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THIRD  
INVESTOR  
CONFERENCE

MADRID 2003

*Telefonica*

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## *Safe harbor*

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# ***Capturing LatAm's opportunity***



# Content

- **Telefónica: the right partner to exploit Latam's opportunity**

Latam is a large market with relevant growth opportunities. T Latam's solid track record and demonstrated management flexibility will allow us to extract the most from them

- **Overall Latam priorities**

T Latam operators share common objectives based on three pillars: commercial excellence, operational flexibility and efficiency and regulatory management

- **Operators priorities and key parameters**

Operators are applying these strategic thrusts to respond to the challenges and capture specific opportunities in each country

- **Our commitment for the future**

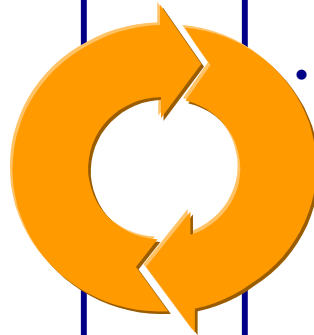
As a result of this effort T Latam is committing to deliver continuous growth and quickly progress on key transformation parameters



# Telefónica is the right partner to exploit Latam's opportunity

## T Latam's opportunity

- **A large market:** more than 240 million people in the four T Latam's countries
- **Significant economic growth:** GDP to grow at a yearly average rate of 3.5% until 07
- **New businesses** (e.g. Internet and VASs) **are already a growing reality**
- **Growth in core businesses with low CAPEX**



## Key requirements

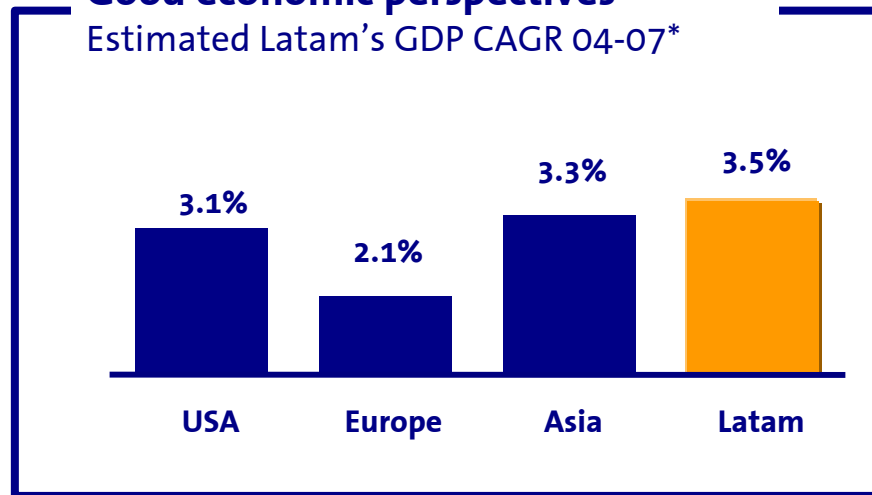
- **Market knowledge:** Telefónica has had a very significant presence in the region since 1990
- **Management flexibility:** Telefónica has shown a solid record of anticipating market changes and adapting management priorities
- **Leadership:** Telefónica is the leading Latin America wireline Telco

# Latin America is a large market with still significant opportunities for growth



## Good economic perspectives

Estimated Latam's GDP CAGR 04-07\*

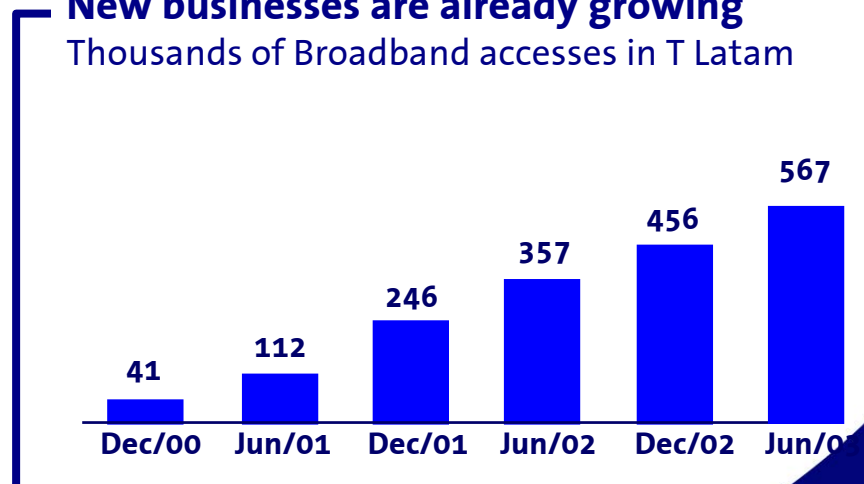


## Remaining growth in core businesses

- Leverage vacancy to grow in lower income segments
- Extend product expertise to niche markets (e.g., Payphones)
- Increase penetration of VASs
- Increase traffic through new products (e.g., voice chat)

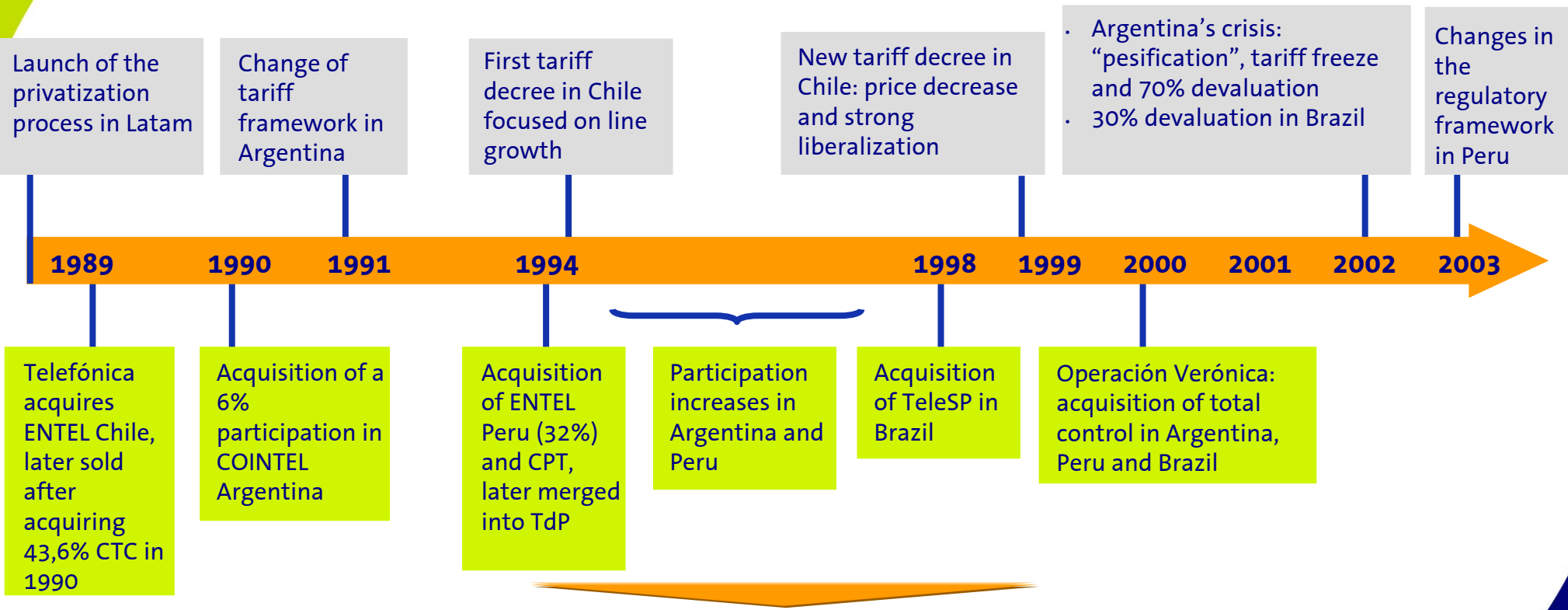
## New businesses are already growing

Thousands of Broadband accesses in T Latam



\* The Economist Intelligence Unit

# Market knowledge developed through a long history of presence in the Region



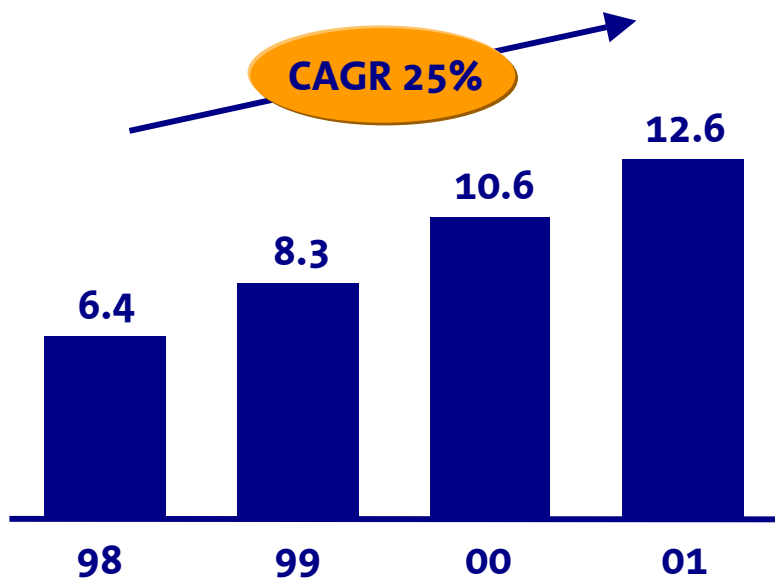
**Telefónica has developed flexible management capabilities to deal with a changing environment**



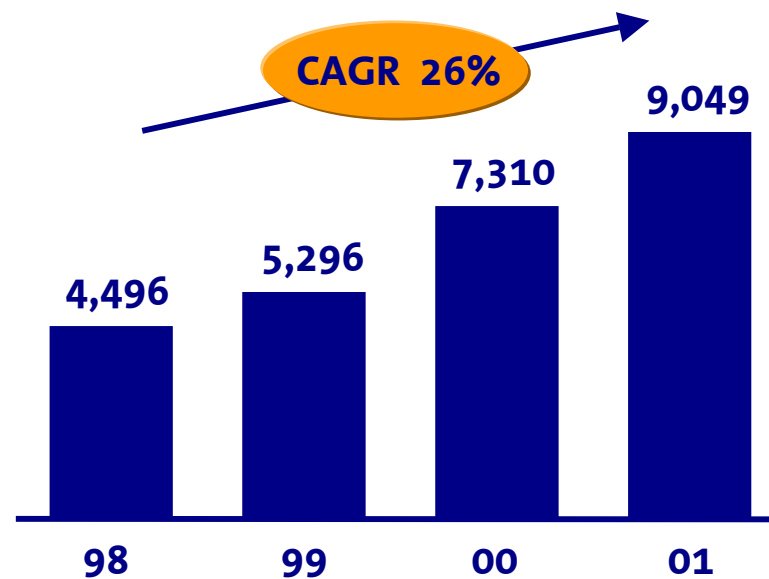
# Management flexibility: When we had to grow... we grew

First operator to achieve Brazil  
“metas” in 2001

Lines in service  
Millions



Net operating revenues  
R\$ Millions

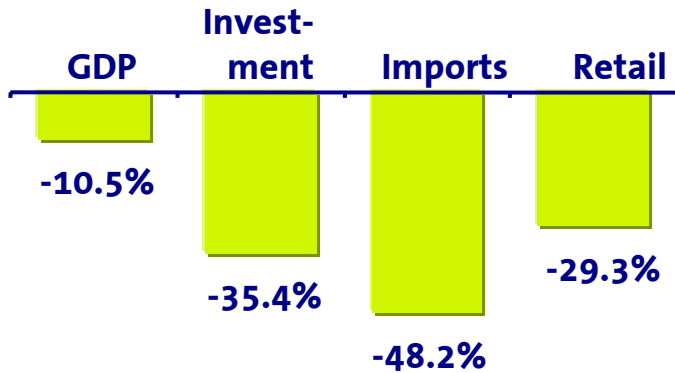




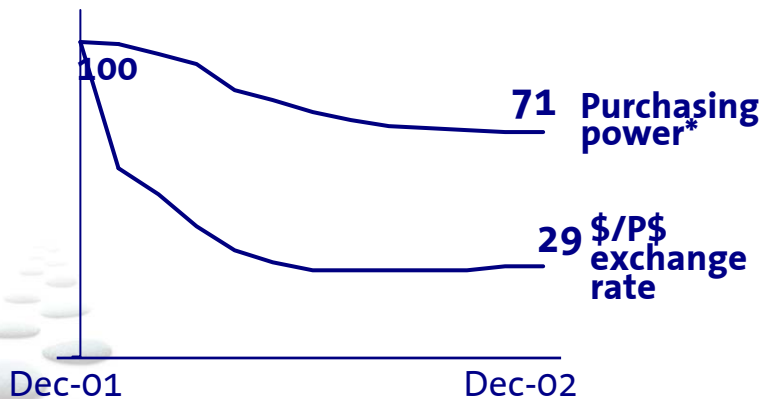
# Management flexibility: When we faced a dramatic crisis... we overcame it



**Argentine economic indicators**  
2001-02 change



**Base 100**  
December 01



\* Inverse of CPI  
\*\* EBITDA - CAPEX

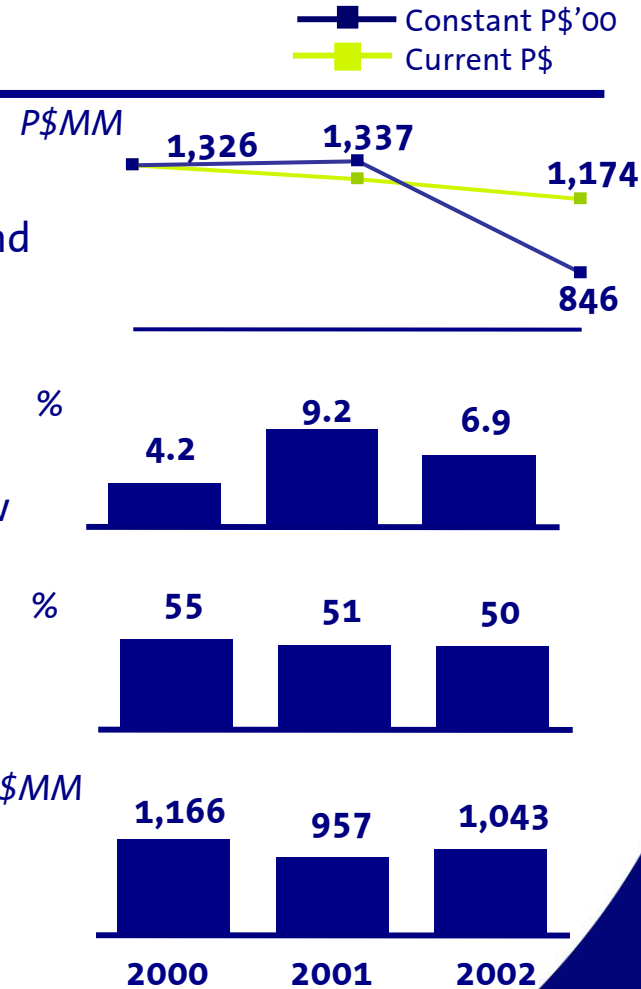
## Key levers

**Opex:**  
Strong expense control and efficiency improvement, maintaining employment

**Bad debt /Revenues:** New products, scoring systems

**EBITDA Margin**

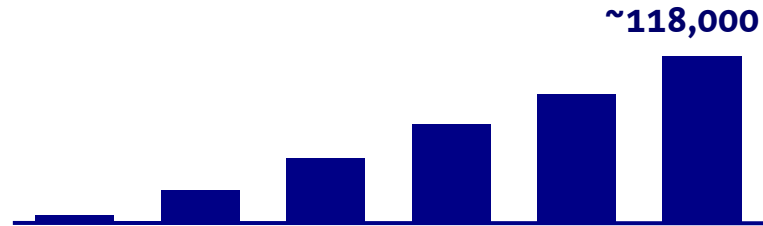
**Op. FCF\*\*:**  
Strong capex discipline, reutilization of spare capacity and disconnections



