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*Telefonica*



VII BSCH  
TMT Seminar  
*June 2001*



# 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

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

## MEXICO

- **Wireless:**
  - Bajacel: 100%
  - Movitel: 90%
  - Norcel: 100%
  - Cedetel: 100%
- **Internet:**
  - Access: n° 2
  - Portal: n° 1

## VENEZUELA

- **Wireline:**
  - CANTV 6.9%

- **Wireline: TdE:**
  - 100% SPAIN
- **Wireless: TME**
- **Internet**
  - Access n° 1
  - Portal: n° 1

## BRAZIL

- **Wireline: TeleSP 86.6%**
- **Wireless:**
  - Teleeste Cel: 10.8%
  - TeleSudeste: 81.6%
  - CRT 43.4%
- **Internet:**
  - Access: n° 2
  - Portal: n° 2

## PERU

- **Wireline:**
  - T de Perú: 93.2%
- **Wireless: TdPerú: 91%**
- **Internet:**
  - Access: n° 1
  - Portal: n° 1

## CHILE

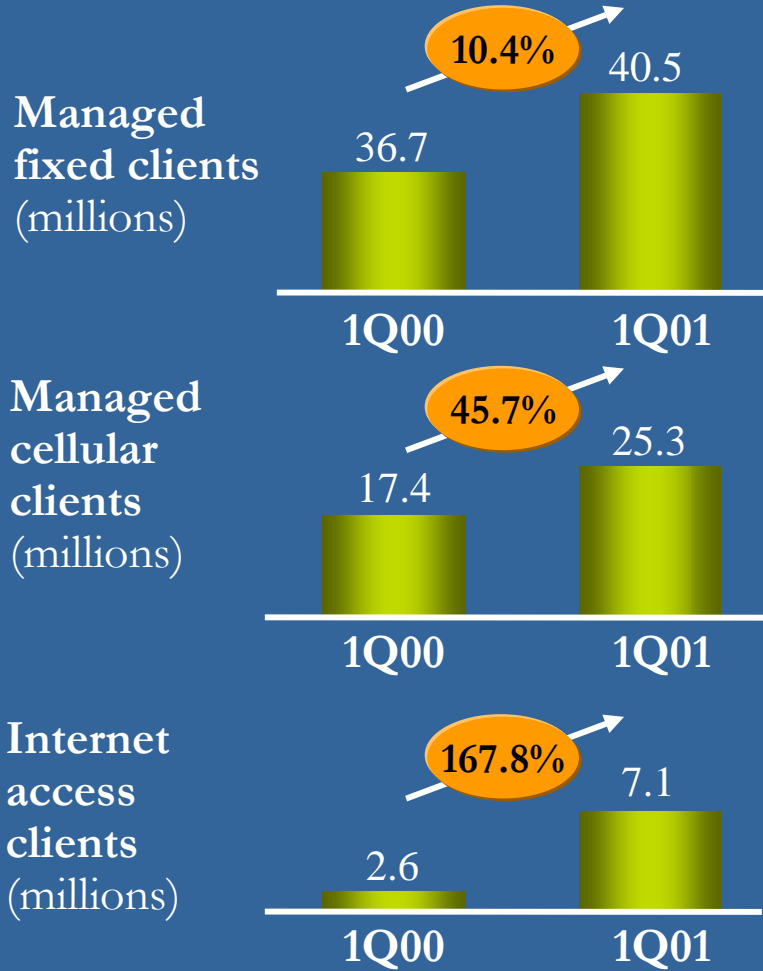
- **Wireline and wireless:**
  - CTC: 43.6%
- **Internet**
  - Access: n° 1
  - Portal: n° 1

## ARGENTINA

- **Wireline: TASA:**
  - 97.9%
- **Wireless: TASA**
  - Móviles 96%
- **Internet**
  - Portal: n° 3

- More than 67 million customers currently being served
- Positive growth outlook
- Strong cultural and economic links

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



2000 penetration

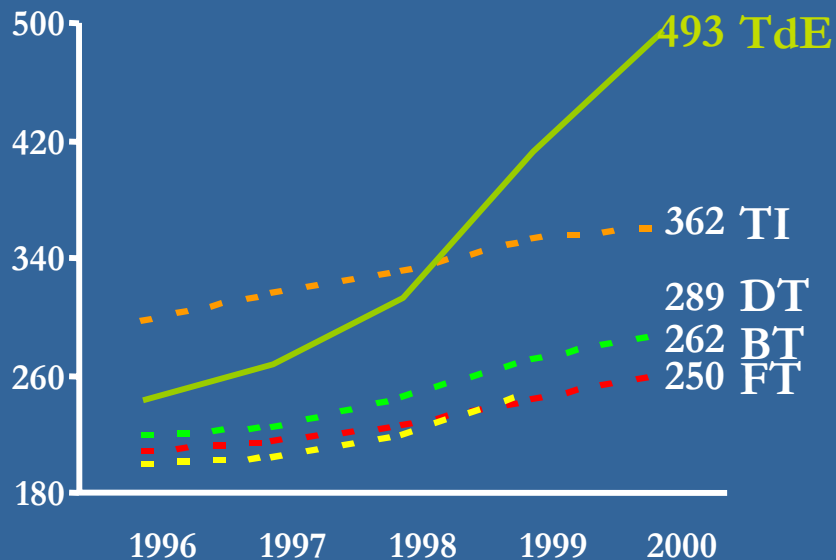
	LatAm	USA	Europe
Wireline penetration	13%	68%	61%
Wireless penetration	13%	41%	63%
Internet penetration	3%	50%	23%

