This presentation contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this presentation 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 activities and situation relating to the Company. Such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward looking statements as a result of various factors. Analysts and investors are cautioned not to place undue reliance on those forward looking statements, which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica’s business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company’s Annual Report on Form 20-F as well as periodic filings made on Form 6-K, which are on file with the United States Securities and Exchange Commission.
Building value: financial performance and flexibility
Key messages

- Strong financial performance in 2001
- Sound financial management and flexibility
- Commitments to build value
Telecom sector is facing a tough economic environment

General economic slow down

Exchange rate evolution

Change in expectations for telecom sector

Difficulties refinancing corporate debt


** Average EV/EBITDA ratios of Deutsche Telekom, Telecom Italia, France Telecom and British Telecom

Source: Datastream, Multex Estimates
... Telefónica has overcome this situation based on ...

4 drivers of operational performance

- Diversified revenue streams
- Optimize efficiency and Strong EBITDA margins
- Capital allocation and Capex discipline
- Develop new growth platforms

4 principles for financial excellence

- Manage risk proactively
- Solid balance sheet
- Optimize cost of capital (funding strategy)
- Efficient support processes
... and has delivered strong fundamentals

Euro Billion

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>31,053</td>
<td>28,486</td>
<td>9.0</td>
</tr>
<tr>
<td>EBITDA</td>
<td>12,804</td>
<td>11,919</td>
<td>7.4</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>41.2%</td>
<td>41.8%</td>
<td>-0.6 p.p.</td>
</tr>
<tr>
<td>Operating profit</td>
<td>5,430</td>
<td>4,958</td>
<td>9.5</td>
</tr>
<tr>
<td>Net interest expense</td>
<td>(1,862)</td>
<td>(1,860)</td>
<td>0.1</td>
</tr>
<tr>
<td>Argentinean peso devaluation to 1.7 ARS per USD</td>
<td>(529)</td>
<td>-</td>
<td>n.a.</td>
</tr>
<tr>
<td>Amortization of goodwill</td>
<td>(842)</td>
<td>(501)</td>
<td>68.1</td>
</tr>
<tr>
<td>Other income (expense)</td>
<td>(163)</td>
<td>271</td>
<td>n.a.</td>
</tr>
<tr>
<td>Income before taxes</td>
<td>2,034</td>
<td>2,868</td>
<td>(29.1)</td>
</tr>
<tr>
<td>Net income</td>
<td>2,107</td>
<td>2,505</td>
<td>(15.9)</td>
</tr>
</tbody>
</table>
Telefónica enjoys a sound financial structure
Euro Billion

- Tangible fixed assets: 36.6
- Shareholders equity: 25.9
- Net Debt: 28.9

Tangible fixed assets exceed net debt.
Telefónica has achieved a positive strong operating cash flow
Euro Million

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA</th>
<th>Capex</th>
<th>Operating cash flow</th>
<th>% of operating revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>11,919</td>
<td>(9,096)</td>
<td>2,823</td>
<td>41.8%</td>
</tr>
<tr>
<td>2001</td>
<td>12,804</td>
<td>(7,923)</td>
<td>4,881</td>
<td>41.2%</td>
</tr>
</tbody>
</table>
Key messages

- Strong financial performance in 2001
- Sound financial management and flexibility
- Commitments to build value
Telefónica consistently pursues excellence within its financial management

Manage risk proactively

- Continuous evaluation of macroeconomic situation
- Expertise in risk management
- Address different hedging needs with different tools
Risk management has been a key element to weather the current Latin American environment ...

- Geographic diversification limits overall portfolio volatility
- Equity financed acquisitions share FX risk with seller

Telefónica has a diversified portfolio

Continuous evaluation of macroeconomic situation

- Evaluate macroeconomic trends through a global team of macroeconomists supported by local experts
- Use Telefónica’s deep network in Latin America to gain insight on economic situation and future developments
- Periodic top management and board reviews of situation in key geographies
- Launch “deep reviews” when needed (i.e. early 2001) to modify local business plans and prepare hedging plans

Top class hedging capabilities

- Use accounting hedges to reduce FX balance sheet exposure
- Match FX cash flow exposures with cash hedges
... based on our geographic diversification ...

