Telefónica: Delivering sustainable growth

London, June 8th, 2010
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This presentation includes certain non-GAAP (Generally Accepted Accounting Principles) financial measures which have not been subject to a financial audit for any period.
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In the new digital world, advanced global operators are key to build new value proposals.

**Global Telco Operators**

**Agents from ICT business**
- Advanced data distribution & services platform
  - Software & App providers
  - User equipment manufacturers
- Internet content access platforms
- Network equipment providers
- Content creators

**Agents from the “real” economy**
- Financial services
- Education
- Health
- Retailers
- Government
- Billion of customers
  - Intermediation & digital transformation partner

New revenue streams from new mutually beneficial business models.
Service platforms enable a new wave of revenues

Beyond applications: Advanced platforms for quality service delivery

Adding comprehensive connectivity & service management

Third Parties

Payment for distribution and additional services

Revenue sharing

Content, advertising, on-demand services & apps

Payment for segmented bundle of services

End User

Telco service platforms for Comprehensive QoS

Partner players around our capabilities

Unify and simplify for our customers
Our scale and value chain positioning places us as the partner choice in the new digital ecosystem to build high potential intersectorial alliances with every sector.
Communication demand will keep growing

- **Today**
  - Households: 1.0 Billion
  - People: 4.6 Billion
  - Machines: 1.4 Billion

- **2020**
  - Households: 1.2 Billion
  - People: 6 Billion
  - Machines: 40 Billion

### Key Metrics

- **M/(M+F)**
  - Today: 75%
  - 2020: 90%

- **MBB/BB**
  - Today: 37%
  - 2020: 95%

**Source:** Ericsson, LTE Webinar October 2009 & Vision 2020 December 2009.
New digital applications and services will accelerate this trend, increasing ICT share in consumer's wallet.
We see a larger business with a change of mix in Telefónica

<table>
<thead>
<tr>
<th>Year</th>
<th>Access and Voice</th>
<th>BB</th>
<th>Applications</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>81%</td>
<td>13%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>2009</td>
<td>79%</td>
<td>15%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>2012 E</td>
<td>72%</td>
<td>21%</td>
<td>6%</td>
<td>1%</td>
</tr>
</tbody>
</table>

(1) Access & Voice: Fixed and mobile access and voice (SMS included), fixed and mobile equipment, narrowband Internet and M2M revenue.
(2) BB connectivity (MBB & FBB). FBB connectivity: (DSL, FO, cable modem, ...), fixed data services, retail and wholesale and equipment. MBB connectivity: Big & Small Screen, mobile e-mail, and WAP browsing revenue.
(3) Apps and New Business: TV, ICT solutions, online advertising (e-Commerce, Terra), MBB VAS (Mobile content / Application downloaded), other FBB VAS, new growth sources and other digital content service revenue.
(4) Revenues from subsidiaries and other companies.
(5) Assuming constant exchange rates as of 2008 (average FX 08) and excludes changes in consolidation.
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06 Conclusions
We have maintained our superior performance despite a very challenging environment.

- **2009 Revenue Organic Growth**
  - **Average Ex TEF:** -3.7%
  - 2009 revenue growth: +0.2%
  - VOD, KPN, DTE, BT, TI:
    - -1.9%
    - -2.6%
    - -3.5%
    - -3.6%
    - -4.8%
    - -5.6%

- **Change in Capex/Sales (2009 y-o-y)**
  - 2009 y-o-y change:
    - **Average Ex TEF:** -1.7%
    - TEF, FTE, VOD, KPN, DTE, BT, TI:
      - -1.7 p.p.
      - -2.0 p.p.
      - -6.0 p.p.

- **2009 OpCF margin**
  - **Average Ex TEF:** 20.1%
  - 2009 OpCF margin: 27.0%
  - TEF, FTE, VOD, KPN, DTE, BT, TI:
    - 22.8%
    - 20.0%
    - 25.0%
    - 17.7%
    - 14.6%
    - 19.8%

Despite the adverse economic environment in Spain, we have maintained our growth gap vs. the sector...

