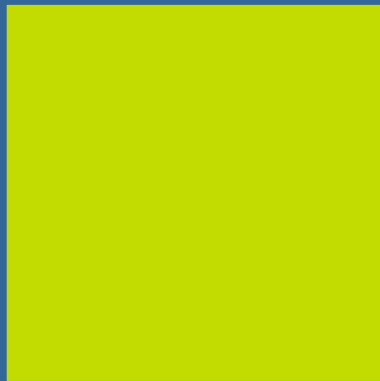
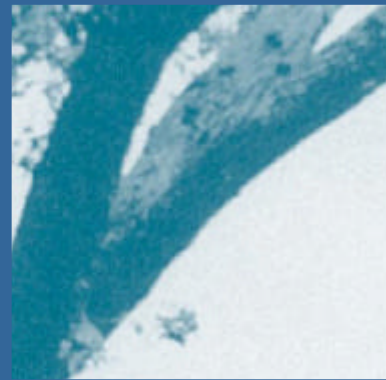


Julio
Linares
Executive
Chairman
Telefónica
de España

M a r c h
2 0 0 1
Rio de Janeiro



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Safe Harbour

This presentation contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this presentation and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activities and situation relating to the Company .

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

Analysts are cautioned not to place undue reliance on those forward looking statements, which speak only as of the date of this presentation. 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, '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.

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2000 Results: Exceeding expectations

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WE ARE FACING AN ASYMMETRICAL REGULATORY

1997

- 2nd fixed telephony license
- CATV licenses

1998

- 3rd mobile license
- Liberalised market through indirect access
- 2-year moratorium for TdE on CATV

1999

- Quality conditions regulation
- LD code selection
- DTV licenses
- Bitstream access to local loop

2000

- LD and Local traffic pre-selection
- Number portability
- UMTS licenses
- LMDS licenses
- Unbundling of Local Loop
- Other liberalising measures

Accelerated market liberalisation

Very slow response on important issues affecting only :

- Access deficit
- Universal service
- Delays for new product approvals

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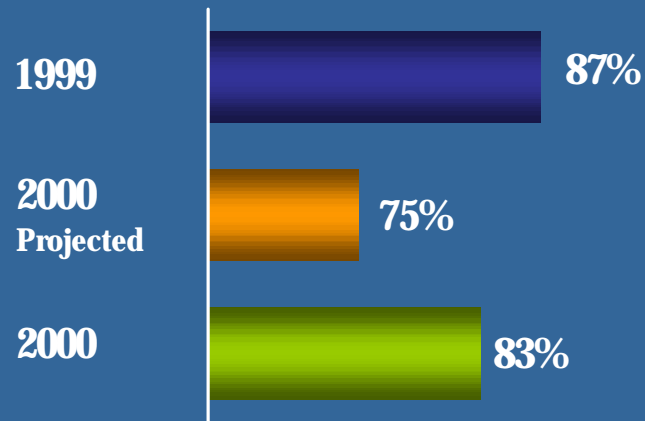
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... THAT TOOK US TO AN INTENSIVE COMPETITION IN

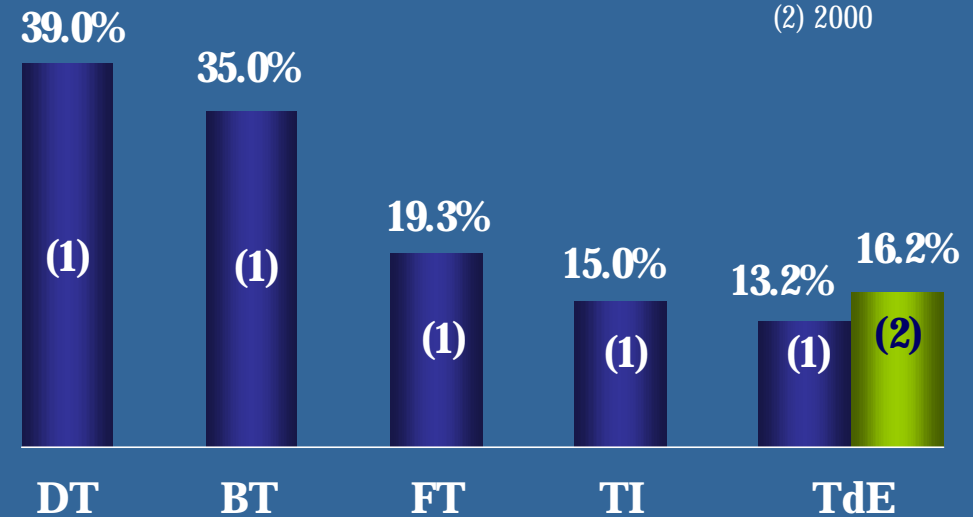
- **More than 1,000 licenses granted in Spain**
- **Strong competition in voice traffic from both fixed and**
- **Fierce competition to gain Internet traffic through bundled voice and Internet services**
- **Cable operators starting to have access to market share**
- **SOHO and SME the most competitive segments**

