

# Sixth Investor Conference

Telefónica Latinoamérica: A winning mindset

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London, October 11<sup>th</sup> 2007



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## Four key 2006-2010 figures

1

**Historical  
opportunity**

- Top 7 Latin American countries
  - Growing simultaneously
  - Expected as “Investment Grade” >75% GDP

2

**+€35-40bn**

- Latin America telecom market growth

3

**>60m**

- New Telefónica Latin America accesses

4

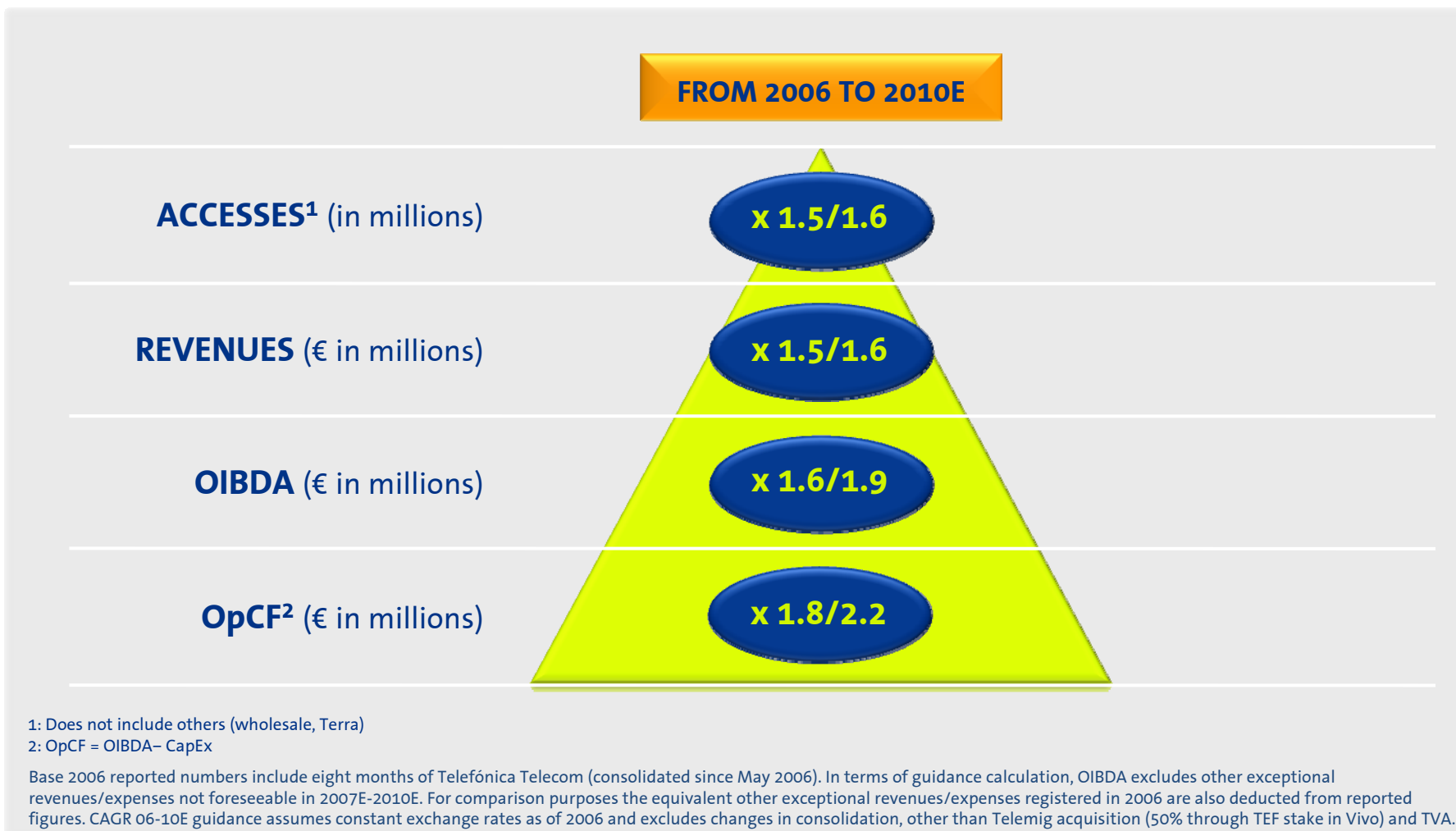
**~€22-25bn**

- Cumulative operating cash flow\*

\* OpCF = OIBDA - CapEx

# Our aspiration: continued delivery of profitable growth

Telefónica LatinoAmerica consolidated



## T-Latam: Growth on Growth

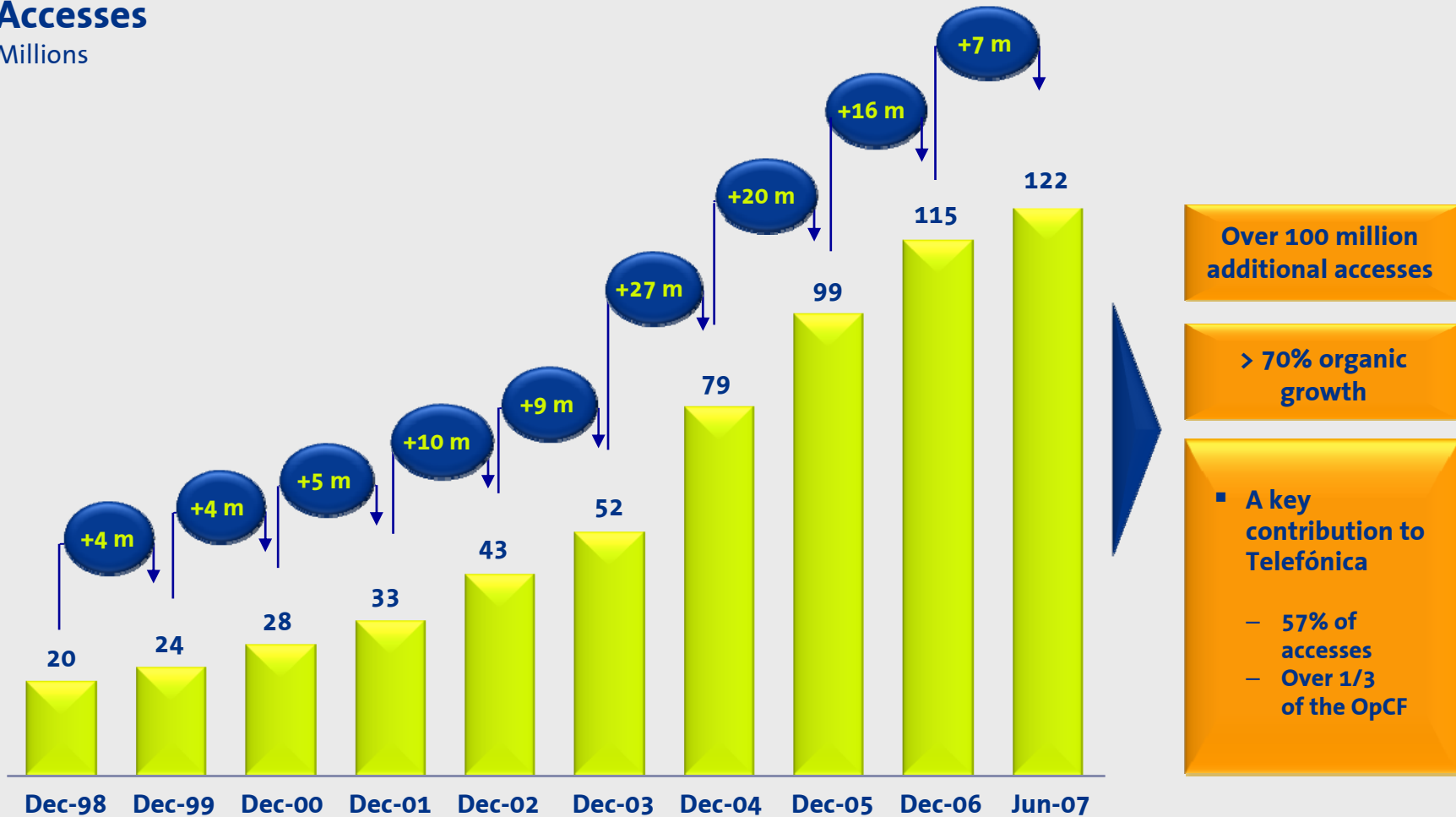
**1 What we have accomplished: continuous growth and leadership**

- 2 Latin America: much more than you imagine
- 3 The new T-Latam: uniquely positioned for further growth
- 4 Walking the talk
- 5 Our commitments

## 1 Sustained growth since 1998

### Accesses

Millions



## 1 Stronger operational platform

### Commercial

- **Single mobile brand**
- **Integration of Fixed-Mobile** account management for Corporates
- Homogeneous **P&S development** process
- Improvement of **capillarity** and **quality** of point of sales
- Migration to GSM proceeding well

T-Latam incorporates  
aprox. 120,000  
mobile gross adds  
per day in 2007

T-Latam commercial  
network has more  
than 650,000 points  
of sale

### Network operations and IT

- Completed deployment of **GSM network**
- **DSL coverage** over 93%
- **Centralization** of fixed **network supervision**
- Homogenization of commercial and network **IT systems**
- Consolidation of **IT infrastructures** (Data-centers)

