

Telefónica Latam: The key growth lever of Telefónica

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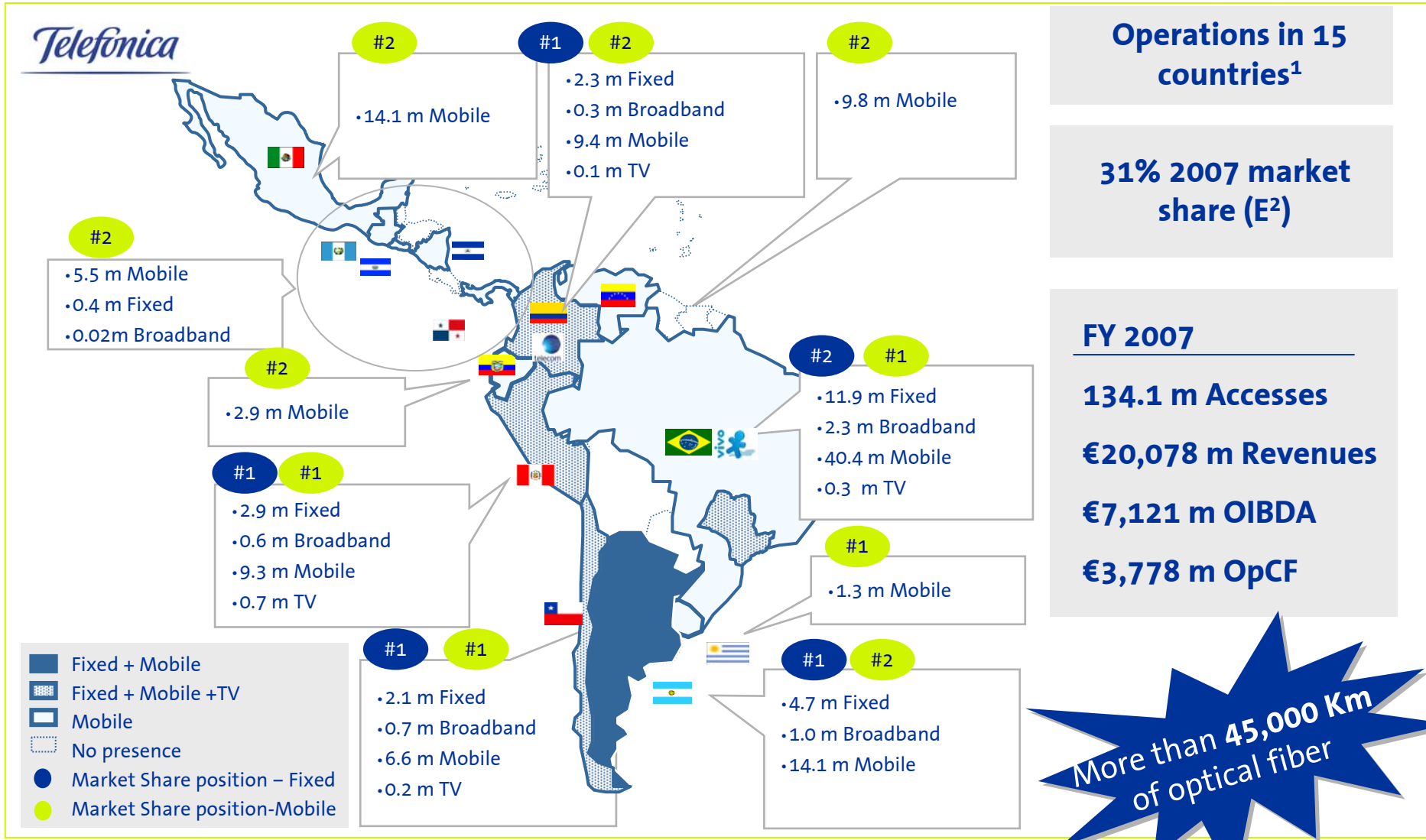
Finally, please note that this information contained in the document has not been verified or revised by the Auditors of Telefónica.

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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...

June-2008



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Fixed includes Fixed Wireless

¹ Includes US and Puerto Rico

² Telefonica's Business Intelligence Unit

Telefonica

...with a strategic alliance in a very dynamic market

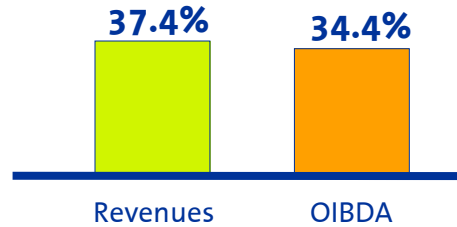


■ **5.5% stake¹ in the merged entity China Netcom-China Unicom**

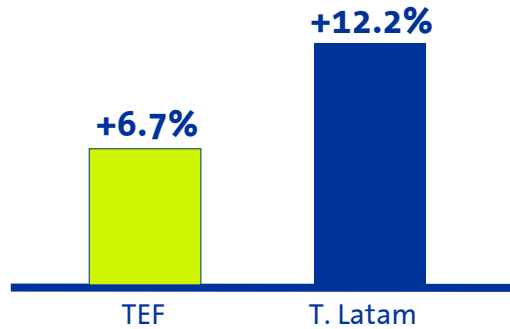
- ✓ **132 million accesses** (Jun-08)
- ✓ In a country with a population of **1,300 million**
- ✓ **Huge ICT growth potential: 21%** of forecasted world telecom revenue growth 2007-2010²

The main growth driver of Telefónica ...

H1 08 T.Latam weight in TEF

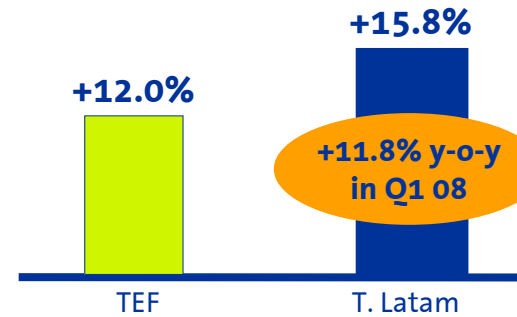


H1 08 Revenue growth
(Organic¹ y-o-y growth)



Contribution to Group growth **+4.3 p.p.**

H1 OIBDA growth
(Organic² y-o-y growth)

