

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 8, 2002, Seville

The Telefonica logo is written in a yellow, cursive script font with a thin yellow 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 of varying shades of blue.

Fernando Abril-Martorell

COO, Telefónica Group

Safe harbour

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Driving business performance for continued earnings growth

Driving business performance for continued earnings growth

- **Telefónica stands out in a challenging environment**
- Three building blocks support our future earnings growth
 - Accelerating performance of core businesses
 - Capturing our natural growth potential
 - Strengthening our “one company” model
- These building blocks translate into a set of management priorities and commitments

The environment remains challenging ...

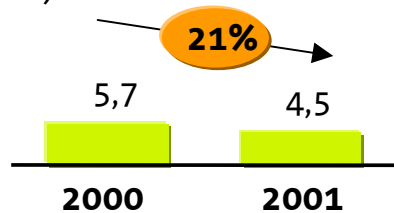
- **Growth is taking longer than expected to materialize: uncertainty and cautiousness**
- **Loss of favour in the financial markets**
 - **Difficulty in capital raising**
 - **Short term uncertainty blurring long term sector outlook**
- **Increased focus on short term**
 - **From “growth” to “earnings” and “cash-flow”**

... with an impact on our day-to-day business

Wireline

- Declining prices
- Increasingly difficult to improve efficiency

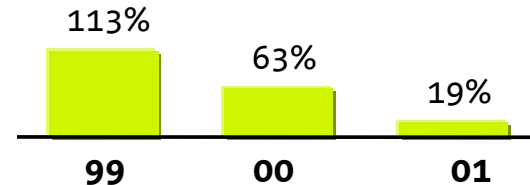
Fixed communication effective price per minute*
Spain (€ cents)



Wireless

- Slowdown in subscriber growth
- Growth in wireless data not forthcoming (slow uptake in WAP, delays in UMTS)

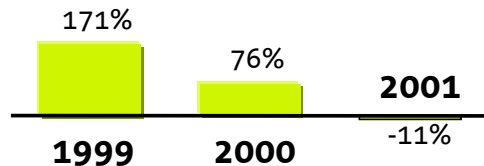
Year-on-year subscriber growth. Spanish market



Internet/Portals

- Fall in advertising market
- Unmet expectations on e-commerce demand and margins
- Financing difficulties

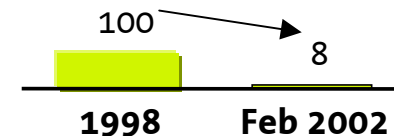
Growth in advertising revenues



Data transmission

- Over-investment and over capacity
- Collapse in transport prices and margins
- Altnets struggling and players exiting the business

Costs of a 2Mbits circuit from NY to London
Indexed to 1998 price



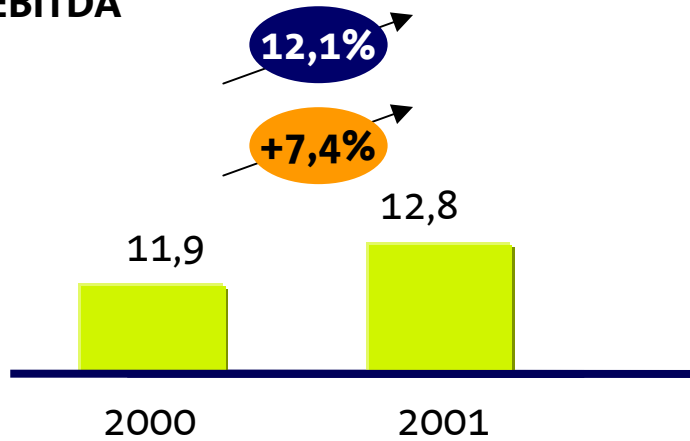
*All in-coming and outgoing traffic in TdE network (voice, narrowband Internet, interconnection)
Source: Telefónica; Band-X Indices; IAB; eMarketer

