

The top half of the slide features a background of concentric wood grain patterns in shades of brown and tan. A dark blue horizontal bar is overlaid on the right side of this section.

Second Investor Conference

March 2002, Sevilla

The Telefonica logo is written in a yellow, cursive script font with a thin yellow underline, set against a dark blue background.

Telefonica

The bottom half of the slide features a background of blue water ripples. The text is overlaid on this background.

Building Value

César Alierta
Chairman & CEO
Telefónica S.A.

Objectives for these two days

- **Review the progress since Río, during a difficult year**
- **Update Group's strategy**
- **Understand why our strengths and strategic plan make us different**
- **Communicate a clear picture of divisional performance and outlook**
- **Have an opportunity to meet Telefónica's senior management**
- **Provide you with an updated outlook for the medium term**

Contents

- **Progress since Río 2001**
- **Telefónica's strengths**
- **Telefónica's Strategic Vision**

**Progress since Río 2001 -
Telefónica performance during a difficult year**

Telefónica today

Scale & breadth

- **78 Million clients**
- **Operating in 17 countries**
- **Participating in all key businesses (Wireline, wireless, data, internet, media/ content)**

Performance

- **One of the most efficient Telcos in the world**
- **Best credit rating among European incumbent Telcos**
- **Outperforming European sector in ROCE during 2001**

- **Eur 67 bn (Equity Value) Company* with Eur 31 bn in revenues and Eur 13 bn in EBITDA**
- **2nd European incumbent Telco by Market cap**

* 67 bn Equity Value as of March 6th.

Our Challenge - Building Value

**Organic
growth**

- **Improve returns from core assets**
 - **Focus on customer innovation, service and quality to drive top line**
 - **Continue efficiency improvements to drive bottom line**
- **Strengthen Business Lines by leveraging all group assets across the customer base**

**Non organic
growth**

- **Selectively invest in/acquire new assets as a source of additional profitable growth**
- **Unlock value from non core assets**

Balance sheet strength and cash flow remains key differentiator

Highlights 2001 (I):

Wireline

SPAIN

- **TdE: Return to EBITDA growth (+1.3%)**
- **Successfully defended market share and margins (EBITDA margin: 44%)**
- **Regulatory mgmt. progress: tariff rebalancing**
- **Operational excellence:**
 - OPEX reduced by 3.1% yoy
 - Execution of Commercial Strategy
- **Leading broadband offer in Spain (375,816 ADSL)**
- **Minimized growth in Capex (+4%) despite broadband expansion**

LATAM

- **Largest EBITDA contributor even in difficult macroeconomic environment**
- **Top level EBITDA margin (51%)**
- **Significant cost cutting and conservative bad debt provisioning policies**
- **Capex peak in 2001**
- **Telesp:** anticipate regulatory goals & significant revenue & EBITDA growth: 25% & 20% (\$R)
- **CTC:** return to profitability thanks to cost control
- **TASA:** efficiency measures implemented to minimize crisis impact
- **TdP:** manage regulatory transition in a low growth environment

35% of consolidated EBITDA

20.6 MM LIS

40% of consolidated EBITDA

21.6 MM LIS*

Exceeding
Market
Expectations

Telefonica

Highlights 2001 (II):

Wireless

26% OF CONSOLIDATED EBITDA

29.8 MM CLIENTS*

Spain

Becoming the European benchmark on business execution:

- Record EBITDA margin (49%; + 12pp)
- Strong increase in customer base (+23%) coupled with reductions in SAC+SRC & churn rates
- Expanding market share gap with 2nd operator

LatAm

Sound results, despite adverse economic environment:

- 32% increase customer base
- Healthy growth based on conservative customer accounting criteria
- TEM-PT JV on track to lead Brazilian mobile market

Europe

Strategy aligned with market conditions:

- Network sharing agreements already closed and CAPEX efforts minimized
- GPRS operations launched in Germany; reduced activity in Italy

Rationalize Capex & Opex with focus on FCF per customer

Highlights 2001 (III):

Other businesses

Terra Lycos (Internet)

- Delivering proforma revenue growth (+22% yoy) and improving profitability (24 pp improvement in EBITDA margin)
- Record 55% growth in pay subs (1.7 MM pay subs as of Dec'01)

T Data (Data)

- Incumbent data operations met Rio expectations
- Finalised repositioning of T-Data non incumbent operations

TPI (Directories)

- Strong increase in revenues and EBITDA (23.9% and 6.2% yoy)
- Progress on footprint expansion (Chile, Brazil, Peru)

Admira (Media)

- Mixed performance on top of a complex industry environment: still disappointing for Telefónica
- Endemol strong increase in Revenues and EBITDA (62.8% and 51.1% respectively)

Atento (Call Centers)

- Improved operating efficiency, with 22% growth in revenues and 113% in EBITDA
- Revenue diversification: 42% of revenue growth from external clients

On track Towards Profitability

2001 - Financial Highlights

Eur mn	2001	Change
CASH & RETURNS		
FCF *	2,292	218%
CAPEX **	7,923	(12.9%)
ROCE ***	7.9%	0.6 pp

- Significant FCF growth
- Top ROCE among major European Incumbent Telcos
- Lowest Intangible assets to total asset ratio

