



## TELEFÓNICA EUROPE ANNOUNCES YEAR-END 2008 RESULTS

### PR0903

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#### OPERATIONAL HIGHLIGHTS:

- **Telefónica Europe** met its 2008 financial targets at the top end of guidance:
  - 5.9% year-on-year growth in revenues (vs. guidance of 4% - 7%)
  - 4.7% year-on-year growth in OIBDA (vs. guidance of 2% - 6%)
- Total customer base up 9% to 46 million
- Best selling device iPhone tops 1 million sales in UK
- O2 outperforms UK market yet again in difficult economic times with over 10% growth in both revenues and OIBDA
- Customer satisfaction riding high – churn continues to fall to record levels while JD Power names Telefónica O2 UK #1 network operator in mobile pre- and post-pay, fixed and mobile broadband
- Telefónica O2 Germany returns to positive revenue growth
- Marked improvement in overall performance across Telefónica Europe Group

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

“**Telefónica Europe** has met its 2008 financial targets at the top end of our yearly guidance in spite of highly competitive markets and in extremely difficult economic conditions. Delivery of six per cent year-on-year revenue growth and five per cent growth in OIBDA in the current market conditions demonstrates an extremely strong performance. This is further evidence of the resilience of the telecoms sector, although there is no room for complacency as our industry is by no means immune. It is critical that we continue to deliver propositions and services that add real value to our 46 million customers across Europe in these market conditions.

The UK business turned in yet another outstanding performance with double digit year-on-year growth and net mobile additions in the year up 45.3% reaching 1,087,866. In Q4 we added 499,000 fixed and mobile customers and ended 2008 with a total customer base approaching 22 million (including Tesco Mobile), representing growth of 7.5% year-on-year.

This great performance in the UK was fuelled by four key areas:

- Number one in customer satisfaction – evident in lowest ever churn levels;
- Our SIM-only Simplicity tariff, which accounted for approximately a quarter of new consumer contracts and now represents over 10% of our consumer postpay base;
- The success of our products at the top end of the market, including Blackberry and iPhone;
- The success of our broadband proposition where sales in 2008 accelerated four-fold to a customer base of more than 340,000 while delivering high levels of customer satisfaction that resulted in being named as No. 1 supplier by JD Power in fixed and mobile broadband.

Our businesses in Germany, Ireland and Czech Republic also reported robust year-end results. **Telefónica O2 Germany**, in particular, has turned its fortunes around and, in 2009, will build on a fourth quarter that saw it return to service revenue growth and deliver OIBDA margins that are on a par with the UK. This was a fitting end to a year in which we focused on putting in place the foundations of the business to achieve a balanced approach between growth and profitability in the German telecommunications market. **Telefónica O2 Ireland** weathered a steadily worsening economic environment and strong competition to record significant improvements in year-on-year trends. We recorded net additions of 14,589 in the fourth quarter to total 81,561 net additions in the year. The total customer base stood at 1.7 million at the end of December, 5.0% higher than a year ago. **Telefónica O2 Czech Republic** hit its annual guidance and achieved a positive turnaround in its fixed-line business.

While our results appear to be bucking economic trends, we remain concerned about the current trading environment which has resulted in an overall smaller market. In times like these, execution becomes even more critical in offering customers services and propositions that they value. I believe the telecoms sector can help fuel economic recovery, provided the right regulatory framework is given. We call upon politicians, regulators and the industry to work together to ensure the regulatory clarity that will favour investments in R&D and new infrastructure.”

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## FINANCIAL HIGHLIGHTS

### TELEFÓNICA EUROPE:

- **Telefónica Europe increased its total mobile base in 2008 by 2.9 million lines, to reach 41.2 million mobile customers at the end of the year (+7.6% year-on-year).**
- **Telefónica Europe had a strong financial performance in 2008, with financial targets successfully achieved in a worse economic environment:**
  - **Under guidance criteria, revenue growth in 2008 reached 5.9%<sup>1</sup> year-on-year, within the 4%-7% announced guidance, and reflected a more balanced contribution from the different businesses:**
    - Total revenue for Telefónica O2 UK had a strong 10.6% year-on-year growth in local currency in 2008, outperforming the mobile market on a leading contract churn rate and focused commercial approach around Simplicity and iPhone.
    - In the fourth quarter of 2008 Telefónica O2 Germany returned to positive year-on-year growth in mobile service revenues (+0.7%) in a very competitive environment. The business ended the year with a total revenue growth of 1.5% year-on-year with the foundations of the business on track and a new commercial approach set in the last quarter of the year.
    - The businesses in the Czech Republic, Slovakia and Ireland were particularly active in the fourth quarter of the year, reinforcing improving trends for the future.
  - **Under guidance criteria, OIBDA rose 4.7%<sup>2</sup> in the year, meeting the 2%-6% guidance. In 2008 the OIBDA margin stood at 29.2%, broadly unchanged from 2007 in like-for-like<sup>2</sup> terms, as efficiency measures taken in 2007 and 2008 pay off, as well as more focused commercial activity.**
- **Operating Cash Flow (OIBDA-CapEx) grew 6.7% year-on-year in like-for-like<sup>2</sup> terms, despite increased investment in Germany.**

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<sup>1</sup> Assuming constant exchange rates and excluding the consolidation of Airwave in the first quarter of 2007.