# WE HAVE ACHIEVED STRONG OPERATIONAL EFFICIENCIES...

## Productivity

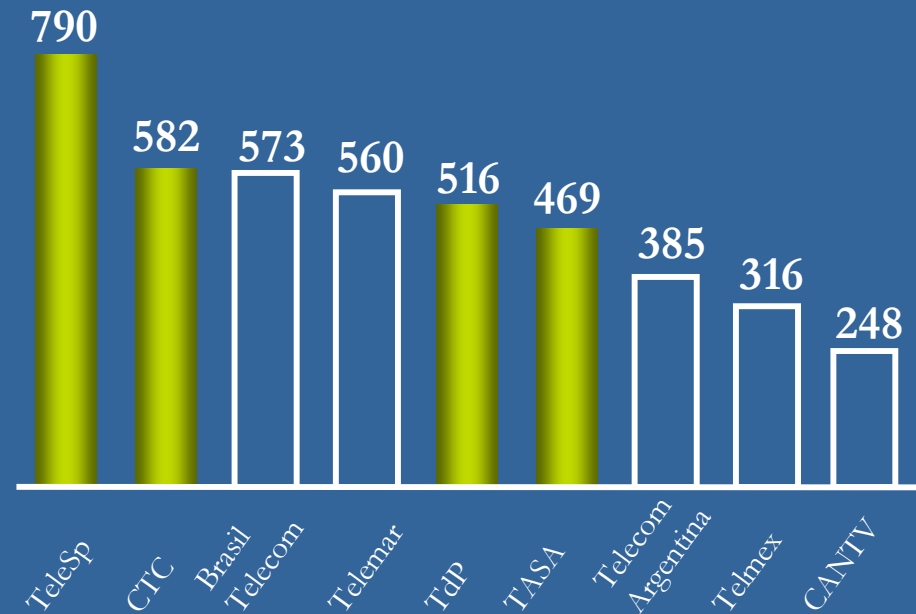
### Europe

Lines/employee



### Latam

Lines/employee (year 2000)



Source: Telefónica

*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

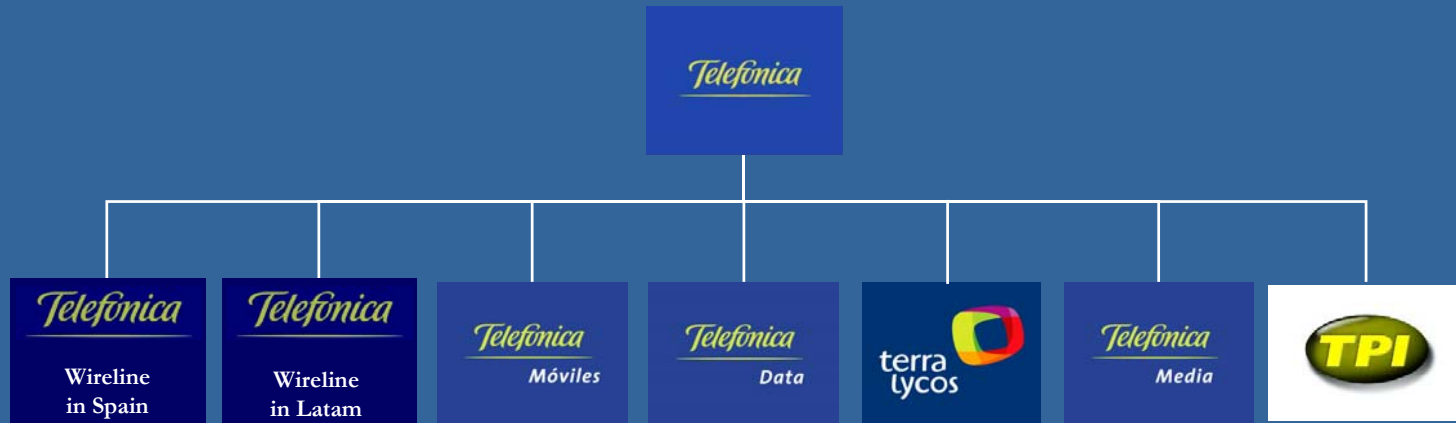
# TELEFONICA HAS A BALANCED BUSINESS STRUCTURE...

## 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

	Wireline in Spain	Wireline in Latam	Móviles	Data	terra lycos	Media	TPI
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



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Superior EBITDA and strong financial position

