



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
Revenues	13,932	+1.7%	+0.9%
Operating Income before D&A (OIBDA)	5,114	-4.1%	-3.4%
OIBDA Margin	36.7%	-2.2 p.p.	-1.6 p.p.
Operating Income (OI)	2,930	-7.2%	-2.4%
Net income	1,656	+2.0%	
OpCF (OIBDA-CapEx)	3,923	-5.1%	-4.3%

Group Contribution by regions (Q1 10)

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

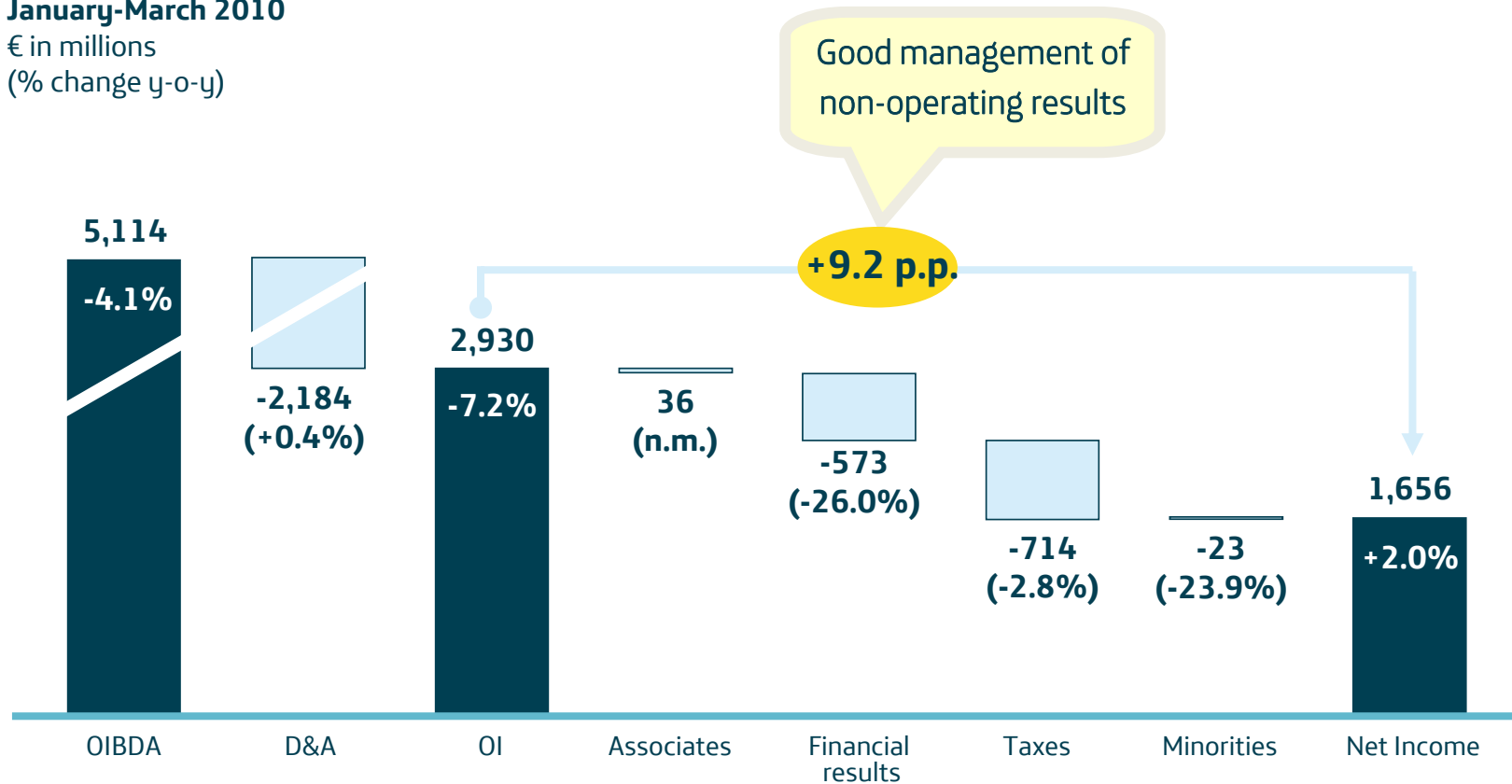
Capitalizing on our diversification and solid execution

Top line fully flowing to EPS

January-March 2010

€ in millions

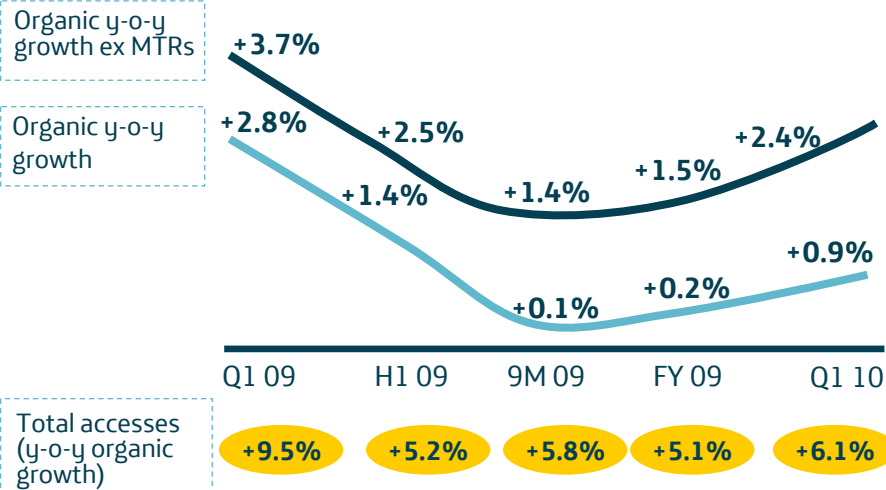
(% change y-o-y)



Q1 10 EPS: € 0.36 (+2.6% y-o-y)

Distinctive top line performance

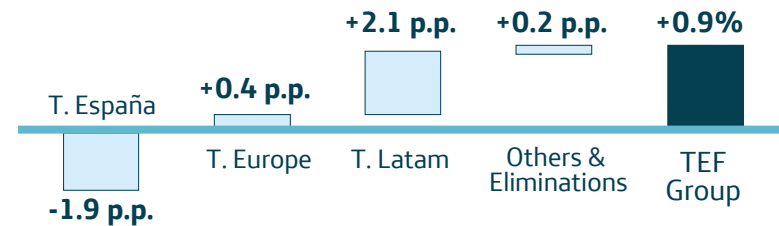
Revenue growth acceleration for the 2nd quarter in a row



- **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

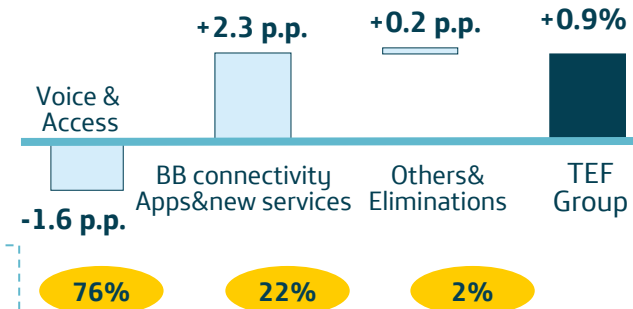
Q1 10 Revenue by region

(contribution to organic growth y-o-y)



Q1 10 Revenue by mix of services

(contribution to organic growth y-o-y)



