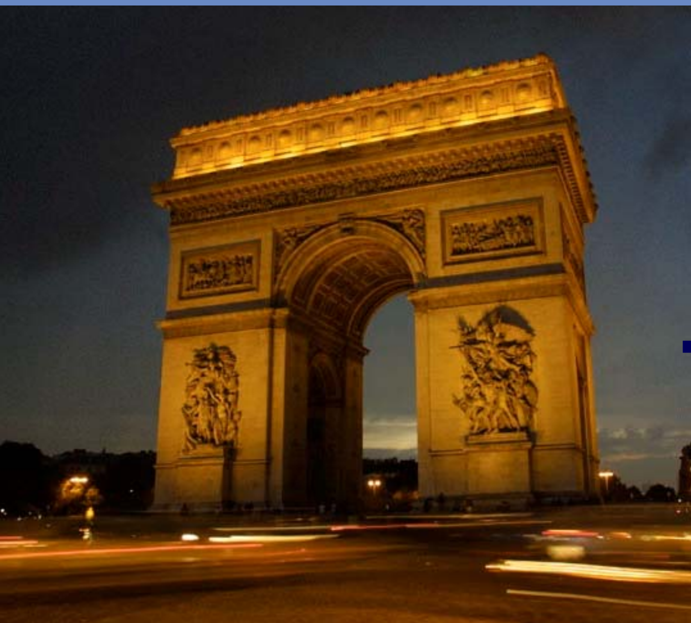
European Investor Conference



Santiago Fernández Valbuena

CFO

Telefónica Group

December 4th, 2003

Safe harbor

"This presentation contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document 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. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

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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**

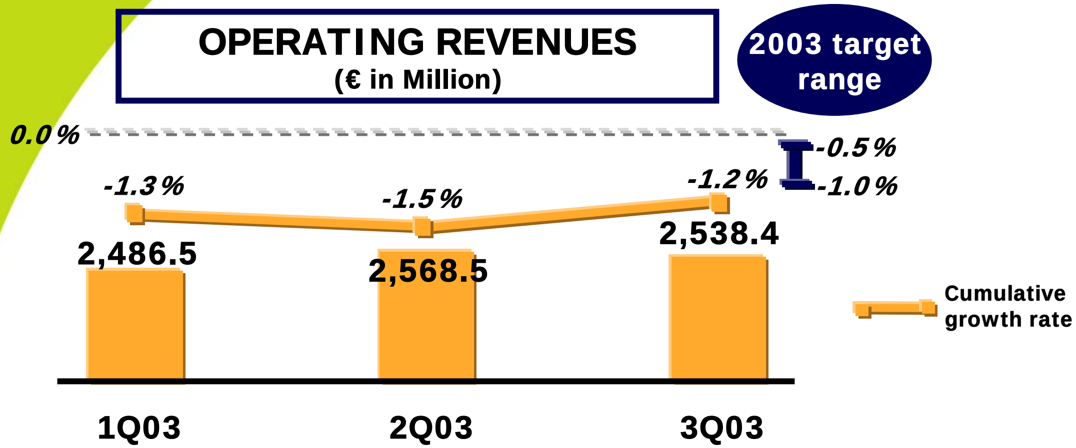
- Ambitious efforts to improve OpEx efficiency and flexibility across business lines
- Sustained CapEx rationalisation to decrease asset intensity

