

*Telefonica*



## **January - March 2003 Results**

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# FINANCIAL HIGHLIGHTS

	Jan-Mar 03	% Change Jan-Mar 03/ Jan-Mar 02	% Change FY 02/ FY 01
<b>Operating Revenues</b>	6,458.9	<b>-12.9%</b>	-8.5%
<b>Operating Costs</b>	3,822.4	<b>-16.0%</b>	-9.0%
<b>EBITDA</b>	2,819.1	<b>-7.4%</b>	-8.4%
<b>EBIT *</b>	1,258.1	<b>+4.1%</b>	-7.3%
<b>Adj. EBIT **</b>	1,073.2	<b>+50.5%</b>	C.S.
<b>Net Income</b>	543.4	<b>+348.9%</b>	C.S.

- Highest expected negative impact of forex for the year, draining over 17 p.p. and 18 p.p. to revenues & EBITDA growth in the first quarter
- Sustained pressure on cost contention (+1.1% ex-fx vs +4.9% in 2002), to reach EBIT growth after four consecutive declining quarters
- Adjusted EBIT growing at a 50% rate driven by 2002 business restructuring and write-downs
- Steady improvement of Latam wireline businesses, with all operators surpassing their 2002 financial performance in local currency

\* EBITDA less depreciation

\*\* EBIT less Goodwill amortization, Associates and Extraordinaries

# IMPROVING THE BOTTOM LINE AT ALL LEVELS ACROSS THE P&L

## ASSOCIATES

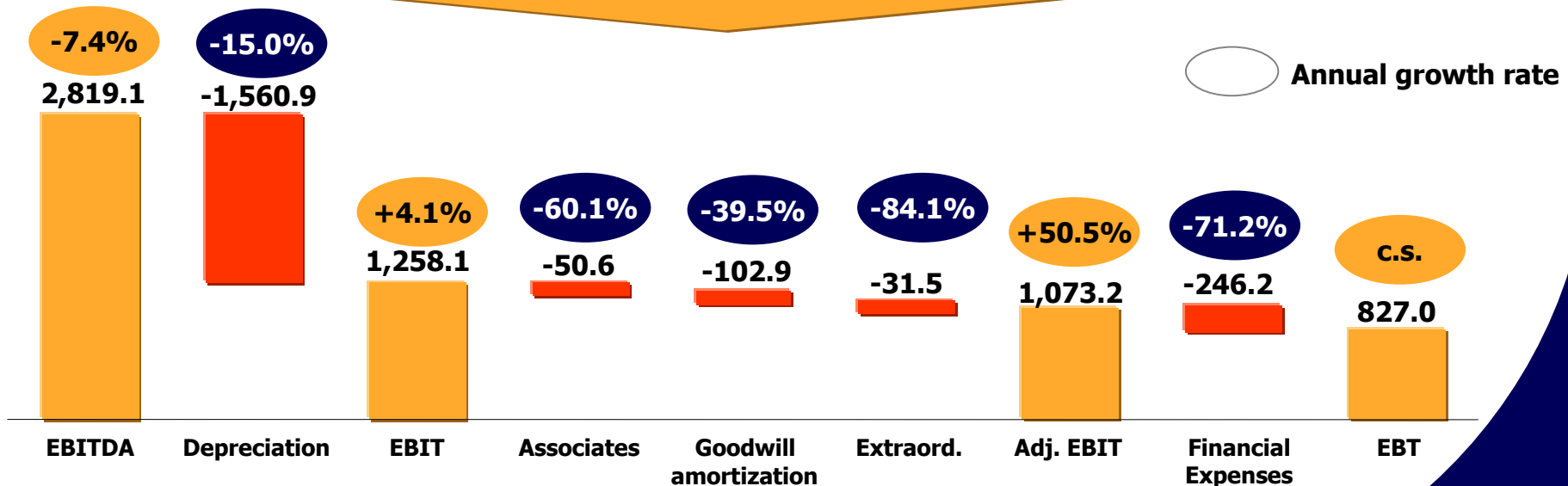
- Sale of ETI & Azul TV
- Closing of IPSE operations
- Management of Vía Digital and Lycos Group
- Improving results for Pearson and Cantv

## GOODWILL AMORTIZATION

- 2002 write-downs:  
Terra Lycos  
Media (especially Pearson)  
Data (Mediaways)  
TEM (IO BOX)

## EXTRAORDINARIES & FINANCIAL EXPENSES

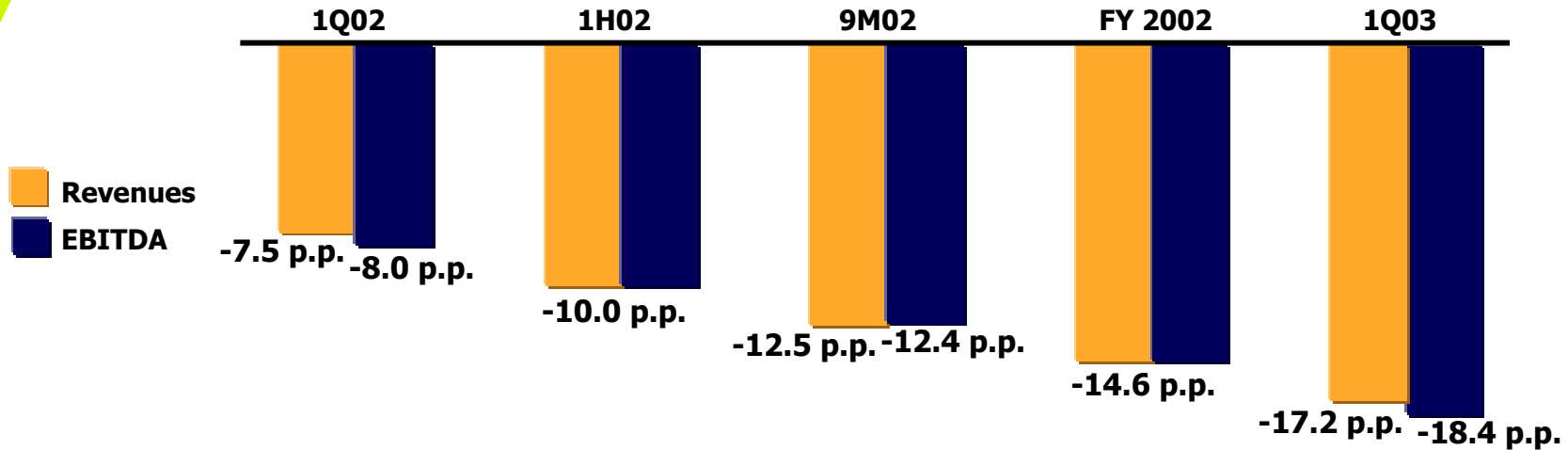
- Real Estate divestitures
- Reversal of treasury stock provision
- Provisions related to asset sales (Azul TV) registered in 2002
- Reversal of exchange rate loss provision related to \$ARS spot rate appreciation



