Results
January – March / 2010

Telefonica

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The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

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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)

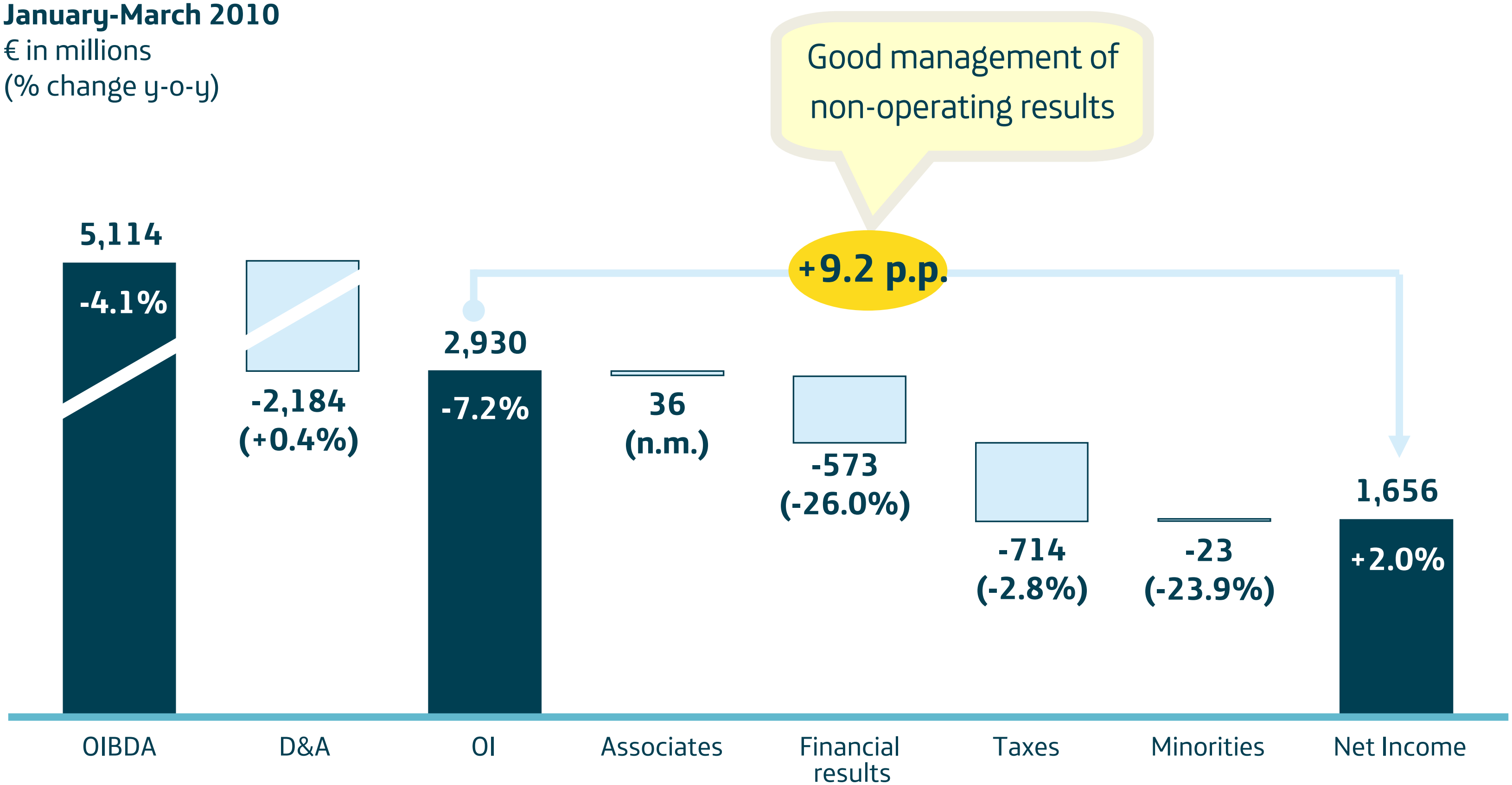
	Rev	OIBDA	OpCF
T. España	33%	42%	46%
T. Latam	40%	40%	40%
T. Europe	25%	18%	15%

Capitalizing on our diversification and solid execution

Organic growth 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.

Top line fully flowing to EPS

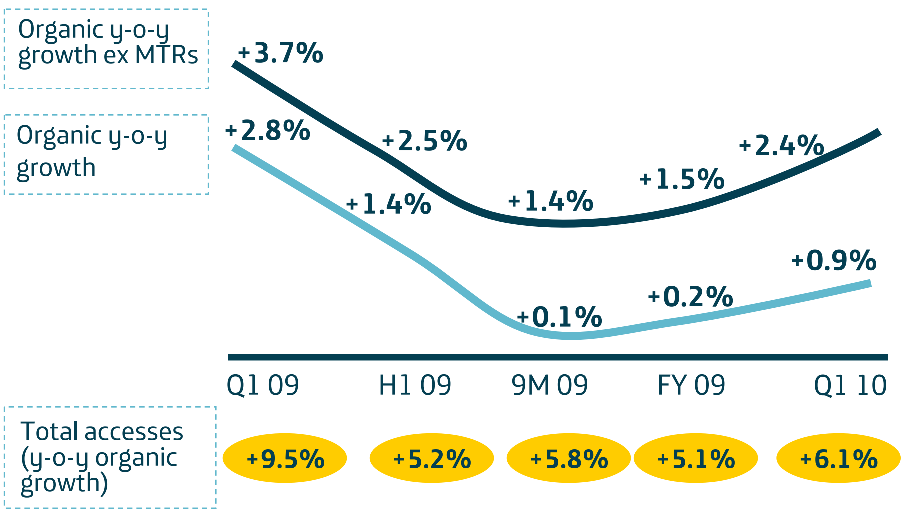
January-March 2010
€ in millions
(% change y-o-y)



Q1 10 EPS: € 0.36 (+2.6% y-o-y)

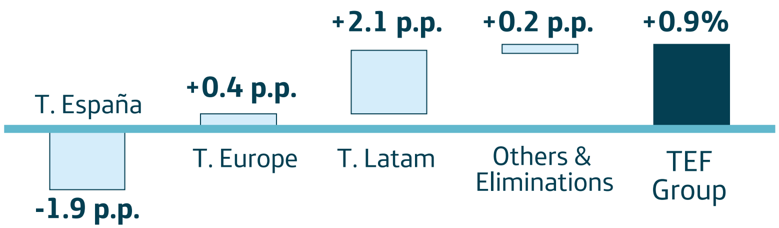
Distinctive top line performance

Revenue growth acceleration for the 2nd quarter in a row

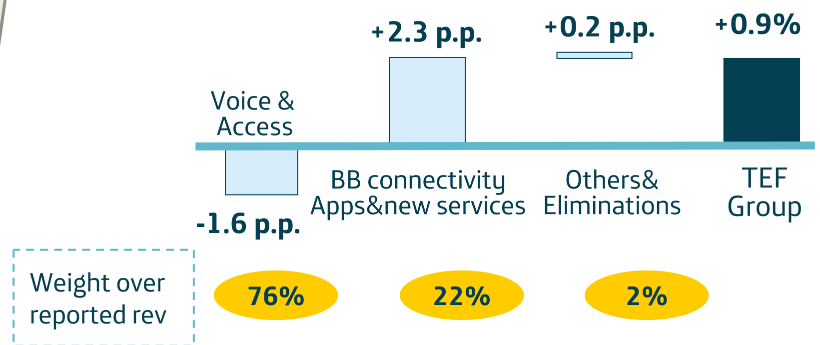


- **Top line growth drove superior OpCF:** € 3,923 m
- **Efficiency ratio improved** 1.0 p.p. y-o-y to 74.5% in Q1 10

Q1 10 Revenue by region
(contribution to organic growth y-o-y)



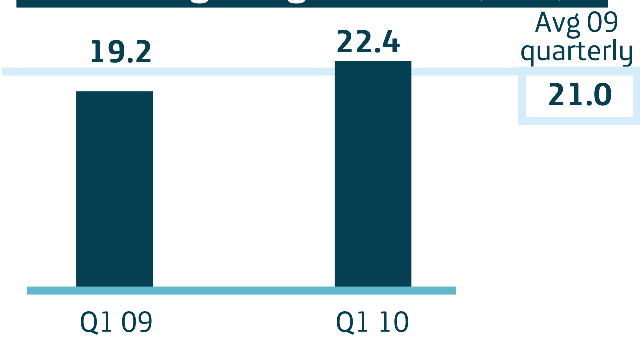
Q1 10 Revenue by mix of services
(contribution to organic growth y-o-y)



