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Telefonica



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- **OUR VIEW ON THE CURRENT DRIVERS OF TELECOM MARKET**
- **TELEFONICA´S STRATEGY IS FULLY ALIGNED WITH THESE DRIVERS**
- **OUR SUCCESSFUL MANAGEMENT OF OPERATIONS IS LEADING TO A STRONG AND LONG TERM COMMITMENT FOR THE BENEFIT OF OUR SHAREHOLDERS**

OUR VIEW ON THE CURRENT DRIVERS OF TELECOM MARKET

- Top Line growth stands as the main driver for the sector, both in terms of estimates and valuation
 - ✓ **The cellular business continues to exceed growth expectations, even in mature markets, led by MOU and ARPU expansion**
 - ✓ **Exposure to mobile in high growth areas, such as Latam, is clearly a valuable asset**
 - ✓ **Operators capable of showing resilient fixed businesses are deserving a premium**

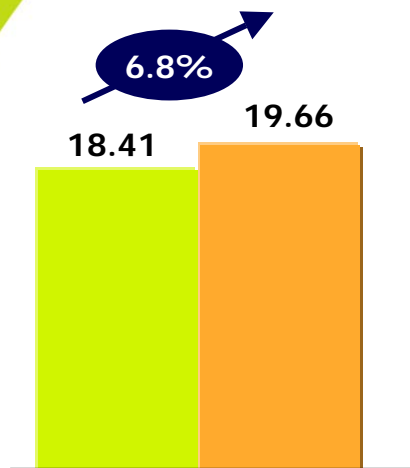
- Selective M&A that reinforces market positioning and sets the basis for future revenue growth is being welcomed by the market, as the acquisition of BellSouth Latam properties shows

- Increasing efficiencies in Opex & Capex are complementary to top line growth as the driver of profitability and sustained cash flow generation

- An active shareholder remuneration policy remains a relevant factor for the market to select among investment opportunities

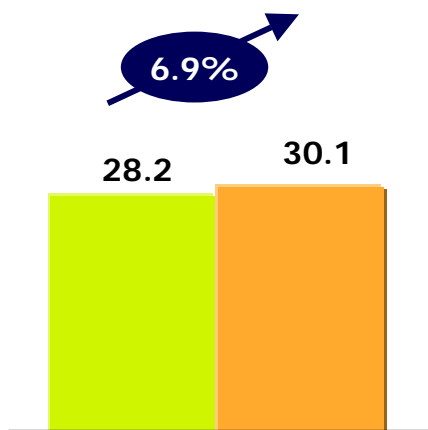
TELEFONICA MOVILES ESPAÑA IS SETTING THE BENCHMARK

