

12/11/2009

Basic earnings per share advanced 9% year-on-year to 1.23 euros

TELEFÓNICA POSTS NET PROFIT OF 5,610 MILLION EUROS TO SEPTEMBER, UP 6.4% EXCLUDING CAPITAL GAINS

Figures for the third quarter of 2009 showed a marked rise in commercial activity, with sharp growth in the customer base (+6.6%) to 268 million, confirming the success of Telefónica's strategy focused on increasing accesses and improving efficiency and cash generation to foster use of its services

- Organic growth in revenue (+0.1%), OIBDA (+1.8%) and operating income (+2.1%) underscore the strength of the Company's diversification and execution skills in changing conditions
- Operating cash flow (OIBDA-CapEx) through September jumped 10.1% year-on-year in organic terms to 12,270 million euros
- Telefónica has reiterated its financial targets for 2009 and its commitment to propose a dividend payment of 1.15 euros per share from 2009 earnings; the first payment of 0.50 euros has already been distributed
- The Company remains in strong financial shape, as demonstrated by a net debt plus commitments to OIBDA ratio of 2.0x
- The performance in reported terms of revenues (-3.3%), OIBDA (-2.2%), operating income (-2%) and net profit (0.3%) was affected by exchange rates and the capital gains from Airwave and Sogecable in 2008
- Latin America underlined its position as the Group's growth engine, posting 5.8% organic revenue growth, while OIBDA rose 13.5% and operating cash flow advanced 31.4%
- The businesses in Spain registered a marked increase in commercial activity and solid cash flow generation to 6,113 million euros in the first nine months
- Telefónica Europe is reaping the benefits of improved efficiency and reported sharp organic growth in revenues (+1.4%), OIBDA (+4.6%) and cash flow generation (+16.1%)

Madrid, 12th November 2009.- In the first nine months of 2009 Telefónica achieved solid results, reflecting the success of the Company's strategy, which is focused on increasing the customer base and promoting the use of its services, while working to maximise efficiency and increase cash flow.

The Company's commercial approach, focused on capturing growth in its markets, has resulted in the Telefónica Group's **total accesses** increasing by 6.6% compared to September 2008, to exceed 268 million. This increase was mainly underpinned by the rise in wireless (+8.9%), fixed broadband (+9.8%) and pay TV (+15.1%) accesses. By region, the growth rates reported by Telefónica Europe (+8.0% year-on-year) and by Telefónica Latinoamérica (+6.9% year-on-year) must be highlighted.

By type of access, the Telefónica Group had over 205 million **wireless accesses** at the end of the third quarter, with net adds in January-September 2009 of slightly over 10.0 million accesses. There was a significant rise in commercial activity in the third quarter 2009, with net adds of around 5.0 million accesses, in line with the figure for the first half and almost double the level in the second quarter. **Retail internet broadband accesses** stood at 13.2 million, a year-on-year increase of 9.8%, driven by the growing adoption of bundled voice, ADSL and pay-TV service packages. In Spain over 87% of retail broadband accesses are bundled as part of some kind of dual or triple service package, while in Latin America almost 55% of broadband accesses are bundled as part of a dual or triple package. **Pay TV accesses** stood at around 2.5 million at the end of September, 15.1% up a year earlier. It is worth mentioning that the Company now offers pay TV services in Spain, the Czech Republic, Peru, Chile, Colombia, Brazil, Venezuela and Argentina.

As a result, despite the current economic context, the high diversification in its operations, both in terms of businesses and geographies, enabled the Group to achieve **revenues** of 41,721 million euros in the first nine months of 2009, virtually in line (+0.1%) with the same period in 2008 in organic terms¹, with significant increases in revenues in Telefónica Latinoamérica, which contributed 2.2 percentage points to growth, and, to a lesser extent, Telefónica Europe, which contributed 0.3 percentage points in the period. By service, connectivity revenues from both wireline and mobile broadband, together with revenues from applications and new services, are increasing their contribution to total Group revenues.

Reported revenues fell by 3.3% compared to the first nine months of 2008. However, this was mainly as a result of the negative impact from foreign exchange rates, which reduced growth by 3.6 percentage points. Changes in the consolidation perimeter added a further 0.2 percentage points to revenue growth.

In absolute terms, Telefónica Latinoamérica contributed 39.8% (+2.0 percentage points compared to the same period in 2008) to total Group revenues, while Telefónica España and Telefónica Europe contributed 35.1% and 24.1% of overall revenue respectively.

On the other hand, the Telefónica Group's **operating expenses** in the period January-September 2009 amounted to 25,776 million euros, down 5.2% compared to the end of

¹ 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 Q2 08 from the sale of Airwave and Sogecable.

September 2008. Stripping out the impact of foreign exchange rates, operating expenses fell by 1.2% year-on-year, as the higher expenses at Telefónica Latinoamérica, mainly from network and systems costs, are offset by lower expenses at Telefónica España (due to lower supply costs and lower commercial costs, mostly related to advertising). In organic terms¹, operating expenses dropped by 1.3%.

