A Telefónica company

Press release

PR0809

TELEFONICA EUROPE ANNOUNCES FOURTH QUARTER RESULTS

Released: 28 February 2008

Key performance indicators for the quarter ended 31 December 2007:

Total revenue (in local currency)[1]:

- O2 UK total revenue grew by 7.8% in the fourth quarter and by 18.7% for the full year;
- O2 Germany total revenue was broadly flat in the fourth quarter and grew by 6.7% for the full year;
- O2 Ireland total revenue grew by 1.4% in the fourth quarter and by 11.9% for the full year;
- O2 Czech Republic group[2,3] total revenue grew by 1.7% in the fourth quarter and by 2.9% for the full year

1. Comparative period for FY'07 is 11 months to 31 December 2006. Fourth quarter comparative period is 3 months to 31 December '06
2. Telefónica O2 Czech Republic group consists of Telefónica O2 Czech Republic and Telefónica O2 Slovakia
3. Comparative period for FY'07 is 12 months to 31 December 2006. Fourth quarter comparative period is 3 months to 31 December '06

Mobile average revenue per user (monthly, in local currency):

- O2 UK blended ARPU £24.0 (Q4 2006: £23.0)
- O2 Germany blended ARPU €19.4 (Q4 2006: €23.7)
- O2 Ireland blended ARPU €45.7 (Q4 2006: €45.0)
- O2 Czech Republic ARPU CZK 540 (Q4 2006: CZK 528)

Mobile data

- Group data revenue of €3.5 billion, with non-SMS data revenue of €680 million in 2007
- Over 8 billion SMS messages sent during the quarter – 16% growth year on year.

Matthew Key, Chairman & Chief Executive of Telefónica Europe, commented:
"For 2007 O2 has delivered a strong set of results adding 3.04 million mobile customers during the year and over 1 million in the fourth quarter alone, taking the total mobile customer base to 38.26 million, 8.6% higher than last year. Non-SMS data revenue is growing fast with €680 million recorded in 2007, growth of 26% year on year, and this trend will accelerate in 2008.

In the UK, we outperformed the market again, posting like for like revenue growth of 9.5% for the year, above the top end of our guidance range. The UK added 483,000 net customers in the quarter including 276,000 on contract, the highest number ever, helped by sales of the iPhone, the fastest selling device that we have ever had in the UK. Whilst it is still to soon too say we are immune to any slowdown in the global economy, we are currently seeing no evidence of a decrease in our customers spend and the mobile is an indispensable part of many customers lives. Blended monthly ARPU growth of £1 year on year in the UK illustrates that we are successfully focusing on higher value customers.

In Germany, the trend in total revenue improved from the first nine months of the year and was flat in the fourth quarter, compared to the same period last year. However, the market continues to be challenging, with blended quarterly monthly ARPU down 17.9% year on year. We were pleased with net additions of 244,000 contract customers during the quarter, an increase of 26.5% over the fourth quarter last year and our new Fonic brand has attracted over 200,000 customers in just less than 4 months. The total mobile customer base finished the year at 12.472 million, representing 13.1% year on year growth. Our Telefónica Deutschland DSL business continues to perform well, with a 3½ fold increase in unbundled lines to 671,000, and reached our target of OIBDA breakeven on a monthly basis before the end of the year. Our re-launched O2 DSL service added 38,000 customers during the quarter and has a strong order pipeline.

The Czech Republic business has had a strong year, delivering 2.9% group revenue growth compared to 2006, with 4.8% service revenue growth in the Czech mobile business, which added 158,000 customers in the quarter, an increase of 51% on the same quarter last year. The percentage of contract customers in the base now stands at 43.8%, compared to only 38.5% at the end of December 2006. In our fixed line business, the total number of ADSL lines stood at 570,000 at the end of December, compared to 470,000 at the same time last year.

In a competitive market O2 Ireland traded well, adding 22,000 net contract customers in the quarter, an increase of 26.8% compared to the same period last year, ending the period with a total customer base of 1.646 million, 1% higher than at the same time last year. The launch of O2 Broadband, our wireless mobile broadband solution, continues to exceed our expectations, offering a real alternative to fixed broadband in the home in a market that is under penetrated and has good growth potential."

FINANCIAL DATA

Telefónica Europe Consolidated Income Statement
Unaudited figures

	3 months ended December 2007	3 months ended December 2006	12 months ended December 2007	11 months ended December 2006
Revenues	**3,682**	**3,725**	**14,458**	**13,159**
Internal expenditure capitalized in fixed assets (1)	44	57	200	219
Operating expenses	(2,896)	(2,868)	(10,987)	(9,662)
Other net operating income (expense)	2	3	14	9
Gain (loss) on sale of fixed assets	(6)	1	1,292	(8)
Impairment of goodwill and other assets	(0)	(7)	(0)	(9)
Operating income before D&A (OIBDA)	**826**	**910**	**4,977**	**3,708**

(1) Including work in process

In 2007, Telefónica Europe revenue was €14,458 million (+9.9% year on year), while in the fourth quarter it declined by 1.1% year-on-year mainly due to a weaker sterling/euro exchange rate and the exit of Airwave from the group, while operating income before depreciation and amortization (OIBDA) reached €4,977 million, growth of 34.2% compared to 2006[1]. 2007 OIBDA included personnel reorganisation and other non-recurring charges totalling €338 million related to the UK, Ireland and German businesses, as well as the capital gain from the sale of Airwave (€1,296 million), booked in the second quarter.

