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Accounting and cash: Dividends here!

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Good afternoon, everyone. Thanks for attending. We hope you have heard the message of the Chairman clear and loud. My job is much easier. It's to actually help you connect the dots that go from the OIBDA to the dividend, filling in some of the gaps. And in order to fill some of the gaps when we were thinking about how to entitle my presentation we came up with this one how to reconcile the accounting and cash views of the company that is always open and subject to discussion.

We thought that the divide between accounting and cash should end here and today and that's why we chose this title. The Dividends Here. This is the end of the divide. Those are the dividends that we would like to share with you. So, of course I follow in the footsteps of the Chairman and I have to be more elaborate and I have to provide much more detail. But don't fear anything I will not repeat nor utter every single number and word that is in this presentation. It is for you to keep. It is for you to peruse and probably you will have more questions more specific or technical going forward.

But before we connect the dots from OIBDA down to dividend by talking about D&A, by talking about financial expense and taxes and working capital I'd like to share with you a little story. A small story that is actually a true story. It happened to me.

It happened to me over the weekend when I was at home a couple of weeks ago getting ready some of the slides for this presentation. And one of my sons, who's now 14 asked, Dad what are you doing? Well, I'm getting these slides ready for our Investor Day. He said, what's an Investor Day?

Well, an Investor Day is one day, son, where the Company presents itself to the Shareholders, the ultimate owners of the Company and in order to guide them and tell how the management team sees the future. I didn't quite use those words but you follow the story. He said, what is it that makes a great investment? A very basic question from a teenager. And I said, well, in finance we say two things must happen. You must have a great company and you must have great a market recognition of that Company.

The first part is about how much you keep of what you sell. So if you are in the telecoms business we have a short term today. We call it OIBDA and it is how much you keep in the business after having paid all the costs and depending on the sector those numbers can be actually quite large. Large companies, high scale companies can provide very large results. So you may have heard about large companies, important ones in the world, people like Procter & Gamble, one of the consumer product household names.

This is a very large company. It has been around for a long time. These guys have produced something like EUR14 billion in OIBDA last year. You may have heard, you surely have heard about IBM. IBM returned EUR17.4 billion as of 2010.

General Electric one of the corporate legends in corporate history actually ended up returning after a multiplicity of businesses EUR18 billion, just north of EUR18 billion last year. And then, other than Microsoft of which we have a few problems at home just like probably every other human on the planet, returned EUR19.4 billion.

We didn't, Telefonica didn't quite reach those numbers, it actually over went through them by something like 20% to 25%. So this was not intended to awe my teenage son. It was more intended to show how difficult it is to make any animal this size grow by any significant number. So, keeping your foothold and actually expanding it is what makes all the difference. But I said, son, it's not only about scale because if you provide all those returns and you see those are quite significant but you don't take them to the right place, you don't take them to the shareholders, other things happen.

So, you want to look at the total stock return of owning the shares over time in order to assess how markets have perceived the relative quality of those earnings. And if we go to General Electric over the last five years and the last five years include three of the worst years that the world has known since the end of World War II.

So, it is very much a very soft spot for Western capitalism. GE, none other, has returned a negative 6.9%. Not pleasant, not lethal, but certainly has done better over time. Other companies, P&G has done a 4% annual return over the past five years.

Wal-Mart, one of the great household names in distribution, has returned 4%. And these guys know very how to sell in tough times at discounted prices to almost everyone. Berkshire Hathaway which is an investment company of none other than Warren Buffet, the living legend of investment history, has returned 6.8% over the last five years.

Telefonica's total return per year has been 12%. So, not only have we excelled over the last couple of years in terms of how many resources we generate, we've also excelled in and we are very glad to have done so at how much the perception of the market has changed.

This is of course not a one quarter phenomenon. This is a five year thing. And you may ask, well maybe this is the best five years you've seen so what about looking at the long term? What is the best team on the league?

Well looking at GE over 20, years 9%, Wal-Mart over 20 years, 10%, look at people like Procter and Gamble over 20 years, 11.5%, Mr. Buffet's vehicle, 14.7%, Telefonica, 16.3%. All of them, by the way, measured in local currency so that we play no games with the currencies.