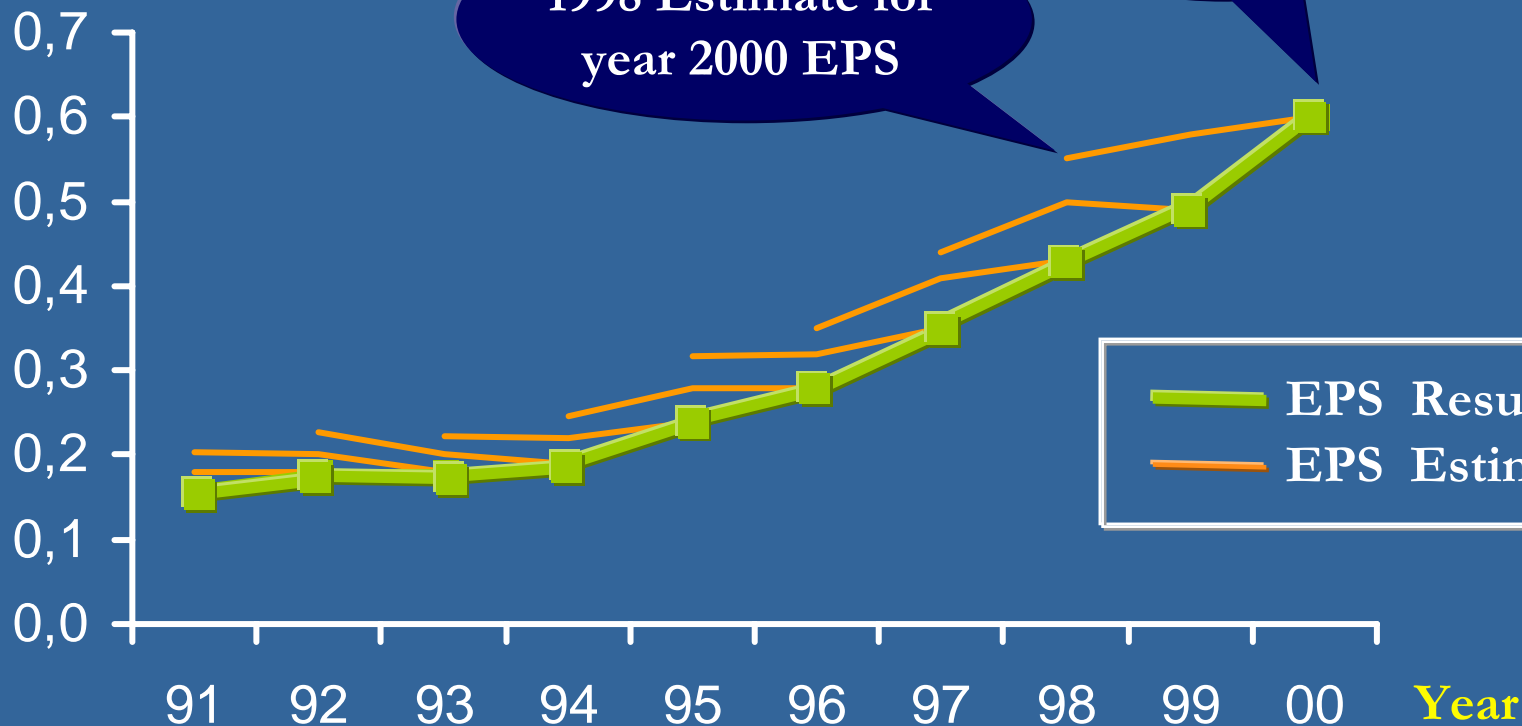
Management priorities that translate into superior earnings growth

# 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 LINE WITH ANALYSTS' ESTIMATES ...

EPS  
Euros



SOURCE: DATASTREAM

*Telefonica*

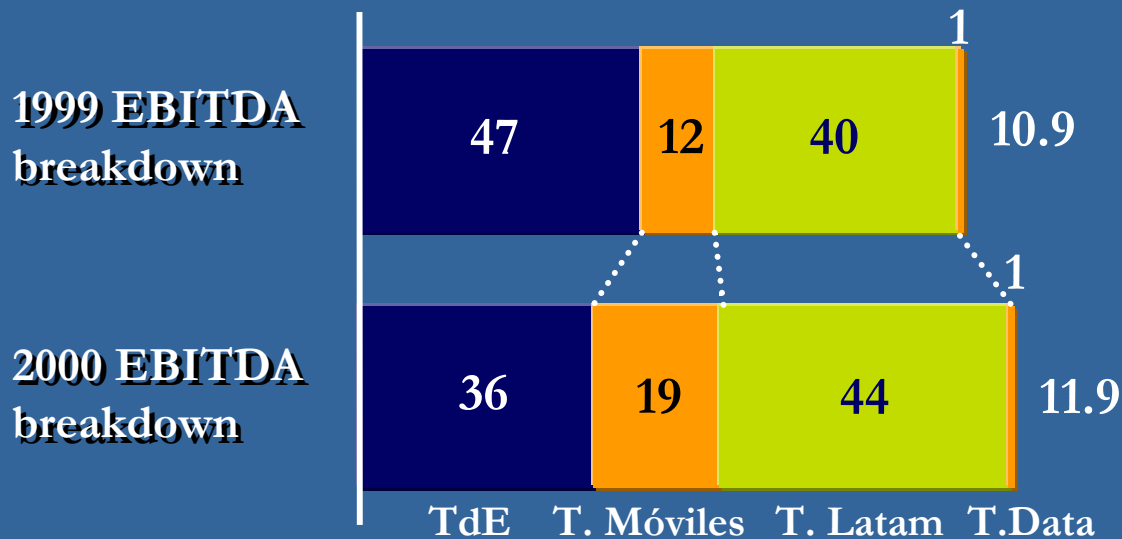
# ALONG WITH WELL BALANCED FINANCIALS...

