Telefónica Latam: The key growth lever of Telefónica

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1. Telefónica Latinoamérica at a glance

2. Unique top line growth potential in a fast growth region

3. Regional integrated management and scale benefits to further enhance efficiency

4. On track to deliver a superior growth guidance
The leading integrated player in a growth region...

Operations in 15 countries³

31% 2007 market share (E²)

FY 2007

134.1 m Accesses
€20,078 m Revenues
€7,121 m OIBDA
€3,778 m OpCF

More than 45,000 Km of optical fiber

TELEFÓNICA S.A.
Investor Relations

Fixed includes Fixed Wireless
¹ Includes US and Puerto Rico
² Telefónica’s Business Intelligence Unit
...with a strategic alliance in a very dynamic market

- 5.0% stake\textsuperscript{1} in China Netcom
  - 131 million accesses (Mar-08)
  - In a country with a population of 1,300 million
  - Huge ICT growth potential: 21% of forecasted world telecom revenue growth 2007-2010\textsuperscript{2}

\textsuperscript{1} Pending closing of additional 2.22%
\textsuperscript{2} Yankee Group Forecast, Oct-07
The main growth driver of Telefónica ...

Q1 08 T.Latam weight in TEF

<table>
<thead>
<tr>
<th></th>
<th>Revenues</th>
<th>OIBDA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>37%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Q1 08 Revenue growth (Organic\(^1\) y-o-y growth)

- **TEF**: +7.0%
- **T. Latam**: +12.6%

Q1 08 OIBDA growth (Organic\(^2\) y-o-y growth)

- **TEF**: +8.2%
- **T. Latam**: +11.8%

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... with a highly diversified portfolio...

Mar-08 Accesses (in millions)

<table>
<thead>
<tr>
<th>Service</th>
<th>Growth</th>
<th>Contribution to T.Latam Q1 08 results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total accesses</td>
<td>+17.7%</td>
<td>40%</td>
</tr>
<tr>
<td>Mobile</td>
<td>+23.0%</td>
<td>11%</td>
</tr>
<tr>
<td>BB1</td>
<td>+29.5%</td>
<td>15%</td>
</tr>
<tr>
<td>Pay TV</td>
<td>+77.2%</td>
<td>10%</td>
</tr>
<tr>
<td>Fixed2</td>
<td>+1.9%</td>
<td>10%</td>
</tr>
</tbody>
</table>

+3.6 p.p. acceleration vs. Mar-07

65% of our revenues and 62% of our OIBDA from Investment Grade economies

Revenue

OIBDA

Countries in orange are Investment Grade

1 Including Terra Latam
2 Including Fixed Wireless
1 Telefónica Latinoamérica at a glance

2 Unique top line growth potential in a fast growth region

3 Regional integrated management and scale benefits to further enhance efficiency

4 On track to deliver a superior growth guidance
For the future, LATAM holds huge potential for Telefónica

- Seven main countries in LATAM growing simultaneously
- Region GDP per capita PPP growth expectations CAGR 2006-2010: 5.7%¹
- 75% of the GDP of LATAM in investment grade countries estimated for 2010
- 74 million people living in urban areas
- Increased purchasing power due to middle class growth
- Telecom sector expected growth in revenues 2006-2010: €35-40 bn
- 58 million additional workers
- Fastest growing region in the world: +7.8%² CAGR 06-10

¹ International Monetary Fund  
² IDC  

Peru & Brazil Debt Rating upgraded to Investment Grade in 2008
Significant top line growth potential, capitalising on our unique integrated approach

**WIRELESS**

- Further penetration increase
- Voice usage upside
- Data potential

**WIRELINE**

- Accesses expansion (Broadband, TV, fixed wireless)
- Traffic bundles
- Further Broadband development (upselling through 2P & 3P)

**Customer &ARPU expansion**

- Over 55/60 million additional mobile accesses in 2007-10E with a 1-3% 06-10E CAGR ARPU increase (ex-fx)
- Over 4/5 million additional BB accesses
Solid growth prospects in wireless penetration...

