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*Telefónica Empresas*

THIRD  
INVESTOR  
CONFERENCE

MADRID 2003

*Telefonica*

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## *Safe harbor*

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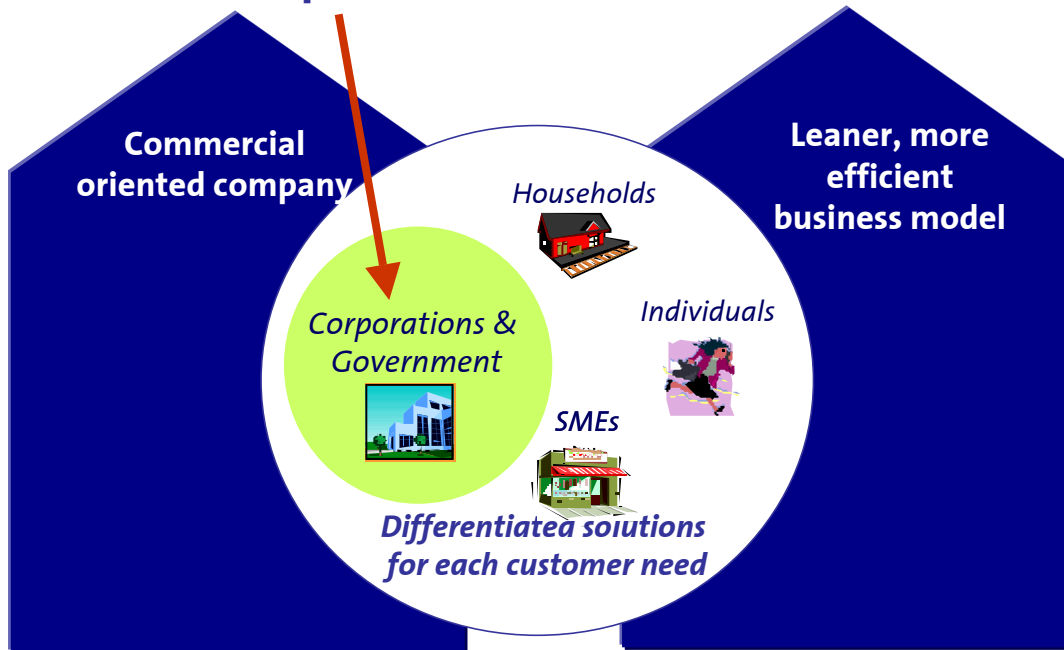
## ***Content***

- **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 <sup>(1)</sup>
- 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

