



Madrid

May 28, 2003

Telefonica

TERRA LYCOS MINORITIES BUY-OUT

DISCLAIMER

This presentation contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document 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 activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

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 statements as a result of various factors.

Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica 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, without limitation, changes in Telefónica'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 as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator.

INDEX

 **Transaction Overview**

 **Transaction rationale**

 **Terra Lycos holders: attractive premium over business market valuation**

 **Telefónica holders:**

 **Strategic restructuring and integration**

 **Financial impact on Group accounts and value**

 **Conclusions**

TRANSACTION OVERVIEW: KEY TRANSACTION TERMS

Consideration

- ✍️ Cash tender offer under applicable Regulations
- ✍️ Up 100% of minorities (62.05% of outstanding share capital)

Price

✍️ For each Terra Lycos share: 5.25 €

✍️ Premium over:

	Aggregate value (ex-cash) (1)	Equity value
Last closing price ⁽²⁾	51.2%	16.2%
Pre-NSA announcement	41.3%	13.6%
Over last 6 months	44.9%	14.6%
Target prices ⁽³⁾ (5.21 €)	2.0%	0.8%

Conditions

✍️ TEF to reach a 75% minimum stake after completion

- (1) Cash position of €1,731.3 Mill.€ excluded from equity value. 559.6 Mill. shares outstanding, excluding option plans.
 (2) As of May 27, 2003.
 (3) Mean of selected analysts' reports target prices issued in 2003.

TRANSACTION RATIONALE

INTERNET BUSINESS MODELS HAVE EXPERIENCED DEEP CHANGES SINCE TERRA LYCOS IPO, CHALLENGING THE EXISTENCE OF INDEPENDENT COMPANIES

✎ Telefónica has consistently adapted to business model changes, supporting its Internet offering

INTERNET IS A BUSINESS OPPORTUNITY DIRECTLY LINKED TO WIRELINE, AND DRIVEN BY BROADBAND

✎ The new Internet Model demands integration

✎ A combined Group effort is needed to fully capture the business opportunity Internet represents

ASSETS RESTRUCTURING AND BUSINESS INTEGRATION WITH WIRELINE OPERATIONS IS THE BEST OPTION TO CREATE VALUE FOR BOTH TERRA LYCOS AND TELEFONICA SHAREHOLDERS

✎ **TERRA LYCOS HOLDERS:** all cash transaction, with a 16.2% and 51.2% premium to current stock price and implicit business market valuation, respectively

✎ **TELEFONICA HOLDERS:** 268.9 Mill. € incremental EBITDA in 2003-2006

THE INTERNET BUSINESS MODEL HAS UNDERGONE A DEEP TRANSFORMATION...

FROM INTERNET BOOM...

- ✍ Sustainable / Independent business models
- ✍ Easy access to capital markets financing
- ✍ Strong on-line advertising market
- ✍ Narrowband as unique option
- ✍ E-commerce growth expectations
- ✍ Focus on growth through free services

...TO CURRENT ENVIRONMENT

- ✍ Consolidation of "big players"
- ✍ Financing concerns and reduced funding options
- ✍ Decrease in on-line advertising revenues
- ✍ Shift of Internet towards Broadband
- ✍ New Services' revenues have failed to materialized
- ✍ Low migration from free to pay

A SEVERE CORRECTION IN STOCK MARKETS

- ✍ A 90% drop for the Dow Jones Internet USA since its peak in early 2000
- ✍ A 83% drop for the Dow Jones Internet USA since Terra Lycos IPO (17 Nov.1999)

BUSINESS MODELS FAR FROM VIABLE

- ✍ More than 870 Internet companies have gone bankrupt in the period 2000-2002

INTERNET CAPITAL RAISING HAS PLUMMETED

- ✍ From a cumulative 35 Bn. \$US in IPOs in 1999-2000 to 3 Bn. \$US in 2001-2002
- ✍ 76% decrease in Venture Capital funding in 2001-2002 versus 1999-2000

EXPECTATIONS FAILED TO MATERIALIZED

- ✍ IDC Internet users 5 year CAGR: from a 27% estimated in 2000 to an 11% estimated in 2002

...AND WE HAVE SUPPORTED TERRA LYCOS TO BUILD A SOLID INDEPENDENT INTERNET BUSINESS, ADAPTING TO SECTOR CHANGES...