EBITDA 2001

- Spain: 58%
- Other: 42%
- Brazil: 22%
- Argentina: 11%
- Chile: 6%
- Peru: 6%
- Other: -2%

US$ EBITDA Standard Deviation*
(rebased)

- Stand-alone Latin America assets: 100
- Telefónica’s Latin America portfolio: 66
- Telefónica’s Latin America + Spain portfolio: 34

*1990-2001
... and timely accessing imperfect hedging markets ...

* Non delivery forwards
... we managed to mitigate the effects of the crisis in Argentina in 2001 ...

Euro Million

Income statement effect*

- Loss due to USD debt: 674
- Hedging: 208
- Increase in Capex: 62
- Increase in bad debt provisions: 60
- Tax shield and minorities: 220
- After tax losses due to devaluation: 369

Net Worth effect*

- Devaluation effect: -2,076
- Tax shield: 652
- Total Net Worth direct effect: -1,424

* ARS/USD = 1.7
...and we have protected our exposure in the rest of the region although markets do believe in decoupling

Exchange rates indexed

2002 GDP Growth

Argentina  Brazil  Mexico  Chile  Peru

2.0  1.5  3.4  3.2

Brazilian Real is not correlated with Argentinean Peso

Economic crisis in Argentina is not expected to affect the rest of the region

Source: Bloomberg and Market consensus
We have used different hedging tools to cover both accounting and cash risks

Euro Billion

<table>
<thead>
<tr>
<th>Argentina</th>
<th>Latin-America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Investment</td>
<td>Total Investment</td>
</tr>
<tr>
<td>Equity book value</td>
<td>40.5</td>
</tr>
<tr>
<td>+ intragroup debt</td>
<td></td>
</tr>
<tr>
<td>before devaluation</td>
<td></td>
</tr>
<tr>
<td>9.8</td>
<td>21.5</td>
</tr>
<tr>
<td>Equity book value</td>
<td></td>
</tr>
<tr>
<td>+ intragroup debt</td>
<td></td>
</tr>
<tr>
<td>after devaluation</td>
<td></td>
</tr>
<tr>
<td>6.0</td>
<td>17.1</td>
</tr>
<tr>
<td>Intra-group debt</td>
<td></td>
</tr>
<tr>
<td>3.0</td>
<td>4.4</td>
</tr>
<tr>
<td>Equity book value +</td>
<td></td>
</tr>
<tr>
<td>intragroup debt</td>
<td></td>
</tr>
<tr>
<td>3.6</td>
<td></td>
</tr>
</tbody>
</table>

Net Worth

Intra-group debt
...and we benefit from sound investments made in recent years (case study: Telesp)

US dollar Billion

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Telefónica investment</th>
<th>Stake acquired</th>
<th>Implicit EV/EBITDA* Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telebras privatization</td>
<td>3.1</td>
<td>8.3%</td>
<td>18.5 x</td>
</tr>
<tr>
<td>Debt payment</td>
<td>0.3</td>
<td>0.8%</td>
<td>18.5 x</td>
</tr>
<tr>
<td>Shares buy-back</td>
<td>0.4</td>
<td>5.1%</td>
<td>13.4 x</td>
</tr>
<tr>
<td>Telesp Restructuring</td>
<td>8.9</td>
<td>62.6%</td>
<td>10.0 x</td>
</tr>
<tr>
<td>Telesp Tenders</td>
<td></td>
<td>5.1%</td>
<td>7.8 x</td>
</tr>
<tr>
<td>Other acquisitions</td>
<td>0.1</td>
<td>0.7%</td>
<td>14.0 x</td>
</tr>
<tr>
<td>Total**</td>
<td>12.8</td>
<td>82.6%</td>
<td>8.3 x</td>
</tr>
</tbody>
</table>

* 2001 EBITDA
** 87.4% after equity swap with Portugal Telecom

Equity book value $ 7.8 Billion
Telefónica consistently pursues excellence within its financial management

- Expertise in risk management
- Continuous evaluation of macroeconomic situation
- Cover different hedging needs with different tools

- Quality of assets
- Restructuring effort in previous years
- Transparency
Our healthy asset base sets us apart in a sector whose assets are under scrutiny ...

