

# Telefonica

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EXANE TELECOM SEMINAR

Paris, January 2001

# Our vision

## CONVERGENCE

- Exploit the convergence of telecoms, Internet and media
- Leadership in multi-access platform for the Spanish and Portuguese speaking world
- Transformation from voice/data transport to content distribution on our natural markets

## ENABLING SIZE

- Leverage our critical mass in all growth areas
- Leverage solid balance sheet and stable cash flow generation

## BUSINESS LINE ORIENTED

- New organization with powerful acquisition currencies to grow individual business lines
- Management focus in each of the business lines



## VALUE CREATION

- Dynamic management with proven track record
- Industry innovator and visionary sector leader
- Active risk management policy

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## How Telefónica anticipates to sector consolidation

- Speeding up new organization by global business lines
- Successful public tenders and ongoing carve out process
- Unlocking value by business lines and creating acquisition currencies
- Active in consolidation through acquisitions and partnerships
- From a target company to a consolidator

# New organization to enhance strategic flexibility in a consolidation environment

*Telefonica*



**Fixed telephony**

- 3rd European fixed line operator by LIS \* (36 mill.). 1st in Spain, Brazil, Argentina, Chile and Peru

**Cellular**

- One of the 10th biggest cellular player worldwide by equity customers (21 mill 2000E). 1st in Spain, the 3 Brazilian regions, Peru and Chile; 2nd in Argentina and Mexico

**DATA/IP**

- 2nd global data operator by revenues (1,4 bn. US\$ expected in 2000 on a proforma basis)

**INTERNET**

- 3rd Internet company by unique visitors worldwide

• Equity customers as of September



## Public tenders and Carve out strategy

- Equity funded acquisitions to get full control of Latam operations, Endemol and Lycos
- Carve out process of mobile, data, internet and directories assets to build up global business lines (complete closing May 2001)
- Country Shared Services Centers to achieve operating synergies (0.85 bn. US\$ expected)
- Unlocking value through spin off / IPO strategy



Accretive impact in EPS and CF in 2000 and 2001

Strengthening financial profile

Creating acquisition currencies

High potential for synergies

# Active in consolidation through acquisitions and partnership

**Latam Tenders**

- From minority interest to 85%-95% economic interest
- From 6th to 3rd European fixed line operator player
- Among the first 10 cellular operators worldwide

**Endemol**

- First independent media content provider

**Lycos merger**

- From 1st Spanish Internet player to 3rd worldwide Internet player

**Mediaways**

- 2nd largest IP network in the 1st European market (Germany)

**Mexico**

- 1st Pan-regional Latin American player by number of customers

**Portugal Telecom**

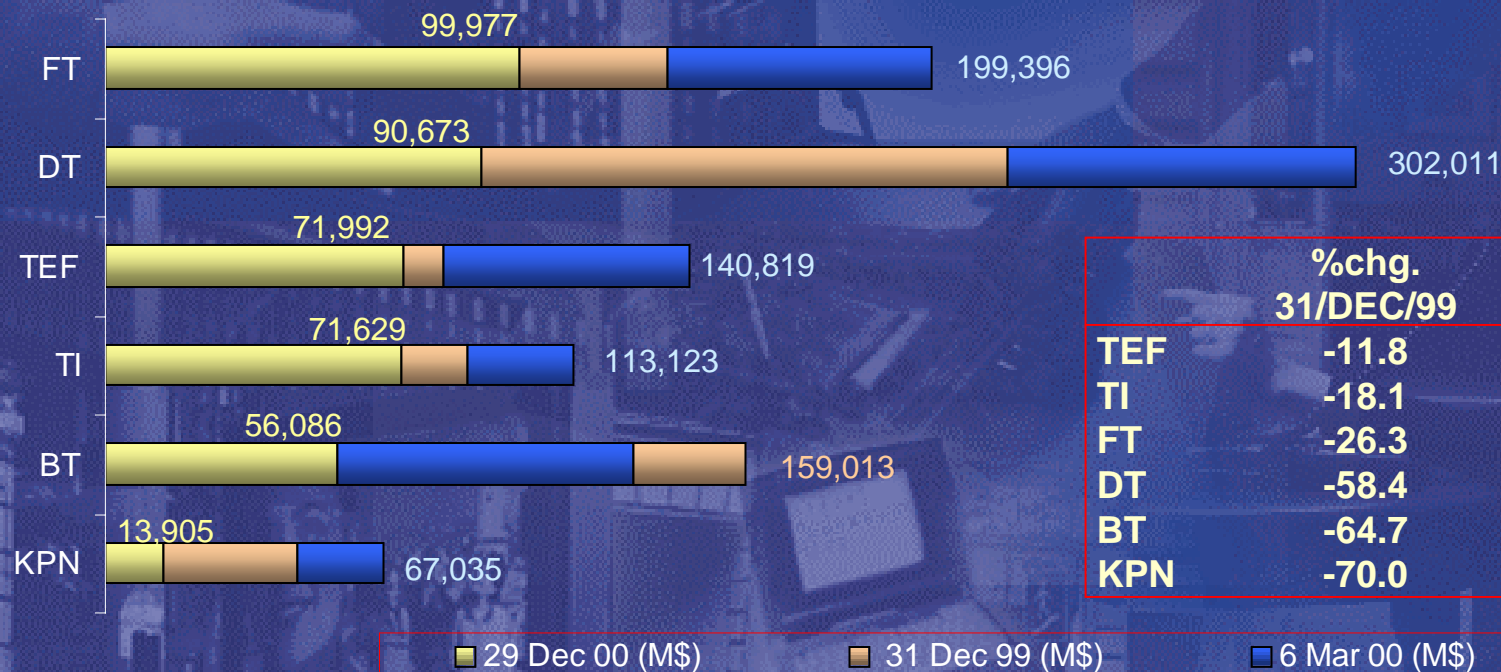
- 1st shareholder with a 4.9% economic interest

