



Euro Bond Offering

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Telefónica

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TELEFONICA OVERVIEW

- ✓ # 10 Telco worldwide by market cap (Dec 02; # 15 in Dec 99)
- ✓ # 3 among European incumbents (Dec 02; up from # 5 in Dec 99)

CLOSE TO 87 MILLION CLIENTS UNDER MANAGEMENT

WIRELINE

WIRELESS

SPAIN



21.1 Million LIS



0.7 Million ADSL



18.1 Million clients

LATAM



24.2 Million LIS



0.4 Million ADSL



22.1 Million clients *

TOTAL



45.3 Million LIS



0.4 Million ADSL



40.2 Million clients *

RANKING

FIXED: #1 Spain, Argentina, Chile, Perú, Sao Paulo

CELLULAR: #1 Spain, #1&2 in Latam's main markets

* Including Medi Telecom and Joint Venture with PT in Brazil.
Operating data as of September 2002.

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TELEFONICA HAS WORKED TO ANTICIPATE & ADAPT TO SECTOR TRENDS

A VERY DEMANDING ENVIRONMENT

- ✓ Regulation
- ✓ Competition
- ✓ Weakness of demand
- ✓ Expectations have failed to materialized
- ✓ Unstable macro picture

WITH ITS EFFECT ON TEF

- ✓ Our markets are fully liberalized
- ✓ Price decreases have already been done
- ✓ Higher pressure on wireline & Latam
- ✓ Poor results of green-field operations

WE FOCUS ON THREE AXIS TO STRENGTHEN OUR POSITION AS N°1-N°2 PLAYER IN OUR MARKETS

CLIENTS

EFFICIENCY

CASH FLOW

- ✓ Focus on core businesses and natural markets
- ✓ Tight management of Opex & Capex
- ✓ Stop losses from non-performing businesses
- ✓ Commitment to financial discipline

FOCUS ON CORE BUSINESSES & NATURAL MARKETS

- ✓ **Reinforcing Telefónica's leadership position**
- ✓ **Complementing current footprint in high growth areas**
- ✓ **Strengthening business models to drive profitability**
- ✓ **Achieving an attractive price and a flexible financing structure**

✓ **Mexico: Pegaso acquisition executed**



- ✓ **Unique nationwide alternative to the incumbent**
- ✓ **100 Million Pops**
- ✓ **2.2 Million clients**

✓ **Brazil: Legal incorporation of JV with PT. Acquisition of TCO**



- ✓ **16.8 Million subscribers**
- ✓ **127 Million Pops**
- ✓ **Access to 80% of Brazilian GDP**

**WE HAVE STRENGTHEN OUR N°1/N°2 POSITION
IN OUR MAIN LATAM MARKETS**

STOP LOSSES FROM NON-PERFORMING BUSINESSES

UMTS outside Spain

- ✓ **Freeze all UMTS operations outside Spain**
 - **saving 1.8 Bn.€ of EBITDA losses in 2002-2005**
 - **saving 2.4 Bn.€ of net losses in 2002-2005**

Data green-field operations

- ✓ **Data green-field operations: non-core in the medium term**
- ✓ **Sale of ETI**

Traditional Media portfolio

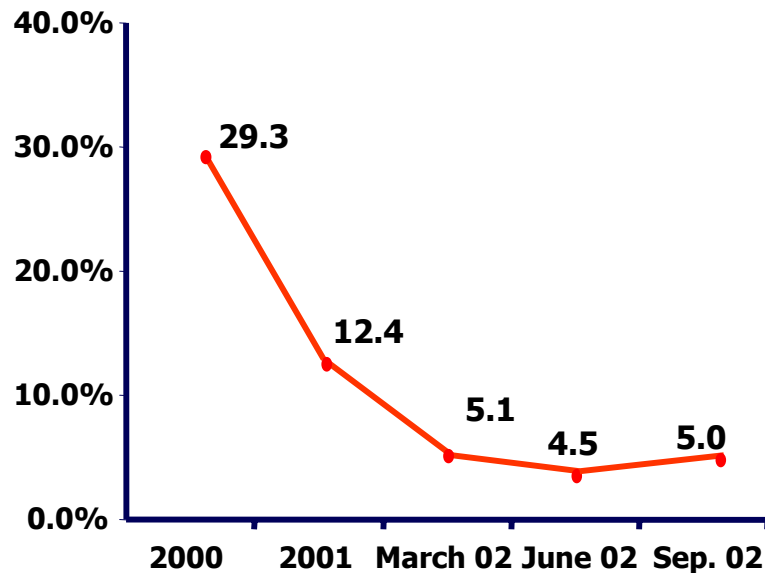
- ✓ **Via Digital/Sogecable merger on track**
- ✓ **Traditional media: explore alternatives to divest Admira**
- ✓ **Sale of AZUL TV**

**WE ARE ACTIVELY IMPROVING THE OUTLOOK
OF OUR BUSINESSES**

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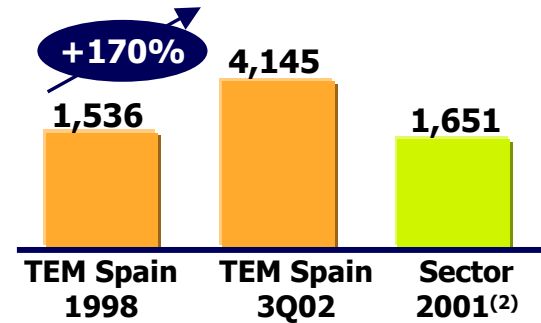
TIGHT MANAGEMENT OF OPERATING EXPENSES