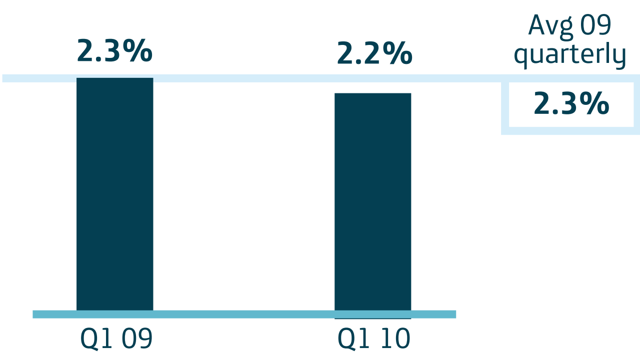
Organic growth revenues assumes constant exchange rates as of Q1 09 (average fx) and excludes the consolidation of HanseNet (since mid February) and Jajah (January-March) in 2010. Telyco Morocco results are excluded in January-March 2009. It excludes hyperinflationary accounting in Venezuela in both 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…

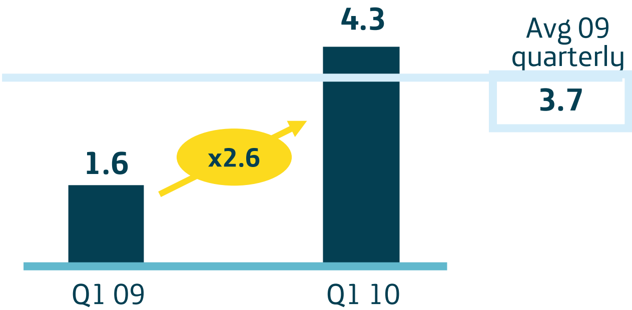
Total organic gross adds (million)



Total Churn



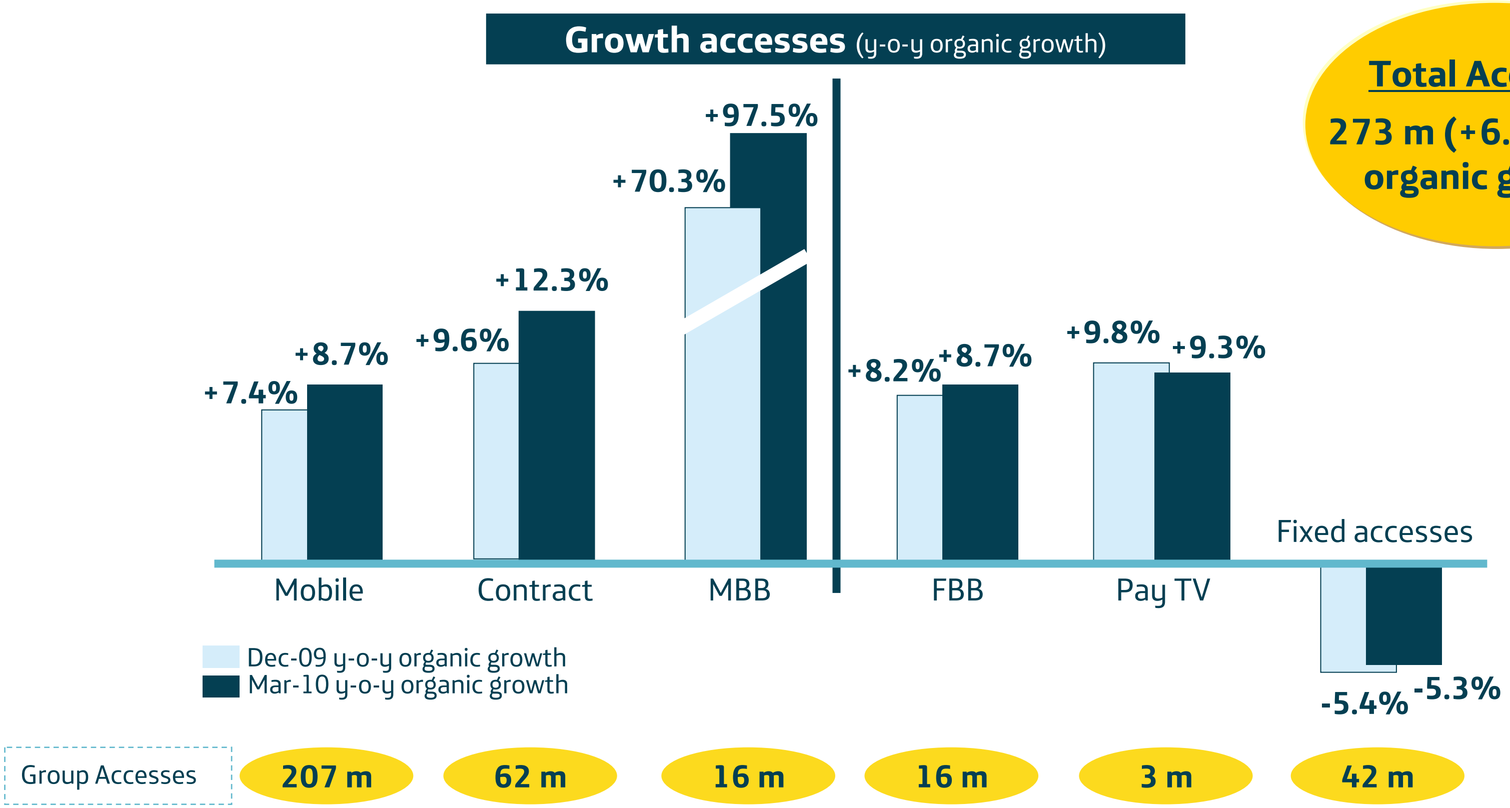
Total organic net adds (million)



- **Q1 10 net adds:**
  - Mobile: 2.5x Q1 09
  - Contract/Mobile: 53% vs. 44% (Q1 09)
  - FBB: +30.6% y-o-y

Organic gross adds and net adds exclude Medi Telecom customers in 2009 and HanseNet in 2010.
2009 quarterly average excludes December 2009 disconnections.

...with focus on broadband



Total Accesses:

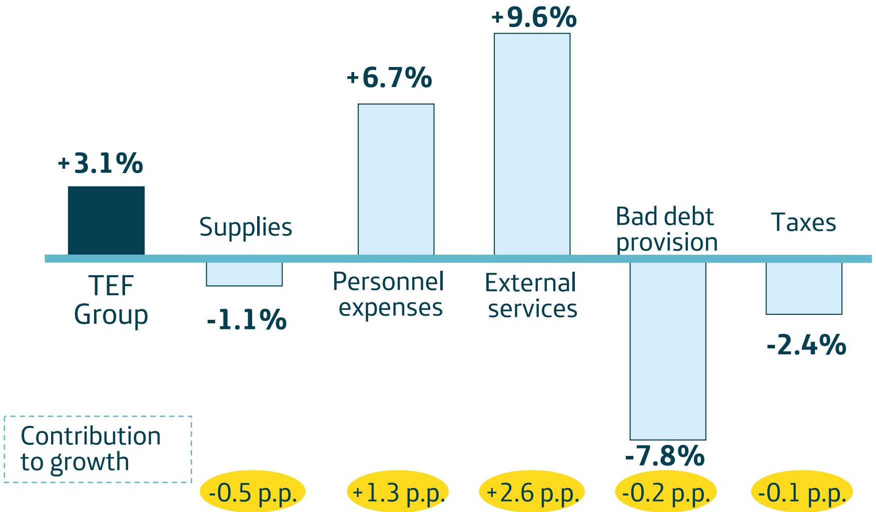
273 m (+6.1% y-o-y organic growth)

89% of our retail customer base have a BB connection

Organic growth accesses excludes Medi Telecom customers in 2009 and HanseNet in 2010.

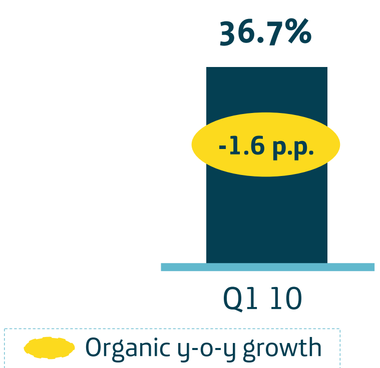
Reinvesting efficiency gains to foster revenue expansion

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

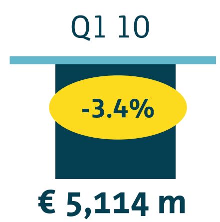


- **Lower interconnection expenses** (-3.3% y-o-y organic) on MTRs cuts
- **Higher commercial costs** (+5.5% y-o-y organic) on increased volumes, advertising and customer attention
- **Growth in other expenses mainly driven by network costs** (sites increase, network maintenance in T. Latam, own network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

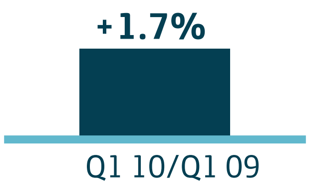
-2.6 p.p. of growth/ ~€-140 m

Organic growth 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 Morroco results are excluded in January-March 2009. It excludes hyperinflationary accounting in Venezuela in both years.

