



Second Investor Conference

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*Telefonica*



Luis Lada

Chairman & CEO



*Telefonica*  
Móviles

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- **GROUP'S FINANCIALS**
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# What has happened in the last 12 months?

## SECTOR FEATURES

- ✓ TMT's strongly penalized in the capital markets.
- ✓ Delays in UMTS availability, which opens a wider time-window to develop new wireless data services & applications
- ✓ Initiatives tending to a more flexible regulatory environment in order to ensure roll-out of 3G networks

## TEM'S PERFORMANCE

- ✓ Maintained competitive position
- ✓ Strong capital structure
- ✓ Capex rationalization
- ✓ Successful management of "acquisition" and "retention"
- ✓ Leading innovation with sound track record in wireless data services & revenues
- ✓ Free cash-flow generation

**FLEXIBILITY TO RAPIDLY REALIGN OUR STRATEGY**

# *We have delivered significant growth rates despite adverse economic factors*

<u>Consolidated Proforma Figures</u>	2001A	2001A growth
Managed customer base (MM)	29.8	28.3%
Operating revenues (MM€)	8,411	13.6%
EBITDA (MM€)	3,334	36.0%
EBITDA margin	40%	+6.5 p.p.
EBIT (MM€)	2,076	47.0%
Net income (MM€)	893	51.3%
CAPEX <sup>1</sup> /operating revenues	20%	-5.9 p.p.
Free cash-flow (MM€)	871	c.s.

**GENERATING HIGHER CASH-FLOWS THAN FORECASTED**

## ***We are here to address your concerns regarding TEM***

### **Spain**

- Will data revenues offset lower voice ARPUs?
- Are current EBITDA levels in Spain sustainable in the long term?
- How will capex evolve considering 3G network roll-out?
- How will you manage increasing competition & potential regulatory pressure?

### **3G European start-ups**

- Is there any reason to continue?
- Can non-recourse vendor financing be arranged?
- Magnitude of EBITDA losses, capex & funding requirement for 3G operations

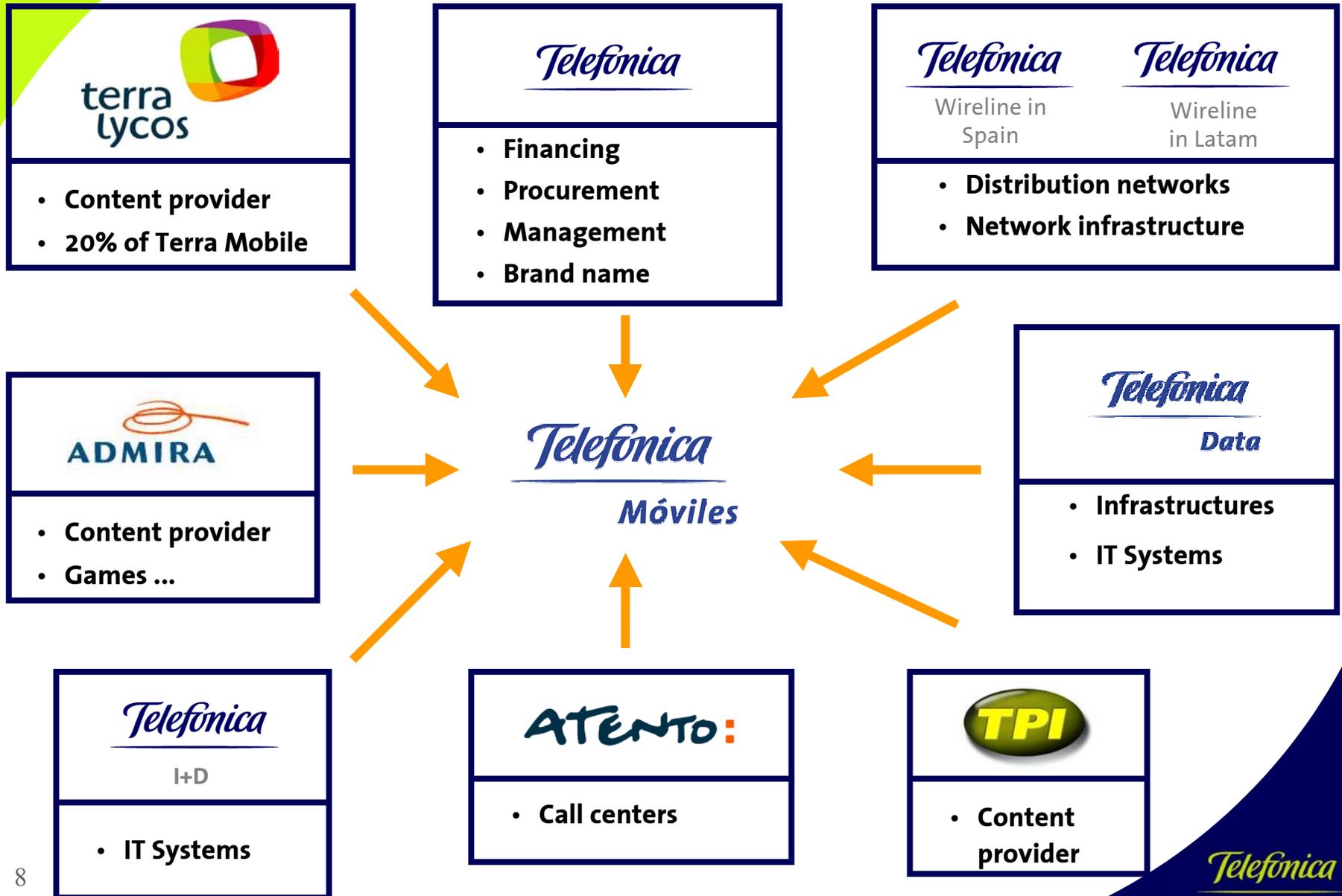
### **Latin America**

- Credible Latin American growth story?
- Impact of the Argentinean peso devaluation
- Development of TEM-PT JV in Brazil: targets & timing
- What are your plans to increase your footprint in Mexico?

