Telefónica Latam: Are you missing this growth potential?

Jose María Alvarez-Pallete
General Manager
London, June 7th-8th, 2007
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01 T. Latam as the main growth driver in the Group
   1. Our presence
   2. Group growth lever fully diversified
   3. Solid fundamentals in BB and mobile flowing to high growth revenue & OIBDA

02 T. Latam is uniquely positioned to strengthen its growth profile
   + High growth in mobile
   + High growth in BB & Pay TV
   + A regional model by country to add value and differentiate from our competitors
   + A sound and promising macro environment across all markets

03 Results are already showing up
01 “New TLatam” geographically managed, with operations in 15 countries

Sound competitive environment with promising macro prospects

March 2007
- 23.8 MM Fixed
- 85.6MM Mobile*
- 4.0 MM Broadband
- 0.7 MM TV

* Includes FW
TLatam is the main growth lever of the group and it is fully diversified across countries...

Revenue growth by region (Organic\(^1\))

<table>
<thead>
<tr>
<th>Region</th>
<th>Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>T. España</td>
<td>+5.3%</td>
</tr>
<tr>
<td>T. O2 Europe</td>
<td>+4.9%</td>
</tr>
<tr>
<td>T. Latinoamérica</td>
<td>+12.3%</td>
</tr>
</tbody>
</table>

Accounts for >60% of organic revenue growth in 1Q07

1Q07 TLatam weight in TEF

- Revenues: 34%
- OIBDA: 35%

BRAZIL: 40%
ARGENTINA: 12%
VENEZUELA: 11%
CHILE: 9%
PERU: 8%
COLOMBIA: 8%
MEXICO: 7%
OTHERS: 5%

(1) Assuming constant exchange rates as of 1Q06. Incorporating O2 (consolidated since Feb 2006), Telefónica Telecom in Colombia (consolidated since May 2006 in Telefónica Latinoamérica), and Iberbanda (consolidated since July 2006 in Telefónica España) from January 1st 2006. Excluding Telefónica O2 Slovakia (start-up in 4Q06) in 1Q07.
...with solid fundamentals driven by mobile and broadband...

**Total Accesses**
(in thousands)

- **Mar06**: 102,498
- **Mar07**: 116,970
  - **Increase**: 14.1%

**Retail Internet BB connections**
(1) Including Terra Latam and Telefónica Telecom since May 2006
(in thousands)

- **Mar06**: 2,928.7
- **Mar07**: 4,045.6
  - **Increase**: 38.1%

**Pay TV clients**
(in thousands)

- **Mar06**: 489.3
- **Mar07**: 700.1
  - **Increase**: 43.1%

**Wireless clients**
(2) Including Fixed Wireless
(in thousands)

- **Mar06**: 74,060
- **Mar07**: 85,637
  - **Increase**: 15.6%

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**Telefónica Latinoamérica**

(1) Including Terra Latam and Telefónica Telecom since May 2006
(2) Including Fixed Wireless
01 ... fully flowing to sound top line growth and margin expansion

- Revenues (€ in millions)
  - 1Q06: 4,317
  - 1Q07: 4,685
  - Growth: +8.5%

- OIBDA (€ in millions)
  - 1Q06: 1,528
  - 1Q07: 1,713
  - Margin: +12.1%

- OIBDA Margin (%)
  - 1Q06: 35.4%
  - 1Q07: 36.6%
  - Improvement: +1.2p.p.

- Operating CF (€ in millions)
  - 1Q06: 1,171
  - 1Q07: 1,287
  - Growth: +9.9%

- Healthy profitability across countries
- Maintenance of mobile momentum in major markets
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   + A sound and promising macro environment across all markets

03 Results are already showing up
T Latam’s is well positioned to continue its growth profile

What makes us unique?

- Well positioned to capture growth: #1/#2 position in all markets
- Integrated organization per country and region to maximize synergies
- Group presence in Europe backs 3G experience & scale. New GSM networks are UMTS compatible
- Unique brand across markets
- Rapid GSM migrations: 6 networks in less than 12 months

STRONG GROWTH PROSPECT IN OUR MOBILE OPERATIONS, BROADBAND AND PAYTV

With a promising macro outlook in the region
High growth potential in mobile...