ANNUAL % CHANGE OPERATING EXPENSES⁽¹⁾

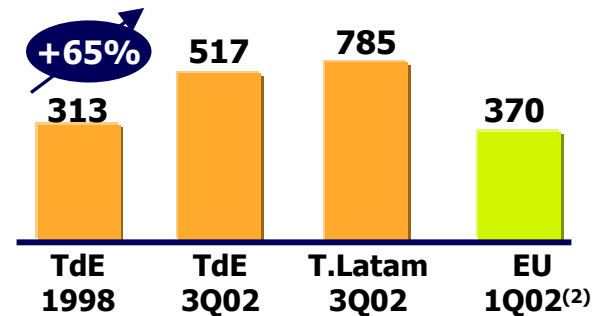


EFFICIENCY
HAS PLAYED A
KEY ROLE

SUBSCRIBERS PER EMPLOYEE



LINES PER EMPLOYEE



CONSISTENTLY KEEPING GROUP EBITDA MARGIN ABOVE 41%

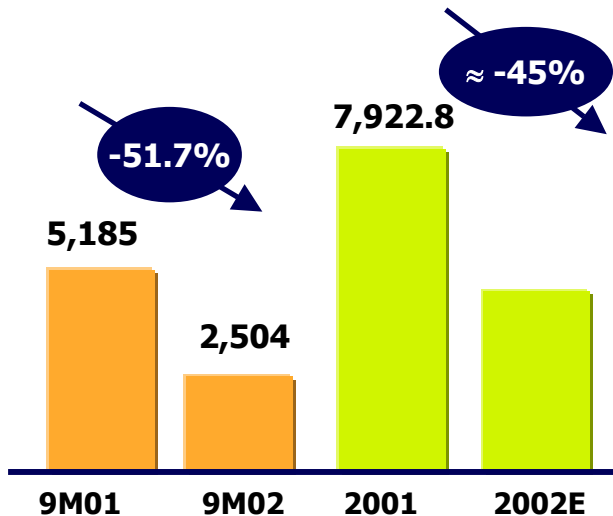
(1) Excluding Foreign Exchange effects.

(2) Includes FT, TI, DT and BT. Source: company reports as of 03/31/02, except FT (FY 2001). For Mobile: Orange (France & UK), Sonera, Vodafone España and Amena.

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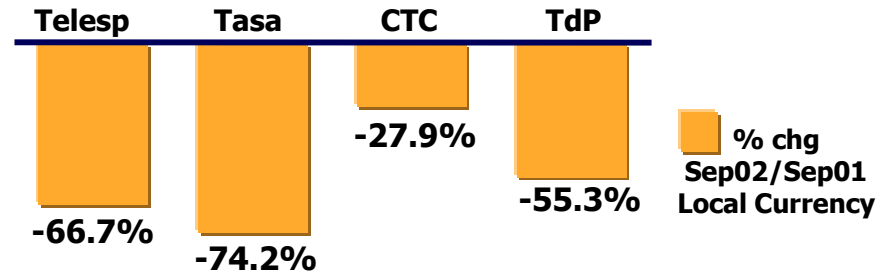
EFFORT ON CAPEX RATIONALIZATION...

**A SIGNIFICANT REDUCTION
EXPECTED IN 2002**

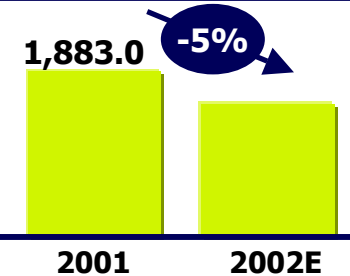


**DRIVEN
BY...**

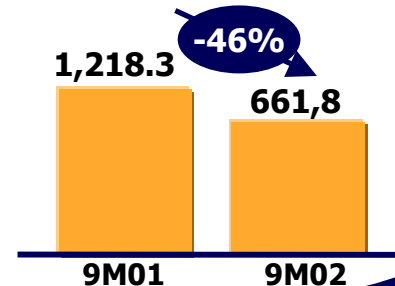
LATAM WIRELINE ...



... WIRELINE SPAIN ...



... and WIRELESS



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SOLID PERFORMANCE OF SPANISH BUSINESSES UNDERPINS ROBUST & HIGH QUALITY CASH FLOW GENERATION

	REVENUES		EBITDA		OPERATING CF(*)	
	9M02	% growth	9M02	% growth	9M02	% growth
T. España & T.Móviles	14,733.0	5.0	6,275.6	3.9	4,467.3	20.5
Latam	5,434.2	-28.6	2,635.1	-31.7	2,195.7	17.4
Data	1,300.4	-4.8	110.8	8.1	-23.2	86.3
Group	21,467.0	-7.0	8,928.9	-7.4	6,425.2	44.3

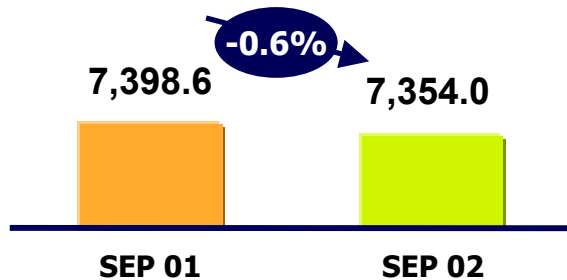
Figures in EUR million

- ✓ **57.8% OF REVENUES AND 67.6% OF EBITDA FROM SPANISH BUSINESSES**
- ✓ **ABOVE 2/3 OF OPERATING CASH FLOW GENERATED IN SPAIN**
- ✓ **FOREX DRAGGED 12.5 PERCENTAGE POINTS TO REVENUES AND EBITDA GROWTH**

