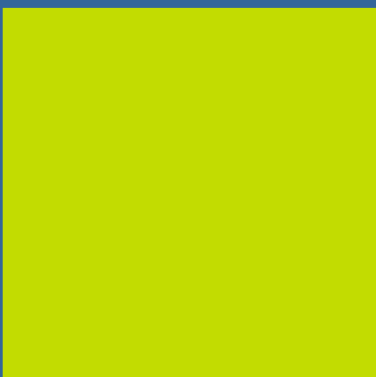
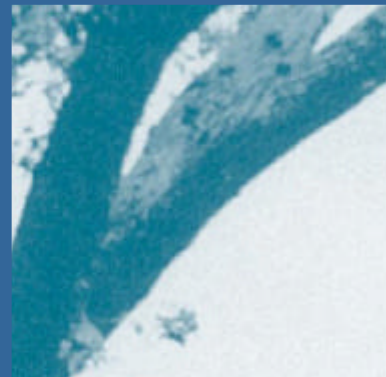


César
Alierta
Chairman
and CEO
Telefónica Group

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



Telefonica

A value growth company

Investor Conference
March 2001, Rio de Janeiro.

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OBJECTIVES FOR THESE TWO DAYS

- **Share with you the fundamentals that explain our current performance and position us for future growth**
- **Convey our project for continued superior earnings**
- **Give you the opportunity to know and interact with our top management team**
- **Understand your perspectives on the company and provide relevant and helpful factual information about the Group and our businesses**

A VALUE GROWTH COMPANY

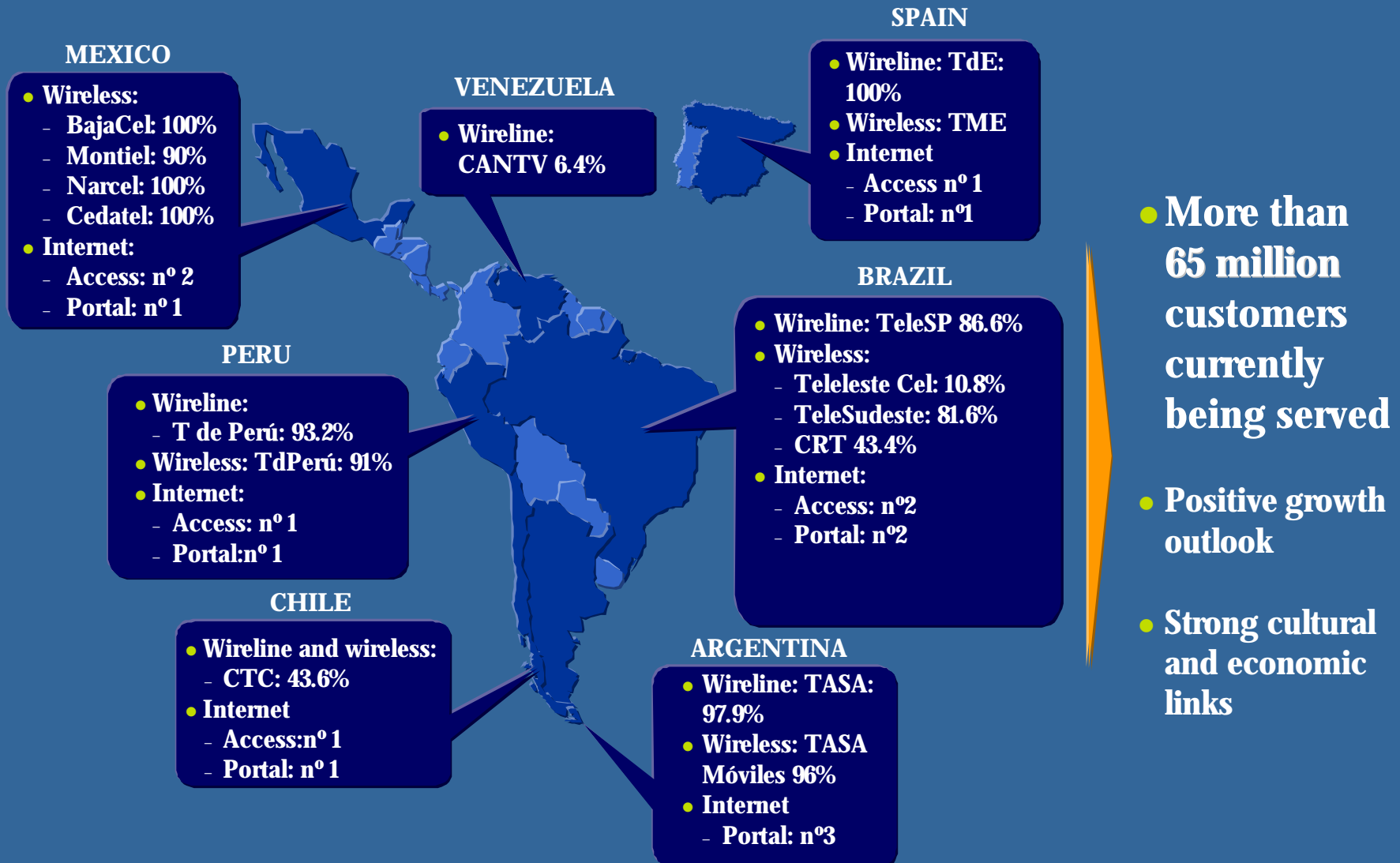
Solid value based on fundamentals: large client base, strong operational skills, unmatched intangibles, balanced and flexible business structure

strong financial position

Addressing major open issues:

Management priorities that translate into superior earnings

A MARKET WITH MORE THAN 500 MILLION POTENTIAL



- More than 65 million customers currently being served
- Positive growth outlook
- Strong cultural and economic links

...WITH GROWTH POTENTIAL

GDP Growth (%)

| | 2000 | 2001 | Average 2002-2004 |
|-----------|------|------|----------------------|
| USA | 4.9 | 2.0 | 3.0 |
| EURO | 3.4 | 2.9 | 3.2 |
| Spain | 4.1 | 3.2 | 3.4 |
| Brazil | 4.2 | 4.2 | 4.4 |
| Argentina | -0.2 | 2.9 | 4.5 |
| Mexico | 6.9 | 4.5 | 5.2 |
| Chile | 5.4 | 5.2 | 6.2 |
| Peru | 4.0 | 2.5 | 4.7 |

Source: Telefónica estimates; OVUM; Pyramid; Forrester; IDC; US Census Bureau

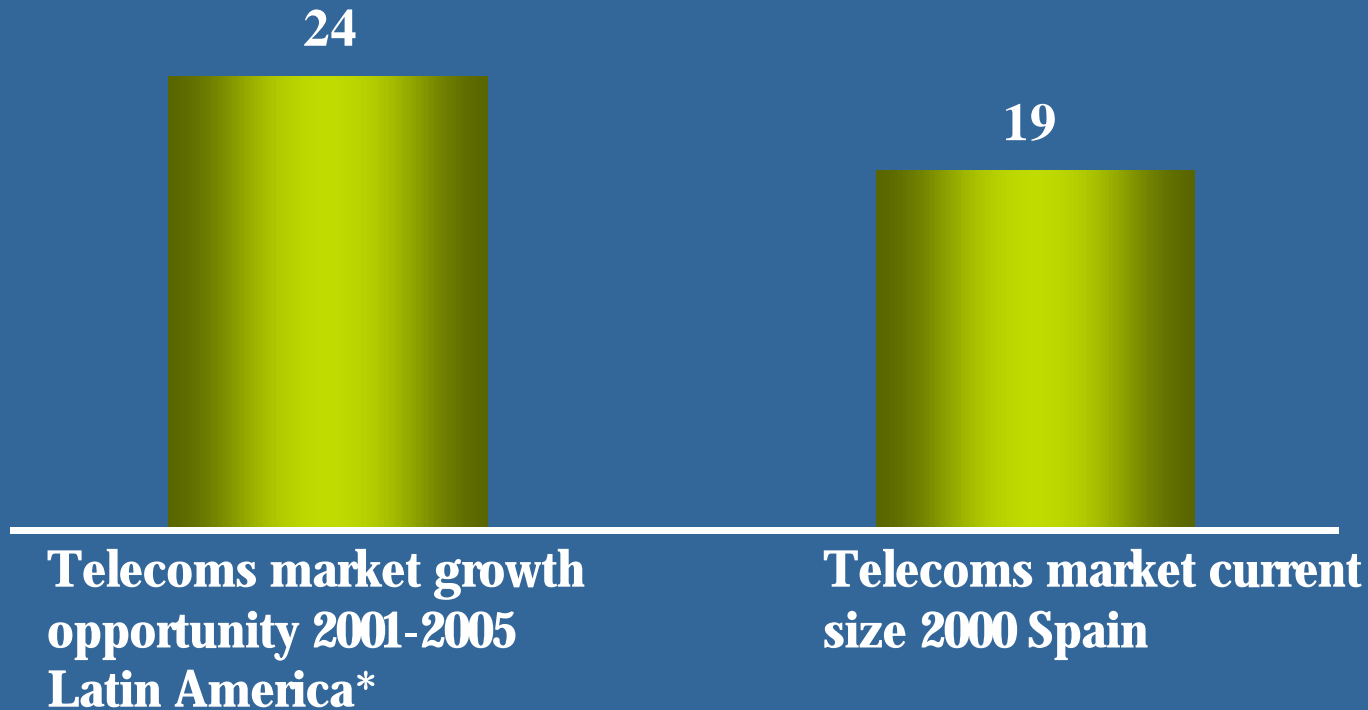
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LATIN AMERICA REMAINS A LARGE GROWTH

