



**César Alierta**

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

**Closing Remarks**

THIRD  
INVESTOR  
CONFERENCE

MADRID 2003

*Telefonica*

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# Safe harbor

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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***

	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**

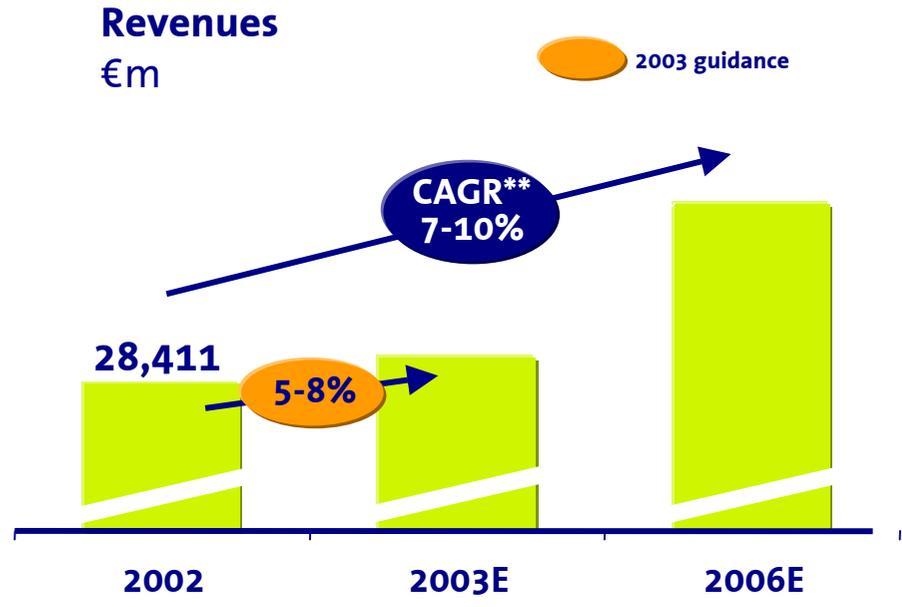
**Committed to  
implementing  
our vision for  
the future**