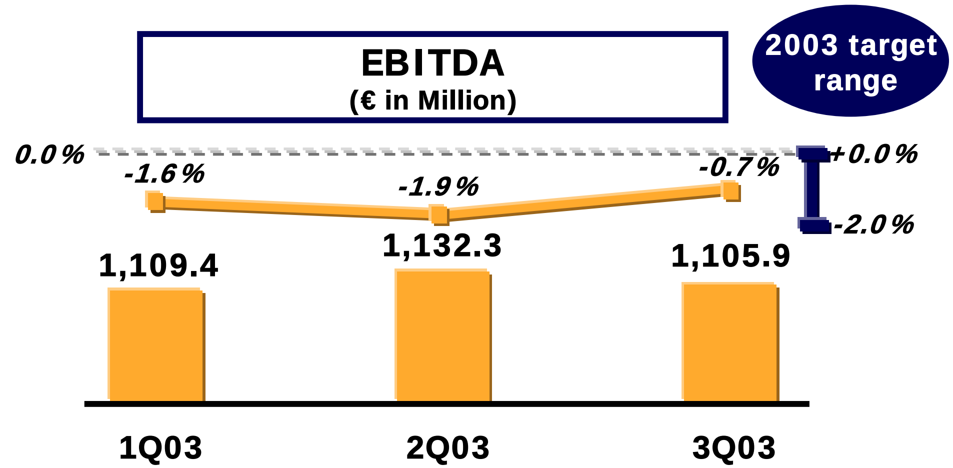
IV **Decisively restructured under-performing operations to focus on core businesses**

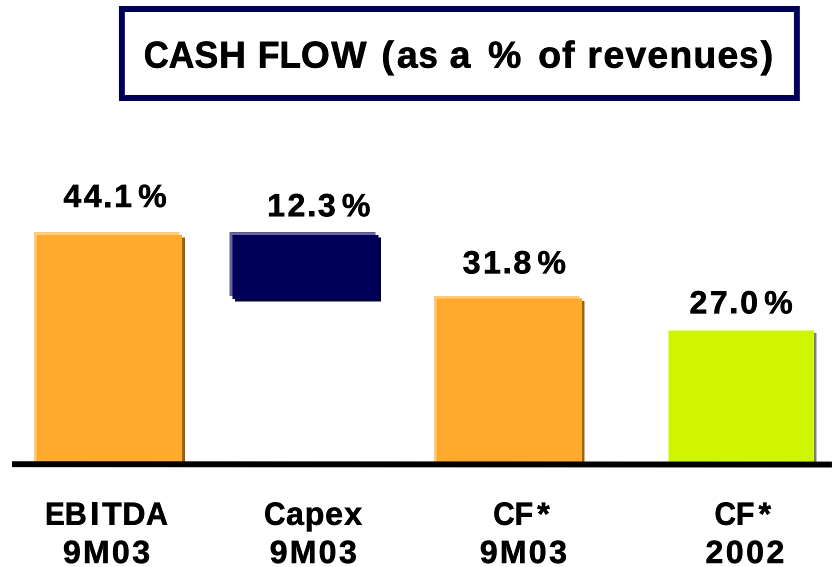
- European UMTS operations, Media divestitures, Via Digital merger agreement …
- Terra-Lycos buy-out
- Corporate data and solutions businesses

Beating 2003 targets
&
Driving strong free cash flow generation
&
Keeping a solid Balance Sheet

Telefónica de España Group: Managing top line pressure and outperforming on cash generation



