Our vision

CONVERGENCE

➤ Exploit the convergence of telecoms, Internet and media
➤ Leadership in multi-access platform for the Spanish and Portuguese speaking world
➤ Transformation from voice/data transport to content distribution on our natural markets

ENABLING SIZE

➤ Leverage our critical mass in all growth areas
➤ Leverage solid balance sheet and stable cash flow generation

BUSINESS LINE ORIENTED

➤ New organization with powerful acquisition currencies to grow individual business lines
➤ Management focus in each of the business lines

VALUE CREATION

➤ Dynamic management with proven track record
➤ Industry innovator and visionary sector leader
➤ Active risk management policy

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How Telefónica anticipates to sector consolidation

- Speeding up new organization by global business lines
- Successful public tenders and ongoing carve out process
- Unlocking value by business lines and creating acquisition currencies
- Active in consolidation through acquisitions and partnerships
- From a target company to a consolidator
New organization to enhance strategic flexibility in a consolidation environment

- **Telefónica S.A.**
  - www.telefonica.com
  - Telefónica S.A.

- **Telefónica**
  - One of the 10th biggest cellular player worldwide by equity customers (21 mill 2000E). 1st in Spain, 3 Brazilian regions, Peru and Chile; 2nd in Argentina and Mexico
  - 2nd global data operator by revenues (1.4 bn. US$ expected in 2000 on a proforma basis)
  - 3rd Internet company by unique visitors worldwide

- **T. de España**
  - Fixed telephony
  - 3rd European fixed line operator by LIS * (36 mill.). 1st in Spain, Brazil, Argentina, Chile and Peru

- **T. Móviles**
  - Cellular
  - One of the 10th biggest cellular player worldwide by equity customers (21 mill 2000E). 1st in Spain, the 3 Brazilian regions, Peru and Chile; 2nd in Argentina and Mexico

- **Telefónica Data**

- **Terra Lycos Internet**

- **Otros**
  - TPI (Directories)
  - Telefónica Media
  - Katalyx (B2B)
  - Atento (Call centres)
  - Emergia (Infrastructure provider)

- **T. Latinoamericana**
  - Fixed telephony

- **Fixed telephony**

- **Cellular**

- **DATA/IP**

- **INTERNET**

- **Equity customers as of September**
Public tenders and Carve out strategy

- Equity funded acquisitions to get full control of Latam operations, Endemol and Lycos

- Carve out process of mobile, data, internet and directories assets to build up global business lines (complete closing May 2001)

- Country Shared Services Centers to achieve operating synergies (0.85 bn. US$ expected)

- Unlocking value through spin off / IPO strategy

Accretive impact in EPS and CF in 2000 and 2001
- Strengthening financial profile
- Creating acquisition currencies
- High potential for synergies
Active in consolidation through acquisitions and partnership

- From minority interest to 85%-95% economic interest
- From 6th to 3rd European fixed line operator player
- Among the first 10 cellular operators worldwide

- First independent media content provider
- From 1st Spanish Internet player to 3rd worldwide Internet player
- 2nd largest IP network in the 1st European market (Germany)
- 1st Pan-regional Latin American player by number of customers
- 1st shareholder with a 4.9% economic interest
- Partnership for UMTS development in key European markets. Top two European Wireless data operators
### Equity Ratio (1) change p.p. Rating Acq.Currencies

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Telefónica</td>
<td>37.1</td>
<td>+13.5</td>
<td>A+/A2</td>
<td>4</td>
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<tr>
<td>Deutsche Telecom</td>
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<td>2</td>
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<td>BT</td>
<td>34.3</td>
<td>-19.1</td>
<td>A/A2</td>
<td>1</td>
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<td>Telecom Italia</td>
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<td>+11.0</td>
<td>BBB/BBB(*)</td>
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<tr>
<td>KPN</td>
<td>23.5</td>
<td>-12.0</td>
<td>A-/A3</td>
<td>2</td>
</tr>
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</table>

(1) Equity Ratio: Net debt/ Total Liabilities. Data as of June 2000

(*) Rating for Tecnos Spa
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Regulation

MAIN REGULATORY ISSUES

Spain

- Unbundled local loop and Access Deficit
- Price Cap Formula
- Flat Rate Products (Internet and Voice)
- Mobile liberalization measures in Spain

Latam

- PCS auctions in Brazil
- Liberalization measures for Telco sector in Argentina
Access Deficit issue still not solved:

**MONTHLY FEE**

<table>
<thead>
<tr>
<th>Year</th>
<th>EU AVER.</th>
<th>PRICE CAP 2001</th>
<th>PRICE CAP 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>9.27€</td>
<td>+1.20€ (+13%)</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>11.4€</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>+1.20€ (+13%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>+1.20€ (+13%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**WHOLE ULL**