Wireless penetration in Latin America

- Fast growth, exceeding expectations
- Further upside driven by:
  - Bigger addressable market
  - Lower entry barriers (GSM, scale benefits)
  - Increased coverage

Wireless penetration per country (Mar-08)

- Fast growth, exceeding expectations
- Further upside driven by:
  - Bigger addressable market
  - Lower entry barriers (GSM, scale benefits)
  - Increased coverage

<table>
<thead>
<tr>
<th>Country</th>
<th>December 06</th>
<th>March 07</th>
<th>December 07</th>
<th>March 08</th>
<th>December 10E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>99%</td>
<td>94%</td>
<td>92%</td>
<td>87%</td>
<td>76%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>64%</td>
<td>67%</td>
<td>69%</td>
<td>71%</td>
<td>83%</td>
</tr>
<tr>
<td>Chile</td>
<td>56%</td>
<td>59%</td>
<td>69%</td>
<td>71%</td>
<td>83%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>51%</td>
<td>54%</td>
<td>58%</td>
<td>60%</td>
<td>63%</td>
</tr>
<tr>
<td>Colombia</td>
<td>76%</td>
<td>78%</td>
<td>80%</td>
<td>82%</td>
<td>85%</td>
</tr>
<tr>
<td>Brazil</td>
<td>66%</td>
<td>68%</td>
<td>70%</td>
<td>72%</td>
<td>75%</td>
</tr>
<tr>
<td>Mexico</td>
<td>64%</td>
<td>67%</td>
<td>70%</td>
<td>72%</td>
<td>75%</td>
</tr>
<tr>
<td>Peru</td>
<td>51%</td>
<td>54%</td>
<td>58%</td>
<td>60%</td>
<td>63%</td>
</tr>
</tbody>
</table>
...fully flowing into our customer base

Customer growth acceleration:
- Double digit customer growth across markets
- 3.1m net adds in Q1 08

Leveraging enhanced distribution channels and GSM network expansion:
- Robust gross adds and churn containment
- 69% of total customer base in GSM (+25.7 p.p. y-o-y)

Customer Growth drivers (Q1 08 y-o-y change)

- T. Latam wireless customer growth (y-o-y growth)
  - Gross adds: +26.4%
  - Churn: +0.0 p.p.
  - Net adds: +37.1%

Customers per country (Mar-08, m)

- Gross adds: +26.4%
- Churn: +0.0 p.p.
- Net adds: +37.1%

LATAM:
- Colombia: 8.8, +16%
- Peru: 8.7, +56%
- Chile: 6.4, +12%

CENTRAL AMERICA:
- Argentina: 34.3, +18%
- Mexico: 13.3, +42%
- Venezuela: 9.3, +13%

AMERICA LATINA:
- Brazil: 15.5, +23%
- Colombia: 8.8, +16%
- Peru: 8.7, +56%
- Chile: 6.4, +12%

GEOGRAPHIC DISTRIBUTION:
- 104
- 34.3
- 13.8
- 13.3
- 9.3
- 8.8
- 8.7
- 6.4
- 5.3
- 2.7
- 1.2

GEOGRAPHIC DISTRIBUTION:
- WIRELESS

LATAM:
- Argentina: +18%
- Mexico: +42%
- Venezuela: +13%

CENTRAL AMERICA:
- 104
- 34.3
- 13.8
- 13.3
- 9.3

AMERICA LATINA:
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- 5.3
- 2.7
- 1.2
Fostering usage to expand ARPU

- New commercial offerings to drive elasticity:
- MoU potential\textsuperscript{1}: 95, 161, 190
- Recharge incentives: “Duplicame”
- Customer migrations to higher value products: Prepay to Contract migration, periodic top-ups

Exploiting voice usage levers

Outgoing ARPU evolution in Chile (Index)

<table>
<thead>
<tr>
<th>Product</th>
<th>ARPU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepay</td>
<td>100</td>
</tr>
<tr>
<td>MovilPack</td>
<td>200</td>
</tr>
<tr>
<td>Hybrid</td>
<td>286</td>
</tr>
<tr>
<td>Postpay</td>
<td>429</td>
</tr>
</tbody>
</table>

- Prepay to Postpay: Upselling
- Hybrid to MovilPack: Usage
- Moves to Blackberry
- Moves to Mobile Internet

\textsuperscript{1} Minutes in 2007. Data for Telefónica operations in the respective countries

Mar-08 Contract weight (y-o-y)

Chile: +3.7 p.p.
Argentina: +1.9 p.p.
Fostering usage to expand ARPU

- **Exploiting voice usage levers**
- **Building the foundations for data ARPU explosion**
- **Already delivering tangible results**

