Telefónica

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Euro Bond Offering

October 2001

Safe Harbour

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Telefónica

TELEFONICA: A DIVERSIFIED GLOBAL PLAYER

Telefónica

- # 10 Teleco worldwide by market cap (# 15 in Dec 99)
- # 2 among European incumbents (up from # 5 in Dec 99)

Telefónica Wireline in Spain | Telefónica Wireline in Latam | Telefónica Móviles | Telefónica Data | terra lycos | Telefónica Media | TPI | Others

		June 2001	% Growth vs. June 2000
LINES IN SERVICE	(in thousands)	44,177.4	10.1%
CELLULAR CLIENTS	(in thousands)	28,520.7	37.0%
OPERATING REVENUES	(mill. euros)	15,302.7	15.2%
EBITDA	(mill. euros)	6,356.6	9.2%

RANKING

FIXED: #1 Spain, Argentina, Perú, Chile, Sao Paulo

CELLULAR: #8 worldwide

TELEFONICA'S PROJECT IN THE NEW INDUSTRY CONTEXT

Strengthen our relative position in the short term: focus on earnings

- Operational efficiency
- Capital efficiency
- Transformation towards client
- Organizational alignment/horizontal integration for synergies

+

Evolve and reposition business platforms: building our future

- Natural strategic development of core businesses
- Strategic reposition of start-up businesses for the new context

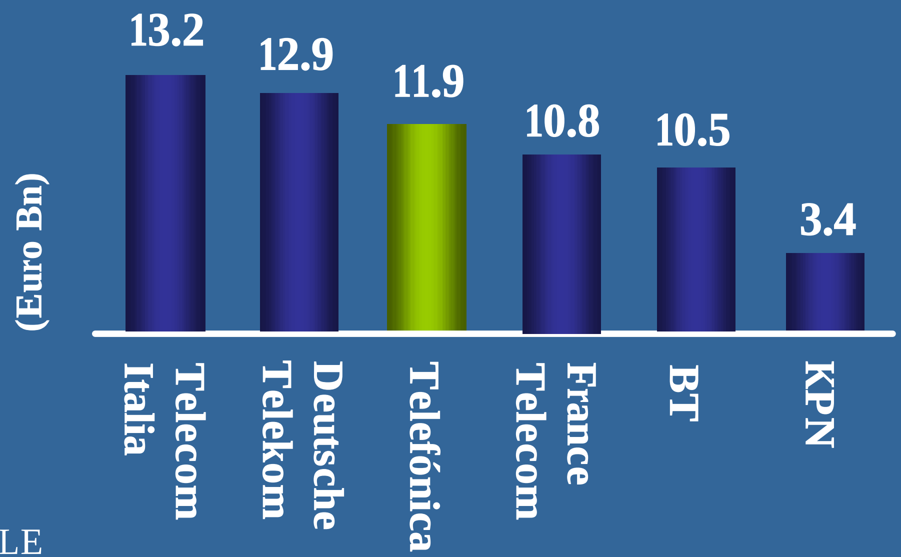
+

Leverage our strong position in the sector restructuring

- Consolidation in Lines of Business where scale is critical
- Accretive acquisitions with strategic fit

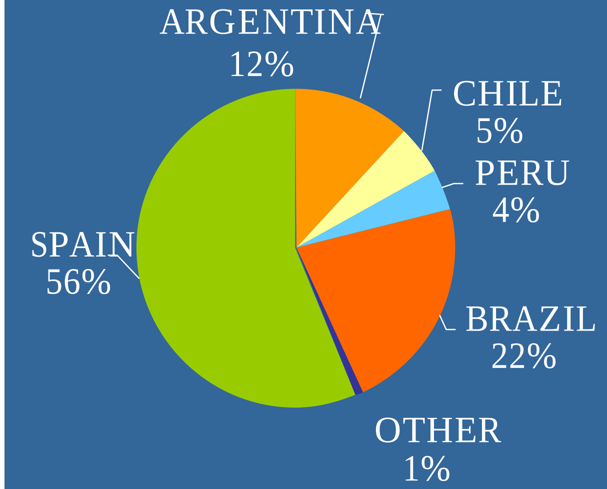
TELEFÓ NICA RANKS 3RD IN EBITDA TERMS AMONG EUROPEAN OPERATORS WITH DIVERSIFIED EBITDA

2000 EBITDA

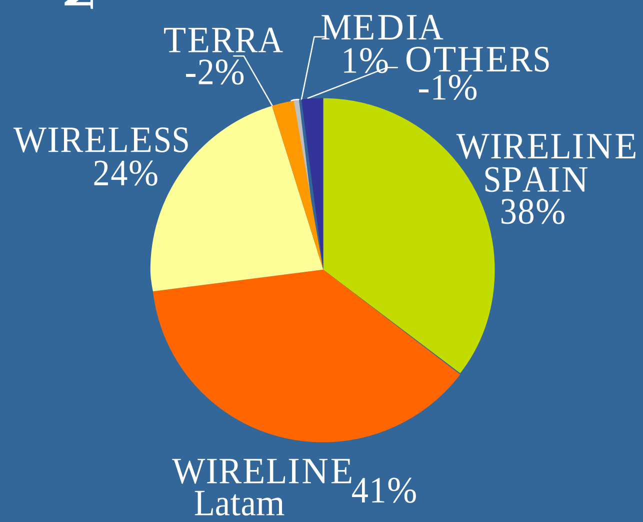


Adjusted EBITDA as of company reports

EBITDA by Geography 1H01



EBITDA by Business 1H01



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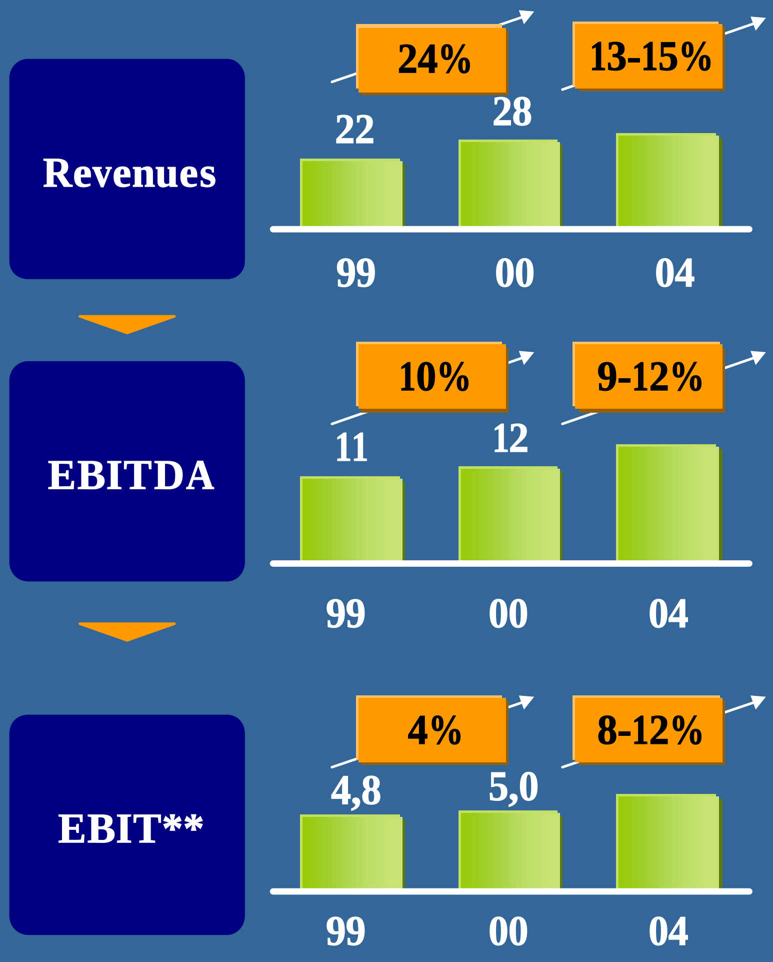
EBITDA GROWTH ABOVE 9% AND REVENUES UP 15% IN 1H01

