



Telefonica



**January - September
2003 Results**

This presentation is being broadcast live on the Internet

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FINANCIAL HIGHLIGHTS

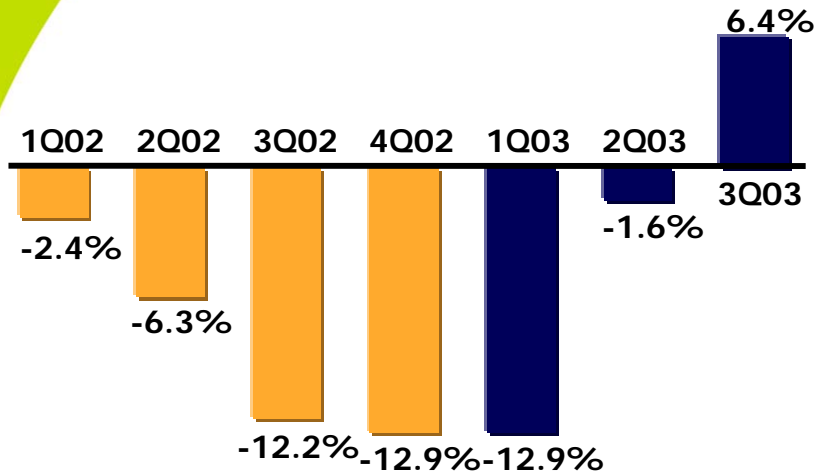
	Jul-Sep 03	% Change Jul-Sep 03/ Jul-Sep 02	Jan-Sep 03	% Change Jan-Sep 03/ Jan-Sep 02
Operating Rev.	7,269.9	+6.4%	20,833.2	-3.0%
EBITDA	3,338.1	+17.0%	9,294.1	+4.1%
EBIT *	1,773.4	+37.4%	4,591.4	+20.7%
Net Income	588.7	+9.4%	2,014.4	c.s

- 3Q03 revenues: +6% y-o-y in nominal terms, with T. Latinoamérica and the Cellular Business both growing at a 16% rate.
- 9M03 underlying performance: Revenues and EBITDA are growing at a 6% and 13% real annual rate, respectively. Forex drains just 9 p.p. to revenues and EBITDA growth for the first nine months (-18 p.p. in the 1Q03).
- 9M03 Costs: +1% in constant currency terms, contributing to push 9M03 nominal EBITDA up by 4%. Cumulative EBITDA margin at 44.6% (+3 p.p. over 9M02 figure).
- +20.7% 9M03 EBIT growth, once capex rationalization efforts are leading to lower depreciation.
- 9M03 Net Income: topping 2 Billion €, driven by the overall improvement of non-operating results.

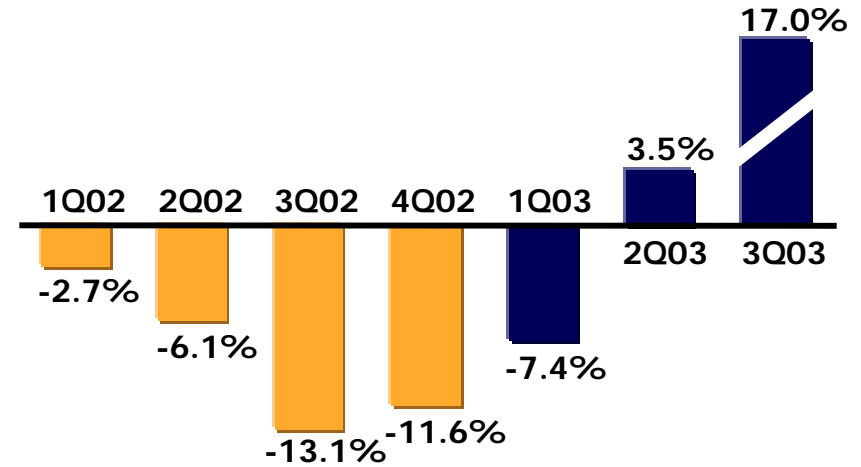
(*) EBITDA less depreciation

OPERATING RESULTS ARE IMPROVING SEQUENTIALLY ON A QUARTERLY BASIS IN 2003...

QUARTERLY GROUP REVENUE PERFORMANCE (y-o-y growth in € terms)



QUARTERLY GROUP EBITDA PERFORMANCE (y-o-y growth in € terms)



DRIVEN BY ALL THREE MAJOR BUSINESS LINES

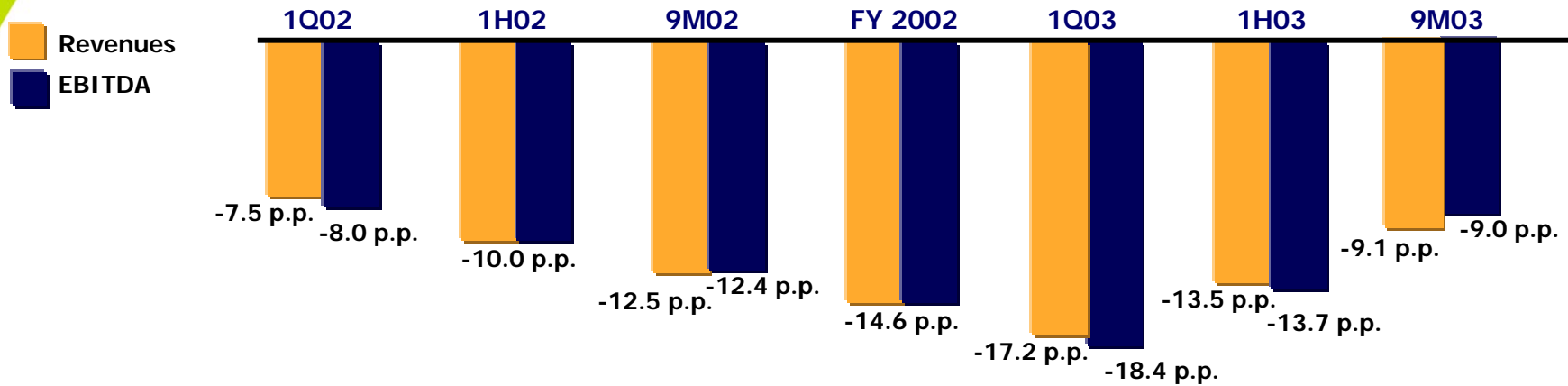
	REVENUES			EBITDA		
	% Change 1Q03/1Q02 *	% Change 2Q03/2Q02 *	% Change 3Q03/3Q02 *	% Change 1Q03/1Q02 *	% Change 2Q03/2Q02 *	% Change 3Q03/3Q02 *
TdE Group	-1.3%	-1.7%	-0.6%	-1.6%	-2.3%	+2.0%
Cell. Business	-6.3%	+10.9%	+16.3%	+8.0%	+19.2%	+28.5%
T. LATAM	-34.0%	-15.5%	+15.8%	-35.3%	-16.5%	+15.8%