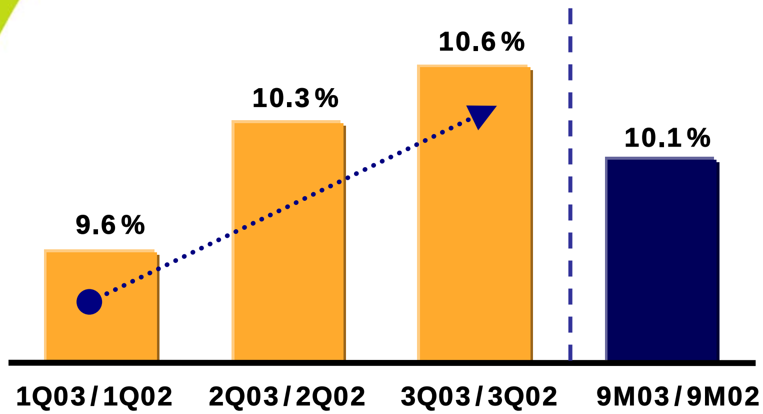




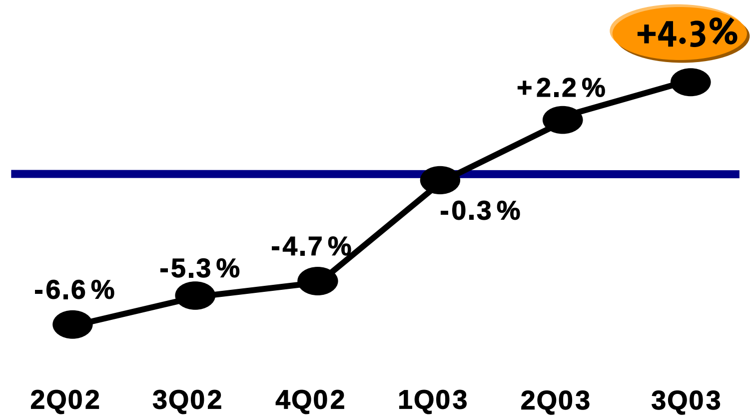
(*) EBITDA-Capex

Telefónica Móviles España: high operating standards are providing for growth and profitability

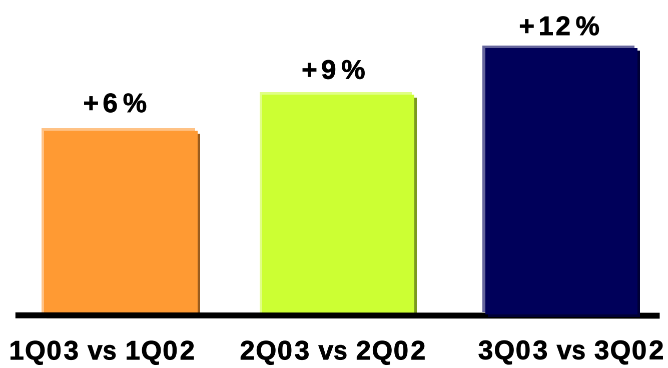
CONSISTENT MOU GROWTH



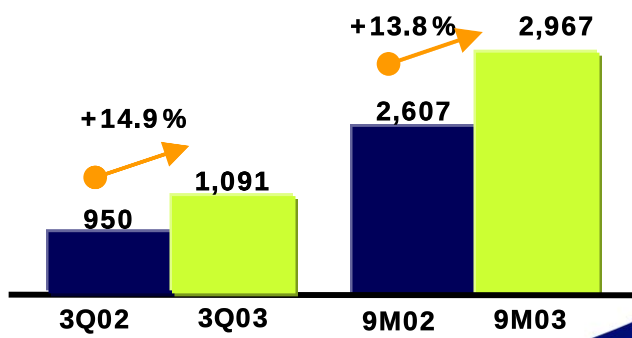
REVERSING ARPU TREND



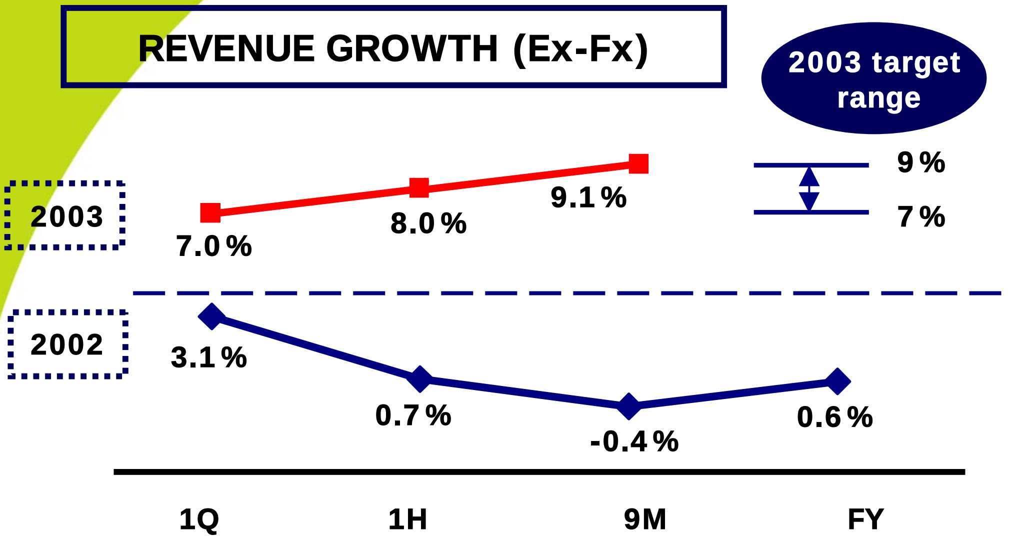
ACCELERATING SERVICE REVENUES GROWTH RATE