€ 12 Bn. EBITDA  
2000

€ 26.9 Bn. Net debt  
12/2000

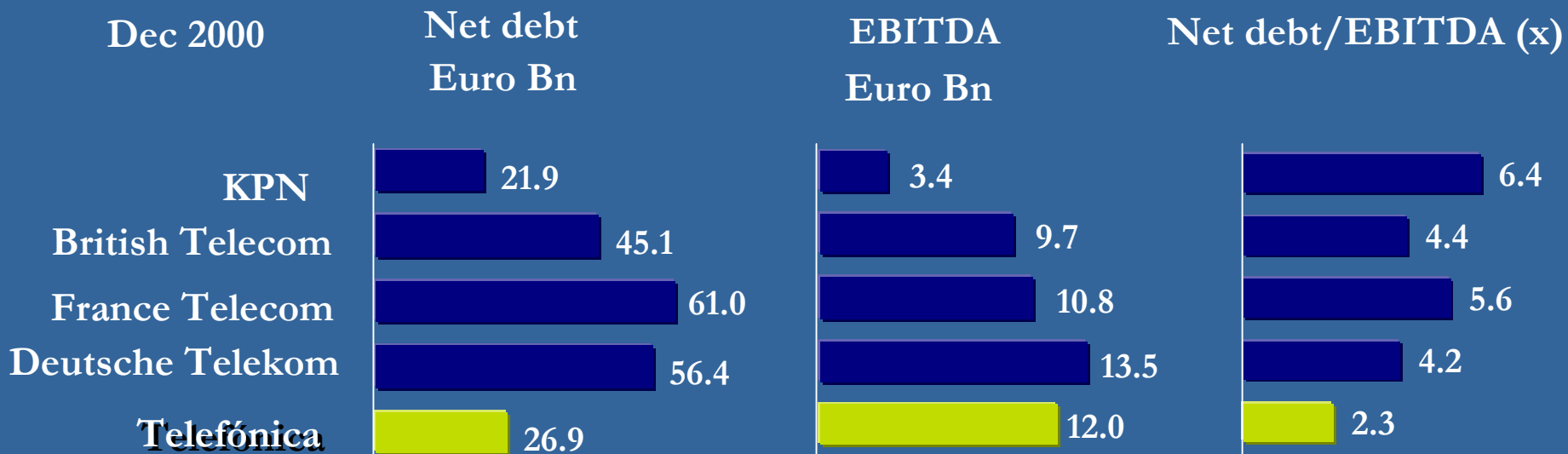
€ 69 Bn. Market Cap.  
19/06/2001

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



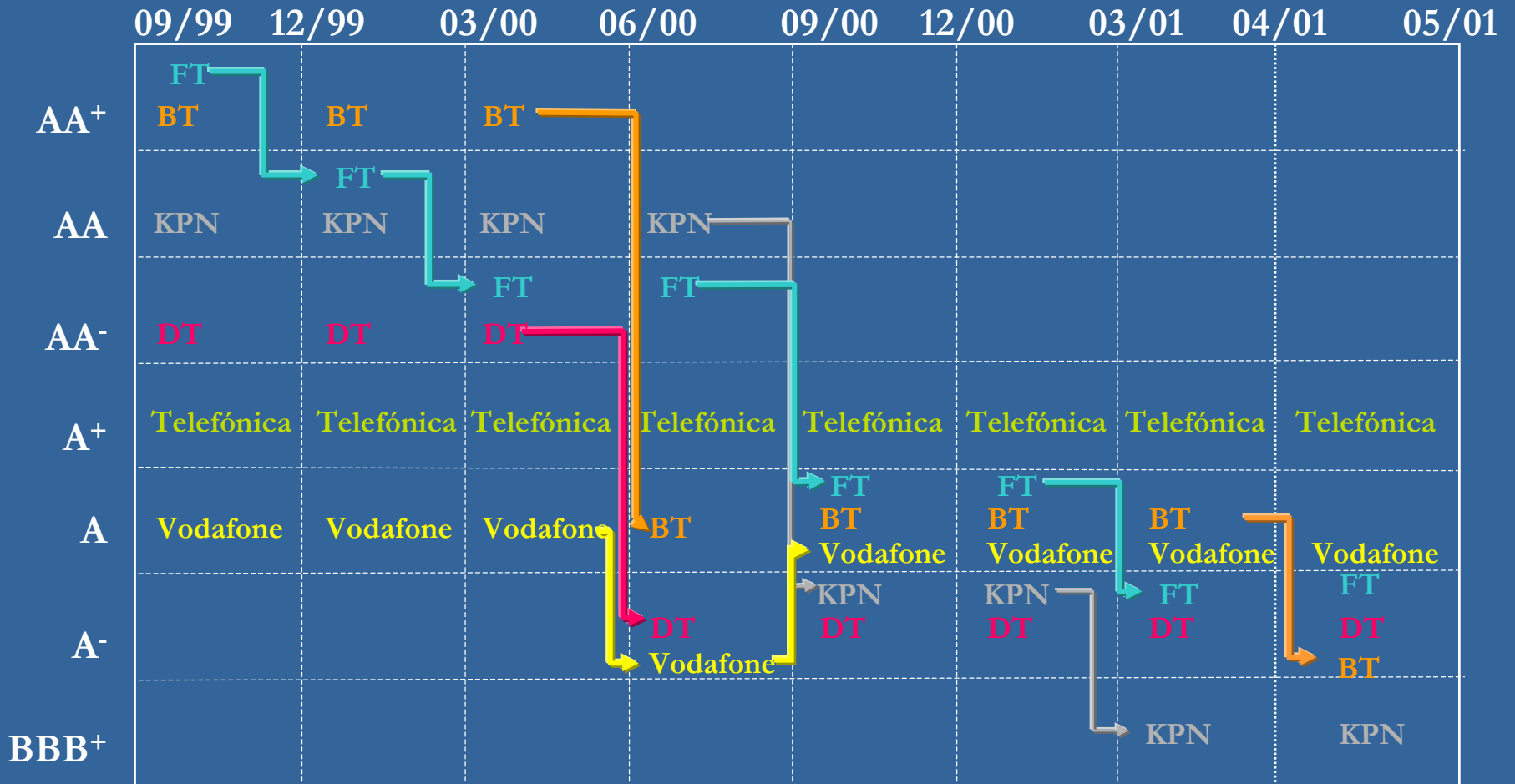
# ...WHICH HAS POSITIONED TELEFONICA AHEAD OF ITS PEERS

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



# RATING STABILITY

## Evolution of ratings (S&P)



# CURRENCY RISK MANAGEMENT

## ASSETS

- ✓ Natural hedges, corporate restructuring
- ✓ Operating companies debt restructuring