(*) Annual Growth rate in € terms

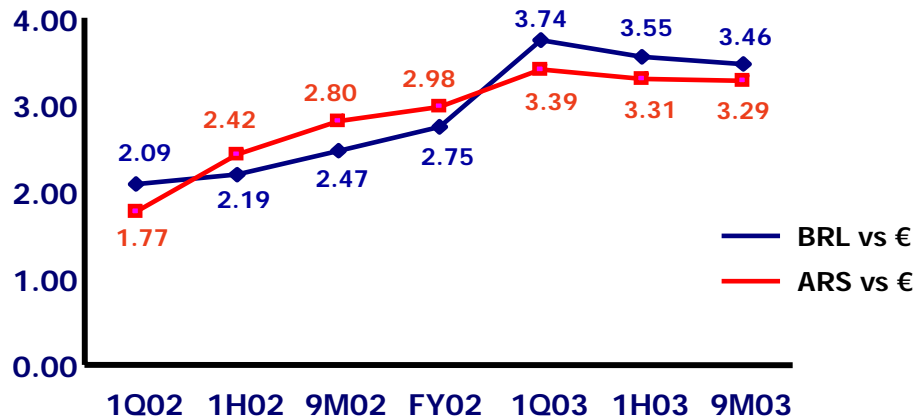
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...AND FOREIGN EXCHANGE RATES NEGATIVE IMPACT CONTINUES TO DIMINISH...

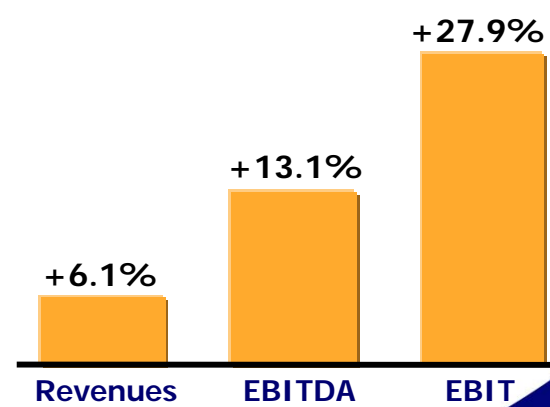
FX IMPACT ON REVENUES AND EBITDA GROWTH



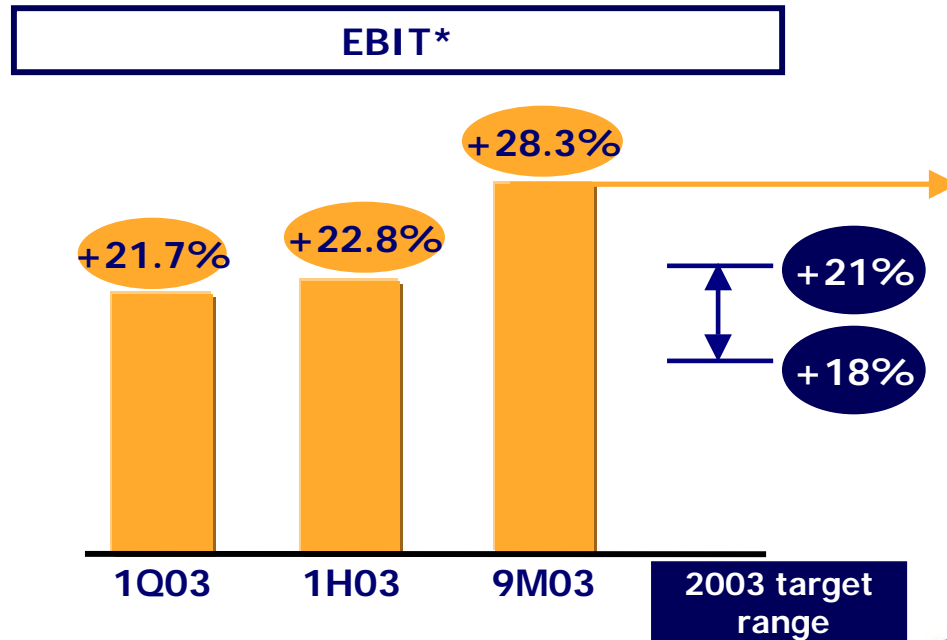
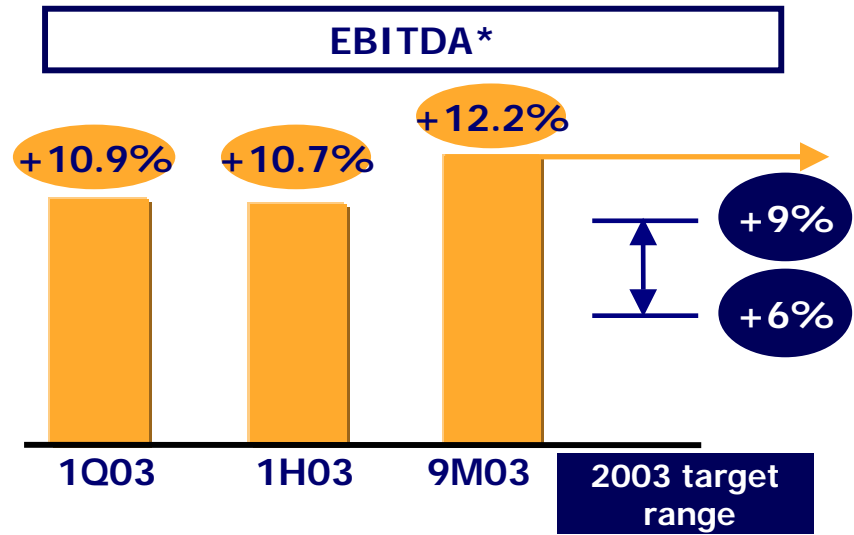
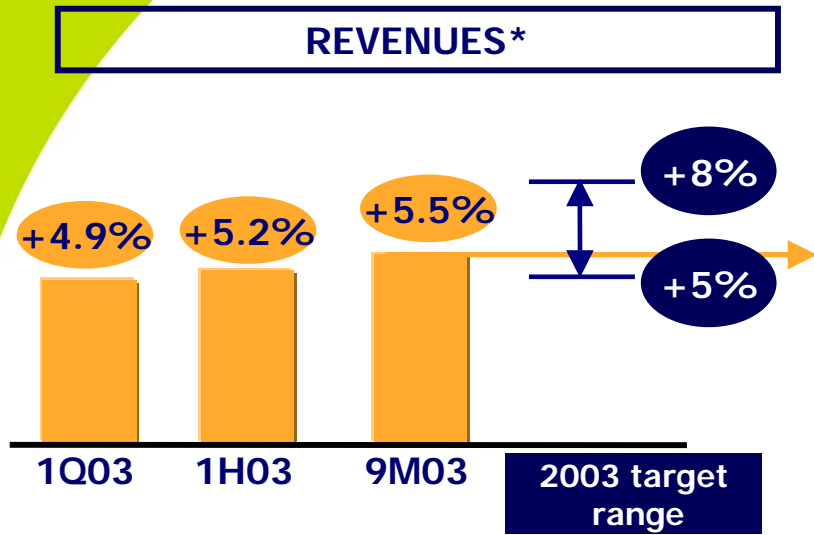
AVERAGE EXCHANGE RATES



