

Telefonica

**January - December
2003 Results**

This presentation is being broadcast live on the Internet



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FINANCIAL HIGHLIGHTS

OUR FINANCIAL PRIORITIES...

BUILDING CONSISTENT
TOP LINE GROWTH

+

INCREASING
PROFITABILITY

+

IMPROVING ALL NON-OPERATING
RESULTS TO DRIVE NET INCOME

ENHANCING CASH FLOW
GENERATION AND ROCE

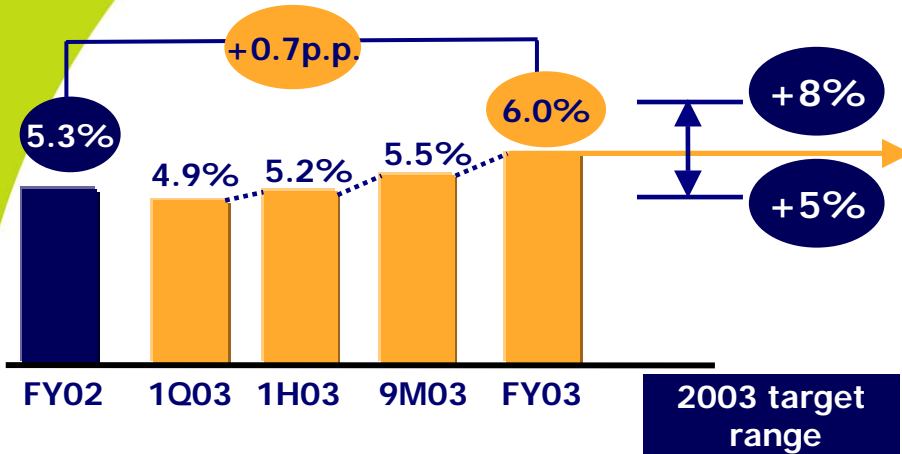
... WE HAVE REACHED THROUGH AN ACTIVE MANAGEMENT OF OPERATIONS

€ in Millions	FY03	FY02	% Change FY03/FY02
Operating Rev.	28,399.8	28,411.3	-0.04%
EBITDA	12,602.1	11,724.2	+7.5%
EBITDA margin	44.4%	41.3%	+3.1 p.p.
EBIT (*)	6,327.9	5,031.7	+25.8%
Net Income	2,203.6	-5,576.8	c.s
OpCF (**)	8,875.0	7,935.2	+11.8%

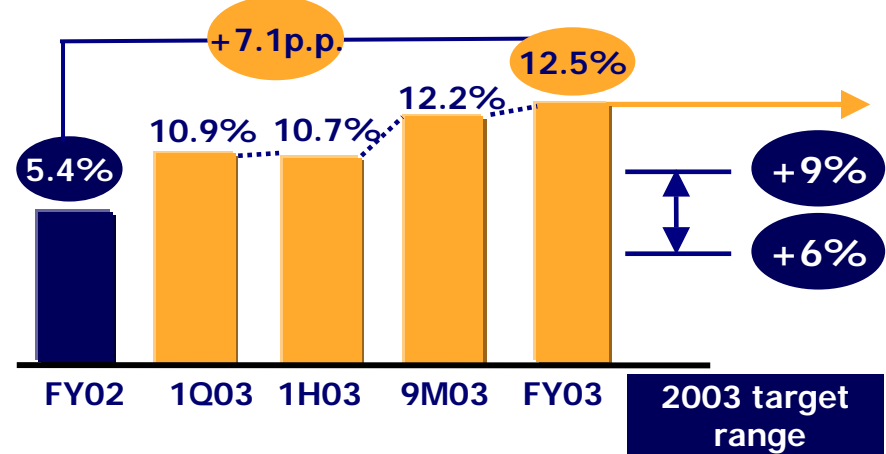
(*) EBITDA-depreciation
(**) EBITDA-Capex

BUILDING CONSISTENT TOP LINE GROWTH: outperforming 2003 guidance

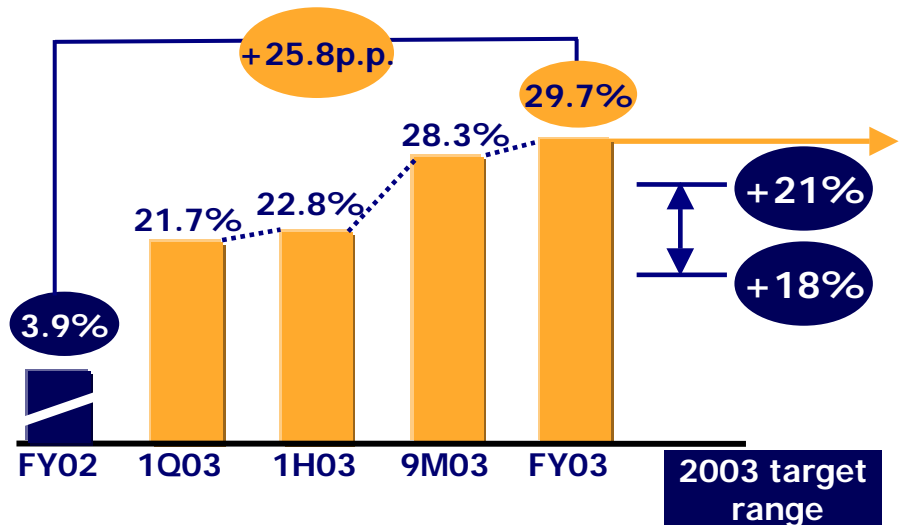
REVENUES GROWTH (*)



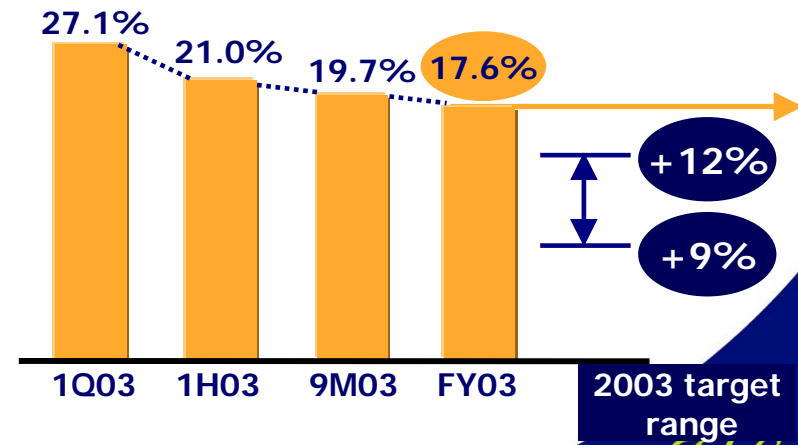
EBITDA GROWTH (*)



EBIT GROWTH (*)



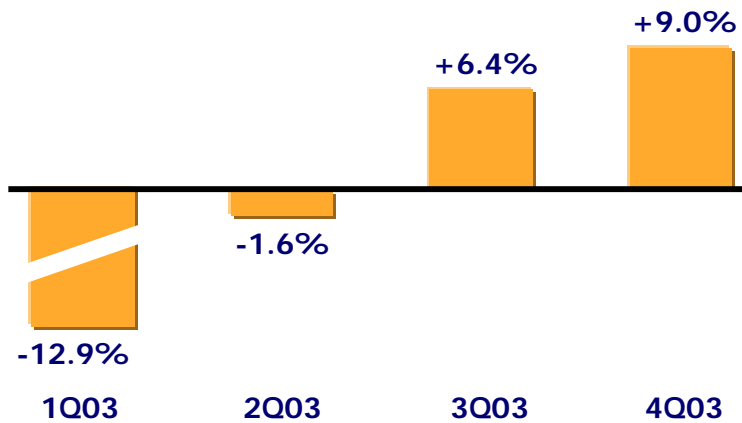
OpCF (EBITDA-CAPEX) GROWTH (*)



(*) Assuming constant exchange rates as of 2002. All figures exclude changes in consolidation

