



Telefónica Q1 2008 Results Conference Call Transcript

14th May, 2008

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Introduction

María García-Legaz

Good afternoon, ladies and gentlemen, and welcome to Telefónica's conference call to discuss 2008 first quarter results. I am María García-Legaz, Head of Investor Relations. Before proceeding, let me mention that this document contains financial information that is reported under IFRS. The financial information contained in this document has been prepared under international financial reporting standards. This financial information is unaudited and therefore is subject to potential future modifications.

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We encourage you to review our publicly available disclosure documents filed with the relevant securities market regulators. If you don't have a copy of the relevant press release and the slides, please contact Telefónica's investor relations team in Madrid by dialing the following telephone number, +34-91-482-8700. Now let me turn the call over to our CFO, Mr. Santiago Fernández Valbuena, who will be leading this conference call.

Presentation

Q1 08 Results Highlights

Santiago Fernández Valbuena

Good afternoon, ladies and gentlemen, and thank you for attending Telefónica's 2008 January-March results conference call. During the Q&A session, you will have the opportunity to ask questions directly to the members of our Executive Committee, and so I have here today with me Julio Linares, our Chief Operating Officer; Guillermo Ansaldo, the head of Telefónica España; Jose María Alvarez-Pallete, Head of Telefónica Latinoamérica; and Matthew Key, Head of Telefónica Europe, who is connected by a conference call.

In the first quarter of 2008, we have delivered another set of strong results, and we are well on track to meet our full year guidance, both for the group and the three original business units.

Against the backdrop of a softer European economy, we continue to post strong organic growth rates, showing our distinctive profile in the industry. Our highly diversified portfolio and the integrated management of operations translates into a robust organic revenue growth rate, which ramps up to the bottom line, leading to an over 25% increase in earnings per share year-on-year.

Our balance sheet remains solid, allowing the transfer of the high cash generation to our shareholders. Shareholder remuneration continues to be our first priority, and our commitment is supported by the accelerated execution of the new share buyback program that we announced two months ago.

Robust growth profile from top to bottom

Santiago Fernández Valbuena

For the fifteenth quarter in a row and despite negative impacts from changes in consolidation and foreign exchange, we have posted simultaneous year-on-year growth in the key items across the P&L, as shown in slide number 4. In the first three months of the year, revenues rose 1.1%, to end just below EUR 13.9 billion. Organic sales growth stood at 7.0% year-on-year, well ahead of our peers, being the seventeenth consecutive quarter to print organic growth above 7%.

Operating income before D&A reached almost EUR 5.4 billion in the first quarter, showing a 5.3% annual increase, which turned into 8.2% growth rate in organic terms. Operating income achieved the EUR 3 billion mark in the three-month period, up 14% in nominal terms, or 17% organically. Operating cash flow topped EUR 4.1 billion, 9% above the 2007 first quarter figures, while in organic terms, it rose close to 12%.

Net income up by more than 20%

Santiago Fernández Valbuena

As in previous quarters, operating results are fully flowing into the group's net income, as you can see in slide number 5. January to March net income reached EUR

1.5 billion, 22% above last year's figure, and more than three percentage points above operating income growth. Earnings per share in the first quarter of '08 reached EUR 0.328, rising 26% year-on-year. If we exclude the impact from the purchase price allocation on EPS, EPS would have reached EUR 0.362.

Fast customer growth, capturing bundling potential*Santiago Fernández Valbuena*

On slide number 6, we show the outstanding customer growth recorded across businesses and regions.

Our commercial push will fully exploit growth potential; mainly in mobile and fixed broadband and to capture the value from the bundling opportunity allowed us to reach more than 233 million accesses by the end of March, or 13% higher than a year ago.

Strong customer growth led to more than 4.7 million net adds in Q1, 42% above last year's figures. Mobile net adds were very strong, representing over 80% of total net adds, leading to a total mobile access base of 172 million.

In the broadband field, growth retail connections grew 27% year-on-year, topping close to 11 million, with net adds in the quarter achieving the 550,000 mark.