In this context, Telefónica stands out

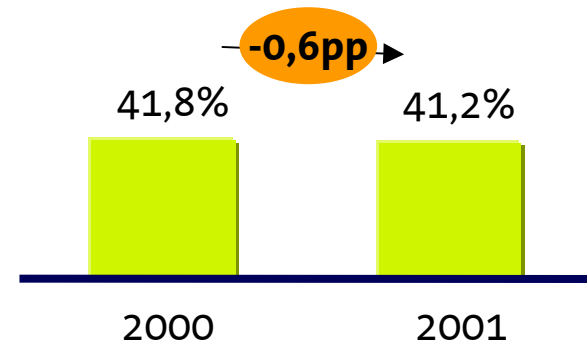
€ Billion

- Real
- Fixed currency rate and no change in consolidation perimeter

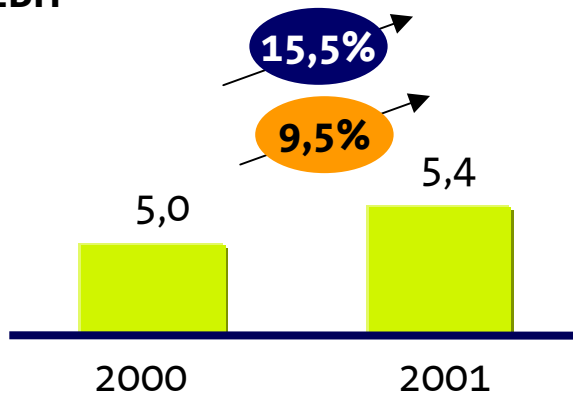
EBITDA



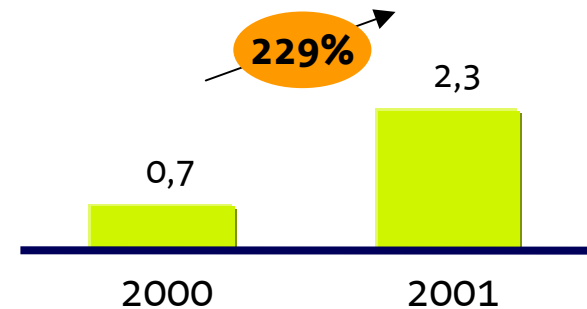
EBITDA margin



EBIT



Cash-flow



Strong fundamentals and solid growth platforms will become key differentiators

Challenging economic environment

- Financing restrictions
- Impact on demand
- Slow recovery expected

Challenging telecom sector environment

- Increasing saturation in developed markets
- Slowdown in demand growth
- Unfinished regulatory framework
- Efficiency improvements increasingly difficult


Environment remains uncertain and highly demanding for telecom companies

Key differentiating factors among integrated telcos:

- Strong fundamentals
- Solid growth platform

Telefónica is in a unique position

- ✓ We have delivered on earnings
- ✓ We have met each of our objectives
- ✓ We have solid and diversified client base and revenue streams
- ✓ We are well positioned to capture profitable growth ahead



Important achievements to date ...
... rather than restating our achievements,
we would like to review how Telefónica will
deliver earnings growth

Driving business performance for continued earnings growth

- Telefónica stands out in a challenging environment
- **Three building blocks support our future earnings growth**
 - **Accelerating performance of core businesses**
 - **Capturing our natural growth potential**
 - **Strengthening our “one company” model**
- These building blocks translate into a set of management priorities and commitments

Three building blocks drive our business

Accelerating performance of core business

Capturing our natural growth potential

Strengthening our “one company” model

Make the most of our client base and expand it, creating and satisfying their needs

- Understanding the needs of highly differentiated customer segments
- Capturing latent demand in traditional and new communication services leveraging four growth dimensions
 - Internet
 - Mobility
 - Broadband
 - Content
- Increasing loyalty and expanding our client base

Three building blocks drive our business

**Accelerating
performance of
core business**

- **Continuous improvement in core businesses**

**Capture our
natural growth
potential**

**Strengthen our
“one company”
model**

Accelerating performance of core businesses, eliminating latent inefficiencies

- **Enhance commercial focus** through an active management of the customer base and innovation
- **Improve efficiency** by sharing best practices and increasing flexibility
- **Optimize capital base** through a sustained long-term effort on CAPEX reduction and disposal of non-core assets
- **Work towards a fair regulatory framework** that ensures competition and fosters growth

Accelerating performance of core businesses

Enhance commercial focus

Actively managing our customer base

- Segment specific CRM campaigns and loyalty programs
- Strengthened focus in SMEs

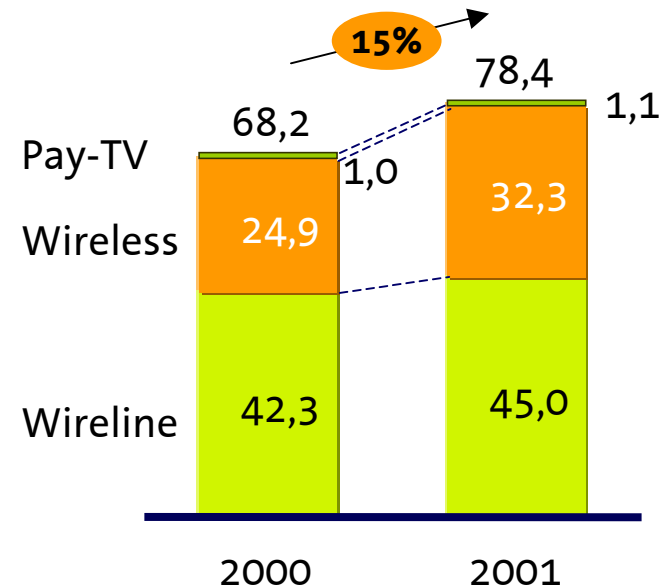
Developing new products and services (innovation)

- Shift from network enabled to customer driven innovation
- Continuous flow of new products and services
- New value added services, multi-service offers and bundled services
- Integrated Broadband solutions for Corporations

Adapting our distribution model

- Shift from product to customer focus in I&M services
- Proactive channel management and value driven incentives
- Rapid development of new channels

Number of customers (millions)