[1] Telefónica Europe includes in 2006 Telefónica O2 Czech Republic (January-December), T.Deutschland (January-December) and O2 Group (February-December)

Telefónica Europe capital expenditure for the full year 2007 amounted to €2,125 million (€2,552 million in February-December 2006). The year on year decline was largely due to O2 Germany (30.6% lower year on year) bringing forward capital investment from 2007 into 2006 as part of the 3G network build. Operating Cash Flow (OIBDA-Capex) for the year amounted to €2,852 million (€1,156 million in 2006 February-December period).

Telefónica Europe group 2007 financial targets have been achieved[2]:

- 11.7% year-on-year growth in revenues (vs. guidance of 11% - 14%)
- 10.1% year-on-year growth in OIBDA (vs. guidance of 7% - 10%)
- Capex of €2,095 million euros (vs. guidance of less than €2,200 million)

[2] 2006 base reported figures include eleven months of O2 Group (consolidated since Feb.06), three months of start-up losses in Slovakia, and exclude Airwave results. 2007 guidance assumes constant exchange rates as of 2006, and exclude changes in consolidation. OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel reorganisation and Real Estate Programs are included as operating revenues/expenses, except for those decided after guidance was set at the beginning of the year (redundancies in O2 Group and Real Estate Program in TEF O2 CR). For comparison, the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures

STRATEGIC AND OPERATIONAL HIGHLIGHTS

Management changes at Telefónica Europe

On 29 November Telefónica S.A. announced that Peter Erskine would step down as Chairman and Chief Executive Officer of Telefónica O2 Europe. He will retain his position on the Board of Telefónica S.A., moving to the role of Non-Executive Director from 1 February 2008.

Matthew Key, CEO of O2 UK, was appointed as the new Chairman and CEO of Telefónica O2 Europe. Subsequently Ronan Dunne, CFO of O2 UK, was appointed as the new CEO of the UK business, replacing Matthew.

A new post of Chief Operating Officer for Telefónica O2 Europe was also created, to capture the maximum synergies possible from all the O2 operations, share best practice and "do things once" across the group. Director of Strategy, Vivek Dev, has been appointed to this role. He will continue to lead strategic development including new device platforms, roaming and interconnect, procurement and security and will now also take group-wide responsibility for networks and IT to drive synergies across the business.

iPhone success

The iPhone is the fastest-ever selling product for O2 UK. It has generated high levels of interest in the UK market, with footfall in O2 retail stores and visitors to our online shop at record levels, resulting in a very strong quarter for the retail business, despite a slowdown on the high street. The ARPU of an iPhone customer is 30% higher than an average postpay user, and it has helped O2 UK to gain high value customers in the market – approx. 60% of iPhone customers have migrated from other networks. Customer satisfaction levels are the highest of any device that O2 UK has sold, with the lowest ever rate of return.

From 1 February, the three iPhone tariffs were upgraded as part of O2 UK's new and improved postpay tariff structure, with customers on the £35 and £45 tariffs given more minutes and texts, and a new £75 tariff introduced with 3000 minutes and 500 texts a month. All iPhone customers will continue to receive unlimited data browsing and access to The Cloud's Wi-Fi hotspots. Existing customers will automatically be upgraded to these new tariffs.

iPhone to launch in Ireland

O2 Ireland today confirmed that it will be the exclusive Irish carrier for Apple's revolutionary iPhone when it makes its official debut in Ireland on March 14th. iPhone will be sold in Ireland through O2 retail stores. The device will also be available through Carphone Warehouse retail stores. iPhone will be available in an 8GB model for €399 (inc VAT) and a 16GB model for €499 (inc VAT) and will work with either a PC or Mac. Three new iPhone tariffs will be available from O2, starting at €45, all of which will include anytime minutes, texts and a 1GB data bundle.

O2 Germany builds foundations for further growth

O2 Germany builds foundations for further growth. As part of the 3.5 billion euros investment program for 2007-2010 announced in October 2007, O2 Germany will expand both its GSM and UMTS network coverage using a dual vendor strategy. This will provide the business with a strong platform to capture the significant growth opportunities in Germany, including the business segment, leveraging the global reach of Telefónica to offer new propositions to multinational corporations as well as in the areas of the country not currently covered by the O2 network. In conjunction, the national roaming agreement which allowed for roaming by O2 customers in Germany on the T-Mobile 2G and 3G mobile networks was cancelled. Roaming minutes available as part of the agreement can be used until the end of 2009. O2 Germany will also double its store network to 1,000 over the next 2 years.

