



Second Investor Conference

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Telefonica

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Chairman & CEO

Telefonica

Móviles

Safe harbour

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- **GROUP'S FINANCIALS**
- **CONCLUSIONS**

What has happened in the last 12 months?

SECTOR FEATURES

- ✓ TMT's strongly penalized in the capital markets.
- ✓ Delays in UMTS availability, which opens a wider time-window to develop new wireless data services & applications
- ✓ Initiatives tending to a more flexible regulatory environment in order to ensure roll-out of 3G networks

TEM'S PERFORMANCE

- ✓ **Maintained competitive position**
- ✓ **Strong capital structure**
- ✓ **Capex rationalization**
- ✓ **Successful management of "acquisition" and "retention"**
- ✓ **Leading innovation with sound track record in wireless data services & revenues**
- ✓ **Free cash-flow generation**

FLEXIBILITY TO RAPIDLY REALIGN OUR STRATEGY

We have delivered significant growth rates despite adverse economic factors

Consolidated Proforma Figures

	2001A	2001A growth
Managed customer base (MM)	29.8	28.3%
Operating revenues (MM€)	8,411	13.6%
EBITDA (MM€)	3,334	36.0%
EBITDA margin	40%	+6.5 p.p.
EBIT (MM€)	2,076	47.0%
Net income (MM€)	893	51.3%
CAPEX ¹ /operating revenues	20%	-5.9 p.p.
Free cash-flow (MM€)	871	c.s.

GENERATING HIGHER CASH-FLOWS THAN FORECASTED

We are here to address your concerns regarding TEM

Spain

- Will data revenues offset lower voice ARPUs?
- Are current EBITDA levels in Spain sustainable in the long term?
- How will capex evolve considering 3G network roll-out?
- How will you manage increasing competition & potential regulatory pressure?

3G European start-ups

- Is there any reason to continue?
- Can non-recourse vendor financing be arranged?
- Magnitude of EBITDA losses, capex & funding requirement for 3G operations

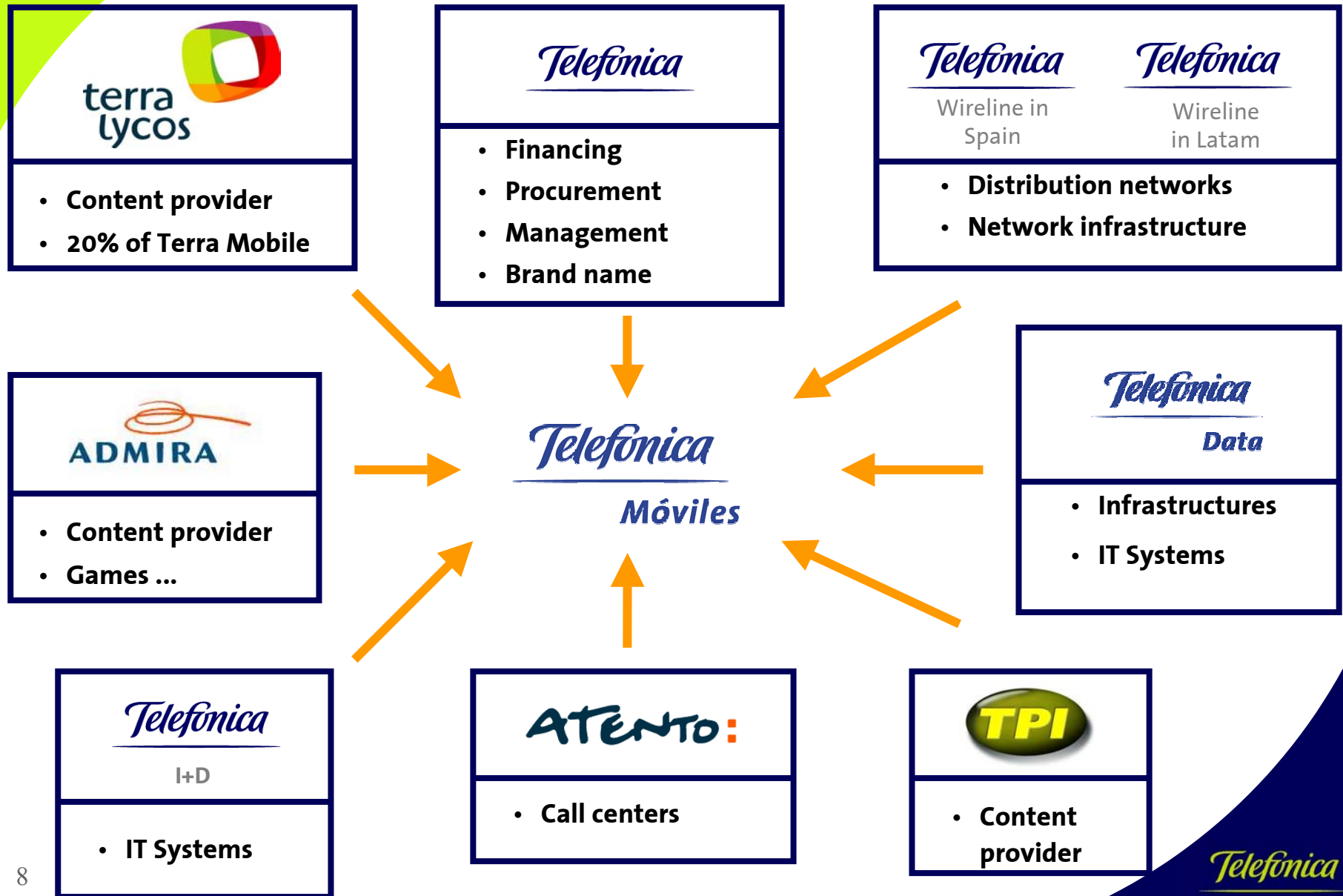
Latin America

- Credible Latin American growth story?
- Impact of the Argentinean peso devaluation
- Development of TEM-PT JV in Brazil: targets & timing
- What are your plans to increase your footprint in Mexico?

The cornerstone of our strategy continues to be incremental growth, returns and free cash flow generation



