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Solid quarterly results on the back of a combination of organic revenue growth (+1.4%) and strong cash generation (+11.9%)

TELEFÓNICA FIRST HALF NET PROFIT, EX-CAPITAL GAINS, UP 10.7% TO 3,619 MILLION EUROS.

The Company has confirmed all the financial objectives for 2009 and the target dividend of 1.15 euros per share charged to the current year, thereby keeping its promise to steadily increase the payout.

- Acceleration in organic growth in revenues (+1.4%), OIBDA (+3%) and operating profit (+4.2%) evidences Telefónica's capacity to successfully tap market growth opportunities and underscores its competitive edge in the industry.
- The pace of operating cash flow generation (OIBDA-CapEx) has also increased, up 11.9% in organic terms to €8,156 million in the first half.
- The company manages 264 million accesses, 7.6% more than in June last year, thanks to the strides made in mobile telephony (+9.9%) and the sizeable growth in broadband (+14.1%) and pay TV (+19.4%).
- Telefónica Latinoamérica is once again the Group's growth driver, contributing 39.8% to consolidated revenues and 39% to OIBDA
- Reported revenues (-2%), OIBDA (-1.7%) and operating profit (-0.8%) were negatively affected by the exchange rate effect and the impact of capital gains recorded in 2008
- Basic net earnings per share¹ were €0.79 (+13.7%), while cash flow per share was €0.78 (+6.9%)
- Telefónica maintains its sound financial position, with a ratio of net debt plus commitments to OIBDA of 2.1 x in the first half

¹ Excluding the impact of capital gains on the Airwave and Sogecable sales in the second quarter of 2008

Madrid, 30th July 2009.- In the current economic environment, Telefónica Group posted a solid set of results in the first half of 2009, combining organic² revenue growth with strong cash flow generation. Telefónica's results confirm the Company's differential profile in the industry and reflect the success of its commercial strategy to capture the growth opportunities in its markets, its focus on maximising efficiency and the benefits derived from the high diversification of its operations, both by businesses and by geographies.

Revenues in the first half of 2009 stood at 27,588 million euros, showing a solid year-on-year growth of 1.4% in organic¹ terms. This increase was driven mainly by sound revenue performance at Telefónica Latinoamérica, which contributed 2.8 percentage points to this growth, and, to a lesser extent, by the positive performance of Telefónica Europe, which contributed 0.5 percentage points.

In terms of services, the Company consolidated its positive evolution in broadband connectivity revenues, both wireline and wireless, while the revenue contribution from value added services continued to grow, showing the successful commercial strategy of the Company.

Operating income before depreciation and amortisation (OIBDA) grew by 3.0% in organic¹ terms to 10,939 million euros at the end of June. The positive contribution of Telefónica Latinoamérica (+5.0 percentage points) and Telefónica Europe (+1.1 percentage points) offset the lower OIBDA contribution by Telefónica España (-3.1 percentage points), demonstrating the value of the Group's high diversification.

It is noteworthy the acceleration of **operating cash flow (OIBDA-CapEx)** year-on-year growth, totalling 8,156 million euros in the first half, an increase of 11.9% in organic terms³ (vs. an increase of 4.5% in the first quarter of 2009). This strong performance is the result of Telefónica's flexible OpEx and CapEx management and the benefits of economies of scale, which are reflected in an improvement of 1.7 percentage points in the Group's efficiency ratio⁴ versus the first half of 2008, to 74.4%. Cash flow per share stood at 0.78 euros for the first six months of 2009, a year-on-year increase of 6.9%.

Therefore, growth in operating cash flow in organic² terms exceeded revenue growth by 10.4 percentage points, driven by the sharp growth at Telefónica Latinoamérica (+31.9% in organic² terms; 3,049 million euros) and at Telefónica Europe (+16.8% in organic² terms; 1,130 million euros), along with Telefónica España's virtually stable cash flow generation in like-for-like terms⁵ (4,099 million euros).

² Assuming constant exchange rates and including the consolidation of Telemig in January-March 2008. OIBDA and OI figures do not include the impact of capital gains registered in the second quarter of 2008 from Airwave and Sogecable's disposals.

³ Assuming constant exchange rates and including the consolidation of Telemig in January-March 2008. OIBDA and OI figures do not include the impact of capital gains registered in the second quarter of 2008 from Airwave and Sogecable's disposals.

⁴ Defined as last twelve months (OpEx+CapEx- Internal exp. Capitalized in fixed assets-Non-recurring expenses)/Revenues. CapEx excludes the acquisition of spectrum.

⁵ Comparable terms excludes: Universal Service (75 million euros in revenues and 22 million euros in OIBDA in the first quarter of 2009), the sale of bad debt portfolios (25 million euros in OIBDA in the first quarter of 2008), capital gains on property (0.4 million euros in OIBDA in the first half of 2009 and 68 million euros in OIBDA in the first half of 2008), and the revision of the estimates for the adjustment to workforce provision provided for in prior periods, which has resulted in lower expenses of 90 million euros in the second quarter.

Additionally, it is noteworthy the strong growth in **net income** that, excluding the impact derived from the net gains obtained from Airwave and Sogecable's disposals recorded in the second quarter of 2008, climbed 10.7% year-on-year, resulting in a 13.7% increase in terms of **basic earnings per share**.

