

European TMT Conference



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Barcelona

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Telefonica



SAFE HARBOUR

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4 CONCLUSIONS

WE BELIEVE TELEFONICA HAS ALREADY BOTTOMED, WITHIN AN EVOLVING SECTOR

Ambitious market expectations for demand

Rapid access to financing

Booming M&A



- ✓ Starting network renovation towards Broadband
- ✓ Internet expansion
- ✓ Boom of mobile telephony
- ✓ Liberalization
- ✓ Positive macro picture

90's

2000

- ✓ Delay in technology availability
- ✓ Over-investment & Over-capacity
- ✓ Advertising-Internet crisis
- ✓ Overvalued prices (3G & M&A)
- ✓ Negative macro picture



Deceived market expectations for demand

Reduced sources of financing

Operators in financial distress

TODAY

⇒ **SECTOR REORIENTED TO CAPITAL RATIONING, FINANCIAL & STRATEGIC RESTRUCTURING, AND FCF GENERATION**

⇒ **SURVIVORS WOULD END THIS PROCESS STRONGER**

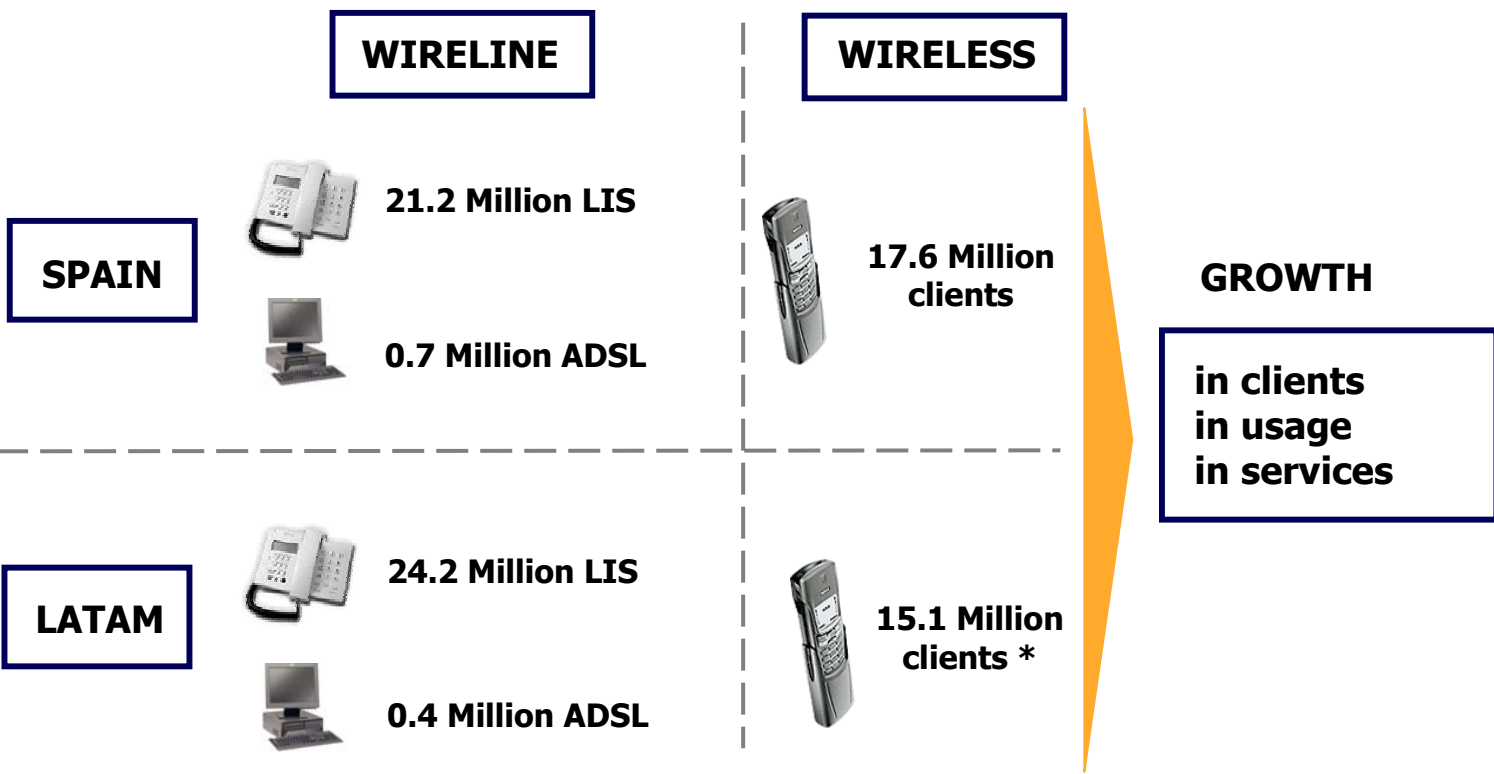
⇒ **TELEFÓNICA IS AHEAD OF SECTOR MOVEMENTS**

WE HAVE DONE OUR HOMEWORK IN ALL KEY FACTORS

- ✓ **Focus on core businesses and natural markets**
- ✓ **Consistent effort to increase productivity**
- ✓ **Commitment to financial discipline**
- ✓ **Active management of regulatory & competitive scenarios:**
 - ⇒ **our markets are fully liberalized**
 - ⇒ **price decreases already done**
- ✓ **Linking capex to future revenue sources**
- ✓ **Effort on stopping losses from non-performing businesses**

WE HAVE DONE OUR HOMEWORK IN ALL KEY FACTORS

FOCUS ON CORE BUSINESSES AND NATURAL MARKETS



- ✓ From 80.3 MM clients to 100 MM in 2004
- ✓ Potential target of more than 500 MM pops
- ✓ N°1/N°2 in all key wireline and wireless markets
- ✓ Latam penetrations are an opportunity (17.5% & 19.1% in wireline and wireless)**