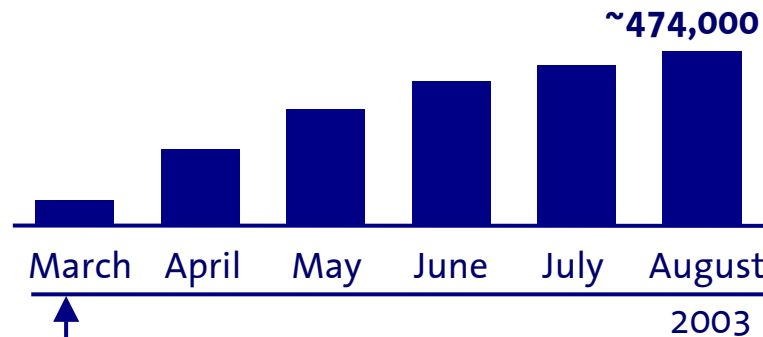
# Management flexibility: When our commercial environment changed... we transformed it into a growth opportunity



**New lines**  
(Accumulated)



**Migration of existing lines**  
(Accumulated)



Launch of TdP's new plans

592,000 new lines or plans captured in 6 months with special focus on social lines

**SUBEN PASAJES Y BAJAN TELEFONOS**

Transportes aereos que desde el lunes... Osiptel aprueba nueva propuesta de Telefonica del Peru que reduce tarifas entre 5% y 31%

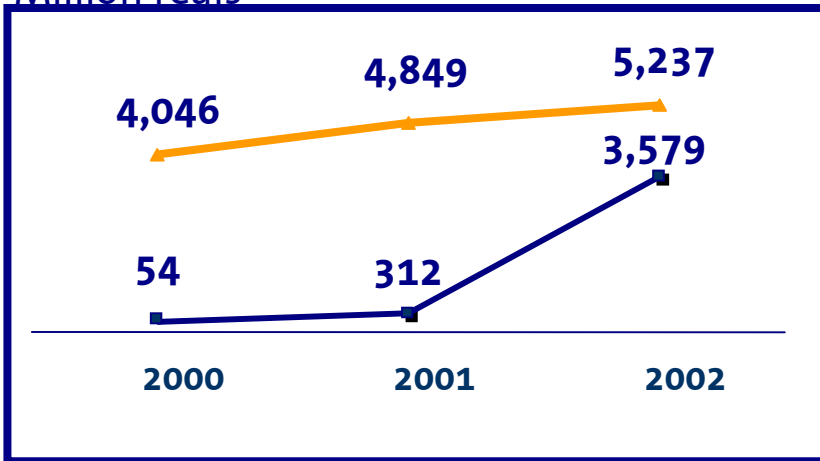
Osiptel aprueba nueva propuesta de Telefonica del Peru que reduce tarifas entre 5% y 31%

Correo, February 22nd, 2003

# In any environment Telefónica has achieved compelling results and a growing cash flow in local currency...

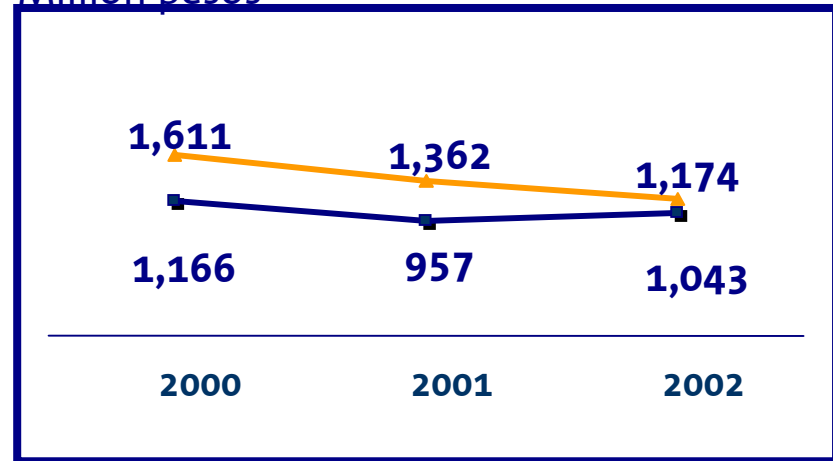
## TELESP

Million reais



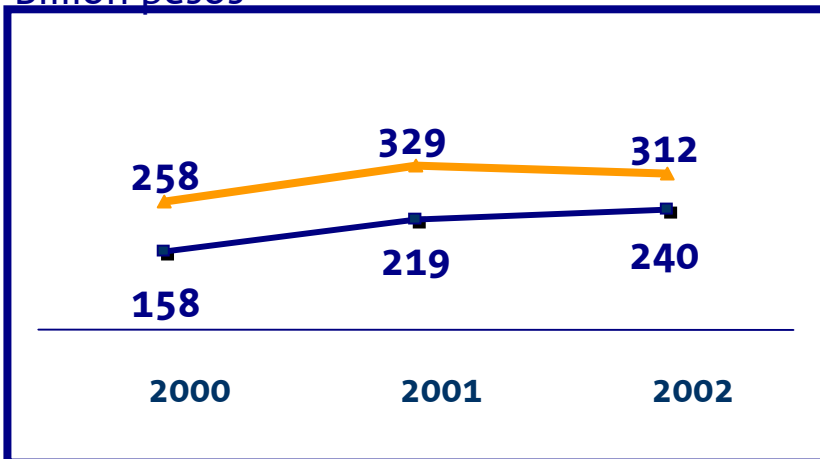
## TASA

Million pesos



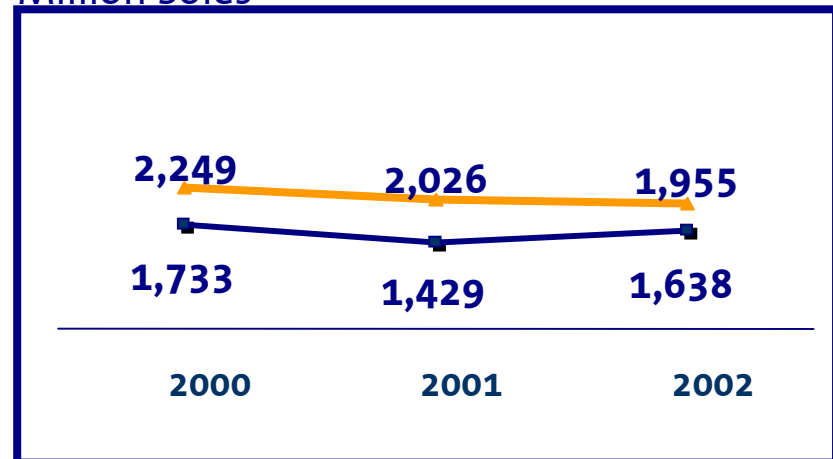
## CTC

Billion pesos



## TdP\*\*

Million Soles



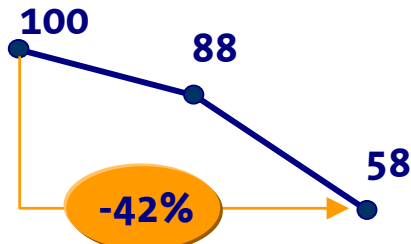
 EBITDA  
 Op. FCF\*

\* EBITDA - CAPEX

\*\* Including Cable Mágico

# ...and despite currency and economic volatility, flexible management has also allowed positive results in euros

**Evolution of T Latam currency portfolio\***  
US\$. Base 100 year 2000



2000      2001      2002

**Simultaneous devaluation vs. US\$:**

- Brazilian Real      -34.3%
- Argentinean Peso   -70.3%
- Chilean Peso        -8.9%
- Peruvian Sol        -2.0%

**Operative hedging**

*Improve flexibility to mitigate adverse environment:*

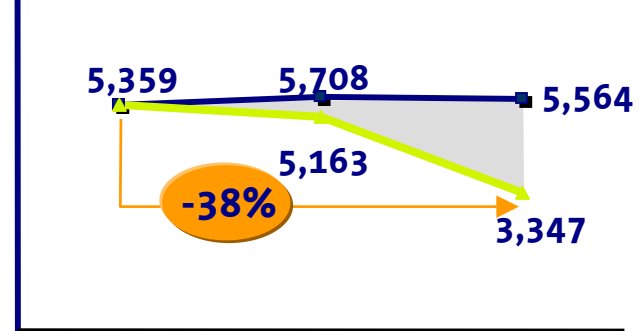
- Cash control
- Strict CAPEX selection
- OPEX efficiency

**Financial hedging**

*Anticipated use of diversification and financial tools*

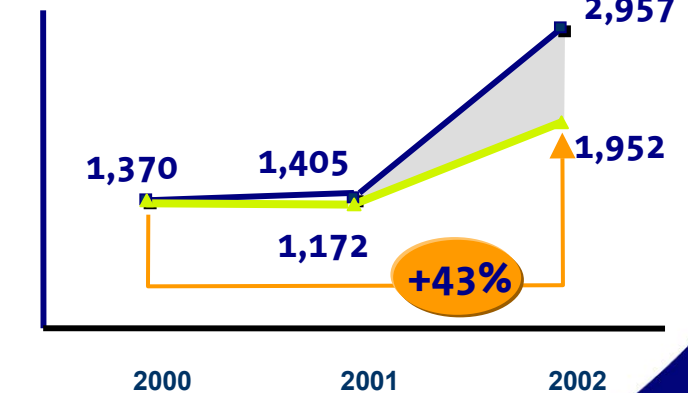
**EBITDA**

Million euros



**Free Cash Flow\*\***

Million euros



- Exchange rate €'00
- ▲ Current €
- Δ 00-02 current €

\* Weighted based on T Latam revenues 2001 in US\$ (44% TeleSP, 30% TASA, 13% CTC, 13% TdP)

\*\* EBITDA - CAPEX - Finance costs - Taxes

# As a result we met Seville's FCF commitments even in the worst year and in 2003 we have recovered the promised growth path

## Seville's commitments

## Delivery to date

2001-2002

2002-2005

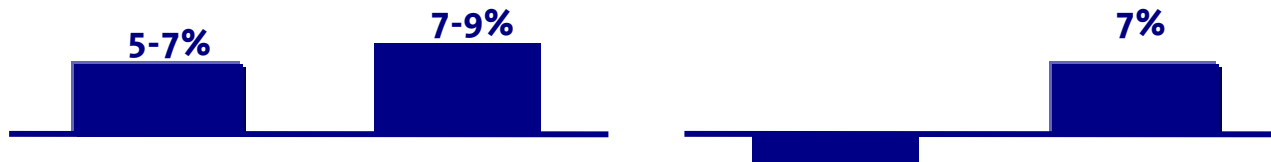
2001-2002

1H02-1H03

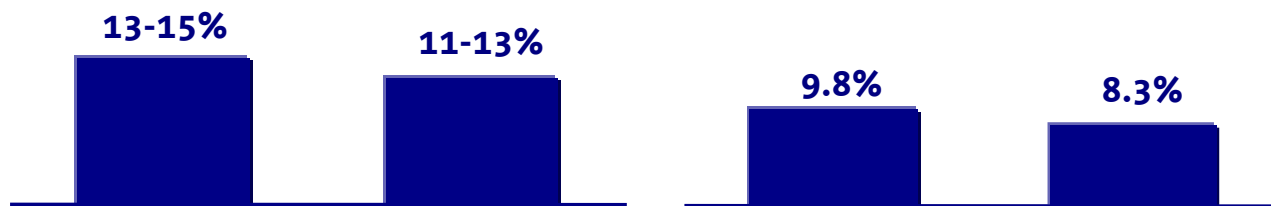
Revenues\*



EBITDA\*



Capex/  
revenues



- 2002 crisis tougher than expected
- Back on track in 2003

- Further Capex reduction in 2002 to preserve FCF goal even in the toughest year

FCF\*\*

2002: Between €2.1 Bn and €2.4 Bn

2002: €2.1 Bn

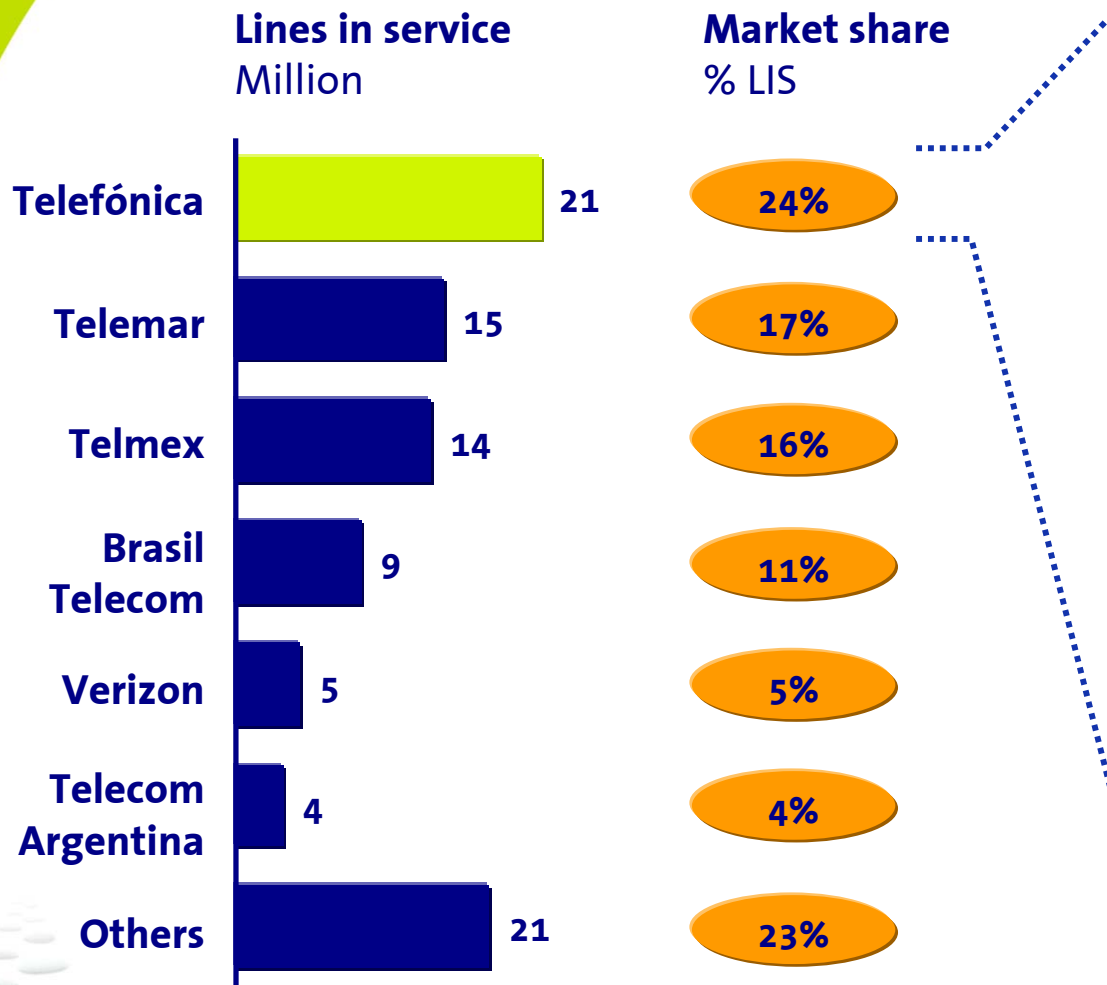
\* Constant euros. Exchange rates as of 2001, except figures for 1H02-1H03 (exchange rates as of 1H02).