P&L		
Revenues	31,053	9.0%
EBITDA	12,804	7.4%
Operating Income	5,430	9.5%
Net Income	2,107	(15.9%)

- Growth rates on track with Rio targets
- 13% EBITDA growth excluding FX
- FX losses from AR\$ devaluation included

* FCF = EBITDA - Financial Expenses – Capex (ex-UMTS) - Taxes

** Excluding UMTS licences

*** ROCE= Operating Income x (1-Taxes)/(YearEnd Stockholders' Equity+Minority Interests+ Net Debt)

Telefónica Operations in Argentina

Impact of crisis

- **Devaluation effects:**
 - **Total 2001 P&L effect (Eur 369 mn)**
 - **Additional Shareholder Equity impact in 2001 (Eur 1.4 bn)**
 - **No write off needed on Telefonica's Balance Sheet as of Dec. 31st 2001**
 - **Potential additional impact in 2002**
- **Economic slowdown:**
 - **Reduction in demand**
 - **Increase in Bad-debt**

Action taken

- **Actively working towards renegotiation of the regulatory framework**
- **Drastic Efficiency Measures**
 - **Active negotiations with suppliers to reduce costs**
 - **Radical process redesign to lower structural costs**
 - **Strict bad debt control**
 - **Frozen CAPEX**
- **Monitor sector developments closely to improve competitive position in the recovery process**



Telefónica's strengths
A solid base for *Building Value*

A solid base for *Building Value*

Telefónica has all of the assets required to maintain “momentum” and will take advantage of its strong position to selectively seize available opportunities in the sector

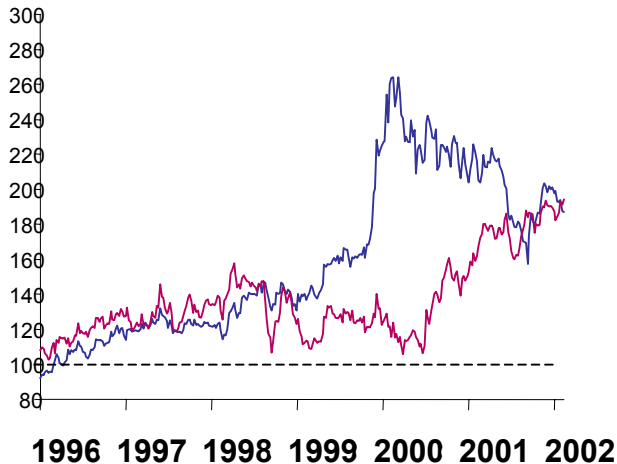
- **Good track record**
- **Powerful core skill set**
- **Solid financial position**

Building Shareholder Value through Solid Growth

Good Track Record

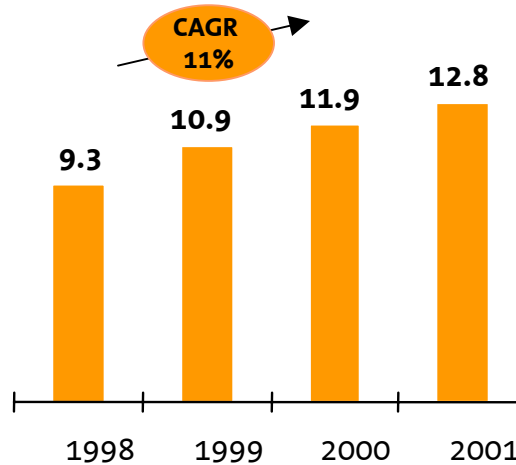
- Consistently outperformed stock market and Telecom sector
- Increased and broadened sources of revenue and EBITDA
- Balance sheet strength maintained to reduce costs and keep flexibility
- Created credibility in capital markets

Relative Share Price Performance



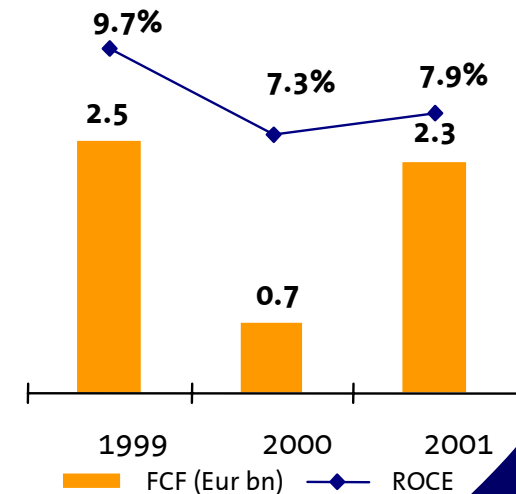
— TEF / IBEX 35 — TEF / DJ Telecom

Sustainable Operating Growth



CONSOLIDATED EBITDA (Eur bn)

