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## TELEFÓNICA'S NET PROFIT UP 2% TO 1,656 MILLION EUROS IN 1Q10

*In the first quarter Telefónica focused on capturing growth in all markets with intense commercial activity. This triggered an acceleration of Group revenue performance (+1,7% year on year, vs -2,1% for FY2009) and net adds of 8.6 million accesses in the first quarter. Both trends lay the foundations to continue growing in the coming months*

- **Value customers:** The Company now has nearly 273 million accesses worldwide (+4.6% year-on-year). Of its 206 million wireless customers, 30% are contract holders (+12%); while broadband accesses now total over 35 million with year-on-year growth of 25.2% (fixed) and 97.5% (mobile)
- **Growth:** Quarterly revenue totals 13,932 million euros. While this line was significantly higher in Europe (+7.4%) and Latin America (+4.2%), Spain consolidates its trends of progressive improvement on a like-for-like basis
- **Profitability:** Telefónica maintains high levels of operating profit and cash generation although these were affected by commercial activities and non re-current effects in the quarter. OIBDA totalled 5,114 million euros (-4.1%), the OIBDA margin was 36.7%, and operating cash flow (OIBDA-CapEx) amounted to 3,923 million euros
- **Diversification:** Nearly two thirds of Group revenue and 58.1% of OIBDA were generated outside Spain while the contribution from Latin America (1,577 million euros) and Europe (583 million euros) to operating cash flow increased
- **Financial strength:** The ratio of debt + commitments to OIBDA stands at 2.3 times. The company has sufficient cash to meet its debt obligations for 2010 and its financial activity this quarter was aimed at pre-financing part of its 2011 debt maturities
- **CapEx commitment:** A total of 1,191 million euros in the quarter dedicated to transformation and growth projects (fixed and mobile broadband)
- **Regions:** Commercial activity in Spain yielded 247,000 new customers in the first quarter. Latin America obtained 3.7 million new accesses (three times the prior year figure) and cemented its status as the largest contributor to Group revenues in terms of organic growth (2.1pp). The UK and Germany led the way in terms of revenue growth in Europe (+5.4% in organic terms and excluding regulatory effects), where over half a million new wireless customers were added in the quarter

**Madrid, 13 May 2010.-** The results for the first quarter of the year reflect the strategic priorities established by the Company for 2010, which are focused on capturing the growth opportunities in its markets to boost revenue, reinvesting efficiency gains to foster revenue expansion, while maintaining high profitability and strong cash flow generation.

Telefónica's results at 31 March 2010 underscore the success of an intense commercial campaign aimed at capturing growth in all the markets where the company operates and boosting the group's growth profile in the coming quarters.

The strategy's success is borne out in the top line of the income statement with higher revenue growth (+1.7% year-on-year) and positive trends in all markets, particularly Europe. Also, the group's commercial efforts and the high-quality and attractive services included in its portfolio, helped boost the customer base to 273 million accesses worldwide (+4.6%, 2.6 percentage points more than at 31 December 2009). Of particular note is the performance of the highest value segments and services (wireless contract customers and fixed and mobile broadband). Both trends lay the foundations for continued growth in the coming months and have helped Telefónica's net profit rise 2% to 1,656 million euros.

Results for this quarter are in line with the Company's expectations and allow to reiterate financial guidance for 2010. In addition, Telefonica also confirms its long term guidance (2012) as well as its shareholder remuneration commitment through the payment of 1.40 euros per share dividend for 2010, increasing to a minimum of 1.75 euros per share in 2012.

## **Accesses: strong growth in highest value segments and services**

The sound performance in accesses is largely thanks to the positive results of the intense commercial campaign in the quarter. The number of adds grew 16.9% year-on-year which, combined with customer loyalty initiatives, saw net adds nearly multiplying by 2.6 times the figure of the same period in 2009. Excluding accesses at Hansenet and Medi Telecom in both periods, net adds in the first quarter of 2010 totalled 4.3 million accesses in organic terms. At 31 March 2010 Telefónica reported 8.6 million more accesses than at year-end 2009.

This positive trend helped boost the number of Telefónica Group customers to 273 million accesses, growing 6.1% in organic terms or 1 percentage points more than the growth rate at 31 December 2009. By regions, of particular note is the increase in the number of Telefónica Europa (+6.7% year-on-year organic growth) and Telefónica Latinoamérica (+8.1% year-on-year) customers. By segments, we would highlight the growth in wireless accesses (+8.7%), fixed broadband (+8.7% in organic terms) and pay-TV (+9.3% in organic terms).

Analysing the performance of accesses in the various business segments, the success of the company's commercial strategy, which focused on the highest value segments and strong growth services, is clear. This strategy is intended to drive and increase the dynamism of future growth. The broadband businesses (wholesale+retail) totalled 35 million accesses at 31 March. The retail fixed broadband business increased 25.2% (+8.7% year-on-year in organic terms) while the mobile broadband business advanced 97.5%.

Telefónica Group wireless accesses advanced 4.4 million in the first quarter to 206 million. The contract segment increased to 2.3 million accesses, contributing 53% to total net adds in the

quarter and accounting for 30% of total wireless accesses at 31 March. Also worth highlighting is the performance of wireless net adds in Spain (189,000 accesses in the quarter vs. 10,000 in the same period in 2009) and Latin America (+3.7M Accesses). Mobile broadband accesses also increased to 16 million in the quarter.