Gains on sale of fixed assets to September amounted to 18 million euros compared to 236 million euros in January-September 2008 (mainly due to capital gains on the sale of Sogecable and Real Estate disposals by Telefónica España and Telefónica O2 Czech Republic).

The Company's focus on increasing efficiency and exploiting economies of scale was reflected in 1.8% growth in **operating income before depreciation and amortisation (OIBDA)** in organic terms¹ to 16,647 million euros in the first nine months of 2009. This growth was mainly due to the contributions of Telefónica Latinoamérica (+4.9 percentage points) and Telefónica Europe (+0.8 percentage points), which offset Telefónica España's lower contribution to OIBDA (-3.7 percentage points). In organic terms², the Telefónica Group improved its OIBDA margin by 0.7 percentage points to 39.9%, fuelled mainly by expanding margins at Telefónica Latinoamérica (+2.7 percentage points) and Telefonica Europe (+0.9 percentage points year-on-year).

In reported terms, **OIBDA** fell by 2.2% year-on-year, although excluding the impact derived from asset sales in 2008 (Airwave and Sogecable), OIBDA dropped slightly (-0.7%) compared to the same period in the previous year. Excluding the impact derived from disposals (Airwave and Sogecable) on 2008 earnings, the Telefónica Group's OIBDA margin increased by 1.0 percentage point compared to the same period a year earlier.

OIBDA at Telefónica España accounted for 43.5% of total Group OIBDA, compared to 39.9% and 17.3% for Telefónica Latinoamérica and Telefónica Europe, respectively.

Depreciation and amortisation in the first nine months of 2009 totalled 6,623 million euros, down 2.6% year-on-year. In organic terms², this item increased by 1.4%, mainly due to higher depreciation and amortisation at Telefónica Latinoamérica.

In the first nine months of the year, **operating income (OI)** amounted to 10,024 million euros, with 2.1% year-on-year growth in organic terms² (-2.0% in reported terms).

Profit from associated companies stood at 47 million euros to September (20 million euros in the same period in 2008), mainly as a result of higher profits from the Company's holdings in Portugal Telecom and reduced losses from the participation in Telco, S.p.A..

Net financial results to September 2009 amounted to 2.058 million euros, down 2.0% vs. the same period of 2008.

Free cash flow generated by the Telefónica Group up to September 2009 amounted to 6,733 million euros. Out of this figure 737 million euros were assigned to Telefónica's share buybacks, 2,277 million euros to Telefónica S.A. dividend payment and 620 million euros to

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 the sale of Airwave and Sogecable.

commitment cancellations derived mainly from workforce adaptation plans. In addition there was a net payment of 834 million euros due to financial investments and divestments. As a result, net financial debt decreased by 2,265 million euros. On the other hand, net debt increased by 2,067 million euros because of the foreign exchange impact, changes in the consolidation perimeter and other effects on financial accounts. All this led to a decrease of 198 million euros with respect to the net financial debt at the end of 2008 (42,733 million euros), leaving the final figure in September 2009 at 42,535 million euros.

As a result, the **leverage ratio (net debt/OIBDA)** stood at 1.9 times at September 2009, compared to 2.0 times at June 2009. This improvement is explained by a reduction on the net financial debt amount together with an increase in the OIBDA figure.

During first nine months of 2009, the **financing activity** of Telefonica Group, excluding short term Commercial Paper Programmes activity, rose up to roughly 11,000 million euros mainly focused on refinancing 2009 maturities and pre-financing part of 2010 and 2011 debt at Telefonica, S.A. level. To highlight the 5 years Euro-denominated bond issue for an amount of 2,000 million euros raised in January, 1,000 million euros raised in March through a 7 years bond issue, the re-opening of this last one in June for another 500 million euros and a 6-years private issue of 400 million euros placed in the same month. In addition, in June a US dollar-denominated issue was launched for 2,250 million US dollars divided in 2 tranches of 5.5 and 10 years maturity. Thanks to these transactions, the Group's cash position amply exceeds 2009 and 2010 maturities.

In the first nine months of 2009 **income taxes** totalled 2,291 million euros, implying a tax rate of 28.6%, which was not affected by any one-off transactions.

Profit attributable to minority interests reduced net income to the end of September by 111 million euros (-36.0% year-on-year), associated mainly to minority interests in the profits of Telesp, Telefónica O2 Czech Republic and in the losses of Telefónica Telecom.

As a result of the above, **consolidated net income** to September 2009 amounted to 5,610 million euros, up 6.4% on the same period of 2008, stripping out the impact of capital gains from asset disposals (Airwave and Sogecable) booked in the first nine months of 2008.

At the end of September, **basic earnings per share** rose by 9.0% year-on-year to 1.23 euros, excluding the impact of the asset sales in 2008 described above. In reported terms, the year-on-year increase was 2.7%.