... BUT WE DEFENDED OUR MARKET SHARE VERY

Long Distance *



Market Share Loss (DLD)**



(1) 1999
(2) 2000

91% voice traffic market share after 3 years of competition

Year end estimates for all market shares

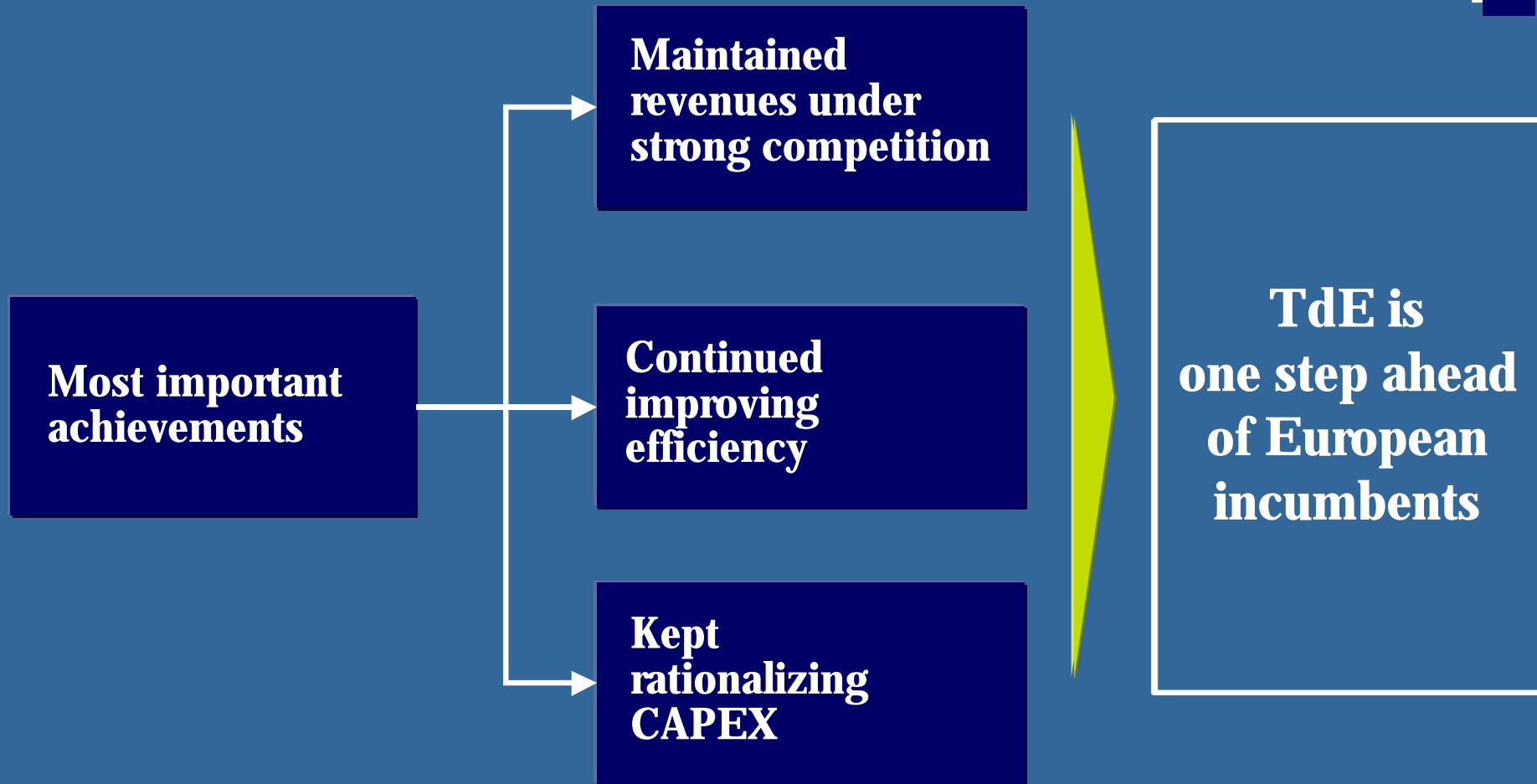
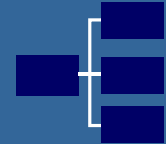
* Includes DLD, international and fixed-to-mobile

** Source: Analysts and

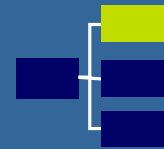
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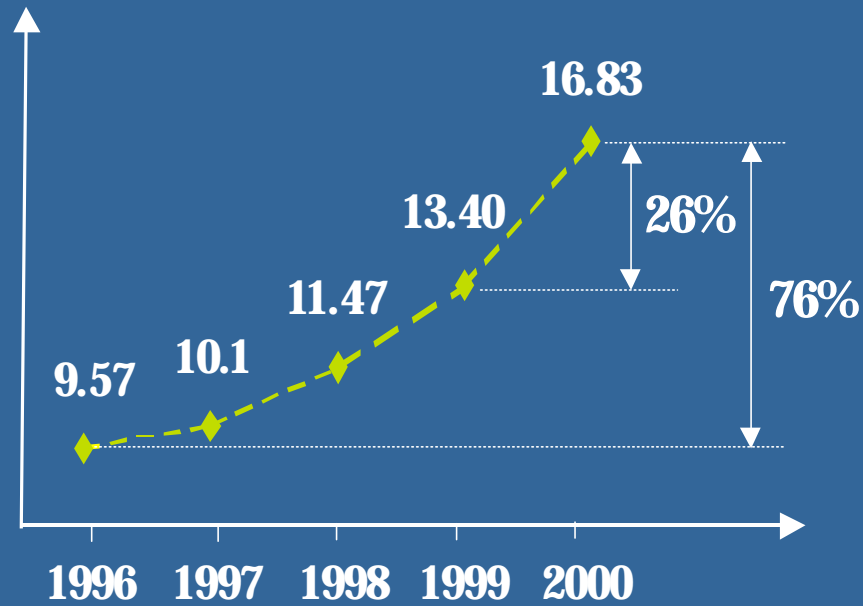
AT THE SAME TIME WE ACCOMPLISHED SIGNIFICANT RESULTS IN THREE KEY AREAS



WE FOSTERED A SIGNIFICANT INCREASE IN LINE

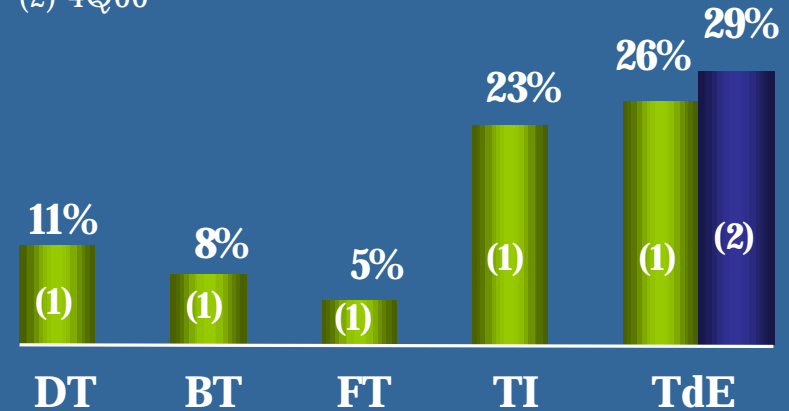


Minutes per line per day



Traffic Growth 00/99

(1) 1H00
(2) 4Q00



Source: Analyst estimates, quarterly reports and

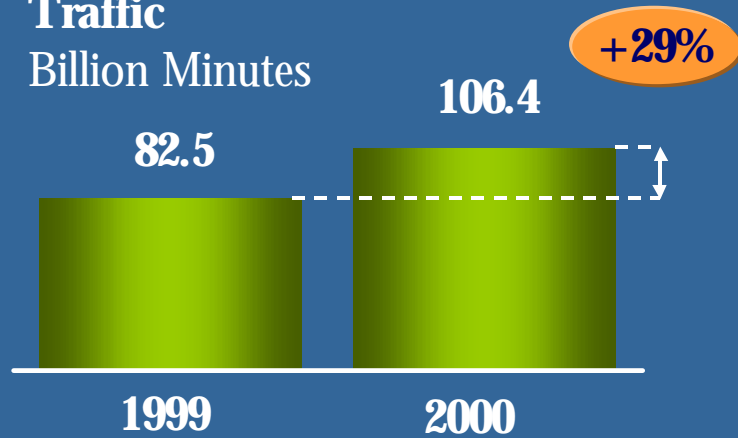
Total traffic volume in 2000: 106.4 bn minutes