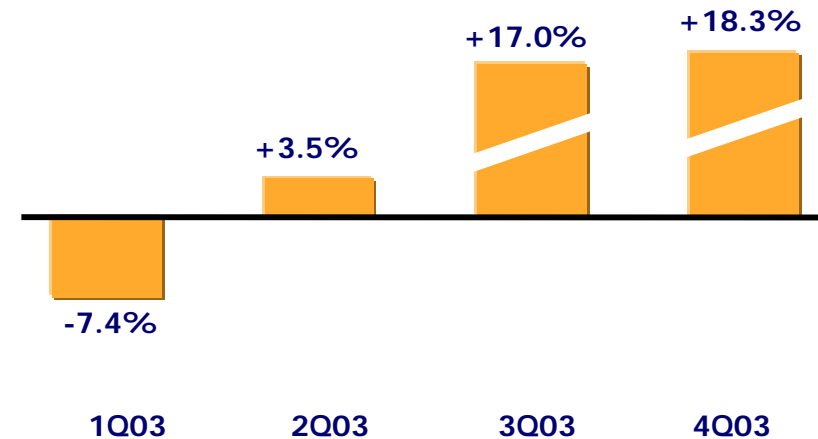
***BUILDING CONSISTENT TOP LINE GROWTH:
underlying growth is translating into € terms and accelerates***

QUARTERLY REVENUE GROWTH



Forex drained 6.6 p.p. to revenues growth in 2003, compared to 17.2 p.p. in 1Q03

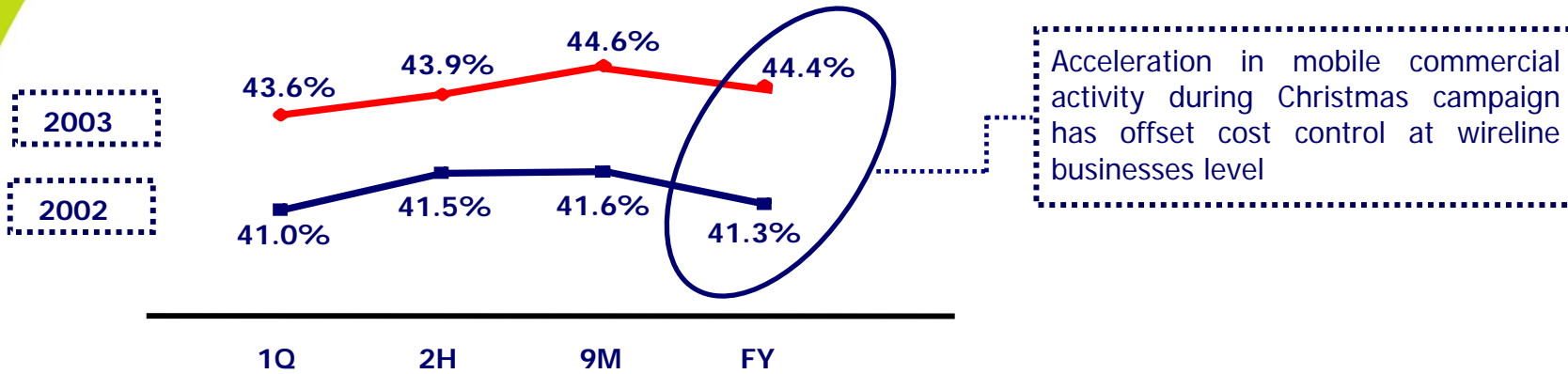
QUARTERLY EBITDA GROWTH



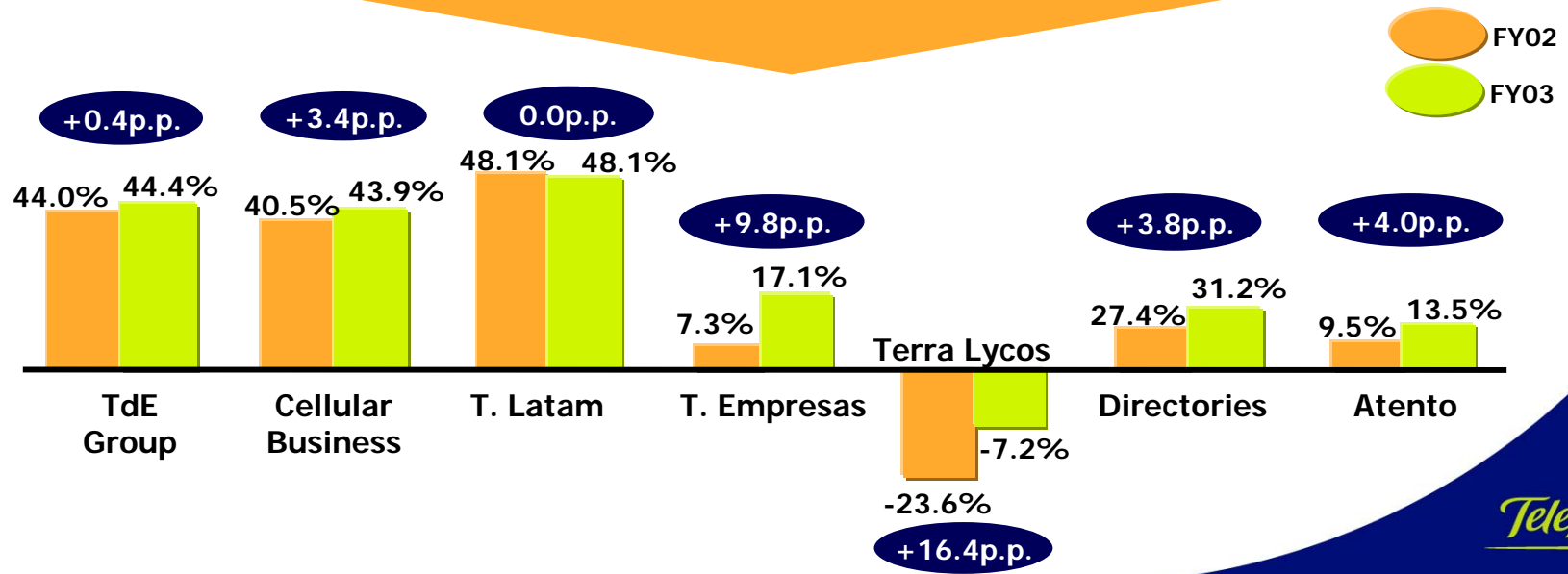
Forex drained 6.0 p.p. to EBITDA growth in 2003, compared to 18.4 p.p. in 1Q03

INCREASING PROFITABILITY managing the cost structure across business lines

CUMULATIVE GROUP MARGIN



SOLID MARGINS ACROSS THE GROUP WITH ALL BUSINESS LINES IMPROVING THEIR PERFORMANCE



IMPROVING ALL NON OPERATING RESULTS TO DRIVE NET INCOME

restructuring is paying at the bottom line

EXECUTION OF STRATEGIC DECISIONS

DISPOSALS

- DATA GREENFIELD
- MEDIA



RESTRUCTURINGS

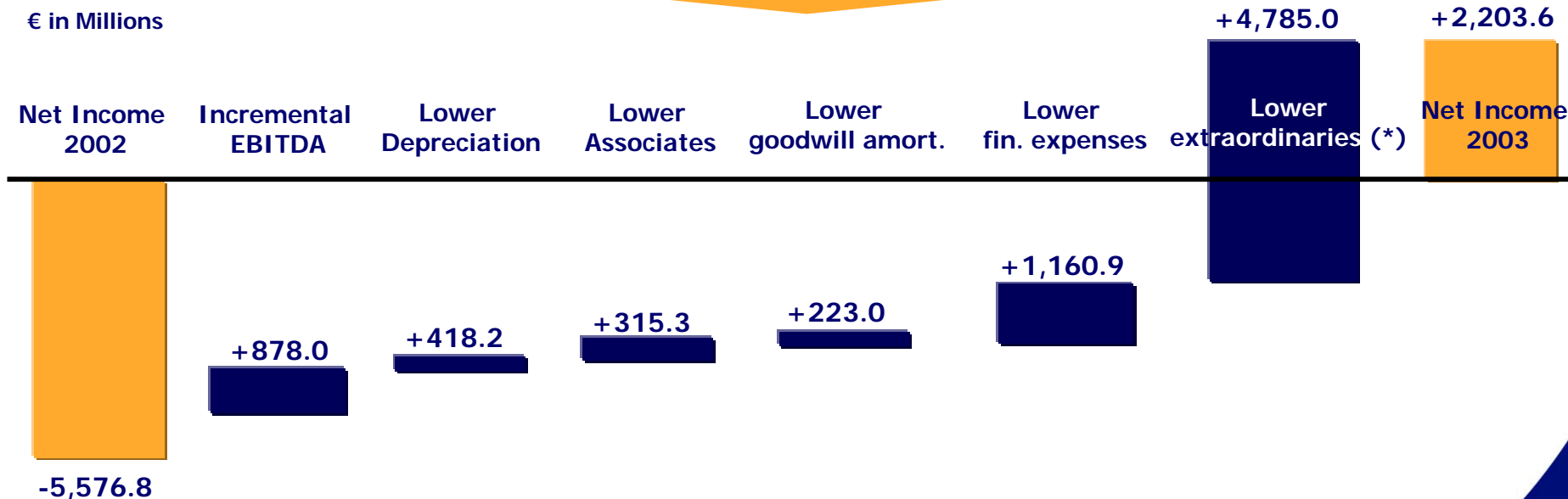
- VIA DIGITAL/SOGEACABLE
- TERRA LYCOS
- UMTS



