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Telefónica
VII BSCH
TMT Seminar
June 2001

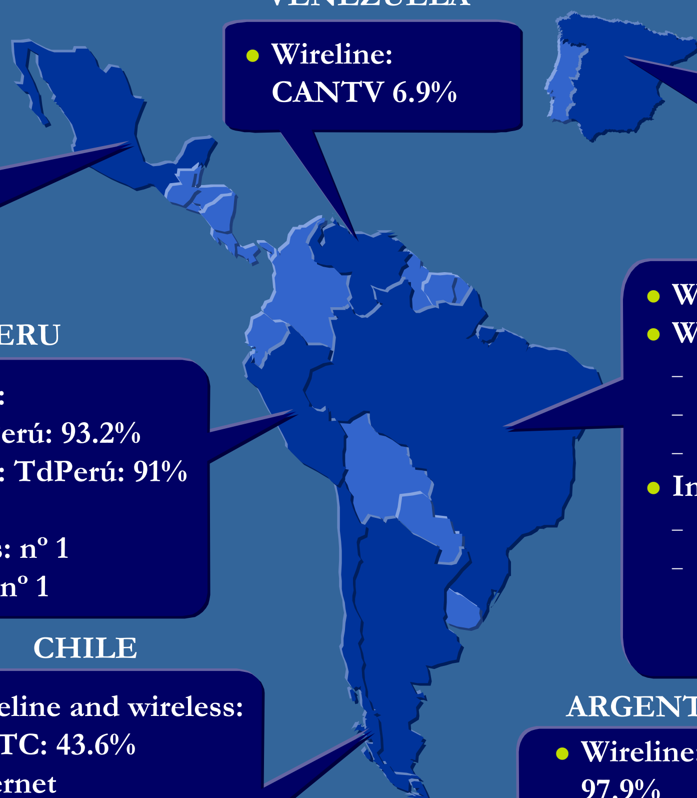
A VALUE GROWTH COMPANY

Solid value based on fundamentals: large client base, strong operational skills, unmatched intangibles, balanced and flexible business structure

Superior EBITDA and **strong financial position**

Management priorities that translate into superior earnings growth

A MARKET WITH MORE THAN 500 MILLION POTENTIAL CUSTOMERS...



MEXICO

- Wireless:
  - Bajacel: 100%
  - Movitel: 90%
  - Norcel: 100%
  - Cedetel: 100%
- Internet:
  - Access: nº 2
  - Portal: nº 1

VENEZUELA

- Wireline: CANTV 6.9%

SPAIN

- Wireline: TdE: 100%
- Wireless: TME
- Internet
  - Access nº 1
  - Portal: nº1

PERU

- Wireline:
  - T de Perú: 93.2%
- Wireless: TdPerú: 91%
- Internet:
  - Access: nº 1
  - Portal:nº 1

BRAZIL

- Wireline: TeleSP 86.6%
- Wireless:
  - Teleleste Cel: 10.8%
  - TeleSudeste: 81.6%
  - CRT 43.4%
- Internet:
  - Access: nº2
  - Portal: nº2

CHILE

- Wireline and wireless:
  - CTC: 43.6%
- Internet
  - Access:nº 1
  - Portal: nº 1

ARGENTINA

- Wireline: TASA: 97.9%
- Wireless: TASA Móviles 96%
- Internet
  - Portal: nº3

- More than **67 million** customers currently being served
- Positive growth outlook
- Strong cultural and economic links

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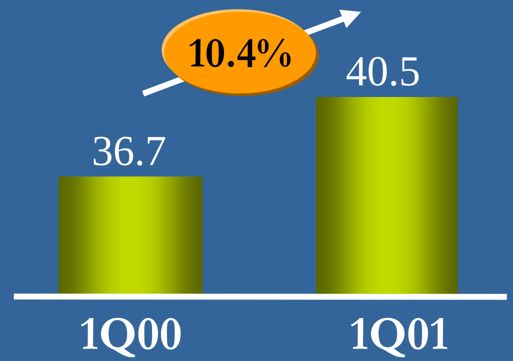
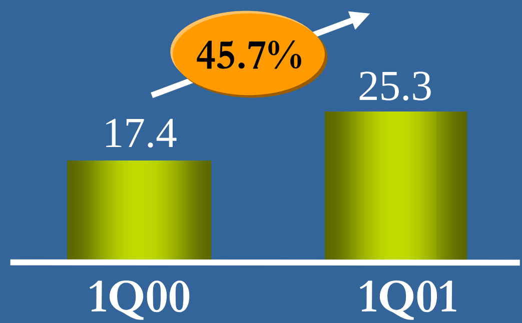
…AND TELEFONICA IS UNIQUELY POSITIONED: STRONG GROWTH IN OUR CUSTOMER BASE AND EXCELLENT PROSPECTS

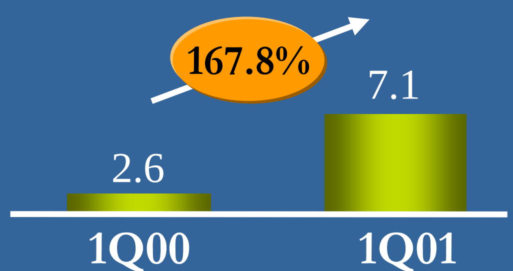
Managed fixed clients (millions)



Managed cellular clients (millions)



Internet access clients (millions)



2000 penetration

	LatAm	USA	Europe
Wireline penetration	13%	68%	61%
Wireless penetration	13%	41%	63%
Internet penetration	3%	50%	23%

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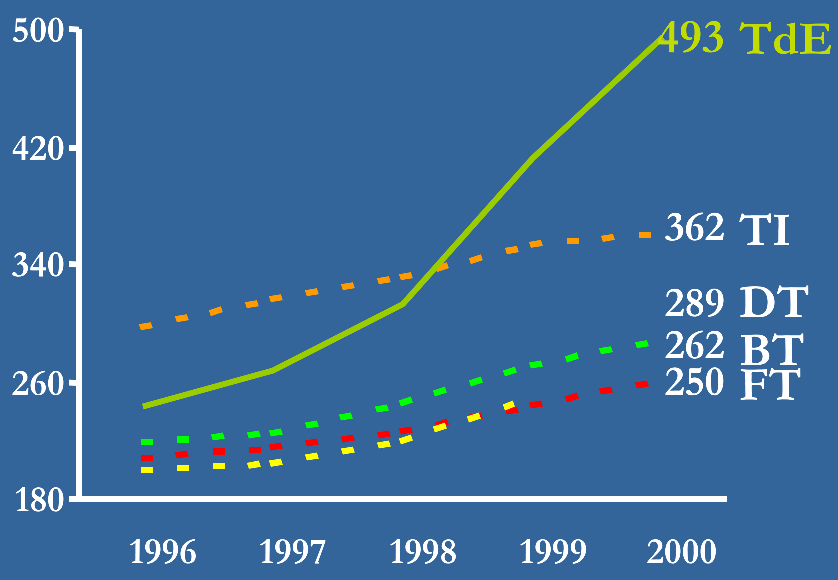
WE HAVE ACHIEVED STRONG OPERATIONAL EFFICIENCIES...

