



Results  
January – March / 2010

*Telefonica*



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# Delivering on our 2010 priorities

**#1****Capturing top line growth prospects**

- Revenue growth acceleration vs. FY 09
- Significant ramp up in commercial activity vs. Q1 09; setting the basis for revenue stimulation



- Healthy OIBDA margin and high OpCF
- Strong financial position
- 2010 and mid-term guidance confirmed:
  - Quarterly performance in line with Company expectations
  - Growth to accelerate throughout the year
- DPS commitments reiterated:
  - €1.40 in 2010 and a minimum of €1.75 in 2012

# Highlights Q1 10

€ in millions	Jan-March 2010	Chg Q1 10/Q1 09	Organic chg Q1 10/Q1 09
<b>Revenues</b>	13,932	+1.7%	+0.9%
<b>Operating Income before D&amp;A (OIBDA)</b>	5,114	-4.1%	-3.4%
<b>OIBDA Margin</b>	36.7%	-2.2 p.p.	-1.6 p.p.
<b>Operating Income (OI)</b>	2,930	-7.2%	-2.4%
<b>Net income</b>	1,656	+2.0%	
<b>OpCF (OIBDA-CapEx)</b>	3,923	-5.1%	-4.3%

## Group Contribution by regions (Q1 10)

	Rev	OIBDA	OpCF
<b>T. España</b>	33%	42%	46%
<b>T. Latam</b>	40%	40%	40%
<b>T. Europe</b>	25%	18%	15%

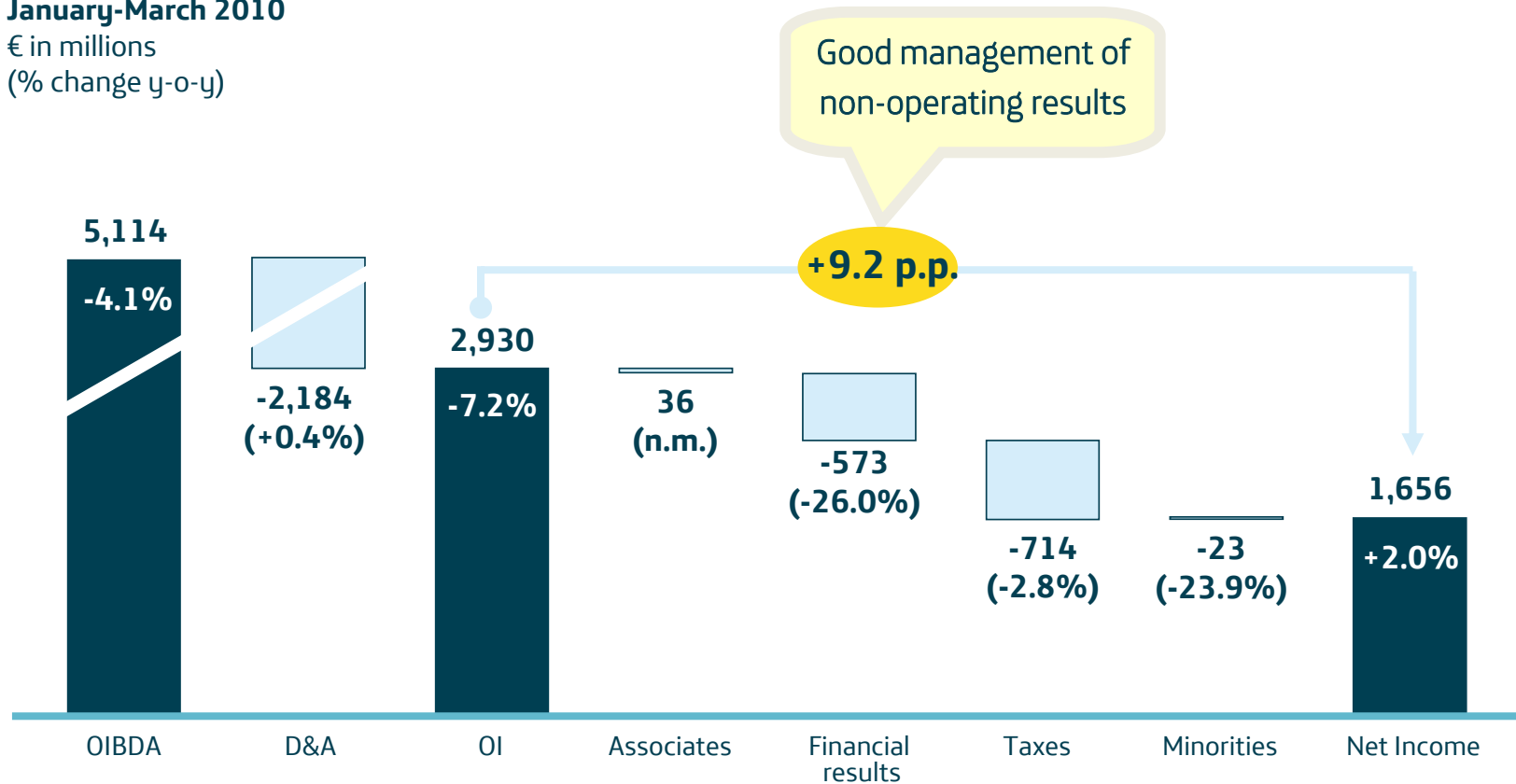
**Capitalizing on our diversification and solid execution**

# Top line fully flowing to EPS

January-March 2010

€ in millions

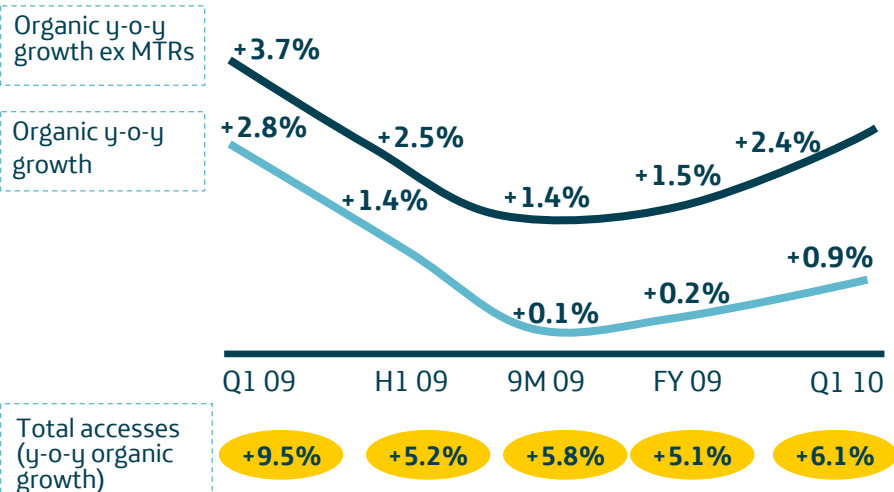
(% change y-o-y)



**Q1 10 EPS: € 0.36 (+2.6% y-o-y)**

# Distinctive top line performance

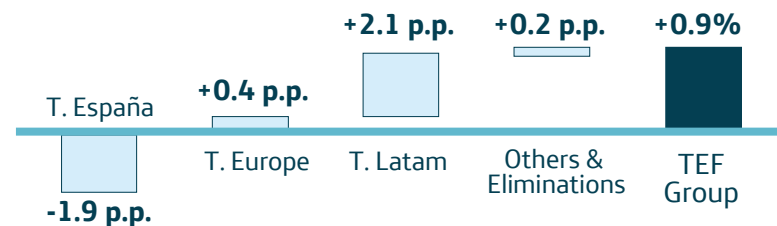
## Revenue growth acceleration for the 2<sup>nd</sup> quarter in a row



- **Top line growth drove superior OpCF:**  
€ 3,923 m
- **Efficiency ratio improved 1.0 p.p.**  
y-o-y to 74.5% in Q1 10

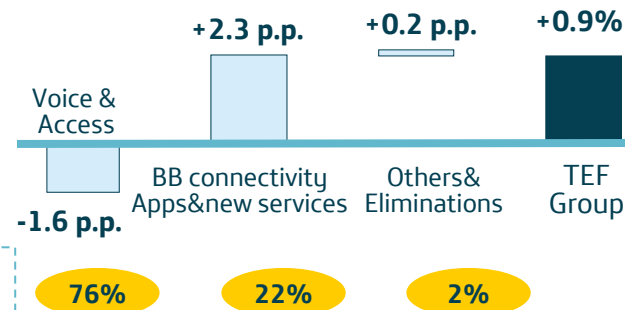
## Q1 10 Revenue by region

(contribution to organic growth y-o-y)



## Q1 10 Revenue by mix of services

(contribution to organic growth y-o-y)