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

**Customer Base**

**Revenues**

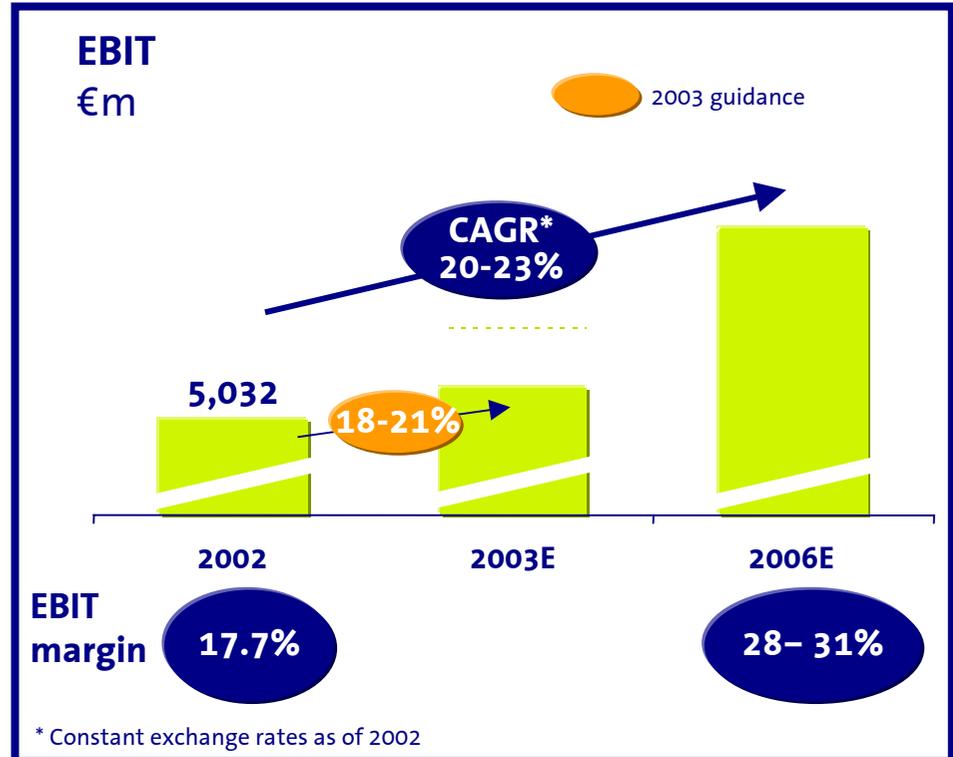
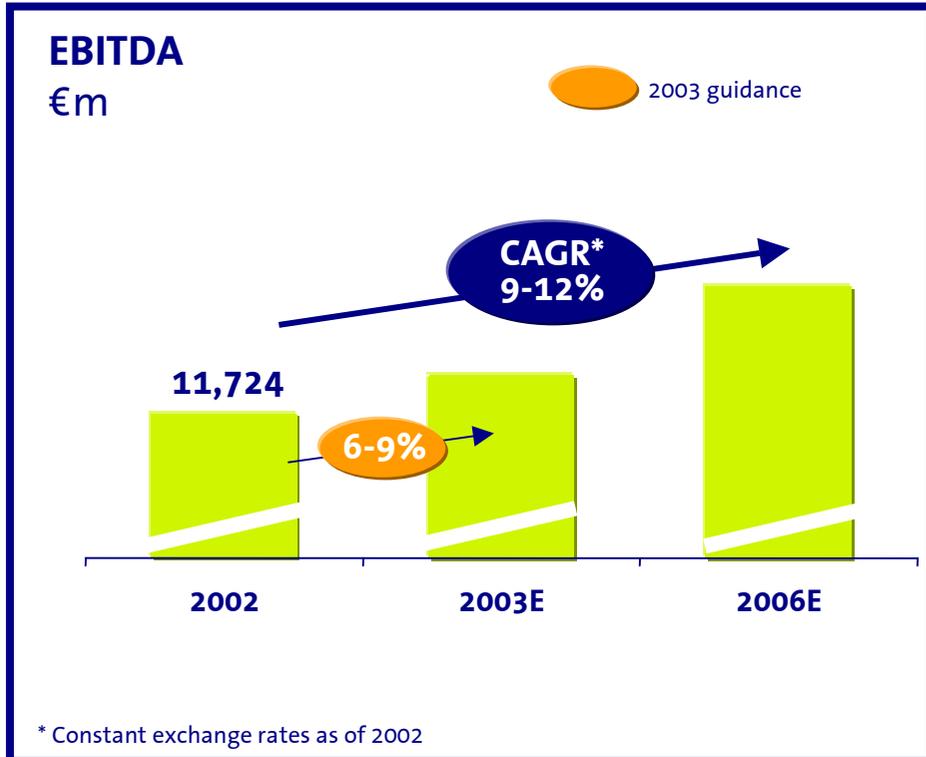
	<u>2002</u>	<u>2006E</u>
<b>Wireline</b>		
Lines in Service (m)	44.9	> 45 M
% Broadband	3.1%	12-16%
<b>Wireless</b>		
Customers (m)	43.9	> 65 M
<b>Total *</b>	<b>90</b>	<b>&gt; 115 M</b>