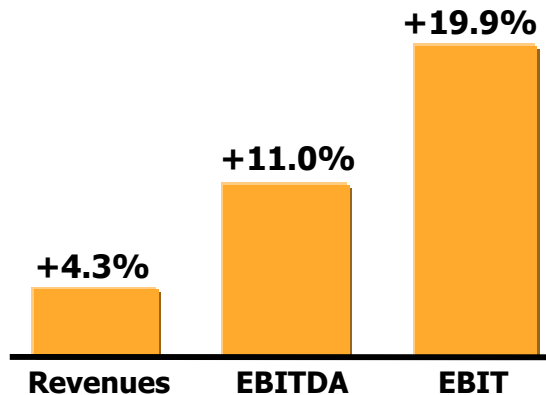
**1Q03 NET INCOME OF 543 MILLION €**

# LATAM FOREX NEGATIVE IMPACT IS REACHING ITS PEAK

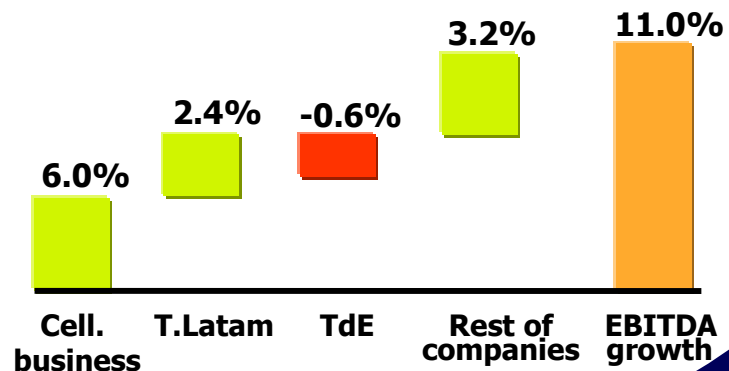
## FX IMPACT ON REVENUES AND EBITDA GROWTH



## QUARTERLY GROWTH RATES EXCLUDING FOREX

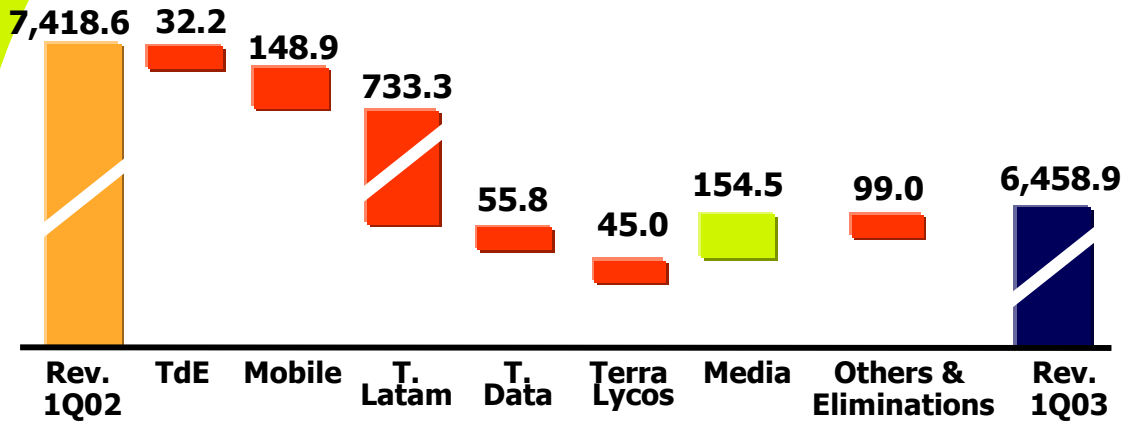


## CONTRIBUTION TO EBITDA GROWTH (EXCLUDING FX)



# CONTRIBUTION BY BUSINESS LINE

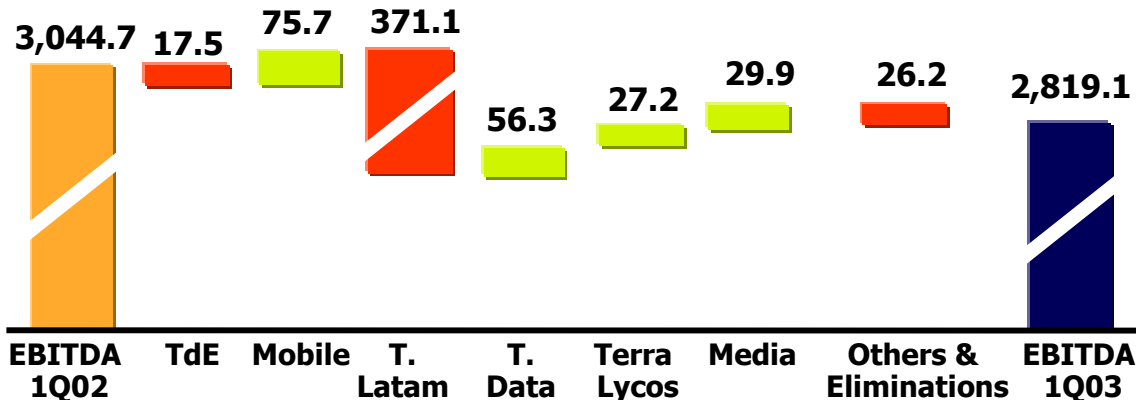
COMPONENTS OF REVENUES EVOLUTION (€ in Mill.)



CONTRIBUTION TO GROWTH\*

Cell. Bus.: - 1.4 p.p.  
TdE: - 0.6 p.p.  
T.Latam: - 9.9 p.p.

COMPONENTS OF EBITDA EVOLUTION (€ in Mill.)



CONTRIBUTION TO GROWTH\*

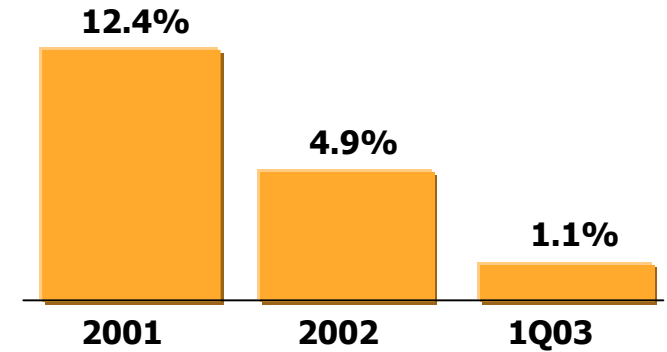
Cell. Bus.: + 2.5 p.p.  
TdE: -0.6 p.p.  
T.Latam: -12.2 p.p.