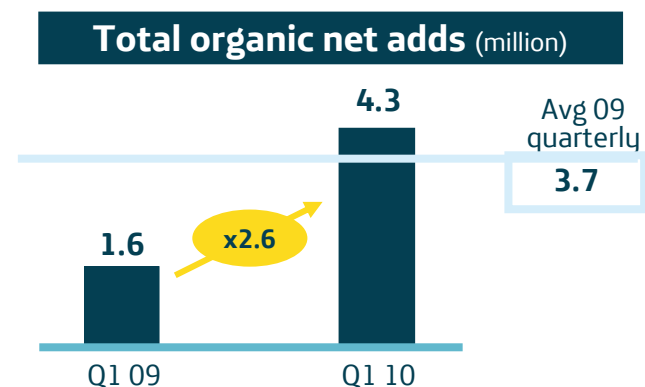
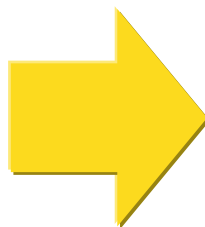
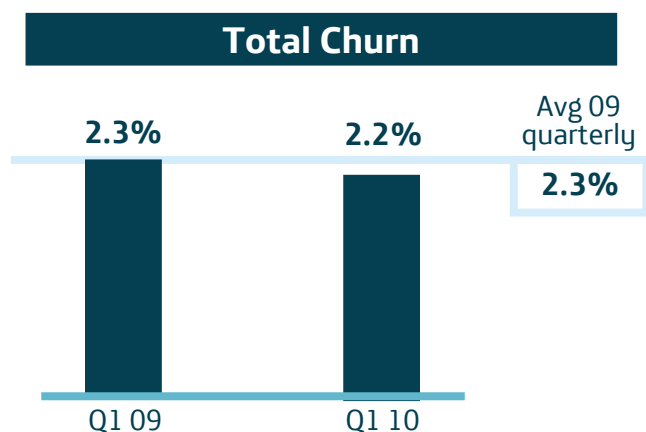
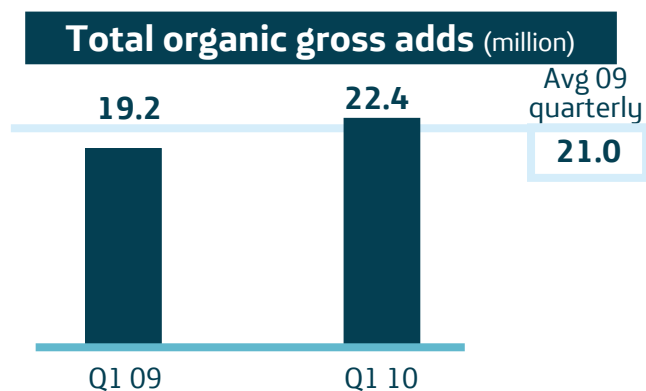


Weight over reported rev

Organic growth revenues assumes constant exchange rates as of Q1 09 (average fx) and excludes the consolidation of HanseNet (since mid February) and Jajah (January-March) in 2010. Telyco Morocco results are excluded in January-March 2009. It excludes hyperinflationary accounting in Venezuela in both years. Organic growth accesses excludes Medi Telecom customers in 2009, HanseNet in 2010 and includes Telemig as of January 1<sup>st</sup>, 2008. Efficiency ratio: Defined as last twelve months (OpEx+CapEx- Internal exp. Capitalized in fixed assets)/Revenues. CapEx excludes the acquisition of spectrum and Efficiency Program at T. España.



# Enhanced commercial activity, setting the basis for additional top line growth...

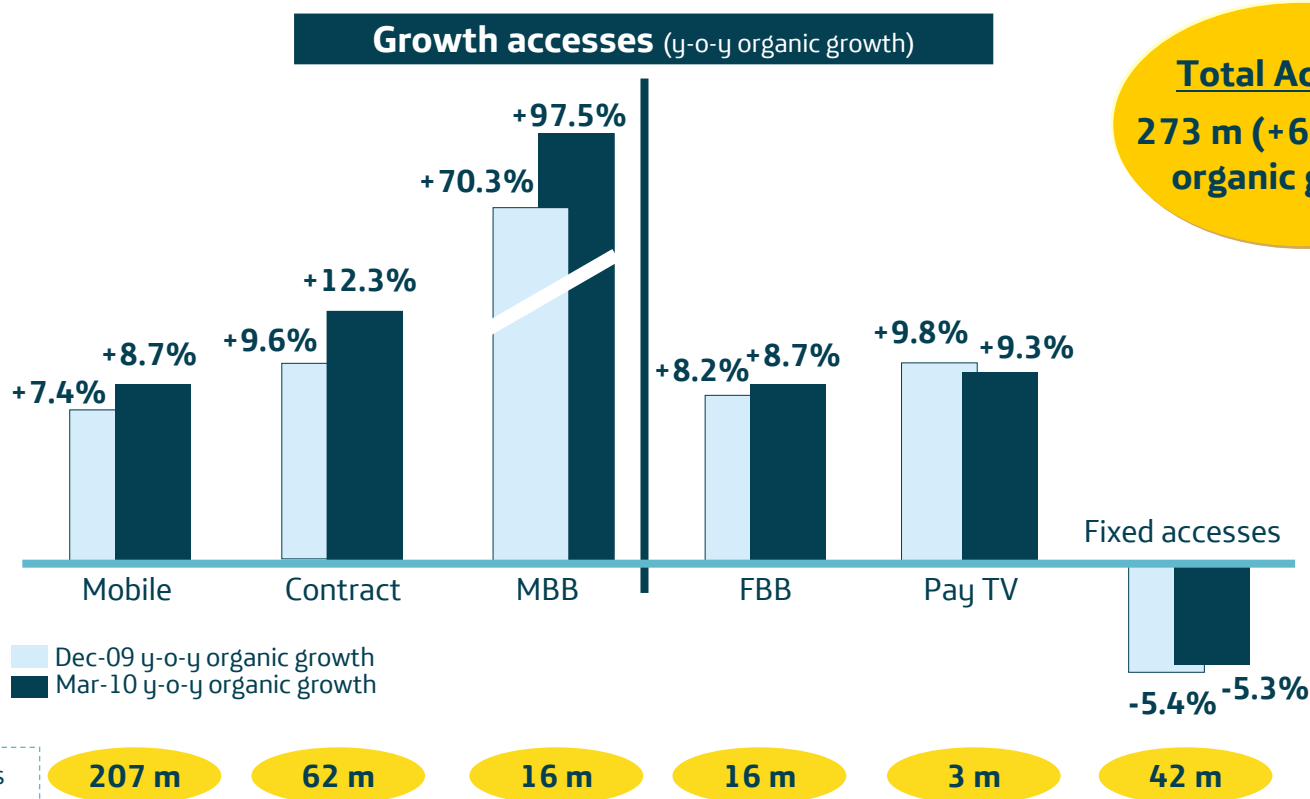


■ **Q1 10 net adds:**

- Mobile: 2.5x Q1 09
- Contract/Mobile: 53% vs. 44% (Q1 09)
- FBB: +30.6% y-o-y



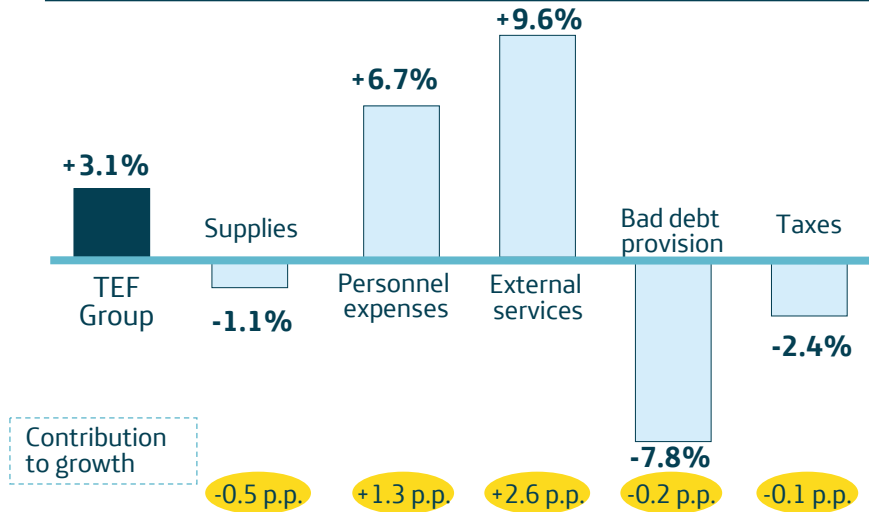
# ...with focus on broadband



**89% of our retail customer base have a BB connection**

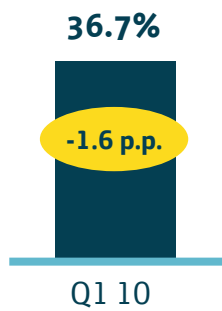
# Reinvesting efficiency gains to foster revenue expansion

## Q1 10 OpEx (organic y-o-y growth)

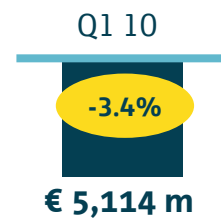


- **Lower interconnection expenses** (-3.3% y-o-y organic) on MTRs cuts
- **Higher commercial costs** (+5.5% y-o-y organic) on increased volumes, advertising and customer attention
- **Growth in other expenses mainly driven by network costs** (sites increase, network maintenance in T. Latam, own network in Germany)