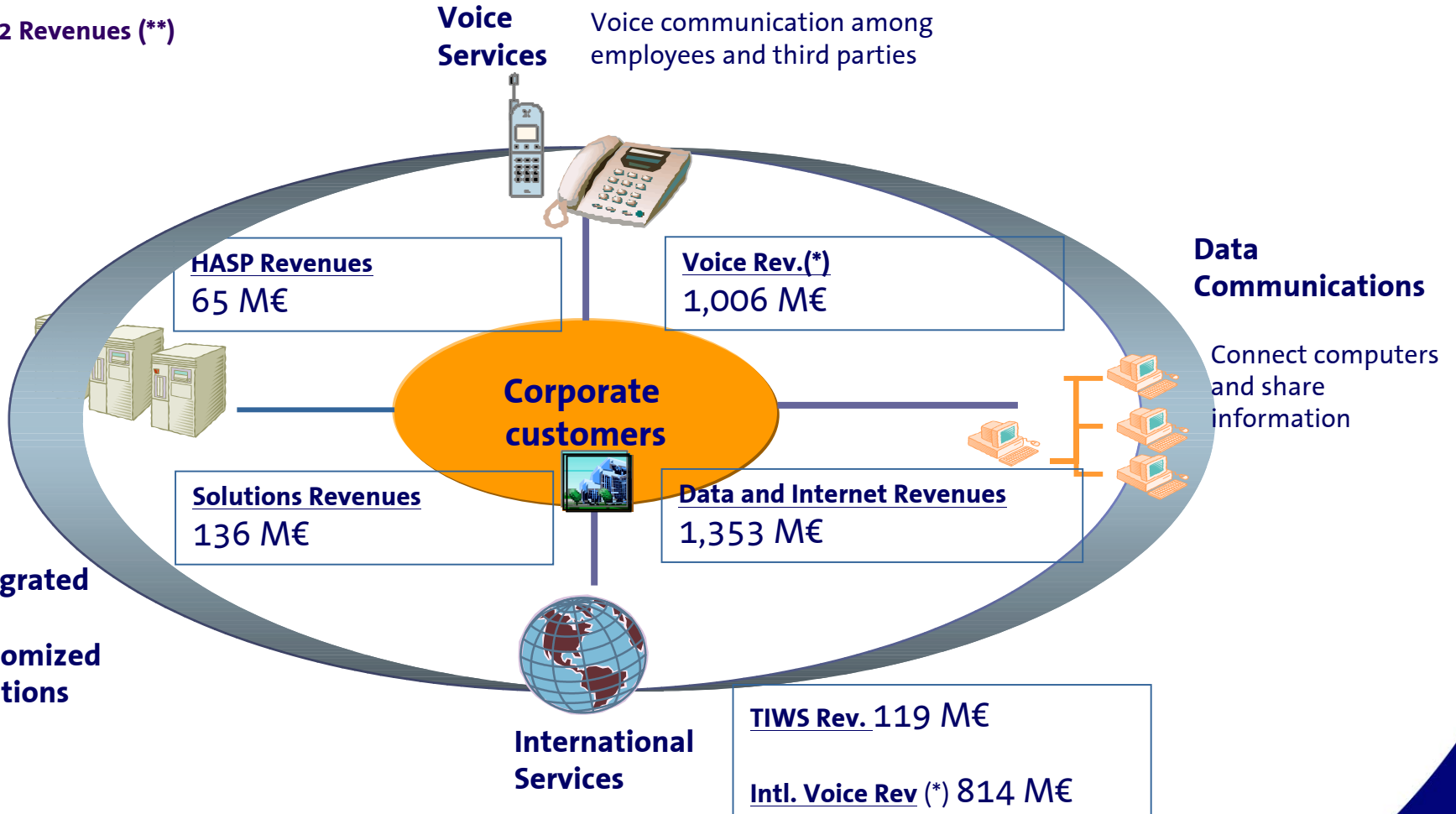
## Information Management

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

## Data Communications

Connect computers and share information

## Integrated and customized solutions



**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**

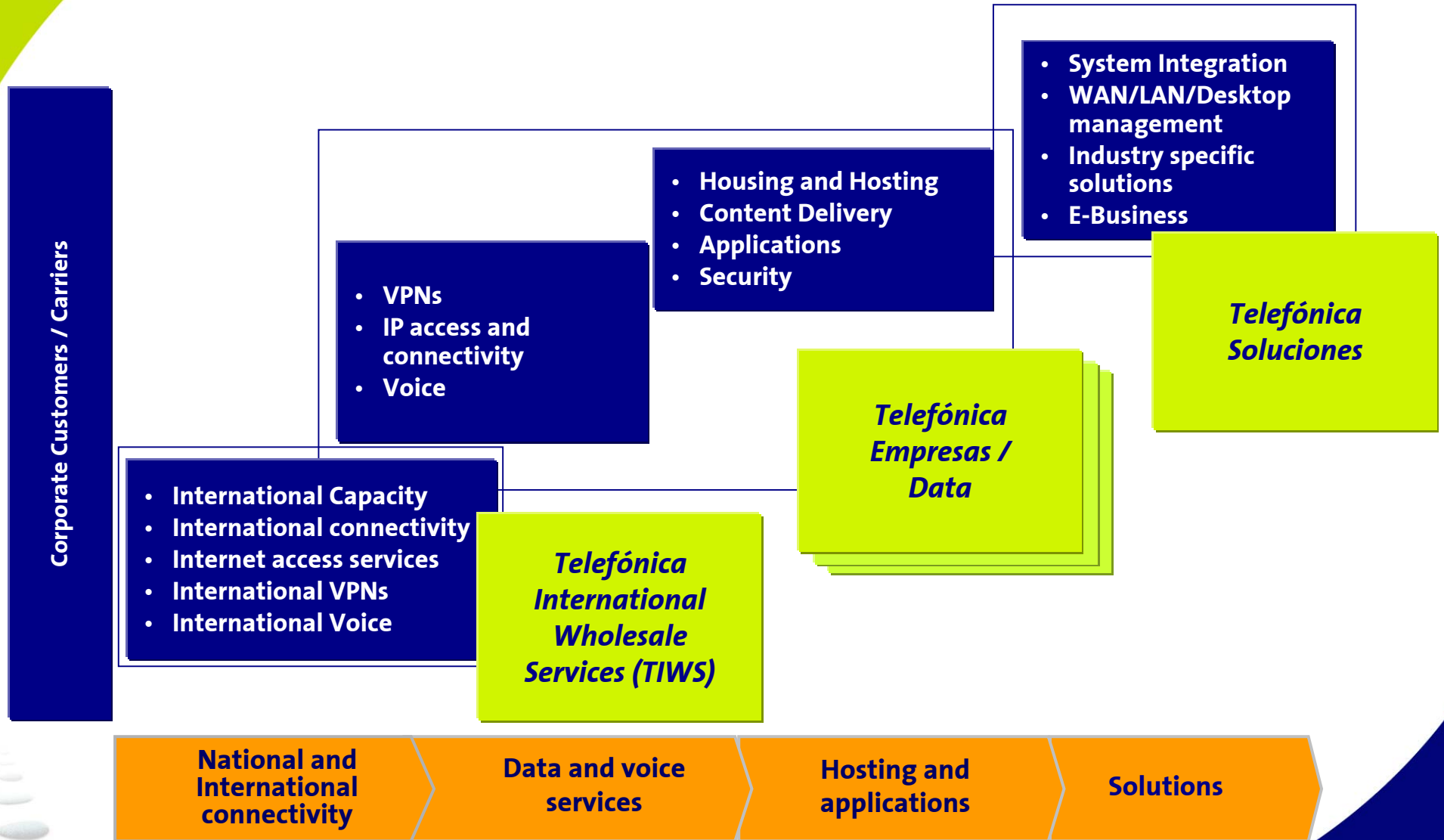
### **VALUE PROPOSITION**

✓ **Comprehensive products and services catalogue**

✓ **Strong brand name**

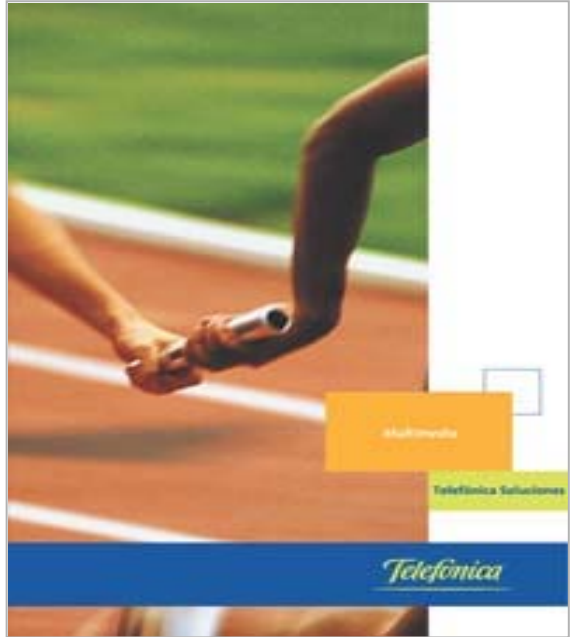
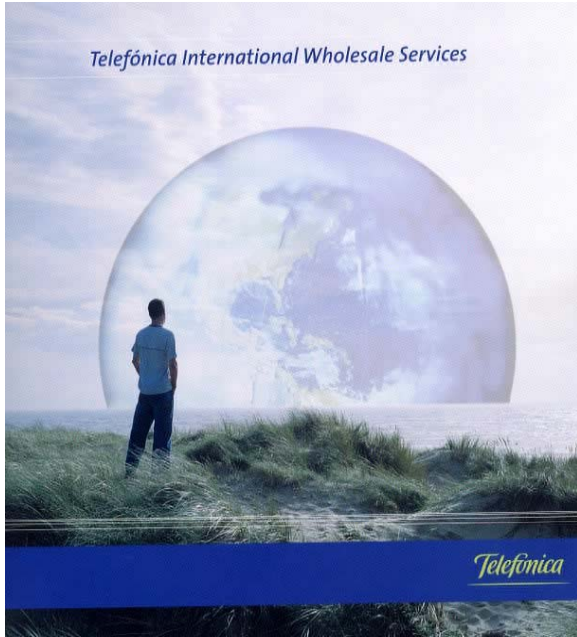
✓ **Local and international connectivity**

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



Services

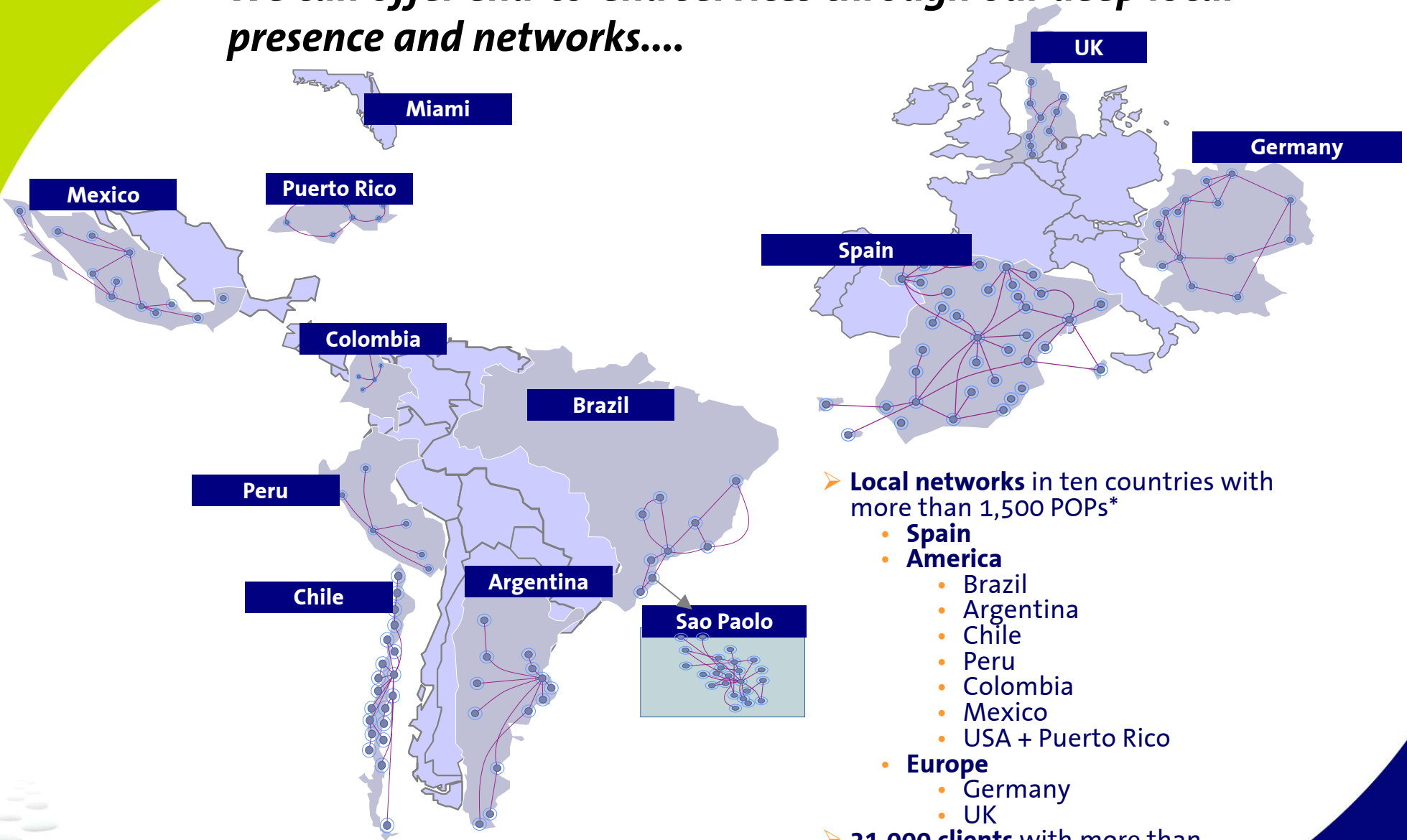
# We have a strong brand name...



