Telefónica

TMT Conference

Morgan Stanley

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Safe Harbour

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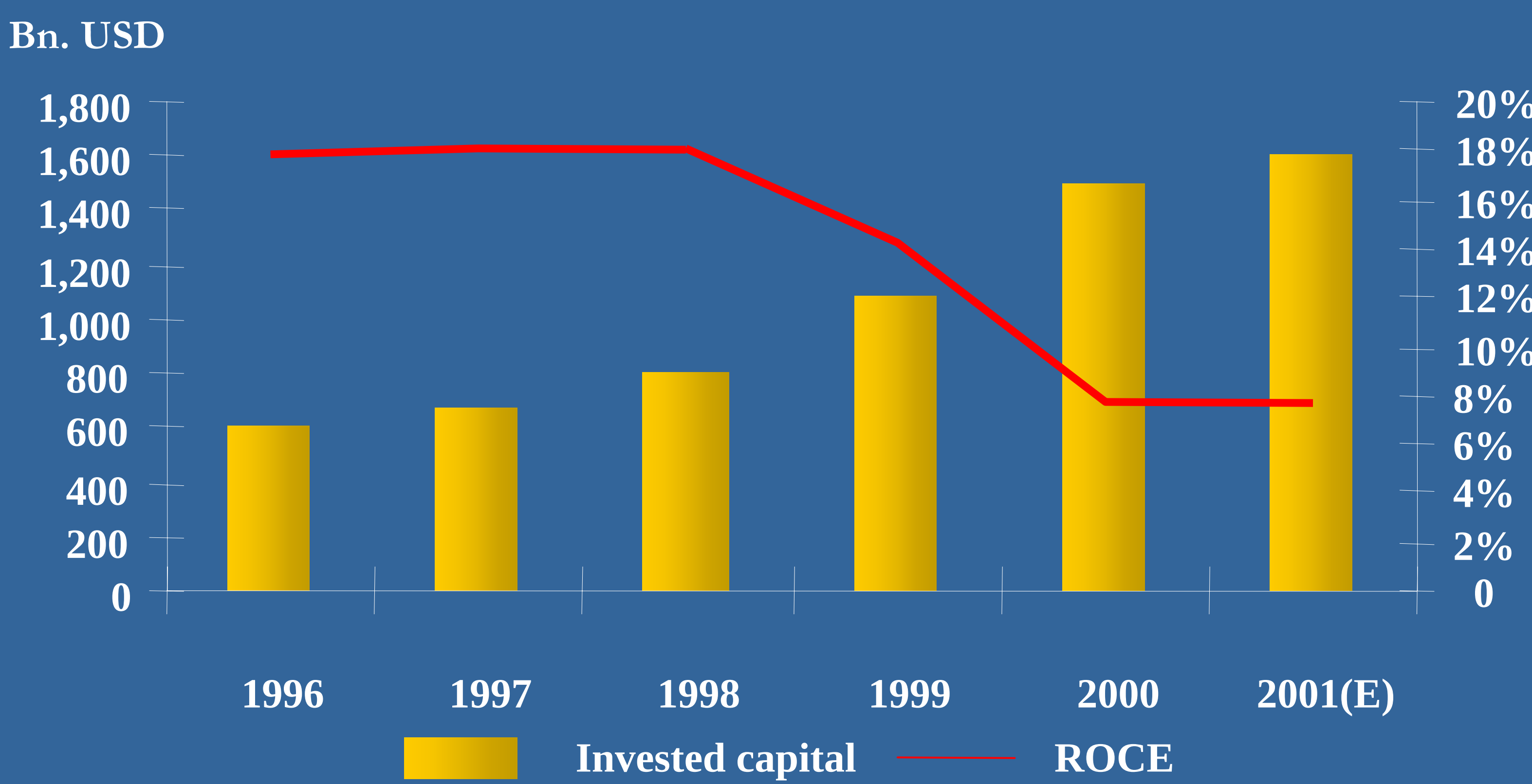
- **The world has changed and our sector has soured**
- Telefónica is structurally strong
- We will come out stronger of these uncertain times, delivering sustained earnings growth and keeping optionallity

INVESTED CAPITAL vs RETURNS IN TELECOMS

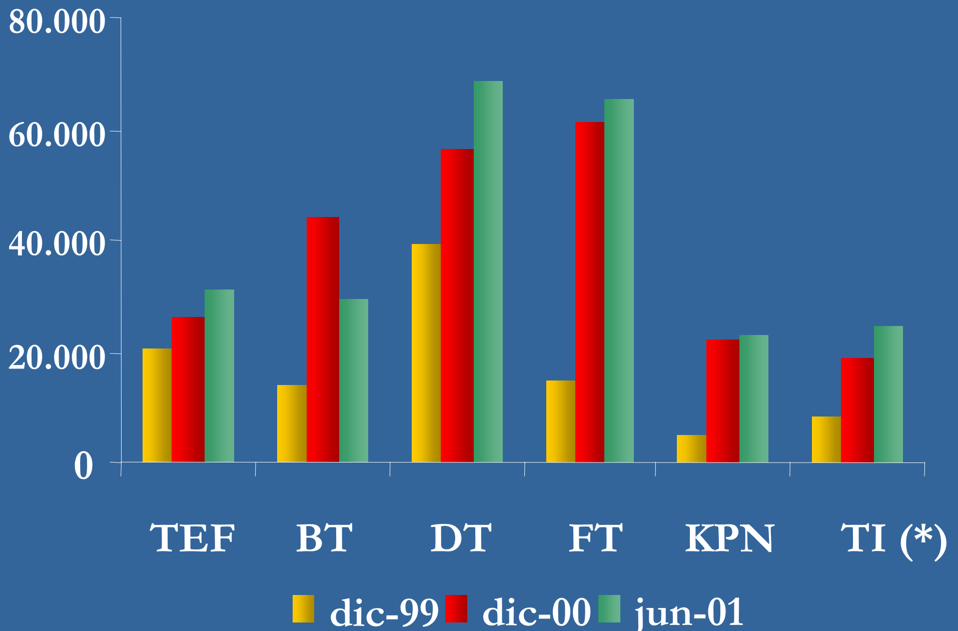


- ✓ Increasing concerns on return on invested capital
- ✓ Increasing cost of capital (lower cost of debt vs higher equity risk premium)
- ✓ Different investment cases across the sector