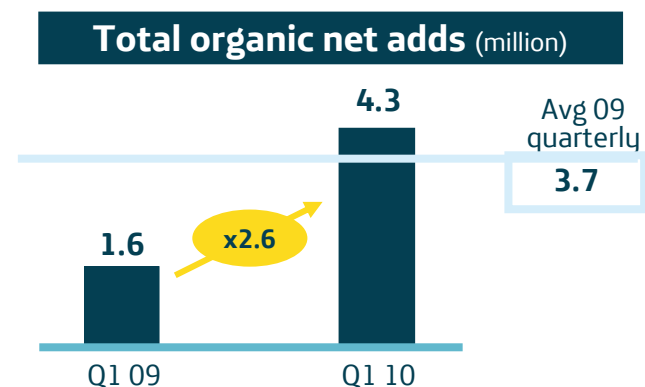
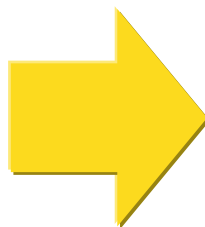
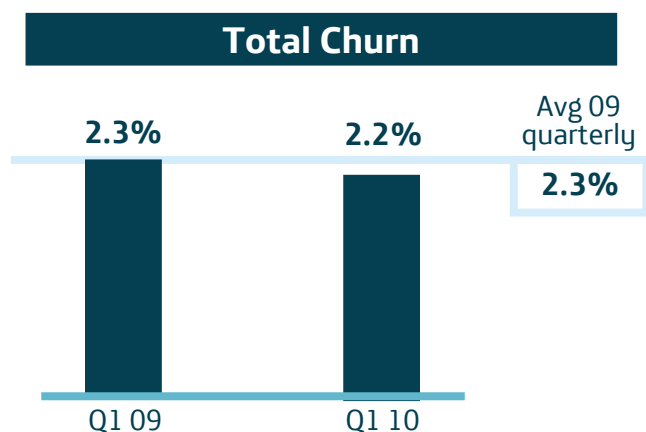
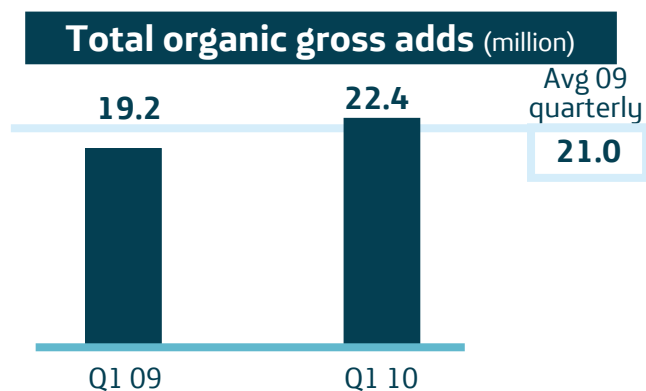
Weight over reported rev

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 1st, 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.

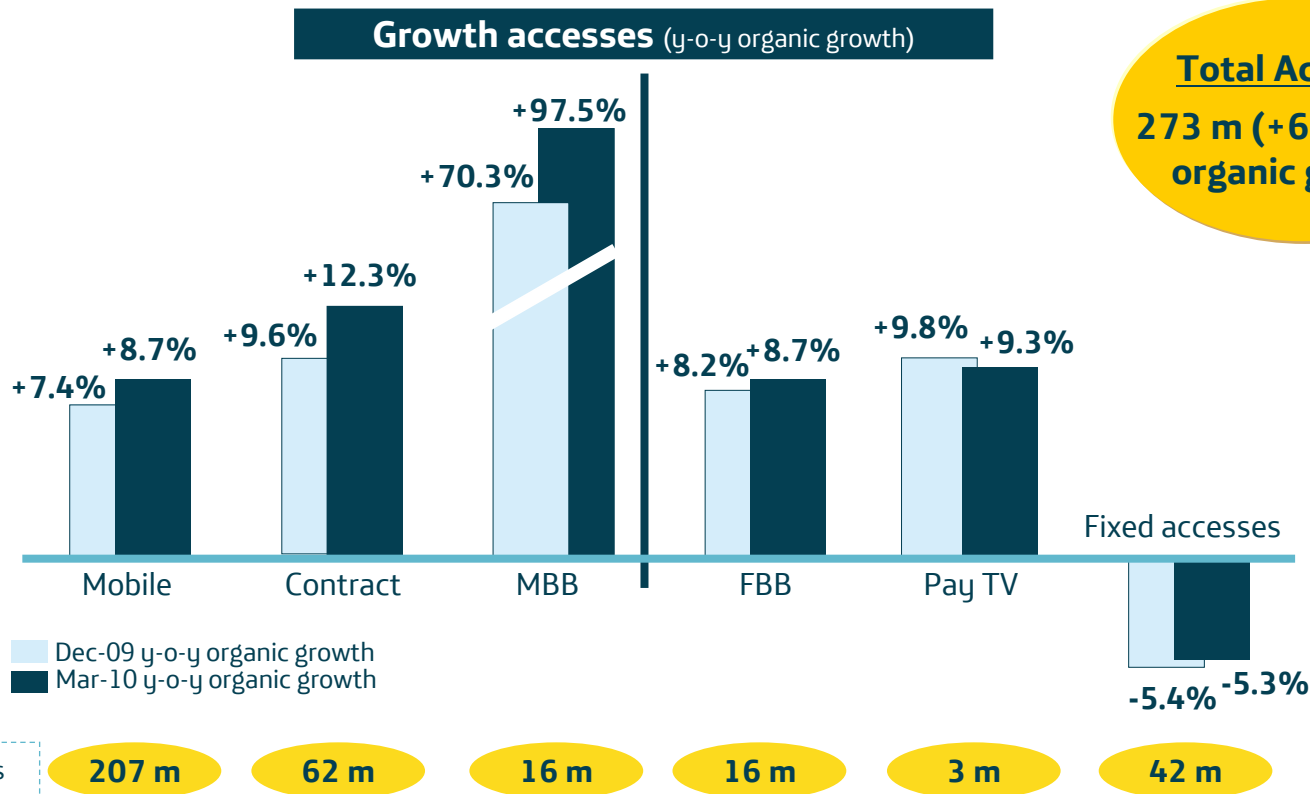
Enhanced commercial activity, setting the basis for additional top line growth...



■ **Q1 10 net adds:**

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

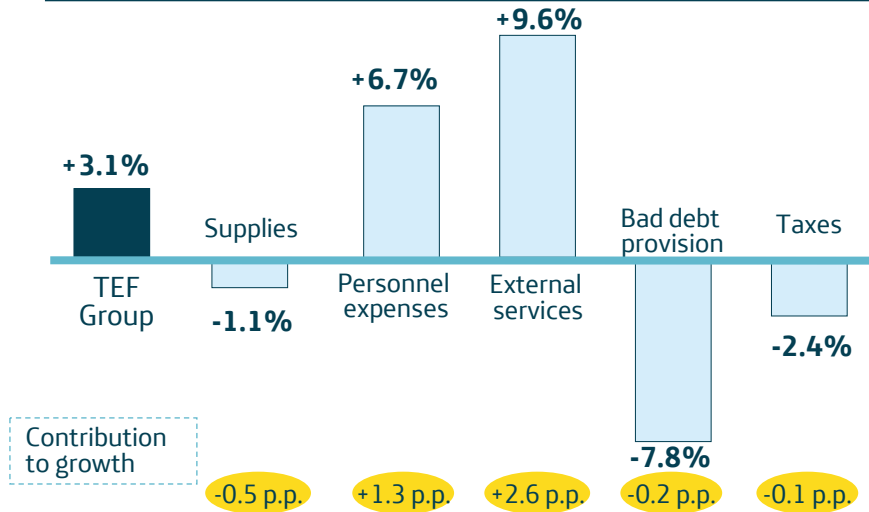
...with focus on broadband



89% of our retail customer base have a BB connection

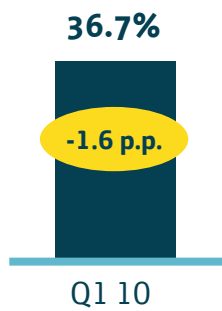
Reinvesting efficiency gains to foster revenue expansion

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

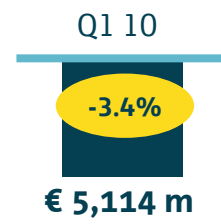


- **Lower interconnection expenses** (-3.3% y-o-y organic) on MTRs cuts
- **Higher commercial costs** (+5.5% y-o-y organic) on increased volumes, advertising and customer attention
- **Growth in other expenses mainly driven by network costs** (sites increase, network maintenance in T. Latam, own network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

