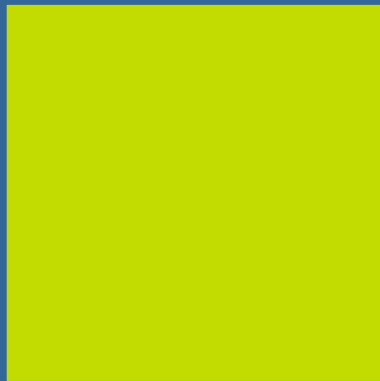
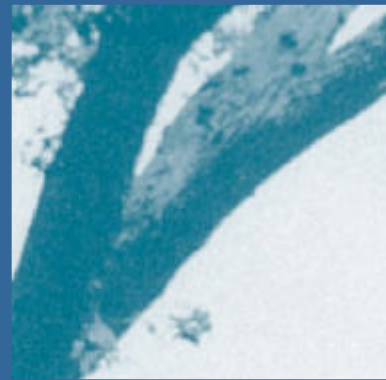


Fernando
Abril-Martorell
COO
Telefónica Group

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



Telefonica

A value growth company: Delivering results

Investors Conference
March 2001, Rio de Janeiro

Telefonica

WE ARE CONFIDENT THAT BY BUILDING ON OUR FUNDAMENTALS WE WILL DELIVER ON PROFITABILITY

- Profitability:**
- Strengthen focus on earnings
 - Strong emphasis on efficiency and execution

- Growth:**
- Multiple growth dimensions
 - Building business models that are profitable and

**AS A CONSEQUENCE, OUR COMPANY'S
VALUE WILL INCREASE**

DELIVERING RESULTS: PROFITABILITY AND GROWTH

We will capture opportunities based on our strong strategic position and fundamentals

We manage key performance metrics

Management priorities to

Our Group model enables delivery

OUR STRONG FUNDAMENTALS AND SOLID STRATEGIC POSITION PUT US IN A SUPERIOR SITUATION TO CAPTURE PROFITABILITY AND GROWTH

Strong fundamentals

Large client base
Strong operational skills
Unmatched intangibles
Balanced and flexible business structure



Strong strategic position along growth engines

Internet
Broadband
Mobility
Content



Telefónica is in a good position to simultaneously capture profitability and growth

Current market environment forces management more than ever to focus on key metrics and on delivery of results

DELIVERING RESULTS: PROFITABILITY AND GROWTH

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WE FOCUS ON KEY ASPECTS TO ENSURE PROFITABLE GROWTH...

CAGR

...in billions, in constant exchange rates. Current business perimeter

Focus on key aspects



- Manage customer profitability and market share
- Marketing effectiveness to enhance usage
- Cross-selling

Leverage client base

- Cost efficiency
- Operational leverage
- Quality

Operational excellence

- Asset turnover
- Capex allocation and control
- Reducing asset base

Focus on ROCE

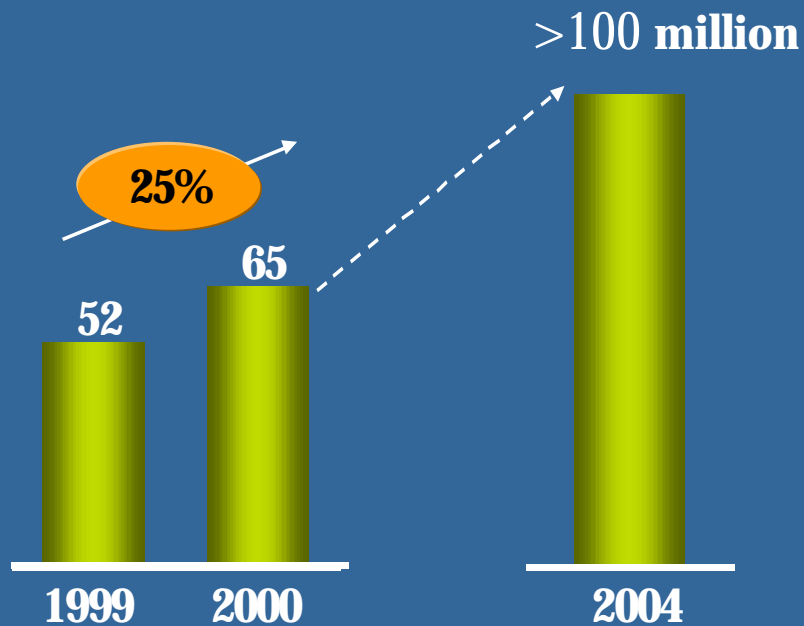
* Calculated exc. goodwill

WE FOCUS ON LEVERAGING OUR CLIENT BASE, ...