**New commercial offerings to drive elasticity:**
- **MoU potential**: 95, 161, 190
  - Latam, Spain, UK
- **Recharge incentives**: “Duplicame”
- **Customer migrations to higher value products**: Prepay to Contract migration, periodic top-ups

- **P2P SMS, content SMS, browsing, e-mail...**

- **Progressive 3G launch, leveraging new GSM networks (3G compatible):**
  - CDMA/EVDO 3G services in Brazil & Venezuela
  - 3G already launched in Argentina, Chile & Uruguay. Brazil & Mexico to launch in H2 08

**Q1 08 y-o-y growth**
- Outgoing MoU: +20.6%
- Outgoing ARPU Ex-forex: +4.5%
- Data revenues y-o-y growth: +39.9%
- Data revenues/Service Revenues: 13.3% +1.4 p.p.

**Mobile BB users:**
- ~240k EVDO/1XRTT PCMCIAS in Brazil at Mar-08
- >75k in Venezuela (x2.5 vs. Mar-07)

\(^1\) Minutes in 2007. Data for Telefónica operations in the respective countries
Brazil: sound results, capitalising our strengthened competitive position

- **Brand strength:**
  - Higher than market average customer satisfaction\(^1\)
  - Best service quality\(^2\)

- **Nationwide footprint:**
  - Telemig’s acquisition
  - Acquisition of additional 1.9 & 2.1 MHz spectrum nationwide

- **Fast execution of migration to GSM:**
  - Network deployed in a record time
  - More competitive prices, acquisition of high-value clients and increase in postpay additions
  - 43% of our total customer base already in GSM with lower SACs
  - Superior GSM coverage due to launch in 850MHz

- **Largest distribution channel:**
  - Over 8,000 POS and more than 412,000 points of recharge

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**Net adds market share\(^3\):**

- 3% Jan-Apr.07
- 19% Jan-Apr.08

**Q1 08 y-o-y growth**

- Gross Adds: +56%
- Churn: +20%
- Customers: +18%
- Outg. ARPU: +3%
- Outgoing Ss. revenue: +29.5% Margin

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\(^1\) Total Satisfaction Survey in the H2 07, Instituto GFK
\(^2\) Anatel
\(^3\) Anatel on national basis
\(^4\) Internal estimates
Mexico: reinforcing market positioning, capitalising a profitable growth model

- Enhanced distribution channel:
  - Better quality adds and lower churn
  - Further initiatives to better address the postpay market (Maxcom, Alestra …)
- Innovative commercial offers, driving usage and ARPU up
- Progressive deployment of 3G networks. Upcoming spectrum auctions
- Early signs of regulatory advances (national CPP, portability)
- Benefits of scale

**Customer market share**

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-06</td>
<td>13.5%</td>
</tr>
<tr>
<td>Mar-07</td>
<td>15.7%</td>
</tr>
<tr>
<td>Mar-08</td>
<td>18.7%</td>
</tr>
<tr>
<td>Dec 10E</td>
<td>23-25%</td>
</tr>
</tbody>
</table>

*Enhanced distribution channel: + Capturing revenue share*

**Net adds share**

<table>
<thead>
<tr>
<th>Period</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-07- Mar-06</td>
<td>26%</td>
</tr>
<tr>
<td>Mar-08- Mar-07</td>
<td>34%</td>
</tr>
</tbody>
</table>

**Q1 08 y-o-y growth**

- Customers: +42%
- Outgoing ARPU: +13%
- Outgoing Ss. revenue: +64%

**OIBDA margin & OpCF** (in €m)

<table>
<thead>
<tr>
<th>Year</th>
<th>OIBDA</th>
<th>OpCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 07</td>
<td>7%</td>
<td>-15</td>
</tr>
<tr>
<td>Q1 08</td>
<td>19%</td>
<td>57</td>
</tr>
</tbody>
</table>

\[1\] Company press releases
Sum-up: Capturing growth opportunities in the wireless market

Customer & mobile outgoing service revenue growth

- Brazil: +2p.p.

