

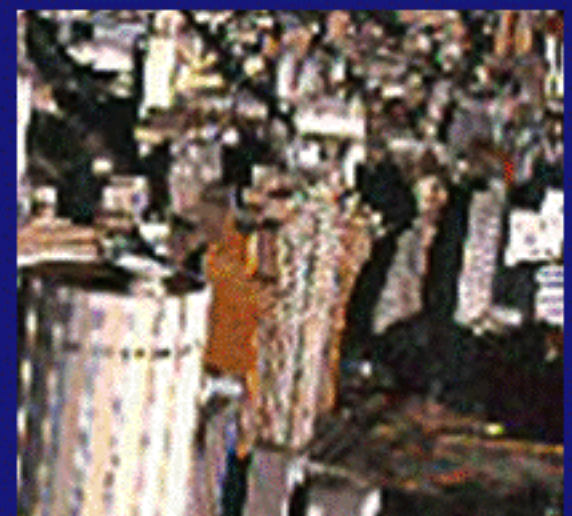
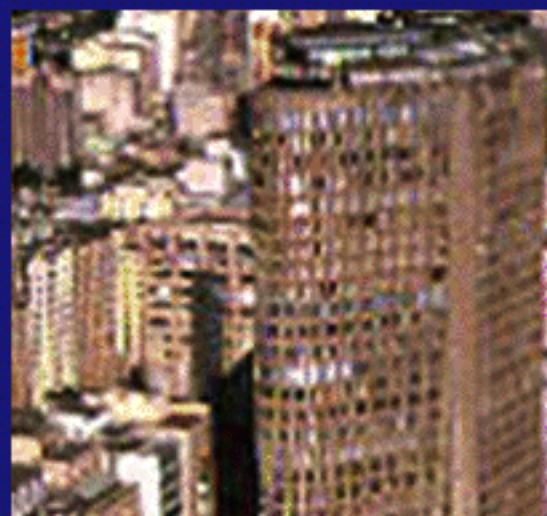
**ABAMEC
Conference**

July 2001



Antonio Viana-Batista

**Chairman
Telefónica Latinoamericana**



Telefonica

TELECOM ISSUES UNDER DISCUSSION (I)

ORGANIZATION

Growth and
convergence must
define corporate
structures



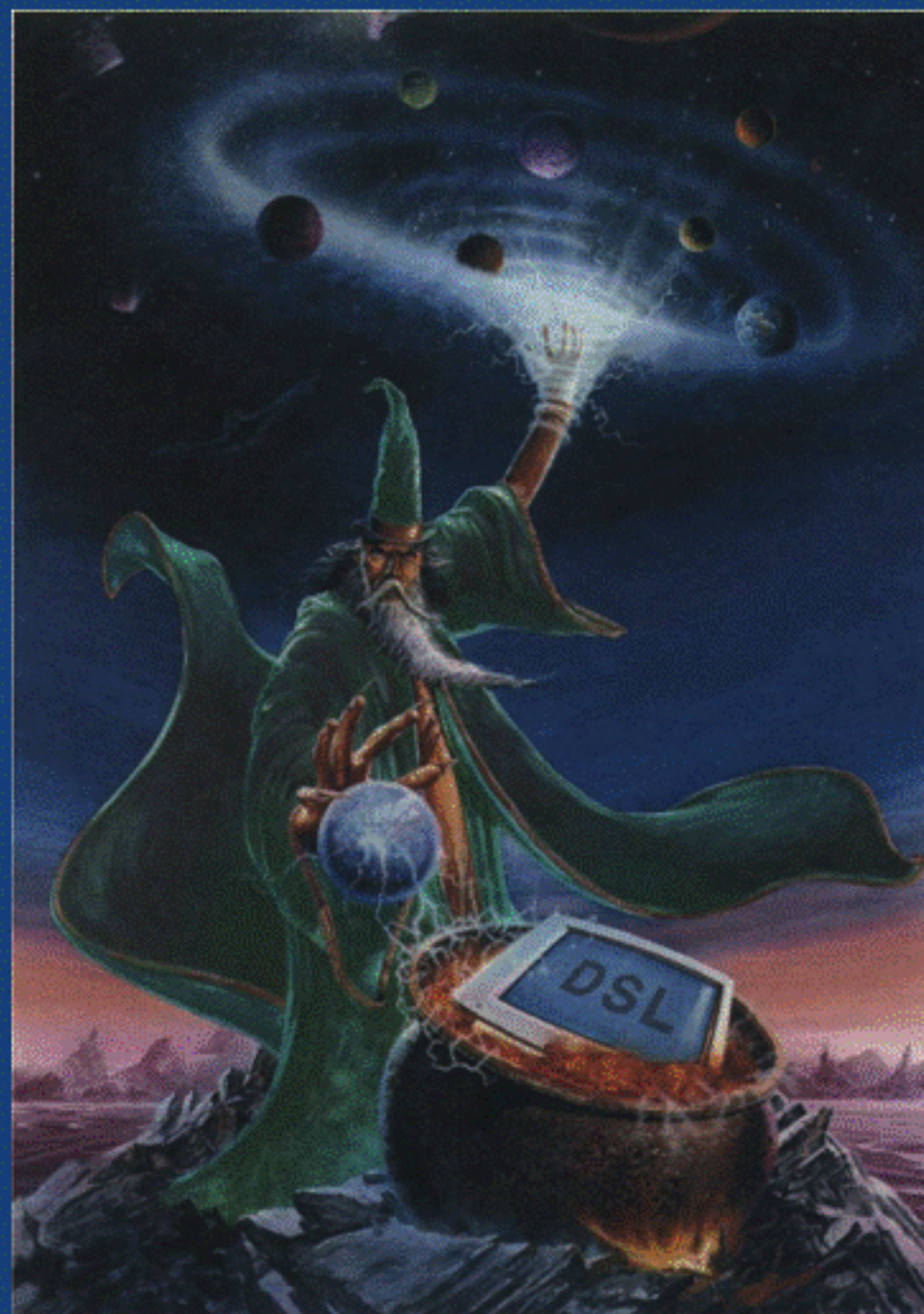
HSBC: "European Incumbents: Feeling sensitive"

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TELECOM ISSUES UNDER DISCUSSION (II)

THE BROADBAND CHALLENGE

Can DSL turn copper
into gold?



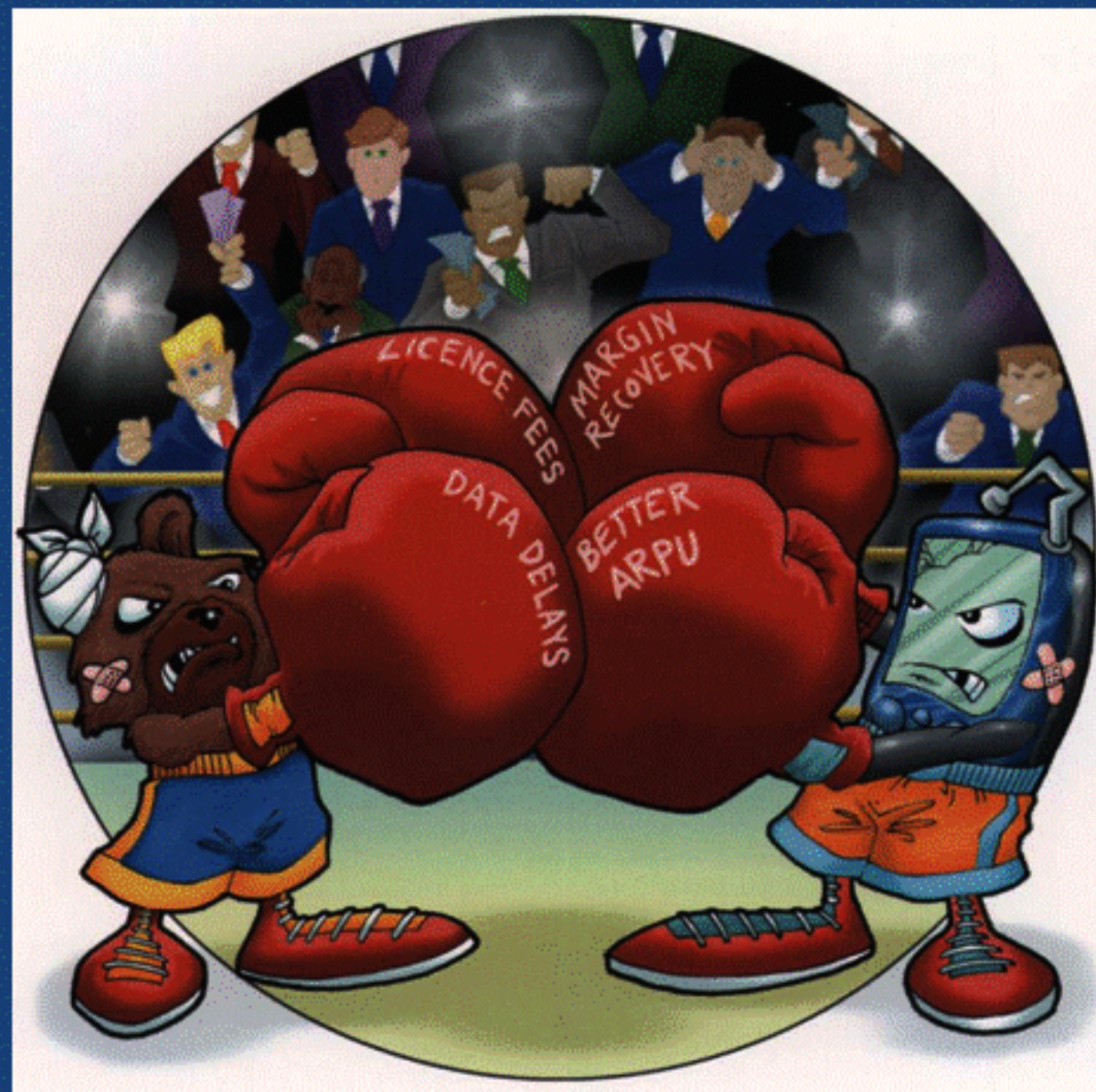
JP Morgan: "The alchemist"

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TELECOM ISSUES UNDER DISCUSSION (III)

UMTS

Cellular companies to
convince bear-markets



HSBC: "European Mobile: Back in the ring"

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TELECOM ISSUES UNDER DISCUSSION (IV)

CONVERGENCE

**Broadband demand
content, content
demand broadband...**

**...who's best
positioned?**



JP Morgan: "Vivendi Universal: Are you ready to rock?"

