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The Company's right diversification strategy and its optimum business management model has pushed the quarterly organic growth revenue rate keeping Telefónica at the forefront in Europe

TELEFÓNICA EARNS 5,596 MILLION EUROS TO SEPTEMBER AND CONFIRMS ALL GROWTH FORECASTS FOR 2008

- On a like-for-like basis, in the first nine months of 2008 the Company has shown a sharp improvement across the board:
 - Revenue advanced 7%, thanks to Latin America (+12.9%), the Group's main driver, and the business in Spain (+2.3%) and Europe (+5.9%)
 - OIBDA rose 9.8%, due to Telefónica's efficient cost management policy and the advantages of the scale, while operating income (OI) grew 18%
 - Net profit climbed 23.5%, putting basic earnings per share at 1.2 euros (+26.4%)
- The strong growth in commercial activity during the quarter drove a 15.2% increase in the customer base to 252 million accesses
- Telefónica also continued to enjoy high cash generation (organic +10.1%), even higher than the revenue figure, generating an operating cash flow (OIBDA-CapEx) of 11,621 million euros to 30 September 2008
- The ratio of net debt + commitments to OIBDA stands at 2x, at the lower end of the target range set by the company (2-2.5x), an example of the financial strength which gives it flexibility in the current credit market
- Current revenues grew 2.7%, while OIBDA (-6.7%), OI (-9.2%) and net profit (-28.7%) were impacted by the capital gains from the sale of Airwave and Endemol in 2007
- The Company has earmarked during this year till today 9% of its current market cap to shareholder remuneration, reaffirming its commitment to prioritize shareholder retribution in the use of cash and to maintain a growing dividend policy

Madrid, 31 July 2008.- The Telefónica Group's results for the first nine months of 2008 mark a consolidation of the trends evidenced in the first half, displaying substantial organic growth stripping out capital gains (i.e. excluding the impact of the capital gains generated from the sale of Airwave and Endemol in 2007).

Given the current market backdrop, these results highlight the more defensive profile of the telecommunications sector in general, and Telefónica in particular, underpinned by its extensive geographic and service diversification, strong competitive positioning in its main markets (the number one or two player in all markets) and the Company's integrated management model.

Similarly, the high organic growth (stripping out capital gains) in the main income statement headings, with growth accelerating from the topline down through to OI, and the sizeable cash flow generated during the period (outpacing revenue growth year-on-year), reflect the Company's strategic focus on maximising profitability and leveraging its economies of scale.

--252 million accesses--

During the third quarter the Company continued to register a strong commercial activity across the markets, underpinning growth in the total number of **accesses** of 15.2% on the first nine months of 2007 to almost 252 million. This growth was driven by the increase in wireless (+19.0%), broadband (+24.5%) and pay TV (+54.0%) accesses. By region, it is worth highlighting the contribution by Telefónica Latinoamérica, with over 150 million accesses across the region at the end of September 2008 (up 21.1% year-on-year).

By access type, the Telefónica Group's **wireless accesses** stood at approximately 189 million at the end of September, with 6.2 million net adds during the third quarter of 2008 (year-on-year organic¹ growth of 17.4%) and of 17.2² million net adds in January-September (year-on-year organic³ growth of 14.2%).

Retail internet broadband accesses stood at 12.0 million, a year-on-year increase of 24.5%, driven by the growing penetration of voice, ADSL and pay-TV bundles. In fact, in Spain over 84% of retail broadband accesses are bundled as part of some kind of dual or triple service package while in Latin America the weight of bundles is growing rapidly, with 46% of retail broadband accessed bundled as part of Duo or Trio packages. Net adds in the third quarter of 2008 amounted to 0.6 million accesses (year-on-year growth of 14.9%), bringing total net adds for the first nine months to 1.7 million accesses (up 1.5% year-on-year), of which 0.8 million come from Latin America, 0.5 million from Spain and 0.4 million from Europe.

Total broadband accesses in Latin America at the end of September surpassed 5.8 million (up 24.9% year-on-year), compared to over 5.1 million in Spain (up 16.8% year-on-year), and just over 1 million in Europe (year-on-year growth of 80.8%).

Pay TV accesses stood at over 2.1 million at the end of the third quarter, up 54.0% on the prior year, driven by net adds of 130,000 accesses in the third quarter (year-on-year growth of 14.4%) and approximately 410,000 in January-September (up 21.4% year-on-year). By September the

¹ Including Telemig in July-September of 2007

² The Telemig customers incorporated by the Group in April 2008 (close to 4 million) are not included as net adds in the period.

³ Including Telemig in April-September of 2007

Company offered Pay-TV services in Spain, the Czech Republic, Peru, Chile, Colombia and Brazil, whereas in October Telefonica launched its pay TV services in Venezuela.

--Sound organic growth rates--

The positive evolution of the operating results led to **revenues** of 43,141 million euros, for a year-on-year increase in the first nine months of the year of 2.7%, boosted by the outstanding growth rate of 5.7% in the third quarter.

In organic terms⁴, revenue growth accelerated as compared to the first half, reaching 7.0% in the first nine months (+6.7% in the first half of the year), mainly driven by the significant increase in Telefónica Latinoamérica (4.6 percentage points contribution to growth in the first nine months of 2008). In absolute terms, in the first nine months of 2008 Telefónica Latinoamérica accounted for 37.8% of total Group revenues, with Telefónica España and Telefónica Europe accounting for 36.4% and 24.8%, respectively.

Meanwhile, the Telefónica Group's **operating expenses** totalled 27,186 million euros in the January-September 2008, virtually flat year-on-year. Stripping out the impact of exchange rates, operating expenses would have risen 3.5% year-on-year.