\*\* FCF= EBITDA-CAPEX-Finance costs-Taxes. Exchange rates as of 2001, except Argentinean peso (2:1)

# And we now face the future from a #1 position in the region

2002

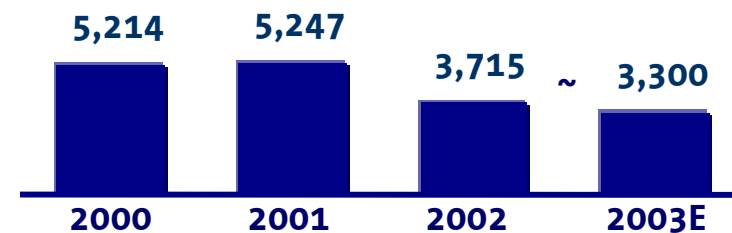
## Market leadership



## Solid operational base

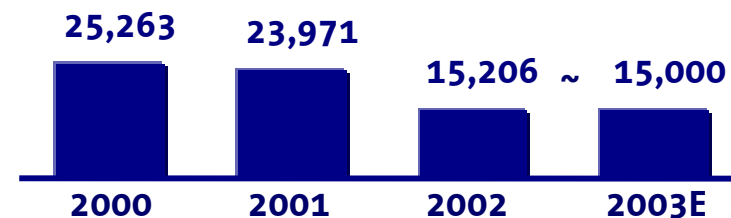
### Strong OPEX improvement

Million euros.



### Significant Asset reduction

Assets. Million euros.



Source: Company Reports; ITU 2002

# Content

- **Telefónica: the right partner to exploit Latam's opportunity**

Latam is a large market with relevant growth opportunities. T Latam's solid track record and demonstrated management flexibility will allow us to extract the most from them

- **Overall Latam priorities**

T Latam operators share common objectives based on three pillars: commercial excellence, operational flexibility and efficiency and regulatory management

- **Operators priorities and key parameters**

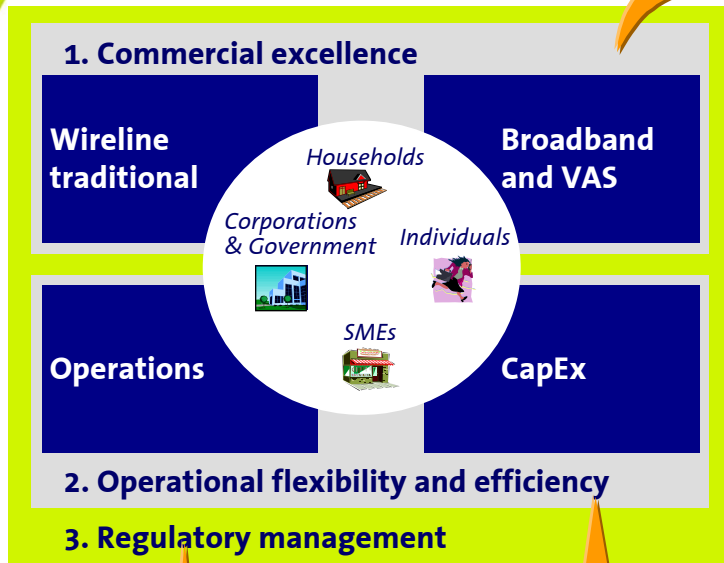
Operators are applying these strategic thrusts to respond to the challenges and capture specific opportunities in each country

- **Our commitment for the future**

As a result of this effort T Latam is committing to deliver continuous growth and quickly progress on key transformation parameters



# All T Latam operators share several key priorities



## ✓ **Customer-oriented organization**

- Develop competitive intelligence
- Segmented approach to customers
- Rebuild sales force and rebalance channel mix
- Improve customer service

## ✓ **Defend and grow traditional business**

- Retain customer base: bundling and segmentation
- Increase ARPU through new value added services
- Increase value of fixed lines to avoid churn
- Maximize penetration by income level segments

## ✓ **Develop new businesses** leveraging customer base

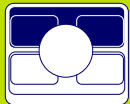
## ✓ **Capture Internet opportunity**

- Accelerate penetration both in NB and BB
- Competitive BB offers leveraging TdE's know-how

- ✓ **Continue current efficiency effort** in all areas to capture regional synergies, roll out best practices and keep local focus to reduce operational costs

- ✓ Develop an **active institutional presence**
- ✓ Participate in **developing a new regulatory paradigm** more coherent with Telecom Sector development needs





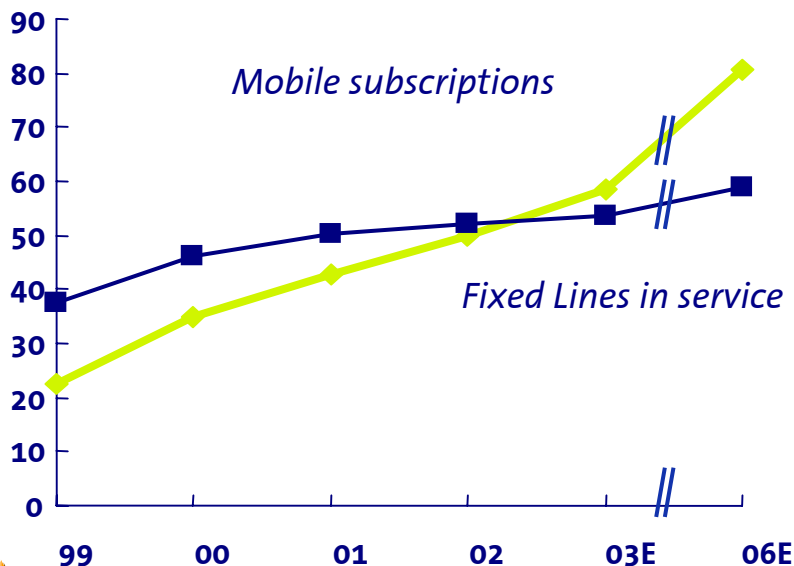
# 1. Commercial Excellence: our key to capturing existing growth opportunities and succeeding in a complex environment

The traditional growth model in lines is running out of steam...

...and demands a new commercial focus and a new approach to leverage customer base

## Four T Latam markets

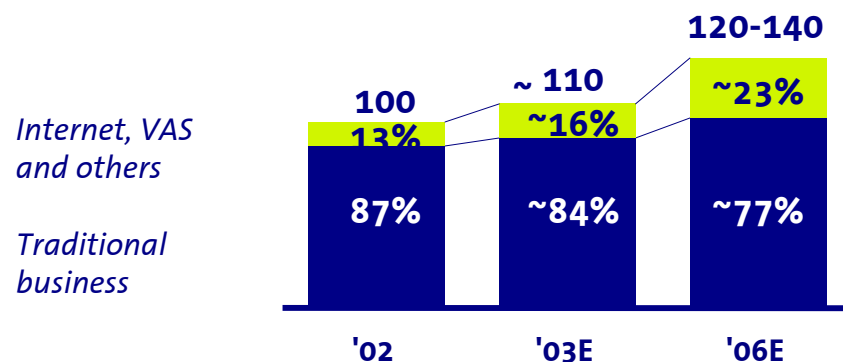
Millions



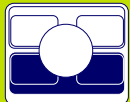
- Achievement of privatization targets (i.e. “metas” in Brazil)
- Markets open to competition in all countries
- Mobile boom

## Increasing ARPU

T Latam. Base 100 year 02



- ✓ **Protect current customer base**
- ✓ **Exploit new opportunities in traditional business:** SVAs, LD, low income households...
- ✓ **Lead Internet business (NB and BB):** ISPs, Internet Kiosks, BB content...
- ✓ **Develop new businesses:** Tele-emergency, BLEC, Wi Fi, Cartao,...



## 2. Flexible and efficient operations: a lean company prepared for uncertainty

### CAPEX regional management

- CAPEX management
- 2001-2004
- Process homogenization across the Region
- Single Country Committees to approve any investment
- Single Regional Committee to approve high investments or cross initiatives
- Strong relation with Purchasing

### COMEX, Commercial Excellence

- Sales&Marketing management
- 2003-2004
- Process homogenization
- Roll out best practices
- Joint development of new products and adaptation of Spanish services
- Improve customer knowledge

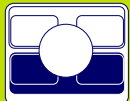
### ATIS

- Commercial operations
- 2002-2005
- Single regional platform for commercial service, invoicing and payments
- Client data standardization

### Technological harmonization

- Network planning & design
- 2004
- Integration of technology areas across operators
- Unification of network design criteria





## 2. Flexible and efficient operations: anticipating market trends

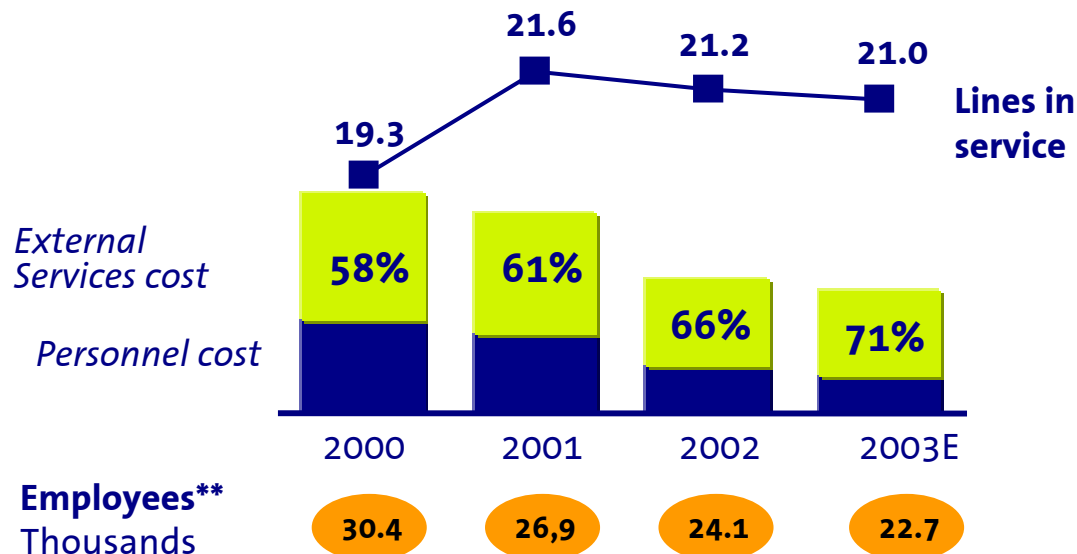
### OPEX, Operational Excellence

Improve network operation and maintenance:

- Process homogenization and automation
- Roll out best practices
- Outsourcing
- Resources management (GAUDI)

### Work force costs vs. Lines in service

Percentage. Thousands



### Objectives for 2005

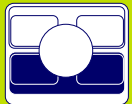
- 24% reduction in per line network cost
- 437 M€ of annual cost reduction and 10,252 FTEs\*

### Results to date


- 21% direct per line cost reduction
- 383 M€ of annual cost reduction and 5,082 FTEs\*

\* FTE: Full-time equivalent employees

\*\* Fixed Telephony Operators



## 2. Flexible and efficient operations: leverage remaining capacity of existing network

 % of clients ready for ADSL

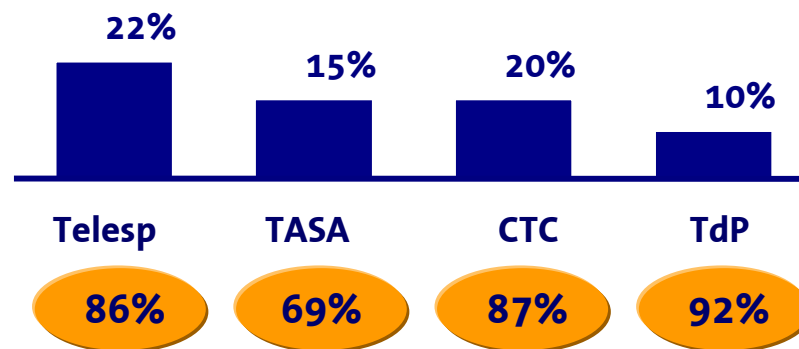
### A modern plant...

