

26/02/2010

Against a complicated economic backdrop, the Company meets again all ranges of guidance, with growth in revenue (+0.3%), OIBDA (+1.1%) and operating cash flow (+8.4%)

## TELEFÓNICA'S NET PROFIT UP 2.4% IN 2009 TO 7,776 MILLION EUROS

*During the year the company has been registering improvements on its commercial activity and customer adds. Net profit for the 4Q increased 22% yoy and the client base grew by 6.8 million accesses. This positive evolution sets the basis to keep growing going forward and allows us to propose new growth rates for 2010*

- Telefónica confirms its objective to obtain basic EPS of 2.10€/share in 2010, reiterates its long-term growth targets and maintains its shareholder remuneration policy with increased dividends of up to at least 1.75€/share in 2012
- The Company announces consolidated guidance for 2010, following guidance criteria<sup>1</sup>:

<i>Revenues</i>	<i>(+1% / +4%)</i>
<i>OIBDA</i>	<i>(+1% / +3%)</i>
<i>CapEx</i>	<i>€7,450M / €7,650M</i>

- Telefónica confirms its position as one of the most diversified companies in the sector: nearly 65% of revenue and 58% of OIBDA come from outside Spain
- The high levels of operating efficiency and the Company's ability to generate cash flow brought an OIBDA margin of 39.8% and 15,346 million euros of operating cash flow (OIBDA-CapEx)
- At the end of the year, Telefónica had 265 million accesses worldwide (+5.1%) thanks to the expansion of the mobile business (+7.4%), fixed broadband (+8.2%) and pay TV (+9.8%). Net adds in the mobile telephony business grew by multiples in all regions in the second half while the mobile broadband business boasted 15 million accesses at year end
- The ratio of net debt plus commitments to OIBDA stood at 2.1x in 2009, reflecting the Company's financial strength
- Against a complicated backdrop, Telefónica España asserts its leadership as a benchmark for the sector and maintains its OIBDA margin of 48%. Latin

**America** is still the Group's main growth driver, with a strong showing by accesses (+6.5%), higher organic growth in revenue (+5.3%) and operating cash flow (+29.8%). In **Europe**, the Company has grown in its main markets ahead of its peers thanks to greater diversification and improved efficiency, raising its cash flow generation to 22%

**Madrid, February, 26<sup>th</sup>, 2010.-** Despite the difficulties created by the adverse economic backdrop, Telefónica today released a strong set of earnings for 2009. Net profit was up, the Company met its guidance for the year and especially for the last quarter, commercial activity improved significantly, net adds grew and balance sheet items advanced across the board, thereby laying the foundations for future growth.

The Company announces guidance for 2010 and confirms its objective to obtain basic EPS of 2.10 euros per share in 2010, reiterates its long-term growth targets and maintains its shareholder remuneration policy with increased dividends (1.40 €/s up to at least 1.75 euros per share in 2012)

These results highlight the strengths of the Company, in which its extensive operational diversification –both geographical and by business–, its competitive leadership in its main markets and its proven execution skills are key. All this was achieved within a framework of great financial strength.

The Company met all its financial guidance for the seventh consecutive year, unlocking the value of its highly diversified operations. In this regard, according to guidance criteria for 2009, revenue grew 0.3%, OIBDA rose 1.1% and operating cash flow was 8.4% up, year-on-year.

The Group's capacity to react to the operating environment is reflected in its earnings over a year in which it met its customers' needs and adapted its commercial focus leading to a marked increase in commercial activity across all operating regions in the second half. This strategy strengthens and sets the bases for future growth while maintaining efficiency and is reflected in Telefónica's OIBDA margin and its substantial cash flow.

Reflecting a strategy focused on capturing the growth in its markets while maintaining high cash flow generation, **the Company announces consolidated guidance for 2010**, following guidance criteria<sup>1</sup>:

<b>Revenues</b>	(+1% / +4%)
<b>OIBDA</b>	(+1% / +3%)
<b>CapEx</b>	€7,450M / €7.650M

## **–Intense commercial activity which multiplies net customer adds for the second half of the year–**

The Company's intense commercial activity resulted in a 5.1% year-on-year increase in **total accesses** to around 265 million. This growth excludes Medi Telecom's customers from the 2008 and 2009 bases, after its disposal in the fourth quarter of 2009. The clients' evolution was underpinned by the increase in wireless (+7.4%), fixed broadband (+8.2%) and pay TV (+9.8%) accesses. By region, the growth rates reported by Telefónica Europa (+6.9% year-on-year) and Telefónica Latinoamérica (+6.5% year-on-year) must be highlighted.

By type of access, the Telefónica Group had over 202 million **wireless accesses** at the end of 2009, with net adds of around 15 million accesses in comparable terms, excluding Medi Telecom clients and the disconnection of inactive customers in December 2008 and December 2009.

It is worth highlighting that in the second half of the year net adds tripled the ones for the first six months. This impressive performance was underpinned by the significant improvements in the three areas of operations, whose quarterly net adds progressively rose over the year. In the second half of the year, net adds<sup>3</sup> in Latin America were 3.3 times higher than in January-June 2009, while wireless net adds<sup>3</sup> at Telefónica España and Telefónica Europa in the second half were 4.9 times and 1.9 times higher respectively than in January-June 2009.

The main drivers of wireless net adds to December 2009 were Brazil (6.8 million), Mexico (2.1 million), Germany (1.5 million), Argentina (1.1 million) and UK (1 million). The main contributors in the fourth quarter were Brazil (2.9 million), Mexico (0.9 million), Argentina (0.5 million) and Germany (0.6 million).

Mobile broadband accesses also registered significant growth, exceeding 15 million at the end of December 2009 (vs. 9 million accesses recorded in 2008).

**Retail internet broadband accesses** stood at 13.5 million, a year-on-year increase of 8.2%, driven by the growing adoption of bundled voice, ADSL and Pay-TV service packages. In Spain nearly 88% of retail broadband accesses are bundled as part of some kind of dual or triple play package, whilst in Latin America almost 56% of broadband accesses are bundled as part of Duos or Trios. In 2009 net adds exceeded 1.0 million accesses (0.3 million in the fourth quarter), mostly from Argentina and UK.

