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COO
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Global Communications Conference
Morgan Stanley Dean Witter
New York, March 29th 2001

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A value growth company: Delivering results

Investor Conference
March 2001, New York.

**A value growth company:
Delivering results**

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A VALUE GROWTH COMPANY

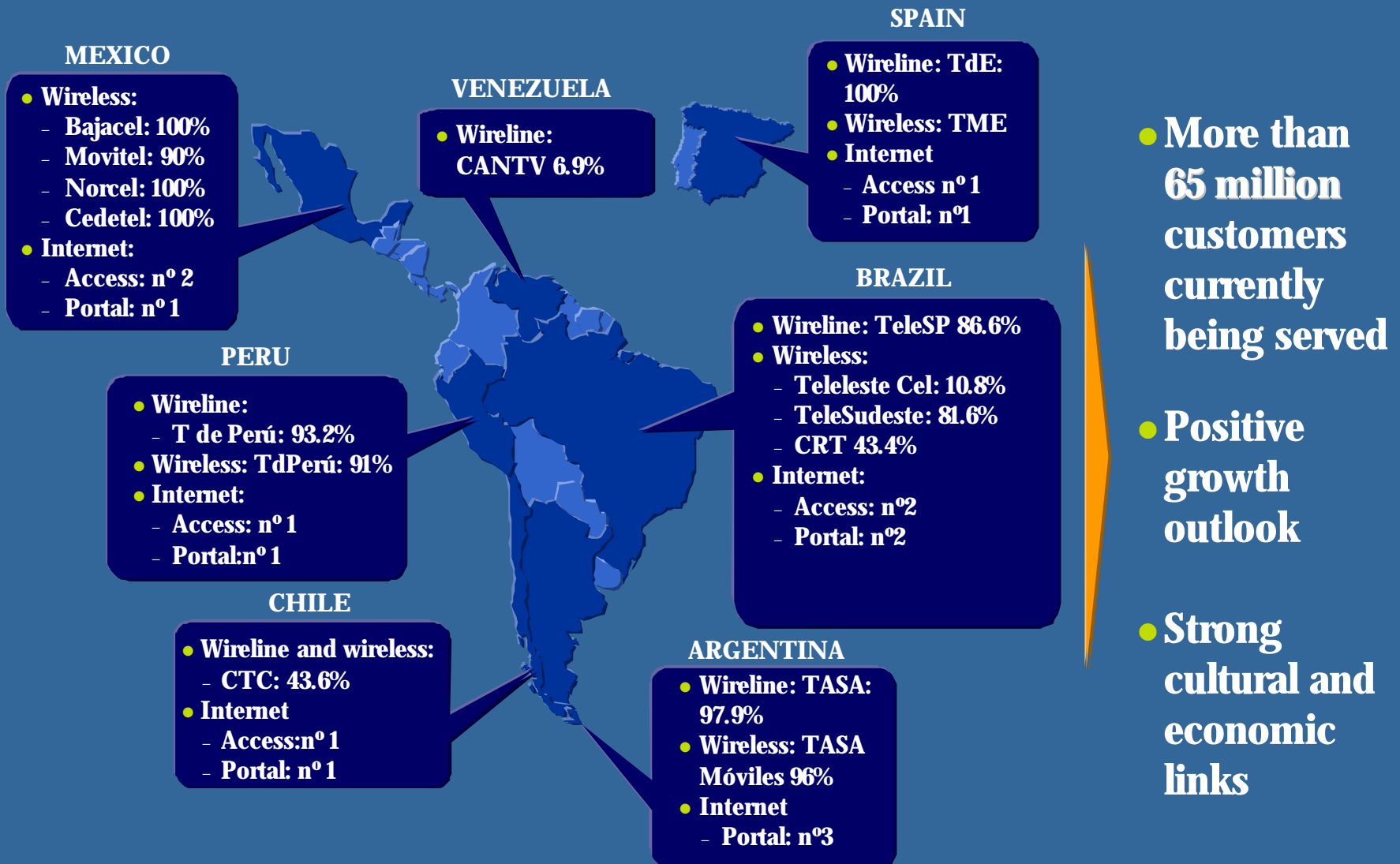
Solid value based on fundamentals: large client base, strong operational skills, unmatched intangibles, balanced and flexible business structure

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**

...WITH GROWTH POTENTIAL

GDP Growth (%)

	2000	2001	Average 2002-2004
USA	4.9	1.8	3.0
EURO	3.4	2.7	3.2
Spain	4.1	3.2	3.4
Brazil	4.2	4.2	4.4
Argentina	-0.2	2.0	3.5
Mexico	6.9	4.5	5.2
Chile	5.4	4.8	6.2
Peru	4.0	2.0	5.0