We will continue leveraging synergies from being part of the Group



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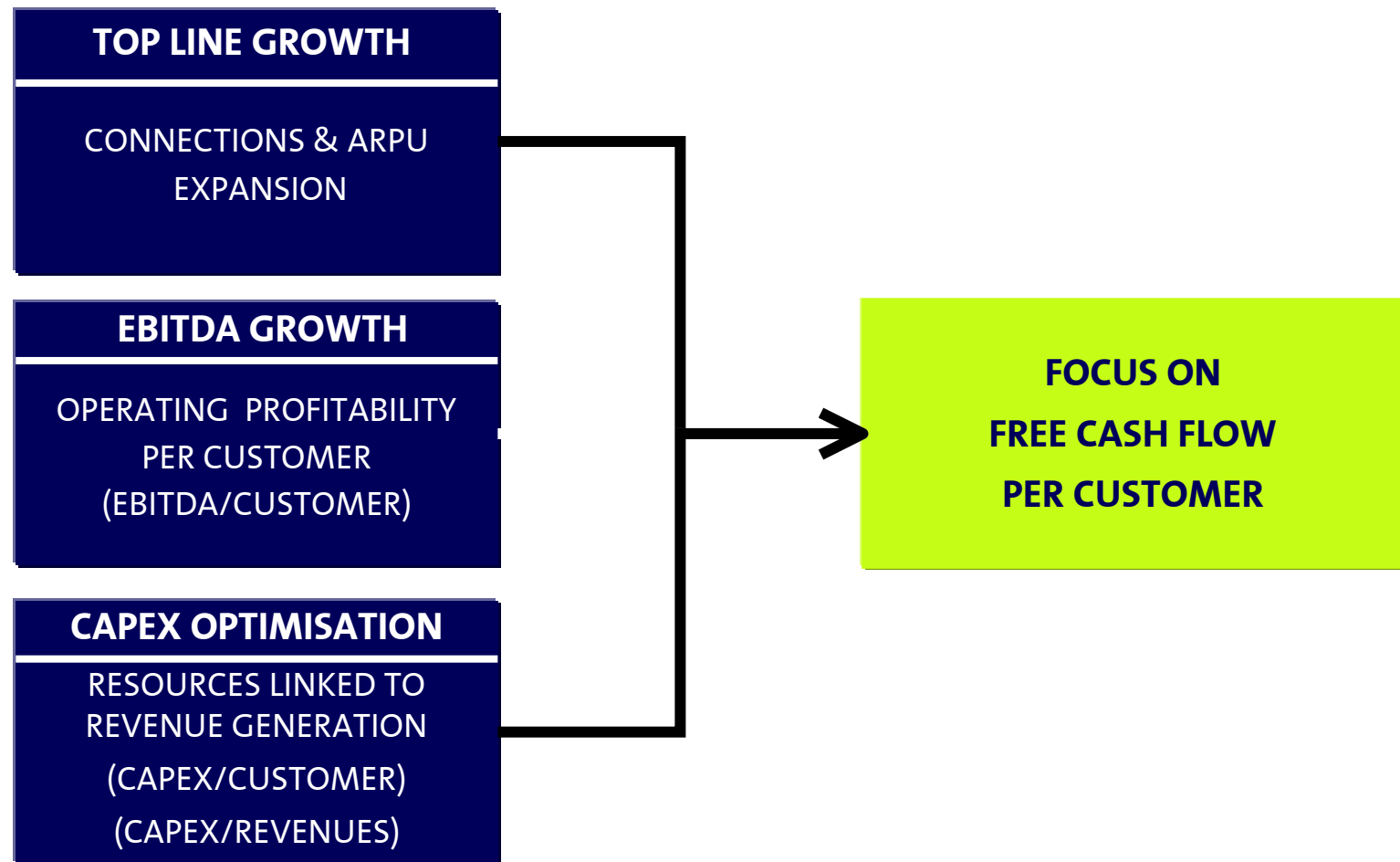
In 2001 TEM España outperformed the European wireless sector

- ✓ Quarterly net adds growth
- ✓ Significant reduction in churn rates
- ✓ Stable customer market share & higher traffic share
- ✓ Increased usage of our networks
- ✓ ARPU performance in line with peers
- ✓ Records in EBITDA margin
- ✓ Increased capex productivity

Exceptionally positive results achieved in 2001

	2001 A	2001 A growth
Customers (MM)	16.8	+23%
Operating Revenues (MM€)	5,736	+20%
EBITDA (MM€)	2,816	+57%
EBITDA margin	49.1%	+11.8 p.p
Capex ¹ / Revenues	13.6%	-5.4 p.p

With an operational strategy focused on customer profitability key drivers



WE WILL CAPITALIZE ON OUR EXCELLENT CURRENT POSITION GOING FORWARD

There's room for significant growth in revenue generation

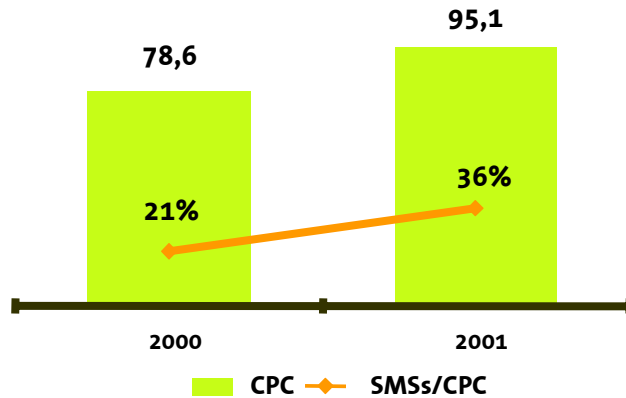
Increase number of connections

**Usage levels of existing services
are far away from saturation**

**Launch new services to boost
usage**

**ACQUIRING NEW CUSTOMERS & EXTRACTING HIGHER
VALUE FROM EXISTING CUSTOMER BASE**

We are already increasing the usage of our networks

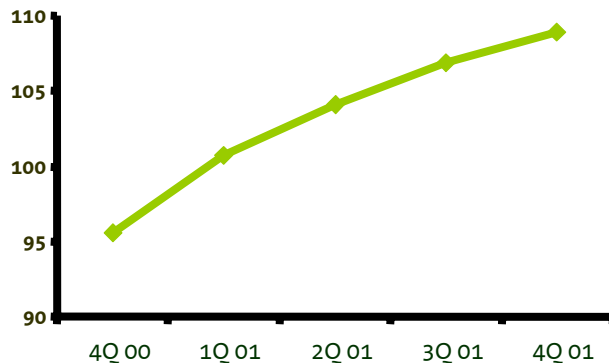


- Different usage patterns depending on average customer life in the company
- Decreasing weight of “new” customers will smooth the dilution effect on blended figures

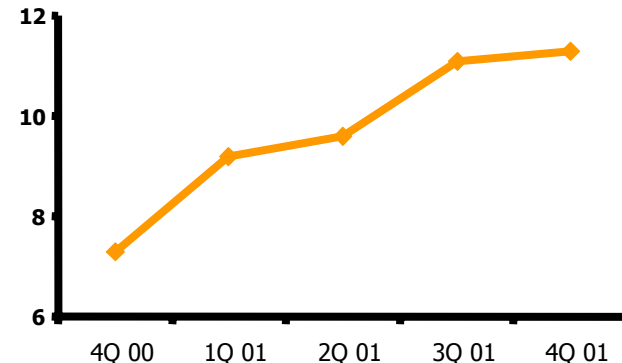
Total SMS (MM)	2,276	6,307
% Data/Customer Rev.	7.9%	13.4%
% Data/ARPU	5.9%	10.4%

Usage patterns of “old” customers show promising trends (customers > 36 months as of Dec 01)