USD billion



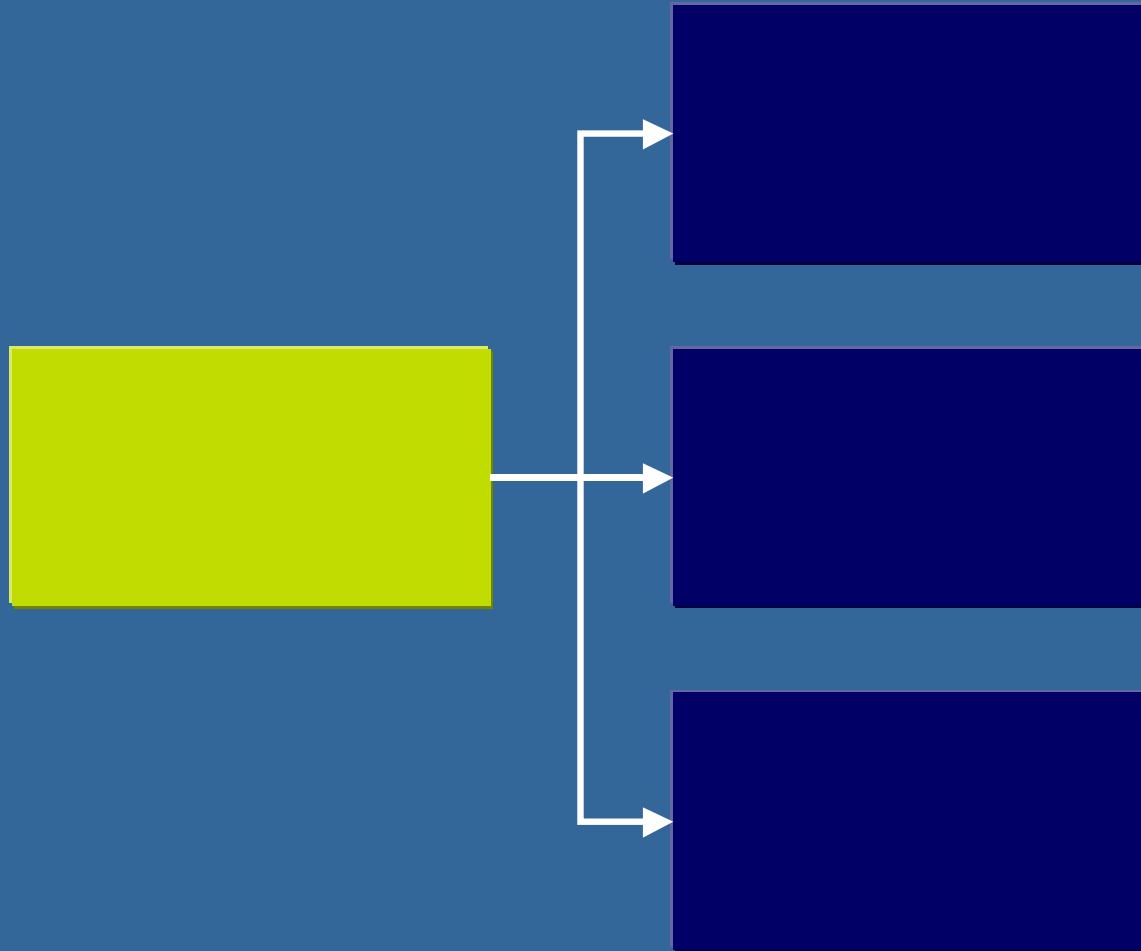
* Current GDP Latam aprox. 1,790 USD billion x 34% GDP growth in 5 years x 4% of GDP in

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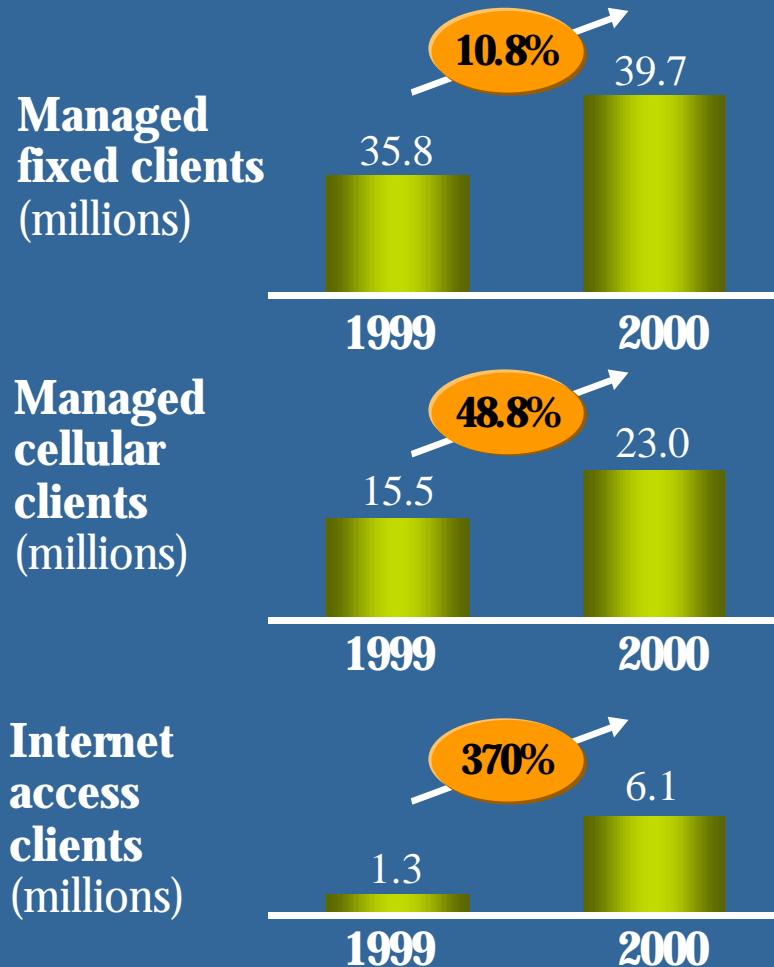
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EVERY GROWTH PROJECT MUST BE BASED