Source: Telefónica estimates; OVUM; Pyramid; Forrester; IDC; US Census Bureau

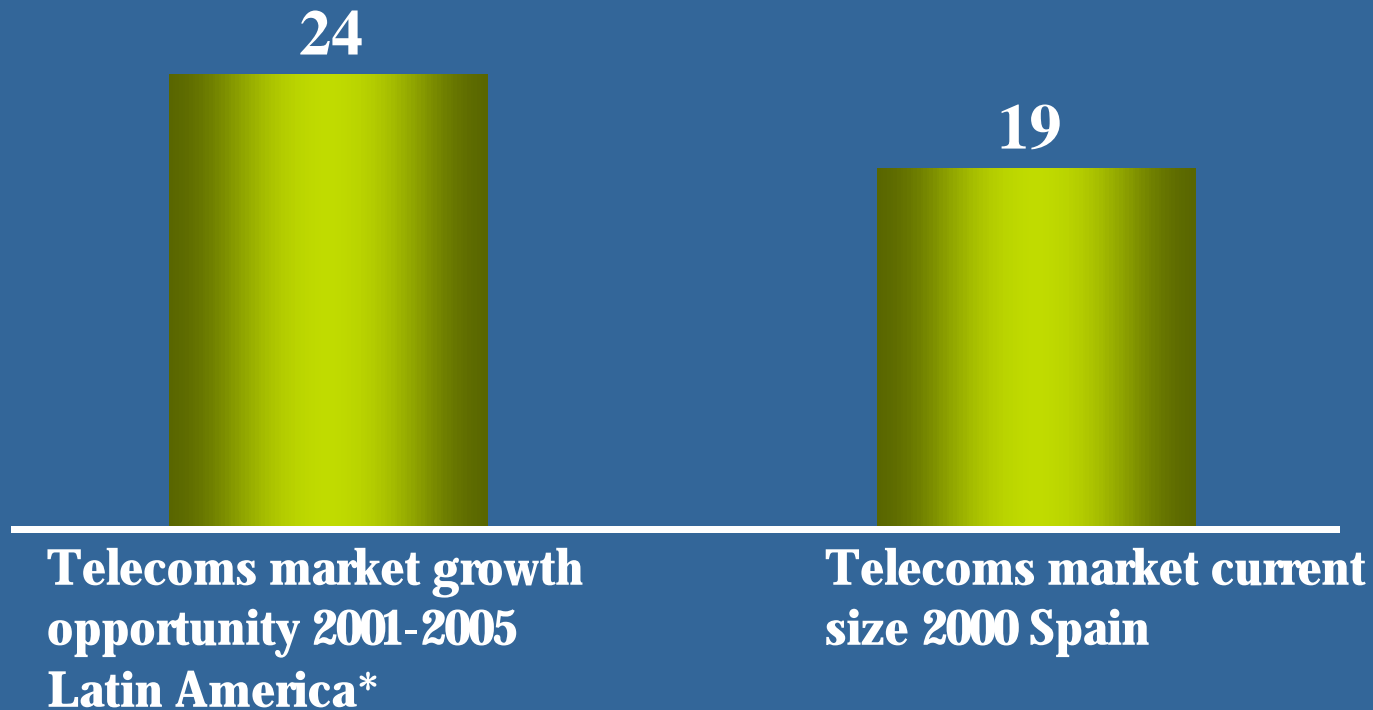
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LATIN AMERICA REMAINS A LARGE GROWTH OPPORTUNITY