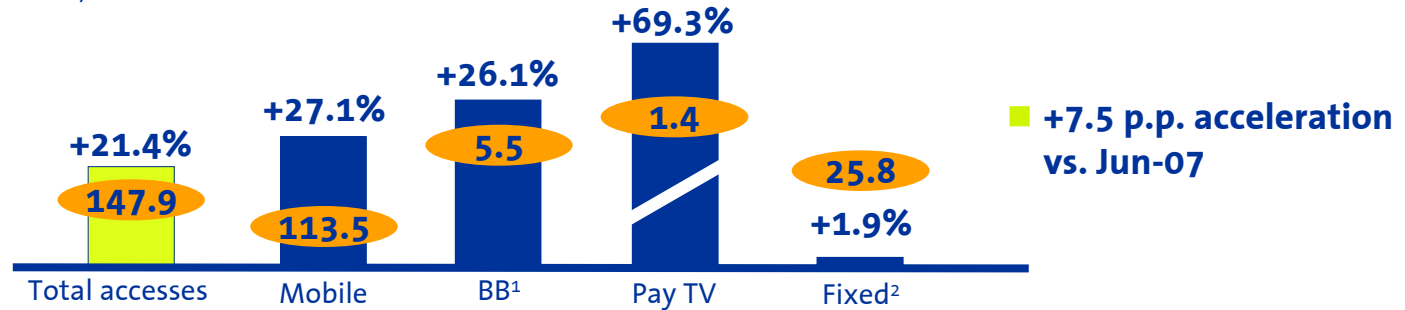


Contribution to Group growth **+5.5 p.p.**

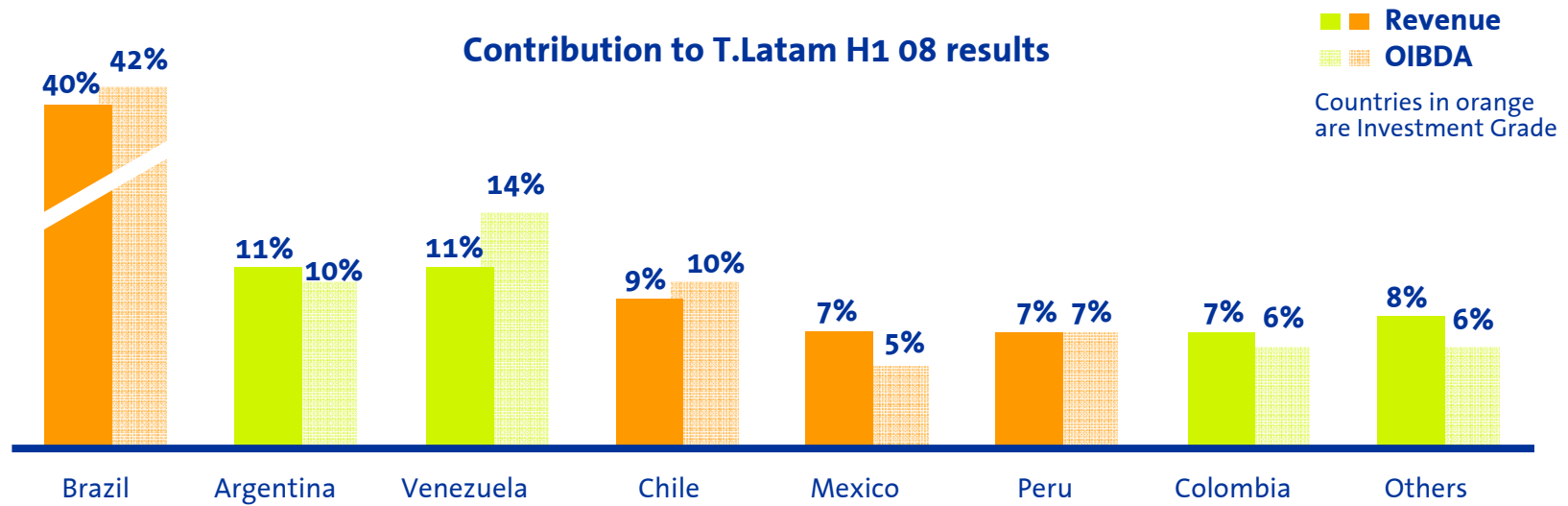
TELEFONICA S.A. (1) Assuming constant exchange rates as of H1 07 and including the consolidation of TVA in January-June 2007 and the impact in T. España revenues for new public voice telephony services business model (€ -67.9 m). It excludes the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007.
 Investor Relations (2) Assuming constant exchange rates as of H1 07 and including the consolidation of TVA in January-June 2007 and Teleming in April-June 2007. It excludes the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007 and the impact coming from assets disposals (Airwave and Sogecable) in both periods.

... with a highly diversified portfolio...

Jun-08 Accesses (in millions)



Contribution to T.Latam H1 08 results



63% of our revenues and 64% of our OIBDA from Investment Grade economies

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1 Telefónica Latinoamérica at a glance

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

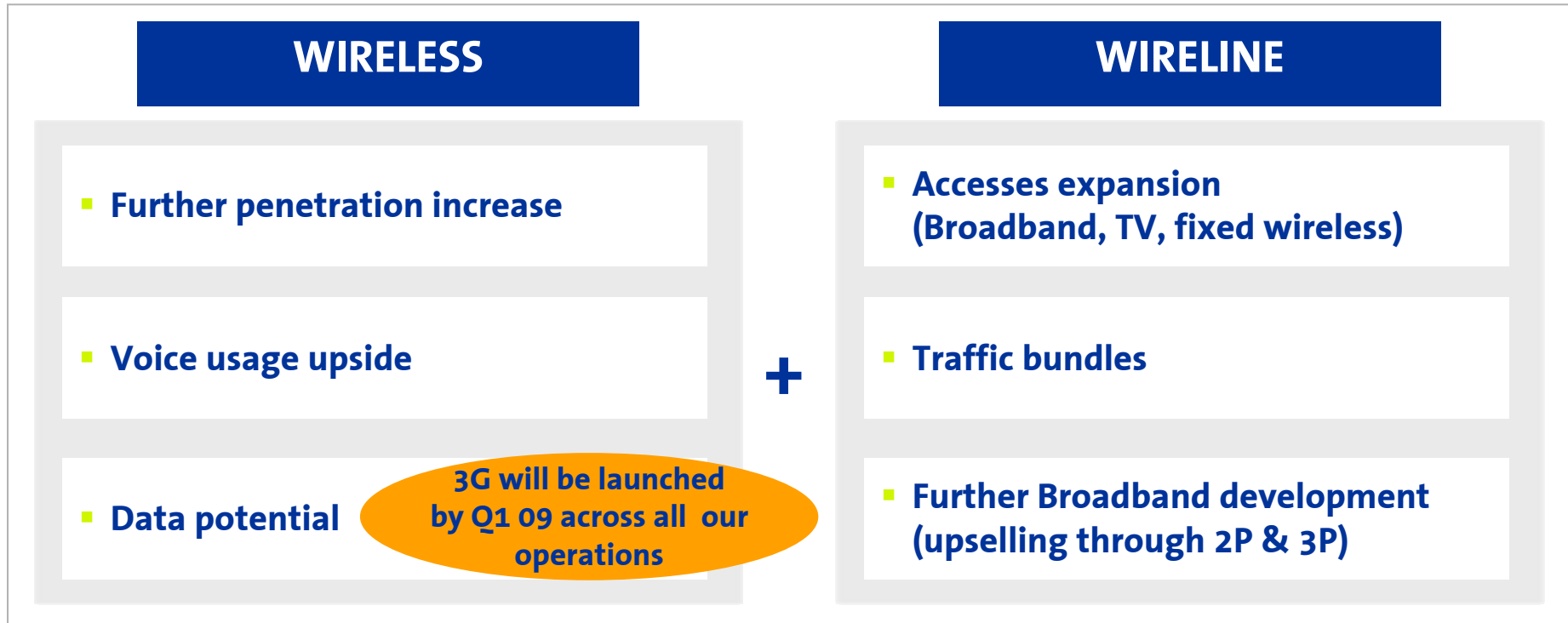
3 Regional integrated management and scale benefits to further enhance efficiency

4 On track to deliver a superior growth guidance

For the future, LATAM holds huge potential for Telefónica



Significant top line growth potential, capitalising on our unique integrated approach



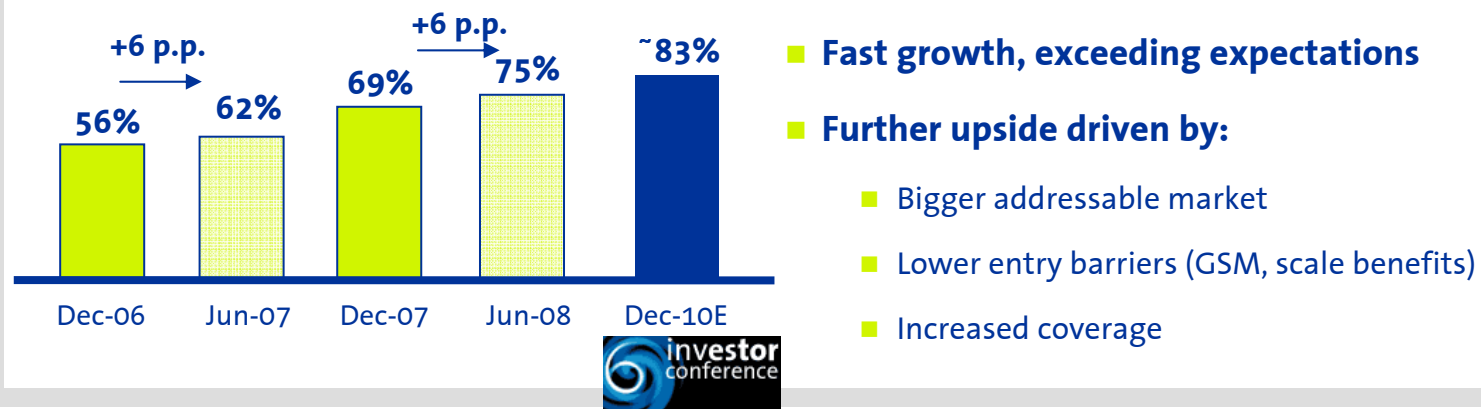
Customer & ARPU expansion

**T. Latam
2007-10E**

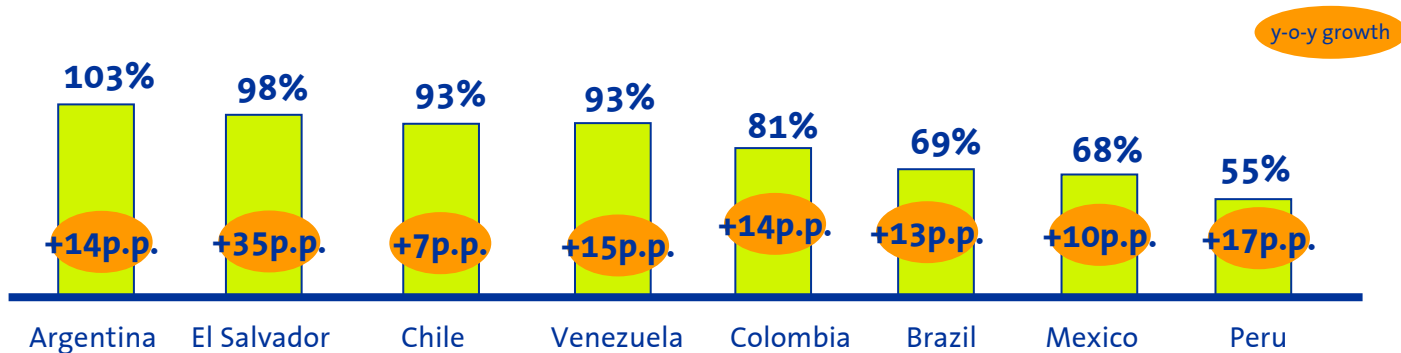
- Over 55/60 million additional mobile accesses in 2007-10E with a 1-3% 06-10E CAGR ARPU increase (ex-fx)
- Over 4/5 million additional BB accesses

Solid growth prospects in wireless penetration ...