Turning to other growth businesses, retail broadband accesses totalled 16 million with net adds in organic terms of 0.4 million accesses, 30.6% higher than the same period in 2009. Of particular note is Telesp in Brazil which added a record 163,000 new broadband users in the quarter, enjoying the best performance seen in any first quarter since the broadband service was launched. Spain also performed well with 102,000 new customers since January, much higher than the figure for the first half of 2009.

The weight of bundled services, in response to customer demands, continues to grow across the group. In Spain 89% of retail broadband accesses are bundled as part of either a dual or triple service package, while in Latin America 57% of broadband accesses are bundled as part of a dual or triple package.

Pay TV accesses stood at 2.6 million at 31 March 2010 (+9.3% year-on-year in organic terms). It is also worth mentioning that the company now has pay TV operations up and running in Spain, the Czech Republic, Germany, Peru, Chile, Colombia, Brazil, Venezuela and Argentina.

## **Revenue growth picking up**

Turning to the Group's income statement, from January to March the pace of revenue growth picked up, following the trend seen in the fourth quarter of 2009, thanks to the intense commercial efforts in recent months and Telefónica's intention to harness growth opportunities in all its markets.

Revenue growth has picked up and risen 1.7% in reported terms (-2.1% for full year 2009) putting net revenue at 13,932 million euros. In organic terms growth was 0.9% compared to the same period in 2009 (+2.4%, stripping out regulatory impacts), with Latin America and Europe contributing the most to this organic growth (2.1pp and 0.4pp, respectively).

In the first quarter this item was significantly higher in Europe both in reported (+7.4%) and in organic terms and excluding regulatory effects (+5.4%); it also rose in Latin America (+5.4% in organic terms), and built on the progressive improvement in Spain on a like-for-like basis. In fact, for the domestic market we would note, once again, the improved revenue performance of Telefónica España on a like-for-like basis, with a slowdown in the pace of year-on-year decline of 0.6 percentage points, mainly driven by improved wireless revenues.

The value of the Telefónica Group's geographical diversification is borne out in the breakdown of its regional revenue, with two thirds of Group revenue being generated outside of Spain (Telefónica Latinoamérica represents 40.4% of the total and Telefónica Europa 25%).

Operating expenses rose in the period to 9,021 million euros largely due to higher personnel and external service expenses which totalled 1,842 million and 2,660 million euros respectively in the first quarter, largely due to higher commercial expenses in all countries. The average workforce headcount in the first quarter was 259,209 employees (125,707 employees excluding the Atento Group workforce).

Telefónica also enjoyed high levels of operating profit which was however affected by its commercial activities in the quarter to position and boost growth in the coming quarters.

Operating income before depreciation and amortization (OIBDA) totalled 5,114 million euros at 31 March (-4.1% in reported terms and -3.4% in organic terms). This was affected by the Group's commercial efforts, regulatory measures and one-off events. Nevertheless, the level of operating efficiency remains high with an OIBDA margin of 36.7%. Latin America and Europe now account for 58.1% of group OIBDA. Operating income (OI) totalled 2,930 million euros (-7.2% in reported terms and -2.4% in organic terms).

Profit from associates amounted to 36 million euros (versus 5 million euros in the same period in 2009), mainly as a result of increased profits from the Company's stake in Portugal telecom and reduced losses from its stake in Telco, S.p.A. Net Financial Results at the end of March 2010 amounted to -573 million euros.

## **Sound financial position**

At 31 March 2010 the company's net financial debt totalled 45,281 million euros. Telefónica maintained its financial strength with a ratio of net debt + commitments to OIBDA of 2.2 times. This ratio rose slightly mainly due to the increase in net debt due to the exchange rate effect (devaluation in Venezuela and appreciation of the Colombian peso vs euro) and higher capex in the period, including the outlay for the acquisition of Hansenet (912 million euros) and Jajah (145 million euros).

Between January and March 2010 the company embarked on longer term financing initiatives totalling 2,200 million euros. Of this, the equivalent of 1,800 million euros was invested by Telefónica S.A. to finance its 2011 debt maturities early. Consequently, the Group's cash position now far exceeds maturities falling due this year. At the end of March 2010, bonds and debentures represented 64% of consolidated financial debt, while debt with financial institutions accounted for 36%.

With a tax rate of 29.8%, at the end of March 2010 Group tax expenses totalled 714 million euros, while minority interests shaved off 23 million euros from first quarter net profit.

As a result, consolidated net income in January-March totalled 1,656 million euros, 2% higher than the year ago figure in 2009 in reported terms, putting net basic earnings per share at 0.36 euros, up 2.6% year-on-year.

Finally, Group CapEx in the first quarter stood at 1,191 million euros, in line with the amount invested in the same period the previous year. This was largely earmarked for transformation and growth projects, mainly aimed at meeting demand for fixed and mobile broadband services.

Operating cash flow (OIBDA-CapEx) remained high in the quarter at 3,923 million euros (-4.3% year-on-year in organic terms). This performance was driven by the lower contribution by Telefónica España (1,820 million euros), while Telefónica Latinoamérica and Telefonica Europe's contribution was 1,577 and 583 million euros, respectively.

