



Marbella

June 19th, 2003

Telefonica

A photograph of a modern, multi-story office building with a glass facade. Several tall flagpoles with flags are in the foreground. The building is set against a clear blue sky.

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CFO

Telefónica Group

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■ **WE ARE EXECUTING OUR STRATEGIC INITIATIVES...**

...TO STRENGTHEN OUR CASH FLOW GENERATION CAPABILITIES

■ **AND WE HAVE CONTINUED TO REINFORCE OUR FINANCIAL PROFILE...**

...WHICH GIVES US FULL FLEXIBILITY TO MAXIMIZE SHAREHOLDER'S RETURNS

■ **EXECUTED INITIATIVES HAVE SET THE BASIS FOR PROFITABLE GROWTH IN COMING YEARS...**

...AS 1Q03 RESULTS ALREADY SHOW

WE ARE EXECUTING OUR KEY STRATEGIC INITIATIVES ...

STRENGTHENING OUR POSITION IN CORE BUSINESSES IN NATURAL MARKETS, TO REINFORCE GROWTH AND CASH FLOW

Spain

- More than 1.2 Mill. ADSL subscribers
- More than 18.7 Mill. wireless clients, 55% mkt. share
- +42% & 32% mkt. share in DLD & ILD for Telesp
- Incorporation of JV+acquisition of TCO, with >18 Mill. subs. and access to 80% of Brazilian GDP
- Pegaso acquisition + integration with existing operations, with 2.4 Mill. clients

Brazil

Mexico

RESTRUCTURING NON-PERFORMING BUSINESSES TO STOP CASH OUTFLOW

UMTS outside Spain

- Closing of all operations. Saving 1.8 Bill.€ and 2.4 Bill.€ in EBITDA and Net losses, respectively

Data green-field operations

- Sale of ETI (Austria) and T. Data Uruguay

Media portfolio

- Combination of Mediaways/Highwayone
- Merger agreement Sogecable/Vía Digital
- Divestiture from A3 structured and approved

Terra-Lycos

- Tender offer for up to 100% of minorities

REINFORCE FINANCIAL MANAGEMENT TO PRESERVE FLEXIBILITY

Latam Cash Flows

- Repatriation of 1.5 Bill.€ from the region in 2002

Debt reduction

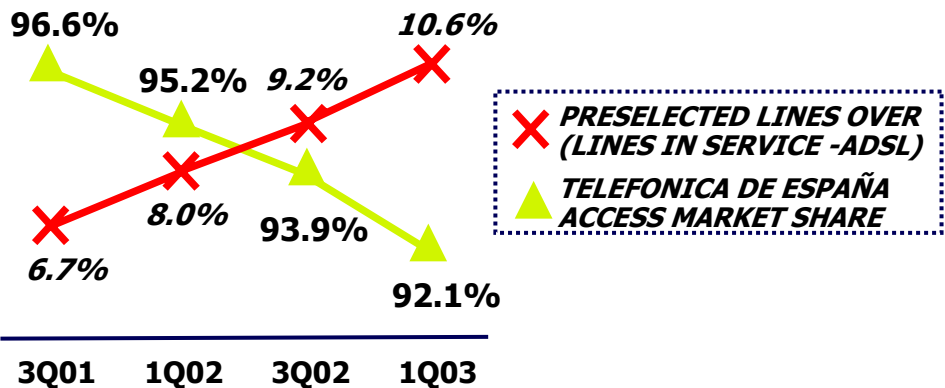
- Over 7.4 Billion € in the last five quarters

SETTING THE BASIS FOR ENHANCED SHAREHOLDER REMUNERATION

TELEFONICA DE ESPAÑA: TOUGH COMPETITIVE ENVIRONMENT

LIBERALIZATION IS ALREADY A REALITY ...

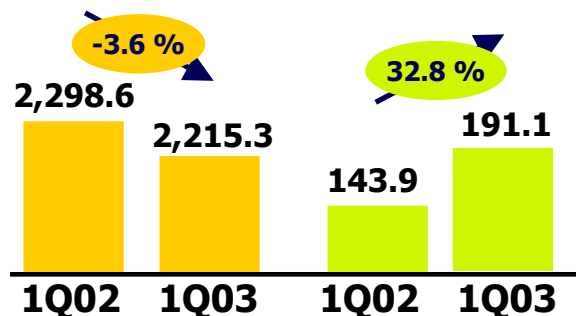
COMPETITION INDICATORS



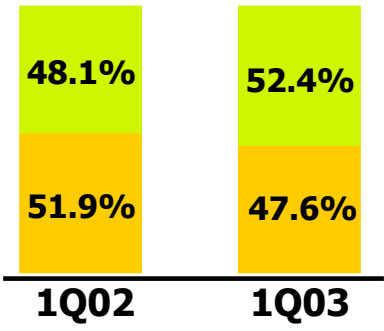
- ✓ VOICE TRAFFIC DOWN 6.6% FROM 1Q02
- ✓ VOICE TRAFFIC EFFECTIVE PRICE PER MINUTE* DECREASES BY 2,0% TO 5,77 €cents/minute FROM 1Q02
- ✓ TRADITIONAL SERVICES REVENUES DECREASE BY 2.6% IN 1Q03
- ✓ INTERNET TRAFFIC DOWN 10.5%

... BUT TELEFONICA DE ESPAÑA IS ADAPTING SUCCESSFULLY

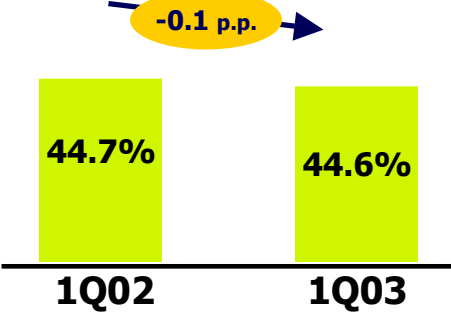
PARENT COMPANY OPERATING REVENUES (million €)



OPERATING REVENUES BREAKDOWN



TELEFONICA DE ESPAÑA EBITDA MARGEN



INTERNET & BB REVENUES
TRADITIONAL SERVICES and WHOLESALE REVENUES

RECURRING FIXED REVENUES
NOT FIXED REVENUES

* Voice usage revenues divided by voice traffic

... WITH FIXED TO MOBILE SUBSTITUTION ADDING PRESSURE

IMPACT ON THE WIRELINE REVENUES...



