TELECOM ISSUES UNDER DISCUSSION (I)

ORGANIZATION

Growth and convergence must define corporate structures

HSBC: “European Incumbents: Feeling sensitive”
THE BROADBAND CHALLENGE

Can DSL turn copper into gold?

JP Morgan: “The alchemist”
UMTS

Cellular companies to convince bear-markets

HSBC: “European Mobile: Back in the ring”
TELECOM ISSUES UNDER DISCUSSION (IV)

CONVERGENCE

Broadband demand content, content demand broadband...

...who's best positioned?

JP Morgan: “Vivendi Universal: Are you ready to rock?”
CONSOLIDATION

3G in Germany and UK as catalyst for sector consolidation

HSBC: “European Restructuring”
TELECOM ISSUES UNDER DISCUSSION (VI)

FINANCIAL FUNDAMENTALS

How solid are you?
TELECOM INVESTORS: WHAT DO YOU DEMAND?

INDEX

1. RESTRUCTURING
   Balanced and flexible organization to grow

2. BROADBAND
   Turning copper into gold

3. UMTS
   Visibility to convince bear-markets

4. CONVERGENCE
   The virtuous cycle

5. CONSOLIDATION
   Be ready to play and win

6. FINANCIALS
   Proven strength, flexibility, efficiency and execution
A MARKET WITH MORE THAN 500 MILLION POTENTIAL CUSTOMERS...

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

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

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

**SPAIN**
- Wireline: TdE: 100%
- Wireless: TME
- Internet
  - Access n° 1
  - Portal: n° 1

**BRAZIL**
- Wireline: TeleSP 86.6%
- Wireless:
  - Teleleste Cel: 10.8%
  - TeleSudeste: 82.0%
  - CRT: 36.7%
- Internet:
  - Access: n° 2
  - Portal: n° 2

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

More than 67 million managed customers

Positive growth outlook

Strong cultural and economic links

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

<table>
<thead>
<tr>
<th>Managed fixed clients (millions)</th>
<th>Managed cellular clients (millions)</th>
<th>Internet access clients (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q00</td>
<td>1Q00</td>
<td>1Q00</td>
</tr>
<tr>
<td>36.7</td>
<td>17.4</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>10.4%</strong></td>
<td><strong>45.7%</strong></td>
<td><strong>167.8%</strong></td>
</tr>
<tr>
<td>40.5</td>
<td>25.3</td>
<td>7.1</td>
</tr>
</tbody>
</table>

**2000 penetration**

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

1.- RESTRUCTURING
WE HAVE ACHIEVED STRONG OPERATIONAL EFFICIENCIES...

**Productivity**

<table>
<thead>
<tr>
<th>Europe</th>
<th>Lines/employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lines/employee</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Latam</th>
<th>Lines/employee (year 2000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>790</td>
<td>582</td>
</tr>
<tr>
<td>TI</td>
<td>Brasil Telecom</td>
</tr>
<tr>
<td>362</td>
<td>Telefónica</td>
</tr>
<tr>
<td>DT</td>
<td>Telefónica</td>
</tr>
<tr>
<td>289</td>
<td>TIPA</td>
</tr>
<tr>
<td>BT</td>
<td>TASA</td>
</tr>
<tr>
<td>262</td>
<td>Telecom Argentina</td>
</tr>
<tr>
<td>FT</td>
<td>Telemex</td>
</tr>
<tr>
<td>250</td>
<td>CANTY</td>
</tr>
</tbody>
</table>