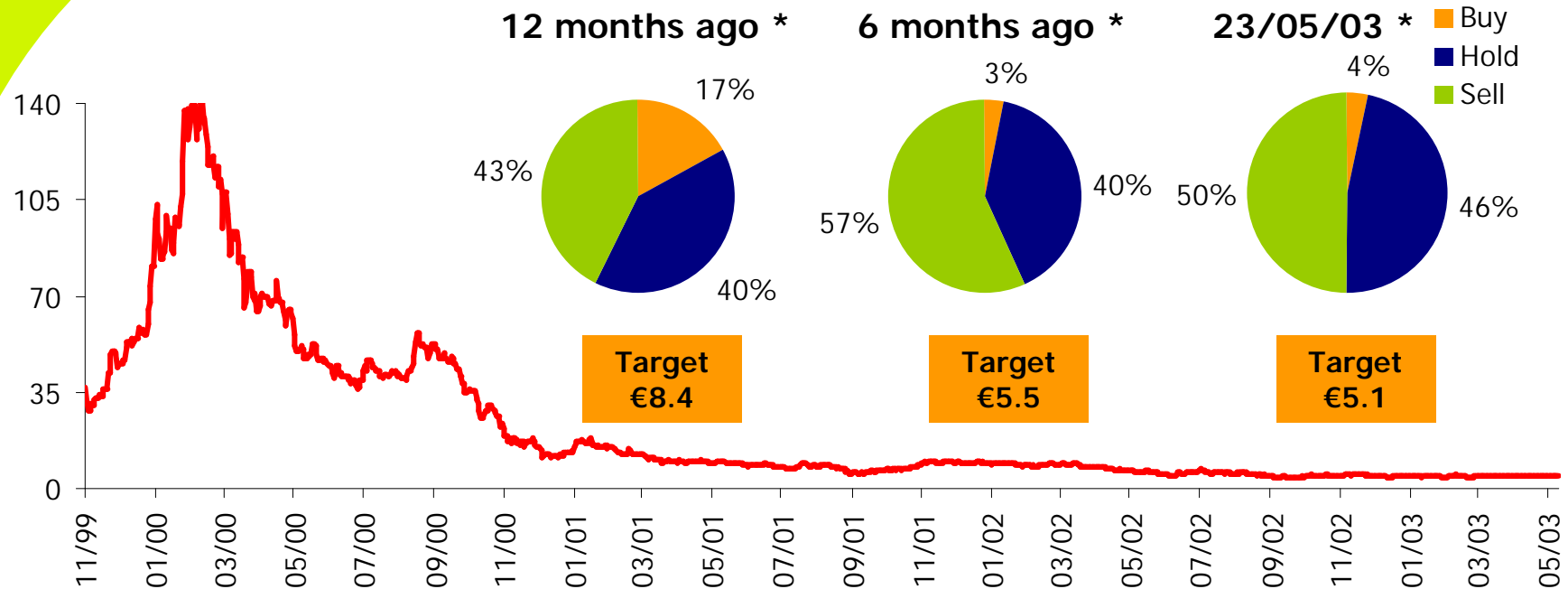
- ✎ Integration of all Spanish and Latin-American ISP and portal subsidiaries into Terra before IPO
- ✎ Nov. 1999: Terra IPO (853 Million € cash inflow to Terra)
- ✎ Sep. 2000: Capital increase subscribed by TEF for 2,194 Million € at 62€/share
- ✎ Sep. 2000: MOU I (325 Million \$US) through TEF-Bertelsmann Alliance
- ✎ Feb. 2003: TEF signs the NSA with Terra Lycos (78.5 Million € per year of guaranteed value for 6 years)
- ✎ TEF has consolidated significant losses since Terra Lycos launch

CONSOLIDATION OF TERRA LYCOS ON TEF ACCOUNTS

FINANCIAL RESULTS *	Revenues (mill. €)	EBITDA (mill. €)	Net income (mill. €)
2000	277.4	-359.2	-791.2
2001	660.7	-260.0	-196.7
2002	546.3	-141.7	-527.7
Total 2000-2002	1,484.4	-760.9	-1,515.6

* Revenues and EBITDA are net of intercompany. Net Income has been adjusted by results attributable to minorities, goodwill amortization, and fiscal effects.