More than 200 million mobile accesses

At the same time, the Company's focus on capturing growth in expanding markets led to a 7.6% rise in the **total number of accesses** for the Telefónica Group compared to the first half of 2008, to close to 264 million. This increase was underpinned by the rise in wireless (+9.9%), broadband (+14.1%) and pay TV (+19.4%) accesses. By region, Telefónica Latinoamérica's contribution to growth in Group accesses continues to rise, with 160.8 million accesses across the region by the end of June (up +8.7% on June 2008).

By type of access, the Telefónica Group's **wireless accesses** exceeded 200 million at the end of June, with net adds of slightly more than 5 million customers in the first half of 2009 and around 2.7 million added in the second quarter of 2009. The main drivers of net adds in the first half were Brazil (1.9 million), Germany (0.7 million), Mexico (0.6 million) and the United Kingdom (0.4 million).

Retail internet broadband accesses stood at 13.1 million, a year-on-year increase of 14.1%, driven by the growing adoption of bundled voice, ADSL and pay-TV service packages. In Spain over 86% of retail broadband accesses are bundled as part of some kind of dual or triple service offers, while in Latin America 51% of broadband accesses are bundled as part of a dual or triple package. In the first half net adds were close to 0.6 million accesses after 0.3 million accesses were added in the second quarter, most of which were in Brazil and the United Kingdom.

Pay TV accesses reached 2.4 million by the end of June, almost 19.4% more than a year ago. It is worth mentioning that the Company now has pay TV operations up and running in Spain, the Czech Republic, Peru, Chile, Colombia, Brazil and Venezuela.

High diversification in revenues and OIBDA

Reported **revenue** fell by 2.0% compared to the first half of 2008, mainly as a result of the negative exchange rate effect, which reduced growth by 3.6 percentage points. Changes in the perimeter of consolidation added a further 0.2 percentage points to revenue growth.

In absolute terms, Telefónica Latinoamérica's contribution to total Group revenue continued to grow, rising to 39.8% (+2.3 percentage points compared to the same period in 2008), while Telefónica España and Telefónica Europe contributed 35% and 24% of total revenue respectively.

The Telefónica Group reported **operating expenses** in the first half of 17,044 million euros, down 4.5% year-on-year. Excluding the exchange rate effect, operating expenses fell by 0.3% on a year-on-year basis. In organic terms⁶, operating expenses dropped by 0.6%.

⁶ Assuming constant exchange rates and including the consolidation of Telemig in January-March 2008. OIBDA and OI figures do not include the impact of capital gains registered in the second quarter of 2008 from Airwave and Sogecable's disposals.

In the first half of the year, **gains on asset disposals** totalled -3 million euros (vs. 237 million euros in January-June 2008). It is worth noting that in the first half of 2008 the Company booked gains from Real State disposals by Telefónica España and Telefónica O2 Czech Republic, in addition to the net gain from the sale of Sogecable.

Operating income before depreciation and amortisation (OIBDA) fell 1.7% vs. the first half of 2008, although after stripping out 2008 impacts derived from capital gains (from Airwave and Sogecable's disposals), OIBDA rose 0.7%. In absolute terms, OIBDA at Telefónica España accounted for 44.2% of total Group OIBDA, compared to 39% and 17.2% in Telefónica Latinoamérica and Telefónica Europe, respectively. In organic⁵ terms, the Telefónica Group OIBDA margin improved by 0.6 percentage points to 39.7%, fuelled mainly by expanding margins at Telefónica Latinoamérica (+2.2 percentage points) and Telefonica Europe (+1.1 percentage points). Excluding in 2008 the impact of disposals (Airwave and Sogecable), the Telefónica Group's OIBDA margin improved by 1.0 percentage point in the first half of 2009 vs. the same period a year earlier.

Depreciation and amortisation in the first half totalled 4,388 million euros, 3.0% down year-on-year. In organic terms⁵, depreciation and amortisation at the Telefónica Group increased by 1.4%, mainly as a result of increased depreciation and amortisation at Telefónica Latinoamérica.

Operating income (OI) climbed 3.3% year-on-year to 6,551 million euros in the first half, excluding the impact of capital gains registered in the second quarter of 2008 from the sale of Airwave and Sogecable. In organic⁵ terms, operating income rose 4.2% vs. January-June 2008, while reported operating income fell 0.8%.

These figures reflect a ramp up in organic⁵ growth rates across the various income statement items from revenues (+1.4%) to OIBDA (+3.0%) and operating income (+4.2%).

Profit from associated companies was 30 million euros for the period January-June 2009 (vs. -4 million euros in the first half of 2008). Profit from the Company's stake in Portugal Telecom partially offset the losses from the Telefónica Group's shareholdings in Lycos Europe and Telco S.p.A..

Net financial results to June 2009 stood at 1,339 million euros, a decrease of 3.5% vs. the same period a year earlier.