On track to meet 2010 guidance

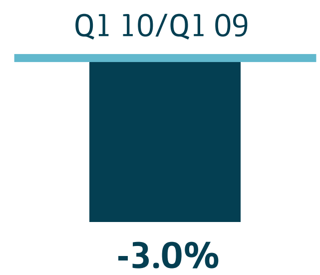
Revenue

2010 GUIDANCE
+1%/+4%



OIBDA

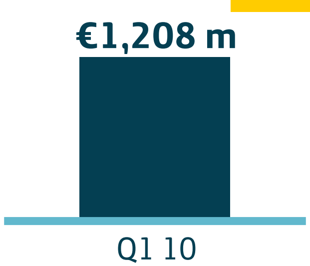
2009 GUIDANCE
+1%/+3%



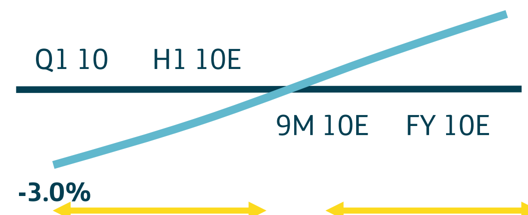
2010 EPS target confirmed (€ 2.1)

CapEx

2010 GUIDANCE
€7,450/7,650 m



OIBDA



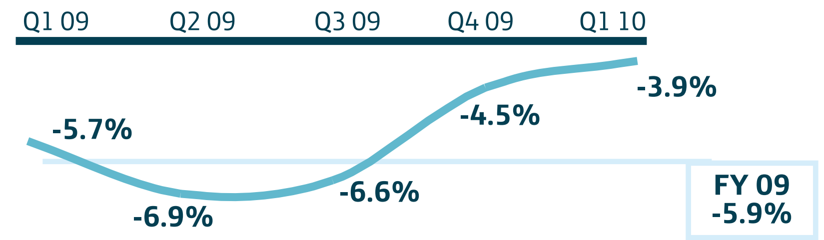
- Restructuring in T. Europe (H1 10)
- Negative impact from MTRs cut in T. Europe
- TV Tax in T. España
- USO in T. España (Q1 09)
- Real Estate in T. O2 CR (Q1 09)

- Easier y-o-y comps in Telesp and Colombia
- Ramp up in commercial activity from Q3 09

2009 adjusted figures for guidance exclude Telyco 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.

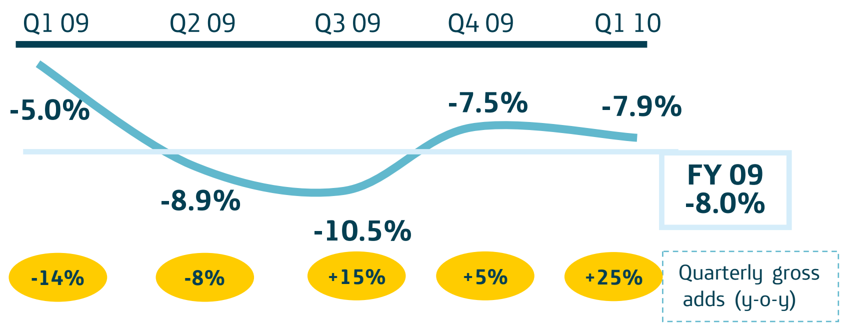
T. España: continued top line recovery

Revenues
(comparable y-o-y change)



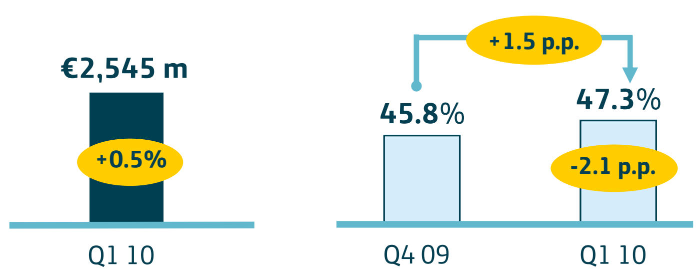
- **Top line gradual recovery,** lowest revenue decline for the last five quarters

OIBDA
(comparable y-o-y change)



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

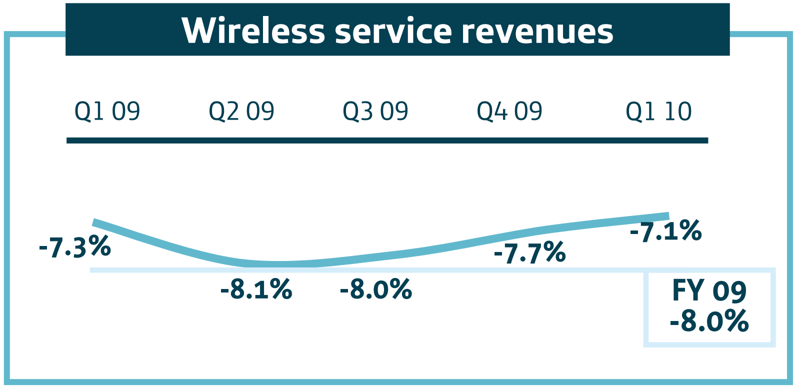
OpEx & OIBDA margin
(comparable y-o-y change)

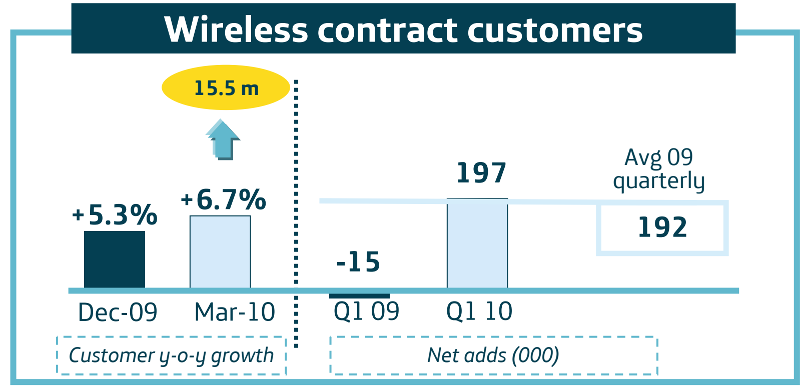


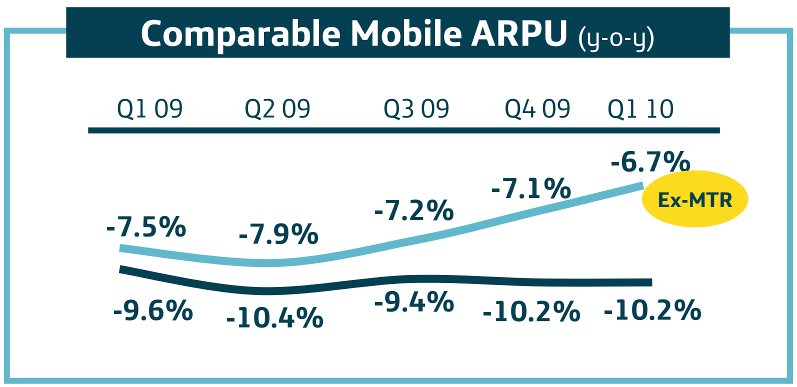
- **OpEx virtually stable** y-o-y as higher commercial expenses are offset by other costs contention
- **Sequential improvement** on profitability
- **Strong OpCF at €1.8bn**

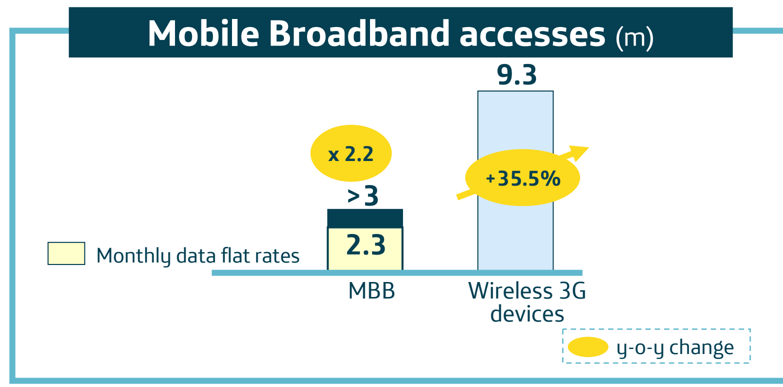
Comparable terms for Q1 10 y-o-y change exclude the following effects: USO in Q1 09, real estate capital gains in Q1 09, Telyco Morocco in Q1 09 and TV Tax in Q1 10.
Previous quarters year-on-year comparable changes published in Company´s press releases.
Quarterly Gross adds variations include: Fixed telephony accesses, retail broadband accesses, mobile accesses and pay TV accesses.