(*) EBITDA-CAPEX

WIRELINE STRATEGY DELIVERING RESULTS IN SPAIN

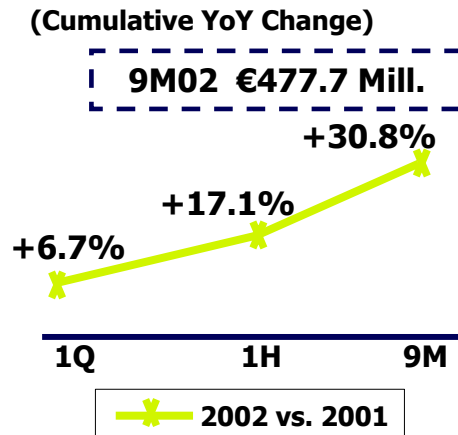
TOTAL OPERATING REVENUES (Operating company) Million Euro



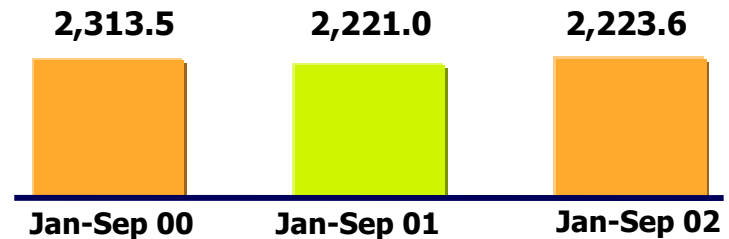
OPERATING COMPANY

Selected Operating Data	Jan.-Sep 02	% annual Change
Total eq. lines in service (mill.)	21.1	1.1%
Total traffic (mill. min.)	108,040	5.7%
ADSL connections (thousands)	747.0	234.7%
Productivity (lines per employee)	517.0	1.4%

INTERNET & BB REVENUES



STABLE FCF⁽¹⁾ GENERATION (Group Company)



(1) FCF = EBITDA - CAPEX

**CONSISTENTLY KEEPING EBITDA
MARGIN BETWEEN 42% AND 45%**

TELEFONICA MOVILES: Strong Operating Performance

3Q02 results

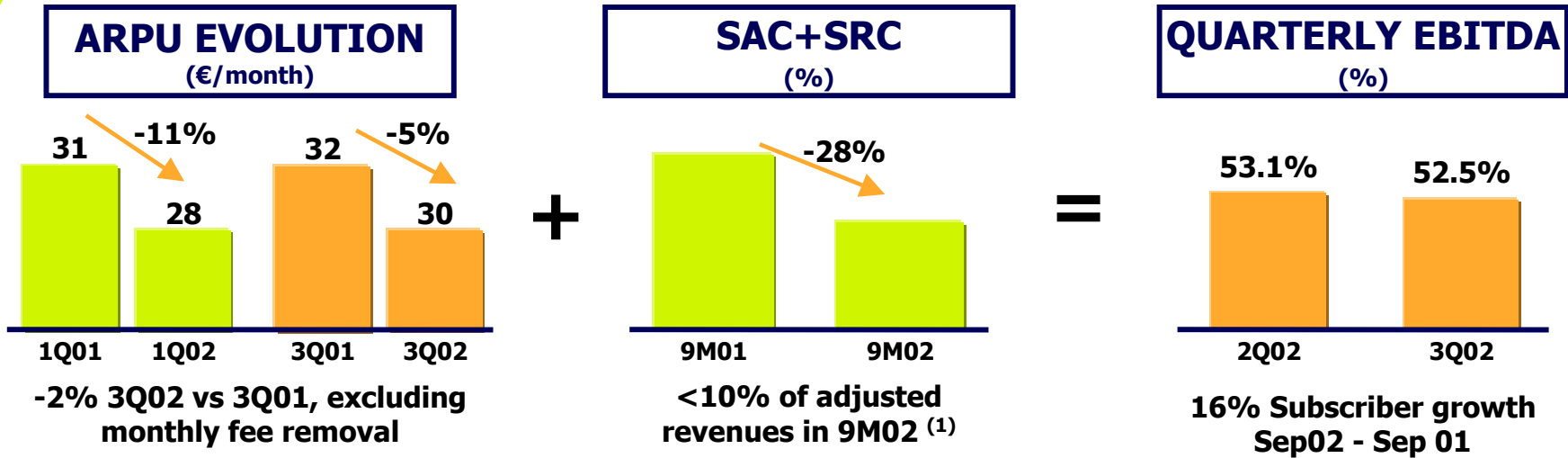
- ✓ **Strong performance of net income in 3Q02**
- ✓ **Steady growth in the customer base**
- ✓ **Outstanding profitability of TME**
- ✓ **Ongoing advances in EBITDA margins in Latin America**
- ✓ **Capex optimisation and robust FCF generation**

	9M02	% Var vs. 9M01
Operating revenues (MM€)	6,828.3	10.7
EBITDA (MM€)	2,838.9	12.2
Capex (MM€)	661.8	-45.7
EBITDA margin	41.6%	0.6 p.p.

