

Telefonica



January - June 2003 Results

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LEADING SHAREHOLDER REMUNERATION AMONG OUR PEERS

DELIVERY ON EXECUTION

PROGRESS
ON
BUSINESS INITIATIVES

PROGRESS
ON
RE-FOCUSING

+

STRONG 1H03
RESULTS

BETTER P&L
AT
ALL LEVELS

IMPROVED BUSINESS OUTLOOK

- WE ARE CONFIDENT ON FREE CASH FLOW GENERATION AND HAVE ACCESS TO IT
- OUR STRONG CASH FLOW IS THE BASIS TO SET A STRONG MID TERM COMMITMENT TO SHAREHOLDERS REMUNERATION

... IMPROVING BUSINESS OUTLOOK...

PROGRESS ON BUSINESS INITIATIVES



- Launch of unified brand name VIVO and acquisition of TCO in Brazil completed in April
- Launch of GSM service in Mexico, in May
- Approval of a new redundancy program at Telefónica de España, affecting up to 15,000 employees in 2003-2007
- Execution of the Real Estate Project as planned, with direct sales close to 400 Million € already committed as of June 2003

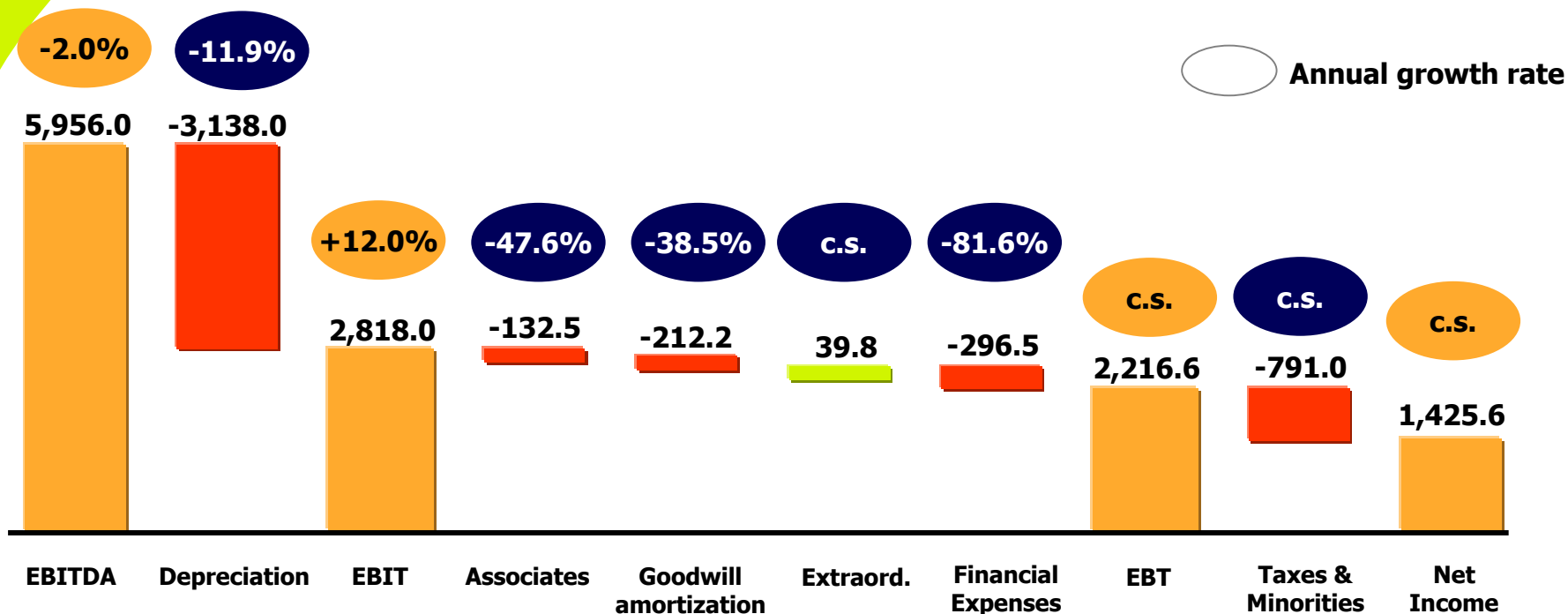
PROGRESS ON RE-FOCUSING



- Completion of Vía Digital/Sogecable merger in July 2nd (22.23% Telefónica). Start of joint offering of services through Digital+ in July, 21st
- Completion of Terra Lycos tender offer in July 23rd, reaching a 71.97% stake
- Sale of a 25.1% stake in A3 to Planeta. Full divestiture to be completed by end of year

A SOLID SET OF RESULTS IN 1H03, WITH THE P&L IMPROVING AT ALL LEVELS...

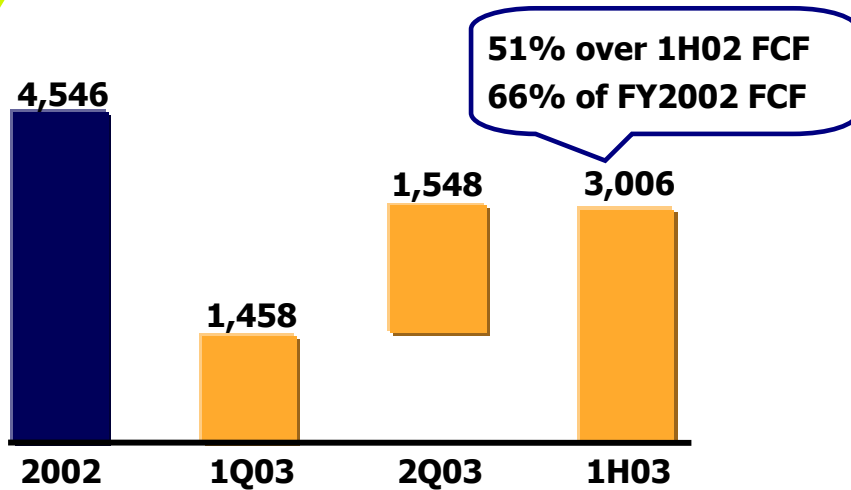
€ in Millions



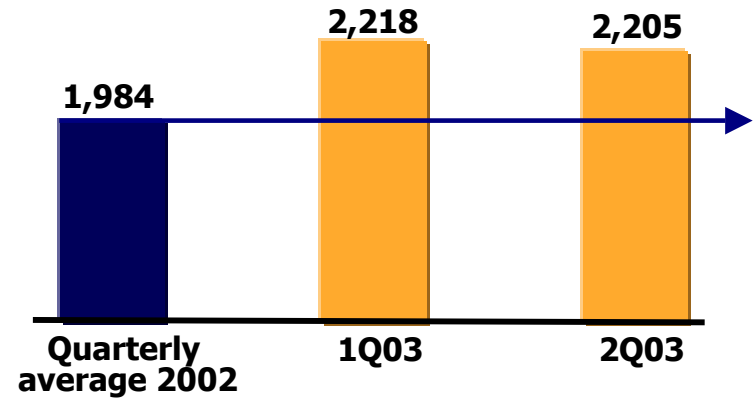
- Solid underlying performance of businesses and reduced negative impact of currency fluctuations
- Steady improvement of non-operating results due to re-focusing and write-downs
- Sound debt and currency management with a positive impact on financial expenses

...ARE BACKING OUR CONFIDENCE ON THE GROUP'S FUTURE CASH FLOW GENERATION...