***The cornerstone of our strategy continues to be incremental growth, returns and free cash flow generation***



# We will continue leveraging synergies from being part of the Group



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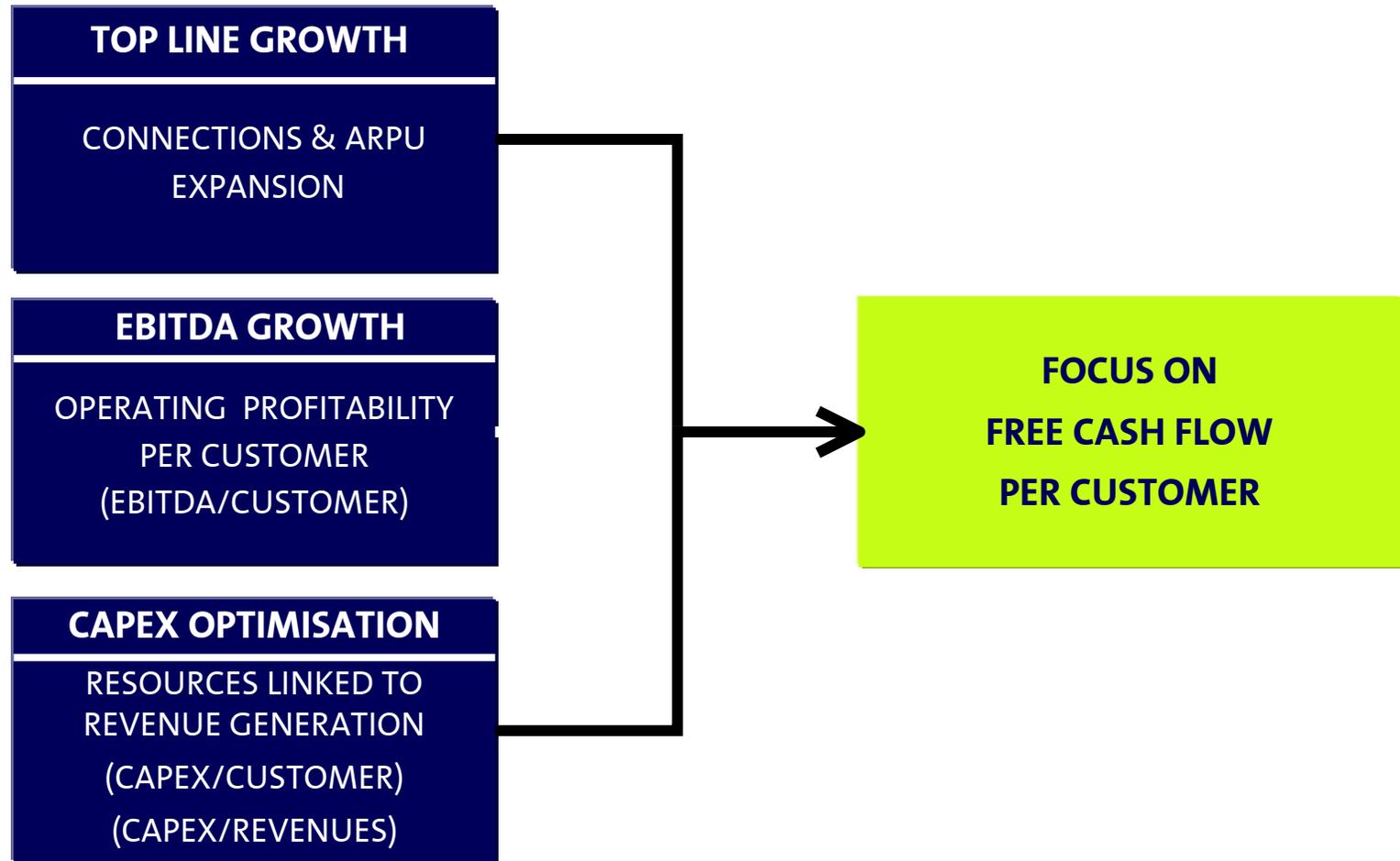
## ***In 2001 TEM España outperformed the European wireless sector***

- ✓ Quarterly net adds growth
- ✓ Significant reduction in churn rates
- ✓ Stable customer market share & higher traffic share
- ✓ Increased usage of our networks
- ✓ ARPU performance in line with peers
- ✓ Records in EBITDA margin
- ✓ Increased capex productivity

### **Exceptionally positive results achieved in 2001**

	<b>2001 A</b>	<b>2001 A growth</b>
<b>Customers (MM)</b>	<b>16.8</b>	<b>+23%</b>
<b>Operating Revenues (MM€)</b>	<b>5,736</b>	<b>+20%</b>
<b>EBITDA (MM€)</b>	<b>2,816</b>	<b>+57%</b>
<b>EBITDA margin</b>	<b>49.1%</b>	<b>+11.8 p.p</b>
<b>Capex<sup>1</sup> / Revenues</b>	<b>13.6%</b>	<b>-5.4 p.p</b>

***With an operational strategy focused on customer profitability key drivers***



**WE WILL CAPITALIZE ON OUR EXCELLENT CURRENT POSITION GOING FORWARD**

*There's room for significant growth in revenue generation*

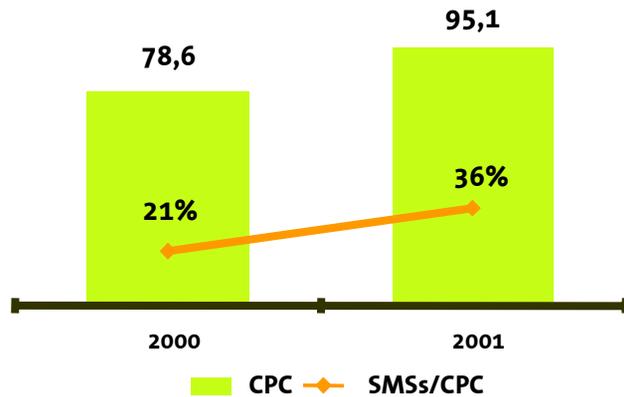
**Increase number of connections**

**Usage levels of existing services  
are far away from saturation**

**Launch new services to boost  
usage**

**ACQUIRING NEW CUSTOMERS & EXTRACTING HIGHER  
VALUE FROM EXISTING CUSTOMER BASE**

# We are already increasing the usage of our networks

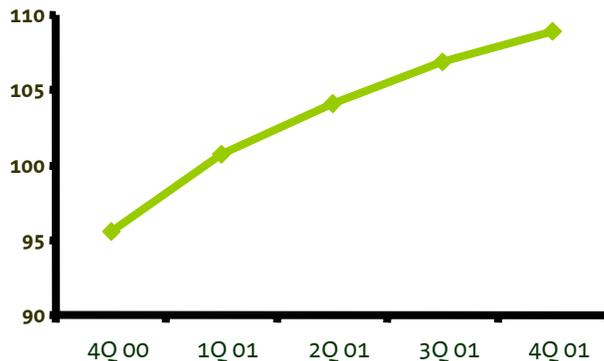


- Different usage patterns depending on average customer life in the company
- Decreasing weight of “new” customers will smooth the dilution effect on blended figures

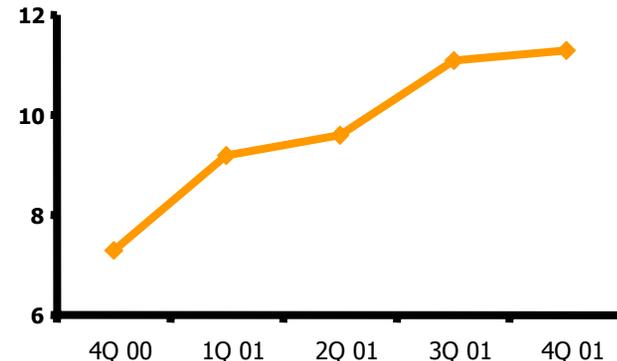
Total SMS (MM)	2,276	6,307
% Data/Customer Rev.	7.9%	13.4%
% Data/ARPU	5.9%	10.4%