**Pay TV accesses** stood at around 2.5 million at the end of 2009, 9.8% up from a year earlier. It is worth mentioning that the Company already offers Pay-TV services in Spain, the Czech Republic, Peru, Chile, Colombia, Brazil, Venezuela and Argentina.

## **–Highly diversified profile driving organic revenue growth–**

As the Company announced last February 5th, several factors occurred during 2009 and the beginning of 2010 have led, among other reasons, to consider the Venezuelan economy as hyperinflationary for 2009, according to International Financial Reporting Standards (IFRS). As a result, the financial results of Telefónica Group and, therefore, those of Telefónica Latinoamérica and the Atento Group are affected by the above mentioned effects. For

comparative purposes and in order to facilitate the interpretation of the year-on-year variations versus 2008 results, changes in constant currency of the items affected by the hyperinflation adjustment are reported excluding these impacts.

Therefore, and despite the complex trading environment in 2009, reflected in sharp pressure on revenues in some of our markets, the strong diversification of the Company's business portfolio enabled the Group to achieve **revenues** of 56,731 million euros in 2009 (-2.1% year-on-year in reported terms), up 0.2% year-on-year in organic terms. Particularly noteworthy is the significant increase in revenues at Telefónica Latinoamérica, which contributed 2.7 percentage points to organic growth and, to a lesser extent, at Telefónica Europa, which contributed 0.2 percentage points. Also worth noting is the improved revenue performance from Telefónica España in the second half of the year, with a slowdown in the pace of year-on-year revenue decline in the fourth quarter (for the second consecutive quarter).

The negative impact from foreign exchange rates reduced revenue growth by 2.9 percentage points, excluding the impact from hyperinflation accounting while changes in the consolidation perimeter added 0.1 percentage points, also excluding the adjustment from hyperinflation accounting.

By service, broadband connectivity revenues (wireline and mobile) and revenues from applications and services continued to increase their contribution to Group revenues, adding 2.5 percentage points to organic revenue growth in 2009. This offsets the lower contribution of access, voice and equipment resulting from the consumers usage optimization in the current economic environment.

In absolute terms, Telefónica Latinoamérica contributed 40.5% to total Group revenues (+1.8 percentage points compared to 2008, excluding the impact from hyperinflation accounting), whilst Telefónica España and Telefónica Europe contributed 34.7% and 23.9% to Group revenue respectively.

Telefónica Group's **operating expenses** in 2009 amounted to 35,489 million euros, down 0.4% from 2008 in organic terms (-2.9% in reported terms), as a result of lower supply expenses.

**Personnel expenses** rose 2.7% year-on-year in constant euros and excluding the impact from hyperinflation accounting to 6,775 million euros (+0.2% in reported terms). The average number of employees in the period was 255,151 (3,376 more than the 2008 average), mainly due to the larger workforce at the Atento Group. Excluding the Atento Group workforce, the average number of employees in the Telefónica Group was virtually stable year-on-year at 125,266.

**Gains on sale of fixed assets** in 2009 amounted to 248 million euros, mainly from the disposal of Medi Telecom, which generated 220 million euros of capital gains, registered in the fourth quarter of the year.

## **–High efficiency levels and economies of scale boosting OIBDA margin to 39.8%–**

The Company's focus on increasing efficiency and exploiting economies of scale was reflected in **operating income before depreciation and amortisation (OIBDA)**, which

totalled 22,603 million euros in 2009 (-1.4% in reported terms). In organic terms, OIBDA grew 0.9% year-on-year, underpinned by Telefónica Latinoamérica (+3.8 percentage points) and Telefónica Europa (+0.7 percentage points), which offset Telefónica España's lower contribution (-3.3 percentage points). In organic terms, the Telefónica Group improved its OIBDA margin by 0.3 percentage points to 39.8%, mainly boosted by margin expansion at Telefónica Latinoamérica (+1.7 percentage points) and at Telefónica Europe (+0.8 percentage points).

OIBDA at Telefónica España accounted for 43.2% of total Group OIBDA, compared to 40.5% and 17.3% for Telefónica Latinoamérica and Telefónica Europe, respectively.

**Depreciation and amortisation** in 2009 totalled 8,956 million euros, up 1.2% year-on-year in organic terms. **Operating income (OI)** amounted to 13,647 million euros in 2009, with 0.7% year-on-year growth in organic terms (-1.6% in reported terms).

**Profit from associated companies** reached 47 million euros to December, mainly as a result of increased profits from the Company's stake in Portugal Telecom and reduced losses from its participation in Telco, S.p.A.

**Net financial results** in 2009 amounted to 3.307 million euros (+18.2% vs. 2008).

**Free cash flow** generated by the Telefónica Group in 2009 reached 9,097 million euros. Out of this figure, 959 million euros were assigned to Telefónica's share buyback program, 4,557 million euros to Telefónica S.A. dividend payment and 793 million euros to commitment cancellations derived mainly from the pre-retirements plans. In addition there was a payment of 1,178 million euros due to financial investments and divestments. As a result, net financial debt decreased by 1,610 million euros.

On the other hand, net debt increased by an additional 2,429 million euros because of the foreign exchange impact, changes in the consolidation perimeter and other effects on financial accounts. All this led to an increase of 818 million euros with respect to the net financial debt at the end of 2008 (42,733 million euros), leaving the final figure in December 2009 at 43,551 million euros.

## **–Solid financial position–**

The leverage ratio, net debt over OIBDA, stood at 1.9 times at December 2009, in line with the reported leverage ratio at September 2009.

During 2009, the **financing activity** of the Telefónica Group, excluding short term Commercial Paper Programmes activity, rose above 14,000 million euros mainly focused on refinancing 2009 maturities and pre-financing part of 2010 debt at Telefónica, S.A. level.

At the end of December, bonds and debentures represented 63%, on the consolidated financial debt breakdown, while debt with financial institutions weighted 37%.