Latam as growth opportunity

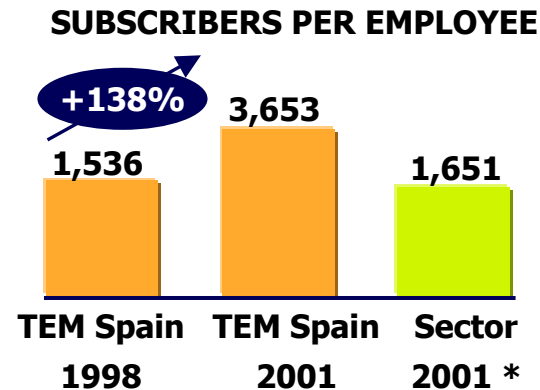
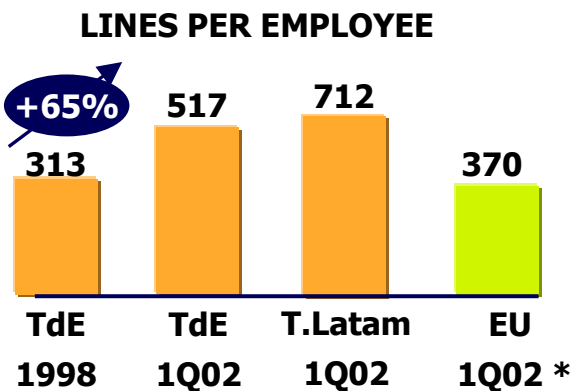
* Including Medi Telecom.

** Source: Subtel, Subsecretaria de Telecomunicaciones del Gobierno de Chile as of year end 2001 (average of Mexico, Chile, Argentina, Brazil and Peru).

5 Operating data as of June 2002.

WE HAVE DONE OUR HOMEWORK IN ALL KEY FACTORS

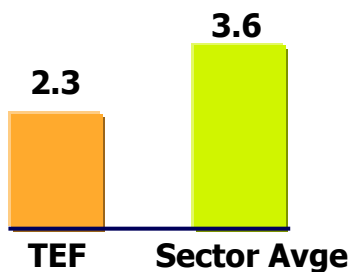
A CONSISTENT EFFORT TO INCREASE PRODUCTIVITY



Restructuring costs will not be a burden in TEF accounts

A COMMITMENT TO FINANCIAL DISCIPLINE

NET DEBT/EBITDA **



✓ 5.5 Bn. € debt reduction in just 1 year
 ✓ 2002 funding needs already covered before asset sales

* Includes FT, TI, DT and BT. Source: company reports as of 03/31/02, except FT (FY 2001). For Mobile: Orange (France & UK), Sonera, Vodafone España and Amena.

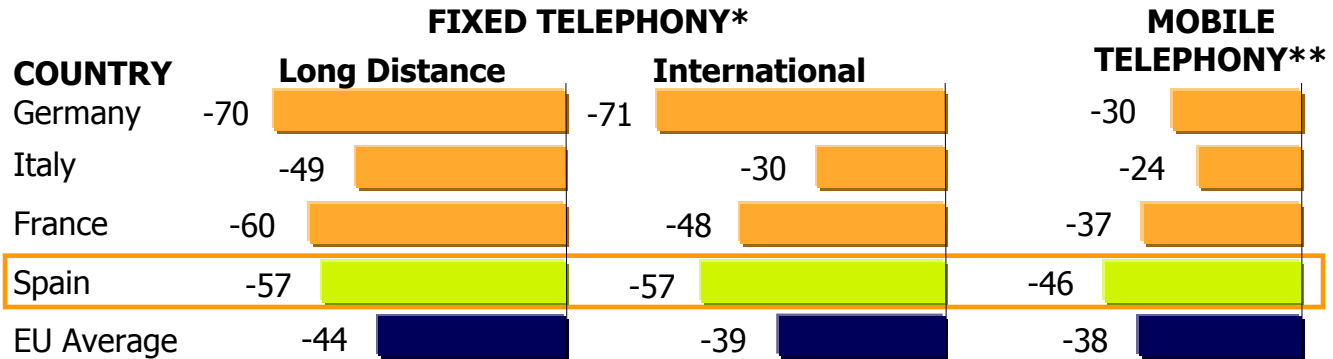
** Source: Lehman Brothers (data as of year-end 2001). Average includes FT, TI (incl. Olivetti Net Debt), DT and BT.

WE HAVE DONE OUR HOMEWORK IN ALL KEY FACTORS

A MARKET FULLY LIBERALIZED

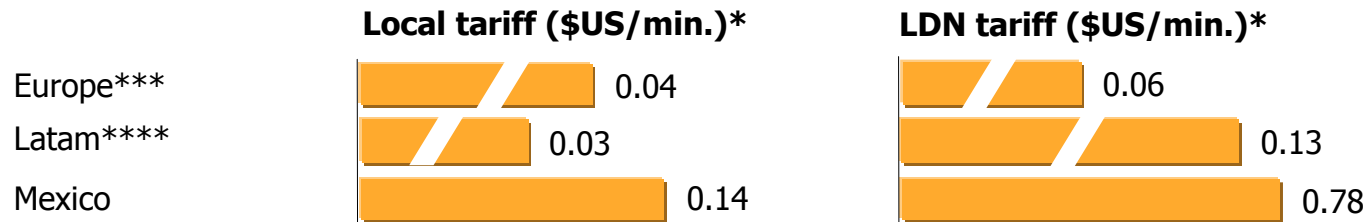
- ✓ All possible alternatives for ULL since January 2000
- ✓ Carrier pre-selection since 1Q00, including local traffic since 1Q01
- ✓ Regulated retail and wholesale prices for flat-rate Internet and ADSL
- ✓ Capacity-based voice interconnection since 4Q01

CUMULATIVE 1998-2001 TARIFF CUTS (%)



PRICE CUTS ALREADY DONE

NOMINAL TARIFFS



* Nominal tariff for a 3 min. call in peak hour. Including set-up charge and excluding VAT.

