

The top half of the slide features a background of wood grain with concentric growth rings, transitioning from light tan to dark brown.

Second Investor Conference

March, 2002, Seville

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

Telefonica

The bottom half of the slide features a background of blue water ripples, with concentric circles radiating from a central point.

Antonio Viana - Baptista

Executive Chairman of Telefónica Latinoamérica

Safe harbour

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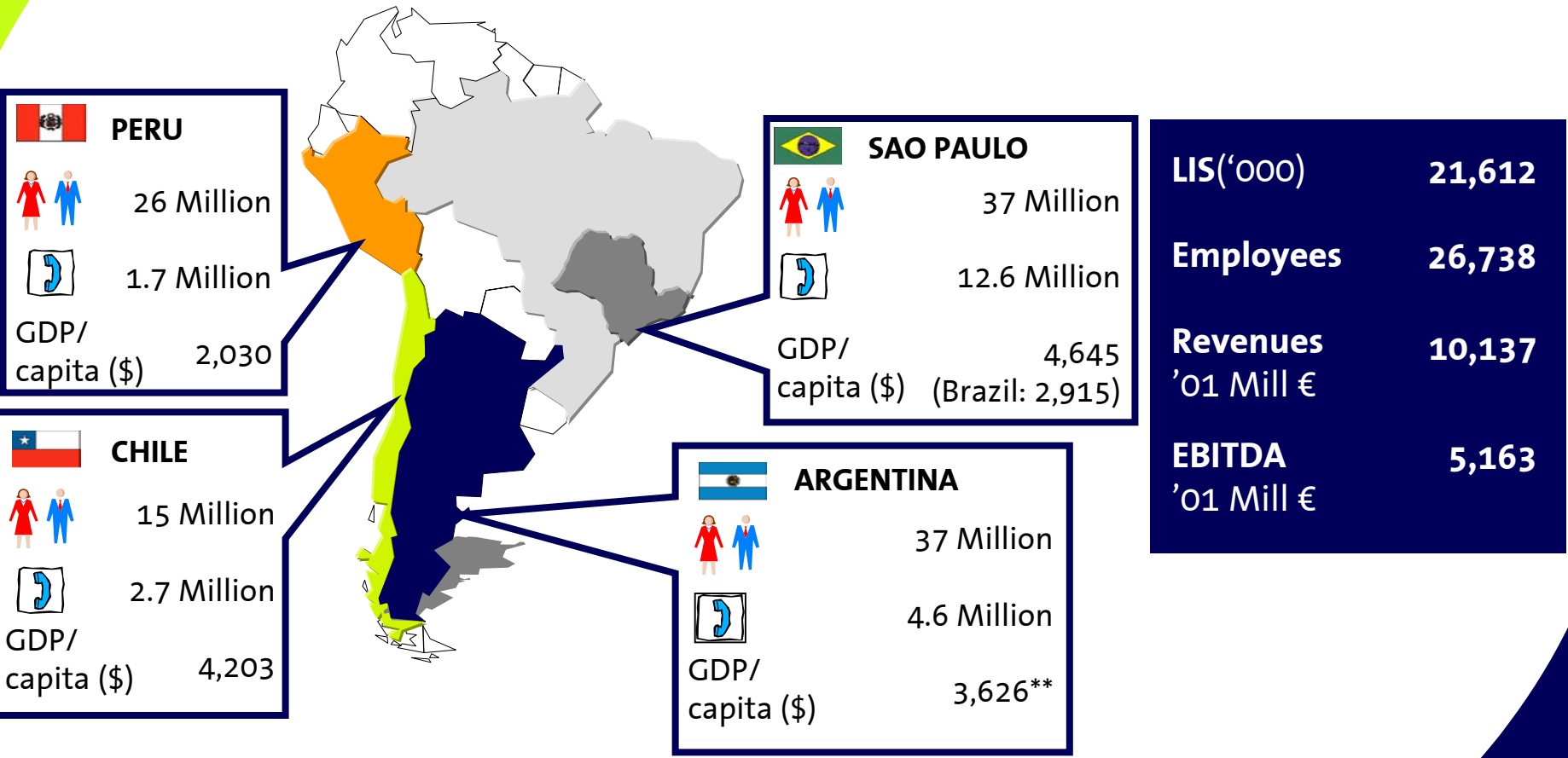
Key messages

- The clear leader in the region
- Good results in 2001 despite the economic turmoil
- Fit to manage the crisis in Argentina
- Strong position to capture growth potential in Brazil
- Continuing regional efforts to improve efficiency
- Solid FCF generator

Content

- **T-Latam: delivering solid performance in our four operators**
- Priorities for 2002
 - Manage Argentinean crisis
 - Capture growth in Brazil
 - Consolidate performance through active regional management
- Financial projections: strong cash performance
- Summary

T Latam is the clear wireline leader in the region



* Management control in Puerto Rico's TLD and 6.9% stake in CANTV

** After devaluation; exchange rate 1 USD= 2.0 Argentinean Pesos

Common regional management priorities combined with attention to local context

Common management principles
for volatile environment ...

... with specific policies to face different local realities

Profitable
Growth

Tight
cash control



Telesp: anticipation of goals (“metas”) and achievement of significant growth



Key management actions

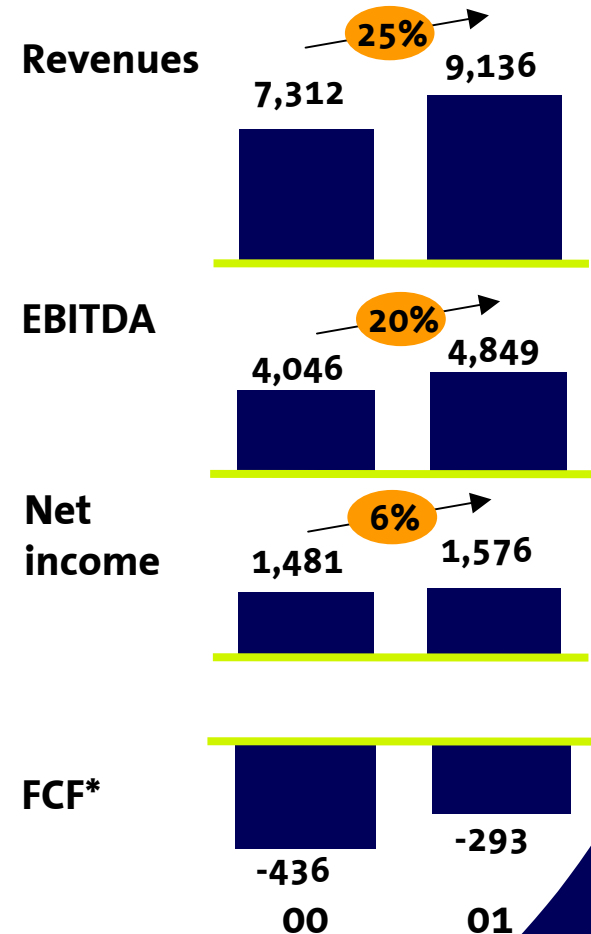
Profitable growth

- Important effort to **anticipate regulatory goals**: 10,000 new lines installed every day
- **ARPU maintained** despite increase in penetration
- Productivity increased to **1,198 lines/employee** (23% average line growth and 18% employee reduction)
- Active **control of bad debt** (3.4% vs. 8.0% Telemar, 5.3% Brazil Telecom and 16.0% Embratel)
- 200,000 ADSL LIS

Tight cash control

- **High CAPEX** (R\$ 4.6 Billion) to anticipate “metas”, but nearly **self financed**, maintaining a very low debt level (0.9x EBITDA)

Results, Million R\$

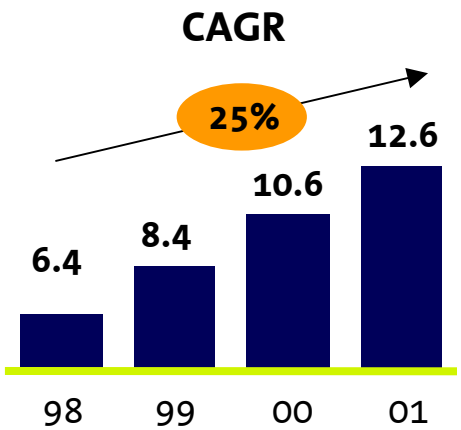


(*) FCF= EBITDA-Net financial expense-taxes-CAPEX

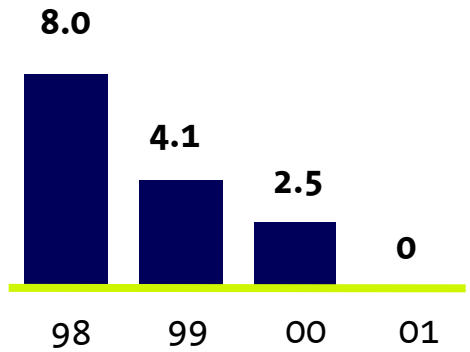
Only player achieving “metas” two years in advance



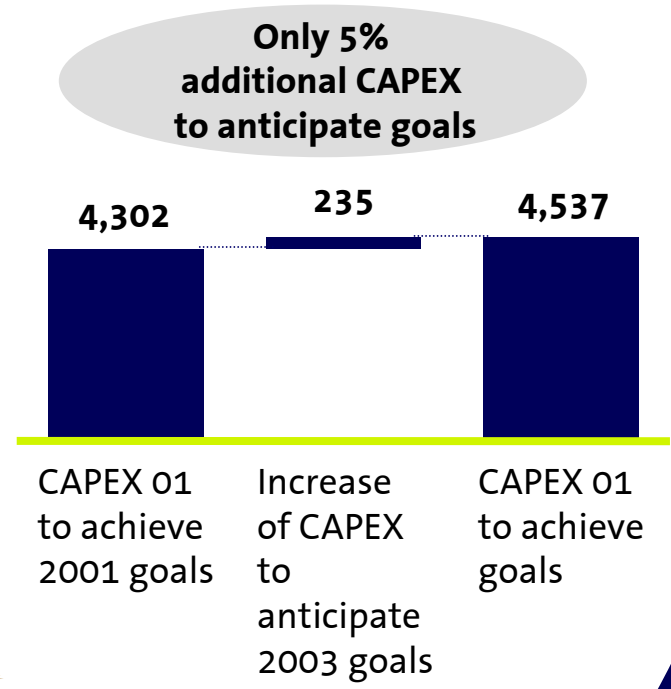
Number of lines
Million



Waiting list
Million

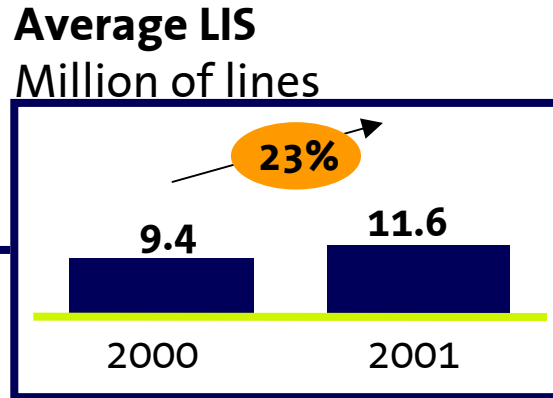
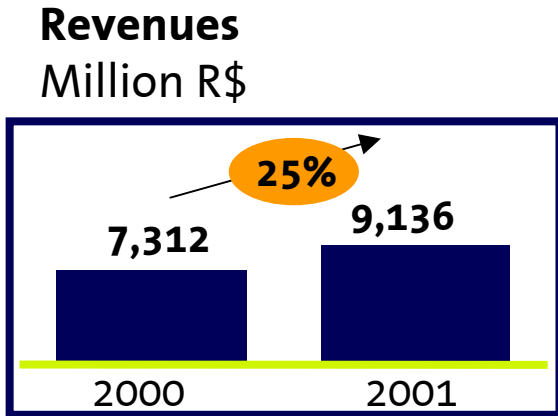


