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*Executive Chairman and CEO
Telefónica, S.A.*

Closing Remarks

THIRD
INVESTOR
CONFERENCE

MADRID 2003

Telefonica

Enhancing cash returns through growth and transformation

Closing Remarks

October 10, 2003



In the recent past, Telefónica has anticipated the sector trends and taken the steps required for the new environment

The Telco sector's To-Do List

	Telefónica	EU telco peers
Extend growth potential in wireless	✓ ✓	?
Firm decisions taken to transform traditional wireline	✓ ✓	?
Leveraging on mass-market DSL opportunity	✓ ✓	?
Divesting non-core assets	✓ ✓ ✓	?
Solid delivery of FCF growth	✓ ✓	?
Optimising capital structure	✓ ✓ ✓	?
Establishing long-term dividend policy	✓ ✓ ✓	?

Looking forward, we are committed to generating growing free cash flows and improved returns on capital for our shareholders

Our commitment towards our shareholders



Our management focus

Growing cash flow generation and improved ROCE



Used to enhance shareholder returns



Tight management of risk profile

A
Drive top line growth

B
Move ahead in company transformation



We will make sure that top-line growth happens

Management for growth will focus on three key levers...

• **Drive the BROADBAND opportunity**

• **Keep maximising growth in WIRELESS**

• **Realise further growth in LATAM WIRELINE**

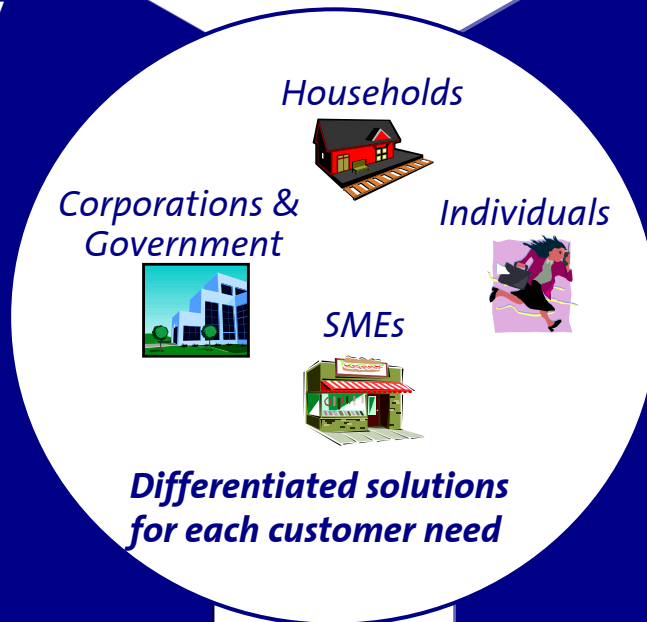
...leveraging on five key assets and capabilities

- **The most experienced in Spain & LatAm: Leadership in Spanish and Portuguese markets**
- **Unique position in the customer access business (wireline, wireless, other platforms)**
- **Excellent customer, technology and commercial know-how**
- **Ongoing Company transformation process to foster future growth**
- **Strong cash generation & healthiest balance sheet among peers**

And we will take our ongoing transformation further to stimulate growth

Commercial oriented company

- Transition towards most commercially oriented organisation among incumbent telcos
- Build-up of excellent marketing and sales capabilities to ensure growth



Leaner, more efficient business model

- Less capital intensity through CapEx optimization towards growth activities
- Step-change increases in operational efficiency and flexibility

An integrated telecom Group serving all customer needs in each segment

In addition, current market dynamics may offer us opportunities to complement our core businesses

**The principles
that will govern
our actions**

- **Core business only**
- **Manageable geographies**
- **Complementary with existing operations**
- **Reasonable price / upside balance**
- **No greenfield operations**
- **Not affecting our solvency profile (Single A rating) or our shareholder commitment**

Our execution on these fronts will be managed according to consistent, well-defined principles