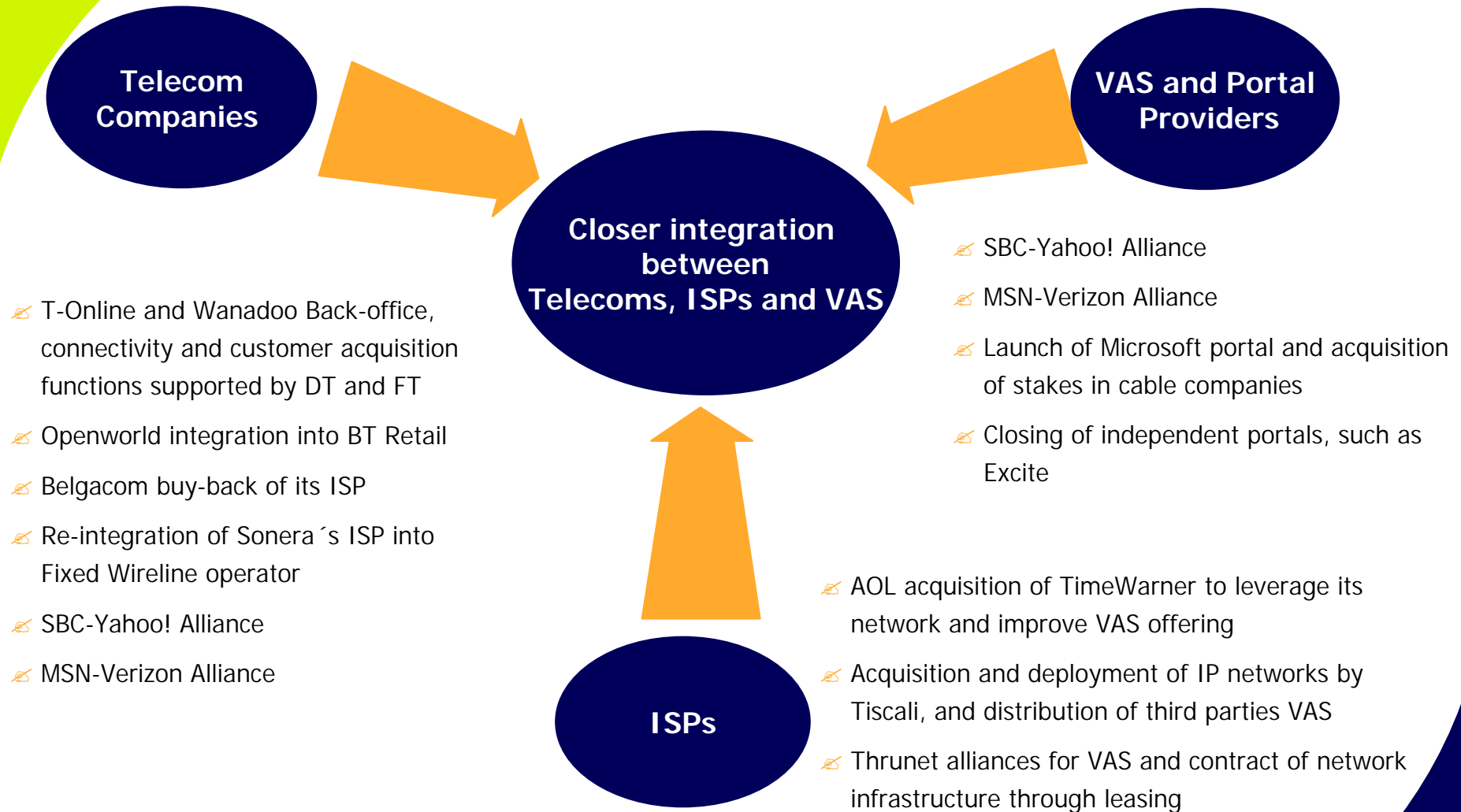
...ALTHOUGH THE MARKET HAS CONTINUOUSLY REVISED DOWNWARDS THE CHANCES OF TERRA LYCOS' BUSINESS MODEL TO SUCCEED



- † Analysts think that Terra Lycos business lacks visibility
- † Worries in the market about Terra Lycos' dependence on Telefónica, aligning strategies in the ADSL market in Spain, drop in on-line advertising market and the weakness of US business
- † No expectation on results improvement without sales increases, that depend on the advertising market
- † The NSA has not changed the market's perception of a weak business model
- † 2003 Guidance below market expectations

* Sources: Bloomberg consensus for recommendations. Lehman Brothers, JP Morgan, UBS Warburg, CSFB and others for price target. UBS Warburg, CSFB, SCH for comments.