We ended the quarter with almost 2 million pay TV accesses, or 64% more than in March '07, with our new offerings in Latinoamérica showing good results. I would like to stress that 36% of our total accesses are voice, broadband, and TV bundles, leading us to capture more value from our customers.

Distinctive top line performance*Santiago Fernández Valbuena*

Now moving to slide number 7, we show that the solid operating performance reflected the expansion of our customer base and higher usage for our networks, does fully flow into the revenue base.

Despite the depreciation of the U.S. dollar versus the Euro, this strong revenue growth reported by Telefónica Latinoamérica places it as the largest contributor to Group sales, with over 37% of Group revenue in the first quarter.

Our operations in the region, which have posted a close to 13% increase in sales in organic terms continue to drive our growth, explaining more than 60% of Telefónica Group organic revenue growth in Q1.

In addition, the sound top line expansion recorded both in Spain and the rest of Europe allow to deliver best in class organic growth rates, which reached 7% at the Group level.

From a business perspective, mobile and fixed broadband are the main growth engines with a 27% year-on-year organic increase in mobile broadband revenues and a 13.6% organic growth in fixed broadband and value-added services sales.

Retaining benchmark profitability*Santiago Fernández Valbuena*

Top line revenue is accompanied by sustained benchmark profitability levels, as you can see in slide number 8.

Consolidated operating income before D&A grew over 8% in organic terms, showing the higher efficiencies achieved. It continues to focus on cost controls and the materialization of tangible synergies through the integrated management model.

Again, Telefónica Latinoamérica continues to drive growth at the Group level, with a year-on-year organic increase in OIBDA close to 12%.

The Group's OIBDA margin reached 38.7% in Q1, 1.5 percentage points higher than the last year's figure due to the enhanced margin at Telefónica España and stable margins posted both in Telefónica Europe and Telefónica Latinoamérica despite strong commercial activity and the ongoing process to transform our businesses.

Telefónica España: Solid performance in Q1*Santiago Fernández Valbuena*

Let's turn now to slide number 9 for a review of our regional business units, starting with Telefónica España.

In a context of lower economic growth, our business performance in the first quarter remained solid, with revenue growth reaching 2.6% on a comparable basis. Both wireless and wireline show sound growth rates, with revenues up 2.7% and 2.0%, respectively, on a comparable basis, sustaining their superior performance.

Higher broadband revenues and healthy trends in traditional voice services back an above-average revenue performance in wireline, while the continuous boost in data, rising in excess of 16% year-on-year, led to a 3.4% customer revenue growth in wireless. Roaming-in revenues performance was outstanding, despite lower prices, showing the benefits of the integrated management of wholesale roaming agreements at the group level.

Underlying OIBDA growth, excluding real estate capital gains and the recovery of bad debts, reached 2.8%, driven by a robust 4% increase in wireline on lower IT and personnel costs, and a 1.3% year-on-year increase in wireless. OIBDA margin remains flat versus Q1 '07 at Telefónica España on a like-for-like basis at 48.8%.

Margin in wireline advanced 0.9 percentage points to a comparable 47.9%, while in wireless profitability remains healthy, with a 43.4% underlying margin in a very competitive market.

Wireline business: Expanding access base by upselling and getting new customers*Santiago Fernández Valbuena*

Slide number 10 provides more color on the trends we are seeing in wireline.

The Spanish traditional access market continues to record good growth rates, close to 2% year-on-year despite the shortfalls in the construction sector.

Competitors' activity in unbundling was similar to previous quarters; however, there was a change in the unbundlers' approach driven by the introduction of the new loop type, named naked shared loop.

Even though this new loop was approved by the regulator at the end of 2006, it has not been until the first quarter of '08 that unbundlers have started using it as the new direct take-up or as migrations from shared loops. And naked shared loops, included as fully unbundled loops, account already for 57% of the 135,000 full ULL net adds, whereas shared loops failed 21,000 in the quarter, mainly driven by migration to naked shared loops.

Our proactive commercial approach, with a free connection fee campaign from late February to early March, has allowed us to capture part of the market growth, limiting the line loss in the quarter to 77,000, compared with the 135,000 lines captured by unbundlers.