ACCESS LINES

✓ **2.5 Mill. ACCESSES WITHOUT A FIXED CONNECTION**
17% Households only have a mobile access

✓ **CAPACITY AND CIRCUITS LEASED TO MOBILE OPERATORS**

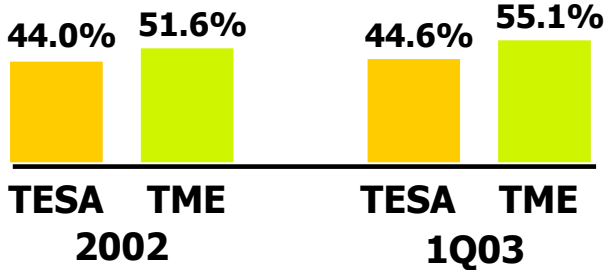
TRAFFIC

✓ **DECREASE IN TRAFFIC: TRAFFIC COMING FROM LOST ACCESSES**
20%-25% Voice traffic generated in wireless networks

✓ **INCREASE IN TRAFFIC: FIXED TO MOBILE AND MOBILE TO FIXED**
13.8% CAGR (1Q99-1Q03)

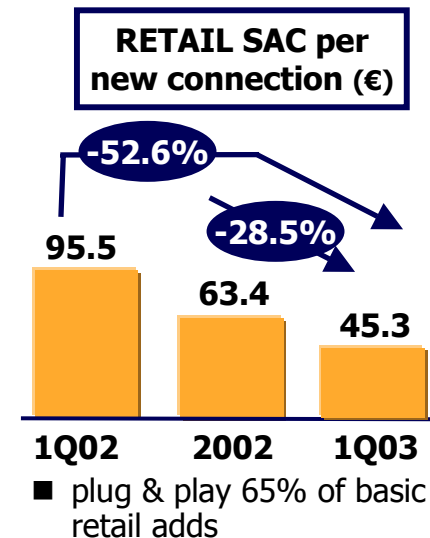
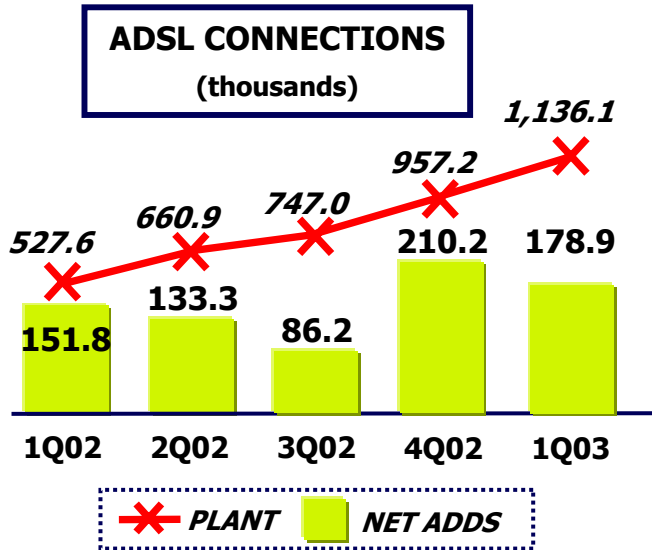
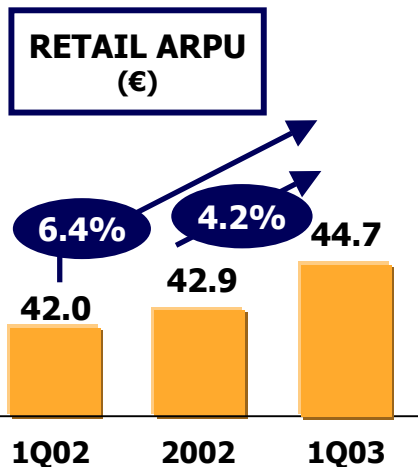
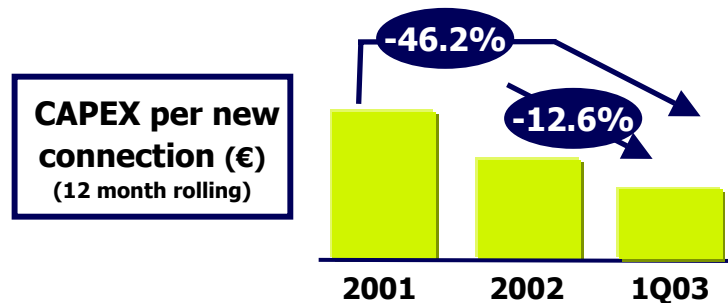
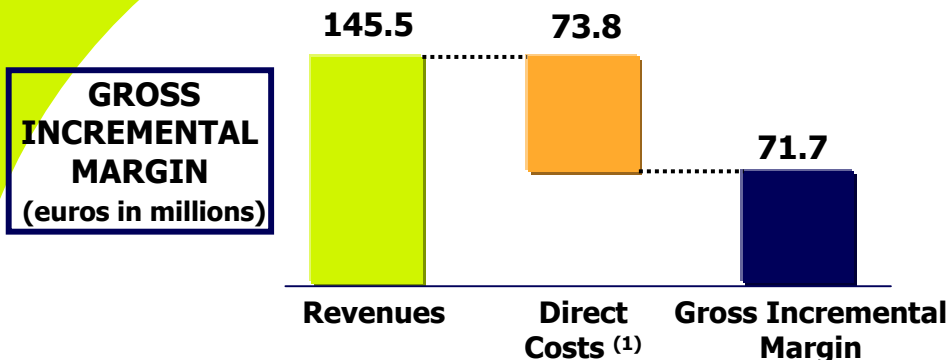
...IS PARTLY OFFSET BY OUR LEADING POSITION IN WIRELESS