**CUSTOMER BASE GROWTH
WHILE IMPROVING QUALITY**



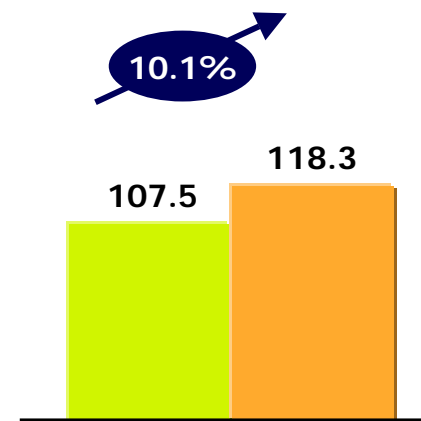
■ 2002 ■ 2003

**SOLID BLENDED ARPU (€)
GROWTH**



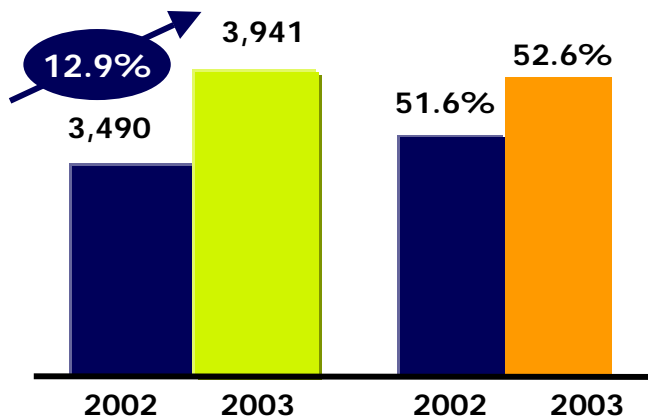
■ 4Q02 ■ 4Q03

**CONSOLIDATION OF BLENDED
MOU (MINUTES) GROWTH**

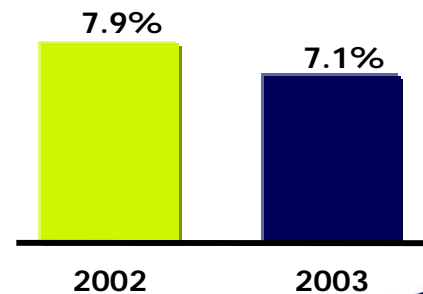


■ 4Q02 ■ 4Q03

**EBITDA (MM€) & EBITDA
margin**

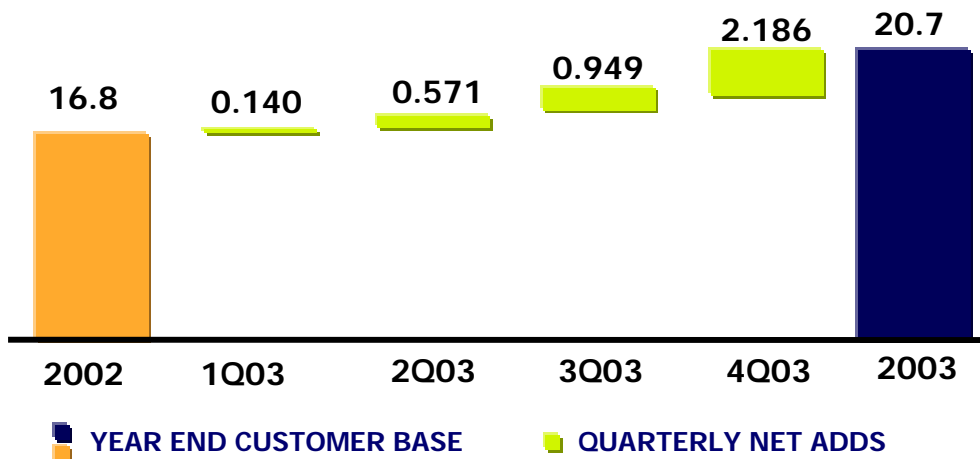


**SAC+SRC/Operating
revenues**



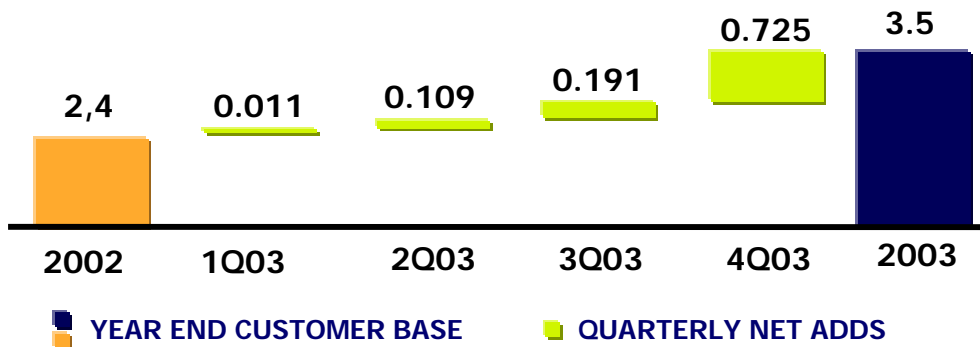
TAKING FULL ADVANTAGE OF BRAZIL AND MEXICO GROWTH POTENTIAL

2003 VIVO CUSTOMER BASE EVOLUTION (Mill.)



- 45% market share in Brazil
- 19% Revenues and EBITDA growth
- 36.8% EBITDA margin

2003 TM MEXICO CUSTOMER BASE EVOLUTION (Mill.)



- 26% of total customer base in GSM
- Coverage in 96 cities (46 cities in initial plan for 2003)
- Continue to accelerate GSM build-up, improving competitive position (2004-2006)

ACQUIRING BELLSOUTH LATAM PROPERTIES IS A NATURAL MOVE IN OUR STRATEGY...