Outgoing MOU/sub./month

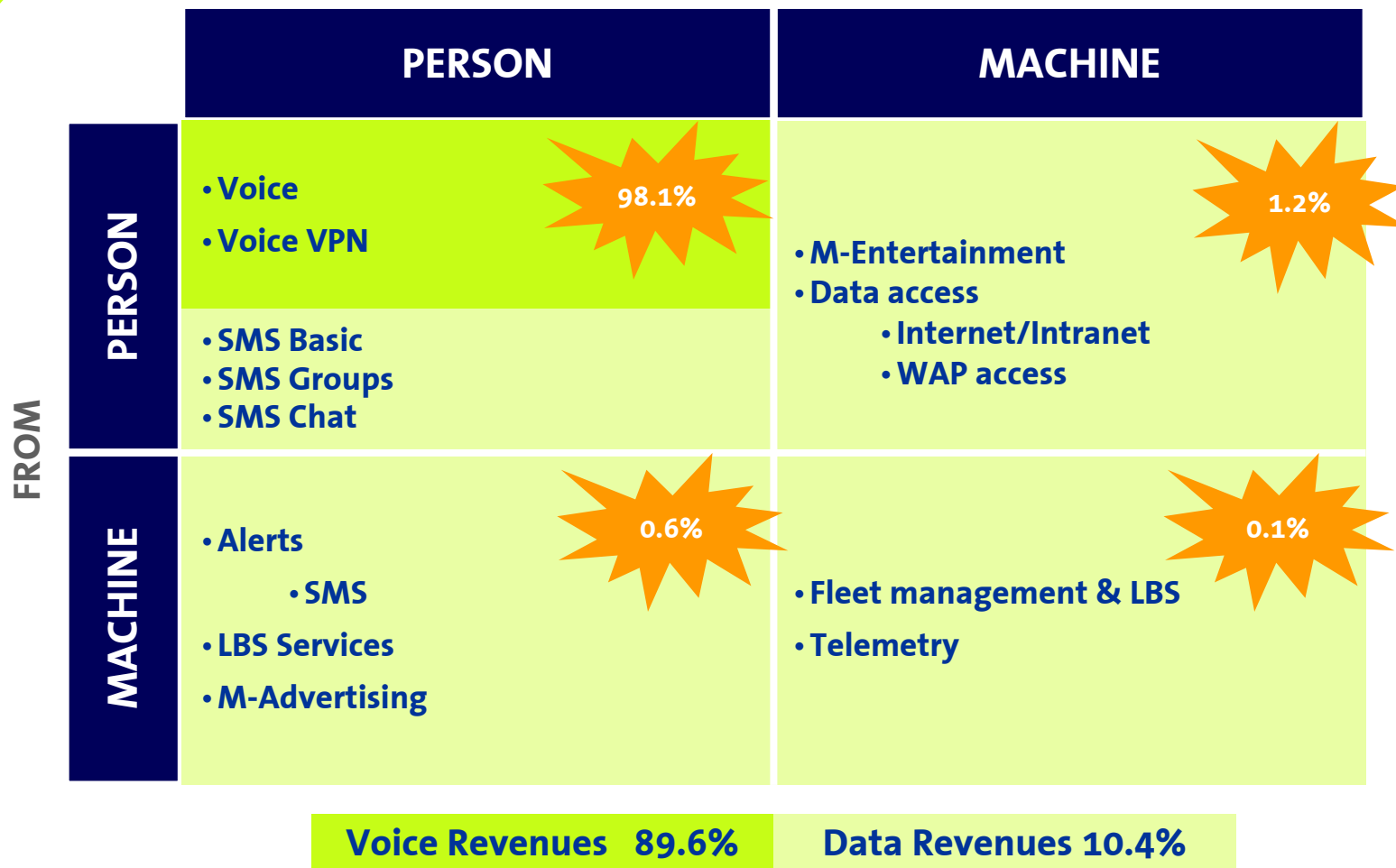


Outgoing SMS/sub./month



2001 revenue is mainly Voice-driven

TO



Innovation will result in significant changes in the 2005 revenue mix

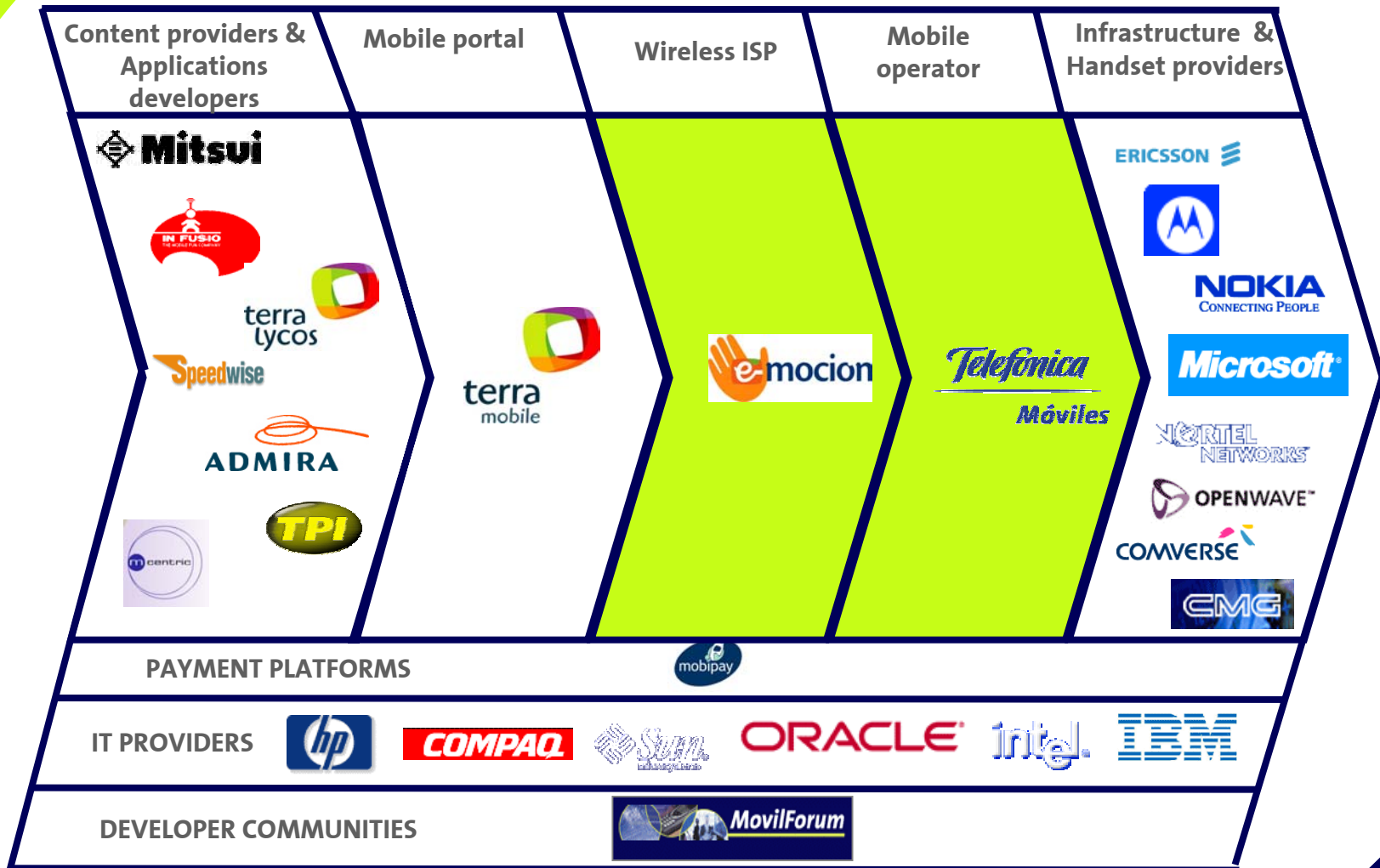
To

		PERSON	MACHINE
From	PERSON	<ul style="list-style-type: none"> • Voice • Voice VPN • Videoconference • SMS/EMS/MMS/IM • Unified Messaging • P2P Gaming/Dating <p>80%-85%</p>	<ul style="list-style-type: none"> • Voice portal • M-commerce <ul style="list-style-type: none"> • Mobipay • Micropayment • M-Entertainment • Data access <ul style="list-style-type: none"> • Internet/Intranet • Pocket Office/Data VPN <p>12-17%</p>
	MACHINE	<ul style="list-style-type: none"> • Alerts <ul style="list-style-type: none"> • SMS push • WAP push • LBS Push Services • M-Advertising & Promotions <p>2%-3%</p>	<ul style="list-style-type: none"> • Automotion & LBS • Vending • Fleet management & LBS • Telemetry <p>0.25%-0.5%</p>
		Voice Revenues 75%-70%	Data Revenues 25-30%



We are building the new “ecosystem”

- By establishing alliances along the value chain



- By designing new business models for revenue sharing

Emphasis on increasing customer value & efficiency to boost profitability

Manage customer mix to maximize cash-flow generation

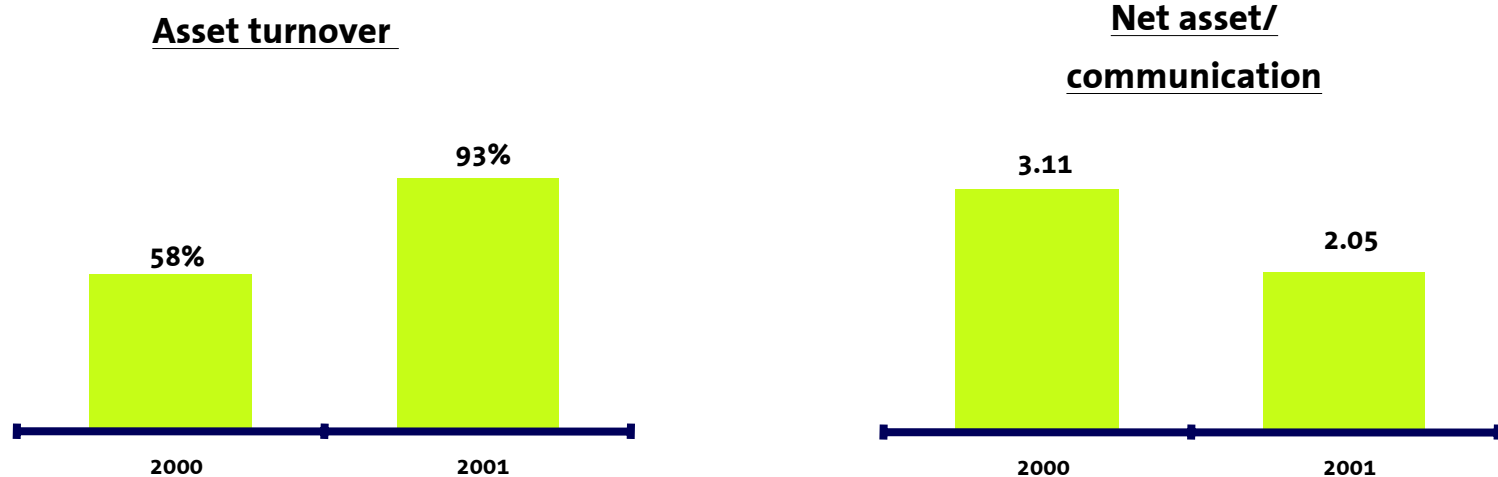
Taking advantage of a centralized handset procurement model

Maintaining “Best in class” practices

OPTIMISING COST STRUCTURE TO ENHANCE OPERATING EFFICIENCY

Capex optimisation & asset base rationalization

- High capex productivity: gross capex= technical depreciation







- Further gross capex reduction despite UMTS roll-out
- Open to network sharing agreements to further reduce capex

