

*Telefonica*



## **January - June 2003 Results**

**This presentation is being broadcast live on the Internet**

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# LEADING SHAREHOLDER REMUNERATION AMONG OUR PEERS

DELIVERY ON EXECUTION

PROGRESS  
ON  
BUSINESS INITIATIVES

PROGRESS  
ON  
RE-FOCUSING

+

STRONG 1H03  
RESULTS

BETTER P&L  
AT  
ALL LEVELS

IMPROVED BUSINESS OUTLOOK

- WE ARE CONFIDENT ON FREE CASH FLOW GENERATION AND HAVE ACCESS TO IT
- OUR STRONG CASH FLOW IS THE BASIS TO SET A STRONG MID TERM COMMITMENT TO SHAREHOLDERS REMUNERATION

## ... IMPROVING BUSINESS OUTLOOK...

### PROGRESS ON BUSINESS INITIATIVES



- Launch of unified brand name VIVO and acquisition of TCO in Brazil completed in April
- Launch of GSM service in Mexico, in May
- Approval of a new redundancy program at Telefónica de España, affecting up to 15,000 employees in 2003-2007
- Execution of the Real Estate Project as planned, with direct sales close to 400 Million € already committed as of June 2003

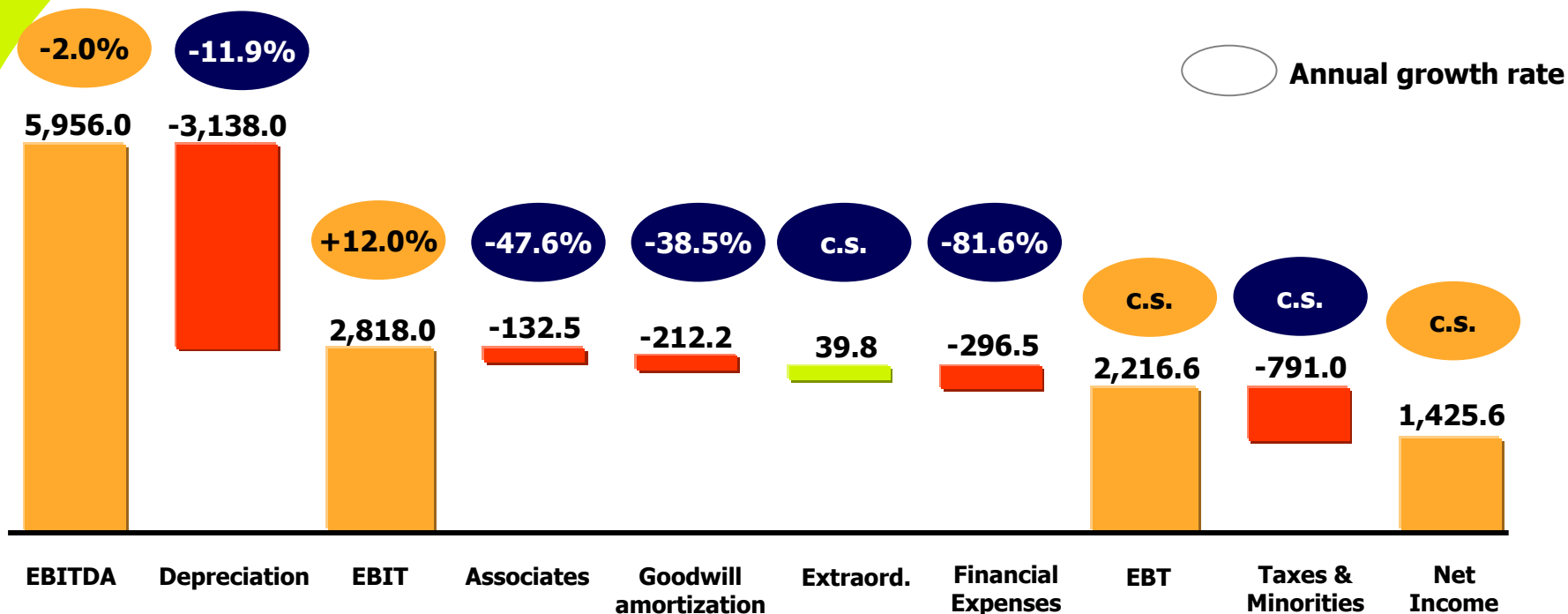
### PROGRESS ON RE-FOCUSING



- Completion of Vía Digital/Sogecable merger in July 2<sup>nd</sup> (22.23% Telefónica). Start of joint offering of services through Digital+ in July, 21<sup>st</sup>
- Completion of Terra Lycos tender offer in July 23<sup>rd</sup>, reaching a 71.97% stake
- Sale of a 25.1% stake in A3 to Planeta. Full divestiture to be completed by end of year

# A SOLID SET OF RESULTS IN 1H03, WITH THE P&L IMPROVING AT ALL LEVELS...

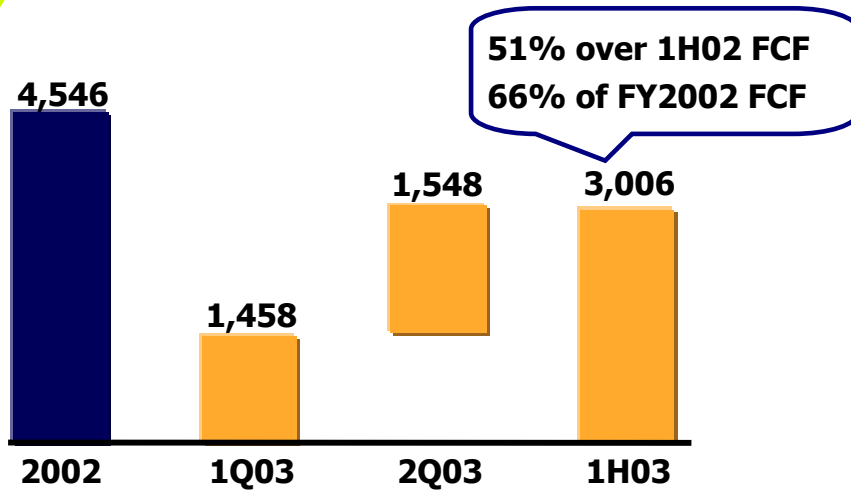
€ in Millions



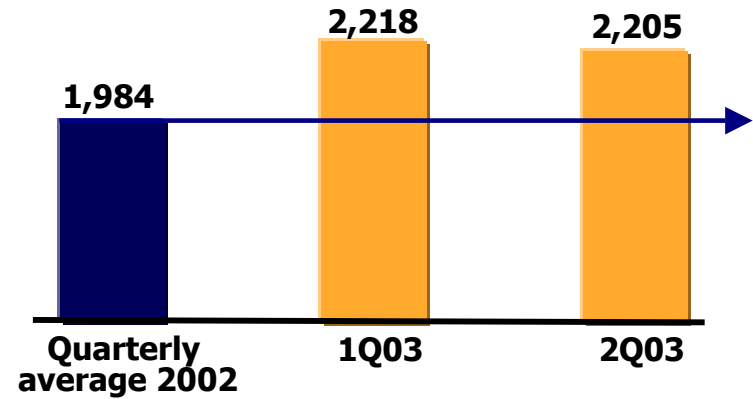
- Solid underlying performance of businesses and reduced negative impact of currency fluctuations
- Steady improvement of non-operating results due to re-focusing and write-downs
- Sound debt and currency management with a positive impact on financial expenses