Gains on sale of fixed assets totalled 236 million euros in the first nine months of 2008, mainly in connection with capital gains recorded on the sale of its stake in Sogecable (143 million euros) and the Real Estate programmes in Telefónica España and Telefónica Europe. It is worth recalling that in January-September 2007 the Company registered the capital gains realised on the disposal of Airwave (1,296 million euros) and Endemol (1,368 million euros), the latter in the third quarter of 2007.

Operating income before depreciation and amortisation (OIBDA) reached 17,026 million euros for the first nine months of 2008, down 6.7% year-on-year, due primarily to the impact of the aforementioned capital gains, which also explain the year-on-year decline in OIBDA in the third quarter of 2008 (-15.4%). However, excluding also capital gains⁵, OIBDA would have risen 9.8% in the period, outpacing topline growth by 2.8 percentage points. Telefónica Latinoamérica (+5.4 percentage points) and Telefónica España (+3.0 percentage points) were the main contributors to this growth. In absolute terms, OIBDA at Telefónica España accounted for 46.1% of total Group OIBDA, compared to 35.4% and 18.0% from Telefónica Latinoamérica and Telefónica Europe, respectively.

The OIBDA margin for January-September 2008 stood at 39.5% (compared to 43.4% a year earlier), due to capital gains on the disposals of Airwave and Endemol. In organic terms, and excluding capital gains⁷, the OIBDA margin was 38.5% in the first nine months of 2008, up 1.0 percentage points year-on-year, driven by efficiency improvements and economies of scale, in

⁴ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-September 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-106.1 million euros in January-September 2007) is included. In OIBDA and OI, the impact of asset disposals (Airwave, Endemol and Sogecable) is excluded from both periods.

⁵ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-September 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-106.1 million euros in January-September 2007) is included. In OIBDA and OI, the impact of asset disposals (Airwave, Endemol and Sogecable) is excluded from both periods.

the context of high commercial activity in the Group and transformation of the wireline business in Latin America.

Depreciation and amortisation in the first nine months totalled 6,803 million euros, down 2.6% year-on-year. Telefónica Europe includes the amortisation of the purchase price allocation made following the O2 Group acquisition (523 million euros) and the Telefónica O2 Czech Republic acquisition (133 million euros). In organic terms⁶ the Telefónica Group's depreciation and amortisation charges for the nine months fell 0.3% year-on-year, with Telefónica Europe and Telefónica España contributing the most to this decline.

Operating income (OI) totalled 10,223 million euros for the period from January to September 2008, down 9.2% year-on-year, due to recognition of the aforementioned capital gains on the sale of Airwave and Endemol in 2007. In organic terms⁶, the drop in operating income stands at 7.8%. Also stripping out the capital gains on the Sogecable, Endemol and Airwave disposals from both periods, operating income would grow 18.0% year-on-year.

Accordingly, growth accelerated in the third quarter in organic terms and ex-capital gains⁷, from revenue to operating income (revenue up 7.0%, OIBDA up 9.8%, and OI up 18.0%).

Net profit from associates amounted to 20 million euros in the first nine months (vs. 107 million euros in January-September 2007), mainly contributed by the investment in Portugal Telecom. The year-on-year decline reflects a lower contribution from Portugal Telecom and losses attributable to the Company's investment in Telco SpA.

Net financial results at the end of September 2008 amounted to 2,099 million euros, virtually flat vs. the same period of 2007 (+0.2%), mainly due to the decrease of 10% in the average debt, which has generated savings of 230 million euros.

--Financial Flexibility--

Free cash flow generated by the Telefónica Group up to the end of September 2008 amounted to 6,276 million euros of which 1,766 million euros were assigned to Telefónica's share buyback program, 1,869 million euros to Telefónica S.A. dividend payment and 552 million euros to commitment cancellations derived mainly from the pre-retirements plans. Due to the fact that financial and Real Estate net divestments for the period amounted to 339 million euros, net financial debt decreased in 1,749 million euros. Also, net debt was reduced by an additional 679 million euros because of the foreign exchange impact, changes in the consolidation perimeter and other effects on financial accounts. All this has led to a decrease of 2,428 million euros with respect to the net financial debt at the end of the fiscal year 2007 (45,284 million euros), leaving the net financial debt of the Telefónica Group at September 2008 at 42,856 million euros.

Leverage ratio, net debt over OIBDA, continues to fall down to 1.91x at September 2008, compared to 2.0x at June 2008, thanks to both the reduction of the net financial debt in the period and to an increase in the OIBDA figure.

During the first nine months of the year, the **financing activity** of Telefónica Group, excluding short term Commercial Paper Programmes activity, rose to approximately 2,700 million euros, less intense compared to previous periods due to the instability of the credit markets and the Group's liquidity position. The cash position as of September 30th covers in excess debt

maturities in the last quarter of the year. Net debt maturities forecasted for 2009 stand at 4,085 million euros.

The **tax provision** for January-September 2008 totalled 2,374 million euros, implying an effective tax rate of 29.2%. However, the Telefónica Group's cash outflow is being lower in 2008 as tax losses generated in prior years and pending deductions are used. It is worth highlighting that in 2007 the tax provision was lower, as a result of the disposal of Endemol, which generated a fiscal loss.

Minority interests grew 11.4% year-on-year, reducing net profit for the first nine months of the year by 174 million euros.