	REVENUES 2001	REVENUES % growth	EBITDA 2001	EBITDA % growth
Tel. España	5,159	2.2	2,440	4.2
Tel. Móviles	3,933	14.2	1,551	32.4
Latam	5,178	6.8	2,579	2.6
Internet	356	342.2	-141	8.1
Media	683	464.2	69	----
Group	**15,303**	**15.2**	**6,356**	**9.2**

- **Revenues growth is driven by wireless unit, Latam Fixed line, Internet and Media business.**
  - **Latam and Spanish Fixed Line remains as the major contributors to revenues.**
- **Solid performance of Spanish Businesses (48% of revenues and 56% of EBITDA)**

ASSURING GROWTH AND QUALITY OF THE P&L (*):



- Increasing growth in traditional business through new services and products
- Increasing positive performance of start-up businesses

- Efficiency
- Cost control policy
- Materializing synergies

- Asset turnover
- Reducing CAPEX
- Reducing invested capital

* Data in millions of Euro., considering constant currency
** Excluding amortization of goodwill

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WIRELINE STRATEGY DELIVERING RESULTS IN SPAIN

1.- Fight the direct access battle through ADSL

2.- Lead the Internet Growth

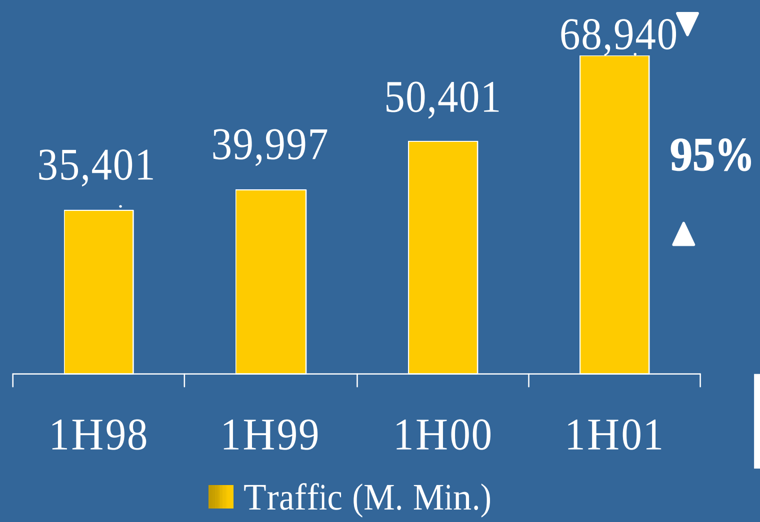
3.- Defend voice traffic market share

	1H01	%vs. 1H00
Total traffic (mill. min)	68,940	+38.2%
Lines in Service	20.6	+4.1%
Lines/Employee	502.8	+15.9%
Operating expenses before interconnection	1,903.8	-7.6%
EBITDA (mill. Eur)	2,440	+4.2%

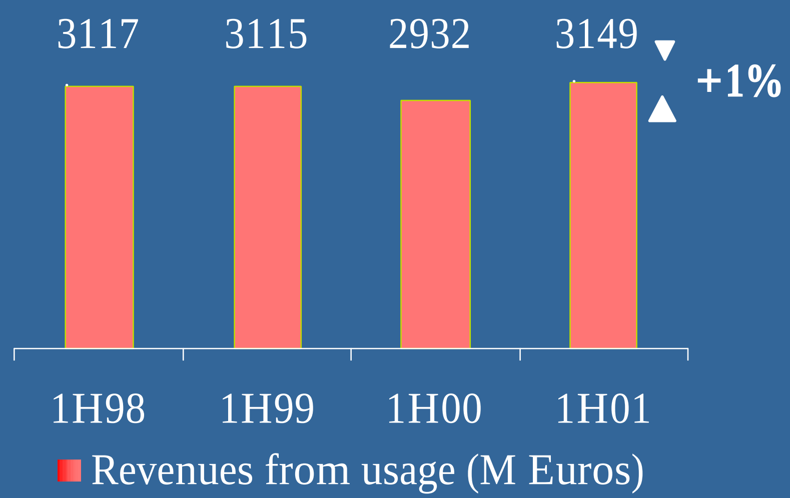
Managing Price Policies
New services to promote traffic
Marketing win-back campaigns

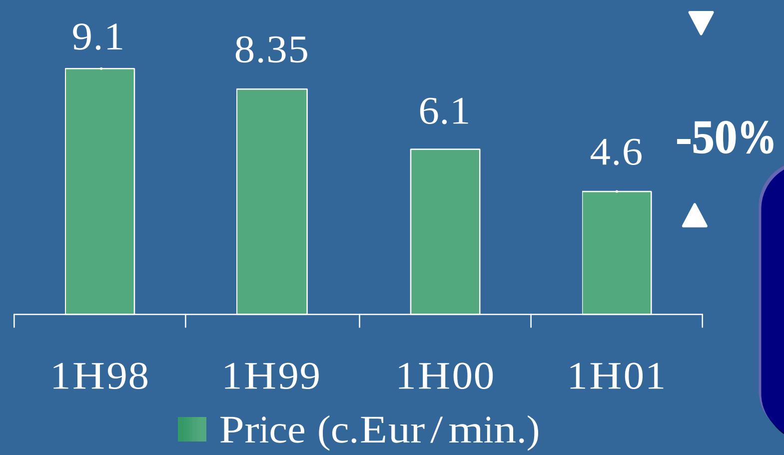
Improving regulatory framework
Increase in monthly fee
2003 Price cap: CPI - 4%
Commercial flexibility

