

# T. Latinoamerica: Telefónica's key growth engine

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TMT Merrill Lynch, June 3<sup>rd</sup>, 2009



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# T. Latam, a leading integrated player with a highly diversified portfolio

March-2009

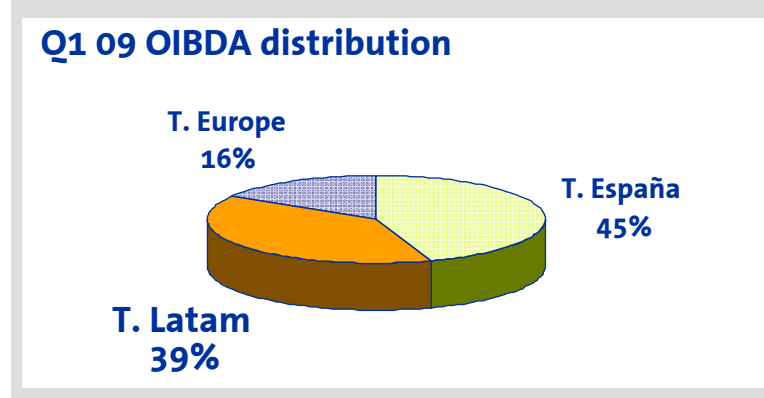
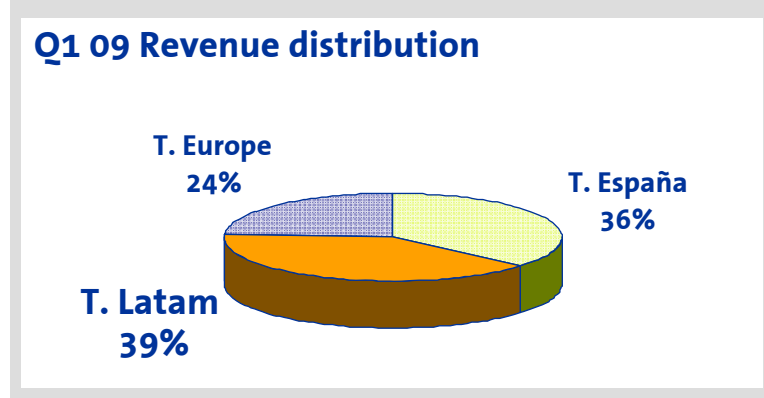
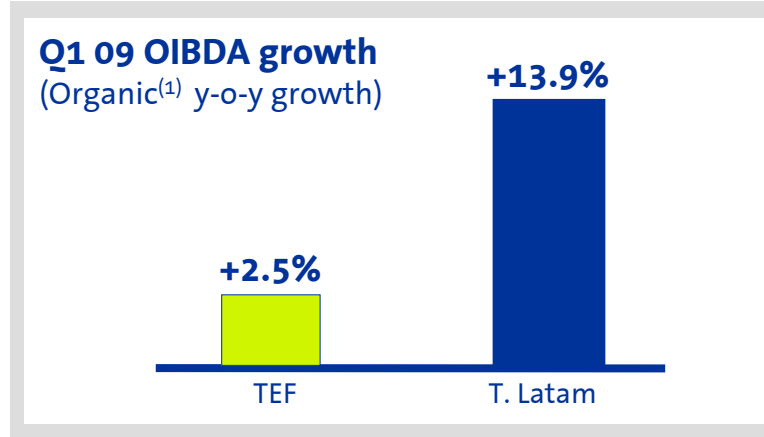
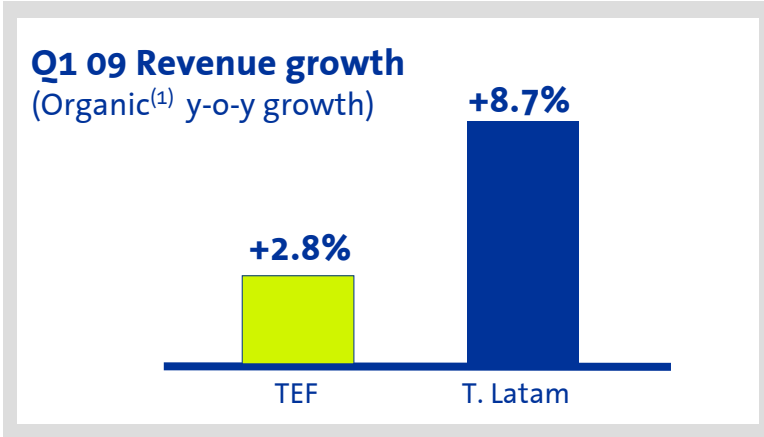
**Total accesses 159.5 m**