INTEGRATION IS A MUST TO FULLY CAPTURE THE BROADBAND OPPORTUNITY, KEY FOR INTERNET AND WIRELINE...

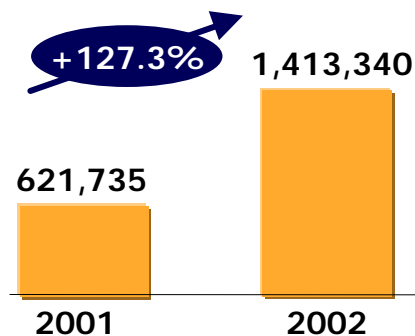


BENEFITS FROM ASSETS RESTRUCTURING AND INTEGRATION WILL FLOW IN ALL MARKETS WHERE TELEFONICA IS A WIRELINE INCUMBENT

...AND ESPECIALLY RELEVANT FOR THE FUTURE OF TELEFONICA, HAVING INCUMBENT OPERATIONS IN SPAIN & LATAM

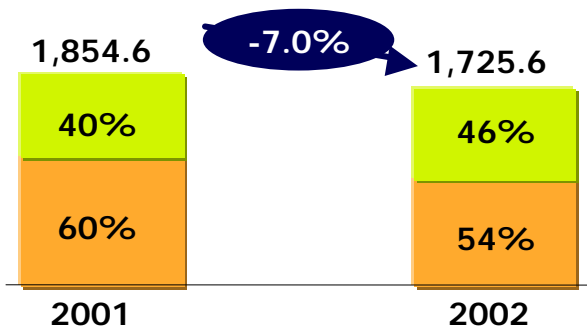
- ✍ Internet and IP are driving the transformation of fixed telecom businesses
- ✍ Internet is the answer to client's demand for integrated products and services (connectivity + Internet access + Value Added Content)
- ✍ Connectivity is a key asset we have to leverage on, in order to capture Internet growth through Broadband
- ✍ Internet stands as the clear growth business for wireline

2002 GROUP ADSL GROWTH



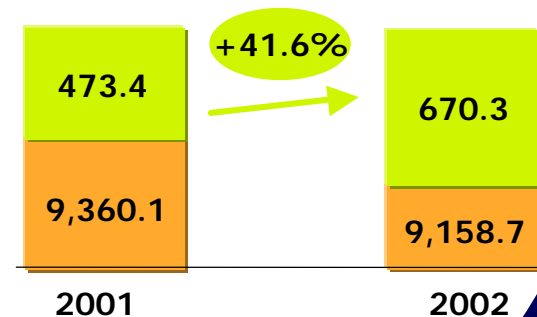
2002 Internet Group revenues represented 8.5% of total revenues