Year-on-year, fixed lines were down 0.6%, showing an outstanding performance versus our European peers.

In broadband, the market continues to decelerate, though trends have improved versus previous quarters, with lower year-on-year declines in net adds. In this context, our retail broadband net adds reached 222,000, with no material changes versus the previous quarters, despite the seasonality of the business. We continue to enlarge our commercial portfolio, launching new offers to capital market segments. Let me highlight that our broadband market share remain stable at close to 57%.

In pay TV, the growth is ramping up versus previous quarters. Net adds in Q1 were pretty much in line with the last quarter '07 figures, despite business seasonality, while compared with the first quarter of '07, net adds were up 21%, with more than 550,000 customers, Imagenio's market share is now over 13%.

In summary, solid operating metrics, despite economic slowdown, consolidating our leadership in the market while capturing more value from our customers, are reflected by the 2.4% year-on-year increase in wireline ARPU.

Wireless business: Steady customer growth and continued push in data usage

Santiago Fernández Valbuena

Let's go now to slide 11, where I will spotlight the performance of our wireless operations in Spain.

In a more mature market where new MVNOS are emerging, our commercial efforts are focused on higher value customers. In the last 12 months, we have increased our total customers by 5.5% year-on-year to over 23 million on the back of a very healthy performance in the contract segment, which already represents over 60% of our base. In Q1, contract net adds were 305,000, leveraging our benchmark churn rate, which came down year-on-year to 1.1%.

Regarding usage, both MOUs and ARPUs declined at similar paces than in the fourth quarter of '07. Incoming ARPU was impacted by lower mobile termination rates, while outgoing ARPU was 2.1% down year-on-year, in line with the performance posted in the previous quarter. Lower voice usage was partly offset by strong data ARPU growth.

Outgoing minutes of use showed a weaker performance, reflecting lower traffic promotions versus the first quarter of '07 and lower usage by our customers. We continue to monitor usage patterns very closely, having already launched new initiatives to foster consumption.

Outgoing data ARPU is performing very well, up 11% year-on-year. The good performance in connectivity is accompanied by a strong push in content SMS, driving a 17% increase in total data revenues.

3G penetration continues to expand to 19% of our total base, excluding M2M. At the end of March, we had 4.2 million 3G devices, or 2.8 times more than we had a year ago.

Telefónica Latinoamérica: Solid results in a high growth region

Santiago Fernández Valbuena

Let's now continue with a review for Latin American properties in slide number 12. During the first quarter of '08, we further accelerated our commercial activity in leveraging the strong macroeconomic scenario in the region, with both Brazil and Peru having already become investment grade in 2008.

Our total access base grew 18% year-on-year, boosted by the strong increase of wireless, broadband, and pay TV, which reinforced the positive evolution in fixed-line accesses.

Telefónica Latinoamérica revenues were up 10% year-on-year in nominal terms, or 13% in organic terms, with very sound growth rates both in mobile, Internet, and TV revenues. By countries, Brazil, Mexico, and Venezuela contributed with more than two percentage points each to revenue growth, highlighting the increasing weight of our wireless business in the region. OIBDA increased 10% from last year's figure in Euro terms, or 12% in organic terms, on the back of very good performance in Venezuela and Mexico. As a result and despite a strong commercial push, we posted a healthy margin at 36.4%, flat versus the first quarter of '07. Margin expansion in the mobile business has offset the impact of a different revenue mix in wireline.

We also recorded a strong operating cash flow generation with positive contribution from all our operations, including Mexico.

We are fully on track to achieve our 2008 guidance for Telefónica Latinoamérica, with year-on-year growth rates accelerating in the coming quarters, both in revenues and OIBDA.

Wireless Business: Fast customer growth & sound outgoing ARPU

Santiago Fernández Valbuena

For an overview of our Latin American wireless businesses, please turn to slide number 13.

Net adds in Q1 reached 3.1 million, up 37% year-on-year, on the back of robust gross adds in most markets and churn containment in the region.

Our total customer base achieved the 103 million mark, rising 23% year-on-year, with double digit growth rates in every single market and a strong performance in Brazil, Mexico, and Peru.