CAPEX
Million R\$

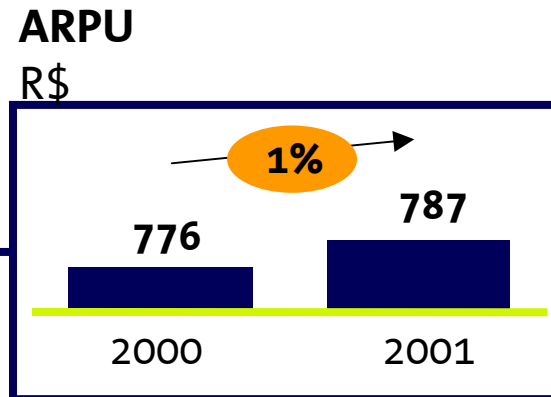


- After the accomplishment of “metas”, Telesp will be able to:
- Provide **full product range** (voice and data) to all **Sao Paulo** clients
 - Offer **long distance service outside Sao Paulo**
 - Serve **corporate clients nationwide** with T Data

ARPU maintained even with a 23% growth in lines



X



Remarkable growth in
customer base ...

... without reducing the
average line
profitability

TASA: damage control and cash-flow protection



Key management actions

Tight cash control

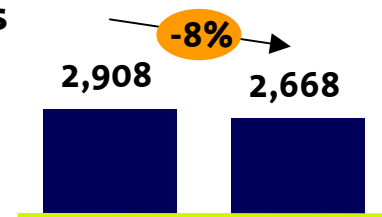
- **Management for cash:** preserve cash-flow generation (€739 Mill., including management fee)
- **Close control of bad debt** (6.4%*)
- **Supplier contract renegotiation**

Profitable growth

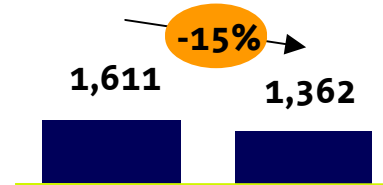
- **Cost control:** manageable costs down 9%
- **Freeze expansion** in Northern Argentina
- Retention of **profitable customers**
- Promotion of **traffic generating products:** 35% increase in voice mail services to 1.8 Mill.
- **Adjusted growth strategy** according to very high cost of capital (e.g. selective ADSL deployment)

Results, Million Pesos

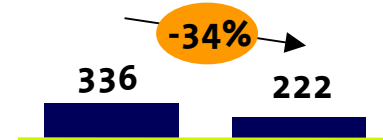
Revenues



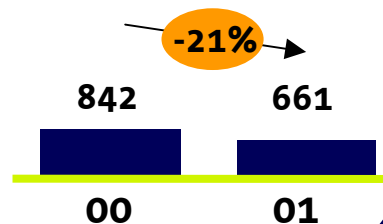
EBITDA



Net income



FCF**



(*) Excluding extraordinary provision for end-of-year devaluation

(**) FCF= EBITDA-Net financial expense-taxes-CAPEX

Management anticipated crisis and took measures early-on



Cash control

- Daily monitoring of cash movements and cash position
- Net Debt reduction of 12%, resulting in Net Debt / Net Assets of 35.7%

Bad debt control

- Strict policy of telephone disconnection after 120 days
- Extra recovery of 19% of debt through external agencies
- Expand payment methods: bonds (Patacones, LECOPS)
- Co-billing in Northern Argentina (bill collection up from 72% to 94%)

Cost reduction

- Personnel expenses reduced by 9%
- Costs/line reduced by 9%
- Special committee focused on defining expense priorities and approving cash outflows

CTC: return to positive results in a harsh competitive and regulatory context



Key management actions

Profitable growth

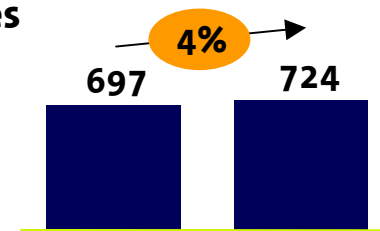
- Focus on **cost reduction** (e.g. 21% staff reduction)
- **Bad debt** expense down to 2.2%
- Recovered **LD market share leadership** and increased LD revenues in a tough competitive environment
- 6.2% revenue **growth in corporate segment** compensating stable residential market

Tight cash control

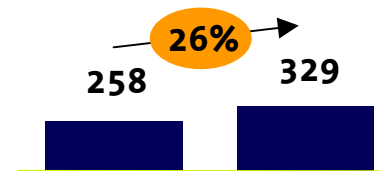
- Even in tough economic and regulatory environment, generation of **large and growing cash flow** (274 million € in 2001)
- **Strong debt reduction** (USD -272Mill), resulting in Net Debt/Net Assets of 28%

Results (excluding SONDA) '000 Million Pesos

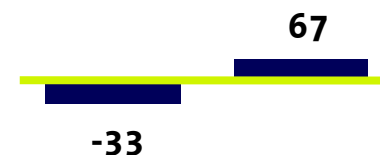
Revenues



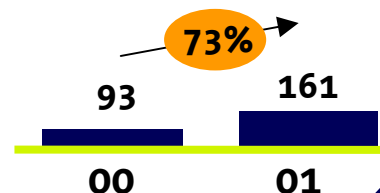
EBITDA



Net income



FCF*



(*) FCF= EBITDA-Net financial expense-taxes-CAPEX

TdP: preserving cash flow generation and managing regulatory environment



Key management actions

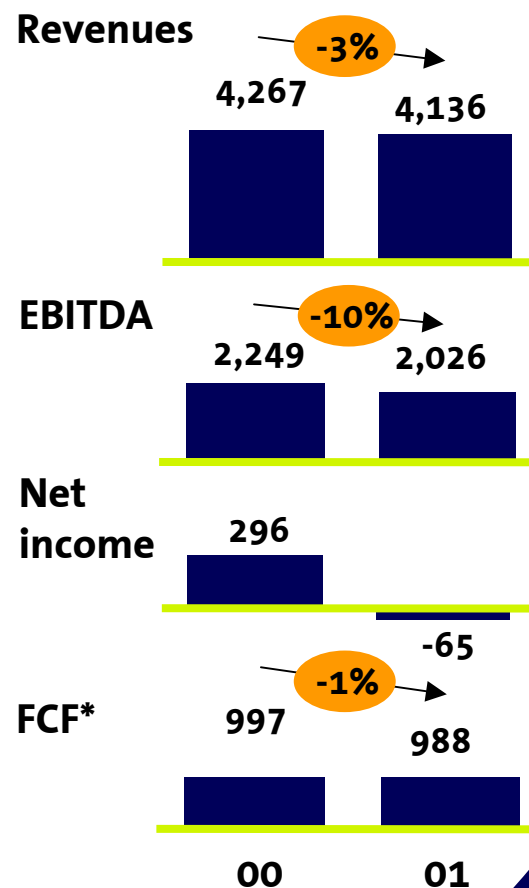
Tight cash control

- Strict **CAPEX control** (13% reduction)
- Maintain strong **cash flow generation** (€318 Mill., including Management Fee)

Profitable growth

- Negotiation with regulator to **settle interconnection rates and price cap** (-6%)
- Active **restructuring** of operations: Balance Sheet adjustment, CSC's, Yellow Pages
- **Defense of market share leadership** (over 94% in DLD and 86% in ILD)
- **New products** for lower-income market segments controlling bad debt

Results, Million Soles



(*) FCF= EBITDA-Net financial expense-taxes-CAPEX

*Other subsidiaries**

CANTV

- Adequate perspective on Venezuela
- 75.3 million € in cash received
- 6.9% ownership maintained (directly in CANTV shares)
- Direct participation in management

TLD

- First year with positive results (+3.3 vs. -9.1 million €)
- New portfolio of products (Pre-paid cards, flat-fee tariff, internet services)
- Strict OPEX control

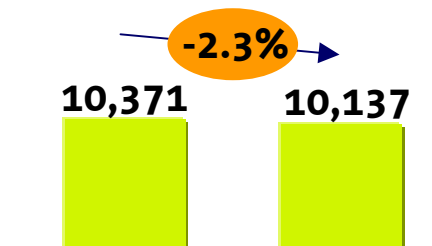
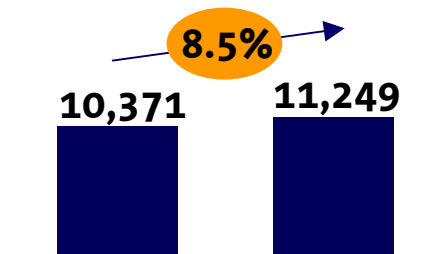
(*) Management control in Puerto Rico's TLD and 6.9% stake in CANTV

T Latam's good operating results have been reduced by exchange rate evolution ...