CapEx in the first nine months of 2009 amounted to 4,376 million euros, with **operating cash flow (OIBDA-CapEx)** of 12,270 million euros, up 10.1% year-on-year in organic terms³. This performance was driven by strong growth in Telefónica Latinoamérica (+31.4% in organic terms³; 4,668 million euros) and Telefónica Europe (+16.1% in organic terms³; 1,687 million euros), which offset the lower cash flow generated by Telefónica España in comparable terms⁴ (-3.3% to 6,113 million euros). Reported operating cash flow increased 5.6% year-on-

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 the sale of Airwave and Sogecable.

⁴ Comparable basis, excluding: Universal Service: 183 million euros in revenue and 51 million euros in OIBDA in the third quarter of 2008 and 75 million euros in revenues and 22 million euros in OIBDA in the first quarter of 2009; sale of bad debt portfolios: 25 million euros in OIBDA in the first quarter of 2008; real estate capital gains: 0.5 million euros in

year.

Economies of scale and efficient management of operating expenses and CapEx resulted in an efficiency ratio⁵ of 73.9%, a year-on-year improvement of 2.2 percentage points. As a result, it has been posted an **acceleration in organic growth⁶ rates across the various income statement items, from revenues (+0.1%) to OIBDA (+1.8%) and OI (+2.1%), becoming more relevant at the operating cash flow level**, which exceeded revenue growth by 10.0 percentage points.

OIBDA January-September 2009 and 73 million euros in OIBDA in the same period in 2008; revision of the estimates for the adjustment to workforce adaptation plans provided for in prior periods, which has resulted in lower expenses of 90 million euros in the second quarter of 2009 and sale of applications rights: 48 million euros in revenue and OIBDA in the third quarter of 2009.

⁵ Defined as (Operating expenses + CapEx – Own work capitalised) / Revenues for the last twelve months. The CapEx figure excludes spectrum acquisitions and the Property Efficiency Programme in T. España.

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 the sale of Airwave and Sogecable.

RESULTS BY REGIONAL BUSINESS UNITS

TELEFONICA ESPAÑA

The strategy pursued by Telefónica España in 2009 and its capacity to adapt to changes in the operating environment arising from the current macroeconomic scenario have enabled the Company to consolidate its market **leadership**, showing its commitment to future growth, and to maintain a **high cash flow generation** despite the pressure on its revenues.

It is worth noting the sharp increase in commercial activity posted by **Telefónica España** in the third quarter of 2009, with marked improvements in all its services. Thus, the Company has led the Spanish market in terms of customer acquisition in the quarter, managing a **total of 47.3 million accesses** (+0.2% year-on-year). Highlights include the greater number of **retail broadband Internet accesses**, which grew by 6.0% to **more than 5.4 million**, and growth in the **wireless customer base to 24.0 million** (+2.4% year-on-year), driven by the rising appetite for flat-rate data plans, which exceed 1.5 million up to September 2009.

Operating cash flow (OIBDA-CapEx) totalled 6,113 million euros in the first nine months of 2009 (-3.3% vs. the same period in 2008 on a comparable basis⁷; -3.0% in reported terms), reflecting the drive to contain OpEx and CapEx.

Revenues totalled 14,655 million euros in the first nine months of 2009, down 6.6% year-on-year in the third quarter on a comparable basis¹, showing a slight slowdown in its rate of decline vs. the previous quarter, and 6.4% in the first nine months. **Operating income before depreciation and amortisation (OIBDA)** fell on a comparable basis¹ by 8.2% year-on-year in the first nine months of 2009, mainly due to the loss of higher margin revenues such as wireline and wireless voice traffic, and wireline accesses related revenues. The OIBDA margin on a comparable basis¹ stood at 48.7% in the first nine months of 2009.

CapEx in the first nine months totalled 1,127 million euros.

--Fixed Business--

The Company's **wireline telephony accesses** declined by 843,791 in the first nine months of 2009 to around 14.5 million (-6.7% year-on-year), leading to an estimated market share of around 74%. The Company's improved commercial activity was also reflected in third-quarter **wireline retail broadband Internet** net adds, which were 1.1 times greater than net adds for the first half of 2009. The Company's wireline retail broadband Internet accesses topped 5.4 million (+6.0% vs. September 2008), with net adds of 177,117 accesses in the first nine months of 2009. **Wireline broadband Internet accesses** topped an estimated 9.6 million in the Spanish market, with the year-on-year growth rate unchanged from June 2009 (+8.0%). Telefónica remains market leader with an estimated market share around 56% and marked improvement in its share of net adds in the third quarter.

⁷ Comparable basis exclude: Universal Service Obligation: 183 million euros in revenue and 51 million euros in OIBDA in the third quarter of 2008 and 75 million euros in revenues 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 estate capital gains: 0.5 million euros in OIBDA January-September 2009 and 73 million euros in OIBDA in the 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; and sale of applications rights: 48 million euros in revenue and OIBDA in the third quarter of 2009.