MAINTAINING CAPITAL EMPLOYED TO IMPROVE RETURNS

We have a clearer outlook in the regulatory environment

In RJ we pointed out

- Number portability 
- Termination fees 
- Spectrum fee 
- New players 

And since then ...

- No significant impact on our customer base
- 17% cut in termination fees in 2001
- 75% reduction in 2002
- Stable framework for the next 4 years
- Additional spectrum for existing 2G players
- No additional GSM licenses
- MVNOs' regulation based on "allowing but not imposing"

PROACTIVE APPROACH TOWARDS REGULATION

Spain: Financial projections

Financial figures in Euros

CAGR 01-05

Customers (MM)

3%-7%

Operating revenues

8%-12%

EBITDA

7%-11%

EBITDA margin by 2005

47%-51%

Capex

(3%)- 1%

Capex/operating revenues by 2005

7%-11%

FURTHER FCF GENERATION

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TEM's strategy in Germany

ROLL-OUT OF GSM/GPRS OPERATIONS WITH A CONSERVATIVE ENTRY STRATEGY

- Soft commercial launch targeted at specific segments to:
 - Limit financial exposure
 - Position brand name attributes
 - Reduce future migration costs
- Transparent, flexible, simple & competitive pricing offer
- Multichannel distribution strategy to reach targeted segments
- Targeted P&S portfolio focused on lifestyle segmentation

BUILD UP UMTS NETWORK

- G3G will own 50% of 1 of the 3 strongest UMTS networks to be built in Germany

OPEN TO OPTIONS BASED ON ACHIEVING ATTRACTIVE RETURNS

MANAGING TEM'S OPTIONALITY LIMITING FINANCIAL NEEDS

Group 3G: key goals already achieved

One year ago we mentioned

Potential network sharing agreements



- Agreement with E-Plus
- Infrastructure sharing & area sharing
- Access to E-Plus' sites

