

# RATING PERSPECTIVE

## Major European Telecom Companies

Sales on the European telecoms market grew 1.9% year-on-year in 2007 to EUR293 billion, supported by the growth of mobile and broadband revenues. The traditional fixed voice market tended to shrink amid the continuing shift to IP and mobile services, albeit the situation varied between countries. Under such circumstances, major European fixed incumbents such as Deutsche Telekom (DT), France Telecom (FT) and Telefónica S.A. (Telefónica) pursue a strategy to cover the decline in fixed voice revenues with an increase in broadband customers while seeking growth in the mobile segment both at home and overseas. Since European countries share the same cellular network, telecom companies can enter competitors' markets within Europe fairly easily through acquisitions. However, when it comes to entering non-European markets, each company has a different strategy depending on its historical, geographical and technological backgrounds. JCR holds that while debt increases accompanying acquisitions restrain the ratings, diversification of revenue base in terms of geography and service enhances the earnings stability and has a positive effect on the ratings. This report reviews the operating environment surrounding those telecom companies (including the two companies rated by JCR) and compares their overseas operations.

### 1. Overview of European Telecoms Market

Sales on the European telecoms market totaled EUR293 billion in 2007, up 1.9% from the previous year. This was equivalent to roughly 2% of the EU's GDP. Germany has the largest telecoms market, followed by France, UK, Spain, and Italy. By sector, fixed voice revenues declined 5% to EUR79

billion while mobile revenues grew 3.8% to EUR137 billion and broadband revenues gained 6% to EUR62 billion. While the fixed voice business continued to account for the major part of the telecoms market, the mobile market exceeded the fixed voice market both in terms of revenue and customers in more countries.

The growth of mobile revenues fell short of that of customer numbers (up 15.7% year-on-year). This reflects the intensified competition brought by new market entrants such as MVNOs (virtual mobile network operators) and falling pricing due to EU regulations to lower mobile termination rates and roaming tariffs, coupled with saturation in most countries. The mobile penetration rate across Europe rose to a notional 111.8% in 2007 from 84.6% in 2004. Within the mobile market, voice services remained the most important revenue source, with data services excluding SMS (short message services) accounting for only 7% of the market in 2007. The 3G penetration rose from 11% at the end of 2006 to an estimated 20% at the end of 2007, but it is far lower than in Japan where the rate is over 50%. Strengthening data revenues through provision of appealing contents and pricing package remains a challenge for European telecom companies.

Traditional fixed voice revenues have been declining due mainly to the falling traffic of international calls brought by the continuing shift to IP and mobile services. To make up for the revenue fall, telecom operators now commonly market multiple-play offers of video, voice, data and mobile to hold on to subscribers as a new revenue source. As a result, fixed broadband access lines fit to transmit a large volume of data are becoming increasingly popular. The average European

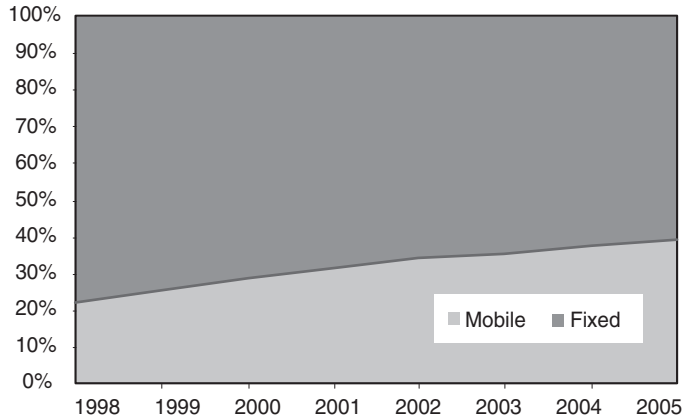
1. Size of telecoms market in major countries and 5-year compound average growth rate