In the third quarter of 2009, Telefonica's **Pay TV** accesses had a more than remarkable performance, with net adds totalling 44,721 customers thanks to a much-improved content offering after football channel Gol TV being added. Thereof, net adds in the first nine months stood at 41,761, bringing the total number of customers to 654,255 (+11.0% year-on-year) and reaching an estimated market share around 16% by September 2009.

The total number of Duo and Trio bundles stood at almost 4.8 million, with more than 87% of retail broadband accesses now part of a double or triple offer bundle.

Revenues totalled 8,997 million euros in the first nine months of 2009, down 3.9% on a comparable basis⁸. In reported terms, revenues fell by 5.0% year-on-year to September. The **operating income before depreciation and amortisation (OIBDA)** in the first nine months of 2009 reached 4,300 million euros, falling 5.3% year-on-year on a comparable basis².

--Wireless Business--

The **Spanish wireless market** exceeded the 55.4 million-line mark in September 2009, with an estimated penetration rate of 121% (6 percentage points higher than in September 2008). In this context, the Company's main commercial objective is still to maintain its market leadership in revenue share, with a positive differential between its share of outgoing revenues and customer market share of between 3 and 4 percentage points, despite the current economic climate in a highly competitive and mature market.

At the end of September 2009 Telefónica España's **wireless customer base** reached 24.0 million, up 2.4% year-on-year, with growth accelerating from June 2009.

Revenues in the first nine months totalled 6,687 million euros, down 6.4% in the third quarter and 8.4% to September 2009. Reported **OIBDA** for the January-September 2009 period totalled 2,961 million euros, down 9.0% year-on-year (-12.1% on a comparable basis³).

⁸ Comparable basis exclude: Universal Service Obligation: 183 million euros in revenue and 110 million euros in OIBDA in the third quarter of 2008 and 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 estate capital gains: 0.5 million euros in OIBDA January-September 2009 and 73 million euros in OIBDA in the 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 58 million euros in the second quarter of 2009.

RESULTS BY REGIONAL UNIT BUSINESS

TELEFONICA LATINOAMERICA

The commercial activity of the telecommunications market in the region recovered slightly in the third quarter. Against this backdrop, Telefónica Latinoamérica maintained its commitment to a model of profitable growth, capturing value from its wireless business and further developing the transformation of its wireline business. As a result, the Company achieved positive commercial and financial results in the first nine months of 2009.

Telefónica Latinoamérica recorded solid year-on-year **revenue** growth of 5.8% in organic terms⁹ in the first nine months of the year, to 16,616 million euros. Efficiency improvements resulting from greater economies of scale and a focus on profitable growth contributed to the growth in **operating income before depreciation and amortisation (OIBDA)** and **operating cash flow (OIBDA-CapEx)** terms, which stood at 13.5%¹ and 31.4%¹ respectively, to 6,636 million euros and 4,668 million euros, outstripping revenue growth.

At the end of September 2009, Telefónica Latinoamérica managed 163.7 million accesses in the region, up 6.9% year-on-year. Underpinning this advance was the sustained growth in its wireless, broadband and pay TV businesses. In **wireless telephony**, estimated market penetration in the region reached 87%, more than 9 percentage points higher than in September 2008. Telefónica Latinoamérica reached 129.3 million accesses, a year-on-year increase of 9.3%.

Operators in the **wireline business** are still immersed in a transformation process, focusing on quality as a driver of efficiency whilst at the same time developing the broadband market by increasing the offer of bundled services which include more than just connectivity. The number of **broadband** accesses exceeded 6.3 million, and is still recording significant growth rates (+7.3% year-on-year), and there were nearly 1.7 million **pay TV** customers (+15.9% year-on-year), with 152,359 accesses being added since the start of the year.

As a result, reported **revenue** increased by 1.9% compared to January-September 2008 (foreign exchange rate movements reduced revenue growth by 4.4 percentage points). Brazil continues to be the Company's main market in the region, accounting for 36.5% of Telefónica Latinoamérica's revenue in current currency terms in the first nine months of 2009, followed by Venezuela (15.7%) and Argentina (11.7%).

Operating income before depreciation and amortisation (OIBDA) increased by 10.1% in current euros in the first nine months of the year. By market, Brazil contributed 34.6% of Telefónica Latinoamérica's OIBDA in the region, followed by Venezuela and Argentina (20.1% and 10.9% respectively). In organic terms², OIBDA grew by 13.5% to September, pretty in line with the performance in the first half of the year, despite increased commercial activity.

Operating cash flow (OIBDA-CapEx) reached 4,668 million euros to September 2009, up 31.4% in organic terms¹⁰ (+28.7% in reported terms), showing the rein on costs and CapEx.