TdE PARENT 2002 CAPEX BREAKDOWN



■ Transformation
■ Traditional

TdE PARENT 2002 REVENUE BREAKDOWN



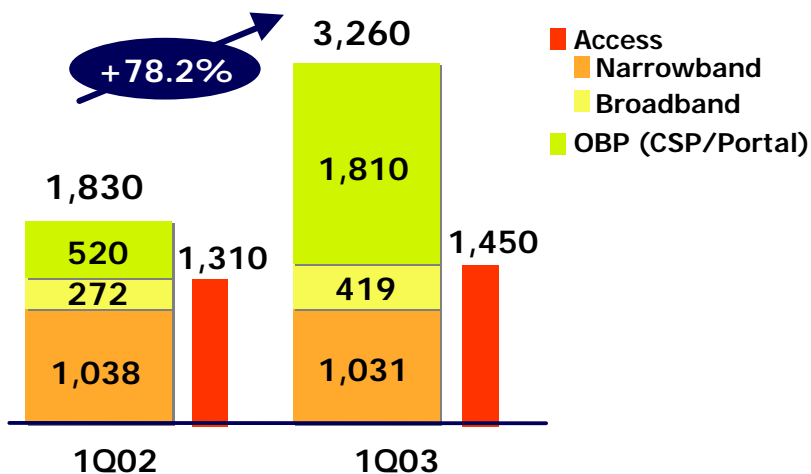
■ Internet & BB
■ Traditional+Wholesale

TELEFONICA IS FULLY DETERMINED TO CAPTURE INTERNET/BROADBAND BUSINESS OPPORTUNITY

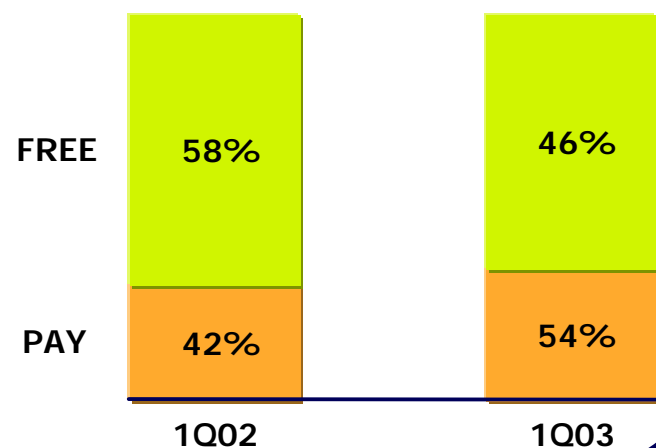
...WITH TERRA LYCOS ASSETS BEING COMPLEMENTARY TO TELEFONICA'S GROUP INTERNET SKILLS

- ✍ A strong brand recognition among Internet users
- ✍ A presence in the countries where Telefónica has a robust wireline footprint
- ✍ Solid capabilities as Communication Service Provider
- ✍ Capacity for on-line content, products and services development
- ✍ Portal services with strong reach
- ✍ Stable customer base, with an increasing weight of pay clients

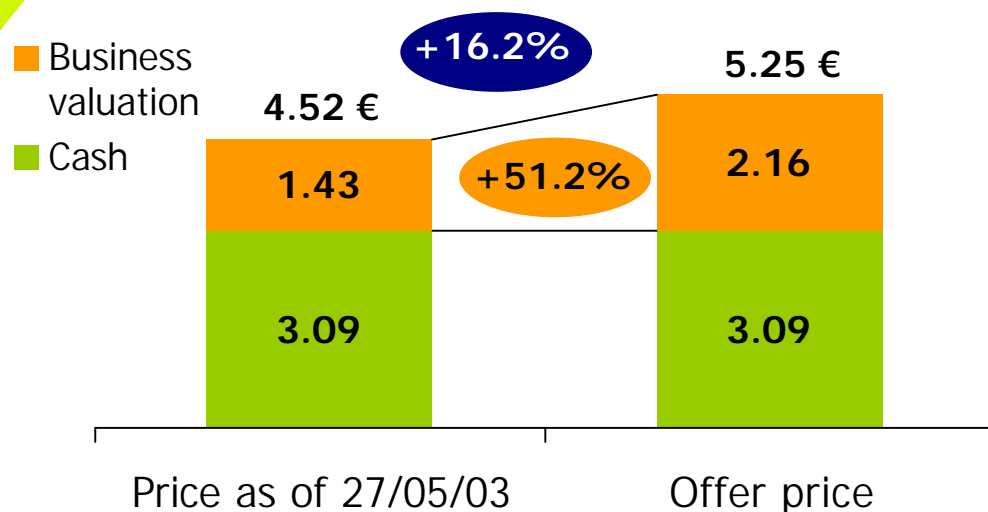
PAY CLIENTS (in thousands)



SUBSCRIBER MIX



TERRA LYCOS' HOLDERS: ATTRACTIVE PREMIUM OVER BUSINESS VALUATION



**AN ATTRACTIVE PREMIUM,
HIGHER THAN ANY UPSIDE
THAT TERRA LYCOS AS AN
INDEPENDENT BUSINESS
COULD CAPTURE**

	Aggregate value (ex-cash) ⁽¹⁾	Equity value
--	--	--------------

✂ Last closing price ⁽²⁾	51.2%	16.2%
✂ Pre-NSA announcement	41.3%	13.6%
✂ Over last 6 months	44.9%	14.6%
✂ Target prices ⁽³⁾ (5.21 €)	2.0%	0.8%

(1) Cash position of 1,731.3 Mill. € excluded from equity value. 559.6 Mill. shares outstanding, excluding option plans.