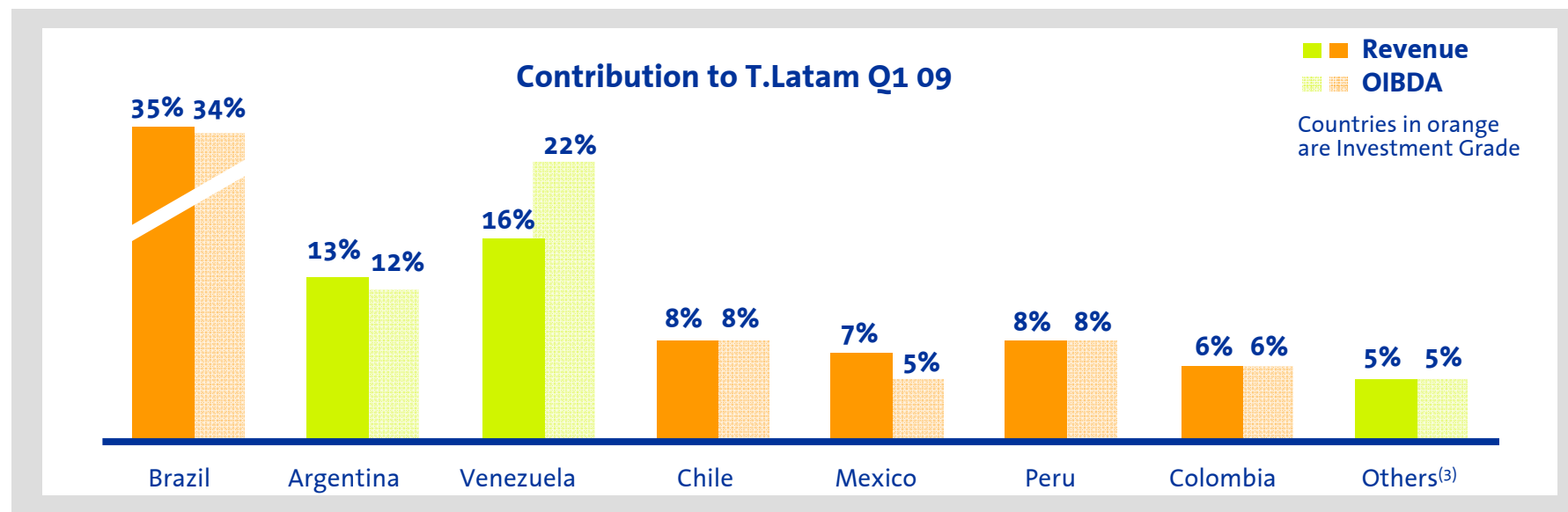
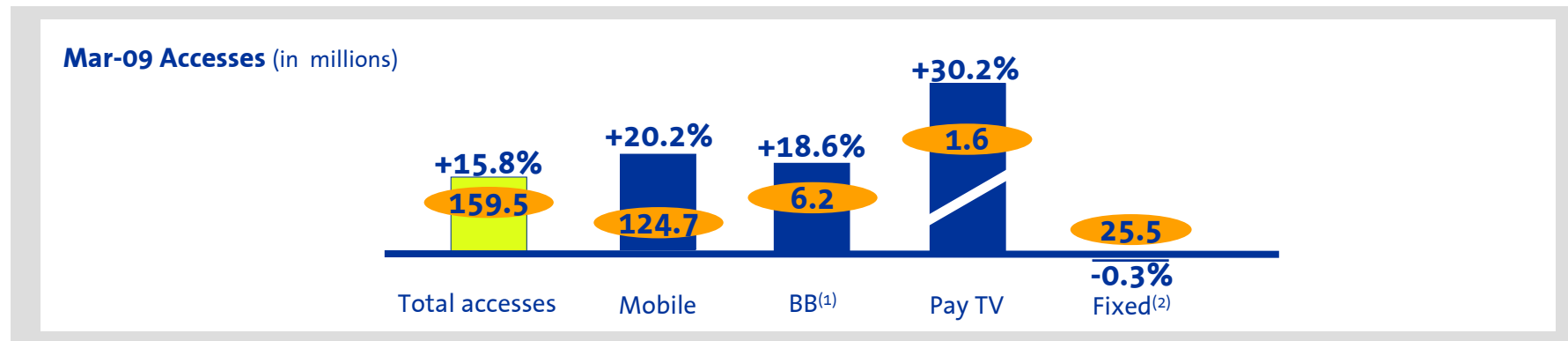
(millions)	Fixed <sup>(1)</sup>	Broadband	Mobile	TV
<b>TOTAL</b>	<b>25.5</b>	<b>6.2</b>	<b>124.7</b>	<b>1.6</b>
Brazil	11.6	2.7	45.6	0.5
Argentina	4.6	1.1	15.0	
Chile	2.1	0.7	7.0	0.3
Peru	3.0	0.7	10.8	0.7
Colombia	2.2	0.4	9.8	0.1
Venezuela	1.3		10.7	0.02
Mexico	0.2		15.5	
Others <sup>(2)</sup>	0.5	0.02	10.3	

(1) Includes fixed wireless  
 (2) Ecuador, Uruguay & Central America

# The main growth driver of Telefónica



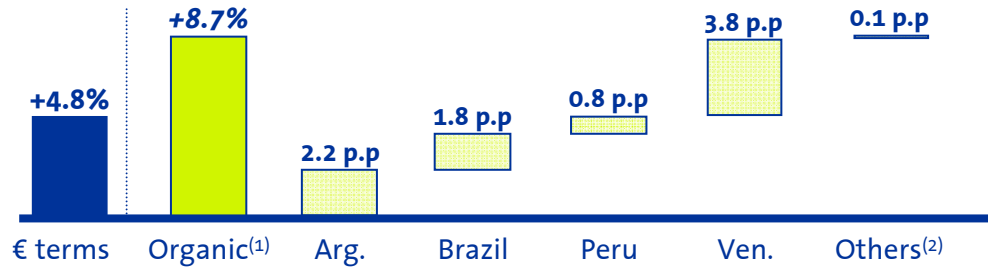
# Remarkable diversification across businesses and countries



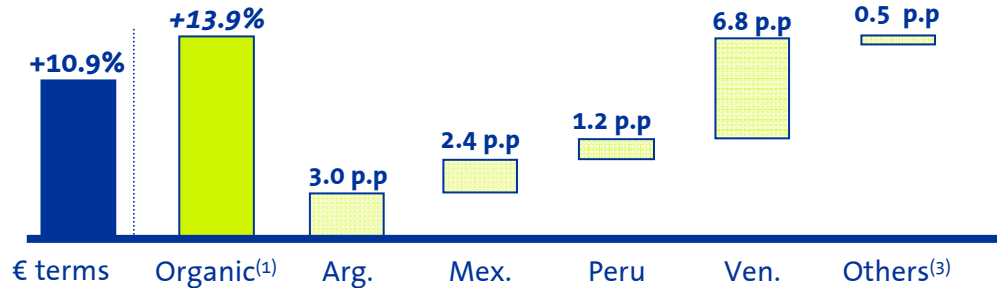
**64% of our revenues and 60% of T. Latinoamerica OIBDA from Investment Grade economies**

# Delivering our priorities

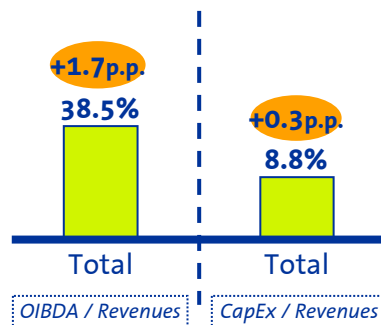
## Revenue growth (Q1 09 y-o-y change)