⁹ Assuming constant exchange rates and including Telemig in January-March 2008.

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

--BRAZIL--

The Brazilian market has established itself as one of the markets with the greatest potential as a result of the positive macroeconomic performance and consumption trends. It is worth noting that according to leading international organisations, the Brazilian economy has been one of the first to emerge from the crisis, and also is among those which have suffered least.

In this key market for the Company, at the end of the third quarter of 2009 Telefónica had 64.2 million accesses, with year-on-year growth of 10.2%, mainly driven by wireless accesses. **Revenues** to September 2009 amounted to 6,071 million euros, with year-on-year growth of 2.0% in local currency. **Operating income before depreciation and amortisation (OIBDA)** was 2,294 million euros in the first nine months of 2009, virtually unchanged on the same period in 2008.

CapEx in the first nine months of the year amounted to 789 million euros. **Operating cash flow (OIBDA-CapEx)** was 1,505 million euros to September 2009, up 16.4% in local currency compared to the same period in 2008.

Vivo

The wireless telephony market in Brazil surpassed 166 million accesses in September 2009, up 18.0% year-on-year. At the end of September 2009 VIVO had 48.8 million accesses, reporting year-on-year growth of 15.5%. Against this backdrop the Company continues to focus its strategy in consolidating its revenue share leadership through a profitable growth model.

Revenues to September 2009 totalled 2,184 million euros, an increase of 9.4% in local currency and 6.2% in organic terms⁵. **Operating income before depreciation and amortisation (OIBDA)** amounted to 677 million euros in the first nine months of 2009, a year-on-year increase of 21.4% in local currency (+17.4% in organic terms⁵).

CapEx to September 2009 amounted to 293 million euros. As a result, **operating cash flow (OIBDA-CapEx)** for the first nine months of the year amounted to 384 million euros, compared to 87 million euros in the same period in 2008.

Telesp

At the end of September 2009, Telesp managed 15.3 million **accesses**, a 3.9% year-on-year decrease. The Company had around 2.6 million **broadband** accesses, with 4.9% year-on-year growth and a net add of 22,084 accesses in the first nine months of the year. The Company managed 0.5 million TV accesses in September 2009, with year-on-year growth of 19.4%.

Telesp's **revenues** in the first nine months of the year totalled 4,198 million euros, with a slight 1.0% decrease in local currency. **Operating income before depreciation and amortisation (OIBDA)** stood at 1,613 million euros in the first nine months of 2009, a year-on-year decrease of 6.2% in local currency.

CapEx to September 2009 amounted to 497 million euros, with most of the investment being in broadband, television and general network improvements. **Operating cash flow (OIBDA-CapEx)** amounted to 1,116 million euros in the first nine months of the year.

--ARGENTINA--

At the end of September 2009 the Company had 21.4 million accesses, up 4.0% year-on-year, underpinned by the wireless business and fixed broadband, with traditional wireline accesses virtually unchanged.

Revenues totalled 1,948 million euros in the first nine months of 2009, a significant year-on-year increase of 15.3% in local currency. **Operating income before depreciation and amortisation (OIBDA)** rose 23.5% year-on-year in local currency to over 726 million euros to September 2009.

CapEx to September 2009 totalled 194 million euros, leaving **operating cash flow (OIBDA-CapEx)** of 533 million euros in the first nine months of the year, up 29.2% in local currency from September 2008.

Telefonica Móviles Argentina

The Argentine wireless telephony market reached an estimated penetration rate of 117% at the end of September 2009, more than 10 percentage points vs. September 2008.

Revenues totalled 1,217 million euros in the first nine months, up 15.0% in local currency. The Company continued to achieve significant efficiency gains, resulting in a 39.0% jump in local currency in **operating income before depreciation and amortisation (OIBDA)**, which stood at 434 million euros to September.

CapEx to the end of September 2009 stood at 87 million euros (+69.9% year-on-year in local currency). As a result, **operating cash flow (OIBDA-CapEx)** posted an outstanding growth of 32.9% in local currency in the first nine months to 347 million euros.

Telefónica de Argentina

Telefónica de Argentina managed a total of 5.9 million **accesses** at the end of September 2009, on the back of a sharp growth in broadband accesses (+13.4% year-on-year). Traditional fixed accesses were virtually unchanged.

Revenues totalled 793 million euros to September 2009, a year-on-year increase of 14.9% in local currency. As a result, Telefónica de Argentina reported **operating income before depreciation and amortisation (OIBDA)** of 292 million euros in the first nine months, up 6.0% year-on-year in local currency.

CapEx through to September 2009 amounted to 107 million euros (-14.4% year-on-year in local currency) and **operating cash flow (OIBDA-CapEx)** jumped 22.8% year-on-year in local currency to 186 million euros.