<sup>2</sup> 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.

## RESULTS BY REGIONAL BUSINESS UNITS

### TELEFÓNICA EUROPE:

Telefónica Europe had a strong performance in 2008, despite a worse economic environment and changing patterns in customer behaviour. With the markets being affected unequally, the main common strength across Telefónica Europe has been the delivery of new propositions that anticipated customer needs in the current environment.

At the end of December 2008, Telefónica Europe total customer base reached 45.8 million (+9.0% year-on-year). Mobile customer net additions for the year were 2.9 million, reaching a total **mobile customer base** of 41.2 million at the end of December (+7.6% year-on-year), with good performance in both contract and prepay segments across the markets. The fourth quarter saw 0.7 million net additions, 28.1% less than in the same period of 2007, as the businesses adapted their commercial strategies to the new market environment.

**Revenues** in 2008 showed resilient year-on-year growth of 5.9% on a like-for-like basis<sup>1</sup> to reach 14,308 million euros, leveraging Telefónica O2 UK's solid year-on-year total revenue growth of 10.6% in local currency, as well as building on positive year-on-year growth at Telefónica O2 Germany, with mobile service revenue positive in the fourth quarter. Reported revenues for the year showed a decline of 1.0%, while for the fourth quarter they were down 1.7% year-on-year, mainly impacted by sterling/euro depreciation in the period and the exclusion of Airwave.

**Operating income before depreciation and amortization (OIBDA)** in 2008 recorded a significant 4.7% year-on-year growth on a like-for-like basis<sup>2</sup>, totalling 4,180 million euros, mainly driven by revenue growth and a more focused commercial approach, with the restructuring measures taken in the fourth quarter of 2007 already showing benefits. On a reported basis, OIBDA in 2008 showed a year-on-year decline of 16.0%, reflecting the proceeds from the disposal of Airwave in the second quarter of last year (1,296 million euros), and the weaker sterling/euro exchange rate. In the fourth quarter, OIBDA increased 34.0% year-on-year, mainly due to restructuring charges taken in the same period of 2007, as well as 60 million euros registered in the fourth quarter of 2008 as a result of an additional 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, being the total amount for 2008 174 million euros.

OIBDA margin of 29.2% in 2008 was comparable to 2007 (-0.3 percentage points) on a like-for-like basis<sup>2</sup>, while for the quarter was 30.6%, 0.6 percentage points higher than in the same period of 2007 on a like-for-like basis<sup>2</sup>.

**CapEx** for the year was 2,072 million euros, a year-on-year increase of 2.9% on a like-for-like<sup>1</sup> basis. **operating cash flow (OIBDA-CapEx)** in 2008 totalled 2,108 million euros, a significant increase of 6.7% year-on-year on a like-for-like<sup>2</sup> basis.

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<sup>1</sup> Assuming constant exchange rates and excluding the consolidation of Airwave in the first quarter of 2007.

<sup>2</sup> 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.

## TELEFÓNICA O2 UK

Telefónica O2 UK outperformed the market in 2008 in all main financial and operating metrics despite the worse economic environment, with a balanced approach in the growth-efficiency equation that helped to sustain its leadership position.

It is also noteworthy that Telefónica O2 UK has topped the list of fixed and mobile broadband internet service providers (ISPs) in the UK for customer satisfaction, according to a recent report by JD Power and Associates, as well as leading on customer satisfaction for the overall mobile business among the mobile network operators. The marketing firm conducted two customer satisfaction studies based on five factors that drive overall satisfaction with the provision of mobile and fixed broadband: i) performance and reliability; ii) billing; iii) cost; iv) customer service/technical support; and v) offerings/promotions.

Net mobile additions in the year reached 1.1 million (+45.3% year-on-year), ending December 2008 with a total **mobile base** of 19.5 million lines (which excludes Tesco Mobile), with a 5.9% year-on-year growth. In the fourth quarter of the year, Telefónica O2 UK recorded net mobile customer additions of 390,365.

After adding 798,690 contract customers in 2008 (+35.2% year-on-year), at the end of December contract customers made up 39.1% of the total base (37.0% in December 2007). This reflects the focus on higher value customers across various segments, market leading churn levels, as well as the strength of propositions such as Simplicity, the iPhone (3G), mobile broadband, and the continued prepay to contract migration. In the fourth quarter, contract net additions totalled 177,116.

A total number of 289,176 prepay customers were added in 2008, a year-on-year growth of 82.7% to reach 11.9 million customers. In a seasonally strong quarter, prepay customers grew by 213,249, with new propositions also being introduced in the quarter, such as prepay mobile broadband, and prepay iPhone.

It is worth highlighting the 1.3% market leading contract **churn** achieved in the fourth quarter down from the 1.5% in the first quarter, reflecting the correct commercial focus of the company alongside market leading customer satisfaction levels in the current environment (contract churn for the year went down from 1.7% in 2007 to 1.4% in 2008). Blended churn was 2.7% for the full year, down from 2.9% in 2007.