T-Latam installs  
aprox. 6,000 BB  
accesses per day in  
2007

International Traffic  
increased:  
2006 vs. 2002  
X 15

# 1 A leader and shaper: the only integrated regional player in the region

■ Market leader\*

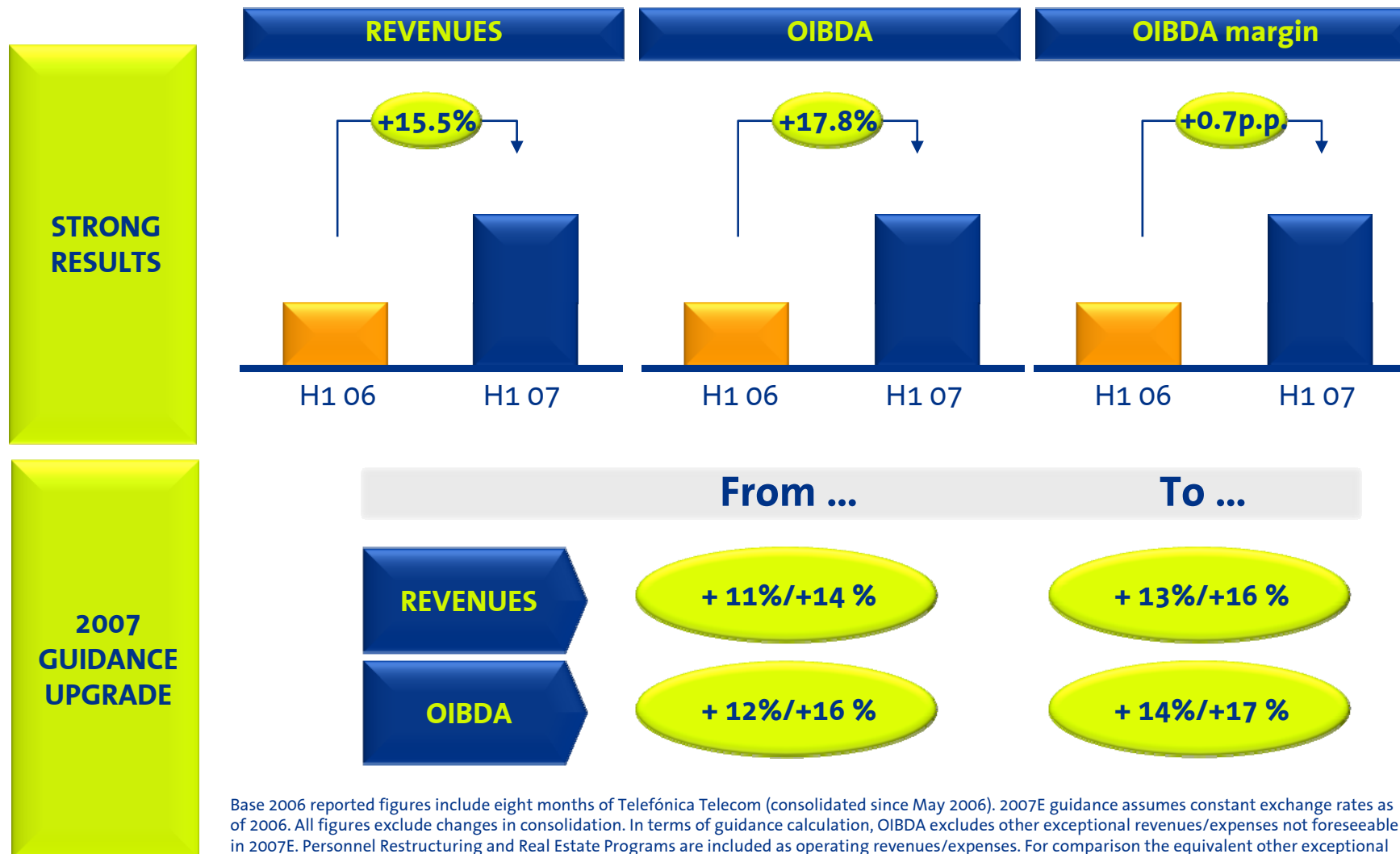
■ 2nd player\*



\* share of revenues



# 1 The benefits of our model are already visible



## The New T-Latam: Growth on Growth

- 1 What we have accomplished: continuous growth and leadership

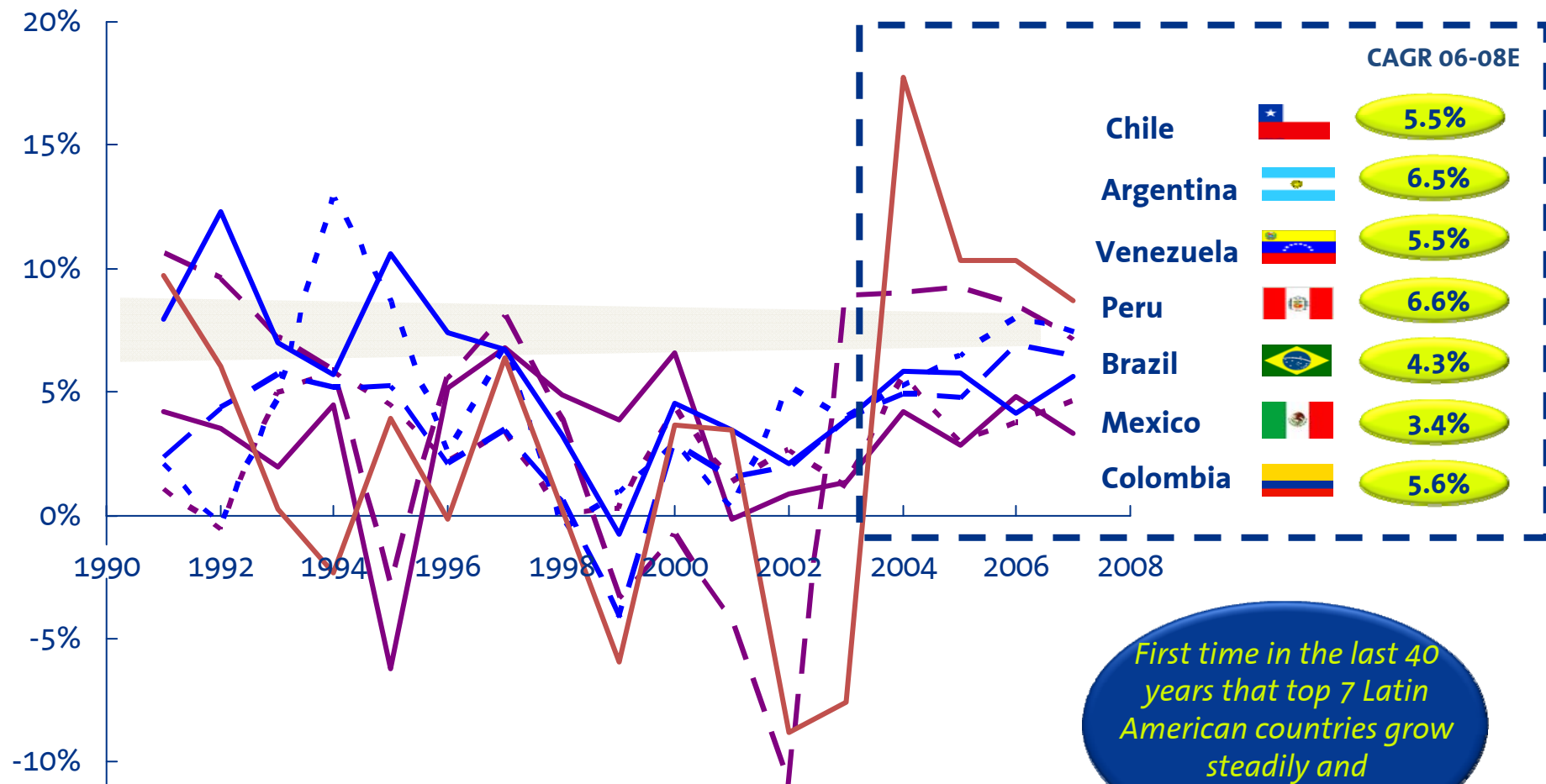
### 2 **Latin America: much more than you imagine**

- 3 The new T-Latam: uniquely positioned for further growth
- 4 Walking the talk
- 5 Our commitments

## 2 Unique macroeconomic momentum

GDP Growth Rates, constant currency

## 1 Historical opportunity



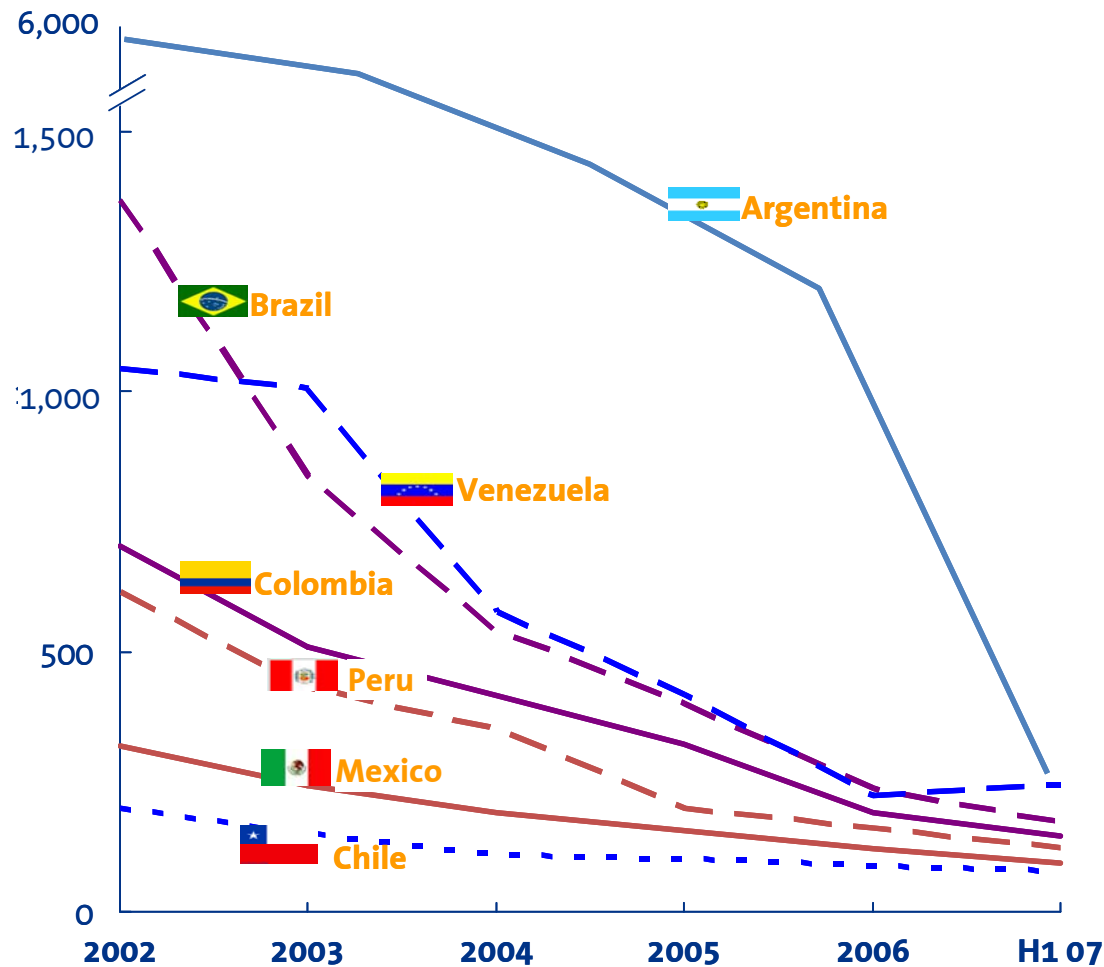
*First time in the last 40 years that top 7 Latin American countries grow steadily and simultaneously*

