



Barcelona

November 7th, 2002

Telefonica

Santiago Fernández Valbuena

Chief Financial Officer
Telefónica Group



SAFE HARBOUR

This presentation to analysts contains statements that constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this presentation and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company.

Such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward looking statements as a result of various factors.

Analysts are cautioned not to place undue reliance on those forward looking statements, which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica's business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts are encouraged to consult the Company's Annual Report on Form 20-F as well as periodic filings made on Form 6-K, which are on file with the United States Securities and Exchange Commission.

- 1 TELEFONICA HAS WORKED HARD TO ANTICIPATE AND ADAPT TO SECTOR TRENDS...**
- 2 ...AND CONTINUES TO ACTIVELY MANAGE ITS CURRENT BUSINESS CHALLENGES...**
- 3 ...WITH A FOCUS ON IMPROVING CASH FLOW GENERATION**
- 4 CONCLUSIONS**

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







TELEFONICA HAS WORKED TO ANTICIPATE & ADAPT TO SECTOR TRENDS

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

- ✓ **Mexico: Pegaso acquisition executed, building the unique nationwide alternative to the incumbent with 2.2 Million clients**
- ✓ **Brazil: Legal incorporation of JV with PT just pending final regulatory clearance, reaching 13 Million clients and 70% of the country's GDP**

CLOSE TO 87 MILLION CLIENTS UNDER MANAGEMENT

FOCUS ON CORE BUSINESSES AND NATURAL MARKETS

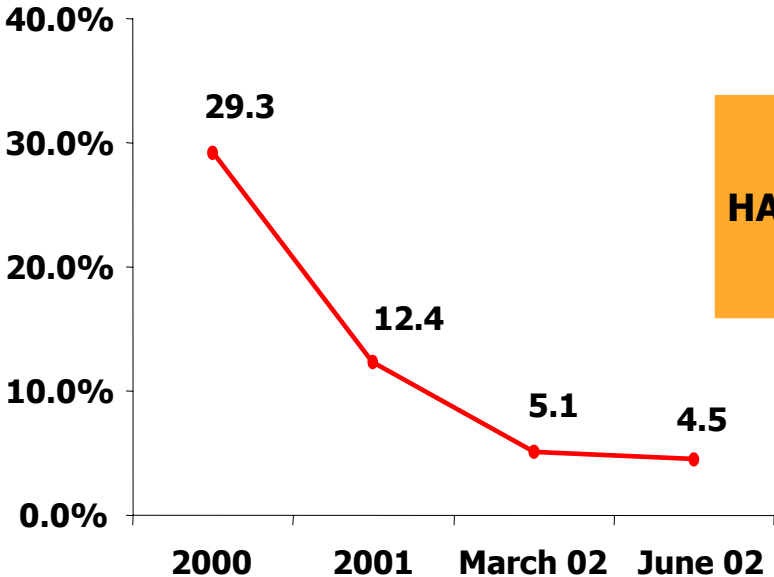
	WIRELINE	WIRELESS
SPAIN	 21.2 Million LIS  0.7 Million ADSL	 18.1 Million clients
LATAM	 24.2 Million LIS  0.4 Million ADSL	 22.1 Million clients *

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

TELEFONICA HAS WORKED TO ANTICIPATE & ADAPT TO SECTOR TRENDS

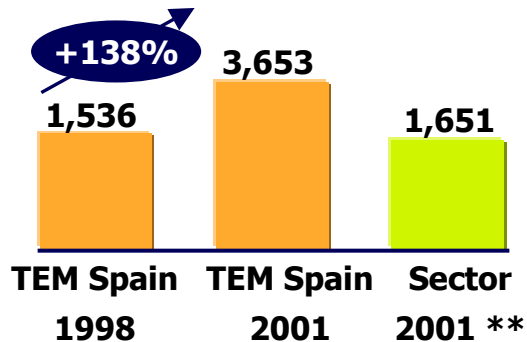
A TIGHT MANAGEMENT OF OPERATING EXPENSES

ANNUAL % CHANGE OPERATING EXPENSES*

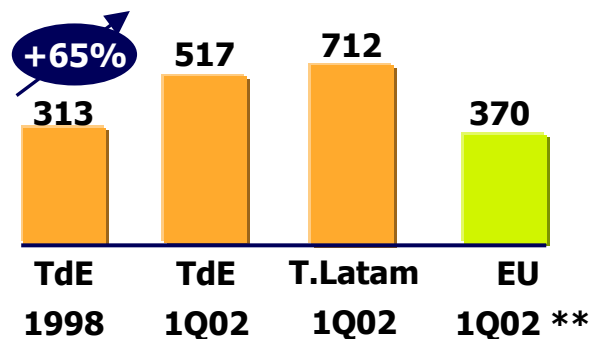


EFFICIENCY HAS PLAYED A KEY ROLE

SUBSCRIBERS PER EMPLOYEE



LINES PER EMPLOYEE



CONSISTENTLY KEEPING GROUP EBITDA MARGIN ABOVE 41%

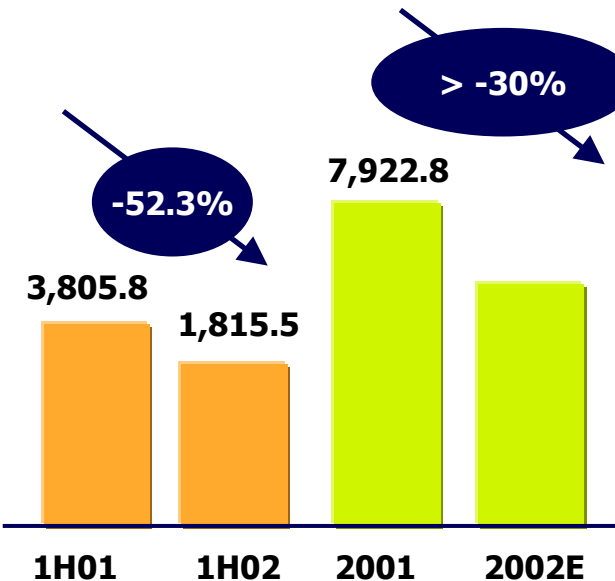
* Excluding Foreign Exchange effects.

