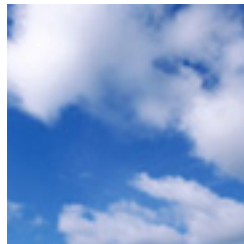


Strategic drivers & early lessons from Telefónica's *imagenio* IPTV service

Vicente San Miguel – CTO Corp



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Telefonica

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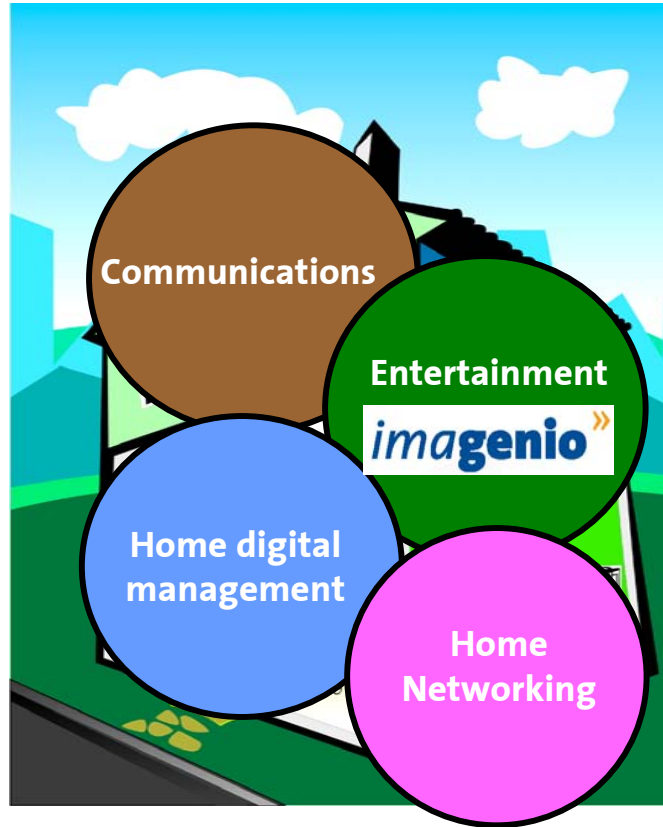
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Imagenio becomes a key element of the Digital Home concept pursued by Telefónica to maintain its market leadership ...



Digital Home Vision:

“Telefonica will offer its customers a range of digital content and services delivered to any room in the house, on any device, to be enjoyed by the whole family whenever they want”

Customers will have access to a huge number of digital content and services that will enhance their lives through an integrated offer:

- Services
- Content
- Equipment

... being currently the best performer in the telco sector in terms of absolute IPTV customer growth



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IPTV customer growth in 2005

(Thousands)
Growth in customer base
Dec 04 – Dec 05

Total Clients IPTV
(Thousands)





Imagenio has been conceived as a unique value proposition with distinctive features for family homes ...

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50 TV and 15
audio channels



Spanish Football:
live & recorded




Video on demand:
+3,000 hours of cinema,
concerts, TV series,
news, documentaries, ...



20 Interactive services:
electronic magazine on
TV, email & Internet
access on screen ...

- Provides 6Mbps ADSL access for our customers to receive Digital TV
- Uses ADSL2+ technology for increased coverage
- Compatible with Digital Terrestrial Television

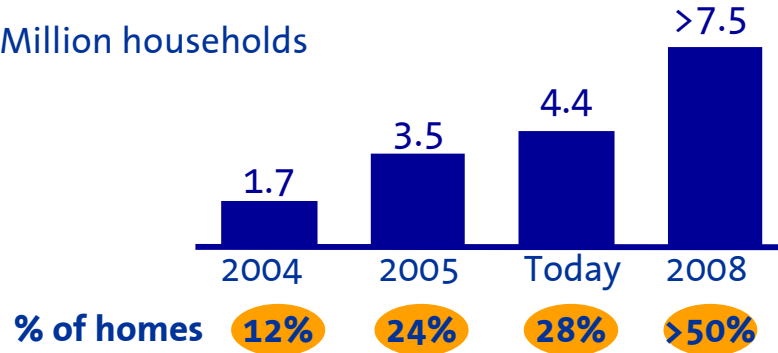
... with an increasing coverage based on business criteria



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Evolution of national coverage