## Usage patterns of “old” customers show promising trends (customers > 36 months as of Dec 01)

Outgoing MOU/sub./month

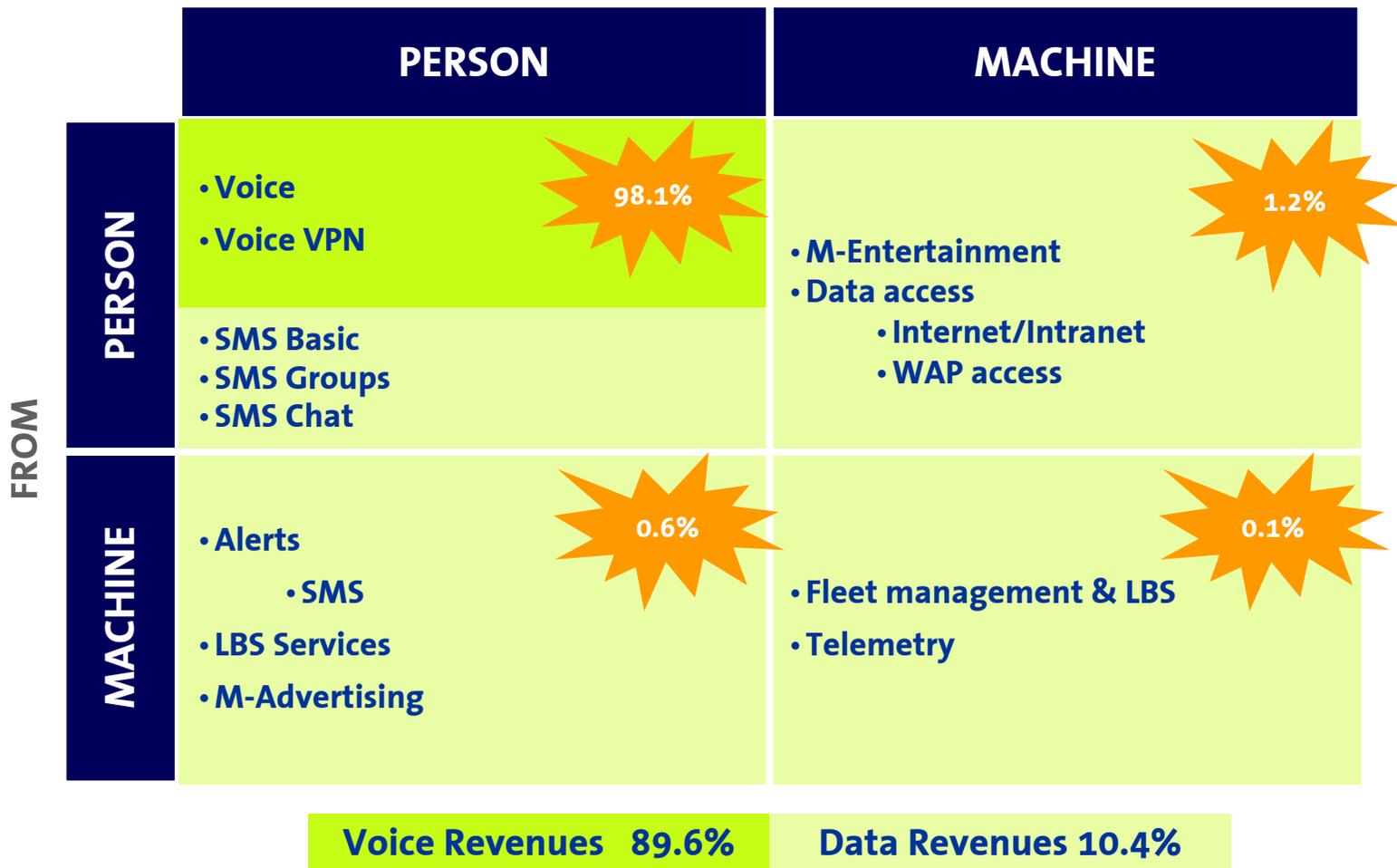


Outgoing SMS/sub./month



# 2001 revenue is mainly Voice-driven

TO



# Innovation will result in significant changes in the 2005 revenue mix

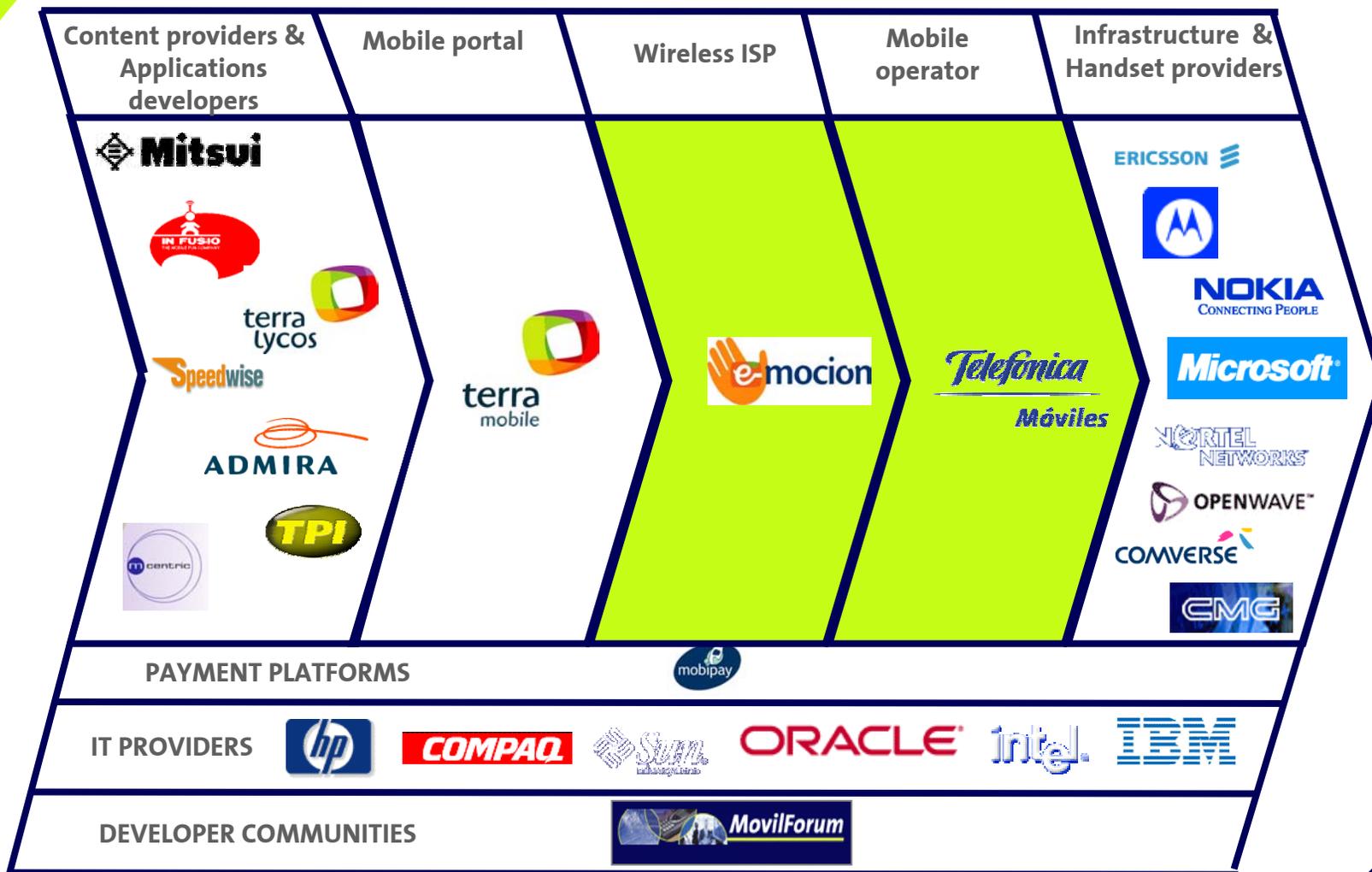
To

		PERSON	MACHINE
From	PERSON	<ul style="list-style-type: none"> <li>• Voice</li> <li>• Voice VPN</li> <li>• Videoconference</li> </ul> <p><b>80%-85%</b></p> <ul style="list-style-type: none"> <li>• SMS/EMS/MMS/IM</li> <li>• Unified Messaging</li> <li>• P2P Gaming/Dating</li> </ul>	<ul style="list-style-type: none"> <li>• Voice portal</li> <li>• M-commerce                             <ul style="list-style-type: none"> <li>• Mobipay</li> <li>• Micropayment</li> </ul> </li> <li>• M-Entertainment</li> <li>• Data access                             <ul style="list-style-type: none"> <li>• Internet/Intranet</li> <li>• Pocket Office/Data VPN</li> </ul> </li> </ul> <p><b>12-17%</b></p>
	MACHINE	<ul style="list-style-type: none"> <li>• Alerts                             <ul style="list-style-type: none"> <li>• SMS push</li> <li>• WAP push</li> </ul> </li> <li>• LBS Push Services</li> <li>• M-Advertising &amp; Promotions</li> </ul> <p><b>2%-3%</b></p>	<ul style="list-style-type: none"> <li>• Automotion &amp; LBS</li> <li>• Vending</li> <li>• Fleet management &amp; LBS</li> <li>• Telemetry</li> </ul> <p><b>0.25%-0.5%</b></p>
		<b>Voice Revenues 75%-70%</b>	<b>Data Revenues 25-30%</b>