FREE CASH FLOW BEFORE FINANCIAL INVESTMENTS (€ in Millions)

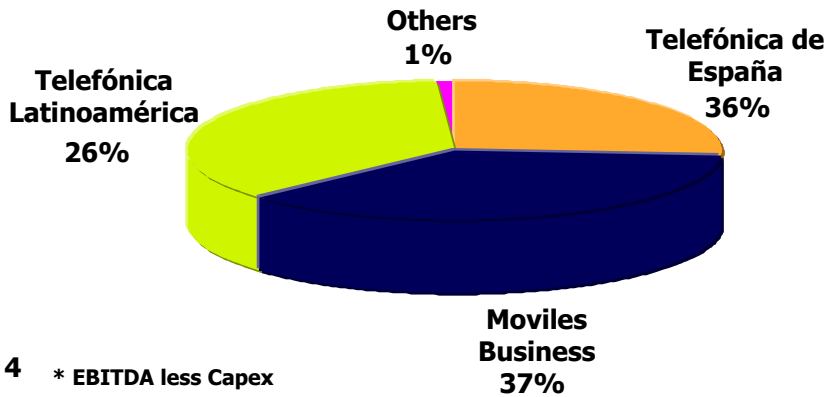


CONSISTENCY OF CASH FLOW * (€ in Millions)

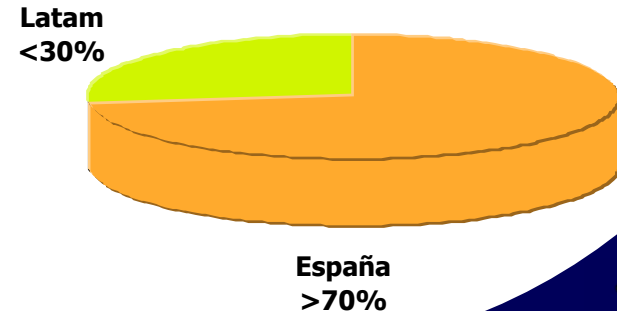


CASH FLOW IS STABLE AND WELL BALANCED

CASH FLOW BREAKDOWN BY BUSINESS *



CASH FLOW BREAKDOWN BY COUNTRY *



...AND HAS LED THE BOARD TO SET THE COMPANY'S MID TERM DIVIDEND POLICY EXPLICITLY

A COMMITMENT BASED ON A SET OF PRINCIPLES...

- To be sustainable for the period 2003-2006, setting a floor to shareholder remuneration
- To allow the full development of our growth potential
- To represent a strong medium term commitment to shareholders, leveraging on the Group's financial discipline
- To be compatible with a "single A" credit rating target

**TO STRENGTHEN SHAREHOLDERS REMUNERATION
TO REMOVE THE UNCERTAINTY OVER THE GROUP'S
FUTURE USE OF CASH FLOWS**

■ **0.4 € per share, equivalent to close to 2 billion €, for years 2004, 2005 and 2006**

+

■ **Flexibility to complete share buy-backs if appropriate**

FINANCIAL HIGHLIGHTS

	Apr-Jun 03	% Change Apr-Jun 03/ Apr-Jun 02	Jan-Jun 03	% Change Jan-Jun 03/ Jan-Jun 02
Operating Rev.	7,104.3	-1.6%	13,563.2	-7.3%
Operating Costs *	4,147.3	-5.5%	7,969.7	-10.9%
EBITDA	3,136.9	+3.5%	5,956.0	-2.0%
EBIT **	1,559.9	+19.4%	2,818.0	+12.0%
Net Income	882.2	c.s.	1,425.6	c.s.

- Underlying performance (ex-fx) is accelerating, surpassing 1Q03 real growth rates, led by Telefónica Móviles and Telefónica Latinoamérica
- Negative impact of forex for the year is smoothing, draining just over 13.5 p.p. to revenues & EBITDA growth in the first six months (more than 17 p.p. in 1Q03)
- April-June EBITDA is growing at a 3.5% rate after five consecutive declining quarters, a combination of solid underlying revenues and cost control (+2% annual growth excluding forex)
- Non-operating results are keeping their positive trend, pushing net income to 1,426 Million € for the six months period
- Telefónica de España is withstanding top line pressure and is keeping its margin stable above the 44% mark
- Spanish wireless operations are topping the 8% revenue growth in 1H03, combining client base growth with a first time cumulative y-o-y ARPU increase of 1.4%
- Latam wireline business, driven by Brazil and Argentina, is growing at a 7-8% rate in terms of both revenues and EBITDA in local currency

UNDERLYING PERFORMANCE OF BUSINESSES

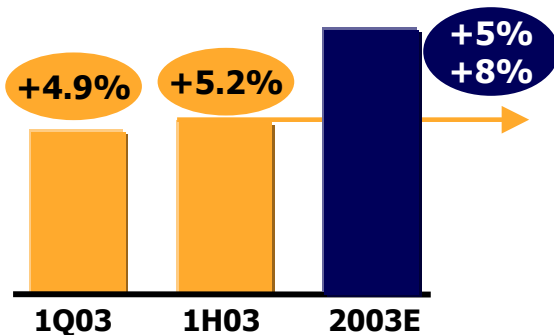
REVENUE BREAKDOWN *

	% Change 1Q03/1Q02	% Change 2Q03/2Q02
TdE Group	-1.3%	-1.7%
Cell. Business	+8.3%	+20.9%
T. LATAM	+7.0%	+9.2%
T. Data Global	-1.2%	+4.9%

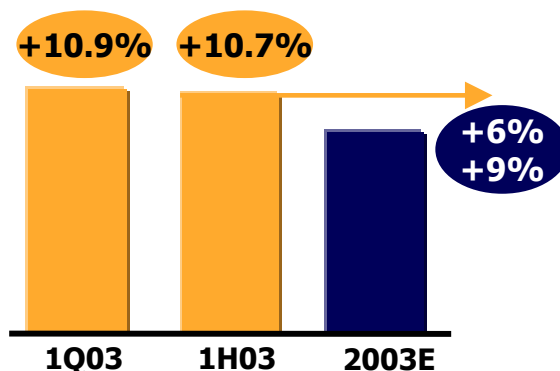
- **Telefónica de España:** Voice and narrowband Internet revenues remain under pressure. Reduced drop led by increase in monthly fee revenues
- **Cellular Business:** Strong performance of Spanish operations led by MOU/ARPU growth and handset sales. Consolidation of TCO
- **Telefónica Latinoamérica:** Improvement at Telesp, local revenues in particular, and TASA
- **Telefónica Data Group:** Improvement led by Spain and Brazil