- ✓ **OVER 55% MARKET SHARE**
- ✓ **MARGINS ABOVE WIRELINE INCUMBENT**



HAVING A STRONG DOMESTIC MOBILE OPERATOR IS KEY TO MINIMIZE F2M SUBSTITUTION FOR THE GROUP, IN THE LONG RUN

WHILST ADSL POSITIVE PERFORMANCE IS EMERGING AS MAIN WIRELINE GROWTH DRIVER



- Over 40% new ADSL customers in 2002 did not have IP traffic at all
- Net adds increase by 18% from 1Q02
- 1Q03 gross Incremental Margin over Revenues increases by 25.8 p.p. versus 2002 figure to exceed 49%

POSITIVE PERFORMANCE OF TELEFONICA MOVILES ESPAÑA

A SOUND UNDERLYING BUSINESS ...



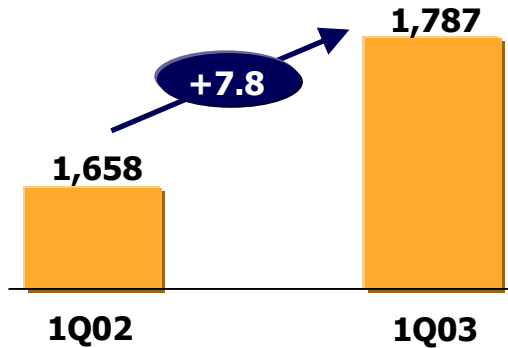
...ORIENTED TO PROFITABILITY



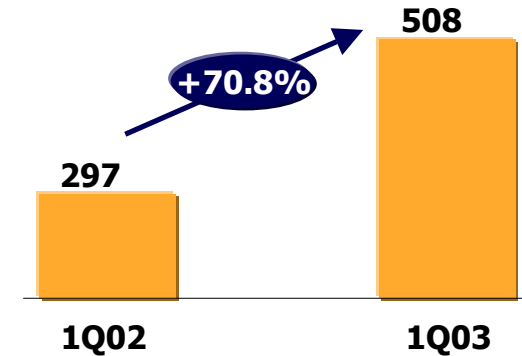
- Recovery in 1Q03 to reach inflection point in ARPU trend
- 6% Increase in Service Revenues
- Prepaid and Contract CHURN below 1%

TELESP ACHIEVES A SOLID UNDERLYING PERFORMANCE

LOCAL REVENUES (\$R in millions)



LONG DISTANCE REVENUES (\$R in millions)

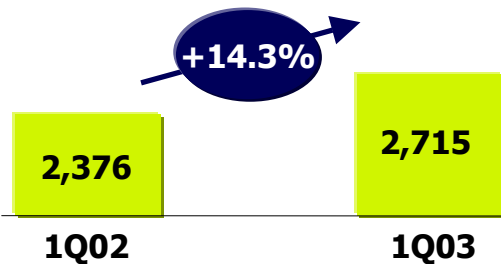


- Monthly fee: +6% yoy driven by a 13% tariff increase in 02
- Usage revenues: +9.5% yoy driven by tariff increases in 02 and a 2% increase in local traffic/line/day

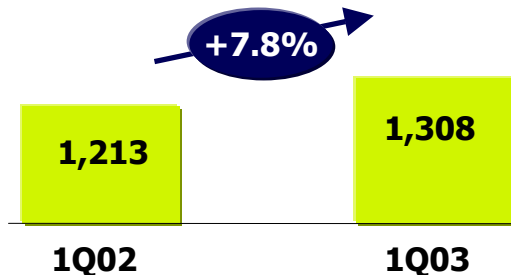
- 42% DLD(interstate) market share as of March 03
- 33% ILD market share as of March 03

● YoY change in local currency

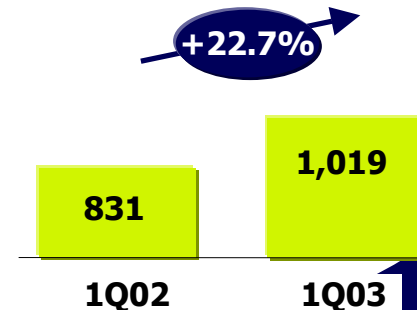
REVENUES (\$R in millions)



EBITDA (\$R in millions)



CASH-FLOW (EBITDA - CAPEX) (\$R in millions)



BRAZILIAN AND MEXICAN WIRELESS MARKETS



- 19 States (86% country coverage)
- Access to 80% of Brazil GDP
- 16.8 Mill. subscribers as of December 2002 (above 50% market share; TCO included)*
- LAUNCH OF UNIFIED COMMERCIAL BRAND "VIVO" IN APRIL