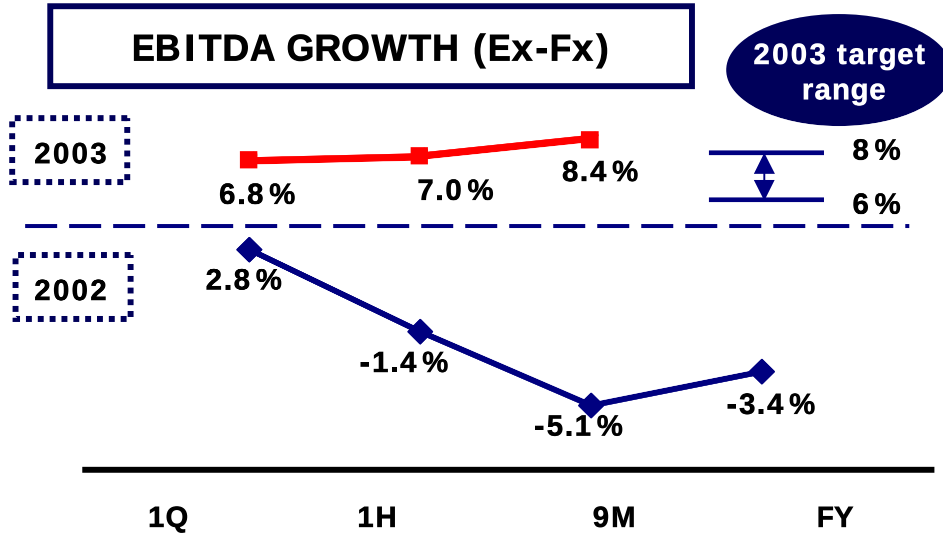


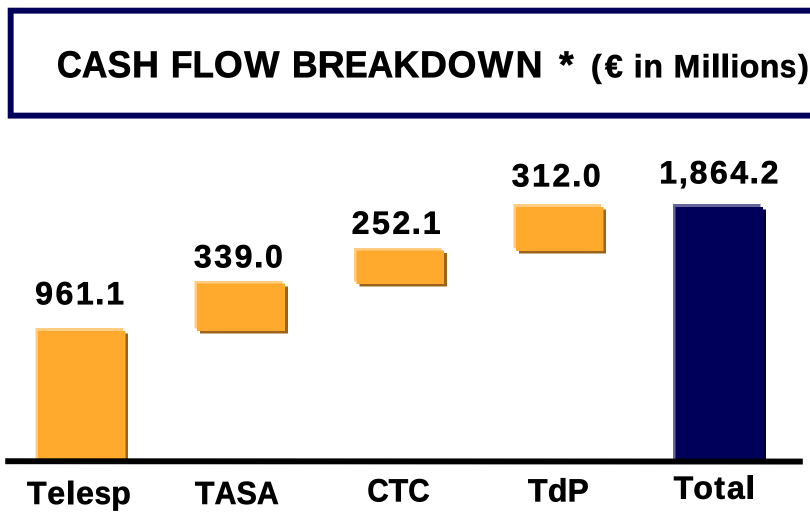
A SOLID EBITDA PERFORMANCE
(€ in Millions)



Telefónica Latinoamérica: organic growth and cash flow generation...





