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Beats forecasts and consolidates its differential profile within the industry thanks to growth levels, execution capacity and the value of its scale and geographic diversification

## TELEFÓNICA POSTS A 43% INCREASE IN NET PROFIT TO A RECORD 8,906 MILLION EUROS

The Company improves shareholder remuneration and announces significant growth for 2008

- Telefónica is to launch a new share buyback programme for 100 million shares up to the first half of 2009 and will pay a 1 euro per share dividend charged against 2008 earnings, up 33% on the previous year
- The Company expects to grow all its key financial figures in 2008, forecasting increases of +6-+8%, +7,5%/11% and 13-19% in revenues, OIBDA and Operating Income respectively. The CapEx target for the year is around 8,600 million euros.
- In 2007 Telefónica had a total of 228 million accesses, of which 169 million were wireless telephony accesses and 10.2 million retail broadband accesses
- Basic earnings per share jumped 43.5% in 2007 to 1.872 euros for the fourteenth consecutive quarter.
- In 2007 revenue, OIBDA and operating income rose sharply by 6.7%, 19.3% and 42.1%, respectively as a result of the scale and diversity of the Group's businesses and its position as an integrated management model within the sector.
- OIBDA-CapEx totalled 14,797 million euros, up 33%, thanks to the Company's strong operating performance
- CapEx in 2007 totalled 8,027 million euros, making Telefónica the largest investor in Spain
- Thanks to its good management, debt was reduced by 6,861 million during the year, placing total Group debt at 42,284 million euros at year-end 2007

**Madrid, 28 February 2008.-** Telefónica has once again presented record key financial figures. Results for 2007 consolidates the company's differential profile within the industry underpinned by its ability to act and to consistently meet its financial targets. The solid growth achieved in 2007 highlights the Group's organic potential, the high value its geographic and business line diversification, an efficient cost structure and the exploitation of synergies generated by the integrated management of the Company.

Telefónica has also improved its shareholder remuneration policy and launched a new share buyback programme for 100 million shares up to first half of 2009. This will be complemented by a dividend payment of 1 euro per share charged against 2008 earnings.

Once again, the Company's outstanding performance in 2007 has enabled the Telefónica Group to meet all its financial targets<sup>1</sup> for the year, i.e. revenue growth and OIBDA in the upper part of the range at 9.8% (target 8-10%) and 12.8% (target 10-13%), respectively, while operating income beat forecasts and rose 27% (target 19-23%).

The Company has also announced its guidance for 2008<sup>2</sup>:

	GUIDANCE 2008			
	Telefónica Group	Telefónica España	Telefónica Latinoamérica	Telefónica Europe
Revenues	+6%/+8%	+2% / +3,5%	+11%/+14%	+4%/+7%
OIBDA	+7,5%/+11%	+6%/+8%	+12%/+16%	+2%/+6%
OI	+13%/19%			
CapEx	~ 8.600 M euros			

With an ever-expanding customer base (+12.5%), revenues (+6.7%), OIBDA (+19.3%), OI (+42.1%) and net profit (+42.9%) all rose sharply compared with 2006, while operating cash flow (OIBDA-CapEx) grew 33% year-on-year to 14,797 million euros.

**--228.6 million total accesses: 169 million wireless telephony accesses and 10.2 million broadband accesses--**

Telefónica ended 2007 by consolidating its position as one of the world's leading telecommunications operators by number of customers largely thanks to the success of its commercial activity which allowed it to end the year with a total of 228.6 million **accesses**, 12.5% more than at the end of 2006.

Telefónica España has 46.4 million accesses, an increase of 5% on 2006, underpinned by

<sup>1</sup> 2006 figures include eleven months of the O2 Group (consolidated from February 2006), eight months of Telefónica Telecom (consolidated from May 2006), six months of Iberbanda (consolidated from July 2006), three months of losses for the start-up of operations in Slovakia, while Endemol and Airwave results are excluded. 2007 guidance assumes constant exchange rates from 2006 and excludes changes in the consolidation scope. In terms of guidance calculations, OIBDA and OI do not include exceptional revenues and expenses not foreseeable in 2007. Staff restructuring programmes and real estate plans are included as operating revenues/expenses except those which are decided on after guidance has been announced. For comparative purposes, equivalent extraordinary revenues/expenses recorded in 2006 have also been deducted from the reported figures. CapEx does not include investment related to Real Estate Plans. 2007 Bases for Guidance purposes: Consolidated revenues: 55,550 million euros; Consolidated OIBDA: 20,863 million euros; Consolidated OI: 11,467 million euros; CapEx: 7,975 million euros.

<sup>2</sup> Idem

growth in wireless and broadband customers. Growth in the number of total accesses at **Telefónica Latinoamérica** picked up the pace (+16.9% year-on-year to 134.1 million) thanks to the strong growth in broadband, a robust wireless market, which registered a new record for net adds in the fourth quarter, and an expanding Pay TV customer base, which increases close to 75% compared with 2006. **Telefónica Europa** reported growth of 8.7% in its customer base to 42 million, driven by the strong performance of its wireless business, especially in the contract segment.

