



Eduardo Caride
Executive Chairman
Telefónica Empresas

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Telefonica

Safe harbor

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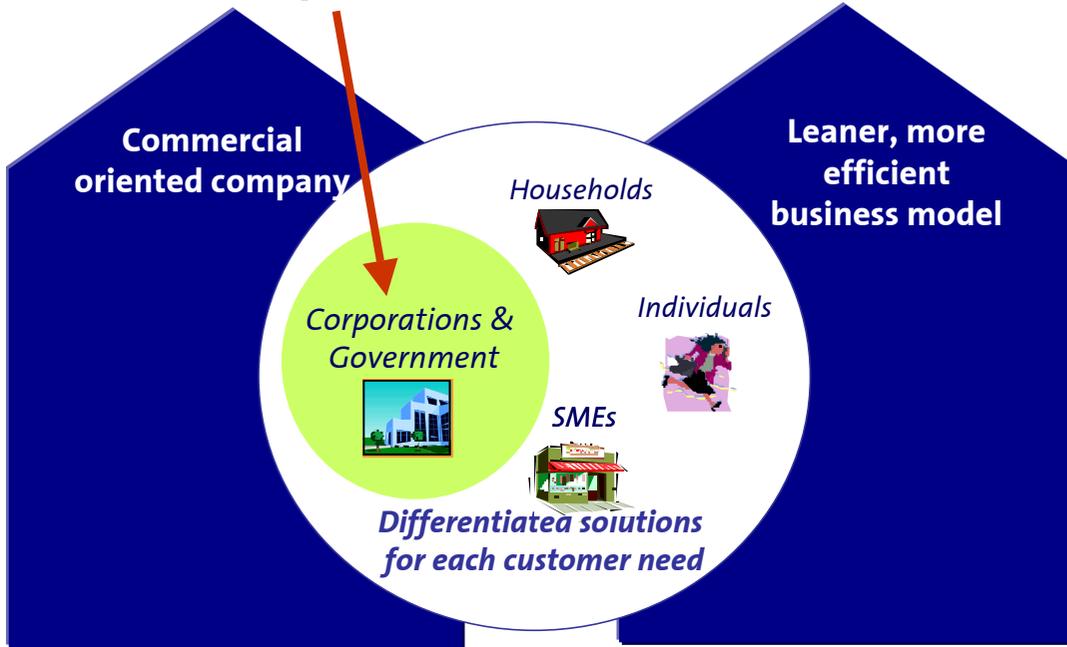
Content

- **We have reinforced our strategy of addressing corporate customers´ needs offering a solid value proposition**
- **We have placed special emphasis on strengthening our operations´ efficiency in 2002-03**
- **We have a clear set of priorities moving forward to capture the growth opportunity**
- **We have ambitious though realistic targets for 2002-06**



The role of Telefónica Empresas is to handle the needs of corporate customers (large companies and carriers)

Telefónica Empresas



- Telefónica Empresas provides its services to **more than 21,000 corporate customers** representing 11% of the Telefónica Group's total revenues ⁽¹⁾
- Our **commercial responsibility** for the corporate customers includes voice business. Voice revenues are consolidated within each wireline company (TdE y TLatam)
- We have a **significant customer base in:**
 - Spain
 - America (Argentina, Brazil, Chile, Colombia, Mexico, Peru, Puerto Rico and the United States)
 - Europe (Germany and the UK)

(1) Source: Quarterly results January-June 2003

Corporate customers demand end-to-end integrated data, communication and IT solutions

2002 Revenues (**)

Voice Services

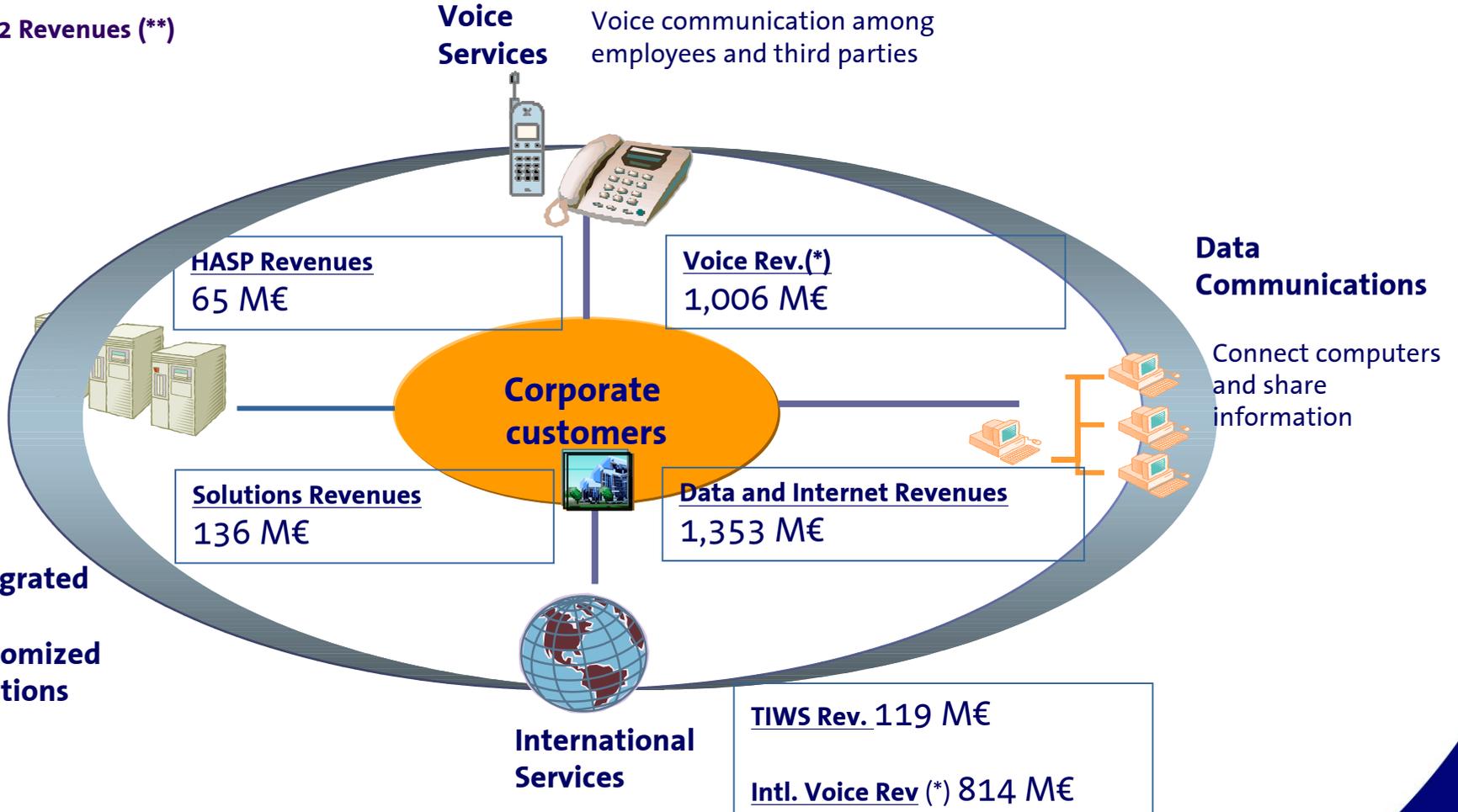
Voice communication among employees and third parties

Information Management

Handle large amounts of information and make it available to third parties

Data Communications

Connect computers and share information



Managing convergence between Telecommunications and Information Systems for our corporate customers

(**) Before Eliminations & Other Revenues; Atlanel not included (*) Do not consolidate in Telefónica Empresas' financials

We are prepared to lead the evolution of corporate customers' requirements with a solid value proposition

- **Telefónica offers corporate services through a specific unit to capture the maximum growth potential from the segment**
- **We count with 5,000 employees worldwide to assure:**
 - **Particular focus on corporate customers' requirements**
 - **Preferential treatment**
 - **The highest level of responsiveness and excellence**