# KEEPING A FOCUS ON EFFICIENCY...

## COST CONTROL ACROSS THE GROUP \*

	% Change FY02/FY01	% Change 1Q03/1Q02
TdE Group	+0.9%	-2.1%
Cell. Business	+4.7%	-15.4%
T. LATAM	-29.2%	-33.6%
T. Data Global	-16.3%	-24.2%
<b>TEF Group</b>	<b>-9.0%</b>	<b>-16.0%</b>

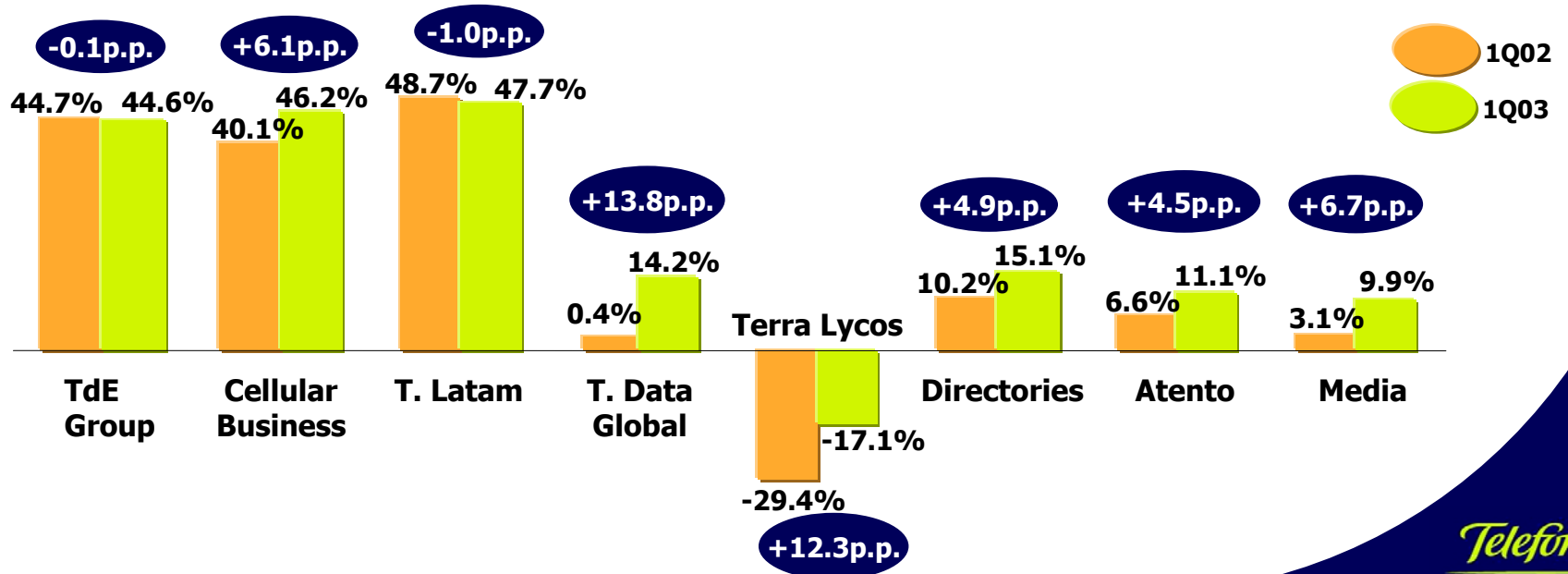
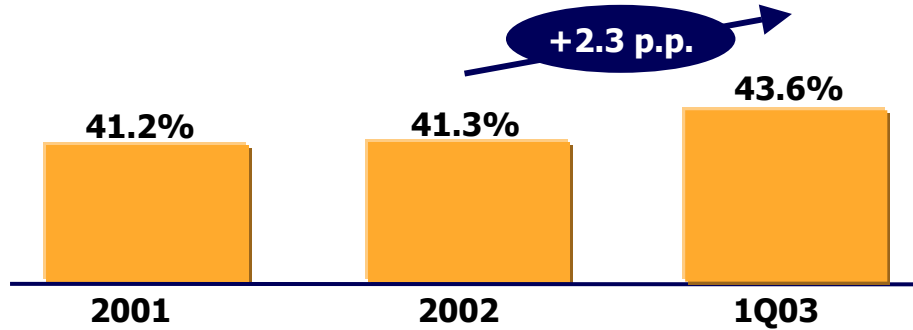
## OPEX EVOLUTION EXCLUDING FX



\* Operating & Other expenses

# ... BENEFITING THE GROUP'S MARGINS

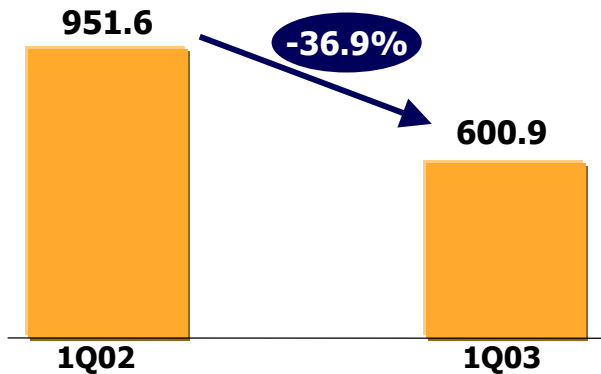
## GROUP EBITDA MARGIN





# CONSOLIDATED CAPEX AFFECTED BY SEASONALITY

## GROUP CAPEX



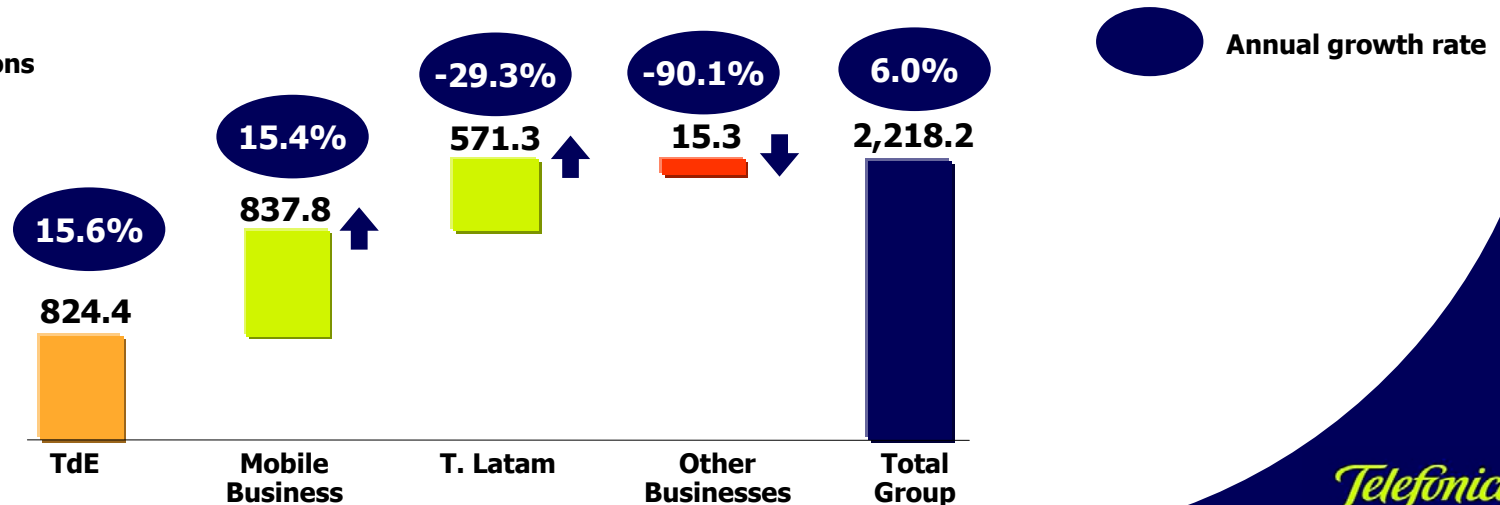
## CAPEX BREAKDOWN

	Total € in Million	% Change 1Q03/1Q02
TdE Group	285.0	-31.1%
Cell. Business	178.7	-16.8%
T. LATAM	107.6	-55.5%
T. Data Global	22.5	-56.5%