Source: World Bank World Development Indicators & Consensus Forecasts

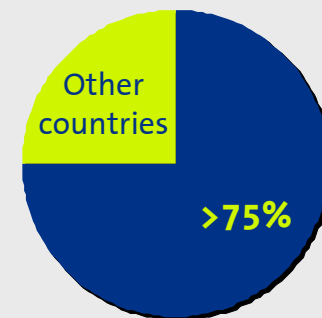
## 2 Unique financial markets outlook

Country risk evolution (Emerging market bond index)

## 1 Historical opportunity



Latin America GDP  
100% = €3,200 bn



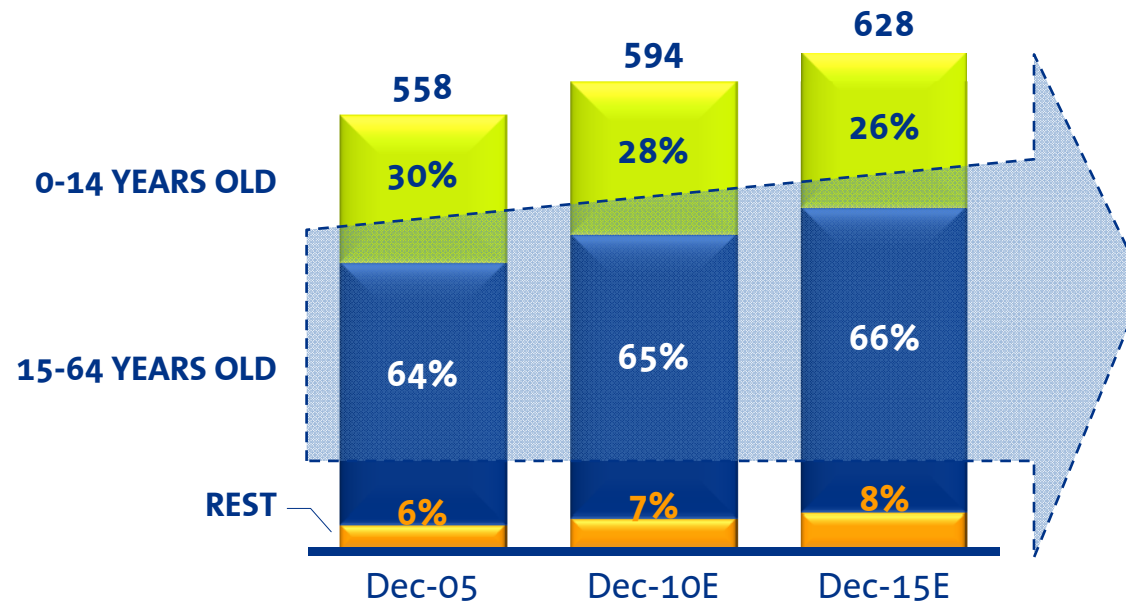
Expected investment  
grade countries in 2010E

Source: JP Morgan, the Economist Intelligence Unit

## 2 Additionally, the telecom sector will benefit from improving demographics ...

### POPULATION GROWTH AND DEMOGRAPHICS

Million



- A growing potential telecom users base in the next 10 years
  - Additional **58 million workers**
  - Additional **74 million** people living in **urban areas**

Urban/rural  
mix  
(percentage)

77%

79%

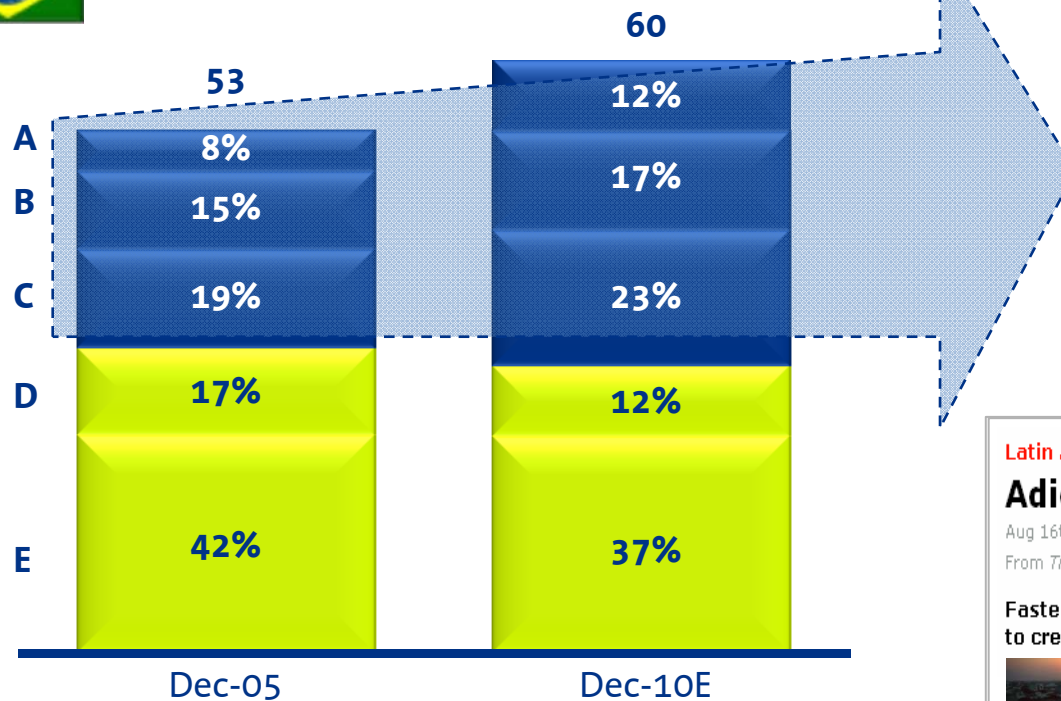
81%

Source: United Nations World population prospects – Latin America and the Caribbean

## 2 ... and from better socioeconomic indicators

### DISTRIBUTION OF BRAZILIAN HOUSEHOLDS BY SOCIOECONOMIC CLASS

Households in millions



### TOTAL LATIN AMERICA

- Higher purchasing power due to growth of middle classes in Latin America
  - 15 million additional middle class households during 2006-2010E
  - ABC households will surpass DE households by 2010E

#### Latin America's middle class

### Adiós to poverty, hola to consumption

Aug 16th 2007 | SÃO BERNARDO DO CAMPO

From *The Economist* print edition

Faster growth, low inflation, expanding credit and liberal trade are helping to create a new middle class



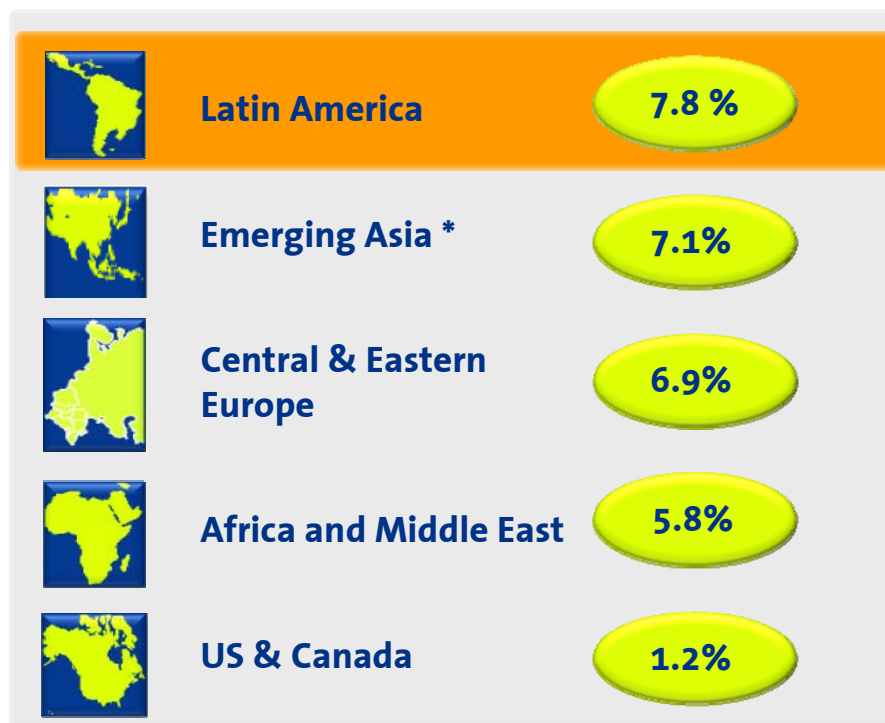
The Economist

Source: Banco de Santander; Report: "A emergência da classe média no Brasil"; The Economist

**2** As a result, Latin America will turn into the fastest growing telecom region in the world

**2** +€35-40 bn

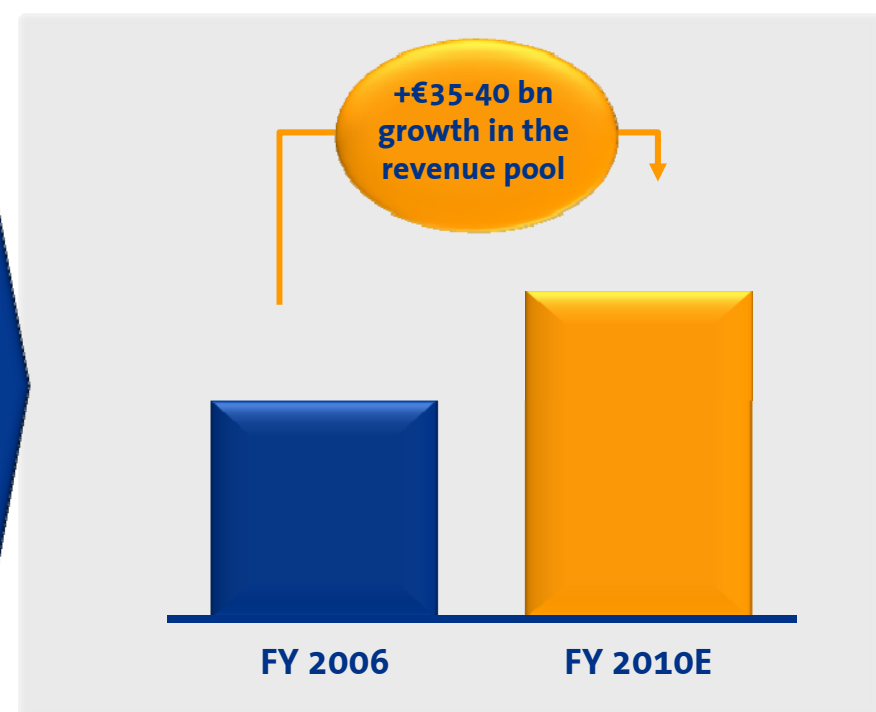
### TELECOM MARKET GROWTH EXPECTATIONS CAGR 06-10E



