

# Sixth Investor Conference

Integrated strategy to capture organic growth

**Julio Linares**

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# Overview

## Our organization is ready...

From...

TdE

T-Latam

T-Móviles

O<sub>2</sub>

***Integrated management** with special focus  
on coordinating fixed and mobile businesses*

To...

Telefónica  
España

Telefónica  
Latino-  
américa

Telefónica  
O2  
Europe

***Integrated management** with special focus on  
leveraging global scale*

## ...to exploit the opportunities ahead

Industry  
transformation  
is creating the  
New Global  
Digital World

Sources  
of growth

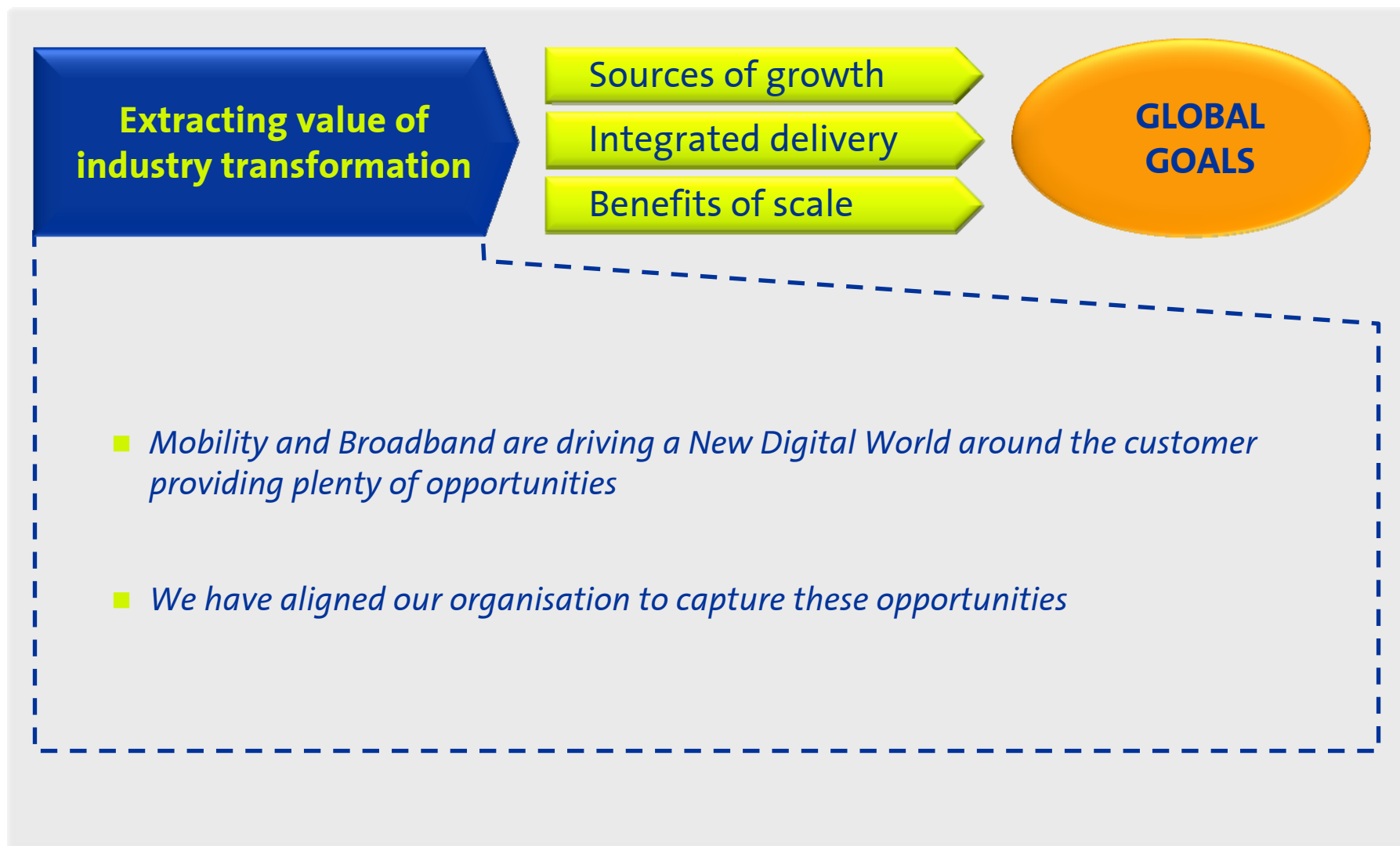


Integrated  
delivery

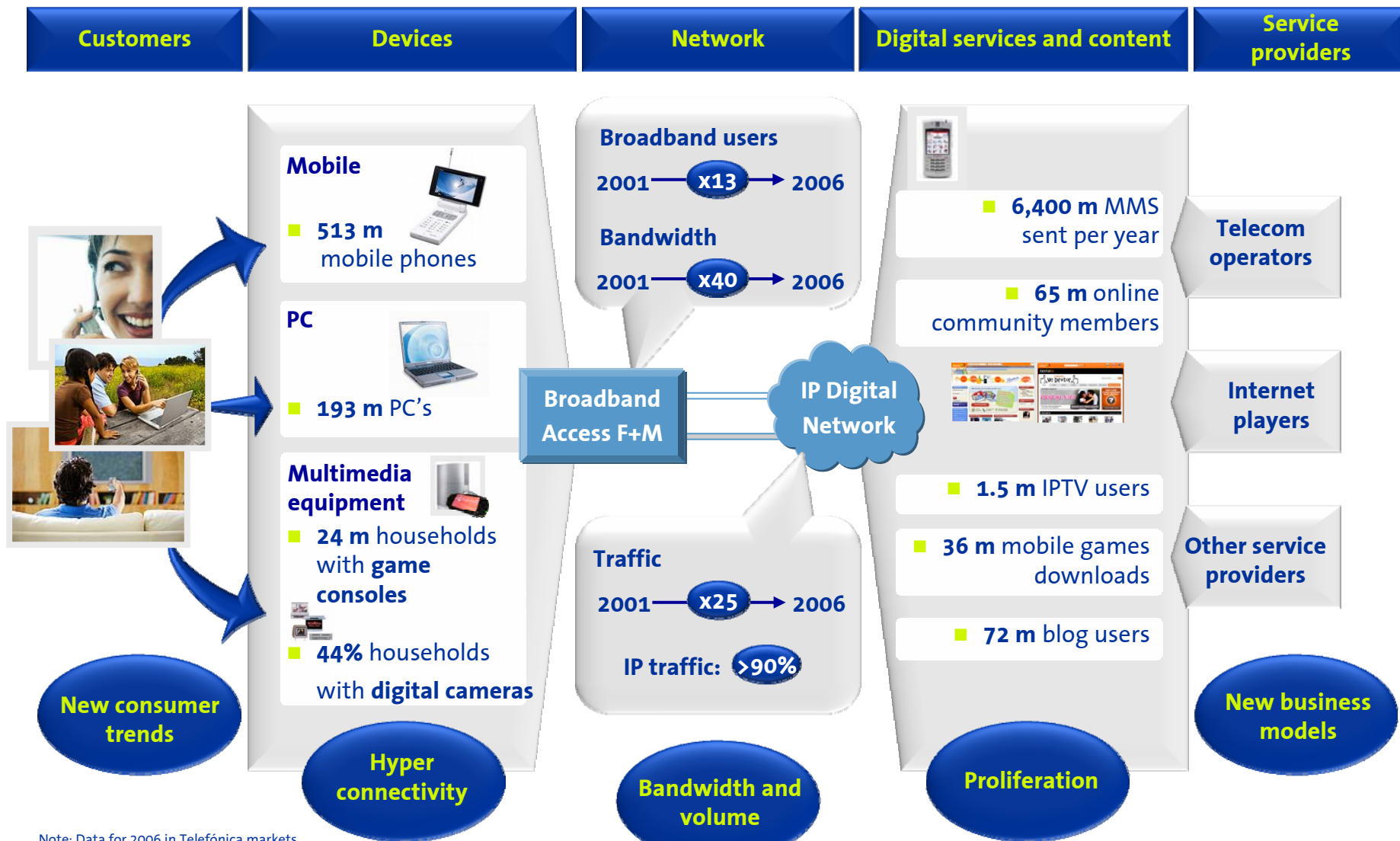


Benefits  
of scale

## Content

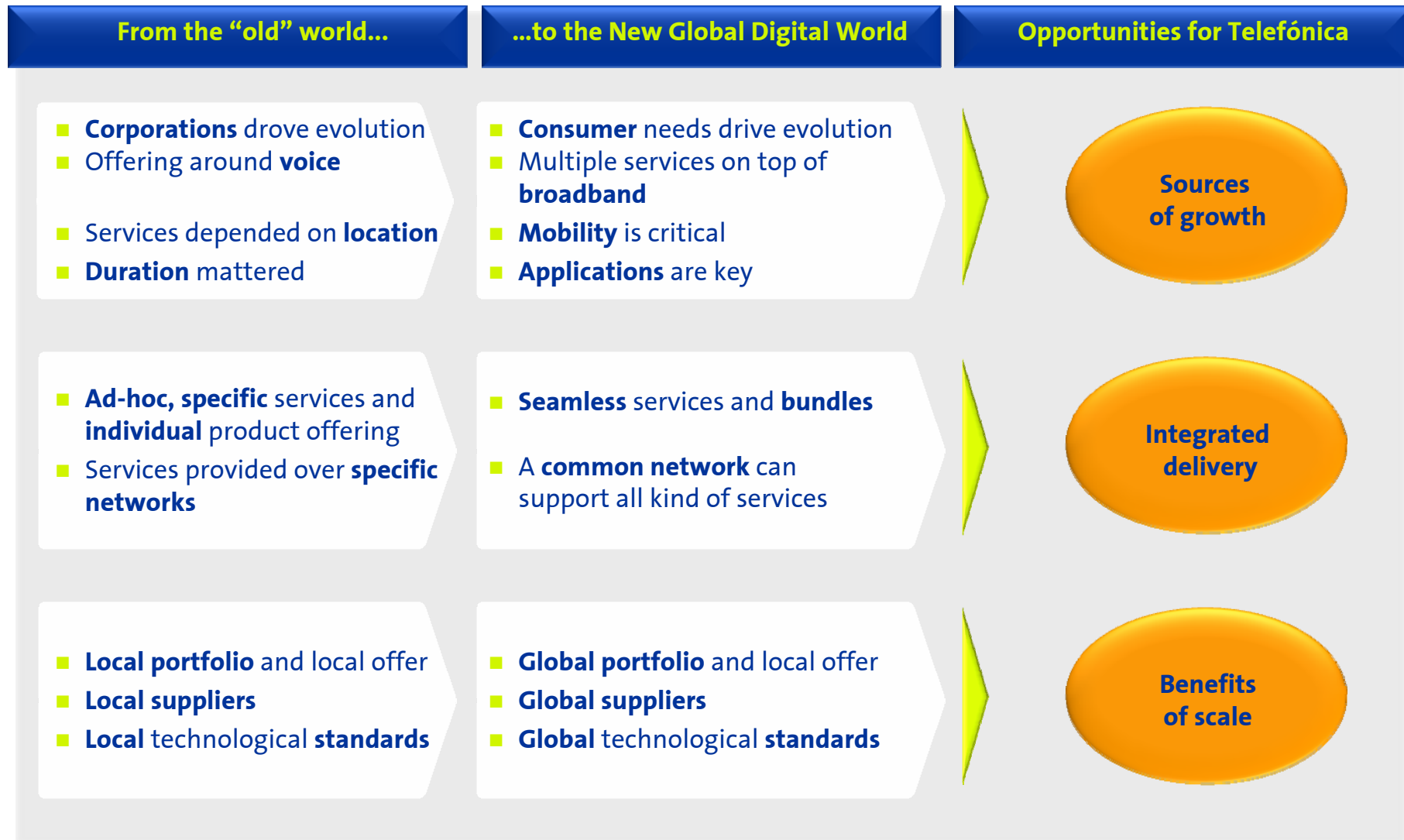


# A New Global Digital World has emerged

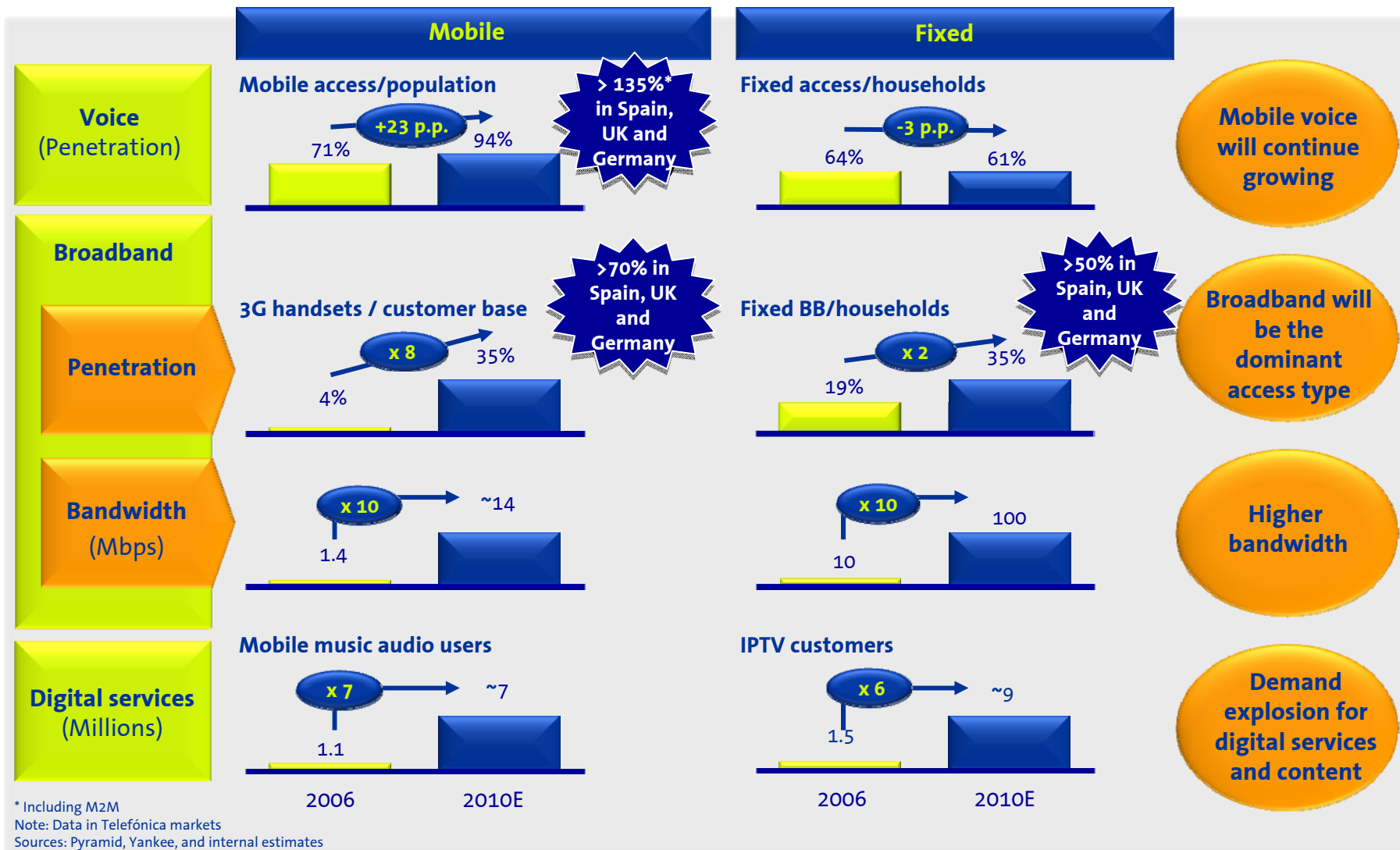


Note: Data for 2006 in Telefónica markets  
Sources: Pyramid, Euromonitor, Yankee, Ovum, WCIS, Comscore and internal estimates

# The industry transformation gives us clear opportunities



# Sources of growth



# Integrated delivery

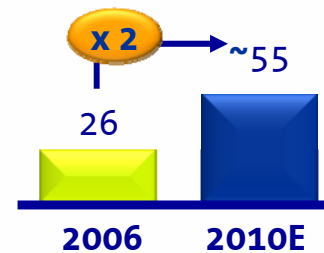
Integrated delivery will facilitate a set of opportunities...

...and technology will enable it

To address  
customer  
needs

- Access to **any type of service** from **any type of device** in a **seamless way**
- Attractive, easy and user-friendly **customer experience**

Bundles\* Telefónica's  
markets Millions



“All IP” networks  
and platforms



To achieve  
operational  
excellence

- **Efficiency improvement**
  - OpEx and CapEx reduction
  - Better use of resources
- **Better quality**
  - Key differentiation factor
  - Sustainability of price premium