Productivity

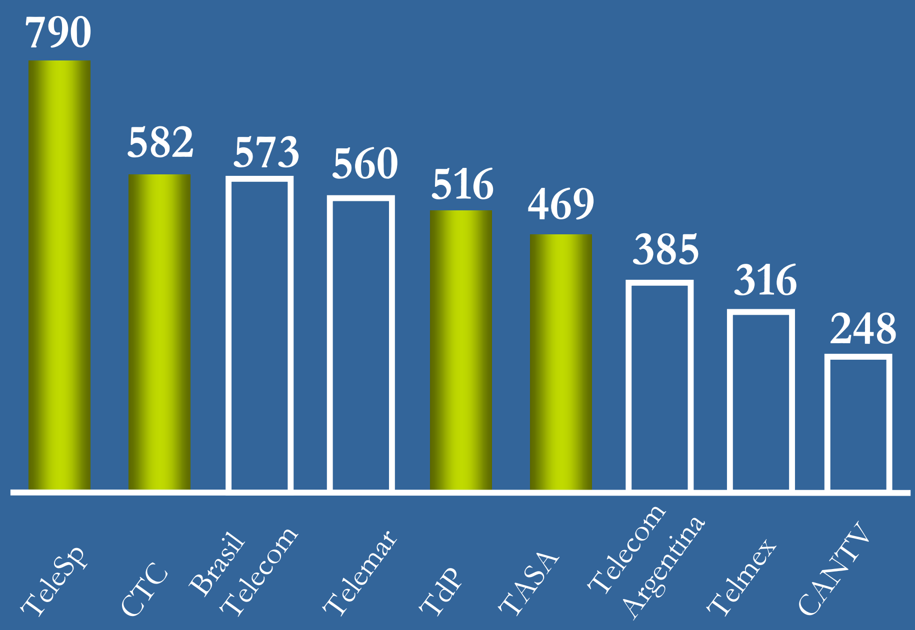
Europe

Lines/employee



Latam

Lines/employee (year 2000)



Source: Telefónica

…AND A STRONG COMPETITIVE POSITION

93.7% combined market share in wireline operations

50.4% combined market share in wireless operations

90% total market share of corporate customers in the areas where we operate as incumbents

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TELEFONICA HAS A BALANCED BUSINESS STRUCTURE...

BUSINESS	TELEFÓNICA'S POSITION				
Basic service	Telefónica Wireline in Spain	Telefónica Wireline in Latam			
Mobility	Telefónica Móviles				
Broadband	Telefónica Wireline in Spain and Latam	emergia	terra lycos	Telefónica Media	Telefónica Data
Internet	terra lycos	Telefónica Data	TPI		
Content	Telefónica Media	terra lycos	TPI		

- Large, addressable client base: >500 M in our core markets + 300M elsewhere
- Broad offering provides flexibility to better serve customer demands

… AND FLEXIBLE ORGANIZATION

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As of December 2000

	Telefónica Wireline in Spain	Telefónica Wireline in Latam	Telefónica Móviles	Telefónica Data	terra lycos	Telefónica Media	TPI
Customers (million)	20.3	19.4	23.2	-	6.1	-	0.6
Revenues proforma 00 (bn e)	10.2	9.7	7.4	1.2	0.3	0.7	0.6
EBITDA proforma 00 (bn e)	4.5	5.2	2.4	0.1	(0.3)	0.01	0.1

- Natural owner of the businesses
- Operating flexibility to better serve customer demands
- Increased management accountability
- High potential for capturing synergies
- Not considering pure spin-offs
- Further IPO's based on strategic opportunities to unlock value

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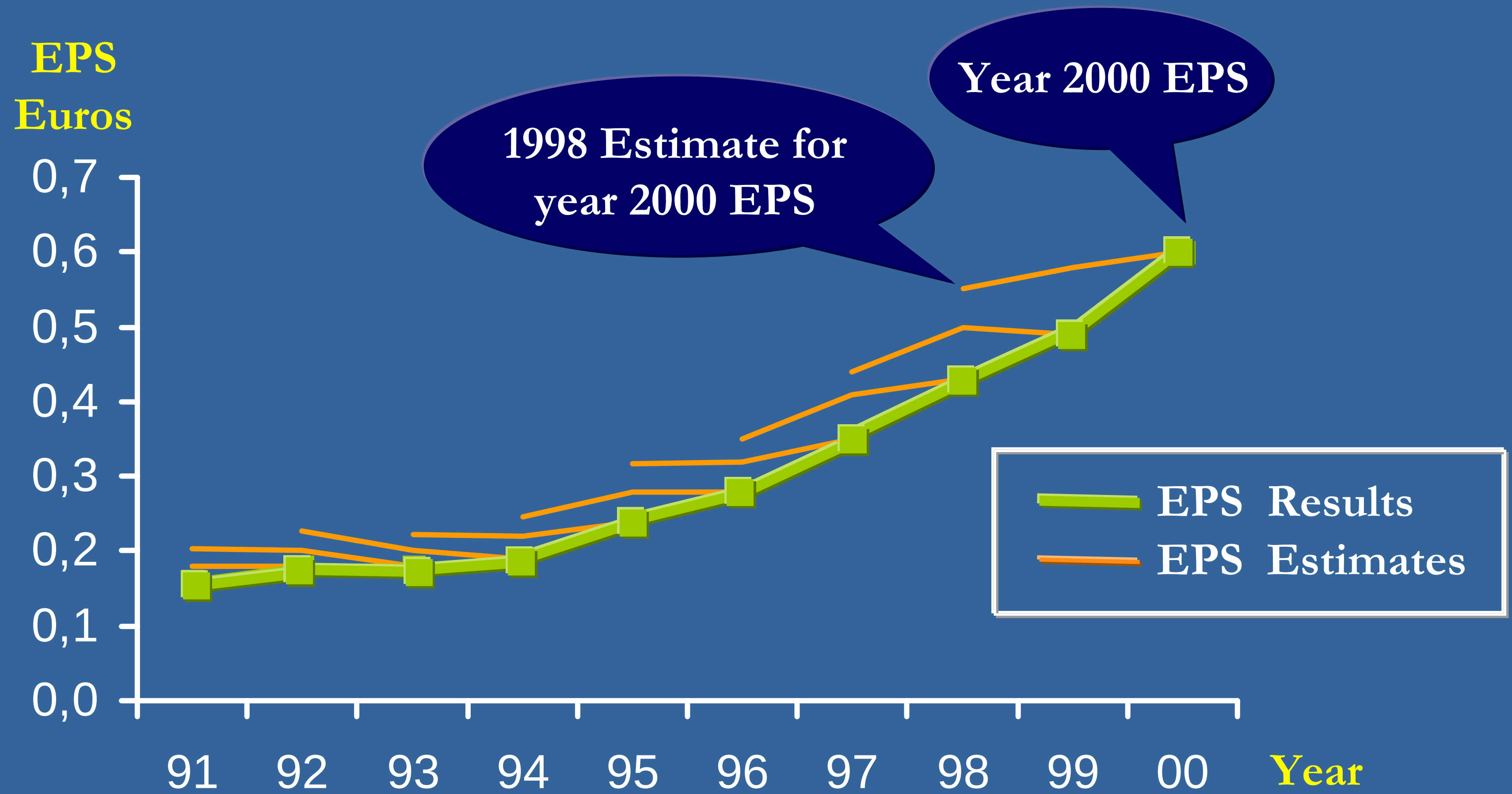
TELEFONICA ACHIEVED STRONG PERFORMANCE IN YEAR 2000 AND 1Q01...

