



## TELEFÓNICA EUROPE ANNOUNCES STRONG HALF-YEAR FINANCIAL RESULTS

**PR0907**

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### OPERATIONAL HIGHLIGHTS:

- **Telefónica Europe** delivers strong performance on back of propositions which have led to more customers choosing and staying with O2
- Powerful cash generation in the first half of 2009 – up 16.8% year-on-year to €1.130 billion
- First half revenues increased to €6.571 billion (2.2% growth in constant currency), with OIBDA up to €1.879 billion (6.2% organic growth)
- Total customer base grew 8.3% year-on-year to 47.6 million
- Mobile customers increased to 42.6 million, with 85% of net additions in the contract segment
- Rebalancing of European portfolio bears fruit as Telefónica O2 Germany maintains growth trend
- Telefónica O2 UK clearly outperforms market with lowest-ever churn and leading customer satisfaction scores

### **Matthew Key, Chairman & Chief Executive of Telefónica Europe, commented:**

“Telefónica Europe has maintained its market momentum and delivered a strong financial performance in the first six months of the year against a challenging economic backdrop.

“There is clear evidence that the rebalancing of our European business portfolio is continuing to bear fruit, especially with the performance of Telefónica O2 Germany, which has been the main contributor to our OIBDA growth in the year to date. Group revenues continued to grow in the last quarter, with a 1.8 per cent increase, excluding the effect of mobile termination rate cuts. Furthermore, we have continued to invest in the business and, at the same time, delivered a significant increase in operating cashflow.

*A Telefónica company*



“In the first six months of 2009, we added 1.5 million customers, bringing Telefónica Europe’s total base to 47.6 million. Telefónica has further underlined its position as the ‘home of the smartphone’ with the recent signing of the Palm Pre exclusive across Europe to add to its already impressive portfolio of high-end mobile devices.

“As anticipated, **Telefónica O2 UK** experienced slower growth than the first quarter yet clearly outperformed the competition in a flat to declining market, with a 4.1 per cent increase in revenues and net mobile customer additions of 252,268 in the last three months. The UK’s excellent postpay net adds – up 73.3 per cent year-on-year - were driven by ongoing record low levels of churn and market-leading customer satisfaction scores. Telefónica O2 UK reported yet another quarter of strong growth in data fuelled by mobile broadband and usage of smartphones. O2 has also actively expanded into new business areas, with the introduction of the Joggler and, most recently, O2 Money.

“**Telefónica O2 Germany** maintained its impressive OIBDA performance in the second quarter, up 29 per cent year-on-year, and – excluding the impact of the latest cut in mobile termination rates – mobile service revenue growth accelerated to 1.2 per cent, while net mobile customer additions amounted to 426,723. Our German business continues to make progress thanks to the solid foundations put in place in recent years – including the rollout of our own next generation networks, greatly improved distribution channels and a new simpler product portfolio. The flagship O2o tariff proposition is gaining traction from other networks and delivering higher than average ARPUs, while it is anticipated that the Palm Pre exclusive will be important in driving customer acquisition and revenues. Telefónica O2 Germany is now moving into an exciting new phase in Europe’s biggest market.

“The severe economic climate has resulted in an extremely tough trading environment which is impacting revenues for both **Telefónica O2 Ireland** and **Telefónica O2 Czech Republic**. Nonetheless, in Ireland we have delivered operational improvement and increased cashflow generation through efficient business management, while in the Czech Republic we are maintaining our commercial momentum and reported our best-ever quarterly customer additions in Slovakia.

“These strong results reflect our ongoing investment in the products and services that our customers really value, which will continue to pay dividends and prove critical in driving long term growth of our business in Europe.”

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## RESULTS BY REGIONAL BUSINESS UNITS

### Telefónica Europe plc

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

At the end of June 2009 Telefónica Europe's total customer base reached 47.6 million (+8.3% year-on-year). Mobile customer net additions for the first half of 2009 were 1.2 million, with 792,061 net additions in the second quarter (+74.6% over the previous quarter), reaching a total **mobile customer base** of 42.6 million (+7.3% year-on-year). Telefónica Europe continued its focus on the contract segment (+11.7% year-on-year; 85.0% of total mobile net additions in the first half of 2009), built on propositions around flat rates, SIM-only, mobile broadband, high-end devices, as well as successful retention activities across markets.

**Revenues** in the first half of 2009 reached 6,571 million euros, showing a resilient year-on-year growth of 2.2% in constant currency, driven by the positive performance in the UK and German businesses, which compensated the lower year-on-year revenues from the Czech and Irish businesses. It is important to highlight that regulatory measures (mainly mobile termination rates reductions in Germany since April and in the Czech Republic since February), dragged 0.8 percentage points of revenue growth in constant currency, up to June 2009.