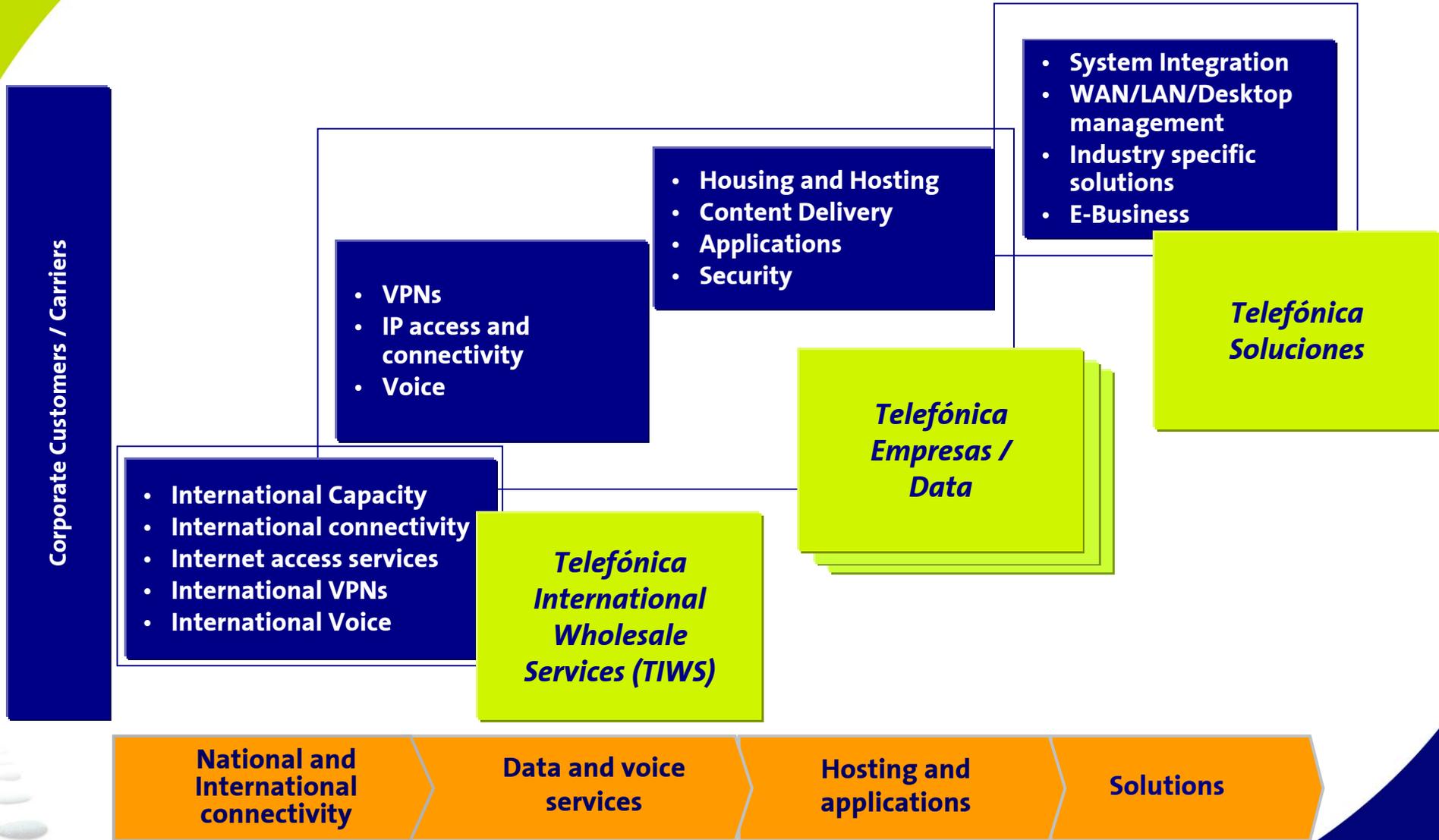
VALUE PROPOSITION

✓ **Comprehensive products and services catalogue**

✓ **Strong brand name**

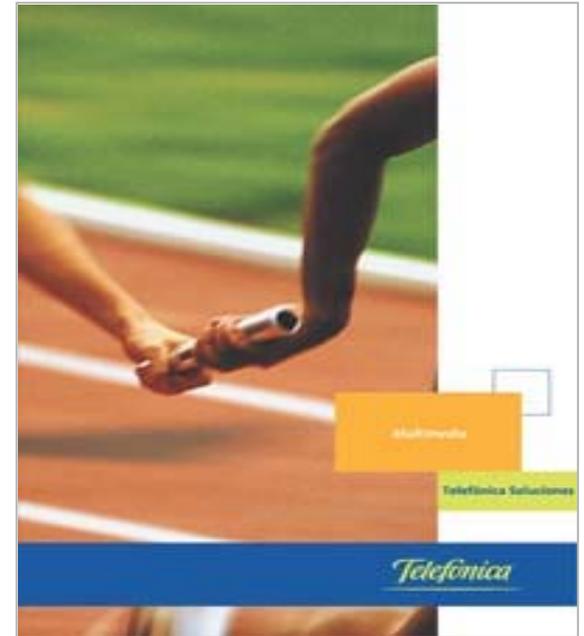
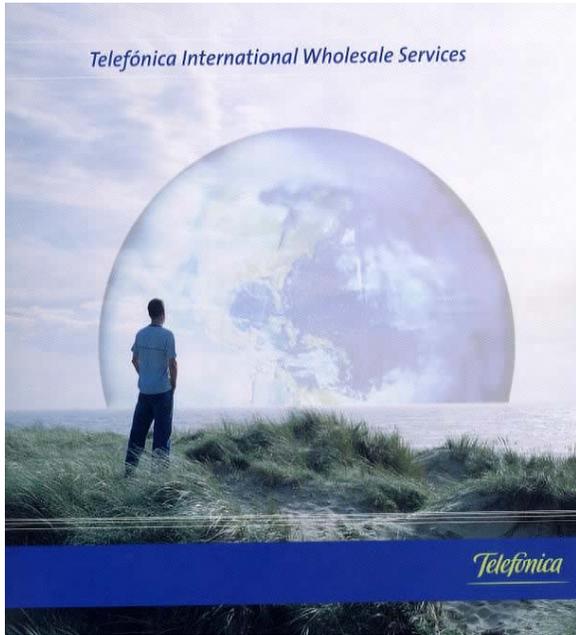
✓ **Local and international connectivity**

We provide a comprehensive range of integrated services through our three business lines



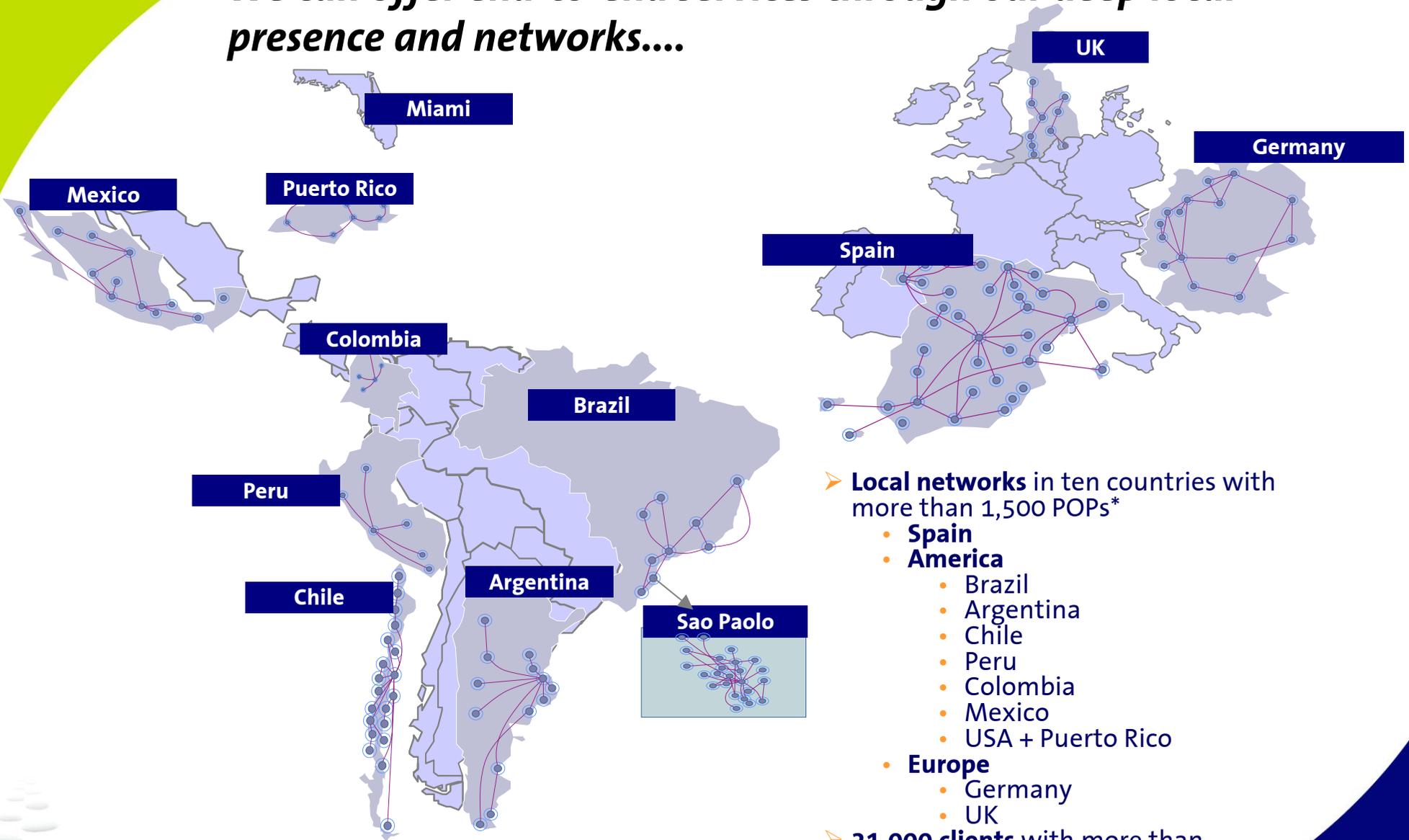
Services

We have a strong brand name...