JAN-SEP 03 GROWTH RATES EXCLUDING FOREX



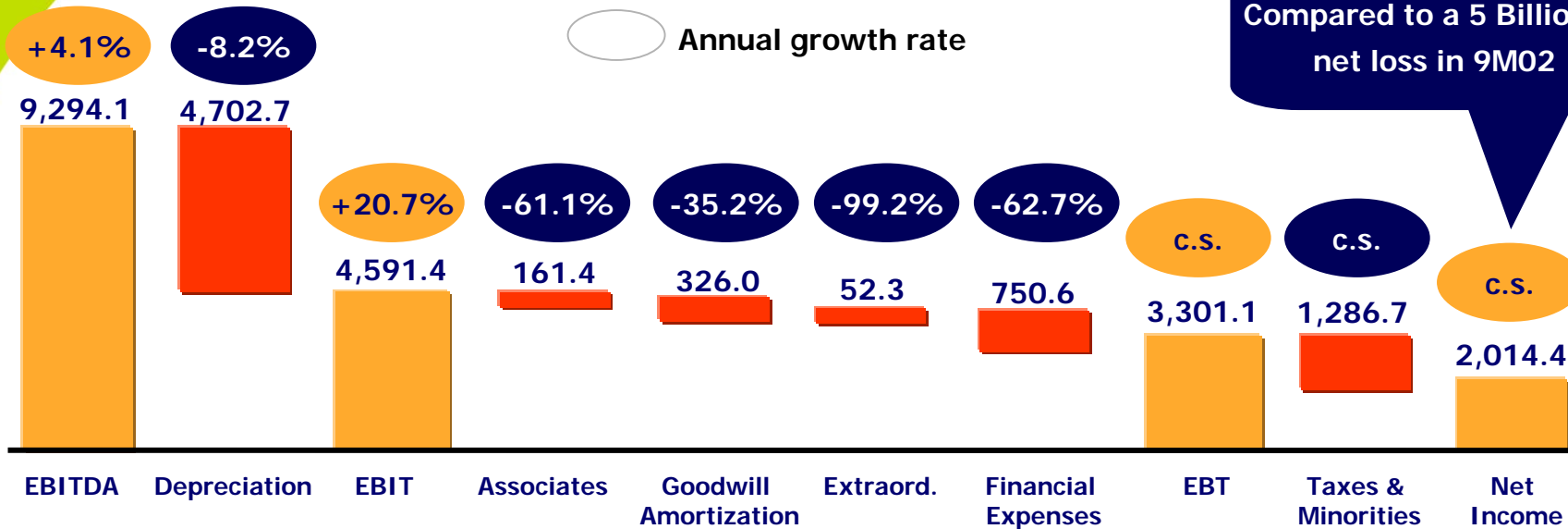
...FOR THE OUTPERFORMANCE OF 2003 GUIDANCE



(*) Excluding Fx and changes in consolidation

TOP LINE GROWTH IS FULLY FLOWING INTO NET INCOME

€ in Millions

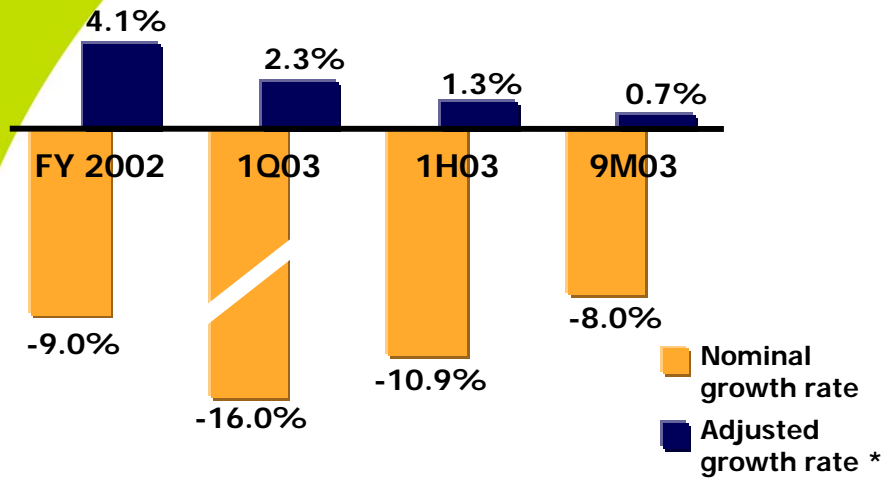


Improvement of non-operating results at all levels:

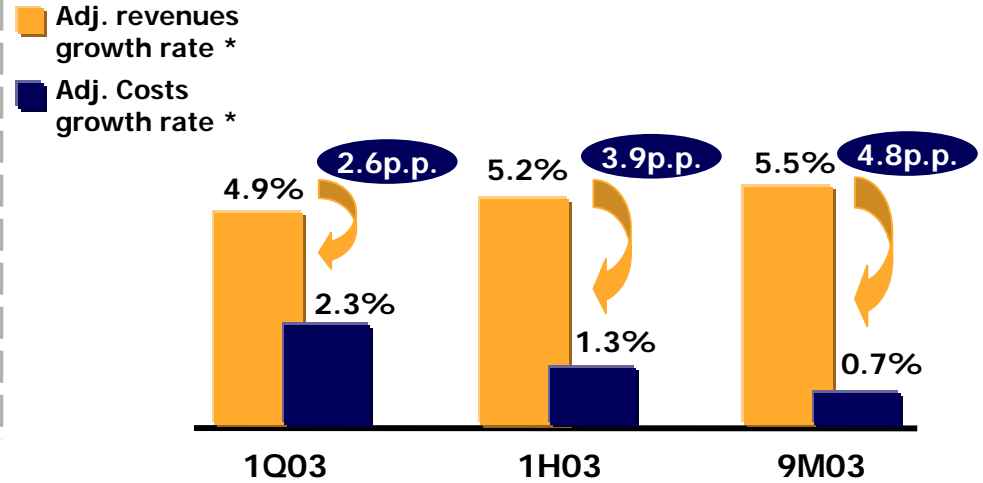
- **Associates:** Media restructuring (Vía Digital/Sogecable merger, A3TV divestiture), closing of 3G ventures (IPSE), and Data refocusing in Europe (Atlanet, ETI)
- **Goodwill:** Write-downs of Internet, Media and Data assets offsetting the incorporation of Pegaso and TCO
- **Extraordinaries:** Expenses are partly compensated by the capital gains on Real Estate and the reversion of treasury stock provision
- **Financial Expenses:** Solid management of debt exposure (debt reduction + Interest rate management + Latam hedging) to be added to the effect of the ARS appreciation and the cancellation of USD debt in 2Q03

MANAGING THE COST STRUCTURE ACROSS BUSINESS LINES

A LEANER COST STRUCTURE (cumulative % change)

