TELECOM DAY

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Telefónica

Safe harbor

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Since early 2002, we have successfully managed the company through a tough environment

I Strengthened position in our core markets to capture customer growth

- In Spanish wireline, we are managing top-line pressure and over-performing on cash generation
- Our Spanish wireless operation is performing outstandingly

II Proactively managed the challenging LatAm environment

- Tight control of OpEx and CapEx across all operations
- Effective management of bad debt
- Proactive financial management

III Continued to strengthen commercial and operational focus, and tight cost and CapEx discipline

- Ambitious efforts to improve OpEx efficiency and flexibility across business lines
- Sustained CapEx rationalisation to decrease asset intensity

IV Decisively restructured under-performing operations to focus on core businesses

- European UMTS operations, Media divestitures, Via Digital merger agreement ...
- Terra-Lycos buy-out
- Corporate data and solutions businesses

Driving strong free cash flow generation

- Anticipation of market trends
- Consistent management priorities
- Focus on multi-year efforts
- Spanish wireline, we are managing top-line pressure and over-performing on cash generation

Looking ahead, we have a clear strategy to grow cash flows and improve returns

Objectives

- Sustainable cash flow growth
- Improved returns on capital

Lines of action

Customer orientation

Growth

- I Broadband
- II Wireless
- III LatAm Wireline

Transformation

- IV Commercial oriented company
- V Leaner, more efficient business model

I. Over 6 Mill. Telefónica Group DSL connections by 2006

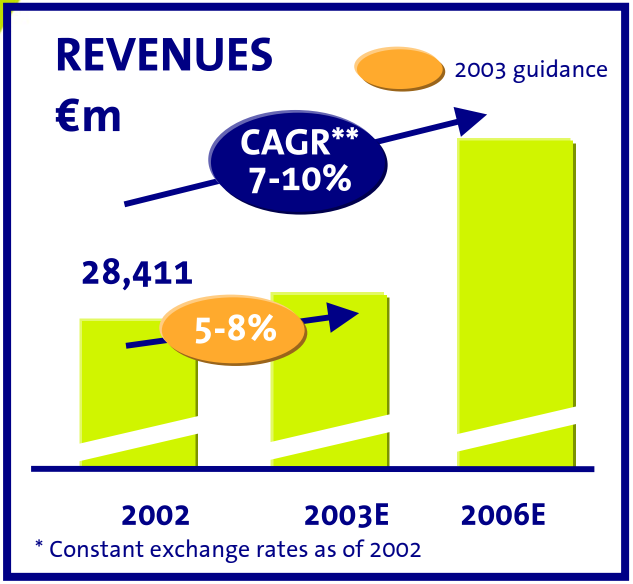
II. Short and Medium term growth driven by Voice Upside and Data Services, respectively

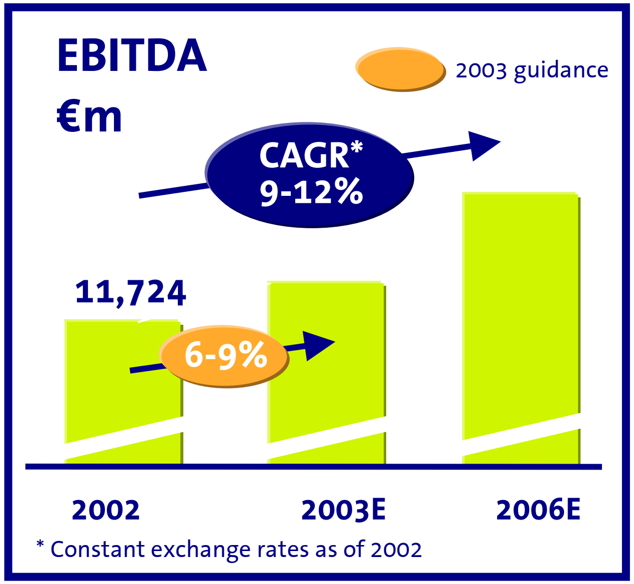
III. Retain and grow customer base while stimulating usage and ARPU

