

# "Time to harvest or to fuel growth?"

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Telefónica Latinoamérica*



ACCELERATE TO INCREASE  
OUR LEADERSHIP

*Telefónica*

Barcelona, April 25th, 2005

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# Index

## 01 The partner of choice in Latam

## 02 A brighter future for the region

## 03 Management priorities

## 04 Commitments

# 01 In the last three years, we have transformed the company

**Commercial**

... regaining growth by renewing our traditional business, and leading DSL deployment in the region

**Operational and technological**

... becoming leaner, more flexible and consolidating a high quality network

**Financial**

... reducing asset intensity, turning around the cash flow generating profile

# 01 Our commercial transformation

 CAGR

Recovering growth in the traditional business, ...

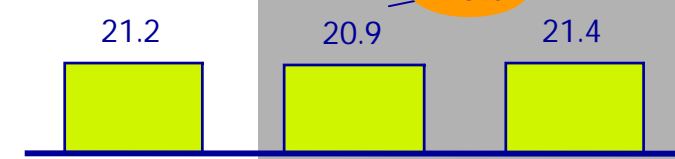
... driving broadband development, ...

... changing the nature of our access plant, ...

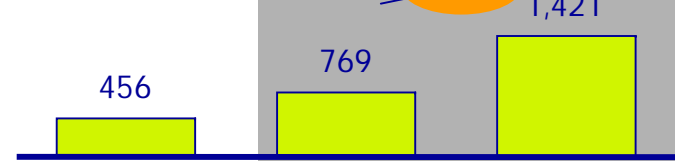
... increasing share of wallet ...

... and holding churn

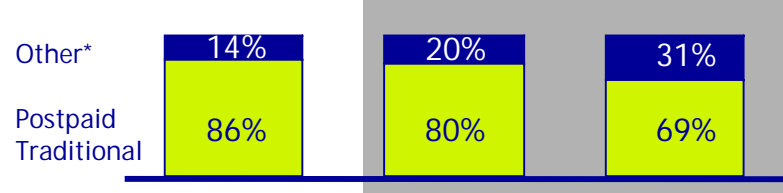
Traditional Lines  
Million



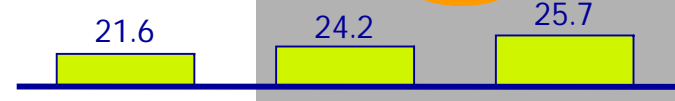
DSL Lines  
Thousand



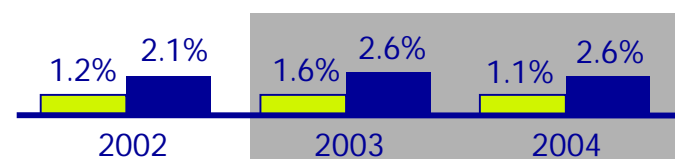
Access lines  
Percent



ARPU  
Constant Euros 2004

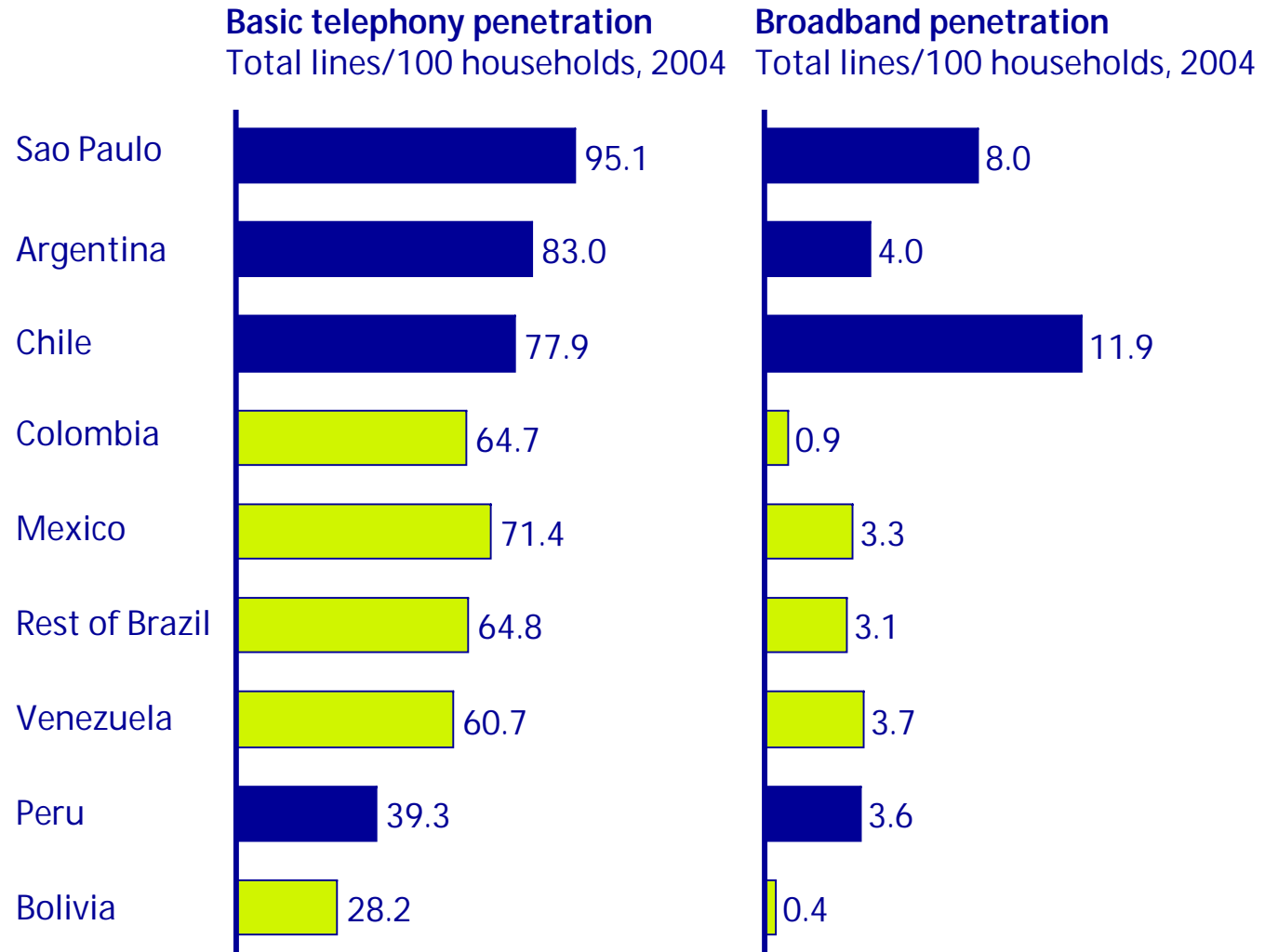


Churn  
Percent

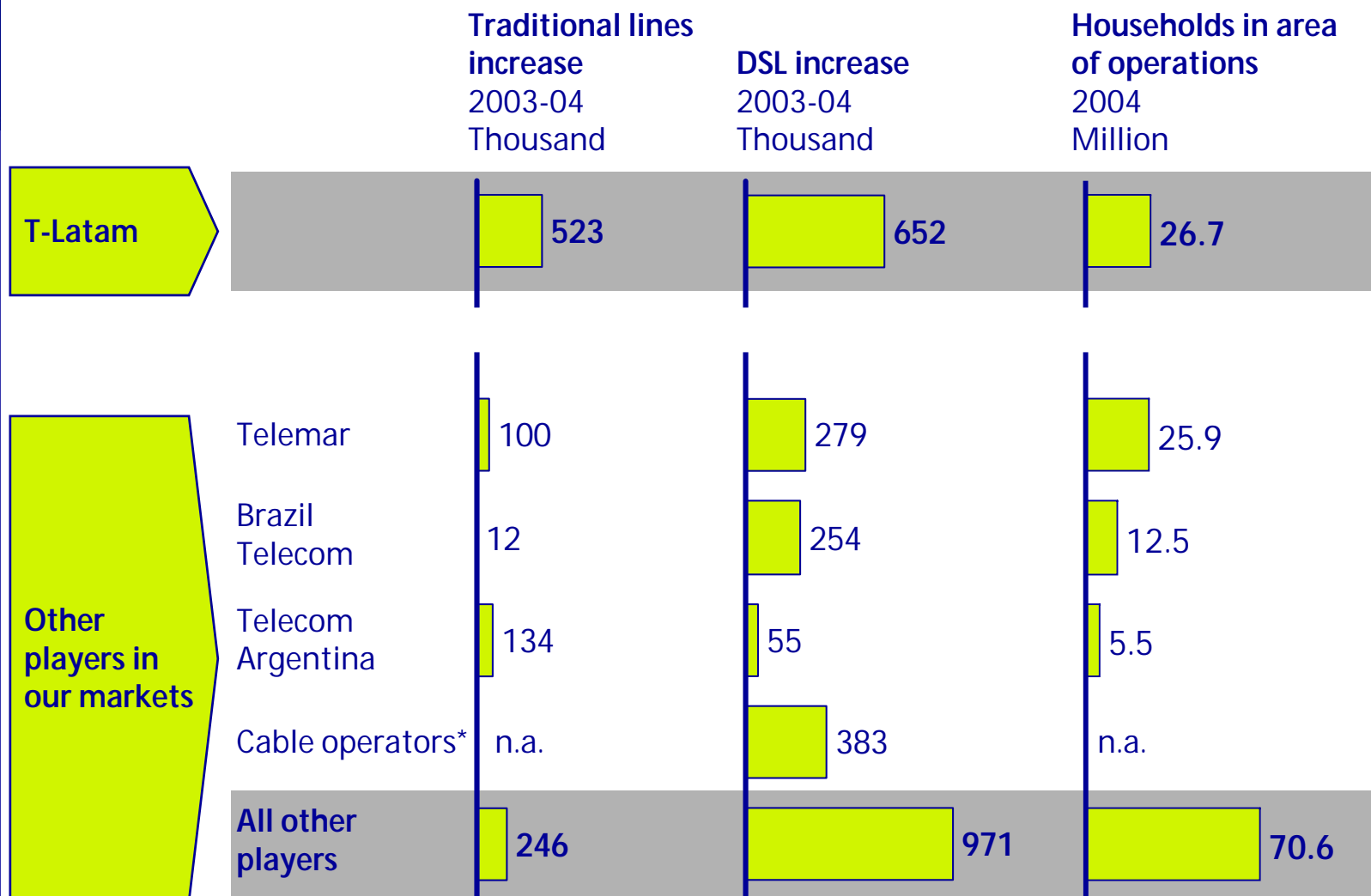


\*DSL, Prepaid traditional, TUPs, other  
Note: Does not include TEA and TIWS

# 01 We have created the market...



# 01 ... growing ahead of other players in our markets...

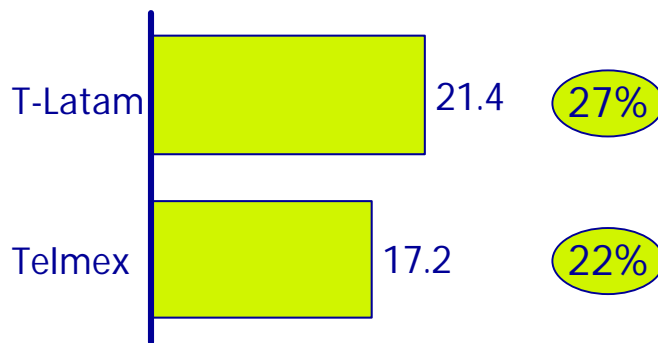


\*Includes all cable operators in the region (Brazil, Argentina, Chile and Peru)  
Source: Pyramid

