



Telefonica



**January - June
2002 Results**

This presentation is being broadcast live on the internet

SAFE HARBOUR

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A STEP FORWARD IN OUR SEVILLE STRATEGY

STRATEGIC INITIATIVES

Maximize FCF through tight control of Opex & Capex

Focus on shareholder returns

Unlock value from non-core assets

Analyze selective M&A opportunities

BUSINESS INITIATIVES

Accelerate performance of core businesses

Capture natural growth potential

Turn around non-performing businesses

WE ARE STRENGTHENING
OUR FOCUS ON TWO TOP PRIORITIES



⇒ MAXIMIZE CASH FLOW
⇒ OPTIMIZE CASH FLOW USES

WORKING TOWARDS IMPROVING CASH FLOW

BUILD CASH FLOW GENERATION

Restructure non-performing businesses

Focus on core businesses

Focus on natural markets

Financial discipline

UMTS IN EUROPE

- ⇒ Soft launch in Germany
- ⇒ Financial cap 2002-2003
- ⇒ Freezing Italy, Austria & Switzerland



- ⇒ Freezing operations in Germany
- ⇒ Write-down UMTS assets for 4,837.5 Million €
- ⇒ Maintenance of licenses

DATA OPERATIONS

- ⇒ 249 Million € write-down of Mediaways in 2001
- ⇒ Sale of ETI in July 2002



- ⇒ Additional write-downs of European new entrant ventures in 2Q02 for 530.0 Million €
- ⇒ New entrant markets:
 - ✓ Non-core in the medium term
 - ✓ Low speed development in the short term
- ⇒ Closer integration Data/Fixed where incumbents

MEDIA ASSETS

- ⇒ Vía Digital/Sogecable merger agreement in 1Q02
- ⇒ Onda Cero integration in Antena 3
- ⇒ Sale of Azul TV
- ⇒ Spin-off of activities in Admira & Telefónica Contenidos



- ⇒ Look for opportunities to monetize our stakes

FINANCIAL IMPACT OF WRITE-DOWNS

PROFIT AND LOSS ACCOUNT IMPACT

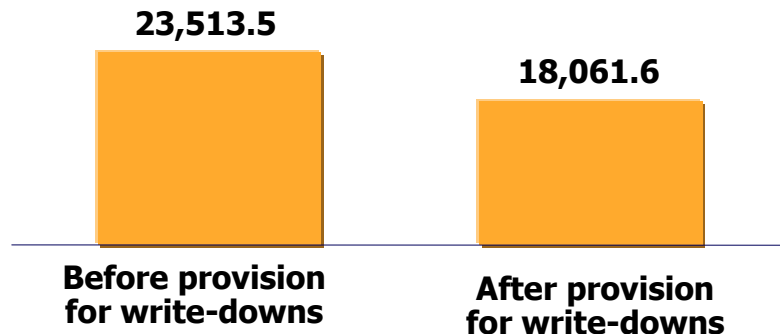
<i>€ in Million</i>	Provision for Write-down	Estimated Restructuring Costs
UMTS ASSETS	4,550.3	287.2
MEDIAWAYS	530.0	-
TOTAL	5,080.3	287.2



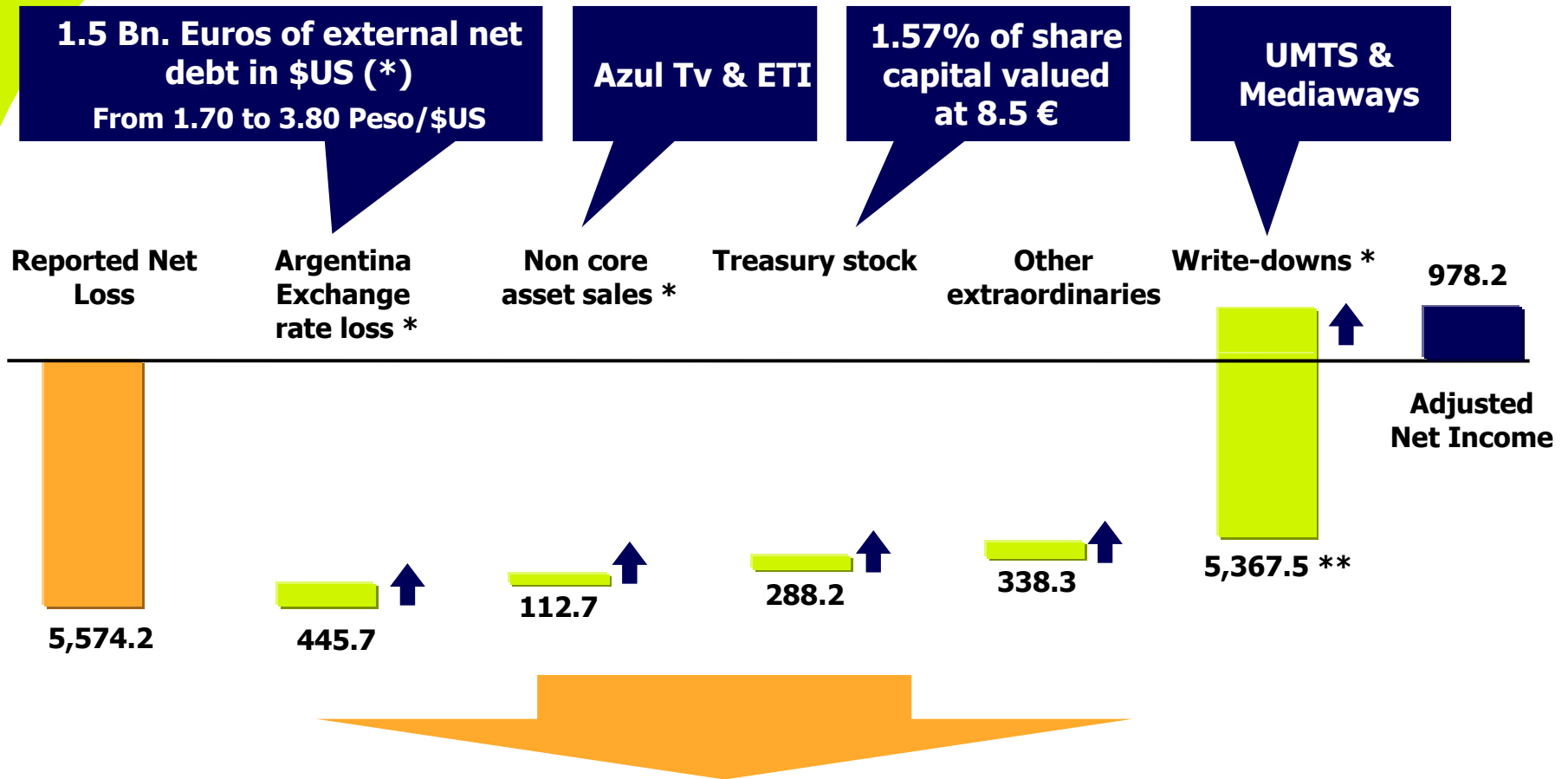
Telefónica records a net loss of 5,574.2 Million € in 1H02.
Excluding write-downs, net loss would have been 206.7 Million €

