

# Telefónica Latam: The key growth lever of Telefónica

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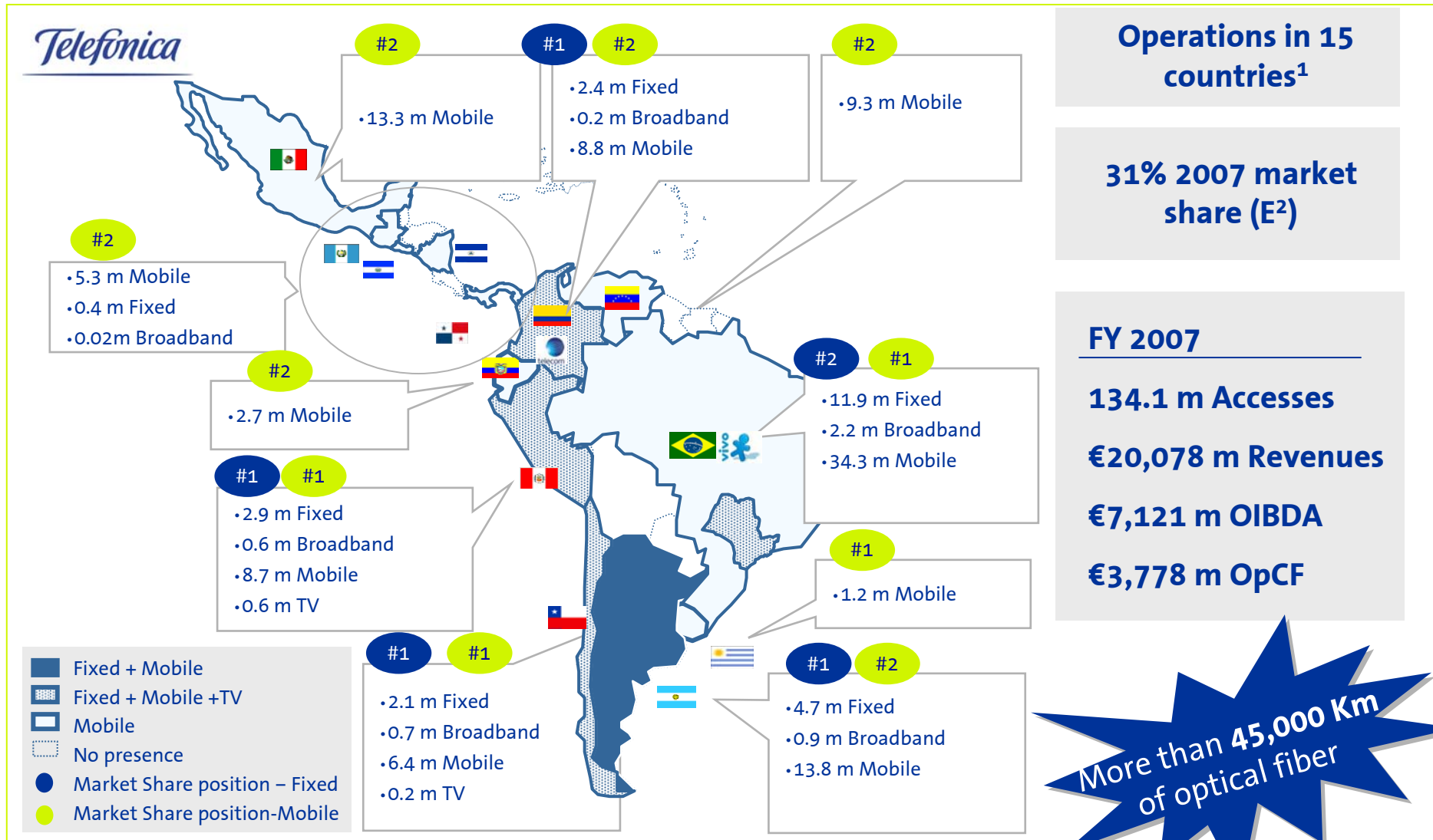
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- 1** Telefónica Latinoamérica at a glance
- 2** Unique top line growth potential in a fast growth region
- 3** Regional integrated management and scale benefits to further enhance efficiency
- 4** On track to deliver a superior growth guidance

# The leading integrated player in a growth region...



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Fixed includes Fixed Wireless

<sup>1</sup> Includes US and Puerto Rico

<sup>2</sup> Telefónica's Business Intelligence Unit

*Telefonica*

## ...with a strategic alliance in a very dynamic market



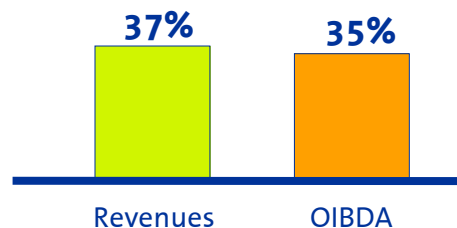
*Telefonica*

- **5.0% stake<sup>1</sup> in China Netcom**
- ✓ **131 million accesses** (Mar-08)
- ✓ In a country with a population of **1,300 million**
- ✓ **Huge ICT growth potential: 21%** of forecasted world telecom revenue growth 2007-2010<sup>2</sup>

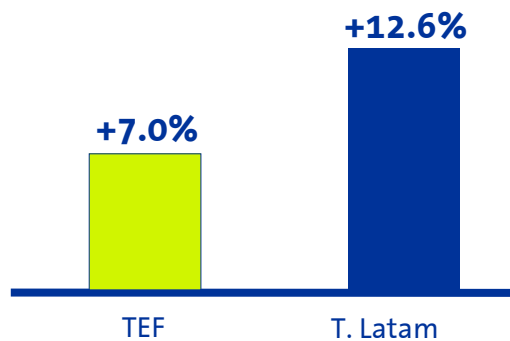
Chinese Government announced large scale **telco restructuring giving CNC mobile entry**

# The main growth driver of Telefónica ...

Q1 08 T.Latam weight in TEF



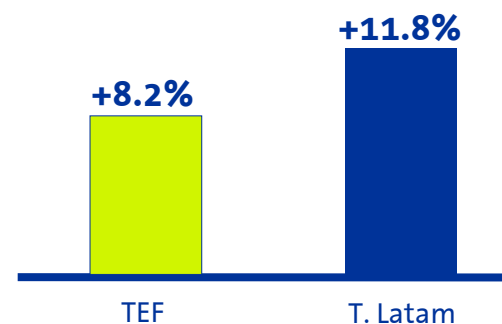
Q1 08 Revenue growth  
(Organic<sup>1</sup> y-o-y growth)



Contribution  
to Group growth

**+4.4 p.p.**

Q1 08 OIBDA growth  
(Organic<sup>2</sup> y-o-y growth)