Accolades for O2 Broadband in the UK

Since launch, O2 UK's broadband service has been rated above the major ISPs in the monthly thinkbroadband.com ISP comparison. The poll measures key satisfaction areas for customers, including speed, reliability and customer service, asking users to score each provider. O2 Broadband scored the highest out of all its main competitors in each of the three categories. In a separate survey conducted by Intrepid Research, 81% of customers questioned were very satisfied with the O2 service and likely to recommend it to their friends. To date O2 broadband has 100,000 customers and with a highly successful product will launch a major national advertising campaign in the second quarter of 2008.

New bundles launched in Czech Republic

The Czech Republic business launched a new TRIO bundle, including DSL, calls and O2 TV. Customers get a 2 Mbps Internet connection for free for 6 months plus 800 free calling minutes per month when they order O2 TV. There is significant customer interest in O2 Trio and O2 Duo services, with close to 100,000 customers using these products.

New data roaming tariffs announced

The O2 businesses and movistar in Spain were the first to launch a range of new data roaming tariffs before summer 2008 (movistar from February), aimed at customers travelling within Europe. The resultant savings for customers will be around 40% on connectivity rates, while the maximum price for sending an SMS will be 32 euro cents. The businesses are proactively looking to further reduce the wholesale inter-operator tariffs (IOTs) in order to pass on additional benefits to users.

FOURTH QUARTER & FULL YEAR OPERATING REVIEW

O2 UK

Total revenues in the last quarter of 2007 were €1,877 million, an increase of 7.8% year on year in local currency compared to the same period of last year. For the full year total revenues were €7,403 million, an increase of 18.7% year on year in local currency compared to the 11 month period to 31 December 2006. On a like for like basis total revenue growth was 9.5% year on year. Service revenue for the quarter was €1,702 million, an increase of 9.7% year on year in local currency compared to the same period last year, driven by continued strong customer and ARPU growth, while for the full year, service revenue amounted to €6,790 million (+10.3% year-on-year in local currency and on a comparable basis).

Operating income before depreciation and amortisation (OIBDA) for the quarter was €503 million, a decrease of 4.9% year on year in local currency compared to the same period of 2006. OIBDA included additional personnel reorganisation and other non recurring charges in the quarter of €20.5 million mostly related to the IT and Technology function to capture efficiencies in the future. Excluding this charge in the quarter, OIBDA would have been flat in local currency. OIBDA for the full year totalled €1,923 million, an increase of 8.7% in local currency compared to the 11 month period to 31 December 2006. On a like for like basis, OIBDA grew 1.0% year on year in local currency. Excluding all personnel reorganisation charges for the year OIBDA was 10.7% ahead in local currency compared to the 11 month period to 31 December 2006 and on a like for like basis it was 2.8% ahead in local currency.

Guidance for the full year 2007 was accomplished[3], with growth of 18.6% year on year in revenues (vs. guidance of 15% - 18%) and 10.6% year on year growth in OIBDA (vs. guidance of 9% - 12%).

OIBDA margin in the fourth quarter was 26.8% (27.8% excluding personnel reorganisation and non-recurring charges), compared to 30.3% in the same quarter in 2006. This margin dilution was due to costs associated with the launch of O2 Broadband, increased retention and reduced national roaming revenues from 3. OIBDA margin for the year was 26.0%, while excluding personnel reorganisation charges it was 26.4%.

The business once again outperformed the market, with gross additions in the quarter around 22% higher than the same period in 2006. The market continues to be competitive, especially in the prepay segment, with increasing prepay to contract migration, where O2's simplicity tariff, offering a SIM only postpay tariff with a 30 day notice period, has proved highly successful.

O2 UK added a total of 483,000 net mobile customers in the quarter (the highest in the market), an increase of 63.8% year on year, and 749,000 customers in the year, taking the total base to 18.4 million (excluding Tesco Mobile) representing growth of 4.2% year on year.

A total of 276,000 net contract customers were added in the quarter, more than double the figure for the fourth quarter 2006 and an all time record, reflecting the success of the iPhone in addition to a strong underlying performance in traditional handsets. For the full year 591,000 contract customers were added to reach a base of 6.8 million (+9.5% year on year).

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[3] 2006 base reported figures include eleven months of O2 UK (consolidated since Feb.06). 2007 guidance assumes constant exchange rates as of 2006, and exclude changes in consolidation. OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel reorganisation and Real Estate Programs are included as operating revenues/expenses, except for those decided after guidance was set at the beginning of the year (redundancies in O2 UK). For comparison, the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures

At the end of the period contract customers made up 37.0% of the total base, compared to 35.3% at the same time last year. Quarterly monthly contract ARPU of €61.0 was up 1.2% in local currency compared to the fourth quarter last year, due to increased minutes of use and adoption of non-voice services, while the ARPU for the year was €63.2 (+1.1% year on year in local currency). Average monthly contract churn fell to 1.5% in the quarter, from 1.9% in the fourth quarter last year. Churn for the year was 1.7%, down from 1.9% in 2006.

The number of prepay customers increased by 207,000 during the quarter, while for the year the prepay base grew by 158,000 to reach 11.6 million. Quarterly monthly prepay ARPU of €18.0 was 4.1% higher in local currency than the fourth quarter last year, while the ARPU for the year was €18.2 (+4.0% year on year in local currency).