** 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.

TELEFONICA HAS WORKED TO ANTICIPATE & ADAPT TO SECTOR TRENDS

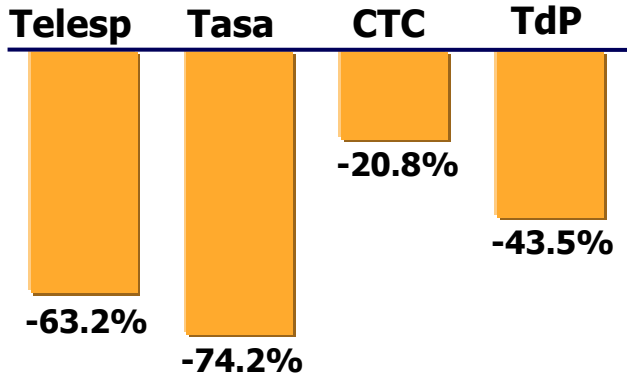
AN EFFORT ON CAPEX RATIONALIZATION...

A SIGNIFICANT REDUCTION EXPECTED IN 2002

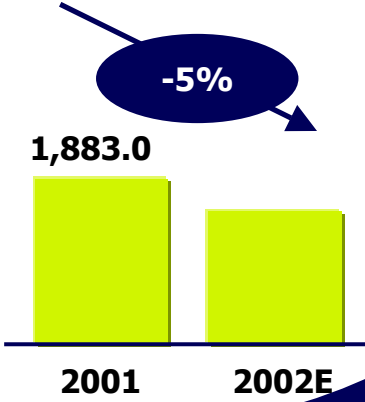


**% chg Jun02/Jun01
Local Currency**

...LATAM



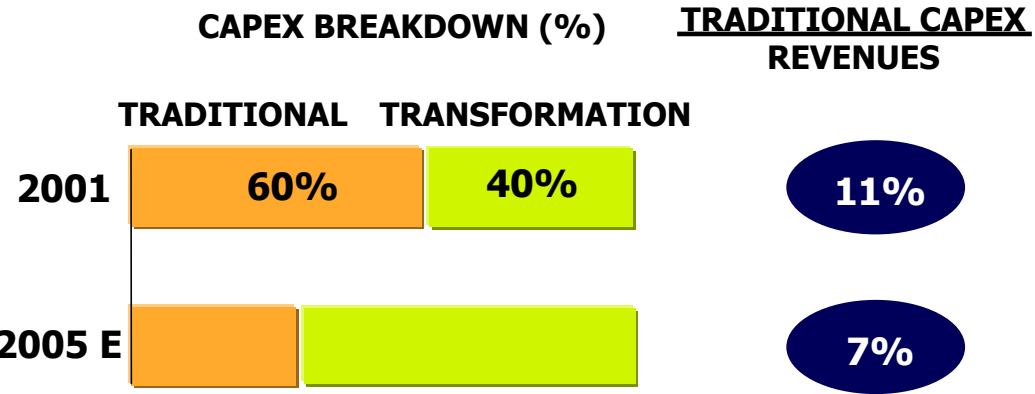
...AND TdE



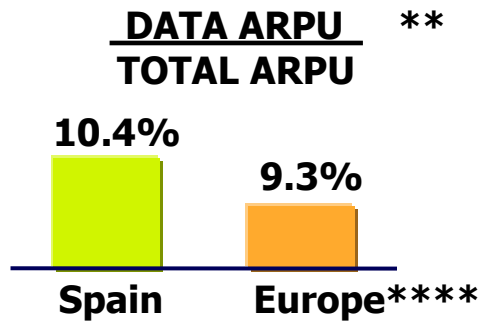
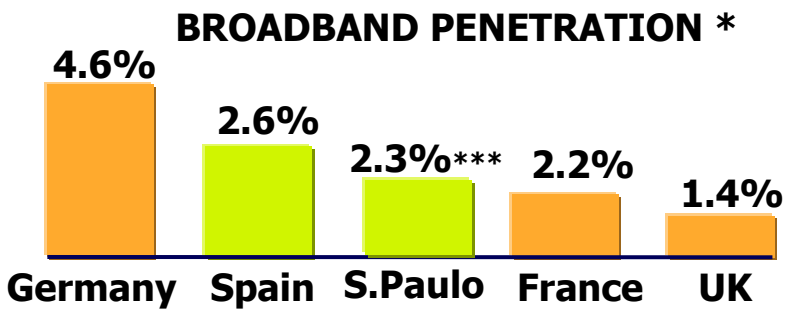
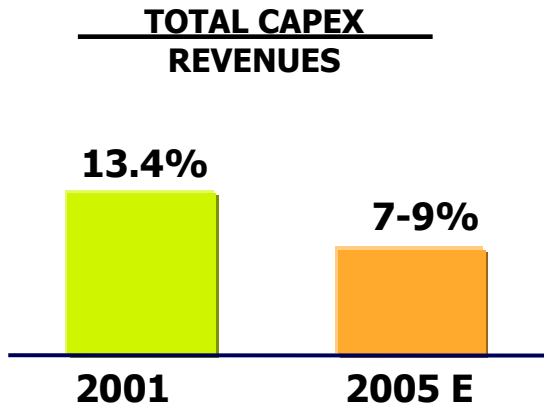
TELEFONICA HAS WORKED TO ANTICIPATE & ADAPT TO SECTOR TRENDS

