



# FIFTH **INVESTOR** CONFERENCE

Valencia. May 25 th - 26 th. Ciudad de las Artes y las Ciencias

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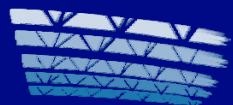
# T-Latam: a story of transformation, growth and delivery

**José María Álvarez-Pallete**

Executive Chairman, Telefónica Latinoamérica



Valencia - May 25, 2006



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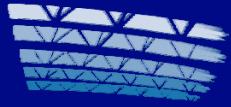
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# Index

**01** Consistently delivering on our commitments

02 Our management priorities to fully exploit our growth potential

03 A set of ambitious financial and operational targets



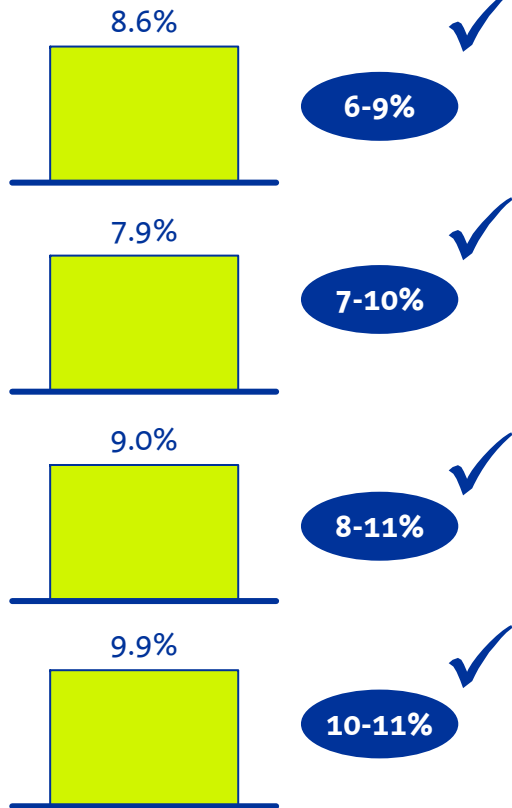
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# 01 T-Latam: consistent delivery on commitments

CAGR in fixed exchange rates

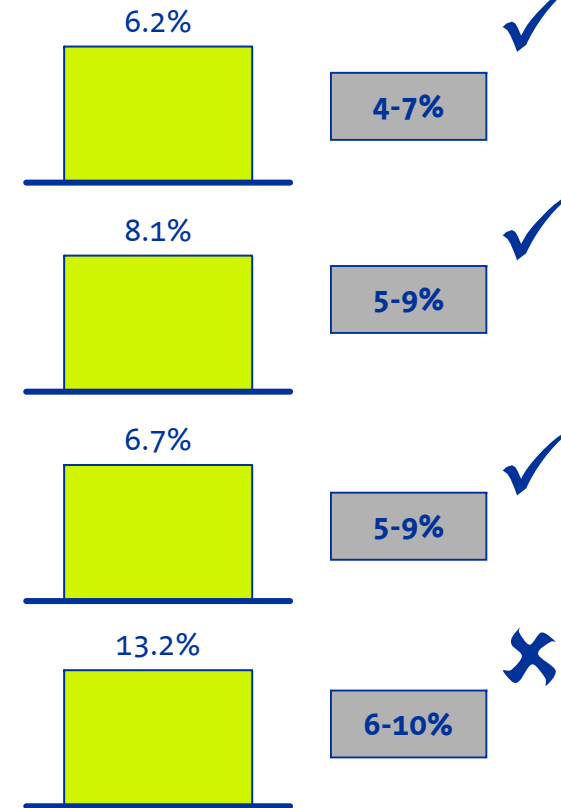
We have met the commitments made in 2003 ...

Actual<sup>(1)</sup> 2002-05      Commitment<sup>(2)</sup> 2002-06



... and we are on the right track to continue doing so

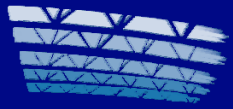
Actual<sup>(1)</sup> 2004-05      Commitment 2004-08



**ROCE increased by 2.7 p.p. in 2005**

1 Aggregated figures for fixed telephony operators, T.Empresas and TIWS  
2 Aggregated figures for fixed telephony operators  
3 OIBDA for 2004 and 2005  
4 Adjusted OIBDA-CAPEX for 2004 and 2005

Note: Excluding Terra Latam



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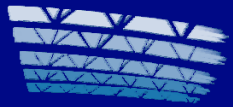
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# 01 A year ago we committed to transforming the company and we are making good progress

2005 figures



\* Including Terra Latam  
\*\* Only fixed telephony operators

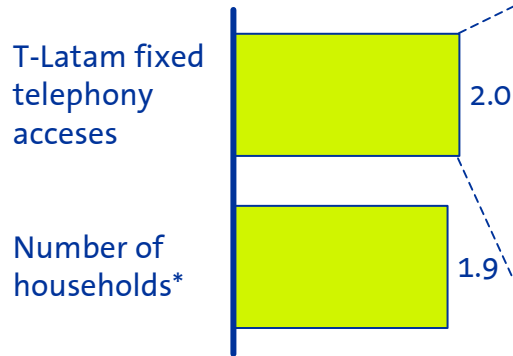


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# 01 100% customer focus: reinventing the traditional business ...

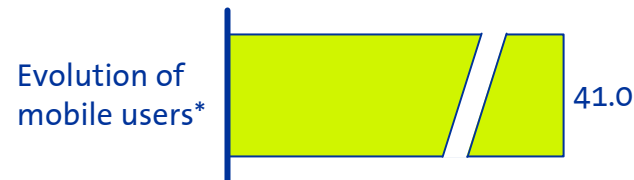
**We have captured population growth ...**

2003-05 CAGR. Percentage

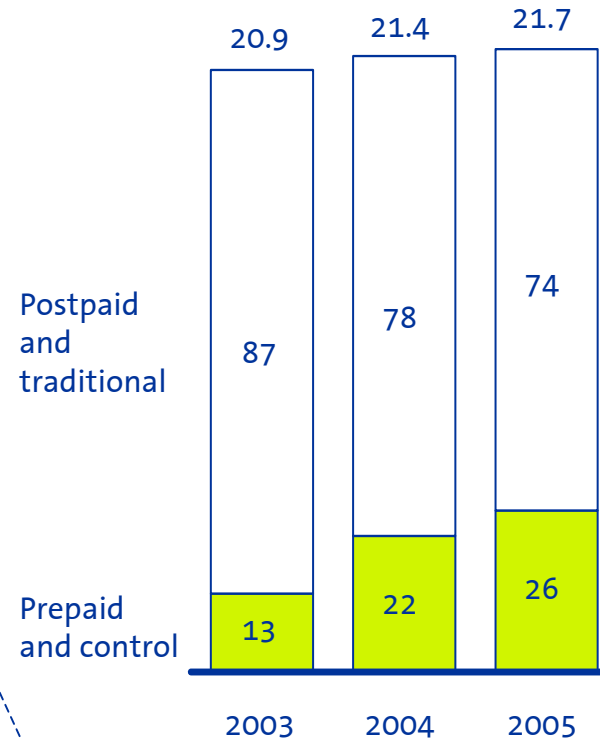


**... despite the significant increase in mobile users**

2003-05 CAGR. Percentage



**T-Latam fixed telephony accesses mix**  
Millions. Percentage



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\* Includes Sao Paulo, Argentina, Chile and Peru  
Source: Yankee, EMC, Anatel, Teleco

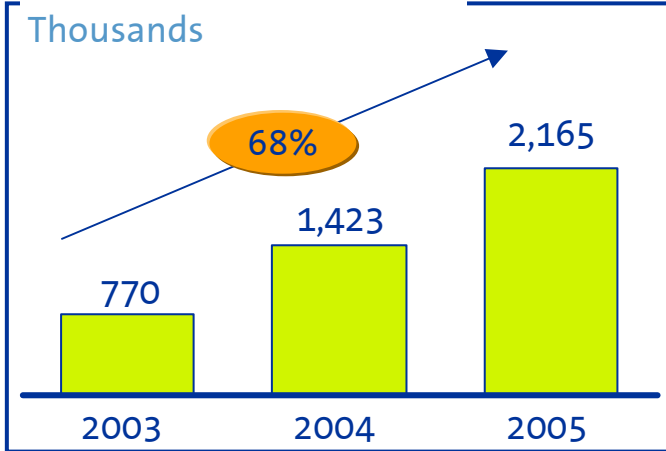


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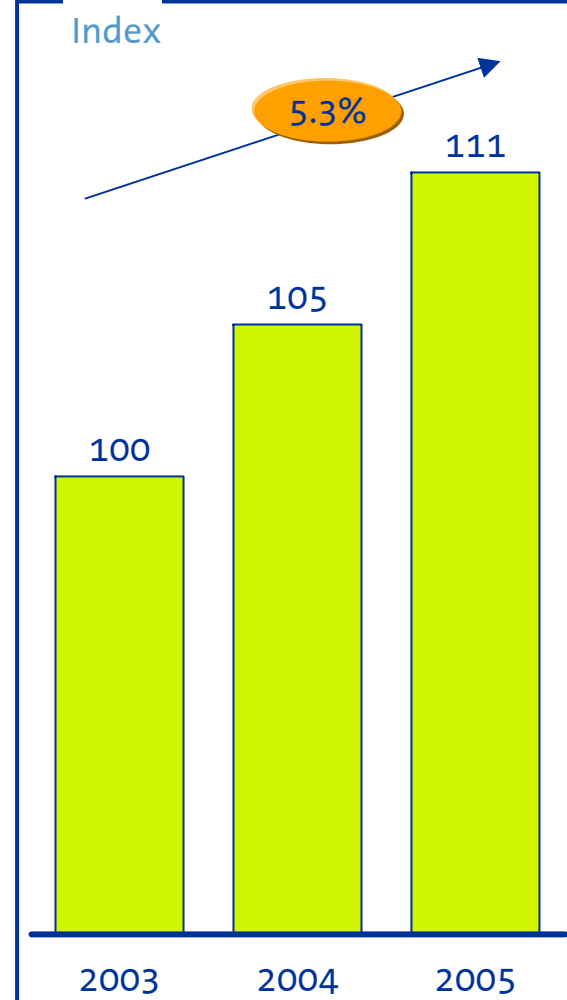
# 01 ... and driving the broadband market to increase ARPU