## OIBDA margin



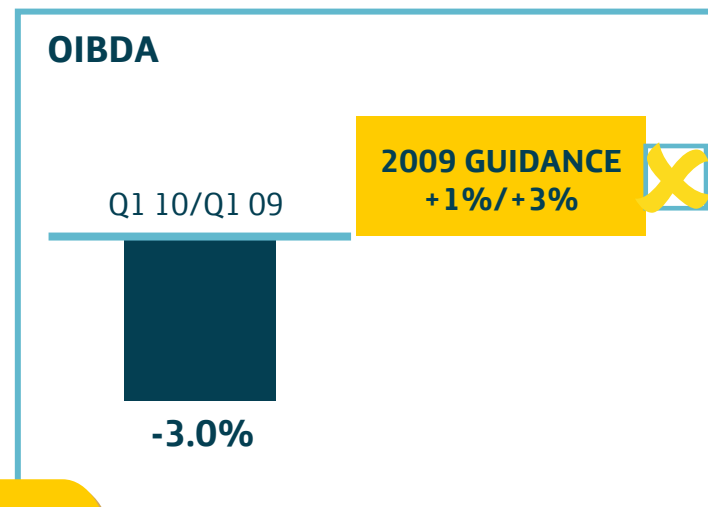
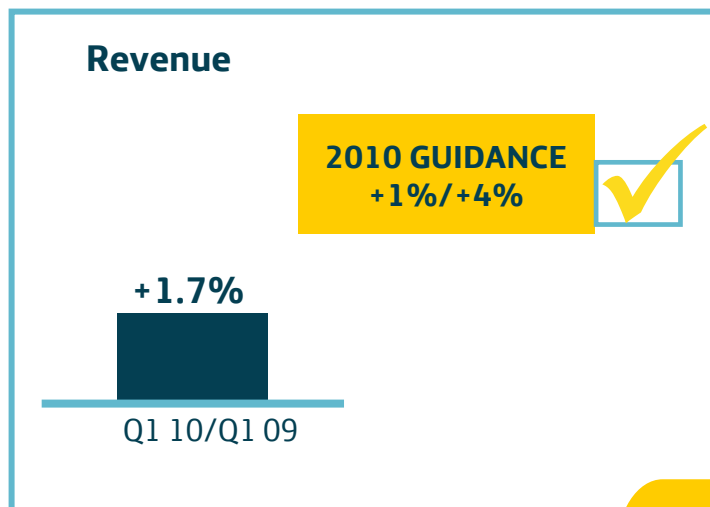
## OIBDA



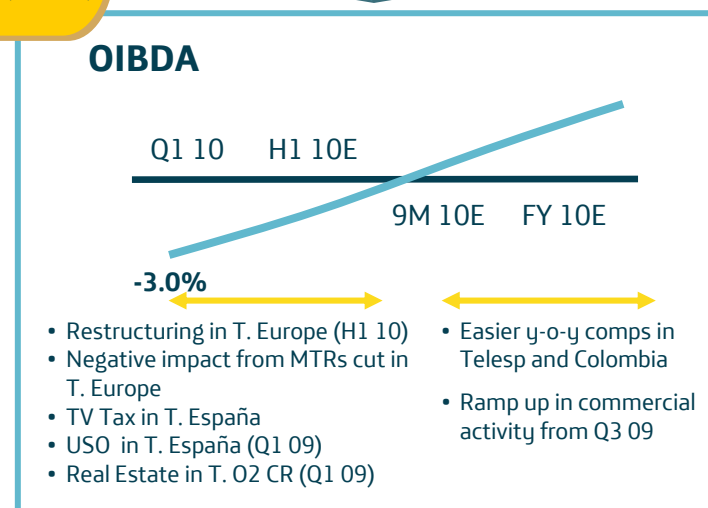
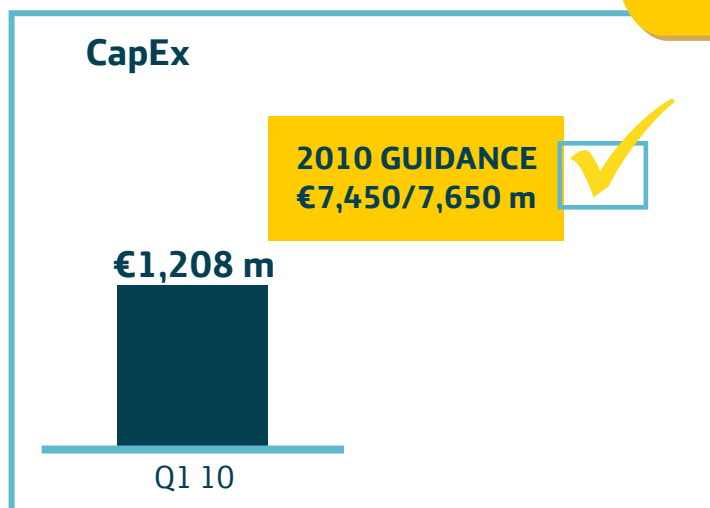
- **Q1 10 OIBDA performance reflecting higher commercial activity, regulatory impact and other non recurrent effects:**
    - Q1 10 TV tax in T. España
    - Q1 10 Restructuring in T. Europe
    - Q1 10 MTR in T. Europe (net impact vs. Q1 09)
    - Q1 09 USO in T. España
    - Q1 09 Real Estate in T. O2 CR
- 2.6 p.p. of growth / ~€-140 m

● Organic y-o-y growth

# On track to meet 2010 guidance



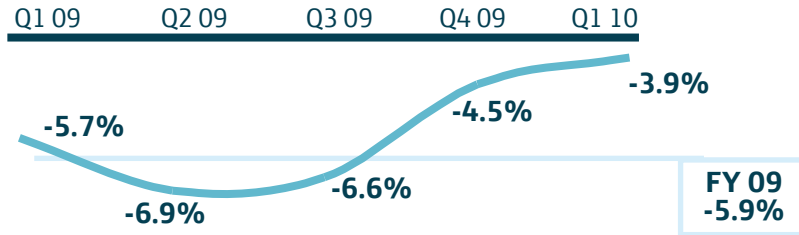
**2010 EPS target confirmed (€ 2.1)**



# T. España: continued top line recovery

## Revenues

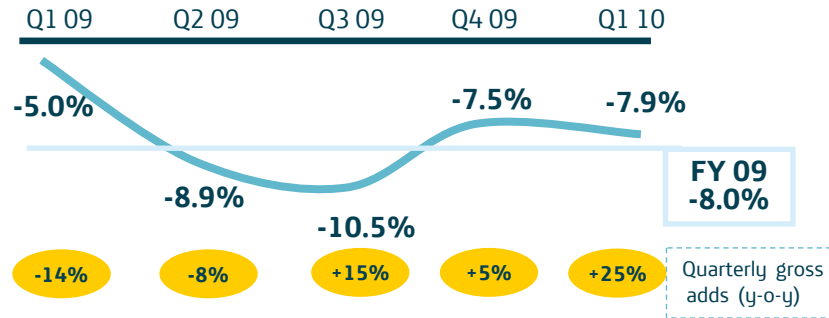
(comparable y-o-y change)



- **Top line gradual recovery**, lowest revenue decline for the last five quarters

## OIBDA

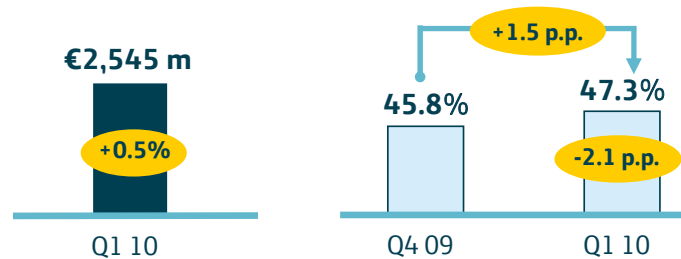
(comparable y-o-y change)



- **OIBDA** eroded by the macro impact on high margin services and the **increase in commercial expenses**

## OpEx & OIBDA margin

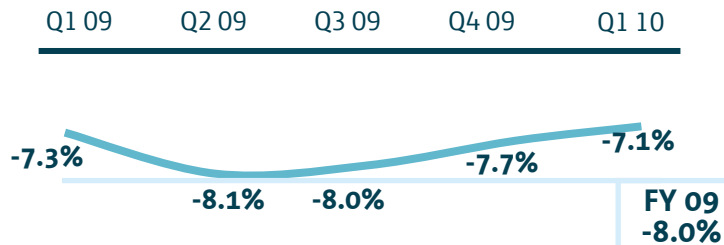
(comparable y-o-y change)



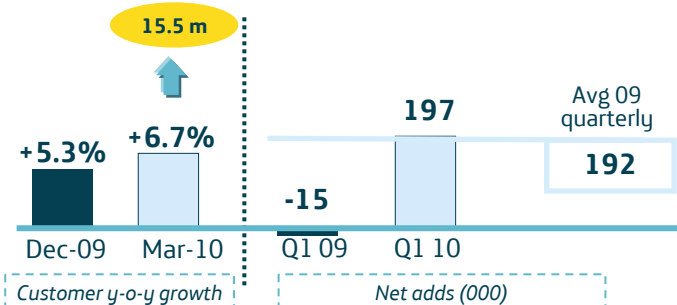
- **OpEx virtually stable** y-o-y as higher commercial expenses are offset by other costs contention
- **Sequential improvement** on profitability
- **Strong OpCF at €1.8bn**