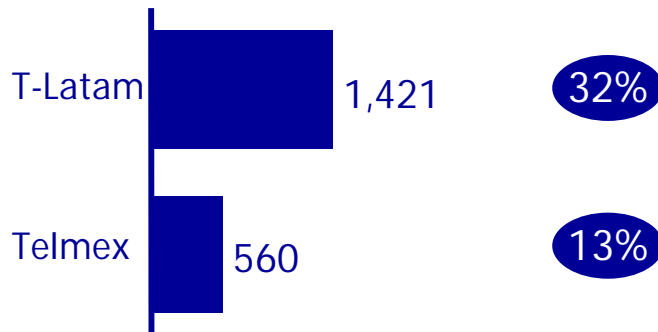
# 01 ... and reinforcing our leadership position 2004

## Regional...

**Traditional business** Million lines  
**Market share** Percent

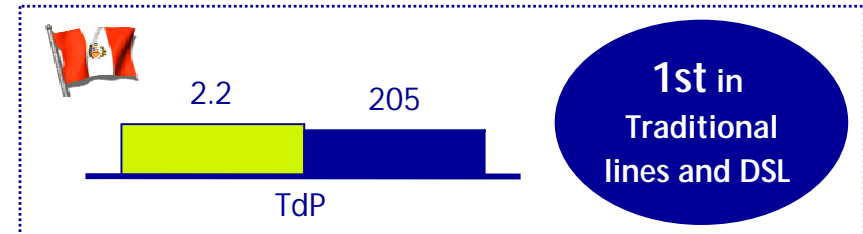
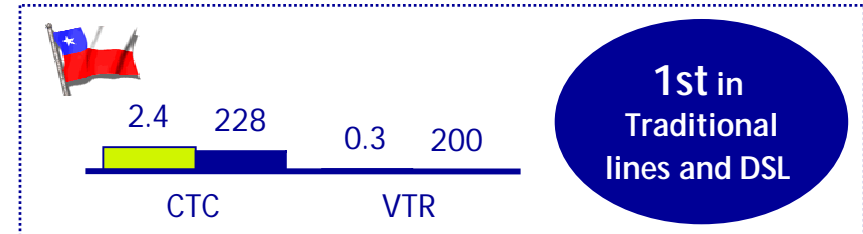
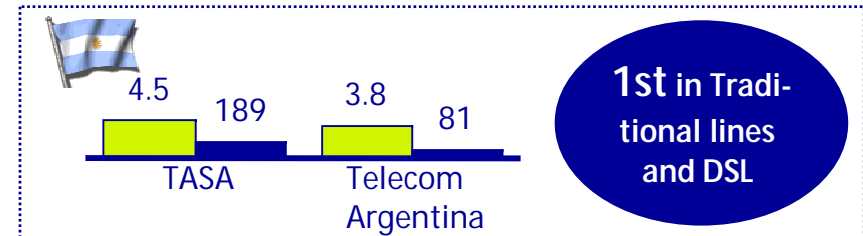
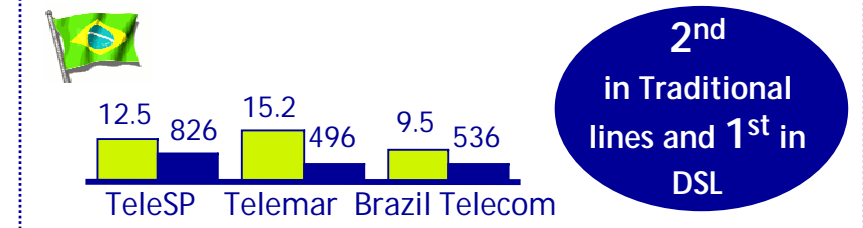


**Broadband** Thousand lines



## ... and local leadership

Traditional lines. Million  
DSL lines. Thousand





# 01 Commercially: on the right track

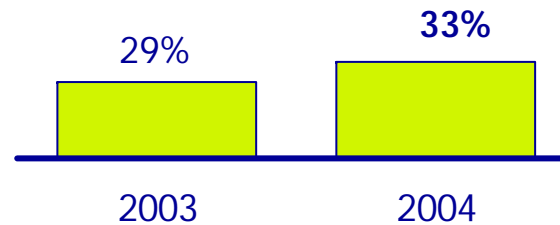
Investors Commitment  
2003-2006

Strong  
commercial  
focus

More customer-oriented

~38%

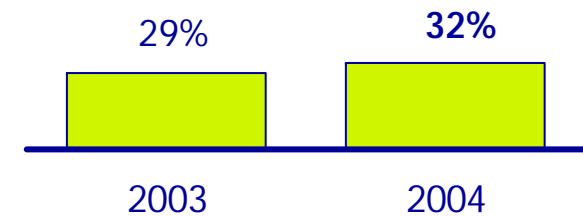
% of commercial employees



Commercial /operating  
expenses\*

~39%

Percent

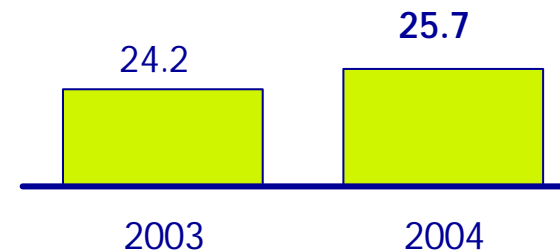


Maximize  
value

Increase share of wallet

27-28

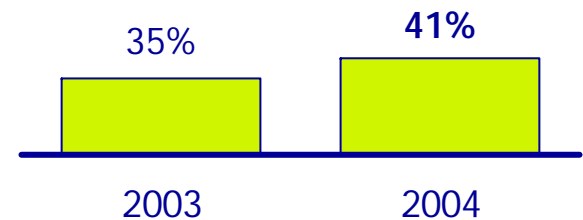
Total ARPU Constant Euros  
'04/month



Non-regulated revenues\*\*

~42%

Percent



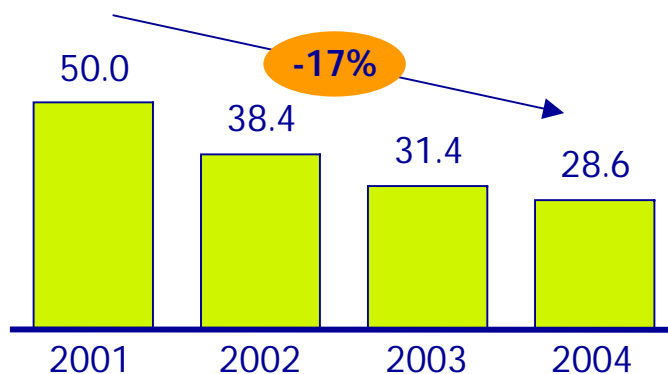
\*Excluding bad debt provision and interconnection  
\*\*Other than line rental, local traffic and interconnection  
Note: Does not include TEA and TIWS

# 01 Operations: leaner and more flexible

CAGR

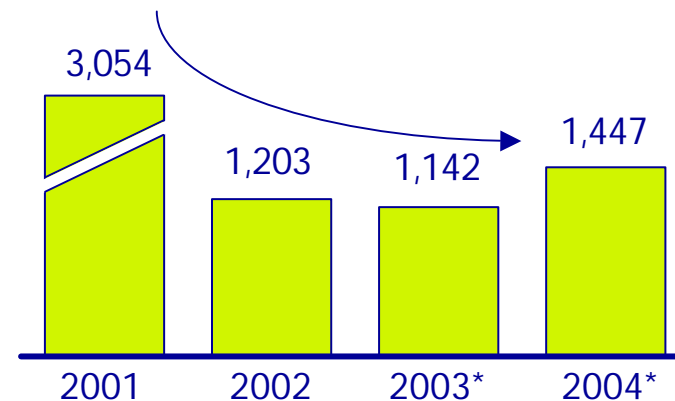
Reducing our operational costs ...

**Unitary Network Direct Costs**  
Constant Euros per LIS 2001



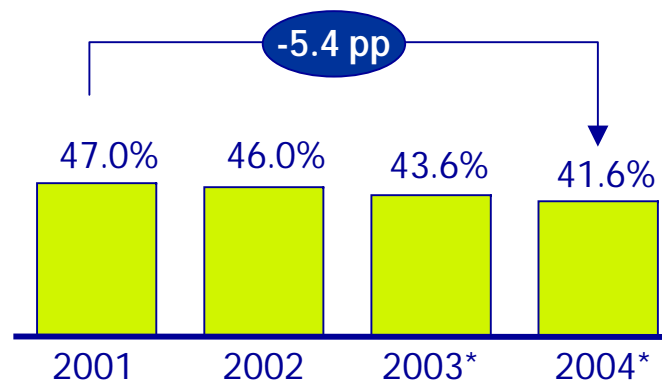
... carefully managing our capital expenditures ...