	Market size (EUR bn) (2005)		5-year CAGR	Telecommunication revenues (2001-2005)	Access numbers (2002-2006)
Germany	Total	67.5	Fixed	4.1%	0.5%
	Fixed	25.1	Mobile	5.2%	9.7%
	Mobile	23.5	Broadband	-	47.1%
France	Total	40.7	Fixed	-4.4%	-0.3%
	Fixed	12.0	Mobile	12.7%	7.6%
	Mobile	16.2	Broadband	-	66.5%
UK	Total	46.6	Fixed	-3.6%	-0.5%
	Fixed	10.1	Mobile	13.0%	9.1%
	Mobile	12.9	Broadband	-	75.9%
Spain	Total	40.7	Fixed	-0.3%	0.5%
	Fixed	8.6	Mobile	4.8%	8.3%
	Mobile	12.1	Broadband	-	52.2%
Italy	Total	43.0	Fixed	-6.5%	-2.0%
	Fixed	13.0	Mobile	9.3%	9.7%
	Mobile	20.0	Broadband	-	78.6%

Source: Compiled by JCR from "Telecom Data Book 2008" by Telecommunications Carriers Association (TCA)

broadband penetration rose from 16.3% in January 2007 to 20.0% in January 2008. Europe now boasts the world's highest broadband penetration rate, with eight EU countries including France having higher rates than the US and Japan. DSL remains by far the predominant broadband access technology in the EU, accounting for around 80% of all lines, followed by cable (16%). Fiber to the home (FTTH) is still limited at around 1% of all lines. Since an increase in broadband subscribers will compensate for the loss in fixed voice revenue, it is considered that broadband revenues will surpass fixed voice revenues in countries with relatively high broadband penetration rates within a few years. Also, as a result of packaging multiple services, traditional telecom companies provide multi-play offers over their network while cable operators offer data and voice and mobile companies complement their offerings with data and video packages. This is making competition more complicated, as operators who used to play in different markets have begun to compete with each other.

**2. OECD share of mobile and fixed telecommunication revenues (1998-2005)**



Source: OECD

**3. Overview of major European telecoms market**

	Germany	France	Spain
Year of liberalization	1998	1998	1998
Company with significant market power	Deutsche Telekom	France Telecom	Telefónica
Share of fixed voice revenue in the domestic market	50.9% (2007)	69.7% (2007)	74.2% (2007)
Government shareholding	14.83% (9/2007)	26.69% (6/2008)	0.00%
Major telecom carriers			
Fixed	Carriers Yr of entrance Arcor 1997 MobilCom 1997 debitel 1997 Versatel 2001	Carriers Yr of entrance NeufCegetel 1998 Tele2 1999	Carriers Yr of entrance Retelevision 1997 Euskaltel (Basque) 1997 Uni2 1998 Juzztel 1998
Mobile	Carriers Yr of entrance Mkt share T-Mobile 1985 37% Vodafone 1992 35% E-Plus 1994 15% O2 1998 13%	Carriers Yr of entrance Mkt share Orange 1992 47% SFR 1992 36% Bouygues 1996 17%	Carriers Yr of entrance Mkt share Telefónica 1990 45% Vodafone 1995 30% Orange 1999 23% Yoigo 2006 1%
Market size †			
Telecommunication revenue			
Total telecommunication revenue	US\$85,375 mn (2005)	US\$50,571mn (2005)	US\$47,949 mn (2005)
Share of fixed service revenue (%)	37.1%	29.5%	21.2%
Share of mobile revenue (%)	34.8%	39.8%	29.8%
Access numbers			
Fixed line subscribers (mn)	54.2	33.9	18.4
Per 100 persons	65.5	57.4	42.4
Internet users (mn)	38.6	30.1	18.6
Broadcasting: CATV (mn)	18.5 (2005)	3.8 (2004)	1.4 (2007)
Satellite TV receivers (mn)	16.4 (2005)	6.2 (2004)	2.1(2006)
Mobile subscribers (mn)	93.3 (2007)	52.5 (2007)	49.1 (2007)
Mobile penetration rate (%)	113.0%	83.0%	109.0%
Others †			
IP telephone penetration rate (%)	4.0%	14.0%	-
Broadband penetration rate (%)	23.8%	23.3%	18.3%
Mobile: share of prepaid customers (%) *	54.0%	34.0%	42.0%

\* Prepaid customers are those who subscribe for prepaid plan. Approximately 60% of mobile users are prepaid customers in Europe.

† Data on Market size section are as of the end of 2006 unless otherwise indicated, and data on Others section are as of January 2008.