SPANISH WIRELINE: KEEPING STABILITY THROUGH GROWTH AND EFFICIENCY



Cumulative Traffic Growth





Cumulative Price Decline

Cumulative Revenue Growth

LATAM WIRELINE PERFORMANCE ON TRACK DESPITE REGIONAL TURMOIL

Lines in Service: 20.9million

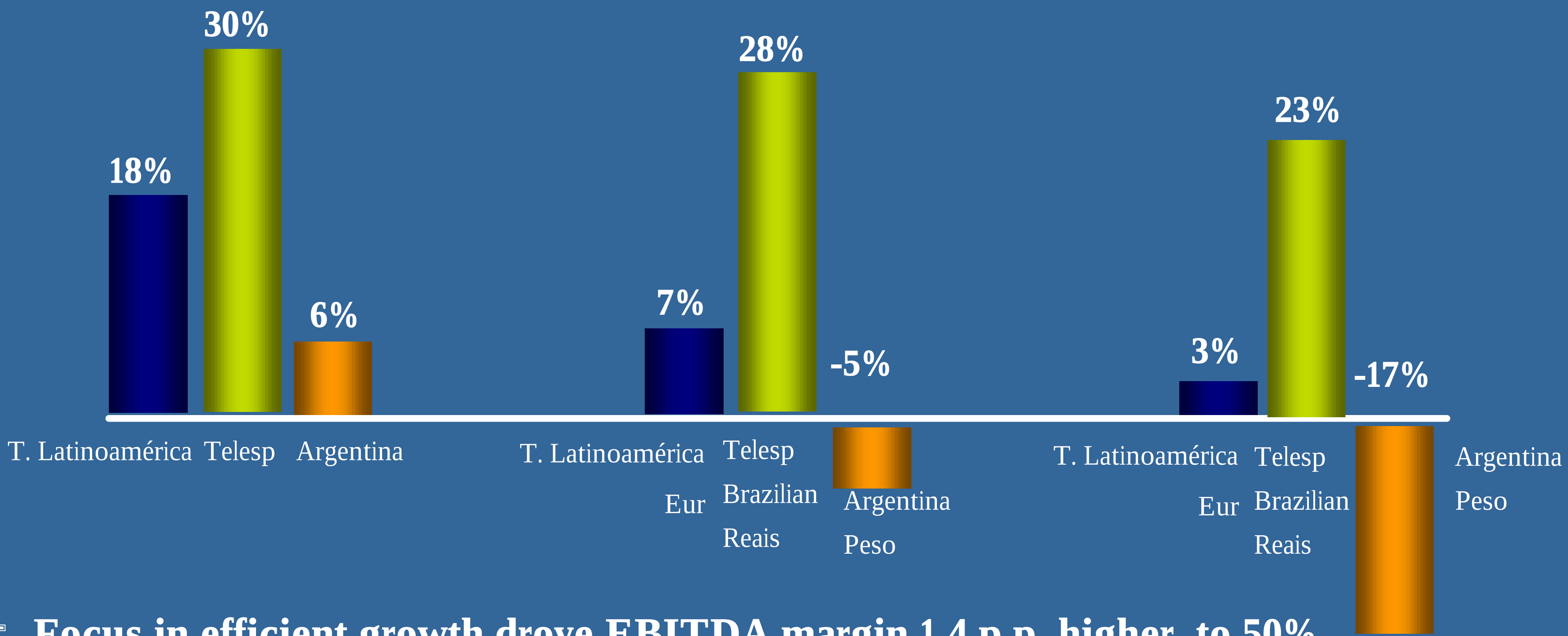
% 1H01/1H00

Operating Revenues
5.20 bn Eur

% 1H01/1H00

EBITDA 1H01
2.58 bn Eur

%1H01/1H00



- **Focus in efficient growth drove EBITDA margin 1.4 p.p. higher, to 50%.**
- **Diversification plays an important role: Business growth in Brazil and USD strength have offset Argentina weakness and Brazilian Real depreciation.**

OPENING NEW GROWTH OPPORTUNITIES: BRAZIL 2002

BUSINESS OPPORTUNITIES	COMPETITIVE POSITION
Creation of a leading Long Distance Carrier	12 Million LIS Sao Paulo: 40% of DLD+ILD Telesp: >80% Intra-State mkt. share
Developing data & VAS businesses to corporations	Sao Paulo: 80% of top 250 corporations 90% of those serviced by Telesp Itaú national data network acquired (4,000 POPs)
Complete Brazilian broadband network	Capacity swaps through Emergia Group bandwith needs

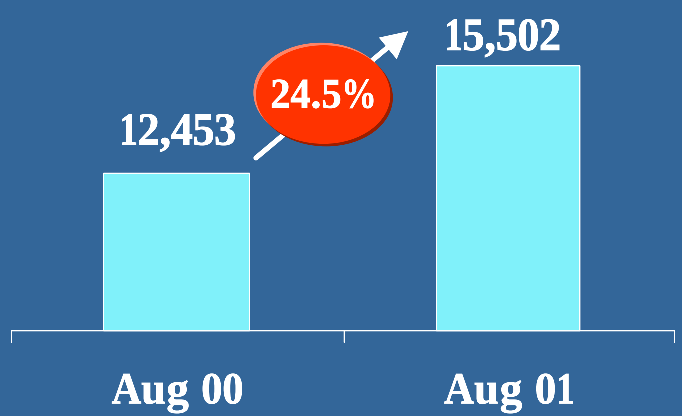
- Tap a 10 Bn. Euros market
- Leverage Group position

- Marginal CAPEX
- EBITDA>0 from year one

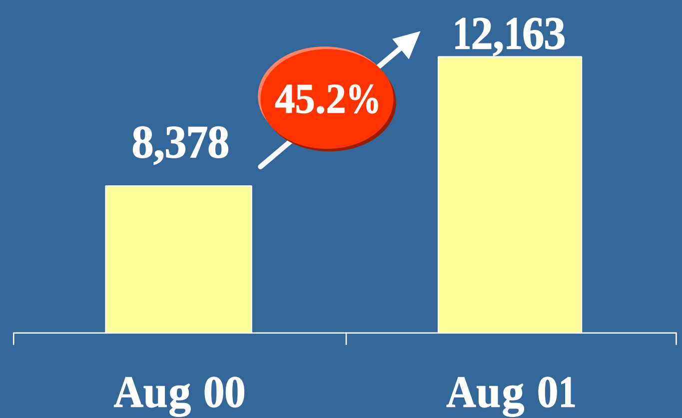
WIRELESS: SIGNIFICANT SIZE, ONGOING GROWTH AND INCREASING MARGIN

TEM ranks #8 worldwide by equity customers

TEM Spain customers ('000)



TEM Latam & Morocco customers ('000)



	1H01	%(1H01/1H00)
Operating Revenues	3,933.9	14.2%
EBITDA	1,551.6	32.4%
EBITDA Margin	39.4%	+ 5.4 p.p.

Combined proforma consolidates unaudited figures

EXCELLENT OPERATIONAL PERFORMANCE IN SPAIN TRANSFORMED INTO PROFITS

Customer Growth and Loyalty

- 15.5 million customers as of August 01 (+24.5%)
- Net adds market share: 53.4% in 2Q01 (49.2% one year ago)
- Market share: 55.8% (57.5% one year ago)
- Blended churn rate: 44% decrease y-o-y

+

Lower ARPU Reduction

- Minutes of usage: -2.5% vs. 2H00
- ARPU: -13% vs. 1H00; -6% vs. 2H00; -2% 2Q01/1Q01