Source: IDC

\* Excluding Japan, Korea, Hong Kong, Singapore and Taiwan

### LATIN AMERICA TELECOM MARKET € in billion



Source: Telefónica

## The New T-Latam: Growth on Growth

- 1 What we have accomplished: continuous growth and leadership
- 2 Latin America: much more than you imagine
- 3 **The new T-Latam: uniquely positioned for further growth**
- 4 Walking the talk
- 5 Our commitments



### 3 Clear action plan for the upcoming 4 years

#### Capture growth



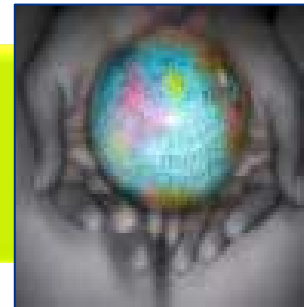
- Strong mobile growth
- Capture BB and bundling opportunities to reinforce access base
- Segmented approach

#### Leverage integrated delivery and regional scale



- Network evolution through a segmented investment approach
- Regionalization of Technology, Operations and Systems

#### Ensure business sustainability



- Customer satisfaction increase
- Partnership with Latin America
- Talent management

### 3 Mobile: over 50 million additional Telefónica mobile customers



Mobile penetration <sup>1</sup> Dec-06 Dec-10E Population 2010E <sup>2</sup>

Brazil	55%	~80%	~198 m
Mexico	53%	~80%	~113 m
Argentina	78%	~97%	~41 m
Chile	82%	~97%	~17 m
Peru	32%	~71%	~29 m
Colombia	67%	~91%	~44 m
Venezuela	69%	~90%	~29 m
<b>Total Latam</b>	<b>56%</b>	<b>~83%</b>	<b>~519 m</b>

Latin American Expected evolution similar as other countries in the last 4 years (from 2002 to 2006) <sup>3</sup>

	From	To
Chile	41%	78%
Argentina	18%	78%
Hungary	49%	92%
Czech Republic	43%	106%
France	65%	82%

Mobile market  
growth in Latin  
America <sup>1</sup>

+ 140/160 million  
additional  
mobile accesses

Telefónica  
Latin America  
aspiration

+ 55/60 million  
additional  
mobile accesses \*

Source;

1 Telefonica estimates

2 United Nations World population prospects – Latin America and the Caribbean

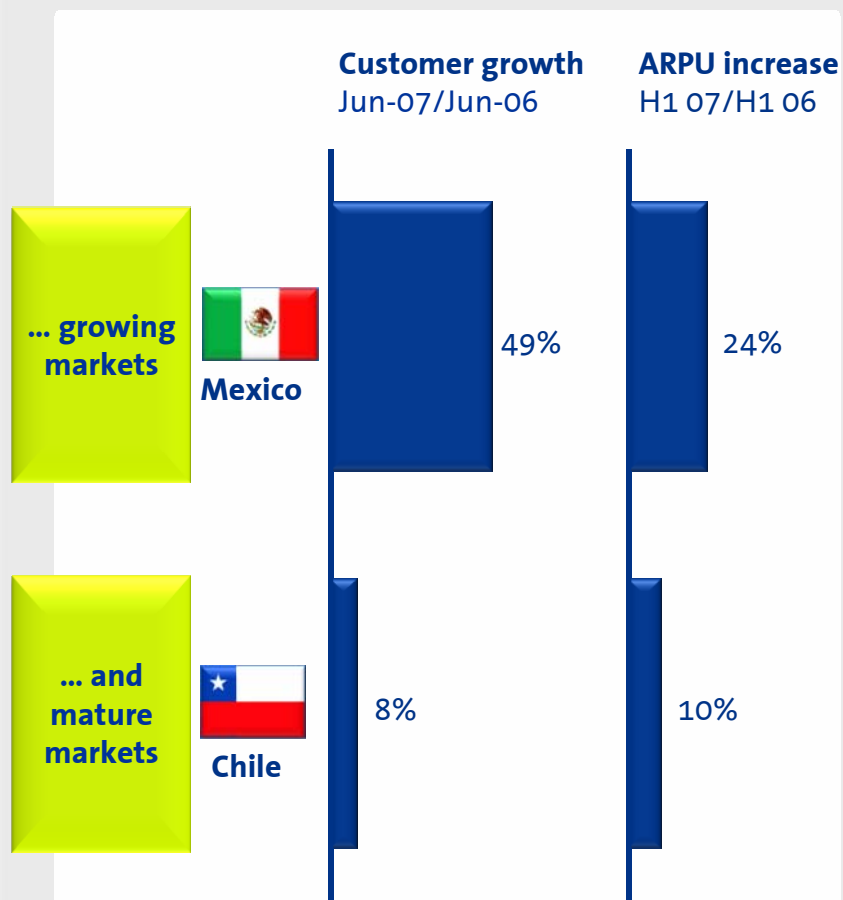
3 Euromonitor and Global Insight

\* Including Telemig acquisition

### 3 Mobile: drive ARPU based on stimulation of consumption

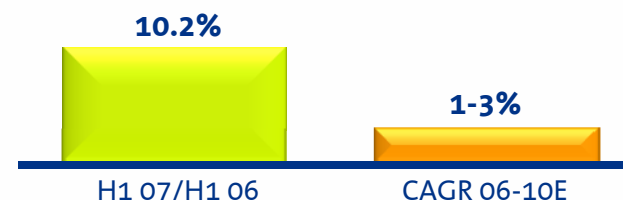


We are successfully stimulating ARPU, both in ...



\* Source: Pyramid, June 2007

T-LATAM MOBILE ARPU INCREASE (Ex fx)



Already a growth path ...

... with room for further improvement

Price elasticity approach

MoU increased 18% in T-Latam last year

Latam MoU is 74% of Western European's MoU \*

Stimulating data services

Data ARPU increased 22% in T-Latam last year

Western European's Data ARPU is 4 times Latam's Data ARPU \*

Prepaid contract migration & segmented offer

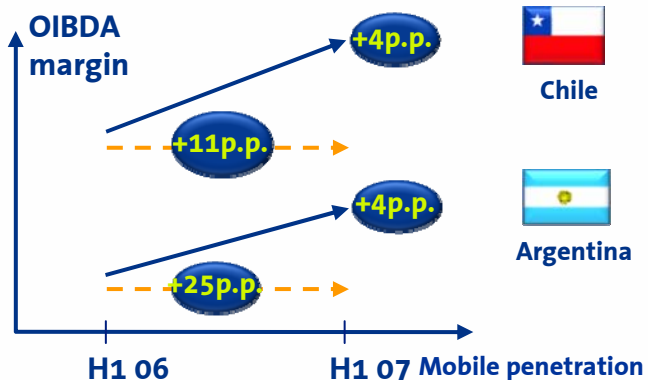
82% prepaid mobile accesses in T-Latam

Western Europe's postpaid mobile accesses are almost 45% \*

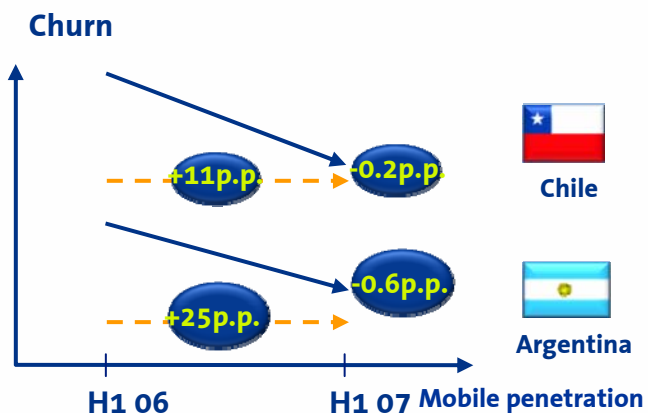
### 3 Mobile: growing, maintaining commercial expenditure and leveraging higher scale



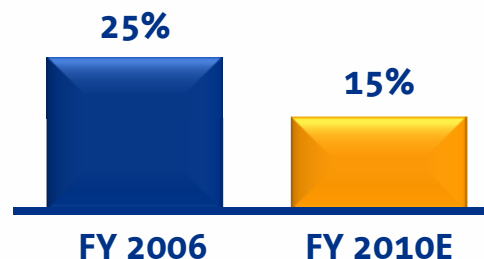
Margin improvement



Churn reduction



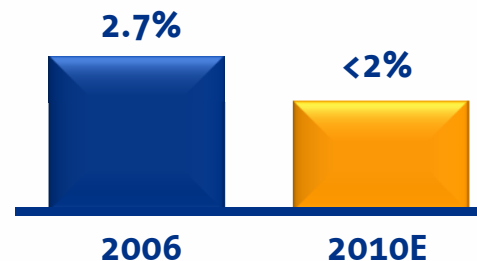
Total Commercial cost over revenues \*



Already captured synergies in Q1 07 in marketing and sponsorships

Higher bargaining power in handsets purchasing

Churn



Loyalty programs

\* Mobile commercial costs (SAC + SRC + Loyalty programs + advertising + logistics + call center + commercial network) over mobile service revenues

### 3 Fixed: over 4 million additional Telefónica BB clients



Growth

BB Penetration <sup>1</sup>	Dec-06	Dec-10E	Households 2010E <sup>2</sup>
Brazil (SP)	15%	~27%	~15 m
Argentina	15%	~37%	~11 m
Chile	23%	~38%	~5 m
Peru	7%	~13%	~7 m
Colombia	6%	~17%	~12 m
<b>Total</b>	<b>10%</b>	<b>~23%</b>	<b>~140 m</b>

Latin American Expected evolution similar as other countries in the last 4 years (from 2002 to 2006) <sup>3</sup>

	From	To
Chile	5%	23%
Argentina	1%	15%
Mexico	5%	20%
Poland	1%	20%
Czech Republic	1%	34%

BB market  
growth in Latin  
America <sup>1</sup>

+ 18/19 million  
additional  
BB accesses

Telefónica  
Latin America  
aspiration

+ 4/5 million additional  
BB accesses

Source;