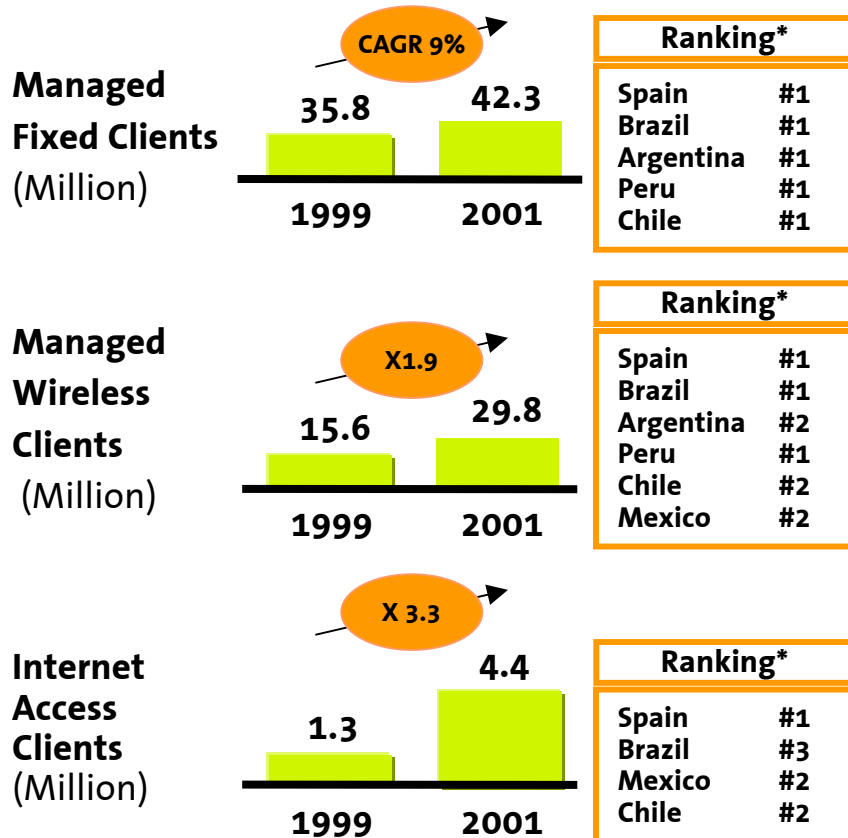
FCF & ROCE Evolution *



* FCF=EBITDA-Financial Expenses-Capex (ex-UMTS)-Taxes

Powerful Core Skill Set

Strong Skills to Manage Growth and Strengthen Leadership



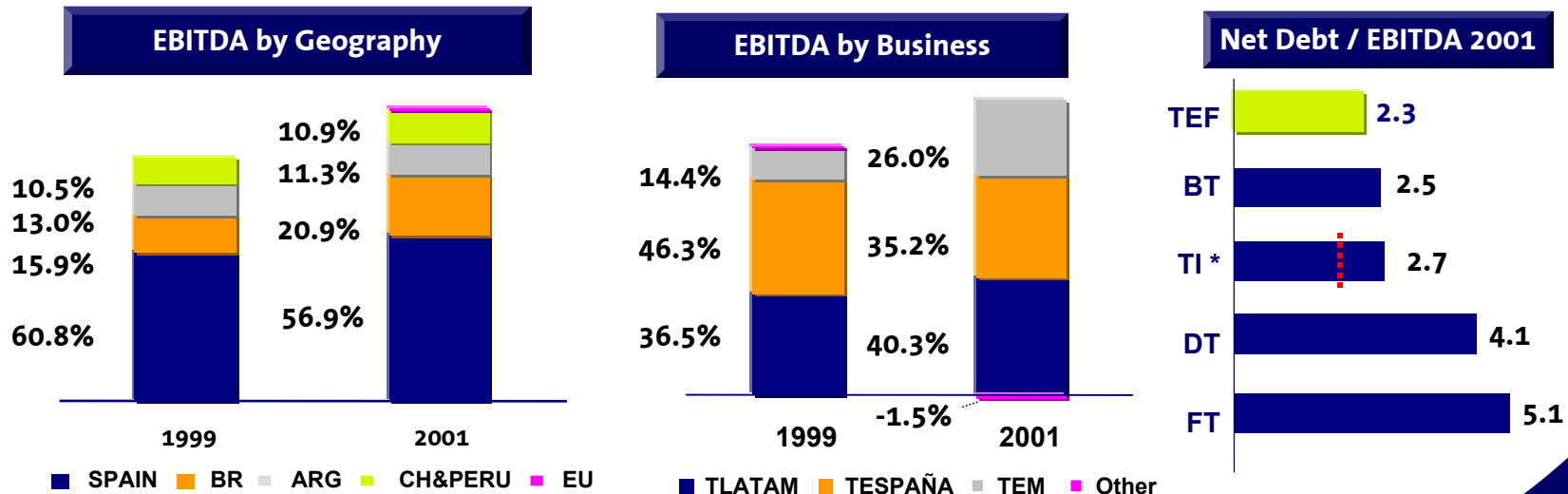
Best Talent, Know-how and Assets

- Strong management team broadly recognised in the sector
- Successful track record in LatAm, gives us credibility to enter new markets
- Most efficient wireline operator in terms of LIS/employee (505 Spain, 804 LatAm)
- TME, setting a new performance benchmark in the European wireless market
- Strong brand equity
- Strong Sales and Distribution Network (>13,000 points of sale in Spain, >8,000 in LatAm)
- Extensive network providing access to our 78 million clients**

Strong Financial Position (I)

- Conservative investment strategy leading to the strongest balance sheet in the sector
- Diversified cash flow resulting in reduced volatility and superior credit rating
- Lower cost of debt : enhanced returns for equity investors
- Increased flexibility from strong cash generation & Balance sheet

“Telefónica is ready to capitalise on the sector’s weaknesses”