... and we benefit from its credibility, image, leadership position and financial strength

We can offer end-to-end services through our deep local presence and networks....



* Points of presence

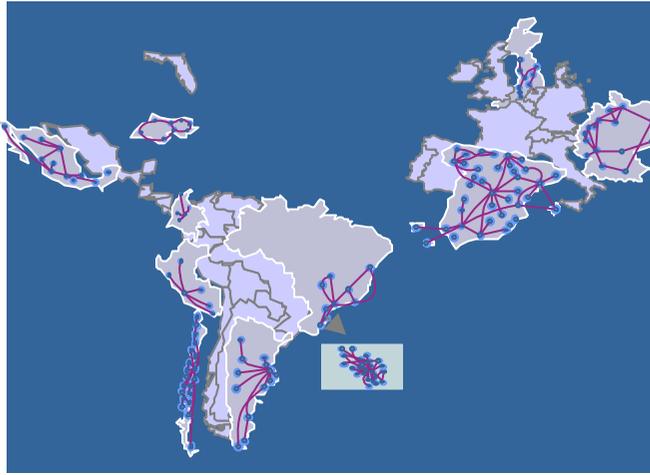
➤ **Local networks** in ten countries with more than 1,500 POPs*

- **Spain**
- **America**
 - Brazil
 - Argentina
 - Chile
 - Peru
 - Colombia
 - Mexico
 - USA + Puerto Rico
- **Europe**
 - Germany
 - UK

➤ **21,000 clients** with more than **300,000 broadband connections**

Allowing us to become the leading regional player

Deep local coverage ...



+ international network



Leading and most reliable regional player in the Spanish and Portuguese speaking markets

Content

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We have implemented actions to improve the efficiency and profitability of our operations

Strategic priorities announced in Sevilla

- Serve Corporate Customers offering customized solutions through specialized sales force in our domestic markets

- Turn profitable the businesses in new markets by achieving necessary scale, offering packaged solutions to targeted segments

- Leverage our distinctive regional position to better serve multinational corporations and boost our international services

Key actions undertaken to date

- Refocus of the company from product to corporate segment oriented including voice (T. Empresas)
- Reinforcement of the offer with the creation of Telefónica Soluciones by merging T. Sistemas, T. Mobile Solutions, Katalyx and Art Media

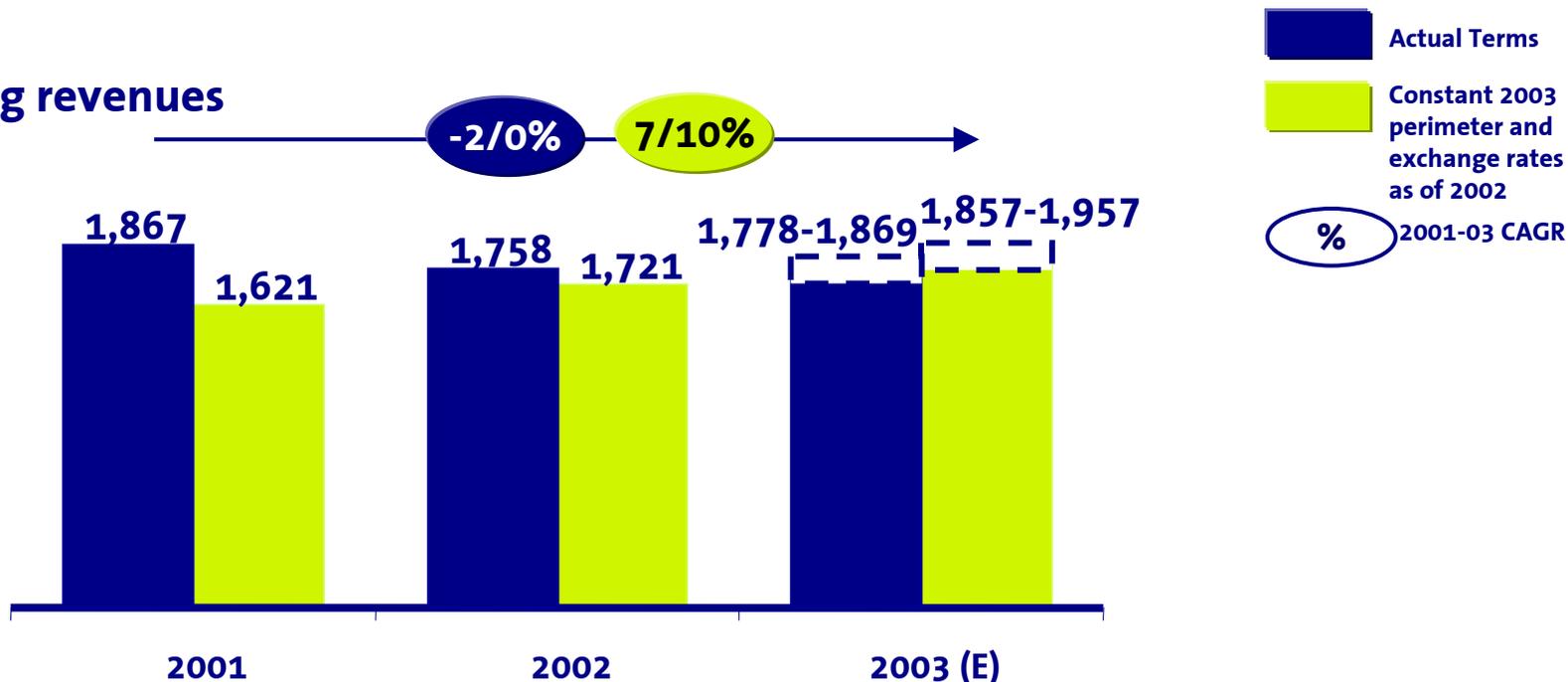
- Reassessment of the business portfolio to achieve profitable growth
 - Divestiture of Austria, Uruguay and Italy
 - Refocus of operations in Colombia and USA
- Strict control over investments and expenditure across all business units

- Consolidation of the international businesses into a single business unit, (TIWS), that manages all the international assets and services: voice, data and IP

Revenues will have grown by 7-10% during 2001-03

€ Millions

Operating revenues



- Despite pricing pressure, increase in volume and the penetration of new services have driven the growth
- Revenues were mainly affected by changes in the consolidation perimeter and exchange rates

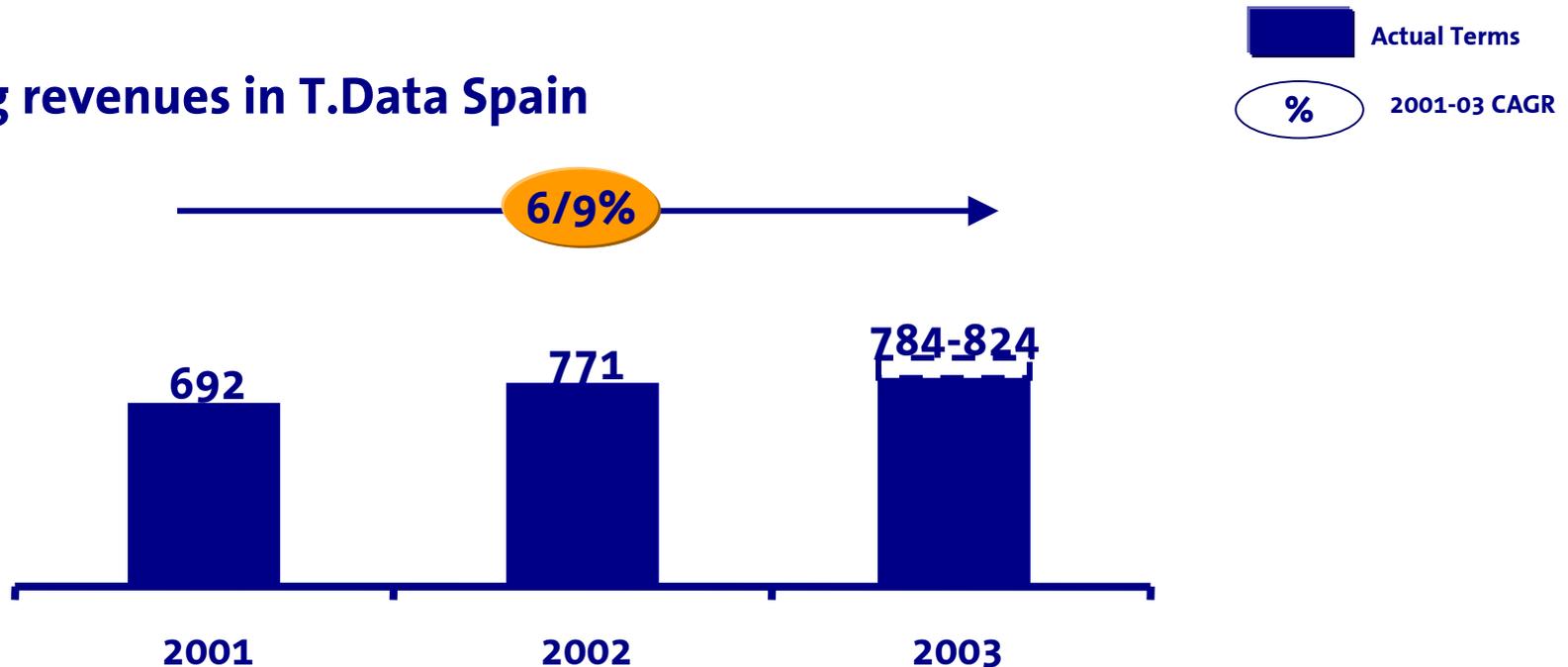
- Changes in revenues in actual terms:

- Divested subsidiaries represented €163MM in 2001 and €87MM in 2002
- Exchange rates in Latin America strongly affected revenues

T.Data Spain revenues grew at a stable pace over the course of 2002 and 2003

€ Millions

Operating revenues in T.Data Spain



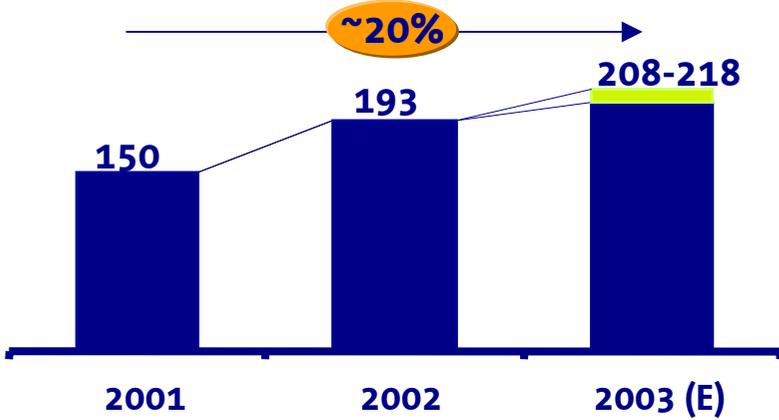
- Operating revenues will grow in T.Data Spain at 6/9% CAGR during 2001-2003
- The number of total connections will grow by 24% (CAGR 01-03)

Revenues in local currency have experienced a significant growth in America

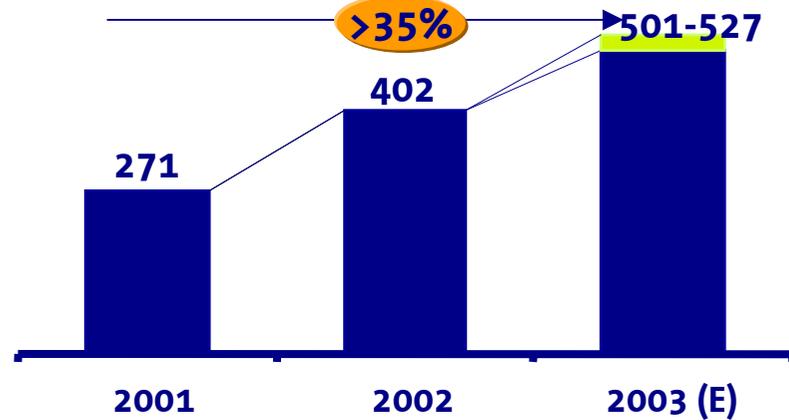
% 2001-03
CAGR

Local currency in Millions

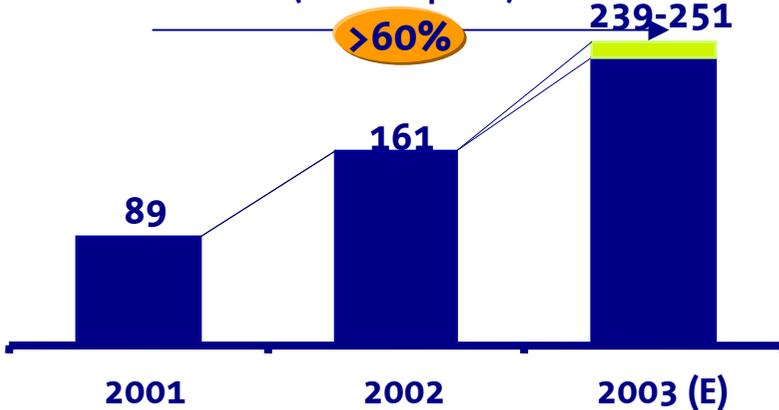
T. Empresas Argentina
(Argentinian pesos)



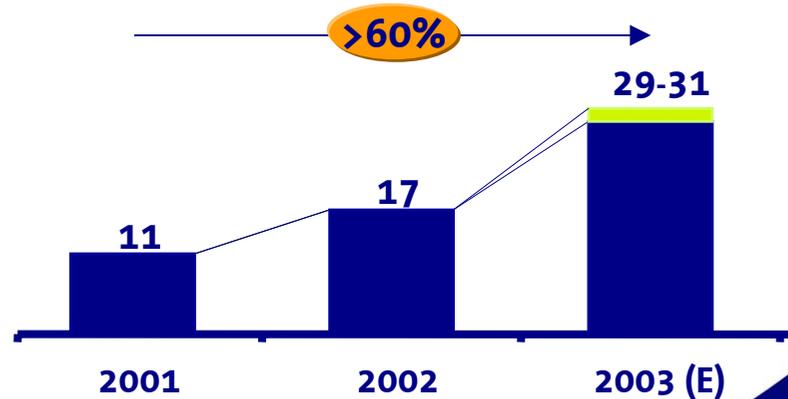
T. Empresas Brasil
(Brazilian reals)



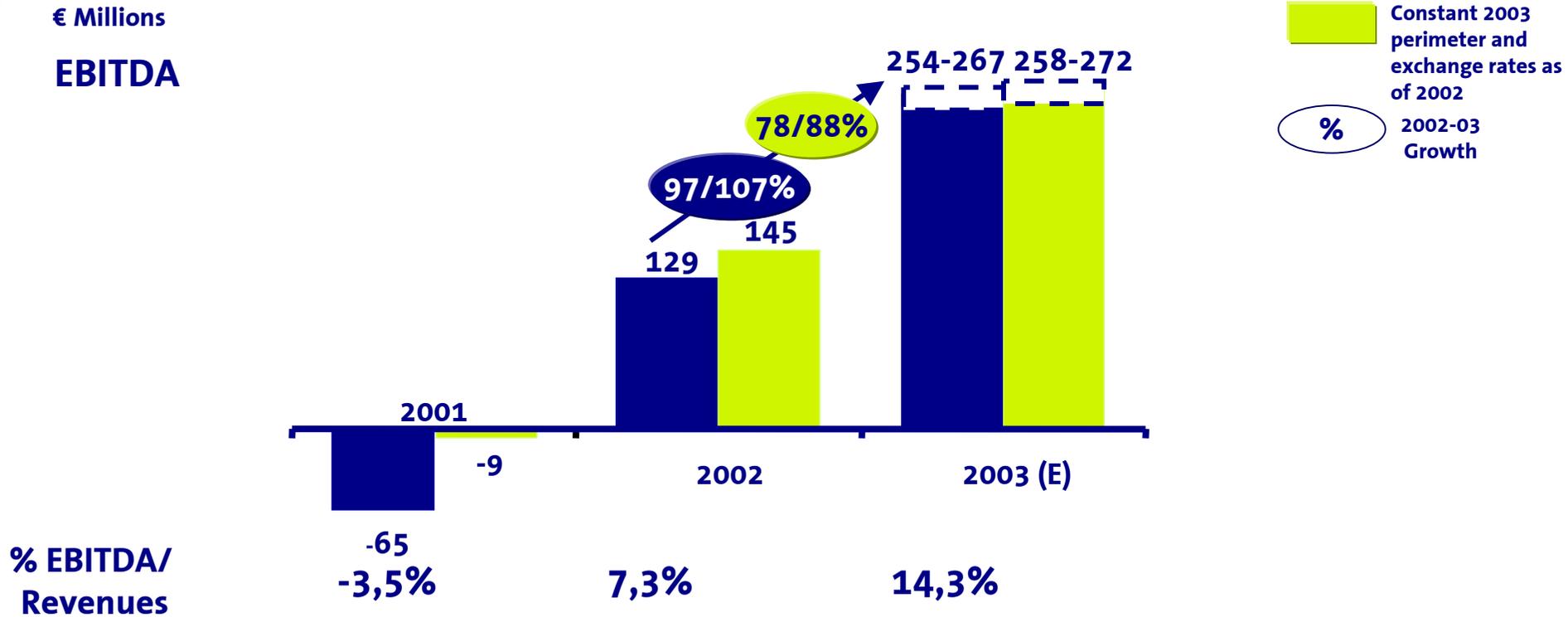
T. Data Mexico
(Mexican pesos)



