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JAZZTEL reports its second quarter 2012 results

JAZZTEL reaches 1,251,441 contracted ADSL customers, achieves an EBITDA of 44.2 million euros in the quarter and increases by 118% its profit before taxes to 17.6 million euros

- JAZZTEL reached 1,251,441 contracted ADSL customers in the second quarter, 27% growth compared to the same period of the prior year, adding 43,625 new contracted customers in the quarter.
- The mobile services customer base increased by 26,929 in the quarter, representing 118% growth compared to the same period of 2011, reaching a total base of 189,846 services.
- Revenues for the second quarter of 2012 were 223.8 million euros, a 24% increase compared to the second quarter of 2011.
- EBITDA for the quarter reached 44.2 million euros, 30% growth compared to the same period of the previous year, representing a 20% margin over revenues.
- Profit before taxes reached 17.6 million euros in the quarter, more than double that obtained in the same period of 2011, and equates to 8% of revenues.
- Net financial debt stood at 61.9 million euros at the end of the quarter, a 48% decrease compared to the same period of last year, with a net debt to EBITDA ratio of 0.37x.

Madrid, 25 July 2012.

Jazztel, p.l.c. (Mercado Continuo is Spain: JAZ), a leading supplier of broadband communication services with its own network in Spain, today reported its earnings for the second quarter of 2012. The figures in this press release are unaudited, expressed in euros, and were prepared in accordance with International Financial Reporting Standards.

Significant events

- During the quarter, JAZZTEL has continued to develop its range of mobile services. As a result, on 3 July the company launched its new 1,000 minutes mobile tariffs, including the Tarifa Plana 1,000, the Tarifa Plana Llama y Navega 1,000 and the Tarifa Plana Llama y Navega 1,000 1GB for 44.95, 51.95 and 56.95 euros per month respectively, tariffs that complement similar 100, 300 and 600 minutes tariffs which the company already offers. The development of mobile services has been further enhanced by the inclusion of advanced handsets in the offer: on 10 July JAZZTEL announced the inclusion of the Samsung Galaxy S III in its mobile services offers to the company's ADSL customers.

- On 27 June, the company held its Annual General Shareholders Meeting. Shareholders either present or represented at the Meeting accounted for 104,373,504 shares, 41.764% of the share capital of the company. In the Meeting several resolutions on the agenda were approved, including the approval of the Annual Accounts, the approval of the Remuneration Report, the re-election of the Directors who retired by rotation, the election of Mr. Gavin Morris as Director, the reappointment of the Auditors of the Company, the ratification of the Remuneration and the Share Option Plans, the amendment of the Regulation for the Conduct of Shareholders' Meetings, the renewal of the powers of the Board of Directors to issue securities, the authorization to purchase treasury shares, the amendment of the Articles of Association of the Company and the reduction of the share premium account, while what was not approved was the renewal of the powers conferred to the Board of Directors to issue securities without pre-emption rights (although the existing authoristation remains valid until 2014).
- On 15 June, JP Morgan confirmed the exercise of a total of 23,782,400 Series A Warrants. These warrants were delivered to JP Morgan as a result of the debt restructuring process that took place in 2009 of the bonds that JAZZTEL had issued in April 2005, of which JP Morgan was one of the two main bondholders. To fulfil the exercise of these Warrants, JAZZTEL issued a total of 2,378,240 new ordinary shares of the company at an issue price of €1.8 per share (€0.8 in nominal value and €1 of share premium), which implies a cash inflow of 4,280,832 Euros. The new ordinary shares issued represent 0.96% of the current share capital of the company.
- During the quarter, JAZZTEL continued to strengthen its television offering provided jointly with Digital+. Accordingly, on 7 June, the company announced the inclusion of five new channels on its on-demand Internet television service JazzBox with Canal+ Yomvi. The channels are Fox, TNT, Calle 13, Disney Junior and National Geographic and will allow the customer to enjoy a greatly improved offer of movies, series, documentaries and children's content, which add to the catch-up (on-demand) content which is already available on the platform. In addition, JazzBox with Canal+ Yomvi has added new features such as a search engine that will improve customers' access to their favourite content as well as the possibility to enjoy content in its original language with subtitles.
- On 6 June JAZZTEL announced the launch of an initiative with Jesús Vázquez, Goodwill Ambassador to ACNUR and face of the company. The initiative consists of a fundraising campaign together with ACNUR in which the company will contribute 60 euros for each new customer recruited through a webpage which has been specifically created for the campaign. In addition, customers who cooperate with the initiative will enjoy exclusive promotions. The funds will be entirely used in the United Nations Refugee Agency projects in Colombia, the country in which the company has recently opened its third customer care platform.
- On 24 May, the Board of Directors of the company approved the 2013-2016 Stock Option Plan and submitted it for ratification by the Annual General Shareholders Meeting. In the Meeting, held on 27 June, the Plan was ratified, as it has been mentioned above. The plan was created with the purpose of incentivising and retaining a number of key JAZZTEL group employees, including 8 of its Directors. This Stock Option Plan has an exercise price of 4.33 euros and the maximum number of shares on which options may be granted will be a maximum of 2 percent of the share capital of JAZZTEL as at 24 May 2012, that is, 4,948,682 shares.