**CAPEX**  
Constant Euro Million 2001



... and being more flexible

**Operating leverage**  
Fixed Costs/Total Costs. Percent



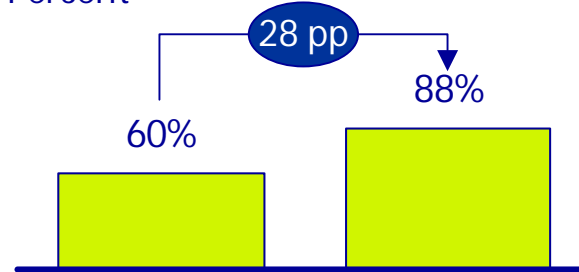
\*Includes TEA and TIWS

# 01 Our network is ready for the future

 CAGR

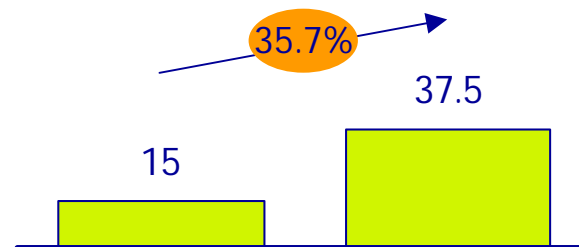
DSL widely available

Lines with DSLAM in central office/Total lines  
Percent



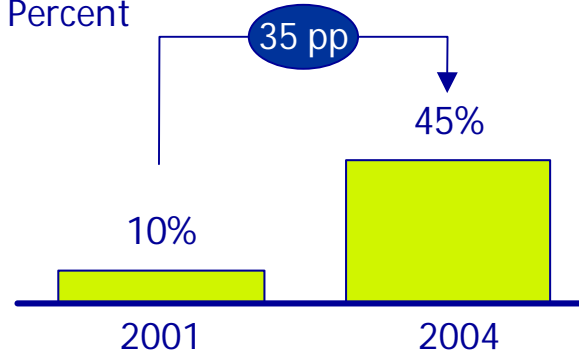
Increased  
bandwidth

Backbone bandwidth/user  
Kb/second/user



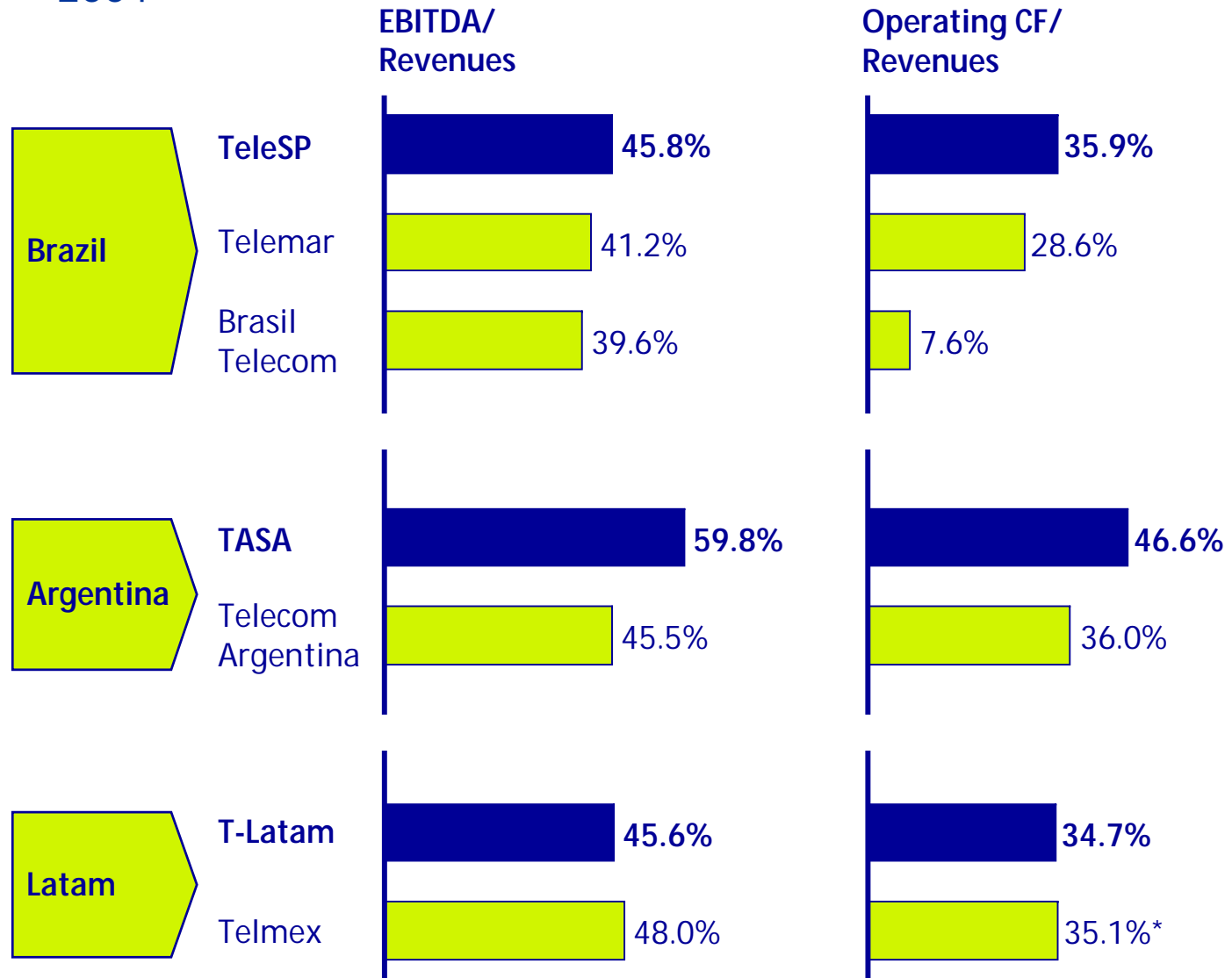
Evolution towards  
new technologies

Managed IP traffic/Total traffic  
Percent



# 01 We enjoy a leading operational efficiency

2004



\*JP Morgan estimates  
Source: Company data

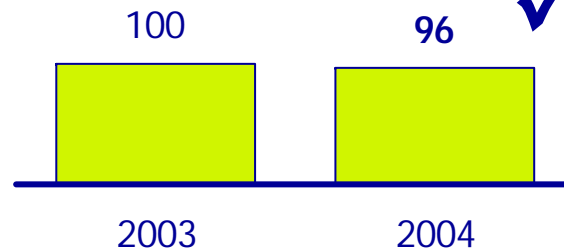
# 01 Efficiency: on the right track

Investors Commitment  
2003-2006

Asset light  
and  
selective  
investment

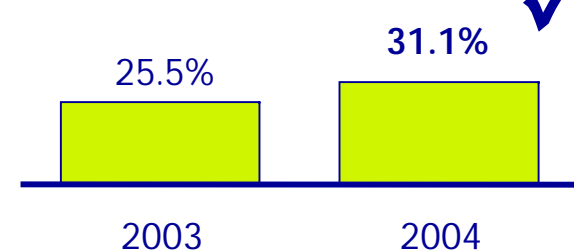
## Asset efficiency

2003 assets = Index 100



## CAPEX in DSL and new services

Percent



DSL lines  
Thousand

769

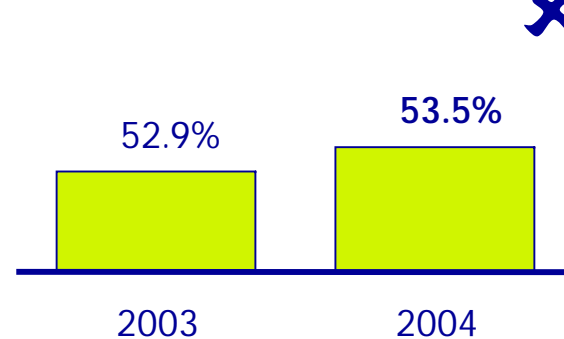
1,421

2,100-  
2,400

Opex  
reduction  
and  
increased  
flexibility

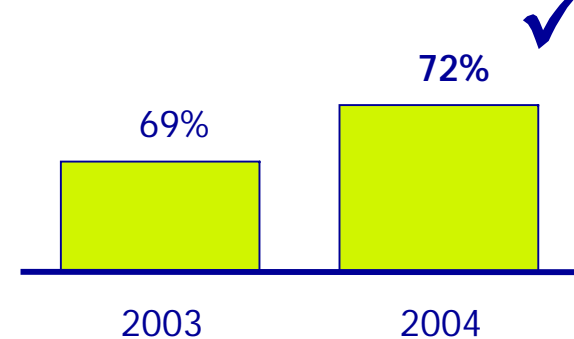
## OPEX/Revenues

Percent



## Improve operating leverage

Percent outsourcing\*



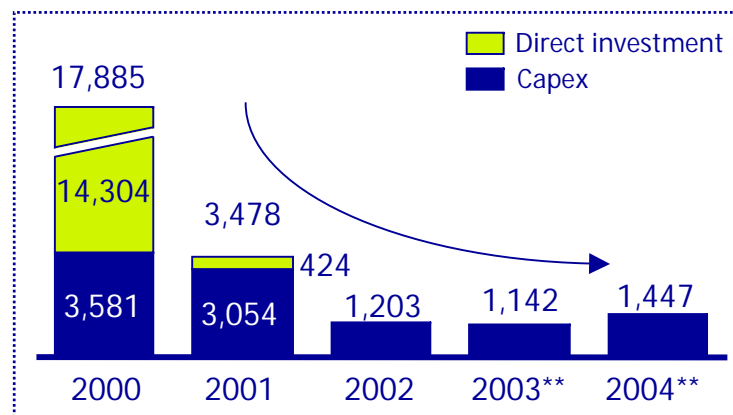
# 01 Financials: sound evolution

CAGR

## Turning around cash flow generation

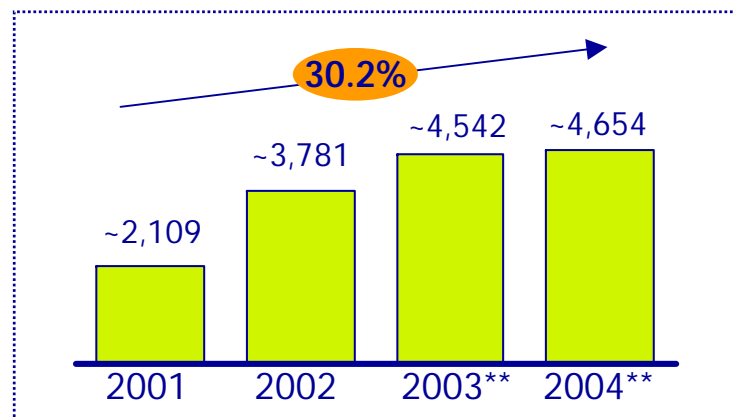
### Investment

Constant Euro million 2001\*

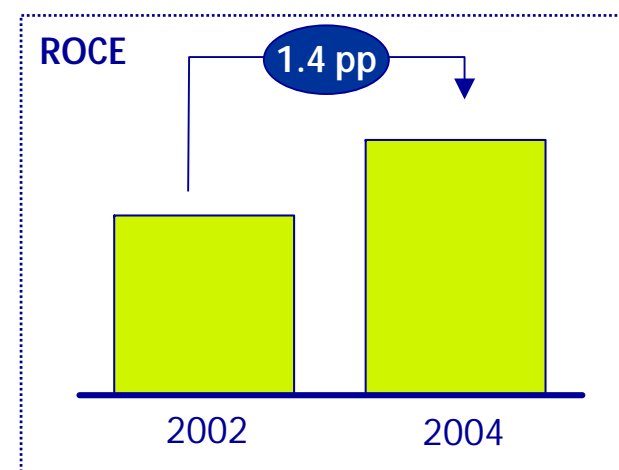


### Operating CF (EBITDA-CAPEX)

Constant Euro million 2001



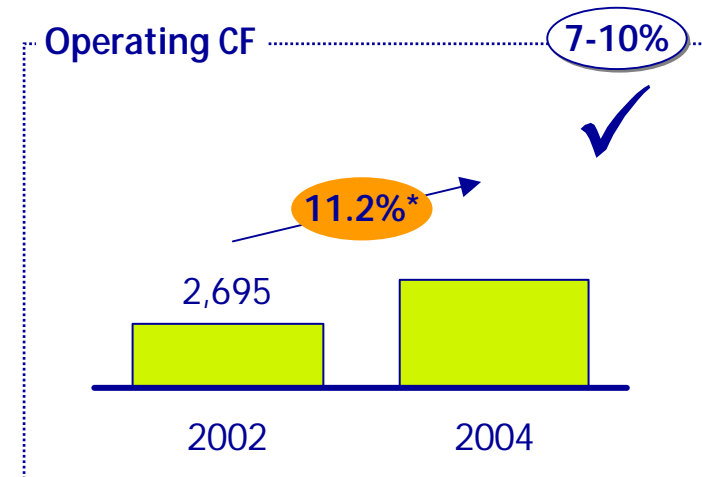
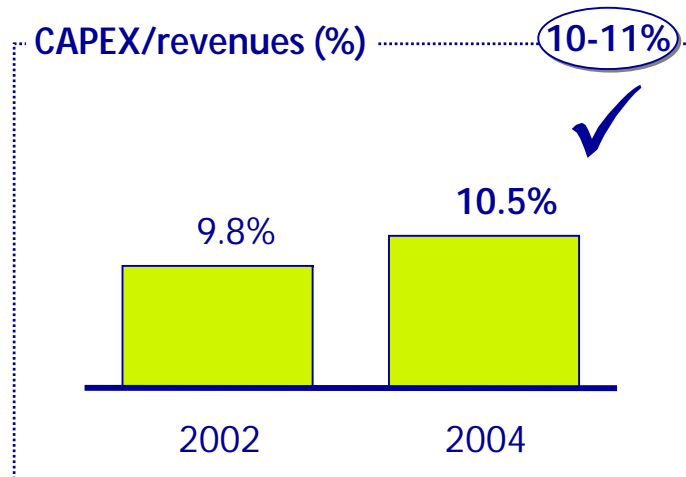
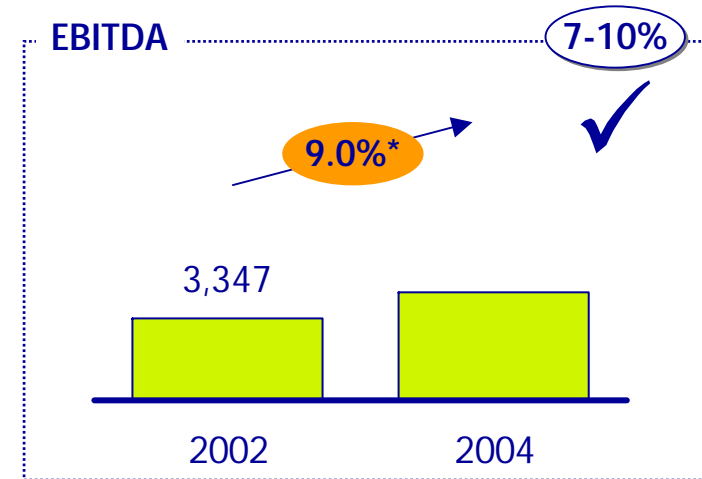
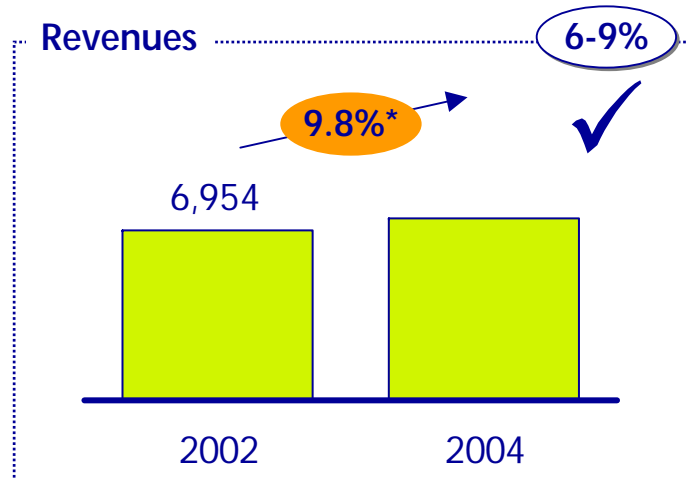
## Increasing profitability of our assets base