We have a growing client base...

...which we expect to expand...

...and leverage to extract its full potential



- Manage client profitability and market
- Accelerate marketing initiatives and
- Push cross-selling across the Group's

...ON RAISING OUR OPERATIONAL PERFORMANCE ...

This is already a clear strength ...but it is an on-going priority...

...and we will raise our performance by:



- Accelerate e-business implementation
- Tighten performance parameters
- Monitor improvements with further developed cost accounting tools

- Turn fixed costs into variable
- Externalize functions, transparency
- Outsourcing of non-core functions

- Monitor quality with customer centric perspective
- Reduce cost of non-quality

* Personal expenses (exc. Atento)/revenues
 ** Fixed cost/total cost (estimates)
 *** Residential + business satisfaction index in

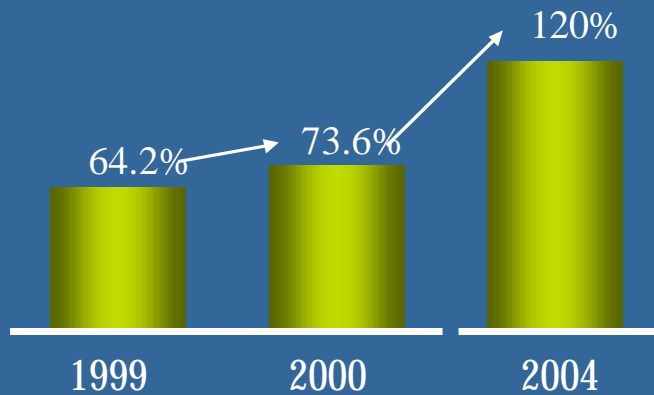
... AND ON IMPROVING OUR RETURN ON CAPITAL

We are successfully improving our capital expenditure...

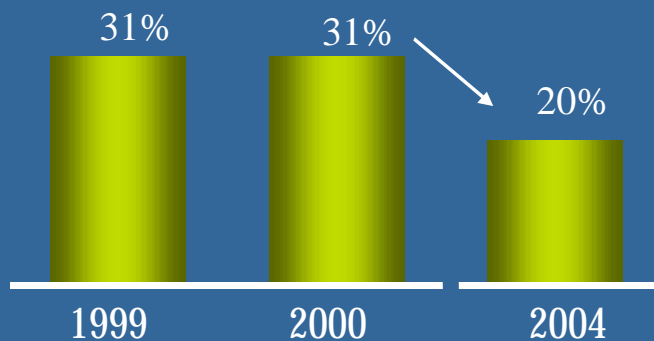
...but with growing uncertainty, the environment asks for improving EBIT...

...by being more selective

Net fixed asset turnover



Capex* / revenues



* Ex-UMTS

- Capex allocation and control
- Disposal of non-core assets (de-assetization)
- Seek opportunities for non-investing

