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Telefónica Group**

**A value growth
company:
Delivering results**

**Goldman Sachs
CIO Conference
Barcelona, April 5th 2001**

Telefonica

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A value growth company: Delivering results

A VALUE GROWTH COMPANY

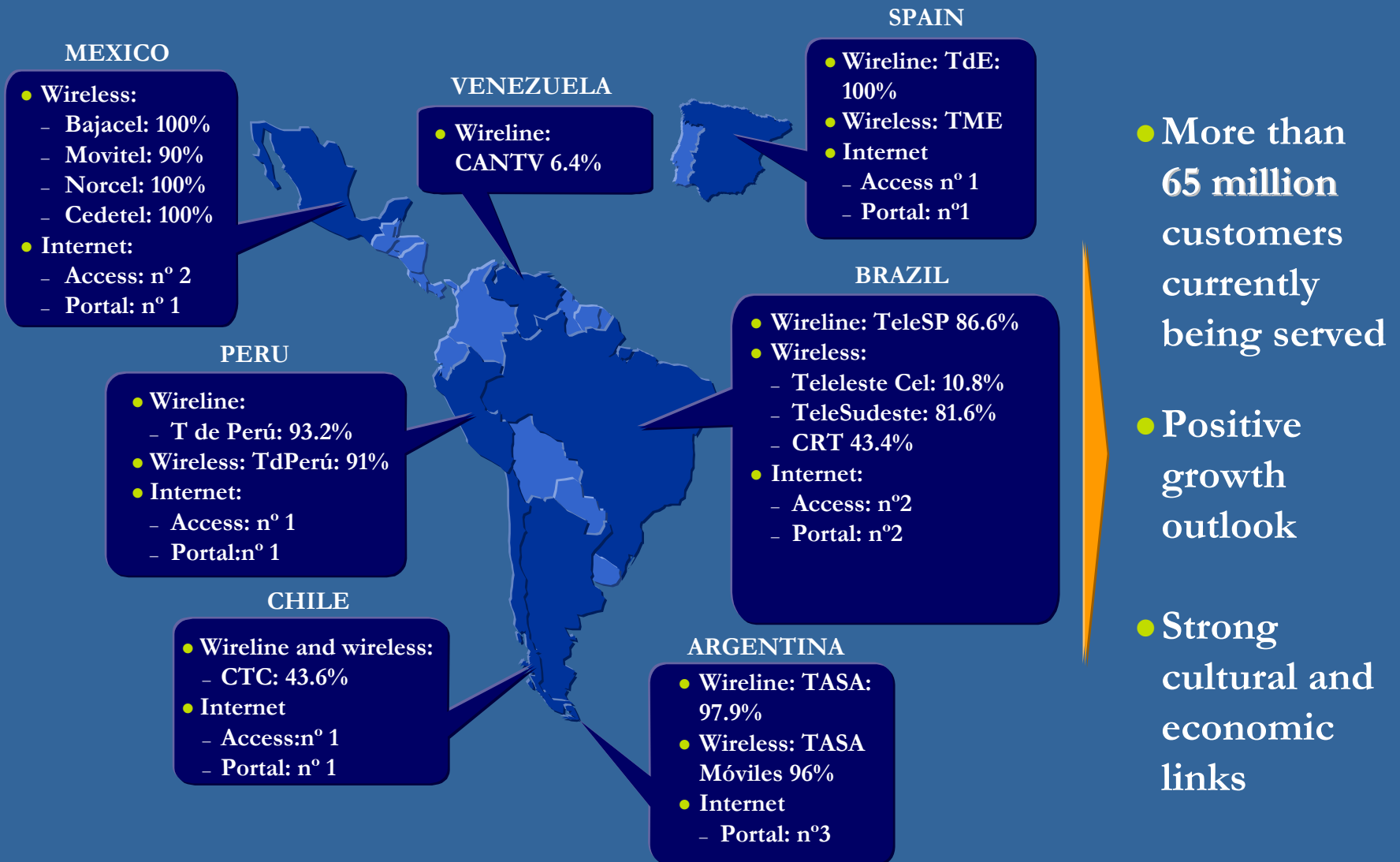
Solid value based on fundamentals: large client base, strong operational skills, unmatched intangibles, balanced and flexible business structure

Superior EBITDA and strong financial position

Management priorities that translate into superior earnings growth

Our Group model enables delivery

A MARKET WITH MORE THAN 500 MILLION POTENTIAL CUSTOMERS...