+

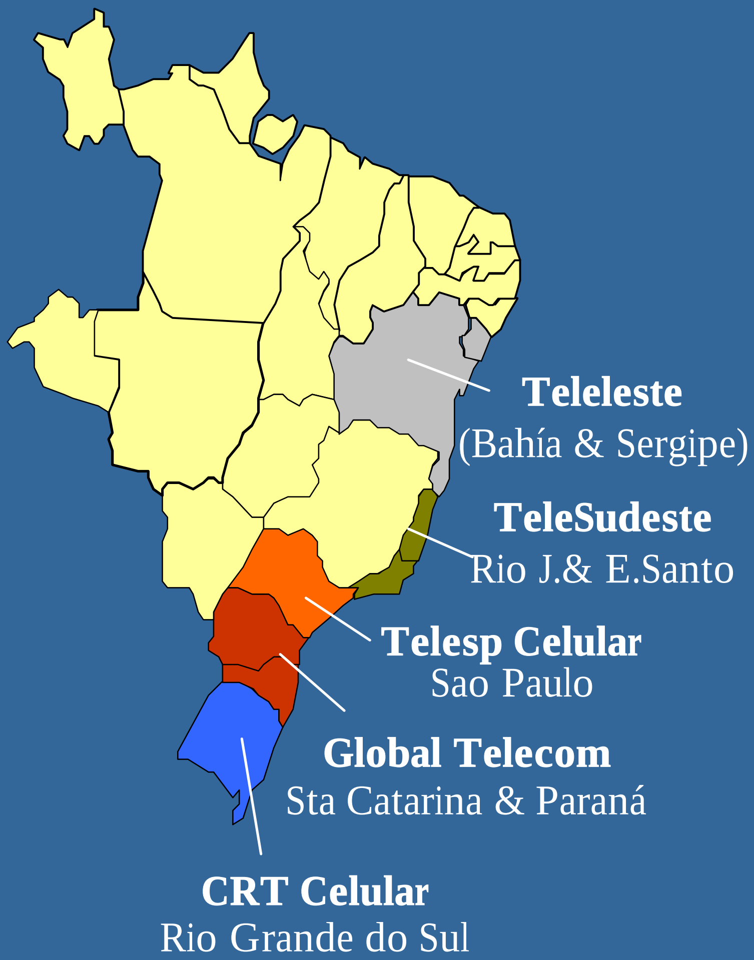
Lower customer related costs

- 33%y-o-y decrease in suscriber Acquisition and retention cost

% GROWTH 1H01/1H00

Revenues +20%	EBITDA margin +10pp (46%)	EBITDA +53% (1.24 bn Eur)

OPENING NEW GROWTH OPPORTUNITIES: JV WITH PT



- **10.3 MM controlled customers as of 06/30/01**
- **Potential market over 95 MM POPs (56% of Brazil)**
- **60% market share in areas of operation**
- **Leadership in 5 of the 6 richest areas in Brazil (71% of GDP)**
- **Unique cellular player operating in Sao Paulo and Rio de Janeiro**
- **2000 aggregated revenues: 3 Bn $US**
- **2000 aggregated EBITDA: 890 MM $US**

UMTS IN GERMANY
GROUP 3G

Quam

NPV

NPV

Reduced CAPEX
Clients in 4Q01
Lower EBITDA losses
Lower peak funding needs

Today

August-00

2010

What may happen?

Unlock optionality
Spectrum tradable
Less than 6 operators

? ? ? NPV

What are we doing?

Network sharing with a 3rd party
Launch GPRS in 4Q01
Vendor financing

? ? NPV

What have we done?

Network sharing with E-plus
Roaming (E-plus) and interconnection (DT) agreements
More conservative business plan

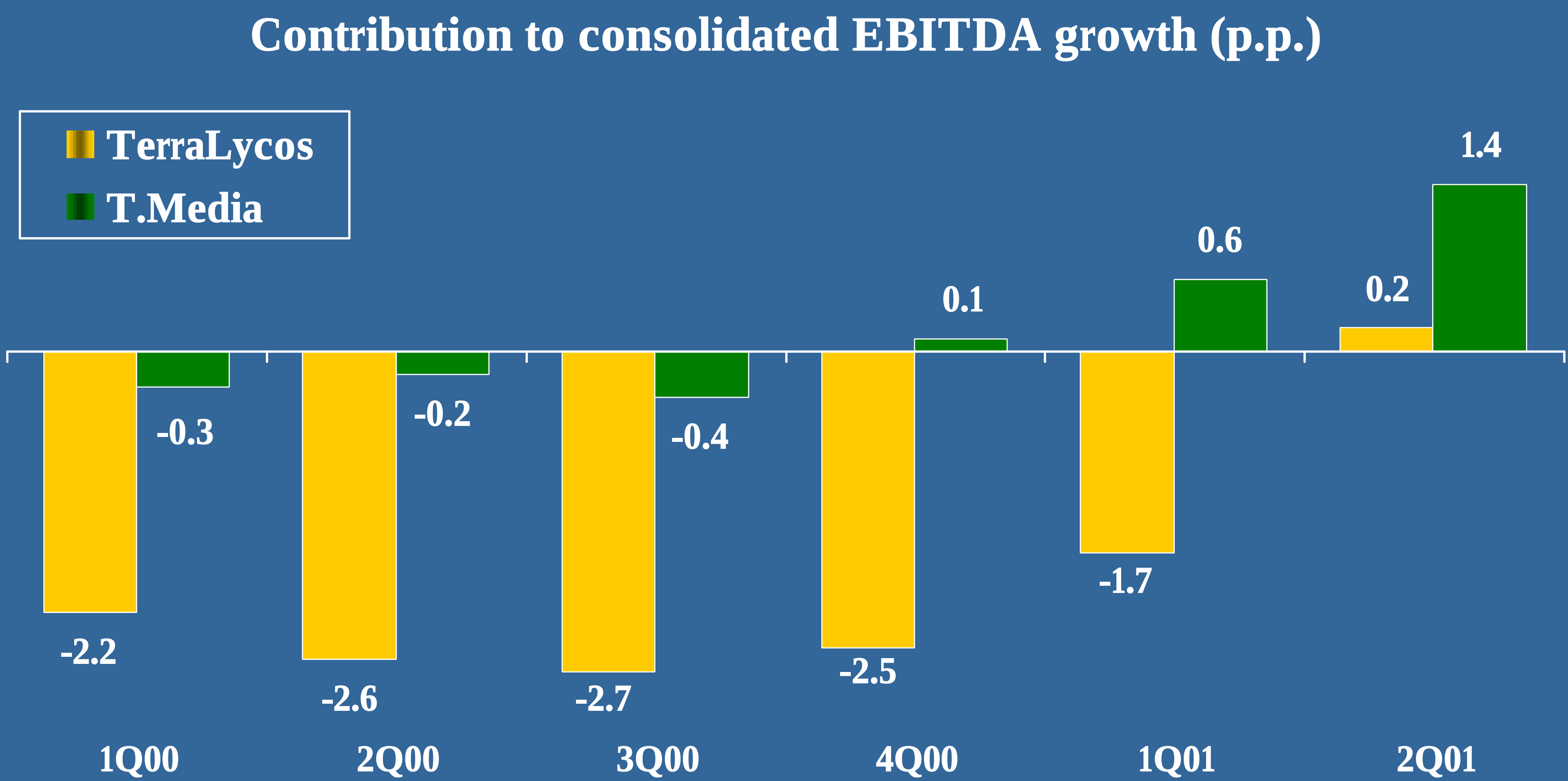
? NPV

What has changed?