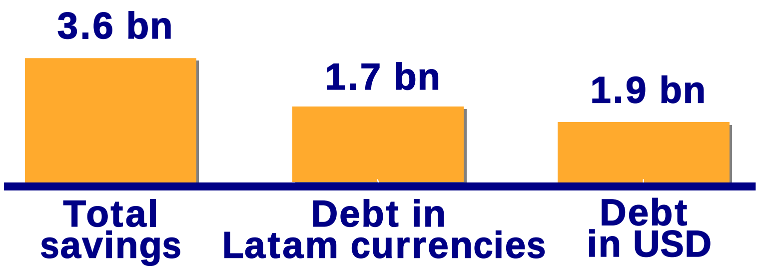


(*) EBITDA-Capex

...while actively addressing Latin American risk

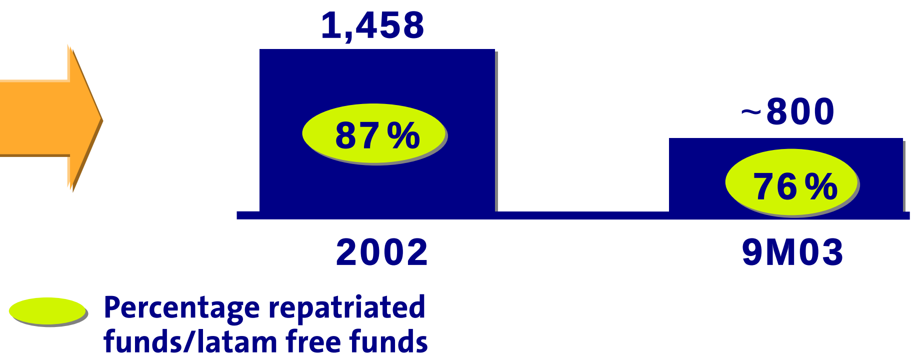
Managing debt exposure
A balanced mix of currencies (€, $US, Latam)

DEBT REDUCTION DUE TO FX SINCE 2001



Accessing Cash Flow
Flexible instruments (M.fees, Intra-Group loans, dividends)

TOTAL REPATRIATED FUNDS (M USD)



Leveraging at the subsidiaries level
Tapping the local markets & hedging foreign currency financing

- Latam debt (23% of total) non recourse to Parent
- Excluding Argentina, Latam debt is fully hedged

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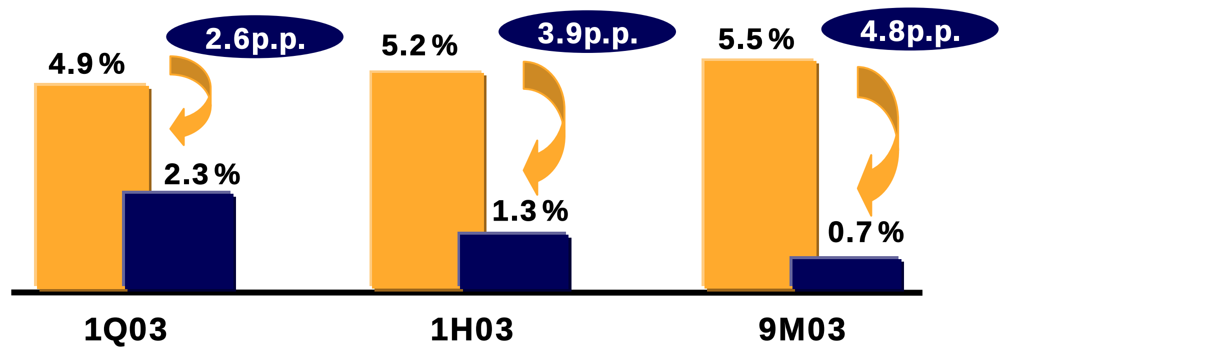
We remain focus on improving Opex efficiency and sustaining CapEx rationalization across business lines