% CAGR 2003-05\*

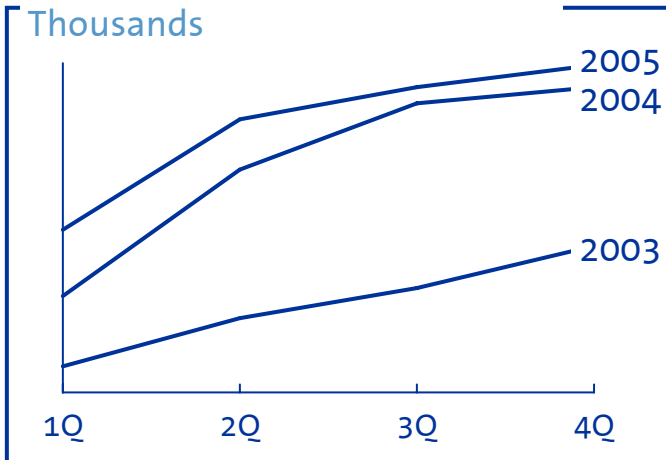
### Evolution of DSL accesses\*\*



### ARPU Index



### DSL accesses quarterly net gain\*\*



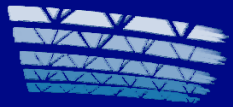
\* Fixed exchange rate 2003

\*\* Includes retail and wholesale accesses

Note: Figures excluding Terra Latam

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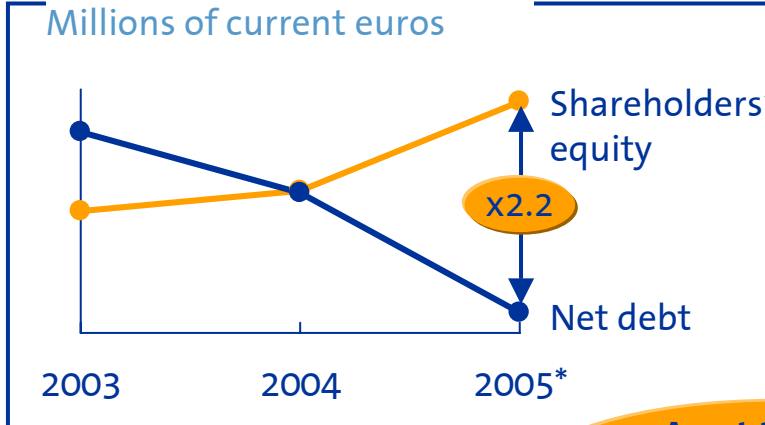




# 01 Leaner and flexible: improving our efficiency ...

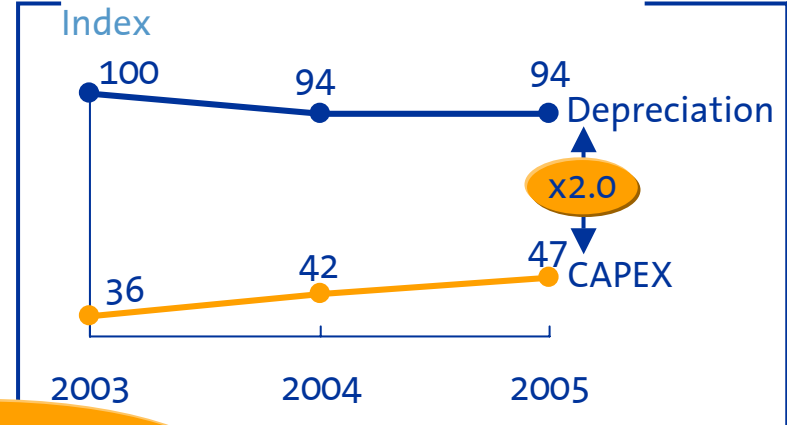
### Balance sheet key parameters

Millions of current euros



### CAPEX and depreciation evolution\*\*

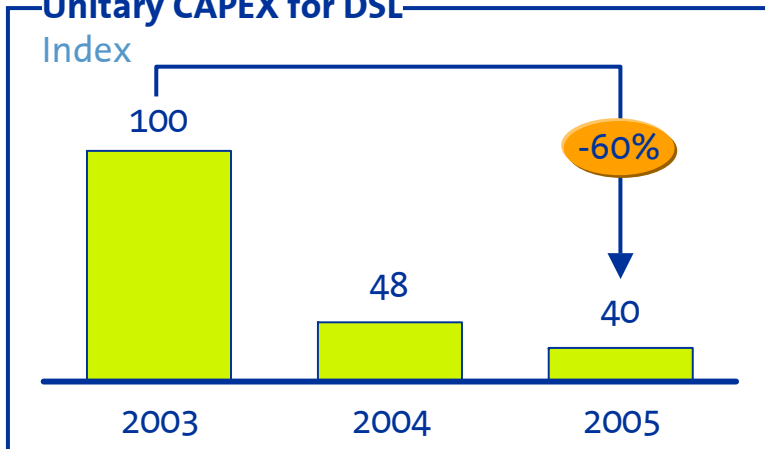
Index



**Asset turnover increased by 14.2 p.p. since 2003**

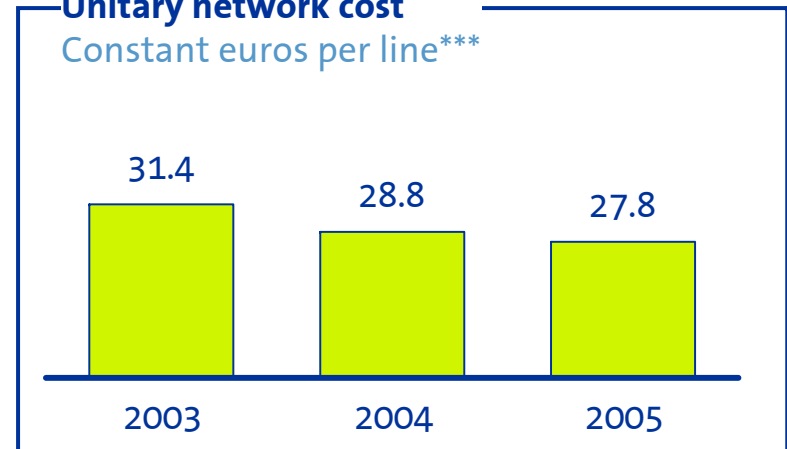
### Unitary CAPEX for DSL

Index

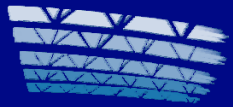


### Unitary network cost

Constant euros per line\*\*\*



\* Includes T.Empresas, TIWS and Terra Latam  
 \*\* Depreciation 2004 according to IFRS  
 \*\*\* Fixed exchange rate 2004

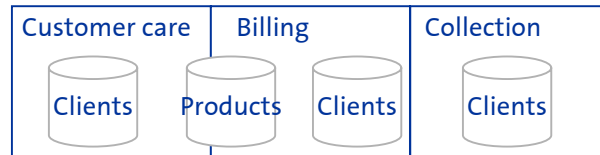


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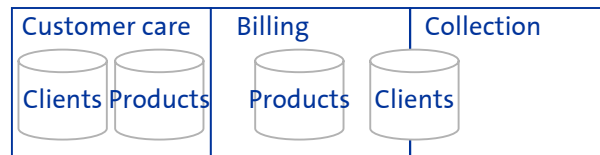
# 01 ... through regional operational projects

**From:**  
Many local systems with multiple databases...

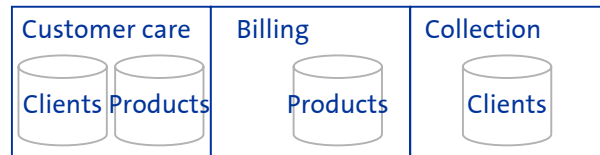
**Brazil**



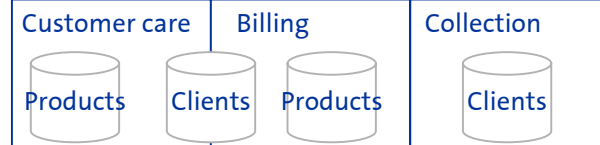
**Argentina**



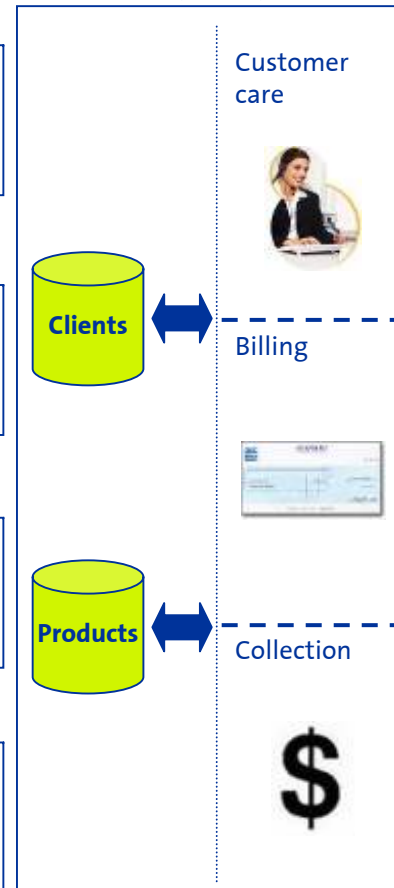
**Chile**



**Peru**



**To: ...a “world class” regional system and database (ATIS)**

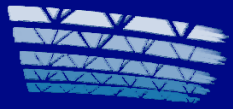


## ATIS' competitive advantage ...

- **Commercial intelligence:** all client and product information in one database
- **Improved time-to-market:** flexibility to sell/bill new products in all countries
- **Process homogenization** and exchange of best practices through the new platform
- **Reduced IT cost** leveraging regional scale

Billing & collection of 100% of residential clients under new system

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# 01 Additionally, we have entered Colombia to leverage Telefónica's success model

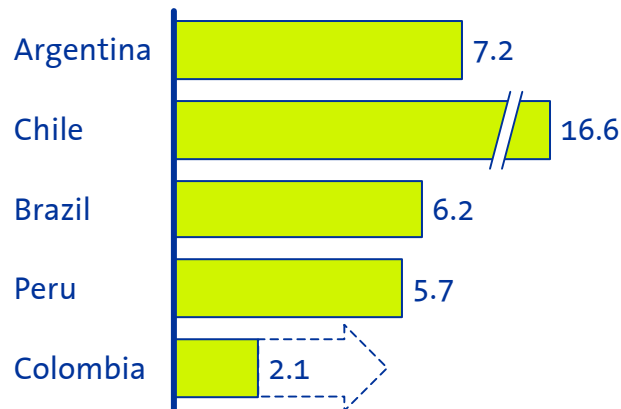
2005 figures

Colombian Telecom: a solid platform for growth ...

- **The market leader ...**
  - Revenues: EUR 731 millions
  - EBITDA margin: 46%
  - 2.6 million fixed telephony accesses in services
  - National coverage with high capillarity

■ **... in a large market with significant potential**

Broadband penetration  
Percentage



... with clear levers for value creation

**Optimize traditional business**

- Develop new products tailored to each client and region
- Develop access network
- Upgrade systems to support commercial efforts



**Accelerate broadband**

- Enhance coverage
- Install advanced switching technology
- Increase international interconnection capacity



**Capture Group synergies**

- Capture regional/global best practices and economies of scale
- Leverage fixed-mobile initiatives

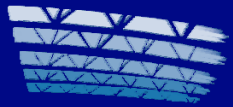


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Source: Pyramid

Telefónica Latinoamérica

**We have already started the integration of Colombia Telecom**

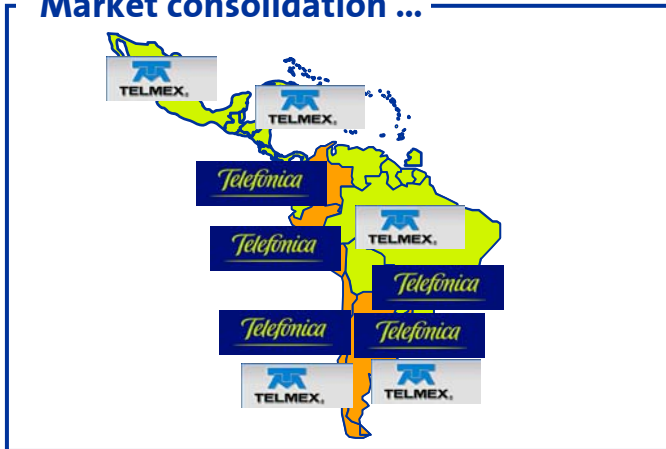


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# 01 Despite strong competition, we have increased our regional leadership

