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CFO
Telefónica Group

A value growth company:
Delivering results

Goldman Sachs CIO Conference
Barcelona, April 5th 2001
Safe Harbour

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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

Management priorities that translate into superior earnings growth

Our Group model enables delivery
A MARKET WITH MORE THAN 500 MILLION POTENTIAL CUSTOMERS...

- **MEXICO**
  - Wireline: Bajacel 100%, Movitel 90%, Norcel 100%, Cedetele 100%
  - Internet: Access n° 2, Portal n° 1

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

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

- **CHILE**
  - Wireline and wireless: CTC 43.6%
  - Internet: Access n° 1, Portal n° 1

- **ARGENTINA**
  - Wireline: TASA 97.9%
  - Wireless: TASA Móviles 96%
  - Internet: Portal n° 3

- **SPAIN**
  - Wireline: TdE 100%
  - Wireless: TME
  - 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 n° 2, Portal n° 1

- **CHILE**
  - Wireline: TASA 97.9%
  - Wireless: TASA Móviles 96%
  - Internet: Portal n° 3

- **ARGENTINA**
  - Wireline: TASA 97.9%
  - Wireless: TASA Móviles 96%
  - Internet: Portal n° 3

- **More than 65 million customers currently being served**

- **Positive growth outlook**

- **Strong cultural and economic links**

*Goldman Sachs CIO Conference April 2001, Barcelona*
## ...WITH GROWTH POTENTIAL

<table>
<thead>
<tr>
<th>GDP Growth (%)</th>
<th>2000</th>
<th>2001</th>
<th>Average 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*

24

Telecoms market current size 2000 Spain

19

* 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

A value growth company: Delivering results
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>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>35.8</td>
<td>39.7</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

 Managed cellular clients (millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15.5</td>
<td>23.0</td>
<td>48.8%</td>
</tr>
</tbody>
</table>

 Internet access clients (millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.3</td>
<td>6.1</td>
<td>370%</td>
</tr>
</tbody>
</table>

2000 penetration

<table>
<thead>
<tr>
<th>Region</th>
<th>LatAm</th>
<th>USA</th>
<th>Europe</th>
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</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>
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</tbody>
</table>

A value growth company: Delivering results
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>
<th>FT</th>
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<tbody>
<tr>
<td>1996</td>
<td>180</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>1997</td>
<td>260</td>
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<td>1998</td>
<td>340</td>
<td></td>
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</tr>
<tr>
<td>1999</td>
<td>420</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>493</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Latam
Lines/employee (year 2000)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TeleSp</td>
<td>582</td>
<td>573</td>
<td>516</td>
<td>469</td>
<td>416</td>
</tr>
<tr>
<td>CTC</td>
<td>582</td>
<td>573</td>
<td>516</td>
<td>469</td>
<td>416</td>
</tr>
<tr>
<td>Brasil Telecom</td>
<td>289</td>
<td>362</td>
<td>289</td>
<td>262</td>
<td>250</td>
</tr>
<tr>
<td>TdP</td>
<td>289</td>
<td>362</td>
<td>289</td>
<td>262</td>
<td>250</td>
</tr>
<tr>
<td>TASA</td>
<td>289</td>
<td>362</td>
<td>289</td>
<td>262</td>
<td>250</td>
</tr>
<tr>
<td>Telenor*</td>
<td>289</td>
<td>362</td>
<td>289</td>
<td>262</td>
<td>250</td>
</tr>
<tr>
<td>Telecom Argentina</td>
<td>289</td>
<td>362</td>
<td>289</td>
<td>262</td>
<td>250</td>
</tr>
<tr>
<td>CANTV</td>
<td>289</td>
<td>362</td>
<td>289</td>
<td>262</td>
<td>250</td>
</tr>
<tr>
<td>Telmex**</td>
<td>289</td>
<td>362</td>
<td>289</td>
<td>262</td>
<td>250</td>
</tr>
</tbody>
</table>

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

A value growth company: Delivering results
...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 value growth company: Delivering results

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

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

- Credibility
- Recognized execution capabilities

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

- Competent, experienced and action oriented management team

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
**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

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

Management priorities that translate into superior earnings growth

Our Group model enables delivery
**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>
A value growth company: Delivering results