## FINANCIAL DEBT

- ✓ Efficient internal financing circuit
- ✓ Hedges

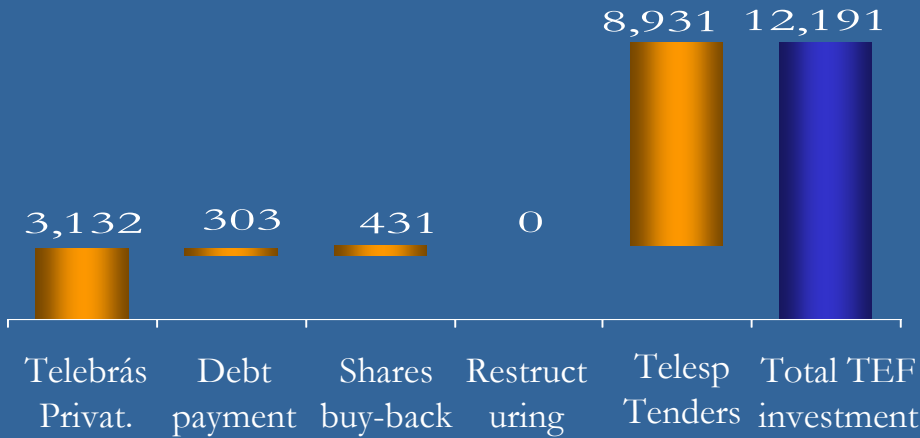
## OPERATING FLOWS

- ✓ Short term impact, recovery of economic growth in medium term
- ✓ Management of the environment: rationalize CAPEX, focus on bad debt expense and cost control

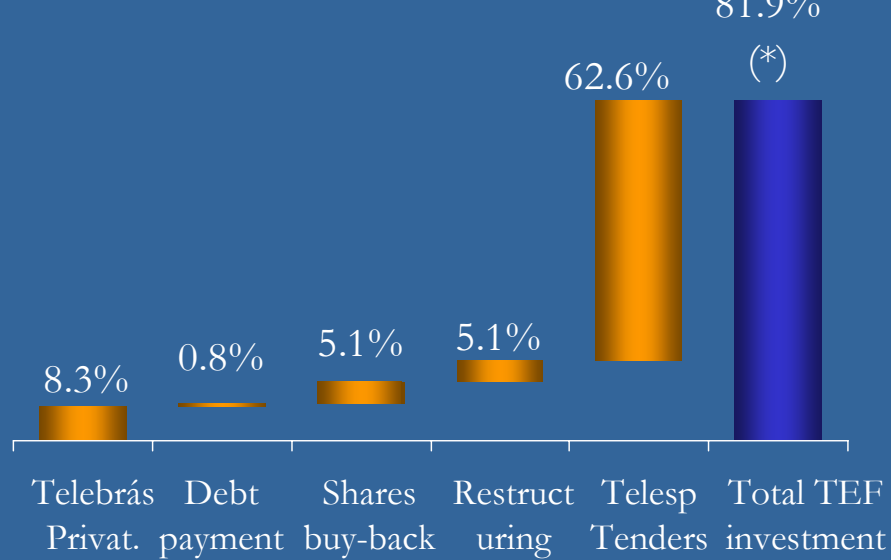
- 
- Controlled impact from Balance Sheet exposure
  - Controlled impact on cash-flows

# CORPORATE RESTRUCTURINGS: THE TELESP CASE

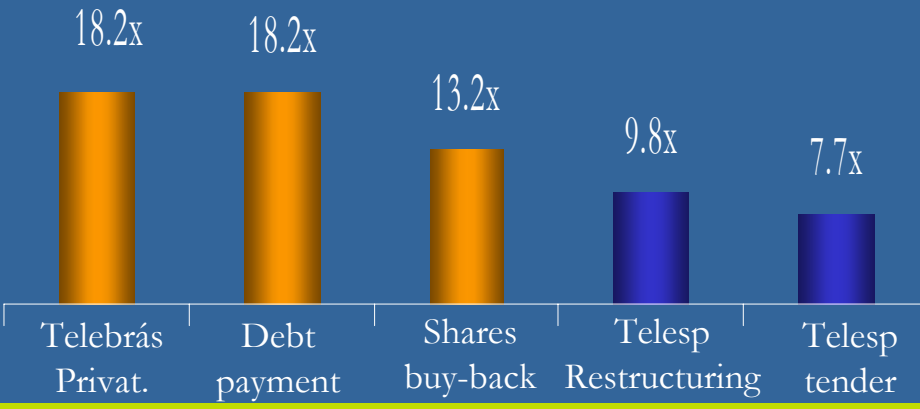
TELEFONICA INVESTMENT (\$ in millions)