Leadership & consolidation in Chile, Argentina & Peru

- ✓ Consolidation enhances markets fundamentals & brings compelling benefits for end-customers while benefits operations in Uruguay

+

Acquiring critical mass operations in large markets

- ✓ # 1 in Venezuela
- ✓ # 2 in Colombia & Ecuador

+

Consolidating operations in Central America

- ✓ 27% share in the region
- ✓ Enhanced competitive position in Guatemala & entry as #1 players in Panama & Nicaragua

- **Consolidates our position in Latin America, enlarging local scale in major countries (Argentina, Chile & Peru) and expanding footprint in a high growth region**
- **Enhances TEM and TEF 's diversified growth profile:**
 - ✓ **Entry in 6 new countries with an addressable market of >85MM pops**
- **Important savings in relation to a new-entrant approach**
- **Substantial benefits from economies of scale and synergies through integration with existing operations in the region**

...THAT STRENGTHENS OUR LEADERSHIP, COMBINING WITH PROFITABLE OPERATIONS THAT WILL DIVERSIFY OUR GROWTH PROFILE...

2003 (MMUS\$)	Customers (000)	Revenues	EBITDA	Margin
Chile	1,301	215	48	22%
Argentina	1,487	315	101	32%
Peru	642	146	33	23%
Uruguay	146	29	8	29%
Venezuela	3,307	894	356	40%
Colombia	1,915	374	127	34%
Ecuador	816	293	91	31%
Panama	420	129	74	57%
Guatemala	252	60	15	24%
Nicaragua	229	46	15	33%
TOTAL	10,515	2,501	867	35%

- ✓ 40.8 MM managed customers after closing, representing 35% of the total Latin American market
- ✓ Acquiring growing and profitable operations

...AT AN ATTRACTIVE VALUE FOR OUR SHAREHOLDERS

Assets

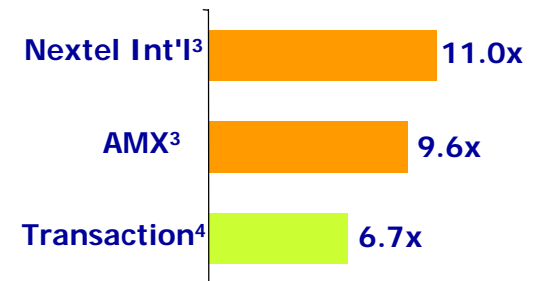
- Acquisition of 100% of BellSouth's properties in Latin America¹
- Available to buy out all minorities stakes in equal terms

Price & payment consideration

- Total enterprise value² US\$5,850MM; equivalent to €4,731MM
- All Cash



COMPARABLE MULTIPLES



Opex & Capex Sinergies > 1 Billion \$US

Approvals Needed

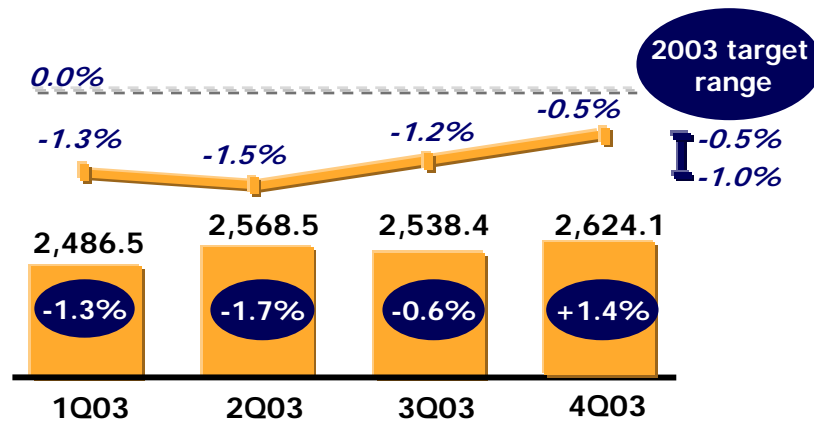
- Transaction subject to satisfactory regulatory & governmental approvals where required
- Transaction expected to close in 2004