Operating expenses amounted to 4,815 million euros in the first half of the year, a year-on-year increase of 1.0% in constant currency terms, reflecting the increased commercial activity across the businesses that helped to maintain momentum in the market, partially compensated by ongoing efficiency measures.

**Operating income before depreciation and amortization (OIBDA)** in the first half of 2009 stood at 1,879 million euros, posting a 6.2% year-on-year growth in organic terms<sup>1</sup>, with Telefónica O2 Germany being the main contributor to this growth. It is also worth highlighting that, in the Czech Republic, the proceeds from the settlement agreement with T-Mobile in the second quarter of 2009 exceeded the real estate gains registered in the same period of last year. OIBDA margin improved year-on-year 1.1 percentage points in the first half in organic terms<sup>1</sup>.

Reported revenues and OIBDA for the first half of 2009 showed a year-on-year decline of 6.2% and 7.6%, respectively, with declines of 5.9% and 11.2% in the second quarter, mainly impacted by British Sterling and Czech Koruna depreciations in the period, on top of the factors affecting year-on-year performance already mentioned. OIBDA margin on a reported basis in the first half of 2009 was 28.6%, 0.4 percentage points lower than in the same period of 2008, while in the second quarter margin was 29.9% (-1.8 percentage points, year-on-year).

**Operating cash flow (OIBDA-CapEx)** totalled 1,130 million euros in the first half of 2009, a significant increase of 16.8% year-on-year in organic terms<sup>1</sup>, reflecting resilient OIBDA growth and

<sup>1</sup> Assuming constant exchange rates. The impacts derived from past disposals of assets (+114 million euros in the second quarter of 2008 from Airwave) are also excluded from the calculation.



**CapEx** reduction (-6.9% year-on-year in constant currency).

### Telefónica O2 UK

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

The Company’s total **mobile customer base** at the end of June 2009 reached 20.7 million lines (excluding Tesco Mobile), representing a 6.6% year-on-year growth. Net mobile additions in the first half of 2009 reached 394,021, with 252,268 net additions in the second quarter. The contract segment continued to record a strong performance in the second quarter of 2009, adding 312,673 contract customers (+73.3% year-on-year), totalling 598,940 net additions in the first half (+41.8% year-on-year). Contract customers made up 43.6% of the total base at the end of June 2009 (40.6% in June 2008). This positive evolution was mainly due to churn containment, the ongoing prepay to contract migration process and continued commercial activity around “Simplicity” and high-end devices.

The UK prepay market continued to be very tough in the first half of the year, with the Company focusing on retaining value customers within this segment with propositions such as “Top Up Surprises”. As a result, 204,920 net disconnections were registered in the first half of the year (60,405 net disconnections in the second quarter).

**Churn** in the contract segment sustained its solid evolution at 1.2%, both for the second quarter and first half of the year, showing a year-on year reduction in both periods (0.1 percentage points in the quarter and 0.2 percentage points in the first half). Total churn for the quarter was 2.6% (+0.3 percentage points, year-on-year), while for the first half was 2.7% (+0.1 percentage points, year-on-year).

In terms of usage, **traffic** carried in the first half of 2009 grew 16.2% year-on-year to 26,102 million minutes (+15.0% in the second quarter). Prepay customers increased usage on propositions such as “Unlimited”, while contract customers continued optimising their voice bundle utilisation.

Voice ARPU showed a year-on-year decline of 6.6% in local currency, reaching 15.8 euros in the first half of the year (-6.9% year-on-year in local currency in the second quarter), due to the continued uptake of customer propositions, such as “Simplicity” (with reduced acquisition costs), as well as the optimising behaviour of customers when using voice bundles. In addition, outgoing roaming activity in the first half was impacted by less travelling in the current economic environment.

Data ARPU rose 1.7% year-on-year in local currency in the first half of 2009, reaching 9.0 euros (+1.9% in the second quarter in local currency), reflecting the continued increase of customers accessing the Internet through mobile connections, partially offset by a decline in SMS ARPU due to the optimising behaviour of customers and the voluntary reduction of mobile termination rates.



As a result, Telefónica O2 UK's **total ARPU** for the first half of the year showed a 3.8% year-on-year decline in local currency to 24.7 euros, with a year-on-year decrease of 3.9% in local currency in the second quarter.

Telefónica O2 UK's DSL **broadband** service added 116,016 lines in the first half of 2009 (52,398 in the second quarter), leaving the total fixed broadband customer base at 456,882 lines at the end of June (2.4 times higher than in June, 2008).