● More than 65 million customers currently being served

● Positive growth outlook

● Strong cultural and economic links

...WITH GROWTH POTENTIAL

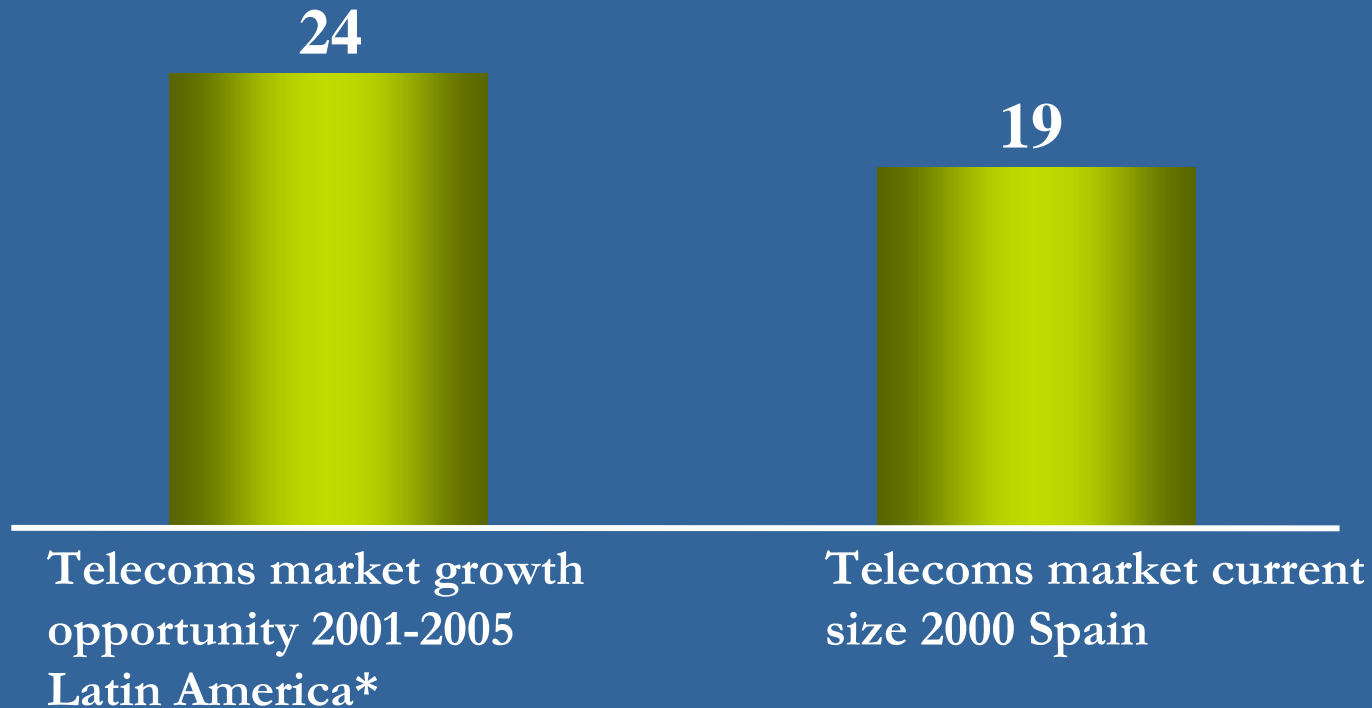
GDP Growth (%)

	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

LATIN AMERICA REMAINS A LARGE GROWTH OPPORTUNITY

USD billion



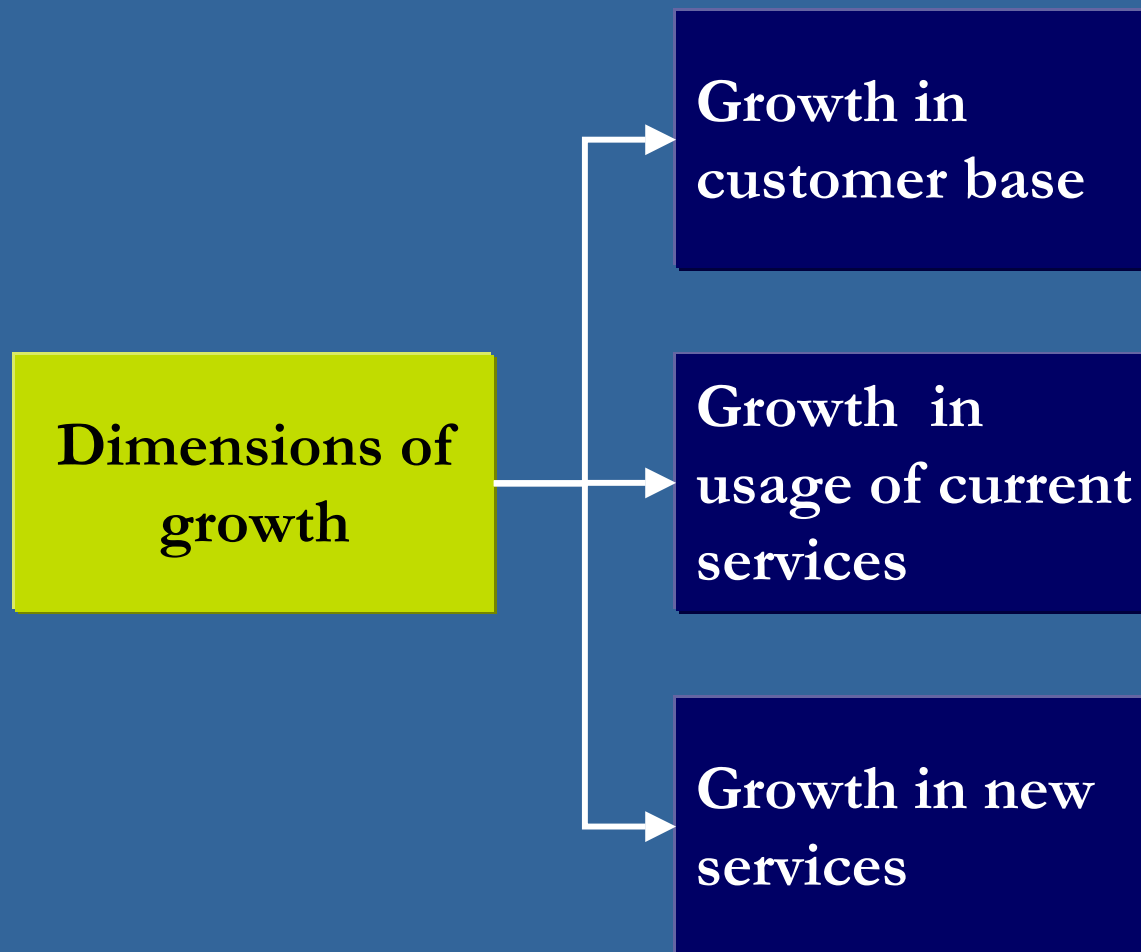
* Current GDP Latam aprox. 1,790 USD billion x 34% GDP growth in 5 years x 4% of GDP in telecoms
Source: IDC; Dataquest; WEFA-WMM