...LINKING CAPEX TO FUTURE REVENUE SOURCES

DOMESTIC WIRELINE



DOMESTIC WIRELESS



* April 2002. Broadband accesses/Total households.
 ** December 2002, 12 Month Rolling
 *** Total households as of end year 2000
 **** Average of VOD Germany, VOD UK, mm02 UK, Orange France, TIM Italy

TELEFONICA HAS WORKED TO ANTICIPATE & ADAPT TO SECTOR TRENDS

STOP LOSSES FROM NON-PERFORMING BUSINESSES

Concerns over Telefónica

- UMTS outside Spain
- Data green-field operations
- Traditional Media portfolio



Stop Losses

Business Initiatives

Asset Sales

- ✓ 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: non-core in the medium term
- ✓ Via Digital/Sogecable merger agreement
- ✓ Traditional media: explore alternatives to divest Admira
- ✓ Azul TV
- ✓ ETI

Latam exposure in a crisis scenario



Management Focus

CF GENERATION AND LIQUIDITY PROTECTION

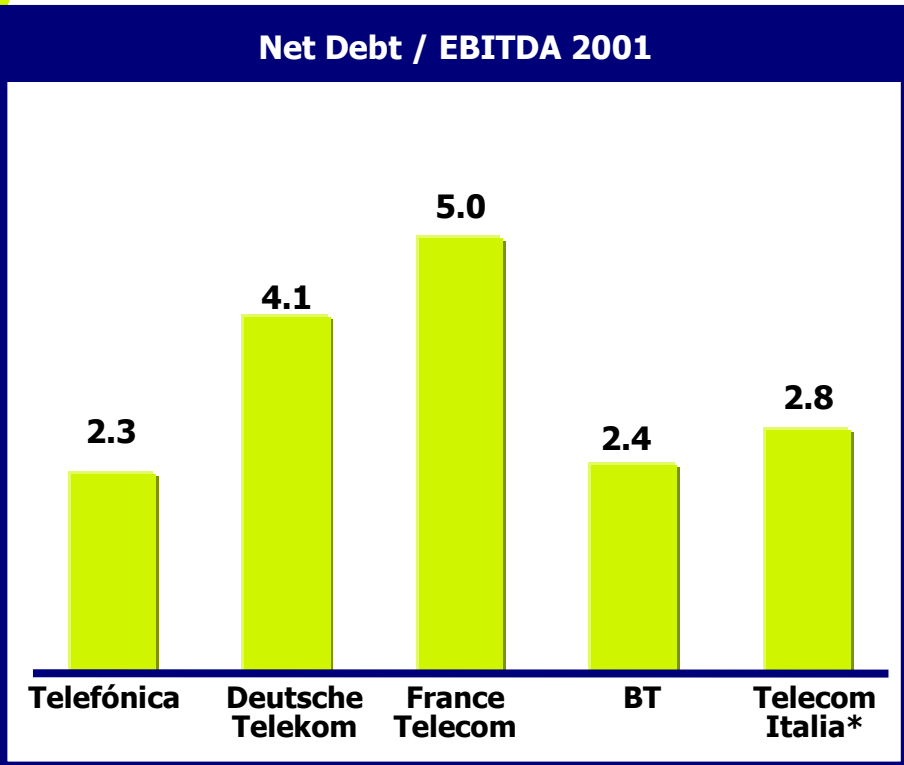
WE ARE ACTIVELY IMPROVING THE OUTLOOK OF OUR BUSINESSES

TELFONICA HAS WORKED TO ANTICIPATE & ADAPT TO SECTOR TRENDS

COMMITMENT TO FINANCIAL DISCIPLINE

DEBT CAPACITY POSITION

Net Debt / EBITDA 2001



CREDIT RATING (Moody's/S&P)

	CURRENT	AS OF 12-31-99
BT	Baa1/A-	Aa1/AA+
DT	Baa1/BBB+	Aa2/AA-
FT	Baa3/BBB	Aa2/AA
KPN	Baa3/BBB-	Aa1/AA
TEF	A2/A	A2/A

TEF IS THE ONLY INTEGRATED TELCO TO KEEP ITS RATING AT "A" LEVEL

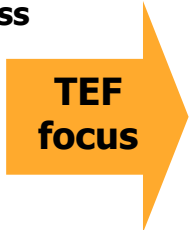
WE ARE COMMITTED TO MAINTAINING OUR CURRENT CREDIT RATING TO REDUCE LIQUIDITY RISK AND ENHANCE STRATEGIC FLEXIBILITY

* Including Olivetti net debt
Source: Companies Reports.

AND CONTINUES TO MANAGE CURRENT BUSINESS CHALLENGES

WIRELINE SPAIN

- ✓ Pressure on traditional traffic business
 - ⇨ F2M substitution
 - ⇨ ADSL cannibalization
- ✓ Competition
- ✓ Concern over ADSL economics



- ✓ PROFITABLE ADSL ROLL OUT
- ✓ PROTECT ACCESS
- ✓ PROTECT MARGINS THROUGH COST CONTROL
- ✓ LINK CAPEX TO SALES

WIRELESS SPAIN

- ✓ Uncertainty over ARPU recovery
 - ⇨ Decrease of voice ARPU
 - ⇨ slow data take-up
- ✓ Margins sustainability



- ✓ PROMOTE HIGH-END PREPAID MIGRATION TO CONTRACT
- ✓ PROMOTE MOU
- ✓ CONTROL SAC & SRC

LATAM

- ✓ Depreciation of local currencies
- ✓ Slowdown of regional economies
- ✓ Economic crisis in Argentina