** ARPU/MOU.

*** Spain, Italy, UK, Denmark, Belgium, Ireland, Portugal, Luxembourg, Austria, Netherlands, Norway and Switzerland.

**** Brazil, Chile, Peru and Uruguay.

***** Exchange rate as of 9-13-2002 (9,96 MXN/US\$)

WE HAVE DONE OUR HOMEWORK IN ALL KEY FACTORS

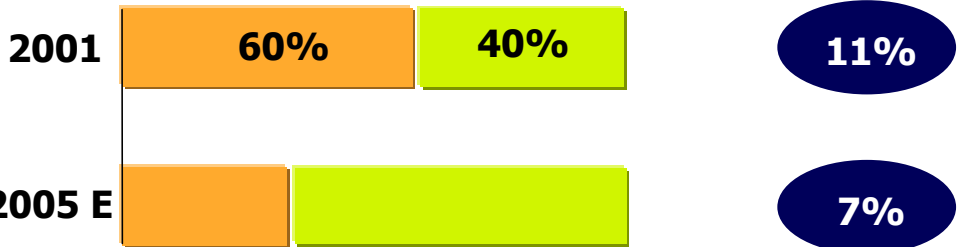
LINKING CAPEX TO FUTURE REVENUE SOURCES

DOMESTIC WIRELINE

CAPEX BREAKDOWN (%)

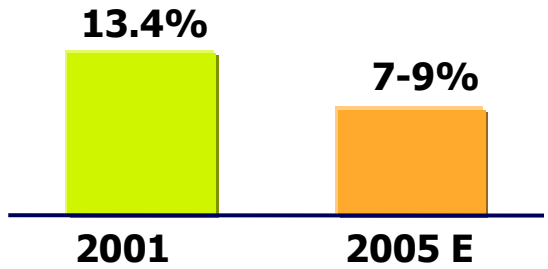
TRADITIONAL CAPEX
REVENUES

TRADITIONAL TRANSFORMATION

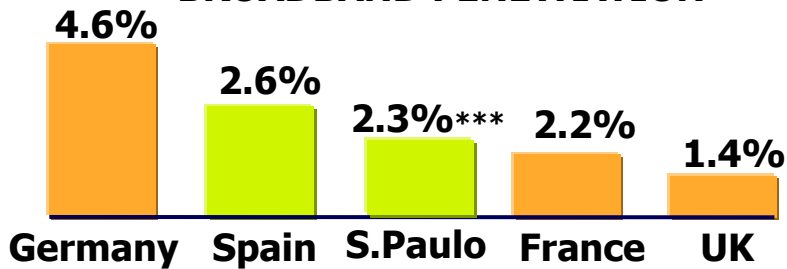


DOMESTIC WIRELESS

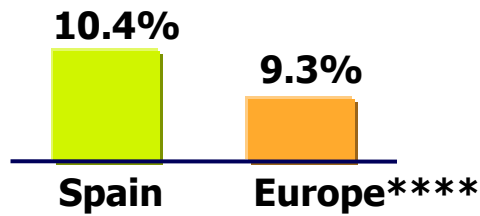
TOTAL CAPEX
REVENUES



BROADBAND PENETRATION *



DATA ARPU
TOTAL ARPU **



* April 2002. Broadband accesses/Total households.

** December 2002, 12 Month Rolling

*** Total households as of end year 2000

**** Average of VOD Germany, VOD UK, mm02 UK, Orange France, TIM Italy

WE HAVE DONE OUR HOMEWORK IN ALL KEY FACTORS

DECISION TO STOP LOSSES FROM NON-PERFORMING BUSINESSES

Concerns over Telefónica

- UMTS outside Spain
- Data green-field operations
- Traditional Media portfolio



Business Initiatives

- ✓ Freeze all UMTS operations outside Spain
 - ⇒ saving 1.8 Bn.€ of EBITDA losses in 2002-2005
 - ⇒ saving 2.4 Bn.€ of net losses in 2002-2005
- ✓ Data green-field operations: non-core in the medium term
- ✓ Via Digital/Sogecable merger agreement
- ✓ Traditional media: explore alternatives to divest Admira

Asset Sales

- ✓ Azul TV
- ✓ ETI

Latam exposure in a crisis scenario

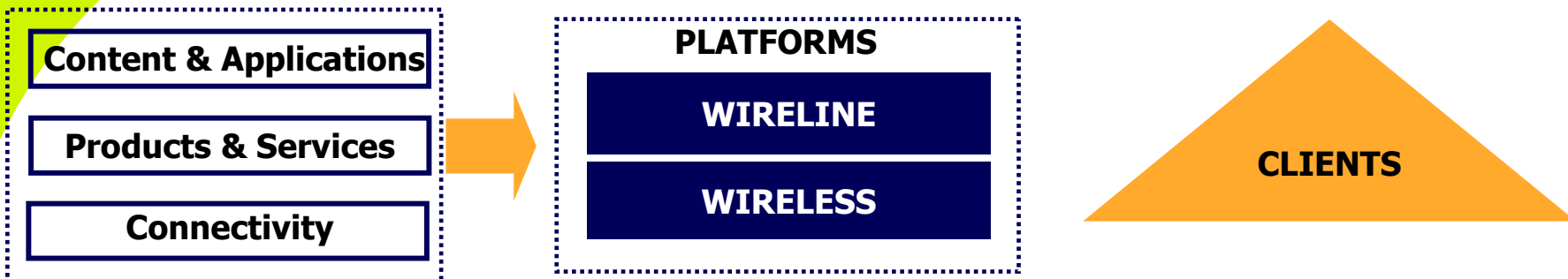


CF GENERATION AND LIQUIDITY PROTECTION

WE ARE ACTIVELY IMPROVING THE OUTLOOK OF OUR BUSINESSES

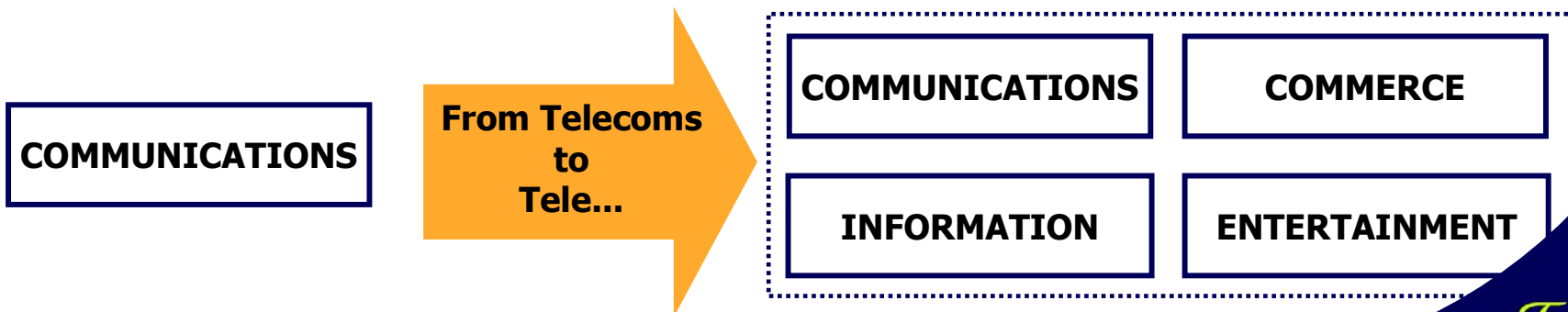
1

WE ARE POSITIONED TO CAPTURE BUSINESS OPPORTUNITIES BEYOND CONNECTIVITY



The new business opportunity means:

- ✓ Sell more proprietary and third parties content, applications and Product & Services on top of connectivity
- ✓ Push "Telefónica Contenidos" towards generating broadband tailored-made content Endemol IPO to leverage its growth potential
- ✓ Roll-out broadband platforms to extract all potential from interactive VAS
- ✓ Critical mass is key to this business transformation (more than 80 million clients and #1 in Spain and Latam)
- ✓ Only the early adopters would capture this opportunity



LATAM: STRONG CASH FLOW GENERATION IN A CRISIS SCENARIO

WIREFINE	LIS '000 (Jun 02)	FCF (*) 1H02 (Mill. Euros)	% Aprec/(Deprec.) local currency vs Euro
Argentina	4,447	231	-63.0%
Brasil	12,512	797	-11.9%
Chile	2,760	213	-8.6%
Peru	1,764	282	0.1%
TOTAL	21,483	1,523 (+63.0%)	-16.9% (**)

WIRELESS	Customers '000 (Jun 02)	FCF (*) 1H02 (Mill. Euros)	% Aprec/(Deprec.) local currency vs Euro
Argentina	1,662	21	-63.0%
Brasil (***)	6,035	228	-11.9%
Chile	1,710	41	-8.6%
Mexico	1,281	-1	-9.6%
Peru	1,181	48	0.1%
TOTAL	11,868	337 (+20.4%)	-12.9% (**)

(*) FCF = EBITDA before management fee - CAPEX.

(**) Weighted by FCF.

11 (***) Includes TeleLeste in 2001.

BRAZIL: FOCUS ON CASH FLOW GENERATION

WIRELINE

	1H02 (Mill. euros)	% var. local currency
EBITDA (*)	1,117	12.3%
CAPEX	320	(63.2%)
Cash-flow	797	C.S.

-134 Mill. euros in 1H01

WIRELESS (**)

	1H02 (Mill. euros)	% var. local currency
EBITDA (*)	283	4.3%
CAPEX	55	14.5%
Cash-flow	228	1.3%

(*) EBITDA before management fee.

(**) Including TeleLeste in 2001.

KEY DIFFERENCES BETWEEN BRAZIL AND ARGENTINA

MACROECONOMICS

Average GDP growth (%) 1998-2002

2%

-6%

Nominal GDP 2002 E (USD in Million) *

451,000

125,000

VULNERABILITY

Average Primary Fiscal Surplus (% GDP) 1998-2002

2.3%

0.9%

Total Tax Revenues (% GDP)

32%

17%

Annual Average FDI 1998-2002 (% GDP)