Source: Compiled by JCR from Telecom Data Book 2008, OECD Communications Outlook 2007, the European Communities reports and companies' annual reports

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### 4. Telecom companies ranking by revenue

Rank	Company	Country	Revenue	Operating profit	Net profit
1	AT&T INC	US	124,028	23,063	12,867
2	VERIZON COMMUNICATION	US	97,354	16,884	6,428
3	NIPPON TELEGRAPH	Japan	93,412	11,410	5,555
4	DEUTSCHE TELEKOM	Germany	85,538	7,090	779
5	TELEFONICA	Spain	77,226	18,318	12,186
6	FRANCE TELECOM	France	72,462	15,237	8,620
7	VODAFONE GROUP	UK	71,195	14,477	13,365
8	TELECOM ITALIA SA	Italy	42,813	7,944	3,350
9	BT GROUP PLC	UK	41,548	5,826	3,486
10	NTT DOCOMO INC	Japan	41,208	7,069	4,296

Source: Bloomberg. Data as of 2007

### 5. Overview of major European telecom companies

Company	Deutsche Telekom	France Telecom	Telefónica
<b>Major indicators</b>			
Revenue	62.5	53.0	56.4
Organic growth rate (%)	-1.1	2.8	7.4
EBITDA	16.9	19.1	22.8
Organic growth rate (%)	-0.8	3.4	6.8
EBITDA margin (%)	27.0	36.1	40.4
Free cash flow (before dividend)	6.6	7.8	8.8
Net financial debt (Net debt)	37.2	38.0	45.3
Net debt/EBITDA	2.2	2.0	2.0
Net debt/free cash flow	5.6	4.9	5.1
<b>Accesses (mn)</b>			
Mobile	119.6	109.7	167.8
Fixed (excluding wholesale)	36.6	47.4	43.4
Broadband	13.9	13.1	10.3
Total	170.1	170.2	228.7
<b>Share of revenue by segment (%)</b>			
Fixed	30.5	42.8	41.5
Mobile	54.5	55.0	58.5
Others	15.0	2.2	-
<b>Share of revenue by region (%)</b>			
Domestic	49.1	52.8	37.3
Other Europe	27.6	40.2	26.3
US	22.7	0.0	0.0
Latin America	0.0	0.0	36.4
Others	0.6	4.8	0.0
<b>Major overseas operation; ( ) represents market share</b>			
Fixed	Holds majority share in Magyar Telekom in Hungary, T-Hrvatski Telekom in Croatia, and Slovak Telekom in Slovakia	Provides fixed service in Poland and broadband service in UK and Spain	Brazil (Sao Paulo 85%), Chile (65%), Argentina (49%), Peru (96%)
Mobile	US (13%), UK (24%), Netherlands (15%), Poland (32%), Hungary (44%), Czech Republic (41%), Austria (34%), Croatia (47%), Slovakia (41%), Macedonia (66%), Montenegro (38%) (as of Sept. 2007)	UK (21%), Spain (23%), Poland (34%), Belgium (33%), Romania (44%), Slovakia (50%), Switzerland (19%), Moldavia (65%), Senegal (71%). FT also has operation in Egypt, Botswana, Cameroon, Ivory Coast, Madagascar, Dominican Republic, Mali, Jordan and Mauritius (as of Dec. 2007)	Europe: UK (25%), Germany (13%), Czech Republic (39%), Ireland (32%) Latin America: Brazil (about 30%), Mexico (18%), Venezuela (40%), Chile (44%), Argentina (35%), Colombia (26%), Peru (61%), Ecuador (26%) (as of December 2007)

Source: Compiled by JCR from companies' annual reports. Data are companies' disclosed data as of 2007 and do not necessarily have the same definition.

## 2. Development of major European telecom companies

This report covers the largest European telecom companies Deutsche Telekom, France Telecom, and Telefónica (the latter two are rated by JCR). They all retain a dominant position in the traditional fixed voice market in their respective home market after the privatization of the telecom sector in 1998 but are expanding their shares of mobile and overseas operations to make up for their shrinking revenues from the fixed market. Since EU countries share the same mobile technology of GSM standard for the second-generation network and W-CDMA as the succeeding network, those three companies enter each other's market through M&As (except for France where only domestic carriers operate in the mobile sector). However, a strong growth of mobile customers can no longer be expected in Europe due to the high penetration. Focus of the operation has shifted from customer acquisition to customer retention, and to finding new revenue sources by offering new voice and data services. Under such circumstances, the telecom companies will put greater emphasis on emerging countries with high growth potential than on mature markets in developed countries.