<table>
<thead>
<tr>
<th>Year</th>
<th>EU AVER.</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>12.99€</td>
<td>12.62€</td>
<td>12.32€</td>
</tr>
<tr>
<td>2002</td>
<td>14.45€</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Claim for access deficit solution independently of ULL
- EC sent reasoned opinion to Spain on Telefónica´s request regarding tariff rebalancing
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Fixed line business restructuring

→ Lay-off programs

→ Write off (1,322 M€ in 1999) from a 18 bn € asset base in 1997 to 12 bn € in December 1999

→ E-business implementation across organization (Cisco advisory role)

→ Focus on commercial development and first mover initiatives

→ Room for further cost savings after dramatic headcount reduction (outsourcing, Real State, ...)

% Personnel Expenses/Rev. ratio among the best in Europe

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>2000 (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tot.employees</td>
<td>58,127</td>
<td>40,940</td>
</tr>
<tr>
<td>LIS/employee</td>
<td>313.2</td>
<td>485</td>
</tr>
</tbody>
</table>

1999 (*)

- Telefónica: 24%
- Deutsche Telecom: 31%
- France Telecom: 44%
- BT: 67%
- Telecom Italia: 18%
- KPN: 37%

(*) Source: Analyst estimates and Annual Reports
## Fixed line business restructuring

### Latin America

<table>
<thead>
<tr>
<th>Company</th>
<th>Total Employees 1998</th>
<th>Headcount Reduction (employees)</th>
<th>LIS/employees 1999</th>
<th>LIS/employees 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>CTC CHILE</td>
<td>7,519</td>
<td>1,230, 1,253</td>
<td>459</td>
<td>603</td>
</tr>
<tr>
<td>TELESP</td>
<td>18,930</td>
<td>4,344, 386</td>
<td>577</td>
<td>748</td>
</tr>
<tr>
<td>TASA</td>
<td>11,107</td>
<td>567, 556</td>
<td>371</td>
<td>418</td>
</tr>
</tbody>
</table>
Telefónica Media: Restructuring in three business lines

**Free TV & Radio Broadcasting**

- To leverage the successful management & operating model of Antena 3:
  - Programming
  - Diversification:
    - Children programming
    - Cinema advertising
    - Events, telemarketing & New Media.
- To place Onda Cero as one of the top two Spanish radio broadcasters.

**Content**

- Cost control
- To place Endemol as the core centre of Telefonica Media content
- Aggressive approach on convergence & interactive services
- Close co-ordination within Telefonica Group

**Pay TV**

- Pay TV & distribution assets through a new holding company.
- Presence along the whole value chain:
  - Mediapark: thematic channel aggregator
  - Vía Digital: content distributor
  - Hispasat & TSA: distribution & technical platform

**Leadership on Free TV for the Spanish speaking population**

**Powerful content Group**

**To redefine Telefonica Media’s position on Pay TV**
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Outstanding growth on top of macro recovery

Real GDP per capita growth (%) (1)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>-2.0</td>
<td>1.6</td>
<td>1.8</td>
<td>2.4</td>
<td>2.6</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Inflation (%) (2)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>10.0</td>
<td>10.3</td>
<td>8.5</td>
<td>8.2</td>
<td>7.2</td>
<td>6.2</td>
</tr>
</tbody>
</table>

1999-2004 CAGR: -9.1%

Telefónica’s dominant presence in the region (500 mill POPS) to capture this growth

1999-2004 CAGR (1)

- Fixed line customers: 10.6%
- Wireless customers: 29.3%
- Wireless revenues: 27.4%
- Internet penetration: 38%

1Source: Pyramid Research
2Source: Economist Intelligence Unit
Our growth and leadership in Latam make the difference

Growing Latam contribution to TELEFONICA’s Revenues and EBITDA

Leadership in the region

<table>
<thead>
<tr>
<th>MOBILE TELEPHONY (*)</th>
<th>CUSTOMERS</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>TELESUDESTE</td>
<td>2,317</td>
<td>#1</td>
</tr>
<tr>
<td>CRT CELULAR</td>
<td>1,283</td>
<td>#1</td>
</tr>
<tr>
<td>TELELESTE</td>
<td>619</td>
<td>#1</td>
</tr>
<tr>
<td>CTC CELULAR</td>
<td>1,154</td>
<td>#1</td>
</tr>
<tr>
<td>TDP</td>
<td>851</td>
<td>#1</td>
</tr>
<tr>
<td>UNIFON</td>
<td>1,564</td>
<td>#2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FIXED TELEPHONY (*)</th>
<th>LIS (‘000)</th>
<th>RANK</th>
<th>% EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>TELESP</td>
<td>9,786</td>
<td>#1</td>
<td>65%</td>
</tr>
<tr>
<td>TASA</td>
<td>4,259</td>
<td>#1</td>
<td>60%</td>
</tr>
<tr>
<td>CTC</td>
<td>2,661</td>
<td>#1</td>
<td>53%</td>
</tr>
<tr>
<td>TDP</td>
<td>1,720</td>
<td>#1</td>
<td>68%</td>
</tr>
</tbody>
</table>