DELIVERING RESULTS: PROFITABILITY AND GROWTH

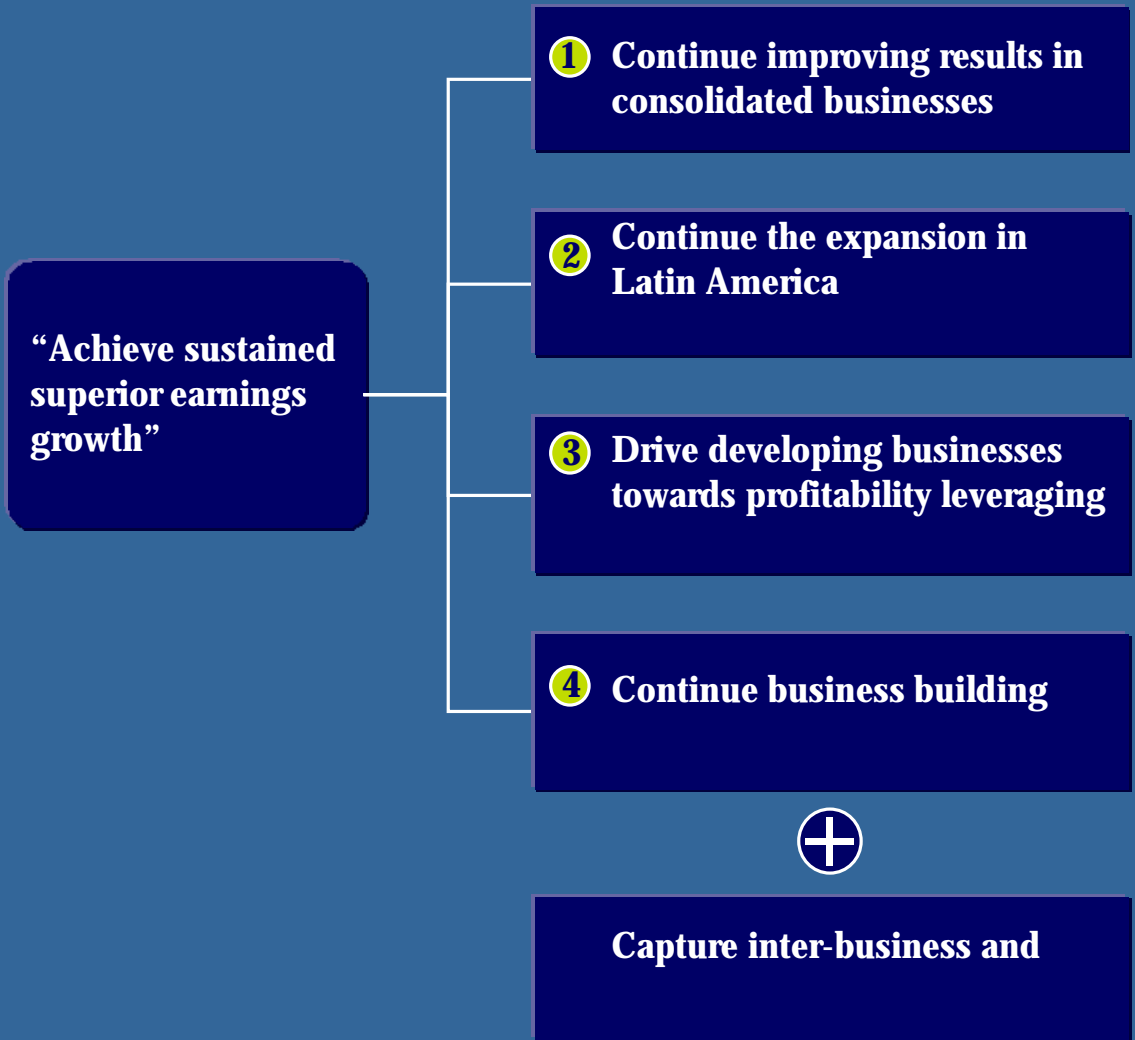
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We manage key performance metrics