Wireless penetration in Latin America

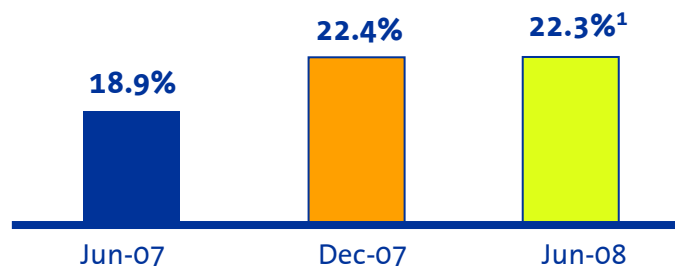


Wireless penetration per country (Jun-08)

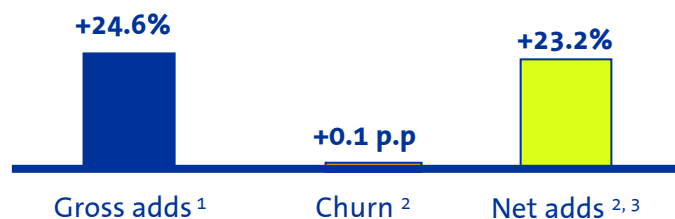


...fully flowing into our customer base

T. Latam wireless customer growth
(y-o-y growth)

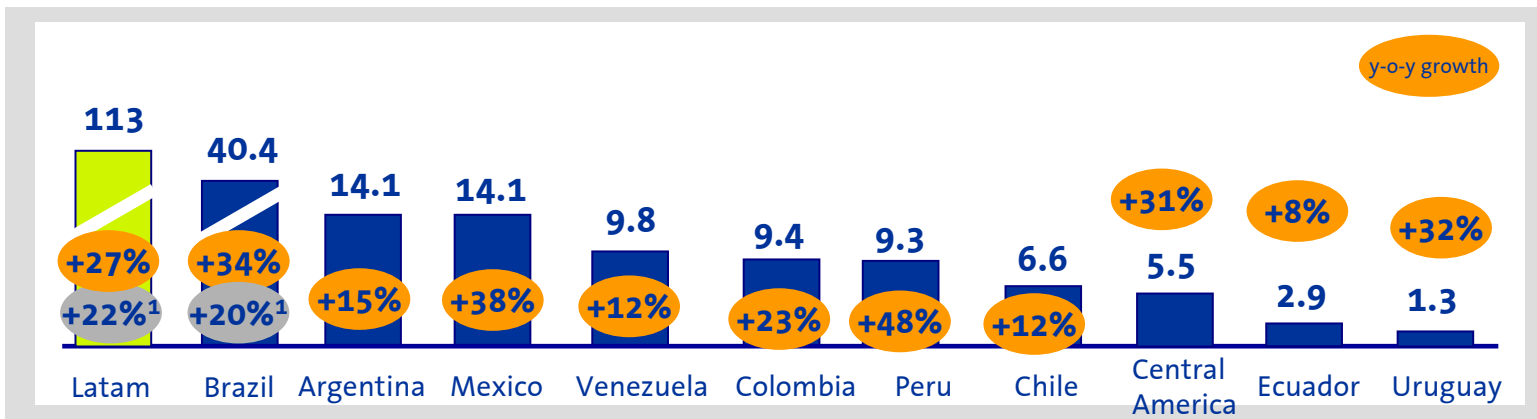


Customer Growth Drivers
(H1 08 y-o-y change²)



- **Customer growth acceleration:**
 - Double digit customer growth across markets
 - 8.9m net adds in H1 08³
- **Leveraging enhanced distribution channels and GSM network expansion:**
 - Robust gross adds and churn containment
 - 72% of total customer base in GSM (+20.8 p.p. y-o-y)

Customers per country
(Jun-08, m)




¹ Includes Telemig in June 2007
² Includes Telemig in April-June 2007
³ The Telemig customers incorporated to the Group in April (3,986,439 customers) are not included in the net adds.

Fostering usage to expand ARPU

Exploiting voice usage levers


- New commercial offerings to drive elasticity:
- MoU potential¹:

Latam	Spain	UK
95	161	190
- Recharge incentives: “Duplicame”
- Customer migrations to higher value products: Prepay to Contract migration, periodic top-ups




2 NUMEROS GRATIS TODOS LOS DIAS

\$350



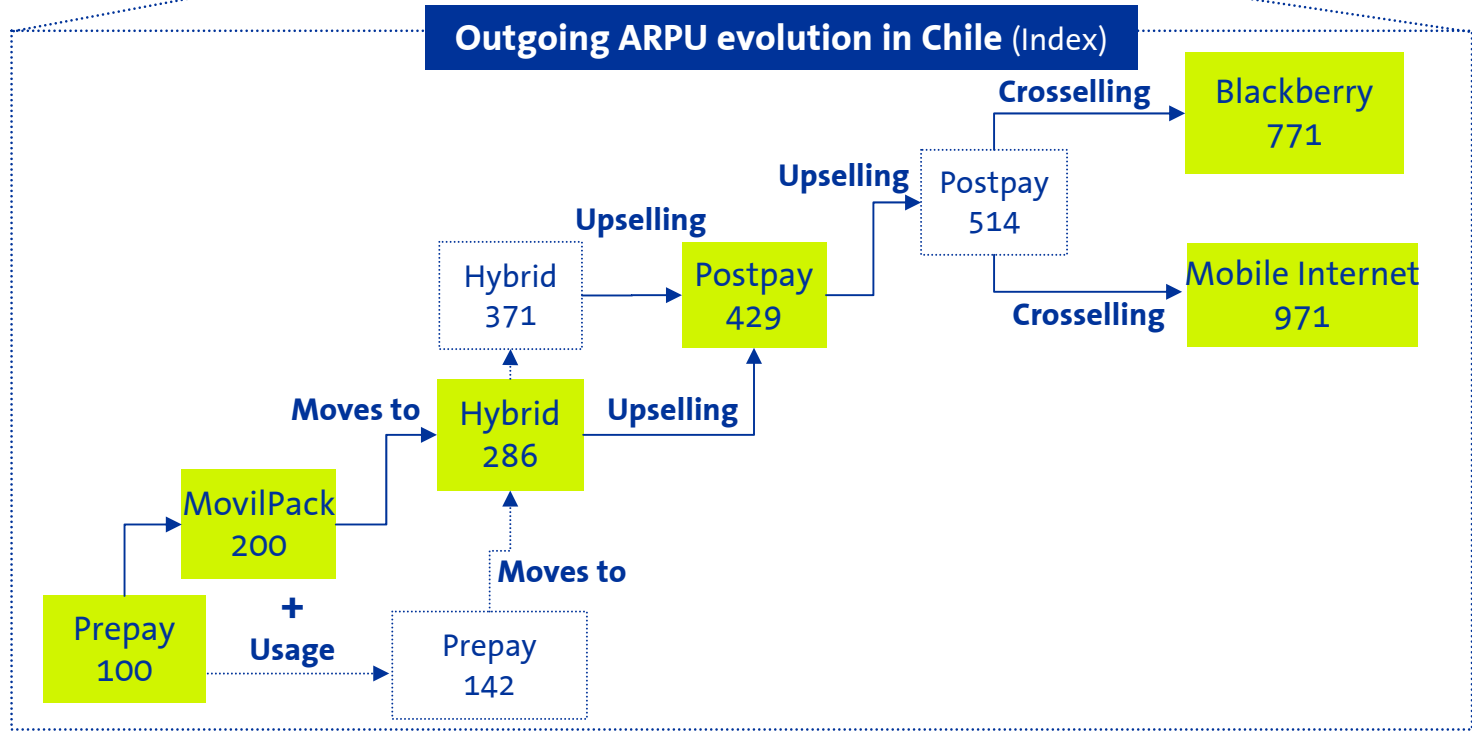
Wireless 90



Alfa 4x 90

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

Chile	Argentina
+3.5 p.p.	+2.2 p.p.




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¹ Minutes in 2007. Data for Telefónica operations in the respective countries
² Includes Telemig in April-June 2007

Fostering usage to expand ARPU

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

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Building the foundations for data ARPU explosion

- 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 Q1 09

Already delivering tangible results

H1 08 y-o-y growth

Outgoing MoU ²	Outgoing ARPU Ex-forex ²	Data revenues y-o-y growth	Data revenues/Service Revenues
+22.8%	+2.7%	+41.5%	14.3% (+2.3p.p.)