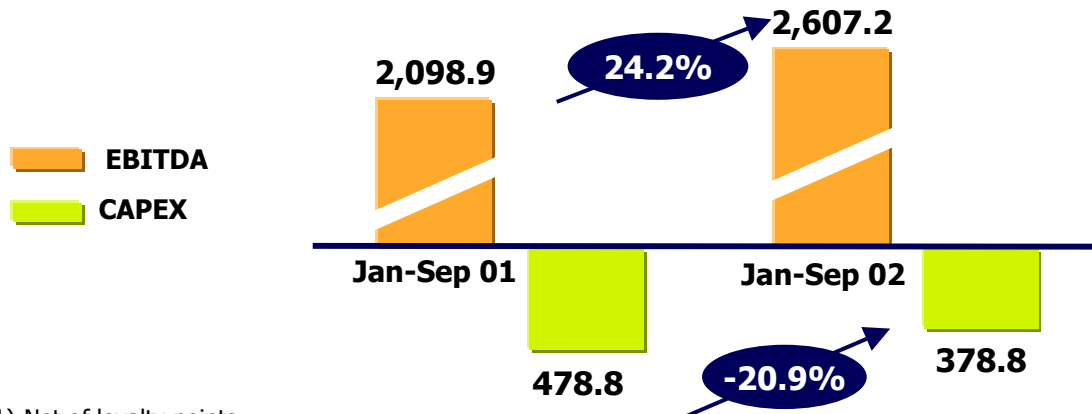
- ✓ **STRENGTHENED LEADERSHIP POSITION IN BRAZIL THROUGH THE CREATION OF THE TEM-PT JV:**
 - **ALREADY PROFITABLE WITH A GROWING FCF GENERATION**
- ✓ **BECOMING SECOND LARGEST WIRELESS OPERATOR IN MEXICO**

...WITH SPAIN POSTING A SOLID UNDERLYING PERFORMANCE

A SOUND UNDERLYING BUSINESS...



...ORIENTED TO PROFITABILITY

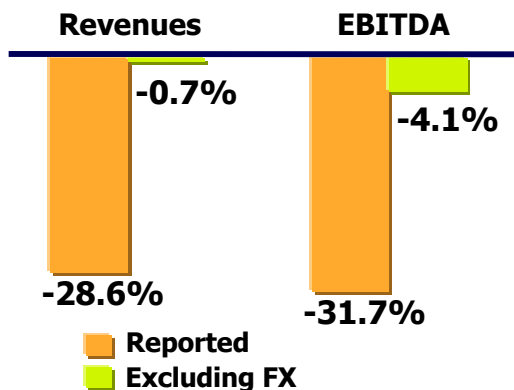


Cash-flow (Ebitda-Capex)
growth of 37.5% up to
€2,228.4 Mill.