... 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\*

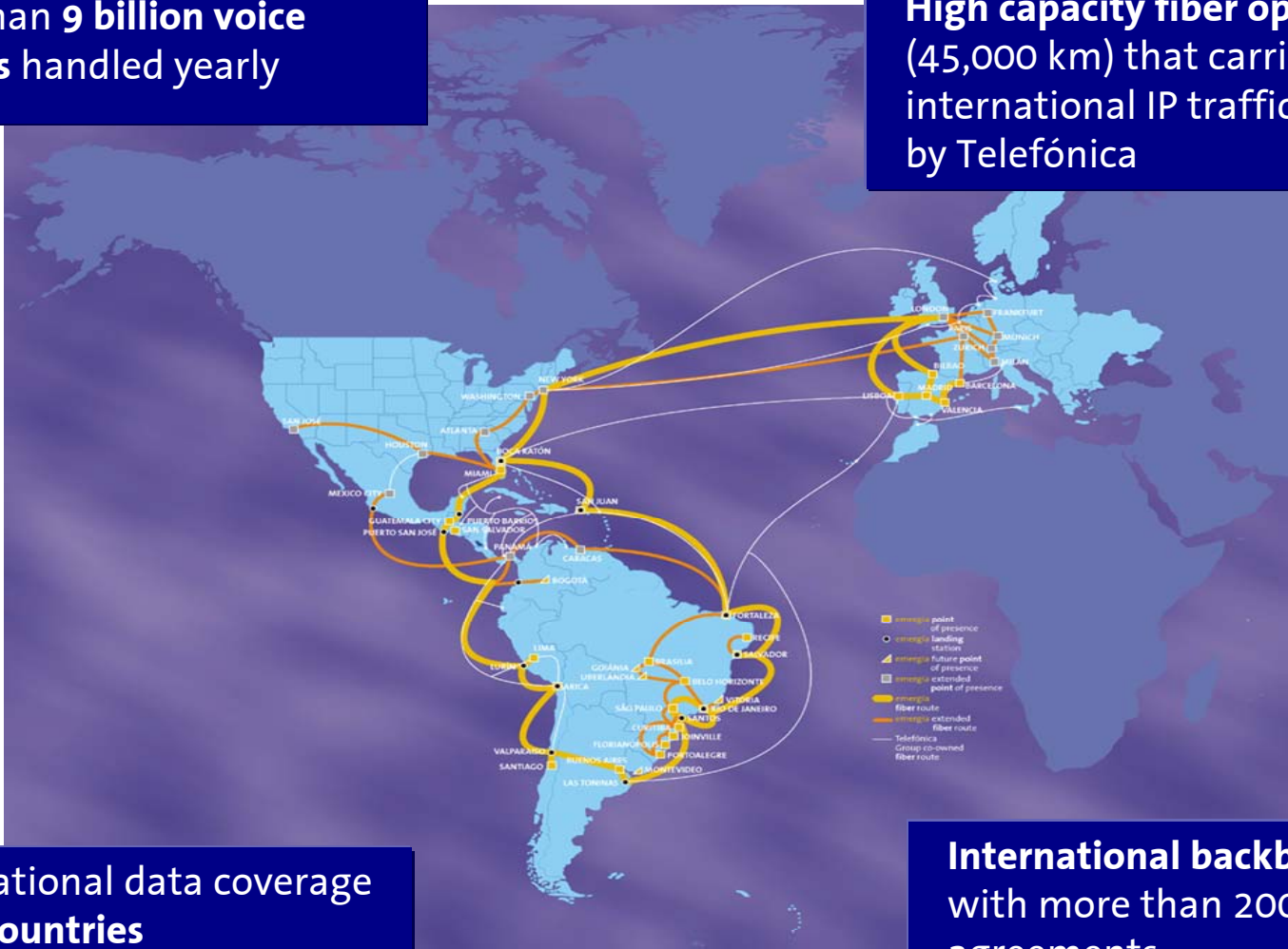
- **Spain**
- **America**
  - Brazil
  - Argentina
  - Chile
  - Peru
  - Colombia
  - Mexico
  - USA + Puerto Rico
- **Europe**
  - Germany
  - UK

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

# ...and a strong international presence and connectivity

More than **9 billion voice minutes** handled yearly

**High capacity fiber optic network** (45,000 km) that carries all the international IP traffic generated by Telefónica

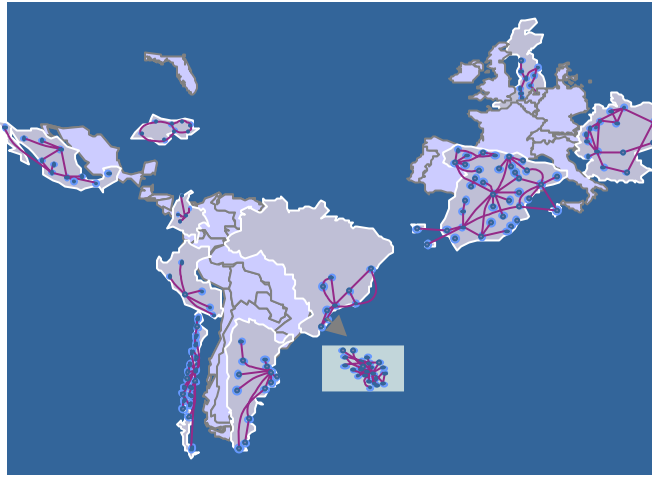


International data coverage in **75 countries**

**International backbone** with more than 200 peering agreements

# 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***

- **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**



# *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

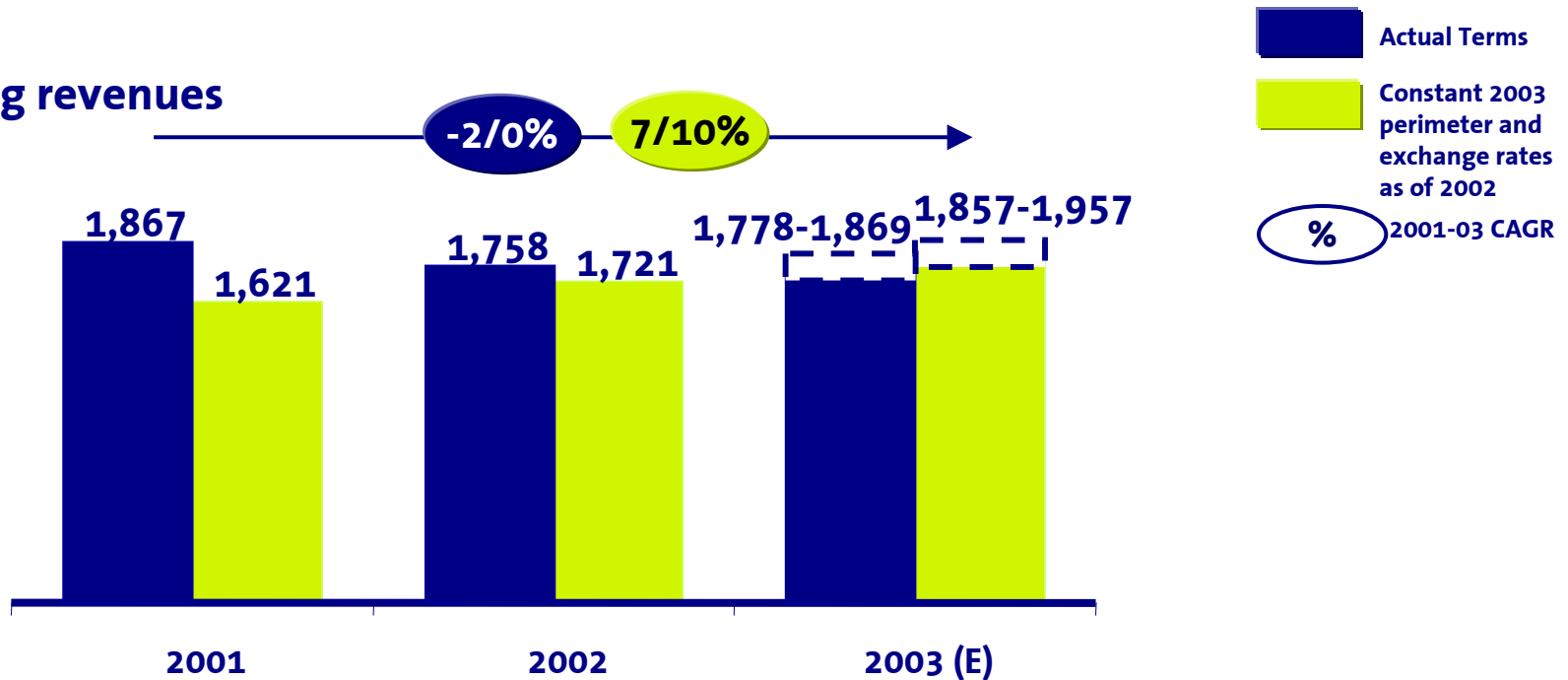
- Reassessment of the business portfolio to achieve profitable growth
  - Divestiture of Austria, Uruguay and Italy
  - Refocus of operations in Colombia and USA
- Strict control over investments and expenditure across all business units