UMTS delay, less data usage growth
German cellular market status

perceived initial NPV

START-UP BUSINESSES



- Acquisitions and improved management practices have enabled Terra Lycos and T. Media to positively contribute to consolidated EBITDA growth

BENEFITING FROM AN INTEGRATED STRUCTURE

- Achieve functional articulation and horizontal synergies
  - Purchasing
  - IT
  - Efficiency on shared services centers: expected NPV of 960 million Euros
  - Talent
  - Efficiency in logistics: personnel, warehouses and inventories
- Assist to and demand strong performance manage across business, and shape the development of the group

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GROWTH UNDER A SOUND FINANCIAL FRAMEWORK

- **Strict monitoring of capital allocation**
- **EBITDA stability supported by diversification**
- **Net income and cash-flow protected through:**
  - Natural business hedges
  - Liability management
- **Equity funding and zero dividend policy**
- **Prudent debt profile**

Keeping our credit quality key in order to have strategic flexibility

FINANCIAL PROFILE

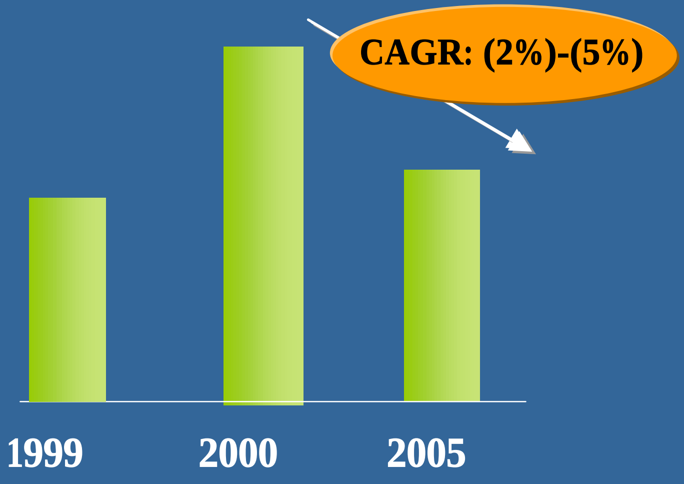
Key Financial (mills Euros)	1H01	2000	1999
Revenues	15,303	28,486	22,957
EBITDA	6,357	11,919	10,885
EBIT	2,391	4,458	4,582
Net Interest	927	1,860	1,429
Net Income	1,149	2,505	1,805
Net Debt	31,244	26,951	20,472
Market Cap	58,960	76,203	80,915
Capex	3,767	8,940	7,186
EBITDA/Net Interest	6.9	6.4	7.6
Net Debt/EBITDA	2.5(1)	2.3	1.9

- **Improving EBITDA coverage.**
- **USD debt revaluation due to USD strength is responsible for 2.2 bn Eur increase in net debt, and the deterioration in Net Debt/EBITDA.**

(1) 1H EBITDA multiplied by 2

PROACTIVE MANAGEMENT OF INVESTED CAPITAL

REDUCING CAPEX



TESA: <20% of revenues. Temporary increase due to ADSL

T. Móviles: Lower than expected due to network sharing

T. Latam: Peak in 2001. Substantial cut onwards

Target: 16% of revenues in 2005

TELEFONICA IS ABLE TO MANAGE LATAM COSTS THROUGH DOWNTURNS

WIRELINE

Capex reduction in Brazil, Chile, Peru and Argentina

- Discretionary cuts
- Most of the capex linked to local currency

Workforce adjustments

WIRELESS

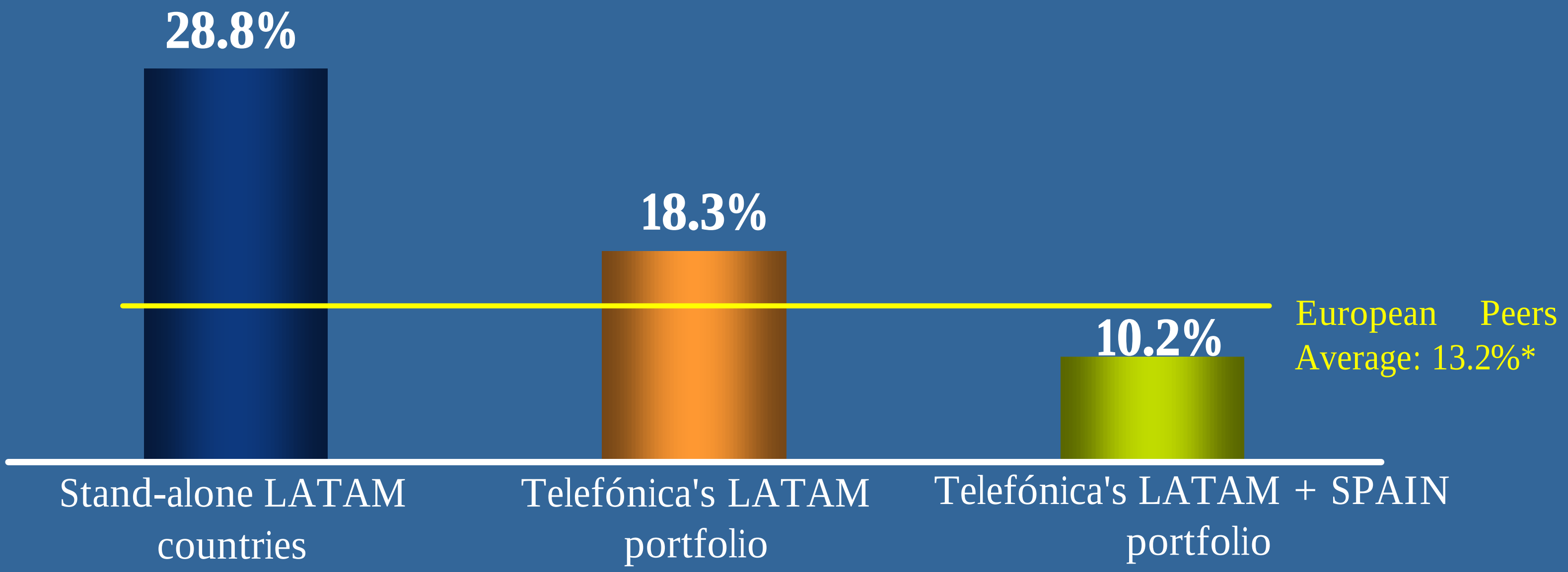
Flexible cost structure: 50% variable

- Subscriber acquisition costs
- Linked to revenues (interconnection, roaming)

Capex adapted to demand

DIVERSIFIED EBITDA PROVIDES WITH STABILITY

US$ EBITDA Average Standard Deviation 1990-2000



* Average standard deviation of BT, DT, FT, KPN and Telecom Italia 1995-2000 EBITDA

LATIN AMERICA: PROVEN EXPERTISE

TeleSP (acquisition in Aug´ 98)
3 year management

	As of take over	As of 06/30/01	% Change
LIS (000)	6,407	12,006	87%
Lines per employee	338	979	190%
Avg. Waiting time (months)	105	2	-98%
EBITDA ($US MM)	2,046	2,213 (1)	8%
EBITDA margin (2)	58%	64%	6 p.p.