(1) Net of loyalty points

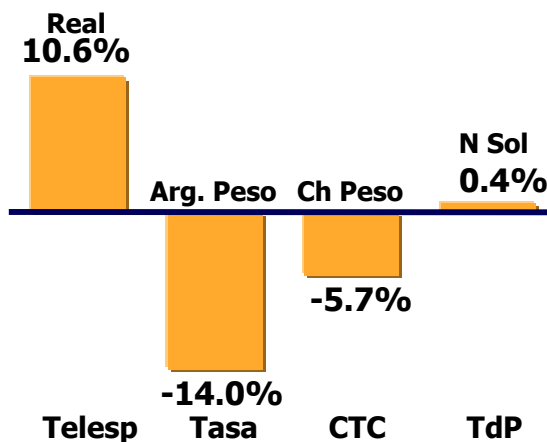
LATAM WIRELINE PERFORMANCE ON TRACK DESPITE REGIONAL TURMOIL

T. LATAM REV / EBITDA EX FOREX



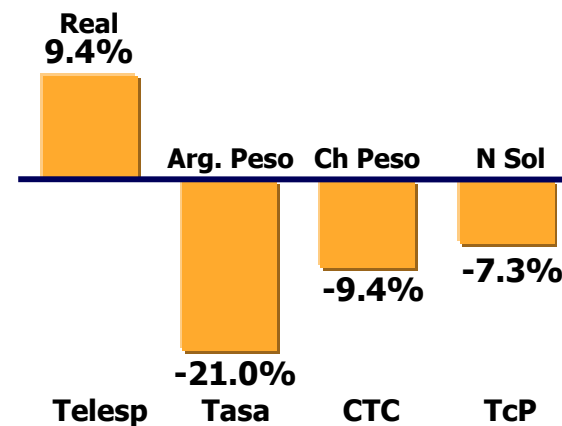
OPERATING REVENUES

% change Sep02 / Sep01
Local Currency



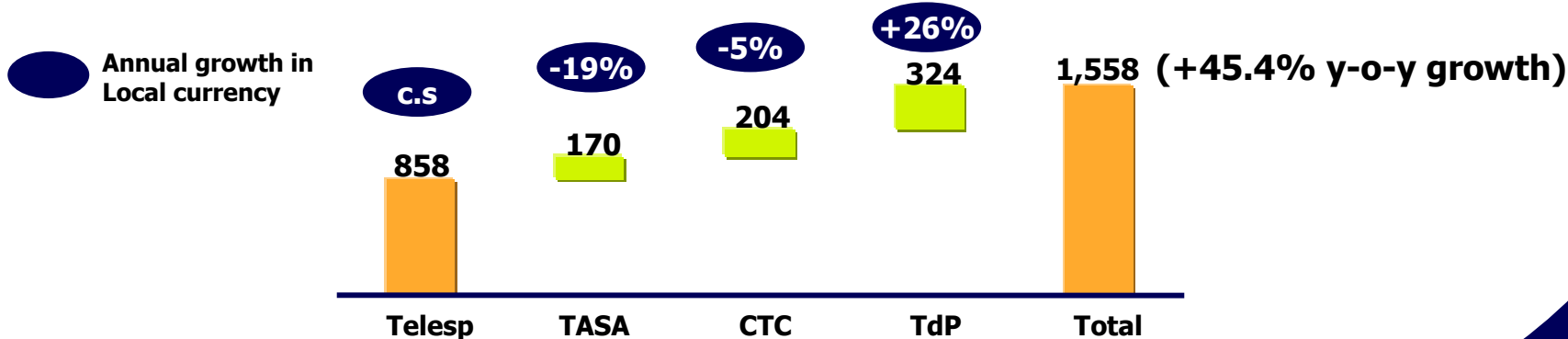
EBITDA

% change Sep02 / Sep01
Local Currency



T. LATAM 9M02 CASH FLOW GENERATION (1)

(€ in Million)



(1) CF=EBITDA-Interests-Taxes-Capex

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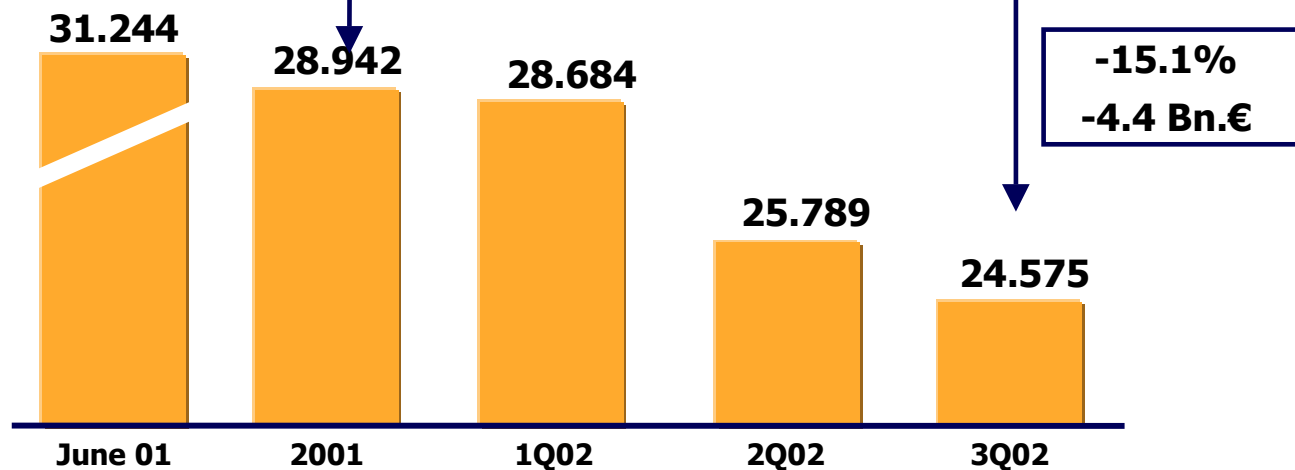
GROWTH UNDER A SOUND FINANCIAL FRAMEWORK

- ✓ Single A rating:
 - Shareholder value through strategic flexibility
 - Stable credit quality & quick access to capital markets
- ✓ Adapting to business and macroeconomic conditions through strict asset & liability management
 - Savings from freezing European UMTS greater than cash flow losses from Latam crisis
 - Latam risk managed through capex reductions, debt in local currencies, and fund repatriation.
 - Strong debt reduction at the Group level
- ✓ Dividend policy adapted to cash flow generation and balance sheet strength

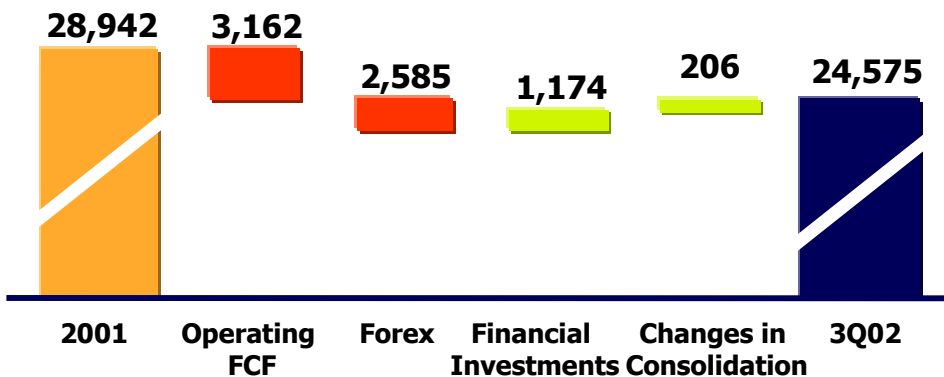
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CONSISTENT DEBT REDUCTION AT THE GROUP LEVEL (CONSOLIDATED DEBT. € IN MM)

