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THIRD  
INVESTOR  
CONFERENCE

MADRID 2003

*Telefonica*

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## *Safe harbor*

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# *Leveraging performance excellence and building growth*



- **A global perspective: capitalizing on performance excellence & existing growth prospects**
- **Responding to local challenges & opportunities:**
  - **Spain: sustainable leadership with world class performance**
  - **Brazil: consolidating leadership & shaping the market**
  - **Mexico: agile management to support rapid growth**
  - **Other markets: capture additional growth**
- **Guidance for our future performance**

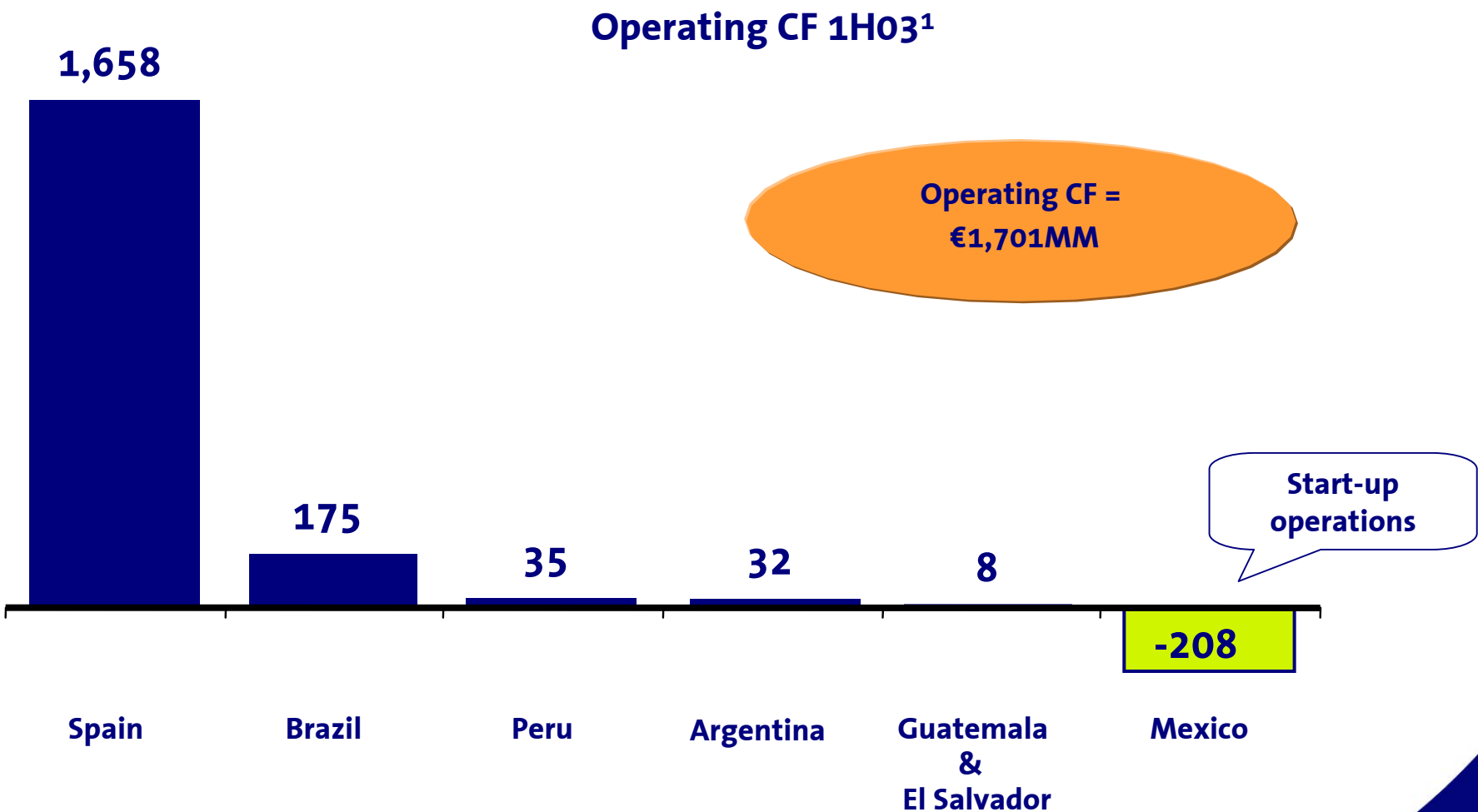


## *Telefónica Móviles has earned the right to grow*

- **Continuing strong cash flow generation in our established markets provides strategic flexibility**
- **World-class operational capabilities are being leveraged to extract maximum potential from existing growth opportunities**
- **Positions developed in key markets provide outstanding organic growth prospects**



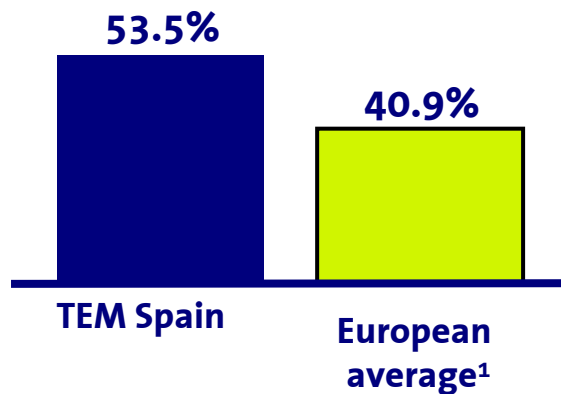
# Positive CF generation in every single market with established operations providing strategic flexibility



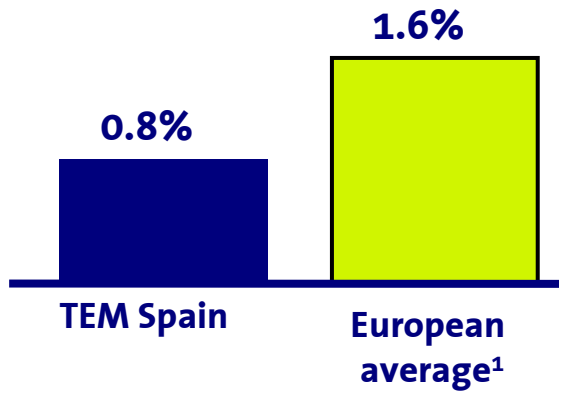
<sup>1</sup> Operating CF: EBITDA-Capex. Aggregate figures

# World-class operational capabilities: TEM Spain is the soundest mobile operator in the industry

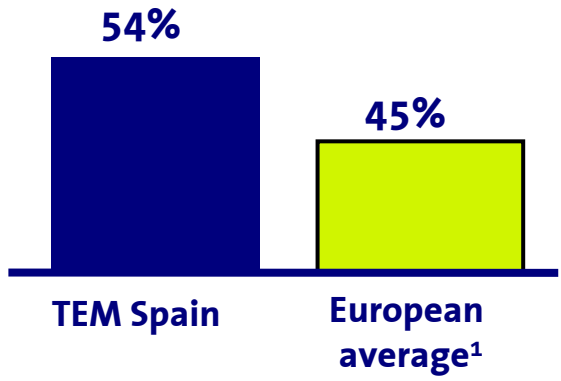
Market share 1H03



Monthly churn 1H03



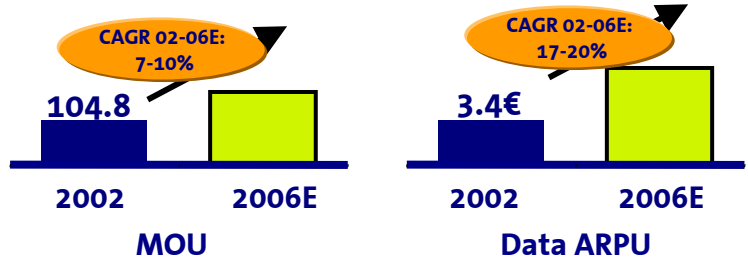
EBITDA margin 1H03



<sup>1</sup> Average performance for Vodafone in UK, T-Mobile in Germany, TIM in Italy, Orange in France. Source: Companies' annual reports. Vodafone figures refer to March 2003 reported information.

# Outstanding organic growth prospects

Spain

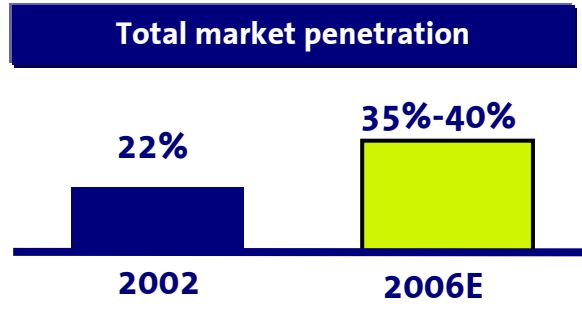


TEM's Market position

#1

- Opportunity to leverage our #1/#2 position to capture a large share of the >55MM new customers coming to the market<sup>1</sup>

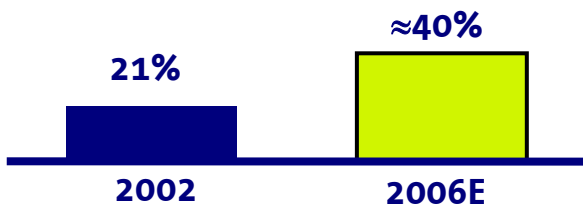
Brazil  
(Vivo's areas of operations)



#1

- Further market consolidation could decrease competition and increase margins

Mexico



#2

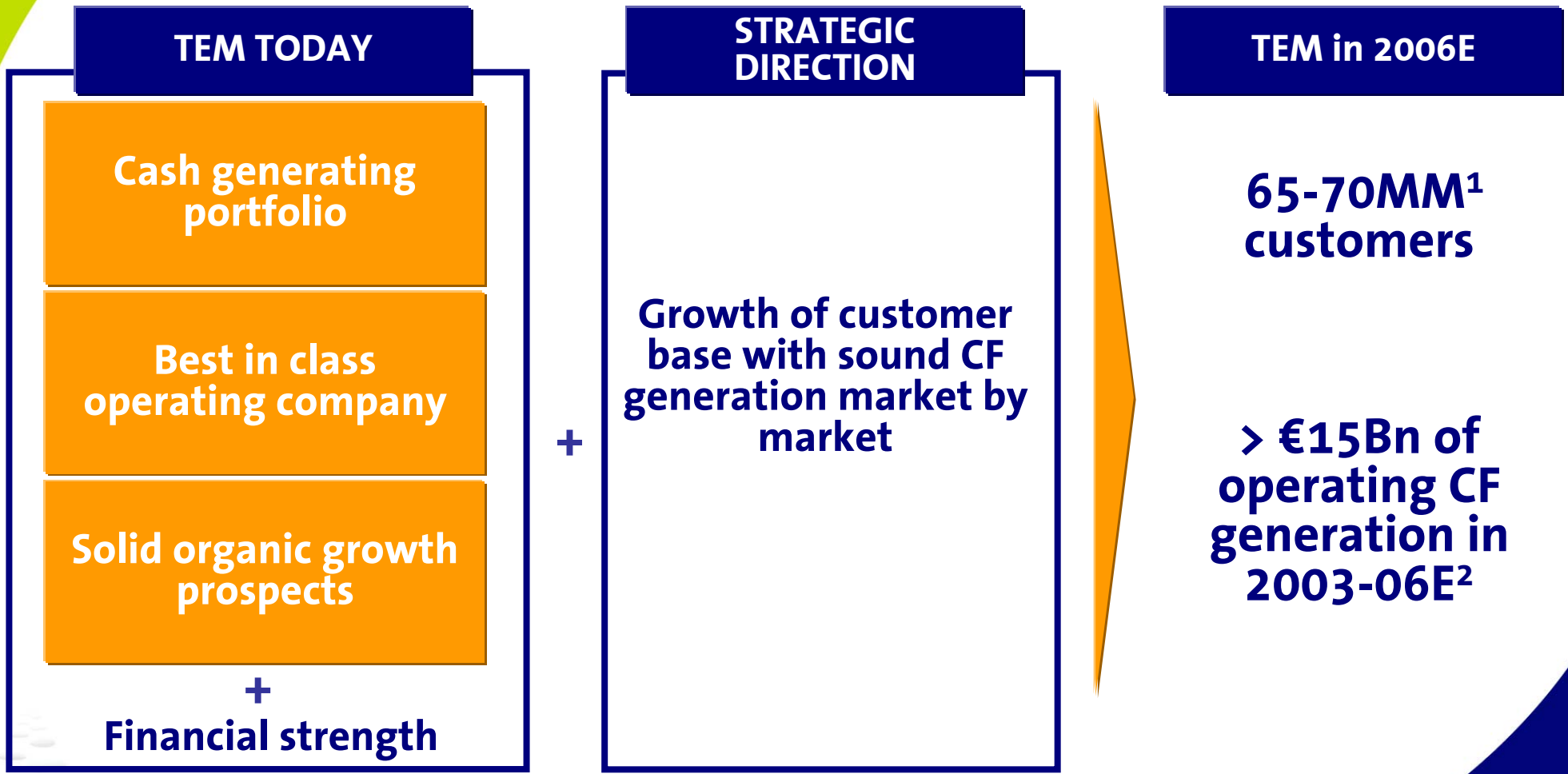
#1/#2 position in major markets with expectations of 14MM new subscribers by 2006E