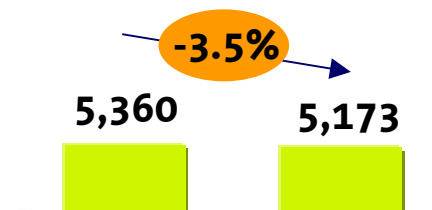
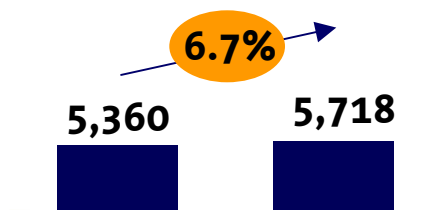
Results before exchange rate and Argentinean devaluation adjustments
2000 € Million (constant)

Results excluding Argentinean devaluation adjustments
€ Million (current)**

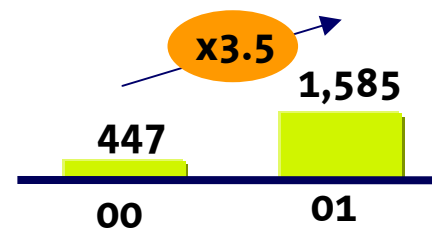
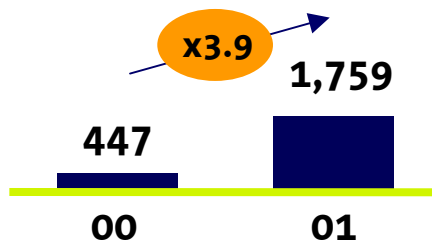
Revenues



EBITDA



Net income*



* During year 2000 percentage of ownership was increased (Veronica)

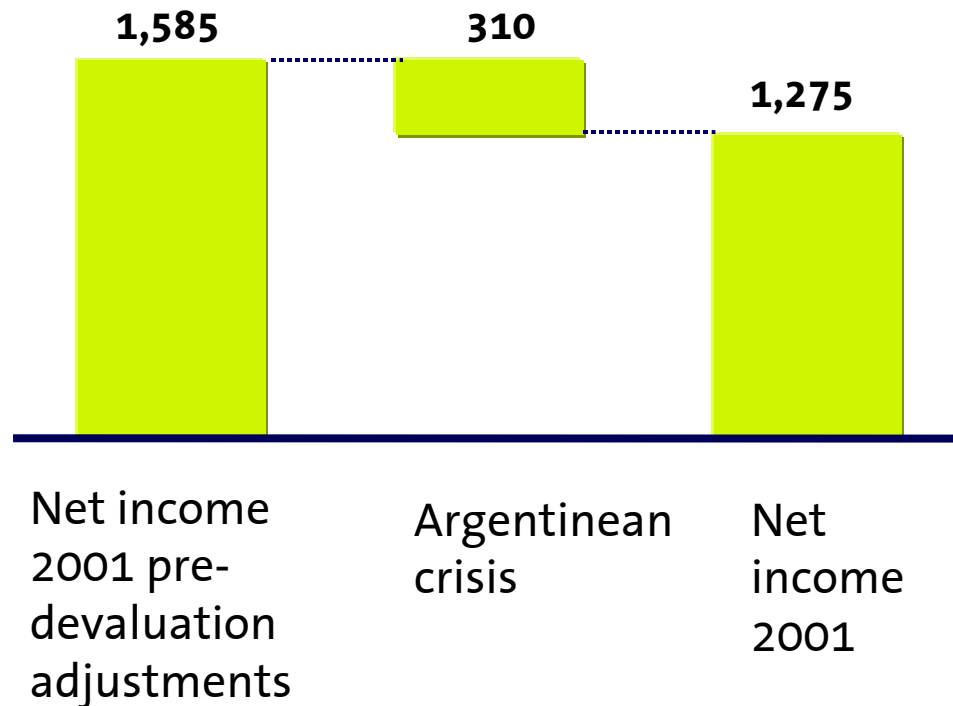
** 2000-2001 Local currency/€ depreciation: (-) depreciation / (+) appreciation ...
Brazil -19.5%, Argentina +3.1%, Chile -9.7%, Peru +5.5%

... and the end of the year devaluation in Argentina

T Latam's net income
Million € (current)

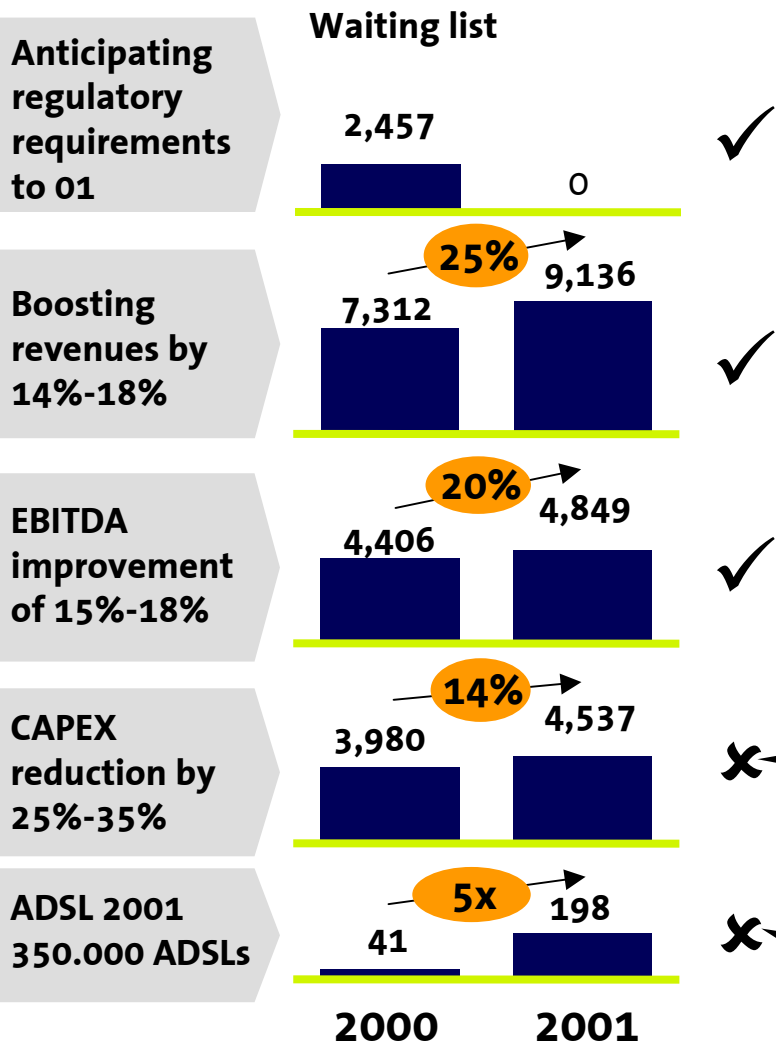
**Impact in 2001
financial results
(following ICAC
rules):**

- Debt restatement at 1.7 peso/dollar
- Increase provision for uncollectibles (51 million €)

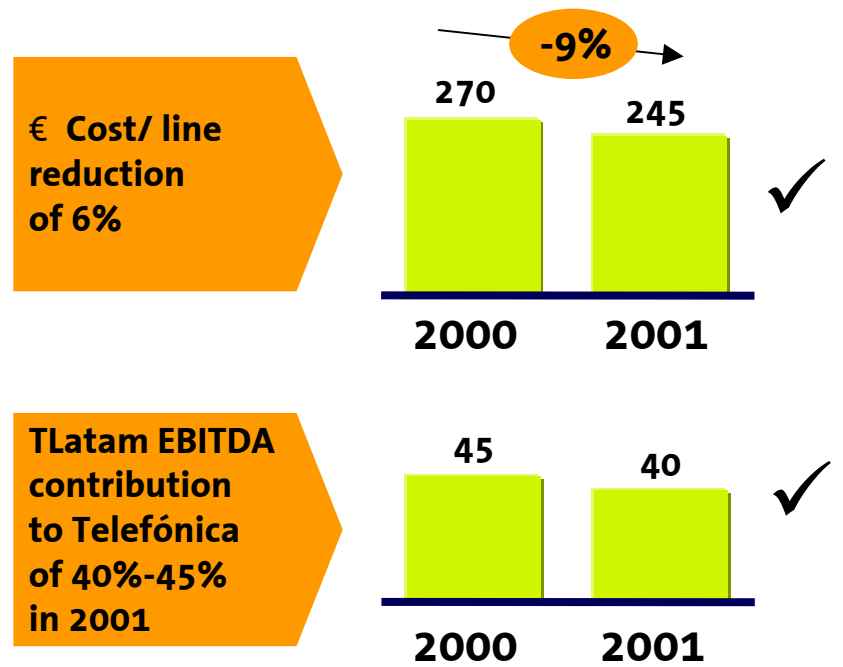


Even in this context, most of the Rio de Janeiro commitments for 2001 have been met

TeleSP 2001 Million R\$



T Latam



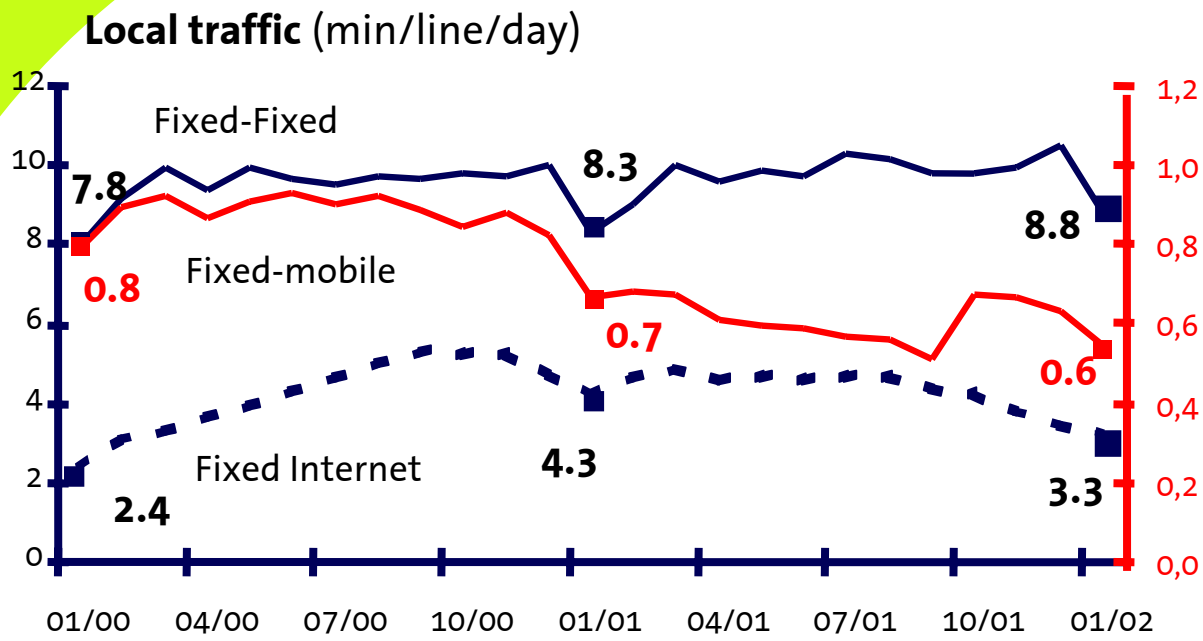
✗ Increased to satisfy growth in demand and allow revenues larger than expected