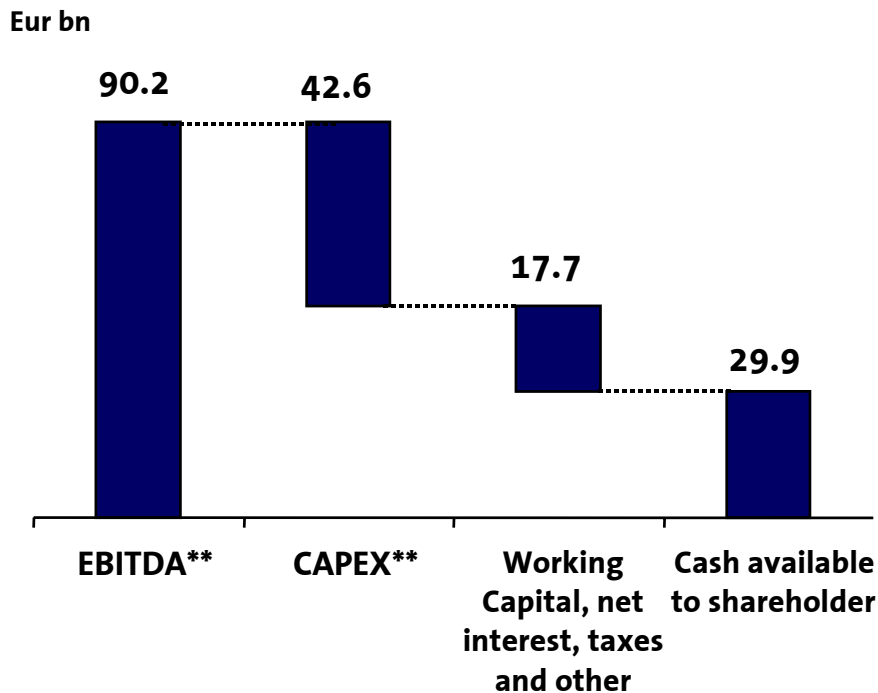
Strong Financial Position (II)

Cash Flow provides Flexibility

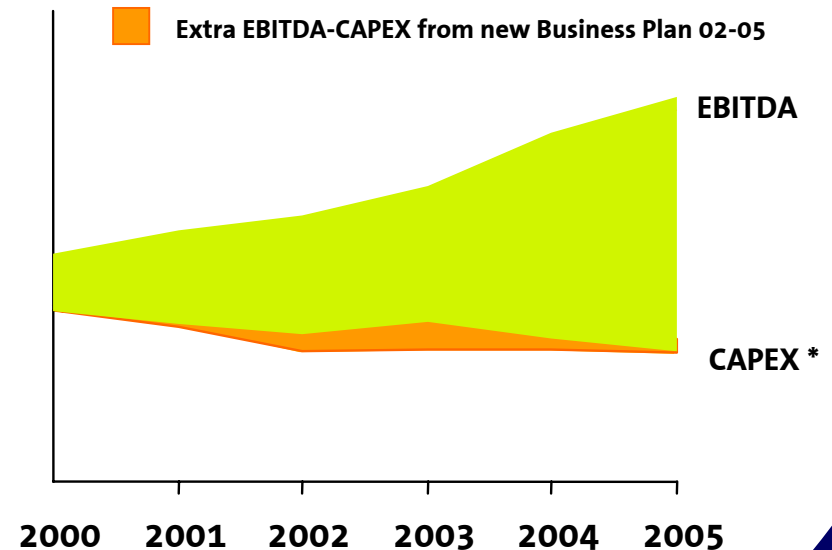
Cash Flow generation capacity would allow full debt repayment before maturity (6 years)

Capacity to invest in new opportunities

2002-2007 Accumulated cash flow



Improving Rio targets (Constant FX, 2ARS/US\$)



* Capex excluding UMTS licenses

** Source: Analysts estimates

Telefónica's Strategic Vision: Current Focus

Corporate Strategy Drivers

RECENT DRIVERS

CURRENT FOCUS

- Individual Business Line aggressive capture of customer base

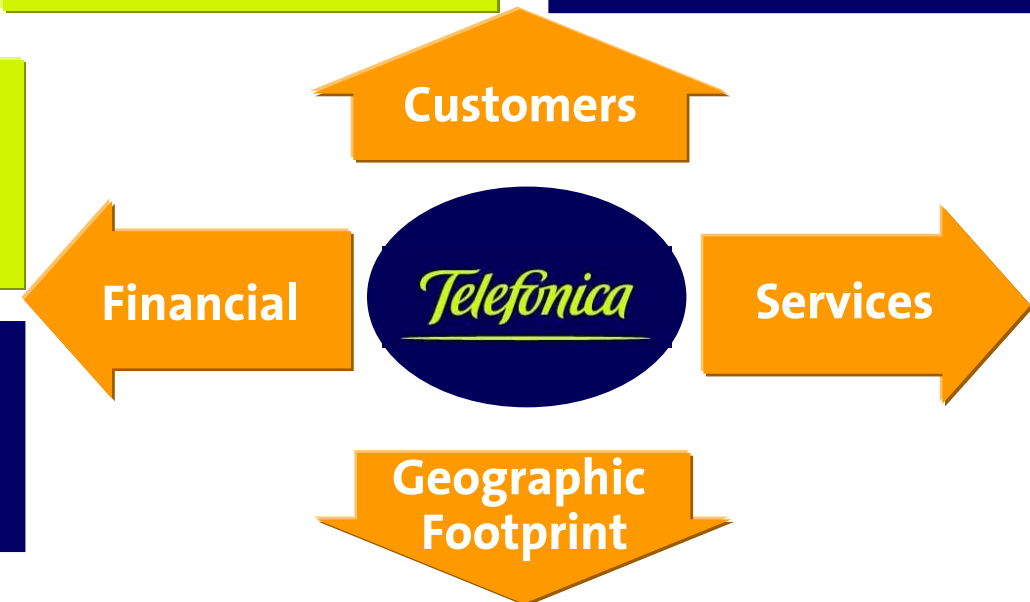
- Focus on profitable quality customers
- Build advanced commercial and marketing platforms for deeper segmentation and customer care