USD billion



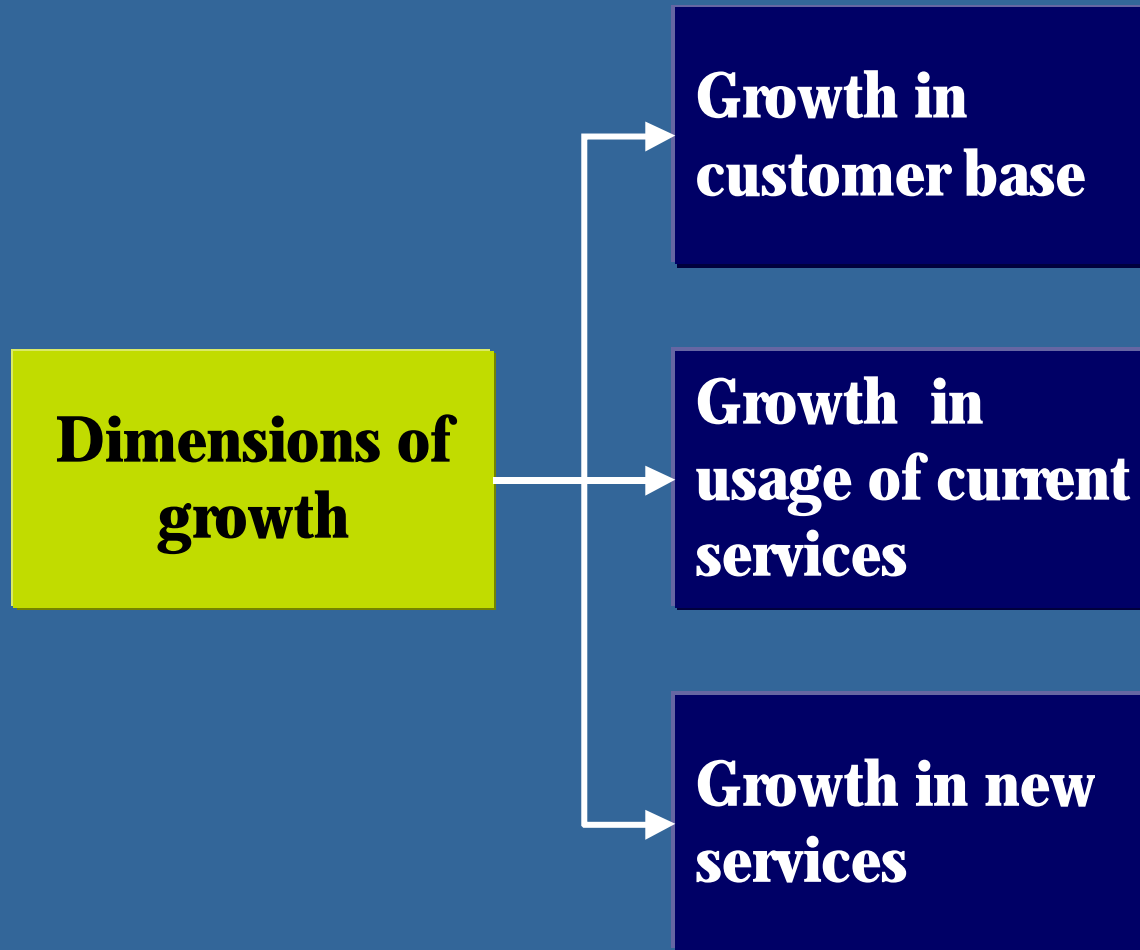
* Current GDP Latam aprox. 1,790 USD billion x 34% GDP growth in 5 years x 4% of GDP in telecoms
Source: IDC; Dataquest; WEFA-WMM

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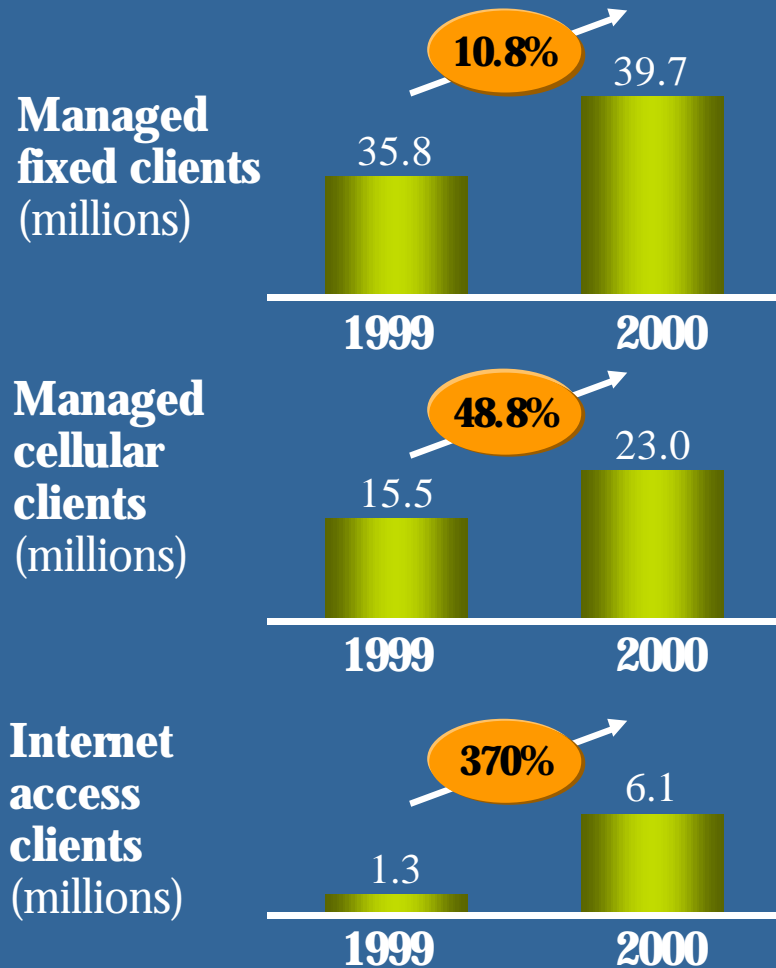
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EVERY GROWTH PROJECT MUST BE BASED ON CLIENTS...