- 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

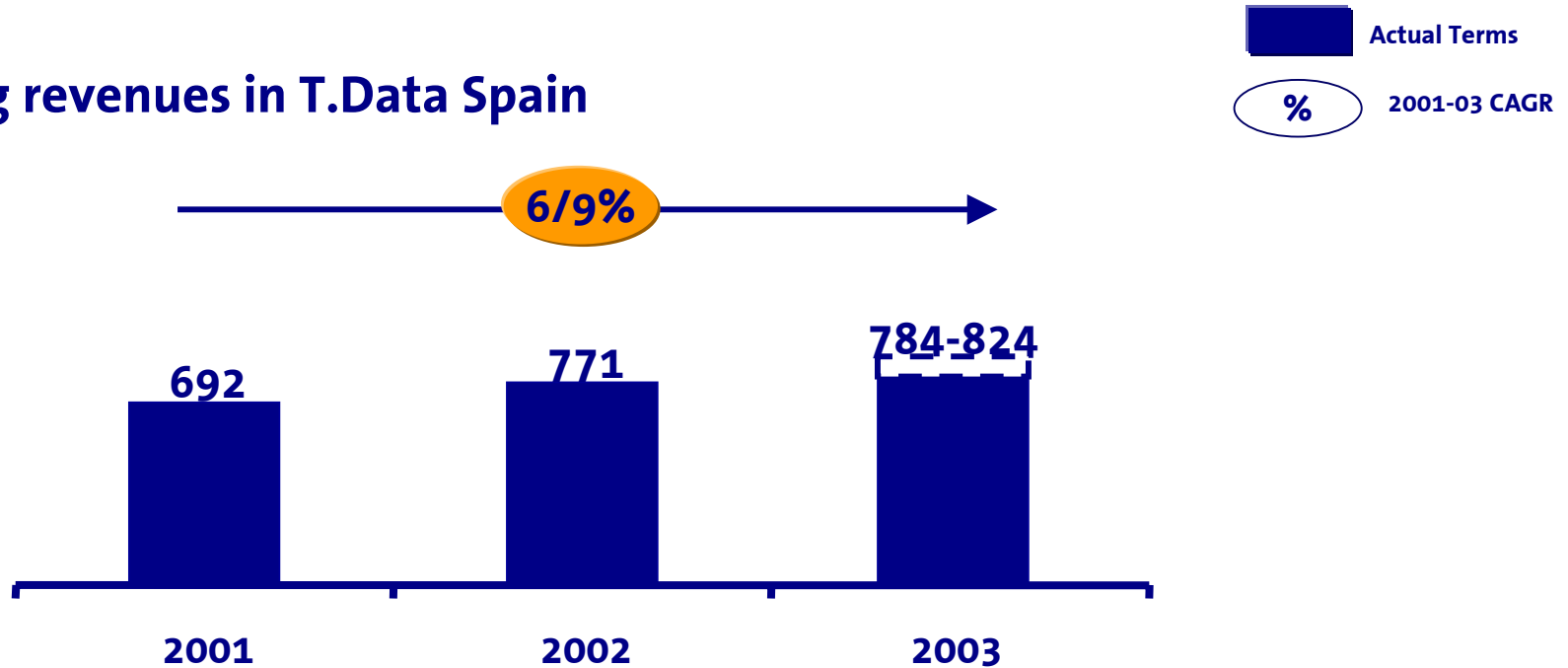
- Changes in revenues in actual terms:

- 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



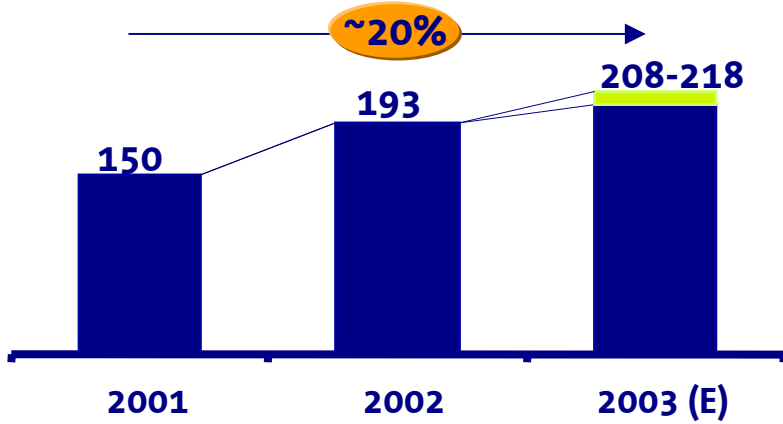
- Operating revenues will grow in T.Data Spain at 6/9% CAGR during 2001-2003
- The number of total connections will grow by 24% (CAGR 01-03)

# Revenues in local currency have experienced a significant growth in America

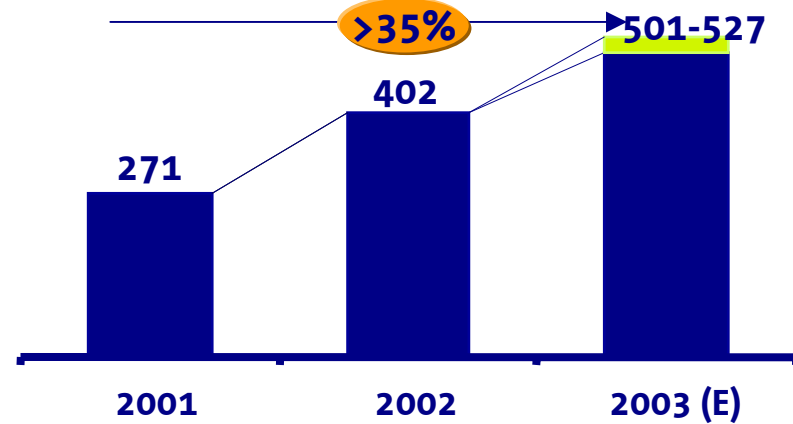
**%** 2001-03  
CAGR

Local currency in Millions

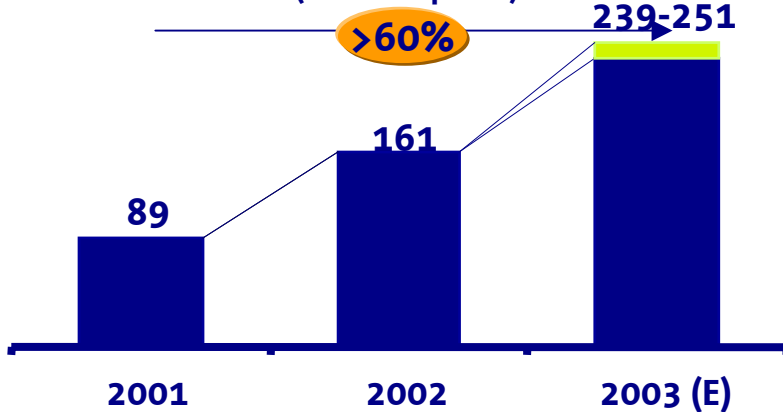
**T. Empresas Argentina**  
(Argentinian pesos)



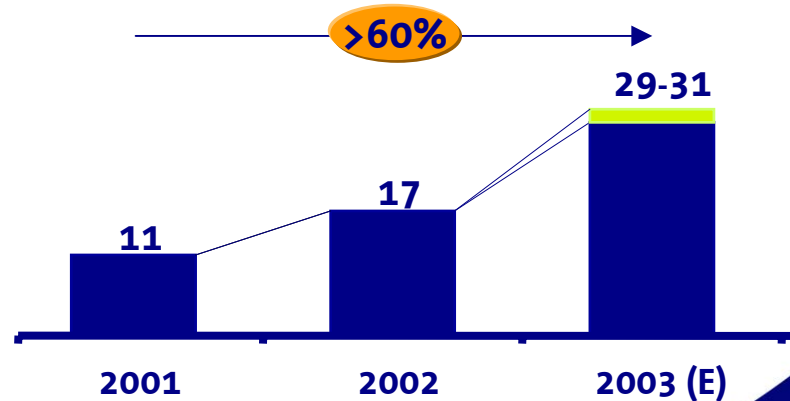
**T. Empresas Brasil**  
(Brazilian reais)