**Revenues** for the first half of 2009 were 3,194 million euros, a solid increase of 5.5% year-on-year in local currency (+4.1% year-on-year in local currency in the second quarter). Mobile service revenues in the first half of 2009 were 2,926 million euros, a 5.0% year-on-year growth in local currency (+4.7% in the second quarter), with an increasing contribution from data revenues (+8.7% year-on-year in local currency in the first half of the year and +9.0% in the second quarter). Non P2P-SMS data revenues registered strong growth of 51.3% year-on-year in local currency in the first half, with a noteworthy ramp up in the growth rates posted in the second quarter (+60.3% year-on-year in local currency vs. +42.2%, up to March). Revenue growth from handset sales continued its downward trend in the second quarter (change in phasing of prepay handset shipments and more commercial activity around SIM-only).

**Operating income before depreciation and amortization (OIBDA)** totalled 798 million euros in the first half of 2009, a 4.5% year-on-year growth in local currency (+2.4% year-on-year in local currency in the second quarter), leveraging on optimisation of customer retention costs (market leading churn and increased proportion of SIM-only customers), compensating increased commercial activity in the contract segment. Continued operational efficiencies in non-commercial costs, as well as improved contribution from the DSL business also helped to sustain margins. OIBDA margin for the first half was 25.0%, broadly flat year-on-year (-0.2 percentage points), while for the second quarter was down 0.5 percentage points to 25.8%, mainly due to the above-mentioned increased activity in the contract segment.

**Operating cash flow (OIBDA-CapEx)** for the first half was very strong, totalling 539 million euros, an increase of 19.8% year-on-year in local currency, reflecting the positive OIBDA performance and **CapEx** reduction of 17.5% year-on-year in local currency.

### Telefónica O2 Germany

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

Telefónica O2 Germany's **mobile customer base** reached 14.9 million at the end of June, 2009 (+10.0% year-on-year). The new and simpler core product portfolio ("O<sub>2</sub>o", "O2 Mobile Flat2, "O2 Inklusivpaket") is gaining traction in the O2 exclusive channels, with partners also playing an important role. As a result, 734,192 new mobile customers were added in the first half of 2009, with a quarter-on-quarter increase of 38.8% to 426,723 net additions in the second quarter of 2009. 257,513 contract customers were added in the first half and 139,288 in the second quarter, showing



a healthy increase of 17.8% over the previous quarter. At the end of June, the contract segment represented 48.4% of the base.

It is also worth highlighting that the **churn** rate for the second quarter, at 1.8%, is showing a 0.3 percentage point reduction over the previous quarter on the back of better behaviour of the prepay and contract segments. Churn for the first half of 2009 stood at the 2.0% level (+0.2 percentage points, year-on-year).

**Traffic** carried in the first half of 2009 remained broadly flat year-on-year at 11,375 million minutes, with quarter over quarter trends improving on the back of the new propositions launched in the quarter (+1.4% in the second quarter, year-on-year).

Voice ARPU declined 13.3% year-on-year to 11.1 euros in the first half of the year (-13.9% in the second quarter), mainly as a result of mobile termination rate cuts from April (-19%), the migration process to new value tariffs throughout 2008, as well as the increase of customers from partner brands in the base.

Data ARPU reached 4.7 euros in the first half of the year (-3.7% year-on-year and -2.4% year-on-year in the second quarter), mainly due to the impact on SMS usage from the introduction of better value tariffs and flat rate voice promotions, which is not fully compensated by the strong growth of mobile broadband customers in the base.

As a result, total **ARPU** in the first half was down 10.6% year-on-year to 15.8 euros (-10.8% year-on-year in the second quarter).

O2 **DSL** customer base reached 253,429 at the end of June, after adding 38,646 new customers in the first half of 2009 (21,751 in the second quarter). Telefónica Deutschland reported 1.5 million ULL lines in total at the end of June (+43.6% year-on-year).

**Revenues** totalled 1,781 million euros in the first half of 2009 (+1.9% year-on-year; +0.2% in the second quarter). This performance was driven by continued growth from the fixed and DSL businesses whilst the mobile business in terms of service and hardware revenue declined year on year (impacted by MTR cuts and SIM-only uptake). Mobile service revenues declined 0.4% year-on-year in the first half of the year to total 1,402 million euros (-1.2% in the second quarter). Excluding the impact from MTR reduction in April, mobile service revenues would have grown +0.9% year-on-year in the first half and +1.2% year-on-year in the second quarter (+0.6% year-on-year in the first quarter). Data revenues also continued its positive contribution to mobile service revenue growth (+7.6% year-on-year in the first half, showing an acceleration in the second quarter to +8.2%, year-on-year), mainly backed on non P2P-SMS data revenue growth (+33.0% year-on-year in the first half; +40.1% in the second quarter) driven by continued success of mobile broadband “Surfsticks”.

Wholesale fixed broadband business contributed to revenues with 218 million euros in the first half of the year, +8.3% year-on-year, while for the second quarter they grew +1.7% year-on-year.