# *Telefonica*

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Economies of scale and efficient management of operating expenses and investment helped improve the efficiency ratio to 74.5%. This is defined as:  $(OpEx+CapEx-Internal\ expenses\ capitalized\ in\ fixed\ assets)/Revenues$ .

## RESULTS BY BUSINESS UNIT

### TELEFÓNICA ESPAÑA

- ✓ **Commercial activity at Telefónica España increased notably and revenues once again points to recovery: the pace of decline slowed with a year-on-year fall of 3.9% (1.8pp less than in 1Q09)**
  
- ✓ **In Spain, Telefónica added 247,000 new customers. Year-on-year growth in the highest value segments accelerated: contract wireless (+6.7%), retail broadband (+5.4%) and Pay TV (+21.2%)**

During the first quarter of the year, fully aligned with its strategic priorities for 2010, Telefónica España posted a strong commercial activity, which was particularly outstanding in the highest growing services. Thus, Telefónica maintained its sound market leadership while strengthening its positioning for future growth.

In terms of customers, Telefónica captured 247,000 new adds between January and March in Spain, bringing its total to 47 million. Of particular note are the client net adds in the highest value segments (197,000 accesses), retail broadband (102,000 accesses) and Pay TV (30,000 accesses) and the acceleration of the levels of annual growth: 6.7%, 5.4% and 21.2%, respectively.

Contract wireless customers now account for 65% of Telefónica's 23.7 million wireless accesses in Spain. Thanks to this, Telefónica has been able to maintain its leadership position in this market in terms of revenue and has cemented its lead as the company with the widest gap between revenue share and customer market share in the Spanish market. At 31 March 2010, mobile broadband accesses surpassed 3 million, 2.2 times higher than the previous year.

In the traditional business, retail mobile broadband customers totalled nearly 5.6 million accesses, giving an estimated market share of 55%, while Pay-TV boasted 733,000 accesses, an excellent evolution reversing the net loss seen in the fourth quarter of 2009, giving the company an estimated market share of 18%. The total number of Dúo and Trío (double and triple access) bundles account for 89% of the company's total retail broadband accesses.

Finally, Telefónica's market share in the fixed retail market in Spain was 72% with 13.9 million lines. This figure has stabilised and only shrank -1.7% compared to the fourth quarter and was more than offset by growth in wholesale accesses.

The active commercial plan rolled out in Spain in the first quarter of this year has also resulted on an improved evolution of the company's revenues on a like-for-like basis, decelerating the fall by 1.8 percentage points compared to the same quarter in 2009. At 31 March 2010, revenue at Telefónica España totalled 4,633 million euros. On a like-for-like basis, i.e. excluding the impact in the first quarter of 2009 of revenue from Universal Service and Telyco Marruecos among others, the slowdown in revenue has eased to a year-on-year decline of 3.9% (-4.5% in the fourth quarter of 2009).

By businesses, of particular note is the stabilisation of revenue from Internet and fixed broadband (-0.3%) in the quarter. Both data services and IT services enjoyed growth (8.3% and 7.2% respectively). For the third quarter in a row, the pace of the year-on-year decline in revenues eased (-3.6% in the first quarter of 2010 versus -4.4% in the fourth quarter of 2009).

The increase in commercial activity in the quarter also affected OIBDA at Telefónica España, totalling 2,153 million euros (-7.9% like-for-like) at 31 March. However, in comparable terms, the OIBDA margin stood at 47.3%, an improvement of 1.5 percentage points on the year-end figure in 2009.

CapEx in Spain totalled 333 million euros in the quarter, similar to the previous year. This was largely aimed at growing the mobile broadband business. OIBDA-CapEx totalled 1,820 million euros at 31 March.

## RESULTS BY BUSINESS UNIT

### TELEFÓNICA LATINOAMERICA

- ✓ **Strong customer base growth of +8,1%, totalling 172.3 million accesses in the Region. Of particular note is the acceleration of Mobile Access growth (+11%) and fixed broadband (+7%) compared to December. Total net gain is 3.7 million accesses**
- ✓ **Focus placed on commercial efforts and value customers during first quarter. Revenues grew 4.2% yoy while OIBDA is flat, while in organic terms both lines grew +5,4% & +3,4% respectively.**

In the current macroeconomic environment, Latin America is consolidating as one of the regions leading the way towards economic recovery. Indeed, the latest forecasts call for significant growth in Latin America in 2010. In this environment, the telecommunications industry is enjoying a significant revival, which, in the first quarter of the year, translated into sharp growth in commercial activity.

In line with its strategy for capturing growth potential in its markets, Telefónica Latinoamérica has led the turnaround in the market's dynamics, with net adds of 3.7 million accesses in the first three months of 2010, triple the net adds registered in the same period a year earlier. As a result, the Company managed 172 million accesses in the region by the end of March 2010, a year-on-year increase of 8.1%, outpacing growth in 2009 (+6.5%) thanks to a rebound in the mobile business activity – particularly in the contract segment – and in broadband.

