José María Álvarez-Palllete
CFO of Telefónica Group
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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 and investors 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.
• WE HAVE DELIVERED IN 1Q02 AMID A CHALLENGING ENVIRONMENT

• OUR STRATEGY IS FOCUSED ON FCF GENERATION TO ADDRESS SEVERAL CHALLENGES...
  • SECTOR CHALLENGES
  • TELEFONICA’S SPECIFIC CHALLENGES

• ...COMBINED WITH FINANCIAL MANAGEMENT AND DISCIPLINE

• CONCLUSIONS
Pressure on wireline incumbents

Exchange rate evolution: Argentine crisis

Change in expectations for telecom sector

Downturn of the advertising market **

* Average EV/EBITDA 2002 ratios of DT, FT, KPN, PT and BT for wireline; TIM, Vodafone, Orange and mmO2 for wireless
** 1Q02 vs 1Q01, except European average (2001 vs 2000). Europe is the average of France (Sécodip), Germany (Nielsen S+P), Italy (ACNielsen) and UK (Media Week)

Source: Datastream, Multex Estimates
...Telefónica was not immune in 1Q02...

**REVENUES (€ in Millions)**

<table>
<thead>
<tr>
<th></th>
<th>1Q01</th>
<th>1Q02</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q01</td>
<td>7,603.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1Q02</td>
<td>7,418.6</td>
<td></td>
<td>-2.4%</td>
</tr>
</tbody>
</table>

**EBITDA (€ in Millions)**

<table>
<thead>
<tr>
<th></th>
<th>1Q01</th>
<th>1Q02</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q01</td>
<td>3,128.2</td>
<td></td>
<td>-2.7%</td>
</tr>
<tr>
<td>1Q02</td>
<td>3,044.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**NET INCOME (€ in Millions)**

<table>
<thead>
<tr>
<th></th>
<th>1Q01</th>
<th>1Q02</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q01</td>
<td>431.8</td>
<td></td>
<td>-72.0%</td>
</tr>
<tr>
<td>1Q02</td>
<td>121.1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**GROWTH RATES EXCLUDING ARGENTINA**

- **EBITDA**
  - +5.8%
  - +5.0%
  - +10.0%

- **Revenues**
  - +5.1%
  - +5.3%

**ARGENTINA**

TASA: -7.5% in revenues and -7.0% in EBITDA, ex-Fx.

**LATAM EXCHANGE RATES**

Close to -8 p.p. to both revenues and EBITDA growth.
...but efficiency and tight control of capital enables to deliver on cash flow generation...

- All subsidiaries are managing costs successfully
- Effort in bad debt control: stable at 2.5% of rev. for the Group
- Keeping Group EBITDA margin in the 41% level

COST RATIONALIZATION (%)

<table>
<thead>
<tr>
<th></th>
<th>TdE</th>
<th>T. Móviles</th>
<th>T. Latam</th>
<th>T. Data</th>
<th>Terra Lycos</th>
<th>TPI</th>
<th>Admira</th>
<th>Atento</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001 vs 2000</td>
<td>3.9</td>
<td>7.0²</td>
<td>0.3</td>
<td>6.7</td>
<td>2.5</td>
<td>0.2</td>
<td>17.9</td>
<td></td>
</tr>
<tr>
<td>1Q02 vs 1Q01</td>
<td>-1.6</td>
<td>0.9²</td>
<td>-20.5</td>
<td>-22.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</table>

CUMULATIVE CAPEX

<table>
<thead>
<tr>
<th></th>
<th>FY00</th>
<th>FY01</th>
<th>1Q01</th>
<th>1Q02</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Million Euros)</td>
<td>9,096</td>
<td>7,923</td>
<td>1,594</td>
<td>952</td>
</tr>
</tbody>
</table>

Adapting Capex to Latam environment:
- Argentinean crisis & Compliance of Metas in Brazil
- Focus on broadband

CASH FLOW GENERATION (Million Euros)

<table>
<thead>
<tr>
<th></th>
<th>3,128.2</th>
<th>1,594.3</th>
<th>1,533.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA 1Q01</td>
<td>CAPEX 1Q01</td>
<td>CF 1Q01</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>3,044.7</th>
<th>951.6</th>
<th>2,093.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA 1Q02</td>
<td>CAPEX 1Q02</td>
<td>CF 1Q02</td>
<td></td>
</tr>
</tbody>
</table>

¹ Operating expenses, including bad debt provisions.
² Excluding Handset Costs
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• ...COMBINED WITH FINANCIAL MANAGEMENT AND DISCIPLINE

• CONCLUSIONS
Our business strategy is focused on FCF generation ...