In 2009 income taxes totalled 2,450 million euros, implying a tax rate of 23.6%. It is worth mentioning that at the end of 2009, the European Commission's conclusion with respect to the legal action against the Kingdom of Spain regarding tax amortization of goodwill generated from certain foreign investments made subsequent to December 21st, 2007 was published. In accordance to the above, this decision has no effect on the Telefónica Group. As the above mentioned legal action has been resolved, the consolidated income statement of the Telefónica Group for 2009 will reflect a lower income tax expense for the tax amortization of goodwill from the acquisition date to year-end, in an amount of 591 million euros.

In addition, the expected impact in future years is estimated to be a lower income tax expense of approximately 140 million euros on an annual basis. It should be noted that, in accordance with the Spanish Tax Income Law goodwill amortization charges are deductible for 20 years.

Losses attributable to minority interests reduced net income to the end of December by 161 million euros.

As a result of the above, **consolidated net income** in 2009 amounted to 7,776 million euros, up 2.4% from 2008 in reported terms, whereas basic earnings per share in 2008 stood at 1.71 euros.

**CapEx** in 2009 reached 7,257 million euros (-11.1% year-on-year in organic terms), with the investment devoted to growth and transformation being the Company's priority. Therefore, as compared to 2008, 3G coverage increased by 15 percentage points, fixed loops able to support bandwidth above 25 Mbps grew by 6 percentage points, whereas the capacity of the IP network doubled.

As a result, **operating cash flow (OIBDA-CapEx)** stood at 15,346 million euros, up 8% year-on-year in organic terms. This performance was driven by strong growth at Telefónica Latinoamérica (+29.8% in organic terms; 5,693 million euros) and at Telefónica Europa (+21.7% in organic terms; 2,183 million euros).

Economies of scale and efficient management of operating expenses and investment enabled an efficiency ratio of 74.1% to be achieved, a year-on-year improvement of 1.4 percentage points. (Efficiency ratio: is defined as (Operating expenses + CapEx – Own work capitalised) / Revenues for the last twelve months)

All in all, 2009 results show **acceleration from revenues to operating cash flow in organic growth terms**, with the latter exceeding revenue growth by 7.8 percentage points, highlighting the Company's success in combining strong commercial activity with high cash flow generation in a complex macroeconomic context.

## (1) Note

For full year earnings Telefónica uses 3 reporting models/comparatives ranges explained as follows:

**2009 guidance growth parameters:** according to calculation basis established at the time of their announcement (end of 2008), assuming constant exchange rates and excluding extraordinary items.

**Organic Growth:** Assuming constant exchange rate, excluding impact from Venezuelan's hyperinflationary adjustment and including Telemig consolidation from jan-march 2008. OIBDA and OI exclude extraordinary items. In Spain, growth on a comparable basis excludes universal service and other no ordinary impacts.

**Reported Growth:** growth in current terms (includes exchange rate effects and other impacts)

**(1) Guidance criteria for 2010:** Base guidance 2010: 2009 adjusted figures for guidance exclude Telyco Morocco results in T. España, Medi Telecom capital gain and write-offs. 2010 guidance assumes constant exchange rates as of 2009 (average FX in 2009) and excludes hyperinflationary accounting in Venezuela in both years. It also includes 10 months of consolidation of Hansenet and Jajah in T. Europe. In terms of guidance calculation, OIBDA excludes capital gains and losses from sale of companies and write-offs. Group CapEx excludes Real Estate Efficiency Program of T. España and spectrum licenses.

2009 bases for financial targets: Consolidated revenues: 56,407 million euros; Consolidated OIBDA: 22,344 million euros; Consolidate CapEx: 7,262 million euros

## TELEFÓNICA ESPAÑA

Against an adverse economic backdrop, the Company adapted its management priorities throughout the year, delivering a healthy cash flow generation in 2009 while posting a sharp pick up in commercial activity during the second half, thereby setting the base for future growth from a sound leadership position. All this, in a highly mature and very competitive market, and against a backdrop of an increasing number of customers optimising their spending, especially on voice services.

It is especially noteworthy the better revenue performance evidenced across all business in the fourth quarter, recording a slowdown in the year-on-year decline versus previous quarters. As a result there was a 1.1 percentage point quarter-on-quarter improvement in wireline revenues on a comparable basis, and a 3.9 percentage point improvement in wireless revenues (+0.4 percentage points in service revenues).

At the end of 2009, Telefónica España continues leading the Spanish market, with a total of 46.8 million accesses. It is worth highlighting the greater number of **retail broadband Internet accesses**, which rose 4.4% year-on year to nearly 5.5 million, the significant increase in the number of **pay-TV** customers (+14.8% versus December 2008), and the strong growth in contract customers in the wireless business (+5.3% year-on-year), to reach the **wireless customer base** 23.5 million. At the same time, the rising appetite for wireless flat-rate data plans continued, which exceeded 1.9 million at the end of the year, twice the figure for year-end 2008.

**Revenues** totalled 19,703 million euros in 2009, down 5.4% year-on-year and 1.6% in the fourth quarter. The improved performance in the fourth quarter reflects revenues booked in the quarter associated with the recognition of the Universal Service Obligation for the 2007 and 2008 fiscal years. On a comparable basis, 2009 revenues declined 5.9% year-on-year and 4.5% in the fourth quarter. a decrease that was smaller than in previous quarters (-6.6% in the third quarter and -6.9% in the second quarter).

Reported **operating income before depreciation and amortisation (OIBDA)** reached 9,757 million euros in 2009 (-5.1% versus 2008), with a solid OIBDA margin of 49.5%, similar to the margin of the previous year (+0.2 percentage points).

**CapEx** totalled 1,863 million euros in 2009. **Operating cash flow (OIBDA-CapEx)** totalled 7,893 million euros in 2009, reflecting the initiatives taken to contain costs and investment in order to limit the impact of pressure on revenues.

--Wireline business--

In 2009, Spanish wireline access market continued affected by an adverse economic climate, and showed an estimated year-on-year decrease of 0.8%. Against this backdrop, the Company's total number of wireline accesses in service (retail wireline telephony accesses, wholesale line rental, fully unbundled loops, and naked wholesale ADSL) was down 2.4% in 2009 (-386,465 wireline accesses in the year).