<table>
<thead>
<tr>
<th>Lower proportion of intangible assets on balance sheet</th>
<th>Restated asset base to fair value since 1998</th>
<th>Impact (Euro billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telefónica*</td>
<td>Restatement to fair value of several tangible assets both in Spain and abroad</td>
<td>2.2</td>
</tr>
<tr>
<td>Selected integrated operators average**</td>
<td>Write off goodwill arose within several acquisitions</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>Accounting hedging of acquisitions financed with equity</td>
<td>16.5</td>
</tr>
<tr>
<td>28%</td>
<td></td>
<td>20.2</td>
</tr>
<tr>
<td>34%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Under proportional consolidation method
** Telecom Italia (incl. Olivetti), France Telecom, British Telecom (incl. MM02), Deutsche Telekom

Source: ABN AMRO
Spain GAAP is based on the principle of prudence: account for all eventual losses and all foreseeable risks when known. We record provisions to reflect a decrease in the fair value of assets; but account for profits only when materialized. We do not record the increases in the fair value of assets.

All subsidiaries are consolidated in the Group accounts, including all SPV’s. In accounting for IRU’s (Indefeasible Right of Use of Capacity Agreements), we recognize the income over the period of the contracts in an accrual basis.
Telefónica consistently pursues excellence within its financial management

Manage risk proactively
- Expertise in risk management
- Continuous evaluation of macroeconomic situation
- Cover different hedging needs with different tools

Manage accounting quality
- Quality of assets
- Restructuring effort in previous years
- Transparency

Manage the balance sheet efficiently
- Best financial profile in spite of turmoil
- No refinancing risk in 2002
- Debt level at the “efficient frontier”: strong single “A”
Telefónica enjoys the best financial position among the large integrated European operators

Net debt position and rating* (Euro billion)

<table>
<thead>
<tr>
<th></th>
<th>Telefónica</th>
<th>Deutsche Telekom</th>
<th>France Telecom</th>
<th>British Telecom</th>
<th>Telecom Italia**</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2/A</td>
<td>28.9</td>
<td>62.1</td>
<td>62.5</td>
<td>24.0</td>
<td>36.9</td>
</tr>
<tr>
<td>A3/A-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BAA-/BBB+</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BAA1/-A-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BAA1/BBB+</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Debt capacity position

** Moody's/Standard and Poors
** Including Olivetti net debt
Source: Annual Reports, SSSB, ABN Amro
... with a single “A” rating that we consider optimal within the current economic context...

Optimal considering tax shield and financial distress (i.e. access to capital markets, step-up clauses in contracts)

Optimal considering only tax shield effect
... and a balanced debt structure ...
Total debt. Euro Billion. Percentage

100% = 28.9

By fixed/ variable interest rate

- 59% Variable
- 41% Fixed

By maturity*

- 23% Short term
- 77% Long term

By currency

- 45% EUR
- 36% USD
- 18% Latin America
- 7% UFC
- 5% BRL
- 4% PEN
- 2% ARS

1% other

* Average maturity of 5.5 years
"5 year" credit spreads evolution in Euros
Spread over IRS in B.P.

Global bond issuance two tranches: Euro 1.0 Bn USD 5.0 Bn September 2000

Eurobond Euro 2.0 Bn October 2001

Telefónica’s short term debt refinancing

100% = 4,099

- Commercial paper
  - 1,554
  - 1,554

- Bonds
  - 947

- Credit lines
  - 1,598
  - 2,545

Commercial paper renewal/ back-up lines
Credit line renewal /free cash flow generation

Short term debt 2001*
Refinancing options for 2002

*Net maturity until 31/12/2002
Source: Bloomberg
Telefónica consistently pursues excellence within its financial management

- **Manage risk proactively**
  - Expertise in risk management
  - Continuous evaluation of macroeconomic situation
  - Cover different hedging needs with different tools

- **Manage accounting quality**
  - Quality of assets
  - Restructuring effort in previous years
  - Transparency