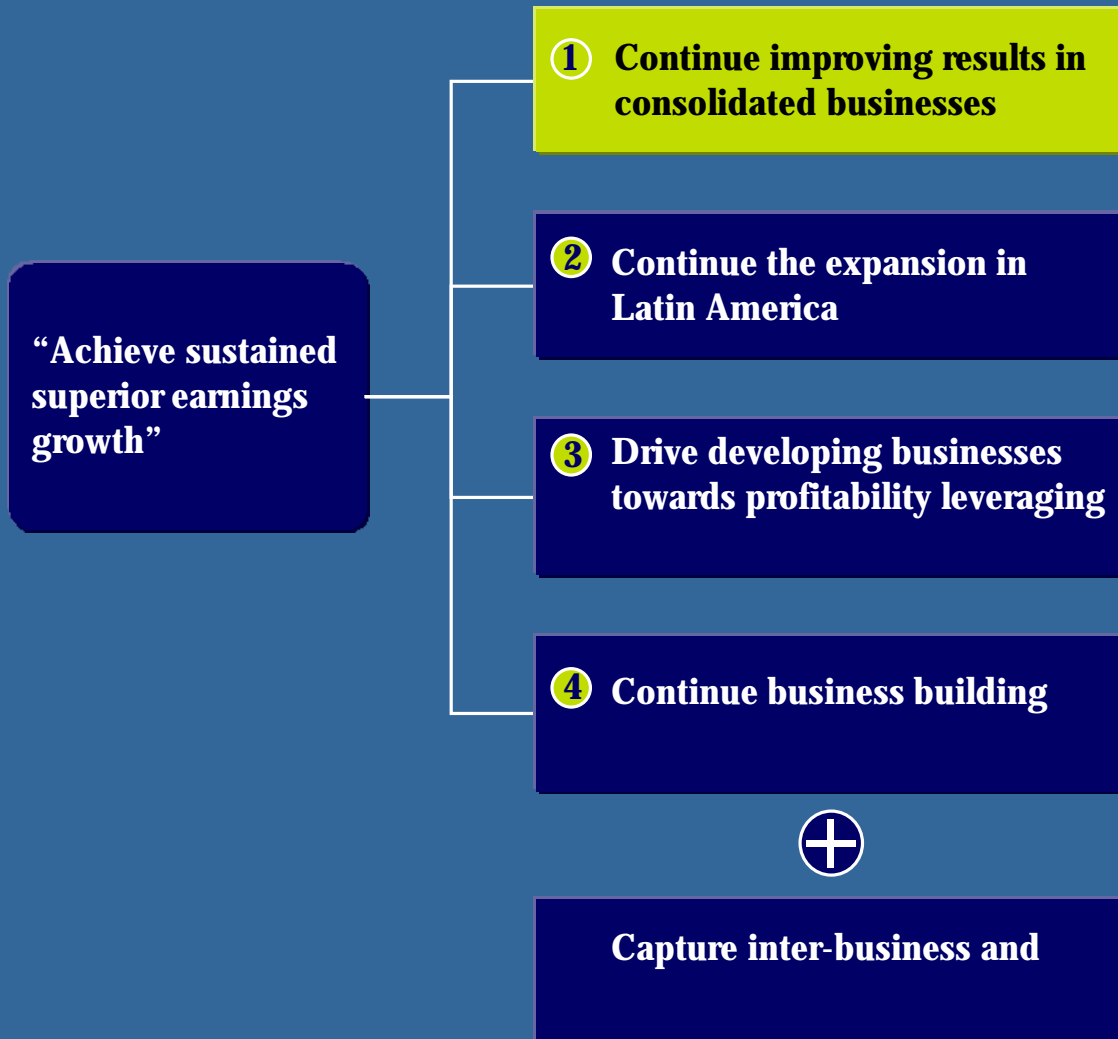
Management priorities to

Our Group model enables delivery

MANAGEMENT PRIORITIES



MANAGEMENT PRIORITIES




- Telefónica de España
- Telefónica Móviles España
- TeleSP and other Latam wireline operators

Leverage existing client bases and maximize cash generation short and long term: we cannot fail

TELEFONICA DE ESPAÑA

- **Winning the broadband battle**
 - **Push ADSL deployment**
 - **Deepen customer segmentation**
- **Continuing to increase efficiency**
 - **Transform into e-business**
 - **Control/manage capex intensity**
 - **Quality improvement**

- 
- **More cash-flow**
 - **More stable**
 - **More business opportunities for TdE and rest of the Group**