... while maintaining our benchmark cash flow generation and keeping investment in future growth.
02 Distinctive top line performance

**Revenue growth acceleration for the 2nd quarter in a row**

- Organic y-o-y growth ex MTRs
- Organic y-o-y growth
- Total accesses (y-o-y organic growth)

- **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)

- T. España: +0.4 p.p.
- T. Europe: -1.9 p.p.
- Others & Eliminations: +0.2 p.p.
- TEF Group: +0.9%

**Q1 10 Revenue by mix of services**

- (contribution to organic growth y-o-y)

- BB connectivity & new services: -1.6 p.p.
- Others & Eliminations: +0.2 p.p.
- TEF Group: +0.9%

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.


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.
We have already set the bases for future growth

- Geographical & Business **DIVERSIFICATION**
- Strong **GROWTH POTENTIAL** in our markets

**Telefónica markets**

- FBB\(^{(2)}\) +10%
- Fixed +0%
- MBB\(^{(3)}\) +70%
- Mobile +4%

Traffic +46%

**Broadband everywhere**

Access to support broadband
Traffic explosion

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(1) Telefónica Markets: Total markets from Telefónica footprint.
(2) FBB: Fixed Broadband.
(3) MBB: Mobile Broadband. Growth considers only Big Screen.
02 Growing our customer base & improving its quality

- +10 p.p. growth in the weight of contract customers by Dec-12E vs. Dec-08 (Telefónica Group)
- Contract ARPU(4) 4.5x prepay one in 2009, with better y-o-y evolution (Telefónica Group)

Variation 08-12E

(1) Morocco accesses excluded in 2008 for comparison reasons.
(2) Mobile Retail accesses: Mobile voice accesses, M2M and Small Screen are included.
(3) MBB accesses: Including Big and Small Screen.
(4) Contract ARPU excluding M2M.

- MBB growth mainly driven by Smartphones
- ARPU of Smartphones in Spain 1.7x contract ARPU(4) in 2009
Massive MBB development (i)

**MBB (2) penetration**

- % Big and Small screen accesses over mobile accesses
- Dec-08: 5%, Mar-10: 8%, Dec-12E: 27%

**MBB accesses (2)**

- millions
- Dec-08: 9, Mar-10: 16, Dec-12E: ~67
  - +65%

**MBB connectivity revenues (3)**

- € in billions
- FY 2008: 1.3, FY 2012E: 5/5.7
  - +40%/+45%
  - CAGR 08-12 E

**World mobile devices sales (1)**

- World; millions
- Dec-07: 1,153, Dec-09: 1,214, Dec-13: 1,636
  - Smartphone: Dec-07: 11%, Dec-09: 14%, Dec-13: 38%

**Lead the small screen opportunity**

- > 70m smartphones in Latin America (5) by 2012E (6)

**Competitive market pricing based on tiered offers**, providing as much as possible on-demand:

- Bandwidth
- QoS
- Volume
- Latency
- Peak – offpeak...

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(1) Source: Gartner, “Forecast Mobile Devices World 2003-2013”.
(2) MBB accesses: Including Big and Small Screen.
(3) MBB connectivity revenue, including Big and Small Screen, mobile email and WAP browsing revenues.
(4) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.
(5) Smartphones includes High Tech.
(6) Telefonica estimates.
(7) XaaS: Everything as a service.
02 Massive MBB development (ii)

- **A reality even in a difficult environment: T. España**

  - Wireless data rates net adds (000's) (1)
  
    | Q1 09 | Q1 10 |
    |-------|-------|
    | 168   | 364   |
    
  - Data connectivity revenues (y-o-y change)
    - +50%
    - +68%

  - 2.3 monthly data flat rates in Mar-10 >x2 vs. Mar-09
  - +52% revenue growth in 2009

- **Tiered pricing in our markets: different customer needs, avoiding “all you can eat” tariffs**

  **MEXICO (volume based)**

<table>
<thead>
<tr>
<th>Profiles</th>
<th>Allowance *</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conecta</td>
<td>300 Mb</td>
<td>x</td>
</tr>
<tr>
<td>Navega</td>
<td>800 Mb</td>
<td>1.5 x</td>
</tr>
<tr>
<td>Descarga</td>
<td>5 Gb</td>
<td>2.2 x</td>
</tr>
</tbody>
</table>

  *Fair usage policy rules applied. Additional modules are charged.