External financing



- Non-recourse vendor financing
- Potential additional external financing

Launch of operations as a MVNO



- Attractive roaming terms
- "QUAM"'s GSM/GPRS services launched

IMPROVING G3G'S BUSINESS PLAN

Group 3G: TEM's maximum financial exposure

**Figures for 100% of Group 3G
2002-2003E**

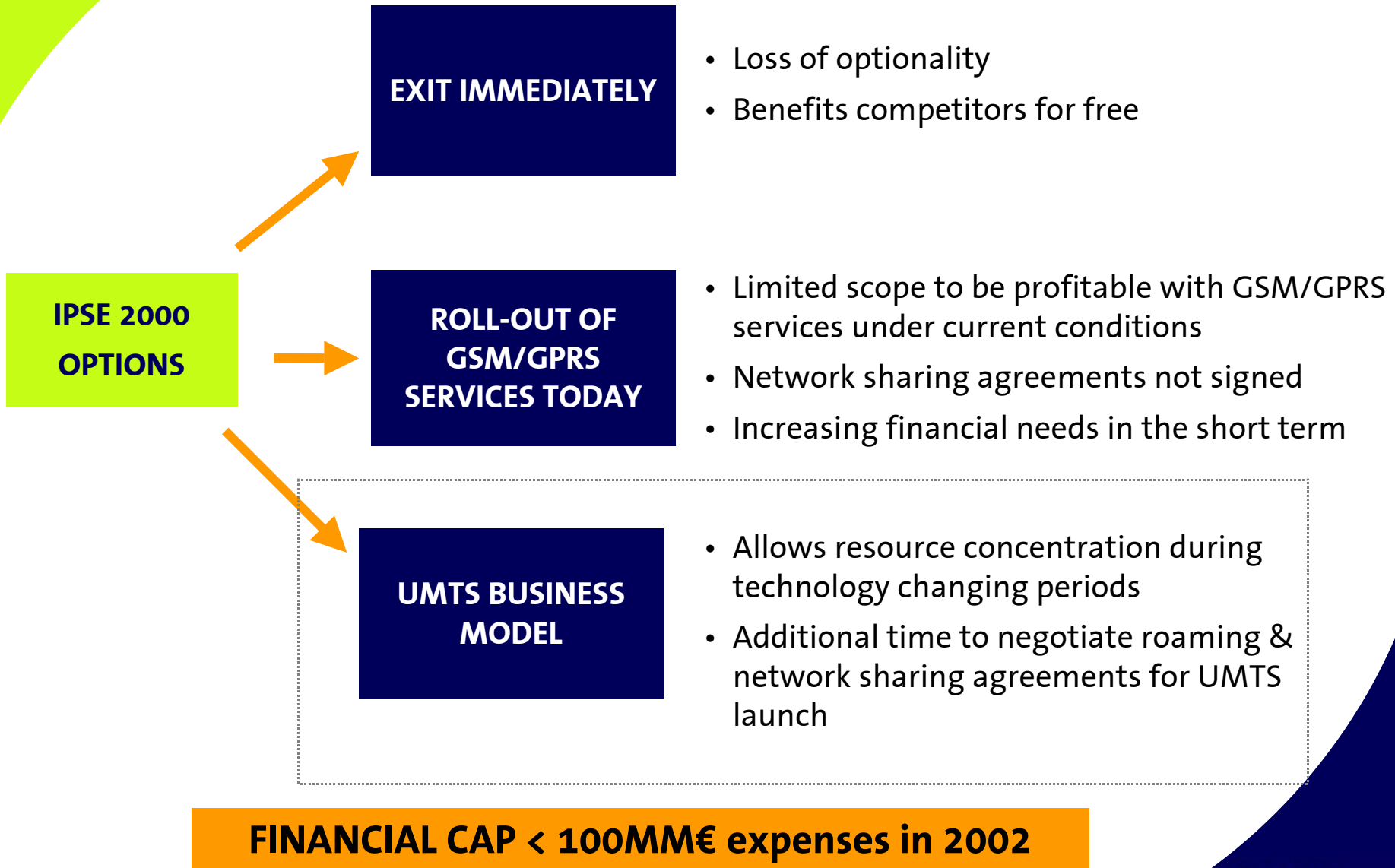
(MM€)

+ EBITDA losses ¹	650-750
+ Capex	650-750
= Additional funding	1,300-1,500
- Non recourse vendor financing	500-600
+ Additional external financing + TEM's loans	



**FINANCIAL CAP: 800-900 MM€ in
2002-2003**

Strategy in Italy



Strategy in Austria & Switzerland

- Reduced levels of operations while analysing potential 2G roaming/UMTS network sharing agreements
- Management of operations within Germany, benefiting from geographical proximity, common language & leveraging on other synergies
- Exploring new data business model

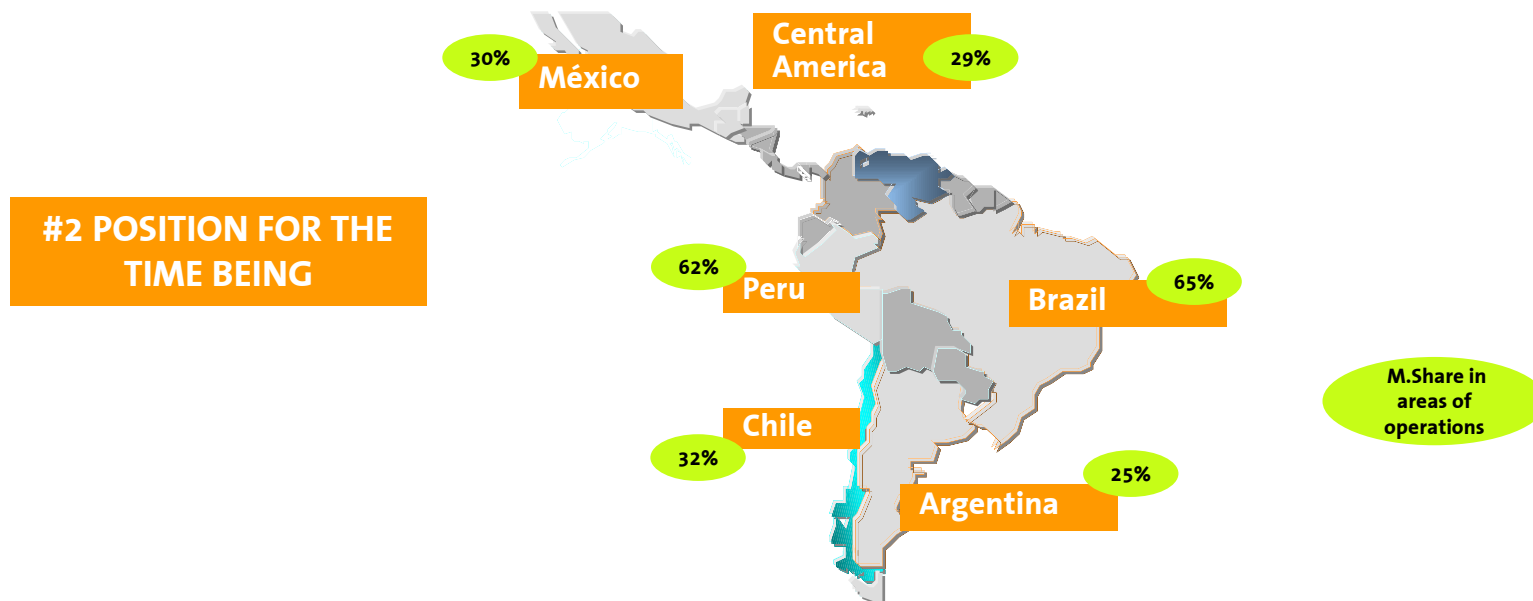
Reducing start-up costs until UMTS is launched