OIBDA margin



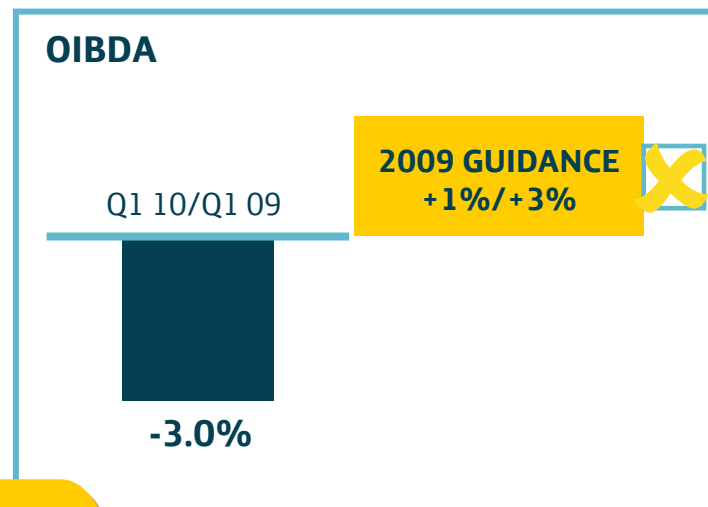
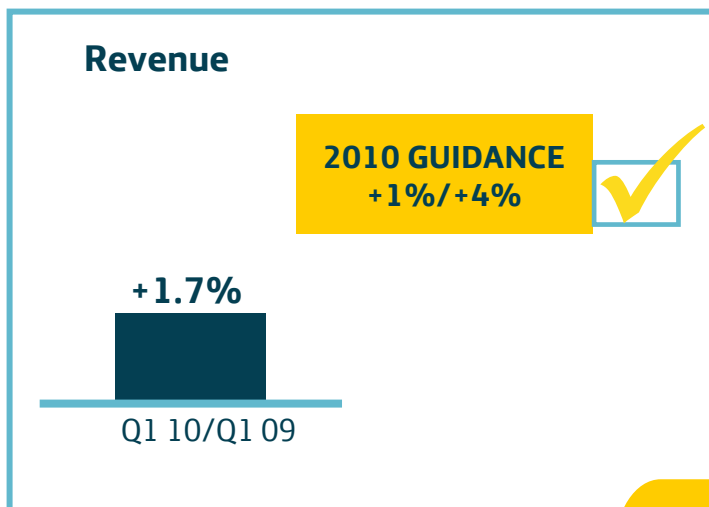
OIBDA



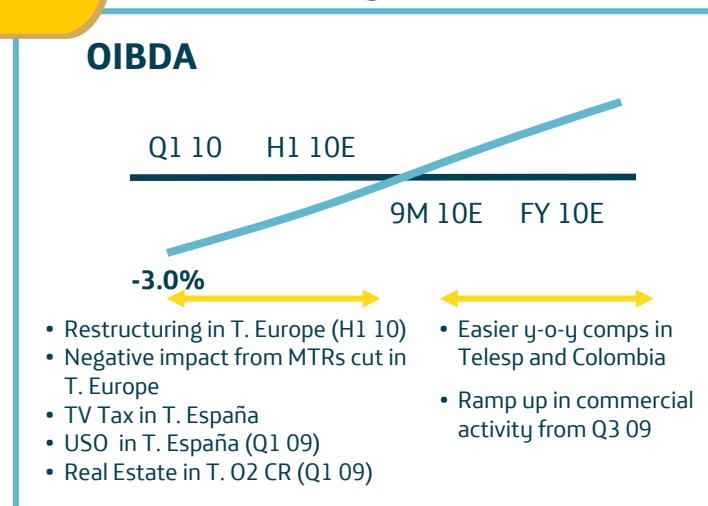
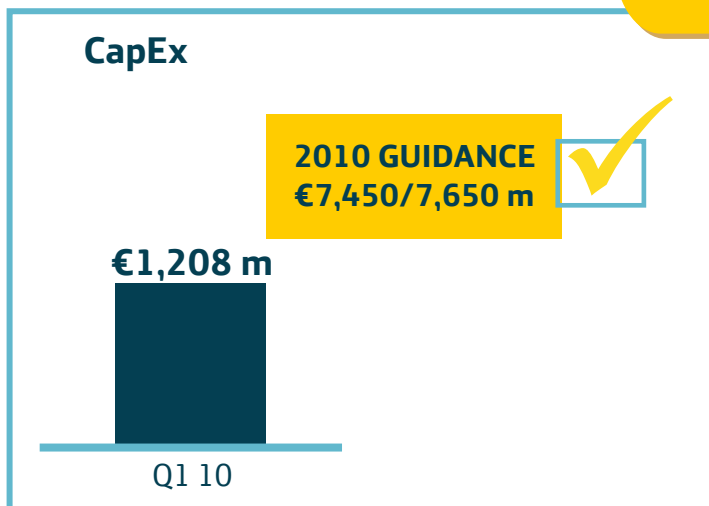
- **Q1 10 OIBDA performance reflecting higher commercial activity, regulatory impact and other non recurrent effects:**
 - Q1 10 TV tax in T. España
 - Q1 10 Restructuring in T. Europe
 - Q1 10 MTR in T. Europe (net impact vs. Q1 09)
 - Q1 09 USO in T. España
 - Q1 09 Real Estate in T. O2 CR
- 2.6 p.p.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

● Organic y-o-y growth

On track to meet 2010 guidance



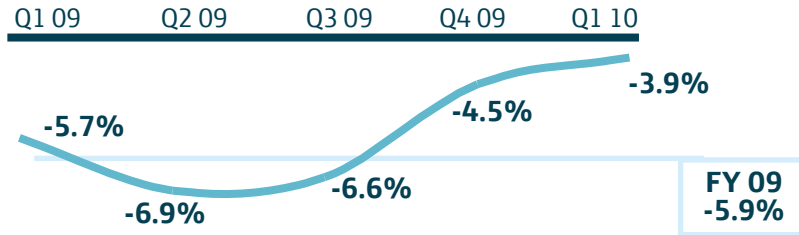
2010 EPS target confirmed (€ 2.1)



T. España: continued top line recovery

Revenues

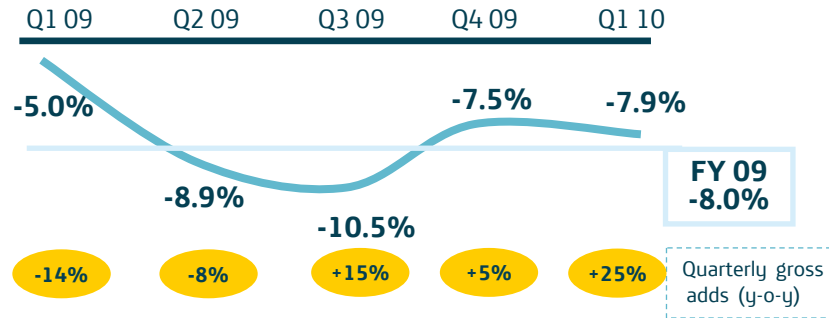
(comparable y-o-y change)



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

OIBDA

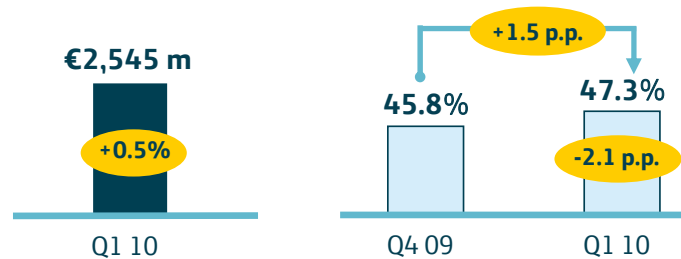
(comparable y-o-y change)



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

OpEx & OIBDA margin

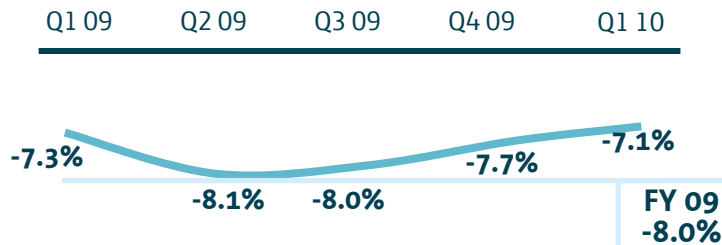
(comparable y-o-y change)



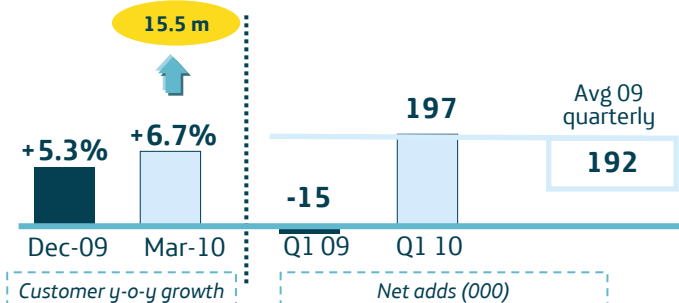
- **OpEx virtually stable** y-o-y as higher commercial expenses are offset by other costs contention
- **Sequential improvement** on profitability
- **Strong OpCF at €1.8bn**