WRITE-DOWNS

- UMTS
- DATA
- INTERNET & MEDIA

BOOSTING THE GROUP'S NET INCOME



ADJUSTED NET INCOME () EXCEEDED THE 3 Bn € MARK, CLOSE TO A 30% INCREASE VS 2002 ADJUSTED FIGURE**

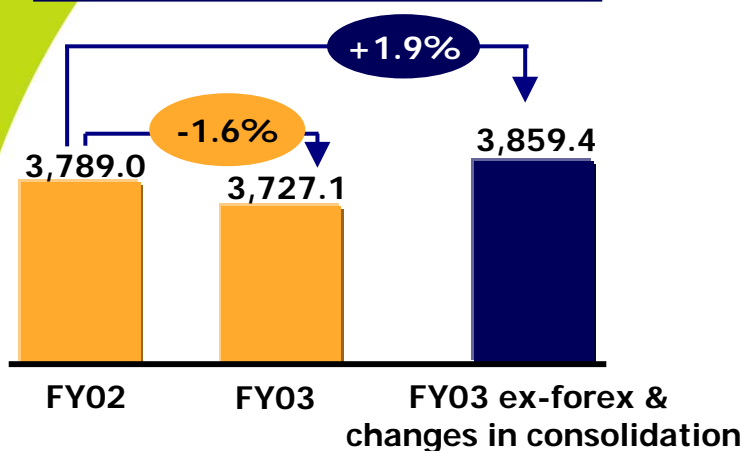
(*) Net of taxes and Minorities

(**) Reported Net Income adjusted for extraordinaries and effect of Peso depreciation (net of taxes and minorities), and goodwill amortization

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ENHANCING CASH FLOW GENERATION AND ROCE rationalizing Capex while pushing on BB & cellular

CAPEX EVOLUTION (€ in Millions)



INCREASING EFFORT ON TRANSFORMATION

Transformation (*)
43%



Traditional Services
57%

- In line with Capex guidance of 0%/+3% (**) for the Group
- Keeping Capex over revenues at 2002 level of 13%

CAPEX BREAKDOWN

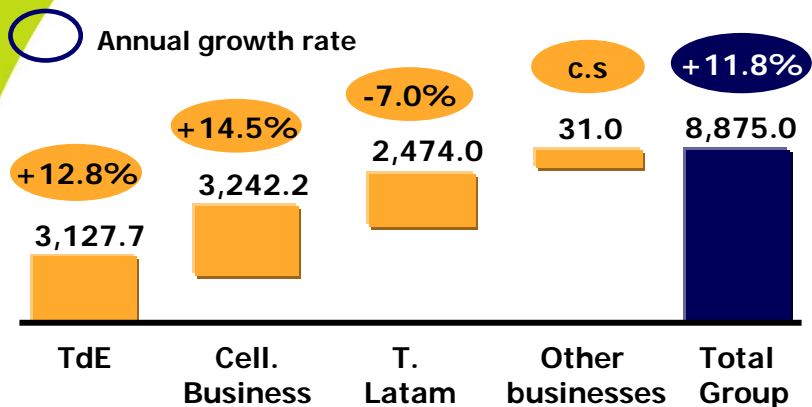
	Total € in Millions	% Change FY03/FY02 (**)	2003 Target Range (**)	% over Revenues
TdE Group	1,406.5	-19.4%	-15%/-20%	13.8%
T. LATAM	591.3	-9.4%	-2%/+1%	9.3%
Cell Business	1,339.7	+41.7%	-	12.8%

(*) Including Broadband, UMTS, GSM roll-out in Chile and Mexico, and Others

(**) Assuming constant exchange rates as of 2002. All figures exclude changes in consolidation

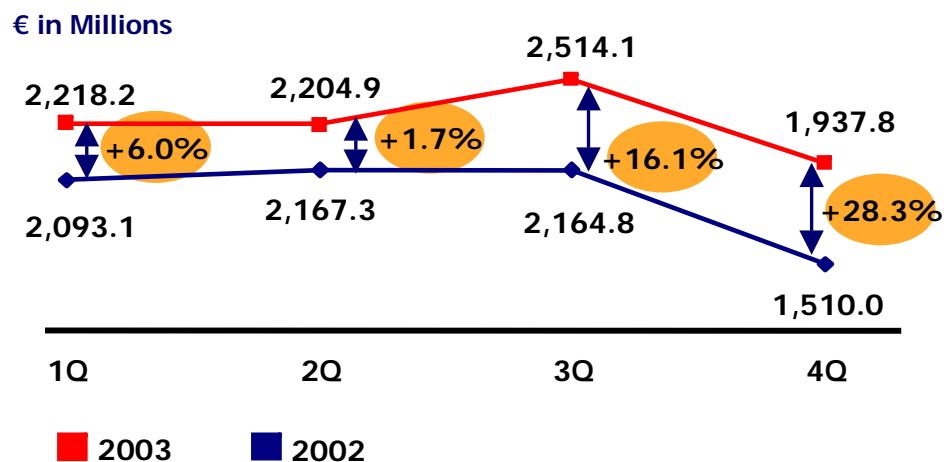
ENHANCING CASH FLOW GENERATION AND ROCE strong performance across the year

FY03 OpCF BREAKDOWN (*)
(€ in Millions)



2003 OpCF (*) stood at 31.3% of revenues (27.9% in 2002)

FY03 OpCF (*) : ACCELERATING GROWTH SEQUENTIALLY (€ in Millions)

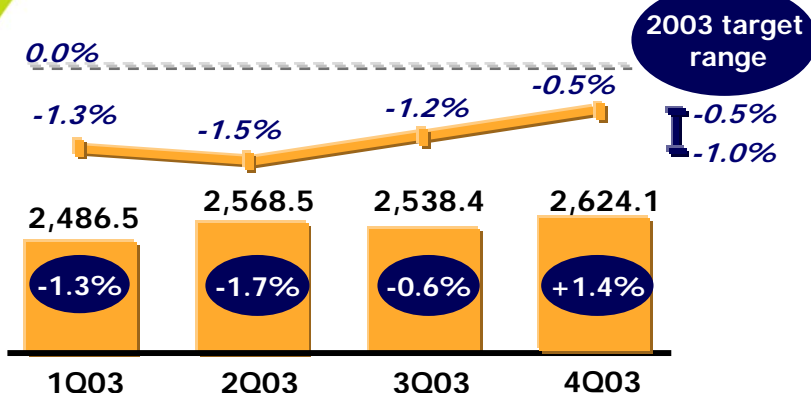


WE ARE FULLY ALIGNED WITH OUR TARGET TO BECOME A SOLID DOUBLE DIGIT ROCE COMPANY BY 2005, THROUGH THE SOLID COMBINATION OF ORGANIC GROWTH AND A REDUCED ASSET BASE

