Fernando Abril-Martorell
COO
Telefónica Group

2001 Global Communications Investor Conference
Merrill Lynch
New York, March 13th 2001
A VALUE GROWTH COMPANY

Solid value based on fundamentals: large client base, strong operational skills, unmatched intangibles, balanced and flexible business structure

Superior EBITDA and strong financial position

Addressing major open issues: UMTS, Regulation, Acquisitions

Management priorities that translate into superior earnings growth
A MARKET WITH MORE THAN 500 MILLION POTENTIAL CUSTOMERS...

- More than 65 million customers currently being served
- Positive growth outlook
- Strong cultural and economic links

**MEXICO**
- **Wireless**:
  - Bajacel: 100%
  - Movitel: 90%
  - Norcel: 100%
  - Cedetel: 100%
- **Internet**:
  - Access: n° 2
  - Portal: n° 1

**VENEZUELA**
- **Wireline**:
  - CANTV 6.4%

**PERU**
- **Wireline**:
  - T de Perú: 93.2%
- **Wireless**:
  - TdPerú: 91%
- **Internet**:
  - Access: n° 1
  - Portal: n° 1

**BRAZIL**
- **Wireline**:
  - TeleSP 86.6%
- **Wireless**:
  - Teleleste Cel: 10.8%
  - TeleSudeste: 81.6%
  - CRT 43.4%
- **Internet**:
  - Access: nº 2
  - Portal: nº 2

**CHILE**
- **Wireline and wireless**:
  - CTC: 43.6%
- **Internet**:
  - Access: nº 1
  - Portal: nº 1

**ARGENTINA**
- **Wireline**:
  - TASA: 97.9%
- **Wireless**:
  - TASA Móviles 96%
- **Internet**:
  - Portal: nº 3

**SPAIN**
- **Wireline**:
  - TdE: 100%
- **Wireless**:
  - TME
- **Internet**:
  - Access nº 1
  - Portal: nº 1
...WITH GROWTH POTENTIAL

<table>
<thead>
<tr>
<th>GDP Growth (%)</th>
<th>2000</th>
<th>2001</th>
<th>2002-2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>4.9</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>EURO</td>
<td>3.4</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Spain</td>
<td>4.1</td>
<td>3.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.2</td>
<td>4.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Argentina</td>
<td>-0.2</td>
<td>2.9</td>
<td>4.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>6.9</td>
<td>4.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Chile</td>
<td>5.4</td>
<td>5.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Peru</td>
<td>4.0</td>
<td>2.5</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: Telefónica estimates; OVUM; Pyramid; Forrester; IDC; US Census Bureau
LATIN AMERICA REMAINS A LARGE GROWTH OPPORTUNITY
USD billion

Telecoms market growth opportunity 2001-2005
Latin America*

Telecoms market current size 2000 Spain

* Current GDP Latam approx. 1,790 USD billion x 34% GDP growth in 5 years x 4% of GDP in telecoms
Source: IDC; Dataquest; WEFA-WMM
EVERY GROWTH PROJECT MUST BE BASED ON CLIENTS...

Dimensions of growth

- Growth in customer base
- Growth in usage of current services
- Growth in new services
AND TELEFONICA IS UNIQUELY POSITIONED: STRONG GROWTH IN OUR CUSTOMER BASE AND EXCELLENT PROSPECTS

Managed fixed clients (millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.8%</td>
<td>35.8</td>
<td>39.7</td>
</tr>
</tbody>
</table>

Managed cellular clients (millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.5</td>
<td>23.0</td>
<td></td>
</tr>
</tbody>
</table>

Internet access clients (millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3</td>
<td>6.1</td>
<td></td>
</tr>
</tbody>
</table>