Financing

- Debt and internal cash-flow generation
- TEF & TEM will maintain strong credit metrics

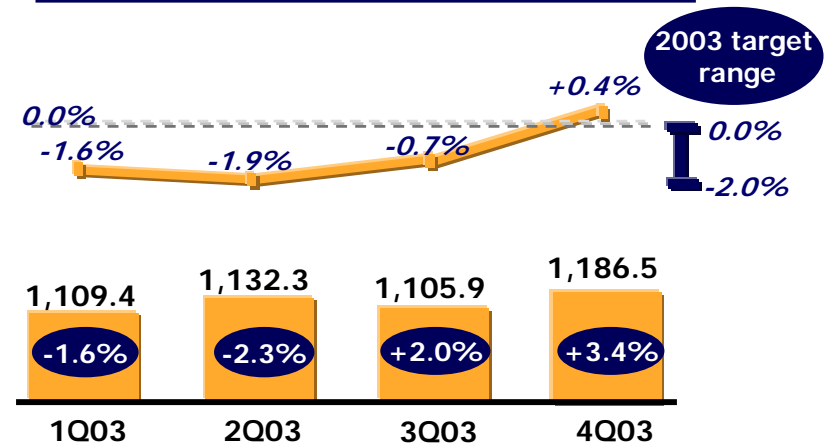
WIRELIN IN SPAIN IS EXCEEDING EXPECTATIONS...

OPERATING REVENUES (€ in Millions)



Quarterly annual growth rate Cumulative annual growth rate

EBITDA (€ in Millions)

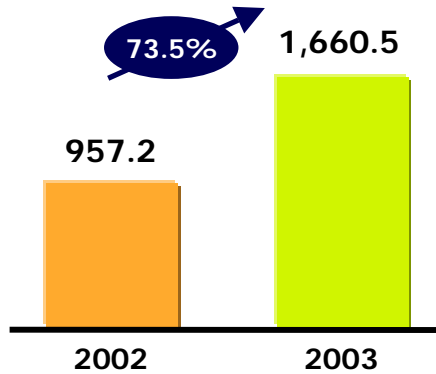


Quarterly annual growth rate Cumulative annual growth rate

- 334,000 ACCESS LINES (PSTN + ISDN BA) LOST IN 2003 COMPARED TO 500,000 DURING 2002
- PRESELECTED LINES NET ADDS IN 1Q03 BACK TO 2002 LEVELS (-0,6%)
- 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.**

...WITH ADSL BECOMING A PROFITABLE GROWTH STORY

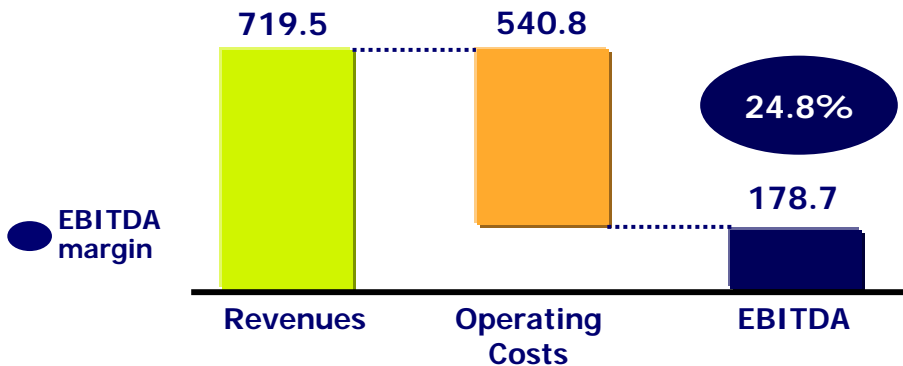
ADSL CONNECTIONS (thousands)



- CLOSE TO 28% OF RETAIL CUSTOMERS ARE PAYING FOR VALUE ADDED SERVICES
- ADSL BUSINESS REVENUES REPRESENTING 7,3% OF TELEFONICA DE ESPAÑA PARENT COMPANY REVENUES

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

FY03 ADSL EBITDA MARGIN (Euros in millions)