BALANCE SHEET IMPACT

Net Worth (€ in MM)



1H02 NET INCOME PENALIZED BY EXTRAORDINARIES



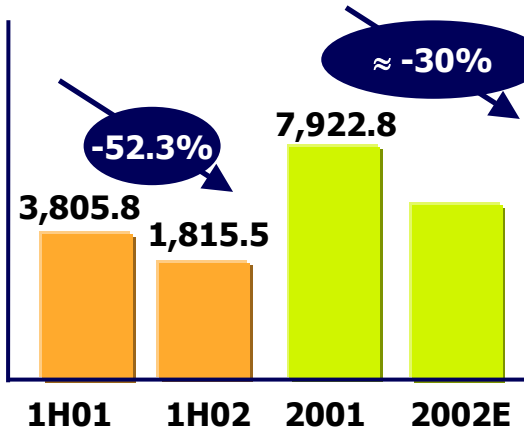
SETTING THE PACE FOR NET INCOME & ROIC IMPROVEMENT

* Net of taxes

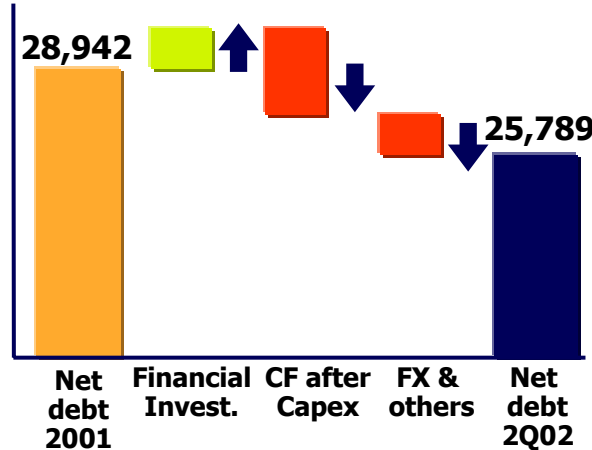
** Provision for write-down + estimated restructuring cost

WORKING TOWARDS OPTIMIZING CASH FLOW USES

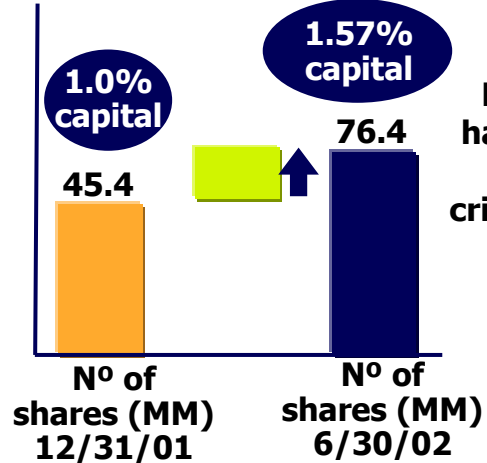
CAPEX COMPATIBLE WITH PROFITABLE ORGANIC GROWTH



PROGRESS ON DEBT REDUCTION WITHOUT DIVESTING. COMMITMENT TO SINGLE A RATING



TREASURY STOCK



M&A ACTIVITY

No targets have fulfilled our M&A criteria except Pegaso

A STEP FORWARD

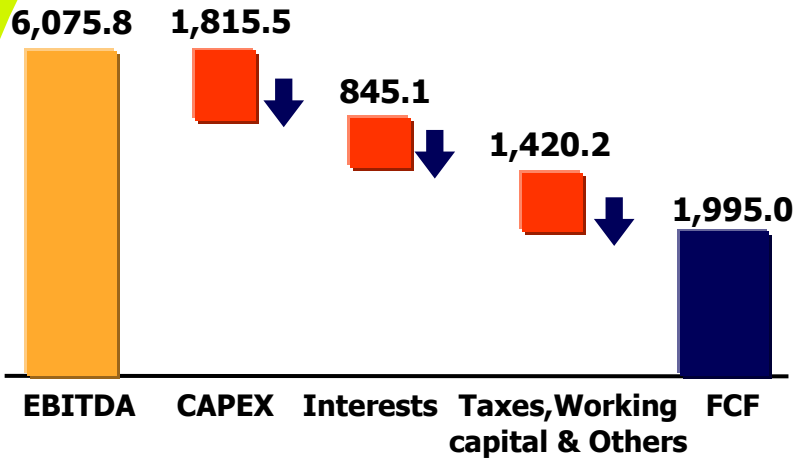
PROPOSAL TO THE BOARD OF DIRECTORS TO BE SUBMITTED TO THE 2003 GENERAL SHAREHOLDERS MEETING

- ⇒ Amortize all treasury stock
- ⇒ Reinstate cash dividend policy

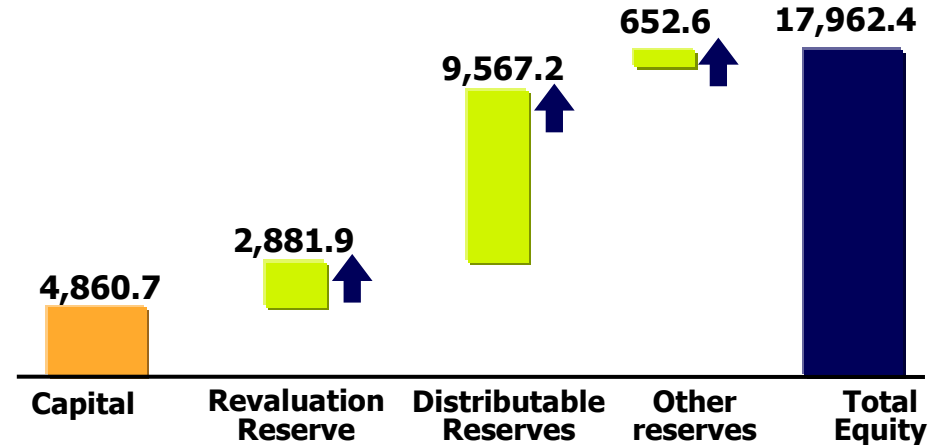
WITHOUT PUTTING AT RISK OUR CREDIT PROFILE