2000 penetration

<table>
<thead>
<tr>
<th>Region</th>
<th>LatAm</th>
<th>USA</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireline penetration</td>
<td>13%</td>
<td>68%</td>
<td>61%</td>
</tr>
<tr>
<td>Wireless penetration</td>
<td>13%</td>
<td>41%</td>
<td>63%</td>
</tr>
<tr>
<td>Internet penetration</td>
<td>3%</td>
<td>50%</td>
<td>23%</td>
</tr>
</tbody>
</table>

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WE HAVE ACHIEVED STRONG OPERATIONAL SKILLS...
Productivity

Europe

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity</td>
<td>180</td>
<td>260</td>
<td>340</td>
<td>420</td>
<td>500</td>
</tr>
</tbody>
</table>

Latam

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity</td>
<td>493</td>
<td>362</td>
<td>262</td>
<td>248</td>
<td>238</td>
</tr>
</tbody>
</table>

* As of June 2000
** As of July 2000
Source: Telefónica

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…AND A STRONG COMPETITIVE POSITION

93.7% combined market share in wireline operations

50.4% combined market share in wireless operations

90% total market share of corporate customers where we operate as incumbents
## A SUCCESSFUL TRACK RECORD OF “TURN AROUNDS”

<table>
<thead>
<tr>
<th>Company</th>
<th>From date of acquisition</th>
<th>To date</th>
<th>LIS (‘000)</th>
<th>Number of lines/employee</th>
<th>EBITDA/revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>TELESP (acquired Aug. 98)</td>
<td>6,407</td>
<td>10,596</td>
<td>338</td>
<td>790</td>
<td>58%</td>
</tr>
<tr>
<td>TASA (acquired Nov. 90)</td>
<td>1,696</td>
<td>4,327</td>
<td>78</td>
<td>408</td>
<td>38%</td>
</tr>
</tbody>
</table>
UNMATCHED INTANGIBLES

Knowledge
- Market knowledge
- Operational knowledge
- Successfully applied in different geographies

Brand
- Strong image, high awareness everywhere
- One umbrella brand in natural markets

Reputation
- Credibility
- Recognized execution capabilities

Relationships
- Government, regulatory bodies, administrations
- Corporate distribution, suppliers

Talent
- Competent, experienced and action oriented management team

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**TELEFÓNICA HAS A BALANCED BUSINESS STRUCTURE...**

<table>
<thead>
<tr>
<th>BUSINESS</th>
<th>TELEFÓNICA’S POSITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic service</td>
<td><img src="image" alt="Telefónica" /></td>
</tr>
<tr>
<td></td>
<td>Wireline in Spain</td>
</tr>
<tr>
<td></td>
<td>Wireline in Latam</td>
</tr>
<tr>
<td>Mobility</td>
<td><img src="image" alt="Telefónica" /></td>
</tr>
<tr>
<td></td>
<td>Móviles</td>
</tr>
<tr>
<td>Broadband</td>
<td><img src="image" alt="Telefónica" /></td>
</tr>
<tr>
<td></td>
<td>Wireline in Spain</td>
</tr>
<tr>
<td></td>
<td>Wireline in Latam</td>
</tr>
<tr>
<td>Internet</td>
<td><img src="image" alt="Terra lycos" /></td>
</tr>
<tr>
<td></td>
<td>Data</td>
</tr>
<tr>
<td></td>
<td><img src="image" alt="Telefónica" /></td>
</tr>
<tr>
<td></td>
<td><img src="image" alt="TPI" /></td>
</tr>
<tr>
<td>Content</td>
<td><img src="image" alt="Telefónica" /></td>
</tr>
<tr>
<td></td>
<td>Media</td>
</tr>
<tr>
<td></td>
<td><img src="image" alt="Terra lycos" /></td>
</tr>
<tr>
<td></td>
<td><img src="image" alt="TPI" /></td>
</tr>
</tbody>
</table>

- Large, addressable client base: >500 M in our core markets + 300M elsewhere
- Broad offering provides flexibility to better serve customer demands

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... AND A FLEXIBLE ORGANIZATION

