A value growth company: Delivering results
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...

MEXICO
- Wireless:
  - Bajacel: 100%
  - Movitel: 90%
  - Norcel: 100%
  - Cedetel: 100%
- Internet:
  - Access: nº 2
  - Portal: nº 1

PERU
- Wireline:
  - T de Perú: 93.2%
- Wireless:
  - TdPerú: 91%
- Internet:
  - Access: nº 1
  - Portal: nº 1

VENEZUELA
- Wireline: CANTV 6.9%

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

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

- More than 65 million customers currently being served
- Positive growth outlook
- Strong cultural and economic links
### GDP Growth (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2001</th>
<th>Average 2002-2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>4.9</td>
<td>1.8</td>
<td>3.0</td>
</tr>
<tr>
<td>EURO</td>
<td>3.4</td>
<td>2.7</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>2.0</td>
<td>3.5</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>4.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Peru</td>
<td>4.0</td>
<td>2.0</td>
<td>5.0</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

24

19

* 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)

Managed cellular clients (millions)

Internet access clients (millions)

1999

1999

1999

2000

2000

2000

10.8%

48.8%

370%

35.8

15.5

1.3

39.7

23.0

6.1

2000 penetration

2000

LatAm

USA

Europe

Wireline penetration

13%

68%

61%

Wireless penetration

13%

41%

63%

Internet penetration

3%

50%

23%

13%

48.8%
WE HAVE ACHIEVED STRONG OPERATIONAL SKILLS...

Productivity

Europe

Lines/ employee

<table>
<thead>
<tr>
<th>Year</th>
<th>TdE</th>
<th>TI</th>
<th>DT</th>
<th>BT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>180</td>
<td>289</td>
<td>262</td>
<td>250</td>
</tr>
<tr>
<td>1997</td>
<td>248</td>
<td>362</td>
<td>340</td>
<td>320</td>
</tr>
<tr>
<td>1998</td>
<td>320</td>
<td>493</td>
<td>470</td>
<td>450</td>
</tr>
<tr>
<td>1999</td>
<td>416</td>
<td>470</td>
<td>450</td>
<td>430</td>
</tr>
<tr>
<td>2000</td>
<td>493</td>
<td>542</td>
<td>520</td>
<td>500</td>
</tr>
</tbody>
</table>

Latam

Lines/ employee (year 2000)

<table>
<thead>
<tr>
<th>Company</th>
<th>Lines/ employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>TeleSp</td>
<td>790</td>
</tr>
<tr>
<td>CTC</td>
<td>582</td>
</tr>
<tr>
<td>Bresil Telecom</td>
<td>573</td>
</tr>
<tr>
<td>TdP</td>
<td>516</td>
</tr>
<tr>
<td>TASA</td>
<td>469</td>
</tr>
<tr>
<td>Telepar*</td>
<td>416</td>
</tr>
<tr>
<td>Telecom Argentina</td>
<td>385</td>
</tr>
<tr>
<td>CANTV</td>
<td>248</td>
</tr>
<tr>
<td>Telmex*</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></th>
<th>From date of acquisition</th>
<th>To date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TELES P</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(acquired Aug. 98)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of lines/ employee</td>
<td>338</td>
<td>790</td>
</tr>
<tr>
<td>EBITDA/ revenues</td>
<td>58%</td>
<td>66%</td>
</tr>
<tr>
<td><strong>TASA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(acquired Nov. 90)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of lines/ employee</td>
<td>78</td>
<td>408</td>
</tr>
<tr>
<td>EBITDA/ revenues</td>
<td>38%</td>
<td>60%</td>
</tr>
</tbody>
</table>

**A value growth company: Delivering results**
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

A value growth company: Delivering results
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></td>
</tr>
<tr>
<td>Mobility</td>
<td></td>
</tr>
<tr>
<td>Broadband</td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td></td>
</tr>
<tr>
<td>Content</td>
<td></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

A value growth company: Delivering results
... 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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**TELEFÓNICA 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>
ALONG WITH WELL BALANCED FINANCIALS

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

1999 EBITDA breakdown

10.9

47 12 40

TdE T. Móviles T. Latam T.Data

2000 EBITDA breakdown

11.9

36 19 44

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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

<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)

AA
KPN
KPN
KPN
KPN

AA-
DT
DT
DT

A+
Telefónica
Telefónica
Telefónica
Telefónica

A
Vodafone
Vodafone
Vodafone
BT

A-
DT
Vodafone
Vodafone

BBB+
Vodafone
KPN
KPN

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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

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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”

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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**Delivering results**

**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”
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
MANAGING KEY PERFORMANCE METRICS
Euro billion, in constant exchange rates. Current business perimeter

Focus on key aspects
- Manage customer profitability and market share
- Marketing effectiveness to enhance usage
- Cross-selling

Leverage client base

Operational excellence
- Cost efficiency
- Operational leverage
- Quality

Focus on ROCE
- Asset turnover
- Capex allocation and control
- Reducing asset base

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