So, son, it's difficult to make a company like this grow because growth on these dimensions is reserved for very few companies. But we are happy to be present in a world that as the Chairman said is growing and it is now at a junction of a new digital age. And the digital age is something that we're going to be present in a big, big way.
So enough of family stories that actually point to the fact that despite good days and not so good days this management team has been here for quite some time, has lived here for quite some time and certainly the Telefonica shareholder orientation is a rare bird.

It's not the kind of thing that you find elsewhere on the industry as I think we'll have the opportunity to see later on. Let me pause a minute and share with you a few of the environmental things. Now that we have terrible natural disasters, let's talk about where we come from and where we are going to.

If you look at the countries where Telefonica is present you see that on analysts' expectations the overall consumption and GDP related growth in our footprint should be by 2014, 14% higher than it was at the peak of the cycle in 2007. That is not a lot. That's on average without compounding. 2% change per year it totally has not been a linear process. But this is not something that all companies can claim. We were early indeed into the emerging markets and that's why we have been able to benefit from the great things that have been happening over the past couple of years.

And as you can see on the same analysts' expectations you see countries that are not going to do very well on expectations. Europe is expected to go up something like 2%. Spain is going to be the laggard of that recovery and that will recover if at all over the next three or four years but the Latin American region is actually going to grow 31% in total 2007 through 2014.

That's quite a bit and that even hides the fact that we think that 31% are absolutely furious and fast growers like Peru and some laggards within Latin American like Venezuela. And certainly Brazil is the shining star and the bright star that we're going to be spending a lot of time on these days. So, the point is we are present at the right place. We are in the right markets. Not everyone can claim that. And many companies are now having second thoughts about decisions having been made over the past ten years because now it's either too late or far too expensive. And both things are difficult to overcome.

So, we think we are on the right set of markets and it's now up to us to be able to benefit from those. If you are present in the right markets it's not only the tailwinds that take you or the undercurrent. It's also the basic communications services that make all the difference. Those many dots that you have on the chart actually show a very basic relationship between GDP per capita and fixed broadband penetration.

We've used Latin American markets because they tend to be the least advanced on fixed broadband. The good news is that if you are present and you are somebody in those markets there's not much you have to do in order to benefit from that fixed broadband penetration increase trend other than being there and provide the right services at a competitive price.

And that we know how to do, because we enjoy the benefits of scale and scope as the Chairman explained and we are in all the right markets. So, if these vertical lines that show the expected GDP per capita by 2014 I think it is, you would probably agree with me that those countries will occupy some position within the oval area, shaded area that you see on the chart.

And if that is the case fixed broadband penetration will roughly double in most of those markets and we'll have roughly double the amount of customers that we do today as an industry. So, not everyone will benefit the same but certainly it is not marginal increments it is actually doubling the size that is now open to the industry participants.

We don't have to provide new services. We just have to provide the services that we know at a competitive rate in the markets where we are. One of the engines of growth of Telefonica Group is actually this basic penetration increase. And this is not only about income and fixed broadband penetration or physical numbers, if you want to translate that into real money you will have to sell them at a profit. And we also have some hard evidence that this is indeed what happens although the chart is slightly more complicated. We've just shown wireless penetration in this instance relative to an index number that shows you what's the penetration when, I'm sorry, yes, what's the penetration when you are at, what's your OIBDA when you are at 100% penetration. I apologize.

This is a Chilean case, so, clearly as penetration increases so does on the vertical axis profitability but this is not a Chilean exception. It happens in almost every one of the markets that we've been studying. And give or take this is exactly what we expect will happen as markets mature. As they develop and gradually mature we will have an array of businesses that produces significant amounts of cash flow that will then be the supporting factor for the next wave whatever that next wave in terms of new products and services might be. Because this is what we've seen happening in many of the markets where we are on, those are the results, the changes I should say in operating cash flow, OIBDA minus CapEx, in some of our properties over the last five years.

So, if you read across you'll see that Mexico which is the largest far right-most block has increased by more than 30%. What that says is that by 2010 Mexico's operating cash flow over sales is 30 points higher than it was five years ago. This is what happens when markets develop. They do not go up in 1 or 2 percentage points increments. They sometimes when they mature they basically take off, they go up in 20s or 30s.