By access type, growth in mobile accesses at the Telefónica Group accelerated to 16.6% year-on-year to 169.2 million. In Latin America, it is worth highlighting the quarterly net adds registered in Brazil (2.2 million, close to seven-fold increase on the same period in 2006), and in Mexico (almost 1.5 million, up 32% year-on-year). In Spain, net adds in the quarter totalled 406,837 thousand, exceeding the figures seen in the last three quarters and boosting the customer base to over 22.8 million, up 6.4% compared with 2006. In Europe, the customer base increased by 8.6% to 38.3 million, with net adds of 1 million customers in the quarter.

**Retail Internet broadband accesses** at the Telefónica Group surged 28.9% year-on-year to over 10.2 million at the end of December. Take-up for ADSL, TV and voice bundles remained strong, making a significant contribution to developing the broadband market and forging customer loyalty. In Spain, retail broadband accesses surpassed 4.5 million (up +22.1% year-on-year), in Latin America, 5 million (+33.2%) and in Europe, 670,000 (+48.3%).

**Pay TV accesses** at the end of the quarter exceeded 1.7 million, 64.3% more than in 2006, with operations up and running in Spain, the Czech Republic, Peru, Chile, Colombia and Brazil.

## --Revenues and expenses evolution--

Thanks to the sound increase in the Group's customer base, **revenues** in 2007 totalled 56,441 million euros, a year-on-year increase of 6.7%, while organic revenue growth<sup>3</sup> was 7.4%.

In absolute terms, **Telefónica España** contributed most to Telefónica Group revenues, accounting for 36.6% of the total. Telefónica España reported revenues of 20,683 million in 2007, up 4.7% from 2006. **Telefónica Latinoamérica** (35.6% of consolidated revenues) recorded revenues of 20,078 million euros in 2007, 11% more than in 2006. **Telefónica Europe** contributed 14,458 million euros (25.6%) to the Telefónica Group's total revenues in 2007.

In 2007, Telefónica Group's **operating expenses** grew 7% vs. 2006 to 37,431 million euros. **Supplies** rose 7.7% year-on-year in 2007 to 17,907 million euros. Personnel reorganization expenses at Telefónica Group stood at 1,199 million euros in 2007 (1,084 million euros in 2006).

Also, **gains on sale of fixed assets** in 2007 totalled 2,766 million euros due to the recognition in the second quarter of 1,296 million euros in capital gains from the sale of Airwave and in the third quarter of 1,368 million euros in capital gains from the disposal of Endemol.

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<sup>3</sup> Assuming constant exchange rates and including the consolidation of the O2 Group, Telefónica Telecom and Iberbanda in January-December 2006. It excludes the consolidation of Telefónica O2 Slovakia in January-December 2007, the consolidation of TVA in October-December 2007, the consolidation of Airwave in April-December 2006 and the consolidation of Endemol in July-December 2006.

## --OIBDA and profitability--

At the end of 2007, **operating income before depreciation and amortisation (OIBDA)** stood at 22,825 million euros, up 19.3% from 2006. The OIBDA margin in 2007 was 40.4%.

**Telefónica España** (46.9%<sup>4</sup> of consolidated OIBDA) reported OIBDA of 9,448 million euros in 2007, up 9.3% from 2006. OIBDA at **Telefónica Latinoamérica** (7,121 million euros) represented 35.3% of consolidated OIBDA for 2007<sup>5</sup>, a year-on-year increase of 8.4%. **Telefónica Europe** generated OIBDA<sup>5</sup> of 4,977 million in 2007, a contribution of 18.3% to total Group OIBDA<sup>7</sup>.

The sharp rise in OIBDA and fall in depreciation and amortisation drove **operating income (OI)** 42.1% higher in the year to 13,388 million euros.

**Profit from associates** jumped 83.3% in 2007 to 140 million euros. The bulk of the increase was due to Portugal Telecom and Lycos Europe, which in April sold its investment in the Czech-based IP provider Seznam, c.z. The improvement was also underpinned by the fact that Sogecable and The Link have not been consolidated under the equity method since the fourth quarter of 2006.

**Net financial results** at the end of 2007 amounted to 2,844 million euros, 4% above those of the same period of 2006. This variation arises mainly from the increase in the average cost of debt for Telefónica Group due to higher interest rates in Europe and higher percentage of debt in Latinoamérica, that drives financial expenses up by 207 million euros.

**Free cash flow** generated by the Telefónica Group in 2007 amounted 8,847 million euros of which 2,113 and 3,076 million euros were assigned to Telefonica's share buyback program and dividend payment respectively, and 781 million euros to commitment cancellations derived mainly from the pre-retirements plans. All this has been translated in a decrease of 6,861 million euros in respect to the net financial debt of the fiscal year 2006 (52,145 million euros), reaching the net financial debt of Telefónica Group at 2007 45,284 million euros.

**Minority interests** subtracted 213 million euros in 2007, a 38.5% year-on-year decrease mainly due to the merger by absorption of Telefónica Móviles by Telefónica S.A. in July 2006. Minority stakes in Telesp and Telefónica O2 Czech Republic accounted for the bulk of profit attributable to minority interests.

**In all, consolidated net profit** to December totalled 8,906 million euros, up 42.9% year-on-year. Basic earnings per share jumped 43.5% to 1.872 euros. In the fourth quarter, net profit amounted to 1,058 million euros, up 2.3% year-on-year, while earnings per share stood at 0.224 euros compared to 0.213 euros per share in the fourth quarter of 2006.