Regarding **mobile business**, the estimated penetration rate in Latin America stood at 91% at the end of March 2010. Telefónica managed 138 million mobile accesses in the region, a year-on-year increase of 11%, 1.8 percentage points higher than in the previous quarter. For the third consecutive quarter, the Company registered a year-on-year increase in its commercial activity, with net adds of 3.7 million accesses, nearly triple the figure for the same period a year earlier and up 39.8% from net adds reached in the first six months of 2009. This rebound in commercial activity is remarkable not only for its intensity but also for its composition, as net adds in the contract segment accounted for 45% of the total, more than double than in the first quarter of 2009 (21%), a milestone in the Company's commercial history. Mobile broadband is now a reality in the region, and represents a massive growth opportunity across all markets. Mobile broadband clients base has multiplied by 2.5 times in the last twelve months to reach almost 5 million.

Meanwhile, at the **wireline business**, the Company has begun to see significant operating improvements thanks to the quality improvement measures implemented in 2009, while it continues to make progress on developing bundled services packages to drive growth in new businesses and stabilise the traditional one. By the end of March 2010, Telefónica had 33.9 million wireline accesses in Latin America, virtually unchanged from December 2009. The broadband business showed solid increase in net adds in the quarter, 215 thousands, 51.3% more than in the first quarter of 2009 and 2.2 times higher than 2009 quarterly average. The Company managed 6.6 million broadband accesses at the end of March (up 7.0% year-on-year), ramping up from the previous quarter (+5.9%

in December 2009). In Pay TV, Telefónica Latinoamérica continued targeting its product to certain value segments in order to build on its comprehensive, distinctive offering of services in the market. Its Lumber of customers stood at 1.7 million (up 4.9% year-on-year) at the end of March, following net adds of 46 thousand accesses.

Regarding the **year-on-year evolution of the financial results** in euros, it should be noticed that in early January 2010 the Venezuelan government devalued the bolivar fuerte. Therefore in 2010, the conversion of Telefónica Móviles Venezuela's financial results is delivered at an exchange rate of 4.3 bolivar fuerte per dollar, which implies a year-on-year devaluation of 50%. It must be borne in mind that the Company's financial results reflect an hyperinflation adjustment for both 2009 and 2010. For comparative purposes and to facilitate the interpretation of the year-on-year performance, changes with respect to 2009 in constant currency of the headings affected by the hyperinflation adjustment are reported excluding the impact of this adjustment (changes in organic terms).

**Revenues** totalled 5,626 million euros in the first quarter, a year-on-year increase of 5.4% in organic terms (+4.2% in reported terms). **Operating expenses** totalled 3,619 million euros, a year-on-year increase of 6.5% in organic terms (+6.9% reported), mainly due to increased commercial activity. **Operating income before depreciation and amortisation (OIBDA)** reached 2,056 million euros, up by 3.4% year-on-year in the first quarter in organic terms (stable in reported terms). The Company maintained a high level of operating efficiency, with an OIBDA margin of 36.5%.

**Operating cash flow (OIBDA-CapEx)** stood at 1,577 million euros in the first quarter of 2010, a year-on-year increase of 2.6% in organic terms. Particularly noteworthy was the performance of operating cash flow in euros, which remained unchanged from the same period of the previous year despite devaluation in Venezuela.

Finally, the high degree of geographic diversification is worth noting, both in terms of composition and sources of growth. Regarding the composition, Brazil remains the main contributor to the group, generating 41.0% of reported revenues, followed by Argentina (12.0%), Chile (8.7%), Venezuela (8.7%) and Peru (8.0%). In terms of organic growth, the contribution of Mexico is also noteworthy as it contributes with +1.0 percentage points to the growth of the region in terms of revenues and OIBDA in the first quarter of 2010, and remains as the largest contributor to operating cash flow growth (+2.1 percentage points).

## BRAZIL

Trading activity remained strong in Brazil's telecommunications market in the first quarter of the year, driven by the solid economic outlook for the country. Telefónica has consolidated its position as a reference in the market. Telefónica's good momentum in the market is evidenced by the fact that in the last 12 months, the number of accesses managed by the Company in Brazil increased by 12.8%, to 69.2 million.

**Revenue** in the first quarter of the year stood at 2,304 million euros, a 0.3% year-on-year growth in local currency, resuming the revenue growth trend on the strong performance of the mobile Business and the improvement in the wireline business vs. the third and fourth quarters of

2009. **Operating income before depreciation and amortisation (OIBDA)** stood at 770 million euros in the first three months of the year (a 9.2% year-on-year decline in local currency). **Operating cash flow (OIBDA-CapEx)** totalled 561 million euros (down 3.4% year-on-year in local currency), while **CapEx** stood at 209 million euros in the first quarter of 2010 (down 21.7% year-on-year in local currency).

**VIVO:** Vivo has consolidated its leadership position while being the company with the highest share of net gain in the quarter. According to data from Anatel, Vivo holds a 30.1% market share in March 2010, up 42 basic points from March 2009. Vivo thus reached 53.9 million accesses in March 2010, with 18.2% year-on-year growth, highlighting the contract customer base growth of 19.5%.

Revenue totalled 854 million euros, increasing 4.4% year-on-year in local currency. Also noteworthy was the strong Operating income before depreciation and amortisation (OIBDA) performance in a highly competitive environment. OIBDA stood at 257 million euros in the first quarter of the year, with 4.6% growth year-on-year in local currency, while OIBDA margin improved slightly (0.1 percentage points) to 30.1%. OIBDA-CapEx in the first quarter of 2010 stood at 191 million euros, a substantial year-on-year increase (+35.6%) in local currency. CapEx in the first quarter totalled 66 million euros (down 37.1% year-on-year in local currency). Investment in the quarter was focused on enhancing the networks' capacity to meet higher voice and data demand.