MAINTAINING REVENUE LEVEL DESPITE



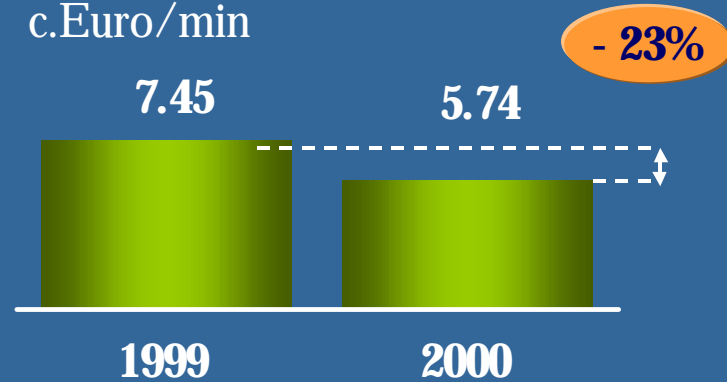
Traffic

Billion Minutes



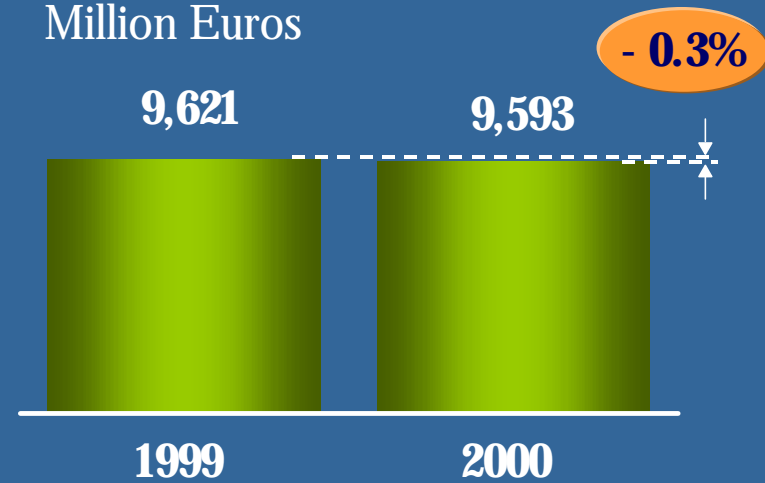
Revenues/minute

c.Euro/min



Operating revenues*

Million Euros



(*) TdE parent company

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...THANKS TO A SUCCESSFUL PRODUCT INNOVATION,

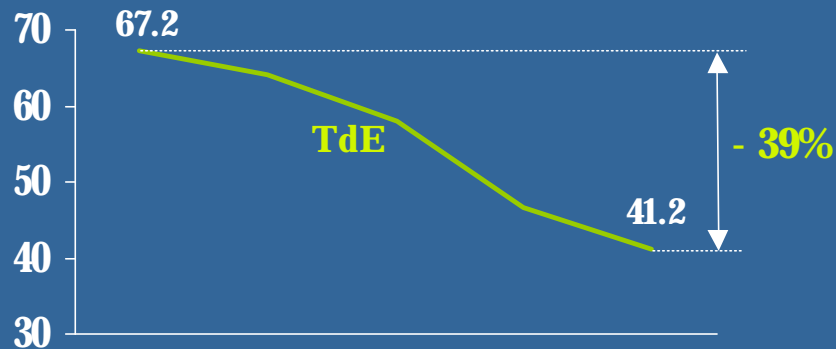
- Voice mail users grew to 9 million and voice mail boxes received 1.8 billion calls over the year
- More than 1.3 million semi-flat traffic packages sold:
 - ILD: “Europa 15”
 - DLD: “País 30”
 - Local: “Bono Ciudad” and “Bono Ciudad Plus”
- 84,000 internet flat rate units sold since launch date
- ISDN lines increased by 78%
- 50,000 ADSL customers (installation rate grew to 500 customers/day by year end)



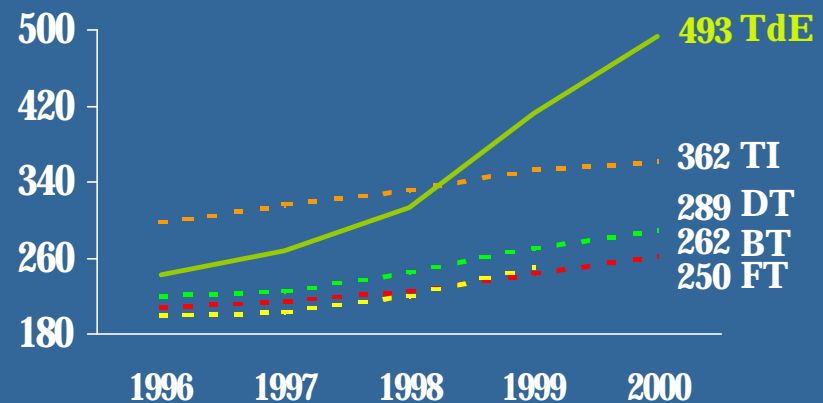
WE CONTINUED OUR STRONG EFFORTS TO IMPROVE EFFICIENCY



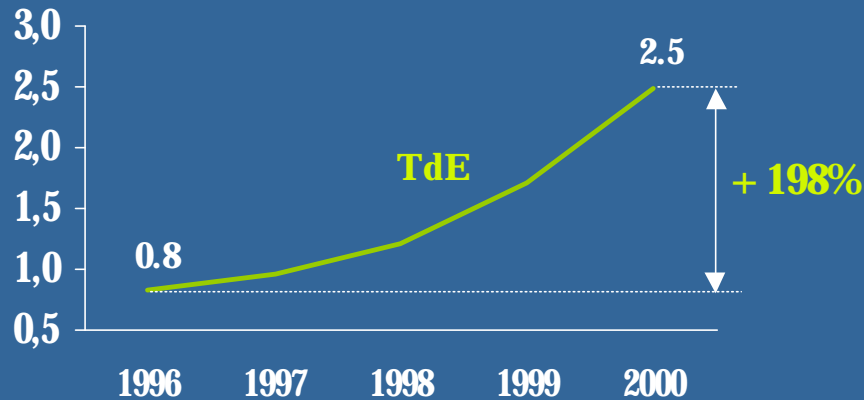
Employees (thousands)



Lines/Employee (*)