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TELECOM ISSUES UNDER DISCUSSION (V)

CONSOLIDATION

3G in Germany and UK
as catalyst for sector
consolidation

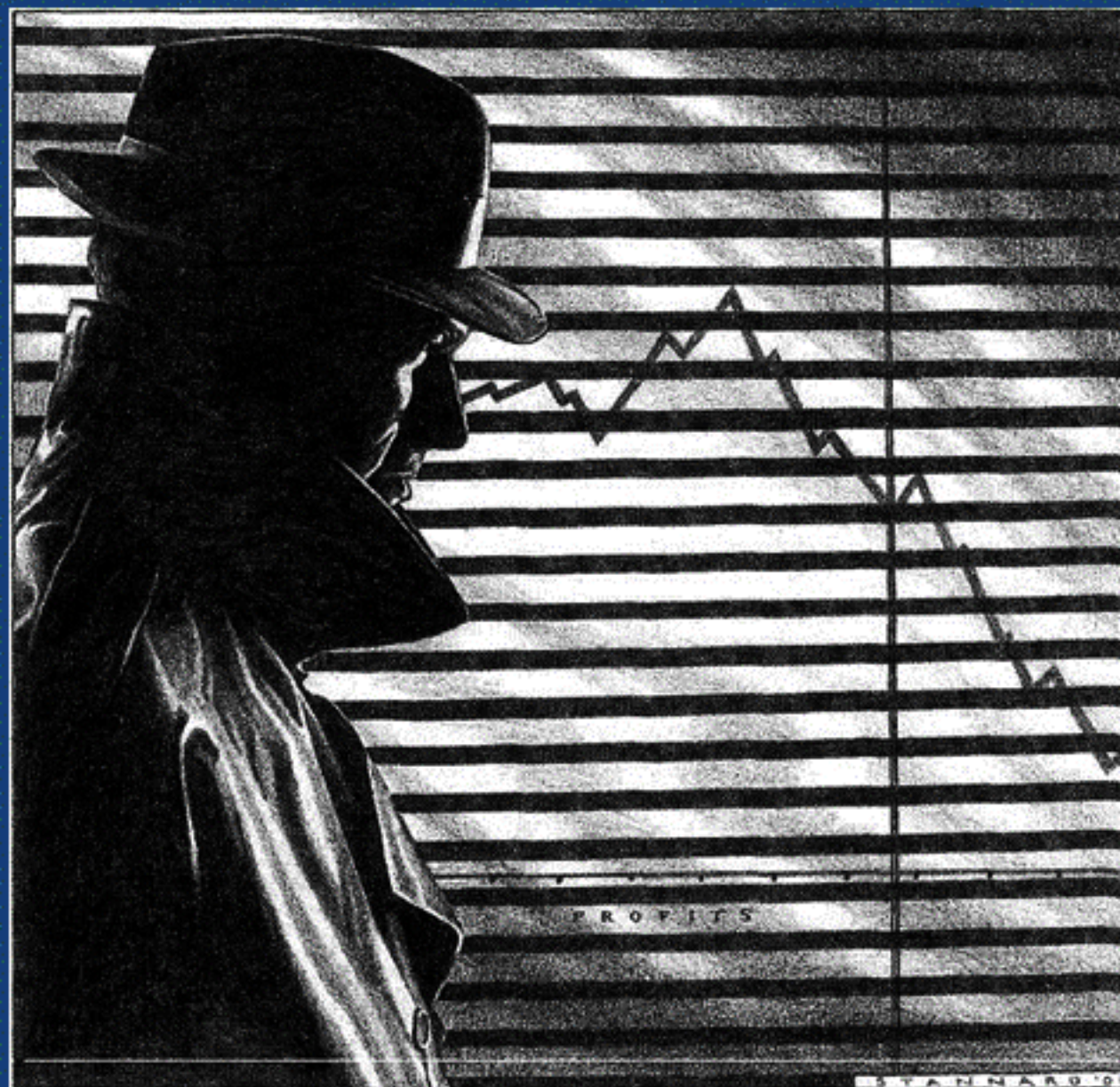


HSBC: "European Restructuring"

TELECOM ISSUES UNDER DISCUSSION (VI)

FINANCIAL FUNDAMENTALS

How solid are you?



Financial Times

Telefonica

TELECOM INVESTORS: WHAT DO YOU DEMAND?