- Accelerated Growth Model
- Unlock value through disaggregation of Business Lines

- Fast build up of an Internet and Media/Content Franchise

- Profitable Growth Model
- Focus on ROCE and FCF

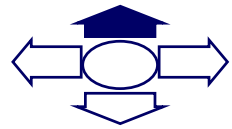
- Lead the digital revolution through our Broadband Strategy leveraging on core Network and Content Assets



- Lead Spanish and Portuguese speaking markets
- Build European presence

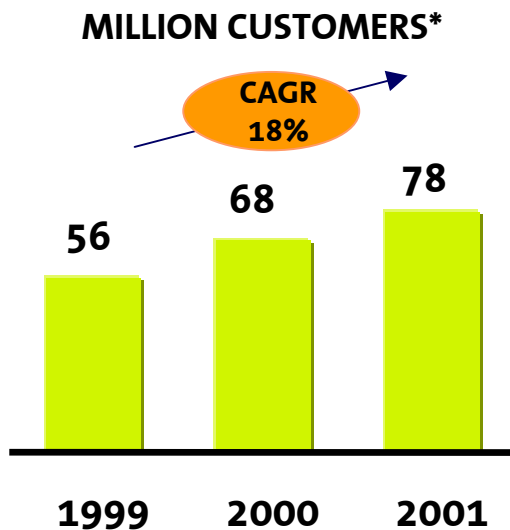
- Selective and results oriented multi-regional approach
 - Complete LatAm footprint
 - Opportunistic European participant
 - Selective expansion in Mediterranean Basin

Customer satisfaction: our priority



RECENT DRIVERS

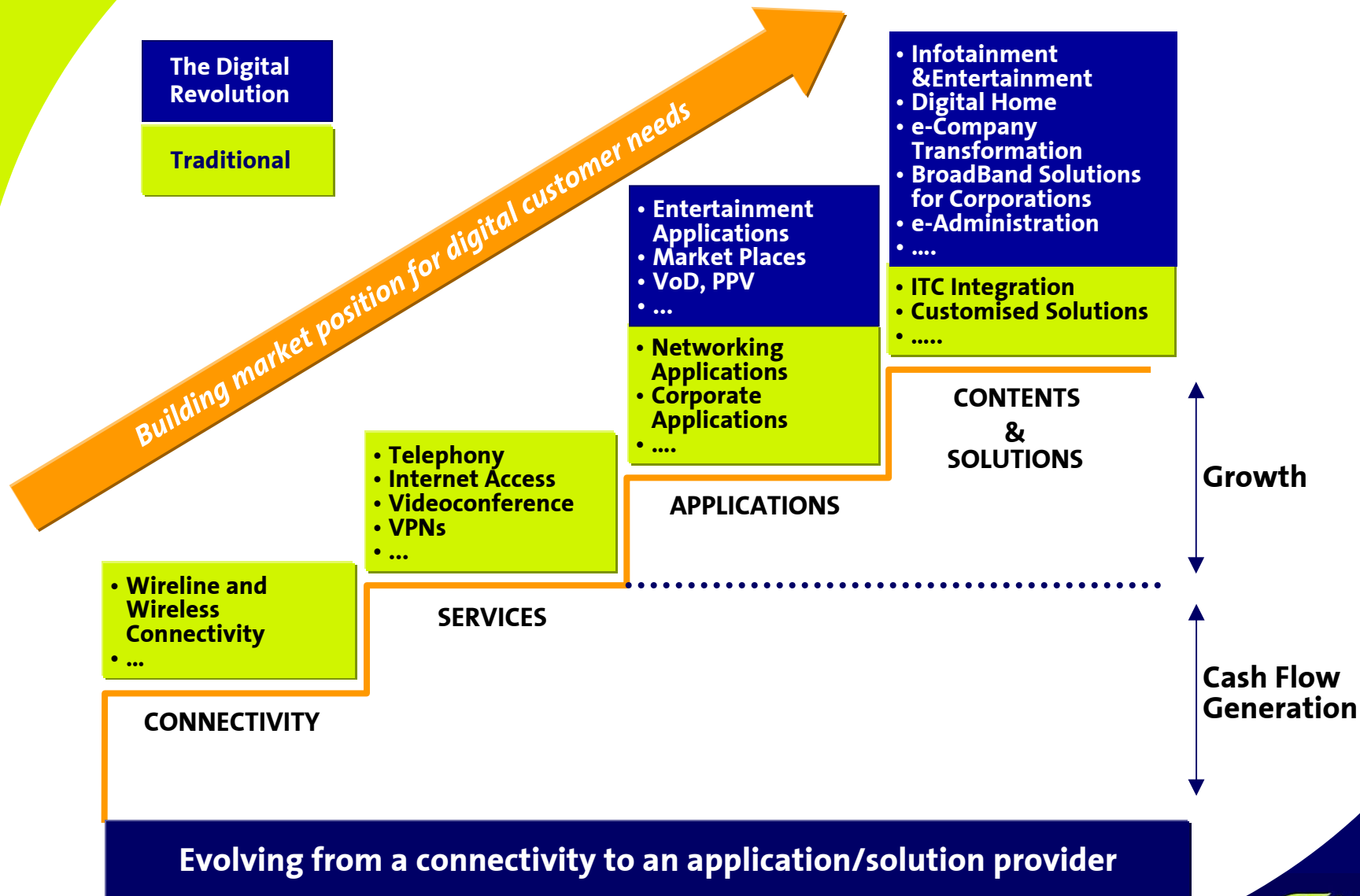
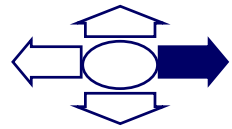
- Individual Business Lines encouraged to rapidly expand customer base