% of equipment installed in the last 10 years

	Telesp	TASA	CTC	TdP
Commuted accesses*	88%	32%	20%	25%
SDH Transmission*	100%	68%	100%	83%
Optical fiber	91%	99%	78%	99%
Local loop	64%	61%	43%	64%
% Digitalized plant	<b>97%</b>	<b>100%</b>	<b>100%</b>	<b>96%</b>

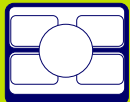
### ...with remaining capacity

% vacancy. July 2003



Significant opportunities to increase penetration in new lines and DSL leveraging existing optical fiber capacity

\* Installed in the last 7 years



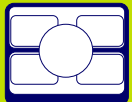
### 3. Regulatory management: actively participate in building a new regulatory and social environment

#### Regulatory models are being reviewed in all countries...

- Regulators are increasingly recognizing the importance of Telecommunications for the development of their countries :
  - Direct impact in telecommunications
  - Indirect impact in other sectors
- Additional development requires further investments
  - Remaining opportunities for growth in traditional business
  - Internet penetration
  - Broadband deployment
- Regulators still have important challenges to face
  - Investment vs. competition
  - Short-term tariff reduction vs. penetration or deployment of new services

#### ...and a new approach is emerging

- ✓ **New scope:**
  - Not only the regulator, but society as a whole
  - Not only telcos but all platforms that fulfill similar needs
  - Not only traditional business but the Information Society
- ✓ **New objectives**
  - **Less focus on:** retail prices, traditional penetration measures, number of competitors...
  - **More focus on:** quality, investments, growth of new services, regulatory stability...
- ✓ **A strong commitment with the development of the telecommunication sector**



# Telefónica has led the development of the wireline sector in Sao Paulo



## Illustrative achievements

Form 1998 to 2001 TeleSP invested 8,054 million euros to install 6.2 million new lines

Increased penetration especially in low income level households

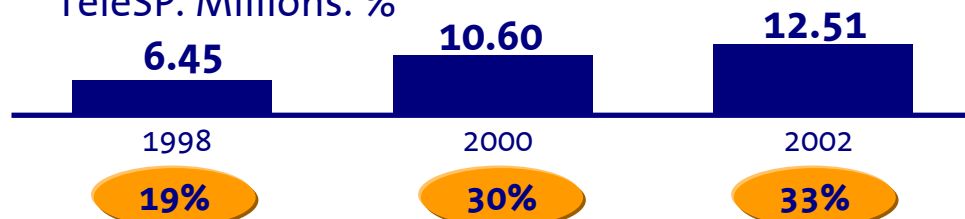
TeleSP was the first operator in Brazil to achieve privatization "goals"

New line installation fee down to US\$30, from US\$ 1,200 in 1997

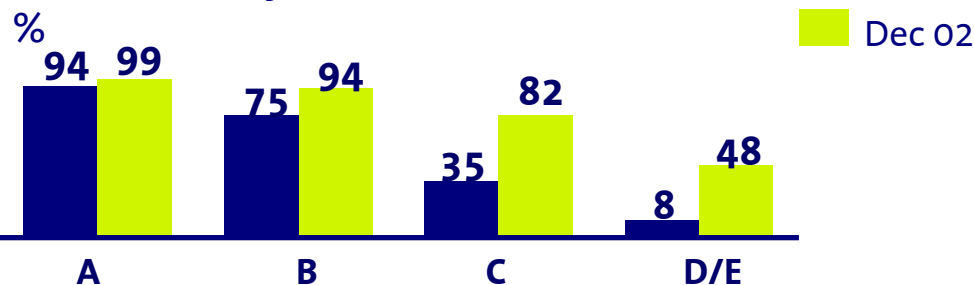
Sao Paulo is the No. 1 region in Latin America in broadband penetration, ahead of other developed countries

### Lines in service. Penetration

TeleSP. Millions. %

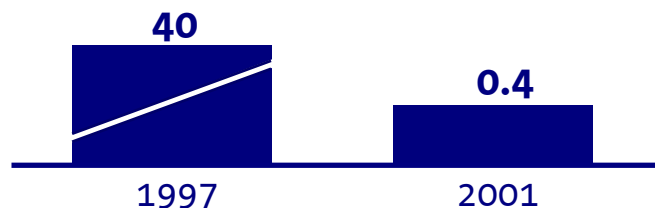


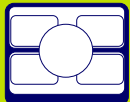
### Penetration by income level



### New line provisioning lead time

Months





# Telefónica has led the development of the wireline sector in Argentina



## Illustrative achievements

8,655 million euros invested up to 2001 to double penetration from 12% in 1990 to 24%

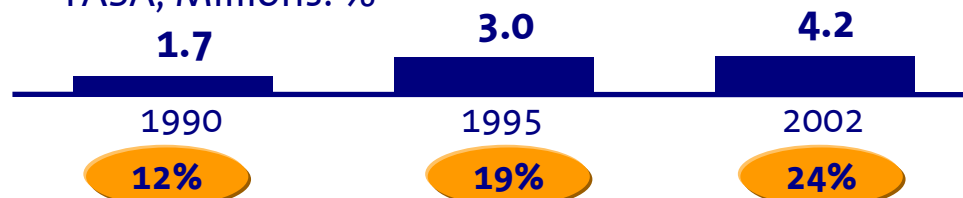
100% of the network digitalized in 1998, enabling the richest service offering

New line installation fee down to US\$50 from US\$2,500 in 1990

As of 2000, all villages over 80 inhabitants have access to the telephone network

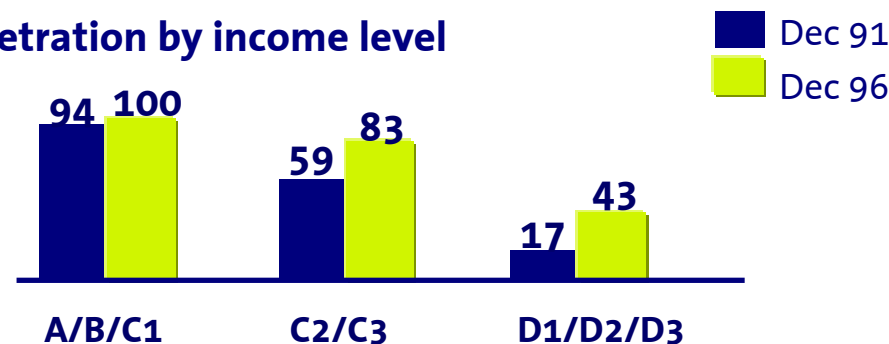
### Lines in service. Penetration

TASA, Millions. %



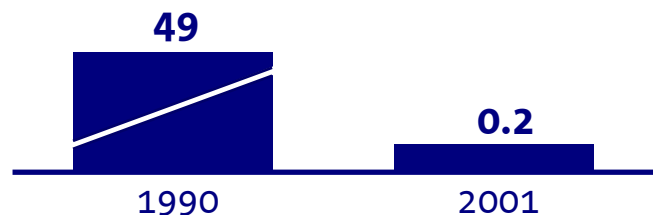
### Penetration by income level

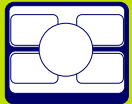
%



### New line provisioning lead time

Months





# Telefónica has led the development of the wireline sector in Chile



## Illustrative achievements

CTC invested 3,832 million euros from 1989 to 1999 to boost penetration from 6% to 16%

Chile was the first country in the world to digitalize 100% of the network in 1991

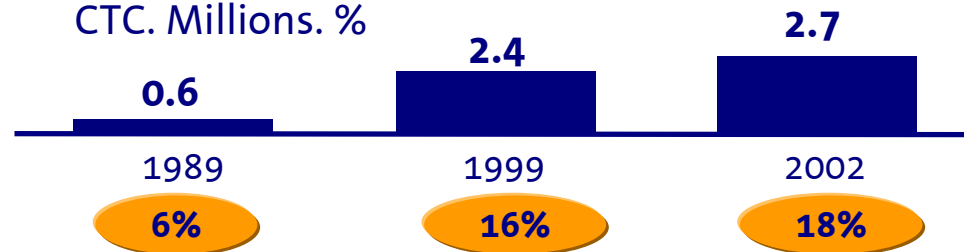
New line provisioning lead time has decreased from 540 to 10 days

CTC has played a key role in developing new telecom businesses:

- Strong competition in LD
- Internet has achieved 20% penetration
- Mobile has 34% penetration, the highest in Latin America

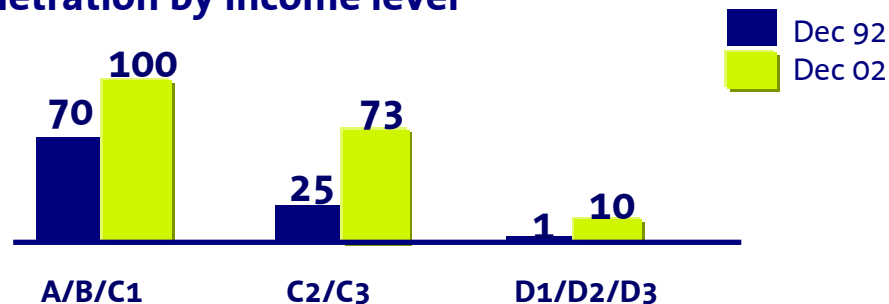
### Lines in service. Penetration

CTC. Millions. %



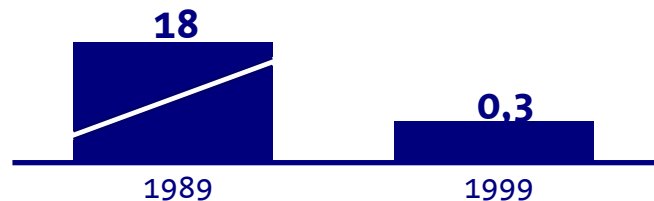
### Penetration by income level

%

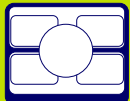


### New line provisioning lead time

Months







# Telefónica has led the development of the wireline sector in Peru



## Illustrative achievements

Total investment of 2,790 million euros up to 2001 to install almost 800 thousand new lines

94 thousand new payphones:

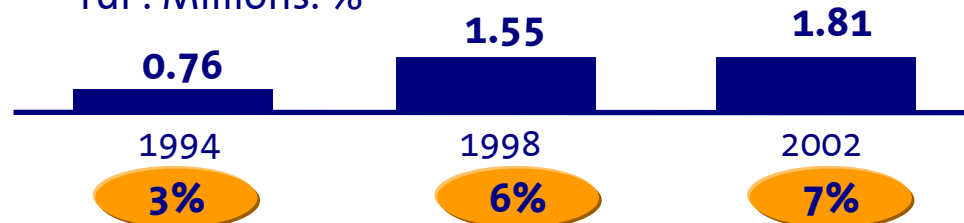
- Covering the entire country and allowing communications in rural areas
- Offering internet access, reaching penetration of 8%

Continuous price reductions: up to 33% to 2002 and new significant decreases in 2003 with the new plans

Network digitalization increased from 38% in 1994 to 96% in 2001

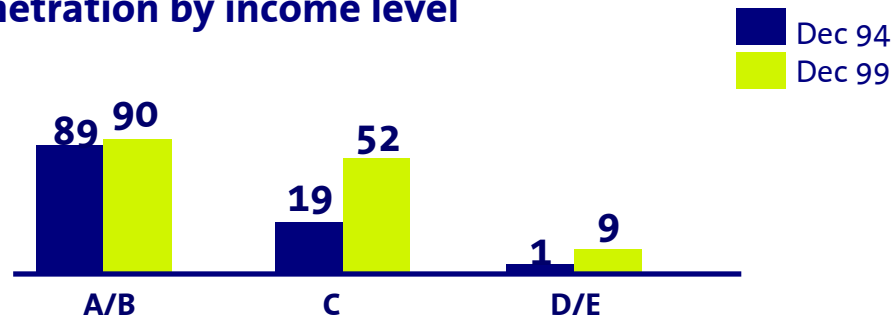
### Lines in service. Penetration

TdP. Millions. %



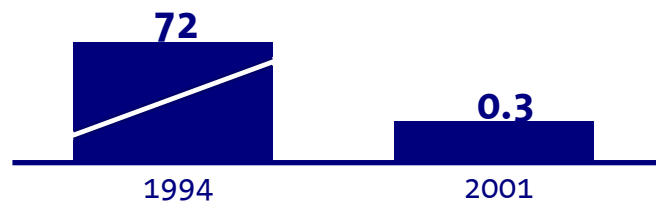
### Penetration by income level

%



### New line provisioning lead time

Months



# Content

- **Telefónica: the right partner to exploit Latam's opportunity**

Latam is a large market with relevant growth opportunities. T Latam's solid track record and demonstrated management flexibility will allow us to extract the most from them

- **Overall Latam priorities**

T Latam operators share common objectives based on three pillars: commercial excellence, operational flexibility and efficiency and regulatory management

- **Operators priorities and key parameters**

Operators are applying these strategic thrusts to respond to the challenges and capture specific opportunities in each country

- **Our commitment for the future**

As a result of this effort T Latam is committing to deliver continuous growth and quickly progress on key transformation parameters



# Priorities for Telesp



# Key priorities for TeleSP

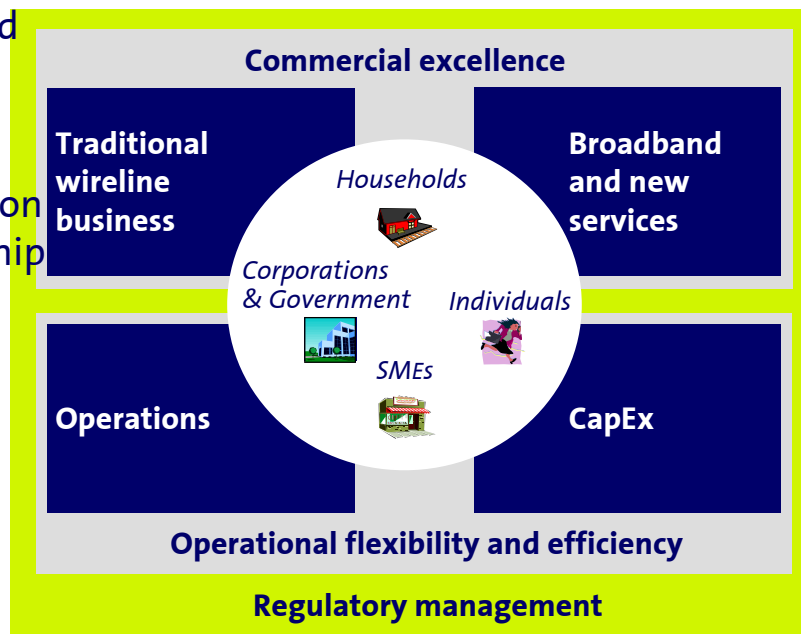


## Traditional wireline business

- ✓ Sustain customer base and market shares in key segments
- ✓ Increase traffic and maximize VAS penetration
- ✓ Consolidate LD leadership

## Operational efficiency

- ✓ Further reduction in non-commercial costs to support new marketing needs
- ✓ Improve outsourcing costs through new contractor agreements
- ✓ Develop specific products to reduce bad debt



## Regulation and institutional presence

- ✓ Renegotiation of new contracts for 2006
- ✓ Resolution of open issues (tariff adjustments, traffic sinks, ...)

## Broadband and new services

- ✓ Lead the NB internet access
- ✓ Accelerate Internet mass penetration
- ✓ Exploit TdE know-how and third-party agreements in design of new offers
- ✓ Develop new businesses, exploiting current customer base

## CAPEX

- ✓ Change investment mix from traditional business to broadband
- ✓ Keep CAPEX under control, maximizing possibilities of recently built network

# Retain high-value customers and increase revenues in the local business



## A segmented approach based on client knowledge



### Para Sua Casa

Produtos para facilitar seu dia-a-dia



### Para Seus Negócios

Soluções em telecomunicações para pequenos negócios



### Para Empresas

Soluções completas em Voz, Dados e Internet para empresas

## Retain key customers

- Product bundling
- Cross selling
- Anticipate high-value/high-risk customers churn
- ...

- Modular offer
- Specific B2B solutions
- Contain churn
- ...

- Customized offer: global telecommunications needs
- Service coverage outside Sao Paulo
- ...

## Increase revenues

- Increase VAS penetration
- “Caixa Postal”/ Secretaria Digital
- Information services
- Low-income products (Línea Control)
- ...

- Traffic bundling/Flat rates
- Segmented SVAs
- Additional lines
- ...

- PABX/LAN
- Virtual Private Network
- Centrex IP
- ...