As a result, O2 UK's blended monthly ARPU of €33.9 was 4.4% higher than the fourth quarter last year in local currency, while ARPU for the year was €34.4 (+3.6% year on year), reflecting the increased proportion of contract customers in the base, customer adoption of new products and services, and the continued growth in both data and voice ARPU. On a customer level elasticity continues to be above 1.

Quarterly monthly minutes of use were up 9.8% year on year at 197 minutes a month, driven by propositions such as "Call Freedom", while minutes of use for the year were 190 (+10.6% year on year).

Quarterly monthly data ARPU of €11.1 was 9.1% higher in local currency than the fourth quarter last year, driven by growth in text message volumes, up 21.0% in the quarter, as well as increasing usage of a range of non-SMS services where revenues grew by 43.7% year on year in local currency. Data ARPU for the year was €11.0 (+8.2% year on year). The new "unlimited" data bolt-on proved successful with customers, with 59,000 customers taking this product from launch in October until the end of the year.

O2 UK's broadband service had rolled out to 833 exchanges by the end of the quarter, giving its broadband network a population coverage of 52%, with 71,000 broadband customers at the end of 2007. The base has since grown to over 100,000 to date.

O2 Germany

O2 Germany now includes Telefónica Deutschland and comparable 2006 figures have been restated on this basis. Total revenues in the fourth quarter were €929 million, a decrease of 0.3% year on year compared to the same period of 2006. For the full year total revenues were €3,541 million, an increase of 6.7% compared to the 11 month period to 31 December 2006. On a like for like basis, revenue declined by 1.9%.

Mobile service revenue for the quarter was €725 million, down 6.5% compared to the same period last year, reflecting the continued ARPU weakness in the German market and the impact of the approx. 10% termination rate cut in November 2007, partly offset by growth of the customer base. The termination rate cut reduced fourth quarter service revenue by 0.6%. Mobile service revenue for the year was €2,901 million, a year on year decrease of 5.1%.

Operating income before depreciation and amortisation (OIBDA) for the fourth quarter was €17 million, a decrease of 77.9% compared to the same period in 2006. This included non-recurrent charges totalling €151 million, the majority of this reflecting the cessation of the national roaming contract with T-Mobile, along with additional personnel reorganisation charges to enable future efficiency savings. The restructuring programme commenced in the second quarter is progressing on schedule, with the majority of the 700 employees involved having left the business by the end of the year.

OIBDA for the full year totalled €473 million, a decline of 18.9% compared to the 11 month period to 31 December 2006. On a like for like basis the decline was 24.2%. Excluding all one-off charges during the year (which totalled €247 million), OIBDA was 15.4% ahead of the same period last year with growth of 23.5% compared to the 11 month period to 31 December 2006.

O2 Germany guidance[4] for the full year 2007 was partially met, with 6.7% year on year growth in revenues (vs. guidance of 7% - 10%) and 23.8% year on year growth in OIBDA (vs. guidance of 21% - 25%).

OIBDA margin in the fourth quarter was 1.8% and for the full year was 13.3%; excluding the personnel reorganisation and other charges it would have been 18.1% and 20.3% respectively.

The business traded well in the quarter, with gross additions up 63.3% year on year. Net additions in the quarter reached 303,000 customers, while for the full year they were 1.4 million, taking the mobile customer base to 12.5 million, 13.1% higher than at the same time last year. The Tchibo Mobile customer base grew by 81,000 to 1.18 million by the end of the quarter, while the Fonic brand added 129,000 customers to end the year with a base of 200,000.

O2 Germany added a total of 244,000 net contract customers in the quarter, with 756,000 for the full year. Quarterly monthly ARPU in the fourth quarter was €32.3, 17.6% lower than the same quarter last year. For the year contract ARPU was €34.1, 13.7% lower than 2006. This reflected the impact of the approx. 10% termination rate cut in November 2007, the level of competition in the German market and the migration of the existing customer base to new customer offers. The Genion S/M/L base reached 2.14 million customers at the end of the year.

A total of 369,000 prepay customers were added during the quarter, while 310,000 existing customers were also removed from the base after an analysis of the contribution of prepay customers to revenue generation. This resulted in net additions in the quarter of 59,000 customers, with 691,000 for the full year. On our 3 month active criteria the prepay base at the end of the year was 6.23 million. Using a 12–month active basis, in line with market practice, the prepay customer base would be 8.04 million, with the total customer base at 14.28 million. However, the key metric for the future is revenue, rather than customer market share.

Quarterly monthly prepay ARPU of €6.4 was 22.8% lower than the fourth quarter last year, reflecting the market factors mentioned above, while for the year prepay ARPU was €6.7, a decline of 23.5% compared to 2006.

Blended quarterly monthly ARPU in the fourth quarter was €19.4, 17.9% lower than the same quarter last year. Blended ARPU for the year was €20.4, a decline of 15.7% compared to 2006.

Blended quarterly monthly minutes of use grew by 3.7% year on year to 134 minutes, driven by new propositions such as Genion S/M/L/XL and new prepay offers. Minutes of use for the year were 131, an increase of 3.0% compared to last year.

