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...

June-2008

Operations in 15 countries

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

- **5.5% stake** 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 2007-2010

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1. China Netcom–China Unicom merger was approved by their respective shareholders on September 16-17th, 2008
2. Yankee Group Forecast, Oct-07
The main growth driver of Telefónica ...

**H1 08 T.Latam weight in TEF**

- Revenues: 37.4%
- OIBDA: 34.4%

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

- TEF: +6.7%
- T. Latam: +12.2%

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

- TEF: +12.0%
- T. Latam: +15.8%

**Contribution to Group growth**

- +4.3 p.p.

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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-June 2007 and Endemol in January-June 2007.

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)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total accesses</td>
<td>147.9</td>
<td>21.4%</td>
<td>+21.4%</td>
</tr>
<tr>
<td>Mobile</td>
<td>113.5</td>
<td>27.1%</td>
<td>+27.1%</td>
</tr>
<tr>
<td>BB(^1)</td>
<td>5.5</td>
<td>69.3%</td>
<td>+69.3%</td>
</tr>
<tr>
<td>Pay TV</td>
<td>1.4</td>
<td>1.4%</td>
<td>+1.4%</td>
</tr>
<tr>
<td>Fixed(^2)</td>
<td>25.8</td>
<td>1.9%</td>
<td>+1.9%</td>
</tr>
</tbody>
</table>

**Total accesses** +7.5 p.p. acceleration vs. Jun-07

### Contribution to T.Latam H1 08 results

<table>
<thead>
<tr>
<th>Country</th>
<th>Revenue</th>
<th>OIBDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>40%</td>
<td>42%</td>
</tr>
<tr>
<td>Argentina</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>11%</td>
<td>14%</td>
</tr>
<tr>
<td>Chile</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Mexico</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Peru</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Colombia</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>8%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Countries in orange are Investment Grade economies

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

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1 Including Terra Latam
2 Including Fixed Wireless
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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

Region GDP per capita PPP growth expectations CAGR 2006-2010: 5.7%\(^1\)

Seven main countries in LATAM growing simultaneously

Telecom sector expected growth in revenues 2006-2010: €35-40 bn

75% of the GDP of LATAM in investment grade countries estimated for 2010

Peru & Brazil Debt Rating upgraded to Investment Grade in 2008

Increased purchasing power due to middle class growth

58 million additional workers

Fastest growing region in the world: +7.8%\(^2\) CAGR 06-10

74 million people living in urban areas

75% of the GDP of LATAM in investment grade countries estimated for 2010

Fastest growing region in the world: +7.8%\(^2\) CAGR 06-10

\(^1\) International Monetary Fund
\(^2\) IDC
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)

3G will be launched by Q1 09 across all our operations

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

T. Latam 2007-10E
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 (Jun-08)

- Argentina: 103% (+14p.p.)
- El Salvador: 98% (+35p.p.)
- Chile: 93% (+7p.p.)
- Venezuela: 93% (+15p.p.)
- Colombia: 81% (+14p.p.)
- Brazil: 69% (+13p.p.)
- Mexico: 68% (+10p.p.)
- Peru: 55% (+17p.p.)
...fully flowing into our customer base

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

- Jun-07: 18.9%
- Dec-07: 22.4%
- Jun-08: 22.3%

**Customer Growth Drivers** (H1 08 y-o-y change)

- Gross adds: +24.6%
- Churn: +0.1 p.p.
- Net adds: +23.2%

**Customer growth acceleration:**
- Double digit customer growth across markets
  - 8.9m net adds in H1 08

**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)

<table>
<thead>
<tr>
<th>Country</th>
<th>Latam</th>
<th>Brazil</th>
<th>Argentina</th>
<th>Mexico</th>
<th>Venezuela</th>
<th>Colombia</th>
<th>Peru</th>
<th>Chile</th>
<th>Central America</th>
<th>Ecuador</th>
<th>Uruguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun-07</td>
<td>113</td>
<td>40.4</td>
<td>14.1</td>
<td>14.1</td>
<td>9.8</td>
<td>9.4</td>
<td>9.3</td>
<td>6.6</td>
<td>5.5</td>
<td>2.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Growth</td>
<td>+27%</td>
<td>+34%</td>
<td>+15%</td>
<td>+38%</td>
<td>+12%</td>
<td>+23%</td>
<td>+48%</td>
<td>+12%</td>
<td>+31%</td>
<td>+8%</td>
<td>+32%</td>
</tr>
</tbody>
</table>

