

Results

The Telefónica Group obtained EBITDA of 12,804.3 million euros in fiscal year 2001, 7.4% more than the amount obtained in the year 2000. This growth reflects the Group's capacity to generate positive, high-quality results in unfavourable circumstances.

The increased EBITDA has been possible thanks to the favourable progress of income, which grew 9.0% to 31,052.6 million euros, and to efficient cost control management. The combined effect of both factors was able to overcome the negative effect of exchange rates and the 34.5% increase in insolvency provisions, which the company has made following financial prudence criteria.

In this line, Telefónica Group's net profit was 2,106.8 million euros during fiscal year 2001, which was 15.9% less than in the year 2000, mostly due to the impact on the Argentinean crisis on the bottom line - 369 million euros-, the increase of the goodwill amortization, and the reduction of extraordinary results compared to the year 2000.

Financial Buoyancy

In financial terms it is worth drawing attention to Telefónica's consolidation in 2001 as the company with the best credit rating among leading European telecommunications companies (Vodafone, Deutsche Telecom, Telecom Italia, France Telecom and British Telecom). While several of these companies have dropped several places in the credit ranking, Telefónica maintained its position throughout 2001, achieving an A2 rating from Moody's, an A+ from Standard&Poors and an A+ from Fitch, although the positive outlook estimated by Moody's was revised to stable in the first quarter of the year, and the outlook according to Standard&Poors was negative. In February 2002, this outlook materialized in a reduction of one level, to A, with a stable outlook, equalling Moody's rating..

In Spain, the Telefónica Group leads the ranking of investors. In 2001, the Group's investments came to 8,420.9 million euros

Total financial costs rose to 2,391.1 million euros, of which 528.8 million were due to the effects of the devaluation of the Argentinean peso. Without this effect, financial costs would have reached just 1,862 million euros, in line with the figures for fiscal year 2000. This is so because the 21% increase in the average level of net debt during the year 2001 was balanced by a 1.31% reduction in its average cost, to a level of 6.34%.

As for the investments made by the Group in 2001, they came to 8,420.9 million euros, 60.2% less than in 2000, which nevertheless made it the leading investor in Spain.

In sum, the growth in EBITDA, the positive changes in the debt level, and the restrained investments prove that the Telefónica Group is able to generate cash, even in relatively unfavourable circumstances.

Telefónica's high credit status enabled it to issue the first large batch of eurobonds by a European company following the tragic events of 11 September, which served to practically eliminate the risk of refinancing the Group's debt due in 2002.

2001 was also marked by a qualitative leap in the centralization of the Group financing: the parent company Telefónica S.A. has largely been used to capture funds and redistribute them among the different units, but without eliminating external financing activity on the part of Latin American subsidiaries, mainly as protection against country-related risks and in order to maintain solid additional liquidity.

Telefónica Group
Results by Company
(Millions of euros)

	REVENUE			EBITDA		
	January-December			January-December		
	2001	2000	% Var.	2001	2000	%Var.
Telefónica de España Group	10,220.4	10,182.9	0.4	4,508.1	4,448.4	1.3
Telefónica Móviles Group	8,411.1	7,401.2	13.6	3,333.7	2,451.4	36.0
Telefónica Latinoamericana Group	10,137.4	10,371.3	(2.3)	5,163.0	5,359.3	(3.7)
Telefónica Data Group	1,849.7	1,123.7	64.6	23.6	75.0	(68.5)
Telefónica Terra-Lycos Group	690.0	304.0	127.0	(232.0)	(359.3)	(35.4)
TPI-Páginas Amarillas Group	511.7	413.0	23.9	128.8	121.2	6.2
Admira Media Group	1,403.1	723.9	93.8	152.5	13.6	n.s.
Atento Group	643.6	526.9	22.2	53.8	25.2	113.1
Other subsidiaries Group	1,574.8	1,668.5	(5.6)	(120.2)	(267.2)	(55.0)
Deletions Group	(4,389.5)	(4,229.9)	3.8	(207.7)	51.1	c.s.
Group	31,052.6	28,485.5	9.0	12,804.3	11,198.8	7.4

Horizontal Corporate Initiatives

One of the objectives of the Telefónica Group, with a business model that promotes the diversification of business and countries, consists in the optimization of synergies generated by its group of companies in an increasingly competitive environment.

