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
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:**
  - Teleleste Cel: 10.8%
  - TeleSudeste: 81.6%
  - CRT: 43.4%
- **Internet:**
  - Access: nº 2
  - Portal: nº 1

**VENEZUELA**
- **Wireline:** CANTV 6.9%

**BRAZIL**
- **Wireline:** TeleSP 86.6%
- **Wireless:**
  - Teleleste Cel: 10.8%
  - TeleSudeste: 81.6%
  - CRT: 43.4%
- **Internet:**
  - Access: nº 2
  - Portal: nº 1

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

- More than 67 million customers currently being served
- Positive growth outlook
- Strong cultural and economic links
AND TELEFONICA IS UNIQUELY POSITIONED: STRONG GROWTH IN OUR CUSTOMER BASE AND EXCELLENT PROSPECTS

Managed fixed clients (millions)

<table>
<thead>
<tr>
<th></th>
<th>1Q00</th>
<th>1Q01</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.4%</td>
<td>36.7</td>
<td>40.5</td>
</tr>
</tbody>
</table>

Managed cellular clients (millions)

<table>
<thead>
<tr>
<th></th>
<th>1Q00</th>
<th>1Q01</th>
</tr>
</thead>
<tbody>
<tr>
<td>45.7%</td>
<td>17.4</td>
<td>25.3</td>
</tr>
</tbody>
</table>

Internet access clients (millions)

<table>
<thead>
<tr>
<th></th>
<th>1Q00</th>
<th>1Q01</th>
</tr>
</thead>
<tbody>
<tr>
<td>167.8%</td>
<td>2.6</td>
<td>7.1</td>
</tr>
</tbody>
</table>

2000 penetration

<table>
<thead>
<tr>
<th></th>
<th>USA</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>LatAm</td>
<td>13%</td>
<td>68%</td>
</tr>
<tr>
<td></td>
<td>13%</td>
<td>41%</td>
</tr>
<tr>
<td>3%</td>
<td>50%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Wireline penetration

Wireless penetration

Internet penetration

Wireline penetration

Wireless penetration

Internet penetration

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**Telefonica**
WE HAVE ACHIEVED STRONG OPERATIONAL EFFICIENCIES...

Productivity

Europe

Lines/employee

Latam

Lines/employee (year 2000)

Source: Telefónica
93.7% combined market share in wireline operations

50.4% combined market share in wireless operations

90% total market share of corporate customers in the areas where we operate as incumbents
<table>
<thead>
<tr>
<th>BUSINESS</th>
<th>TELEFÓNICA’S POSITION</th>
</tr>
</thead>
</table>
| Basic service | Telefonica Wireline in Spain  
Telefonica Wireline in Latam |
| Mobility     | Telefonica Moviles 
Emergencia 
Terra Lycos 
Telefonica Media 
Telefonica Data |
| Broadband    | Telefonica 
Telefonica wireline in Spain and Latam 
Terra Lycos 
Telefonica Data |
| Internet     | TPI 
Terra Lycos 
Telefonica Media |

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

As of December 2000

<table>
<thead>
<tr>
<th>Customers (million)</th>
<th>20.3</th>
<th>19.4</th>
<th>23.2</th>
<th>-</th>
<th>6.1</th>
<th>-</th>
<th>0.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues proforma 00 (bn €)</td>
<td>10.2</td>
<td>9.7</td>
<td>7.4</td>
<td>1.2</td>
<td>0.3</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>EBITDA proforma 00 (bn €)</td>
<td>4.5</td>
<td>5.2</td>
<td>2.4</td>
<td>0.1</td>
<td>(0.3)</td>
<td>0.01</td>
<td>0.1</td>
</tr>
</tbody>
</table>
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
## TELEFONICA ACHIEVED STRONG PERFORMANCE IN YEAR 2000 AND 1Q01...

