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Santiago Fernández Valbuena - Chief Financial Officer of Telefónica

“Finance 2012: a safety net and a springboard” transcript

Important Notice:
Although we try to accurately reflect speeches delivered, the actual speech as it was delivered may deviate from the script made available on our website.
Well, thank you, Cesar, and good morning, ladies and gentlemen. Thanks for coming. We will wait a few seconds for the -- those stuck in traffic to come back and to be able to be seated.

When trying to choose a name for my presentation today, we didn't come up with one word; we came up with a few, and we finally decided on a consensus title that you see there. Finance is typically given as a rather boring subject, better put to the final stages of any presentation. We actually think that if this recession that we're going through proves something, it is that finance can act both as a safety net, in case of turbulence, and a spring board. And it is about the spring board part, going on to the next stage, that I would like to focus my attention today.

I intend to cover three main topics and then draw some conclusions. One, for the first time, we're going to be talking about macro. The macro environment has suffered a lot, has changed the way we view the world and has been on the back of every analyst and investors' mind, trying to understand -- trying to look into the future and see whether or not the deterioration, which was so evident in the environment, would come to an end or would even go further than it had originally intended.

We're going to spend some time -- I'm going to spend some time talking about the way we saw markets and the way we see markets going forward. Not because we think we have a special capability of looking into the future, but just to show you what our environment adapting movements have been and so that you can see that we cannot see the future, but we can very well adapt to it.

We will then talk a little bit about leverage and the two to two and a half ratio that the Chairman just mentioned. It's the kind of thing that we get many questions about and leverage and debt is the kind of thing that you don't know if it equals -- it is like wine, that one glass a day is okay, two bottles is too much. Or is it like love, that people don't get enough of, no matter how much they get?

We've seen both stories being told by people in the audience. So, we'll just tell you where we stand. We don't claim to be right. We don't claim there is a unique answer. We'll just tell you what's on our mind. By the way, we think we are just about right.

We'll spend some time, also, on telling you about financial efficiency. Efficiency is doing more with less; it's not the privilege of our operating business colleagues. We play our fairest part in that, and that is servicing the debt at the lowest possible cost, trying to shape and mold and sculpt the way that we manage our reasonably complicated and large balance sheet so that it withstands the worst of storms that we just went through.

We'll spend some time on that and then I'll make some concluding comments, basically elaborating a bit on what the Chairman just told you about the dividend increases, our confirmation for the 2010 guidance.

So, all we go. Let me ask you a question, what does macro stand for? Well, macro is not a preface of macroeconomics; it's actually the way the world is divided. There
are, in this audience, two kinds of people. Those that think that macro stands for most analysts are concerned about the recovery in our operations; that's game one.

And there are those that typically belong to Telefonica management that think that macro stands for our managers are confident in repeated outperformance. Which side do you want to stay on? It's up to you. You probably have already guessed where we personally stand.

Two years ago, we met in London. And we got the question very often, what kind of macro environment did you have in mind when you produced that very strong guidance? Well, here it is. This is not what we had in mind, this is what the market had in mind. We again, claim no particular insightfulness into the future.

The dark blue were the numbers that have already been recorded. The light blue was the expected evolution of nominal consumption in Telefonica countries in FX at the time -- forward FX in euros. So you can see that after the 2000 to 2003 mini-crisis, it was smooth sailing and expected to be smooth sailing, give or take a few millions here or there.

Well, we all know that the world changed a bit and this is how the latest numbers from the same consensus figures look like. It looks like rather than spending two years, we've spent three. Which means, basically, one year in terms of the total, assuming that the consensus numbers going forward prove to be right.

We do expect that going forward, the upward sloping line will prevail. We do expect that the worst may very well be behind us, but we do not expect to be able to get a free lunch. And certainly not all companies will make it through this storm, and not all of them will come out unscathed.

But within this Telefónica country environment, there are very different examples. Private consumption in Spain has taken a severe beating after all the many crises that have overlapped took a turn. Those are index numbers on nominal growth. You see that rather than pointing north, as we originally had expected, the market took a severe nose dive and it's now barely reaching the bottom.

We expect that to gently, but surely, pick up at a much smaller steep ascent than previously expected. Other markets, like the UK, show a similar picture. The green line, that is current expectations, tend to be pointing north, but at a later time, and that a smaller slope.

Places like Argentina, that previously were expected to be booming with growth for a decade, doubling basically from 2007 to 2012, have actually taken a much slower ride and despite its northward pointing growth, they are going to provide much smaller growth than originally anticipated.