  **SPAIN (Smartphone - traffic based profiles)**

<table>
<thead>
<tr>
<th>Profiles</th>
<th>Max. down speed</th>
<th>Allowance*</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Int. Móvil (IM)</td>
<td>1 Mbps</td>
<td>100 Mb</td>
<td>x</td>
</tr>
<tr>
<td>IM Plus</td>
<td>3 Mbps</td>
<td>200 Mb</td>
<td>1.5 x</td>
</tr>
<tr>
<td>IM Premium</td>
<td>3 Mbps</td>
<td>1 Gb</td>
<td>2.5 x</td>
</tr>
</tbody>
</table>

  *Unlimited volume. Download speed reduces to 64 Kbps when allowance volume reached. IM Plus and Premium includes unlimited access to Telefónica WiFi hotspots.

(1) Monthly flat rates
## Further FBB expansion through DSL upgrade and selective FO deployment

### FBB (1) penetration

<table>
<thead>
<tr>
<th></th>
<th>Dec-08</th>
<th>Mar-10</th>
<th>Dec-12E</th>
</tr>
</thead>
<tbody>
<tr>
<td>% FBB penetration: FBB accesses over fixed accesses</td>
<td>29%</td>
<td>38%</td>
<td>52%</td>
</tr>
</tbody>
</table>

### FBB retail accesses (1)

<table>
<thead>
<tr>
<th></th>
<th>Dec-08</th>
<th>Mar-10</th>
<th>Dec-12E</th>
</tr>
</thead>
<tbody>
<tr>
<td>millions</td>
<td>12.5</td>
<td>16.0</td>
<td>&gt;19</td>
</tr>
</tbody>
</table>

### FBB connectivity revenues (2)

<table>
<thead>
<tr>
<th></th>
<th>FY 2008</th>
<th>FY 2012E</th>
</tr>
</thead>
<tbody>
<tr>
<td>€ in billions</td>
<td>6.3</td>
<td>+5%/+8%</td>
</tr>
</tbody>
</table>

#### DSL:
- Expand BB markets; low coverage areas and low income segments
- Tiered offer including Premium at high speed (>10 Mbps)
- **Selective FO** deployment (speed>25 Mbps)
- **Bundles across segments**

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1. FBB retail accesses: Includes FO, DSL, Cable modem and satellite
2. FBB connectivity revenue: Includes connectivity (DSL, FO, Cable Modem...), fixed data services, retail and wholesale and equipment revenue
3. Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation

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**Lines passed with**  
> 25 Mbps in 2012  
> x9 vs. 2008
Development of applications and new business

- **Mobile applications:** >120m
  - Mobile applications downloaded in 2012E
- **Pay TV:** >4.5m
  - Customers by 2012E vs. 2.3 m in December 2008
- **Digital Home** services
- **ICT solutions:** infrastructure alternatives, Cloud Computing, M2M, …
- **New Business:** e-Finance, e-Health, e-Travel, e-Learning, e-Security,…

**Mobile Apps. Market**
- From €6 bn to €17.5 bn in 2009-12

**WAC**
- Open platform
- Over 30 telco players
- 4 global suppliers
- 3 Bn mobile customers

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(1) Apps. & New business revenue: TV, ICT solutions, on line advertising (e-Commerce, Terra), MBB VAS (mobile content/application downloaded), other FBB VAS, new growth sources and other digital content services revenue.
(2) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.
(3) BofAML March 2010.
Defense and growth of traditional business

**Retail accesses**

<table>
<thead>
<tr>
<th></th>
<th>Dec-08</th>
<th>Dec-10</th>
<th>Dec-12E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>232</td>
<td>243</td>
<td>~265</td>
</tr>
<tr>
<td>Fixed</td>
<td>81%</td>
<td>83%</td>
<td>86%</td>
</tr>
</tbody>
</table>