...AND TELEFONICA IS UNIQUELY POSITIONED: STRONG GROWTH IN OUR CUSTOMER BASE AND EXCELLENT PROSPECTS



2000 penetration

	LatAm	USA	Europe
Wireline penetration	13%	68%	61%
Wireless penetration	13%	41%	63%
Internet penetration	3%	50%	23%

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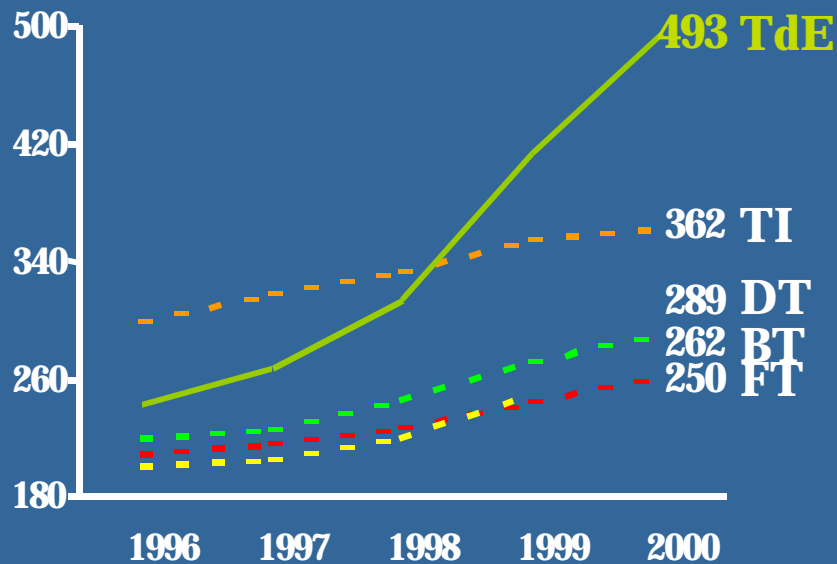
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WE HAVE ACHIEVED STRONG OPERATIONAL SKILLS...

Productivity

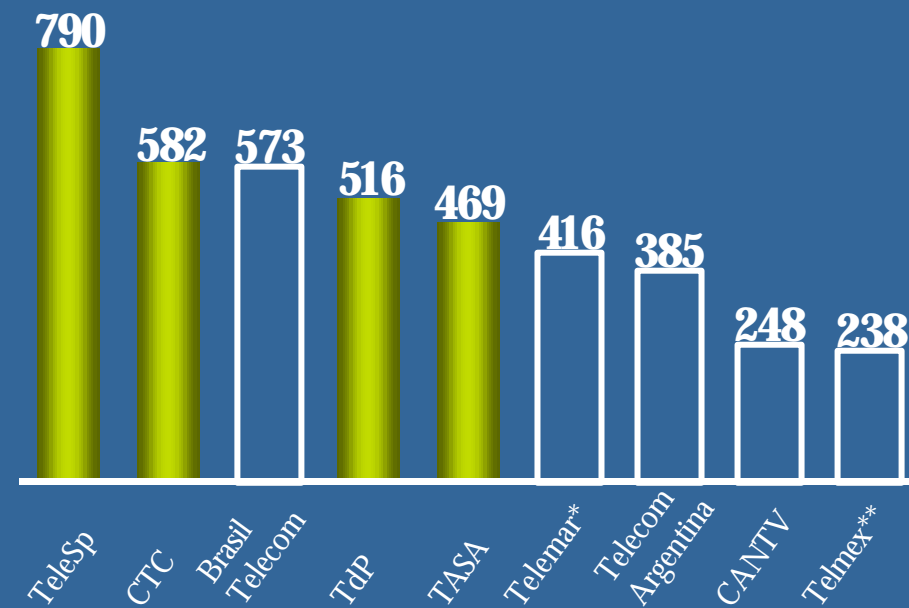
Europe

Lines/employee



Latam

Lines/employee (year 2000)



* 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”

		From date of acquisition	To date
TELESP (acquired Aug. 98)	● LIS ('000)	6,407	10,596
	● Number of lines/employee	338	790
	● EBITDA/revenues	58%	66%
TASA (acquired Nov. 90)	● LIS ('000)	1,696	4,327
	● Number of lines/employee	78	408
	● EBITDA/revenues	38%	60%

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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

TELEFONICA HAS A BALANCED BUSINESS STRUCTURE...