We continue to further expand the GSM base, which already accounts for close to 70% of the total versus 43% a year ago, driving down subscriber acquisition costs.

I'd like to stress the ARPU production in constant terms, as it remained flat year-on-year despite the sharp growth in customers and lower mobile termination rates. This performance was driven by the healthy 4.5% year-on-year increase in constant currency on outgoing ARPU.

Let me mention that we did not notice any material impact in ARPUs from the Easter effect across the region. New commercial offerings are stimulating voice usage, while data services are increasing their contribution to revenue, posting a 40% year-on-year growth though they just represent 13% of service revenues, showing a significant growth potential.

We are seeing a good evolution in 3G data propositions based on CDMA/EVDO in Brazil and Venezuela, having already launched 3G services in Argentina, Chile and Uruguay, with other countries to come in the coming months.

Wireline Business: Further advance in business transformation

Santiago Fernández Valbuena

Moving now to the wireline businesses in slide number 14, we continue to advance in the transformation of the business with strong net adds, both in broadband and Pay TV, in the first quarter.

We are fostering broadband and Pay TV growth promoting bundles, which not only allow to increase ARPU but are a good retention tool. Bundles already represent 55% of our fixed accesses, or 12 percentage points more than in March '07.

At the same time, we continue to strengthen our competitive position, enhancing our commercial portfolio with higher speeds, as we have recently done in Brazil and Chile, and expanding network coverage. In Colombia, the deployment of the network in new areas like Bogota is already producing good results with a significant ramp in broadband gross adds in March versus February.

In pay TV, we are also getting momentum with total net adds in Q1 doubling the figure of Q1 '07, for having incorporated TVA in Brazil, a country where our pay TV offer is starting to take off leveraging Globo's content.

As a result, we are seeing a significant change in the revenue mix of our wireline operations, with an increased contribution of Internet and TV revenues to total

revenues that ranged between the two percentage points increase in Argentina to seven percentage points in Colombia. As such, the operators are having less exposure to regulated revenues.

I'd like to stress that the increasing adoption of double and triple-play offers is driving total wireline revenue per access up 1.9% year-on-year in constant terms.

Sum-up: Capturing growth opportunities in our markets*Santiago Fernández Valbuena*

To sum up, in Latinoamérica, we are capturing the strong growth potential of the region.

The solid top line performance across our markets shows the strong growth rates recorded in broadband, TV, and wireless revenues.

Broadband and TV services grew about 20% in all markets, with Colombia posting a 120% increase year-on-year.

Mobile service revenue recorded double-digit growth rates among most markets, driven by a good performance in outgoing service revenues, showing the combination of customer and ARPU expansion, which outpaced mobile termination rate cuts in some countries. Let me highlight the robust year-on-year increases posted in Venezuela, Peru, Chile and Colombia.

OIBDA growth was also strong across the region on the back of significant advances in our wireless businesses, which offset the pressure of wireline operations' OIBDA.

Before finishing with our Latam operations, let me quickly review our two major mobile operations.

In Brazil, Vivo maintains its momentum, combining a strong customer growth with higher outgoing ARPUs and solid margins, despite running 3 different networks. The 18% year-on-year growth in customers was driven by the boost in gross adds and churn control.

In Mexico, we continue to reinforce our competitive position with a 42% increase in our customer base year-on-year to 13.3 million customers, reaching a 19% market share. The better quality of the customers we are getting is reflected in the further reduction of our churn rate and a 13% increase in outgoing ARPU in local currency. As a result, outgoing service revenue grew 64% year-on-year, while economies of scale led to a 19% margin in the first quarter of '08, 12 percentage points more than a year ago. And we have started the year with a strong improvement in operating cash flow, which reached EUR 57 million in the first quarter of '08.

Telefónica Europe: Building scale across markets*Santiago Fernández Valbuena*

Moving now to slide 16, Telefónica Europe delivered a strong start of the year. The exit of Airwave from the Group last April and the weakening of the sterling versus the Euro impacted revenue and OIBDA growth in the first quarter on a reported

basis, but like for like, both revenue and OIBDA growth was towards the top end of guidance. Part of this success has been down to anticipating customer needs and delivering attractive propositions in both fixed and mobile.