CAGR 08-12 E
Mobile weight variation 08-12E

**Access & voice revenue**

<table>
<thead>
<tr>
<th></th>
<th>FY 2008</th>
<th>FY 2012E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>47.1</td>
<td>67%</td>
</tr>
<tr>
<td>Fixed</td>
<td>33%</td>
<td>25%</td>
</tr>
</tbody>
</table>

CAGR 08-12 E

**Bundles**

% [1P+2P+3P+4P] over total fixed accesses

Dec-08: 42%
Dec-12E: ~60%

**Key Points**

- **Bundle access** with fixed and mobile voice to retain fixed voice only customers
- Capture mobile penetration growth opportunities (LatAm)
- Foster prepay to contract migration
- Innovative tiered price plans
- Increasing loyalty

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(1) Morocco excluded in 2008 for comparison reasons.
(2) Mobile: Mobile voice accesses, M2M and small screen are included.
(3) Fixed: PSTN, Public Use Telephony, ISDN, fixed wireless lines, self consumption, test and social interest lines, naked DSL, VOIP lines and narrowband internet accesses.
(4) Access & Voice: Fixed and mobile access & voice (SMS included), fixed & mobile equipment, narrowband internet and M2M revenue.
(5) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.
(6) Ex-Public Use Telephony.
We will fully capture revenue growth potential in our markets

**CAGR 08-12E**(1)**

- **MBB**: +40%/+45%
- **Applications & new business**: +12%/+15%
- **FBB**: +5%/+8%
- **Traditional**: -2%/+1%

**Revenue Mix**(1)**

**FY 2008**

- **Accesses & Voice**(2): 81%
- **BB connectivity**(3): 13%
- **Applications & new business**(4): 4%
- **Others**(5): 2%

**FY 2012E**

- **Accesses & Voice**(2): 72%
- **BB connectivity**(3): 21%
- **Applications & new business**(4): 6%
- **Others**(5): 1%

---

(1) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.
(2) Access & Voice: fixed and mobile access & voice (SMS included), fixed and mobile equipment, narrowband internet and M2M revenue.
(3) BB connectivity (MBB & FBB). FBB connectivity: (DSL, FO, cable modem ...), fixed data services, retail and whole sale equipment, MBB connectivity, big and small screen, mobile e-mail, and WAP browsing revenue.
(4) Apps. & New business revenue: TV, ICT solutions, on line advertising (e-Commerce, Terra), MBB VAS (mobile content/ application downloaded), other FBB VAS, new growth sources and other digital content service revenue.
(5) Revenues from subsidiaries and other companies.
Medium term guidance will lead to a sustainable growth and an even lower risk profile

<table>
<thead>
<tr>
<th></th>
<th>2008 Adjusted (2)</th>
<th>CAGR 08-12E (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accesses</strong> (1) (millions)</td>
<td>252</td>
<td>&gt;320</td>
</tr>
<tr>
<td><strong>Revenues</strong> € in millions</td>
<td>57,946</td>
<td>+1%/+4%</td>
</tr>
<tr>
<td><strong>OIBDA</strong> € in millions</td>
<td>22,602</td>
<td>+2%/+4%</td>
</tr>
<tr>
<td><strong>OI</strong> € in millions</td>
<td>13,556</td>
<td>+4%/+7%</td>
</tr>
<tr>
<td><strong>OpCF</strong> € in millions</td>
<td>14,201</td>
<td>+5%/+7.5%</td>
</tr>
</tbody>
</table>

> € 40 bn Cumulative FCF (3) FY 2009-2012E

CapEx € in millions

~ € 30 bn Cumulative 09-12E

---

(1) Morocco Accesses excluded in 2008 for comparison reasons.

(2) 2008 adjusted figures for guidance exclude Sogecable gain (€143 m) and the application of provisions made in T.Europe in respect of potential contingencies deriving from the past disposal of shareholding, one these risks has dissipated or had not materialized (€174 m), includes 9 months of consolidation of Telemig in T.Latam. Figures for guidance assume 2008 constant FX (average FX in 2008) and exclude changes in consolidation. In terms of guidance calculation OIBDA exclude capital gains and losses from sale of companies and write-offs.