- ✓ HEDGE AGAINST FOREX
- ✓ MAXIMIZE CASH FLOW

DATA

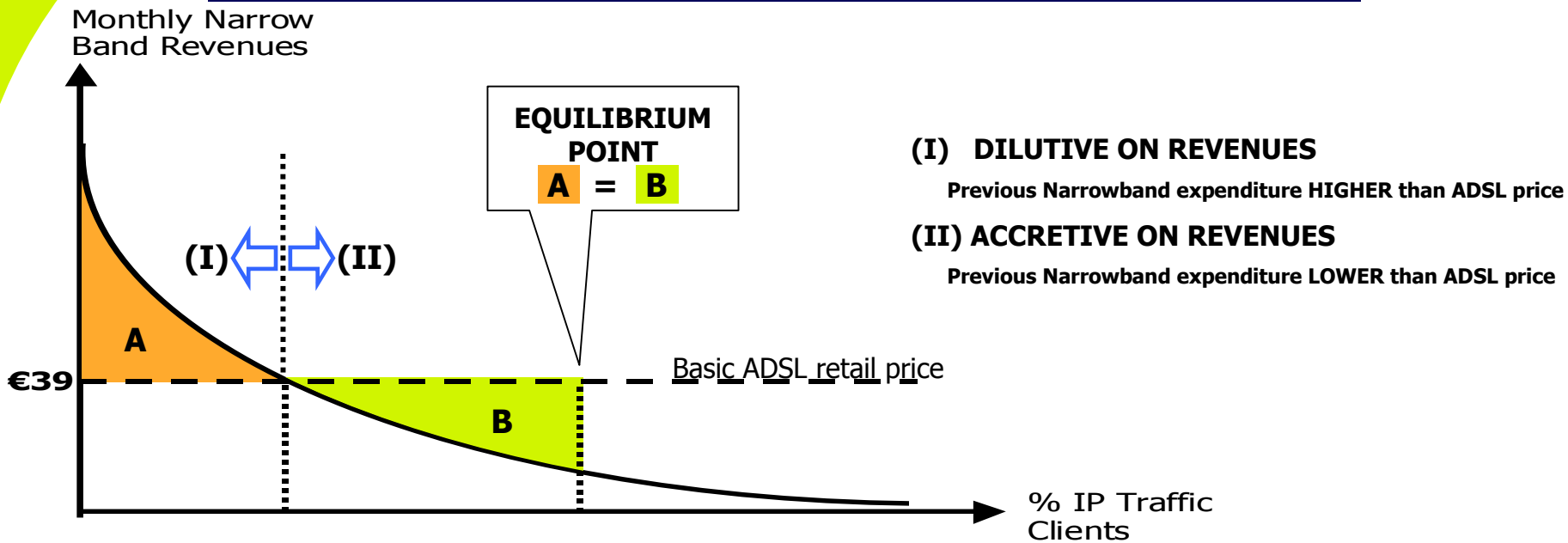
- ✓ Price decreases
- ✓ Sluggish demand



- ✓ CLOSER INTEGRATION WITH FIXED OPERATIONS
- ✓ NEW ENTRANT AS NON CORE IN MEDIUM TERM
- ✓ OPTIMIZE INTERNATIONAL TRAFFIC & LEASED CIRCUITS

* March-June 02 vs March-June 01

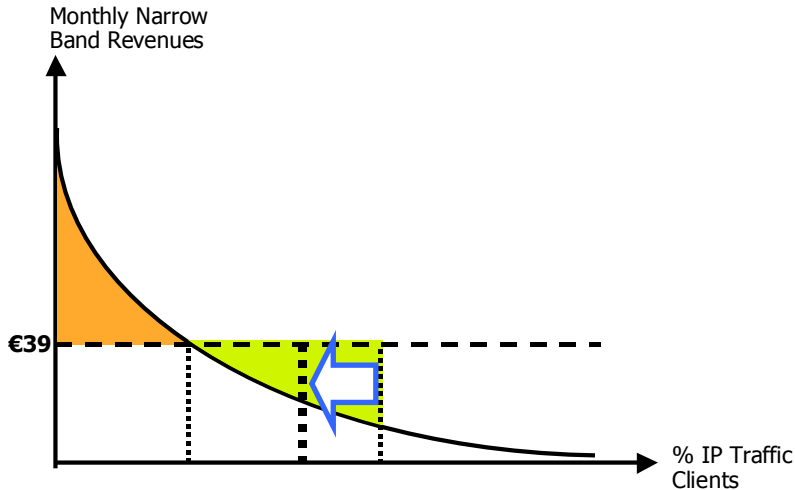
GETTING THE ADSL BUSINESS MODEL RIGHT



CLIENT SEGMENTATION	EARLY ADOPTERS	TODAY'S ADOPTERS	LATE ADOPTERS
TYPE OF MIGRATION	Automatic	Marketing driven	Need to build demand
DRIVER OF MIGRATION	Price	Speed & connectivity	Products & services
KEY TO SUCCESS	Timely provisioning	Optimize sales force	Quality content
MANAGEMENT FOCUS	First Capex, then Opex	First Opex, then Capex	SAC, ARPU & Churn
IMPACT ON P&L	Dilutive	Accretive	Accretive & margin improvement

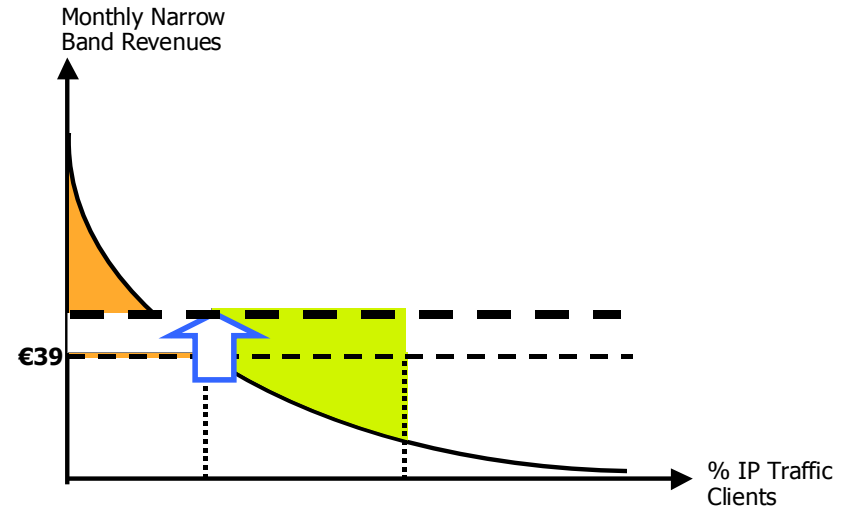
TWO KEY ACTIONS TO DRIVE THE ADSL BUSINESS MODEL