**MoU** showed a robust 9.1% year-on-year growth to reach 207 minutes in 2008, mainly due to an increasing number of prepay customers benefiting from propositions such as Unlimited, while contract customers were optimizing their voice bundle utilisation in the current environment. In the fourth quarter, MoU reached 213 minutes (+8.0% year-on-year).

Telefónica O2 UK's **total ARPU** reached 30.0 euros in 2008, a 1.4% year-on-year growth in local currency as a result of improved customer mix. In the fourth quarter it was 1.7% down year-on-year in local currency, reflecting the declines in both contract and prepay voice ARPUs, being partially compensated by continued growth in data ARPU.

In 2008, contract ARPU showed a year-on-year decline of 2.1% in local currency, due to the continued migration process from prepay to contract and customer propositions, such as Simplicity, which better fit customers' expectations in the current environment, as well as the continued optimising behaviour of customers when using voice bundles. Prepay ARPU for the year declined 0.6% over 2007 in local currency, again reflecting the above mentioned migration process and also increased uptake of prepay tariffs such as Unlimited.

Data ARPU had a very strong performance in 2008, with a year-on-year increase in local currency of 9.2% to 10.3 euros (+6.6% year-on-year in local currency in the fourth quarter), mainly driven by an increase in the number of mobile broadband connections (a new prepay proposition was launched in the fourth quarter), as well as the continued success of data bolt-ons. Non-SMS data revenues increased 55.4% year-on-year in local currency in the year.

Telefónica O2 UK's DSL **broadband** service added 270,157 lines in 2008, and finished the year with market leading customer satisfaction numbers. The business had another strong quarter with 73,776 net additions, leaving the total broadband customer base at 340,866 lines at the end of December.

**Revenues** for the year were 7,052 million euros, an increase of 10.6% year-on-year in local currency. In the fourth quarter revenues grew by 10.4% year-on-year in local currency, an acceleration compared to the previous quarter (+8.7%), reflecting the different timing for handsets shipments compared to the previous year (which will not occur in the next quarter), as well as increased activity around the iPhone towards the end of the year. Mobile service revenue for the year totalled 6,435 million euros, an increase of 10.0% year-on-year in local currency, and in the fourth quarter showed a growth rate of 8.0% year-on-year in local currency, lower than in the third quarter due to declining voice ARPUs, being offset by customer growth and the mobile data business.

**Operating income before depreciation and amortization (OIBDA)** totalled 1,839 million euros in 2008, an 11.1% year-on-year growth in local currency (+9.1% on a like-for-like basis<sup>3</sup>), leveraging more focused commercial campaigns, ongoing efficiency savings and market leading contract churn. For the fourth quarter OIBDA rose 12.3% year-on-year in local currency, while on a like-for-like basis<sup>3</sup> it was 8.1% higher.

OIBDA margin for the year was 26.1% (0.4 percentage points lower than in 2007 on a like-for-like basis<sup>3</sup>), as customer investments in the new DSL and mobile broadband propositions throughout the year were partially compensated by efficiency improvements. In the fourth quarter, margin was 27.3%, compared to 26.8% in the same quarter of 2007 (27.8% on a like-for-like basis<sup>3</sup>).

**CapEx** for the year amounted to 717 million euros (+0.1% year-on-year in local currency), with **operating cash flow (OIBDA-CapEx)** amounting to 1,122 million euros (+15.7% year-on-year on a like-for-like basis<sup>3</sup>).

## TELEFÓNICA O2 GERMANY

In the fourth quarter of 2008, Telefónica O2 Germany returned to positive mobile service revenue growth despite a highly competitive and overall smaller market. At the end of December, the business had successfully built on its foundations strategy, with the infrastructure of the network on track, the distribution network ahead of target (725 shops at year end), and the customer migration program from legacy to new tariffs completed. The business has seen also a significant increase in OIBDA margin leveraged on the success of customer propositions such as the O2 Handy flatrate (only six-months contract), as well as the launch in the fourth quarter of a commercial approach towards a new and more efficient acquisition and retention concept, that had an encouraging start in the direct channels.

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<sup>3</sup> Excluding restructuring charges in 2007

In 2008, Telefónica O2 Germany's **mobile customer base** grew by 1.7 million (19.4% higher than last year), of which 952,794 came from partner channels, including HanseNet, Tchibo, Fonic, Schlecker and M-Net, taking the mobile customer base to 14.2 million (+13.8% vs. December 2007). In the fourth quarter, mobile net additions were 220,159, a decrease of 27.4% over the same period of last year, after disconnecting more than 240,000 inactive prepay lines. It should be pointed out that this decision had no impact on the business' economic and financial performance.

The mobile contract base increased by 730,418 in 2008 to reach 7.0 million customers (+11.7% year-on-year), with 85,895 net additions in the fourth quarter. Contract customers made up 49.1% of the total mobile base at the end of December vs. 50.0% at December, 2007. A total of 996,514 prepay customers were added in the year (+44.3% year-on-year) to give a prepay base of 7.2 million customers at the end of December (+16.0% year-on-year), with 134,264 prepay customers being added in the fourth quarter, after the above mentioned disconnections.

In 2008, **churn** rate increased 0.1 percentage points year-on-year to 2.0% and was lower by 0.7 percentage points year-on-year in the quarter at 2.4%.