But, not everything is negative. Not everything has turned wrong. Not all surprises have been of the negative side. Brazil entered last, stayed the shortest time and came out first of this recession. The Brazilians, as we all know by now, have actually gone back to the growth path and you see that the blue and the green lines basically overlap. And there is only very, small differences between what was
expected in London, at the London time, and what is expected today -- again, consensus numbers.

Other places, like Peru, have even improved. Peru is not one of our largest markets, that it shows that when you are scattered through 25 markets, you have a few that will always perform slightly better for internal reasons than the others.

Okay. So if that is the long term, what does the short term look like? What is the likelihood that over the next couple of quarters, things will improve or continue to deteriorate? Because that is what is going to make or break some of the recent measures.

What you see there is the GDP with two months' lag of Spain. From the summer, early autumn of 2008, it took a nose dive a vertical descent that has not stopped to any significant degree. So economists are not very good at predicting, especially the future, but we have developed, along with some other analysts, an economic sentiment indicator that tracks very well the ups and downs of the economic cycle with two or three months earlier warning.

There is a very clear, very distinct V-shaped recovery. It may break this time -- this relationship is not grounded on physics, but it certainly has served us very well to take alert on what the weather that was likely to look like a few months ahead of time. It is still in negative territory. But if that proves to be coherent, consistent with the past, we might be in for small surprises, or at least a stoppage in the deterioration.

Other numbers, not on GDP, but on consumption, which similarly, took a vertical nose dive last year in Spain, are actually pointing in the same direction. Consumer confidence is up strongly and distinctly and this clearly V-shaped recovery might still develop into a W. We're not claiming this is the only letter in the alphabet. There are now more letters in the alphabet than people in this audience, but it certainly looks like this second leg of the V, even if it's the start of a W, is quite clear. So, we do expect things to at least stop their deterioration.

A similar story can be told for the UK on similar indicators, after a similar vertical fall, you have small, but clear, signals of recovery, at least their sentiment turning around and consumer confidence picking up, again, not in a very strong fashion, but in a very clear and distinct way.

You may take these macro indicators on your stride, certainly they are not harbingers of the future, but correlations that have worked in the past tend to be weather predictors, better than economic or financial sentiment.

What is it that has surprised us the most? Well, it certainly has been how sensitive the wireless component of our businesses, has reacted to the economic cycle. If you had asked us, and most of you have, two years ago, what do you think the sensitivity of your businesses are going to be through an economic downturn? I would have probably predicted 0.5, 0.7 elasticities. We were wrong.
We were wrong. And this is the first time ever that this industry, and that includes us, has gone through a recession, especially as painful and as strong as this one, and we've all learned the hard way how sensitive parts of our businesses are.

This part is the one that has worked strongly on the downside and that's what's behind some of the weakness in our numbers, especially in places like Spain, that because the efficiency is very high, and the market share is also very high, it's more difficult to hide; there is very little escape.

But the upside from it is that if this has worked on the downside, there's no reason why it shouldn't work on the upside, assuming the upside takes place. And so, those that think that the bad years are here to stay may be in for a small surprise.

The one region that has shown a performance almost according to plan has been Latin America. This stylized clockwork tells you that the region has traveled the four quadrants of this thing. We are about, today, in the sweet spot of the upswing, but we do expect the region to go back to the averages between 2002, 2004 or 2005, 2007, so, clearly, into positive territory and an accelerating pace of growth.

There is a clear pace of recovery in places like Brazil, Colombia, Chile, even Peru, and the laggards within the region, in places like Mexico, Argentina or Venezuela, are also pointing to positive real growth. So not everything is shining, but most things are working and surprises have been few, far between and short lived.

Why is this? Well the reason is that, in our view, Latin America is a region that has exhibited very strong structural changes. It's not the business cycle that drives the region, it is the structural changes that have a lot to do with demographics, much more than with the ups and downs of the economic cycle.

40 million people have been taken out of poverty by economic growth, more 70 million jobs have been created over the last couple of years, almost 100 million new people live in cities and therefore act like city people, trying to work, trying to make money, trying to consume more. And 17 million people have been pulled out of illiteracy, thereby enabling them to acquire the basic skills for urban economic growth friendly life.