Total **retail wireline telephony accesses** stood at 14.2 million at the end of 2009 (15.3 million in December 2008), affected by ongoing loop unbundling. Hence, the Company had an estimated market share in 2009 of 72%. It should also be highlighted that in the fourth quarter the Company registered the lowest quarterly line losses of 2009, with the exception of the third quarter, which was affected by seasonal factors; line losses in the fourth quarter were 282,352 accesses.

Telefónica remains market leader in **wireline retail broadband Internet accesses**, with an estimated market share of around 56% and nearly 5.5 million accesses (+4.4% versus December 2008), after registering 53,262 net adds in the fourth quarter and 230,379 in 2009. As of December 2009, the total market topped 9.9 million accesses after posting an estimated year-on-year growth of 7.2%.

During the fourth quarter **Pay-TV** accesses continued delivering an excellent performance, with net adds of 48,725 (+112.4% year-on-year). After registering 90,486 Pay-TV net adds in 2009, Telefónica finished the year with a total of 702,980 customers (+14.8% year-on-year) and a significant improvement in its estimated market share to around 17%; this market share figure is even more remarkable bearing in mind current Imagenio's coverage, limited to 60% of Spanish households.

The total number of Dúo and Trío accesses means that nearly 88% of the Company's retail broadband accesses now form part of a double or triple play bundle.

Full-year 2009 **revenues** amounted to 12,167 million euros in 2009, down 3.3% year-on-year. On a comparable basis, revenues fell 2.9% in the fourth quarter, which represented an improvement on the performance in previous quarters.

**Operating income before depreciation and amortisation (OIBDA)** in 2009 reached 5,810 million euros (-4.0% year-on-year), while the OIBDA margin stood at 47.7%.

## --Wireless Business--

Given the economic climate, Telefónica's commercial activity in 2009 continued to focus on the highest-value segments of the market, a strategy that enabled the Company to maintain its market leadership in terms of revenues, being the company with the widest gap between revenue share and customer market share in Spain.

At the end of 2009, the Company's mobile customer base stood at 23.5 million **accesses** (23.6 million in 2008). It should be noticed that in December the Company recorded the disconnection of 715,000 inactive prepay lines without any impact on the Company's financial results. Excluding this adjustment, net adds for the full year reached 648,765, 538,027 of which came in the second half (+41.8% year-on-year) and 260,445 in the last quarter (+54.2% year-on-year).

The focus on highest-value customers led to positive commercial results in the contract segment, with net adds amounting to 766,244 in 2009, 639,705 of which came in the second half and 324,921 in the fourth quarter (the best-performing quarter in terms of contract net adds in the last two years). At the end of 2009, contract customers accounted for 65% of the Company's total accesses.

As a result of these trends, **revenues** declined 4.4% year-on-year in the fourth quarter, improving by 1.9 percentage points on the third quarter of 2009. This left 2009 revenues down 7.4% at 8,965 million euros.

On the other hand, it should be noticed that the disposal of the stake in Medi Telecom in the fourth quarter of 2009 generated a capital gain of 220 million euros.

**OIBDA** for 2009 declined 6.8% to 3,975 million euros. Reported OIBDA in the fourth quarter was stable versus the same period in 2008.

## TELEFÓNICA LATINOAMÉRICA

In a general context of global economic deterioration, Latin America's economies remained remarkably stable in 2009 and prospects for 2010 point towards an evident economic recovery, with some signs of this recovery becoming apparent in the fourth quarter of 2009. Against this backdrop, Telefónica Latinoamérica ended 2009 with 168.6 million accesses under management, up 6.5% year-on-year, underpinned by the steady growth of mobile and broadband businesses.

In **wireless telephony**, estimated market penetration in Latin America stood at 90%, an increase of 8 percentage points from December 2008. Telefónica managed 134.7 million wireless accesses in the region, yielding year-on-year growth of 9.2% after reporting net adds of 11.4 million accesses in the full year.

In 2009, **wireline business** companies continued to focus on raising quality as a lever to drive the transformation of the Company, increasing the weight of new businesses in our service portfolio. As a result 56% of broadband accesses are now part of a 2P/3P offering (+8.0 percentage points on 2008). Meanwhile they continue to tailor services to the emerging needs of their customer base with the aim of stabilising the traditional business. As a result over 62% of wireline accesses are now part of some form of traffic bundle (+2.3 percentage points from December 2008). The customer base totalled 33.9 million at the end of December 2009 (34.9 million in 2008).

The number of **broadband** accesses exceeded 6.4 million, and is still recording significant growth rates (+5.9% year-on-year) as a result of solid growth in Argentina (+14.4% year-on-year), Peru (+10.0% year-on-year) and Chile (+9.3% year-on-year). **Pay TV** customers reached 1.6 million (up 7% year-on-year), with 179,556 accesses added since the start of the year. **Wireline accesses** remained affected by fixed-mobile substitution and fell by 4.2% on 2008.

Thanks to its strong operating performance, Telefónica Latinoamérica delivered a strong set of financial results in 2009. **Revenues** totalled 22,983 million euros in 2009, a year-on-year increase of 5.3% in organic terms (+3.7% in reported terms).

The drive to foster efficiency improvements is reflected in **operating income before depreciation and amortisation (OIBDA)**, which advanced 10.1% year-on-year in organic terms (+8.3% reported), outstripping revenue growth, to 9,143 million euros in 2009. This left an OIBDA margin of 39.8%. Also noteworthy is the 29.8% year-on-year jump in organic terms in **operating cash flow (OIBDA-CapEX)** to 5,693 million euros (+29.1% reported).

Two key features of Telefónica Latinoamérica's business performance in 2009 are: (i) the significant acceleration of organic growth rates from revenue to operating cash flow (+5.3% year-on-year in revenues, +10.1% in OIBDA and +29.8% in operating cash flow); and (ii) the high geographic diversification of operating cash flow, both in terms of contributors and sources of growth. Mexico (+5.9 percentage points), Brazil (+5.6 percentage points), Venezuela (+4.7 percentage points) and Argentina (+3.9 percentage points) made the largest contributions to operating cash flow organic growth in 2009.