In this connection, a set of horizontal corporate policies were developed throughout 2001 that affect all business lines and countries, and have permitted improved resource management.

In this context, National Corporate Centers were established in the main locations where Telefónica is present, projecting an integrated vision of the company and facilitating the implementation of horizontal policies.

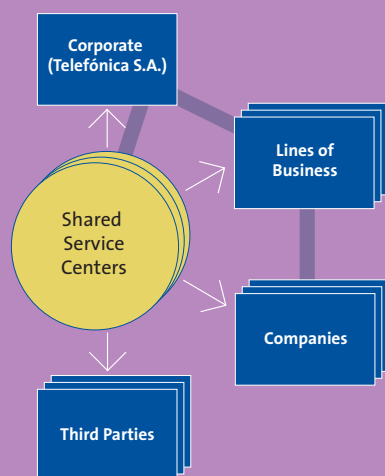
Shared services management

Early in the year, Telefónica authorised the creation of Telefónica's Shared Services Management ("*t-gestiona*") companies. The first experiences took place in Argentina, but in April 2001, services were launched through the Shared Service Centers (SSCs) in Brazil, Peru and Spain. Subsequently, Chile was added, as was Europe, based in Spain. Other new Centers are scheduled for 2002, among them the regional SSC for Mexico-Central America.

From the very start, the SSCs have been configured as operational working tools for the business lines in charge of managing value added activities that are non-strategic and common to various companies. SSCs operate in a given geographical area, are a corporate part of Telefónica S.A., and are separate from the businesses they provide services to at market rates. By creating these companies, Telefónica has boosted the development of the "*t-gestiona*" brand as a supplier of many of the Group's support activities on a global scale.

Some obvious examples of these corporate policies and initiatives are the development of a standard ERP (Integrated Company Management System) that provides services to all the businesses (CorpoSAP), the New Treasury System, and the standardization of the Logistics, Real Estate and Security processes.

The "*t-gestiona*" initiative is a complement to other Group businesses, and facilitates the growth of all businesses and their entry into new geographical areas. Such is the degree of implementation in December 2001, that it already affects 200 of the Group's companies, and the SSCs have more than 2,500 employees.



*By creating the Shared Service Centers (SSCs), Telefónica has boosted the development of the **t-gestiona** brand as a global Group supplier*

Purchase policy

In 2001 a new boost was given to the management of purchases with the structuring and consolidation of the SAC Management Model, which was launched several years ago in many Group companies.

This was followed by the creation of Purchase Organizations throughout the year at the National Corporate Centers in Brazil, Peru and Argentina; these are responsible for coordinating purchases by companies from the different business lines operating in these countries. In addition, 15 new companies were integrated into the SAC Purchases Model, bringing the total number of Group companies that currently carry out purchases on a coordinated basis to more than one hundred. One challenge for 2002 will be the implementation in Mexico of the Mesa de Compras de Centroamérica (Purchases Committee for Central America), where the purchases of more than 20 companies in the area will be negotiated. This means that there will be seven Purchases Committees in the entire Group.

A new approach has also been introduced for managing purchases, whose aim is to place greater emphasis on aspects other than price, by adding new measurement parameters on the contribution of value in purchases. E-business technologies, namely e-commerce, are incorporated in this line, with the subsequent improvement of effectiveness and efficiency in the development of the function, implicitly supported by the launch of the B2B business created by Telefónica, from which it in turn expects to achieve important synergies for Group purchases.

Transversal structural projects have also been launched for application in all the companies from the different Business Lines, and aimed at improving, and in some cases automating, the interrelation of Purchases with other business functions. Two of these projects deserve special mention: on one hand, the Interrelation with the Economic Processes Project, which is being applied in order to automate the link of all purchases with the budgeting and budget monitoring process of each company and with the management of orders, invoices and associated payments; on the other hand, the External Plant Re-Engineering Project (Cable Network), an area in which a high percentage of the resources of Fixed-Line Telephony operators are managed.

In terms of convergence with Human Resources Management, the Professional Careers in Purchases Plan was launched at global level for the entire Group, with the aim of promoting the creation of talent in acquisitions and purchases, channelling this correctly, and strengthening cohesion in the function or, put another way, in the culture of the Group.