Content  
Digitalisation



\*Includes 2P and 3P bundles



# Benefits of scale

## The New Global Digital World ...



**Customer needs are increasingly more global**

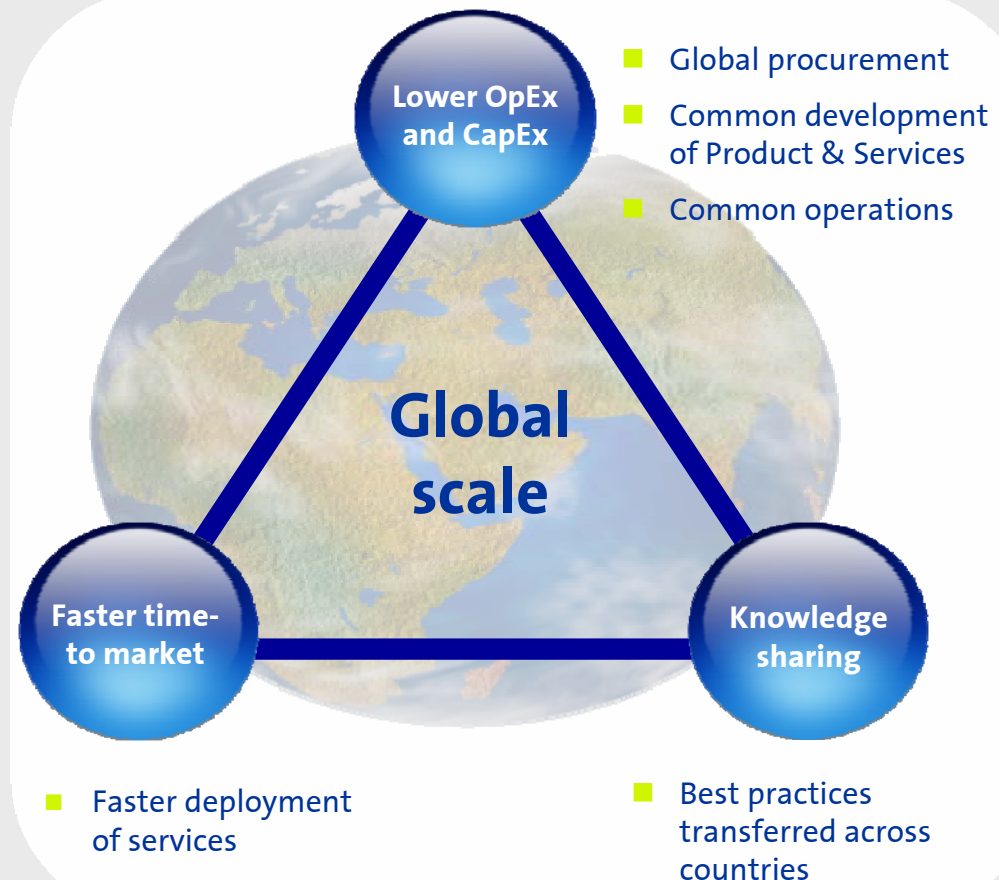


**Suppliers are more global**

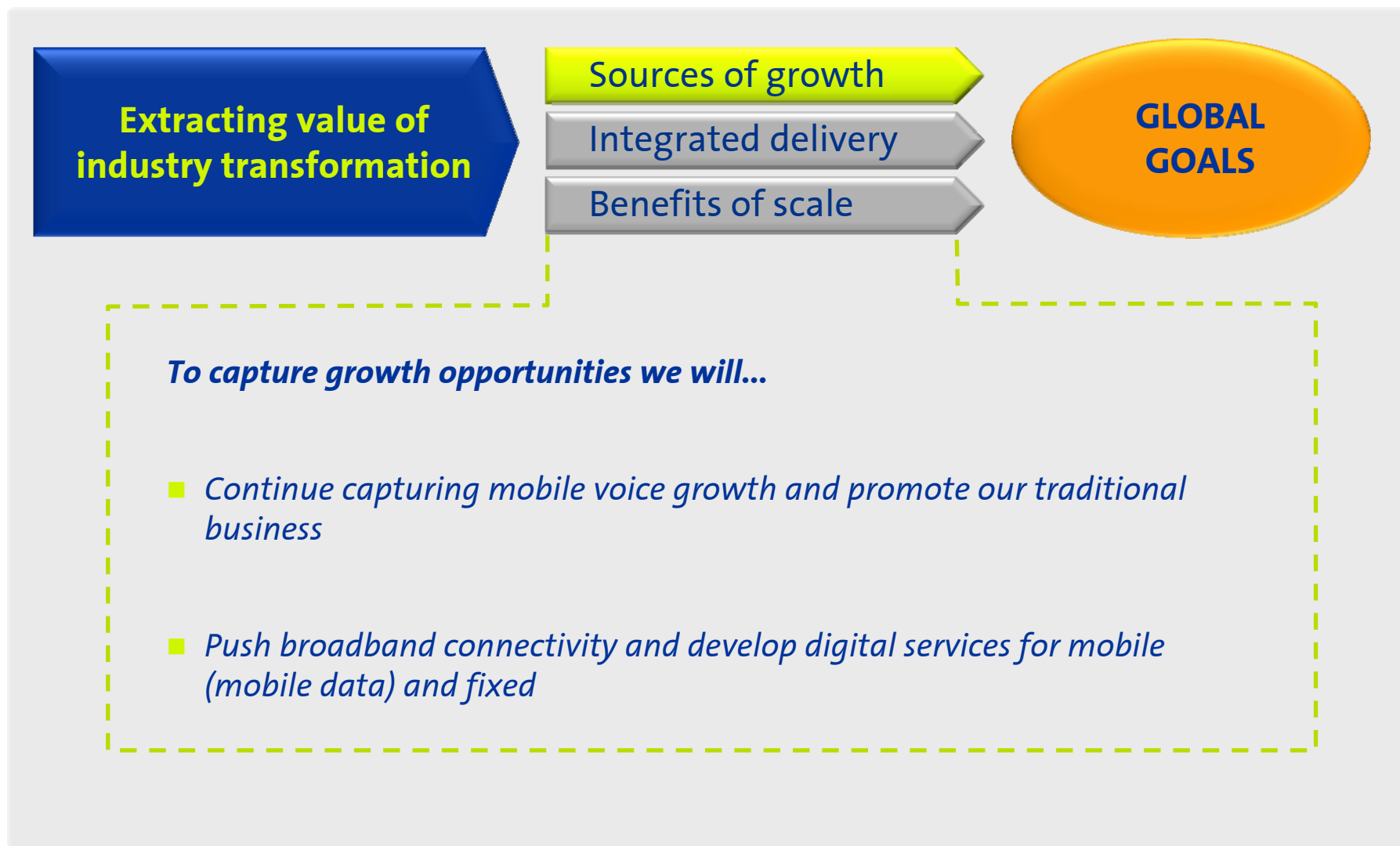