- **Manage the balance sheet efficiently**
  - Best financial profile in spite of turmoil
  - No refinancing risk in 2002
  - Debt level at the “efficient frontier”: strong single “A”

- **Manage costs**
  - Optimize cost of capital
  - Efficient support processes
Telefónica has achieved significant savings in financial expenses

Interest rate management

<table>
<thead>
<tr>
<th>Effective interest rate</th>
<th>Average Net Debt (Euro Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.65%</td>
<td>6.34%</td>
</tr>
<tr>
<td>26.9</td>
<td>31.2</td>
</tr>
</tbody>
</table>

Intragroup financing

• Helps to maintain rating in the “A” level by reducing structural subordination
• Allows privileged access to cash flows from subsidiaries
• Reduces FX accounting risk in the income statement (not in net worth)
• Average financing balance of USD 2,382 million

Savings of approx. € 500 million in 2001
We have obtained remarkable efficiency improvements in support processes in the finance area through several initiatives

<table>
<thead>
<tr>
<th>Description</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced costs and investments through concentration of support activities</td>
<td>NPV USD 850 million</td>
</tr>
<tr>
<td>For the units swap a fixed cost to variable</td>
<td>Implicit savings of Euro 21 million in 2001</td>
</tr>
<tr>
<td>Free up management time and provide common tools</td>
<td>Implicit savings of Euro 65 million in 2001</td>
</tr>
<tr>
<td>Cash pooling for all business units in Spain</td>
<td>Quality coverage and savings</td>
</tr>
<tr>
<td>Corporate treasury: finance short term needs of the Group and manage working capital for non-Spanish operators</td>
<td></td>
</tr>
<tr>
<td>Manage centrally corporate insurance</td>
<td></td>
</tr>
<tr>
<td>Provides transparency (2nd in Europe as per Reuters Institutional Investor Survey 2002)</td>
<td></td>
</tr>
</tbody>
</table>
In summary, our strong operating performance and financial management provides unique flexibility when considering opportunities...


<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA</th>
<th>Capex*</th>
<th>Working capital, net interest, taxes and other</th>
<th>Cash available to shareholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>90.2</td>
<td>42.6</td>
<td>17.7</td>
<td>29.9</td>
</tr>
</tbody>
</table>

Capex excluding UMTS licenses
Source: Analysts estimates

- Repay all debt outstanding (28.9 billion euros) before maturity
- Acquire or build one “Telefónica Brazil” every 2 years or 3-4 European small operators
... and makes Telefónica the European large operator with more degrees of freedom ...

### Leverage capacity

<table>
<thead>
<tr>
<th>EBITDA/Net Debt</th>
<th>TEF</th>
<th>T1</th>
<th>T2</th>
<th>T3</th>
<th>T4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Equity purchasing power index

<table>
<thead>
<tr>
<th></th>
<th>TEF</th>
<th>T1</th>
<th>T2</th>
<th>T3</th>
<th>T4</th>
</tr>
</thead>
<tbody>
<tr>
<td>High multiple*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High liquidity**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No overhang</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* High multiple defined as higher than 7x EV/EBITDA trading multiple
** High liquidity defined as more than € 300 Million daily equity turnover

Source: Telefónica estimates, Multex estimates, Bloomberg, ABN Amro
Telefónica consistently pursues excellence within its financial management

Manage risk proactively
- Expertise in risk management
- Continuous evaluation of macroeconomic situation
- Cover different hedging needs with different tools

Manage accounting quality
- Quality of assets
- Restructuring effort in previous years
- Transparency

Manage the balance sheet efficiently
- Best financial profile in spite of turmoil
- No refinancing risk in 2002
- Debt level at the “efficient frontier”: strong single “A”

Manage additional aspects and processes
- Optimize cost of capital
- Efficient support processes
Key messages

- Strong financial performance in 2001

- Sound financial management and flexibility

- Commitments to build value
We have made good progress against the commitments shared in Rio

- Solid and well diversified revenue growth
  - ✔
- Well balanced growing EBITDA margin
  - ✔
- Reinforcing capital discipline: Capex/Revenue
  - ✔
- Enhancing free cash flow margins
  - ✔
- Improving asset turnover: revenue/capital employed
  - ✔
Concrete actions have been taken to reach cash flow margin targets