# 01 All in all, we have met the commitments made in Madrid in 2003

Million Constant Euros

● CAGR (fixed exchange rate 2002)  
○ Investors Commitment 2003-2006



\*Calculated including aggregated figures for TEA and TIWS both in 2002 and 2004  
Note: Figures for 2002 only for TFOs; figures for 2004 includes TEA and TIWS

## Index

01 The partner of choice in Latam

02 A brighter future for the region

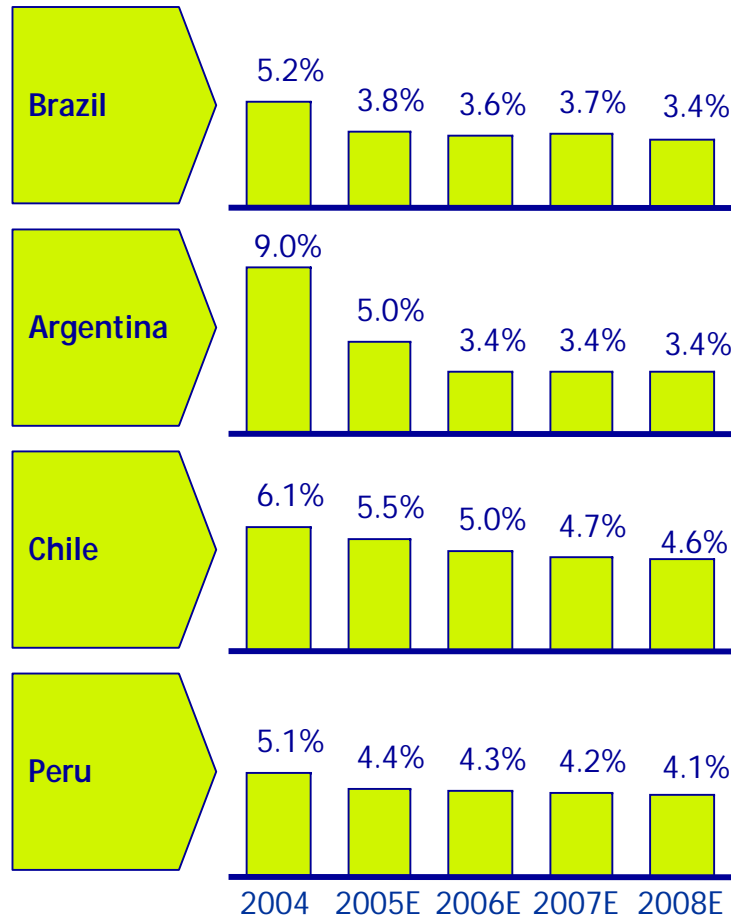
03 Management priorities

04 Commitments

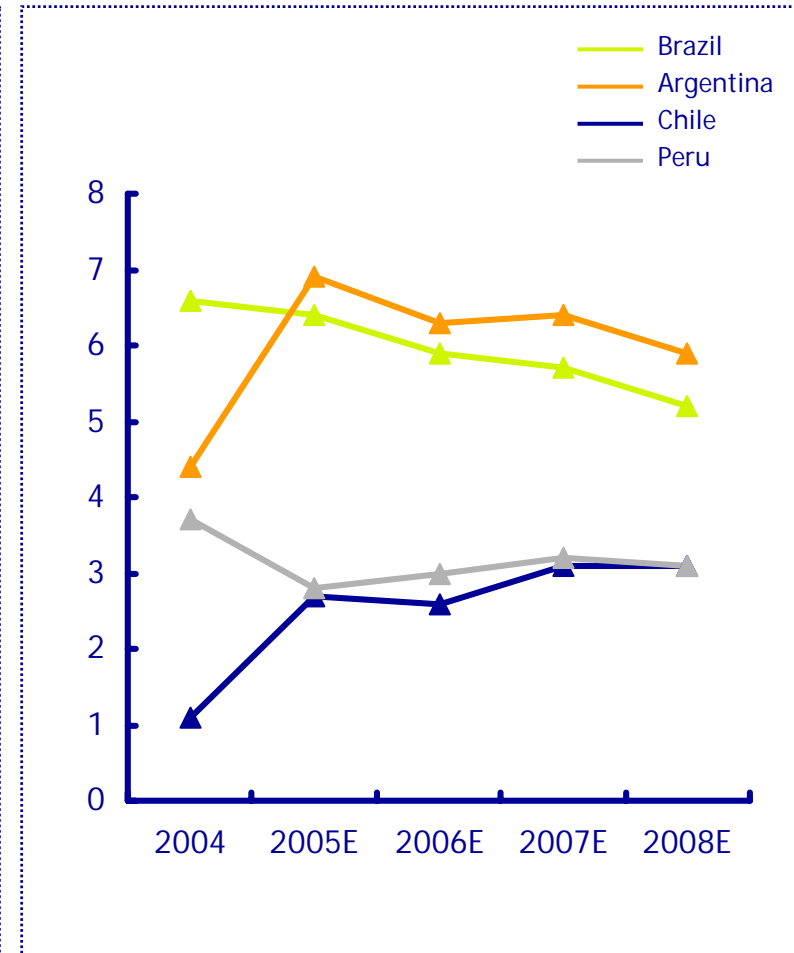


## 02 Macroeconomic prospects for the region are encouraging ...

Expected GDP growth  
Percent



Expected inflation evolution  
Percent



## 02 ...with solid fundamentals

 CAGR

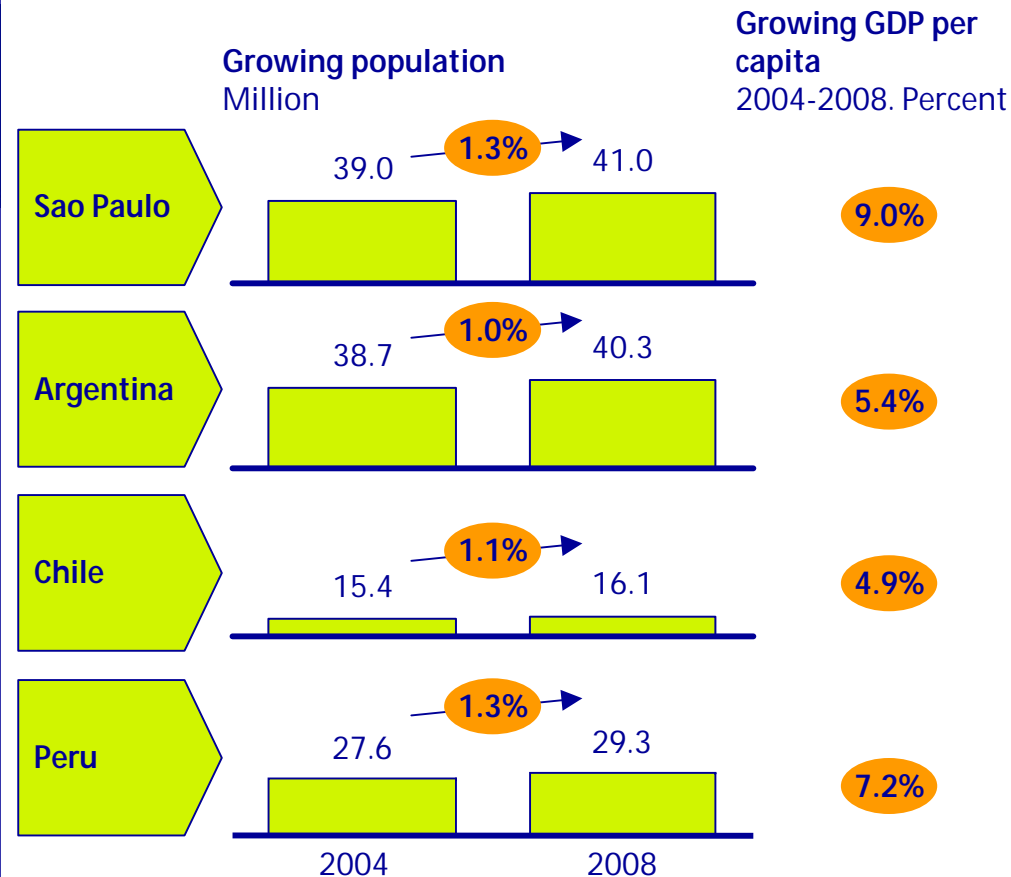
2004 has shown historical positive macro economic performance ...

- Highest GDP growth since 70s (>3%) in 6 main countries
- Highest GDP per capita growth in the region since 1979
- Highest employment growth in the last 10 years (3.8%)
- Historical surplus in the balance of trade and payments

... as a platform for future growth

	Private Consumption Growth 04-08 Percent	Gross Fixed Investment Growth 04-08 Percent
	9.1%	11.0%
	9.1%	16.4%
	6.1%	11.6%
	8.4%	11.0%