**CapEx** in 2007 totalled 8,027 million euros, an increase of 0.3% year-on-year.

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<sup>4</sup> 2007 OIBDA for Telefonica Group does not consider the capital gains of 1,296 million euros and 1,368 million euros from the disposals of Airwave and Endemol respectively.

<sup>5</sup> Excluding the capital gain from Airwave (1,296 million euros) from Telefónica Europe and from Group OIBDA the Airwave capital gains and the capital gain of 1,368 million euros from the disposal of Endemol.

## **2008 FINANCIAL TARGETS**

In accordance with the criteria used to establish its financial targets for 2008<sup>6</sup>, Telefónica Group expects:

Annual growth in **consolidated revenues** to be in the range of 6%-8% for 2008 (2007 Base for guidance purposes: 55,550 million euros). By regions:

- Telefónica España : +2%/+3.5% (2007 Base for guidance purposes: 20,536 million euros);
- Telefónica Latinoamérica: +11%/+14% (2007 Base for guidance purposes: 20,078 million euros);
- Telefónica Europe: +4%/+7% (2007 Base for guidance purposes: 14,358 million euros).

**Annual OIBDA growth** in 2008 to be in the range of 7.5%-11% (2007 Base for guidance purposes: 20,863 million euros). By regions:

- Telefónica España : +6%/+8% (2007 Base for guidance purposes: 9,635 million euros);
- Telefónica Latinoamérica: +12%/+16% (2007 Base for guidance purposes: 7,408 million euros);
- Telefónica Europe: +2%/+6% (2007 Base for guidance purposes: 3,974 million euros);

**Annual operating income (OI) growth** in 2008 to be in the range of 13%-19% (2007 Base for guidance purposes: 11,467 million euros).

**CapEx** in 2008 will stand around 8,600 million euros (2007 Base for guidance purposes: 7,975 million euros).

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<sup>6</sup> 2007 adjusted figures exclude Airwave and Endemol, include 3 months of consolidation of TVA. 2007 T. España revenues are adjusted for new public voice telephony services business model. Group revenues are also adjusted accordingly. 2008 figures includes TVA, Deltax and Telemig (from April 2008). Telefónica's CapEx excludes Real Estate Efficiency Program. Guidance growths assume 2007 constant FX. In terms of guidance calculation OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007 and 2008.

## RESULTS BY REGIONAL BUSINESS LINES TELEFÓNICA ESPAÑA

Telefónica España successfully bolstered its position in an extremely active and competitive market, meeting all the financial targets announced for 2007.

**Revenues** grew by 4.7% in 2007 to 20,683 million euros, beating the growth target of 3.5% - 4.5%. **Operating income before depreciation and amortisation (OIBDA)** jumped by 9.3% to 9,448 million euros, putting the OIBDA margin at 45.7%. For purposes of comparison with the OIBDA growth target for 2007 of between 9% and 11%, factoring in the factors taken into consideration when this target was set, OIBDA growth stood at 11.6%, meeting the target upgraded in July 2007.

**CapEx** amounted to 2,381 million euros, an increase of 3.4% from 2006. CapEx target for 2007, which excluded investments related to Real Estate Efficiency Plan, was set at keeping the figure below 2,400 million euros in 2007. Investment effort has been mainly devoted to growing the Internet and Broadband businesses, with significant investments related to ADSL and IP services (Imagenio). Worth to highlight is the launching of the mobile and fixed network transformation processes.

**Operating Cash Flow (OIBDA-CapEx)** for the year amounted to 7,067 million euros, growing by 11.4% compared to the January-December 2006 period.

### Fixed Business

#### Highlights:

- Sustained topline growth (+3.7% in 2007) underpinned by the good performance of Internet and broadband services and, to a lesser extent, data and IT services.
- Strong competitive position in the Broadband market, maintaining its estimated market share above 56%. At the end of December Telefónica's retail broadband accesses reached 4.6 million.
- Losses in the number of fixed telephony lines were contained at just 0.3% year-on-year (December 2007 vs. December 2006) after posting 32,801 net adds in the fourth quarter.
- 5.1% underlying OIBDA growth in 2007.
- Conclusion of the Redundancy Plan (2003/2007), to which a total of 13,870 employees signed up during the five years it was in force.

**Revenues** in 2007 amounted to 12,401 million euros, with growth reaching 3.7% year-on-year in the fourth quarter. Cumulative growth to December stood at 3.7%, slightly exceeding the growth target of between 2.5% and 3.5%.

This rise was underpinned by growth in Internet and broadband services and data and IT services, not forgetting the noteworthy performance of traditional voice and access revenues, with the former falling slightly and the latter remaining stable.

The Spanish wireline access market grew by an estimated 1.9% over the course of the year. The Company's fixed telephony accesses totalled 15,897,966 at the end of 2007 in the wake of

fourth quarter net line gains of 32,801, stemming the pace of the year-on-year decline to 0.3% (-0.7% at September 2007). The strong performance during the fourth quarter, the best figure since the first quarter of 2001, means that net line losses in 2007 were contained at 51,901, down substantially on those recorded in 2006 (-185,696 net access losses). These figures make 2007 the best year since 2001 in terms of net adds.

Estimated net adds in the fixed broadband Internet access market amounted to 0.4 million in the fourth quarter, resulting in estimated net adds of around 1.4 million for the entire year, 18.9% down on 2006. The total estimated market in Spain in December 2007 stood at 8.1 million accesses.