- CAPEX EFFORT TRADITIONALLY BIASED TOWARDS SECOND HALF OF THE YEAR
- KEEPING 2003 GROUP TARGET IN THE 0%/ +3% RANGE

## DRIVING CASH FLOW \*

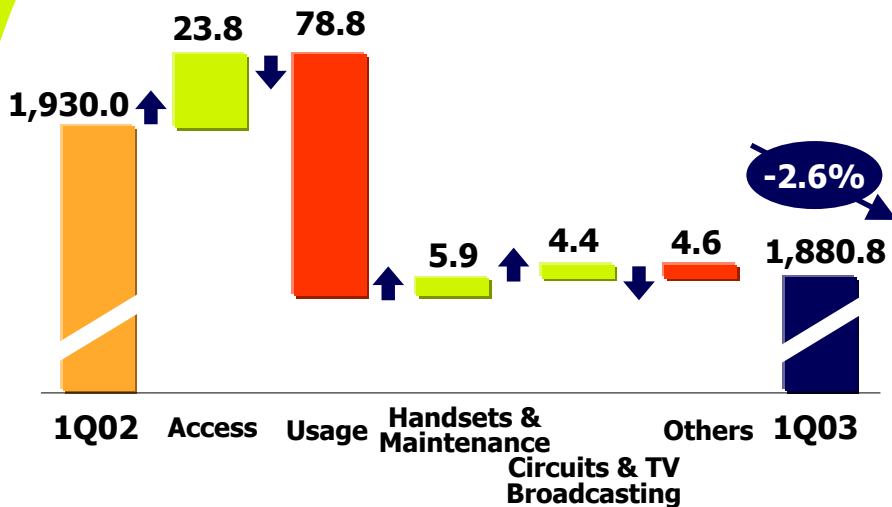
€ in Millions



# TELEFONICA DE ESPAÑA PARENT: TRADITIONAL BUSINESS

## TRADITIONAL REVENUES BREAKDOWN

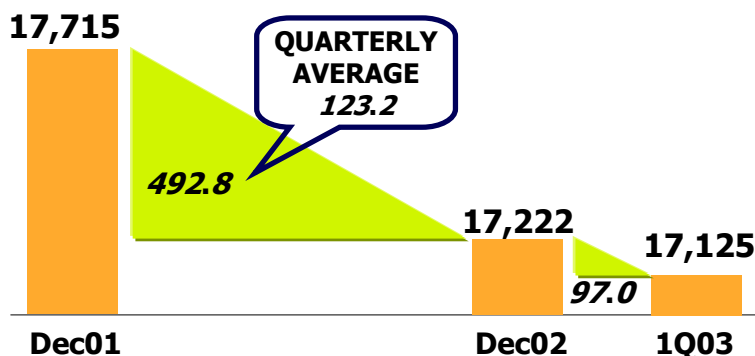
(Million Euros)



## TRAFFIC (estimated)

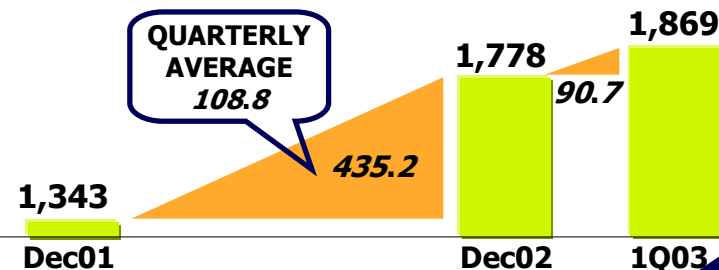
(million minutes)	1Q03	1Q02	% Change 1Q03/1Q02
OUTGOING	23,038	25,048	-8.0%
<i>Voice</i>	14,821	15,871	-6.6%
Local	8,106	9,087	-10.8%
Provincial	2,108	2,166	-2.7%
DLD	1,833	1,929	-5.0%
International	404	428	-5.5%
F2M	1,402	1,324	5.8%
IN* & Others	969	937	3.4%
<i>Internet</i>	8,217	9,177	-10.5%
INCOMING	12,568	11,215	12.1%
<b>TOTAL</b>	<b>35,607</b>	<b>36,264</b>	<b>-1.8%</b>

## ACCESS LINES (PSTN + B.A. ISDN; Thousands)



Net Losses

## PRESELECTED LINES (Thousands)



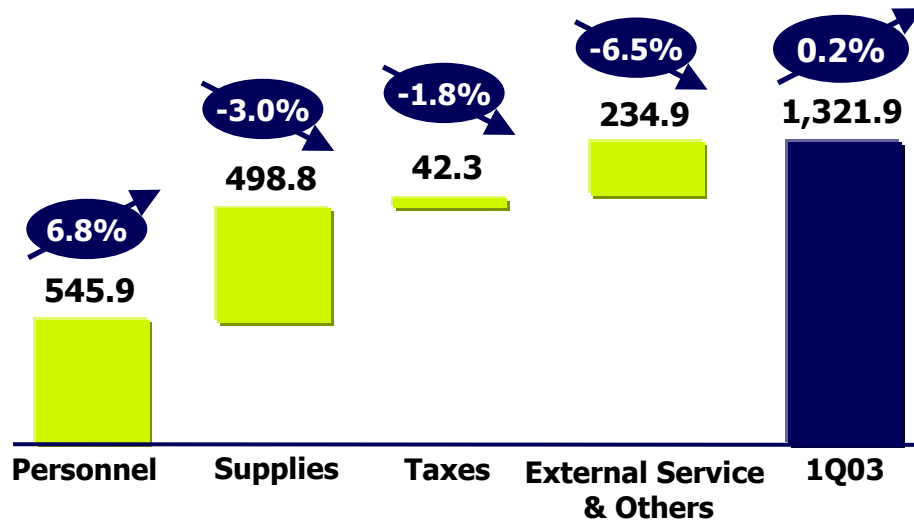
\* Intelligent Network

Net Adds

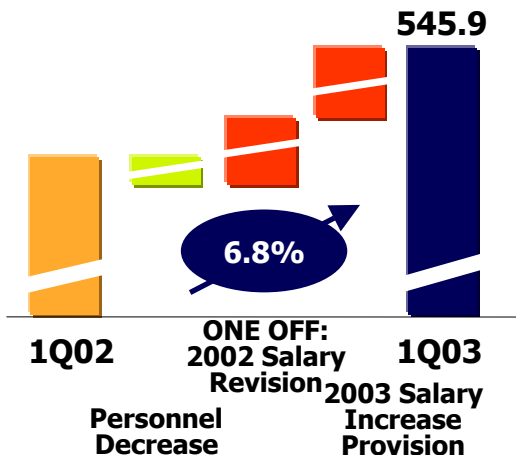
Telefonica

# TELEFONICA DE ESPAÑA PARENT: OPERATING EXPENSES

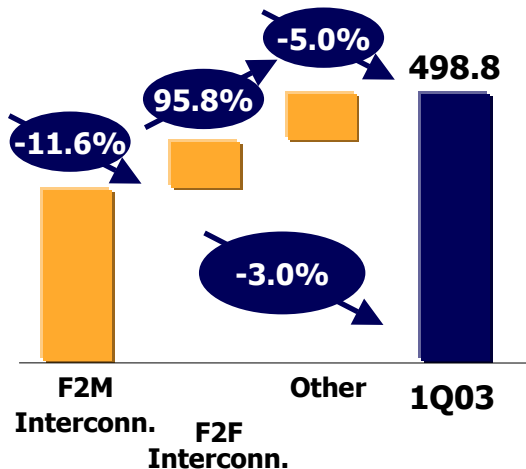
## OPERATING EXPENSES BREAKDOWN (Million Euros)