(3) Free Cash Flow available to remunerate Telefónica’s shareholders, to protect solvency levels (financial debt & commitments), and to accommodate strategic flexibility. Figures assuming 2008 constant exchange rates (average exchange rates in 2008) and excluding changes in consolidation.
We have clear priorities for 2010

- Reinvesting efficiency gains to foster revenue expansion
- Higher CapEx to support growth in customers & volumes

(€ in millions)

<table>
<thead>
<tr>
<th></th>
<th>2009 Adjusted(1)</th>
<th>2010 Guidance(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>56,407</td>
<td>+1%/+4%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>22,344</td>
<td>+1%/+3%</td>
</tr>
<tr>
<td>CapEx</td>
<td>7,262</td>
<td>7,450/7,650</td>
</tr>
</tbody>
</table>

On the back of the operating guidance provided, further efficiencies in taxes and financial costs and potential assets sales:

- Interest expenses for 2010 are expected to be around 5.5%-5.75% (<6% guided in October 2009)
- 2010 accrued tax rate is estimated at 25%-27% (vs. previous guidance of 27%-28%)
- Continue to analyze value creation opportunities maintaining an active management of our non core asset portfolio

€2.10 EPS target confirmed

(1) 2009 adjusted figures for guidance exclude Teléfon Morocco results in T. España, Medi Telecom capital gain and write-offs. 2010 guidance assumes constant exchange rates as of 2009 (average FX in 2009) and excludes hyperinflationary accounting in Venezuela in both years. It also includes 10 months of consolidation of Hansenet and Jajah in T. Europe. In terms of guidance calculation, OIBDA exclude capital gains and losses from sale of companies and write-offs. Group CapEx also excludes Real Estate Efficiency Program of T. España and spectrum licenses.
2009 adjusted figures for guidance exclude Telco Morocco results in T. España, Medi Telecom capital gain and write-offs. 2010 guidance assumes constant exchange rates as of 2009 (average FX in 2009) and excludes hyperinflationary accounting in Venezuela in both years. It also includes 10 months of consolidation of HanseNet and Jajah in T. Europe. In terms of guidance calculation, OIBDA exclude capital gains and losses from sale of companies and write-offs. Group CapEx also excludes Real Estate Efficiency Program of T. España and spectrum licenses.
We maintain our selective M&A approach

**M&A Priorities**

- Spectrum auctions in current markets to foster growth:
  - Germany & Mexico in H1 2010
  - Potential awarding process in Spain along 2010

- In-market consolidation:
  - Offer for PT’s stake in Brasilcel
  - Hansenet acquisition closed on February 16th

- Increase shareholding in China Unicom to 10%

**Continue capturing synergies from our Strategic Alliances**

- €740 m cash synergies (1) since Mar-08

- >670 million combined customer base (1)

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(1) As of Mar-10
02 Offer for PT’s stake in Brasilcel

PT’s 50% Brasilcel stake

- Binding, unconditional and valid until June 30th, 2010
- Fully financed and no execution risk
- Contemplated subsequent tender offer over Vivo ON shares at 80% of the price offered for PT’s ON shares

Alternative A

- €6.5bn cash offer for PT’s stake in Brasilcel
- Closing within 60 days of acceptance

Alternative B

- €6.5bn cash offer for PT’s stake in Brasilcel
  - €2.17bn cash for 1/3 of PT’s stake in Brasilcel
  - Closing within 60 days of acceptance
  - Put option allowing PT to sell its remaining stake for a total cash consideration of €4.33bn over 3 years from acceptance
  - Put to be exercised in minimum tranches of 10%
  - Brasilcel to pay annual dividends to PT representing 5% of remaining consideration, for a maximum period 3 years
  - Closing with 60 days of delivery of put notice

TEF’s stake in PT

- Call option allowing PT to buy TEF’s shares in PT representing approximately 8.5% of PT share capital
- TEF to use reasonable efforts to ensure its additional 1.5% stake is also transferred to PT if call is exercised
- Call at market price with exercise date to depend on Alternative selected
- Option valid for a maximum of 3 years from acceptance