# Maintain positions gained in LD

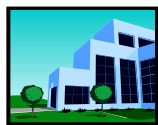


**“Super 15”: 45% NLD and 40% ILD market share in one year**

## Leverage our recognized brand “Super 15” to slightly increase our market share:



- Segmented approach launching traffic bundles and intensive marketing

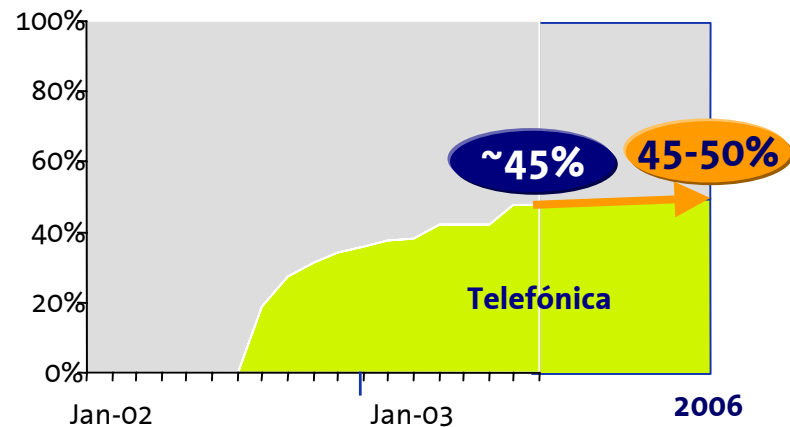


- Complete offer inside and outside SP
- Competitive offer to manage VoIP

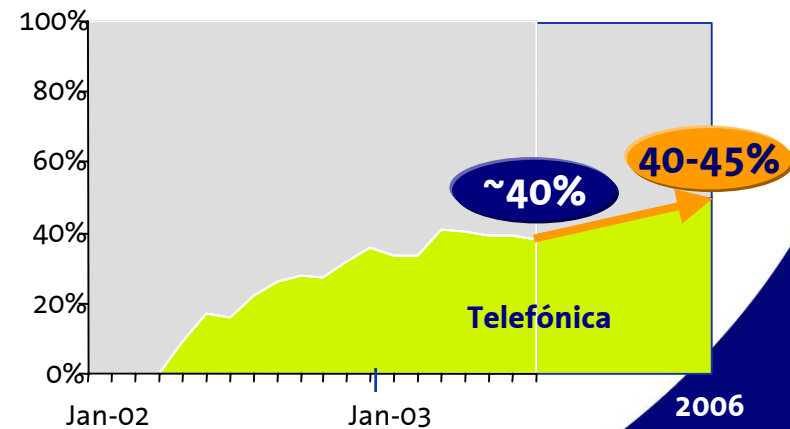


- Special products for SMEs in LD
- Tailored offers to specific needs

## LD Inter states Market share (%)



## LD International Market share (%)



# Increase revenues, reducing dependence on regulation



## Tele-emergency

- Strong demand for household security solutions
- Forecast of 400 M in 2006 (less than 10% of A/B/C HHs)

## Project BLEC

- Integrated telecom solutions for commercial buildings
- Forecast of 100 million R\$ of new revenues in 2 years

## Ki-Cartao

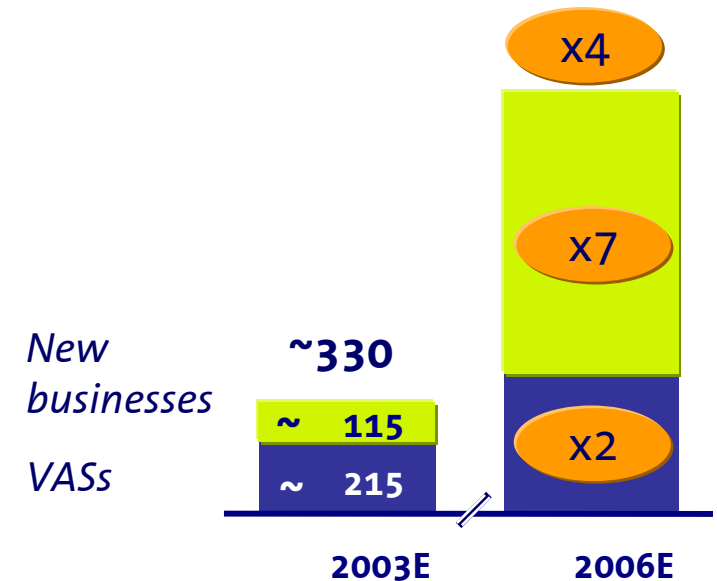
- Stimulate traffic participating in events (lottery, etc) in alliance with content providers

## WiFi

- Leading position in Wi Fi services in all segments
- 500 public hot spots in 2005
- Business plan in progress

## SVAs and new businesses revenues

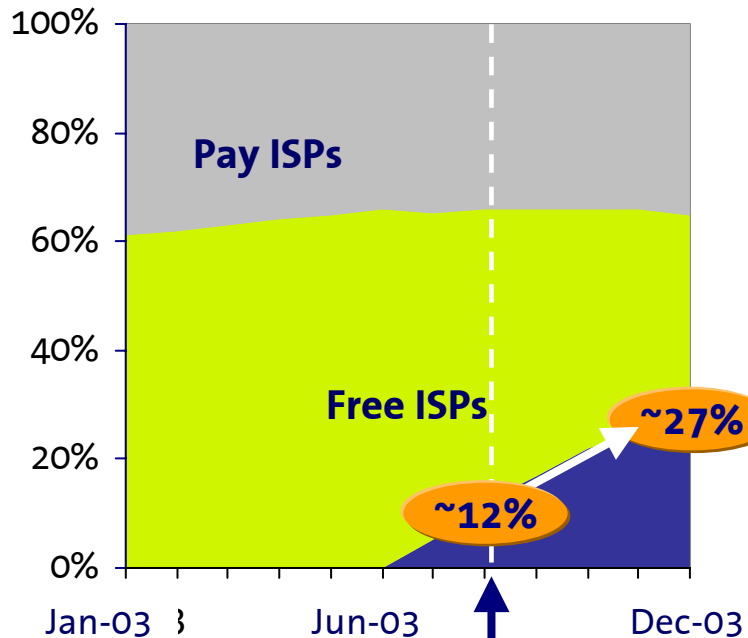
Million R\$. Estimation



# Lead narrowband Internet access in Sao Paulo



## Narrowband ISP's market share



**itelefónica: 12% of ISP market share in 2 months**

**itelefónica**  
A evolução da internet grátis

- A free ISP in Sao Paulo:
  - Promote internet penetration
  - Facilitate BB migration
  - Increase local traffic (good trend shown after launch)
- **itelefónica has the objective to achieve and retain a 50% of total market share in SP by 2006**
- Internet penetration is limited by PC penetration. Telefónica is working to develop and commercialize alternative access devices
- In the medium term, itelefónica will develop a full and competitive content offer adapted to NB to retain and increase revenues from customers reluctant to migrate to broadband



# Number one ADSL provider in the Region...

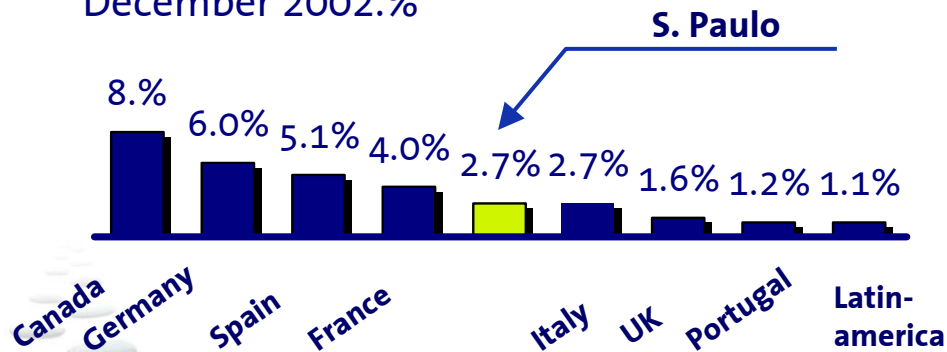


We have managed to make Sao Paulo the most advanced area in the region...

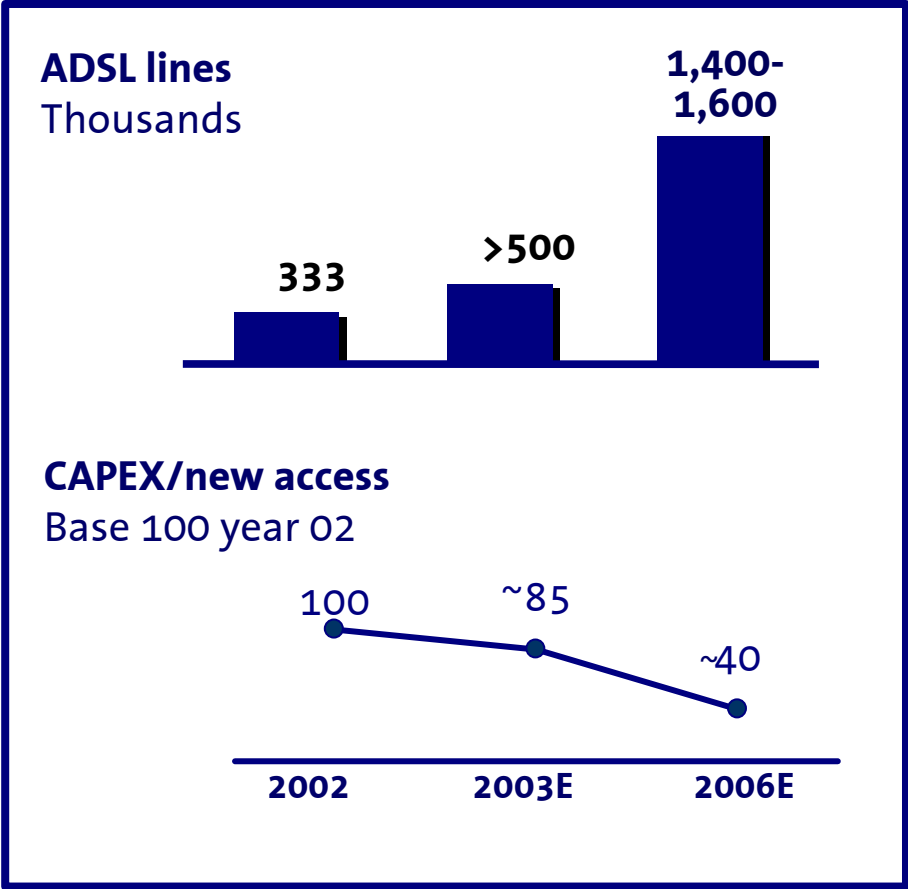


**412,000**  
customers in  
August 2003

**ADSL accesses/100 lines**  
December 2002.%



...and plan to continue this trend in the future, with special focus on profitability



# ...tailoring our offer to each segment

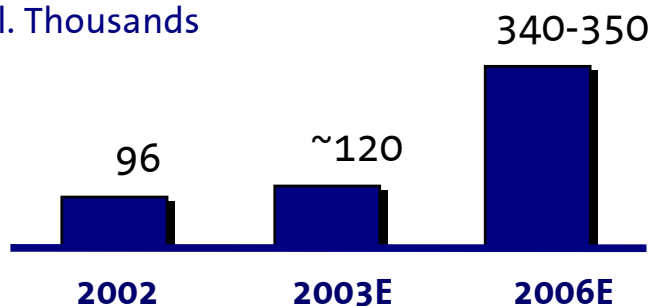


## Business segment

- Develop a complete and competitive BB offer adapted to SMEs: B2B, accounting on-line, etc.
- Leverage TdE experience and Telefonica's third-party agreements
- Include BB as part of the base offer in SME campaigns

### ADSL lines

Final. Thousands



ARPU  
Reais/month

~100

100-110

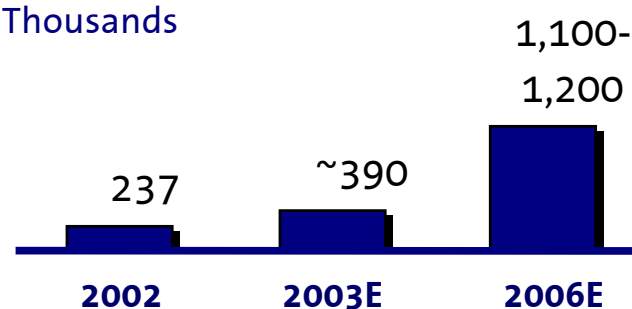


## Residential segment

- Reduce access cost:
  - Modular access for low income HHs
  - “Dynamic band width”
- Maintain or increase ARPU through new BB services
- Leverage TdE experience
- Leverage multiple channels to support marketing effort

### ADSL lines

Final. Thousands



ARPU  
Reais/month

~60

60-65

# Rebalancing CAPEX while maintaining low investment ratios

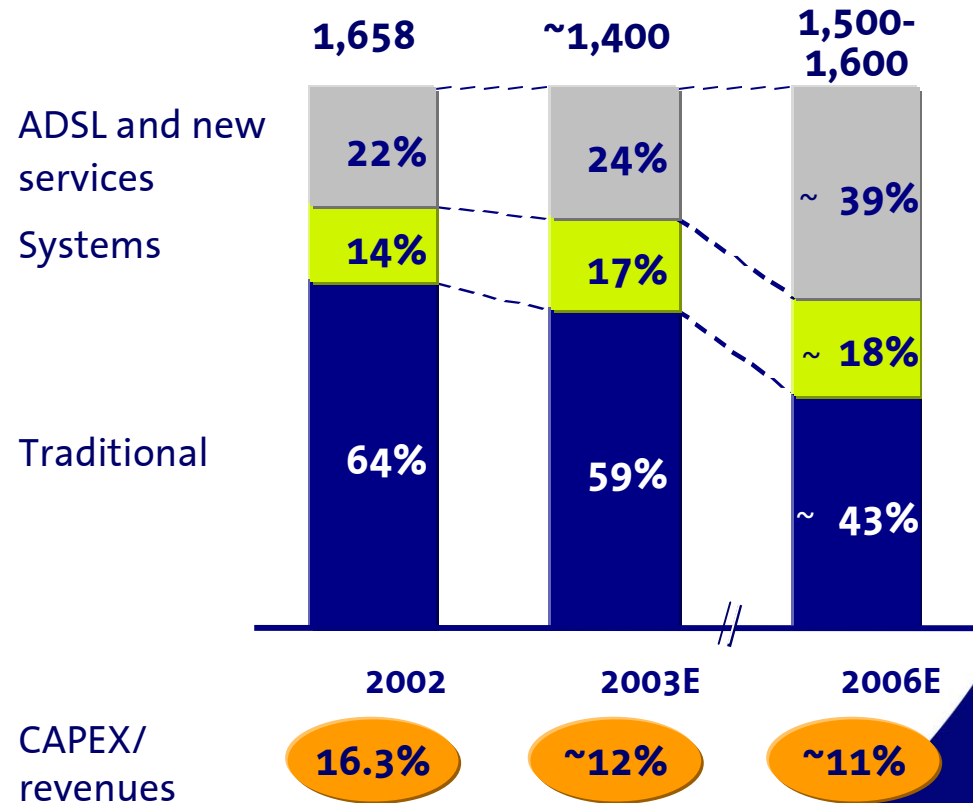


**Clear CAPEX reduction from 2001 to 2002 (from 4,552 to 1,658 million R\$) after “metas” achievement**

- Reduce investments in traditional business, leveraging network modernity
- Exploit scale economies to reduce marginal CAPEX/ADSL line (50% reduction from 2003 to 2006)
- Increase flexibility to face potential risks of currency devaluation

## CAPEX evolution

Millions of reais. Percent



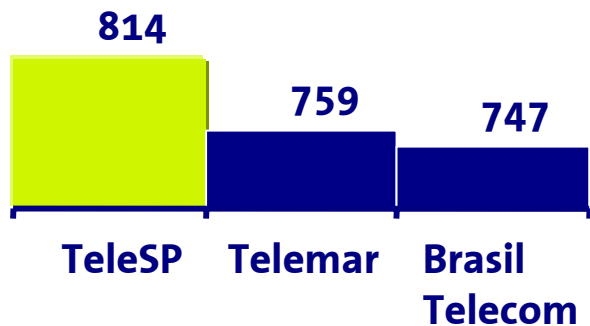
# We face the future from a strong position