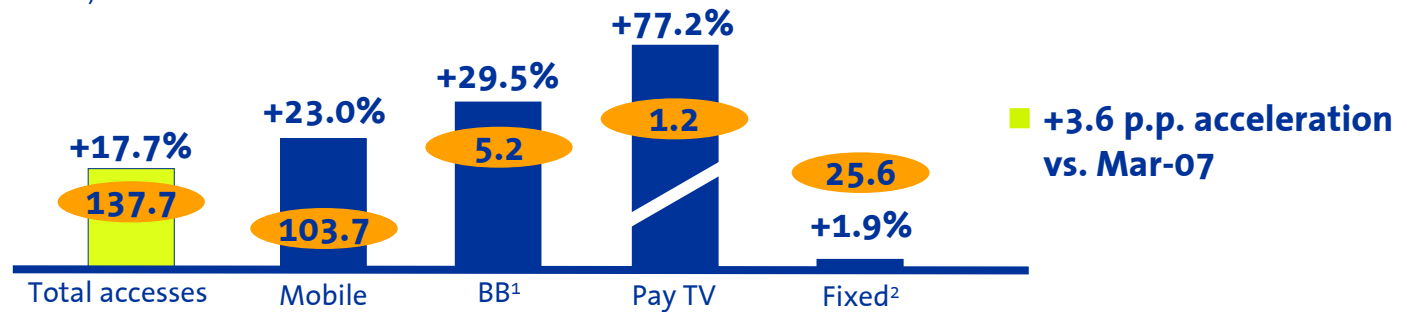


Contribution  
to Group growth

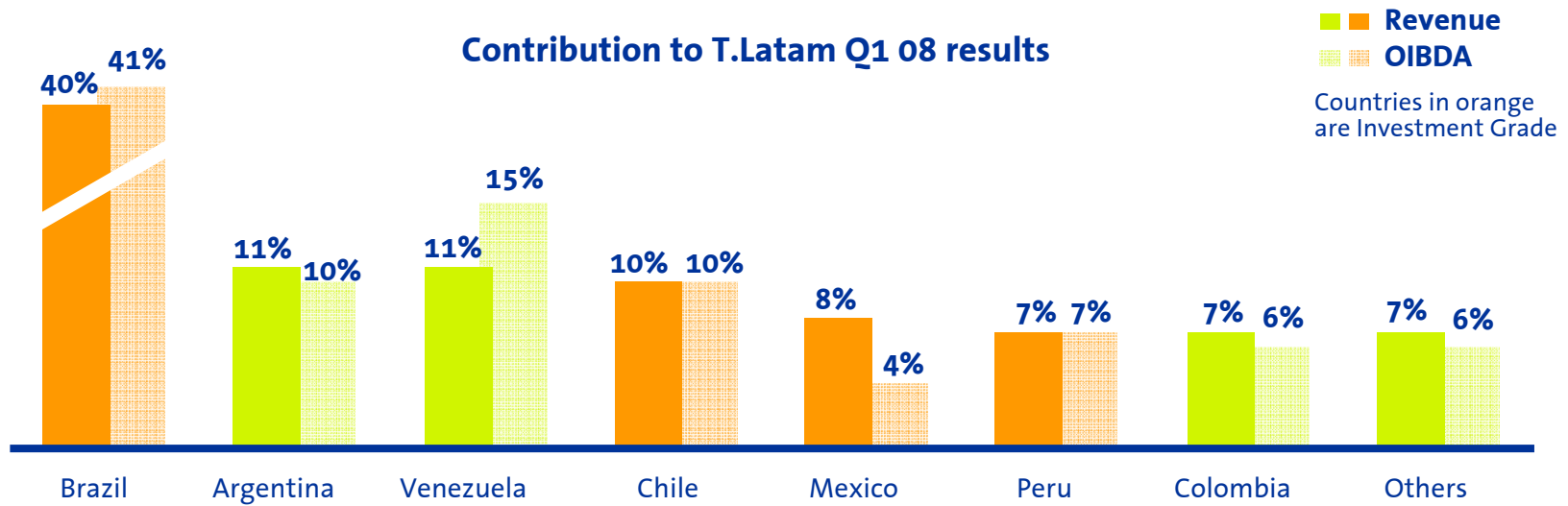
**+4.0 p.p.**

# ... with a highly diversified portfolio...

Mar-08 Accesses (in millions)



Contribution to T.Latam Q1 08 results



**65% of our revenues and 62% of our OIBDA from Investment Grade economies**

# Index

1 Telefónica Latinoamérica at a glance

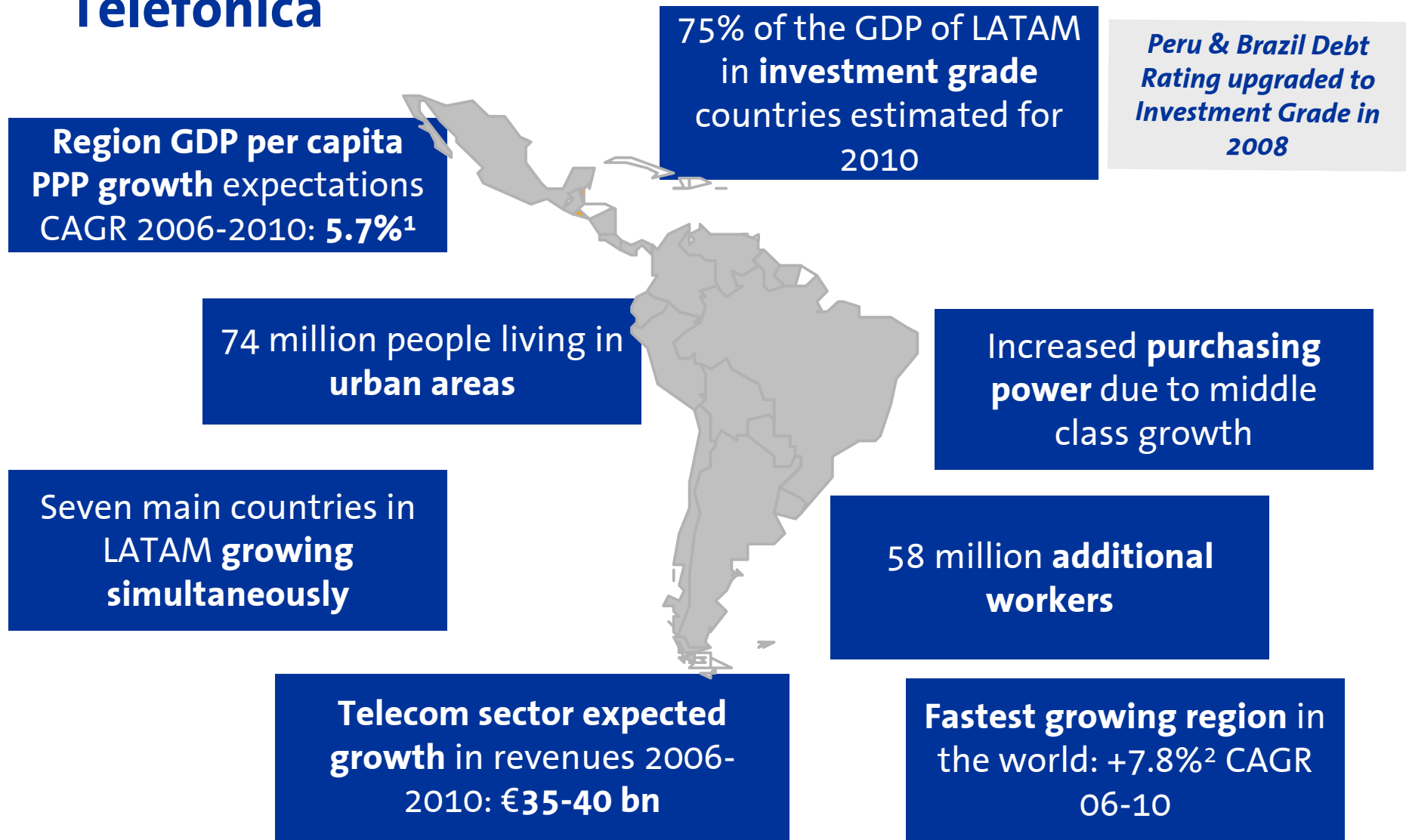
2 **Unique top line growth potential in a fast growth region**

3 Regional integrated management and scale benefits to further enhance efficiency

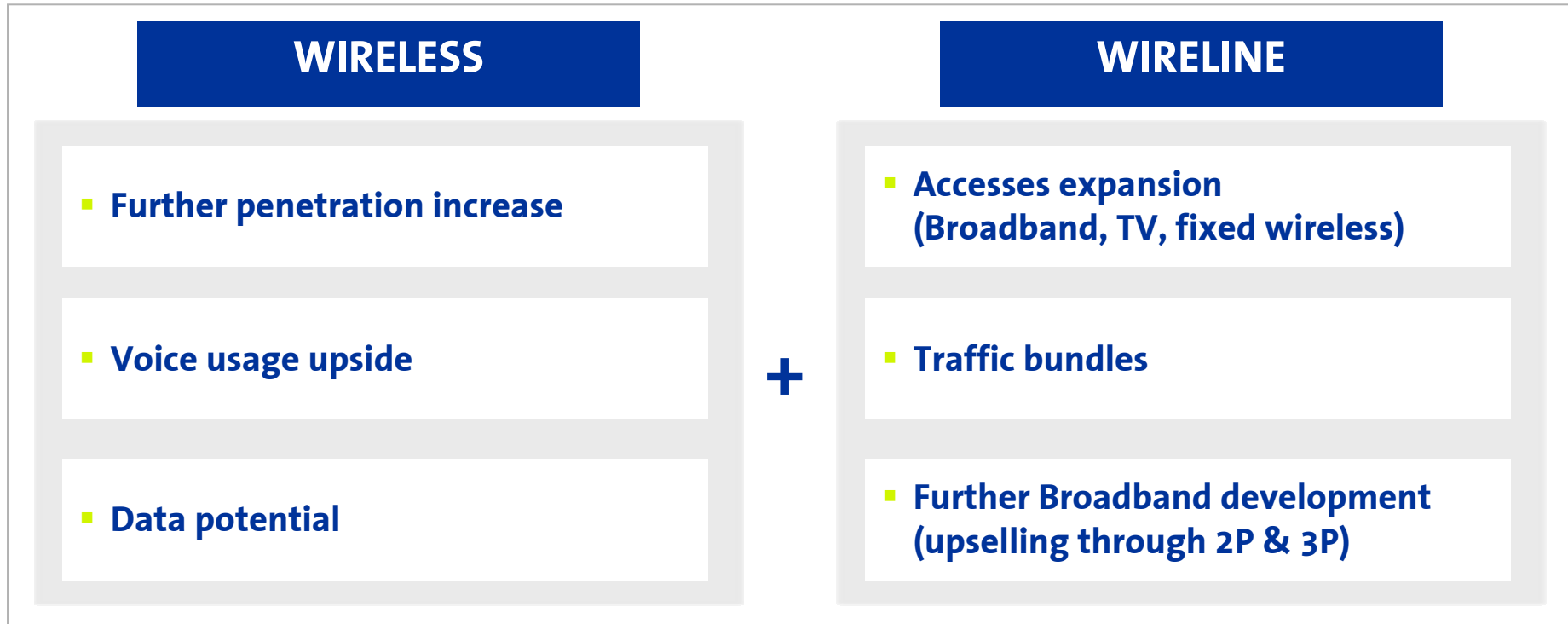
4 On track to deliver a superior growth guidance