- Accelerating performance of core business
  - Enhance Commercial focus
  - Improve efficiency
  - Optimize capital base
  - To maximize cash-flow

- Capture our natural growth potential
  - ADSL and Wireless data
  - Brazil and Mexico

- Turning around non-performing businesses
  - UMTS: manage options & limit financial exposure
  - Refocus media assets to maximize value

- Strengthen our “one company” model
  - Share best practices and align priorities
  - Optimize critical resources
  - Capture synergies
... to address sector challenges

**Challenging economic environment**
- Financing restrictions
- Impact on demand
- Slow recovery expected

**Challenging telecom sector environment**
- Pressure on traditional fixed telephony revenues, obliging to additional efficiency
- Concerns over xDSL economics: ROIC and increasing ARPU beyond connectivity
- Stagnation of mobile net adds & ARPU recovery
- Assure FCF generation (difficulties to implement debt reduction plans)
- Concerns on balance sheet’s quality

**TEF specific challenges**
- Exposure to Argentinean crisis
- Repatriating funds from Brazil
- Cash-out from non-performing businesses (UMTS greenfield operations, Media assets, ...)

The market will oversee short term sector performance and its ability to address these challenges.
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• CONCLUSIONS
Sector's challenges: Wireline - Efficiency & DSL economics

Telefónica de España

- Over 640,000 ADSL connections of 1Q02 CAPEX
- Broadband: 47% of 1Q01-3Q01
- Improving economics by capturing additional value from business customers: e-BA launched jointly with Terra Lycos

*3.4% traffic growth in 1Q02*

- Highly demanding regulatory framework

**CUMULATIVE EBITDA MARGIN**

- FY00: 46.4%
- FY01: 45.6%
- FY02: 46.7%

**CUMULATIVE PLUG&PLAY RETAIL ADDITIONS**

- Jan02: 37.6%
- Mar02: 52.9%
- 1Q02: 58.4%
- 1Q01-3Q01: 152.6
- 4Q01: 151.8

**WHOLESALE ADSL NET Adds (000)**

- 1Q01: 152.6
- 1Q02: 151.8

**Average**

- 1Q01-3Q01: 58.4
Sector’s challenges: Wireless - Net adds & ARPU recovery

Sector Net Adds 1Q02*

<table>
<thead>
<tr>
<th>Company</th>
<th>1Q02 vs 1Q01</th>
<th>1Q02 vs 1Q01</th>
</tr>
</thead>
<tbody>
<tr>
<td>mmO2</td>
<td>-83.7%</td>
<td>-75.4%</td>
</tr>
<tr>
<td>Orange</td>
<td>-48.0%</td>
<td>-88.3%</td>
</tr>
<tr>
<td>TIM</td>
<td>-94.4%</td>
<td>+4.7%</td>
</tr>
<tr>
<td>T-Mobile</td>
<td>-75.4%</td>
<td></td>
</tr>
<tr>
<td>Vodafone</td>
<td>-88.3%</td>
<td></td>
</tr>
<tr>
<td>TEM</td>
<td>-94.4%</td>
<td></td>
</tr>
</tbody>
</table>

*European markets in which companies operate

Net adds

- Controlled Churn rate under 1.5% in Spain
- TEM presents room for additional customer growth

ARPU

ARPU (euros)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Contract</th>
<th>Blended</th>
<th>Prepay</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q01</td>
<td>55.6</td>
<td>31.1</td>
<td>18.1</td>
</tr>
<tr>
<td>2Q01</td>
<td>56.4</td>
<td>29.6</td>
<td>16.8</td>
</tr>
<tr>
<td>3Q01</td>
<td>53.5</td>
<td>27.7</td>
<td>15.9</td>
</tr>
<tr>
<td>4Q01</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1Q02</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data ARPU

<table>
<thead>
<tr>
<th>Quarter</th>
<th>% VAS content messages</th>
<th>% Data over ARPU</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q01</td>
<td>25.7%</td>
<td></td>
</tr>
<tr>
<td>4Q01</td>
<td>11.2%</td>
<td></td>
</tr>
<tr>
<td>1Q02</td>
<td>11.9%</td>
<td></td>
</tr>
</tbody>
</table>