**STRATEGY FOLLOWED IN EACH COUNTRY IS CONTINGENT ON
MARKET'S CONDITIONS**

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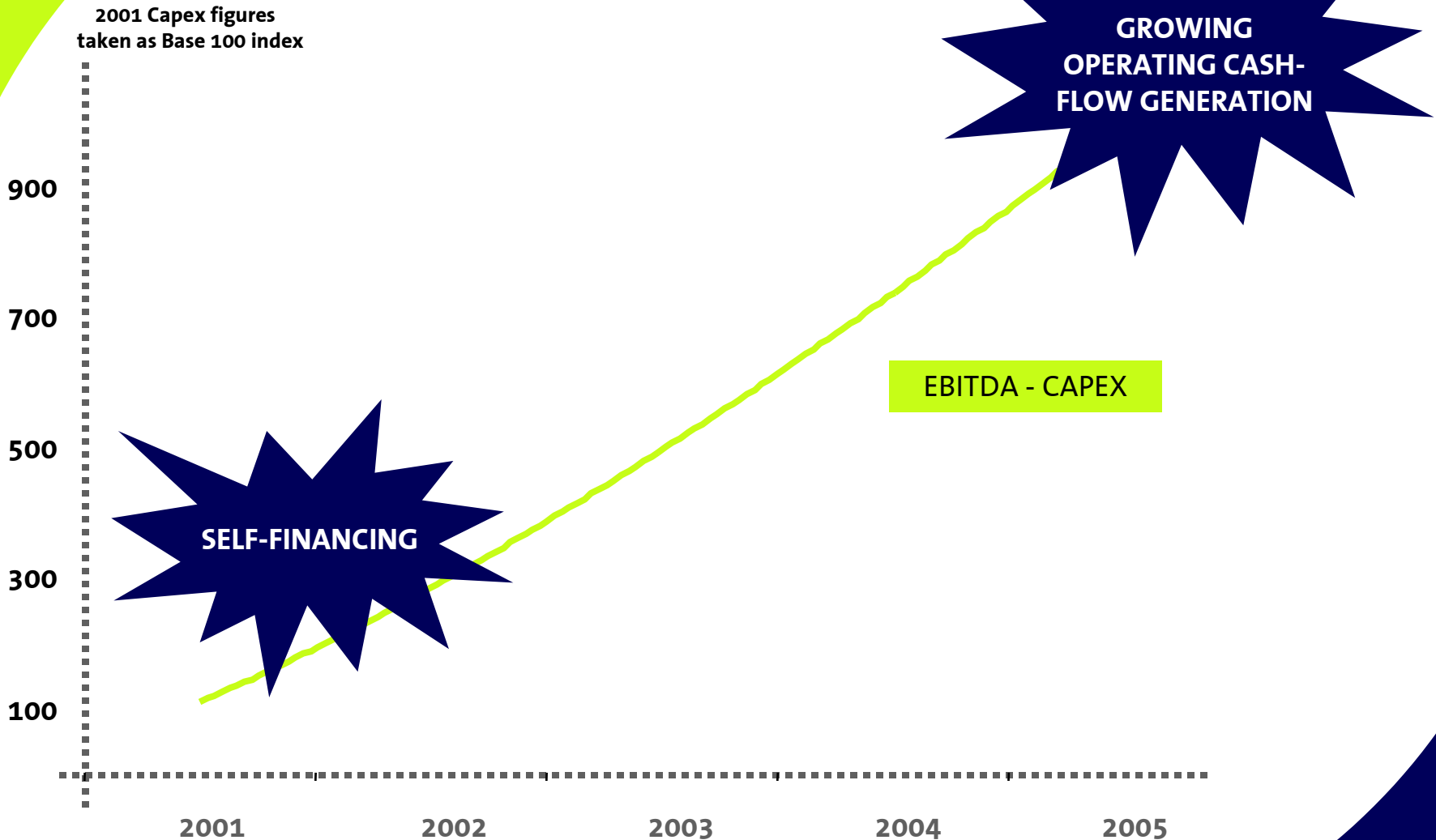
In 2001 we have reinforced our position as a leading pan-regional operator in Latin America, with presence in the largest markets



Obtaining group sound results, despite the adverse economic environment, due to our capacity to react and anticipate

	2001A	2001A growth ¹
Managed customer base ²	11,881	31.6%
Revenues ³ (MM€)	2,686	14.4%
EBITDA ³ (MM€)	684	12.8%
EBITDA margin ³	26%	-1.6 p.p.
Capex/revenues ³	22%	(-17.4 p.p.)

We are positioned our companies to strongly benefit from future economic recovery



Focusing on key markets with tailored strategies due to specific country characteristics

TEM IS PRESENT IN THE HIGHEST GROWTH REGIONS

Mexico

Penetration	<u>2001E</u>	<u>2005E</u>
Total country	21%	39%

Brazil

Penetration	<u>2001E</u>	<u>2005E</u>
Total country	17%	31%
TEM/PT areas		
Sao Paulo (city)	30%	52%
Sao Paulo (suburbs)	16%	32%
R. Janeiro & E. Santo	28%	46%
R. Grande do Sul	25%	44%
S. Catarina & Parana	16%	35%
Bahia & Sergipe	9%	16%

TEM-PT JV: Reinforcing our competitive position in Brazil

JV CONSTITUTION

- Valuation & shareholder structure agreed
- Awaiting definitive SMP regulation
- Several initiatives carried out to pave the way for a rapid constitution of the JV
- Capturing significant synergies

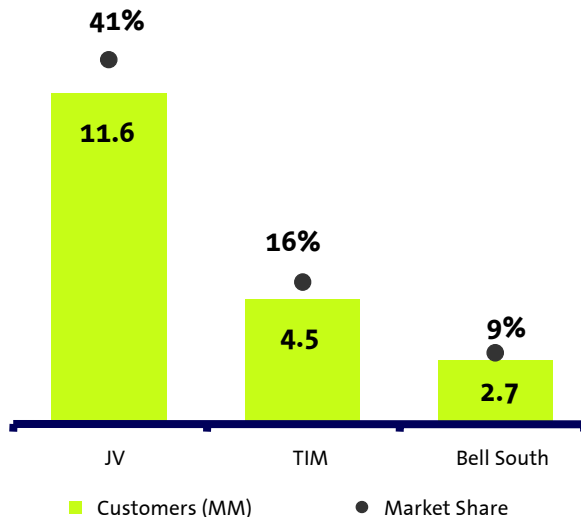
CONSTITUTION EXPECTED DURING 1H02

TEM-PT JV in Brazil: Key proforma figures

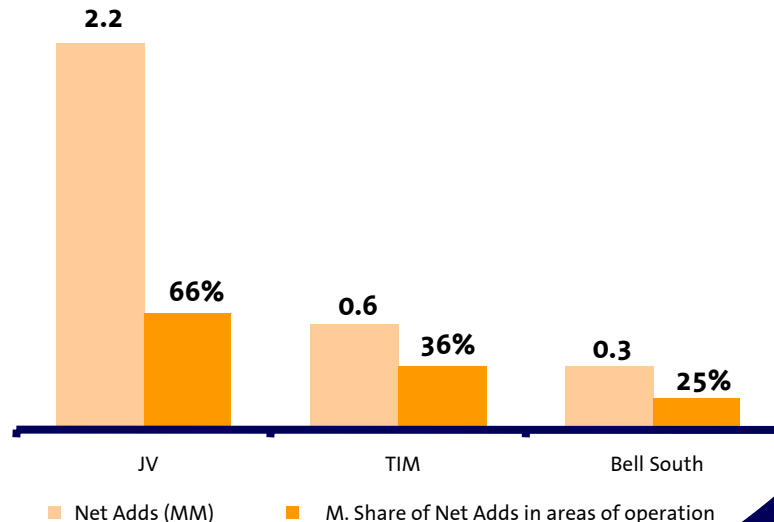
Aggregated figures ¹	2000A	2001A
Customer base (MM)	9,395	11,601
Market share in area of operations	60%	60.8%
Revenues (MM Reais)	5,634	6,291
EBITDA (MM Reais)	1,747	1,931
EBITDA margin	31%	30,7%
Connections/employee	1,243	1,752