Million	2000	% change	1Q01	% change
Revenues (€)	28,485.5	24.1	7,603.3	17.9
EBITDA (€)	11,918.8	9.5	3,128.2	10.9
Net income (€)	2,504.8	38.8	431.8	24.8
Wireline customers	42.3	10.1	43.2	10.1
Wireless customers	24.9	48.9	27.2	44.8
Internet access customers	6.1	370.0	7.1	167.8

... ONCE AGAIN DELIVERING RESULTS IN LINE WITH ANALYSTS' ESTIMATES ...



SOURCE: DATASTREAM

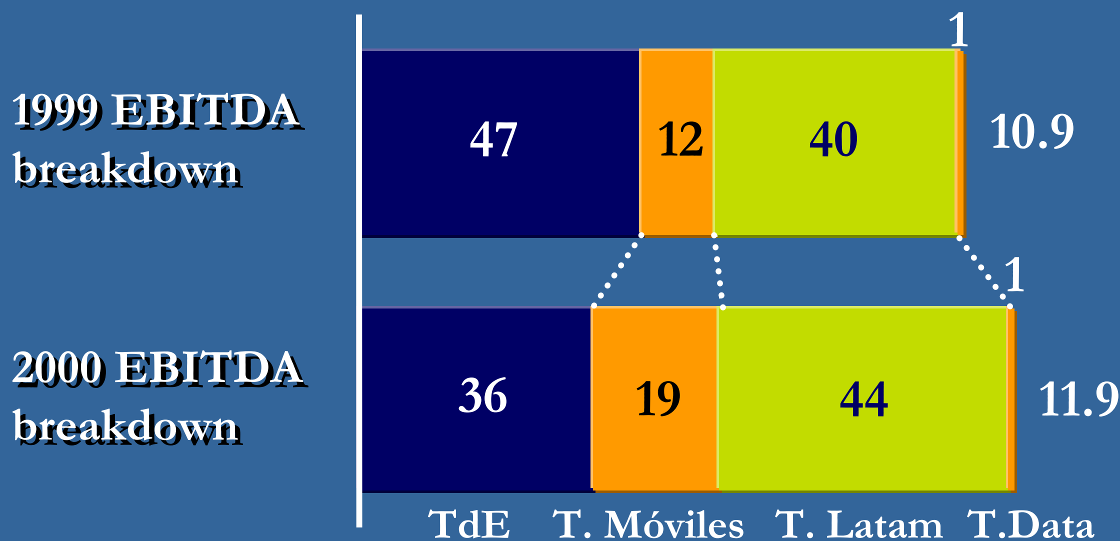
ALONG WITH WELL BALANCED FINANCIALS...

€ 12 Bn. EBITDA 2000

€ 26.9 Bn. Net debt 12/2000

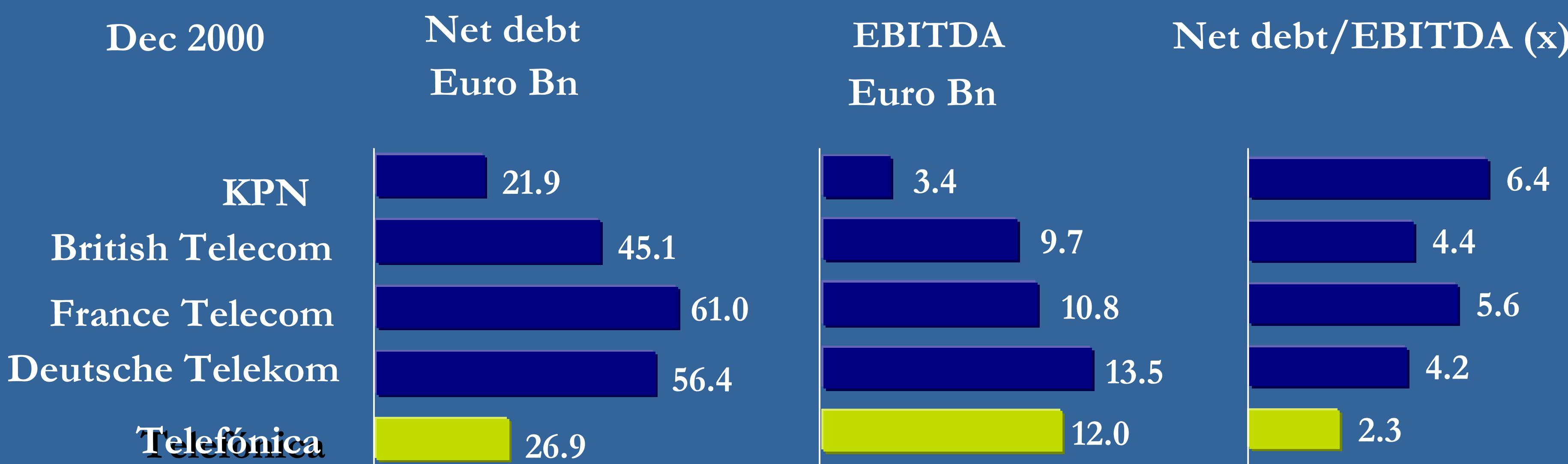
€ 69 Bn. Market Cap. 19/06/2001

… with full control and access to the highest diversified cash flow in the industry