Subscribers

- The base of services provided to residential customers stood at 1,569,365 services at the end of the second quarter of 2012, a 34% increase compared to 1,167,091 services in the same period of last year. This base consists of ADSL, single-invoice "voice only" services and mobile services. This significant base increase has been driven by the continued increase in the ADSL customer base, by the continued adoption of mobile services by existing ADSL customers, as well as by the continued positive evolution of the single-invoice "voice only" services base.
- The ADSL customer base has continued to increase during the second quarter of 2012, and is in line to meet the 2012 guidance, to reach between 1,300,000 and 1,350,000 ADSL customers:
  - The contracted ADSL customer base (active subscribers plus subscribers in the provisioning process) increased by 43,625 new customers during the quarter, to 1,251,441, a 27% customer base increase compared to the same period of the previous year.

- The active ADSL customer base (in service) increased by 45,213 in the quarter, to a total customer base of 1,228,681, a 27% customer base increase compared to the same period of the previous year. This active ADSL customer base increase has mainly been due to:
  - The broadband services over fully unbundled local loop (ADSL FULL), which already account for almost the total growth of the ADSL customer base. The commercial success of the ADSL services provided over the company's own infrastructure has been due to the high quality that JAZZTEL is able to offer in such services, which is complemented by the excellent customer care provided through its own customer care platforms and the highly competitive prices of its product offering.
  - The continuous positive evolution of its Internet services provided through VDSL technology. These services have continued their positive trend during the quarter, which shows the positive response by customers to a service which is provided through a highly advanced technology and which allows service speeds of up to 30 Mbps download and up to 3,5 Mbps upload. As a result, the base of Internet services provided through VDSL technology reached 95,929, 7,440 more services than in the previous quarter and a 145% customer base growth compared to the same period of the previous year.

- The single-invoice "voice only" service base (flat-rate voice service without ADSL over fully unbundled local loop), continues to grow, reaching 150,838 active services in the quarter, a 7,394 services growth in the quarter and a 30% customer base growth compared to the same period of last year. Being provided over the company's own infrastructure, these voice services offer customers a high quality product at competitive prices, while resulting in greater profitability for the company.
- The mobile phone services (voice and data services) base continued to experience the significant growth seen in previous quarters. As a result, the mobile phone services base stood at 189,846 in the quarter, a 26,929 service growth compared to the previous quarter and a 118% growth compared to the same period of the previous year. This mobile phone services growth already makes a significant contribution to the revenues of the retail division, while it has helped to reduce the churn rate in the ADSL customer base. The mobile phone services base growth has been due to the commercial success of the new mobile tariffs as well as to the inclusion of the latest handsets in the offering to the company's existing ADSL customers, as has been described above in the "Significant events" section.
- Services to corporate customers reached 38,507 in the second quarter of 2012, a 1,733 service increase compared to the previous quarter and a 25% growth compared to the same period of the previous year. Services to corporate customers once again experienced a positive trend during the quarter, as a result of the company's successful strategy of offering services based over DSL technology to small and medium-sized enterprises.