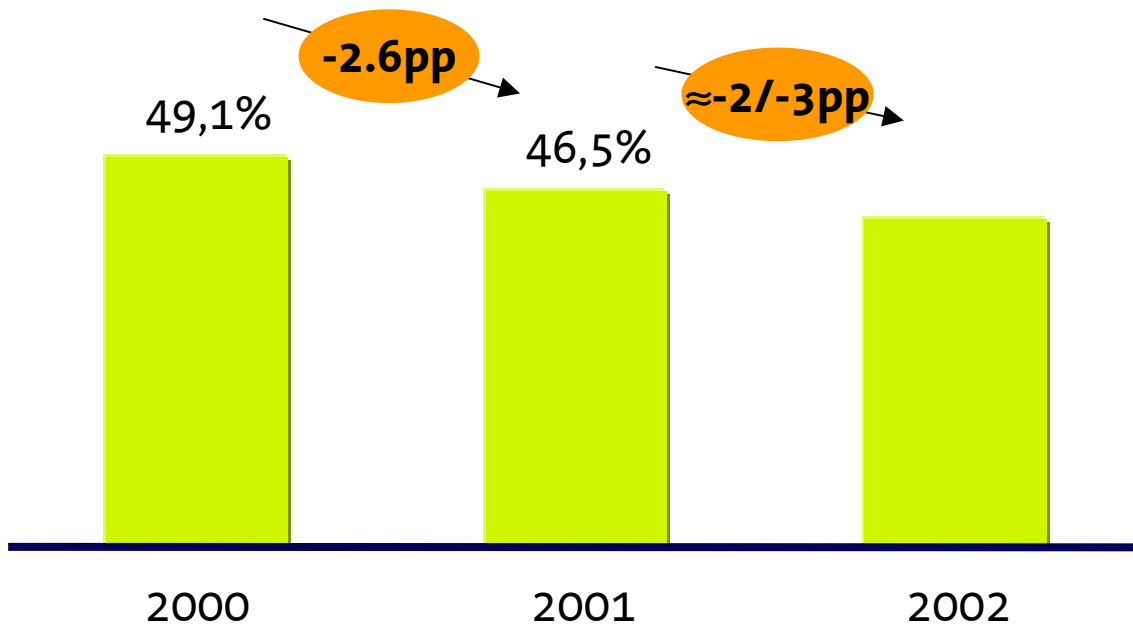


- Significant progress in 2001, but continued effort required
- Customer proximity is a never ending task

Accelerating performance of core businesses

Improve efficiency

$$\text{Manageable Cost Efficiency} = \frac{\text{Discretionary costs}^*}{\text{Net Revenues}^{**}}$$



Continuous effort in manageable costs efficiency in 2001 with ambitious objectives for 2002

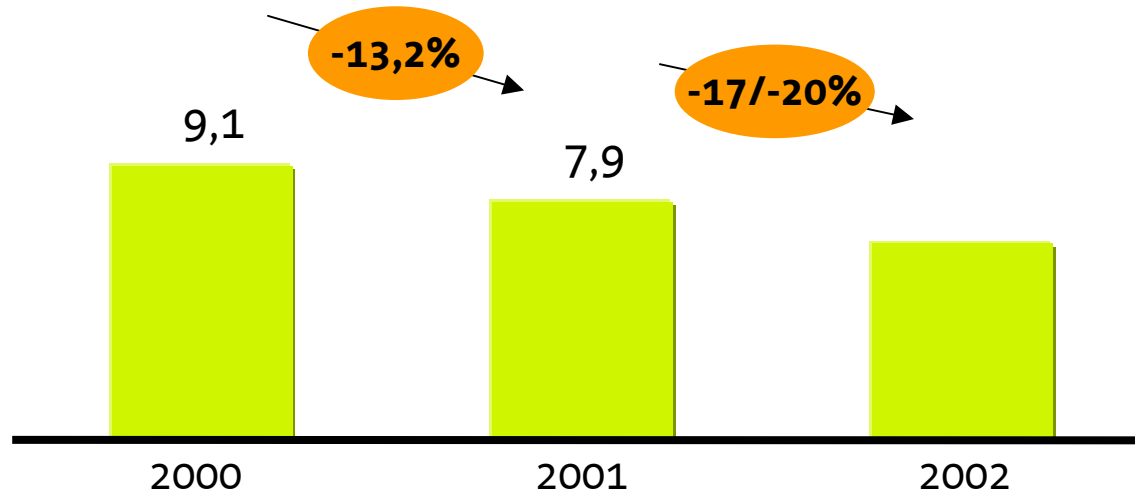
* Includes personnel and external services