(*) Data as of September 00s
Telefónica’s Broadband Strategy

INTERNET: High speed access today

CONVERGENCE (ISPs+TSPs)

- Interactive TV (ITV) + Internet

MULTIMEDIA

Short term video offer

ADSL platform

Goal: 1 million ADSL customer in 2002/2003 in Spain

- 4/5 Mbps good enough to offer video & TV with current quality
- Multimedia offer available for 8 million households

% Passed households

- 100%
- 74%
- 68%
- 53%

Installed plant capacity

- 64 Kbps
- 2 Mbps
- 4 Mbps
- 6 Mbps

TSP: Television Service Provider
Telefónica´s Broadband Strategy

Telefónica Data

2000 Increasing footprint
- Spain
- Brazil
- Argentina
- Peru
- Chile
- Colombia
- Mexico
- Uruguay
- US
- Italy
- Austria
- Germany

Internet Data Centers
- In service:
  - Madrid
  - Sao Paulo
- Before year end:
  - Santiago
  - Buenos Aires
  - Miami
  - Lima

Key Strategic customers
- AOL
- BBVA
- BSCH
- Iberia
- Terra, ...
- Bradesco
- Banco do Brasil
- Banco de Chile
- HSBC
- Itaú
- Citibank, ...

Commercial alliances
- Microsoft
- IBM
- EDS
- Infonet
- Ariba
- HP
- SAP
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A global wireless leader with a unique footprint

GLOBAL PRESENCE (*)
Global POPS: 380 mm  Global customers: 22.8 mm

EUROPE & MEDITERRANEAN
POPS: 223 mm
Customers: 13.2 mm

LATAM
POPS: 157 mm
Customers: 8.4 mm

• SPAIN: the best performing European incumbent with an increasing gap relative to second Spanish operator (Vodafone)
• LATAM: #1 pan-regional operator, only one present in the 3 key markets: Brazil, Mexico and Argentina
• EUROPE: Rapid European expansion through UMTS, leverage on Telefónica presence, financial strength and multimedia capacity

• Managed customers as of September 00

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T. Móviles UMTS Strategy: Assuring future growth

- Leverage on strong cash flows from Spain and Latin America to develop UMTS strategy
  - First mover advantage
  - Less cash flow impact in short-medium term

Cash flows

TEM with UMTS
TEM without UMTS

Time

ARPU

Estimated
ARPU: 60-80€
Current ARPU: 34-38€

Turning point 2001-2002

Source: Telefonica

Source: Telefonica

2000
2010 (E)

E-commerce & advertising
Messaging
Information services
Internet Browsing
Multimedia
Video Telephony
Voice services

Telefonica

Telefonica S.A.        www.telefonica.com
T. Móviles UMTS Strategy: Key to success

→ Proven track record in developing new markets and businesses.

→ Leadership in the development of Data transmission via mobile platforms:
  – Top ranked European company in volume of SMS.
  – e-moción WISP, Terra Mobile (100% iobox), Movilpago.

→ Superior content through Endemol.

→ Strong presence of Telefónica in Europe: Endemol, iobox, Mediaways,...

→ M-solutions: Cellco in a box.

→ Financial Strength:
  – Commitment to a “A” rating.
  – Latam as a differentiating source of revenues and EBITDA.
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Terra-Lycos merger: a unique global internet player

Global Presence

#1 global platform with presence in 41 countries and leadership in Latin-America, US Hispanics, Canada and Korea

Scale

#3 global Internet company with 91 million unique visitors and over 7 billion page views per month

Focus on profitability

80% revenue growth in 2001
EBITDA positive by Q4 2001

Diversified revenues

Long term revenue mix:
85% Media and 15% Access

Strong cash position

More than $US 3 billion, key to fully exploit expansion opportunities

Wireless opportunity

49% interest of Wireless Internet Portal
Terra Mobile
Industry Leading Revenue Growth