**Sonera**

- Partnership for UMTS development in key European markets. Top two European Wireless data operators



# From a target company to a consolidator



	%chg. 31/DEC/99	%chg. 06/03
TEF	-11.8	-48.9
TI	-18.1	-36.7
FT	-26.3	-49.9
DT	-58.4	-70.0
BT	-64.7	-57.5
KPN	-70.0	-79.3

	Equity Ratio (1)	change p.p.	Rating	Acq.Currencies
Telefónica	37.1	+13.5	A+/A2	4
Deutsche Telecom	33.0	-4.7	A-/A2	2
France Telecom	35.7	+0.8	A/A1	2
BT	34.3	-19.1	A/A2	1
Telecom Italia	48.0	+11.0	BBB/BBB(*)	3
KPN	23.5	-12.0	A-/A3	2

(1) Equity Ratio; Net debt/ Total Liabilities. Data as of June 2000

(\*) Rating for Tecnos Spa

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# Regulation

## MAIN REGULATORY ISSUES

### Spain

- Unbundled local loop and Access Deficit
- Price Cap Formula
- Flat Rate Products (Internet and Voice)
- Mobile liberalization measures in Spain

### Latam

- PCS auctions in Brazil
- Liberalization measures for Telco sector in Argentina

# Regulation

Spain

## UNBUNDLED LOCAL LOOP ACCESS DEFICIT

→ Access Deficit issue still not solved:

### MONTHLY FEE

<u>2000</u>	<u>EU AVER.</u>	<u>PRICE CAP 2001</u>	<u>PRICE CAP 2002</u>
9.27€	11.4€	+1.20€(+13%)	+(CPI+3.5%)

### WHOLE ULL

<u>2001</u>	<u>EU AVER.</u>	<u>2002</u>	<u>2003</u>
12.99€	14.45€	12.62€	12.32€

- Claim for access deficit solution independently of ULL
- EC sent reasoned opinion to Spain on Telefónica's request regarding tariff rebalancing

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# Fixed line business restructuring

## Spain

→ Lay-off programs

→ % Personnel Expenses/Rev. ratio among the best in Europe

	<u>1998</u>	<u>2000 (e)</u>
Tot.employees	58,127	40,940
LIS/employee	313.2	485

	<u>1999 (*)</u>
Telefónica	24%
Deutsche Telecom	31%
France Telecom	44%
BT	67%
Telecom Italia	18%
KPN	37%

- Write off (1,322 M€ in 1999) from a 18 bn € asset base in 1997 to 12 bn € in December 1999
- E-business implementation across organization (Cisco advisory role)
- Focus on commercial development and first mover initiatives
- Room for further cost savings after dramatic headcount reduction (outsourcing, Real State, ...)

(\*) Source: Analyst estimates and Annual Reports

# Fixed line business restructuring

## Latin America

	TOTAL EMPLOYEES	HEADCOUNT REDUCTION (employees)		LIS/EMPLOYEES	
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>	<u>2000</u>
CTC CHILE	7,519	1,230	1,253	459	603
TELESP	18,930	4,344	386	577	748
TASA	11,107	567	556	371	418

# Telefónica Media: Restructuring in three business lines

## Free TV & Radio Broadcasting



- ✓ To leverage the successful management & operating model of Antena 3 :
  - ✓ Programming
  - ✓ Diversification:
    - ✓ Children programming
    - ✓ Cinema advertising
    - ✓ Events, telemarketing & New Media.
- ✓ To place Onda Cero as one of the top two Spanish radio broadcasters.