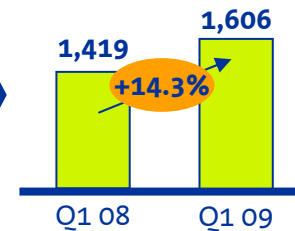
## OIBDA growth (Q1 09 y-o-y change)



## Margins over Revenues (Q1 09)



## OpCF (OIBDA-CapEx; € in millions)



## 2009 PRIORITIES

- Capture structural growth in the region (wireless and BB)
- Further OIBDA margin expansion
- Enriched OpCF profile, leveraging strong CapEx efforts in 2008

# Sound macro policies have allowed a significant improvement of global confidence in Latam



## Investment quality:

- ✓ 75% of GDP in investment grade
- ✓ Higher solvency rates, 71% of debt covered by reserves

## Maintenance of macro balances:

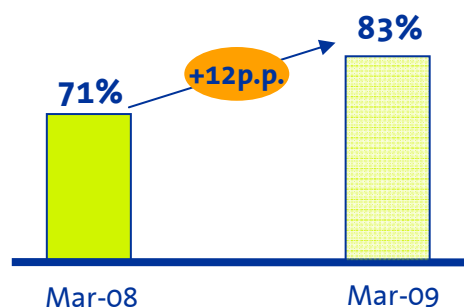
- ✓ Inflation control
- ✓ Lower rates of indebtedness /GDP
- ✓ Less dependence on U.S. exports

## Social indicators:

- ✓ 54 million - out of poverty since 2003
- ✓ 74 million have improved their status
- ✓ Improvements in labor markets: unemployment rate in the 8.5%- 9.5% range
- ✓ Strong increase in total social expense

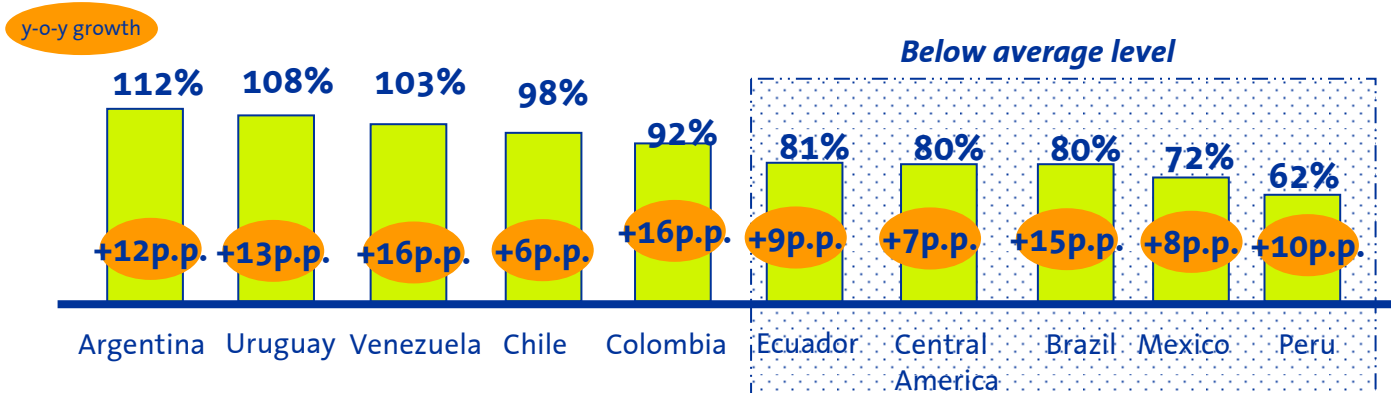
# Strong advances in wireless penetration but with solid growth prospects...

## Wireless penetration in Latin America



- Sustained double digit growth, reaching expectations 2 years ahead
- Further upside driven by:
  - Mobile Broadband
  - Bigger addressable market
  - Lower entry barriers (GSM, scale benefits)
  - Increased coverage

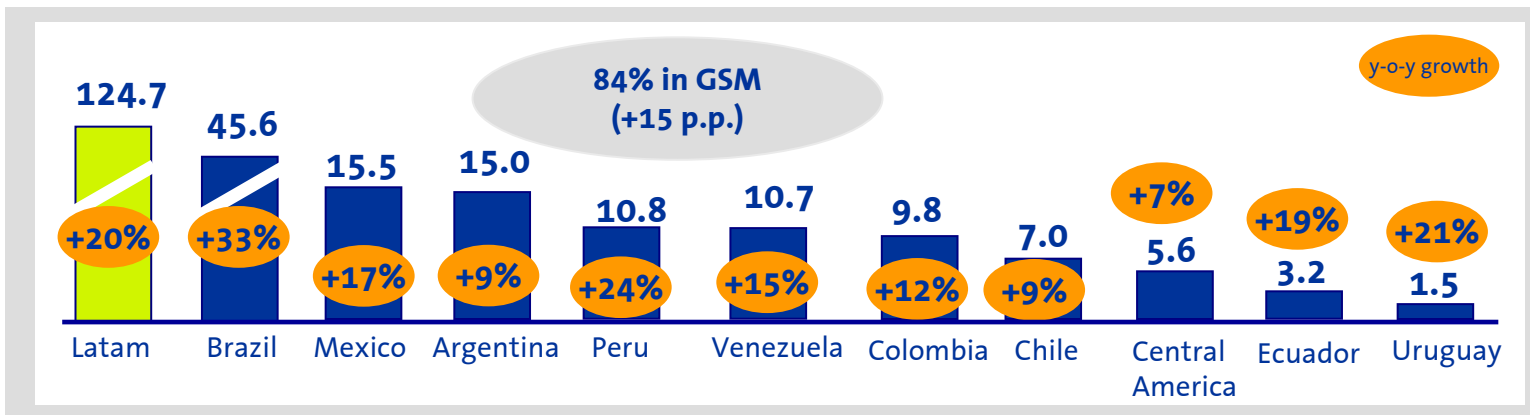
## Wireless penetration per country (Mar-09)