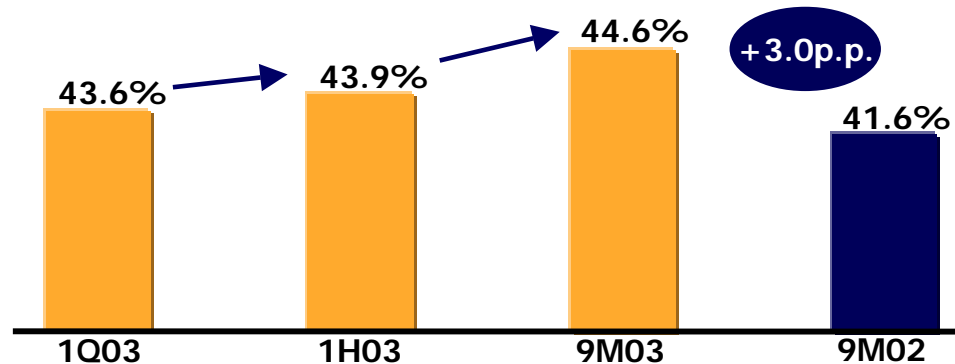


COSTS VS REVENUES GROWTH RATES



OPENING THE GAP BETWEEN REVENUES AND COST GROWTH RATES FOR THE BENEFIT OF MARGINS

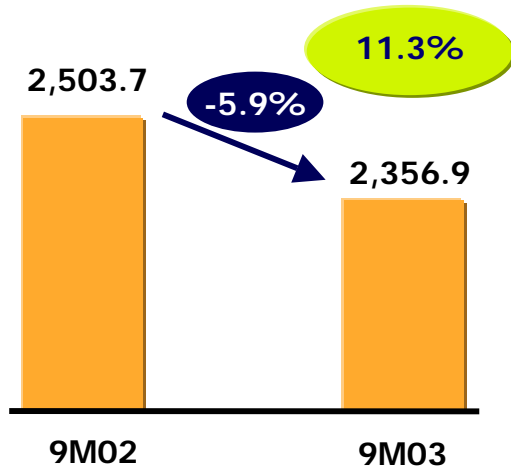
CUMULATIVE EBITDA MARGIN



(*) Excluding forex and changes in the consolidated accounts

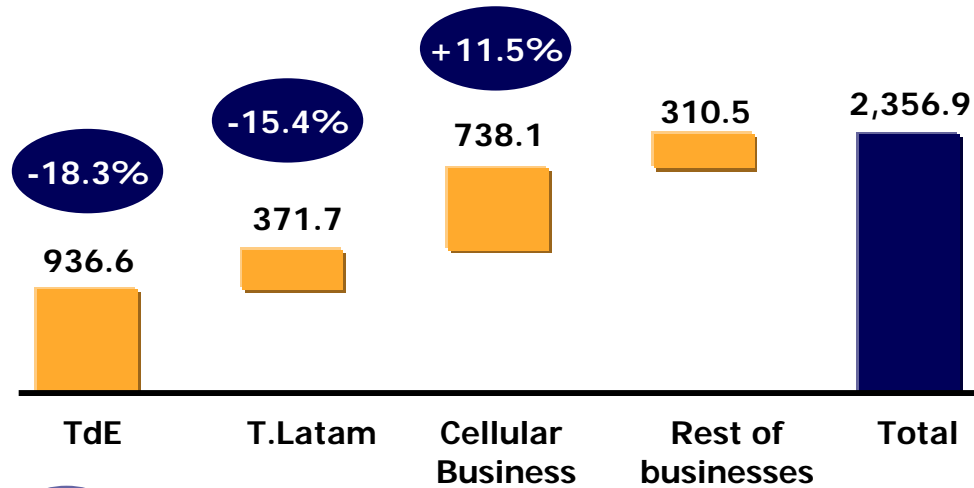
CONSOLIDATED GROUP CAPEX

CAPEX EVOLUTION
(€ in Million)



Capex over Revenues

9M03 CAPEX BREAKDOWN
(€ in Million)

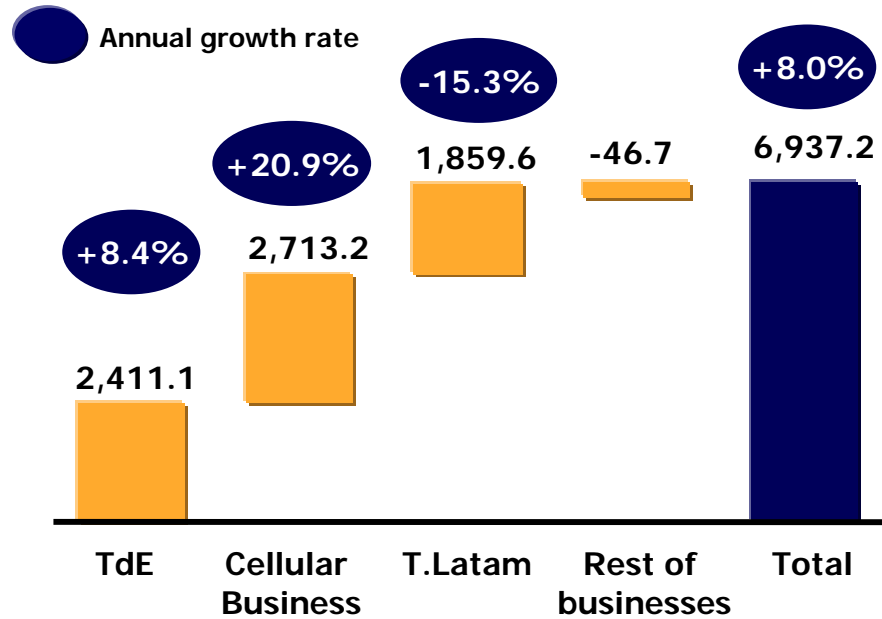


Annual growth rate

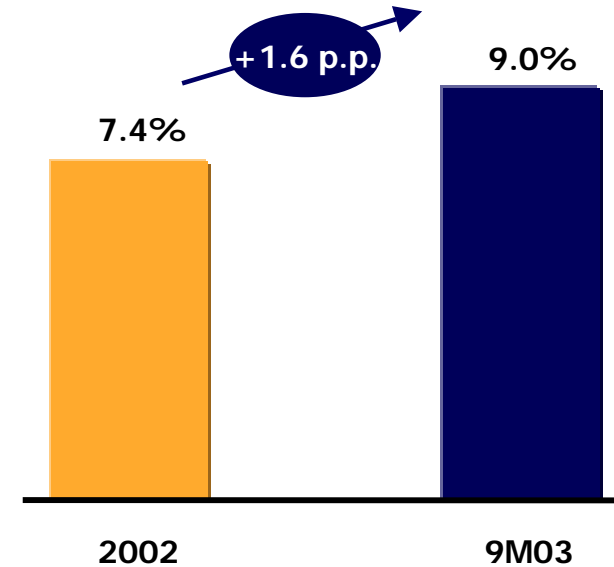
- Increasing pace of **Telefónica de España** Capex cuts, following efficiency gains in ADSL deployment. 50% of Capex is transformation
- 9M03 wireline Capex in **Latin America** decreased by 20% in local currency terms, mainly driven by Telesp (70% of total Latam Capex, and dropping 27% in constant currency)
- The launch of GSM services in Mexico and Chile are the factors behind **Group's wireless** Capex trend

STRONG CASH FLOW GENERATION AND IMPROVED RETURNS

9M03 CASH FLOW BREAKDOWN *
(€ in Million)