T. Data USA
(US Dollars)



We have refocused the company towards profitable growth



- EBITDA improvements beat by far the projections presented in Sevilla* for 2001-05 (over 90% CAGR growth and 13-17% margin target by 2005)
- T.Data Spain has reached a 26-27% EBITDA margin after implementing a series of measures to increase efficiency

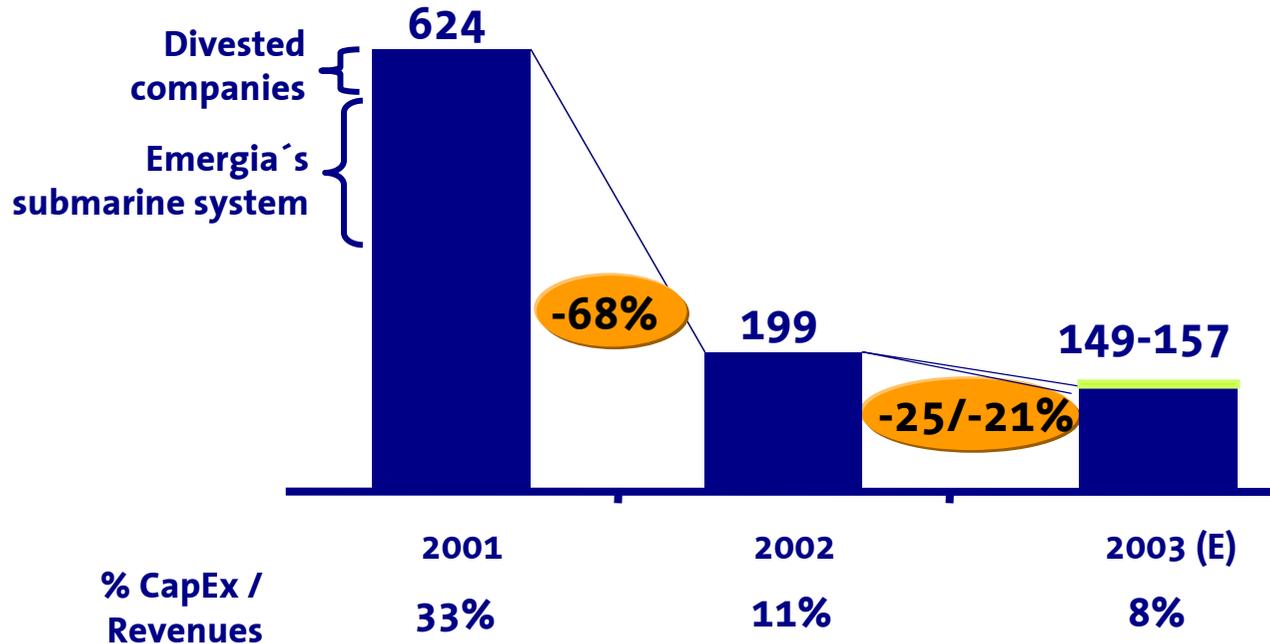
* Only for T.Data

Reorientation of the business has resulted in a dramatic CapEx reduction

€ Millions

CapEx

Actual Terms



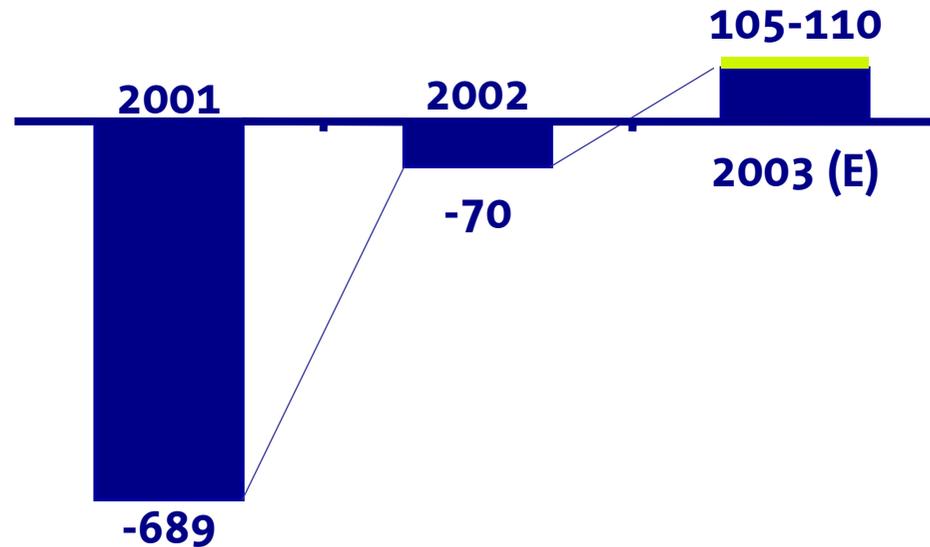
- CapEx reduction exceeds Sevilla's target*
- CapEx reduction has been driven by:
 - Reassessment of the business portfolio
 - Completion of substantial one-time investments
 - CapEx containment policy
- Investment level is sustainable since we leverage on existing Telefónica's assets

... and operating cash flow improvement

€ Millions

Operating Cash Flow*

Actual Terms



- Positive operating cash flow by 2003 as a result of the EBITDA improvement and the CapEx reduction

* Operating Cash Flow = EBITDA – CapEx

Content

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Our strategic priorities moving forward are: emphasis on clients, innovation and continuous efficiency improvements

1 Focus on corporate clients /

Revenue growth

- **Broader responsibility on corporate customers**
- **Client orientation culture**
- **Increase our customer share of wallet**

2 Innovation and value added services

- **Broadband**
- **New services development**

3

Efficiency and profitability

- **Improve current businesses and assets profitability**

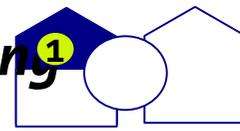
*Corporations &
Government*



*Differentiated solutions
for each customer need*

Corporate customers' needs are continuously forcing us to evolve

changing ¹



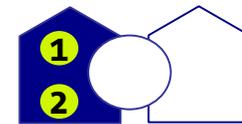
Customers' needs

- **End-to-end customized solutions** to deal with convergence of technologies
 - Voice -Data
 - Fixed – Mobile
 - IT- Communications
- **Coordinated and homogeneous** management of their different locations
- **Scalability** – avoid high up-front investments
- **Outsourcing** to focus on their core business and improve existing cost structure
- **Reliable supplier**

Key strategic actions under execution

- Enhance **responsiveness** addressing customers needs with **preferential treatment**
- Deepen **client segmentation** in each geography. Consolidate our organization by **industry sectors**
- Empower and reinforce the **Global Customers*** unit
- Implement individualized **Account Plans** to manage our main customers
- **Specialized** salesforce in Solutions, Hosting and Intl. Services

* 70 large accounts represent more than 30% of total business



Our revenue growth will mainly come from increasing our share of wallet

Services

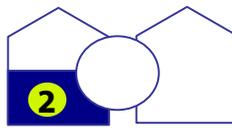
- Increase share of wallet in current customer base
 - By capturing the growth opportunity of our services' evolution
 - eBA (100% broadband penetration)
 - International Services (x2.5 growth in revenues)
 - Voice & data over corporate VPNs
 - By adding value added services
 - Managed wireline & wireless VPNs
 - Outsourcing (40% CAGR in Personalized Network Operating Centers)

Clients

- Increase our customer base in new businesses and markets: Mexico, US, Colombia, Germany and UK (x4 by 2006 in new entrant markets)
 - Achieving the necessary scale
 - Targeting the most attractive customers
- Increase market share in Brazil* out of Sao Paulo
- Win-back lost customers

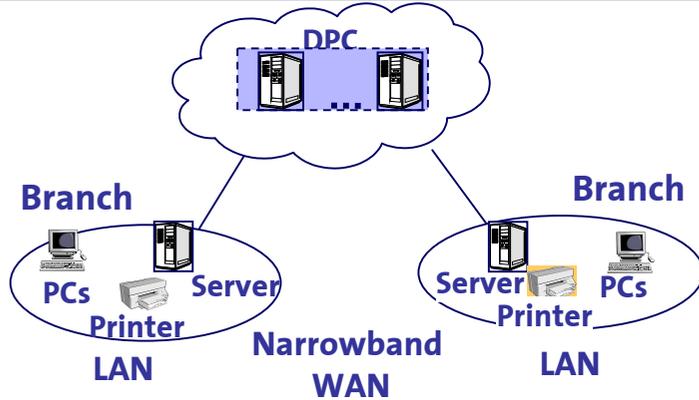
* Telefonica is new entrant in Brazil out of Sao Paulo