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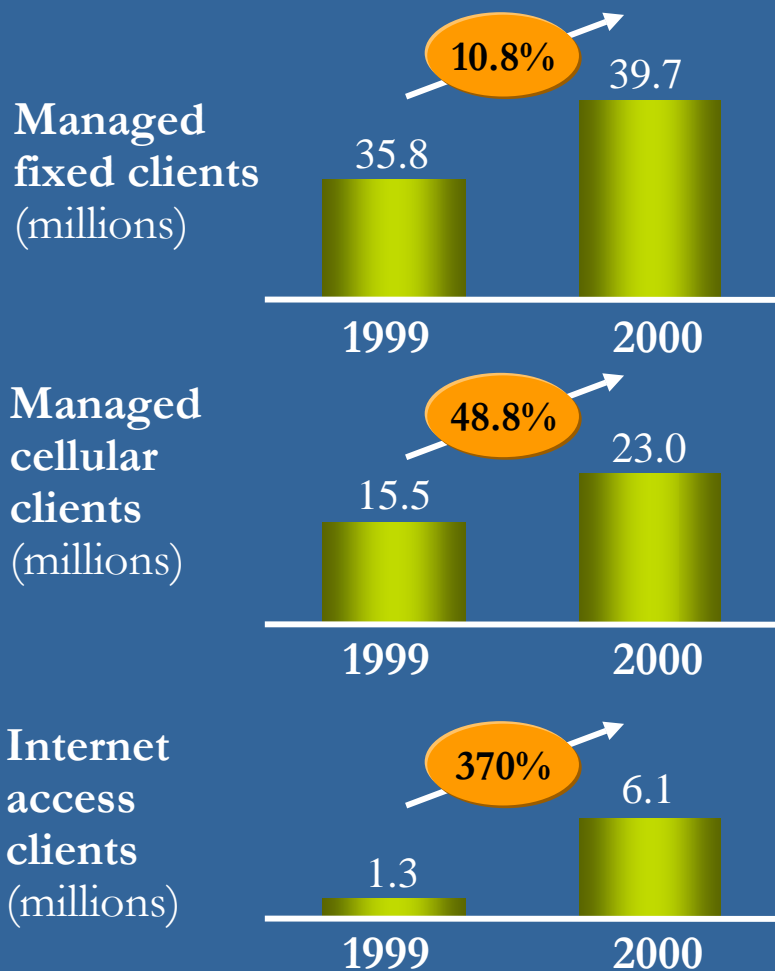
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EVERY GROWTH PROJECT MUST BE BASED ON CLIENTS...



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



2000 penetration

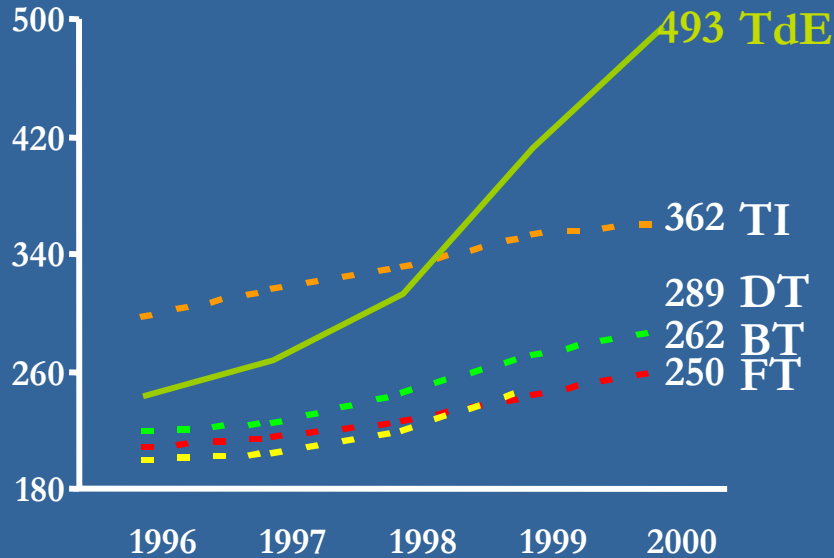
	LatAm	USA	Europe
Wireline penetration	13%	68%	61%
Wireless penetration	13%	41%	63%
Internet penetration	3%	50%	23%

WE HAVE ACHIEVED STRONG OPERATIONAL SKILLS...