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[4] 2006 base reported figures include eleven months of O2 Germany (consolidated since Feb.06). 2007 guidance exclude changes in consolidation. OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel reorganization and Real Estate Programs are included as operating revenues/expenses, except for those decided after guidance was set at the beginning of the year (redundancies in O2 Group). For comparison, the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures

Quarterly monthly data ARPU was €5.1, 12.8% lower then the fourth quarter last year due to the higher number of lower spending prepay users in the base and a shift from SMS to voice usage with the introduction of flat rate voice tariffs. Data ARPU for the year was €5.1, 10.9% lower than 2006, although total data revenues were flat year on year with a 12.8% increase in non-SMS data.

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

O2 Ireland

Total revenues in the fourth quarter were €250 million, an increase of 1.4% compared to the same period last year. Revenue for the full year was €991 million, an increase of 11.9% compared to the 11 month period to 31 December 2006. On a like for like basis growth was 2.8%. Mobile service revenue for the quarter was €231 million, an increase of 3.7% compared to the same period last year, reflecting the growth of the customer base and the increase in blended ARPU. The termination rate cut reduced fourth quarter service revenue by just under 1%. Mobile service revenue for the year was €935 million, a year on year increase of 4.0% over the previous year on a comparable basis.

OIBDA for the quarter was €63 million, a decrease of 15.2% compared to the same period last year. This included a charge of €13.4 million, related to costs to reorganise the IT and networks division in order to capture future efficiency savings. The business has entered exclusive negotiations with IBM to supply and manage O2 Ireland's IT services. Excluding this charge OIBDA would have been €76 million. OIBDA for the year was €316 million, 2.0% higher compared to the 11 month period to 31 December 2006 and 6.6% lower year on year on a comparable basis, while excluding personnel reorganisation charges (totalling €16.2 million), OIBDA would have been €333 million, a decline of 1.8% year on year on a comparable basis.

OIBDA margin in the fourth quarter was 25.1%; excluding the above mentioned charge it was 30.5%. OIBDA margin for the year was 31.9%, while excluding all personnel reorganisation charges it was 33.6%.

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

O2 Ireland added a total of 22,000 net contract customers in the quarter, 26.8% higher than the fourth quarter last year, and for the year total contract net additions were 70,000, 24.2% higher than in 2006. Quarterly monthly contract ARPU of €78.8 was 3.3% lower than the fourth quarter last year and for the year contract ARPU was €82.3, 3.1% lower than 2006 due to the introduction of new customers offers and promotions.

Due to the impact of increased competitor activity, the pre pay customer base fell during the quarter, by 8,000 customers. During the year the pre pay base fell by a total of 56,000 customers, compared to a loss of 26,000 in 2006, and ended the year at 1.1 million customers, a decline of 4.9% year on year. Monthly pre pay ARPU was €29.0, a decrease of 1.9% on the same period a year ago, while ARPU for the year was €29.0, a decline of 1.2% year on year.

Blended monthly ARPU in the fourth quarter of €45.7 was 1.6% higher than the fourth quarter last year, mainly due to the higher proportion of contract subscribers on the base. Blended ARPU for the year was €45.9, growth of 1.6% year on year.

Blended quarterly monthly minutes of use increased by 2.5% year on year to 252 minutes, again driven by the higher proportion of contract subscribers in the base. Minutes of use for the year were 248, with a year on year growth of 4.9%.

Quarterly monthly data ARPU was €12.4, 23.5% higher than the fourth quarter last year, driven by increased use of non-SMS services. Data ARPU for the year was €11.7 (+19.6% year on year)

Telefónica O2 Czech Republic group

Total revenues for the fourth quarter were €590 million, up 1.7% year on year in local currency. For the full year, revenues reached €2,257 million, an increase of 2.9% year on year in local currency. In line with the first nine months of the year, the Czech mobile business was the key driver of this growth. Business revenues in the Czech fixed line segment were flat in 2007 compared to the previous year, confirming the trend seen since the first quarter.

Operating income before depreciation and amortisation (OIBDA) reached €247 million in the fourth quarter, up by 14.7% year on year in local currency, while OIBDA in 2007 reached €1,010 million in 2007, an increase of 0.5% year on year in local currency.

Telefonica O2 Czech Republic guidance[5] for the full year 2007 has been met, with 2.8% year on year growth in revenues (vs. guidance of 1% - 3%), a 0.1% year on year decrease in OIBDA (vs. guidance of -1% to 0%) and capex of €274 million (vs. guidance of approx. €310 million).

OIBDA margin was 41.9% in the fourth quarter compared to 37.1% in the fourth quarter of 2006, the difference largely due to the re-branding costs incurred in 2006. OIBDA margin for the full year was 44.8% compared to 45.8% for 2006. The decrease in Group OIBDA margin in 2007 was due to dilution by the Slovak operation (approx. 2 percentage points).

Czech Republic

The Czech mobile business continued to focus on the development of attractive voice and data packages, along with its policy of prepay to postpay migration. Total business revenues in the Czech mobile business for the full year were €1,173 million, an increase of 4.4% year on year in local currency, with an increase of 1.7% in the fourth quarter in local currency. Mobile service revenue amounted to €1,117 million, up 4.8% year on year in local currency, with an increase of 1.9% in the fourth quarter.