**Operating income before depreciation and amortization (OIBDA)** recorded a very strong performance in the first half of 2009, showing a 26.7% year-on-year growth to 432 million euros, with a solid 29.0% year-on-year increase in the second quarter. As a result, OIBDA margin



improved by 4.8 percentage points to 24.3% in the first half of the year, with a better performance in the second quarter of 2009 (+5.7 percentage points year-on-year to 25.7%). This evolution is driven by the increased own mobile network coverage, improved distribution network, enhanced profitability of the fixed broadband wholesale business, as well as the new commercial approach introduced in the fourth quarter of 2008, which significantly reduced acquisition and retention costs.

**Operating cash flow (OIBDA-CapEx)** amounted to 77 million euros in the first half of 2009, a significant improvement compared to the negative 16 million euros registered in the same period of the prior year, with a year-on-year decrease in **CapEx** of 0.7%.

### Telefónica O2 Ireland

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

Total **mobile customer base** increased 1.7% year-on-year to reach 1.7 million customers at the end of June 2009. The contract segment continued to drive growth for Telefónica O2 Ireland, with 19,513 net additions in the first half of 2009 to reach 662,604 lines (+11.8% year-on-year, representing 38.6% of the total customer base). It is important to highlight the better performance of the second quarter (11,444 contract net additions) over the previous one (8,069 net additions), mainly driven by lower churn in the period.

**Churn** reached 2.7% in the first half of 2009, 0.1 percentage points lower than in the same period of 2008, registering a 2.5% churn for the second quarter, a significant reduction over the previous quarter in both contract and prepay.

**Traffic** carried in the first half of 2009 declined year-on-year by 2.4% to 2,328 million minutes (-4.4% year-on-year in the second quarter). This was driven by an increasing number of customers optimising their usage, the continued voice to text substitution trend as a result of the value for money price plans in the marketplace (such as “O2 Experience” offering free SMS to any Irish mobile network), as well as a decrease of roaming activity from customers.

Voice ARPU registered a year-on-year decline of 14.2% in the first half to reach 27.8 euros (-14.7% in the second quarter), mainly due to the better value for money propositions, customers managing their spend and reduced roaming activity.

Data ARPU rose 8.1% year-on-year in the first half to reach 11.8 euros, showing an enhanced performance in the second quarter (+12.9% year-on-year) that was driven by the continued growth of the mobile broadband customer base. As a result, data revenues increased 11.3% year-on-year in the first half of the year (+15.0% year-on-year in the second quarter), with non P2P-SMS data revenues increasing by 33.2% year-on-year, up to June 2009 (+26.9% year-on-year in the second quarter).

Total **ARPU** recorded a year-on-year reduction of 8.6% in the first half to reach 39.5 euros (-7.9% year-on-year in the second quarter).



**Revenues** for the first half were 450 million euros, a year-on-year decline of 4.0% (-4.5% year-on-year in the second quarter). Mobile service revenues for the first half declined 5.9% year-on-year to 421 million euros (-6.3% in the second quarter), with the decline in ARPU partially offset by growth in the customer base.

The revenue shortfall was mitigated by more efficient investments in customer acquisition and retention as a result of better churn, alongside stronger cost discipline, overall. As a result, **Operating income before depreciation and amortization (OIBDA)** for the first half of 2009 was 145 million euros, 3.6% lower than in the same period of the previous year, with an improvement in the second quarter (+1.2% year-on-year). The OIBDA margin for the first half was 32.1%, 0.2 percentage points higher than in the same period of last year, with a solid year-on-year improvement in the second quarter (+1.9 percentage points) to 33.6%.

The strong **CapEx** reduction made by the Company to adapt to the current environment allowed **operating cash flow (OIBDA-CapEx)** to increase 2.3% year-on-year, reaching 123 million euros in the first half of 2009.

### Telefónica O2 Czech Republic

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

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

**Fixed telephony accesses** amounted to 1.8 million at the end of June, 2009 (-6.9% year-on-year), with continued improvement in net disconnections, which amounted to 89,461 during the first half (32.0% better than in the same period of 2008), and 47,062 in the second quarter of 2009 (an 18.7% year-on-year improvement), mainly driven by enhanced customer propositions around fixed broadband.

**Retail Internet broadband accesses** reached 639,346 (+18.3% year-on-year), with 55,648 net additions in the first half of 2009 (+79.6% year-on-year), and 22,063 in the second quarter (+70.7% year-on-year), leveraging continued strong commercial activity. In May 2009, the Company launched a new concept of services for households, changing the proposition from voice centric to broadband centric, enabling full flexibility to combine fixed and mobile services to serve all customers' needs. The total number of **O2 TV customers** reached 132,639 at the end of June (up 35.5% year-on-year).