22%

3%

Total Foreign Debt change 1997-2001

-14%

22%

Reserves/Foreign Debt Service (%) 1Q02

420%

190%

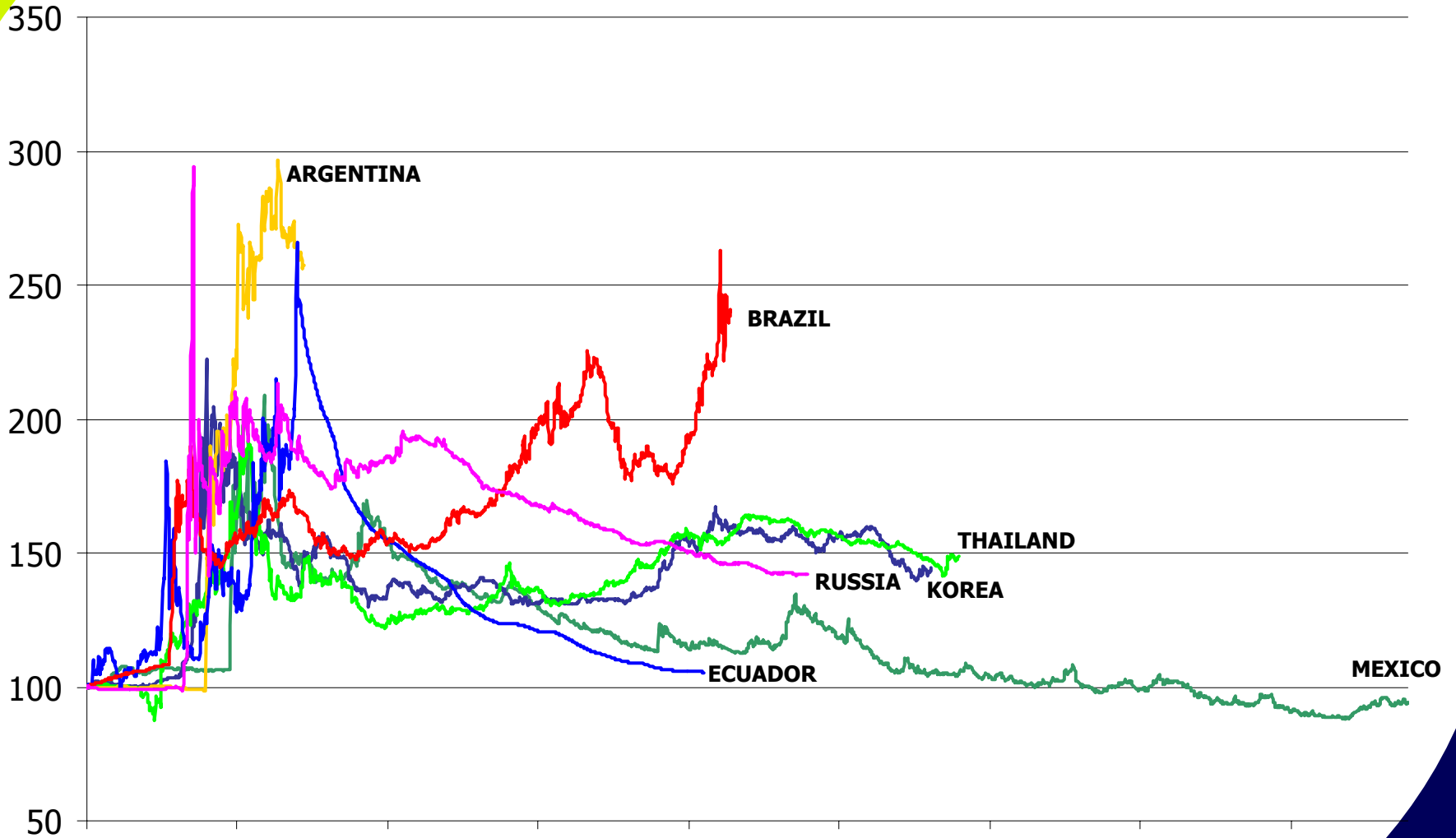
BRAZIL

- **Responsibility Fiscal Law**
- **Inflation Targets & Central Bank Independence**
- **Floating Exchange Rate Regime**
- **Multilateral Funding**
- **Political Consensus on Major Economic Guidelines**

* Market Consensus.

Sources: Instituto Brasileiro de Geografia y Estadística (IBGE), Instituto de Estadísticas y Censos de la Argentina (INDEC), Ministerio de Hacienda de Brasil, Ministerio de Economía de la Argentina, Banco Central de Brasil (BACEN), Banco Central de la Argentina (BCRA). INEGI, CEPAL y Banco Central de México.

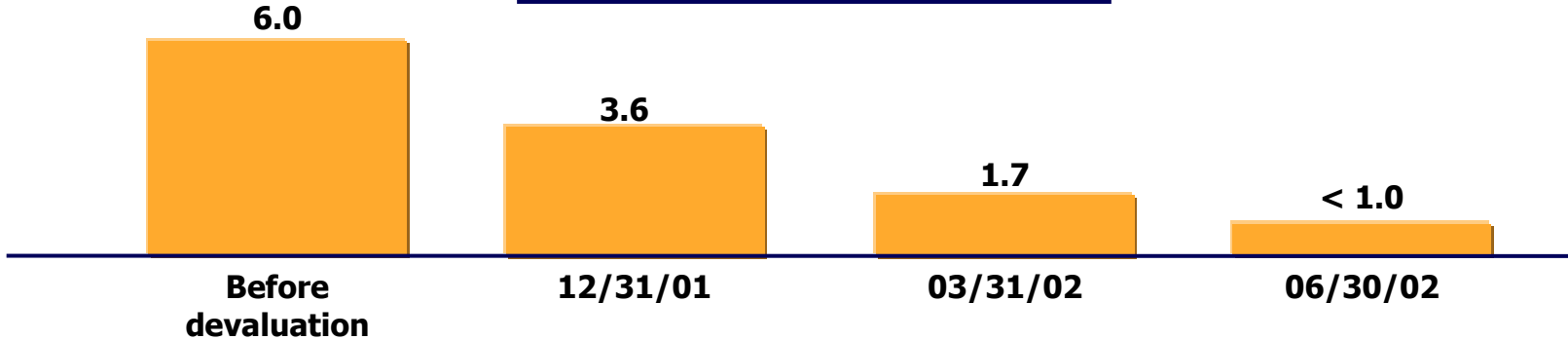
BRL REAL EXCHANGE RATE EXTREMELY DEVALUATED



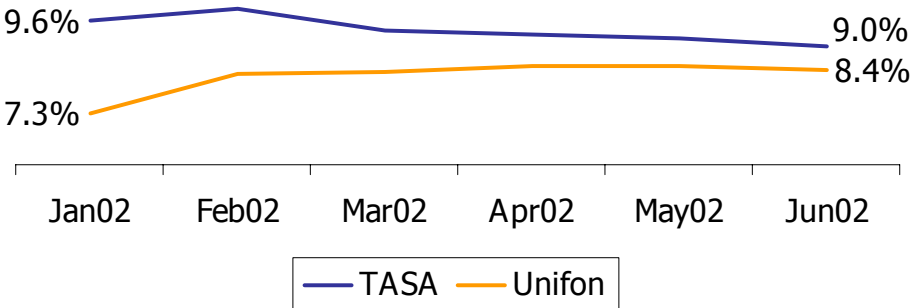
Real exchange rate (index =100 pre-devaluation)

ARGENTINA: THINGS DO NOT WORSEN DESPITE THE NEGATIVE ECONOMIC ENVIROMENT

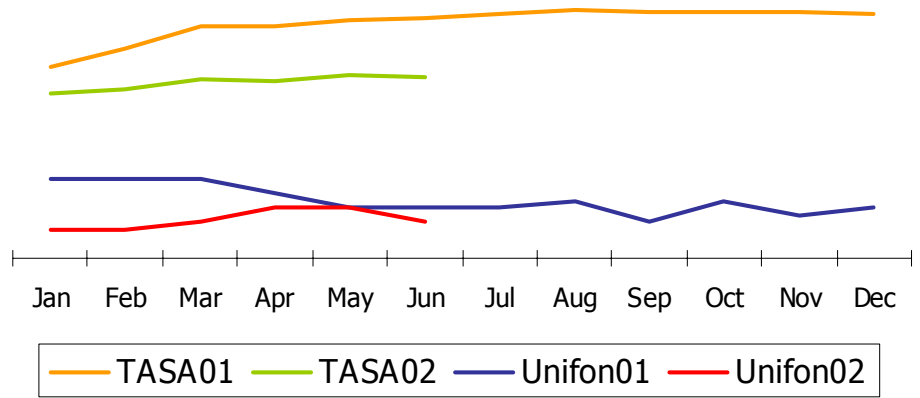
TELEFÓNICA EXPOSURE TO ARGENTINA (€ in Billion)



Bad debt (% Provision / Revenues)