As a result of the above, **consolidated net income** for the first nine months of 2008 amounted to 5,596 million euros, down 28.7% on the same period of 2007. This decrease is mainly due to the recognition in 2007 of capital gains on the sale of Airwave and Endemol. Stripping out the impact of asset disposals (Airwave, Endemol and Sogecable) from both periods, growth in net income in January-September rises to 23.5%. **Basic earnings per share** in the first nine months of 2008 stood at 1.2 euros, **year-on-year growth of 26.4% on comparable terms**.⁶

CapEx amounted to 5,406 million euros in January-September, to leave **operating cash flow (OIBDA-CapEx)** at 11,621 million euros, with a year-on-year organic growth ex-capital gains⁷ of 10.1%. By region, Telefónica España accounted for 6,302 million euros of the total, while Telefónica Latinoamérica generated 3,626 million euros and Telefónica Europe, 1,693 million euros. **Free cash flow per share** was 1.346 euros for the first nine months of 2008, compared to 1.249 euros the year before.

In relation to **shareholder remuneration**, on November 12th, 2008, the Company paid out a per share interim dividend of 0.50 euros against 2008 profits, equivalent to 50% of the total dividend to be paid against this year's profits. In addition, on October 13th, 2008, Telefónica announced a 50% expansion of its 2008 share buyback programme, implying the acquisition of 50 million own shares by year-end, in addition of the 100 million already bought since the beginning of the year. The Company reiterates its commitment to progressively increase the dividend per share to be distributed in the next years, from the 1 euro dividend to be paid against 2008 fiscal year.

⁶ Excluding the impact of asset disposals (Airwave, Endemol and Sogecable) from both periods.

⁷ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-September 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-106.1 million euros) is included. In OIBDA and OI, the impact of asset disposals (Airwave, Endemol and Sogecable) is excluded from both periods.

RESULTS BY REGIONAL BUSINESS UNITS

TELEFÓNICA ESPAÑA

At the end of September 2008, Telefónica España managed 47.2 million **accesses**, a year-on-year increase of 3.3%, boosted by year-on-year growth of 4.5% in mobile accesses –to over 23.4 million– and 16.8% growth in retail wireline broadband Internet accesses –to over 5.1 million–.

In the current economic environment, results in the first nine months show Telefónica's differential profile in the market, and reflect the soundness of its business model, which leverages the advantages it enjoys as an integrated operator with a strong position in the highest-value segments.

Revenues rose 1.6% year-on-year in the first nine months, to 15,706 million euros, and climbed 2.0% in the third quarter. On a like-for-like terms⁸, revenues increased 2.7% in the third quarter and by 2.3% in the first nine months. It is worth mentioning that in the third quarter the Company booked 182.8 million in revenues associated with the Universal Service Obligation at Telefónica España wireline business for the 2003-2005 period, generating a positive OIBDA contribution of 50.6 million euros.

OIBDA rose 0.9% in the third quarter and by 6.4% in the first nine months, to 7,857 million euros, bringing the OIBDA margin to 50.0%. Excluding one-off effects⁹ booked in the first nine months of 2007 and 2008, OIBDA rose 1.5% in January-September.

CapEx at Telefónica España totalled 1,555 million euros in January-September, with investment focused on growing broadband businesses, fuelling investment in fibre and 3G. In the first nine months of 2008, Telefónica España generated **operating cash flow (OIBDA-CapEx)** of 6,302 million euros, a year-on-year increase of 8.4%, reflecting the Company's ability to preserve cash flow generation in the current environment.

--Fixed business--

The Spanish wireline market grew by an estimated 1.6% year-on-year. The Company's **wireline telephony accesses** exceeded 15.5 million at the end of September 2008.

The Spanish market for wireline broadband Internet access reported an increase of 0.2 million connections in the third quarter and of 0.8 million in the first nine months. Accordingly, at the end of September 2008, the estimated size of the wireline broadband Internet access market topped 8.9 million, up 16.1% on September 2007.

Telefónica's **retail Broadband Internet accesses** net adds totalled 112,001 in the third quarter and 502,924 in the first nine months (a year-on-year drop of 17.9%), resulting in a 16.8% year-on-year increase in accesses to over 5.1 million by September end. This performance is the result of the strategy of offering a differentiated, high-quality service along with a portfolio of services

⁸ Including the impact on Telefónica España of the new model for public use telephone service (-106.1 million euros in the period from January to September 2007).

⁹ Bad debt recovery amounting to 25 million euros in the first quarter of 2008, the 152 million euros fine levied by the European Union in the second quarter of 2007, the 116 million euros provision linked to a redundancy programme in the first nine months of 2007, and Real Estate capital gains of 73 million euros in the first nine months of 2008 (vs. 9 million euros in January-September 2007).

tailored to the needs of each customer segment. Highlights in this area include the positive results achieved through the launch of high-speed products.

In the **Pay TV** business, Telefónica's estimated market share stood at around 13.5% at the end of September 2008, with 12,993 new customers added in the third quarter and 78,464 in the first nine months. Pay TV customers totalled 589,551 (up 25.7% year-on-year).

The total number of Duo and Trio bundles reached 4.4 million units. This means that more than 84% of the Company's retail broadband accesses were part of a double or triple offer bundle.

Revenues rose 2.7% year-on-year in the first nine months, to 9,468 million euros, and climbed 5.9% in the third quarter. On a like-for like terms¹⁰, revenues increased 3.9% so far this year and by 7.2% in the third quarter, when the Company booked 182.8 million euros related to the Universal Service Obligation for 2003-2005. Operating expenses, following a 1.2% increase in the third quarter of 2008, totalled 5,007 million euros (down 2.8% year-on-year) in the first nine months.

OIBDA rose 9.9% in the third quarter and in the first nine months of 2008 totalled 4,629 million euros, a year-on-year increase of 13.8%

CapEx amounted to 1,043 million euros in the first nine months, leaving **operating cash flow (OIBDA-CapEx)** at 3,586 million euros.

--Mobile business--

The **Spanish wireless market** reached 52.5 million lines in September 2008, with an estimated penetration rate of 115% (6 percentage points higher than in September 2007).