Strong push on commercial activity

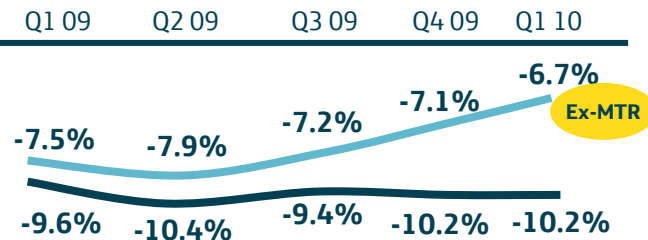
Wireless service revenues



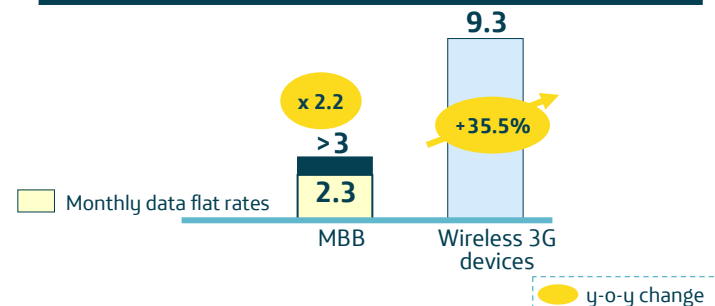
Wireless contract customers



Comparable Mobile ARPU (y-o-y)



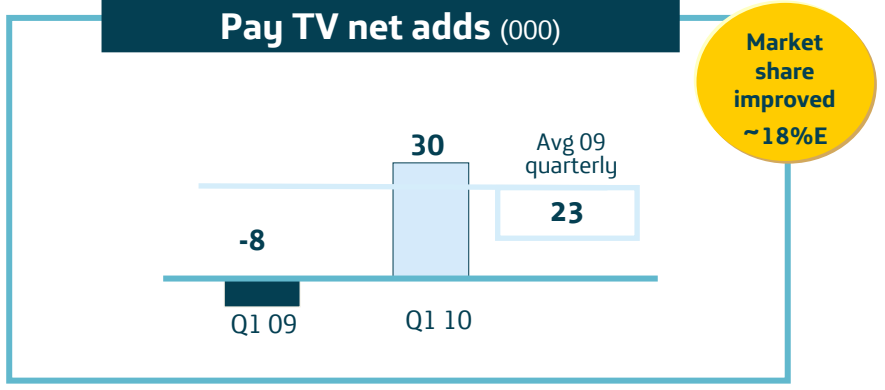
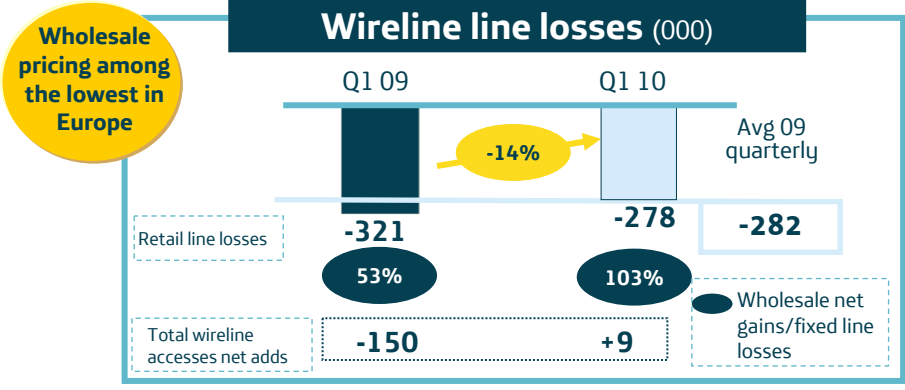
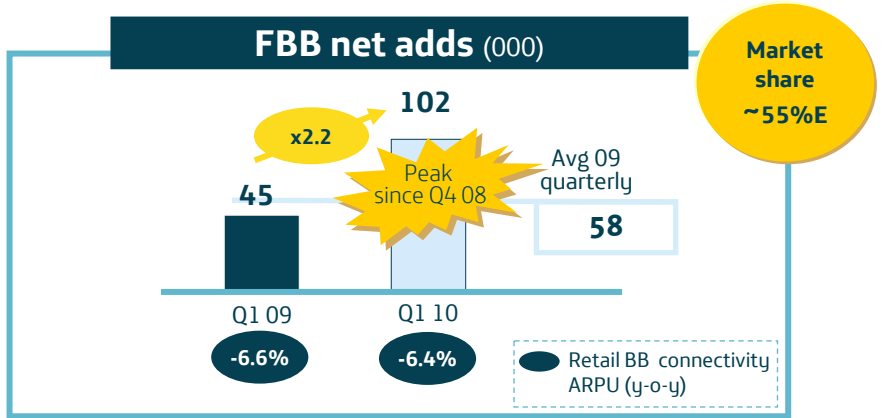
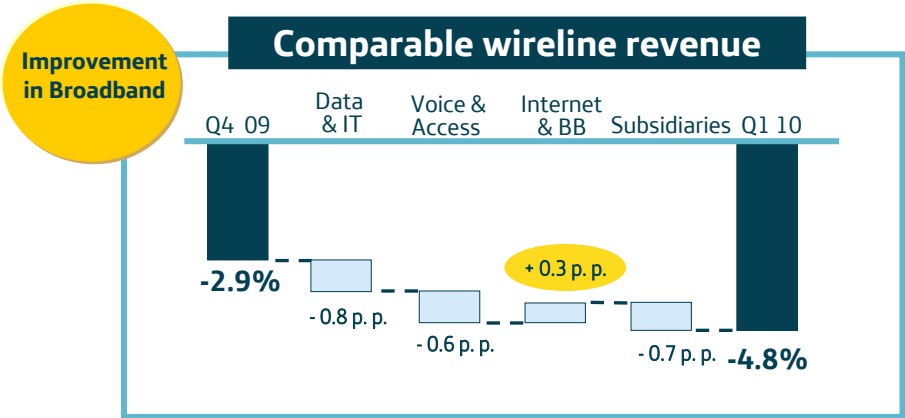
Mobile Broadband accesses (m)



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

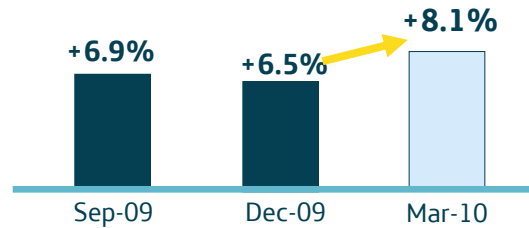


- Positive data revenues and solid IT performance despite seasonality
- Strong acceleration in Q1 commercial activity: first quarter with positive net adds in total fixed accesses since Q4 08
- Fixed market on recovery path: stabilization of retail line losses, fully offset by wholesale lines (lower 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

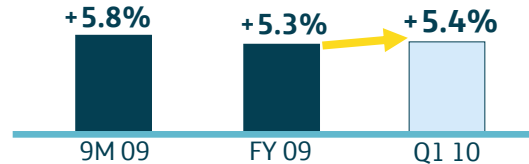
(y-o-y growth)



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

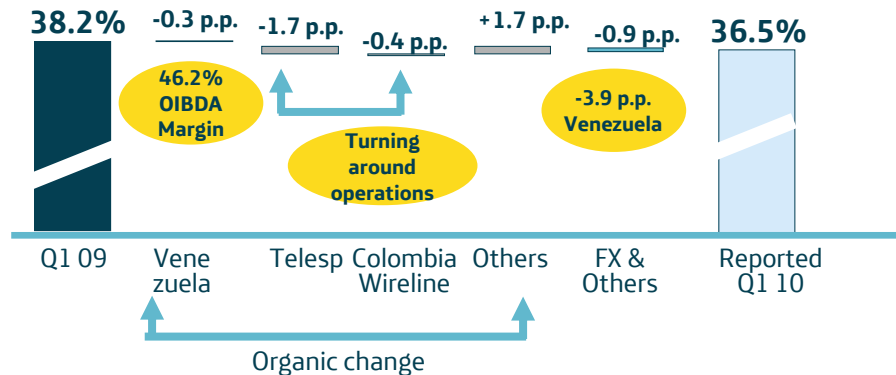
Revenue

(Organic y-o-y growth)



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

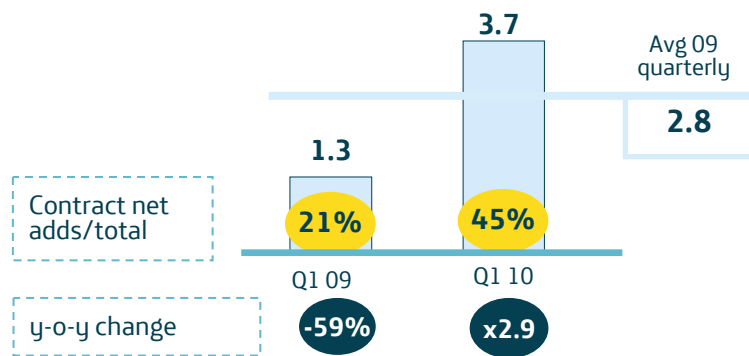
OIBDA Margin



- **+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

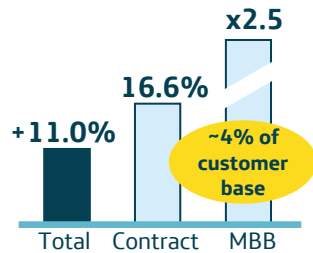
Net adds (in millions)