**MoU** showed a 5.3% year-on-year increase in 2008 to reach 138 minutes, while it decreased 3.8% year-on-year in the fourth quarter, as previous flat rate promotions on prepay were expired in the quarter.

Total **ARPU** for the year was 17.4 euros (-14.9% year-on-year), mainly due to the completion of base migration to tariffs such as Genion and Inklusivpakete, successfully achieved before year end, as well as the impact from the cut in mobile termination rates from November 2007. However, the fourth quarter saw a better year-on-year performance (-13.2%) than the previous quarter (-16.8%). Contract ARPU for the year fell 15.0% year-on-year to reach 29.0 euros, while prepay ARPU decreased 11.0% year-on-year.

**Data ARPU** for the year was 4.8 euros (-5.8% year-on-year), while in the fourth quarter was 7.0% lower than the same period of last year due to the impact on SMS usage from the introduction of better value tariffs and flat rate voice promotions. It is important to highlight that non-SMS data revenues grew 25.7% year-on-year in 2008, mainly driven by mobile broadband "Surfsticks" and web browsing packs.

In 2008, 140,079 O2 DSL customers were added to reach a total customer base of 214,783 at the end of December, with 16,713 customers acquired in the fourth quarter. Telefónica Deutschland reported 1.3 million ULL lines in total at the end of December, compared to 0.7 million lines at the end of December 2007.

**Revenues** totalled 3,595 million euros in 2008 (+1.5% year-on-year), with mobile service revenues (2,869 million euros, down 1.1% year-on-year) and wholesale fixed broadband revenues (435 million euros, up 44.3% year-on-year) being the main contributors to the performance of the business. It's important to highlight that the fourth quarter of the year saw positive mobile service revenue growth (+0.7% year-on-year), leveraged on the better year-on-year performance of ARPU coupled with customer growth.

**Operating income before depreciation and amortization (OIBDA)** for the year totalled 770 million euros, a 62.9% year-on-year growth, while on a like-for-like basis<sup>4</sup> OIBDA grew by 6.6% year-on-year. This increase in the profitability level of the business (+1.0 percentage points on a like-for-like basis<sup>4</sup> to reach a 21.4% margin in 2008) was the result of success of the business building on its foundations (less dependence on national

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<sup>4</sup> Excluding restructuring charges in 2007.

roaming, improved distribution network and the completion of the tariff migration process), as well as the new commercial approach introduced in the fourth quarter, which significantly reduced acquisition and retention costs.

**CapEx** amounted to 924 million euros for 2008 (+8.7% year-on-year), mainly as a result of the acceleration of the mobile network rollout in line with Telefónica O2 Germany's network investment plans (2G coverage reaching 99% pop and data coverage including HSDPA and EDGE now reaching 78% pop), and the acceleration of the distribution network.

**Operating cash flow (OIBDA-CapEx)** amounted to -154 million euros in 2008 (-377 million euros in 2007).

## TELEFÓNICA O2 IRELAND

In a more challenging economic environment, Telefónica O2 Ireland has continued to improve its operating and financial metrics throughout 2008, particularly during the fourth quarter of the year. The business recorded net additions of 81,561 lines in the year and 14,589 in the fourth quarter to reach a total **customer base** of 1.7 million customers at the end of December, 5.0% higher than a year ago.

The contract market continues to drive growth for Telefónica O2 Ireland with 87,864 contract customers added in the year (+25.3% year-on-year) and 12,513 in the fourth quarter, to give a closing year end contract base of 643,091 lines. Key drivers of this performance include strong progress in the business market, continued momentum in mobile broadband and the success of the new O2 Clear propositions. Building on momentum from the O2 Experience offer, launched in February 2008, and the success of December's O2 Treat card campaign, prepay net adds for the year were -6,303 customers, a significant improvement over 2007. On a quarterly basis, there were 2,076 prepay net additions in the fourth quarter (a significant improvement on the -12,409 lines reported in the previous quarter). The prepay base reached 1.1 million lines at the end of December.

**Churn** reached 2.8% in the year, showing an increase of 0.2 percentage points year-on-year. Contract churn rose as a result of the trading environment, while prepay churn remained broadly stable throughout the year.

**MoU** for the full year fell 1.1% year-on-year to 245 minutes, with a decline of 3.6% in the quarter. This was driven by an increasing number of mobile broadband lines in the base, contract customers optimising their usage, as well as voice to text substitution on prepay O2 Experience tariffs.

Total **ARPU** reached 43.2 euros in 2008 (-5.9% year-on-year), while in the fourth quarter it was 6.8% lower year-on-year than in the same period of last year. Prepay ARPU declined 7.0% year-on-year in the year and 7.9% in the fourth quarter on the back of new and existing customers adopting new value-for-money price plans such as O2 Experience. Contract ARPU had a year-on-year decline of 11.9% in 2008, while in the fourth quarter was 12.2% lower than the same period in 2007, mainly due to the growth of mobile broadband subscriptions and the continued adoption of the O2 Clear tariffs.

Data ARPU was 7.2% lower in the year at 10.8 euros and in the fourth quarter was 11.6% lower than the same period last year, driven by customer promotions such as O2 Experience offering unlimited SMS (SMS volumes in 2008 +40.3% year-on-year). Non-SMS data revenues in 2008 grew by 17.1% year-on-year on the back of the growing mobile broadband base.