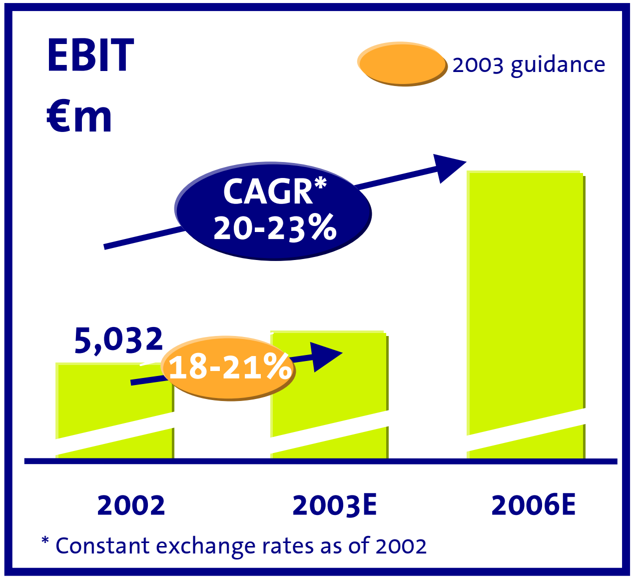
IV. Build-up of excellent marketing and sales capabilities to ensure growth

V. Less capital intensity through CapEx optimization towards growth activities

As a result, we expect to deliver consolidated growth 2002-06 ...







Double-Digit Return on capital employed (ROCE **) by 2005

* Return on Capital Employed: EBIT x (1- effective tax rate)/average capital employed

and strong Cash Flow generation for the period

OPERATING FREE CASH FLOW*

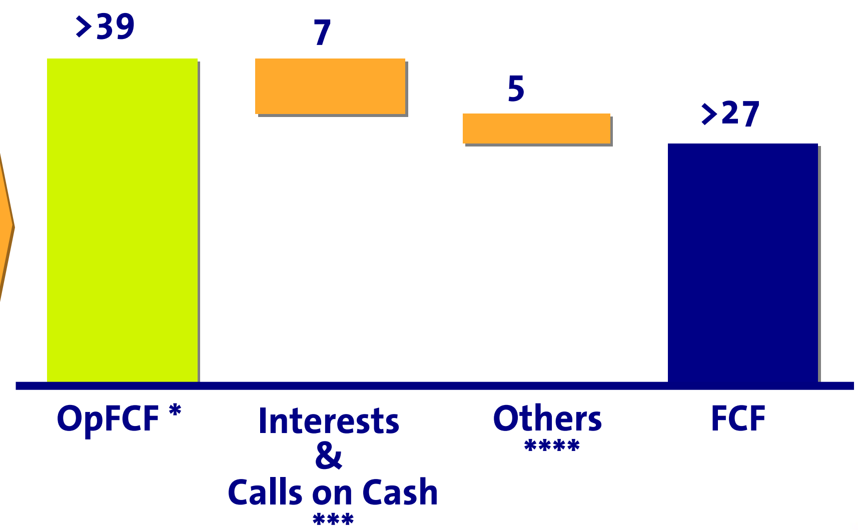
- Client focus & commercial excellence to drive top line growth
- Build-up of a cost efficient model
- Optimizing Capex for lower capital intensity

NON-OPERATING OUTFLOWS

- Financial expenses
- Cash Taxes
- Minorities
- Working capital
- Calls on cash flow

FREE CASH FLOW GENERATION 2003-2006 **

(€ Bn., 2002 constant exchange rates)



* EBITDA-CAPEX
** Before Financial Investments. Excluding forex and changes in consolidation
*** Assuming limited debt reduction
**** Cash Taxes, Minorities and Working Capital

Our Rationale For 2003-2006 Cash-flows Distribution

TWO BASIC PRINCIPLES...