# Strong push on commercial activity

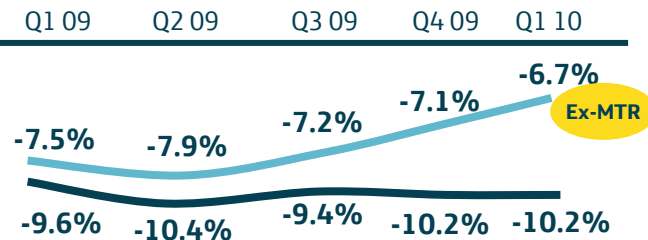
## Wireless service revenues



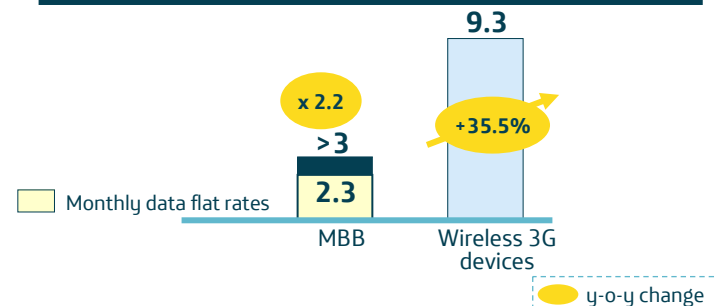
## Wireless contract customers



## Comparable Mobile ARPU (y-o-y)



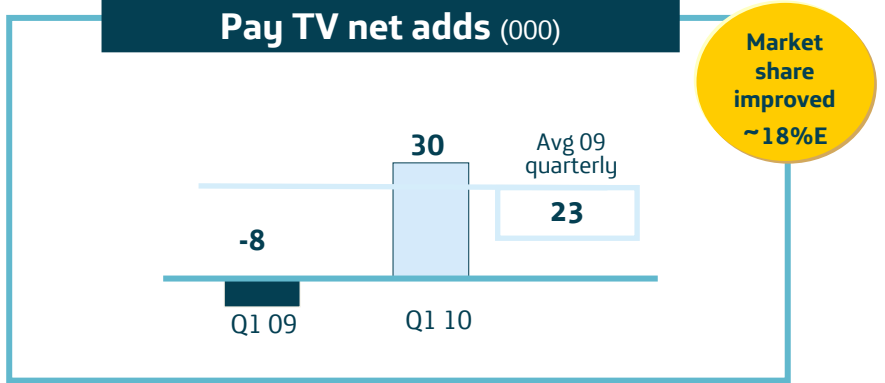
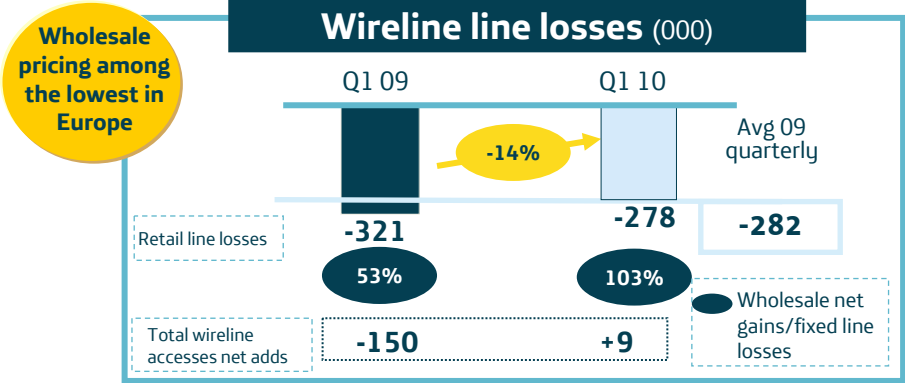
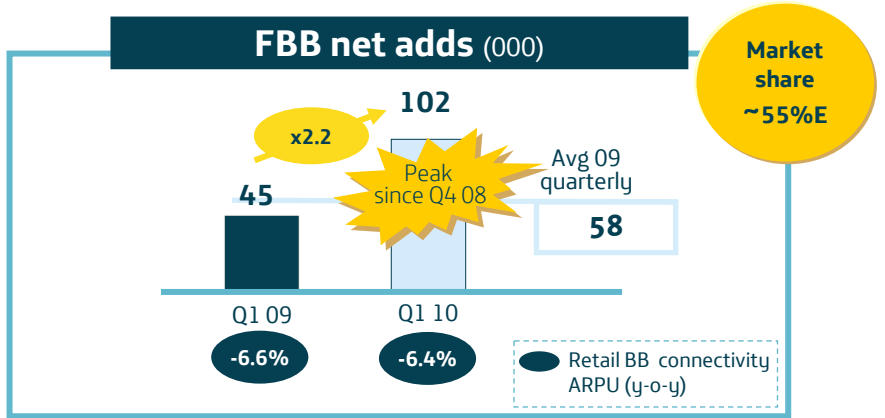
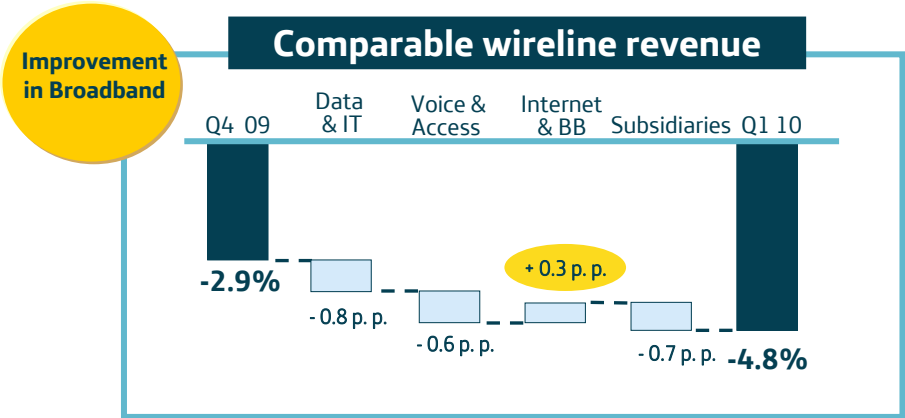
## Mobile Broadband accesses (m)



Strong leadership in the market: highest gap between access & revenue share

- Total gross adds up 31% vs. Q1 09
- Further increase in contract to over 65% of total
- Best churn rate in the market
- Slight recovery in voice traffic recovery (+0.1% y-o-y); outgoing voice ARPM (-6.5%) in line with expectations
- Exploiting the MBB opportunity: market leader in 3G devices

# Stepping up commercial momentum

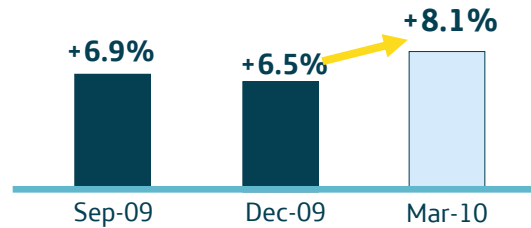


- Positive data revenues and solid IT performance despite seasonality
- Strong acceleration in Q1 commercial activity: first quarter with positive net adds in total fixed accesses since Q4 08
- Fixed market on recovery path: stabilization of retail line losses, fully offset by wholesale lines (lower ARPU but generating revenues)
- Steady ramp up of FBB accesses growth: from 4.4% y-o-y in Q4 09 to 5.4% in Q1 10 with stable ARPU erosion
- Pay TV gaining traction and driving market share improvement

# T.Latam: Solid top line growth and robust profitability

## Accesses growth

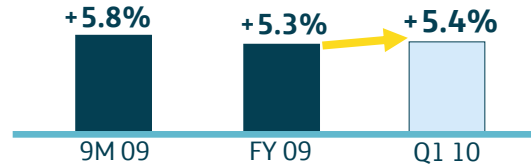
(y-o-y growth)



- **Strong commercial momentum:**
  - Accesses growth acceleration to 172.3 m
  - Churn contention across businesses

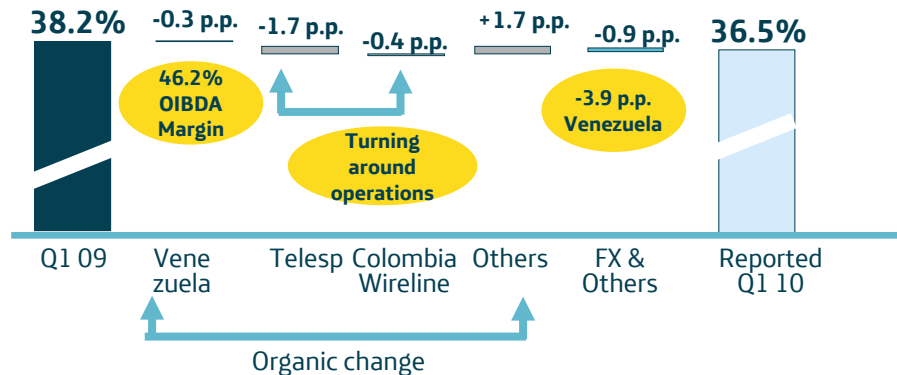
## Revenue

(Organic y-o-y growth)



- **Sustained organic top line growth:**
  - Double digit growth in mobile service and Internet & Pay TV revenue

## OIBDA Margin

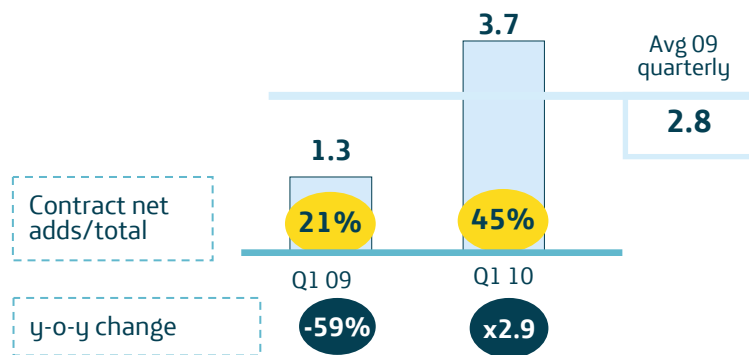


- **+3.4% organic y-o-y growth in OIBDA** despite 12.0% increase in commercial costs
- **Stable OpCF in euros (€1.6 bn), despite Venezuela devaluation**



# Wireless business: Strong commercial activity

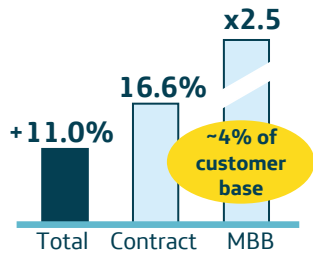
## Net adds (in millions)