## **BRAZIL**

At the end of 2009, Telefónica was managing 67.0 million **accesses** in Brazil, year-on-year growth of 10.2%. Growth was particularly strong in the second half of the year, and most notably in the fourth quarter, in which the Company gained 2.8 million accesses (an 11.1% year-on-year increase).

As noted in previous quarters, Telefónica's financial results in Brazil in 2009 were adversely affected by operational problems related to the quality of service and networks of Telesp. **Revenue** in 2009 totalled 8,376 million euros, up 0.9% year-on-year in local currency.

**Operating income before depreciation and amortisation (OIBDA)** stood at 3,139 million euros in 2009, thus decreasing 3.1% in local currency from 2008.

**CapEx** in 2009 was 1,228 million euros. **Operating cash flow (OIBDA-CapEx)** stood at 1,911 million euros in 2009, up 13.5% in local currency from 2008.

## **--Vivo--**

Brazil's wireless telephony market stood at 174.0 million accesses at the end of 2009, year-on-year growth of 15.5%. In a highly competitive environment, Vivo is consolidating its leadership in Brazil, in terms not only of accesses -including an improvement in its market share in the last four months of the year-, service quality and customer satisfaction, but also financial results (revenue and OIBDA).

At the end of 2009, Vivo had more than 51.7 million **accesses**, year-on-year growth of 15.1%, and a market share that was virtually unchanged at 29.7%, according to Anatel's data, from that of 2008 (-0.1 percentage points).

**Revenue** totalled 3,036 million euros in 2009, for a 7.4% increase in local currency. As a result of higher cost efficiency, **OIBDA** stood at 949 million euros in 2009, a year-on-year increase of 19.2% in local currency and 13.6% in the fourth quarter.

**CapEx** in 2009 stood at 422 million euros. **OIBDA-CapEx** stood at 527 million euros in 2009.

## **--Telesp--**

At year-end, Telesp managed 15.2 million accesses compared with 15.8 million at the end of 2008. The reason for this decline was the drop in the number of fixed telephony accesses (down 3.5% year-on-year). At year-end 2009, Telesp had some 2.6 million broadband accesses, year-on-year growth of 3.2% and a net gain of 80,678 accesses in 2009. In pay TV, the Company was managing 0.5 million TV accesses at the end of 2009, 3.2% year-on-year increase and net adds of 15,020 accesses in the year.

Telesp's **revenue** totalled 5,766 million euros in 2009, a 1.8% decrease in local currency. **OIBDA** reached 2,209 million euros in 2009.

**CapEx** in 2009 totalled 806 million euros, earmarked primarily to the broadband and television businesses as well as on general quality improvements. **Operating cash flow (OIBDA-CapEx)** totalled 1,403 million euros for the year.

## ARGENTINA

At the end of 2009 the Company had 21.9 million accesses, up 5.7% year-on-year, underpinned by the mobile business and fixed broadband growth, with fixed telephony accesses virtually unchanged.

**Revenues** showed a strong growth of 15.3% in local currency in 2009 to 2,609 million euros, a rate of growth that remained stable in the fourth quarter.

**Operating income before depreciation and amortisation (OIBDA)** advanced 19.9% year-on-year in local currency to over 986 million euros.

**CapEx** amounted to 319 million euros in 2009 (+3.3% in local currency), leaving **operating cash flow (OIBDA-CapEx)** of 668 million euros, a sharp increase of 29.8% from 2008 in local currency.

### --T. Móviles Argentina--

The Argentine mobile telephony market reached an estimated penetration rate of 120% in 2009 (+11 percentage points year-on-year).

It is noteworthy the good performance of net adds in the fourth quarter, which totalled 478,534 accesses, 43.4% of net adds for the year (1.1 million accesses) and 2.7 times higher than in the fourth quarter of 2008. Telefónica managed a total of 15.9 million **mobile accesses** at the end of December, up 7.4% year-on-year.

These healthy operating results are reflected in **revenues**, which rose 15.8% year-on-year in local currency to over 1,643 million euros, driven by the sharp rise in service revenues (+18.1% in the year). **Operating income before depreciation and amortisation (OIBDA)** outpaced year-on-year revenue growth rising by 31.8% in local currency (+17.7% in local currency in the fourth quarter) to reach 606 million euros in 2009. This reflects the significant efficiency gains achieved.

**CapEx** in 2009 totalled 141 million euros (+2.6% year-on-year in local currency) and was focused on the expansion of the 3G network with the aim of improving coverage and increasing the capacity of the GSM network. **Operating cash flow (OIBDA-CapEx)** in 2009 stood at 465 million euros, a jump of 44.2% in local currency from 2008.

### --Telefónica de Argentina--

Telefónica de Argentina managed almost 6 million accesses at the end of 2009, up 1.2% year-on-year, underpinned by sharp growth in broadband accesses (+14.4% year-on-year). Traditional fixed accesses were virtually unchanged, with positive net adds of 10,920 in the fourth quarter.

Telefónica continues to lead the Argentine broadband market, registering net adds of 156,346 accesses in the full year and of 51,868 accesses in the fourth quarter. After the agreement reached with Direct TV and the mass launch of the pay TV service in the third quarter, the number of customers with this service at the end of December totalled 30,000, of whom 82% are migrations from the Dúo service. This way the Company is continuing to pursue its customer loyalty strategy while at the same time improving the unit value of the customer base.

**Revenues** stood at 1,047 million euros in 2009, up 13.9% year-on-year in local currency. Telefónica de Argentina reported **operating income before depreciation and amortisation (OIBDA)** of 380 million euros in 2009, up 4.9% year-on-year in local currency.

**CapEx** in 2009 amounted to 178 million euros (+3.9% year-on-year in local currency) while **operating cash flow (OIBDA-CapEx)** advanced 5.7% in local currency to 203 million euros.

## CHILE

Telefónica consolidated its sector leadership in 2009, managing 10.7 million **accesses** at the end of December, up 6.4% year-on-year. This improvement was driven by the mobile business (voice and broadband) and the fixed broadband business. Mobile accesses grew by 9.5% year-on-year while fixed broadband accesses by 9.3% year-on-year.

Against this backdrop, **revenues** in 2009 totalled 1,831 million euros and **operating income before depreciation and amortisation (OIBDA)** in 2009 stood at 763 million euros.