Throughout the year, Purchase Organizations have been created in the National Corporate Centers in Brazil, Peru and Argentina, to coordinate the purchases for the different Business Lines



Real Estate

In line with a global property portfolio management policy, in 2001 Telefónica assigned “Inmobiliaria Telefónica, S.L.U.” to lead its real estate activity. This company is responsible for managing real estate assets and developing real estate project, work and maintenance activities. The real estate assets of all Group companies will gradually be transferred to this company.

At the same time, the progressive divestment of the real estate assets of “Inmobiliaria Telefónica, S.L.U.” was approved, in accordance with building vacating plans and the conditions of the real estate market

Authorization was also given to “Inmobiliaria Telefónica, S.L.U.” to prepare specific real estate plans for each country in Latin America in which the Telefónica Group is present, taking into account the applicable legislation, market conditions and situation at outset in each country.

Logistics

In the area of Logistics, the Telefónica Group has made significant progress towards its goal of optimizing management and generating value through its capacities. For this purpose, it has embarked upon an international project initially aimed at creating a specific corporate unit to cover the area of Logistics and grouping all of the Group’s Logistics and Distribution capacities in Spain into a subsidiary company.

The new realities of the markets force companies in the Telefónica Group to accept new forms of customer relations (e-commerce, direct sales to end customers, inverse logistics, etc.) and which require the development of more efficient logistics and an integrated approach. In view of this situation, the new corporate unit will become a provider of the other lines of business of the Group that offers synergies and enables companies to achieve a competitive advantage by being able to totally and reliably out-source their logistics activities.

Another specific action undertaken by the Telefónica Group in this field has been the launch of its Plans for the Reduction of the Logistics Costs Base. The aim of these plans is to save 200 million euros in 2 years through the optimization of assets (warehouses) and stock reductions.

During the year 2001, Telefónica has developed a policy for global management of its real estate assets, both in Spain and in Latin America



Information Systems

Within the overall framework of Telefonica's global transformation, in 2001 the Information Systems and Organization department created a Metrics Model to monitor key projects, the degree of evolution to eCompany status and the impact of the aforementioned evolution on operative business indicators. This model has been developed into the Web eMetrix, which can be accessed from the Intranet.

During the year efforts have also been made to improve the capacity and quality of the Corporate Network, achieving a greater availability of Corporate Systems and Applications and of services rendered between companies.

The increased use of the network has led to the construction, maintenance and development of a solution to implement a standardised and interoperable Information Systems access authentication and control mechanism, the movement of employees between Group companies.

Along the same line, the ATIS project represents an opportunity to capture the synergies offered by Operation Veronica by creating a common operative process model (in the areas of customer services, invoicing and collection) that is computerized by a single information system, for all Telefónica Latinoamericana and Telefónica Data companies taking advantage of investments already made previously by the Group.

Management of human capital

The 161,527 employees that work for Telefónica are one of the Group's most valuable assets due to their high level of qualification and experience, and their constant capacity for initiative. The basic Human Resources objectives can be summarised in two lines of action:

- To integrate all the people that work in the Group, making the feeling of belonging to a common project compatible with the diversity of business and countries in which they work. This integration also enables the exploitation of synergies provided by a large and diverse Group.
- To develop innovative training and development initiatives that ensure that Telefónica has the best professionals in the market at all times.

In the second half of 2001, the Human Resources management team has collaborated in the development of the Definition of Corporate Values Project, which will be implemented during 2002. The project aims to develop a new explicit corporate culture that will enable the Company to develop its corporate strategy, showing how the different interests that converge on the business can be harmonised, underlining the common denominator that will ensure that all the Group's companies and lines of activity promote common methods of action and management.

Along these lines, the Corporate Human Resources Management Indicators System has been implemented and will provide an important support tool for taking strategic decisions.



During 2001, the Information Systems and Organization area has worked to improve the capacity and quality of Telefónica's Corporate Network



The second phase of the Global Options Action Plan of Telefónica S.A., Plan Ties, was also launched in September 2001 with the aim of achieving the integration of all company professionals. This second phase has generated an increase of 1,142 participants, which now number 76,392, making the Plan the first genuinely global programme at Group level. It also represents a new achievement in the labour relations approaches, which are now based more on the commitment and on the participation of the employees in the progress of the company.

In terms of training, the concept of e-learning has been promoted throughout the year with the emphasis on sharing both technological resources and training content (and thus optimizing costs) in all the business lines. This is achieved through **a+**, the Group's new on-line training platform, which enables employees to access Telefónica's training offer from any location and at any time.