Mobile BB users:

- ~282k EVDO/1XRTT PCMCIAS in Brazil at Jun-08
- ~120k in Venezuela (x3.2 vs. Jun-07)

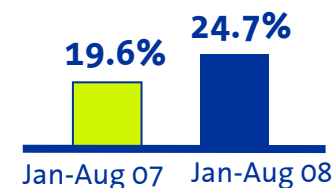
TELEFONICA S.A. Investor Relations
¹ Minutes in 2007. Data for Telefónica operations in the respective countries
² Includes Telemig in April-June 2007

Brazil: sound results, capitalising our strengthened competitive position

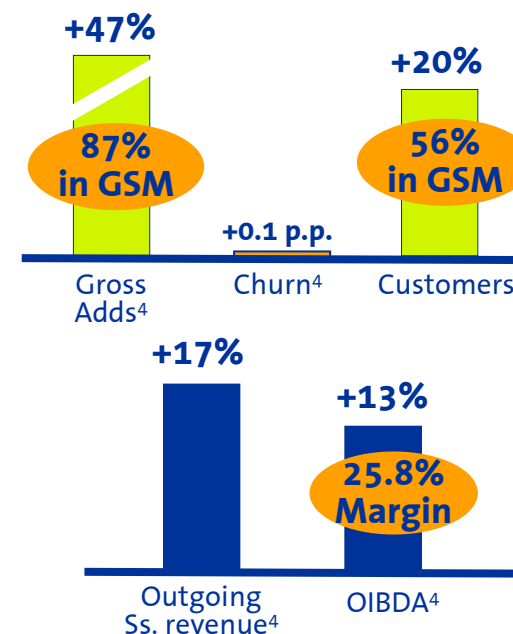


- **Brand strength:**
 - Higher than market average customer satisfaction¹
 - Best service quality²
- **Nationwide footprint:**
 - Telemig's acquisition
 - Acquisition of additional 1.9 & 2.1 MHz spectrum nationwide
- **Fast execution of migration to GSM:**
 - Network deployed in a record time
 - More competitive prices, acquisition of high-value clients and increase in postpay additions
 - 56% 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
- **3G coverage and commercial offering launched (EVDO & WCDMA)**
 - HSUPA services launched in 27 Brazilian cities

Net adds market share³

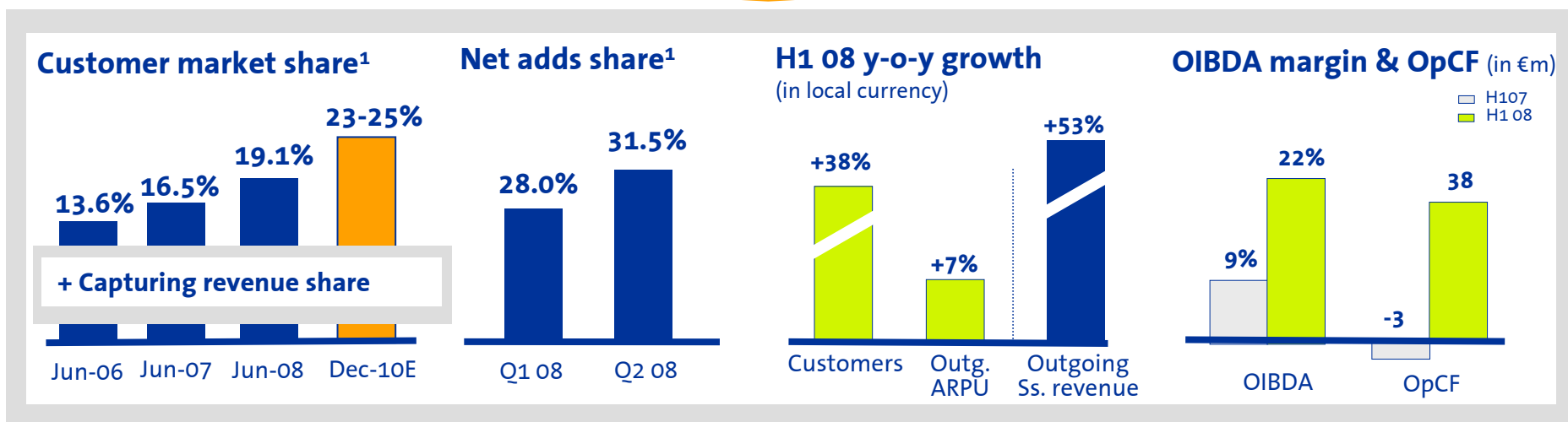


H1 08 y-o-y growth



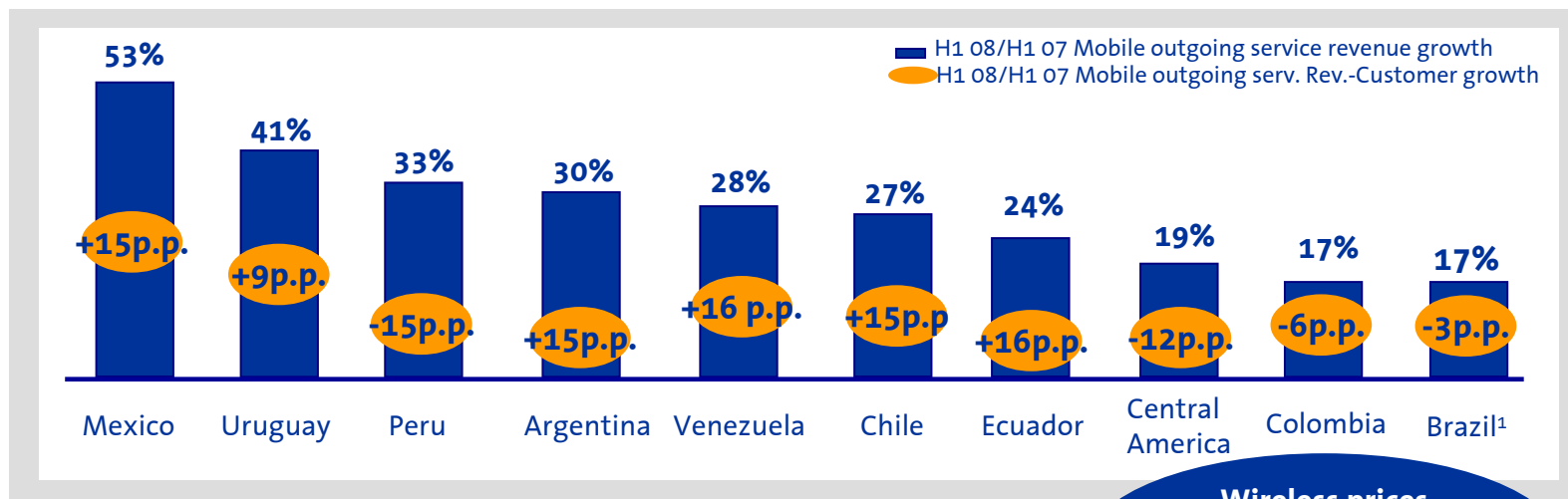
Mexico: reinforcing market positioning, capitalising a profitable growth model

- **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 network. Upcoming spectrum auctions**
- **Early signs of regulatory advances (national CPP, portability)**
- **Benefits of scale**



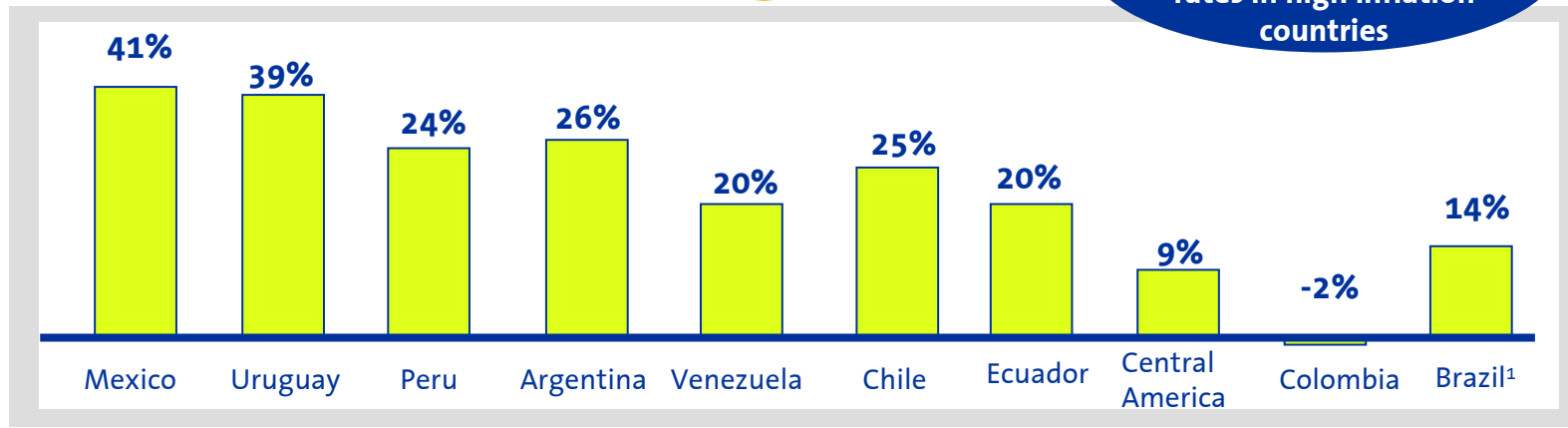
Sum-up: Capturing growth opportunities in the wireless market