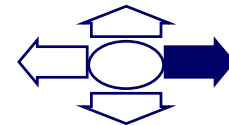


CURRENT FOCUS

- Focus on profitability and quality services for customers
- Build advanced commercial and marketing platforms for deeper segmentation and customer care

Services: Embracing the Digital Revolution

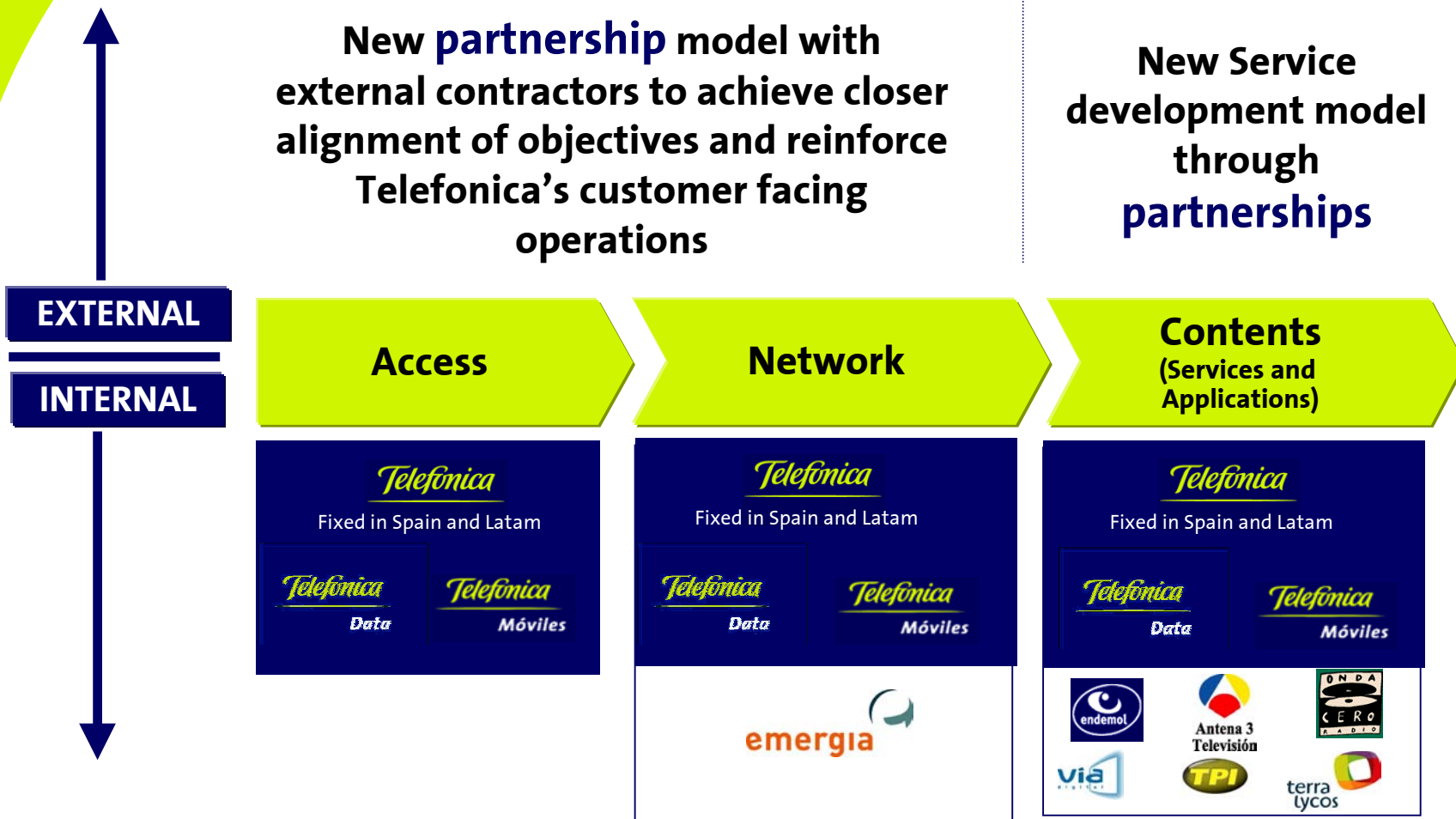




Services: Leveraging on Internal and External Skills

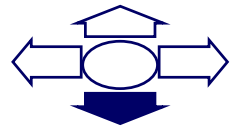
New **partnership** model with external contractors to achieve closer alignment of objectives and reinforce Telefonica's customer facing operations