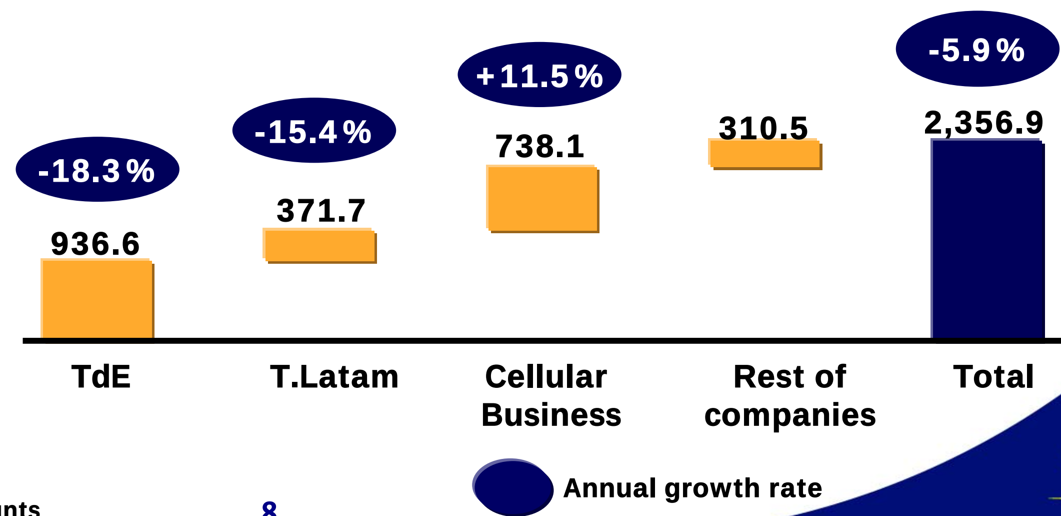
A leaner Cost Structure

WIDENING THE GAP BETWEEN COSTS AND REVENUES GROWTH RATES (y-o-y)



A lower Asset Intensity

9M03 CAPEX BREAKDOWN (€ in Million)



(*) Excluding forex and changes in the consolidated accounts

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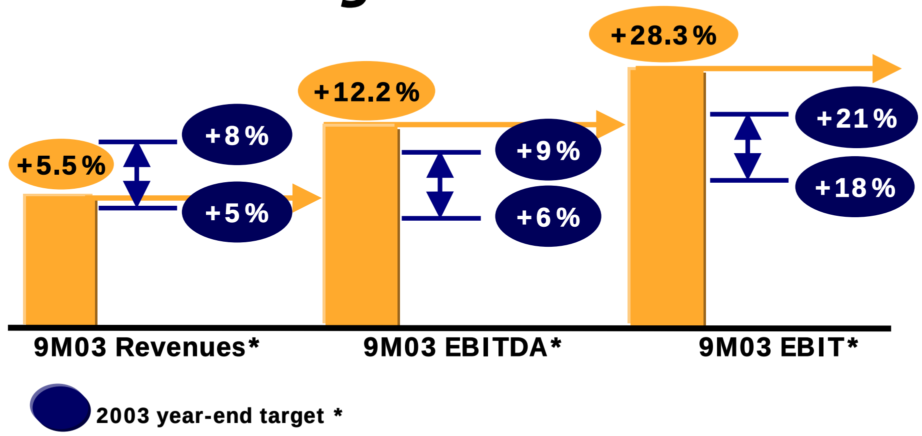
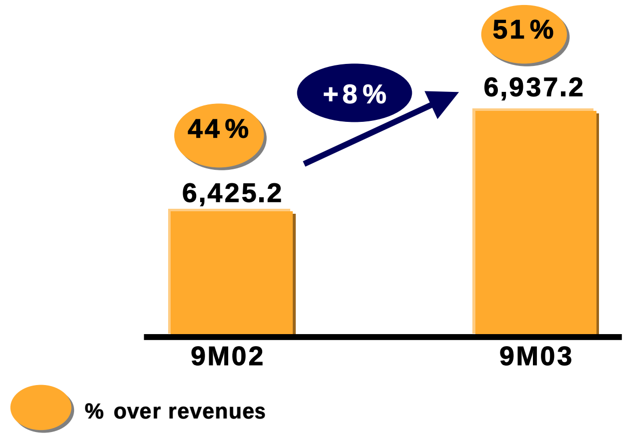
This active management of operations is leading...