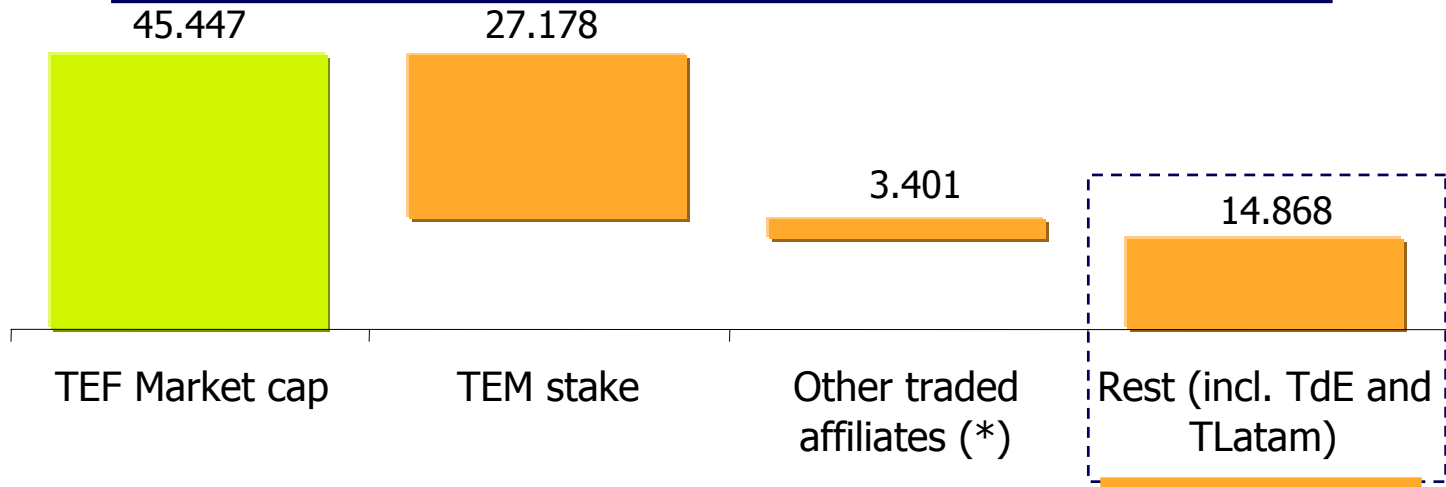


Average daily traffic (minutes) (*)

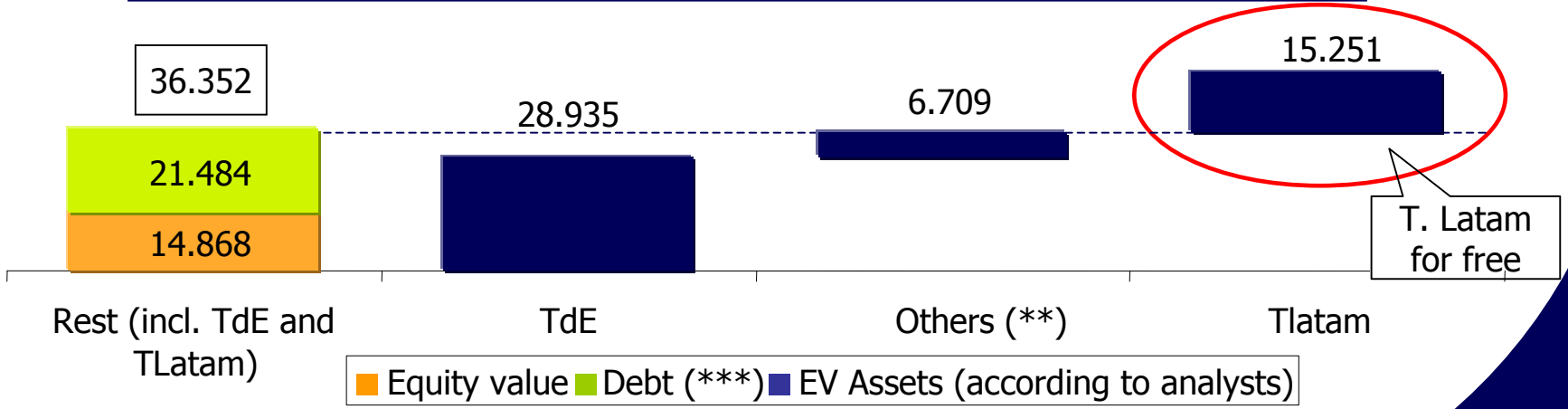


LATIN AMERICA IS A FREE OPTION FOR OUR INVESTORS

TEF AND AFFILIATES MARKET VALUE (30/08/02)



MARKET VALUE vs. INTRINSIC VALUE ACCORDING TO ANALYSTS



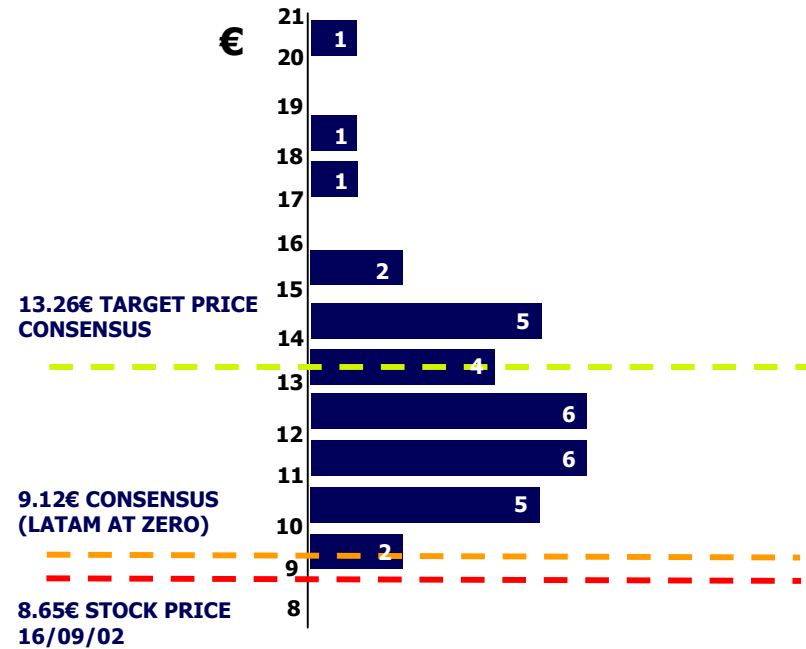
(*) Terra Lycos, TPI, Pearson, CANTV, Portugal Telecom, BBVA, Infonet, Amper.

(**) Others include: Telefónica Data, Admira, Emergia, Atento.