Productivity

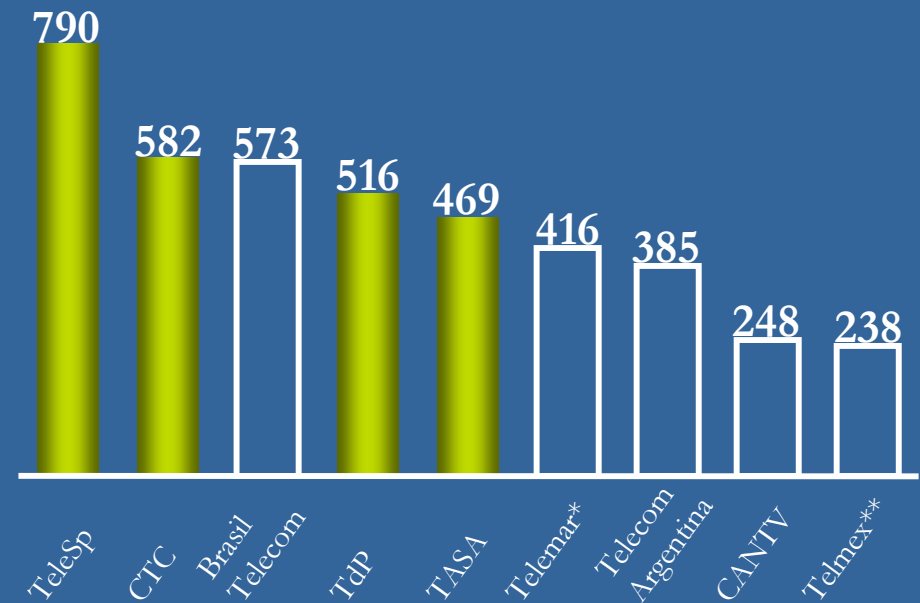
Europe

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 operations

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

UNMATCHED INTANGIBLES

Knowledge

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

Brand

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

Reputation

- Credibility
- Recognized execution capabilities

Relationships

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

Talent

- Competent, experienced and action oriented management team

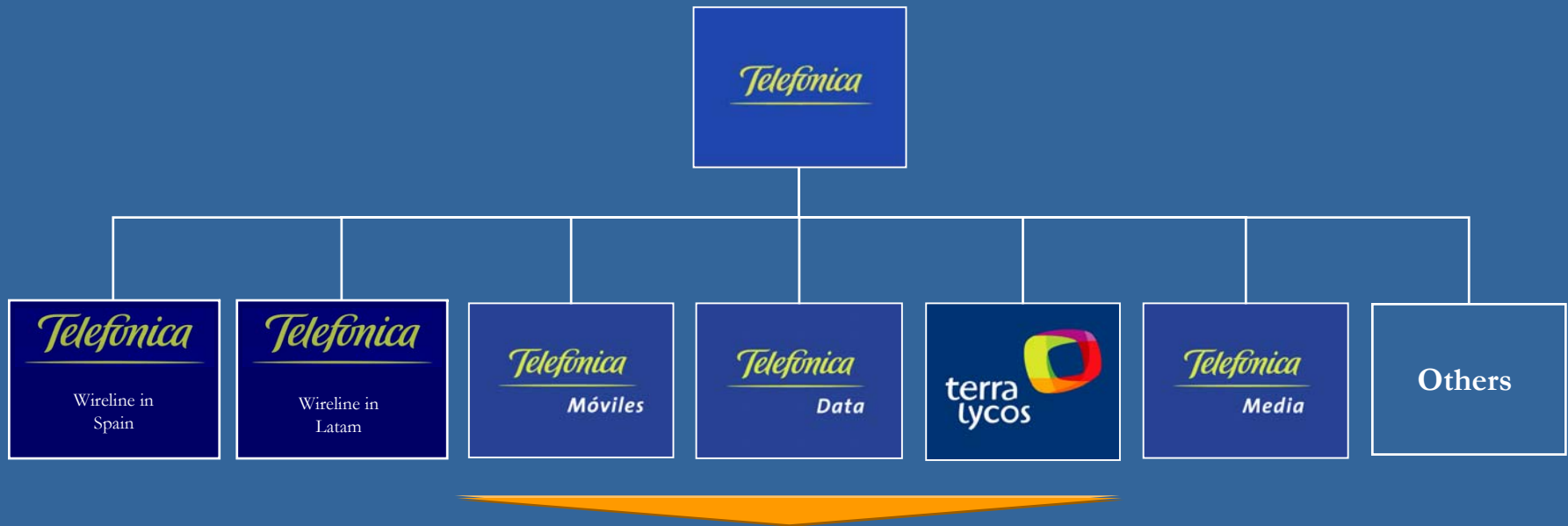
TELEFONICA HAS A BALANCED BUSINESS STRUCTURE...

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

A VALUE GROWTH COMPANY

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

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TELEFONICA ACHIEVED STRONG PERFORMANCE IN YEAR 2000...