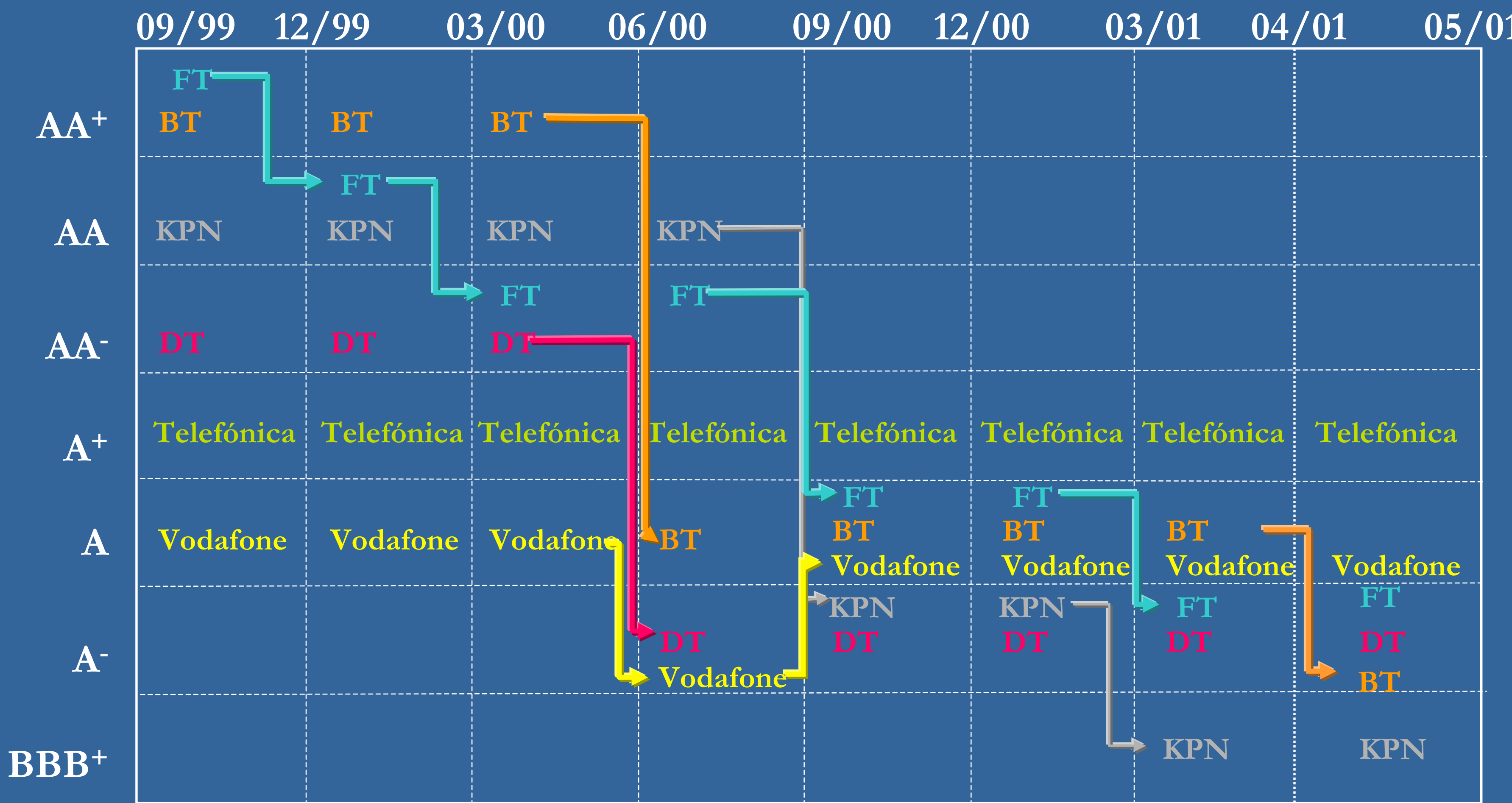
...WHICH HAS POSITIONED TELEFONICA AHEAD OF ITS PEERS

- Equity-funded acquisitions (Euro 30.4 bn in 2000)
- New organization optimizes cost of capital



RATING STABILITY

Evolution of ratings (S&P)



CURRENCY RISK MANAGEMENT

ASSETS

✓ Natural hedges, corporate restructuring

FINANCIAL DEBT

✓ Operating companies debt restructuring

✓ Efficient internal financing circuit

✓ Hedges

OPERATING FLOWS

✓ Short term impact, recovery of economic growth in medium term

✓ Management of the environment: rationalize CAPEX, focus on bad debt expense and cost control

- Controlled impact from Balance Sheet exposure
- Controlled impact on cash-flows

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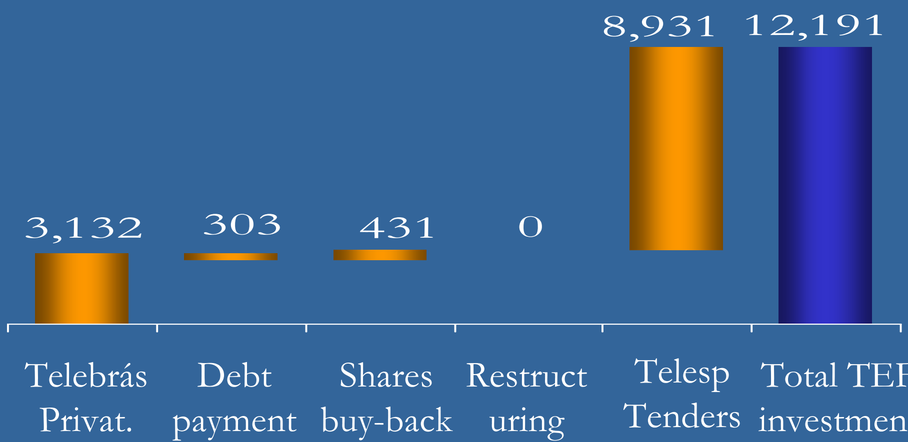
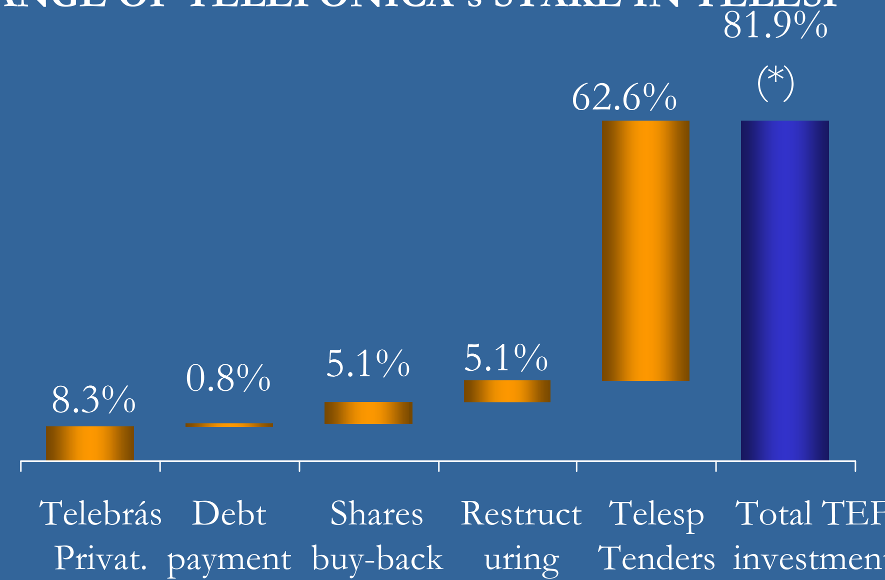
CORPORATE RESTRUCTURINGS: THE TELESP CASE