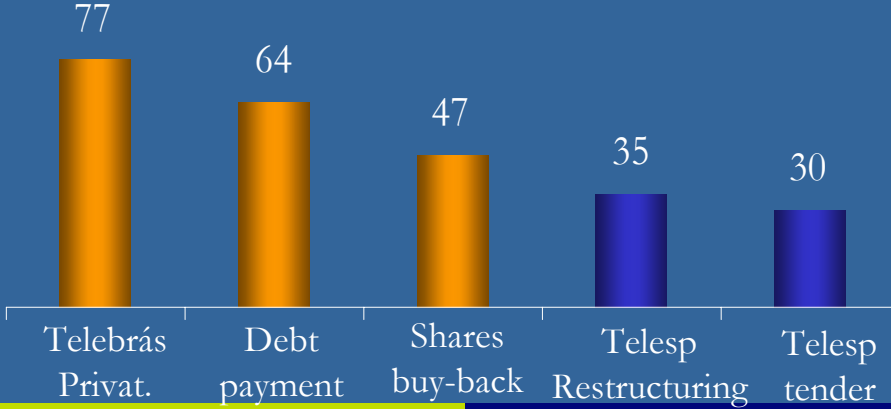
CHANGE OF TELEFONICA'S STAKE IN TELESP



IMPLIED FV/EBITDA 00E



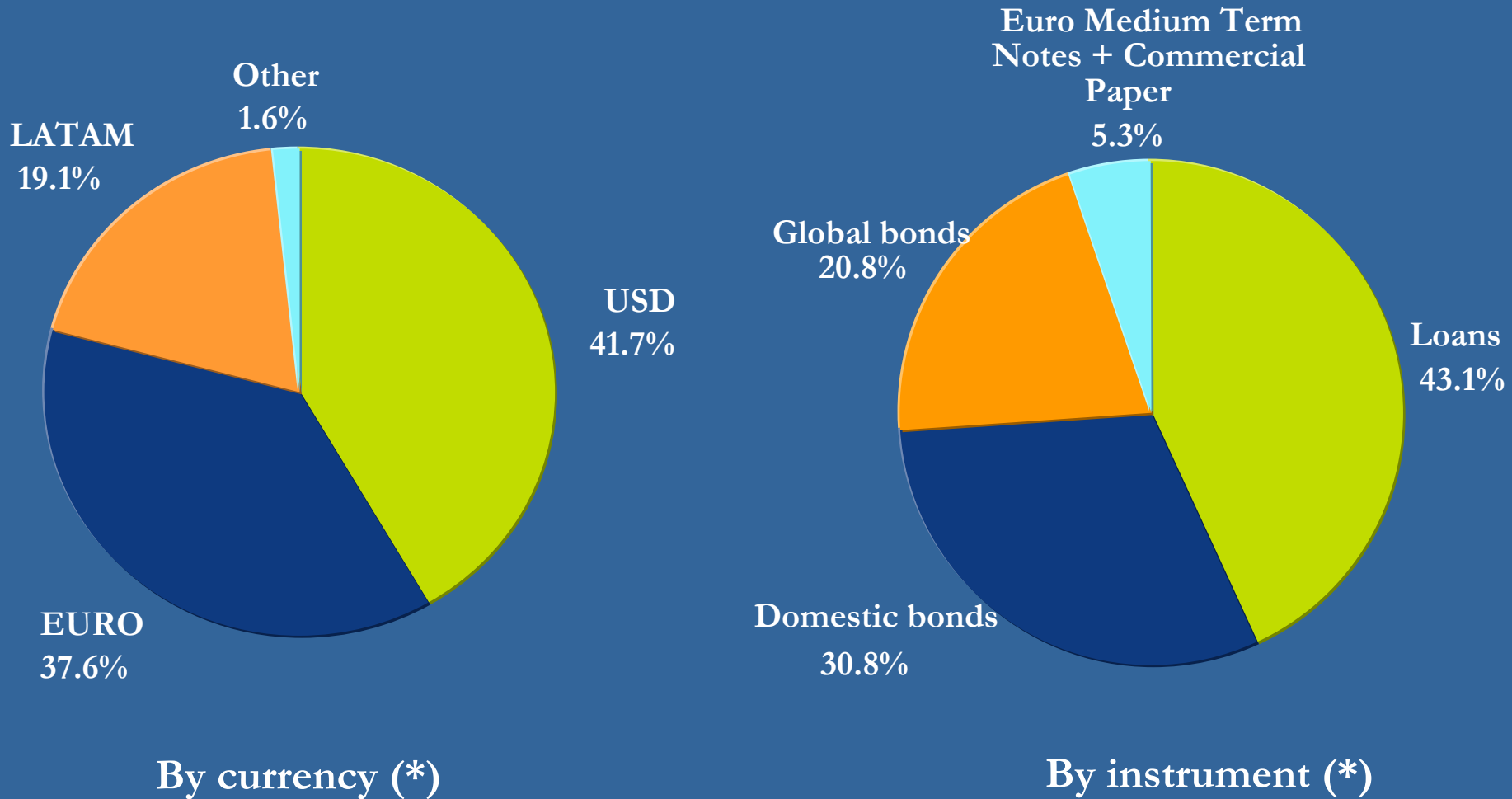
EVOLUTION OF TELEFONICA AVERAGE PRICE PAID PER 1000 TELESP SHARES (US \$)