(*) EBITDA-Capex

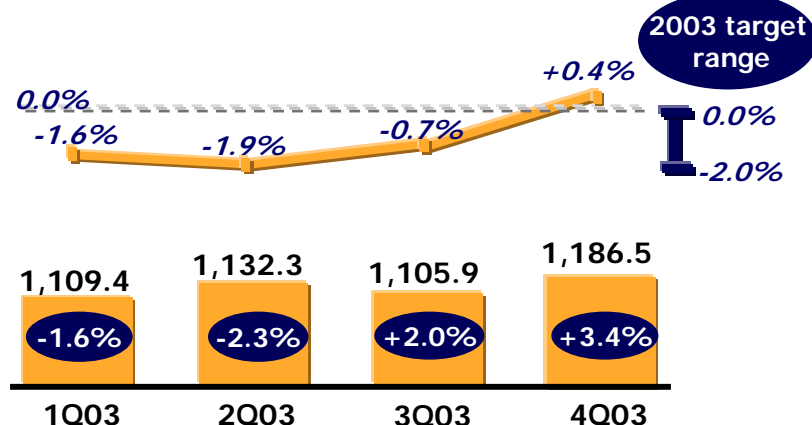
TELEFONICA DE ESPAÑA GROUP: IMPROVING THROUGH 2003

OPERATING REVENUES (€ in Millions)



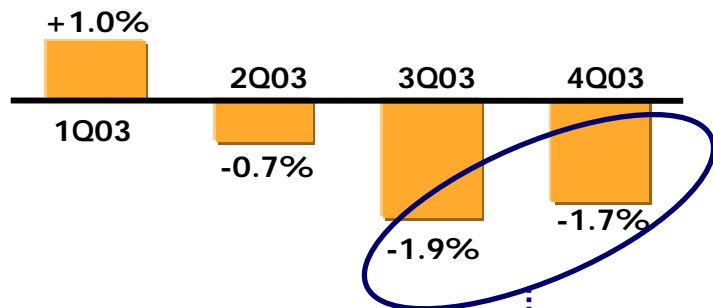
Quarterly annual growth rate Cumulative annual growth rate

EBITDA (€ in Millions)

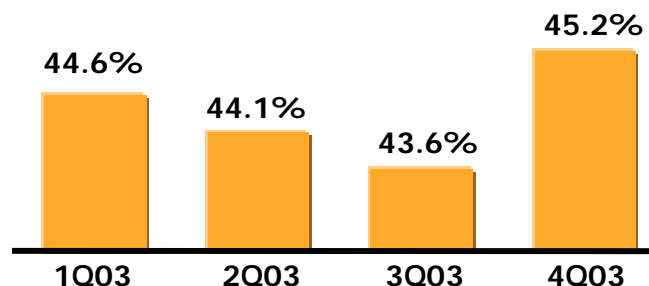


Quarterly annual growth rate Cumulative annual growth rate

OPERATING EXPENSES GROWTH (PARENT)



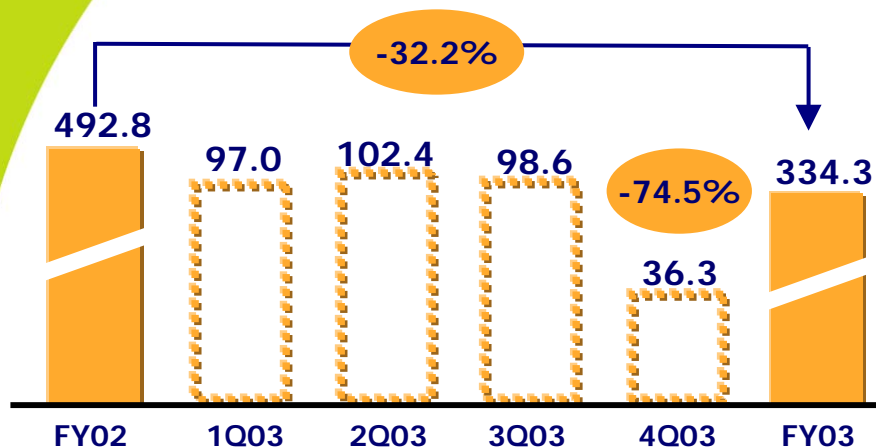
EBITDA MARGIN



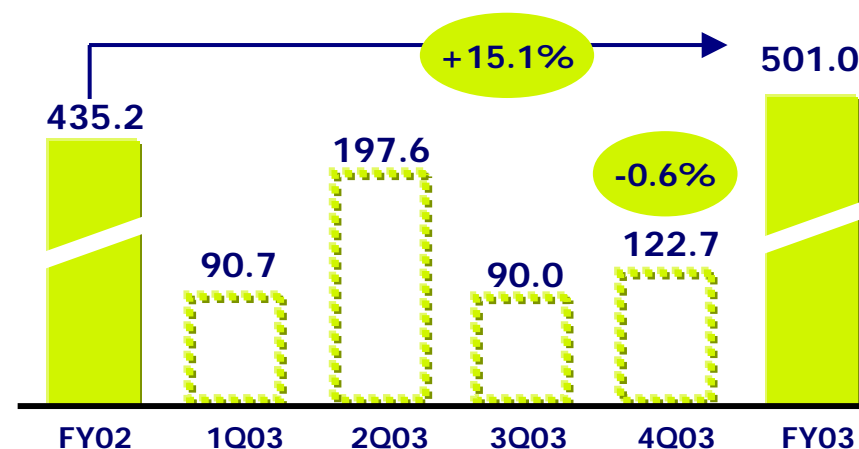
- Savings of 56 Million € related to 5,489 pre-retirements (4Q03 personnel expenses annual decline of 6.7%). **2,000 pre-retirements expected in 2004**
- Additional commercial expenses related to Modular Offer Schemes, and ADSL Christmas campaign

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-Dec 03	Jan-Dec 02	% Change 03 vs 02
OUTGOING	84,180	96,312	-12.6%
<i>Voice</i>	56,479	62,140	-9.1%
Local	29,704	34,436	-13.7%
Provincial	8,308	8,855	-6.2%
DLD	6,903	7,598	-9.1%
International	1,669	1,693	-1.4%
F2M	5,856	5,729	2.2%
IN (*) & Others	4,039	3,829	5.5%
<i>Internet</i>	27,701	34,172	-18.9%
INCOMING	53,993	47,033	14.8%
TOTAL	138,174	143,345	-3.6%

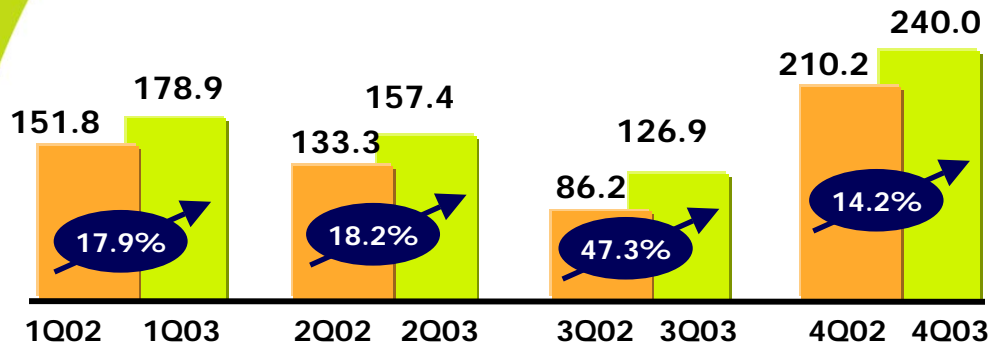
(*) Intelligent Network

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TELEFONICA DE ESPAÑA: ADSL, A PROFITABLE STORY

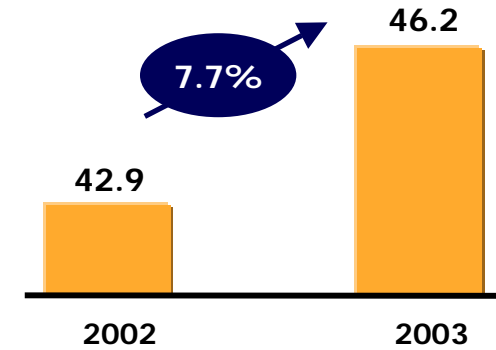
ADSL CONNECTIONS (Net Adds, thousands)