✗ As the regional perspective worsened expansion plans were moderated/postponed

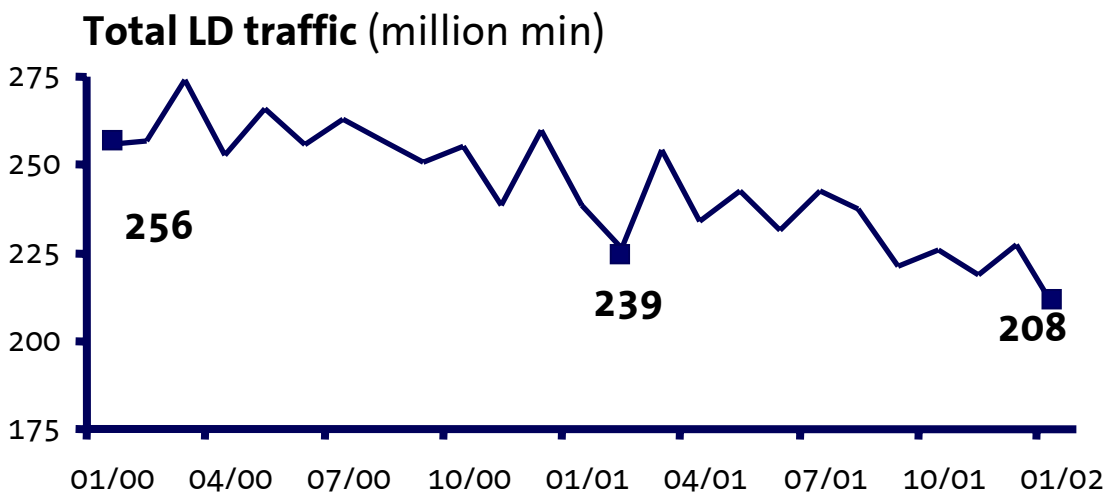
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Effect of economic crisis in TASA



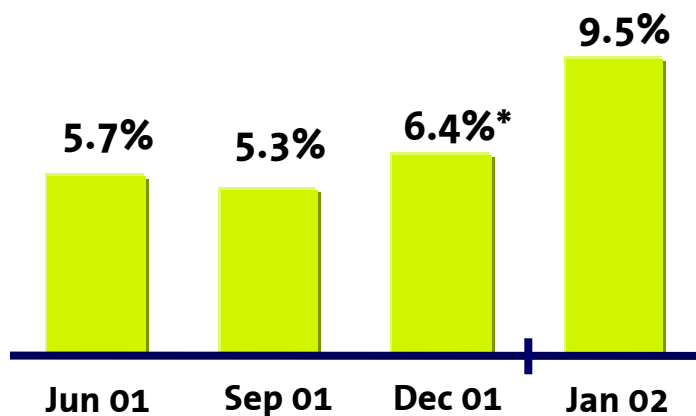
- In local traffic, the slight increase in fixed-fixed traffic has partially mitigated the important fall in fixed-mobile and internet traffic



- LD traffic (Domestic and International) suffering a strong decrease despite maintaining market share

Bad debt to remain at high levels

Bad debt expense



- **Conservative accounting policy** for uncollectible accounts:
 - Receivables **above 120 days** old are **fully (100%) provisioned**
 - Progressive provision for uncollected receivables in residential segment, amounting to **approximately 75% of debt aged 30-120 days**
 - Provision for **corporations according to risk profile**
- Acceptance of **local bonds as payment method** (Patacones, LECOPs)

* Does not include devaluation adjustments (totals 9.2% with extra devaluation provisioning)

Key actions in course to face crisis...

Actions	Description
• Cash control	<ul style="list-style-type: none">• Daily cash control• Strict local bonds management• Focus on bad debt management
• CAPEX reduction	• “Zero investment plan”
• Negotiation with the regulator	<ul style="list-style-type: none">• New regulatory agenda with the government• Fiscal compensations
• Cost optimization	<ul style="list-style-type: none">• Suppliers’ contracts renegotiation• Strict prioritization of operating expenses• Reduction of structural costs in Network and Infrastructure

**Maximize
OpFCF**

**Preserve
EBITDA**

Maintaining significant positive FCF in local currency

Hypothesis

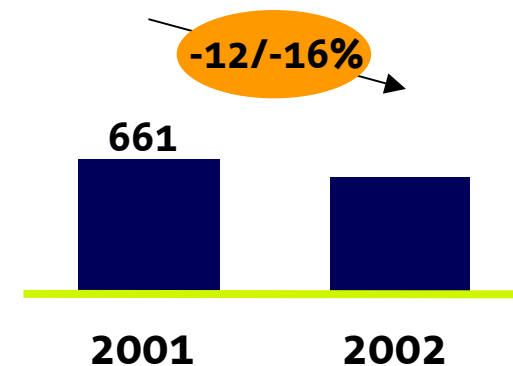
- 1st tariff adjustment in July (33% of cumulative inflation)
- Monthly tariff adjustment thereafter
- Regulation: Price cap eliminated in 2002 and unbundling postponed until 2003
- Dividends and management fee suspended during 2002

Limit decrease of revenues

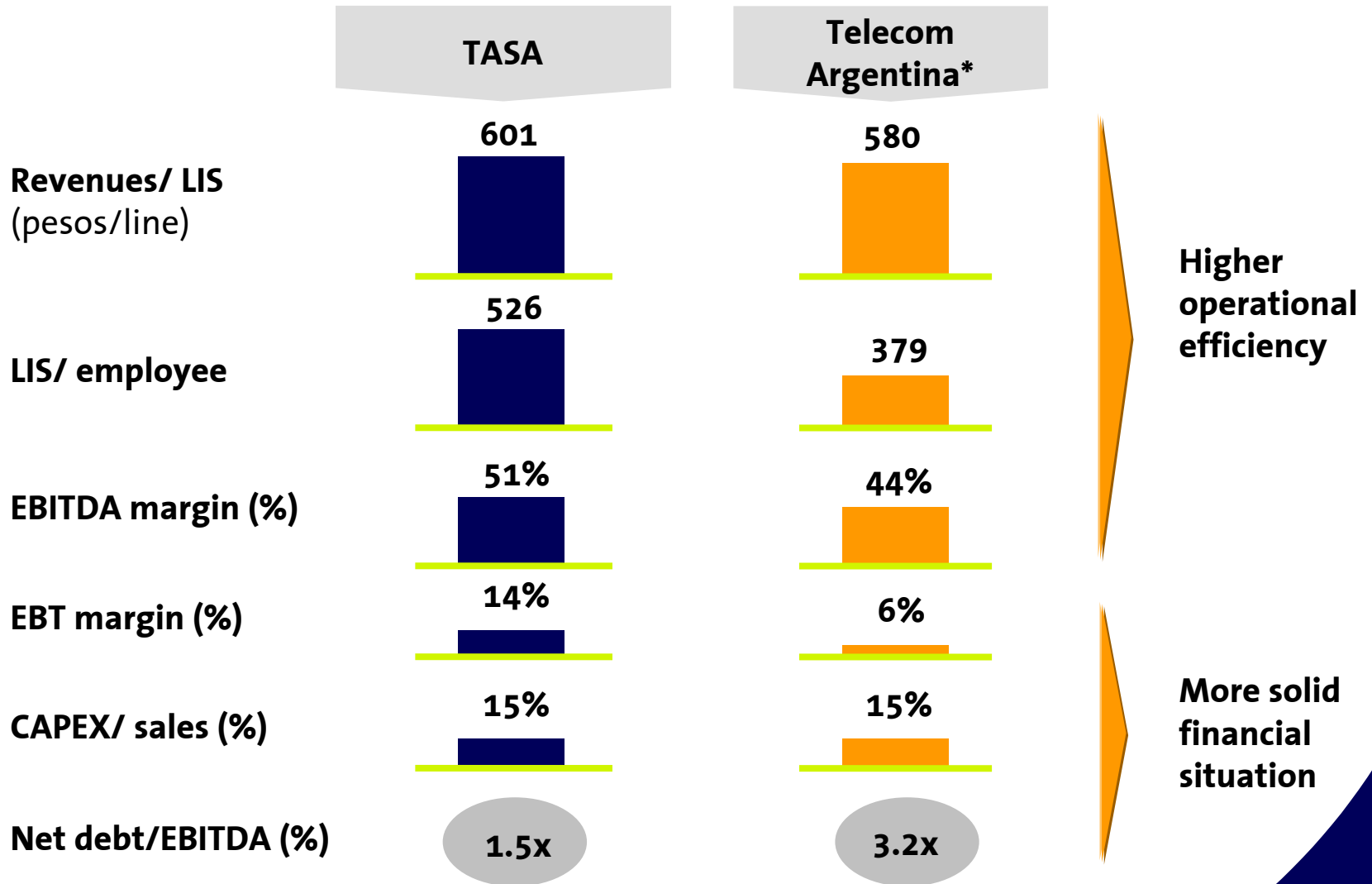
Contain EBITDA reduction

Reduce CAPEX

FCF in local currency
Million Pesos



TASA is best positioned to overcome the crisis



(*) September 2001 data

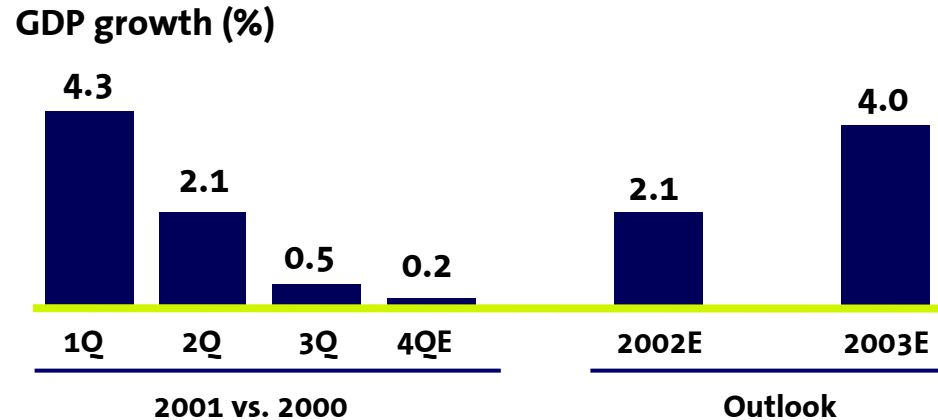
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Brazilian economy presents positive outlook



- Good GDP prospects



- Solid public accounts

- Brazil's 2001 primary surplus: 3.5% of GDP (IMF's target: 2.2%)
- International reserves maintained around \$35 billion dollar since 1999
- Strong Foreign Direct Investment for 2002, guaranteeing external financing needs