Growth DSL 2004-05 in thousands  
 Colombia Telecom

## Market consolidation ...



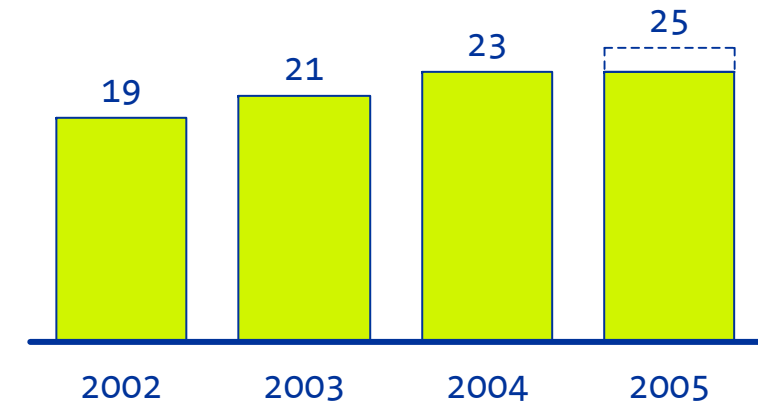
## ... stronger presence of cable operators through duo/trio packages



## T-Latam's leadership

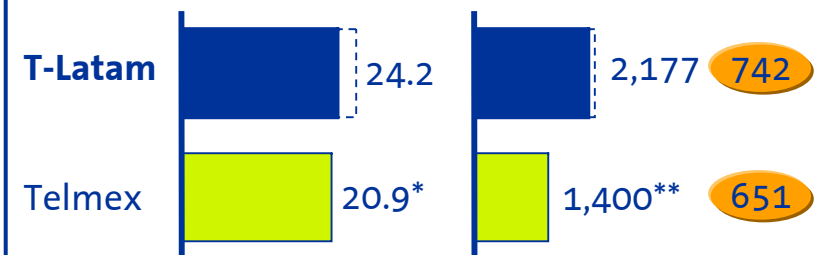
### Regional market share in revenues

Percentage



**Fixed telephony accesses**  
2005. Millions

**DSL accesses**  
2005. Thousands

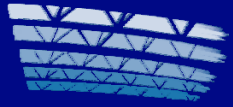


\* Includes estimated number of 64KB lines

\*\* Includes Net Brazil

Source: Pyramid

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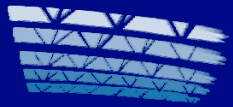
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# Index

01 Consistently delivering on our commitments

**02 Our management priorities to fully exploit our growth potential**

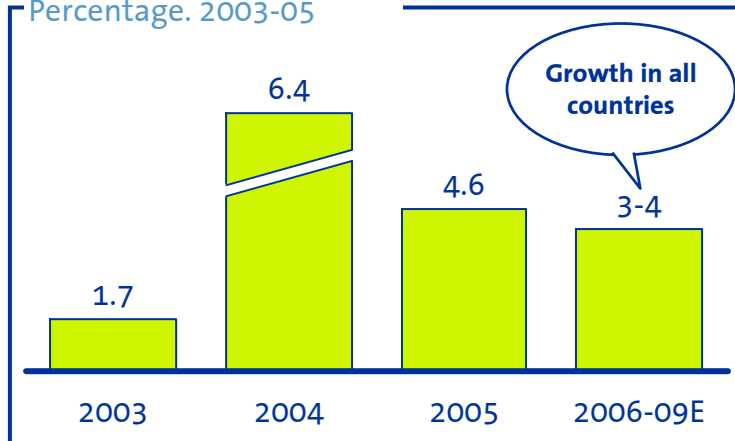
03 A set of ambitious financial and operational targets



# 02 Latam: solid macroeconomic fundamentals and higher stability ...

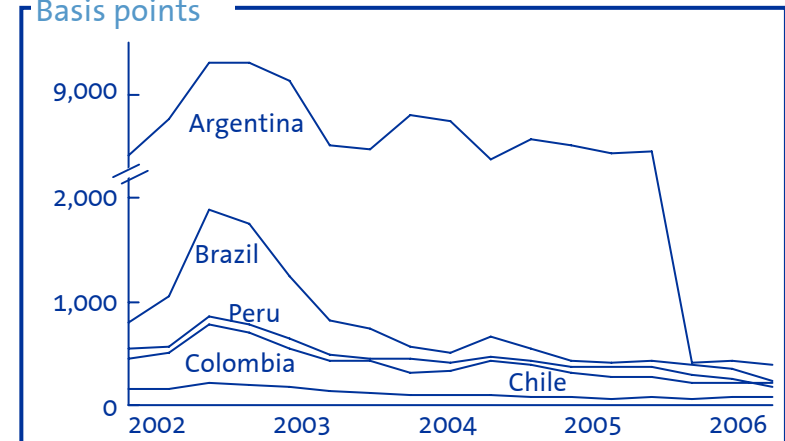
### Latam real GDP growth

Percentage. 2003-05



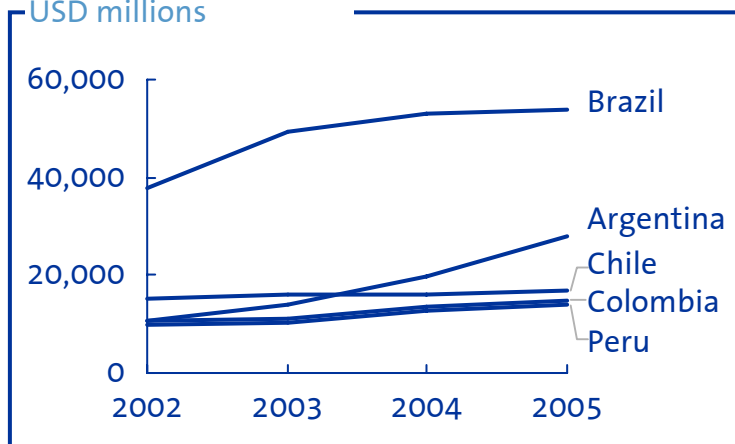
### Country risk

Basis points



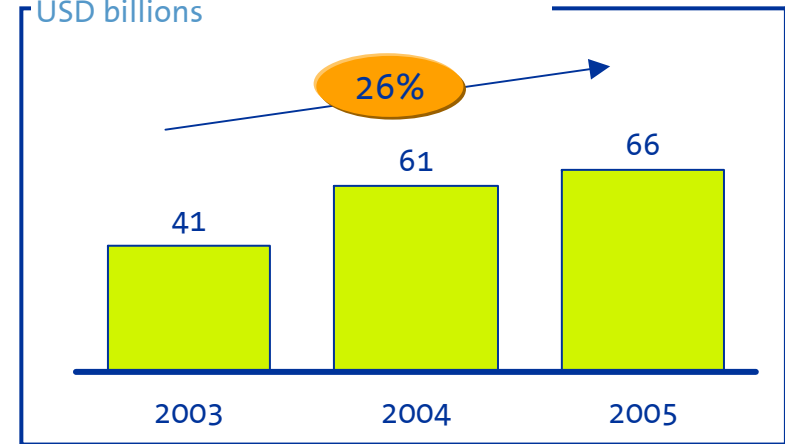
### International reserves

USD millions

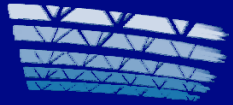


### Foreign Direct Investment in Latam

USD billions



Source: Global Insight; EIU; Bloomberg



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## 02 ... favorable demographics...

% CAGR  
2005-09

### Total households Millions



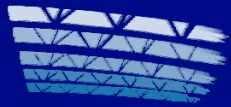
**13 million** Latin Americans climbed out of poverty in 2004 and 2005

Higher income segments growing twice as fast as lower income

Over **1 million** new ABC-segments households by 2009

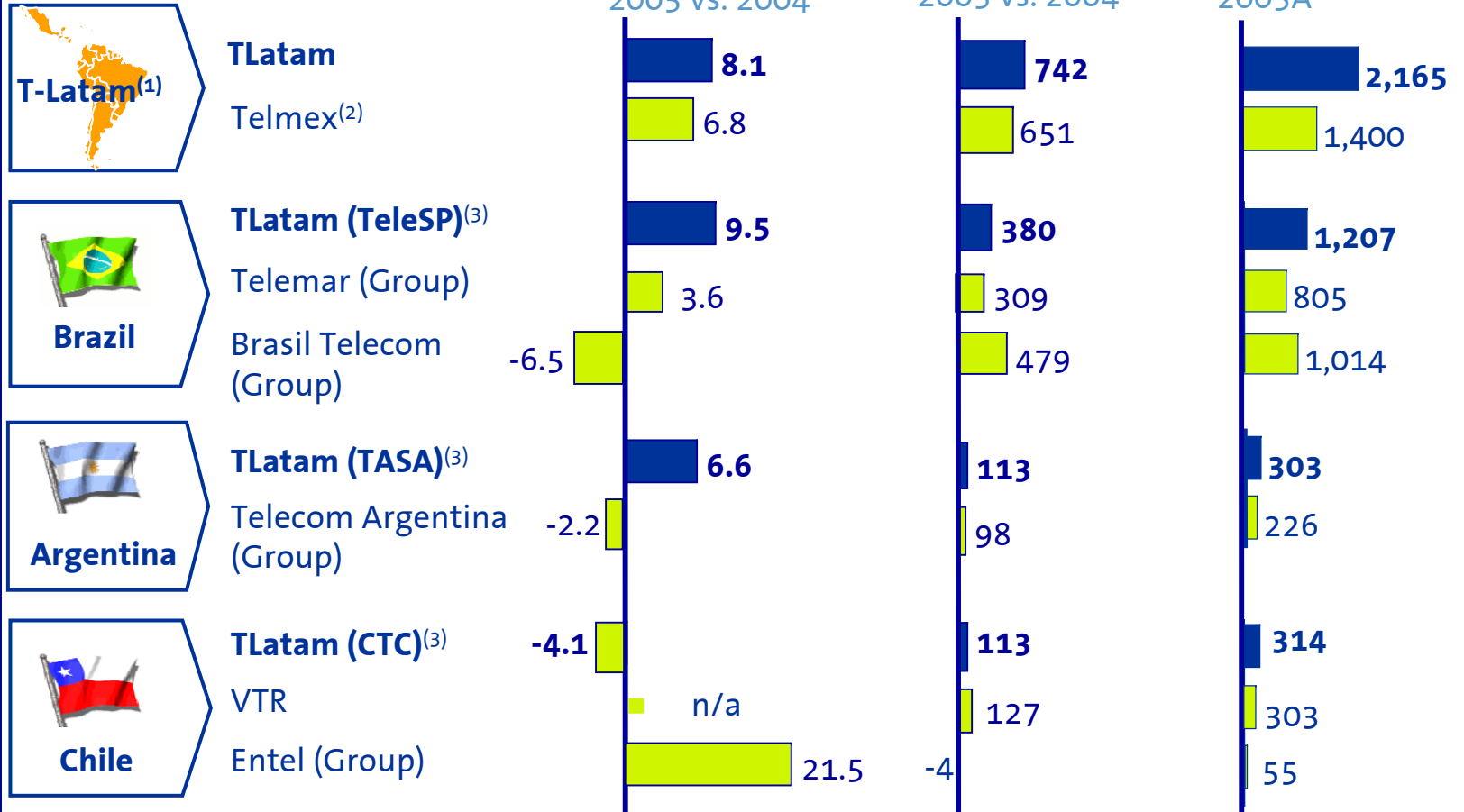
Source: Pyramid; National Institutes for Statistics of each country; internal estimates