**Leadership on Free TV for the Spanish speaking population**

## Content



- ✓ Cost control
- ✓ To place Endemol as the core centre of Telefonica Media content
- ✓ Aggressive approach on convergence & interactive services
- ✓ Close co-ordination within Telefonica Group

**Powerful content Group**

## Pay TV



- ✓ Pay TV & distribution assets through a new holding company.
- ✓ Presence along the whole value chain:
  - ✓ Mediapark: thematic channel aggregator
  - ✓ Vía Digital: content distributor
  - ✓ Hispasat & TSA: distribution & technical platform

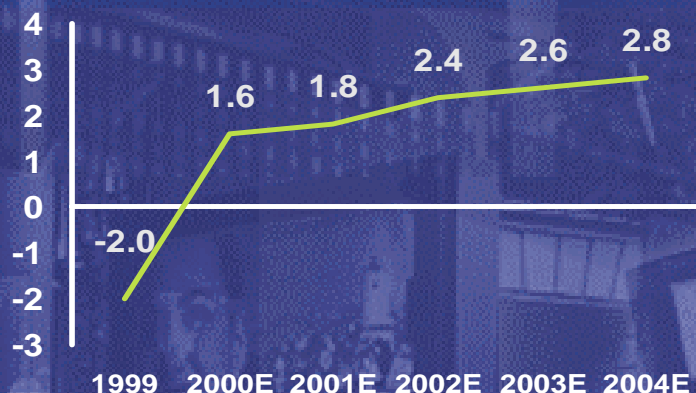
**To redefine Telefonica Media's position on Pay TV**

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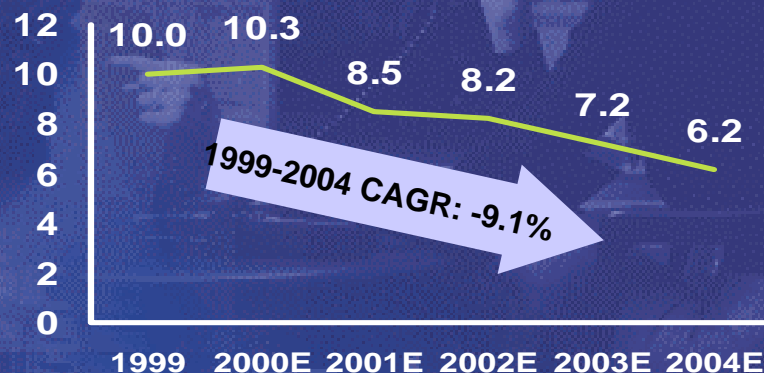
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# Outstanding growth on top of macro recovery

Real GDP per capita growth (%) (1)



Inflation (%) (2)



→ Telefónica's dominant presence in the region (500 mill POPS) to capture this growth

	<u>1999-2004 CAGR (1)</u>
Fixed line customers	10.6%
Wireless customers	29.3%
Wireless revenues	27.4%
Internet penetration	38%

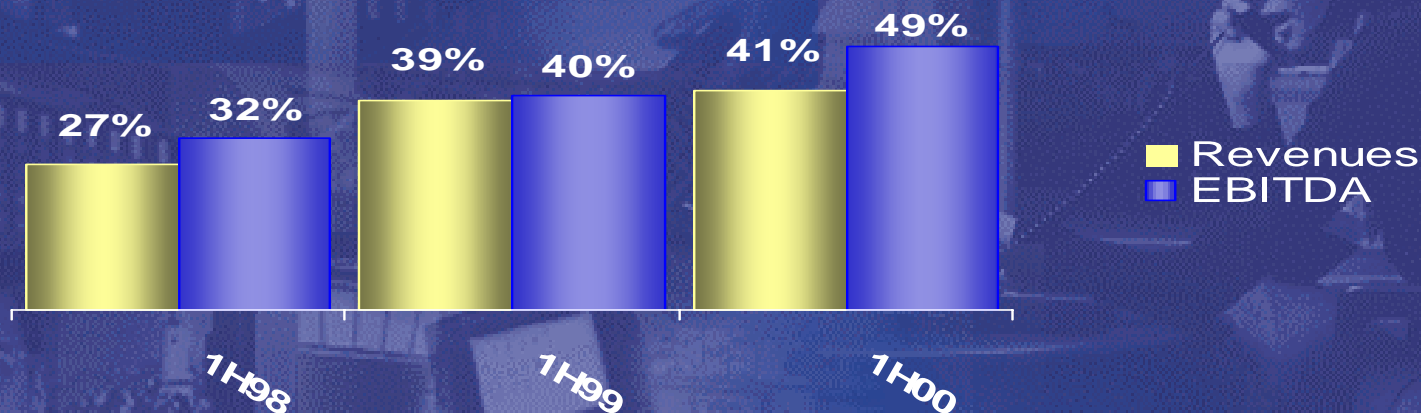
<sup>1</sup>Source: Pyramid Research

<sup>2</sup>Source: Economist Intelligence Unit



# Our growth and leadership in Latam make the difference

→ Growing Latam contribution to TELEFONICA's Revenues and EBITDA



→ Leadership in the region

## MOBILE TELEPHONY (\*)

('000)	<u>CUSTOMERS</u>	<u>RANK</u>
TELESUDESTE	2,317	#1
CRT CELULAR	1,283	#1
TELEESTE	619	#1
CTC CELULAR	1,154	#1
TDP	851	#1
UNIFON	1,564	#2