# ...fully flowing into our customer base pushing voice and data usage

**Mobile customers per country**  
(Mar-09, in millions)



**Exploiting voice usage levers**

- Commercial offerings to foster usage
- Recharge incentives: “Duplicame”, “Movistar 1,2,3”
- Customer migrations to higher value products: Prepay to Contract migration, periodic top-ups

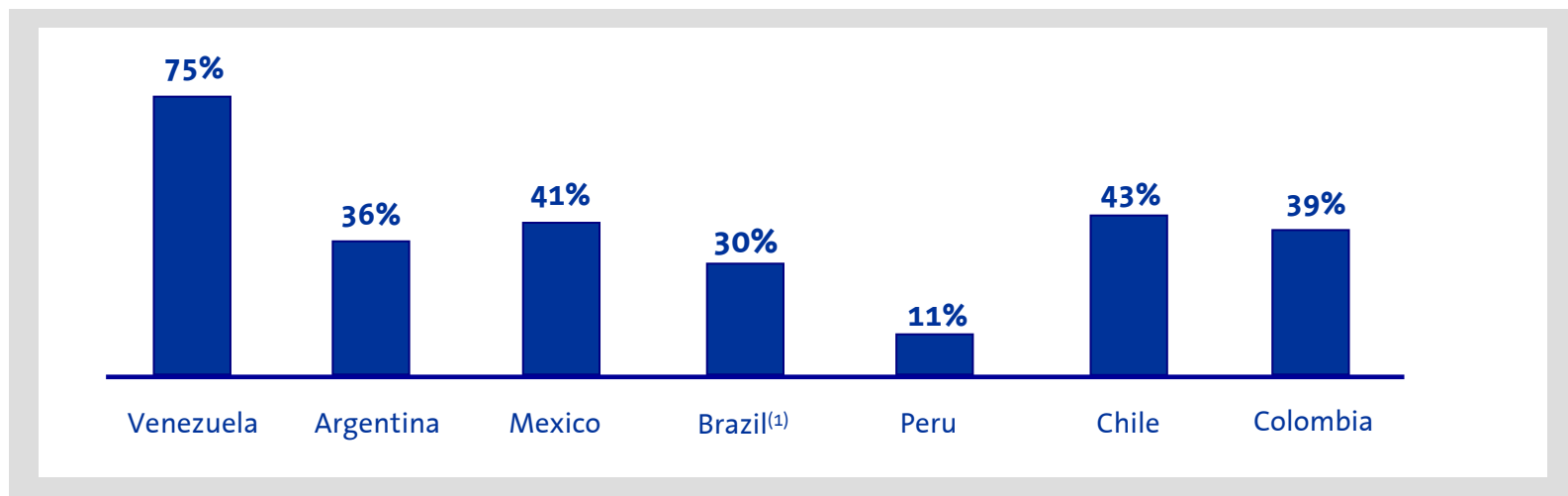
**Fostering data usage**

- P2P SMS, content SMS, browsing, e-mail...
- Progressive 3G launch, leveraging new GSM networks (3G compatible):
  - 3G already launched in Argentina, Chile, Uruguay, Brazil, Colombia, Panama, Venezuela & Inland Mexico
  - Peru, Ecuador, Guatemala & El Salvador to be launched in Q2 09

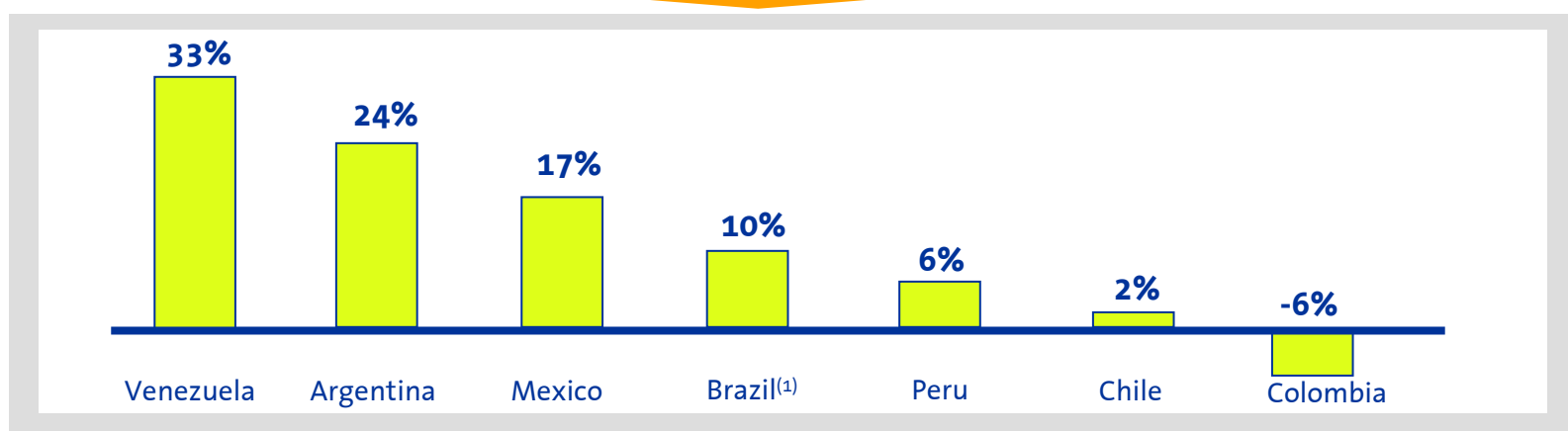
Data revenues/ y-o-y growth<sup>(1)</sup> Service Revenues