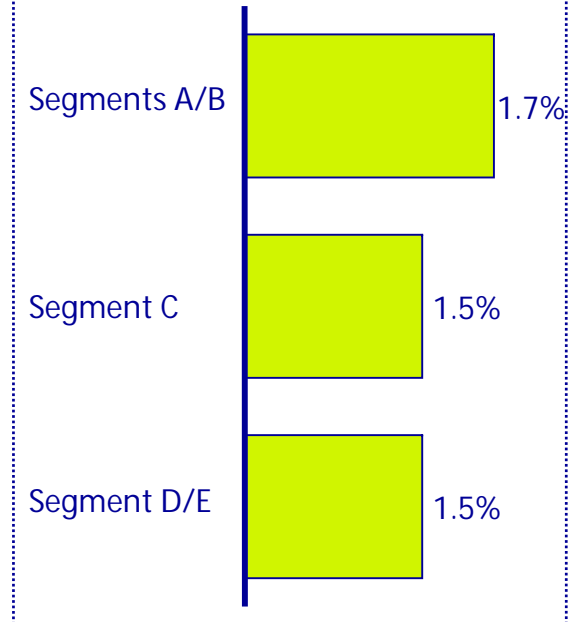
## 02 Demographics are favourable



Over 1.5 million  
additional  
households by 2008

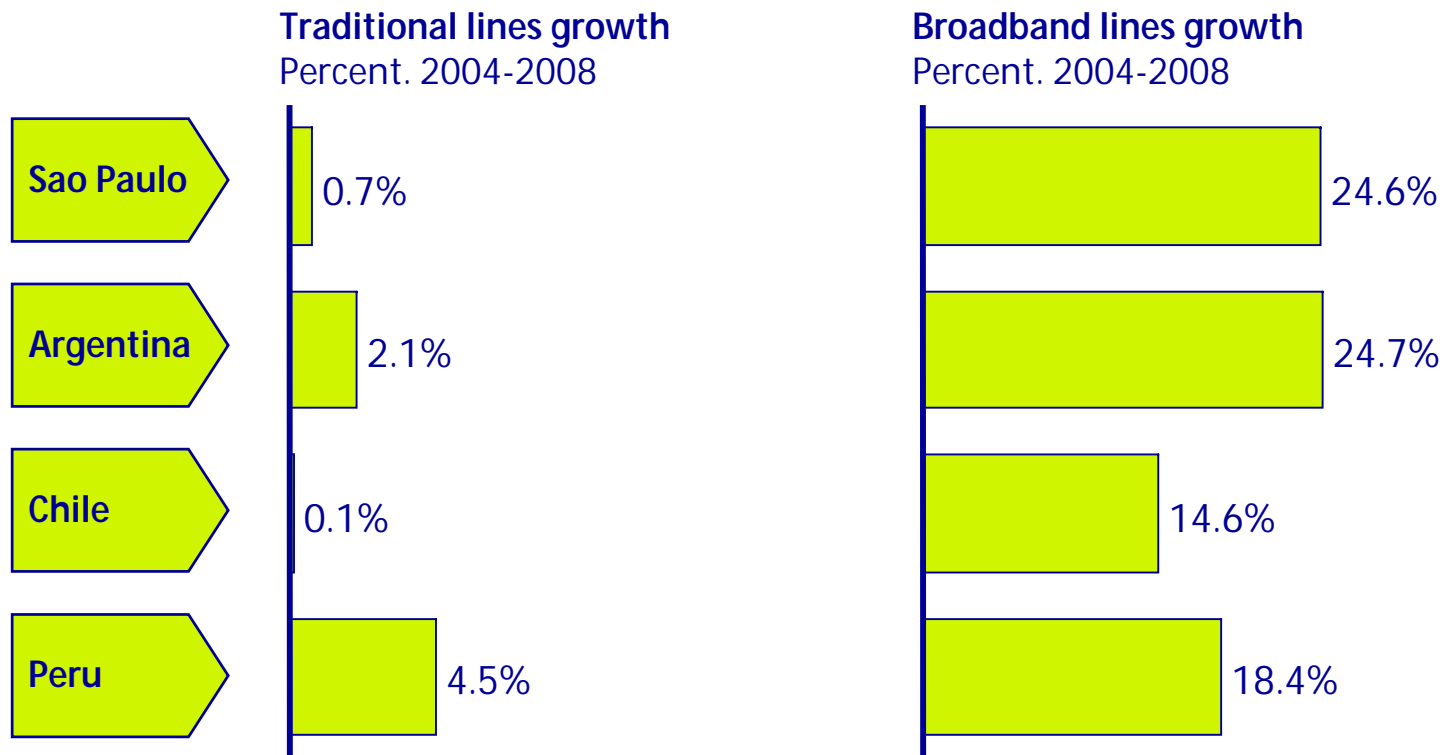
### Better income distribution

#### Segments growth Percent



In 2008, there will be  
~800,000 additional  
households in segments  
A, B and C

## 02 Market analysts expect an increase in consumption of telecom products



- Local and LD traffic remains stable in the traditional business
- Slight ARPM increase, specially in local traffic
- ARPU remains stable

- Penetration level 5-10 pp increase by 2008
- Access price decrease compensated by growth of VAS
- Expected ARPU decrease as DSL reaches mass market

## 02 We expect products, services and platforms evolution to follow international trends

 CAGR

General market trends ...

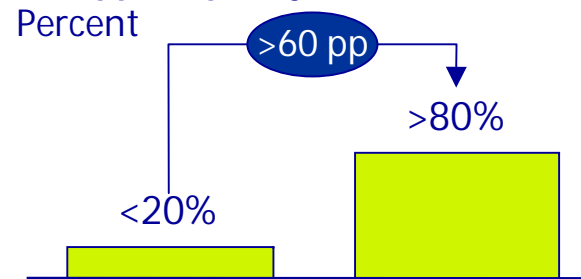
Evolution towards  
Triple Play offerings

Increased backbone  
capacity

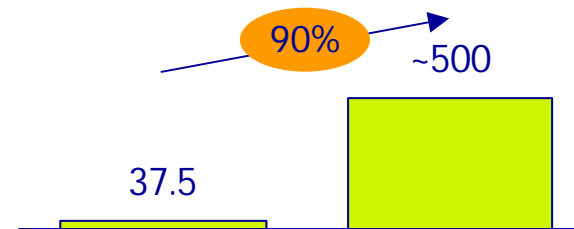
Evolution towards IP  
traffic

... will force operators to renew their  
technical platforms (e.g. Telefónica)

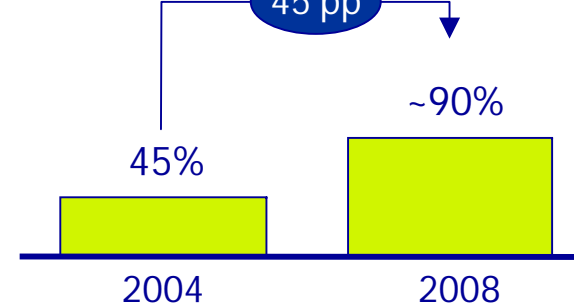
Households with enough bandwidth  
to support quality video



Backbone bandwidth/user  
Kb/second/user



Managed IP traffic/Total traffic  
Percent



## 02 The competitive landscape will show different kinds of players

Regional market consolidating around two players



A number of local competitors



Niche competitors focusing on SMEs and Corporations



## 02 Regulatory environment needs to evolve and promote infrastructure investments

**We expect regulatory models to favor infrastructure owners**

- Increasing government awareness of the role of Information Society in economic growth
- Still large infrastructure investment needed to sustain economic growth and expand telecommunications in Latin American countries



**We expect a better regulatory environment in our day-to-day business**

- More stable regulatory environment
- Pending regulatory issues in the short term
  - Brazil: New contract negotiation (Jan 06)
  - Argentina: Rebalancing regulatory situation
  - Chile: Unbundling VoIP and tariff decree claims
  - Peru: Implementation of productivity factor

■ **We will monitor the regulatory environment**

■ **We will rebalance our investments accordingly**

## 02 Telefónica: the winning model

We have been able to lead the market in a tough environment ...

... and we will **further drive** the market in a more stable macroeconomic situation

We have strengthened our position through the different crisis in the region ...

... and now we are in the **best possible starting point** towards the future

We have built a solid-high-performing management team ...

... that will drive T-Latam to the **next level** of operational and financial **performance**