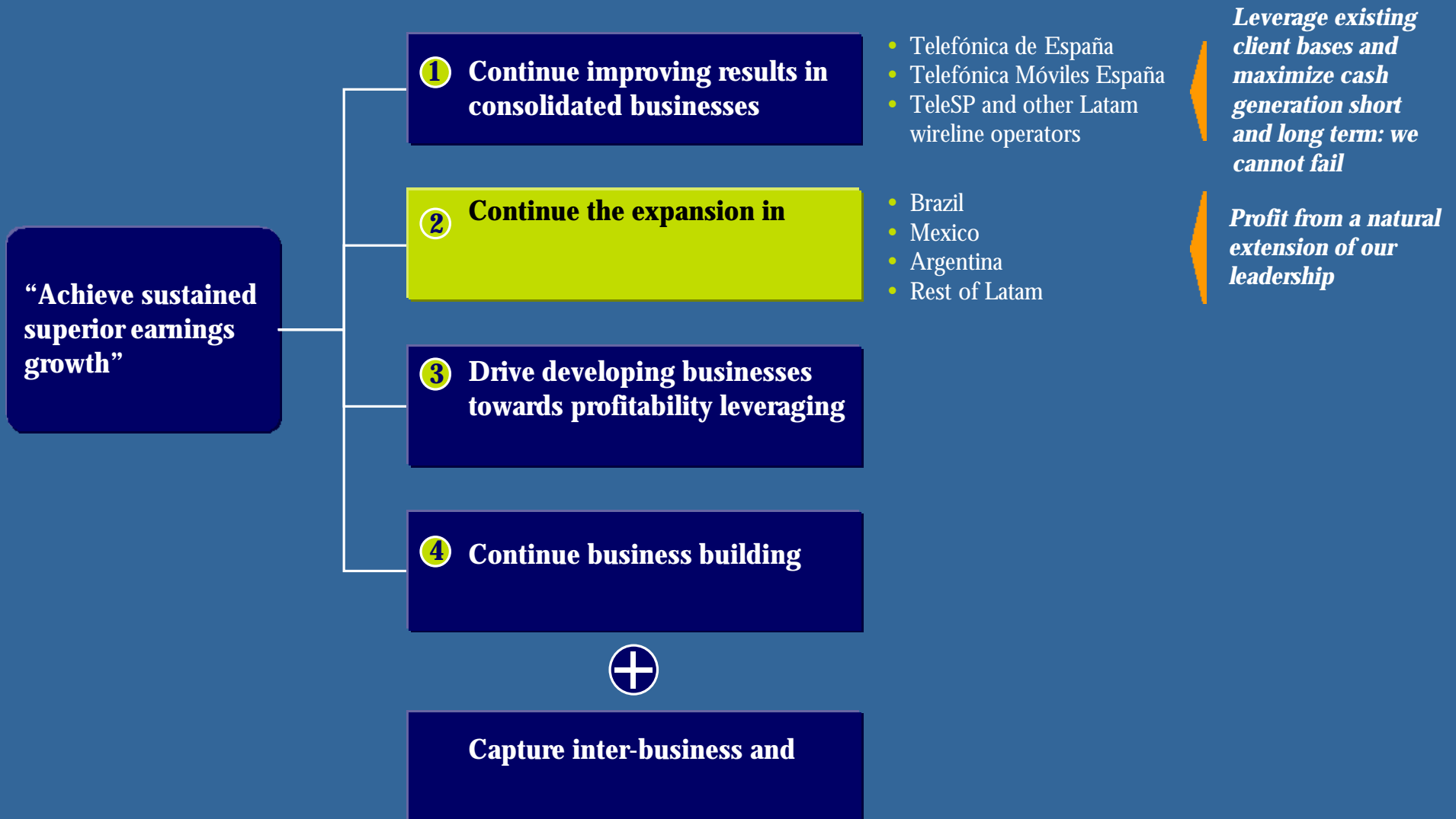
TELEFONICA MOVILES ESPAÑA

- **Monitor client profitability & traffic share**
 - Loyalty programs
 - Product portfolio
 - Contract/prepaid mix
- **Get the 2.5G offering right**
 - Contribute to the development of applications
 - Develop, launch and promote appealing services
 - Speed-up time-to-market and customer
- **More cash generation**
- **Improve customer mix**
- **Build solid know-how on 2.5G business and market approach**

TELESP

- Accelerate “Metas” accomplishment
 - Key for roll-out to Brazilian telecom market
 - Continue to build on solid operational fundamentals
 - Ensure additional capex meets strict return criteria
 - Tighten metrics and bring efficiency to the
 - Sharpen the marketing approach and broaden product catalogue
- More cash flow, exceeding organic growth needs
 - Maintain outstanding competitive position
 - Platform to leverage Telefonica’s Brazilian opportunity

MANAGEMENT PRIORITIES



EXPANSION IN LATIN AMERICA

- **Launch Brazilian wireline operations outside Sao Paulo in 2002**
- **Consolidate TEM-PT JV as the #1 player in Brazilian mobile**
- **Successfully develop recently entered markets, e.g., northern Argentina, Mexico**
- **Complete the Latin-American portfolio profiting from a natural extension of our leadership**

BRAZIL CONTINUES TO BE A BIG OPPORTUNITY

Brazil 2002 as a first priority project

- **Integrated offering of voice and data services for large businesses**
- **Long distance national and international**
- **Transport (carriers' carrier)**