**TELESP:** Telesp began 2010 on solid grounds owing to operational improvements already made in the second half of 2009, including major process reengineering, which led to a significant improvement in management indicators: improvement of quality levels, reduction in the level of complaints and improvement in customer satisfaction. The Company had a successful quarter in commercial terms, with a record number of broadband net additions and positive net additions of traditional wireline telephony accesses in March, for the first time in almost a year.

At the end of March 2010, Telesp managed 15.3 million **accesses**, after posting in the quarter, the first net gain in the last year and a half (+55 thousand accesses), driven by strong growth in broadband accesses. The Company managed 2.8 million **wireline retail broadband accesses** at the end of the first quarter of 2010, a 5.3% year-on-year increase, with net additions of 163 thousand accesses in the first quarter (up 60.6% year-on-year). At the end of the first quarter, the Company managed 470 thousand pay TV accesses.

Telesp's **revenue** totalled 1,579 million euros in the first quarter of 2010, a 1.4% year-on-year decrease in local currency. **Operating income before depreciation and amortisation (OIBDA)** totalled 516 million euros in the first quarter of the year, with a 14.3% year-on-year decline in local currency, slightly lower than the decline in the fourth quarter of 2009 (-16.1%), owing to the above mentioned factors. OIBDA margin stood at 32.7%. In the first quarter of 2010, **CapEx**, due to the strong seasonal effect, stood at 144 million euros.

## ARGENTINA

At the end of the first quarter, Telefónica had 22.2 million customers in Argentina (+6.2% vs. March 2009), on the back of strong growth in the number of mobile accesses (+7.9% year-on-year), fixed broadband (+15.4% year-on-year) and, being noteworthy, the slight increase in traditional wireline telephony accesses (+0.4% year-on-year).

**Revenue** continued to grow at a strong pace, increasing to 678 million euros in the first quarter of 2010 (+12.9% year-on-year in local currency), driven by the healthy performance of revenue in the wireless business, and of Internet and data revenue in the wireline business. **Operating income before depreciation and amortisation (OIBDA)** rose to 242 million euros in the first quarter (+10.7% in local currency), with a 34.7% margin, -0.8 percentage points compared to first quarter of 2009. **CapEx** stood at over 66 million euros in the first quarter (+67.1% in local currency), with **operating cash flow (OIBDA-CapEx)** virtually stable compared to first quarter of 2009 in local currency, at 175 million euros.

## CHILE

Chile's telecommunications market continued its dynamism in the first quarter, both in the wireless and wireline businesses. Nevertheless, this market's potential was affected by the aftermath of the earthquake which struck in late February, which inflicted considerable damage on the country at both a societal and economic level.

By the end of March 2010, Telefónica consolidated its market lead in Chile with 10.9 million total **accesses**, a year-on-year increase of 7.6%. This reflects a growth acceleration versus previous quarters (+6.4% in December 2009), despite a March slowdown in commercial activity in the aftermath of the earthquake. The mobile (accesses rose 11.1%) and fixed broadband (year-on-year increase of 9.9% in accesses) businesses are still the main growth drivers.

First quarter **revenues** totalled 492 million euros. In a highly regulated and very competitive environment, the Company kept its management focus on capturing profitable growth. **Operating income before depreciation and amortisation (OIBDA)** in the first quarter of 2010 totalled 210 million euros, up 10.0% year-on-year in local currency, also signaling an acceleration vis-à-vis the previous year (+5.5% in 2009). The OIBDA margin stood at 42.7%, 4.3 percentage points higher than in the same period in 2009.

**CapEx** in the first quarter totalled 58 million euros (down 18.7% year-on-year in local currency), generating **operating cash flow (OIBDA – CapEx)** of 152 million euros, up 27.2% year-on-year in local currency vs. the same period in 2009.

## PERU

Telefónica remained leader in the Peruvian market, managing more than 16.2 million **accesses** at the end of the first quarter of 2010, 6.2% more than the prior year, thanks to the strong growth in mobile accesses (+8.6% year-on-year) and the ongoing expansion in wireline broadband accesses (+10.2% year-on-year).

In the first quarter of 2010 **revenues** were virtually unchanged in local currency from a year earlier at 451 million euros, highlighting the good performance of mobile service revenues, mainly in the contract segment, broadband and pay TV, the main drivers of transformation of this business. **Operating income before depreciation and amortisation (OIBDA)** totalled 163 million euros, down 3.3% year-on-year in local currency, reflecting the more intense commercial activity in the

first quarter of 2010, compared to the same period of the prior year. The OIBDA margin stood at 36.2% (-1.1 percentage points from March 2009).

**CapEx** totalled 18 million euros in the first quarter (-1.5% year-on-year in local currency), while **operating cash flow (OIBDA-CapEx)** amounted to 145 million euros (-3.5% year-on-year in local currency).

## COLOMBIA

Telefónica in Colombia is completing a significant commercial and operational repositioning, which is already paying off positive results in the first quarter. The Company registered a quarterly increase in accesses for the first time in the last five quarters.