**Technology is more global**

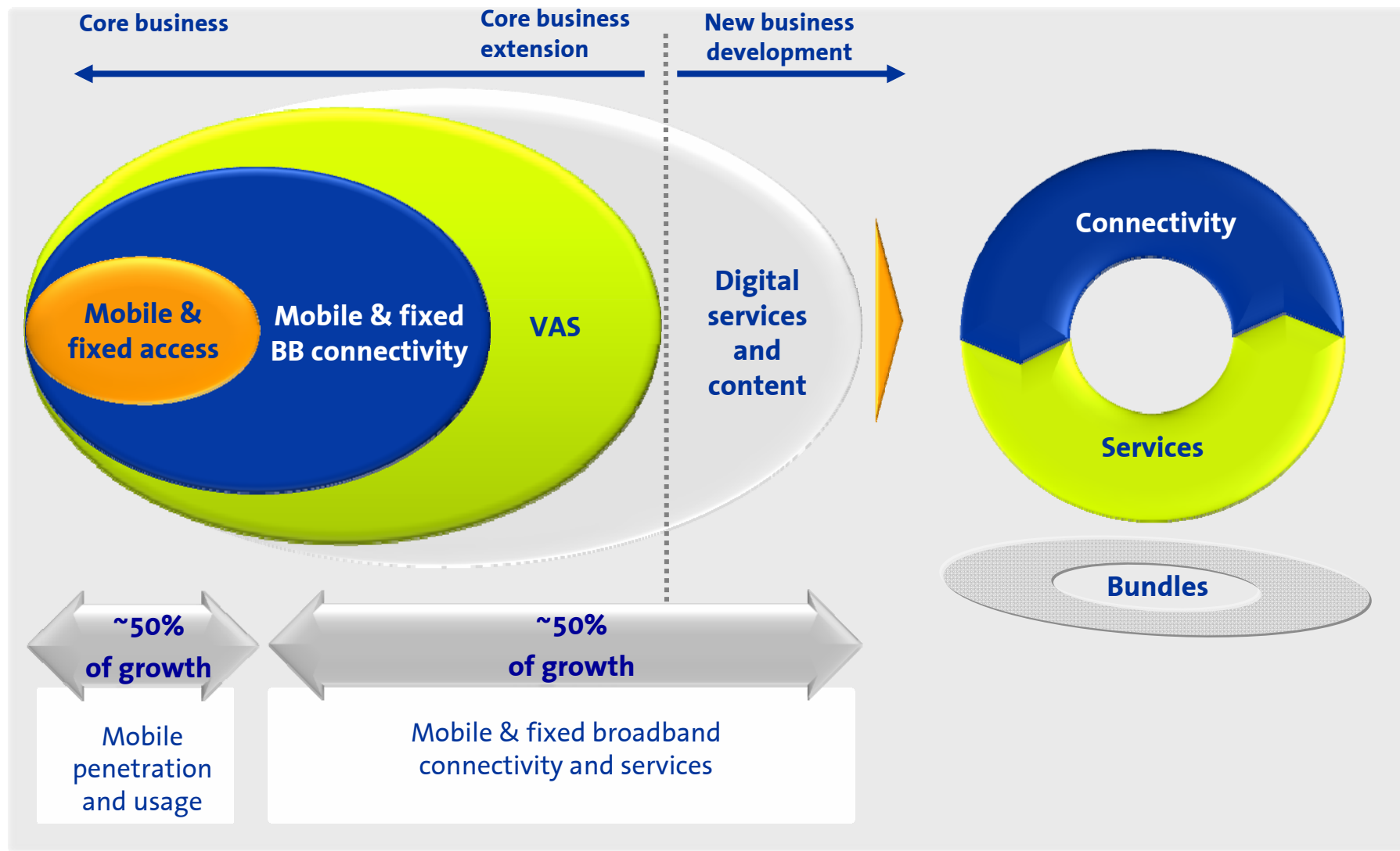
## ...provides new opportunities



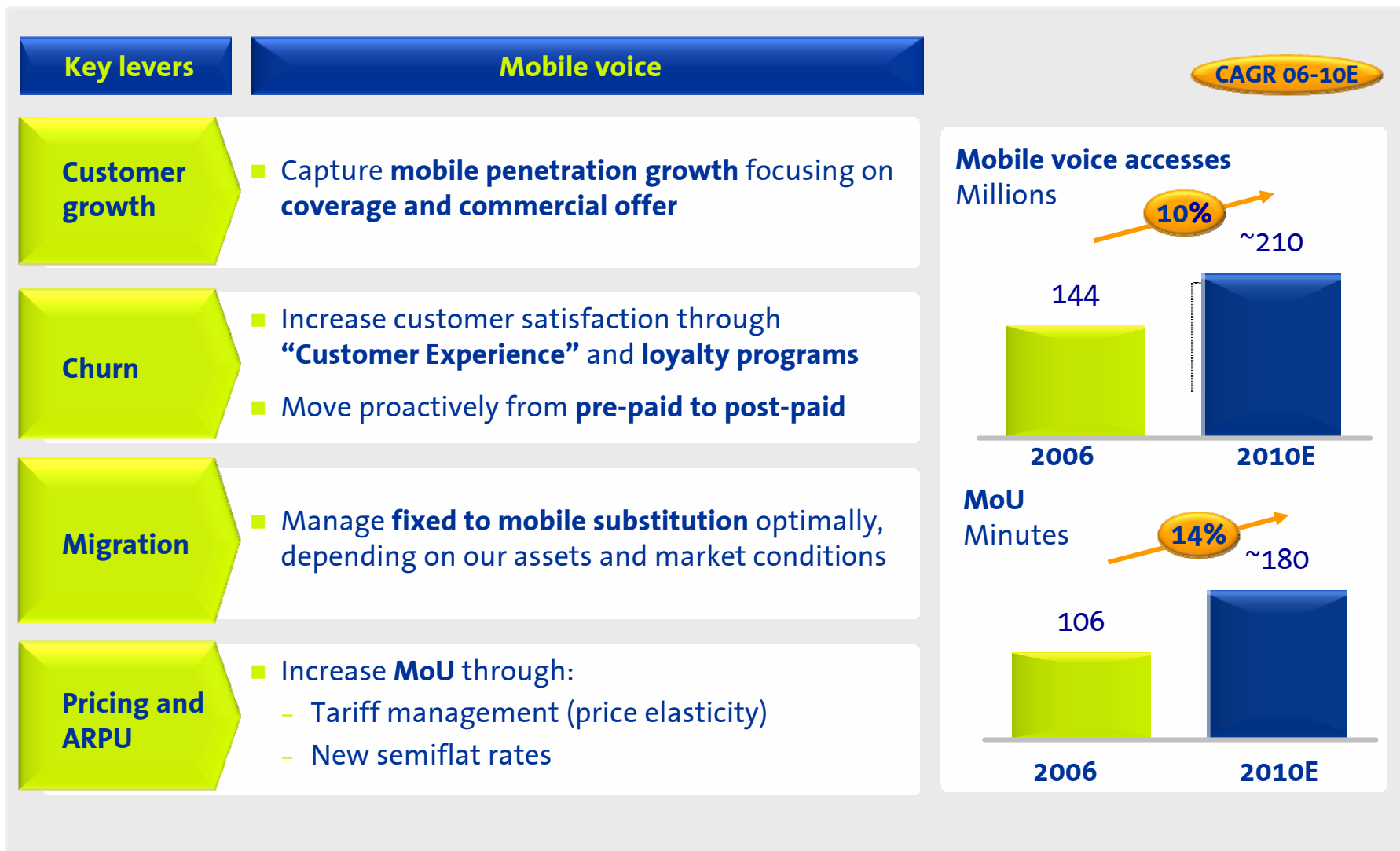
## Content



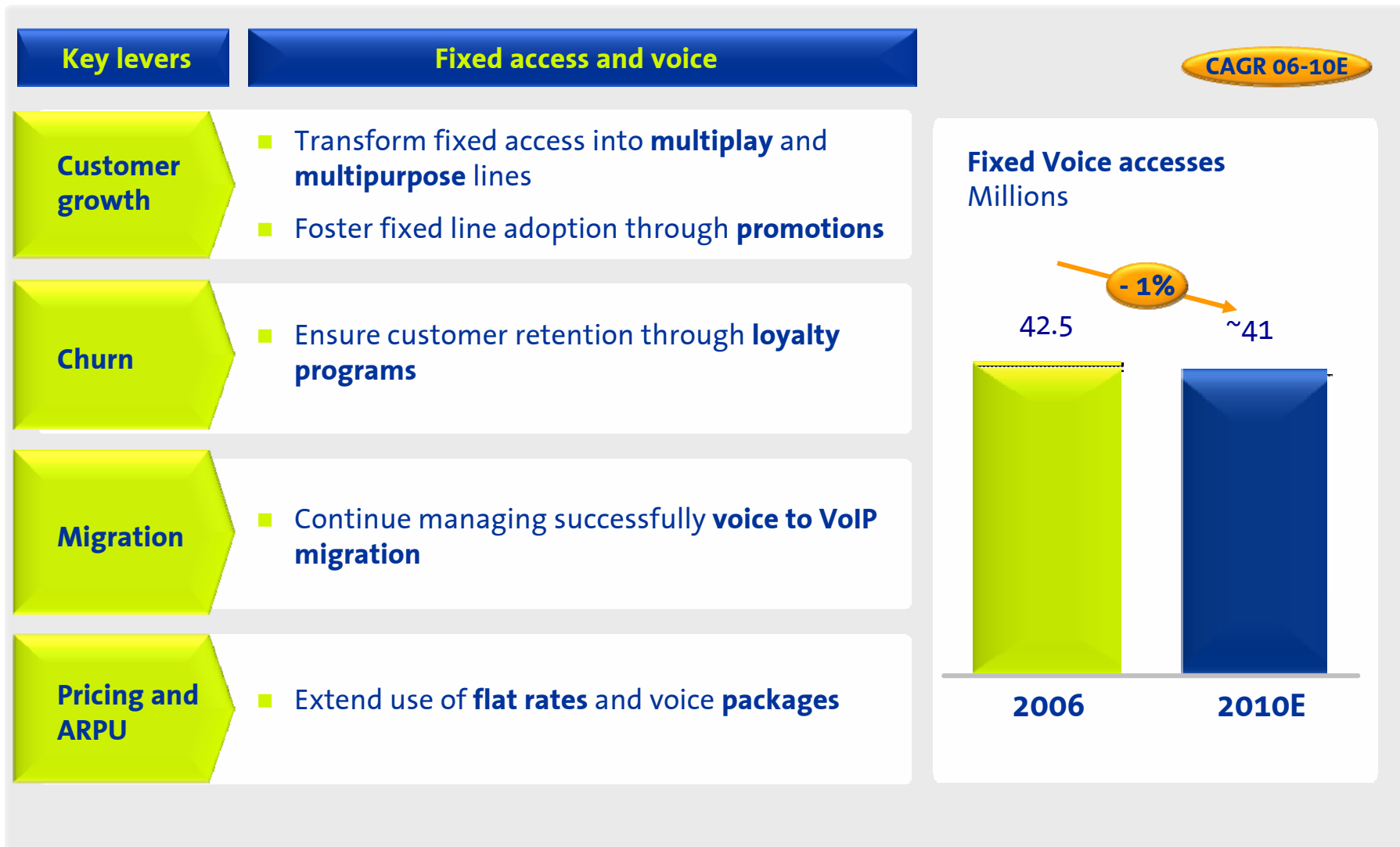
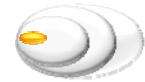
## To capture the sources of organic growth we have a strong focus and clear strategy