SELECTIVE MARKETING STRATEGY



- ✓ **31% NEW ADSL CUSTOMERS IN 2002 DID NOT HAVE IP TRAFFIC AT ALL**
- ✓ **NO ACTIVE MIGRATION OF NARROWBAND HIGH USAGE CLIENTS**

WORKING TO INCREASE ADSL ARPU



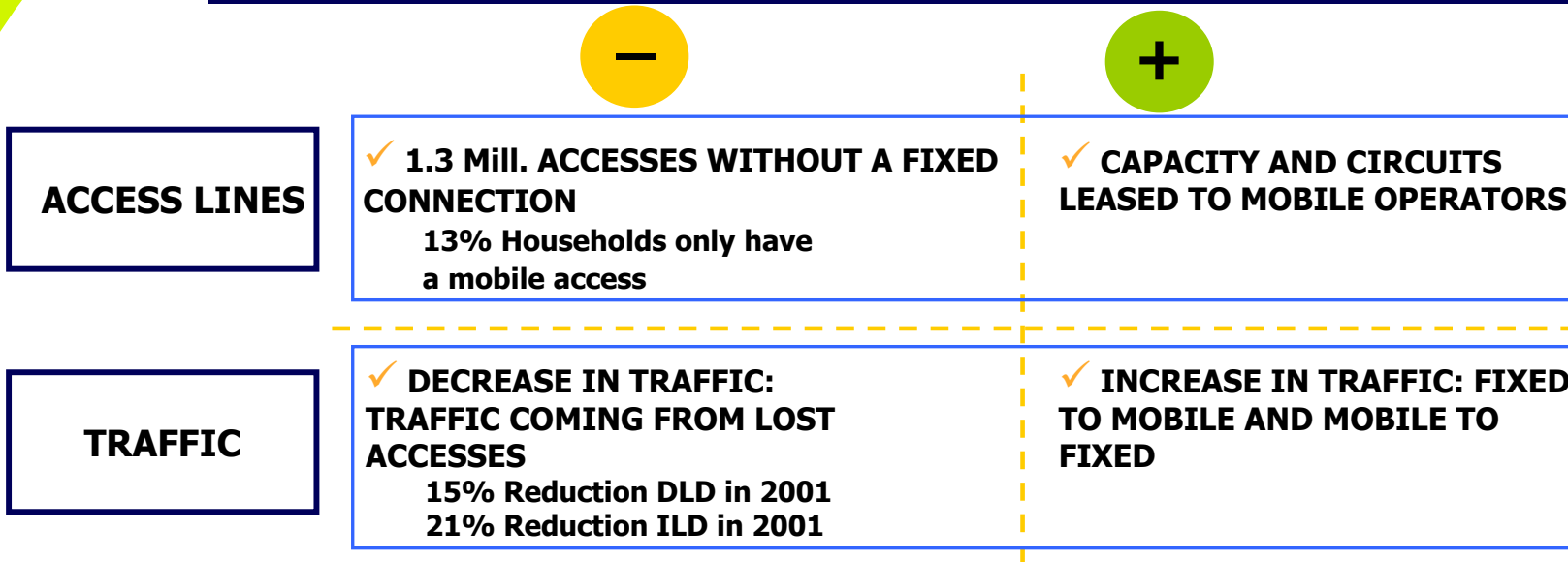
- ✓ **FOSTER SPEED UPGRADES**
- ✓ **RESIDENTIAL SERVICES (games, videoconferencing, Imagenio)**
- ✓ **BUSINESS SOLUTIONS (Soluciones ADSL and eBA)**
- ✓ **ADSL FORUM**

RESULTING IN

IN 1H02, EACH NEW ADSL CLIENT IS GENERATING, ON AVERAGE, AN ADDITIONAL ARPU OF 25,5€/month COMPARED TO ITS PREVIOUS NARROBAND SPENDING

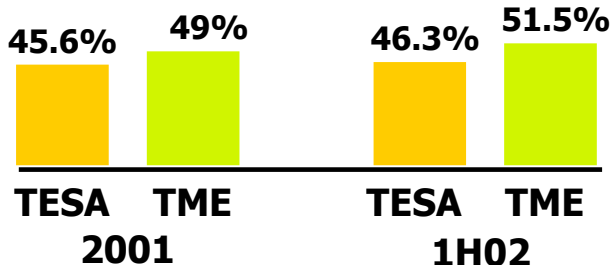
AND CONTINUES TO MANAGE CURRENT BUSINESS CHALLENGES

FIXED TO MOBILE SUBSTITUTION: IMPACT ON THE WIRELINE REVENUES...



...IS PARTLY OFFSET BY OUR LEADING POSITION IN WIRELESS

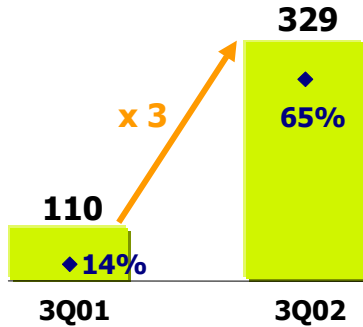
- ✓ OVER 55% MARKET SHARE
- ✓ MARGINS ABOVE WIRELINE INCUMBENT



HAVING A STRONG DOMESTIC MOBILE OPERATOR IS KEY TO MINIMIZE F2M SUBSTITUTION FOR THE GROUP, IN THE LONG RUN

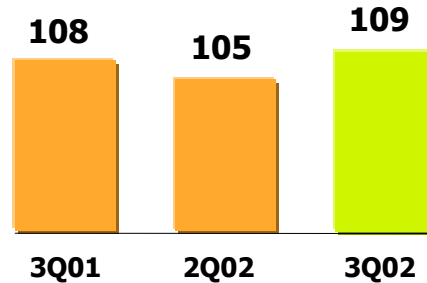
WORKING TOWARDS ARPU STABILIZATION...