The good news is that two of the countries where that increase has been the smallest, the UK and Germany, are the ones that we have some of the highest hopes for, for all the right reasons and Matthew will be presenting to you tomorrow and giving you specific details.

So, whenever you're building those models, if you're an analyst, when you're building those models maybe you want to factor in that the world is not linear. And that when things stop being linear although they are linear in small term increments you do have these substantial changes which are typically on the upside. You may want to consider that the next time you're modeling more than a couple of quarters out. Finally it's inevitable that we say a few words about Spain and the environment. Everyone's worried about what's been going on in that market over the last three years.

Well, if we summarize a bit of history what we've seen is that after Spain joined the Euro more than a decade back what has happened is that Spain has enjoyed a low interest rate and a high growth environment to the tune of 100 basis points excess over European GDP per year. So, Spain did better until the crisis set on by the tune of 100 basis points. It's done worse ever since to the tune of 70 basis points. So the years of the crisis, 2009, 2010 have meant that Spain has gone subpar in growth to the tune of 70 basis points. Okay, not pleasant but hardly a disaster. So, if you look at what's going on right now I think it's fair to say and most macro analysts will probably agree that Spain has first separated itself from some of the weaker components of the peripheral Europe and it has set out for itself a few tasks that it has implemented at varying degrees or at varying speeds. So, the labor market reform is on. The pension system reform is on. And now Spain is dealing with the ugly issue of how to deal with the financial sector reform mainly the transformation of the Cajas. But it is very unlikely that it will require foreign aid or that it will not be able to do it on its own. Be it as it may and we're not here to talk about the Cajas you may want to consider this next time you look at using some of the available instruments to protect your investments from a Spanish meltdown. Maybe there won't be any.

And when that goes back the supply side factors suggest that Spain should on IMF numbers and go back to slightly over par growth as you would expect from a country that starts from a reasonably developed infrastructure when things reasonably work and where you have a very dynamic supply side factor both in terms of labor and in terms of talent.

Be it as it may we thought we would probably leave it here in terms of environment and we'd be more than happy to chat over specific details. Let me now do the more financial nitty gritty work and try to connect the dots between OIBDA and EPS. Let me start with a ground statement.

What is it that we are all about? Well we are about in the financial department we try and be invisible. Because when we are visible we tend to be troublesome. So, if the Company is run without talking too much to the financial guys it is because it is unconstrained.

Companies that are constrained by their finances are companies that have serious problems. If you cannot get more working capital then if you cannot accommodate new companies, if you cannot invest for future growth because of lack of funds or if your financial costs overrun your OIBDA you're in trouble. We're not. We've done a couple of things over the last couple of years. We've increased CapEx where appropriate. Our CapEx has never been higher. And, as the Chairman explained in his presentation, we've spent over $20 billion in different ways last year. This is not what I would call under-investing.

We've also secured spectrum availability because we do think that spectrum is going to be the raw commodity of future success. If you don't have spectrum, you don't have success in the future. If we are proven wrong, we will be seriously wrong because we firmly believe that this is, indeed, the wave for the future. That's why we did this in the German Spectrum license. We secured the Mexican and we totally will fight with what we have in the upcoming auctions. We've also done a few other things that you may have heard of in terms of completing our footprint. The Vivo acquisition was a very public and open last year and it was not the only one. So, it has not been lack of funds, lack of determination, or lack of opportunities that has not held us back, it has been a sensible analysis.

And we've done that without sacrificing to shareholders. We don't do that. We are shareholders ourselves. We try and see what is the right balance between growth and opportunities and investments and remuneration.

We do not think that one has to be fully sacrificed to the other. Certainly, you have to find compromises and middle points. But, certainly, the raising of the dividend in what's intended, first, to provide comfort that the company could generate them. And, second, to give stability about the future outlook of this stream. And, finally, we also work to try and help you arrive at the right valuation by fundamentals by having access to local cost financing, the cost debt financing, so that you can embed it properly on the discount rates in a right, but a fair, if possible, higher valuations than before. This is what we're all about. Sometimes, we make it better than others. But, certainly, this is what you can count on us to continue doing.