Strong push on commercial activity







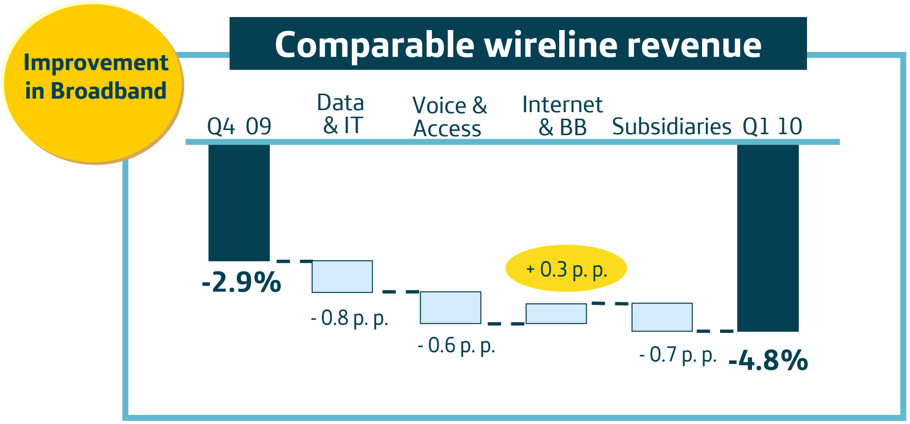


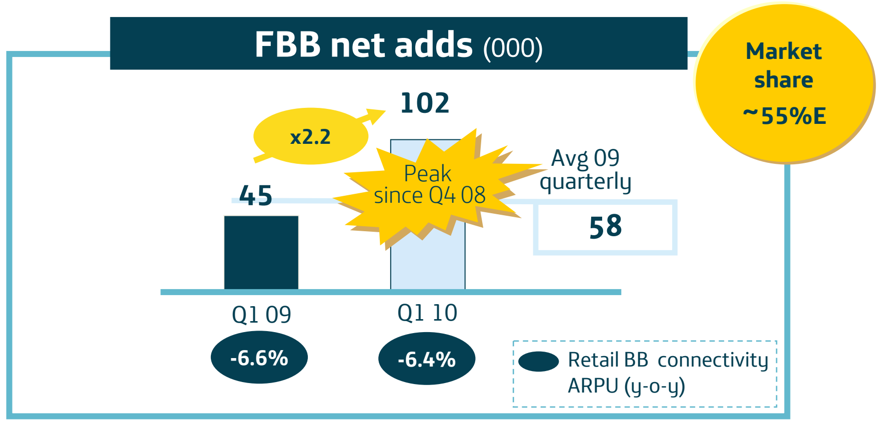
Strong leadership in the market: highest gap between access & revenue share

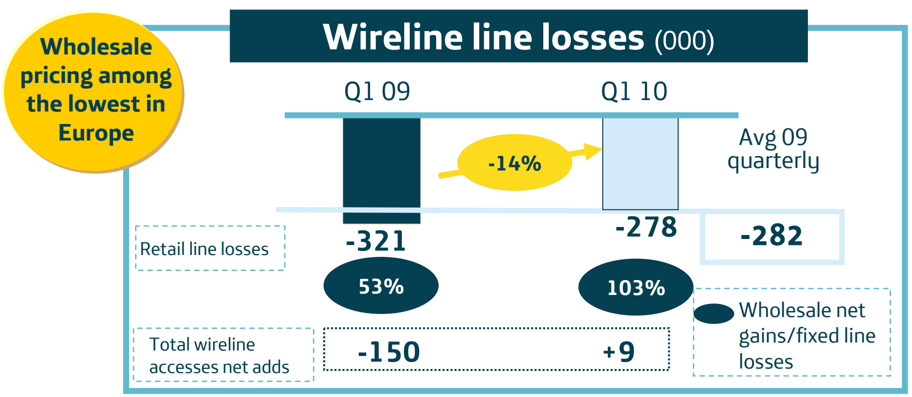
- Total **gross adds up 31% vs. Q1 09**
- Further increase in **contract to over 65% of total**
- **Best churn rate in the market**
- **Slight recovery in voice** traffic recovery (+0.1% y-o-y); outgoing voice ARPM (-6.5%) in line with expectations
- **Exploiting the MBB opportunity**: market leader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

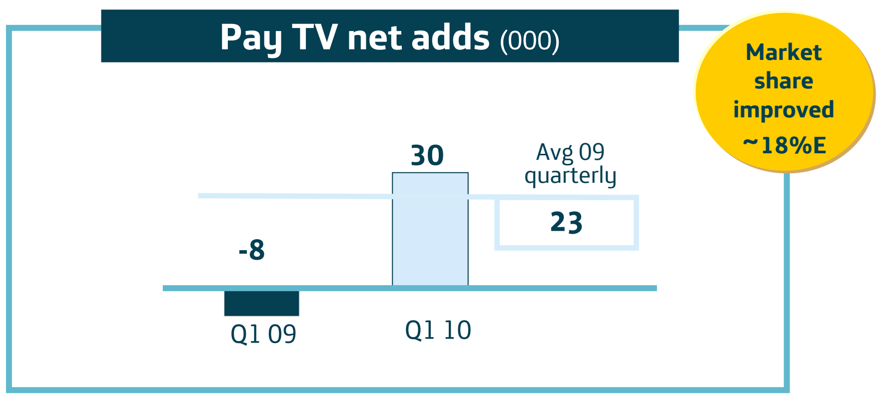
Mobile BB accesses include: Monthly and daily wireless data flat rates.
Comparable mobile ARPU: Q1 09 excludes the disconnection of 715k inactive prepay lines in December 2009.

Stepping up commercial momentum







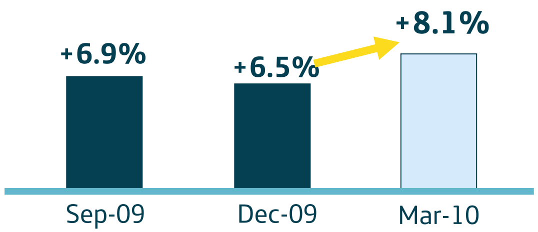


- **Positive data revenues and solid IT performance** despite seasonality
- **Strong acceleration in Q1 commercial activity:** first quarter with positive net adds in total fixed accesses since Q4 08
- **Fixed market on recovery path:** stabilization of retail line losses, fully offset by wholesale lines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

Comparable terms exclude the following effects: USO in Q1 09 and Telyco Morocco in Q1 09.
Total fixed accesses include: Retail wireline telephony accesses, wholesale line rental, fully unbundled loops and naked wholesale ADSL.

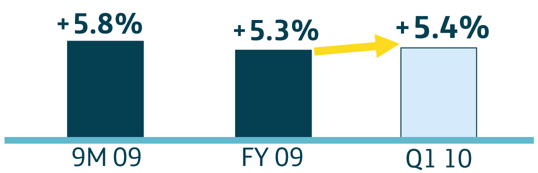
T.Latam: Solid top line growth and robust profitability

Accesses growth
(y-o-y growth)



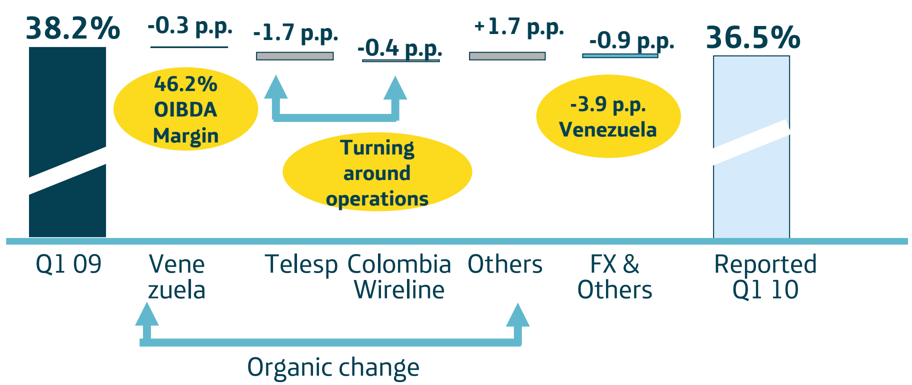
- **Strong commercial momentum:**
  - Accesses growth acceleration to 172.3 m
  - Churn contention across businesses

Revenue
(Organic y-o-y growth)



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

OIBDA Margin

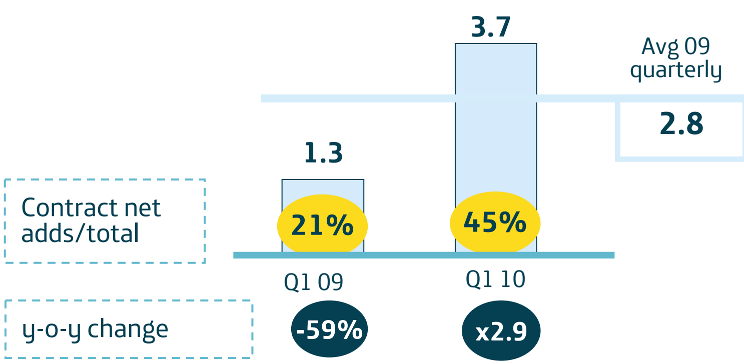


- **+3.4% organic y-o-y growth in OIBDA** despite 12.0% increase in commercial costs
- **Stable OpCF in euros (€1.6 bn), despite Venezuela devaluation**

Organic assumes constant exchange rates and excludes hyperinflation accounting in Venezuela in both years.