BUSINESS TELEFÓNICA'S POSITION

Basic service					
Mobility					
Broadband					
Internet					
Content					

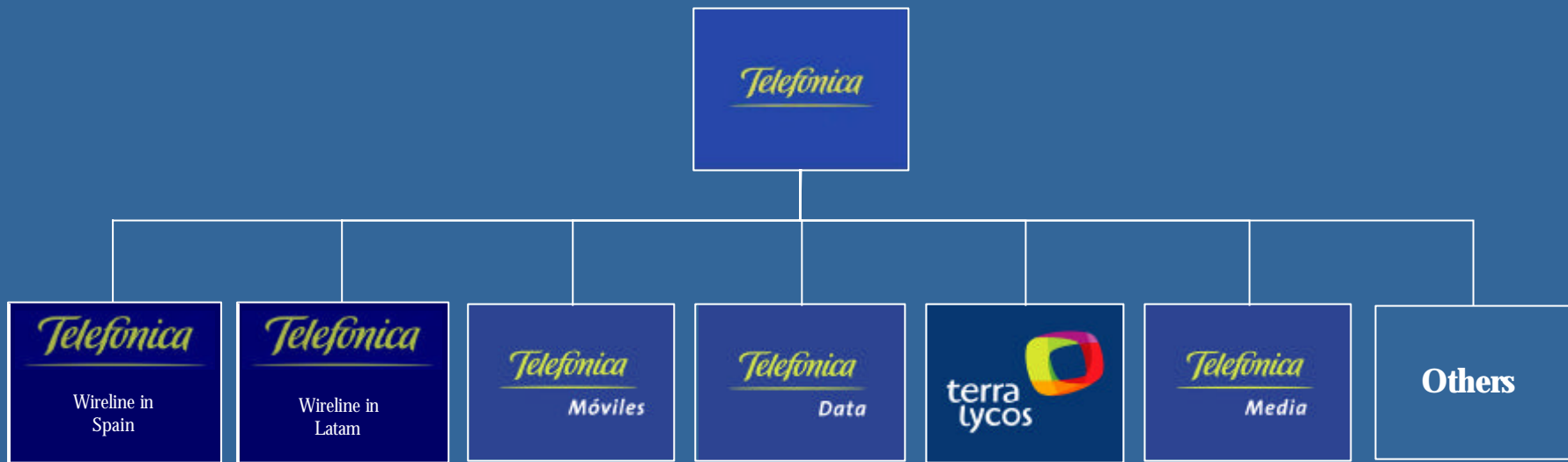
- Large, addressable client base: >500 M in our core markets + 300M elsewhere
- Broad offering provides flexibility to better serve customer demands

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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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TELEFONICA ACHIEVED STRONG PERFORMANCE IN YEAR 2000...

2000 Financial Highlights

Million	2000	% Change
Revenues (Euro)	28,485.5	24.1
EBITDA (Euro)	11,918.8	9.5
Net income (Euro)	2,504.8	38.8
EPS (Euro)	0.67	18.5
Wireline customers	42.3	10.1
Wireless customers	24.9	48.9
Internet access customers	6.1	370.0

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ALONG WITH WELL BALANCED FINANCIALS

**Euro 12 Bn. EBITDA
2000**

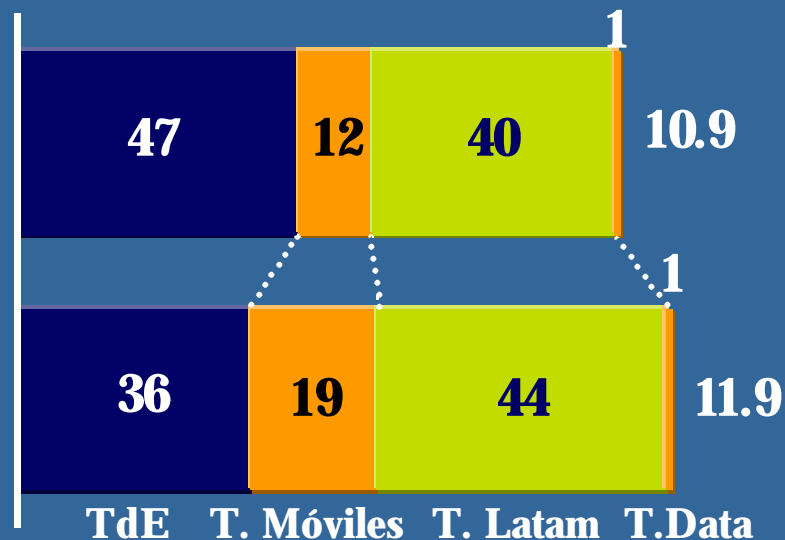
**Euro 26.9 Bn. Net debt
12/2000**

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

... with full control and access to the highest diversified cash flow in the industry