ON TRACK TO 2003 TARGETS

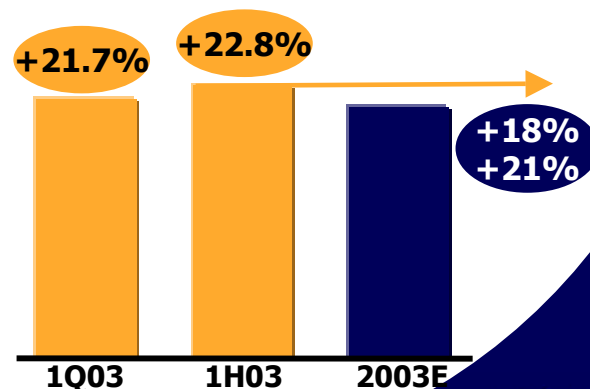
REVENUES**



EBITDA**



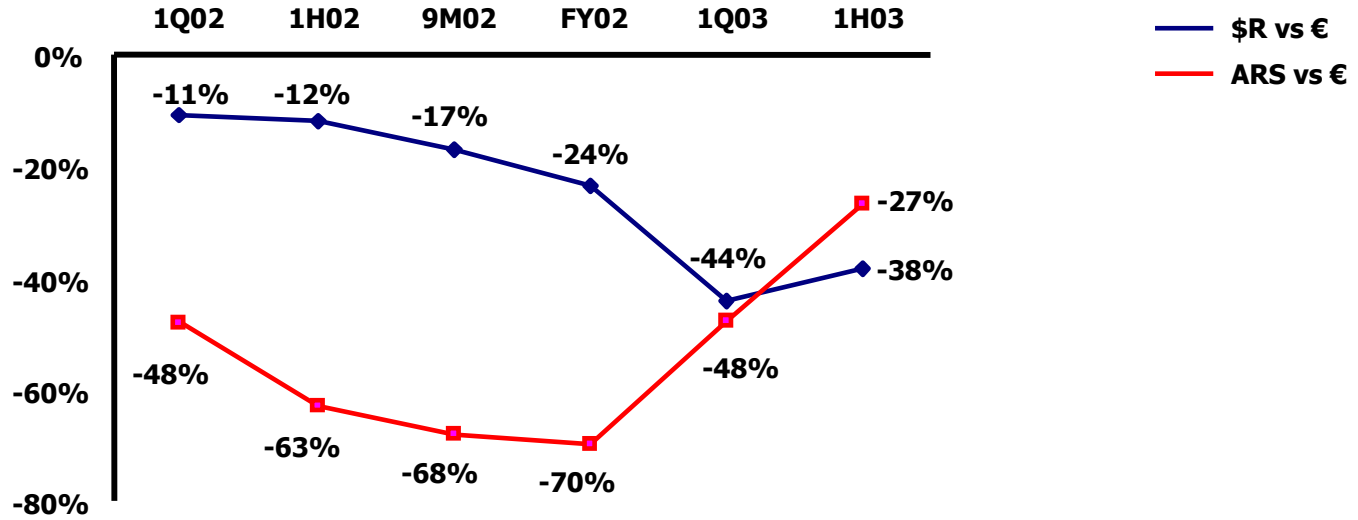
EBIT**



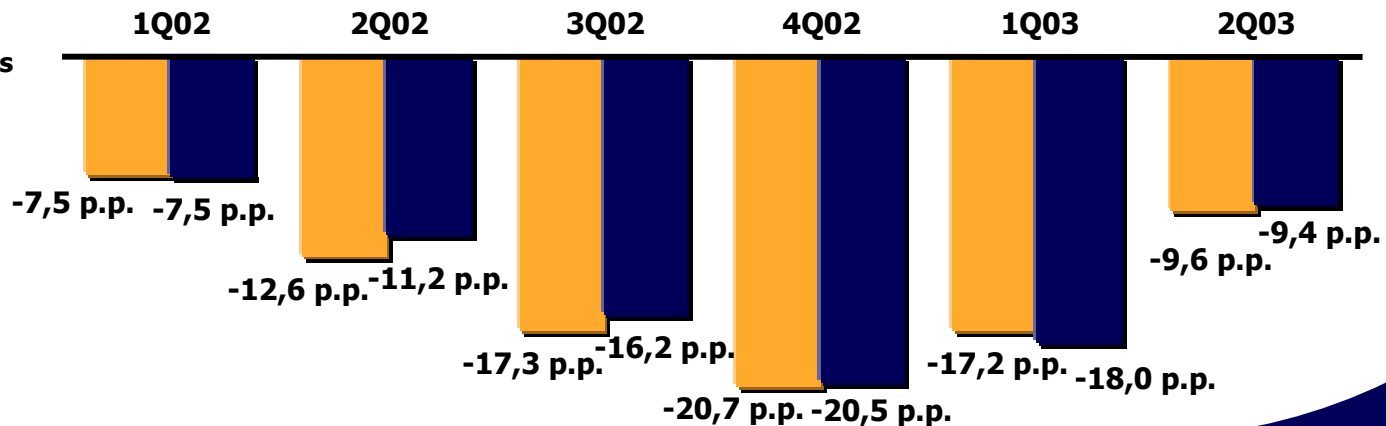
2003
target
range

FOREIGN EXCHANGE IMPACT

ANNUAL CHANGE IN AVERAGE EXCHANGE RATES



FX IMPACT ON REVENUES AND EBITDA GROWTH



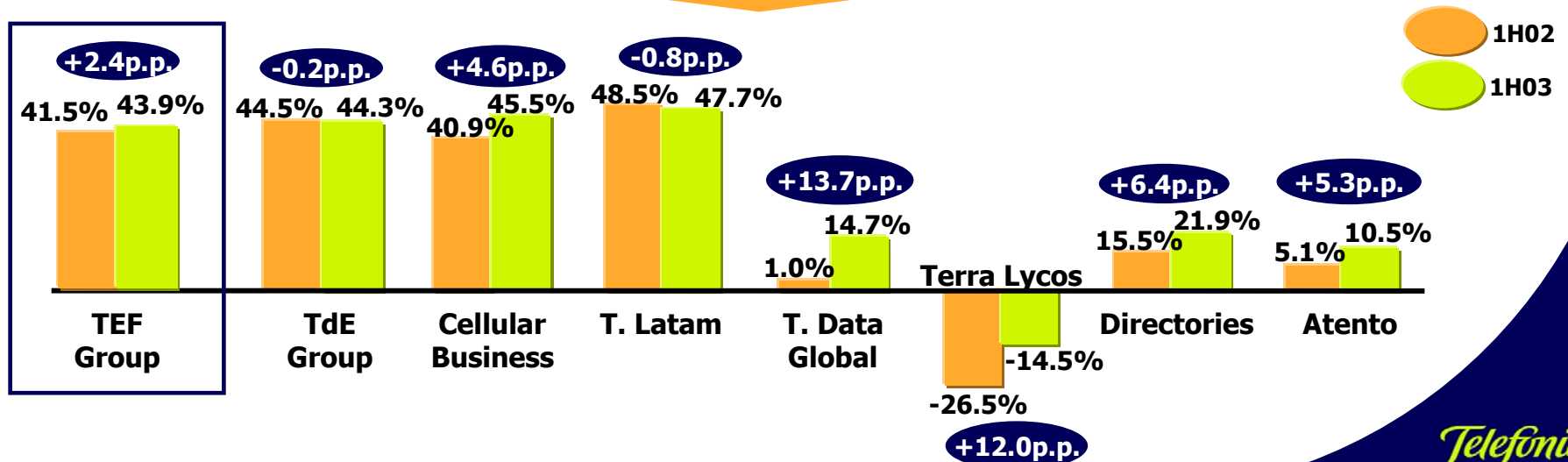
COST STRUCTURE BY BUSINESS LINE

COSTS BREAKDOWN *

	% Change 1Q03/1Q02	% Change 1H03/1H02
TdE Group	-2.1%	-2.2%
Cell. Business	-15.4%	-5.5%
T. LATAM	-33.6%	-24.1%
T. Data Global	-24.2%	-18.6%
Terra Lycos	-35.1%	-28.7%
TEF Group	-16.0%	-10.9%