Source: UBS Warburg

FUNDING DILEMMA: DEBT OR EQUITY

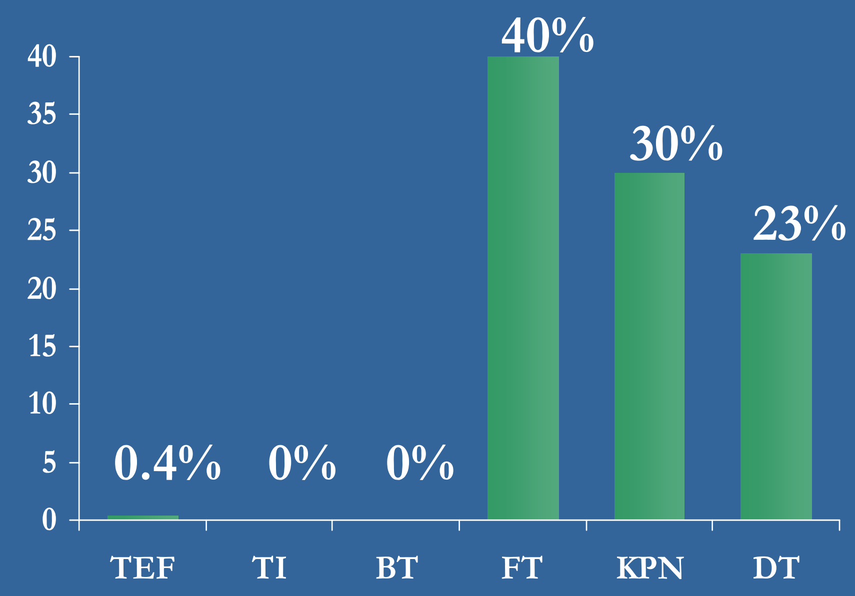
Net Debt (MM Euros)



	TEF	BT	DT	FT	KPN	TI
Net debt/ MKT.CAP	54%	66%	96%	144%	455%	44%

(*) Excluding Olivetti´s debt
Reported net debt as of June 01 and market cap as of 26 October 2001

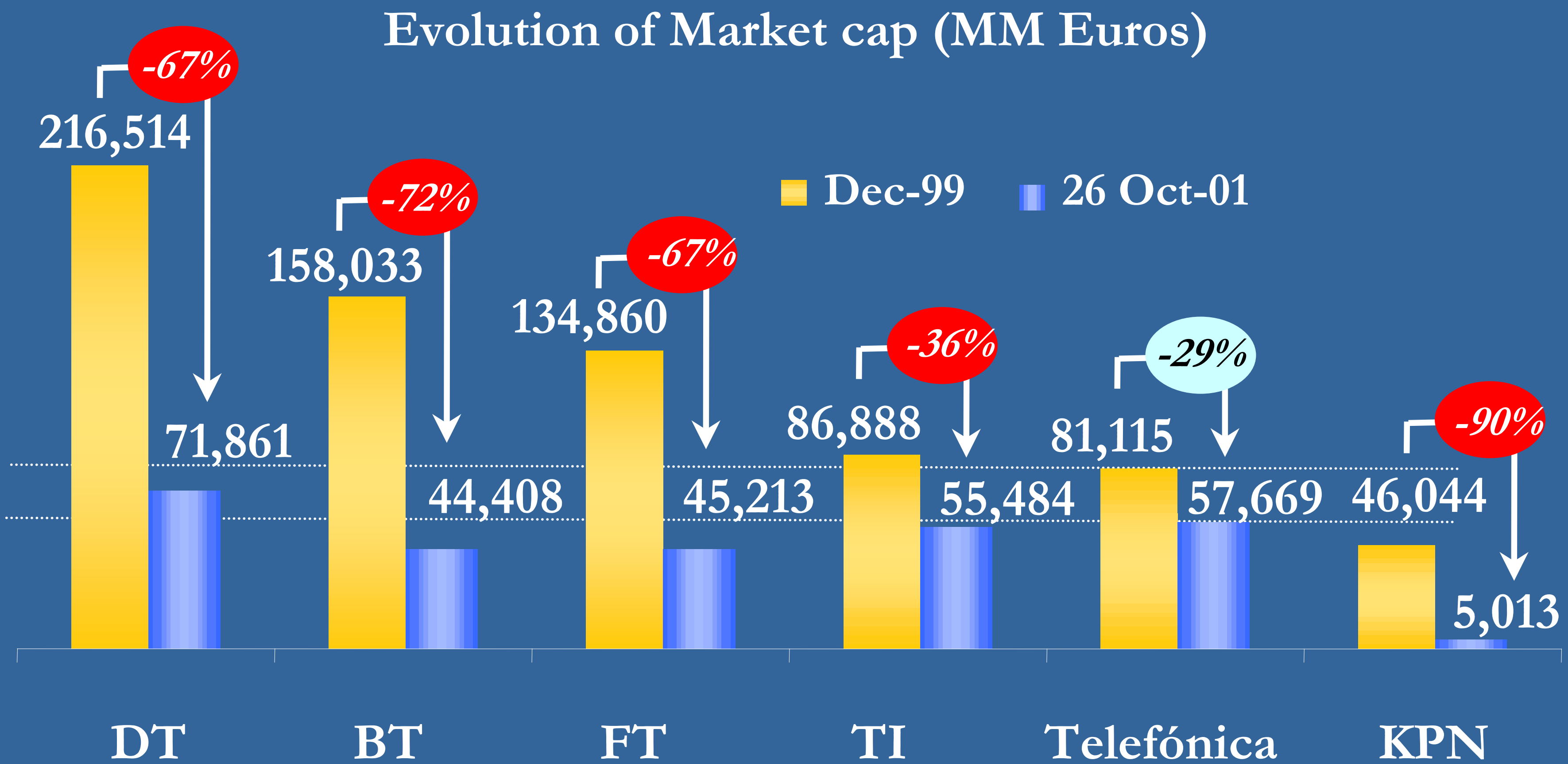
Maximum estimated overhang over total free float



Source: Credit Suisse First Borton, 30 August 2001

	TEF	TI	BT	FT	KPN	DT
Gov. stake	0%	3%	0%	55.7%	34.7%	43%

QUALITY BALANCE SHEET vs MARKET CAP. PERFORMANCE



✓ Best rated company within the sector (S&P and Moody's)

A NEW CONTEXT

- Downward revision in expectations for growth businesses. Financial markets focus shifting from long term growth to cash and short term returns
- Increased cost of equity. Outflow of funds from the sector. Difficulty to raise new capital
- Overcapacity and decreasing returns on invested capital
- Increased debt levels weaken balance sheets and erode market cap
- Slowdown in the global economy

Solid companies that adapt better and retain more options will come out stronger

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TELEFONICA'S SOLID POSITION

Sound financials

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

Solid fundamentals

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

Strong strategic position

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

TELEFONICA: A DIVERSIFIED GLOBAL PLAYER

10 Telco worldwide by market cap (# 15 in Dec 99)

2 among European incumbents (up from # 5 in Dec 99)