# Capturing growth opportunities in the wireless market

**Data revenue growth**  
(Q1 09 y-o-y growth in local currency)

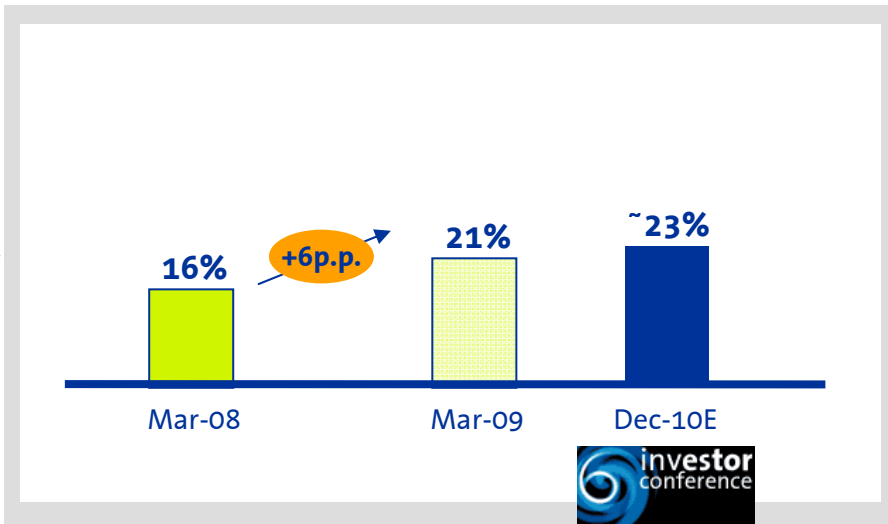


**Mobile service revenue growth**  
(Q1 09 y-o-y growth in local currency)

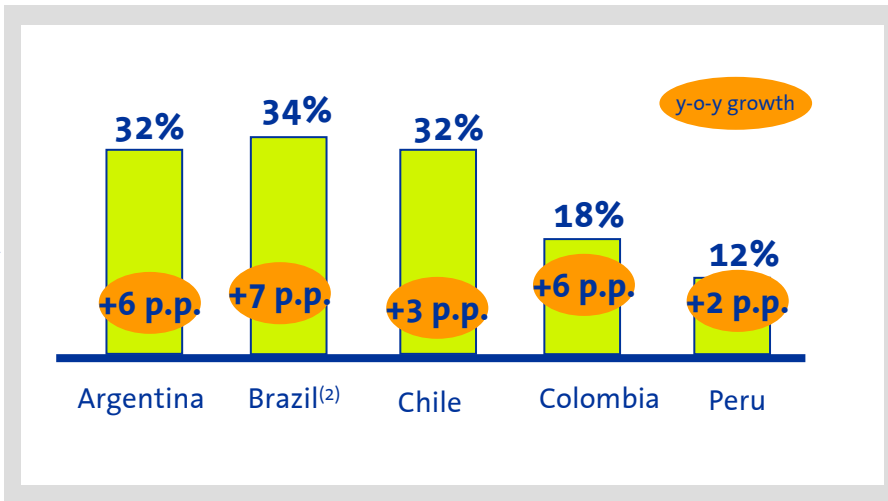


# Sustained business transformation to drive the BB opportunity

**Broadband penetration<sup>(1)</sup> in Latin America**



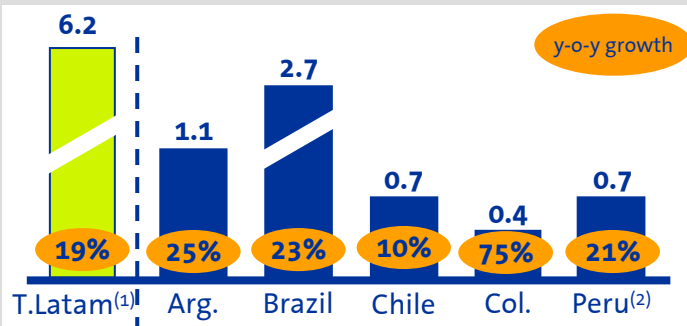
**Broadband penetration<sup>(1)</sup> per country (Mar-09)**



- **Strong penetration increases and upside driven by:**
  - **Expanded network coverage** pushed by demographic changes: Increased purchasing power due to middle class growth
  - **New business opportunities:** workstations
  - **Medium ADSL market:** plug & play, lower entry level bandwidth solutions, prepay...

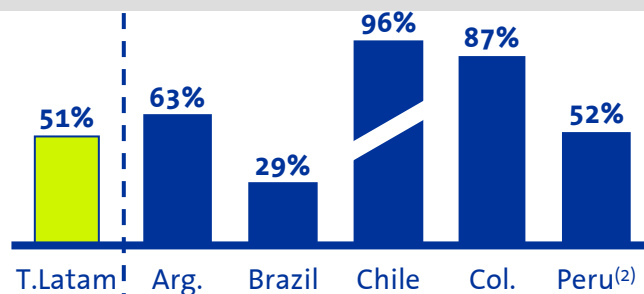
# Outstanding access base growth leveraging our bundling strategy ...

## Mar-09 Retail BB accesses (in millions)



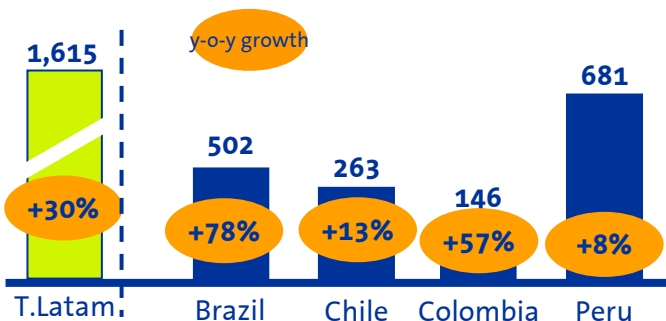
- 1.0m new BB accesses in last 12 months
- Targeting new segments through innovative propositions:
  - Prepay broadband in Chile
  - Residential workstations in Chile and Peru
  - Universal broadband in Chile

## 2P&3P/BB Accesses (Mar-09)



- Strong push in bundles
  - 2P&3P/BB: +14 p.p. y-o-y
  - Total bundles/fixed lines: +5 p.p. y-o-y
- Flat total fixed line accesses