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# 02 ... where we have a clear competitive advantage being part of Telefónica

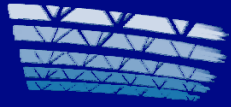


**By leveraging Group synergies,  
our companies outperform  
competitors in all markets**

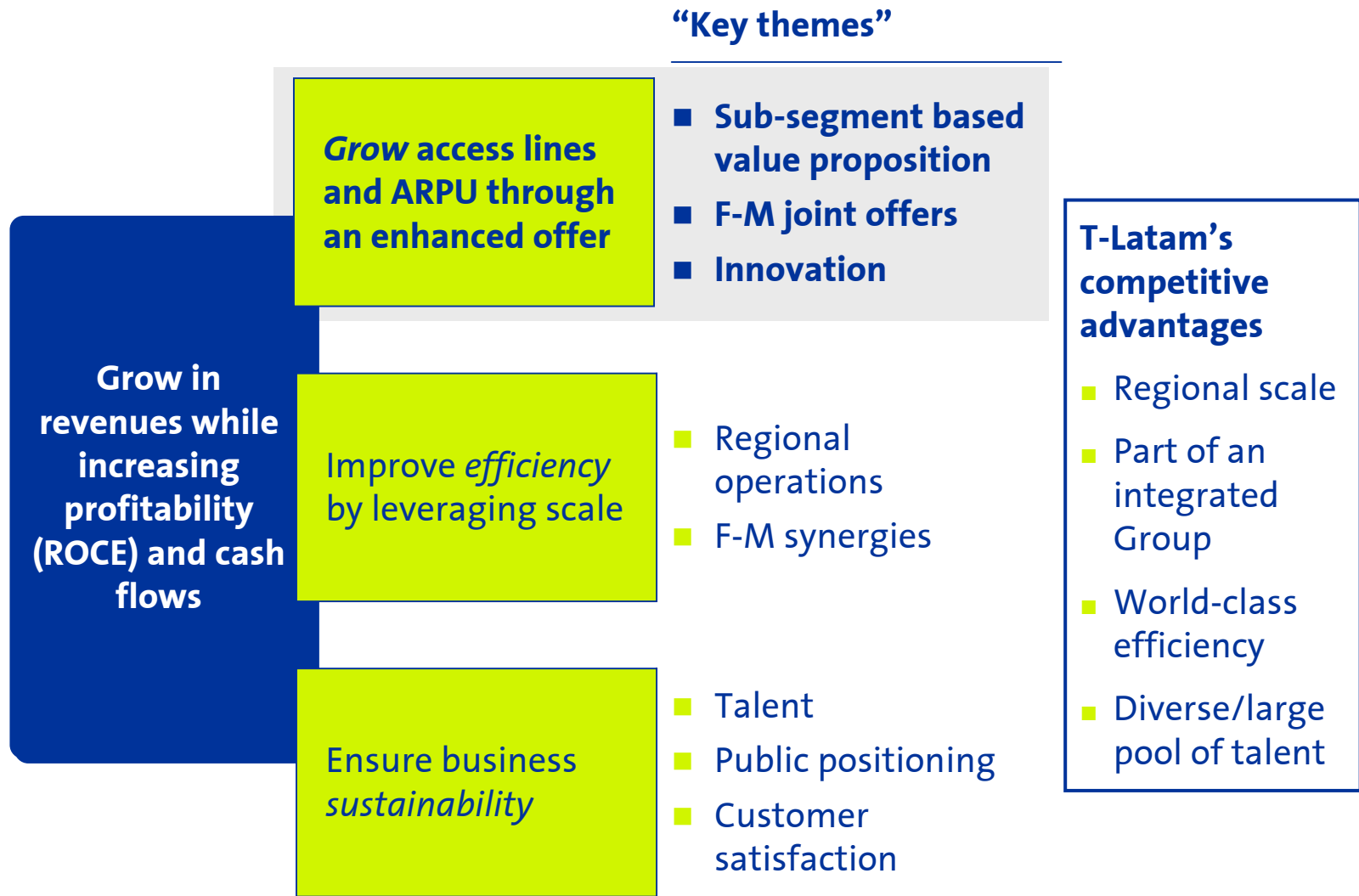
1 Adjusted OIBDA, in constant 2004 euros  
2 Includes Net Brazil  
3 Reported OIBDA in local currency  
4 Wholesale and retail DSLs included. Terra not included

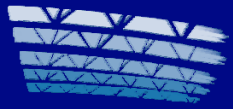






# 02 T-Latam: a transformed company uniquely positioned to consolidate growth





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# 02 Households: a sub-segment based strategy already in place ...



Different client needs ... requiring a tailored strategy ...

... already providing good results



### Develop and retain premium customers

- Bundles (voice, broadband, TV, mobile)
- Differentiated customer service levels



### Develop traditional customers

- Massive deployment of broadband and VAS
- New price plans
- Joint fixed-mobile offers

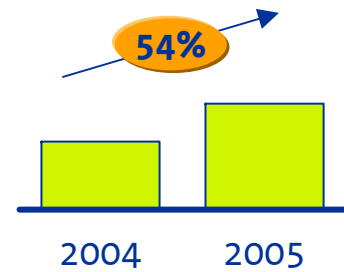


### Serve low-income customers profitably

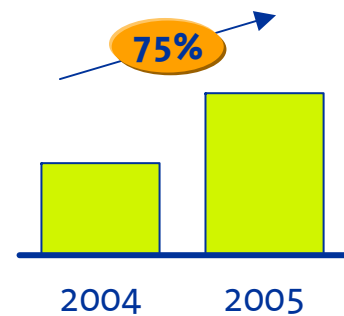
- Tailored pricing strategy
- Reduced service costs and CAPEX requirements
- Prepaid products penetration



### Call center cross-selling effectiveness

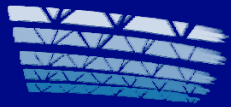


### Direct sales force effectiveness



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\* Example of TASA



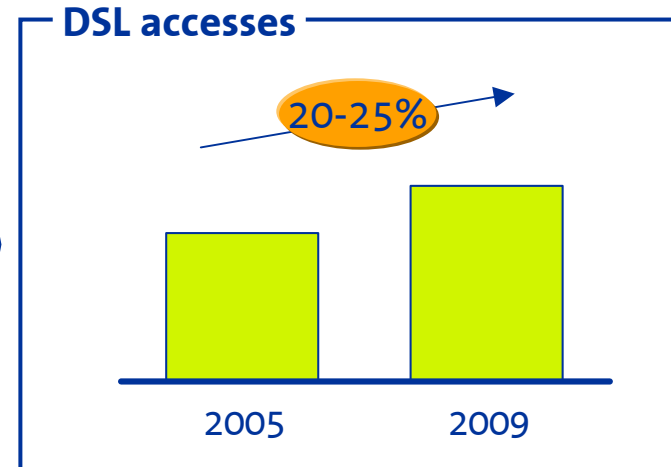
# 02 ... consolidating growth ...



% CAGR 2005-09

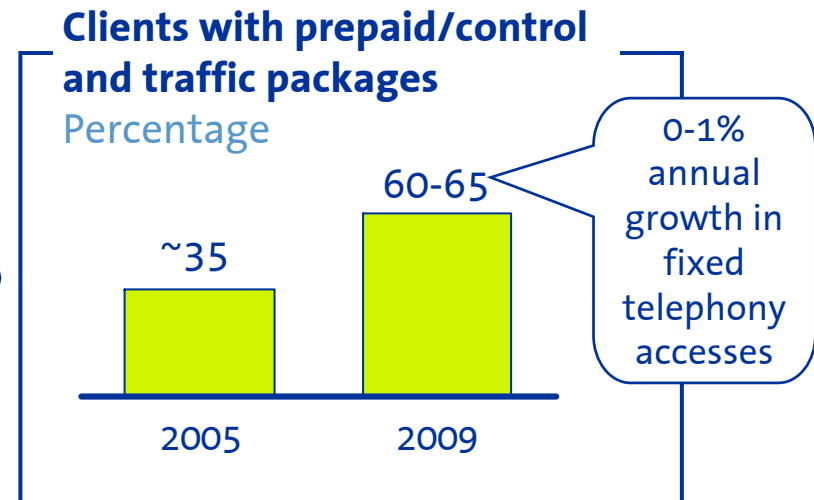
## Boosting DSL deployment

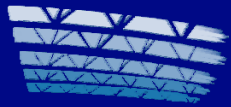
- Reinforce **Speedy brand** and develop aggressive **marketing** campaigns
- Develop **value-added service** as a differentiating factor
- Launch high/impact **retention** actions
- Promote **PC penetration**



## Renovating the traditional business

- Deepen **customer knowledge** and homogenize **segmentation** criteria
- Optimize **channel mix** by transferring best practices in each country
- Extend product offer to **increase ARPU**





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# 02 ... leveraging Terra's unique assets to reinforce Speedy value proposition ...



## Strong cross-selling potential ...

- **Top 3 player in all countries** in ISP and portal businesses with revenues of EUR 267 million
- **Strong brand** in the region and "top of mind" in Brazil and Chile
- ~3 million **VAS subscribers\***
- ~35 million **unique visitors**

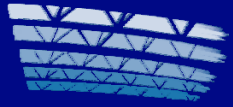


**Terra's goal: the leading audiovisual portal and internet service provider in Latam**

\* Does not include access subscribers

## ... and complementary commercial strategy

- Offer **bundles** with Terra's VAS in every Speedy access (Terra TV, e-mail, etc.)
- Implement an integrated **channel** management strategy and launch **joint promotions**
- Leverage Terra's **innovation** capacity/**know-how**



# 02 ... and strengthening our offer with pay TV

CAGR 2005-09



## A regional strategy ...

- Initial launch in Chile and roll-out to other countries leveraging regional synergies
- Implement dual satellite and IPTV strategy to:
  - Reduce time-to-market
  - Increase coverage
  - Increase CAPEX efficiency
- Focus on commercialization of duo and trio packages

## ... leveraging Telefónica's experience ...

Telefónica is already successful in pay TV...

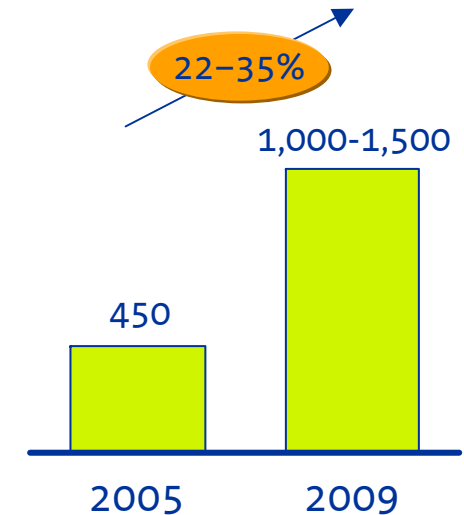
- Cable Mágico:
  - 450,000 + subscribers
  - 15% of revenues from ads and shopping channel
- Imagenio: 250,000 subscribers in Spain

## ... which gives us a clear advantage to deploy the service

- Proven technological platform
- Deep market knowledge
- Strong relationships with content suppliers
- Some exclusive content

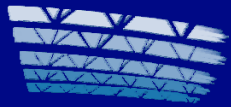
## ... to become a leading player in the region

Regional target  
Thousands of customers



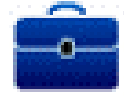
Satellite product launched in May in Chile with a time to market of less than 5 months





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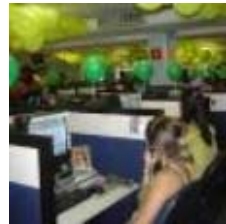
# 02 SMEs: grow faster than the market by tailoring the offer to client sub-segments ...