# ...ARE BACKING OUR CONFIDENCE ON THE GROUP'S FUTURE CASH FLOW GENERATION...

## FREE CASH FLOW BEFORE FINANCIAL INVESTMENTS (€ in Millions)

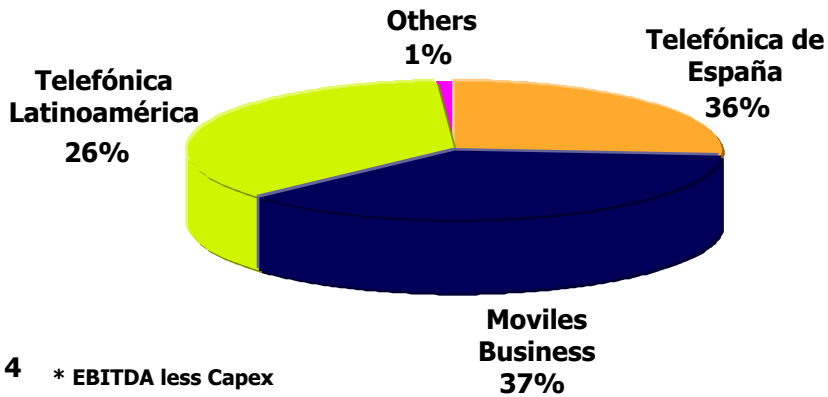


## CONSISTENCY OF CASH FLOW \* (€ in Millions)

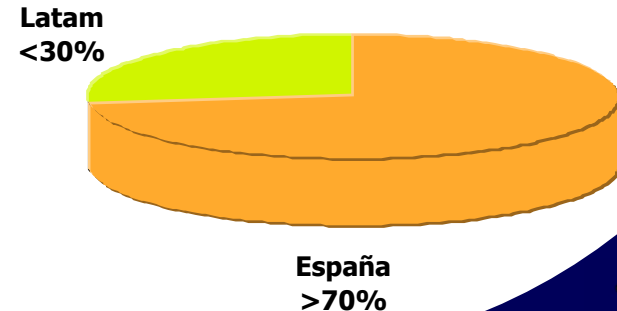


**CASH FLOW IS STABLE AND WELL BALANCED**

## CASH FLOW BREAKDOWN BY BUSINESS \*



## CASH FLOW BREAKDOWN BY COUNTRY \*



# **...AND HAS LED THE BOARD TO SET THE COMPANY'S MID TERM DIVIDEND POLICY EXPLICITLY**

## **A COMMITMENT BASED ON A SET OF PRINCIPLES...**

- To be sustainable for the period 2003-2006, setting a floor to shareholder remuneration
- To allow the full development of our growth potential
- To represent a strong medium term commitment to shareholders, leveraging on the Group's financial discipline
- To be compatible with a "single A" credit rating target

**TO STRENGTHEN SHAREHOLDERS REMUNERATION  
TO REMOVE THE UNCERTAINTY OVER THE GROUP'S  
FUTURE USE OF CASH FLOWS**

■ **0.4 € per share, equivalent to close to 2 billion €, for years 2004, 2005 and 2006**

**+**

■ **Flexibility to complete share buy-backs if appropriate**

# FINANCIAL HIGHLIGHTS

|                          | Apr-Jun 03 | % Change<br>Apr-Jun 03/ Apr-Jun 02 | Jan-Jun 03 | % Change<br>Jan-Jun 03/ Jan-Jun 02 |
|--------------------------|------------|------------------------------------|------------|------------------------------------|
| <b>Operating Rev.</b>    | 7,104.3    | <b>-1.6%</b>                       | 13,563.2   | <b>-7.3%</b>                       |
| <b>Operating Costs *</b> | 4,147.3    | <b>-5.5%</b>                       | 7,969.7    | <b>-10.9%</b>                      |
| <b>EBITDA</b>            | 3,136.9    | <b>+3.5%</b>                       | 5,956.0    | <b>-2.0%</b>                       |
| <b>EBIT **</b>           | 1,559.9    | <b>+19.4%</b>                      | 2,818.0    | <b>+12.0%</b>                      |
| <b>Net Income</b>        | 882.2      | <b>c.s.</b>                        | 1,425.6    | <b>c.s.</b>                        |

- Underlying performance (ex-fx) is accelerating, surpassing 1Q03 real growth rates, led by Telefónica Móviles and Telefónica Latinoamérica
- Negative impact of forex for the year is smoothing, draining just over 13.5 p.p. to revenues & EBITDA growth in the first six months (more than 17 p.p. in 1Q03)
- April-June EBITDA is growing at a 3.5% rate after five consecutive declining quarters, a combination of solid underlying revenues and cost control (+2% annual growth excluding forex)
- Non-operating results are keeping their positive trend, pushing net income to 1,426 Million € for the six months period
- Telefónica de España is withstanding top line pressure and is keeping its margin stable above the 44% mark
- Spanish wireless operations are topping the 8% revenue growth in 1H03, combining client base growth with a first time cumulative y-o-y ARPU increase of 1.4%
- Latam wireline business, driven by Brazil and Argentina, is growing at a 7-8% rate in terms of both revenues and EBITDA in local currency



# UNDERLYING PERFORMANCE OF BUSINESSES

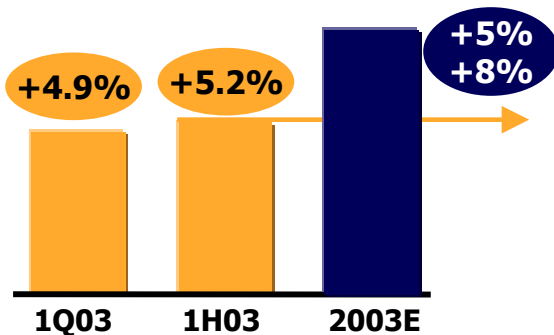
## REVENUE BREAKDOWN \*

|                | % Change<br>1Q03/1Q02 | % Change<br>2Q03/2Q02 |
|----------------|-----------------------|-----------------------|
| TdE Group      | -1.3%                 | -1.7%                 |
| Cell. Business | +8.3%                 | +20.9%                |
| T. LATAM       | +7.0%                 | +9.2%                 |
| T. Data Global | -1.2%                 | +4.9%                 |

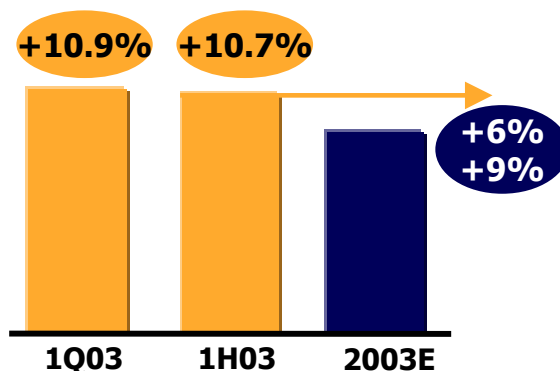
- **Telefónica de España:** Voice and narrowband Internet revenues remain under pressure. Reduced drop led by increase in monthly fee revenues
- **Cellular Business:** Strong performance of Spanish operations led by MOU/ARPU growth and handset sales. Consolidation of TCO
- **Telefónica Latinoamérica:** Improvement at Telesp, local revenues in particular, and TASA
- **Telefónica Data Group:** Improvement led by Spain and Brazil