Argentina, Chile, El Salvador, Guatemala, Morocco, Peru & P.Rico

<sup>1</sup> Includes Brazil, Mexico, Argentina, Peru, Guatemala, El Salvador, Chile, Puerto Rico & Morocco



# Unique business case



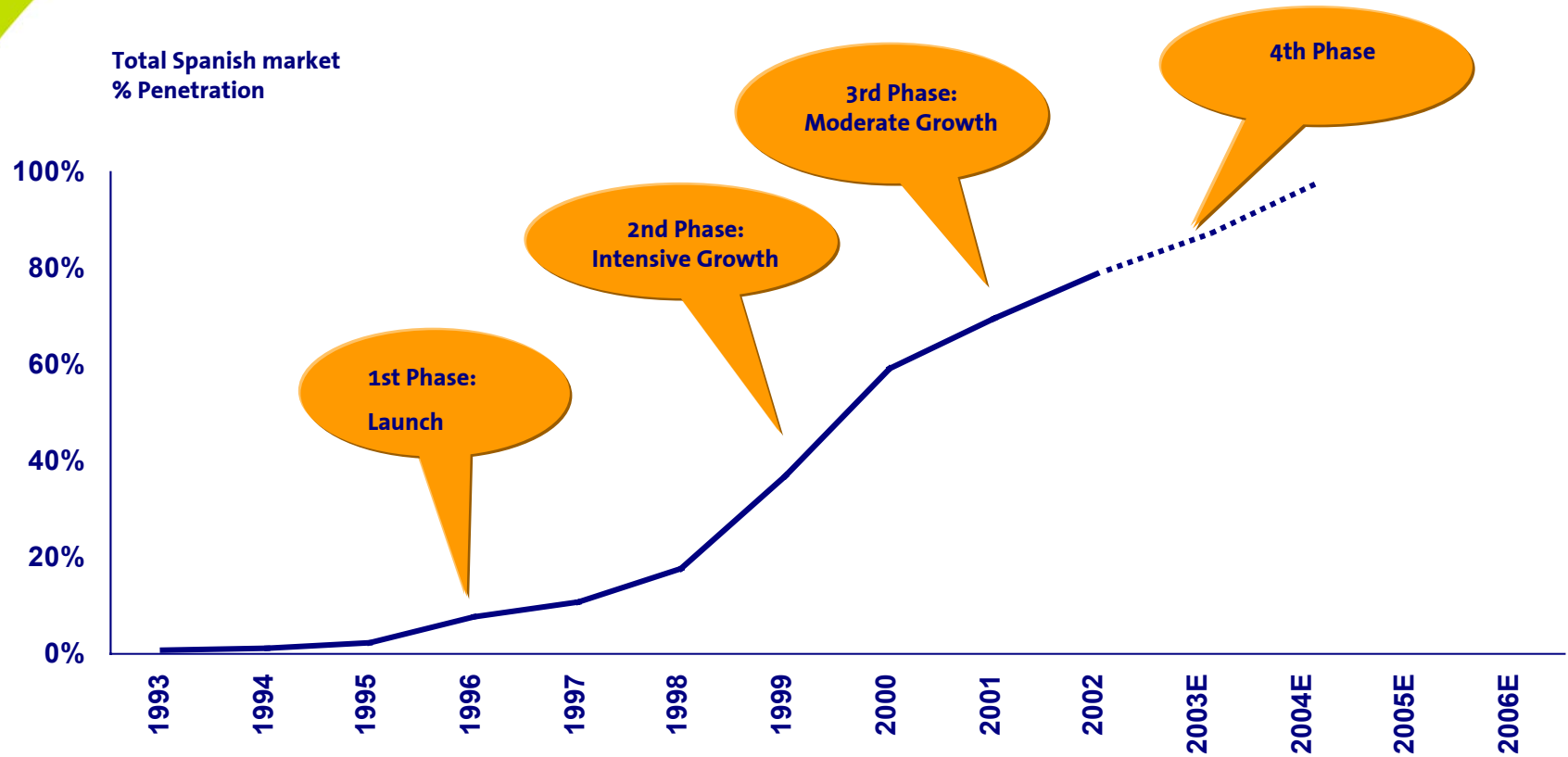
<sup>1</sup> Managed customer base. Includes Chile and Puerto Rico.

<sup>2</sup> Operating CF: EBITDA-Capex. Aggregate figures. Constant exchange rates as of 2002.

- **A global perspective: capitalizing on performance excellence & developed growth prospects**
- **Responding to local challenges and opportunities:**
  - **Spain: sustainable leadership with world class performance**
  - **Brazil: consolidating leadership & shaping the market**
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  - **Other markets: capture additional growth**
- **Guidance for our future performance**



# *We have anticipated & benefited from each major development in the Spanish market*



<b>July 1995</b>	<b>Dec 1996</b>	<b>1997-1999</b>	<b>March 2000</b>
<b>Launch of GSM</b>	<b>Launch of prepaid</b>	<b>Mass market campaigns</b>	<b>Launch of loyalty program</b>

**Main Milestones**

**Focus on**

**Subscriber base**

**Market share**

**Control churn rate & Enhance usage**

**Increase usage 3G-based services**



## *Spain: sustainable leadership with world class performance*

### KEY CHALLENGES & OPPORTUNITIES

Maintain market leadership

Boost usage

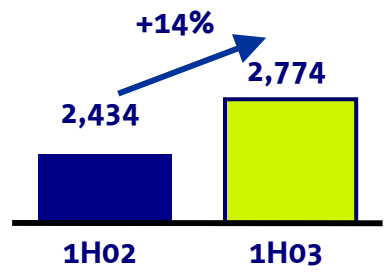
Sustain operational efficiency

- **Grow selectively**
- **Maximize customer loyalty**
  
- **Sustain traffic growth rate above European average**
- **Promote data services**
  
- **Enhance operating profitability**
- **Maintain controlled capex/sales while investing in 3G deployment**

# Selective customer base growth will be achieved through targeted initiatives

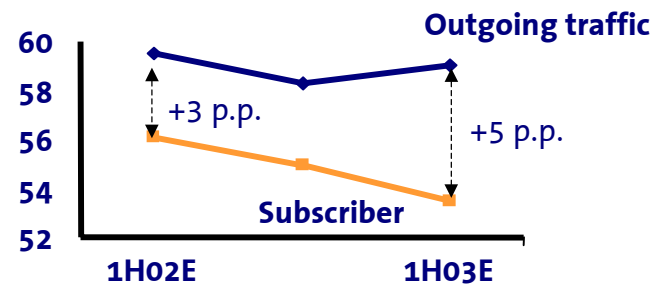
- Focus on specific segments with high growth potential
- Increase penetration among residential & corporate existing customers
- Attract customers by leveraging on our community

Corporate, SME & SoHo customers '000

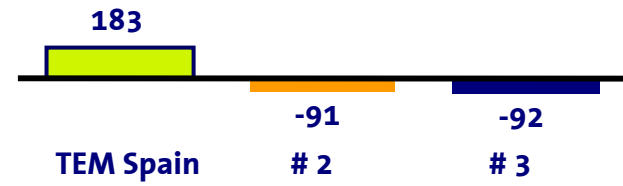


Major provider for the 2,300 largest Spanish corporations with more than 85% of their wireless lines

Gap between outgoing traffic & subscriber market share



Number portability: Net customer movements<sup>1</sup> '000. Nov-00 to June 03

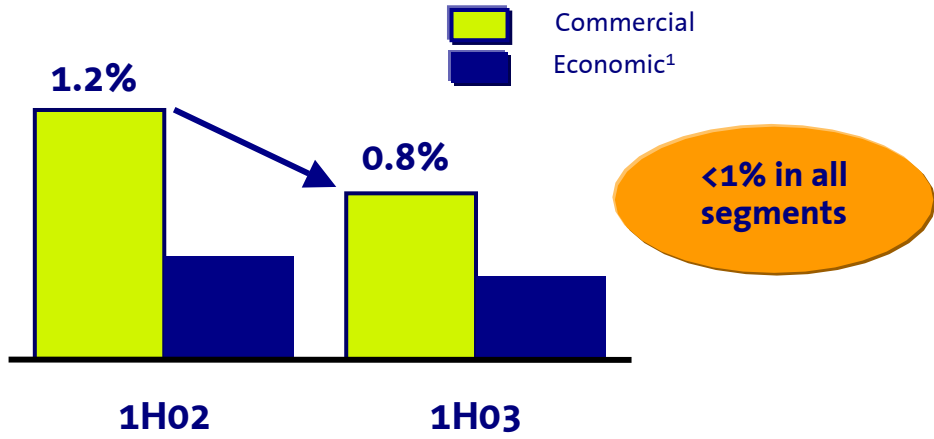


<sup>1</sup> Source: CMT data & company estimates. Customers we capture through portability have usage patterns similar to TME's

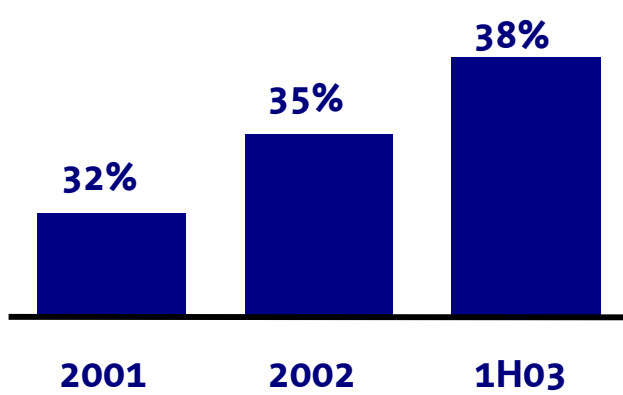
# Our customer loyalty strategy will contribute to maintain a best in class churn rate