# For the future, LATAM holds huge potential for Telefónica



# Significant top line growth potential, capitalising on our unique integrated approach



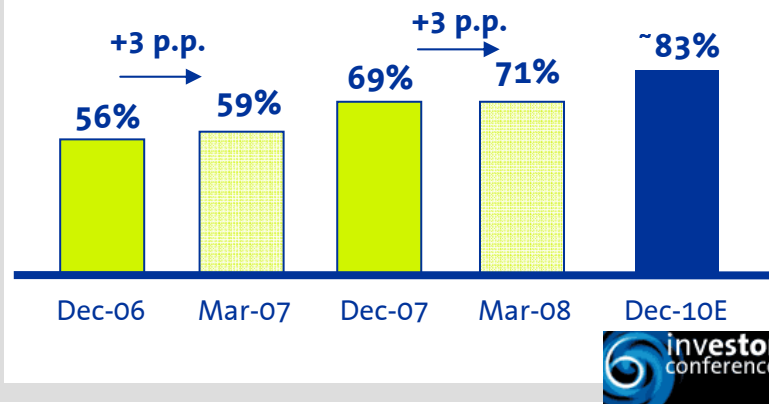
## Customer & ARPU expansion

T. Latam  
2007-10E

- Over 55/60 million additional mobile accesses in 2007-10E with a 1-3% 06-10E CAGR ARPU increase (ex-fx)
- Over 4/5 million additional BB accesses

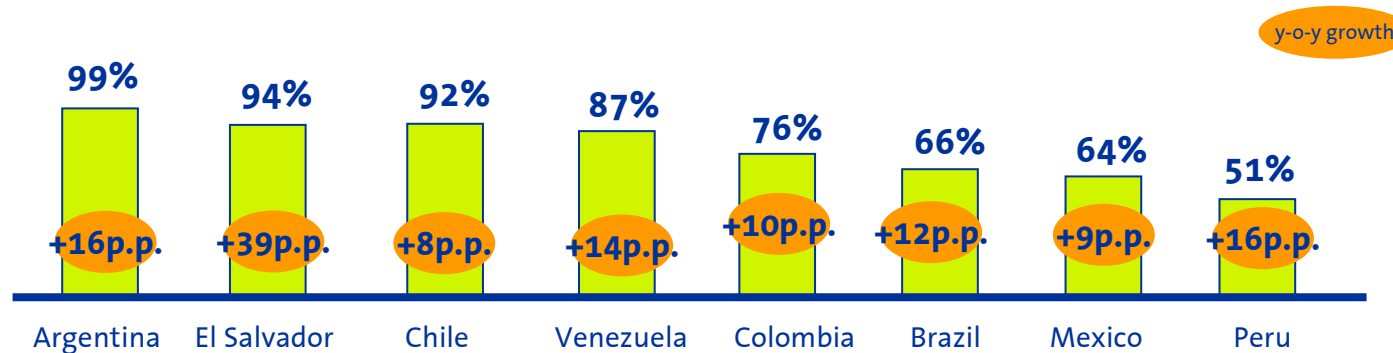
# Solid growth prospects in wireless penetration ...

## Wireless penetration in Latin America



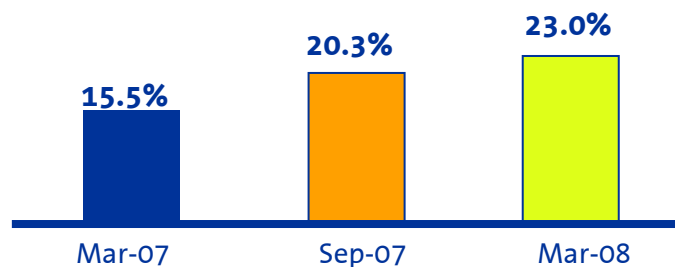
- Fast growth, exceeding expectations
- Further upside driven by:
  - Bigger addressable market
  - Lower entry barriers (GSM, scale benefits)
  - Increased coverage

## Wireless penetration per country (Mar-08)

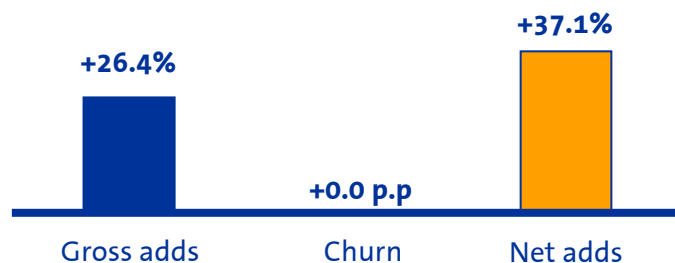


# ...fully flowing into our customer base

**T. Latam wireless customer growth**  
(y-o-y growth)

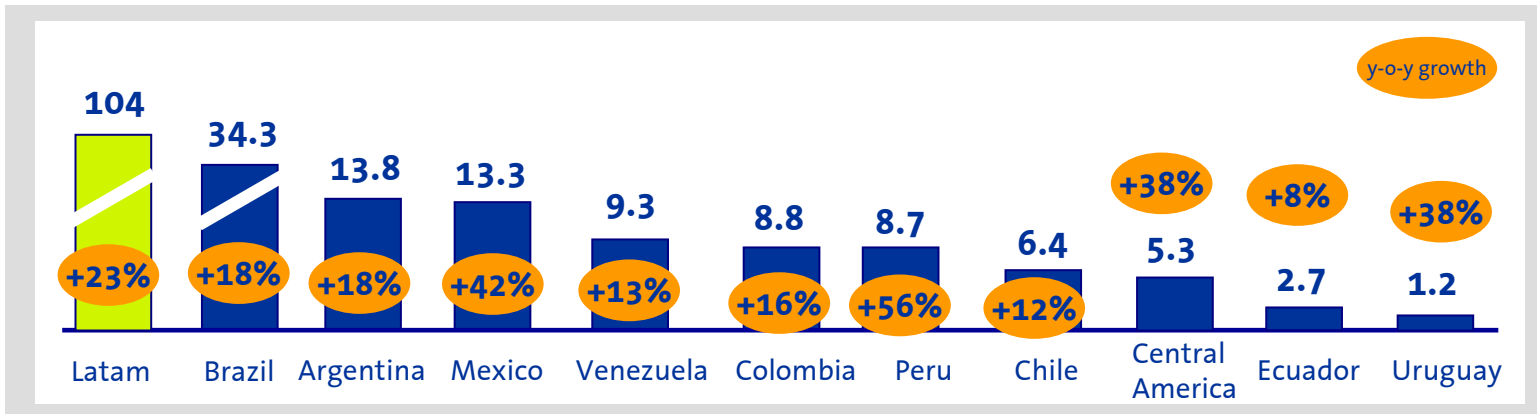


**Customer Growth drivers**  
(Q1 08 y-o-y change)



- **Customer growth acceleration:**
  - Double digit customer growth across markets
  - 3.1m net adds in Q1 08
- **Leveraging enhanced distribution channels and GSM network expansion:**
  - Robust gross adds and churn containment
  - 69% of total customer base in GSM (+25.7 p.p. y-o-y)