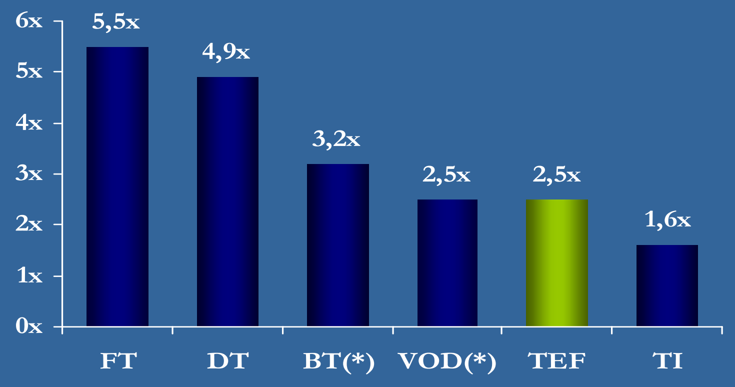
Telefónica

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

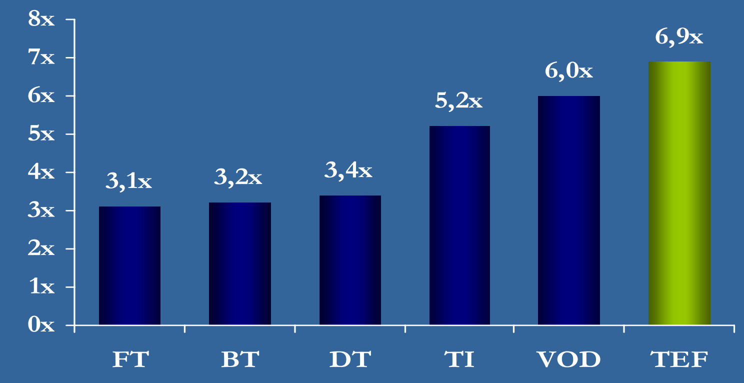
Million	2000	% Change	1H01	% Change
Revenues	28,485.5	24.1	15,302	15.2
EBITDA	11,918.8	9.5	6,356.6	9.2
Reported Net inc.	2,504.8	38.8	1,148.6	16.1
Net inc. - goodwill	3,005.4	50.3	1,631.8	41.6

PEER COMPARISON HIGHLIGHTS TELEFÓNICA'S CREDIT QUALITY

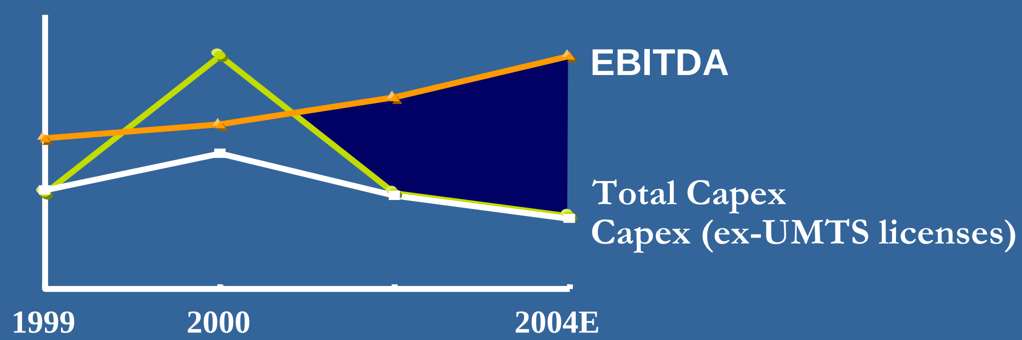
Net Debt 01 / EBITDA 01



EBITDA 01 / Net Interest Expense



EBITDA generation in excess of CAPEX required for organic growth



•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

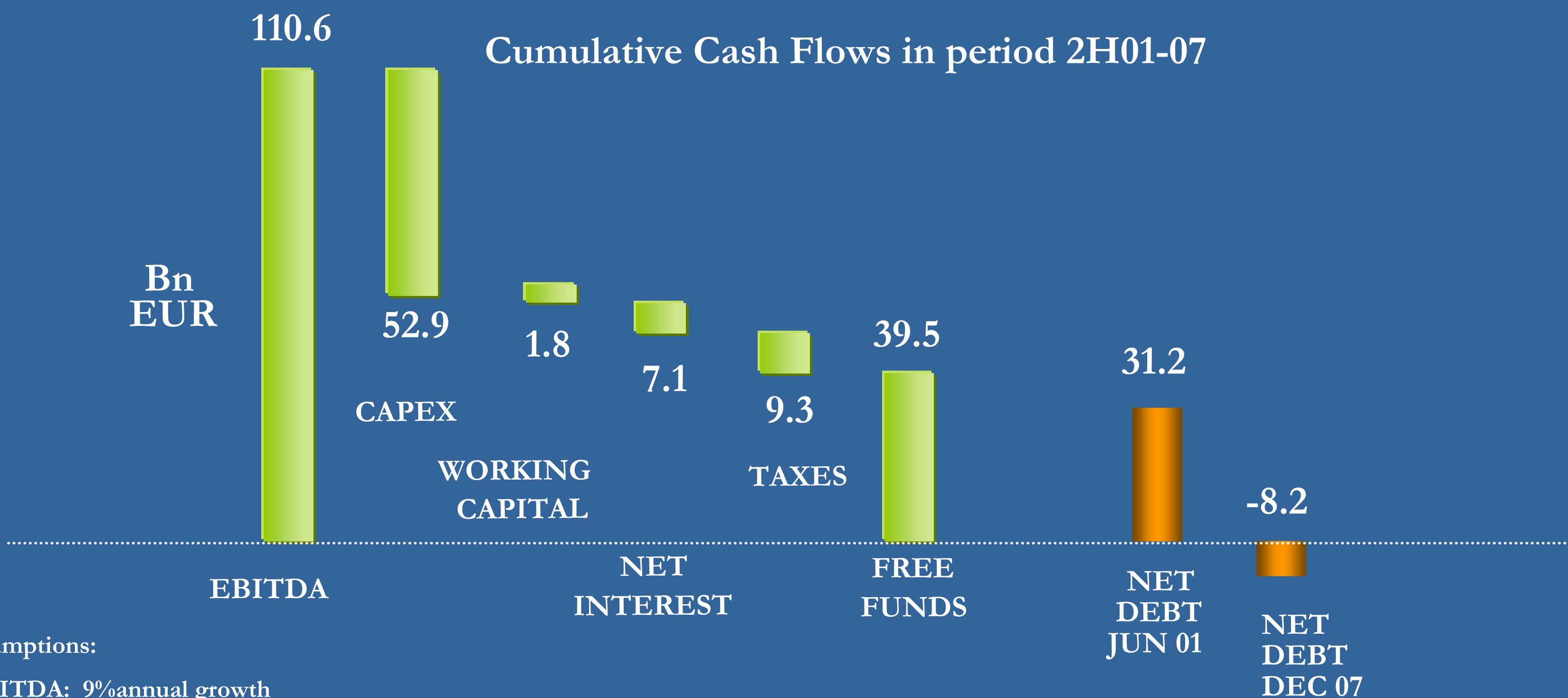
•Telefónica estimates: EBITDA and Net Interest Expense annualized 1H2001 results; Net Debt as of 30-Jun-01