ROCE EVOLUTION

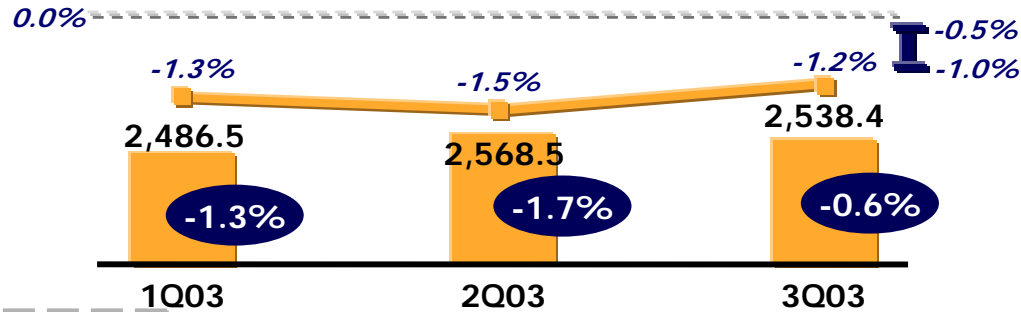


- Quarterly Cash Flow remains consistently over the 2 Billion € mark
- CF over revenues above 33%, compared to 28% in 2002
- Excluding Terra Lycos, the rest of businesses are contributing positively to Group CF

(*) EBITDA-Capex

TELEFONICA DE ESPAÑA GROUP: IMPROVING THROUGH 2003

OPERATING REVENUES (€ in Million)

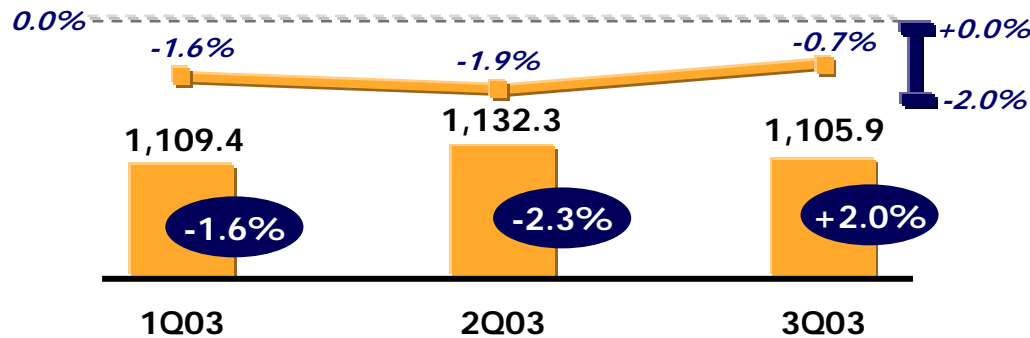


4Q03 vs. 4Q02 ADDITIONAL EFFECTS

- ↑
2003 PRICE-CAP LESS DEMANDING THAN 2002
 (CPI-4%) vs. (CPI-8%)
- ↑
PSTN MONTHLY FEE INCREASE IN JAN-03
 INCREASE OF €0.9

● % Change vs same quarter 2002
— Cumulative growth rate

EBITDA (€ in Million)



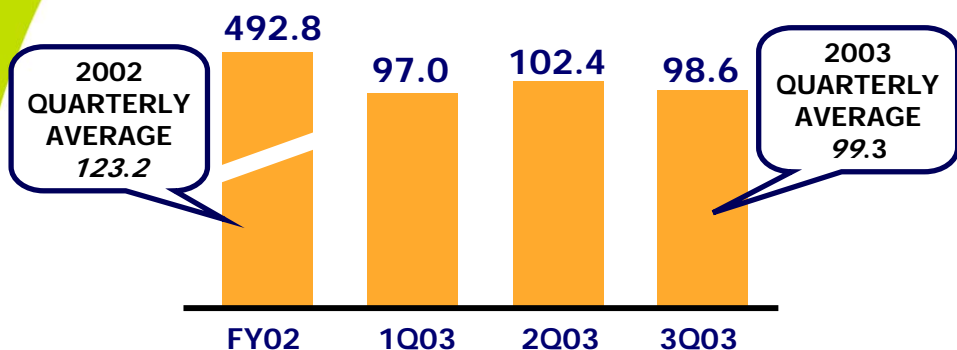
- ↑
REDUNDANCY PROGRAM
 LOWER PERSONNEL EXPENSES
- ↓
MARKETING COSTS
 ADSL CHRISTMAS CAMPAIGN
 NEW TRAFFIC PRICING SCHEMES:
 MODULAR OFFER (commercially named "COMBINADOS")

REDUNDANCY PROGRAM

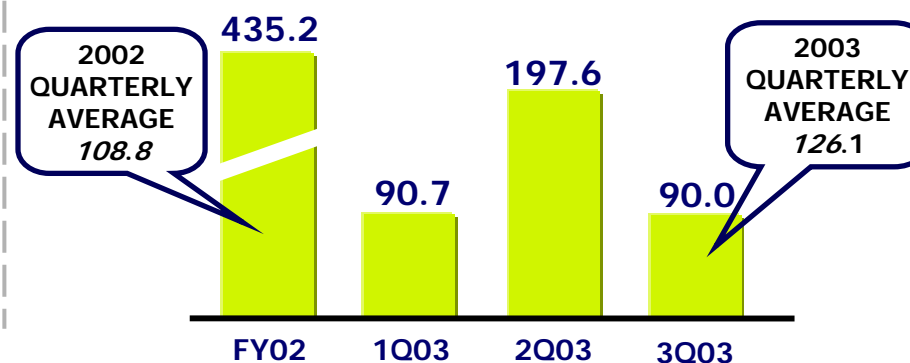
- 5,489 EMPLOYEES AGREED TO JOIN THE PROGRAM IN 2003
- EXTRAORDINARY NON-CASH PROVISION NET OF TAXES OF CLOSE TO 894 MILLION € TO BE ACCOUNTED FOR IN 4Q03 AT TELEFONICA GROUP LEVEL

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-Sep 03	Jan-Sep 02	% Change Jan-Sep 03 vs 02
OUTGOING	63,799	72,299	-11.8%
<i>Voice</i>	<i>42,394</i>	<i>46,527</i>	<i>-8.9%</i>
Local	22,283	25,814	-13.7%
Provincial	6,251	6,643	-5.9%
DLD	5,171	5,661	-8.7%
International	1,249	1,282	-2.6%
F2M	4,416	4,279	3.2%
IN* & Others	3,024	2,848	6.2%
<i>Internet</i>	<i>21,406</i>	<i>25,773</i>	<i>-16.9%</i>
INCOMING	39,498	34,834	13.4%
TOTAL	103,297	107,134	-3.6%