## ON TRACK TO 2003 TARGETS

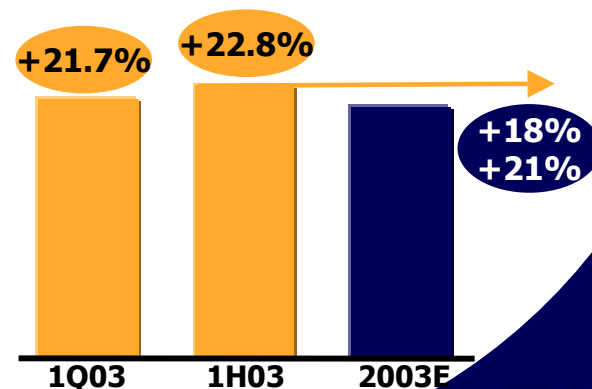
### REVENUES\*\*



### EBITDA\*\*



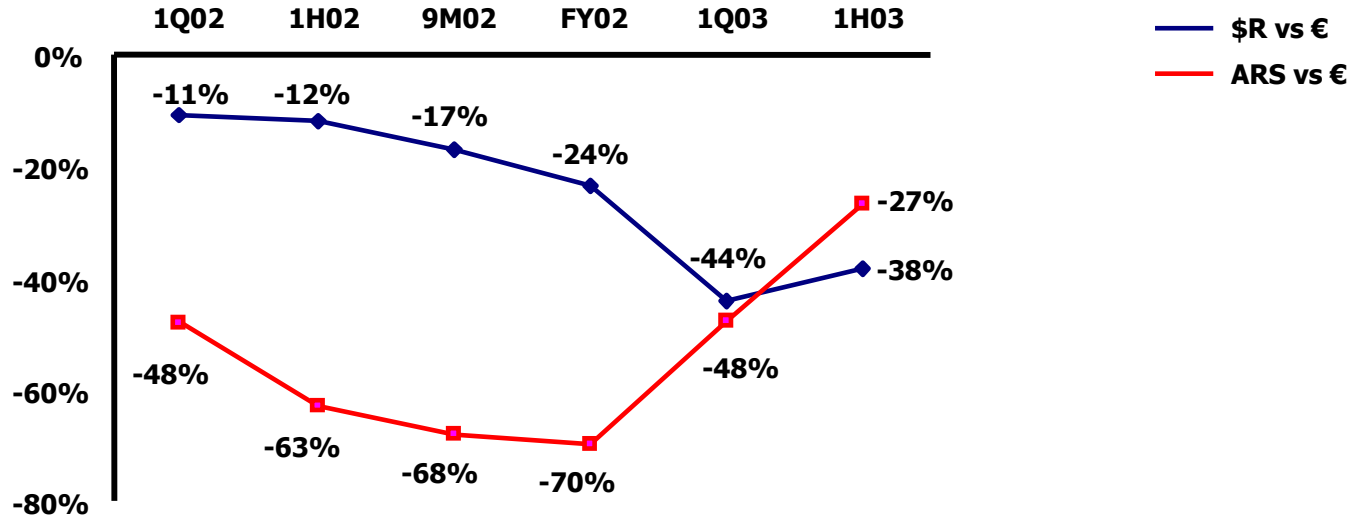
### EBIT\*\*



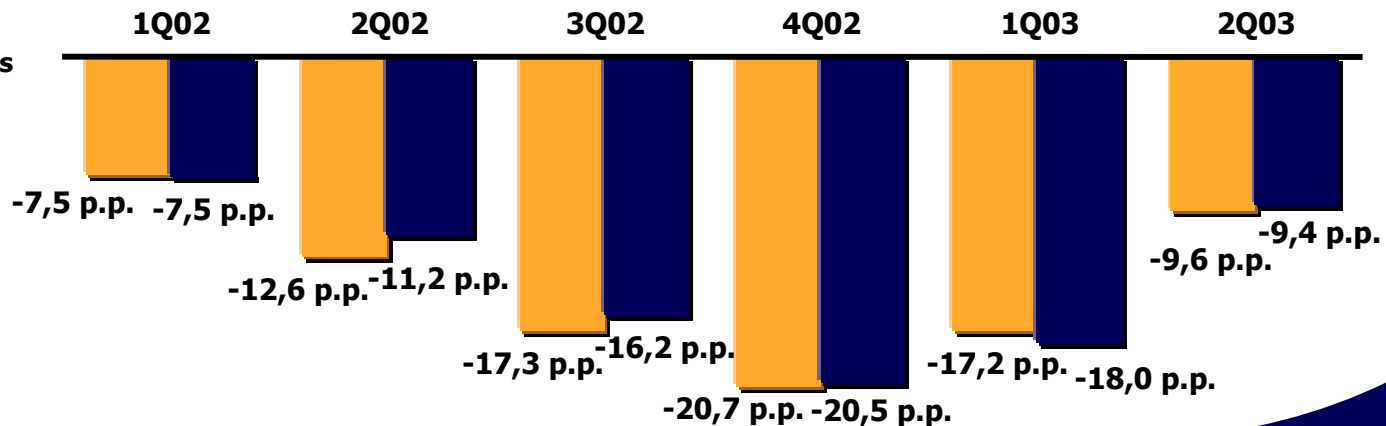
2003  
target  
range

# FOREIGN EXCHANGE IMPACT

## ANNUAL CHANGE IN AVERAGE EXCHANGE RATES



## FX IMPACT ON REVENUES AND EBITDA GROWTH



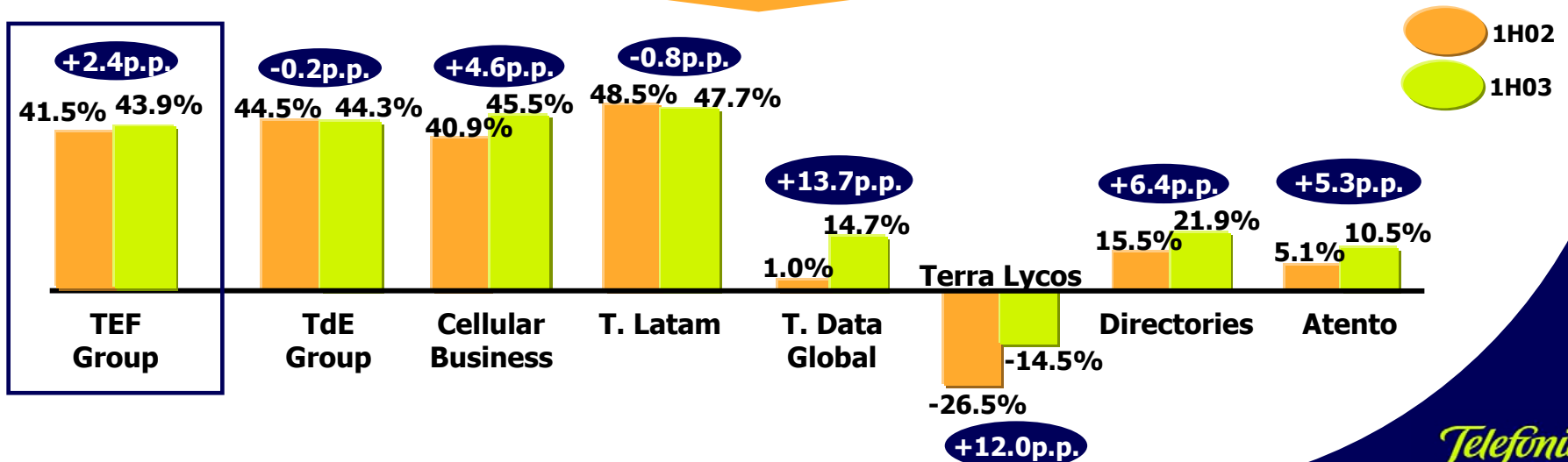
# COST STRUCTURE BY BUSINESS LINE

## COSTS BREAKDOWN \*

|                  | % Change<br>1Q03/1Q02 | % Change<br>1H03/1H02 |
|------------------|-----------------------|-----------------------|
| TdE Group        | -2.1%                 | -2.2%                 |
| Cell. Business   | -15.4%                | -5.5%                 |
| T. LATAM         | -33.6%                | -24.1%                |
| T. Data Global   | -24.2%                | -18.6%                |
| Terra Lycos      | -35.1%                | -28.7%                |
| <b>TEF Group</b> | <b>-16.0%</b>         | <b>-10.9%</b>         |