1 Telefonica estimates

2 United Nations World population prospects – Latin America and the Caribbean

3 Euromonitor and Global Insight

### 3 Fixed residential: accelerating the transformation of the fixed business based on a segmented value proposition



### 3 Fixed residential: broad adoption of bundled offers

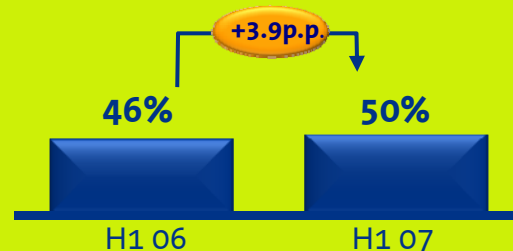


#### Bundle strategy is delivering strong results



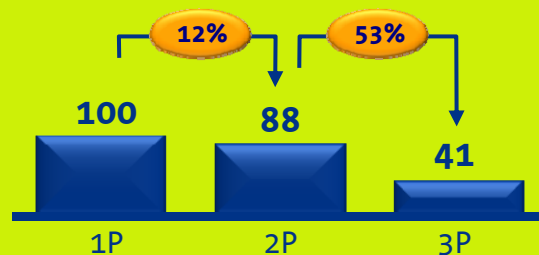
#### Chile example: impact of bundled offers

##### Broadband market share



##### Churn reduction

Index 100



#### Objectives going forward

- 85-90% will have bundled services in 2010
- 40-45% of 2010 customers will have “dúos” or “tríos”
- More than 2.0 million additional TV customers
- Fixed access lines erosion will be contained

- Terra will continue to grow at above 6%\* (capture 25% of on-line ad share)
  - 33 million unique visitors per month
  - Terra TV
  - Communities

terra



\* constant exchange rates as of 2006

### 3 Fixed SMEs: broadband and workstations bundles



Growth

#### Integrated Solutions for SME's

**Voice, DSL and  
Data Access**



**PC**

**LAN**

**Other services  
(e.g. payments)**



**Maintenance**



- Full service integration: fixed, mobile, broadband, PC
- Complete set of traffic bundles (F, M, LD, FM..)
- Equipment plus maintenance
- Regional replication of successful products: Speedy Duo, Speedy business portfolio
- New business opportunities:
  - 'Puesto Trabajo Informatico' (workstation)
  - 'Kit Automación Comercial'
  - Traditional and advanced voice bundling

**More than  
1 million  
additional SMEs  
in the region\***

**>300,000  
workstation  
accesses<sup>1</sup>**

**>70% SMEs BB  
market share<sup>1</sup>**

**76% of T-Latam's  
revenues from  
new business  
opportunities<sup>1</sup>**

\* Source: Pyramid  
<sup>1</sup> 2010E



### 3 Fixed Corporates: a winning global offer with integrated solutions



#### Examples

INTEGRATED  
AND REGIONALLY  
REPLICATED SOLUTIONS



COMPLETE OFFER  
OF COMMUNICATION  
AND ITC SERVICES

VISANET



GLOBAL PRESENCE



SPECIALIZED  
PROFESSIONAL  
TEAM

- Global account manager, design engineers, service managers
- Regional P&S portfolio
- International/regional network, centrally managed

Data T-Latam  
Revenues  
CAGR 06-10E  
+7% \*

IT T-Latam  
Revenues  
CAGR 06-10E  
+23% \*

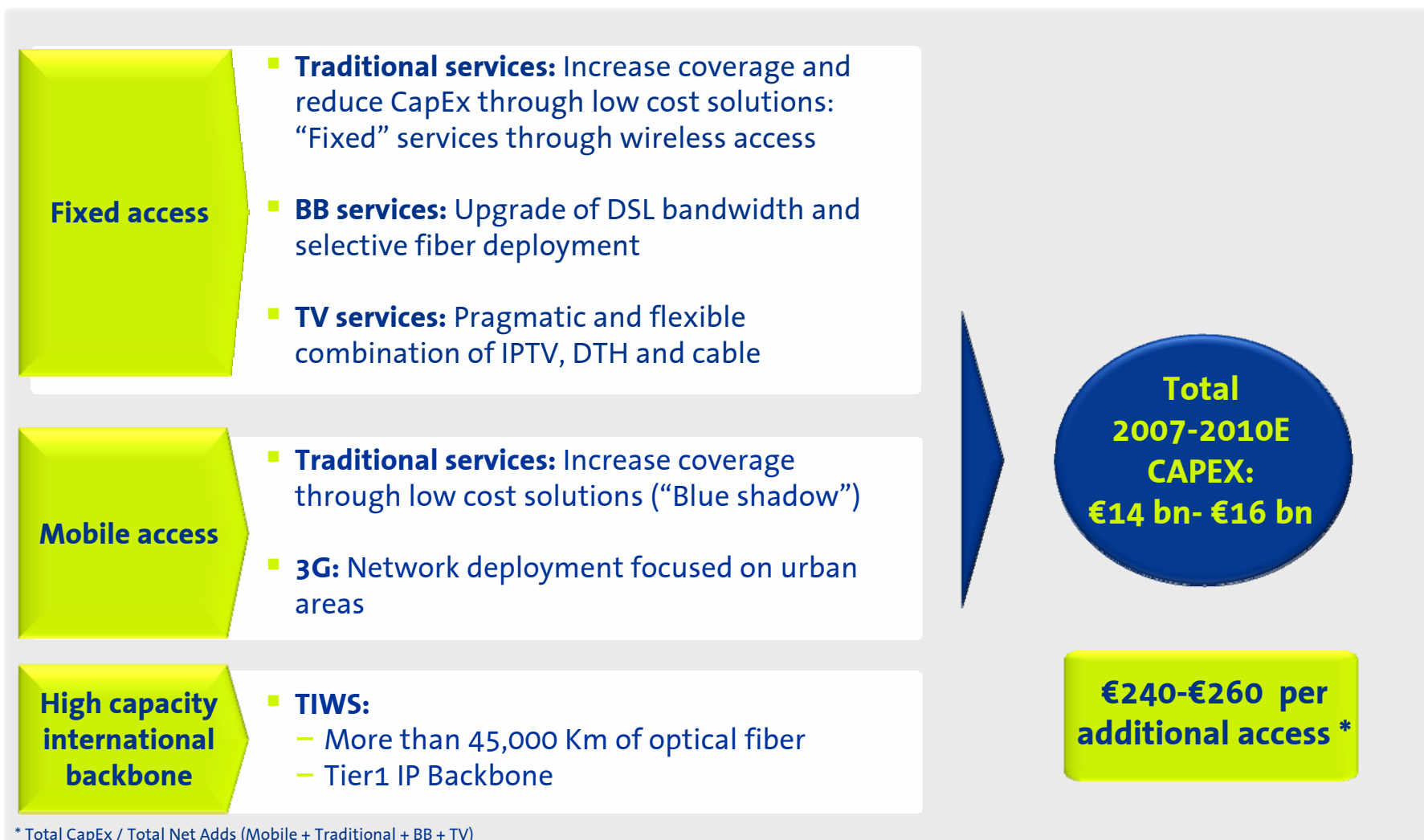
Leveraging TIWS  
capabilities and  
assets

\* constant exchange rates as of 2006

### 3 Segmented network transformation will support growth



Scale



### 3 Leveraging integrated delivery and regional scale



Scale

#### WHAT WE HAVE ALREADY ACHIEVED

- Single fixed network operating regional center in Sao Paulo
- Single commercial system (ATIS)
- Completed GSM network deployment
- 20% reduction in data centers costs
- Regional competence centers for new P&S
- Homogeneous P&S development process (e.g. launching TV offer in Chile, Colombia, Brazil in less than 6 months)

#### OUR NEXT OBJECTIVES

- Incorporate mobile networks into regional center
- Integration of fixed and mobile networks
- Reduce the number of data centers (from 44 to 2/3)
- Single provisioning and dispatching system
- Single pre-paid platform

**Over €420 million  
of OpCF synergies  
in H1 07**

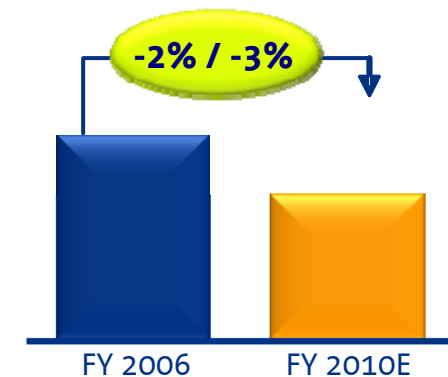
#### Captured synergies in:

- Sales channels integration
- Branding and commercial campaigns regionalization
- Shared service platforms
- Regional Handsets and SIMs purchases