** Revenues less cost of sales (purchases, interconnection expenses, provisions and tributes)

Accelerating performance of core businesses

Selective CAPEX to optimize capital base

CAPEX*
€ billion



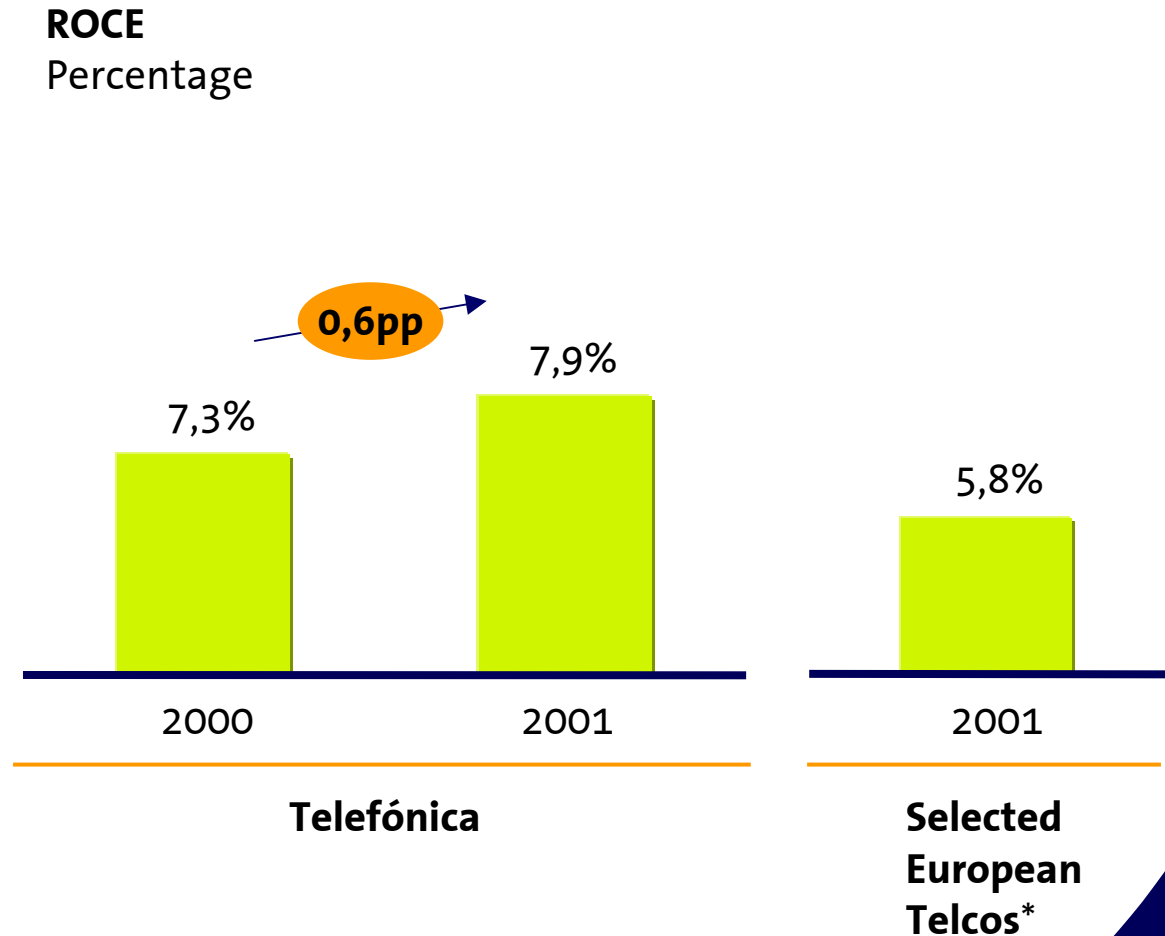
- Significant effort to control CAPEX compatible with organic business growth...
 - 19% CAPEX reduction in TdE's traditional business
 - 7.9% CAPEX reduction in Telefónica Latam
 - Significant CAPEX rationalization in Telefónica Móviles, especially in Spain
- ...and aggressive investments to develop growth businesses
 - ADSL expansion in Spain
 - Achievement of “metas” in Brazil
- In line with a multi-year effort to improve EBIT

* Excluding UMTS licences and capitalized costs

Accelerating performance of core businesses

Optimize capital base

- Increasing asset turnover
- Significant effort to control CAPEX
- EBITDA growth



* BT, FT, DT, TI

Source: UBS Warburg; ABN Amro

Accelerating performance of core businesses

Work towards a fair regulatory framework

- **We are continuously demanding a fair regulatory framework that promotes competition and fosters growth**
- **To date, we have been able to overcome the impact of regulatory measures**
- **Looking forward, we expect a more stable regulatory outlook, but still significant uncertainty for the levels of planned investment**

Our business in Argentina

Plans to mitigate impact of crisis

- **Strict focus on cash-flow generation from operations**
 - Defense of more profitable customers
 - Traffic stimulation (promotion of traffic generating products, shift to subscription based products and targeted campaigns for price management)
 - Tight cost control: decrease manageable costs
 - Permanent monitoring of receivables
- **CAPEX control**
 - Freeze CAPEX expenditures until new regulatory framework established
- **Prepare for new business environment**
 - Negotiation with regulator: new regulatory agenda

Three building blocks drive our business

Accelerating performance of core business

- Continuous improvement in core businesses


Capture our natural growth potential

- **Extracting the full potential of our existing customer base**
- **Expanding our customer base**