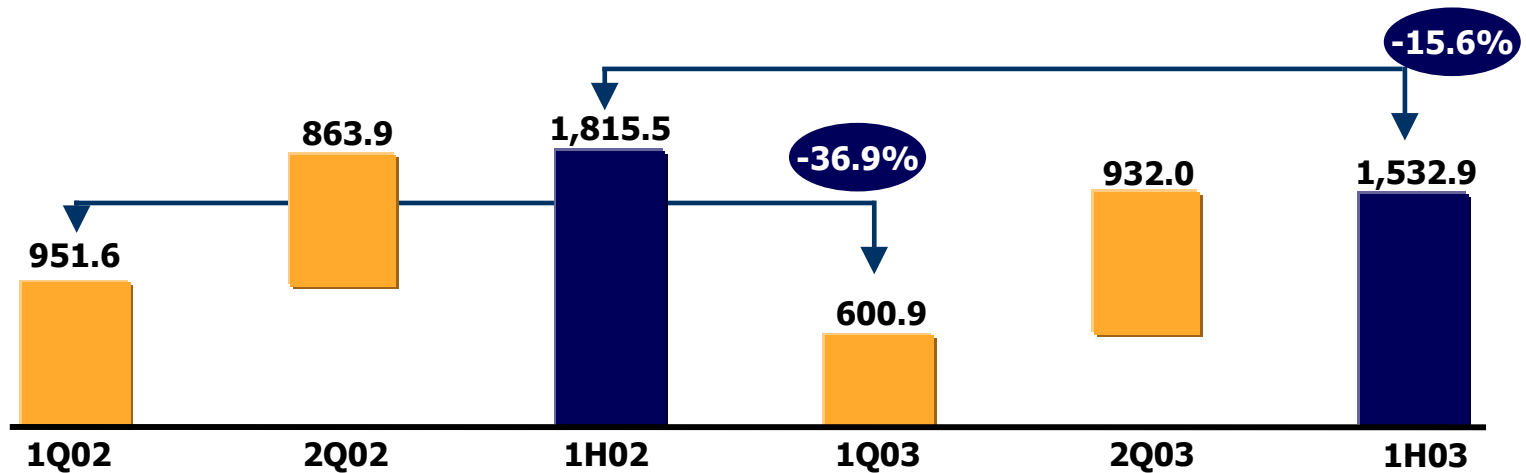
- **Telefónica de España:** Slow down of personnel expenses and reduced interconnection costs
- Cost contention at **Telefónica Data** and **Terra Lycos**
- **Cellular Business:** Increase in commercial expenses (launch of VIVO in Brazil and GSM in Mexico), handset purchases in Spain to prepare for summer commercial campaign
- **Telefónica Latinoamérica:** Push on Telesp long distance activity

## GROUP EBITDA MARGINS



# CONSOLIDATED GROUP CAPEX

## QUARTERLY EVOLUTION OF CAPITAL EXPENDITURES (€ in Millions)



## 1H03 CAPEX BREAKDOWN

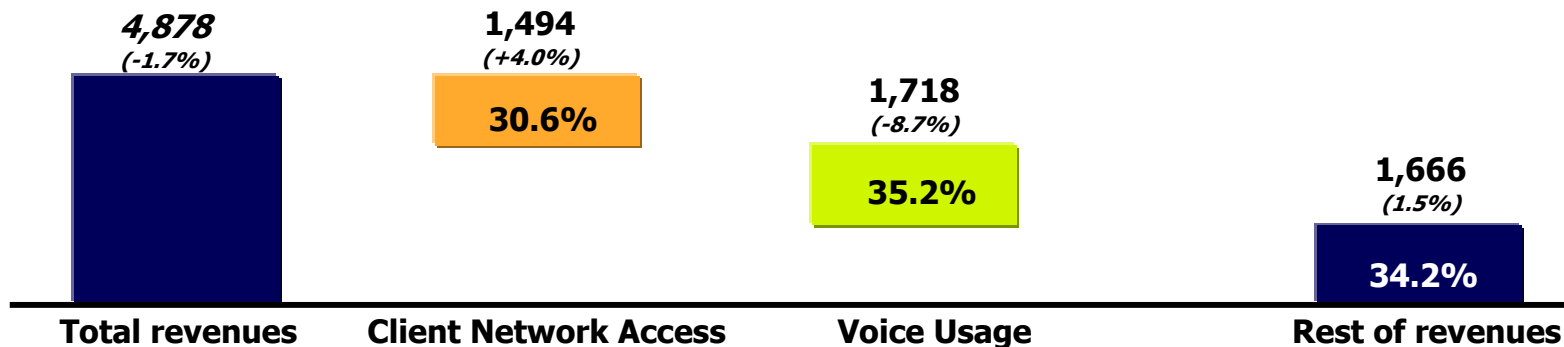
|                | Total<br>€ in Million | % Change<br>1H03/1H02 | % Change<br>1Q03/1Q02 |
|----------------|-----------------------|-----------------------|-----------------------|
| TdE Group      | 633.7                 | -15.3%                | -31.1%                |
| Cell. Business | 533.3                 | +15.2%                | -16.8%                |
| T. LATAM       | 247.2                 | -39.1%                | -55.5%                |
| T. Data Global | 49.7                  | -62.8%                | -56.5%                |

- Acceleration of ADSL take-up in Spain and Latam
- Roll-out of GSM network in Mexico is being speed-up
- Annual change of end of period Latam exchange rates is improving sequentially

# TELEFONICA DE ESPAÑA PARENT: 1H03 OPERATING REVENUES

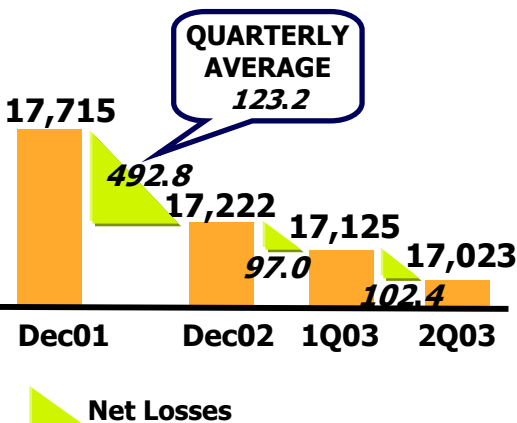
## OPERATING REVENUES

(€ in Million)



## ACCESS LINES

(PSTN + B.A. ISDN; Thousands)



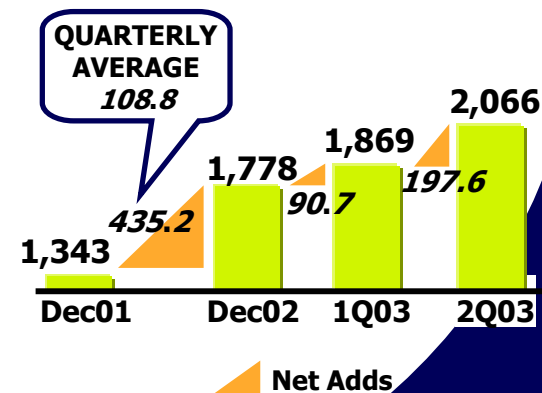
## TRAFFIC

(estimated)

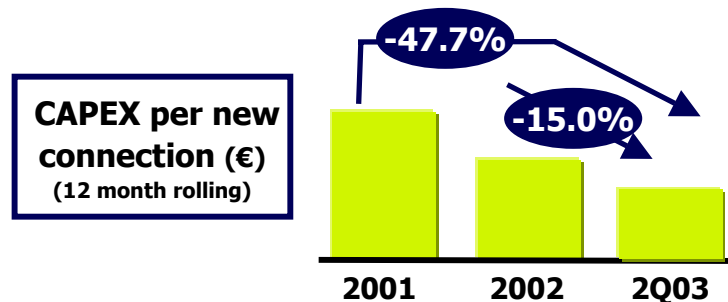
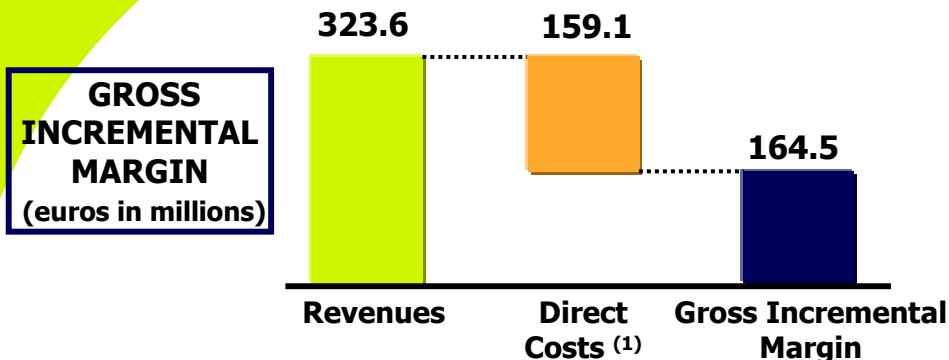
| (million minutes) | Jan-Jun 03    | Jan-Jun 02    | % Change Jan-Jun 03 vs 02 |
|-------------------|---------------|---------------|---------------------------|
| <b>OUTGOING</b>   | <b>44,919</b> | <b>50,220</b> | <b>-10.6%</b>             |
| <i>Voice</i>      | <i>29,333</i> | <i>32,063</i> | <i>-8.5%</i>              |
| Local             | 15,794        | 18,162        | -13.0%                    |
| Provincial        | 4,233         | 4,446         | -4.8%                     |
| DLD               | 3,596         | 3,902         | -7.8%                     |
| International     | 823           | 858           | -4.1%                     |
| F2M               | 2,904         | 2,775         | 4.7%                      |
| IN* & Others      | 1,983         | 1,921         | 3.3%                      |
| <i>Internet</i>   | <i>15,586</i> | <i>18,156</i> | <i>-14.2%</i>             |
| <b>INCOMING</b>   | <b>26,469</b> | <b>23,072</b> | <b>14.7%</b>              |
| <b>TOTAL</b>      | <b>71,388</b> | <b>73,292</b> | <b>-2.6%</b>              |