- Unique loyalty programs for contract & prepaid customers launched in March 2000
  - 10% customer base already upgraded handsets in 1H03
- Selective prepaid to contract migrations
  - 1.1 million migrations to date
- Leverage on being the largest wireless community in Spain
- Detailed operational segmentation

TEM Spain's Monthly Churn Rate



Increasing contract weight



<sup>1</sup> Lower economic churn indicates our competitors are capturing our low-end customers

# Proactive growth of voice usage ...

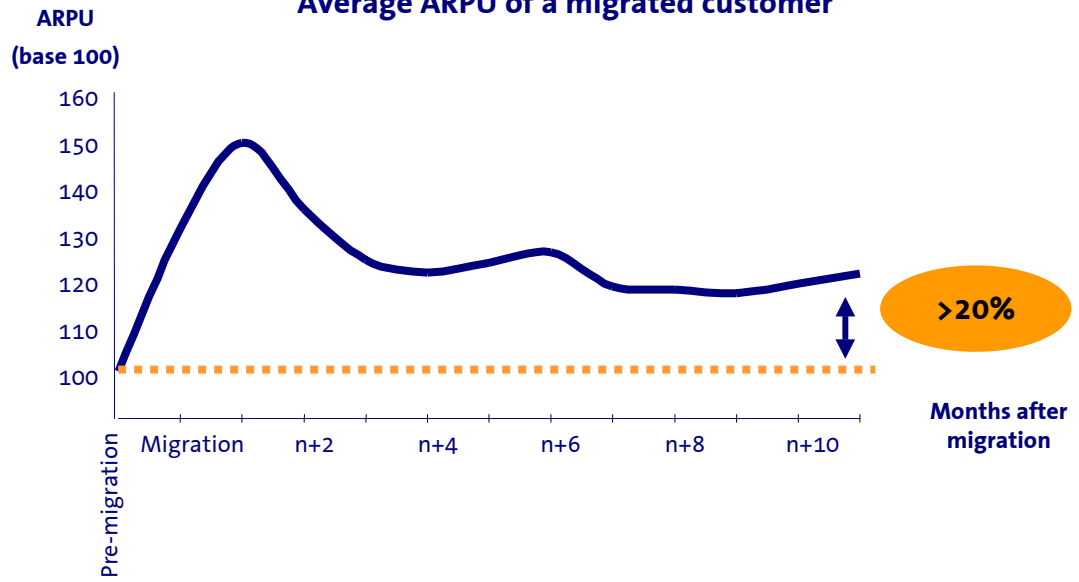
- Migrate prepaid to contract
- Increase on-net traffic, capitalising on our high market share
- Increase off-peak traffic
- Develop usage commitment
- Increase penetration of VAS



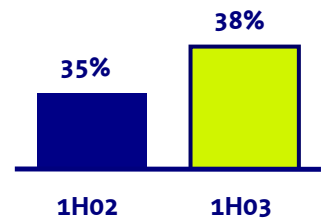
- Benefit from natural market trend to migrate fixed traffic to mobile



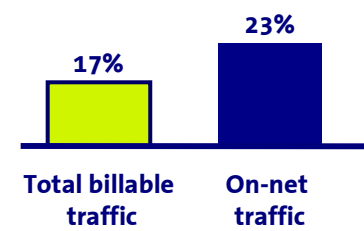
Average ARPU of a migrated customer



On-net traffic over total billable traffic

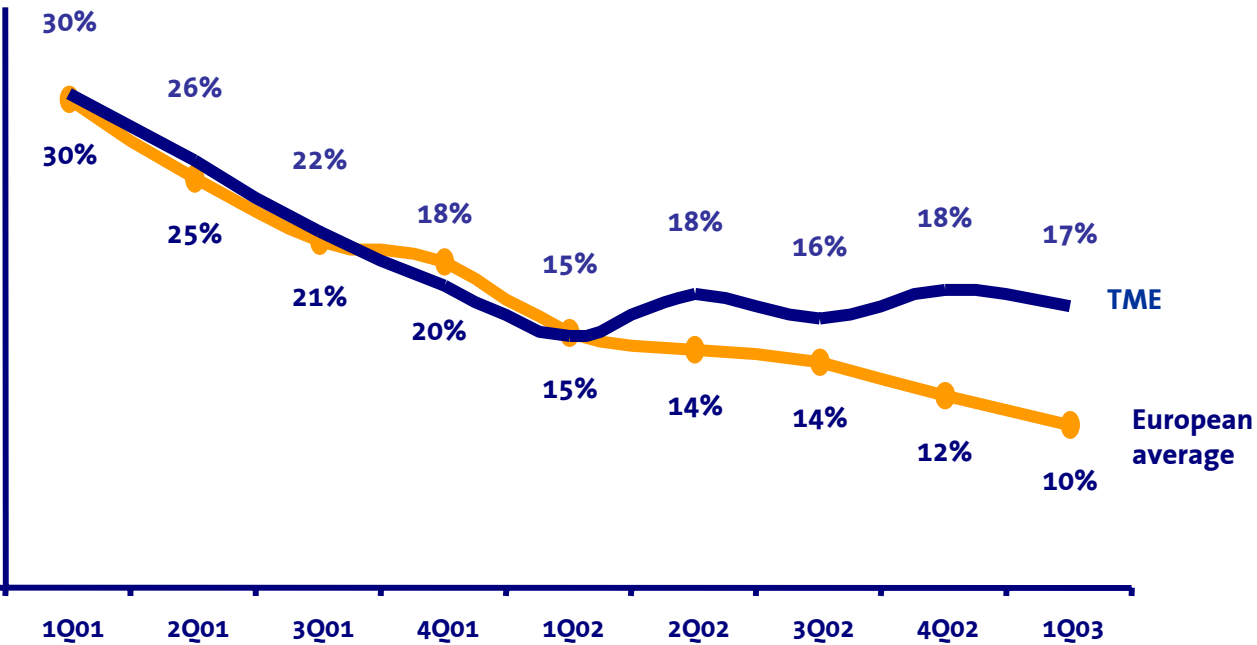


Traffic growth rates (1H03 vs. 1H02)

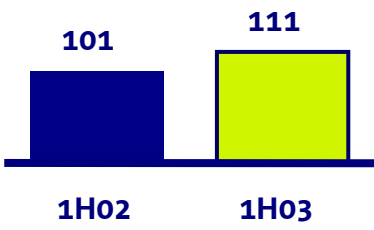


*... that make our traffic growth higher than that of other European operators*

**Total billable traffic: y-o-y growth rates**



**TEM Spain's Blended MOU**



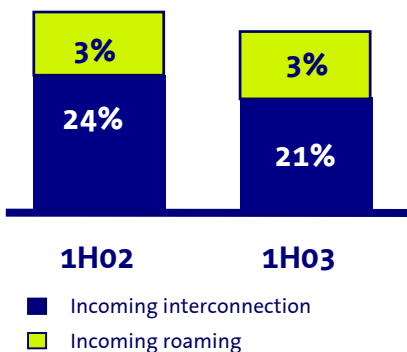
Source: Goldman Sachs, "A walk on the wireless side", June 2003  
 European average includes: Cosmote, KPN Be, KPN Ge, KPN Ne, Panafon, Portugal Telecom, TIM, TEM, Tele2, Telenor, Telia Sweden



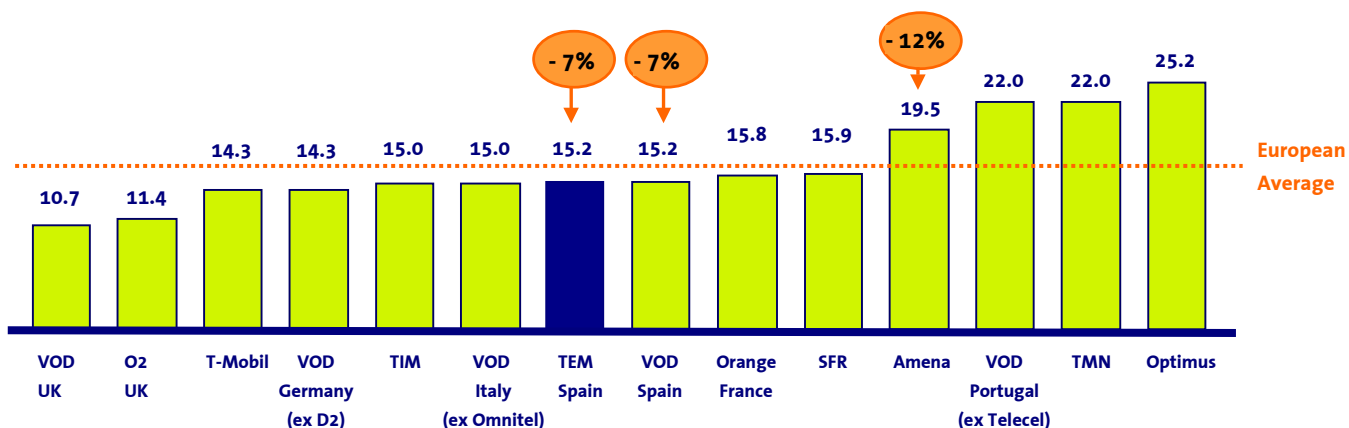
# ... with contained regulatory risk

## Termination fees & roaming prices in line with European average

Revenues' exposure to interconnection & incoming roaming



Average termination fee per minute – Post 2003 Reductions  
(Euro cents/minute)



- Least interconnection-dependent operator in Spain
- Rational evolution of prices
  - # 3 player declared dominant in the termination market
  - Current asymmetry to be progressively reduced
  - Unlikely pressure from pure 3G new entrant

# Enhanced & segmented data offering

## Offer customized data oriented to all our customers

- Prepaid
- Contract individuals
- SME & Corporate

## SMS + MMS

*MoviStar*  *emoción*

Oficin@ MoviStar

Blackberry

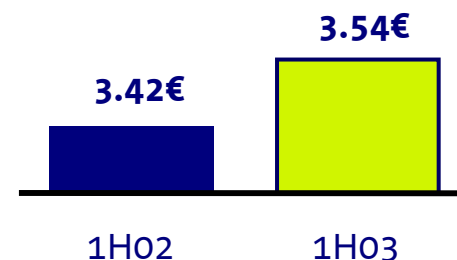
## Enhance customer experience

- Content
- Ease of use
- Pricing

## Guarantee access to affordable handsets

- Able to use new services
- Easy to use

## Increased data ARPU



Our integrated offer will help to:

- Accelerate the penetration of data services
- Improve our market position

# MoviStar *offers a wider range of contents than our main competitor in Spain*

MoviStar  +



<p><b>Access / Handsets</b></p>	<ul style="list-style-type: none"> <li>SMS, MMS, wap, i-mode™, voice portal</li> </ul>	<ul style="list-style-type: none"> <li>SMS, wap</li> </ul>
<p><b>Content providers</b></p>	<ul style="list-style-type: none"> <li>Wide content offer. &gt;300 content providers. Various exclusive agreements</li> <li>Open focus to attract plenty of high quality providers</li> <li><b>i-mode facilitates collaboration with providers &amp; enlarges content offer</b></li> </ul>	<ul style="list-style-type: none"> <li>~ 100 content providers</li> </ul>
<p><b>Content downloads</b></p>	<ul style="list-style-type: none"> <li>Download of JAVA applications &amp; games</li> <li>Java2ME, Exen, Doja</li> </ul>	<ul style="list-style-type: none"> <li>Java2ME</li> </ul>
<p><b>Pricing scheme</b></p>	<ul style="list-style-type: none"> <li>No fixed fee</li> <li>Event-based tariffs, subscription, plans ...</li> <li><b>i-mode™ offers premium content at additional price</b></li> </ul>	<ul style="list-style-type: none"> <li>Event-based tariffs</li> </ul>