**Revenues** for the year were 957 million euros, a year-on-year decline of 3.4%. Mobile service revenues for the full year declined 2.7% year-on-year to 909 million euros, while they decreased 1.7% year-on-year in the fourth quarter compared to the same period last year, with a decline in ARPU partially offset by growth in the customer base.

**Operating income before depreciation and amortization (OIBDA)** for the full year was 301 million euros, 9.5% lower on a like-for-like basis<sup>5</sup> vs. 2007, due to lower revenues and increased investment to regain momentum in the market. In the fourth quarter the year-on-year OIBDA decrease was 4.0% on a like-for-like basis<sup>5</sup>, a marked improvement over the previous quarter (-12.6% year-on-year on a like-for-like basis<sup>5</sup>). This improvement was in part due to the higher levels of investment in contract in the previous quarter, but also partly due to ongoing cost rationalisation programs and a higher proportion of lower cost SIM-only acquisitions in the fourth quarter. OIBDA margin for the year was 31.5% (2.1 percentage points lower than in 2007 on a like-for-like basis<sup>5</sup>), while for the fourth quarter it was 30.3% (0.4 percentage points lower than in the same period of 2007 on a like-for-like basis<sup>5</sup>).

**CapEx** for the year totalled 83 million euros (-29.6% year-on-year) and **operating cash flow (OIBDA-CapEx)** amounted to 219 million (+1.4% year-on-year on a like-for-like basis<sup>5</sup>).

## TELEFÓNICA O2 CZECH REPUBLIC

Telefónica O2 Czech Republic has delivered strong results in 2008 in a very competitive mobile Czech market, while reinforcing its leadership position in the fixed Czech market, improving fixed line trends, as well as the continued improvement of the Slovak operations.

At the end of December, the total number of **accesses** for Telefonica O2 Czech Republic, including Slovakia, stood at 8.6 million, a slight decrease of 0.6% year-on-year.

**Fixed telephony accesses** amounted to 1.9 million at the end of December, 8.5% lower than in December, 2007. Underlying net losses of fixed telephony amounted to 30,072 accesses in the fourth quarter, a significant improvement of 54.0% year-on-year in the fourth quarter, and by 37.9% in the year, leveraged on a better evolution of gross additions and lower number of disconnections driven by enhancements to fixed line propositions with broadband and bundled offers. At the end of December, 14.2% of fixed accesses had a bundled product (+9.6 percentage points year-on-year).

**Retail Internet broadband accesses** reached 583,698 (+14.6% year-on-year), with 74,309 net additions in the year and 31,518 in the fourth quarter, leveraging a very strong commercial activity. The total number of **O2 TV customers** increased by 41,331 in 2008 and by 6,435 in the quarter to reach 114,496 at the end of December.

The total number of **mobile customers** in the Czech Republic increased by 2.6% year-on-year to reach 5.3 million at the end of December, mainly driven by the increase in the contract customer base (275,387 net additions in the year, and 89,868 in the fourth quarter). Contract customer base at December, 2008 amounted to 2.5 million customers, leveraged on the continued success of the Neon tariffs. The prepay customer base decreased by 143,584 customers in the year and by 20,122 customers in the fourth quarter to reach 2.7 million at the end of December, following the active prepay to contract

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<sup>5</sup> Excluding restructuring charges in 2007.

migration strategy. Telefonica O2 Slovakia registered 455,277 customers at the end of December, compared with 565,424 customers at the end of 2007, with the contract customer base increasing during the year on the back of the success of the “O2 Fér” customer proposition.

In the Czech Republic, the **churn** rate increased 0.1 percentage points in the year to reach 1.6%, and 1.7% in the fourth quarter, 0.2 percentage points higher than in the same period of last year.

**MoU** in the Czech Republic reached 121 minutes in 2008 (+3.6% year-on-year), while in the fourth quarter it increased year-on-year by 1.8% due to the higher contract base and the good performance of Neon flat rate tariffs, with close to 270 thousand customers opting for one of these tariffs at the end of December.

Total mobile **ARPU** in the Czech Republic reached 20.7 euros in 2008 (-0.9% year-on-year in local currency), while in the fourth quarter it declined by 1.6% year-on-year in local currency. Lower voice ARPU was partially offset by the 2.8% year-on-year increase in data ARPU in 2008, in local currency to 4.6 euros, as a result of the growth in mobile data customers.

**Revenues** for the Telefonica O2 Czech Republic Group showed a 2.9% year-on-year increase in constant currency in 2008 to reach 2,581 million euros, while in the fourth quarter they were 4.2% higher year-on-year in constant currency, with ICT and Business Solutions showing an outstanding performance in the quarter. The Czech mobile business continued to be the key driver of the underlying growth of the Company, with service revenue growing by 3.9% in 2008 and 2.8% year-on-year in local currency in the fourth quarter. Traditional fixed revenues fell by 9.3% year-on-year in local currency in 2008, while the decline was 8.6% in the fourth quarter, with fixed internet, broadband and TV revenues growing by 5.6% year-on-year in local currency in 2008 (+2.0% in the fourth quarter).