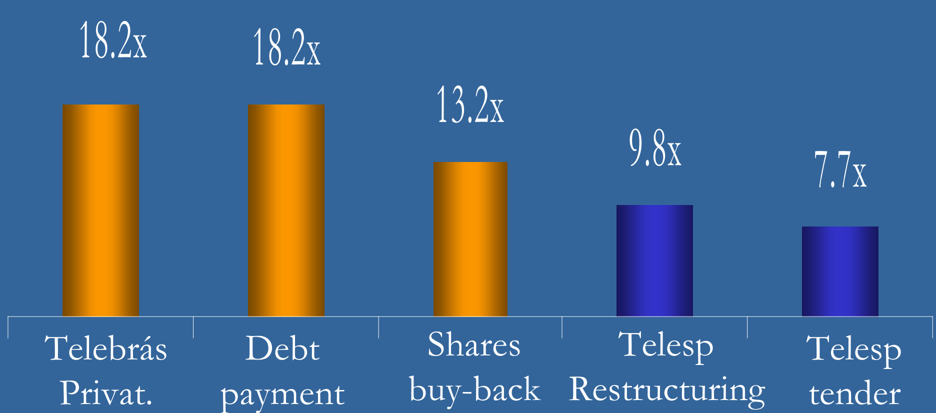
TELEFONICA INVESTMENT ($ in millions)



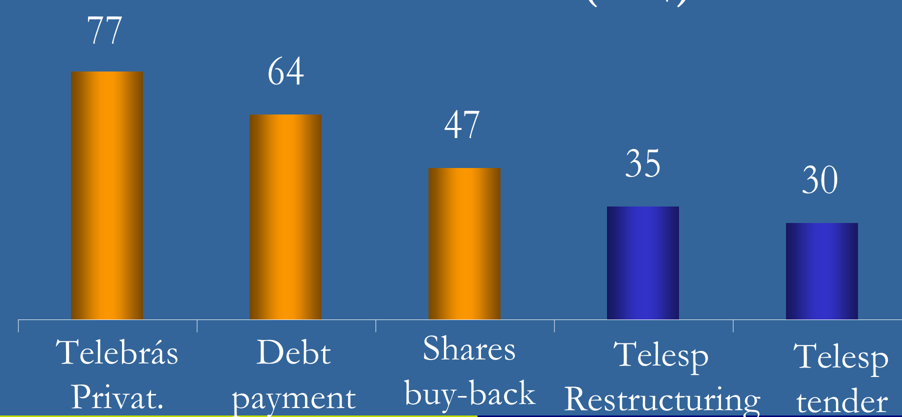
CHANGE OF TELEFONICA´s STAKE IN TELESP



IMPLIED FV/EBITDA 00E

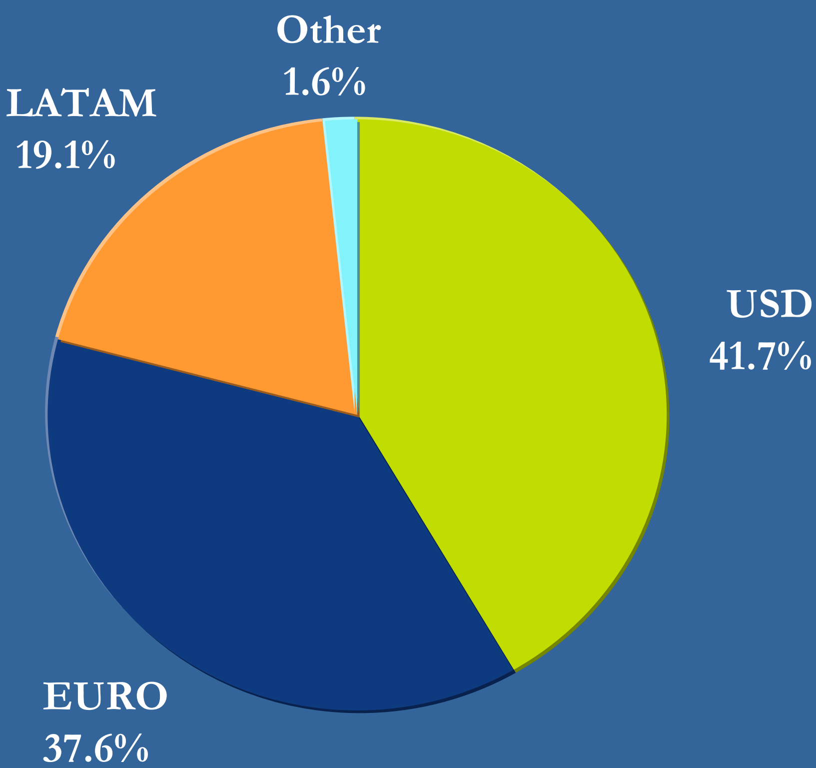


EVOLUTION OF TELEFONICA AVERAGE PRICE PAID PER 1000 TELESP SHARES (US $)

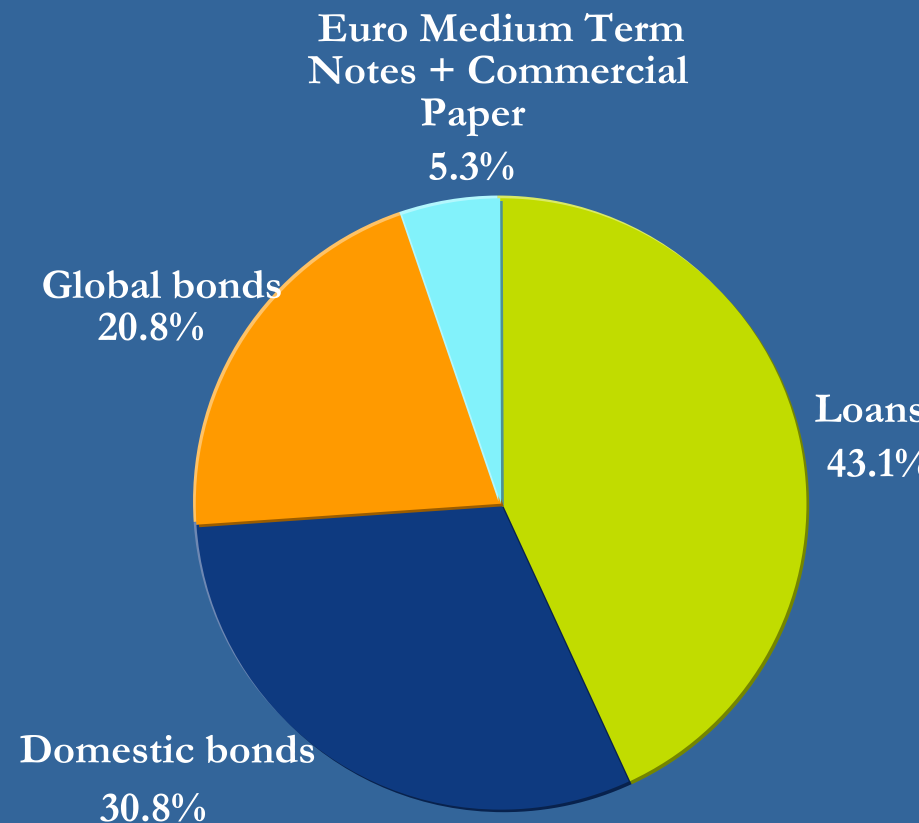


(*) 86,6% after equity swap with PT

DIVERSIFYING FINANCIAL DEBT RISK...