**Customers per country**  
(Mar-08, m)



# Fostering usage to expand ARPU

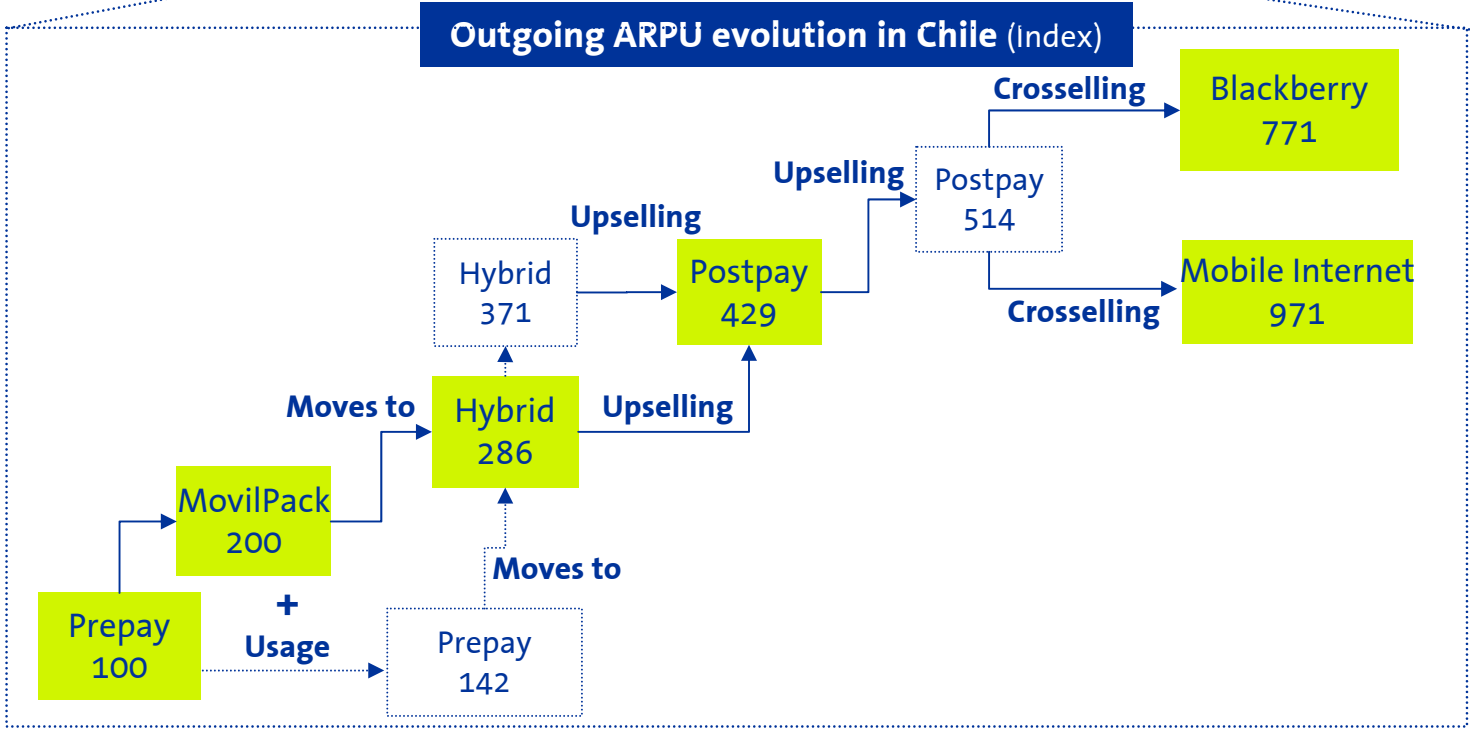
Exploiting voice usage levers

- New commercial offerings to drive elasticity:
- MoU potential<sup>1</sup>: 

Latam	Spain	UK
95	161	190
- Recharge incentives: “Duplicame”
- Customer migrations to higher value products: Prepay to Contract migration, periodic top-ups

Mar-08 Contract weight (y-o-y)

Chile	Argentina
+3.7 p.p.	+1.9 p.p.



TELEFONICA S.A. Investor Relations <sup>1</sup> Minutes in 2007. Data for Telefónica operations in the respective countries

# Fostering usage to expand ARPU

Exploiting voice usage levers

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Argentina	+1.9 p.p.

Building the foundations for data ARPU explosion

- P2P SMS, content SMS, browsing, e-mail...
- Progressive 3G launch, leveraging new GSM networks (3G compatible):
  - CDMA/EVDO 3G services in Brazil & Venezuela
  - 3G already launched in Argentina, Chile & Uruguay. Brazil & Mexico to launch in H2 08

Already delivering tangible results

Q1 08 y-o-y growth

Outgoing MoU	+20.6%	Outgoing ARPU Ex-forex	+4.5%
Data revenues y-o-y growth	+39.9%	Data revenues/Service Revenues	13.3% (+1.4p.p.)

Mobile BB users:

- ~240k EVDO/1XRTT PCMCIA in Brazil at Mar-08
- >75k in Venezuela (x2.5 vs. Mar-07)

TELEFONICA S.A. Investor Relations <sup>1</sup> Minutes in 2007. Data for Telefónica operations in the respective countries

# Brazil: sound results, capitalising our strengthened competitive position

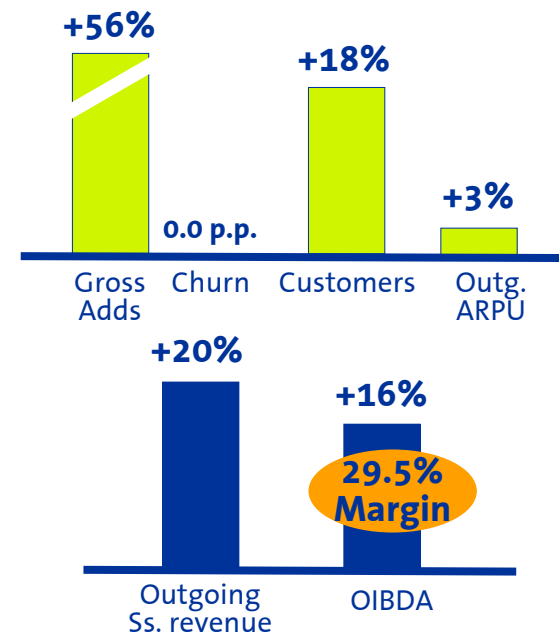


- **Brand strength:**
  - Higher than market average customer satisfaction<sup>1</sup>
  - Best service quality<sup>2</sup>
- **Nationwide footprint:**
  - Telemig's acquisition
  - Acquisition of additional 1.9 & 2.1 MHz spectrum nationwide
- **Fast execution of migration to GSM:**
  - Network deployed in a record time
  - More competitive prices, acquisition of high-value clients and increase in postpay additions
  - 43% of our total customer base already in GSM with lower SACs
  - Superior GSM coverage due to launch in 850MHz
- **Largest distribution channel:**
  - Over 8,000 POS and more than 412,000 points of recharge