(2) As of May 27, 2003.

(3) Mean of selected analysts' reports target prices issued in 2003.

TELEFONICA HOLDERS: STRATEGIC RESTRUCTURING AND INTEGRATION

TERRA IS TRANSFORMED INTO A BUSINESS LINE INTEGRATED IN TELEFONICA GROUP

1.- Terra will be an identified business line, within Telefónica Group:

- ✍ Developing the Brand potential for the residential and Soho segments.
- ✍ Improving and sharing the capacities and skills as Internet unit.
- ✍ Minimising corporate, supporting and administrating resources, leveraging on the Telefónica Group´s shared services potential.

2.- Telefónica Group will integrate access platforms to provide the best quality and satisfaction services level to the consumer:

- ✍ **Spain:** Telefónica fixed business unit will be the access provider with Terra Brand adding value to the offering.
- ✍ **Brazil:** Terra is the internet access provider and Telesp will provide the connectivity.
- ✍ **Mexico:** Terra is the internet provider acting in combination with Telefónica Móviles and Telefónica Data.

3.-Terra will integrate the on-line Contents offer of the Telefónica Group:

- ✍ Corporate Contents responsables will work in Terra.
- ✍ Terra will negotiate with On-line Content Suppliers.
- ✍ Terra will lead the contents and the portal offer

TELEFONICA HOLDERS: STRATEGIC RESTRUCTURING AND INTEGRATION

4.-Terra will manage Lycos US as an independent business, as the US is not one of Telefónica´s wireline natural markets:

- ✍ Using and transferring to the rest of Terra best US practices.
- ✍ Continuously adapting and resizing to US internet market conditions.
- ✍ Acting as stand-alone business unit.

5.-To fully develop the NSA, in order to capture its full potential:

- ✍ Terra as the exclusive internet portal for the residential and Soho group customers
- ✍ Terra to capture on-line advertising, e-commerce and contents mainly in broadband customers
- ✍ Terra as the “factory” and main provider and aggregator of internet advanced services as e-mail, instant messaging, chat, video chat.

6.-To reinforce the Group´s client focus and provide better services to all customers:

- ✍ Optimise the Group’s investment capacity for the development of multiple platforms and applications (broadband, advanced messaging services).
- ✍ Accelerate the development for integrated products and services (connectivity+Internet access+Value Added Content) highly demanded by customers, and improving substantially quality of service and customer satisfaction.

TELEFONICA HOLDERS: TRANSACTION SINERGIES

SYNERGIES IN REVENUES THROUGH BUSINESS REPOSITIONING

- ✍ Lead market growth, leveraging on broadband
- ✍ Improve Internet Group´s market share (narrowband & broadband)
- ✍ Promote ARPU increases
- ✍ Grow margins