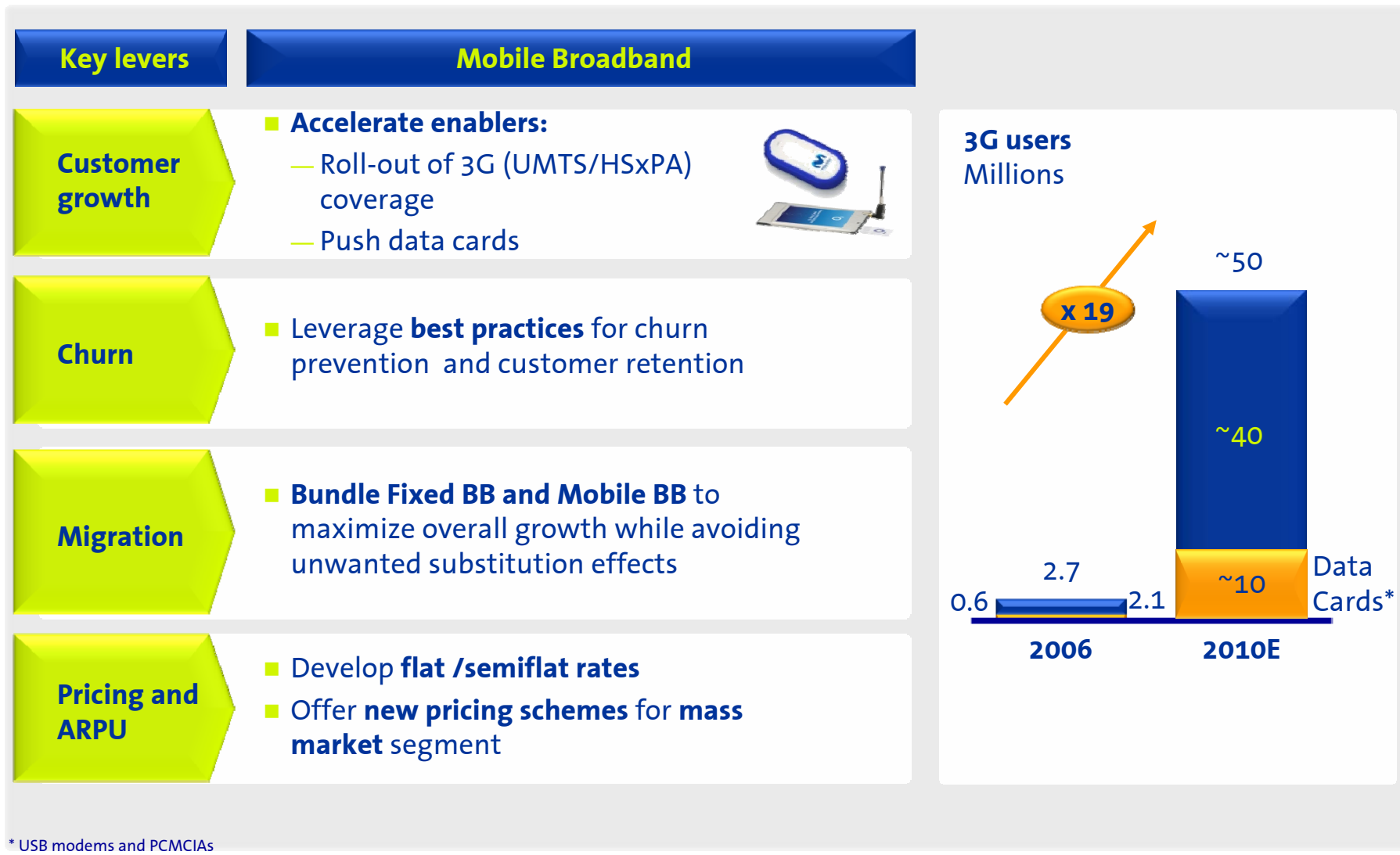
# Mobile voice will be our major revenue growth engine



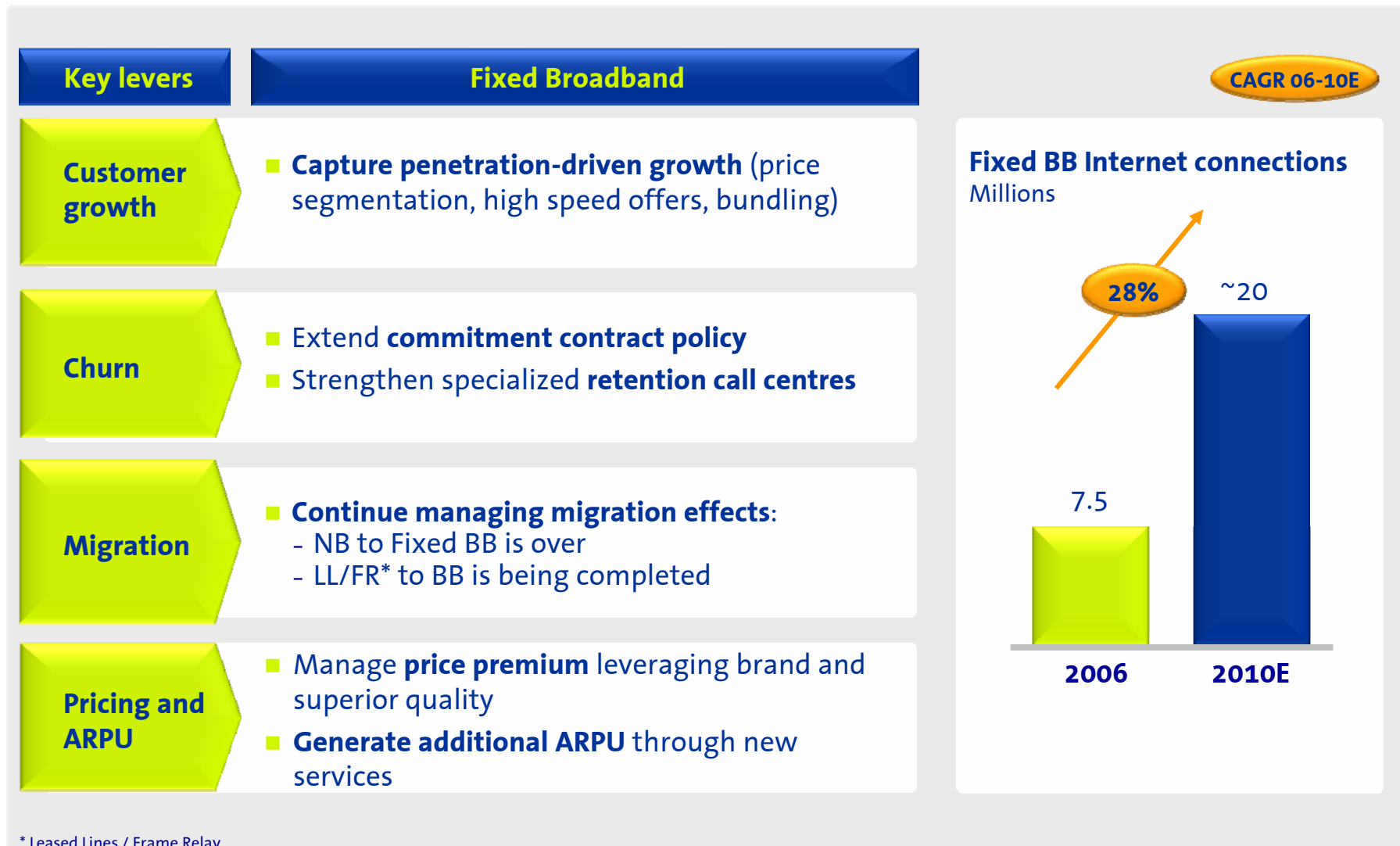
# We will promote fixed access and voice



# Mobile Broadband is showing real signs of taking off




# Fixed Broadband will be the major driver for wireline business growth




\* Leased Lines / Frame Relay

# Digital services and content will further contribute to growth

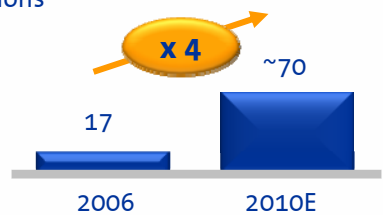


 **Mobile**


- Develop new services with **open garden approach**:
  - Information (e.g. search)
  - Communication (e.g. Instant Messaging)
  - Entertainment (e.g. Music, TV)
- **Stimulate Internet usage**, monetising it through data traffic, advertising and pay-per-use
- Foster **friendly** data-enabled handsets




**Mobile data active users\***  
Millions



Year	Mobile data active users (Millions)
2006	17
2010E	~70

 **PC**


- **Attract online audience and monetize it**, mainly through advertising
  - Internet TV + Music (Terra TV, Pixbox)
  - Communities (e.g. “Espacio Terra”)
  - User Generated Content (e.g. “Tú Reportero”)



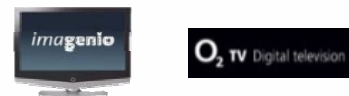
**Terra unique users**  
Millions





Year	Terra unique users (Millions)
2006	44
2010E	~90

 **TV**

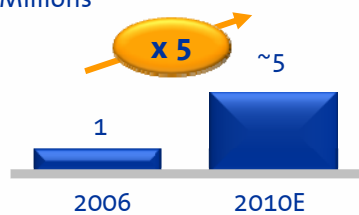
- “Personal TV” based on **IPTV**


- **Satellite** to reduce time-to-market
 


- **Cable** only to leverage existing assets (e.g. Perú)
 



**Pay TV customers**  
Millions



Year	Pay TV customers (Millions)
2006	1
2010E	~5

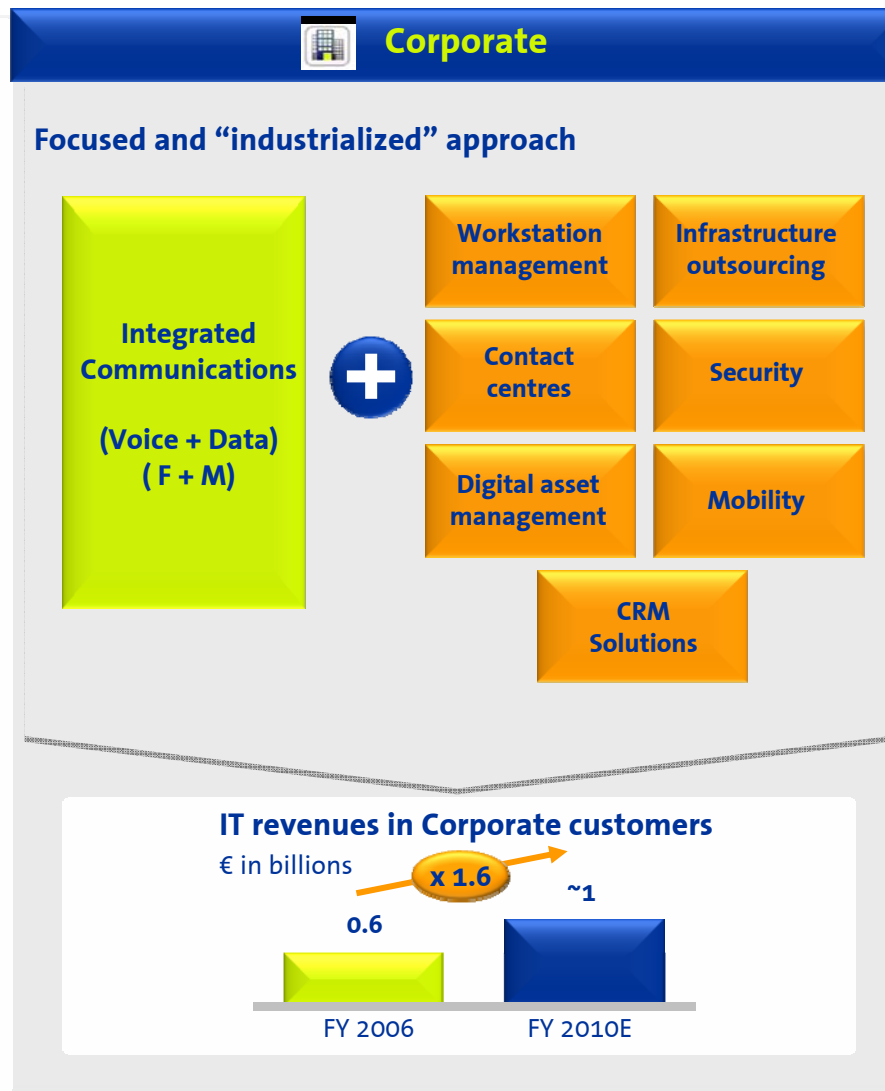
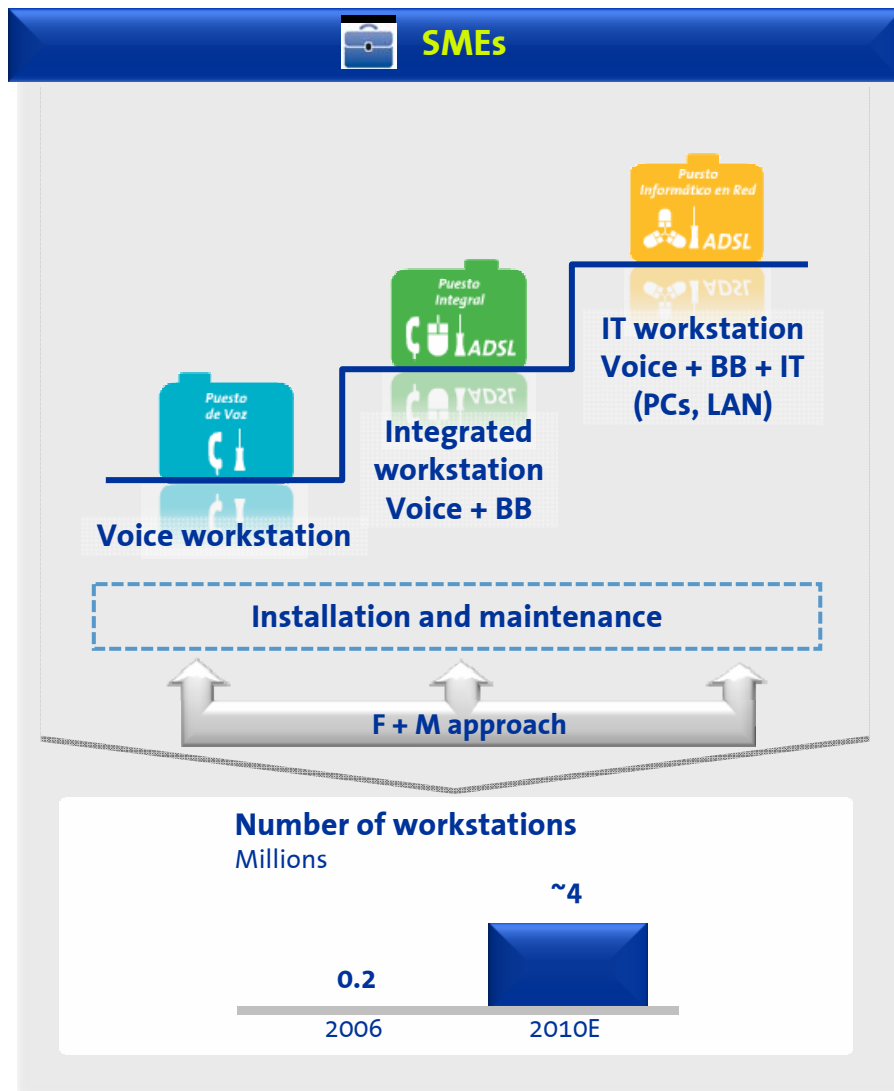
\* Non SMS data active users for the last 3 months