### 2.1 Deutsche Telekom

DT operates overseas mobile business through its wholly-owned subsidiary T-Mobile International AG (T-Mobile). It has expanded its presence mainly in Central and Eastern Europe after the democratization there by capitalizing on geographical and historical connections. It also retains a sizable share in the highly competitive U.S. mobile market through T-Mobile U.S.A. DT's recent mobile operator acquisitions include Austria's tele.ring and Poland's PTC in 2006, and Dutch Orange NL in 2007. All these acquisitions have contributed to expanding DT's presence in those areas. In

March 2008, DT announced an agreement to acquire a 20% stake in Greek telecom company Hellenic Telecom (OTE). OTE, 28% owned by the Greek government, has stakes in telecom companies in Southeastern European countries such as Romania, Serbia and Albania. The OTE acquisition will contribute to strengthening DT's franchise in those areas.

DT has long relied on the U.S. market for the expansion of its overseas mobile business. But the growth rate slowed down in 2007. Major U.S. competitors such as AT&T Mobility and Verizon Wireless are beefing up their position as integrated telecom companies that offer combined one-stop fixed (voice, broadband and data) and mobile services. In such situation, T-Mobile may lose its share in the U.S. market. DT's moves to expand its operating base in the Central and Eastern Europe can be seen as an attempt to make up for the slowdown of its U.S. mobile business. However, it will inevitably face an intensified competition in those areas, where other telecom companies like France Telecom and Vodafone are also increasingly active.

### 2.2 France Telecom (Foreign-currency long-term senior debts: A/ Stable)

FT began its overseas expansion in the early 1990s mainly in South America, Eastern Europe and former French colonies. A greater portion of FT's annual overseas revenues comes from European countries other than France. Another characteristic of FT's overseas operations is its presence in Africa with high growth potential, albeit its share in the group's total revenues remains rather limited. The JCR rating reflects the FT group's dominant position in the domestic fixed and mobile telephony market, its regionally-diversified operating base that encompasses Europe, the Middle East and Africa, and its improving financial position. On the other hand, the rating is constrained by its relatively larger debt.

## 6. Deutsche Telekom: Revenue breakdown by region

	Revenue (EUR mil.)			Year-on-year growth (%)	
	2005	2006	2007	2006	2007
Broadband/fixed network	22,690	24,515	25,842	8.0	5.4
Germany	23,249	21,835	20,078	-6.1	-8.0
Magyar Telekom*	1,183	1,169	1,219	-1.2	4.3
T-Hrvatski Telekom†	765	741	740	-3.1	-0.1
Slovak Telekom‡	405	420	458	3.7	9.0
Mobile Communications Europe	17,618	18,455	20,713	4.8	12.2
Germany	8,621	8,215	7,993	-4.7	-2.7
UK	4,153	4,494	4,812	8.2	7.1
Hungary	1,090	1,050	1,118	-3.7	6.5
Netherlands	1,064	1,138	1,318	7.0	15.8
Czech Republic	938	1,043	1,171	11.2	12.3
Austria	885	1,149	1,182	29.8	2.9
Croatia	512	556	581	8.6	4.5
Slovakia	378	429	510	13.5	18.9
Poland	-	305	1,965	-	544.3
Mobile Communications USA	11,887	13,628	14,075	14.6	3.3

\* Integrated telecom company in Hungary and holds majority stake of Makedonski Telekom, a fixed telecom company in Macedonia and Crnogorski Telekom, a fixed telecom company in Montenegro.

† Integrated telecom company in Croatia.

‡ Integrated telecom company in Slovakia.

Source: Annual report

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Since the liberalization of the French telecoms market in 1998, FT has pursued a strategy to extend its activities in new service areas, including mobile telephony, the Internet and data transmission services both at home and overseas. In line with this policy, it has made a number of strategic investments including acquisitions, minor investments and acquisitions of UMTS licenses. In particular, it acquired UK mobile telephony company Orange Plc in 2000. It also acquired Global One and Equant, both telecom services providers for multinational businesses, and purchased a stake in the Polish operator TP S.A. in 2000 and 2001.