Wireless business: Strong commercial activity

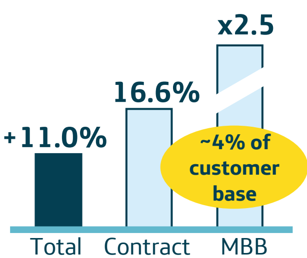
Net adds (in millions)



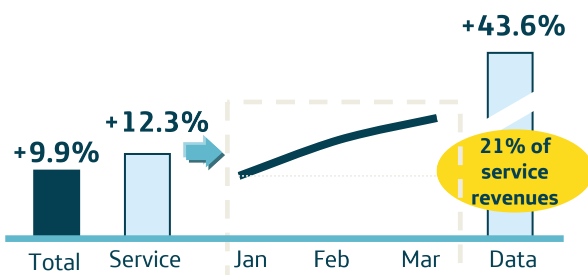
- **Commercial ramp up** for the third quarter in a row: +24.2% y-o-y growth in gross adds
- **Churn improvement:** 2.4% in Q1 10 (-0.2 p.p. y-o-y)
- **Acceleration in customer growth** (+1.8 p.p. vs. 2009 growth pace)
- **Strong focus in contract:** +6.4 p.p. vs. 2009 growth rate

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

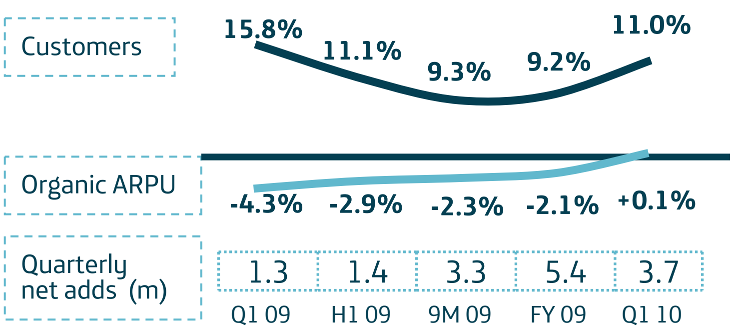
Accesses



Revenue



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

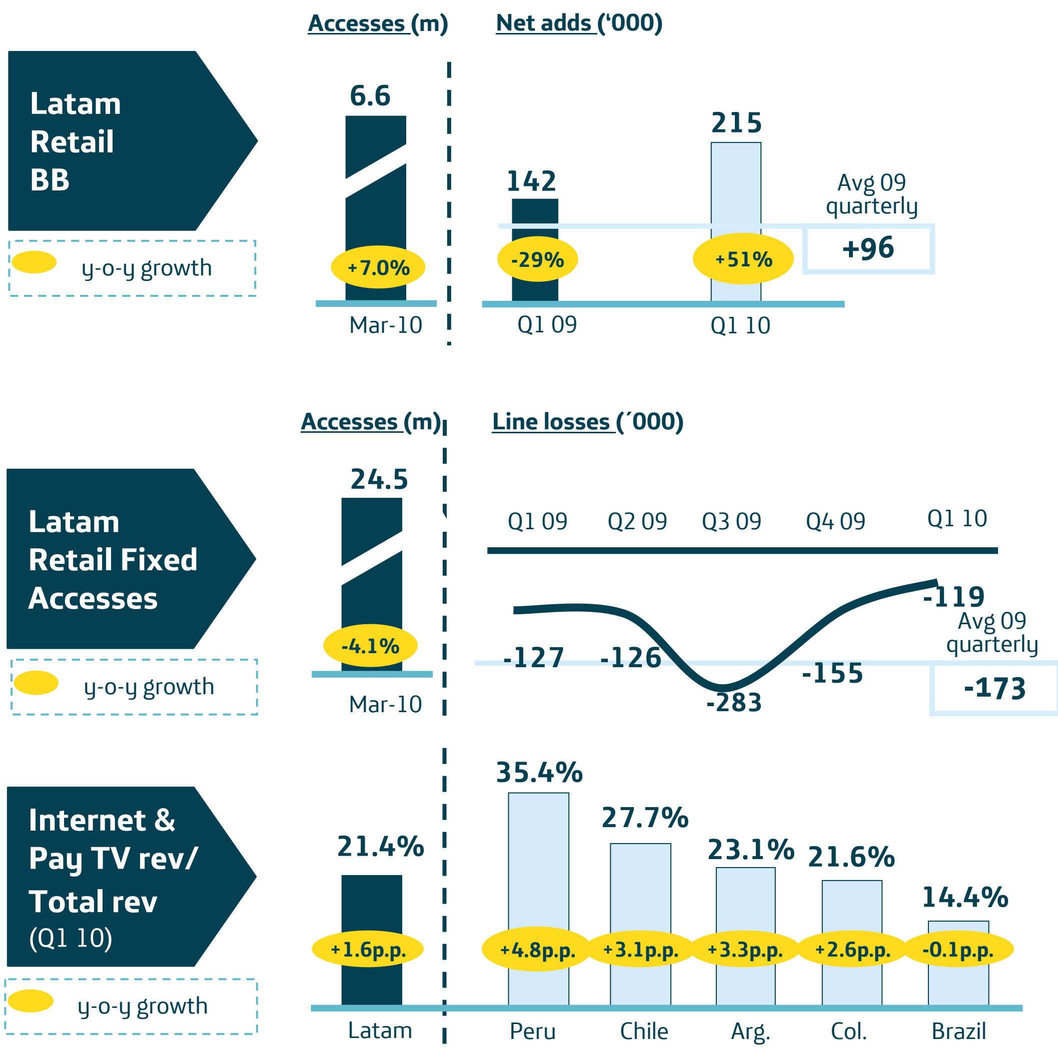


- Sustained double digit service revenue organic growth
- Remarkable push in data/service revenues: +5.3 p.p. y-o-y

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

Organic assume constant exchange rates and excludes hyperinflation accounting in both years.
Mobile customers include Telemig as of January 1st, 2008.

Wireline business: stabilizing revenue drivers



- **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**

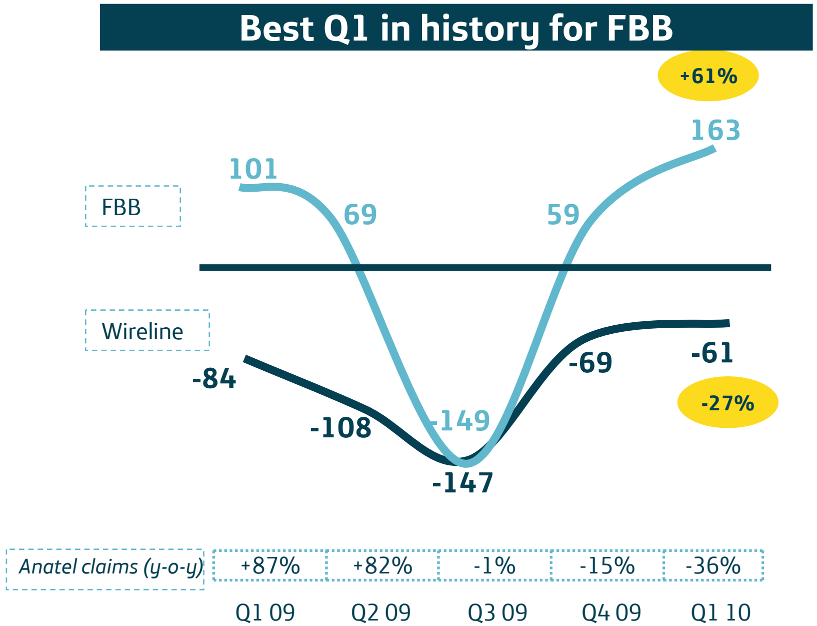
- **Further advance in transformation:**
  - 2P&3P/BB: +6 p.p. y-o-y to 57%
  - Higher contribution from internet & Pay TV revenue in most operations

Q4 09 wireline net adds and growth rates exclude the disconnection of fixed telephony accesses in Colombia.
2009 quarterly average excludes December 2009 disconnections.