Leave businesses to grow, manage, and execute, as they need, without having to feel the constraints of a poorer financial policy. So, now, connecting the dots from OIBDA to EPS or to DPS, I'd just want to say a few things and leave the numbers with you.

Don't expect any terrible things happening on the depreciation and amortization front. Do expect, that number, in 2011, this year, to come up a little bit as a consequence of the purchase price allocation of some of our spectrum purchases of last year and the inclusion of Vivo. But, after that, it should be pretty stable. So, if you project, in a couple of years out, you probably should note very much from existing numbers. If you want to know what our funding costs are going to be, we do have a significant debt load.

But, we are not worried about this load because we can service it in the markets at the appropriate and fairly interesting rates. Plenty of numbers on that slide, but, then, they're just intended to show how dramatic has been the decline in the cost of funding Telefonica over the past three years.

Yes, there has been a crisis. But, yes, interest rates have come down and the overall cost of funding has gone down by 180 to 200 basis points, whether if you look at Europe, on the upper part of the chart or you look at US dollar funding on the lower part of the chart.

Those are actual issuance numbers from Telefonica. In 2009, light blue, and, in 2010, or 2011, because we did, indeed, do a few of these at the beginning of this year.

You'll see that, when we go with a five-year funding at 5.4% three years ago, two years ago actually, we could do that at 3.4%. So, roughly, 200 basis points and the same goes in dollars. So, companies that did not play with fire, in terms of their finances, have been able to take some benefit out of the crisis in the form of the lower cost of funding.

Do count on us to continue exploiting our opportunities to be funded in diverse currencies, to continue having all of those markets open for our paper and, if you're on the fixed income part of the investment world, do count on us to continue being creditable, to continue being predictable, and, certainly, continue honouring our commitments here. So, what should you project, if you're running a model? Well, below 6%, this is sort of the middle of the ground, fair ground. We think, over the next two or three years, we should be between 5% and 6% of the overall cost of funding. And that cost of funding comes from two very different sources. About 80% of that comes from, say, western currency denominated funding. That should cost us between 4% and 5% and 20% of our total debt comes from the Latin American currencies. Those are quite expensive at about or around 11% as we speak and that's what gives you the average between 5% and 6%. Not only that, we are not sitting on our hands.

We are trying to move a little bit on this side and on that side of the yield curve. Because these are all substantial numbers that we get involved. So, we've got some questions about what's the floating versus fixed proportion of our debt.

Although, the answer is there, two-thirds, roughly, is now fixed and one-third is variable or floating. The more interesting part is that, because the yield curve movements are so different in Europe and the US and in the Latin American markets, I think we should contemplate them as two separate worlds.

On the more developed western-like world, what you see is that interest rates are rising. Because they have been rising, we've been having more fixed than floating and we've fixed 15% of our total debt over the past 12 months. So, we now have 15% more fixed debt than we did last year and we're happy to have done so because, fortunately, we seem to have here the right deal. That interest rates aren't going up and that you are going to be funding your company at a higher cost going forward than going backward.

Not so in Latam, in Latam, what you find is that the proportion of variable debt is still 55%. We do not think that the next movement is seriously up on Latam rates and, of course, this is a judgment call that we want to play and will continue playing to the benefit of our shareholders.
Because, when we're right, as we've been over the past two or three years, you do save 25 to 40 basis points even and that's over a large amount of debt and so, that translates itself into quite a substantial increment on the bottom line.

On taxes, what we can tell you is that we seem to be on the right spot because, overall, nominal rates seem to be either toppish or declined, as in the UK, for example.

And we have been able to engineer and to take advantage of the multiple opportunities that tax authorities present to large companies. So, when you go from nominal rates to effective rates and the accrued rate, that shows in the P&L, what you find is that there are bits and pieces of non-taxable income.

There are bits and pieces of recognized assets that we can reclaim or claim back and there's goodwill amortizations where you never end up paying, on average, at the nominal tax rates. And what that gets or has to get translated into cash, the numbers are even lower. So, for those of you who are really, really interested in the extreme detail of these issues, we have a colleague who really enjoys doing that and I would suggest that you go to the doctor after it.