**Operating income before depreciation and amortization (OIBDA)** growth for the year was 3.1% year-on-year in constant currency to reach 1,159 million euros, while in the fourth quarter it increased by 5.1% year-on-year in constant currency. On a like-for-like basis<sup>6</sup>, OIBDA increased by 0.8% year-on-year in constant currency in the year. OIBDA margin for 2008 was 44.9%, slightly better than in the previous year, with the Slovak operation showing a better performance in terms of margin dilution. In the fourth quarter, OIBDA margin was 41.9%, an improvement over the same period of last year.

**CapEx** for the year totalled 324 million euros (+4.0% year-on-year in constant currency) and **operating cash flow (OIBDA-CapEx)** amounted to 835 million euros.

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<sup>6</sup> Excluding restructuring charges, real estate gains and others.

## TELEFÓNICA EUROPE ACCESSES

Unaudited figures (thousands)

	2007		2008			% Chg y-o-y
	December	March	June	September	December	
Final Clients Accesses	41,347.0	41,967.5	42,794.3	43,718.9	44,603.8	7.9
Fixed telephony accesses (1)	2,130.0	2,056.5	1,998.1	1,952.3	1,952.7	(8.3)
Internet and data accesses	880.0	996.1	1,101.4	1,212.7	1,354.5	53.9
Narrowband	202.4	188.7	177.0	170.3	163.4	(19.3)
Broadband	670.3	800.2	917.3	1,035.5	1,158.7	72.9
Other (2)	7.3	7.2	7.1	6.9	32.4	n.m.
Mobile accesses	38,263.8	38,827.7	39,596.9	40,445.8	41,182.1	7.6
Contract	22,327.7	22,387.7	22,643.0	22,965.1	23,314.4	4.4
Pre-Pay	15,936.1	16,440.0	16,953.9	17,480.7	17,867.6	12.1
Pay TV	73.2	87.2	97.9	108.1	114.5	56.5
Wholesale Accesses (3)	706.2	831.3	1,008.1	1,139.0	1,237.9	75.3
<b>Total Accesses</b>	<b>42,053.2</b>	<b>42,798.8</b>	<b>43,802.4</b>	<b>44,857.9</b>	<b>45,841.7</b>	<b>9.0</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) Remaining non-broadband final circuits.

(3) 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 - December			October - December		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	14,308	14,458	(1.0)	3,618	3,682	(1.7)
Internal exp capitalized in fixed assets	175	200	(12.4)	43	44	(2.0)
Operating expenses	(10,514)	(10,987)	(4.3)	(2,616)	(2,896)	(9.7)
Other net operating income (expense)	181	14	n.m.	63	2	n.m.
Gain (loss) on sale of fixed assets	32	1,292	(97.5)	(1)	(6)	(79.6)
Impairment of goodwill and other assets	(3)	(0)	n.m.	0	(0)	c.s.
<b>Operating income before D&amp;A (OIBDA)</b>	<b>4,180</b>	<b>4,977</b>	<b>(16.0)</b>	<b>1,107</b>	<b>826</b>	<b>34.0</b>
<b>OIBDA Margin</b>	<b>29.2%</b>	<b>34.4%</b>	<b>(5.2 p.p.)</b>	<b>30.6%</b>	<b>22.4%</b>	<b>8.2 p.p.</b>
Depreciation and amortization	(3,035)	(3,386)	(10.4)	(730)	(820)	(11.0)
<b>Operating income (OI)</b>	<b>1,144</b>	<b>1,591</b>	<b>(28.1)</b>	<b>377</b>	<b>6</b>	<b>n.s.</b>

Notes:

- OIBDA and OI before brand fees.

- Airwave is not consolidated since the second quarter of 2007. The disposal of Airwave generated a capital gain of 1,296 million euros, recorded in the second quarter of 2007.

- 2008 includes 174 million euros due to 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.

## TELEFÓNICA EUROPE ACCESSES BY COUNTRIES

Unaudited figures (Thousands)