Telefónica España's wireless business posted **net adds** of 210,533 customers in the third quarter of 2008 (317,038 in the third quarter of 2007), largely underpinned by the contract segment, which accounted for 93.4% of the total, with 196,617 lines. In cumulative terms, net adds in the first nine months of 2008 reached 609,418 lines (973,759 in the first nine months of 2007), with a noteworthy number of net adds achieved in the contract segment of 812,718 lines. At the end of September 2008, the **customer base** topped 23.4 million lines, up 4.5% year-on-year, fuelled by the positive performance among contract customers (9.0% increase), which now make up 61.7% of the total customer base (up 2.5 percentage points vs. September 2007).

Revenues in the third quarter decreased by 2.1% year-on-year to 2,484 million euros due to lower customer usage and lower incoming revenues. However, nine-month revenues increased by 0.2% to 7,301 million euros year-on-year. Operating expenses increased 4.8% year-on-year in the third quarter to 1,397 million euros. As a result of the performance of revenues and expenses outlined above, **operating income before depreciation and amortisation (OIBDA)** in the third quarter of 2008 stood at 1,106 with an OIBDA margin of 44.5%.

CapEx in the first nine months totalled 511 million euros, generating **operating cash flow (OIBDA-CapEx)** of 2,741 million euros.

¹⁰ Including the impact on Telefónica España of the new model for public use telephone service (-106.1 million euros in the period from January to September 2007 in revenues).

RESULTS BY REGIONAL BUSINESS UNITS

TELEFÓNICA LATINOAMÉRICA

The Latin American telecommunications market continued to show strong growth in all countries in the third quarter, and Telefónica Latinoamérica continued to focus on maintaining its commercial effort to capture growth in the mobile business and further transform its wireline business activities, with a higher contribution from Internet, broadband and pay TV services.

At the end of September 2008 Telefónica Latinoamérica managed over 150 million **accesses** in the region (153.1 million), 26.6 million more than in the same period last year, a year-on-year advance of 21.1%.

In the **mobile business**, after reporting 4.8 million net adds in the third quarter and 13.7 million in the year to date¹¹, Telefónica Latinoamérica had 118.3 million accesses, with solid year-on-year growth that is virtually flat vs. the level recorded in the first six months of the year at 26.7% (+22.0% organic¹²), and healthy growth across all operations. Of particular note was the operator's performance in Brazil, where Vivo strengthened its position as market leader with over 42.3 million wireless accesses (almost 11 million customers more than in September 2007, with close to 4 million added following the acquisition of Telemig in April 2008); Mexico, where Telefónica continues to gain market share thanks to the 32.5% year-on-year growth in its customer base, with more than 3.6 million customers added in the last twelve months; and Peru, where customer numbers increased by 39.9% year-on-year to over 10 million mobile accesses.

In the **wireline business**, as a result of the transformation process for operations, the contribution of growth businesses (broadband, pay TV and data) rose, boosted by the increase in bundled products and an improved portfolio of services, leaving the customer base at almost 34.9 million accesses, up 5.1% year-on-year. In **broadband** net adds to September 2008 totalled close to 840,000 accesses (almost 350,000 in the third quarter) leaving the customer base at 5.9 million (+24.9% year-on-year). Latinoamérica now has almost 1.5 million **pay TV** customers, with operations in Peru, Chile, Colombia and Brazil, compared to 880,000 customers in September 2007. In October, the pay TV service was also launched in Venezuela. **Fixed telephony accesses** stood at 25.8 million at the end of the third quarter, up 1.4% year-on-year.

Revenues in the first nine months of 2008 stood at 16,311 million euros, a year-on-year increase of 11.1% in current euros, showing in the third quarter a higher growth rate (+14.5%) compared to previous quarters. Organic revenue growth¹³ in January-September 2008 stood at 12.9%, 0.7 percentage points higher than the figure reported in the first half of the year.

Operating income before depreciation and amortization (OIBDA) grew 13.5% in current euros in January-September 2008 to 6,029 million euros, with a slightly higher increase of 14.5% booked in the third quarter. In organic terms⁵ OIBDA grew 15.6% in the first nine months of 2008, in line with the growth recorded in the first half of the year.

¹¹ The Telemig customers incorporated by the Group in April 2008 (close to 4 million) are not included as net adds in the period.

¹² Including Telemig accesses in September 2007.

¹³ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-September 2007.

Telefónica Latinoamérica's **CapEx** in the first nine months of 2008 amounted to 2,403 million euros, with investment largely deployed in developing commercial activities for the wireline broadband and pay TV businesses, in addition to enhancing the coverage and capacity of its mobile GSM networks and the rollout of 3G networks.

In the first nine months of 2008 Telefónica Latinoamérica generated **operating cash flow (OIBDA-CapEx)** of 3,626 million euros, a 5.9% year-on-year increase in current euros, and a rise of 9.6% in constant currency.

BRAZIL

The Brazilian telecommunications market in the third quarter of 2008 continued to show the same rapid pace of growth registered in the first half, with sharp gains in penetration rates in both mobile telephony and broadband. In this context, Telefónica now has over 58.2 million **accesses** in Brazil, thanks to Vivo's on-going market leadership and Telesp's commercial success.

Telefónica's **revenues** from its Brazilian businesses in the first nine months of 2008 stood at 6,565 million euros, a year-on-year increase of 11.0% in local currency terms, following a solid 15.3% rise in the third quarter. **Operating income before depreciation and amortisation (OIBDA)** reported by Telefónica in Brazil increased by 7.4% year-on-year in local currency to 2,533 million euros in the first nine months, following a noteworthy 18.7% increase in the third quarter.

CapEx through to September totalled 1,106 million euros. The Company continued to develop its fixed-line business, enhancing the broadband, Pay TV and data services, along with mobile services, with a particular emphasis on 3G and strengthening its GSM network. **Operating cash flow (OIBDA-CapEx)** generated by Telefónica in Brazil came to 1,426 million euros in the first nine months of 2008.