Brazilian
average
~ 900

#1 wireless operator in Brazil (01E)



Outperforming competitors (01E)



TEM-PT JV: Strategy driven by growth & profitability

JV STRATEGY

- Focus on customer & dealers loyalty
- VAS take-off from 2003
- Further improvements in productivity & efficiency
- Capture additional synergies

TEM-PT JV: Strong growth potential

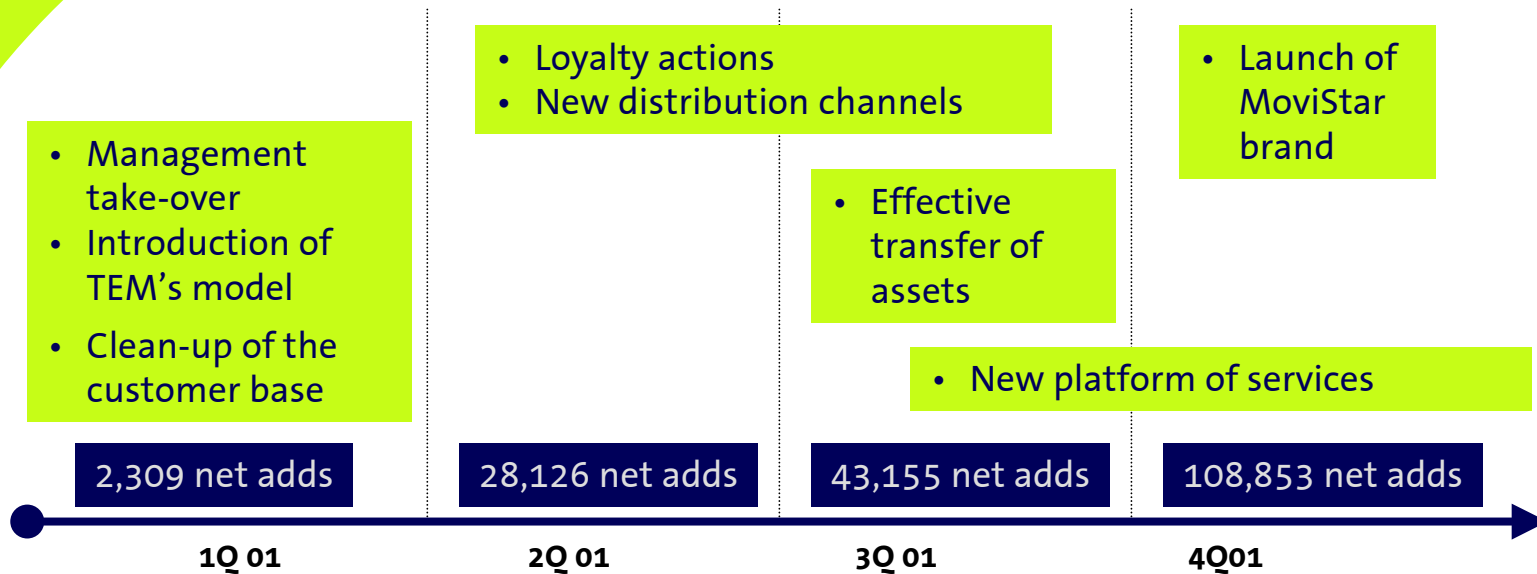
Figures in Reais

TEM's subsidiaries

CAGR 01-05

Customers	6%-10%
Operating revenues	5%-9%
EBITDA	11%-15%
EBITDA margin by 2005	44%-48%
Capex	0%-4%
Capex/revenues by 2005	19%-23%

Mexico: Once the take-over process has been completed, we will focus our operations on customer growth



2002-2005

- Customer base expansion
- Consolidate brand positioning
- Enhanced commercial offer
- New IT systems
- Improved operating efficiency & productivity

Figures in local currency

CAGR 01-05

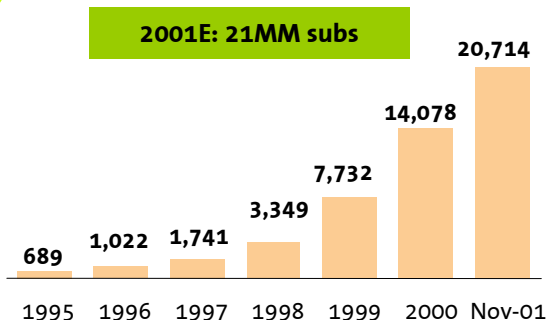
Customers
 Revenues
 EBITDA
 EBITDA margin by 2005
 Capex
 Capex/revenues by 2005

17%21%
 16%-20%
 54%-58%
 38%-42%
 (7%-11%)
 7%-11%

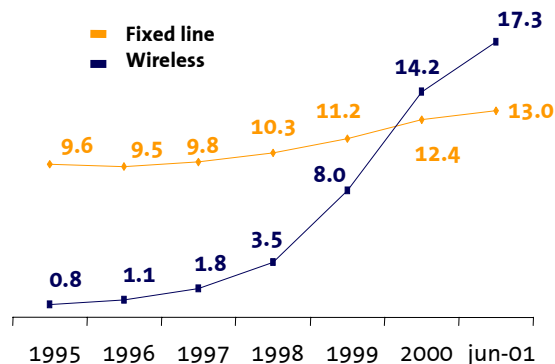
HIGH GROWTH POTENTIAL FROM CURRENT OPERATIONS TO BE STRENGTHENED BY NEW BUSINESS OPPORTUNITIES IN THE COUNTRY

The Mexican cellular market at a glance

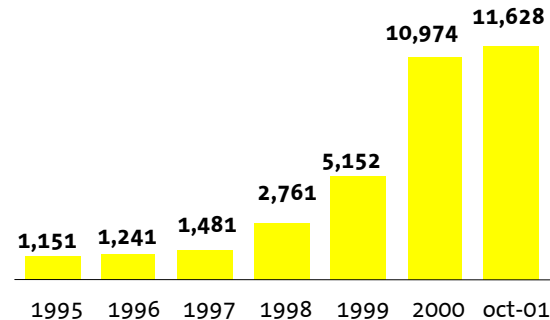
Total subscribers (000)



Penetration (%)