- ➔ Cedetel
- ➔ Movitel
- ➔ Bajacel
- ➔ Norcel



PEGASO

- 2.4 Mill. subscribers as of December 2002 (12% market share)
- Integration completed and launch of MoviStar brand in 2003
- GSM Service in Mexico City, Monterrey, Guadalajara and Tijuana from last May 13th
- GSM Roll-out: 500-600 million € estimated Capex in 2003

TERRA-LYCOS TENDER OFFER: KEY TRANSACTION TERMS

Consideration

- ✓ Cash tender offer under applicable Regulations
- ✓ Up 100% of minorities (62.05% of outstanding share capital)

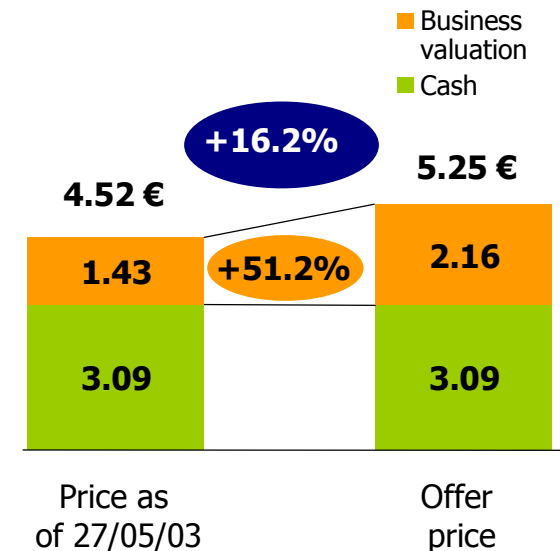
Price

- ✓ For each Terra Lycos share: 5.25 €
- ✓ Premium over:

Aggregate value (ex-cash) (1)

Equity value

Last closing price ⁽²⁾	51.2%	16.2%
Pre-NSA announcement	41.3%	13.6%
Over last 6 months	44.9%	14.6%
Target prices ⁽³⁾ (5.21 €)	2.0%	0.8%



Conditions

- ✓ TEF to reach a 75% minimum stake after completion

(1) Cash position of €1,731.3 Mill.€ excluded from equity value. 559.6 Mill. shares outstanding, excluding option plans.

(2) As of May 27, 2003.

(3) Mean of selected analysts' reports target prices issued in 2003.

TERRA-LYCOS TENDER OFFER: TRANSACTION RATIONALE

INTERNET BUSINESS MODELS HAVE EXPERIENCED DEEP CHANGES SINCE TERRA LYCOS IPO, CHALLENGING THE EXISTENCE OF INDEPENDENT COMPANIES

✓ Telefónica has consistently adapted to business model changes, supporting its Internet offering

INTERNET IS A BUSINESS OPPORTUNITY DIRECTLY LINKED TO WIRELINE, AND DRIVEN BY BROADBAND

✓ The new Internet Model demands integration

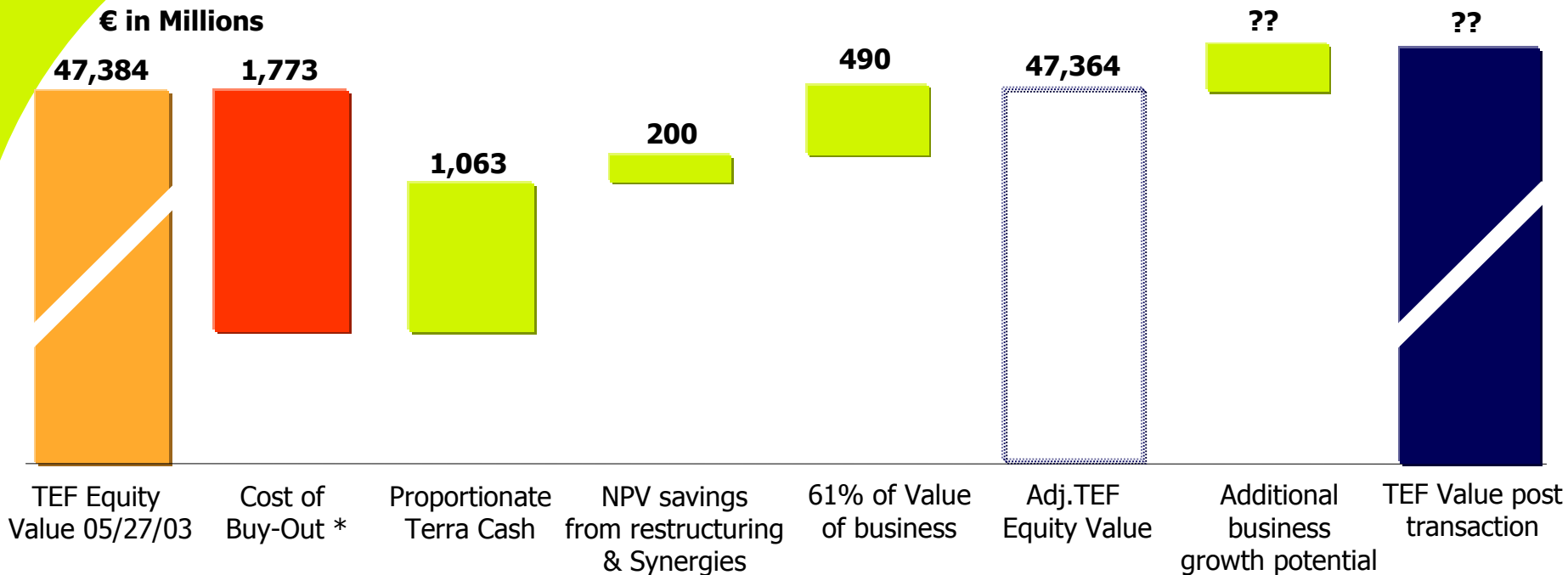
✓ A combined Group effort is needed to fully capture the business opportunity Internet represents