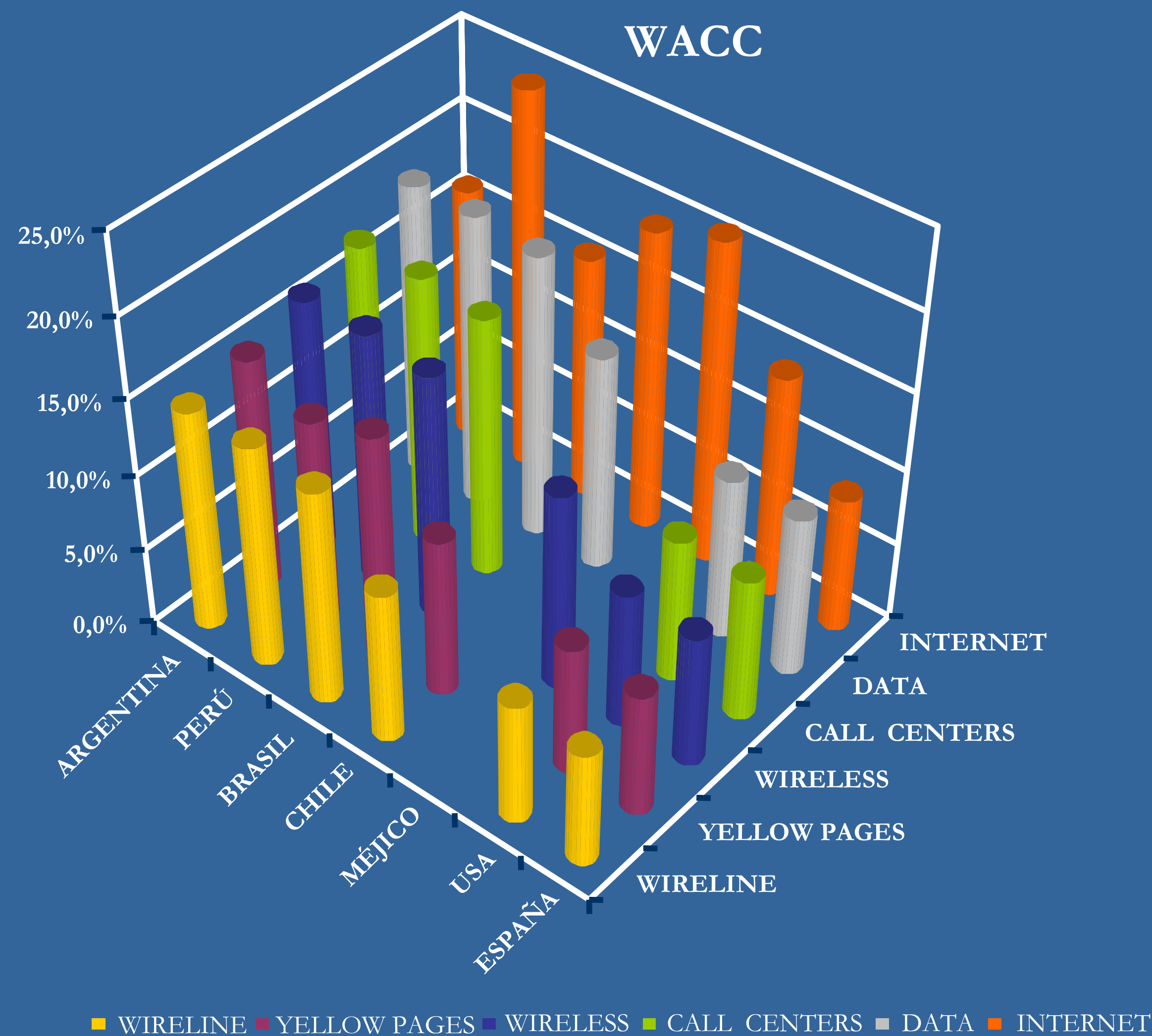
By currency (*)



By instrument (*)

(*) Net Debt breakdown (31/12/00)