• Monthly blended ARPU has already reached its minimum point in February 2002
## Sector’s challenges: Balance sheet quality

<table>
<thead>
<tr>
<th>Lower proportion of intangible assets on balance sheet (as of 2001)</th>
<th>Restated asset base to fair value since 1998</th>
<th>Impact (Euro billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Telefónica</strong> *&lt;br&gt;86&lt;br&gt;28%</td>
<td>Restatement to fair value of several tangible assets both in Spain and abroad&lt;br&gt;<strong>Selected integrated operators average</strong>&lt;br&gt;123&lt;br&gt;34%</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Telefónica</strong> *&lt;br&gt;28%</td>
<td>Write off goodwill arose within several acquisitions&lt;br&gt;<strong>Telecom Italia (incl. Olivetti), France Telecom, British Telecom (incl. MM02), Deutsche Telekom</strong>&lt;br&gt;123&lt;br&gt;34%</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Telefónica</strong> *&lt;br&gt;28%</td>
<td>Accounting hedging of acquisitions financed with equity&lt;br&gt;<strong>Telecom Italia (incl. Olivetti), France Telecom, British Telecom (incl. MM02), Deutsche Telekom</strong>&lt;br&gt;123&lt;br&gt;34%</td>
<td>16.5</td>
</tr>
<tr>
<td><strong>Telefónica</strong> *&lt;br&gt;28%</td>
<td><strong>Total assets (Euro billion)</strong>&lt;br&gt;20.2</td>
<td></td>
</tr>
</tbody>
</table>

* Under proportional consolidation method
** Source: ABN AMRO

### Sound financial structure (as of 1Q02)

- **Tangible fixed assets**: 35.0
- **Shareholders equity**: 24.8
- **Net Debt**: 28.7
- **Total assets (Euro billion)**

Source: ABN AMRO
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• CONCLUSIONS
Telefónica’s specific challenges: Exposure to Argentinean crisis

- **CAPEX Reduction**
  - Supplier contracts renegotiation
  - Strict fixing of opex priorities
  - Over 40% reduction during 1st quarter 2002

- **Cash Control**
  - “Zero investment model”
  - Keeping projects linked to sales

- **Cost Optimization**
  - Manage payments vs collections
  - Bad debt control

---

### Total Telefónica exposure**

<table>
<thead>
<tr>
<th>Period</th>
<th>Exposure (Million Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF exposure</td>
<td>6.0</td>
</tr>
<tr>
<td>Before devaluation</td>
<td></td>
</tr>
<tr>
<td>TEF exposure</td>
<td>3.6</td>
</tr>
<tr>
<td>12/31/01</td>
<td></td>
</tr>
<tr>
<td>TEF exposure</td>
<td>1.7</td>
</tr>
<tr>
<td>03/31/02</td>
<td></td>
</tr>
</tbody>
</table>

** Equity + Goodwill + Intragroup debt
Telefónica’s specific challenges: Repatriating funds from Brazil

**US$ 1 bn. Incoming flows**

- Exports
- Exports + other commercial and financial incoming flows

**US$ 1 bn. as % of Profits and dividends outflows**

- 14.0%
- 19.1%

- In 1998-2001 profits and dividends remittances represented on average 20% of FDI.

**Correlation exchange rate vs. Net flows to Brazil**

- 3 months of depreciation despite positive flows
- 9% of appreciation after 3 months of negative flows
- 12% of depreciation despite positive flows
Managing our options while limiting our financial exposure

**Telefónica’s specific challenges: Cash out from UMTS greenfield operations**

**CONSERVATIVE ROLL-OUT OF GSM/GPRS**
- Soft commercial launch as a MVNO

**BUILD UP + SHARE UMTS NETWORK**
- Owner of 50% of 1 of the 3 strongest UMTS networks to be built in Germany

**NON RECOURSE VENDOR FINANCING**
- 500-600 Million € already signed

**FINANCIAL CAP 2002-2003(*)**
- 800-900 MM€

**QUAM in 1Q02**
- 91,000 clients
- 58 MM€ EBITDA losses
- 38 MM€ in CAPEX

(*) EBITDA losses + Capex - Non recourse vendor financing
**Telefónica’s specific challenges: Cash out from Media assets**