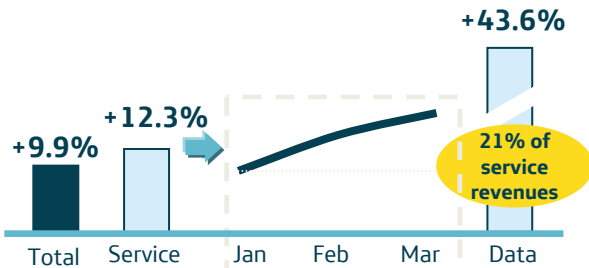
- **Commercial ramp up** for the third quarter in a row: +24.2% y-o-y growth in gross adds
- **Churn improvement:** 2.4% in Q1 10 (-0.2 p.p. y-o-y)
- **Acceleration in customer growth** (+1.8 p.p. vs. 2009 growth pace)
- **Strong focus in contract:** +6.4 p.p. vs. 2009 growth rate

## Q1 10 Mobile accesses & revenue growth (y-o-y organic)

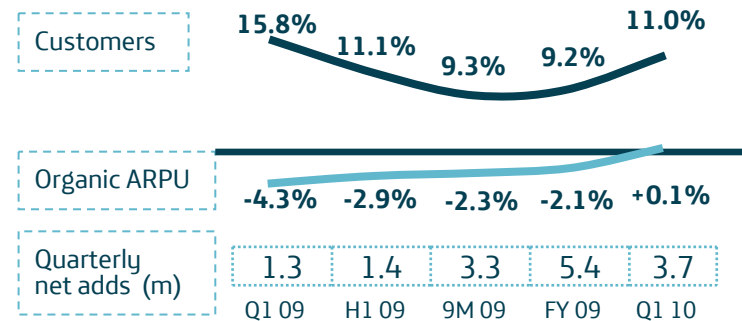
### Accesses



### Revenue



## Mobile Customer & ARPU (y-o-y change)



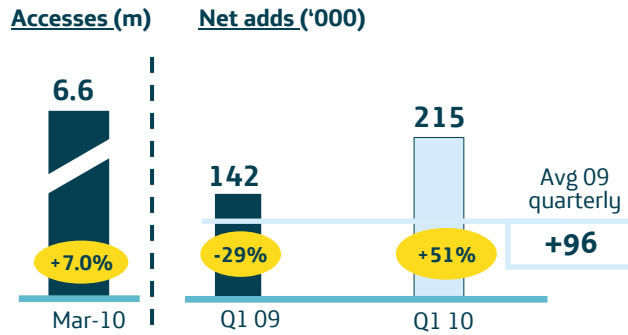
- Sustained double digit service revenue organic growth
- Remarkable push in data/service revenues: +5.3 p.p. y-o-y

- Stable organic ARPU y-o-y
- Further growth in outgoing ARPU: +3.5% vs. +1.4% in FY 09

# Wireline business: stabilizing revenue drivers

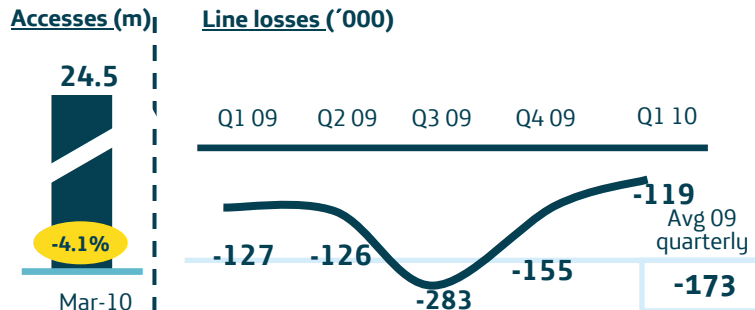
**Latam Retail BB**

y-o-y growth



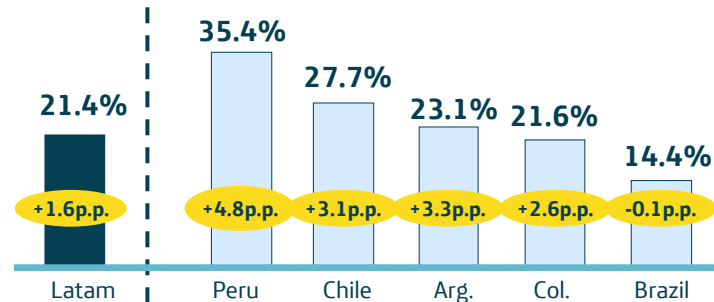
**Latam Retail Fixed Accesses**

y-o-y growth



**Internet & Pay TV rev/ Total rev (Q1 10)**

y-o-y growth



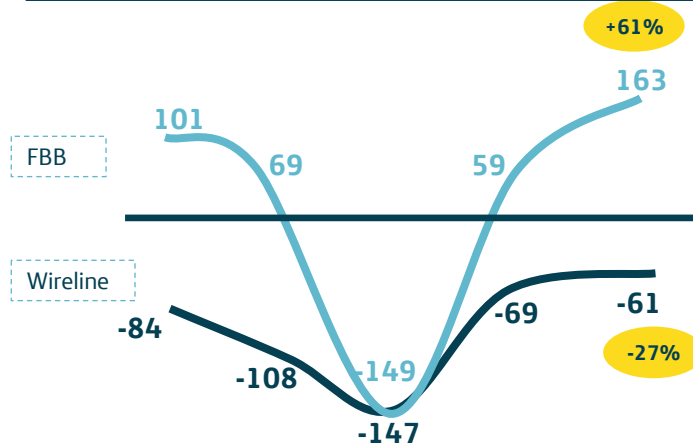
- Strong BB growth:**
  - Significant ramp up in net adds: 2x 2009 quarterly average
  - Record performance in Telesp
  - BB/fixed lines: +3 p.p. y-o-y to 27%
  - Higher quality led to the lowest churn ever

- Improvement of line losses:**
  - 31% below 2009 quarterly average
  - Improved quality as a key lever to reduce churn
- Traditional traffic stabilization**

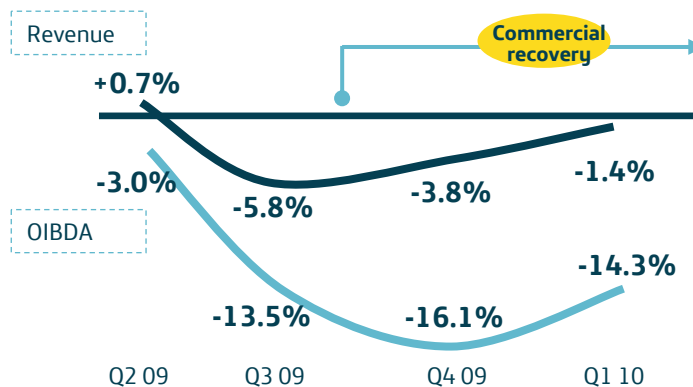
- Further advance in transformation:**
  - 2P&3P/BB: +6 p.p. y-o-y to 57%
  - Higher contribution from internet & Pay TV revenue in most operations

# Teleesp gradual recovery

## Best Q1 in history for FBB



Anatel claims (y-o-y)	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
	+87%	+82%	-1%	-15%	-36%



### Gaining commercial momentum:

- Total accesses growth for the 1<sup>st</sup> time since Q3 08
- Limited activity in Jan-10 on heavy rains
- Positive fixed line net adds in March & April
- Strong BB churn reduction
- FBB net adds in Q1 10 is 2x FY 09 volume
- Close to 50% of Q1 10 net adds recorded in Mar-10
- Recovering market share
- Stable CapEx/sales: 13.5% last twelve months