As of the end of March 2010, Telefónica Colombia had a total of 11.5 million **accesses**. A highlight of the quarter was the good commercial performance at the wireline broadband and wireless businesses. The Company manages 460 thousand broadband accesses and 9.3 million wireless accesses, with net adds in the quarter of 40 thousand and 323 thousand accesses, respectively.

**Revenues** in the first quarter totalled 346 million euros, a drop of 6.0% year-on-year in local currency, while **operating income before depreciation and amortisation (OIBDA)** stood at 113 million euros. **Operating cash flow (OIBDA-CapEx)** amounted to 91 million euros in the first quarter, with **CapEx** at 22 million euros.

## MEXICO

Telefónica Móviles México continued to improve its competitive position, with a focus on customer value as a cornerstone of growth. The company achieved a sound set of financial results and reinforced its position as an important source of cash flow generation for the Group. At the end of March 2010, the company had 17.8 million wireless accesses, a year-on-year increase of 14.8%. Particularly remarkable was the contract segment's performance, with a large surge in commercial activity in the first quarter, both in gross adds and migrations, which helped to boost the contract customer base by 33.7% year-on-year (compared with a year-on-year increase of 19.4% in December 2009). Total **accesses** stood at 18.2 million accesses, up 16% year-on-year. **Net adds** in the first three months of 2010, totalled close to 413 thousand wireless accesses, more than doubling the net adds of a year earlier, thanks both to a recovery in the Mexican market and to the Company's commercial success, which has seen its market share increasing up to 21% at the end of the first quarter.

**Revenues** totalled 436 million euros in the first quarter, a year-on-year increase of 14.6% in local currency. **Operating income before depreciation and amortisation (OIBDA)** outpaced revenue in the first quarter to total 132 million euros (+20.2% year-on-year in local currency), with an improvement of 142 basis points in the OIBDA margin from the same period a year earlier, to 30.2%, despite more intense commercial activity, particularly in the contract segment. **CapEx** in the first quarter of 2010 stood at 23 million euros, while **operating cash flow (OIBDA-CapEx)** showed a remarkable 47.7% year-on-year increase in local currency to 109 million euros.

## VENEZUELA

For a better understanding of the evolution of Telefónica Móviles Venezuela's financial results in euros, it should be noticed that in early January 2010 the Venezuelan government devalued the bolivar fuerte. Therefore in 2010, the conversion of Telefónica Móviles Venezuela's financial results is delivered at an exchange rate of 4.3 bolivar fuerte per dollar, which implies a year-on-year devaluation of 50%. It must be borne in mind that the Company's financial results reflect an hyperinflation adjustment for both 2009 and 2010. For comparative purposes and to facilitate the interpretation of year-on-year changes with respect to 2009 in local currency of the headings affected by the hyperinflation adjustment are reported excluding the impact of this adjustment (changes in organic terms).

Telefónica managed 11.5 million total **accesses** at the end of March 2010 (versus 12 million at the end of March 2009). Mobile customer base totalled 10.3 million customers (10.7 million in March 2009), with a better performance of the contract segment, that rose 7.2% in the past 12 months.

**Revenue** reached 491 million euros in the first quarter of 2010, with a year-on-year organic growth of 12.9%, driven by a sharp increase in service revenue, which rose 21.1% in organic terms, reflecting the good performance of the data business. **Operating income before depreciation and amortisation (OIBDA)** stood at 227 million euros in the first quarter of 2010, a year-on-year organic increase of 1.7%. **Operating cash flow (OIBDA-CapEx)** stood at 168 million euros in the first quarter of 2010 (-14.0% year-on-year in organic terms). The decline was the result of a significant **CapEx**, totalling 59 million euros to improve coverage and continue the rollout of GSM and 3G networks and the satellite TV service.

## CENTRAL AMERICA

At the end of March, Telefónica Centroamérica managed 6.4 million total **accesses**, up 5.7% from March 2009. The number of mobile accesses rose to nearly 6 million, a 6 % increase year-on-year after adding 163 thousand accesses in the first quarter of 2010.

**Revenues** totaled 135 million euros in the first quarter of 2010, a 3.2% year-on-year decline in constant currency, as a result of the intense competitiveness in the region. **Operating income before depreciation and amortisation (OIBDA)** stood at 46 million euros in the quarter, affected by the strong commercial activity in the quarter. **CapEx** stood at 11 million euros in the first quarter of 2010 compared with 3 million euros in the same period in 2009. **Operating cash flow (OIBDA-CapEx)** stood at 35 million euros (60 million euros in the first quarter of 2009).

## ECUADOR

The estimated penetration of the Ecuadorian mobile market stood at 97% at the end of March 2010. Telefónica managed in Ecuador 3.9 million total accesses by the end of March 2010, of which 3.8 million were mobile accesses, with an increase of 20.7% and 21% year-on-year,

respectively. As a result, first-quarter net adds for the mobile business reached 125 thousand accesses, 2.2 times more than net adds reported in the same period a year earlier.

**Revenues** in the first quarter consolidated the positive trend seen in previous quarters. Revenues totalled 90 million euros, up 9.7% year-on-year in local currency. **Operating income before depreciation and amortisation (OIBDA)** rose 1.5% in local currency year-on-year to 26 million euros. **CapEx** totalled 6 million euros in the first quarter of the year, as the Company maintained its commitment to improve coverage and service. **Operating cash flow (OIBDA-CapEx)** in the first quarter stood at 20 million euros (-3.7% in local currency).