**1999 EBITDA
breakdown**

**2000 EBITDA
breakdown**



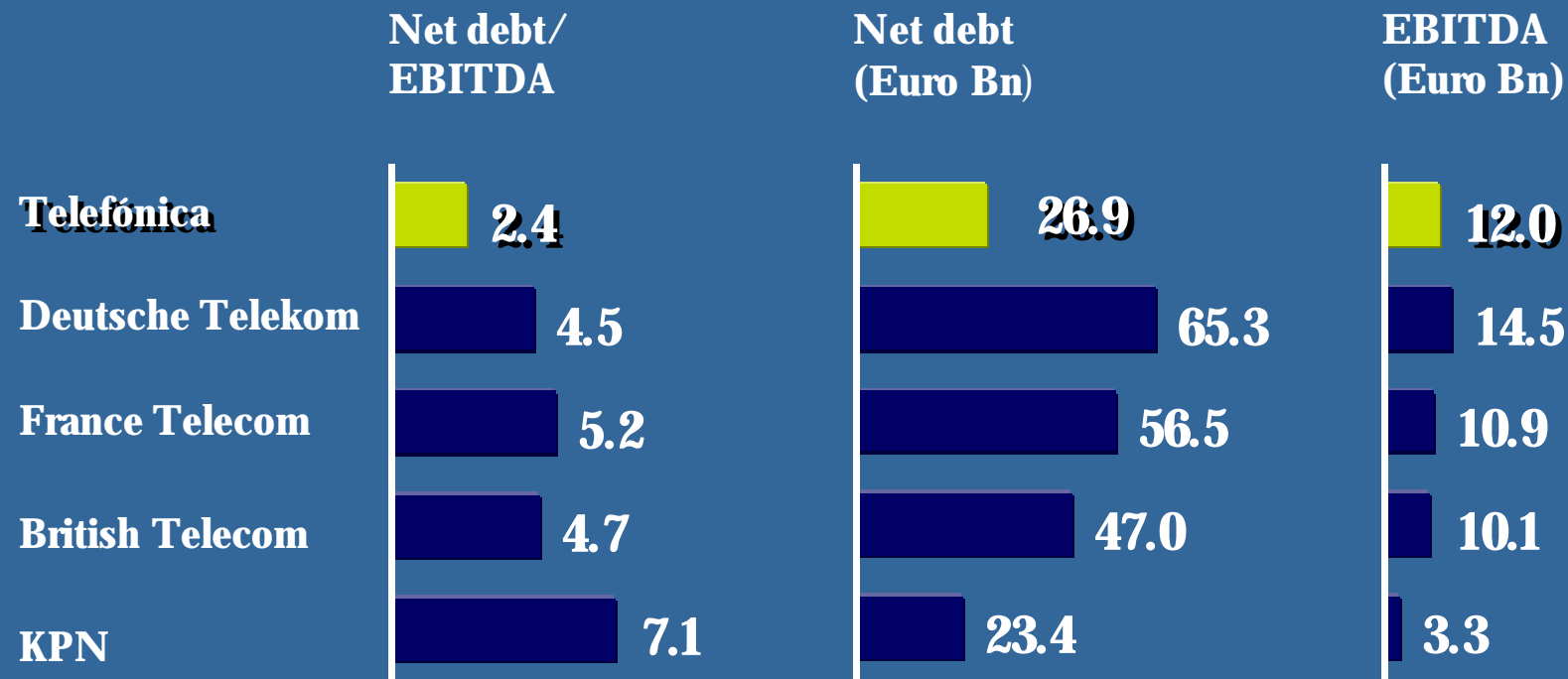
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...WHICH HAS POSITIONED TELEFONICA AHEAD OF ITS PEERS

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



Analysts consensus estimates

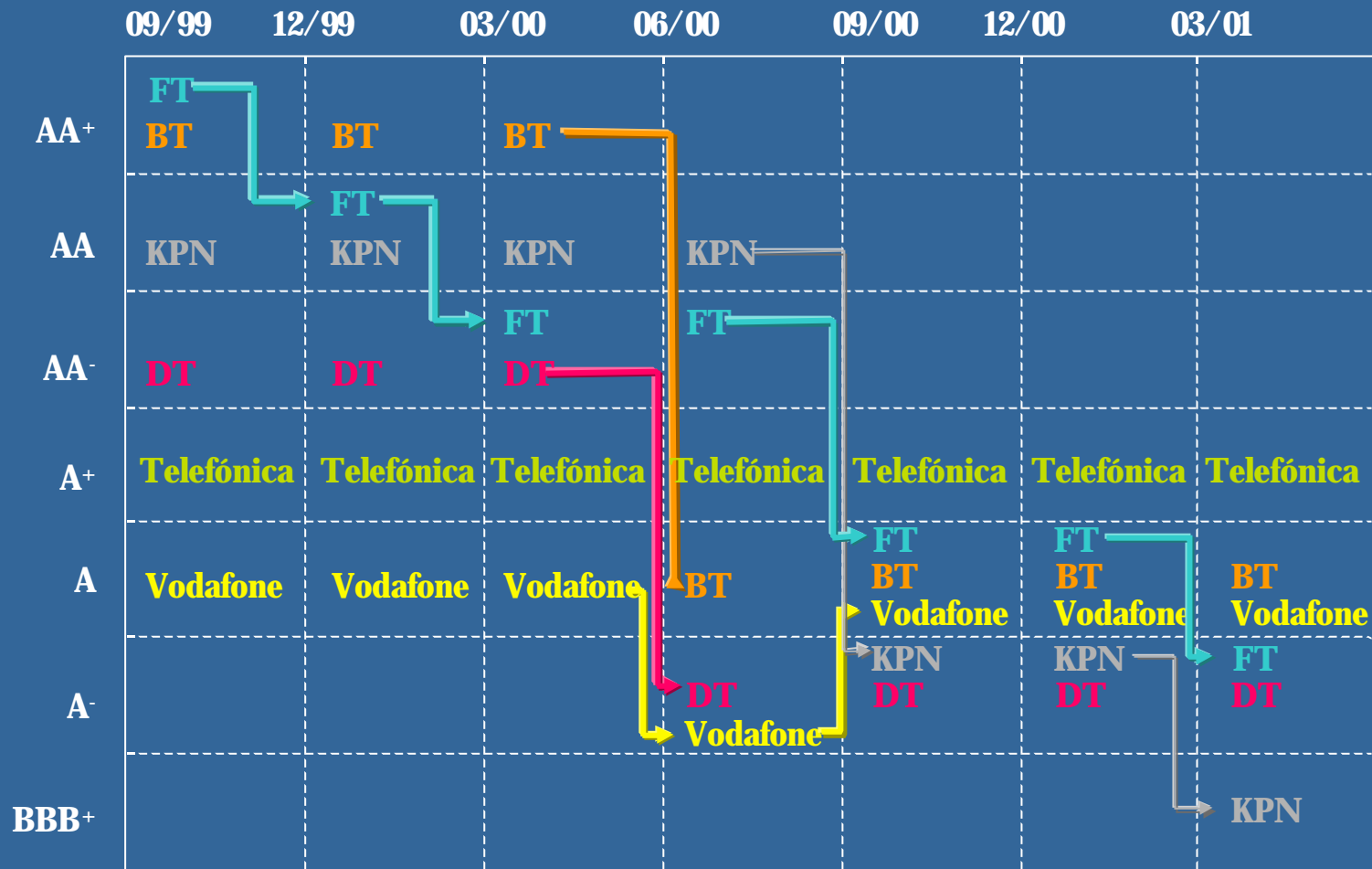
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RATING STABILITY