# We are building the new “ecosystem”

- By establishing alliances along the value chain



- By designing new business models for revenue sharing

***Emphasis on increasing customer value & efficiency to boost profitability***

**Manage customer mix to maximize cash-flow generation**

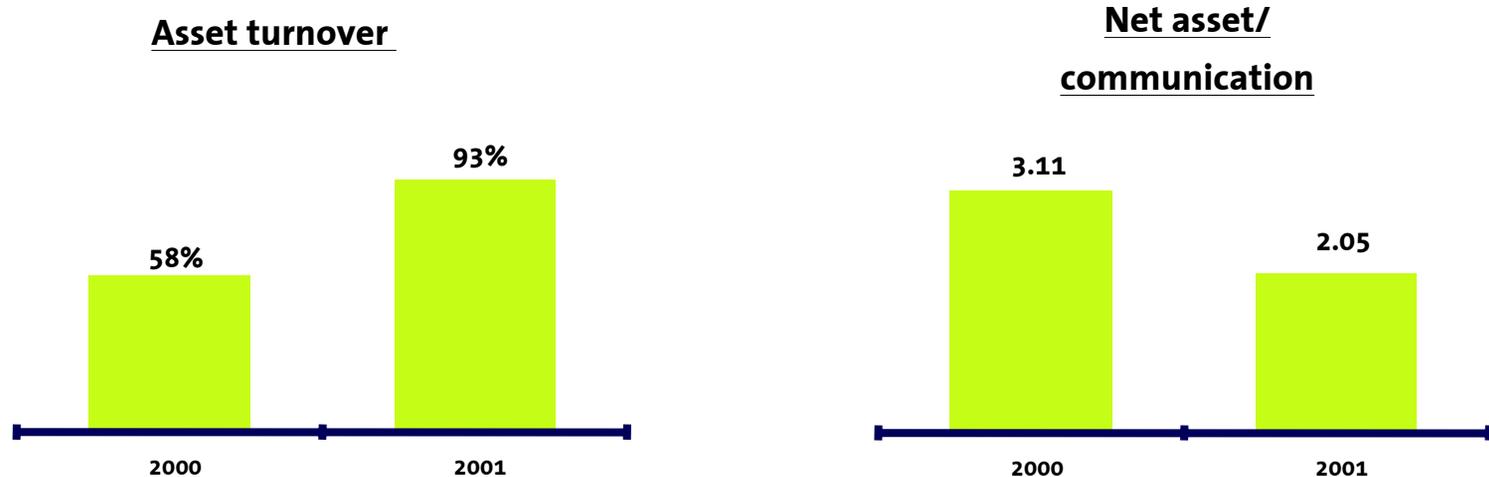
**Taking advantage of a centralized handset procurement model**

**Maintaining “Best in class” practices**

**OPTIMISING COST STRUCTURE TO ENHANCE OPERATING EFFICIENCY**

# Capex optimisation & asset base rationalization

- High capex productivity: gross capex= technical depreciation



- Further gross capex reduction despite UMTS roll-out
- Open to network sharing agreements to further reduce capex

**MAINTAINING CAPITAL EMPLOYED TO IMPROVE RETURNS**

## ***We have a clearer outlook in the regulatory environment***

### **In RJ we pointed out**

- Number portability 
- Termination fees 
- Spectrum fee 
- New players 

### **And since then ...**

- No significant impact on our customer base
- 17% cut in termination fees in 2001
- 75% reduction in 2002
- Stable framework for the next 4 years
- Additional spectrum for existing 2G players
- No additional GSM licenses
- MVNOs' regulation based on "allowing but not imposing"

**PROACTIVE APPROACH TOWARDS REGULATION**

# Spain: Financial projections

Financial figures in Euros

CAGR 01-05

Customers (MM)

3%-7%

Operating revenues

8%-12%

EBITDA

7%-11%

EBITDA margin by 2005

47%-51%

Capex

(3%)- 1%

Capex/operating revenues by 2005

7%-11%

**FURTHER FCF GENERATION**

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# *TEM's strategy in Germany*

## **ROLL-OUT OF GSM/GPRS OPERATIONS WITH A CONSERVATIVE ENTRY STRATEGY**

- Soft commercial launch targeted at specific segments to:
  - Limit financial exposure
  - Position brand name attributes
  - Reduce future migration costs
- Transparent, flexible, simple & competitive pricing offer
- Multichannel distribution strategy to reach targeted segments
- Targeted P&S portfolio focused on lifestyle segmentation

## **BUILD UP UMTS NETWORK**

- G3G will own 50% of 1 of the 3 strongest UMTS networks to be built in Germany

## **OPEN TO OPTIONS BASED ON ACHIEVING ATTRACTIVE RETURNS**

## **MANAGING TEM'S OPTIONALITY LIMITING FINANCIAL NEEDS**

## Group 3G: key goals already achieved

### One year ago we mentioned

**Potential network sharing agreements**



- Agreement with E-Plus
- Infrastructure sharing & area sharing
- Access to E-Plus' sites