Million households

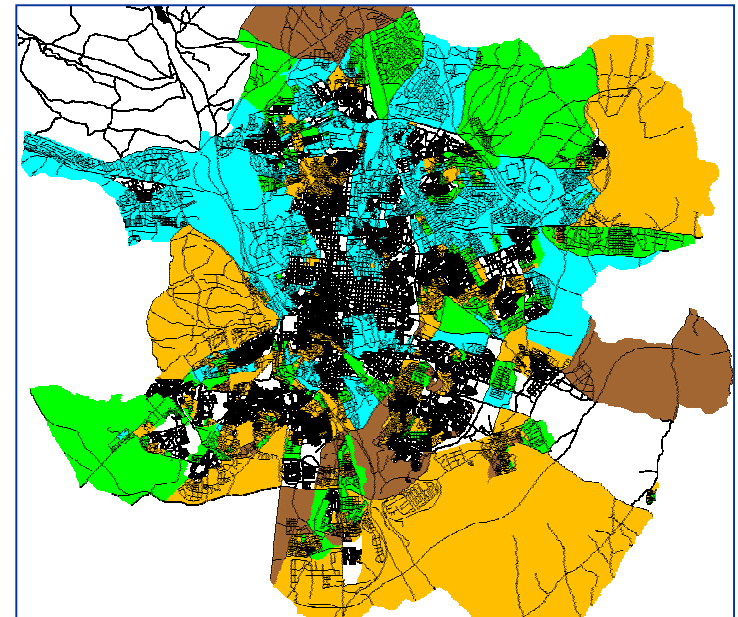


- As of today, Imagenio is available in all Spanish regions
- Increased coverage will be achieved following a profitability likelihood planning method

Case study: Priority Investment areas in the Madrid region

Data mining demand model, tuned by Imagenio customer base

Priority





Imagenio has become one of the main drivers of success for Telefónica in the Spanish broadband market

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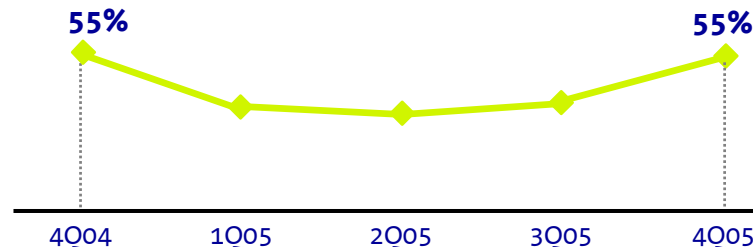
1. Decoder monthly fee rental not included (6,5 EUR/month)

1. 1Mbps with 1GB monthly data downloading limit

2. Decoder monthly fee rental not included (6,5 EUR/month)

Imagenio client base accelerated with 2-Play and 3-Play offers launched in Sept. 05 to reach 206,572 clients by end of 2005