INDEX



1

RESTRUCTURING

Balanced and flexible organization to grow



4

CONVERGENCE

The virtuous cycle



2

BROADBAND

Turning copper into gold



5

CONSOLIDATION

Be ready to play and win



3

UMTS

Visibility to convince bear-markets



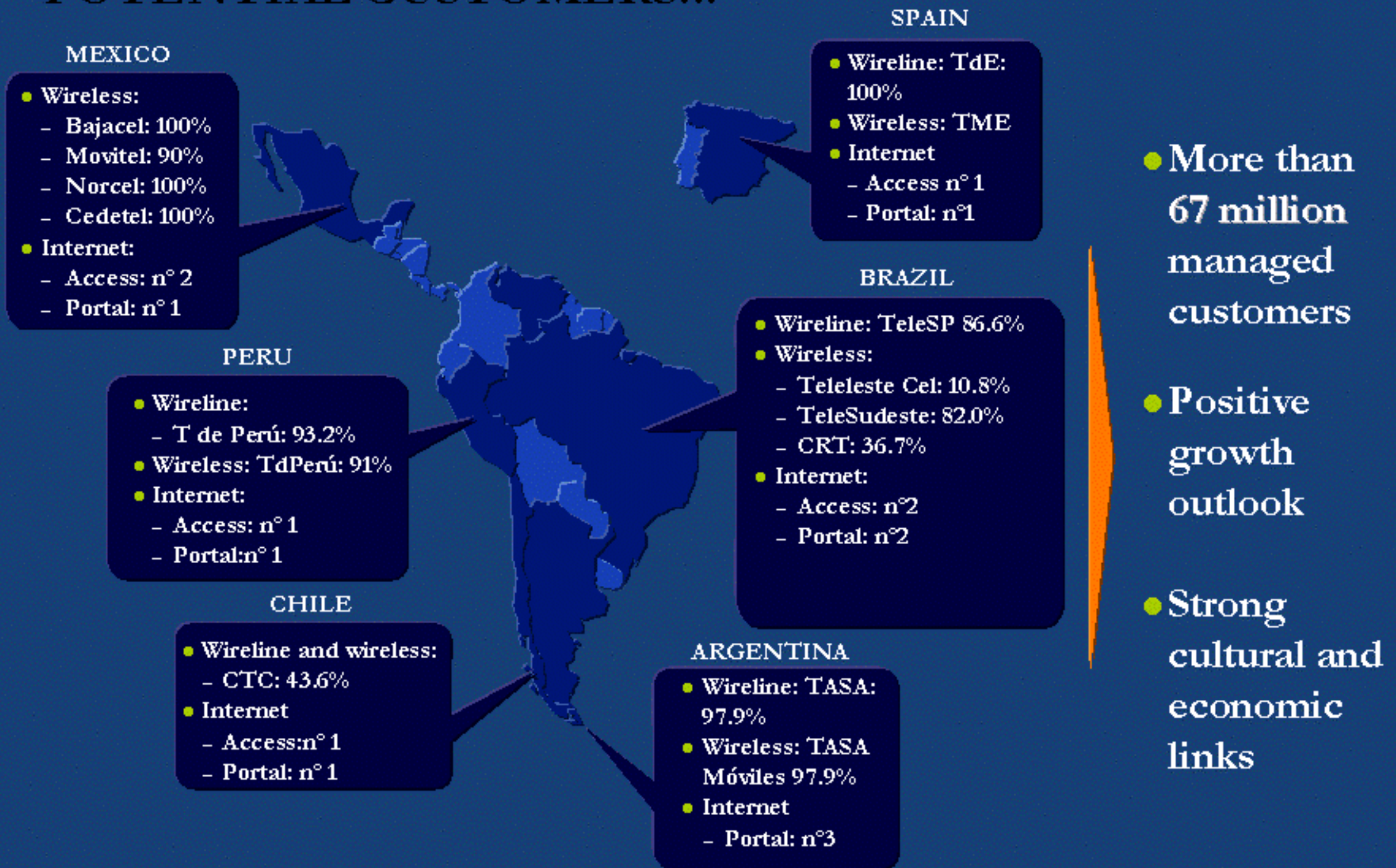
6

FINANCIALS

Proven strength, flexibility, efficiency and execution

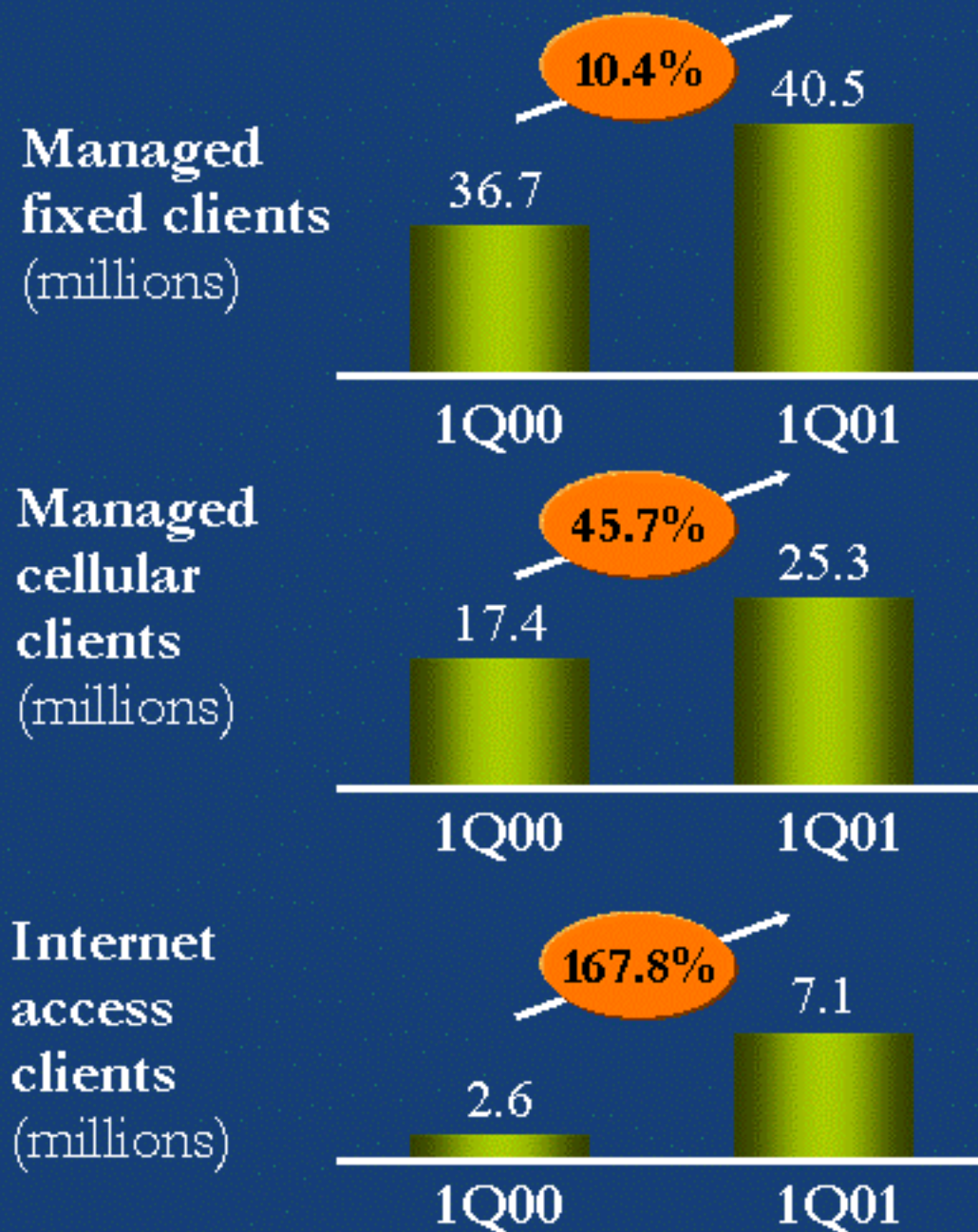
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A MARKET WITH MORE THAN 500 MILLION POTENTIAL CUSTOMERS...



- More than 67 million managed customers
- Positive growth outlook
- Strong cultural and economic links

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



Wireline penetration

Wireless penetration

Internet penetration

2000 penetration

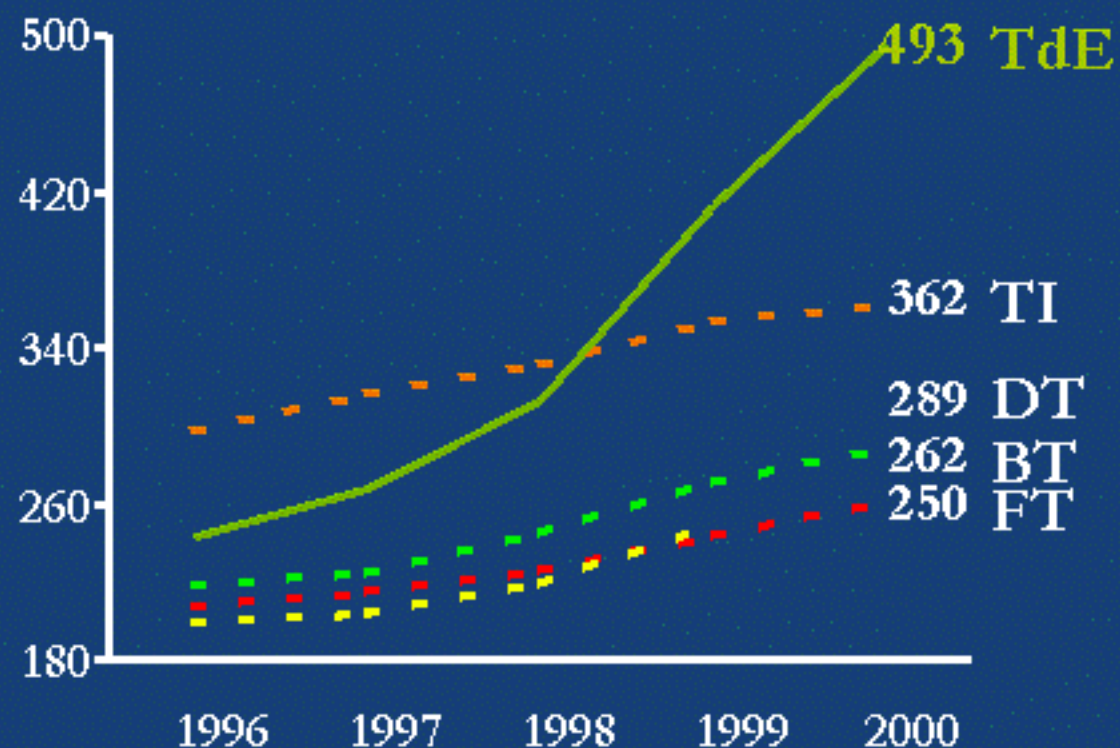
	LatAm	USA	Europe
Wireline penetration	13%	68%	61%
Wireless penetration	13%	41%	63%
Internet penetration	3%	50%	23%

WE HAVE ACHIEVED STRONG OPERATIONAL EFFICIENCIES...

Productivity

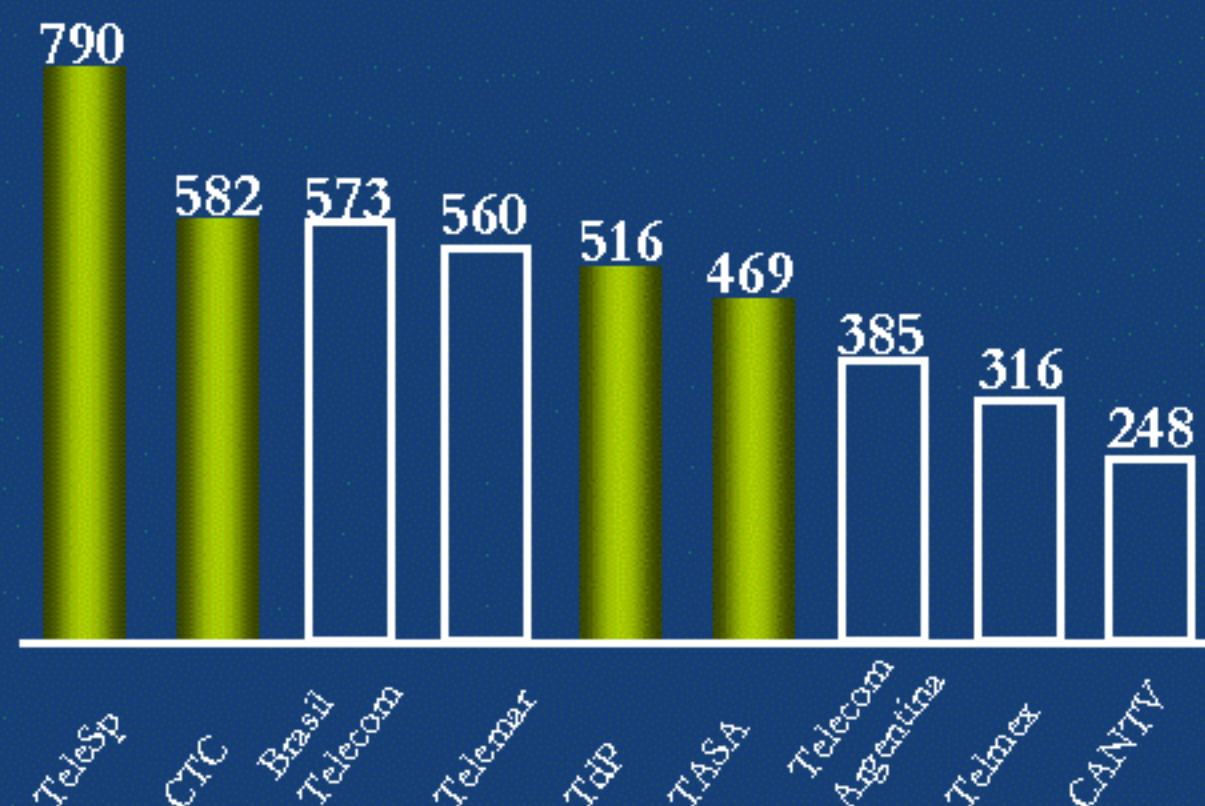
Europe

Lines/employee



Latam

Lines/employee (year 2000)



Source: Telefónica

1.- RESTRUCTURING

Telefonica

...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 in the areas where we operate as incumbents