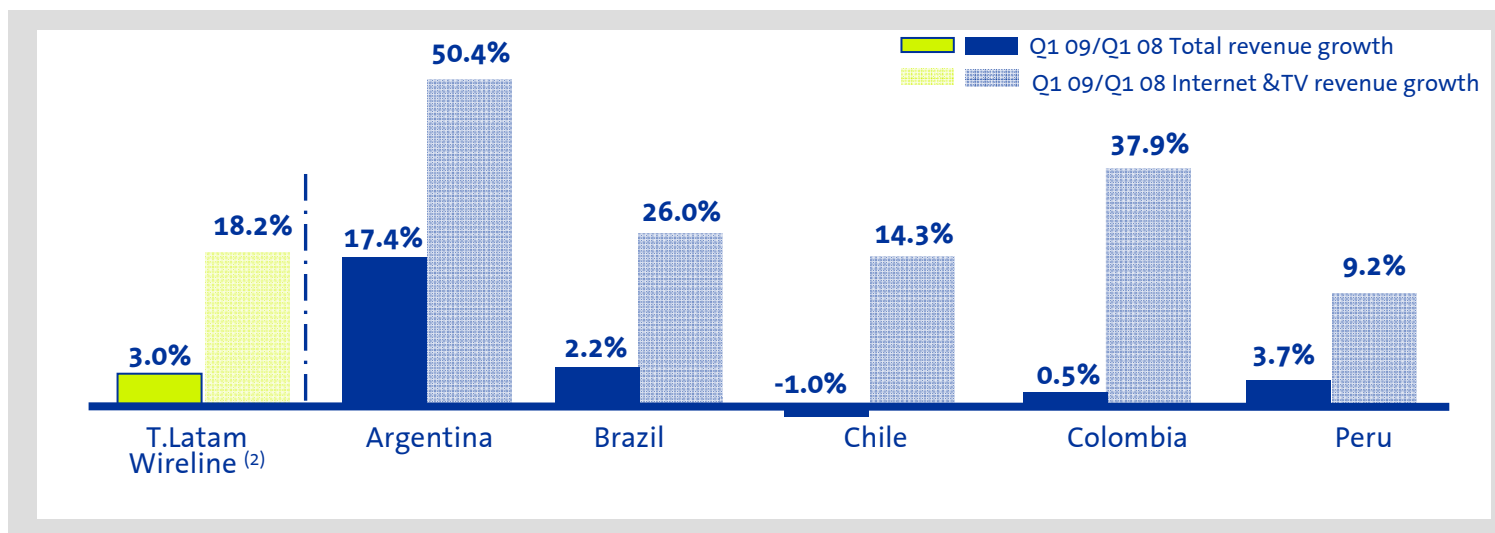
## Mar-09 Pay TV accesses ('000)



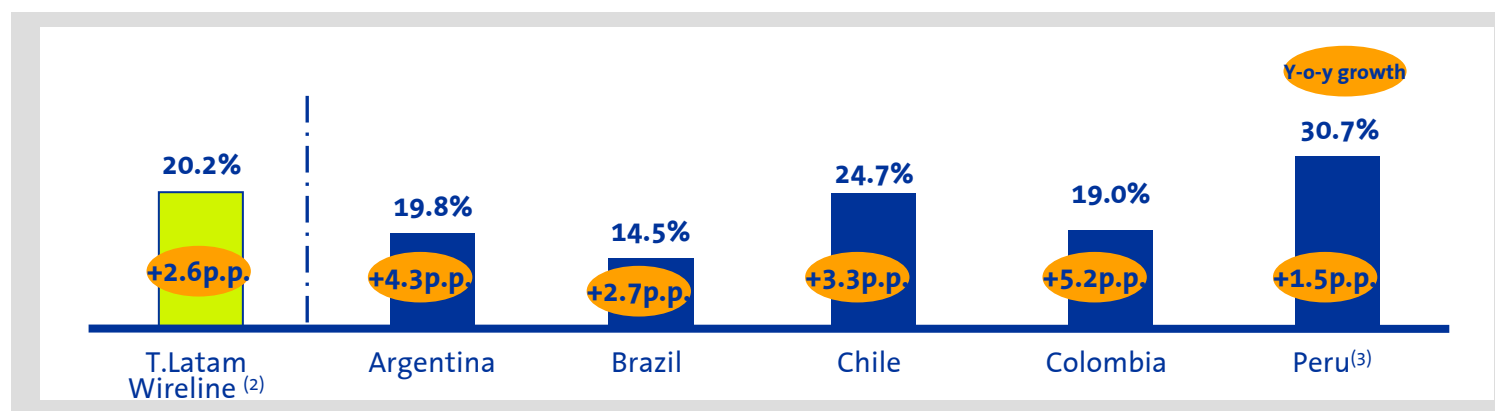
- Enhanced content offering: Brazil (Globo content & TVA) to surpass 1.0 m TV accesses by 2010E
- New digital set top box allows Interactive services, PPV and additional channels in Peru. 175,000 clients already migrated to “Evolución Cable Mágico” in the City of Lima

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

Revenue<sup>(1)</sup> growth



Q1 09 Internet & TV revenue/ total revenue

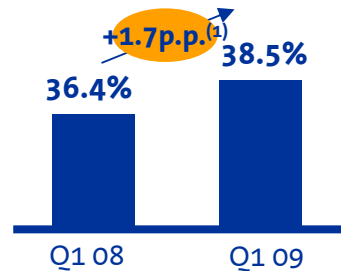


(1) In constant currency  
 (2) Includes Telesp, T. Argentina, T. Chile, T. del Perú, T. Telecom, TNA, Terra and Media Networks  
 (3) Including cable modem, and excluding Medianetworks in 2008

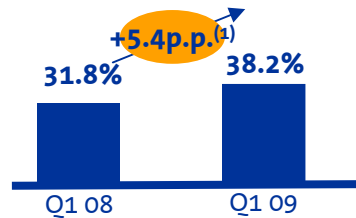
# Sound OIBDA and OpCF margin expansion driven by mobile business

OIBDA margin

T. Latam OIBDA margin



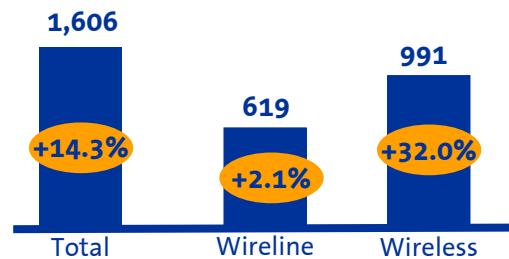
T. Latam Wireless OIBDA margin<sup>(2)</sup>