This has all created a new market worth 780 billion US dollar. This is roughly the equivalent -- this new market, is the equivalent of Spanish total consumption, give or take a few billion. So, this is how large this growth has been and it has added to an already very large and very nicely growing region. So, we're very happy that our growth engine continues to power ahead in a very significant fashion, and we do think that this structural change is here to stay and it has a long staying power, with some ups and downs, which are inevitable in any growth story, especially if it is as distinct and strong as this one.

In Brazil, which is the clearest power performer, this is best exemplified by the ascent of the middle class. Up until the crisis up until July of 2008, just to name a conventional mid-point, 17 million Brazilians have been pulled out of poverty, which means that over two-thirds of the adult population in Brazil are now living in the middle to upper-class; which means that they can work; they can consume and they can adapt.
The number of poor people -- people living in the lower classes, have been reduced by 13 million. And you know what? After the crisis started, this process has been moderated, but not reverted. It has continued to exert a significant pressure and 1 million new people are out of the lower classes and 1 million lower class people, have graduated into the upper ranks. This is what structural loan waves do to a country like Brazil. We have our reasons to believe that this is a very long and very powerful staying effect. Okay. So, so much for macro.

Let me spend a few minutes on leverage. Not that I'm going to tell you anything that you haven't heard of, but we frequently get the question that both shareholders and bondholders are at the opposite ends of the game. And I wanted to make the case that they both share a common bond. And the common bond that shares and bonds share is actually leverage. It's actually how much debt they have. And the idea is that this cloak of debt is -- will be invisible. If you have to worry about it, you have too much of it. If you don't have to worry about it, it's just fine. So the fact that very few of you ever write significantly about how much or how little that we should have it's a, for us, a sign that things are sort of working in the right direction.

We think we're well positioned, and you are going to see many comparisons of ourselves relative to some of our peers and colleagues in the industry. Because we think that we have been accorded, by the capital markets, a risk premium, which is undeserved. We are a much more stable company than the capital markets think, and we think we can support that claim.

Leverage ratio -- net financial debt, excluding this cash commitment, ended below two last year. And most of our guys -- most of our colleagues, are to the right of that thing. That is there to be used, not to be abused. And we think this is a proper usage of it. But its classic that debt is taken out of context without looking at the operating efficiencies and the cash flow abilities of the Company.

We are among the top efficient companies in the industry, with an almost 40% OIBDA margin and a large free cash flow over revenues margin. So, of course, when you want to know what the debt absorption capacity or the debt servicing capacity of a business is, you not only have to worry about the operating numbers, but how efficient that company is and therefore how much room there is for improvement, or how much cash flow business do we eventually generate because there not all families look alike.

Operating and financial efficiencies and cash flow orientation are not different worlds. They're all part of the same company, and they're all part of the same efficient measure that powers companies ahead. And that's what's behind our top of the class shareholder remuneration. You cannot have, over revenues, a large proportion of your revenues going to shareholders if you're not efficient, properly financed and modestly leveraged. So, it's all part of the same thing.

What use is it if you have a little debt, but you have very little profitability? Not much. In this case, we think we have a reasonable reunion of the three concepts that ends up representing a very large fraction of our sales and that we can devote a
very substantial fraction of our revenues to our shareholders who are, at the end, as
you’ve heard that many times, the owners of the Company.

So, this risk deduction thing is best exemplified by one thing. Do you think that
equally rated companies carry equal financial costs? But if you have seen that, if you
think that, think again. What we’ve chosen here is the highest outstanding coupon
of any debt instrument in the capital markets from ourselves and some of our
colleagues in the space in Europe. The highest outstanding coupon that we have is a
30-year bond issued a few years ago that carried a coupon of slightly below 6%,
[5.7%] actually. This is just to make the point.

If you can choose when to issue or whether to issue or not, you don’t have a
constrained strategy, we can do things like the GVT offer that we put on the table,
without 20, without thinking too much about whether it can be financed; it can. If
you have the extra room, you can always accommodate a little bit of something.
You don’t have to worry much about it. That’s what unconstrained strategy means.
It does not mean being at the edges, because anything that you do at the edge can
put you out of the edge and fall down. If you have extra room, you can walk that
part without anyone getting concerned about it.

It also supports your dividend flow. Your dividend flow has to be sensitive to credit
constraints, and by the way, it’s not dependent on repatriation or even from
Venezuela because it is predicated on the ability of the company to generate
enough cash flow and to get it, if needed, from all the multiple sources available.