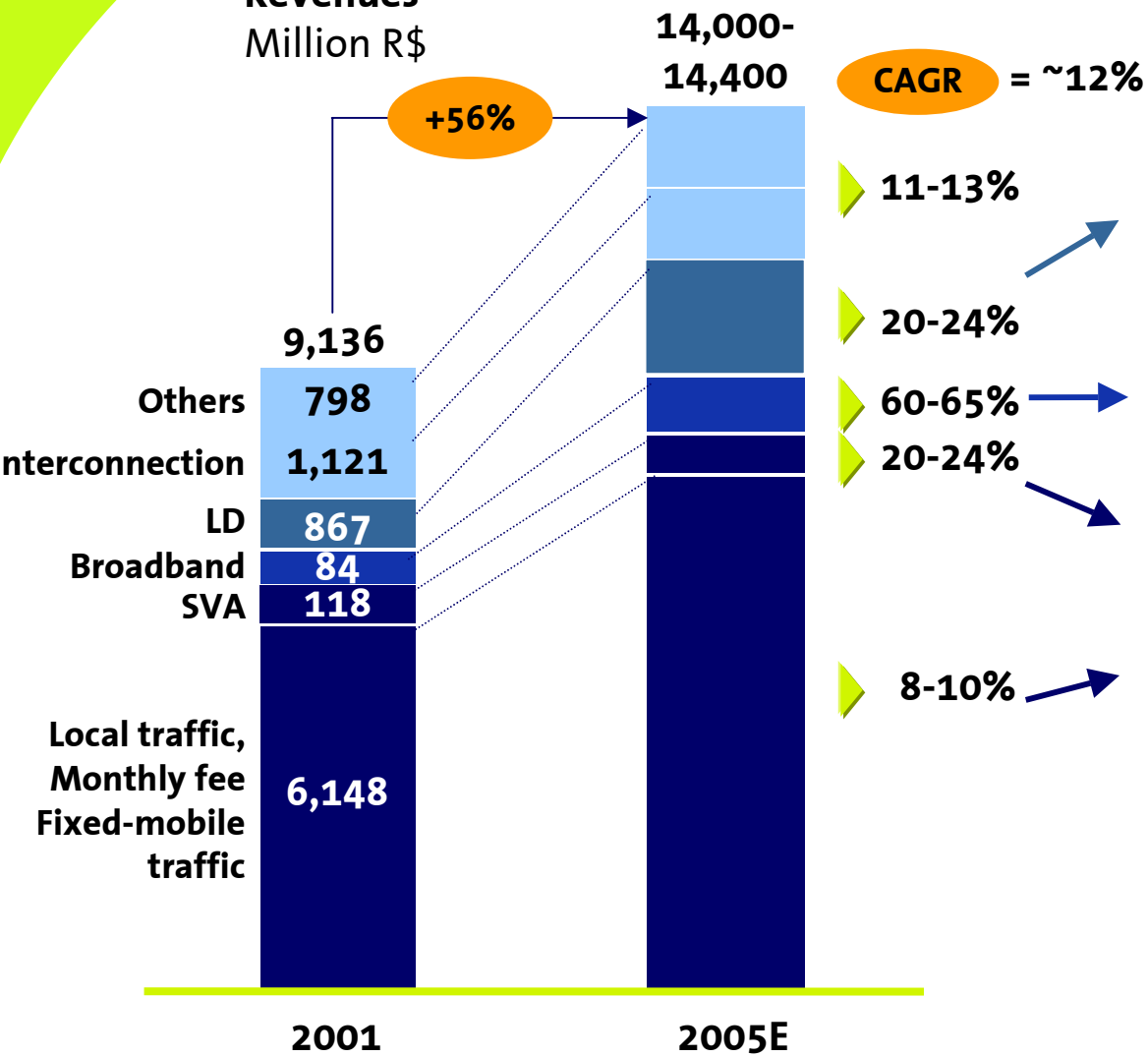
- Low exposure to Argentina

- Exports and imports to Argentina in 2001 were only 1.3% and 1.5% of GDP respectively
- Total Brazil's investments in Argentina: ~0.3% of Brazil's GDP

There are three main growth opportunities in Brazil



Revenues
Million R\$

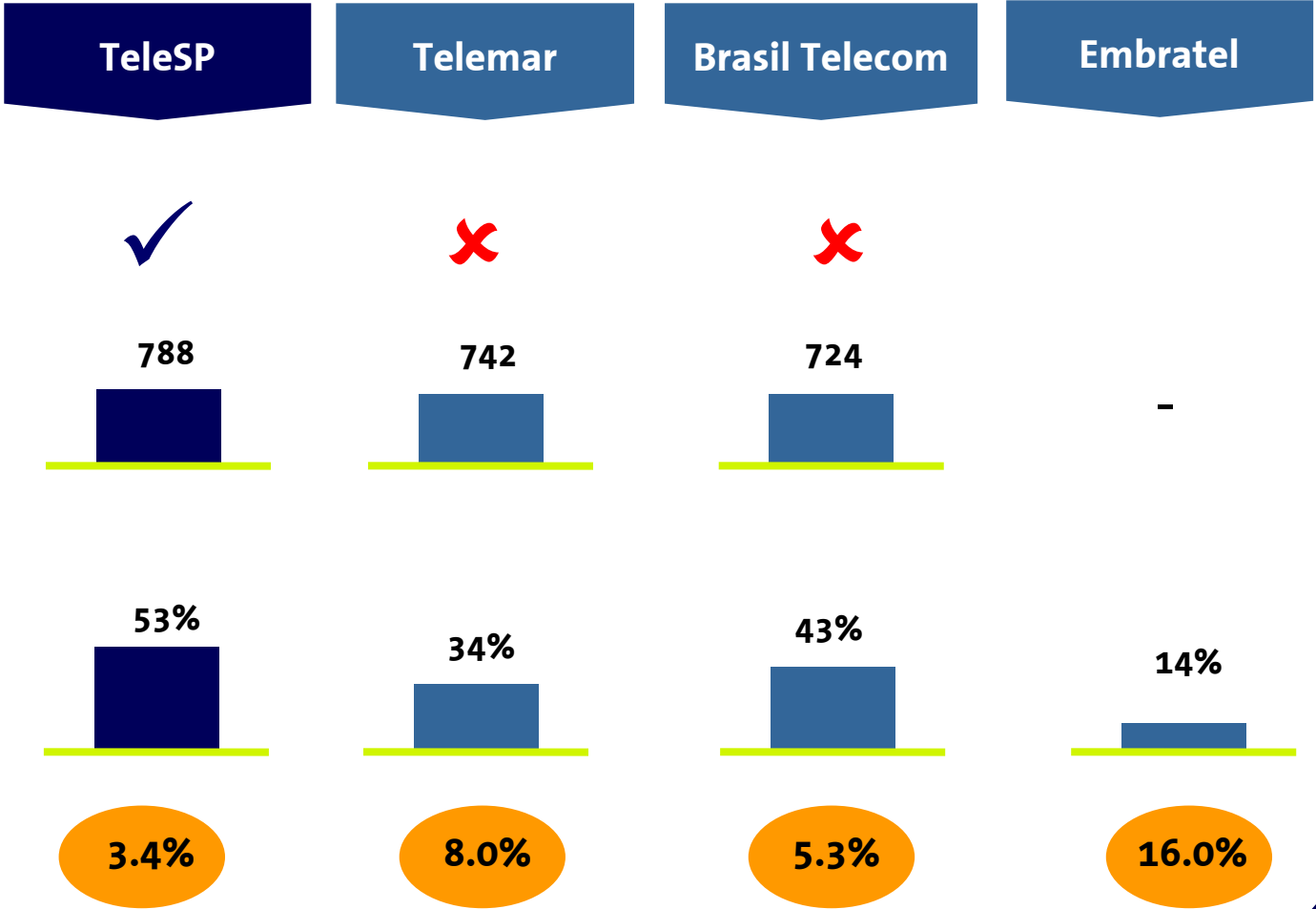


Large opportunity in remaining LD market in Sao Paulo and corporate LD market outside Sao Paulo

Profitable growth

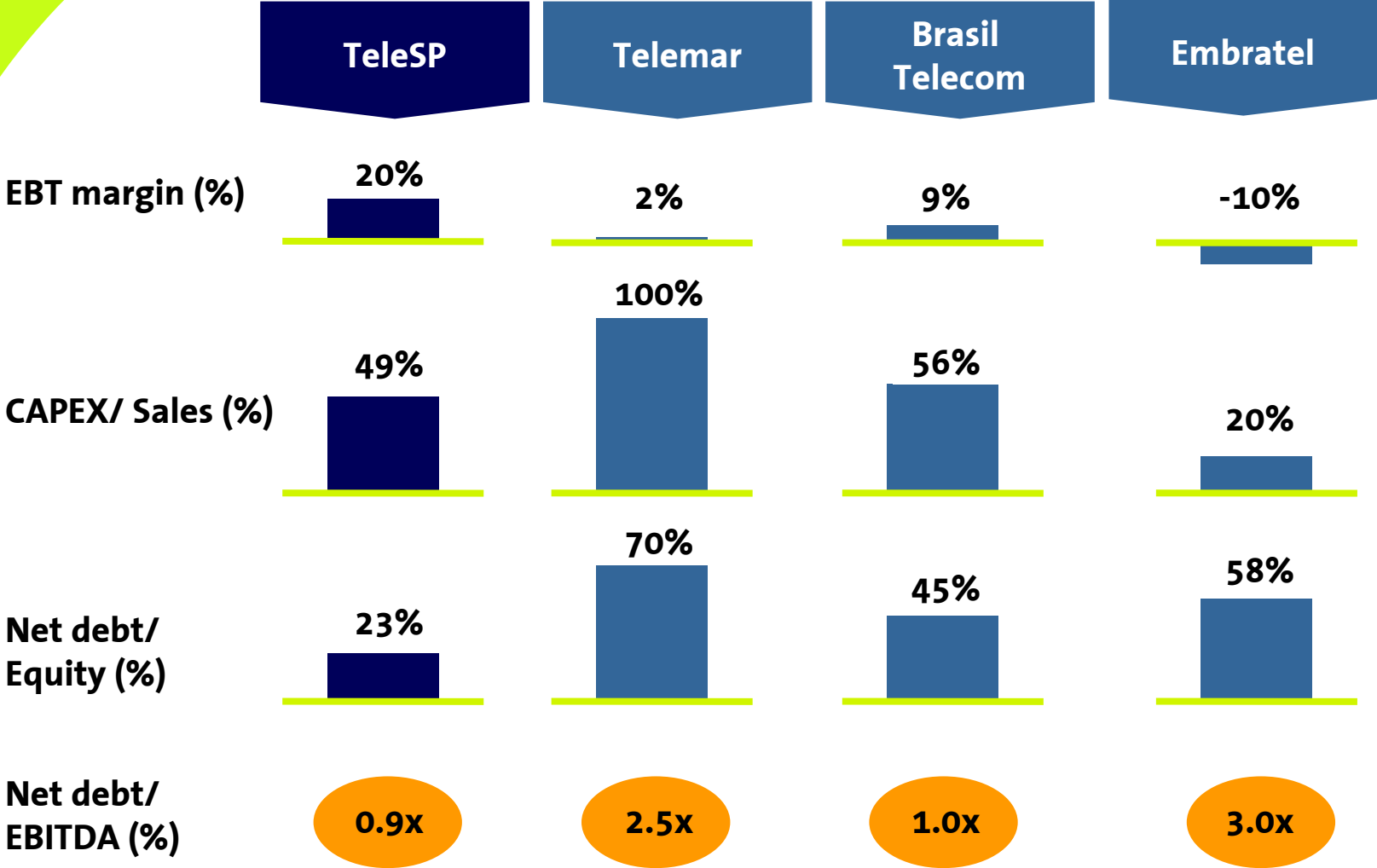
Important further growth in traditional business and increased penetration of new services

Telefonica is better positioned to capture growth opportunities in the operational side...