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

•Spread Increase: Source: Bloomberg

TELEFÓNICA COULD PAY OFF ITS DEBT IN LESS THAN 6 YEARS

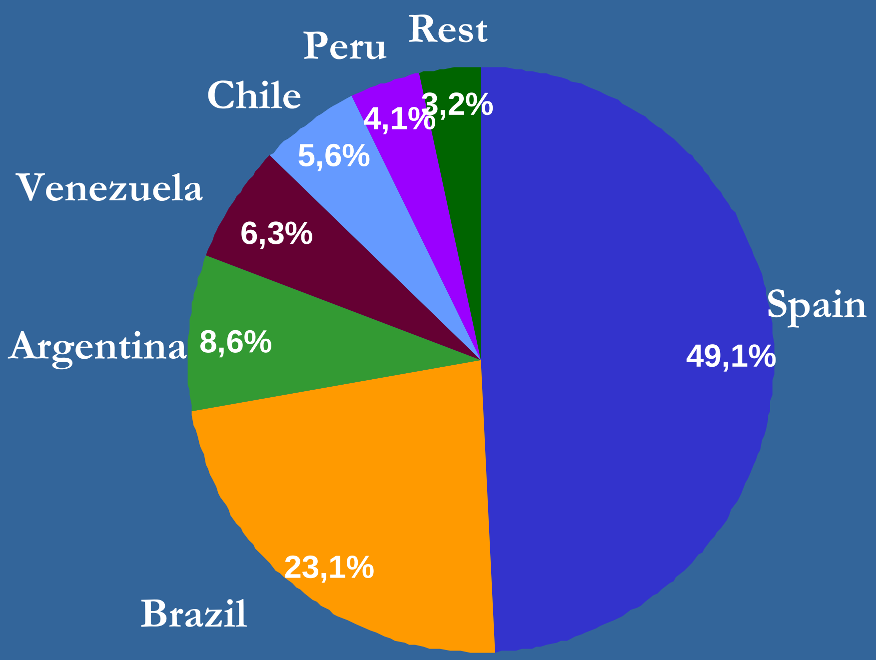
✓ Cash flow generation capacity would allow full debt repayment before current average maturity (5.9 years).

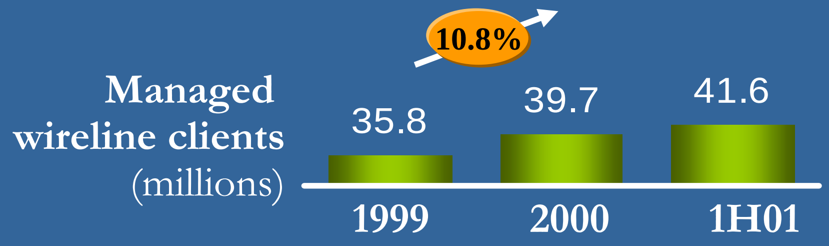


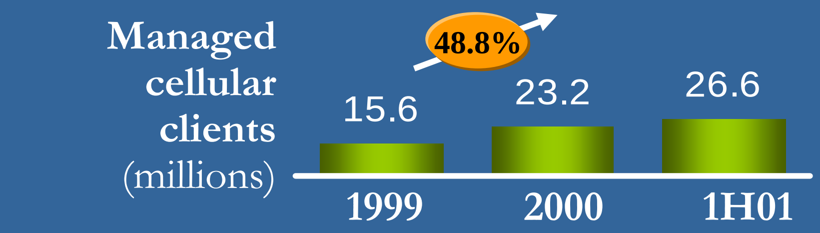
Assumptions:

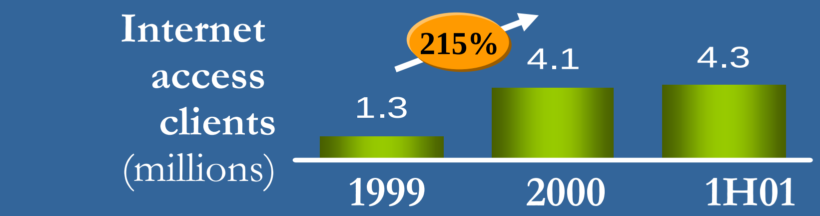
- EBITDA: 9%annual growth
- Capex: Average of analysts forecasts *(recent reports by Lehman Brothers, Merril Lynch, Credit Suisse and BSCH)*
- Working capital requirements: 20% of EBITDA increase,effective tax rate of 30%, and average debt cost estimated from current market interest and FX rates
- Net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

LARGE AND GROWING CUSTOMER BASE









A market with more than 500 million potential customers
More than 70 million customers currently being served
Homogeneous markets with strong cultural and economic links
Positive growth outlook despite economic slowdown

STRONG OPERATIONAL PERFORMANCE
Wireline strategy delivering results in Spain

1.- Lead the direct access front through ADSL
- Number of ADSL subscribers up by 315%
- TdE's market share in ADSL users: 95%

2.- Lead the Internet Growth
- Number of flat-fee subscribers up by 210%
- Dialup access market share of 65%

3.- Defend voice traffic market share
- Managing Price Policies
- New services to promote traffic
- Marketing win-back campaigns

4.-Stabilize regulatory framework
- Increase in monthly fee
- Price cap: CPI - 4%
- Commercial flexibility

	1H01	%vs. 1H00
Total traffic (mill. min)	68,940	+38.2%
LIS ('000)	20,600	+4.1%
Lines per employee	502.8	+15.9%
Operating expenses before Interconnection (mill. Eur)	1,903.8	-7.6%
EBITDA (mill. Eur)	2,440	+4.2%

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

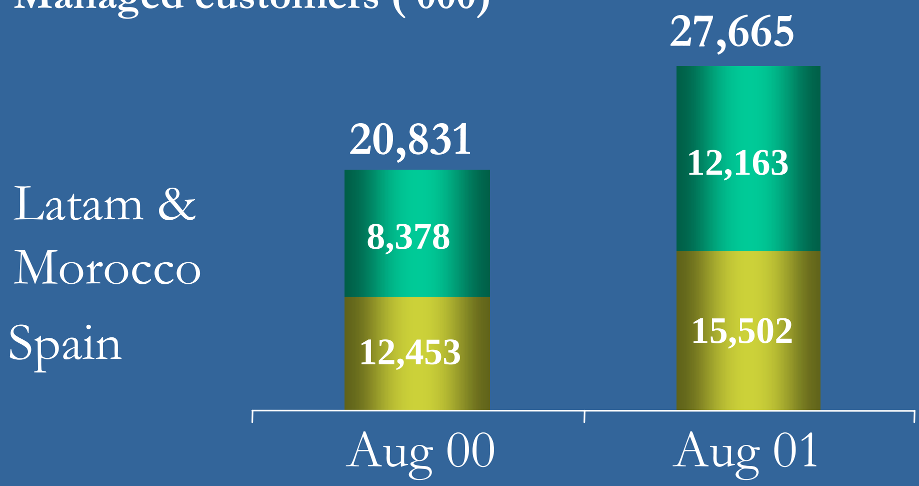
	As of take over	As of 06/30/01	% Change
• LIS ('000)	1,696	4,450	162%
• Lines per employee	78	504	546%
• Avg. Waiting time (months)	49	0.3	n.m.
• EBITDA ($US MM)	637	1,864 (1)	193%
• EBITDA margin	38%	53%	15 p.p.