Strengthen our “one company” model

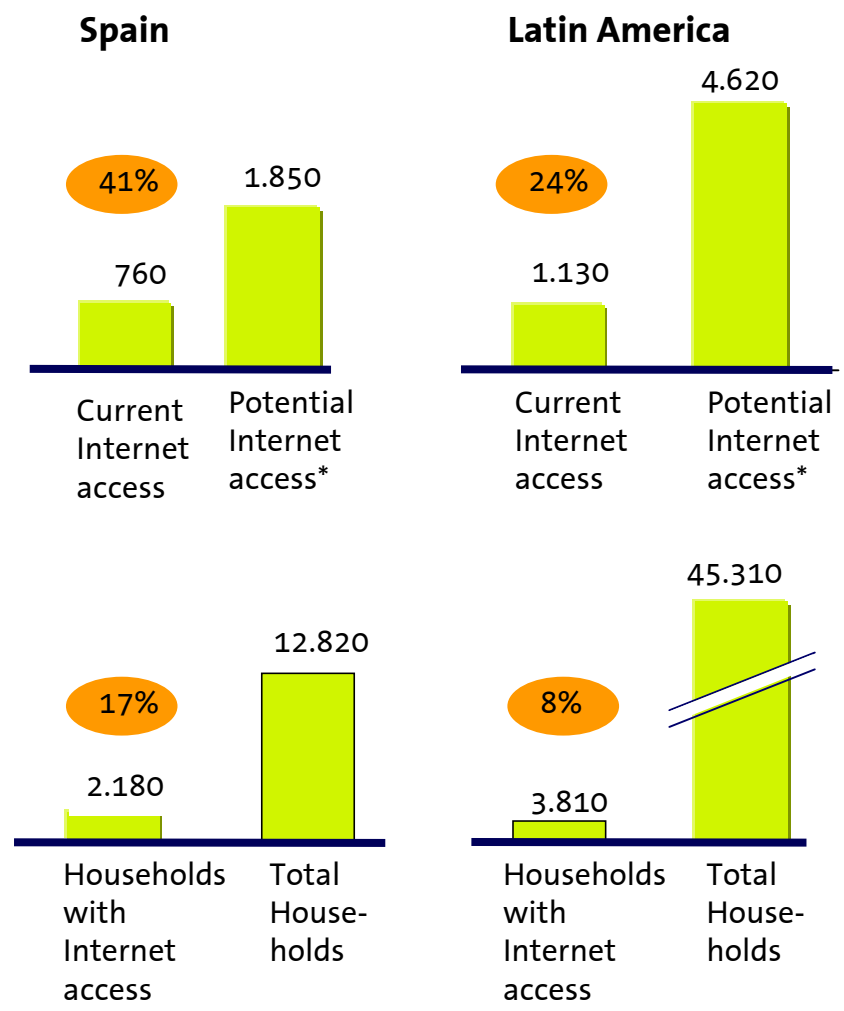
Significant growth potential in our markets

Example: Internet access. Thousands

 Current Internet penetration

SMEs

Residential



Telefónica will benefit from the gap in Internet and broadband penetration

* One potential access for every 10 employees in each physical office
 Source: Telefónica; Pyramid; Target; Receita Federal; Exame; Lehman Brothers

Two dimensions to capture our natural growth potential

- We have strong growth platforms in our portfolio**
- Our efficiency and financial strength increase the range of profitable opportunities**

Extracting the full potential of our existing customer base

- Unlock latent demand for new services, e.g.,
 - Broadband
 - Wireless data

Expanding our customer base

- Natural expansion of our footprint, e.g.
 - Brazil

Translating the Broadband opportunity into revenues and earnings

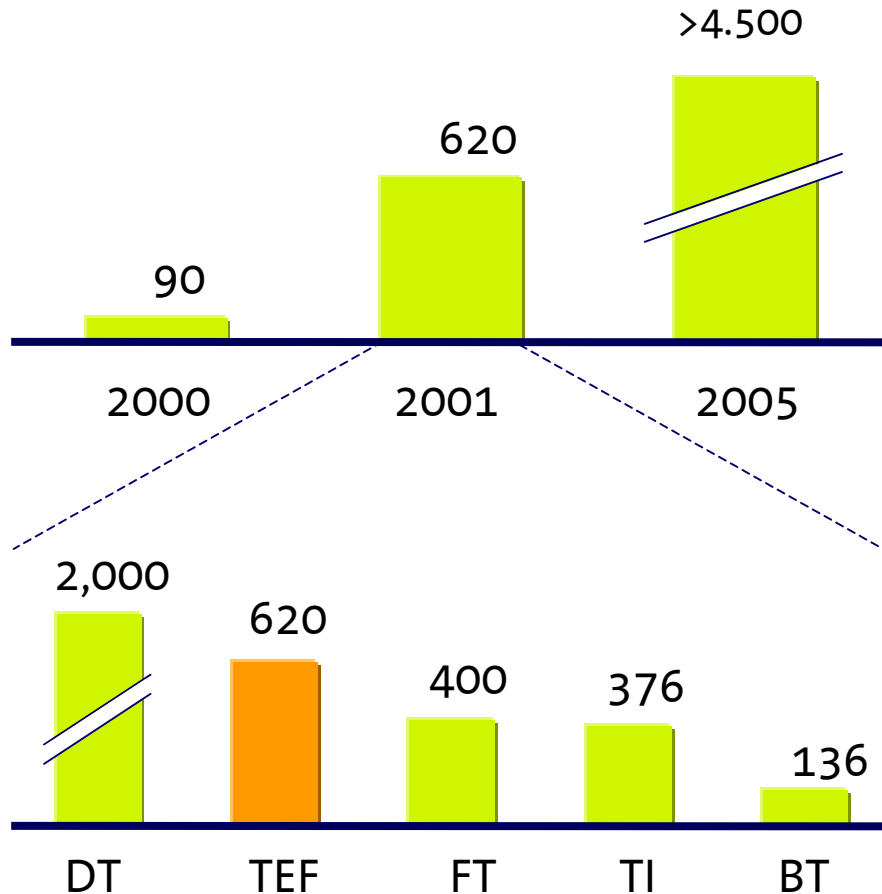
- 1 Closing the penetration gap in Broadband access infrastructure**
- 2 Developing a full and compelling service offering for the residential segment**
- 3 Evolving towards end-to-end solutions for our business customers, to capture additional value**
- 4 Refocusing our media assets to address the content opportunity and capture the value for Telefónica**