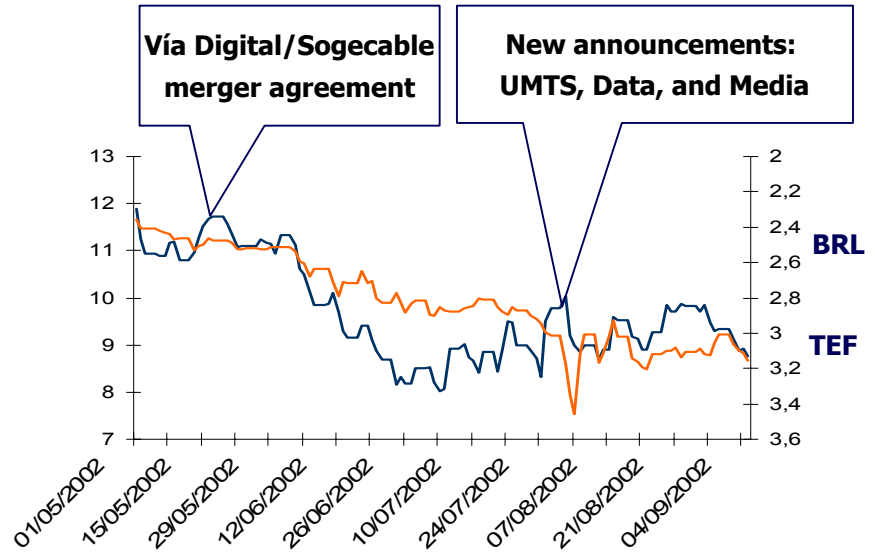
(***) TEF consolidated debt as of 30/06/02 excluding TEM, Terra Lycos and TPI, and adjusting CTC's proportionate debt.

LATIN AMERICA IS A FREE OPTION FOR OUR INVESTORS

TARGET PRICE FREQUENCIES (N° of recommendations)



TEF STOCK PRICE VS BRL



⇨ **SHORT-TERM MOMENTUM DRIVEN MARKET**

⇨ **LATAM RISK AVERSION AND GLOBAL EQUITY FEARS KEY DRIVERS**

EVEN WITH LATAM AT ZERO VALUE, THE MARKET CONSENSUS* FOR THE STOCK IS HIGHER THAN CURRENT PRICE

* BI CAPITAL, CAI CHEUVREUX, ABN AMRO, BANK OF AMERICA, GOLDMAN SACHS, LEHMAN

3

TELEFONICA IS COMMITTED TO CASH FLOW GENERATION THROUGH...

TELEFONICA IS FOCUSED ON

Core businesses and natural markets

Stop losses from non-performing businesses

Cost efficiency

Capex rationalization

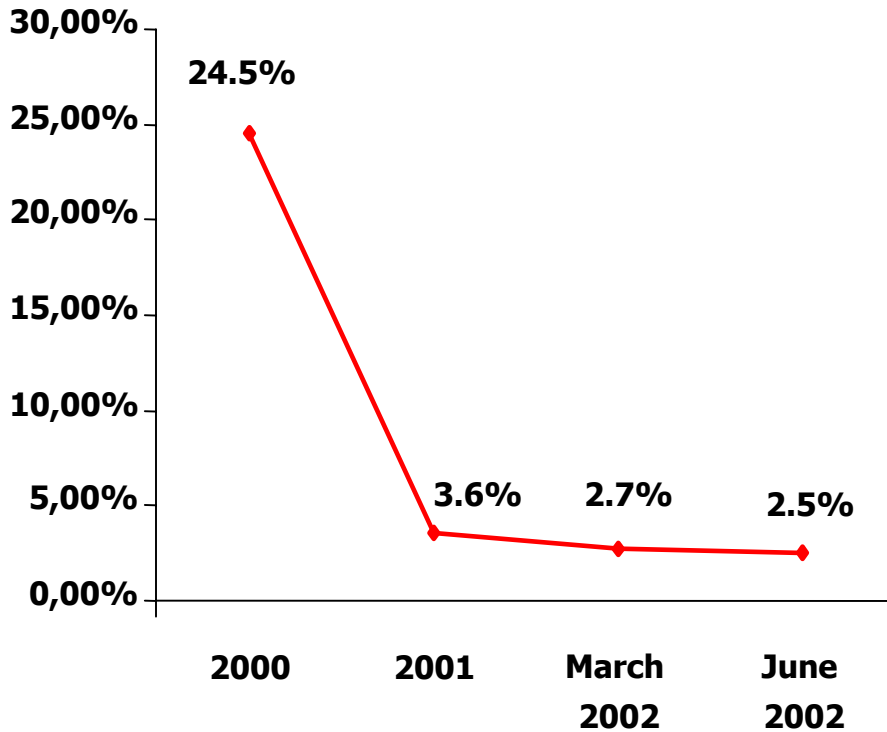
TO

DRIVE CASH FLOW AHEAD OF THE INDUSTRY

WITH A CLEAR COMMITMENT TO IMPROVE SHAREHOLDER'S RETURN

3 ...COST EFFICIENCY...

WE ARE DELIVERING ON MANAGING COSTS...
(Annual % Change Operating expenses*)



... AND CONTINUE TO WORK ON FURTHER COST CUTTING

Wireline

- ✓ Outsourcing non-core activities
- ✓ Control commercial expenses, external services and supplies
- ✓ e-business initiatives

Wireless

- ✓ Centralized handset procurement model
- ✓ Additional economies of scale and synergies