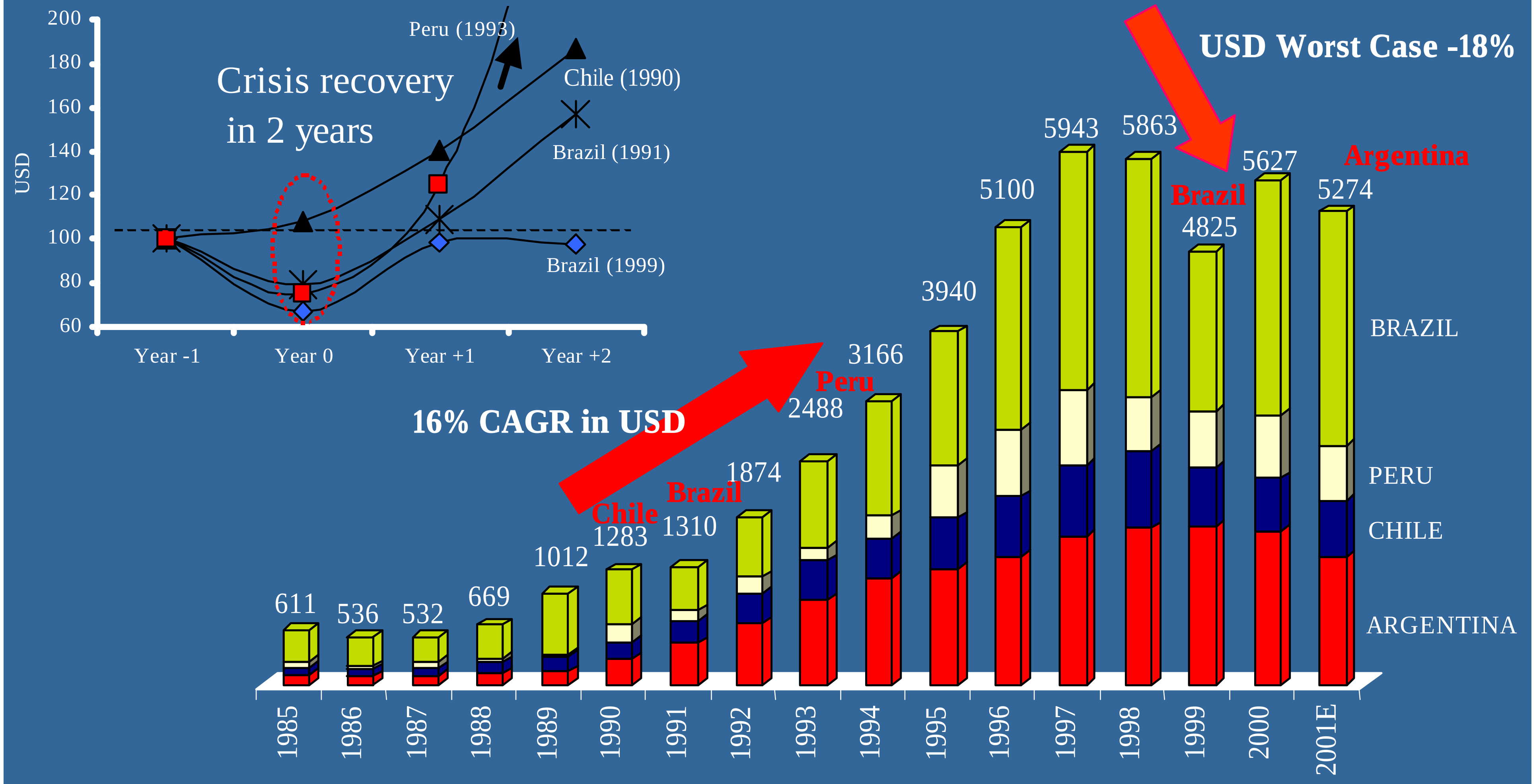
TASA (acquisition in Nov´ 90)
11 year management

	As of take over	As of 06/30/01	% Change
LIS (000)	1,696	4,450	162%
Lines per employee	78	504	546%
Avg. Waiting time (months)	49	0.3	n.m.
EBITDA ($US MM)	637	1,864 (1)	193%
EBITDA margin	38%	53%	15 p.p.

(1)Latest FY.
(2)Net of interconnection

SKILLED TEAMS WITH UNIQUE TRACK RECORD ON TAKE OVERS

LATAM WORST YEAR EQUIVALENT TO LOSING 1 YEAR OF AVERAGE GROWTH



Proxy for EBITDA in million USD from main LatAm subsidiaries
2001E: 1H01 multiplied by 2

EQUITY FUNDING: KEY FOR EXPANSION, BUT DIFFICULT NOW

2000&2001 Equity issues	Bn Eur
Latam tender offers	21
Endemol	5
New equity	
Mobile IPO	3.3
TPI 3% sale	0.1
Motorola Assets	2
Total Equity	31.4

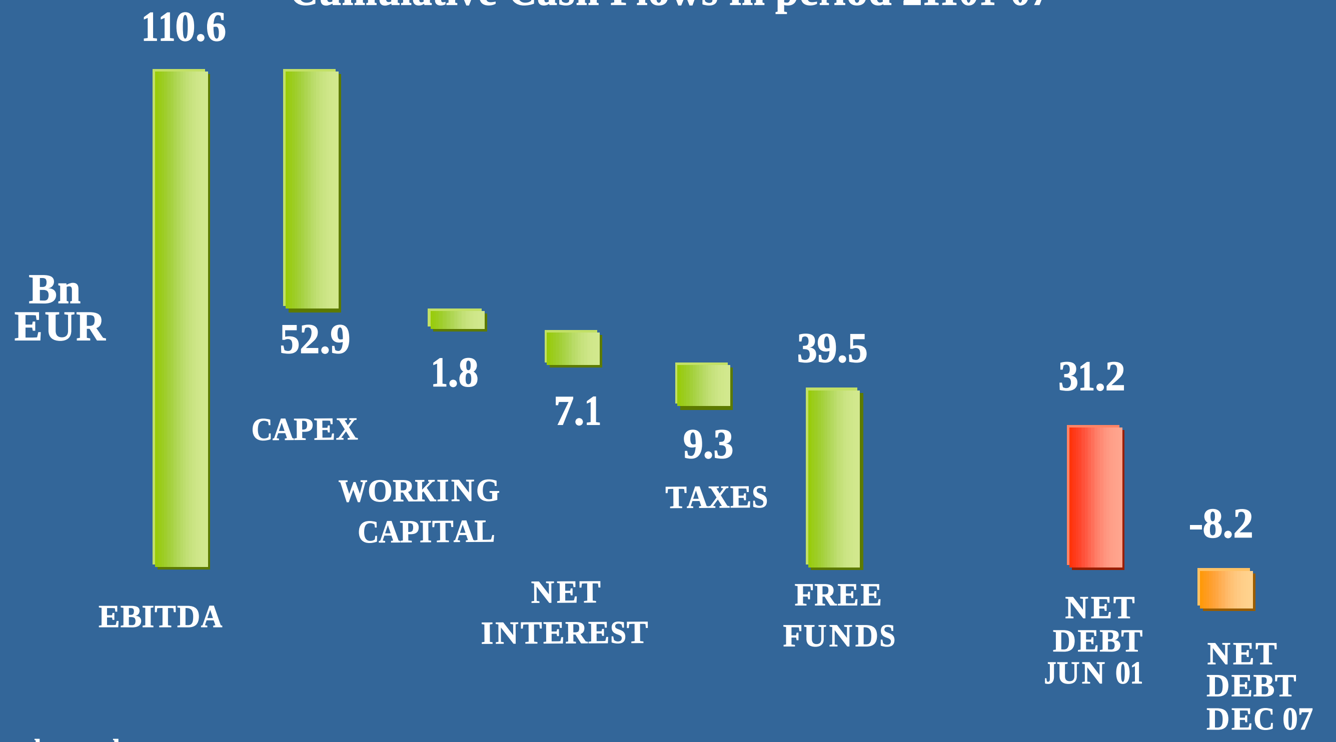
- New equity: 82% of attributable UMTS licenses costs
- Latam Tender Offers: EPS accretive by 29.7% (*)