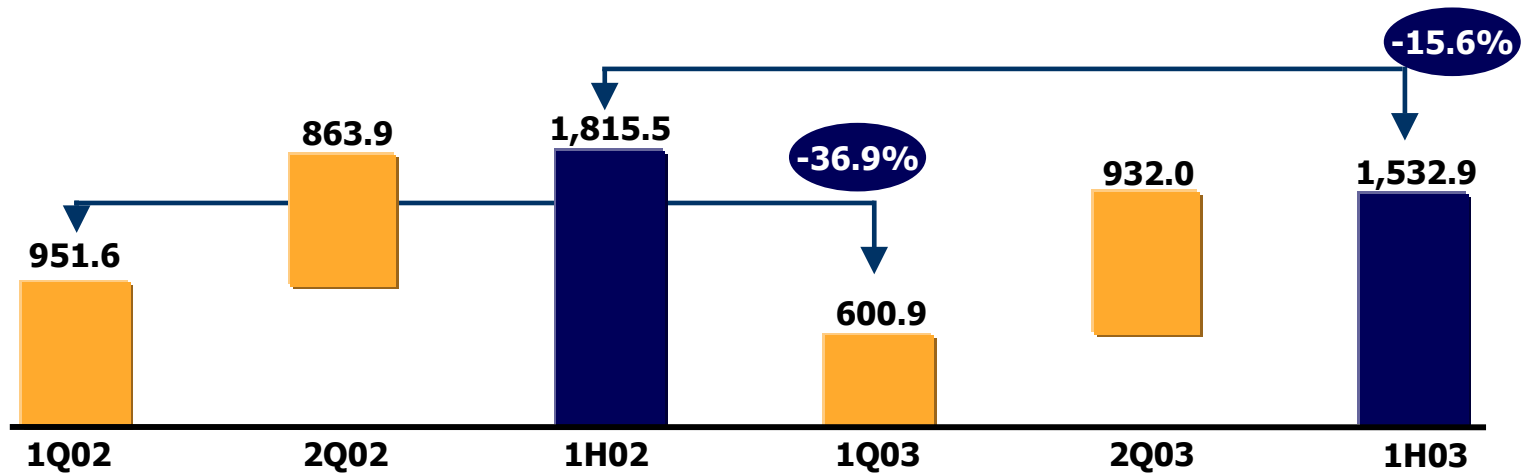
- **Telefónica de España:** Slow down of personnel expenses and reduced interconnection costs
- Cost contention at **Telefónica Data** and **Terra Lycos**
- **Cellular Business:** Increase in commercial expenses (launch of VIVO in Brazil and GSM in Mexico), handset purchases in Spain to prepare for summer commercial campaign
- **Telefónica Latinoamérica:** Push on Telesp long distance activity

GROUP EBITDA MARGINS



CONSOLIDATED GROUP CAPEX

QUARTERLY EVOLUTION OF CAPITAL EXPENDITURES (€ in Millions)



1H03 CAPEX BREAKDOWN

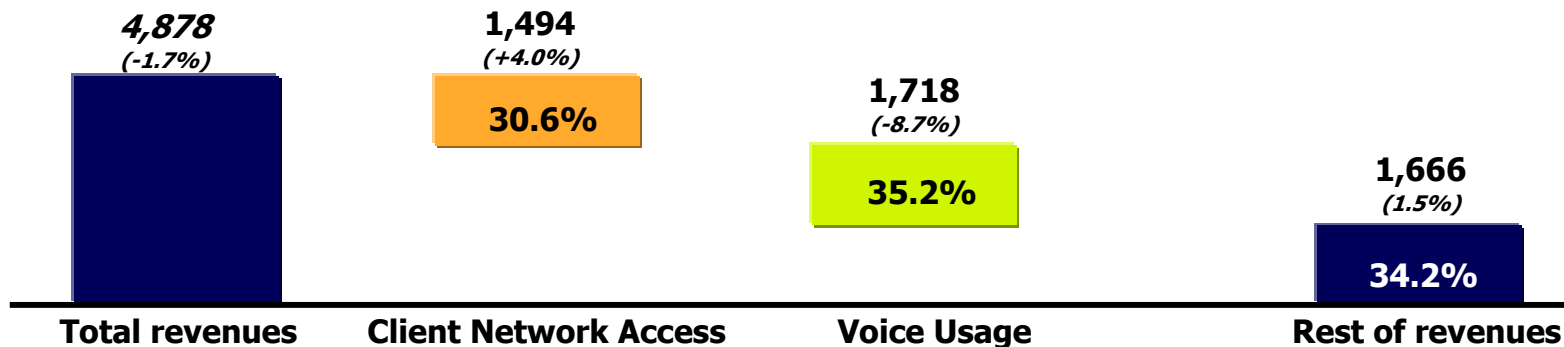
	Total € in Million	% Change 1H03/1H02	% Change 1Q03/1Q02
TdE Group	633.7	-15.3%	-31.1%
Cell. Business	533.3	+15.2%	-16.8%
T. LATAM	247.2	-39.1%	-55.5%
T. Data Global	49.7	-62.8%	-56.5%

- Acceleration of ADSL take-up in Spain and Latam
- Roll-out of GSM network in Mexico is being speed-up
- Annual change of end of period Latam exchange rates is improving sequentially

TELEFONICA DE ESPAÑA PARENT: 1H03 OPERATING REVENUES

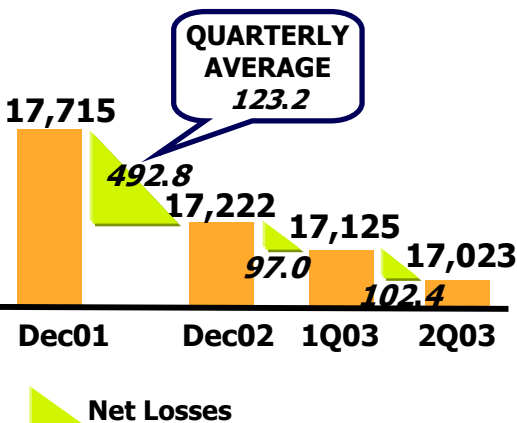
OPERATING REVENUES

(€ in Million)



ACCESS LINES

(PSTN + B.A. ISDN; Thousands)



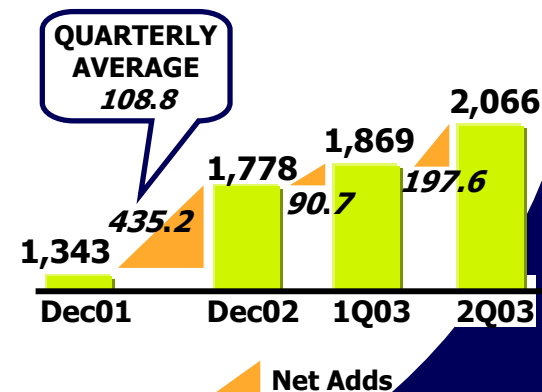
TRAFFIC

(estimated)

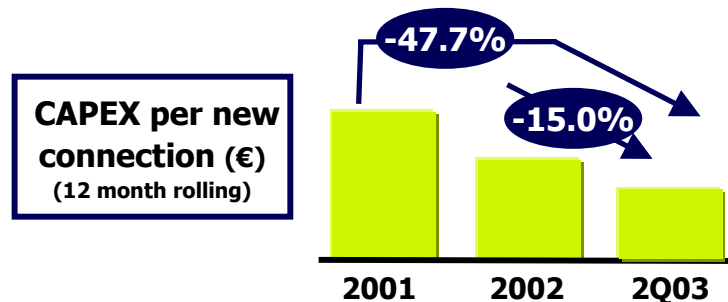
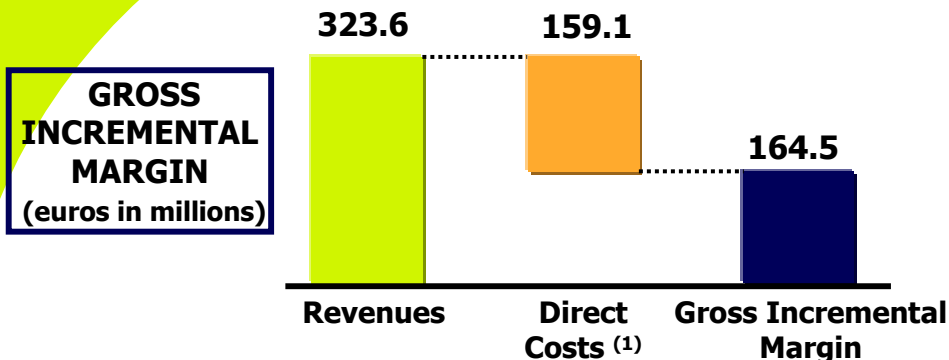
(million minutes)	Jan-Jun 03	Jan-Jun 02	% Change Jan-Jun 03 vs 02
OUTGOING	44,919	50,220	-10.6%
<i>Voice</i>	<i>29,333</i>	<i>32,063</i>	<i>-8.5%</i>
Local	15,794	18,162	-13.0%
Provincial	4,233	4,446	-4.8%
DLD	3,596	3,902	-7.8%
International	823	858	-4.1%
F2M	2,904	2,775	4.7%
IN* & Others	1,983	1,921	3.3%
<i>Internet</i>	<i>15,586</i>	<i>18,156</i>	<i>-14.2%</i>
INCOMING	26,469	23,072	14.7%
TOTAL	71,388	73,292	-2.6%

