

Future

Prospects

The actions that will guide the management of the Group are aimed at consolidating Telefónica's position as one of the global telecommunications operators of reference worldwide. These actions will continue along the line maintained throughout 2001, and will be based on three key actions: promoting business development, optimizing management processes and exploiting the Group's growth opportunities.

More efficient management

In order to optimize management and take full advantage of economies of scale, the company will develop policies designed to improve efficiency that have already been described for 2001, and which will be achieved through the improvement of efficiency from both the operative (improvement of processes) and financial standpoints. These actions will be coordinated through a policy based on the containment of costs and the proper materialization of synergies.

In this connection, horizontal strategies will play a crucial role in line with the strategies described in the previous chapter: Logistics, Purchases, Real Estate, Shared Services Management, Information Systems, etc. The consolidation of Country Corporate Centers will be a basic tool in this model.

Our actions will be based on promoting business development, optimising management processes, and exploiting the Group's growth opportunities

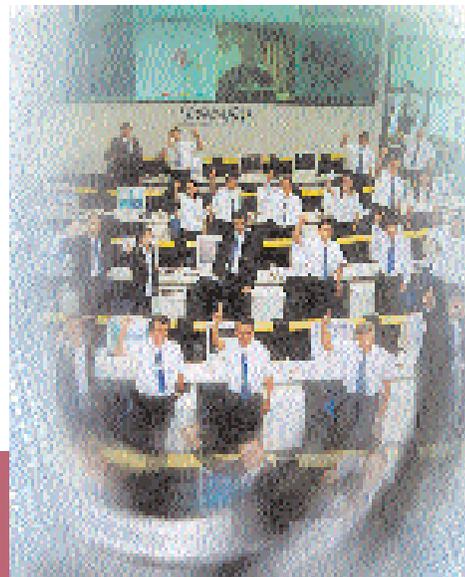
Developing business

The evolution of business platforms will be based, on the one hand, on fostering the growth of "natural" platforms (fixed-line, mobile, data) and, on the other hand, on capturing all the potential of new businesses, always focused on achieving profitable growth.

The strengths of Telefónica in traditional lines of business will enable it to obtain solid results in low-growth scenarios, while its diverse portfolio of alternatives (Broadband, Content) will ensure that it captures value in growth scenarios.

In order to increase business volume in traditional markets, products and services will be innovated on a permanent basis, with special attention to the development of value added services. It will also take on competitors through an active commercial policy, with special emphasis on the development of on-line service and sales channels.

In terms of new lines of business, Broadband will require very special attention as the natural evolution of the fixed-line telephony business. Internet is a global phenomenon that is here to stay; it enables new forms of leisure and ways of doing business, and Broadband is a channel with huge potential for generating value. Hence, the Telefónica Group's solid commitment to this business.



The Broadband business will be developed through the implementation of ADSL technology for fixed-line telephony, and GPRS and UMTS technologies for mobile telephony. By 2005, the Company expects to have close to 13 million Broadband customers, of which some 4 million will be ADSL customers, and 8.5 million, GPRS and UMTS customers.

ADSL technology offers huge potential for future growth, and will also strengthen the position of Telefónica in terms of access with respect to cable operators. On these Broadband infrastructures, in addition to rapid Internet access services, many other advanced services will be supported, such as Private Virtual IP Networks, Interactive Multimedia Services or distribution of audiovisual content.

On the other hand, UMTS will open the doors to multimedia mobile telephony services. Telefónica will position itself along the entire value chain (access, supply and value added content), which will be established on the basis of ADSL, GPRS, and UMTS services. In this regard, the creation of a Corporate Content Unit was announced in March 2002.

As regards the mobile business, the aim is to consolidate the company's position as one of the leading global operators. In order to achieve this, the strategy is aimed at strengthening its current leadership in the Spanish market, consolidating its leadership in Latin America, and selectively increasing its presence in Europe, all on the basis of profitable growth.

It will strengthen its leadership in Spain through greater penetration of 2.5G services, the introduction of new Internet products and services for mobile telephony, the consolidation of e-mocion as the WISP market leader, the launch of the GPRS network, and the gradual deployment of the UMTS network.

In Latin America, strategies will be targeted at achieving greater customer loyalty, intensifying actions in the business segment and improving operational synergies. Growth projects will also be taken on, but always from the perspective of achieving profitable growth.

In Europe, roaming agreements will be established to provide GPRS services; the Company will continue with the policy of sharing infrastructures with other operators in order to reduce costs; new distribution channels will be developed; and all the advantages offered by the WISP service that has been developed in Spain (e-mocion) and the mobile Internet portal will be fully exploited.

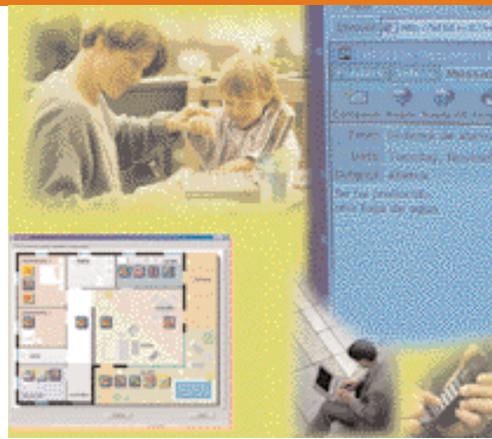
All these actions will be guided by decisively orienting the business towards the customers, in two regards. On the one hand, the company will continue to pursue a strategic segmentation of the market in order to offer each niche market an innovative and competitive offer, strengthening its commercial effectiveness through a dedicated sales force and strategic use of marketing capabilities.

On the other hand, the value of the businesses will be strengthened from the Group standpoint, offering integrated and combined services to the market, with a complete catalogue of products and services capable of catering for all needs. Telefónica's offer will thus be positioned along the entire value chain (access, supply and value added content).

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Growth opportunities

Telefónica has declared its target of achieving 100 million customers in 2004. This goal will be tackled by the continued growth of the business lines, by exploiting economies of scale, and by making acquisitions that provide profitable growth.

The objective is to consolidate Telefónica as the leader in its natural market (the Spanish and Portuguese-speaking market), where it will expand in a selective manner, and exploit the advantages offered by interactive communication.

Regarding its leadership in its natural market, one of Telefónica's first challenges is "Brazil 2002", the opening of the Brazilian market, which presents business opportunities such as the creation of a long-distance service leader, the development of value-added data services for companies, and the expansion of the Broadband network throughout Brazil. The achievement of the objectives established by ANATEL will, in addition to gaining new customers due to the expansion of the long distance and data management services business throughout the entire country, permit Telesp to offer its current customers in São Paulo additional and improved products and services.

Another growth factor worth highlighting, also in Brazil, is the joint venture with Portugal Telecom for the mobile telephone business, with 10.3 million controlled customers and a potential market of 95 million inhabitants (56% of the total in Brazil). The resulting company will become the leading operator in five of the six most prosperous regions of Brazil, with a market share of 60% in places where it operates. Furthermore, it will be the only cell-phone service provider operating in São Paulo and Rio de Janeiro.

Mexico will be another of the growth markets for Telefónica, which hopes to become the second mobile telephone operator in the country.

In the mobile business, 2.5G services will be expanded, as will new Internet products for mobiles, the launch of the GPRS network, and the gradual deployment of the UMTS network