## FIXED TELEPHONY (\*)

	<u>LIS ('000)</u>	<u>RANK</u>	<u>% EBITDA</u>
TELESP	9,786	#1	65%
TASA	4,259	#1	60%
CTC	2,661	#1	53%
TDP	1,720	#1	68%

(\*) Data as of September 00s

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# Telefónica's Broadband Strategy

INTERNET:  
High speed  
access today



CONVERGENCE  
(ISPs+TSPs)

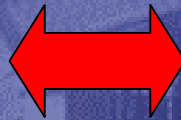
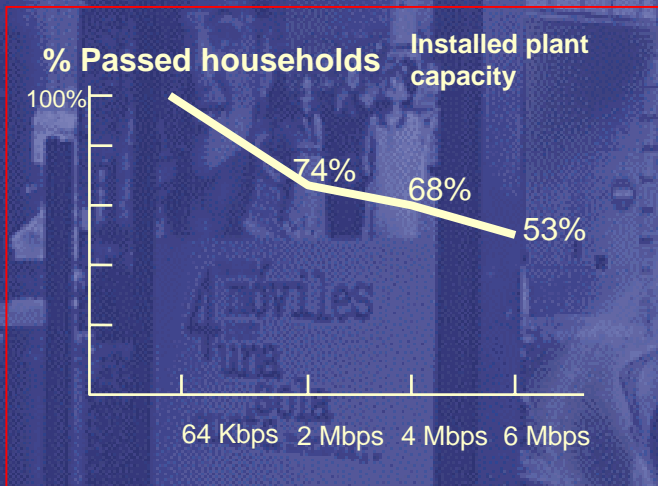
Interactive TV (ITV)  
+ Internet



MULTIMEDIA  
Short term  
video offer

ADSL platform

TSP: Television Service Provider



- 4/5 Mbps good enough to offer video & TV with current quality
- Multimedia offer available for 8 million households

Goal: 1 million ADSL customer in 2002/2003 in Spain

# Telefónica's Broadband Strategy

## Telefónica Data

## REINVENTING THE TELCO BUSINESS THROUGH IP

### 2000 Increasing footprint

Spain Brazil  
Argentina  
Peru Chile  
Colombia  
Mexico  
Uruguay  
US Italy  
Austria  
Germany

### Internet Data Centers

In service:  
Madrid  
Sao Paulo  
  
Before year end:  
  
Santiago  
Buenos Aires  
Miami  
Lima

### Key Strategic customers

AOL  
  
BBVA BSCH  
Iberia Terra, ...  
  
Bradesco  
Banco do Brasil  
Banco de Chile  
HSBC  
Itaú  
Citibank, ...

### Commercial alliances

Microsoft  
IBM EDS  
Infonet  
Ariba HP  
SAP

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# A global wireless leader with a unique footprint

## GLOBAL PRESENCE (\*)

Global POPS: 380 mm

Global customers: 22.8 mm



### LATAM

POPS: 157 mm

Customers: 8.4 mm

### EUROPE & MEDITERRANEAN

POPS: 223 mm

Customers: 13.2 mm

- **SPAIN:** the best performing European incumbent with an increasing gap relative to second Spanish operator (Vodafone)
- **LATAM:** #1 pan-regional operator, only one present in the 3 key markets: Brazil, Mexico and Argentina
- **EUROPE:** Rapid European expansion through UMTS, leverage on Telefónica presence, financial strength and multimedia capacity