One integrated telecom Group

**Committed to
organic
growth in
core
businesses**

**Consistent
and reliable
management
under a
common
culture**

**Transparent,
accountable
to
shareholders
and the
markets**

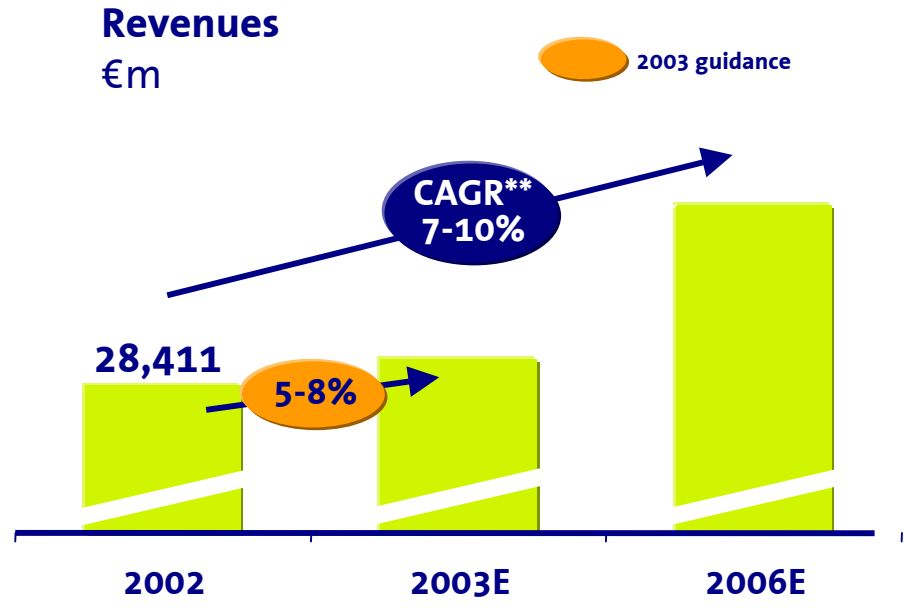
**Committed to
implementing
our vision for
the future**

As a result, we expect to deliver 7-10% consolidated top-line organic growth 2002-06 ...

Customer Base

Revenues

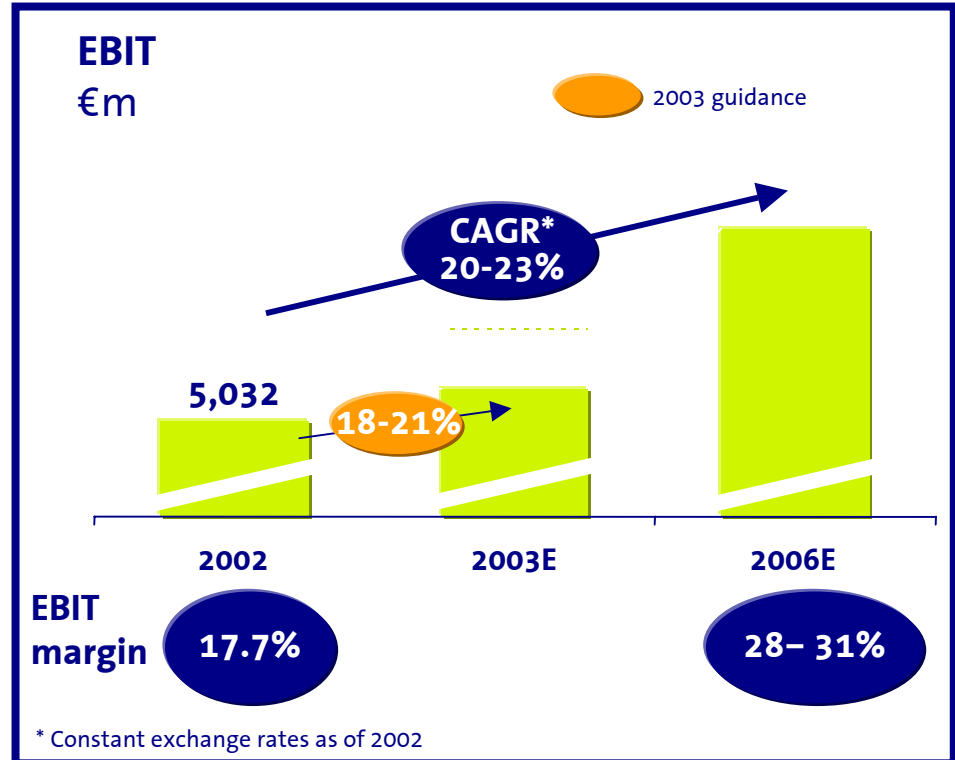
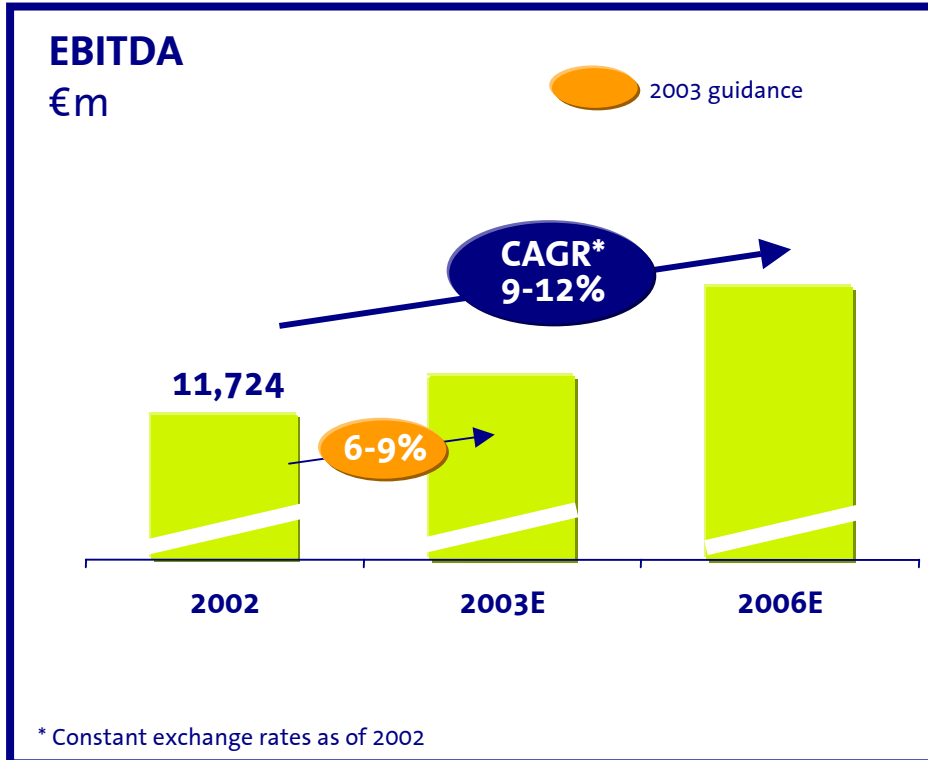
	<u>2002</u>	<u>2006E</u>
Wireline		
Lines in Service (m)	44.9	> 45 M
% Broadband	3.1%	12-16%
Wireless		
Customers (m)	43.9	> 65 M
Total *	90	> 115 M