Telefónica Group's **free cash flow** generated to June 2009 amounted to 3,563 million euros, of which 488 million euros were used for the purchase of treasury shares and 2,277 million euros for payment of dividends by Telefónica S.A. Group commitments, primarily in respect of pre retirements plans, accounted for 422 million euros of the use of free cash flow. In addition, the Company collected a net 92 million euros from financial investments and disposals carried out in the period. As a consequence, net financial debt decreased by 467 million euros. Financial debt rose by a further 1,789 million euros due to exchange rate fluctuations, changes in the consolidation perimeter and other effects on financial accounts. As a result, the total increase in net financial debt amounted to 1,322 million euros from the figure recorded in 2008 (42,733 million euros), leaving the Telefónica Group's net financial debt at 44,055 million euros at the end of June 2009. As a result, **the leverage ratio** (net debt/OIBDA) stood at 2.0 times at June

2009.

During first half of 2009, the **financing activity** of Telefonica Group, excluding short term Commercial Paper Programmes activity, rose up to 10,500 million euros mainly focused on refinancing 2009 maturities and pre-financing part of 2010 y 2011 debt at Telefonica, S.A. level. To highlight the Euro-denominated bond issue for an amount of 2,000 million euros raised in January, 1,000 million euros raised in March, the re-opening of this last one in June for another 500 million euros and a private issue of 400 million euros placed in the same month. In addition, in June was launched a US dollar-denominated issue of USD 2,250 million divided un 2 tranches of 5.5 y 10 years maturity, though it was not paid out until 6 July. With these transactions, the Group's cash position amply exceeds 2009 maturities.

At the close of the first half, the **income taxes** totalled 1,559 million euros, implying a tax rate of 29.7%, which was not affected by any one-off operations.

Profit attributable to minority interests reduced net income by 64 million euros to June, a year-on-year decrease of 34.2%. Shareholdings in Telesp, Telefónica O2 Czech Republic and Telefónica Telecom largely account for minority interest figures. The year-on-year decline is mainly attributable to the minority interests in Telefónica Chile (following a takeover bid for minority shareholders launched in 2008) and Telesp together with the increased losses at Telefónica Telecom.

As a result of the above, **consolidated net income** for the first half amounted to 3,619 million euros, up 0.7% on the same period of 2008. Stripping out the impact of asset disposals (Airwave and Sogecable) booked in the second quarter of 2008, growth in consolidated net income in the first half of 2009 would rise to 10.7% vs. the same period a year earlier.

Basic earnings per share in the first half stood at 0.79 euros, with year-on-year growth of 13.7%, excluding the impact of the aforementioned impact from asset disposals recorded in 2008. In reported terms, year-on-year growth rate stood at 3.4% in the first half of 2009.

RESULTS BY REGIONAL BUSINESS UNITS

TELEFONICA ESPAÑA

In the current macroeconomic climate, in the first quarter of 2009 the Company's **strategy focused on maximising cash flow generation and safeguarding its highest value customers.**

This strategy allowed Telefónica España to keep its high cash flow generation virtually unchanged from the same period in 2008, despite pressure on revenue, reflecting the efforts made to contain operating expenses and capital expenses (-9.7% vs. the first half of 2008). **Operating cash flow (OIBDA-CapEx)** totalled 4,099 million euros in the first half of 2009 (-1.0% vs. the same period in 2008 on a comparable basis⁷; -0.6% in reported terms).

By the end of June, Telefónica España managed a total of 47.0 million **accesses**. Highlights include the rise in the number of retail broadband Internet accesses, which grew by 6.5% to more than 5.3 million and growth in the mobile customer base to 23.7 million (+2.1% year-on-year), driven by the growing adoption of flat-rate data plans, which exceeded 1.2 million.

Revenues totalled 9,757 million euros in the first half, a year-on-year fall of 5.6% (-6.9% in the quarter), reflecting a continuation of the trends seen in the first three months of the year (a slowdown in the market as a whole, high competition and lower consumption of voice services from customers). On a comparable basis¹, revenues year-on-year change would stand at -6.3% for the half year.

Thus, on a comparable basis¹, **operating income before depreciation and amortisation (OIBDA)** fell by 6.9% year-on-year in the first half of 2009 (-8.9% in the second quarter). The OIBDA margin on a comparable¹ basis stood at 48.8%. Reported OIBDA stood at 4,838 million euros in the first half.

Wireline business

In the second quarter the wireline telephony access market in Spain continued to reflect the impacts from the current economic climate, resulting in a year-on-year estimated decrease of 0.8% by June end, 2009.

The **wireline broadband Internet access** market growth continued to slow down, affected partly by sharp growth in mobile broadband, reaching an estimated total of 9.5 million accesses, 8.0% higher than in June 2008. Telefónica maintained its leadership with an estimated market share of 56% following net adds of 84,968 accesses in the first half (39,605 in the second quarter) to more than 5.3 million accesses (+6.5% vs. June 2008).

Telefónica's estimated share of the **pay TV market** exceeded 14% at the end of June 2009. Performance improved in the second quarter, with positive net adds of 4,715 customers.

⁷ Comparable basis exclude: Universal Service Obligation: 75 million euros in revenue and 22 million euros in OIBDA in the first quarter of 2009; bad debt recovery: 25 million euros in OIBDA in the first quarter of 2008; real state capital gains: 0.4 million euros in OIBDA in January-June 2009 and 68 million euros in OIBDA in same period in 2008; revision of the estimates for the adjustment to workforce provision provided for in prior periods, which has resulted in lower expenses of 90 million euros in the second quarter of 2009.

