César Alierta
Executive Chairman and CEO
Telefónica, S.A.

Closing Remarks

THIRD INVESTOR CONFERENCE
MADRID 2003
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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

<table>
<thead>
<tr>
<th></th>
<th>Telefónica</th>
<th>EU telco peers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extend growth potential in wireless</td>
<td>✓ ✓</td>
<td>?</td>
</tr>
<tr>
<td>Firm decisions taken to transform traditional wireline</td>
<td>✓ ✓</td>
<td>?</td>
</tr>
<tr>
<td>Leveraging on mass-market DSL opportunity</td>
<td>✓ ✓</td>
<td>?</td>
</tr>
<tr>
<td>Divesting non-core assets</td>
<td>✓ ✓ ✓</td>
<td>?</td>
</tr>
<tr>
<td>Solid delivery of FCF growth</td>
<td>✓ ✓</td>
<td>?</td>
</tr>
<tr>
<td>Optimising capital structure</td>
<td>✓ ✓ ✓</td>
<td>?</td>
</tr>
<tr>
<td>Establishing long-term dividend policy</td>
<td>✓ ✓ ✓</td>
<td>?</td>
</tr>
</tbody>
</table>
Looking forward, we are committed to generating growing free cash flows and improved returns on capital for our shareholders.

Our commitment towards our shareholders:
- Growing cash flow generation and improved ROCE
  - Used to enhance shareholder returns
  - Tight management of risk profile

Our management focus:
- Drive top line growth
- 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

Differentiated solutions for each customer need
- Households
- Corporations & Government
- Individuals
- SMEs

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 ...

<table>
<thead>
<tr>
<th>Customer Base</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wireline</strong></td>
<td></td>
</tr>
<tr>
<td>Lines in Service (m)</td>
<td>44.9</td>
</tr>
<tr>
<td>% Broadband</td>
<td>3.1%</td>
</tr>
<tr>
<td><strong>Wireless</strong></td>
<td></td>
</tr>
<tr>
<td>Customers (m)</td>
<td>43.9</td>
</tr>
<tr>
<td><strong>Total</strong> *</td>
<td>90</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2002</th>
<th>2003E</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (€m)</td>
<td>Total</td>
<td>Including CANTV and Cable Mágico in Peru</td>
</tr>
<tr>
<td>28,411</td>
<td>5-8%</td>
<td></td>
</tr>
</tbody>
</table>

** CAGR**

7-10%

2003 guidance

** Constant exchange rates as of 2002
… 20-23% EBIT growth with full impact to bottom line …

**EBITDA**

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003E</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td>€m</td>
<td>11,724</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **CAGR** 9-12%

**EBIT**

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003E</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td>€m</td>
<td>5,032</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **CAGR** 20-23%

**EBIT margin**

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003E</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>17.7%</td>
<td></td>
<td>28-31%</td>
</tr>
</tbody>
</table>

* Constant exchange rates as of 2002

2003 guidance
... and, finally, delivering a steady increase of free cash flow generation and return on capital

<table>
<thead>
<tr>
<th>Year</th>
<th>Free Cash Flow* (€m)</th>
<th>Cumulative 2003-2006 (€m)</th>
<th>Return on Capital Employed**</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>4,546</td>
<td>&gt; 27,000</td>
<td>7.4%</td>
</tr>
<tr>
<td>2005E</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Return on Capital Employed: EBIT x (1 - effective tax rate)/average capital employed

* FCF = EBITDA-CapEx-Net financial expenses-Calls on Cash-Cash taxes-minorities-working capital

Minimum dividend commitment of €6 bn in 2004-2006

Double-Digit ROCE
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 €**

1. SHAREHOLDER REMUNERATION  
   - from 7.4 to 11.4

2. SOLVENCY PROTECTION FOR A “SINGLE A” RATING  
   - 7.9

3. BUSINESS LONG TERM EXPANSION  
   - from 11.7 to 7.7

4. FINANCIAL FLEXIBILITY

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

* constant exchange rates as of 2002
In summary, execution of growth and transformation... to offer a unique combination in the Telco industry

**Sustainable **

FREE cash flow generation

> cumulative 27 bn€ 2003-06

**STRONG ORGANIC GROWTH POTENTIAL**

**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**

*C share price as of closing 7th October 2003
** constant exchange rates as of 2002