Telesp gradual recovery

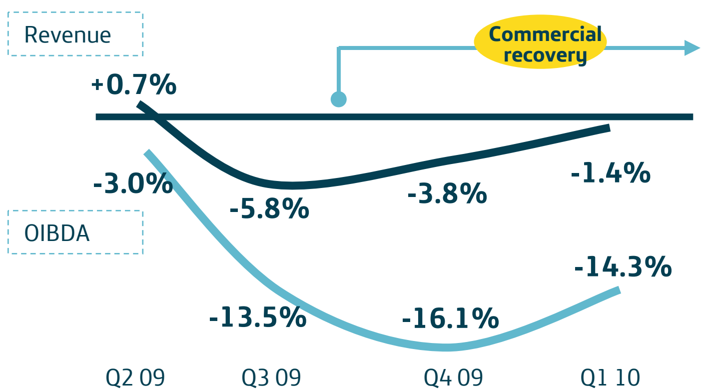
Net adds
(000)

y-o-y growth



- **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

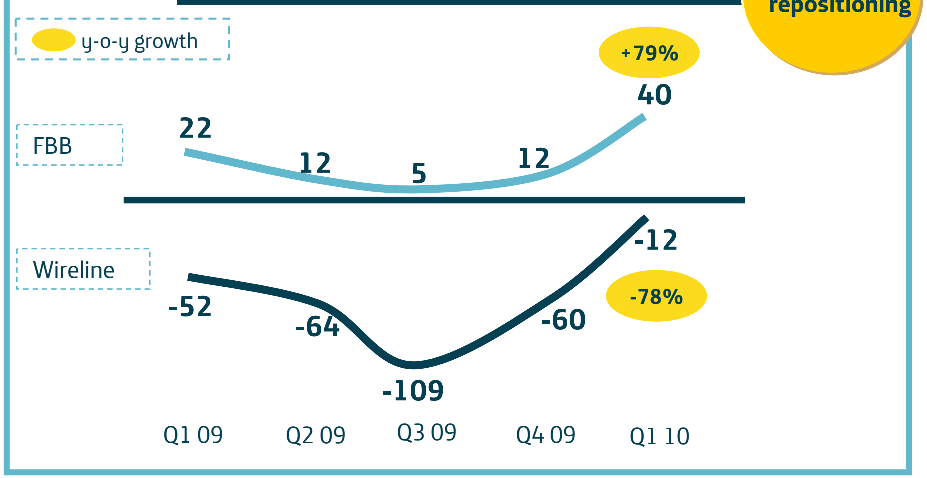
Financials
(y-o-y in local currency)



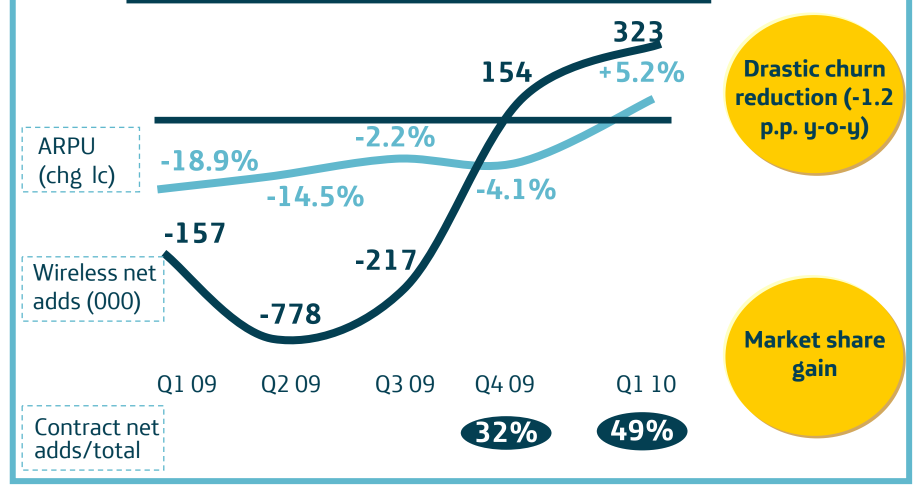
- **Improving revenue trend** towards positive growth
- **Lower churn** levels should reduce commercial expenses going forward
- **OIBDA impacted by increased activity and heavy rains**

Colombia: Operating results improved, financials should follow

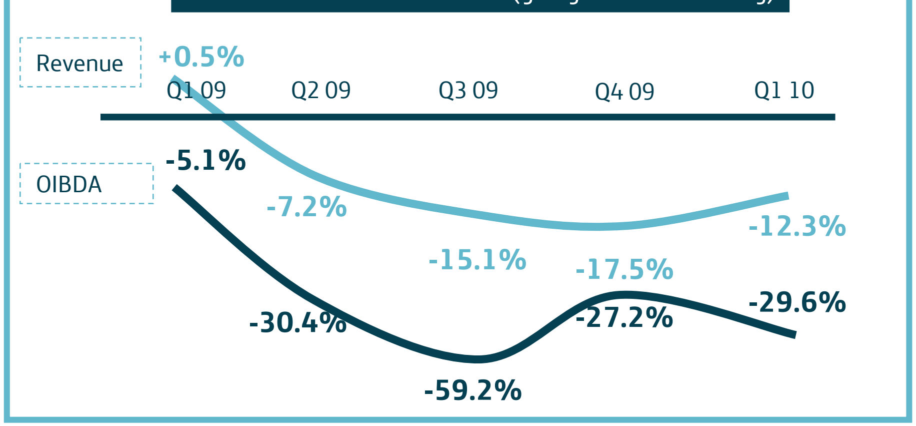
Wireline net adds (000)



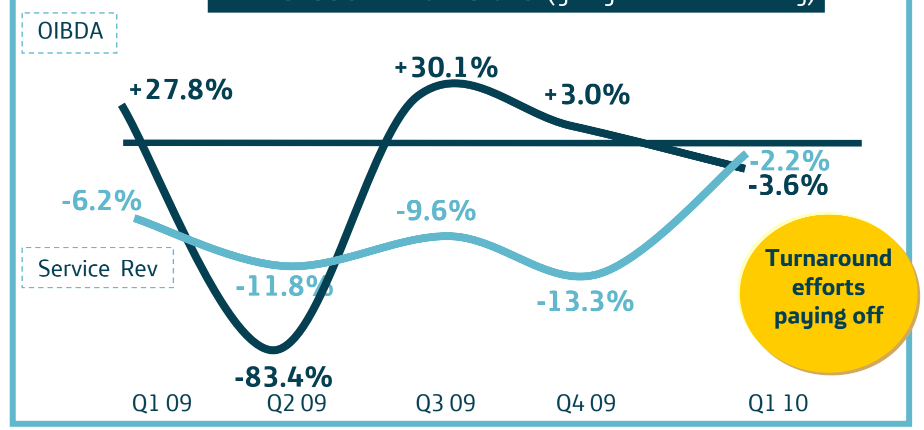
Wireless KPIs



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



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



Q4 09 FBB and wireline net adds and growth rates exclude the disconnection of inactive fixed telephony and FBB accesses in Colombia.

Good performance across key operations

Mexico

- **Steady market share expansion** to 21%, +1.5 p.p. y-o-y
- **+33.7% increase in contract** customers vs. Mar-09
- **Healthy service revenue** growth (+10.7% y-o-y)
- **Robust OIBDA margin**: 30.2% (+1.4 p.p. y-o-y)

Venezuela

- **Solid financials** despite devaluation
- **Focus on value customers** (contract up 7.2% y-o-y)
- **Service revenues** (+21.1% y-o-y) **boosted by data services**
- **Healthy OIBDA margin** (46.2%) despite higher handset costs

Vivo

- **Record net adds**: x3 vs. Q1 09
- **Increase in market share** to 30.1%; 71.5% share in contract net adds
- **Service revenue growth ramp up** to 6.5% y-o-y (+4.6% in Q4 09)
- **OIBDA margin expansion** to 30.1% (+0.1 p.p. y-o-y)

Argentina

- **Positive accesses growth**, even in traditional fixed lines
- **Double digit revenue and OIBDA** y-o-y growth
- **Solid profitability**: 34.7% OIBDA margin in Q1 10
- **Fixed margin stabilisation** vs. FY 09

Chile

- **Top line stabilization**
- **OIBDA acceleration** to +10.0% y-o-y, boosted by mobile
- **Steady advance in OIBDA margin** to 42.7% (+4.3 p.p.y-o-y)
- **Earthquake impacts covered** by insurance policies

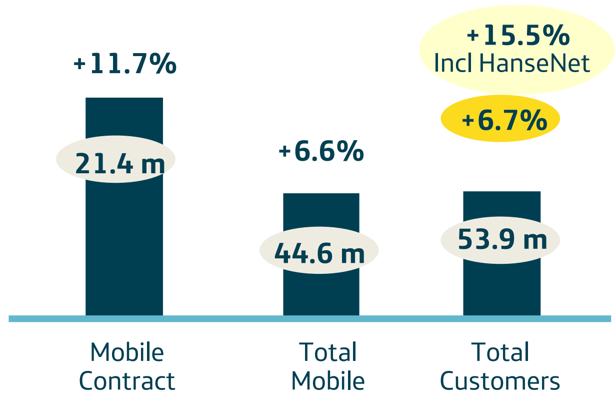
Financial variations in local currency.