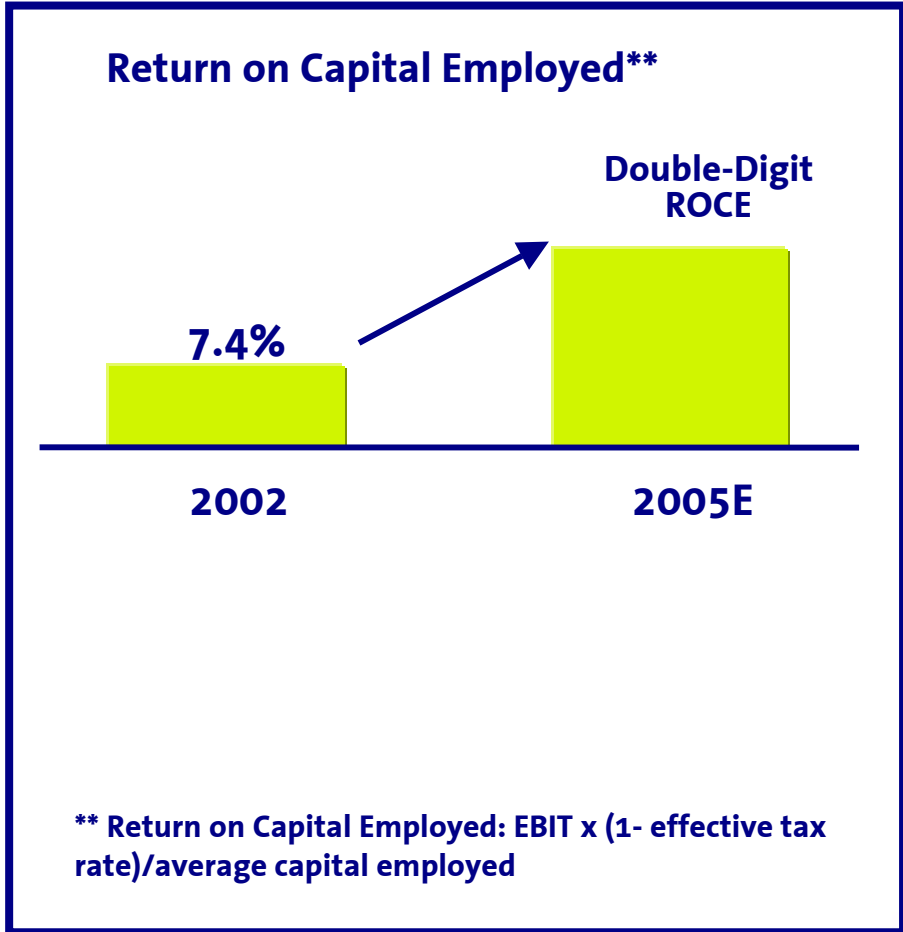
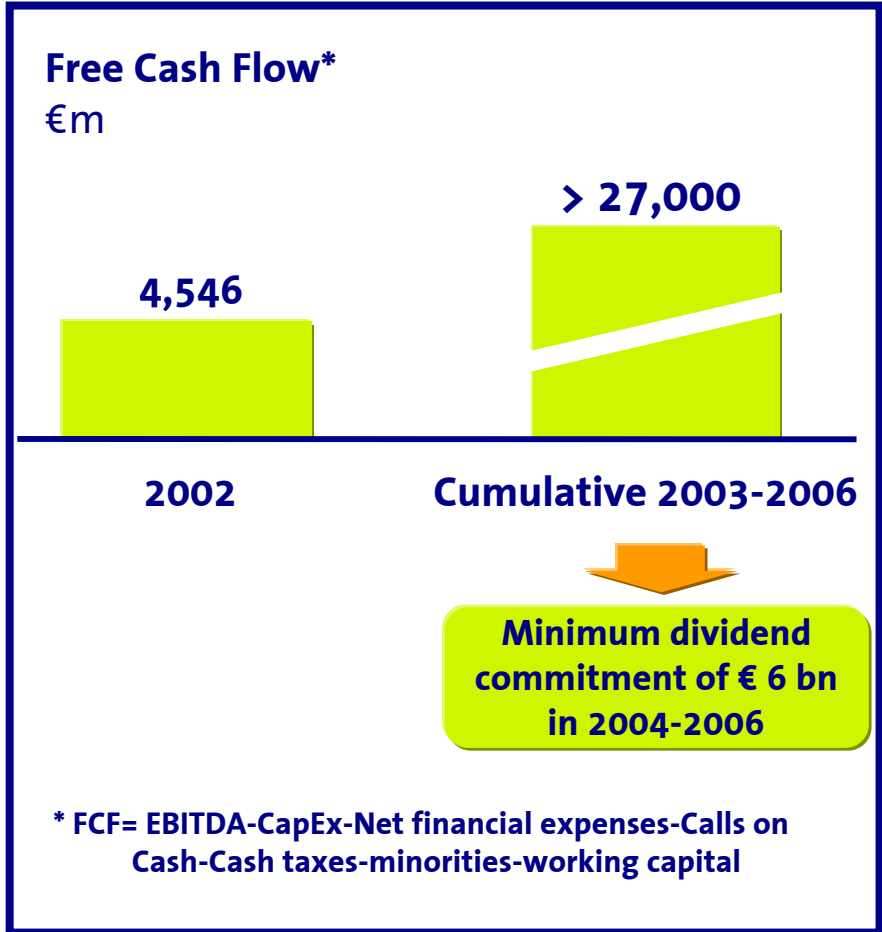
** Constant exchange rates as of 2002