--CHILE--

The Chilean telecommunications market remains among the most developed in the region, with high penetration levels for both fixed broadband and wireless telephony. In this context, and given the highly competitive market, Telefónica is focusing its strategy on gaining and

retaining high value customers and improving efficiency. Telefónica consolidated its leadership of the Chilean market in the first nine months and managed 10.4 million **total accesses** at the end of September, up 5.5% year-on-year.

Against this backdrop, **revenues** through to September 2009 totalled 1,351 million euros, down 1.8% year-on-year in local currency and 4.2% in the quarter. The continuing focus on improving efficiency was reflected in **operating income before depreciation and amortisation (OIBDA)**, which advanced 6.4% year-on-year in local currency to 539 million euros in the first nine months.

CapEx totalled 226 million euros (-17.1% year-on-year in local currency) in the first nine months, generating an **operating cash flow (OIBDA – CapEx)** of 313 million euros, a strong year-on-year rise of 33.7% in local currency.

Telefonica Móviles Chile

The estimated penetration of the Chilean wireless market stood at 100% at the end of September 2009, 6 percentage points higher than in September 2008. In this context, Movistar Chile consolidated its leadership position with a market share virtually unchanged from recent quarters. The customer base stood at 7.3 million **accesses** at the end of September, up 8.2% year-on-year.

Revenues totalled 739 million euros in the first nine months of 2009. Due to the focus on improving cost efficiency **operating income before depreciation and amortisation (OIBDA)** stood at 310 million euros in the first nine months, up 14.4% year-on-year in local currency.

The strong OIBDA performance, along with more selective **CapEx**, which stood at 135 million euros to September, led to **operating cash flow (OIBDA – CapEx)** of 175 million euros, up 44.0% year-on-year in local currency.

Telefonica Chile

Telefónica Chile managed 3.1 million **accesses** at the end of September 2009, virtually unchanged from September 2008.

Revenues through to September totalled 665 million euros and **Operating income before depreciation and amortisation (OIBDA)** totalled 230 million euros in the first nine months.

CapEx through to September 2009 totalled 91 million euros and **Operating cash flow (OIBDA-CapEx)** advanced 22.2% year-on-year in the first nine months in local currency, to 138 million euros.

--PERÚ--

Telefónica maintained its positive performance in the Peruvian market, both in wireline and wireless businesses. As a result, **accesses** at the end of September 2009 exceeded 15.6 million, up 9.6% year-on-year.

Revenues to September amounted to 1,287 million euros advancing 6.6% year-on-year in organic⁶ terms. **Operating income before depreciation and amortisation (OIBDA)** was 528 million euros in the first nine months of 2009, up 17.9% year-on-year in organic⁶ terms.

Operating cash flow (OIBDA-CapEx) reached 402 million euros in the first nine months of the year, with growth accelerating to show a 28.3% increase year-on-year in organic⁶ terms (+26.4% in local currency). **CapEx** through to September totalled 126 million euros.

Telefónica Móviles Perú

The Peruvian wireless telephony market is one with the highest potential in the region. At the end of September 2009 the estimated penetration stood at 63%, 5 percentage points up from September 2008. Wireless **accesses** totalled 11.1 million at the end of September, up 11.1% year-on-year.

Revenues totalled 627 million in the first nine months of 2009, a year-on-year increase of 10.1% in local currency. **Operating income before depreciation and amortisation (OIBDA)** remained solid, advancing 29.2% year-on-year in local currency through to September to 239 million euros.

CapEx in the nine-month period totalled 51 million euros, a decrease of 17.0% year-on-year in local currency. **Operating cash flow (OIBDA-CapEx)** jumped 52.3% in local currency to 188 million euros.

Telefónica del Perú

Telefónica del Perú successfully pushed ahead with its strategy to transform the business into a services company, with bundling playing a key role. A total of 51% of wireline **accesses** are bundled, while over 62% of broadband accesses now have a Duo or Trio. As a result, the Company had a positive evolution in total accesses, exceeding 4.5 million at the end of September, a year-on-year increase of 6.3%.

Revenues totalled 758 million euros to September, a year-on-year organic⁸ increase of 4.1% (+1.9% in local currency). **Operating income before depreciation and amortisation (OIBDA)** rose 10.6% year-on-year in organic⁸ terms (+8.7% in local currency) to 290 million euros in the first nine months of 2009.

CapEx in the first nine months totalled 75 million euros (+3.1% year-on-year in local currency), mainly devoted to new businesses development. As a result, **operating cash flow (OIBDA-CapEx)** at the end of September reached 215 million euros, up 13.5% year-on-year in organic⁸ terms (+10.8% in local currency), higher than in the first half of the year.

--COLOMBIA--

At the end of September 2009 Telefónica managed 11.5 million **accesses** in Colombia, of which the Company had 8.8 million wireless, 432,611 broadband and 135,851 pay TV accesses.

Revenues through to September totalled 954 million euros, a year-on-year reduction of 10.1% in local currency. **Operating income before depreciation and amortisation (OIBDA)**

amounted to 277 million euros in the first nine months of the year.