**T. Data Mexico**  
(Mexican pesos)

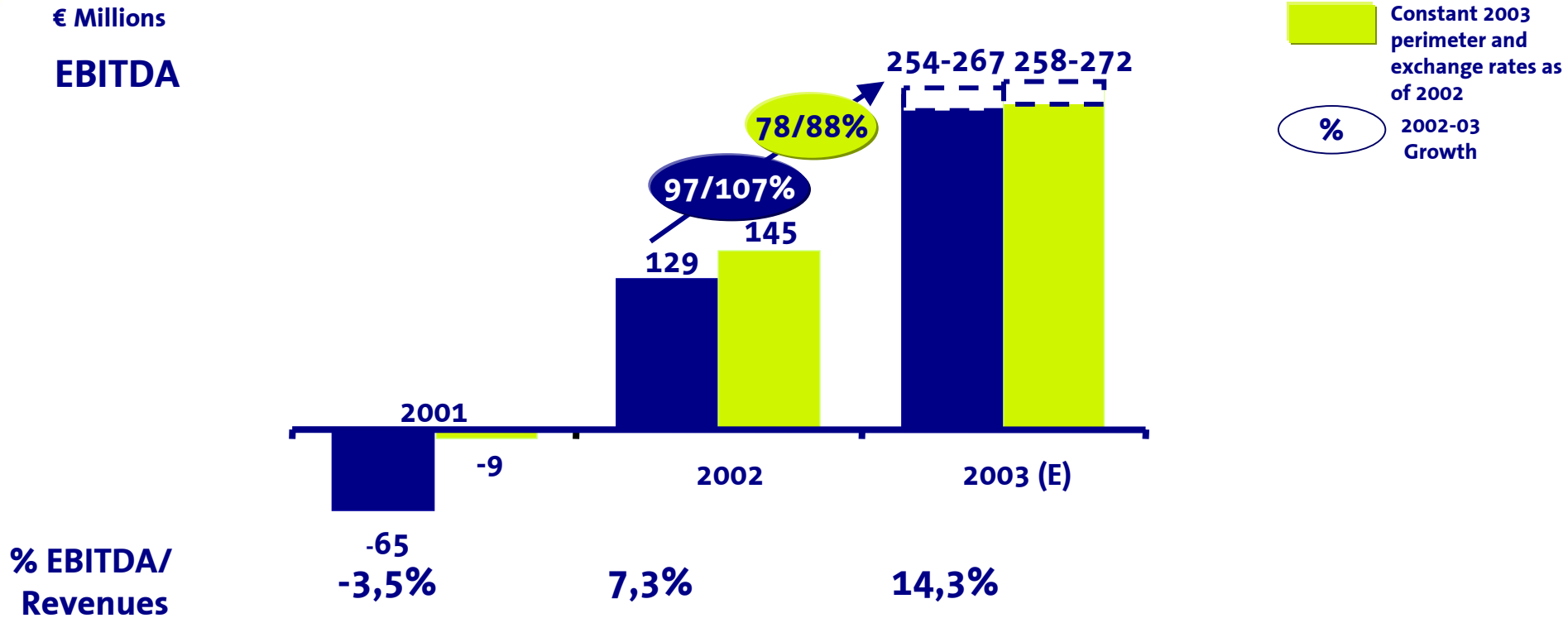


**T. Data USA**  
(US Dollars)





# 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

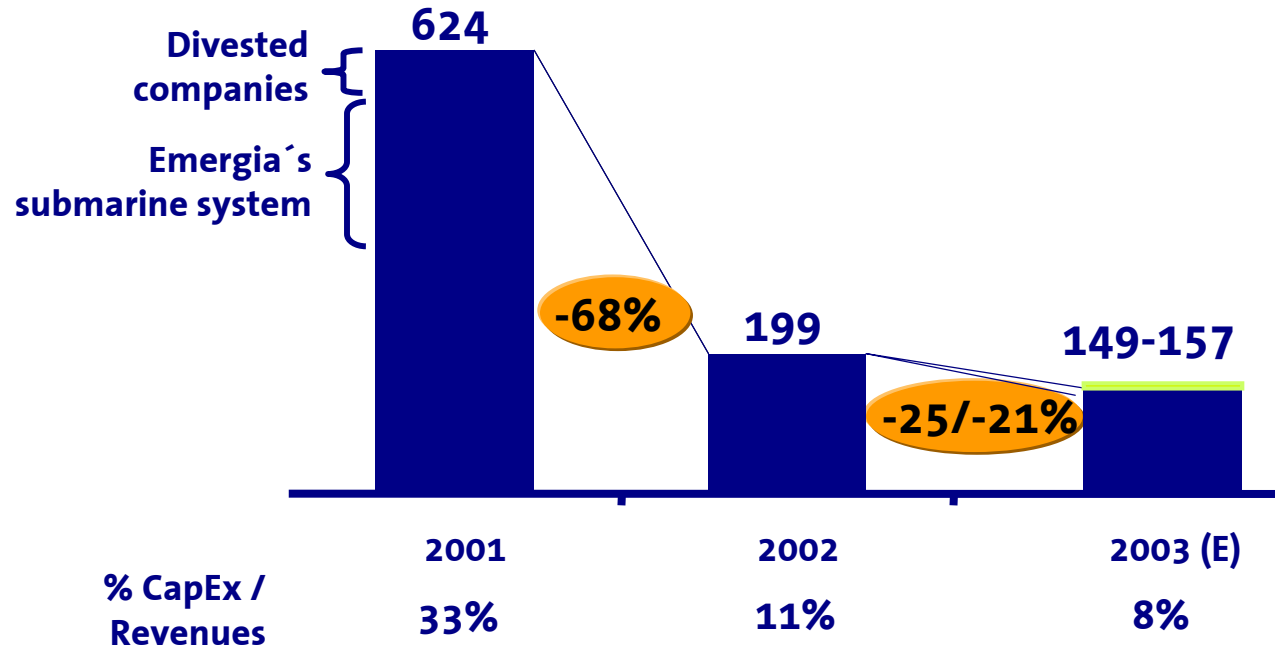
\* Only for T.Data

# Reorientation of the business has resulted in a dramatic CapEx reduction

€ Millions

**CapEx**

Actual Terms



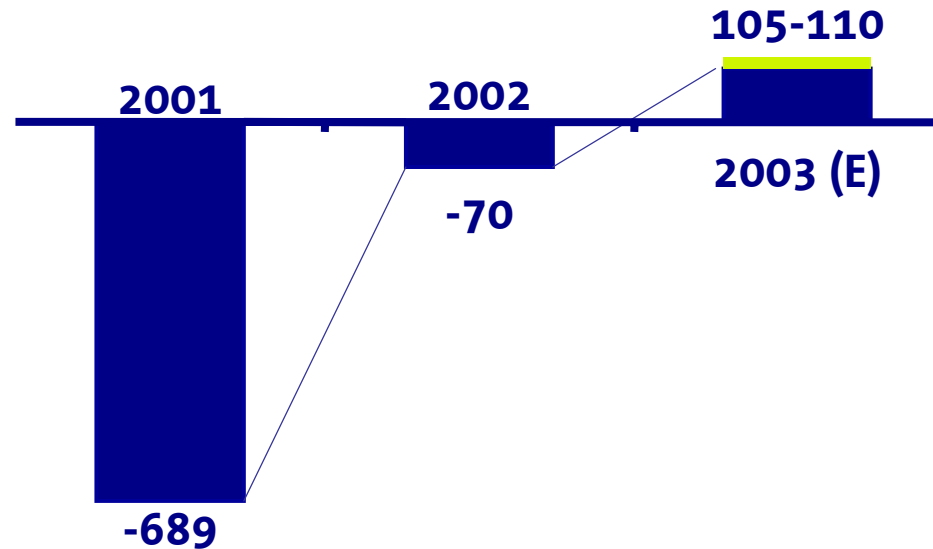
- CapEx reduction exceeds Sevilla's target\*
- CapEx reduction has been driven by:
  - Reassessment of the business portfolio
  - Completion of substantial one-time investments
  - CapEx containment policy
- Investment level is sustainable since we leverage on existing Telefónica's assets