<table>
<thead>
<tr>
<th>Million</th>
<th>2000</th>
<th>% change</th>
<th>1Q01</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (€)</td>
<td>28,485.5</td>
<td>24.1</td>
<td>7,603.3</td>
<td>17.9</td>
</tr>
<tr>
<td>EBITDA (€)</td>
<td>11,918.8</td>
<td>9.5</td>
<td>3,128.2</td>
<td>10.9</td>
</tr>
<tr>
<td>Net income (€)</td>
<td>2,504.8</td>
<td>38.8</td>
<td>431.8</td>
<td>24.8</td>
</tr>
<tr>
<td>Wireline customers</td>
<td>42.3</td>
<td>10.1</td>
<td>43.2</td>
<td>10.1</td>
</tr>
<tr>
<td>Wireless customers</td>
<td>24.9</td>
<td>48.9</td>
<td>27.2</td>
<td>44.8</td>
</tr>
<tr>
<td>Internet access customers</td>
<td>6.1</td>
<td>370.0</td>
<td>7.1</td>
<td>167.8</td>
</tr>
</tbody>
</table>
... ONCE AGAIN DELIVERING RESULTS IN LINE WITH ANALYSTS’ ESTIMATES ...
ALONG WITH WELL BALANCED FINANCIALS...

€ 12 Bn. EBITDA 2000


€ 69 Bn. Market Cap. 19/06/2001

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

1999 EBITDA breakdown

2000 EBITDA breakdown

<table>
<thead>
<tr>
<th></th>
<th>TdE</th>
<th>T. Móviles</th>
<th>T. Latam</th>
<th>T.Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>47</td>
<td>12</td>
<td>40</td>
<td>1</td>
</tr>
<tr>
<td>2000</td>
<td>36</td>
<td>19</td>
<td>44</td>
<td>1</td>
</tr>
</tbody>
</table>

10.9

11.9
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>Dec 2000</th>
<th>EBITDA</th>
<th>Net debt/EBITDA (x)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPN</td>
<td></td>
<td>3.4</td>
<td>6.4</td>
</tr>
<tr>
<td>British Telecom</td>
<td></td>
<td>9.7</td>
<td>4.4</td>
</tr>
<tr>
<td>France Telecom</td>
<td></td>
<td>10.8</td>
<td>5.6</td>
</tr>
<tr>
<td>Deutsche Telekom</td>
<td></td>
<td>13.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Telefónica</td>
<td>26.9</td>
<td>12.0</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>45.1</td>
<td>9.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>61.0</td>
<td>10.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>56.4</td>
<td>13.5</td>
<td></td>
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</tbody>
</table>
RATING STABILITY
Evolution of ratings (S&P)

<table>
<thead>
<tr>
<th>Rating</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>
<th>04/01</th>
<th>05/01</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA+</td>
<td>FT</td>
<td>BT</td>
<td></td>
<td></td>
<td></td>
<td>KPN</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>KPN</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AA-</td>
<td>DT</td>
<td>BT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>FT</td>
<td>KPN</td>
<td></td>
</tr>
<tr>
<td>A+</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Telefónica</td>
</tr>
<tr>
<td>A</td>
<td>Vodafone</td>
<td>Vodafone</td>
<td>Vodafone</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A-</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB+</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Companies:
- Telefónica
- KPN
- BT
- Vodafone
- FT
- DT
- BT
- Vodafone
- FT
- BT
- KPN
CURRENCY RISK MANAGEMENT

ASSETS
- Natural hedges, corporate restructuring
- Operating companies debt restructuring
- Efficient internal financing circuit
- Hedges

FINANCIAL DEBT
- Short term impact, recovery of economic growth in medium term
- Management of the environment: rationalize CAPEX, focus on bad debt expense and cost control

OPERATING FLOWS
- Controlled impact from Balance Sheet exposure
- Controlled impact on cash-flows
CORPORATE RESTRUCTURINGS: THE TELESP CASE

TELEFONICA INVESTMENT ($ in millions)

- Telebrás Privat.: 3,132
- Debt payment: 303
- Shares buy-back: 431
- Restructuring: 0
- Telesp Tenders: 8,931
- Total TEF investment: 12,191

CHANGING OF TELEFONICA’s STAKE IN TELESP

- 81.9%

- 86.6% after equity swap with PT

IMPLIED FV/EBITDA 00E

- Telebrás: 18.2x
- Debt payment: 18.2x
- Shares buy-back: 13.2x
- Telesp Restructuring: 9.8x
- Telesp tender: 7.7x

EVOLUTION OF TELEFONICA AVERAGE PRICE PAID PER 1000 TELESP SHARES (US $)

- Telebrás Privat.: 77
- Debt payment: 64
- Shares buy-back: 47
- Telesp Restructuring: 35
- Telesp tender: 30
DIVERSIFYING FINANCIAL DEBT RISK...