...AND TELEFONICA IS UNIQUELY POSITIONED: STRONG GROWTH IN OUR CUSTOMER BASE AND EXCELLENT PROSPECTS



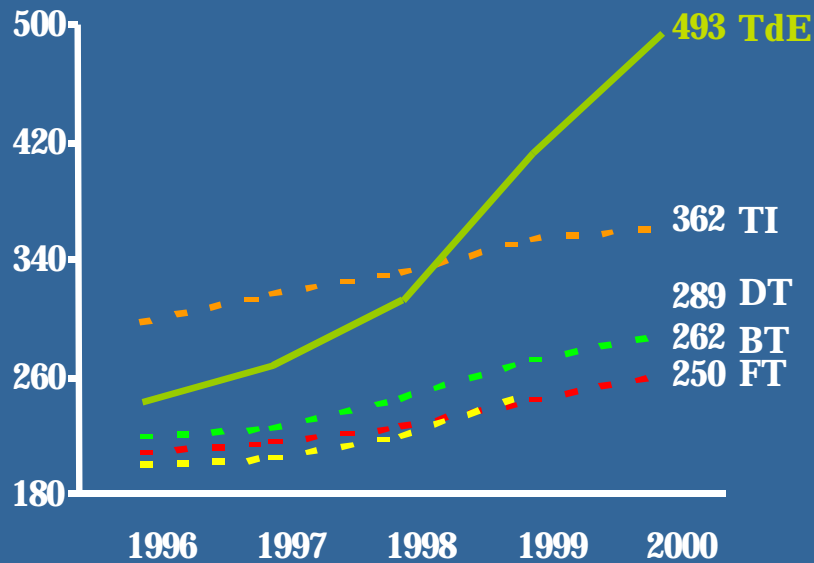
2000 penetration

| | LatAm | USA | Europe |
|----------------------|-------|-----|--------|
| Wireline penetration | 13% | 68% | 61% |
| Wireless penetration | 13% | 41% | 63% |
| Internet penetration | 3% | 50% | 23% |

WE HAVE ACHIEVED STRONG OPERATIONAL SKILLS...

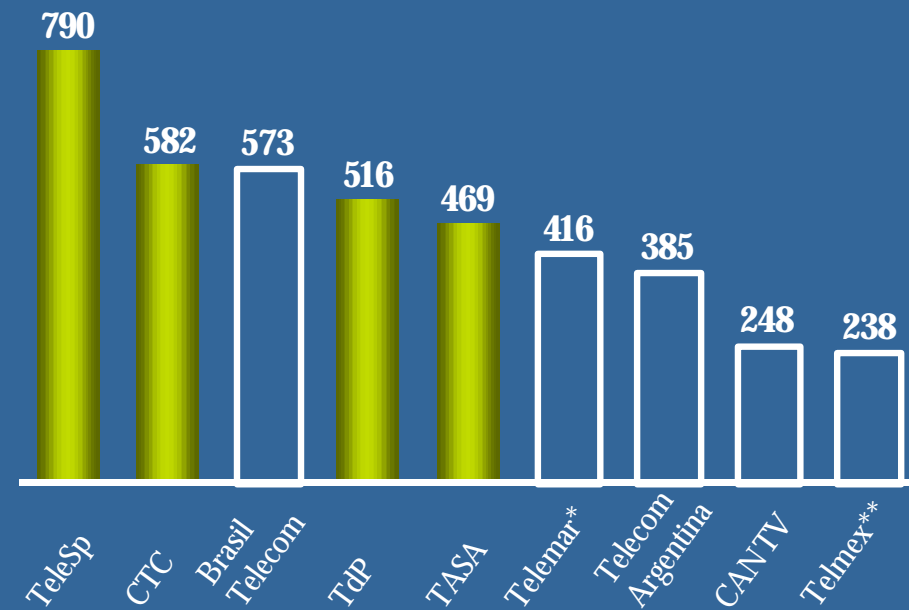
Europe

Lines/employee



Latam

Lines/employee (year 2000)



* As of June 2000

** As of July 2000

Source: Telefónica

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...AND A STRONG COMPETITIVE POSITION