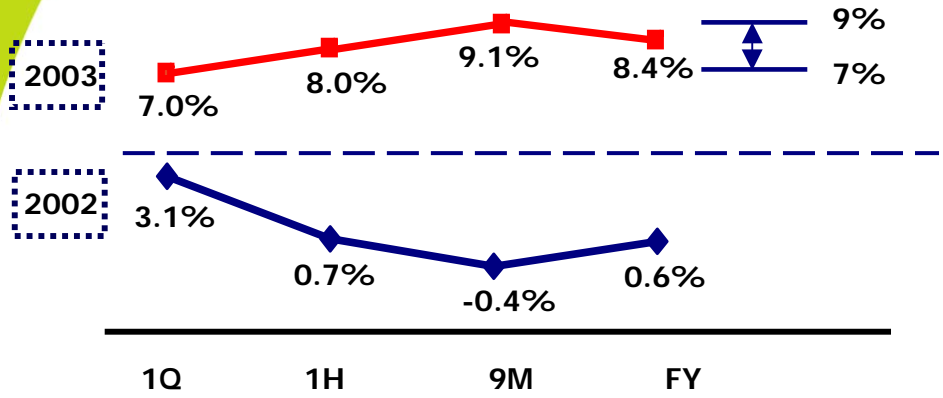


EBITDA BREAK-EVEN SINCE 1Q03

TELEFONICA LATINOAMERICA IS SHOWING STRONG UNDERLYING PERFORMANCE

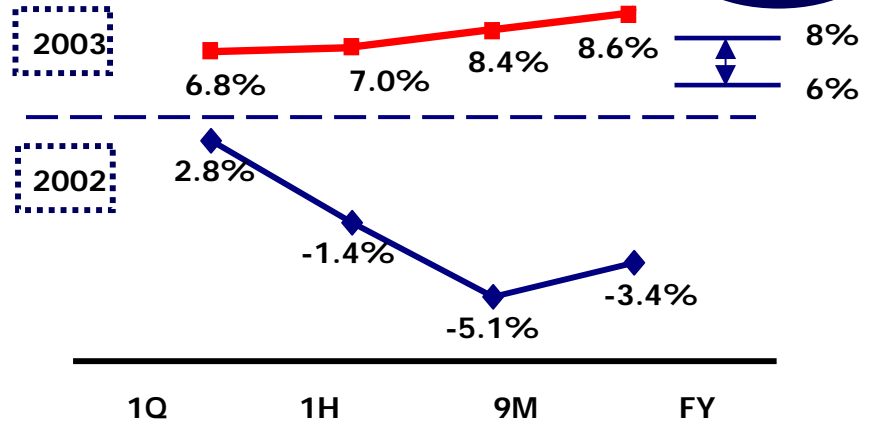
REVENUE GROWTH (Ex-Fx)

2003 target range

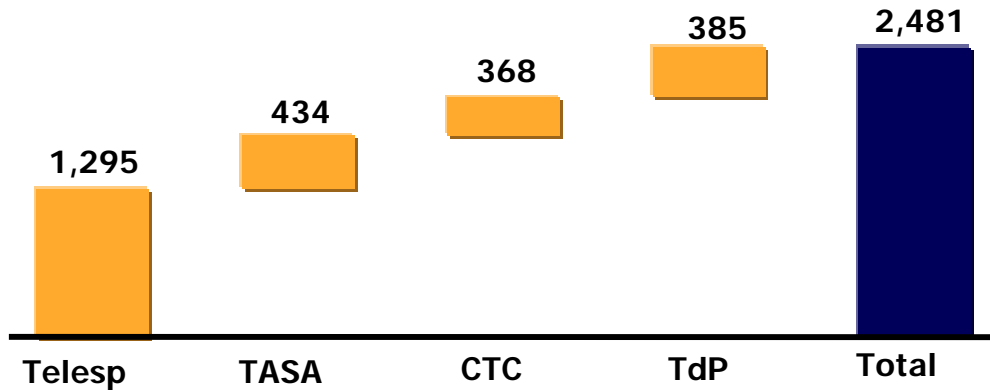


EBITDA GROWTH (Ex-Fx)