The total number of Duo and Trio bundles reached close to 4.7 million. This means that more than 86% of the Company's retail broadband accesses were part of a double or triple offer bundle.

Revenues totalled 6,049 million euros through June 2009, a year-on-year decrease of 2.6%. On comparable basis⁸, the year-on-year change was -3.9% in the first half of 2009.

Operating income before depreciation and amortisation (OIBDA) in the first half of 2009 fell 4.6% year-on-year on a comparable basis³ to 2,928 million euros. The OIBDA margin was practically unchanged in comparable basis³ in the first half at 47.3%. January-June 2009 reported OIBDA fell 3.8% year-on-year.

Wireless business

The **Spanish wireless market** hit the 54.5 million-line mark in June 2009, with an estimated penetration rate of 119% (6 percentage points higher than in June 2008). In the current economic climate, and in a highly mature and competitive market, the Company is focussing its commercial activity on maintaining its market leadership in terms of revenue share (with a positive differential between its share of outgoing revenue and share of customers estimated at between 4 and 5 percentage points).

At the end of June 2009 Telefónica España's wireless **customer base** topped 23.7 million, up 2.1% year-on-year, underpinned by a 3.0% rise in contract customers, which now make up 62.0% of the total customer base (+0.6 percentage points vs. June 2008). Net adds in the first half totalled 110,739 lines, with a notable better performance in the second quarter, which saw net adds of 100,903 lines.

Revenues in the first half totalled 4,361 million euros, 9.5% down on the same period in 2008, with similar performance seen in the second quarter of 2009, prompted by lower wholesale revenue (interconnection, roaming, etc.) and fewer revenue from handset sales.

On comparable basis⁹, OIBDA posted year-on-year declines of 10.4% in the first half and comparable⁴ OIBDA margin narrowed 0.5 percentage points to 43.9% in the first half of 2009. **Reported Operating income before depreciation and amortisation (OIBDA)** in the first half fell 10.3% year-on-year to 1,925 million euros.

⁸ Comparable basis exclude: Universal Service Obligation: 75 million euros in revenue and 46 million euros in OIBDA in the first quarter of 2009; bad debt recovery: 17 million euros in OIBDA in the first quarter of 2008; real state capital gains: 0.4 million euros in OIBDA January-June 2009 and 68 million euros in OIBDA in the same period of 2008; revision of the estimates for the adjustment to workforce provision provided for in prior periods, which has resulted in lower expenses of 58 million euros in the second quarter of 2009.

⁹ Comparable basis exclude bad debt recovery (8 million euros in OIBDA in the first quarter of 2008), expenses due to the recognition of Universal Service Obligation (24 million euros in the first quarter of 2009); revision of the estimates for the adjustment to workforce provision provided for in prior periods, which has resulted in lower expenses of 32 million euros in the second quarter of 2009.

RESULTS BY REGIONAL UNIT BUSINESS

TELEFONICA LATINOAMERICA

In the first half of 2009, amid a lower commercial activity in the region's telecommunications market, Telefónica Latinoamérica continued to focus on profitable growth in wireless telephony and on transforming its wireline business, while at the same time striving to improve operating efficiency. This strategy has once again allowed the Company to deliver an outstanding set of financial and operating results.

Telefónica Latinoamérica continued to post solid revenue growth (+7.4% year-on-year in organic terms¹⁰ to 10,968 million euros in the half year), with **operating income before depreciation and amortisation (OIBDA)** and **operating cash flow (OIBDA-CapEx)**, growing ahead of revenues, rising by 14.0% and 31.9% respectively (to 4,271 million euros and 3,049 million euros).

At the end of June 2009, Telefónica Latinoamérica managed 160.8 million **accesses** in the region, up 8.7% year-on-year. Underpinning this advance was the sustained growth of its wireless, broadband and pay TV businesses.

In **wireless telephony**, estimated penetration stood at 85%, close to 10 percentage points higher than in June 2008. Telefónica Latinoamérica had 126.0 million accesses, up 11.1% year-on-year, with net adds of more than 2.6 million accesses in the half year and almost 1.4 million in the second quarter.

The **wireline** customer base totalled 34.8 million accesses, up 1.0% year-on-year. **roadband** accesses topped 6.3 million and growth remains strong (+15.0% year-on-year) and In the **pay TV business**, Telefónica Latinoamérica now has almost 1.7 million customers (+24.1% year-on-year).

The Company's positive operating performance led to a significant improvement in its financial results in organic terms¹. Reported figures were negatively affected by the fluctuation in exchange rates in the half year, though nearly all currencies made up ground against the euro in the second quarter. Reported **revenues** increased 4.2% compared to the first half of 2008 in current euros. **Operating income before depreciation and amortisation (OIBDA)** increased by 11.5% in current euros in the half year.

--BRAZIL--

The Brazilian telecommunications market remained buoyant in the first half of 2009, with wireless telephony especially strong. At the end of June 2009, Telefónica managed 62.4 million accesses in Brazil, up 11.3% year-on-year, underpinned by the positive performance in both wireless and broadband accesses. Net adds in the first half 2009 totalled 1.7 million accesses, with more than 1.1 million new customers signed up in the second quarter.