**Total mobile customer base** in the Czech Republic reached 4.8 million at the end of June 2009 (+2.1% year-on-year). The contract base went up 12.4% year-on-year with 143,271 net additions in the first half of 2009 (+14.5% year-on-year), and 66,435 in the second quarter (+4.5% year-on-year) to reach 2.7 million as a result of continued prepay to contract migration and success of "O2 NEON" flat rate tariffs. Prepay customer base showed a year-on-year decline of 8.2%, though it is worth to highlight the significant decline in quarterly net disconnections due to the improvement of



customer propositions in the second quarter. At the end of June 2009, contract customers represented 55.1% of the base (50.0% at the end of June 2008). In Slovakia, mobile customer base increased 51.7% year-on-year to 417,002 customers, with 91,668 net additions in the first half and 51,753 in the second quarter, the best in the history of the Company.

**Churn** in the Czech mobile business declined 0.2 percentage points year-on-year in the first half and in the second quarter of 2009 to 1.9% and 1.7%, respectively.

In terms of usage, mobile **traffic** carried in the Czech Republic in the first half of 2009 grew by 10.0% year-on-year to 4,025 million minutes (+11.2% year-on-year in the second quarter due to higher contract base and successful proposition of flat rate tariffs such as “O2 NEON”).

In the first half of 2009, voice ARPU declined 9.1% year-on-year in local currency to reach 14.4 euros, with a decline of 10.1% year-on-year in local currency in the second quarter as a result of the further optimisation of usage within the contract customer base.

Data ARPU was 5.5% year-on-year lower in local currency in the first half to 4.7 euros (-9.3% year-on-year in the second quarter in local currency), driven by migrations of customers to better value bundled based price plans and continued optimisation of usage by customers.

Total mobile **ARPU** in the Czech Republic showed a 8.2% year-on-year decline in local currency in the first half to reach 19.1 euros, while in the second quarter of 2009, mobile ARPU dropped 9.9% year-on-year in local currency.

**Revenues** for the Telefónica O2 Czech Republic Group showed a 4.8% year-on-year decrease in constant currency in the first half of 2009 to reach 1,096 million euros, reflecting the increasing challenging environment of the business. Mobile service revenue in the Czech Republic declined by 5.0% year-on-year in local currency in the first half and by 6.4% year-on-year in local currency in the second quarter, owing to optimisation of usage, decreasing roaming revenues and MTR cuts (-11.4% from February, 2009). Data revenues were impacted also by optimisation behaviour from customers, and had a decrease in local currency of 4.8% year-on-year in the first half of the year (-8.0% year-on-year in local currency in the second quarter).

Fixed revenues in the Czech Republic fell by 5.6% year-on-year in local currency in the first half of 2009 (-9.3% year-on-year in local currency in the second quarter) due to lower traditional access and voice revenues driven by fixed line losses and lower voice traffic, which were not fully compensated by broadband revenues. Revenues from Slovakia grew 53.7% year-on-year in the first half, showing continued quarter over quarter growth acceleration.

**Operating income before depreciation and amortization (OIBDA)** in the first half of 2009 was 3.7% year-on-year lower in constant currency to reach 519 million euros. OIBDA margin in the first half of 2009 increased 0.4 percentage points to 47.3%, while in the second quarter of 2009 margin improved by 0.6 percentage points to 49.6%, with the impact of the proceeds from the real estate sale recorded in the second quarter of 2008 being more than compensated by the positive impact of the settlement agreement with T-Mobile, registered in the second quarter of 2009.



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

## TELEFÓNICA EUROPE ACCESSES

Unaudited figures (thousands)

	2008			2009		% Chg y-o-y
	June	September	December	March	June	
Final Clients Accesses	42,938.0	43,866.4	44,823.5	45,356.5	46,197.4	7.6
Fixed telephony accesses (1)	1,998.1	1,952.3	1,952.7	1,909.6	1,861.8	(6.8)
Internet and data accesses	1,101.4	1,212.7	1,354.5	1,463.7	1,555.4	41.2
Narrowband	177.0	170.3	163.4	155.4	148.7	(16.0)
Broadband	917.3	1,035.5	1,158.7	1,277.8	1,375.9	50.0
Other (2)	7.1	6.9	32.4	30.4	30.9	n.s.
Mobile accesses (3)	39,740.6	40,593.3	41,401.8	41,855.5	42,647.5	7.3
Pre-Pay	22,072.0	22,353.7	22,729.4	22,673.4	22,916.5	3.8
Contract	17,668.7	18,239.6	18,672.4	19,182.1	19,731.1	11.7
Pay TV	97.9	108.1	114.5	127.8	132.6	35.5
Wholesale Accesses (4)	1,008.1	1,139.0	1,237.9	1,324.4	1,381.3	37.0
<b>Total Accesses</b>	<b>43,946.1</b>	<b>45,005.3</b>	<b>46,061.4</b>	<b>46,680.9</b>	<b>47,578.8</b>	<b>8.3</b>

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included.