The total number of mobile customers in the Czech Republic increased by 5.4% year on year to reach 5.1 million at the end of December 2007, with net additions for the full year up 38.4% year on year.

The contract customer base reached 2.2 million, representing 19.7% growth year on year, with net additions of 369,000 in 2007 (+12.1% year on year) and 83,000 in the fourth quarter. Contract

[5] 2006 base reported figures include three months of start-up losses in Slovakia. 2007 guidance assumes constant exchange rates as of 2006, and exclude changes in consolidation. OIBDA excludes other exceptional revenues/expenses not foreseeable in 2007. Personnel reorganization and Real Estate Programs are included as operating revenues/expenses, except for those decided after guidance was set at the beginning of the year (Real Estate Program in TEF O2 CR). For comparison, the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures

customers accounted for 43.8% of the total customer base at the end of 2007, up from 38.5% at the end of 2006. Contract quarterly monthly ARPU reached €34.5, a year on year decline of 7.7% in local currency, mainly due to the dilution caused by customer migration from the prepay to contract segment. Contract ARPU for the year was €34.5, a year on year decrease of 8.3% in local currency.

The number of prepay customers decreased by 3.6% year on year to 2.9 million at the end of 2007, with a net decrease in the year of 108,000 customers, but a net increase of 75,000 in the fourth quarter, mainly due to the continuing trend of prepay to contract migration. Prepay quarterly monthly ARPU was €9.7, up 2.8% year on year in local currency compared to the fourth quarter of 2006. Prepay ARPU for the year was €9.4, a year on year increase of 3.5% in local currency.

Blended quarterly monthly ARPU reached €20.5 in the fourth quarter, up 2.3% year on year in local currency, while blended ARPU for the year was €19.9, a year on year increase of 2.5% in local currency.

Blended quarterly minutes of use grew by 11.9% year-on-year to 122 minutes, mainly due to the growing number of contract customers generating higher average traffic per customer and tariffs designed to stimulate traffic. Blended minutes of use for the year stood at 117 minutes, 14.7% above 2006 levels.

Due to the success of connectivity flat data services, based on GPRS/UMTS and CDMA technologies, data ARPU improved by 2.8% year on year to €4.4 in 2007. Non-SMS data ARPU represented 43% of total data ARPU in 2007 compared to 41% in 2006.

Activities in the Czech fixed line business continued to focus on the development of broadband services and increasingly the ICT/Business Solutions area. Total business revenues in the Czech fixed business for the full year fell by 0.2% year on year in local currency to €1,068 million, while in the fourth quarter revenues fell by 1.1% year on year in local currency, despite the healthy growth of revenues from broadband Internet services, value added services and IT services.

The total number of fixed telephony accesses amounted to 2.1 million at the end of 2007, down by 13.9% year-on-year, mainly as the result of the strong fixed to mobile substitution. As a result of improving the number of gross adds and lower number of disconnections following the Company's effort to enhance the quality of fixed lines via broadband and bundled offers, the decline in fixed telephony accesses decelerated during 2007. Net losses decreased to 65,000 in the fourth quarter, from 135,000 in the fourth quarter 2006, limiting net losses in 2007 to 333,000 from 506,000 in 2006. Total number of customers subscribed to a bundled product was close to 100,000 at the end of 2007.

The total number of ADSL accesses (retail and wholesale) reached 570,000 at 31 December 2007, up 21.3% year on year. Net additions for the year were 100,000 (-49.0% year on year), while net adds in the fourth quarter were 25,000 (-42.5% year-on-year). After the successful take up of bundled products, the total number of O2 TV customers increased to 73,000 at the end of 2007, representing 20,000 net adds in the fourth quarter, up from 16,000 in the previous quarter. The company recently announced that the O2 TV customer base had grown to 80,000..

Slovakia

In line with the previous quarters, during the fourth quarter Telefónica O2 Slovakia successfully continued building its footprint in the Slovak market. The key activities focused on marketing of the company's prepaid and recently introduced postpaid offer, customer care enhancement with the aim to further expand the customer base and improve the customer mix via migration to postpaid tariffs. This will lead to higher customer activity in terms of network usage with a positive impact on

ARPU and financial performance. By the end of 2007, the total number of mobile registered customers in Slovakia amounted to 565,000, of which the majority are prepaid customers. Although a significant proportion of these customers use their O2 SIM as a second or third SIM, the market share of active customers is more than 5%. Telefónica O2 Slovakia continued to focus on further roll-out of its own network, which will allow for the gradual migration of traffic from national roaming with a positive impact on margins. By the end of the fourth quarter, the company had in operation around 550 base stations, resulting in more than 60% of traffic captured on its own network. The sales network comprised 14 own brand stores, 16 franchises and about 3,500 other points of sale.

Cautionary statement Regarding Forward-Looking Statements

This document contains certain forward-looking statements. We may also make written or oral forward-looking statements in:

– our annual report and accounts and half-yearly reports;

– our press releases and other written materials; and

– oral statements made by our officers, directors or employees to third parties.

We have based these forward-looking statements on our current plans, expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about us. Forward-looking statements speak only as of the date they are made.