We want to lead our customers in their migration process to broadband



Financial institution case study

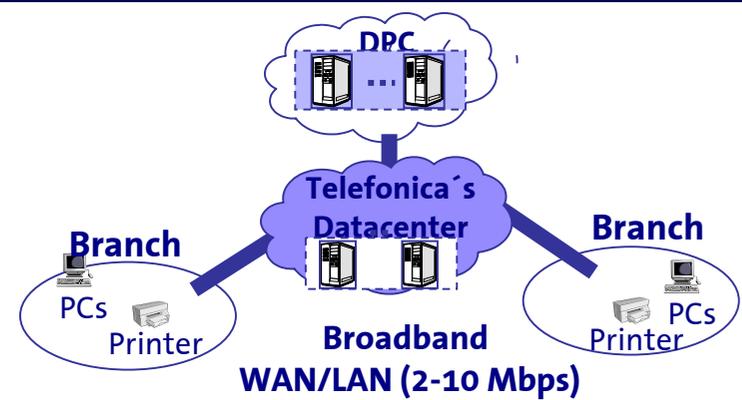
From



High IT, maintenance and management costs

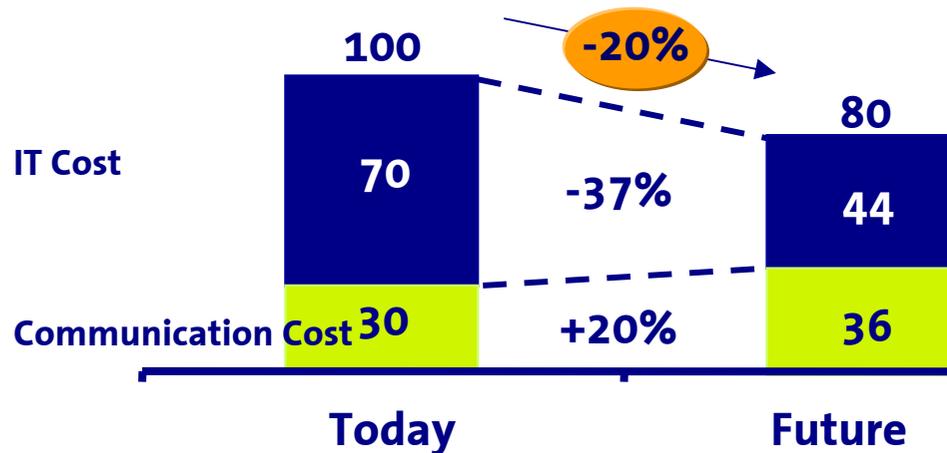
- Large data processing centers
- Decentralized IT
- Scarce and expensive access to broadband

To

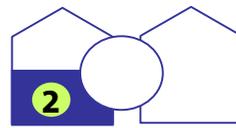


Efficiency and lower cost

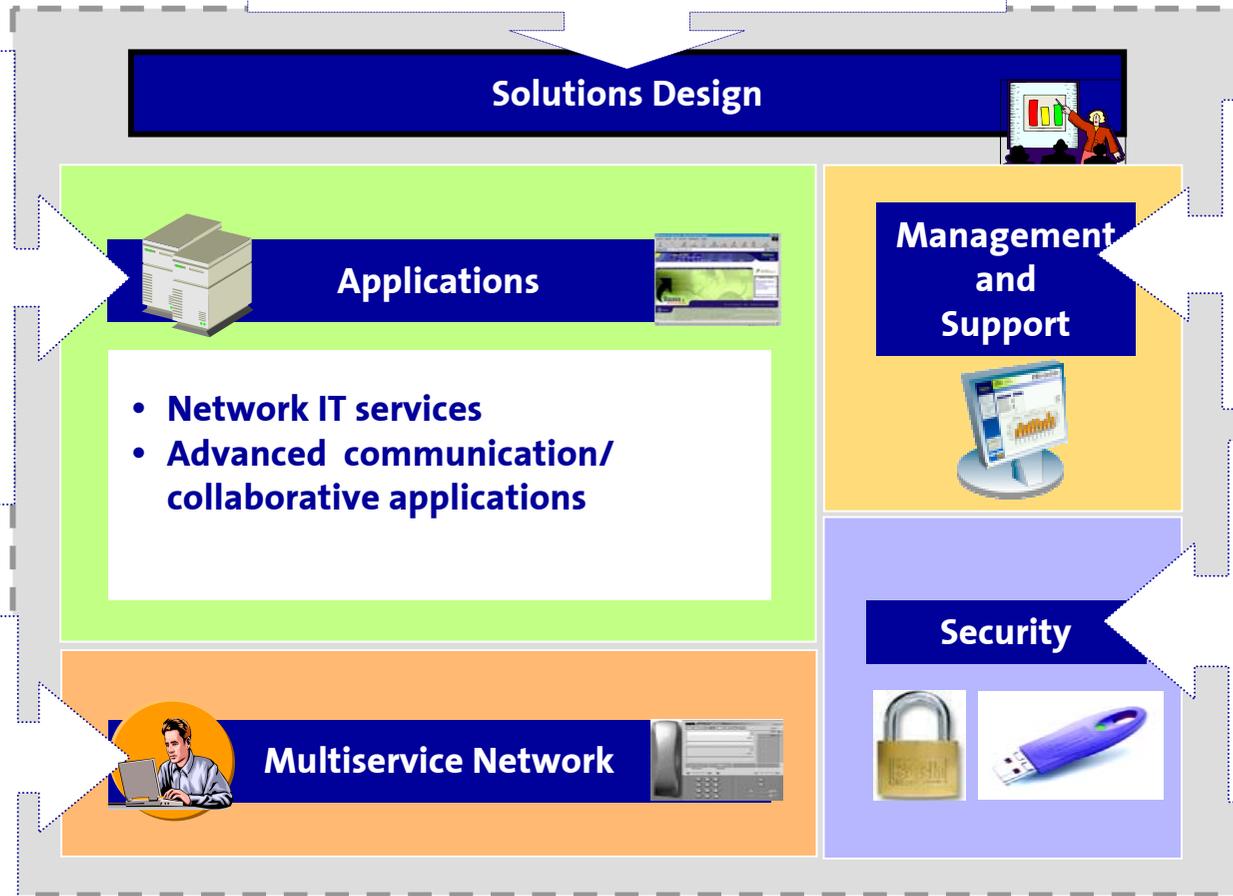
- Data processing centers as part of the network
- Centralized IT
- Broadband availability



Substantial cost reduction for our customers



- Consulting services
- Design, development and implementation of customized solutions



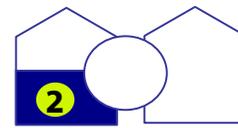
- Server consolidation (LAN/mail)
- Intranet / corporate applications (ERPs, eprocurement,...)
- Teleworking
- Multivideoconference
- Advanced voice systems

- High-speed access at every location
- Broadband services
- Mobile services

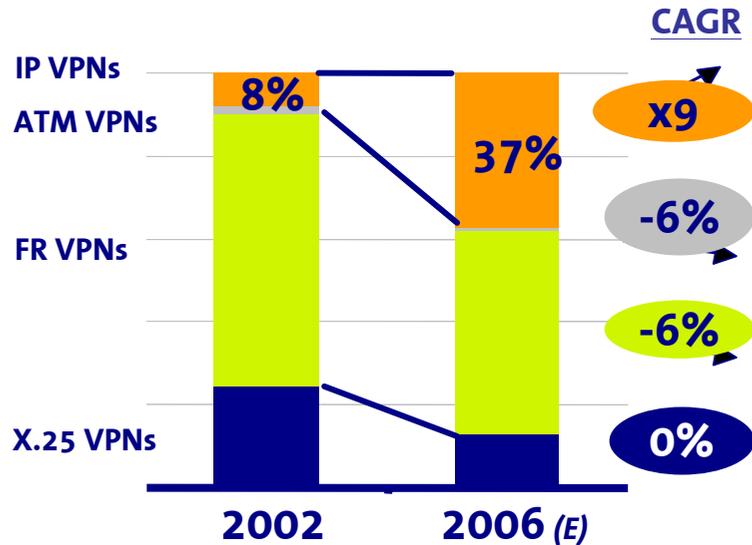
- Integrated management of network and applications
- Real-time information

- Single sign-on
- USB Key
- Information encryption

Broadband access and hosting will be major drivers for our eBA strategy



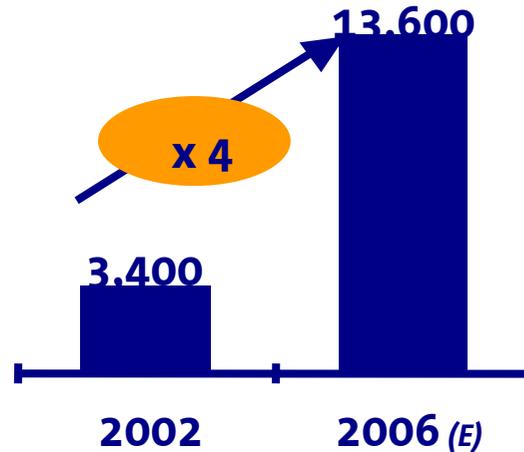
VPN access connections*



IP VPNs will increase their share relative to more traditional technologies

○ Number of Connections
CAGR 2002-06

Number of servers hosted in our datacenters



The number of hosted servers will multiply by 4

(*) % connections in our markets of influence

Telefónica has defined its positioning in the business



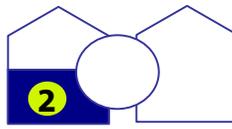
■ Telefónica's focus



- **Telefónica is already providing outsourcing services to its corporate customers. As of today we manage:**
 350 LAN
 30 Customer Network Operation Centers
- **We have more than 450 employees focusing on outsourcing activities**
- **Our offer is complemented with strategic partnerships**