Customer & mobile outgoing service revenue growth



Wireless prices liberalized: increasing rates in high inflation countries

Mobile service revenue growth (H1 08 y-o-y growth)



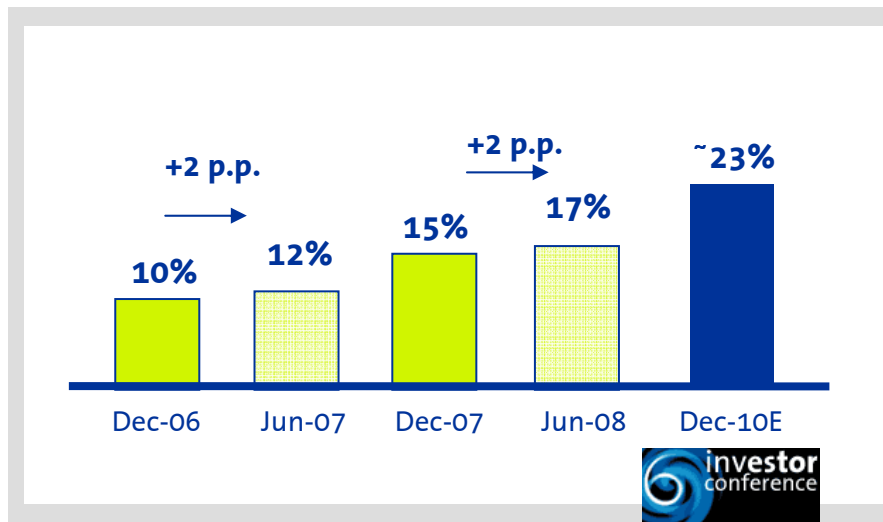
Net exposure² to MTR <5% H1 08 (net exposure³ to MTR from T.Latam <2% of TELEFÓNICA revenues)

Strong revenue growth despite lower MTRs

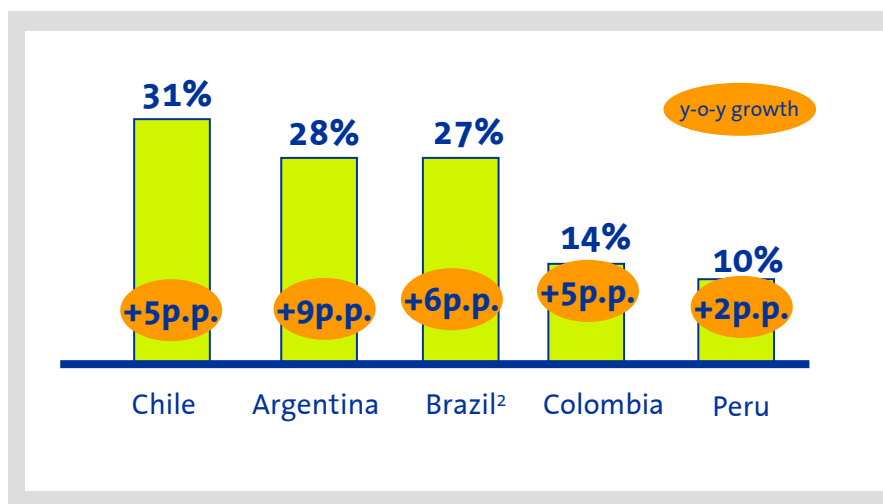
1 Including Telemig in the April-August 2007 and April-August 2008 periods
2 Interconnection revenues – interconnection costs of T.Latin America over T. Latin America revenues
3 Interconnection revenues – interconnection costs of T.Latin America over Telefonía revenues

Transforming our wireline business to capture the BB opportunity

Broadband penetration¹ in Latin America



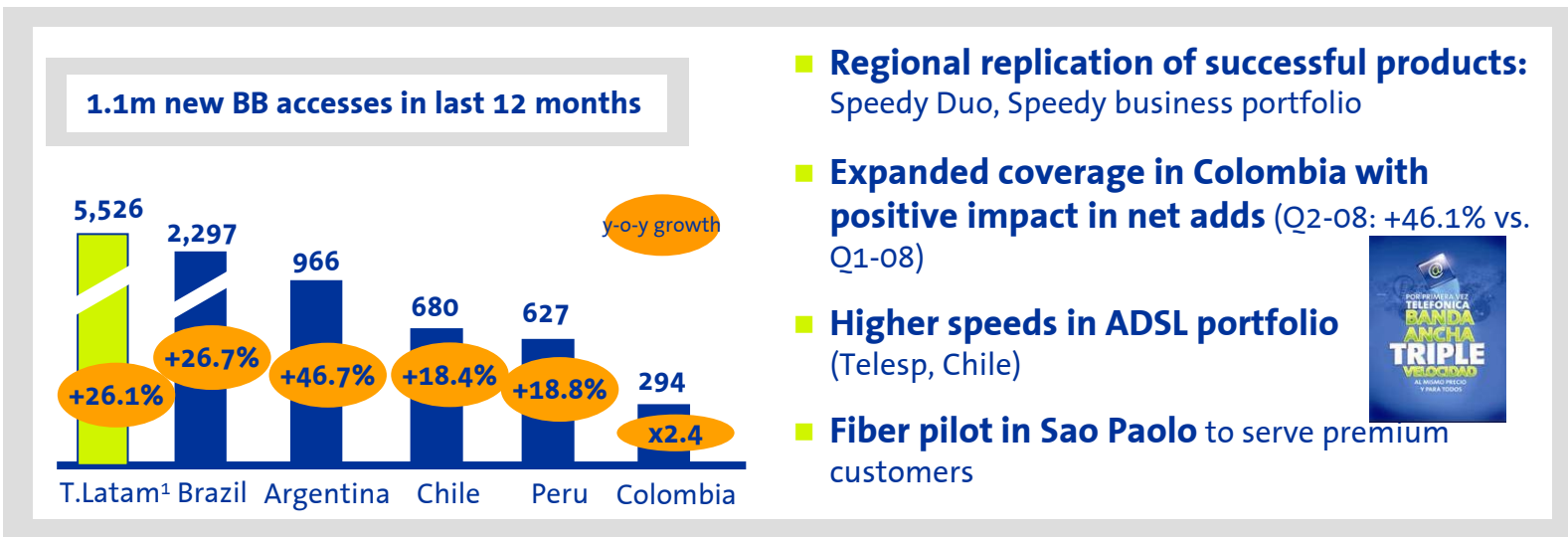
Broadband penetration¹ per country (Jun-08)



- **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...

Expanding our access base at a strong pace ...