2000 Financial Highlights

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

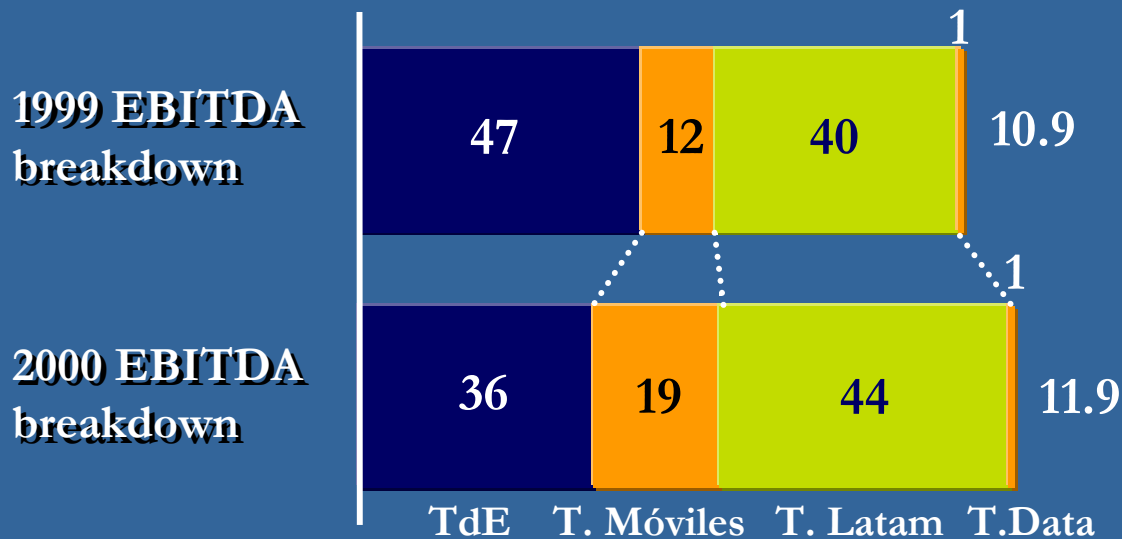
ALONG WITH WELL BALANCED FINANCIALS

Euro 12 Bn. EBITDA
2000

Euro 26.9 Bn. Net debt
12/2000

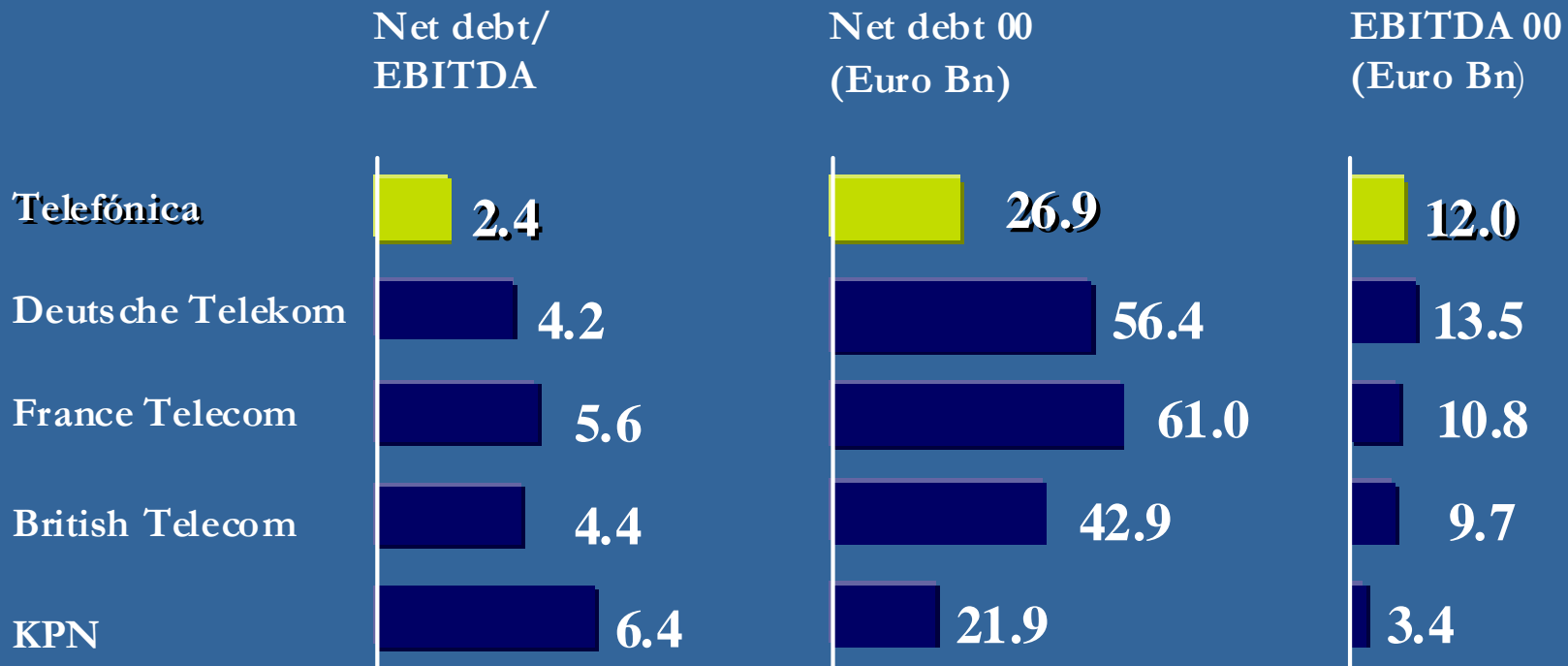
Euro 87 Bn. Market Cap.
5/03/2001