CASH DIVIDEND PAYMENT: WE HAVE THE CAPACITY

2Q02: DELIVERING ON FCF TO SHAREHOLDERS

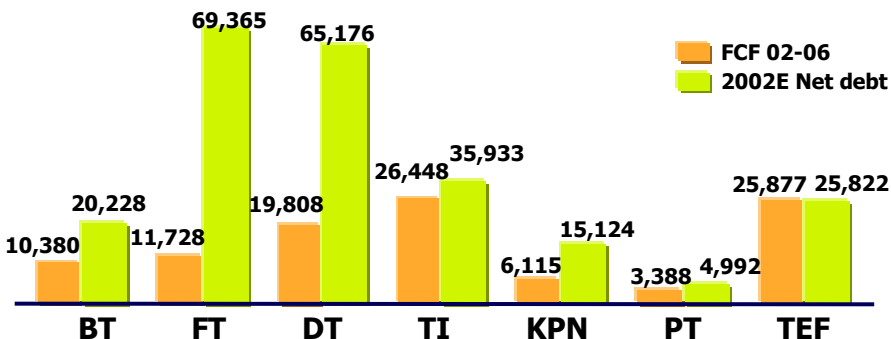


TELEFÓNICA S.A.: DISTRIBUTABLE RESERVES IN EXCESS OF 9.6 Bn.€ AS OF JUNE 2002



A PRIVILEGED POSITION AMONGST THE PEER GROUP

FCF vs Net debt *



FCF Yield *

	2002	2003	2004	2005
TEF	7.1%	8.7%	9.7%	11.1%
BT	4.8%	5.6%	6.4%	7.2%
FT	1.7%	5.3%	9.1%	10.1%
DT	3.0%	7.6%	8.3%	11.3%
TI	5.2%	6.5%	7.7%	7.9%
KPN	6.0%	6.2%	9.4%	11.3%
PT	6.7%	5.0%	6.1%	8.8%

* 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.

SETTING A SOLID BASE FOR BUILDING VALUE

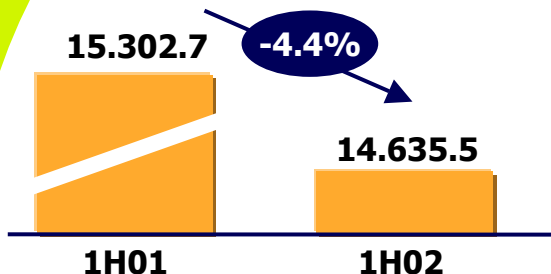
- ⇒ **We have decided to freeze our European mobile operations.**
- ⇒ **We are downsizing data business in new markets and bringing operations closer to fixed where incumbents.**
- ⇒ **We are actively restructuring our Media assets to unlock its value.**
- ⇒ **We have restated assets, improving our healthy asset base.**
- ⇒ **We are showing our commitment to the generation and best use of cash flow, while keeping our financial strength.**



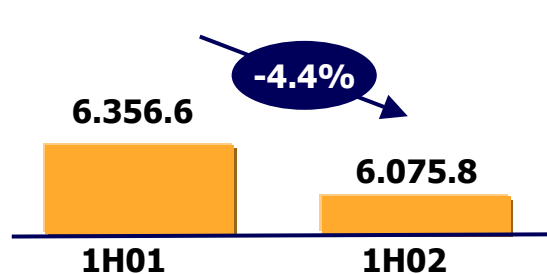
- ⇒ **Freezing UMTS operations out of Spain will save Telefónica:**
 - ✓ **1,802 Million € of EBITDA losses for the period 2002-2005**
 - ✓ **2,374 Million net losses for the period 2002-2005**

FINANCIAL HIGHLIGHTS (I)

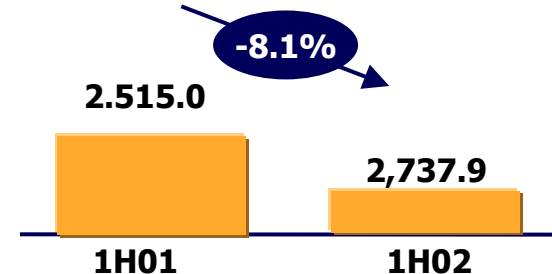
REVENUES (€ in millions)



EBITDA (€ in millions)

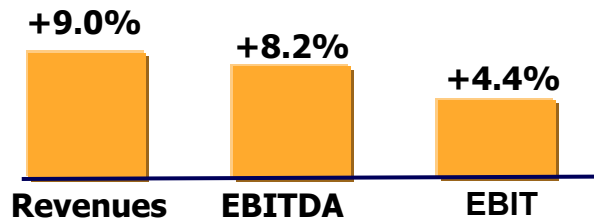


EBIT (€ in millions)

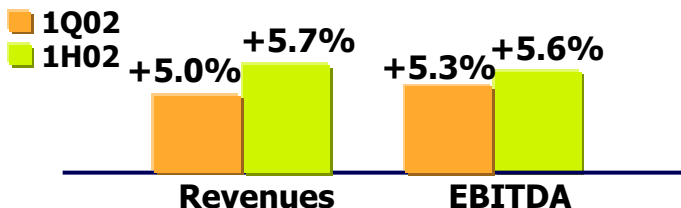


RESULTS AFFECTED BY ARGENTINA & Fx

GROWTH RATES EXCLUDING ARGENTINA & FOREX



GROWTH RATES EXCLUDING Fx



1H2002 KEY DRIVERS

⇒ ARGENTINA

TASA: -12.2% in revenues and -15.4% in EBITDA. In local currency.