Revenues totalled 3,920 million euros in the first half of 2009, a year-on-year increase of 4.7% in local currency, (+1.9% in the second quarter). Telesp continues to post positive growth in a

¹⁰ Assuming constant exchange rates and including Telemig in January-March 2008.

highly competitive environment with a steadily expanding wireless market, while VIVO has further bolstered its position as market leader.

Operating income before depreciation and amortisation (OIBDA) in the first half of the year, rose 3.9% year-on-year in local currency to 1,487 million euros (+3.4% in the second quarter), leaving an OIBDA margin of 37.9%, virtually unchanged from June 2008, and 38.9% in the second quarter.

Operating cash flow (OIBDA-CapEx) stood at 986 million euros in the first half of 2009, up 22.6% in local currency from the same period in 2008.

Vivo

The Brazilian wireless telephony market had 160 million users at the end of June 2009, with almost six million new accesses in the second quarter, virtually double the reported figure for the previous quarter. As a result, penetration stands at 83%, 14 percentage points higher than in June 2008.

VIVO had over 46.8 million **accesses** at the end of June, up 15.8% year-on-year. Net adds for the first six months of the year stood at 1.9 million customers, with 1.2 million new adds in the second quarter, an increase of 69.1% compared with the first quarter of 2009.

Revenues totalled 1,389 million euros in the first half of 2009, a year-on-year increase of 13.2% in local currency (+8.0% in organic terms⁴). **Operating income before depreciation and amortisation (OIBDA)** totalled 418 million euros in the first half, up 31.7% in local currency.

Operating cash flow (OIBDA-CapEx) stood at 226 million euros in the first half, vs. negative figures in the same period in 2008.

Telesp

Telesp managed 15.6 million **accesses** at the end of June 2009, virtually unchanged from June 2008. Telesp continued to add broadband and TV accesses in the first half of 2009, focusing on service bundling as a value driver. The Company managed 2.7 million broadband accesses at the end of June 2009, a year-on-year increase of 18.8%.

Telesp's **revenues** totalled 2,730 million euros in the first half of the year, a year-on-year increase of 1.4% in local currency. **Operating income before depreciation and amortisation (OIBDA)** totalled 1,070 million euros in the first half.

Operating cash flow (OIBDA-CapEx) totalled 760 million euros.

--ARGENTINA--

Argentina's telecommunications market continues to show strong growth potential, with both wireless and broadband maintaining high year-on-year growth rates in a context where penetration levels are already high. Telefónica remains a benchmark for innovation and market

leadership, with 21.0 million accesses at the end of June 2009 (+4.9% year-on-year).

Revenues totalled 1,332 million euros in the first half of 2009, a year-on-year increase of 17.5% in local currency. **Operating income before depreciation and amortisation (OIBDA)** rose 29.1% year-on-year in the first half of 2009 in local currency to 495 million euros.

Operating cash flow (OIBDA-CapEx) of 372 million euros, up 43.5% in local currency from June 2008.

Telefonica Móviles Argentina

The penetration rate in Argentina's wireless telephony market was 114% at the end of June 2009 (+11 percentage points year-on-year). Telefónica now manages 15.1 million wireless **accesses**, up 7.1% year-on-year.

Revenues totalled 831 million euros in the first half of the year, a year-on-year increase of 17.8% in local currency. This performance, along with efficiency gains and the larger scale of the business, boosted **operating income before depreciation and amortisation (OIBDA)**, which totalled 294 million euros up to June 2009, a 49.9% jump year-on-year in local currency.

Operating cash flow (OIBDA-CapEx) rose 45.8% in local currency to 234 million euros in the half year.

Telefónica de Argentina

Telefónica de Argentina managed 5.9 million **accesses** at the end of June 2009, virtually unchanged vs. recent quarters, thanks to the growth in broadband (+16.6% year-on-year). Broadband accesses were over 1.1 million, after net adds of 45,243 were reported in the half year.

Revenues totalled 543 million euros in the first half of 2009, a year-on-year increase of 15.8% in local currency. Telefónica de Argentina reported **operating income before depreciation and amortisation (OIBDA)** of 201 million euros in the first half of 2009, up 7.3% in local currency.

Operating cash flow (OIBDA-CapEx) to 138 million euros in the half year, a 39.9% increase in local currency.

--CHILE--

In Chile, the Company is focused on improving efficiency ratios and the development of a long-term strategy to boost customer value. Therefore, its commercial policy is being adjusted to reflect the reality of a market with high penetration levels for both wireless telephony and broadband.

At the end of June 2009 Telefónica managed 10.2 million accesses in Chile, up 5.1% year-on-year. This growth was driven by the larger wireless and broadband customer bases, which now

total 7.1 million and 740,305 accesses respectively. As result, the Company has consolidated its leadership and bolstered its position as a market benchmark.

In a context of lower market growth and given the impact of the abovementioned regulatory measures, **revenues** in the first half 2009 totalled 900 million euros, down 0.5% year-on-year in local currency. **Operating income before depreciation and amortisation (OIBDA)** reached 349 million euros in the first half, up 3.5% year-on-year in local currency.

Operating cash flow (OIBDA-CapEx) topped 206 million euros in the first half, up 25.0% year-on-year in local currency.