#### CAGR 06-10E Non Commercial OpEx /Accesses evolution\*

• Non Commercial OpEx:  
Technology + Operations +  
Systems

Accesses: Traditional +  
Broadband + TV + Mobile



### 3 Beyond performance: building a healthy company

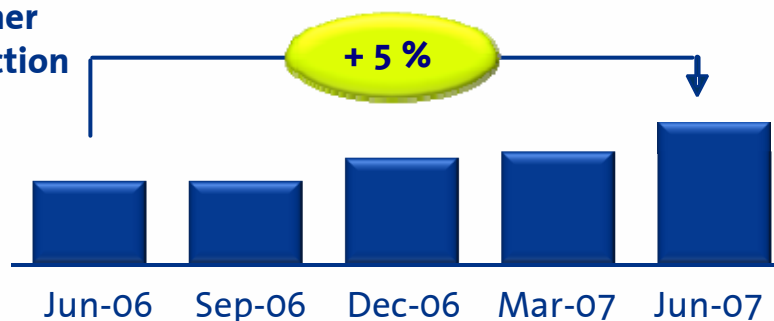


Sustainability

COMMITTED  
TO OUR  
CLIENTS



Customer  
satisfaction  
Index



BEST PLACE  
TO WORK IN THE LATIN  
AMERICAN  
TELECOM INDUSTRY

DEVELOPING  
OUR TALENT



- 33% of T-Latam top executives have international working experience

Employees satisfaction index

Index change 2007E vs 2006



BEST PLACE  
TO WORK IN THE LATIN  
AMERICAN  
TELECOM INDUSTRY

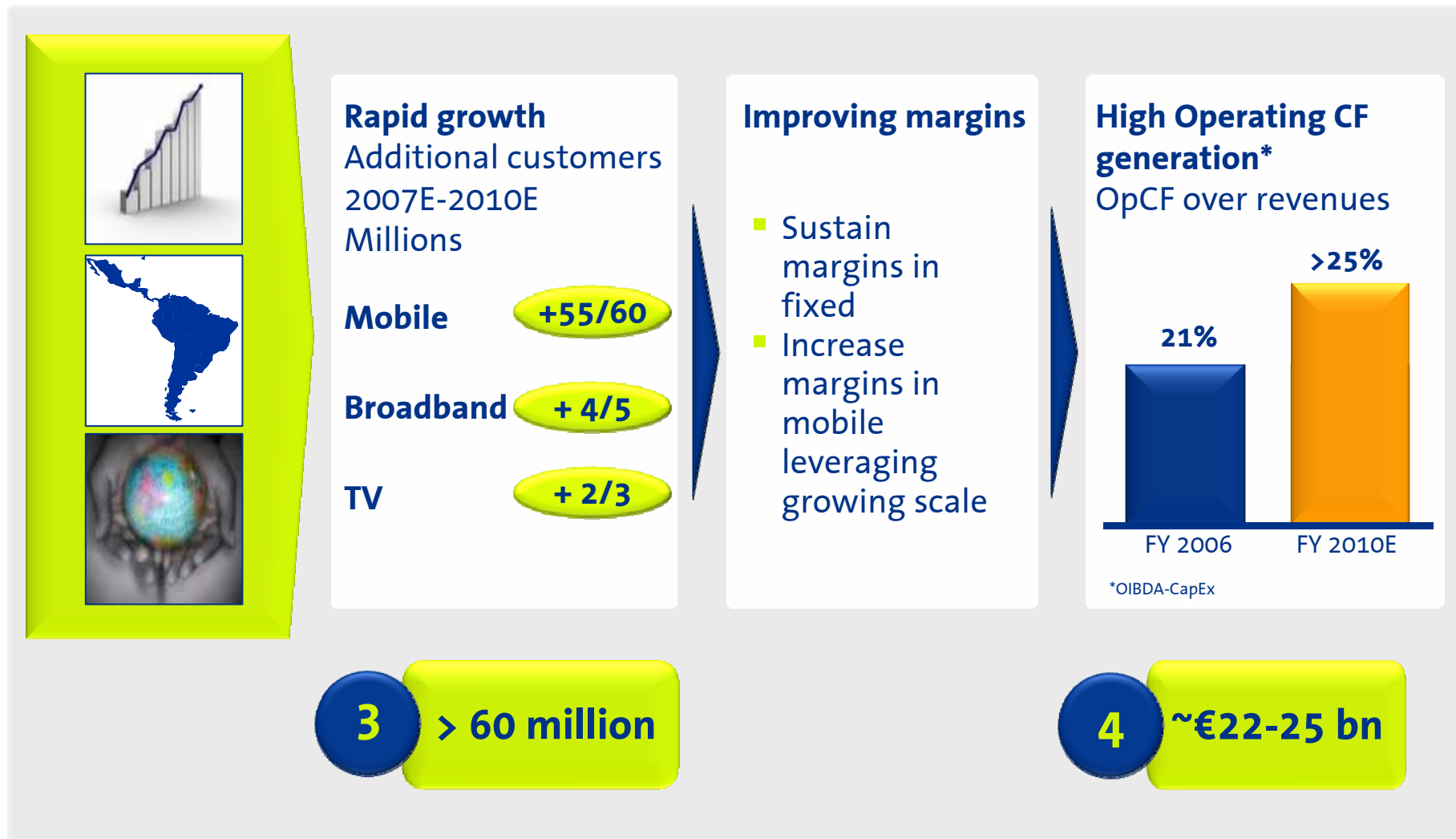
COMMITTED  
TO OUR  
SOCIETY



- More than **80%** of our **suppliers are local**
- The social initiatives in the region have contributed to the inclusion of Telefonica in the **Dow Jones Sustainability Index**
- Our social program is increasingly relevant (e.g. **Proniño** will count with **50,000 children** at the end of 2007E)

STRATEGICALLY

### 3 As a result, sound growth and cash generation platform



## T-Latam: Growth on Growth

- ① What we have accomplished: continuous growth and leadership
- ② Latin America: much more than you imagine
- ③ The new T-Latam: uniquely positioned for further growth
- ④ **Walking the talk**
- ⑤ Our commitments

## 4 Brazil - Mobile: reinforcing leadership (1/2)



### Current situation

#### Current situation: Mobile

- Revenues 2006: €2.0 bn
- OIBDA 2006: €0.4 bn
- OIBDA Margin 2006: 21.9%
- Customer base 2006 and market share:
  - Mobile: 29.1 million (29%)

#### Future opportunities

- GDP growth CAGR 06-10E: 4.2%

- Mobile penetration 

	2006	→	2010E
	55%		~80%

• Source: Anatel, July 2007  
GDP: Consensus Forecast

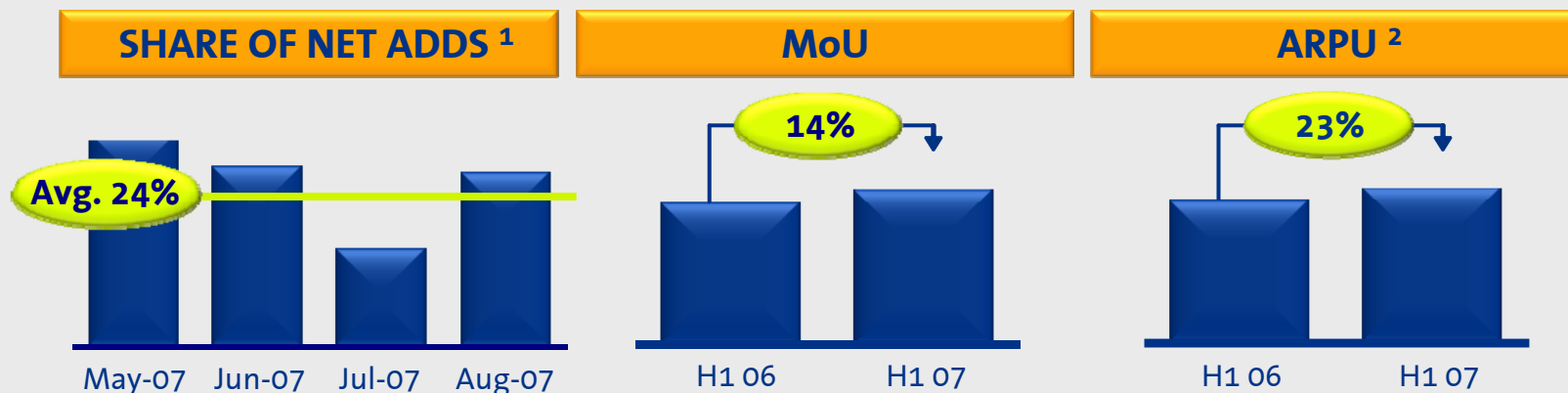
### Strong fundamentals

- Best brand perception
- #1 in network quality in Sao Paulo \*
- Largest commercial network
- GSM migration proceeding very well (>20% accesses already migrated)
- Improved competitive position after acquisition of Telemig and 6 GSM licenses in the Northeast of Brazil (roaming, coverage)

## 4 Brazil - Mobile: reinforcing leadership (2/2)



### CHANGING TREND ALREADY VISIBLE



### OBJECTIVES AND KEY STRATEGIC ACTIONS

Maintain current market leadership position

<sup>1</sup> Before Telemig Operation

<sup>2</sup> ARPU increase H1 07 considering no changes in B&K : 7.5%

- Increase coverage and network quality (e.g. Minas Gerais and North East)
- Launch 3G in the main cities
- Reinforce competitive position in the SMEs segment
- Increase customer satisfaction
- Drive consumption through price elasticity
- Increase market share by the integration of Telemig and the construction of a GSM network in the North East



## 4 Brazil - Fixed: develop a bundling strategy (1/2)



### Current situation

#### Current situation: Fixed

- Revenues 2006: €5.6bn
- OIBDA 2006: €2.6bn
- OIBDA Margin 2006: 47.3 %
- Customer base 2006 and market share:
  - Fixed: 12.1 million (95.3%)
  - BB: 1.6 million (70%\*)