If you are at the edge, you cannot do that. So our aim is to go unnoticed and be as
invisible as possible as financial managers. Do not constrain the strategy.
Companies that have their strategy constrained by finance end up making bad
decisions and do sustain your dividend flow, so that it is perceived as both credible
and ambitious and thereby, it is, we hope, accorded a lower risk premium.

But back to my written thing, some of our colleagues have been able or willing or
forced to issue at much higher rates. Those are not average rates; those are the
highest coupon outstanding. But you see that everyone has issued a very high rate
at some point. And like unhappy, old marriages, this is a hard thing to get out from.

If you have issued at 7% or 8%, that’s it. You can then swap back and forth, but
that’s another part of the story, but you are basically stuck for a long time with
whatever the cost happens to be. Why is it that similarly rated companies end up
having so big differences? Well, because you have to have the right rating and you
have to have the ability to issue or not issue, depending on the market conditions.
That, we think, is one of the distinctive factors of specific financial management at
Telefonica, but it’s not the only one.

We have to continue our bread and butter business, by pushing out our debt
maturities. This year, we have extended them from 5.9 to 6.6 years and we will
continue to do so, so that we try and continue to respect the rule that cash flow
folds early in maturities than maturities do. So, that there is no big wall coming our
way that could cause problems.
And we have continued to secure credit facilities so that when businesses need them, they are available. Fortunately, and the best use for them, is not to have to use them at any time, but it’s good to be able to draw on them if the case comes. We’ve been active in the capital markets for multiple billions in both the euro and the dollar market, and we will continue to access them on a selective and opportunistic basis as time goes by, so nothing much new on that front.

Let me spend now a few minutes on costs and financial management. The points I really want to make is the following. Most equity analysts think about how to value a company, like ours for instance, by taking some multiple or some operating financial metric, let’s say enterprise value over OIBDA or a similar thing, and then deduct from there the value of debt.

It is obvious that sometimes exchange rates do play a role and that when you translate into euros, say dollar or Brazilian real denominated flows, and if you expect that particular currency to depreciate relative to Europe, you end up with a lower EV, that’s mathematics. But they tend sometimes not to adjust the subtracting part of the equation, which is the debt.

What we tried to show there is how much debt is gone because of currency depreciations over the last two years, and the number is roughly 1.5 billion euros. So if exchange rates were to stay where they are today, over the next couple of years, we would have ended up saving 1.5 billion euros, which is, of course, something you have to either add back or deduct from -- add back to equity or deduct from EV so that you’ll do a fair job.

In the same way that currencies do tone down the euro value of our flows in non-euro currencies, it also caps down on our debt if we have debt denominated in that currency. And as you see the currency-debt composition of Telefonica is roughly two-thirds euro and then 17% Latin American currencies plus the US dollar that we use as a proxy when there is no local market to get financing from. Then we have small amounts in Czech -- in Czech koruna and sterling.

Do expect us to continue on that route. Because this is the balancing act that we try and play, so that when things have a negative impact on operations, they have a positive impact, not always compensating or offsetting, but on the opposite direction on the financial side, and vice versa. To the extent that exchange rates improved, as they have over the first half of this year, you will see a small deterioration in the financial side, which is fine because that is what it is there for, to make an even keel and continue sailing in a smooth way.

Popular myths about how much debt we can take and what kind of an impact it would make for FX changes to happen is something we’ve devoted some time to. At the end of June, the debt-to-OIBDA ratio was 2.00, so very, very nice, very easy to remember number. What would happen if some of the currencies of the places where we operate lose significant value? Let’s assume, for the sake of the argument, that they lose 25% of the value. How much would the debt ratio move according to this very large movement in the exchange rates?

Well, if the Latin American currencies plus the US dollar were to depreciate 25%, roughly, to the euro, the impact would be from 2 to 2.12, so 0.12. But you know that
currency is roughly 2.2 billion euros, or something of that nature. So it's not a small number, but it is not something that is going to take us apart. We can withstand, quite easily, a movement like that.

In other cases, like for instance, what would happen with the Czech koruna, which is a large cash flow producer for our group, were to depreciate, well, actually, the result is positive because we have slightly more debt than present value of those flows. This is academic. I mean, one cent is basically non-important.

The same thing can be said for sterling, where we have the best match because the market is so liquid and so efficient. We have there the best bid between the current value of our businesses -- when you discount the flows and the value of our liabilities. Again, we don't think this to be perfect, but this is just the point to be made that large movements in exchange rates make very little impact on our debt ratios. And therefore, we can sleep very soundly that even if the storm is very rough, we can still sleep nicely.