PRESELECTED LINES

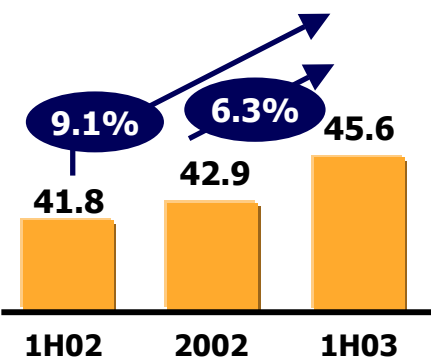
(Thousands)



TELEFONICA DE ESPAÑA: IMPROVING ADSL METRICS IN 1H03

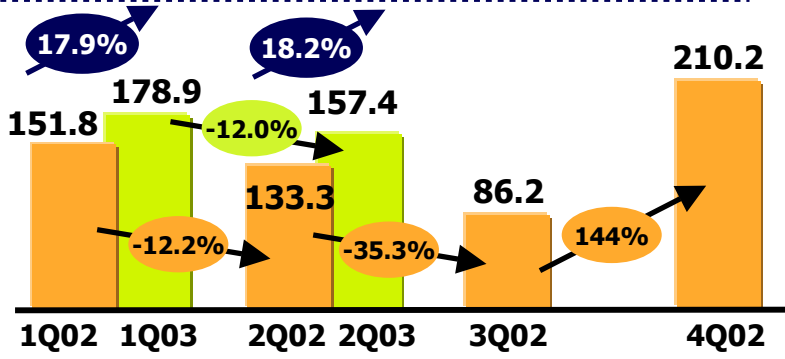


RETAIL ARPU
(€)



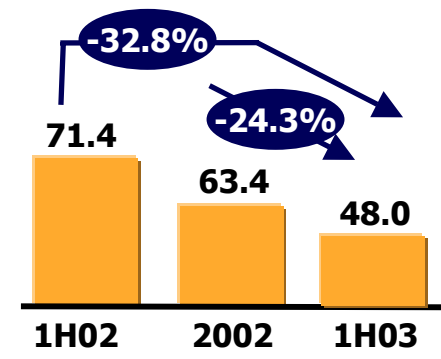
ADSL CONNECTIONS
(NET ADDS; thousands)

ADSL CONNECTIONS	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03
ADSL CONNECTIONS	660.9	747.0	957.2	1,136.1	1,293.6



RETAIL SAC per new connection (€)

■ plug & play 62% of basic retail adds



- CONTINUOUS IMPROVEMENT IN ALL ADSL METRICS COMPARED TO 2002
- NET ADDS INCREASE BY 18.2% FROM 2Q02
- 1H03 GROSS INCREMENTAL MARGIN OVER REVENUES INCREASES BY 27.3 p.p. VERSUS 2002 FIGURE TO EXCEED 50%

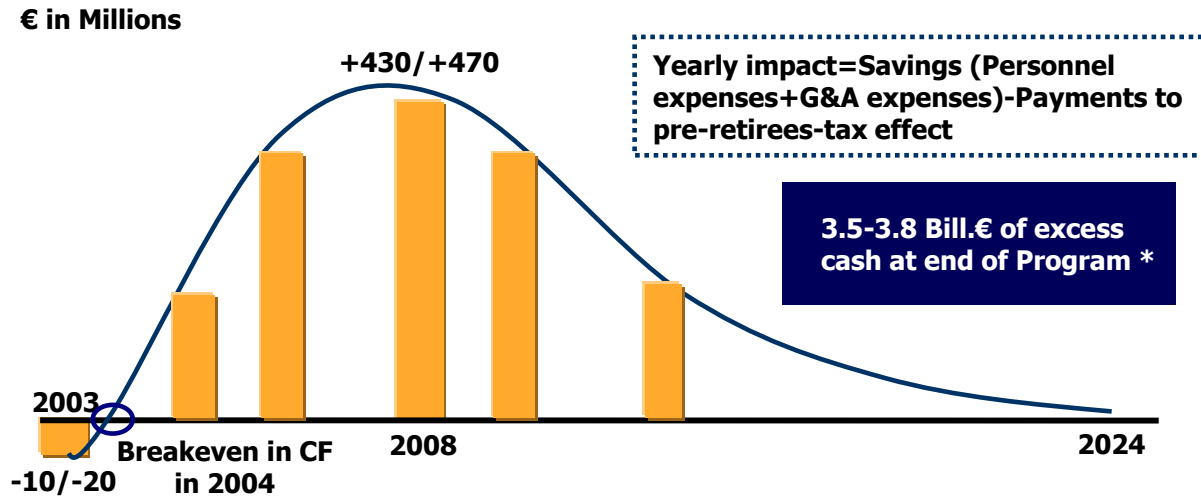
(1) Direct costs include CAT/Help Desk, Internet connection, IP network maintenance, Operations maintenance, Marketing, Installation, Modems, Commissions and Others