## Net adds market share<sup>3</sup>

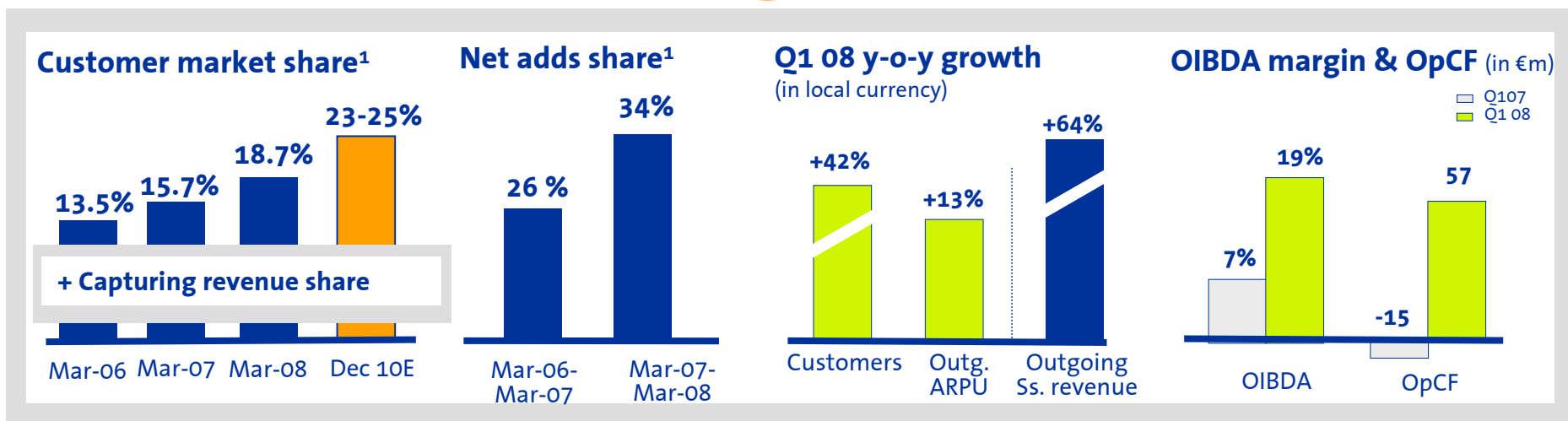


## Q1 08 y-o-y growth



# Mexico: reinforcing market positioning, capitalising a profitable growth model

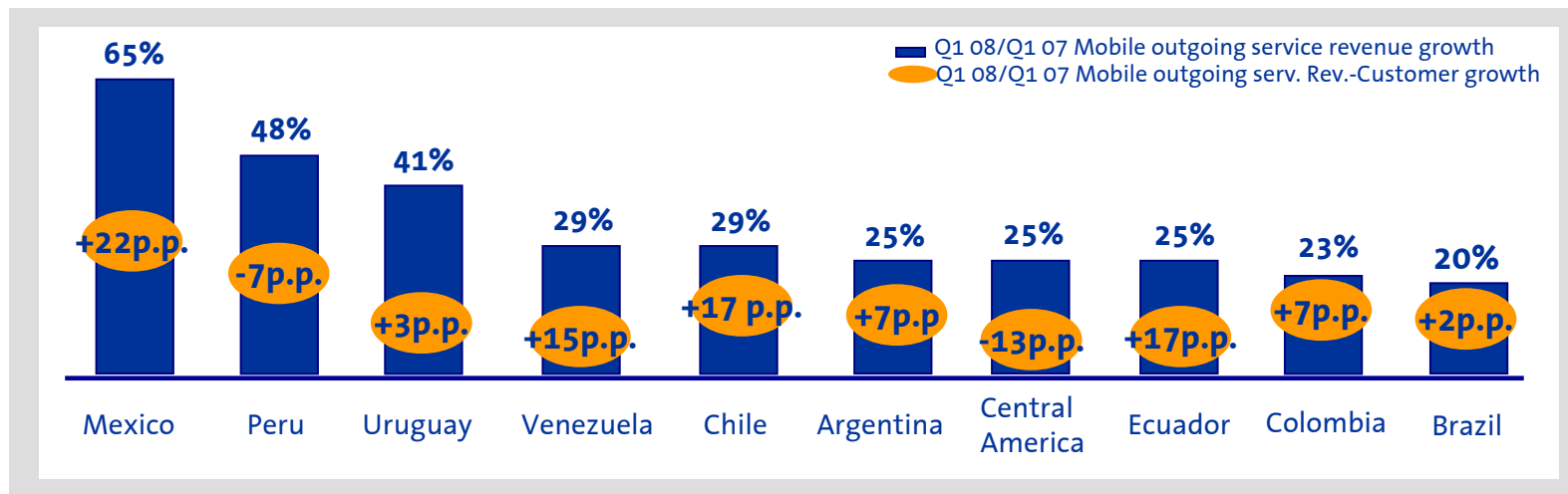
- **Enhanced distribution channel:**
  - Better quality adds and lower churn
  - Further initiatives to better address the postpay market (Maxcom, Alestra ...)
- **Innovative commercial offers, driving usage and ARPU up**
- **Progressive deployment of 3G networks. Upcoming spectrum auctions**
- **Early signs of regulatory advances (national CPP, portability)**
- **Benefits of scale**



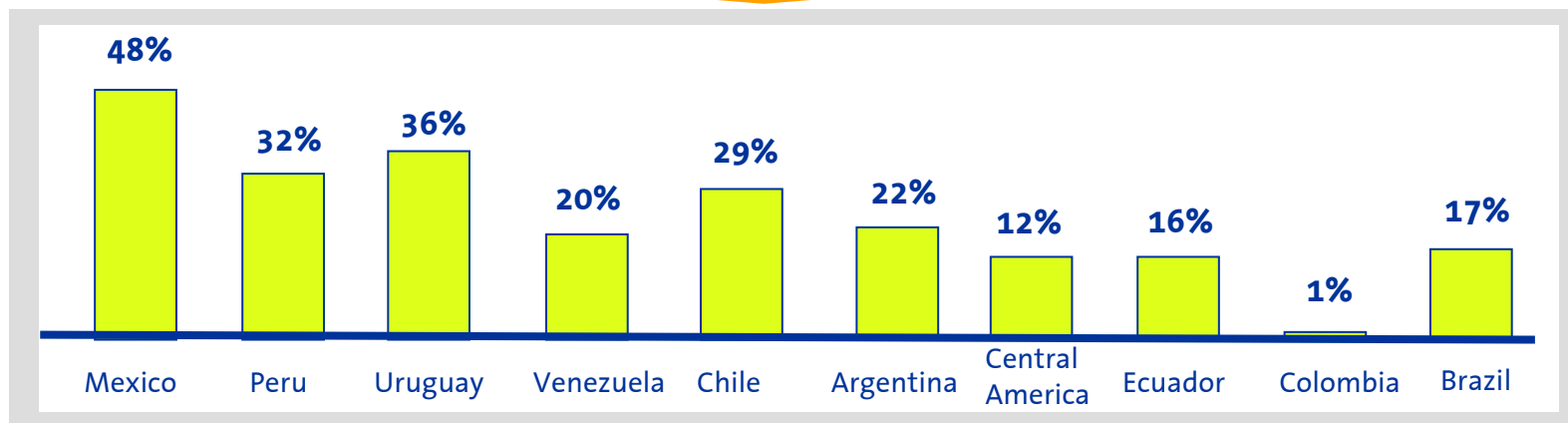


# Sum-up: Capturing growth opportunities in the wireless market

**Customer & mobile outgoing service revenue growth**



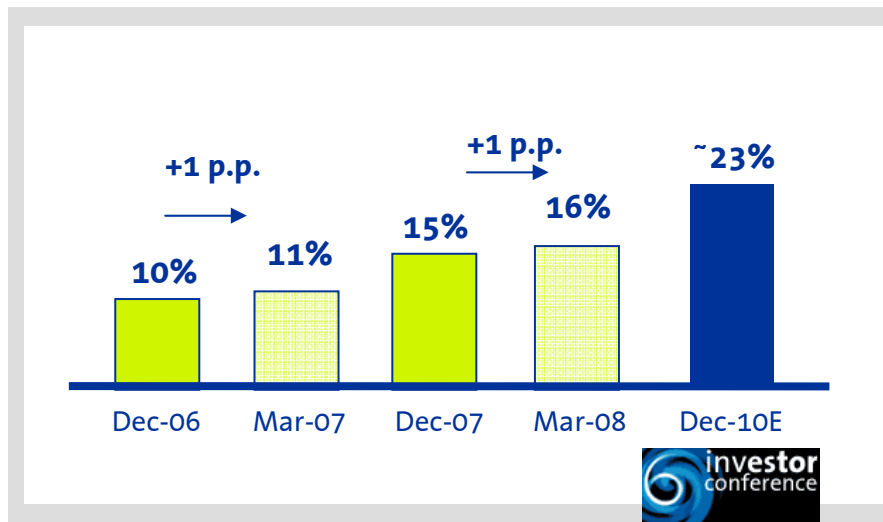
**Mobile service revenue Growth (Q1 08 y-o-y growth)**



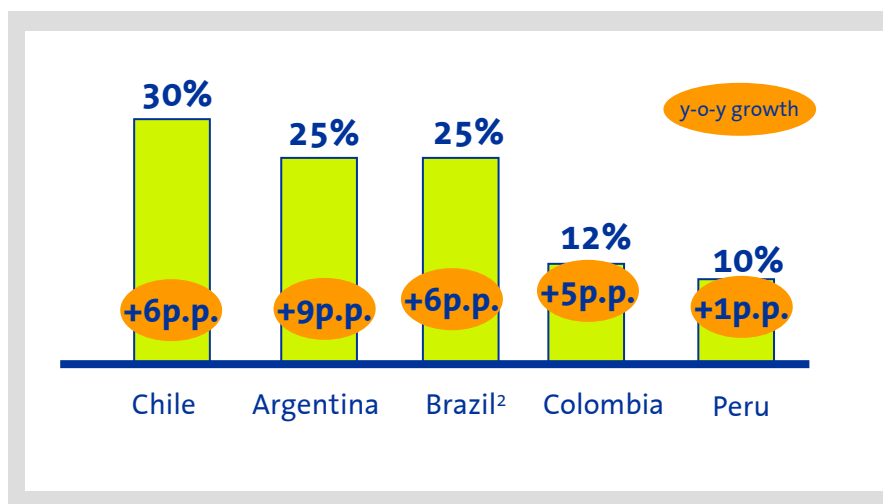
**Strong revenue growth despite lower MTRs**

# Transforming our wireline business to capture the BB opportunity

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



**Broadband penetration<sup>1</sup> per country (Mar-08)**

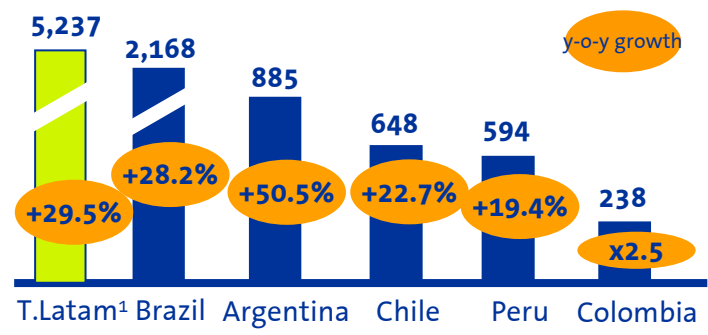


- **Healthy growth rates**
- **Further potential driven by:**
  - **Bigger addressable market**
  - **Expanded network coverage**
  - **New business opportunities:** workstations
  - **Medium ADSL market:** plug & play, lower entry level bandwidth solutions, prepay...