Peso exchange rate loss: 445.7 mill. Euros in net income.

⇒ FOREX

Fx drags close to 10 p.p. to revenues & EBITDA growth.

⇒ TELEFÓNICA DE ESPAÑA: IMPROVING 1Q02 TREND

-0.6% in revenues and -6.3% in EBITDA.

⇒ TELEFÓNICA MÓVILES: SOLID PERFORMANCE

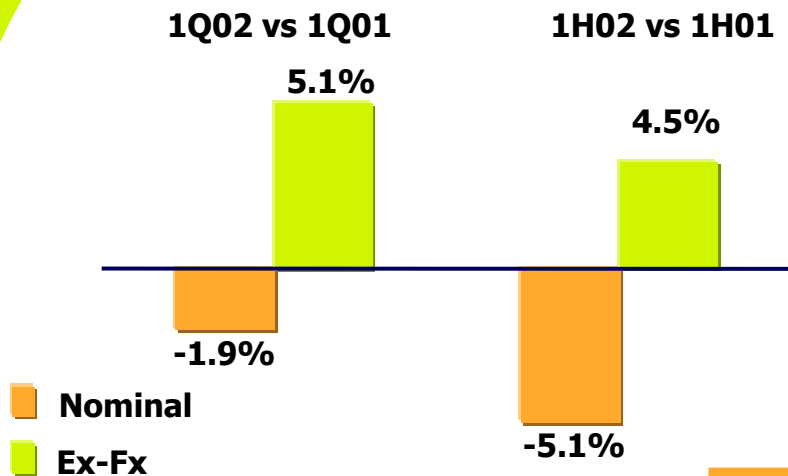
+20.5% in revenues and +33.1% in EBITDA in Spain.

⇒ EFFICIENT COST MANAGEMENT

Reducing operating costs by 4.2%/y-o-y.

FINANCIAL HIGHLIGHTS (II)

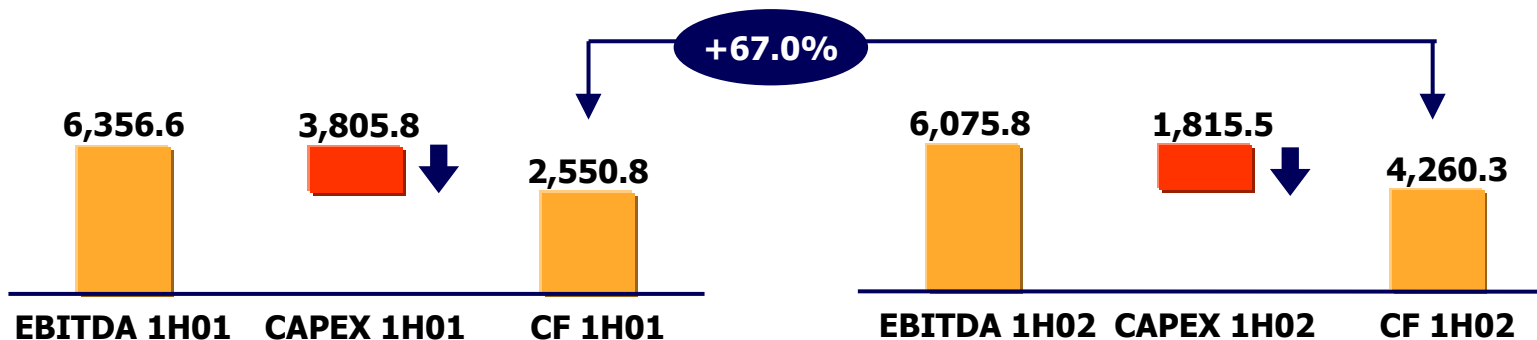
CONSOLIDATED OPEX *



CONSOLIDATED CAPEX

<i>€ in Million</i>	1H02	% Change 1H02/1H01
TdE	748.3	-13.9%
Cell. Business	462.8	-42.7%
T. LATAM	405.7	-75.0%
TOTAL GROUP	1,815.5	-52.3%

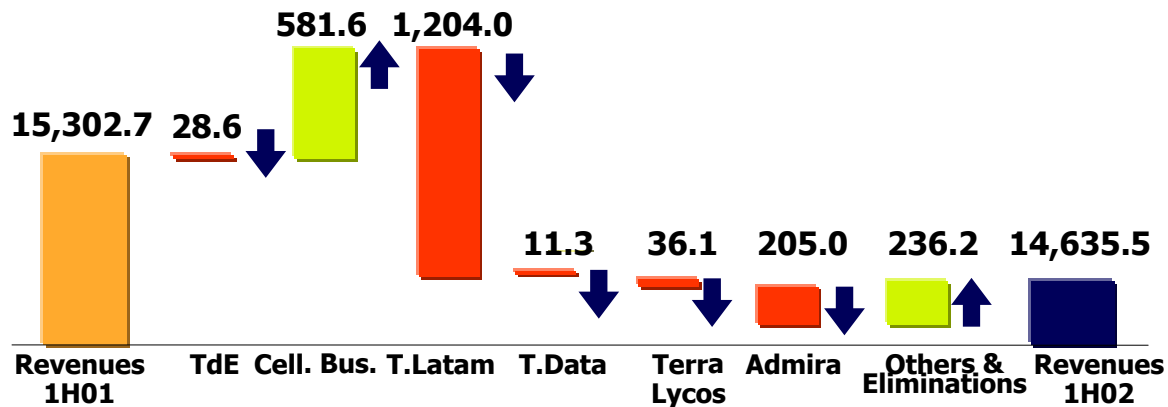
OPERATING CASH FLOW GENERATION (Million Euros)