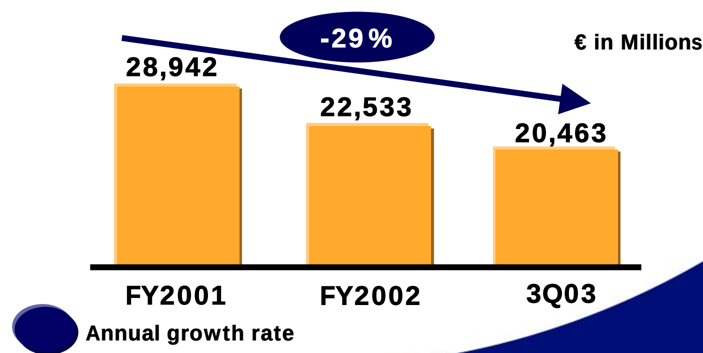
...to beat 2003 guidance
(y-o-y real annual growth rates*)



...to drive strong CF generation
(9M03 EBITDA-CapEx)



...to keep a solid balance sheet
(Net Debt)



(*) Excluding Fx and changes in consolidation

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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

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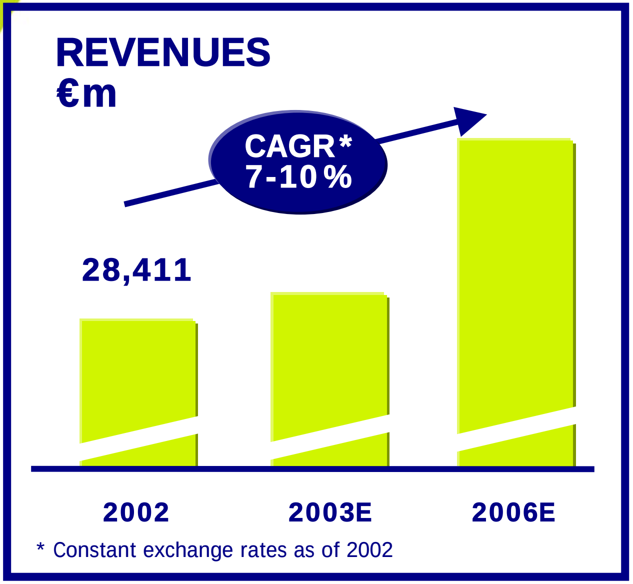
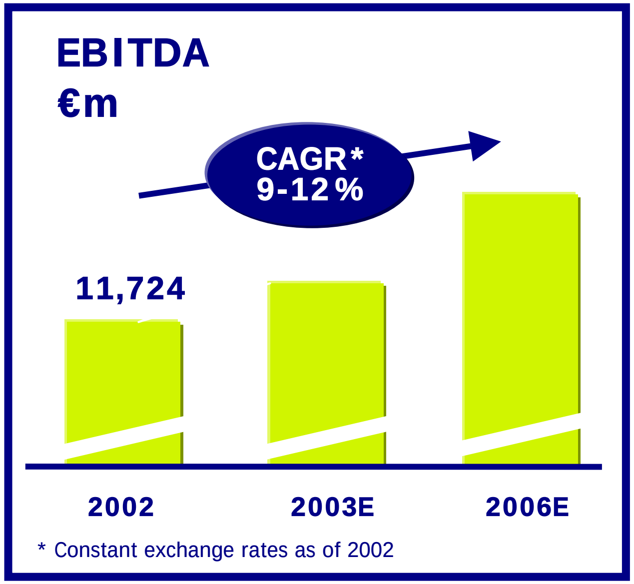
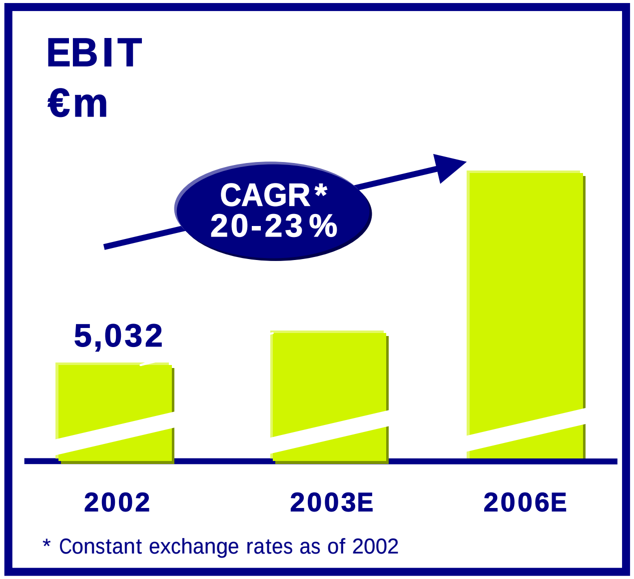
...On which we based our ambitious but achievable financial projections...