# Expanding our access base at a strong pace ...

**Mar-08**  
Retail  
BB accesses  
( '000)

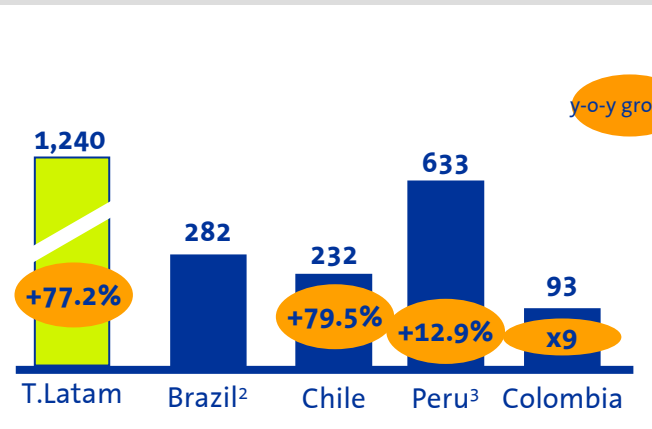
1.2m new BB accesses in last 12 months  
(+7% y-o-y)



- **Regional replication of successful products:** Speedy Duo, Speedy business portfolio
- **Expanded coverage in Colombia with positive impact in gross adds** (Mar-08: +53% vs. Feb-08)
- **Higher speeds in ADSL portfolio** (Telesp, Chile)
- **Fiber pilot in Sao Paolo** to serve premium customers



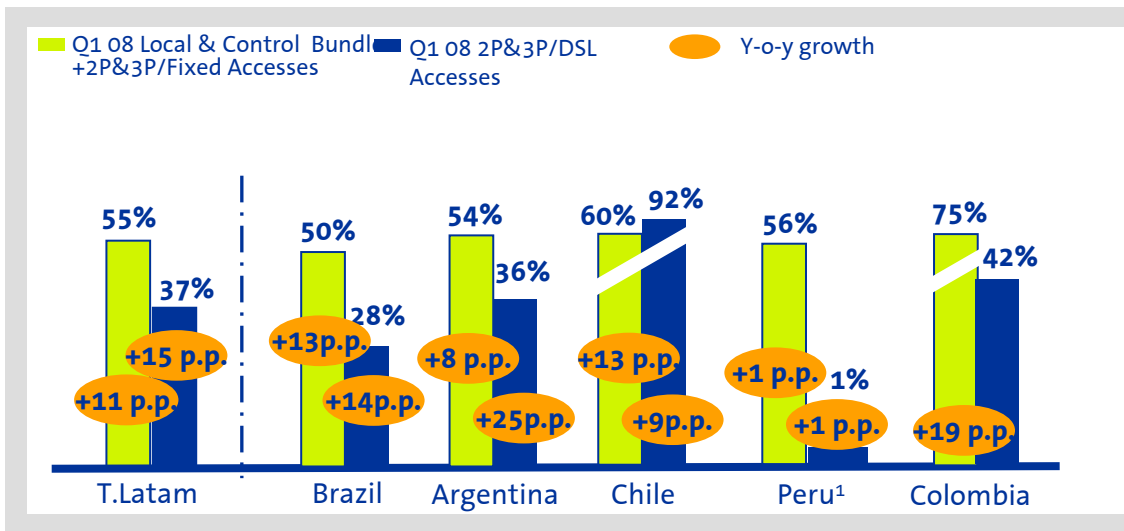
**Mar-08**  
Pay TV  
accesses  
( '000)



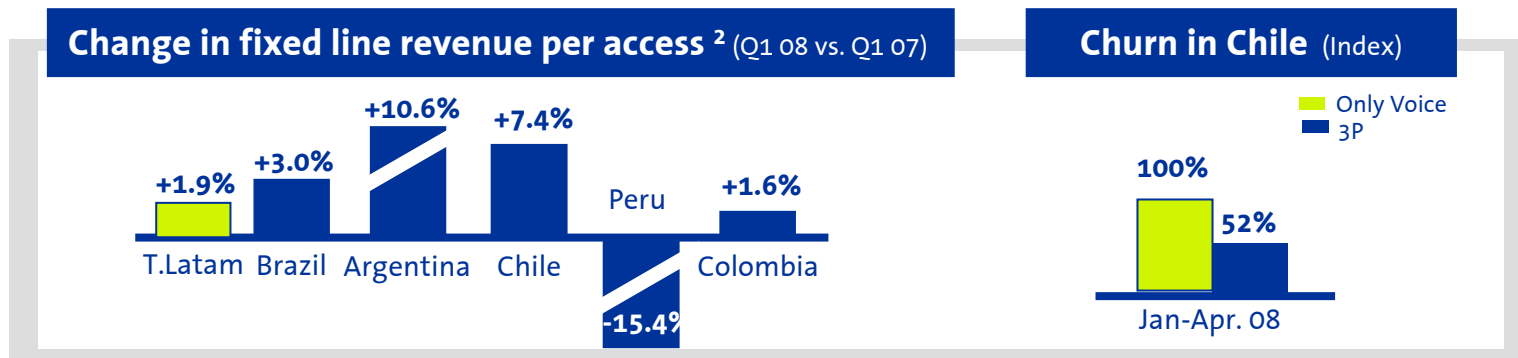
- **Pragmatic and flexible combination of IPTV, DTH and cable.** DTH launch in Peru & Chile during 2006 and Colombia & Brazil in 2007
- **Enhanced content offering:** Brazil (Globo content & TVA) to surpass 1m TV accesses by 2010E
- **New features:** Interactive services and PVR in Chile
- **Progressive building scale in PayTV**

1 Including Terra Latam  
2 DTH product launched in August 2007 and acquisition of TVA (MMDS customers) in Q4 07  
3 Including cable modem

# ... fostering bundles penetration, with positive results per access ...

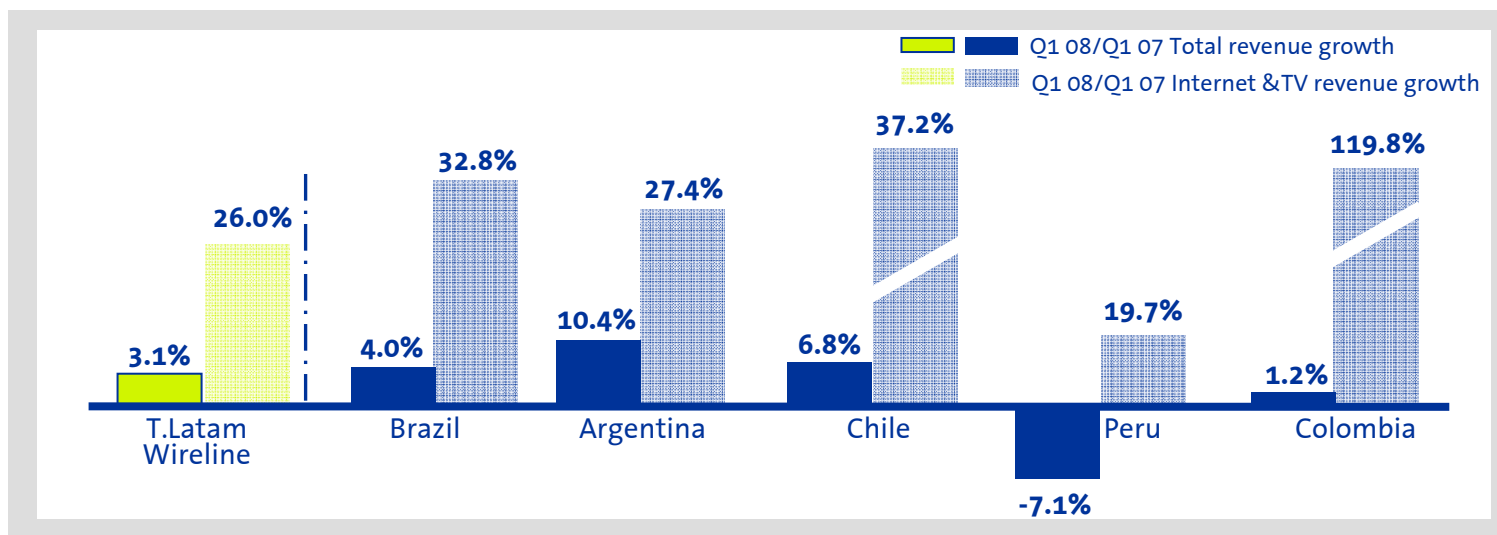


- Broader launch of Voice/BB/TV bundles to keep leadership in high value segment and increase loyalty
  - 85-90% bundled services by 2010
  - 40-45% of 2010 customers will have 2P or 3P

