Safe Harbour

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Such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward looking statements as a result of various factors.

Analysts are cautioned not to place undue reliance on those forward looking statements, which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica’s business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company’s Annual Report on Form 20-F as well as periodic filings made on Form 6-K, which are on file with the United States Securities and Exchange Commission.
BRIEF REVIEW OF EUROPEAN SECTOR

- Invested capital vs returns in Telecoms
- Funding dilemma: debt or equity
- Quality Balance Sheet vs Market Cap. performance

MANAGEMENT PRIORITIES: FOCUS ON RETURNS

- Proactive management of invested capital
- Benefits from an integrated business structure
- Deliver growth and EBITDA/EBIT quality

OUR STRATEGY

- Focus on client needs
- Broadband: ADSL & UMTS
- LATAM
- Start-up businesses
- Financial strength

CONCLUSION
INVESTED CAPITAL vs RETURNS IN TELECOMS

1.- BRIEF REVIEW OF EUROPEAN SECTOR

- Increasing concern on returns over invested capital
- Increasing cost of capital (lower cost of debt vs higher equity risk premium)
- Different investment cases across the sector
1. BRIEF REVIEW OF EUROPEAN SECTOR
QUALITY BALANCE SHEET vs MARKET CAP. PERFORMANCE

Evolution of Market cap (MM Euros)

- DT: 216,514 (Dec-99), 62,280 (19 sep-01), -72%
- BT: 158,033 (Dec-99), 47,238 (19 sep-01), -72%
- FT: 134,860 (Dec-99), 32,078 (19 sep-01), -76%
- TI: 86,888 (Dec-99), 42,279 (19 sep-01), -36%
- Telefónica: 81,115 (Dec-99), 48,014 (19 sep-01), -40%
- KPN: 46,044 (Dec-99), 3,430 (19 sep-01), -94%

Best rated company within the sector (S&P and Moody’s)

1.- BRIEF REVIEW OF EUROPEAN SECTOR
Decreasing CAPEX: around -5% CAGR in the period 2000-2005

TESA: Reviewed upwards for the period 2000-2005 due to the aggressive broadband roll out in Spain, but below 20% over revenues on a long term basis

T.Móviles: Lower than expected due to network sharing agreements and UMTS delay.

T.Latam: Peak in 2000. Decreasing significantly to levels close to 12% of revenues in 2005

Target 2005: 15%-17% of revenues
PROACTIVE MANAGEMENT OF INVESTED CAPITAL
NEW ACTIONS IN PLACE

NON-CORE ASSET DISPOSALS
- 5% in Pearson
- 14% in Infonet
- Selected T. Media assets (Hispasat, TyC, Azul Tv)

REAL ESTATE INITIATIVES
- First private owner in our natural markets
- Business Unit set up to unlock between 3 and 5 Bn. Euros of value
- Program for efficient management of space and orderly sale process

FACTORIZING
- 25% of Spanish fixed + mobile receivables: 550 MM Euros
- 85% non-recourse

2.- MANAGEMENT PRIORITIES
PROACTIVE MANAGEMENT OF INVESTED CAPITAL
COMMITTED TO DELEVERAGE OUR BALANCE SHEET

December 00 June 01 Ratio after initiatives

<table>
<thead>
<tr>
<th></th>
<th>December 00</th>
<th>June 01</th>
<th>Ratio after initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Debt/EBITDA</td>
<td>2.26</td>
<td>2.40</td>
<td>2.18</td>
</tr>
</tbody>
</table>

Excluding effects of exchange rates fluctuations
(1) Excluding Intangible assets and LT financial Investments
(2) Excluding non quoted subsidiaries
(3) Funds raised net of the PV of future rents

EBITDA CAGR 00-05: +9%-12%
CAPEX CAGR 00-05: (2%)-(5%)

+option to use operating FCF
>2 Bn Euros 2000 (1)

2.- MANAGEMENT PRIORITIES
BENEFITS FROM AN INTEGRATED BUSINESS STRUCTURE

✓ Promote cross selling activities within the Group

✓ Efficiency on shared services centers: expected NPV of 960 million Euros

✓ Efficiency in logistics: personnel, warehouses, and inventories

✓ Integrate billing & customer care systems for all wireline businesses in Latam

✓ Increase efficiency in cash management

✓ Internal financial circuit to reduce funding costs and to potential impact of currency devaluations