1

Closing the penetration gap in Broadband access infrastructure

Spain + Latam

Thousands of DSL lines



- Objectives for 2001 largely surpassed
- Ambitious but realistic deployment objectives
- Close management of economic parameters for profitability

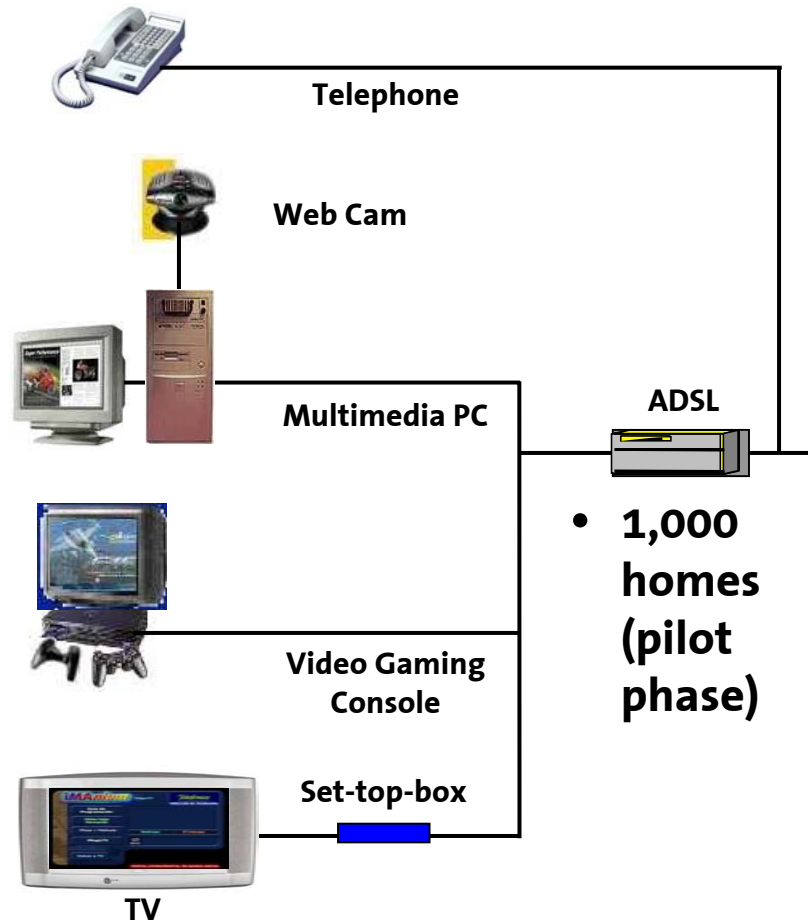
2

Developing a full and compelling offer for the residential segment

Example: Imagenio

Imagenio >>

- Telephony
- Videoconferencing
- High speed Internet
- Multimedia messaging
- TV for PC
- Multi-player games
- Games on demand
- Digital TV
- Video and music on demand
- Internet access on TV
- Open and premium TV channels



- 1,000 homes (pilot phase)

TdE: project management

Terra: PC content/ services

Admira: audio visual contents for PC/TV

Telefónica Cable: TV/Radio channel aggregator

3

Evolving towards end-to-end solutions for our business customers

Example: eBA initiative*

eBA | *e-Soluciones de Banda Ancha*

eBA platform (collaboration between TdE and T-Data)

Solution Design

Services and Applications

Operations

Multiservice Network

Concept

- New service strategy for Large Corporations through a joint effort from several Business Lines in the Group
 - Network Communications Services
 - Applications and content
 - Communication management
 - Solutions design

Approach

- Boost high-capillarity Broadband communications and usage of Data Centers
- Develop high value added services
- Reassure reliable solution and high quality management

Development of complete, customized, “end-to-end”, industry-specific solutions for corporations