TEF’s acquisition of Dedic

- TEF to buy Brazilian call centre activities from PT (Dedic S.A., FY 09 operating revenues of R$402m)
- Price to be agreed between TEF and PT following due diligence or through a process involving international investment banks

Addressing PT’s concerns
Merits of the offer

- The offer addresses PT’s management and shareholders concerns:
  - Outstanding price
  - Ability for PT to exit gradually while keeping full flexibility
  - Flexibility for PT to buy TEF’s stake in PT
  - PT will maintain presence in Brasilcel’s Supervisory Board
  - PT services to Vivo addressed through Service Period

- Outstanding value for PT’s stake in Brasilcel:
  - 179% premium over market price at the time of Telefonica’s first offer (1)
  - Implies a potential upside of over 60% to PT’s share price (2)
  - Unique value for PT not achievable on a standalone basis

TEF’S 1st June €6.5bn offer – premium paid (on €/share)

- Only listed asset (hence market value reference) is Vivo
- 12.5 Value Vivo stake @ €6.5bn (divided by PT shares)
- 7.4
- 62% premium

Price of PT share unaffected Closing of 10-May-2010

Objective breakdown of value unaffected

Breakdown of value affected

Premium paid

(1) Based on average market price 1M pre first offer
(2) Based on PT’s undisturbed price as of 10 May 2010
(3) Based on closing price on 10 May 2010 divided by PT shares
Dividend commitments are supported by our FCF generation

- **DPS targets reiterated**
- **Dividend is well covered**
- **No dependence on cash repatriation from any particular country in Latin America**

**Tactical share buybacks to be considered for FCF excesses**

- 0.6% of capital held in treasury
- Derivatives on 150 m shares as of 31/12/09

**DPS (€)**

<table>
<thead>
<tr>
<th>Year</th>
<th>DPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2009</td>
<td>1.15</td>
</tr>
<tr>
<td>FY 2010E(1)</td>
<td>1.40</td>
</tr>
<tr>
<td>FY 2012(1) minimum target(2)</td>
<td>1.75</td>
</tr>
</tbody>
</table>

#1 on Dividend Yield among top 50 companies worldwide by Mkt Cap

(1) It is Company’s intention to maintain its current practice so that dividends will be payable in two tranches.

(2) Targeted under current guidance hypothesis.
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06 Conclusions
03 Macroeconomic situation

**Spain: consumption growth far from fundamentals**

**Below the European average**

<table>
<thead>
<tr>
<th>Country</th>
<th>Consumption in communications (% of total spending)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>2.7%</td>
</tr>
<tr>
<td>Italy</td>
<td>2.2%</td>
</tr>
<tr>
<td>Portugal</td>
<td>3.0%</td>
</tr>
<tr>
<td>Holland</td>
<td>3.1%</td>
</tr>
<tr>
<td>France</td>
<td>3.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

Number of households: +226K in 2009

---

(1) Analysts’ consensus for 2010 forecasts.
T. España: continued top line recovery

**Revenues** (comparable y-o-y change)

- Q1 09: -5.7%
- Q2 09: -6.9%
- Q3 09: -6.6%
- Q4 09: -4.5%
- Q1 10: -3.9%

FY 09: -5.9%

**_wireless**

- Q1 09: -7.3%
- Q2 09: -8.1%
- Q3 09: -8.0%
- Q4 09: -7.7%
- Q1 10: -7.1%

FY 09: -8.0%

**Wireline** (comparable)

- Q4 09: -2.9%
- Q1 10: -4.8%

Data & IT
- Q4 09: -0.8 p. p.
- Q1 10: +0.3 p. p.

Voice & Access
- Q4 09: -0.6 p. p.

Internet & BB
- Q4 09: -0.7 p. p.

Subsidiaries
- Q1 10: -4.8%

Comparable terms for Q1 10 y-o-y change exclude the following effects: USO in Q1 09, real estate capital gains in Q1 09, Telyco Morocco in Q1 09 and TV Tax in Q1 10. Previous quarters year-on-year comparable changes published in Company’s press releases.

Quarterly Gross adds variations include: Fixed telephony accesses, retail broadband accesses, mobile accesses and pay TV accesses.
Competitive environment: is there a price war in Spain?