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

- New commercial offerings to drive elasticity:
  - MoU potential\(^1\):
    - Argentina: 95
    - Spain: 161
    - UK: 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)

- Prepay: 100
- MovilPack: 200
- Hybrid: 286
- Postpay: 429
- Mobile Internet: 971
- Crossselling: Blackberry 771

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

<table>
<thead>
<tr>
<th>Country</th>
<th>New Commercial Offerings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>+3.5 p.p.</td>
</tr>
<tr>
<td>Chile</td>
<td>+2.2 p.p.</td>
</tr>
</tbody>
</table>

Notes:
1. Minutes in 2007. Data for Telefónica operations in the respective countries
2. Includes Telemig in April-June 2007
Fostering usage to expand ARPU

Exploiting voice usage levers

- New commercial offerings to drive elasticity:
  - MoU potential¹:
    - 95 Latam
    - 161 Spain
    - 190 UK
  - Recharge incentives: “Duplicame”
  - Customer migrations to higher value products: Prepay to Contract migration, periodic top-ups

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 MoU²: +22.8%
  - Outgoing ARPU Ex-forex²: +2.7%
  - Data revenues y-o-y growth: +41.5%

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

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 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
  - 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

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**Wireless**

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

<table>
<thead>
<tr>
<th></th>
<th>Jan-Aug 07</th>
<th>Jan-Aug 08</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19.6%</td>
<td>24.7%</td>
</tr>
</tbody>
</table>

**H1 08 y-o-y growth**

<table>
<thead>
<tr>
<th></th>
<th>Gross Adds(^4)</th>
<th>Churn(^4)</th>
<th>Customers(^5)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+47%</td>
<td>+0.1 p.p.</td>
<td>+20%</td>
</tr>
<tr>
<td>(87%) in GSM</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Outgoing Ss. revenue(^4)</th>
<th>OIBDA(^4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+17%</td>
<td>+13%</td>
</tr>
</tbody>
</table>

\(25.8\%\) Margin

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1 Total Satisfaction Survey in the H2 07, Instituto GFK
2 Anatel
3 Including Telemig in the April-August 2007 and April-August 2008 periods
4 Including Telemig in April-June 2007
5 Including Telemig in June 2007
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

**Customer market share**

<table>
<thead>
<tr>
<th></th>
<th>Jun-06</th>
<th>Jun-07</th>
<th>Jun-08</th>
<th>Dec-10E</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.6%</td>
<td>16.5%</td>
<td>19.1%</td>
<td>23-25%</td>
<td></td>
</tr>
</tbody>
</table>

+ Capturing revenue share

**Net adds share**

<table>
<thead>
<tr>
<th></th>
<th>Q1 08</th>
<th>Q2 08</th>
</tr>
</thead>
<tbody>
<tr>
<td>28.0%</td>
<td>31.5%</td>
<td></td>
</tr>
</tbody>
</table>

**H1 08 y-o-y growth**

- Customers: +38%
- Outg. ARPU: +7%
- Outgoing Ss. revenue: +53%

**OIBDA margin & OpCF (in €m)**

- OIBDA: 9% (H107), 22% (H1 08)
- OpCF: -3 (H107), 38 (H1 08)

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

Customer & mobile outgoing service revenue growth

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

Net exposure\(^2\) to MTR <5\% H1 08 (net exposure\(^3\) 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 Telefónica revenues
Transforming our wireline business to capture the BB opportunity

**Broadband penetration**¹ in Latin America

- **Dec-06**: 10%
- **Jun-07**: 12%
- **Dec-07**: 15%
- **Jun-08**: 17%
- **Dec-10E**: 23%

**Y-o-y growth**

- **+2 p.p.**

**Wideband penetration**¹ per country (Jun-08)

- **Chile**: 31%
- **Argentina**: 28%
- **Brazil**: 27%
- **Colombia**: 14%
- **Peru**: 10%