(2) Retail circuits other than broadband.

(3) As of 31 December 2007, in order to align the criteria for the key performance indicators of the mobile operations of the Group, the series of mobile accesses, and therefore, of total accesses, have been revised, including machine to machine accesses. In addition, the accounting criteria for prepaid access in the Czech Republic and Slovakia have been modified to align them, changing from 13 months (registered) to three months (active).

(4) Includes Unbundled Lines by T. Deutschland.

Note: Mobile accesses, Fixed telephony accesses and Broadband accesses include MANX customers.

## TELEFÓNICA EUROPE CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - June			April - June		
	2009	2008	% Chg	2009	2008	% Chg
Revenues	6,571	7,006	(6.2)	3,326	3,533	(5.9)
Internal exp capitalized in fixed assets	108	86	25.2	53	46	16.3
Operating expenses	(4,815)	(5,202)	(7.4)	(2,385)	(2,600)	(8.3)
Other net operating income (expense)	2	117	(98.1)	1	116	(98.8)
Gain (loss) on sale of fixed assets	14	30	n.m.	0	29	n.m.
Impairment of goodwill and other assets	(1)	(3)	(78.5)	(0)	(3)	(90.0)
Operating income before D&A (OIBDA)	1,879	2,033	(7.6)	996	1,121	(11.2)
OIBDA Margin	28.6%	29.0%	(0.4 p.p.)	29.9%	31.7%	(1.8 p.p.)
Depreciation and amortization	(1,451)	(1,541)	(5.9)	(731)	(764)	(4.3)
Operating income (OI)	428	492	(13.0)	265	358	(25.8)

Notes:

- OIBDA and OI before management and brand fees.

- Second quarter of 2008 includes 114 million euros derived from Airwave disposal.



TELEFÓNICA EUROPE SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - June				April - June			
	2009	2008	% Chg	% Chg Local Cur	2009	2008	% Chg	% Chg Local Cur
<b>TELEFÓNICA O2 UK</b>								
Revenues	3,194	3,494	(8.6)	5.5	1,631	1,740	(6.2)	4.1
OIBDA	798	881	(9.4)	4.5	422	459	(8.0)	2.4
<i>OIBDA margin</i>	<i>25.0%</i>	<i>25.2%</i>	<i>(0.2 p.p.)</i>		<i>25.8%</i>	<i>26.4%</i>	<i>(0.5 p.p.)</i>	
CapEx	259	362	(28.5)	(17.5)	134	169	(20.6)	(12.1)
OpCF (OIBDA-CapEx)	539	519	3.8	19.8	287	289	(0.7)	10.9
<b>TELEFÓNICA O2 GERMANY</b>								
Revenues	1,781	1,749	1.9	1.9	896	894	0.2	0.2
OIBDA	432	341	26.7	26.7	230	178	29.0	29.0
<i>OIBDA margin</i>	<i>24.3%</i>	<i>19.5%</i>	<i>4.8 p.p.</i>		<i>25.7%</i>	<i>19.9%</i>	<i>5.7 p.p.</i>	
CapEx	355	357	(0.7)	(0.7)	171	221	(22.6)	(22.6)
OpCF (OIBDA-CapEx)	77	(16)	c.s.	c.s.	59	(42)	c.s.	c.s.
<b>TELEFÓNICA O2 IRELAND</b>								
Revenues	450	469	(4.0)	(4.0)	226	237	(4.5)	(4.5)
OIBDA	145	150	(3.6)	(3.6)	76	75	1.2	1.2
<i>OIBDA margin</i>	<i>32.1%</i>	<i>32.0%</i>	<i>0.2 p.p.</i>		<i>33.6%</i>	<i>31.7%</i>	<i>1.9 p.p.</i>	
CapEx	22	30	(26.8)	(26.8)	13	14	(8.1)	(8.1)
OpCF (OIBDA-CapEx)	123	120	2.3	2.3	63	61	3.4	3.4
<b>TELEFÓNICA O2 CZECH REPUBLIC</b>								
Revenues	1,096	1,236	(11.3)	n.c.	549	636	(13.7)	n.c.
OIBDA	519	580	(10.6)	n.c.	272	312	(12.7)	n.c.
<i>OIBDA margin</i>	<i>47.3%</i>	<i>47.0%</i>	<i>0.4 p.p.</i>		<i>49.6%</i>	<i>49.0%</i>	<i>0.6 p.p.</i>	
CapEx	107	96	11.4	n.c.	70	65	8.5	n.c.
OpCF (OIBDA-CapEx)	412	484	(15.0)	n.c.	202	247	(18.3)	n.c.

Note: OIBDA before management and brand fee.