**LOWER USAGE REVENUE DECLINE
DUE TO INCREASING EFFECTIVE
PRICE PER MINUTE**

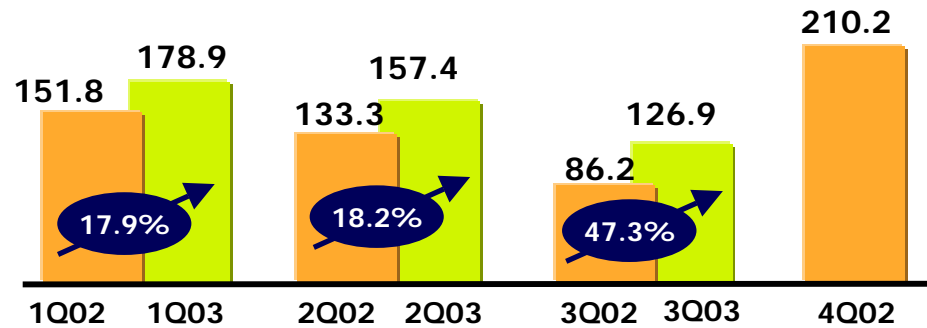
* Intelligent Network

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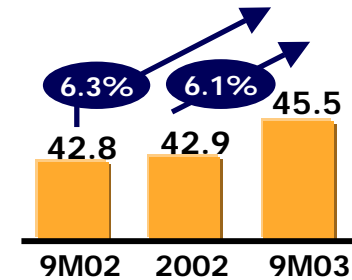
TELEFONICA DE ESPAÑA: ADSL, A PROFITABLE STORY

ADSL CONNECTIONS (NET ADDS; thousands)

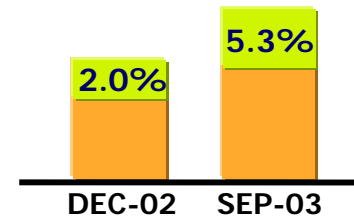
ADSL CONNECTIONS	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03
	747.0	957.2	1,136.1	1,293.6	1,420.5



RETAIL ARPU (€)

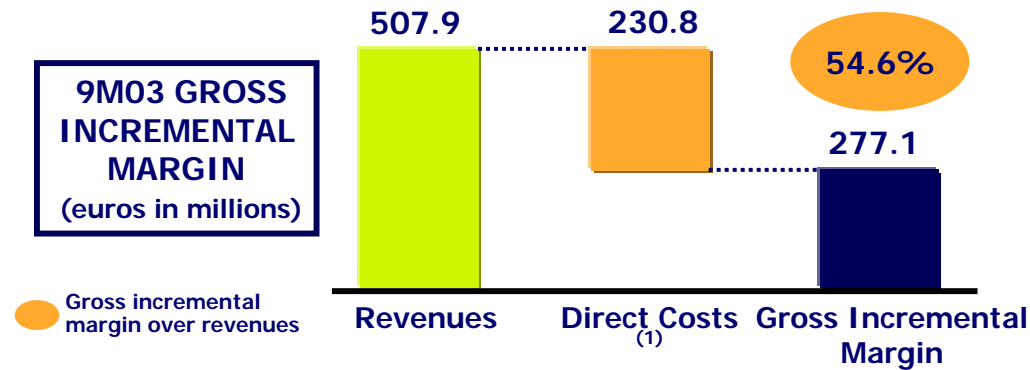


VAS CONTRIBUTION TO ARPU (€)



1.5 MILLION ADSL CONNECTIONS AT THE END OF OCTOBER, SETTING THE PACE TO REACH OUR 1.6 Mill. TARGET FOR 2003

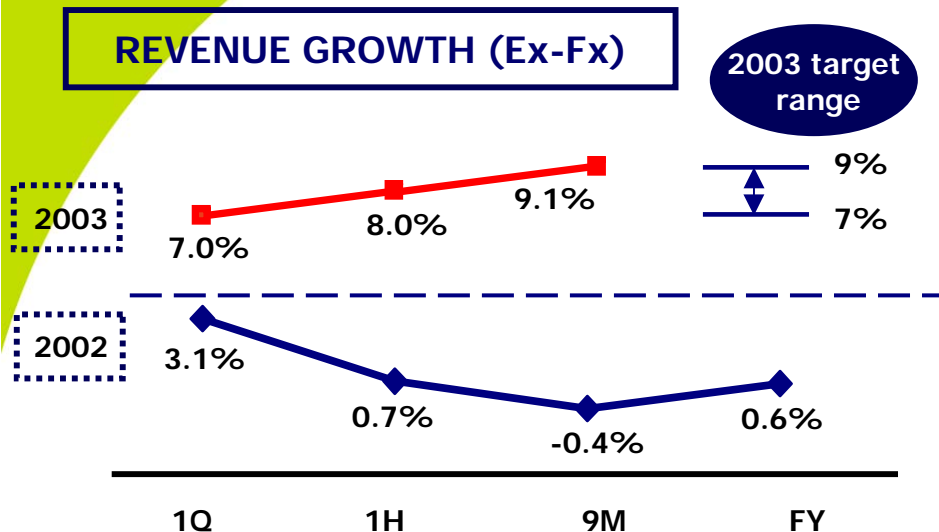
9M03 GROSS INCREMENTAL MARGIN (euros in millions)



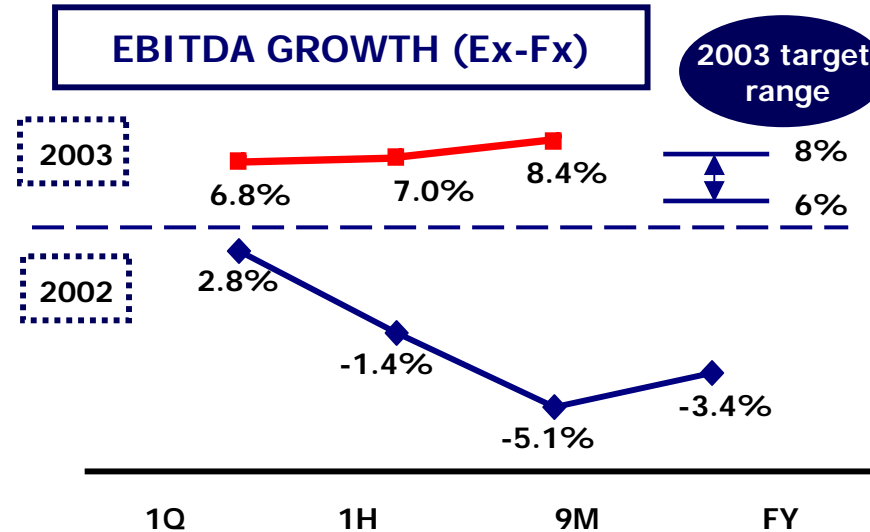
(1) Direct costs include CAT/Help Desk, Internet connection, IP network maintenance, Operations maintenance, Marketing, Installation, Modems, Commissions and Others

TELEFONICA LATINOAMERICA RESULTS...

