

*Telefonica*



## **January - December 2002 Results**

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

## ***SAFE HARBOUR***

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# 2002: A YEAR OF EXECUTING OUR KEY STRATEGIC INITIATIVES...

## STRENGTHENING OUR POSITION IN CORE BUSINESSES IN NATURAL MARKETS, TO REINFORCE GROWTH AND CASH FLOW

### Spain

- ✓ More than 957.000 ADSL subs., above target
- ✓ More than 18,4 Mill. wireless clients, 55% mkt. share

### Brazil

- ✓ +36% & 32% mkt. share in DLD & ILD for Telesp
- ✓ Incorporation of JV+acquisition of TCO (post closing), with 16.8 Mill. subs. and access to 80% of Brazilian GDP

### Mexico

- ✓ Pegaso acquisition + integration with existing operations, with 2.4 Mill. clients

## RESTRUCTURING NON-PERFORMING BUSINESSES TO STOP CASH OUTFLOW

### UMTS outside Spain

- ✓ Closing of all operations. Saving 1.8 Bill.€ and 2.4 Bill.€ in EBITDA and Net losses, respectively

### Data green-field operations

- ✓ Sale of ETI (Austria) and T. Data Uruguay
- ✓ Combination of Mediaways/Highwayone

### Media portfolio

- ✓ Merger agreement Sogecable/Vía Digital
- ✓ Sale of Azul TV (Argentina)

## REINFORCE FINANCIAL MANAGEMENT TO PRESERVE FLEXIBILITY

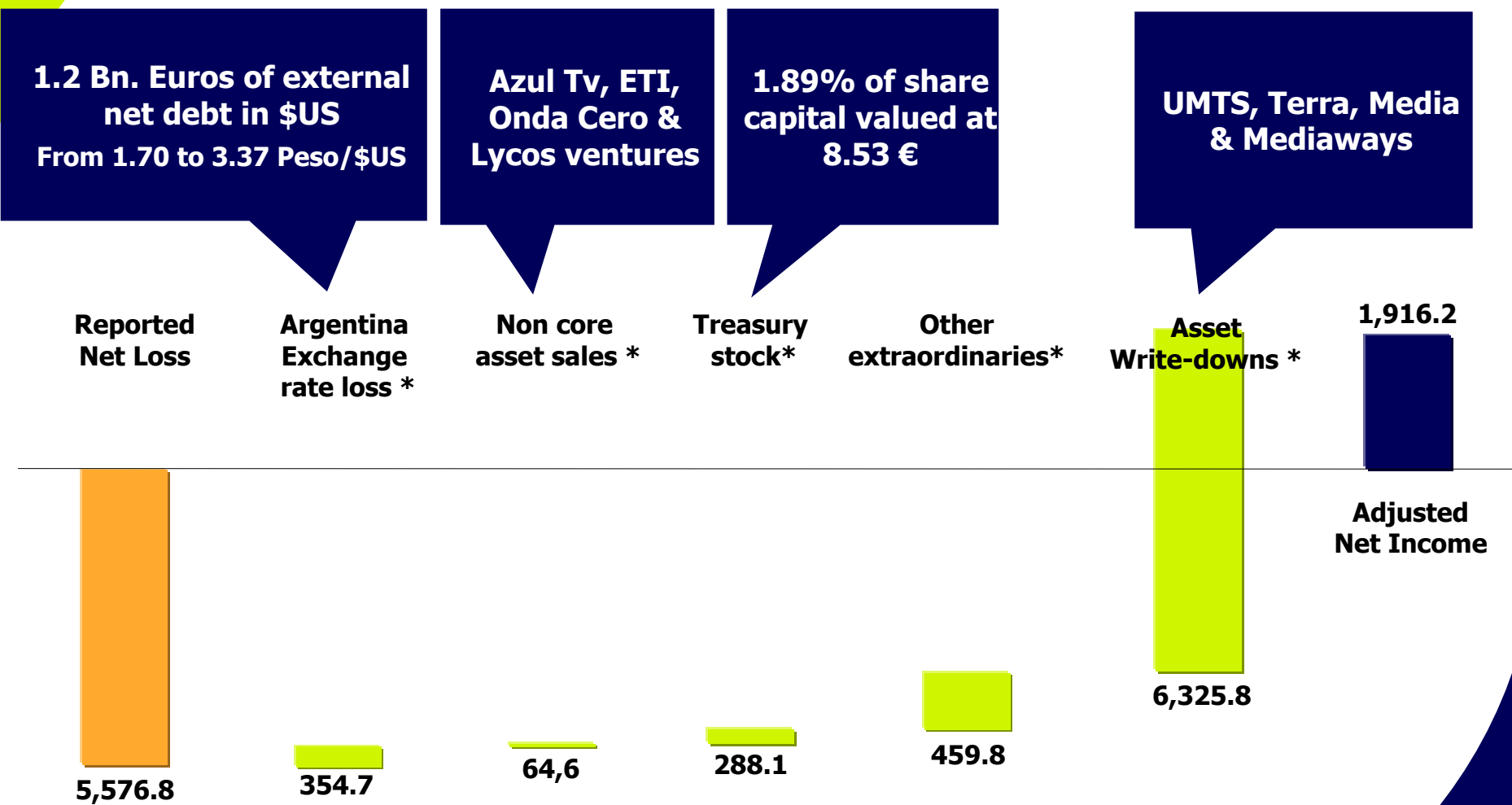
### Debt reduction

- ✓ Close to 6.4 Billion € for 2002

### Latam Cash Flows

- ✓ Repatriation of 1.5 Bill.€ from the region in 2002

# ONE-OFFS NEGATIVELY IMPACTING 2002 NET INCOME, BUT REINFORCING THE QUALITY OF OUR BALANCE SHEET



**1.2 Bn. Euros of external net debt in \$US**  
From 1.70 to 3.37 Peso/\$US

**Azul Tv, ETI, Onda Cero & Lycos ventures**

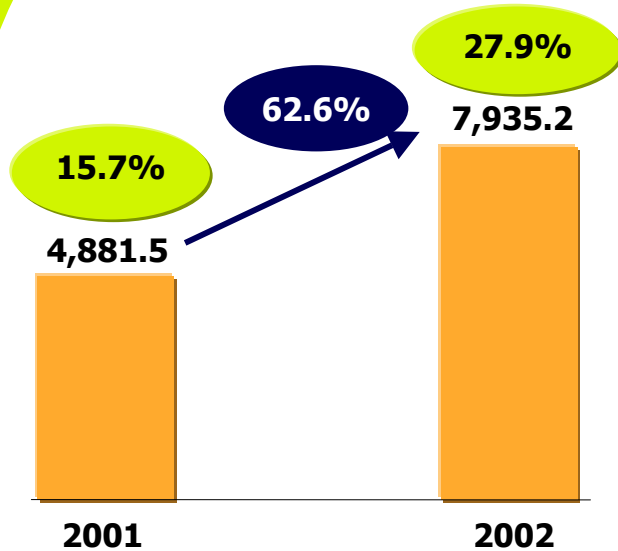
**1.89% of share capital valued at 8.53 €**

**UMTS, Terra, Media & Mediaways**

\* Net of taxes. Argentina and write-down effects are also net of minorities

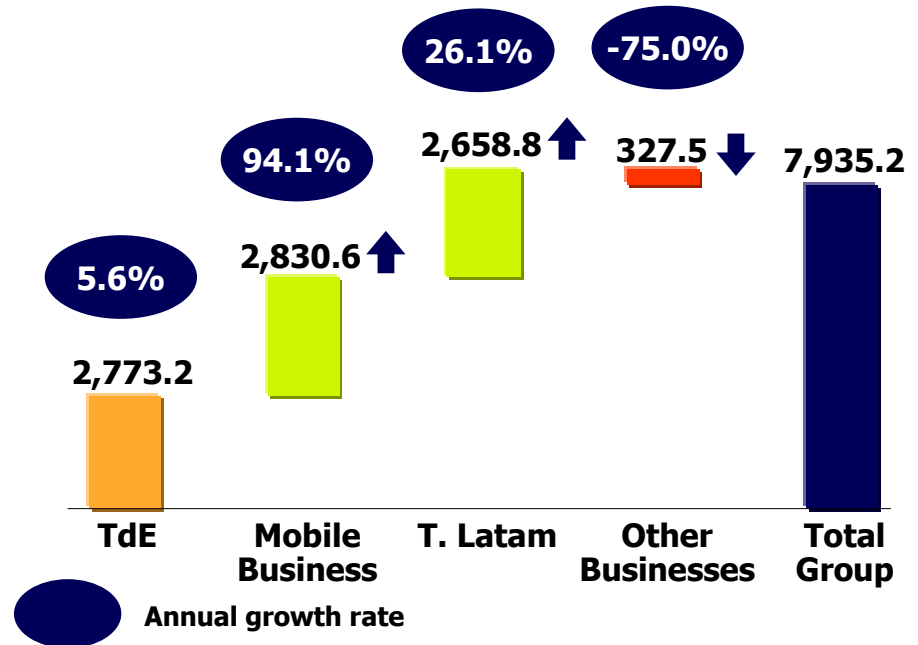
# WE HAVE KEPT A CONSISTENT CASH FLOW GENERATION DESPITE ONE-OFFS