Mobile service revenue growth (Q1 08 y-o-y growth)

- Mexico: 48%
- Peru: 32%
- Uruguay: 36%
- Venezuela: 20%
- Chile: 29%
- Argentina: 22%
- Central America: 12%
- Ecuador: 16%
- Colombia: 1%
- Brazil: 17%

Strong revenue growth despite lower MTRs
Transforming our wireline business to capture the BB opportunity

**Broadband penetration¹ in Latin America**

- Dec-06: 10% (y-o-y growth +1 p.p.)
- Mar-07: 11% (y-o-y growth +1 p.p.)
- Dec-07: 15% (y-o-y growth +1 p.p.)
- Mar-08: 16% (y-o-y growth ~23%)
- Dec-10E: 25% (No y-o-y growth data provided)

**Broadband penetration¹ per country (Mar-08)**

- Chile: 30% (y-o-y growth +6p.p.)
- Argentina: 25% (y-o-y growth +9p.p.)
- Brazil: 25% (y-o-y growth +6p.p.)
- Colombia: 12% (y-o-y growth +5p.p.)
- Peru: 10% (y-o-y growth +1p.p.)

Notes: ¹ Over households ² Sao Paolo

**Healthy growth rates**

- Further potential driven by:
  - Bigger addressable market
  - Expanded network coverage
  - New business opportunities: workstations
  - **Medium ADSL market:** plug & play, lower entry level bandwidth solutions, prepay...

**WIRELINE**
Expanding our access base at a strong pace …

1.2m new BB accesses in last 12 months (+7% y-o-y)

- **Regional replication of successful products:** Speedy Duo, Speedy business portfolio
- **Expanded coverage in Colombia with positive impact in gross adds** (Mar-08: +53% vs. Feb-08)
- **Higher speeds in ADSL portfolio** (Telesp, Chile)
- **Fiber pilot in Sao Paolo** to serve premium customers

**Mar-08 Retail BB accesses (´000)**

- **Brazil** (+28.2%)
- **Argentina** (+50.5%)
- **Chile** (+22.7%)
- **Peru** (+19.4%)
- **Colombia** (x2.5)

**Mar-08 Pay TV accesses (´000)**

- **T.Latam** (+77.2%)
- **Brazil** (+79.5%)
- **Chile** (+12.9%)
- **Peru** (+79.5%)
- **Colombia** (x9)

- **Regional replication of successful products:** Speedy Duo, Speedy business portfolio
- **Expanded coverage in Colombia with positive impact in gross adds** (Mar-08: +53% vs. Feb-08)
- **Higher speeds in ADSL portfolio** (Telesp, Chile)
- **Fiber pilot in Sao Paolo** to serve premium customers

1. Including Terra Latam
2. DTH product launched in August 2007 and acquisition of TVA (MMDS customers) in Q4 07
3. Including cable modem
... fostering bundles penetration, with positive results per access ...

- **Q1 08 Local & Control Bundles**
  - Brazil: 50%, +13 p.p.
  - Argentina: 54%, +8 p.p.
  - Chile: 60%, +9 p.p.
  - Peru: 56%, +1 p.p.

- **Q1 08 2P&3P/DSL Accesses**
  - T.Latam: 37%
  - Brazil: 28%
  - Argentina: 36%
  - Chile: 60%
  - Peru: 1%
  - Colombia: 42%

- **Y-o-y growth**
  - T.Latam: +25%
  - Brazil: +14%
  - Argentina: +25
  - Chile: +13
  - Peru: +1
  - Colombia: -19

**Change in fixed line revenue per access** (Q1 08 vs. Q1 07)

- **Brazil**: +10.6%
- **Argentina**: +3.0%
- **Chile**: +7.4%
- **Peru**: +1.6%
- **Colombia**: -15.4%

**Broader launch of Voice/BB/TV bundles to keep leadership in high value segment and increase loyalty**

- **85-90% bundled services by 2010**
- **40-45% of 2010 customers will have 2P or 3P**

**Churn in Chile** (Index)

- **Only Voice**
  - January-April 08: 100%
- **3P**
  - January-April 08: 52%
...with healthy top line expansion, reducing exposure to regulated services

Revenue\(^1\) growth

<table>
<thead>
<tr>
<th>Country</th>
<th>Q1 08/Q1 07 Total revenue growth</th>
<th>Y-o-y growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>4.0%</td>
<td>+2.5p.p.</td>
</tr>
<tr>
<td>Argentina</td>
<td>10.4%</td>
<td>+2.1p.p.</td>
</tr>
<tr>
<td>Chile</td>
<td>6.8%</td>
<td>+4.8p.p.</td>
</tr>
<tr>
<td>Peru</td>
<td>-7.1%</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>119.8%</td>
<td>+7.4p.p.</td>
</tr>
</tbody>
</table>