- **Strong penetration** growth of mobile market (in T.Latam areas of operations)\(^1\)

  ![Graph showing mobile market growth](image)

  +38.1 M

  2006 2007E

- **Targeting a strong share of net adds** in 2007 by:
  - Capitalizing on our **GSM footprint in all the region** after Brazil & Venezuela GSM deployment to end 2007 with a significant proportion of GSM customers
  - Pushing **Fixed/Mobile integration** and collaboration to capture growth potential (sharing of sales channel)

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**LEVERAGING REGIONAL MANAGEMENT OF OPERATIONS**

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**TELEFÓNICA LATINOAMÉRICA**

(1) Source: Pyramid. T Latam area of operations includes for Brazil only Vivo’s areas.

02 ...and high growth in BB & PayTV

**Strong Growth Prospects**

- Strong growth of broadband\(^1\) and PayTV\(^2\)

\[
\begin{align*}
\text{2006} & \quad \text{2007E} \\
\text{+1.7 M} & \quad & \text{+1.2 M}
\end{align*}
\]

**Strengthen Our Position in Broadband**

- Targeting a strong share of net adds in 2007 by:
  - Pushing Fixed/Mobile integration and collaboration to capture growth potential (sharing of sales channel and additional offers)

**Develop Our PayTV Model**

- PayTV model segmented by different platforms: DTH, IPTV, CABLE
  - Broader market than just with IPTV
  - Lower time to market (IPTV network and regulation)
- PayTV will help us to improve churn and ARPU

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1. Source: Pyramid. T Latam area of operations includes Sao Paulo, Argentina, Chile, Peru and Colombia.
2. Source: Pyramid. T Latam area of operations includes Brazil, Chile, Peru and Colombia.
To achieve our goals, we have structured our operations ...

- Capture growth opportunity and drive mobile growth in the region
- Increase operating efficiency
- Ensure response capabilities in key markets

NEW COMPETITIVE ENVIRONMENT
- Operations in markets with different growth rates and competitive pressures
- Customer as change driver and growth in the TIC Hypersector (Technology, Information and Communications)
- Continuous changes with new competitors entering the market

NEW ORGANIZATIONAL MODEL
- A regional model
  ...with an integrated business focus, clearly customer oriented to capture convergence value...
  ...with a dynamic and flexible structure
...on an integrated basis per country to add value and to differentiate us from our competitors

<table>
<thead>
<tr>
<th>Main identified opportunities...</th>
<th>...actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>P&amp;S</strong></td>
<td></td>
</tr>
<tr>
<td>✓ Capture value of a regional brand</td>
<td>✓ Movistar &amp; Speedy</td>
</tr>
<tr>
<td>✓ Value of an integrated vision of client base</td>
<td>✓ Sales force collaboration in SMEs &amp; Large Corps</td>
</tr>
<tr>
<td>✓ OPEX &amp; CAPEX optimization</td>
<td>✓ ATIS: Regional Customer Care, Billing &amp; Collecting Platform</td>
</tr>
<tr>
<td>✓ More agile launch of new P&amp;S</td>
<td>✓ Data centers unification</td>
</tr>
<tr>
<td><strong>Systems</strong></td>
<td></td>
</tr>
<tr>
<td>✓ OPEX &amp; CAPEX optimization</td>
<td>✓ Common applications and processes map</td>
</tr>
<tr>
<td>✓ Improve quality of service</td>
<td></td>
</tr>
<tr>
<td><strong>Network</strong></td>
<td></td>
</tr>
<tr>
<td>✓ OPEX &amp; CAPEX optimization</td>
<td>✓ CRSO: Regional Control Center for Network maintenance, monitoring and management</td>
</tr>
<tr>
<td>✓ Improve quality of service</td>
<td>✓ Unified network &amp; common network design</td>
</tr>
<tr>
<td>✓ OPEX &amp; CAPEX optimization</td>
<td>✓ Standardized SLA´s</td>
</tr>
</tbody>
</table>
A sound macro environment supports our operations...