T. DE ESPAÑA WORKFORCE REDUCTION PROGRAM: ADAPTING TO A DEMANDING OPERATING ENVIRONMENT

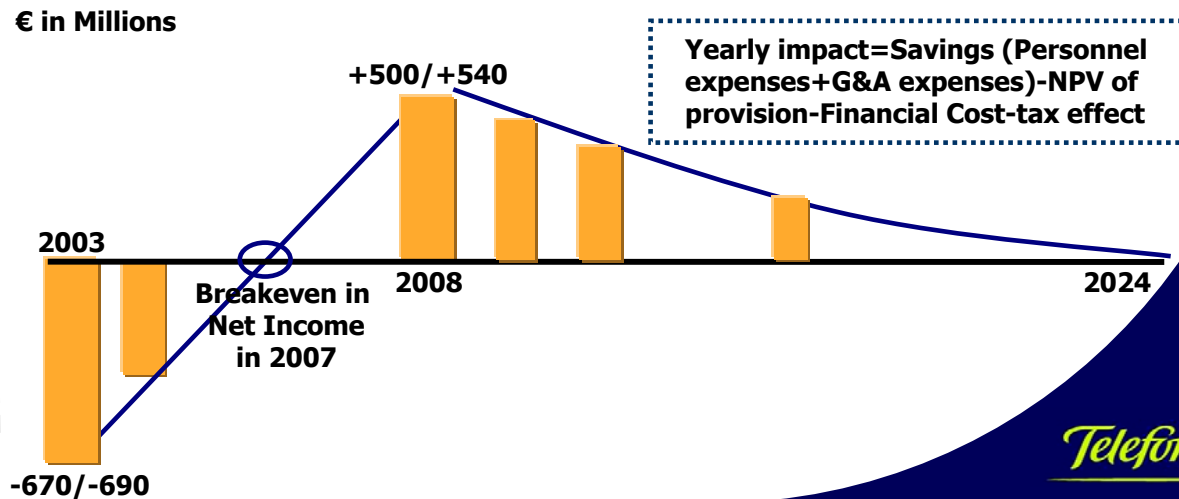
PROGRAM KEY HIGHLIGHTS

- UP TO 15,000 EMPLOYEES (TARGET WORKFORCE OF 25,000 IN 2007)
- 5 YEARS SCHEDULE (2003-2007)
- ESTIMATED AROUND 250,000 €/EMPLOYEE (*)
- COLLECTIVE AGREEMENT ADDS FLEXIBILITY TO THE PROGRAM'S MANAGEMENT
- NO SUBCONTRACTS (MINIMUM IMPACT ON EXTERNAL SERVICES), FULLY CAPTURING THE PLAN'S OPERATING BENEFITS
- VOLUNTARY, UNIVERSAL AND NON DISCRIMINATORY

ESTIMATED CASH FLOW IMPACT **



ESTIMATED P&L IMPACT **

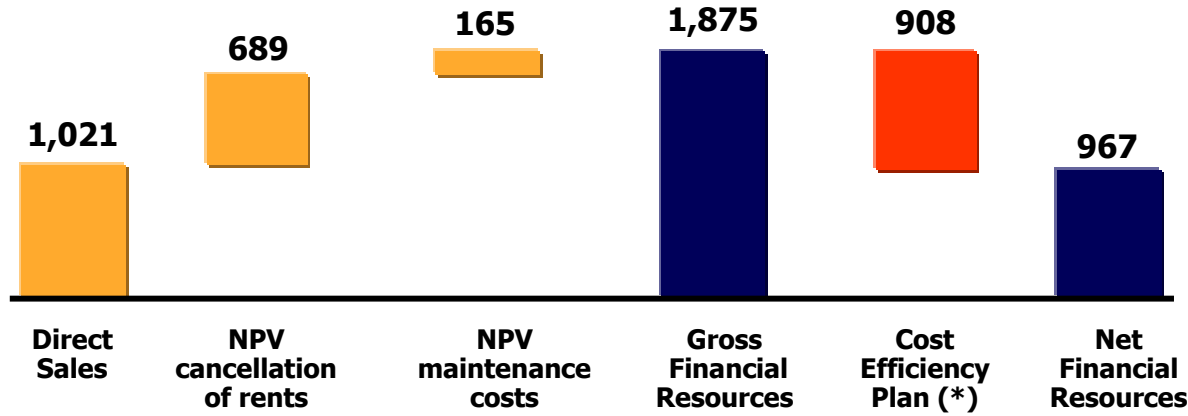


(*) Net Present Value (4% discount rate)

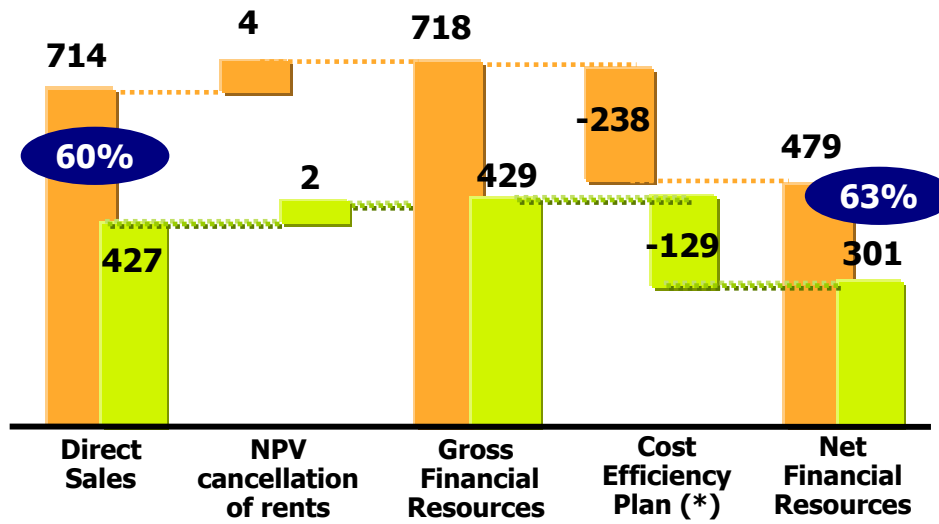
(**) Net of taxes

REAL ESTATE PROGRAM: UPDATE ON EXECUTION

2002-2006 VALUE OF REAL ESTATE PROJECT
(€ in millions)



ON TRACK TO REACH 2003 TARGETS



- Target 2003
- Committed as of June 2003
- Committed as a % of target

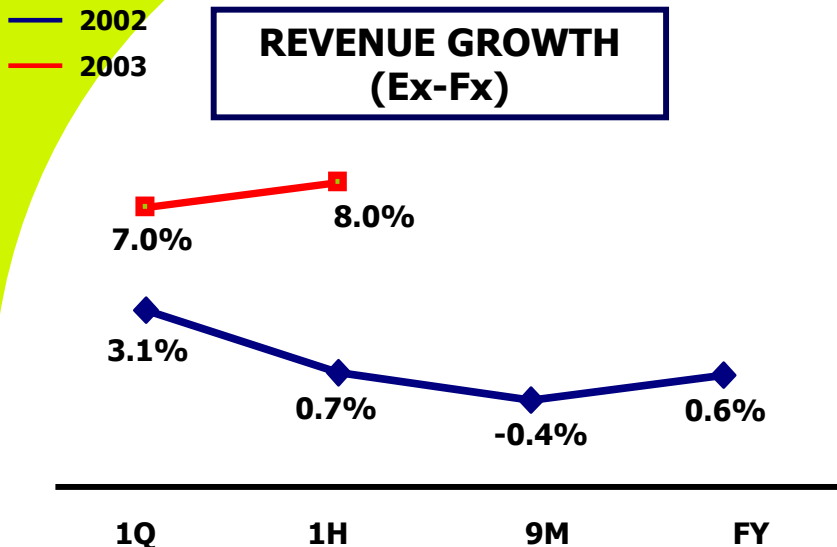
GROSS CAPITAL GAINS ()** THROUGH THE P&L:

- 131 MILLION € AS OF JUNE
- 300-320 MILLION € EXPECTED IN 2003

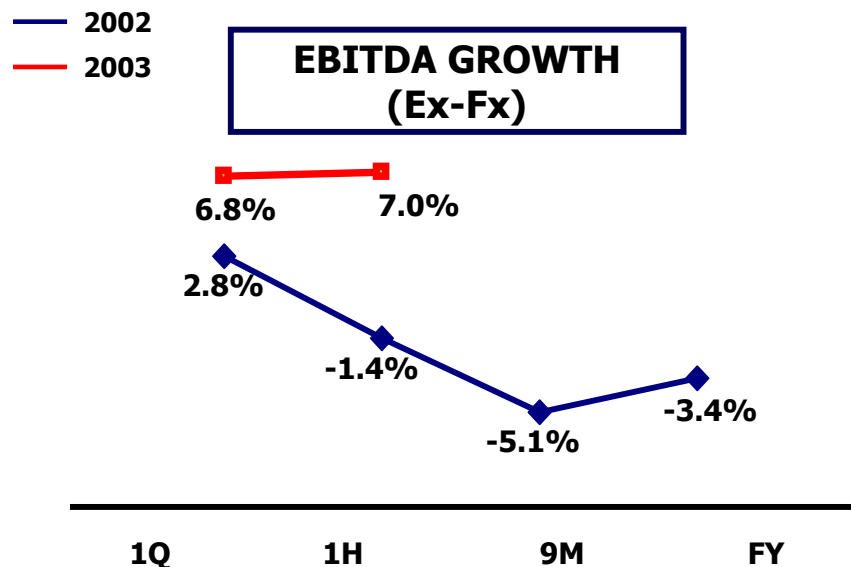
(*) Capex related to "Ciudad de las Comunicaciones", cost & capex related to real Estate restructuring, and NPV rents committed (1 to 5 years)