**Only operator in Spain offering i-mode™ & first European player to offer it to prepaid customers & to integrate it with SMS & MMS**



# New handsets enhance user-friendly navigation in

Old e-mocion  
Menu

New e-mocion  
Menu launched in  
February 03

Handsets specially  
adapted for  
e-mocion



- e-moción embedded in handset menu
- i-mode™ allows for higher navigation speed

Direct access to e-mocion

Icon-driven menu

- Integrated menu
- Minimised number of clicks
- Intuitive navigation: Icon-driven
- Increased interactivity



# Our wide range of own brand handsets encourages the penetration of new technologies to foster data usage

## TSM handsets at very competitive prices

### Today's offer ...

TSM 5	TSM 100	TSM 400
Price range: 80-100 €	Price range: 120-160 €	Price range: 600-800 €
<ul style="list-style-type: none"> <li>• Colour screen (4,096 colours)</li> <li>• GPRS v.8</li> <li>• Infusio games</li> <li>• MMS</li> <li>• Tri-band</li> <li>• 80 g.</li> </ul>	<ul style="list-style-type: none"> <li>• Large colour touch screen (36,000 colours)</li> <li>• Java</li> <li>• GPRS v.10</li> <li>• MMS</li> <li>• MP3</li> <li>• Camera- embedded</li> <li>• USB</li> <li>• Multi-memory card</li> <li>• Personal organizer</li> <li>• Tri-band</li> <li>• 125 g.</li> </ul>	<ul style="list-style-type: none"> <li>• Colour touch screen (4,096 col.)</li> <li>• Java</li> <li>• MMS</li> <li>• Pocket PC</li> <li>• PDA</li> <li>• Microsoft Office</li> <li>• Multi-memory card</li> <li>• Oficina Movistar</li> <li>• Direct access to internet</li> <li>• Tri-band</li> <li>• 200 g.</li> </ul>

### Coming soon ...

TSM 30
Price range: 100-120 €
<ul style="list-style-type: none"> <li>• Colour screen (65,000 colours)</li> <li>• Java</li> <li>• i-mode™</li> <li>• GPRS v.10</li> <li>• MP3</li> <li>• MMS</li> <li>• Camera-embedded</li> <li>• USB</li> <li>• Multi-memory card</li> <li>• Tri-band</li> <li>• 110 g.</li> </ul>



# We will maintain focus on operational efficiency

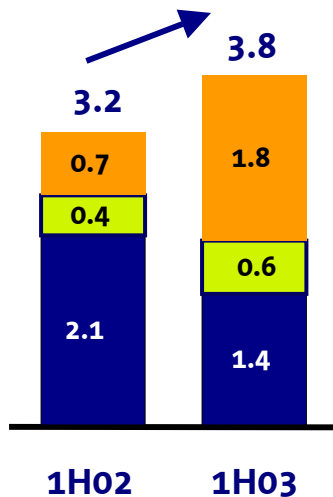
## Commercial costs

- Increasing focus on loyalty programs, building on sound results from initiatives launched in March 2000
- Keeping (SAC+SRC)/operating revenues <8%

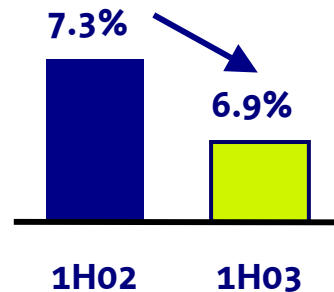
## Non-commercial costs

- Lower network and operational costs per minute leveraging scale economies
- Efficiency improvements in:
  - Radio transmission
  - Billing
  - Call centre
- Lower interconnection costs
  - Least dependent on termination rates

Gross adds, migrations & handset upgrades (MM)



(SAC+SRC)/  
Oper. revenues



■ Gross adds  
■ Migrations  
■ Handset upgrades

# *Our investment program will support our growth platform*

## 2003–2006: Preparing the future & leading the UMTS deployment

- **Progressive UMTS roll-out:**
  - Gradual network deployment to steadily migrate customers to a high quality UMTS metropolitan coverage/service once attractive handsets are available
    - 750 Base stations EOY 2002
    - 1,000 Base stations EOY 2003E
    - 7,000–8,000 base stations EOY 2005E
- **High UMTS efficiency for voice & data**
- **Seamless strategy for data services development in GPRS/UMTS**

€1 bn UMTS capex in 03-06E

## Optimised GSM, GPRS & UMTS capex

- **UMTS is the optimal solution for the increase in traffic we will experience**

# TME commercial & operational strategies will be enhanced through the alliance with TIM, T-Mobile & Orange

## TEM Spain's strategic direction

- Maximize customer base
- Boost voice & data usage
- Enhance operating efficiency
- Rationalize capex

## Alliance's 4 areas of cooperation



## First common initiatives ALREADY launched (TEM)

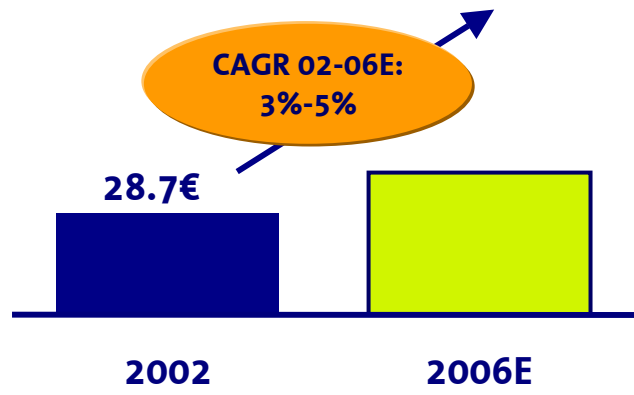
- "Virtual Home Environment":
  - Caller Line ID
  - Seamless Dialling
  - Short Codes
  - Virtual Private Network
  - GPRS & MMS roaming
- Common procurement for 2003 Xmas campaign handsets
- Projects for development of common VAS

Strong commitment from partners to enhance customers offering through seamless customer experience across its combined geographical footprint

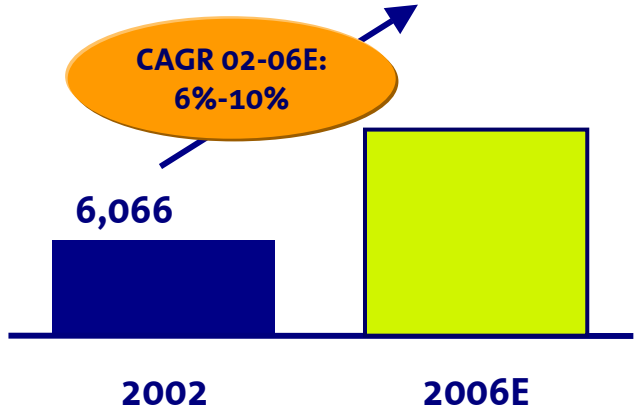


# We will deliver sustained revenue growth ...

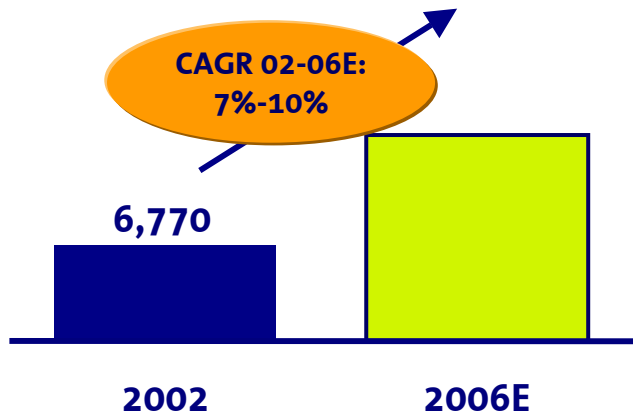
Year-on-year ARPU growth



Service revenues  
MM€

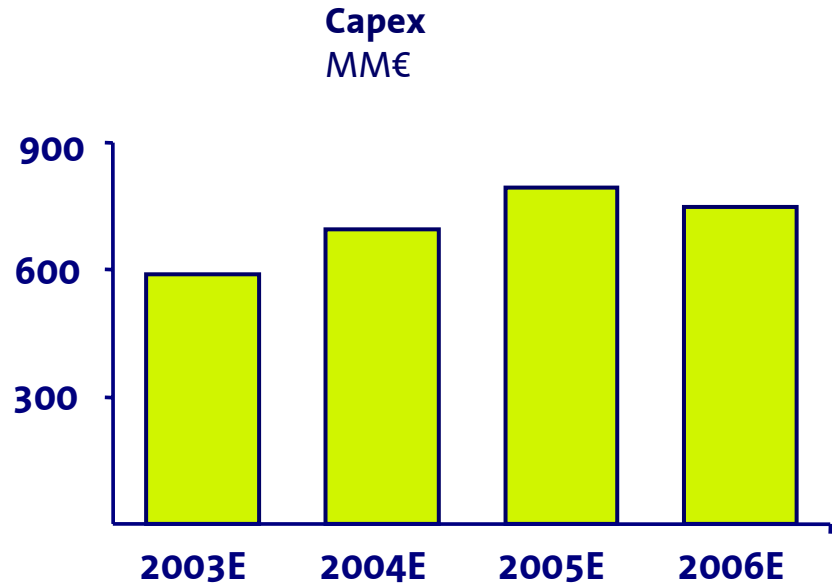
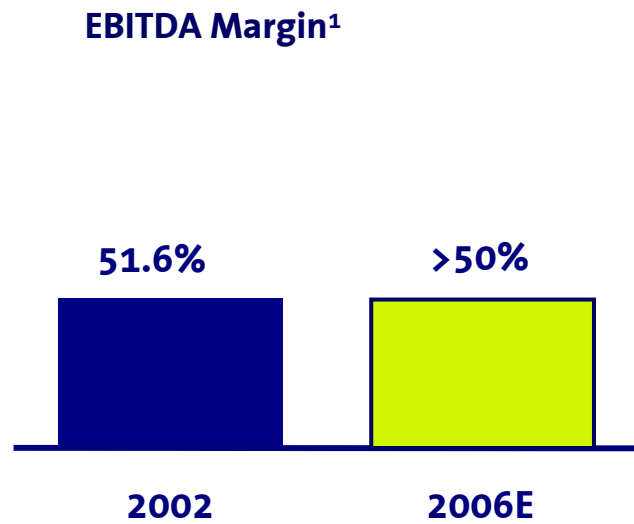
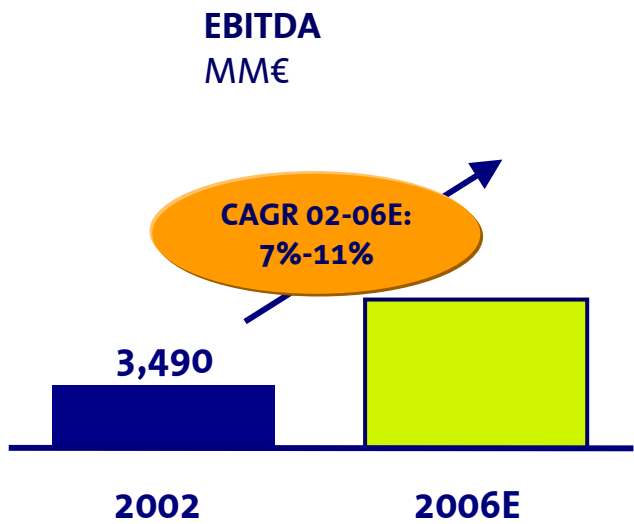