**Favourable macro context**
- **Highest GDP growth** in 04-06 since the early 80’s: 5.5% vs. 4.7%
- **Lowest inflation** in 2006 since 1980: 5.4% vs. 4.9%
- Current account still positive: 1.5% vs. 0.9%

**Improved Social Indicators**
- Lower **external debt/exports halved** in 04-06
- Peru and Brazil approaching investment grade
- **Highest historical GDP per capita** in 06 and growing in near future: 6,300 US$ vs. 6,825 US$
- **Highest ever GDP per capita growth** in 04-06: 4.0% vs. 3.0%
- **21% decline in poverty ratio (<2US$/day)** reaching the lowest level since early 90’s

**Structural reforms ongoing since 90**
- **Continued financial liberalization** is boosting consumer credits
- **Lower protection tariffs** & free trade agreements to drive exports
- **Improved debt management** towards L/T sustainability

Source: Consensus Forecasts, May 2007. IMF, April 07. CEPAL.
...with stable outlook expected across all countries

<table>
<thead>
<tr>
<th></th>
<th>GDP Growth</th>
<th>Inflation Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2007E</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.7%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Argentina</td>
<td>8.5%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Chile</td>
<td>4.0%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Peru</td>
<td>8.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Colombia</td>
<td>6.8%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>10.3%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Mexico</td>
<td>4.8%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

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03 Results are already showing up
03 Our financial profile in 1Q07 has already shown tangible progress

<table>
<thead>
<tr>
<th>Revenues (€ in millions)</th>
<th>% change&lt;sup&gt;1&lt;/sup&gt;</th>
<th>OIBDA (€ in millions)</th>
<th>% change&lt;sup&gt;1&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Integrated</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil&lt;sup&gt;2&lt;/sup&gt;</td>
<td>1,801</td>
<td>+2.8%</td>
<td>749</td>
</tr>
<tr>
<td>Argentina</td>
<td>561</td>
<td>+21.0%</td>
<td>217</td>
</tr>
<tr>
<td>Chile</td>
<td>423</td>
<td>+10.0%</td>
<td>164</td>
</tr>
<tr>
<td>Peru</td>
<td>370</td>
<td>+9.7%</td>
<td>144</td>
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<tr>
<td>Colombia</td>
<td>352</td>
<td>n.m.</td>
<td>100</td>
</tr>
<tr>
<td><strong>Mobile</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td>520</td>
<td>+25.4%</td>
<td>242</td>
</tr>
<tr>
<td>Mexico</td>
<td>315</td>
<td>+66.2%</td>
<td>22</td>
</tr>
<tr>
<td>Central America&lt;sup&gt;3&lt;/sup&gt;</td>
<td>147</td>
<td>+25.1%</td>
<td>47</td>
</tr>
<tr>
<td>Ecuador</td>
<td>67</td>
<td>-4.9%</td>
<td>16</td>
</tr>
<tr>
<td>Uruguay</td>
<td>24</td>
<td>+50.0%</td>
<td>6</td>
</tr>
</tbody>
</table>

<sup>1</sup> Excluding forex effect  
<sup>2</sup> Includes 50% of VIVO  
<sup>3</sup> Guatemala, El Salvador, Panama and Nicaragua
Brazil: Revenue & OIBDA underpinned by BB and mobile

Growth of revenue drivers (1Q07/1Q06, local currency)

- Broadband revenues: +15.2%
- Service revenues (Mobile): +13.2%

BB connections (in thousands)
- Mar06: 1,307
- Mar07: 1,691
  - Growth: +29.3%

Mobile clients (in thousands)
- Mar06: 30,138
- Mar07: 29,030
  - Growth: -3.7%

1Q07/1Q06 growth (change in local currency)

- Revenue: 2.8%
- OIBDA: 2.8%

1Q07: 56% penetration

Notes:
1. Reported service revenues, including B&K effect
2. Ex-adjustment 1.8MM inactive pre-pay lines at the end of 1H06
3. Area of operations
03 Brazil: efforts in mobile operation already showing positive signs

MANAGING CURRENT OPERATIONS TO IMPROVE OUR COMPETITIVE POSITIONING

- Focus on value clients
- Strong reduction of fraud
- New pricing plans drive MoU & ARPU increases
- Highest number of points of sale

FAST EXECUTION OF MIGRATION TO GSM

- Network deployed in a record time
- 960,000 GSM customers in April
- 17% net adds share in April from negative net adds in 1Q07
- Superior GSM coverage due to launch in 850MHz
- On track within announced investment (400 M € 1:1 overlay)
- New GSM network is UMTS compatible

ARPU (local currency)

<table>
<thead>
<tr>
<th></th>
<th>1Q06</th>
<th>1Q07</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25.7</td>
<td>30.6</td>
</tr>
</tbody>
</table>

Excluding B&K effect

ARPU +19.0%

MoU (minutes)

<table>
<thead>
<tr>
<th></th>
<th>1Q06</th>
<th>1Q07</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>67</td>
<td>75</td>
</tr>
</tbody>
</table>