(\*) 86,6% after equity swap with PT

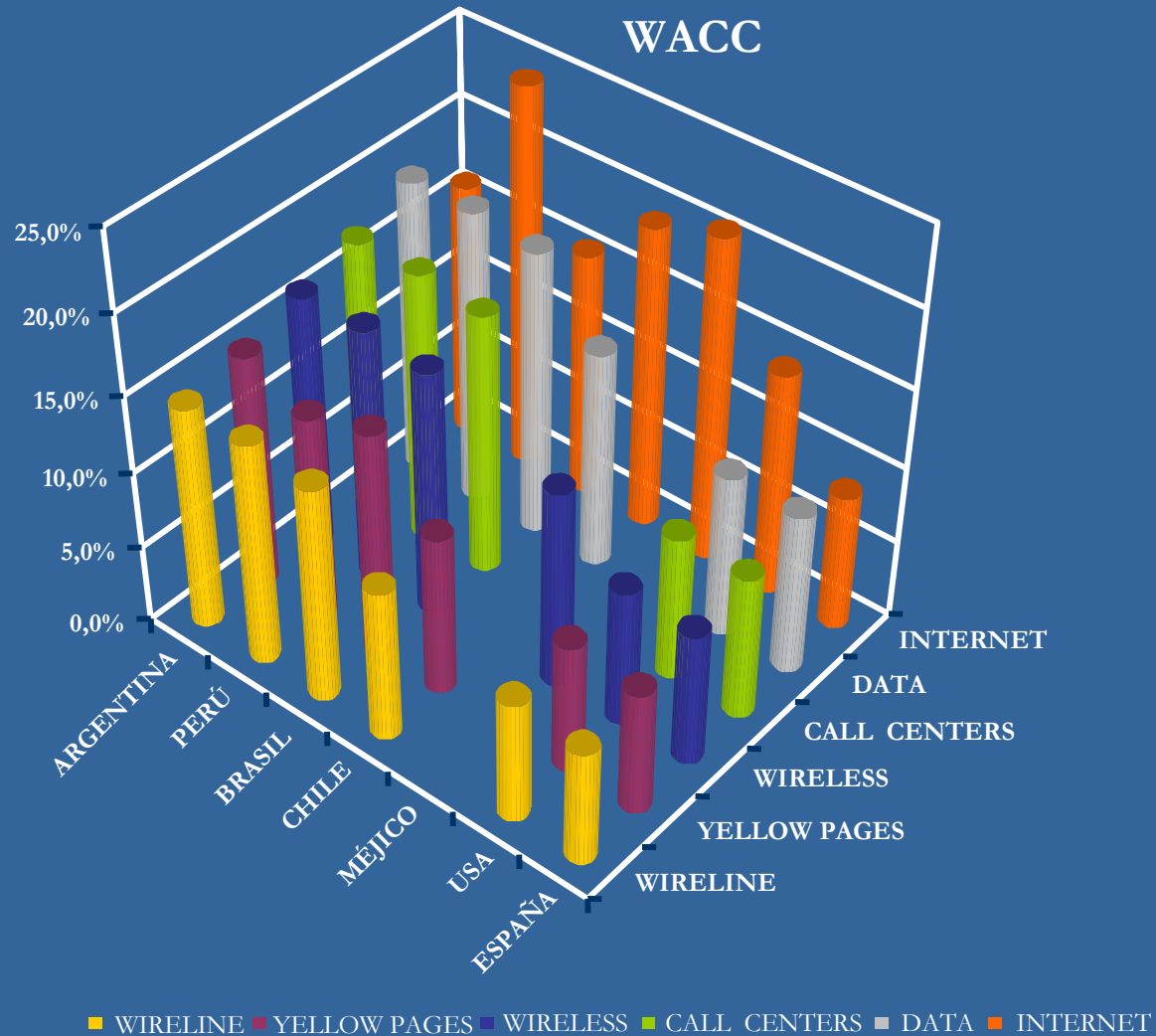


# DIVERSIFYING FINANCIAL DEBT RISK...

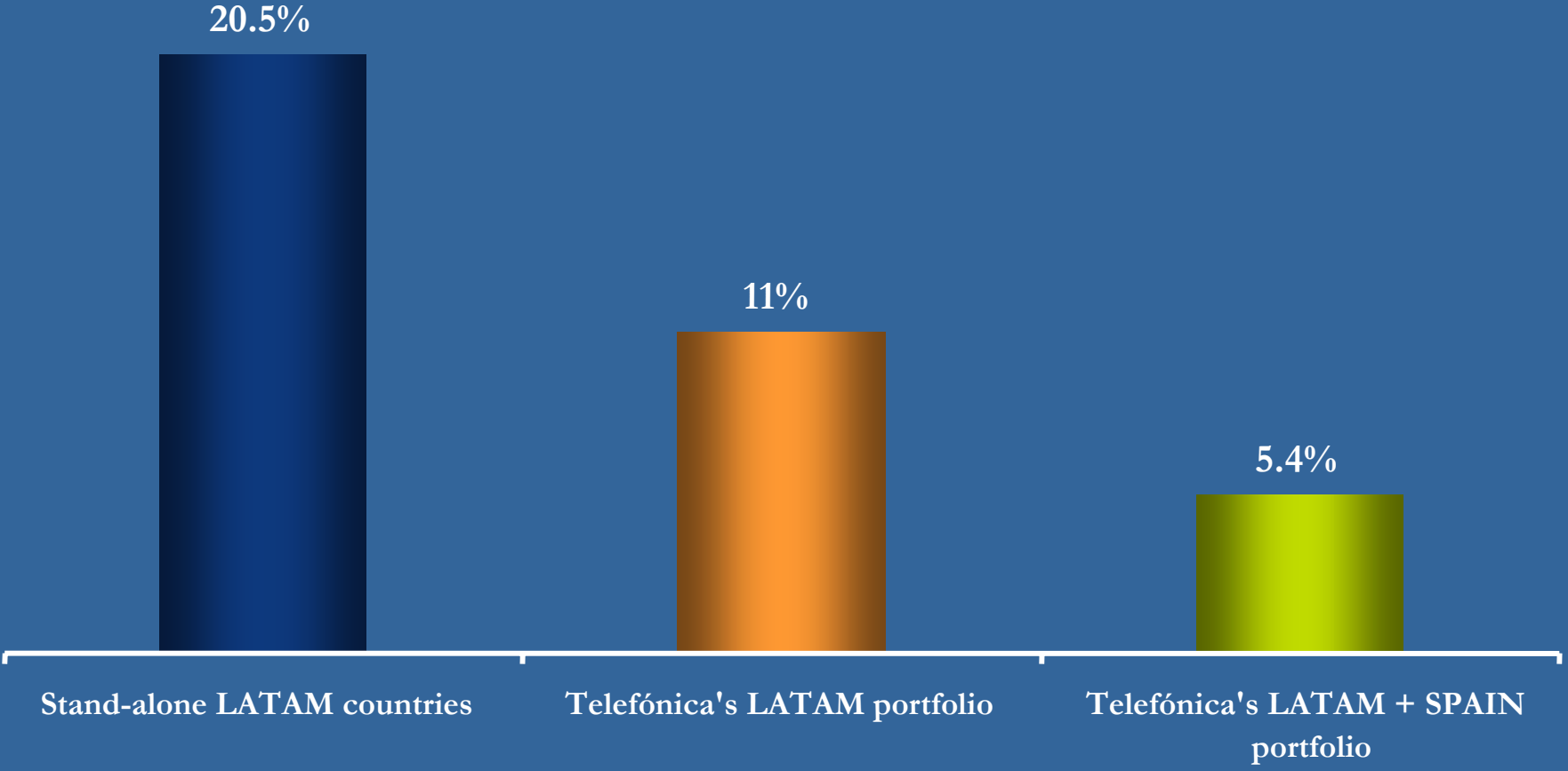


(\*) Net Debt breakdown (31/12/00)