## OPERATING CASH FLOW \* (Million Euros)



CF over Revenues

## OPERATING CASH FLOW BREAKDOWN (Million Euros)



- ✓ All fixed line businesses in Latam are contributing positively
- ✓ All business lines have improved their 2001 cash flow generation
- ✓ 2/3 of operating cash flow is generated in Spain

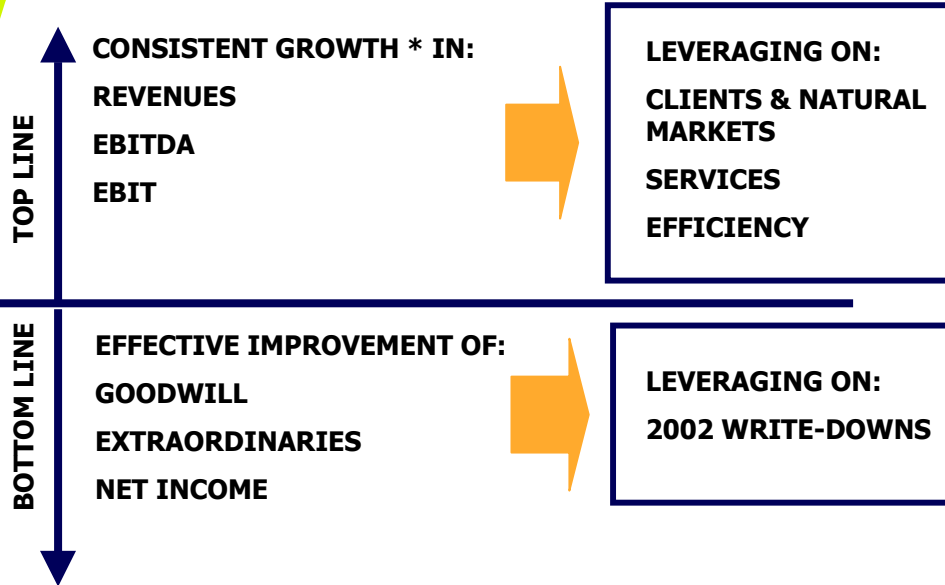
REINFORCING  
OUR  
STRENGTHS

CASH FLOW  
+  
FINANCIAL FLEXIBILITY

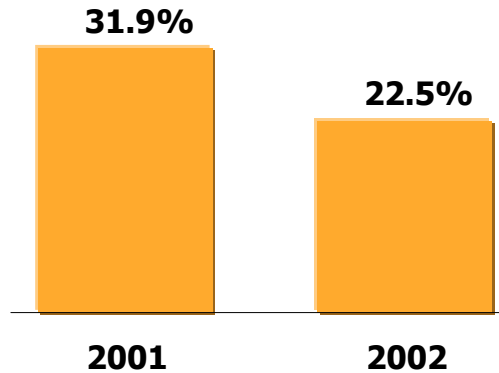
# 2002 STRATEGIC DECISIONS WILL PAVE THE WAY FOR PROFITABLE GROWTH IN COMING YEARS...

## IMPROVING P&L AT ALL LEVELS...

## ...STRENGTHENING BALANCE SHEET QUALITY



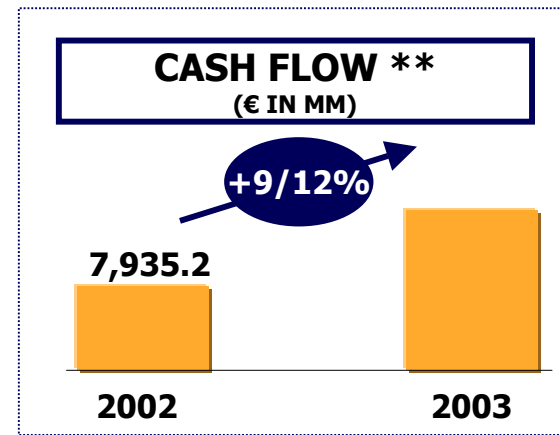
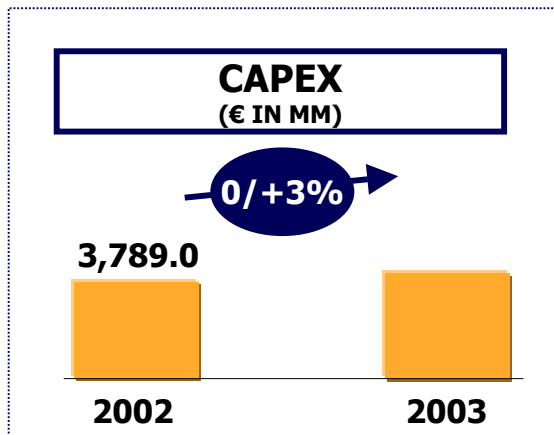
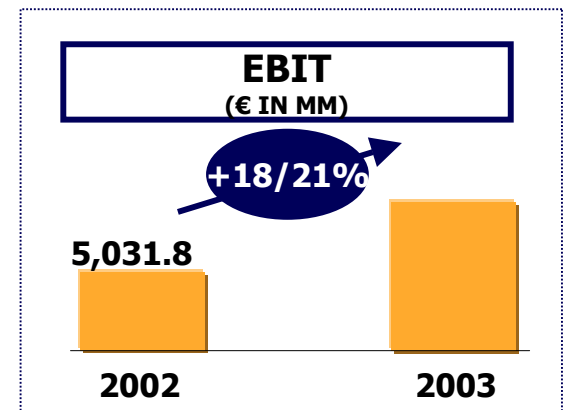
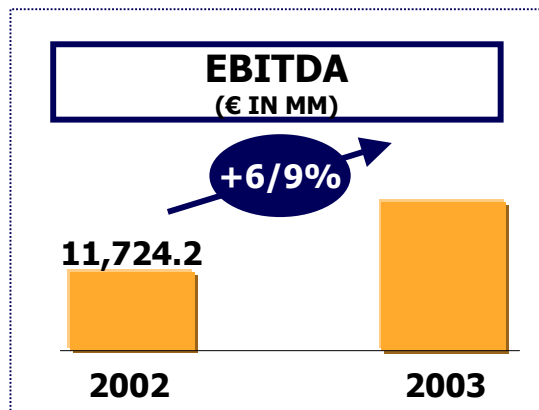
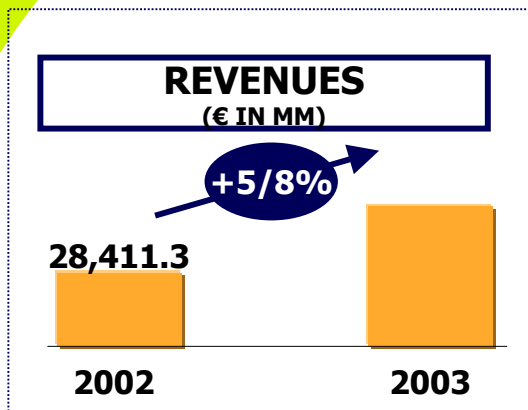
### % INTANGIBLES/TOTAL ASSETS