Telefonica Móviles Chile

The estimated penetration of the Chilean wireless market stood at 99% at the end of the first half, 5 percentage points higher than in June 2008. In this context, Movistar Chile consolidates its undisputed leadership in the market, reporting higher access growth than any other operator in the second quarter. At the end of June, Telefónica had a wireless customer base of 7.1 million **accesses**, up 7.5% year-on-year.

Revenues totalled 491 million euros in the first six months of 2009, a year-on-year increase of 1% in local currency. Thanks to the focus on improving efficiency **operating income before depreciation and amortisation (OIBDA)** stood at 196 million euros in the first half, up 9.5% year-on-year in local currency.

Operating cash flow (OIBDA-CapEx) grew 37.9% year-on-year in local currency to 112 million euros in the half year.

Telefonica Chile

Telefónica Chile managed 3.1 million **accesses** at the end of June 2009, virtually unchanged from June 2008. The broadband business performed better in the second quarter, with net adds of 23,743 accesses in the first half of the year, reaching a customer base of 740,305 which grew 8.9% year-on-year to June. The number of pay TV accesses stood at 267,648, up 11.1% year-on-year.

First half revenues totalled 445 million euros, down 3.0% year-on-year in local currency. **Operating income before depreciation and amortisation (OIBDA)** totalled 152 million euros in the first six months.

Operating cash flow (OIBDA-CapEx) advanced 12.3% year-on-year in local currency to 94 million euros.

--PERÚ--

Telefónica managed 15.4 million **accesses** in Peru at the end of June 2009, an increase of 13.8% from June 2008, driven by the sustained increase in wireless (+16.5% year-on-year) and broadband (+18.9% year-on-year) accesses. Also noteworthy was the positive performance in wireline accesses that with 82,268 net adds in the quarter, rose 6.1% year-on-year. Pay TV

accesses stood at 703,239, up 7.7% year-on-year.

Revenues maintained a positive evolution advancing 9.3% year-on-year in organic³ terms in the first half (+7.7% in local currency) to 860 million euros. As a result **operating income before depreciation and amortisation (OIBDA)** advanced up to June 2009 to 340 million euro, recording a 17.7% year-on-year growth in organic³ terms.

Operating cash flow (**OIBDA-CapEx**) totalled 271 million euros in the half-year, up a noteworthy 23.8% year-on-year in organic³ terms.

Telefónica Móviles Perú

At the end of June estimated penetration of the Peruvian wireless market stood at 62%, up 8 percentage points from June 2008. At the end of June Telefónica had 10.9 million wireless **accesses** in Peru, year-on-year growth of 16.5%.

Revenues totalled 419 million euros through to June, a year-on-year increase of 16.4% in local currency. **Operating income before depreciation and amortisation (OIBDA)** jumped 38.6% in the first half in local currency to 154 million euros.

Operating cash flow (OIBDA-CapEx) to June advanced 67.6% to 130 million euros.

Telefónica del Perú

Telefónica del Perú continued to post a good commercial performance across all its services and managed 4.6 million **accesses** at the end of June (up 7.9% year-on-year). Especially noteworthy was the performance of the broadband business, which added 46,553 new accesses in the half year (25,965 in the second quarter), bringing its total customer base to 744,971 (+18.9% year-on-year). TV accesses advanced by 7.7% year-on-year to 703,239 and fixed wireless accesses by 74.8%.

Revenues totalled 508 million euros to June, a year-on-year organic¹¹ increase of 4.3%. **Operating income before depreciation and amortisation (OIBDA)** rose 6.5% year-on-year in organic⁵ terms to 189 million euros in the first half.

Operating cash flow (OIBDA-CapEx) reached 144 million euros, up 2.2% year-on-year in organic⁵ terms.

--COLOMBIA--

At the end of June Telefónica managed 11.8 million **accesses** in Colombia: over 9.0 million wireless **accesses**, 2.2 million fixed telephony accesses, 427,819 broadband and 143,828 pay TV accesses.

¹¹ From 1 January 2009, Medianetworks is being consolidated as T. Internacional, S.A.U.'s subsidiary (previously consolidated as Telefónica del Perú's subsidiary). For the purpose of presenting comparable information, the year-on-year organic changes of Telefónica del Perú and, as a result, of the country consolidated information, has been calculated in local currency and excluding Medianetworks results in 2008.

Revenues totalled 631 million euros in the first six months of 2009, down 9.0% year-on-year in local currency. **Operating income before depreciation and amortisation (OIBDA)** stood at 171 million euros in the first half of 2009.

Operating cash flow (OIBDA-CapEx) totalled 82 million euros in the first six months of 2009.

Telefónica Móviles Colombia

The Colombian wireless telephony market is undergoing an adjustment process that is considered to be affecting all market players. At the end of June penetration stood at an estimated 91%, up 10 percentage points year-on-year. The Company managed over 9.0 million wireless **accesses**.

First half **revenues** totalled 334 million euros and **operating income before depreciation and amortisation (OIBDA)** stood at 60 million euros.

Operating cash flow (OIBDA-CapEx) at 31 million euros, a year-on-year jump of 28.9% in local currency.