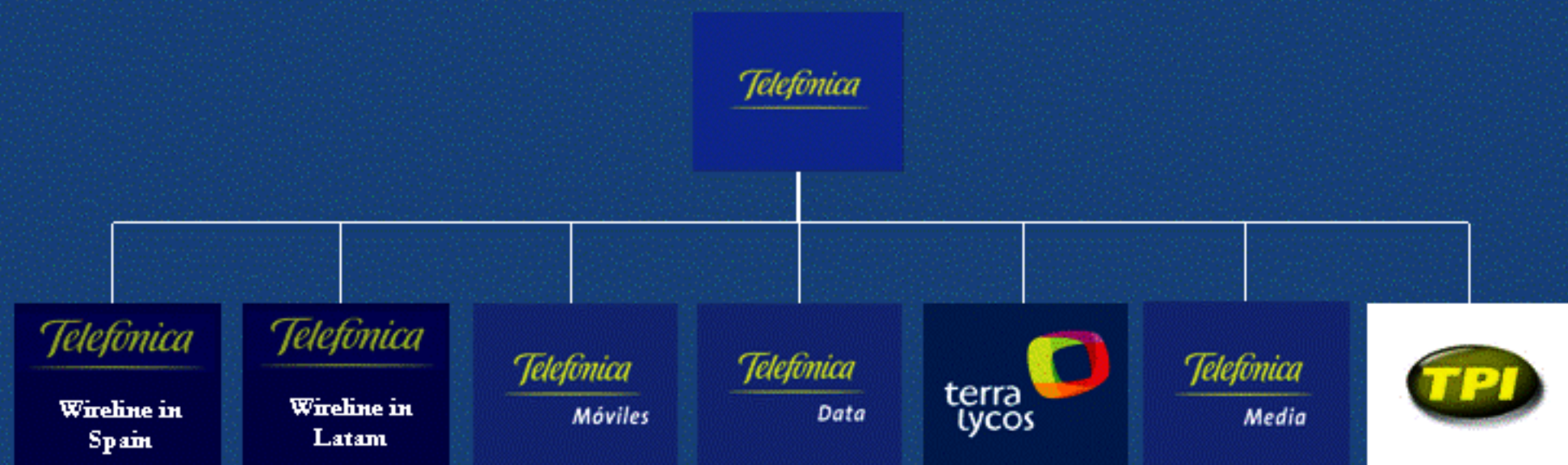
TELEFONICA HAS A BALANCED BUSINESS STRUCTURE...

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 FLEXIBLE ORGANIZATION



As of December 2000

Customers (million)	20.3	19.4	23.2	-	6.1	-	0.6
Revenues proforma 00 (bn e)	10.2	9.7	7.4	1.2	0.3	0.7	0.6
EBITDA proforma 00 (bn e)	4.5	5.2	2.4	0.1	(0.3)	0.01	0.1

- 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

CONTINUE IMPROVING RESULTS IN CONSOLIDATED BUSINESSES

Telefónica de España

- Winning the broadband battle: 158,000 ADSL subs. aprox as of today (50,000 as of Dec-00)
- Continuing to increase efficiency

Telefónica Móviles de España

- Monitor client profitability and traffic share
- Preparing for success of the 2.5G : network ready and commercial launch 1H 2001

Telesp

- Sao Paulo, city of broadband (300,000 ADSL Dec-01 (e))
- Accelerate compliance of Regulator requirements
- Continue to build on solid operational fundamentals

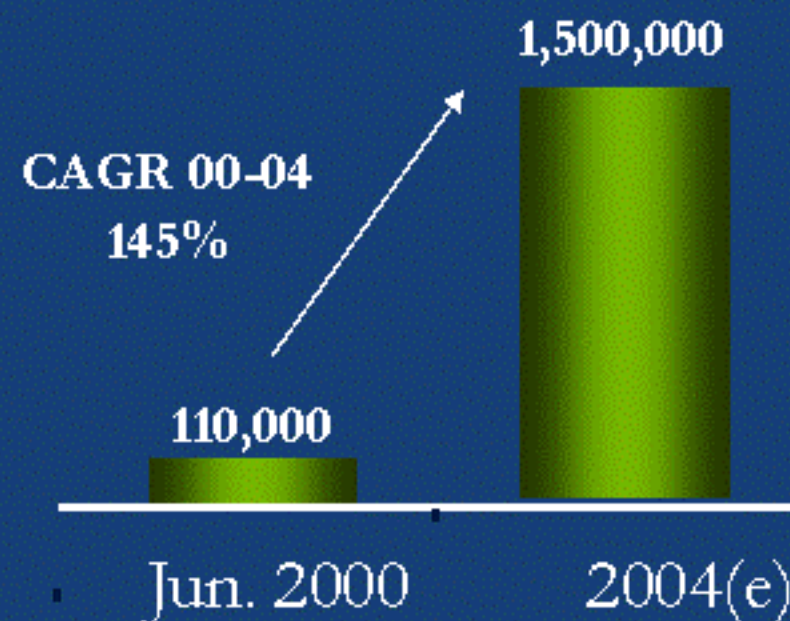
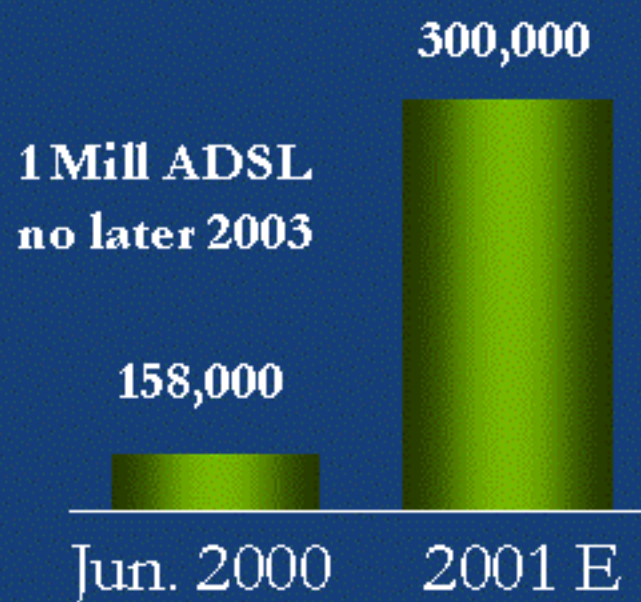
- Leverage existing client bases
- Maximize cash generation short and long term

DRIVING THE BROADBAND OPORTUNITY

T.ESPAÑA

T.LATAM

ACCESS:
Accelerate ADSL
deployment



CONTENT:
Offer broadband
interactive
content

Telefonica
Media

terra
lycos

TPI

UMTS IN GERMANY

We are actively negotiating along different interrelated levels ...

to deliver...



1. Customers before year end

- GPRS launch in 2001. Undergoing discussions with distribution channels

2. An efficient network

- Advanced negotiations on shared infrastructure arrangements, roaming and interconnection agreements

3. An effective organization

- CEO and management team appointed. Munich headquarters operational.

CONTENT IS KEY IN TELEFONICA'S VISION ...



AHEAD OF COMPETITORS IN OUR NATURAL MARKETS

4.- CONVERGENCE

Telefonica

T. MEDIA: BECOMING A STRATEGIC ASSET FOR TELEFONICA'S CONVERGENCE STRATEGY

Free-to-air-TV and Radio



Consolidate to become the leader in free-to-air-TV in Spanish speaking countries

Contents



Create a leading content manager

Pay TV & Distribution



Consolidate Telefonica Media's position in Pay TV

SELECTIVE AND COHERENT M&A STRATEGY

- JV with Portugal Telecom in Brazilian mobile market
- Acquisition of Motorola's wireless assets in Mexico
- Tender offer for CRT Celular minority stakes
- Acquisition of Iberdrola's assets in Brazil

No merger of equals
at parent level

Receptive to consolidation at
Business Line level, if
strategically complementary


CONTINUE EXPANSION IN LATINAMERICA

Expand in Brazil

- Launch Brazilian wireline operations outside Sao Paulo in 2002 (“Brazil 2002”)
- Consolidate TEM-PT JV as the leading wireless player

Develop recently entered markets

- Fixed telephony in Northern Argentina
- Wireless telephony in Mexico

- 
- Complete the Latin-American portfolio profiting from a natural extension of our leadership