Network

- During the second quarter of 2012, JAZZTEL has continued with the expansion of its ULL local access network, although at a slower rate this quarter. As a result, the company deployed 6 additional ULL local exchanges during the quarter, reaching a total of 942 ULL local exchanges deployed at the end of the quarter. The pace of deployment of local exchanges has been significantly reduced as the company is already near the limit at which ULL local exchanges are profitable given current costs. The expansion of local exchanges has enabled the company to increase its network coverage from approximately 60% of the telephone lines in Spain to approximately 75%. This network expansion has enabled JAZZTEL to offer its ADSL over its own infrastructure to more than 2 million additional households in the last 2 years.
- Backbone kilometers have remained stable during the quarter, while local access fibre has increased by 18 kilometers, reaching a total of 4,565 kilometers. The increase in local access fibre kilometres has allowed the company to connect directly with fibre or with high capacity lines a total of 106 local exchanges during the quarter. As a result, the total number of local exchanges connected directly with fibre or high capacity lines reached 693 in the quarter, 74% of the total ULL local exchanges.
- During the quarter, the company has completed the investment in its own mobile phone services platform. This platform performs several support services to the mobile business which include traffic switching, activation and billing services which were previously outsourced to an external

platform. As a result, JAZZTEL completed the migration of all its mobile services to its own platform during the month of june. This investment will allow the company to make a significant improvement in the quality of the mobile phone services that it provides to its customer base, allowing the company to increase the quality and improve the flexibility of the launch of new products and services. This investment is part of the strategy of the company of making investments that improve the service offered to its customers while at the same time improving margins and generating high returns on investment.

Financial data

- The company's revenue were 223.8 million euros in the second quarter of 2012, a 24% increase compared to the 180.4 million euros obtained in the same period of last year.
- Once again, the company's revenue growth has been driven by the retail division, where revenues increased by 26% to 178.7 million euros, compared to 141.6 million euros in the same quarter of the previous year.
  - Retail voice revenues reached 31.7 million euros in the quarter, a 10% increase compared to the same period of the previous year. This increase in revenues from voice services has been due to the increase in the number of services, which include ADSL, single-invoice "voice only" services as well as mobile phone services, as was explained previously in the "Subscribers" section. This positive trend in the number of services partly compensates for the effect of the inclusion of calls to mobiles in the ADSL service flat fee.
  - Retail Internet and data revenues, which include the line rental and the ADSL fees, continue to drive the company's total revenue, due to both the continued positive evolution of the ADSL customer base and to the increase of the "Llama y Navega" tariffs sales, the revenues of which are considered in this section. As a result, these revenues reached 147.0 million euros in the quarter, a growth rate of 30% compared to the same period of last year.
- Revenues from the wholesale division experienced a very positive evolution during the quarter, reaching 44.6 million euros, 16% growth compared to the 38.6 million euros obtained in the same period of the previous year.
- The company's gross margin represented 54% of revenues in the second quarter of 2012, compared to 56% in the same period of last year and 55% in the first quarter of 2012. This gross margin decrease during the quarter has been due to the positive evolution of the mobile phone and wholesale businesses, activities which have lower gross margins than those of the company as a whole, and to the decrease of the voice gross margin derived from the bigger proportion of customers who take advantage of the inclusion of calls to mobiles in the ADSL service flat fee. In absolute terms, the company's gross margin stood at 120.7 million euros in the second quarter of 2012, a 20% increase compared to the 100.7 million euros obtained in the same quarter of the previous year.
- Sales, General and Administrative expenses (SG&A) were 76.4 million euros in the quarter, 15% growth compared to the same period of last year. This growth shows once again the significant operating leverage that the company has, as it increased its revenues by 24% and its gross margin by 20% compared to the same period last year, while its expenses grew at a much slower rate. This operational leverage is possible due to the company's commitment to develop its own infrastructure, which has allowed a fast growth of the customer base, and therefore of revenues and margins, while expenses have grown at much lower rates. Within SG&A expenses, it is customer care expenses that have increased the most during the quarter, to 9.2 million euros, a 76% growth compared to the same period of last year. This increase has been due to the launch of the new customer care platform in Colombia and to the capacity reduction costs in the platform in Argentina. This customer care platforms reorganisation has being carried out with the objective of increasing the quality of customer care, increasing the efficiency of the platforms and reducing the dependence on a single platform. Another SG&A expense that has increased during the quarter has been the Network and IT systems expenses, which was 14.4 million euros, a 26% increase compared to the same period last year. This increase has been due to the significant broadening of the network coverage that has taken place in recent quarters, as well as to the increased network capacity needed to meet the growth in the customer base experienced in recent quarters and to the start of operations of new network elements, such as the proprietary mobile services platform and the content delivery network (CDN).