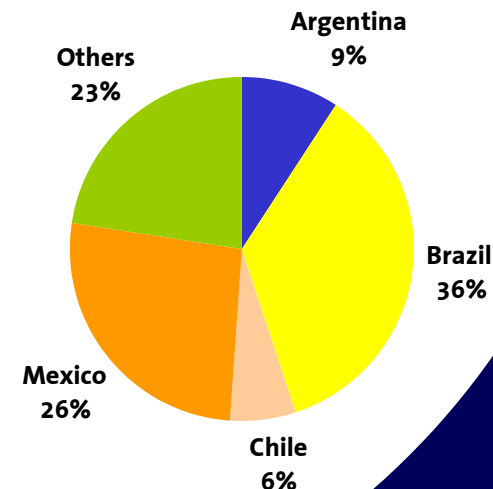


Total minutes (MM)



- Low penetration levels: 21% declared vs. 16% active estimated by 2001
- Fragmented market without effective nationwide competition
- During 1990-2000 the telecoms sector grew 4x above the Mexican economy average
- Fastest growing wireless market in the region & globally
- High ARPUs compared with other countries in the region
- High population density requires smaller efforts to roll-out coverage

Latin American wireless customers (2001E)



Becoming Mexico's second largest wireless operator



- Network capacity already in place in the high growth areas
- Immediate access to Mexico D.F. (20MM POPs)
- Nationwide PCS licenses with optimal spectrum allocation
- Solid distribution network: >3,500 POS
- Seamless nationwide roaming agreement with the US & Mexico
- Economies of scale & benefits from synergies

**BECOMING THE UNIQUE REAL ALTERNATIVE TO THE
INCUMBENT OPERATOR**

Transaction structure

Stage I

- Acquisition of 65% of Pegaso from Sprint, Leap Wireless, Qualcomm & other financial investors
- Capital increase to improve Pegaso's capital structure



Initial Structure

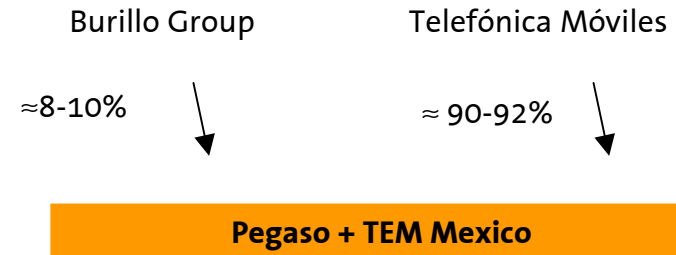


Stage II

- Combination of TEM Mexico with Pegaso
- Burillo Group remains as a shareholder in the new company, contributing with its knowledge of the Mexican market



Final Structure¹



Transaction key terms

Price & payment consideration

- Pegaso's EV: US\$1,360MM
- Acquisition of 65% economic stake of Pegaso for US\$70MM
- TEM's pro-rata share of capital increase to be defined
- All Cash

Approvals Needed

- Subject to Cofetel, Anti-Trust Commission & Foreign Investment Commission approval
- Expected closing in 2H02

Corporate Governance

- TEM will appoint 9 out of 11 Board directors of the new entity
- Mr. Burillo will remain as non Executive Chairman of the combined entity
- TEM's management take over to take place upon completion of all regulatory approvals

Argentina: Maintaining efficiency ratios while waiting for a recovery and potential changes in the competitive environment

2001

- Less than 10% of TEM's 2001 revenues & 3% of consolidated EBITDA
- Devaluation impact: €297MM
- Opex & capex rationalization
- q-o-q improvements in margins

2002E

- Reduced commercial activity
- Strict cost control policies
- Capex adapted to market conditions

WE ARE MANAGING THE CRISIS SCENARIO TO LIMIT ADVERSE EFFECTS ON OPERATIONS

Latam: Financial projections

	CAGR 01-05	
	Fully consolidated companies ¹	Managed companies ²
Customers (MM)	7%-11%	7%-11%
Operating revenues	4%-8%	5%-9%
EBITDA	14%-18%	16%-20%
EBITDA margin by 2005	38%-42%	39%-43%
Capex	(5%-9%)	(4%-8%)
Capex/revenues by 2005	12%-16%	12%-16%

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Consolidating our position in Morocco

MEDITEL

- Significant customer expansion in 2001, exceeding expectations
- Improved competitive position
- Solid financial results
- Strong growth potential
- Local management expertise to leverage on the region

**Adjusted EBITDA¹
already in the black**

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Strong capital structure

	2001A
Consolidated net debt	€9.013 Bn
Proportionate net debt	€6.875 Bn
Proport. net debt / market capitalization¹	20%
Proport. net debt/ proportionate EBITDA	2.1x

Financial projections

Figures in constant Euros

Managed Customers	{ pre-European start ups
	{ post- European start ups
Operating revenues	{ pre-European start ups
	{ post- European start ups
EBITDA	{ pre-European start ups
	{ post- European start ups
EBITDA margin by 2005	{ pre-European start ups
	{ post- European start ups
Capex	{ pre-European start ups
	{ post- European start ups
Capex/Revenues by 2005	{ pre-European start ups
	{ post- European start ups
Average FCF (MM€)	{ pre-European start ups
	{ post- European start ups

CAGR 01-05

6%-10%
10%-14%
8%-12%
12%-16%
10%-14%
9%-13%
42%-46%
33%-37%
(1%-5%)
(1%)-3%
8%-12%
10%-14%
1,600-1,800
800-1,000

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We are addressing your concerns on TEM

Spain

- Will data revenues offset lower voice ARPUs?
- Are current EBITDA levels in Spain sustainable in the long term?
- How will capex evolve considering 3G network roll-out?
- How will TEM manage increasing competition & potential regulatory pressure?

TEM's strategy

- Active management of customer base to maintain leading position
- Launching new services to increase ARPU
- Improving operating & capex efficiency to maintain EBITDA margins & increase FCF generation
- Proactive approach towards regulation & competition

We are addressing your concerns on TEM

3G European start-ups

- Is there any reason to continue?
- Can non-recourse vendor financing be arranged?
- Magnitude of EBITDA losses, capex & funding requirements

TEM's strategy

- Open to options based on achieving attractive returns
- Limiting financial exposure on 2G operations
- Building a valuable UMTS network in Germany with non recourse vendor financing
- Working to further improve business plans

We are addressing your concerns on TEM

Latin America

- Credible Latin American growth story?
- Impact of the Argentinean peso devaluation
- Development of TEM-PT JV in Brazil: targets & timing
- What are TEM's plans to increase your footprint in Mexico?

TEM's strategy

- Strengthening position in high growth potential countries
- Prepared operations for economic recovery
- TEM-PT JV in progress, capturing significant synergies
- Low exposure to Argentina
- Creating the second largest operator in Mexico

Conclusion

***WE ARE WORKING TO FACE MAJOR
INDUSTRY & TEM - SPECIFIC CHALLENGES
WITH THE ULTIMATE GOAL TO MAXIMIZE
GROWTH, RETURNS & FREE CASH-FLOW
GENERATION IN THE MEDIUM TERM***

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