## TELEFÓNICA EUROPE ACCESSES BY COUNTRIES

Unaudited figures (Thousands)

	2008			2009		% Chg y-o-y
	June	September	December	March	June	
<b>TELEFÓNICA O2 UK</b>						
Final Clients Accesses	19,586.8	20,105.5	20,615.6	20,821.0	21,125.6	7.9
Internet and data accesses	194.2	267.1	340.9	404.5	456.9	135.2
Broadband	194.2	267.1	340.9	404.5	456.9	135.2
Mobile accesses (1)	19,392.6	19,838.4	20,274.7	20,416.5	20,668.7	6.6
Pre-Pay	11,525.1	11,649.3	11,862.5	11,718.0	11,657.6	1.1
Contract	7,867.5	8,189.2	8,412.2	8,698.5	9,011.1	14.5
<b>Total Accesses</b>	<b>19,586.8</b>	<b>20,105.5</b>	<b>20,615.6</b>	<b>20,821.0</b>	<b>21,125.6</b>	<b>7.9</b>
<b>TELEFÓNICA O2 GERMANY</b>						
Final Clients Accesses	13,741.3	14,176.4	14,413.3	14,737.6	15,186.1	10.5
Internet and data accesses	165.4	198.1	214.8	231.7	253.4	53.2
Broadband	165.4	198.1	214.8	231.7	253.4	53.2
Mobile accesses	13,575.9	13,978.3	14,198.5	14,506.0	14,932.7	10.0
Pre-Pay	6,841.4	7,097.2	7,231.5	7,420.7	7,708.1	12.7
Contract	6,734.5	6,881.1	6,967.0	7,085.2	7,224.5	7.3
Wholesale Accesses (2)	897.4	1,026.7	1,128.4	1,215.7	1,273.1	41.9
<b>Total Accesses</b>	<b>14,638.7</b>	<b>15,203.1</b>	<b>15,541.7</b>	<b>15,953.3</b>	<b>16,459.2</b>	<b>12.4</b>
<b>TELEFÓNICA O2 IRELAND</b>						
Mobile accesses	1,687.6	1,713.1	1,727.7	1,710.6	1,716.7	1.7
Pre-Pay	1,094.9	1,082.5	1,084.6	1,059.4	1,054.0	(3.7)
Contract	592.6	630.6	643.1	651.2	662.6	11.8
<b>Total Accesses</b>	<b>1,687.6</b>	<b>1,713.1</b>	<b>1,727.7</b>	<b>1,710.6</b>	<b>1,716.7</b>	<b>1.7</b>
<b>TELEFÓNICA O2 CZECH REPUBLIC</b>						
Final Clients Accesses	7,495.0	7,441.3	7,589.5	7,564.7	7,590.5	1.3
Fixed telephony accesses (3)	1,937.7	1,892.4	1,893.4	1,851.0	1,803.9	(6.9)
Internet and data accesses	724.4	729.4	779.5	803.2	818.9	13.0
Narrowband	177.0	170.3	163.4	155.4	148.7	(16.0)
Broadband	540.4	552.2	583.7	617.3	639.3	18.3
Other (4)	7.1	6.9	32.4	30.4	30.9	n.s.
Mobile accesses	4,735.0	4,711.4	4,802.1	4,782.8	4,835.1	2.1
Pre-Pay (5)	2,365.9	2,282.0	2,282.8	2,186.7	2,172.5	(8.2)
Contract	2,369.1	2,429.4	2,519.3	2,596.1	2,662.6	12.4
Pay TV	97.9	108.1	114.5	127.8	132.6	35.5
Wholesale Accesses	110.7	112.2	109.5	108.7	108.2	(2.3)
<b>Total Accesses</b>	<b>7,605.8</b>	<b>7,553.5</b>	<b>7,698.9</b>	<b>7,673.4</b>	<b>7,698.7</b>	<b>1.2</b>
<b>TELEFÓNICA O2 SLOVAKIA</b>						
Mobile accesses	275.0	277.3	325.3	365.2	417.0	51.7
Pre-Pay (5)	200.1	199.2	226.3	247.6	281.2	40.5
Contract	74.9	78.1	99.0	117.6	135.8	81.4
<b>Total Accesses</b>	<b>275.0</b>	<b>277.3</b>	<b>325.3</b>	<b>365.2</b>	<b>417.0</b>	<b>51.7</b>

(1) As of 31 December 2007, in order to align the criteria for the key performance indicators of the mobile operations of the Group, the series of mobile accesses, and therefore, of total accesses, have been revised, including machine to machine accesses.

(2) Includes Unbundled Lines by T. Deutschland.

(3) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use

(4) Retail circuits other than broadband.

(5) The accounting criteria for Pre-Pay access in the Czech Republic and Slovakia have been modified to align them, changing from 13 months (registered) to three months (active).