- Operating profit (EBITDA) reached 44.2 million euros in the quarter, 30% growth compared to the 34.1 million euros obtained in the second quarter of 2011. As a percentage of revenues, EBITDA margin was 20%, which is two percentage points higher that in the previous quarter, and one percentage point higher than that of the same period last year. This increase in EBITDA margin as a percentage of revenues has been due to the operational leverage experienced by the company as it increases its customer base, as discussed in the previous paragraph.
- Profit before taxes reached 17.6 million euros in the second quarter of 2012, more than doubling the 8.1 million euros obtained in the same period of the previous year. This significant underlying profit increase reflects the evolution of operating profit (EBITDA), which has been discussed in the previous paragraph, as well as the decrease in financial expenses, as the company is repaying its financial debt in bonds and increasingly uses lease type bank financing with a lower financial cost. Net profit after taxes reached 19.1 million euros in the second quarter of 2012, a 30% decrease compared to the 27.3 million euros obtained in the second quarter of 2011. This net profit decrease was due to the accounting of corporate tax revenues, which represented 19.2 million euro credit in the second quarter of 2011.

Investments

- The company's investments were 28.1 million euros in the second quarter of 2012, a 63% increase compared to the 17.2 million euros in the same period of last year. This increase in investments has been due to several reasons:
  - The growth of customers that the company continues to experience, which requires investments both in increasing its network capacity and in customer premises equipments.
  - Investments in setting up the customer care platform in Colombia.
  - Increase in the coverage of the ULL network.
  - Connection of ULL local exchanges directly with fiber or with high capacity lines.
  - Investment in a proprietary mobile services platform that has been carried out during the quarter.
- The last three points have been discussed previously in more detail in the "Network" section.

Liquidity and debt

- JAZZTEL's liquidity on 30 June 2012 was 92.8 million euros, which included 1.8 million euros of restricted cash. This cash position represents an increase compared to the 85.4 million euros of cash that the company held at the end of the first quarter of 2012. This increase has been due to the significant operating cash flow generation (EBITDA-CAPEX) during the quarter, which stood at 16.2 million euros, cash flow generation that has allowed the company to increase its liquidity position even in a quarter in which the company made the payment of the coupon and the repayment of the principal of its corporate debt in bonds for an amount of 20.0 million euros.
- Net financial debt stood at 61.9 million euros at the end of the second quarter, a 48% decrease compared to the 119.1 million euros outstanding in the same period of 2011, reaching a net debt to EBITDA ratio of 0.37x. Such significant debt reduction has been possible due to the strong operational cash flow that the company has generated during the quarter, as mentioned above, that has allowed the company to repay its bond debt while increasing its liquidity position. The financial debt in bonds will be fully repaid in April 2013.

Development of the business of Jazztel, plc individual company

- Jazztel plc. is a holding company with direct or indirect holdings in the following active companies: Jazz Telecom, S.A., Banda 26, S.A., Jazzplat, S.A., Jazzplat Chile Call Center Limitada, Jazzplat Colombia S.A.S. and Jazzcom Limited. The holding company's core business is to seek out and secure funding to finance the operations of its holdings.

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Financial Statistics

Euro (Million) (non-audited figures)	Q2 2011	Q2 2012	Annual Growth	H1 2011	H1 2012	Annual Growth
Revenues	180.4	223.8	24%	355.4	440.4	24%
Gross Margin	100.7	120.7	20%	200.9	239.1	19%
% of sales	56%	54%		57%	54%	
Selling, General & Admin. Expenses (SG&A)	66.6	76.4	15%	134.6	155.6	16%
% of sales	37%	34%		38%	35%	
EBITDA	34.1	44.2	30%	66.3	83.4	26%
% of sales	19%	20%		19%	19%	
Amortization	20.7	21.9	6%	40.7	43.6	7%
Net financial expenses	-5.3	-4.8	-10%	-10.7	-9.0	-16%
Net profit before taxes	8.1	17.6	118%	15.0	30.8	106%
Taxes	19.2	1.5	-	19.2	0.0	-
Net Profit (Loss)	27.3	19.1	-30%	34.2	30.9	-10%
% of sales	15%	9%		10%	7%	
Capex	17.2	28.1	63%	35.8	52.5	47%

Revenues per business segment

Euro (Million) (non-audited figures)	Q2 2011	Q2 2012	Annual Growth	H1 2011	H1 2012	Annual Growth
Total Telecommunications	**180.2**	**223.3**	**24%**	**354.6**	**439.4**	**24%**
Retail	141.6	178.7	26%	280.0	352.0	26%
Voice	28.8	31.7	10%	57.2	64.0	12%
Internet and Data	112.8	147.0	30%	222.8	288.0	29%
Wholesale	38.6	44.6	16%	74.6	87.4	17%
Other	**0.2**	**0.5**	**193%**	**0.8**	**1.0**	**25%**
Total revenues	**180.4**	**223.8**	**24%**	**355.4**	**440.4**	**24%**