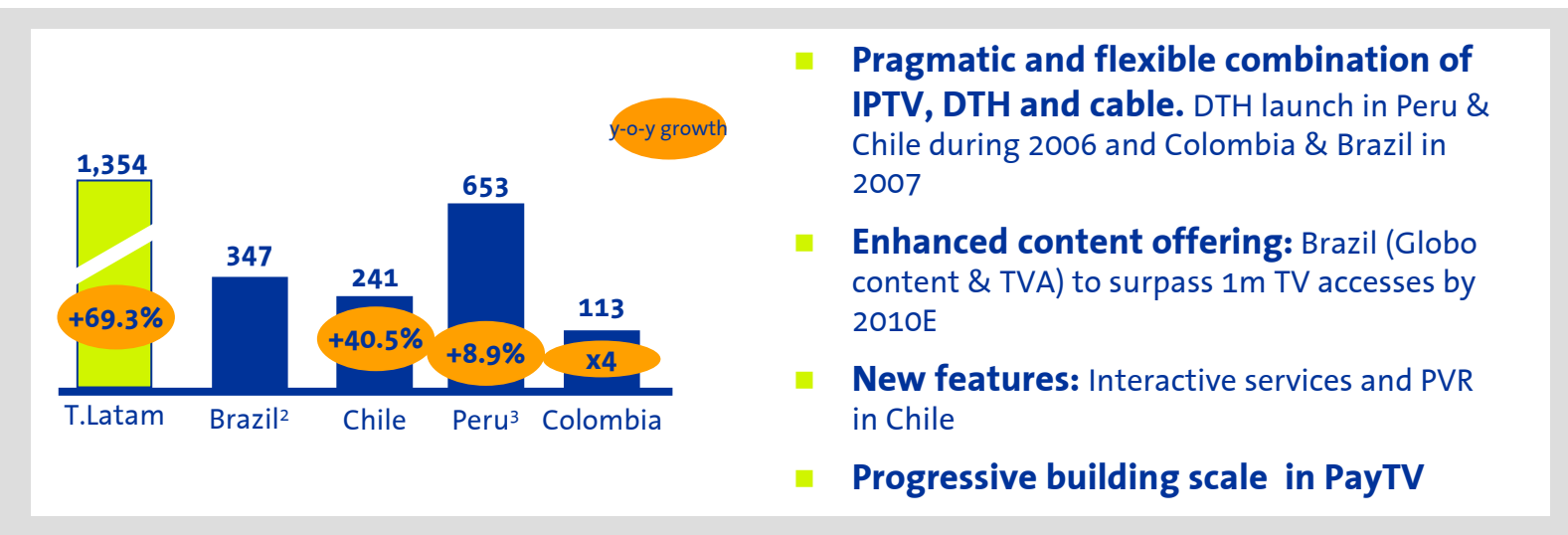
**Jun-08
Retail
BB accesses
('000)**



- **Regional replication of successful products:** Speedy Duo, Speedy business portfolio
- **Expanded coverage in Colombia with positive impact in net adds** (Q2-08: +46.1% vs. Q1-08)
- **Higher speeds in ADSL portfolio** (Telesp, Chile)
- **Fiber pilot in Sao Paolo** to serve premium customers



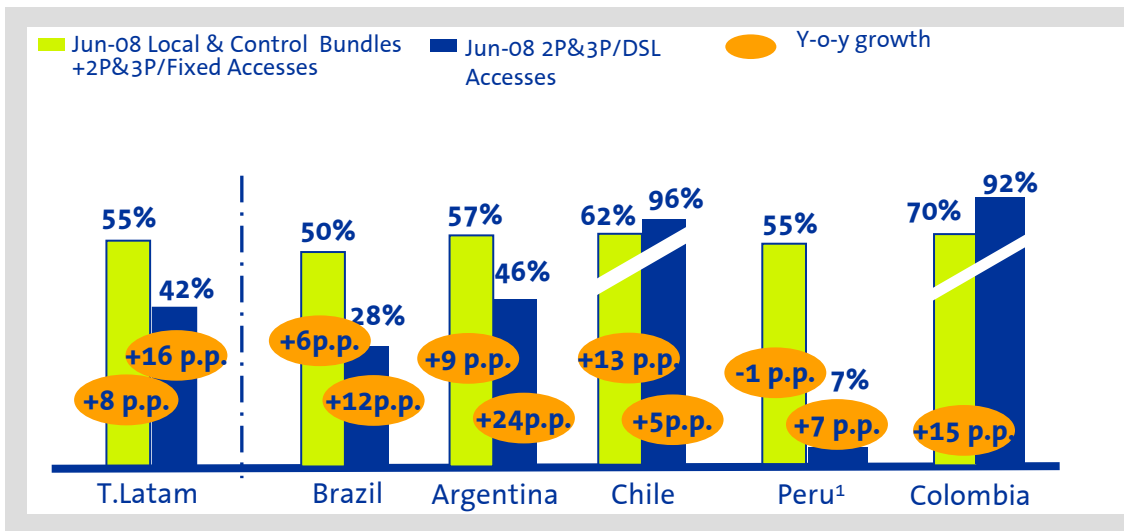
**Jun-08
Pay TV
accesses
('000)**



- **Pragmatic and flexible combination of IPTV, DTH and cable.** DTH launch in Peru & Chile during 2006 and Colombia & Brazil in 2007
- **Enhanced content offering:** Brazil (Globo content & TVA) to surpass 1m TV accesses by 2010E
- **New features:** Interactive services and PVR in Chile
- **Progressive building scale in PayTV**

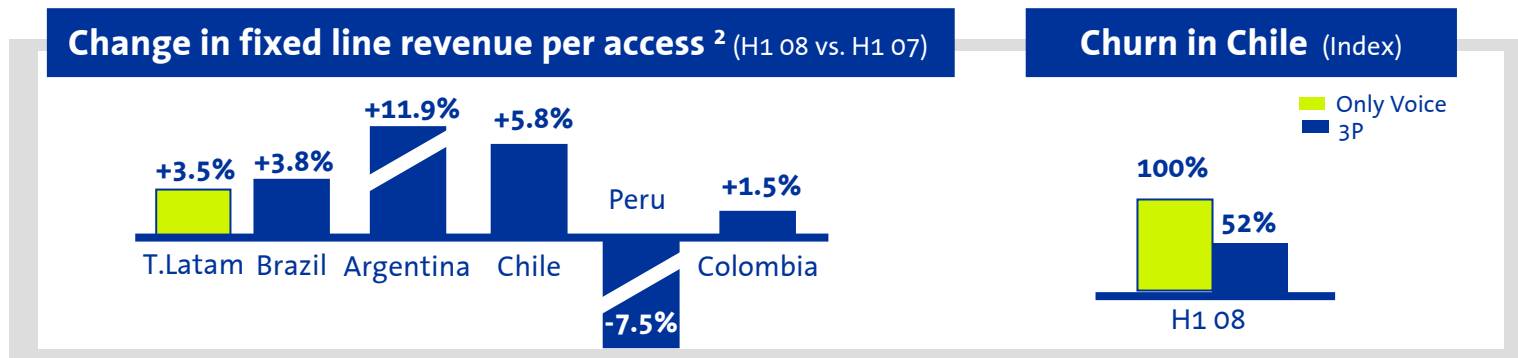
1 Including Terra Latam
2 DTH product launched in August 2007 and acquisition of TVA (MMDS customers) in Q4 07
3 Including cable modem

... fostering bundles penetration, with positive results per access ...



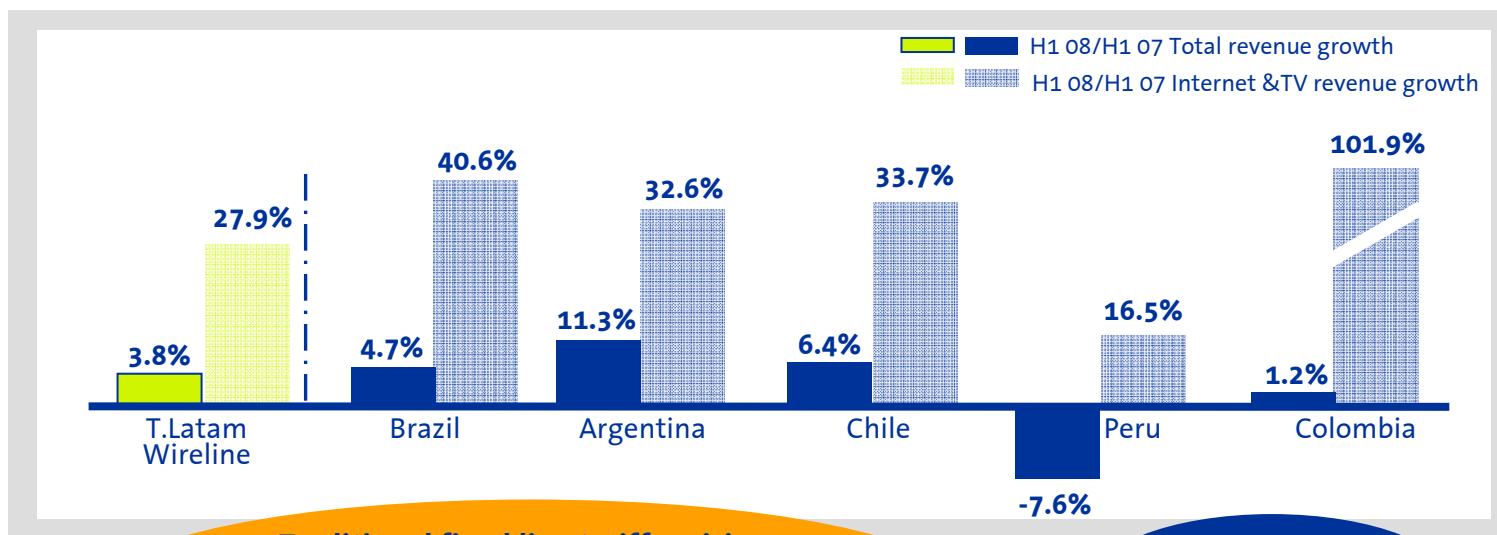
■ Broader launch of Voice/BB/TV bundles to keep leadership in high value segment and increase loyalty

- 85-90% bundled services by 2010



...with healthy top line expansion, reducing exposure to regulated services

Revenue¹ growth



Traditional fixed line tariff revisions linked to inflation except in Argentina, where revenues up +11.3% y-o-y in H1 08