* Business Processes Outsourcing

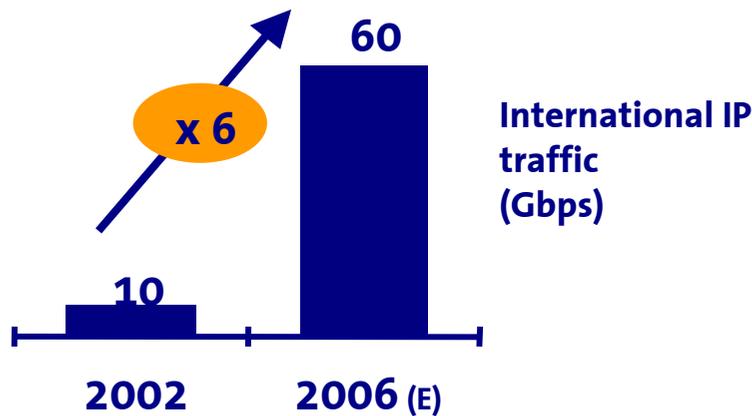
We will increase our market share of International Services in the Region



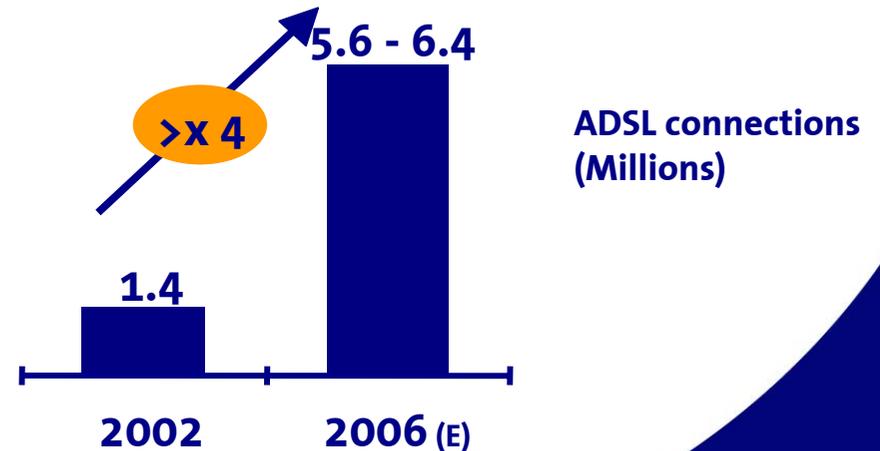
Key strategic actions under execution

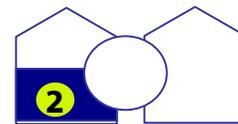
- Position ourselves as:
 - The specialist in the Spanish and Portuguese speaking markets
 - The best carrier for multinationals in the region
 - Service provider for other carriers (white label)
 - Global player in the new IP world, both in Access and Content

Increase of IP traffic over the international network



This increase is boosted by Telefónica's aggressive broadband growth strategy

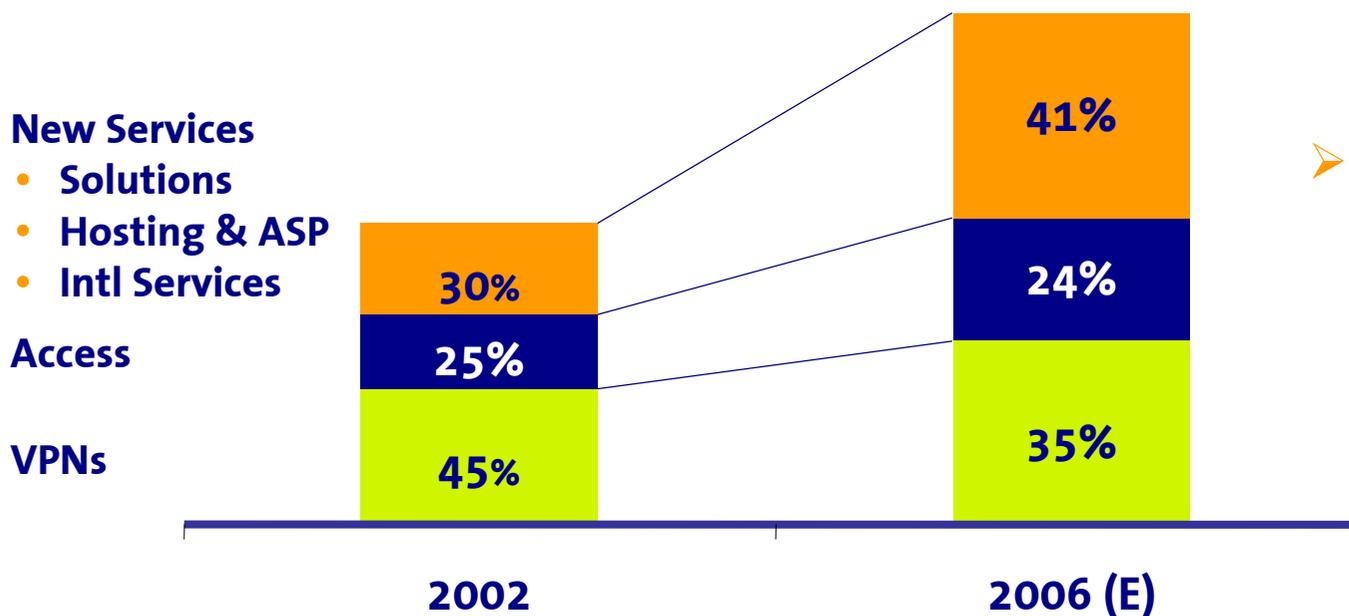




New services will increase their contribution to total revenues

Constant exchange rates, as of 2002

Expected evolution of revenue mix*

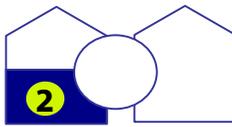


➤ **New services** increase their share from 30% to 41%

➤ **Hosting/ ASP** expect a 40% CAGR, promoted by the eBA business

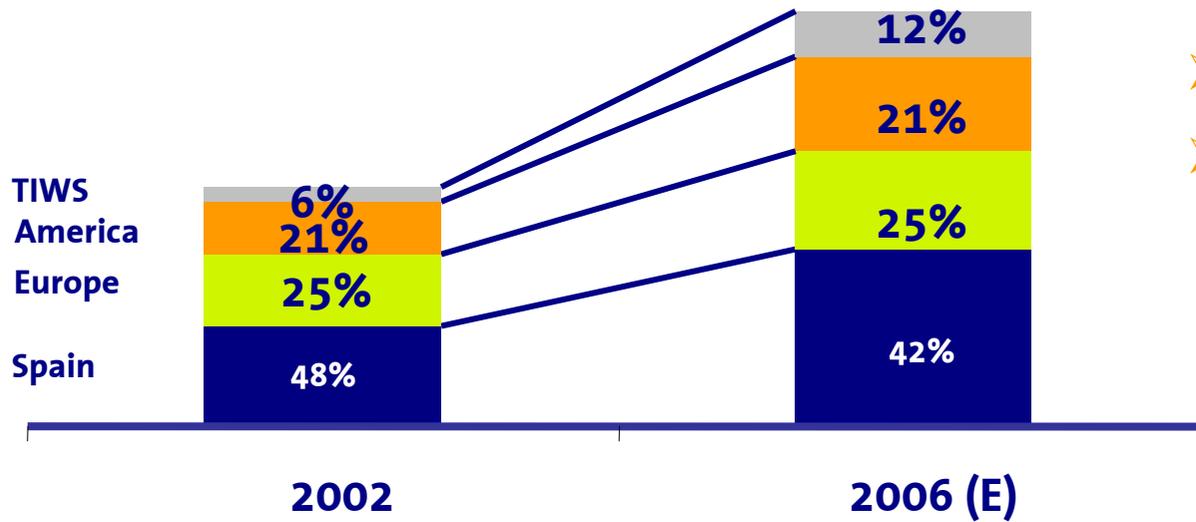
* Before adjustments. Excluding Europe

Evolution of the revenue mix per region



Actual Terms

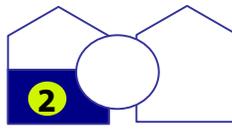
Expected evolution of revenue mix per region *



