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.
THEMES FOR TODAY

- The world has changed and our sector has soured
- Telefónica is structurally strong
- We will come out stronger of these uncertain times, delivering sustained earnings growth and keeping optionality
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

Source: WDR

1. A NEW CONTEXT
INCREASE IN DEBT LEVELS WEAKEN BALANCE SHEET AND ERODE MARKET CAP

Change in Market Cap
(Percentage, Dec 99 vs 26 Sep 01)

- TEF: -32%
- TI: -44%
- BT: -68%
- FT: -72%
- DT: -67%

Net Debt
MM

- TEF
- TI (*): Excluding Olivetti’s debt
- BT
- FT
- DT

1. A NEW CONTEXT
A NEW CONTEXT

• Downward revision in expectations for growth businesses. Financial markets focus shifting from long term growth to cash and short term returns

• Increased cost of equity. Outflow of funds from the sector. Difficulty to raise new capital

• Overcapacity and decreasing returns on invested capital

• Increased debt levels weaken balance sheets and erode market cap

• Slowdown in the global economy

Solid companies that adapt better and retain more options will come out stronger
THEMES FOR TODAY

- The world has changed and our sector has soured
- Telefónica is structurally strong
- We will come out stronger of these uncertain times, delivering sustained earnings growth and keeping optionallity
TELEFONICA’S SOLID POSITION

Sound financials
- Strong financial performance
- Lower debt levels and strong cash flow generation
- High credit quality

Solid fundamentals
- Large and growing customer base
- Strong operational performance and skills

Strong strategic position
- Balanced business portfolio
- Solid positions along the value chain
- Best placed for success in all scenarios

2. STRUCTURALLY STRONG
# 10 Telco worldwide by market cap (# 15 in Dec 99)
# 2 among European incumbents (up from # 5 in Dec 99)

**Telefonica: A Diversified Global Player**

- **Revenues**
  - Million: 28,485.5
  - % Change: 24.1
  - 1H01: 15,302
  - % Change: 15.2

- **EBITDA**
  - Million: 11,918.8
  - % Change: 9.5
  - 1H01: 6,356.6
  - % Change: 9.2

- **Reported Net inc.**
  - Million: 2,504.8
  - % Change: 38.8
  - 1H01: 1,148.6
  - % Change: 16.1

- **Net inc. - goodwill**
  - Million: 3,005.4
  - % Change: 50.3
  - 1H01: 1,631.8
  - % Change: 41.6

---

**2. Structurally Strong**
LOWER DEBT LEVELS AND STRONG CASH FLOW GENERATION

Low debt levels relative to major competitors

<table>
<thead>
<tr>
<th></th>
<th>Net debt (b) (Fiscal year 2000)</th>
<th>D/E ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telefónica</td>
<td>27,0</td>
<td>1,3</td>
</tr>
<tr>
<td>DT</td>
<td>56,5</td>
<td>1,6</td>
</tr>
<tr>
<td>FT</td>
<td>61,0</td>
<td>2,0</td>
</tr>
<tr>
<td>Telecom Italia</td>
<td>19,0</td>
<td>0,9</td>
</tr>
<tr>
<td>BT</td>
<td>45,4</td>
<td>2,0</td>
</tr>
</tbody>
</table>

EBITDA generation in excess of CAPEX required for organic growth

Superior debt cover ratios
Net Debt/EBITDA 01E

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2004E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>4,6x</td>
<td>4,9x</td>
<td>5x</td>
</tr>
<tr>
<td>Total Capex</td>
<td>2,8x</td>
<td>6,9x</td>
<td>12,4x</td>
</tr>
<tr>
<td>Capex (ex-UMTS licenses)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. STRUCTURALLY STRONG
### 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.**

### Cash Flow Generation Capacity: Full Debt Repayment Possible Before Current Average Maturity (5.9 Years)

<table>
<thead>
<tr>
<th>Period</th>
<th>Net Debt</th>
<th>EBITDA</th>
<th>CAPEX</th>
<th>WORKING CAPITAL</th>
<th>NET INTEREST</th>
<th>TAXES</th>
<th>FREE FUNDS</th>
<th>NET DEBT</th>
<th>NET DEBT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun 01</td>
<td></td>
<td>110.6</td>
<td>52.9</td>
<td>1.8</td>
<td>7.1</td>
<td>9.3</td>
<td>39.5</td>
<td>31.2</td>
<td>-8.2</td>
</tr>
<tr>
<td>Dec 07</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2. Structurally Strong
HIGH CREDIT QUALITY
Evolution of ratings (Moody’s)

09/99 12/99 03/00 06/00 09/00 12/00 01/01 04/01 05/01 06/01 07/01 08/01 09/01

Aa1

Aa2

Aa3

A1

A2

A3

Baa1

Baa2

Baa3


FT BT BT BT DT BT DT DT DT DT DT DT DT DT DT DT DT DT DT DT DT DT DT DT DT

VodTef VodTef VodTef VodTef VodTef VodTef VodTef VodTef VodTef VodTef VodTef VodTef VodTef VodTef VodTef