2002



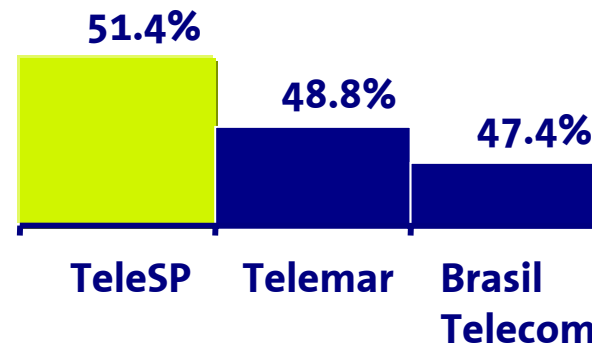
## Revenues/lines in service

R\$/LIS. End of year



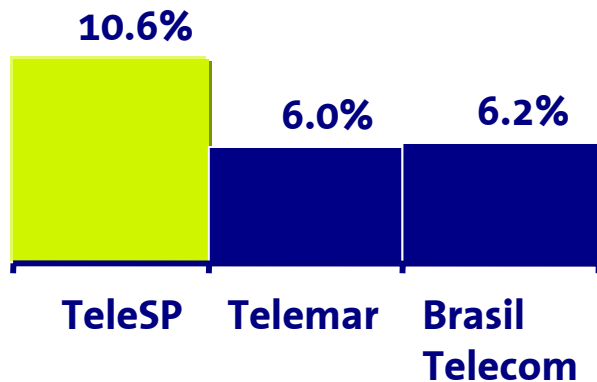
## EBITDA margin

Percentage



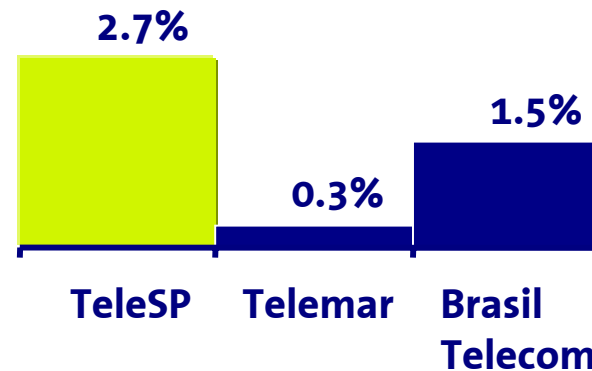
## Net income/revenues

Percentage



## %lines with ADSL

Percentage



Note: Fixed telephony business  
Source: Company Reports

# Priorities for TASA



# Key priorities for Argentina

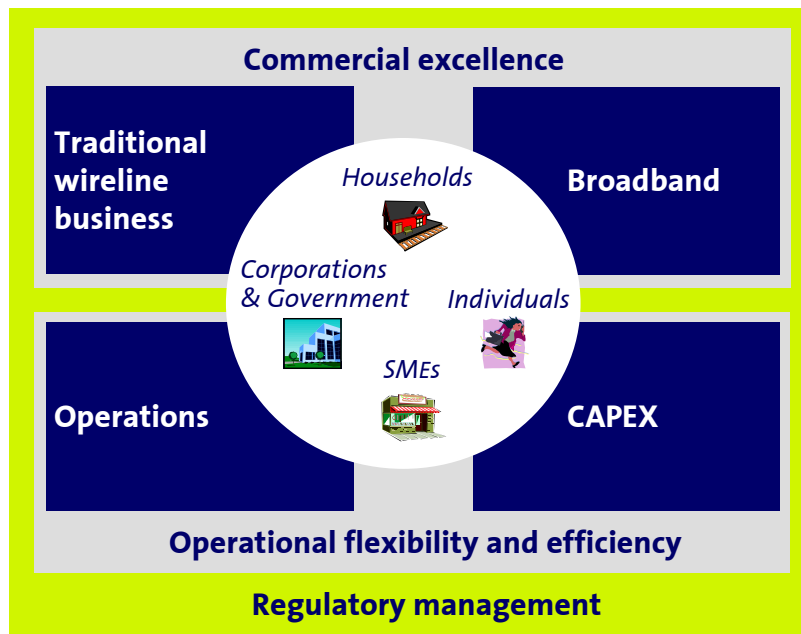


## Traditional wireline business

- ✓ Defend traditional voice business:
  - Increase traffic with new products
  - Increase ARPU (VAS)
  - Selective growth program focused on prepaid lines and cards

## Operational efficiency

- ✓ Be aware of crisis development and maintain current efficiency effort
- ✓ Obtain further improvements as some external restrictions disappear (e.g. outsourcing)



## Regulation and institutional presence

- ✓ New agreement with the Government to guarantee tariff recovery and regulatory stability

## Wireline Internet

- ✓ Lead ADSL market growth with investment deployment adapted to growth in demand, ensuring profitability
- ✓ Boost paid dial-up Internet through new models (flat rates and pay-per-minute rates)

## CAPEX

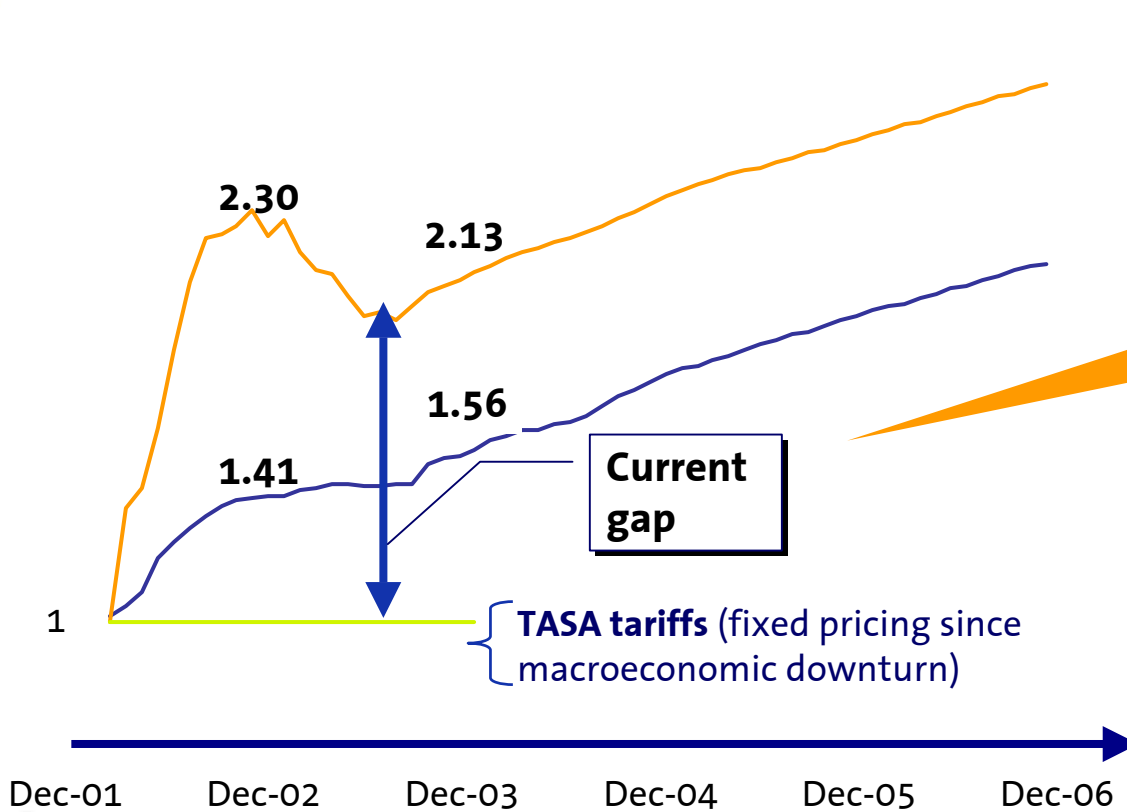
- ✓ Maintain low Capex ratios
- ✓ Prioritize capex based on:
  - FCF maximization
  - Ensure quality of service
  - Internet growth

# Tariff recovery continues to be the main regulatory issue



## TASA tariffs evolution

Base 1 (Index 1 = Dec. 01)



**Existing contract** (Expected tariffs evolution according to transfer contract)

CPI

- Government froze TASA tariffs in Jan.02
- Current gap relative to transfer contract over 100%
- Progressive tariff updates are key to ensuring industry recovery and allowing new investments

# Defend traditional business and capture Internet growth opportunity



## Traditional voice business

### Main activities

- Segmented value propositions:
  - *High-value segments*: Loyalty offers **adding value to fixed line** and increase of usage (voice flat rates, VAS and loyalty programs),
  - *Low segments*: Selective growth based on **prepaid lines** and cards
- Consolidate leading TASA position as comprehensive telecom **service provider in corporate segment**

## Internet and Broadband

- **Reinforce Broadband leadership** with investment deployment adapted to ensure a profitable growth
- **Promote dial-up Internet through paid models** (flat rates and paid per minute)
- Develop **new value propositions** in order to boost ADSL demand (contents, VAS, innovative pricing schemes)

Flat rates

0610  
ILIMITADO

Loyalty program

Programa  
**Teleplus**

Unified  
messaging

**MENSAJERIA  
UNIFICADA**

Dial up

**Advance**

Broadband

**Speedy**

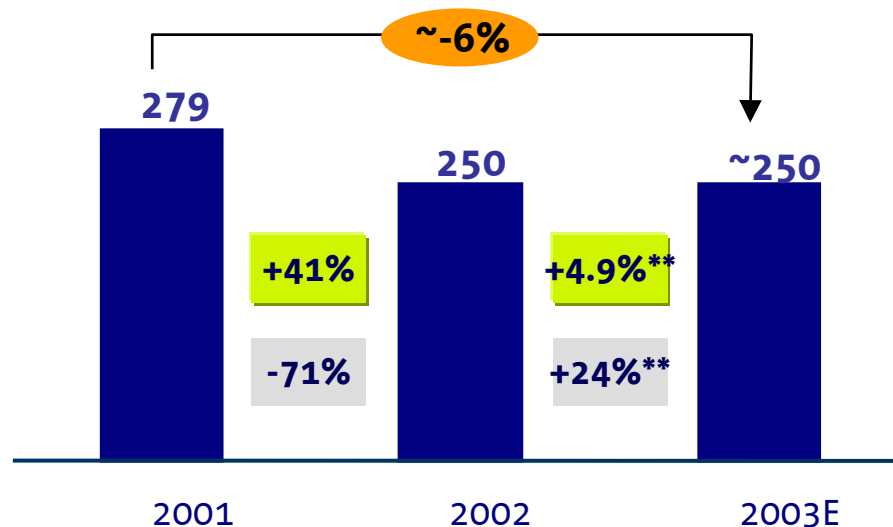


# High discipline on operational and capital expenditures



- Opex and Capex growth conditioned by demand and revenue evolution to ensure profitable growth
- Special focus on bad debt control
- Top-notch efficiency as a major company goal:
  - Improve operational efficiency (centralization, outsourcing, insourcing)
  - Leverage regional programs (Comex, Opex, Atis)

OPEX\*/Line  
P\$



Bad debt/  
Revenues



CAPEX/  
Revenues



Inflation  
 Annual P\$/\$ variation

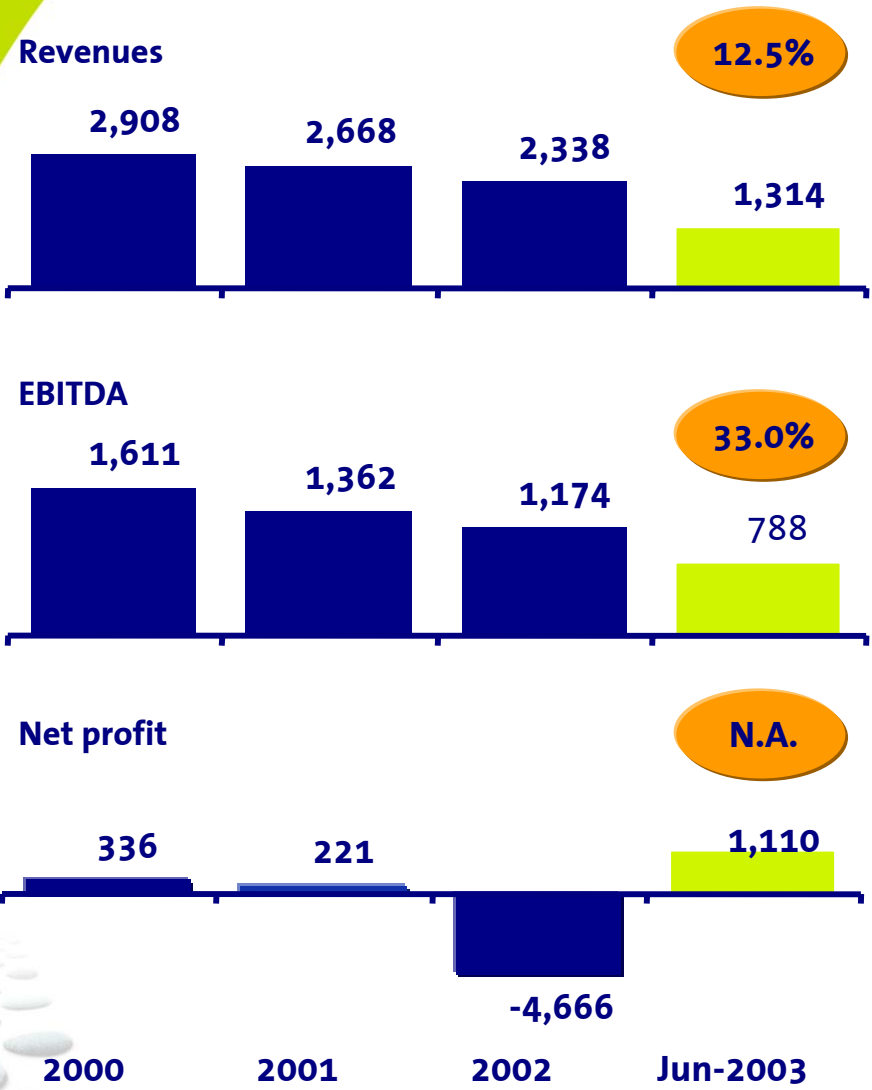
\* Without interconnection cost  
\*\* Data of August 2003