**External financing**



- Non-recourse vendor financing
- Potential additional external financing

**Launch of operations as a MVNO**



- Attractive roaming terms
- "QUAM"'s GSM/GPRS services launched

**IMPROVING G3G'S BUSINESS PLAN**

## Group 3G: TEM's maximum financial exposure

**Figures for 100% of Group 3G  
2002-2003E**

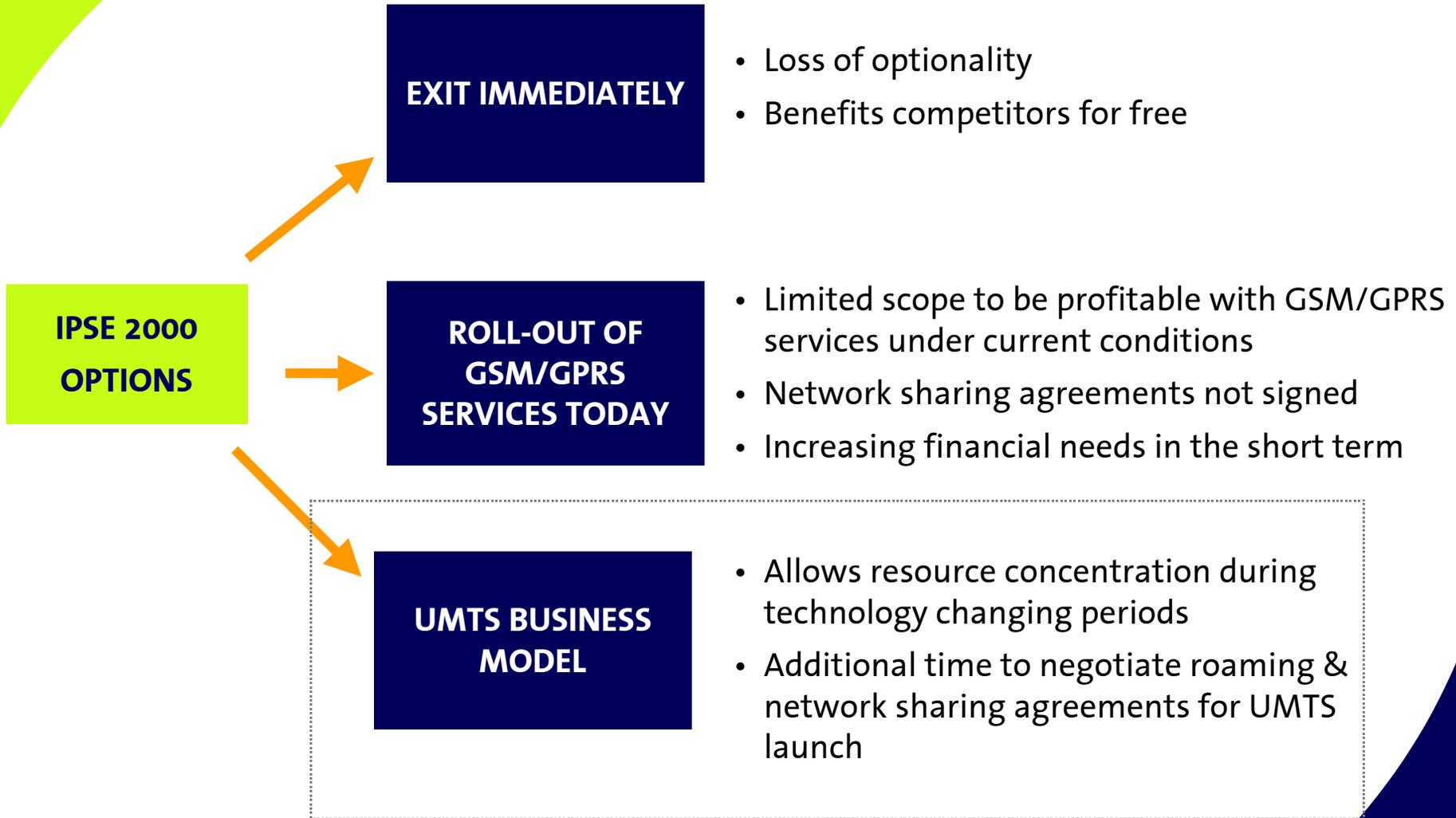
**(MM€)**

<b>+ EBITDA losses <sup>1</sup></b>	<b>650-750</b>
<b>+ Capex</b>	<b>650-750</b>
<b>= Additional funding</b>	<b>1,300-1,500</b>
<b>- Non recourse vendor financing</b>	<b>500-600</b>
<b>+ Additional external financing + TEM's loans</b>	



**FINANCIAL CAP: 800-900 MM€ in  
2002-2003**

## Strategy in Italy



## ***Strategy in Austria & Switzerland***

- Reduced levels of operations while analysing potential 2G roaming/UMTS network sharing agreements
- Management of operations within Germany, benefiting from geographical proximity, common language & leveraging on other synergies
- Exploring new data business model

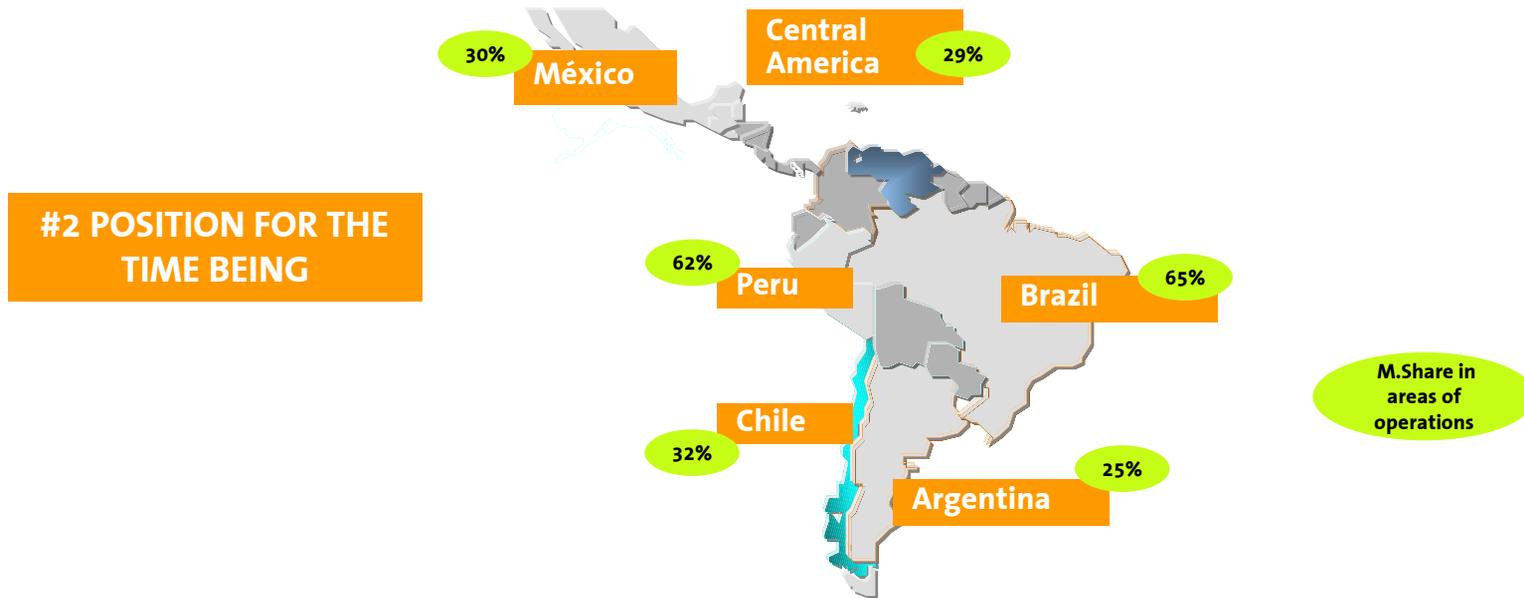
**Reducing start-up costs until UMTS is launched**

**STRATEGY FOLLOWED IN EACH COUNTRY IS CONTINGENT ON MARKET'S CONDITIONS**

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***In 2001 we have reinforced our position as a leading pan-regional operator in Latin America, with presence in the largest markets***