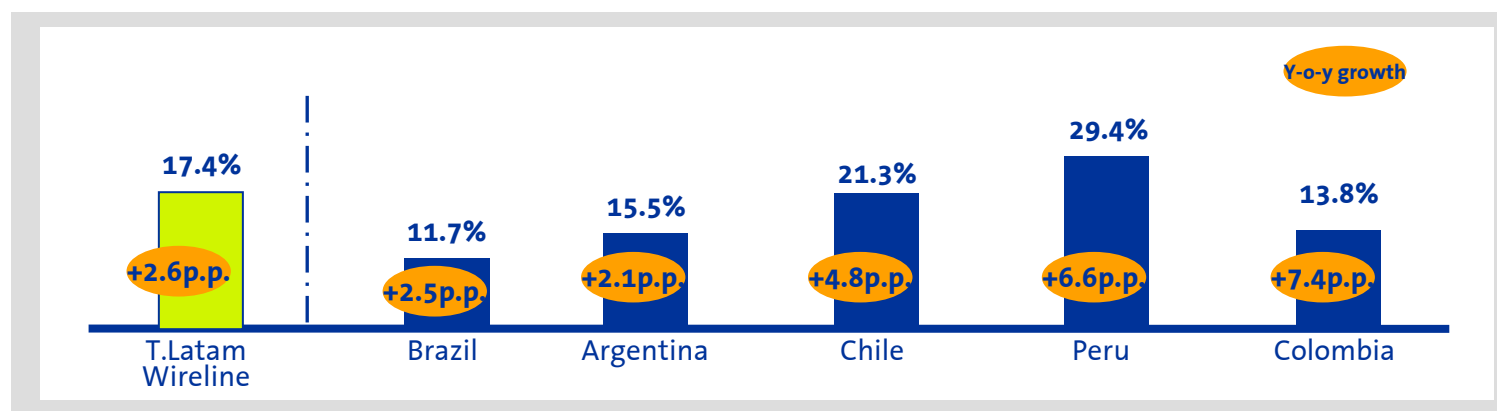


# ...with healthy top line expansion, reducing exposure to regulated services

Revenue<sup>1</sup> growth



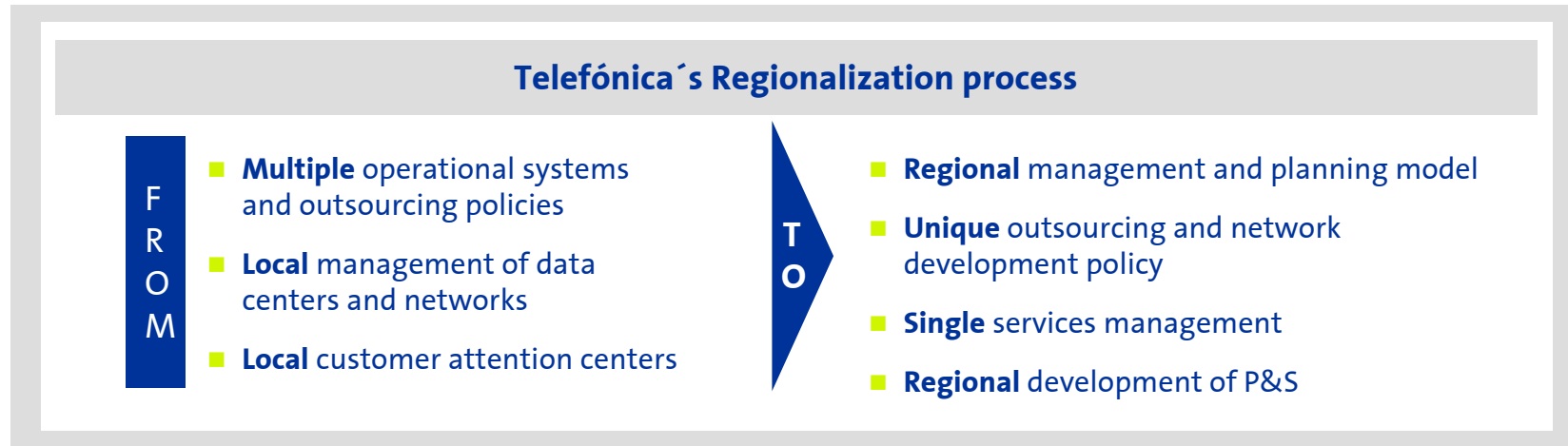
Q1 08 Internet & TV revenue/ total revenue



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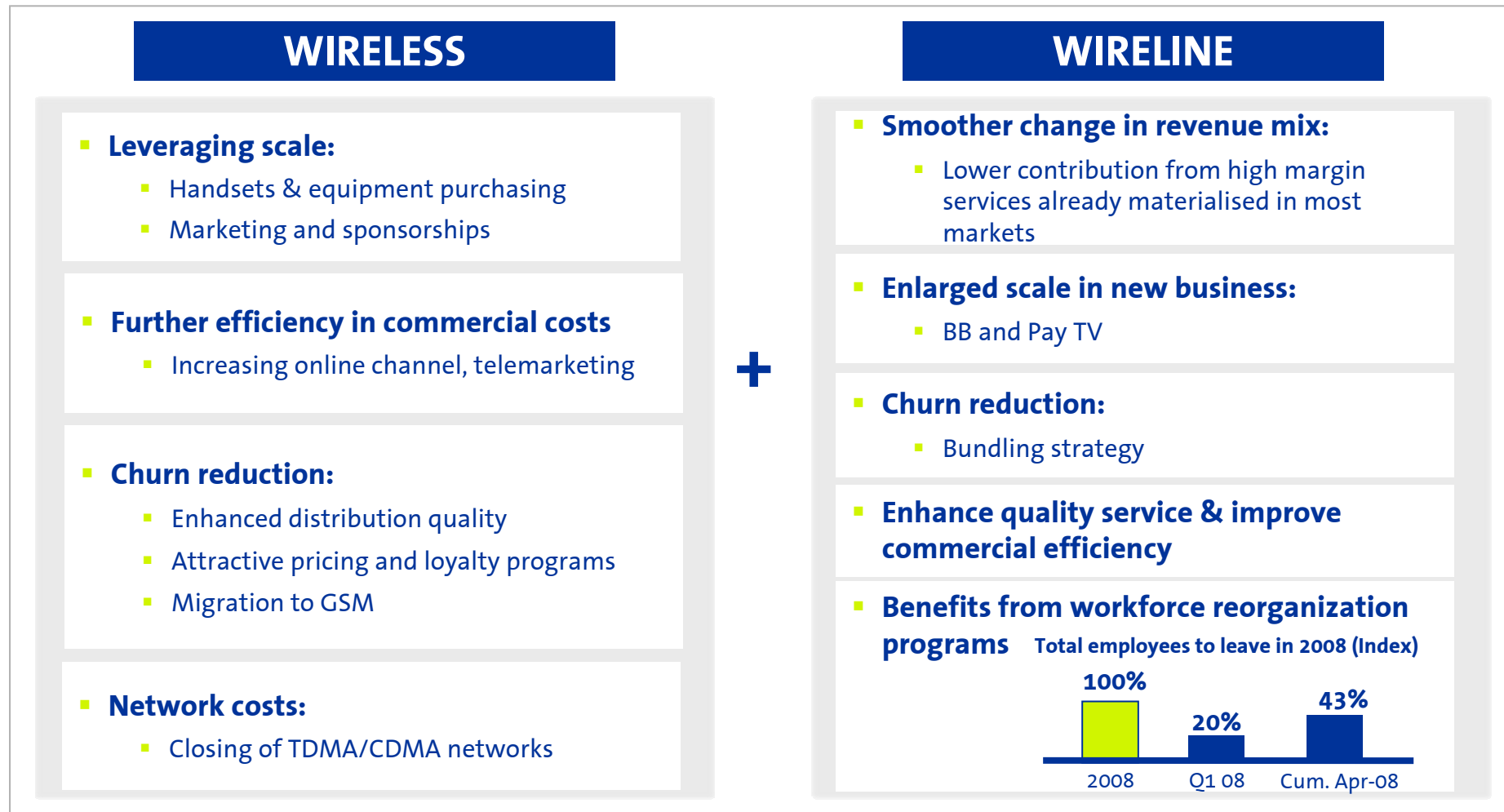
# Regionalization, a key and differential operating and commercial model in the region