ADSL, Pay TV and bundles prices liberalized

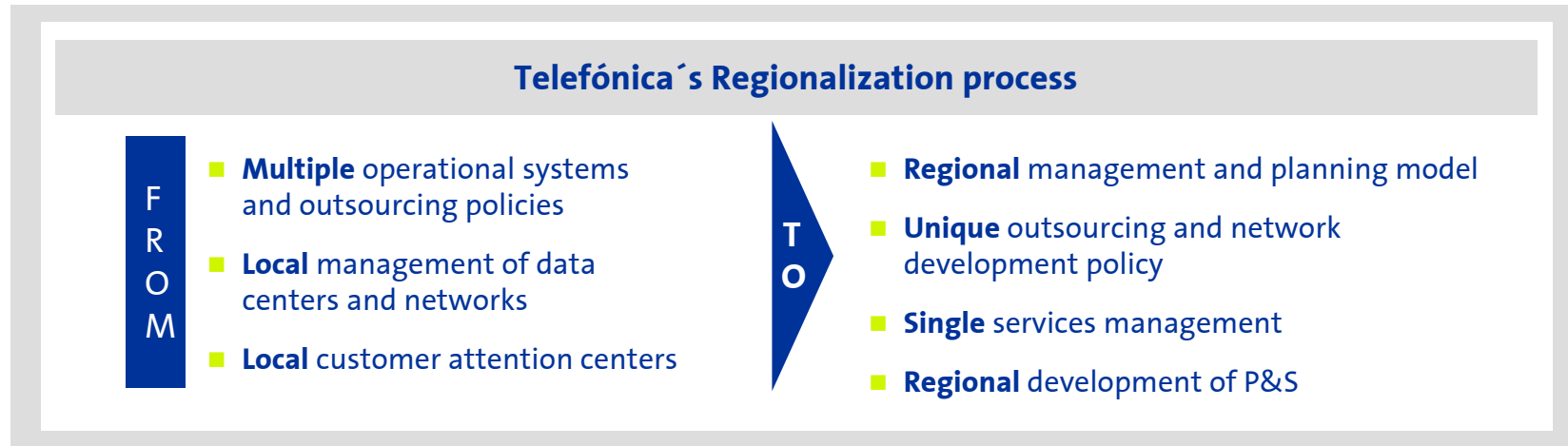
H1 08 Internet & TV revenue/ total revenue



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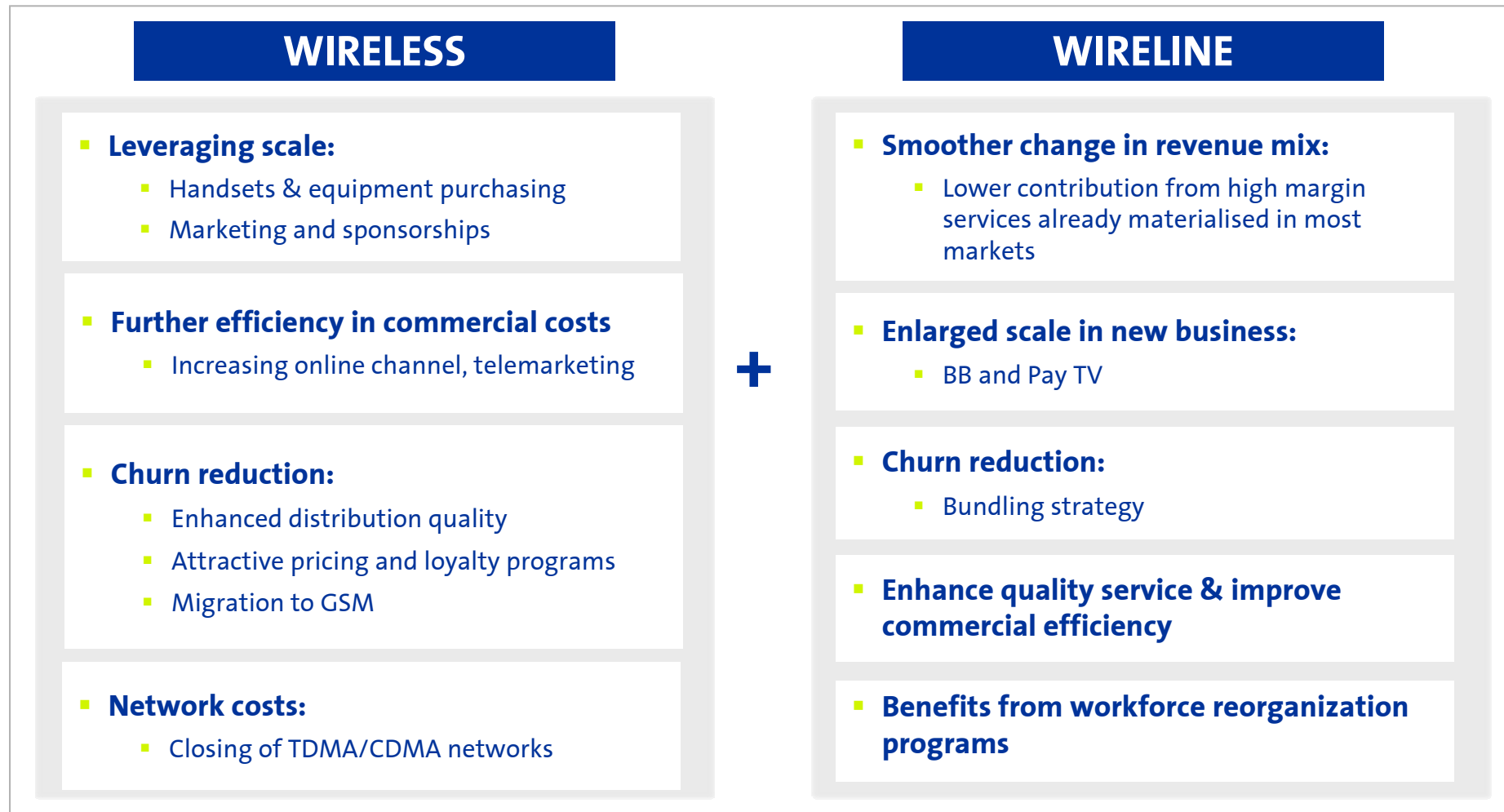
Regionalization, a key and differential operating and commercial model in the region



**Simplifying our customers access of services
Capturing additional synergies**

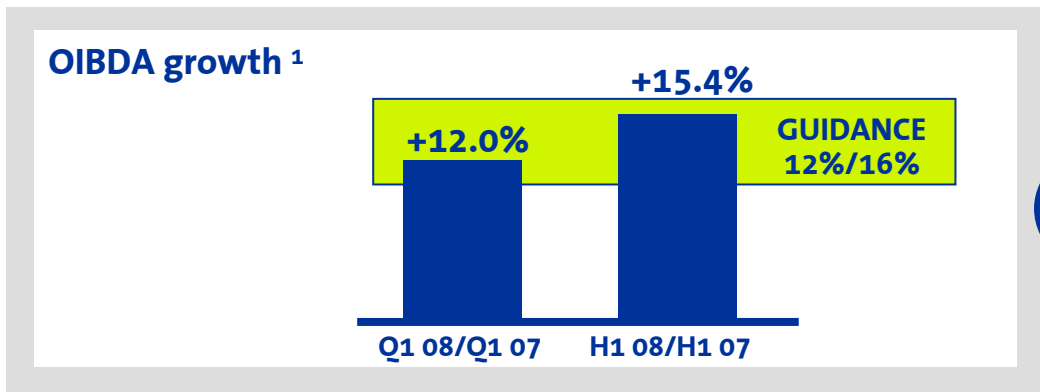
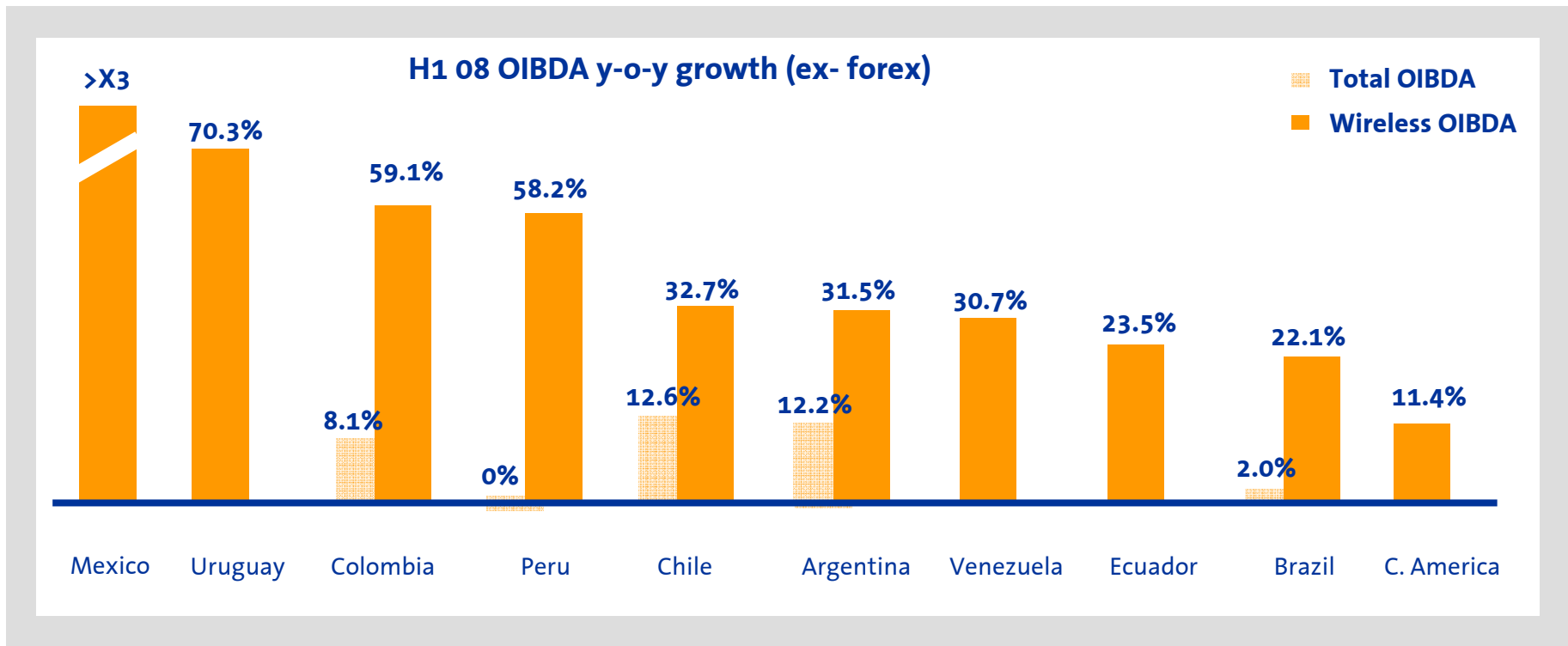