ASSETS RESTRUCTURING AND BUSINESS INTEGRATION WITH WIRELINE OPERATIONS IS THE BEST OPTION TO CREATE VALUE FOR BOTH TERRA LYCOS AND TELEFONICA SHAREHOLDERS

✓ **TERRA LYCOS HOLDERS:** all cash transaction, with a 16.2% and 51.2% premium to current stock price and implicit business market valuation, respectively

✓ **TELEFONICA HOLDERS:** 268.9 Mill. € incremental EBITDA in 2003-2006

TERRA-LYCOS TENDER OFFER: TELEFONICA HOLDERS, FINANCIAL IMPACT IN TELEFONICA'S VALUE



- 268.9 Mill. € incremental EBITDA in 2003-2006**
- Around 1% dilutive at net income level in 2003 and improving thereafter

- ✓ The deal is impact-free for Telefónica value, as benefits from completing the transaction are offsetting the cost of buy-out
- ✓ Complete clarity of the Group's Internet strategic positioning post transaction adds value to the deal

* Including restructuring costs.

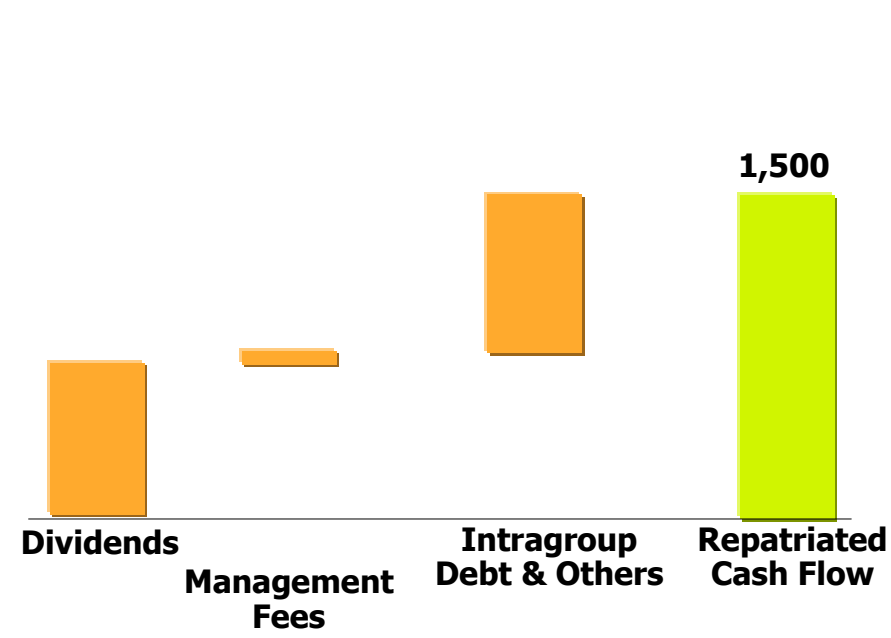
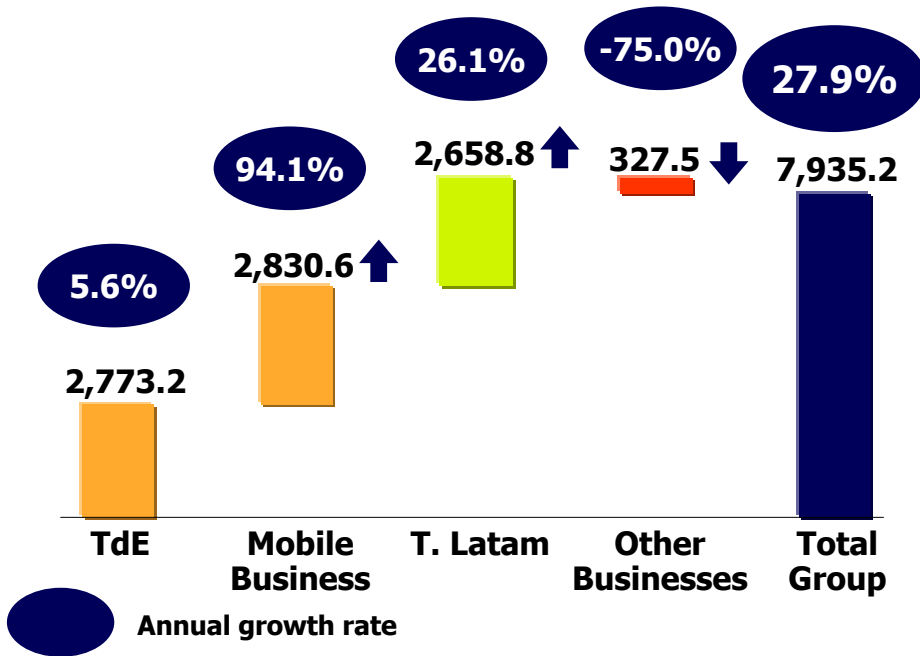
** Fourth quarter 2003 and full years 2004, 2005 and 2006

All calculations estimate a 100% acceptance for the buy-out.

WE ARE IMPROVING CASH FLOW GENERATION...