A heterogeneous client base ...

... requiring a sub-segmented commercial approach ...

... already providing good results



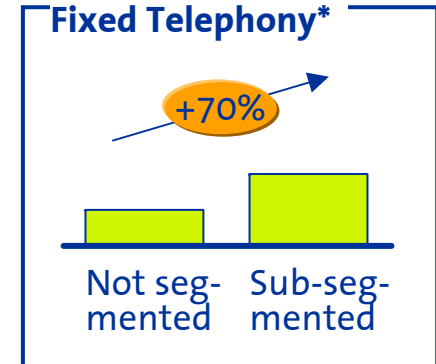
■ Deepen **customer knowledge** to increase the rate of sales per contact

- Advanced **segmentation** (propensity models)
- Strengthened **commercial intelligence** (regional customer database)

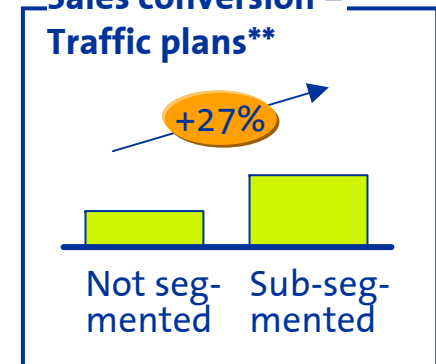
■ **Expand channels** to interact with clients (indirect channels, internet, technicians visits, etc.)

■ Increase penetration of alternative **traffic plans** to increase ARPU

Sales conversion – Fixed Telephony\*

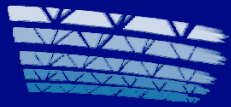


Sales conversion – Traffic plans\*\*



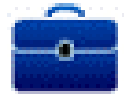
\* Telesales inbound Brazil  
\*\* Telesales outbound Brazil





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# 02 ... and by boosting broadband and new services

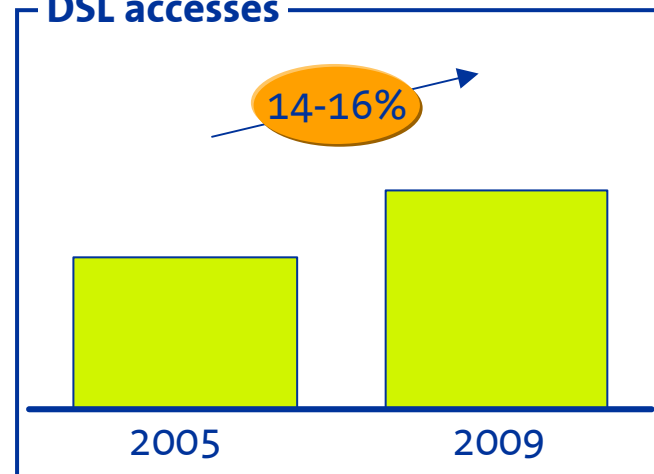


% CAGR 2005-09

## Key initiatives

- Accelerate **DSL penetration** through new packages, bundles, and PC services
- Expand **product offer** by moving up the customer's **value chain** into desktop management (equipment, PC support, Speedy business, etc.)
- Leverage DSL platform to increase adoption of **value-added services** (antivirus, virtual disk, etc.)
- Work closely with **T. Móviles** to foster **cross-selling**

### DSL accesses



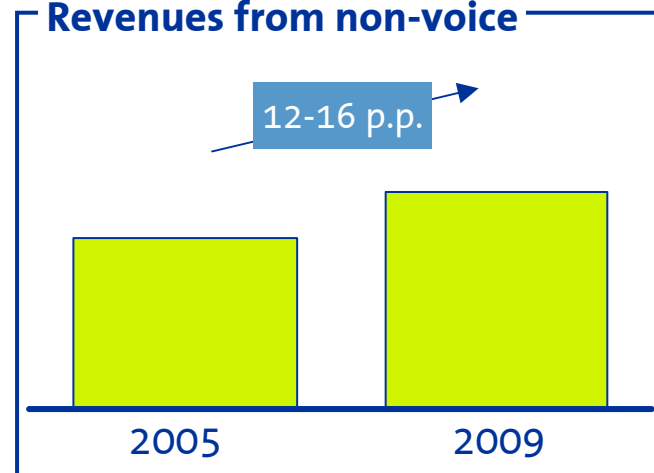
**Speedy Business 350**

Internet com vantagens exclusivas que só o Speedy Business traz para a sua empresa. Recomendado para redes\* de até 2 PCs.

50% de desconto por 3 meses

Saiba Mais

### Revenues from non-voice



**Speedy ISO 9001**

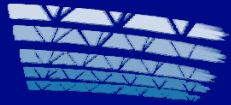
**Speedy Business 2M**

Máxima velocidade na internet! Recomendado para redes\* de até 30 PCs.

Saiba Mais

Telefonica





## 02 Corporations: transforming the segment ...



### Customer needs are changing ...



*Higher demand for integrated solutions ...*

*... tailored to specific needs of each sector*



*Need for advice and agility ...*

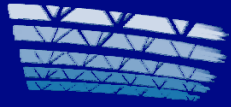
*... more regionalization/ globalization in managing their businesses*



### ... which requires a commercial transformation

- **Integrated solutions**
- **Sector-specific product offering**
- Role as **advisor/consultant**
- **Hybrid execution** developing alliances/ partnerships





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Telefonica

# 02 ... to provide advanced and integrated telecommunications solutions

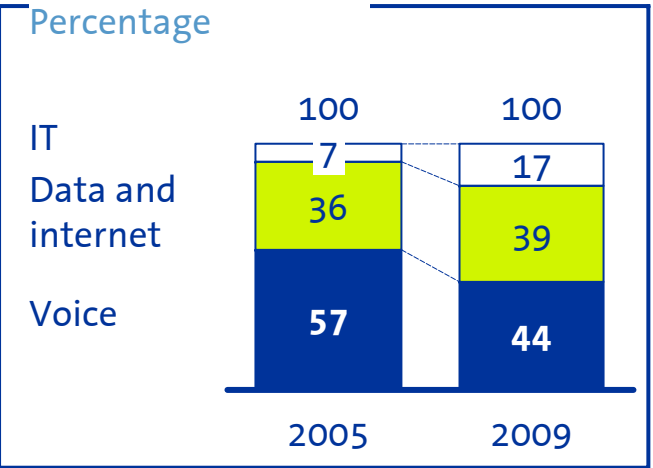


## Key initiatives

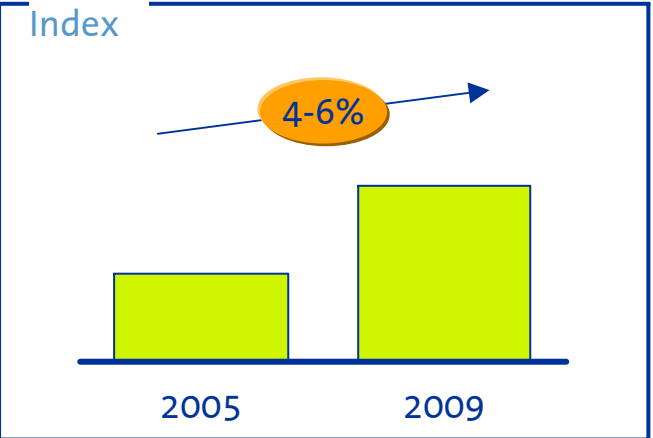
- Continue to **move up the value-chain**:
  - Providing regional portfolio of IT solutions
  - Offering sector-specific solutions
  - Leveraging Group infrastructure and alliances
- **Manage customer relationship jointly with T. Móviles**
  - Channels
  - Shared incentives/objectives
  - Market intelligence
- Consolidate **Global Clients** management model
  - Homogenized processes
  - Increased share of wallet with VASs
- Increase market share of **International Services**

\* Fixed exchange rate 2005

## Revenues by product



## ARPU





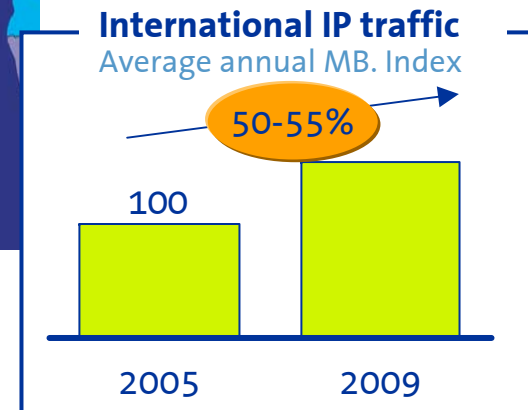
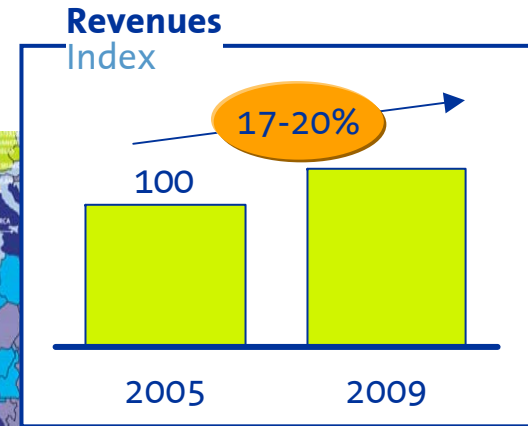
FIFTH INVESTOR CONFERENCE

# 02 TIWS: reinforcing our value proposition

CAGR 2005-09\*

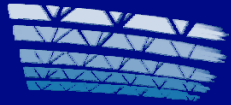
## Key initiatives

- Reinforce **value proposition for corporations** by providing global solutions
- Manage wholesale international business globally by **leveraging Group scale**:
  - Rationalization of interconnections and investments
  - Increased bargaining power for termination call costs
  - Switching optimization
- Lead **international broadband development** through **global reach expansion**
- Innovate and deploy **new convergent services** around a centralized platform (roaming Wi-Fi, VoIP, etc.)



Submarine cable maximum capacity of 1.92 Tbps with marginal investment

\* Fixed exchange rate 2005



# 02 Develop innovative fixed-mobile solutions ...

New initiatives for 2006

## Commercial synergies



Products & Services

Channels

Households



SMEs



Corporations



- Last mile "optimization"
- Bundled offers
- Integrated fixed-mobile services

- All Telefónica products available at all points of customer contact

20+ joint initiatives launched in 2005

### Building on a proven track record:

#### ■ Corporations:

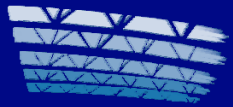
- Collaboration/ integration of sales forces in all countries
- Integrated management for global customers

#### ■ Distribution channels:

- Speedy sales in Movistar shops
- Call center signaling and coordination

#### ■ Convergent offers:

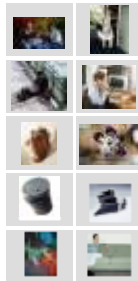
- In-group minutes
- F-M Virtual Private Networks



# 02 ... and foster innovation to consolidate leadership and growth

Many projects being implemented ...