Million Minutes/Employee



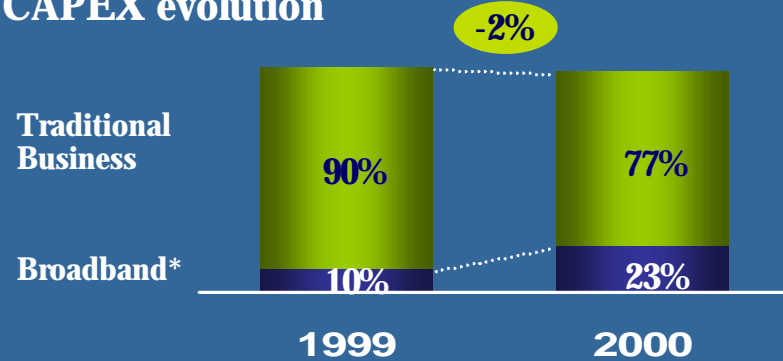
| | |
|----------------|------------|
| France Telecom | |
| BT | |
| Telecom Italia | |
| España | 22% |

(*) Data from operator documents or calculated from Annual Reports and/or other sources. Some results could be slightly different depending on specific criteria applied.

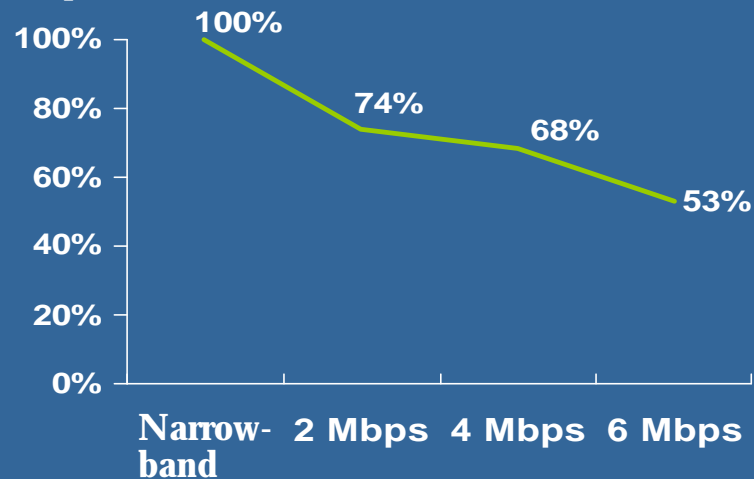
WE FOCUSED INVESTMENT ON BROADBAND NETWORK READINESS, ...



CAPEX evolution



Installed plant capacity % passed households



* Includes network upgrade for broadband, Internet traffic and e-Business

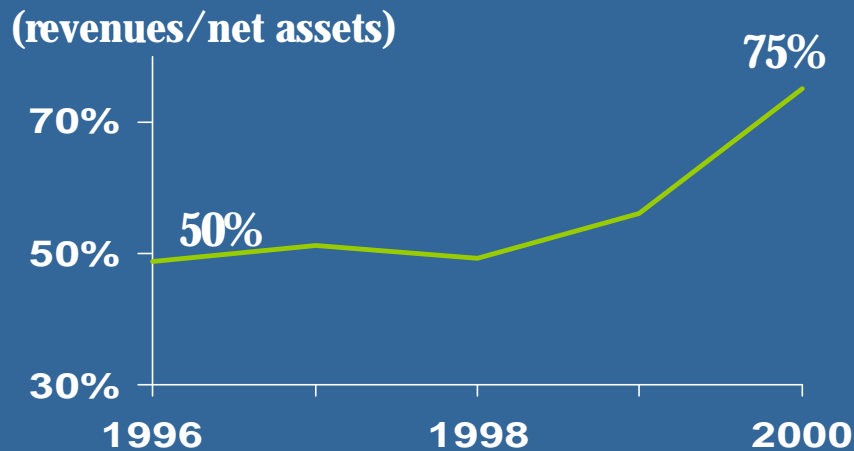
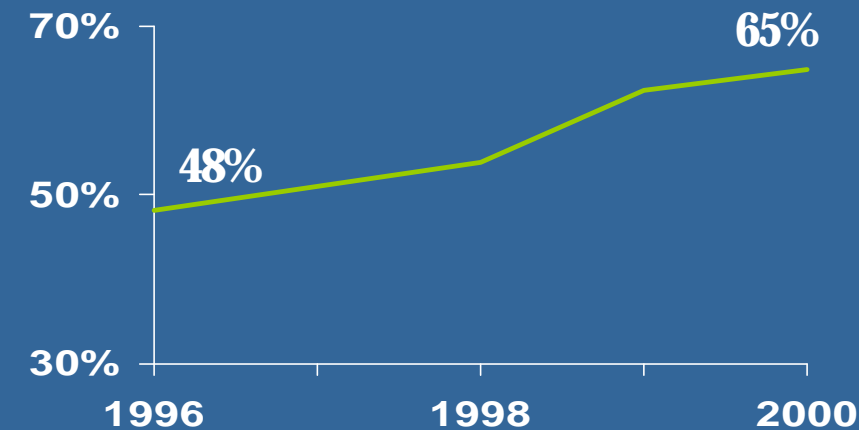
● Backbone capabilities:

- Optical backbone covering all cities with 10,000 + inhabitants
- ATM in all major cities
- Increased backbone network capacity by 61% in 2000

● Capillarity:

- 8 million homes (66% customers) to the curb/building
- 900 ADSL network nodes

... AND ATTAINED A HIGH QUALITY ASSET BASE THROUGH ACCELERATED DEPRECIATION



- 1996 - 2000:
 - 10.5 bn Euros cumulative CAPEX
 - 14.4 bn Euros cumulative depreciation effort
- Healthier asset base to face the new wave of fixed broadband

AS A RESULT AND CONSIDERING THIS DIFFICULT THE ACHIEVED GOOD PERFORMANCE FOR THE YEAR 2000

| Million Euros | 2000 | 00/99 %Change |
|--|---------------|------------------|
| Total Operating Revenues | 10,182 | 2.1% |
| Total Operating Expenses | 5,878 | 11.6% |
| Interconnection | 1,701 | 31.0% |
| Operating Expenses excl. Interconn. | 4,177 | 5.2%* |
| Personnel | 2,222 | |
| Supplies | 937 | |
| External services and taxes | 1,018 | |
| EBITDA | 4,491 | - 10.7% |
| EBITDA Margin | 44.1% | -5.9 p.p. |

(*) Parent Company -1.6%

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MOST REGULATORY ISSUES ALREADY SETTLED