...AND DEVOTING CAPEX TO GROWTH OPPORTUNITIES, NAMELY BROADBAND & MEXICO & BRAZIL

**PROFITABLE GROWTH IN TERMS OF ROIC & CASH GENERATION, BY LEVERAGING ON A SOLID SUBSCRIBER BASE**

# ...THAT WILL DERIVE INTO A SET OF SOUND FINANCIALS \*



\* All financials are excluding forex & changes in consolidation

\*\* EBITDA - Capex

# **WE HAVE TAKEN THE DECISIONS TO DRIVE GROWTH AND PROFITABILITY ACROSS THE GROUP**

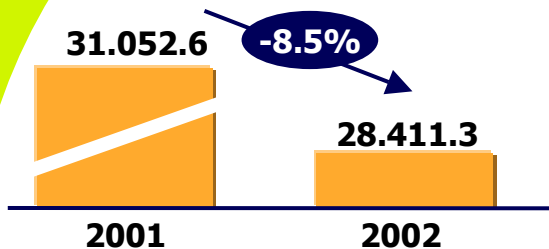
- ✓ **WE HAVE WORKED TO IMPROVE THE OUTLOOK OF OUR BUSINESSES, ADAPTING TO MACRO AND SECTOR CONDITIONS, AND STRENGTHENING THEIR EFFICIENCY AND CAPACITY TO GENERATE CASH FLOW**
- ✓ **WE HAVE IMPROVED THE QUALITY OF THE COMPANY'S BALANCE SHEET THROUGH WRITE DOWNS THAT ARE NOW BEHIND US**
- ✓ **WE ARE DELIVERING ON EXECUTION**
- ✓ **WE HAVE THE FINANCIAL FLEXIBILITY TO USE CASH FLOW FOR MAXIMIZING SHAREHOLDER RETURNS**

**WE HAVE SET THE PACE FOR FUTURE GROWTH IN TERMS OF RETURN ON INVESTED CAPITAL AND CASH GENERATION, BY LEVERAGING ON A SOLID SUBSCRIBER BASE**

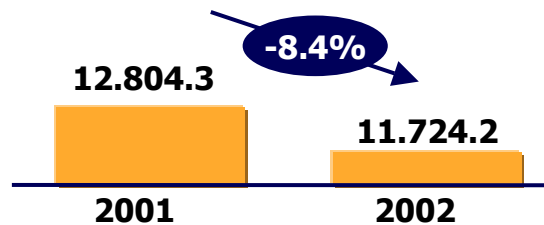


## 2002 FINANCIAL HIGHLIGHTS...

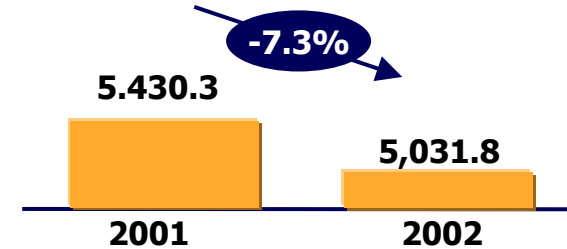
### REVENUES (€ in millions)



### EBITDA (€ in millions)



### EBIT (€ in millions)



### JANUARY-DECEMBER 2002 KEY DRIVERS

#### ✓ DEPRECIATED FOREIGN EXCHANGE RATES

Fx drains 14.6 p.p. to revenues & EBITDA growth

#### ✓ CONSISTENT CASH FLOW GENERATION

Successfully keeping EBITDA margin at 2001 level (above 41%)

Gearing capital expenditures (-52.2% y-o-y) closer to revenue streams

#### ✓ SOLID DOMESTIC RESULTS

+12% EBITDA growth 4Q02 vs 4Q01 for Telefónica de España Group, to end flat for the full year

+24% annual EBITDA growth for Telefónica Móviles España, improving margin by close to 3 p.p.

+33% annual EBITDA growth for Spanish data business, to reach a margin in the 24% range

#### ✓ ACTIVE MANAGEMENT OF LATIN AMERICAN ENVIRONMENT

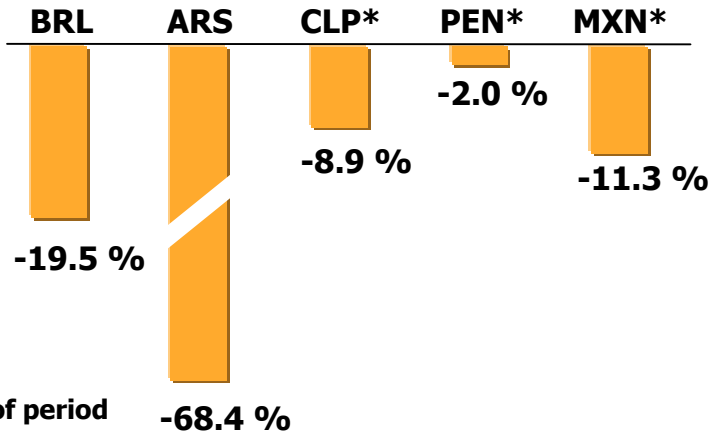
All operators are contributing positively to Group's cash flow

Telesp local operations remain solid, with revenues & EBITDA growing at an 11.4% and 8.0% rates

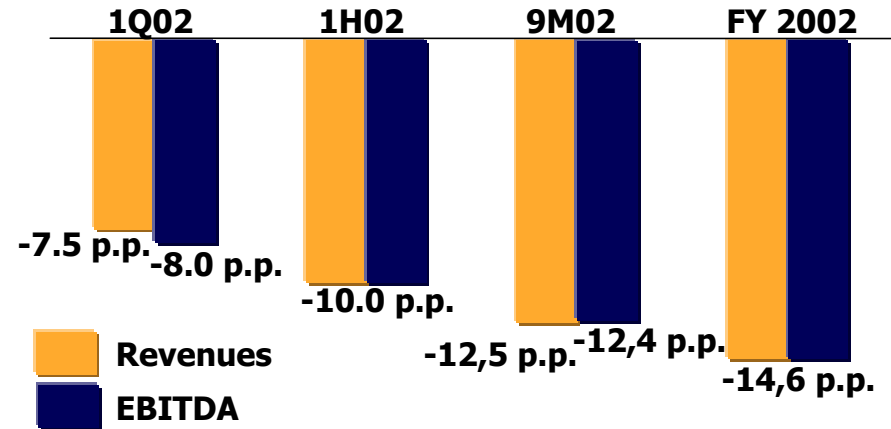
TASA retains a 50% EBITDA margin

# ...NEGATIVELY IMPACTED BY LATAM FOREX...

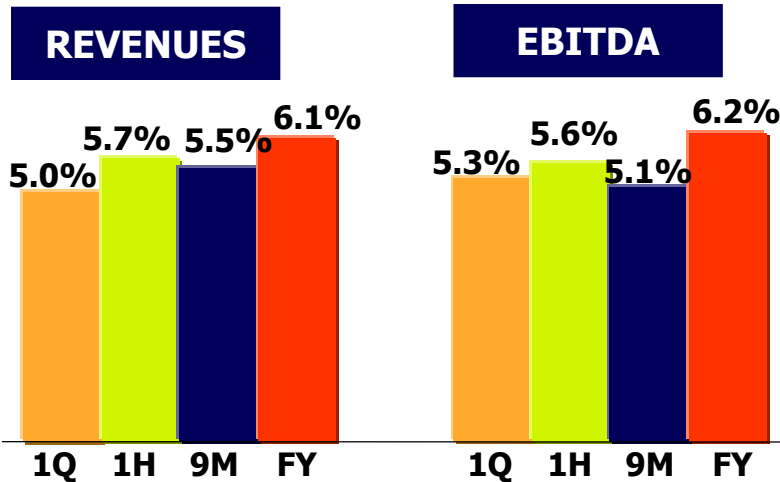
## DEPRECIATION OF LATAM CURRENCIES (2002 AVERAGE EXCHANGE RATES AGAINST \$US)



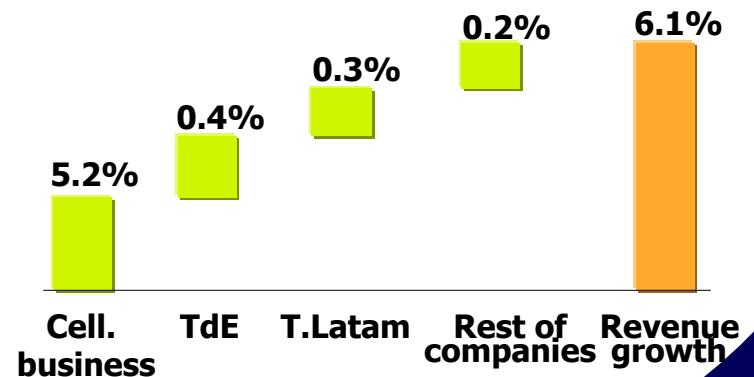
## FX IMPACT ON REVENUES AND EBITDA GROWTH IN 2002