SYNERGIES IN COSTS & CAPEX THROUGH BUSINESS RESTRUCTURING AND ELIMINATION OF OVERLAPS

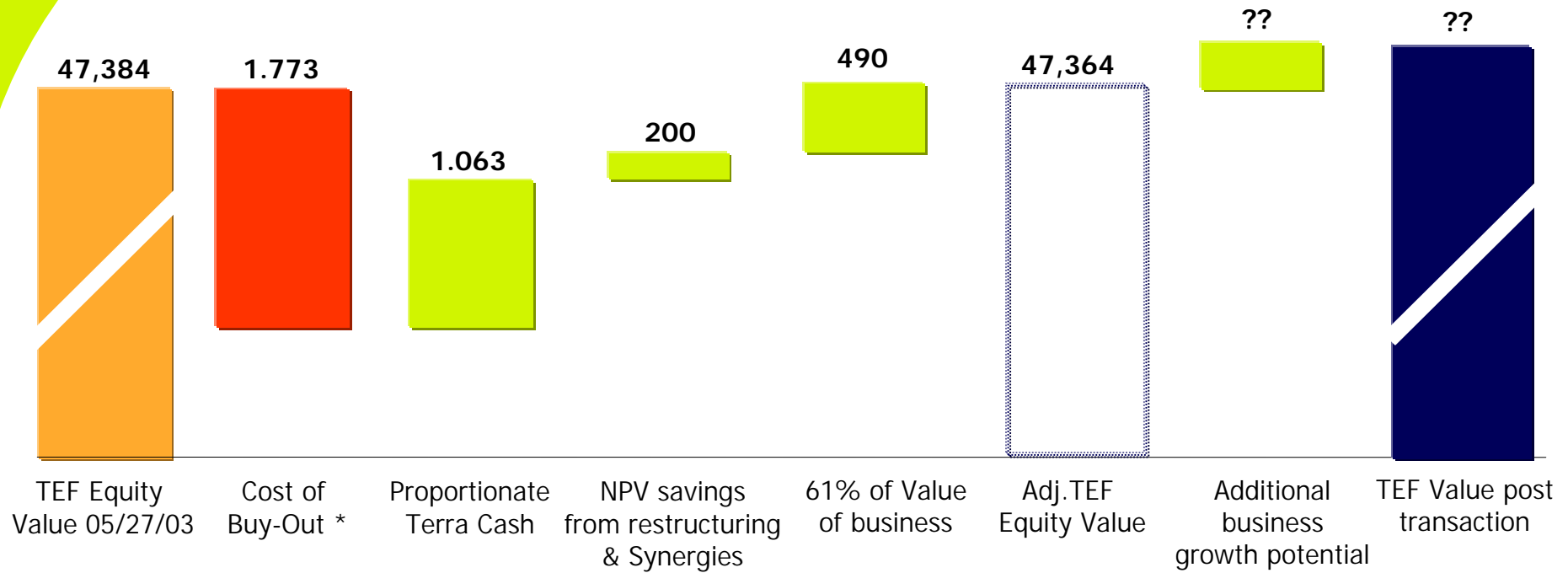
- ✍ Rationalize Corporate Centers, and achieving savings in personnel expenses and G&A
- ✍ Savings in products & services development
- ✍ Savings in contents acquisition and production
- ✍ Savings in marketing costs

✍ INCREMENTAL EBITDA OF 268.9 MILL.€ IN 2003-2006
✍ AROUND 1% DILUTIVE AT NET INCOME LEVEL IN 2003 AND IMPROVING THEREAFTER

CREATING VALUE THROUGH BUSINESS INTEGRATION, JOINING EFFORTS IN MARKETS WHERE TELEFONICA IS INCUMBENT, AND ELIMINATING CONFUSION AND COMPETITION IN THE GROUP´S POSITIONING

TELEFONICA HOLDERS: FINANCIAL IMPACT IN TELEFONICA'S VALUE

€ in Millions



The deal is impact-free for Telefónica value, as benefits from completing the transaction are offsetting the cost of buy-out

Complete clarity of the Group's Internet strategic positioning post transaction adds value to the deal

* Including restructuring costs.

** NPV of 61.42% of 78.5 Million € in 6 years.

All calculations estimate a 100% acceptance for the buy-out.

CONCLUSIONS

✍️ ASSETS RESTRUCTURING AND BUSINESS INTEGRATION WITH WIRELINE OPERATIONS IS THE BEST OPTION TO CREATE VALUE FOR BOTH TERRA LYCOS AND TELEFONICA SHAREHOLDERS:

✍️ TERRA LYCOS MINORITIES BUY-OUT OFFERS AN ATTRACTIVE PREMIUM TO TERRA LYCOS SHAREHOLDERS, HIGHER THAN ANY PREMIUM THE COMPANY AS AN INDEPENDENT BUSINESS COULD POTENTIALLY CAPTURE

✍️ THE TRANSACTION IS ACCRETIVE FOR TELEFONICA SHAREHOLDERS

✍️ THE RESTRUCTURING IS A STEP FORWARD FOR TELEFONICA TO LEAD THE INTERNET AND BROADBAND MARKET IN THE COUNTRIES WHERE WE ARE PRESENT

Telefónica