Price cap: Overall price evolution

Monthly fee: Increases in 2001 and 2002 already approved

ULL*: Price aligned with EU

**Regulatory
uncertainty
reduced
through
proactive
management**

(*) Unbundling of the Local Loop

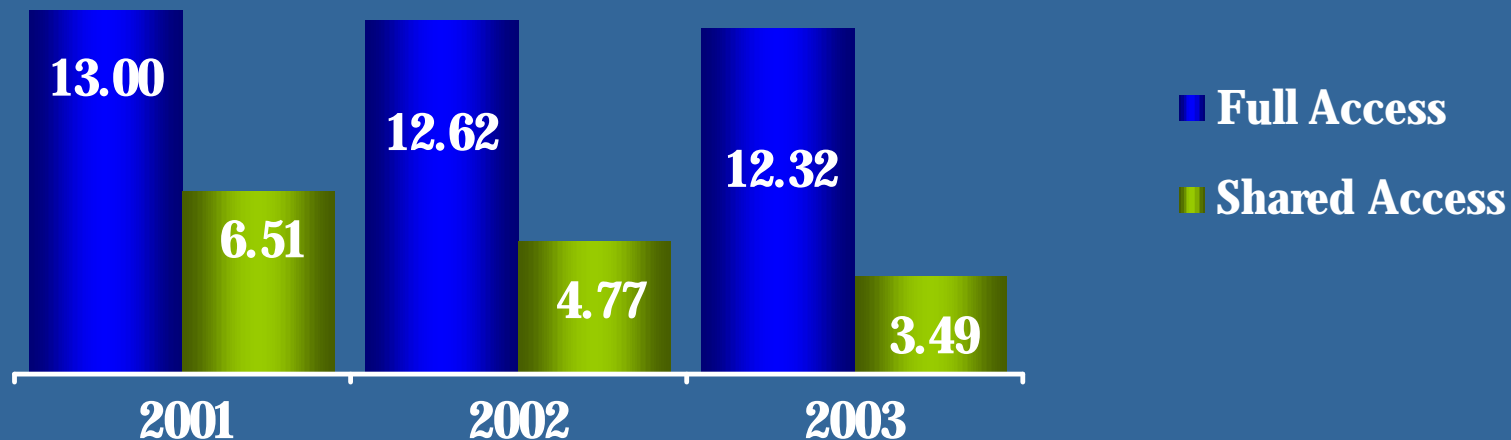
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ULL PRICES HAVE BEEN RECENTLY ESTABLISHED

- **First ULL-based competitors not expected to be active before 2H01**
- **ULL prices aligned with EU standards**

ULL Monthly fee evolution
Euros

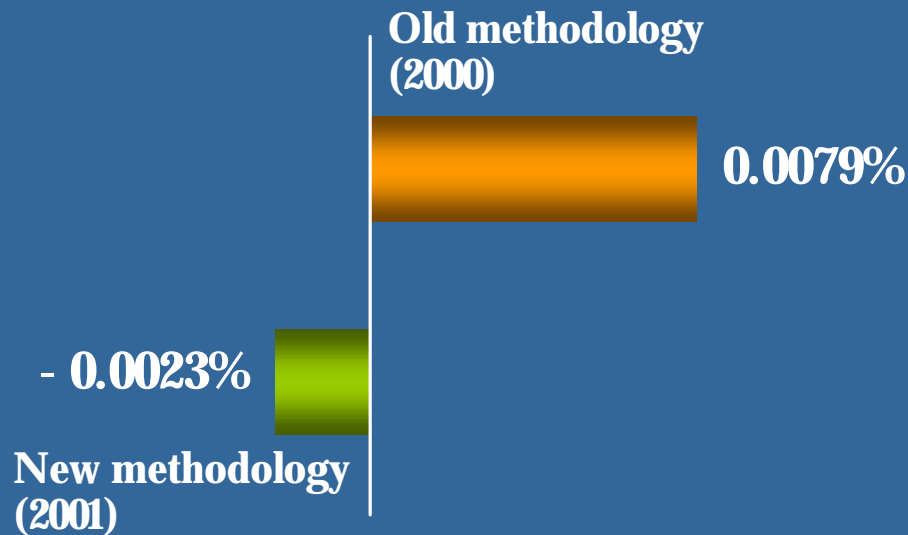


Full Access: Whole loop capabilities rented to competitor

Shared Access: POTS/ISDN services remaining with

THE NEW CPI MODEL WILL REDUCE PRESSURE TdE

Estimated impact on CPI of forecasted 2000 – 2001 price evolution* :



-
- **New CPI model will help price rebalancing due to weighting based on consumer expenses instead of call volume (higher weight of long distance vs. monthly fee and local)**

(*) Includes traffic price, monthly fee and connection fee

AND WE KEEP PROACTIVELY NEGOTIATING THE ACCESS DEFICIT ISSUE

Access deficit linked to price rebalancing could have an important positive impact on short-term results:

- Cost accounting presented to Regulator
- 12.6% ROIC* already accepted
- EC sent reasoned statement to Spanish

be answered by March 29th 2001

**Positive
results are
expected**

(*) Before taxes

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OUR CHALLENGE IS TO COMPETE IN THREE DIFFERENT RETAIL MARKETS

Voice

- Mature market
- Cash-flow generator
- Market of:
 - ✓ 69,000 M-minute market
 - ✓ 91% TdE traffic share

Internet

- High growth, low revenue market
 - ✓ 41% of Spanish traffic and 9% of revenues
 - ✓ 154% traffic growth in 2000
- Critical to maintain customer relationships

Multimedia

- Emerging market with high potential
 - ✓ 253,000 cable customers vs. 12.5M homes in Spain
- Huge opportunity for TdE ADSL offer

Pursuing continuous growth of our customer base

WE HAVE DEVELOPED AN ACTION PLAN TO ADDRESS THAT CHALLENGE



Challenge

- Strengthen our leadership

- Enhance our leading position

- Lead the broadband market

Key actions

- Price reductions and discounts
- Traffic packages
- New services to increase traffic

- High quality Internet access and navigation
- Aggressive ADSL development and commercialisation

- ADSL evolution (VDSL, FTTH)
- Multimedia packages in collaboration with T. Media, Terra-Lycos and other partners