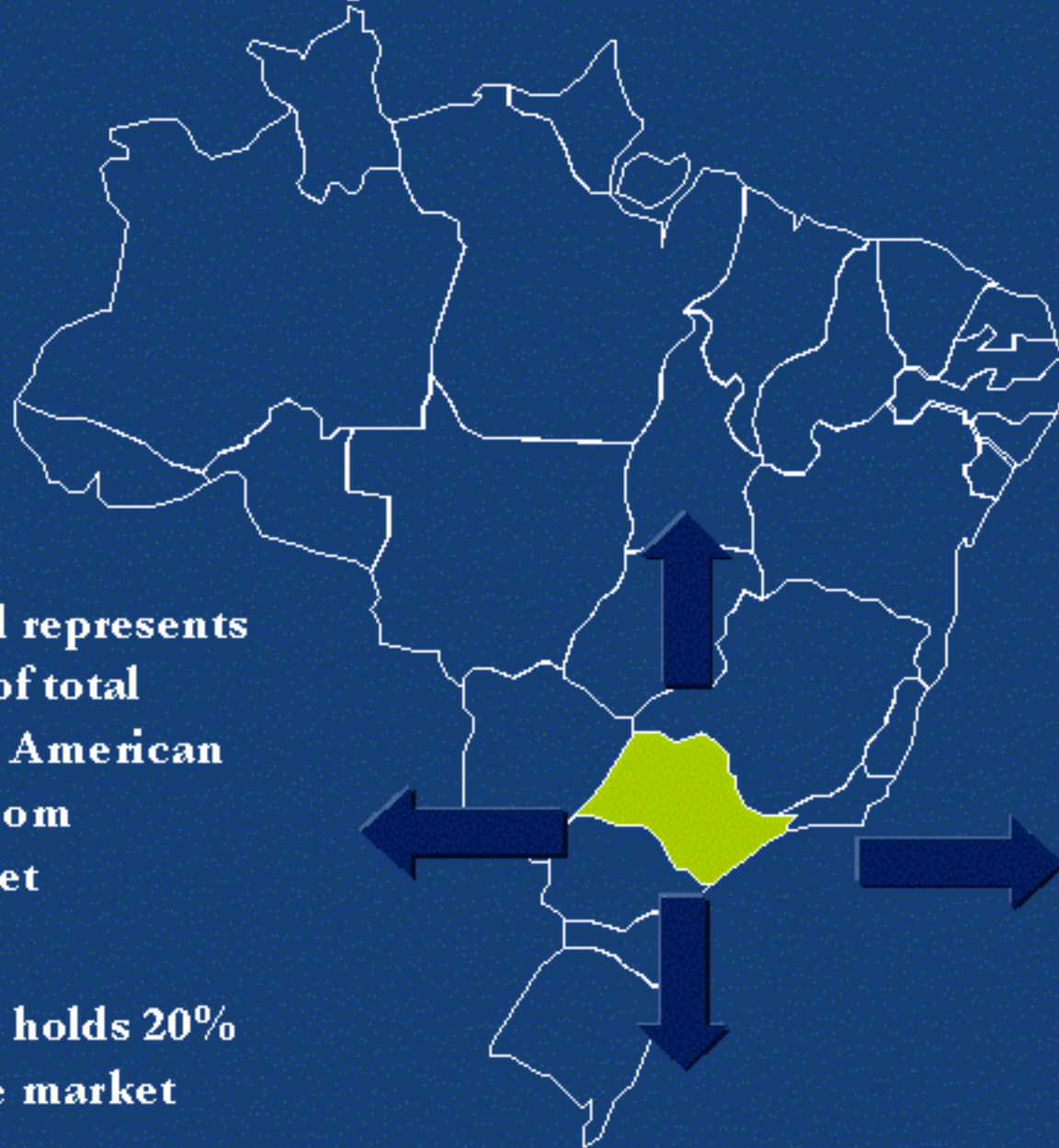
TELESP: WORKING FOR BRAZIL 2002

- Main objective for 2001: achieving regulatory requirements established for 2003 ahead of schedule
- Already completed with the review of the quality of the waiting list



NEW OPPORTUNITY: EXPANDING TO THE REST OF BRAZIL

The anticipation of regulatory requirements will open many opportunities for Telefonica's Group from 2002



Brasil represents 40% of total Latin American Telecom Market

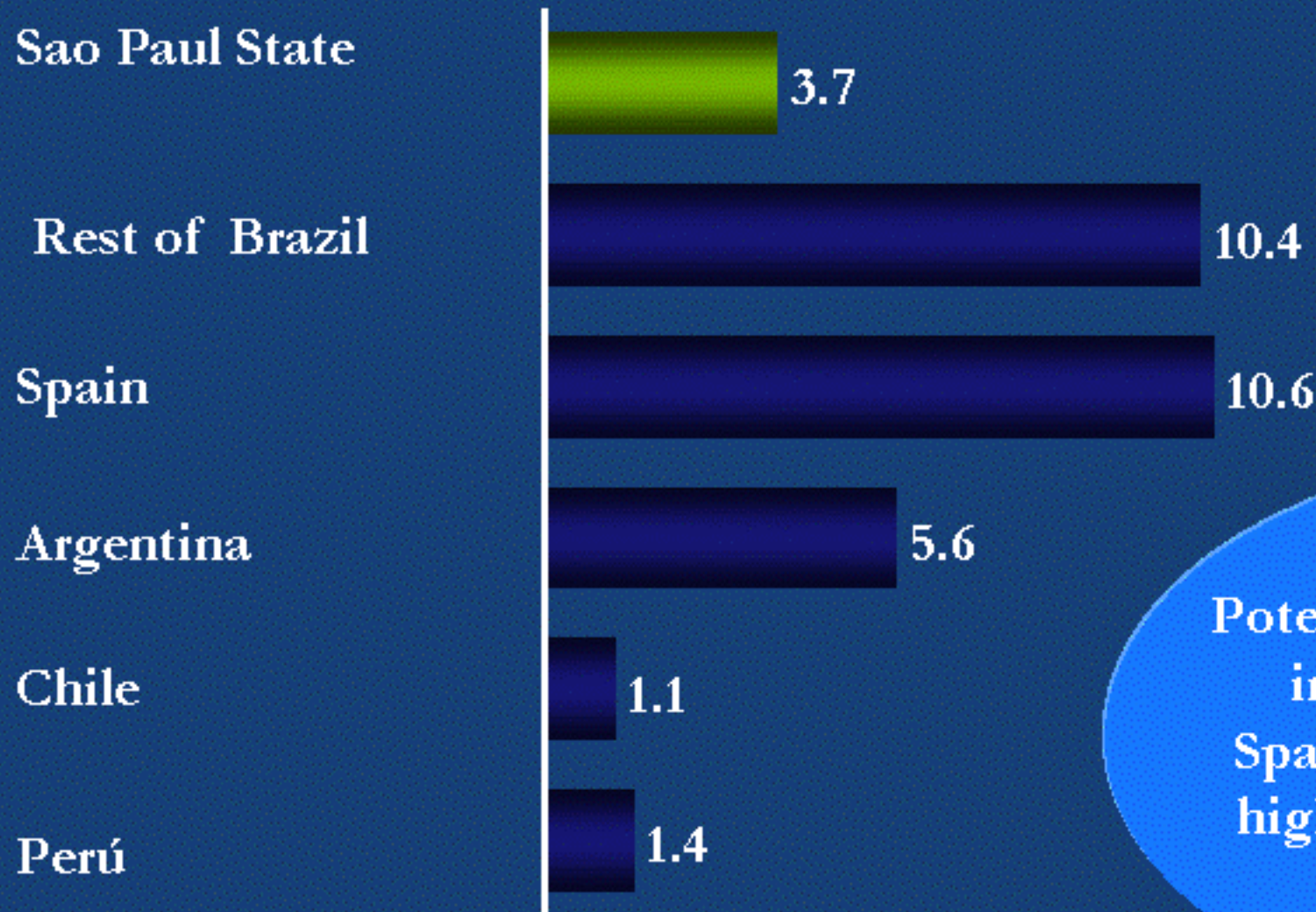
TEF holds 20% of the market share

- Telefonica's Group is in an unrivaled position to accomplish Universalization Goals in 2001 which will allow:

- Providing all the services to Telesp's customers
- Consolidation of our relationship with customers
- Offering Long Distance Services out of Sao Paulo

NEW OPPORTUNITY: EXPANDING TO THE REST OF BRAZIL

REVENUES 2000 (*)
(Billion of euros)



Potential market for Telefonica in Brazil is similar to the Spanish market and over 28% higher than Argentina, Chile and Peru together.

(*) Only includes Wireline companies

NEW OPPORTUNITY: EXPANDING TO THE REST OF BRAZIL

Telefonica Group's strategy in Brazil will increase the value of the existing operations

Competitive Advantage

Approximately 40% of long distance and international calls are generated from Sao Paulo

Telefonica has a market share of 83% in the market where competes with Embratel


Close to 30% of the traffic is originated in markets where Telefonica operates as a wireless player

Almost 80% of the 250 largest Brazilian companies have their headquarters in Sao Paulo and almost 90% are Telefonica's customers

Telesp is the leading company in broadband offering services

Emergia will provide city to city connectivity

Opportunities



Creation of leading Long Distance Carrier



Developing Corporate businesses



Broadband



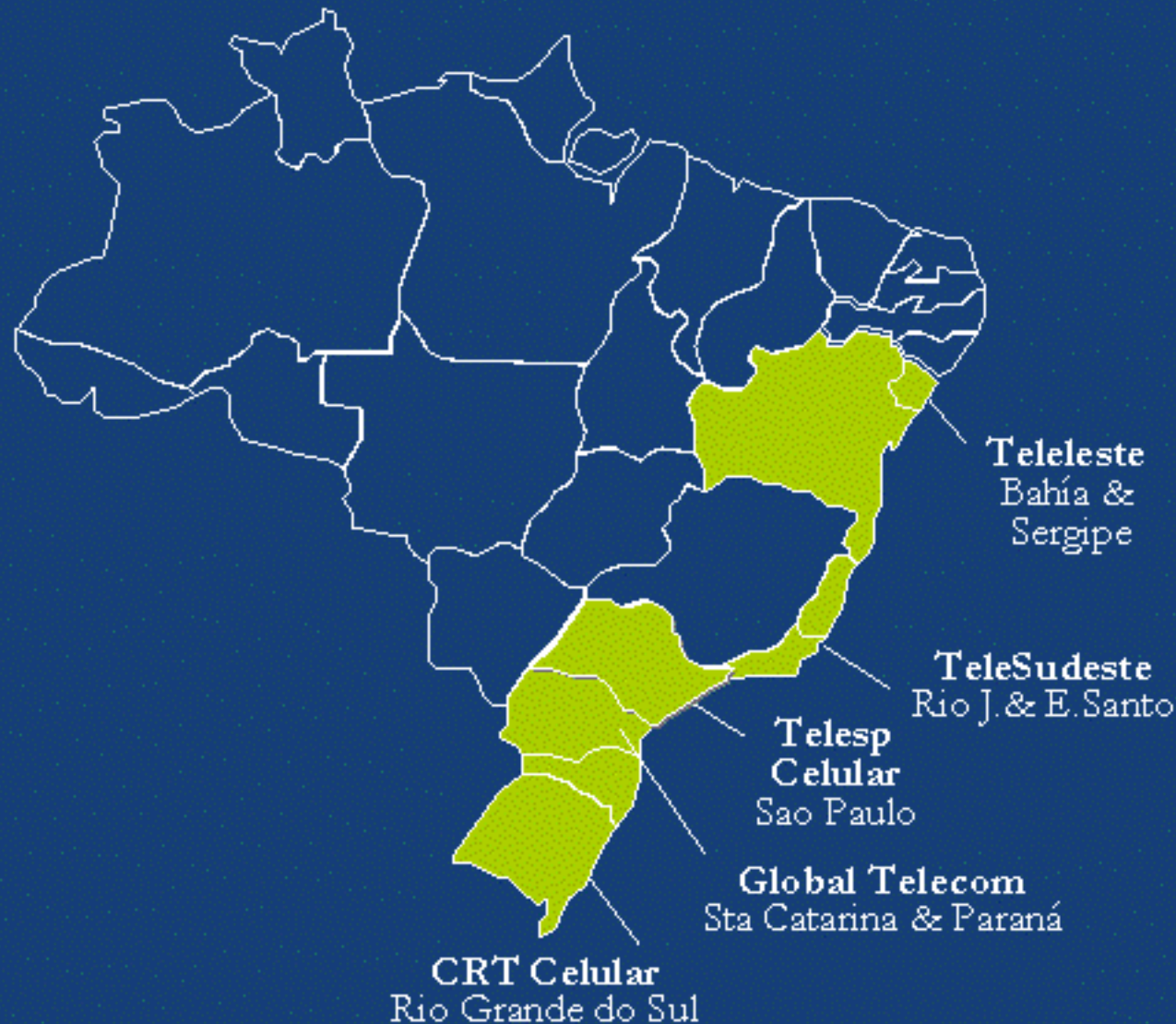
Complete Brazilian broadband network

NEW OPPORTUNITY: EXPANDING TO THE REST OF BRAZIL

Brasil “2002” : A highly attractive project for Telefonica

- **Marginal investments when compared with the value of total investments already done**
- **No need to pay any premium for the acquisition of licences or companies**
- **Positive cash flow generation starting in 2002**
- **Start up of operations with strong growth potential**