T. Europe: continued momentum, leveraging mobile internet

Accesses

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

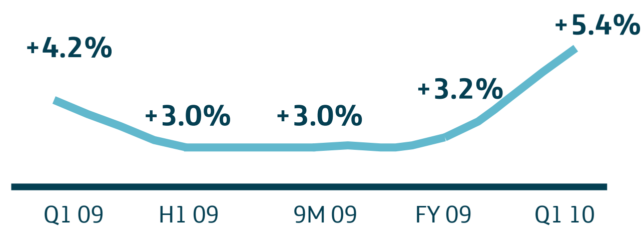
Organic



- **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

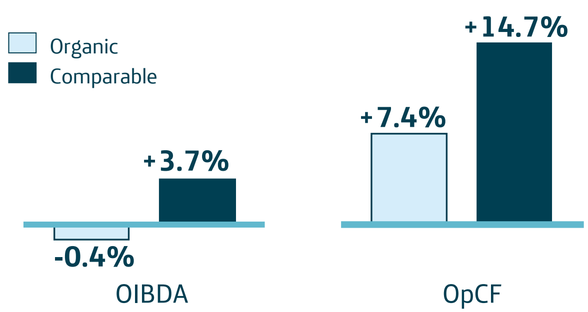
(y-o-y organic growth ex MTRs)



- **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)



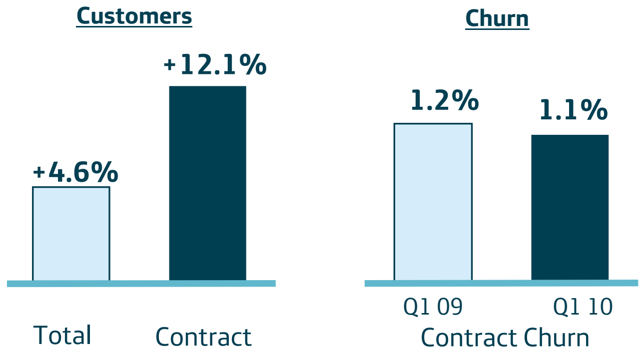
- **Strong cash flow, sustained profitability:**
  - 26.2% OIBDA margin, improving 0.5 p.p. y-o-y in comparable terms
  - Germany & UK driving profitability
  - Continued cost efficiencies in non-customer facing activities

Organic growth financials: assumes constant exchange rates and excludes the consolidation of HanseNet (since mid February) and Jajah (January-March).
Organic growth customers: Excludes HanseNet customers in March 2010.
Comparable growth: organic evolution and excluding one-offs affecting OIBDA: € -21 m in Q110 (restructuring charges in T. O2 CR and Ireland of € -15 m and € -7 m, respectively, and €+0.3 m USO in T. O2 CR) and €16 m in Q1 09 (real estate and USO in T. O2 CR)

T.O2 UK: leading financials, growing quality base

Mobile KPIs

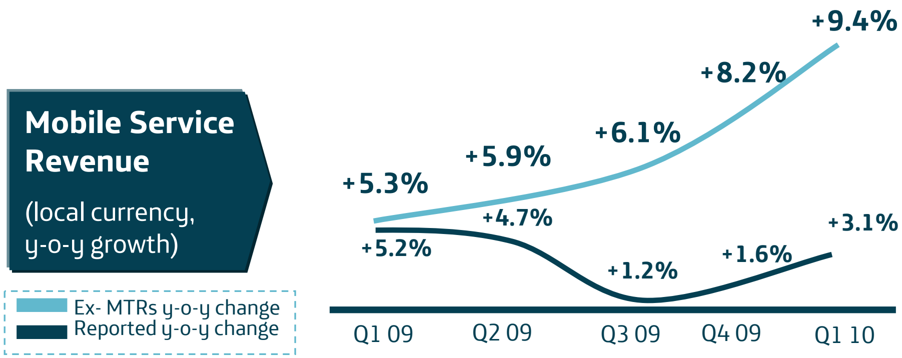
(Mar-10: y-o-y change)



- **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

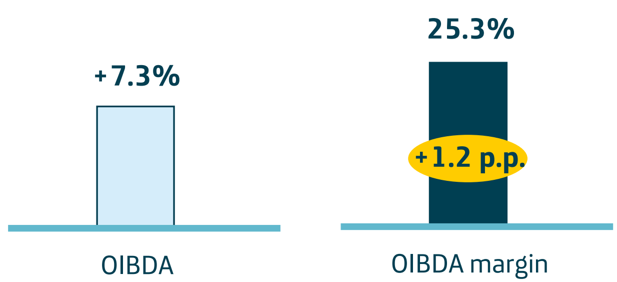
(local currency, y-o-y growth)



- **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)

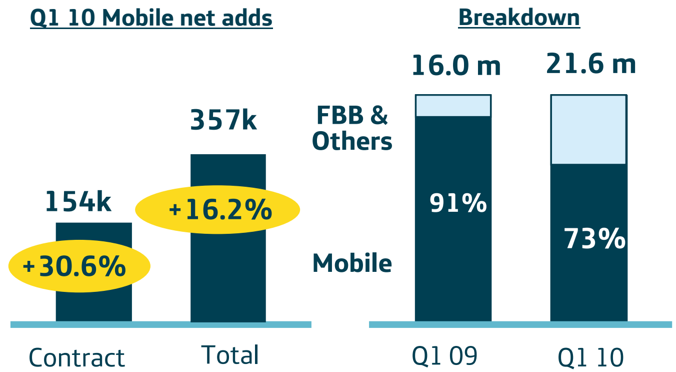


- **Increased profitability while investing in quality:**
  - Leveraging rational commercial investments in line with customer value
  - Focused increase in network investment

T.O2 Germany: Strong trading momentum and broader portfolio

Customer Base

y-o-y growth

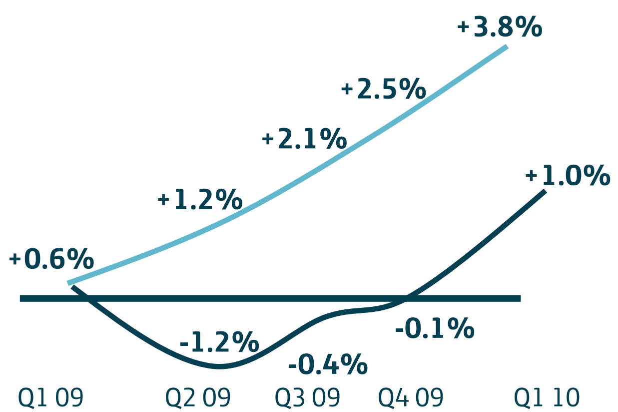


- **Enhanced challenger approach through expanded integrated portfolio**
  - Better positioned to address new segments (HanseNet, "O2o", "O2on")
  - Increased contract mix to 50% (+1 p.p. y-o-y)

Mobile Service Revenue

(y-o-y growth)

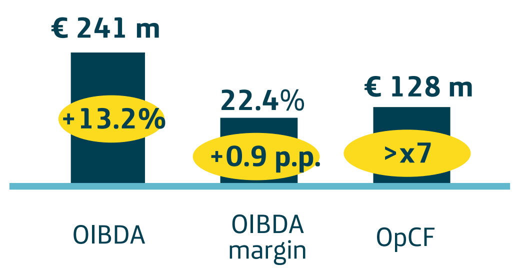
Ex- MTRs y-o-y change
Reported y-o-y change



- **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

Q1 10 Profitability

(organic y-o-y growth)