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



...WHICH HAS POSITIONED TELEFONICA AHEAD OF ITS PEERS

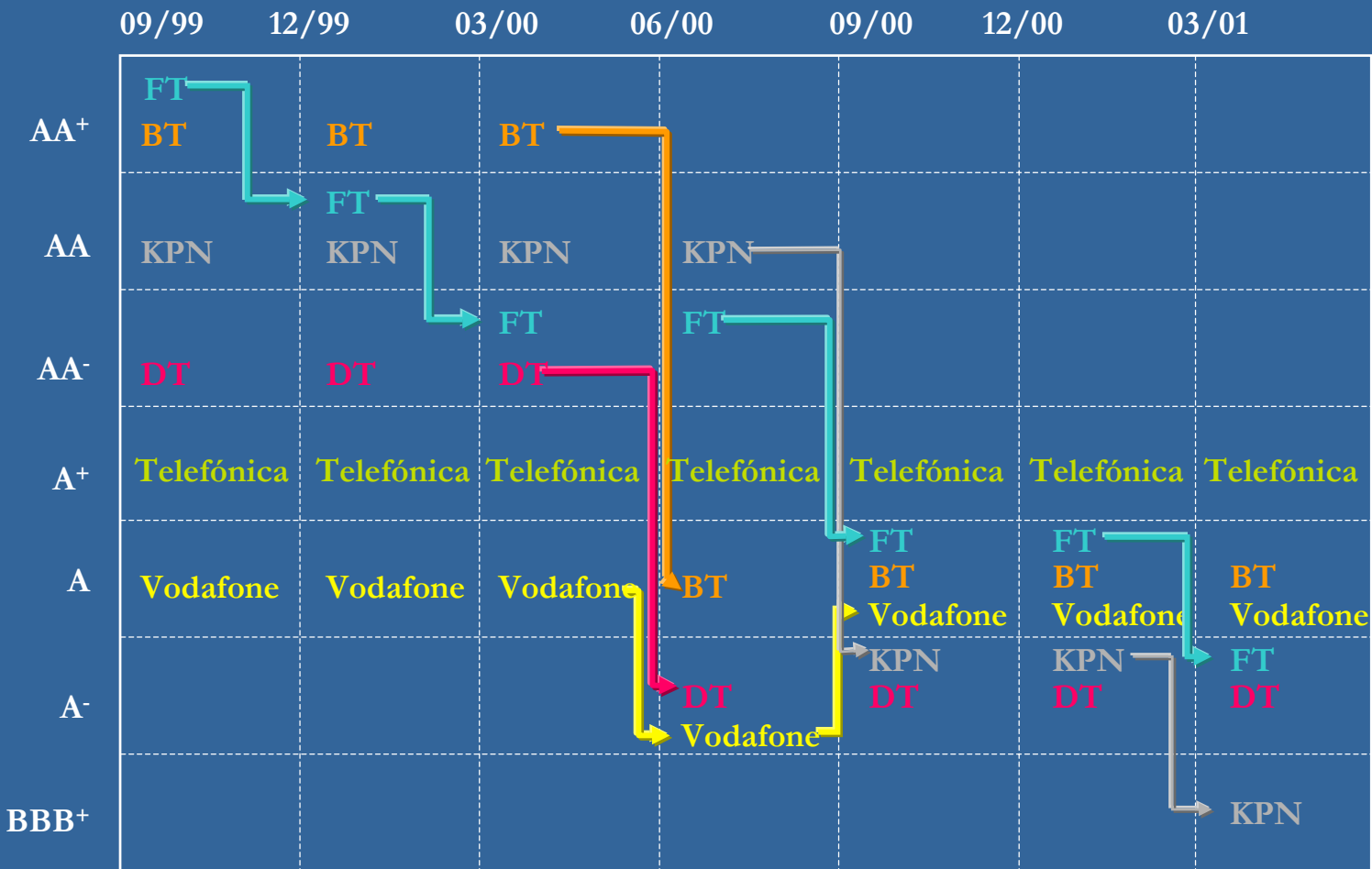
- Equity-funded acquisitions (Euro 30.4 bn in 2000)
- New organization optimizes cost of capital



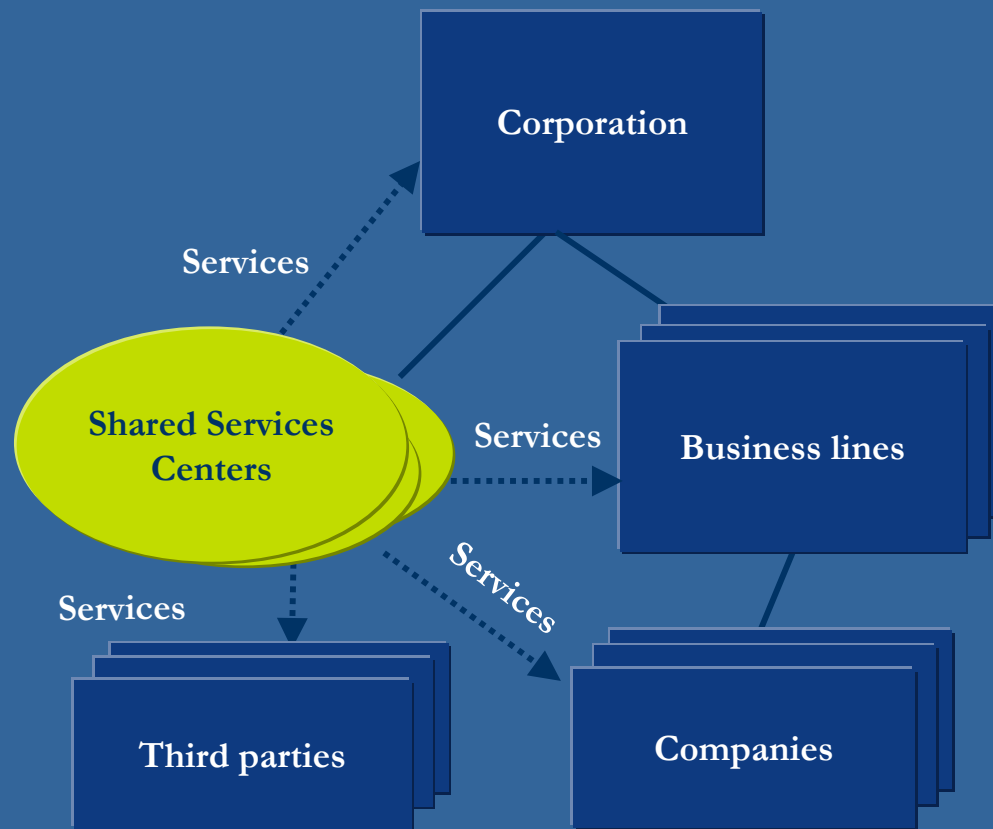
* Company reports and Analysts consensus estimates.