Operating revenues<sup>1</sup>  
MM€



<sup>1</sup>Operating revenues: Service Revenues + Handset Sales

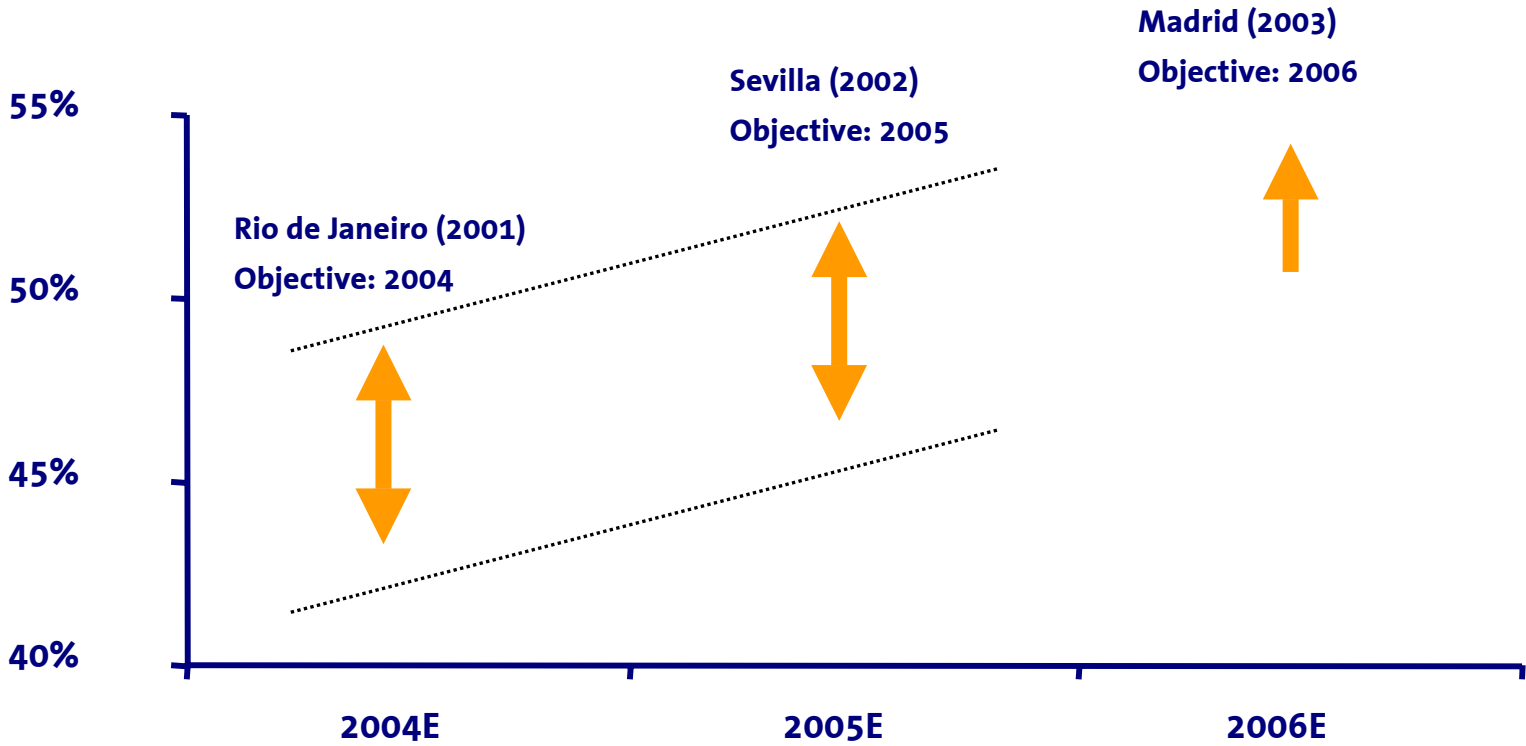
*... and continue improving our profitability ...*



<sup>1</sup> EBITDA Margin = EBITDA/Operating Revenues

... to carry on increasing our estimates year over year

### TEM Spain EBITDA margin<sup>1</sup>



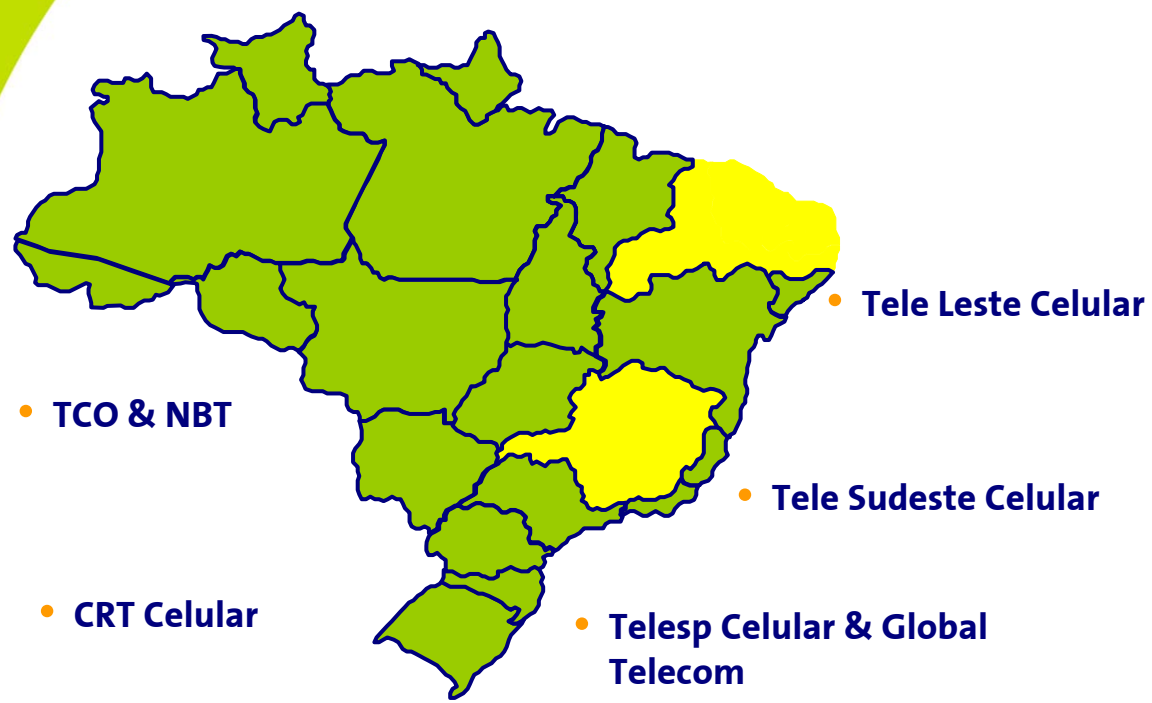
←→ TEM's guidance at Investors Day

<sup>1</sup> EBITDA Margin = EBITDA/Operating Revenues

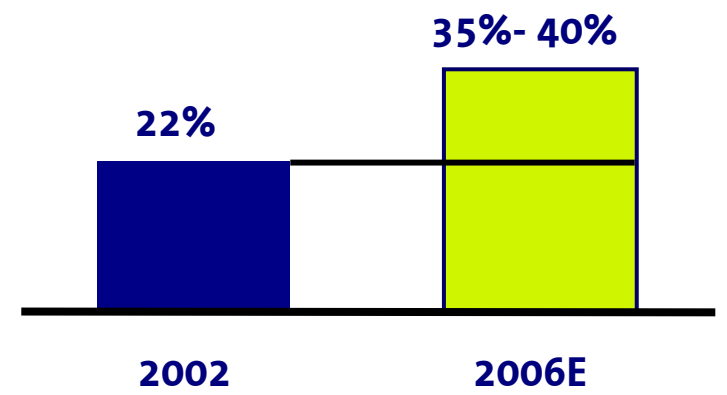
- **A global perspective: capitalizing on performance excellence & existing growth prospects**
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# The Brazilian market has a vast potential



Mobile penetration in Vivo's markets



- 177 MM POPs
- 13<sup>th</sup> largest economy worldwide
- Wireless accesses (40MM) already above fixed lines (39MM)

*We have led consolidation in Brazil & we are the only player to deliver significant progress in the integration of operations*



- Single management structure
- Single procurement process
- Single nationwide brand launched in April 2003

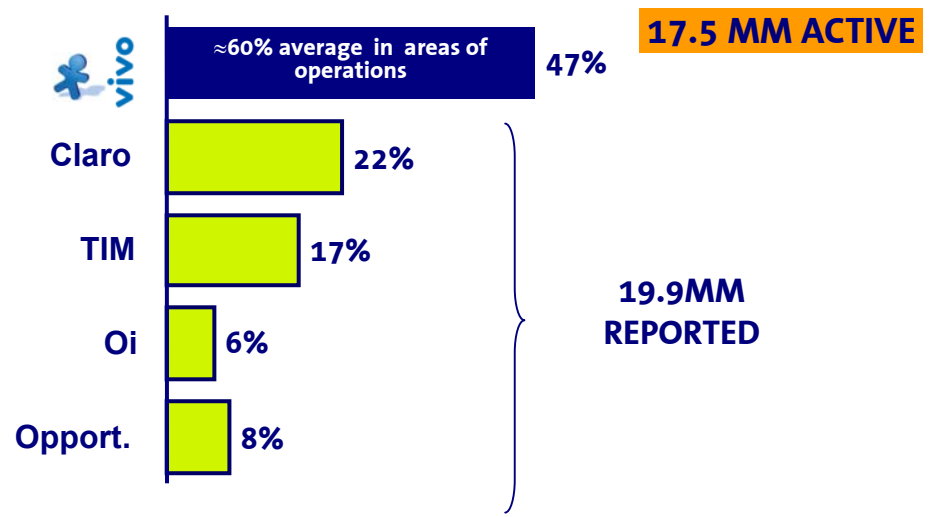


# VIVO is the soundest wireless player in Brazil with a unique position to capture the significant growth potential of the market

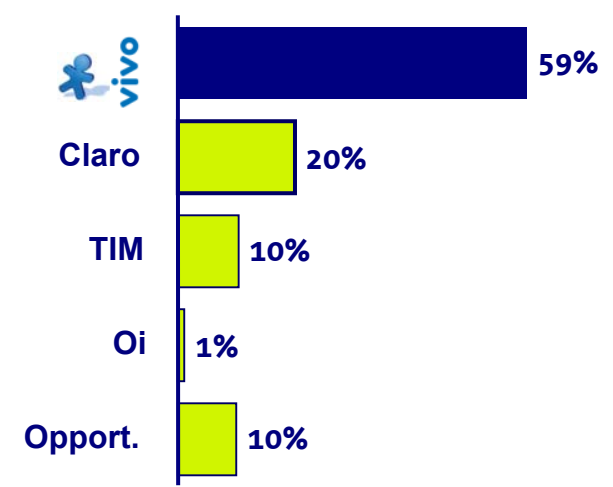
- We maintain our national & local leadership