	2007	2008				% Chg y-o-y
	December	March	June	September	December	
<b>UK</b>						
Final Clients Accesses	18,452.8	18,534.7	18,872.0	19,346.7	19,810.8	7.4
Internet and data accesses	70.7	131.4	194.2	267.1	340.9	n.m.
Broadband	70.7	131.4	194.2	267.1	340.9	n.m.
Mobile accesses	18,382.1	18,403.2	18,677.8	19,079.6	19,470.0	5.9
Pre-Pay	11,573.4	11,388.1	11,525.1	11,649.3	11,862.5	2.5
Contract	6,808.7	7,015.1	7,152.7	7,430.3	7,607.4	11.7
<b>Total Accesses</b>	<b>18,452.8</b>	<b>18,534.7</b>	<b>18,872.0</b>	<b>19,346.7</b>	<b>19,810.8</b>	<b>7.4</b>
<b>GERMANY</b>						
Final Clients Accesses	12,546.2	13,132.3	13,741.3	14,176.4	14,413.3	14.9
Internet and data accesses	74.7	124.7	165.4	198.1	214.8	187.5
Broadband	74.7	124.7	165.4	198.1	214.8	187.5
Mobile accesses	12,471.5	13,007.5	13,575.9	13,978.3	14,198.5	13.8
Pre-Pay	6,235.0	6,565.4	6,841.4	7,097.2	7,231.5	16.0
Contract	6,236.6	6,442.1	6,734.5	6,881.1	6,967.0	11.7
Wholesale Accesses (1)	596.0	719.9	897.4	1,026.7	1,128.4	89.3
<b>Total Accesses</b>	<b>13,142.3</b>	<b>13,852.1</b>	<b>14,638.7</b>	<b>15,203.1</b>	<b>15,541.7</b>	<b>18.3</b>
<b>IRELAND</b>						
Mobile accesses	1,646.1	1,662.9	1,687.6	1,713.1	1,727.7	5.0
Pre-Pay	1,090.9	1,089.1	1,094.9	1,082.5	1,084.6	(0.6)
Contract	555.2	573.8	592.6	630.6	643.1	15.8
<b>Total Accesses</b>	<b>1,646.1</b>	<b>1,662.9</b>	<b>1,687.6</b>	<b>1,713.1</b>	<b>1,727.7</b>	<b>5.0</b>
<b>CZECH REPUBLIC</b>						
Final Clients Accesses	7,986.8	7,964.8	7,946.3	7,917.3	8,044.6	0.7
Fixed telephony accesses (2)	2,069.2	1,995.6	1,937.7	1,892.4	1,893.4	(8.5)
Internet and data accesses	719.1	723.4	724.4	729.4	779.5	8.4
Narrowband	202.4	188.7	177.0	170.3	163.4	(19.3)
Broadband	509.4	527.4	540.4	552.2	583.7	14.6
Other (3)	7.3	7.2	7.1	6.9	32.4	n.m.
Mobile accesses	5,125.4	5,158.7	5,186.3	5,187.4	5,257.2	2.6
Pre-Pay	2,881.5	2,853.2	2,817.3	2,758.0	2,737.9	(5.0)
Contract	2,243.9	2,305.5	2,369.1	2,429.4	2,519.3	12.3
Pay TV	73.2	87.2	97.9	108.1	114.5	56.5
Wholesale Accesses	110.2	111.5	110.7	112.2	109.5	(0.6)
<b>Total Accesses</b>	<b>8,097.0</b>	<b>8,076.3</b>	<b>8,057.1</b>	<b>8,029.5</b>	<b>8,154.1</b>	<b>0.7</b>
<b>SLOVAKIA</b>						
Mobile accesses	565.4	523.1	394.7	412.7	455.3	(19.5)
Pre-Pay	502.4	449.0	319.8	334.6	356.2	(29.1)
Contract	63.0	74.1	74.9	78.1	99.0	57.2
<b>Total Accesses</b>	<b>565.4</b>	<b>523.1</b>	<b>394.7</b>	<b>412.7</b>	<b>455.3</b>	<b>(19.5)</b>

(1) Includes Unbundled Lines by T. Deutschland.

(2) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included. Includes a positive adjustment of 31,000 accesses recorded on December 2008.

(3) Retail circuits other than broadband.

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

*Unaudited figures*

	2007	2008				% Chg y-o-y Local Cur
	Q4	Q1	Q2	Q3	Q4	
<b>TELEFÓNICA O2 UK</b>						
MOU (minutes)	197	197	208	208	213	8.0
ARPU (EUR)	33.9	31.1	30.2	30.6	28.1	(1.7)
Pre-Pay	18.0	16.2	15.6	15.9	14.4	(5.3)
Contract	61.0	56.0	53.6	54.1	49.6	(3.9)
Data ARPU	11.1	10.7	10.3	10.3	10.0	6.6
%non-P2PSMS over data revenues	15.9%	18.3%	18.2%	21.0%	22.2%	6.2 p.p.
<b>TELEFÓNICA O2 GERMANY</b>						
MOU (minutes)	134	147	144	133	129	(3.8)
ARPU (EUR)	19.4	17.7	17.6	17.3	16.9	(13.2)
Pre-Pay	6.4	5.9	6.1	6.0	5.8	(9.5)
Contract	32.3	29.7	29.3	28.9	28.3	(12.4)
Data ARPU	5.1	4.9	4.8	4.9	4.8	(7.0)
%non-P2PSMS over data revenues	25.7%	28.4%	26.9%	29.6%	31.7%	6.1 p.p.
<b>TELEFÓNICA O2 IRELAND</b>						
MOU (minutes)	252	240	250	246	243	(3.6)
ARPU (EUR)	45.7	43.4	43.2	43.7	42.6	(6.8)
Pre-Pay	29.0	26.7	26.9	27.7	26.7	(7.9)
Contract	78.8	75.5	73.8	72.2	69.2	(12.2)
Data ARPU	12.4	11.2	10.6	10.6	10.9	(11.6)
%non-P2PSMS over data revenues	31.4%	27.5%	30.2%	31.2%	32.6%	1.2 p.p.
<b>TELEFÓNICA O2 CZECH REPUBLIC (1)</b>						
MOU (minutes)	122	117	122	120	124	1.8
ARPU (EUR)	20.5	19.4	21.0	21.7	20.4	(1.6)
Pre-Pay	9.7	8.9	9.8	10.2	9.5	(2.7)
Contract	34.5	32.7	34.7	35.1	32.6	(6.6)
Data ARPU	4.4	4.4	4.5	4.7	4.7	3.3
%non-P2PSMS over data revenues	42.0%	43.0%	44.0%	45.7%	43.5%	1.5 p.p.