Attitudinal segmentation



Pay TV



Internet TV



GICS



VASs



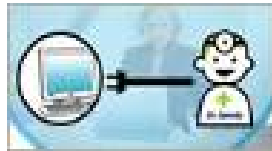
VoIP SMEs



Low-income



Dr. Speedy



FCR



Atl@s



Gaudi



... and many new opportunities being explored

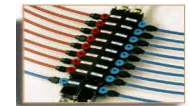
Households

- Entertainment
- New channels
- Home support
- ...



SMEs

- Professional services
- Electronic payment
- ...

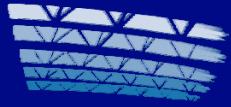


Corporations

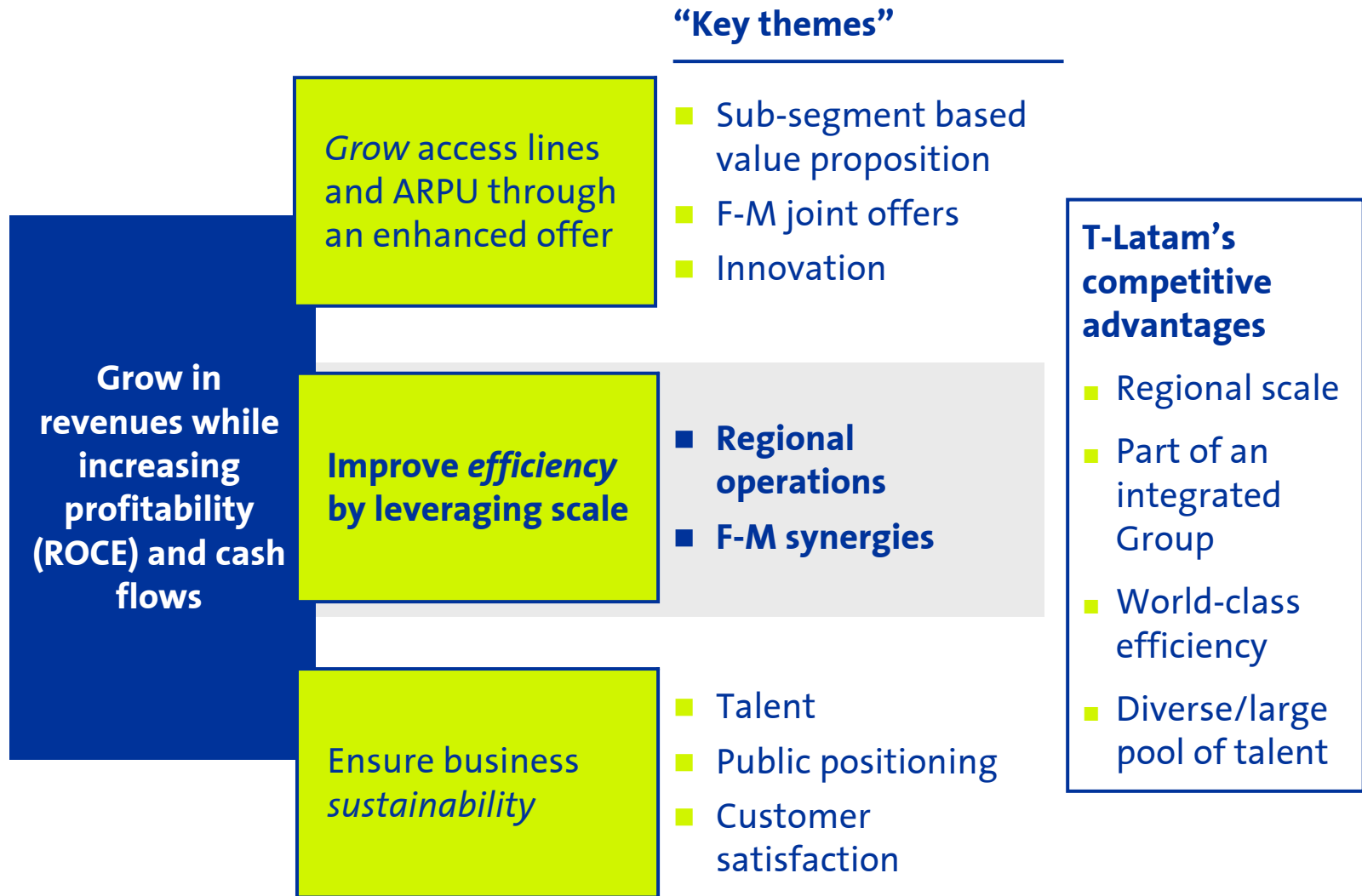
- Mobility
- ITC on demand
- ...

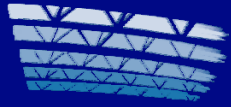


Target: EUR 350 million in revenues from innovation by 2009



# 02 T-Latam: a transformed company uniquely positioned to consolidate growth

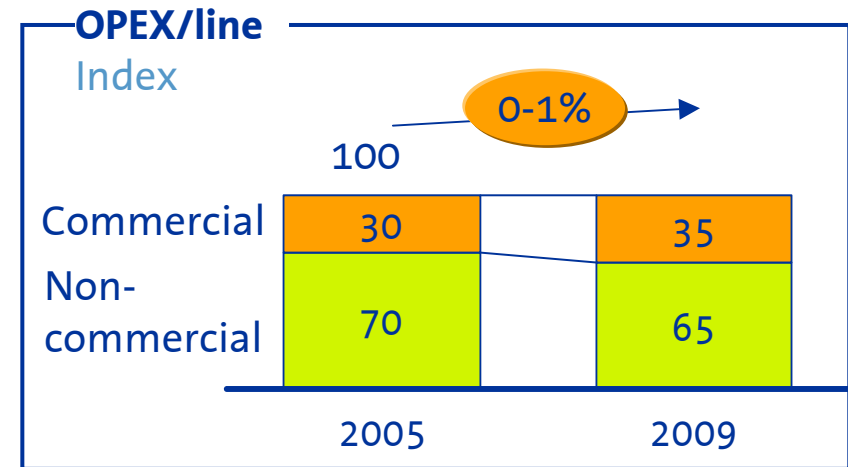
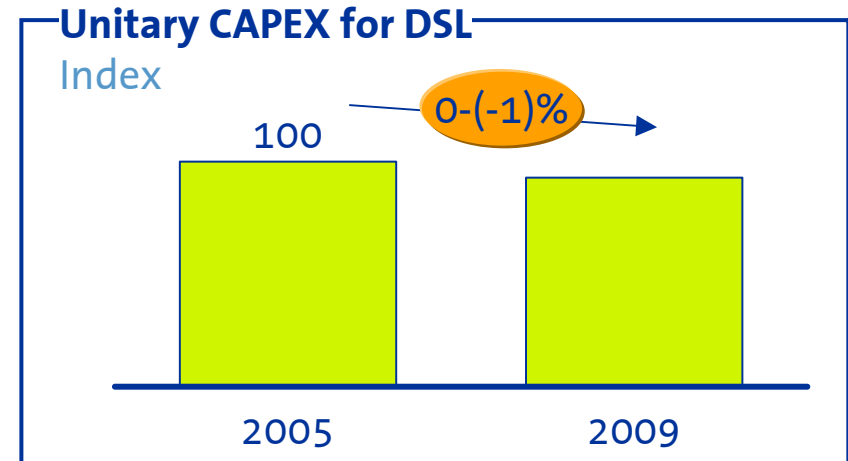




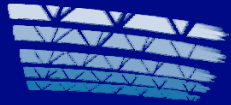
# 02 Improve operational efficiency...

CAGR 2005-09\*

- Leverage our **modern network** to support new services (DSL, pay TV, entertainment, etc.)
- **Homogenize and consolidate** operations to benefit from economies of scale
- Capture **synergies** with other Telefónica businesses
- Increase **flexibility** through a higher proportion of variable costs
- Foster **best practice exchange**



\* Fixed exchange rate 2005



# 02 ... through a regional operational model

## Regional operations

### Network



- Regional **supervision center**
- **Homogeneous** network **equipment**
- Regional **planning/ design**

### IT



- **Regional** IT strategy based on a common **application map**
- **Regional datacenters**
- Centralized **purchasing**

### Support functions



- **Shared services:** Finance, HR, logistics, real estate, etc.

## Client segments

### Households



### SMEs



### Corporations



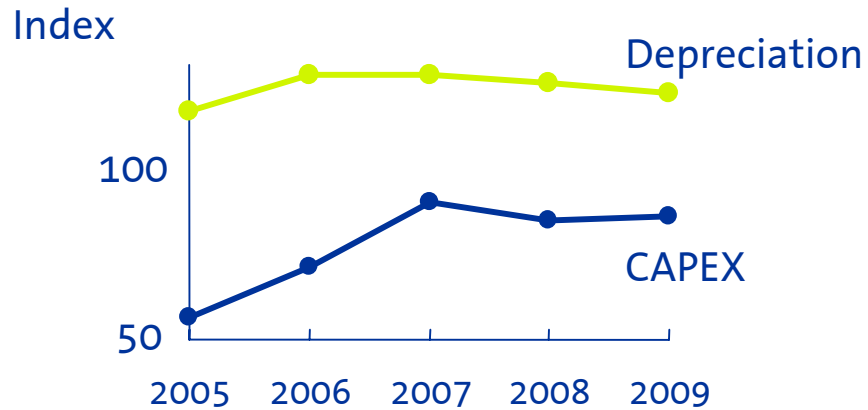
■ **EUR ~40 million of regional synergies (OPEX+CAPEX) captured in 2005**

■ **Plus EUR ~400 million in cumulative Operating Cash Flow expected for 06-09**

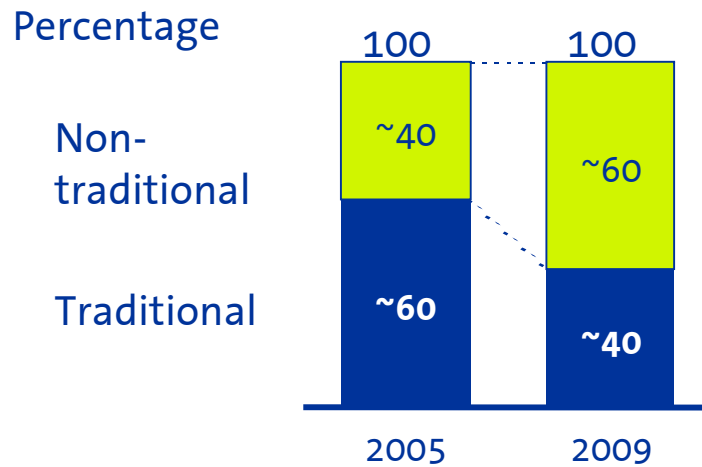


## 02 CAPEX management will maximize the value of investments

CAPEX and depreciation evolution\*



CAPEX breakdown



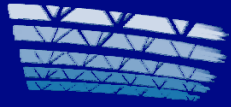
### ■ Regionally optimize CAPEX by:

- Continuing the rigorous approval process
- Leveraging regional synergies

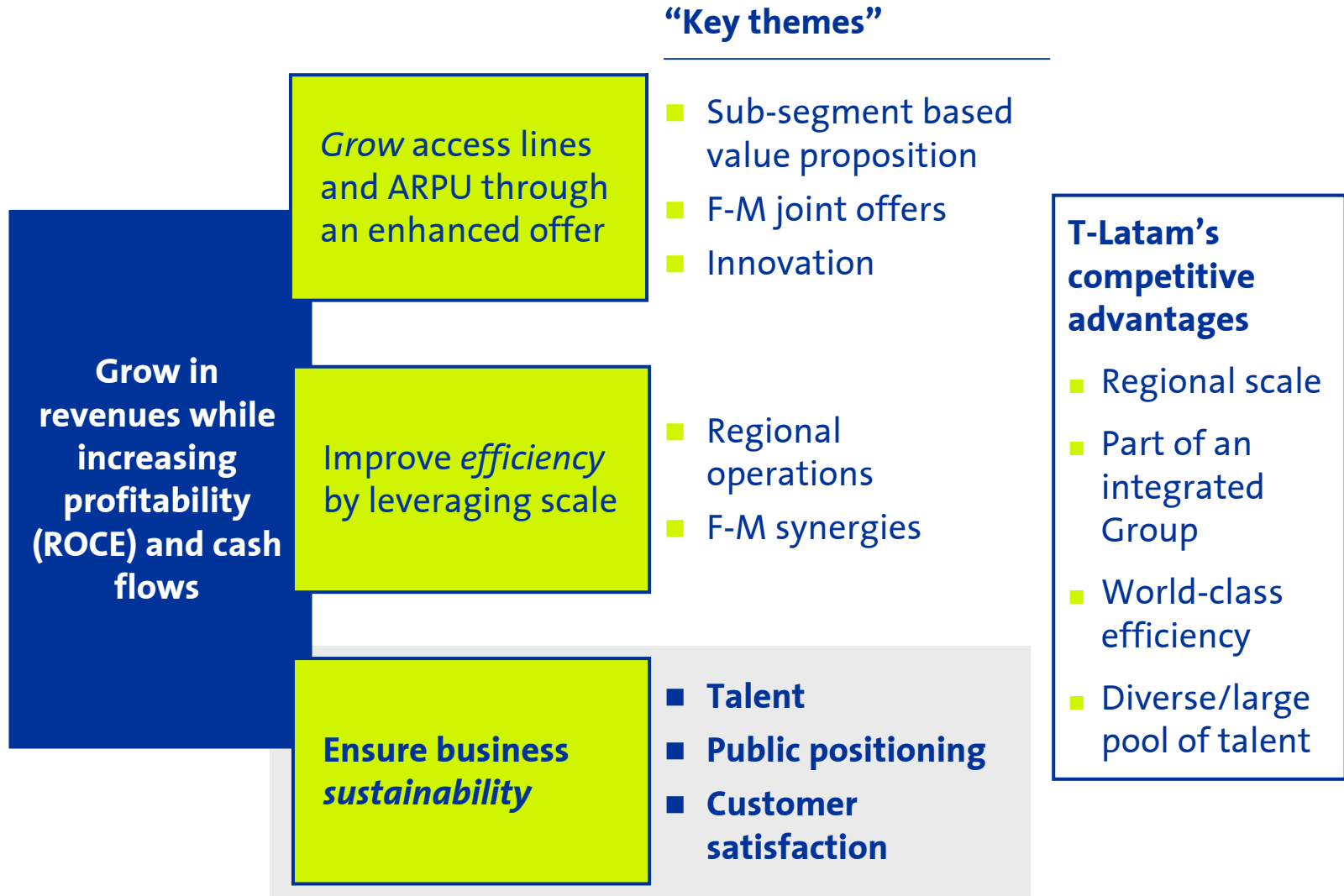
- ### ■ Increase CAPEX allocation to broadband, pay TV and new services to fuel growth

\* Fixed exchange rate 2005





# 02 T-Latam: a transformed company uniquely positioned to consolidate growth



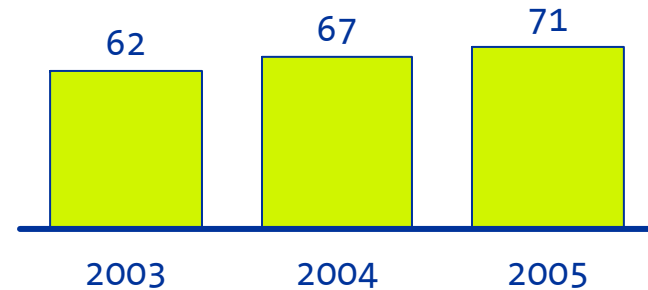


# 02 Business sustainability will be driven by employee and customer satisfaction ...

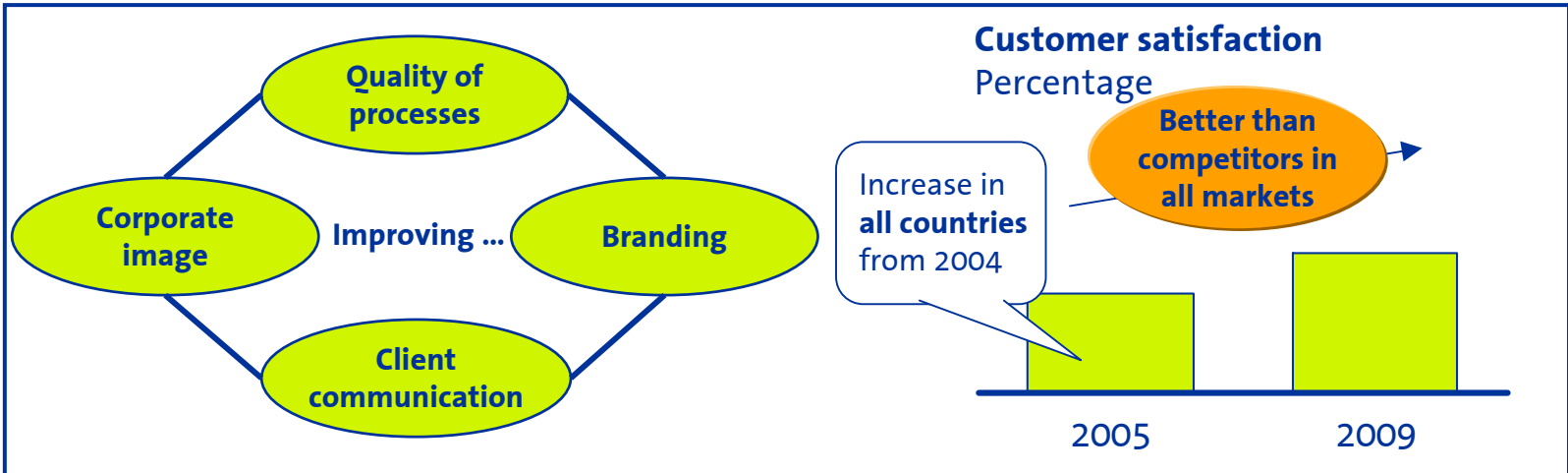
## Our high employee satisfaction ...

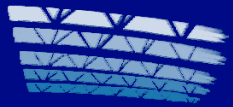
- TeleSP/TASA selected in the top 50 ranking by the “Great Place to Work”
- Over 15 senior executives transferred to other Telefónica business lines
- 11% of managers rotated regionally in 2005

Employee satisfaction Percentage



## ... will be the basis for outperforming our competitors in customer satisfaction

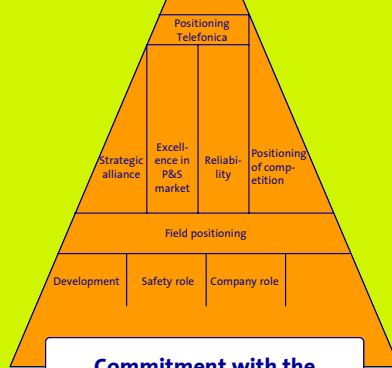




# 02 ... and by strengthening our public positioning

- A strong public positioning is critical to ensure the **sustainability of the business** by ...
- ... getting **support/aligning all stakeholders** ...
- ... reinforcing our **reputation/brand**

Engine for the development of the Society of Information



Commitment with the countries

## Llaqt@red



*"Reaches more than 140,000 people in rural areas"*

## Educared



*"More than 45,000 registered users"*

crece **PERÚ**

*"10 proposals for stability in process"*

## Alianza Brasil-España



*"Proposal for the creation of a permanent operational structure"*

We are the **main investor** in the region

We have developed the **market for D/E** segments

We **stayed** in the region through economic crisis while many others left



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# 02 All in all, we are uniquely positioned to continue capturing the regional growth opportunities

Being part of the Telefónica Group



Regional scale



Anticipation,  
transformation and synergies ...  
... always focusing on  
the customer

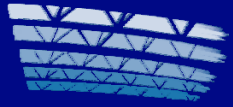
Operational efficiency



Best talent



Telefonica



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*Telefonica*

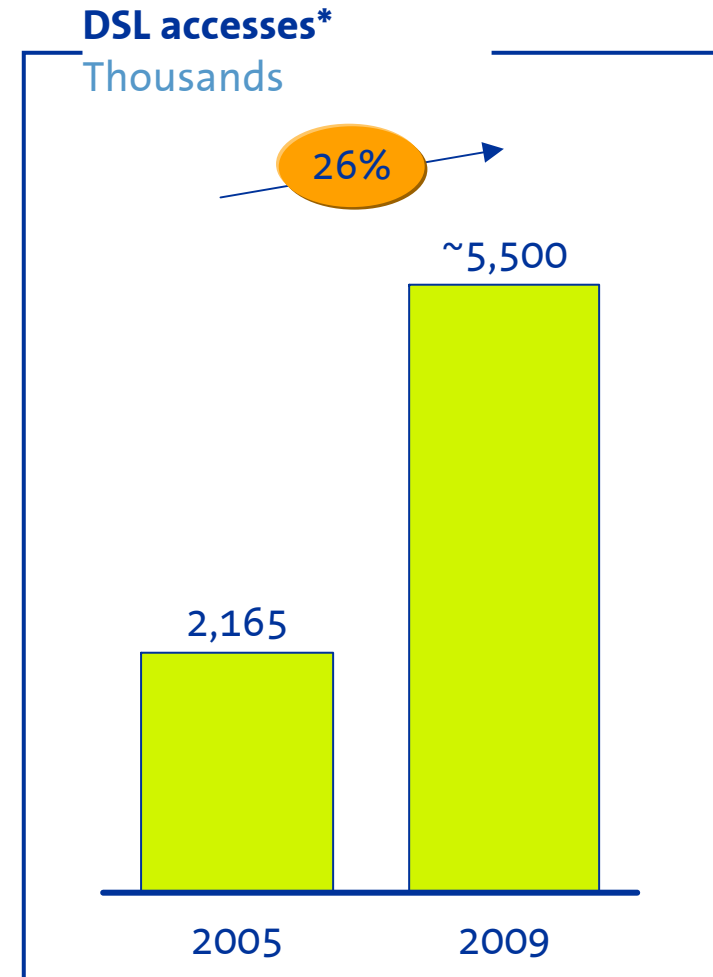
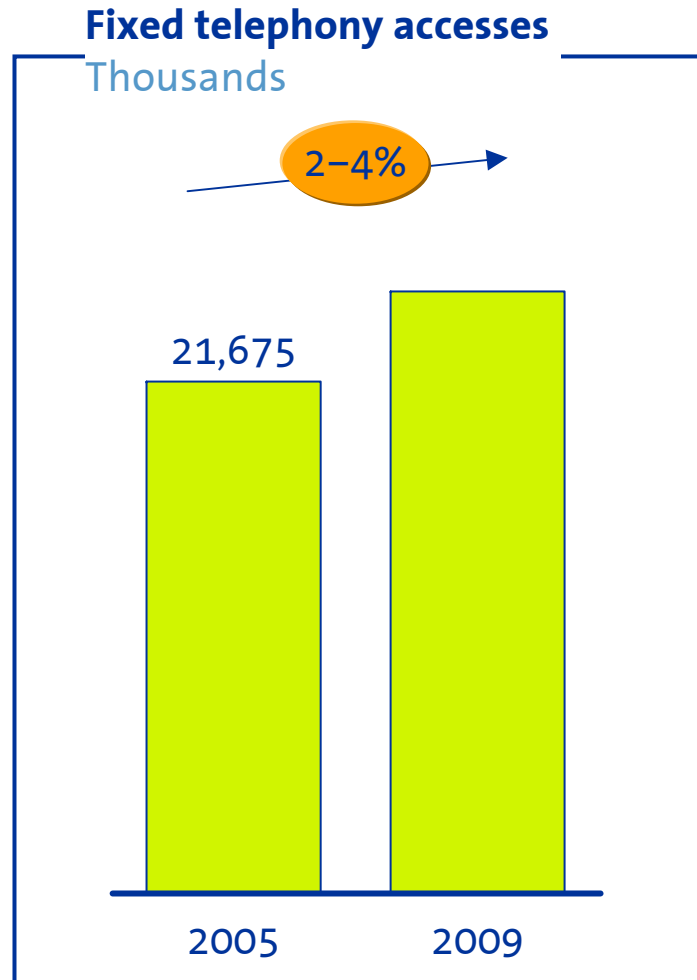
# Index