93.7% combined market share in wireline operations

50.4% combined market share in wireless

90% total market share of corporate customers where we operate as incumbents

A SUCCESSFUL TRACK RECORD OF “TURN AROUNDS”

| | | <u>From date of acquisition</u> | <u>To date</u> |
|--------------------------------------|----------------------------|-------------------------------------|----------------|
| TeleSP (acquired Aug. 98) | ● LIS ('000) | 6,407 | 10,596 |
| | ● Number of lines/employee | 338 | 790 |
| | ● EBITDA/revenues | 58% | 66% |
| TASA (acquired Nov. 90) | ● LIS ('000) | 1,696 | 4,327 |
| | ● Number of lines/employee | 78 | 408 |
| | ● EBITDA/revenues | 38% | 60% |

UNMATCHED INTANGIBLES

Knowledge

- Market knowledge
- Operational knowledge
- Successfully applied in different geographies

Brand

- Strong image, high awareness everywhere
- One umbrella brand in natural markets

- Credibility
- Recognized execution capabilities

- Government, regulatory bodies, administrations
- Corporate distribution, suppliers

Talent

- Competent, experienced and action oriented

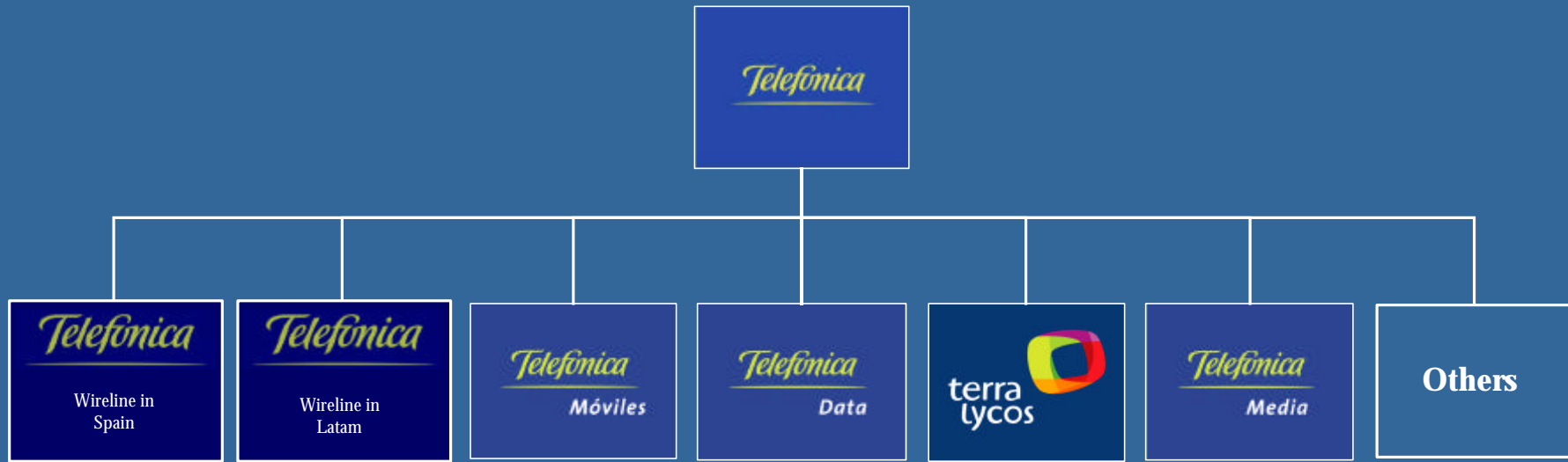
TELEFONICA HAS A BALANCED BUSINESS

BUSINESS TELEFÓNICA'S POSITION

| | | | | | |
|----------------------|---|---|--|---|---|
| Basic service |  |  | | | |
| Mobility |  | | | | |
| Broadband |  |  |  |  |  |
| Internet |  |  |  | | |
| Content |  |  |  | | |

- Large, addressable client base: >500 M in our core markets + 300M elsewhere
- Broad offering provides flexibility to better serve customer demands

... AND A FLEXIBLE ORGANIZATION



- **Natural owner of the businesses**
- **Operating flexibility to better serve customer demands**
- **Increased management accountability**
- **High potential for capturing synergies**
- **Not considering pure spin-offs**
- **Further IPO's based on strategic opportunities to unlock value**

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TELEFONICA ACHIEVED STRONG PERFORMANCE

2000 Financial Highlights

| Million | 2000 | % Change |
|----------------------------------|-----------------|-----------------|
| Revenues (€) | 28,485.5 | 24.1 |
| EBITDA (€) | 11,918.8 | 9.5 |
| Net income (€) | 2,504.8 | 38.8 |
| EPS (€) | 0.67 | 18.5 |
| Wireline customers | 42.3 | 10.1 |
| Wireless customers | 24.9 | 48.9 |
| Internet access customers | 6.1 | 370.0 |

BEST FINANCIAL BALANCE AMONG PEERS...