**TELEFÓNICA EUROPE  
SELECTED MOBILE BUSINESS OPERATING DATA BY COUNTRIES**

*Unaudited figures*

	2008			2009		% Chg y-o-y Local Cur
	Q2	Q3	Q4	Q1	Q2	
<b>TELEFÓNICA O2 UK</b>						
Traffic (Million minutes)	11,571	11,845	12,281	12,798	13,304	15.0
ARPU (EUR)	29.2	29.5	27.1	24.2	25.3	(3.9)
Pre-Pay	15.6	15.9	14.4	12.3	12.8	(8.8)
Contract	49.0	49.3	45.1	40.6	41.6	(5.7)
Data ARPU	10.0	10.0	9.7	8.8	9.2	1.9
%non-P2PSMS over data revenues	18.1%	20.9%	22.0%	23.9%	26.6%	8.5 p.p.
<b>TELEFÓNICA O2 GERMANY</b>						
Traffic (Million minutes)	5,741	5,512	5,454	5,555	5,819	1.4
ARPU (EUR)	17.6	17.3	16.9	15.9	15.7	(10.8)
Pre-Pay	6.1	6.0	5.8	5.4	5.5	(10.2)
Contract	29.3	28.9	28.3	26.8	26.5	(9.4)
Data ARPU	4.8	4.9	4.8	4.7	4.6	(2.4)
%non-P2PSMS over data revenues	26.9%	29.6%	31.7%	33.5%	34.8%	7.9 p.p.
<b>TELEFÓNICA O2 IRELAND</b>						
Traffic (Million minutes)	1,225	1,231	1,250	1,158	1,170	(4.4)
ARPU (EUR)	43.2	43.7	42.6	39.3	39.8	(7.9)
Pre-Pay	26.9	27.7	26.7	24.2	25.6	(5.0)
Contract	73.8	72.2	69.2	64.5	62.5	(15.3)
Data ARPU	10.6	10.6	10.9	11.6	11.9	12.9
%non-P2PSMS over data revenues	30.2%	31.2%	32.6%	35.8%	36.4%	6.2 p.p.
<b>TELEFÓNICA O2 CZECH REPUBLIC (1)</b>						
Traffic (Million minutes)	1,874	1,850	1,911	1,940	2,085	11.2
ARPU (EUR)	23.1	24.0	22.5	18.7	19.4	(9.9)
Pre-Pay	11.5	12.2	11.5	8.0	8.6	(20.4)
Contract	34.7	35.1	32.6	28.2	28.4	(12.1)
Data ARPU	5.5	5.3	5.5	4.7	4.7	(9.3)
%non-P2PSMS over data revenues	44.0%	45.7%	43.5%	45.5%	43.1%	(0.9 p.p.)

(1) KPIs for Mobile business in Czech Republic do not include Slovakia.

Notes:

- ARPU calculated as monthly quarterly average.

- Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

## SELECTED OPERATING DATA MOBILE BUSINESS BY COUNTRIES

Unaudited figures

	January - June		
	2009	2008	% Chg Local Cur
<b>TELEFÓNICA O2 UK</b>			
MOU (minutes)	26,102	22,459	16.2
ARPU (EUR)	24.7	29.6	(3.8)
Pre-Pay	12.6	15.9	(8.7)
Contract	41.1	50.2	(5.4)
Data ARPU	9.0	10.2	1.7
%non-P2PSMS over data revenues	25.2%	18.1%	7.1 p.p.
<b>TELEFÓNICA O2 GERMANY</b>			
MOU (minutes)	11,375	11,347	0.2
ARPU (EUR)	15.8	17.7	(10.6)
Pre-Pay	5.5	6.0	(9.3)
Contract	26.6	29.5	(9.6)
Data ARPU	4.7	4.8	(3.7)
%non-P2PSMS over data revenues	34.2%	27.6%	6.5 p.p.
<b>TELEFÓNICA O2 IRELAND</b>			
MOU (minutes)	2,328	2,386	(2.4)
ARPU (EUR)	39.5	43.3	(8.6)
Pre-Pay	24.9	26.8	(7.2)
Contract	63.5	74.6	(14.9)
Data ARPU	11.8	10.9	8.1
%non-P2PSMS over data revenues	36.1%	30.2%	5.9 p.p.
<b>TELEFÓNICA O2 CZECH REPUBLIC (1)</b>			
MOU (minutes)	4,025	3,659	10.0
ARPU (EUR)	19.1	22.4	(8.2)
Pre-Pay	8.3	11.1	(19.8)
Contract	28.3	34.0	(10.5)
Data ARPU	4.7	5.3	(5.5)
%non-P2PSMS over data revenues	44.3%	43.8%	0.6 p.p.

(1) KPIs for Mobile business in Czech Republic do not include Slovakia.

- ARPU calculated as monthly H1 average.

- Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.