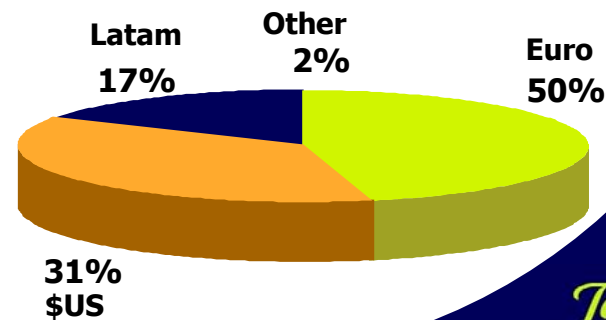
Highest historic level



COMPONENTS OF 2002 DEBT REDUCTION



DEBT BREAKDOWN BY CURRENCY 3Q02



3

MAIN DRIVERS FOR DEBT EVOLUTION IN 4Q02

- ✓ 4Q operating cash flow: not disclosed
 - Running above 1 bn Euros per quarter up to September 2002
- ✓ Lower value in Euros of foreign currency debt
 - Q4 FX effect on September02 debt: 526 M Euros debt reduction
 - But FX exposure has been actively managed
- ✓ Acquisitions (including new debt consolidated)
 - Pegaso: 975 M Euros
 - Incorporation of JV with PT for Brazilian wireless market
- ✓ 2 bn Euros issuance of preferred shares reducing senior debt, and enhancing credit ratios (both globally and ex-Latam)

3

BALANCE SHEET AND LIQUIDITY STRENGTHENED BY PREFERRED SHARES

- ✓ Main features of preferred shares:
 - 2 bn Eur issued in December 02.
 - Perpetual non-callable for 10 years.
 - Non cumulative dividends
 - Dividends: - Euribor with floor at 4.25% and cap at 7%, years 1-10
- Euribor + 400 bp, year 11 onwards.
- ✓ After 2003, dividends not paid in case of losses in the previous year provided that no dividend is paid to ordinary shares.
- ✓ Use of funds: - payment of senior debt in 2003
- liquidity cushion

ONGOING CASH FLOW GENERATION AND SOLID CREDIT RATIOS IN SEPTEMBER 2002

TELEFÓNICA GROUP 9M02

Millions of EUR	TOTAL	LATAM		EX-LATAM	
EBITDA	8,929	3,162	35%	5,767	65%
Net Capex	-2,504	-710	35%	-1,793	65%
OPERATING CASH FLOW	6,425	2,451	44%	3,974	56%
Net Debt	24,575	4,274	17%	20,301	83%
Accrued Net Interest ⁽¹⁾	1,403	348	25%	1,055	75%
Net Debt / Annualized EBITDA	2.06x	1.01x		2.64x	
EBITDA / Net Interest	6.36x	7.09x		6.03x	

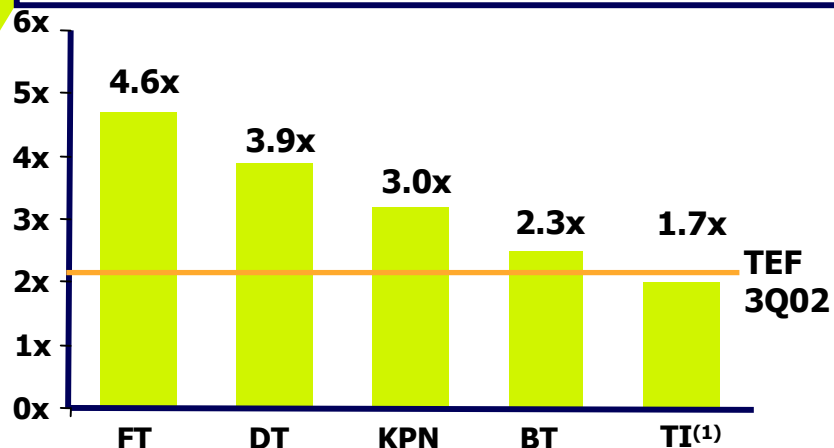
(1) Before negative FX results of Argentinean devaluation (translation of unhedged USD debt into pesos)