## 2002 QUARTERLY GROWTH RATES EXCLUDING FOREX



## CONTRIBUTION TO REVENUE GROWTH (EXCLUDING FX)



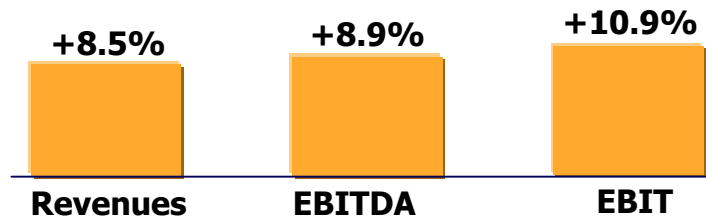
## ... AND ARGENTINA REDUCED CONTRIBUTION

€ in Million	Revenues		EBITDA		EBIT	
	2001	2002	2001	2002	2001	2002
Telefónica Group	31,052.6	28,411.3	12,804.3	11,724.2	5,430.3	5,031.8
<b>Argentina</b>	<b>3,906.8</b>	<b>1,048.9</b>	<b>1,647.1</b>	<b>431.9</b>	<b>764.3</b>	<b>158.4</b>
Telefónica Group ex-Argentina	27,145.9	27,362.4	11,157.2	11,292.2	4,666.0	4,873.3

**+0.8%**      **+1.2%**      **+4.4%**

**ARGENTINA'S WEIGHT ON GROUP REV. & EBITDA:  
FROM OVER 12.5% IN 2001 TO LESS THAN 4% IN 2002**

### GROWTH RATES EXCLUDING ARGENTINA & FOREX\*



\* Excluding ARS depreciation. EBITDA and EBIT before Management Fee.

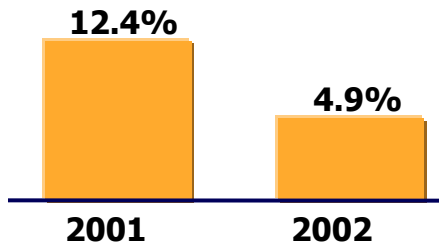
# KEEPING COST STRUCTURES UNDER CONTROL...

## COST CONTROL ACROSS THE GROUP \*

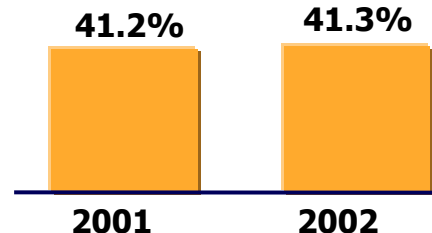
<i>€ in Million</i>	% Change 1Q02/1Q01	% Change 1H02/1H01	% Change 9M02/9M01	% Change FY02/FY01
TdE Group	+3.9%	+3.9%	+2.9%	+0.9%
Cell. Business	+11.9%	+9.4%	+8.2%	+4.7%
T. LATAM	-14.7%	-22.0%	-26.5%	-29.2%
T. Data	+6.7%	-6.1%	-12.3%	-16.3%
<b>TEF Group</b>	<b>-1.9%</b>	<b>-5.1%</b>	<b>-7.0%</b>	<b>-9.0%</b>

Excluding T. Latam, all business lines have improved EBITDA margin 4Q02 vs 4Q01

### OPEX EVOLUTION EXCLUDING FX

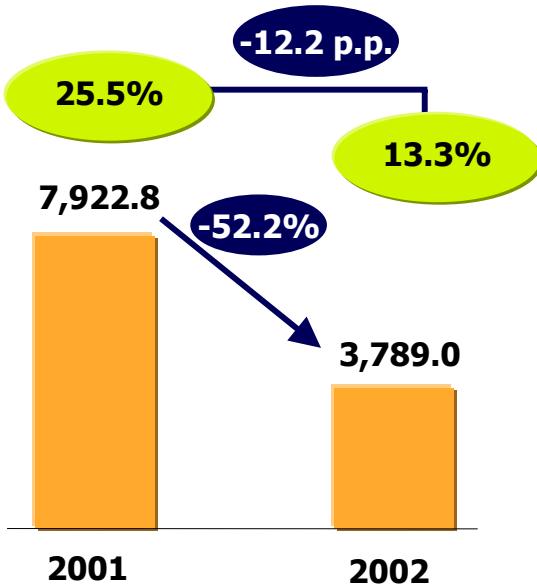


### STABLE EBITDA MARGIN



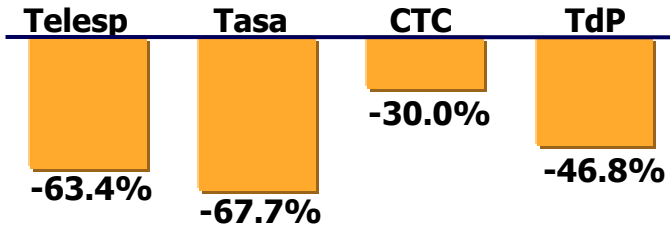
# ...WHILE GEARING CAPEX TOWARDS REVENUE STREAMS

## A RATIONALIZED GROUP CAPEX

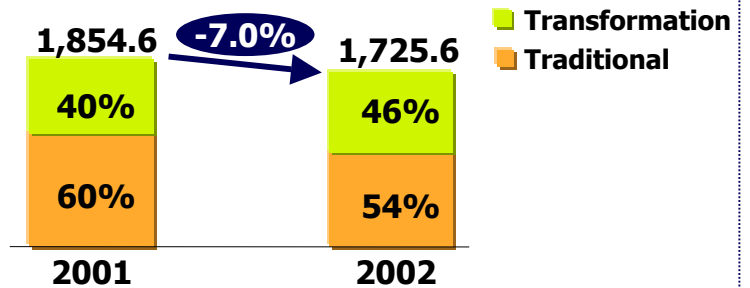


Capex over Revenues

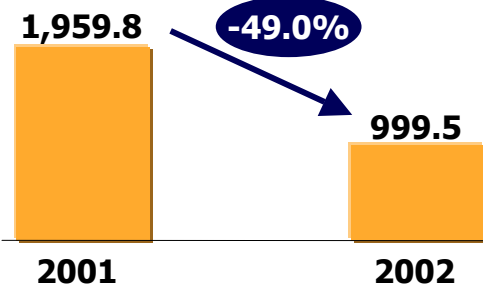
## TELEFONICA LATAM \* 2002 vs 2001 in local currency



## TELEFONICA DE ESPAÑA PARENT

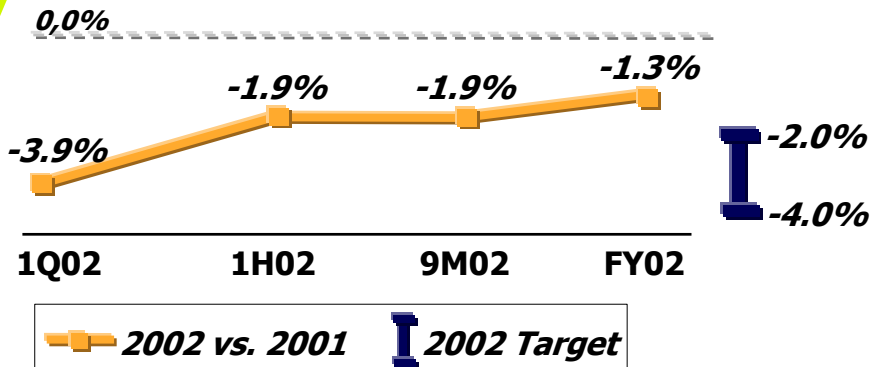


## CELLULAR BUSINESS



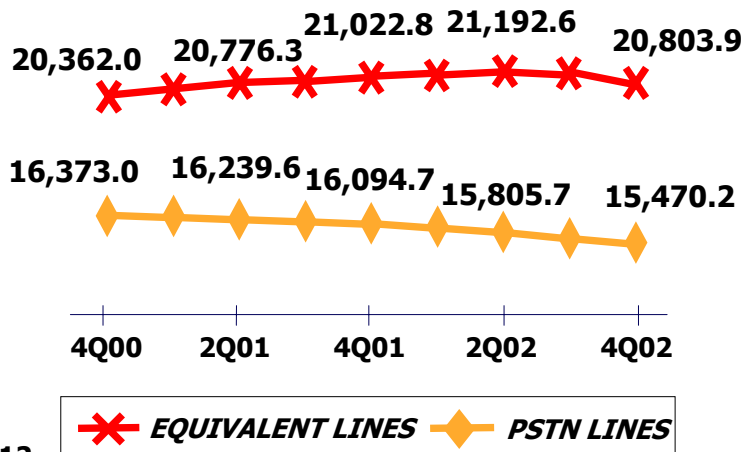
# TELEFONICA DE ESPAÑA: TRADITIONAL BUSINESS