€ 12 Bn. EBITDA
2000

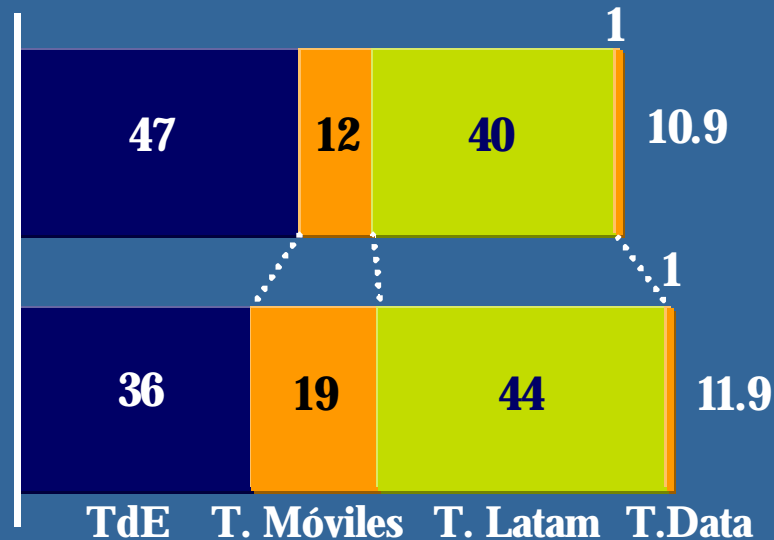
€ 26.9 Bn. Net debt
12/2000

€ 80 Bn. Market Cap.
26/02/2001

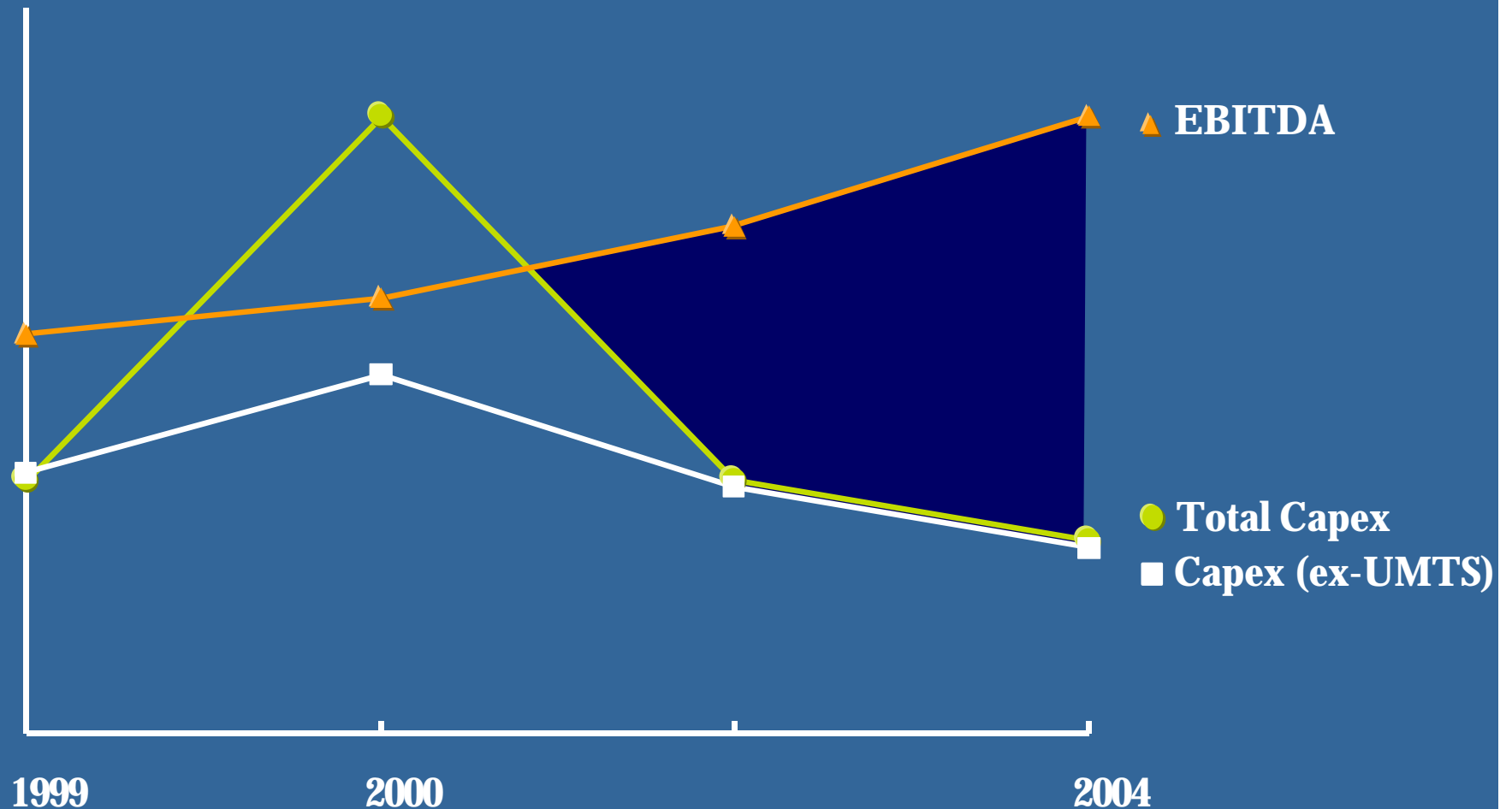
... with full control and access to the highest diversified cash flow in the industry