- Revenues from international Joint Ventures
- Terra Lycos Pro-forma Revenues

<table>
<thead>
<tr>
<th>Period</th>
<th>Revenues from international Joint Ventures</th>
<th>Terra Lycos Pro-forma Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>CY 1998</td>
<td>$101m</td>
<td>$97m</td>
</tr>
<tr>
<td>CY 1999</td>
<td>$280m</td>
<td>$300m</td>
</tr>
<tr>
<td>PROJECTED 2000</td>
<td>$586m</td>
<td>$500m</td>
</tr>
<tr>
<td>PROJECTED 2001</td>
<td>$1,100m</td>
<td>$900m</td>
</tr>
</tbody>
</table>

• Over 7 billion page views per month & 5 million access subscribers
• 60 million registered users & 91 million unique visitors
• $3 billion in cash
• Over 3,000 advertising partners
• More than 5,000 stores

Source: Historical results based on Terra Lycos Management Reports. Projected 2000 and 2001 based on Terra Lycos Management Projections
Strategy: Capitalising on Global Convergence

- Providing Access
- Aggregating Audience
- Offering Rich Content
- Monetizing Traffic

- Fixed Lines
- Wireless
- Web

- Telefónica Content
- Bertelsmann Content

Media Revenue
- Advertising
- Commerce
- Direct marketing

Access Revenue
- Subscription fees
- Value added services
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Telefónica’s sound Financial Policy

- Funding with equity during 2000 in Telefónica Group: over 41 bn€
- New acquisition currency: T. Móviles
- Non recourse financing for UMTS: 1.7 bn €
- EBITDA accretive transactions
- Debt maturing in 2001 is fully refinanced
- Holding structure with enhanced access to operating cash flow through internal loans
- Latin American EBITDA diversification across business and countries makes it more stable than that of some European incumbents
Financial Profile above European peers

**EBITDA (billion €)**

<table>
<thead>
<tr>
<th>Company</th>
<th>EBITDA</th>
<th>Latin American EBITDA</th>
<th>Ex-Latin American EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Tel</td>
<td>15.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France Tel</td>
<td>10.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BT</td>
<td>9.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telefonica</td>
<td>11.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>24</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**EBITDA/Net Debt**

<table>
<thead>
<tr>
<th>Company</th>
<th>EBITDA/Net Debt</th>
<th>Latin American EBITDA</th>
<th>Ex-Latin American EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Tel</td>
<td>27.8%</td>
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</tr>
<tr>
<td>France Tel</td>
<td>26.5%</td>
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<td>BT</td>
<td>24.2%</td>
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</tr>
<tr>
<td>Telefonica</td>
<td>41.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>36.8%</td>
<td></td>
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</tbody>
</table>

**Oper. Cash Flow/Net Debt**

<table>
<thead>
<tr>
<th>Company</th>
<th>Oper. Cash Flow/Net Debt</th>
<th>Latin American EBITDA</th>
<th>Ex-Latin American EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Tel</td>
<td>27.1</td>
<td></td>
<td></td>
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<tr>
<td>France Tel</td>
<td>24.1</td>
<td></td>
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<tr>
<td>BT</td>
<td>17.1</td>
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<tr>
<td>Telefonica</td>
<td>39.3</td>
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<tr>
<td>AT&amp;T</td>
<td>26.1</td>
<td></td>
<td></td>
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</table>

**Net Debt/Market Cap**

<table>
<thead>
<tr>
<th>Company</th>
<th>Net Debt/Market Cap</th>
<th>Latin American EBITDA</th>
<th>Ex-Latin American EBITDA</th>
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<tbody>
<tr>
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<tr>
<td>France Tel</td>
<td>37.4</td>
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<tr>
<td>BT</td>
<td>67.8</td>
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<tr>
<td>Telefonica</td>
<td>37.8</td>
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</tr>
<tr>
<td>AT&amp;T</td>
<td>53.3</td>
<td></td>
<td></td>
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</tbody>
</table>

Source: analyst estimates
Strong financial situation

→ Strong evolution of operating cash flow expected during the next 5 years

Million €

<table>
<thead>
<tr>
<th>Year</th>
<th>CAPEX</th>
<th>Operating CF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>4,400</td>
<td>6,550</td>
</tr>
<tr>
<td>1999</td>
<td>7,079</td>
<td>11,332</td>
</tr>
<tr>
<td>2000 (E)</td>
<td>8,803</td>
<td>11,978</td>
</tr>
</tbody>
</table>

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Conclusion

→ Segregation to enhance accountability amongst the different business lines

→ Direct access to customers to provide a competitive position in the broadband strategy

→ UMTS ensures a valuable option in 200 million pops UMTS market

→ Telefónica Media to become a differential asset in the sector

→ Regulation is a key priority for management

→ Further IPOs based on strategic opportunity to unlock value.

→ Leverage on financial flexibility and diversification to ensure a predominant position in all business lines

→ Ready to face a potential acceleration of sector consolidation because of our financial strength and new organization