# Our operating trend is getting better after tariff freezing negative impact

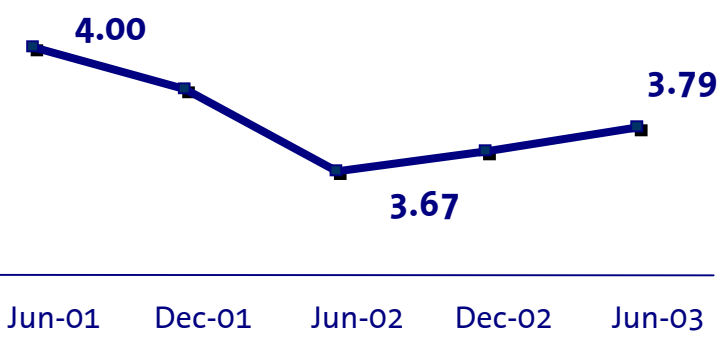
Million pesos



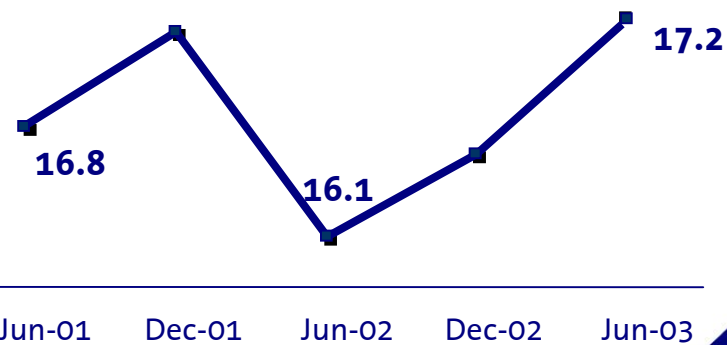
Annual Variation



Lines in use\*  
Millions



Local traffic per line and day\*  
Minutes



Note: Fixed Telephony Business, including payphones  
\* "Speaking" lines.: lines that generate traffic

# Priorities for TCTC

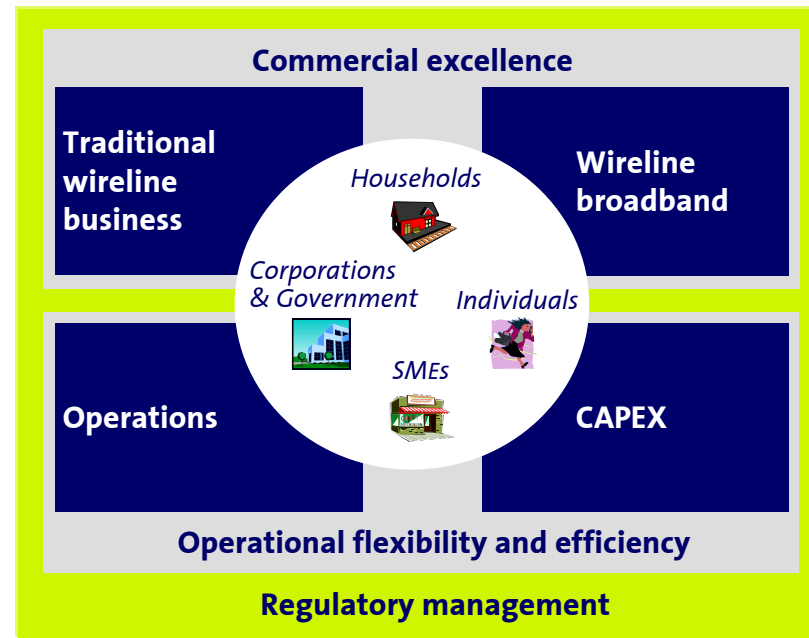


# Key priorities for CTC



## Traditional wireline business

- ✓ **Intensive users:** adding value to fixed line through flat rates, VAS and innovative handsets
- ✓ **Low income segments:** growth based on prepaid line offer to enhance competitive position vs. mobile



## Operational efficiency

- ✓ Maintain current effort in network efficiency
- ✓ Leverage network cost efficiency to strengthen marketing and commercial areas

## Regulation and institutional presence

- ✓ Achieve a viable regulatory framework in 2004:
  - Regulated tariffs increase
  - Symmetric interconnection scheme
  - Higher commercial flexibility
  - Favorable environment for long term investments and IS development

## Wireline Internet

- ✓ Lead the Internet business
- ✓ Leverage leading position in narrowband
- ✓ Exploit ADSL potential to compete with cable
- ✓ Develop comprehensive NB and BB content and service offering

## CAPEX

- ✓ Reduce capex/revenues ratio to under 10%
- ✓ Reduce BB CAPEX per access
- ✓ Optimize preventive maintenance
- ✓ Exploit vacancies to grow in low-income segments
- ✓ Shift the investment mix towards growth businesses

# Defend local business through new products and services tailored to different customer needs



## Intensive traffic users

- Sustain and extract more value through a loyalty program focused on adding value to fixed line:
  - Voice flat rates (e.g. FullVoz): Increase percentage of fixed revenues
  - Increase VAS penetration
  - Innovative handsets



## Low income segments

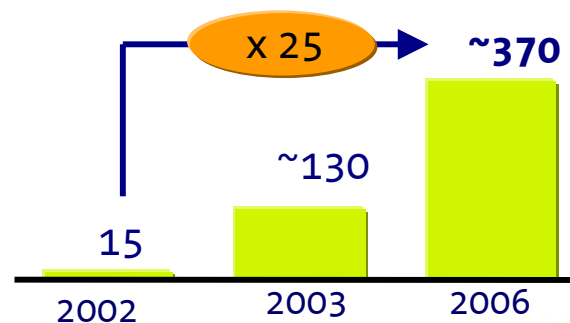
- Capture growth opportunity in low-income segments through prepaid line offers (e.g. TLP):
  - Enables on access of this segment to fixed telephony
  - Guarantees control of bad debts
  - Enhances competitive position against mobile substitution



**More than 300 thousand lines with “heavy users” plans by 2006**

## New prepaid lines activated

Thousands

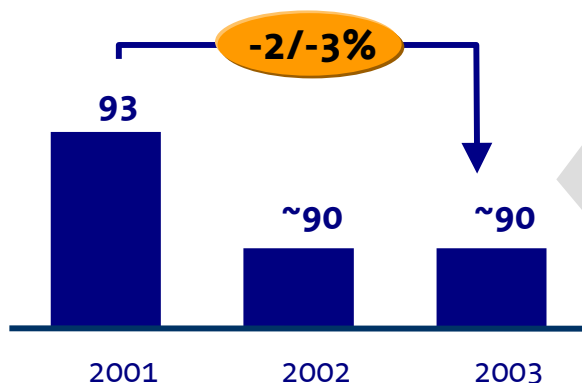


# Reinforce our current effort in operating efficiency improvement and CAPEX reduction



## We have already achieved significant goals...

**OPEX\*/line**  
\$Ch thousand



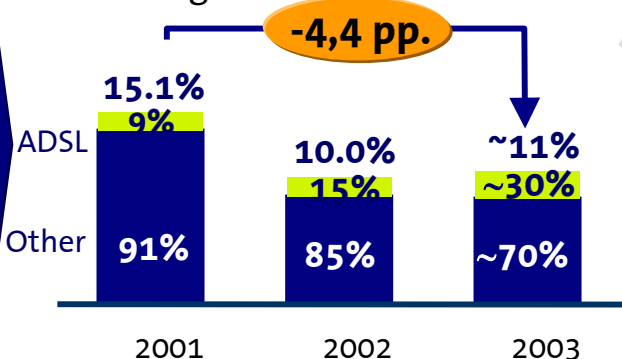
• Efficiency improvement translated into workforce reduction

## ...and we keep improving

- Maintain current effort in network efficiency through regional program OPEX (4-5 \$Ch MM of savings by end 2005)
- Enhance Commercial and Marketing effectiveness leveraging cost network and commercial support efficiency

### Operating efficiency

**Capex/Revenues**  
Percentage



- Reduce capex level by 5 pp.
- Shift investment mix towards growth businesses

- CAPEX/revenues ratio under 10%
  - Advanced network already in place
  - BB capex reduction
  - Preventive maintenance optimization achieved in OPEX program

### Capex reduction

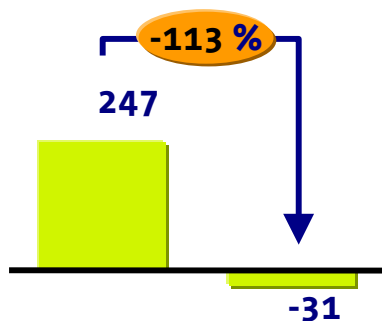
\* Without interconnection cost

# The Chilean telecom industry needs a new regulatory environment that ensures innovation and investment

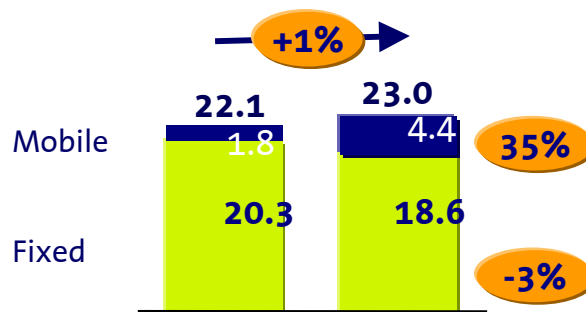


Regulatory decree of 1999 has been very unfavorable to overall telecom industry and consumers

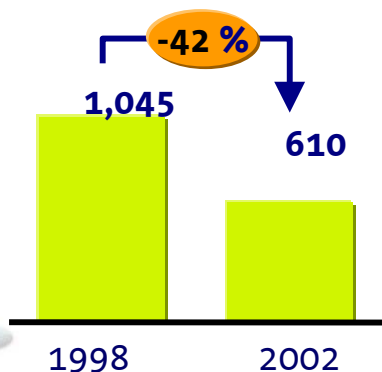
**Industry net profit**  
US\$ MM



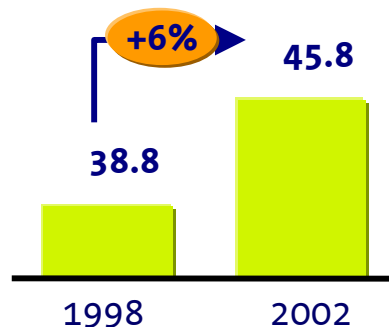
**Total traffic**  
Billions of minutes



**Industry investment**  
US\$ MM



**Average price per minute**  
Ch\$ constant 98



The new “tariff decree” in 2004 must change profoundly to ensure industry viability and the development of Information Society

- Regulated tariff increases (connection and rental fee, traffic prices, ...)
- Symmetric interconnection scheme between CTC and other operators
- Higher commercial flexibility in terms of product, geography, segment, ...

Note: All figures include Fixed and Mobile

# Priorities for TdP





# Key priorities for TdP

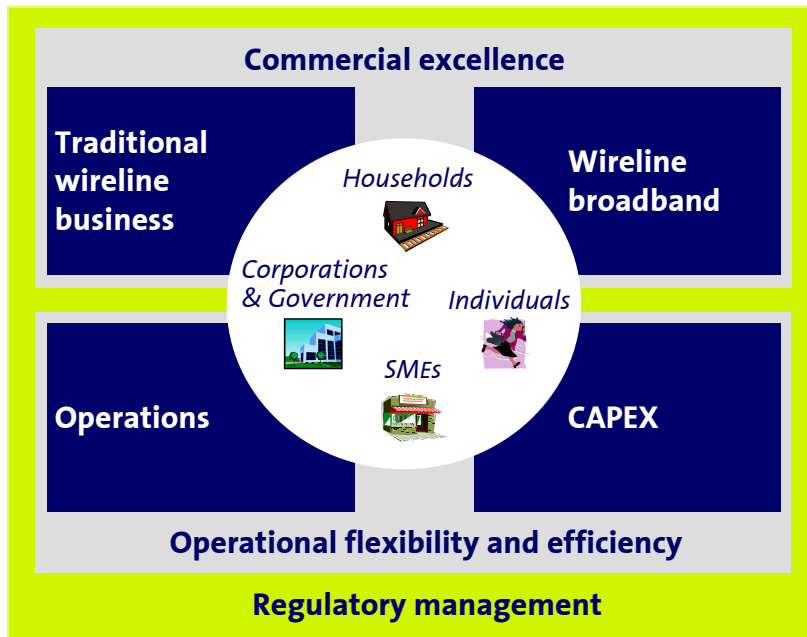


## Traditional wireline business

- ✓ Increase penetration in low-income segments
- ✓ Retain current customer base
- ✓ Strengthen leadership in payphone market

## Operational efficiency

- ✓ Increase operations outsourcing and automation



## Regulation and institutional presence

- ✓ Assume proactive role in developing the regulatory framework

## Wireline Internet

- ✓ Reinforce narrowband internet penetration
- ✓ Accelerate migration to broadband services
- ✓ Increase Broadband ARPU in high-income segments

## CAPEX

- ✓ Select and prioritize investments by profitability



# TdP: Increase penetration in low-income segments

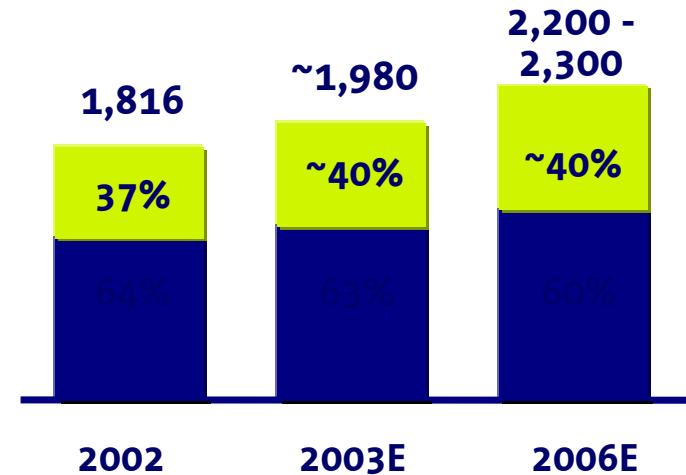


## Penetration driven by prepaid offers

- Significant growth of expense control and prepaid line offers specially addressed to low-income HHs (more than 50% of total):
  - **6 tailored prepaid offers** (line rental + bundle minutes included)
  - selective marketing
- Capture of telephone penetration potential while **controlling bad debt** and ensuring profitability

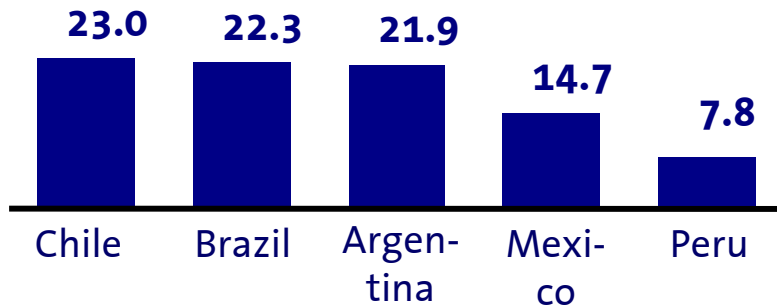
Lines in service\*  
Thousands

Pre-paid lines



## Fixed telephony penetration

Lines/100 habitants



700,000 low-income lines by June 2003

\* Including payphones

# TdP: Maintain leadership in payphone market



● CAGR  
■ % of total revenues

## Main activities

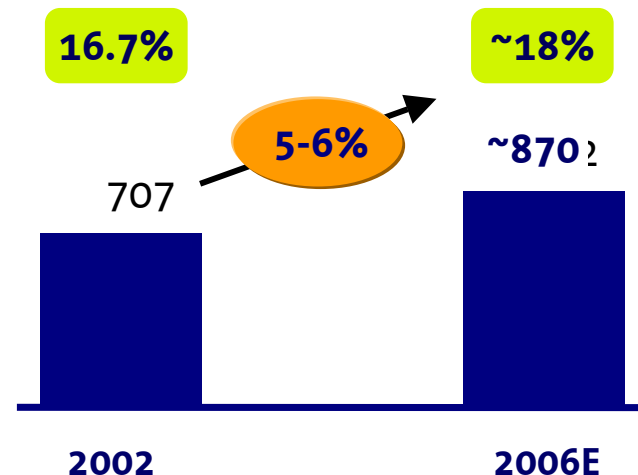
**Increase revenues per phone**

- Enable public telephones to support SMS and e-mail features
- Launch loyalty programs to stimulate traffic
- Increase the number of selling points for pre-paid cards