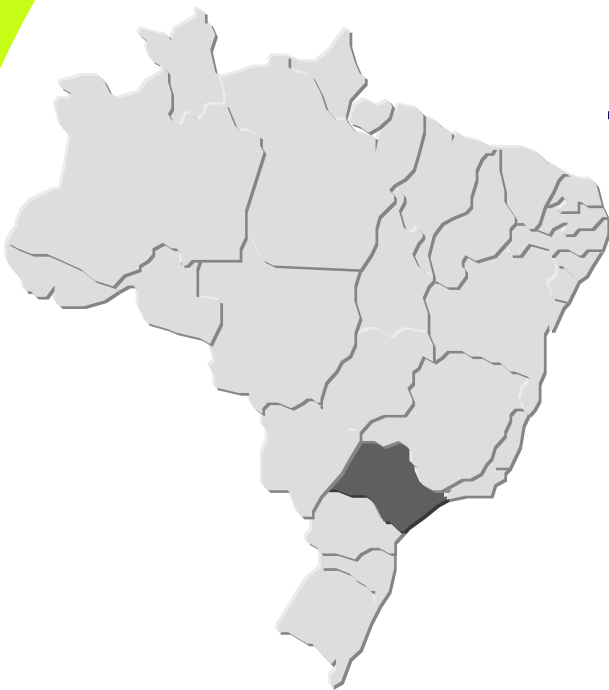
Note: 2001 Results

... As well as in the financial side



Note: 2001 Results

The anticipation of “metas” has opened new growth opportunities



Sao Paulo Mill R\$

Total	2,992
Intra-state	1,766
Inter-state	1,005
International	221

Outside Sao Paulo Mill R\$

Total	6,340
Intra-state	3,380
Inter-state	2,507
International	453

Include in product offering, **interstate and international traffic** service

- 100% of the **businesses** in Sao Paulo are Telefonica’s clients
 - 70,000 SME’s
 - 1,500 corporations through T Data
- Corporate segment represents 50% of **LD market**

New available markets for Telefonica

- 33% of Sao Paulo **corporations** have operations outside the state
- 80% of the top 250 **largest Brazilian companies** have their headquarters in Sao Paulo

TeleSP's will leverage its client base and the Group's assets in the region



Sao Paulo

- Provide **comprehensive offer** to residential and business customers
- Leverage **customer knowledge** and **distinctiveness of offer** (only player with a complete product range)
- Direct, **targeted marketing to most profitable clients** (top 20% generates 80% of revenues) leveraging T Data
- **Bad debt control**
- **Avoiding downward pressure on prices**

Outside Sao Paulo

- Focus on **current Sao Paulo customers operating nationwide** (corporate and business segments): establish national negotiations mainly through T Empresas sales force
- Leverage **Telefonica's brand image**
- Target the JV **cellular clients** (40% of the total Brazilian cellular market)

Significant contribution to TeleSP's growth can be expected from Brazil 2002 opportunity

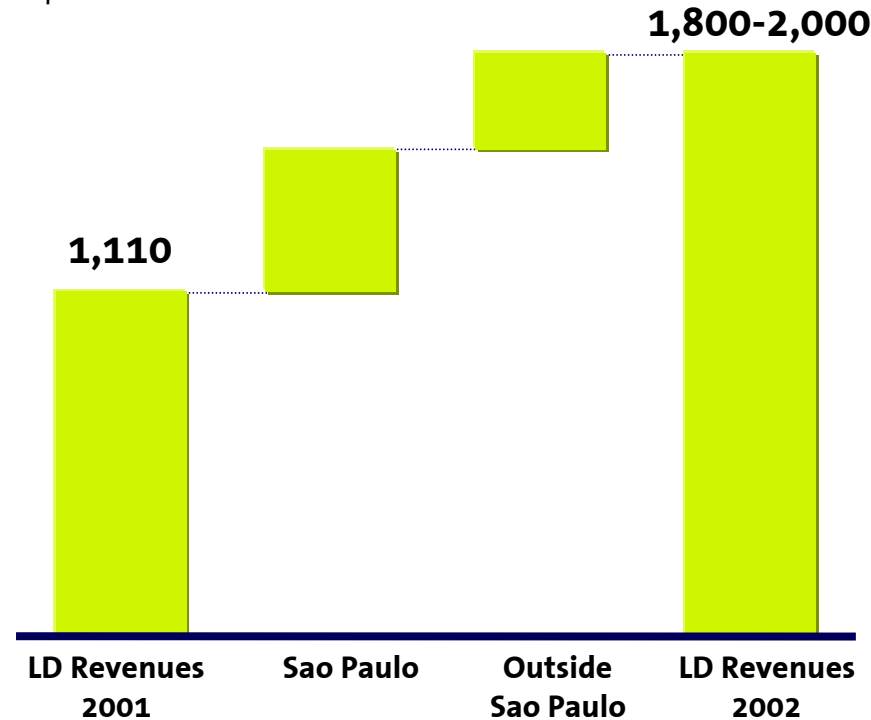


If TeleSP were to capture:

- **Sao Paulo:** 15-18% of the interstate and international market (vs. 79% market share in intrastate'01)
- **Outside Sao Paulo:** 4-6% of the LD market

... this would mean nearly doubling LD revenues in 2002

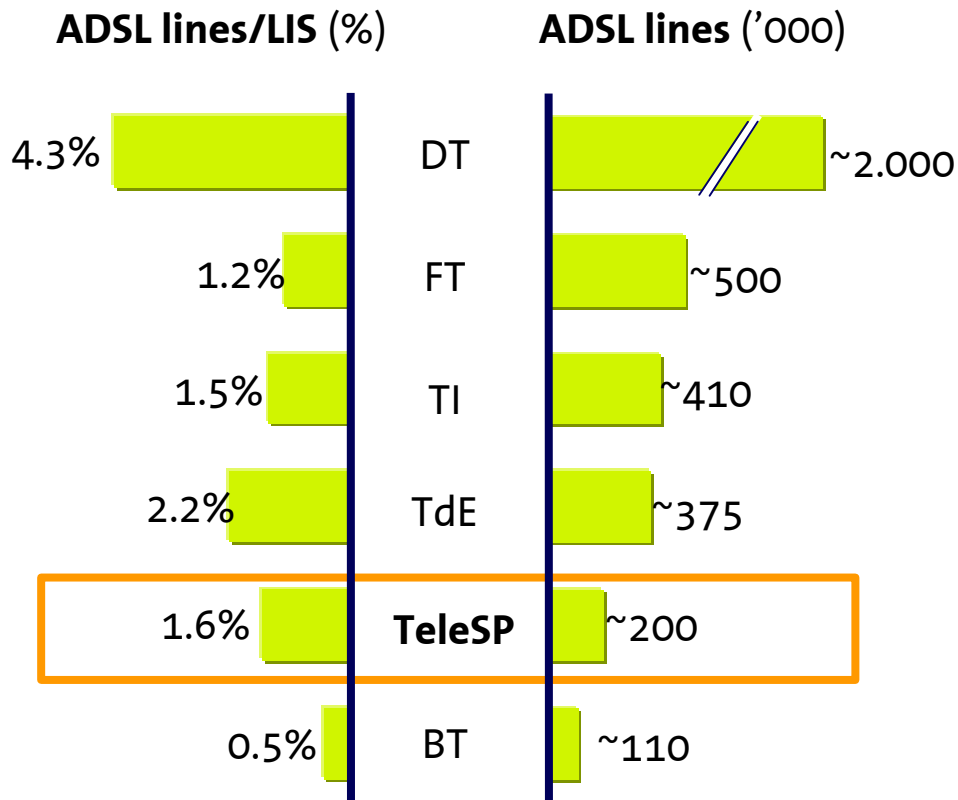
Total LD revenues
R\$ Million



- New long distance opportunity will be EBITDA positive already in 2002, with an EBITDA margin of ~20%
- The total CAPEX requirements for 2002 are ~ R\$ 90 million

Note : Market Share figures related to 2002 average

TeleSP will also continue its profitable broadband growth



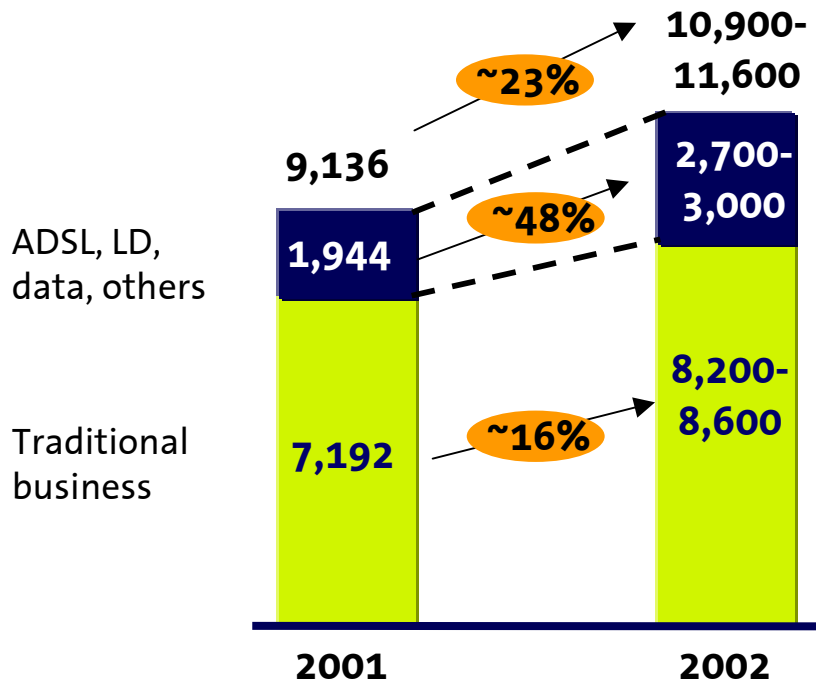
2002 priorities

- Current TeleSP's **target market** includes:
 - ✓ 850,000 SMEs and SoHos
 - ✓ 1.2 million high-income homes
- Emphasize **self-installation kits** (reducing OPEX)
- Promote **upgrades to faster speeds**, particularly in SME segment (increasing ARPU)
- **Evolve Speedy from "access" to "solution"** providing complete set of content and services
- **Focus on SME segment** with specific products (Viacorp, VPN, hardware, ...)

