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• We have reinforced our strategy of addressing corporate customers’ needs offering a solid value proposition

• We have placed special emphasis on strengthening our operations’ efficiency in 2002-03

• We have a clear set of priorities moving forward to capture the growth opportunity

• We have ambitious though realistic targets for 2002-06
The role of Telefónica Empresas is to handle the needs of corporate customers (large companies and carriers)

- Telefónica Empresas provides its services to more than 21,000 corporate customers representing 11% of the Telefónica Group’s total revenues (1)
- Our commercial responsibility for the corporate customers includes voice business. Voice revenues are consolidated within each wireline company (TdE y TLatam)
- We have a significant customer base in:
  - Spain
  - America (Argentina, Brazil, Chile, Colombia, Mexico, Peru, Puerto Rico and the United States)
  - Europe (Germany and the UK)

(1) Source: Quarterly results January-June 2003
Corporate customers demand end-to-end integrated data, communication and IT solutions

Managing convergence between Telecommunications and Information Systems for our corporate customers

(* *) Do not consolidate in Telefónica Empresas’ financials

(**) Before Eliminations & Other Revenues; Atlantet not included
We are prepared to lead the evolution of corporate customers’ requirements with a solid value proposition

- Telefónica offers corporate services through a specific unit to capture the maximum growth potential from the segment
- We count with 5,000 employees worldwide to assure:
  - Particular focus on corporate customers’ requirements
  - Preferential treatment
  - The highest level of responsiveness and excellence

VALUE PROPOSITION

- Comprehensive products and services catalogue
- Strong brand name
- Local and international connectivity
We provide a comprehensive range of integrated services through our three business lines

**Corporate Customers / Carriers**
- VPNS
- IP access and connectivity
- Voice
- International Capacity
- International connectivity
- Internet access services
- International VPNs
- International Voice

**Telefónica Empresas / Data**
- Housing and Hosting
- Content Delivery
- Applications
- Security
- Internet access services
- International VPNs
- International Voice

**Telefónica Soluciones**
- System Integration
- WAN/LAN/Desktop management
- Industry specific solutions
- E-Business

**Telefónica International Wholesale Services (TIWS)**
- National and International connectivity
- Data and voice services
- Hosting and applications
- Solutions
We have a strong brand name...

... and we benefit from its credibility, image, leadership position and financial strength
We can offer end-to-end services through our deep local presence and networks....

- Local networks in ten countries with more than 1,500 POPs*
  - Spain
  - America
    - Brazil
    - Argentina
    - Chile
    - Peru
    - Colombia
    - Mexico
    - USA + Puerto Rico
  - Europe
    - Germany
    - UK
- 21,000 clients with more than 300,000 broadband connections

* Points of presence
More than 9 billion voice minutes handled yearly

High capacity fiber optic network (45,000 km) that carries all the international IP traffic generated by Telefónica

International data coverage in 75 countries

International backbone with more than 200 peering agreements

...and a strong international presence and connectivity
Allowing us to become the leading regional player

Deep local coverage ...

+ international network

Leading and most reliable regional player in the Spanish and Portuguese speaking markets
• We have reinforced our strategy of addressing corporate customers´ needs offering a solid value proposition

• We have placed special emphasis on strengthening our operations´ efficiency in 2002-03

• We have a clear set of priorities moving forward to capture the growth opportunity

• We have ambitious though realistic targets for 2002-06
**We have implemented actions to improve the efficiency and profitability of our operations**

**Strategic priorities announced in Sevilla**

- Serve *Corporate Customers offering customized solutions* through specialized sales force in our domestic markets.
- Turn profitable the businesses in new markets by achieving necessary *scale*, offering packaged solutions to targeted segments.
- Leverage our distinctive regional position to *better serve* multinational corporations and boost our international services.