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

*Note: MoU and ARPU calculated as monthly quarterly average.*

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

*Unaudited figures*

	January - December		
	2008	2007	% Chg Local Cur
<b>TELEFÓNICA O2 UK</b>			
MOU (minutes)	207	190	9.1
ARPU (EUR)	30.0	34.4	1.4
Pre-Pay	15.5	18.1	(0.6)
Contract	53.3	63.2	(2.1)
Data ARPU	10.3	11.0	9.2
%non-P2PSMS over data revenues	20.0%	14.8%	5.2 p.p.
<b>TELEFÓNICA O2 GERMANY</b>			
MOU (minutes)	138	131	5.3
ARPU (EUR)	17.4	20.4	(14.9)
Pre-Pay	5.9	6.7	(11.0)
Contract	29.0	34.1	(15.0)
Data ARPU	4.8	5.1	(5.8)
%non-P2PSMS over data revenues	29.2%	25.4%	3.8 p.p.
<b>TELEFÓNICA O2 IRELAND</b>			
MOU (minutes)	245	248	(1.1)
ARPU (EUR)	43.2	45.9	(5.9)
Pre-Pay	27.0	29.0	(7.0)
Contract	72.5	82.3	(11.9)
Data ARPU	10.8	11.7	(7.2)
%non-P2PSMS over data revenues	31.1%	25.4%	5.6 p.p.
<b>TELEFÓNICA O2 CZECH REPUBLIC (1)</b>			
MOU (minutes)	121	117	3.6
ARPU (EUR)	20.7	18.9	(0.9)
Pre-Pay	9.8	8.9	(2.0)
Contract	33.5	32.7	(6.7)
Data ARPU	4.6	4.0	2.8
%non-P2PSMS over data revenues	43.6%	42.7%	0.9 p.p.

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

*Note: MoU and ARPU calculated as monthly January-December period average.*

**TELEFÓNICA EUROPE**  
**SELECTED FINANCIAL DATA**

Unaudited figures (Euros in millions)

	January - December				October - December			
	2008	2007	% Chg	% Chg Local Cur	2008	2007	% Chg	% Chg Local Cur
<b>TELEFÓNICA O2 UK</b>								
Revenues	7,052	7,403	(4.7)	10.6	1,755	1,877	(6.5)	10.4
OIBDA	1,839	1,923	(4.3)	11.1	479	503	(4.7)	12.3
<i>OIBDA margin</i>	<i>26.1%</i>	<i>26.0%</i>	<i>0.1 p.p.</i>		<i>27.3%</i>	<i>26.8%</i>	<i>0.5 p.p.</i>	
CapEx	717	832	(13.8)	0.1	198	272	(27.1)	(13.7)
OpCF (OIBDA-CapEx)	1,122	1,090	2.9	19.5	281	230	21.8	42.5
<b>TELEFÓNICA O2 GERMANY</b>								
Revenues	3,595	3,541	1.5	1.5	931	929	0.2	0.2
OIBDA	770	473	62.9	62.9	237	17	n.m.	n.m.
<i>OIBDA margin</i>	<i>21.4%</i>	<i>13.3%</i>	<i>8.1 p.p.</i>		<i>25.5%</i>	<i>1.8%</i>	<i>23.7 p.p.</i>	
CapEx	924	850	8.7	8.7	304	245	24.4	24.4
OpCF (OIBDA-CapEx)	(154)	(377)	(59.2)	(59.2)	(67)	(228)	(70.5)	(70.5)
<b>TELEFÓNICA O2 IRELAND</b>								
Revenues	957	991	(3.4)	(3.4)	243	250	(2.8)	(2.8)
OIBDA	301	316	(4.7)	(4.7)	74	63	17.4	17.4
<i>OIBDA margin</i>	<i>31.5%</i>	<i>31.9%</i>	<i>(0.4 p.p.)</i>		<i>30.3%</i>	<i>25.1%</i>	<i>5.2 p.p.</i>	
CapEx	83	117	(29.6)	(29.6)	29	36	(18.7)	(18.7)
OpCF (OIBDA-CapEx)	219	199	10.0	10.0	44	27	65.5	65.5
<b>TELEFONICA O2 CZECH REPUBLIC</b>								
Revenues	2,581	2,257	14.4	n.c.	651	590	10.3	n.c.
OIBDA	1,159	1,010	14.7	n.c.	273	247	10.5	n.c.
<i>OIBDA margin</i>	<i>44.9%</i>	<i>44.8%</i>	<i>0.1 p.p.</i>		<i>41.9%</i>	<i>41.9%</i>	<i>0.1 p.p.</i>	
CapEx	324	281	15.2	n.c.	157	117	34.3	n.c.
OpCF (OIBDA-CapEx)	835	729	14.5	n.c.	116	130	(10.9)	n.c.

Note: OIBDA before brand fee.