Two selection processes were also announced in 2001 for the Harvard-IESE Senior Executive training programme, which has been attended by almost all the directors of the Group and which is designed to enhance Telefónica's status as a highly effective, dynamic and competitive organization.

In the second quarter of the year, the Identification of Talented Executives Project was developed, initially involving 1,500 directors, which will help to develop, attract and retain the best executives, guaranteeing them personal and professional development opportunities. In 2001, the average number of training hours per employee amounted to 30, placing the Group in line with international benchmarking.

Also during 2001, the management of the first edition of the Promising Young Executives programme was completed and the second edition of the programme was announced for Latin America. It thus consolidated its status as the programme for identifying and developing the Group's new professionals. Throughout the year Telefónica has continued to visit universities and business schools of recognised international prestige, to transmit the Group's project and identify professionals who could in the future contribute to the development of Telefónica, as well as to its model of requirements and commitment. It therefore collaborates actively in the integration of young graduates in the labour market through study scholarship programmes arranged with different universities, contracting more than 6,000 students as scholarship holders in the different companies of the Group.



*In the training field, Telefónica has boosted the concept of e-learning in order to share technological resources and contents in all its business lines through the use of **a+**, the Group's new online training platform*

Transparency

In 2001 the Telefónica Group focused many of its initiatives on increasing and strengthening the transparency of its relations with society in general and with each of the segments of the public with which it is related.

The aim of some of these initiatives was to provide investors and analysts with easier and complete access to all the relevant information published by the company, placing the Telefónica Group at the head of the sector in terms of “disclosure” (transparency). Specifically, according to a study made by the financial magazine “International Investor”, which was sponsored by the Reuters news agency, Telefónica is the second-ranked most transparent company in Europe in terms of transparency, as well as the quality, depth and speed of response in its relations with its investors.

Several of its main objectives in 2001 were achieved in this context: the organization of the first congress for investors and analysts in Rio de Janeiro, where the strategic plans of all the business lines of the Telefónica Group were presented for the period 2001-2004; the renewal of the quarterly results bulletin, aimed at offering a clearer view of the Group’s different lines of business, providing more information on all the Companies; the launch of a new concept in Investor Relations web pages on the corporate web site, and the adoption of Portuguese as the additional communication language (in addition to Spanish and English).

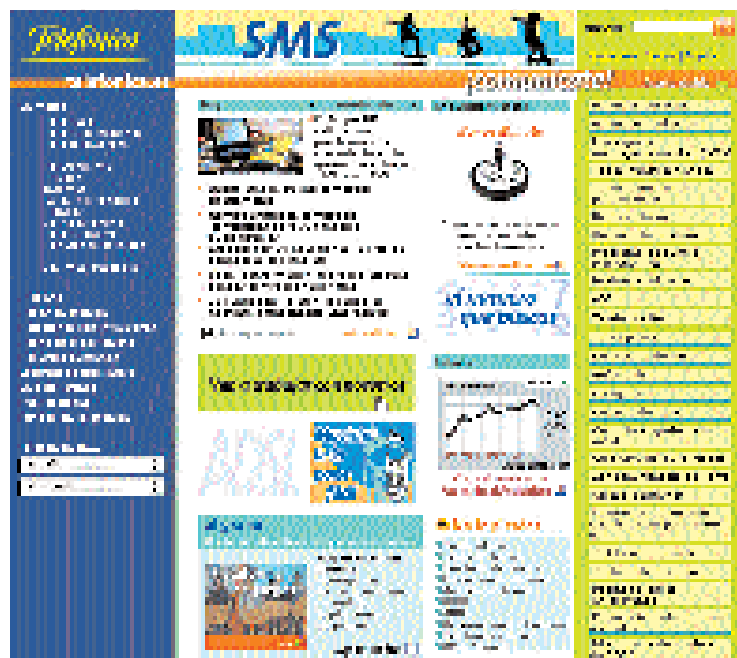
As regards minority shareholders, the Shareholders’ Office developed throughout 2001 a series of activities aimed at supporting increased transparency and communication in the relations with these shareholders. Among such activities we must point out the new design of the “Acción Telefónica” magazine, with new content and more information, participation in trade Fairs, the development of a Website for Shareholders, and reinforced service to shareholders through a 900 number.