Across the group, we saw good net additions on contract, an 80% increase compared with last year, reflecting the focus on quality growth.

O2 UK continues to outperform the market with revenue growth of 12.6% in local currency, while margin was 24.1%, in line with last year, with a focus on acquisition and retention at the start of the year.

In prepay, the focus is on revenue rather than customer numbers, and prepay ARPU growth of 7.5% year-on-year in the quarter demonstrates the success we have had in this segment.

In Germany, there are encouraging signs, with positive revenue growth for the first time in four quarters, and an improved trend in mobile service revenue growth, along with strong net adds, especially in contract.

In the Czech Republic, line loss was reduced year-on-year, reflecting a growth of 1.6% was impacted by timings of revenues of ICT contracts, which will come later in the year. Slovakia diluted margin by three points in the quarter, although excluding bad debt the underlying dilution was two points, in line with 2007. Ireland contract net adds were one-third higher than last year, while revenue and OIBDA declined to the lower prepay base. The new prepay offers launched at the start of the year have helped the business regain momentum in that market.

O2 UK: Continued momentum, managing growth/margin

Santiago Fernández Valbuena

Turning to slide 17, we show that O2 UK recorded another strong quarter of contract net adds on the back of iPhone and traditional handset connections and the refresh of the tariff portfolio. Mobile service revenue was driven by continued customer and strong ARPU growth, in particular the record net adds on contract in Q4 of last year.

Investment in the customer proposition continues to deliver benefits with contract churn in the quarter down to 1.5%. Tariffs such as Simplicity offer value and flexibility and are an attractive option in the current economic climate.

In broadband, we launched our mobile proposition in April, while our DSL service is delivering high quality and satisfaction adding 61,000 customers in the quarter with limited marketing and population coverage of only 57%. The service has now gone nationwide as of May 1st, along with a DSL service for business.

O2 Germany: First signs of turnaround

Santiago Fernández Valbuena

In Germany, we are pleased that some of the actions we put in place last year are starting to show some encouraging signs.

The first quarter saw strong net adds with both O2 and partners delivering a good performance. Distribution channels were also expanded, with the DM drugstore chain and Fonic adding almost 1,000 new outlets and a new contract with Debitel.

We now have strong propositions in all segments with mobile fixed flat rates for voice calls and Internet access via DSL at the top end, and our Fonic brand at the lower end, with a range of Genion and bundled tariffs, plus LOOP prepay tariffs in between. We also have our successful partnership with Tchibo and Hansenet.

The trend in mobile service revenue improved from the fourth quarter, with total revenue growing 1.5%. Renewed contracts with major ISPs in the market, such as Freenet and United Internet, will help to drive growth in our ULL business, which added 174,000 DSL lines in the quarter.

OIBDA growth of just under 1% reflected the reinvestment of the savings from the restructuring of last year coming through, along with the breakeven in the ULL business, which will deliver a positive contribution to OIBDA for the first time this year. We will continue to invest in profitable growth and grow our share in a competitive market.

De-leverage continuing with a comfortable liquidity situation

Santiago Fernández Valbuena

Turning now to our financial profile on slide number 19, we show that net financial debt has moved from 2.3 times OIBDA to 2.1 times during the quarter. This has been the result of close to EUR 900 million debt reduction, coupled with OIBDA ongoing increase. When adding our commitments to the financial debt, the ratio stands at 2.25, just at the midpoint of the range set in the last investors' conference. Our progress in this field deserves a positive outlook by the Fitch rating agency last February.

Given the current situation of the current market, it is worthwhile to note that Telefónica does not face any funding needs, as maturities in 2008 are lower than the cash available to the company, and our average debt life exceeds six years. On top of that, we have over EUR 9 million of undrawn credit lines, more than 50% of which are long term.