## Index

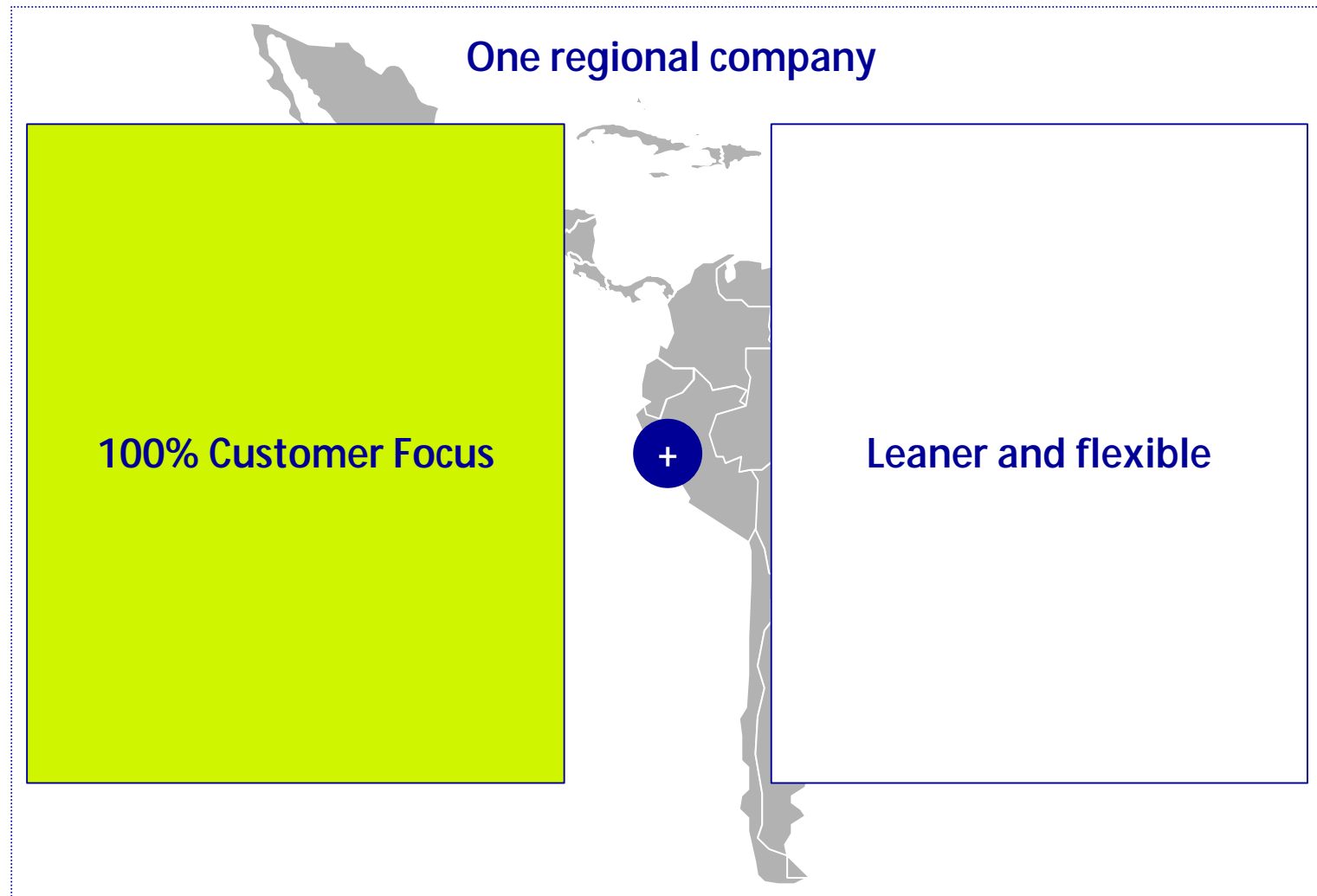
01 The partner of choice in Latam

02 A brighter future for the region

03 Management priorities

04 Commitments

## 03 Our management priorities

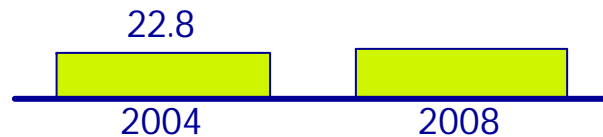


## 03 100% customer oriented company

 CAGR

### A larger and more valuable customer base

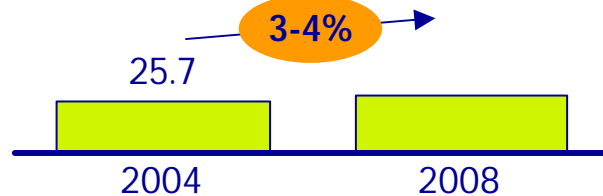
Number of total lines\*  
Million



4 million of  
DSL subscribers  
by 2008\*\*\*

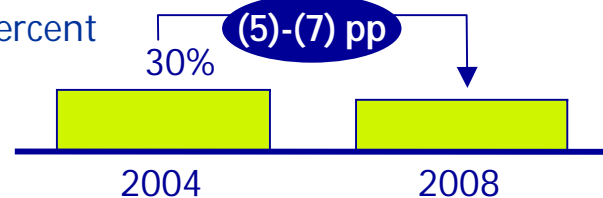
ARPU\*\*

Constant Euros 2004



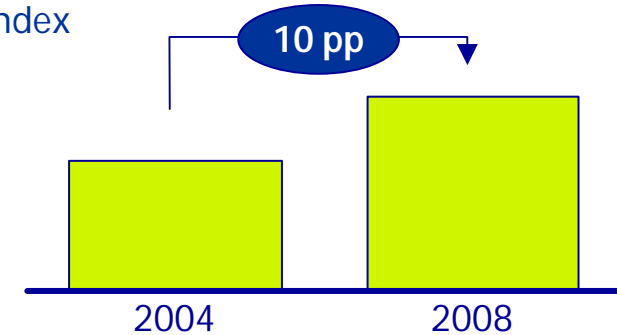
Annual DSL Churn

Percent



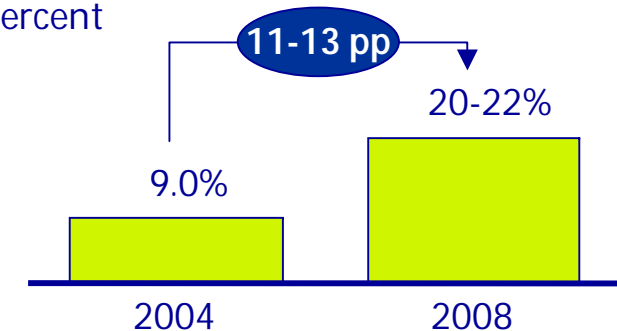
### A healthier profile

Customer satisfaction  
Index



Revenues from Internet and new services/  
total revenues\*\*

Percent

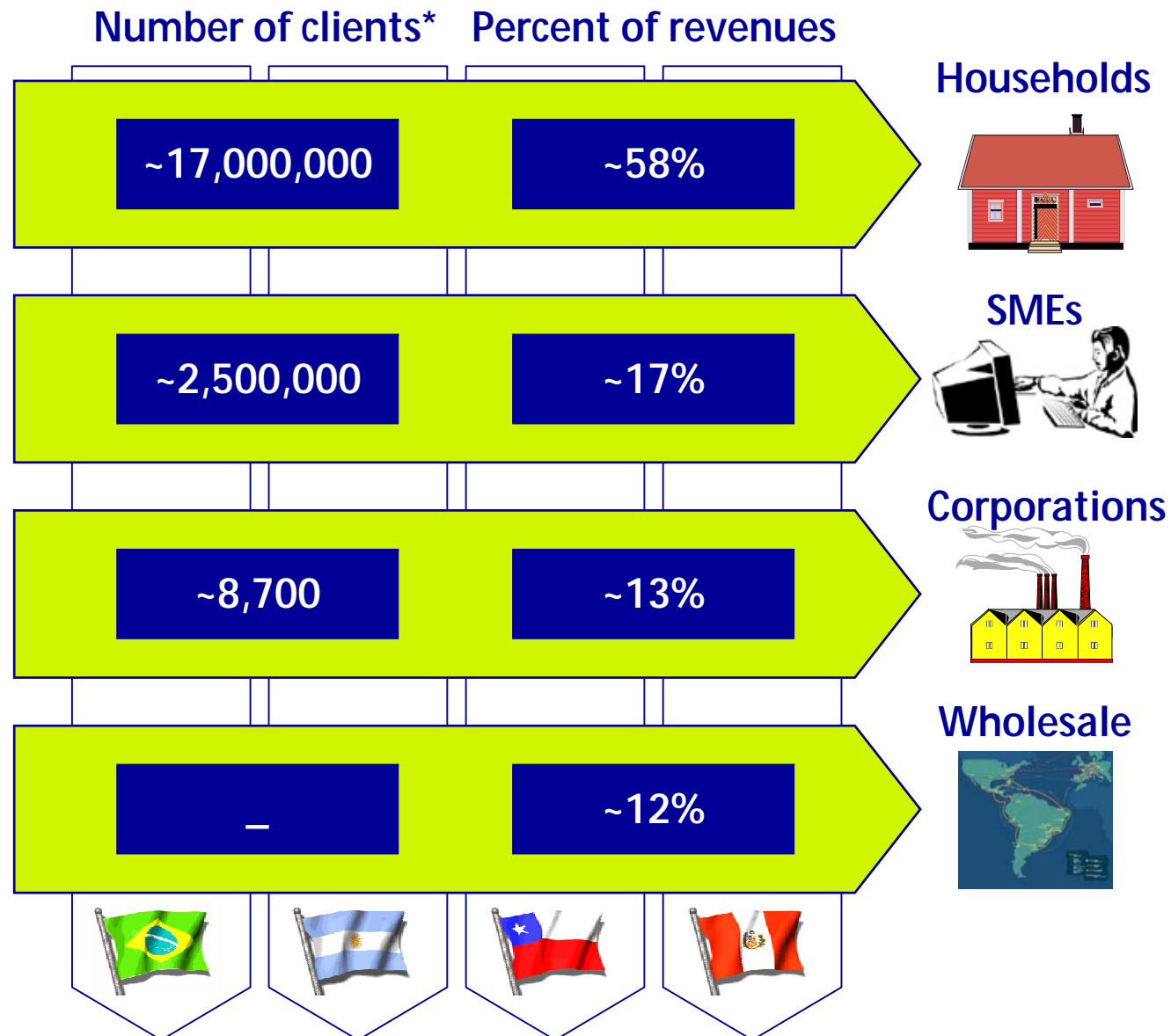


\*Includes traditional and DSL lines

\*\*Does not include TEA and TIWS

\*\*\*Includes wholesale lines (<100,000 lines)

## 03 A segment-based strategy



\*Approximate number of individual clients (more than one line per customer in average)

## 03 Households: management priorities



**Renew  
traditional  
business**

1 Commercial mechanisms of identifying opportunities and generating targeted campaigns

2 Upselling/cross-selling

3 Capturing the value from VAS

4 Expanding our reach through new channels

5 Collaborating with third-parties

**We are evolving  
towards a  
consumer goods  
model**

**Grow in  
DSL**

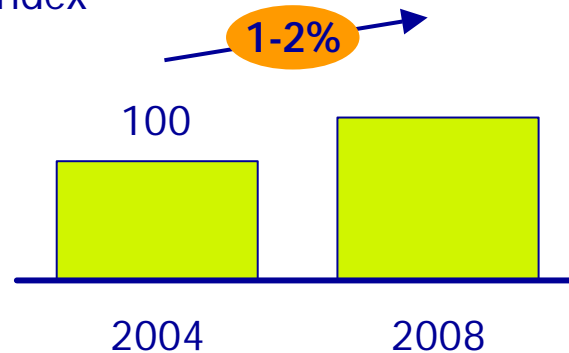
## 03 Households: renewing the traditional business



CAGR

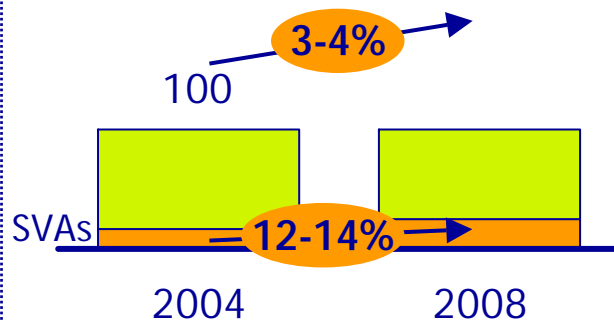
### Grow our traditional business ...

Lines  
Index



ARPU

Index. Constant Euros 2004



### ... combining attack and defense

Growing in  
accesses

- Leverage **population growth**
- Customized offer for **low income segments** (e.g. control lines)

Defending  
traffic

- **New devices and functionalities** to stimulate consumption
- **Segmented product offerings** (e.g. minute packages)

Offering  
additional  
value added  
services

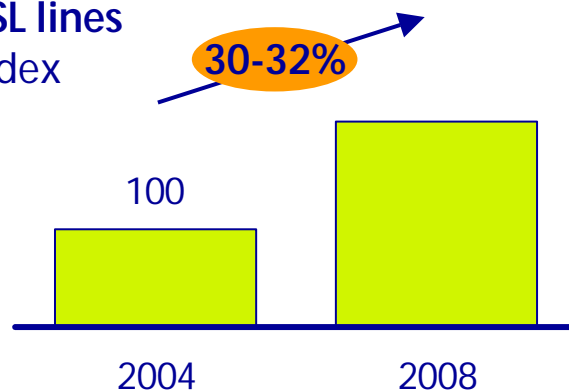
- Capture "the value from VAS" penetration and monetization
  - Caller ID (Detecta)
  - Voice Mail (Digital assistant)

## 03 Leading DSL deployment

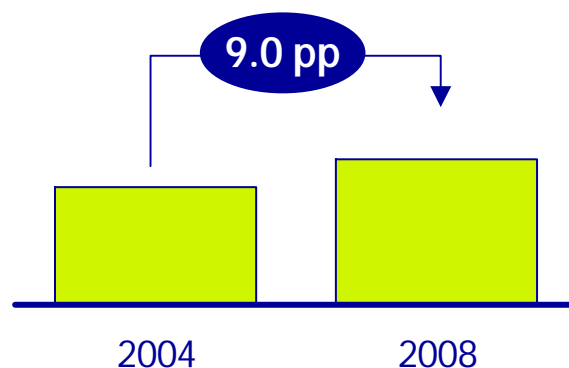


CAGR

DSL lines  
Index



DSL revenues/total  
Percent



Supporting  
DSL massive  
development

- Aggressive deployment with greater **coverage** and **more speed**
- More frequent and focused **campaigns**
- Presence in **new channels**

Developing  
new value  
added  
services

- New **VAS** (parental control, firewalls, ...)
- **Expansion of DSL** use in **new areas** (education, entertainment), through **Triple Play** offers

# 03 We will continue leveraging our segment knowledge



Increasing penetration through products that cover specific customer needs

New payment methods

New products to capture potential from low income segment

New and more aggressive commercial campaigns

Packages to increase traffic

More DSL enabled services

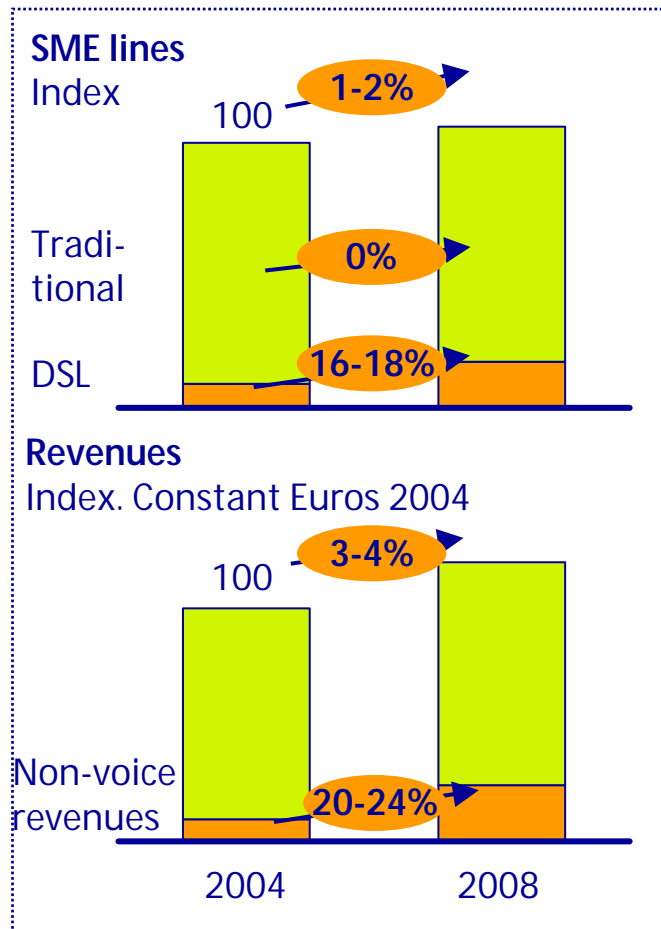




## 03 SMEs: sustaining the traditional business and driving DSL and new services penetration



CAGR



New commercial strategies and products, deepening our SME customer knowledge through a more advanced segmentation