### PERSONNEL EXPENSES



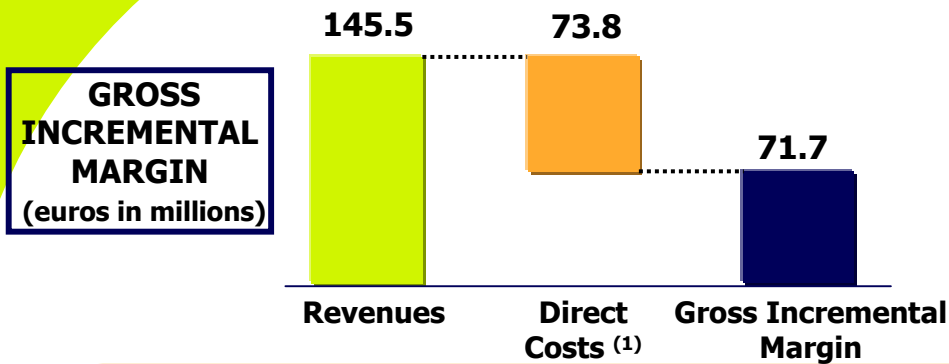
### SUPPLIES EXPENSES



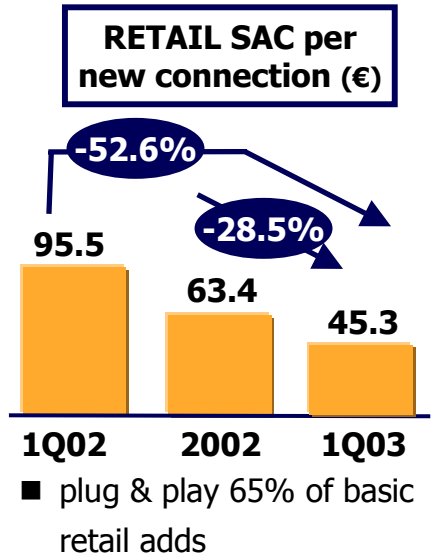
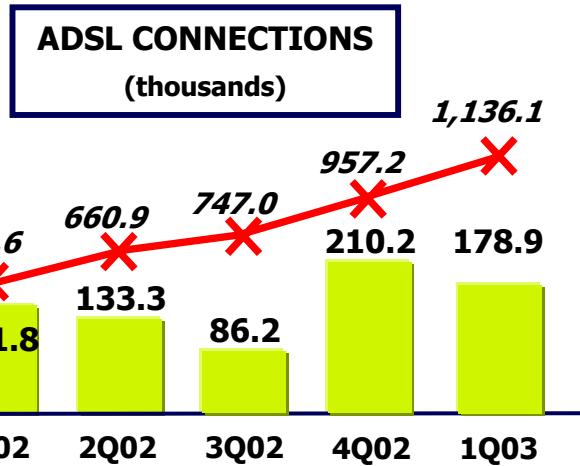
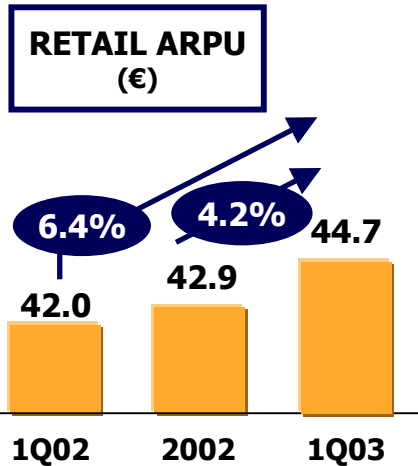
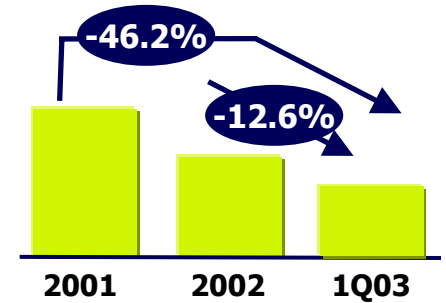
### EXTERNAL SERVICES & OTHERS

- 20% Decrease in Commercial expenses
- 11% Decrease in Network expenses

# TELEFONICA DE ESPAÑA: IMPROVING ADSL METRICS IN 1Q03



**CAPEX per new connection (€)**  
(12 month rolling)

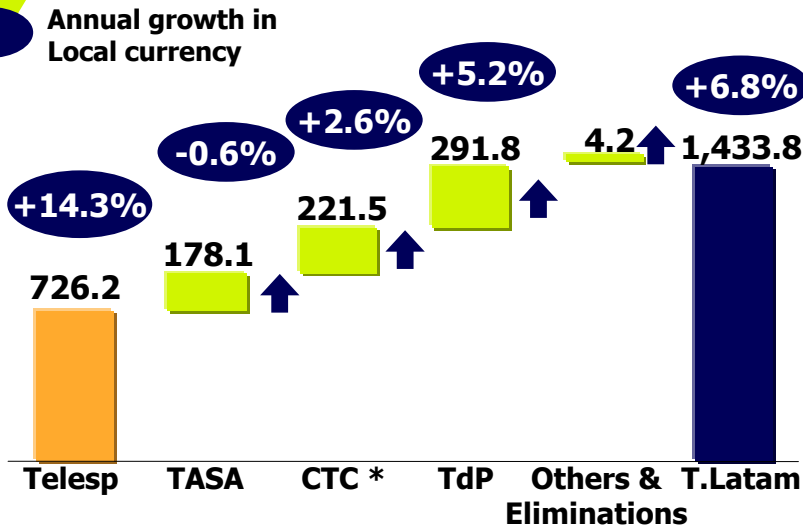


- CONTINUOUS IMPROVEMENT IN ALL ADSL METRICS COMPARED TO 2002
- NET ADDS INCREASE BY 18% FROM 1Q02
- 1Q03 GROSS INCREMENTAL MARGIN OVER REVENUES INCREASES BY 25.8 p.p. VERSUS 2002 FIGURE TO EXCEED 49%

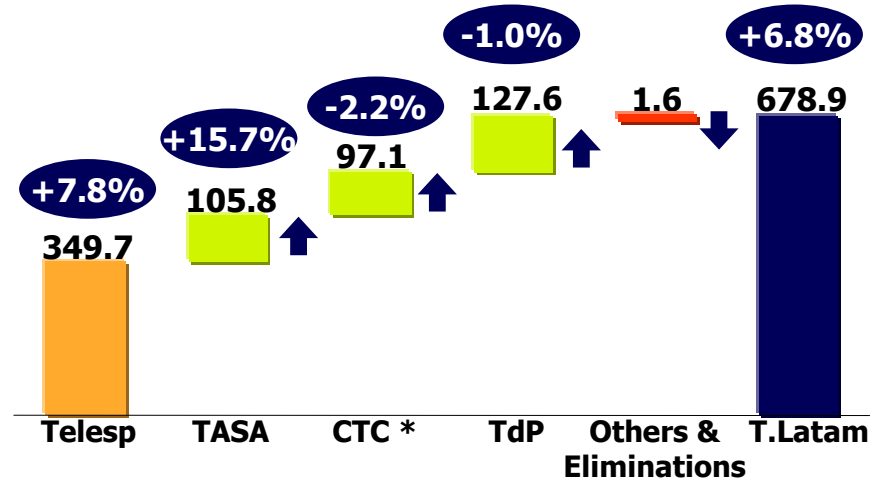
(1) Direct costs include CAT/Help Desk, Internet connection, IP network maintenance, Operations maintenance, Marketing, Installation, Modems, Commissions and Others