✓ **Balance sheet remains strong in and out of Latam**

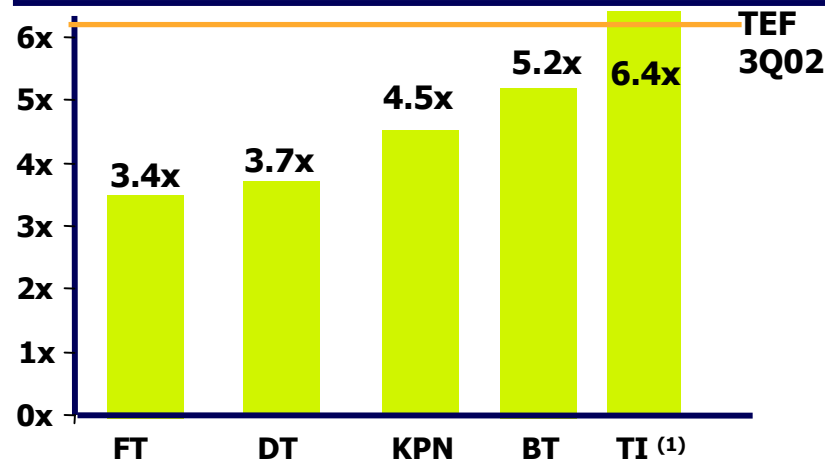
3

PEER COMPARISON HIGHLIGHTS TELEFÓNICA'S CREDIT QUALITY

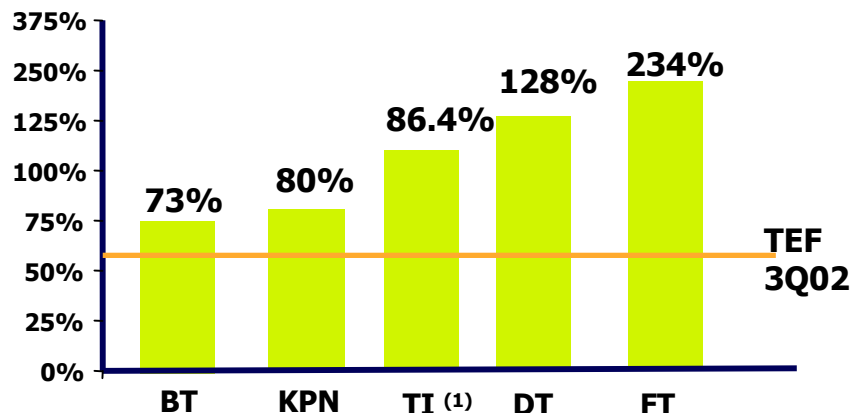
NET DEBT / EBITDA (2002E)



EBITDA NET INTEREST COVERAGE (2002E)



NET DEBT / MARKET CAP. (2002E)



TELEFÓNICA AS OF 9M02

	TOTAL	EX-LATAM
NET DEBT/ANN. EBITDA	2.06x	2.64x
EBITDA NET INTEREST	6.36x	6.03x
NET DEBT/MARKET CAP.	55%	NM

Source: JP Morgan (except for Telefónica)
 2001 data except for BT and Vodafone (data for fiscal year 2002)
 2002 estimates except for BT and Vodafone (estimates for 2003)
 Market capitalization as of 3/2/03
 (1) TI includes debt of Olivetti.

PRUDENT REINSTATEMENT OF DIVIDENDS

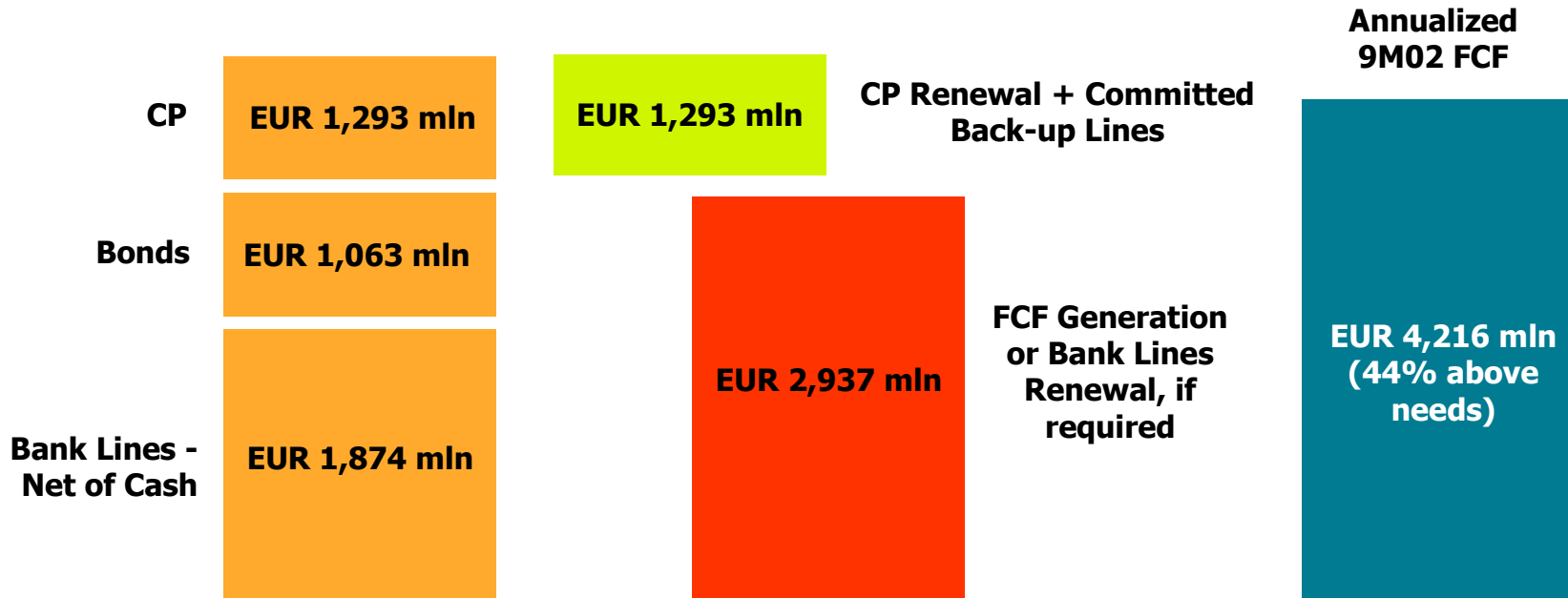
- ✓ Above 1.2 bn Euros (0.25 Euro/share) in 2003:
 - ✓ Close to 2.7% dividend yield (similar to Euribor)
 - ✓ Less than 1/3 of 2002 Operating Free Cash Flow (*)
- ✓ Coupled with focus in credit quality
 - ⇒ 4.4 bn Euros debt reduction up to september 2002
 - ⇒ 2 bn Euros preferred shares issuance in december 2002