TEM-PT JV to lead the Brazilian

- **9.3 million controlled customers, and potential market over 93 million**
- **60% of average market share and single player operating in Sao Paulo**
- **Leadership in 4 of 5 wealthiest areas**

MANAGEMENT PRIORITIES

“Achieve sustained superior earnings growth”

1 Continue improving results in consolidated businesses

- Telefónica de España
- Telefónica Móviles España
- TeleSP and other Latam wireline operators

Leverage existing client bases and maximize cash generation short and long term: we cannot fail

2 Continue the expansion in Latin America

- Brazil
- Mexico
- Argentina
- Rest of Latam

Profit from a natural extension of our leadership

3 Drive developing businesses towards profitability leveraging

- Terra Lycos
- Telefónica Data
- Telefónica Media
- Europa UMTS

Anticipate break-even leveraging the overall group position

4 Continue business building



Capture inter-business and

TERRA-LYCOS

- **Building a strong organization in business and geographic fronts**
 - **Adapting the business model to the current market context**
 - **Extract the full potential of and for the Group: collaboration of Terra-Lycos with other Lines of Business to exploit the Internet opportunity**
- 
- **Become one of the top four world leaders**
 - **Work with other Lines of Business to capture the Internet opportunity**
 - **Accelerate breakeven**

TELEFONICA DATA AND EMERGIA

- **Telefónica Data:**

- Relationship with largest corporate
- Support Telefónica's WLOs business customers' data needs
- Strengthen position from selective expansion in new markets
- Leverage infrastructure/presence to serve multi-national clients