2002 OPERATING CASH FLOW BREAKDOWN (Million Euros)

2002 LATAM REPATRIATED CASH FLOW (Million Euros)

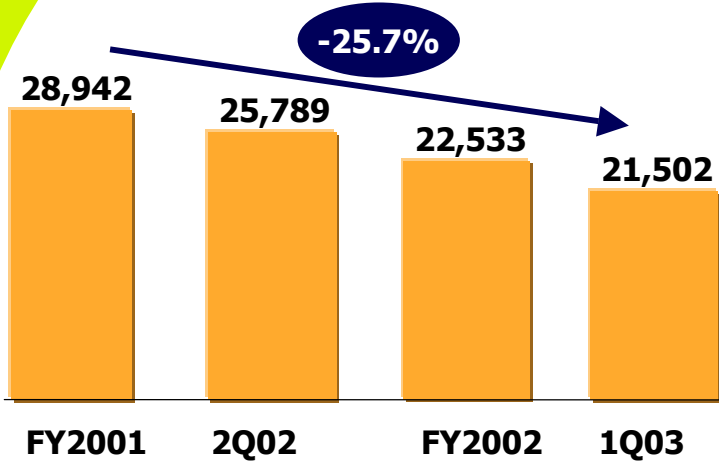


- All fixed line businesses in Latam are contributing positively
- 2/3 of operating cash flow is generated in Spain
- €2,218 Mill. Cash Flow generated in 1Q03 with wireline and wireless growing in excess of 15%

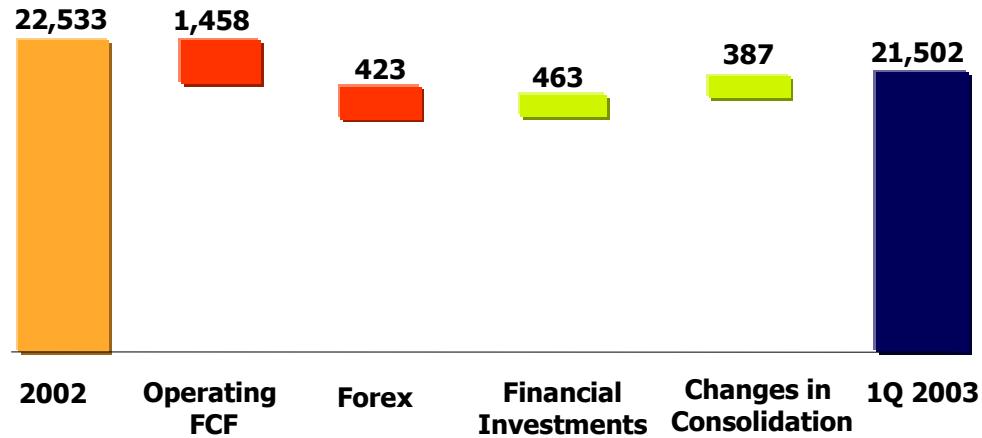
...AND STRENGTHENING OUR CREDIT PROFILE...

CONSOLIDATED DEBT EVOLUTION

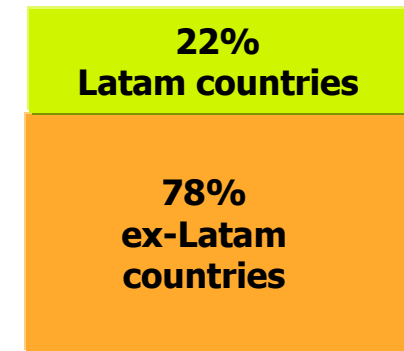
(€ IN MM)



COMPONENTS OF 1Q2003 DEBT REDUCTION



A BALANCED DEBT STRUCTURE



NET DEBT*/EBITDA 02

Group	1.83x
Latam	1.14x
Group ex-Latam	2.21x

...THROUGH THE SOLID MANAGEMENT OF THE GROUP'S DEBT PORTFOLIO...

BY MATURITIES

- Adapting the debt profile to the Group's Cash Flow generation
 - ✓ Average debt maturity (6 years) exceeding time for complete repayment (4 years)
 - ✓ 2003 financing needs already covered (long term debt equivalent to 99% of total debt)

BY CURRENCIES

- Hedging Latam currencies' assets through debt in local currencies and derivatives (3 Bill.€ debt reduction in 2002 linked to exchange rates evolution)
- Minimizing exchange rates losses in the P&L related to \$US denominated external debt held by Latam subsidiaries

BY INTEREST RATES

- Anticipating Yield curve movements, on the basis of the debt structure by currencies

BY SOURCE (PARENT/SUBSIDIARIES)

- Protecting against Sovereign & Exchange rate risk
- Maintaining alternative sources of financing
- Accessing Latam subsidiaries operating cash flows directly

RATING OBJECTIVE OF "A"

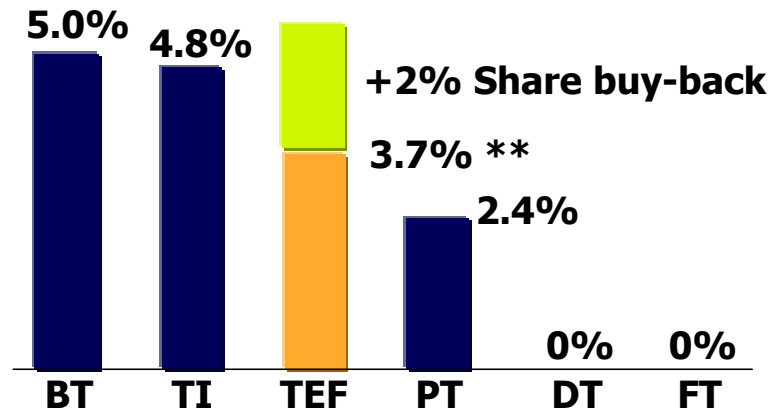
...SETTING THE BASIS FOR ENHANCED SHAREHOLDER REMUNERATION

APPROVED AT THE AGM HELD THE 11TH OF APRIL 2003

- Reinstatement of a cash dividend policy, distributing 0.25 € / share
- In-kind dividend for 30% of Antena 3, with a book value of 420 Million €
- 2% share buy-back