- All the regions will grow
- Our international unit will double its relative share

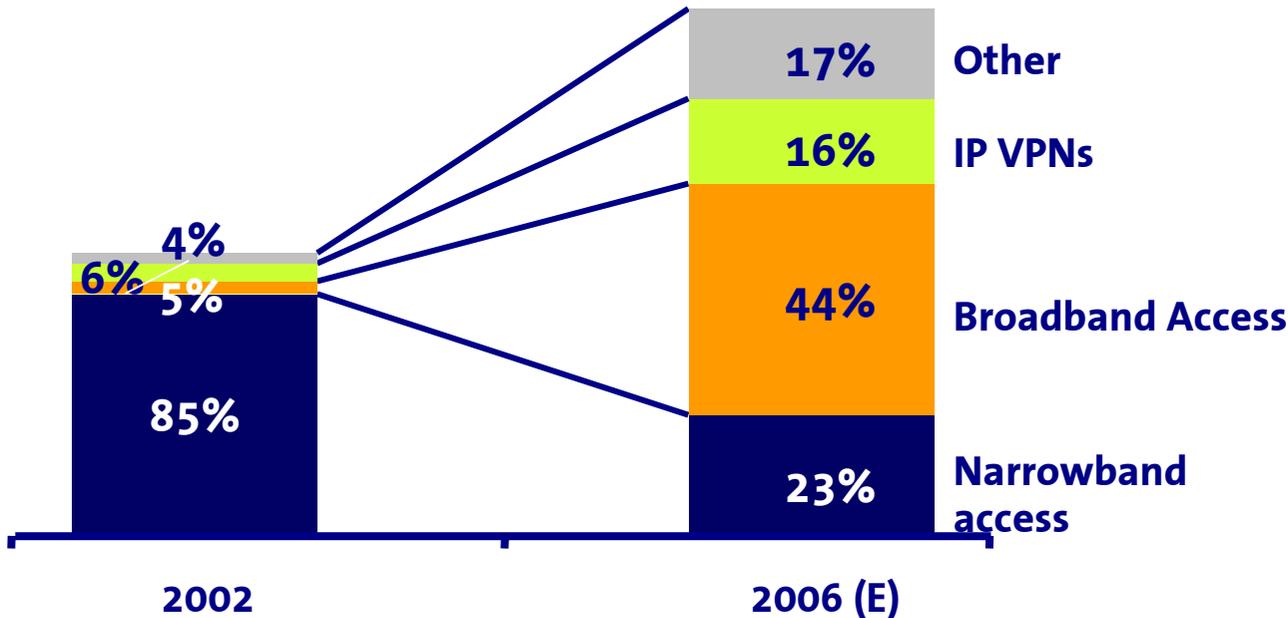
(*) Before adjustments

Our presence in Europe represents a substantial growth opportunity



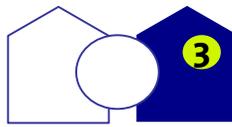
Constant exchange rates, as of 2002

Revenue Composition in Europe (Germany and UK)



- We are present in 2 of the largest European markets (Germany is 3 times Spain)
- Revenues in hard currency
- Evolution towards broadband access and new value added services
- Total IP Network in place allows us to develop a complete offer (voice and data) at a lower cost
- Solid presence both in services and customer base
- Self-financed operation





We will keep our current commitment of continuous efficiency improvement – Case Study: T.Data Spain

€ Millions

T.Data Spain has implemented several measures to increase efficiency

REVENUES

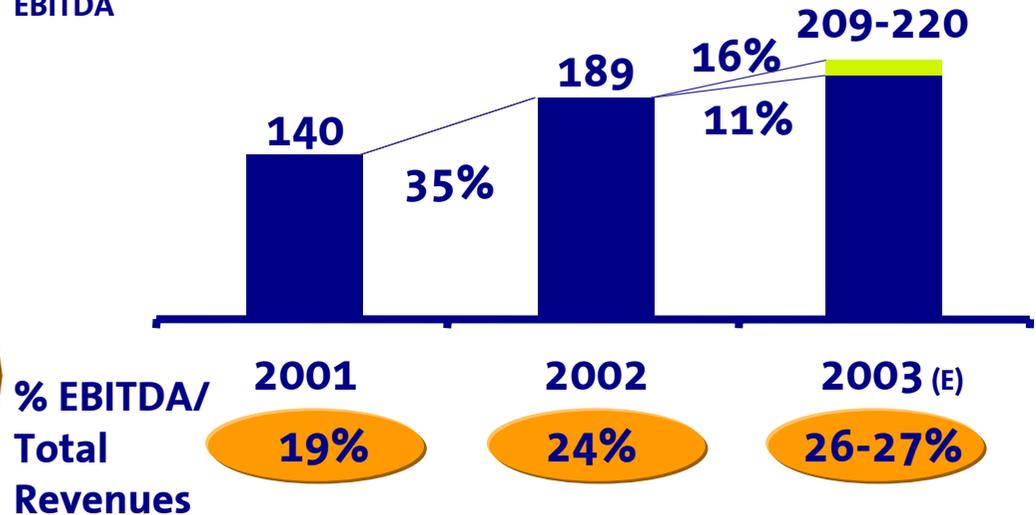
- Approach change from (p x q) to (n x ARPU*)
- Salesforce organization by industry sectors
- Implementation of a monthly sales opportunity tracking system and a bi-annual commercial incentive program
- Pricing review and rationalization of discount policy

COSTS

- Network unification
- Process improvement and response time reduction (i.e. book to bill)
- Headcount rightsize
- Expenditure contention

That have resulted in significant EBITDA improvement in 2002-03

EBITDA



- We will continue implementing efficiency improvements across all the geographies

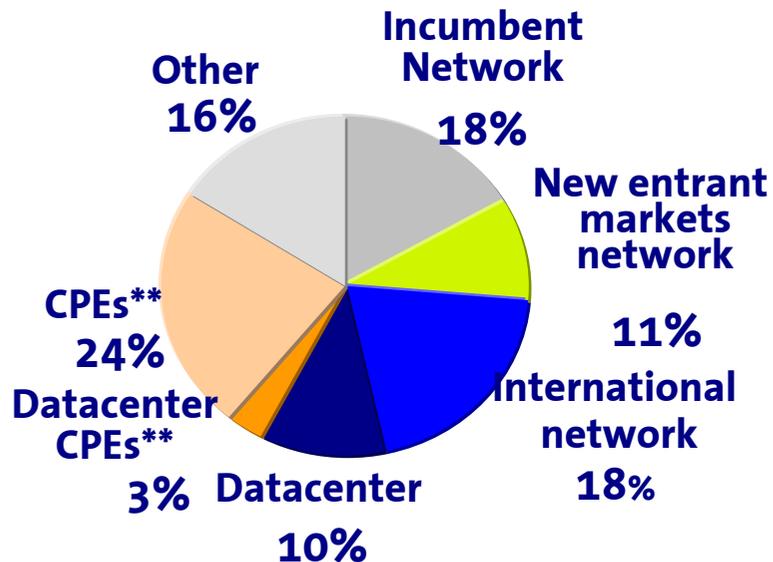
* ARPU: Average Revenue Per User

And strict control over investments

Key strategic actions under execution

- Leverage existing Telefónica's assets in the region
- Investment closely related to revenue generation (CPEs)
- Strict investment management, based on profitability analysis

CapEx * Distribution



- ✓ CapEx associated with **growth**
- ✓ 27% of total CapEx is **customer premises equipment**
- ✓ Minimum investment in Incumbent's network (18% of total CapEx)

* Cumulative CapEx for 2002-06

** Customer Premises Equipment

Constant exchange rates as of 2002

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Telefónica Empresas has ambitious though realistic targets moving forward

Constant exchange rates, as of 2002

| | 2002 Proforma | Targets for 2002-06 |
|---------------------------------|---------------|---|
| Revenues | 1,758 M€ | 10-14% CAGR* |
| EBITDA EBITDA margin | 129 M€ 7% | 46-52% CAGR 22-23% by 2006 |
| CapEx CapEx/Revenues | 199 M€ 11% | 200-220 M€ ** 8% in 2006 |
| Operating Cash Flow *** | -70 M€ | 350-440 M € by 2006 Cumulative operating cash flow 2003-06: >800 M € |

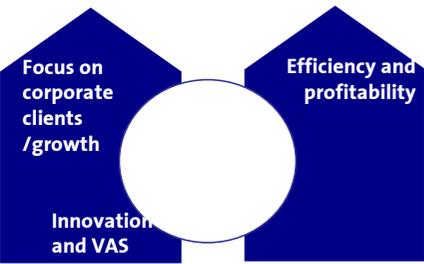
Solid revenue growth ...

... while keeping our current focus on continuous efficiency and profitability improvement ...

... And high free cash flow generation for the Telefónica Group



+



* Organic growth

** Average 2003-06

*** EBITDA-CapEx

Telefónica