BRAZIL: TEM-PT JV, THE #1 PLAYER IN THE #1 LATAM MARKET



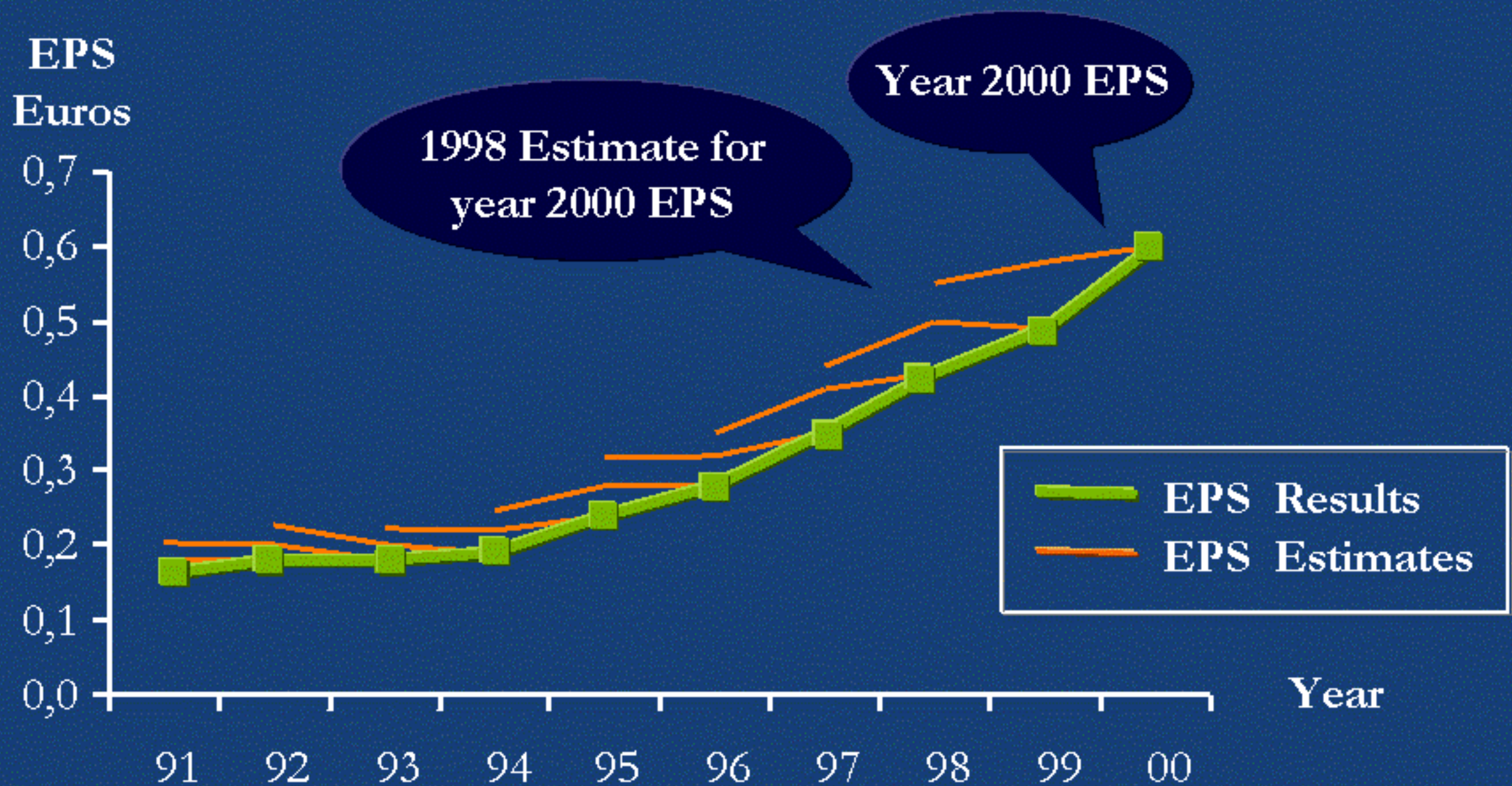
- 9.3 MM controlled customers
- Overpassing 2nd, 3rd & 4th operators' total customer base
- Potential market of over 93 MM POPs (56% of Brazil)
- Leadership in 4 of 5 richest areas in Brazil (71% GDP)
- 60% of average market share
- Unique player operating in Sao Paulo & Rio de Janeiro
- Pioneer in VAS
- Expansion into new areas trough new acquisitions & PCS spectrum re-auctions

Far ahead of competitors, leading the first and best positioned consolidation initiative

TELEFONICA ACHIEVED STRONG PERFORMANCE IN YEAR 2000 AND 1Q01...

Million	2000	% change	1Q01	% change
Revenues (□)	28,485.5	24.1	7,603.3	17.9
EBITDA (□)	11,918.8	9.5	3,128.2	10.9
Net income (□)	2,504.8	38.8	431.8	24.8
Wireline customers	42.3	10.1	43.2	10.1
Wireless customers	24.9	48.9	27.2	44.8
Internet access customers	6.1	370.0	7.1	167.8

... ONCE AGAIN DELIVERING RESULTS IN VLINE WITH ANALYSTS' ESTIMATES ...



SOURCE: DATASTREAM

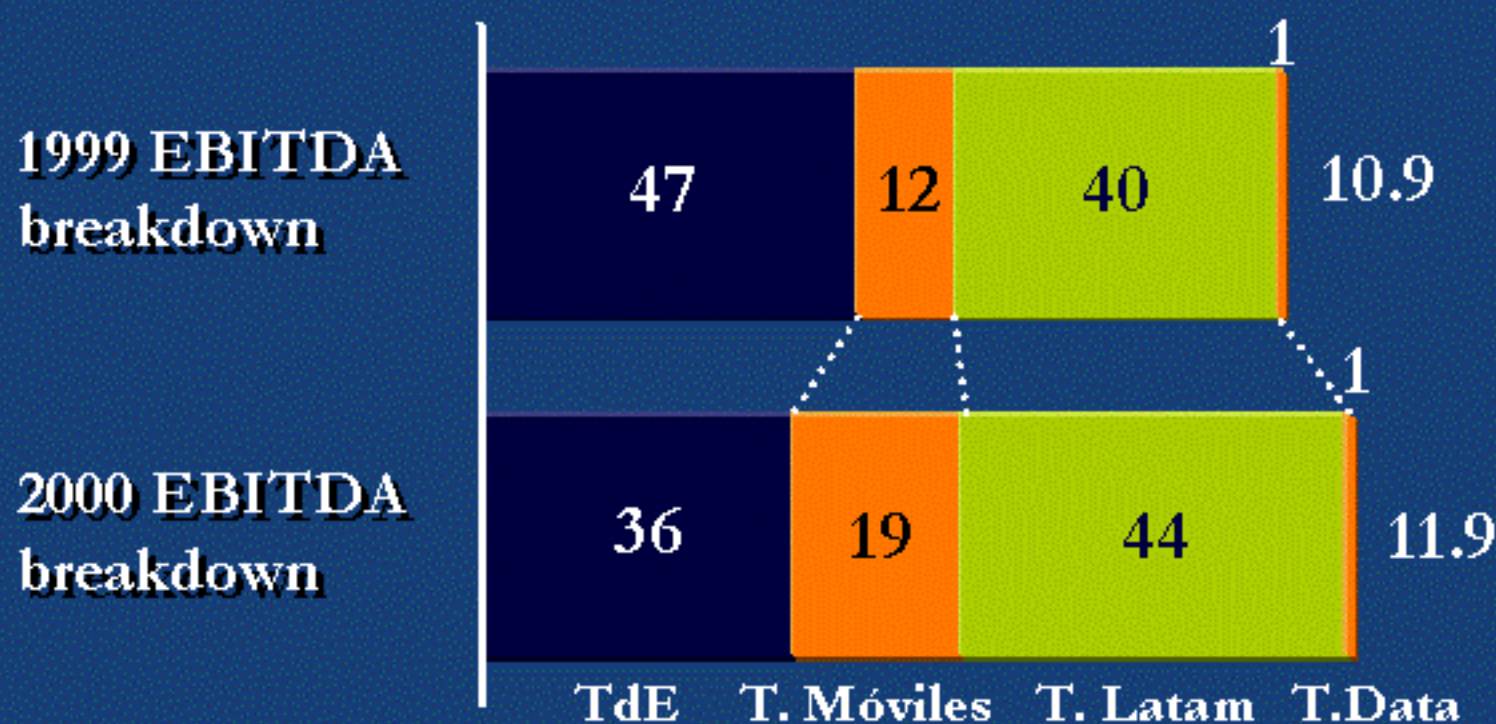
ALONG WITH WELL BALANCED FINANCIALS...