By currency (*):
- USD: 41.7%
- Euro: 37.6%
- LATAM: 19.1%
- Other: 1.6%

(*) Net Debt breakdown (31/12/00)

By instrument (*):
- Loans: 43.1%
- Domestic bonds: 30.8%
- Global bonds: 20.8%
- Euro Medium Term Notes + Commercial Paper: 5.3%
...WHILE IMPROVING CAPITAL ALLOCATION

WACC

ARGENTINA  PERÚ  BRASIL  CHILE  MÉJICO  USA  ESPAÑA

INTERNET  DATA  CALL CENTERS  WIRELESS  YELLOW PAGES  WIRELINE

WACC: 0.0%  5.0%  10.0%  15.0%  20.0%  25.0%
IMPROVING CASH - FLOW QUALITY

US$ EBITDA Average Standard Deviation

- Stand-alone LATAM countries: 20.5%
- Telefónica's LATAM portfolio: 11%
- Telefónica's LATAM + SPAIN portfolio: 5.4%
LOOKING FOR MORE EFFICIENCY

- Expected NPV of USD 850 million
SELECTIVE AND COHERENT M&A STRATEGY

- JV with Portugal Telecom in Brazilian mobile market
- Acquisition of Motorola’s wireless assets in Mexico
- Tender offer for CRT Cellular minority stakes
- Acquisition of Iberdrola’s assets in Brazil

No merger of equals at parent level

Receptive to consolidation at Business Line level, if strategically complementary
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Management priorities that translate into superior earnings growth
“Achieve sustained superior earnings growth”

1. Continue improving results in consolidated businesses
   - Telefónica de España
   - T. Móviles España
   - TeleSP and other Latam wireline operators

2. Continue the expansion in Latin America
   - Brazil
   - Mexico
   - Argentina
   - Rest of Latam
   - Terra Lycos
   - Telefónica Data
   - Telefónica Media
   - Europa UMTS

3. Drive developing businesses towards profitability leveraging the Group
   - Atento
   - Katalyx
   - Develop related businesses leveraging our franchise

4. Capture inter-business and Group synergies

Leverage existing client bases and maximize cash generation short and long term: we cannot fail

Profit from a natural extension of our leadership

Anticipate break-even leveraging the overall group position

Push current businesses under development and open new options
CONTINUE IMPROVING RESULTS IN CONSOLIDATED BUSINESSES

Telefónica de España
- Winning the broadband battle: 148,000 ADSL subs. as of today (50,000 as of Dec-00)
- Continuing to increase efficiency

Telefónica Móviles de España
- Monitor client profitability and traffic share
- Preparing for success of the 2.5G: network ready and commercial launch during 1H2001

Telesp
- Sao Paulo, city of broadband (300,000 ADSL Dec-01 (e))
- Accelerate compliance of Regulator requirements
- Continue to build on solid operational fundamentals

- Leverage existing client bases
- Maximize cash generation short and long term
CONTINUE EXPANSION IN LATINAMERICA

Expand in Brazil
- Launch Brazilian wireline operations outside Sao Paulo in 2002 ("Brazil 2002")
- Consolidate TEM-PT JV as the leading wireless player

Develop recently entered markets
- Fixed telephony in Northern Argentina
- Wireless telephony in Mexico

- Complete the Latin-American portfolio profiting from a natural extension of our leadership
TELESP: WORKING FOR BRAZIL 2002

- Main objective for 2001: achieving regulatory requirements established for 2003 ahead of schedule
- Already completed with the review of the quality of the waiting list

**LINES INSTALLED (‘000)**
- Jan.-Mar. 00: 310
- Jan.-Mar. 01: 1,004

**WAITING LIST (‘000)**
- Dec. 00: 2,457
- Mar. 01: 1,536

**LINES IN SERVICE (‘000)**
- Mar. 00: 8,754
- Mar. 01: 11,195

**Percentages**
- LINES INSTALLED: +223.9%
- WAITING LIST: -37.5%
- LINES IN SERVICE: +27.9%
MANAGING KEY PERFORMANCE METRICS

Euro billion, in constant exchange rates. Current business perimeter

**TOP LINE**
- 99: 22 (24%)
- 00: 28
- 04: 13-15%

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

**EBITDA**
- 99: 11 (10%)
- 00: 12 (4%)
- 04: 8-12%

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

**EBIT***
- 99: 4.8
- 00: 5.0
- 04: 4%

* Calculated exc. goodwill

Leverage client base

Operational excellence

CAGR