- **Outstanding OIBDA margin expansion** supported by mobile business leveraging scale economies and lower commercial activity
- **Significant OIBDA margin expansion across every mobile operation:** +5.6 p.p. in Argentina, +9.8 p.p. in Mexico, +8.3 p.p. in Peru
- **Wireline margins<sup>(3)</sup>** impacted by business transformation

Q1 09 Operating Cash Flow

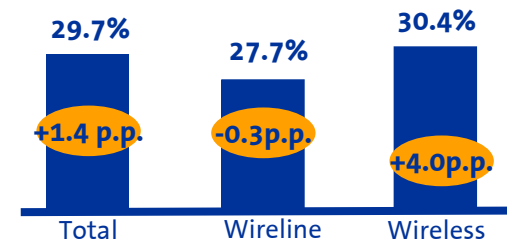
Operating Cash Flow (€m)



y-o-y growth<sup>(1)</sup>

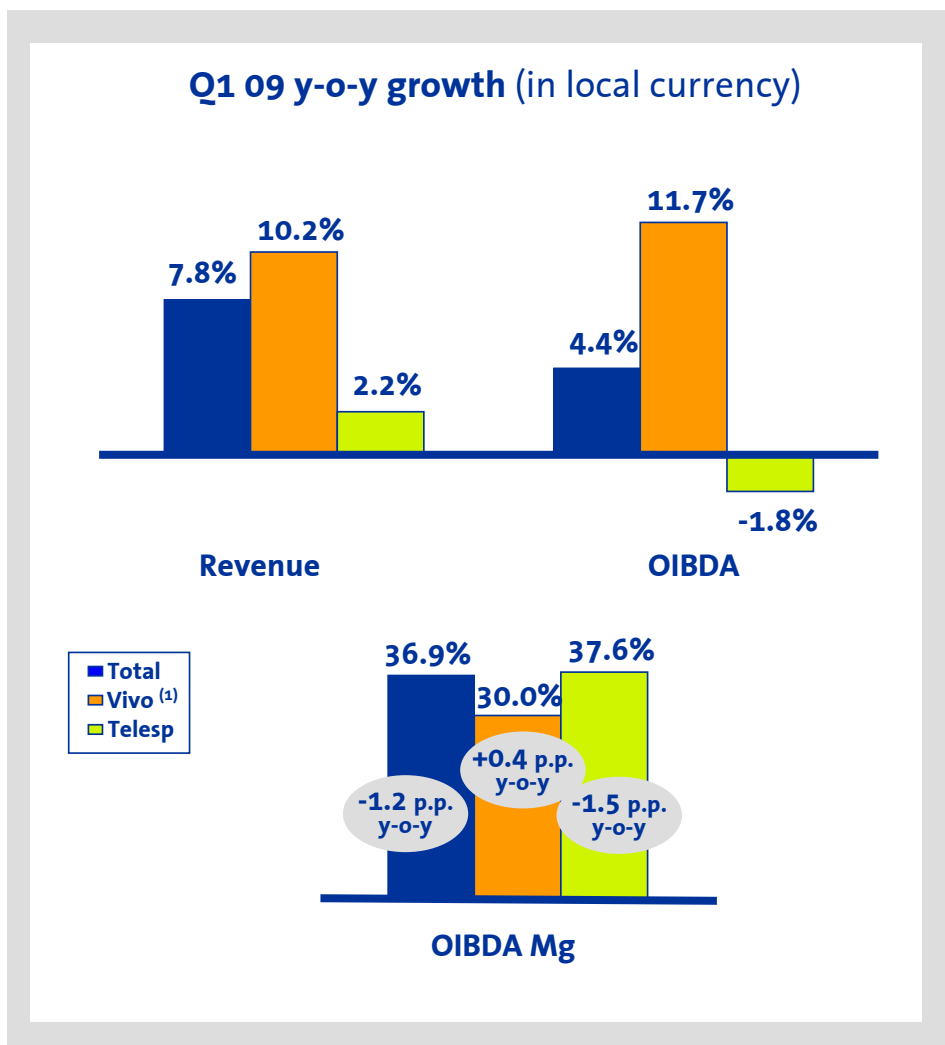
CapEx seasonality mainly in Brazil

Operating Cash Flow margin



(1) Assuming constant exchange rates and including the consolidation of Telemig in Jan-Mar 2008  
 (2) Aggregated figures. All mobile operations.  
 (3) Aggregated figures. Includes Telesp, T. Argentina, T. Chile, T. del Perú, T. Telecom.