## ... 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**

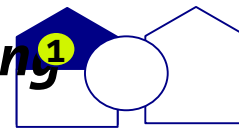
*Corporations &  
Government*



*Differentiated solutions  
for each customer need*

# Corporate customers' needs are continuously forcing us to evolve

changing <sup>1</sup>



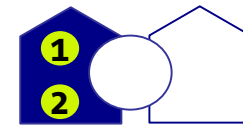
## Customers' needs

- **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**

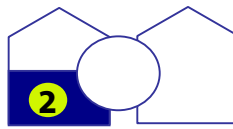
- Increase share of wallet in current customer base
  - By capturing the growth opportunity of our services' evolution
    - eBA (100% broadband penetration)
    - International Services (x2.5 growth in revenues)
    - Voice & data over corporate VPNs
  - By adding value added services
    - Managed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

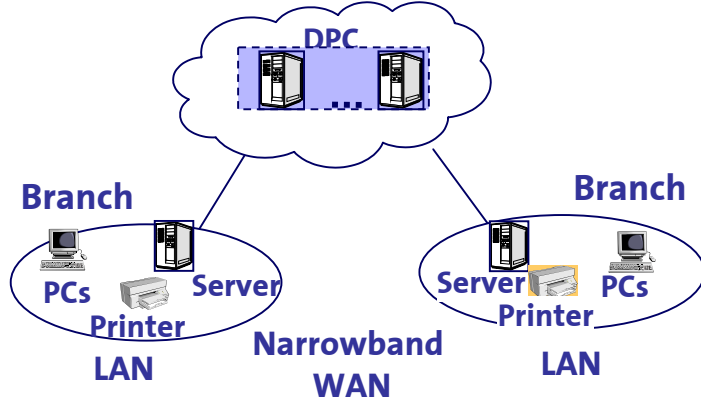
\* Telefonica is new entrant in Brazil out of Sao Paulo

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



Financial institution case study

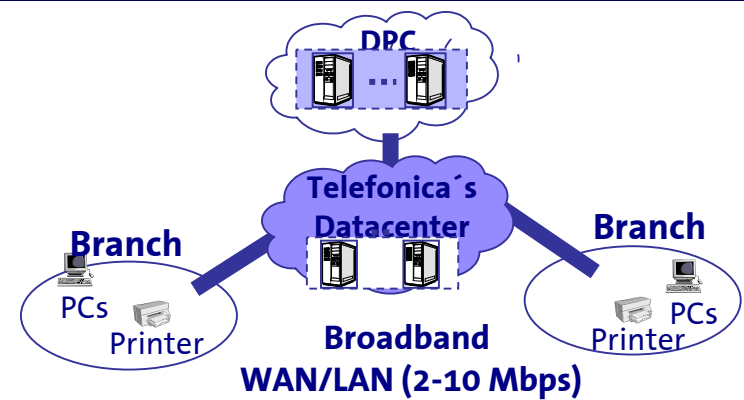
## From



High IT, maintenance and management costs

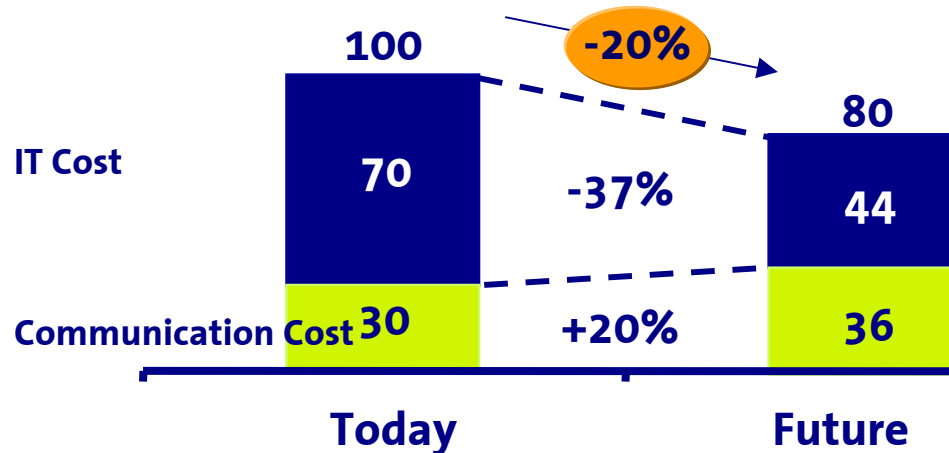
- Large data processing centers
- Decentralized IT
- Scarce and expensive access to broadband

## To



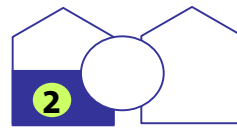
Efficiency and lower cost

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

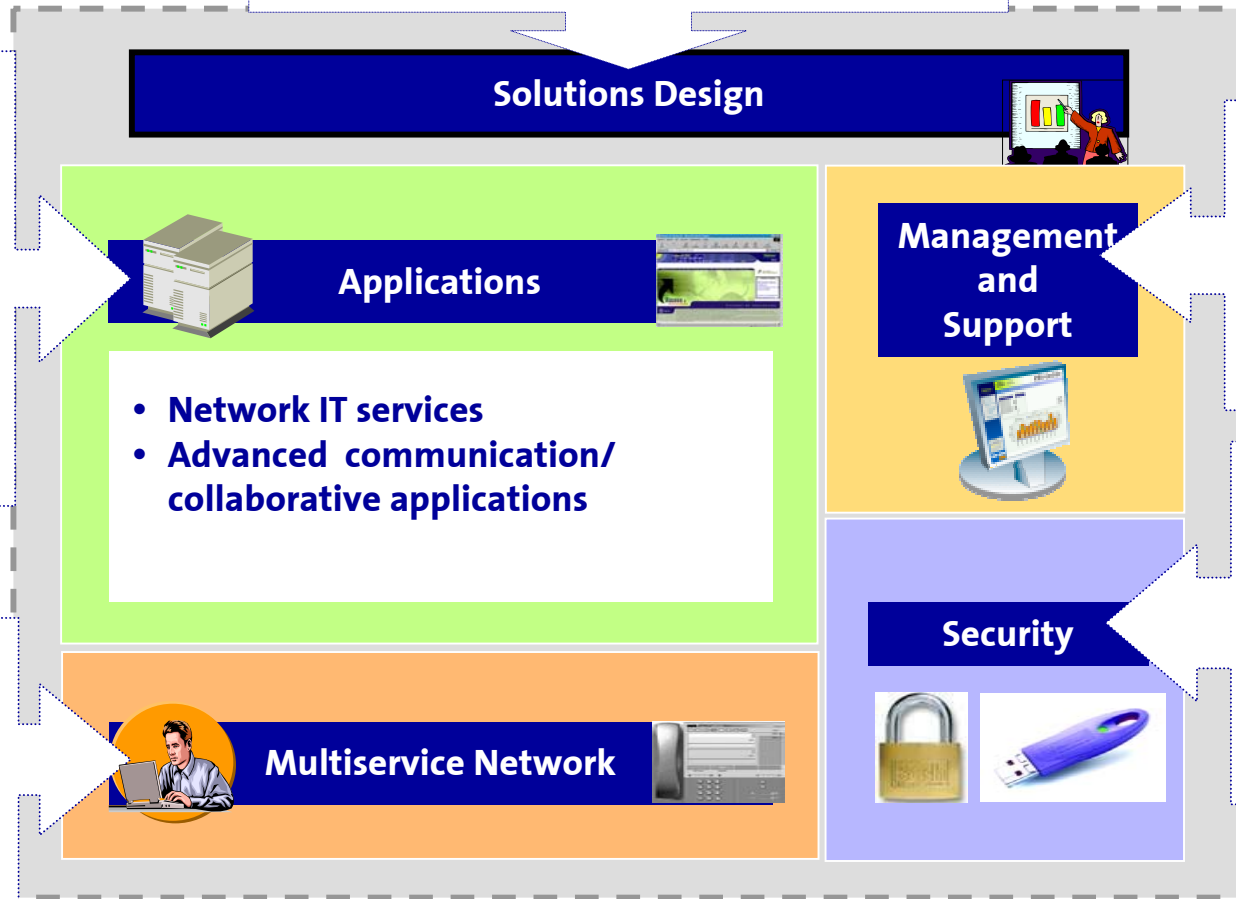


Substantial cost reduction for our customers





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



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

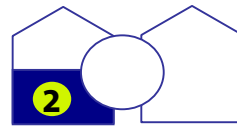
High-speed access at every location

- Broadband services
- Mobile services

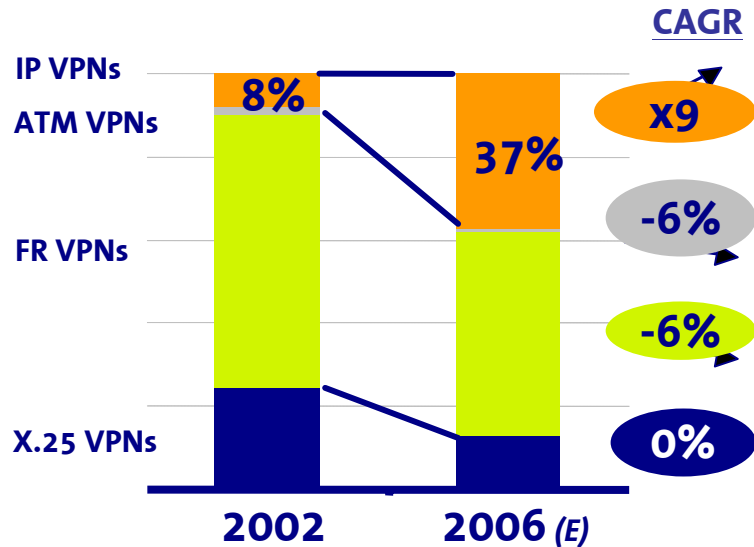
- Integrated management of network and applications
- Real-time information