Evolution of ratings (S&P)



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UMTS IN GERMANY

We are working hard to deliver

To date, we have not earned investors' credibility

- 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

JV with Portugal Telecom in Brazilian mobile market

Accretive

Increasing EBITDA

Acquisition of Motorola's wireless assets in Mexico

Consolidation at parent level

No to "merger of equals"

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

Consolidation at Business Line level

Receptive, if strategically complementary

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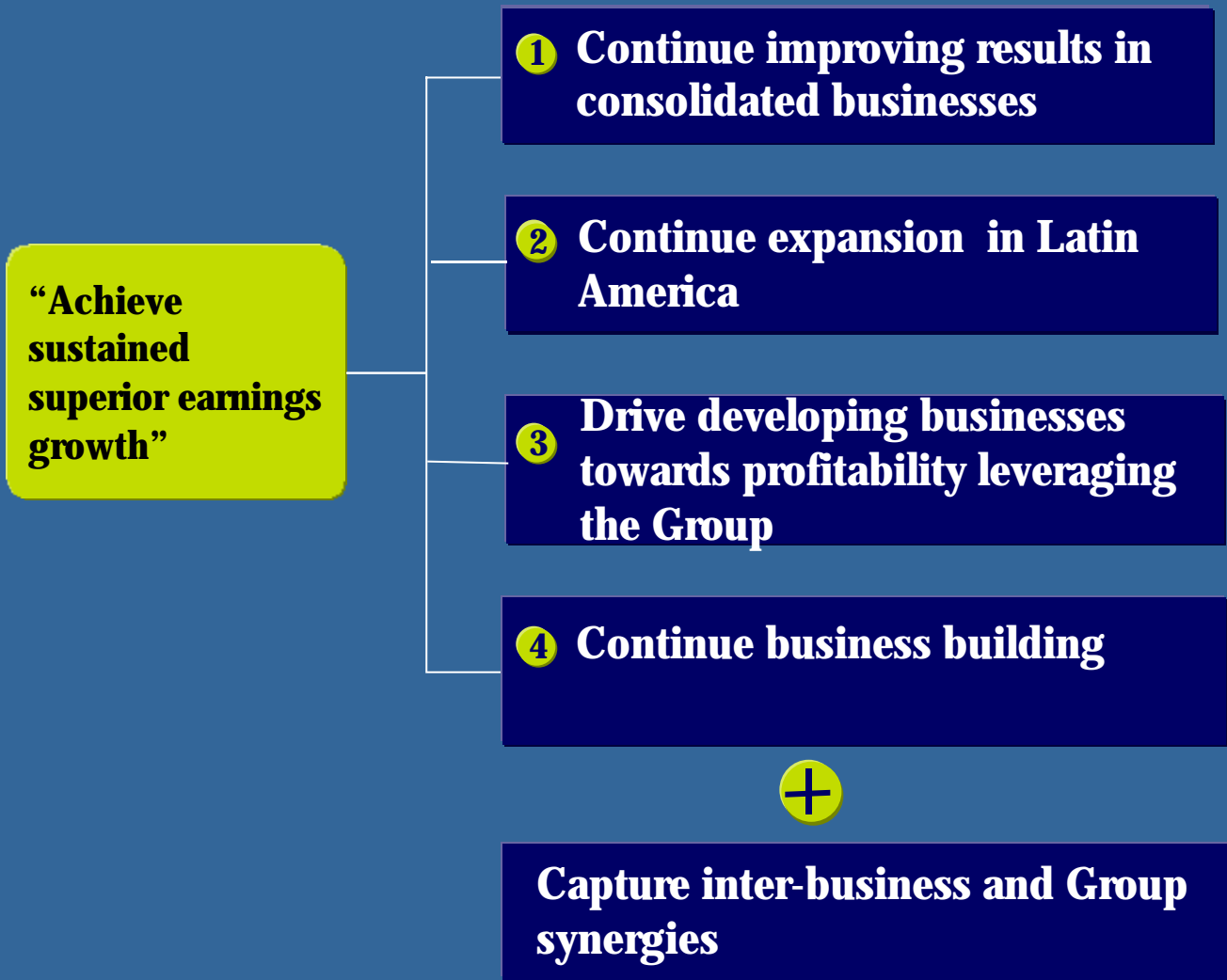
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MANAGEMENT PRIORITIES