### Improving revenue trend towards positive growth

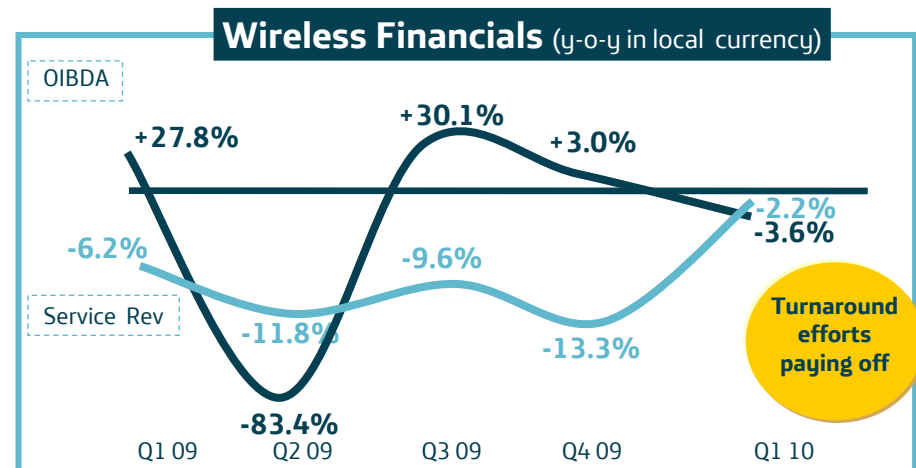
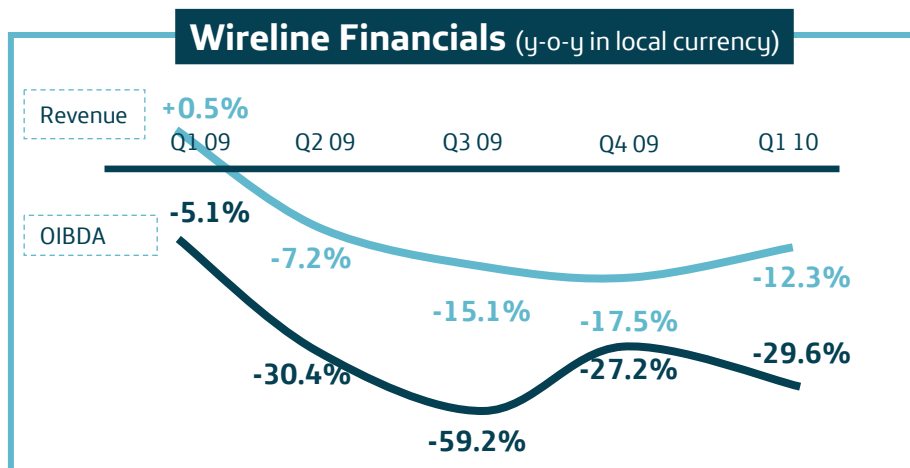
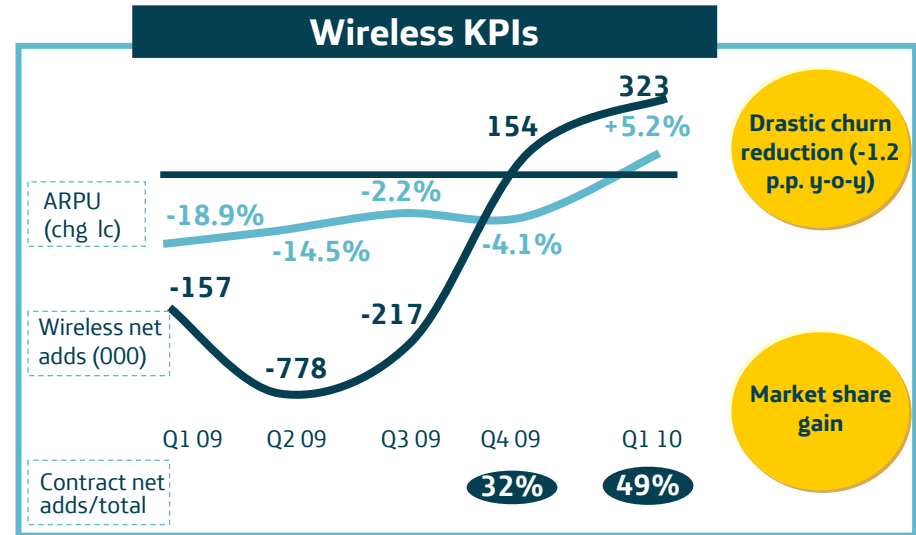
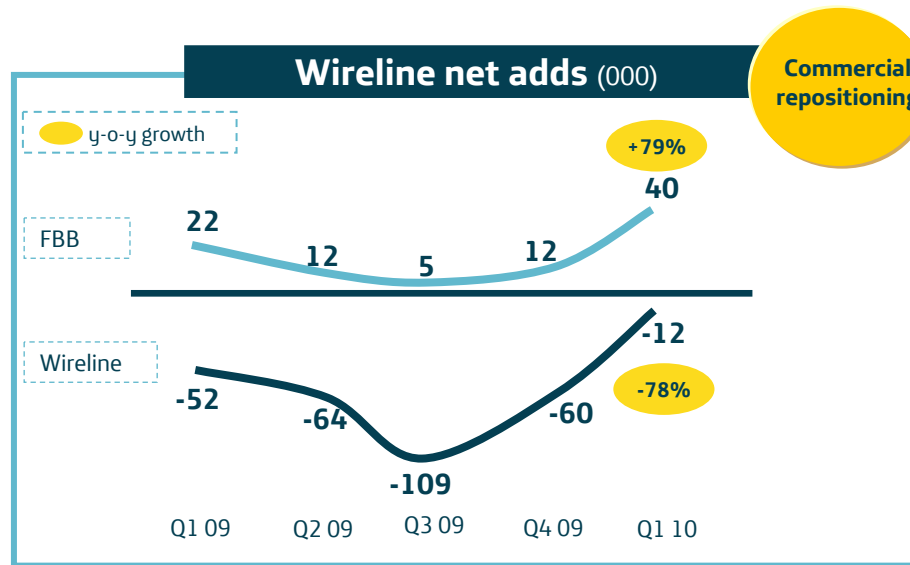
- Lower churn levels should reduce commercial expenses going forward
- OIBDA impacted by increased activity and heavy rains

## Net adds (000)

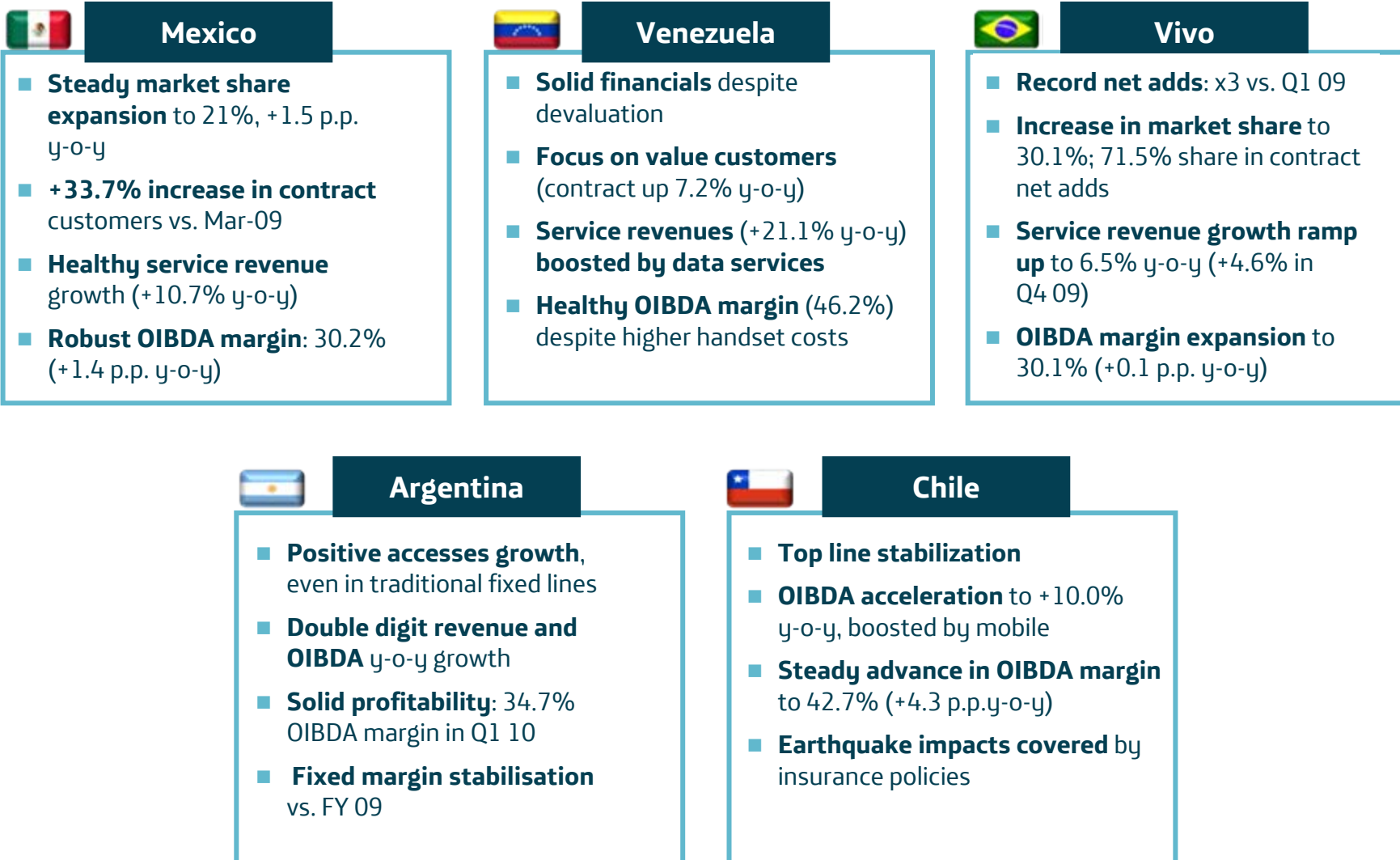
y-o-y growth

## Financials (y-o-y in local currency)

# Colombia: Operating results improved, financials should follow



# Good performance across key operations

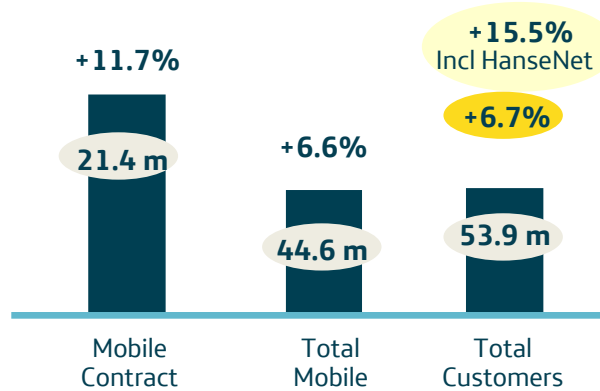


# T. Europe: continued momentum, leveraging mobile internet

## Accesses

(Mar-10; y-o-y growth)

Organic

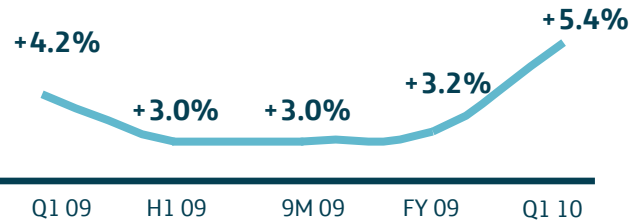


### Strengthened business portfolio:

- Quality base improvement: 86% of Q1 mobile net adds in contract
- Strong MBB expansion to over 7 m accesses (+67.3% y-o-y)
- Increasing scale in FBB and mobile