CONTRACT NET ADDS (000 'S)



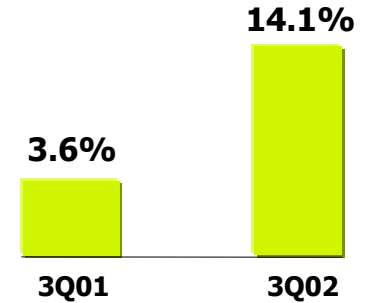
60% rise in prepaid to contract migrations

BLENDED MOU (minutes/month)



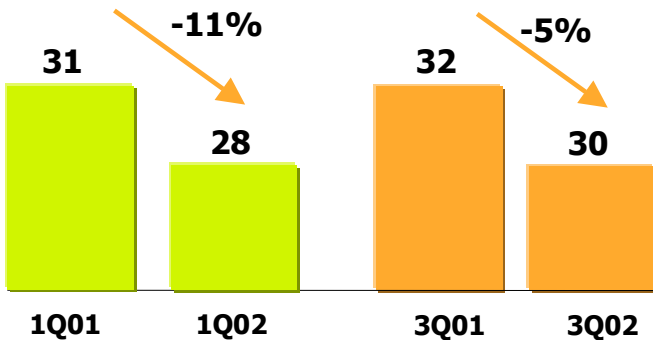
+5% in contract MOU vs 3Q01

PREMIUM SMS/REVENUES (%)



Data: 12% of ARPU in 3Q02

ARPU EVOLUTION (€/month)



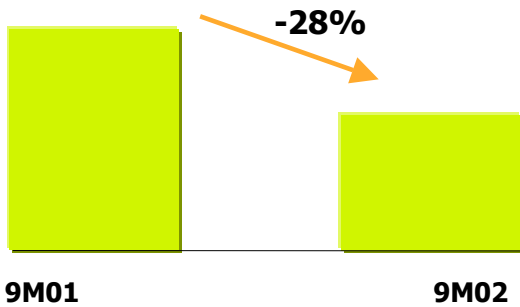
-2% 3Q02 vs 3Q01, excluding monthly fee removal

ARPU is improving despite:

- ✓ Full effect of monthly fee elimination
- ✓ Further tariff decreases

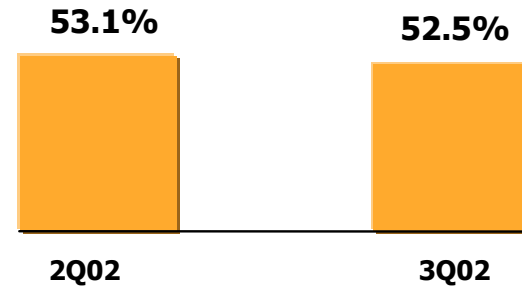
...TO DEFEND DOMESTIC WIRELESS PROFITABILITY

SAC+SRC (%)

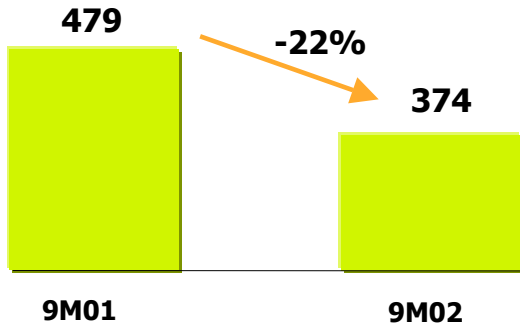


SAC+SRC: 10% of adjusted revenues in 3Q02 *

QUARTERLY EBITDA (%)

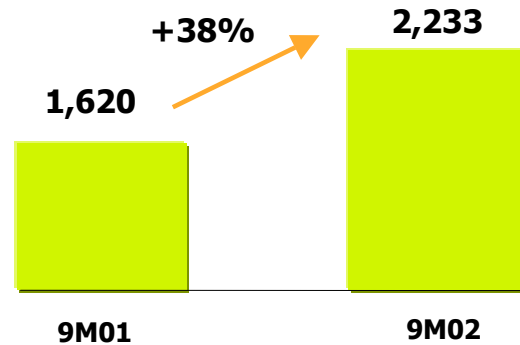


CAPITAL EXPENDITURES ** (€ in Millions)



Capex: 7% of revenues in 9M02

CASH FLOW *** (€ in Millions)



* Net of loyalty points.
 ** Excluding capitalized UMTS license fee.
 *** CF = EBITDA- CAPEX.

MANAGING LATAM EXPOSURE WITH A FOCUS ON CASH FLOW

WIREFLINE	LIS '000 (Jun 02)	FCF (*) 1H02 (Mill. Euros)	% Aprec/(Deprec.) local currency vs Euro
Argentina	4,447	231	-63.0%
Brasil	12,512	797	-11.9%
Chile	2,760	213	-8.6%
Peru	1,764	282	0.1%
TOTAL	21,483	1,523 (+63.0%)	-16.9% (**)
WIRELESS	Customers '000 (Jun 02)	FCF (*) 1H02 (Mill. Euros)	% Aprec/(Deprec.) local currency vs Euro
Argentina	1,662	21	-63.0%
Brasil (***)	6,035	228	-11.9%
Chile	1,710	41	-8.6%
Mexico	1,281	-1	-9.6%
Peru	1,181	48	0.1%
TOTAL	11,868	337 (+20.4%)	-12.9% (**)

(*) FCF = EBITDA before management fee - CAPEX.