Telefónica's **retail Internet broadband accesses** net adds in the fourth quarter came to 227,480, taking total accesses to 4,571,599 at the end of December. This gave Telefónica continued segment leadership with an estimated market share of over 56%, slightly higher than in 2006.

Telefónica continues to spearhead the development of the **pay TV** market in Spain, achieving an estimated market share below 13% (10% by December end 2006) after adding 42,020 new customers in the fourth quarter. As a result its customer base had risen to 511,087 by the end of December 2007.

The total number of Duo and Trio bundles stood at 3,792,002 units at the end of December 2007. It is worth highlighting that over 80% of the Company's retail Internet broadband accesses are included in a double or triple play bundle (over 70% by December 2006 end).

**Operating expenses** at Telefónica España's Wireline Business totalled 7,337 million euros in 2007, 4% less than in 2006. This fall relates to lower personnel reorganization costs (513 million euros in 2007 vs. 980 million euros in 2006), which fell by 47.7%.

Topline growth outpaced expenses excluding personnel reorganization costs. This, together with the decline of personnel reorganization costs, boosted **operating income before depreciation and amortisation (OIBDA)** by 14.8% to 5,249 million euros in 2007. The **OIBDA margin** in 2007 stood at 42.3%.

## Wireless Business

### Highlights:

- Solid service revenues growth of 4.5% in 2007, driven by the strong performance of customer revenues (+8%).
- The customer base grew by 6.4% year-on-year to 22.8 million lines, with growth in the contract segment jumping 12.4%. Contract customers now account for almost 60% of the total customer base.
- Churn remained flat at 1.8% in the face of increased competitive pressure, similar to the 2006 figure, with a slight reduction in contract churn achieved down to 1%.
- Increasing contribution from data revenues (+12.4% in 2007 vs. 2006), with connectivity revenues posting the best performance, up over 70% in 2007.
- 6.5% increase in OIBDA under guidance criteria in year 2007 (excluding costs related to personnel reorganization). OIBDA reaches 4,395 million euros in 2007, with an

OIBDA margin over revenues of 45.3%.

The **Spanish wireless market** surpassed the 50.7 million-line mark by the end of 2007, with an estimated penetration rate of 111% (an increase of more than 6 percentage points vs. December 2006).

Against this backdrop, Telefónica España's Wireless Business achieved **net adds** of 406,837 customers in the fourth quarter (426,235 in the fourth quarter of 2006), beating the figures recorded in the first three quarters of the year. In cumulative terms, Telefónica España's net adds stood at 1,380,596 lines (1,556,027 in 2006), with a noteworthy number of customer gains in the **contract** segment (1,501,800, up 4.3% on 2006). This made Telefónica España clear leader in contract adds in the Spanish market, improving its share of net adds in this segment in an increasingly competitive market.

**Commercial activity** grew by 4.4% in the final quarter in year-on-year terms, with a total of more than 11.9 million commercial actions in the year, a 2.9% increase on 2006. **Customer base** now totals more than 22.8 million (+6.4% vs. December 2006), underpinned by growth in the contract segment (+12.4% vs. December 2006), which accounted for almost 60% of the total customer base at the end of 2007 (up more than 3 percentage points on December 2006).

**Revenues** rose 5.4% in 2007 to 9,693 million euros vs. 2006 and by 3.2% in the fourth quarter to 2,407 million euros.

**Operating income before depreciation and amortisation (OIBDA)** grew by 2.8% in 2007 in relation to 2006 to 4,241 million euros. The OIBDA margin stood at 43.9% in the fourth quarter (43% in the same period of 2006), and 45.3% in cumulative terms vs. 44.9% in 2006, despite increasing commercial activity in a highly competitive market.

## RESULTS BY REGIONAL BUSINESS UNITS TELEFÓNICA LATINOAMÉRICA

At the end of December 2007, Telefónica Latinoamérica managed **134.1 million accesses**, a year-on-year increase of 16.9%, boosted by growth of 22.4% in cellular customers to almost 102 million. Net adds during the fourth quarter amounted to 7.3 million, the Group's best ever figure.

Wireline telephony accesses reached 23.9 million, in line with those managed a year earlier, with significant growth in Peru (+11.3% year-on-year) which offset the lower number of lines in service in other countries. Growth in retail internet broadband accesses remained strong, up 33.2% year-on-year to over 5 million accesses, reflecting the sales and marketing efforts made by all the operators. Telefónica Latinoamérica now has close to 1.2 million pay TV customers, with operations in Peru, Chile, Colombia and, since the third quarter of 2007, Brazil, where Telesp's satellite TV licence was complemented in the fourth quarter of 2007 with the incorporation of TVA .

**Revenues** at Telefónica Latinoamérica in 2007 rose 11% year-on-year in current euros to 20,078 million euros. In constant currency terms, the countries contributing most to top line growth are Mexico and Venezuela with respective contributions of 3.2 and 3.1 percentage points. Brazil continues to make the largest contribution to Telefónica Latinoamérica's revenues (38.2%) followed by Venezuela (11.9%) and Argentina (11.3%).