In addition, traditional business will also experience remarkable growth



Total revenues
R\$ Million

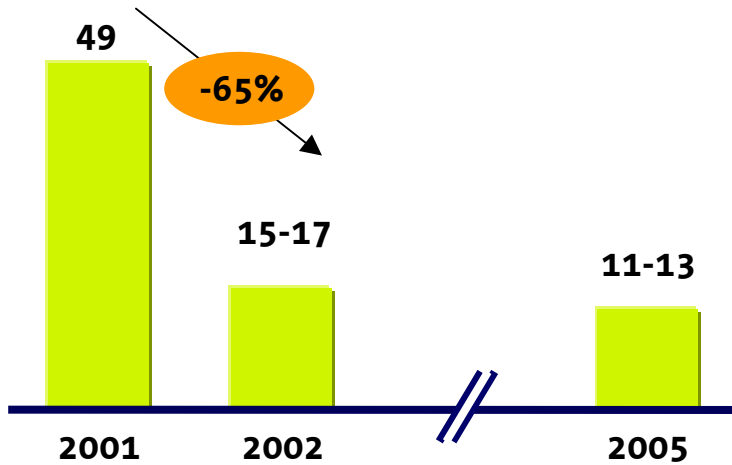


- Full contribution of 2001 **new adds**
- Contractually established **tariff rebalancing**
- Increase in **fixed to mobile traffic** (15-20% expected growth in mobile customer base)
- 36% increase in **VAS revenues** in 2002 (call forwarding, conference call, caller ID ...)
- Increased commercial effort in **SMEs**

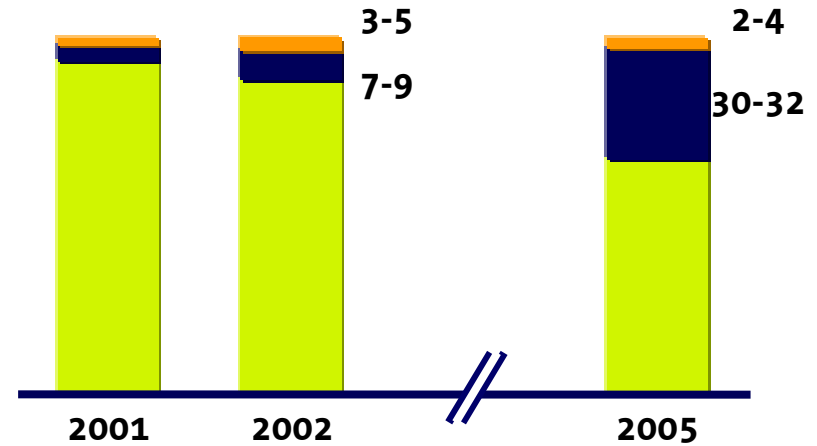
... while CAPEX gets significantly reduced



TeleSP CAPEX/sales
(Percentage)



CAPEX distribution
(Percentage of total CAPEX)



- Important reduction in overall CAPEX after achievement of “metas”
- Broadband CAPEX gradually assuming an important share of the investments
- Very moderate CAPEX for long distance services, leveraging Telefónica’s existing assets (Emergia)

**FCF change from
€ -139 Million in 2001 to
~€ +1,200 Million in 2002**

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T- Latam's management structure provides both flexibility and tight control

Local management

- Empowered CEOs and local managers
- Local perspective on market and on evolution of competitive environment
- Focus on local level performance

Corporate Center

- Lean corporate staff (67 people in 2001)
- Tight control on critical elements, e.g. CAPEX
- Integrated perspective
- Definition of regional agenda

T Latam management

Regional initiatives

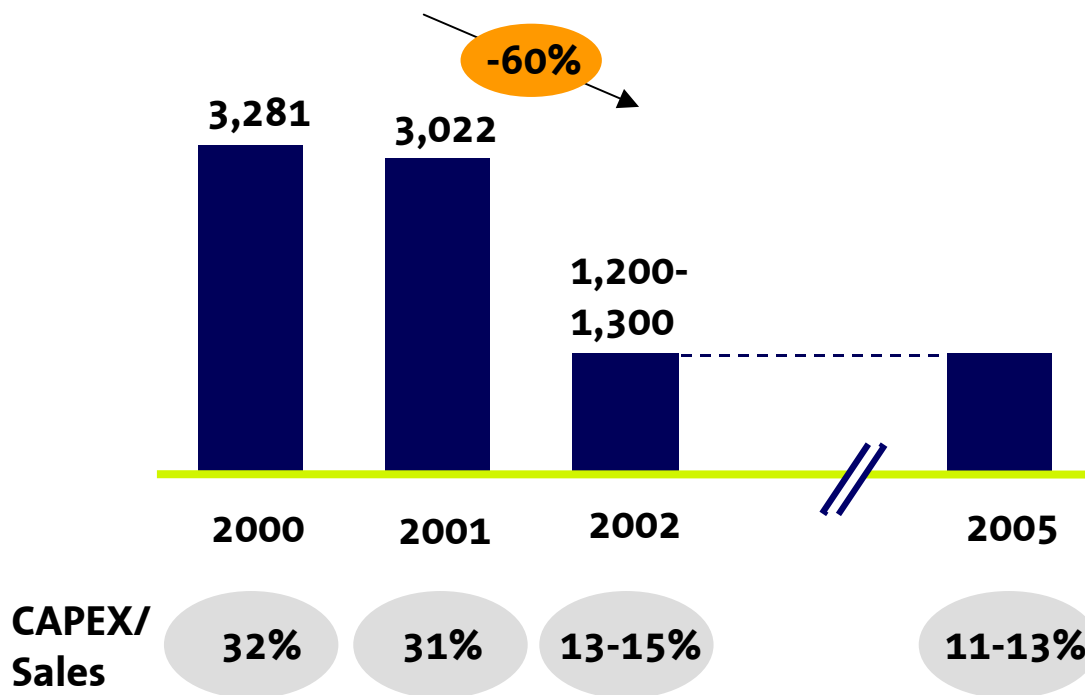
- Local and corporate managers
- Driver for capturing regional synergies
- Task-force, initiative oriented
- Forcing device for local managers to adopt regional mindset

Group initiatives

- CSCs
- Broadband/ADSL product development
- T Data vs wireline
- Purchasing
- Systems

Priorities going forward are: (1) preserve CASH through a strict CAPEX discipline

T Latam Capex*
Million € 2001



- Continue with a strict, **centralized CAPEX discipline** defined by:
 - **homogeneous evaluation criteria,**
 - tight top **management control** and
 - **flexibility** to respond to economics shifts
- **Maintain CAPEX/Sales** level in the long term
- Increasing CAPEX devoted to **broadband**

*Considering devaluation of Argentinean pesos (Exchange rate after devaluation 1USD = 2.0 Pesos)

...(2) continue aggressively reducing costs...

Comprehensive regional projects...

Network OPEX

- **Network cost optimization** setting a common model base on:
 - Extension of best practices
 - Processes redesign and automation
 - Productivity improvement
 - Outsourcing
- Network OPEX / line down by 24% in 3 years

ATIS

- Implementation of a **common billing, collection and customer care system**
- Direct savings from
 - IT development and maintenance
 - Billing, back-office and call center cost-efficiency
- Enabled benefits in marketing and sales activities

...already delivering results

- Initiatives launched during 2002 will already achieve reduction in network OPEX/line of 7-9% in 2002
- Basic version of billing and client service already working in CTC
- Successive updates throughout the year incorporating full functionality

.. (3) preserve leadership with focused commercial efforts

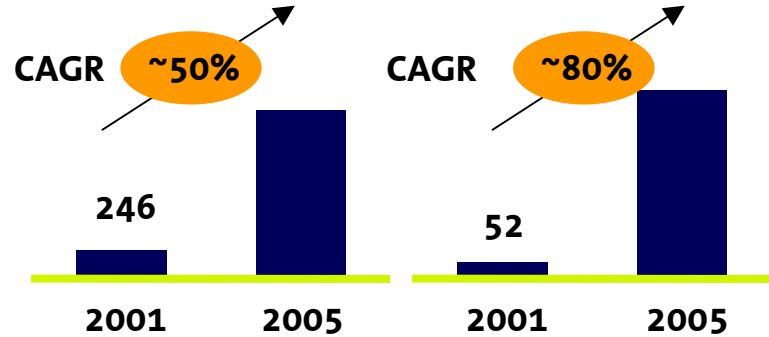
Maintain market share leadership

- Conduct focused, profitable ADSL expansion
- Extend successful products/practices
- Leverage customer knowledge for product/service development
- Improve sales force and call center effectiveness
- Leverage presence, brand and services from other Telefonica's affiliates

Broadband growth

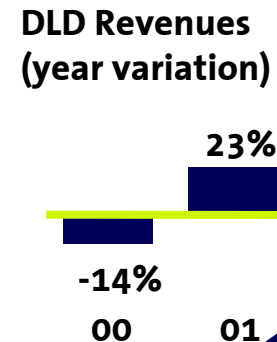
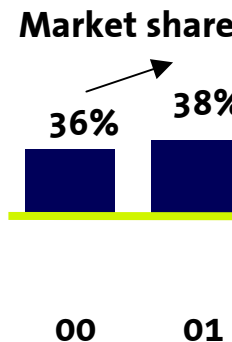
ADSL LIS ('000)

ADSL Revenues (Mill € 2001)



Example of practices to extend: growth in LD market share in Chile through new products

Plan SLM
Residential plan for DLD calls based on semi flat fee structure



.. (4) capture further growth opportunities in the region



- Expand to other regions/countries in Latin America
- Leverage scale in increased wireline and Internet penetration

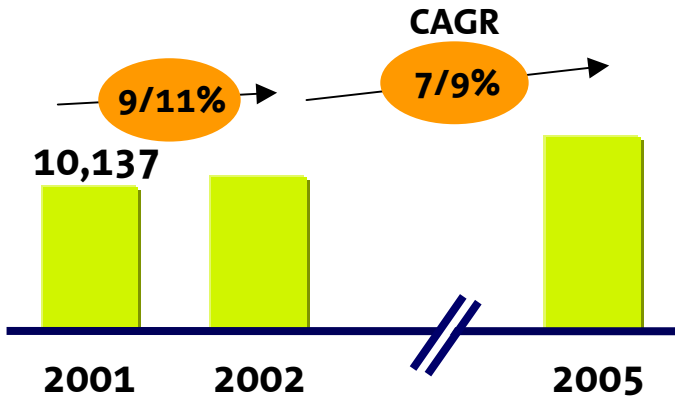
Content

- T-Latam: delivering solid performance in our four operators
- Priorities for 2002
 - Manage Argentinean crisis
 - Capture growth in Brazil
 - Consolidate performance through active regional management
- **Financial projections: strong cash performance**
- Summary