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*

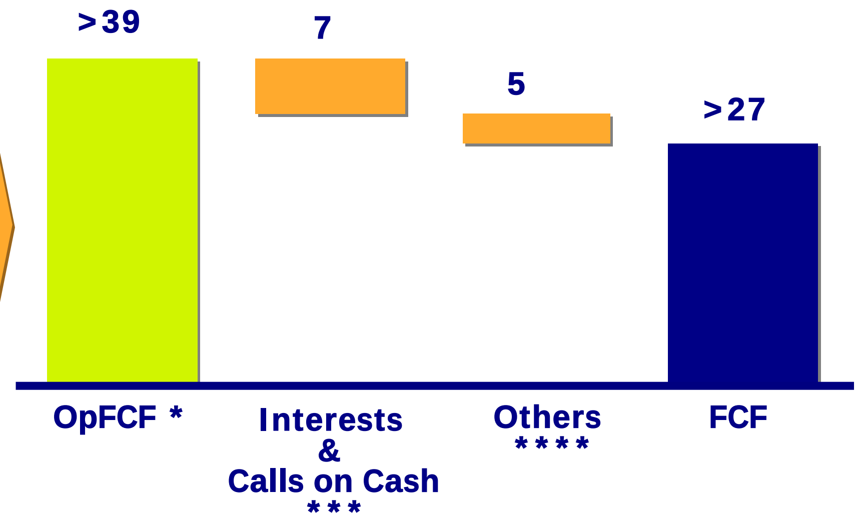
- Client focus & commercial excellence to drive top line growth
- Build-up of a cost efficient model
- Optimizing Capex for lower capital intensity

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 ACHIEVE OUR FOUR PRIORITIES

TO FULLY DELIVER ON OUR FIRM COMMITMENTS

TO KEEP STRATEGIC FLEXIBILITY TO GROW OUR BUSINESSES

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.

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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.

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In summary, execution of Growth and Transformation to offer a unique combination in the Telco industry…

Sustainable *FREE* cash flow generation

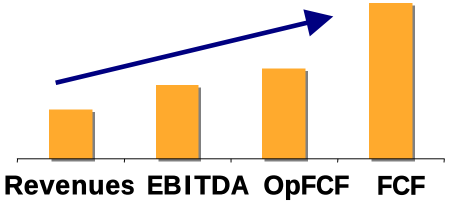
> cumulative 27 bn€ 2003-06

STRONG AND LONG-TERM SHAREHOLDER REMUNERATION

>11.4 bn Euros 03-06, close to 21% current market cap
dividend yield of 3.6% + 7.4% share buy back at current prices*

POWERFUL CONVERSION RATE OF CASH FLOW INTO EQUITY METRICS

CAGR 02-06**



** constant exchange rates as of 2002

Improved returns on capital

Double digit in 2005

SOLID GROWTH POTENTIAL

CAGR 02-06 revenues of 7%-10% **

LEANER ECONOMICS IN A TWOFOLD WAY

Less asset intensity

Less equity

* share price as of closing December, 1st, 2003

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