And if the Venezuelan bolivar would depreciate, as it probably eventually will, let's say 25%, that would have, because of the multiple combinations of lower cash when denominated into euros, a lower future value, of $0.07 or seven-tenths -- seven-hundredths of an OIBDA unit.

So, what's the point we're trying to close? It's not finance. It's not movements in exchange rates that are going to make it or break it. It is, of course, the engines, which is of course the operations and our growth is going to power ahead again.

Talking about risk -- it's easy to get distracted by one specific country going astray or some specific political issue going the wrong way for our interests. It's also easy not to contemplate the overall picture. Operating cash flow in the Latin America region, and I'm sure Jose Maria will make some points about that later on, has been powering ahead, growing better than 13% over the last couple of years.

This may not last into eternity, but with its ups and downs -- its more ups and downs and the trend line has been quite real established. This is the power of diversification and this is what well-managed companies aspire of doing; the stable cushioning the movement of your operating cash flow in otherwise very volatile regions.

And so, all in all, if we were to look at not how much debt we have, but how much it costs, we can always look at the averages. We expect that over the next three years, our cash cost of servicing debt, and I repeat the cash cost, is going to be about 6% which is not very different from what it has been over the last year and a half, two years.

But it is a combination of two different worlds. The European, or I should say, western world, where interest rates and costs of debt, even for a company of our size, are significant because of credit spreads -- roughly they represent 80% and they should cost something like five point -- 4.6%.

The largest part, however, this represents 20%, is the one coming from Latin America, where the cost of debt is still double-digit, 11% and coming down, but very
gently and very slowly. So those two different worlds are hard to put together, although they do sum up to the 6% or so that we still claim to be the guiding number, you know, it’s a soft indication, going forward.

But one point that I wanted to make is that Telefonica is uniquely positioned among its peer group because we have a much larger floating rate component than our peers. Roughly 50% of our debt is denominated in floating rates, so it should benefit from lower interest rates if there are lower interest rates and 50% is not; that number is more one-third, two-thirds in our peer group comparison.

So, of course, most of my colleagues in Europe would probably not care much about interest rates, because they’re going to have to pay fixed, no matter what interest rates are. This is, of course, a better way of going to sleep, but certainly it’s not the way of extracting the last drop of efficiency from financial management. But, do expect us to continue and manage the interest rate envelope in an active way going forward.

On taxes, just two points. One, is that we pay lots of taxes. 4.8% of our revenues worldwide go into paying property and income taxes in the different jurisdictions where we operate. So that’s fair; that’s what businesses should do. But we do operate in a high-tax environment; make no mistake. All the Latin American places are higher nominal corporate income tax places than Europe’s and that’s it. There is not much you can do to change it. You can adapt, you can engineer your best ways out of some, but that’s it.

We do pay taxes, we do not claim subsidies, and this is a message probably not for this audience; we do our homework. We don’t require external assistance. We are one of the great contributors to employment, tax collection and revenue generation in the countries where we operate. And we are more to the right than to the left of this thing, so if anything, we would have the aspiration of revenues growing faster than taxes. So that at the end of the day, our profitability ratios continue unabated, but we end up not paying an inordinate fraction of taxes to the governments of the countries where we operate in.

So, what should you expect from us going forward? Well, over the next three or four years, we think we can continue to keep the accrued tax rate slightly below nominal, meaning there is always some deduction we can claim. There’s always something, which can be summarized by saying, well, this 28% should not be exceeded in any significant fashion, and we should be able, and we think we will be able, to pay a lower cash tax than accrued tax. That is taxes are recognized, but not paid but that payment is deferred.

And when the payment gets deferred, which is the classic technique for many tax jurisdictions, you end up having to pay fewer taxes in cash than you recognize in your accounts. This is no magic, all the companies do the same. And those are the rough numbers we would like to share with you, so that you can come up with fair estimates, similar to ours, as to what does it mean to include taxes in the picture now that most of our tax shields have already been exhausted.

We have become a tax reference; a benchmark, of the relationship between ourselves and the tax authorities. The reason is that we are so large that we cannot
hide anywhere, and we'd rather have an open discussion and a fair statement about what we can and we cannot do and what our intentions are, so that things can be talked ahead of time whether than trying to hold our breath and hope for the best. That's not, we have found, a great way of managing tax authorities' relationships.