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

SKILLED TEAMS WITH UNIQUE TRACK RECORD ON ACQUISITIONS

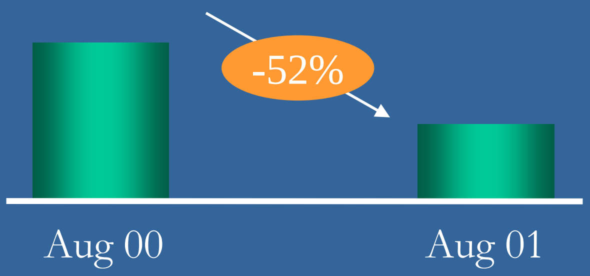
STRONG OPERATIONAL PERFORMANCE
Wireless: significant size, ongoing growth and increasing margin

Managed customers ('000)



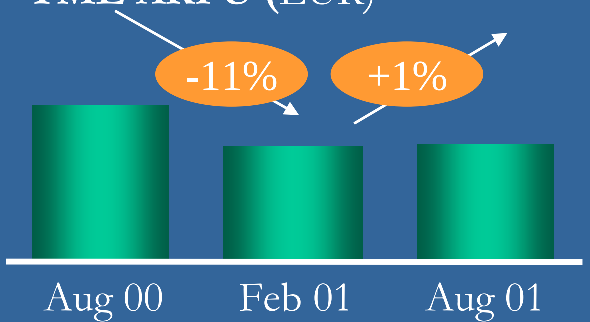
	1H01	%(1H01/1H00)
Operating Revenues	3,933.9	14.2%
EBITDA	1,551.6	32.4%
EBITDA Margin	39.4%	+ 5.4 p.p.

TME Monthly churn



TME SAC (EUR)

TME ARPU (EUR)



OUR STRENGTH: SOLID POSITION AND OPTIONALLITY

- Sound financials
- Solid fundaments
- Strong strategic position

- 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

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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