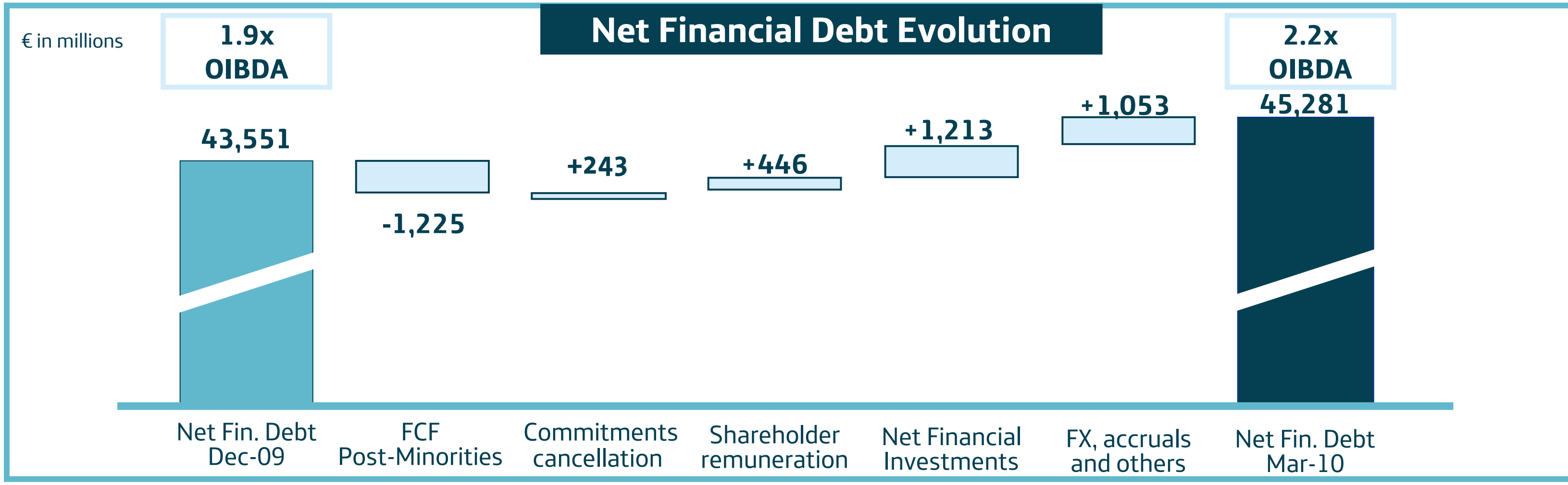


- **Continuous strong profitability**
  - Solid OIBDA growth
  - Low margins from acquisitions impacting in reported OIBDA margin (-1.3 p.p. drag)

Organic : assumes constant exchange rates and excludes the consolidation of HanseNet in January-March 2010.
FBB & Other accesses: include fixed broadband, traditional fixed, pay TV and wholesale accesses.

Effective interest rate contained at 5%

Net Financial Debt Evolution

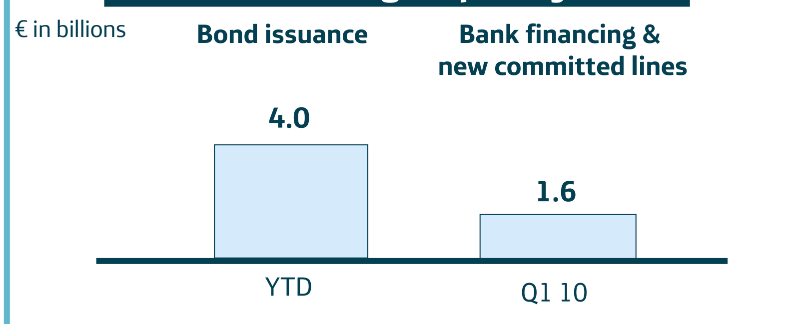


Lower Cost of Debt

	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

Increasing Liquidity



- 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

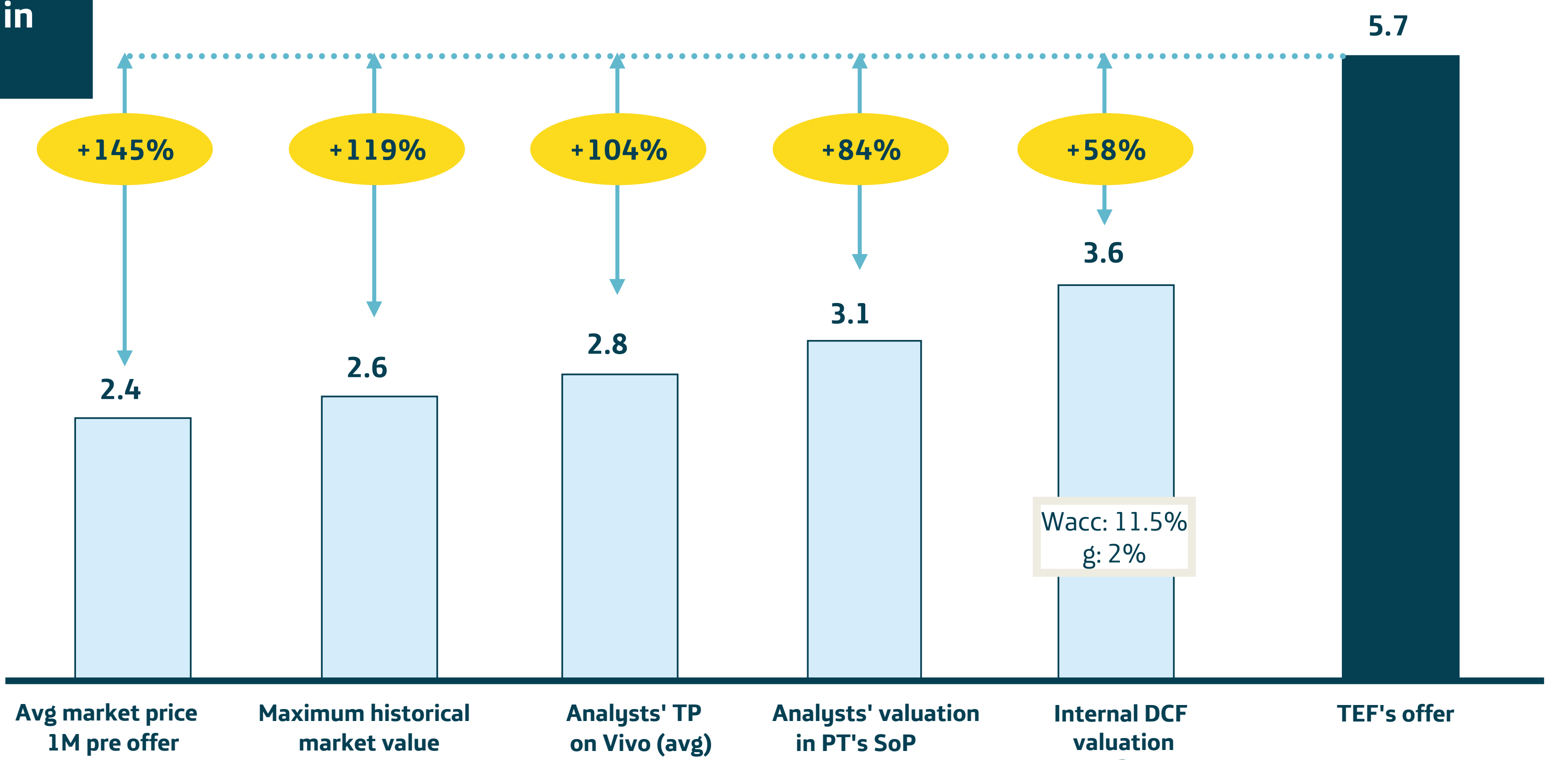
Leverage target: Calculated based on FY 09 OIBDA figure, excluding results on the sale of fixed assets. For Q1 10 is calculated on OIBDA figure annualized excluding also the results on the sale of fixed assets.
Net Interest expenses and effective interest rate : Ex-fx and including impact of hyperinflation in Venezuela.

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

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

	Avg market price 1M pre offer	TEF's offer
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

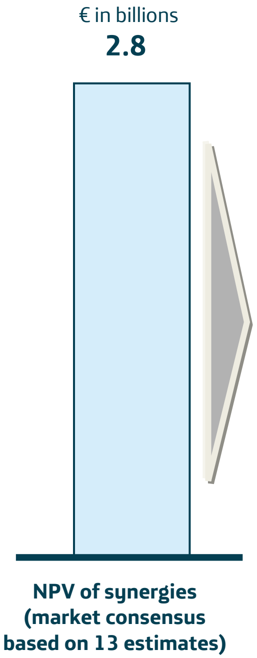
Revenue
- Improved churn
- Cross selling/Bundle offer

Network & IT
- Network management integration
- IT system unification
- Data centers

SG&A
- Customer care
- Marketing

CapEx
- Common infrastructure construction
- IP Net and Metroethernet

Other
- Synergies from national backbone and operation outside of Sao Paulo
- Potential financial and tax benefits



Synergy allocation references

PT's share

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

Combination at market value assumes all shareholdings are contributed at market values.
Best possible valuation scenario: PT's stake in VIVO at offer price and rest of shareholdings at market value.

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