**CapEx** in 2009 totalled 347 million euros, generating **operating cash flow (OIBDA-CapEx)** of 416 million euros, up 34.5% year-on-year in local currency.

## **--T. Móviles Chile--**

Movistar Chile remained market leader, slightly increasing its market share over the year thanks to its push of mobile broadband. The Company's **mobile customer base** stood at 7.5 million accesses in December 2009, up 9.5% year-on-year.

In 2009 **revenues** totalled 1,010 million euros, down 1.8% year-on-year in local currency (-6.0% in the quarter), hit by the reduction in termination rates. **OIBDA** in 2009 amounted to 445 million euros, a marked year-on-year increase in local currency of 13.3%.

The strength of OIBDA and lower **CapEx** in 2009, which totalled 185 million euros underpinned a 53.7% year-on-year jump in **operating cash flow (OIBDA - CapEx)** to 260 million euros.

## **--Telefónica Chile--**

Telefónica Chile managed 3.1 million **accesses** at the end of December 2009, virtually unchanged from December 2008. In 2009 is noteworthy the positive performance of

broadband and pay TV accesses, which increased by 9.3% and 8.4% year-on-year, respectively.

**Revenues** in 2009 totalled 893 million euros, down 6.3% year-on-year in local currency (-11.0% in the fourth quarter), mainly due to the decrees regulating termination rates. **OIBDA** totalled 326 million euros in 2009.

**CapEx** in 2009 totalled 162 million euros, down 15.0% year-on-year in local currency. This drove **operating cash flow (OIBDA-CapEx)** 15.9% higher year-on-year in local currency to 163 million euros.

## PERU

Telefónica's operations in Peru continued to perform well in 2009, reporting significant growth at both the operating and financial levels. At the end of 2009, **accesses** totalled more than 15.9 million, up 6.2% from December 2008 underpinned by growth in mobile and broadband accesses, which increased by 8% and by 10%, respectively.

**Revenues** totalled 1,716 million euros in 2009, up 4.4% year-on-year in organic terms (+3.0% in local currency), thanks to higher mobile and wireline revenues. In the quarter, revenues declined by 1.7% year-on-year in organic terms.

**Operating income before depreciation and amortisation (OIBDA)** in 2009 stood at 712 million euros, with a strong increase of 13.1% year-on-year in organic terms (+12.0% in local currency) on the back of growth reported at both businesses (wireline and wireless).

**Operating cash flow (OIBDA-CapEx)** reached 442 million euros in 2009, showing a significant year-on-year growth in organic terms of 32.1% (+29.7% in local currency), while **CapEx** totalled 271 million euros in 2009 (-8.4% year-on-year in local currency).

### --T. Móviles Perú--

At the end of 2009 the estimated penetration of the Peruvian wireless market stood at 65%, up 4 percentage points from 2008 leaving scope for significant further growth. In 2009 Telefónica consolidated its market leadership, pursuing a profitable growth strategy focused on value customers.

The Company managed 11.5 million **accesses** at the end of 2009 (+8.0% year-on-year), with net adds of 845,559 accesses in the full year. Almost a quarter of total net adds corresponded to the contract segment.

**Revenues** in 2009 totalled 840 million euros, a year-on-year increase of 6.1% in local currency. **Operating income before depreciation and amortisation (OIBDA)** totalled 327 million euros in 2009, showing a solid year-on-year growth of 19.8% in local currency.

**CapEx** in 2009 totalled 127 million euros, down 14.2% year-on-year in local currency. Consequently, **operating cash flow (OIBDA-CapEx)** totalled 200 million euros, a sharp year-on-year increase of 60.1% in local currency.

## --Telefónica del Perú--

Telefónica del Perú successfully pushed ahead with its strategy to transform the business into a services company with bundling playing as a key role. As a result the Company increased its **accesses** to 4.5 million at the end of 2009 (vs. 4.4 million in 2008).

The broadband business continued to grow and at the end of December 2009 the Company reached 768,046 accesses, up 10.0% year-on-year. Pay TV accesses totalled 686,295.

**Revenues** in 2009 totalled 1,006 million euros in 2009, up 2.8% year-on-year in organic terms. **Operating income before depreciation and amortisation (OIBDA)** grew to 386 million euros.

**CapEx** through December 2009 totalled 144 million euros and was mainly invested in the development of new businesses. **Operating cash flow (OIBDA-CapEx)** amounted to 241 million euros.

## COLOMBIA

At the end of 2009 Telefónica managed over 11.1 million **accesses** in Colombia, of which 9.0 million were mobile customers and 2.2 million were wireline customers.

**Revenues** up to December 2009 totalled 1,269 million euros and **Operating income before depreciation and amortisation (OIBDA)** stood at 397 million euros.

**Operating cash flow (OIBDA-CapEx)** amounted to 81 million euros in 2009, with 316 million euros **CapEx** for the year.

## --T. Móviles Colombia—

In 2009 Telefónica Móviles Colombia completed the redefinition of its commercial offering and its repositioning in the market, focusing on customer value. As a result, its operating indicators improved overall in the last quarters of the year.

Having reported net adds of 153,705 **accesses** in the fourth quarter, changing the trend of the three prior quarters, the customer base totalled 9.0 million accesses at the end of 2009 (-10.0% year-on-year). It is worth to highlight the positive evolution of the contract segment with three consecutive quarters of growth, reporting 125,602 new customers in 2009.

**Revenues** totalled 685 million euros at the end of 2009 and in 2009 **OIBDA** stood at 194 million euros.

**CapEx** in 2009 fell by 25.7% year-on-year in local currency to 165 million euros, resulting in **operating cash flow (OIBDA-CapEx)** of 29 million euros in the year, a significant improvement from the prior year.

## --Telefónica Telecom--

At the end of 2009, Telefónica Telecom managed 2.2 million **accesses** (2.8 million in 2008). This decline was largely due to the disconnection of 405,022 inactive accesses in the fourth quarter (wireline, broadband and pay TV accesses), which has no impact on the Company's financial results.

Broadband customer growth remained strong and accesses totalled 420,263 at the end of 2009. Pay TV accesses stood at 127,201 at year-end.