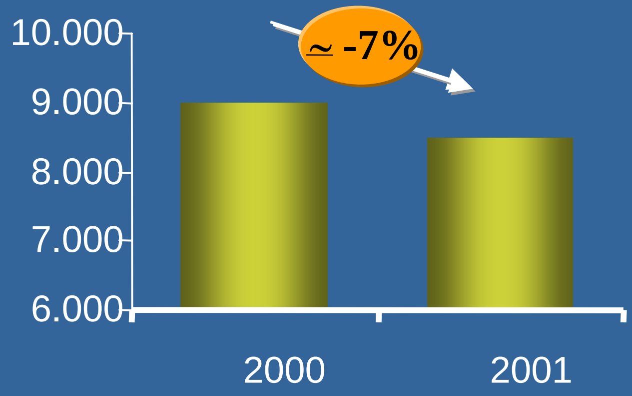
+

Leverage our strong position in the sector restructuring

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

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

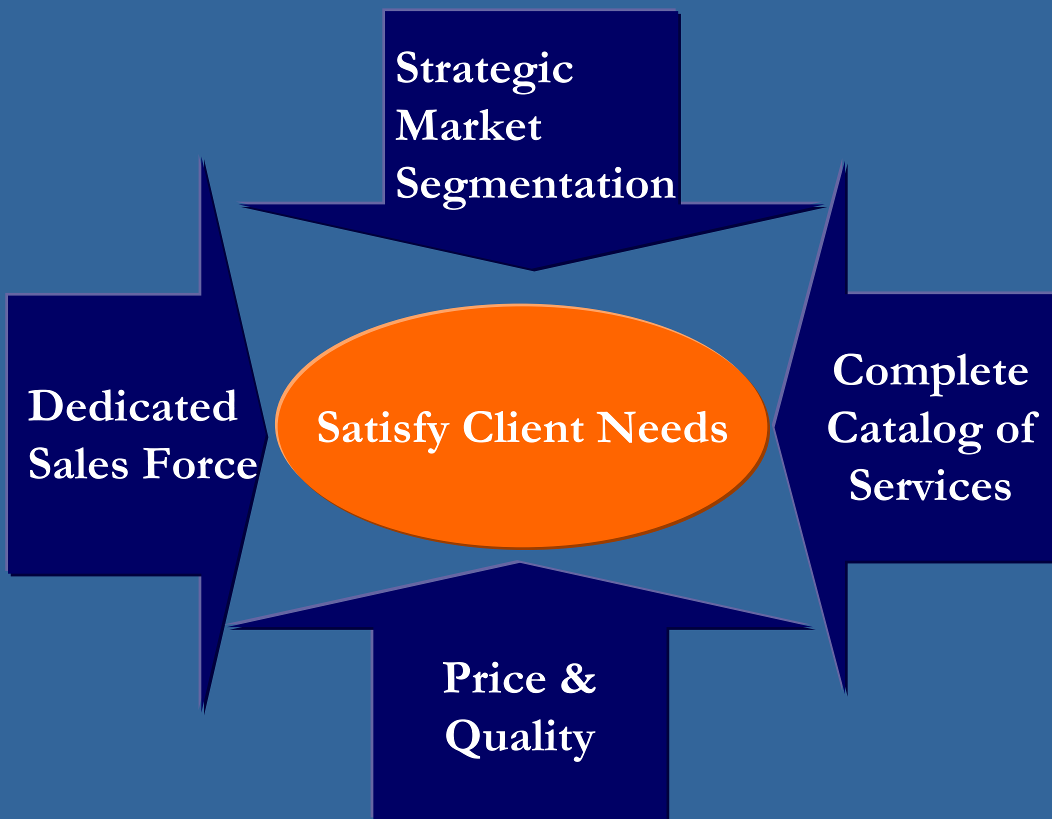
Flexible cost structure: 50% variable

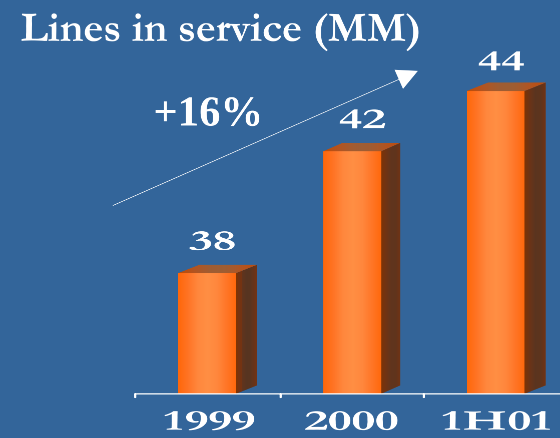
- Subscriber acquisition costs

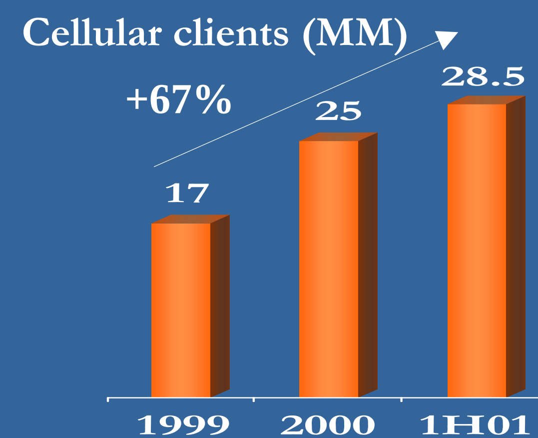
- Linked to revenues (interconnection, roaming)

Capex adapted to demand

OUR STRATEGY: FOCUS ON CLIENT NEEDS





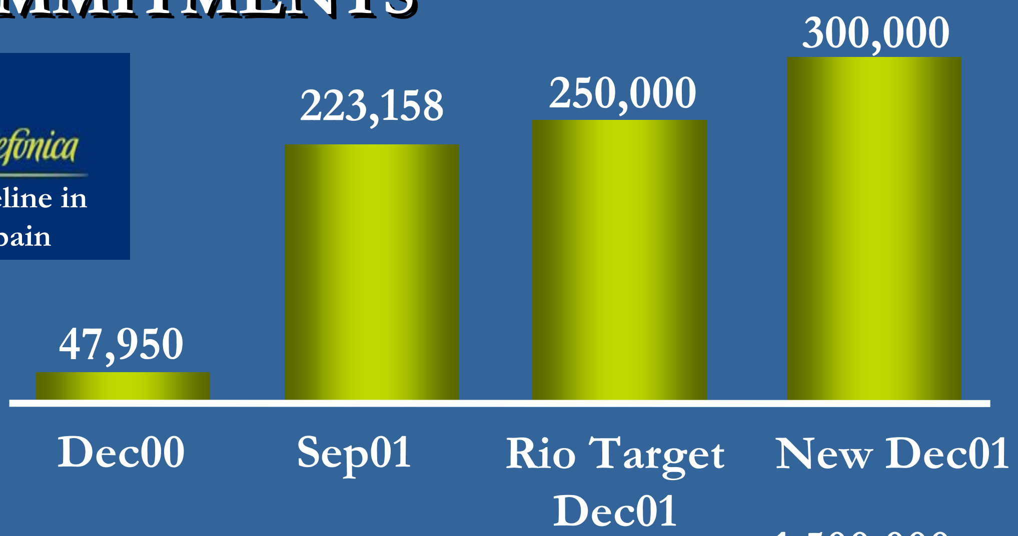


- ✓Leverage our position in our natural markets (Latam)
- ✓Take advantage of new interactive communication
- ✓channels (broadband)

100 MM clients in 2004

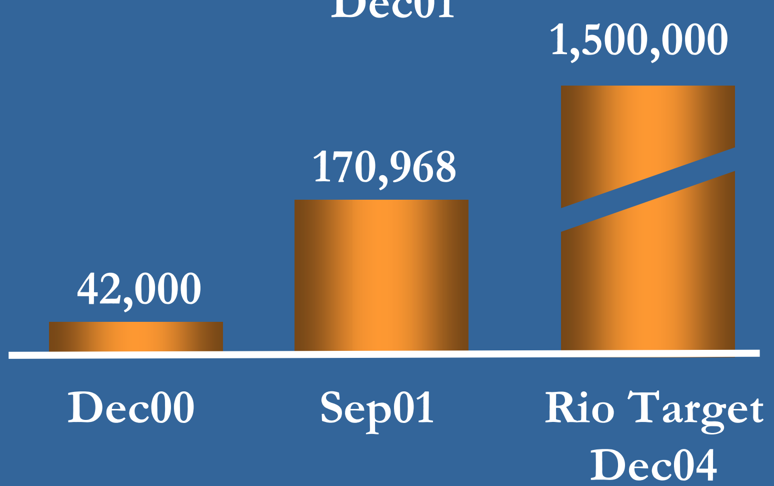
ACCESS: FAST DEPLOYMENT OF OUR ADSL COMMITMENTS

Telefónica
Wireline in Spain



- ✓ 9,400 adds during first week of October
- ✓ ADSL over ISDN, plug & play and TdE retail offer already launched