Operating cash flow (OIBDA-CapEx) amounted to 113 million euros to September 2009, with a lower CapEx compared to the same period of the previous year (164 million euros).

Telefónica Móviles Colombia

In the third quarter of 2009 the wireless telephony market in Colombia stabilised, after registering an adjustment which affected all operators in the previous quarter. The estimated penetration rate reached 92% in September 2009, an increase of 8 percentage points in the last twelve months. The total customer base at the end of September 2009 reached 8.8 million **accesses**.

As a result, **revenues** in the first nine months of 2009 amounted to 513 million euros (-12.2% in local currency), with a year-on-year fall in the third quarter of 9.4% in local currency. **Operating income before depreciation and amortisation (OIBDA)** had a better performance than revenues, with the figure to September 2009 amounting to 131 million euros.

CapEx to September 2009 fell by 37.2% year-on-year in local currency to 77 million euros, resulting in **operating cash flow (OIBDA-CapEx)** of 54 million euros (2.8 times higher than the same period of previous year).

Telefónica Telecom

At the end of September 2009, Telefónica Telecom managed 2.6 million **accesses**, a reduction of 5.7% year-on-year, strongly affected by the process of disconnecting inactive accesses in a highly competitive environment.

In the first nine months of 2009, **revenues** stood at 463 million euros, down 7.4% year-on-year in local currency. **Operating income before depreciation and amortisation (OIBDA)** amounted to 146 million euros in the first nine months of 2009.

CapEx to September 2009 stood at 87 million euros (-23.9% year-on-year in local currency), with **operating cash flow (OIBDA-CapEx)** of 59 million euros.

--MÉXICO--

Telefónica Móviles México continued to execute its strategy, focused on capturing growth and increasing its market share. Its **total accesses** base reached 16.8 million at the end of September and 16.5 million wireless accesses, up 13.6% and 12.7% year-on-year respectively. As a result, it reached a market share of more than 20%, an increase of almost one percentage point from September 2008.

This positive performance is reflected in **revenues**, which advanced 9.8% year-on-year in local currency to September to 1,136 million euros. **Operating income before depreciation and amortisation (OIBDA)** totalled 402 million euros in the first nine months, up 65.6% in local currency from the same period in 2008.

CapEx was virtually unchanged year-on-year with the improvement in OIBDA boosting **operating cash flow (OIBDA-CapEx)** to 270 million euros, 2.5 times the amount for the same period in 2008 in local currency.

--VENEZUELA--

At the end of September 2009 the Venezuelan wireless market maintained one of the highest penetration rates in the region, topping 100%, up 4 percentage points from September 2008.

Revenues marked a solid increase of 25.1% year-on-year in local currency to 2,611 million euros to September 2009. Operating income before depreciation and amortisation (OIBDA) stood at 1,332 million euros in the first nine months, up 37.9% in local currency year-on-year.

Operating cash flow (OIBDA-CapEx) increased by 40.0% in local currency from the first nine months of 2008 to 1,129 million euros. This outstanding performance was achieved despite the significant **CapEx** carried out (+27.2% in local currency) to tap the potential of the market, improve coverage and continue the rollout of the GSM and 3G networks and the satellite pay TV service.

--CENTROAMERICA--

The mobile penetration rate in the Central American markets in which Telefónica operates reached 87% at the end of September 2009 (+10 percentage points year-on-year). At the end of September, 2009, Telefónica managed 6.1 million **accesses** in these markets.

Operating income before depreciation and amortisation (OIBDA) to September totalled 176 million euros, up 9.7% year-on-year in constant currency, despite the lower **revenues** (-6.4% in constant currency to September).

Growth in **operating cash flow (OIBDA-CapEx)** accelerated year-on-year in constant currency (+45.4% in the first nine months of the year vs. +38.7% in the first half), to 150 million euros at the end of September, driven by both the growth in OIBDA and lower **CapEx**.

--ECUADOR--

Mobile penetration in the Ecuadorian wireless market reached an estimated 85% by the end of September, 6 percentage points higher than the same period a year earlier. Against a backdrop of lower commercial activity, the customer base of Telefónica Móviles Ecuador at September 2009 stood at 3.5 million **accesses**, a 16.1% increase in total accesses vs. September 2008.

Revenues totalled 249 million euros in the January-September period, a year-on-year decrease of 1.0% in local currency. The Company's efficiency gains boosted **operating income before depreciation and amortisation (OIBDA)**, which totalled 77 million euros in the January-September period, a 13.4% jump year-on-year in local currency.



Operating cash flow (OIBDA-CapEx) grew 53.4% year-on-year in local currency to 46 million euros, reflecting the OIBDA performance and lower **CapEx**.