ADSL CONNECTIONS	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03
	957.2	1,136.1	1,293.6	1,420.5	1,660.5



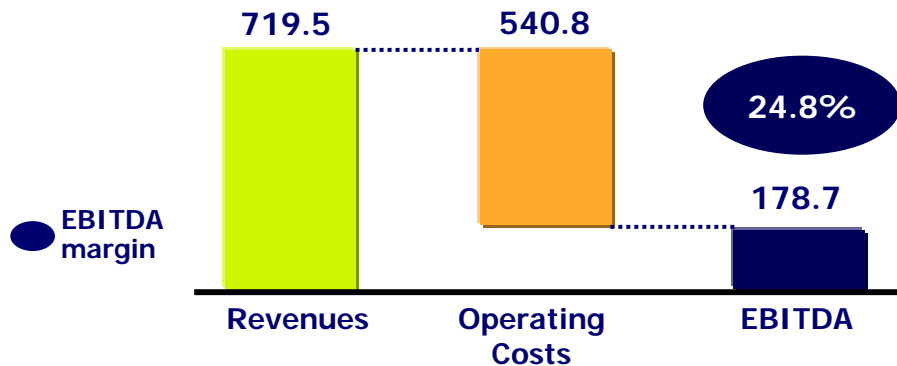
WITH 1.66 Mill. ADSL CONNECTIONS AT 2003 YEAR END, TARGET FOR 2003 SURPASSED BY 4%

ADSL RETAIL ARPU (€)



CLOSE TO 28% OF RETAIL CUSTOMERS ARE PAYING FOR VALUE ADDED SERVICES

FY03 ADSL EBITDA MARGIN (Euros in millions)

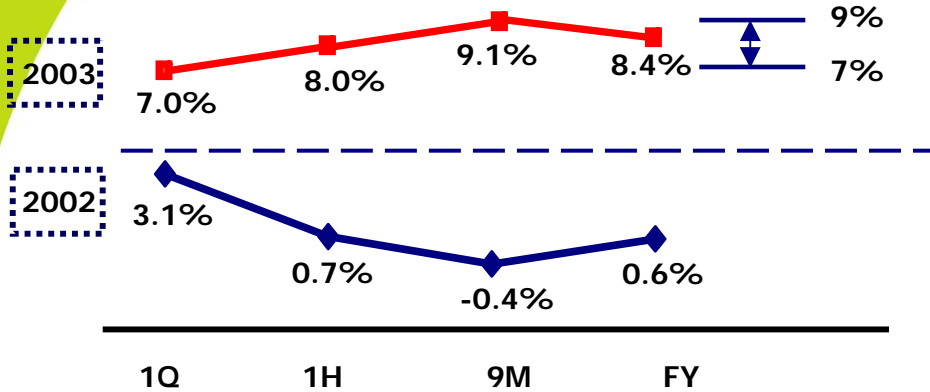


EBITDA BREAK-EVEN SINCE 1Q03

TELEFONICA LATINOAMERICA: STRONG UNDERLYING PERFORMANCE IN TERMS OF GROWTH AND MARGINS...

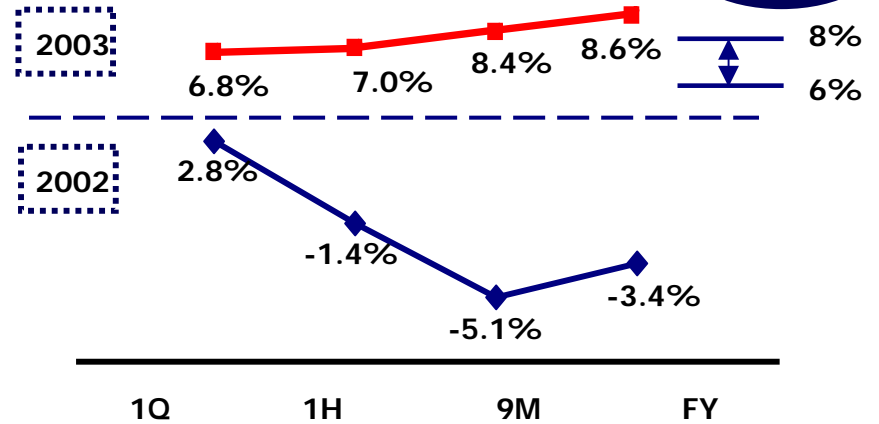
REVENUE GROWTH (Ex-Fx)

2003 target range

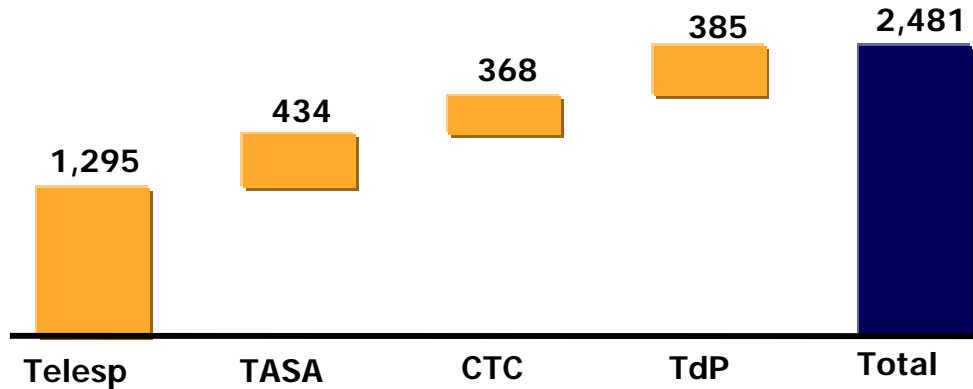


EBITDA GROWTH (Ex-Fx)

2003 target range



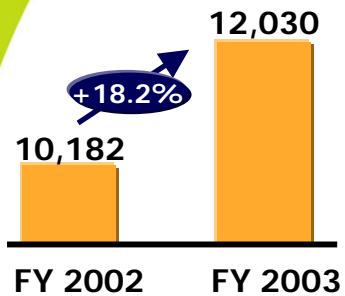
CASH FLOW BREAKDOWN (*) (€ in Millions)



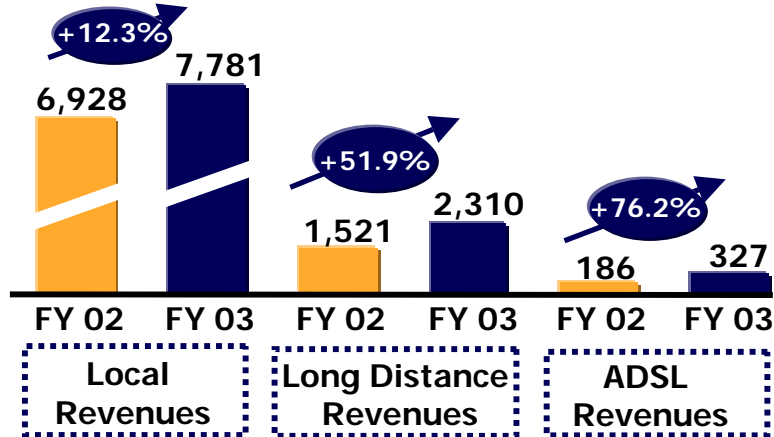
(*) EBITDA-Capex

... WITH TELESP CONTRIBUTING CONSISTENTLY AND TASA SHOWING CLEAR PROGRESS ON RECOVERING

TELESP REVENUES (BRL in millions)



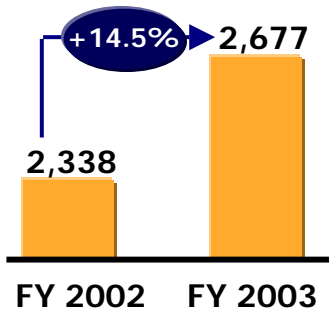
TELESP REVENUES BREAKDOWN (BRL in millions)