--Vivo--

The mobile telephony market continued to mark a dynamic performance in the third quarter, achieving a penetration rate of 73%, about 4 percentage points higher than in June 2008 and nearly 14 percentage points up on September 2007. The Brazilian market now has more than 140 million mobile accesses, approximately 28 million more than in the same period a year earlier.

Vivo remains the market leader, with a **customer base** of 42.3 million subscribers at the end of September 2008, an increase of 35.0% from September 2007 (+21.0% in organic terms¹⁴). In the past 12 months Vivo increased its customer base with nearly 11 million new subscribers (+7.3 million in organic terms¹⁵).

Thanks to the Company's excellent operating performance, **revenues** rose 20.6% year-on-year in local currency in the first nine months (+12.6% in organic terms⁸), to 2,202 million euros,

¹⁴ Including Telemig accesses in September 2007.

¹⁵ The Telemig customers incorporated by the Group in April 2008 (close to 4 million) are not included as net adds in the period.

following a 22.5% increase in the third quarter (+11.5% in organic terms⁹). Growth in **operating income before depreciation and amortisation (OIBDA)** continued to outpace that of revenues, with an increase of 33.9% (+21.9% organic growth⁸) in the first nine months in local currency, to 616 million euros, and 55.1% in the third quarter (+37.3% organic growth⁹).

Finally, **CapEx** totalled 528 million euros, while **operating cash flow (OIBDA-CapEx)** in the first nine months amounted to 87 million euros.

--Telesp--

The Sao Paulo broadband market continues to show potential, with nearly 3.7 million accesses, or a penetration rate of about 30% of total households (more than 5 percentage points above September 2007 figure).

Telesp ended September 2008 with 15.9 million **accesses**, 4.0% more than a year earlier: 11.9 million **fixed line accesses**, nearly 2.5 million **broadband connections** (+26.9% year-on-year) and 426,123 **pay TV customers**.

As a result, Telesp enjoyed sharp gains in **revenues**, with an increase of 12.8% in local currency in the third quarter (+11.8% organic¹⁶), and 7.4% in the first nine months of the year (+6.5% organic¹⁷) to 4,680 million euros. **Operating income before depreciation and amortisation (OIBDA)** in the first nine months amounted to 1,898 million euros, similar in local currency to the figure reported a year earlier, following the significant year-on-year rise of 8.8% in the third quarter.

Nine-month **CapEx** amounted to 578 million euros, which was focused on the broadband and pay TV businesses, as well as data networks for corporates, while **operating cash flow (OIBDA-CapEx)** totalled 1,320 million euros.

ARGENTINA

Argentina has been one of the fastest-growing telecommunications markets in the region in 2008, in both the wireless and broadband segments.

In this environment, Telefónica in Argentina managed a total of 20.5 million accesses at the end of September 2008, nearly 1.1 million more than in December 2007 (year-on-year growth of 9.2%). This sharp growth was underpinned by the performance of wireless accesses (+13.0%), with net adds of one million since December 2007, and a booming broadband business (+45.4% year-on-year), with 226,905 new connections registered since December 2007.

Revenues for the first nine months of the year totalled 1,802 million euros, a year-on-year increase of 21.5% in local currency. Revenue growth is likewise reflected in **operating income before depreciation and amortisation (OIBDA)**. Third-quarter OIBDA climbed 19.8% in local currency terms, outpacing first-half growth (+12.2% in local currency), while in the first

¹⁶ Including TVA revenues in July-September 2007

¹⁷ Including TVA revenues in January-September 2007

nine months it totalled 627 million euros, an increase of 14.9% in local currency vs. the same period a year earlier.

CapEx in the first nine months totalled 187 million euros, generating **operating cash flow (OIBDA-CapEx)** of 440 million euros (+13.6% in local currency year-on-year).

--Telefónica Móviles Argentina--

The wireless telephone market in Argentina continued to post significant growth in accesses, achieving a penetration rate of 106% by the end of September. Net adds in the third quarter totalled 544,234 new customers, a 53.9% increase from the second quarter of 2008, bringing the total so far this year to 1,022,948. Thus, the total access base reached 14.7 million in September 2008, up 13.0% vs. September 2007.

Growth in **revenues** ramped up in the third quarter, climbing 31.7% year-on-year in local currency, and 27.6% in the first nine months vs. 2007 to 1,128 million euros. Nine-month **operating income before depreciation and amortisation (OIBDA)** outpaced revenue growth, gaining 30.2% year-on-year in local currency and rising 28.4% in the third quarter to reach 333 million euros.

Nine-month **CapEx** totalled 55 million euros, bringing **operating cash flow (OIBDA-CapEx)** to 278 million euros.

--Telefónica de Argentina--

Telefónica de Argentina continued its high commercial activity, broadening its customer base by 0.6% year-on-year in the first nine months, to 5.9 million accesses. The Company surpassed the 1-million-access mark in the broadband segment, with 1,046,224 accesses, up 45.4% from September 2007.

It is noteworthy the carrier's sound performance in **revenues**, which saw again year-on-year growth to 18.9% in local currency in the third quarter of 2008, generating a 13.8% year-on-year increase in local currency in the first nine months, to 736 million euros. Telefónica de Argentina's **operating income before depreciation and amortisation (OIBDA)** totalled 294 million euros in the first nine months, a year-on-year increase of 1.4%.

CapEx totalled 133 million euros and was used largely to strengthen networks and provide the best broadband service on the market. **Operating cash flow (OIBDA-CapEx)** amounted to 162 million euros in the first nine months.