2003 target range



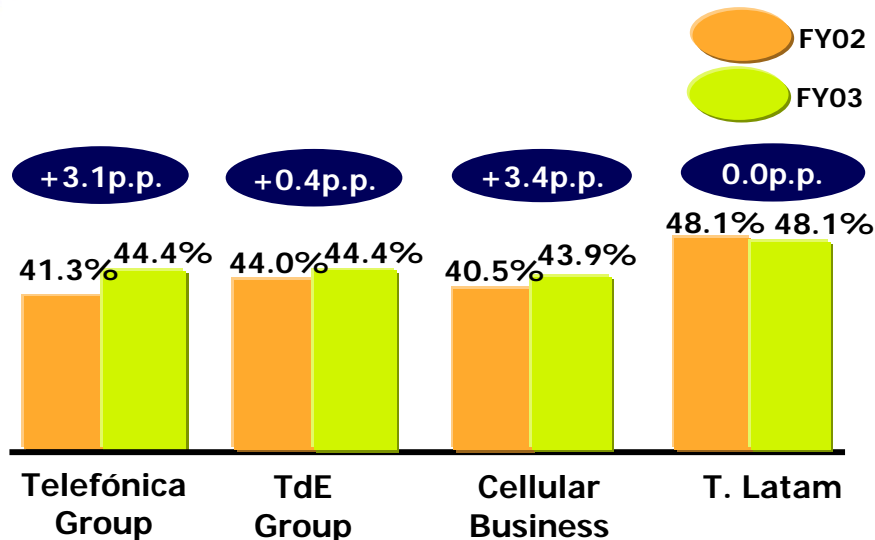
CASH FLOW BREAKDOWN (*) (€ in Millions)



(*) EBITDA-Capex

INCREASING EFFICIENCIES ARE DRIVING PROFITABILITY AND CASH FLOW

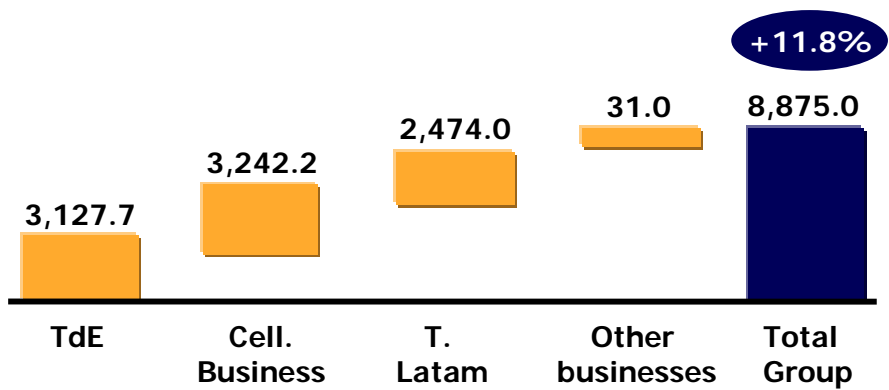
CUMULATIVE EBITDA MARGIN BY BUSINESS LINE