But, certainly, more than happy to provide any additional number. This is, by the way, not an inconsequential bit because, if we are able to discount our interest at the 30%, but our cash flow comes in at much less than 30%, you have an embedded advantage that the tax authorities, in their infinite wisdom provided to you, by using the tax advantages that are available.

And so, we should arrive at a higher valuation if we do the numbers right than if we were in a zero tax world, relatively speaking. On working capital, I do not intend to go over the details unless you force me to. But, we did want to provide an indication as to how we expect this thing to move over the last couple of years. We don't say this with any degree of precision. We just wanted to share with you our feelings.

Because, with working capital and I say it is a residual, at the end of the whole process, it's a notoriously difficult variable to manage and we are learning how to do it better and we're, essentially, making a lot of progress. One bit of information that I did want to leave with you is on the chart. Telefonica has many issues outstanding, many problems to deal with, but, bad debt is not one of them.

Overall, delinquent clients are actually small, they have gone up from 1.18% to 1.4%, over the last couple of years. But, despite the varying degrees of bad debt happening in the different markets and we've provided a few examples of Spain, the UK, and Brazil on the chart. It has not been growing up in any dramatic fashion, so those of you who are worried about that bit of revenues not being collected, I don't think you should be too worried about that.

It has not changed a lot. We think we have a close eye on them and that should not be a major issue. After trying to help you connect from OIBDA to DPS so that you arrive at the proper valuation. I just wanted to spend a few more minutes on talking about the balance sheet, what belongs in it, and how do we think about making decisions about how to bring something else in or how to leave something out.

This is the quite sizeable asset portfolio. Remember, from my first slide, that, when you are a 25 billion animal, you have to eat a lot of grass just to be alive. But, if you are an enterprise value company like us, and I deliberately looked at enterprise value to show the size because the overall size of our assets is quite significant. And, if you compare ourselves with some of the other major phone companies of the world, because none of them use debt to the extent that we do, you tend to have a partial picture. So, we rank about number three or number four on OIBDA and it's not easy to make the progress or to lose a lot of that unless you really lose lots of customers overnight. So, within this asset portfolio, you have to think for yourself of what can we possibly bring in that makes a difference and that makes this 135-animal go forward at a faster speed.

The small things will probably not do it on the short term, but, eventually, they might. What we do know is that we have to complete the jobs that we have, the tasks that we have, and some of those are fairly simple. Some of those simply mean continue to develop the markets where you're in, organic growth, to their full potential and, fortunately, for us, we are, first, well diversified geographically.

Spain represents, roughly, 31% of the total by revenues, and it is the least growing part of our industries, of our properties, and so, everything else is going and growing faster. So, if you're worried about Spain, maybe you are not going to be worried too much because their relative size is getting into balance very, very fast. But, other than that, please look at our five largest properties because we are present in 25, maybe 26, markets now, not all of them are of equal importance.

The good thing about our diversification is not only geographies, it's about what are the great engines that are actually going to drive or fit to drive our company going forward.

Well, Spain's still 31% and the next largest market is Brazil, you would expect that. The next is the UK, the fourth is Germany, and the fifth is a highly competed position but right now is Argentina. But, we have a few properties fighting for the 5% stake in the total group that are sometimes changing for all of the right reasons, movements in exchange rates, acquisitions that are particularly brilliant and so on. But, if you look at the first, at the four largest properties, you see that they represent 69% of the total. So, as those four properties go, so will the overall tone of the group. And the good thing is that they're also diversified by where they are. First, Spain is the cash cow, Brazil is the growth engine. The UK is the pioneer in new products and services, working successfully in the most competitive market on the planet.

And, then, you have Germany, which is the big promise, because, if Germany does what we expect it to do and there is no doubt that it will, then, that promise will be developed. And, when it is developed, we will have a sizable position in the largest market in Europe. And so, if you look at only those four properties, not only are we geographically diversified, they are also coming from different ends of the world.

And, then, if any of those markets goes well, it will not be because the others do or do not. They are relatively independent and that's what makes us so confident that the future is really going to come to us.

By the way, about 80% of Latin American cash flow, free cash flow, generated in the region gets repatriated every year. So, we've never made an issue about how much of it we will repatriate.