**Install new phones**

- Launch a second brand (SERTEL) to gain tariff flexibility
- Collaborate with the Government in the deployment of public Internet Access points in low-income regions

## Payphone revenues S\$Million



## Number of PTs ('000)



# TdP: Accelerate migration to broadband services



## Households



## SMEs



### Pricing

- Develop a modular offer to stimulate BB growth
- Launch of bundled offers (ADSL + local & LD traffic)

### Content\*\*

- A Broadband portal and local content servers (Game Zone, Streaming)
- SME-oriented contents (virtual hard disk, virtual office services)
- Broadband VAS

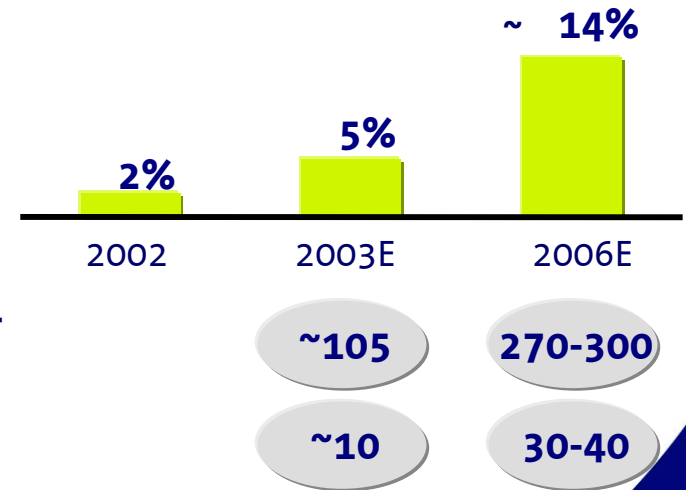
### High speed DSL

- Target to heavy users
- Stimulate customer migration towards high-speed ADSL

*Households*

*SMEs*

**Clients with Broadband access/total lines\***  
Thousand. %



\* Broadband includes ADSL and Cable Modem. Excluding payphones

\*\* Jointly with Terra

# Select and prioritize investments by profitability



## Upgrade our network based on market needs...

## ... by rebalancing Capex towards more profitable businesses

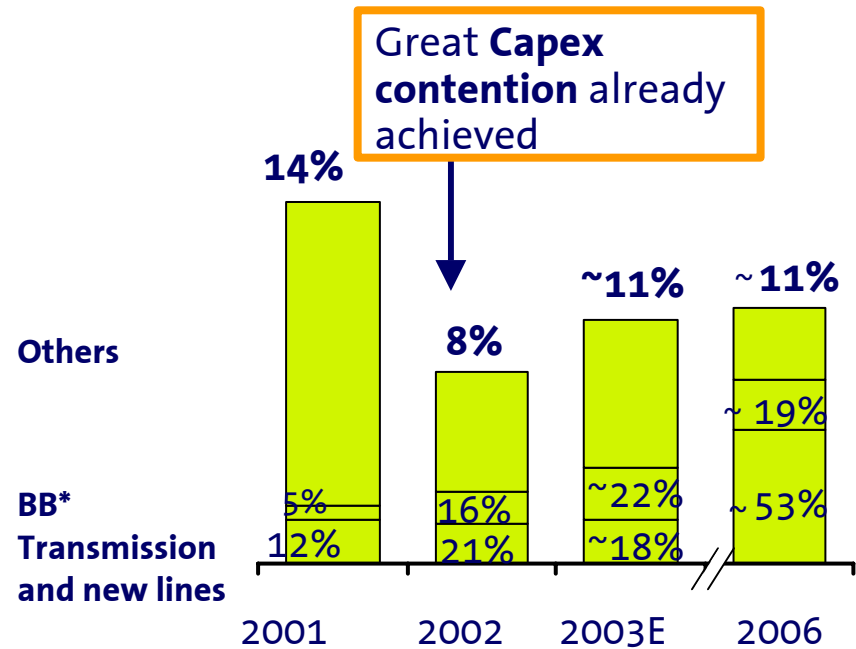
### New Lines

- Increasing capacity up to 482 thousand new lines
- Reduction of marginal investment per line using selective growth method (Carolina-Peru project)
- Network upgrading and NGN development
- Mandatory investments (Radio-links and rural network replacement)

### ADSL

- National extension of ADSL services
- Deployment of new DSL technologies (VDSL and G.SHDSL)
- Upgrading of national IP backbone

### Capex/revenues (%)



\* Broadband includes ADSL and Cable Modem

# Content

- **Telefónica: the right partner to exploit Latam's opportunity**

Latam is a large market with relevant growth opportunities. T Latam's solid track record and demonstrated management flexibility will allow us to extract the most from them

- **Overall Latam priorities**

T Latam operators share common objectives based on three pillars: commercial excellence, operational flexibility and efficiency and regulatory management

- **Operators priorities and key parameters**

Operators are applying these strategic thrusts to respond to the challenges and capture specific opportunities in each country

- **Our commitment for the future**

As a result of this effort T Latam is committing to deliver continuous growth and quickly progress on key transformation parameters



# T Latam 2003: results to date

Million euros. Constant exchange rates as of 2002

%

02-03 annual  
variation

Revenues

6,954

7-9%

EBITDA

3,347

6-8%

Op. FCF\*

2,659

10-12%

2002

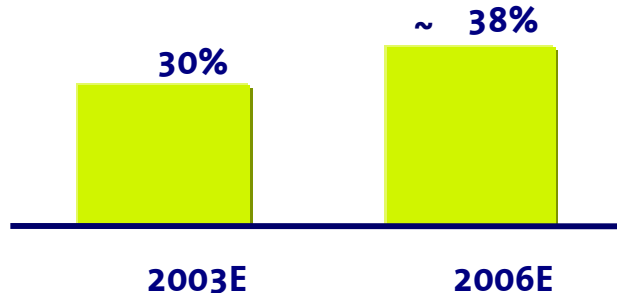
2003E

\* EBITDA - CAPEX

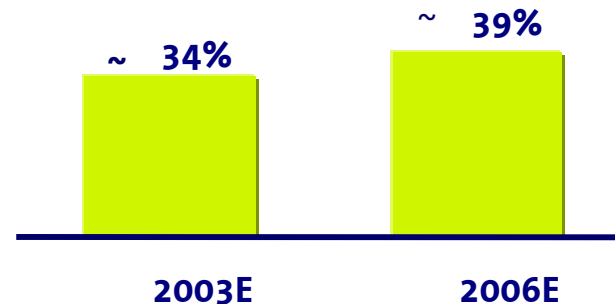
# T Latam: Transformation commitments (1/2) Percent

**Strong commercial focus**

**More customer oriented**  
% of commercial employees

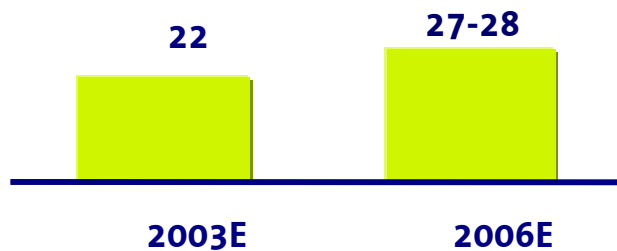


**% commercial expenses/operating expenses\***

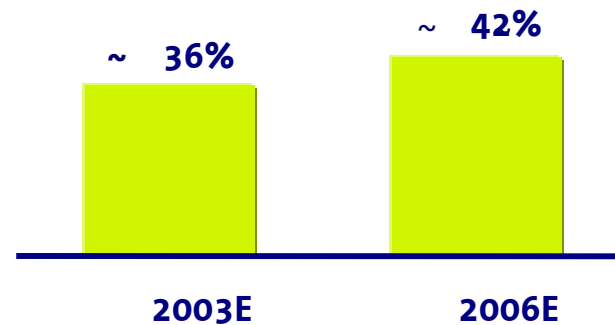


**Maximize value**

**Increase share of wallet**  
Total ARPU. Constant € '03/month



**% non-regulated revenues\*\***



**Fixed revenues**



\* Not including bad debt provision and interconnection

\*\* Other than line rental, local traffic and interconnection

Note: Constant exchange rates as of 2002



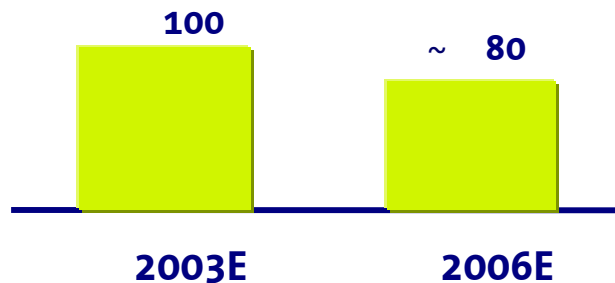
# T Latam: Transformation commitments (2/2) Percent

● ADSL Lines (thousand)

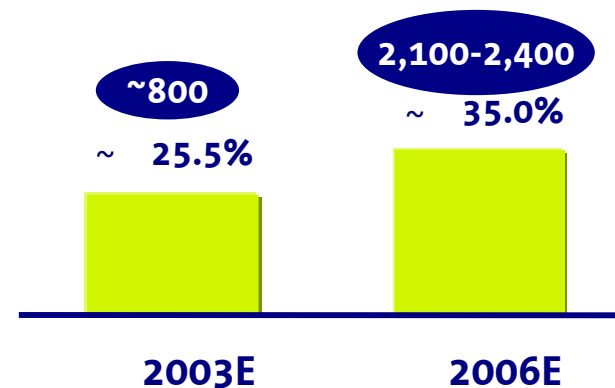
**Asset light and selective investment**

## Reduce assets

2003 assets=Index100



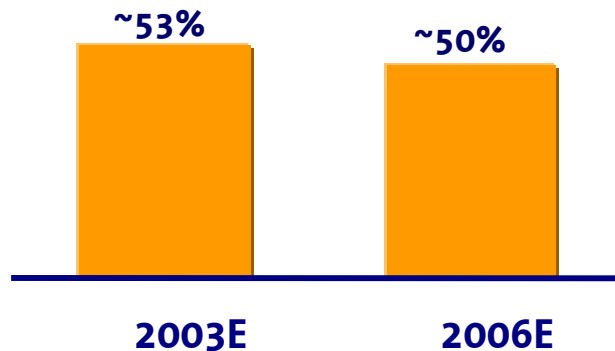
## % CAPEX in ADSL and new services



**Opex reduction and increased flexibility**

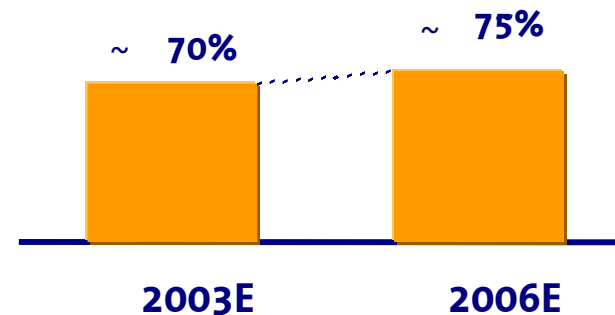
## OPEX/Revenues

Percentage



## Decrease operating leverage

% Outsourcing\*\*  
Percentage



Total employees\*



\* Employees of Fixed Telephony Operators. Thousands.

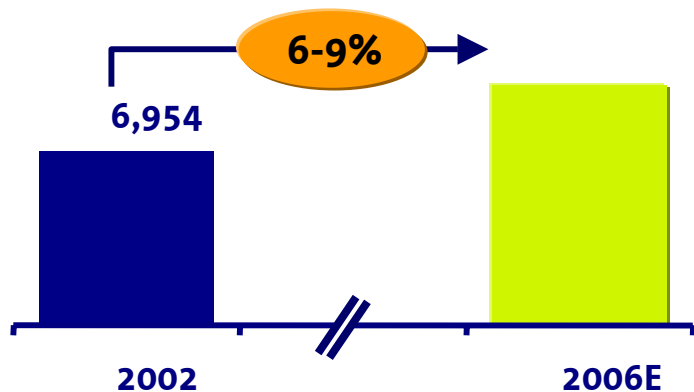
\*\* External services expenses over personal+ external services expenses

# T Latam: economic commitments

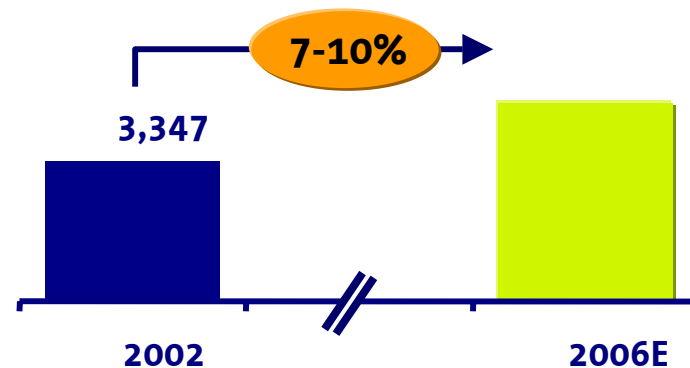
Million euros. Constant exchange rates as of 2002

 CAGR

Revenues



EBITDA



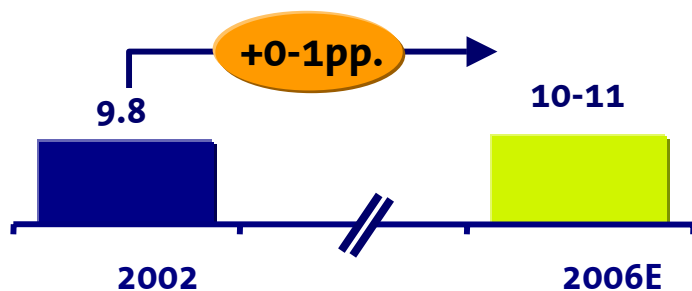
Lines in Service (millions)



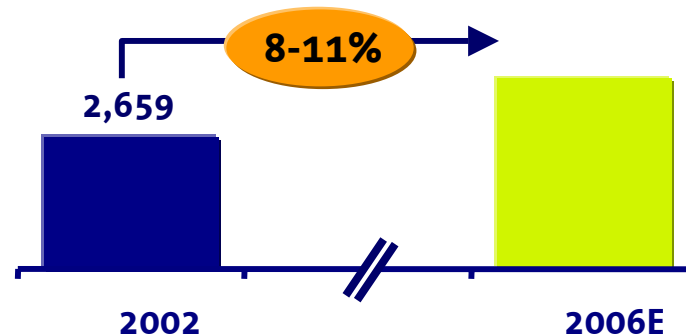
EBITDA Margin (%)



CAPEX/revenues (%)



Operating free Cash Flow\*



\* EBITDA - CAPEX

Note Constant exchange rates as of 2002

# *From our privileged starting point, we commit to:*



**Continue delivering attractive financial and operating results**

**Quickly progress towards the transformation of the group**

*Telefónica*

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