**Operating income before depreciation and amortisation (OIBDA)** jumped 8.4% in current euros in 2007 to 7,121 million euros. By country, Venezuela contributed most to OIBDA growth (5.2 percentage points), followed by Mexico (3.1 percentage points). In absolute terms, Brazil is the largest contributor to Telefónica Latinoamérica's OIBDA, accounting for 43.1% of the total, followed by Venezuela (14.9%) and Argentina (11.1%).

Telefónica Latinoamérica's **CapEx** in 2007 stood at 3,343 million euros, up 18.9% year-on-year (+23% in constant euros). This increase was driven by stronger commercial activity at its wireline business, both in broadband and TV, the increased coverage and capacity of its GSM networks and the acquisition of spectrum in Venezuela, Brazil and Panama to expand coverage and guarantee service quality in areas where traffic is heaviest.

In 2007 Telefónica Latinoamérica generated **operating cash flow (OIBDA-CapEx)** of 3,778 million euros, growth of 0.5% in current euros (+3% in constant euros).

### **BRAZIL**

Telefónica Latinoamérica managed close to 49 million accesses in Brazil at 31 December 2007, 9.5% more than a year earlier. This growth reflects a 15.2% year-on-year increase in Vivo's customer base and, to a lesser extent, the expansion of Telesp's broadband business and the incorporation of TVA's MMDS pay TV customers.

In 2007, Telefónica Latinoamérica in Brazil reported **revenues** of 7,662 million euros, up 3.2% in local currency vs. 2006 thanks to the sharp increase in Vivo's sales, which offset Telesp's lower revenues. **Operating income before depreciation and amortisation (OIBDA)** totalled 3,026 million euros, down 3.8%. Meanwhile CapEx amounted to 1,087 million euros, an increase of 3.1% year-on-year in local currency, driven by the larger investments carried out

by Telesp in its growth businesses (broadband and television).

- **Telesp**

At the end of December, Telesp managed 15.5 million telephony, broadband and TV accesses.

Telesp reported revenues of 5,619 million euros in 2007 and an Operating income before depreciation and amortisation (OIBDA) of 2,438 million euros in 2007. CapEx in 2007 was 729 million euros in local currency, 11.2% higher than the figure reported a year earlier due to greater investment in broadband and pay TV and higher cable theft recorded in the last three quarters.

- **Vivo**

Vivo's strong earnings in 2007 reflect the management measures implemented in 2006 and 2007 to achieve profitable growth and increase customer satisfaction, resulting in a significant increase in the customer base and the ARPU growth.

Vivo ended December with a total of 33.5 million customers (+15.2% vs. December 2006) in a market with an estimated penetration rate of 65.6%, up more than 10 percentage points year-on-year in the company's area of activity.

**Revenues** for the year totalled 2,396 million euros, a year-on-year increase of +16.5% in local currency. Vivo recorded **Operating income before depreciation and amortisation (OIBDA)** through to December of 588 million euros, an increase of 30.8% on 2006 in local currency.

## **ARGENTINA**

Telefónica maintained its leadership in its operating area in 2007, to reach 19.5 million accesses, a year-on-year growth of 15.8%. This increase was underpinned by the sharp growth in cellular customers, up by 22.6% vs. December 2006 to more than 13.7 million, and by broadband accesses, which totalled 819,000, 58.3% more than in 2006.

This strong operating performance is reflected in the financial data, with **revenues** rising by 15.7% in local currency vs. 2006 to 2,264 million euros. **Operating income before depreciation and amortisation (OIBDA)** rose 8% year-on-year in local currency to 773 million euros in 2007, reaching an OIBDA margin of 32.9%. CapEx stood at 289 million euros (243 million euros in 2006). This higher investment is due to the development of broadband and new businesses, as well as the increase in wireless network capacity.

- **Telefónica de Argentina**

Telefónica de Argentina had 5.7 million accesses at the end of 2007, up 2.1% on 2006. This figure was underpinned by the 58.3% growth in retail broadband accesses to 819,000.

**Revenues** in the fixed line business came to 984 million euros in 2007, a year-on-year growth of 9.9% in local currency terms. Telefónica de Argentina's **operating income before depreciation and amortisation (OIBDA)** reached to 356 million euros. **CapEx** amounted to 165 million euros, a 30.3% increase in local currency on 2006. Investment was primarily earmarked for the development of broadband and new businesses.

## ○ TEM

The Argentine cellular market continued to grow at a strong pace in 2007, boosting estimated penetration to over 97% at December 2007 (+20 percentage points higher than at December 2006), ending the year with the highest penetration in Latin America. Net adds in TEM Argentina in the fourth quarter of 2007 stood at 656,269 new customers. GSM customers now account for 86.5% of the total customer base (+13.3 percentage points from December 2006).

Revenues hit the 1,353 million euro mark in 2007, an 18.7% year-on-year increase in local currency. Revenue growth, coupled with lower unit commercial costs and customer management expenses as well as lower network expenses, translated into an increase in operating income before depreciation and amortisation (OIBDA) of 36.5% year-on-year in local currency to 418 million euros. CapEx in 2007 totaled 123 million euros, an increase of 33.2% in local currency from 2006 due to the increase of the network capacity.

## **CHILE**

At the end of 2007 Telefónica Latinoamérica managed a total of 9.4 million accesses in Chile, 9.6% more than in December 2006, underpinned by growth in cellular accesses (+10.6% to 6.3 million), and, to a lesser extent, an increase in retail broadband Internet accesses (+30.6% to 646,000) and pay TV (+133.4% to 220,000).