We just look at the costs, sometimes there are tax costs involved, and we just don't see the point. But, other than Venezuela, which continues to be a problem and elsewhere, we have full control and full decision about that. So, we are becoming a very concentrated group of four pillars, four main pillars, and many other legs. We're becoming more mobile or wireless because that's where the growth is and it is likely to become even more so as mobile broadband gets developed to a fuller extent. And more than 60% of our clients are in Latin America. So, it is likely that, over a couple of years, we will be more mobile, more Latin American, and much more profitable than we are today.

We've done all of this, we think, by investing in the network, acquiring spectrum, ending all of the acquisitions, so we do not agree with the view that we have either under-invested or that we are unprepared for the future or we have not done the right things to complete or to strengthen our position. And, certainly, the big debate about how much to generate and how much to distribute is going to be an everlasting debate. But, we think we have a fine balance that we are comfortable with on all those things. So, fostering growth, those 20 billion that we spent on those three items last year, is a testimony to the fact that we think and we act as if we think that we are in a growing industry.

Because zero growth or declining growth industries are industries where people try to escape from. We are investing more into it, not because we must, but because we think this is the right thing to do.

We have achieved, as the Chairman said, the right scale in our target footprint, which basically means that M&A is going to be a very boring subject in the analyst's reports this year. Because the only thing that you're going to have to write about is the spectrum auctions and that is okay, but, hardly the stuff of dinner debates and do expect us to continue investing in the new companies.

You're going to be listening after Julio's presentation this afternoon to our colleagues some more and new colleagues in the Telefonica group and you'll see that they use a different language. They think of the world from a different angle, but we're perfectly complementary. The Telefonica of the future has been born. We do not know what shape it will take, but these guys that are going to be talking to you today are probably going to show a few inklings of the likely shapes of the future to come. Because we know that and do expect us to continue scouting the world for opportunities that might present themselves so that we can bring them closer together to a group of companies and some of the seeds of the future growth. Not the future growth for tomorrow or the next five years, that's already set in stone that you have seen where it is going to come from.

But, maybe, for the years after that, we have to become more conversant with the newer things. And, in order to do that, we just have to build a bit of headroom so that we go back to our comfort zone in terms of the debt ratios or the leverage ratios. So, this year, we have the intention of taking Atento public to the market and this is likely to be sooner rather than later and will continue the divestiture of our former stake in Portugal Telecom, slowly but surely. And I mentioned those two because they are likely to entail substantial amounts in the hundreds of millions rather than tens of millions. And so, if we are successful, rather, when we are successful, in completing the two deals, we should have built an extra room. So, that we can either accommodate any unexpected circumstances or else go back on the leverage that we have used. Let me talk a bit, just to sum up, on the leverage side on which there is not much to say.

Those of you who really want me to explain this slide, I'm more than willing to do so at dinner over a glass of wine or else it will be hard. But, the point of this slide is simply to tell you that, well, we are at the top end of the upper end of our self-imposed 2 to 2.5 debt OIBDA level.

That's a public knowledge. What do we need to build a bit of room so we are extra-comfortable and how sensitive is that debt to OIBDA ratio now that we are one of the edges to movements in exchange rates?

Well, this slide intends to answer that question. Assume that you have the 2.5 debt OIBDA ratio, which is where we are today, and assume that exchange rates move as they did in 2003, 2004, 2005, etcetera.

The yellow box tells you how much of that ratio would have increased had we been at 2.5 at any of those years.

And the intention is to show that, yes, there are movements, yes, the movements are more dramatic, the more dramatic the FX movements are, the more unfavorable, but no, they are hardly going to take us away, because there may be worse cases, of course. But in the worst cases that we can find over the last couple of years, it would have moved by 0.1 to 0.15. Again, not pleasant, but quite possible to accommodate.

Our debt is euro denominated by 72%, 72% is euro denominated because we think that it's a good idea to take debt in euro to invest in, say, Real denominated equity. And that's exactly what we did for the vast amount of the investment that we did in Brazil last year. We think that this is the way to go because, if we are right about the investment, we should be also modestly right about the currency. We, and we said that a number of times, did not find the logic that says, hedge the currency value of your investments because, then, if you're right on the investment, you're going to be wrong on the currency with a 99% likelihood.