## TRADITIONAL REVENUES

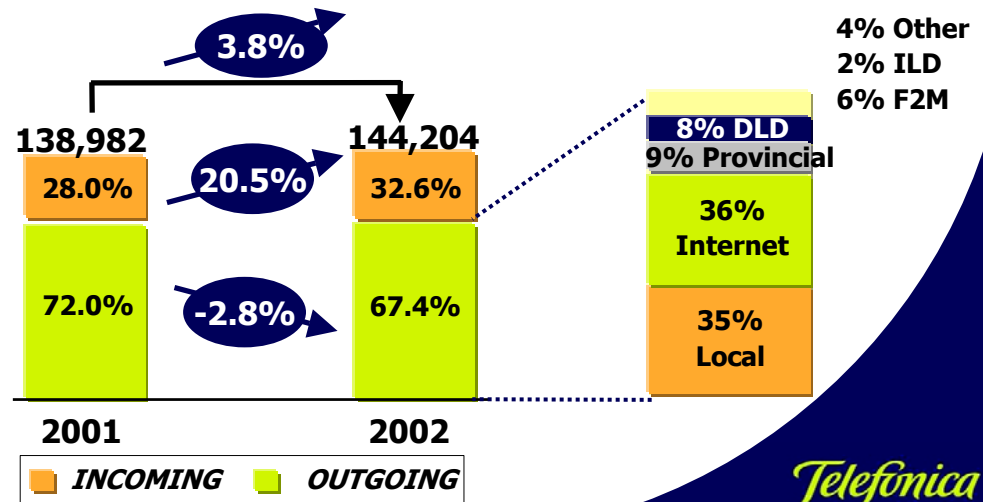


- ✓ 3.1 p.p. ACCESS MARKET SHARE LOSS IN 2002
- ✓ 1, 8 MILL. PRESELECTED LINES AS OF 12/31/02 (435,000 ADDITIONAL TO 2001 FIGURE)
- ✓ 4.2 p.p. OF TRAFFIC MARKET SHARE LOSS IN 2002
- ✓ NOMINAL PRICE REDUCTIONS: 7% IN 2001 AND 8.1% IN 2002

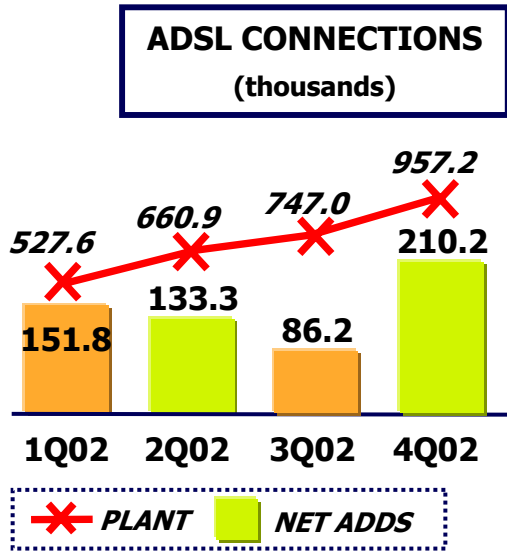
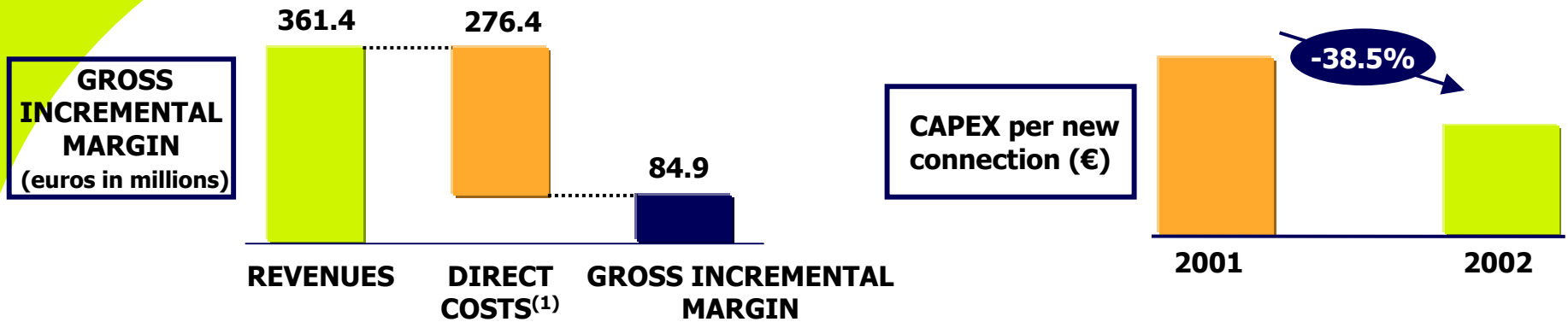
## ACCESS (lines in thousands)



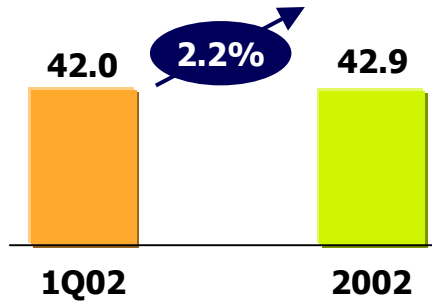
## TRAFFIC (million minutes)



# TELEFONICA DE ESPAÑA : ADSL 2002 PERFORMANCE

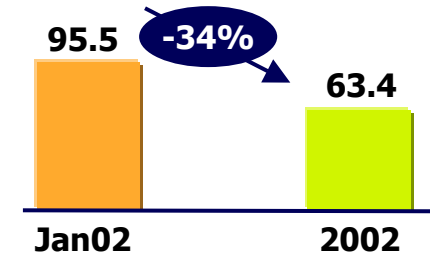


**RETAIL ARPU**



- ✓ Improvement in customer mix
- ✓ New services effect expected in 2003

**RETAIL SAC per new connection (€)**



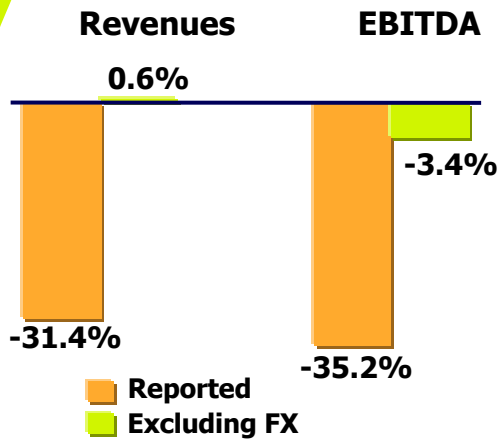
- ✓ plug & play 62% of basic retail adds

- ✓ 40% NEW ADSL CUSTOMERS IN 2002 DID NOT HAVE IP TRAFFIC AT ALL
- ✓ UNDER 7% NEW ADSL CUSTOMERS IN 2002 GENERATED LOWER ARPUs THAN IN NARROWBAND
- ✓ 1999-2002 ADSL BUSINESS CUMULATIVE GROSS INCREMENTAL MARGIN IS POSITIVE

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

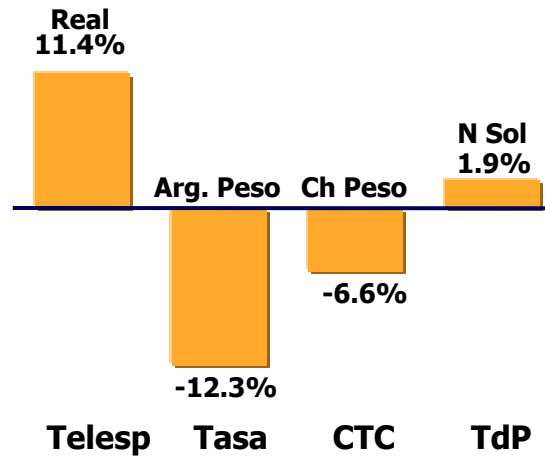
# T. LATINOAMERICA: WIRELINE PERFORMANCE UNDER ...