- **Emergia:**

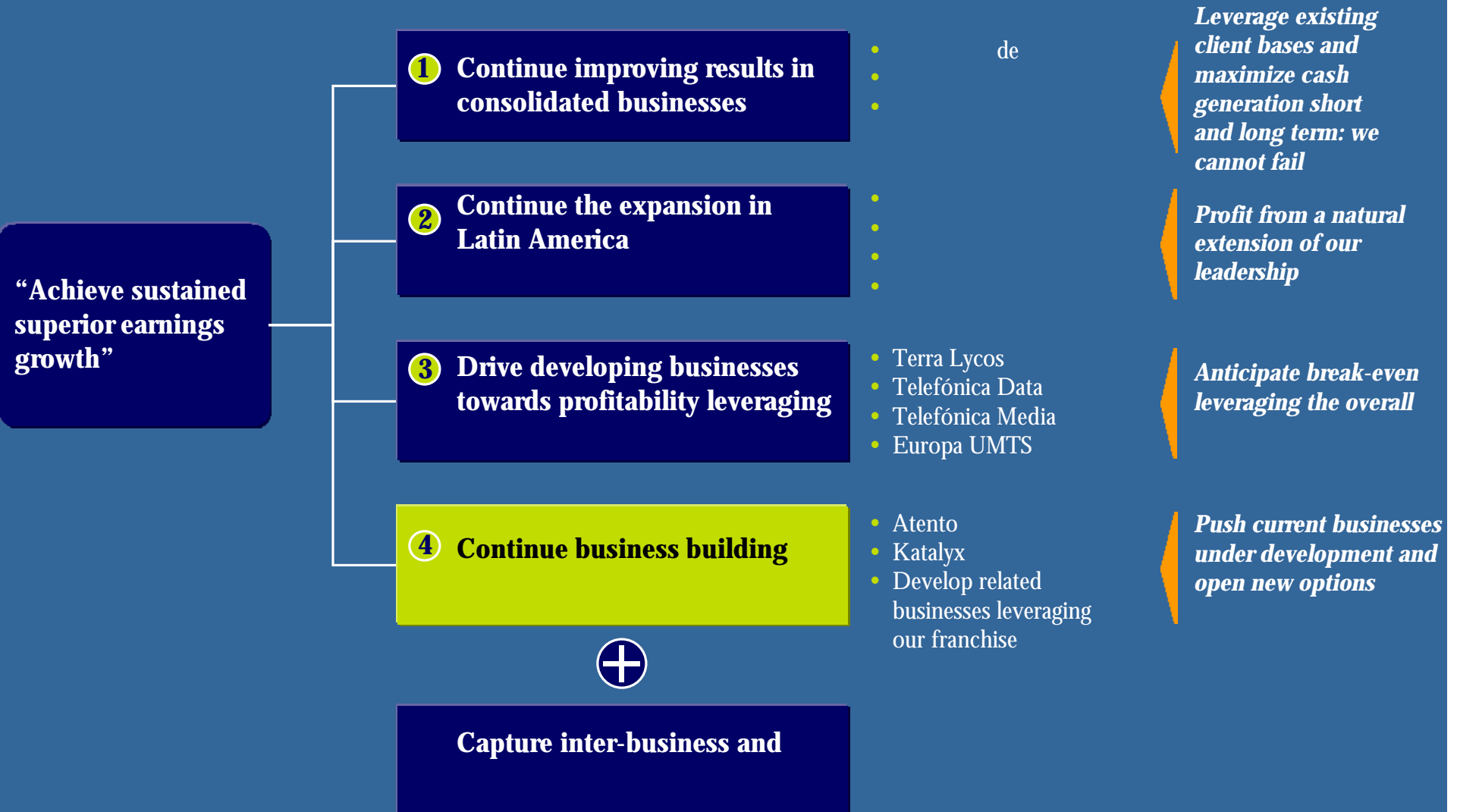
- Aggregate and manage the Group's

- Strengthen our position in corporate and NEP's segments
- Develop a strong VAS as a client loyalty and revenue enhancing tool
- Bring forward Emergia's cash generation

TELEFONICA MEDIA

- **Improve operational performance**
 - **Capturing existing synergies within current businesses**
 - **Making T.Media cash neutral for the**
 - **Complete the portfolio to lead in our natural**
 - **Extract the full potential of its position within**
- 
- **Improve return on investments**
 - **Contribute content to other Lines of Business**

MANAGEMENT PRIORITIES



CONTINUE BUSINESS BUILDING

- **We have launched several initiatives: eg.,**
 - Clear progress
 - Still improvements/adjustments to make
 - Focus on performance and clear value potential with a flexible

- **We will continue to develop opportunities and build new businesses:**
 - Leveraging our customer base and franchise
 - Creating a competitive advantage by building on our strengths and

 - Adjacent businesses with low asset intensity and short pay-backs

DELIVERING RESULTS: PROFITABILITY AND GROWTH

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We manage key performance metrics

Management priorities to

Our Group model enables delivery

TELEFONICA'S GROUP MODEL IS THE KEY TO SIMULTANEOUSLY ACHIEVE PROFITABILITY

Our group model...

- Focused, transparent, accountable complementary Lines of Business operating as good specialists in each business
- Owned by a company, Telefónica, that manages across businesses and articulates the group

... puts us at an advantage...

- Allows to lead at a pure play development
- Allows, whenever suitable, to integrate efforts to leverage our client
- Facilitates new options

... and we are working continuously to sharpen it

- Still young structure, started two years ago and boosted after the "Operación Verónica"
- Achieved significant progress in several areas, but working hard to

IN THIS MODEL, HIGH VALUE ADDING ACTIVITIES ARE PERFORMED AT GROUP LEVEL

- **Manage across businesses**
- **Assist to and demand strong business performance**
- **Achieve functional articulation for effectiveness and**
- **Shape the development of the group**

WE HAVE PROGRESSED SIGNIFICANTLY IN SEVERAL ACTIVITIES TO BE PERFORMED AT GROUP LEVEL AND ARE WORKING HARD TO ADVANCE ON THE REST

Examples

Manage across businesses

- Plan Futurnet to extract maximum potential of broadband across businesses
- Shared distribution channels
- ...

Assist to and demand strong business performance

- Strategic reviews and budgeting process
- Common management information systems
- Coherent reward schemes
- ...

Achieve functional articulation for effectiveness and efficiency

- Lowest cost of funding through centralized management of cash and finance
- Strong brand management
- Development of Shared Service Centers
- ...

Architect and shape the development of the group

- Adaptiveness in partnerships/alliances
- Launch of dedicated Real Estate Management
- ...

A process of continuous development and improvement

WHAT WE'VE SAID SO FAR

- **Telefónica's performance is based on solid, lasting business fundamentals**
- **This fundamentals underpin our financial results**
- **Building on our fundamentals and our solid financial position, we are confident that we will deliver on profitability and growth**
- **We focus on four management priorities to crystallize our**
- **Our group model is a key enabler that puts us at an advantage to deliver value and growth**

Telefónica