(*) Extrapolating 9M02 figures

3

NO REFINANCING RISK FOR 2003 MATURITIES

Total 2003 net maturities: EUR 4,230 mln



ADDITIONAL FUNDING SOURCES

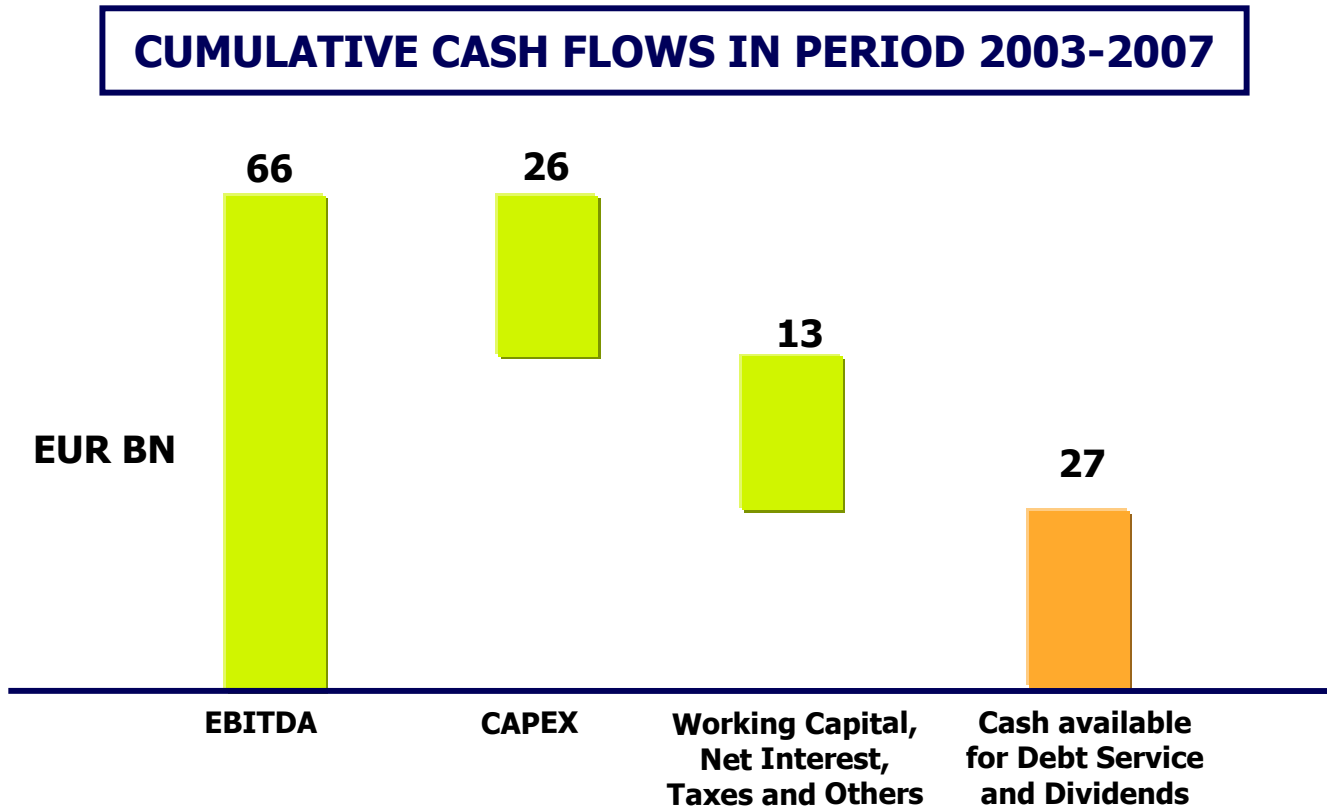
- ✓ Real Estate
- ✓ Other asset disposals
- ✓ Bond issue

ADDITIONAL FUNDING USES

- ✓ Dividends
- ✓ Financial investments

3

CASH FLOW GENERATION CAPACITY WOULD ALLOW DEBT REPAYMENT BEFORE THE CURRENT AVERAGE MATURITY (5 YEARS)



Assumption:

- EBITDA: consensus estimates as of Dec 2002 for 2002-2005, 4 %annual growth from 2006 onwards.
- Capex: Capex: consensus estimates as of Dec 2002 for 2002-2005, maintenance of Capex level from 2006 onwards
- Working capital requirements: 20% of EBITDA increase, effective tax rate of 30%, and average debt cost estimated from current market interest and FX rates
- Net debt as of Dec 07 would be around 0.9 bn EUR higher if assumption about average debt cost increases by 100 bp.

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THE OFFERING

Issuer

Telefónica Europe, BV fully guaranteed by Telefónica, S.A.

Amount

Around 1.5 billion Euro

Offering Type

EMTN documentation

Tranches

Around 10 years

Currency

Euros

Rating

A3 (Stable) Moody's/ A (Stable) S&P / A (Stable) Fitch-IBCA

Listin

London

Join Lead Managers

ABN Amro, Barclays, JP Morgan

Use of Proceeds

General Corporate purposes: Extension of average debt maturity

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TELEFONICA'S SOLID POSITION

STRONG STRATEGIC POSITION

- ✓ **Profitable leadership in Spain and Latam**
- ✓ **Increased cash flow generation**
- ✓ **Restructuring non performing businesses (UMTS, Media)**
- ✓ **Managing Latam turmoil**
- ✓ **Growth opportunities in broadband, wireless in Mexico, and wireless & wireline in Brazil**

SOUND FINANCIALS

- ✓ **Strong debt reduction, improving credit ratios despite Latam turmoil**
- ✓ **Conservative policy: currency hedges, debt maturity profile**
- ✓ **"A" rating target**

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