## PRESELECTED LINES

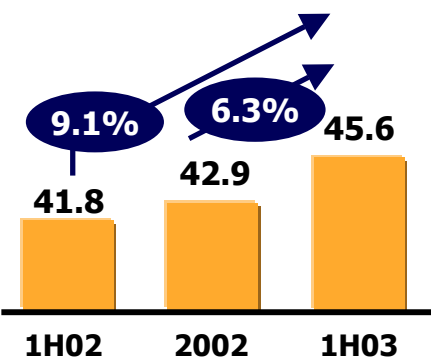
(Thousands)



# TELEFONICA DE ESPAÑA: IMPROVING ADSL METRICS IN 1H03

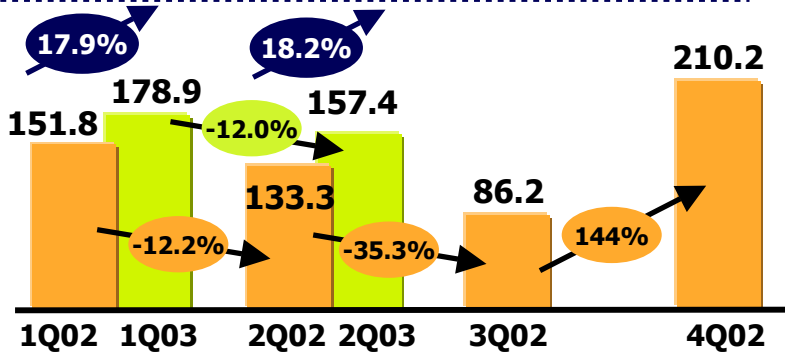


**RETAIL ARPU**  
(€)



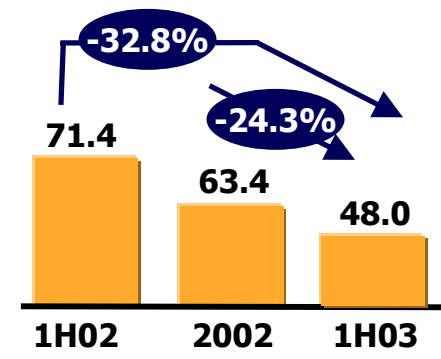
**ADSL CONNECTIONS**  
(NET ADDS; thousands)

| ADSL CONNECTIONS | Jun-02 | Sep-02 | Dec-02 | Mar-03  | Jun-03  |
|------------------|--------|--------|--------|---------|---------|
| ADSL CONNECTIONS | 660.9  | 747.0  | 957.2  | 1,136.1 | 1,293.6 |



**RETAIL SAC per new connection (€)**

■ plug & play 62% of basic retail adds



- CONTINUOUS IMPROVEMENT IN ALL ADSL METRICS COMPARED TO 2002
- NET ADDS INCREASE BY 18.2% FROM 2Q02
- 1H03 GROSS INCREMENTAL MARGIN OVER REVENUES INCREASES BY 27.3 p.p. VERSUS 2002 FIGURE TO EXCEED 50%

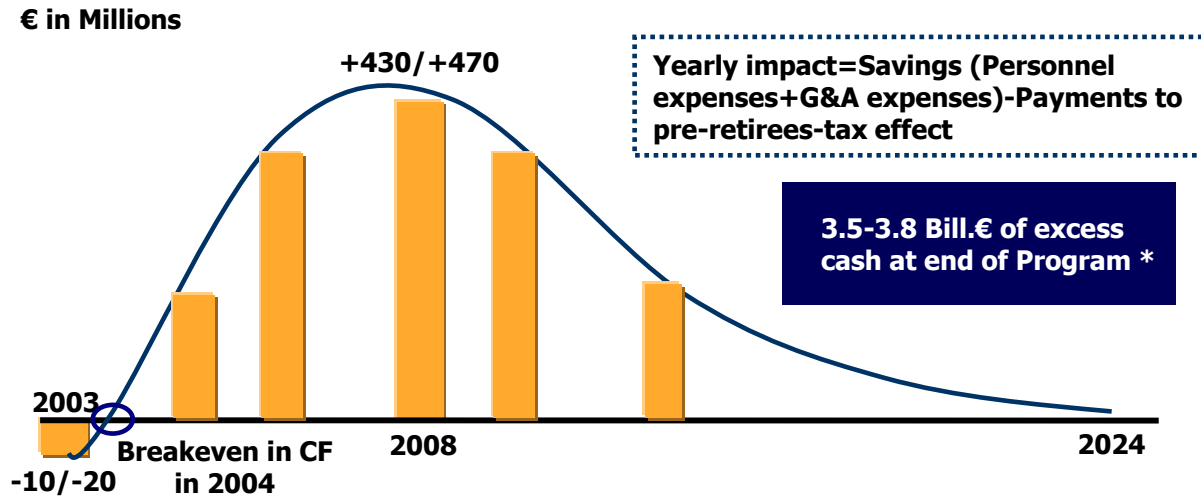
(1) Direct costs include CAT/Help Desk, Internet connection, IP network maintenance, Operations maintenance, Marketing, Installation, Modems, Commissions and Others