Source: Telefónica

1.- **RESTRUCTURING**
...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 in the areas where we operate as incumbents
**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><strong>Telefónica</strong></td>
</tr>
<tr>
<td></td>
<td>Wireline in Spain</td>
</tr>
<tr>
<td></td>
<td><strong>Telefónica</strong></td>
</tr>
<tr>
<td></td>
<td>Wireline in Latam</td>
</tr>
<tr>
<td>Mobility</td>
<td><strong>Telefónica</strong></td>
</tr>
<tr>
<td></td>
<td>Móviles</td>
</tr>
<tr>
<td>Broadband</td>
<td><strong>Telefónica</strong></td>
</tr>
<tr>
<td></td>
<td>Wireline in Spain and Latam</td>
</tr>
<tr>
<td></td>
<td><strong>Emergia</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Terra Lycos</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Telefónica</strong></td>
</tr>
<tr>
<td></td>
<td>Media</td>
</tr>
<tr>
<td></td>
<td><strong>Telefónica</strong></td>
</tr>
<tr>
<td></td>
<td>Data</td>
</tr>
<tr>
<td>Internet</td>
<td><strong>Terra Lycos</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Telefónica</strong></td>
</tr>
<tr>
<td></td>
<td>Data</td>
</tr>
<tr>
<td></td>
<td><strong>TPI</strong></td>
</tr>
<tr>
<td>Content</td>
<td><strong>Telefónica</strong></td>
</tr>
<tr>
<td></td>
<td>Media</td>
</tr>
<tr>
<td></td>
<td><strong>Terra Lycos</strong></td>
</tr>
<tr>
<td></td>
<td><strong>TPI</strong></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

1. **RESTRUCTURING**
... AND FLEXIBLE ORGANIZATION

As of December 2000

<table>
<thead>
<tr>
<th></th>
<th>Customers (million)</th>
<th>Revenues proforma 00 (bn e)</th>
<th>EBITDA proforma 00 (bn e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telefónica Wireline in Spain</td>
<td>20.3</td>
<td>10.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Telefónica Wireline in Latam</td>
<td>19.4</td>
<td>9.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Telefónica Móviles</td>
<td>23.2</td>
<td>7.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Telefónica Data</td>
<td>-</td>
<td>1.2</td>
<td>0.1</td>
</tr>
<tr>
<td>terra lycos</td>
<td>6.1</td>
<td>0.3</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Telefónica Media</td>
<td>-</td>
<td>0.7</td>
<td>0.01</td>
</tr>
<tr>
<td>TPI</td>
<td>0.6</td>
<td>0.6</td>
<td>0.1</td>
</tr>
</tbody>
</table>

- 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

1.- RESTRUCTURING
CONTINUE IMPROVING RESULTS IN CONSOLIDATED BUSINESSES

Telefónica de España
- Winning the broadband battle: 158,000 ADSL subs. aprox 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 1H 2001

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

2.- BROADBAND
DRIVING THE BROADBAND OPPORTUNITY

ACCESS:
Accelerate ADSL deployment

1Mill ADSL no later 2003

T.ESPAÑA

Jun. 2000 2001 E
158,000 300,000

T.LATAM

Jun. 2000 2004(e)
110,000 1,500,000

CAGR 00-04 145%

CONTENT:
Offer broadband interactive content

Telefónica Media

terra lycos

TPI

2.- BROADBAND
UMTS IN GERMANY

We are actively negotiating along different interrelated levels ...

to deliver...

1. Customers before year end
   - GPRS launch in 2001. Undergoing discussions with distribution channels

2. An efficient network
   - Advanced negotiations on shared infrastructure arrangements, roaming and interconnection agreements

3. An effective organization
   - CEO and management team appointed. Munich headquarters operational.
CONTENT IS KEY IN TELEFONICA’S VISION ...

Reach attracts content
Content attracts customers

ACCESS

CONTENT

AHEAD OF COMPETITORS IN OUR NATURAL MARKETS

4.- CONVERGENCE
T. MEDIA: BECOMING A STRATEGIC ASSET FOR TELEFONICA’S CONVERGENCE STRATEGY

Free-to-air-TV and Radio
- Antena 3
- Telefe
- Azul Televisión

Contents
- Endemol
- Lolafilms
- Telefónica Sport

Pay TV & Distribution
- Via Digital
- Media Park
- Telefónica Servicios Audiovisuales, S.A.

Consolidate to become the leader in free-to-air-TV in Spanish speaking countries

Create a leading content manager

Consolidate Telefonica Media’s position in Pay TV

4.- CONVERGENCE
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 Celular 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
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

5.- CONSOLIDATION
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
- **Dec. 00:** 2,457
- **Mar. 01:** 1,536

**WAITING LIST ('000)**
- **Mar. 00:** 8,754
- **Mar. 01:** 11,195

**LINES IN SERVICE ('000)**
- **Jan.-Mar. 00:** 310
- **Jan.-Mar. 01:** 1,004
- **Dec. 00:** 2,457
- **Mar. 01:** 1,536

+223.9% +37.5% +27.9%

5.- CONSOLIDATION
NEW OPPORTUNITY: EXPANDING TO THE REST OF BRAZIL

The anticipation of regulatory requirements will open many opportunities for Telefonica’s Group from 2002.