2. STRUCTURALLY STRONG
A market with more than 500 million potential customers
- More than 70 million customers currently being served
- Homogeneous markets with strong cultural and economic links
- Positive growth outlook despite economic slowdown

2. STRUCTURALLY STRONG
## STRONG OPERATIONAL PERFORMANCE

### Wireline strategy delivering results in Spain

<table>
<thead>
<tr>
<th>1. Lead the direct access front through ADSL</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Number of ADSL subscribers up by 315%</td>
</tr>
<tr>
<td>• TdE’s market share in ADSL users: 95%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Lead the Internet Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Number of flat-fee subscribers up by 210%</td>
</tr>
<tr>
<td>• Dialup access market share of 65%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Defend voice traffic market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Managing Price Policies</td>
</tr>
<tr>
<td>• New services to promote traffic</td>
</tr>
<tr>
<td>• Marketing win-back campaigns</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. Stabilize regulatory framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increase in monthly fee</td>
</tr>
<tr>
<td>• Price cap: CPI - 4%</td>
</tr>
<tr>
<td>• Commercial flexibility</td>
</tr>
</tbody>
</table>

### STRONG OPERATIONAL PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>1H01</th>
<th>%vs. 1H00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total traffic (mill. min)</td>
<td>68,940</td>
<td>+38.2%</td>
</tr>
<tr>
<td>LIS (‘000)</td>
<td>20,600</td>
<td>+4.1%</td>
</tr>
<tr>
<td>Lines per employee</td>
<td>502.8</td>
<td>+15.9%</td>
</tr>
<tr>
<td>Operating expenses before Interconnection (mill. Eur)</td>
<td>1,903.8</td>
<td>-7.6%</td>
</tr>
<tr>
<td>EBITDA (mill. Eur)</td>
<td>2,440</td>
<td>+4.2%</td>
</tr>
</tbody>
</table>

### 2. STRUCTURALLY STRONG
### STRONG OPERATIONAL PERFORMANCE

**Latam wireline: proven expertise and performance on track**

<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>

**TeleSP (acquisition in Aug’ 98)**
3 year management

**TASA (acquisition in Nov’ 90)**
11 year management

(1) Latest FY
(2) Net of interconnection

### SKILLED TEAMS WITH UNIQUE TRACK RECORD ON TURN OVERS

### 2. STRUCTURALLY STRONG
STRONG OPERATIONAL PERFORMANCE

Wireless: significant size, ongoing growth and increasing margin

<table>
<thead>
<tr>
<th>Managed customers (‘000)</th>
<th>Aug 00</th>
<th>Aug 01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latam &amp; Morocco</td>
<td>20,831</td>
<td>27,665</td>
</tr>
<tr>
<td></td>
<td>8,378</td>
<td>12,163</td>
</tr>
<tr>
<td>Spain</td>
<td>12,453</td>
<td>15,502</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1H01</th>
<th>% (1H01/1H00)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>3,933.9</td>
<td>14.2%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,551.6</td>
<td>32.4%</td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>39.4%</td>
<td>+ 5.4 p.p.</td>
</tr>
</tbody>
</table>

2. STRUCTURALLY STRONG
BALANCED BUSINESS PORTFOLIO

ACCESS

• 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

BACKBONE

• 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

CONTENT

• 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 400 formats

2. STRUCTURALLY STRONG
OUR STRENGTH: SOLID POSITION AND OPTIONALLITY

• Sound financials
• Solid fundamentals
• Strong strategic position

• Telco with all options open
• Our future returns are not jeopardized by short term debt repayment
• Strong EBITDA diversification
• Strategic flexibility: currencies, horizontal organization, diversification

2. STRUCTURALLY STRONG
3. REAL EARNINGS, REAL OPTIONS

THEMES FOR TODAY

- The world has changed and our sector has soured
- Telefónica is structurally strong
- We will come out stronger of these uncertain times, delivering sustained earnings growth and keeping optionallity
TELEFONICA’S PROJECT IN THE NEW INDUSTRY CONTEXT

- Strengthen our relative position in the short term: focus on earnings
- Operational efficiency
- Capital efficiency
- Transformation towards client
- Organizational alignment/horizontal integration for synergies

- Evolve and reposition business platforms: building our future
- Natural strategic development of core businesses
- Strategic reposition of start-up businesses for the new context

- Leverage our strong position in the sector restructuring
- Consolidation in Lines of Business where scale is critical
- Accretive acquisitions with strategic fit

3. REAL EARNINGS, REAL OPTIONS
PROACTIVE MANAGEMENT OF INVESTED CAPITAL

Capex reduction

- TESA: below 20% over revenues despite broadband roll-out effort
- T.Móviles: Lower than expected due to network sharing agreements
- T.Latam: Decreasing significantly to levels close to 12% of revenues in 2005

Deleverage our balance sheet
Net debt expected evolution

- Target net debt/EBITDA 2.18 from today’s 2.40
- Options to use operating FCF >2bn in 2000*