MoU +12.9%

ARPU +19.0%

Excluding B&K effect

Brazil: efforts in mobile operation already showing positive signs
Mexico wireless: strong commercial momentum leads to very healthy revenue & OIBDA growth

Net adds (in thousands)

Service revenue y-o-y growth

OIBDA (€ in millions)

PRIORITIZE QUALITY GROWTH RATHER THAN SPEED OF GROWTH

(1) Ex-adjustment of 300,000 pre-pay lines
Argentina: strong performance in BB and mobile allows margin expansion

Growth of revenue drivers
(1Q07/1Q06, local currency)

- Internet + BB revenues: +43.4%
- Service revenues (Mobile): +26.5%

BB connections (in thousands)
- Mar06: 347
- Mar07: 588

Mobile clients (in thousands)
- Mar06: 8,914
- Mar07: 11,813

1Q07/1Q06 growth (change in local currency)
- Revenues: 21.0%
- OIBDA: 29.7%
- OIBDA Mg.: +2.7 p.p.

- Further BB deployment to strengthen our leadership in the market
- Maintain leadership in wireless, while improving financials
Chile: improving margins supported by BB and mobile

Growth of revenue drivers
(1Q07/1Q06, local currency)

- Internet + BB revenues (NW+BB+PayTV) +75.3%
- Service revenues (Mobile) +18.0%

BB connections (in thousands)
- March 06: 345, March 07: 528 (+52.9%)

PayTV (in thousands)
- March 06: 129, DTH launch in June 06

Mobile clients (in thousands)
- March 06: 5,335, March 07: 5,767 (+8.1%)
- 1Q07: 84% penetration

1Q07/1Q06 growth
(change in local currency)

- Revenues +10.0%
- OIBDA +22.5%
- OIBDA Mg. +3.9 p.p.

- Broader launch of Voice/BB/TV bundles to keep leadership in high value segment
- Customers with 3P have lower churn than only voice clients
- Maintain leadership in wireless, while improving profitability
03 Peru: customer growth underpins top line growth

Growth of revenue drivers
(1Q07/1Q06, local currency)

- Internet + BB revenues (NW+BB+PayTV): +22.1%
- Service revenues (Mobile): +53.9%

1Q07/1Q06 change
(change in local currency)

- Revenues: 9.7%
- OIBDA: OIBDA Mg. +0.3%
- OIBDA Mg.: -3.7 p.p.

- Project IRIS: fixed wireless telephony

BB connections (in thousands)
PayTV (in thousands)
Mobile clients (in thousands)
Total Accesses (in thousands)

- Mar06: 360
- Mar07: 498
- Change: +38.3%

- Mar06: 475
- Mar07: 561
- Change: +18.2%

- Mar06: 3,681
- Mar07: 5,664
- Change: +53.9%

- Mar06: 6,960
- Mar07: 9,304
- Change: +33.7%

- Project IRIS: fixed wireless telephony
Colombia: Focus on BB opportunity since T. Telecom acquisition and mobile top line growth

1Q07 BB y-o-y organic growth

- 4.8x BB connections
- 2.8x BB Revenues (local currency)

1Q07 mobile y-o-y growth

- 10.7% Customers
- 9.7% Service revenues (local currency)

Venezuela: Customer expansion drives underlying financials upwards

1Q07 y-o-y growth

- 36% Customers
- 36% Service revenues (local currency)
- 39% OIBDA (local currency)

OIBDA Mg. +4.7 p.p.
An ambitious guidance for 2007

### Revenue Growth
(€ in millions)

- **2006**: 18,089
- **2007**: +11% / +14%

### OIBDA Growth
(€ in millions)

- **2006 adjusted for guidance**: 6,607
- **2007**: +12% / +16%

### CapEx
(€ in millions)

- **2006**: 2,811
- **2007**: <3,000

T. Latam base reported figures include eight months of Telefónica Telecom (consolidated since May 2006). 2007 guidance assumes constant exchange rates as of 2006. All figures exclude changes in consolidation. In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses. For comparison the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures.
Conclusions

- **Sound macro outlook** expected after successful structural reforms

- **T LatAm** is the **main growth driver** in the Group
  - Contribution over **60% of the group growth** in 1Q07

- Fully **diversified** operations across **15 countries** in the region

- **Strong growth potential**, supported by mobile, broadband and PayTV

- Keeping the **focus on efficiency**, helped by **integrated management**

- 1Q07 results on track to **meet high growth 2007 guidance**
Telefónica