□ 12 Bn. EBITDA
2000

□ 26.9 Bn. Net debt
12/2000

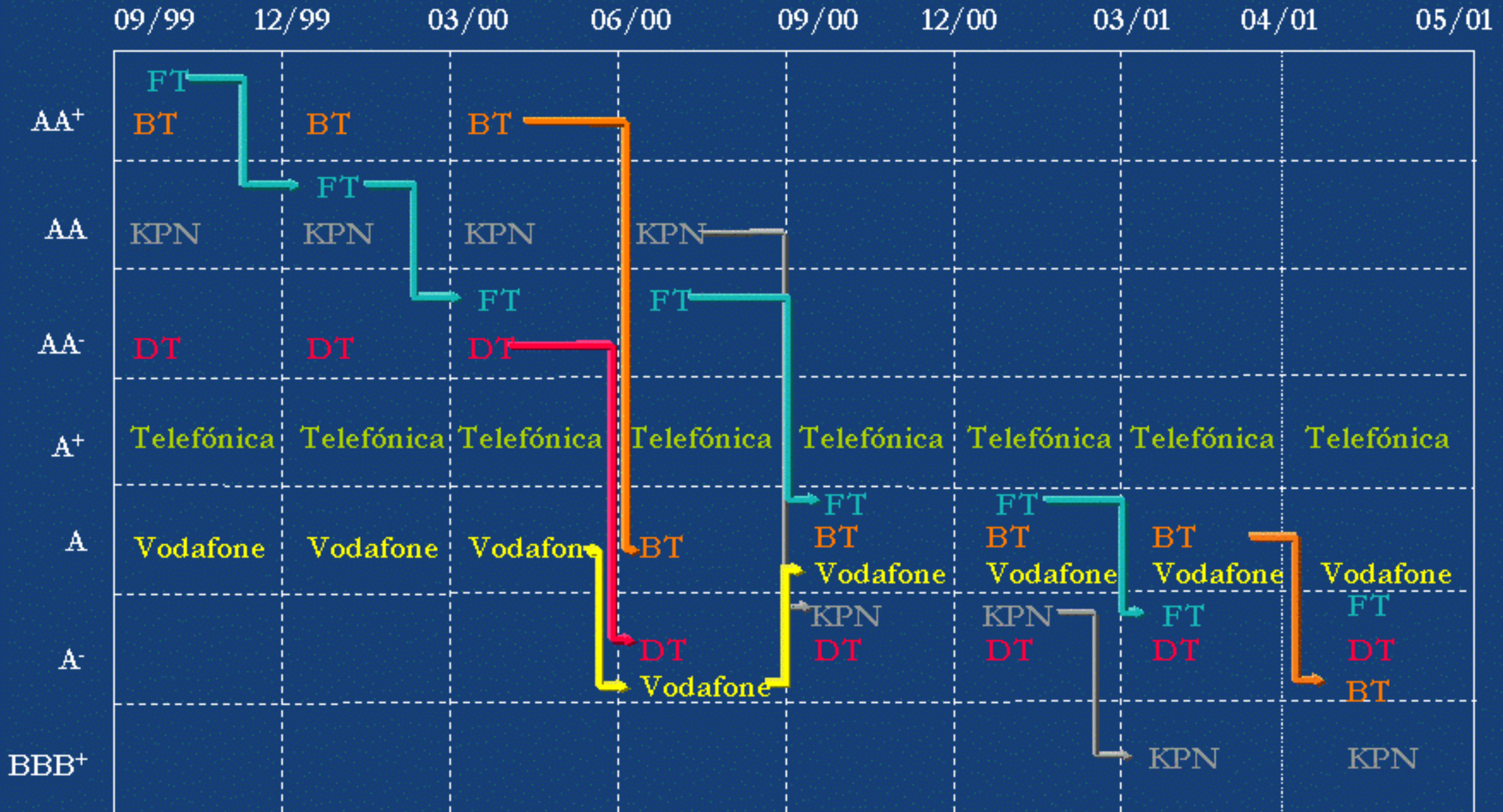
□ 71 Bn. Market Cap.
07/02/2001

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



RATING STABILITY

Evolution of ratings (S&P)



MANAGEMENT PRIORITIES

“Achieve sustained superior earnings growth”

1 Continue improving results in consolidated businesses

- Telefónica de España
- T. 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 the Group

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

Anticipate break-even leveraging the overall group position

4 Continue business building

- Atento
- Katalyx
- Develop related businesses leveraging our franchise

Push current businesses under development and open new options



Capture inter-business and Group synergies

Telefonica

MANAGING KEY PERFORMANCE METRICS

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

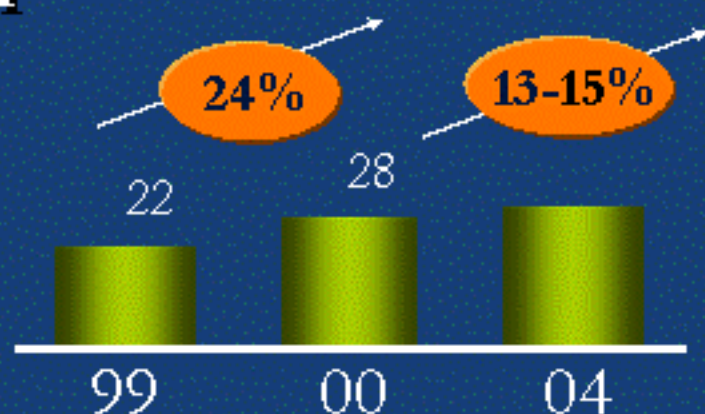
- Cost efficiency
- Operational leverage
- Quality

Operational excellence

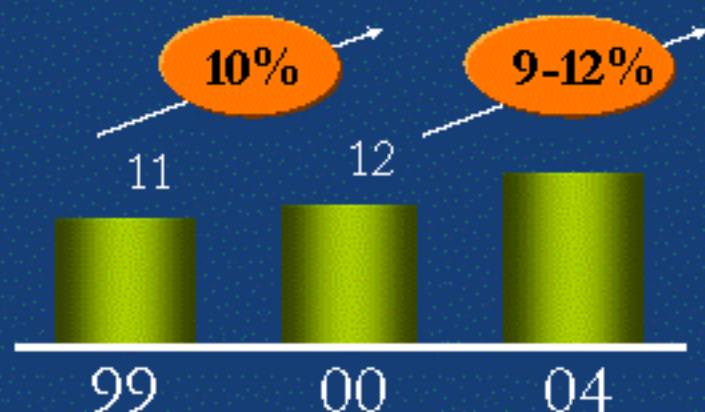
- Asset turnover
- Capex allocation and control
- Reducing asset base

Focus on ROCE

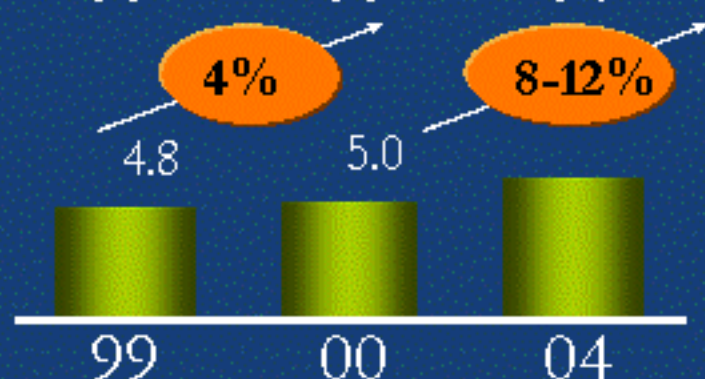
TOP LINE



EBITDA



EBIT*



* Calculated exc. goodwill

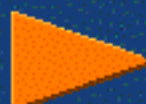
TO SUMMARIZE

Challenges

Strategic Actions



Restructuring



Restructuring of business lines for growth, flexibility, efficiency, and competitive strength



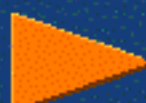
Broadband



Leverage strong client base; accelerate ADSL deployment; interactive content offering



UMTS



Strategic agreements for network sharing; strong management team in place; GPRS launch in 2001



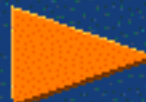
Convergence



Leverage T. Media's natural advantages as a content provider



Consolidation



Selective M&A strategy excludes "merger of equals"; expansion into Latam, market where Telefónica leads



Financial



Fundamentals

Financial strategy emphasizes stability and flexibility; currency risk management minimizes Latam exposure