## T. LATAM REV / EBITDA EX FOREX



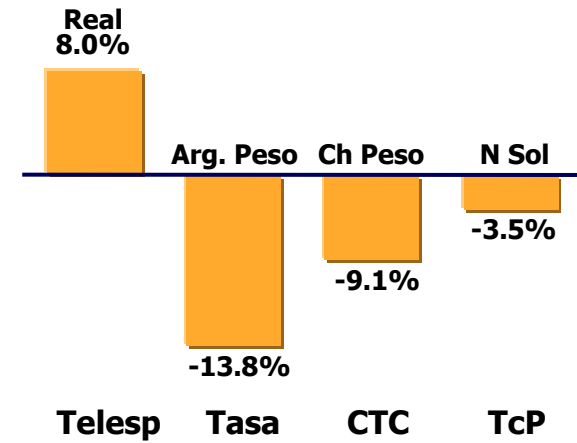
## OPERATING REVENUES

% change Dec02 / Dec01  
Local Currency

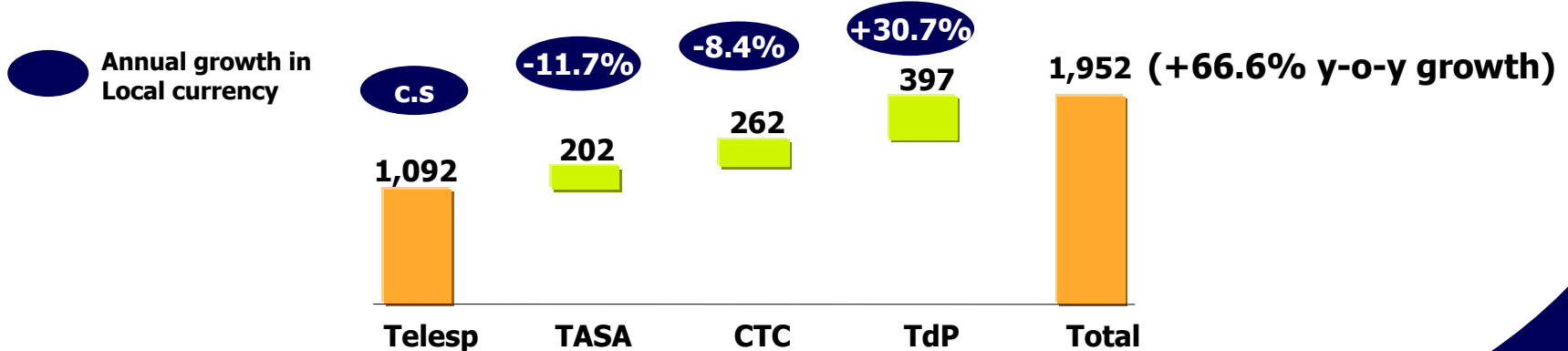


## EBITDA

% change Dec02 / Dec01  
Local Currency



## T. LATAM 2002 CASH FLOW GENERATION \* (€ in Million)



\* CF=EBITDA-Interests-Taxes-Capex

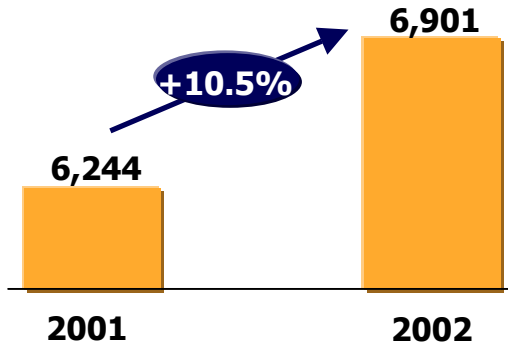
Note: TASA refers to the period January-December 2001 and 2002.



# ...THE SOLID UNDERLYING PERFORMANCE OF TELESP...

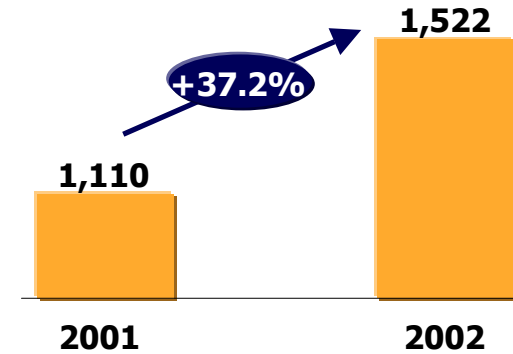
## LOCAL REVENUES

(\$R in millions)



## LONG DISTANCE REVENUES

(\$R in millions)



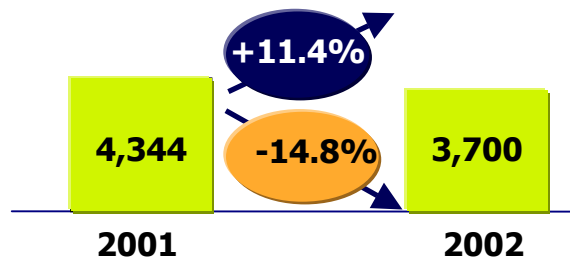
- ✓ 6% growth in average lines in service
- ✓ Average tariff increases: +10.4% in 01 and +8.3% in 02

- ✓ 36% DLD market share as of December 02
- ✓ 32% ILD market share as of December 02

- YoY change in local currency
- YoY change in euros

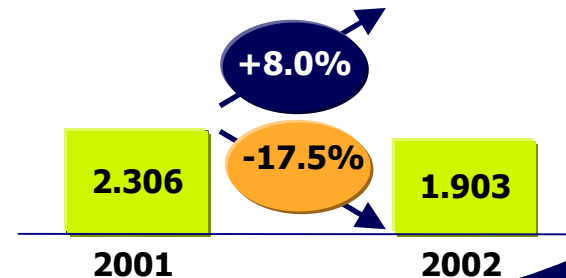
## REVENUES

(€ in millions)



## EBITDA

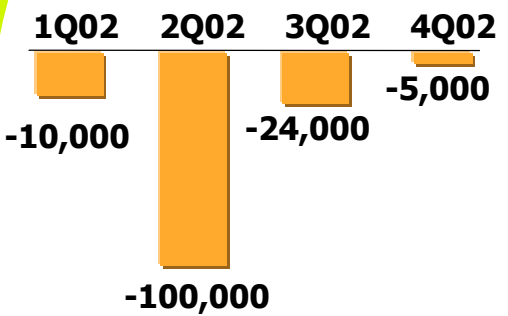
(€ in millions)



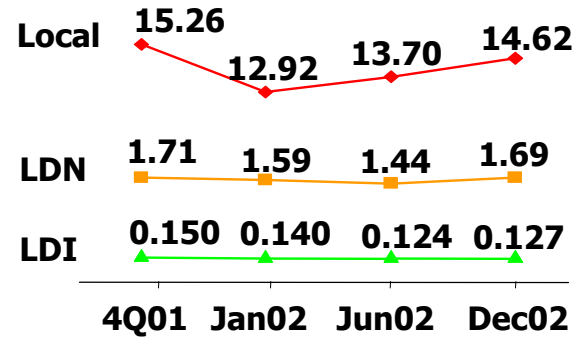
# ...AND AN ACTIVE MANAGEMENT OF TASA'S OPERATING ENVIRONMENT