- 01 Consistently delivering on our commitments
- 02 Our management priorities to fully exploit our growth potential
- 03 A set of ambitious financial and operational targets**



# 03 Our goal: accelerate growth ...

CAGR 2005-09



\* Only fixed telephony operators; includes retail and wholesale accesses



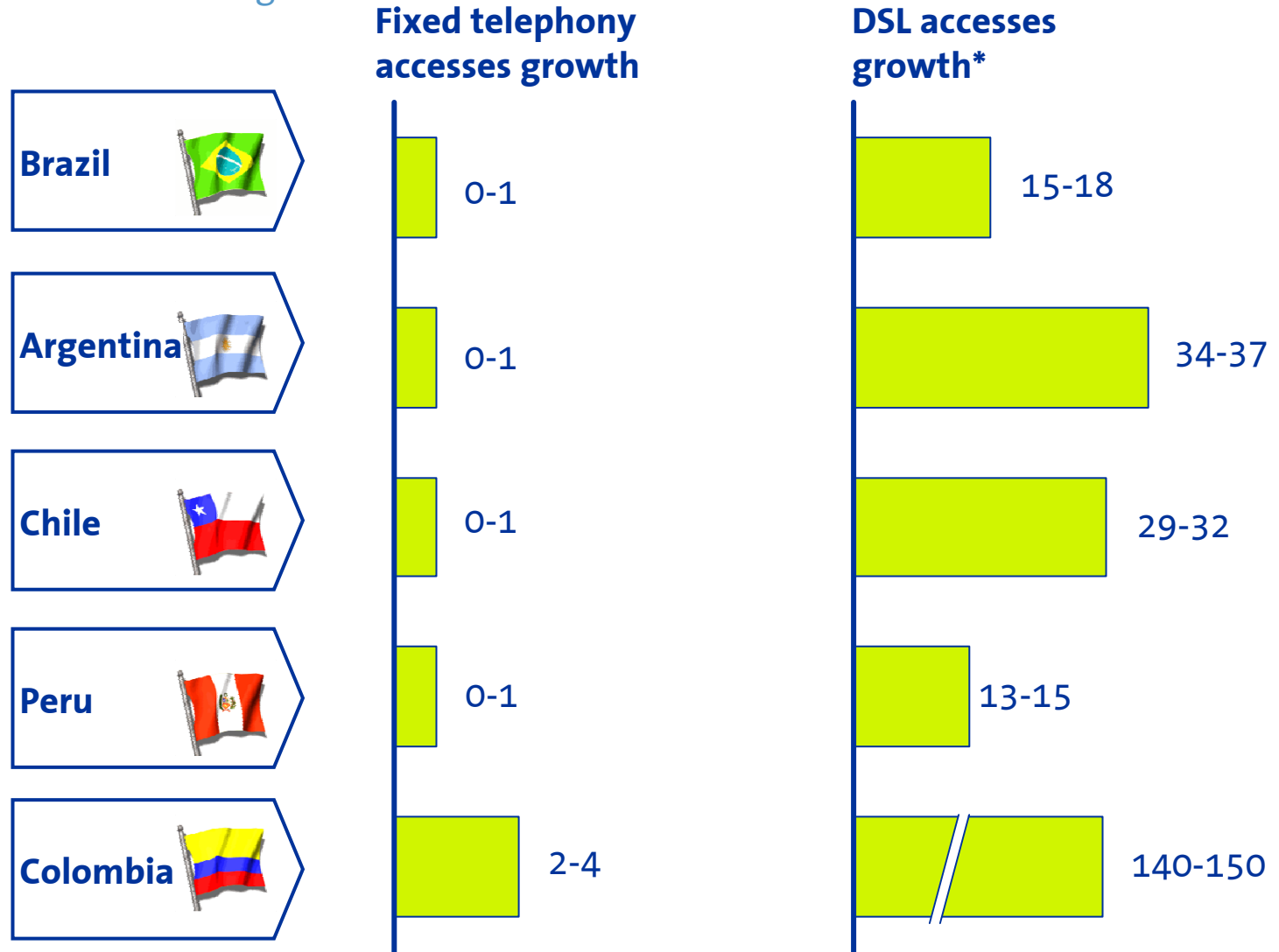
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# 03 ... in all countries ...

## Average annual growth 2005-09

Percentage



\* Includes retail and wholesale accesses

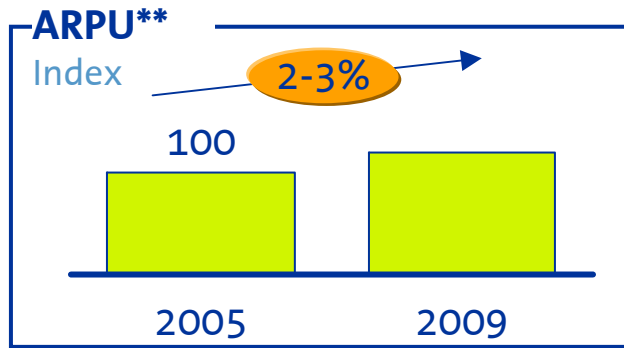


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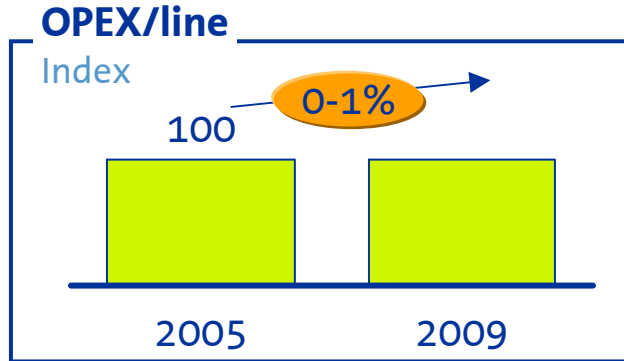
# 03 ... with a focus on profitability

% CAGR 2005-09\*

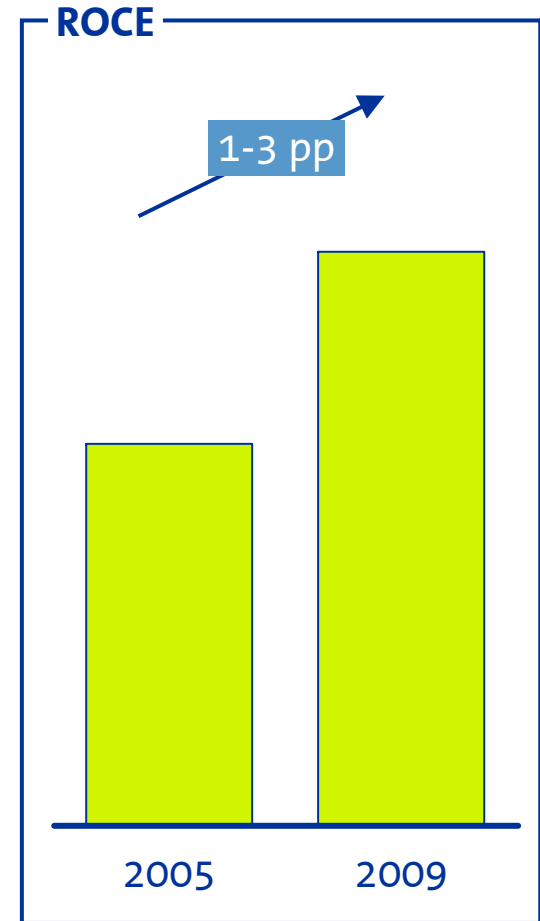
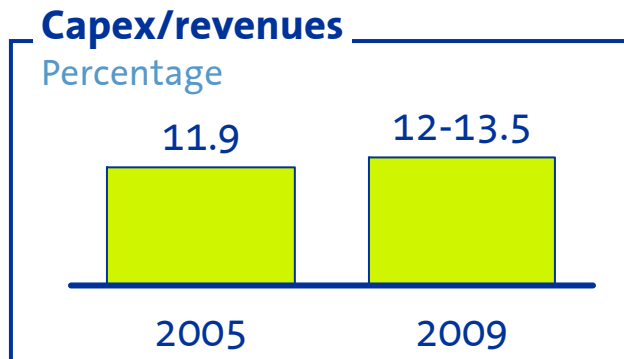
Higher ARPU



Leaner



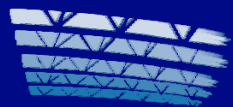
Stable CAPEX



\* Fixed exchange rate 2005  
\*\* Only fixed telephony operators







## 03 T-Latam financial commitments

| EUR millions                                  | FY<br>2005 <sup>(1)</sup> | CAGR<br>2005-09E <sup>(2)</sup> |
|---|---------------------------|---------------------------------|
| Revenues                                      | 8,352                     | 5-8%                            |
| Operating Income<br>before D&A <sup>(3)</sup> | 3,638                     | 6-9%                            |
| Operating Income <sup>(3)</sup>               | 1,839                     | 10-15%                          |

| EUR millions | FY<br>2005 <sup>(1)</sup> | Cumulative<br>2006-09E <sup>(2)</sup> |
|--------------|---------------------------|---------------------------------------|
| CAPEX        | 991 <sup>(4)</sup>        | 5,000-5,500                           |

1 T-Latam fiscal year numbers are pro-forma, including Terra's Latam unit since January 2005

2 Assumes constant exchange rates as of 2005 and excludes changes in consolidation other than Colombia Telecom, which starts to be consolidated in May 2006

3 In terms of guidance calculation, Operating Income before D&A and Operating Income exclude other exceptional revenues/expenses not foreseeable in 2006-2009. For comparison purposes, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures (EUR 128 million from Infonet and Telinver)

4 Calculated using 2005 average exchange rates



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## Key messages

- We have a **consistent track record** of meeting commitments by continuously anticipating the market and transforming the business
- We pioneered the international expansion of Telefónica and proved that being part of a **global and integrated leader** gives us an unrivalled advantage
- Looking forward, we expect a **bright future for the region** rooted in solid fundamentals
- We are **uniquely positioned** to capture the growth opportunities by deepening our transformation as a regional company within the Telefónica Group

*Telefonica*

*Telefonica*

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