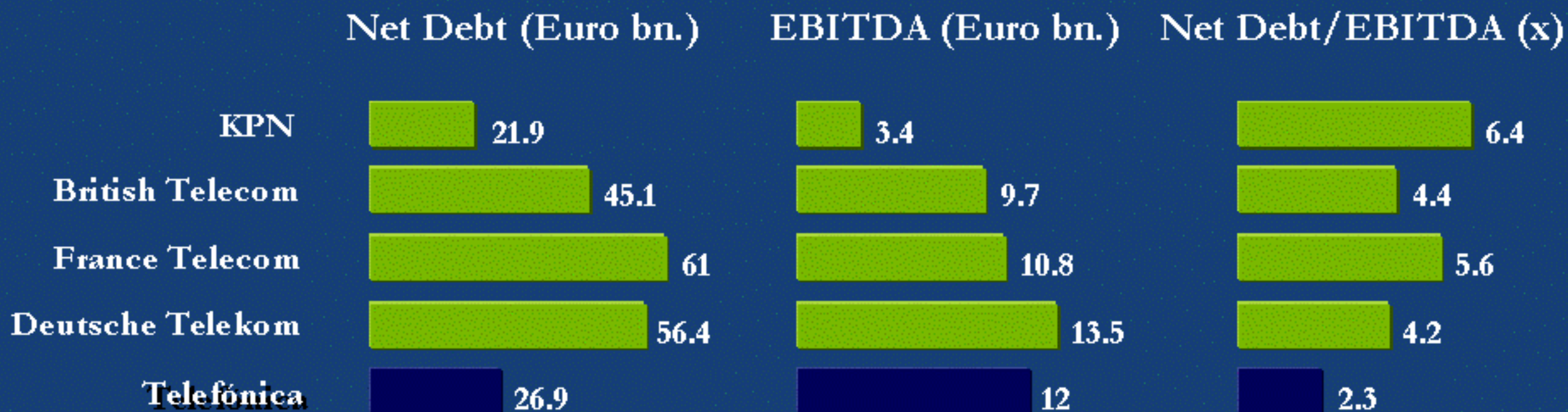
Delivering results

Telefonica

Telefónica

... WHICH HAS POSITIONED TELEFONICA AHEAD OF ITS PEERS

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



Dec 2000

CURRENCY RISK MANAGEMENT

ASSETS

✓ Natural hedges, corporate restructurings

✓ Operating companies debt restructuring

FINANCIAL DEBT

✓ Efficient internal financing circuit

✓ Hedges

OPERATING FLOWS

✓ Short term impact, recovery of economic growth in medium term

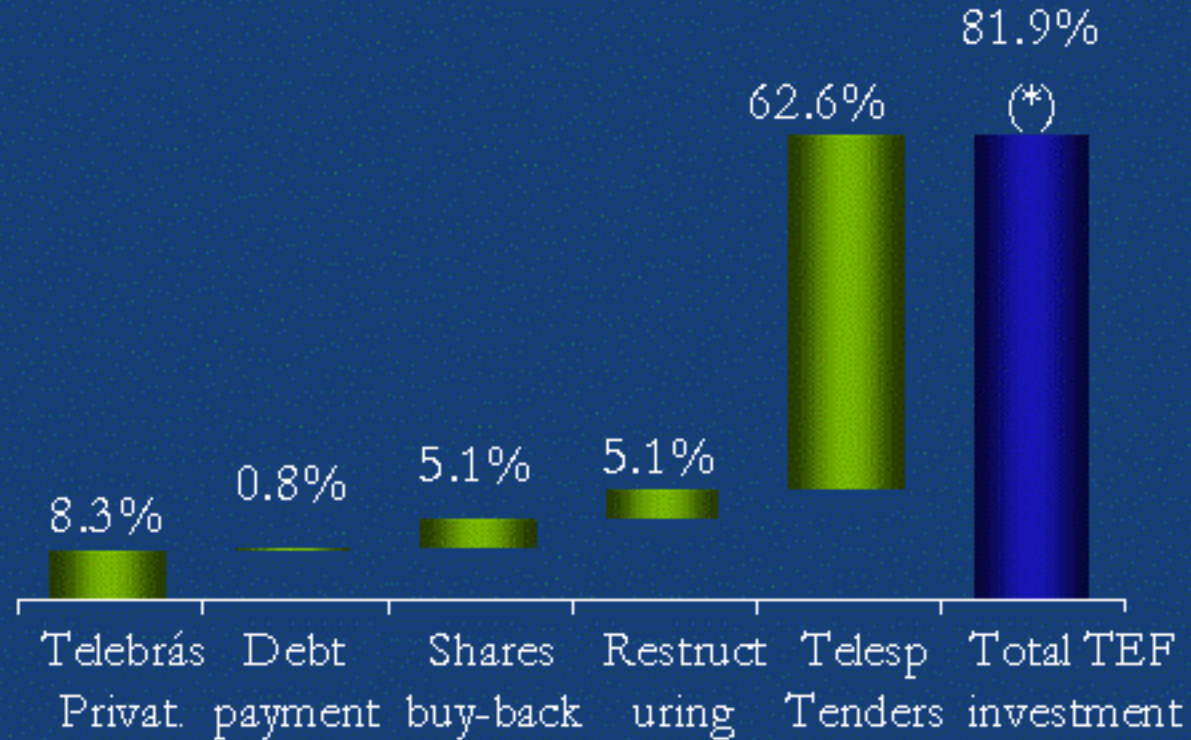
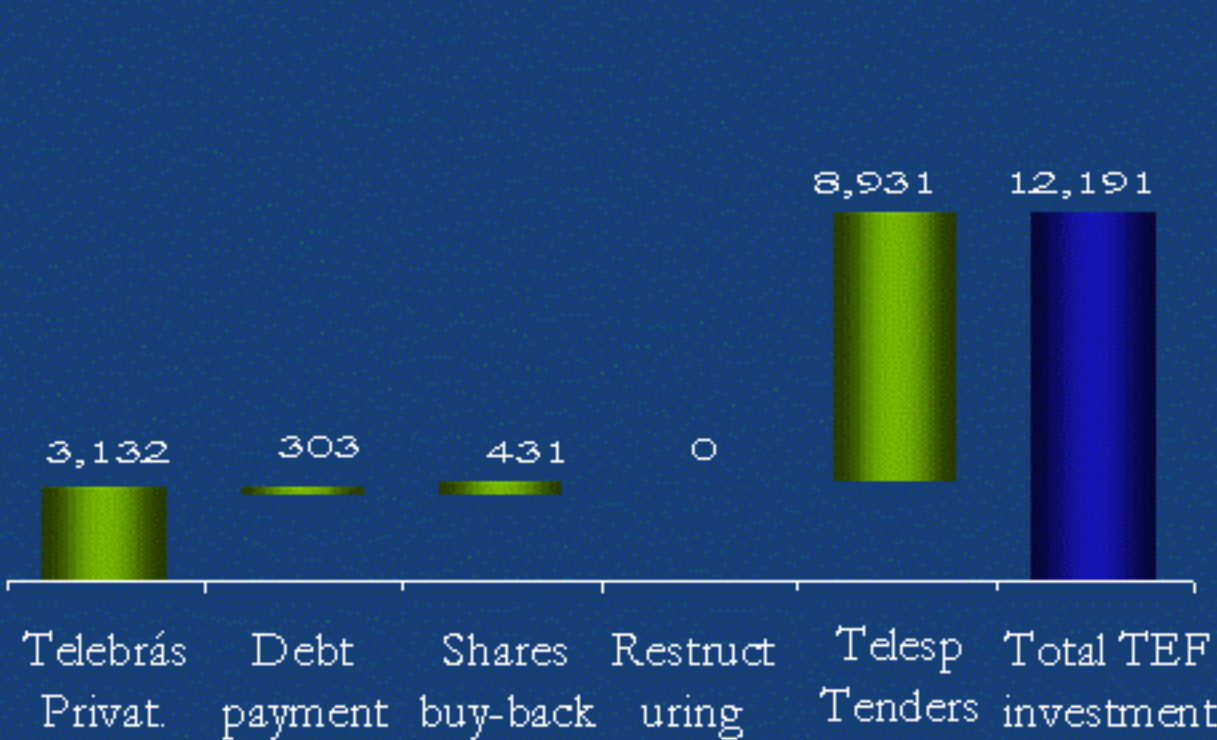
✓ Management of the environment: rationalize CAPEX, focus on bad debt expense and cost control

- Controlled impact from Balance Sheet exposure
- Controlled impact on cash-flows

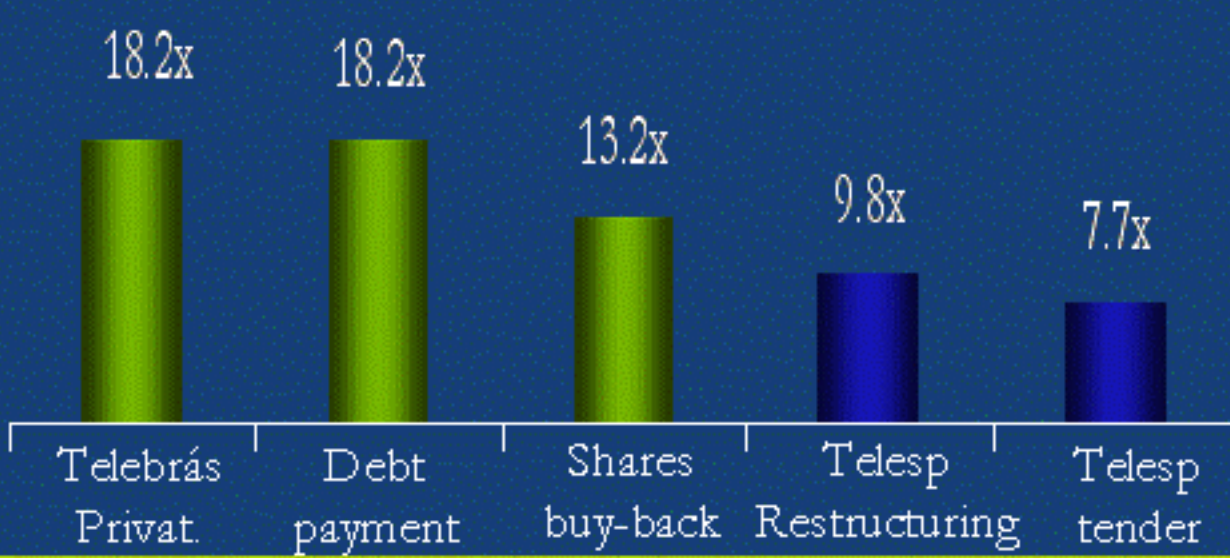
CORPORATE RESTRUCTURINGS: THE TELESP CASE

TELEFONICA INVESTMENT (\$ in millions)

CHANGE OF TELEFONICA'S STAKE IN TELESP



IMPLIED FV/EBITDA 00E



EVOLUTION OF TELEFONICA AVERAGE PRICE PAID PER 1000 TELESP SHARES (US \$)



(*) 86.6% after equity swap with PT



A MILESTONE YEAR: ASSET GROWTH WITH A STRONG BALANCE SHEET

Consolidated Net Assets (Euro Mill.) YoY growth: **+ 36.5%**

	<u>1999</u>	<u>2000</u>
Net Assets	45,571	62,211

Consolidated Net Debt (Euro Mill.) YoY growth: + 31.6%

	<u>1999</u>	<u>2000</u>
Net Debt	20,472	26,951
Net Debt / Total Capital Employed	44.9%	43.3%
Net Debt / EBITDA (x)	1.9	2.3
EBITDA / Net financial expenses (x)	6.1	6.4

WITH A CLEAR FINANCIAL STRATEGY AND TIMELY EXECUTION ...

- Equity funding
- Full access to LATAM's cash flows
- Optimising WACC and credit rating
- Financial flexibility
- Enhancing stability of increasing cash flow
- Efficiency and transparency in capital allocation