New Service development model through **partnerships**



Set up a new Corporate Content Unit leveraged on Endemol and other assets

Geographic Footprint: LatAm



Deepen Telefonica's position in Latam and increase its contribution to the Group's EBITDA

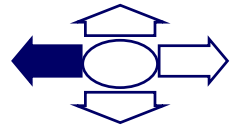
- **Expand in new high growth potential markets where we are not incumbent (e.g., Brazil beyond Sao Paulo and Mexico):**
 - ✓ **Organic growth (e.g., Brazil 2002)**
 - ✓ **JVs (e.g., Mobile JV with PT in Brazil)**
 - ✓ **Acquisitions**
- **Constant improvements in efficiency through Active Regional Management**
- **Regional offering is a key competitive advantage**

Geographic Footprint: Europe



- **Spain: Maximising Cash Flow from existing businesses and defending competitive position by enriching the current portfolio with new Broadband Services**
- **The restructuring process of the European telecom sector will create new opportunities for Telefónica in the next few years**
- **Selective investments will allow Telefónica to capitalise on this restructuring process**
- **Leverage proven skills and current assets to enter new markets**
- **UMTS position outside Spain - minimise investment and open to options based on achieving attractive returns**

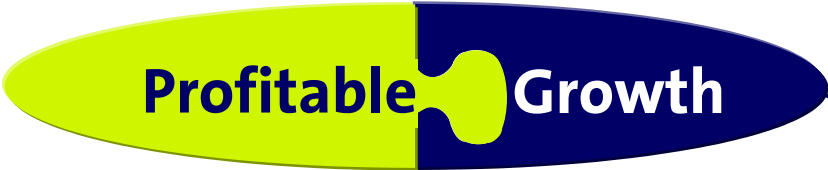
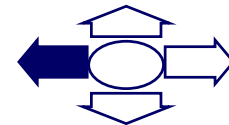
Financial:



Profitable Growth

- ✓ **INCREASE OPERATING EFFICIENCY**
- ✓ **EXCELLENCE IN CAPEX EXECUTION**
- ✓ **CLEAR INVESTMENT CRITERIA**

- ✓ **GROWTH IN CUSTOMER BASE**
- ✓ **GROWTH IN USAGE OF CURRENT SERVICES**
- ✓ **GROWTH IN NEW SERVICES**



Key business priorities to deliver profitable growth

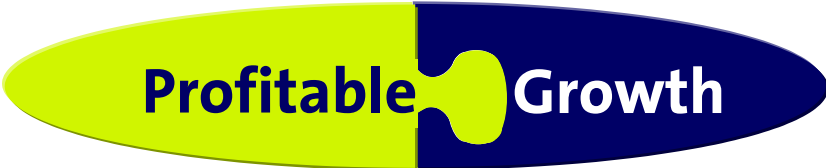
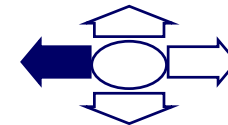
2001 Results * (Eur mn)	EBITDA	Net Income
T. LATAM	5,163	1,275
TdE	4,508	1,078
TEM	3,334	893
TPI	129	65

- Strengthen core business performance
- Capture growth opportunities profitably (particularly increasing penetration in LatAm and Broadband strategy)

TERRA LYCOS	(232)	(566)
T.DATA	24	(486)
ADMIRA	153	(347)
ATENTO	54	(110)

- Crystallize the value of the positions Telefónica has developed
- Broadband as a contributor to continued improvement in results