Q1 08 Internet & TV revenue/total revenue

<table>
<thead>
<tr>
<th>Country</th>
<th>Q1 08/Q1 07 Internet &amp; TV revenue/total revenue</th>
<th>Y-o-y growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>11.7%</td>
<td>+2.6p.p.</td>
</tr>
<tr>
<td>Argentina</td>
<td>15.5%</td>
<td>+2.1p.p.</td>
</tr>
<tr>
<td>Chile</td>
<td>21.3%</td>
<td>+4.8p.p.</td>
</tr>
<tr>
<td>Peru</td>
<td>29.4%</td>
<td>+6.6p.p.</td>
</tr>
<tr>
<td>Colombia</td>
<td>13.8%</td>
<td>+7.4p.p.</td>
</tr>
</tbody>
</table>

\(^1\) In constant currency
Index

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Regionalization, a key and differential operating and commercial model in the region

Telefónica’s Regionalization process

FROM
- Multiple operational systems and outsourcing policies
- Local management of data centers and networks
- Local customer attention centers

TO
- Regional management and planning model
- Unique outsourcing and network development policy
- Single services management
- Regional development of P&S

Simplifying our customers access of services
Capturing additional synergies

Regional top-ups: USA-Mexico (Mundo Movistar)

Regional Fixed Network Operating Center in Sao Paolo

Unique mobile brand

Special Roaming tariffs in our footprint

Sales channel integration

Regional management of distribution networks

Regional system for invoicing, collection and customer care ATIS/SCL

€1,100m Synergies in 2007

Simplifying our customers access of services
Capturing additional synergies
OIBDA Margin levers

**WIRELESS**

- Leveraging scale:
  - Handsets & equipment purchasing
  - Marketing and sponsorships

- Further efficiency in commercial costs
  - Increasing online channel, telemarketing

- Churn reduction:
  - Enhanced distribution quality
  - Attractive pricing and loyalty programs
  - Migration to GSM

- Network costs:
  - Closing of TDMA/CDMA networks

**WIRELINE**

- Smoother change in revenue mix:
  - Lower contribution from high margin services already materialised in most markets

- Enlarged scale in new business:
  - BB and Pay TV

- Churn reduction:
  - Bundling strategy

- Enhance quality service & improve commercial efficiency

- Benefits from workforce reorganization programs
  - Total employees to leave in 2008 (Index)
    - 2008: 100%
    - Q1 08: 20%
    - Cum. Apr-08: 43%

Strong OIBDA growth, leading to margin expansion
Already capitalising on enhanced efficiency levers

Q1 08 OIBDA y-o-y growth (local currency)

OIBDA growth performance in Q1 08 in line with guidance, growth rate to accelerate along 2008
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On track to meet 2010 targets

2007-10 Capex: €14-16 bn

2010 OpCF: >€7 bn

Revenue

- 2006: +14.5%
- 2007: +14%
- 2008 Guidance: +11%
- 2009-2010 Implicit: +12.5%
- 2006-2010 CAGR Guidance: +10/+13%

OIBDA

- 2006: +15.5%
- 2007: +16%
- 2008 Guidance: +12%
- 2009-2010 Implicit: +18.3%
- 2006-2010 CAGR Guidance: +12/+17%

Notes:
(1) Calculated applying low end of 2008 & low end of 2006-2010 CAGR guidance
(2) Calculated applying high end of 2008 & high end of 2006-2010 CAGR guidance
(3) Constant currency 2007
(4) Calculated with 2008 numbers in constant terms 2006
Closing remarks

- **We are the best positioned player to capture the strong growth potential of the telecom market in the region:**
  - The leading integrated player in Latin America
  - Highly diversified operations across 15 countries
  - Sound social and macroeconomic outlook
  - Strong growth opportunities in our sector: mobile, broadband and Pay TV

- **Our differentiated management model and scale economies will lead to continuous improvements in profitability**

- **Q1 08 results show our strategy is delivering solid results**

- **We are fully on track to meet our sound guidance, both in the short and long term**