RESULTS BY REGIONAL UNIT BUSINESS

TELEFONICA EUROPE

In the January to September period, Telefónica Europe saw continued top line growth in a fast changing environment through the consistent driving of efficiencies, again outperforming in its key markets. At the end of September 2009, Telefónica Europe's total customer base reached 48.6 million (+8.0% year-on-year).

Revenues in the year to September 2009 reached 10,055 million euros, showing a year-on-year growth of 1.4% in constant currency (+2.2% in constant currency in the first half), driven by the positive performance in the UK and German businesses. **Operating income before depreciation and amortization (OIBDA)** in the first nine months of the year stood at 2,878 million euros, posting a 4.6% year-on-year growth in organic terms¹¹.

Operating cash flow (OIBDA-CapEx) totalled 1,687 million euros in the first nine months of 2009, a significant increase of 16.1% year-on-year in organic terms¹ (+18.7% year-on-year excluding restructuring costs), reflecting OIBDA growth and **CapEx** reduction of 8.6% year-on-year in constant currency due to the completion of major IT projects and the 2G networks roll-out reaching an end in Germany.

Telefonica O2 UK

In the first nine months of the year, Telefónica O2 UK continued to outperform the market, strengthening its leadership in a more competitive environment. The Company's total **mobile customer base** (excluding Tesco Mobile) at the end of September 2009 reached 21.0 million lines, up 5.7% year-on-year.

Revenues for the first nine months of 2009 were 4,871 million euros, an increase of 4.3% year-on-year in local currency (+2.0% year-on-year in local currency in the third quarter), a performance which exceeds that of our competitors. **Operating income before depreciation and amortization (OIBDA)** totalled 1,219 million euros in the first nine months of 2009, a 1.6% year-on-year growth in local currency, affected by a restructuring charge of 28 million euros in the third quarter which will help the Company to improve its efficiency overall.

Operating cash flow (OIBDA-CapEx) for the first nine months of the year totalled 794 million euros, an increase of 7.1% year-on-year in local currency (+10.9% year-on-year growth excluding restructuring costs).

Telefonica O2 Germany

In the third quarter of 2009, the increase in Telefónica O2 Germany's mobile service revenue growth continued (excluding 2009 mobile termination rate reductions), with the Company also being the main growth driver of Telefónica Europe's OIBDA. Telefónica O2 Germany's **mobile customer base** reached 15.4 million at the end of September 2009 (+10.2% year-on-year), progressing well with the new commercial approach of the Company in both direct and partner channels.

¹¹ Assuming constant exchange rates. The impacts derived from past disposals of assets (113 million euros in 2008 from Airwave) are also excluded from the calculation.

Revenues totalled 2,747 million euros in the first nine months of 2009 (+3.1% year-on-year), accelerating year-on-year growth in the third quarter to 5.5%. **Operating income before depreciation and amortization (OIBDA)** sustained its strong performance in the first nine months of 2009, showing a 25.1% year-on-year growth to 667 million euros.

Operating cash flow (OIBDA-CapEx) reached 120 million euros in the first nine months of 2009, a significant improvement compared to the negative 86 million euros registered in the same period of the prior year.

Telefonica O2 Ireland

Total **mobile customer base** reached 1.7 million customers at the end of September 2009 (+0.3% year-on-year), on the back of a 7.3% year-on-year increase in the contract customer base, which already represents 39.4% of the total base.

Revenues for the first nine months of 2009 were 677 million euros, a year-on-year decline of 5.3%. **Operating income before depreciation and amortization (OIBDA)** increased 1.7% year-on-year in the third quarter to reach 224 million euros in the first nine months of 2009.

The efficient **CapEx** management achieved by the Company allowed **operating cash flow (OIBDA-CapEx)** to increase 6.5% year-on-year, reaching 186 million euros in the first nine months of 2009.

Telefonica O2 Czech Republic

At the end of September, the total number of **accesses** for Telefónica O2 Czech Republic, including Slovakia, stood at 8.2 million, an increase of 5.3% year-on-year.

Revenues went down 6.9% year-on-year in constant currency to 1,682 million euros in the first nine months of the year. **Operating income before depreciation and amortization (OIBDA)** went down 4.3% year-on-year in constant currency to 791 million euros in the first nine months of 2009.

Operating cash flow (OIBDA-CapEx) in the first nine months of 2009 decreased 7.3% year-on-year in constant currency to reach 620 million euros, mainly due to the lower OIBDA in the period.

RESULTS BY REGIONAL UNIT BUSINESS

OTHER COMPANIES

ATENTO GROUP

Atento Group recorded **revenues** of 970 million euros in the first nine months of 2009, down 0.2% as compared to the first nine months of 2008. **Operating income before depreciation and amortisation (OIBDA)** reached 101 million euros in the first nine months of 2009.

CapEx for the first nine months of 2009 stood at 33 million euros, up 7.4% year-on-year. **Operating cash flow (OIBDA-CapEx)** for the first nine months of the year totalled 68 million euros.

Telefonica