- Telefonica’s Group is in an unrivaled position to accomplish Universalization Goals in 2001 which will allow:
  - Providing all the services to Telesp’s customers
  - Consolidation of our relationship with customers
  - Offering Long Distance Services out of Sao Paulo

Brasil represents 40% of total Latin American Telecom Market

TEF holds 20% of the market share

5.- CONSOLIDATION
NEW OPPORTUNITY: EXPANDING TO THE REST OF BRAZIL

REVENUES 2000 (*)
(Billion of euros)

Sao Paul State: 3.7
Rest of Brazil: 10.4
Spain: 10.6
Argentina: 5.6
Chile: 1.1
Perú: 1.4

(*) Only includes Wireline companies

Potential market for Telefonica in Brazil is similar to the Spanish market and over 28% higher than Argentina, Chile and Peru together.

5.- CONSOLIDATION
NEW OPPORTUNITY: EXPANDING TO THE REST OF BRAZIL

Telefonica Group’s strategy in Brazil will increase the value of the existing operations

**Competitive Advantage**

Approximately 40% of long distance and international calls are generated from Sao Paulo

Telefonica has a market share of 83% in the market where it competes with Embratel

Close to 30% of the traffic is originated in markets where Telefonica operates as a wireless player

Almost 80% of the 250 largest Brazilian companies have their headquarters in Sao Paulo and almost 90% are Telefonica’s customers

Telesp is the leading company in broadband offering services

Emergia will provide city to city connectivity

**Opportunities**

Creation of leading Long Distance Carrier

Developing Corporate businesses

Broadband

Complete Brazilian broadband network

5.- CONSOLIDATION
NEW OPPORTUNITY: EXPANDING TO THE REST OF BRAZIL

Brasil “2002” : A highly attractive project for Telefonica

- Marginal investments when compared with the value of total investments already done
- No need to pay any premium for the acquisition of licences or companies
- Positive cash flow generation starting in 2002
- Start up of operations with strong growth potential

5.- CONSOLIDATION
BRAZIL: TEM-PT JV, THE #1 PLAYER IN THE #1 LATAM MARKET

- 9.3 MM controlled customers
- Overpassing 2nd, 3rd & 4th operators’ total customer base
- Potential market of over 93 MM POPs (56% of Brazil)
- Leadership in 4 of 5 richest areas in Brazil (71% GDP)
- 60% of average market share
- Unique player operating in São Paulo & Rio de Janeiro
- Pioneer in VAS
- Expansion into new areas through new acquisitions & PCS spectrum re-auctions

Far ahead of competitors, leading the first and best positioned consolidation initiative

5.- CONSOLIDATION
**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 VLINE WITH ANALYSTS’ ESTIMATES ...

EPS
Euros
0,7
0,6
0,5
0,4
0,3
0,2
0,1
0,0

Year 2000 EPS
1998 Estimate for year 2000 EPS

SOURCE: DATASTREAM

Year

91 92 93 94 95 96 97 98 99 00

EPS Results
EPS Estimates

6.- FINANCIALS
ALONG WITH WELL BALANCED FINANCIALS...

- **12 Bn. EBITDA**
  - 2000

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

- **71 Bn. Market Cap.**
  - 07/02/2001

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

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

3. Drive developing businesses towards profitability leveraging the Group
   - Terra Lycos
   - Telefónica Data
   - Telefónica Media
   - Europa UMTS

4. Continue business building
   - Atento
   - Katalyz
   - Develop related businesses leveraging our franchise

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

“Achieve sustained superior earnings growth”
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

TOP LINE

EBITDA
- 10% (1999), 9-12% (2000), 9-12% (2004)

EBIT*
- 4% (1999), 8-12% (2000), 8-12% (2004)

* Calculated exc. goodwill

Leverage client base
Operational excellence
Focus on ROCE

Cost efficiency
Operational leverage
Quality
Asset turnover
Capex allocation and control
Reducing asset base

6.- FINANCIALS
TO SUMMARIZE

Challenges

Restructuring
Restructuring of business lines for growth, flexibility, efficiency, and competitive strength