**Key actions undertaken to date**

- Refocus of the company from product to *corporate segment oriented* including voice (T. Empresas).
- Reinforcement of the offer with the *creation of Telefónica Soluciones* by merging T. Sistemas, T. Mobile Solutions, Katalyx and Art Media.
- *Reassessment of the business portfolio* to achieve profitable growth:
  - Divestiture of Austria, Uruguay and Italy
  - Refocus of operations in Colombia and USA
- *Strict control over investments and expenditure* across all business units.
- Consolidation of the international businesses into a *single business unit*, (TIWS), that manages all the international assets and services: voice, data and IP.
Revenues will have grown by 7-10% during 2001-03

- Despite pricing pressure, increase in volume and the penetration of new services have driven the growth

- Revenues were mainly affected by changes in the consolidation perimeter and exchange rates

• Changes in revenues in actual terms:
  - Divested subsidiaries represented €163MM in 2001 and €87MM in 2002
  - Exchange rates in Latin America strongly affected revenues
Telefónica Empresas

*T.Data Spain revenues grew at a stable pace over the course of 2002 and 2003*

€ Millions

Operating revenues in T.Data Spain

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Revenues (€ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>692</td>
</tr>
<tr>
<td>2002</td>
<td>771</td>
</tr>
<tr>
<td>2003</td>
<td>784-824</td>
</tr>
</tbody>
</table>

- Operating revenues will grow in T.Data Spain at 6/9% CAGR during 2001-2003
- The number of total connections will grow by 24% (CAGR 01-03)
Revenues in local currency have experienced a significant growth in America

Local currency in Millions

T.Empresas Argentina (Argentinian pesos)
- 2001: 150
- 2002: 193
- 2003 (E): 208-218
- CAGR: ~20%

T.Empresas Brasil (Brazilian reales)
- 2001: 271
- 2002: 402
- 2003 (E): 501-527
- CAGR: >35%

T.Data Mexico (Mexican pesos)
- 2001: 89
- 2002: 161
- 2003 (E): 239-251
- CAGR: >60%

T.Data USA (US Dollars)
- 2001: 11
- 2002: 17
- 2003 (E): 29-31
- CAGR: >60%
We have refocused the company towards profitable growth

- EBITDA improvements beat by far the projections presented in Sevilla* for 2001-05 (over 90% CAGR growth and 13-17% margin target by 2005)
- T.Data Spain has reached a 26-27% EBITDA margin after implementing a series of measures to increase efficiency

* Only for T.Data
Reorientation of the business has resulted in a dramatic CapEx reduction

- CapEx reduction exceeds Sevilla´s target*
- CapEx reduction has been driven by:
  - Reassessment of the business portfolio
  - Completion of substantial one-time investments
  - CapEx containment policy
- Investment level is sustainable since we leverage on existing Telefónica´s assets

* Only for TData
... and operating cash flow improvement

Operating Cash Flow*

Actual Terms

€ Millions

Operating Cash Flow*

-689
2001

-70
2002

105-110
2003 (E)

• Positive operating cash flow by 2003 as a result of the EBITDA improvement and the CapEx reduction

* Operating Cash Flow = EBITDA – CapEx
• We have reinforced our strategy of addressing corporate customers’ needs offering a solid value proposition

• We have placed special emphasis on strengthening our operations’ efficiency in 2002-03

• We have a clear set of priorities moving forward to capture the growth opportunity

• We have ambitious though realistic targets for 2002-06
Our strategic priorities moving forward are: emphasis on clients, innovation and continuous efficiency improvements

1. Focus on corporate clients / Revenue growth
   • Broader responsibility on corporate customers
   • Client orientation culture
   • Increase our customer share of wallet

2. Innovation and value added services
   • Broadband
   • New services development

3. Efficiency and profitability
   • Improve current businesses and assets profitability

 Corporations & Government

Differentiated solutions for each customer need
Corporate customers’ needs are continuously changing forcing us to evolve

Customers´ needs

- **End-to-end customized solutions** to deal with convergence of technologies
  - Voice - Data
  - Fixed – Mobile
  - IT- Communications
- **Coordinated and homogeneous** management of their different locations
- **Scalability** – avoid high up-front investments
- **Outsourcing** to focus on their core business and improve existing cost structure
- **Reliable supplier**