- Single sign-on
- USB Key
- Information encryption

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



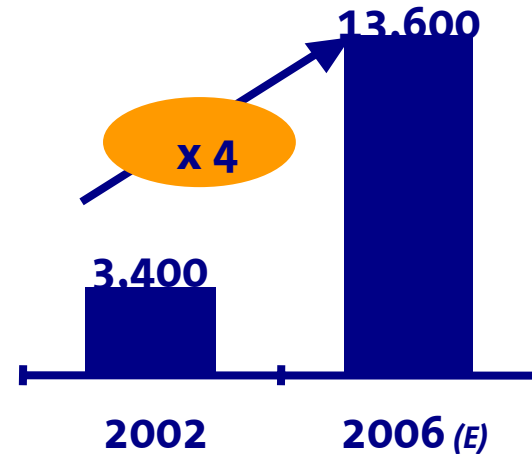
## VPN access connections\*



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

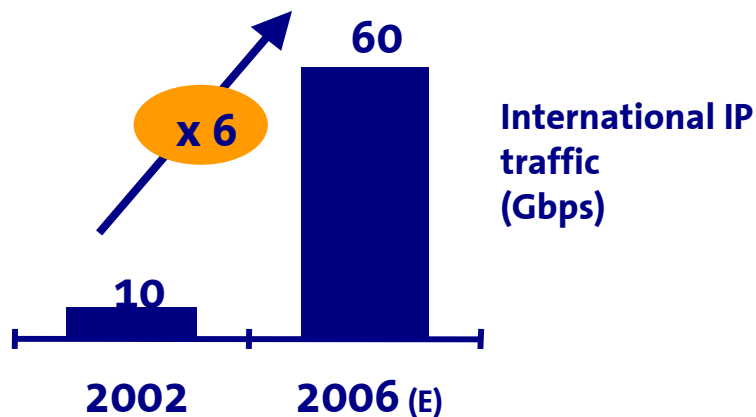
# *We will increase our market share of International Services in the Region*

## Key strategic actions under execution

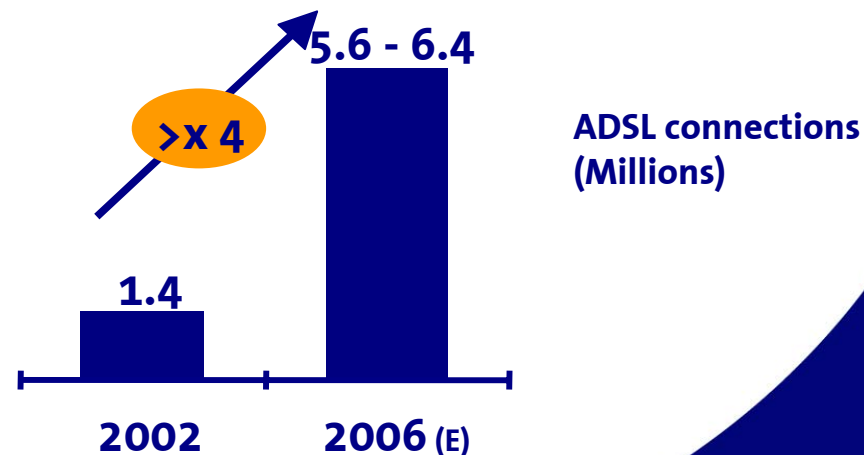
### • Position ourselves as:

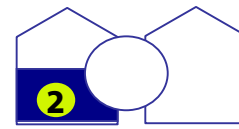
- The specialist in the Spanish and Portuguese speaking markets
- The best carrier for multinationals in the region
- Service provider for other carriers (white label)
- Global player in the new IP world, both in Access and Content

Increase of IP traffic over the international network



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

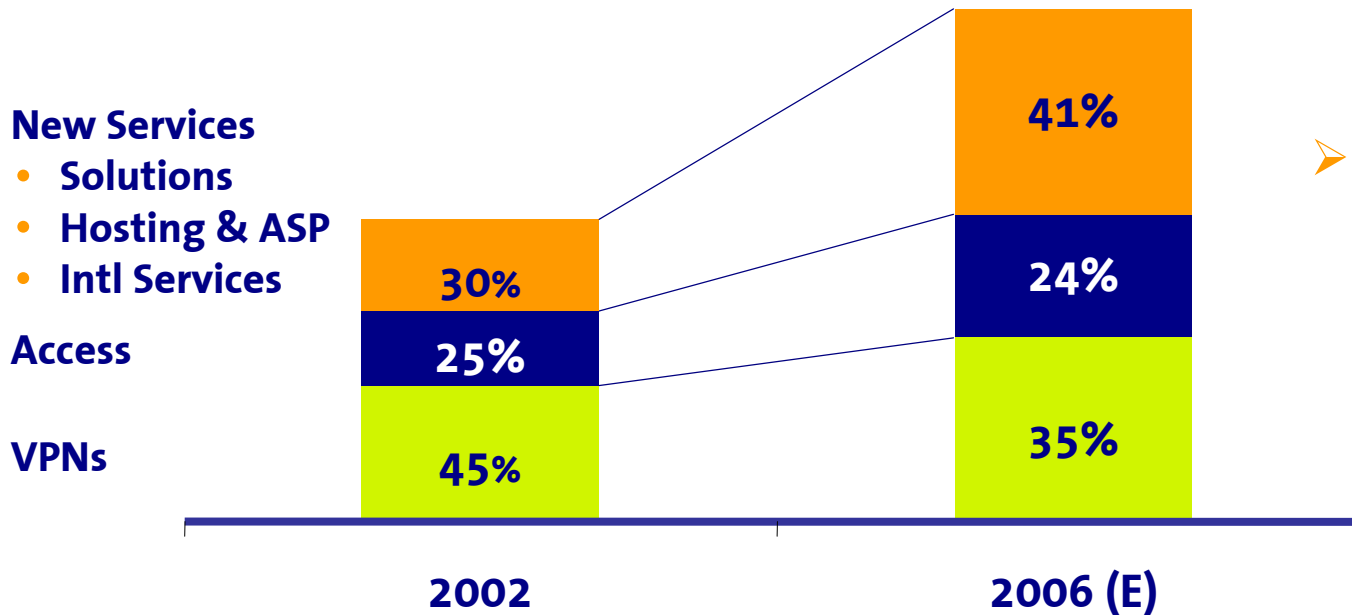




# New services will increase their contribution to total revenues

Constant exchange rates, as of 2002

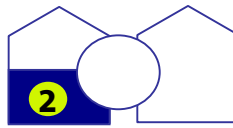
## Expected evolution of revenue mix\*



- **New services** increase their share from 30% to 41%
- **Hosting/ ASP** expect a 40% CAGR, promoted by the eBA business