# T. LATINOAMERICA RESULTS...

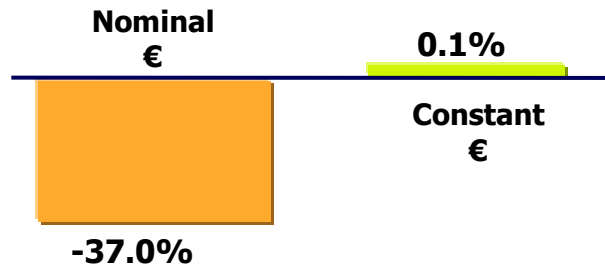
## REVENUES BREAKDOWN (€ in Millions)



## EBITDA BREAKDOWN (€ in Millions)

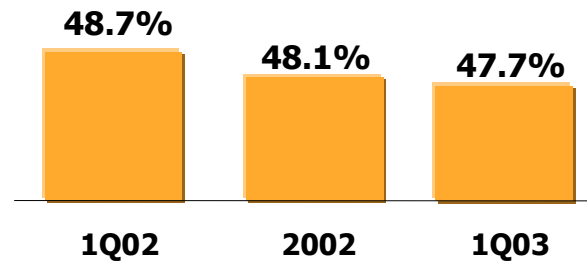


## OPERATING COSTS \*\*



- 13% decrease in personnel expenses in constant €
- Bad debt under control at 3.4% of rev. (3.7% as of dec.-02)
- 15% real increase in External Services & Supplies related to Telesp long distance offering and TdP new pricing plans

## GROUP EBITDA MARGIN

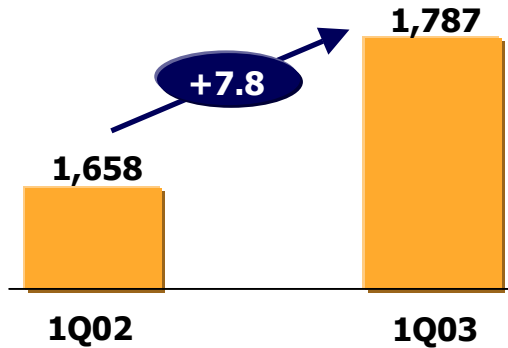


\* Excluding Sonda, consolidated by equity method from Sep.-02  
 \*\* Net of interconnection

# ...WITH THE SOLID UNDERLYING PERFORMANCE OF TELES P

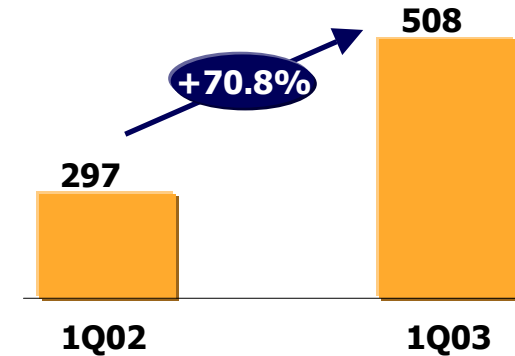
## LOCAL REVENUES

(\$R in millions)



## LONG DISTANCE REVENUES

(\$R in millions)



- Monthly fee: +6% yoy driven by a 13% tariff increase in 02
- Usage revenues: +9.5% yoy driven by tariff increases in 02 and a 2% increase in local traffic/line/day

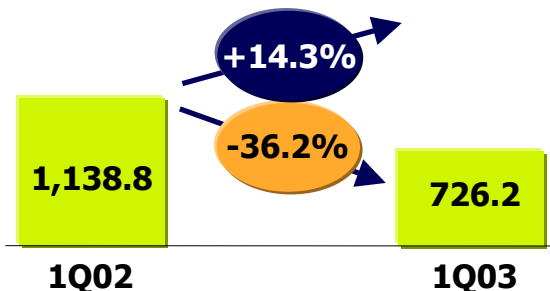
- 42% DLD(interstate) market share as of March 03
- 33% ILD market share as of March 03

● YoY change in local currency

● YoY change in euros

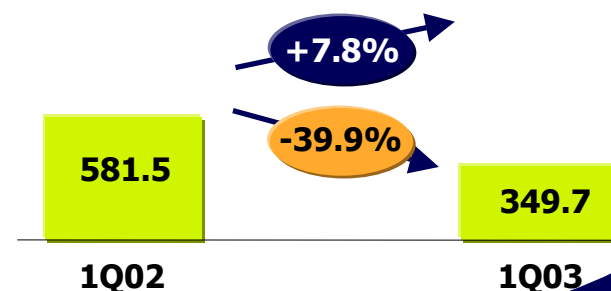
## REVENUES

(€ in millions)



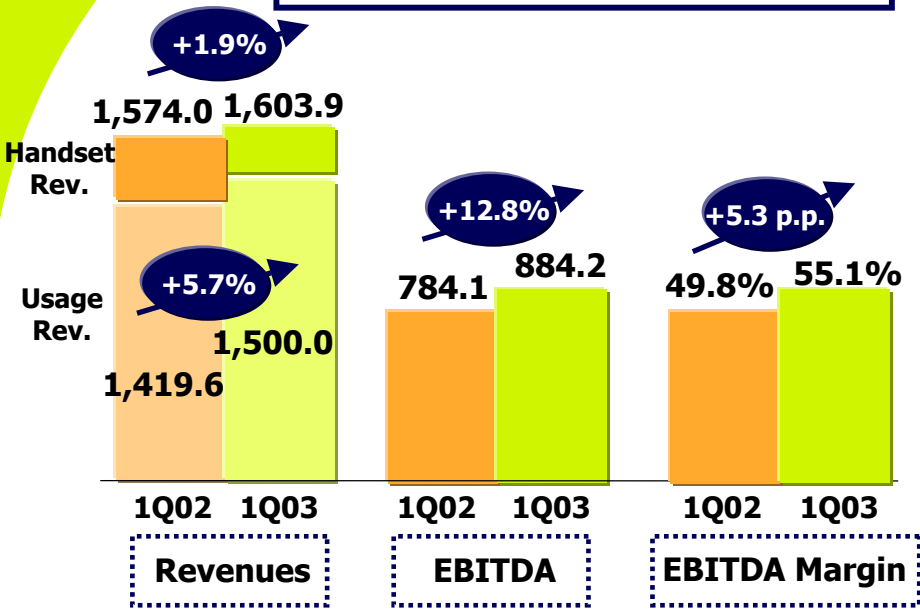
## EBITDA

(€ in millions)