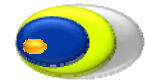
## We are working closer with key partners



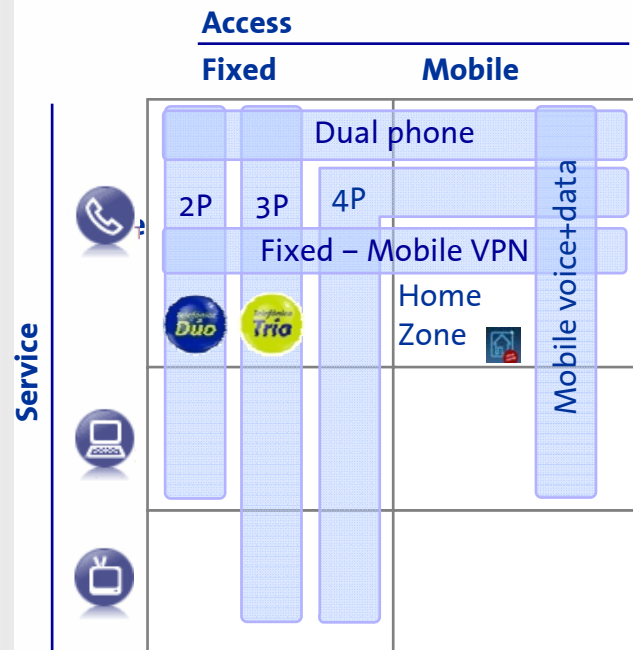
# ICT solutions will be a source of growth in enterprise segments



# Bundled and convergent offers will help us to capture growth in all our markets



## Multiservice and multidevice convergence...

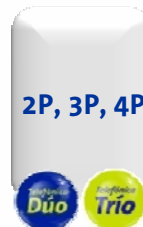


## ... with different approaches

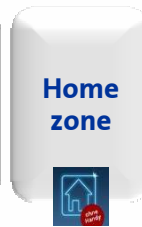
Commercial convergence

Technological convergence

Bundles based



Tariff based



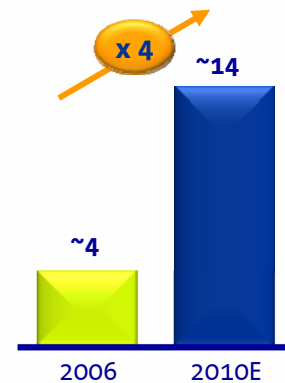
Device based



Network based

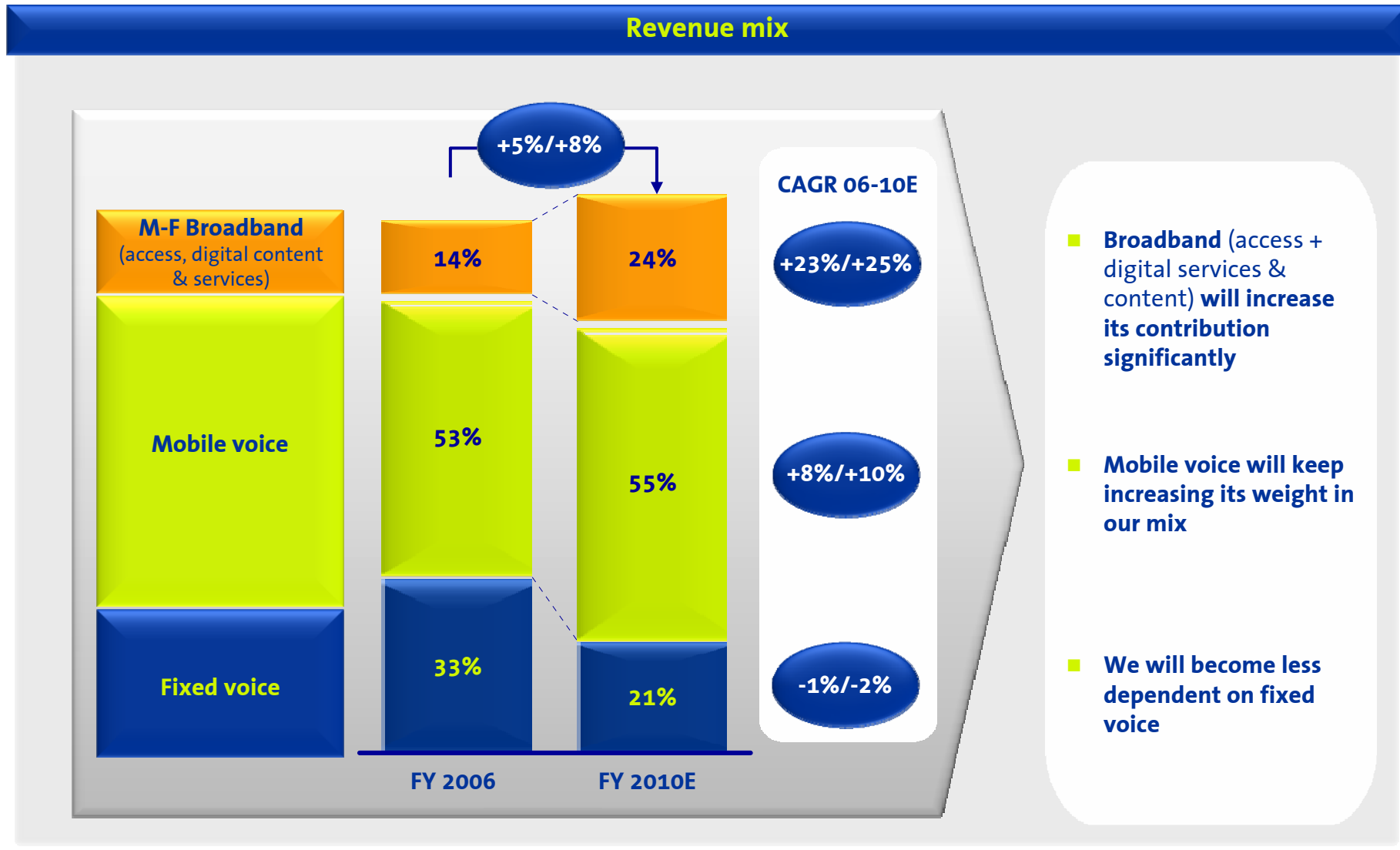


Bundles 2P/3P  
Millions

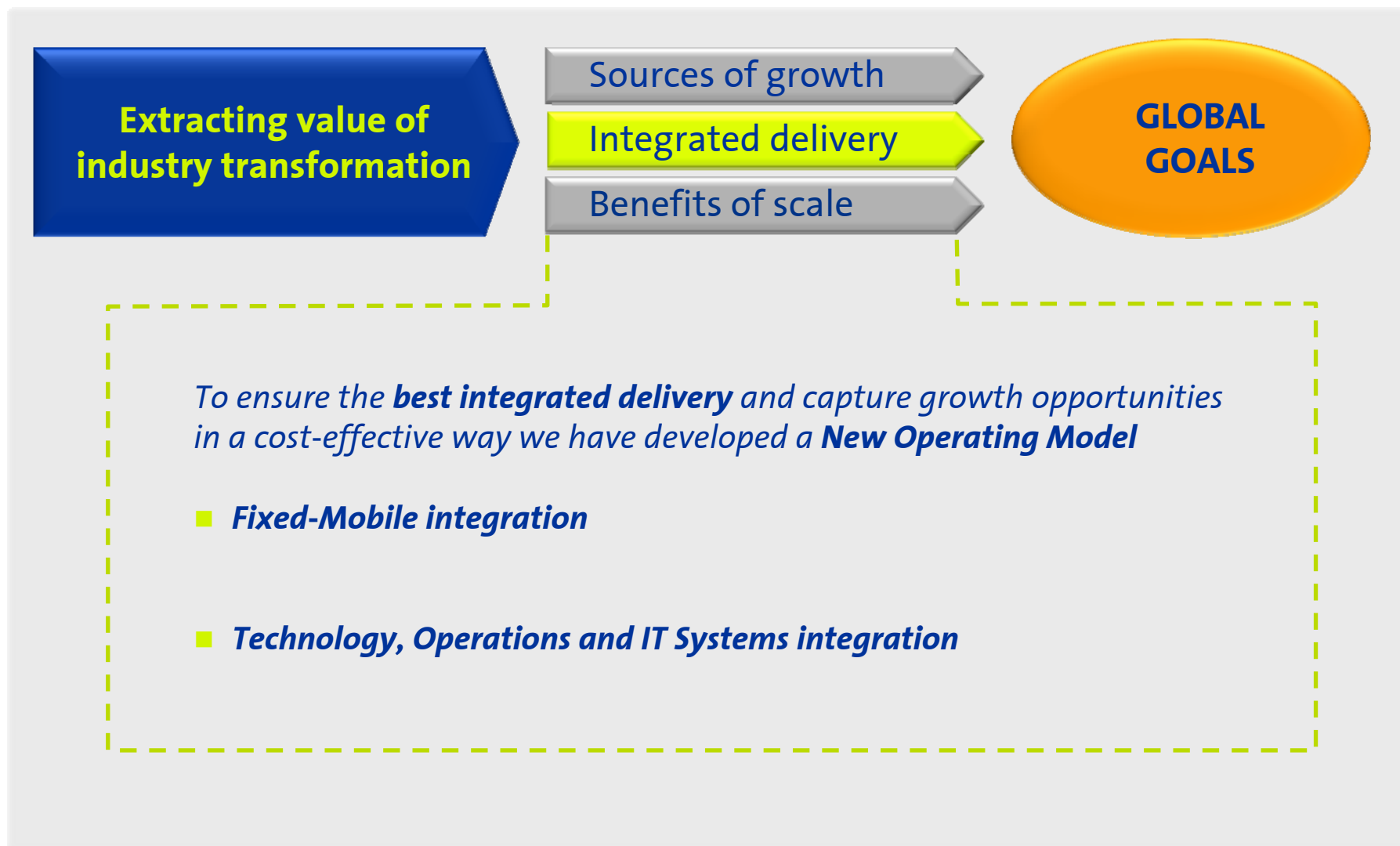


**Bundling has already proved to be effective**  
(78% of Telefónica's retail BB connections installed base as of June 07 in Spain is bundled)