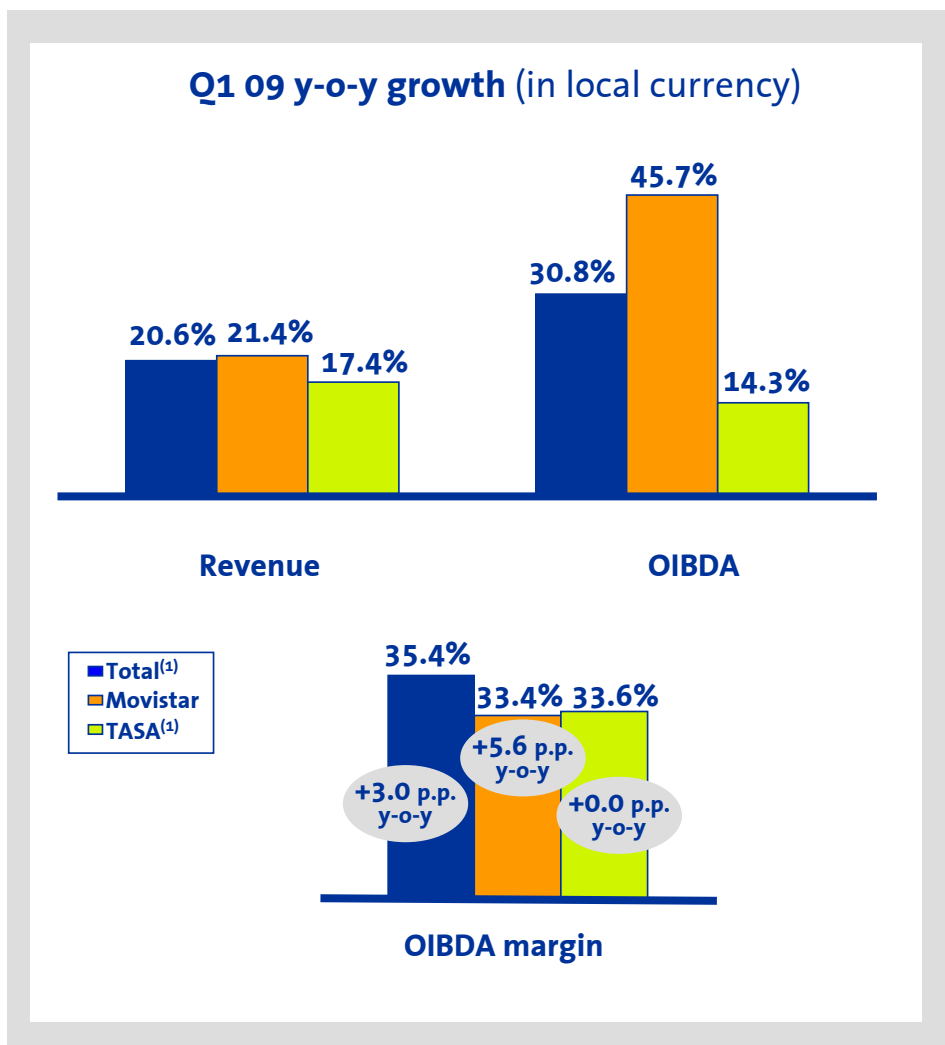
# Main operations review: Brazil



(1) Organic growth rates, including Telemig in January-March 2008.

- **Sound economic climate**
- **Healthy customer growth** across businesses
- **Sustained undisputed leadership** in areas of operations
- **Strong growth at Vivo coupled with higher OIBDA margin**, in a highly competitive environment
  - Capturing ongoing increases in penetration and the wireless data opportunity
- **Telesp continues advancing in its transformation strategy:**
  - Significant Internet & TV revenue growth
  - Q1 09 performance impacted by the new call centre law

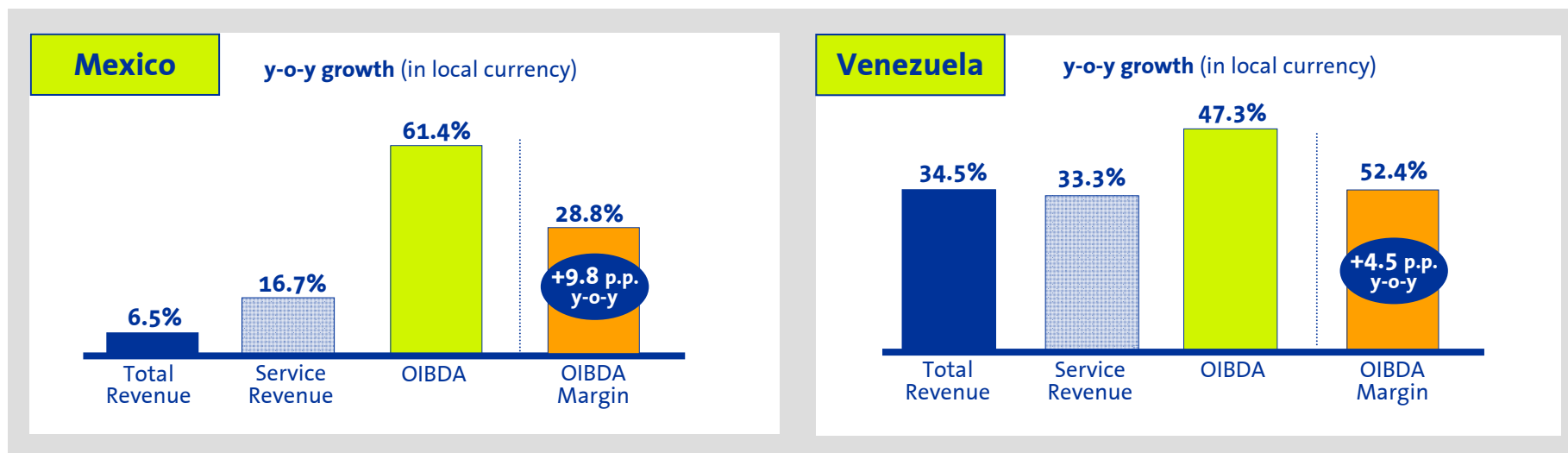
# Main operations review: Argentina



- **Solid underlying business performance** in a high inflation environment
- **Very positive revenue growth both in wireline and wireless leveraging:**
  - Robust customer and usage (voice & data) increases
  - Strong growth in Internet & TV revenues
  - Despite no change in price in regulated services (around 50% of total wireline revenues)
- **Enhanced profitability** driven by efficiency gains to cope with cost inflation



# Main operations review: Mexico & Venezuela



- **Sound performance** in a weaker macro environment
- **Solid customer base expansion with further gains in customer & revenue**
- **Ongoing OIBDA margin expansion**
- **Robust OpCF growth:** +41.3% in local currency vs. Q1 08

- **Robust business fundamentals** despite higher inflation vs. 2008
- **Very solid commercial activity** on the back of higher mobile gross adds (+15% y-o-y), lower churn and strong increase in fixed wireless accesses (+24% y-o-y)
- **Strong voice and data usage**
- **Sound profitably** leveraging low handset subsidies and high on-net traffic volumes

## Closing remarks

- Capturing structural growth opportunities across businesses in a growing region
- Further enhancing efficiency, delivering OIBDA margin expansion
- Enriched OpCF profile, leveraging strong CapEx efforts in past years
- Capitalizing our differentiated strategy and management model to further grow our business portfolio

*Telefonica*

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