**1999 EBITDA
breakdown**

**2000 EBITDA
breakdown**



EBITDA WILL CLEARLY EXCEED CAPEX REQUIRED FOR ORGANIC GROWTH



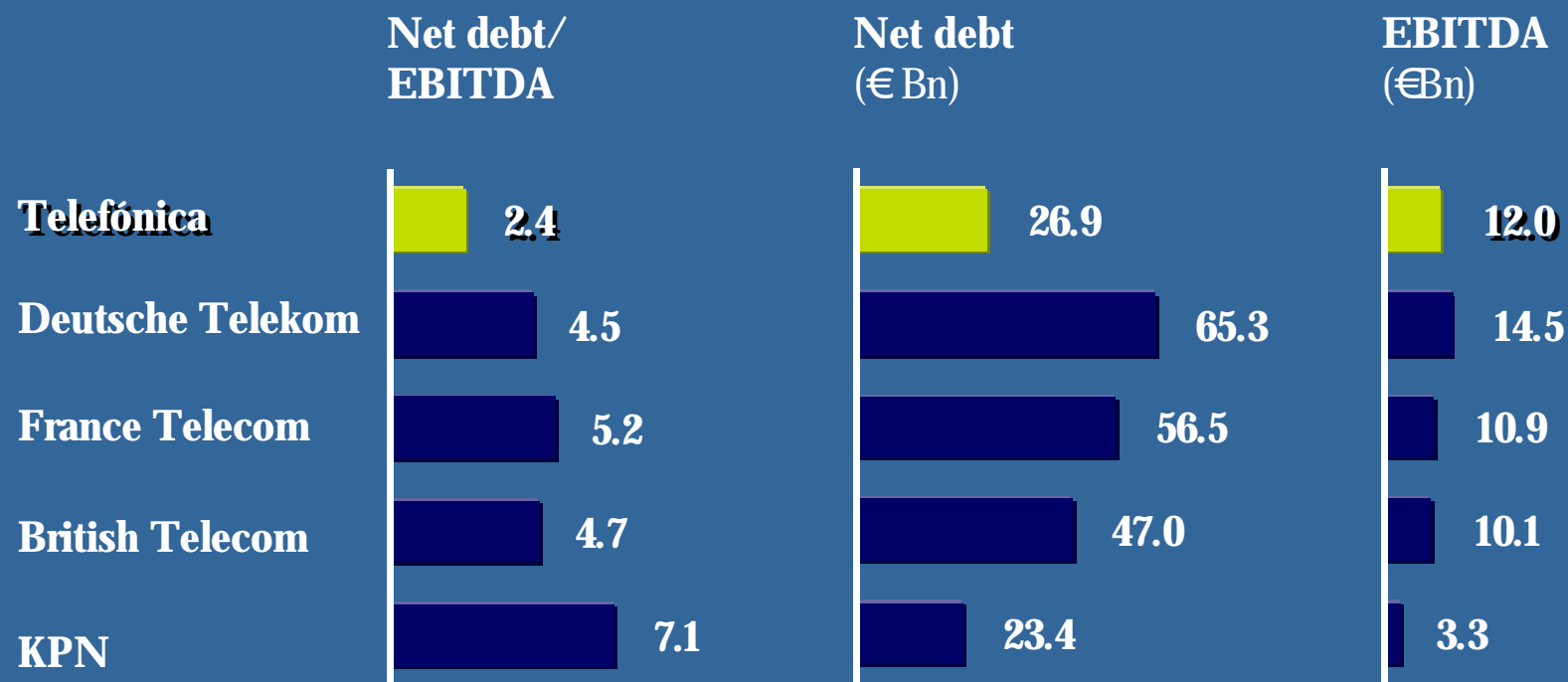
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WE HAVE FOLLOWED A RATIONAL AND CONSERVATIVE

- Equity-funded acquisitions (€30.4 bn in 2000)
- New organization optimizes cost of capital