REVENUE GROWTH (Ex-Fx)

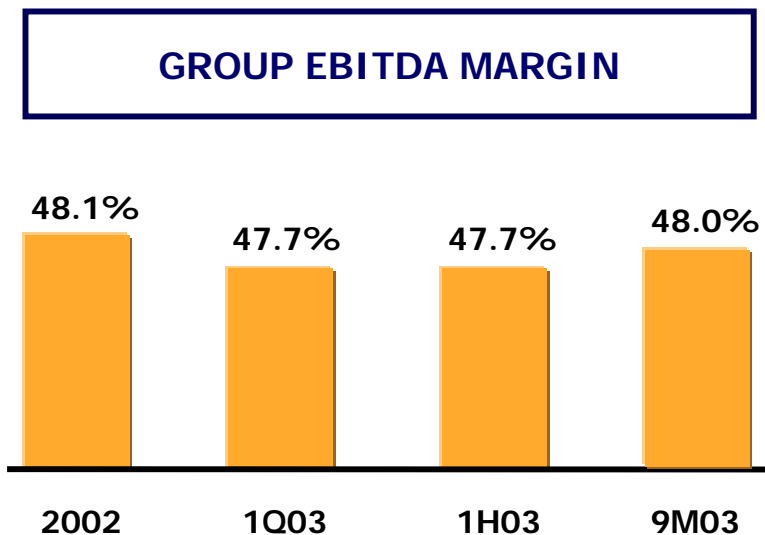


EBITDA GROWTH (Ex-Fx)

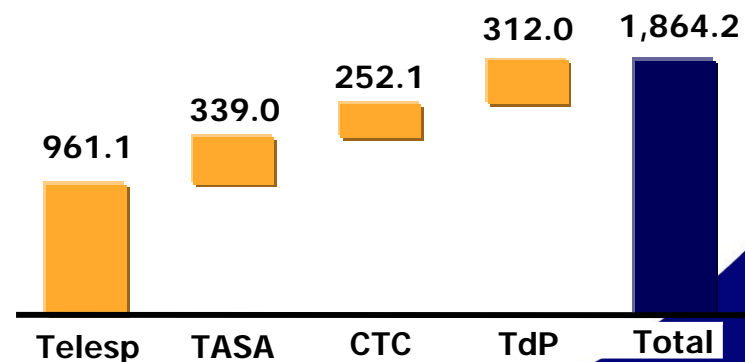


Contributing by close to 2.5 p.p. to Telefónica's revenues and EBITDA growth in constant currency terms *

GROUP EBITDA MARGIN



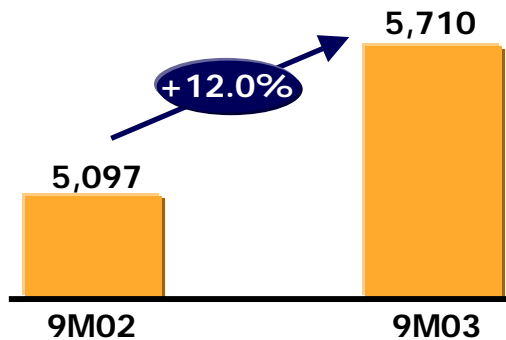
CASH FLOW BREAKDOWN ** (€ in Millions)



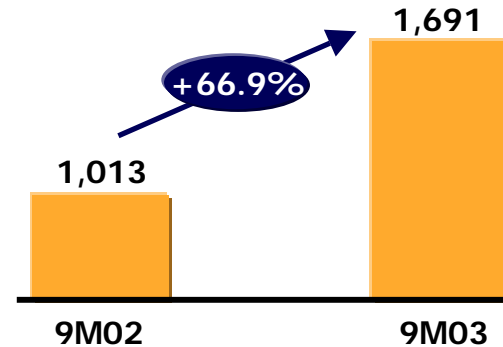
(*) Excluding forex and changes in consolidation. (**) EBITDA-Capex

...WITH TELESP POSTING A SOLID UNDERLYING PERFORMANCE

LOCAL REVENUES
(BRL in millions)



LONG DISTANCE REVENUES
(BRL in millions)



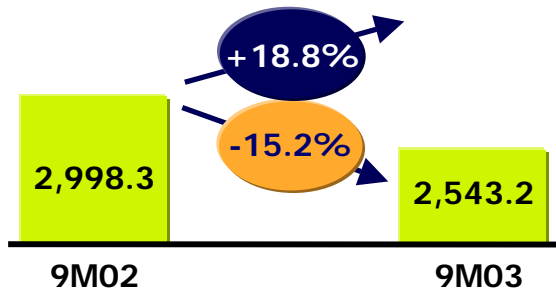
- Tariff increases in 2003: +12.5% monthly fee, +11% local calls, +16.9% F2M
- +9.5% rise in local traffic/line/day

- Around 50 % DLD (interstate) estimated market share as of September 03
- Around 40% estimated ILD market share as of September 03

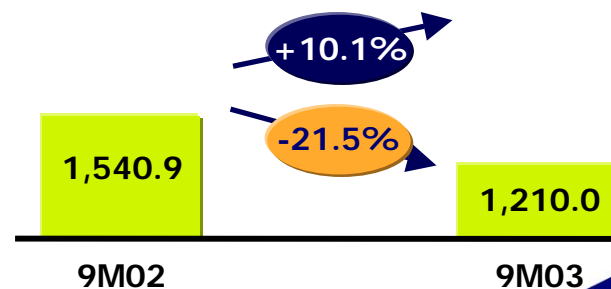
● YoY change in local currency

● YoY change in euros

REVENUES
(€ in millions)

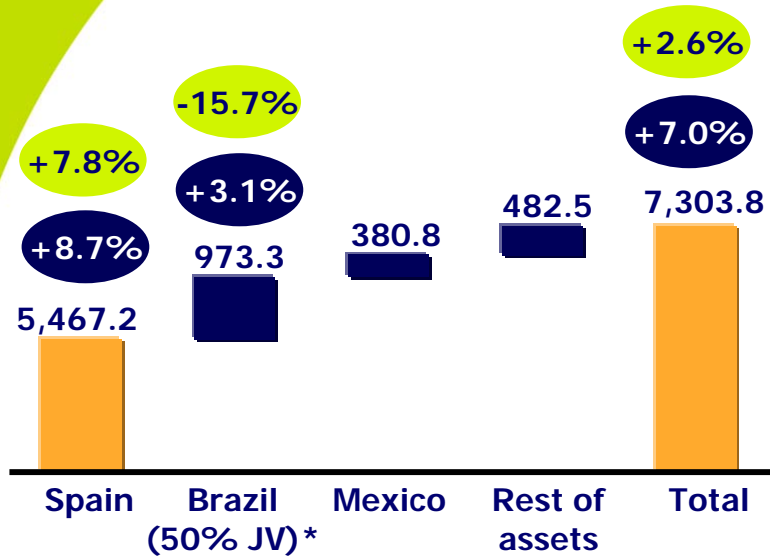


EBITDA
(€ in millions)



TELEFONICA MOVILES: IMPROVING TOP LINE AND OPERATING RESULTS

REVENUES BREAKDOWN (€ in millions)