## RESULTS BY BUSINESS UNIT

### TELEFÓNICA EUROPE

- ✓ **Telefonica Europe has accelerated revenue growth in the first quarter, excluding regulatory effects revenues shows an organic improvement of 5.4% y-o-y thanks to the significant *smartphone* penetration and mobile Internet usage.**
  
- ✓ **Telefonica Europe's commercial strategy to improve mobile customers mix towards contract, led to a 11.7% y-o-y increase in the contract base, boosting the total mobile customer base to 44.6 million. It is important to highlight the strong growth of mobile broadband accesses (+67.3%) up to more than 7 million.**

Telefónica Europe continued its good momentum across key growth drivers, with a strong boost in smartphone penetration and mobile internet usage. The Group has strengthened its portfolio in the quarter with the acquisitions of Jajah (consolidated as a separate entity within Telefónica Europe) and HanseNet (consolidated under Telefónica O2 Germany).

At the end of March, 2010, Telefónica Europe's total customer base reached 53.9 million (+15.5% year-on-year, +6.7% year-on-year in organic terms) on the back of the continued expansion of mobile contract and broadband accesses (fixed and mobile). Focused commercial strategy to improve mobile customer mix towards contract, through targeted activities around migrations from prepay and increased adoption of data-enabled devices, led to a 11.7% year-on-year increase in the contract base, driving up the total **mobile customer base** to 44.6 million (+6.6% year-on-year). Mobile net additions for the quarter were 504 thousand (+11.2% year-on-year) on the back of strong growth of mobile broadband accesses (+67.3% year-on-year to exceed 7 million). Telefónica Europe's **wireline retail broadband accesses** reached 3.8 million lines at the end of March 2010, adding 2.2 million lines in the quarter, mainly impacted by the integration of HanseNet in the business (+83 thousand in organic terms).

Telefónica Europe accelerated **revenue** growth in the first quarter of 2010 to 5.4% year-on-year, from 3.2% year-on-year in 2009, in organic terms and excluding mobile termination rate cuts. Organic revenue growth showed a solid year-on-year performance of 1.7%, maintaining the upward trend already seen from previous quarters. Reported revenues amounted to 3,486 million euros, up 7.4% year-on-year, with HanseNet and Jajah contributing 114 million euros in the first quarter of 2010 (HanseNet was consolidated from mid February and Jajah from January).

Germany and UK businesses were the biggest contributors to organic revenue growth, offsetting the declines in Ireland and in the Czech Republic, reflecting the value of our diversified asset portfolio.

**Operating expenses** stood at 2,618 million euros in the first quarter of 2010, increasing 1.6% year-on-year in organic terms (+7.7% reported). The targeted customer acquisition and retention policy across markets resulted in higher external services costs, partly compensated by lower supply costs (mainly due to lower mobile termination rate cuts). As a result, **operating income before depreciation and amortization (OIBDA)** amounted to 914 million euros in the first quarter of the year, virtually flat year-on-year in organic terms (-0.4%). OIBDA margin was 26.2% in the first

quarter of 2010 (27.2% in the first quarter of 2009), declining 0.6 percentage points in organic terms.

**Operating cash flow (OIBDA-CapEx)** posted a strong 7.4% year-on-year improvement in organic terms in the first quarter of 2010 (+10.7% year-on-year in reported terms), reaching 583 million euros. **CapEx** declined 12.1% year-on-year in organic terms, following the completion of the German rollout network, with a clear focus on growth and transformation to reinforce capacity and coverage across 3G mobile networks.

## TELEFÓNICA O2 UK

In the first quarter of 2010 Telefónica O2 UK continued to deliver a market leading set of financial results in a highly competitive environment. The Company's focus on capturing the mobile internet opportunity to drive further revenue growth is reflected on the year-on-year increase in ARPU, excluding mobile termination rate cuts, while maintaining market leading churn and a disciplined cost management led to a solid year-on-year OIBDA margin expansion.

Total **mobile customer base** (excluding Tesco Mobile) increased 4.6% year-on-year to reach 21.4 million customers, driven by the strong expansion in the contract segment (+12.1% year-on-year). The significant improvement in the quality of the base should be highlighted, with an increasing take up of smartphones. The Company's wireline **retail broadband Internet accesses** reached 0.6 million lines at the end of March 2010 (+56.3% year-on-year).

The strong financial performance displayed in prior quarters continued during the first quarter of 2010, with **revenue** growth ramping up to 2.1% year-on-year in local currency to reach 1,634 million euros (+1.2% year-on-year in the fourth quarter of 2009 in local currency). **Operating income before depreciation and amortization (OIBDA)** showed a solid performance, recording a 7.3% year-on-year growth in local currency to reach 414 million euros, driving margins up year-on-year by 1.2 percentage points to 25.3%.

**CapEx** increased 27.1% year-on-year in local currency, reflecting the continued investment in customer support and in the mobile network. As a result, **operating cash flow (OIBDA-CapEx)** for the first three months of 2010 totalled 252 million euros, a marginal 2.5% year-on-year decrease in local currency.