## Revenue

(y-o-y organic growth ex MTRs)

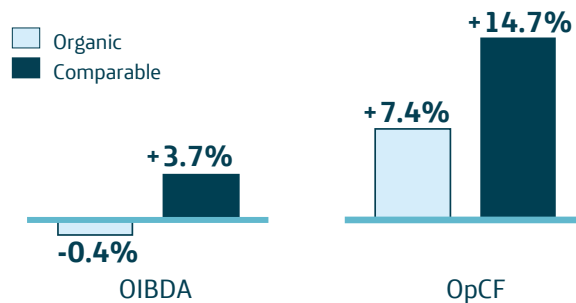


### Ramp up in growth driven by base expansion & mobile internet:

- Non-P2P SMS rev +35.2% y-o-y
- Outgoing ARPU improvement, overall
- Leveraging geographical diversification

## Q1 10 Profitability

(y-o-y growth)



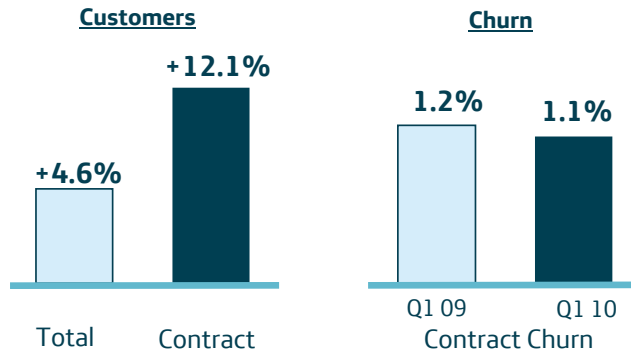
### Strong cash flow, sustained profitability:

- 26.2% OIBDA margin, improving 0.5 p.p. y-o-y in comparable terms
- Germany & UK driving profitability
- Continued cost efficiencies in non-customer facing activities

# T.O2 UK: leading financials, growing quality base

## Mobile KPIs

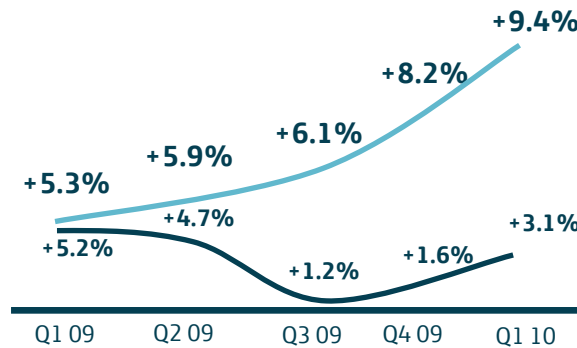
(Mar-10: y-o-y change)



- Smartphones and lowest contract churn driving customer growth:
  - Rational customer acquisition strategy
  - Increasing quality of the base: 195k contract net adds in Q1. 46% of the base in contract (+3 p.p. y-o-y)
  - Highest smartphone base in the market

## Mobile Service Revenue

(local currency, y-o-y growth)

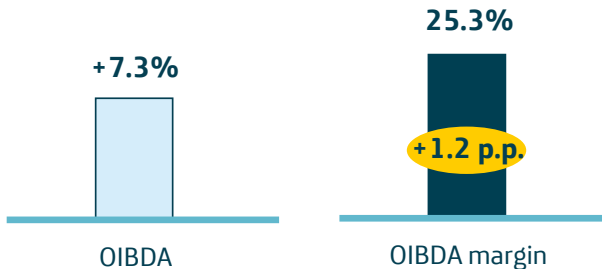


Ex-MTRs y-o-y change  
Reported y-o-y change

- Strong revenue growth, sustained sequential trends:
  - +2.1% y-o-y in local currency vs. +1.2% y-o-y in local currency Q4 09
  - Total ARPU up 2.7% y-o-y ex-MTR in local currency driven by higher contract base
  - Robust non-P2P SMS revenue: +43.8% y-o-y in local currency

## Profitability

(y-o-y growth in local currency)



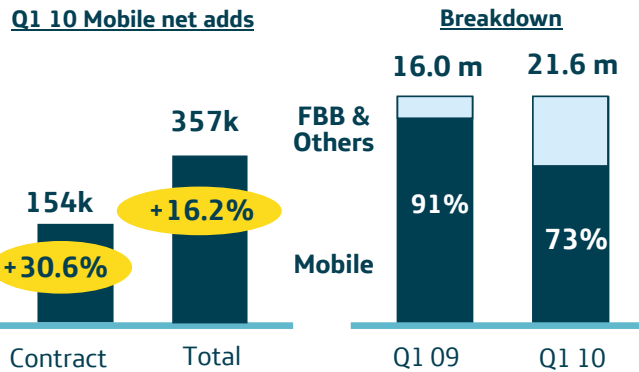
- Increased profitability while investing in quality:
  - Leveraging rational commercial investments in line with customer value
  - Focused increase in network investment



# T.O2 Germany: Strong trading momentum and broader portfolio

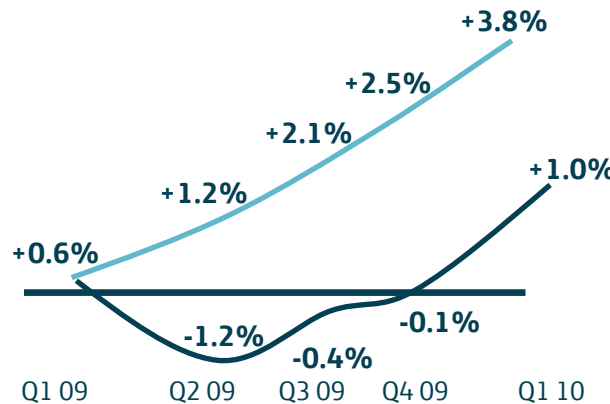
## Customer Base

y-o-y growth

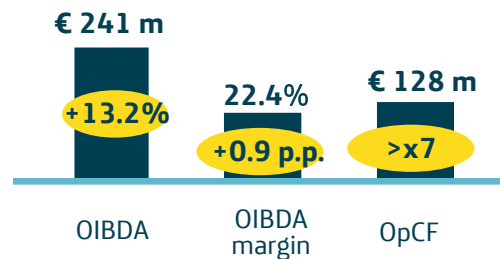


## Mobile Service Revenue (y-o-y growth)

Ex-MTRs y-o-y change  
Reported y-o-y change



## Q1 10 Profitability (organic y-o-y growth)

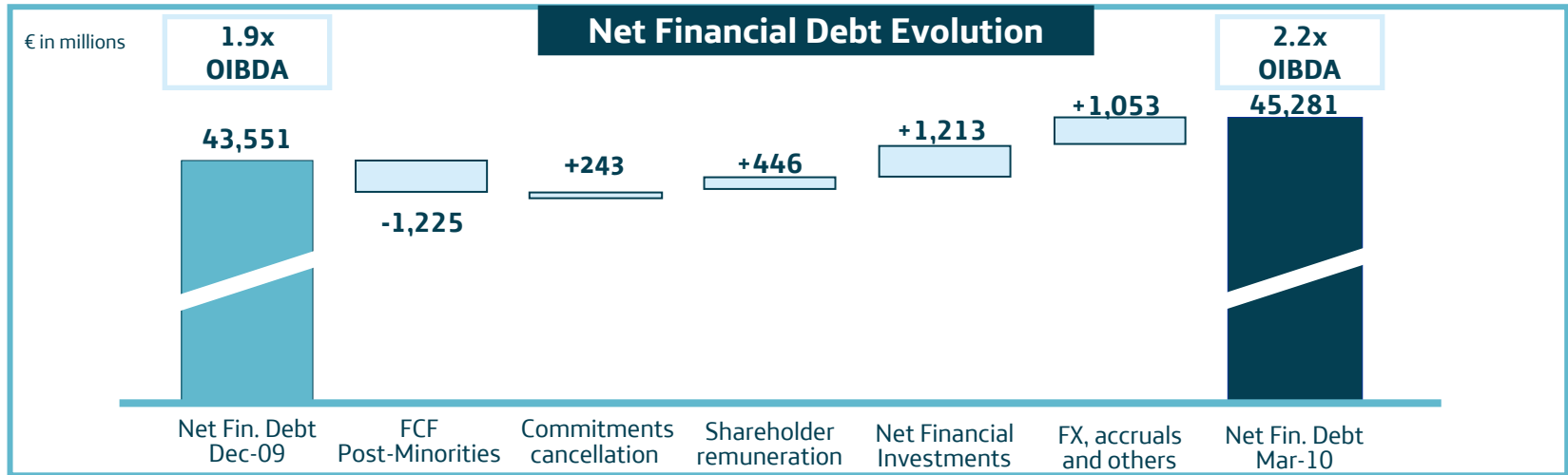


- Enhanced challenger approach through expanded integrated portfolio
  - Better positioned to address new segments (HanseNet, "O2o", "O2on")
  - Increased contract mix to 50% (+1 p.p. y-o-y)

- Substantial revenue growth on increased customer base:
  - Total organic revenue up 8.8% y-o-y in Q1 10; (+7.2% in Q4 09 y-o-y)
  - Non-P2P SMS revs +43.9% y-o-y
  - Increased contribution from "My Handy"
  - Stabilization in ARPU trends

- Continuous strong profitability
  - Solid OIBDA growth
  - Low margins from acquisitions impacting in reported OIBDA margin (-1.3 p.p. drag)