(**) Sale price minus book value, before restructuring costs (11 Million € Jan-Jun 03) and taxes (15% applicable tax rate)

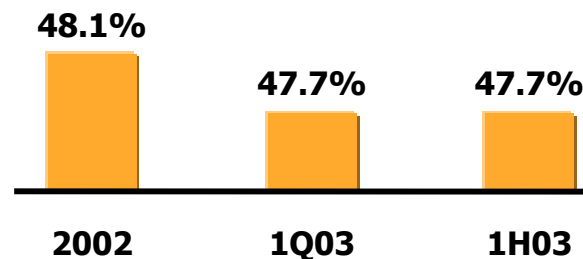
TELEFONICA LATINOAMERICA RESULTS



- Organic growth driven by **Telesp** (contributing with 9 p.p. & 4 p.p. to T. Latam revenues & EBITDA growth) and **TASA** (1.5 p.p. & 4 p.p., respectively)
- **Local & Long distance** continue as drivers of Telesp's performance
- Positive **operating performance of TASA** (+8.6% in traffic/line/day), leading to a 12.5% growth in revenues (5.5% growth excluding inflation adjustment to wholesale tariffs)
- Better top line is keeping **EBITDA margin stable**



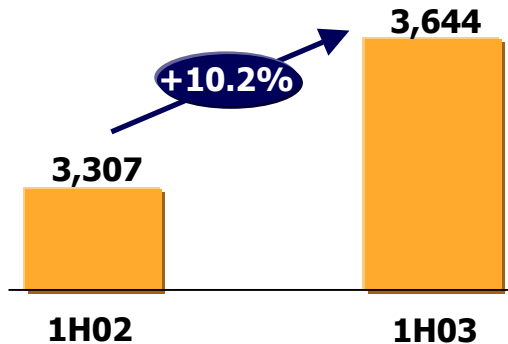
GROUP EBITDA MARGIN



...WITH THE SOLID UNDERLYING PERFORMANCE OF TELESP

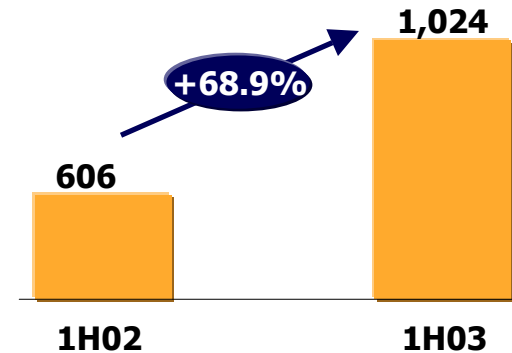
LOCAL REVENUES

(\$R in millions)



LONG DISTANCE REVENUES

(\$R in millions)



- Monthly fee: +7.4% yoy driven by a 13% tariff increase in 02
- Usage revenues: +12.6% yoy driven by tariff increases in 02 and a 7% increase in local traffic/line/day

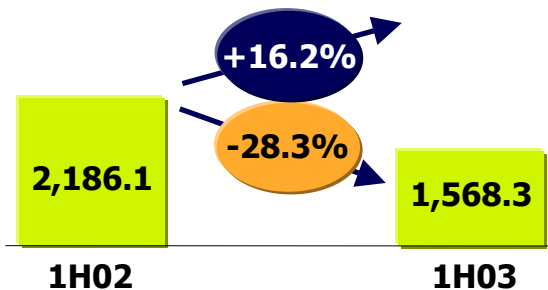
- Around 45 % DLD (interstate) estimated market share as of June 03
- Around 40% estimated ILD market share as of June 03

● YoY change in local currency

● YoY change in euros

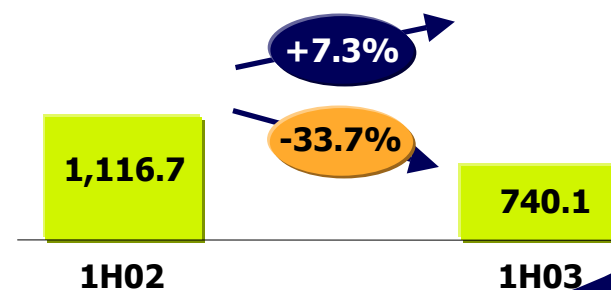
REVENUES

(€ in millions)



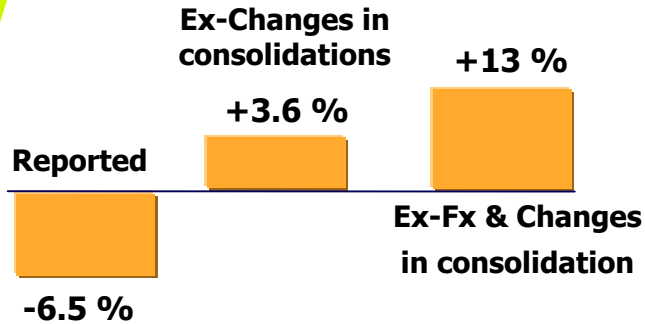
EBITDA

(€ in millions)



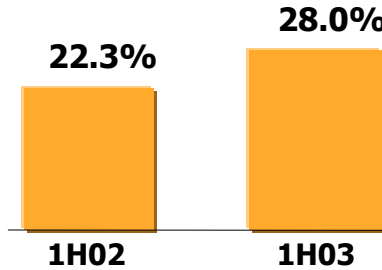
DATA, SOLUTIONS & INTERNATIONAL SERVICES BUSINESS

1H03 GROUP REVENUES (Annual % Change)

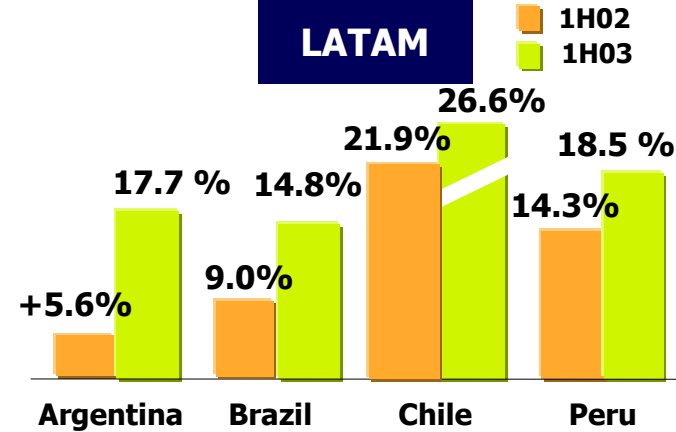


INCUMBENT MARKETS REMAIN ROBUST (DATA OPERATIONS EBITDA MARGIN)