* Operating & Other expenses

CONTRIBUTION BY BUSINESS LINE

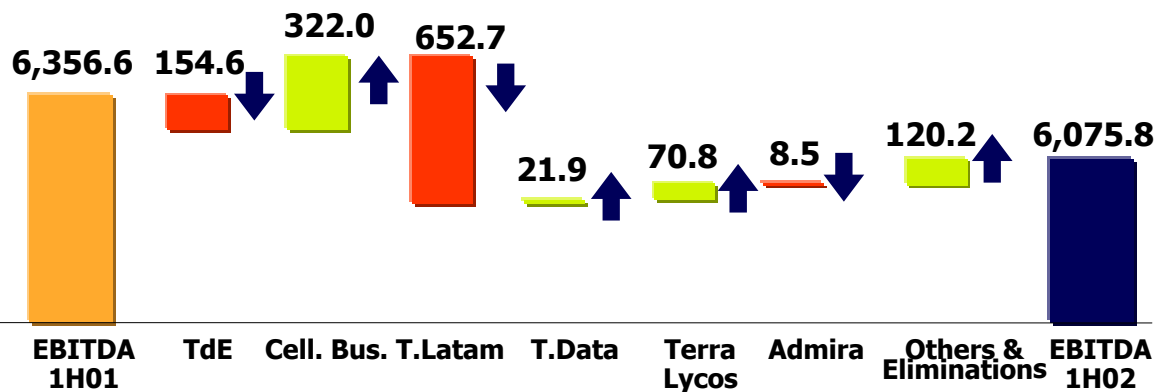
REVENUES (€ in millions)



CONTRIBUTION TO GROWTH*

Cell. Bus.: + 3.3 p.p.
TdE: + 0.1 p.p.
T.Latam: - 7.2 p.p.

EBITDA (€ in millions)



CONTRIBUTION TO GROWTH*

Cell. Bus.: + 5.5 p.p.
TdE: -2.4 p.p.
T.Latam: -10.3 p.p.

* Net of inter-company eliminations

TELEFONICA DE ESPAÑA: OPERATING DRIVERS AMID INTENSIVE COMPETITIVE & REGULATORY FRAMEWORKS

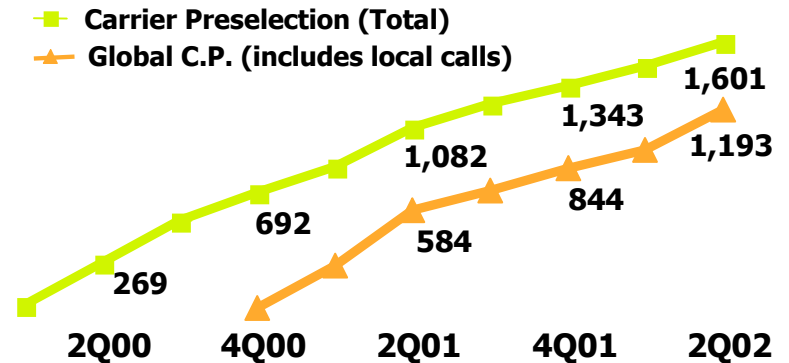
ADSL PERFORMANCE

2Q02

Net adds (thousands)	133.3
Broadband market share in Spain	50.3%
Cumulative Plug&Play retail additions	56.6%
Mean daily installation rate	2,800

CARRIER PRESELECTION EVOLUTION

(thousand lines)

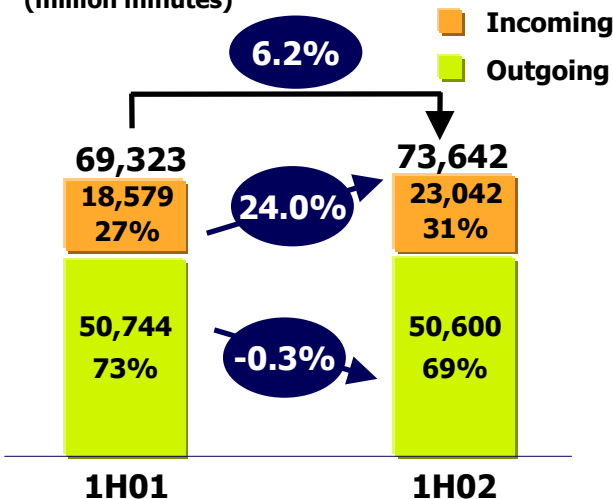


2ND QUARTER INCREASES:

⇨ CARRIER PRESELECTION	146,182
⇨ GLOBAL CARRIER PRESELECTION	245,108

9% OF LINES ALREADY PREASSIGNED

(million minutes)



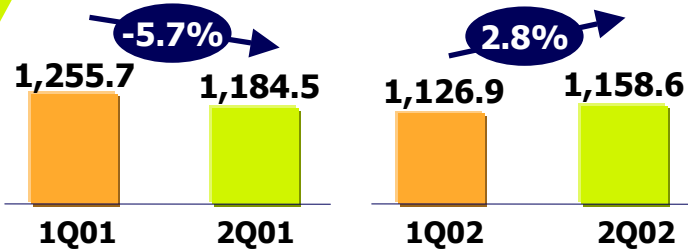
TRAFFIC EVOLUTION*

	1H02 vs. 1H01 (% CHANGE)	1Q02 vs. 1Q01 (% CHANGE)
Metropolitan	-7.8%	-10.1%
Internet	4.5%	5.6%
Provincial	23.4%	25.2%
DLD	-4.0%	-5.7%
ILD	-22.3%	-20.4%
Fixed to Mobile	4.3%	3.1%
Other Outgoing	2.2%	2.6%

* Estimated traffic for 1H02

TELEFONICA DE ESPAÑA GROUP: EBITDA ANALYSIS

EBITDA (euros in millions)