**Obtaining group sound results, despite the adverse economic environment, due to our capacity to react and anticipate**

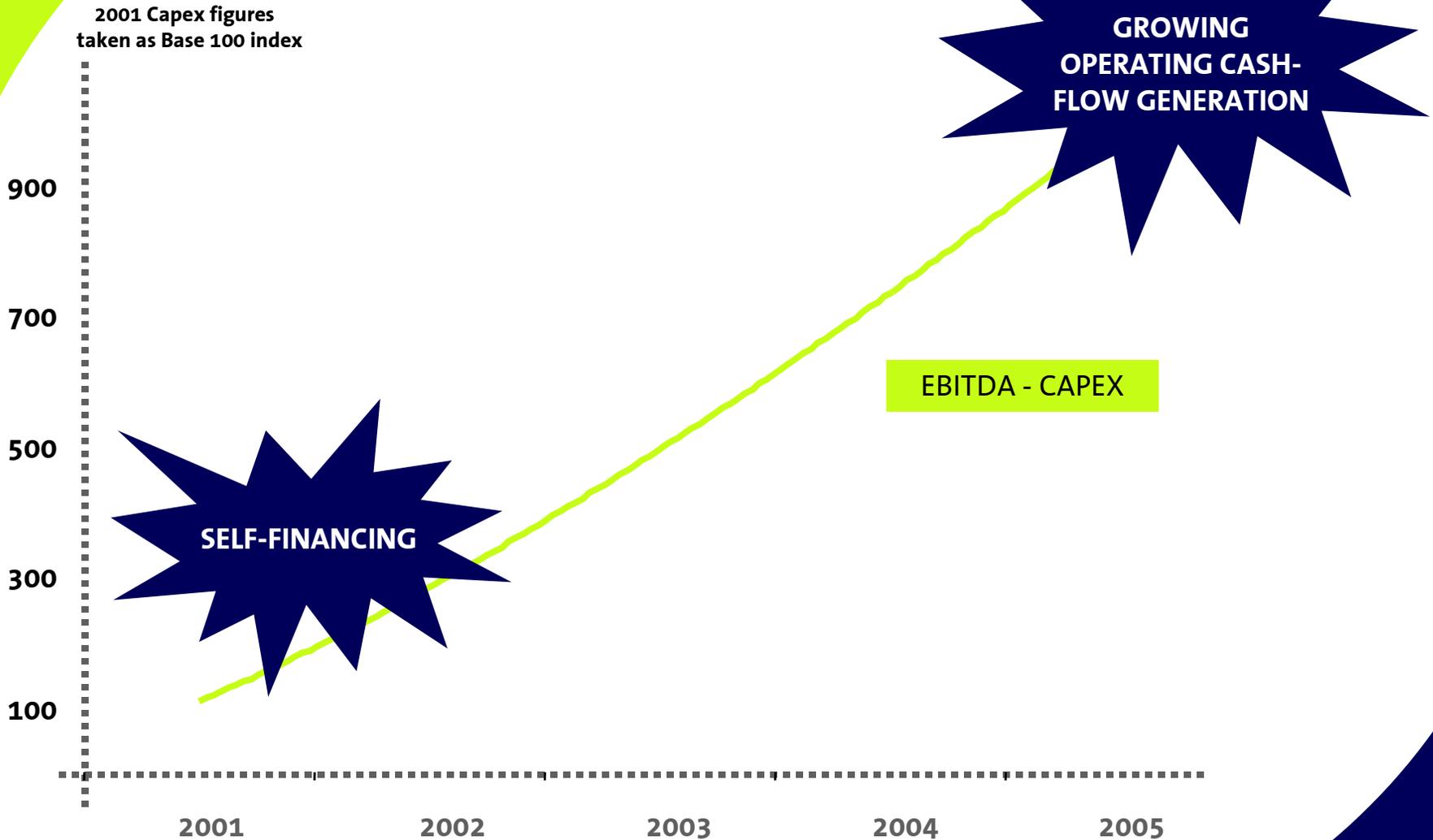
	2001A	2001A growth <sup>1</sup>
Managed customer base <sup>2</sup>	11,881	31.6%
Revenues <sup>3</sup> (MM€)	2,686	14.4%
EBITDA <sup>3</sup> (MM€)	684	12.8%
EBITDA margin <sup>3</sup>	26%	-1.6 p.p.
Capex/revenues <sup>3</sup>	22%	(-17.4 p.p.)

<sup>1</sup> Growth in 2000 constant exchange rates.

<sup>2</sup> Figures include TeleLeste and wireless companies in Chile & Puerto Rico.

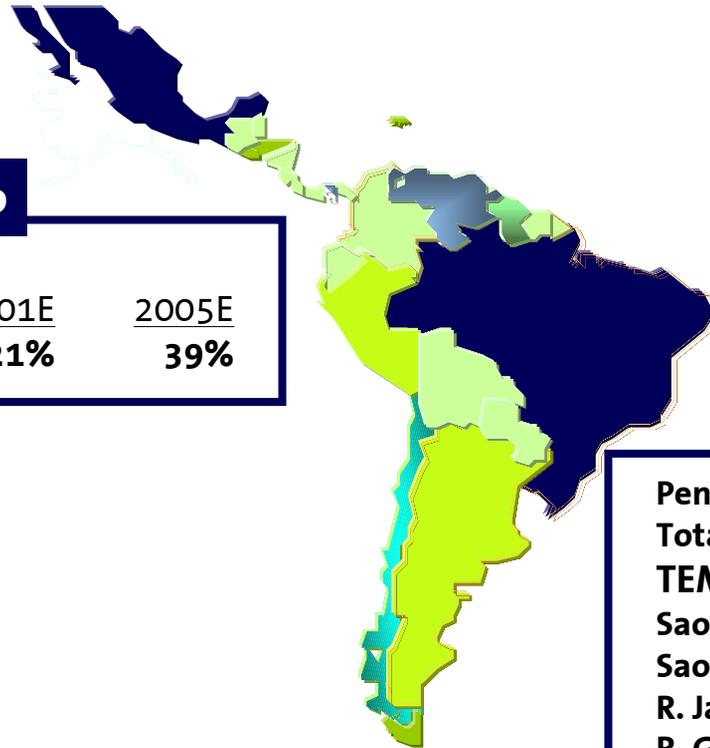
<sup>3</sup> Fully consolidated companies.

# *We are positioned our companies to strongly benefit from future economic recovery*



# Focusing on key markets with tailored strategies due to specific country characteristics

## TEM IS PRESENT IN THE HIGHEST GROWTH REGIONS



### Mexico

Penetration	2001E	2005E
<b>Total country</b>	<b>21%</b>	<b>39%</b>

### Brazil

Penetration	2001E	2005E
<b>Total country</b>	<b>17%</b>	<b>31%</b>
<b>TEM/PT areas</b>		
Sao Paulo (city)	30%	52%
Sao Paulo (suburbs)	16%	32%
R. Janeiro & E. Santo	28%	46%
R. Grande do Sul	25%	44%
S. Catarina & Parana	16%	35%
Bahia & Sergipe	9%	16%

## ***TEM-PT JV: Reinforcing our competitive position in Brazil***

### **JV CONSTITUTION**

- Valuation & shareholder structure agreed
- Awaiting definitive SMP regulation
- Several initiatives carried out to pave the way for a rapid constitution of the JV
- Capturing significant synergies