CHILE

In a market with one of the highest penetration rates, both in mobile telephony and in broadband, Telefónica is steadily expanding its total number of **accesses**, which stood at 9.8 million at the end of September 2008, 8.1% more than in the same period a year earlier. This growth was driven by an increase in the wireless customer base (+10.8% year-on-year to 6.7 million), a 15.4% year-on-year rise in broadband connections to more than 700,000, and a 27.2% increase in pay TV subscribers to over 250,000.

Telefónica's **revenues** in Chile in the first nine months totalled 1,463 million euros, a year-on-year increase of 14.4% in local currency (+13.1% in the third quarter of 2008). **Operating income before depreciation and amortisation (OIBDA)** totalled 539 million euros, up 8.3% year-on-year in local currency.

CapEx in the first nine months stood at 290 million euros, reflecting the Company's commitment to enhancing its networks, both fixed, with improvements in broadband and pay TV, and wireless, consolidating the network and speeding the rollout of 3G services. **Operating cash flow (OIBDA-CapEx)** in the first nine months amounted to 249 million euros, 12.4% more than in September 2007 in local currency.

--Telefónica Móviles Chile--

The Chilean mobile market continued to grow at a strong pace, with penetration estimated at 94% in September 2008 (7 percentage points higher than in September 2007). In this environment, Movistar Chile had 6.7 million **customers** at the end of September, 10.8% more than in September 2007.

Turning to Company earnings, **revenues** rose 20.1% year-on-year in local currency in the third quarter, and climbed 22.8% in the first nine months, totalling 787 million euros. **Operating income before depreciation and amortisation (OIBDA)** in the first nine months totalled 288 million euros, an increase of 23.9% year-on-year in local currency, while third-quarter OIBDA rose 9.7% year-on-year.

CapEx amounted to 159 million euros in the first nine months, with **operating cash flow (OIBDA-CapEx)** totalling 129 million euros.

--Telefónica Chile--

Telefónica Chile managed 3.1 million accesses in September 2008, 2.7% more than in September 2007. The Company's service bundling strategy remains the growth driver at the broadband and pay TV businesses. **Broadband connections** exceed 700,000, with year-on-year growth of 15.4% following net adds of 20,397 in the third quarter and 54,174 in the first nine months.

Revenues grew 6.3% year-on-year in both the third quarter and first nine months in local currency, bringing nine-month revenues to 741 million euros. **Operating income before depreciation and amortisation (OIBDA)** fell by 8.6% in the third quarter in local currency, leaving nine-month OIBDA at 251 million euros.

CapEx in the first nine months amounted to 131 million euros. The top drivers of spending were the Company's commitment to pay TV and broadband, coupled with constant quality improvement as the cornerstones of change at the fixed-line business. Telefónica Chile generated **operating cash flow (OIBDA-CapEx)** of 120 million euros in the first nine months of 2008.

PERÚ

Total **accesses** managed by Telefónica in Peru stood at 14.3 million at the end of September 2008, an increase of 27.7% year-on-year. This sharp growth was driven by the brisk increase in new mobile customers, with adds of 1.9 million so far this year, with the total now exceeding 10

million (up 39.9% year-on-year), an increase in the number of fixed line accesses (up 4.7% year-on-year) and the significant growth in the number of broadband connections (up 20.5% year-on-year), which reached 669,836 at the end of September.

Enhanced commercial activity boosted **revenues** by 8.3% year-on-year in local currency in the third quarter of 2008, bringing nine-month revenues to 1,168 million euros, with a year-on-year increase of 6.2% in local currency. **Operating income before depreciation and amortisation (OIBDA)** following a high increase in the third quarter (up 11.2% year-on-year in local currency) totalled 432 million euros at the end of September. This brought the nine-month year-on-year increase to 3.8% in local currency.

CapEx through to September was mainly devoted to growth businesses (wireless, broadband and TV) and amounted to 129 million euros, while **operating cash flow (OIBDA-CapEx)** rose 15.0% year-on-year in local currency to 304 million euros.

--Telefónica Móviles Peru--

The penetration rate of the mobile telephony market in Peru maintained an exceptional pace of growth in the first nine months of 2008 to 58% (+15 percentage points year-on-year), showing a more than 3 percentage points advance in the third quarter. Telefónica's total **wireless accesses** in Peru at the end of September 2008 topped the 10 million mark, with a significant increase of 39.9% year-on-year.

Revenue growth accelerated in the third quarter compared with the first half of 2008, rising 33.2% year-on-year in local currency. Nine-month revenues in local currency rose 29.5% to 544 million euros. **OIBDA** posted strong year-on-year growth in the third quarter, rising 83.3% in local currency, which boosted nine-month OIBDA by 67.5% year-on-year to 177 million euros.

CapEx in the first nine months amounted to 59 million euros, leaving **operating cash flow (OIBDA-CapEx)** at 118 million euros.

--Telefónica del Perú--

Total accesses managed by Telefónica del Perú stood at 4.3 million at the end of September 2008, up 6.0% year-on-year underpinned by the increases in wireline telephony accesses (up 4.7% year-on-year), primarily driven by the expansion of fixed-wireless telephony, broadband accesses (up 20.5% year-on-year) and TV which benefited from the good performance of cable customers, to total 645,974 accesses (up 2.9% year-on-year).

Against this backdrop, third quarter **revenues** tracked the trend seen in previous quarters amounting 711 million euros in local currency in the first nine months. Nine-month **OIBDA** totalled 255 million euros.

CapEx in the first nine months amounted to 70 million euros, leaving **operating cash flow (OIBDA-CapEx)** at 185 million euros.

COLOMBIA

At the end of September 2008, Telefónica managed more than 12.5 million **accesses** in Colombia, a 23.9% advance from a year earlier, underpinned by continued growth in wireless accesses (+28.5%) to 9.7 million, a significant increase in broadband (+112.0%) to 355,068 accesses and the advance of pay TV to 137,508 customers (a threefold increase from a year earlier).