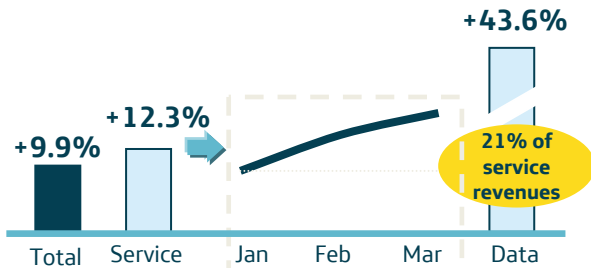
- **Commercial ramp up** for the third quarter in a row: +24.2% y-o-y growth in gross adds
- **Churn improvement:** 2.4% in Q1 10 (-0.2 p.p. y-o-y)
- **Acceleration in customer growth** (+1.8 p.p. vs. 2009 growth pace)
- **Strong focus in contract:** +6.4 p.p. vs. 2009 growth rate

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

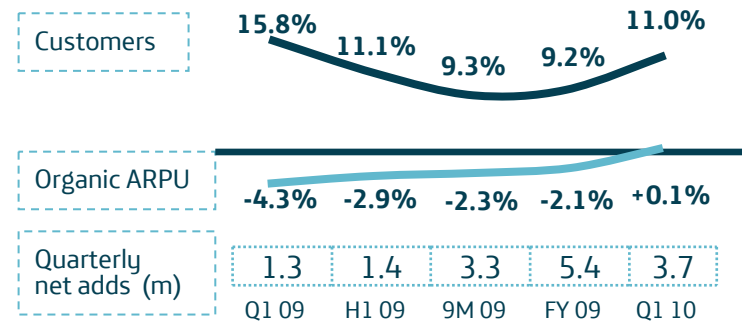
Accesses



Revenue



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



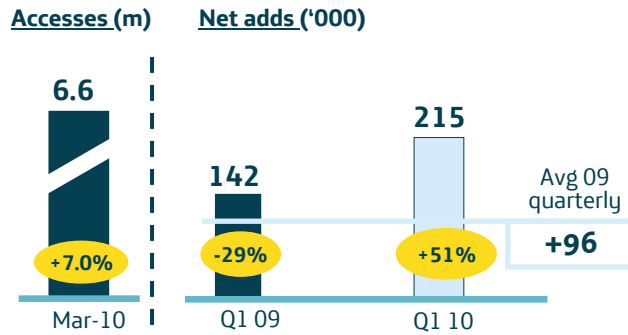
- Sustained double digit service revenue organic growth
- Remarkable push in data/service revenues: +5.3 p.p. y-o-y

- 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

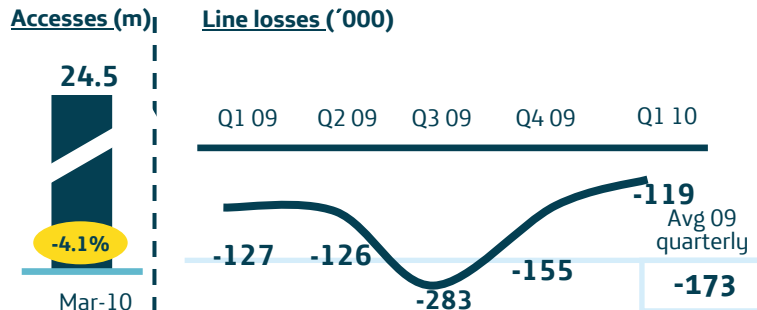
y-o-y growth



- 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

Latam Retail Fixed Accesses

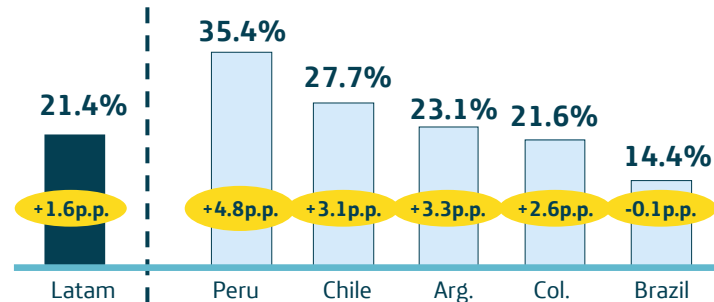
y-o-y growth



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

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

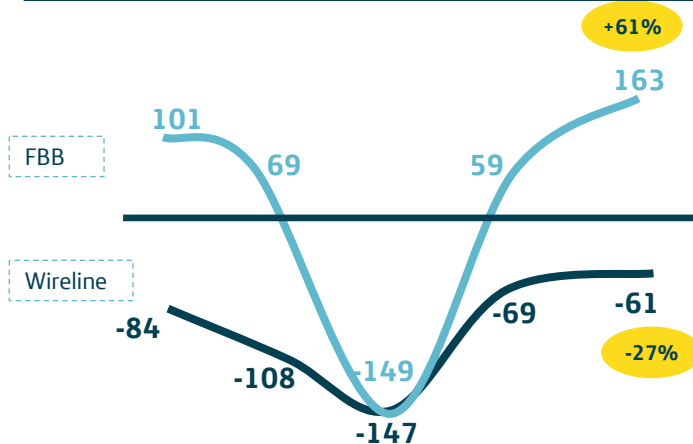
y-o-y growth



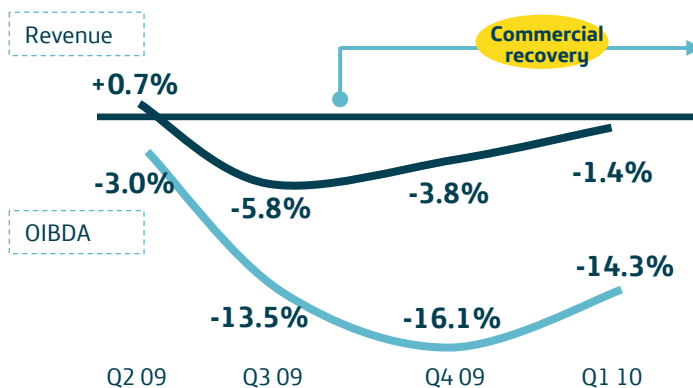
- Further advance in transformation:**
 - 2P&3P/BB: +6 p.p. y-o-y to 57%
 - Higher contribution from internet & Pay TV revenue in most operations

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 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