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

1999 EBITDA breakdown

- TdE: 47
- T. Móviles: 12
- T. Latam: 40
- T.Data: 1
- Total: 10.9

2000 EBITDA breakdown

- TdE: 36
- T. Móviles: 19
- T. Latam: 44
- T.Data: 1
- Total: 11.9

Euro 12 Bn. EBITDA 2000


Euro 87 Bn. Market Cap. 5/03/2001
...WHICH HAS POSITIONED TELEFÓNICA 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 00 (Euro Bn)</th>
<th>EBITDA 00 (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>4.2</td>
<td>56.4</td>
<td>13.5</td>
</tr>
<tr>
<td>France Telecom</td>
<td>5.6</td>
<td>61.0</td>
<td>10.8</td>
</tr>
<tr>
<td>British Telecom</td>
<td>4.4</td>
<td>42.9</td>
<td>9.7</td>
</tr>
<tr>
<td>KPN</td>
<td>6.4</td>
<td>21.9</td>
<td>3.4</td>
</tr>
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* Company reports and Analysts consensus estimates.
A SOLID FINANCIAL POSITION
Evolution of ratings (S&P)

<table>
<thead>
<tr>
<th></th>
<th>09/99</th>
<th>12/99</th>
<th>03/00</th>
<th>06/00</th>
<th>09/00</th>
<th>12/00</th>
<th>03/01</th>
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<tbody>
<tr>
<td>AA+</td>
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<td>BT</td>
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<tr>
<td>AA</td>
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<tr>
<td>A+</td>
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<td>BBB+</td>
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</tr>
</tbody>
</table>

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April 2001, Barcelona

A value growth company:
Delivering results
LOOKING FOR MORE EFFICIENCY

Expected NPV of USD 850 millions
A value growth company: Delivering results
WHAT’S NEXT

- Solid and well diversified revenue growth
- Reinforcing capital discipline: Capex/Operating Revenue
- Improving asset turnover: Revenue / Capital employed
- Well balanced and growing EBITDA margin: EBITDA / Revenue
- Enhancing Free cash flow margins
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Superior EBITDA and strong financial position

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Our Group model enables delivery
“Achieve sustained superior earnings growth”

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

The management priorities:

- Achieve sustained superior earnings growth
- Continue improving results in consolidated businesses
- Continue expansion in Latin America
- Drive developing businesses towards profitability leveraging the Group
- Continue business building
- Capture inter-business and Group synergies
MANAGEMENT PRIORITIES

“Achieve sustained superior earnings growth”

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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TELEFÓNICA’S GROUP MODEL IS THE KEY TO SIMULTANEOUSLY ACHIEVE PROFITABILITY AND GROWTH

*Our group model...*
- Focused, transparent, accountable complementary Lines of Business operating as good specialists in each business
- Owned by a company, Telefónica, that manages across businesses and articulates the group

*... puts us at an advantage...*
- Allows to lead at a pure play development
- Allows, whenever suitable, to integrate efforts to leverage our client base
- Facilitates new options

*... and we are working continuously to sharpen it*
- Still young structure, started two years ago and boosted after the completion of “Operación Verónica”
- Achieved significant progress in several areas, but working hard to continuously improve

A value growth company: Delivering results
IN THIS MODEL, HIGH VALUE ADDING ACTIVITIES ARE PERFORMED AT GROUP LEVEL

- Manage across businesses
- Assist to and demand strong business performance
- Achieve functional articulation for effectiveness and efficiency
- Shape the development of the group
WE HAVE PROGRESSED SIGNIFICANTLY IN SEVERAL ACTIVITIES TO BE PERFORMED AT GROUP LEVEL AND ARE WORKING HARD TO ADVANCE ON THE REST

Examples

- Manage across businesses
- Assist to and demand strong business performance
- Achieve functional articulation for effectiveness and efficiency
- Architect and shape the development of the group

Examples

- Plan Futurnet to extract maximum potential of broadband across businesses
- Shared distribution channels
- Strategic reviews and budgeting process
- Common management information systems
- Coherent reward schemes
- Lowest cost of funding through centralized management of cash and finance
- Strong brand management
- Development of Shared Service Centers
- Adaptiveness in partnerships/alliances
- Launch of dedicated Real Estate Management Unit

A process of continuous development and improvement

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

A value growth company: Delivering results

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

- Cost efficiency
- Operational leverage
- Quality

- Asset turnover
- Capex allocation and control
- Reducing asset base

* Calculated exc. goodwill

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

**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**

**A value growth company:** Delivering results