In the first nine months of 2008, **revenues** totalled 1,131 million euros, virtually unchanged from a year earlier in local currency. **Operating income before depreciation and amortisation (OIBDA)** registered a significant growth of 11.8% year-on-year in local currency to 380 million euros in the first nine months.

CapEx through to September 2008 totalled 252 million euros and was mainly used for the development of wireless and broadband networks, while **operating cash flow (OIBDA-CapEx)** rose 34.0% year-on-year in local currency terms, to 128 million euros.

--Telefónica Móviles Colombia--

The estimated penetration rate in the Colombian mobile market topped 84% at the end of September, up more than 15 percentage points in the last twelve months and 3 percentage points in the last quarter. Against this backdrop, mobile **accesses** managed by Telefónica in Colombia totalled 9.7 million at the end of September, year-on-year growth of 28.5% which tops the increase reported in the previous quarters.

As a result, **revenues** in the first nine months stood at 623 million euros. Thanks to efforts to control costs and lowered interconnection expenses, **operating income before amortisation and depreciation (OIBDA)** grew 15.2% year-on-year in local currency in the quarter to reach year to date 149 million euros, up 38.8% from September 2007 in local currency.

CapEx amounted to 130 million euros in the first nine months, leaving **operating cash flow (OIBDA-CapEx)** of 19 million euros.

--Telefónica Telecom--

Telefónica Telecom reported 2.8 million total **accesses** at the end of September, up 10.2% year-on-year, being noteworthy the increased achieved by broadband (+112.0%) to 355,068 accesses, and pay TV that almost tripled in the year to 137,507 accesses.

Revenue growth accelerated in the third quarter, increasing by 3.0% year-on-year in local currency, to amount to 533 million euros in the first nine months. As a result, **operating income before amortisation and depreciation (OIBDA)** advanced 21.6% year-on-year in the quarter in local currency, reversing the trend seen in the first half of the year and amounting to 231 million euros in the first nine months.

CapEx in the first nine months amounted to 122 million euros, leaving **operating cash flow (OIBDA-CapEx)** of 109 million euros.

MÉXICO

The estimated penetration rate in the Mexican wireless market surpassed 69% in September (+10 percentage points from a year earlier), close to 2 percentage points higher than in the second quarter of 2008. Telefónica Móviles México had a **customer base** of 14.7 million at the end of September 2008 (of which 882,805 were contract customers), an increase of 32.5% from September 2007, thanks mostly to its competitive and flexible commercial offer in the prepaid segment.

Revenues in the third quarter rose 21.3% year-on-year in local currency, with nine-months revenue up 29.5% in local currency to 1,204 million euros. Nine-month OIBDA totalled 283 million euros, 2.7 times the amount booked in the same period a year earlier in local currency.

CapEx in the first nine months amounted to 157 million euros, resulting in **operating cash flow (OIBDA-CapEx)** of 126 million euros, a significant improvement on the same period in 2007.

VENEZUELA

The penetration rate in the Venezuelan wireless market increased to an estimated 97% at the end of the third quarter of 2008, 17 percentage points higher than in September 2007, making Venezuela one of the region's fastest-growing markets in the past 12 months. Telefónica Móviles Venezuela had 11.6 million **total accesses** at the end of September 2008 (up 17.5% vs. September 2007).

Revenue growth picked up in the third quarter, accelerating its growth rate to 26.5% year-on-year in local currency, while in the first nine months it totalled 1,871 million euros (a year-on-year increase of 23.3% in local currency). **Operating income before depreciation and amortisation (OIBDA)** grew 28.0 % in the quarter in local currency, with nine-month OIBDA totalling 866 million euros (up 29.6% in local currency).

CapEx for the first nine months amounted to 143 million euros, being noteworthy the investment in the rollout of the 3G network, leaving **operating cash flow (OIBDA-CapEx)** in the period at 723 million euros.

CENTRAL AMÉRICA

At the end of September 2008 wireless penetration in Central America stood at around 77%, up 14 percentage points from September 2007. In this context, the Company's customer base topped 6.1 million **accesses** in Central America with an increase of 694,877 customers in January-September 2008.

Revenues to September 2008 amounted to 411 million euros, up 6.1% year-on-year in constant euros. Operating income before depreciation and amortisation (OIBDA) fell 1.9% in constant euros in the first nine months of 2008 to 149 million euros.

CapEx in the first nine months amounted to 54 million euros and **operating cash flow**

(OIBDA CapEx) to 95 million euros.

ECUADOR

The Ecuadorian wireless market continued to grow at a strong pace, with penetration estimated at 79% in the third quarter of 2008 (+11 percentage points versus September 2007). The total customer base stood at of over 3.0 million at the end of September, a year-on-year increase of 14.7%.

Revenues grew 18.5% year-on-year in the third quarter of 2008 in local currency, and 20.6% year-on-year to September, to 225 million euros. **Operating income before depreciation and amortisation (OIBDA)** grew by 51.5% year-on-year in local currency in the third quarter, with January-September revenues up 33.5% at 61 million euros.

CapEx in the first nine months of the year stood at 34 million euros, leaving **operating cash flow (OIBDA-CapEx)** at 27 million euros in the first nine months of 2008, a year-on-year increase of 26.9% in constant euros.

TELEFÓNICA INTERNATIONAL WHOLESALE SERVICES

Revenues at TIWS in the first nine months of 2008 totalled 235 million euros, up 22.6% year-on-year in constant euros, in line with the growth reported in the first half. Revenue growth is reflected in improved **operating income before depreciation and amortisation (OIBDA)**, which rose 13.3% in constant euros, keeping up the pace registered in the first half. OIBDA totalled 75 million euros in the first nine months.