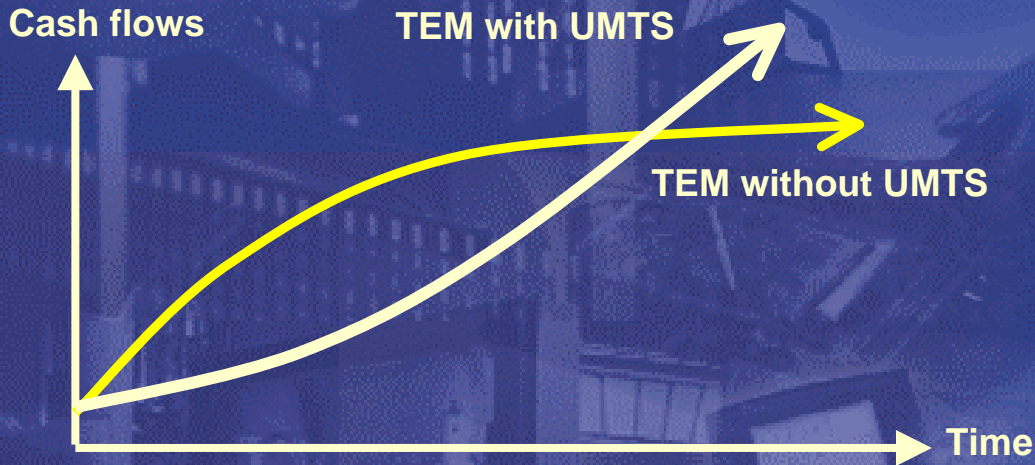
• Managed customers as of September 00

**Telefónica S.A.**

[www.telefonica.com](http://www.telefonica.com)

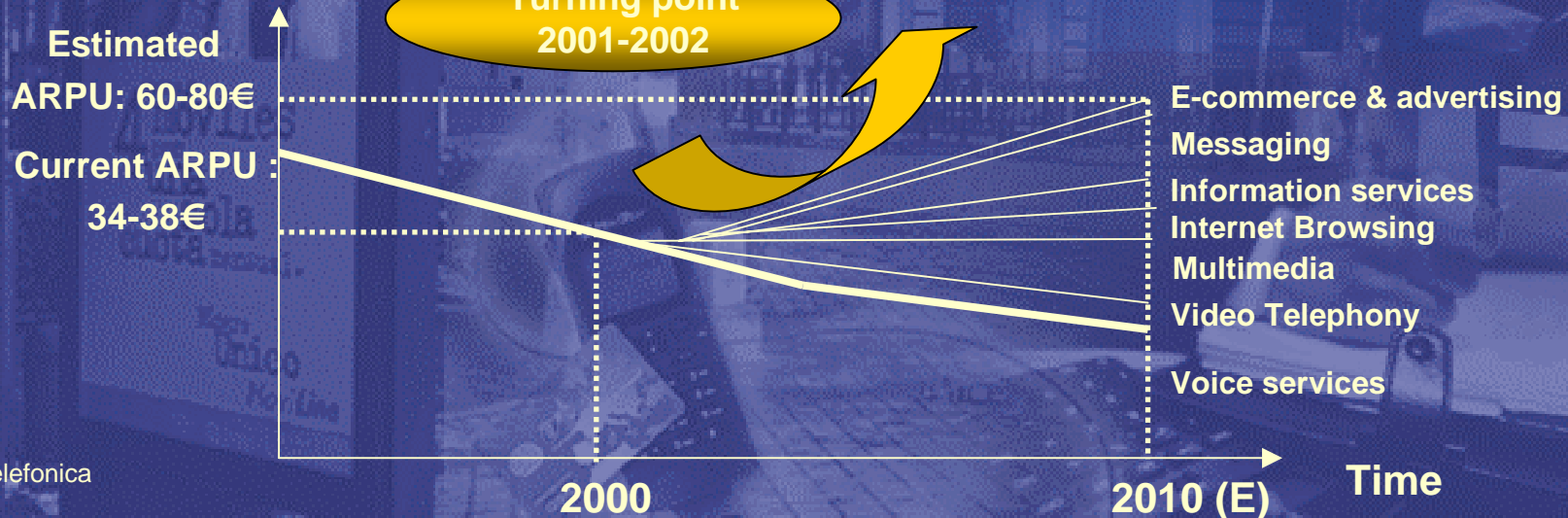
*Telefonica*

# T. Móviles UMTS Strategy: Assuring future growth



- Leverage on strong cash flows from Spain and Latin America to develop UMTS strategy
- First mover advantage
- Less cash flow impact in short-medium term

## ARPU



Source: Telefónica

## T. Móviles UMTS Strategy: Key to success

- Proven track record in developing new markets and businesses.
- Leadership in the development of Data transmission via mobile platforms:
  - Top ranked European company in volume of SMS.
  - e-moción WISP, Terra Mobile (100% Iobox), Movilpago.
- Superior content through Endemol.
- Strong presence of Telefónica in Europe: Endemol, Iobox, Mediaways,...
- M-solutions: Cellco in a box.
- Financial Strength:
  - Commitment to a “A” rating.
  - Latam as a differentiating source of revenues and EBITDA.