A SOLID FINANCIAL POSITION

Evolution of ratings (S&P)

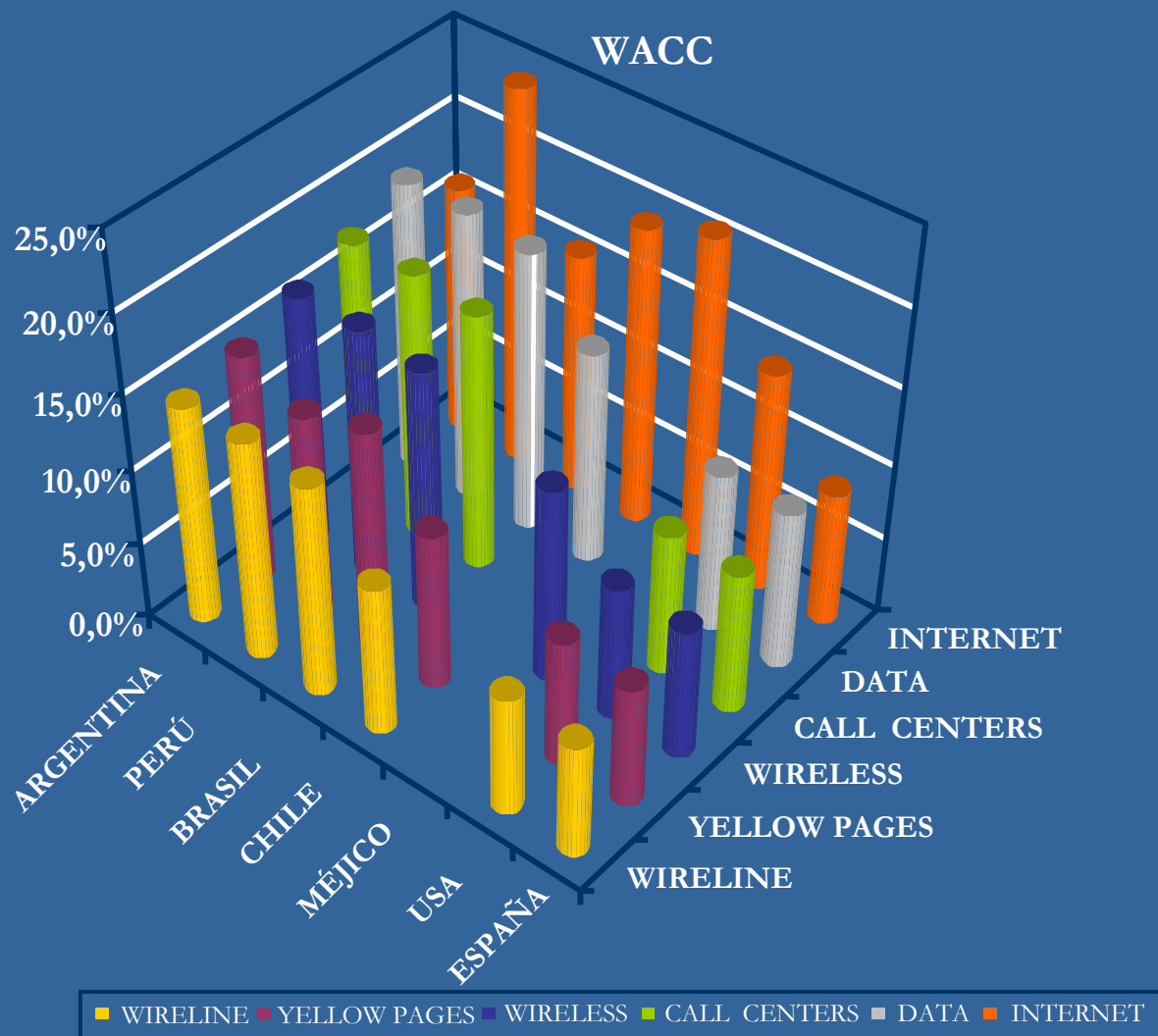


LOOKING FOR MORE EFFICIENCY



Expected NPV of USD 850 millions

IMPROVING CAPITAL ALLOCATION



WHAT'S NEXT

- Solid and well diversified revenue growth
- Reinforcing capital discipline: $\text{Capex} / \text{Operating Revenue}$
- Improving asset turnover: $\text{Revenue} / \text{Capital employed}$
- Well balanced and growing EBITDA margin: $\text{EBITDA} / \text{Revenue}$
- Enhancing Free cash flow margins