The credit markets have been going through a lot over the last couple of years and unless you are a Telefonica or a similarly well-behaved company, you may have gone through a rough period. We haven't. We have had a lot of work and not a couple of moments of anxiety and worrying of things, but we've been able to access funding from different sources.

The banks, although many of them have changed shapes and attitudes, we are happy to report that many of them have continued to support us in very big ways, have been quite open to us. And the Brasilcel acquisition last year was fully financed with a bank facility. We also have been able to increase our credit lines, so that undrawn credit lines continue being available. So, if and for whatever reason we need to open them or to tap them, that's what they are there for. It's increased them up to 9 billion and so, we can sleep quite soundly at night knowing that we'll be fully financed and fully liquid for the next 12 to 18 months without any doubt. But, we've also been able to extend our reach in the bond markets. We've accessed the bond markets since the last time we met, by EUR17 billion and that's not a small amount to gather from the markets and even if you do it in major currencies, it has required a lot of effort and determination.

But, we're happy to report that we seem to have a credible standing on fixed income investors. We have used other funding sources and the situation, today, is that about two-thirds of our liabilities are bonds and one-third of our liability is loans, which is roughly the reverse of where we were in 2006. And, thus, this has been a deliberate attempt and we're now coming close to the end of this bonds versus loans debate. The good thing about the bonds is, of course, that you can issue them for much longer maturities than you can have, typically, bank paper.

Our liquidity position is solid. I've spoken about the increase in our undrawn credit lines. We now have EUR9 billion, plus EUR2 billion, that are still pending for the Brasilcel acquisition.

We've been able to extend the average debt life from 5.7 to 6.1 thanks to the issues that we've launched in January this year and our maturity profile is, we think, conservative and manageable.

We're done with maturities for this year. Next year, in 2012, and that is still a couple of quarters away, we have EUR6.7 billion in maturities or roughly 500-plus a month and it's something that we think the markets can comfortably digest. And we're already working on the big block of syndicated facilities coming due in 2013 and that's still two years away. So, we've been able to keep our average maturity and we continue to target the six-year line, as the line is not to be overdrawn. And we continue to have plenty of access to the credit. So, again, this company may progress fast or very fast. But, our business is not to constrain what businesses have to do because of lack of availability or poor quality of finances. So, we're on the way to de-leveraging. Deleveraging is a sensible decision. Now that we have reached the upper limit, we want to redress the balance and go back to closure, to the average, where we've been over the past couple of years.

So, we're softly targeting 2.25 as a medium term target and how are we going to get there. Well, growth is going to take us there and, for every two percentage points that OIBDA increases, you have a 0.5 decrease in the leverage ratios.

And debt reduction, to the extent that we are successful in some of the stakes that we are about to sell, every EUR1.2 billion of asset sales of some sort actually redress the balance by the same amount. Probably, a combination of the two or a summation of the two will probably be the final thing.

So, on remuneration, the chairman was already talking to you about that. Let me just make three very general statements. One is that we've always been very shareholder oriented. But, we have not always shown that determination in the same manner. So, in 2006, dividends represented, roughly, 60% or so, if I see the numbers correctly, of the total remunerations.

The rest were buy-backs and the payout ratio, conventionally measured, was 60%. Last year, the payout ratio was 67%, hardly a dramatic increase in overall shareholder remuneration, 60% to 67%. What had increased quite dramatically is the dividend content, partly to overall size. But, don't only look at dividends. We do look at shareholder remuneration as the combination of the two items, and not all investors think alike. So, preferences and opportunities present themselves and that's why we've kept deliberately open the wording about the 1.75 going after 2012. What we mean is that there will not be a shareholder remuneration per share lower than that. But, its content, how to distribute it, between share buyback and dividend, remains open. Not because we're not confident, but because we think that leaving the option open is the right thing to do.

But, for avoidance of doubt, there will not be any lower number than that going forward. By the way, those numbers are significant. But, the company is substantial in its ability to generate cash flow.

Those dividends are going to represent a distribution of EUR7.2 billion in this year and the next and EUR7.9 billion over to the 2012 dividend promise. This is, well, or, actually, more than covered by earnings.