Telefónica
Wireline in Latam



- ✓ 14% increase on ADSL adds 3Q01/2Q01

✓ 70% of ADSL coverage reached for 40 million lines in Telefónica Group

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 bandwidth needs

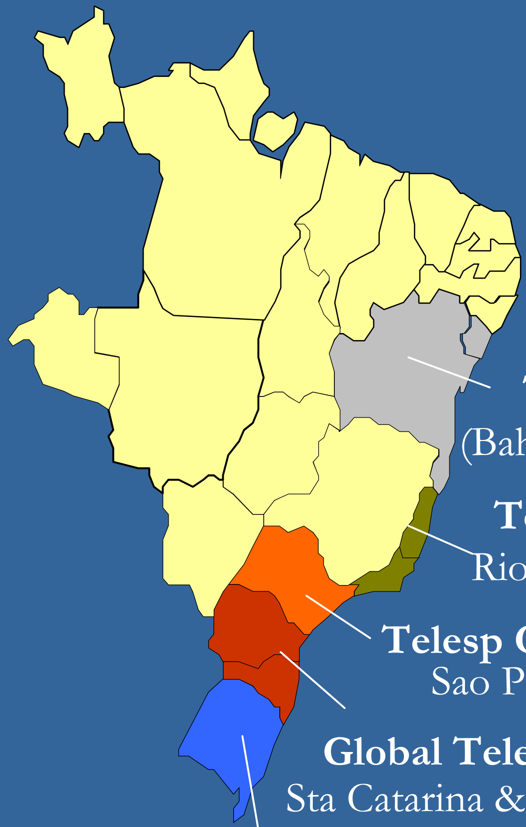
✓Tap into a 10 Bn. Euros market

✓Leverage Group position

✓Marginal CAPEX

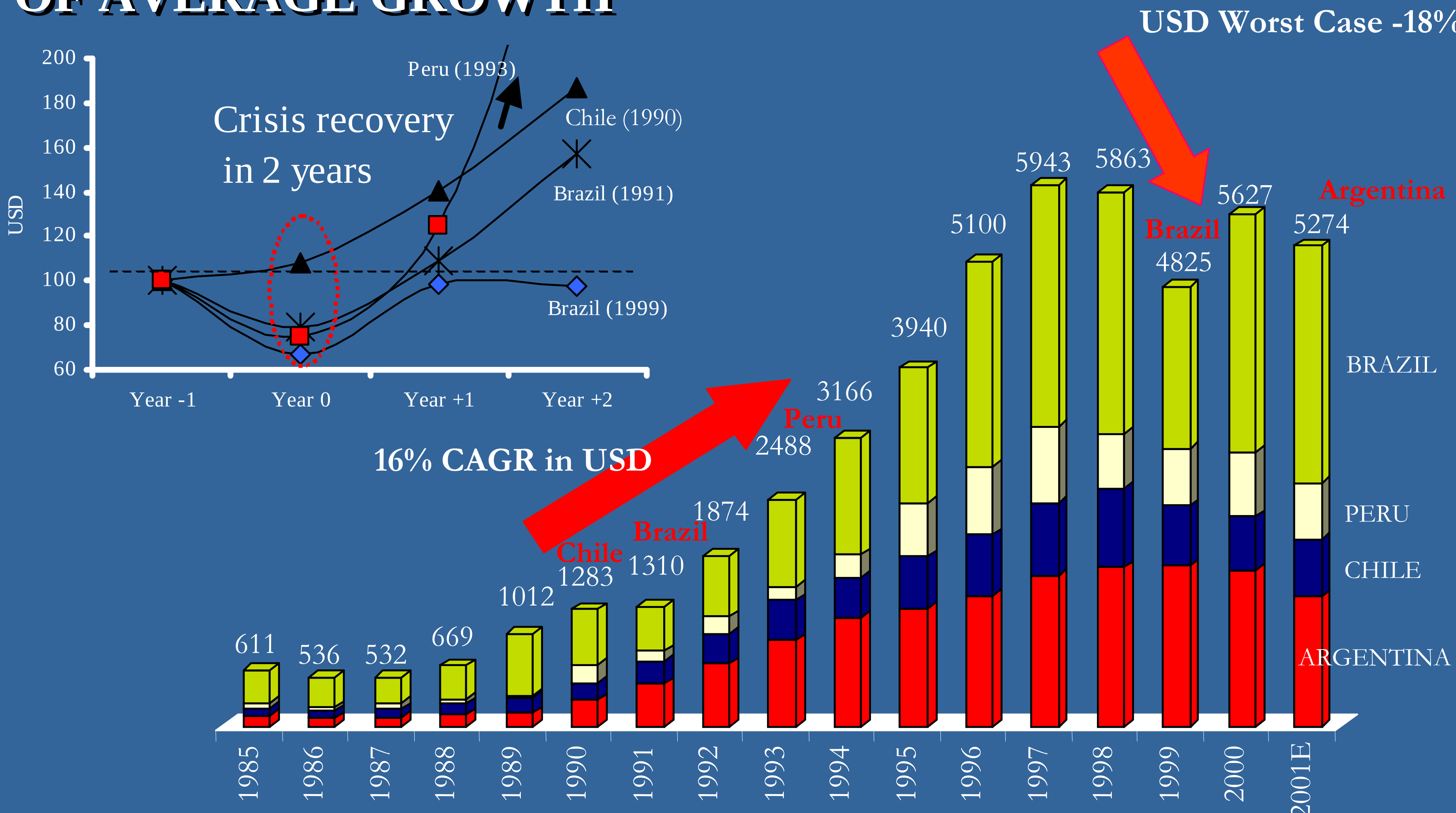
✓EBITDA>0 from year one

OPENING NEW GROWTH OPPORTUNITIES: JV WITH PT



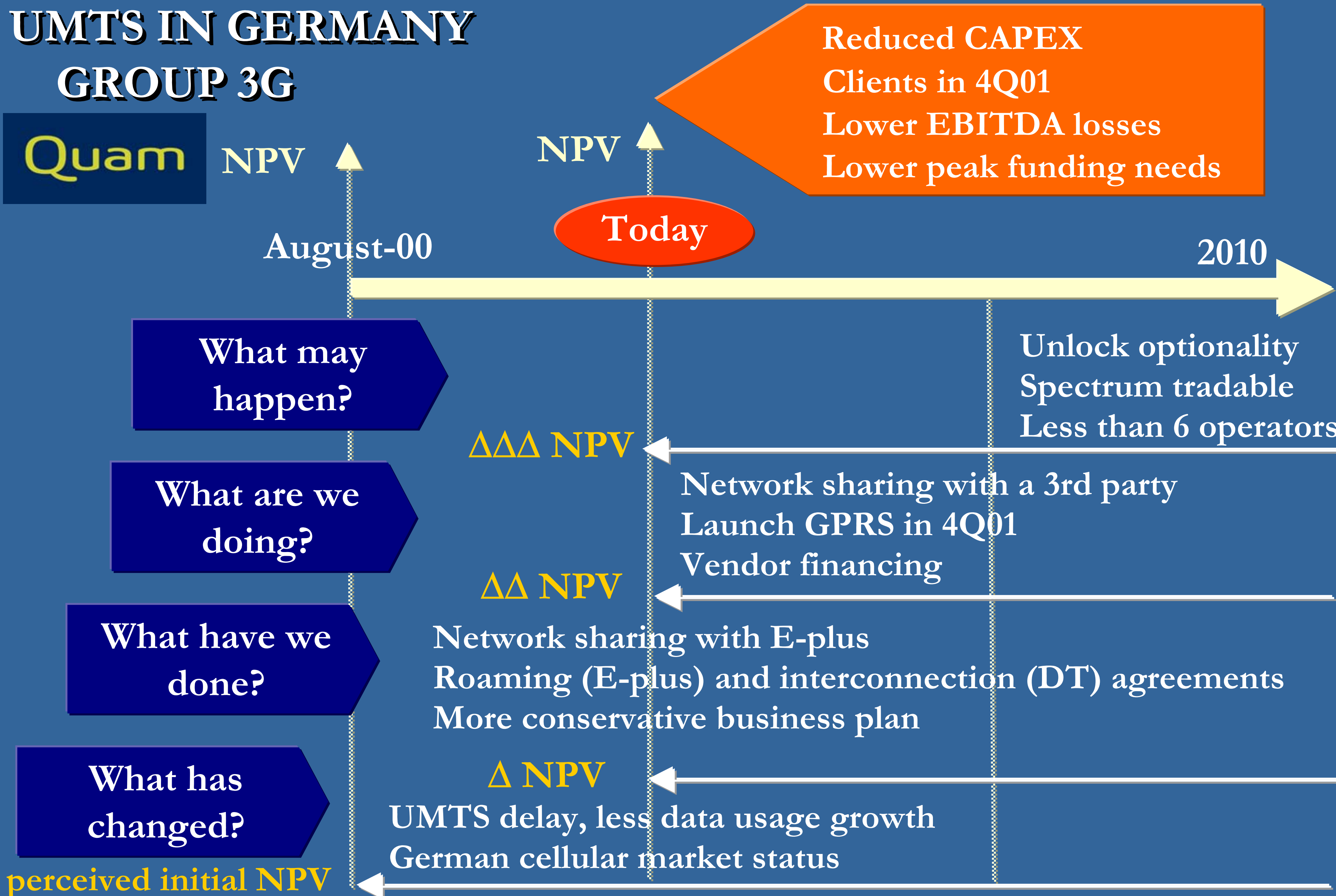
- ✓ 10.3 MM controlled customers as of 06/30/01
- ✓ Potential market over 95 MM POPs (56% of Brazil)
- ✓ 60% market share in areas of operation
- ✓ Leadership in 5 of the 6 richest areas in Brazil (71% of GDP)
- ✓ Unique cellular player operating in Sao Paulo and Rio de Janeiro
- ✓ 2000 aggregated revenues: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