(**) Weighted by FCF.

(***) Includes TeleLeste in 2001.

MANAGING LATAM EXPOSURE

KEY ACTIONS IN ARGENTINA

WIRELINE

**COST
OPTIMIZATION**

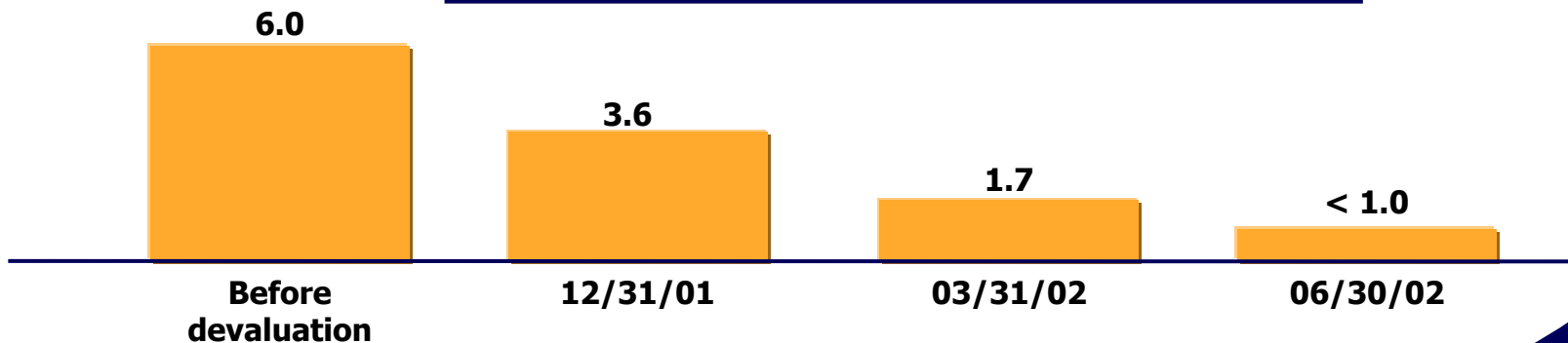
**CAPEX
REDUCTION**

**CASH
CONTROL**

**DEBT
RESTRUCTURING**

- ✓ 1H02 costs* down 18% y-o-y in local currency
- ✓ 1H02 local currency Capex reduced by 74%
- ✓ Bad debt under control at 9% of revenues
- ✓ Prepay represented 34% of gross adds in 1H02
- ✓ No cash injection by TEF Group: we have set a cap on our exposure

TELEFÓNICA EXPOSURE TO ARGENTINA (€ in Billion)



**MANAGING LATAM EXPOSURE
PROTECTING AGAINST EXCHANGE RATE DEPRECIATION**

\$US in Millions (Data as of 06/30/02)

COUNTRY	DEBT (LOCAL CURRENCY) *	EXTERNAL NET DEBT \$US & OTHERS **
Brasil	1,154	-105
Chile	700	4
Peru	693	-120

**TOTAL EXPOSURE FOR \$US EXTERNAL DEBT
AS OF 06/30/02 WE HAD ADDITIONAL HEDGES
AT THE HOLDING LEVEL** -221

EXCLUDING ARGENTINA, HEDGES GO BEYOND \$US EXTERNAL DEBT

* Proportionate to Telefónica stakes. After hedges at the operating companies level.

** Net of Intercompany loans and Cash.

TELEFONICA IS COMMITTED TO CASH FLOW GENERATION...