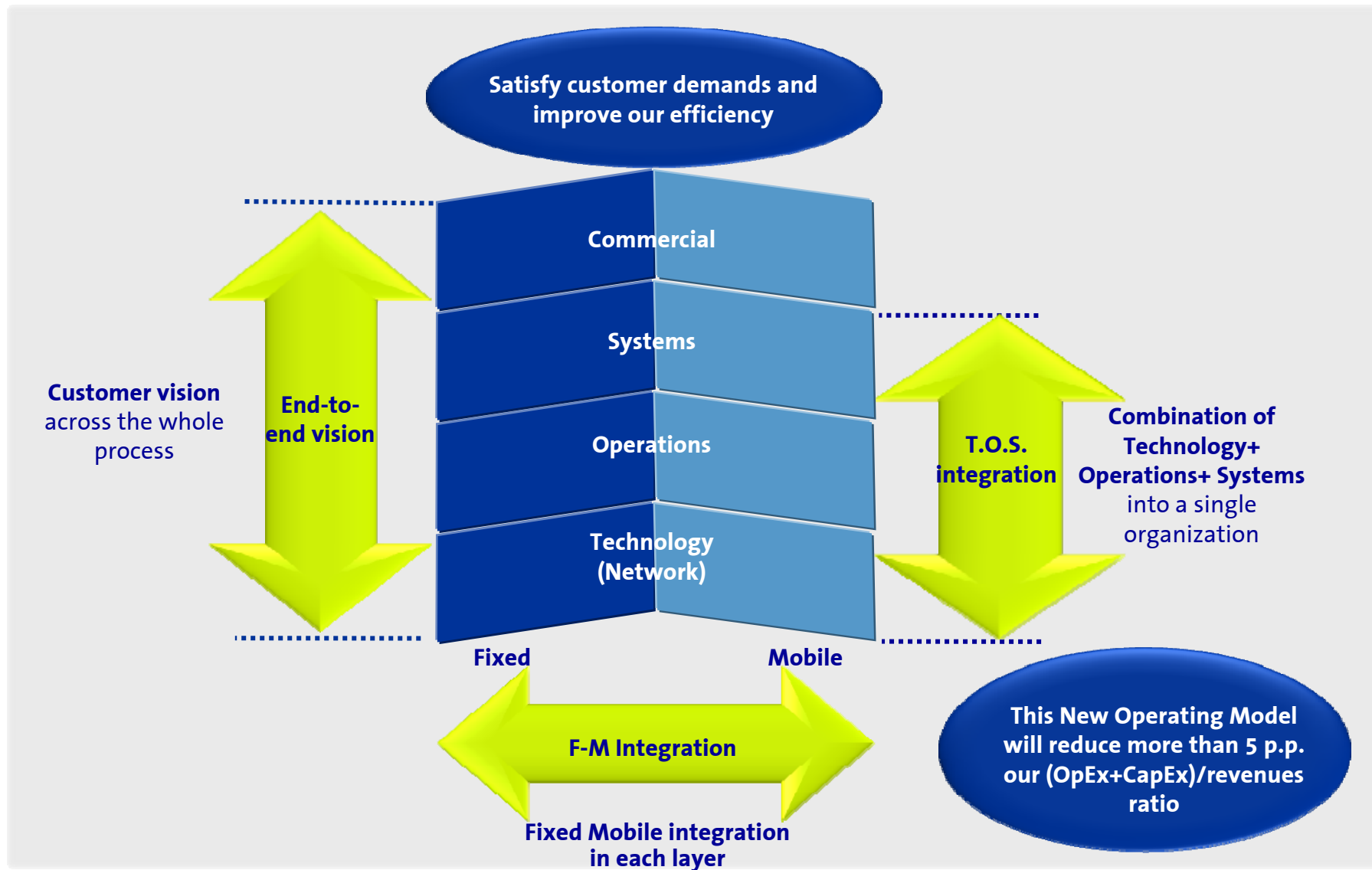
As a result, we are positively rebalancing our revenue mix



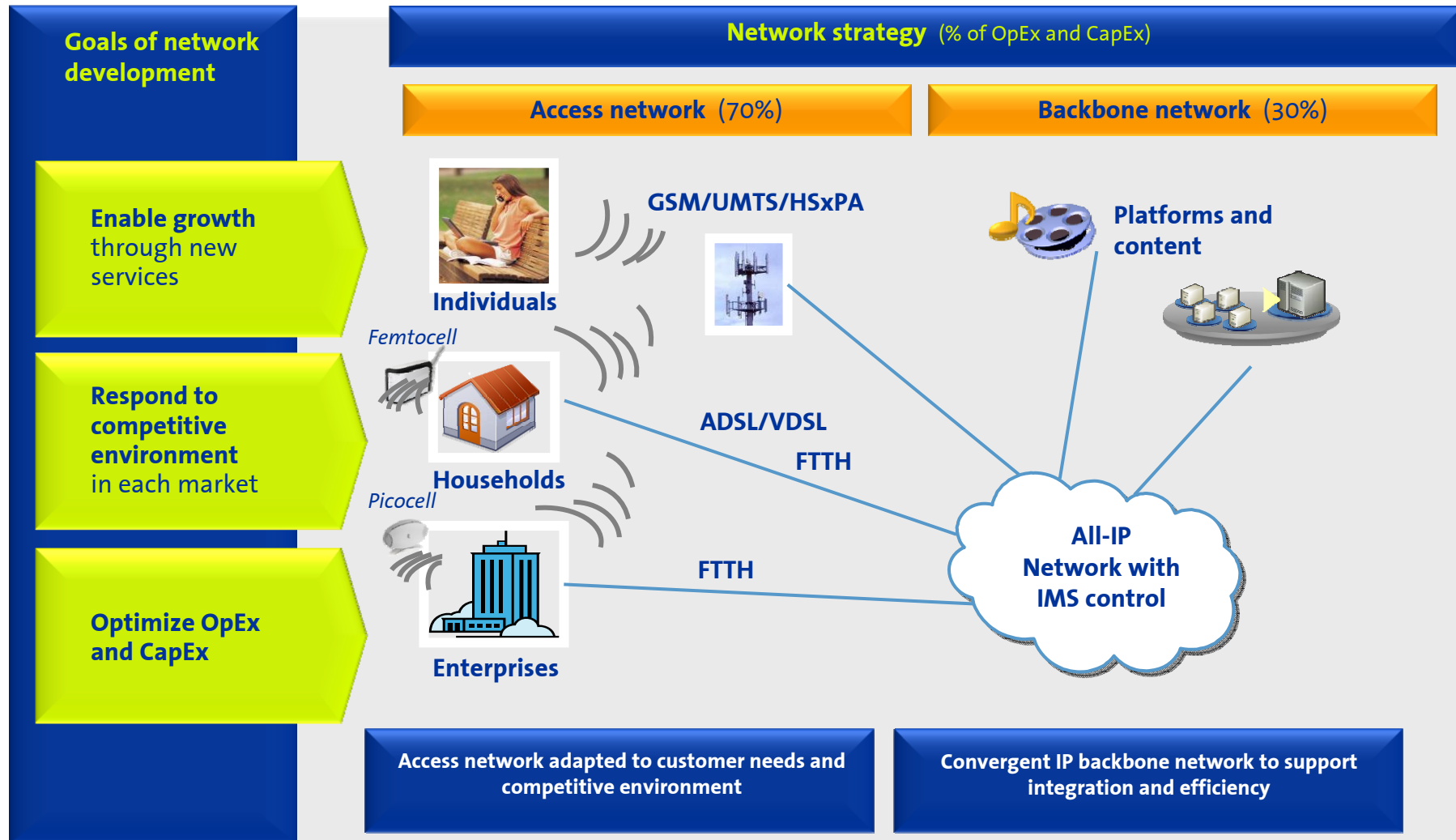
## Content



## We will support organic growth through an integrated delivery

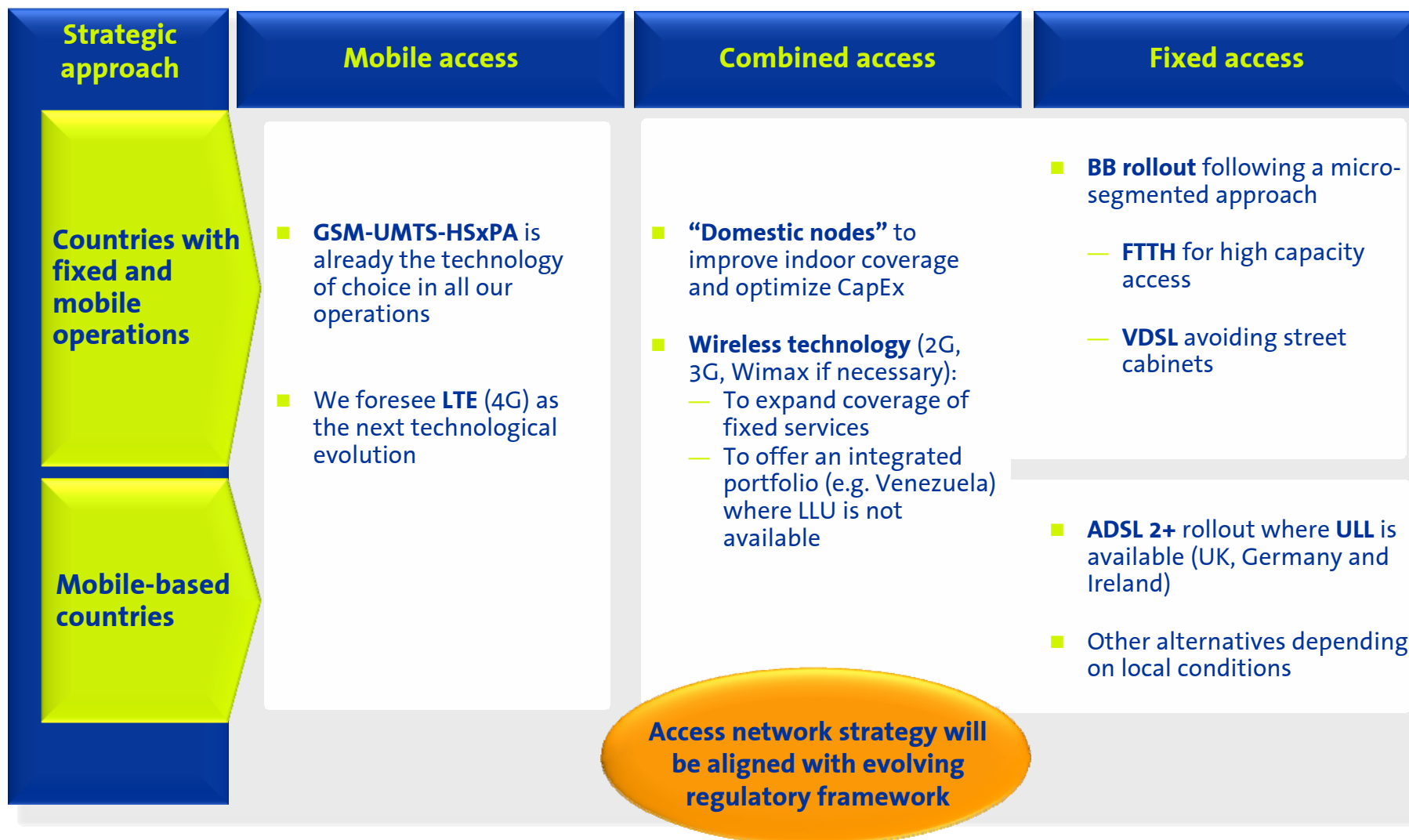


# A new integrated broadband network will support growth needs in an efficient manner



Note: Data for 2006. OpEx and CapEx figures for Telefónica España

# Our access network strategy will balance market needs and technological opportunities





# An “all-IP” network will provide innovative and convergent services



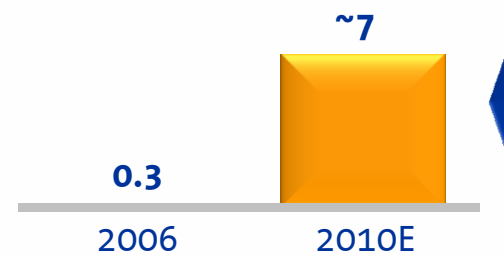
## Single F-M integrated “all-IP” backbone network

- **Development of new and convergent services** (VoIP, IP Centrex, IP VPN,...)
- **Faster time to market for convergent services**
- **OpEx and CapEx** reduction through the integration of IP networks and platforms

## Selective roll-out of VoIP

### Non-PSTN voice customers (VoIP + IP Centrex + IP VPN)

Users



- VoIP deployment linked to FTTH roll-out in Spain and Latinamerica
- VoIP already offered as first voice line in some markets (e.g. Germany)