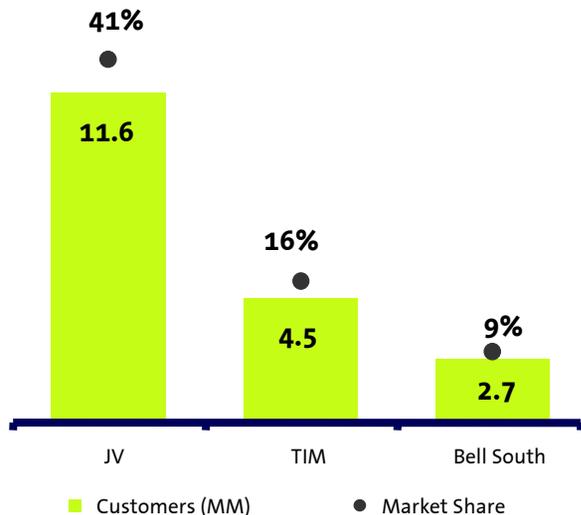
**CONSTITUTION EXPECTED DURING 1H02**

# TEM-PT JV in Brazil: Key proforma figures

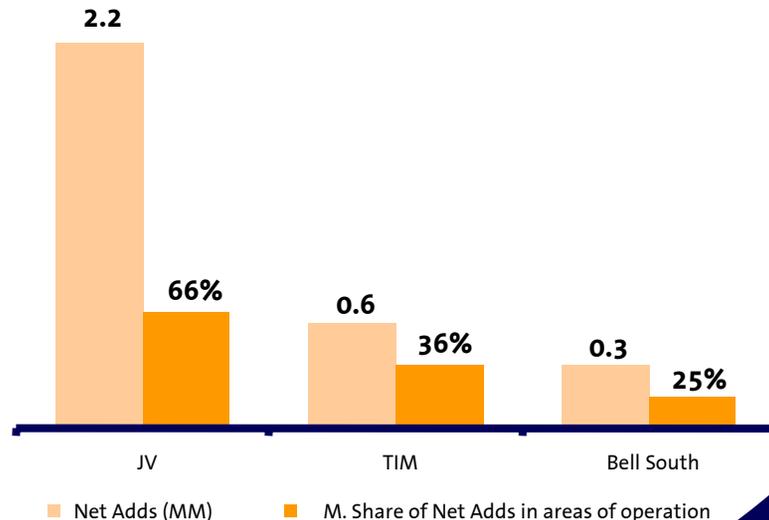
Aggregated figures <sup>1</sup>	2000A	2001A
Customer base (MM)	9,395	11,601
Market share in area of operations	60%	60.8%
Revenues (MM Reais)	5,634	6,291
EBITDA (MM Reais)	1,747	1,931
EBITDA margin	31%	30,7%
Connections/employee	1,243	1,752

**Brazilian average ~ 900**

## #1 wireless operator in Brazil (01E)



## Outperforming competitors (01E)



<sup>1</sup> Includes Telesp Celular, Global Telecom, TeleSudeste Celular, Celular CRT & TeleLeste Celular

## ***TEM-PT JV: Strategy driven by growth & profitability***

### **JV STRATEGY**

- Focus on customer & dealers loyalty
- VAS take-off from 2003
- Further improvements in productivity & efficiency
- Capture additional synergies

# TEM-PT JV: Strong growth potential

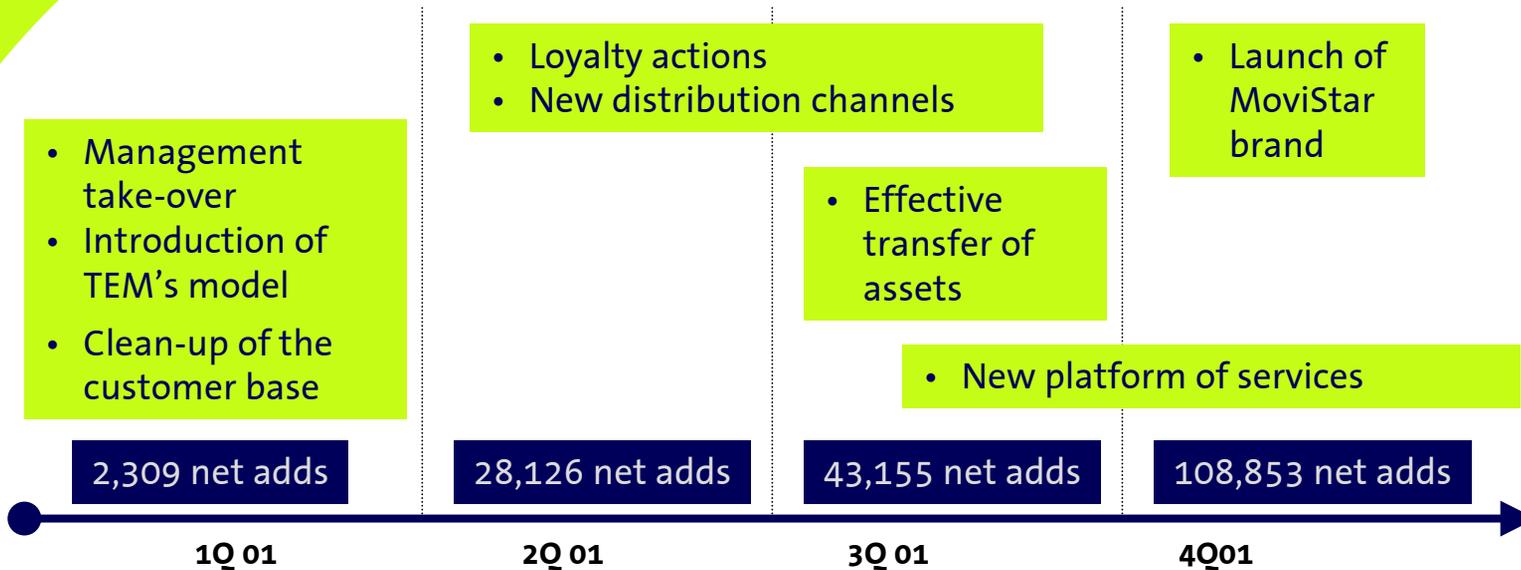
## Figures in Reais

### TEM's subsidiaries

#### CAGR 01-05

Customers	6%-10%
Operating revenues	5%-9%
EBITDA	11%-15%
EBITDA margin by 2005	44%-48%
Capex	0%-4%
Capex/revenues by 2005	19%-23%

# Mexico: Once the take-over process has been completed, we will focus our operations on customer growth



2002-2005

- Customer base expansion
- Consolidate brand positioning
- Enhanced commercial offer
- New IT systems
- Improved operating efficiency & productivity

Figures in local currency

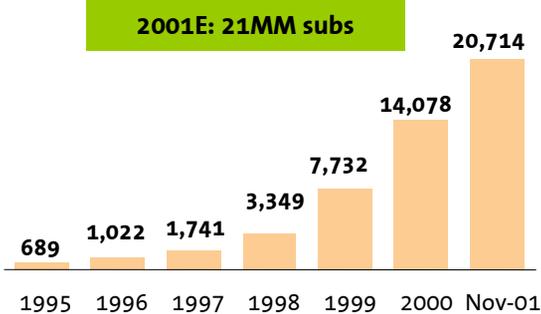
CAGR 01-05

Customers	17%21%
Revenues	16%-20%
EBITDA	54%-58%
EBITDA margin by 2005	38%-42%
Capex	(7%-11%)
Capex/revenues by 2005	7%-11%

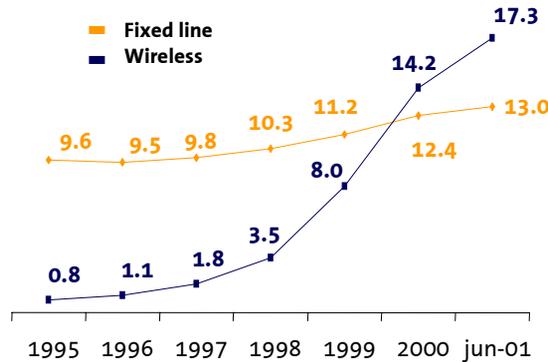
**HIGH GROWTH POTENTIAL FROM CURRENT OPERATIONS TO BE STRENGTHENED BY NEW BUSINESS OPPORTUNITIES IN THE COUNTRY**

# The Mexican cellular market at a glance

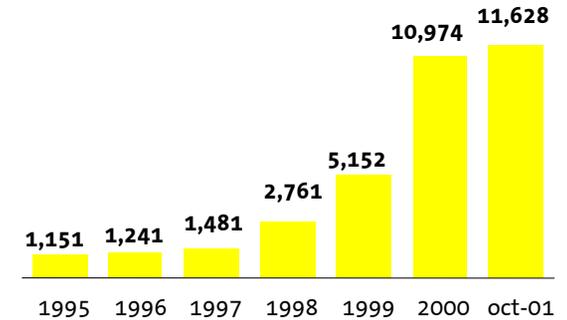
Total subscribers (000)