Key strategic actions under execution

- Enhance **responsiveness** addressing customers needs with **preferential treatment**
- Deepen **client segmentation** in each geography. Consolidate our organization by **industry sectors**
- Empower and reinforce the **Global Customers*** unit
- Implement individualized **Account Plans** to manage our main customers
- **Specialized** salesforce in Solutions, Hosting and Intl. Services

* 70 large accounts represent more than 30% of total business
Our revenue growth will mainly come from increasing our share of wallet

- Increase share of wallet in current customer base
  - By capturing the growth opportunity of our services’ evolution
    - eBA (100% broadband penetration)
    - International Services (x2.5 growth in revenues)
    - Voice & data over corporate VPNs
  - By adding value added services
    - Managed wireline & wireless VPNs
    - Outsourcing (40% CAGR in Personalized Network Operating Centers)

- Increase our customer base in new businesses and markets: Mexico, US, Colombia, Germany and UK (x4 by 2006 in new entrant markets)
  - Achieving the necessary scale
  - Targeting the most attractive customers

- Increase market share in Brazil* out of Sao Paulo
- Win-back lost customers

* Telefonica is new entrant in Brazil out of Sao Paulo
We want to lead our customers in their migration process to broadband

**Financial institution case study**

### From

- High IT, maintenance and management costs
  - Large data processing centers
  - Decentralized IT
  - Scarce and expensive access to broadband

### To

- Efficiency and lower cost
  - Data processing centers as part of the network
  - Centralized IT
  - Broadband availability

#### IT Cost

- Today: 70
- Future: 44
- Substantial cost reduction for our customers (-20%)

#### Communication Cost

- Today: 30
- Future: 36
- +20%

**Telefónica Empresas**
eBA e-Soluciones de Banda Ancha is Telefónica’s integrated broadband solution for corporate customers

- Consulting services
- Design, development and implementation of customized solutions

Solutions Design

- Server consolidation (LAN/mail)
- Intranet / corporate applications (ERPs, eprocurement,...)
- Teleworking
- Multivideoconference
- Advanced voice systems

Applications
- Network IT services
- Advanced communication/collaborative applications

Management and Support
- Integrated management of network and applications
- Real-time information

Security
- Single sign-on
- USB Key
- Information encryption

Multiservice Network
- High-speed access at every location
- Broadband services
- Mobile services
Broadband access and hosting will be major drivers for our eBA strategy

VPN access connections*

- IP VPNs: 8% growth
- ATM VPNs: 37% growth
- FR VPNs: -6% growth
- X.25 VPNs: 0% growth

Number of Connections
CAGR 2002-06

IP VPNs will increase their share relative to more traditional technologies

The number of hosted servers will multiply by 4

(*) % connections in our markets of influence
Telefónica has defined its positioning in the business outsourcing.

Telefónica Outsourcing Solution

- Telecommunication infrastructures management
- Telecom and IT infrastructures management
- Value added services management

Telefónica´s focus

- Telefónica is already providing outsourcing services to its corporate customers. As of today we manage:
  - 350 LAN
  - 30 Customer Network Operation Centers
- We have more than 450 employees focusing on outsourcing activities
- Our offer is complemented with strategic partnerships

* Business Processes Outsourcing
We will increase our market share of International Services in the Region

Key strategic actions under execution

- Position ourselves as:
  - The specialist in the Spanish and Portuguese speaking markets
  - The best carrier for multinationals in the region
  - Service provider for other carriers (white label)
  - Global player in the new IP world, both in Access and Content

Increase of IP traffic over the international network

This increase is boosted by Telefónica’s aggressive broadband growth strategy

<table>
<thead>
<tr>
<th>Year</th>
<th>International IP Traffic (Gbps)</th>
<th>ADSL Connections (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>10</td>
<td>1.4</td>
</tr>
<tr>
<td>2006 (E)</td>
<td>60</td>
<td>5.6 - 6.4</td>
</tr>
</tbody>
</table>

Increase of IP traffic over the international network:

- 2002: 10 Gbps
- 2006 (E): 60 Gbps (x6)

Growth in ADSL connections:

- 2002: 1.4 million
- 2006 (E): 5.6 - 6.4 million (x4)
New services will increase their contribution to total revenues

Constant exchange rates, as of 2002

Expected evolution of revenue mix*

- New services increase their share from 30% to 41%
- Hosting/ASP expect a 40% CAGR, promoted by the eBA business

New Services
- Solutions
- Hosting & ASP
- Intl Services

Access
- 2002: 25%
- 2006 (E): 24%

VPNs
- 2002: 45%
- 2006 (E): 35%

* Before adjustments. Excluding Europe
Evolution of the revenue mix per region

Actual Terms

Expected evolution of revenue mix per region *

- All the regions will grow
- Our international unit will double its relative share

(*) Before adjustments
Our presence in Europe represents a substantial growth opportunity

Constant exchange rates, as of 2002

Revenue Composition in Europe (Germany and UK)

- We are present in 2 of the largest European markets (Germany is 3 times Spain)
- Revenues in hard currency
- Evolution towards broadband access and new value added services
- Total IP Network in place allows us to develop a complete offer (voice and data) at a lower cost
- Solid presence both in services and customer base
- Self-financed operation
We will keep our current commitment of continuous efficiency improvement – Case Study: T.Data Spain

T.Data Spain has implemented several measures to increase efficiency

**REVENUES**
- Approach change from \((p \times q)\) to \((n \times \text{ARPU}^*)\)
- Salesforce organization by industry sectors
- Implementation of a monthly sales opportunity tracking system and a bi-annual commercial incentive program
- Pricing review and rationalization of discount policy

**COSTS**
- Network unification
- Process improvement and response time reduction (i.e. book to bill)
- Headcount rightsize
- Expenditure contention

That have resulted in significant EBITDA improvement in 2002-03

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA</th>
<th>% EBITDA/Total Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>140</td>
<td>19%</td>
</tr>
<tr>
<td>2002</td>
<td>189</td>
<td>24%</td>
</tr>
<tr>
<td>2003 (E)</td>
<td>209-220</td>
<td>26-27%</td>
</tr>
</tbody>
</table>

* We will continue implementing efficiency improvements across all the geographies

* ARPU: Average Revenue Per User
And strict control over investments

Key strategic actions under execution

- Leverage existing Telefónica’s assets in the region
- Investment closely related to revenue generation (CPEs)
- Strict investment management, based on profitability analysis

CapEx * Distribution

- Incumbent Network: 18%
- New entrant markets network: 11%
- International network: 18%
- Datacenter: 10%
- CPEs**: 24%
- Other: 16%

- CapEx associated with growth
- 27% of total CapEx is customer premises equipment
- Minimum investment in Incumbent’s network (18% of total CapEx)

Constant exchange rates as of 2002

* Cumulative CapEx for 2002-06
** Customer Premises Equipment
• We have reinforced our strategy of addressing corporate customers´ needs offering a solid value proposition

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• We have a clear set of priorities moving forward to capture the growth opportunity

• We have ambitious though realistic targets for 2002-06
Telefónica Empresas has ambitious though realistic targets moving forward

Constant exchange rates, as of 2002

<table>
<thead>
<tr>
<th>2002 Proforma</th>
<th>Targets for 2002-06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>1,758 M€</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>129 M€</td>
</tr>
<tr>
<td><strong>EBITDA margin</strong></td>
<td>7%</td>
</tr>
<tr>
<td><strong>CapEx</strong></td>
<td>199 M€</td>
</tr>
<tr>
<td><strong>CapEx/Revenues</strong></td>
<td>11%</td>
</tr>
<tr>
<td><strong>Operating Cash Flow</strong>*</td>
<td>-70 M€</td>
</tr>
</tbody>
</table>

* Organic growth  ** Average 2003-06  *** EBITDA-CapEx

Solid revenue growth ...

... while keeping our current focus on continuous efficiency and profitability improvement ...

... And high free cash flow generation for the Telefónica Group