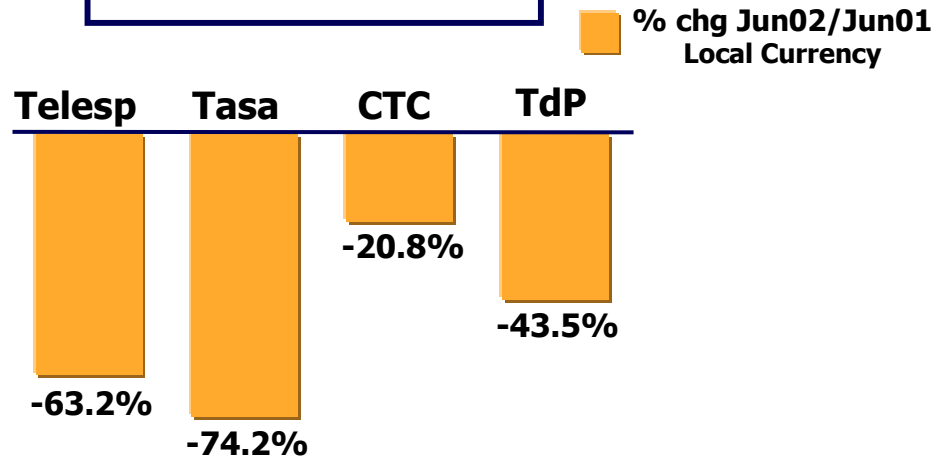
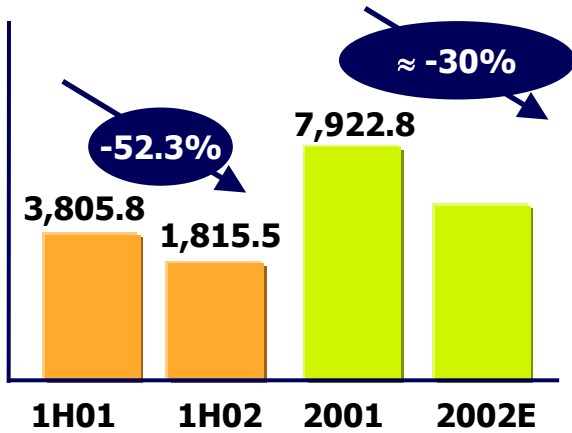
CONSISTENTLY KEEPING GROUP EBITDA MARGIN ABOVE 41%

* Excluding Foreign Exchange effects and changes in consolidation to fiscal accounts.

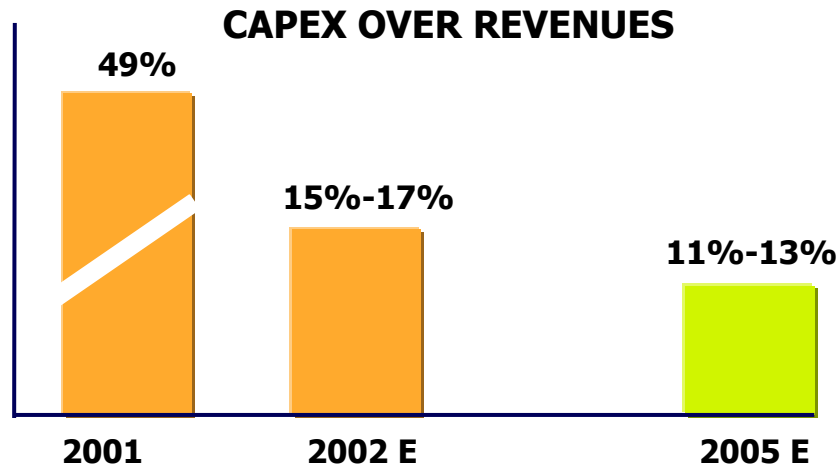
...AND CAPEX RATIONALIZATION...

AN EFFORT ON CAPEX CONTROL...

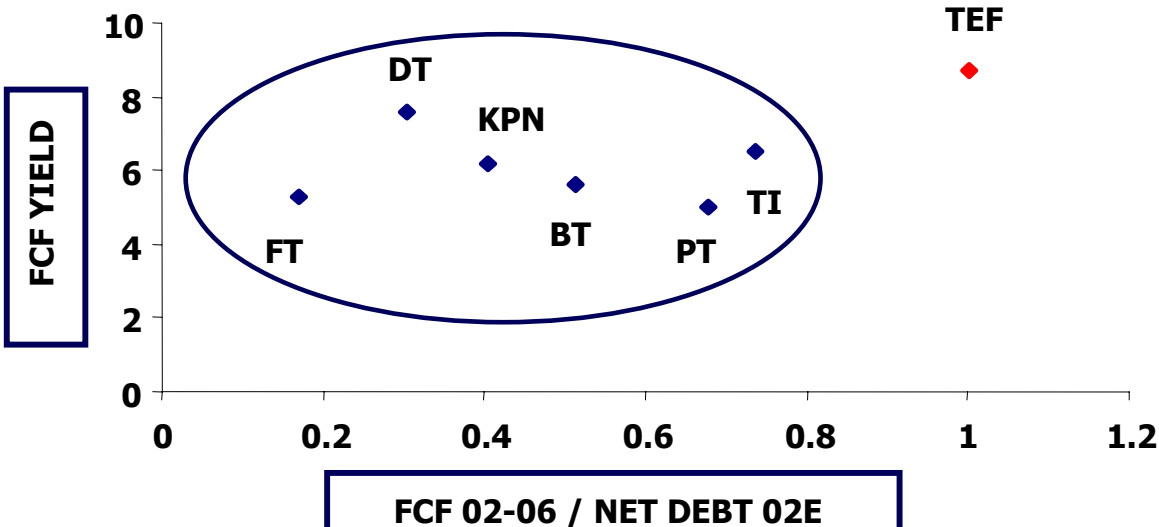
... DRIVEN BY LATAM



TELESP: AN EXAMPLE OF CAPEX RATIONALIZATION



A PRIVILEGED POSITION AMONGST THE PEER GROUP*



FCF 1H02 (€ in Bn.) **

TEF	4.3
LATAM	1.5

- ⇒ Best financial position among incumbents
- ⇒ Capex rationalization, compatible with organic growth



- ⇒ Amortize treasury stock up to 2% of capital
- ⇒ Reinstate cash dividend in 2003
- ⇒ Reduce debt further

* SSSB estimates: Industry Report, June 10th 2002. TI includes Olivetti net debt as of 3/31/02. FCF yield = (EBITDA - Capex - Interests - taxes) / Market Cap. adjusted by minorities and associates.

** EBITDA - Capex

- ✓ **Telefónica has done its homework in all key factors**
- ✓ **We have no restrictions to take advantage of growth opportunities**
- ✓ **We are focused on managing core operations in our natural markets**
- ✓ **We are actively addressing sector & company challenges to improve business outlook**
- ✓ **Latin America is contributing positively to cash flow generation despite current situation**
- ✓ **The market is not reflecting the value of Telefónica's business lines prospects**

Telefónica: a buying opportunity at current prices

Telefónica