Retail Internet BB Market Share ¹



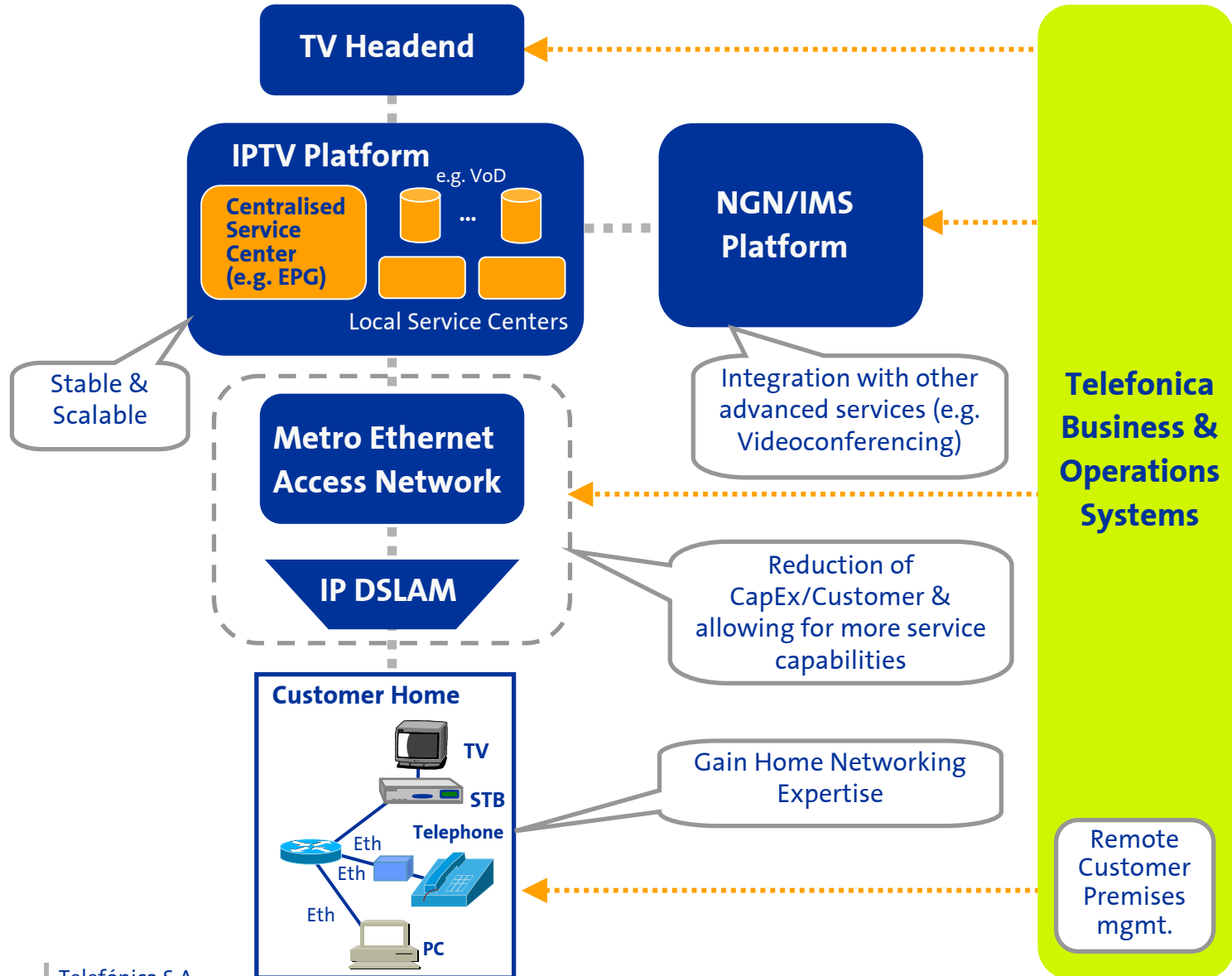
1. Estimated for the Telefónica Group in Spain

Telefónica is driving Internet Broadband penetration growth while maintaining market share

In 2004, Telefonica decided to evolve its network architecture based on its prior experience



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There are multiple lessons to be learned with regards to the key design parameters of an IPTV solution

What almost everybody talks about

- Broadband network: access (IPDSLAM), transport (GEThernet/ SDH), IP Core
- IPTV Platform: middleware/ DRM/ STB/ Look&Feel
- Video compression technology: MPEG2/ MPEG4/ WM9
- Systems: provisioning & billing
- Content

What almost nobody talk about

- Home networking
- Knowledge of access
- Design & availability for video signal
- Knowledge of customer behaviour
- Network & services architecture
- O&M/ customer care systems & processes

Early issues and challenges range across the whole customer experience



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Area

Details

1

Customer acquisition

- TV over ADSL constitutes a very powerful offer at a reasonable price
- Adequate coverage and product awareness are key factors for a successful and effective commercialization
- Customers barriers to purchase include:
 - ... the product is perceived too new for some customers and they prefer to wait to see how it works
 - ... telecom operator not perceived as a TV provider
 - ... content offer fitted to diverse customer needs
 - ... installation process perceived as a complex operation
- Sales channels must be trained to handle a complex new product/ business

2

Provisioning and installation

- Operational processes are critical due to the quantity of new details to be taken into account in order to ensure customer satisfaction:
 - Incorrect coverage verification or product incompatibility
 - Saturation in operations and infrastructure deployment due to the high growth in sales
 - Customers canceling prior to installation
 - Problems during the installation, multiple causes