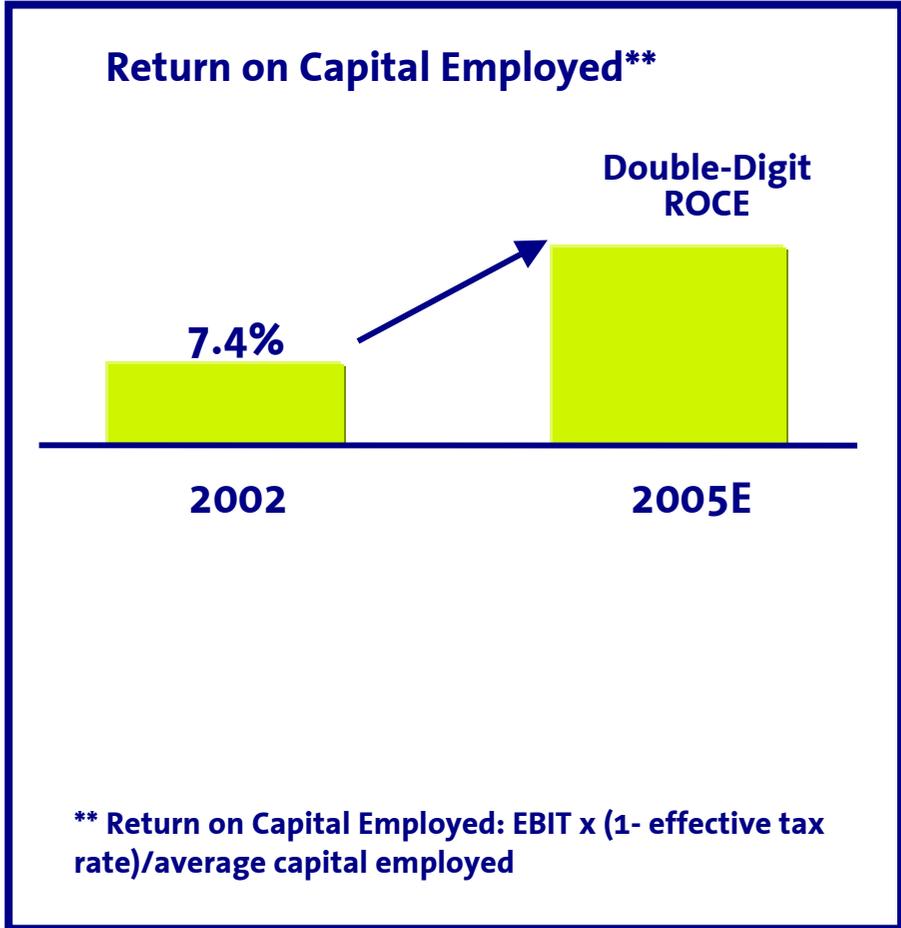
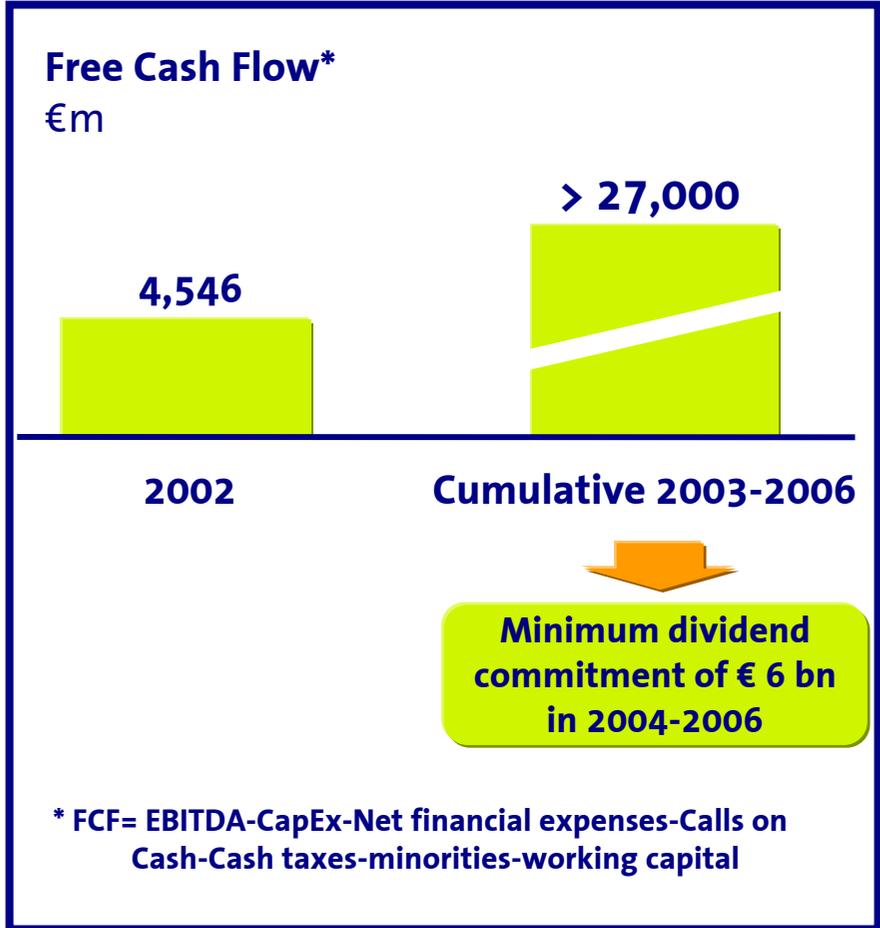
\*\* Constant exchange rates as of 2002

\* 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 KEEP STRATEGIC FLEXIBILITY TO GROW OUR BUSINESSES**

**TO FULLY DELIVER ON OUR FIRM COMMITMENTS**

**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**

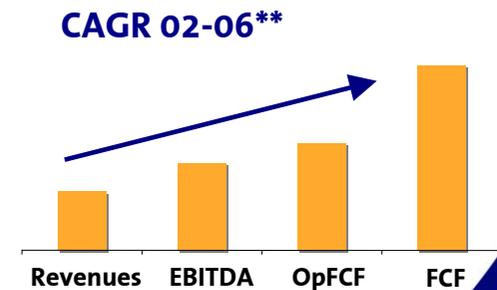
**Sustainable  
FREE cash flow  
generation**

**> 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*

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