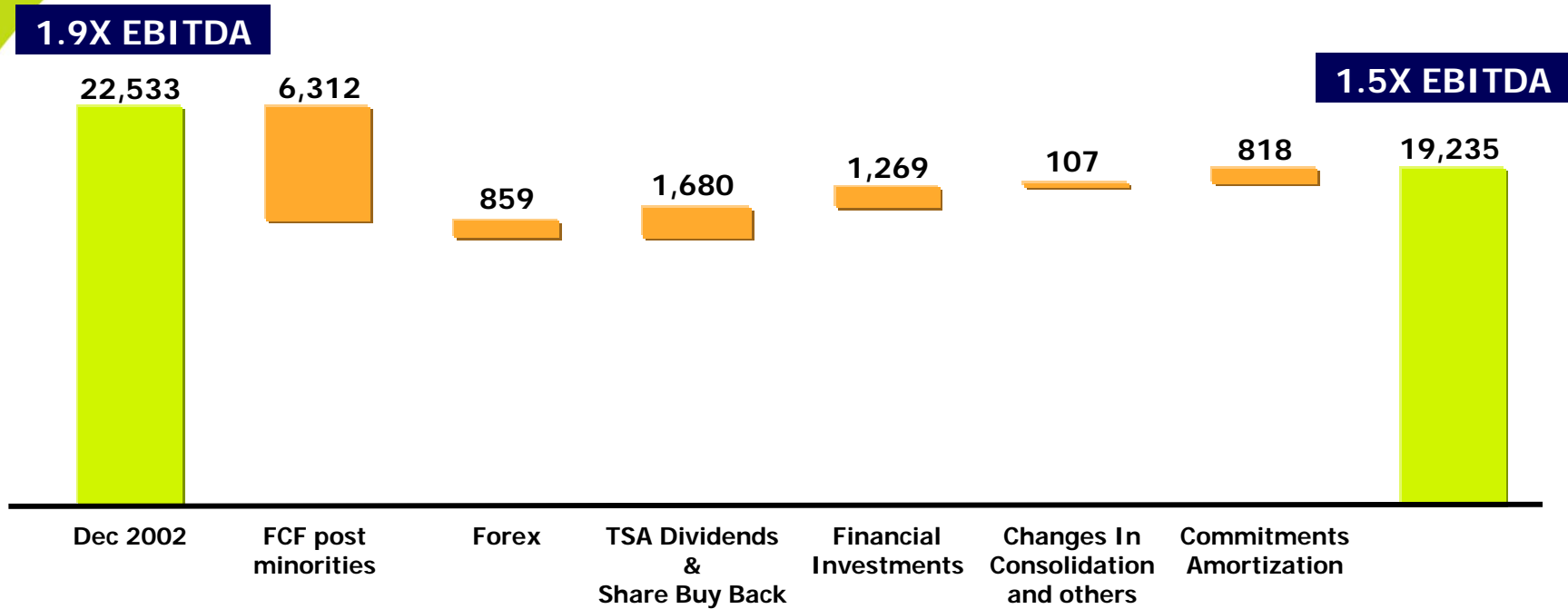
- Effective average cost of debt 03: 7.1%

$$\frac{\text{Net Financial Expense}}{\text{Average net debt}} = \frac{1,463}{20,654} = 7.1\%$$

- Improving trend

$$\frac{\text{Net Financial Expense 2H03}}{\text{Average net debt 2H03}} = 6.6\%$$

## 3.2 BN EUR DEBT REDUCTION FOR SOLVENCY PROTECTION AND FINANCIAL FLEXIBILITY



Net Financial debt	19,235
Guarantees	684
Personnel Commitments(*)	3,190
<b>Total Debt + Commitments</b>	<b>23,109</b>

$$\frac{\text{Total Debt + Commitments}}{\text{EBITDA}} = 1.83X$$

Madrid Conference target of 2x beaten

(\*) Net of taxes

## IMPROVING CASH FLOW GENERATION

(Euros in millions)

		2003	2002	
<b>A</b>	<b>EBITDA</b>	<b>12,602.1</b>	<b>11,724.2</b>	<b>7.5%</b>
I	Capex accrued during the period (EoP exchange rate)	(3,727.1)	(3,789.0)	
II	Extraordinary payments related to operating activities & commitments	(1,006.4)	(1,139.1)	
III	Net interest payment	(1,496.9)	(1,558.3)	
IV	Payment for income tax	(277.7)	(226.6)	
V	Investment in working capital	(358.8)	(489.5)	
<b>B=A-I-II-III-IV-V</b>	<b>Net Free Cash Flow after capex</b>	<b>5,735.3</b>	<b>4,521.7</b>	<b>26.8%</b>
VI	Payments related to cancellation of commitments	818.3	505.7	
VII	Dividends paid to minorities	(241.2)	(63.4)	
<b>C= B+VI-VII</b>	<b>Free Cash Flow (*)</b>	<b>6,312.4</b>	<b>4,964.0</b>	<b>27.2%</b>

- Most items contributing positively to Free Cash Flow
- Around € 1,3 Billion repatriated from Latam during 2003

(\*) Madrid Conference criteria

## SHARE BUY-BACK PROGRAM PROGRESS REPORT

### PRINCIPLES

- Minimum € 4.0 bn.
- UP TO END '06
- CONDITIONED ON
  - FCF GENERATION
  - SHARE PRICE

### TREASURY STOCK (n° of shares in Millions)

DATE	CASH	OPTION-BASED	TOTAL % OF CAPITAL
30-JUN-03	17.6	--	0.4
30-SEP-03	25.6	--	0.5
14-NOV-03	31.3	--	0.6
31-DEC-03	40.5	33.0	1.5
20-FEB-04	50.0	33.0	1.7

- AVERAGE PRICE TEF 03Q4: € 10.847
- MARKET VALUE OF TREASURY STOCK: € 797 M
- PERCENT OF BUY-BACK PROGRAM: 20%

- BUY BACK COMMITMENT PROGRESSING FASTER THAN TIME (20% VS. 1/13 QUARTERS)
- OPTION-BASED PURCHASES EXPIRING AROUND MID-04

## *CONCLUSIONS*

- **WE ARE BUILDING UNDERLYING TOP LINE GROWTH CONSISTENTLY AND CLEARLY AHEAD OF OUR TARGETS, LED BY SOLID DOMESTIC OPERATIONS AND LATAM RECOVERY**
- **WE ARE KEEPING A FOCUS ON COST CONTAINMENT ACROSS ALL BUSINESSES, DRIVING EBITDA MARGIN UP BY MORE THAN 3 p.p.**
- **WE HAVE TURNED AROUND NON-OPERATING RESULTS, PUSHING TOP LINE PERFORMANCE TO FLOW INTO NET INCOME, CASH GENERATION AND RETURNS**
- **WE HAVE SET A TRANSPARENT AND LONG TERM COMMITMENT WITH OUR SHAREHOLDERS TO DISTRIBUTE EXCESS CASH THROUGH DIVIDENDS AND SELECTIVE BUY-BACKS**

**WE PRESENT A UNIQUE COMBINATION OF TOP LINE GROWTH, CASH FLOW GENERATION AND SHAREHOLDER REMUNERATION IN THE INDUSTRY**

*Telefónica*

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