In 2009 **revenues** totalled 615 million euros. **OIBDA** in 2009 totalled 203 million euros. **CapEx** through 2009 stood at 151 million euros, with **operating cash flow (OIBDA-CapEx)** amounting to 52 million euros.

## MEXICO

Telefónica Móviles México achieved a solid set of results in 2009, combining a marked improvement in its competitive position with high cash flow generation. At the end of December the Company had 17.7 million **total accesses** and 17.4 million mobile accesses, a year-on-year growth of 14.7% and 13.5%, respectively. The Company continued to reinforce its competitive position over the year, attaining an estimated 21% share of the mobile market in 2009. This represents an increase of more than 1 percentage point from December 2008.

**Revenues** in 2009 showed a significant 10% year-on-year growth in local currency (+10.7% in the fourth quarter) to 1,552 million euros. This improvement was driven by the sharp rise in service revenues, which advanced 17.8% from 2008 in local currency.

The larger scale of the Mexican business and efficiency gains boosted **operating income before depreciation and amortisation (OIBDA)**, which jumped 55.2% in local currency from 2008 to 564 million euros.

**CapEx** in 2009 totalled 251 million euros. The marked improvement in OIBDA and lower investment underpinned a more than three-and-a-half-fold year-on-year in local currency increase in **operating cash flow (OIBDA-CapEx)** to 313 million euros in 2009.

## VENEZUELA

In 2009, Telefónica Móviles Venezuela continued to post a strong operating performance as a result of a strategy focused on maximising customer loyalty and value by marketing an integrated offering (mobile and fixed telephony, broadband and television) and selective customer-acquisition efforts. The Company reached 11.8 million accesses and had 10.5 million mobile accesses at year-end 2009.

**Revenues** reached 3,773 million euros in 2009, a year-on-year growth of 20.4% in organic terms, thanks to the strong increase in service revenue, which rose 24.2% for the full year, also in organic terms.

Thanks to the Company's focus on profitable growth, **operating income before depreciation and amortisation (OIBDA)** reached 1,818 million euros in 2009, with year-on-year organic growth of 25.4% for the full year.

**Operating cash flow (OIBDA-CapEx)** was 1,395 million euros in 2009, resulting in an outstanding organic growth<sup>15</sup> (+19.9%) over 2008, in a year in which a considerable investment effort was made. **CapEx** in 2009 increased by 45.2% in organic terms<sup>15</sup> from the year before, as a result of improved coverage and the rollout of GSM and 3G networks and the satellite TV service.

## CENTRAL AMERICA

Estimated mobile penetration in the Central American markets in which Telefónica operates reached 90% at the end of 2009 (+9 percentage points year-on-year).

At the end of December, Telefónica Centroamérica managed 6.3 million **accesses**, up 1.8% from December 2008. Mobile accesses stood at 5.8 million.

**Revenues** in 2009 totalled 565 million euros, down 2.5% year-on-year in constant currency, after rising sharply in the fourth quarter (+7.6% year-on-year in constant currency) thanks to increased commercial activity. The ongoing drive to generate synergies underpinned a sharp year-on-year rise in **operating income before depreciation and amortisation (OIBDA)** to 241 million euros in 2009, up 9% in constant currency.

**Operating cash flow (OIBDA – CapEx)** totalled 154 million euros in the year, up 49.7% from 2008 in constant currency.

## ECUADOR

Mobile penetration in the Ecuadorian mobile market stood at an estimated 93% at the end of December. The customer base of Telefónica Móviles Ecuador at December 2009 stood at 3.8 million total **accesses** and 3.7 million mobile accesses, up 18.5% and 19.2% year-on-year respectively. Against a backdrop of higher commercial activity, mobile net adds continued to rise, totalling 269,928 in the fourth quarter (+63.5% year-on-year) and 599,239 in the full year (+10.7% from 2008).

**Revenues** totalled 337 million euros, virtually unchanged from 2008 (+0.6% year-on-year in local currency), and were affected by lower handset sales. The Company's scale and its efficiency improvement drive a 3% year-on-year rise in local currency in **operating income before depreciation and amortisation (OIBDA)** to 100 million euros in 2009. The OIBDA margin stood at 29.7% in 2009, a year-on-year improvement of 0.7 percentage points.

**CapEx** in 2009 totalled 83 million euros. **Operating cash flow (OIBDA-CapEx)** in the full year stood at 17 million euros.

## TELEFÓNICA EUROPE

Against a difficult economic and trading environment in 2009, Telefónica Europe had a very solid financial and operating performance, sequentially improving top line growth and further delivering on efficiencies from a more diversified asset portfolio.

At the end of December 2009, Telefónica Europe's total customer base reached 49.2 million (+6.9% year-on-year) on the back of the steady expansion of the mobile base, mainly in the UK and Germany. Mobile customer net additions for the year were 2.9 million, with 1.0 million<sup>1</sup> in the fourth quarter, reaching a total **mobile customer base** of 44.1 million (+6.5% year-on-year). The contract segment had a very strong performance, adding 2.3 million customers in 2009 (+10.7% year-on-year), with 617,951 customers in the fourth quarter (+42.8% year-on-year). Net additions in the contract segment represented 80.2%<sup>1</sup> of total mobile net additions in the year.

**Revenue** growth in the fourth quarter of the year accelerated from the previous quarter to 3.9% year-on-year, in constant currency and excluding mobile termination rate cuts, a sequential improvement from the 1.8% and 3.0% growth rates registered in the second and third quarter, respectively. In 2009, revenues reached 13,533 million euros, a 1.1% year-on-year growth in constant currency.

**Operating income before depreciation and amortization (OIBDA)** stood at 3,910 million euros in 2009, a 4.1% year-on-year growth in organic terms, Telefónica O2 Germany being the main contributor to growth.

**CapEx** in 2009 declined year-on-year by 12.4% in constant currency, as the 2G network deployment in Germany and major IT projects across the Group were reaching an end. This, combined with the solid OIBDA performance above mentioned, resulted in a very strong **operating cash flow (OIBDA-CapEx)** of 2,183 million euros in 2009 (+21.7% year-on-year in organic terms<sup>2</sup>).