Telefónica Latinoamérica's **revenues** in Chile totalled 1,814 million euros in 2007, a year-on-year increase of 14.3% in local currency. **Operating income before depreciation and amortisation (OIBDA)** in 2007 totalled 716 million euros, up 8.2% in local currency vs. 2006 due to higher OIBDA in the cellular business which offset the drop in the results of the wireline business.

Telefónica Latinoamérica continues to invest heavily in Chile. **CapEx** in 2007 totalled 418 million euros, an increase of 32.3% in local currency from 2006. Main investments continue concentrating into the fastest growing businesses: mobile telephony, ADSL and pay TV.

## ○ Telefónica Chile

At the end of 2007 Telefónica Chile managed a total of 3.1 million accesses, 7.5% more than in 2006.

Revenues in 2007 totalled 974 million euros, a year-on-year increase of 4% in local currency. The launch of TV services in June 2006 and the increased broadband penetration drove a 79.7% increase in Internet and broadband revenues in local currency. Operating income before depreciation and amortisation (OIBDA) reached 368 million euros. CapEx totalled 198 million euros, an increase of 30.1% in local currency from 2006, driven mainly by sharp growth in satellite TV services (DTH), the launch of IPTV, growth in the ADSL access base and initiatives designed to enhance network quality.

## ○ TEM Chile

The Chilean market grew strongly again during 2007 with estimated penetration up 8 percentage points to 90%. Telefónica Móviles Chile remains market leader with over 6.3 million customers at the end of 2007, boosted by net adds of 602,457 customers over the year.

**Revenues** for 2007 totalled 930 million euros, a year-on-year increase of 25.5% in local

currency. **Operating income before depreciation and amortisation (OIBDA)** rose 27.3% in local currency in 2007 to 348 million euros, fuelled by the strong growth in revenues. **CapEx** in 2007 totalled 220 million euros, an increase of 34.4% in local currency from 2006.

## PERÚ

At the end of the year, **accesses** in Peru stood at 12.2 million, an increase of 39.8%, year-on-year driven by the 58.5% increase in mobile accesses, 8.1 million accesses at the end of the period.

Telefónica's **revenues** in Peru hit the 1,513 million euros mark in 2007, a 10.5% year-on-year increase in local currency. **Operating Income before depreciation and amortisation (OIBDA)** stood at 469 million euros at the end of 2007. **CapEx** in 2007 totalled 281 million euros, an increase of 35.8% in local currency from 2006. Particularly noteworthy is the major investment in the expansion of the mobile network due to higher traffic levels. As a result, the wireless business accounted for 55% of CapEx.

### o **Telefónica del Perú**

Telefónica del Perú had total accesses of 4 million in 2007, an increase of 13% year-on-year, thanks to the surge in fixed wireless telephony and broadband accesses.

**Revenues** totalled 1,031 million euros. **Operating Income before depreciation and amortisation (OIBDA)** in 2007 was 311 million euros and **CapEx** totalled 126 million euro.

### o **TEM Perú**

The pace of growth of the Peruvian mobile market accelerated in 2007, with an estimated penetration of 48% at the end of December (+16 percentage points compared to December 2006). At the year end Telefónica Móviles Perú's customer base stood at 8.1 million, an increase of 58.5%, year-on-year.

**Revenues** totalled 603 million euros in 2007, up 40.5% in local currency. **Operating income before depreciation and amortisation (OIBDA)** amounted to 158 million euros, a year-on-year rise of 27.3% in local currency. **CapEx** stood at 155 million euros at the end of 2007, up 92.3% in local currency compared to 2006, being the bulk of this invested in expanding the network capacity.

## COLOMBIA

At the end of December 2007, Telefónica reached 11 million accesses in Colombia which translates into growth of 7.7% compared to December 2006.

During the year, **revenues** from the fixed and mobile businesses reached 1,569 million euros, up 27.9% on 2006 in constant currency, reflecting the first time consolidation of Telefónica Telecom in May 2006 and strong growth in Internet and Broadband revenues and service revenues at the mobile business. **Operating income before depreciation and amortisation (OIBDA)** rose 42.5% year-on-year in local currency to 485 million euros.

### o **Telefónica Telecom**

Telefónica Telecom reached a total of 2.6 million accesses at 31 December 2007, up 7.1% year-on-year, with an almost three-fold increase in the number of broadband users since December 2006 (a total of 200,271 accesses at 31 December 2007).

The Satellite TV product was launched at the start of the year. This key product, which enables Telefónica Telecom to launch 'Trio' triple play bundles (voice, broadband and TV), had 72,930 TV customers at the end of December 2007.

**Revenues** for the wireline telephony business reached 739 million euros in 2007, representing 8.1% growth in local currency. **Operating income before depreciation and amortisation (OIBDA)** amounted to 299 million euros, which represents year-on-year growth of 16% in local currency. **CapEx** to 31 December 2007 stood at 180 million euros. The bulk of this was invested in deploying broadband and a series of regional systems projects.

#### o TEM Colombia

The Colombian cellular market ended 2007 with 32.3 million customers, although growth is slowing, reaching an estimated penetration of 75% on December 2007, up 8 percentage points from 2006.