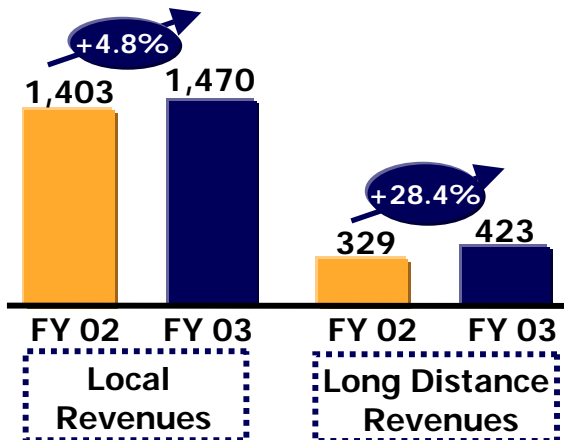
OPERATING DRIVERS

- Local: 2002/03 tariff increases & a 2.5% voice traffic annual increase
- LD: 51% market share in DLD (+15 p.p. y-o-y) & 39% in ILD (+7 p.p. y-o-y)
- ADSL: +45% y-o-y in connections (close to 485,000) & higher ARPU related to price rises

TASA REVENUES (ARS in millions)



TASA REVENUES BREAKDOWN (ARS in millions)

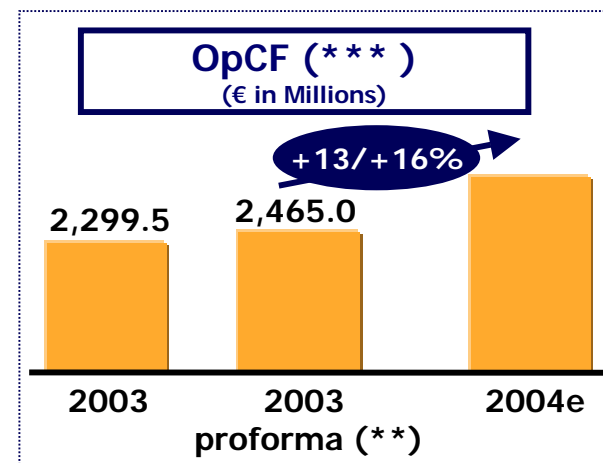
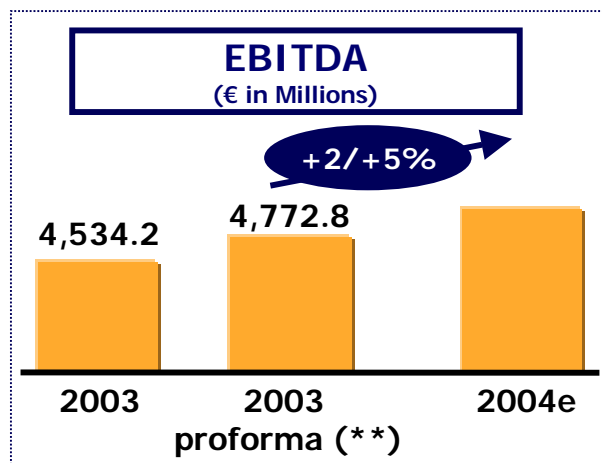
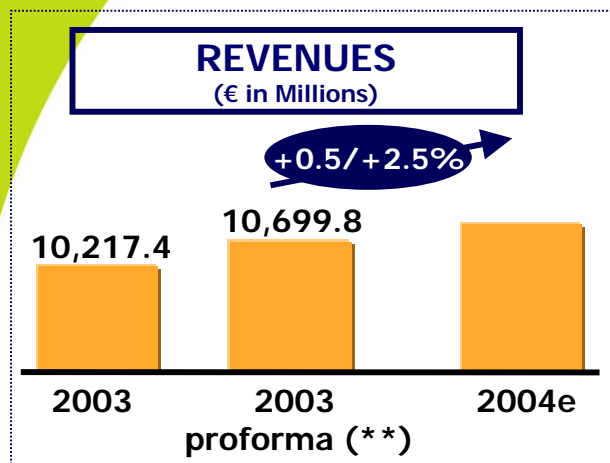


OPERATING DRIVERS

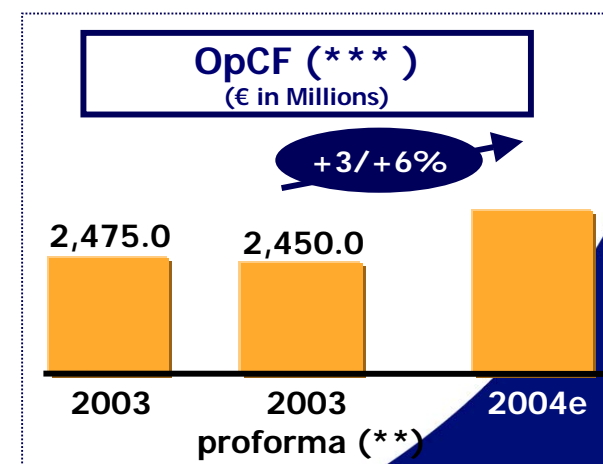
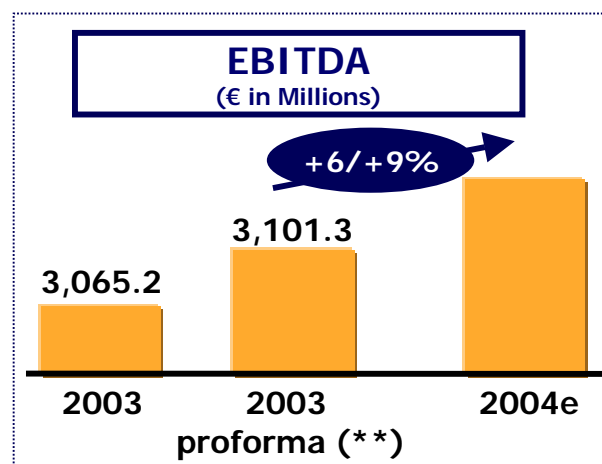
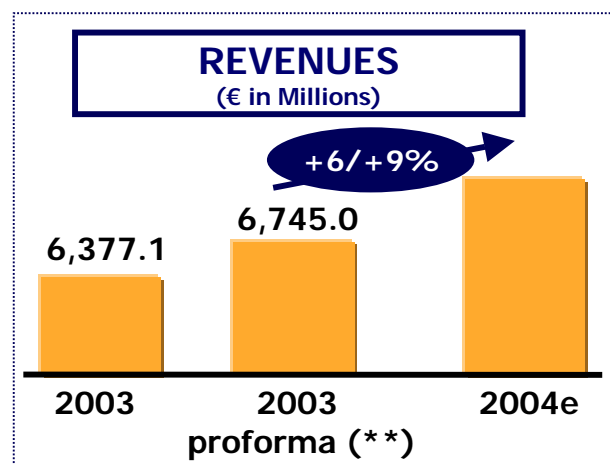
- Local: LIS remained stable (-0.3% y-o-y) & +12% local traffic/line/day
- LD: LIS performance & +9% LD traffic/line/day

2004 WIRELINE OUTLOOK (*)

TELEFONICA DE ESPAÑA GROUP



TELEFONICA LATINOAMERICA



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

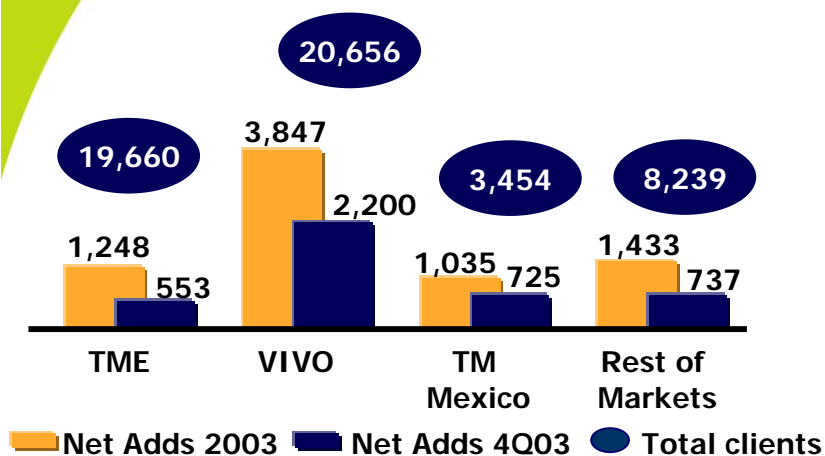
(**) Including Telefónica Empresas Spanish and Latam businesses into Telefónica de España Group and Telefónica Latam, respectively