2.- MANAGEMENT PRIORITIES
ASSURING GROWTH AND QUALITY OF THE P&L (*):

- Increasing growth in traditional business through new services and products
- Increasing positive performance of start-up businesses
- Efficiency
- Cost control policy
- Materializing synergies
- Asset turnover
- Reducing CAPEX
- Reducing invested capital

* Data in millions of Euro, considering constant currency
** Excluding amortization of goodwill

2.- MANAGEMENT PRIORITIES
OUR STRATEGY: FOCUS ON CLIENT NEEDS

- Deep Market Segmentation
- Dedicated Sales Force
- Satisfy Client Needs
- Complete Catalog of Services
- Price & Quality

- Leverage our position in our natural markets (Latam)
- Take advantage of new interactive communication channels (broadband)

3.- STRATEGY: FOCUS ON CLIENT NEEDS

Leverage our position in our natural markets (Latam)
Take advantage of new interactive communication channels (broadband)

100 MM clients in 2004
MEDIA-DRIVEN APPLICATIONS: THE VALUE CHAIN

✓ Multiplatform businesses
✓ Promotion power
✓ Financial flexibility

✓ Presence in 19 countries
✓ 419 formats in its catalog
✓ 6,000 content creators

MEDIA-DRIVEN APPLICATIONS

TV/iTV

MOBILE-GPRS/UMTS

INTERNET-DSL

3.- STRATEGY: BROADBAND
SOLID POSITION ACROSS THE BROADBAND VALUE CHAIN

**ACCESS**
- Telefonica Wireline in Spain
- Telefonica Wireline in Latam

**BACKBONE**
- Telefonica Wireline in Spain
- Telefonica Wireline in Latam

**CONTENT**
- Terra Lycos
- Telefonica Media
- TPI

**TRANSPORT**
- Emergia’s 25,000 Km optical fibre network with 40 Gbps capacity scalable to 1.92 Tbps
- Spanish IP network with 170,000 switched ports and 7 Gbps transport capacity
- 67% of Spanish homes with fibre to the curb
- 10 Internet Data Centers

**APPLICATIONS & SERVICES**
- Over 4.3 million Internet clients
- 460 Mill. Terra-Lycos average daily page views in June 01
- More than 600,000 directory business SME unique customer
- Endemol as the first TV producer worldwide with more than 419 formats

3.- STRATEGY: BROADBAND

- 20.6 million lines in Spain
- 20.9 million lines in Latam
- 3 million Km of optical fibre in Spain and Latam
- 90% market share of corporate customers where we are incumbents

- 67% of Spanish homes with fibre to the curb
- 10 Internet Data Centers
ACCESS: FAST DEPLOYMENT OF OUR ADSL COMMITMENTS

- Up to 1,800 ADSL lines installed daily
- ADSL over ISDN and plug & play launched
- Penetration of 1%, ahead of its peers in Europe
- 21% increase on ADSL lines Jul01 over Jun01 in Telesp
- 70% of ADSL coverage reached for 40 million lines in Telefónica Group

3.- STRATEGY: BROADBAND
ADSL creates the digital customer business opportunity

ADSL provides interactivity

Home networking

IT Communications

Entertainment

Domotics

Video download
Audio download
Unified messaging
Interactive games
IP videoconference

TV channels
Video on-demand
e-commerce
interactive adds

Internal comms.
security
comfort

3.- Strategy: Broadband
BROADBAND CONTENT FACTORY: BEYOND CONNECTIVITY

Broadband portal based on our content factory...