#### Future opportunities

- GDP growth CAGR 06-10E: 4.2%

- BB penetration 

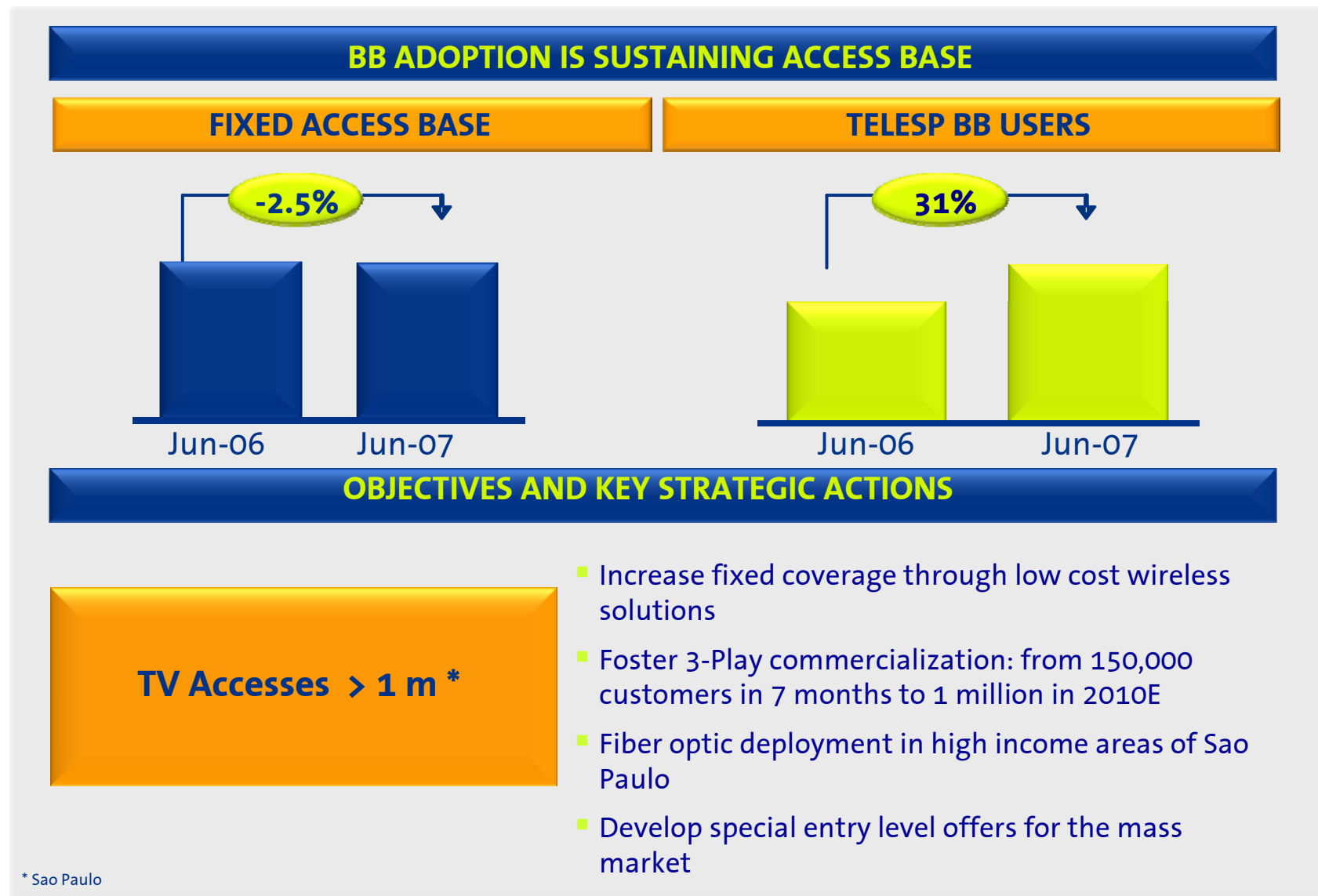
2006	→	2010E
15%		~27%

• Sao Paulo  
• GDP: Consensus Forecast

### Strong fundamentals

- Broadband market leadership: Market share ~70% \*
- Compelling 2P/3P offer
  - Content agreement with GLOBO and TVA
  - Selective deployment of Fiber Optic to serve premium customers

#### 4 Brazil - Fixed: develop a bundling strategy (2/2)



## 4 Mexico: gaining share in a high growth market (1/2)



### Current situation

#### Current situation

- Revenues 2006: €1.0bn
- OIBDA 2006: €-0.0bn
- OIBDA Margin 2006: -1.1%
- Customer base and market share 2006:
  - Mobile: 8.6 million (15%)

#### Future opportunities

- GDP growth CAGR 06-10E: 3.7%
- Mobile penetration

2006 → 2010E

53%

~80 %

GDP: Consensus Forecast

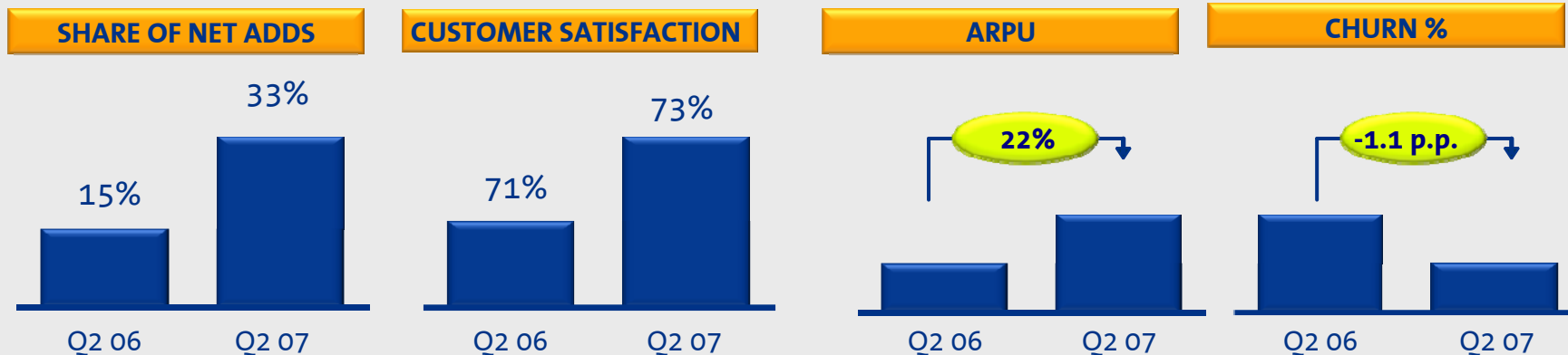
### Strong fundamentals

- GSM network quality improvement
- Shared technological infrastructures with Central America
- Increased quality of dealers and number of POS
- Successful stimulation of price elasticity
- Improved customer satisfaction (“Alfombra Roja” campaign)

## 4 Mexico: A strong momentum (2/2)

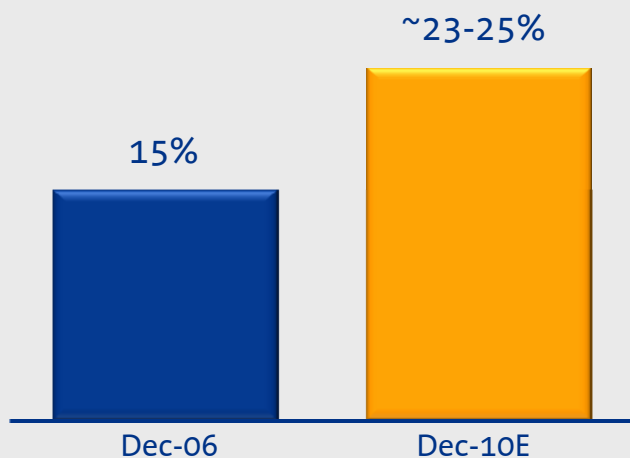


### CHANGING TREND ALREADY VISIBLE



### OBJECTIVES AND KEY STRATEGIC ACTIONS

#### Market share %



- Continue with price elasticity approach
- Target aggressively post-paid segment
- Develop mobile applications for SME's (e.g. email, connectivity)
- Integrated solutions (fixed, mobile, IT) for Corporate segment
- Deployment of 3G network
- Enhance coverage of GSM network
- Continue improving operating margins and retaining high value clients

## 4 Central America



### Current situation

#### Current situation

- Revenues 2006: €0.6bn
- OIBDA 2006: €0.2bn
- OIBDA Margin 2006: 36.8%
- Customer base 2006 and market share:
  - Mobile: 3.8 million (30.0%)

#### Future opportunities

- Mobile penetration 

2006	→	2010E
44%		~75%
- GDP growth CAGR 06-10E: 5.1%

GDP: Consensus Forecast

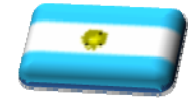
### Key strategic actions

- Create a distinctive and segmented offer through exclusive handsets and new VAS
- Drive data service use (eg. SMS, mobile email)
- Develop a convergent offer on a mobile infrastructure (Home-zone, office-zone)
- Be the leading provider of integrated telecommunication services for SME's and Large Corporates