- Natural owner of the businesses
- Operating flexibility to better serve customer demands
- Increased management accountability
- High potential for capturing synergies
- Not considering pure spin-offs
- Further IPO’s based on strategic opportunities to unlock value

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Delivering results
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Management priorities that translate into superior earnings growth
TELEFONICA ACHIEVED STRONG PERFORMANCE IN YEAR 2000...
2000 Financial Highlights

<table>
<thead>
<tr>
<th>Million</th>
<th>2000</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (Euro)</td>
<td>28,485.5</td>
<td>24.1</td>
</tr>
<tr>
<td>EBITDA (Euro)</td>
<td>11,918.8</td>
<td>9.5</td>
</tr>
<tr>
<td>Net income (Euro)</td>
<td>2,504.8</td>
<td>38.8</td>
</tr>
<tr>
<td>EPS (Euro)</td>
<td>0.67</td>
<td>18.5</td>
</tr>
<tr>
<td>Wireline customers</td>
<td>42.3</td>
<td>10.1</td>
</tr>
<tr>
<td>Wireless customers</td>
<td>24.9</td>
<td>48.9</td>
</tr>
<tr>
<td>Internet access customers</td>
<td>6.1</td>
<td>370.0</td>
</tr>
</tbody>
</table>
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Euro 12 Bn. EBITDA 2000


Euro 87 Bn. Market Cap. 5/03/2001

… with full control and access to the highest diversified cash flow in the industry.
A MILESTONE YEAR: ASSET GROWTH....

Consolidated Net Assets (Euro Mill.) YoY growth: + 36.2%
## A value growth company: Delivering results

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### ... WHILE PRESERVING A STRONG BALANCE SHEET

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Debt</td>
<td>20,472</td>
<td>26,951</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>10,614</td>
<td>9,330</td>
</tr>
<tr>
<td>Shareholders’ Equity</td>
<td>16,658</td>
<td>28,762</td>
</tr>
<tr>
<td><strong>Total Capital Employed</strong></td>
<td>47,744</td>
<td>65,043</td>
</tr>
<tr>
<td>Net Debt / Total Capital Employed</td>
<td>42.9%</td>
<td>41.4%</td>
</tr>
<tr>
<td>Net Debt / EBITDA (x)</td>
<td>1.9</td>
<td>2.3</td>
</tr>
<tr>
<td>EBITDA / Net financial expenses (x)</td>
<td>6.1</td>
<td>6.4</td>
</tr>
</tbody>
</table>
WITH A CLEAR FINANCIAL STRATEGY & TIMELY EXECUTION

- Equity funding
- Full access to LATAM’s cash flows
- Optimising WACC and credit rating
- Financial flexibility
- Enhancing stability of a growing cash flow
- Efficiency and transparency in capital allocation
...WHICH HAS POSITIONED TELEFONICA AHEAD OF ITS PEERS

- Equity-funded acquisitions (Euro 30.4 bn in 2000)
- New organization optimizes cost of capital

<table>
<thead>
<tr>
<th></th>
<th>Net debt/EBITDA</th>
<th>Net debt (Euro Bn)</th>
<th>EBITDA (Euro Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telefónica</td>
<td>2.4</td>
<td>26.9</td>
<td>12.0</td>
</tr>
<tr>
<td>Deutsche Telekom</td>
<td>4.5</td>
<td>65.3</td>
<td>14.5</td>
</tr>
<tr>
<td>France Telecom</td>
<td>5.2</td>
<td>56.5</td>
<td>10.9</td>
</tr>
<tr>
<td>British Telecom</td>
<td>4.7</td>
<td>47.0</td>
<td>10.1</td>
</tr>
<tr>
<td>KPN</td>
<td>7.1</td>
<td>23.4</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Analysts consensus estimates
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RATING STABILITY
Evolution of ratings (S&P)
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UMTS IN GERMANY

To date, we have not earned investors’ credibility

We are working hard to deliver

1. Customers from day 1
   • We are emphasizing the commercial front: negotiating with potential partners, exploring options