Okay. Now, just to sum up and to give you some more color about the EPS and the DPS targets that our Chairman has announced a couple of things. First is, as the Chairman mentioned, we still hold onto the stressed 2010 guidance. The reason we do so is because we still feel confident that, number one, our operating companies will continue to power ahead and EPS is not made up of only of operating numbers. So we are going to turn the screws as tight as possible on financial efficiency, tax collection and asset sales, and thus the missing part in most everyone's equation.

We do expect the contribution from asset sales, financial efficiency and tax movements for the year 2010. But it may not be needed. We are still five, six quarters away from the 2010 end of the year thing and I know that this is one of any analysts favourite talking points and we will not know until, let's say, February 2011 who was more right.

What we can do is what we have done. We commit to making those numbers. We comment that there is a fair contribution of, let's say, non-operating items that I can quantify probably EUR1 billion for 2010, but we would -- it would not be known until February of 2011 who was more right than not.

In the meantime, what we have decided is that because this is not an academic discussion, we could act as if the Company was going to meet it anyway. If we were to beat the 2.1 EPS target and we were to be consistent with the pay-out ratios that we have paid in the past, we would come up with a dividend payment which is the one the Chairman has announced; roughly 1.4 euros per share.

So, the debate about whether Telefonica meets its 2010 guidance is going to have to be displaced until February 2011, but it's going to be an academic discussion. Because for all shareholder-relevant issues, the dividend is going to be paid as if that number was to be hit all the same.

We've also thought that going forward, an absolute dividend per share number would work better than an absolute EPS or free cash flow number. There is nothing wrong with the other metrics, we just saw that an explicit dividend for, as the one we've just committed for 2012, shows the confidence of our managers and of our company and the support of our Board in getting exactly there.

And there are multiple ways to getting from where we are to where we will be. And I think that because we all pride ourselves in delivering on our commitments, then we can get the Company to produce enough results, so that that dividend is in no way out of reach or out of field.

So how are we going to be using the cash flow -- this 40 billion euros or so of free cash flow that we're going to generate? Well, most of it is going to go the shareholders' way as it always has. I just mentioned the numbers for DPS for 2010 and going on to 2012. We continue to keep leverage stable. We think we are in the comfort zone. We would rather be to the left than to the right of that range.
I always debate with my colleagues that as you don't want to be at the edge, you can be easily pushed out of the edge by any external forces. If you are in comfortable territory, you have room to adapt. If a devaluation, which is unexpected, does happen, if the business, for whatever reason, ends up underperforming or a regulatory change takes you by surprise, and ends up being detrimental to our businesses.

We think we have just about the right capital structure. We do not think we should get into more debt to buy back more shares. There is nothing wrong with it, but we feel comfortable with the capital ratios that we have and so the debate has to be centered about free cash flow utilization, much more than about the capital structure of the Company.

And on M&A -- well, the Chairman has spoken. We will continue to nurture our businesses. There are a couple of things, which are big tickets coming up in the next couple of years. Spectrum auctions are likely to be concentrated in time, and substantial in price. And we certainly think that if you don't have spectrum, you don't have a business. And eventually, although everything has to have a price, that has to be fair, we will probably have to bid.

In-market consolidation is one of everyone's favorite themes. It just started in summer in the UK and we have probably contributed to doing so again in Brazil with our recent offer for GVT. We would rather not name any names, but we do think that as markets mature, it is more likely than not that more opportunities will present themselves or that weaker players will have to think twice about their future.

The one thing that we have committed to do is to increase our China Unicom shareholding up to 10%; we are 1.5% or so away. And excess cash flow will be devoted, as it always has been, to the shareholders preferences. In this case, share buybacks will be used tactically. That means we will not have a program as we have had in the past, but there is nothing wrong with it. We continue to think this is the proper way or a proper way of returning value to shareholders.

By the way, the Board decided that it would be with treasury shares, not with new shares, that the China Unicom deal would be paid. So 40 million new shares are being bought in the market so that they can be transferred to the Chinese, when the transaction finally takes place.

Of the 40 billion euros cumulative free cash flow, you should expect, as usual, a modestly back-loaded thing, so it's not 10 billion per year, although the number is easy to remember, but we do feel confident that over the '09 to '12 period, those are the numbers that we are going to provide. As you know, most of them will try and secure the stability and the future of the business and the remainder will be used as they have always have been, to reward the shareholders.

That all have been said, I just want to thank you and congratulate you for having seen this district team. Now you know what C stands for. That C is not only the shape of the buildings that we are in, it's about confidence. It's about commitment. Thank you.