(*) Before extraordinary income; after extraordinary income EPS accretive by 15.3%

TELEFÓNICA COULD PAY OFF ITS DEBT IN LESS THAN 6 YEARS

- **Cash flow generation capacity would allow fully debt repayment before current average maturity (5.9 years).**

Cumulative Cash Flows in period 2H01-07

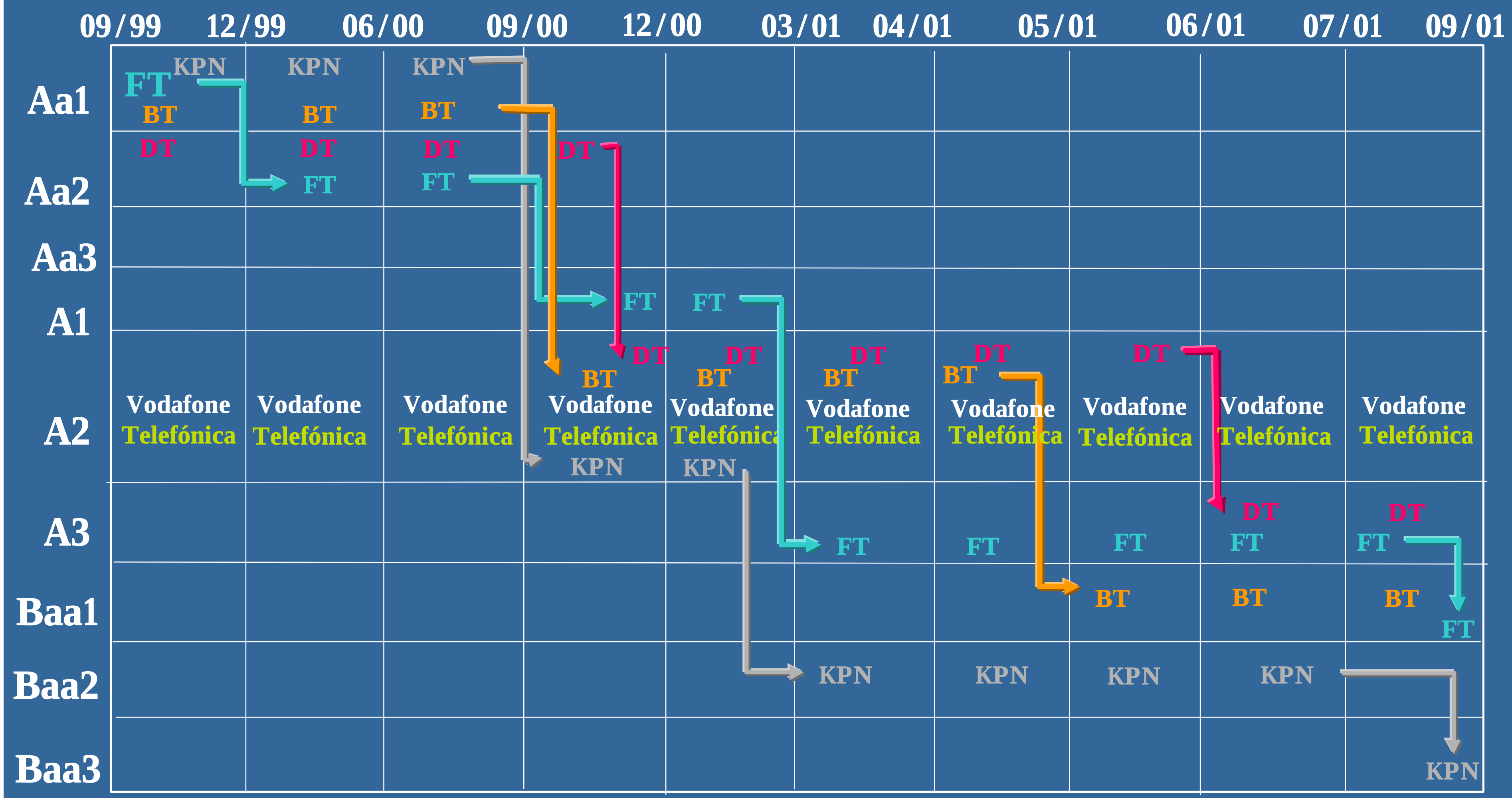


Assumptions:

- EBITDA: 9%annual growth
- Capex: Average of analysts forecasts *(recent reports by Lehman Brothers, Merril Lynch, Credit Suisse and BSCH)*
- Working capital requirements: 20% of EBITDA increase,effective tax rate of 30%, and average debt cost estimated from current market interest and FX rates
- Net debt as of Dec 07 would be around 0.9 bn EUR higher if assumption about average debt cost increases by 100 bp.

RATING STABILITY

Evolution of ratings (Moody's)



3.- FINANCIAL PROFILE

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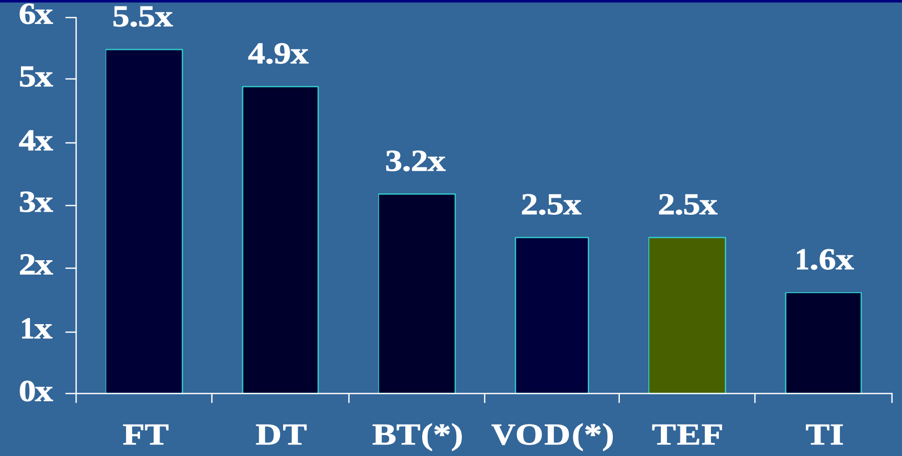
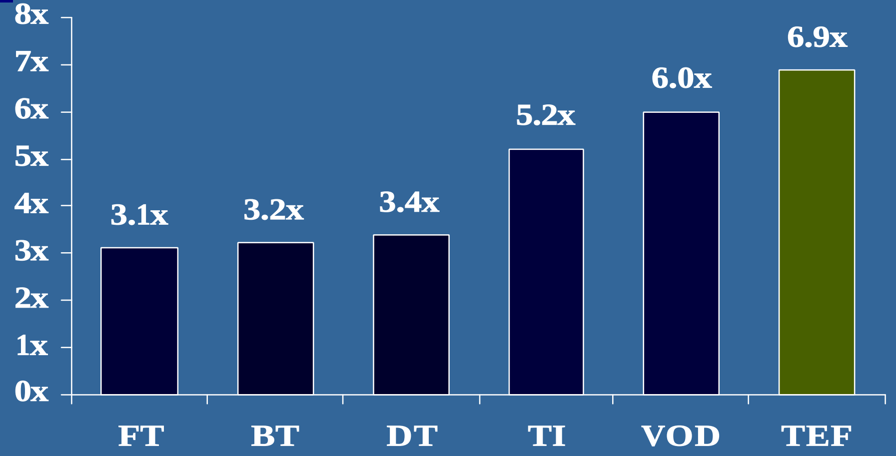
PEER COMPARISON HIGHLIGHTS TELEFÓNICA'S CREDIT QUALITY