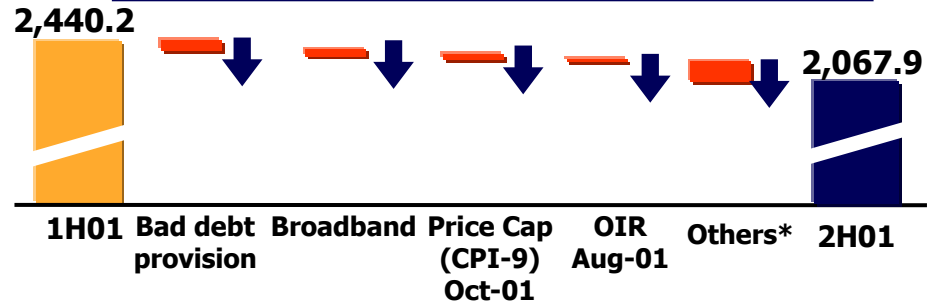


2Q02 EBITDA IMPROVEMENT

2001 EBITDA TREND TURNED AROUND

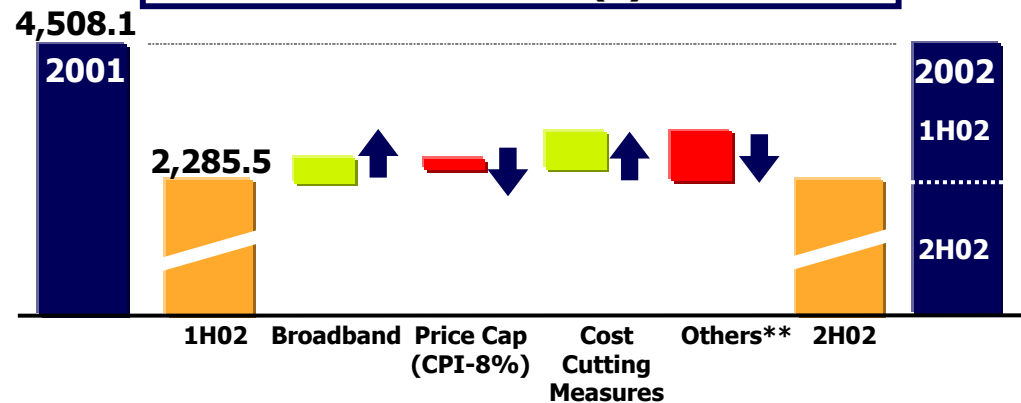
- ⇒ High performance of 1Q01 (48.5% EBITDA margin).
- ⇒ Timing of application of Price-Cap scheme in 2002 vs. 2001.
- ⇒ ADSL contribution.

2ND HALF 2001 EBITDA EVOLUTION



* Others includes the following effects: market share loss. summer effect

2ND HALF 2002 EBITDA(E) EVOLUTION



** Others includes the following effects: market share loss and others.

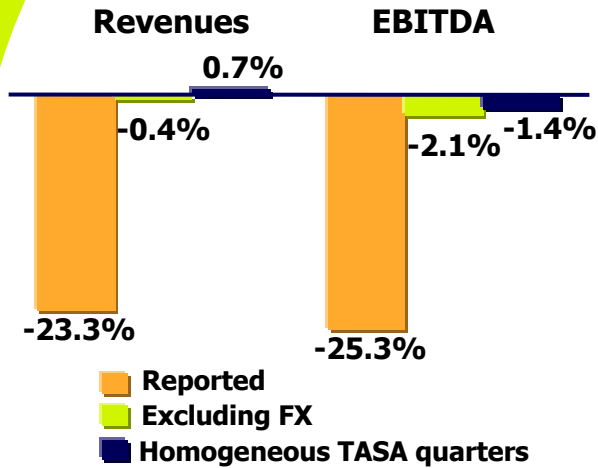
FLAT 2002 EBITDA vs. 2001

2ND HALF IN LEVELS OF 1ST HALF

- ⇒ Broadband business EBITDA Improvement
- ⇒ Effect of March and June cost cutting measures taking place

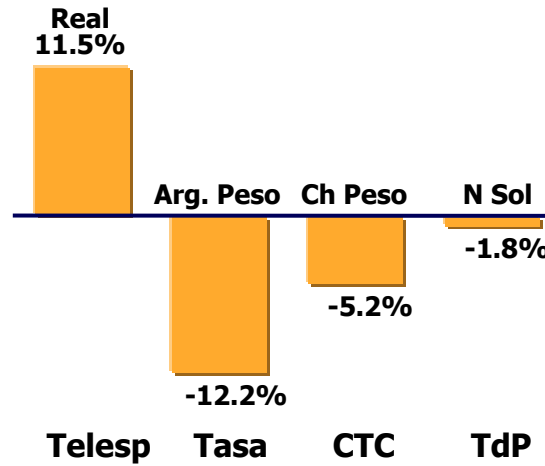
T. LATAM: WIRELINE PERFORMANCE

T. LATAM REV / EBITDA EX FOREX



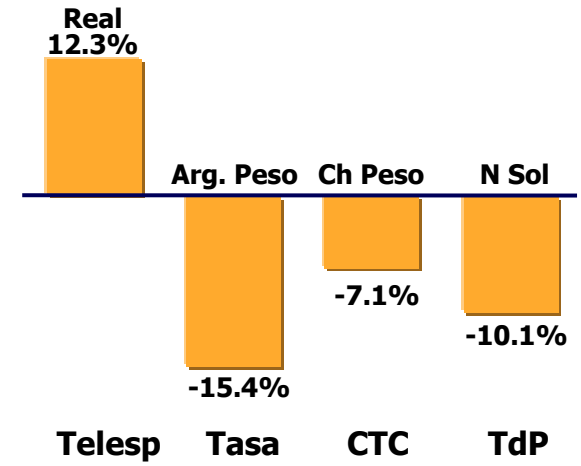
OPERATING REVENUES

% change Jun02 / Jun01
Local Currency



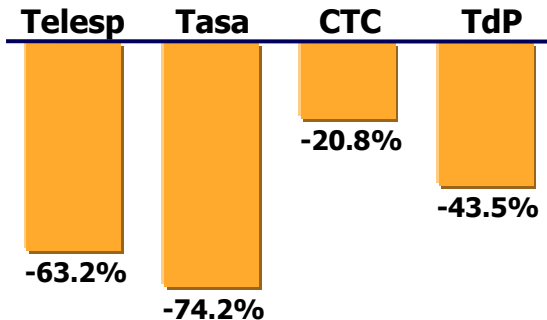
EBITDA

% change Jun02 / Jun01
Local Currency



CAPEX

% change Jun02 / Jun01
Local Currency



1H02 FREE CASH FLOW

€ in millions	Telesp	Tasa	CTC	TdP	AGGREGATE*
EBITDA	1,117	244	258	308	1,930
- Financial charges & Taxes	-280	-83	-48	-53	-465
- CAPEX	-320	-13	-45	-26	-406
FCF	517	148	165	229	1.060

YoY growth **+136.3%**

* Including TLD

Note: TASA refers to the period January-June 2001 and 2002. CTC includes Sonda and TdP includes Cablemágico.