## STABILIZING KEY BUSINESS METRICS...

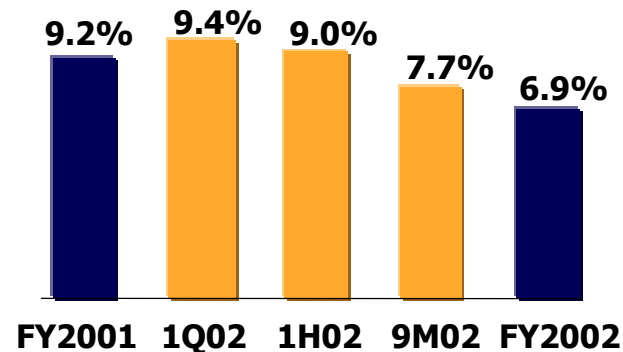
### FIXED LINE NET ADDS



### TRAFFIC/LINE/DAY (min.)

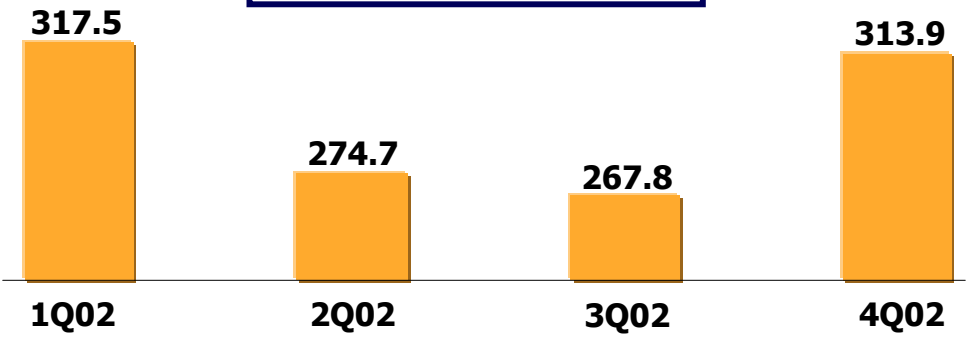


### BAD DEBT (% of revenues)



## ...COMBINED WITH COST CUTTING TO PROTECT EBITDA

### QUARTERLY EBITDA (Million Pesos)



# 2003 WIRELINE OUTLOOK

## TELEFONICA DE ESPAÑA GROUP

### REVENUES

(€ IN MM)

10,272.1

2002

-3/+0%

2003

### EBITDA \*

(€ IN MM)

4,517.2

2002

-4/-1%

2003

### CAPEX

(€ IN MM)

1,744.0

2002

-15/-20%

2003

## TELEFONICA LATINOAMERICA \*\*

### REVENUES

(€ IN MM)

6,954.1

2002

+6/9%

2003

### EBITDA

(€ IN MM)

3,346.7

2002

+4/7%

2003

### CAPEX

(€ IN MM)

687.9

2002

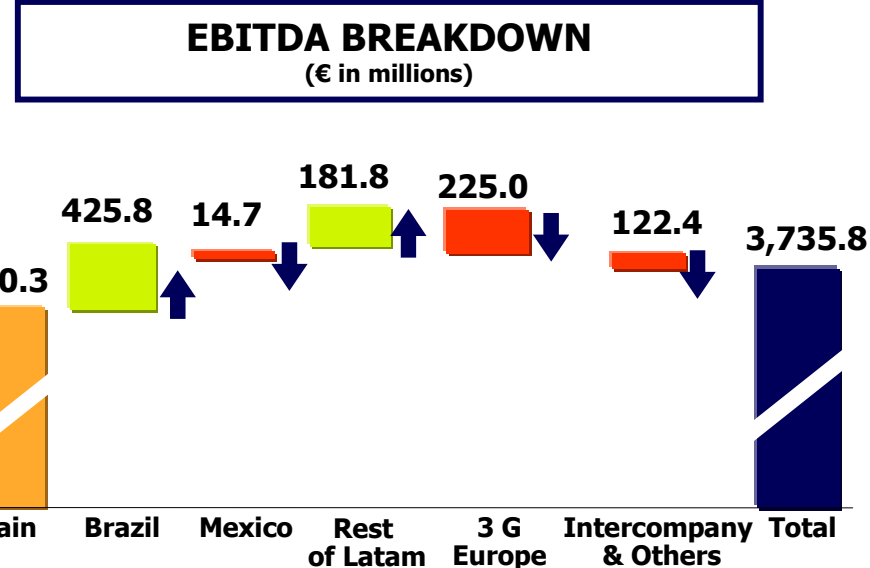
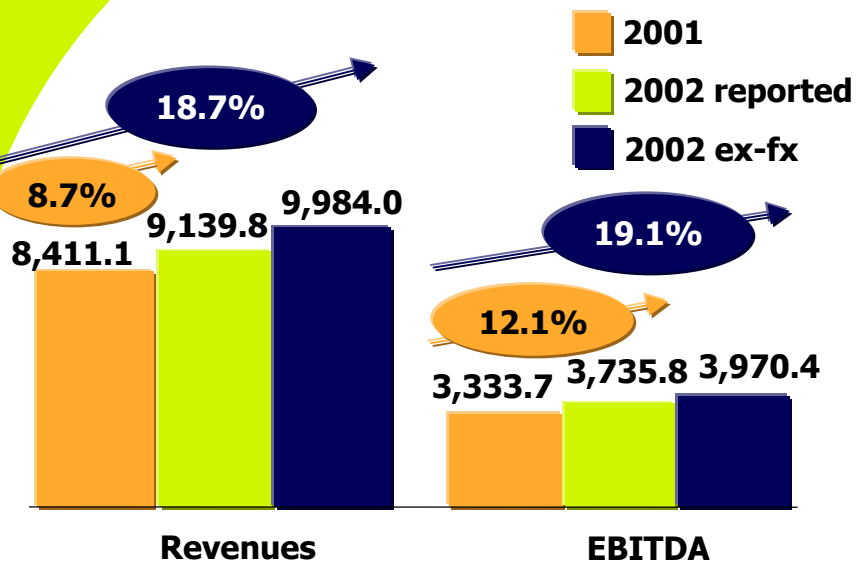
-2/+1%

2003

\* Affected by increasing operating expenses related to Real State sales, affecting growth rate by -1 p.p.

\*\* Excluding fx and Changes in consolidation

# T. MOVILES GROUP PERFORMED STRONGLY...



## SPAIN

- ✓ Main driver of growth, with Rev. and EBITDA increasing by 18% & 24%
- ✓ High quality customer base that turns into a set of solid operating metrics

## BRAZIL

- ✓ Strong competitive edge with 4Q02 net adds being 70% higher than 3Q02
- ✓ Market leader through Brasilcel, with an average market share of 61% in areas of operation

## MEXICO

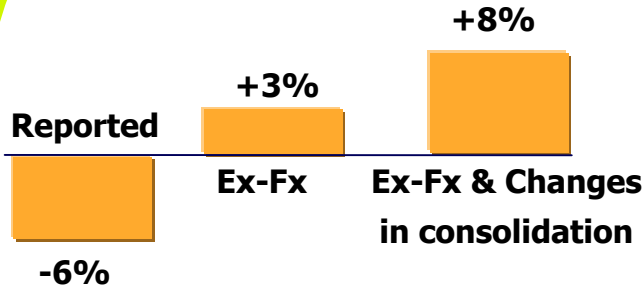
- ✓ Positive commercial results (20% market share of net adds for the Christmas campaign), with EBITDA pressured by the integration of Pegaso
- ✓ GSM network roll-out on track to fully launch nationwide services in 1H03

## ARGENTINA

- ✓ Strong management of operations, keeping market share stable and improving EBITDA in local currency by close to 48%
- ✓ Protection of liquidity, with cash position doubling 2003 maturities

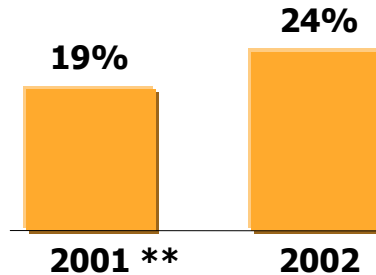
# TELEFONICA DATA: EXECUTION ON OPERATING EFFICIENCY