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# Terra-Lycos merger: a unique global internet player

## Global Presence

# 1 global platform with presence in 41 countries and leadership in Latin-America, US Hispanics, Canada and Korea

## Scale

# 3 global Internet company with 91 million unique visitors and over 7 billion page views per month

## Focus on profitability

80% revenue growth in 2001  
EBITDA positive by Q4 2001

## Diversified revenues

Long term revenue mix:  
85% Media and 15% Access

## Strong cash position

More than \$US 3 billion, key to fully exploit expansion opportunities

## Wireless opportunity

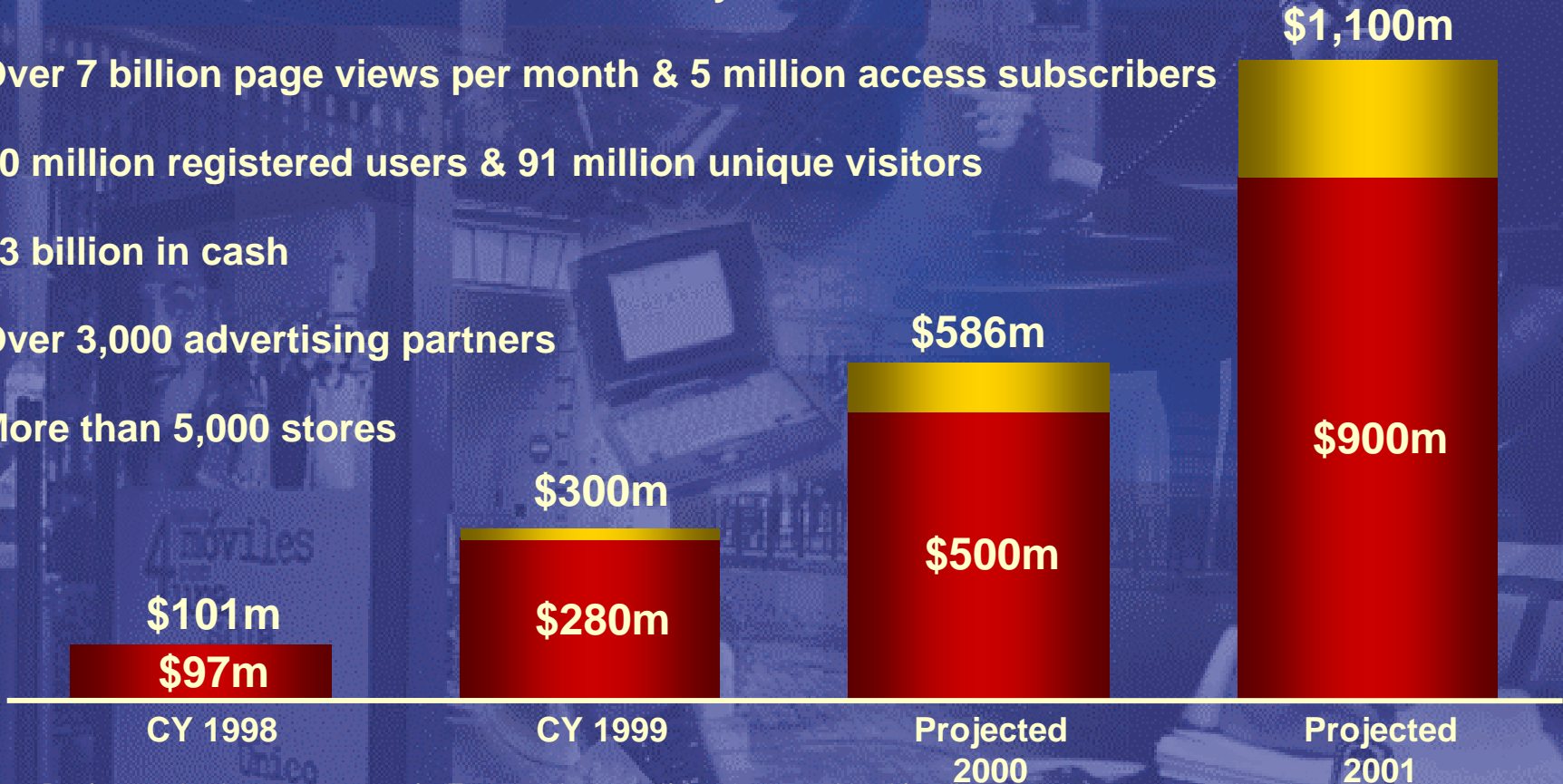
49% interest of Wireless Internet Portal  
Terra Mobile



# Industry Leading Revenue Growth

- Revenues from international Joint Ventures
- Terra Lycos Pro-forma Revenues

- Over 7 billion page views per month & 5 million access subscribers
- 60 million registered users & 91 million unique visitors
- \$3 billion in cash
- Over 3,000 advertising partners
- More than 5,000 stores



- Pro-forma calendar year revenues for Terra and Lycos as if they were combined for all periods presented

Source: Historical results based on Terra Lycos Management Reports. Projected 2000 and 2001 based on Terra Lycos Management Projections