## Controlled PSTN Network Evolution

### No major shutdown of the PSTN network is planned :

- The replacement of more obsolete parts is selective and optimally managed
- Real estate efficiencies are being captured

# An integrated approach to Operations and IT Systems will allow us to satisfy customer needs in a cost-effective way



## Integrated operations

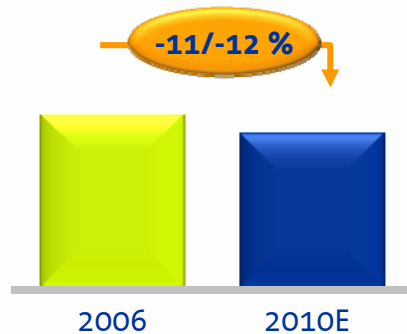
### F+M integration

- Single local F-M field forces, network deployment, supervision and operation

### Relationships with third parties

- Further **outsourcing** (e.g. logistics, I+M)
- Align I+M subcontractors with **cost and quality targets**

OpEx / access



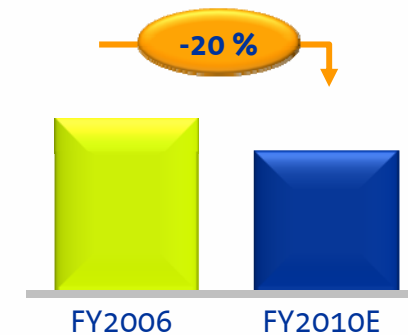
## Integrated approach to IT

### F+M IT integration

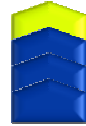
Unified convergent application systems  
Support of customer demands and faster time-to-market

Consolidation of IT infrastructure  
CapEx+OpEx reduction

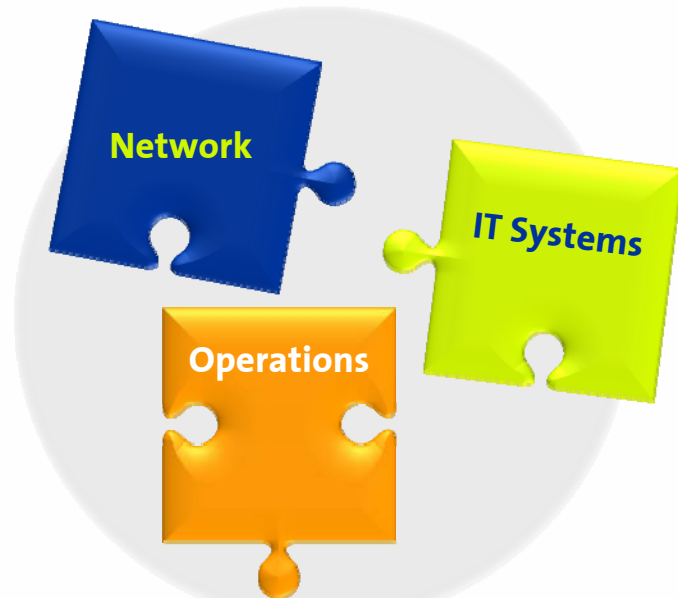
IT spending / revenues



## By integrating Technology, Operations and IT Systems we are optimizing end-to-end delivery



From...



Three areas focused on optimizing the individual parts of each process

To...

T.O.S.



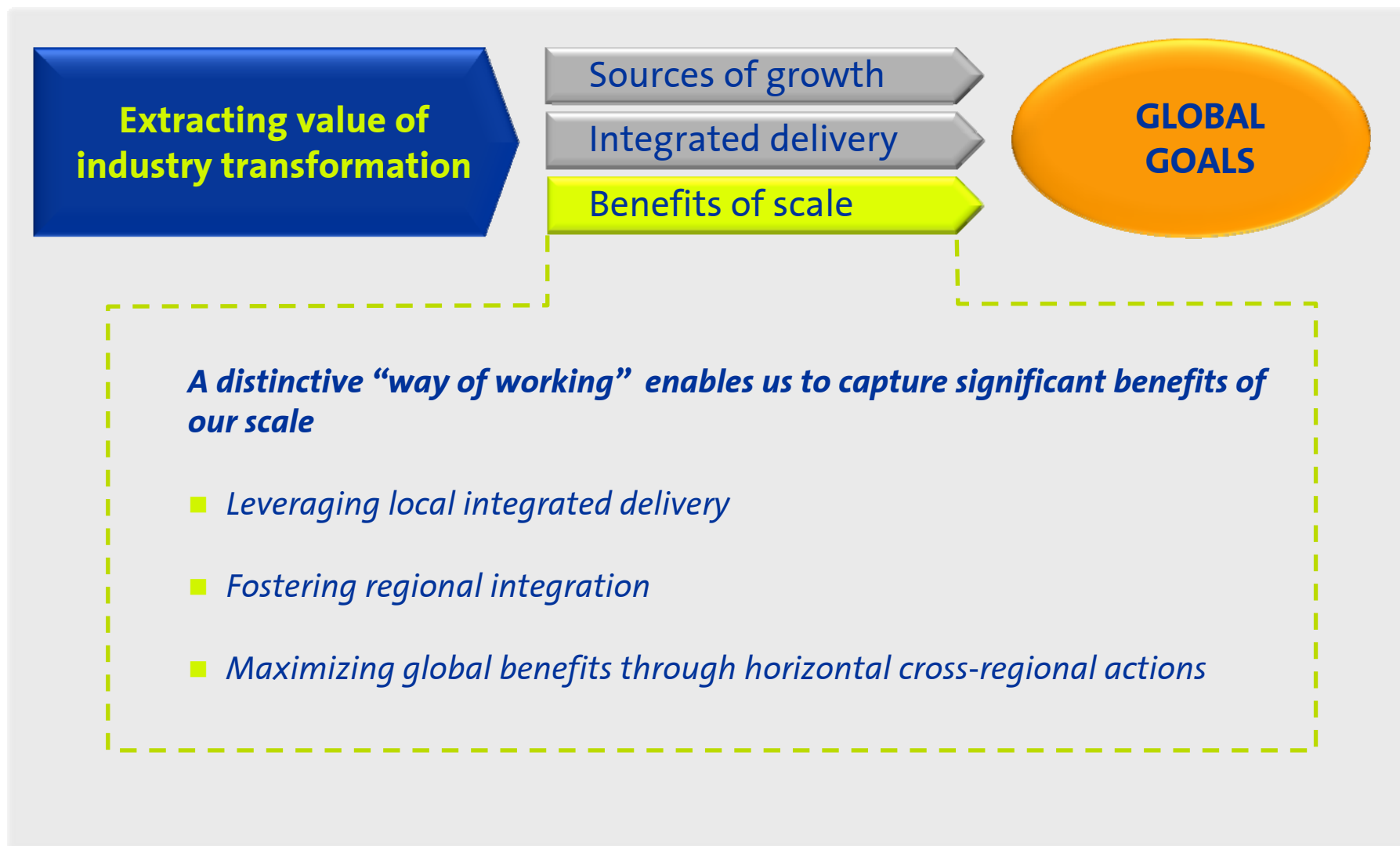
- **Unified point of contact** for business units (unified SLAs)
- **Common and aligned understanding of priorities**, resulting in **faster time-to-market**
- **Flexible resource re-allocation**, optimizing OpEx and CapEx

One area focused on optimizing the end-to-end process

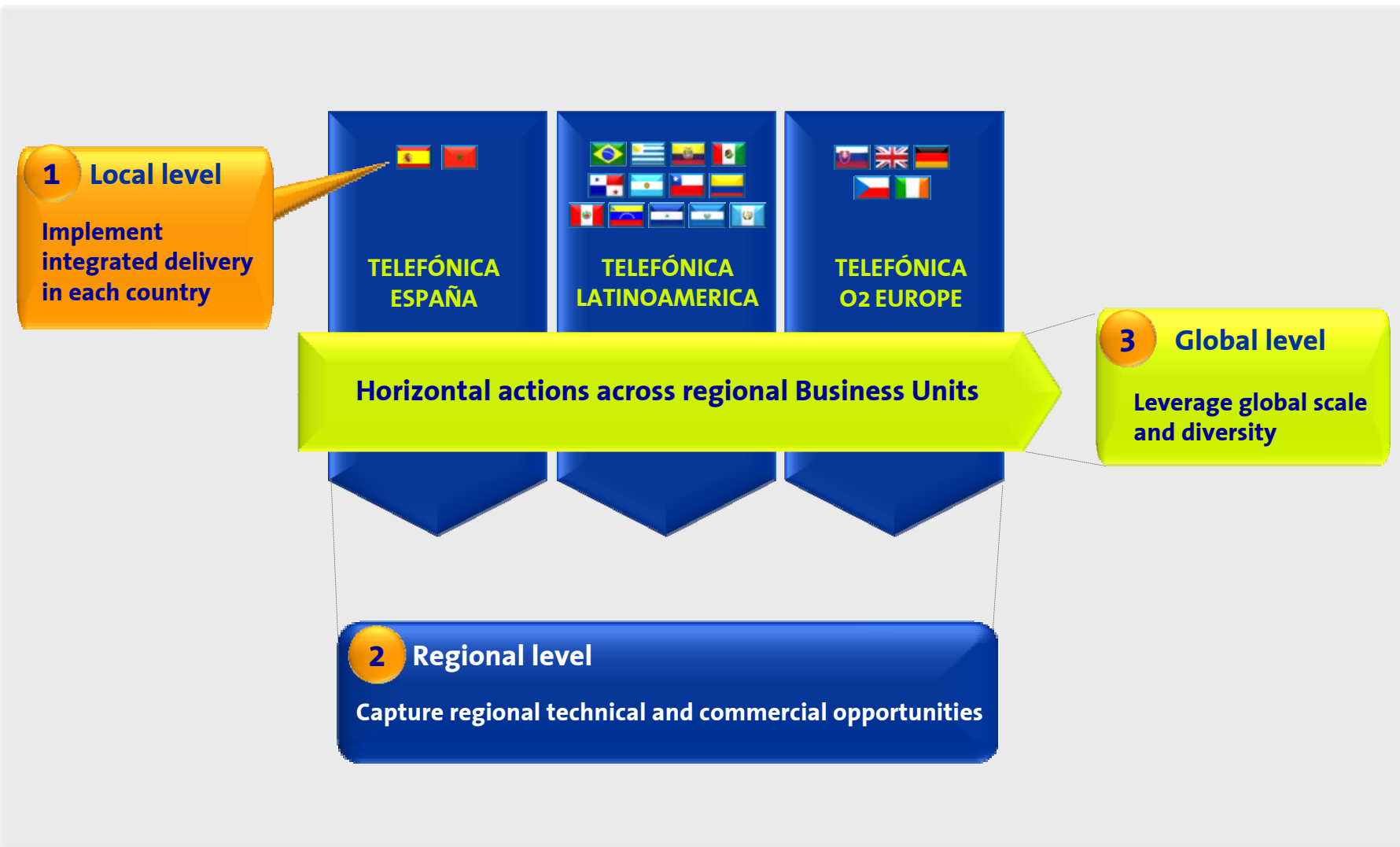
# An integrated commercial approach will allow us to meet evolving customer needs