…WHILE IMPROVING CAPITAL ALLOCATION



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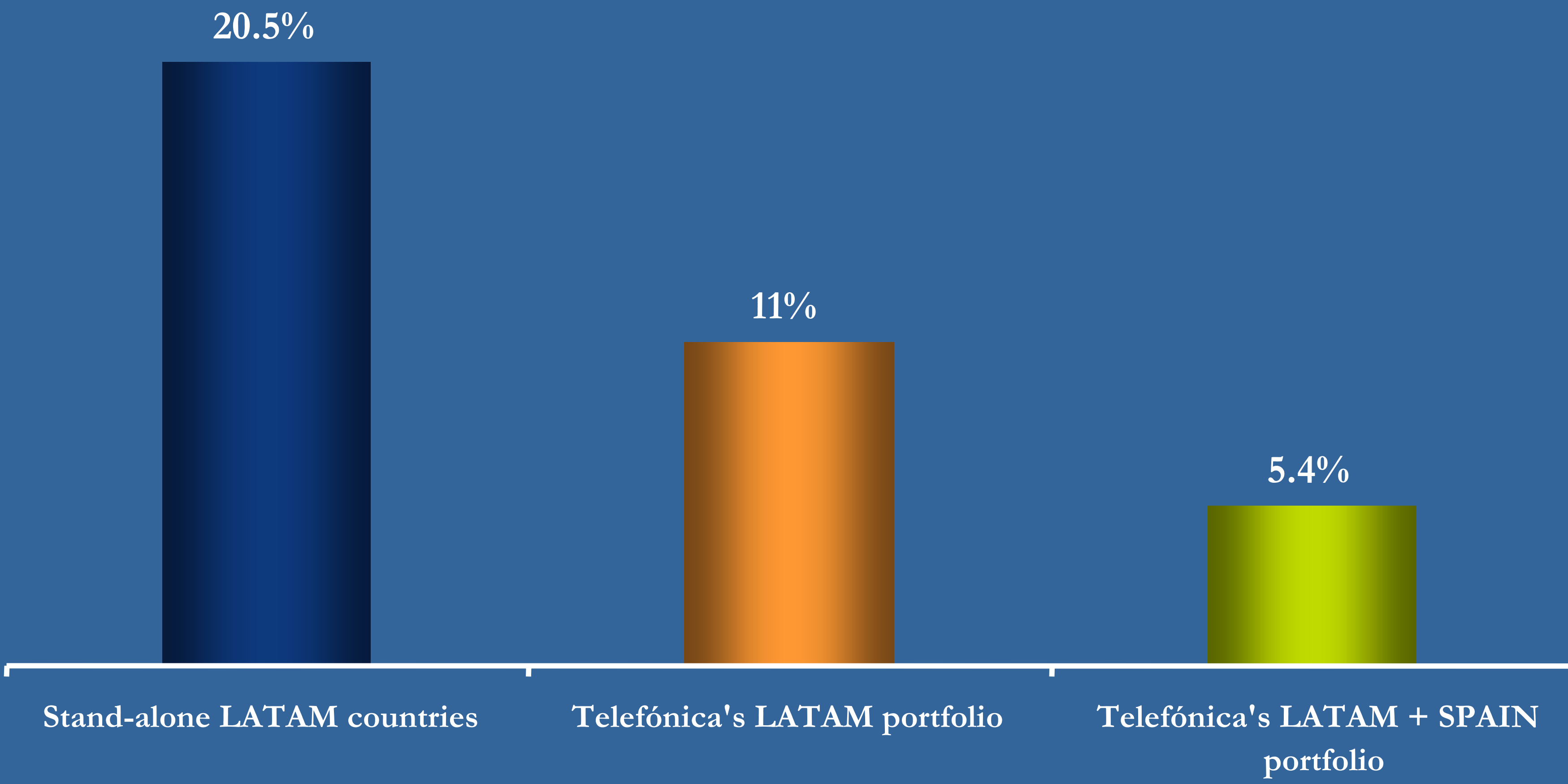
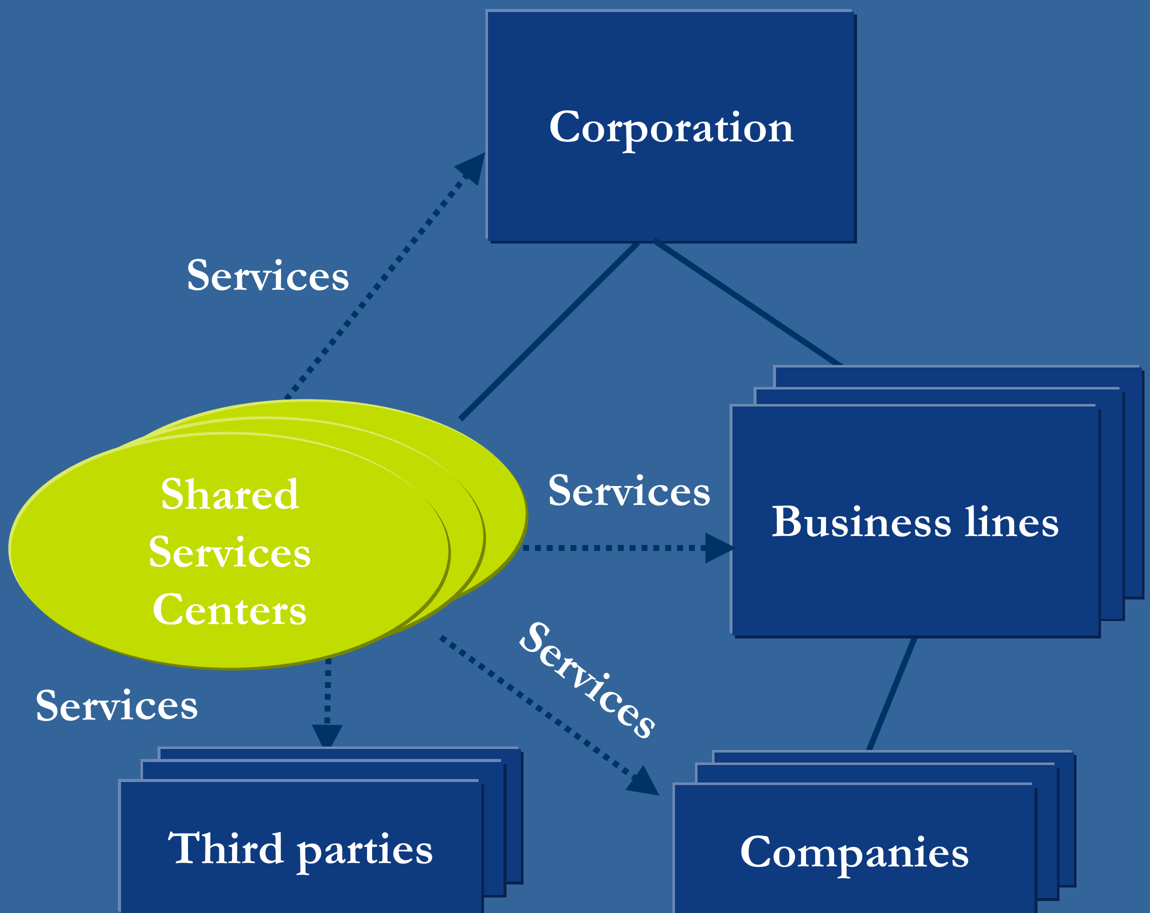
IMPROVING CASH - FLOW QUALITY



US$ EBITDA Average Standard Deviation

LOOKING FOR MORE EFFICIENCY



- Expected NPV of USD 850 million

SELECTIVE AND COHERENT M&A STRATEGY

- JV with Portugal Telecom in Brazilian mobile market
- Acquisition of Motorola´s wireless assets in Mexico
- Tender offer for CRT Cellular minority stakes
- Acquisition of Iberdrola´s assets in Brazil

No merger of equals
at parent level

Receptive to consolidation at
Business Line level, if
strategically complementary

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MANAGEMENT PRIORITIES

"Achieve sustained superior earnings growth"

1 Continue improving results in consolidated businesses

- Telefónica de España
- T. Móviles España
- TeleSP and other Latam wireline operators

Leverage existing client bases and maximize cash generation short and long term: we cannot fail

2 Continue the expansion in Latin America

- Brazil
- Mexico
- Argentina
- Rest of Latam

Profit from a natural extension of our leadership

3 Drive developing businesses towards profitability leveraging the Group

- Terra Lycos
- Telefónica Data
- Telefónica Media
- Europa UMTS

Anticipate break-even leveraging the overall group position

4 Continue business building

- Atento
- Katalyx
- Develop related businesses leveraging our franchise

Push current businesses under development and open new options

+

Capture inter-business and Group synergies

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CONTINUE IMPROVING RESULTS IN CONSOLIDATED BUSINESSES

Telefónica de España

- Winning the broadband battle: 148,000 ADSL subs. as of today (50,000 as of Dec-00)
- Continuing to increase efficiency