TELEFONICA IS FOCUSED ON

Core businesses and natural markets

Stop losses from non-performing businesses

Tight control of Opex & Capex

Financial discipline

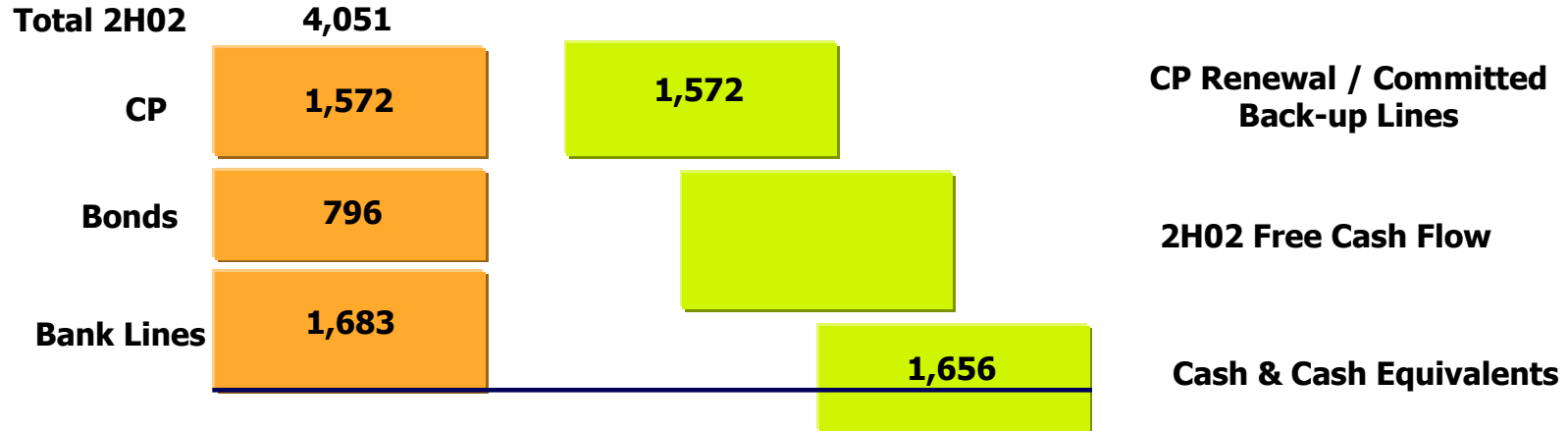
TO

**DRIVE CASH FLOW AHEAD OF THE
INDUSTRY**

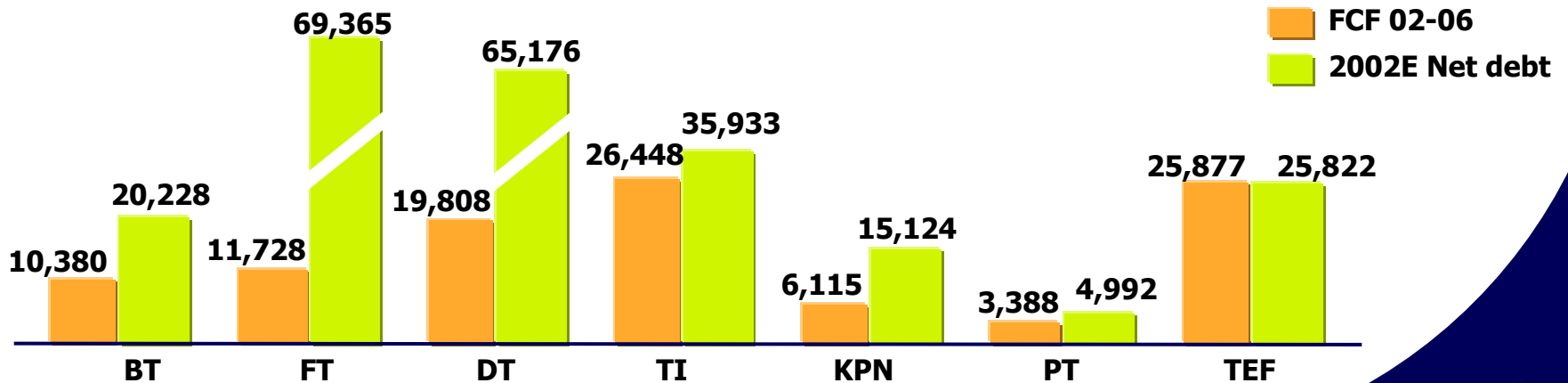
**WITH A CLEAR COMMITMENT TO
IMPROVE SHAREHOLDER'S RETURN**

...AND WE HAVE THE FLEXIBILITY...

2H02 MATURITIES FULLY FINANCED WITHOUT ASSET SALES

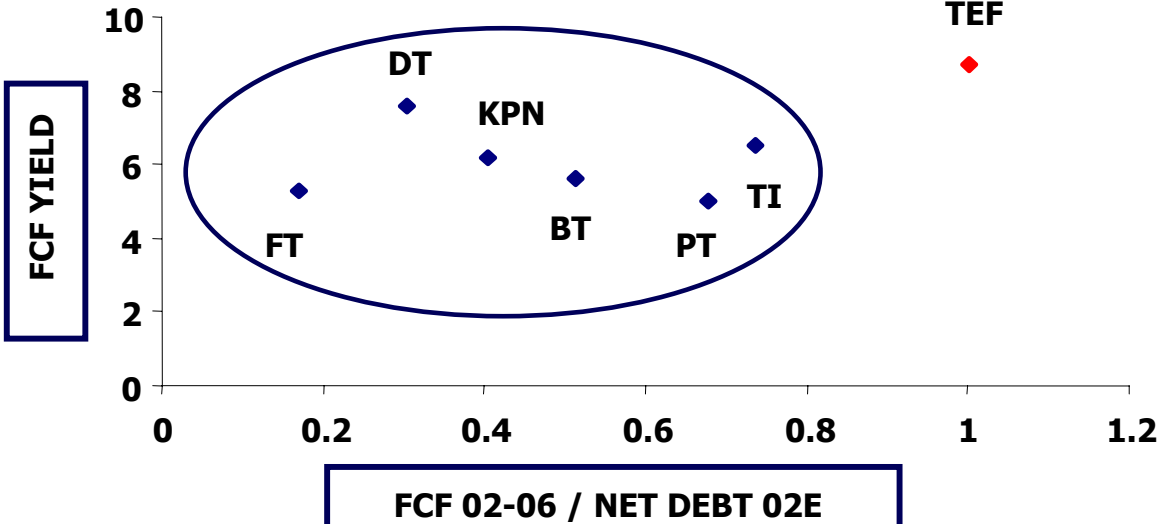


CAPACITY TO REPAY DEBT BEFORE ITS MATURITY, IN JUST 5 YEARS *



* SSSB estimates: Industry Report, June 10th 2002. TI includes Olivetti net debt as of 3/31/02. FCF=EBITDA-Capex-Interests-Taxes.

A PRIVILEGED POSITION AMONGST THE PEER GROUP*



FCF 1H02 (€ in Bn.) **

TEF	4.3
LATAM	1.5

- ⇒ Best financial position among incumbents
- ⇒ Capex rationalization, compatible with organic growth



- ⇒ Amortize treasury stock up to 2% of capital
- ⇒ Reinstate cash dividend in 2003
- ⇒ Further reduce debt

* SSSB estimates: Industry Report, June 10th 2002. TI includes Olivetti net debt as of 3/31/02. FCF yield = (EBITDA - Capex - Interests - taxes) / Market Cap. adjusted by minorities and associates.

** EBITDA - Capex

- ✓ **Telefónica has worked hard to anticipate and adapt to sector trends**
- ✓ **We continue to actively address sector & company challenges to improve business outlook**
- ✓ **Our strong credit profile gives us the flexibility to concentrate all our efforts on managing day to day operations**
- ✓ **We are focused on running core operations in our natural markets**
- ✓ **We are actively hedging our Latam exposure to minimize its impact**
- ✓ **We have the flexibility to focus on shareholder returns**

Telefónica