...easily scalable to natural markets.... ...with other content and formats

3.- STRATEGY: BROADBAND CONTENT
3.- STRATEGY: BROADBAND CONTENT
UMTS IN GERMANY
GROUP 3G

What may happen?
- Reduced CAPEX
- Clients beginning 2002
- Lower EBITDA losses
- Lower peak funding needs

What we are doing?
- Unlock optionality
- Spectrum tradable
- Less than 6 operators

What we have done?
- Network sharing with a 3rd party
- Launch GPRS beginning 2002
- Vendor financing

What have changed?
- UMTS delay, less data usage growth
- German cellular market status

3.- STRATEGY: BROADBAND UMTS
**LATIN AMERICA: PROVEN EXPERTISE**

<table>
<thead>
<tr>
<th>Metric</th>
<th>As of take over</th>
<th>As of 06/30/01</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIS (‘000)</td>
<td>6.407</td>
<td>12.006</td>
<td>87%</td>
</tr>
<tr>
<td>Lines per employee</td>
<td>338</td>
<td>979</td>
<td>190%</td>
</tr>
<tr>
<td>Avg. Waiting time (months)</td>
<td>105</td>
<td>2</td>
<td>-98%</td>
</tr>
<tr>
<td>EBITDA ($US MM)</td>
<td>2,046</td>
<td>2,213 (1)</td>
<td>8%</td>
</tr>
<tr>
<td>EBITDA margin (2)</td>
<td>58%</td>
<td>64%</td>
<td>6 p.p.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metric</th>
<th>As of take over</th>
<th>As of 06/30/01</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIS (‘000)</td>
<td>1.696</td>
<td>4.450</td>
<td>162%</td>
</tr>
<tr>
<td>Lines per employee</td>
<td>78</td>
<td>504</td>
<td>546%</td>
</tr>
<tr>
<td>Avg. Waiting time (months)</td>
<td>49</td>
<td>0.3</td>
<td>n.m.</td>
</tr>
<tr>
<td>EBITDA ($US MM)</td>
<td>1,389</td>
<td>3,613 (1)</td>
<td>160%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>38%</td>
<td>53%</td>
<td>15 p.p.</td>
</tr>
</tbody>
</table>

(1) Latest FY.  
(2) Net of interconnection

**SKILLED TEAMS WITH UNIQUE TRACK RECORD ON TAKE OVERS**

**3.- STRATEGY: LATAM**
LATAM WORST YEAR EQUIVALENT TO LOSING 1 YEAR OF AVERAGE GROWTH

Crisis recovery in 2 years

USD Worst Case -18%

18% CAGR in USD

Proxy for EBITDA in million USD from main LatAm subsidiaries
2001E: 1H01 multiplied by 2

3.- STRATEGY: LATAM
MANAGING ACQUISITION COSTS: THE TELESP CASE

TELEFONICA INVESTMENT ($ in millions)

<table>
<thead>
<tr>
<th>Component</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telebrás Privat.</td>
<td>3,132</td>
</tr>
<tr>
<td>Debt payment</td>
<td>303</td>
</tr>
<tr>
<td>Shares buy-back</td>
<td>431</td>
</tr>
<tr>
<td>Restruct.</td>
<td>0</td>
</tr>
<tr>
<td>Telesp Tenders</td>
<td>8,931</td>
</tr>
<tr>
<td>Total TEF investment</td>
<td>12,191</td>
</tr>
</tbody>
</table>

CHANGE OF TELEFONICA’s STAKE IN TELESP

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

- ✓ Multiplying our stake by 10x while increasing our total investment by just 4x
- ✓ Reducing implied FV/EBITDA: from 18x to 8x
- ✓ Reducing avg. price per 1,000 shares: from 77 $US to 30 $US

3.- STRATEGY: LATAM
## OPENING NEW GROWTH OPPORTUNITIES: BRAZIL 2002

### BUSINESS OPPORTUNITIES

- Creation of a leading Long Distance Carrier
- Developing data & VAS businesses to corporations
- Complete Brazilian broadband network

### COMPETITIVE POSITION

- 12 Million LIS
- Sao Paulo: 40% of DLD+ILD
- Telesp: >80% Intra-State mkt. share
- Sao Paulo: 80% of top 250 corporations
- 90% of those serviced by Telesp
- Itaú national data network acquired (4,000 POPs)
- Capacity swaps through Emergia Group bandwidth needs

### Key Points

- ** ✓ Tap a 10 Bn. Euros market**
- ** ✓ Marginal CAPEX**
- ** ✓ Leverage Group position**
- ** ✓ EBITDA > 0 from year one**