Analysts consensus estimates

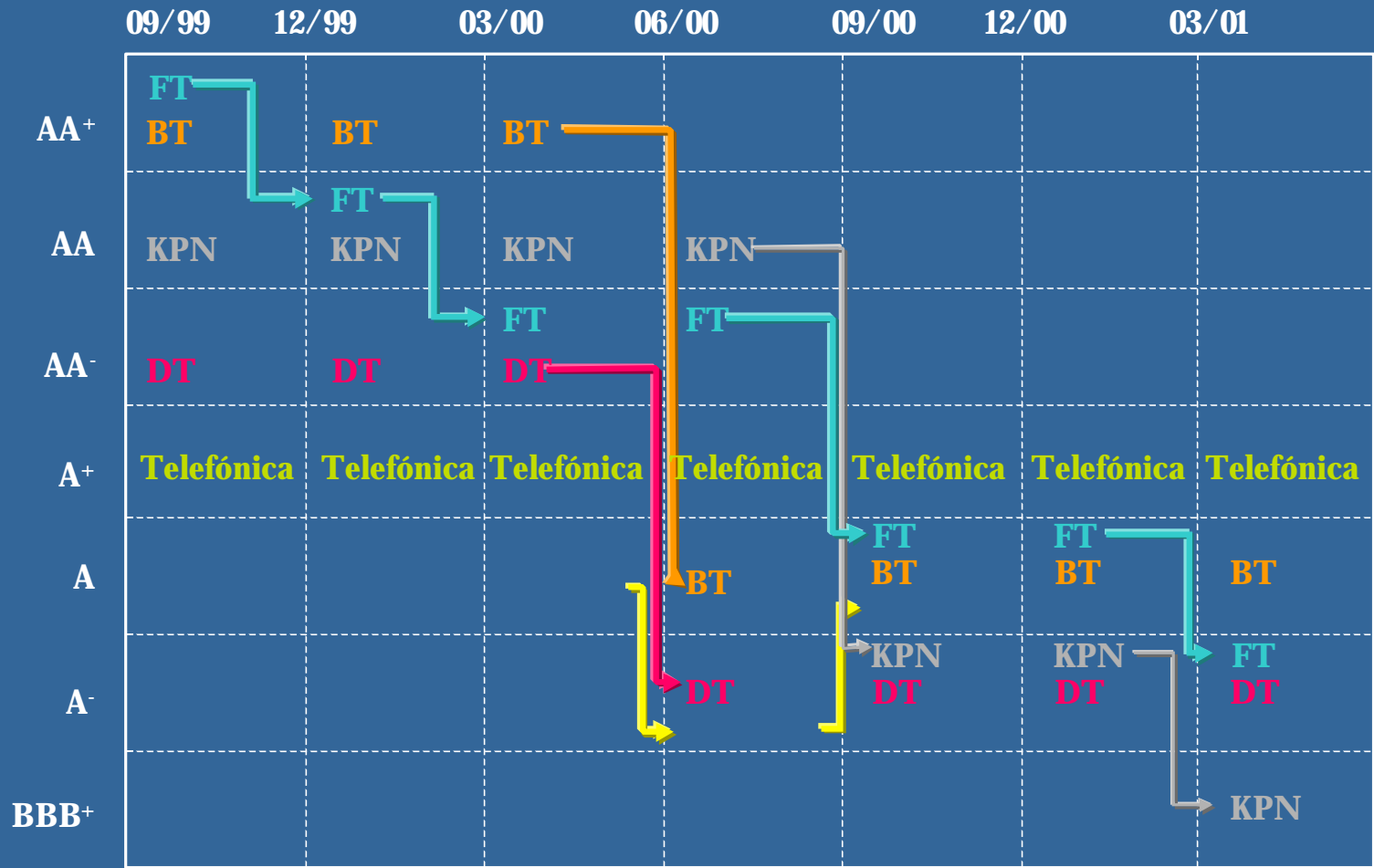
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A SOLID FINANCIAL POSITION

Evolution of ratings (S&P)



Pursue an upgrade in rating from current levels of A+

WE ARE ABLE TO ADDRESS SIMULTANEOUSLY PROFITABILITY AND GROWTH

 **Strong earnings stream more than covers funding required for organic growth**

 **Strong financial position gives us flexibility to capture new growth opportunities**



Telefónica is a value growth company

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UMTS IN GERMANY

We are working hard to deliver

**To date, we
have not
earned
investors'
credibility**

- 1.**
 - We are emphasizing the commercial front: negotiating with potential partners, exploring options
- 2.**
 - Negotiating shared infrastructure arrangements and roaming and interconnection agreements
- 3.**
 - CEO and management team appointed. Remaining ramp-up process on track

- **We remain confident that there is an opportunity for value creation in Germany, the market with the largest growth potential in Europe**
- **We commit to update you on our progress**

OUR REGULATORY APPROACH

- **First objective: maintain open communication and active dialog with regulators in every country where we operate**
- **Spain:**
 - **Wireline:** last building blocks of regulatory model settled (unbundling of local loop and price cap) and tariff
 - **Wireless:** likely review of unsustainable spectrum fee in light of
- **Brazil: accelerated compliance with ANATEL objectives as a mean to capture other growth opportunities**
- **Argentina and Chile: We have weathered major regulatory crises. We learned the lessons and we are committed at the highest level to manage situation (ULL, number portability)**

ACQUISITIONS AND VENTURES

Selective

Complementing our competitive

**JV
Telecom in Brazilian**

Accretive

Increasing EBITDA

Motorola's wireless

Consolidation at

No to "merger of equals"

**Will not turn our backs
to opportunities to**

Business Line level

Receptive, if strategically

complementary assets

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MANAGEMENT PRIORITIES

“Achieve sustained superior earnings growth”

1 Continue improving results in consolidated businesses

2 Continue expansion in Latin

3 Drive developing businesses towards profitability leveraging

4 Continue business building



Capture inter-business and Group

IN SUM, TELEFONICA IS A VALUE GROWTH

- **Unmatched fundamentals**
- **Strong financial position**
- **Recognition of open issues**
- **A clear plan forward**



Continued superior earnings growth

Telefónica