**Revenues** in 2007 amounted to 869 million euros, up 7.4% year-on-year in local currency. Service revenues climbed 13.4% in local currency compared to 2006. **Operating income before depreciation and amortisation (OIBDA)** rose 30% year-on-year in local currency to 186 million euros in 2007. **CapEx** in 2007 stood at 180 million euros.

### MÉXICO

Growth in the Mexican market accelerated yet again, with the penetration rate reaching an estimated 64% by December 2007 (up 11 percentage points vs. December 2006).

The company's strong business momentum fuelled a 58.5% year-on-year increase in 2007 to 1,431 million euros. **Operating income before depreciation and amortisation (OIBDA)** in the fourth quarter reflected both solid revenue growth and the efficiency gains achieved thanks to economies of scale. OIBDA in 2007 stood at 179 million euros.

**CapEx** in 2007 amounted to 230 million euros compared with 180 million euros in 2006, as a result of the capacity expansion carried out to manage increases in traffic.

### VENEZUELA

Penetration in the Venezuelan cellular market stood at an estimated 85% in December 2007, up 15 percentage points from December 2006. As a result, Telefónica Móviles Venezuela's customer base stood at over 10.4 million (+18.2% year-on-year) at the end of 2007, recording net adds of over 1.6 million new lines in the year.

**Revenues** in 2007 totalled 2,392 million euros, +27.8% vs. 2006 in local currency), driven by higher growth in service revenues (+27.1% year-on-year) than in the customer base. **Operating income before depreciation and amortisation (OIBDA)** reached 1,060 million euros in 2007, 42% higher than the 2006 figure in local currency.

**CapEx** totalled 370 million euros in 2007 (232 million euros in 2006) as a result of the major investment in the roll-out of the GSM network and the acquisition of a licence to provide service on the 1900 MHz band for 88 million euros.

### CENTRAL AMERICA

Telefónica Móviles de Centroamérica (Panama, Guatemala, El Salvador and Nicaragua)

substantially stepped up its commercial activity in 2007 compared to 2006, once again especially in Guatemala.

At the end of 2007, estimated penetration of the Central American market stood at 69% (up 23 percentage points on 2006). Against this backdrop, Telefónica Móviles de Centroamérica's customer base rose 37.8% year-on-year to 5.3 million.

As a result of the company's healthy commercial performance, **revenues** in 2007 totalled 585 million euros, up 15.9% year-on-year in constant terms. Despite the increase in commercial activity, **Operating income before depreciation and amortisation (OIBDA)** reached 236 million euros in 2007, a 26.7% year-on-year increase in constant terms.

In 2007, **CapEx** totalled 133 million euros, a 35% year-on-year increase in constant currency. The bulk of this investment was allocated to boosting the capacity and coverage of the region's wireless network.

## **ECUADOR**

The Ecuadorian cellular market experienced strong growth in 2007, with an estimated penetration of 70% by the end of the year, 9 percentage points higher than a year earlier. Telefónica Móviles Ecuador's customer base at the end of December 2007 stood at 2.6 million, up 3.7% year-on-year. Of this number, 70.3% were GSM customers (+18.8 percentage points on 2006).

**Revenues** at December 2007 stood at 291 million euros, up 9.5% in local currency compared to 2006. **Operating income before depreciation and amortisation (OIBDA)** rose 24.8% year-on-year in local currency to 73 million euros in 2007.

**CapEx** in 2007 totalled 60 million euros, up 36.8% in local currency compared to the previous year in order to service the sharp increase in traffic being carried by the operator.

## **TELEFONICA INTERNATIONAL WHOLESALE SERVICES**

**Revenues** in 2007 totalled 275 million euros, a year-on-year increase of 22.4% in constant euros. The growth in revenues pushed up **Operating income before depreciation and amortisation (OIBDA)** to 88 million euros (+13.9% in constant euros); the OIBDA margin stood at 31.9%.

## RESULTS BY REGIONAL BUSINESS UNITS TELEFÓNICA O2 EUROPE

At the end of December 2007, Telefónica Europe's customer base reached 41.9 million accesses, compared with 38.6 million accesses at year end 2006 (+8.7% year-on-year).

In 2007, Telefónica Europe **revenue** was 14,458 million euros, (+9.9% year-on-year), while in the quarter declined 1.1% year-on-year, mainly due to a weaker sterling/euro exchange rate and the exit of Airwave from the perimeter. **Operating income before depreciation and amortization (OIBDA)** reached 4,977 million euros, 34.2% above 2006 figures<sup>7</sup>.

Telefónica Europe **CapEx** for the full year 2007 amounted to 2,125 million euros (2,552 million euros in 2006 February-December period). **Operating Cash Flow (OIBDA-CapEx)** for the year amounted to 2,852 million euros (1,156 million euros in 2006 February-December period).

Telefónica Europe 2007 financial targets<sup>8</sup> have been achieved: 11.7% year-on-year growth in revenues (vs. guidance of 11% - 14%); 10.1% year-on-year growth in OIBDA (vs. guidance of 7% - 10%); CapEx of 2,095 million euros (vs. guidance of less than 2,200 million euros) .

### O2 UK

For the full year, total revenues were 7,403 million euros, an increase of 18.7% year-on-year in local currency compared to the 11 month period to 31 December 2006. OIBDA for 2007 totalled 1,923 million euros, an increase of 8.7% year-on-year in local currency compared to the 11 month period to 31 December 2006.