(***) EBITDA-Capex. For Telefónica de España, payments related to pre-retirees are also deducted

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TELEFONICA MOVILES: SOLID COMMERCIAL AND FINANCIAL PERFORMANCES THAT SET THE BASIS FOR 2004 GUIDANCE

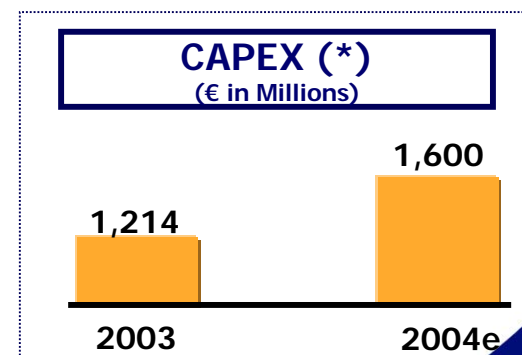
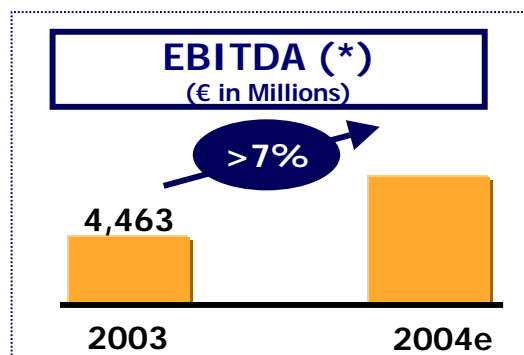
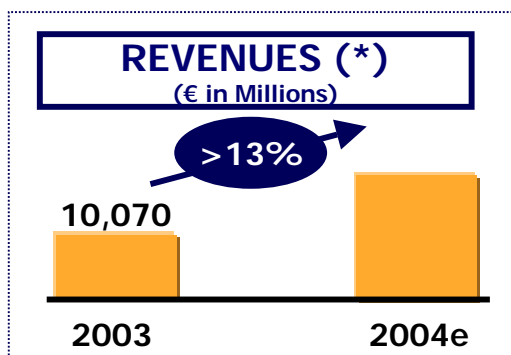
EXCELLING IN CLIENT ACQUISITION ACROSS MARKETS ('000)



COMBINING GROWTH AND PROFITABILITY

	2003	2003 vs 2002	4Q03	4Q03 vs 4Q02
Operating revenues	10,070.3	10.2%	2,766.5	19.9%
EBITDA	4,462.9	19.5%	1,094.2	22.0%
EBITDA margin	44.3%	+3.4 p.p.	39.6%	+0.7 p.p.

GUIDANCE FOR THE YEAR AHEAD: INVESTING TO EXPAND THE CLIENT BASE AS THE LEVER FOR FUTURE GROWTH

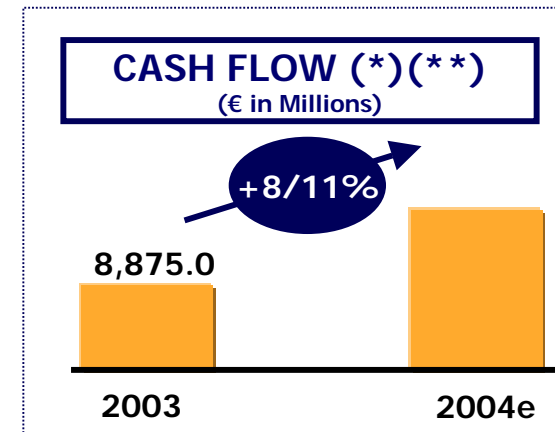
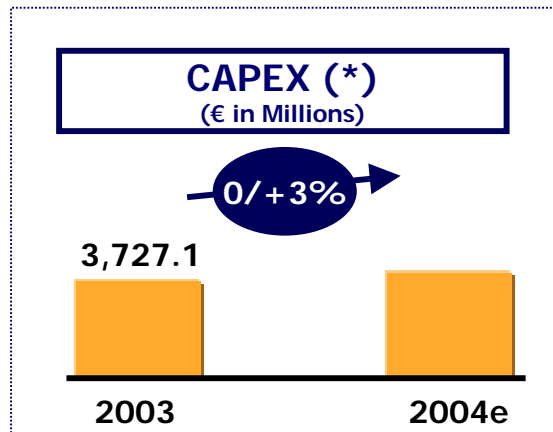
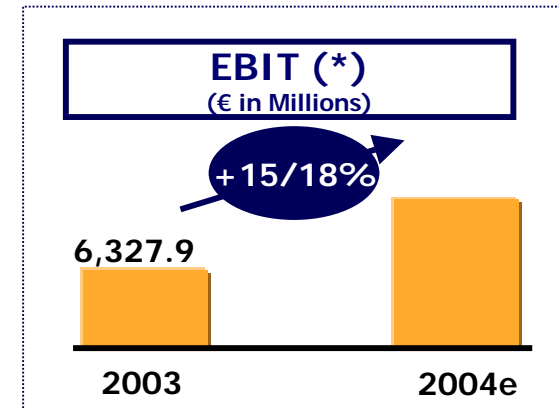
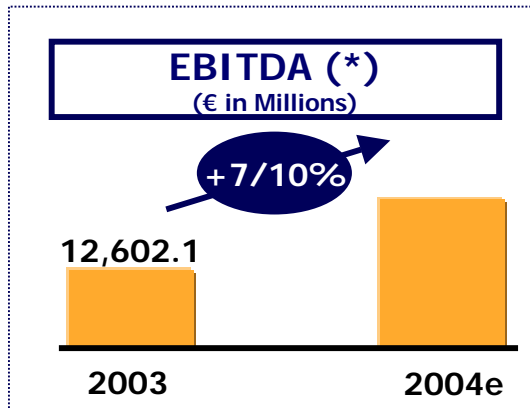
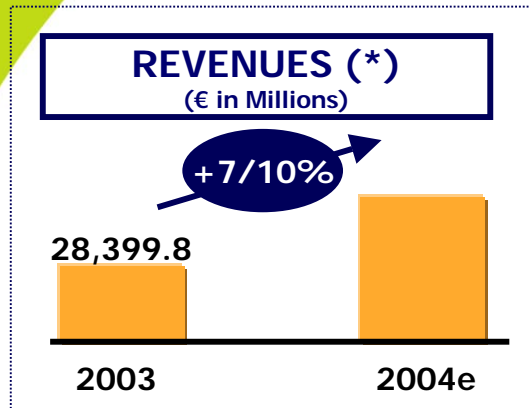


KEEPING 02-06 GUIDANCE UNCHANGED AT 11-15% FOR REVENUES AND 13-17% FOR EBITDA



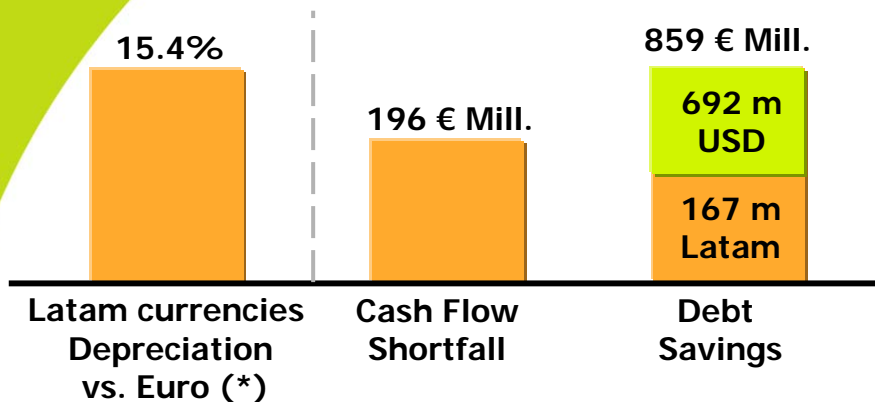
(*) Assuming constant exchange rates as of 2003. All figures exclude changes in consolidation