FT has shifted its strategy in 2003 to develop as an innovative global integrated operator. It integrated all minority shareholders in Orange and Internet service provider Wanadoo, and acquired Spanish mobile operator Amena in 2005 under this strategy. In 2006, FT has chosen a single brand strategy, making "Orange" its unique brand for Internet, television and mobile services in most of the countries where the group companies operate. At the same time, FT has rationalized its asset portfolio, selling off its stakes in telecom companies in South America and Thailand, and mobile operators in Denmark and Netherlands, which it thought cannot remain competitive.

The active acquisitions have led to a substantial increase in the group's debt. However, its consolidated financial position has been improving thanks to the debt reduction made possible by a stable operating cash flow and proceeds from divestment. The group's gross financial debt including derivatives stood at EUR43.1 billion at the end of June 2008, down approximately 20% from 2004. The net debt/equity ratio also improved to 1.1 in June 2008 from 2.8 in 2004. JCR expects the group to keep its stable cash flow under its policy to limit capex (excluding the license acquisition cost) to around 13% of revenues and to maintain its net financial debt/gross operating margin ratio (which is equivalent to EBITDA) below 2.0, enabling it to keep its high debt repayment capacity. Goodwill accounts for around 30% of FT's

total assets, which is the same level as its shareholders' equity ratio. In 2006, FT posted EUR2.8 billion in impairment loss, equivalent to 40% of operating profit, as it reorganized its sub-groups to adopt the single "Orange" brand and allowed for the uncertainty of telecom regulations in Poland. However, there has been no major change in the group's operating environment since then, and there was no major impairment loss in 2007. At present, JCR considers that chances of the group incurring a large impairment loss are rather slim.

### *FT's operation strategy in Africa*

FT's operation in Africa has a minor share in terms of both turnover and investment. As such, it has only a limited impact on the rating. However, some supplementary explanation of the operation may be relevant as Africa is one of the fastest growing areas and plays the role of offsetting a revenue decline in developed countries to some extent. The average growth rate of mobile revenues in the Middle East and Africa between 2005 and 2007 stood at around 40%, much higher than around 15% in Eastern Europe and about 25% in Latin America. While countries with a large telecoms market such as China and India are drawing increasing attention, Africa is gaining in importance from the viewpoint of expanding international mobile telephony business in a longer term. About 235 million people already use mobile phones in the sub-Sahara region alone, with the number of potential customers estimated at 500 million. The FT group is present in 13 African countries, mostly in the French-speaking western part of the continent. Its relatively bigger investments in recent years included the acquisition in December 2007 of a 51% stake in major Kenyan operator Telkom Kenya for EUR270 million. FT faces competition in Africa from MTN, the South African mobile phone group that provides services in 15 African countries, Vodafone and Egyptian telecom company Orascom. It is not FT's policy to acquire those existing telecom companies with established

### 7.1 France Telecom: Revenue by region

	Revenue (EUR mil.)			Year-on-year growth (%)	
	2005	2006	2007	2006	2007
Home Communications Services	22,534	22,487	22,671	-0.2	0.8
France	17,718	17,657	17,957	-0.3	1.7
Poland	3,141	3,048	2,886	-3.0	-5.3
Other regions	1,837	2,005	2,100	9.1	4.7
Personal Communications Services	23,535	27,745	29,119	17.9	5.0
France	9,773	9,882	9,998	1.1	1.2
UK	5,832	5,874	6,217	0.7	5.8
Spain	536	3,353	3,404	525.6	1.5
Poland	1,598	1,934	2,133	21.0	10.3
Other regions*	5,991	6,920	7,550	15.5	9.1
Belgium	1,453	1,549	1,510	6.6	-2.5
Romania	870	1,082	1,234	24.4	14.0
Switzerland	876	867	816	-1.0	-5.9
Slovakia	744	643	744	-13.6	15.7

\* Other regions comprises 21 countries including 13 African countries such as Dominican Republic, Senegal, Ivory Coast, Mali and Cameroon.