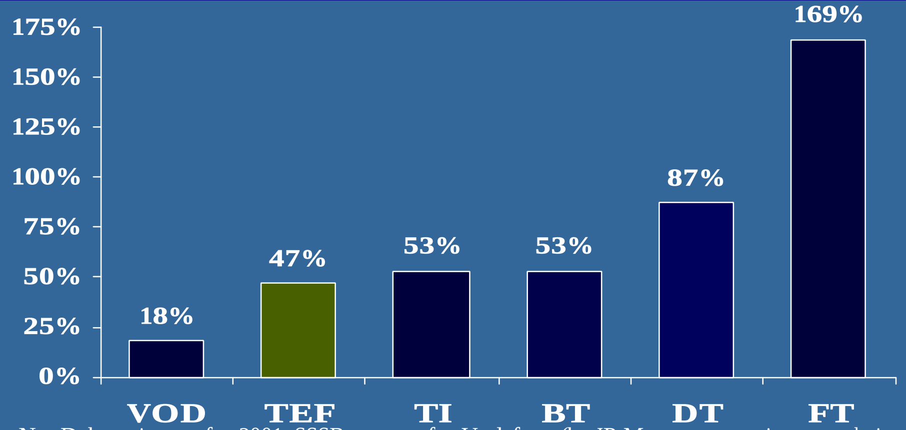
Net Debt 01 / EBITDA 01



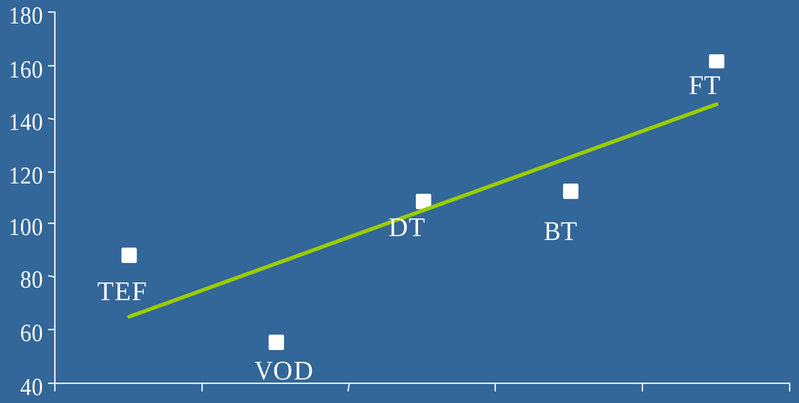
EBITDA 01 / Net Interest Expense



Net Debt / Market capitalization



Spread Increase vs. Net Debt/EBITDA Change 99-01



Net Debt estimates for 2001: SSSB, except for Vodafone (by JP Morgan, assuming completion of the Japan Telecom transaction). For BT, the proceeds from real estate sale have been added on top of SSSB Net Debt estimate.

EBITDA estimates for 2001: SSSB

Telefónica estimates: EBITDA and Net Interest Expense annualized 1H2001 results; Net Debt as of 30-Jun-01

Market Capitalisation: Source: Bloomberg, as of 25-Sept-01

Spread Increase: Source: Bloomberg

WHAT WE SAID IN 2000 ROADSHOW....	WHAT WE DID...
Wireless business IPO for funding licenses	3 bn Eur raise in the first wireless IPO in Europe (out of two)
Funding with equity major acquisitions Looking for wireless opportunities in Mexico	1.8 bn Eur right issue for Mexican wireless companies
Partnerships for growing with controlled risk	Joint Venture with PT for mobile business in Brazil
Vendor Financing for UMTS	Network sharing for reducing capex Negotiating with vendors
Global Bond for reducing refinancing risk	1 year out of the F. I. market
Sound financial policy and strong balance sheet	Credit rating unchanged

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THE OFFERING

Issuer	Telefónica Europe, BV fully guaranteed by Telefónica, S.A.
Amount	2 billion Euros
Offering Type	EMTN documentation
Tranches	3 and 5 years
Currency	Euros
Rating	A2 (stable) Moody´s / A+ (Negative outlook) S&P / A+ Fitch-IBCA
Listing	London
Joint Lead Managers	BBVA, BNP Paribas, Invercaixa, JP Morgan, Schroder Salomon Smith Barney
Use of Proceeds	General Corporate purposes: Reduction in refinancing risks

NO NEED TO TAP BOND MARKETS IN 2002 FOR REFINANCING MATURITIES

Total maturities: EUR 6,774 mln (*)

CP — EUR 1,478 mln

Bonds — EUR 720 mln

Bank Lines — EUR 4,576 mln

EUR 1,478 mln — **CP Renewal + Committed Back-up Lines**

EUR 2,000 mln — **Bond Issue**

EUR 3,296 mln — **FCF Generation or Bank Lines Renewal, if required**

FCF 2002E (**) — EUR 2,536 mln (77% of needs)

(*) Tranche A of Aug-00 Syndicated Loan maturing in Aug-02 could be refinanced with Tranche B maturing in 2003

(**) Assuming 9% EBITDA growth, CAPEX, Working Capital requirements equal to 20% of EBITDA increase, 30% effective tax rate and Net Interest Expense equal to the annualized 1H2001 figure

ADDITIONAL FUNDING SOURCES

- *Asset disposals (excl. Real Estate)*
- *Real Estate*

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TELEFONICA'S SOLID POSITION

Sound financials

- Strong financial performance
- Lower debt levels and strong cash flow generation
- High credit quality

Solid fundamentals

- Large and growing customer base
- Strong operational performance and skills

Strong strategic position

- Balanced business portfolio
- Solid positions along the value chain
- Best placed for success in all scenarios

CONCLUSIONS

OUR STRENGTH

DEGREES OF FREEDOM

- The only telco with all options open
- Our future returns are not jeopardized by short term debt repayment
- Strong EBITDA diversification
- Strategic flexibility: currencies, horizontal organization, diversification

OUR COMMITMENT

FINANCIAL DISCIPLINE

- Monitoring additions to Invested Capital
- Capital allocation based on profitability
- Keep a balance between average Debt maturity and time to pay back debt with FCF

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