Business model evolution promoting long term deals with customers to increase loyalty

Specific value proposition in DSL for SMEs through customized products (Speedy Business, Telesupervision)

Innovative solutions in DSL with good response times and reliability as key differentiators

## 03 Key operational drivers for SMEs



### "Industrialize" commercial campaigns



- Increase number of commercial campaigns per year x5

### Channels optimization: interaction = opportunity



- Cross-selling to all incoming calls with potential



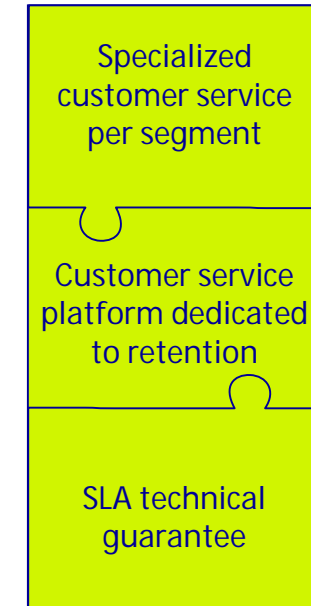
- Direct sales improvement through better customer management



- Indirect channels management through better indicators

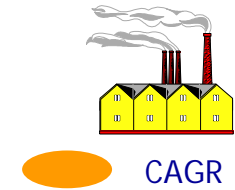
- +3-5 pp in cross-selling
- +2 pp in sales force effectiveness

### Customer service for churn reduction



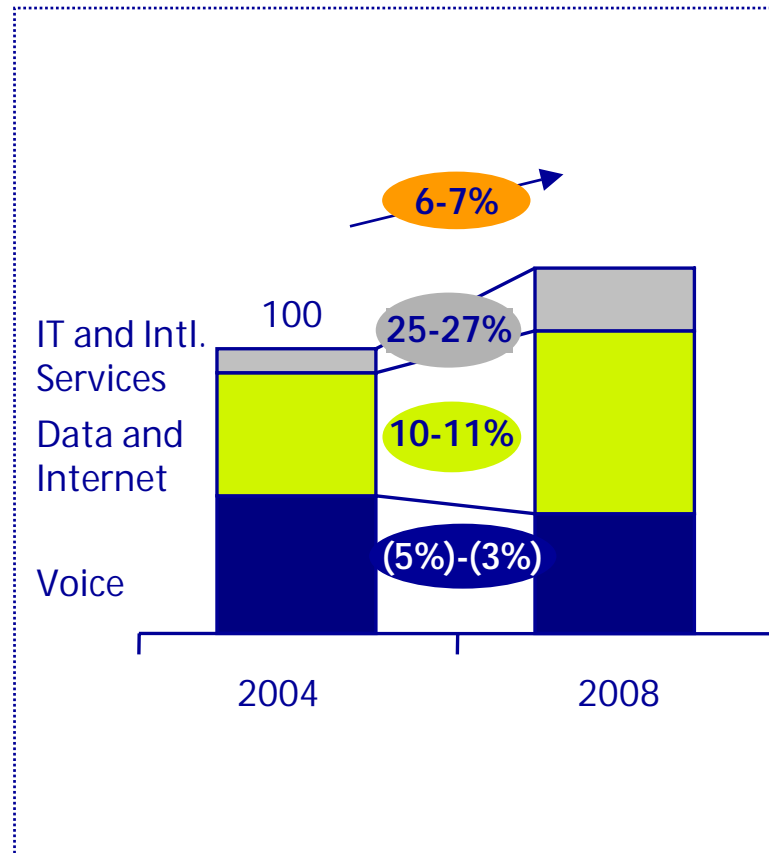
- First call resolution improvement in 10 pp
- 90% compliance with agreed response times

## 03 Corporations: growing the market



### Revenues

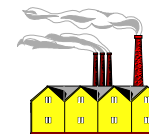
Constant Euros 2004



### Key initiatives

- Defending voice revenues
- Managing VoIP migration
- Leading our customers in their migration to broadband
- Moving up the value chain and growing the outsourcing business
- Increasing our market share of international services

## 03 Big companies rely on Telefónica to manage their IT+C needs



### Moving up the value chain: Success Examples



- Puerto Rico
- Colombia



- Peru



- Argentina
- Peru
- Ecuador
- Chile

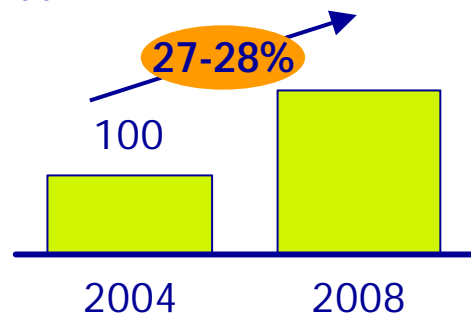


## 03 TIWS: growing support to our regional leadership

 CAGR

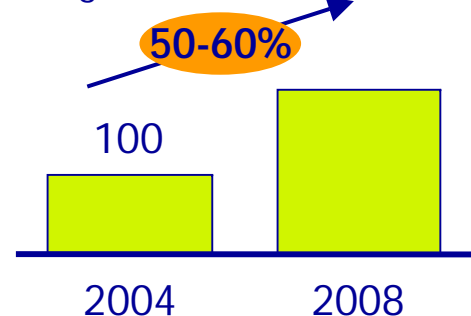
### Wholesale Revenues

Index



### International IP traffic growth

Average annual Mb



Capturing all the incoming international traffic into the region

Being the Group's interprovider to finalize international calls

Leveraging our broadband growth strategy

Maximizing return on international assets capturing Group's synergies

## 03 Our management priorities



## 03 Increasing regional efficiency

### A single infrastructure

Common infrastructure development

Network management systems integration

Shared platforms for specific services

### Centralized operations

Traditional business

Broadband and new services

Excellence in customer service in Corporations and SMEs

### Regional support functions

Process improvement

Additional outsourcing

Regionalization

### Regional Systems Management Model

Simplify systems management and gain flexibility

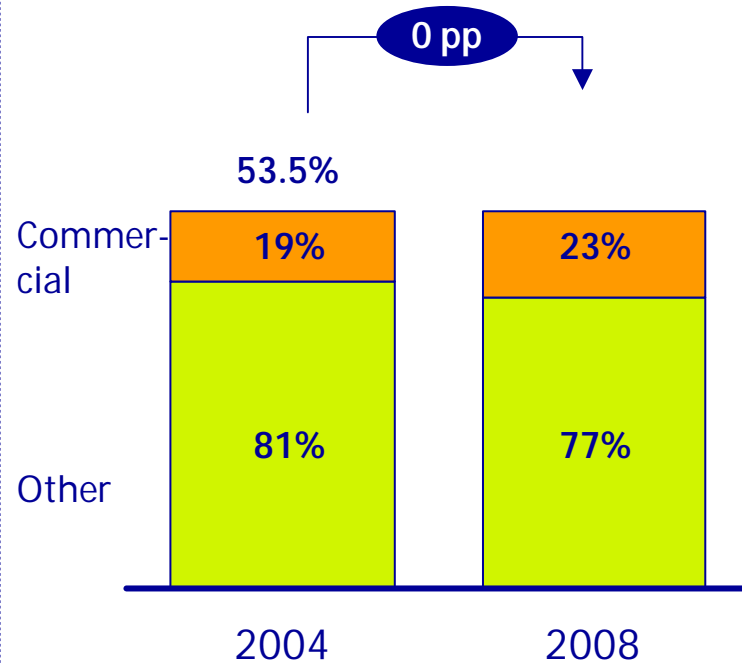
Improve service levels

Reduce cost through increased scale

Regional synergies will yield annual savings of ~100 Euro million in Opex plus CAPEX by 2008

## 03 Sustained operational efficiency

Opex/Revenues\*  
Percent



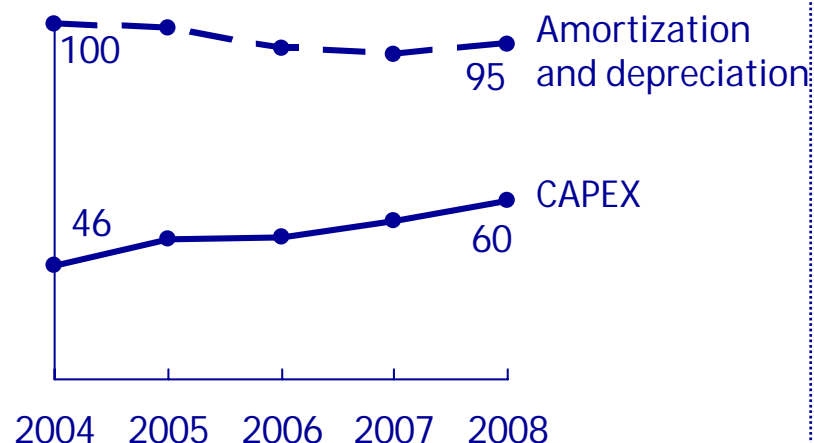
- Control over operational cost with a total increase below expected inflation led by:
  - Increased **operational flexibility** through a higher proportion of variable costs
  - **Regional synergies**
- Increased commercial costs to **support new products and DSL services**



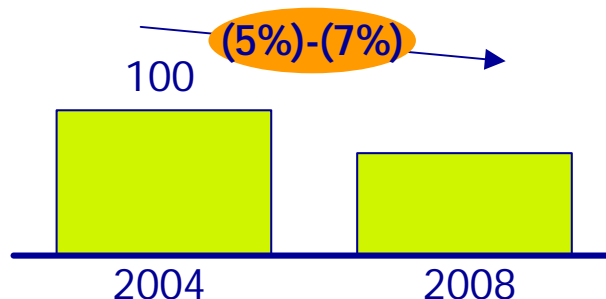
## 03 CAPEX control will reduce asset intensity

CAGR

### CAPEX, amortization and depreciation evolution Index



### Net fixed assets\* Index



- Capex optimization:
  - Rigorous **capex approval process**
  - Leverage in **regional synergies**
- **Change in Capex mix** (up to 40-45% broadband and new services related investments in 2008)
- **CAPEX significantly below amortization and depreciation levels**

\*Include property plant and equipment and other long term assets related to business requirements (software, R&D expenses,...)