Within the scope of Institutional Relations, which is responsible for the identifying characteristics that the company transmits through its brand, the strengthening of this concept of transparency developed into an important challenge in 2001: to make the company image respond to the new corporate reality as one of the large telecommunications companies in the sector worldwide, with important commercial activity all around the world and similar social responsibility.

This line of action encompasses communication with public and expert opinion leaders to create a coherent and solid current of opinion that faithfully reflects the driving initiative of the Company, the Group’s different communication actions, capable of combining in the same message and effectively transmitting to the market the role of communication solutions provider to our customers, as well as the social, institutional, cultural and sports sponsorship, in tune with the Telefónica Foundation.

In 2001, a new scheme was launched to structure the presence of Telefónica on the Internet, with the creation of <http://www.telefonica.country/> portals, which offer a single access point for all the services and content of the Telefónica Group in each country. At the end of the year, more than 2.8 million monthly visits had been recorded, a progression that has continued in the first few months of 2002.

During 2001, the new scheme that coordinates Telefónica’s presence in Internet was launched with the creation of the <http://www.telefonica.country/> portals. In Spain, www.telefonica.es was classified as the best corporate website in the country by number of hits



Diversified and competitive businesses

From the point of view of the businesses, fiscal year 2001 has been characterised by the good behaviour of the traditional businesses (fixed telephony), by a decisive commitment to make them evolve towards new market prospects (Broadband), a substantial growth in new businesses (mobile telephony), and the consolidation of business projects for emerging businesses (Internet, Content, CRM, etc.).

Telefónica's corporate project is divided, from a business point of view, in three main lines: Fixed telephony and Broadband, Mobiles and Content.

Fixed Telephony and Broadband

Telefónica de España and Telefónica Latinoamérica are making a major effort to move towards new businesses, and especially, Internet and Broadband.

Internet is a global phenomenon that permits new forms of leisure and new ways of doing business, and broadband is a path that has great value-generating potential. That explains the Telefónica Group's determined commitment to broadband, mainly by deploying ADSL technology, to lead a revolution that has only just begun. At year-end, Telefónica had more than 375,000 ADSL customers in Spain.

Telefónica de España, which is the Spanish market's broadband leader, began in 2001 to offer Internet access services, and has developed the greatest and most advanced IP network infrastructure that exists in this country.

This forward-looking stance is compatible with the greater management requirements of the traditional business, which, even though it is the most mature market segment and is subject to greater regulatory pressure, continues to be Telefónica's main source of income, and the business that most contributes to EBITDA. In 2001, it generated an income of 20,357.8 million euros, of which 10,220.4 were in Spain and 10,137.4 in America.

These favourable figures have been possible thanks to the marketing of added value services and to the launch of very attractive products and offers on the market, which have permitted an increase in traffic. At the same time, resource efficiency and management have been improved, which has had a favourable repercussion on productivity ratios, as can be concluded from the fact that EBITDA at Telefónica de España has grown 1.3%, for the first time in the past four years.

These results have been obtained even as a substantial effort was being made to comply with different regulatory requirements derived from the competitive environment.

Another of the actors in this Internet and Broadband market is Terra Lycos, which has continued in 2001 on its path towards profitability, making business growth compatible with cost reductions.

At year-end, there were more than 375,000 ADSL customers in Spain



Mobile Business

Fiscal year 2001 for the Mobile business has been basically characterised by high penetration rates in the Spanish market, the Argentinean crisis, and the depreciation of the main foreign currencies.

Despite this complicated setting, the Telefónica Móviles Group has once again achieved record growth, improving the profitability of its business and reinforcing its balance sheet. At the end of 2001, Telefónica Móviles had more than 29 million managed customers, of which close to 17 million were in Spain.

The key to all of this has been the company's adjustment to the new market conditions and the success of its cost containment policy, while at the same time, it has taken greatly increased advantage of economies of scale and synergies.

Operating revenues grew 13.6% (8,411.1 million euros) and the gross operating margin (EBITDA) reached 3,333.7 million euros, that is, an increase of 36%. The net profit of Telefónica Móviles reached 893.4 million euros, with a year-to-year increase of 51.3%.

In Spain, the mobile telephone market had another growth year, in which the penetration rate exceeded 70%. With 17 million customers, Telefónica Móviles España achieved one of the highest market shares in its market at the European level.

Another of the most important milestones of the year was the launch of the GPRS technology, the precursor to UMTS, known as Generation 2.5. In 2001, Telefónica Móviles became the first European operator to offer nationwide coverage with services for all kinds of customers.