## TELEFÓNICA O2 UK

Telefónica O2 UK outperformed competitors in 2009 in a declining mobile market, maintaining a strong market momentum driven by smartphones, also delivering a remarkable non-P2P SMS revenue performance.

The Company's total **mobile customer base** (excluding Tesco Mobile) at the end of December 2009 reached 21.3 million lines, up 5.1% year-on-year, with net customer additions of 1 million in the year (338,455 in the fourth quarter), sustaining its leadership in the UK market.

Telefónica O2 UK's DSL **broadband** service added 250,648 lines in 2009, reaching 591,514 lines at the end of December (+73.5% year-on-year).

Telefónica O2 UK had a strong financial performance in 2009, growing **revenues** in 2009 by 3.5%, year-on-year, in local currency (+1.2% in the fourth quarter) to reach 6,512

million euros, clearly outperforming the UK mobile market. **Operating income before depreciation and amortization (OIBDA)** totalled 1,680 million euros in 2009, a 2.3% year-on-year growth in local currency.

**Operating cash flow (OIBDA-CapEx)** for 2009 totalled 1,078 million euros, a year-on-year increase of 7.7% in local currency, on the back of the already mentioned OIBDA performance and a 6% year-on-year decrease of **CapEx** in local currency, totalling 602 million euros despite higher network investment to deliver coverage and quality improvements.

## TELEFÓNICA O2 GERMANY

In 2009, Telefónica Europe significantly improved its business in Germany, with its major transformational projects already finalised, fuelling profitable growth through a best-in-class network and improved distribution franchise that helped the Company to gain market share in a very competitive market.

Telefónica O2 Germany's **mobile customer base** significantly increased in 2009, adding 1.5 million customers to reach a customer base of 15.5 million at the end of December (+9.2% year-on-year). Mobile contract customers drove 48.4%<sup>4</sup> of this growth, increasing by 733,352 in the year to reach 7.7 million customers (+10.5% year-on-year), with 259,945 net additions in the fourth quarter (triple the net additions in the fourth quarter of 2008).

Telefónica O2 Germany's ULL lines stood at 1.6 million as of December, 2009 (+19.3% year-on-year) which includes 285,082 O2 **DSL** customers (+32.7% year-on-year), an increase of 70,299 customers in the year and 12,747 in the fourth quarter, ahead of the integration of Hansenet in the business.

**Revenues** for the year continued to be strong, totalling 3,746 million euros in 2009, a year-on-year increase of 4.2%, with a 7.2% year-on-year growth in the fourth quarter.

**Operating Income before depreciation and amortization (OIBDA)** showed a remarkable growth of 19.3% year-on-year to 918 million euros in 2009, and a 6.1% year-on-year growth in the fourth quarter. This strong performance is fuelled by revenue growth and efficiency improvements.

As a result of the outstanding OIBDA performance in 2009, **operating cash flow (OIBDA-CapEx)** remained positive at 122 million euros, a significant improvement over the negative figure of 154 million euros in 2008. **CapEx** declined 13.8% year-on-year to 796 million euros following the completion of its own network rollout.

## TELEFÓNICA O2 IRELAND

Despite the difficult trading environment in 2009, Telefónica O2 Ireland traded well, with commercial activity focused on mobile contract and broadband, while posting a significant improvement in operating cash flow generation.

The total **mobile customer base** reached 1.7 million customers at the end of December 2009, quite stable compared to 2008 (-0.8% year-on-year). The contract customer base had a strong 7.6% year-on-year increase, to represent 40.4% of the total base.

**Revenues** for 2009 were 905 million euros, a year-on-year decline of 5.5%. **Operating income before depreciation and amortization (OIBDA)** increased 6.5% year-on-year in the fourth quarter to reach 302 million euros in 2009 (+0.3% year-on-year).

The efficient **CapEx** management achieved by the Company (-23.5% year-on-year to 63 million euros in 2009), and the already mentioned evolution of the OIBDA allowed **operating cash flow (OIBDA-CapEx)** to increase 9.2% year-on-year, reaching 239 million euros.

## TELEFÓNICA O2 CZECH REPUBLIC

In 2009, the financial performance of Telefónica O2 Czech Republic was negatively impacted by a challenging trading environment and by mobile termination rate cuts, though the Company kept solid operating performance in both fixed broadband and contract mobile segments. In Slovakia the Company accelerated its commercial momentum and delivered good financial performance.

The total number of **accesses** for Telefónica O2 Czech Republic at the end of 2009, including Slovakia, stood at 8.4 million, a year-on-year increase of 4.2%. In December 2009, **fixed telephony accesses** reached 1.8 million with a significant improvement in net fixed line losses (-122,752) compared to 2008.

**Retail Internet broadband accesses** showed good growth (+17.0% year-on-year) to reach 683,108. The total number of **O2 TV customers** reached 137,630 at the end of December, up 20.2% year-on-year.

The total **mobile customer base** in the Czech Republic reached 4.9 million at the end of December 2009. Telefónica O2 Slovakia accelerated its commercial momentum leveraging on successful customer propositions based on value and simplicity, which delivered a strong financial performance. The mobile customer base reached 552,853 at the end of December 2009, up 69.9% year-on-year.

**Revenues** went down 7.5% year-on-year in constant currency to 2,260 million euros in 2009. **Operating income before depreciation and amortization (OIBDA)** went down 3.7% year-on-year in constant currency to 1,053 million euros in 2009.

**Operating cash flow (OIBDA-CapEx)** in 2009 showed a 2.6% year-on-year growth in constant currency to reach 807 million euros, with a 20.2% year-on-year decline in **CapEx** in constant currency, totalling 245 million euros.

## **ATENTO GROUP**

**Revenues** increased 1.6% year-on-year (+5.1% year-on-year in organic terms) to 1,321 million euros, growing 6.6% year-on-year in the fourth quarter.

**Operating income before depreciation and amortisation (OIBDA)** fell 17.4% in 2009 to 154 million euros.

**CapEx** in 2009 amounted to 52 million euros and **Operating cash flow (OIBDA-CapEx)** totalled 102 million euros in 2009.