3

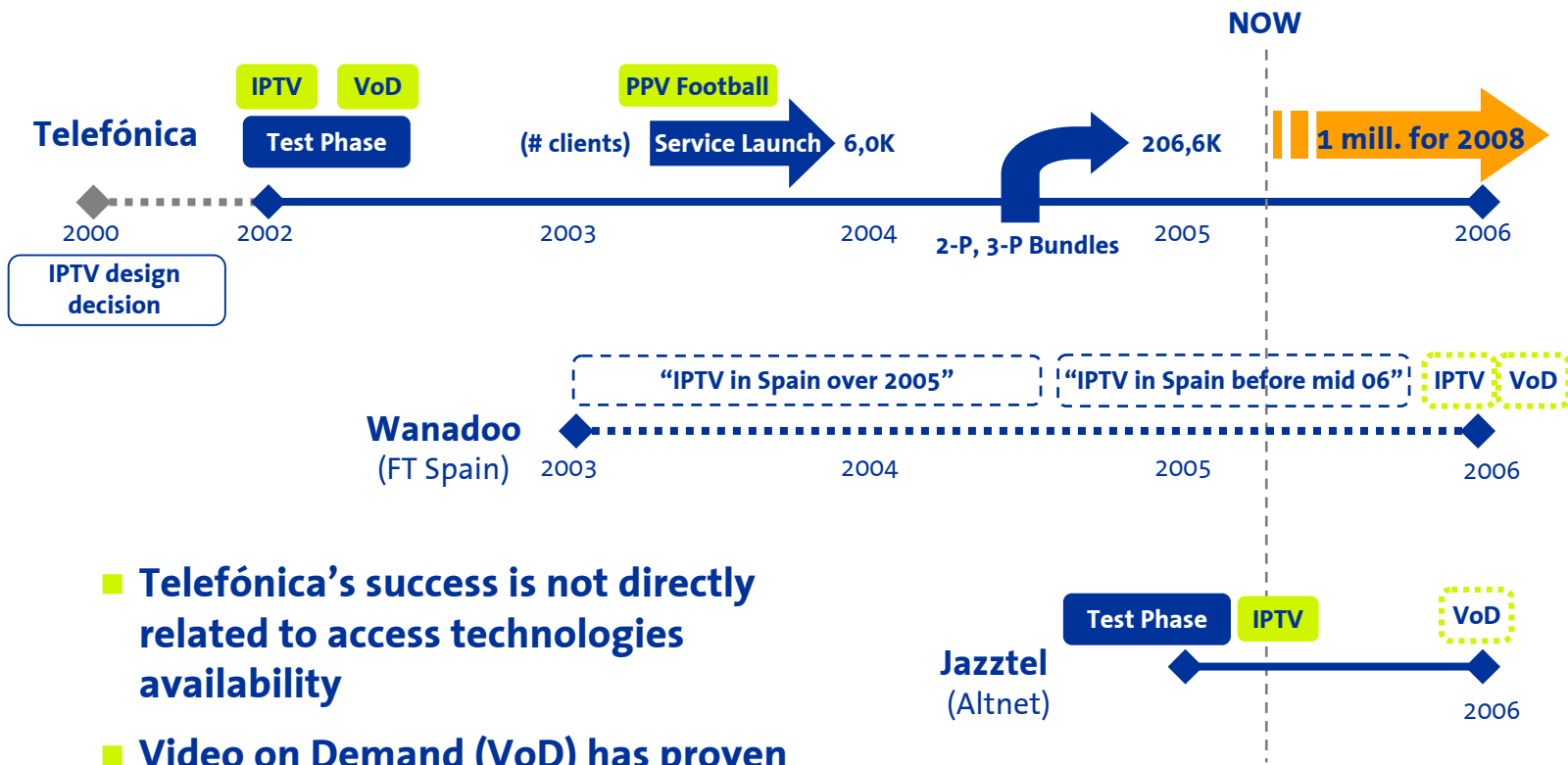
Customer retention

- Situations that must be avoided since day 1 include:
 - Technical and malfunctioning service problems
 - Insufficient value added perceived in the product (product/price relation)
 - Difficult retention at the end of aggressive but needed try& buy promotions



Telefonica has had a 4-year learning period, already having a business model not easily replicable by its main competitors

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- Telefonica's success is not directly related to access technologies availability
- Video on Demand (VoD) has proven to be the hardest technological milestone to be achieved

Dotted lines means "Announced, but not available"
Source: Telefonica and companies' press releases

Telefonica is now prepared to export its IPTV winning model abroad: CTC (Chile), TeleSP (Brazil) and Cesky Telecom (Czech Rep.) already in their market test phases

Currently we do not see any limits to the growth and development of Imagenio



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Main figures

- More than 200,000 customers connected at 2005 year end
- 34% of our customers buy “video club” VoD films (3 films by month in average)
- 21% of our customers buy football contents (2 matches by month in average)
- 20% of our customers have at least one subscription service
- Massive service with national coverage

imagenio »

Near future:

- More customers: 1 million by 2008
- More channels (beyond basic package), more flexible
- More complete/ attractive VoD content offering
- More interactivity, new and better services
- More coverage: 50% of households by 2008

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