- We lead profitability

Subscriber share (1H03E)



EBITDA share (1H03E)



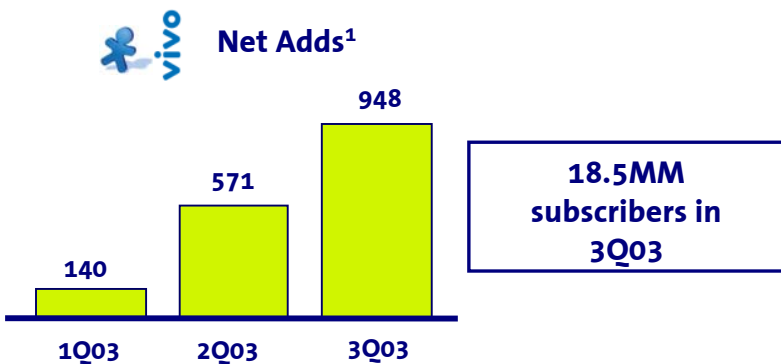
- #1 position in 6 areas & in 3 main markets, with high concentration of corporate: Rio de Janeiro, Sao Paulo & Brazilia
- #2 in 2 others

Source: press releases from companies & analysts reports. Figures according to Brazilian GAAP. Claro's figures are proforma with BCP. VIVO's aggregated figures, including TCO

# We will capitalize on our current strengths & expertise to grow our customer base ...

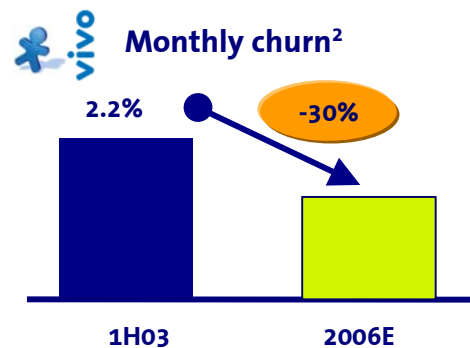
- Leverage on “being part of the largest mobile community” in Brazil
- Deeper market segmentation with growing focus on customer loyalty
- Capitalise on TME’s track record in loyalty initiatives

## Capture customer growth



<sup>1</sup> 1Q03 and 2Q03 figures including TCO.

## Increase customer loyalty



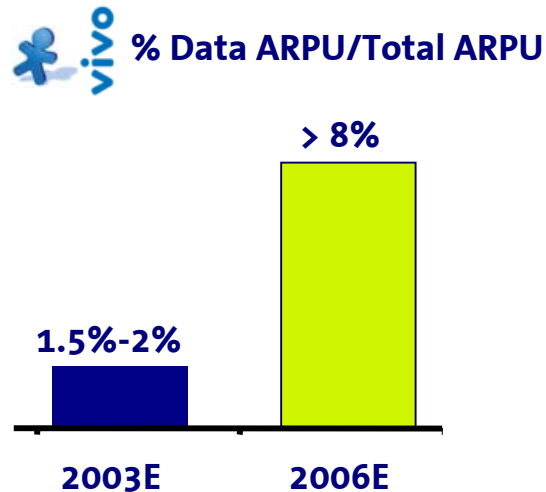
<sup>2</sup> Vivo aggregate information, including TCO.

We have a nationwide market approach to maintain our national & local leadership



## ... and to enrich their usage profile

- Leverage on a high-quality customer base to drive usage
- Service differentiation & comprehensive offer to residential and business customers
- Increasing contribution from data services:
  - Data services & VAS leadership
  - Increased penetration of existing VAS & launch of new P&S
  - Leverage on 1XRTT for packet data transmission at higher speed than GSM/ GPRS
  - Handset upgrades to promote usage



Launch of Vivo's own icon based service interface in 4Q03

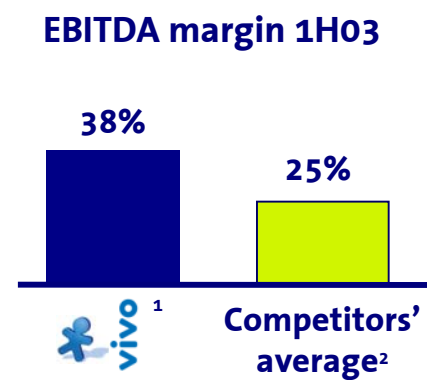
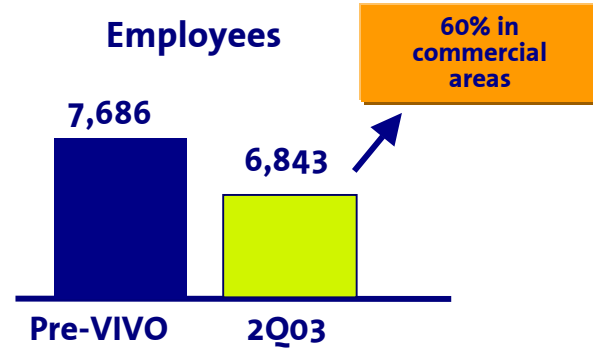
# Integration of operations enables us to improve operating performance, taking full competitive advantage of our size & scale

**New customer oriented organization**

- Single management structure
- Workforce rationalization & increased productivity

**Focus on reduction of non-commercial costs**

- Unified/Aligned P&S, procurement process & call centre management
- National client management
- Single services platform & same technology



**Annual savings >R\$50MM in non commercial costs**

<sup>1</sup> Vivo aggregate information, including TCO. Figures according to Brazilian GAAP.

<sup>2</sup> Includes AMX+BCP, Telemar Oi, TIM, Telemig & Tele Norte Celular. Figures according to Brazilian GAAP. Source: Companies' press releases & analyst reports

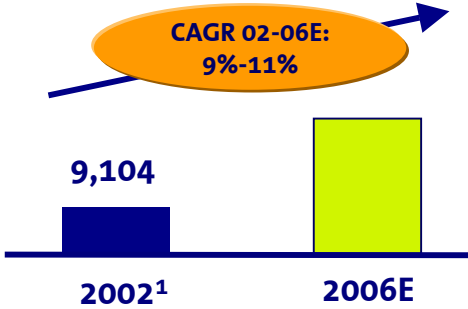
## ***While our commitment to offer superior customer experience does not jeopardise capex optimisation***

- **Major network roll-out has already been made. Controlled capex to increase capacity in key cities**
- **Selective CDMA overlay in main cities: Rio Grande do Sul & Brasilia**
- **Leading technology to 3G evolution:**
  - **1XRTT enhances voice quality & enables packet data transmission at higher speed than GPRS**
  - **Expansion of 1XRTT coverage in the current CDMA 2G networks with marginal capex**

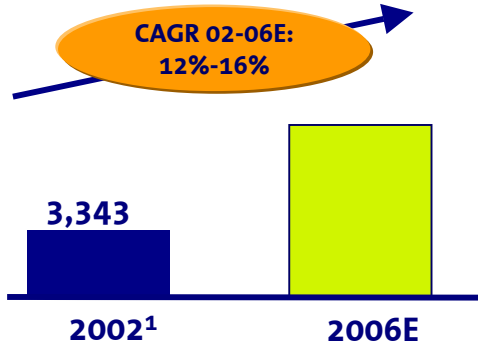


***In summary, our solid leadership allows us to capture the significant upside potential of the market while increasing profitability***

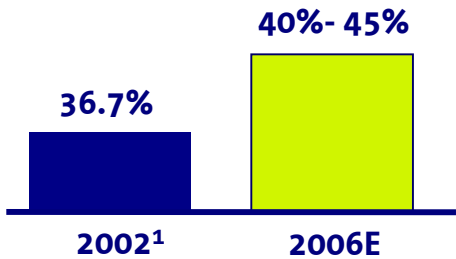
**Operating revenues**  
MM Reais



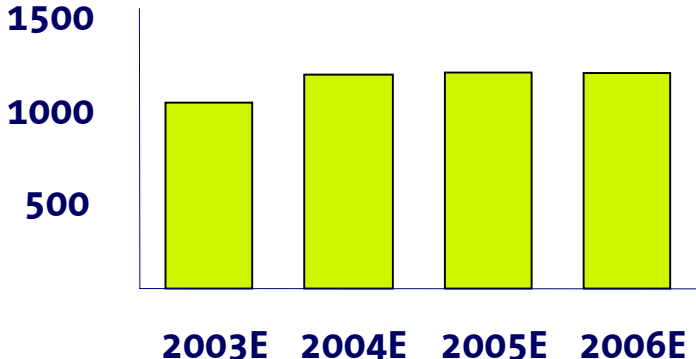
**EBITDA**  
MM Reais



**EBITDA margin<sup>2</sup>**



**Capex**  
MM Reais



<sup>1</sup> 2002 aggregate figures, including TCO. EBITDA after management fees  
<sup>2</sup> EBITDA/Operating revenues

- **A global perspective: capitalizing on performance excellence & existing growth prospects**
- **Responding to local challenges and opportunities:**
  - **Spain: sustainable leadership with world class performance**
  - **Brazil: consolidating leadership & shaping the market**
  - **Mexico: agile management to support rapid growth**
  - **Other markets: capture additional growth**
- **Guidance for our future performance**



# Mexico is a fast growing market....

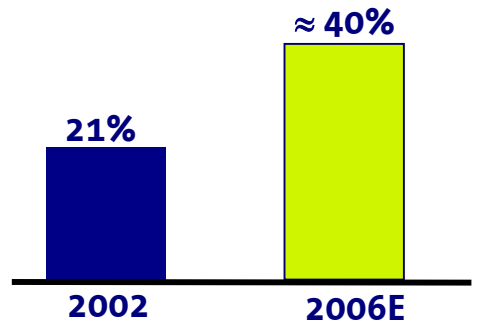
#10 world economy

~1.4 x Brazil's GDP

	Penetration 2002	GDP/Capita 02 (US\$)
Sao Paulo	24.0%	5,713
Chile	40.0%	4,414
<b>Mexico</b>	<b>20.0%</b>	<b>6,257</b>

1,4 x GDP/Capita of Chile with 1/2 the penetration in 2002

Total market penetration

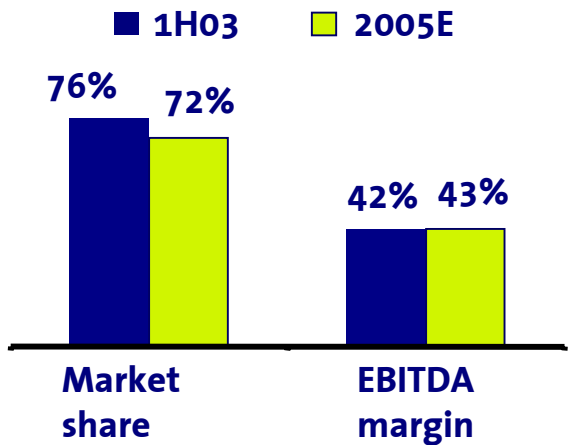


Penetration in 2006 lower than today in Chile

**Attractive market with high growth potential due to low penetration, attractive tariffs & competitive environment**

# .. with room for a 2<sup>nd</sup> profitable player

Analysts estimates for #1 player



- **We are committed to profitable growth.**  
We aim to capture a reasonable market share, refraining from direct pricing competition
- **Only alternative to AMX with international experience**