# Strategy: Capitalising on Global Convergence

Providing  
Access

Aggregating  
Audience

Offering Rich  
Content

Monetizing  
Traffic

Broadband

Fixed Lines

Wireless

Web

Telefónica  
Content



LYCOS

Bertelsmann  
Content

Media Revenue

- Advertising
- Commerce
- Direct marketing

Access Revenue

- Subscription fees
- Value added services

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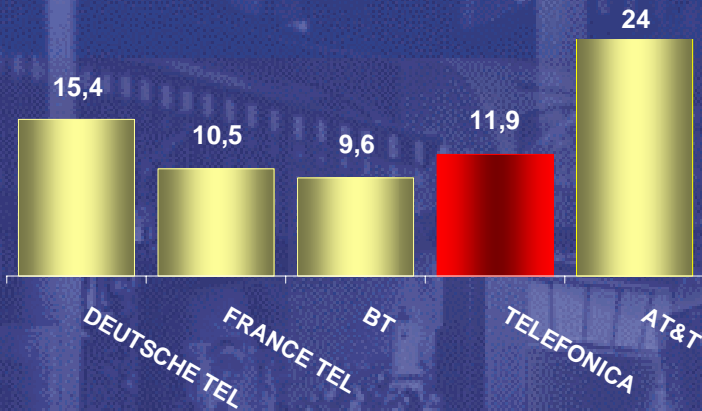
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# Telefónica's sound Financial Policy

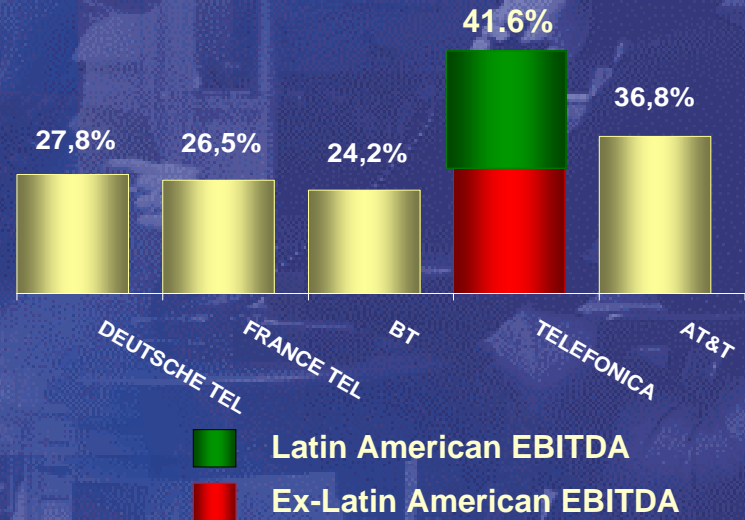
- Funding with equity during 2000 in Telefónica Group: over 41 bn€
- New acquisition currency: T. Móviles
- Non recourse financing for UMTS: 1.7 bn €
- EBITDA accretive transactions
- Debt maturing in 2001 is fully refinanced
- Holding structure with enhanced access to operating cash flow through internal loans
- Latin American EBITDA diversification across business and countries makes it more stable than that of some European incumbents

# Financial Profile above European peers

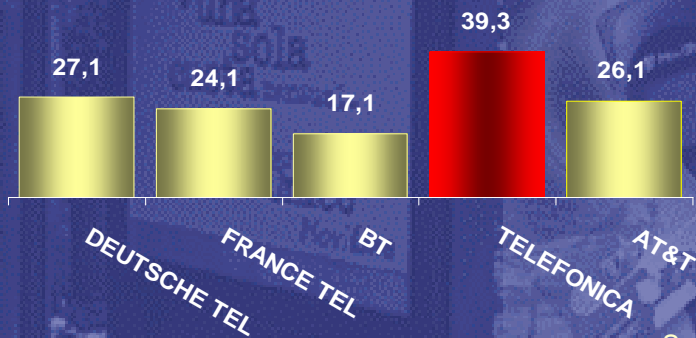
## EBITDA (bill€)