**Key actions to improve CF**

- Improving operational efficiencies
- Monitoring interest expense
- Generating more value in centralized functions
- Optimizing tax planning
- Reducing minority losses

**Cash flow* margins**

- 2000: 2.5%
- 2001: 7.3%
- Average 2002-05: 13-15%
- Target: 13-15%

*Operating cash flow – financial expenses - taxes
... and to continue optimizing asset turnover

**Asset turnover**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>0.46</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>0.50</td>
<td></td>
</tr>
<tr>
<td>2002-2005</td>
<td>0.50–0.55</td>
<td>0.50–0.55</td>
</tr>
</tbody>
</table>

*Revenues/capital employed*

- Telefónica has launched a number of actions to reduce capital employed while creating value
  - Real estate divestitures to reduce capital employed by one billion euros in three years
  - Factoring
  - Divestiture of financial stakes
Going forward we have set specific commitments to increase our profitability...

- Well diversified operating profit growth
- Optimized capital employed

**Solid and well diversified revenue growth**
- 8-11% growth from 01 to 02-05

**Well balanced growing EBITDA**
- 9-12% growth from 01 to 02-05

**Reinforcing capital discipline**
- 26% of assets to 12-16% from 01 to 02-05

**Improving asset turnover**
- 0.5-0.55 turnover from 01 to 02-05

**Improve return over capital employed**
- 7.9% return in 01, XX.X% in 05

- Commitments built into business plans of the different units and tracked regularly to ensure compliance
- Continuous tracking and reporting of ROCE by business
... while continuing to enhance our cost of capital

Percentage

<table>
<thead>
<tr>
<th>Year</th>
<th>Telefónica</th>
<th>Selected Peers’ average*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>18%</td>
<td>1.8%</td>
</tr>
<tr>
<td>1998</td>
<td>20%</td>
<td>2.0%</td>
</tr>
<tr>
<td>1999</td>
<td>26%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2000</td>
<td>21%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2001</td>
<td>29%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Limit operational and financial risk
Share price standard deviation

<table>
<thead>
<tr>
<th>Year</th>
<th>Telefónica</th>
<th>Selected Peers’ average*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>37%</td>
<td>34%</td>
</tr>
<tr>
<td>1998</td>
<td>39%</td>
<td>31%</td>
</tr>
<tr>
<td>1999</td>
<td>38%</td>
<td>31%</td>
</tr>
<tr>
<td>2000</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>2001</td>
<td>33%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Optimize capital structure at efficient frontier
Net debt/total assets

<table>
<thead>
<tr>
<th>Year</th>
<th>Telefónica</th>
<th>Selected Peers’ average*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>9.2%</td>
<td>7.1%</td>
</tr>
<tr>
<td>1998</td>
<td>9.4%</td>
<td>7.2%</td>
</tr>
<tr>
<td>1999</td>
<td>8.9%</td>
<td>5.4%</td>
</tr>
<tr>
<td>2000</td>
<td>7.7%</td>
<td>6.5%</td>
</tr>
<tr>
<td>2001</td>
<td>6.4%</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

Improve cost of debt
Effective interest rate

- Long term sustainable EBITDA margin
- Diversified regulatory risk
- Geographically diversified cash flow sources
- Optimal position at efficient frontier for debt
- Tax management
- Monitoring interest rate and FX management
- Treasury management

* Average of Deutsche Telekom, Telecom Italia, France Telecom and British Telecom
Source: Datastream, analyst estimates
Finally, we are committed to continue offering a unique investment proposition with a clear focus on value creation

We have a strong position . . .

- Strong operational performance in 2001
- Solid and transparent balance sheet
- Flexibility to capture organic and non-organic growth opportunities
- Better financials than the peer group

. . . that we commit to improve further . . .

- Five clear commitments from “Rio”
- Maximize ROCE
- Optimize Cost of Capital
- Use cash generated in value creating opportunities

. . . counting on the competitive advantage that represents our financial expertise

- Efficient shared services (horizontal initiatives)
- Intra group “debt market”
- Top class risk management integrated with the businesses
- Financial innovation
- Commitment to value creation