2004 TELEFONICA GROUP FINANCIAL PROJECTIONS: AT THE TOP END OF THE INCUMBENTS' PEER GROUP



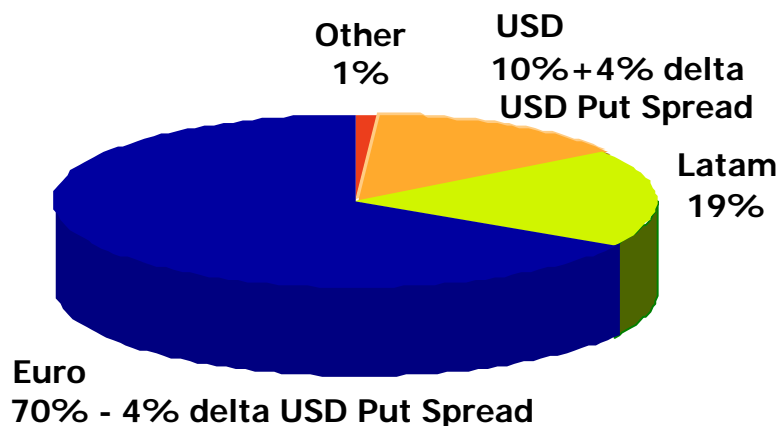
(*) Assuming constant exchange rates as of 2003. All figures exclude changes in consolidation
 (**) EBITDA - Capex

LIABILITY MANAGEMENT SAVINGS: 0.9 BN EUR DEBT REDUCTION DUE TO FX AND 1.2 BN EUR IMPROVEMENT IN FINANCIAL EXPENSES



Debt savings = 4 x CF loss

DEBT BY CURRENCIES (Dec 03)



(*) Weighted by Cash Flow origin

	2003	2002	% Change
Net Financial Expense	1,462.6	1,692.8	-14%
Argentinean Peso effects	(134.4)	528.8	
Realised P&L USD debt cancellation	(267.5)		
Financial Expenses	1,060.7	2,221.6	-52%

Financial Expenses: € 1.2 bn. improvement

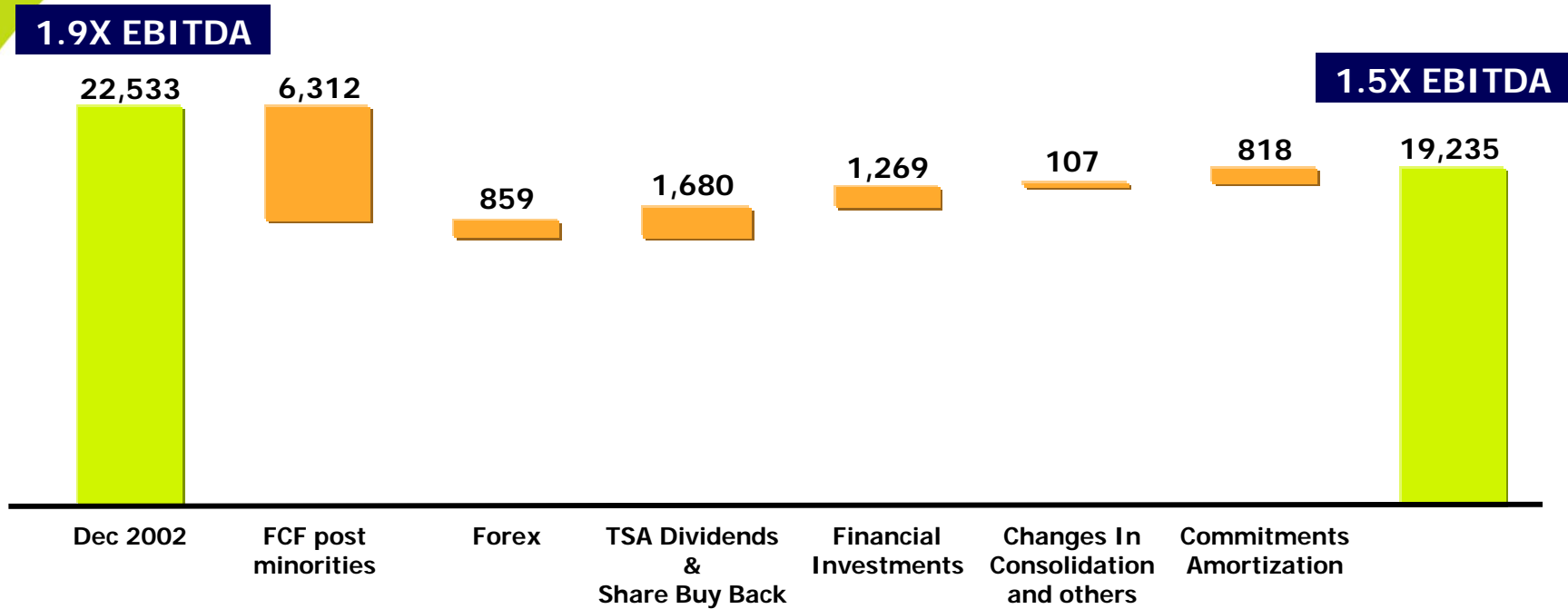
- Effective average cost of debt 03: 7.1%

$$\frac{\text{Net Financial Expense}}{\text{Average net debt}} = \frac{1,463}{20,654} = 7.1\%$$

- Improving trend

$$\frac{\text{Net Financial Expense 2H03}}{\text{Average net debt 2H03}} = 6.6\%$$

3.2 BN EUR DEBT REDUCTION FOR SOLVENCY PROTECTION AND FINANCIAL FLEXIBILITY



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

IMPROVING CASH FLOW GENERATION

(Euros in millions)

		2003	2002	
A	EBITDA	12,602.1	11,724.2	7.5%
I	Capex accrued during the period (EoP exchange rate)	(3,727.1)	(3,789.0)	
II	Extraordinary payments related to operating activities & commitments	(1,006.4)	(1,139.1)	
III	Net interest payment	(1,496.9)	(1,558.3)	
IV	Payment for income tax	(277.7)	(226.6)	
V	Investment in working capital	(358.8)	(489.5)	
B=A-I-II-III-IV-V	Net Free Cash Flow after capex	5,735.3	4,521.7	26.8%
VI	Payments related to cancellation of commitments	818.3	505.7	
VII	Dividends paid to minorities	(241.2)	(63.4)	
C= B+VI-VII	Free Cash Flow (*)	6,312.4	4,964.0	27.2%

- Most items contributing positively to Free Cash Flow
- Around € 1,3 Billion repatriated from Latam during 2003

(*) Madrid Conference criteria

SHARE BUY-BACK PROGRAM PROGRESS REPORT

PRINCIPLES

- Minimum € 4.0 bn.
- UP TO END '06
- CONDITIONED ON
 - FCF GENERATION
 - SHARE PRICE

TREASURY STOCK (n° of shares in Millions)

DATE	CASH	OPTION-BASED	TOTAL % OF CAPITAL
30-JUN-03	17.6	--	0.4
30-SEP-03	25.6	--	0.5
14-NOV-03	31.3	--	0.6
31-DEC-03	40.5	33.0	1.5
20-FEB-04	50.0	33.0	1.7

- AVERAGE PRICE TEF 03Q4: € 10.847
- MARKET VALUE OF TREASURY STOCK: € 797 M
- PERCENT OF BUY-BACK PROGRAM: 20%

- BUY BACK COMMITMENT PROGRESSING FASTER THAN TIME (20% VS. 1/13 QUARTERS)
- OPTION-BASED PURCHASES EXPIRING AROUND MID-04

CONCLUSIONS

- **WE ARE BUILDING UNDERLYING TOP LINE GROWTH CONSISTENTLY AND CLEARLY AHEAD OF OUR TARGETS, LED BY SOLID DOMESTIC OPERATIONS AND LATAM RECOVERY**
- **WE ARE KEEPING A FOCUS ON COST CONTAINMENT ACROSS ALL BUSINESSES, DRIVING EBITDA MARGIN UP BY MORE THAN 3 p.p.**
- **WE HAVE TURNED AROUND NON-OPERATING RESULTS, PUSHING TOP LINE PERFORMANCE TO FLOW INTO NET INCOME, CASH GENERATION AND RETURNS**
- **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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