OIBDA Margin levers



Strong OIBDA growth, leading to margin expansion

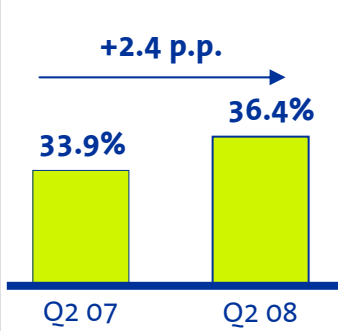
Already capitalising on enhanced efficiency levers ...



OIBDA growth acceleration along 2008

... with a direct impact on margins

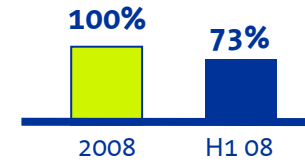
Solid OIBDA margin expansion (T. Latam)



Leveraging scale benefits and cost measures:

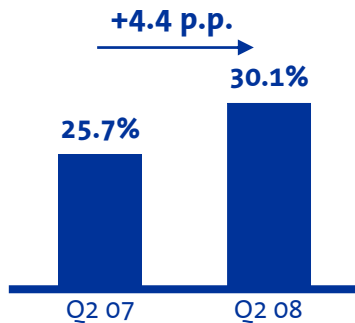
- Workforce reorganization programs
- Lower subsidies
- Enhanced quality service & commercial efficiency
- Churn reduction

Total employees to leave in 2008 (Index)



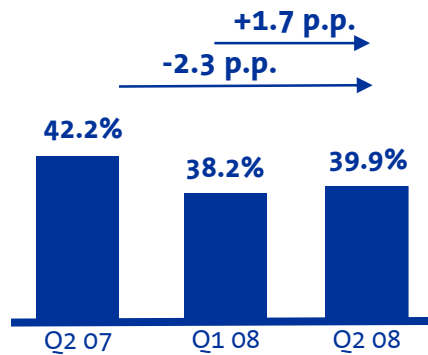
Significant y-o-y advances in mobile margins across markets

T. Latam Wireless OIBDA margin¹

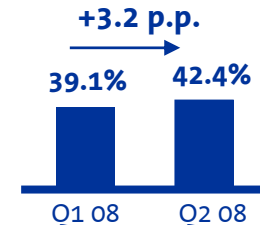


Wireline margins impacted by business transformation
Enhanced margins q-o-q driven by major operations

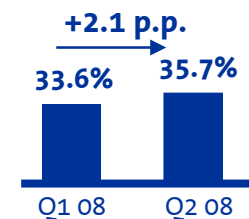
T. Latam Wireline OIBDA margin¹



TELESP

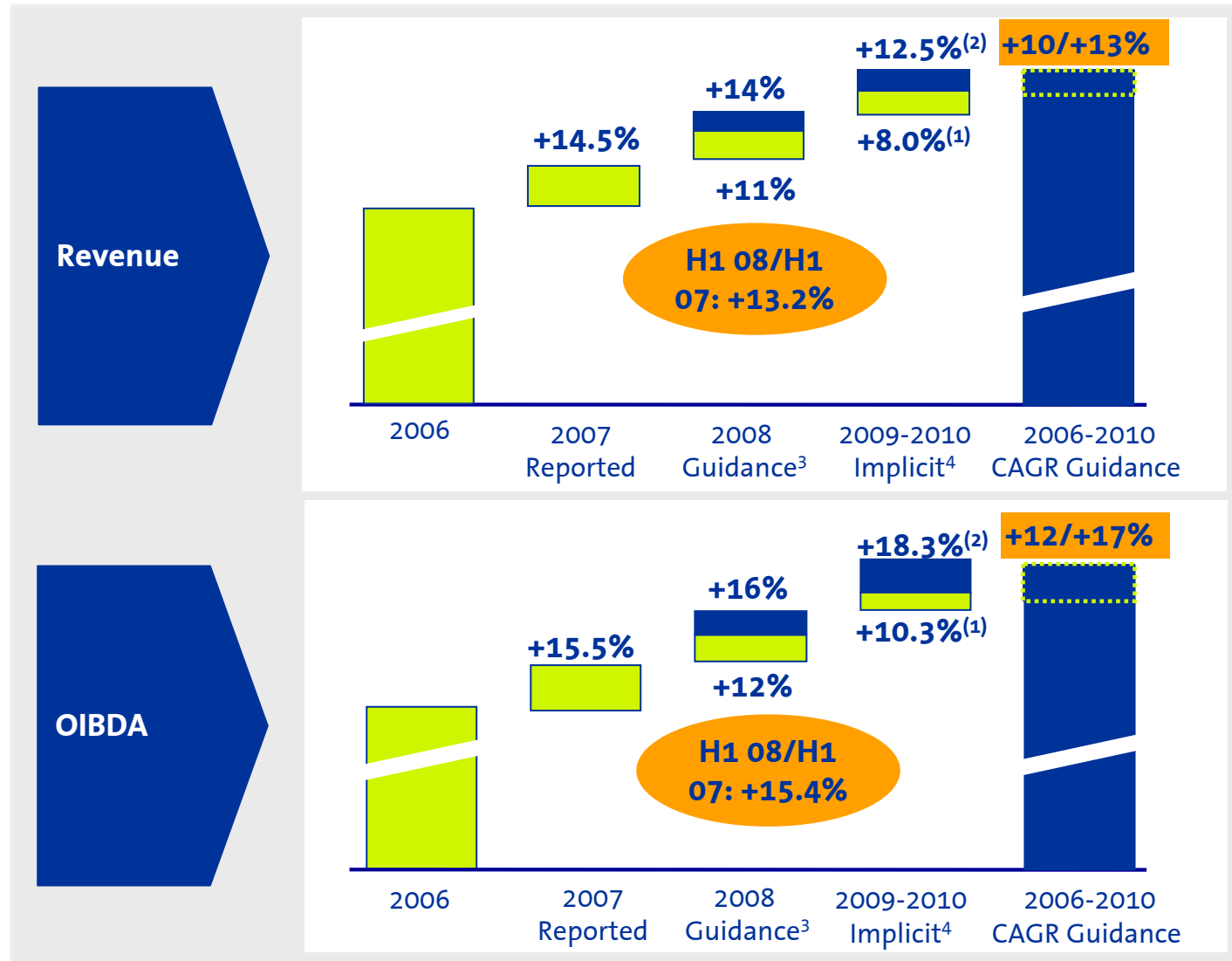


TASA



(1) Aggregated figures.

On track to meet 2010 targets



**2007-10
Capex:
€14-16 bn**

**2010
OpCF: >€7
bn**

(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

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Closing remarks

On track to deliver a superior growth guidance

**Differentiated
strategy in
high growth
potential area**

+

Best positioned player to capture the strong growth potential of the telecom market in the region

+

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

**Superior
business
performance**

H1 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

Telefonica