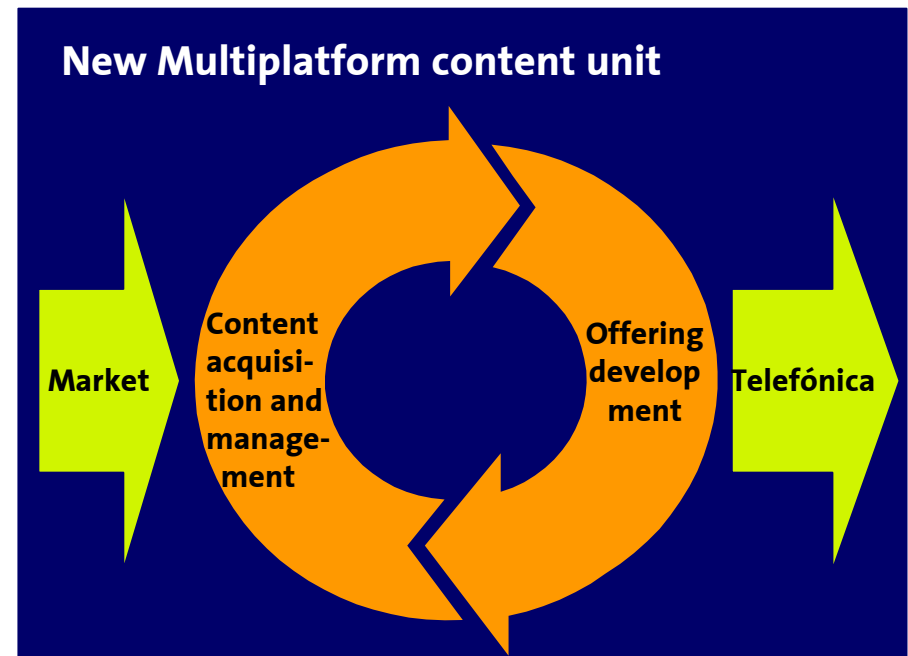
- To help customer increase efficiency in their own businesses
- To capture larger part of corporate communication expenditures

4

Refocusing our media assets to address the content opportunity and capture the value for Telefónica

Example: Multiplatform content and services unit

- **Reorganize and focus the management of the Group's content assets**
- **Centralize content acquisition, maximizing Group's bargaining power and acquisition know-how to obtain the best available content**
- **Identify opportunities for intragroup synergies, developing new multiplatform content suitable for different networks and platforms**



Wireless data as a significant growth opportunity

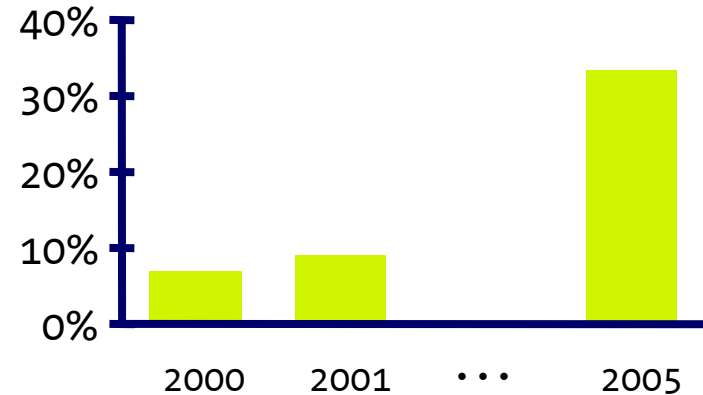
Significant room for growth
in revenue generation

Increase number of connections

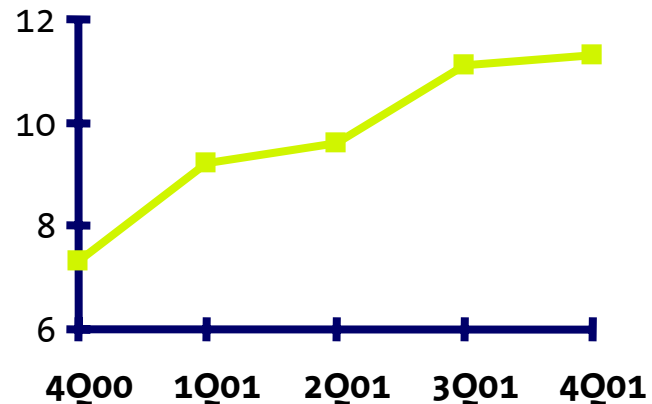
Increase usage levels of existing
services

Launch new services to boost
usage

Data weight over revenues (TEM Spain)



Outgoing SMS/sub./month



Brazil: we have the best platform for growth

Brazil. Million Reais

2001 revenues*

12.816

Traditional wireline business

34%

Long distance wireline

18%

Broadband +Data

20%

Mobile

16%

Other

11%

2005E revenues

>20,000

- Full contribution of new adds
- Tariff rebalancing
- Increased fixed to mobile traffic