RESULTS BY REGIONAL BUSINESS UNITS

TELEFÓNICA EUROPE

Telefonica Europe continued to perform well in the third quarter of 2008, adding 0.8 million mobile customers (+1.1% year-on-year) and 2.2 million in the first nine months (+8.3% year-on-year). As a result, Telefonica Europe grew its **total mobile customer base** by 3.2 million compared to September 2007 (+8.6% year-on-year), driven by a very strong performance in the contract segment (+14.5% year-on-year), including record quarters for both UK and Ireland. At the end of September 2008, Telefonica Europe's total customer base reached 44.9 million (+9.9% year-on-year).

Revenues showed a year-on-year organic increase of 5.9% for the first nine months, on the back of a strong operational performance, particularly on mobile contract, excluding the impact of foreign exchange rates and the exit of Airwave in April 2007. On a like for like basis¹⁸, organic OIBDA would have grown by 3.4% year-on-year for the first nine months.

CapEx for the first nine months was 1,380 million euros. **Operating Cash Flow (OIBDA-CapEx)** for the first nine months totalled 1,693 million euros, an increase of 5.2% year-on-year on a like for like¹ basis.

--Telefónica O2 Reino Unido--

Telefonica O2 UK recorded its best ever third quarter with very strong net mobile customer additions of 401,778 (3.5 times the third quarter of 2007), taking the **total mobile base** to 19.1 million (excluding Tesco Mobile) representing growth of 6.6% year-on-year.

Telefonica O2 UK's DSL **broadband** service registered 72,870 net additions in the quarter (+16.0% vs. the previous quarter), and 196,381 in the first nine months, leaving the total broadband customer base at 267,090 at the end of September.

Revenues in the third quarter grew by 8.7% year-on-year in local currency, a strong performance relative to the market. For the first nine months, revenues were 5,297 million euros, an increase of 10.7% year-on-year in local currency. For the first nine months **OIBDA** totalled 1,360 million euros, growth of 10.6% year-on-year in local currency.

CapEx for the January-September period amounted to 519 million euros, with **Operating Cash Flow (OIBDA-CapEx)** amounting to 841 million euros.

--Telefónica O2 Alemania--

In the first nine months Telefonica O2 Germany's mobile customer base grew by 1.5 million (31.8% higher than the same period last year), taking the total customer base to 14.0 million.

Revenue growth in the third quarter was 0.7% year-on-year, reflecting seasonality impacts in

¹⁸ Assuming constant exchange rates and excluding the consolidation of Airwave in the first quarter of 2007. Capital gain from the sale of Airwave is also excluded, as well as gains related to the Real Estate sale in the Czech Republic, restructuring and similar charges and the result of the application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized.

ULL growth during the summer, and the ARPU trends mentioned previously impacting mobile service revenues. For the nine months of the year, revenues totalled 2,664 million euros, growth of 2.0% year-on-year. OIBDA for the first nine months totalled 533 million euros, growth of 16.9% year-on-year.

CapEx amounted to 619 million euros for the first nine months with **operating cash flow (OIBDA-CapEx)** amounting to -86 million euros, mainly as a result of the acceleration of the wireless network rollout, which is in line with Telefonica O2 Germany's network investment plans.

--Telefonica O2 Irlanda--

Telefonica O2 Ireland recorded net additions of 25,547 in the third quarter (1,027 in the third quarter 2007 and 24,620 in the previous quarter) to total 66,972 net additions in the nine months. The total **customer base** stood at 1.7 million at the end of September, 4.9% higher than a year ago, with the number of mobile broadband customers stood at 68,109.

Revenues for the first nine months revenues were 714 million euros. For the first nine months OIBDA was 228 million euros.

CapEx for the first nine months totalled 53 million euros and **operating cash flow (OIBDA-CapEx)** amounted to 174 million euros.

--Telefónica O2 República Checa--

At the end of September, the total number of **fixed and mobile accesses** for Telefonica O2 Czech Republic, including Slovakia, stood at 8.4 million. **Fixed telephony accesses** amounted to 1.9 million at the end of September, **retail Internet broadband accesses** reached 552,180 (+14.2% year-on-year), **O2 TV customers** increased by 10,143 to reach 108,061 and the total number of **mobile customers** in the Czech Republic increased by 4.4% year-on-year to reach 5.2 million at the end of September.

Revenues for the Telefonica O2 Czech Republic Group in the third quarter were 5.1% higher year-on-year in constant currency, leading to a 2.5% year-on-year increase in constant currency for the January-September period to reach 1,930 million euros. **Operating income before depreciation and amortization (OIBDA)** in the third quarter increased by 1.6% year-on-year in constant currency, while for the January-September period, growth was 2.5% year-on-year in constant currency to reach 886 million euros.

CapEx for the first nine months totalled 167 million euros and **operating cash flow (OIBDA-CapEx)** amounted to 719 million euros.

RESULTS BY BUSINESS UNITS

OTHERS COMPANIES

ATENTO GROUP

Revenues rose 11.8% year-on-year in the first nine months of 2008 (+12.4% in constant euros), to 972 million euros, and climbed 12.5% in the third quarter. **Operating income before depreciation and amortisation (OIBDA)** grew by 26.9% year-on-year in the third quarter and by 15.1% in the first nine months of 2008 (16.9% in local currency), to 135 million euros.

CapEx amounted to 31 million euros in the first nine months, leaving **operating cash flow (OIBDA-CapEx)** at 104 million euros (+5.2% vs. the first nine months of 2007 and +7.2% in constant currency). The CapEx was used mainly to construct new platforms (Brazil and Venezuela), refurbish centres and purchase equipment (Brazil, Mexico, Peru and Spain).