Statements that are not historical facts, including statements about our beliefs and expectations are forward-looking statements. Words like “believe,” “anticipate,” “expect,” “intend,” “seek,” “will,” “plan,” “could,” “may,” “might,” “project,” “goal,” “target” and similar expressions often identify forward-looking statements but are not the only ways we identify these statements.

These statements may be found in this document generally. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in the above-mentioned sections.

If any one or more of the foregoing assumptions are ultimately incorrect, our actual results may differ from our expectations based on these assumptions. Also, the sector and markets in which we operate may not grow over the next several years as expected, or at all. The failure of these markets to grow as expected may have a material adverse effect on our business, operating results and financial condition and the market price of our ordinary shares.

The information on our web site, any web site mentioned in this document or any web site directly or indirectly linked to our or any other web site mentioned in this document is not incorporated by reference into this document and you should not rely on it.

1. Customer numbers

Mobile	Customers at 31 December 2006 000's	Customers at 31 March 2007 000's	Customers at 30 June 2007 000's	Customers at 30 September 2007 000's	**Net additions during period 000's**	**Customers at 31 December 2007 000's**
O2 UK						
Pre-pay	11,415	11,453	11,411	11,366	**207**	**11,573**
Post-pay	6,218	6,298	6,374	6,533	**276**	**6,809**
Total	**17,633**	**17,751**	**17,785**	**17,900**	**483**	**18,382**
O2 Germany						
Pre-pay	5,544	5,610	5,792	6,175	**59**	**6,235**
Post-pay	5,481	5,574	5,766	5,993	**244**	**6,237**
Total	**11,025**	**11,184**	**11,558**	**12,168**	**303**	**12,472**
O2 Ireland						
Pre-pay	1,147	1,134	1,119	1,099	**(8)**	**1,091**
Post-pay	485	499	513	534	**22**	**555**
Total	**1,632**	**1,633**	**1,631**	**1,632**	**14**	**1,646**
Manx						
Pre-pay	48	48	52	49	**(5)**	**45**
Post-pay	23	24	25	27	**1**	**29**
Total	**71**	**72**	**77**	**76**	**(3)**	**73**
O2 Czech Republic						
Pre-pay (1)	2,989	2,873	2,817	2,806	**76**	**2,882**
Post-pay	1,875	1,966	2,077	2,161	**83**	**2,244**
Total	**4,864**	**4,839**	**4,894**	**4,967**	**159**	**5,126**
O2 Slovakia						
Pre-pay (1)		387	454	476	**27**	**502**
Post-pay		-	1	20	**43**	**63**
Total		**387**	**455**	**496**	**70**	**565**
O2 Group						
Pre-pay	21,143	21,504	21,644	21,972	**356**	**22,328**
Post-pay	14,082	14,362	14,756	15,268	**669**	**15,936**
Total	**35,225**	**35,866**	**36,400**	**37,240**	**1,025**	**38,265**
Pre-pay percentage	60.0%	60.0%	59.5%	59.0%	**34.7%**	**58.4%**
Post-pay percentage	40.0%	40.0%	40.5%	41.0%	**65.3%**	**41.6%**

(1) 13 month active customer base

1. Customer numbers (continued)

Fixed	Customers at 31 December 2006 000's	Customers at 31 March 2007 000's	Customers at 30 June 2007 000's	Customers at 30 September 2007 000's	**Net additions during period 000's**	**Customers at 31 December 2007 000's**
O2 Czech Republic[1]						
Fixed telephony	2,402	2,288	2,207	2,135	**(66)**	**2,069**
Internet and data	561	559	559	559	**14**	**573**
Of which ADSL	405	437	462	482	**26**	**508**
Pay TV	16	26	38	53	**20**	**73**
Total Retail	2,979	2,874	2,804	2,747	**(32)**	**2,715**
Wholesale ADSL	65	65	64	63	**(1)**	**62**
Total Wholesale	94	102	106	108	**2**	**110**
Total Accesses	**3,073**	**2,975**	**2,910**	**2,855**	**(30)**	**2,825**
Telefónica Deutschland						
ULL lines	187	259	339	473	**198**	**671**
Of which O2 DSL	19	31	34	37	**38**	**75**
O2 UK						
Broadband	17	24	31	38	**33**	**71**
Manx Telecom						
PSTN	60	60	60	60	**1**	**61**
ADSL	11	12	13	14	**2**	**16**
O2 Group Total	**3,348**	**3,330**	**3,353**	**3,440**	**204**	**3,644**

(1) Definition of fixed telephony accesses now excludes "incoming only" lines.

2. Average revenue per user (ARPU)[1] - £

	31 December 2006 £	31 March 2007 £	30 June 2007 £	30 September 2007 £	**31 December 2007 £**
O2 UK					
Quarterly monthly average					
Pre-pay	12.2	11.4	12.4	13.2	12.7
Post-pay	42.7	42.4	43.3	44.1	43.2
Blended	23.0	22.3	23.4	24.3	24.0

(1) ARPU definition used by Telefónica has been adopted by all businesses.