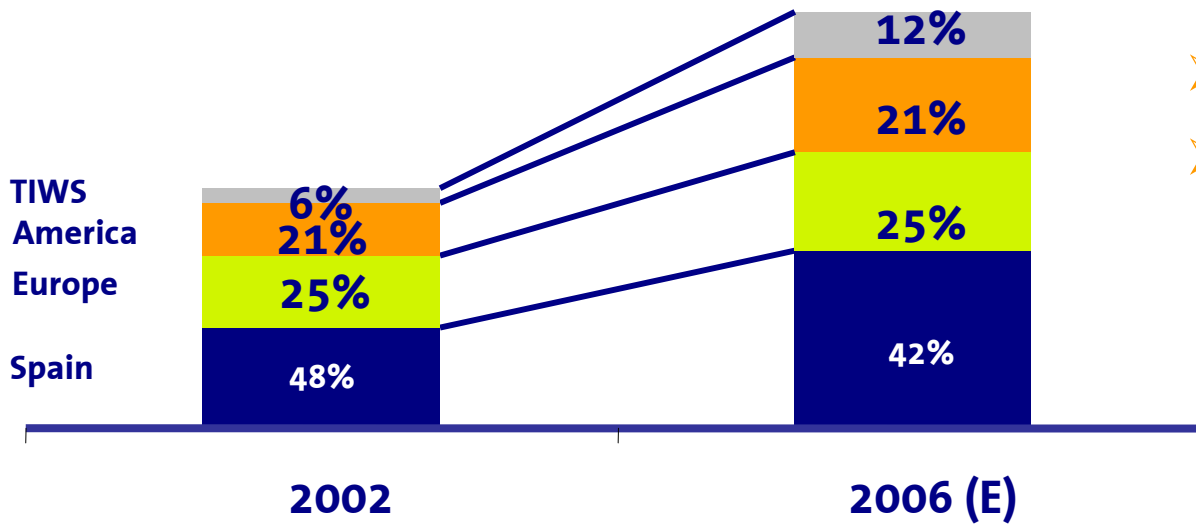
\* Before adjustments. Excluding Europe

# Evolution of the revenue mix per region



Actual Terms

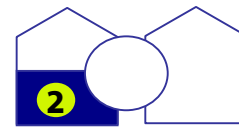
## Expected evolution of revenue mix per region \*



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

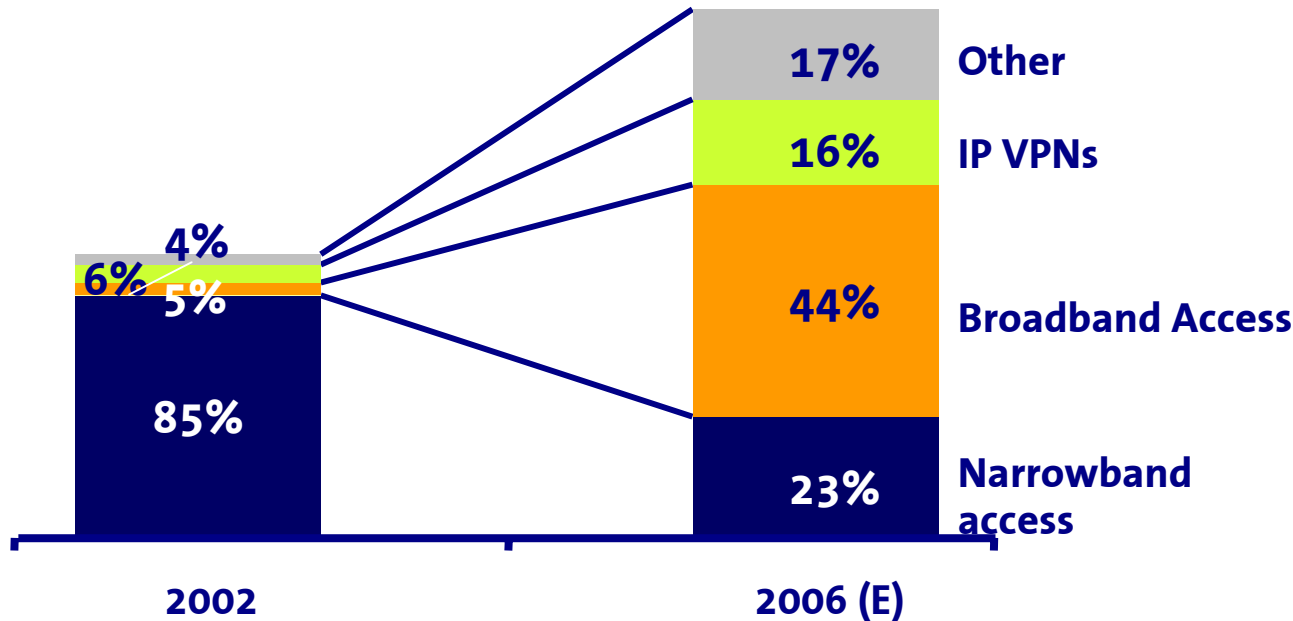
(\*) Before adjustments

# Our presence in Europe represents a substantial growth opportunity



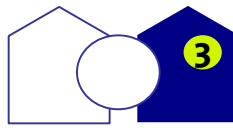
Constant exchange rates, as of 2002

## 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

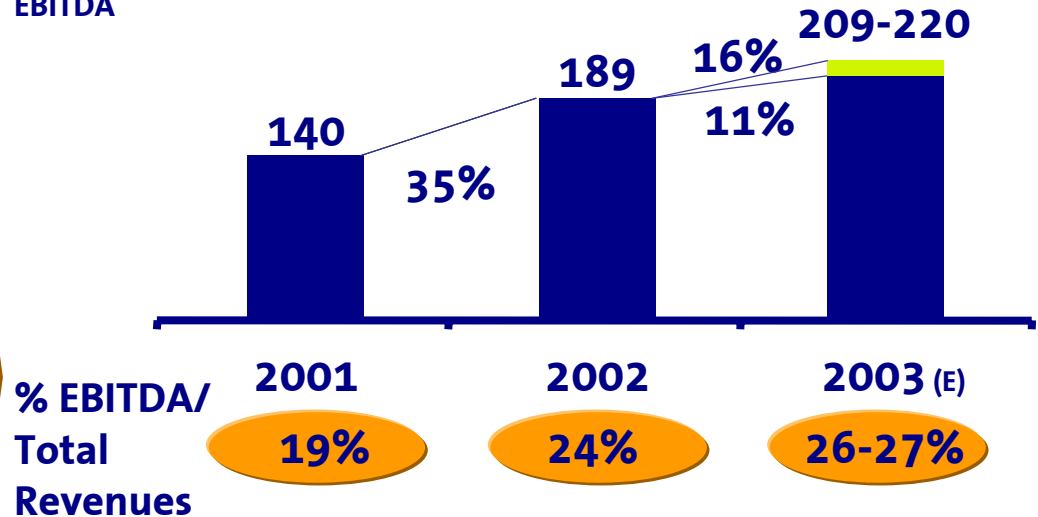
- Approach change from (p x q) to (n x ARPU\*)
- Salesforce organization by industry sectors
- Implementation of a monthly sales opportunity tracking system and a bi-annual commercial incentive program
- Pricing review and rationalization of discount policy

### 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

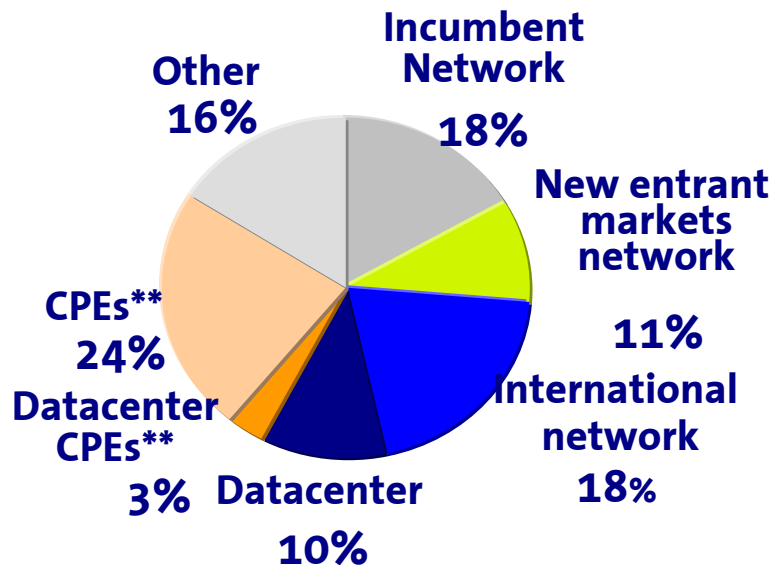


## And strict control over investments

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

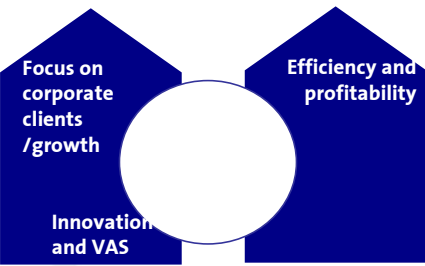
Solid revenue growth ...

... 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*

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