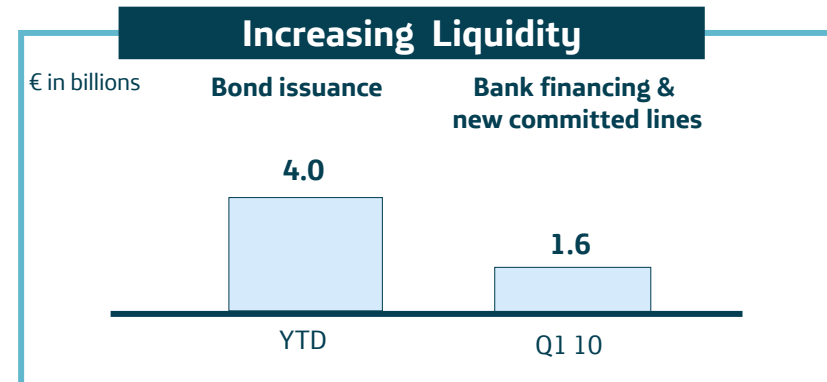
# Effective interest rate contained at 5%



### Lower Cost of Debt

	Q1 10
Net interest Expenses	€ -572 m
FX results	€ -1 m
<b>Total Financial Results</b>	<b>€ -573 m</b>
<b>Total Average Debt</b>	<b>€ 46,489 m</b>

**4.99% effective interest rate**



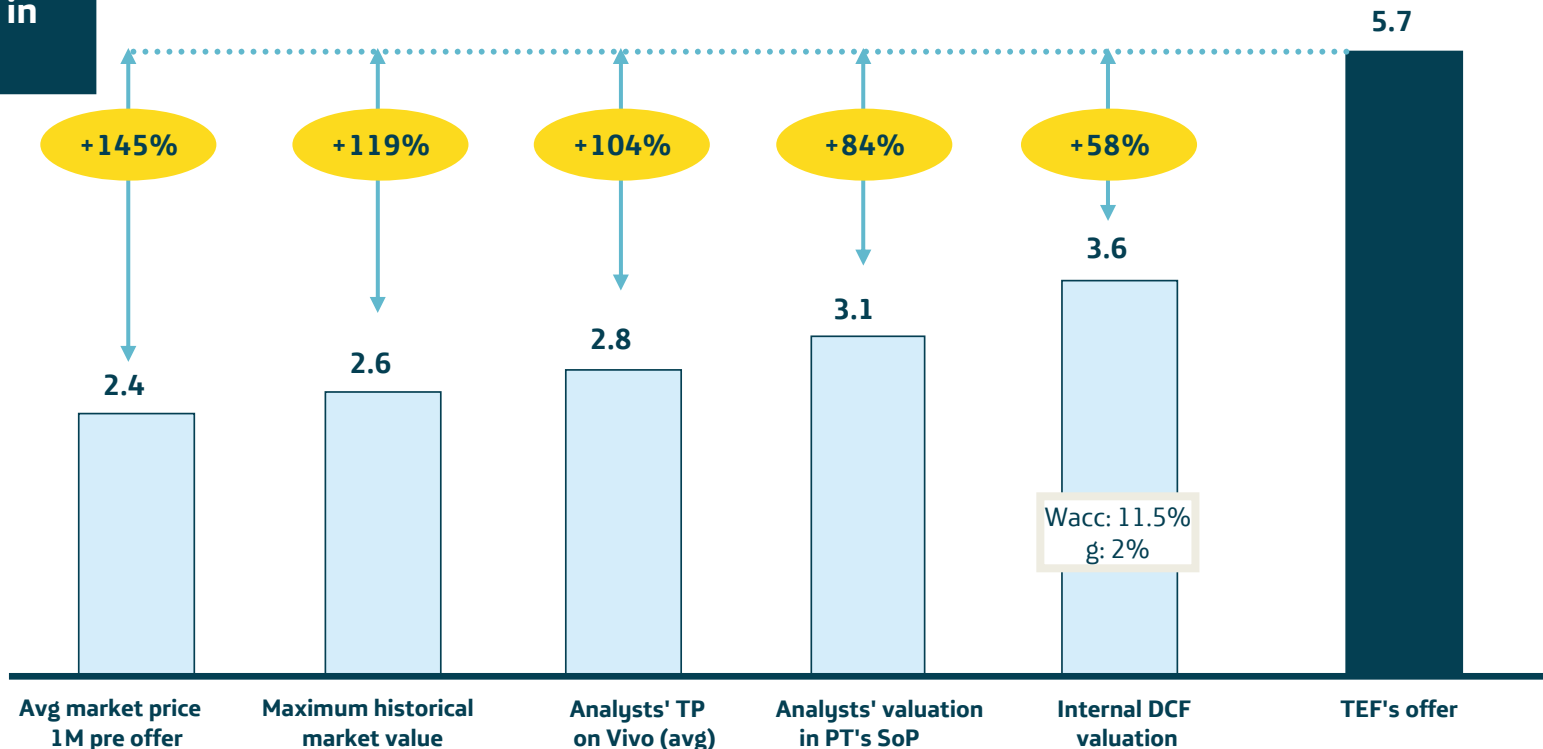
- Leverage target, including commitments, up to the middle of our target range (2.3x OIBDA)
- Strong liquidity helped by € 4 bn issuance and €1.6 bn of other long term bank financing & new credit lines
- Contained financial expenses at 4.99% benefiting from floating exposure positioning

# A full value offer for PT's 50% stake in Brasilcel

## Key terms

- € 5.7 bn all cash transaction for 50% of Brasilcel owned by PT
- Unconditional, binding, fully financed offer with no execution risk

## Value of PT's indirect stake in VIVO (€ bn)



Maximum value achievable by PT in absence of a transaction

Implicit Vivo ON share price

R\$45.9

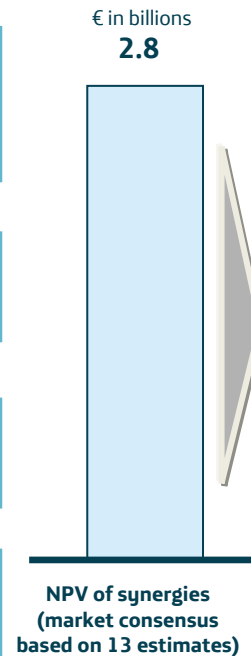
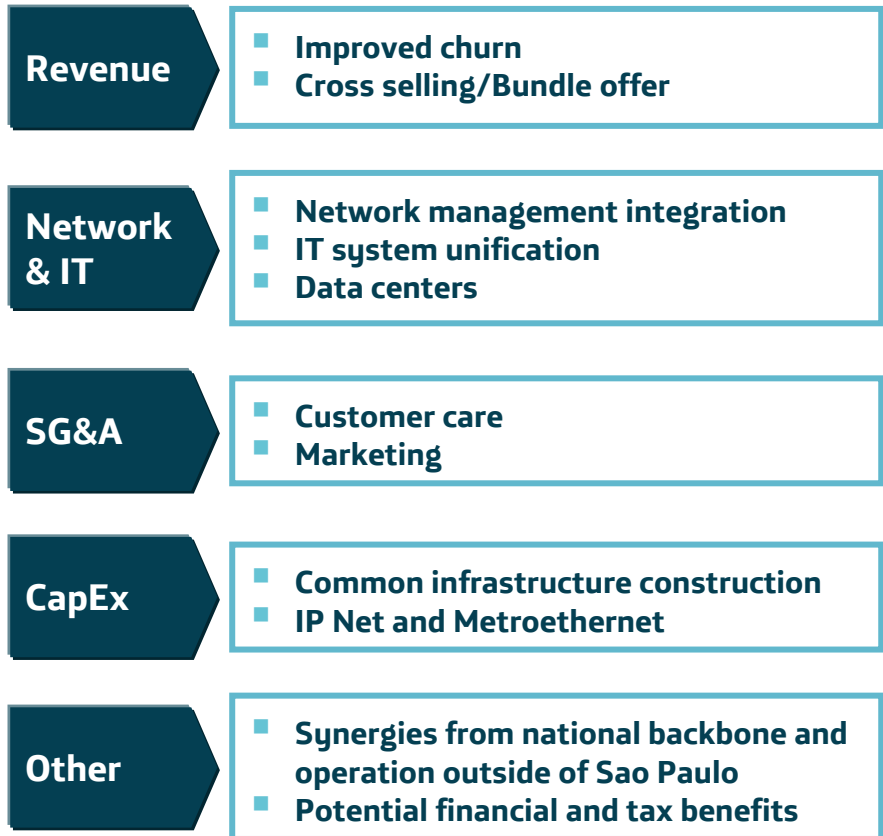
R\$112.29

FV/EBITDA 09

4.9x

10.9x

# ... with PT obtaining more than its pro-rata share of the synergies of a potential subsequent Vivo-TSP combination



## Synergy allocation references

### By asset contribution

	Telesp	Vivo	PT's share
EBITDA 09	54%	46%	14%
OpCF 09	57%	43%	13%

### By ownership % in a hypothetical Telesp/Vivo combination

- If all assets valued at market: 16%
- If PT's stake in Vivo at €5.7bn and rest at market: 31%

**By including a very significant part of the potential synergies in the price, the offer unlocks value for PT shareholders that can not be achieved by PT standalone**

# Closing remarks

- **Boosting top line growth, leveraging a well diversified portfolio**
- **Sharp increase in commercial activity across regions, setting the base for additional revenue growth**
- **Retaining top quality profitability and high OpCF**
- **Robust financial position**
- **2010 and mid term guidance reiterated**
- **Growing dividend policy confirmed**

**Strong results,  
delivering our  
2010 priorities**

*Telefónica*

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