* Results from individual Business Lines



Increase Customer Revenues

Growth Customer Base

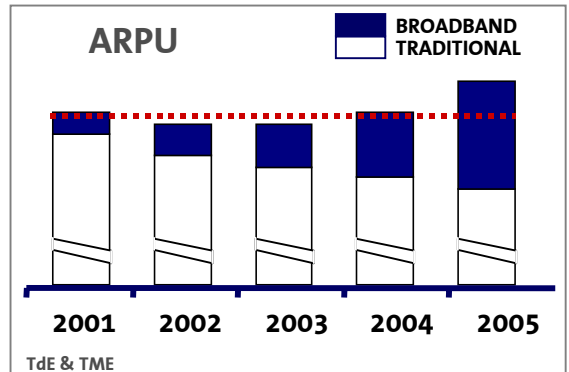
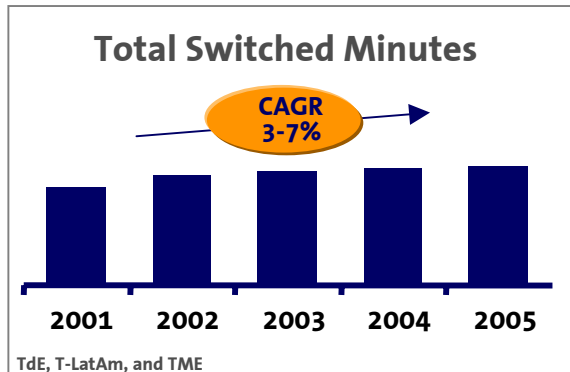
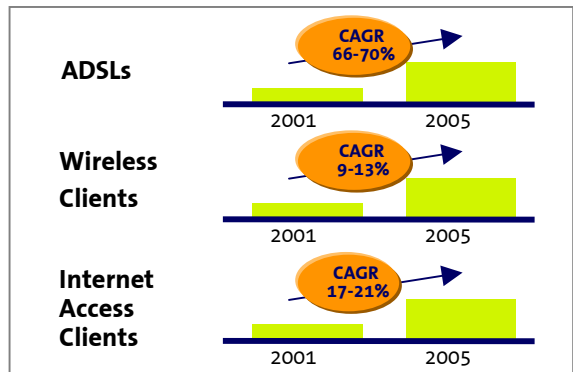
- Around 100MM Clients in 2004 Total
- Over 13 MM BB Clients
 - > 4.5 MM ADSL
 - > 8.5 MM GPRS/UMTS

Growth in Usage of Current Services

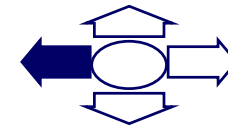
- Proactive commercial initiatives to encourage growth in traditional services

Growth in new Services

- Rising ARPU mainly through our Broadband strategy

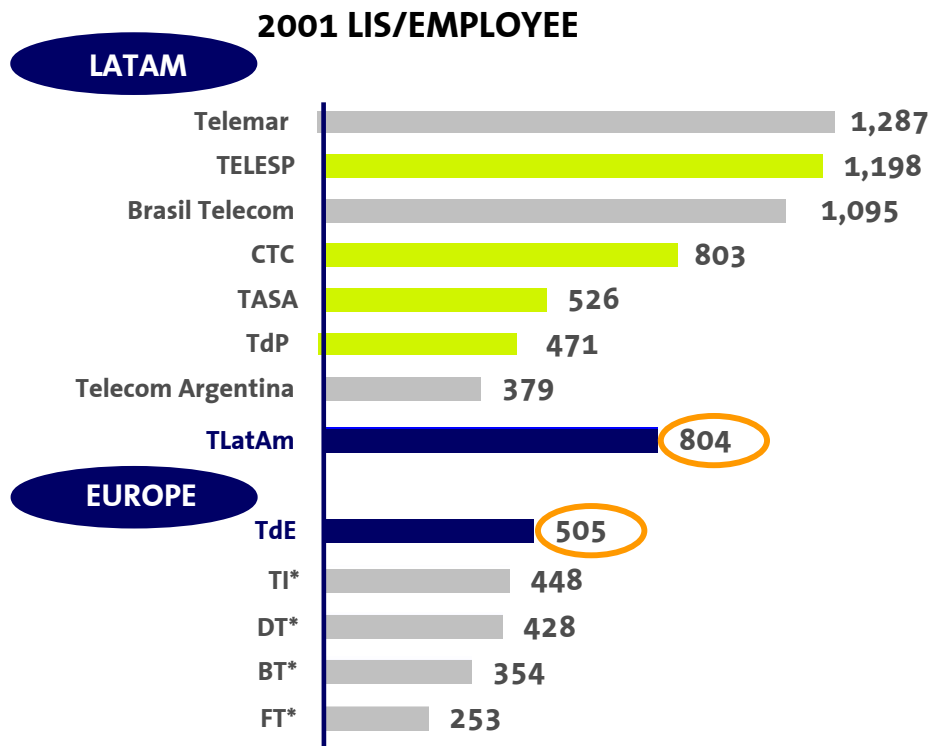


Financial:



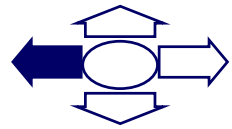
Profitable Growth

Increase Operating Efficiency



- **Still room for improvement in LIS/Employee**
- **Improve OPEX to add efficiency gains**

* As of September'01



Profitable Growth

INVESTMENT PRINCIPLES

- Standalone risk adjusted returns required to be above the cost of Capital
- Seek control in acquired assets
- Clear opportunity to own the customer and sell expanding service portfolio
- Opportunity to leverage existing skills, assets and presence
- Focus on extension of Latin American and European Markets with special attention to Brazil, Mexico, Western Europe and Mediterranean Basin
- Broadband connectivity key to expansion of service
- Improves competitive position, opens new growth markets, stimulates customer interest
- Own customers from day one - seek early cash generation
- Maximise return on capital through efficient operation
- Disposing assets with no strategic fit

In summary,

- Since we last met in Rio, **we have delivered** against an ambitious set of performance targets. The performance gap with our peers has widened
- We will continue **building value** by improving returns from our core assets and seeking and developing new sources of profitable growth
- Our track record, skills and financial strength give us **confidence for the future**
- You can expect a **continued emphasis on superior management** from us and a **will to develop and grow our business**
- Over the next two days we will have the opportunity to prove that our ambitions are **based on solid fundamentals**, a **clear set of performance priorities** and a **talented management team**

Telefónica

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