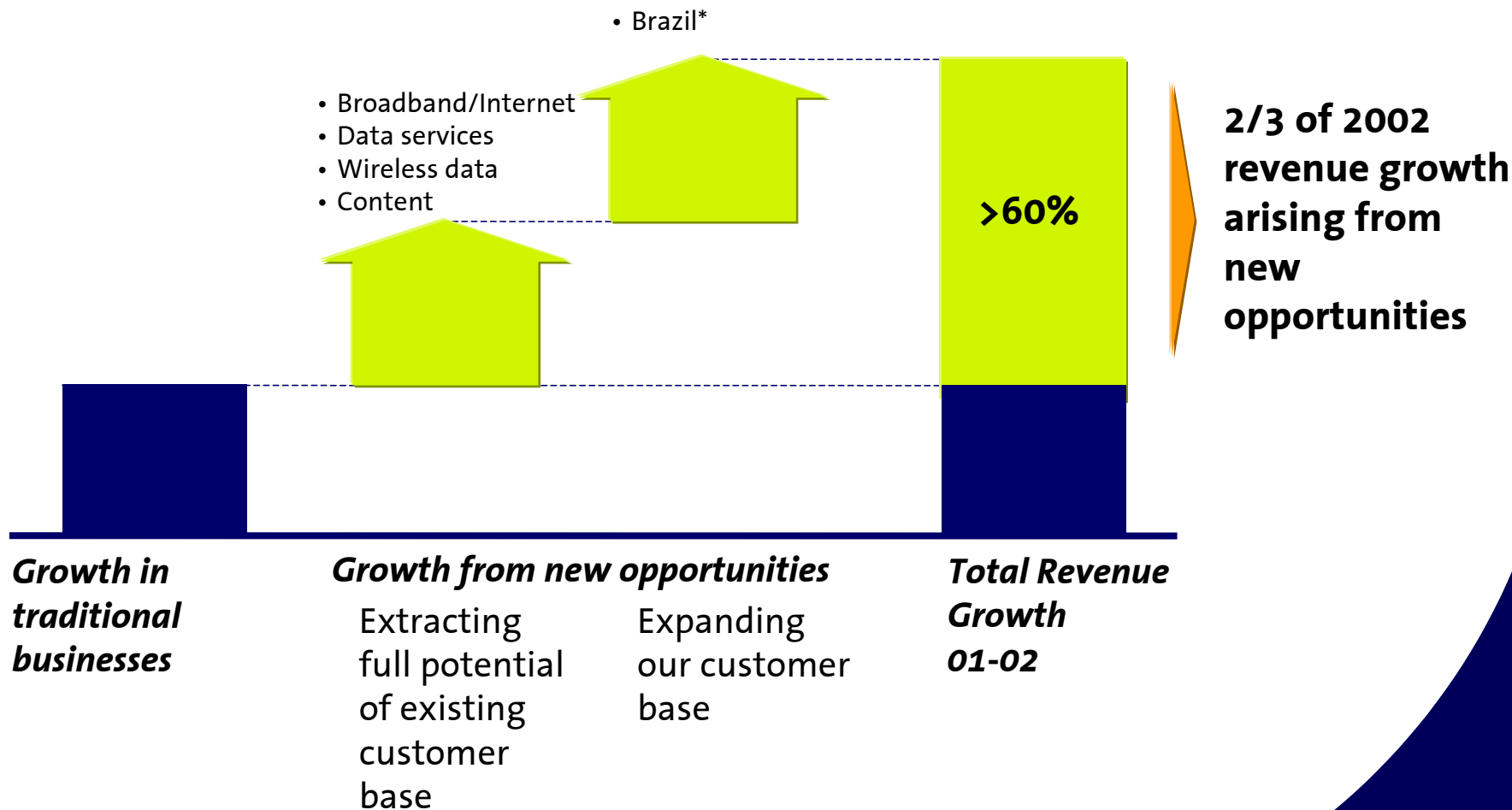
- New growth opportunities opened by anticipation of “metas”
- Offer long distance service to current clients, both in Sao Paulo (450-550 M R\$ revenue increase during 2002) and outside of Sao Paulo (250-300 M R\$)

- Current ADSL penetration in line with developed countries (1,6%)
- Priorities for 2002 include reduction of OPEX and increasing ARPU in SMEs
- New opportunities for increasing market share in corporates

- Present in highest growth regions
- Additionally, joint venture with PT opens up new markets and generates significant synergies

These new opportunities add up to significant growth

Revenue growth 2001-2002. Current exchange rate



Three building blocks drive our business

Accelerating performance of core business

- Continuous improvement in core businesses

Capture our natural growth potential

- Extracting the full potential of our existing customer base
- Expanding our customer base

Strengthen our “one company” model

- **Consolidate our “one company” model**

Evolving our flexible one-company model anticipating industry developments

The trends we observe...

- Previous era of multiple pure growth options now giving way to a new era where more integrated client approach has higher value
- Data and Internet businesses becoming closer to our core

- Need to optimise efficiency in the use of our resources as one of today's main driver for value creation

... lead us to work on two organizational fronts...

Simplify our approach towards the client

- Fulfilling client needs
- Articulating interfaces

Excel in efficiency

- Capturing synergies
- Creating units to leverage scale in non-core activities
- Managing aggressively internal market transfer prices

...to optimise the performance of our model

More simplicity...

...while maintaining

- **Focus**
- **Transparent business performance**
- **Management accountability**

Strengthening our “one company” model

Multibusiness working sessions

- Group and country Committees
- Focused task forces
- Competence Centers

Share best practices and align priorities

Structured horizontal processes

- Finance and treasury
- Planning/Control
- Procurement
- Brand management
- IT architecture

Optimize critical resources

Centralization of non-core areas and growth initiatives

- Efficiency improvement in non-core areas
- Multi-business growth initiatives

Capture synergies

Values that strengthen our common culture

In summary, we have made good progress

- **Accelerating performance of core businesses,** eliminating inefficiencies
- **Capturing our natural growth potential,** extracting the full potential and expanding our customer base
- **Strengthening our “one company” model,** to adapt to and anticipate industry developments

Driving business performance for continued earnings growth

- Telefónica stands out in a challenging environment
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Telefónica