You see that the average of our earnings in the 2006 through '09 period was at EUR7.6 billion and the dividends were at 3.6 and, now, that the dividends in 2012 are at EUR5.8 billion, the earnings are well above EUR10 billion. And, even if you take that part of the accounting gains, if you wish, there is still sufficient room to provide a more than comfortable cushion. And that is even more so if you look at free cash flow. Because free cash flow, for our group of companies, has averaged over the last couple of years, remember, a year for an OIBDA on the reported numbers has been very much stable, has been better than EUR9.6 billion.

And, in 2010, it was EUR10.2 billion before spectrum and spectrum is a form of M&A for the future, you could say. So, our 1.6 dividend promise for 2011, actually, means that if we were to repeat the average over the last couple of years, we would still have EUR2.4 billion extra to accommodate anything that might happen. Any shortfall, any small acquisition, or any other thing. Not that we have any of those in mind, the point here is more to show that there is sufficient headroom, both in terms of earnings and certainly in terms of cash flow to provide that.

Because our OIBDA comes from very different sources and they show very different behaviors. When Spain went down, Spain's OIBDA went down by 800 last year versus 2009.

Latin America, went up by almost exactly the same amount and Europe added another 100. So, you have the modest overall increase coming from widely different sources. But, just in 2010, the Vivo acquisition brought in EUR200 million extra, even after what some analysts have described as a very aggressive pricing of the second tranche of the Brasilcel that we purchased.

There's not such a thing as a critical reliance on uncertain cash flows. Venezuela's cash flow last year was EUR300 million or thereabouts. So, you cannot make EUR7.5 billion, EUR7.7 billion dividend dependent on a EUR300 million source.

The two numbers are simply not comparable. Certainly, everything adds, but nothing is critical if you want to compare things of similar sizes. Some of the things that we have not been speaking too loudly about are some re-engineering on some special effects, purely on the financial end of things. And those have generated, in 2010, EUR400 million extra cash, not because they are going to be permanent, but because things do happen, that end up driving a wedge between accounting and cash costs at the interest rate.

And, finally, we think we have provided enough room for a higher CapEx and we are guiding the market for a higher CapEx in 2011 than we had in 2010 for all of the right reasons.

First, we have more companies, our sizes have increased, and we certainly expect the spectrum acquisition to be there. So, in summary, we continue to look at the world as one where companies grow and that's what's intended to be shown at the horizontal axis.

And the management teams and the Boards of Directors decide how shareholder oriented they want to be. And, in this world, there are negative growers, as FT or DT, that have lower orientations relatively speaking to their shareholders because they devote a small fraction of their free cash flow towards their shareholders.

They devote their cash flow to other things. Other companies are on the low shareholder orientation side, but, at least, are growing. So, are providing future promises.

Other companies are on the right spot about shareholder orientation, KPN in our sector, and in our industry ranks almost highest among all of them. But, they are subject to tailwinds because they are not present in growing markets. And so, their growth is negative. So, the opposite happens at Telecom Italia, where we are very happy holders of an indirect 10% stake and lots of synergies are coming our way.

And their growth is positive. Shareholder orientation can be improved and, certainly, there are other companies, like Vodafone, that are in the right quadrant and that company, well, certainly, has a reasonable combination between growth and shareholder orientation.

But, we stand at the top right, very high on that quadrant. So, do continue to count on us as doing everything we know and everything we can ask so that we continue to generate growth. Because zero growth or negative growth ends up presenting trouble and have and present a strong shareholder orientation of how much of the free cash flow that the company generates ends up in the shareholder's pockets.

So, in conclusion, just three very small things. Shareholder remuneration is going to be sustained. Its future shape is to be determined. We have plenty of time and we'll be listening to your preferences.

This is giving more optionality, we are continuing to be committed to solvency protection. With no point in changing the policy that has served us well, especially through the toughest period that the financial markets have gone on for decades.

And continue to expect from us a very predictable M&A strategy because, now, we have achieved the right scale in our target footprint. So, all-in-all, a shareholder-driven and shareholder-minded, your company is our company.

Thank you very much.