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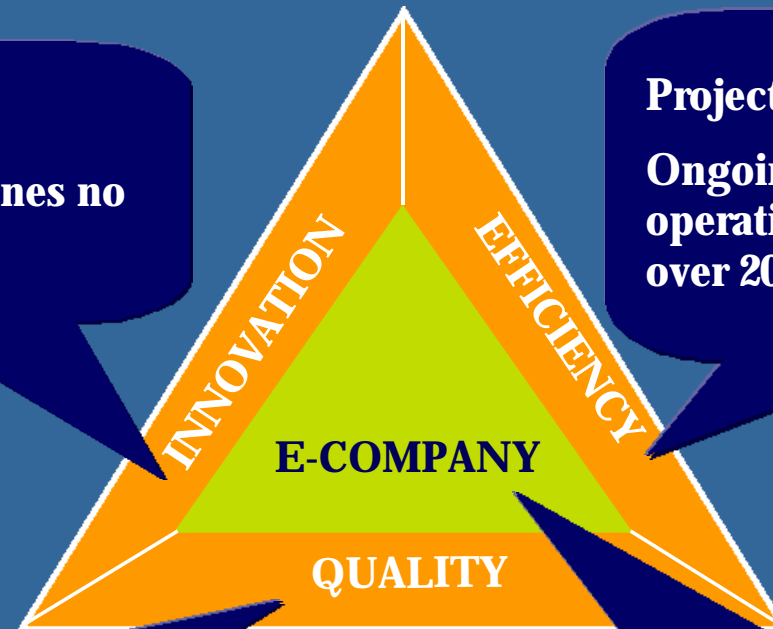
Continue leading fixed telecommunications market and become the broadband communications provider of choice in Spain

Continue efforts to excel in the traditional business.
“Ensure revenue generation”

- **Protect our leadership position in the**
-
- **Ensure “the right to lead” the new**

“Going broadband to build the future”

- **Position Telefónica de España to lead the fixed broadband communications**
- **Generate future cash flow sources**



Project - “Verne”

Install 1 million ADSL lines no later than 2003

Project - “Eficient.es”

Ongoing initiatives to reduce operating costs by 5% in 2004 over 2000

Project - “Excelent.es”

Focus on customer satisfaction and loyalty by achieving excellence in quality based on 6s

Project - “e-Business”

Adopt new electronic processes to interact with employees, clients and

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THERE ARE THREE KEY MARKET CHALLENGES

Leverage our strong position in the access battle

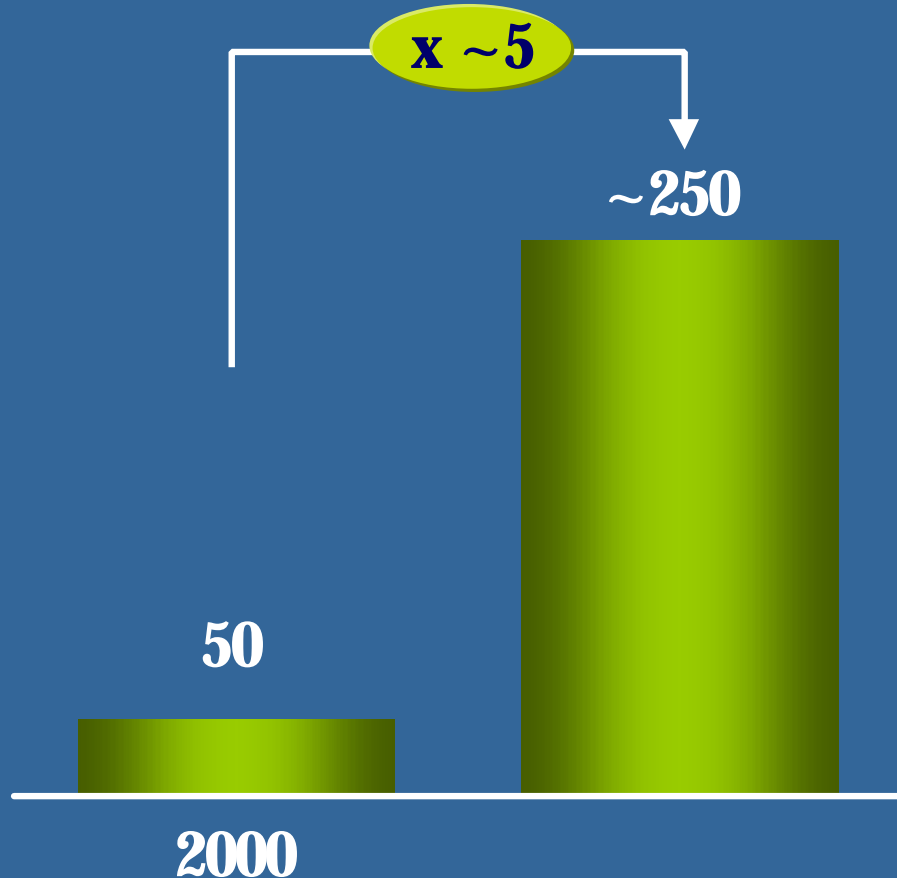
- **Develop ADSL taking advantage of our access position to face competition:**
 - Cable operators
 - LMDS operators
 - Unbundling of local loop

Lead the Internet growth

- **Maintain our leadership versus new players leveraging our customer base**
- **Continue our successful commercial strategy to sustain market share addressing:**
 - Open local traffic market
 - Focused competitors

FIGHTING THE DIRECT ACCESS BATTLE

Thousand ADSL
customers



- 90% coverage by year end
- Increase installation rate to 1,000 ADSL/day
- Launch new products
 - ADSL over ISDN
 - Self-installing ADSL
 - ADSL packs
 - Wireless-home ADSL
 - ADSL-LAN
 - Video over ADSL(pilot)

STRENGTHENING INTERNET POSITION THROUGH HIGH QUALITY ACCESS AND NAVIGABILITY



Enhance our leadership position in the Internet market to capture new growth

- **Exploit ADSL capabilities**
 - **Broadband applications in collaboration with Group companies and other**
- **Develop new competitive services and offers**
 - **Premium quality Internet access**
 - **New flat-rate options**
- **Foster the Internet in the Small and Medium Enterprise segment:**
 - **Customised business application**
 - **VPN over ADSL**
- **Expand distribution channels**
 - **Flat-rate commercialisation through**

DEFENDING VOICE TRAFFIC MARKET SHARE



We aim to repeat the success of 2000 by:

Managing price policies

- Price cuts (10%) and selective discounts
- New semi-flat rate packages for national and international calls (5 million packs)
- Customised billing packages for businesses