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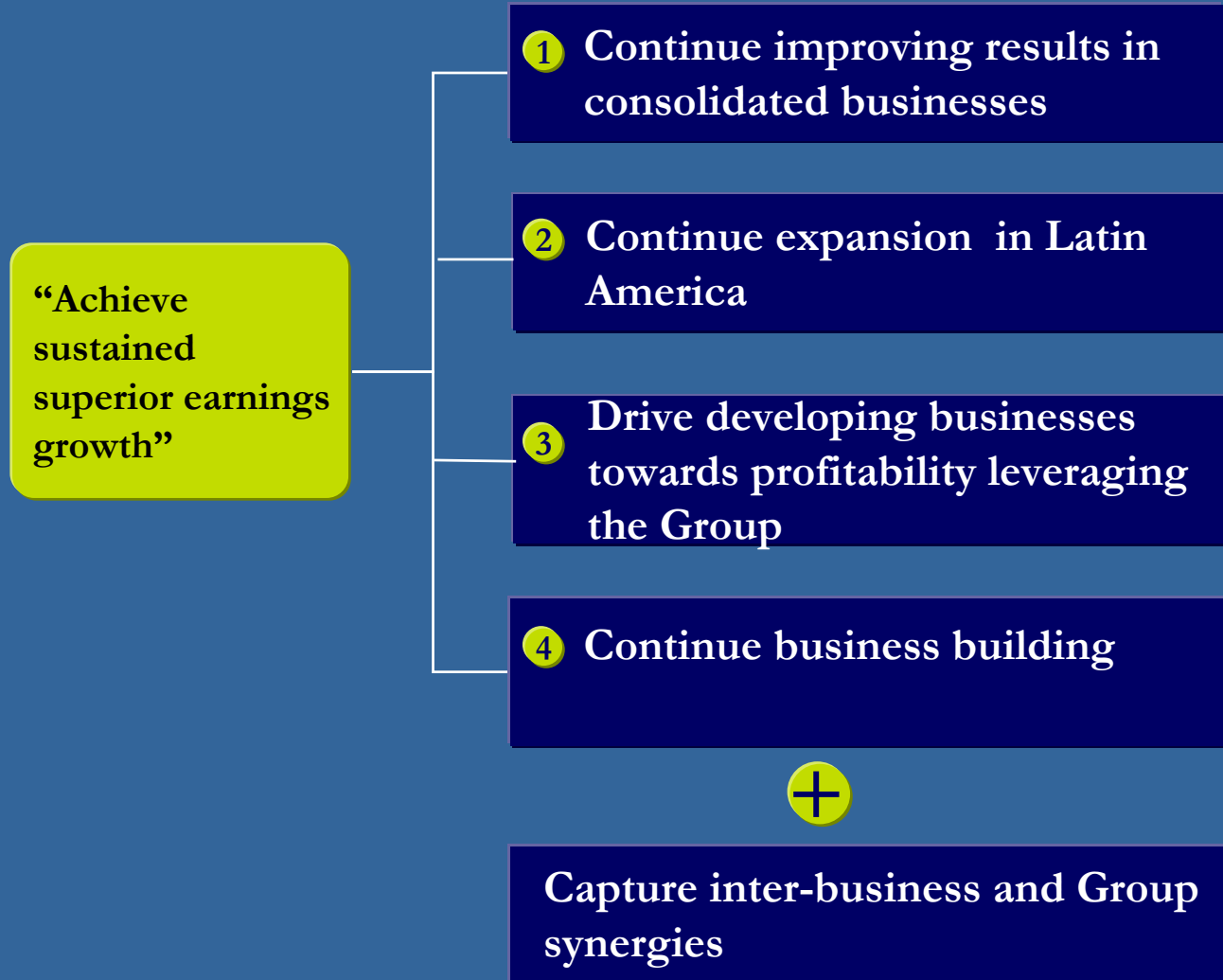
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MANAGEMENT PRIORITIES



MANAGEMENT PRIORITIES

“Achieve sustained superior earnings growth”

1 Continue improving results in consolidated businesses

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

2 Continue the expansion in Latin America

Profit from a natural extension of our leadership

3 Drive developing businesses towards profitability leveraging the Group

Anticipate break-even leveraging the overall group position

4 Continue business building

Push current businesses under development and open new options



Capture inter-business and Group synergies

*Manage across businesses
Assist to and demand strong business performance
Functional articulation for effectiveness & efficiency
Shape the development of the group*

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

- 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 base
 - Facilitates new options
- ... and we are working continuously to sharpen it*
- Still young structure, started two years ago and boosted after the completion of “Operación Verónica”
 - Achieved significant progress in several areas, but working hard to continuously improve

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 efficiency
- 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 Unit

A process of continuous development and improvement

MANAGING KEY PERFORMANCE METRICS

 CAGR

Euro billion, 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

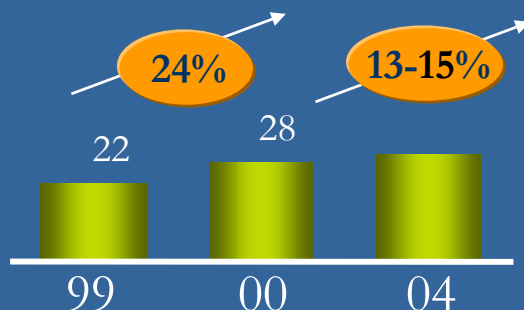
- Cost efficiency
- Operational leverage
- Quality

Operational excellence

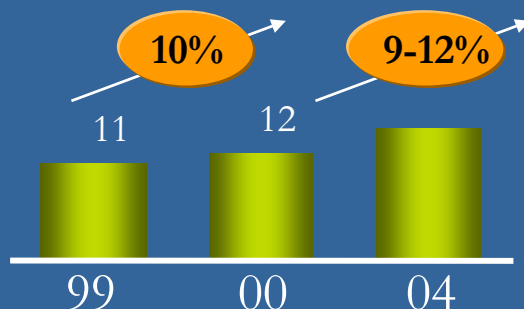
- Asset turnover
- Capex allocation and control
- Reducing asset base

Focus on ROCE

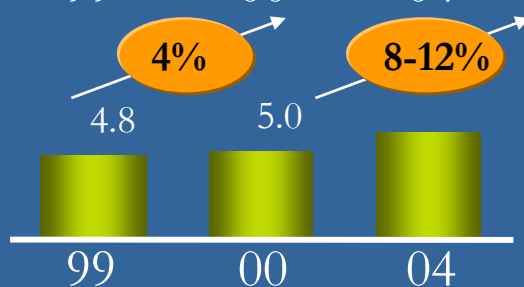
TOP LINE



EBITDA



EBIT*



* Calculated exc. goodwill

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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
- Solid financial position



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

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