Source: Annual report, 20-F

operating base. It is rather interested in growing business starting with infrastructure development. FT may continue active investments in the region. But its actual investment amounts will be rather limited under such policy and are unlikely to become a factor for a downward revision of its rating.

**2.3 Telefónica (Foreign-currency long-term senior debts: A/Stable)**  
Telefónica has the highest overseas revenue share among the three telecom companies mentioned in this report. Its revenue base extends from developed European countries like the UK and Germany to Central and Eastern European countries such as the Czech Republic. In particular, the group earns 40% of its total revenue in Latin America. The JCR rating reflects Telefónica's high profitability and cash generating capacity backed by its dominant position in the home market and strong earnings growth in Latin America. The rating also reflects the group's regionally-diversified revenue base. Some of the Latin American countries where Telefónica operates have relatively higher political risks. But JCR considers that such risks have been somewhat eased by the historical ties between Spain and Latin America and the way Telefónica entered the Latin American telecoms market.

Telefónica arrived in Latin America when the region was going through privatization of state-run telecom companies. Chile was the first country to privatize in the late 1980s, followed by Argentina and Mexico in 1990, Venezuela in 1991, Peru in 1994, Bolivia in 1995, Panama in 1997 and Brazil in 1998. In many countries, Telefónica was given an exclusivity period after the privatization in order to improve the telecom infrastructure. This allowed the group to monopolize the core fixed telephone lines. Today many of those markets are in a state of duopoly or oligopoly in which Telefónica remains the top player, as free competition came long after the removal of restrictions on new market entry. The group was forced to implement massive restructuring

when it was hit by the currency crises in Latin America in the early 2000s. But it expanded its franchise in the region again in 2005 when it acquired U.S. Bell South's mobile operations in 10 Latin American countries. In making the deal, Telefónica had looked ahead to future GSM network deployment in Latin American countries. In fact, mobile telephones have grown explosively popular in many of these countries, where the fixed telephony infrastructure remains generally underdeveloped and it is virtually impossible to lay telephone lines in rural areas. Despite the global economic slowdown, the mobile market in Latin America is expected to continue its strong growth on the back of its relatively lower penetration rate.

Telefónica has also established a strong operating base in a number of European countries through the acquisition of a controlling stake in leading Czech telecom operator Cesky Telecom and the purchase of UK mobile operator O2 Plc, which also operates in Germany and Ireland. The group's net debt increased to EUR55.6 billion following the O2 acquisition but it was reduced by 17% to EUR45.9 billion at the end of September 2008 on robust growth of operating cash flow brought by proceeds from divestment and the company's policy to restrict M&A activities. Although Telefónica's financial position is relatively weak as compared with that of France Telecom, JCR assigns the same rating in view of its strong profitability supported by its growing Latin American operations and high cash flow generation capacity. (JCR upgraded Telefónica's rating from A- to A in December 2008 prompted by its improved net debt to EBITDA ratio). JCR expects Telefónica to sustain its stable cash flow generation under its policy to keep the net debt/EBITDA ratio within its target range of 2.0 to 2.5 by curbing capex and operation cost. Following its O2 acquisition, Telefónica's goodwill doubled to account for 18.5% of its total assets, almost the same level as its shareholders' equity ratio. Nonetheless, the company incurred no impairment loss in 2006 and 2007. In 2008, it may post an impairment loss on its indirect stake in Telecom Italia

#### 7.2 France Telecom: Major performance indicators (Consolidated, IFRS)

	Unit	2004	2005	2006	2007
Fixed line subscribers	million	49.6	49.2	48.7	47.4
Mobile customers	million	62.7	84.3	97.6	109.7
ADSL broadband customers in Europe*	million	6.3	9.4	12.0	14.7
Revenues	EUR billion	45.3	48.1	51.7	53.0
Gross operating margin (GOM)	EUR billion	17.5	18.0	18.5	19.1
Operating profit	EUR billion	8.8	10.5	7.0	10.8
Net profit	EUR billion	3.0	5.7	4.1	6.3
Capex	EUR billion	5.1	6.0	6.7	7.0
Net financial debt	EUR billion	49.8	47.8	42.0	38.0
Shareholders' equity	EUR billion	17.7	28.4	31.6	34.3
ROA (operating profit basis)	(%)	8.9	9.6	6.8	10.7
GOM margin	(%)	38.7	37.3	35.9	36.1
Debt equity ratio	(%)	3.1	1.8	1.5	1.3
Net financial debt/GOM	(times)	2.8	2.7	2.3	2.0
Equity ratio	(%)	17.9	26.0	30.7	33.9

\* This includes number of unbundled lines and wholesale ADSL rental to third party ISPs.