BRAZIL: COUNTRY PERFORMANCE

SELECTED FINANCIALS (€ in MM)

	€ in MM	% Change vs. 1H01	% Change vs. 1H01 ex-FX
Revenues	3,063.8	1.7%	15.4%
EBITDA	1,373.3	0.9%	14.5%

**AFFECTED
BY CURRENCY
DEPRECIATION**

- ⇒ Brazil: close to 23% of Group EBITDA, 1 p.p. higher than in 1H01
- ⇒ 12% depreciation 1H02 average exchange rate vs. 1H01 average exchange rate

- ⇒ **TELESP as growth engine with double digit growth in local currency.**
- ⇒ **Data operations reaching EBITDA breakeven, with still solid growth potential from development of nationwide operations.**
- ⇒ **Positive operating performance of wireless assets, with 19% annual growth in clients and a stability of average market shares in the 64% range.**

ARGENTINA: COUNTRY PERFORMANCE

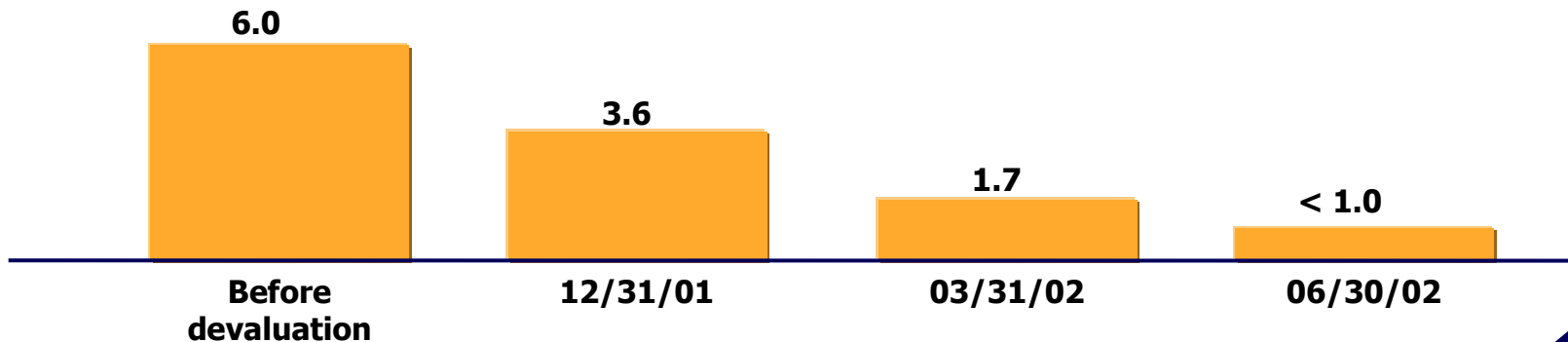
SELECTED FINANCIALS (€ in MM)

	€ in MM	% Change vs. 1H01	% Change vs. 1H01 ex-FX
Revenues	612.5	-68.9%	-16.0%
EBITDA	233.1	-67.7%	-12.7%

**IMPACTED BY
ECONOMIC
CRISIS & PESO
DEVALUATION**

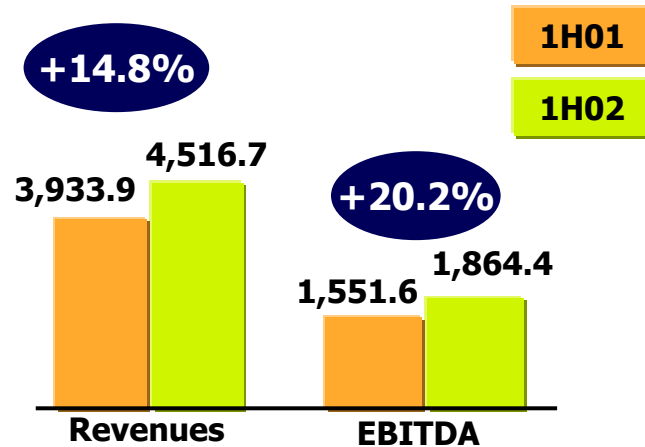
- ⇒ Argentina: close to 4% of consolidated EBITDA, a drop of 7 p.p. vs. 1H01 contribution
- ⇒ 63% peso depreciation since devaluation

TELEFÓNICA EXPOSURE TO ARGENTINA (€ in Billion)



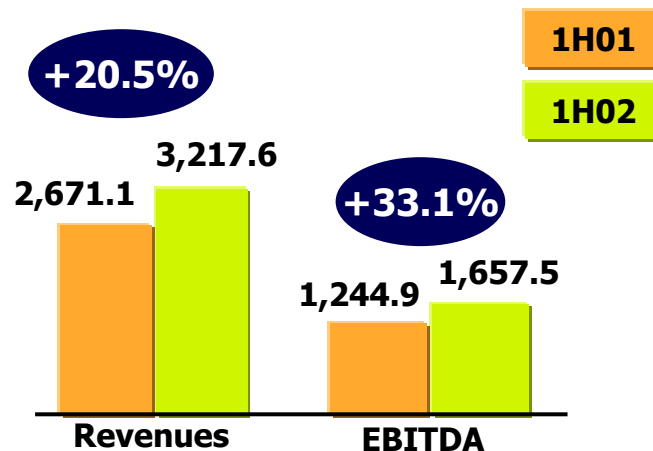
T. MÓVILES GROUP CONTINUES ITS STRONG PERFORMANCE

TEM GROUP



- ⇒ Strong organic growth *: +12.9% in revenues and +21.9% in EBITDA
- ⇒ Forex is dragging 7 p.p. and 5p.p. to revenues and EBITDA growth
- ⇒ Close to 2 p.p. EBITDA margin improvement to reach 41.3%