CAPEX BY BUSINESS LINE

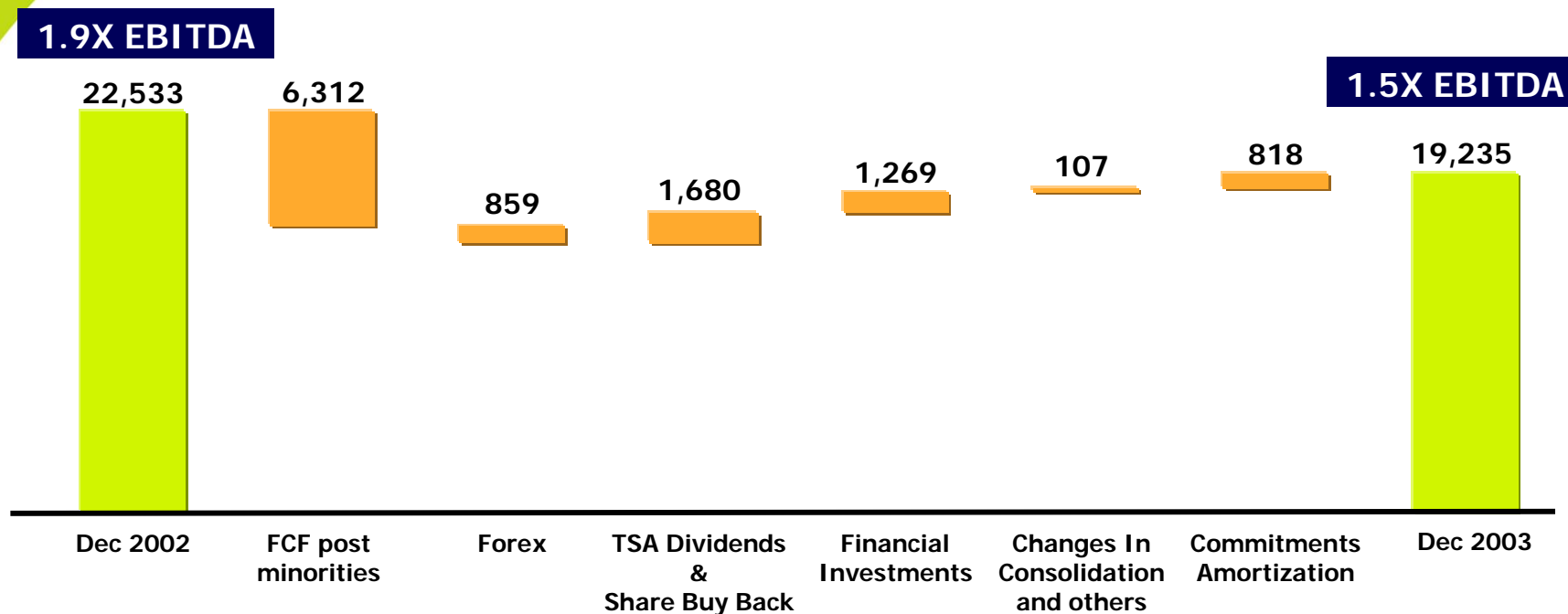
	Total € in Millions	% Change FY03/FY02	% over Revenues
TdE Group	1,406.5	-19.4%	13.8%
T. LATAM	591.3	-14.0%	9.3%
Cell Business	1,339.7	+34.0%	12.8%
TEF Group	3,727.1	-1.6%	13.1%

FY03 OpCF BREAKDOWN (*) (€ in Millions)



(*) EBITDA-Capex

CASH FLOW GENERATION IS PERMITTING US TO GRADUALLY IMPROVE OUR DEBT PROFILE IN LINE WITH INTERNAL GOALS...



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

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

Madrid Conference target of 2x beaten

(*) Net of taxes

**... WHILE MAINTAINING A STRONG AND LONG TERM
COMMITMENT TO SHAREHOLDERS AHEAD OF OUR PEERS**

2003

- €0.25 per share
- €200 Mill. share buy-back executed in 1H03
- Dividend In-kind : A3TV shares (equivalent to €0.08 per share)

2004-2006

- Minimum €0.40 per share, annually
 - ✓ €0.20 per share May 14th, 2004
 - ✓ €0.20 per share November 12th, 2004
- Minimum €4 Bn share buy-back in 2003-2006
 - ✓ 50 Mill. shares in treasury end feb.-04
 - ✓ Option-based purchases for an additional 33 Mill. expiring mid-04