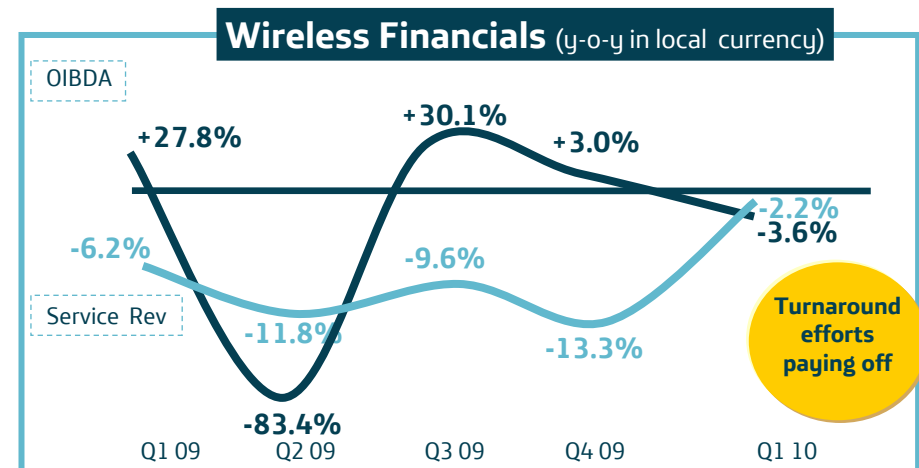
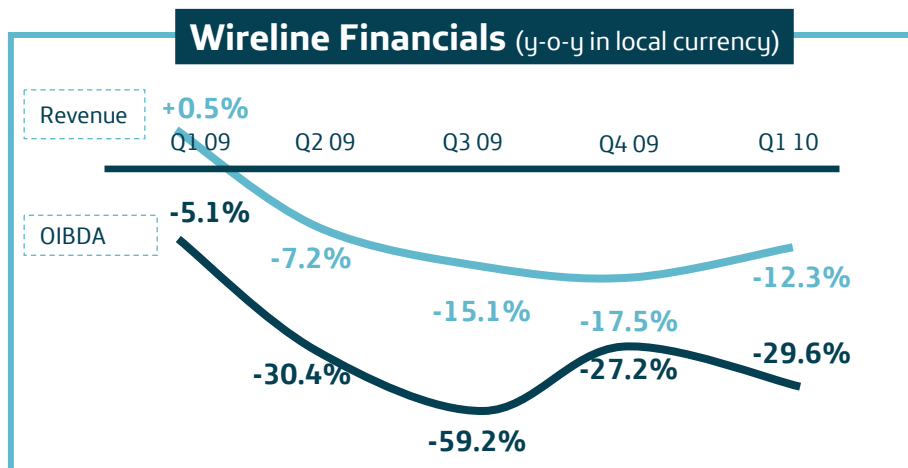
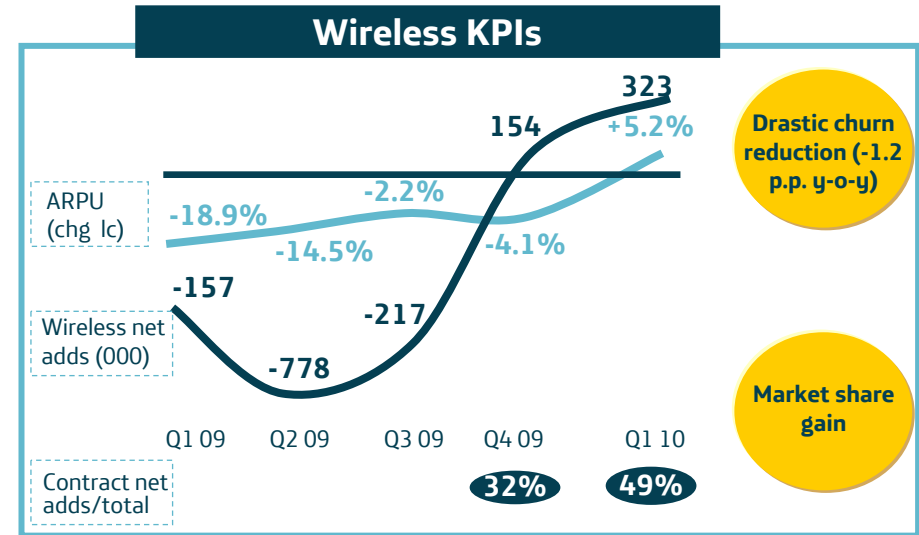
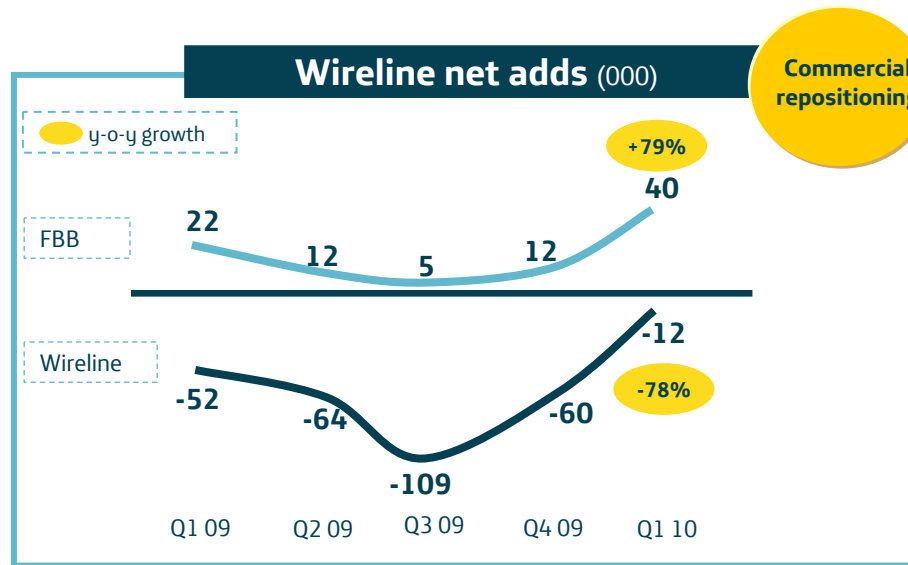
- Lower churn levels should reduce commercial expenses going forward
- OIBDA impacted by increased activity and heavy rains

Net adds (000)

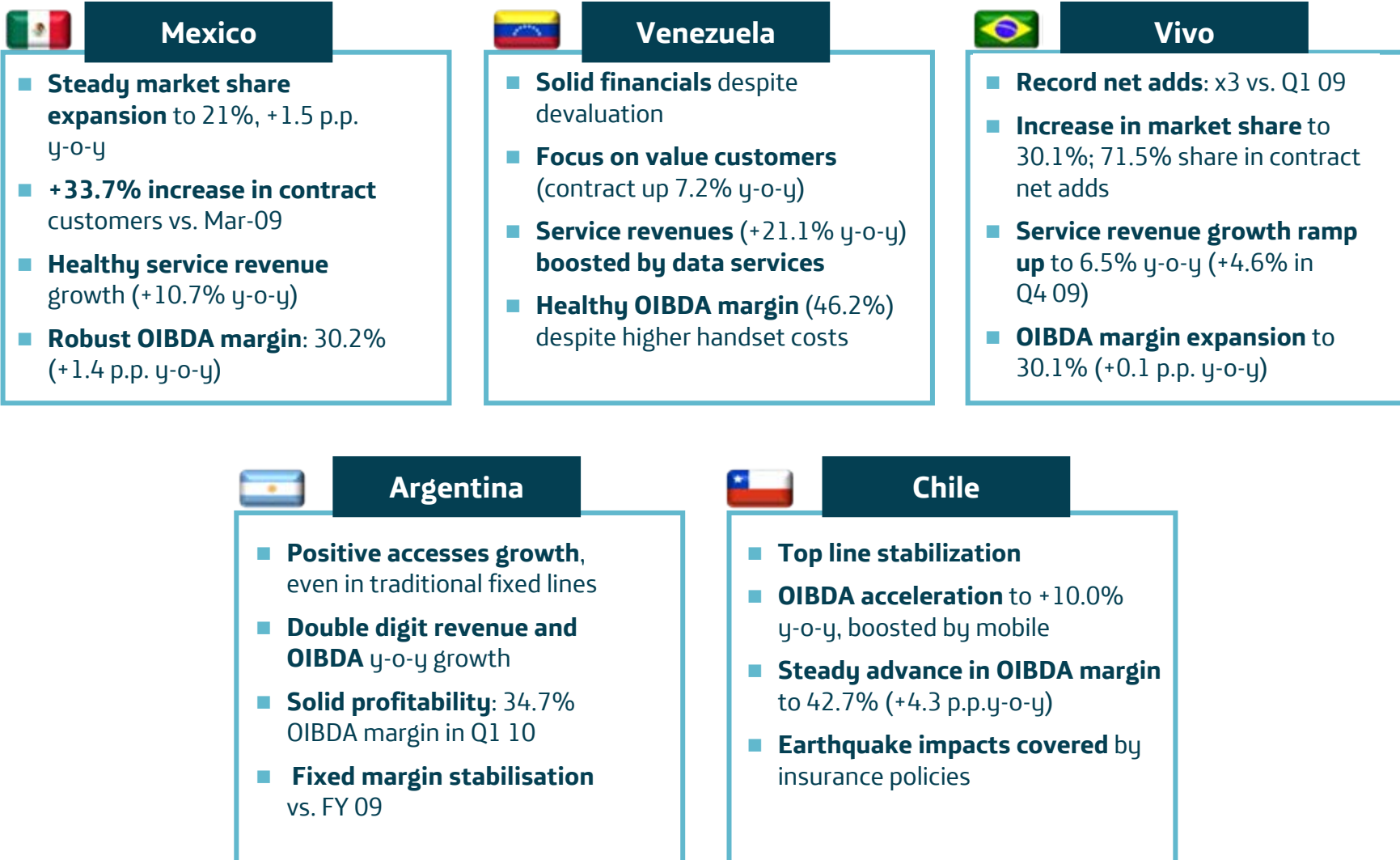
y-o-y growth

Financials (y-o-y in local currency)