**Simplifying our customers access of services  
Capturing additional synergies**



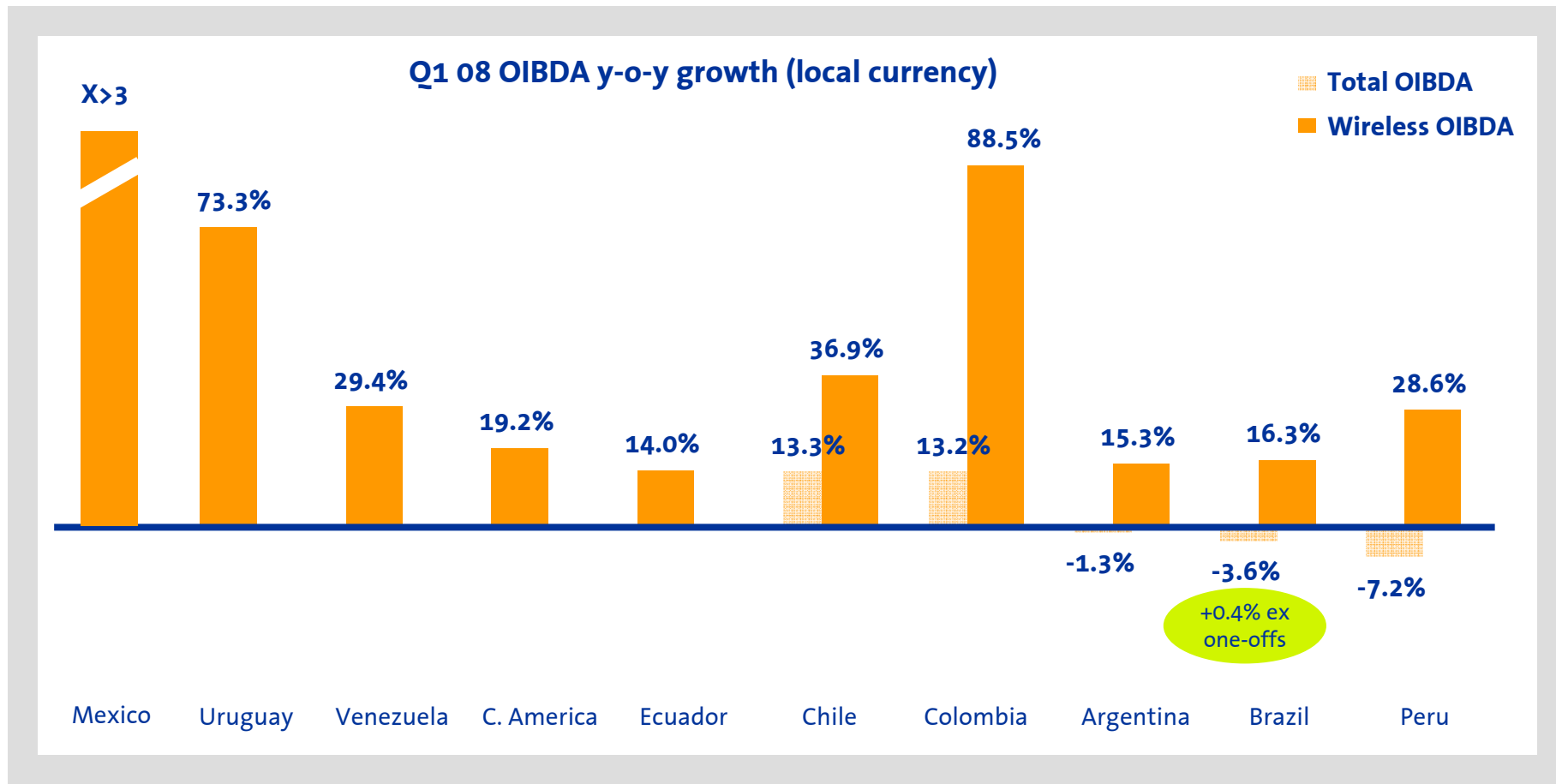
# OIBDA Margin levers



**Strong OIBDA growth, leading to margin expansion**



# Already capitalising on enhanced efficiency levers

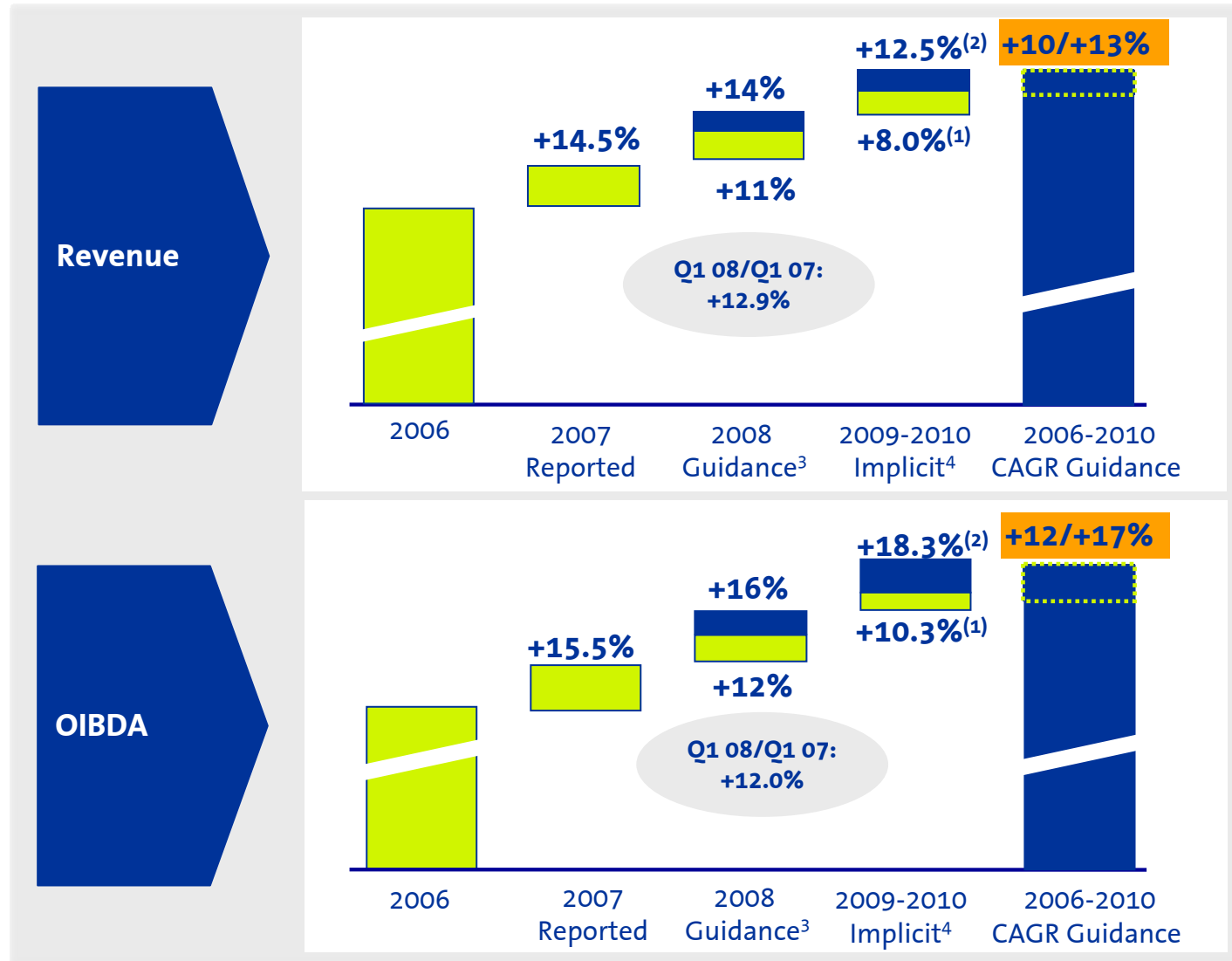


**OIBDA growth performance in Q1 08 in line with guidance, growth rate to accelerate along 2008**

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# On track to meet 2010 targets



2007-10  
Capex:  
€14-16 bn

2010  
OpCF: >€7  
bn

(1) Calculated applying low end of 2008 & low end of 2006-2010 CAGR guidance  
 (2) Calculated applying high end of 2008 & high end of 2006-2010 CAGR guidance  
 (3) Constant currency 2007  
 (4) Calculated with 2008 numbers in constant terms 2006

## Closing remarks

- We are the best positioned player to capture the strong growth potential of the telecom market in the region:
  - The leading integrated player in Latin America
  - Highly diversified operations across 15 countries
  - Sound social and macroeconomic outlook
  - Strong growth opportunities in our sector: mobile, broadband and Pay TV
- Our differentiated management model and scale economies will lead to continuous improvements in profitability
- Q1 08 results show our strategy is delivering solid results
- We are fully on track to meet our sound guidance, both in the short and long term

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