* Including CANTV and Cable Mágico in Peru

... 20-23% EBIT growth with full impact to bottom line ...



... and, finally, delivering a steady increase of free cash flow generation and return on capital



We are moving one step forward in our commitment to shareholder remuneration... supported by our increasing confidence in our Free Cash Flow generation

TOTAL 03-06 >27 billion € *



TO FULLY DELIVER ON OUR FIRM COMMITMENTS

TO KEEP STRATEGIC FLEXIBILITY TO GROW OUR BUSINESSES

Our commitment is to proceed with an additional minimum 4 billion Euros share buy back for the period 03-06, conditioned to the generation of free cash flow over our firm commitments

Timing on execution will be sensitive to:

- share price
- free cash flow generation speed

***In summary, execution of growth and transformation...
to offer a unique combination in the Telco industry***

STRONG ORGANIC GROWTH POTENCIAL

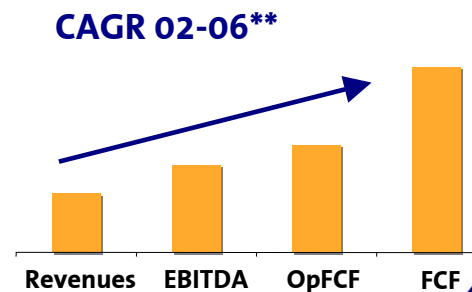
**Sustainable
FREE cash flow
generation**

**> cumulative 27 bn€
2003-06**

STRONG AND LONG-TERM SHAREHOLDER REMUNERATION

**>11.4 bn Euros 03-06, more than 21% current market cap yield
dividend of 3.8% + 7.6% share buy back at current prices***

POWERFUL CONVERSION RATE OF CASH FLOW INTO EQUITY METRICS



* share price as of closing 7th October 2003

** constant exchange rates as of 2002

Telefónica