Telefónica Market Shares (1)

- **Total market revenues**
  - 2008: 55%
  - 2009: 54%

- **Wireless Contract**
  - Dec-08: 46%
  - Dec-09: 46%

- **Fixed BB**
  - Dec-08: 57%
  - Dec-09: 56%

- **Pay TV**
  - Dec-08: 14%
  - Dec-09: 17%

**Outgoing ARPM**

- **Q1 10**
  - -6.5%

**Retail BB connectivity ARPU**

- **Q1 10**
  - -6.4%

**Oct-07 ID target**

- Outgoing ARPM
  - -5% / -7%
  - CAGR 06-10 E

- Retail BB connectivity ARPU
  - -4% / -7%
  - CAGR 06-10 E

(1) Estimated market shares.
Strong commercial activity across businesses

Building foundations for future revenue growth

Net adds (000's)

<table>
<thead>
<tr>
<th>Wireless Contract</th>
<th>Fixed BB</th>
<th>Pay TV</th>
<th>Fixed Lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 09 -15</td>
<td>Q1 09 45</td>
<td>Q1 09 -8</td>
<td>Q1 09 -321</td>
</tr>
<tr>
<td>Q1 10 197</td>
<td>Q1 10 102</td>
<td>Q1 10 30</td>
<td>Q1 10 -278</td>
</tr>
</tbody>
</table>

Q1 09 Q1 10 Q1 09 Q1 10
Are you under investing?

- Reduced prices on scale benefits
- Integrated player approach strategy
- Lower economic activity
- Lower eGSM investments
- Reduced Real Estate activity
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Is LatAm growth potential exhausted?

- **Structural social improvements** in the growth period:
  - Unemployment reduced from 11% to 7.5% since 2002
  - > 50 m people have left poverty since 2000
  - Brazil: Middle & upper class ascent even in the crisis period

- **Countries > US$ 10 thousand GDP per capita PPP\(^{(1)}\)** represent 75% of total
- **>US$780 bn\(^{(2)}\)** increase in Private Consumption from 90s to 2009E

- 80% of Latam population is urban
- 5 of the biggest cities worldwide in Latam

**Macroeconomic strength:**
- >5% annual GDP growth in 2004-08, but –2.3% in 2009E
- >3.7% GDP growth in 2010E & 2011E

Source: United Nations and International Monetary Fund.
\(^{(1)}\) Minimum for the development of the middle class.
\(^{(2)}\) Assumes constant exchange rates as of 2009.
## What are the growth opportunities in the region?

**Wireless**

<table>
<thead>
<tr>
<th>FURTHER PENETRATION</th>
<th>POSTPAY MIGRATION: UP &amp; CROSS SELLING</th>
<th>MBB: NEXT KEY WAVE OF GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mobile penetration</strong></td>
<td><strong>Customer mix % postpay</strong></td>
<td><strong>MBB accesses</strong></td>
</tr>
<tr>
<td><strong>INCREASE</strong></td>
<td><strong>ARPU improvement</strong></td>
<td><strong>Tiered pricing</strong></td>
</tr>
<tr>
<td>+ 130-140 m accesses: ~65% voice accesses</td>
<td>16%</td>
<td>1 m</td>
</tr>
<tr>
<td>82% (Dec-08)</td>
<td>25-30% (Dec-12E)</td>
<td>30-32 m (Dec-12E)</td>
</tr>
<tr>
<td>&gt;100% (Dec-08)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Focus on Transformation**

<table>
<thead>
<tr>
<th>Wireline</th>
<th>FBB/Fixed accesses</th>
<th>Pay TV accesses</th>
<th>From Dec-08 to Dec-12E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FBB/Fixed accesses</strong></td>
<td><strong>Pay TV accesses</strong></td>
<td><strong>FBB Average Speed</strong></td>
<td><strong>2P+3P/LIS</strong></td>
</tr>
<tr>
<td>23% (Dec-08)</td>
<td>40-43% (Dec-12E)</td>
<td><strong>x4</strong></td>
<td><strong>x2.4</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