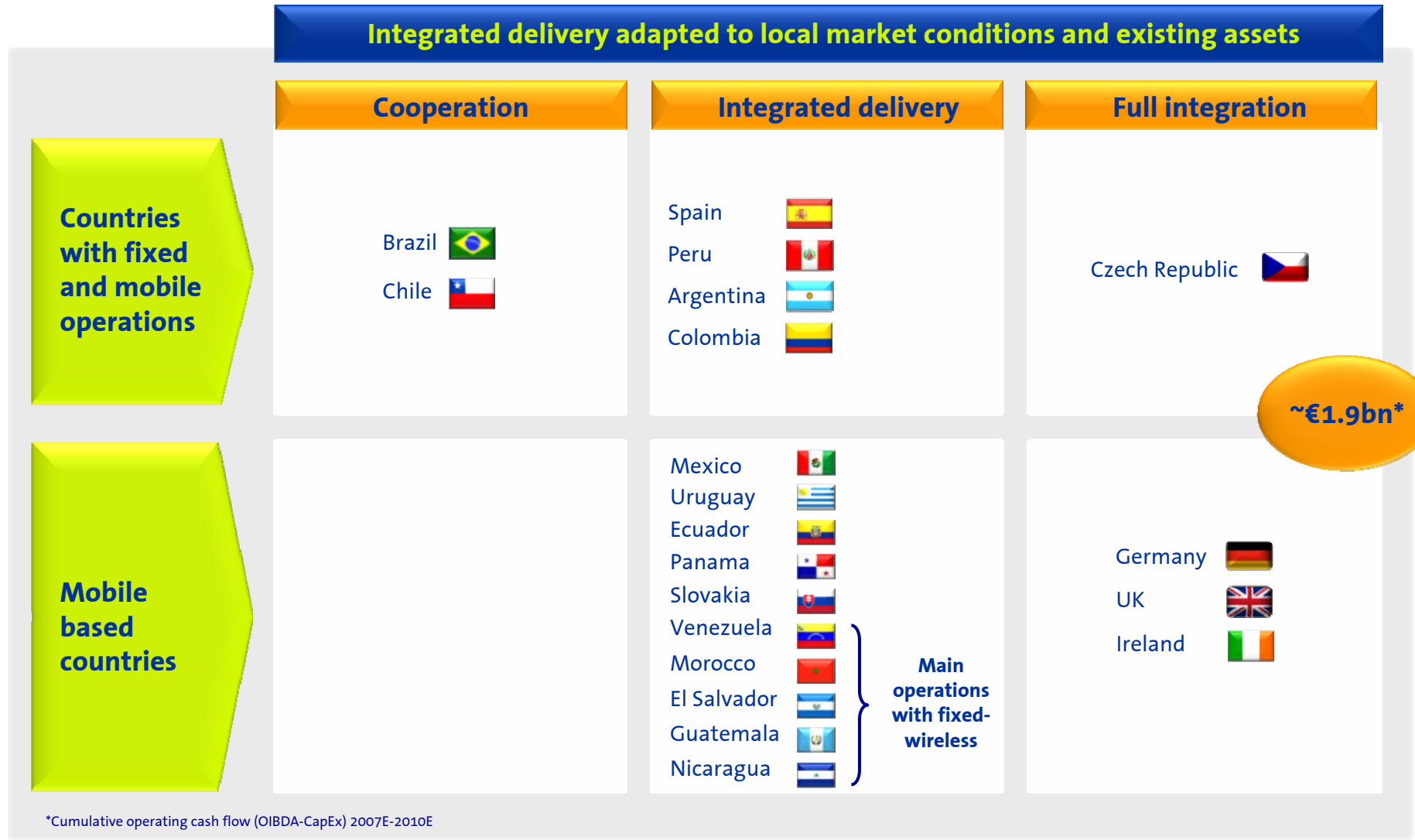
## Content



**We are leveraging the benefits of our scale through a three-level approach while maintaining our agility and local market responsiveness**



# We are implementing our integrated delivery model in each country



## We are fostering integration at a regional level



### Regional integration of Technology, Operations and Systems

- Network deployment, supervision and operation
- Services platforms
- SW factories
- Consolidation of data centres
- Back-office integration for key processes

~€2.2bn\*

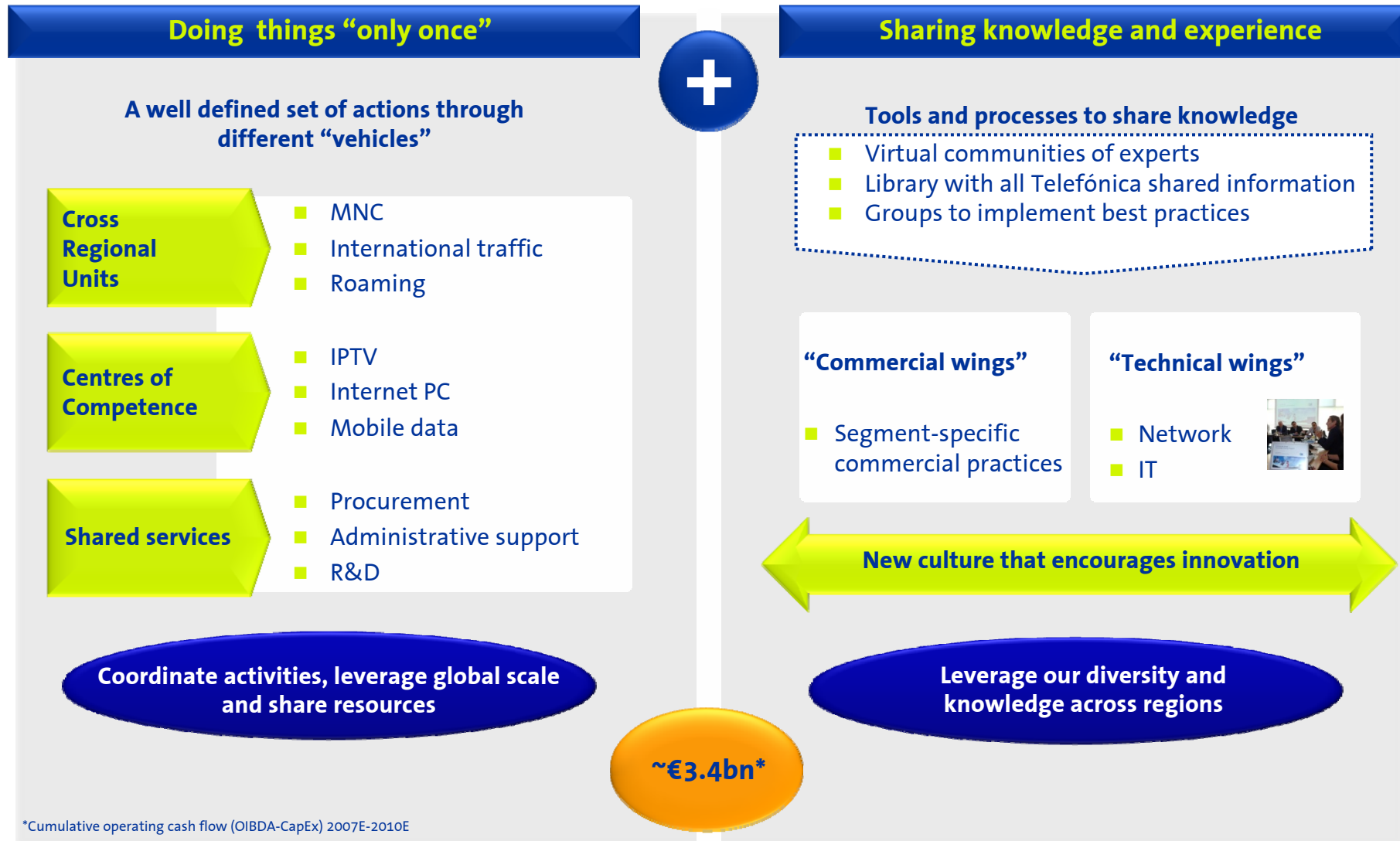
### Regional commercial approach

- Brand homogenization
- Development of products and services (e.g. DTH TV in Latam)
- Common commercial actions across countries (e.g. Advertising campaigns in Latam)

\*Cumulative operating cash flow (OIBDA-CapEx) 2007E-2010E



# We are also fostering global horizontal cross-regional actions to maximize scale benefits



# We are already extracting the benefits of our way of working



## Global purchasing power

- **€24bn** of purchasing volume in 2006, generating a **10% savings\*** and enabling us to be one of the most preferred customer of our suppliers



## Contribution of new acquisitions to Telefónica's "new way of working"

- The integration of **O2** in Telefónica is a **successful example of integration:**
  - **44 managers** have moved between O2 and the rest of units
  - 81% of the **roaming traffic** already internalized
  - **Centre of Competence for Mobile Data** based in UK
  - **"Customer Experience" methodology** transferred across Telefónica
  - Support the transformation into an **integrated operator**
  - Target of **€155m in synergies O2/TEF for 2006** achieved



## Alignment of managers incentives to shareholders interest

- **New incentives policy** across Telefónica already in place (**Performance share plan**) to foster alignment to company's business results and retain talent

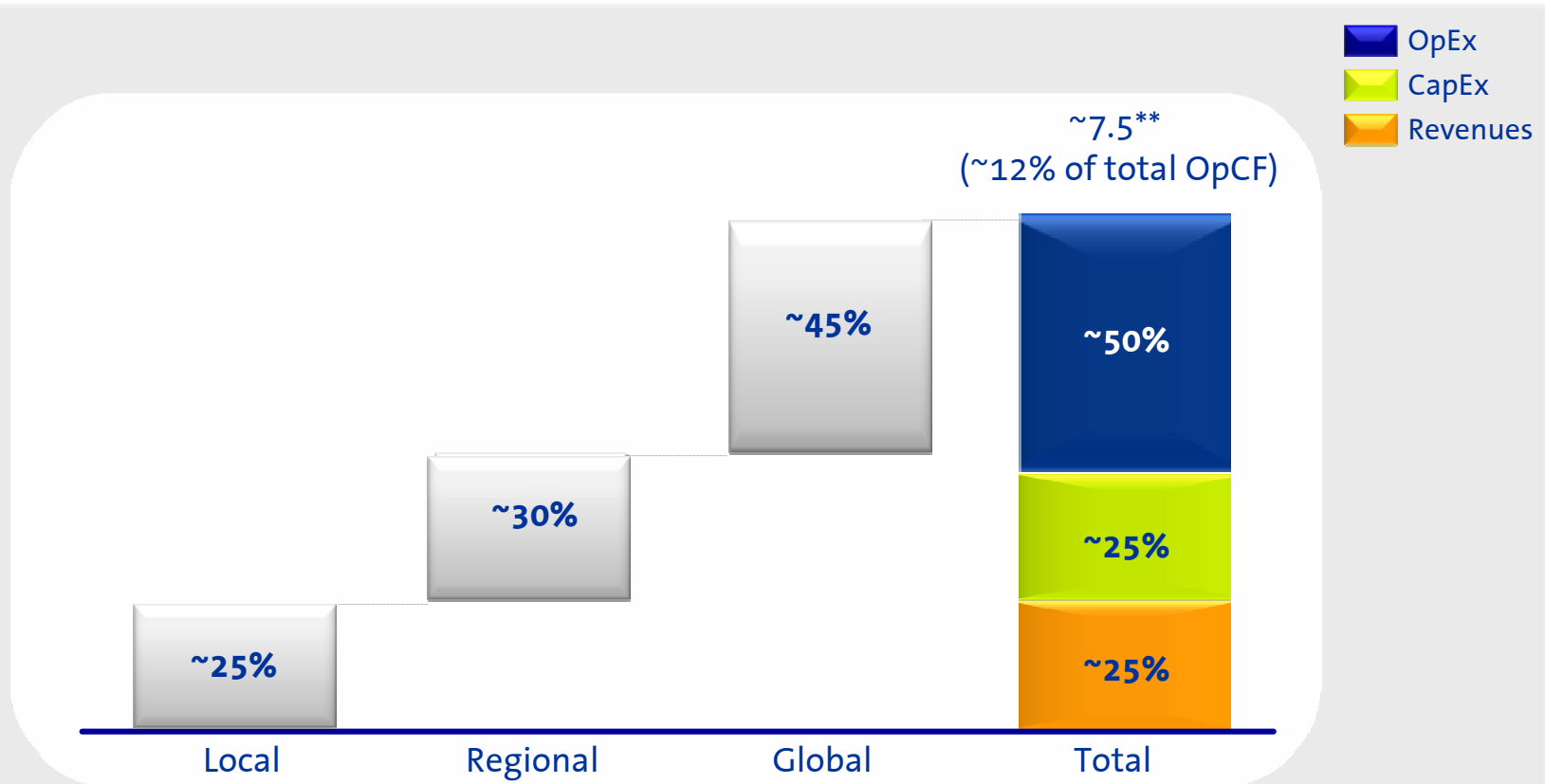


\*Only purchasing savings due to the integration of new companies (O<sub>2</sub>) are included in the synergies guidance (historical purchasing savings not included)

# The way we work allows us to create value through synergies

Synergies: Operating Cash flow\* 2007E-2010E

€ in billions



The new **2007E-2010E** guidance is **42% higher** than the 2006E-2009E guidance given in Valencia

\*Operating cash flow= OIBDA – CapEx  
\*\*Already included in the overall guidance

## Content



## In summary...



*Telefonica*

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