**Y-o-y growth**

- **+5 p.p.**
- **+9 p.p.**
- **+6 p.p.**
- **+5 p.p.**
- **+2 p.p.**

**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...

¹ Over households

² Sao Paulo
Expanding our access base at a strong pace …

- **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

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**1.1m new BB accesses in last 12 months**

- **Jun-08 Retail BB accesses** (’000)
  - T.Latam: 5,526
  - Brazil: 2,297
  - Argentina: 966
  - Chile: 680
  - Peru: 627
  - Colombia: 294

  - **y-o-y growth:** +26.1% Brazil, +26.7% Argentina, +46.7% Chile, +18.4% Peru, +18.8% Colombia

**2008 Pay TV accesses** (’000)

- **Jun-08 Pay TV accesses** (’000)
  - T.Latam: 1,354
  - Brazil: 347
  - Chile: 241
  - Peru: 653
  - Colombia: 113

  - **y-o-y growth:** +69.3% Brazil, +40.5% Chile, +8.9% Peru, x2.4 Colombia

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**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**

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**Notes:**
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

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**Change in fixed line revenue per access** (H1 08 vs. H1 07)
- T.Latam: +3.5%
- Brazil: +3.8%
- Argentina: +11.9%
- Chile: +5.8%
- Peru: +1.5%
- Colombia: -7.5%

**Churn in Chile** (Index)
- Only Voice: 100%
- 3P: 52%

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1 Including cable modem
2 Ex forex
...with healthy top line expansion, reducing exposure to regulated services

Revenue growth

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

H1 08 Internet & TV revenue/total revenue

ADSL, Pay TV and bundles prices liberalized

1 In constant currency
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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 Competence Center for new P&S: Homogeneous P&S Development Process

Regional Fixed Network Operating Center in Sao Paolo

Unique mobile brand

Special Roaming tariffs in our footprint

Single point of contact for regional support

Sales channel integration

Regional management of distribution networks

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

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

>$1,100m Synergies in 2007

Capturing additional synergies
Simplifying our customers access of services

Telefónica S.A.
Investor Relations
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**

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

H1 08 OIBDA y-o-y growth (ex- forex)

-墨西哥：>X3
-乌拉圭：70.3%
-哥伦比亚：59.1%
-秘鲁：58.2%
-智利：32.7%
-阿根廷：31.5%
-委内瑞拉：30.7%
-厄瓜多尔：23.5%
-巴西：22.1%
-美洲：11.4%

OIBDA growth 1

... 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

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

<table>
<thead>
<tr>
<th>T. Latam Wireless OIBDA margin(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 07</td>
</tr>
<tr>
<td>Q2 08</td>
</tr>
</tbody>
</table>


Wireline margins impacted by business transformation

Enhanced margins q-o-q driven by major operations

<table>
<thead>
<tr>
<th>T. Latam Wireline OIBDA margin(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 07</td>
</tr>
<tr>
<td>Q1 08</td>
</tr>
<tr>
<td>Q2 08</td>
</tr>
</tbody>
</table>


Total employees to leave in 2008 (Index)

| 2008 | 100% |
| H1 08 | 73% |

TELESP

Q1 08  | 39.1%  |
Q2 08  | 42.4%  |
+3.2 p.p.

TASA

Q1 08  | 33.6%  |
Q2 08  | 35.7%  |
+2.1 p.p.

(1) Aggregated figures.
On track to meet 2010 targets

- **Revenue**
  - 2006: +14.5%
  - 2007 Reported: +14%
  - 2008 Guidance\(^3\): +11%
  - 2009-2010 Implicit\(^4\): +12.5\(^{(2)}\)
  - 2006-2010 CAGR Guidance: +10/+13%

- **OIBDA**
  - 2006: +15.5%
  - 2007 Reported: +16%
  - 2008 Guidance\(^3\): +12%
  - 2009-2010 Implicit\(^4\): +18.3\(^{(2)}\)
  - 2006-2010 CAGR Guidance: +12/+17%

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(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

---

**2007-10 Capex**: €14-16 bn

**2010 OpCF**: >€7 bn
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Closing remarks

On track to deliver a superior growth guidance

- 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
- 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