- **Minimize Cash-out**
  - EBITDA (\(^*\))
    - (-34.5)
  - CAPEX (\(^*\))
    - (-14.4)
  - Financial Exp. (\(^*\))
    - (-52.0)
  - Cash Flow 1Q02 (\(^*\))
    - (-100.9)

- **Combining**
  - >60% Via Digital

- **Restructure the portfolio of assets**
  - Admira: Traditional Media, advertising-based, oriented to the Spanish speaking market
  - Telefónica Contenidos: Lead the convergence of content & applications, to drive broadband development

- **Consider selective divestitures**
  - Assess potential divestitures
    - when Telefónica is not the natural owner
    - Non-core businesses
    - Regulatory obligations

\(^*\) Fully consolidated subsidiaries and A3, Vía Digital and Onda Cero.
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• CONCLUSIONS
Telefónica enjoys the best financial position among the large integrated European operators

### Net debt position and rating* (Euro billion)

<table>
<thead>
<tr>
<th></th>
<th>Telefónica</th>
<th>Deutsche Telekom</th>
<th>France Telecom</th>
<th>British Telecom</th>
<th>Telecom Italia**</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2/A</td>
<td>28.9</td>
<td>62.1</td>
<td>62.5</td>
<td>24.0</td>
<td>36.9</td>
</tr>
<tr>
<td>A3/A-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BAA-/BBB+</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BAA1/-/A-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BAA1/-/BBB+</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

### Debt capacity position

#### Net Debt / EBITDA 2001

<table>
<thead>
<tr>
<th></th>
<th>Telefónica</th>
<th>Deutsche Telekom</th>
<th>France Telecom</th>
<th>British Telecom</th>
<th>Telecom Italia**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.3</td>
<td>4.1</td>
<td>5.1</td>
<td>2.5</td>
<td>2.7</td>
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</tbody>
</table>

#### EBITDA / Interest expenses 2001

<table>
<thead>
<tr>
<th></th>
<th>Telefónica</th>
<th>Deutsche Telekom</th>
<th>France Telecom</th>
<th>British Telecom</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>6.9</td>
<td>3.7</td>
<td>3.0</td>
<td>4.7</td>
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</table>
### Debt Ratios Evolution

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net debt (Million euros)</strong></td>
<td>20,472</td>
<td>26,951</td>
<td>28,942</td>
</tr>
<tr>
<td><strong>EBITDA (Million euros)</strong></td>
<td>10,885</td>
<td>11,919</td>
<td>12,804</td>
</tr>
<tr>
<td><strong>Financial Expenses (Million euros)</strong></td>
<td>1,429</td>
<td>1,860</td>
<td>1,862</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
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<tbody>
<tr>
<td>Net Debt/EBITDA</td>
<td>1.88</td>
<td>2.26</td>
<td>2.26</td>
</tr>
<tr>
<td>EBITDA/Financial Expenses</td>
<td>7.62</td>
<td>6.41</td>
<td>6.88</td>
</tr>
</tbody>
</table>
Quarterly net debt evolution

Net debt evolution (Million euros)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net Debt</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>4Q99</td>
<td>20,472</td>
<td></td>
</tr>
<tr>
<td>1Q00</td>
<td>20,966</td>
<td>500</td>
</tr>
<tr>
<td>2Q00</td>
<td>22,091</td>
<td>1,125</td>
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<tr>
<td>3Q00</td>
<td>28,036</td>
<td>6,615</td>
</tr>
<tr>
<td>4Q00</td>
<td>26,951</td>
<td>-2,745</td>
</tr>
<tr>
<td>1Q01</td>
<td>29,580</td>
<td>2,701</td>
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<tr>
<td>2Q01</td>
<td>31,244</td>
<td>1,664</td>
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<tr>
<td>3Q01</td>
<td>29,731</td>
<td>-1,514</td>
</tr>
<tr>
<td>4Q01</td>
<td>28,942</td>
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</tr>
<tr>
<td>1Q02</td>
<td>28,684</td>
<td>-258</td>
</tr>
</tbody>
</table>
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• CONCLUSIONS
CONCLUSIONS

✓ We are actively addressing sector & company challenges
✓ Efficiency continues to be a key pillar in our strategy
✓ We are committed to financial management and discipline
✓ We have strengthened our one company model
✓ Our commitments will deliver tangible results in terms of return over capital employed and cash flow generation

Telefónica is committed to strong FCF generation