3. Data ARPU[1] (quarterly monthly average) - £

	31 December 2006 £	31 March 2007 £	30 June 2007 £	30 September 2007 £	**31 December 2007 £**
O2 UK	7.2	7.4	7.5	7.5	**7.8**
% non-SMS data	12.5%	13.4%	14.2%	15.1%	**15.9%**

(1) ARPU definition used by Telefónica has been adopted by all businesses

4. Average revenue per user[1] (ARPU) - €uro

	31 December 2006 €	31 March 2007 €	30 June 2007 €	30 September 2007 €	**31 December 2007 €**
O2 UK					
Quarterly monthly average					
Pre-pay	18.2	17.0	18.2	19.3	**18.0**
Post-pay	63.5	63.2	63.9	64.8	**61.0**
Blended	34.1	33.3	34.5	35.7	**33.9**
O2 Germany					
Quarterly monthly average					
Pre-pay	8.3	6.8	6.7	6.8	**6.4**
Post-pay	39.2	34.2	35.2	34.9	**32.3**
Blended	23.7	20.5	20.9	20.8	**19.4**
O2 Ireland					
Quarterly monthly average					
Pre-pay	29.6	28.0	30.0	29.2	**29.0**
Post-pay	81.4	82.0	83.8	84.9	**78.8**
Blended	45.0	44.2	46.7	47.0	**45.7**
O2 Czech Republic					
Quarterly monthly average					
Pre-pay	8.8	8.3	8.8	9.1	**9.7**
Post-pay	35.0	32.2	32.2	32.6	**34.5**
Blended	18.8	17.7	18.5	19.2	**20.5**
Quarterly rates					
EUR/GBP	1.4855	1.4912	1.4729	1.4700	**1.4112**
CZK/EUR	28.045	28.037	28.266	27.932	**26.666**

(1) ARPU definition used by Telefónica has been adopted by all businesses

5. Data ARPU[1] (quarterly monthly average) - €uro

	31 December 2006 €	31 March 2007 €	30 June 2007 €	30 September 2007 €	**31 December 2007 €**
O2 UK	10.7	11.0	11.0	11.1	**11.1**
% non-SMS data	12.5%	13.4%	14.2%	15.2%	**15.9%**
O2 Germany	5.9	5.1	5.1	5.2	**5.1**
% non-SMS data	22.6%	24.9%	25.0%	25.9%	**25.7%**
O2 Ireland	10.0	11.5	11.2	11.6	**12.4**
% non-SMS data	19.6%	19.9%	23.4%	26.5%	**31.4%**
O2 Czech Republic	4.0	3.8	3.9	4.0	**4.4**
% non-SMS data	40.0%	41.0%	42.0%	45.0%	**42.0%**

(1) ARPU definition used by Telefónica has been adopted by all businesses

6. Average revenue per user[1] (ARPU) - CZK

	31 December 2006 CZK	31 March 2007 CZK	30 June 2007 CZK	30 September 2007 CZK	**31 December 2007 CZK**
O2 Czech Republic					
Quarterly monthly average					
Pre-pay	248	232	249	253	**255**
Post-pay	982	902	910	909	**906**
Blended	528	496	524	535	**540**

(1) ARPU definition used by Telefónica has been adopted by all businesses

7. Data ARPU[1] (quarterly monthly average) - CZK

	31 December 2006 CZK	31 March 2007 CZK	30 June 2007 CZK	30 September 2007 CZK	**31 December 2007 CZK**
O2 Czech Republic	113	107	109	113	**115**
% non-SMS data	40.0%	41.0%	42.0%	45.0%	**42.0%**

(1) ARPU definition used by Telefónica has been adopted by all businesses

8. Minutes of Use (quarterly monthly average)

	31 December 2006	31 March 2007	30 June 2007	30 September 2007	**31 December 2007**
O2 UK	180	179	189	193	**197**
O2 Germany	129	129	133	128	**134**
O2 Ireland	246	240	249	250	**252**
O2 Czech Republic	109	109	120	117	**122**

9. SMS messages

3 months ended:	31 December 2006 million	31 March 2007 million	30 June 2007 million	30 September 2007 million	**31 December 2007 million**
O2 UK	5,089	5,241	5,184	5,380	6,159
O2 Germany	734	697	741	735	783
O2 Ireland	424	428	404	393	400
O2 Czech Republic	778	750	752	746	835
Manx	12	13	14	13	13
O2 Group	**7,037**	**7,128**	**7,095**	**7,267**	**8,190**

Telefónica O2 Europe Contacts:

Richard Poston
Director, Corporate Affairs
Telefónica O2 Europe plc
richard.poston@O2.com
t: +44 (0)1753 628039

John Crosse
Investor Relations Manager
Telefónica O2 Europe plc
john.crosse@O2.com
t: +44 (0)1753 628198

David Nicholas
Director of Communications
Telefónica O2 Europe plc
david.nicholas@O2.com
t: +44 (0) 771 575 9176

Simon Lloyd
Head of Media Relations
Telefónica O2 Europe plc
simon.lloyd@O2.com
t: +44 (0)1753 628335

Telefónica O2 Europe press office: 01753 628402

All Telefónica O2 Europe news releases can be accessed at our web site: www.O2.com

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