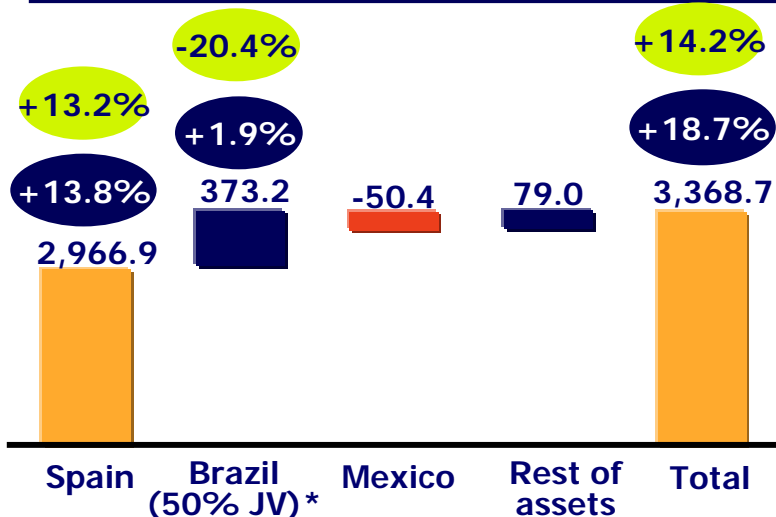


● 1H03 vs 1H02

● 9M03 vs 9M02

- **Spain:** +5.4% in subs vs 3Q02, combined with a 4.3% annual ARPU growth, leading to a 12% increase in service revenues
- **Brazil:** +25.7% y-o-y revenue growth in local currency, showing strong market positioning (47% share of net adds in areas of operation in 3Q03)
- **Mexico:** Client base up by 21.1% y-o-y, with net adds accelerating sequentially as GSM roll-out progresses. Expanding distribution network to 3,600 POS

EBITDA BREAKDOWN (€ in millions)



- **Spain:** 54% EBITDA margin, with SAC+SRC below 7% of revenues in 9M03
- **Brazil:** 38% cumulative EBITDA margin (40% in 3Q03)
- **Mexico:** 50 Million € 9M03 EBITDA loss, in line with year-end target

(*) 2002 figures correspond to TeleSudeste Celular, TeleLeste Celular and CRT Celular

NET FINANCIAL EXPENSES (*)

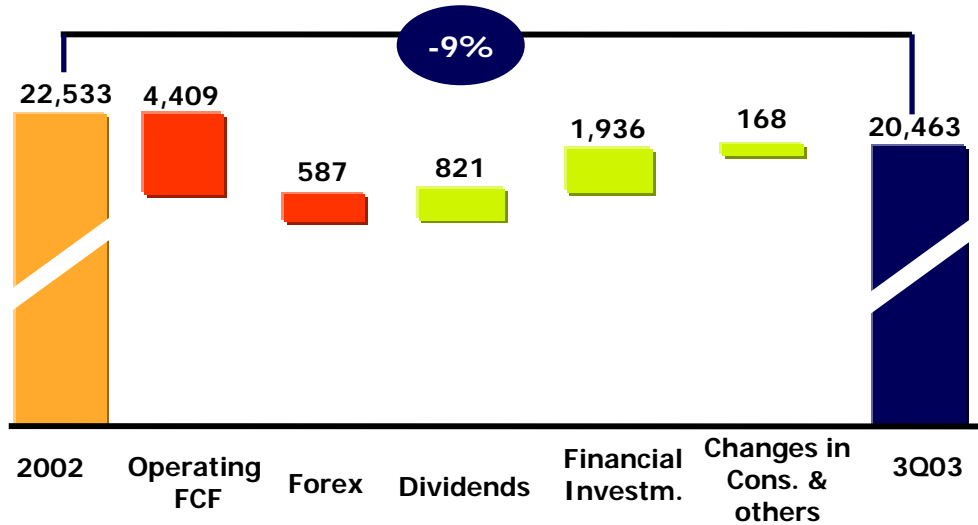
Euros in millions	Sep03	Sep02	% Change
Debt financial expense	(1,442.4)	(1,430.9)	0.8%
Other financial expenses	(32.2)	(32.6)	(1.2%)
Financial Income	286.1	251.6	13.7%
Financial provisions and net forex (1)	438.0	(799.0)	(c.s.)
<hr/>			
Net financial results	(750.6)	(2,010.9)	(62.7%)
<hr/>			
Net financial results excluding extraordinary items	(1,190.4)	(1,402.6)	(15.1%)

(*) Global consolidation

(1) Basically non cash

SUCCESSFUL MANAGEMENT OF LIABILITIES AND BALANCE SHEET RISKS

9M03 DEBT REDUCTION BREAKDOWN (€ in Million)



NET DEBT as of Sep 03

4/3 * EBITDA Jan-Sep 03 = 1.65

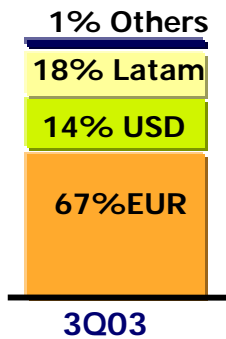
NET DEBT + COMMITMENTS⁽¹⁾

4/3 * EBITDA Jan-Sep 03 = 2.00

(1) As of September 03, including financial guarantees plus commitments from 99 redundancy program.

CURRENCY RISK

NET DEBT BY CURRENCY



CONTRIBUTION TO 9M03 DEBT REDUCTION

€ in Million

USD & Latam currencies	561
Other curr.	26
Total	587

SOVEREIGN RISK

REPATRIATION OF LATAM FUNDS 9M03

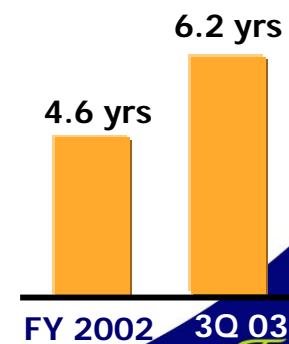
804 mill EUR, 76% of free cash flow generated in Latam

EXCHANGE OFFER ON TASA BONDS

High acceptance rate, maintaining TASA self-funding and lengthening its debt maturity

REFINANCING RISK

AVERAGE DEBT MATURITY



JAN-SEP 2003 CASH FLOW STATEMENT

(Euros in millions)

		Jan-Sep 2003
I	Cash flows from operations	8,853.2
II	Other payment related to operating activities	(697.4)
III	Net interest payment	(1,314.3)
IV	Payment for income tax	(167.8)
A= I+II+III+IV		
	Net cash provided by operating activities	6,673.7
B	Net payment for investment in fixed and intangible assets	(2,264.3)
C=A+B		
	Net free cash flow after capex	4,409.4
D	Net payment for financial investment	(1,936.5)
E	Dividends paid	(821.1)
F= C+D+E		
	Free cash flow after dividends	1,651.8
G	Effects of exchange rate changes on net debt	(586.8)
H	Effects on net debt of changes in consolidation and others	168.3
I	Net debt at beginning of period	22,533.1
J= I-F+G+H		
	Net debt at end of period	20,462.8

CONCLUSIONS

- OPERATING RESULTS ARE IMPROVING SEQUENTIALLY, WITH ALL THREE MAJOR METRICS (REVENUES, EBITDA AND EBIT) GROWING SOLIDLY IN NOMINAL TERMS IN 3Q03
- REVENUES CONTINUE TO TREND UP, LED BY SOLID SPANISH OPERATIONS, LATAM POSITIVE UNDERLYING PERFORMANCE, AND A DILUTED EFFECT OF FOREX
- THE GAP BETWEEN REVENUES AND EBITDA GROWTH IS WIDENING, BENEFITING THE GROUP'S MARGIN WHICH STANDS AT 44.6%
- UNDERLYING FINANCIAL RESULTS ARE CLEARLY EXCEEDING YEAR-END TARGETS
- TOP LINE PERFORMANCE IS FLOWING INTO MARGINS, NET INCOME, CASH GENERATION AND RETURNS

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