**Achieving a market share north of 20% by 2006 is reasonable under a rational scenario**

## *Our performance is better than originally anticipated ...*

- **Launch of GSM in 17 cities, coverage in areas with 38MM POPs**
- **Nationwide single brand launched**
- **Implementation of TEM's commercial system**

### **Accelerating GSM build-up**

#### **2003 Initial plans**

- **46 cities covered**
- **Additional coverage in cities where GSM already launched**



#### **2003 New plans**

- **Coverage in >80 cities**
- **Capex: €600MM**

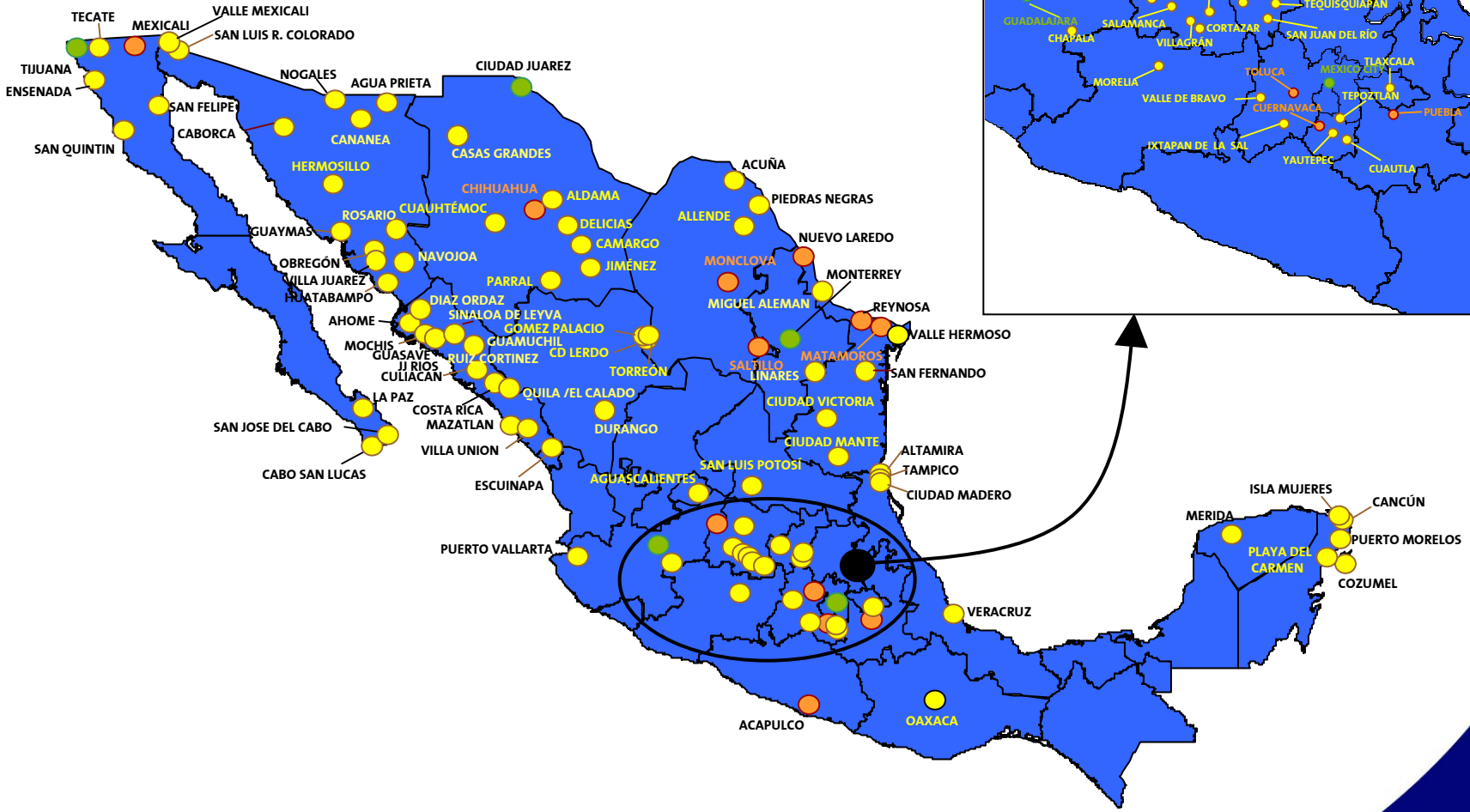




... with a record-time GSM network build up...

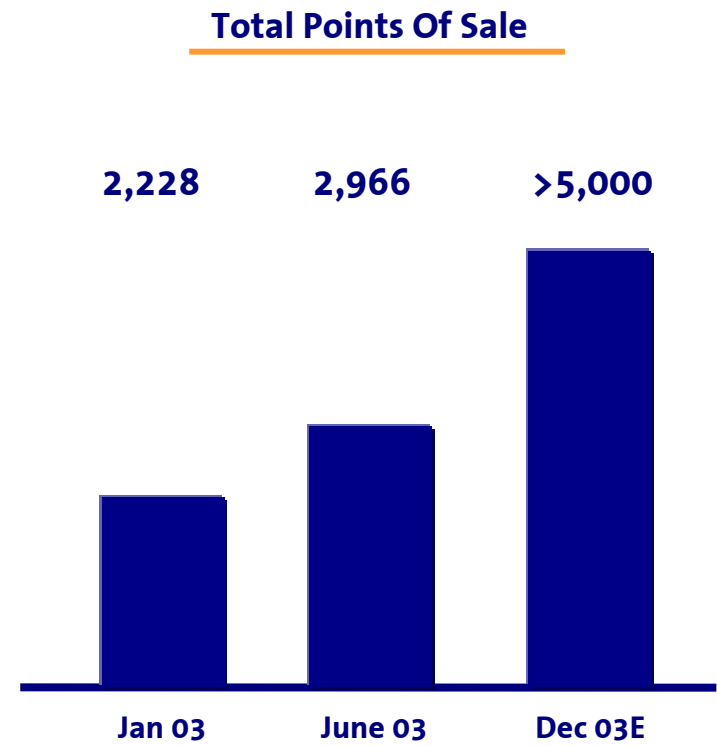
2003

- May 2003
- September 2003
- December 2003



*... at the same time that we expand our distribution channel...*

- **Deployment of a controlled distribution strategy:**
  - Reinforcement of Retail channel
  - Streamlining of Direct channel (own stores)
  - Reinforcement of Specialised and Mixed channels
  - Creation of SME Dealer & Corporate channel
  - Refurbishing of points of sale



## *... and launch an innovative GSM service offering...*

**Leverage on TEM's in-depth knowledge & expertise of GSM technology & services, accelerating time to market**

**Launch date (May 2003)**

- **Basic services:**
  - **Call Waiting**
  - **Call forwarding**
  - **Conference call**
  - **Caller ID**
- **2424 (info services)**
- **Voice mail**
- **SMS**
- **Balance check (prepaid)**

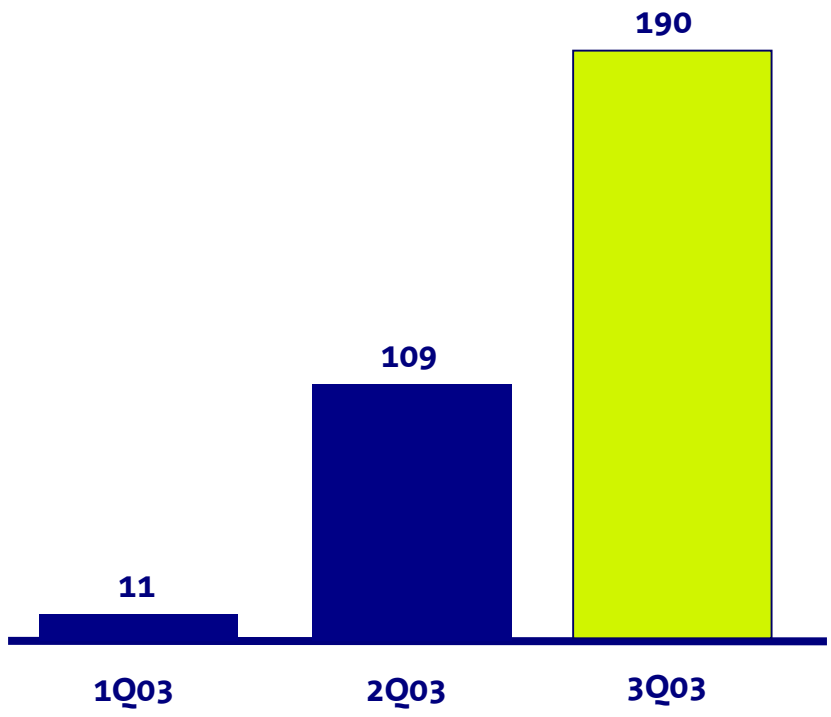
**October**

- **International SMS**
- **WAP**
- **GPRS**
- **Ringling tones**
- **Icons**
- **Content via SMS**
- **Televoting**
- **Fun greetings**
- **Direct roaming, roaming broker**
- **Balance check (contract)**



*... which have supported the subscriber base growth*

**Net adds (000)**



**3Q03 number of subscribers has reached 2.7MM**



## *These initiatives allow us to accelerate customer growth & reach profitability in the medium term*

### **Building a platform to capture growth**

#### **2003**

- Nationwide single brand launched and integration of Companies
- Expansion of distribution channels (5,000 vs. 2,228 end 2002)
- Innovative GSM offer
- GSM deployment, covering >80 cities
- CAPEX of 600MM€
- EBITDA losses under 100MM€

### **Obtaining critical mass**

#### **2004- 05**

- GSM deployment, covering >150 additional cities in 2004
- EBITDA break-even during late 2004 with the flexibility to speed up customer growth if market conditions are adequate

### **Reaching profitability**

#### **2006**

- >20% market share
- 22%-26% EBITDA margin by 2006E
- Cumulative capex<sup>1</sup> 2003–2006E: €1.8bn
- Operating CF break-even

**We are facing our key challenges with a prudent cash management/  
financial discipline**

<sup>1</sup> Constant exchange rates as of 2002. Operating CF: EBITDA-Capex.