## TELEFÓNICA O2 GERMANY

Telefónica O2 Germany continued its strong trading momentum in the quarter while delivering further improvements to the sound financial performance already recorded in 2009. In line with the Company's strategy to enhance its integrated approach to address new market segments, the Company expanded its reach in the German market in the first quarter of 2010 with the integration of HanseNet.

Telefónica O2 Germany continued to outperform the mobile German market. Its **mobile customer base** reached 15.9 million as of March 31, 2010, with a 9.4% year-on-year increase, and in the wireline business, Telefónica O2 Germany's **retail broadband internet access** base reached 2.4 million in March, 2010 after incorporating 2.1 million accesses from HanseNet.

**Revenue** performance in the first quarter of 2010 continued to be very strong, totalling 1,074 million euros, up 8.8% year-on-year in organic terms (+21.2% year-on-year in reported terms). Telefónica O2 Germany's profitability was reinforced, with **operating income before depreciation and amortization (OIBDA)** increasing by 13.2% year-on-year on organic terms (+19.4% year-on-year on reported terms) to reach 241 million euros in the first quarter of 2010. OIBDA margin in the first quarter of 2010 was 22.4%, with HanseNet negatively impacting margin by 1.3 percentage points in the quarter.

**Operating cash flow (OIBDA-CapEx)** increased more than seven times over last year's figure to reach 128 million euros, boosted by the increase in OIBDA and the lower CapEx (-44.6% in organic terms) due to the network roll-out being broadly completed.

## TELEFÓNICA O2 IRELAND

Amid tough economic conditions, Telefónica O2 Ireland traded well in the first quarter of 2010 with a particular focus on the contract mobile customer base, continued strong demand for smartphones and the lowest churn level in more than two years. Growth in the contract base (+7.8% year-on-year) led to a total **customer base** of 1.7 million.

**Revenues** for the first quarter were 211 million euros, a year-on-year decline of 5.8%. **Operating income before depreciation and amortization (OIBDA)** for the first quarter was 59 million euros, showing a year-on-year decline of 14.6%, impacted by restructuring costs of 7 million euros registered in the quarter. Excluding the impact of restructuring costs, OIBDA would have dropped year-on-year by 4.7%, showing a 0.4 percentage point OIBDA margin improvement. Reported OIBDA margin reached 27.8% (30.7% up to March 2009).

**Operating cash flow (OIBDA-CapEx)** totalled 50 million euros up to March (-16.3% year-on-year), showing a 4.8% year-on-year reduction excluding restructuring costs, with CapEx virtually stable year-on-year (9 million euros).

## TELEFÓNICA O2 CZECH REPUBLIC

In a challenging economic environment, Telefónica O2 Czech Republic maintained solid commercial momentum in fixed broadband and contract mobile segments in the Czech Republic, while in Slovakia the Company kept its momentum and further improved its financial performance. At the end of March, the total number of **accesses** for Telefónica O2 Czech Republic, including Slovakia, stood at 8.5 million, an increase of 5.2% year-on-year.

**Mobile customers** in the Czech Republic (5 million at the end of March) increased by 3.6% year-on-year while **fixed telephony accesses** continued to post improvement in net losses (33 thousand; 21.9% lower than in the first quarter of 2009) driven by the introduction of new broadband centric proposition in 2009, to reach 1.7 million at the end of March, 2010. **Retail internet broadband accesses** reached 708 thousand (+14.8% year-on-year), with 25 thousand net additions in the quarter. **O2 TV customers** increased by 7.8% year-on-year to reach 138 thousand at the end of March.

Telefónica O2 Slovakia added 93 thousand customers in the first quarter of 2010, more than doubling the figure recorded in the same period last year, to reach a total of 646 thousand

customers at the end of March 2010 (+76.8% year-on-year).

**Revenues** for the Telefónica O2 Czech Republic Group showed a 8.9% year-on-year decrease in constant currency in the first quarter of 2010 to reach 530 million euros. This evolution was mainly impacted by the difficult trading environment, mobile termination rate cuts (2009 and January, 2010), as well as the Universal Service Obligation. **Operating income before depreciation and amortization (OIBDA)** totalled 215 million euros (-18.4% year-on-year in constant currency), impacted by lower usage, real estate capital gains recorded in the first quarter of 2009, Universal Service Obligation and restructuring charges in 2010. Reported OIBDA margin reached 40.5% in the quarter (45.1% in the first quarter of 2009).

**Operating cash flow (OIBDA-CapEx)** totalled 173 million euros (-9.7% year-on-year in constant currency excluding above-mentioned factors; -22.8% in constant currency), with **CapEx** reaching 42 million euros, up to March (+6.6% year-on-year in constant currency) owing to greater mobile network, with increasing investment in the deployment of 3G network, and DSL investment.

## RESULTS BY BUSINESS UNIT

### ATENTO

The Atento Group continued to post business growth and improved profitability in the first quarter of 2010. Revenues advanced 14.2% year-on-year (+6.0% in organic terms) to 362 million euros.

Operating income before depreciation and amortisation (OIBDA) totalled 35 million euros, representing a 23.5% year-on-year growth in the first three months (+16.0% in organic terms), ahead of the revenue growth rate. The OIBDA margin stood at 9.6%, up 0.7 percentage points from the first three months of 2009 (+0.8 percentage points in organic terms).

CapEx in the first quarter amounted to 27 million euros. Operating cash flow (OIBDA-CapEx) was 7.7 million euros