Fostering services that increase traffic

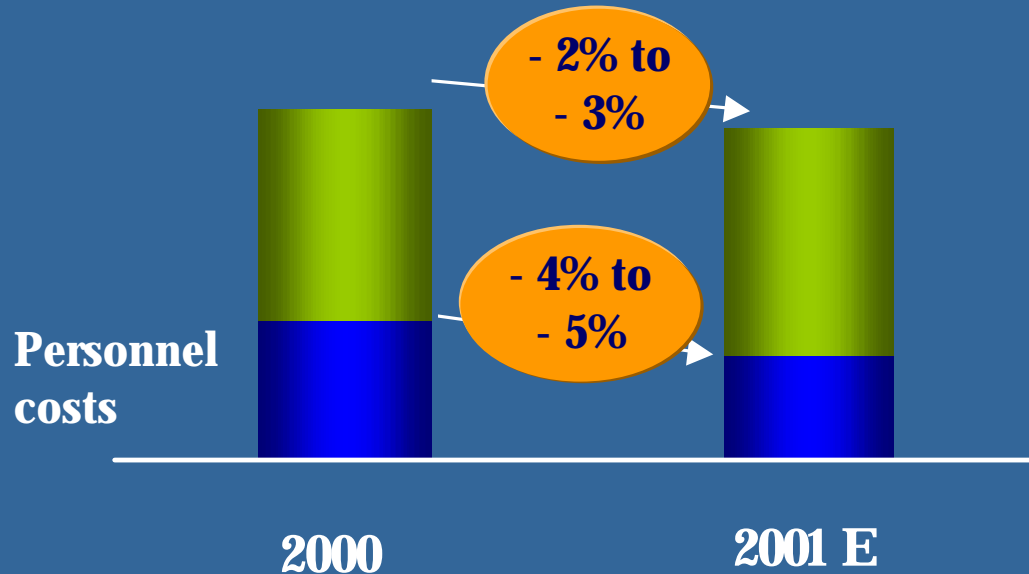
- 10 million mail boxes
- 2 million lines with calling-ID
- Unified messaging with Internet and mobile
- Voice portal

Optimizing marketing and distribution

- Launching aggressive “win-back” campaigns (28% success in 2000)
- Improving sales force and call
- Enhancing on-line channel and reinforcing third-

COST CONTROL WILL REMAIN ONE OF OUR KEY

Total operating costs



- Personnel cost decrease due to strong effort at the end of 2000
- E-Business-driven process transformation
- Commercial cost optimisation
- General and administrative cost control

Keeping up the effort to improve efficiency and quality

WE HAVE STRONG CAPABILITIES TO FACE A MORE DEMANDING ENVIRONMENT IN 2001

Network

- High capillarity: 21 M loops
- Readiness for broadband evolution: 8M with FTTC*
- High availability of network services (99,5%)

Operations

- Massive and widespread operations capacity: presence in 758 cities;
- Knowledge of customer equipment
- Service-oriented culture

Commercial

- 1,400 Sales Force and 5,400 Tele-Marketing agents specialised in different market segments
- 90 million commercial contacts in 2000
- 1,900 Telefónica shops and points of sale
- 30 million on-line visits per month
- CRM use for “win-back” and new product strategies
- Top brand perception (10% ahead of next competitor)

* Fiber to the curb

Motivated talent through variable incentive schemes

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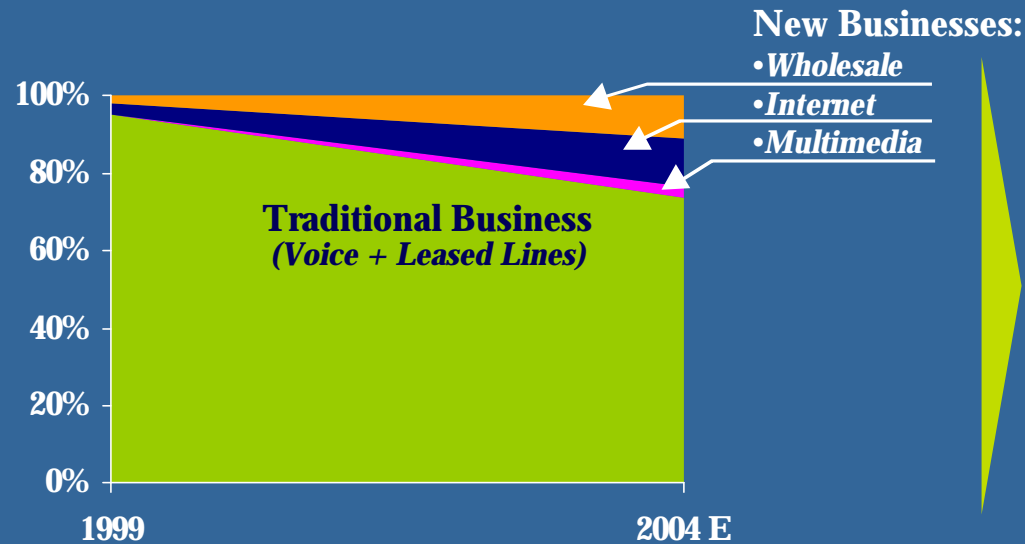
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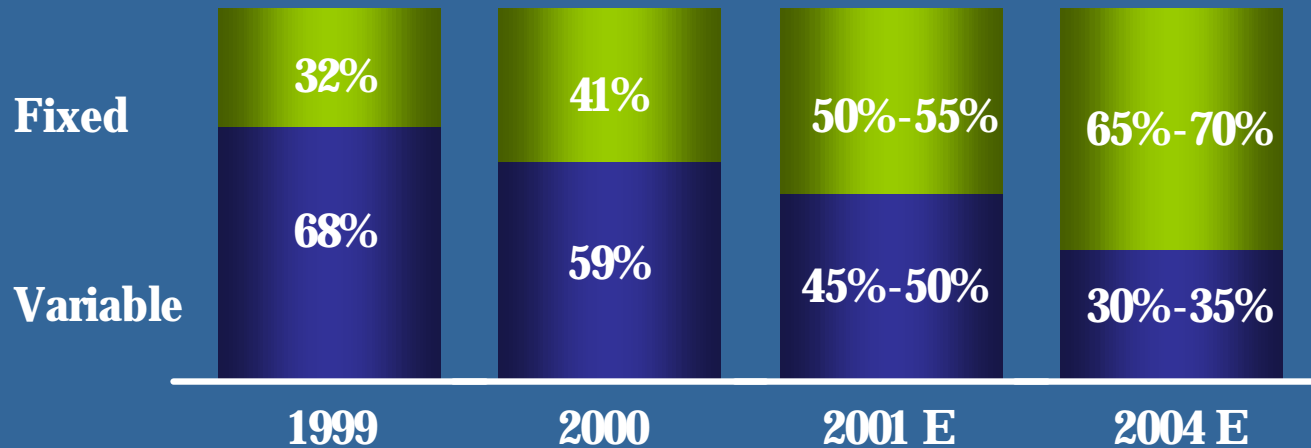
Summary: Solid contributor