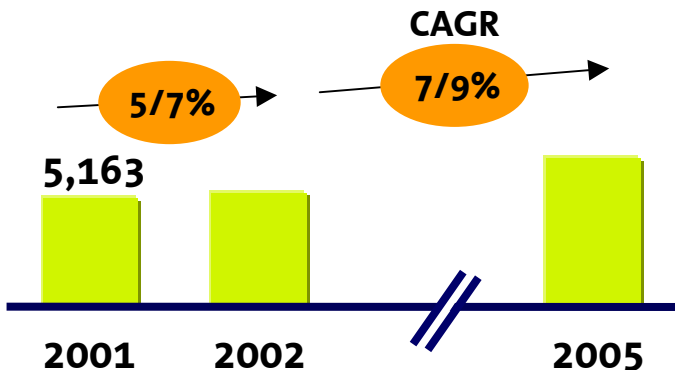
Good aggregated operational prospects for 2002

Million €2001
(Argentinean peso 1:1)

T Latam Revenues

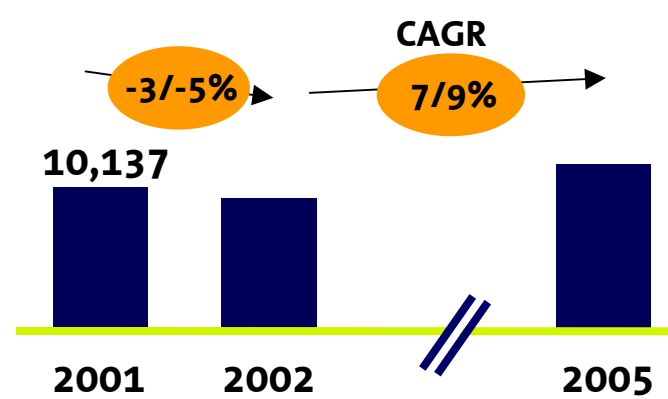


T Latam EBITDA

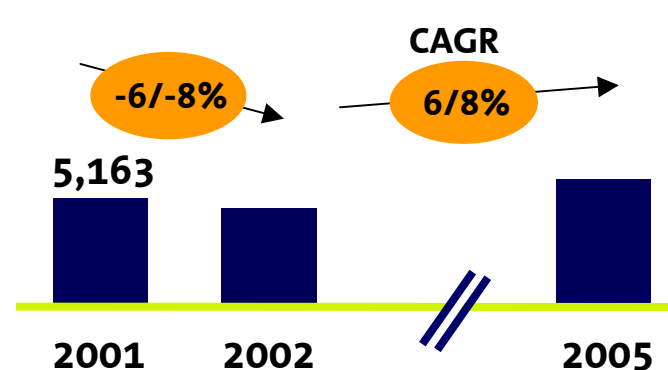


Million €2001 except for
Argentinean peso (2:1)

T Latam Revenues



T Latam EBITDA

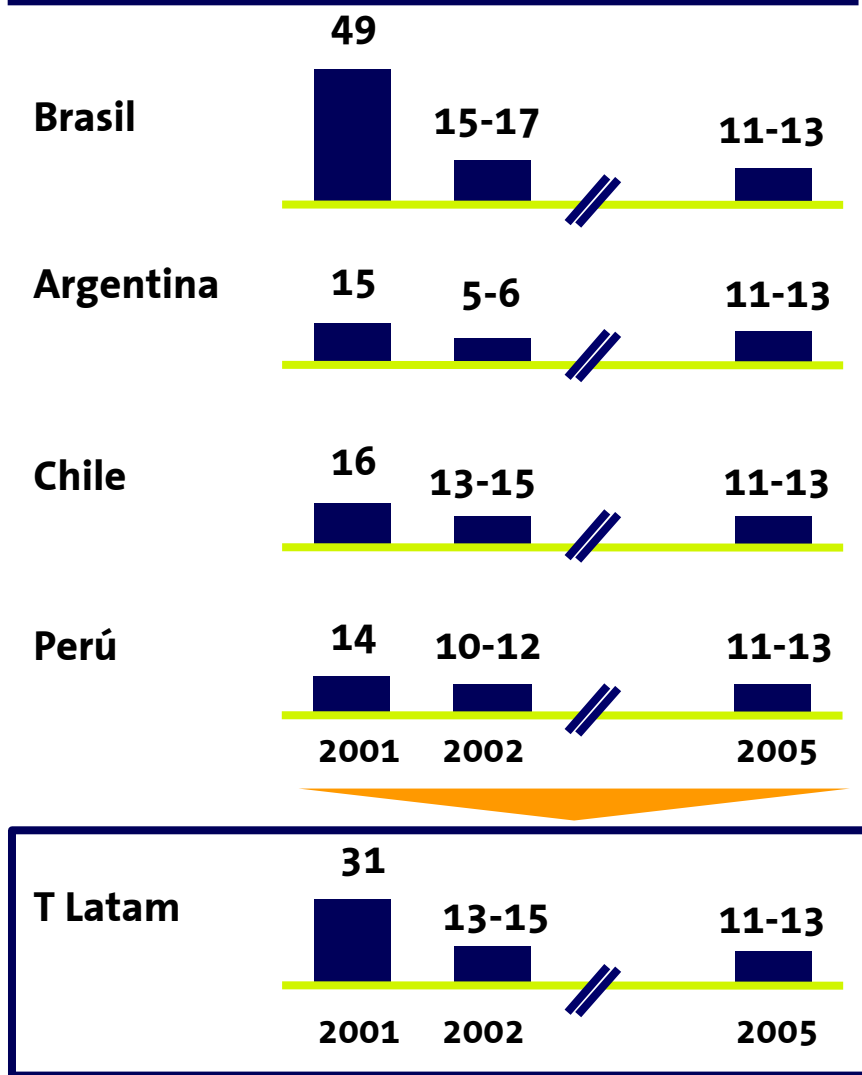


- 2002 financial perspectives hurt by devaluation of Argentinean peso
- However beyond 2002, T Latam's results are expected to grow

CAPEX will decrease significantly from this year on

- Major investments in infrastructures have already been made
- Marginal investments required for growth except for broadband
- Encompass CAPEX level with local cost of capital
- Improve ROIC

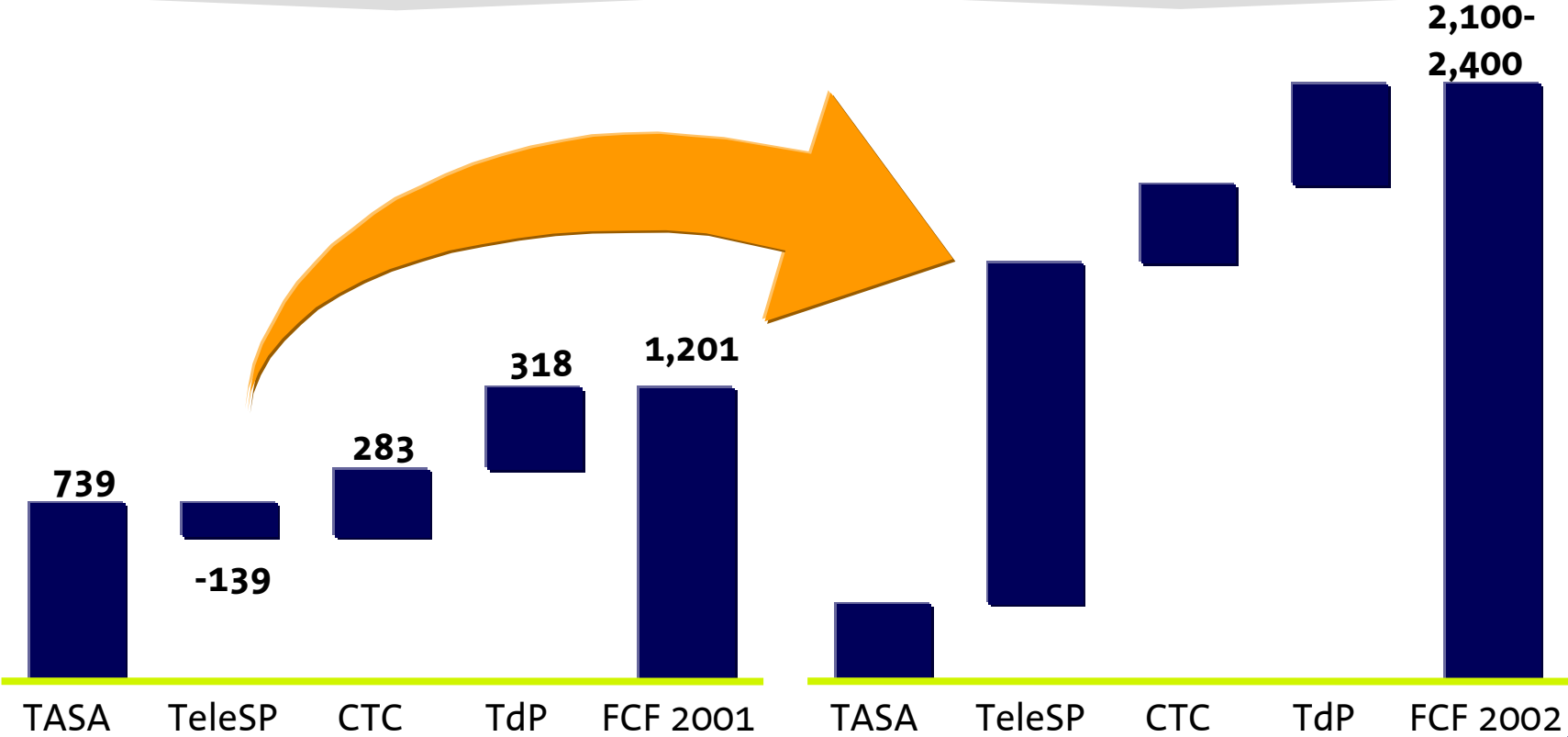
CAPEX/sales (%)



As a result, we see FCF nearly doubling in 2002

Operating FCF 2001
Million €

Operating FCF 2002*
Million €



*Considering devaluation of Argentinean pesos (Exchange rate after devaluation 1USD=2.0 Pesos)

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Summary

- The clear leader in the region
- Good results in 2001 despite the economic turmoil
- Fit to manage the crisis in Argentina
- Strong position to capture growth potential in Brazil
- Continuing regional efforts to improve efficiency
- Solid FCF generator

Telefónica