COMBINING CASH FLOW GENERATION AND RETURN

2003E DIVIDEND YIELD *

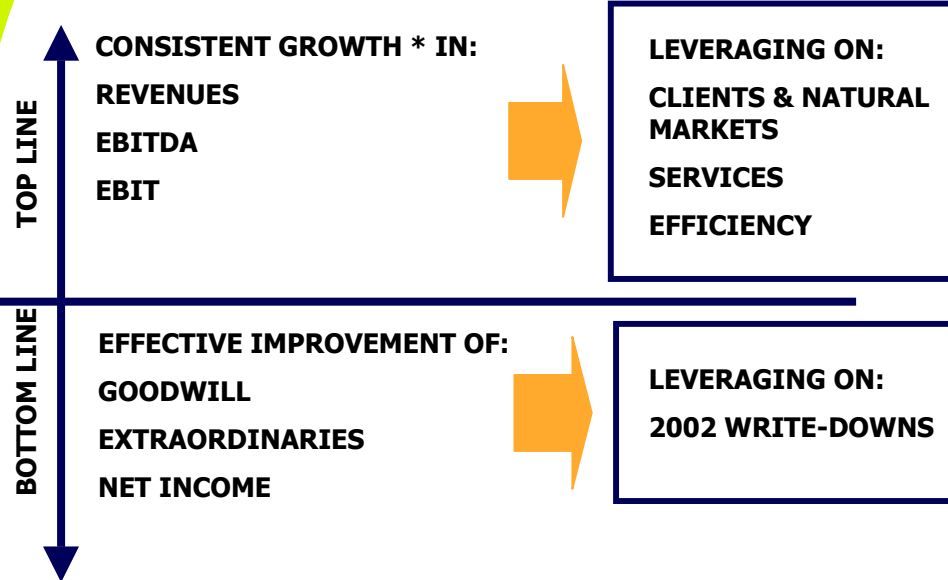


* Source: Merrill Lynch/IBK. Share prices as of 28 March, 2003.

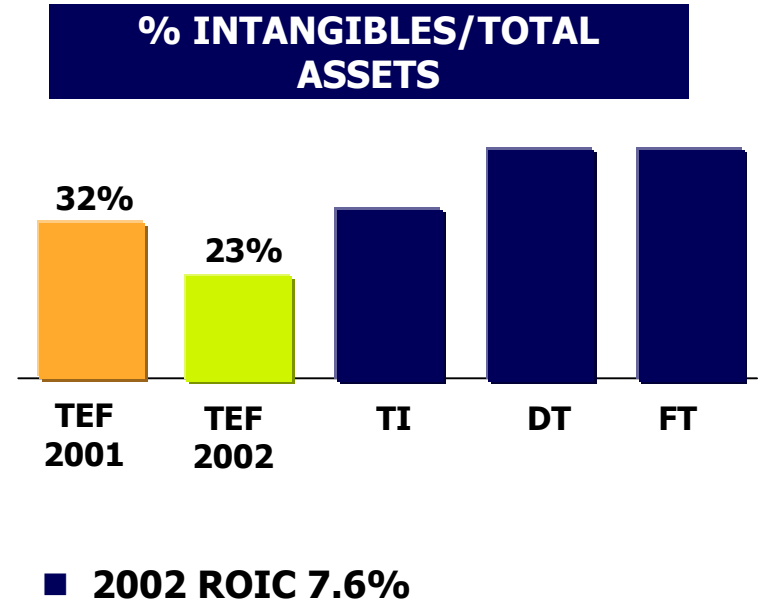
** Cash dividend + dividend in-kind.

BUSSINES INITIATIVES WILL PAVE THE WAY FOR PROFITABLE GROWTH IN COMING YEARS...

IMPROVING P&L AT ALL LEVELS...