Telefónica Telecom

Telefónica Telecom managed 2.8 million **accesses** at the end of June 2009, in line with the customer base in June 2008. The Company had 427,819 broadband accesses (+45.5% year-on-year), with net adds of 33,948 accesses in the half year and 143,828 TV accesses.

Revenues totalled 311 million euros in the first half of 2009, a year-on-year fall of 3.4% in local currency and **operating income before depreciation and amortisation (OIBDA)** reached 111 million euros.

Operating cash flow (OIBDA-CapEx) totalled 51 million euros.

--MÉXICO--

Growth in the Mexican wireless market remained strong in the second quarter with an estimated penetration level of 73% at the end of June (+5 percentage points from June 2008). Telefónica's wireless **customer base** topped 15.9 million at the end of June 2009, up 13.0% from June 2008. The total customer base stood at 16.1 million (+13.9% year-on-year).

Revenues advanced 8.7% in local currency from the first half of 2008 to 751 million euros. The lower commercial activity compared with the first half of 2008, the focus on improving efficiency and the larger scale of the business drove a 53.0% year-on-year jump in local currency in **operating income before depreciation and amortisation (OIBDA)** to 236 million euros.

The Company continues to deliver significant increases in **operating cash flow (OIBDA-CapEx)**, which stood at 150 million euros in the first half.

--VENEZUELA--

In the first half of 2009, the Venezuelan wireless market maintained one of the highest penetration rates in the region, standing at an estimated rate 99% at the end of June, up 6 percentage points from June 2008.

Telefónica Móviles Venezuela reached 12.1 million **total accesses** at the end of June (+9.1% vs. June 2008), driven by a 9.3% year-on-year increase in wireless customers to over 10.7 million and by growth in fixed wireless accesses (+3.8% year-on-year).

Revenues recorded a solid increase of 28.4% year-on-year in local currency in the first half to 1,748 million euros. **Operating income before depreciation and amortisation (OIBDA)** stood at 891 million euros in the first half, up 45.7% on the same period in 2008 in local currency.

Operating cash flow (OIBDA-CapEx) increased by 38.8% in local currency from the first half of 2008 to 753 million euros, despite a doubling of investment vis-à-vis the first six months of 2008 due to the rollout of the GSM and 3G network and satellite pay TV service.

--CENTROAMERICA--

The estimated wireless penetration rate in the Central American markets where Telefónica operates reached 86% at the end of June (+10 percentage points year-on-year). At the end of June 2009, Telefónica managed 6.1 million accesses in these markets (+1.5% year-on-year).

Thus, despite the lower revenues in the first half of the year (-5.5% year on year in constant currency to 288 million euros), **operating income before depreciation and amortisation (OIBDA)** rose 12.5% year-on-year in constant currency to 120 million euros.

Operating cash flow (OIBDA-CapEx) recorded a solid year-on-year growth of 38.7% in constant currency, to 109 million euros in the first half.

--ECUADOR--

The estimated penetration rate in the Ecuadorian wireless market reached 83% by the end of June, 8 percentage points higher than the same period a year earlier. Telefónica Móviles Ecuador had a total of 3.3 million **accesses** at the end of June 2009 (+13.1% year-on-year).

Revenues totalled 167 million euros in the first half, virtually unchanged from a year earlier, impacted by lower handset sale revenues. The Company continues to strive to improve operating efficiency, with a noteworthy reduction in expenses, allowing it to achieve 22.5% year-on-year growth in local currency in **operating income before depreciation and amortisation (OIBDA)** in the first half of 2009, to 51 million euros.

Operating cash flow (OIBDA-CapEx) stood at 30 million euros, up a solid 27.2% year-on-year in local currency despite increased **CapEx**.

RESULTS BY REGIONAL UNIT BUSINESS

TELEFONICA EUROPE

Telefónica Europe continued its strong performance in the first half of 2009, maintaining market momentum relative to the trading environment, and delivering on cash generation through efficiencies in an increasingly rebalanced portfolio of businesses.

At the end of June 2009 Telefónica Europe's total customer base reached 47.6 million (+8.3% year-on-year). Mobile customer net additions for the first half of 2009 were 1.2 million, with 792,061 net additions in the second quarter (+74.6% over the previous quarter), reaching a total **mobile customer base** of 42.6 million (+7.3% year-on-year).

Revenues in the first half of 2009 reached 6,571 million euros, showing a resilient year-on-year growth of 2.2% in constant currency, driven by the positive performance in the UK and German businesses, which compensated the lower year-on-year revenues from the Czech and Irish businesses.

Operating income before depreciation and amortization (OIBDA) in the first half of 2009 stood at 1,879 million euros, posting a 6.2% year-on-year growth in organic terms¹², with Telefónica O2 Germany being the main contributor to this growth.

Reported revenues and OIBDA for the first half of 2009 showed a year-on-year decline of 6.2% and 7.6%, respectively, with declines of 5.9% and 11.2% in the second quarter.

Operating cash flow (OIBDA-CapEx) totalled 1,130 million euros in the first half of 2009, a significant increase of 16.8% year-on-year in organic terms¹.

Telefonica O2 UK

In the first six months of the year, Telefónica O2 UK maintained its leadership position in the market through best-in-class contract churn and customer satisfaction indicators. The Company recently came away with the most prestigious award of "Best Network Operator" at the 2009 Mobile Awards for the second year in a row.