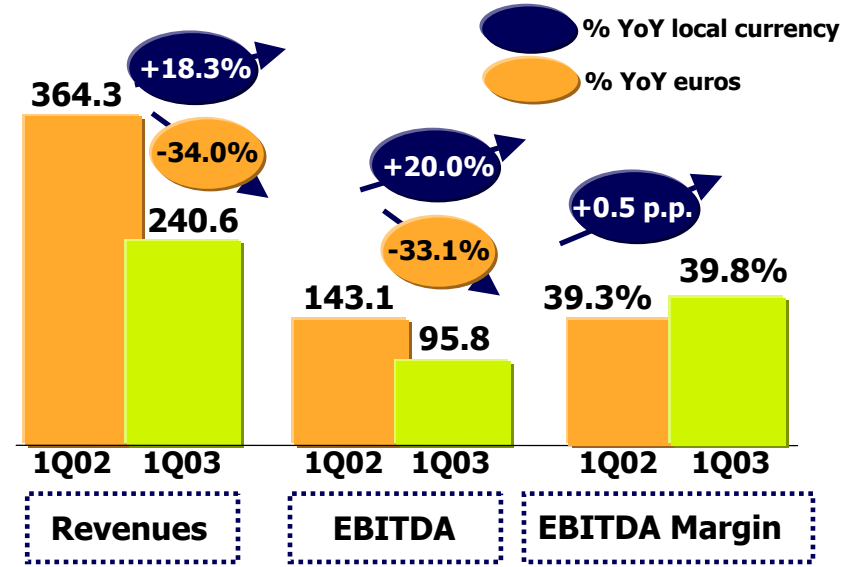


# TELEFONICA CELLULAR BUSINESS

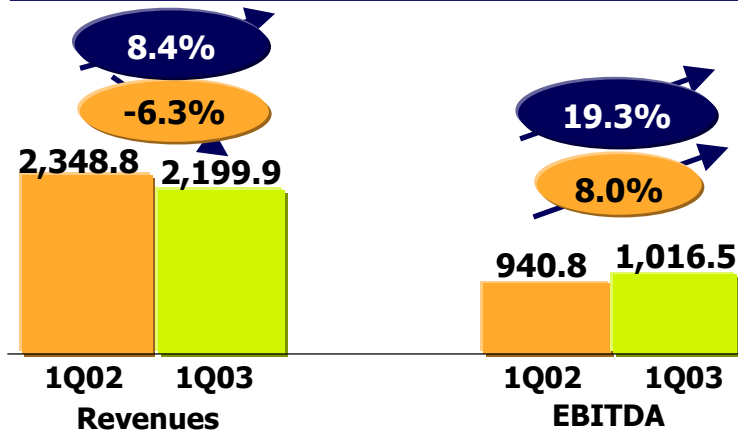
## TELEFONICA MOVILES ESPAÑA (€ in millions)



## BRAZIL\* (€ in millions)



## TELEFONICA MOVILES BUSINESS (€ in millions)



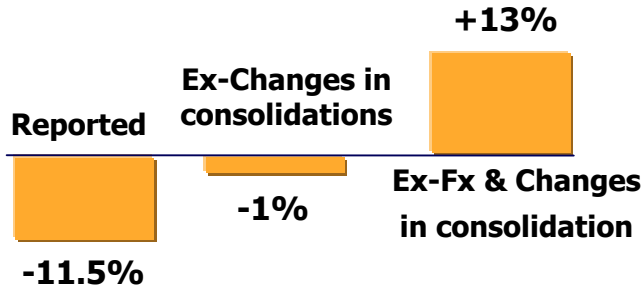
\* 2003 includes proportionate data of Brasilcel, and 2002 figures correspond to TeleSudeste Celular, TeleLeste Celular and CRT Celular

● % YoY constant currency  
● % YoY euros

# TELEFONICA DATA GROUP

## 1Q03 GROUP REVENUES

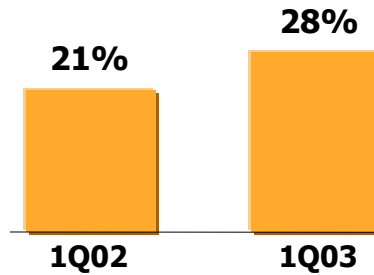
(Annual % Change)



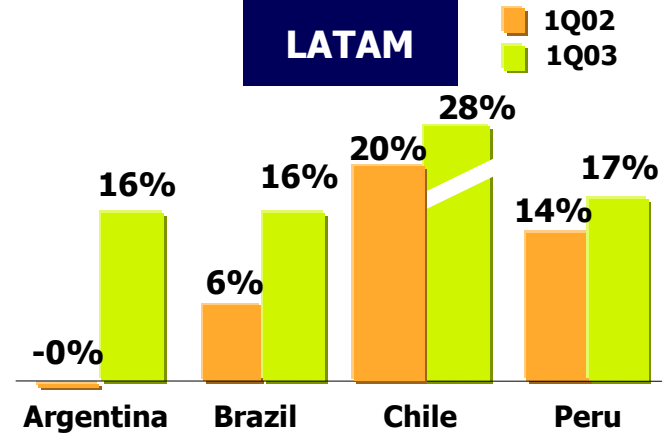
## INCUMBENT MARKETS REMAIN ROBUST

(EBITDA MARGIN)

### SPAIN

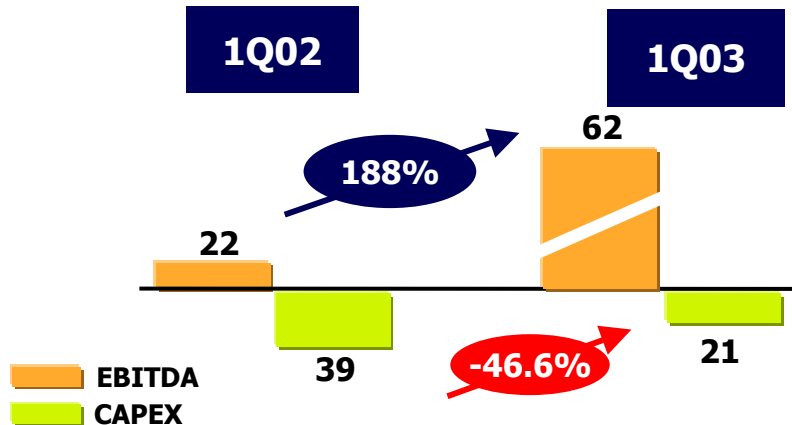


### LATAM



## CASH FLOW GENERATION

(euros in millions)



■ Cash flow (EBITDA - CAPEX) turns positive in 1Q03

■ Capex over revenues of 5.5%



## **NET FINANCIAL EXPENSES (\*)**

<b>Euros in millions</b>	<b>Mar03</b>	<b>Mar02</b>	<b>% Change</b>
<b>Debt financial expense</b>	(486.3)	(483.7)	0.5%
<b>Other financial expenses</b>	(15.9)	(10.4)	52.6%
<b>Financial Income</b>	96.4	91.6	5.3%
<b>Financial provisions and net forex (1)</b>	159.6	(453.6)	(n.m.)
<hr/>			
<b>Net financial results</b>	(246.2)	(856.1)	(71.2%)
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<b>Net financial results excluding ARS devaluation</b>	(413.0)	(438.1)	(5.7%)