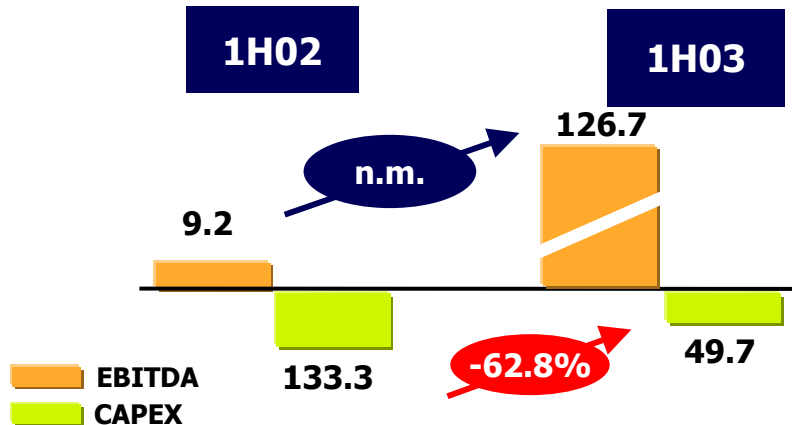
SPAIN



LATAM



GROUP CASH FLOW GENERATION (euros in millions)



- Contributing 1.7% to cash flow (*) of TEF Group
- Positive EBITDA on International Services Business
- Capex over revenues of 5.7 %

(*) EBITDA-CAPEX

NET FINANCIAL EXPENSES (*)

Euros in millions	Jun03	Jun02	% Change
Debt financial expense	(996.6)	(960.0)	4.1%
Other financial expenses	(36.0)	(20.9)	72.0%
Financial Income	200.1	185.8	7.7%
Financial provisions and net forex (1)	539.0	(813.9)	(n.m.)
<hr/>			
Net financial results	(296.5)	(1,609.0)	(81.6%)
<hr/>			
Net financial results excluding profit from ARS appreciation	(534.9)	(929.5)	(42.5%)
<hr/>			
Net financial results excluding profits from ARS appreciation and USD debt amortization	(802.4)	(929.5)	(13.7%)

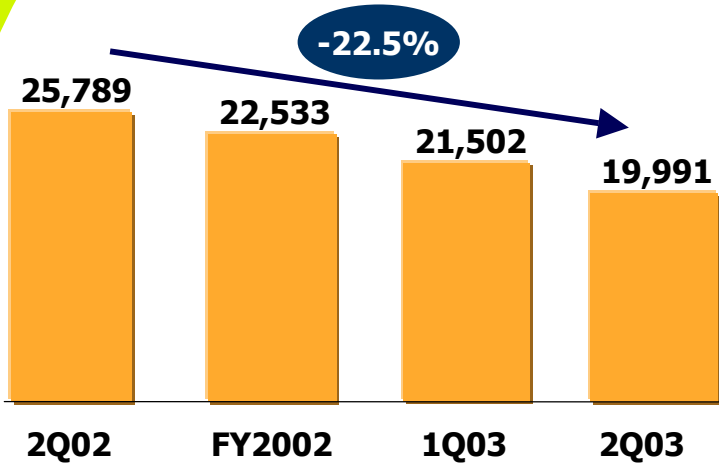
(*) Global consolidation

(1) Basically non cash

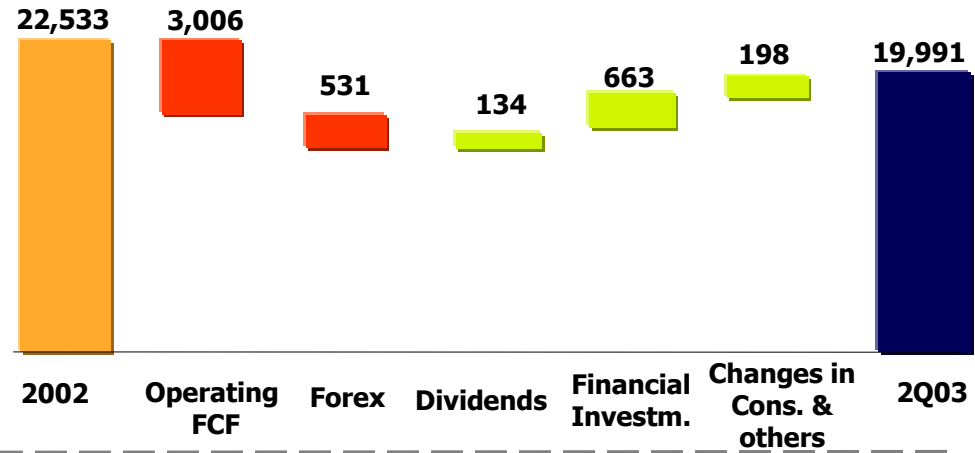
WE HAVE FURTHER STRENGTHENED OUR CREDIT PROFILE

CONSOLIDATED DEBT EVOLUTION

(€ IN MM)

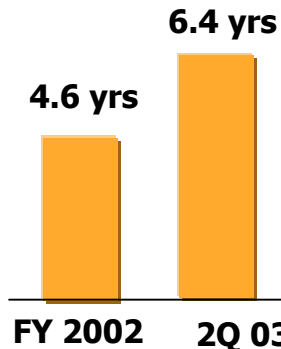


COMPONENTS OF 1H03 DEBT REDUCTION



EXTENDING AVERAGE DEBT MATURITY UP TO 6,4 YEARS

DEBT MATURITY PROFILE



SOUND CREDIT RATIOS, AS A GROUP AND ALSO EX-LATAM

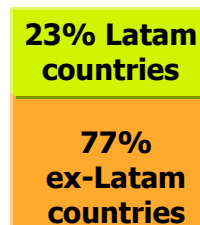
NET DEBT*/EBITDA 02

Group	1.71x
Group ex-Latam	1.98x

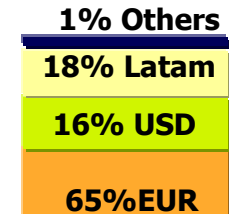
(*) As of June 03

A BALANCED DEBT STRUCTURE

NET DEBT BY ISSUER



NET DEBT BY CURRENCY



2Q03

JAN-JUN 2003 CASH FLOW STATEMENT

(Euros in millions)

		Jan-Jun 2003
I	Cash flows from operations	5,753.6
II	Other payment related to operating activities	(443.7)
III	Net interest payment	(759.7)
IV	Payment for income tax	(114.4)
A= I+II+III+IV		
Net cash provided by operating activities		4,435.8
B	Net payment for investment in fixed and intangible assets (*)	(1,429.4)
C=A+B		
Net free cash flow after capex		3,006.4
D	Net payment for financial investment	(663.1)
E	Dividends paid	(134.2)
F= C+D+E		
Free cash flow after dividends		2,209.1
G	Effects of exchange rate changes on net debt	(531.4)
H	Effects on net debt of changes in consolidation and others	198.0
I	Net debt at beginning of period	22,533.1
J= I-F+G+H		
Net debt at end of period		19,990.6

(*) Including 268.4 mill Euros of cash received from real estate divestment.

CONCLUSIONS

- **UNDERLYING OPERATING PERFORMANCE IS IMPROVING ACROSS THE GROUP AND FALLS IN LINE WITH YEAR END TARGETS**
- **REVENUES ARE RECOVERING IN THE SECOND QUARTER, REFLECTING SOLID SPANISH OPERATIONS AND THE STEADY PROGRESS OF LATAM UNDERLYING OPERATING PERFORMANCE**
- **FOREX IS PROGRESSIVELY REDUCING ITS NEGATIVE IMPACT ON CONSOLIDATED ACCOUNTS, A TREND THAT WILL CONSOLIDATE DEPENDING ON FOREX MARKET CONDITIONS**
- **EFFICIENCY CONTINUOUS TO FLOW INTO MARGINS AND CASH FLOW GENERATION**

Telefónica