(1) Ex MBB Big Screen.  
(2) MBB Accesses: Including big and small screen.  
(3) Sao Paulo, Argentina, Chile, Colombia & Peru.  
(4) Sao Paulo, Chile, Colombia & Peru.
ARPU upside through up & cross selling in a more mature market

- 106% penetration
- Strong customer growth in the market
- Lowest churn in the region

**Outgoing ARPU evolution in Chile, Jul-09**

- **Customer mix (% Postpay)**
  - Dec-08: 28%
  - Dec-12E: ~35%

**Example (1)**

- **Prepay 100**
  - +Usage
  - Prepay 143
  - Upselling
  - Hybrid-Pre 200
  - Upselling
  - Hybrid-Post 286
  - Upselling
  - Hybrid-Post 371
  - Upselling
  - Postpay 429
  - Upselling
  - Postpay 514
  - Crosselling
  - Data Plans 743

(1) Control Group Methodology
Telesp gradual recovery

**Gaining commercial momentum:**
- Total accesses growth for the 1st 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**

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

<table>
<thead>
<tr>
<th></th>
<th>Q2 09</th>
<th>Q3 09</th>
<th>Q4 09</th>
<th>Q1 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>-3.0%</td>
<td>-5.8%</td>
<td>-3.8%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>-13.5%</td>
<td>-16.1%</td>
<td>-14.3%</td>
<td></td>
</tr>
</tbody>
</table>

### Net adds (000)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net adds (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 09</td>
<td>-84</td>
</tr>
<tr>
<td>Q2 09</td>
<td>-108</td>
</tr>
<tr>
<td>Q3 09</td>
<td>-149</td>
</tr>
<tr>
<td>Q4 09</td>
<td>-69</td>
</tr>
<tr>
<td>Q1 10</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>101</td>
</tr>
<tr>
<td></td>
<td>147</td>
</tr>
<tr>
<td></td>
<td>59</td>
</tr>
<tr>
<td></td>
<td>61</td>
</tr>
<tr>
<td></td>
<td>163</td>
</tr>
</tbody>
</table>

**Anatel claims (y-o-y)**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1 09</th>
<th>Q2 09</th>
<th>Q3 09</th>
<th>Q4 09</th>
<th>Q1 10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+87%</td>
<td>+82%</td>
<td>-1%</td>
<td>-15%</td>
<td>-36%</td>
</tr>
</tbody>
</table>

Best Q1 in history for FBB
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Conclusions
How are you going to deliver growth in UK and Germany?

- **Base expansion & Mobile internet driving growth**
  - Quality base improvement: 86% of Q1 mobile net adds in contract
  - “Home of Smartphones”: over 7 m MBB in Q1, positively impacting ARPU & churn

- **UK: customer focus consistency, growing quality base**
  - Keeping customer experience & contract churn leadership
  - Total ARPU up 2.7% y-o-y ex-MTR in local currency on higher contract and robust non–P2P SMS data growth
  - Leveraging rational commercial and network investments for capacity. Investing for capacity: 1,500 additional BSs in 2010 and improved network management (e.g. disconnecting abusers of fair use policy, encourage uptake on WiFi, apps/services to notify customers)

- **Germany: challenger on P/S innovation and best-in-class network**
  - Quality and choice offer (“My Handy” & “O2o”)
  - Setting the market context as the disruptive player (O2o, O2On)
  - Already solid #3 position in MBB; spectrum in 800 MHz, 2.0 GHz and 2.6 GHz band already secured. Total investment: 1.38 billion euros
  - Acquisition of Hansenet: enhanced integrated approach; cross-selling potential and reduce churn

### Q1 10 Mobile Service Revenue Growth (y-o-y; local currency)

#### UK
- Ex-MTRs y-o-y change
- Reported y-o-y change

#### GER
- Ex-MTRs y-o-y change
- Reported y-o-y change
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Conclusions

- One of the best positioned players to take advantage of the growth industry
- Top quality performance in 2009 in a very challenging environment
- On track to meet 2010 positive guidance
- Very attractive medium term guidance reiterated
- Sector leading cash return. DPS targets confirmed
- Selective M&A policy maintained