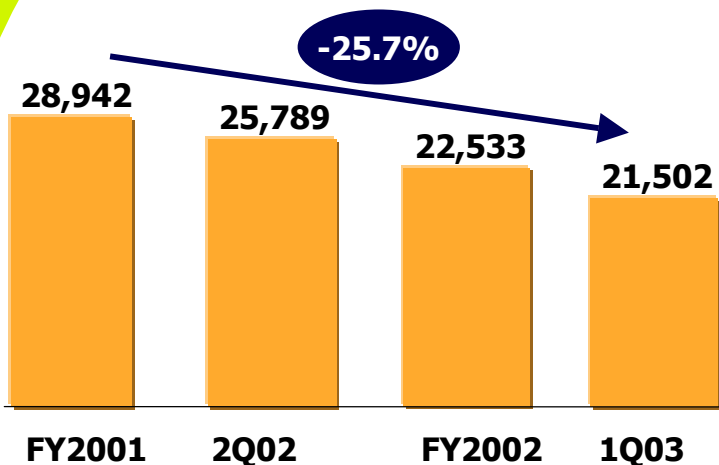
(\*) Global consolidation

(1) Basically non cash

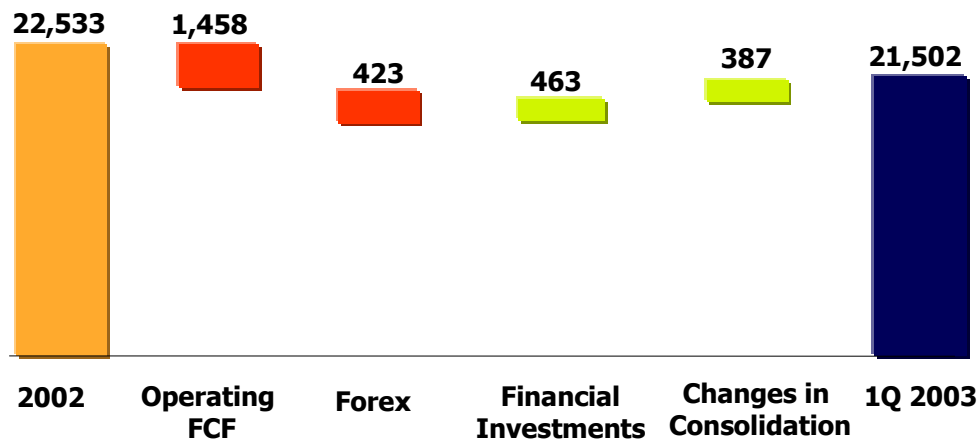
# WE CONTINUE STRENGTHENING OUR CREDIT PROFILE

## CONSOLIDATED DEBT EVOLUTION

(€ IN MM)

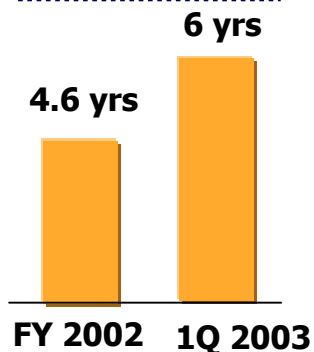


## COMPONENTS OF 1Q2003 DEBT REDUCTION

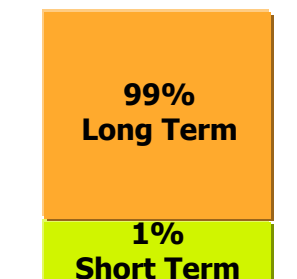


## EXTENDING AVERAGE DEBT MATURITY UP TO 6 YEARS, WITHOUT 2003 REFUNDING NEEDS

### DEBT MATURITY PROFILE



### NET DEBT BY TERM



## A BALANCED DEBT STRUCTURE

22%  
Latam countries

78%  
ex-Latam countries

### NET DEBT\*/EBITDA 02

Group	1.83x
Latam	1.14x
Group ex-Latam	2.21x

(\* ) As of March 03

# JAN-MAR 2003 CASH FLOW STATEMENT

(Euros in millions)

		<b>Jan-Mar 2003</b>
I	Cash flows from operations	2,833.0
II	Other payment related to operating activities	(189.0)
III	Net interest payment	(394.0)
IV	Payment for income tax	(34.6)
<b>A= I+II+III+IV</b>		
<b>Net cash provided by operating activities</b>		<b>2,215.4</b>
V	Net payment for investment in fixed and intangible assets	(736.0)
VI	Net payment for financial investment	(462.9)
<b>B= V+VI</b>		
<b>Net cash used in investing activities</b>		<b>(1,199.0)</b>
C	Dividends paid	(21.9)
<b>D= A+B+C</b>		
<b>Free cash flow after dividends</b>		<b>994.6</b>
E	Effects of exchange rate changes on net debt	(423.2)
F	Effects on net debt of changes in consolidation and others	386.9
G	Net debt at beginning of period	22,533.1
<b>H= G-D+E+F</b>		
<b>Net debt at end of period</b>		<b>21,502.3</b>

## **CONCLUSIONS**

- **THE COMPANY IS SUBSTANTIALLY IMPROVING ITS BOTTOM LINE ACROSS THE P&L**
- **THE GROUP REMAINS FOCUS ON EFFICIENCY, KEEPING STRONG MARGINS AND SOLID CASH FLOW GENERATION**
- **FOREX, WHICH HAS CONTINUED TO HEAVILY AFFECT THE GROUP RESULTS, IS EXPECTED TO GRADUALLY EASE AS THE YEAR PROGRESSES**
- **LATIN AMERICAN OPERATIONS ARE SHOWING A STEADY RECOVERY IN THEIR UNDERLYING OPERATING PERFORMANCE**

*Telefónica*

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# TELEFÓNICA DE ESPAÑA: 2002 Operating Revenues

(Euros in Millions)	Jan-Mar	Jan-Jun	Jan-Sept	Jan-Dec
<b>Traditional Services</b>	<b>1.930,0</b>	<b>3.919,1</b>	<b>5.825,3</b>	<b>7.791,4</b>
Client network access	716,2	1.436,6	2.155,5	2.873,9
Voice usage (Net total)	933,7	1.882,4	2.775,6	3.682,6
Local	233,1	469,2	667,0	900,8
Provincial	72,8	146,6	218,5	292,8
Domestic long distance	133,1	264,0	386,1	515,9
International long distance	67,0	127,0	188,1	246,8
Fixed to mobile	334,3	693,1	1.053,4	1.388,0
IRIS and other	93,5	182,4	262,5	338,3
Handsets sales and maintenance	168,9	353,9	531,9	731,4
Leased circuits and TV broadcasting	31,4	72,9	119,3	162,9
Other business lines	79,8	173,3	243,0	340,6
<b>Internet and Broadband Services</b>	<b>143,9</b>	<b>302,8</b>	<b>456,8</b>	<b>642,3</b>
Narrowband	94,5	196,0	286,0	378,0
Broadband (retail)	49,4	106,9	170,8	264,3
<b>Wholesale Services</b>	<b>368,6</b>	<b>739,5</b>	<b>1.121,5</b>	<b>1.473,0</b>
National interconnection	88,0	182,8	296,5	386,4
Wholesale ADSL (Megabase and GigADSL)	22,0	40,0	65,2	97,4
International operators services	81,9	162,8	247,7	297,6
Other national operators services	176,7	353,8	512,1	691,5
<b>Total operating revenues</b>	<b>2.442,6</b>	<b>4.961,4</b>	<b>7.403,7</b>	<b>9.906,7</b>