Source: Annual report, 20-F

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acquired in 2007. But its impact on earnings may be considered limited since Telefónica's investment was relatively smaller at EUR2.3 billion.

### 3. Outlook of M&A activities

Since the global financial crisis began in the latter half of 2007, the funding environment has materially deteriorated, making procurement of massive acquisition funds harder. With the global recession putting downward pressure on earnings, telecom companies have assured investors that they will keep their leverage ratio (net debt to EBITDA ratio) at reasonable levels. JCR holds that they will refrain from making large-scale acquisitions that could substantially increase their debt or risks of impairment loss over the coming years. On the other hand, they may push small-scale investment and acquisition of telecom licenses aimed to strengthen

their existing franchise to the extent their leverage ratio is not much impaired. Telecom companies tend to invest in countries with historical ties that share common languages and cultures rather than countries with bigger markets. This may allow them to avert major risks accompanying management integration as well as possible political risks.

In mature European countries, there has been no major change in market shares for the past few years, suggesting that the telecom companies have successfully differentiated their markets through their strategy to enhance customer loyalty. But JCR considers it necessary to watch the trends of competition among the incumbents and the impact of new market entrants on their market share. The impact of the global recession on telecom companies is considered relatively smaller. But JCR will remain attentive to its impact on their earnings.

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### 8.1 Telefónica: Revenue by region

	Revenue (EUR mil.)			Year-on-year growth (%)	
	2005	2006	2007	2006	2007
Fixed					
Spain	10,500	10,603	10,908	1.0	2.9
Brazil	4,902	5,490	5,537	12.0	0.9
Argentina	837	895	906	6.9	1.2
Chile	919	964	930	4.9	-3.5
Peru	1,016	1,046	964	3.0	-7.8
Columbia	19	400	704	2,005.3	76.0
Czech Republic	540	1,072	1,082	98.5	0.9
Mobile					
Spain	7,857	8,276	8,755	5.3	5.8
UK	-	6,721	7,665	-	14.0
Germany	273	3,310	3,509	1,112.5	6.0
Czech Republic	495	1,090	1,194	120.2	9.5
Ireland	-	870	966	-	11.0
Brazil	1,600	1,710	2,079	6.9	21.6
Argentina	1,005	1,252	1,341	24.6	7.1
Venezuela	1,438	2,040	2,390	41.9	17.2
Chile	580	717	860	23.6	19.9
Peru	268	364	529	35.8	45.3
Columbia	749	775	858	3.5	10.7
Mexico	771	980	1,421	27.1	45.0

Source: Annual report, 20-F

### 8.2 Telefónica: Major performance indicators (Consolidated, IFRS)

	Unit	2004	2005	2006	2007
Fixed telephony accesses*	million	37.8	40.9	42.3	42.0
Mobile accesses*	million	74.4	99.1	145.1	169.2
Broadband accesses*	million	5.0	6.9	8.0	10.3
Revenue	EUR billion	30.3	37.4	52.9	56.4
EBITDA	EUR billion	12.2	15.1	19.1	22.8
Operating profit	EUR billion	6.6	8.4	9.4	13.4
Net profit	EUR billion	3.2	4.4	6.2	8.9
Capex	EUR billion	3.8	5.5	8.0	8.0
Net financial debt†	EUR billion	24.6	33.6	55.6	48.9
Shareholders' equity	EUR billion	12.3	16.2	20.0	22.9
ROA (operating profit basis)	(%)	10.9	11.4	8.6	12.6
EBITDA margin	(%)	40.4	40.3	36.2	40.4
Debt equity ratio	(%)	2.2	2.0	2.8	2.1
Net financial debt/EBITDA	(times)	2.0	2.2	2.9	2.1
Equity ratio	(%)	20.5	22.1	18.4	21.6

\* Final consumer accesses

† This includes guarantees and commitments

Source: Annual report, 20-F