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### 3.- STRATEGY: LATAM

(Company logo: Telefonica)
OPENING NEW GROWTH OPPORTUNITIES: **JV WITH PT**

- 10.3 MM controlled customers as of 06/30/01
- Potential market over 95 MM POPs (56% of Brazil)
- 60% market share in areas of operation
- Leadership in 5 of the 6 richest areas in Brazil (71% of GDP)
- Unique cellular player operating in Sao Paulo and Rio de Janeiro
- 2000 aggregated revenues: 3 Bn $US
- 2000 aggregated EBITDA: 890 MM $US

3.- STRATEGY: LATAM
Acquisitions and improved management practices have enabled Terra Lycos and T. Media to positively contribute to consolidated EBITDA growth.
FINANCIAL STRENGTH: PEER COMPARISON

Net Debt / EBITDA 01E

KPN: 6.3x
FT: 5.4x
DT: 4.6x
BT: 2.8x
TEF: 2.4x
TI: 1.8x

EBITDA 01E / Net Interest Expense

KPN: 2.3x
DT: 4.6x
BT: 4.9x
FT: 5x
TEF: 6.9x
TI: 12.4x

Net Debt / Market cap

TI: 58%
TEF: 65%
BT: 62%
DT: 110%
FT: 202%
KPN: 665%

Source: Salomon Smith Barney

Source: Net debt as of June 2001, EBITDA 01e from consensus estimates (Goldman Sachs, JP Morgan, MSDW, Lehman Brothers, SBC Warburg)

3.- STRATEGY: FINANCIAL STRENGTH
TELEFÓNICA COULD PAY OFF ITS DEBT IN LESS THAN 6 YEARS

✓ Cash flow generation capacity would allow fully debt repayment before current average maturity (5.9 years).

Cumulative Cash Flows in period 2H01-07

Assumptions:
- EBITDA: 9% annual growth
- Capex: Average of analysts forecasts (recent reports by Lehman Brothers, Merrill Lynch, Credit Suisse and BSCH)
- Working capital requirements: 20% of EBITDA increase, effective tax rate of 30%, and average debt cost estimated from current market interest and FX rates
- Net debt as of Dec 07 would be around 0.9 bn EUR higher if assumption about average debt cost increases by 100 bp.

3.- STRATEGY: FINANCIAL STRENGTH
## STRONG FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th>Million Euros</th>
<th>2000</th>
<th>% change</th>
<th>1H01</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>28,485.5</td>
<td>24.1</td>
<td>15,302</td>
<td>15.2</td>
</tr>
<tr>
<td>EBITDA</td>
<td>11,918.8</td>
<td>9.5</td>
<td>6,356.6</td>
<td>9.2</td>
</tr>
<tr>
<td>EBIT</td>
<td>4,958.0</td>
<td>3.8</td>
<td>2,737.9</td>
<td>8.5</td>
</tr>
<tr>
<td>Reported Net inc.</td>
<td>2,504.8</td>
<td>38.8</td>
<td>1,148.6</td>
<td>16.1</td>
</tr>
<tr>
<td>Net inc. excl. Goodwill (*)</td>
<td>3,005.4</td>
<td>50.3</td>
<td>1,631.8</td>
<td>41.6</td>
</tr>
<tr>
<td>EPS excl. Goodwill (*)</td>
<td>0.81</td>
<td>28.3</td>
<td>0.36</td>
<td>7.6</td>
</tr>
</tbody>
</table>

(*) Consolidated goodwill.

### 3. - STRATEGY: FINANCIAL STRENGTH
... ONCE AGAIN DELIVERING RESULTS IN LINE WITH ANALYSTS’ ESTIMATES ...

RESULTS 1H01  %REV  %EBITDA
CHANGE  CHANGE

CONSENSUS  15.1%  7.3%
REPORTED  15.2%  9.2%

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3.- STRATEGY: FINANCIAL STRENGTH
CONCLUSIONS

OPTIONALITY
✓ The only telco with all options open
✓ Our future returns are not jeopardized by short term debt repayment
✓ Strategic flexibility: currencies, horizontal organization, diversification

FINANCIAL DISCIPLINE
✓ Monitoring additions to Invested Capital
✓ Capital allocation based on profitability
✓ Keep a balance between average Debt maturity and time to pay back debt with FCF