Colombia: Operating results improved, financials should follow



Good performance across key operations

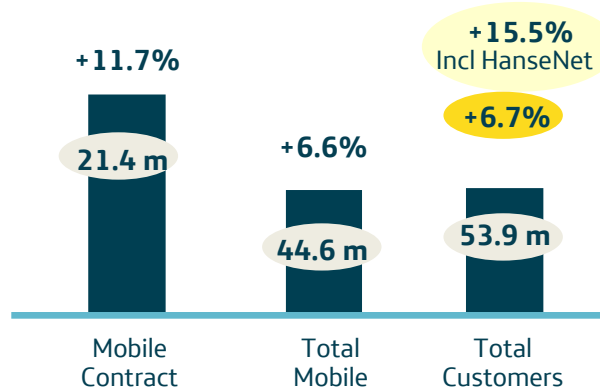


T. Europe: continued momentum, leveraging mobile internet

Accesses

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

Organic

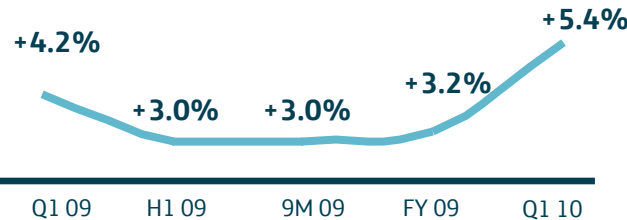


Strengthened business portfolio:

- 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)

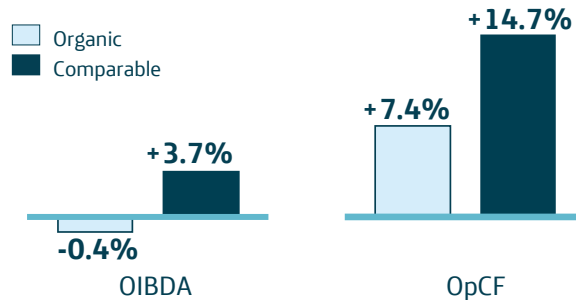


Ramp up in growth driven by base expansion & mobile internet:

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

Q1 10 Profitability

(y-o-y growth)



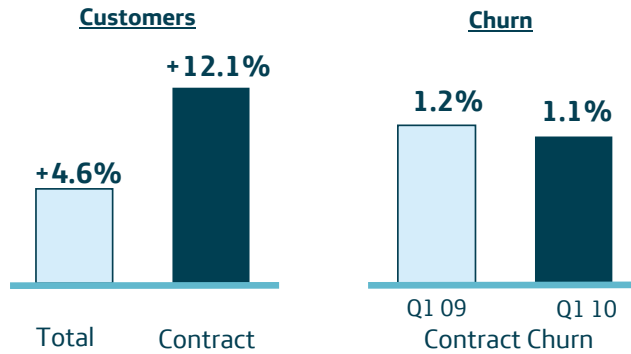
Strong cash flow, sustained profitability:

- 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

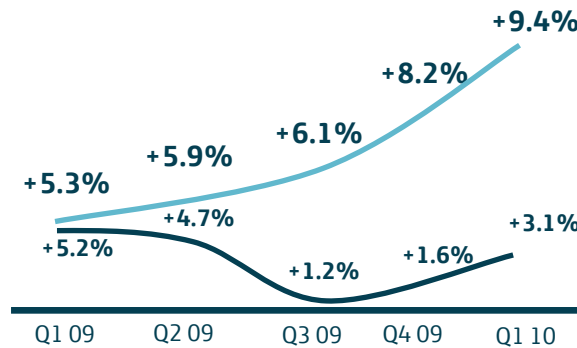
(Mar-10: y-o-y change)



- 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)

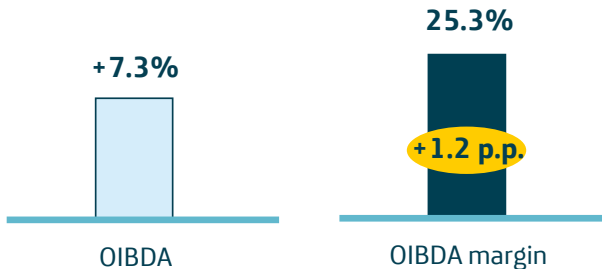


Ex-MTRs y-o-y change
Reported y-o-y change

- 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)

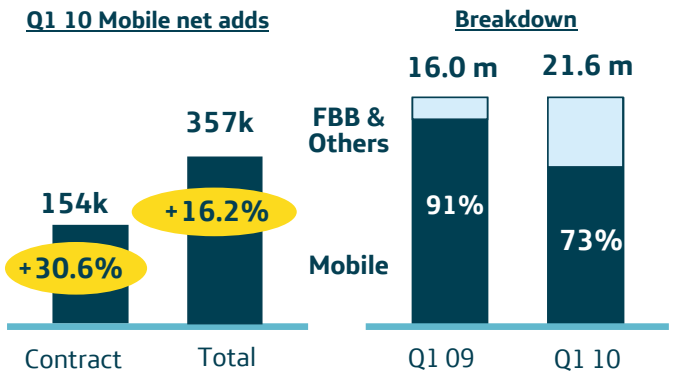


- Increased profitability while investing in quality:
 - Leveraging rational commercial investments in line with customer value
 - Focused increase in network investment

T.O2 Germany: Strong trading momentum and broader portfolio

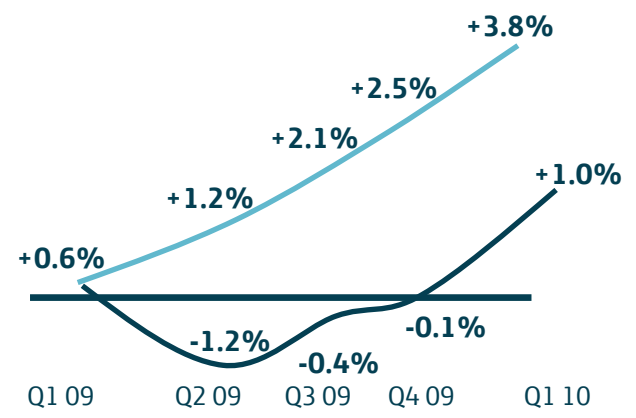
Customer Base

y-o-y growth

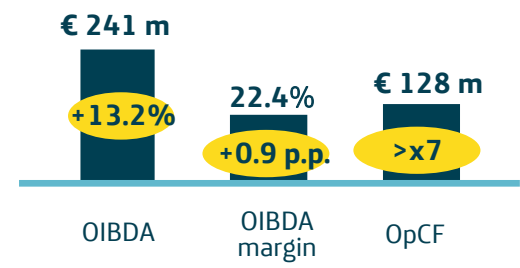


Mobile Service Revenue (y-o-y growth)

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)

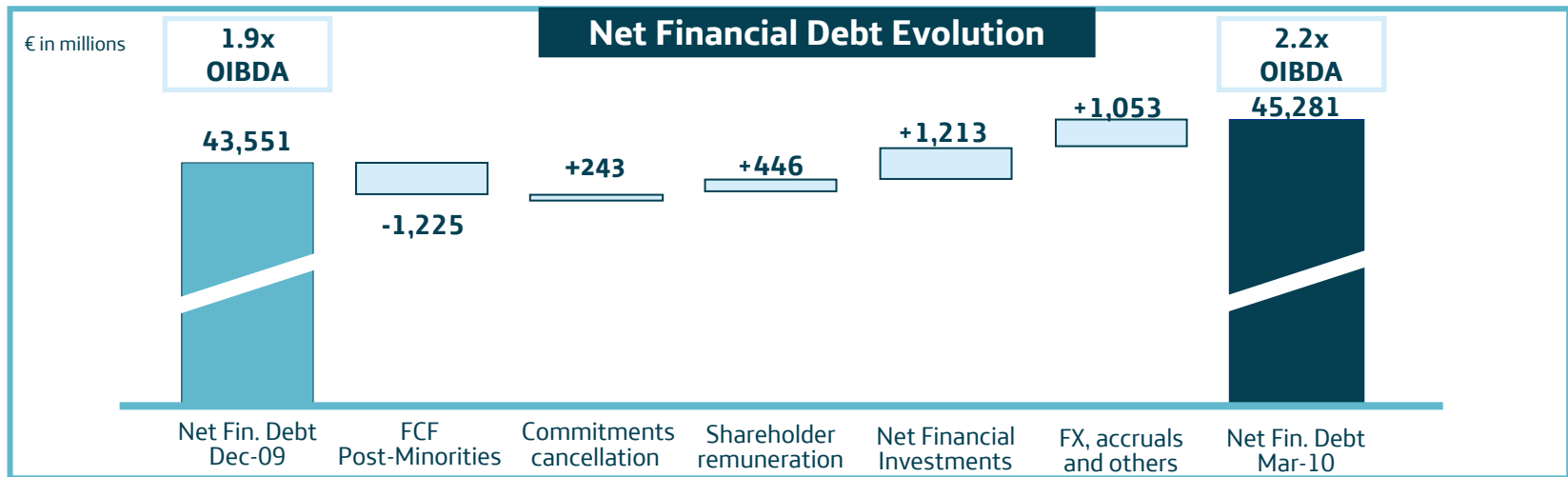
Substantial revenue growth on increased customer base:

- 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)

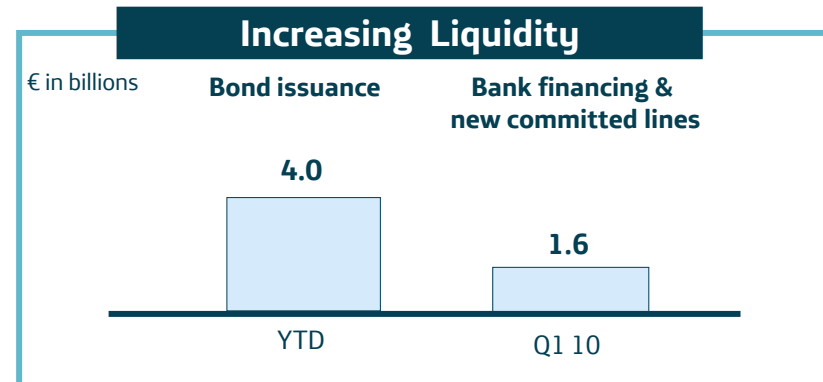
Effective interest rate contained at 5%



Lower Cost of Debt

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

4.99% effective interest rate



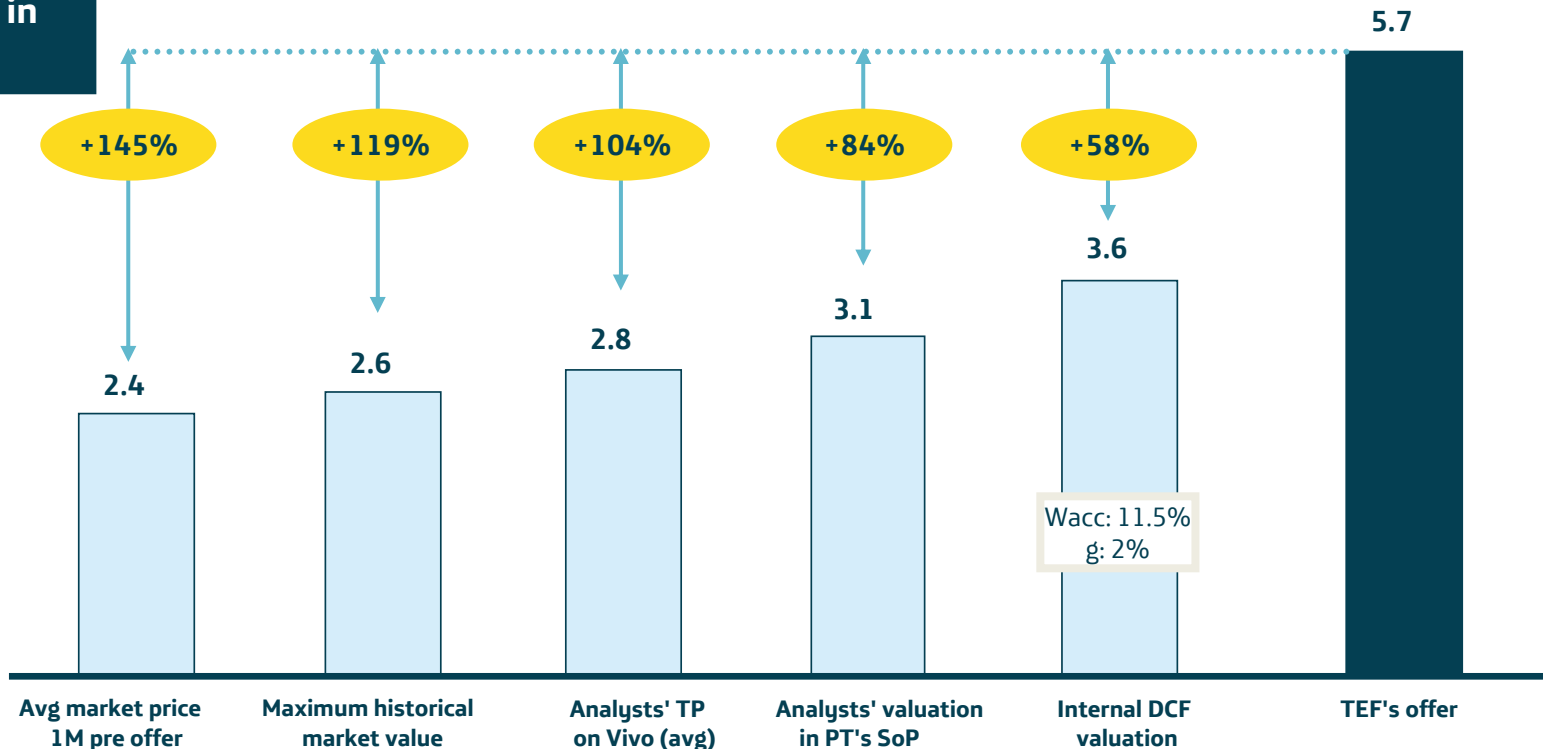
- Leverage target, including commitments, up to the middle of our target range (2.3x OIBDA)
- Strong liquidity helped by € 4 bn issuance and €1.6 bn of other long term bank financing & new credit lines
- Contained financial expenses at 4.99% benefiting from floating exposure positioning

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)



Implicit Vivo ON share price

R\$45.9

FV/EBITDA 09

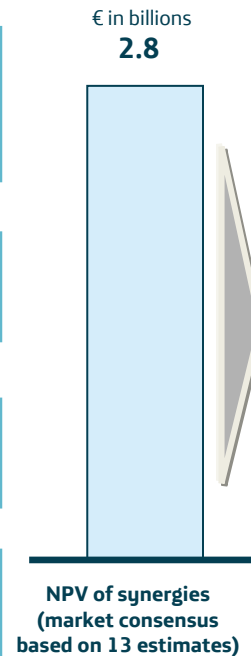
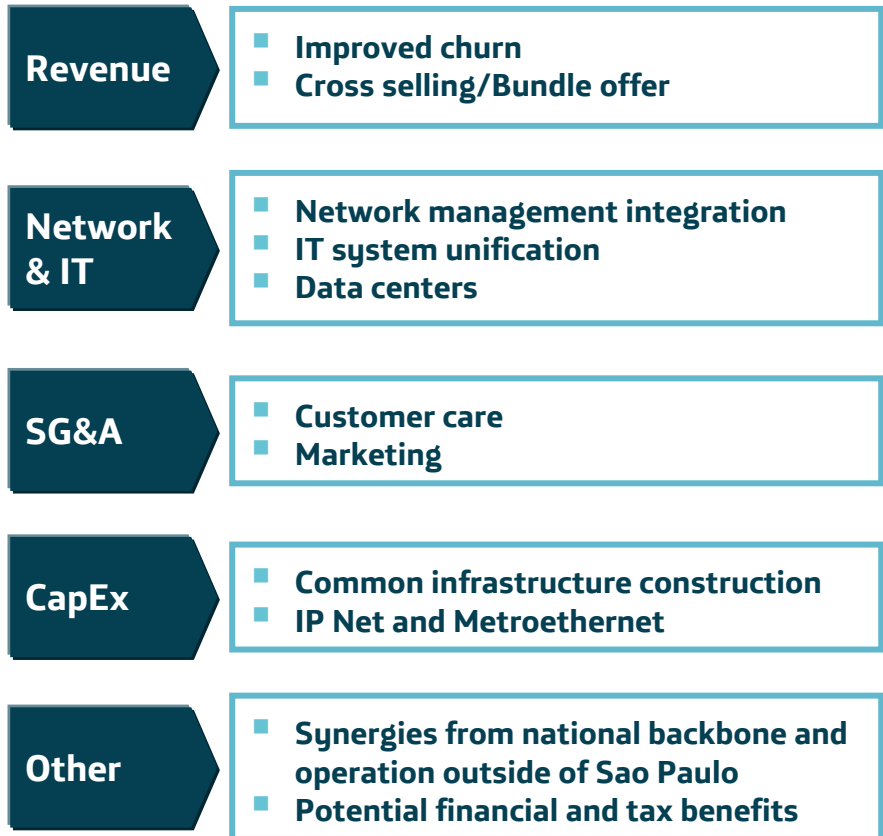
4.9x

Maximum value achievable by PT in absence of a transaction

R\$112.29

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