- **A global perspective: capitalizing on performance excellence & existing growth prospects**
- **Responding to local challenges and opportunities:**
  - **Spain: sustainable leadership with world class performance**
  - **Brazil: consolidating leadership & shaping the market**
  - **Mexico: agile management to support rapid growth**
  - **Other markets: capture additional growth**
- **Guidance for our future performance**



## *Other operations offer additional growth prospects*

### **Argentina**

**TCP is best positioned to overcome the crisis**

- 38% y-o-y EBITDA growth in Euro terms (1H03)
- Self sustainable operation with cash flow generation
- Capture growth opportunities due to extremely low mobile penetration while continuing to enhance operating efficiency
- Growth & capex will evolve according to market conditions

### **Peru**

- Market share > 52% & 37% EBITDA margin in 1H03
- Lead customer growth
- Ongoing focus on customer loyalty
- Maintain high operating efficiency

### **Morocco**

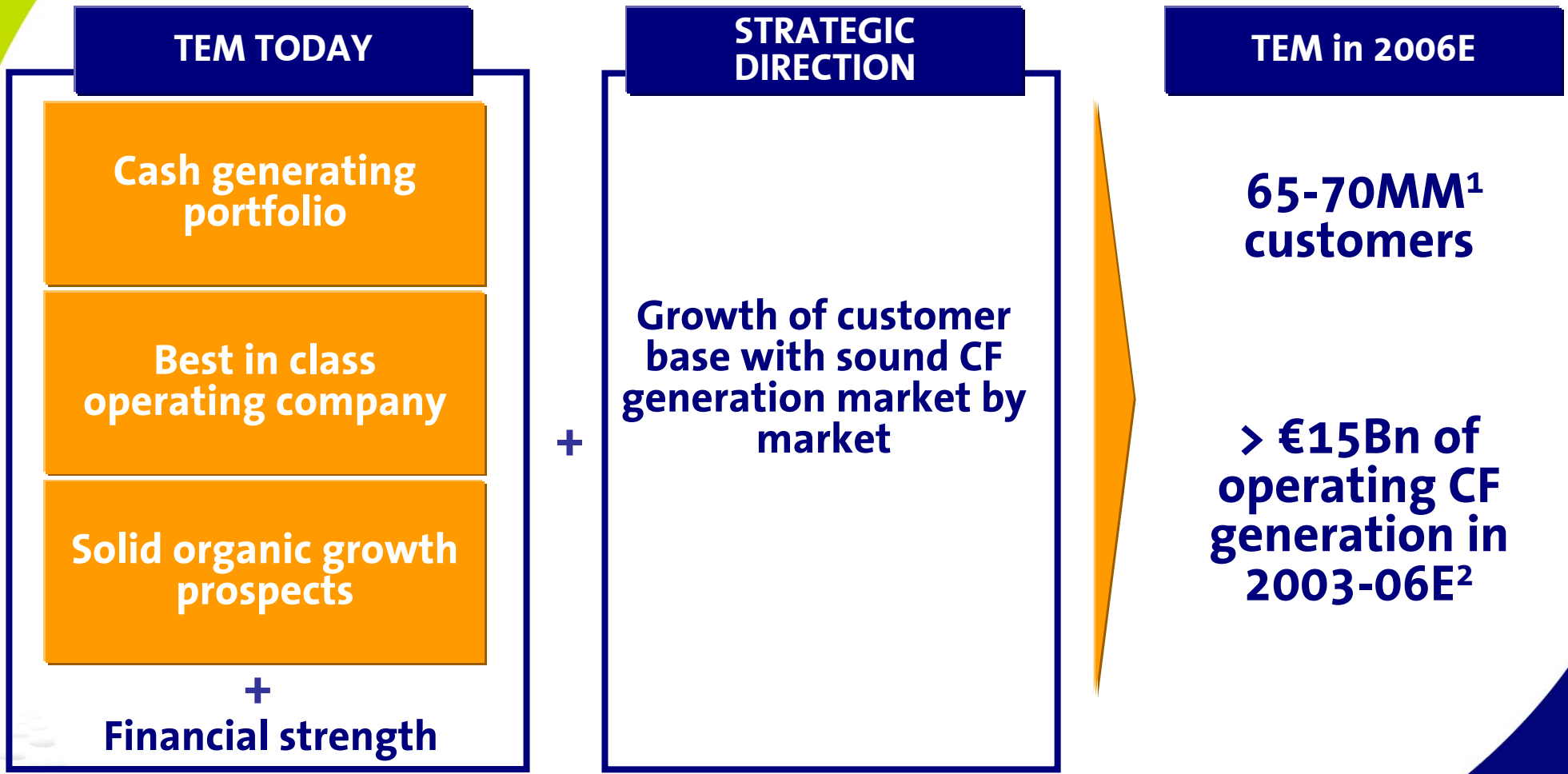
- Market share > 41% & 29% EBITDA margin in 1H03
- Capture additional growth potential
- Customer loyalty initiatives
- Promote usage of SMS & foster roaming

- **A global perspective: capitalizing on performance excellence & existing growth prospects**
- **Responding to local challenges & opportunities:**
  - **Spain: sustainable leadership with world class performance**
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# Unique business case



<sup>1</sup> Managed customer base. Includes Chile and Puerto Rico.

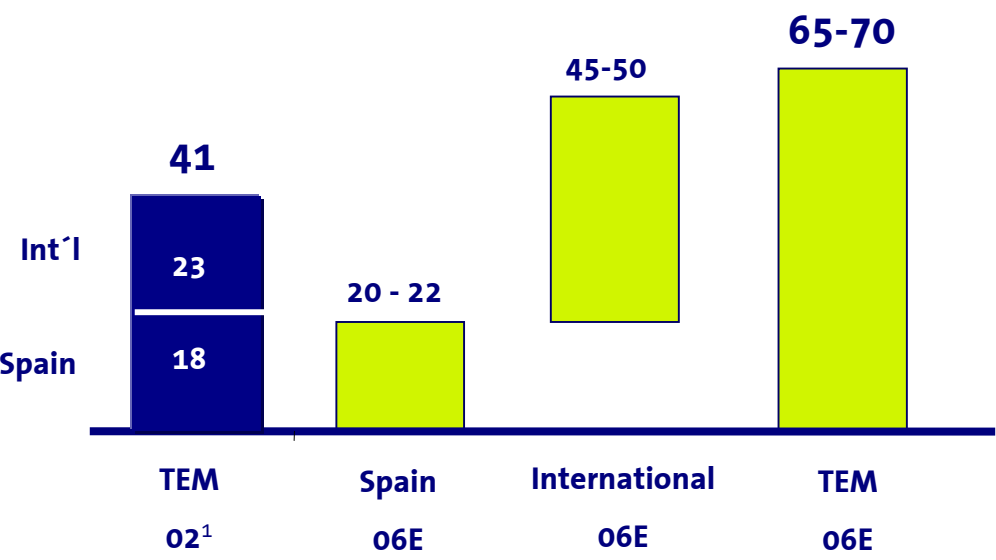
<sup>2</sup> Operating CF: EBITDA-Capex. Constant exchange rates as of 2002.

*We offer a premium performance derived from a combination of solid organic top line growth ...*

**Strong customer expansion in Latin America**

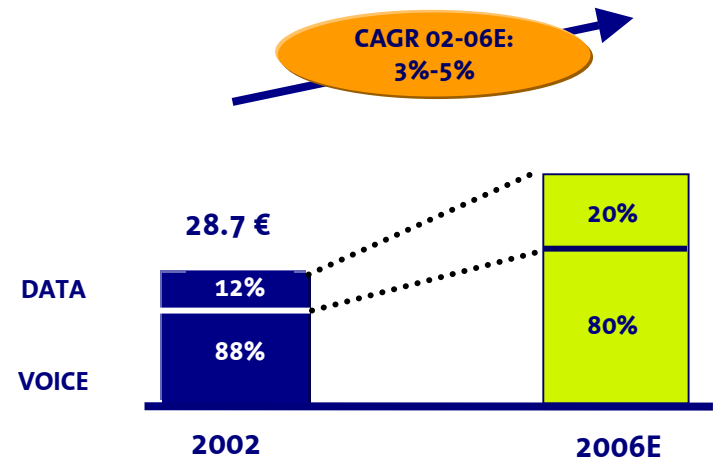
Managed Customers by 2006E

MM



**Usage growth in Spain**

TEM Spain's ARPU



**Consolidated operating revenues CAGR 02-06E<sup>2</sup>:  
11% - 15%**

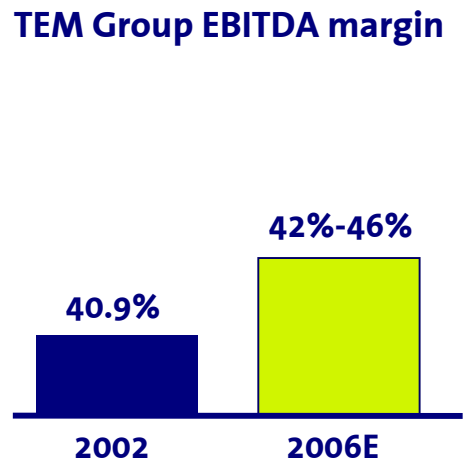
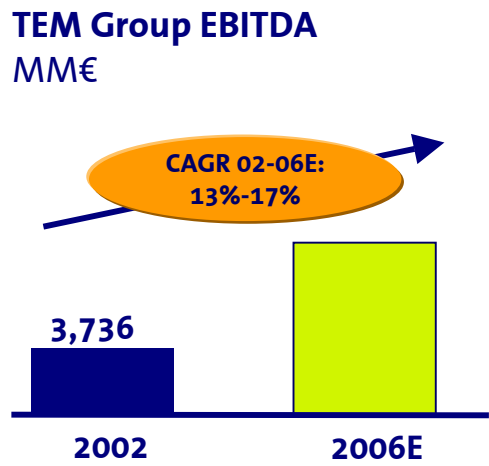
<sup>1</sup> 2002 Customer base does not include TCO customers

<sup>2</sup> Constant exchange rates as of 2002

# ... high level of operating efficiency ...

## Operating excellence across all regions of operations

- TEM Spain is the most efficient operator in its European Home Market
- EBITDA margins >40% in Brazil
- Continue improving margins in other countries



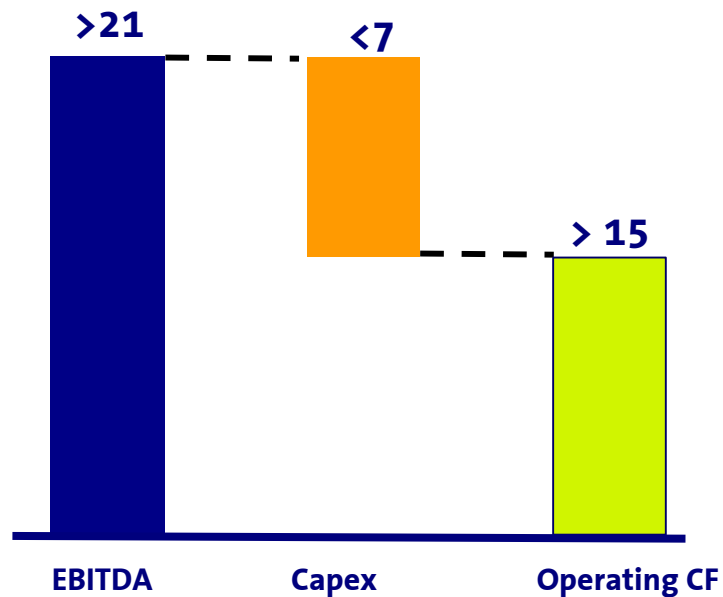
Constant exchange rates as of 2002

## ... and capex optimisation that lead to a strong cash flow generation

### Operating cash-flow

Cumulative figures 2003-2006E

Bn€



- Invest in growth projects with reduced risk & control of operations
- Maintain solid balance sheet
- Healthy dividend stream, increasing above inflation

## Wrap-up

### 10 reasons for being optimistic about TEM

#### Spain

- Strong usage growth
- ARPU CAGR 02-06E: 3%-5%
- Sustained EBITDA margin >50%
- Controlled capex budget at €600-850MM/year while leading UMTS deployment
- Competitive scenario & regulatory environment

#### Brazil

- Leader in a 60-70MM subscribers market by 2006-07
- EBITDA margins > 40%
- Strong operating cash flow

#### Mexico

- Faster and cheaper than expected network deployment
- Market share > 20% in a  $\approx$  40% penetration market by 2006-07

*Telefónica*

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***Móviles***