## 2002 GROUP REVENUES (Annual % Change)

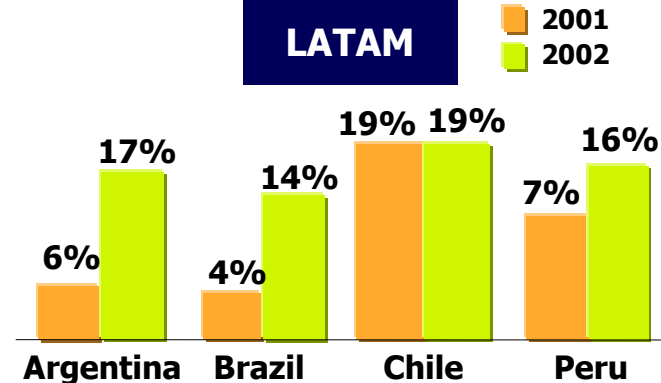


## INCUMBENT MARKETS REMAIN ROBUST (EBITDA MARGIN \*)

### SPAIN



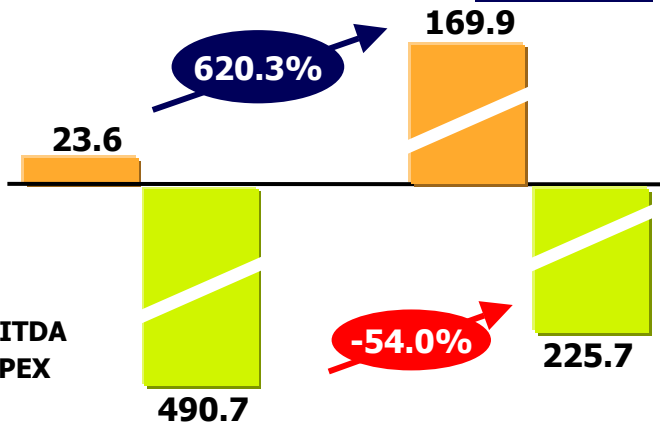
### LATAM



## IMPROVING CASH FLOW THROUGH STABLE EBITDA GENERATION AND SELECTIVE CAPEX ALLOCATION

2001

2002



- ✓ 16% reduction in operating costs
- ✓ 10% EBITDA margin, +8.5 p.p. compared to 2001
- ✓ Capex over revenues: from 27% in 2001 to 13% in 2002
- ✓ Close to 70% of Capex devoted to incumbent markets & international network

\* Before management fees for Latam

\*\* Including Telefónica Sistemas

Telefonica

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

<b>Euros in millions</b>	<b>Dec02</b>	<b>Dec01</b>	<b>% Change</b>
<b>Debt financial expense</b>	(1,783.5)	(2,016.8)	(11.6%)
<b>Other financial expenses</b>	(43.2)	(55.4)	(22.0%)
<b>Financial Income</b>	337.8	456.5	(26.0%)
<hr/>			
<b>Net interest</b>	(1,488.9)	(1,615.7)	(7.8%)
<b>Financial provisions and net forex (1)</b>	(732.7)	(775.4)	(5.5%)
<hr/>			
<b>Net financial results</b>	(2,221.6)	(2,391.1)	(7.1%)
<hr/>			
<b>Net financial results excluding ARS devaluation</b>	(1,692.7)	(1,862.1)	(9.1%)

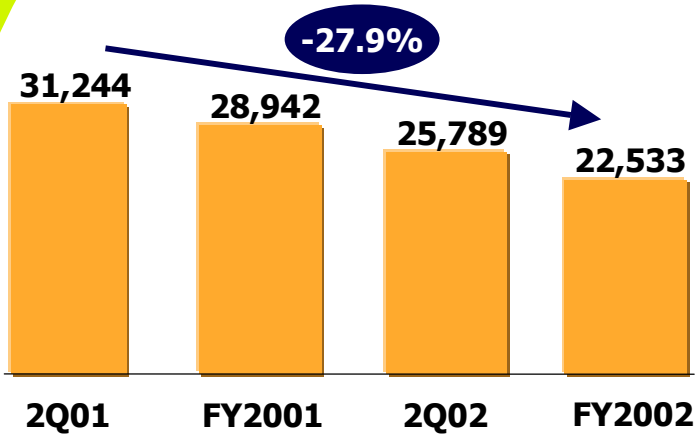
(\*) Global consolidation

(1) Non cash

# STRENGTHENING OUR CREDIT PROFILE THROUGH 2002

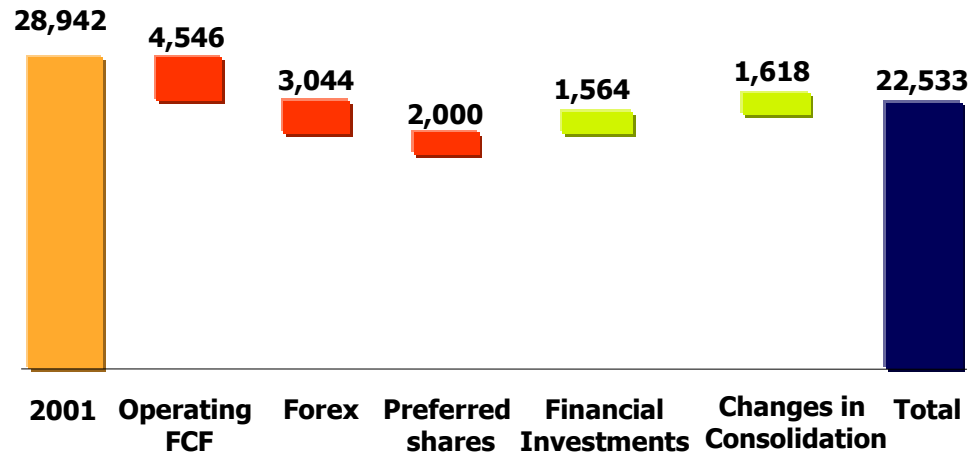
## CONSOLIDATED DEBT EVOLUTION

(€ IN MM)

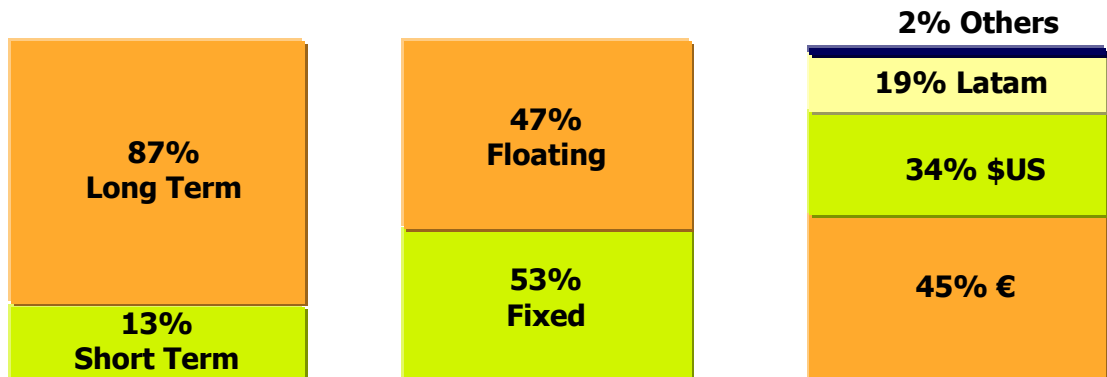


Net Debt/EBITDA: from 2.26x to 1.92x

## COMPONENTS OF 2002 DEBT REDUCTION



## A BALANCED DEBT STRUCTURE



# 2002 CASH FLOW STATEMENT

(Euros in millions)		December 2002
I	Cash flows from operations	11,757.5
II	Other payment related to operating activities	(1,139.10)
III	Net interest payment	(1,610.90)
IV	Payment for income tax	(226.60)
<b>A= I+II+III+IV Net cash provided by operating activities</b>		<b>8,780.9</b>
V	Net payment for investment in fixed and intangible assets	(4,223.70)
VI	Net payment for financial investment	(1,564.00)
<b>B= V+VI Net cash used in investing activities</b>		<b>(5,787.70)</b>
C	Dividends paid	(10.80)
<b>D= A+B+C Free cash flow after dividends</b>		<b>2,982.4</b>
E	Effects of exchange rate changes on net debt	(3,044.00)
F	Effects on net debt of changes in consolidation and others	(382.10)
G	Net debt at beginning of period	28,941.6
<b>H= G-D+E+F Net debt at end of period</b>		<b>22,533.1</b>



## **CONCLUSIONS**

- ✓ **LATIN AMERICAN FOREX & ARGENTINA HAVE BEEN SUBSTANTIALLY DRAINING REVENUES AND EBITDA GROWTH THROUGHOUT THE YEAR**
- ✓ **BRAZILIAN SUBSIDIARIES HAVE SHOWN ROBUST OPERATING PERFORMANCE, AND WE HAVE SET THE BASIS FOR FUTURE GROWTH IN WIRELINE & WIRELESS**
- ✓ **WE HAVE KEPT OUR PRESSURE ON COSTS AND CAPEX, MAINTAINING STRONG MARGINS AND SOLID CASH FLOW GENERATION**
- ✓ **DOMESTIC BUSINESSES HAVE PERFORMED STRONGLY ACROSS 2002, GIVING STABILITY TO OUR CASH FLOW PROFILE**

*Telefónica*

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