Penetration (%)

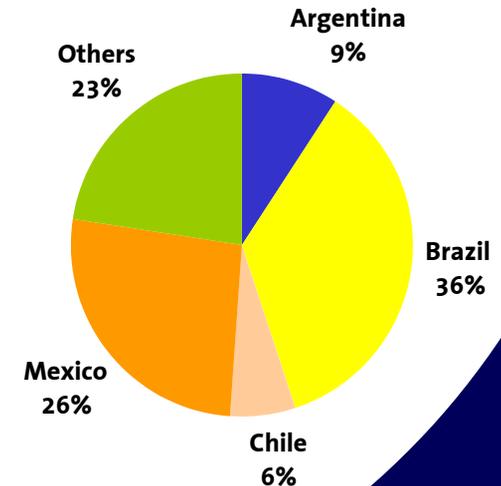


Total minutes (MM)



- Low penetration levels: 21% declared vs. 16% active estimated by 2001
- Fragmented market without effective nationwide competition
- During 1990-2000 the telecoms sector grew 4x above the Mexican economy average
- Fastest growing wireless market in the region & globally
- High ARPUs compared with other countries in the region
- High population density requires smaller efforts to roll-out coverage

Latin American wireless customers (2001E)



## *Becoming Mexico's second largest wireless operator*



- Network capacity already in place in the high growth areas
- Immediate access to Mexico D.F. (20MM POPs)
- Nationwide PCS licenses with optimal spectrum allocation
- Solid distribution network: >3,500 POS
- Seamless nationwide roaming agreement with the US & Mexico
- Economies of scale & benefits from synergies

**BECOMING THE UNIQUE REAL ALTERNATIVE TO THE INCUMBENT OPERATOR**

# Transaction structure

## Stage I

- Acquisition of 65% of Pegaso from Sprint, Leap Wireless, Qualcomm & other financial investors
- Capital increase to improve Pegaso's capital structure



## Initial Structure



## Stage II

- Combination of TEM Mexico with Pegaso
- Burillo Group remains as a shareholder in the new company, contributing with its knowledge of the Mexican market



## Final Structure<sup>1</sup>



## ***Transaction key terms***

### **Price & payment consideration**

- Pegaso's EV: US\$1,360MM
- Acquisition of 65% economic stake of Pegaso for US\$70MM
- TEM's pro-rata share of capital increase to be defined
- All Cash

### **Approvals Needed**

- Subject to Cofetel, Anti-Trust Commission & Foreign Investment Commission approval
- Expected closing in 2H02

### **Corporate Governance**

- TEM will appoint 9 out of 11 Board directors of the new entity
- Mr. Burillo will remain as non Executive Chairman of the combined entity
- TEM's management take over to take place upon completion of all regulatory approvals

## ***Argentina: Maintaining efficiency ratios while waiting for a recovery and potential changes in the competitive environment***

### **2001**

- Less than 10% of TEM's 2001 revenues & 3% of consolidated EBITDA
- Devaluation impact: €297MM
- Opex & capex rationalization
- q-o-q improvements in margins

### **2002E**

- Reduced commercial activity
- Strict cost control policies
- Capex adapted to market conditions

**WE ARE MANAGING THE CRISIS SCENARIO TO LIMIT ADVERSE EFFECTS ON OPERATIONS**

# Latam: Financial projections

## CAGR 01-05

	Fully consolidated companies <sup>1</sup>	Managed companies <sup>2</sup>
Customers (MM)	7%-11%	7%-11%
Operating revenues	4%-8%	5%-9%
EBITDA	14%-18%	16%-20%
EBITDA margin by 2005	38%-42%	39%-43%
Capex	(5%-9%)	(4%-8%)
Capex/revenues by 2005	12%-16%	12%-16%

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## *Consolidating our position in Morocco*

**MEDITEL**

- Significant customer expansion in 2001, exceeding expectations
- Improved competitive position
- Solid financial results
- Strong growth potential
- Local management expertise to leverage on the region

**Adjusted EBITDA<sup>1</sup>  
already in the black**

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## ***Strong capital structure***

	<b>2001A</b>
<b>Consolidated net debt</b>	<b>€9.013 Bn</b>
<b>Proportionate net debt</b>	<b>€6.875 Bn</b>
<b>Proport. net debt / market capitalization<sup>1</sup></b>	<b>20%</b>
<b>Proport. net debt/ proportionate EBITDA</b>	<b>2.1x</b>

# Financial projections

## Figures in constant Euros

<b>Managed Customers</b>	{ pre-European start ups
	{ post- European start ups
<b>Operating revenues</b>	{ pre-European start ups
	{ post- European start ups
<b>EBITDA</b>	{ pre-European start ups
	{ post- European start ups
<b>EBITDA margin by 2005</b>	{ pre-European start ups
	{ post- European start ups
<b>Capex</b>	{ pre-European start ups
	{ post- European start ups
<b>Capex/Revenues by 2005</b>	{ pre-European start ups
	{ post- European start ups
<b>Average FCF (MM€)</b>	{ pre-European start ups
	{ post- European start ups

## CAGR 01-05

6%-10%
10%-14%
8%-12%
12%-16%
10%-14%
9%-13%
42%-46%
33%-37%
(1%-5%)
(1%)-3%
8%-12%
10%-14%
1,600-1,800
800-1,000

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  - **EUROPEAN START-UPS: ALIGNING STRATEGY TO CURRENT SCENARIO**
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  - **MEDITERRANEAN BASIN: CONSOLIDATING OUR POSITION**
- **GROUP'S FINANCIALS**
- **CONCLUSIONS**

## ***We are addressing your concerns on TEM***

**Spain**

- Will data revenues offset lower voice ARPUs?
- Are current EBITDA levels in Spain sustainable in the long term?
- How will capex evolve considering 3G network roll-out?
- How will TEM manage increasing competition & potential regulatory pressure?

**TEM's  
strategy**

- Active management of customer base to maintain leading position
- Launching new services to increase ARPU
- Improving operating & capex efficiency to maintain EBITDA margins & increase FCF generation
- Proactive approach towards regulation & competition

## ***We are addressing your concerns on TEM***

### **3G European start-ups**

- Is there any reason to continue?
- Can non-recourse vendor financing be arranged?
- Magnitude of EBITDA losses, capex & funding requirements

### **TEM's strategy**

- Open to options based on achieving attractive returns
- Limiting financial exposure on 2G operations
- Building a valuable UMTS network in Germany with non recourse vendor financing
- Working to further improve business plans

## ***We are addressing your concerns on TEM***

### **Latin America**

- Credible Latin American growth story?
- Impact of the Argentinean peso devaluation
- Development of TEM-PT JV in Brazil: targets & timing
- What are TEM's plans to increase your footprint in Mexico?

### **TEM's strategy**

- Strengthening position in high growth potential countries
- Prepared operations for economic recovery
- TEM-PT JV in progress, capturing significant synergies
- Low exposure to Argentina
- Creating the second largest operator in Mexico

## *Conclusion*

***WE ARE WORKING TO FACE MAJOR  
INDUSTRY & TEM - SPECIFIC CHALLENGES  
WITH THE ULTIMATE GOAL TO MAXIMIZE  
GROWTH, RETURNS & FREE CASH-FLOW  
GENERATION IN THE MEDIUM TERM***

*Telefónica*

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***Móviles***