# T. DE ESPAÑA WORKFORCE REDUCTION PROGRAM: ADAPTING TO A DEMANDING OPERATING ENVIRONMENT

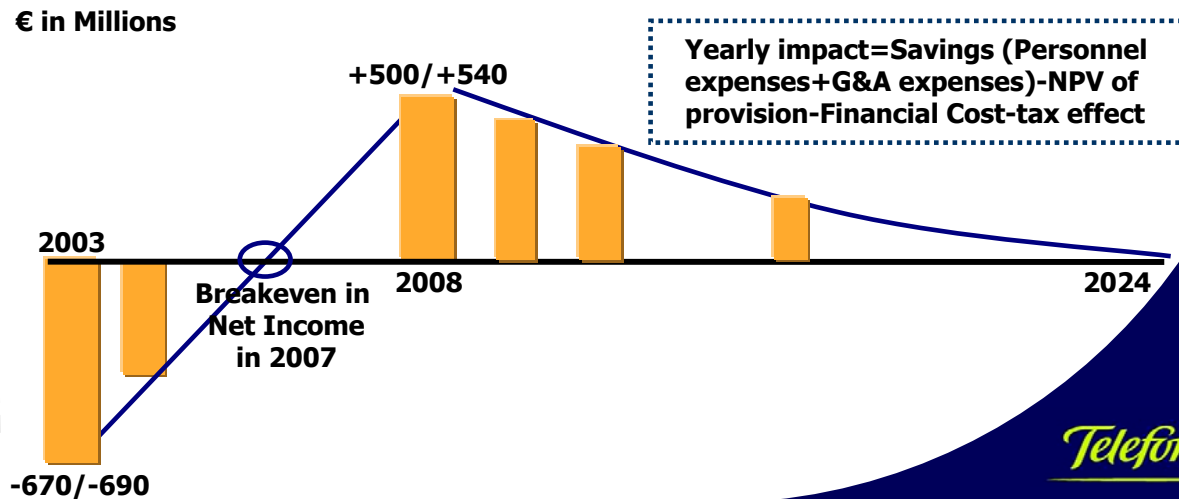
## PROGRAM KEY HIGHLIGHTS

- UP TO 15,000 EMPLOYEES (TARGET WORKFORCE OF 25,000 IN 2007)
- 5 YEARS SCHEDULE (2003-2007)
- ESTIMATED AROUND 250,000 €/EMPLOYEE (\*)
- COLLECTIVE AGREEMENT ADDS FLEXIBILITY TO THE PROGRAM'S MANAGEMENT
- NO SUBCONTRACTS (MINIMUM IMPACT ON EXTERNAL SERVICES), FULLY CAPTURING THE PLAN'S OPERATING BENEFITS
- VOLUNTARY, UNIVERSAL AND NON DISCRIMINATORY

## ESTIMATED CASH FLOW IMPACT \*\*



## ESTIMATED P&L IMPACT \*\*

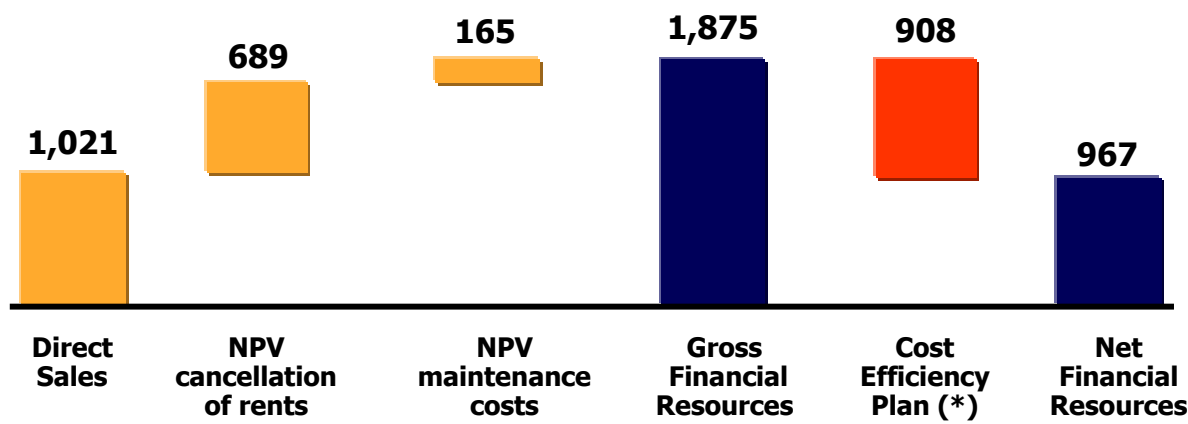


(\*) Net Present Value (4% discount rate)

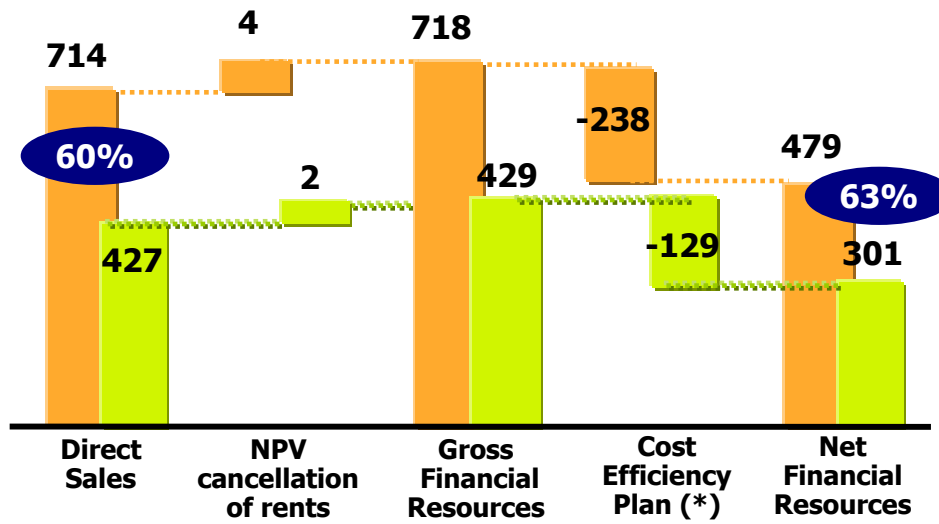
(\*\*) Net of taxes

# REAL ESTATE PROGRAM: UPDATE ON EXECUTION

**2002-2006 VALUE OF REAL ESTATE PROJECT**  
(€ in millions)



## ON TRACK TO REACH 2003 TARGETS



- Target 2003
- Committed as of June 2003
- Committed as a % of target

**GROSS CAPITAL GAINS (\*\*) THROUGH THE P&L:**

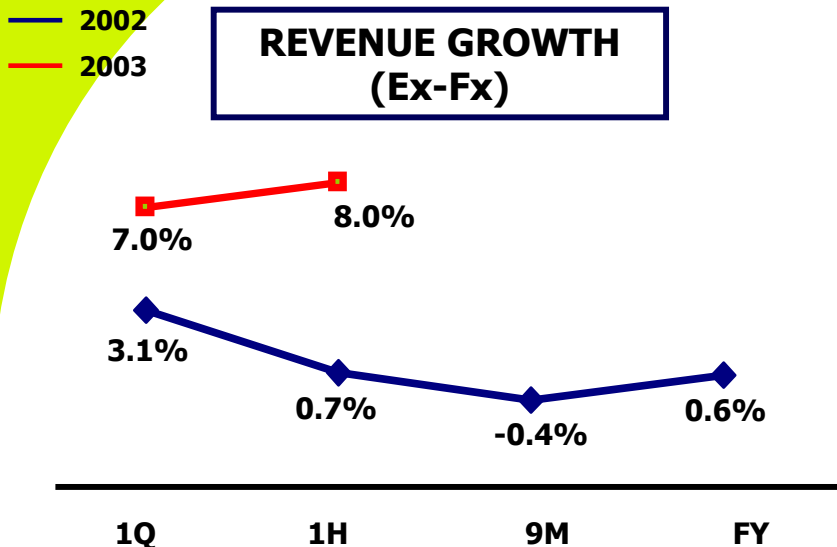
- 131 MILLION € AS OF JUNE
- 300-320 MILLION € EXPECTED IN 2003

(\*) Capex related to "Ciudad de las Comunicaciones", cost & capex related to real Estate restructuring, and NPV rents committed (1 to 5 years)

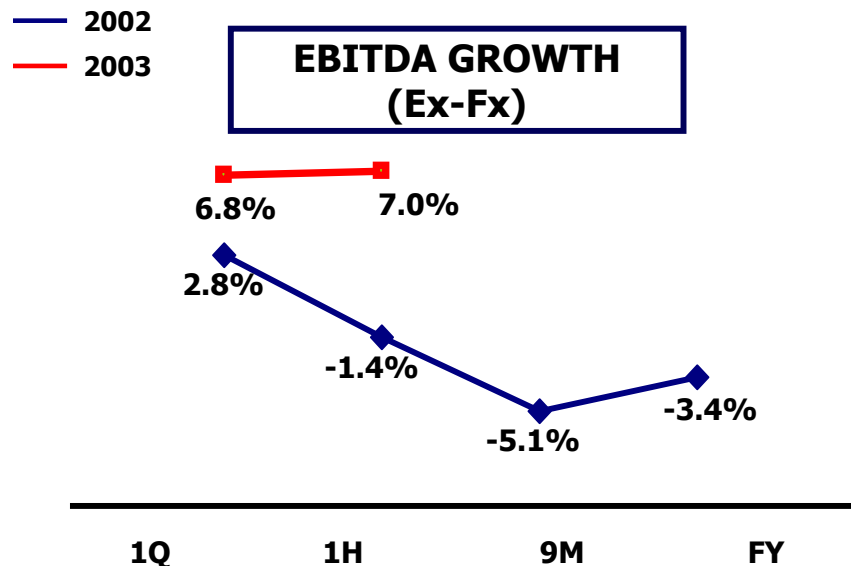
(\*\*) Sale price minus book value, before restructuring costs (11 Million € Jan-Jun 03) and taxes (15% applicable tax rate)