REVENUES WILL REMAIN FLAT, WHILE REDUCING



New business revenue offsetting decline in traditional business

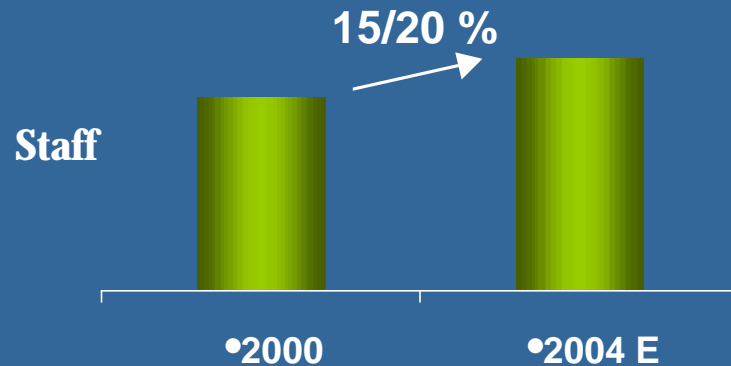
- 10%-15% of revenue driven by ADSL in 2004
- 10%-13% deriving from wholesale business



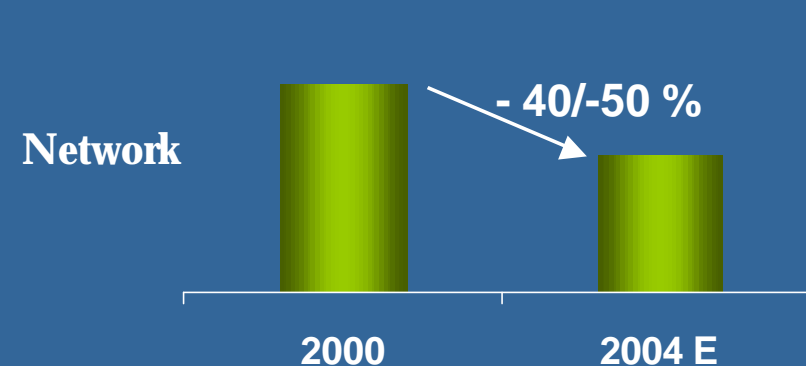
Transforming variable into fixed revenues

WE WILL CONTINUE OUR IMPORTANT OPERATING COST REDUCTION EFFORT

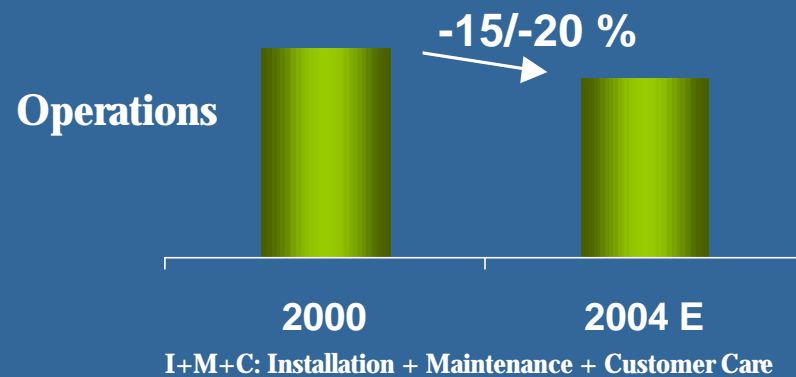
Improving productivity
(Lines in service per employee)



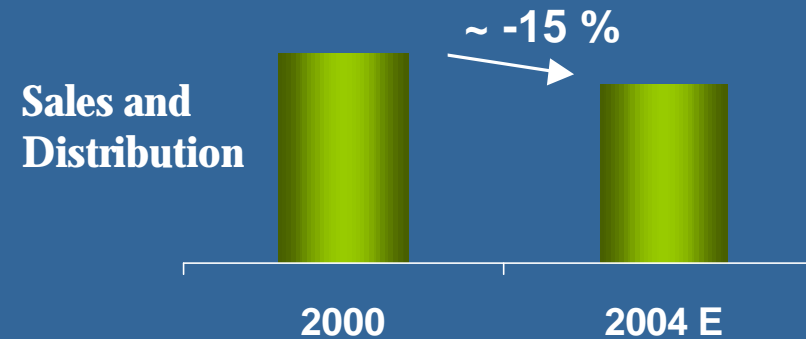
Reducing network cost per minute



Reducing I+M+C cost per line



Cutting sales cost per unit



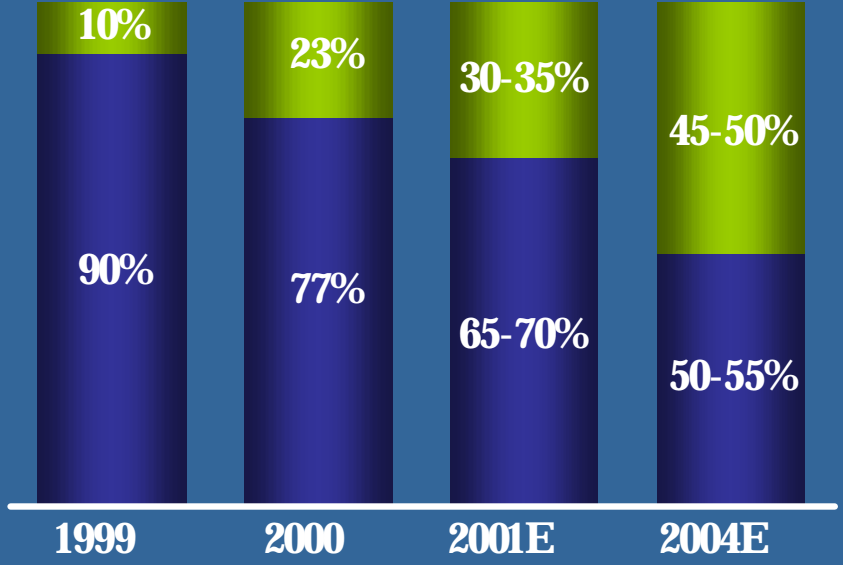
WE WILL MAINTAIN A RATIONAL CAPITAL EXPENDITURE POLICY

CAPEX at levels below 20% over revenues

Selective investment effort towards broadband, Internet and e-business

Broadband and innovation

Traditional business



Telefónica de España is committed to pursuing aggressive financial targets for the 2001-2004 period:

-
-
-
-
-

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IN SUMMARY, TELEFONICA DE ESPAÑA

- **Managed to perform successfully in 2000 exceeding market**
- **Settled a solid base and gained an advantage over other European incumbents**
- **Developed a clear strategy and launched an action program to face 2001 challenges and to be prepared to exploit future**
- **Ready to lead the broadband challenge to enhance our profitable growth, in a context of lower regulatory pressure**
- **Will become an even more solid contributor to Group cash flows and EBITDA**

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