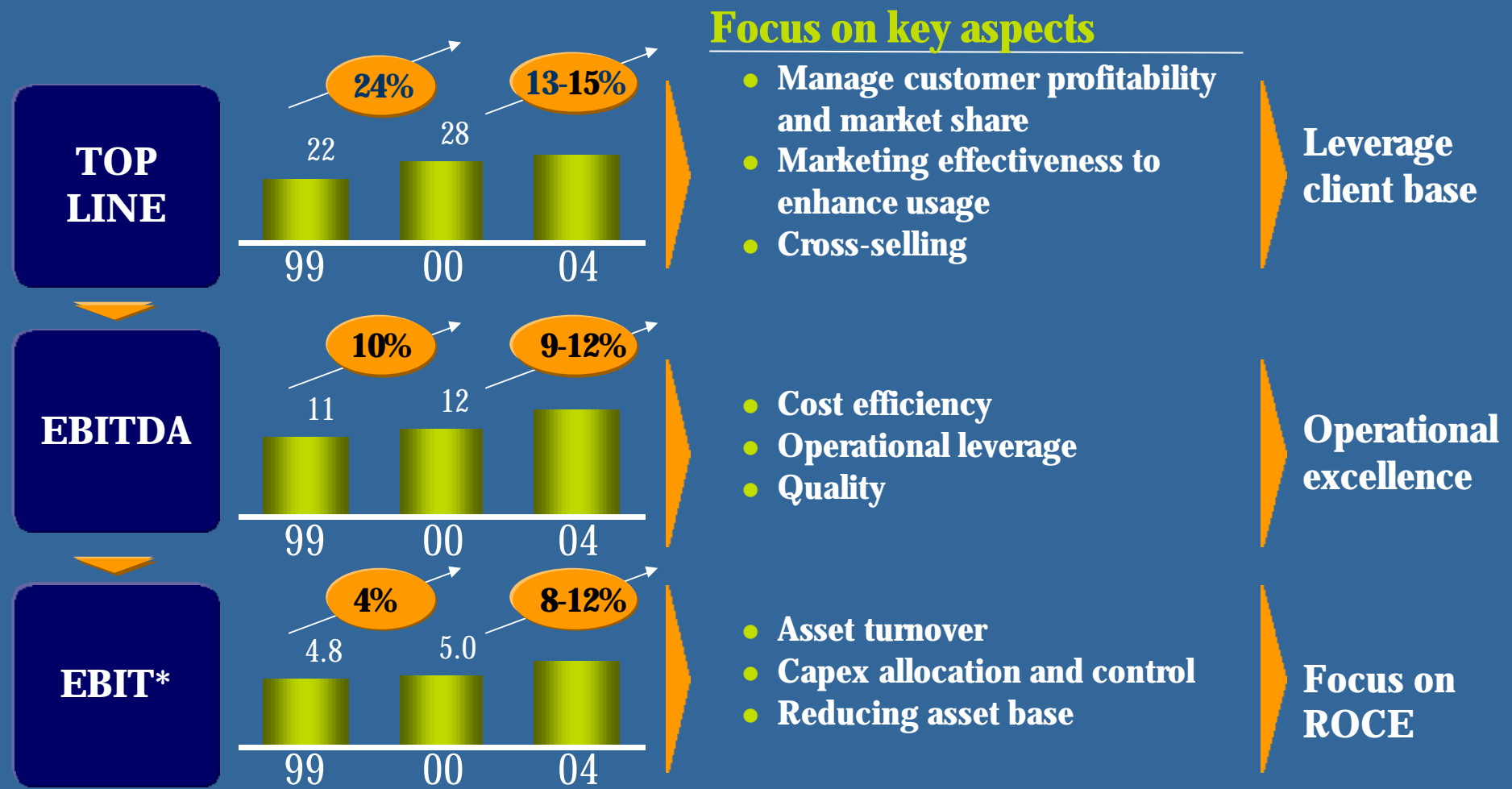
MANAGEMENT PRIORITIES



MANAGING KEY PERFORMANCE METRICS

● CAGR

Euro billion, in constant exchange rates. Current business perimeter



* Calculated exc. goodwill

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