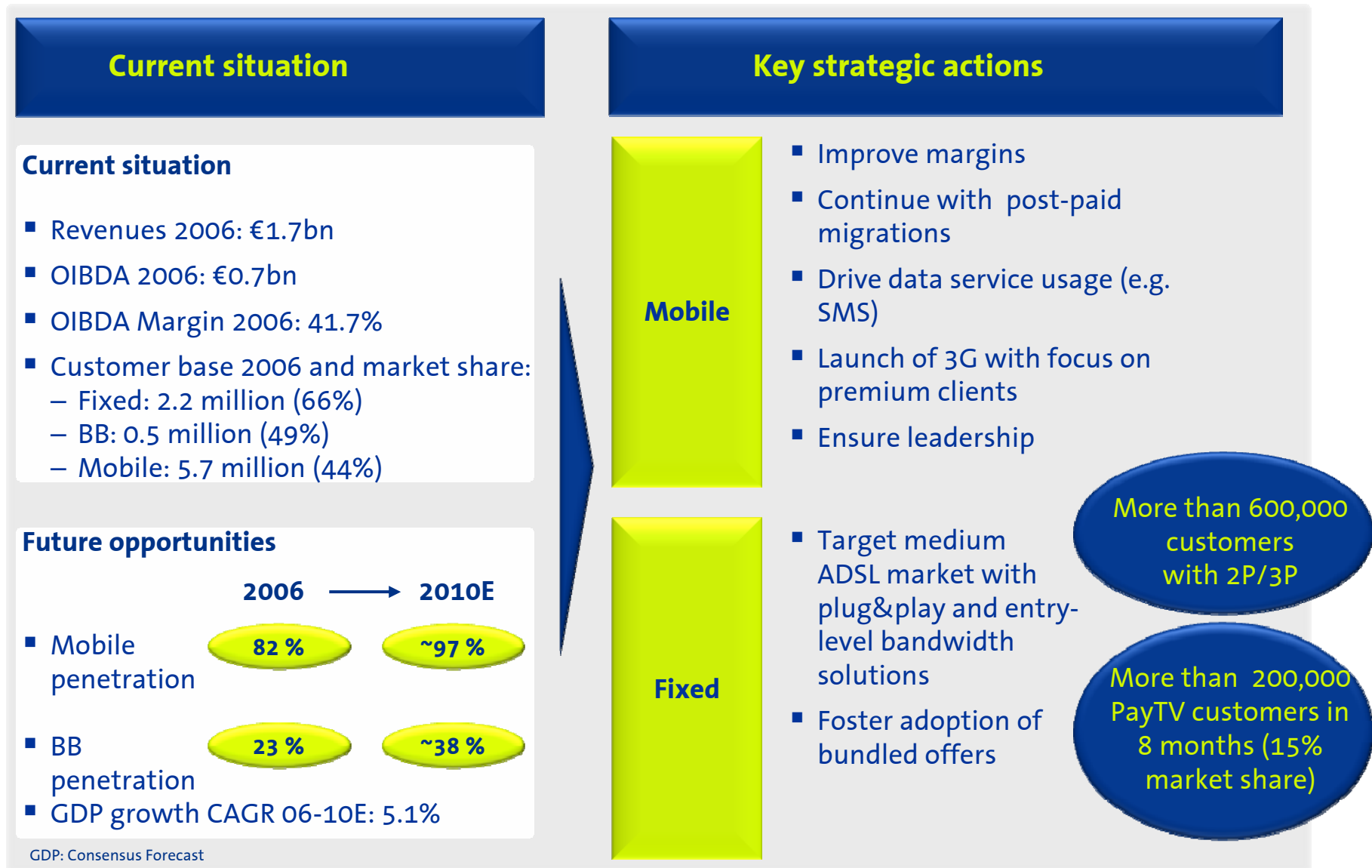
**Mexico & Central America 2010E**

**Accesses: ~ 30 m**

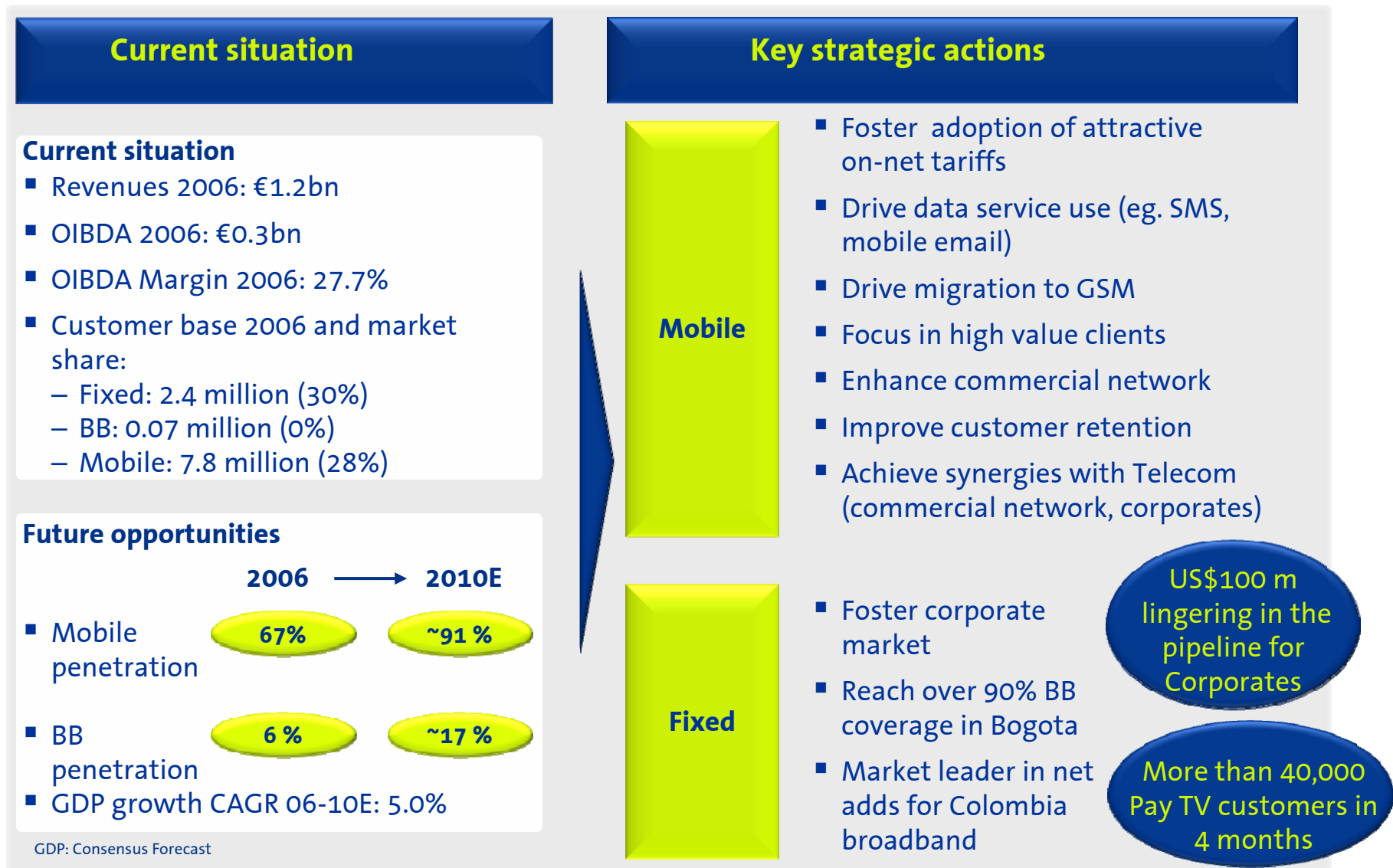
## 4 Argentina: maximize mobile growth and strengthen BB leadership



## 4 Chile: winning offer with our bundled strategy



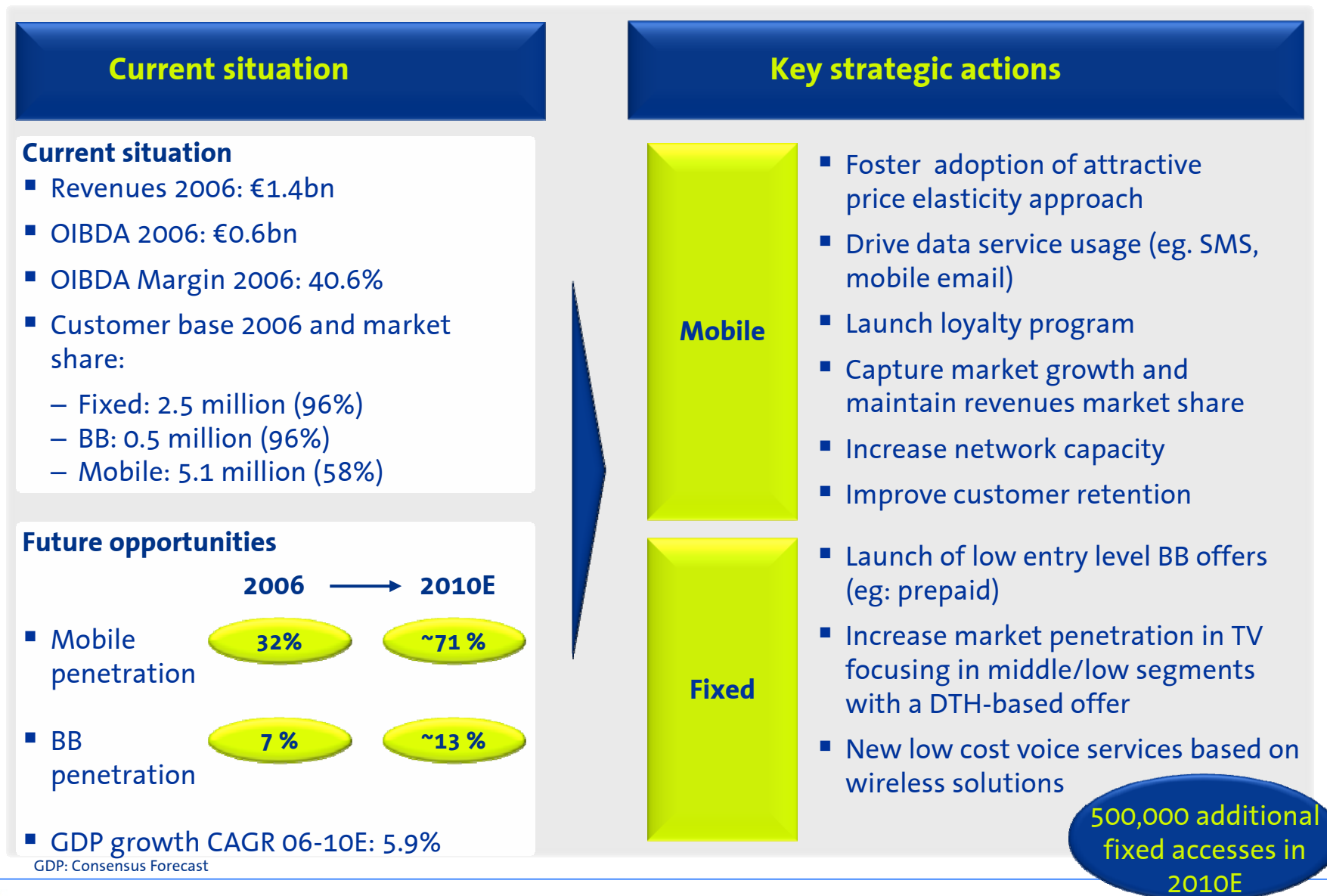
## 4 Colombia: Regain mobile market share and accelerate broadband



GDP: Consensus Forecast



## 4 Peru: consolidation of leadership



GDP: Consensus Forecast

## 4 Venezuela: Sustain cash flow generation



### Current situation

#### Current situation

- Revenues 2006: €2.0bn
- OIBDA 2006: €0.8bn
- OIBDA Margin 2006: 39.9%
- Customer base 2006 and market share:
  - Mobile: 8.8 million (43.4%)

#### Future opportunities

- Mobile penetration 

2006	→	2010E
69%		~90 %
- GDP growth CAGR 06-10E: 3.0%

GDP: Consensus Forecast

### Key strategic actions

- Focus on maintaining margins
- Improve customer retention
- UMTS/HSPA-based BB solutions
- Drive new GSM applications for SMEs
- Launch F-M solutions for SMEs and develop a commercial network focus on this segment
- Target high value and corporate clients

## T-Latam: Growth on Growth

- ① What we have accomplished: continuous growth and leadership
- ② Latin America: much more than you imagine
- ③ The new T-Latam: uniquely positioned for further growth
- ④ Walking the talk

### ⑤ **Our commitments**

## 5 Guidance

(€ in millions)

	TELEFONICA LATINOAMÉRICA		
	FY2006 <sup>(1)</sup>	FY2006 (Adj.) <sup>(2)</sup>	CAGR 06-10E <sup>(3)</sup>
REVENUES	18,089	18,089	10 – 13 %
OIBDA	6,571	6,607	12 – 17 %
CAPEX	2,811	2,811	14,000 – 16,000 Cum (07E-10E)

<sup>1)</sup> Base 2006 reported numbers include eight months of Telefónica Telecom (consolidated since May 2006)

<sup>2)</sup> In terms of guidance calculation, OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007E-2010E. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures

<sup>3)</sup> CAGR 06-10E guidance assumes constant exchange rates as of 2006 and excludes changes in consolidation, other than Telemig acquisition (50% through TEF stake in Vivo) and TVA.

## 5 In summary, a new Latin-America by 2010 ...

**GDP per capita**

**GDP per capita (PPP)  
CAGR 06-10E ~ +5.7 %**

**11,600 \$**

**Population &  
Households**

**+58 million workers  
+74 million people in urban  
areas**

**>620 million people  
> 140 million households**

**Telecom  
Market**

**+8% market growth  
Fastest growing  
region in the world**

**+€35-40 bn**

## 5 .. and a new Telefónica Latin-America

Accesses  $\times 1.5/1.6$   $\rightarrow$   $> 170$  million

Revenues  $\times 1.5/1.6$   $\rightarrow$  €26-29bn

OIBDA  $\times 1.6/1.9$   $\rightarrow$  €10-12bn

OpCF  $\times 1.8/2.2$   $\rightarrow$   $> €7$ bn

*Telefonica*

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