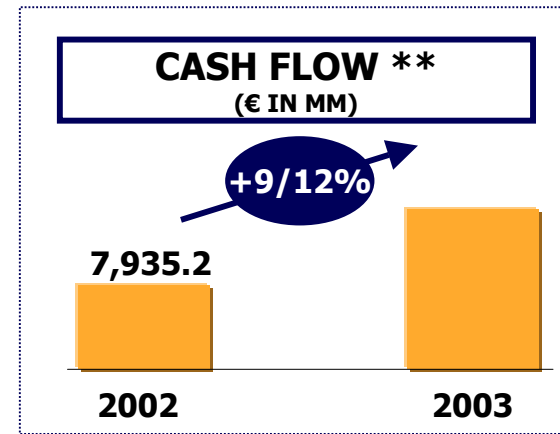
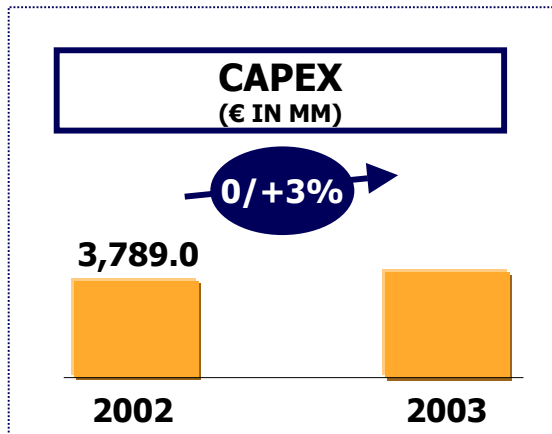
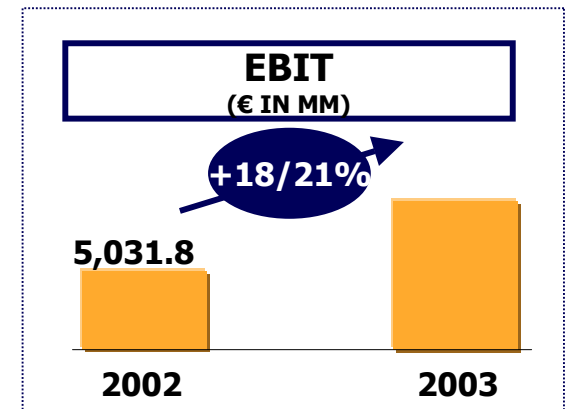
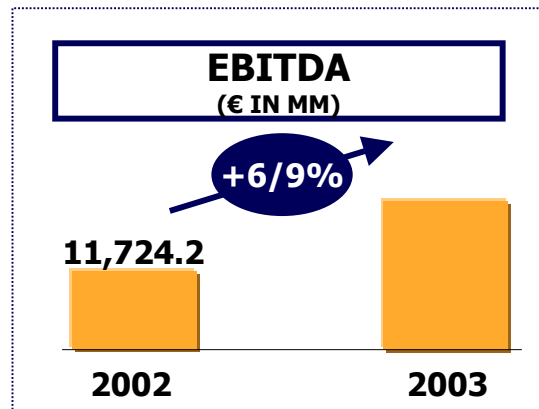
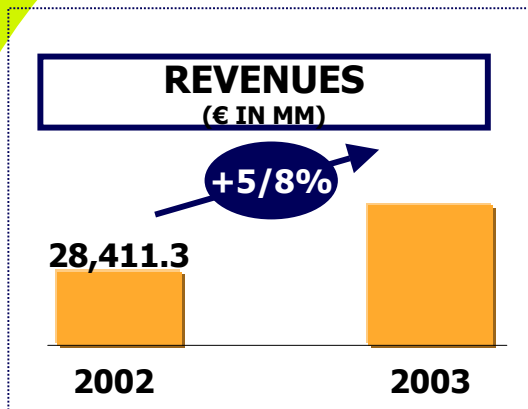
...STRENGTHENING BALANCE SHEET QUALITY



■ **DOUBLE DIGIT ROIC IN 2005**

* Excluding forex

...THAT WILL DERIVE INTO A SET OF SOUND FINANCIALS ...



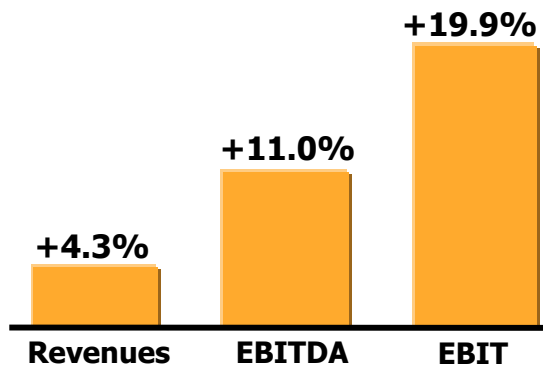
* All financials are excluding forex & changes in consolidation

** EBITDA - Capex

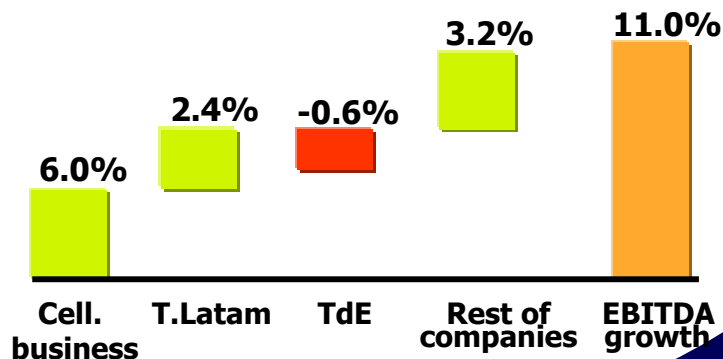
...AS 1Q03 RESULTS ARE ALREADY SHOWING...

	Jan-Mar 03	% Change Jan-Mar 03/ Jan-Mar 02	% Change FY 02/ FY 01
Operating Revenues	6,458.9	-12.9%	-8.5%
Operating Costs	3,822.4	-16.0%	-9.0%
EBITDA	2,819.1	-7.4%	-8.4%
EBIT *	1,258.1	+4.1%	-7.3%
Adj. EBIT **	1,073.2	+50.5%	C.S.
Net Income	543.4	+348.9%	C.S.

GROWTH RATES EXCLUDING FOREX



CONTRIBUTION TO EBITDA GROWTH (EX-FX)



* EBITDA less depreciation

** EBIT less Goodwill amortization, Associates and Extraordinaries

CONCLUSIONS

- ✓ **WE HAVE WORKED TO IMPROVE THE OUTLOOK OF OUR BUSINESSES, ADAPTING TO MACRO AND SECTOR CONDITIONS, AND STRENGTHENING THEIR EFFICIENCY AND CAPACITY TO GENERATE CASH FLOW**
- ✓ **WE HAVE SET THE PACE FOR FUTURE GROWTH IN TERMS OF RETURN ON INVESTED CAPITAL AND CASH GENERATION**
- ✓ **TELEFONICA'S CASH FLOW IS STABLE AND WELL BALANCED, AND WILL GROW BY LEVERAGING ON CORE BUSINESSES AND NATURAL MARKETS**
- ✓ **WE HAVE THE FINANCIAL FLEXIBILITY TO USE CASH FLOW FOR MAXIMIZING SHAREHOLDER RETURNS**

Telefónica