Broadband
Leverage strong client base; accelerate ADSL deployment; interactive content offering

UMTS
Strategic agreements for network sharing; strong management team in place; GPRS launch in 2001

Convergence
Leverage T. Media’s natural advantages as a content provider

Consolidation
Selective M&A strategy excludes “merger of equals”; expansion into Latam, market where Telefónica leads

Financial
Financial strategy emphasizes stability and flexibility; currency risk management minimizes Latam exposure

Fundamentals

Delivering results
... WHICH HAS POSITIONED TELEFONICA AHEAD OF ITS PEERS

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

<table>
<thead>
<tr>
<th></th>
<th>Net Debt (Euro bn.)</th>
<th>EBITDA (Euro bn.)</th>
<th>Net Debt/EBITDA (x)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPN</td>
<td>21.9</td>
<td>3.4</td>
<td>6.4</td>
</tr>
<tr>
<td>British Telecom</td>
<td>45.1</td>
<td>9.7</td>
<td>4.4</td>
</tr>
<tr>
<td>France Telecom</td>
<td>61</td>
<td>10.8</td>
<td>5.6</td>
</tr>
<tr>
<td>Deutsche Telekom</td>
<td>56.4</td>
<td>13.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Telefónica</td>
<td>26.9</td>
<td>12</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Dec 2000

6.- FINANCIALS
CURRENCY RISK MANAGEMENT

ASSETS
- Natural hedges, corporate restructurings
- Operating companies debt restructuring
- Hedges

FINANCIAL DEBT
- Efficient internal financing circuit
- 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

6.- FINANCIALS
CORPORATE RESTRUCTURINGS: THE TELESP Case

TELEFONICA INVESTMENT ($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>Telebrás Privat</th>
<th>Debt payment</th>
<th>Shares buy-back</th>
<th>Restructuring</th>
<th>Telesp Tenders</th>
<th>Total TEF investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values</td>
<td>3,132</td>
<td>303</td>
<td>431</td>
<td>8,931</td>
<td>12,191</td>
<td></td>
</tr>
</tbody>
</table>

CHANGE OF TELEFONICA's STAKE IN TELESP

<table>
<thead>
<tr>
<th></th>
<th>Telebrás Privat</th>
<th>Debt payment</th>
<th>Shares buy-back</th>
<th>Restructuring</th>
<th>Telesp Tenders</th>
<th>Total TEF investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values</td>
<td>8.3%</td>
<td>0.8%</td>
<td>5.1%</td>
<td>5.1%</td>
<td>62.6%</td>
<td>81.9%</td>
</tr>
</tbody>
</table>

IMPLIED FV/EBITDA 00E

<table>
<thead>
<tr>
<th></th>
<th>Telebrás Privat</th>
<th>Debt payment</th>
<th>Shares buy-back</th>
<th>Telesp Restructuring</th>
<th>Telesp tender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values</td>
<td>18.2x</td>
<td>18.2x</td>
<td>13.2x</td>
<td>9.8x</td>
<td>7.7x</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Telebrás Privat</th>
<th>Debt payment</th>
<th>Shares buy-back</th>
<th>Telesp Restructuring</th>
<th>Telesp tender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values</td>
<td>77</td>
<td>64</td>
<td>47</td>
<td>35</td>
<td>30</td>
</tr>
</tbody>
</table>

(*) 86.6% after equity swap with PT
**A MILESTONE YEAR: ASSET GROWTH WITH A STRONG BALANCE SHEET**

Consolidated Net Assets (Euro Mill.) YoY growth: + 36.5%

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets</td>
<td>45,571</td>
<td>62,211</td>
</tr>
</tbody>
</table>

Consolidated Net Debt (Euro Mill.) YoY growth: + 31.6%

<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>Net Debt / Total Capital Employed</td>
<td>44.9%</td>
<td>43.3%</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>

6. **FINANCIALS**
WITH A CLEAR FINANCIAL STRATEGY AND TIMELY EXECUTION...

- Equity funding
- Full access to LATAM’s cash flows
- Optimising WACC and credit rating
- Financial flexibility
- Enhancing stability of increasing cash flow
- Efficiency and transparency in capital allocation

6. - FINANCIALS