The business once again outperformed the market, with gross additions in the quarter around 22% higher than the same period in 2006. O2 UK added a total of 483,000 net mobile customers in the quarter (the highest in the market), an increase of 63.8% year-on-year, and 749,000 customers in the year (-54.7% year-on-year, reflecting the highly penetrated market), taking the base to 18.4 million (excluding the Tesco Mobile customer base) representing growth of 4.2% year-on-year.

### O2 GERMANY

For the full year total revenues were 3,541 million euros, an increase of 6.7% compared to the 11 month period to 31 December 2006. OIBDA for the full year totalled 473 million euros.

The business traded well in the quarter, with gross additions up 63.3% year-on-year. Net additions in the quarter reached 303,000 customers, while for the full year they were 1.4 million,

<sup>7</sup> Telefónica Europe includes in 2006 Telefónica O2 Czech Republic (January-December), T.Deutschland (January-December) and O2 Group (February-December)

<sup>8</sup> 2006 base reported figures include eleven months of O2 Group (consolidated since Feb.06), three months of start-up losses in Slovakia, and exclude Airwave results. 2007 guidance assumes constant exchange rates as of 2006, and exclude changes in consolidation. OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel reorganization and Real Estate Programs are included as operating revenues/expenses, except for those decided after guidance was set at the beginning of the year (redundancies in O2 Group and Real Estate Program in TEF O2 CR). For comparison, the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures

taking the mobile customer base to 12.5 million, 13.1% higher than at the same time last year. The Tchibo Mobile customer base grew by 81,000 to 1.18 million by the end of the quarter, while the Fonic brand added 129,000 customers to end the year with a base of 200,000.

O2 DSL had acquired 75,000 customers by the end of the quarter, with a strong order book of circa 50,000 which were not reflected in the net additions number for the quarter. Telefónica Deutschland reported 671,000 ULL lines in total at the end of December, from around 187,000 lines at the end of the fourth quarter in 2006. Equivalent ADSL lines in service reached 837,000 at the end of December, from 619,000 at the end of December last year.

## **O2 IRELAND**

Revenue for the full year 2007 was 991 million euros, an increase of 11.9% compared to the 11 month period to 31 December 2006. OIBDA for the year was 316 million euros, 2% higher compared to the 11 month period to 31 December 2006.

O2 Ireland traded well in the fourth quarter, with gross connections up 4.6% compared to the same quarter last year. Net connections totalled 14,000 in the fourth quarter. At the end of December the total customer base was 1.6 million customers, 0.9% higher than at the same time last year. The number of mobile broadband customers stood at 24,500 by the end of the year, after a successful launch in July 2007. For the year total contract net additions were 70,000, 24.2% higher than in 2006.

## **O2 CZECH REPUBLIC**

For the full year, revenues reached 2,257 million euros, an increase of 2.9% year-on-year in local currency. In line with the first nine months of the year, the Czech mobile business was the key driver of this growth. Business revenues in the Czech fixed line segment were flat in 2007 compared to the previous year, confirming the trend seen since the first quarter. OIBDA in 2007 reached 1,010 million euros, up 0.5% year-on-year in local currency.

The total number of mobile customers in the Czech Republic increased by 5.4% year-on-year to reach 5.1 million at the end of December 2007, with net additions for the full year up to 38.4% year-on-year. The contract customer base reached 2.2 million, representing 19.7% growth year-on-year, with net additions of 369,000 in 2007 (+12.1% year-on year), and 83,000 in the fourth quarter.

The total number of fixed telephony accesses amounted to 2.1 million at the end of 2007 while total number of ADSL accesses (retail and wholesale) reached 570,000 at 31 December 2007, up 21.3% year-on-year. After the successful take up of bundled products, total number of O2 TV's customers increased to 73,000 at the end of 2007, representing 20,000 net adds in the fourth quarter, up from 16,000 in the previous quarter.

In line with the previous quarters, during the fourth quarter Telefónica O2 Slovakia successfully continued in building its footprint in the Slovak market. The key activities focused on marketing of company's prepaid and recently introduced postpaid offer, customer care enhancement with the aim to further expand the customer base and improve the customer mix via migration to postpaid tariffs. By the end of 2007, the total number of mobile registered customers in Slovakia amounted to 565,000.

## RESULTS BY REGIONAL BUSINESS UNITS OTHER COMPANIES

### ATENTO GROUP

The Atento Group performed well in 2007, consolidating year-on-year revenue and OIBDA margin growth. This strong earnings performance was driven by the implementation of the Group's strategy to differentiate itself from competitors. For the fifth consecutive year Atento achieved profitable business growth, diversified its customer portfolio and added customers from a range of sectors.

**Revenues** totalled 1,174 million euros at year-end 2007, up 14.4% from 2006. The Atento Group's **Operating income before depreciation and amortisation (OIBDA)** amounted to 161 million euros, year-on-year growth of 13.9%.

**Operating income** in 2007 amounted to 131 million euros, representing year-on-year growth of 15.1% and an OIBDA margin of 11.2%.

**CapEx** in 2007 amounted to 39 million euros, compared to 35 million euros in 2006, as a result of the higher investment need to support the business growth, mainly in Brazil and Mexico.

**Operating cash flow (OIBDA-Capex)** improved significantly when compared to 2006, rising by 15.1% to 122 million euros.