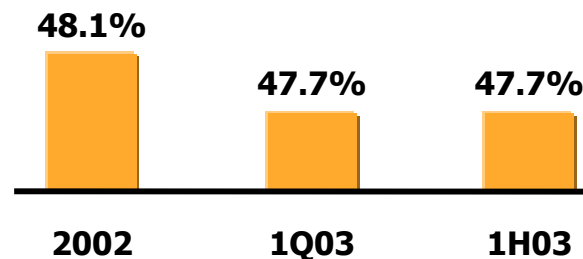
# TELEFONICA LATINOAMERICA RESULTS



- Organic growth driven by **Telesp** (contributing with 9 p.p. & 4 p.p. to T. Latam revenues & EBITDA growth) and **TASA** (1.5 p.p. & 4 p.p., respectively)
- **Local & Long distance** continue as drivers of Telesp's performance
- Positive **operating performance of TASA** (+8.6% in traffic/line/day), leading to a 12.5% growth in revenues (5.5% growth excluding inflation adjustment to wholesale tariffs)
- Better top line is keeping **EBITDA margin stable**



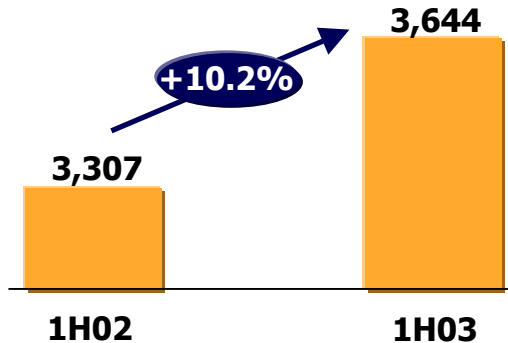
## GROUP EBITDA MARGIN



# ...WITH THE SOLID UNDERLYING PERFORMANCE OF TELESP

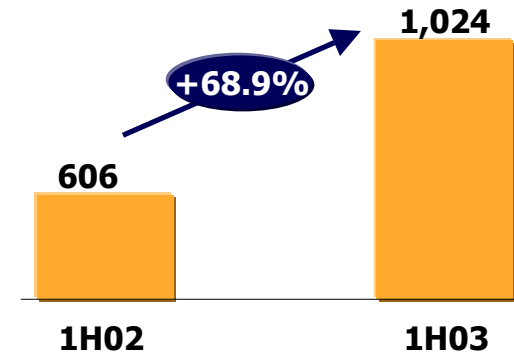
## LOCAL REVENUES

(\$R in millions)



## LONG DISTANCE REVENUES

(\$R in millions)



- Monthly fee: +7.4% yoy driven by a 13% tariff increase in 02
- Usage revenues: +12.6% yoy driven by tariff increases in 02 and a 7% increase in local traffic/line/day

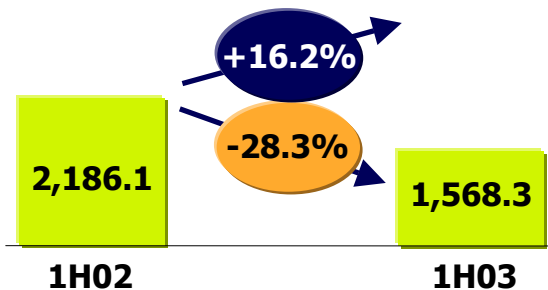
- Around 45 % DLD (interstate) estimated market share as of June 03
- Around 40% estimated ILD market share as of June 03

● YoY change in local currency

● YoY change in euros

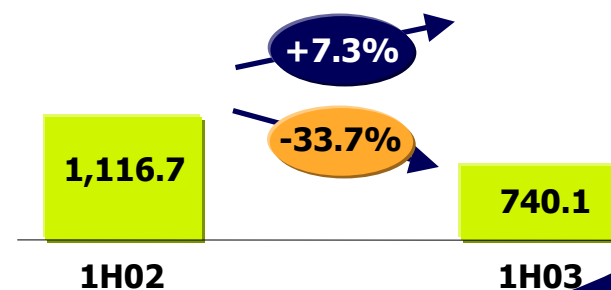
## REVENUES

(€ in millions)



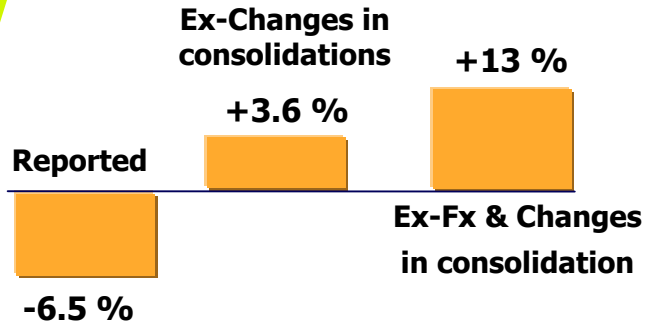
## EBITDA

(€ in millions)



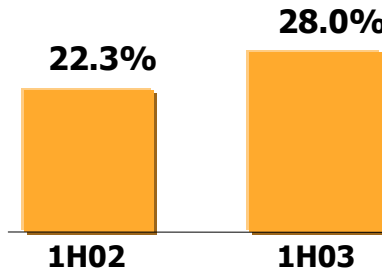
# DATA, SOLUTIONS & INTERNATIONAL SERVICES BUSINESS

## 1H03 GROUP REVENUES (Annual % Change)

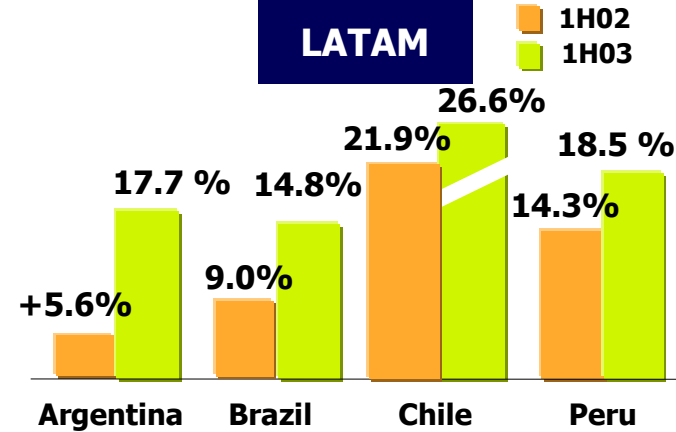


## INCUMBENT MARKETS REMAIN ROBUST (DATA OPERATIONS EBITDA MARGIN)

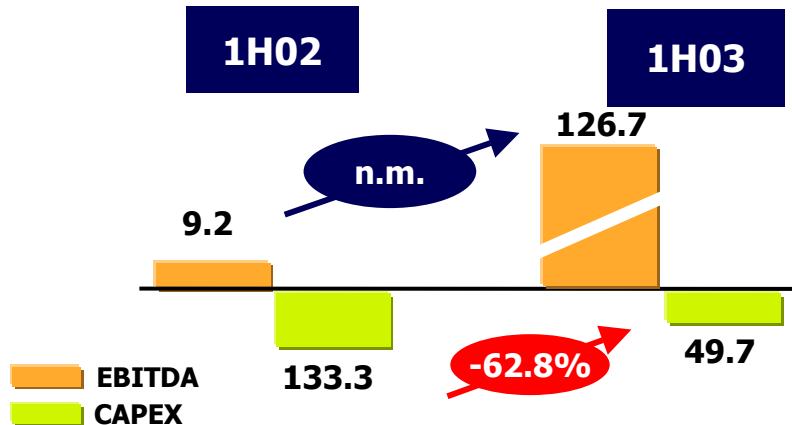
### SPAIN



### LATAM



## GROUP CASH FLOW GENERATION (euros in millions)



- Contributing 1.7% to cash flow (\*) of TEF Group
- Positive EBITDA on International Services Business
- Capex over revenues of 5.7 %