* Excluding intangible assets and LT financial investments
** Funds raised – PV of future rents

3. REAL EARNINGS, REAL OPTIONS
TRANSFORMATION TOWARDS THE CLIENT

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

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

100 MM clients in 2004

3. REAL EARNINGS, REAL OPTIONS
BENEFITING FROM AN INTEGRATED STRUCTURE

• Achieve functional articulation and horizontal synergies
  – Purchasing
  – IT
  – Efficiency on shared services centers: expected NPV of 960 million
  – Talent

• Cash management and internal financial circuit to reduce finance costs and to lower impact of potential currency devaluations

• Improve “real time” capital allocation by business lines and by country

• Assist to and demand strong performance manage across business, and shape the development of the group

3. REAL EARNINGS, REAL OPTIONS
NATURAL STRATEGIC DEVELOPMENT OF CORE BUSINESSES

Access: fast deployment of our ADSL commitments

- Up to 1,800 ADSL lines installed daily
- Leveraging our strong position in access
- Evolving our wireline network to broadband
- Positioned to capture future revenues from new services
- 21% increase on ADSL lines Jul01 over Jun 01 in Telesp
- 70% of ADSL coverage reached for 40 million lines in Telefónica Group

3. REAL EARNINGS, REAL OPTIONS
**NATURAL STRATEGIC DEVELOPMENT OF CORE BUSINESSES**

**Brazil 2002**

<table>
<thead>
<tr>
<th>BUSINESS OPPORTUNITIES</th>
<th>COMPETITIVE POSITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation of a leading Long Distance Carrier</td>
<td>12 Million LIS</td>
</tr>
<tr>
<td>Developing data &amp; VAS businesses to corporations</td>
<td>Sao Paulo: 40% of DLD+ILD</td>
</tr>
<tr>
<td>Complete Brazilian broadband network</td>
<td>Telesp: &gt;80% Intra-State mkt. share</td>
</tr>
</tbody>
</table>

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

3. REAL EARNINGS, REAL OPTIONS
STRATEGIC REPOSITIONING OF START-UP BUSINESSES
UMTS in Germany: Group 3G

What may happen?

What are we doing?

What have we done?

What has changed?

perceived initial NPV

NPV

August-00

Today

NPV

2010

Reduced CAPEX
Clients beginning 2002
Lower EBITDA losses
Lower peak funding needs

Unlock optionality
Spectrum tradable
Less than 6 operators

Network sharing with a 3rd party
Launch GPRS beginning 2002
Vendor financing

Network sharing with E-plus
Roaming and interconnection agreements
More conservative business plan

UMTS delay, less data usage growth
German cellular market status

3. REAL EARNINGS, REAL OPTIONS
Joint effort with fixed line operators

- Consolidation of leadership position in Spain
- Evolution of product and service portfolio in Latam
- Expansion to new markets in Latam
- Regional offer in Latam

Value added services

- Hosting
- ASP
- e-consulting

Centralized management of international backbone capacity

- Development of high potential businesses in new markets (Germany, Italy)

3. REAL EARNINGS, REAL OPTIONS
STRATEGIC REPOSITIONING OF START-UP BUSINESSES

Broadband content factory: beyond connectivity

Broadband portal based on our content factory...

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

3. REAL EARNINGS, REAL OPTIONS
## MANAGEMENT PRIORITIES GOING FORWARD

### Enhance business performance
- Pursue multiple initiatives in different areas to meet ambitious targets for 2002 and 2003 in all the Lines of Business

### Start-up business repositioning
- Review the business model and strategy for those businesses which have been more significantly affected by the changes in the environment

### Optimization of invested capital
- Monitor additions to invested capital (Capex control)
- Reduction of capital base (de-assetization)

### Organization
- Adapt the organizational model to ensure the achievement of key management priorities in the new industry context

### Consolidation
- Consider accretive opportunities with good strategic fit arising from industry restructuring

### 3. REAL EARNINGS, REAL OPTIONS

3. REAL EARNINGS, REAL OPTIONS

Best placed for success in all scenarios

- **Real earning through solid position in core business**
- **Real options through a balanced portfolio**

Low growth scenario
- “UMTS take off” scenario
- “ADSL booms” scenario
- “Content killer apps emerge” scenario
- “…” scenario

- Thanks to our strength in the core business we will deliver results in low-growth scenarios
- Thanks to our portfolio of options we will capture value in growth scenarios
IN SUMMARY

- Need to adapt to the new industry context
- Strong starting position
- Recognition of open issues
- High ambition and strong commitment to deliver
- Rich portfolio of options

A clear project going forward
- Strengthen our relative position in the short term: focus on earnings
- Evolve and reposition business platforms: building our future
- Leverage our strong position in the sector restructuring

- Our management priorities going forward are clear
- We are making progress in many fronts and are working hard to advance on the rest
- We are committed to come out stronger from the changed industry context

3. REAL EARNINGS, REAL OPTIONS