# ...WHILE IMPROVING CAPITAL ALLOCATION



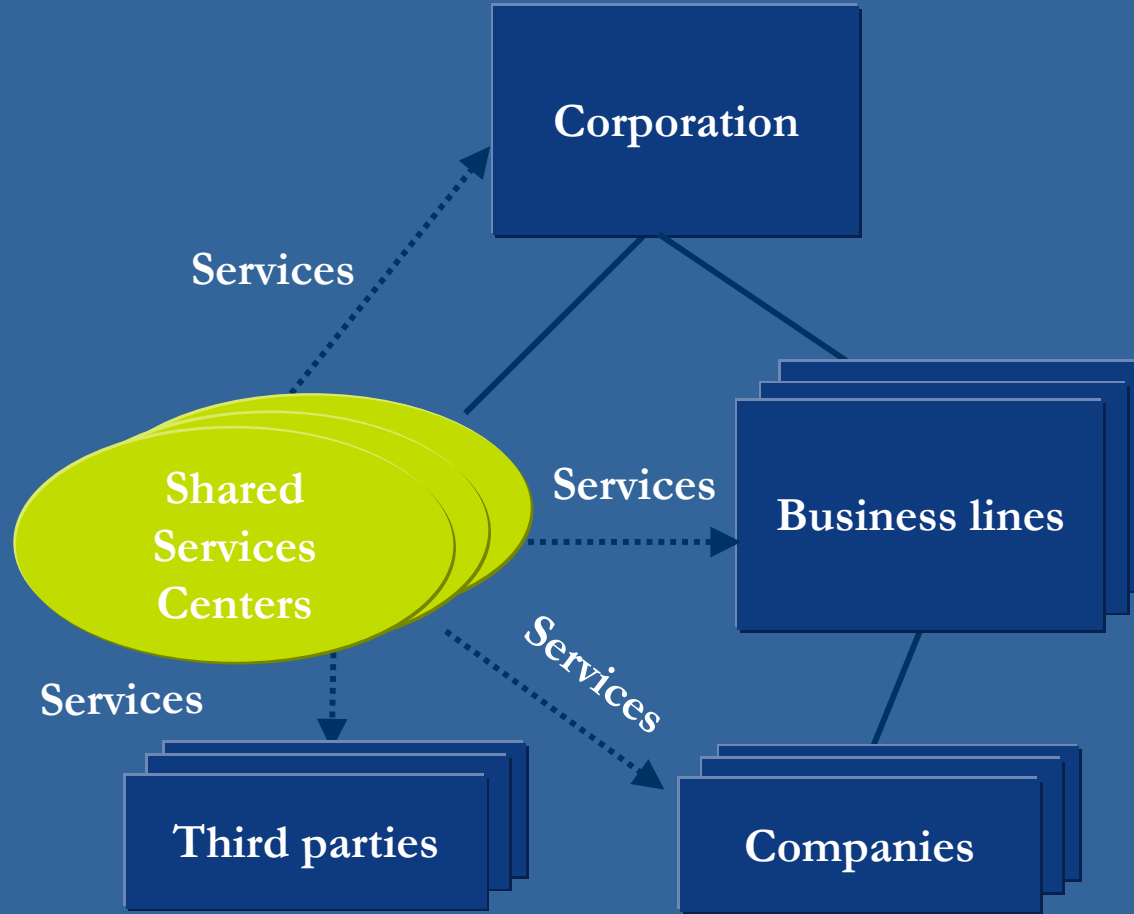
# IMPROVING CASH - FLOW QUALITY



US\$ EBITDA Average Standard Deviation



# LOOKING FOR MORE EFFICIENCY



- Expected NPV of USD 850 million

# 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 Cellular 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

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# 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

# CONTINUE IMPROVING RESULTS IN CONSOLIDATED BUSINESSES

## Telefónica de España

- Winning the broadband battle: 148,000 ADSL subs. 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 during 1H2001

## 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




# 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



# 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

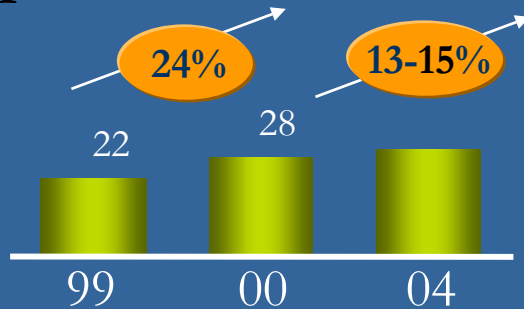
- Cost efficiency
- Operational leverage
- Quality

Operational excellence

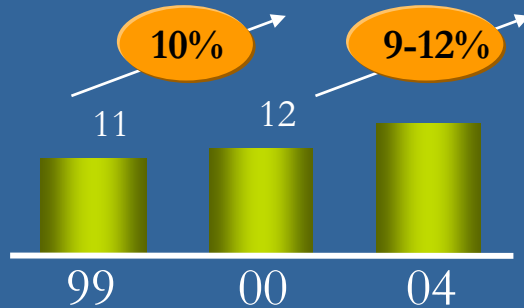
- Asset turnover
- Capex allocation and control
- Reducing asset base

Focus on ROCE

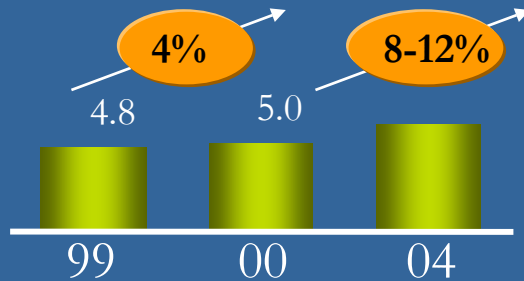
TOP LINE



EBITDA



EBIT\*



\* Calculated exc. goodwill

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