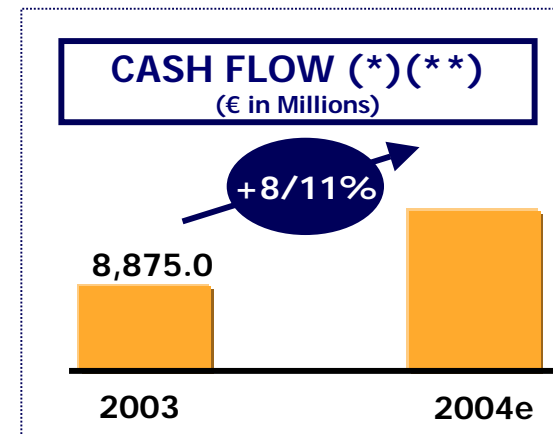
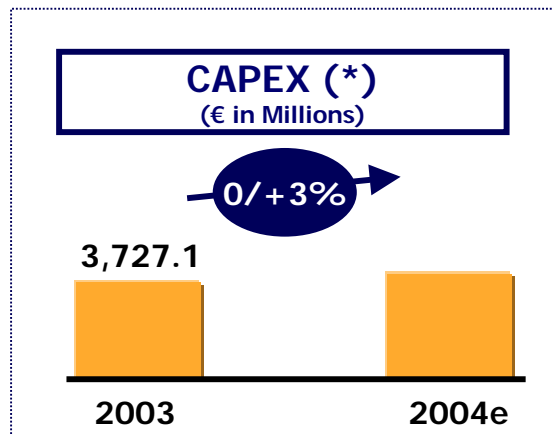
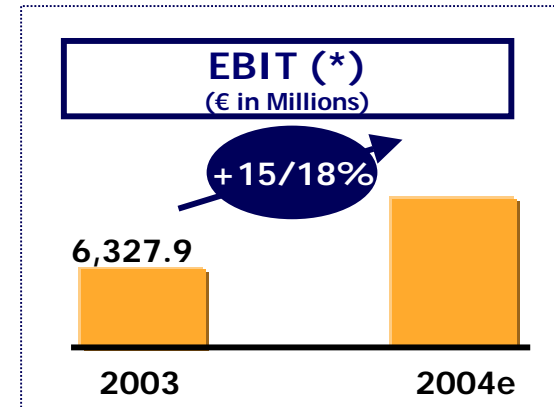
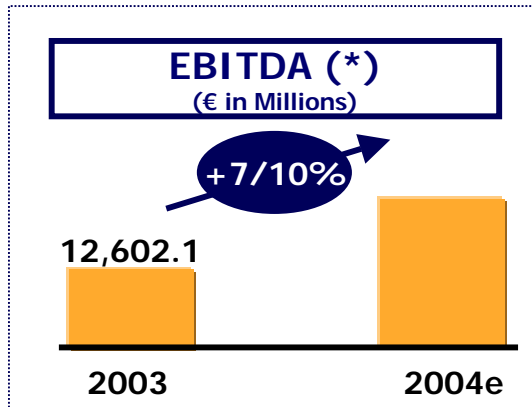
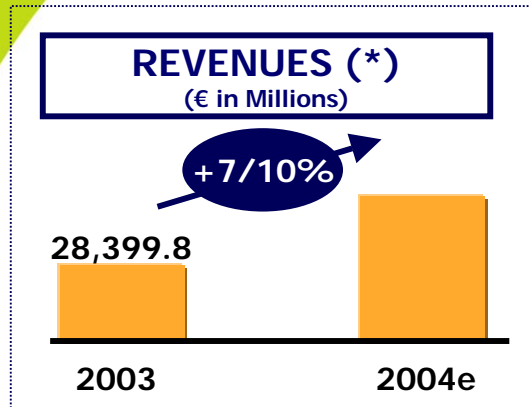
20% of share buy-back accomplished

**€11.4 Bn TO BE DEVOTED TO
SHAREHOLDER REMUNERATION
FOR 2003-2006**

- ✓ Equivalent to 17% of Market Cap. (*)
- ✓ Equivalent to a 3% dividend yield(*) in 2004

(*) Data according to share price as of March 9th, 2004

WE WILL KEEP OUR SOUND GROWTH PROFILE IN 2004



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

CONCLUSIONS

- WE ARE BUILDING TOP LINE GROWTH CONSISTENTLY, TAKING ADVANTAGE OF OUR EXPOSURE TO SOLID MOBILE OPERATIONS
- WE ARE STRENGTHENING OUR LEADERSHIP IN WIRELESS IN LATAM THROUGH THE ACQUISITION OF BELL SOUTH ASSETS IN THE REGION, THUS ENHANCING OUR GROWTH PROFILE
- WE ARE ACTIVELY MANAGING OUR WIRELINE OPERATIONS, THAT SHOW A RESILIENT BUSINESS PROFILE
- WE KEEP OUR FOCUS ON COST AND CAPEX EFFICIENCY AS A COMPLEMENT TO TOP LINE GROWTH
- 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

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