Euro (Million) (non-audited figures)	Q2 2011	Q2 2012	Annual Growth	H1 2011	H1 2012	Annual Growth
Selling, General & Admin. Expenses (SG&A)	**66.6**	**76.4**	**15%**	**134.6**	**155.6**	**16%**
% of sales	**37%**	**34%**	**-3 pp**	**38%**	**35%**	**-3 pp**
Marketing and SAC	32.3	35.2	9%	65.3	75.7	16%
Customer care	5.3	9.2	76%	10.4	16.8	62%
Personnel	5.9	6.1	3%	11.9	12.1	2%
Network and Systems	11.4	14.4	26%	23.3	28.1	20%
Other business lines	2.5	2.5	0%	4.9	4.9	0%
Others	9.3	9.1	-2%	18.8	18.0	-4%

Main operational statistics

Non-audited figures	H1 2011	H1 2012	Annual Growth
Network Deployment			
Local Access kms	4,495	4,565	1.6%
Backbone kms	21,569	21,569	0.0%
ULL local exchanges	790	942	19.2%
Contracted ADSL services	**985,495**	**1,251,441**	**27%**
Active ADSL services	**964,542**	**1,228,681**	**27%**
FULL ADSL*	895,519	1,159,007	29%
PULL ADSL**	10,594	7,093	-33%
Resale ADSL	58,429	62,581	7%
Voice Services			
Indirect voice lines (Only voice, s/ADSL PULL-resale)	85,358	81,723	-4%
FULL ADSL	895,519	1,159,007	29%
Single Invoice "Jazztel Line"	115,632	150,838	30%
Mobile services	86,917	189,846	118%
Corporates Direct Access			
Active services	30,702	38,507	25%
Wholesale Services			
Traffic Termination Contracts	123	109	-11%
Wholesale capacity contracts	23	20	-13%
Wholesale DSL services	14,043	14,812	5%
Headcount* **	472	484	3%

*FULL: Full unbundling local loop.
**PULL: Partial unbundling local loop.
***Excluding Jazzplat (1,996 employees); all employee figures are at period end.

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JAZZTEL p.l.c. Consolidated balance sheet	30-Jun-11	30-Jun-12
Euro (thousands)		
ASSETS		
Intangible Assets, net	20,782	27,232
Tangible Assets, net	445,705	461,208
Financial Investments	985	1,011
Deferred taxes	19,168	23,663
Total non current assets	**486,639**	**513,114**
Inventories	0	723
Accounts receivable (customers and sundry)	103,503	114,185
Cash and cash equivalents	47,652	91,018
Restricted cash	2,989	1,789
Total current assets	**154,144**	**207,715**
TOTAL ASSETS	**640,783**	**720,829**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total Shareholders' Equity	**244,552**	**300,731**
Provisions for contingencies	95	973
Notes	50,098	0
Long term debt + IRU´s	115,880	121,094
Deferred taxes	0	6,211
Total non Current liabilities	**166,073**	**128,278**
Notes	34,782	50,928
Short term debt + IRU´s	60,217	74,559
Accounts payable	135,159	166,332
Total Current liabilities	**230,158**	**291,819**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**640,783**	**720,829**

Net Debt	30-Jun-11	30-Jun-12
Gross Financial Debt	**169,768**	**154,668**
Long term Notes	50,098	0
Short term Notes - (Accrued interest & principal)	34,782	50,928
Long term debt	0	0
Short term debt (Includes factoring line)	35,123	40,617
Long term Financial leases	28,010	33,336
Short term Financial leases	21,755	29,787
Cash and short term investments	**50,641**	**92,807**
Net Financial Debt	**119,127**	**61,861**
IRUs*	91,209	91,913
Net Financial Commitments	**210,336**	**153,774**

*IRU: Indefeasible right of use agreements

Cash Flow statement	2T 11	2T 12
Operational Cash Flow	**36,670**	**41,115**
EBITDA	34,061	44,244
Working capital variation*	2,608	-3,129
Investment cash Flow**	**-14,570**	**-8,499**
Financing cash Flow	**-24,704**	**-25,209**
Net Cash Flow for the period	**-2,605**	**7,407**
Cash and short-term investments	**50,641**	**92,807**

* Adjusted for options/provisions and other accounting adjustments
** Cash CAPEX after Huawei lease vendor financing