2. An efficient network
   • Negotiating shared infrastructure arrangements and roaming and interconnection agreements

3. An effective organization
   • CEO and management team appointed. Remaining ramp-up process on track

• We remain confident that there is an opportunity for value creation in Germany, the market with the largest growth potential in Europe
• We commit to update you on our progress
OUR REGULATORY APPROACH

- **First objective:** maintain open communication and active dialog with regulators in every country where we operate

- **Spain:**
  - Wireline: last building blocks of regulatory model settled (unbundling of local loop and price cap) and tariff rebalancing will follow
  - Wireless: likely review of unsustainable spectrum fee in light of industrywide implications

- **Brazil:** accelerated compliance with ANATEL objectives as a mean to capture other growth opportunities

- **Argentina and Chile:** We have weathered major regulatory crises. We learned the lessons and we are committed at the highest level to manage situation (ULL, number portability)
ACQUISITIONS AND VENTURES

Selective
Complementing our competitive position

Accretive
Increasing EBITDA

JV with Portugal Telecom in Brazilian mobile market

Acquisition of Motorola’s wireless assets in Mexico

Consolidation at parent level
No to “merger of equals”

Consolidation at Business Line level
Receptive, if strategically complementary

Will not turn our backs to opportunities to absorb underperforming complementary assets
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MANAGEMENT PRIORITIES

1. Continue improving results in consolidated businesses

2. Continue expansion in Latin America

3. Drive developing businesses towards profitability leveraging the Group

4. Continue business building

Capture inter-business and Group synergies

“Achieve sustained superior earnings growth”

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**MANAGEMENT PRIORITIES**

1. **Continue improving results in consolidated businesses**
   - Leverage existing client bases and maximize cash generation short and long term: we cannot fail

2. **Continue the expansion in Latin America**
   - Profit from a natural extension of our leadership

3. **Drive developing businesses towards profitability leveraging the Group**
   - Anticipate break-even leveraging the overall group position

4. **Continue business building**
   - Push current businesses under development and open new options

- **Capture inter-business and Group synergies**
- Manage across businesses
- Assist to and demand strong business performance
- Functional articulation for effectiveness & efficiency
- Shape the development of the group

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A value growth company:
Delivering results
MANAGING KEY PERFORMANCE METRICS
Euro billion, in constant exchange rates. Current business perimeter

**TOP LINE**

- **Cost efficiency**
  - 24% (99), 13-15% (00, 04)
- **Operational excellence**
  - 10% (99), 9-12% (00, 04)
- **Focus on key aspects**
  - Manage customer profitability and market share
  - Marketing effectiveness to enhance usage
  - Cross-selling

**EBITDA**

- **Cost efficiency**
  - 4% (99), 8-12% (00, 04)
- **Operational leverage**
  - 11 (99), 12 (00, 04)
- **Focus on key aspects**
  - Marketing effectiveness to enhance usage
  - Quality

**EBIT* (EBIT excl. goodwill)**

- **Asset turnover**
  - 4.8 (99), 5.0 (00, 04)
- **Focus on key aspects**
  - Capex allocation and control
  - Reducing asset base

* Calculated exc. goodwill

**Focus on key aspects**

- Manage customer profitability and market share
- Marketing effectiveness to enhance usage
- Cross-selling

**Leverage client base**

**Operational excellence**

**Focus on ROCE**

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**Telefónica**

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OUR STRONG FUNDAMENTALS AND SOLID STRATEGIC POSITION PUT US IN A SUPERIOR SITUATION TO CAPTURE PROFITABILITY AND GROWTH

Strong fundamentals
- Large client base
- Strong operational skills
- Unmatched intangibles
- Balanced and flexible business structure
- Solid financial position

Strong strategic position along growth engines
- Internet
- Broadband
- Mobility
- Content

Telefónica is in a good position to simultaneously capture profitability and growth

Current market environment forces management more than ever to focus on key metrics and on delivery of results

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