T. MÓVILES ESPAÑA

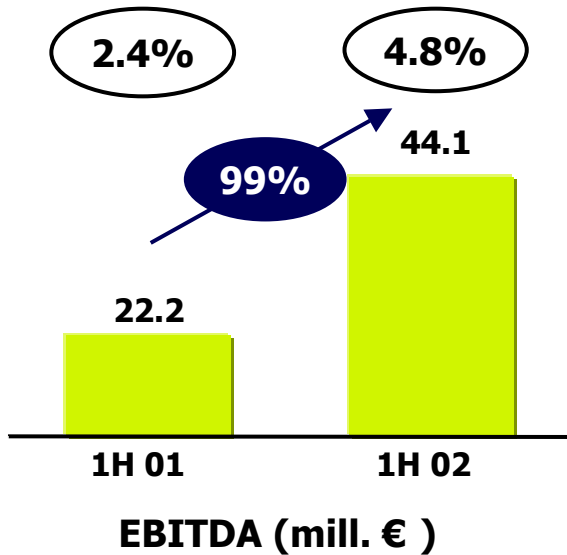


- ⇒ EBITDA margin of 53.1% in 2Q02 (49.8% in 1Q02)
- ⇒ Client base grew at a 19% rate to over 17.6 Mill. Contract accounts for 32.9% of total (+1.4 p.p. vs 1Q02)
- ⇒ ARPU decline smoothing: -7% 2Q02 vs 2Q01 (-11% 1Q02 vs 1Q01)
- ⇒ Commercial initiatives starting to pay:
 - x2 contract net adds 2Q02 vs 1Q02
 - 22% y-o-y data ARPU growth
- ⇒ 47% y-o-y SAC+SRC reduction

* Excluding acquisitions and changes in consolidation to fiscal accounts and forex.

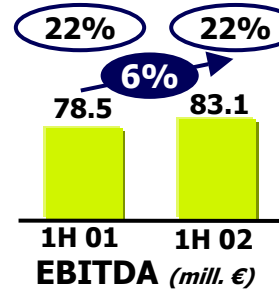
DATA BUSINESS: FOCUSING ON OPERATING FCF

TELEFONICA DATA GROUP



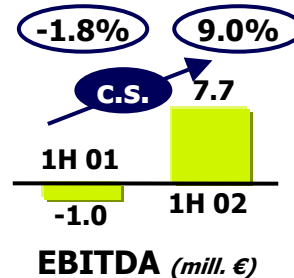
... DRIVING EBITDA IN INCUMBENT OPERATIONS

T. DATA SPAIN



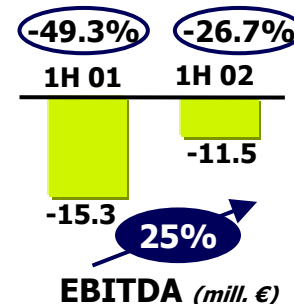
- ⇒ Hosting services (5% of Revenues, +81% yoy growth)
- ⇒ OpFCF(*) y-o-y growth of 148% from 30% in 1Q02

T. DATA BRAZIL



- ⇒ Investing for future growth (26% of 1H01 T. Data Capex)
- ⇒ Current Revenue growth (+56% in €, +77% in Reais) leveraged on ADSL (more than 100% growth in installed plant)

T. DATA INTERNATIONAL



- ⇒ Focus on cost-cutting and efficiency initiatives in Staff and International areas
- ⇒ Weakness on Global Corp. Services partially offset by positive wholesale performance

% EBITDA margin

(*) OpFCF= EBITDA-Capex

NET FINANCIAL EXPENSES (*)

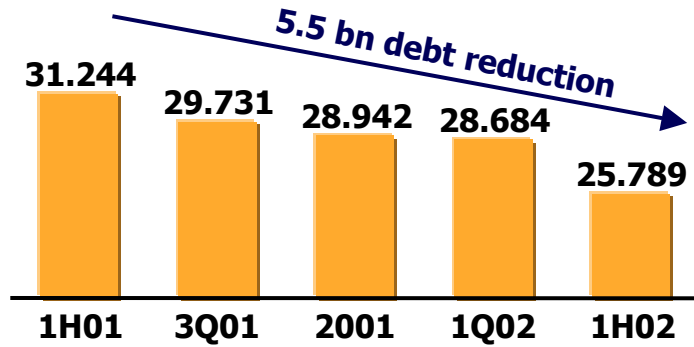
Euros in millions	Jun02	Jun01	% Change
Debt financial expense	(874.8)	(1,109.8)	(21.2%)
Other financial expenses	(20.9)	(28.6)	(26.9%)
Financial Income	185.8	235.4	(21.1%)
<hr/>			
Net interest	(709.9)	(903.1)	(21.4%)
Financial provisions and net forex (1)	(899.0)	(23.7)	n.m.
<hr/>			
Net financial results	(1,608.9)	(926.8)	73.6%
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Net financial results excluding ARS devaluation	(929.4)	(926.8)	0.3%

(*) Global consolidation

(1) Non cash

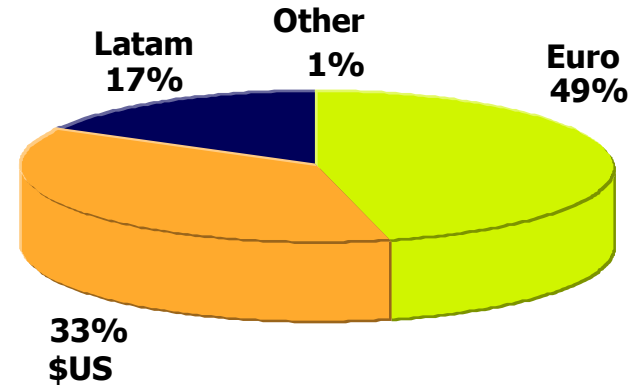
DEBT MANAGEMENT: STRONG CREDIT PROFILE

**CONSISTENT DEBT REDUCTION
AT THE GROUP LEVEL**
(CONSOLIDATED DEBT. € IN MM)



Ability to repay debt in 5 years with free funds *

**DEBT BREAKDOWN BY
CURRENCY**



⇒ **2002 FUNDING NEEDS LARGELY COVERED BEFORE ASSET SALES**

⇒ **EXCLUDING ARGENTINA, EXTERNAL US\$ DEBT OF LATIN AMERICAN SUBSIDIARIES IS FULLY HEDGE**

* EBITDA - Capex - Interest - Taxes - Working Capital & Others

SENIOR MANAGEMENT REORGANIZATION

- ⇒ **Mr. Luis Lada appointed General Manager of Corporate Strategy and Regulation, including Regulation, Corporate Strategy, Corporate Development and Institutional Relations departments.**
- ⇒ **Mr. Antonio Viana-Baptista will be proposed to the Telefónica Móviles Board of Directors as CEO of Telefónica Móviles**
- ⇒ **Mr. José María Álvarez-Pallete has become new CEO of Telefónica Latinoamérica**
- ⇒ **Mr. Santiago Fernández Valbuena has been appointed as CFO of Telefónica Group**

Telefónica