The main roles in the Latin American business went to Mexico. There, Telefónica Móviles México was established to cover that market, and at year-end, it already had 1.21 million active customers. And also Brazil, where Telefónica Celular ended the year with 5.6 million customers (17.8% more than in 2000).

In Europe, the Telefónica Móviles Group has negotiated supply and financing contracts with suppliers, and made significant progress in negotiations with other operators to share part of the network infrastructure required to deploy UMTS.

Content

The development of Broadband and access to the Internet from mobile phones mean that content has become a strategic element in the business: what we could call a "business opportunity for the digital customer."

In this regard, the year 2001 has seen Telefónica's commitment to create a cohesive content and media group, capable of becoming a global communications operator. In the past twelve months, the strategy of what is now known as ADMIRA has been focused on grouping, organizing and making profitable a series of assets that were acquired in previous years in a rather disperse fashion. Assets which changing technology and social customs have transformed into strategic elements that permit the company to cope with the competition in the telecommunications sector.

On the other hand, Telefónica Publicidad e Información (TPI) has continued to develop new content, betting on the development of new products and supports, trying to change towards a more transactional business model.



One of Telefónica's strategic objectives is to be positioned in all value phases of the telecommunications business

Operating Results

From an operational point of view, we must mention the significant increase that has taken place during this fiscal year in Telefónica Group's main asset: its customers. The number of managed customers in fixed telephony, mobile telephony, and pay-TV as of 31 December 2001 rose to 73.2 million (78.3 million customers altogether, with a year-over-year growth of 15.0%), 9.3 million more than at year-end 2000, which is 14.6% more than the previous year.

This growth is mainly based on the increase in the number of customers managed by Telefónica Móviles (more than 6.5 million), which has grown 28.3% during the fiscal year, reaching 29.8 million at 31 December 2001. In the fourth quarter alone, the number of customers managed by Telefónica Móviles grew by 1.9 million, which is mainly due to the growth in the overall number of users in Spain, close to 1.2 million customers, and to the stable growth of the user base in Latin America, with more than 520,000 new customers managed during that period.

Also noteworthy is the increase of 2.3 million managed fixed telephony customers in Latin America (21.6 million managed customers at year-end), an increase that was 11.7% higher than in the year 2000 (the total number of customers at the end of the fiscal year came to 24.3 million, 10.8% more than in the year 2000, of which more than 12.6 million belonged to Telesp, an increase of 19.1% over the year 2000).

Regarding the growth in the number of managed customers by region, Latin America continues to be the fastest-growing region, with 5.1 million new managed customers, an increase of 17.8% over the year 2000, whereas Spain provided 3.6 million (10.5% more than in 2000). Finally, we must

underscore the fact that the Mediterranean Basin provided 0.6 million new customers with a single operating country, which clearly shows the potential of that area.

In absolute terms, the companies that have provided the greatest income to the consolidated figures have been Telefónica de España and Telefónica Latinoamérica, with revenues of 10,220.4 and 10,137.4 million euros, respectively. We must point out that Telefónica Latinoamérica's revenue, which decreased 2.3% in year-over-year terms, would have grown 7.8% if it had not been necessary to take into account the effects of the foreign currency exchange rates. In relative terms, however, the Group's company with the highest growth is Telefónica Móviles, with 3.6%, followed by Admira Media, with 2.4%, Telefónica de España 0.1%, and Telefónica Latinoamérica -1.4%.

The Group's main contributor to EBITDA in absolute terms is Telefónica Latinoamérica, which contributed 5,163.0 million euros, 3.7% less than in fiscal year 2000. This contribution, which is 40.0% of the Group's consolidated EBITDA, has been achieved despite the situation in the region throughout the year, which led to a significant depreciation of its currencies. If we had been able to ignore the effects of those depreciations, the EBITDA of Telefónica Latinoamérica would have grown 6.5%.

In relative terms, however, the greatest contributor to the Group's consolidated EBITDA is Telefónica Móviles, which provided a growth of 7.4%. Telefónica Móviles' EBITDA at the end of 2001 came to 3,333.7 million euros, which was 36.0% above that of the year 2000. This growth has been achieved thanks to the excellent behaviour of operations in Spain and the satisfactory growth of the Latin American operators, considering the difficult economic and exchange rate situation in that area.