(\*) EBITDA-CAPEX

# NET FINANCIAL EXPENSES (\*)

| Euros in millions  | Jun03   | Jun02     | % Change |
|--|---------|-----------|----------|
| <b>Debt financial expense</b>  | (996.6) | (960.0)   | 4.1%     |
| <b>Other financial expenses</b>  | (36.0)  | (20.9)    | 72.0%    |
| <b>Financial Income</b>  | 200.1   | 185.8     | 7.7%     |
| <b>Financial provisions and net forex (1)</b>  | 539.0   | (813.9)   | (n.m.)   |
| <hr/>  |         |           |          |
| <b>Net financial results</b>   | (296.5) | (1,609.0) | (81.6%)  |
| <hr/>  |         |           |          |
| <b>Net financial results excluding profit from ARS appreciation</b>                            | (534.9) | (929.5)   | (42.5%)  |
| <hr/>  |         |           |          |
| <b>Net financial results excluding profits from ARS appreciation and USD debt amortization</b> | (802.4) | (929.5)   | (13.7%)  |

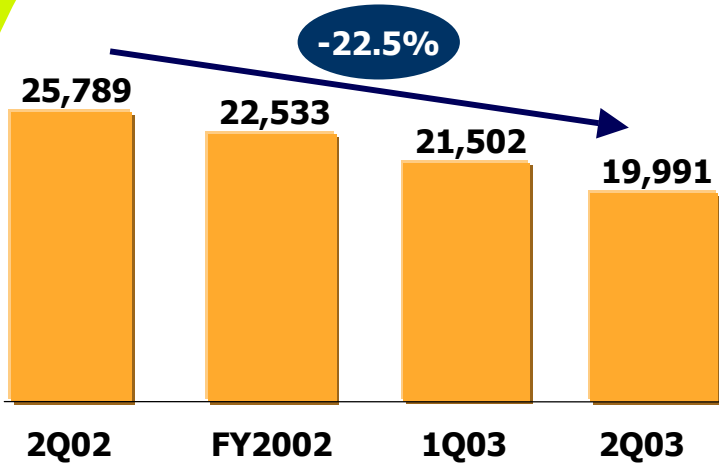
(\*) Global consolidation

(1) Basically non cash

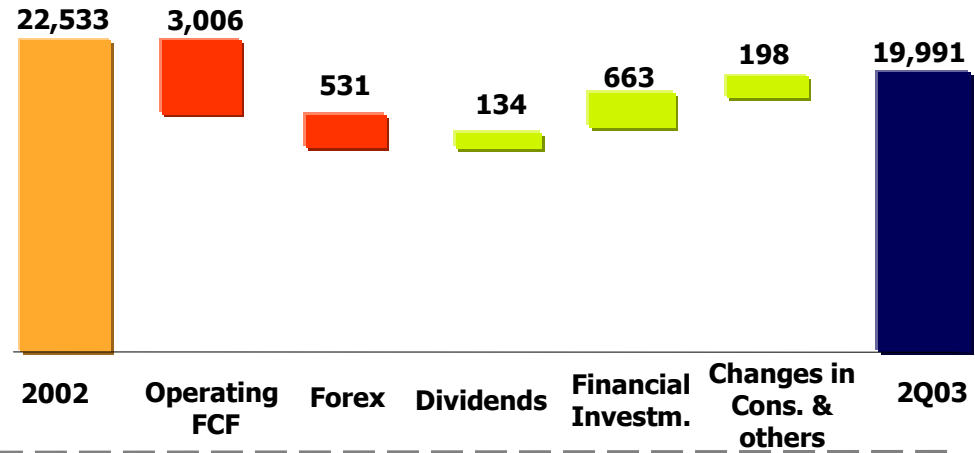
# WE HAVE FURTHER STRENGTHENED OUR CREDIT PROFILE

## CONSOLIDATED DEBT EVOLUTION

(€ IN MM)

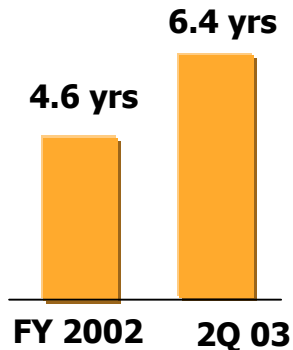


## COMPONENTS OF 1H03 DEBT REDUCTION



## EXTENDING AVERAGE DEBT MATURITY UP TO 6,4 YEARS

### DEBT MATURITY PROFILE



## SOUND CREDIT RATIOS, AS A GROUP AND ALSO EX-LATAM

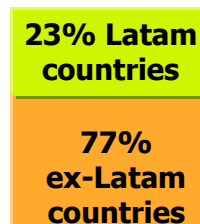
**NET DEBT\*/EBITDA 02**

|                |       |
|----------------|-------|
| Group          | 1.71x |
| Group ex-Latam | 1.98x |

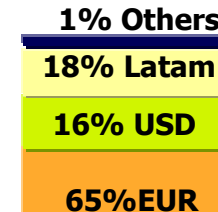
(\* ) As of June 03

## A BALANCED DEBT STRUCTURE

### NET DEBT BY ISSUER



### NET DEBT BY CURRENCY



2Q03

# JAN-JUN 2003 CASH FLOW STATEMENT

(Euros in millions)

|  |   | Jan-Jun 2003    |
|--|---|-----------------|
| I  | Cash flows from operations                                    | 5,753.6         |
| II   | Other payment related to operating activities                 | (443.7)         |
| III  | Net interest payment  | (759.7)         |
| IV   | Payment for income tax  | (114.4)         |
| <b>A= I+II+III+IV</b>                            |   |                 |
| <b>Net cash provided by operating activities</b> |   | <b>4,435.8</b>  |
| B  | Net payment for investment in fixed and intangible assets (*) | (1,429.4)       |
| <b>C=A+B</b>                                     |   |                 |
| <b>Net free cash flow after capex</b>            |   | <b>3,006.4</b>  |
| D  | Net payment for financial investment                          | (663.1)         |
| E  | Dividends paid  | (134.2)         |
| <b>F= C+D+E</b>                                  |   |                 |
| <b>Free cash flow after dividends</b>            |   | <b>2,209.1</b>  |
| G  | Effects of exchange rate changes on net debt                  | (531.4)         |
| H  | Effects on net debt of changes in consolidation and others    | 198.0           |
| I  | Net debt at beginning of period                               | 22,533.1        |
| <b>J= I-F+G+H</b>                                |   |                 |
| <b>Net debt at end of period</b>                 |   | <b>19,990.6</b> |

(\*) Including 268.4 mill Euros of cash received from real estate divestment.

## **CONCLUSIONS**

- **UNDERLYING OPERATING PERFORMANCE IS IMPROVING ACROSS THE GROUP AND FALLS IN LINE WITH YEAR END TARGETS**
- **REVENUES ARE RECOVERING IN THE SECOND QUARTER, REFLECTING SOLID SPANISH OPERATIONS AND THE STEADY PROGRESS OF LATAM UNDERLYING OPERATING PERFORMANCE**
- **FOREX IS PROGRESSIVELY REDUCING ITS NEGATIVE IMPACT ON CONSOLIDATED ACCOUNTS, A TREND THAT WILL CONSOLIDATE DEPENDING ON FOREX MARKET CONDITIONS**
- **EFFICIENCY CONTINUOUS TO FLOW INTO MARGINS AND CASH FLOW GENERATION**

*Telefónica*

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