Telefónica Móviles de España

- Monitor client profitability and traffic share
- Preparing for success of the 2.5G: network ready and commercial launch during 1H2001

Telesp

- Sao Paulo, city of broadband (300,000 ADSL Dec-01 (e))
- Accelerate compliance of Regulator requirements
- Continue to build on solid operational fundamentals

- Leverage existing client bases
- Maximize cash generation short and long term

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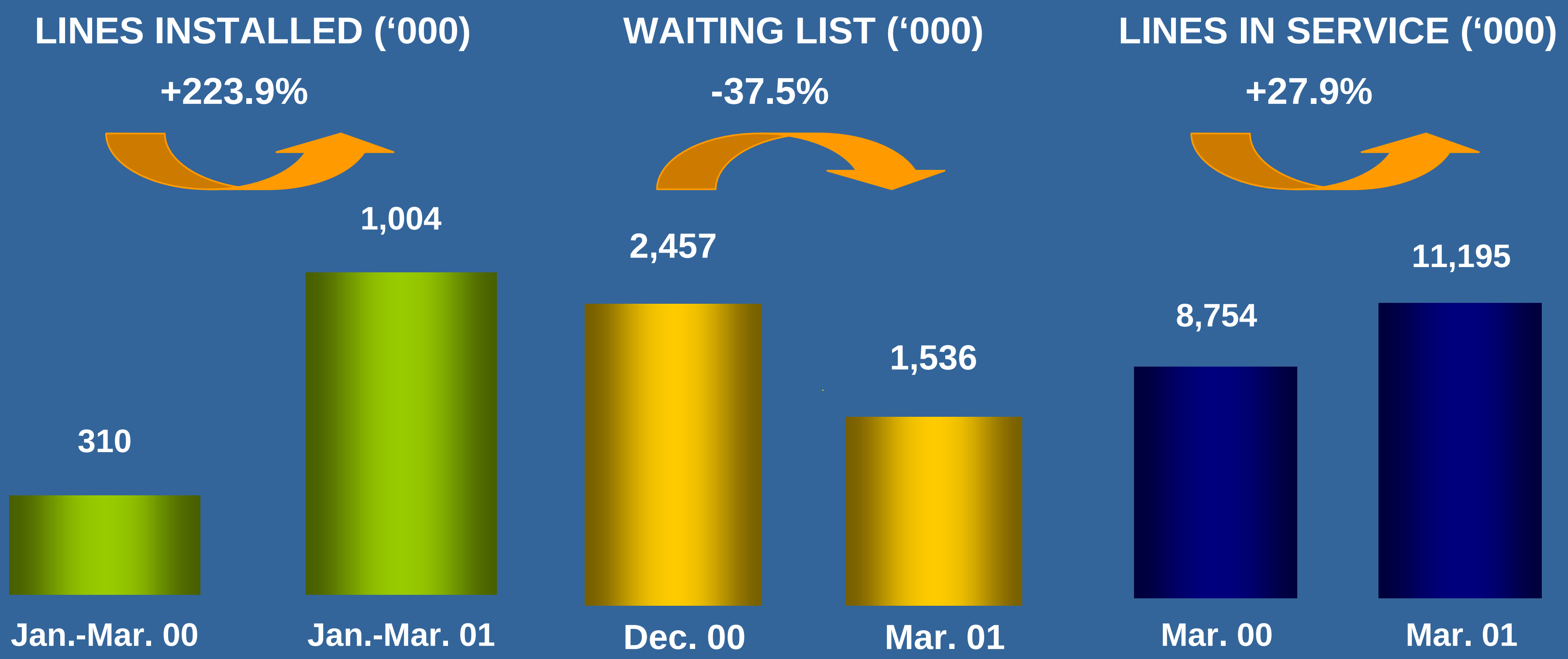
CONTINUE EXPANSION IN LATINAMERICA

Expand in Brazil	➢ Launch Brazilian wireline operations outside Sao Paulo in 2002 ("Brazil 2002") ➢ Consolidate TEM-PT JV as the leading wireless player
Develop recently entered markets	➢ Fixed telephony in Northern Argentina ➢ Wireless telephony in Mexico

- Complete the Latin-American portfolio profiting from a natural extension of our leadership

TELESP: WORKING FOR BRAZIL 2002

- Main objective for 2001: achieving regulatory requirements established for 2003 ahead of schedule
- Already completed with the review of the quality of the waiting list



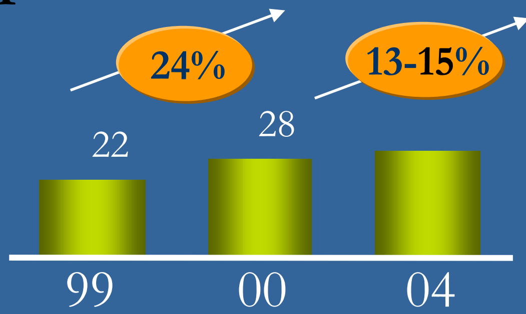
MANAGING KEY PERFORMANCE METRICS

CAGR

Euro billion, in constant exchange rates. Current business perimeter

Focus on key aspects

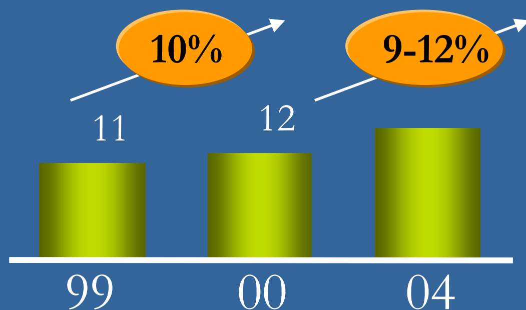
TOP LINE



- Manage customer profitability and market share
- Marketing effectiveness to enhance usage
- Cross-selling

Leverage client base

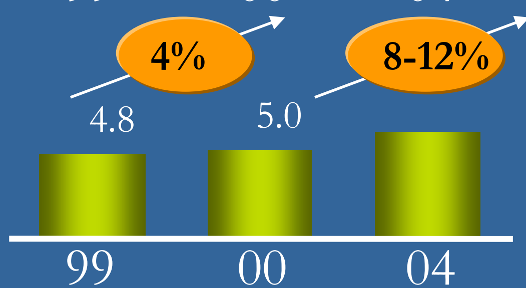
EBITDA



- Cost efficiency
- Operational leverage
- Quality

Operational excellence

EBIT*



- Asset turnover
- Capex allocation and control
- Reducing asset base

Focus on ROCE

* Calculated exc. goodwill

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