TO FULLY DELIVER ON OUR FIRM COMMITMENTS

TO KEEP STRATEGIC FLEXIBILITY TO GROW OUR BUSINESSES

...TO ACHIEVE OUR FOUR PRIORITIES

1. **SHAREHOLDER REMUNERATION**
2. **SOLVENCY PROTECTION FOR A "SINGLE A" RATING**
3. **BUSINESS LONG TERM EXPANSION**
4. **FINANCIAL FLEXIBILITY**

ON-GOING RECIRCULATION

Cash Flow generation is:

- **Contingent upon fulfilment of Strategic Plan, sensitive to:**
  - Business risks and opportunities: Demand, costs, competition, capex needs.
  - Financial markets developments: cost of capital.
  - Major technological changes and business opportunities.
- **Sensitive to changes in Exchanges Rates.**

FIRM COMMITMENTS AND SIZE ALLOCATIONS FOR THE USE OF CASH-FLOW MUST BE BALANCED AGAINST THESE ITEMS.

Our Approach To The Destination Of 03-06 Cash-flows (I)

WE HAVE FIRM COMMITMENTS IN EXCESS OF € 19 Bn

SHAREHOLDER REMUNERATION

≅ 11.4 Bn.€

- Cash dividends.
- Share buy-backs.

- 1.2 Bn.€ to be paid in 2003.
- 2 Bn.€ a year from 2004 to 2006.
- 200 Million € executed in 1H03.

- 4 Bn.€ share buy-back for period 2003-2006 conditioned to the generation of free cash flow over our firm commitments

SOLVENCY PROTECTION FOR SINGLE A RATING *

≅ 7.9 Bn.€

- We have cash commitments for 7.9 Billion€:
  - ✓Gross NPV 98 Redundancy Program of 3.5 Bn.€
  - ✓ Guarantees of 0.8 Bn.€
  - ✓Gross NPV of Expected 03 Redundancy Program of 3.6 Bn.€

... Fully funding NPV of cash commitments would leave (net debt + cash commitments)/ EBITDA in the 1.4x-1.7x region in 2006

* subject to prospective risks and Rating Agencies opinion

Our Approach To The Destination Of 03-06 Cash-flows (II)

KEEPING STRATEGIC FLEXIBILITY ABOVE 7.5 Bn.€ TO ACCOMMODATE

SELECTIVE BUSINESS EXPANSION BASED ON	AND	FINANCIAL FLEXIBILITY COULD PROVIDE ROOM FOR eg:

- Complementarity to core businesses.
- Target selection based on cash flow generation capabilities.

- A 50% value loss of Latam currencies

plus

- A 10% drop of average 04-06 Non-Latam EBITDA below its 2003 level.

Conclusion: A proven financial strength

1.- Large Free Cash Flow Generation > 27 Bn.€ (03-06)

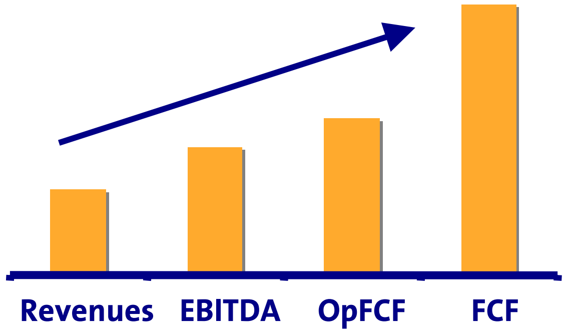
- FCF roughly equal to 50% of Market Capitalization.
- FCF roughly equal to 100% of Net Debt + Expected Commitments.

2.- Current and Expected Cash Consumption fully funded

- 20 Bn.€ Net Debt + 7.9 Bn.€ of Cash Commitments targeted.

3.- Powerful Conversion of OpFCF into FCF to Equity

CAGR 02-06



4.- No Asset Disposals, Business Line Divestitures or Unwinding of Financial Stakes Contemplated.

5.- "Hard" Commitments for FCF Allocation at the Top of the Industry and Clear Recirculation Channels for Excess Cash Flow

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