The Company's total **mobile customer base** at the end of June 2009 reached 20.7 million lines (excluding Tesco Mobile), representing a 6.6% year-on-year growth. Telefónica O2 UK's DSL **broadband** service added 116,016 lines in the first half of 2009 (52,398 in the second quarter), leaving the total fixed broadband customer base at 456,882 lines at the end of June (2.4 times higher than in June 2008).

Revenues for the first half of 2009 were 3,194 million euros, a solid increase of 5.5% year-on-year in local currency (+4.1% year-on-year in local currency in the second quarter).

¹² Assuming constant exchange rates. The impacts derived from past disposals of assets (+114 million euros in the second quarter of 2008 from Airwave) are also excluded from the calculation.

Operating income before depreciation and amortization (OIBDA) totalled 798 million euros in the first half of 2009, a 4.5% year-on-year growth in local currency (+2.4% year-on-year in local currency in the second quarter), leveraging on optimisation of customer retention costs (market leading churn and increased proportion of SIM-only customers), compensating increased commercial activity in the contract segment.

Operating cash flow (OIBDA-CapEx) for the first half was very strong, totalling 539 million euros, an increase of 19.8% year-on-year in local currency.

Telefonica O2 Germany

In a more challenging trading environment, Telefónica O2 Germany continued showing positive mobile service revenue growth up to June 2009 (excluding MTR reductions from April), whilst also being the main contributor to OIBDA growth for Telefónica Europe. This was the result of the Company having already set the foundations for the business, as well as its renewed product portfolio progressing in the market.

Telefónica O2 Germany's **mobile customer base** reached 14.9 million at the end of June, 2009 (+10.0% year-on-year). The new and simpler core product portfolio ("O₂o", "O2 Mobile Flat", "O2 Inklusivpaket") is gaining traction in the O2 exclusive channels, with partners also playing an important role. O2 **DSL** customer base reached 253,429 at the end of June, after adding 38,646 new customers in the first half of 2009 (21,751 in the second quarter). Telefónica Deutschland reported 1.5 million ULL lines in total at the end of June (+43.6% year-on-year).

Revenues totalled 1,781 million euros in the first half of 2009 (+1.9% year-on-year; +0.2% in the second quarter). This performance was driven by continued growth from the fixed and DSL businesses. **Operating income before depreciation and amortization (OIBDA)** recorded a very strong performance in the first half of 2009, showing a 26.7% year-on-year growth to 432 million euros, with a solid 29.0% year-on-year increase in the second quarter.

Operating cash flow (OIBDA-CapEx) amounted to 77 million euros in the first half of 2009, a significant improvement compared to the negative 16 million euros registered in the same period of the prior year.

Telefonica O2 Ireland

In a difficult trading and economic environment, Telefónica O2 Ireland continued making progress in the first half, with some signs of operational improvement and increased operating cash flow generation.

Total **mobile customer base** increased 1.7% year-on-year to reach 1.7 million customers at the end of June 2009.

Revenues for the first half were 450 million euros, a year-on-year decline of 4.0% (-4.5% year-on-year in the second quarter). As a result, **operating income before depreciation and amortization (OIBDA)** for the first half of 2009 was 145 million euros, 3.6% lower than in the same period of the previous year, with an improvement in the second quarter (+1.2% year-on-year).

Operating cash flow (OIBDA-CapEx) to increase 2.3% year-on-year, reaching 123 million euros in the first half of 2009.

Telefonica O2 Czech Republic

Financial performance at Telefónica O2 Czech Republic was impacted by the rapid deterioration of the macroeconomic environment since the beginning of the year, as well as mobile termination rate cuts. In Slovakia the Company reported the best quarterly customer net additions in its history and continued having good financial performance.

At the end of June, the total number of **accesses** for Telefónica O2 Czech Republic, including Slovakia, stood at 8.1 million, an increase of 3.0% year-on-year. **Fixed telephony accesses** amounted to 1.8 million at the end of June 2009.

Revenues for the Telefónica O2 Czech Republic Group showed a 4.8% year-on-year decrease in constant currency in the first half of 2009 to reach 1,096 million euros, reflecting the increasing challenging environment of the business. **Operating income before depreciation and amortization (OIBDA)** in the first half of 2009 was 3.7% year-on-year lower in constant currency to reach 519 million euros.

Operating cash flow (OIBDA-CapEx) in the first half of 2009 decreased 8.3% year-on-year in constant currency to reach 412 million euros on the back of the decline of OIBDA and increased **CapEx** due to a different spending profile than in the previous year.

RESULTS BY REGIONAL UNIT BUSINESS

OTHER COMPANIES

ATENTO GROUP

Revenues totalled 646 million euros at the end of the first half of 2009, an increase of 2.6% on the same period a year earlier (+9.7% in constant terms) and reported an **operating income before depreciation and amortisation (OIBDA)** of 64 million euros in the same period.

By geographies, Brazil was the largest contributor to total revenues, with 48% (46% at June 2008), followed by Spain with 16% and Mexico with 12.0%.

Operating cash flow (OIBDA–CapEx) totalled 43 million euros at the close of June 2009.