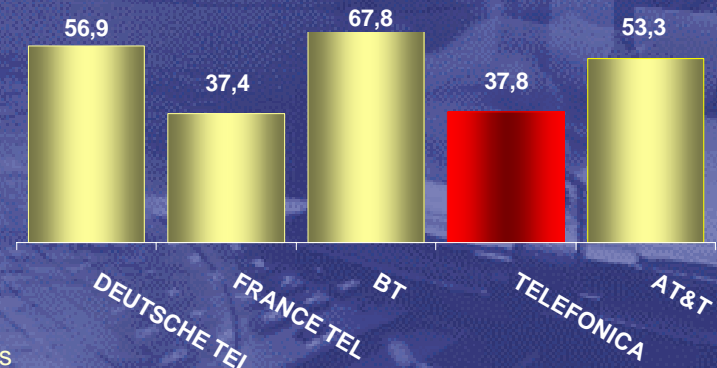
## EBITDA/Net Debt



## Oper. Cash Flow/Net Debt



## Net Debt/Market Cap

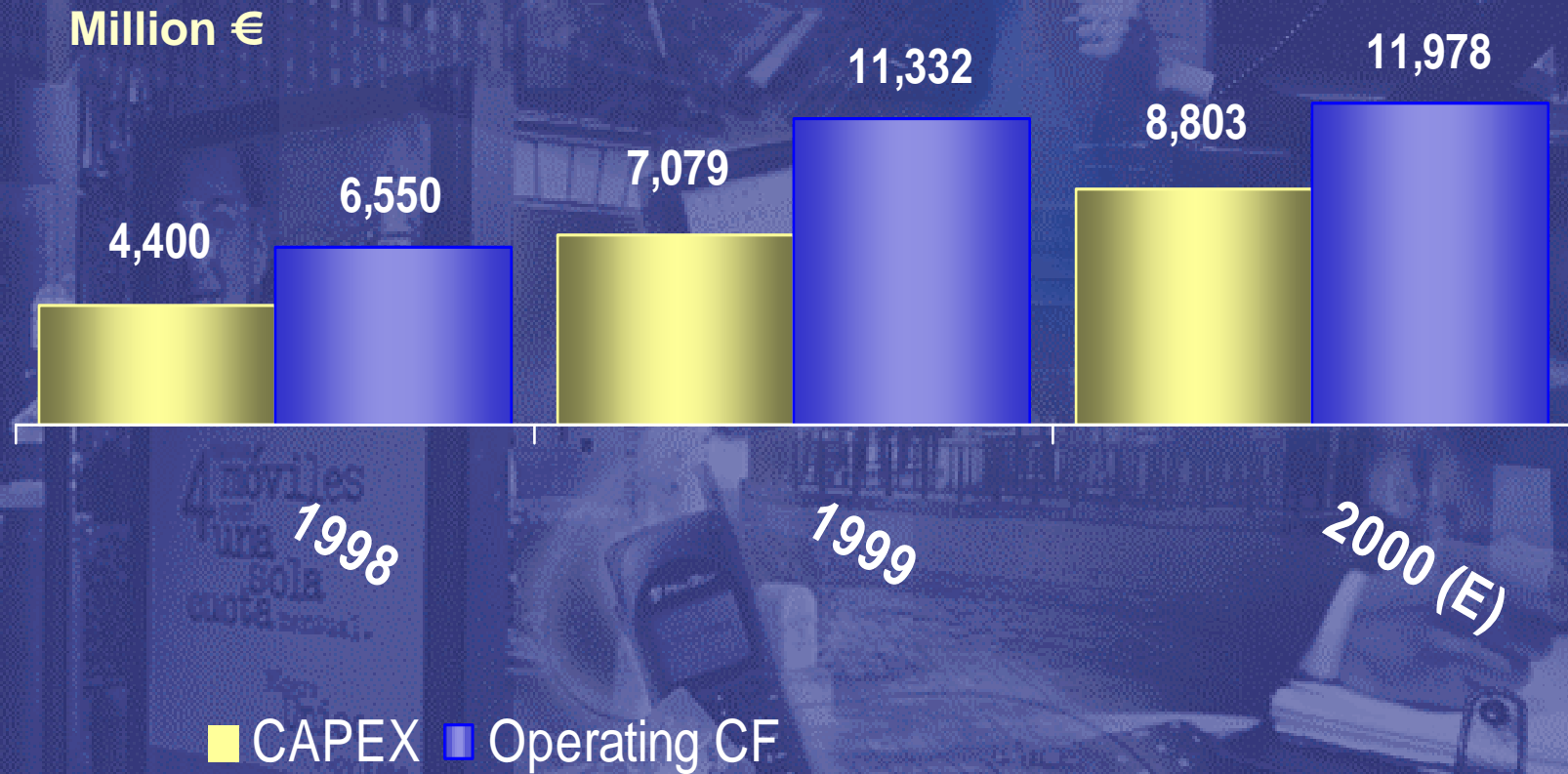


Source: analyst estimates



# Strong financial situation

→ Strong evolution of operating cash flow expected during the next 5 years





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# Conclusion

- Segregation to enhance accountability amongst the different business lines
- Direct access to customers to provide a competitive position in the broadband strategy
- UMTS ensures a valuable option in 200 million pops UMTS market
- Telefónica Media to become a differential asset in the sector
- Regulation is a key priority for management
- Further IPOs based on strategic opportunity to unlock value.
- Leverage on financial flexibility and diversification to ensure a predominant position in all business lines
- Ready to face a potential acceleration of sector consolidation because of our financial strength and new organization

A blue-tinted collage of office scenes. In the upper half, a man in a suit is talking on a mobile phone. In the lower half, a woman is talking on a mobile phone while sitting at a desk with a computer keyboard. The background is filled with office equipment like monitors and stacks of paper.

# Telefónica

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