LATAM WORST YEAR EQUIVALENT TO LOSING 1 YEAR OF AVERAGE GROWTH

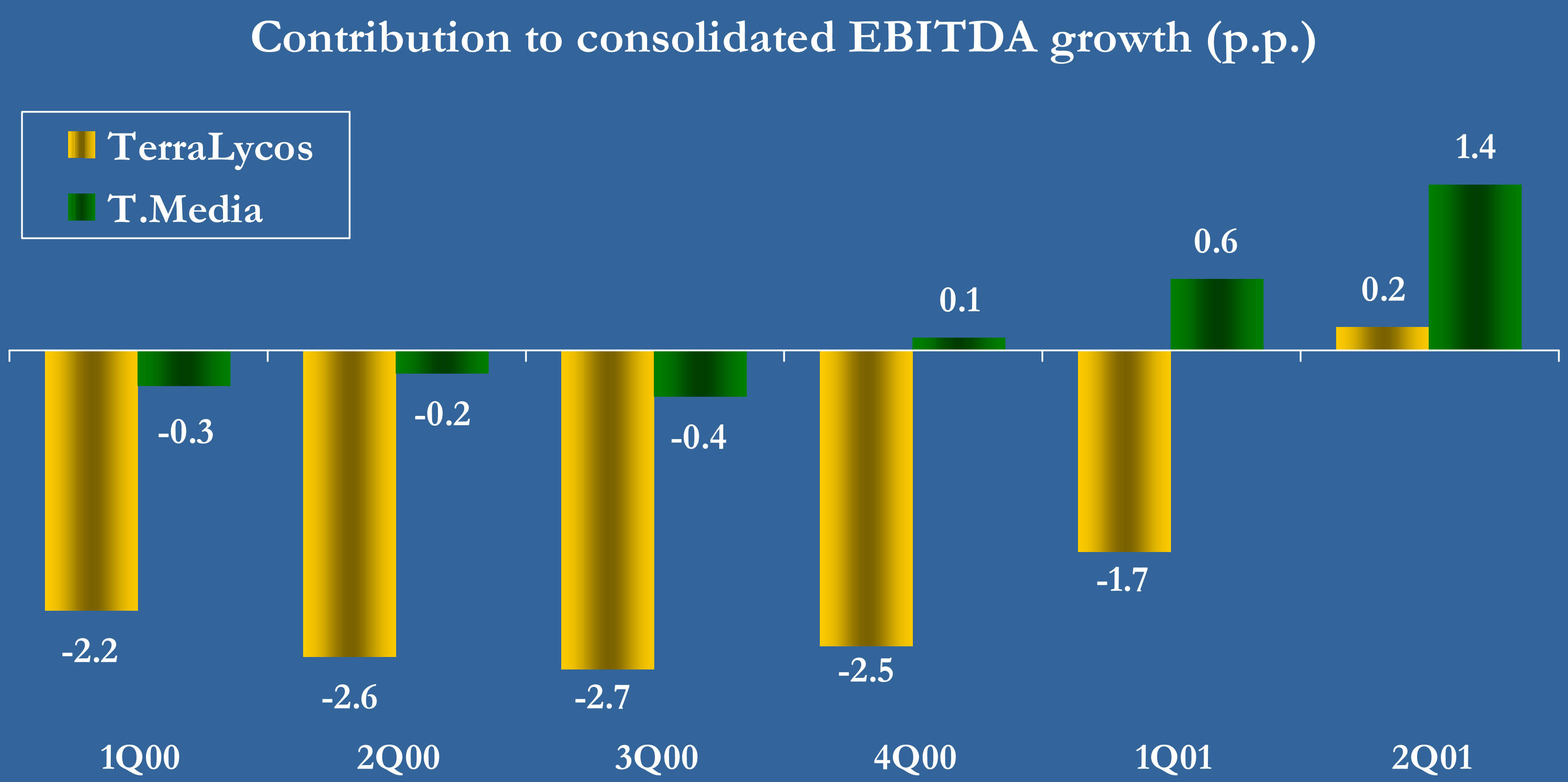


Proxy for EBITDA in million USD from main LatAm subsidiaries
2001E: 1H01 multiplied by 2

UMTS IN GERMANY
GROUP 3G



START-UP BUSINESSES



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

MANAGEMENT PRIORITIES GOING FORWARD

Enhance business performance	Pursue multiple initiatives in different areas to meet ambitious targets for 2002 and 2003 in all the Lines of Business
Start-up business repositioning	Review the business model and strategy for those businesses which have been more significantly affected by the changes in the environment
Optimization of invested capital	Monitor additions to invested capital (Capex control) Reduction of capital base (de-assetization)
Organization	Adapt the organizational model to ensure the achievement of key management priorities in the new industry context
Consolidation	Consider accretive opportunities with good strategic fit arising from industry restructuring

BEST PLACED FOR SUCCESS IN ALL SCENARIOS

✓ Best position for all scenarios

Real earning through solid position in core business

Real options through a balanced portfolio

Low growth scenario

"UMTS take off" scenario

"ADSL booms" scenario

"Content killer apps emerge" scenario

"..." scenario

- Thanks to our strength in the core business we will deliver results in low-growth scenarios

- Thanks to our portfolio of options we will capture value in growth scenarios

IN SUMMARY

- Need to adapt to the new industry context
- Strong starting position
- Recognition of open issues
- High ambition and strong commitment to deliver
- Rich portfolio of options

•A clear project going forward

- Strengthen our relative position in the short term: focus on earnings
- Evolve and reposition business platforms: building our future
- Leverage our strong position in the sector restructuring

- Our management priorities going forward are clear
- We are making progress in many fronts and are working hard to advance on the rest
- We are committed to come out stronger from the changed indutry context

Telefónica