## 03 In summary, one regional company

### Commercial



- Sharing commercial best practices among operators
- Developing products, services and commercial campaigns regionally

### ... innovation



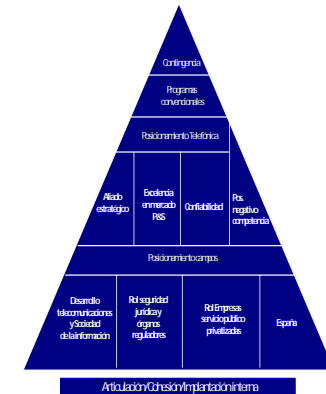
- Regional Innovation Unit
- Regional prioritization of innovation portfolio
- Joint development of key innovation initiatives

### ... operations



- Homogenization of operations and processes
- Integration of infrastructures
- Centralization of key decisions

### ... and public positioning



- An integrated way of thinking about public issues
- An integrated way of interacting with Latam countries
- A proactive and systematic way of managing public positioning

## 03 TeleSP: stable growth

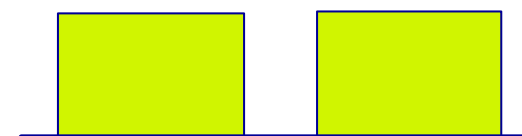
CAGR

- Macroeconomic stability with GDP growth around 3.5%
- Regulatory environment
  - Open VU-M negotiations between wireline and mobile operators
  - Contract renewal in 2006
- TVoDSL and VoD services commercialization due to massive DSL deployment
- Global voice offers and sophisticated data and internet products for corporations and SMEs

### Traditional lines

Million

1-2% →  
12.5



### DSL lines

Thousand

23-26% →

826

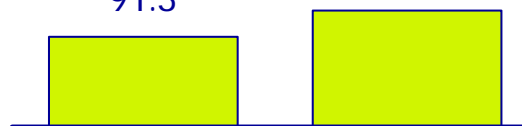


### Total Monthly ARPU

Reais

5-7% →

91.3



2004

2008

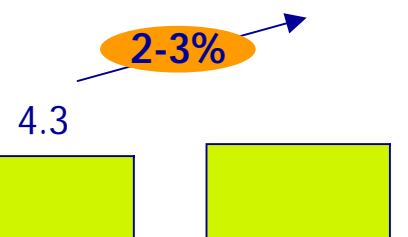
## 03 TASA: riding the wave of recovery

CAGR

- Further macroeconomic recovery and social stability
- Improved regulatory environment
- Higher technological and market competitive pressure
- DSL consolidation with the introduction of new services (TVoDSL, VoD) and customers (low income segments) with expected increase in lines and ARPU in the traditional business

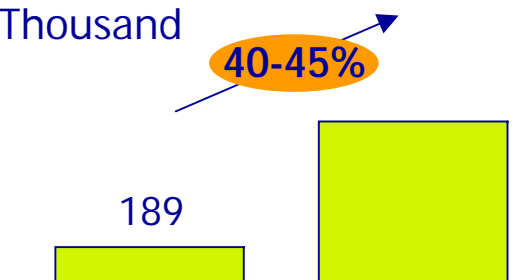
### Traditional lines

Million



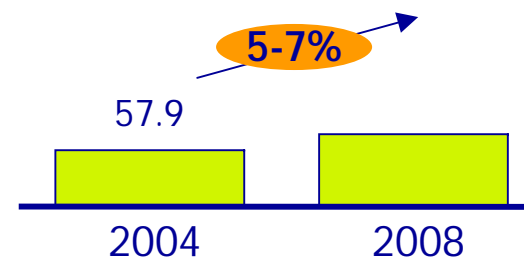
### DSL lines

Thousand



### Total Monthly ARPU

Pesos



## 03 CTC: regaining the path for growth

CAGR

- Economic growth and political stability
- Increasing regulatory pressure for incumbent in order to motivate competition
- Sustained competition with aggressive offering from cable and telecom players
- Growth in corporations and SMEs through global and high value offers

### Traditional lines

Million

2-3%

2.4

### DSL lines

Thousand

26-28%

201

### Total Monthly ARPU

Thousand Pesos

1-2%

22.4

2004

2008

## 03 TdP: building a new telecom landscape

CAGR

- Stable economic growth in spite of political uncertainty
- Tariff decrease due to the increase in productivity factor
- Dual growth
  - DSL rapid development for SME's and A, B, C segments
  - Further prepaid penetration for lower income segments

### Traditional lines

Million

2.2

3-4%

### DSL lines

Thousand

205

25-27%

### Total Monthly ARPU

Soles

171.0

(2%)-(3%)

2004

2008

## 04 T-Latam: our goals

CAGR

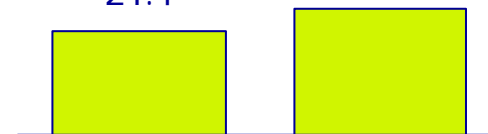
- Maintain stable growth in traditional lines through a segment-based strategy
- Lead DSL deployment increasing the number of connected households that widely use DSL applications
- Increase ARPU through specific offers for different segments oriented to cover their needs

### Traditional lines

Million

1-2%

21.4

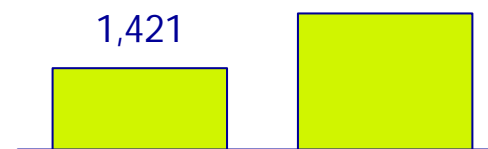


### DSL lines

Thousand

27-30%

1,421

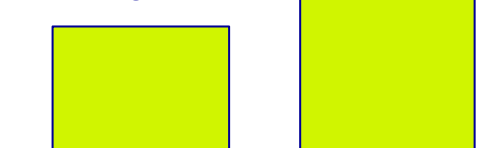


### Total Monthly ARPU

Euros

3-4%

25.7



2004

2008



# Index

01 The partner of choice in Latam

02 A brighter future for the region

03 Management priorities

04 Commitments



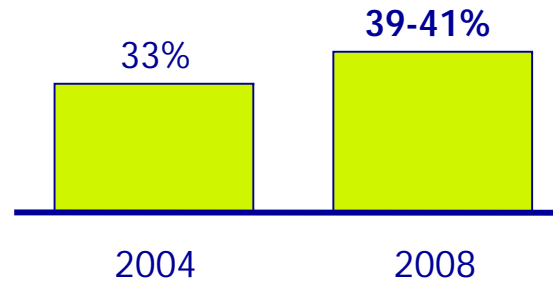
## 04 T-Latam transformation commitments (1/2)

4  
Investor  
Conference

Strong  
commercial  
focus

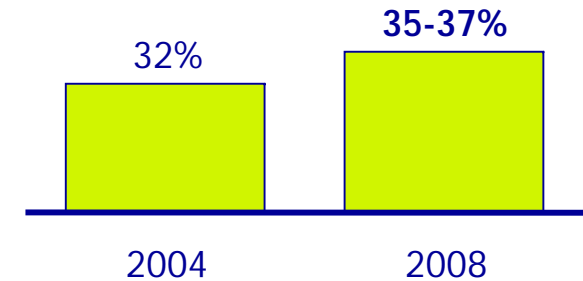
### More customer-oriented

% of commercial employees



### Commercial /operating expenses\*

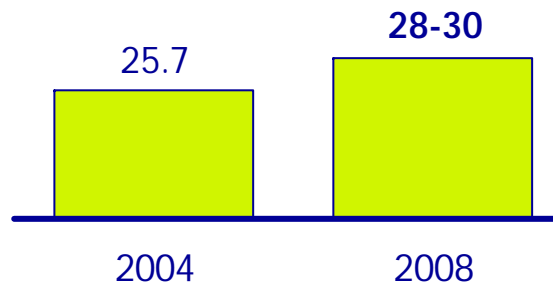
Percent



Maximize  
value

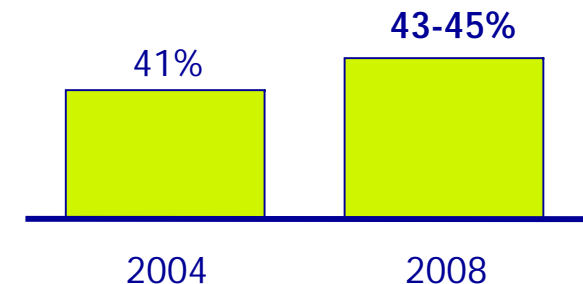
### Increase share of wallet

Total ARPU Constant Euros  
'04/month



### Non-regulated revenues\*\*

Percent



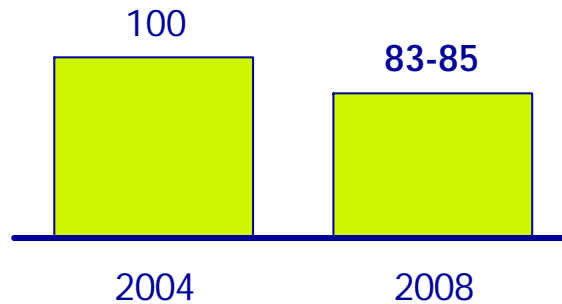
\*Excluding bad debt provision and interconnection  
 \*\*Other than line rental, local traffic and interconnection  
 Note: Does not include TEA and TIWS

Telefonica

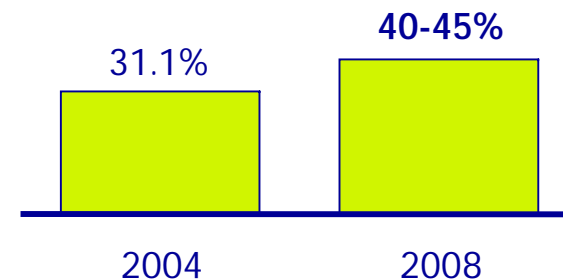
## 04 T-Latam transformation commitments (2/2)

Asset light  
and  
selective  
investment

**Asset efficiency**  
2004 assets = Index 100

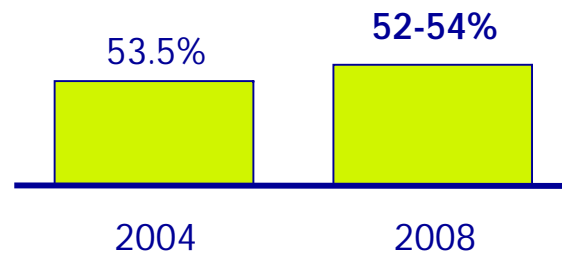


**CAPEX in DSL and new services**  
Percent

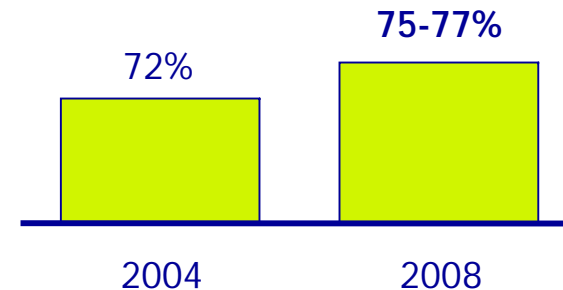


Opex  
reduction  
and  
increased  
flexibility

**OPEX/Revenues**  
Percent



**Decrease operating leverage**  
Percent outsourcing\*



\*External services expenses over personal + external services expenses  
Note: Does not include TEA and TIWS

## 04 T-Latam financial commitments

€ in Millions	Reported 2004 under IFRS	CAGR 2004-08E*
Revenues	6,748.4	4-7%
Operating Income before D&A**	3,294.9	5-9%
Operating Income**	1,716.1	11-16%
OpCF (OIBDA-CapEx)	2,541.6	5-9%
CAPEX	753.3	6-10%

\* All projections refer to local currency (constant exchange rates as of 2004) and exclude changes in consolidation except the acquisition of Atrium

\*\* In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2005-2008. These exceptionals amounted to 354.4 MM€ in 2004 and are therefore also excluded, meaning a calculation base for guidance of 2,940.5 MM€ for OIBDA and 1,361.7 MM€ for OI, respectively. Personnel Restructuring and Real Estate Programs are included as operating revenues/expenses

## 04 In summary

**We expect a brighter future for the region**

**We will reinforce our leadership in the region deepening in our transformation as a regional company**

**We are the best positioned to capture the growth opportunities we have ahead**

### Time to harvest

Operating CF  
growth 05-08

**5-9%**

ROCE increase  
05-08\*

**4-5 pp**



### Time to fuel the growth

Revenue growth

**4-7%**

OIBDA growth

**5-9%**



# Investor Conference

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