Interest rate movements in the quarter pushed up our costs. The present value of our commitments rose due to decreasing long term rates used for discounting them, adding 24 basis points to our annualised effective interest rate. At the same time, we took advantage of this movement by hedging EUR 2.8 million debt through swaps and cap spreads. We keep intact our 6% target for the average debt cost in 2008.

Finally, our liability mix benefited from the pound depreciation in the quarter, more than offsetting the Czech koruna strength, leading to nearly EUR 400 million reduction in the size of our debt when measured in Euros.

Returning value to shareholders*Santiago Fernández Valbuena*

Now turning to slide 20, we show that our strong results and the solid free cash flow generation allow us to deliver on our first priority for the use of free cash flow, Telefónica shareholders remuneration.

In addition to the increased dividend per share for 2008 and given the visibility of our cash flow generation ability and the fact that our debt ratios are on track, we have decided to bring the end of the current share buyback program, announced at the end of February, forward to the end of 2008.

As a result, the 100-million-shares program will be completed within this year.

And we are progressing fast on the execution of the program. As of today, we have already completed 35.7% of the new share buyback program.

Overall, combining dividends and buybacks, our 2008 cash yield is around 6.5%, which we think represents a very attractive remuneration package.

Conclusions*Santiago Fernández Valbuena*

To sum up:

In the first quarter of the year, we have posted a strong set of results, and we are well on track to deliver 2008 guidance across regional business and at the Group level, leveraging the abilities of the highly diversified growth platform.

Our superior organic growth profile continues to differentiate ourselves from our peers, with high single-digit growth rates both in revenues and OIBDA, and a double-digit year-on-year increase in operating income reflecting our continuous focus to enhance efficiency.

In Latin América, solid growth prospects, both in mobile and broadband, should lead to a ramp up in revenue and OIBDA growth rates in constant euros in the coming quarter on the back of a sound economic scenario in the region.

In Europe, where we are facing an economic slowdown, in the first quarter of the year we have seen limited evidence of significant impacts in our business, though we will continue to monitor them very closely.

We maintain a robust financial position with leverage ratios in line with our targets, while the strong free cash flow generation is allowing us to accelerate the execution of our share buyback program, highlighting our commitment to increase shareholders' returns as the first priority for the use of cash.

Thank you very much, ladies and gentlemen, and now we are ready to take your questions.

Q&A session

Damien Maltarp - Cazenove

Thanks very much. The company is Cazenove. Two questions, I guess just looking at the Spanish, also the trends in Spain. Minutes of use in mobile down 6% and even adjusting for the change of accounting, it looks like your domestic fixed traffic revenue trends are deteriorating a bit. Can you just expand a bit on whether you think you are seeing any impact from an economic slowdown, specifically in Spain?, or whether you have changed your internal outlook as to what impact a slowing economy might have on your internal forecasts?

And the second question on Latam. Is there any way you can just give us a guide for how much of your mobile revenues in Latam you generated from incoming as opposed to outgoing? Thanks very much.

Guillermo Ansaldo - Telefónica

This is Guillermo Ansaldo answering to your question about the minutes of use evolution in Spain. You've seen an evolution here in Winter there's a huge loss as a decrease of 5.6% in the first quarter to the similar quarter in last year. The trends are similar to the ones that we explained last year and basically we see three types of things. First, the nature of the promotions that we launched in the Christmas campaign is different this year. The last Christmas campaign was much more focused on retention actions so the minutes that we are giving away are for clients that have been staying for a long time with Telefónica, basically is one week of free of net traffic for each year of permanence with us. So basically it's for clients that have been long for us and you have to stay to capture the benefits of the promotions. While in the Christmas campaign of 2006 basically we were sending minutes away for all the customer base.

And second there's another issue that put some noise in the comparisons is that as long as we are growing in machine to machine type of lines and data only SIMs, obviously the number of lines without traffic is growing. So we think that these two effects - the different nature of promotion and the growing number of machine-to-machine and data-only SIMs explains like two-thirds of the variation. The other third can be explained for other explanations. They may be seasonality or some term decrease in the consumption of the client base.

José María Alvarez-Pallete - Telefónica

Hi, good afternoon. Taking your second question about incoming percentage of total revenues, the figure is 25.6% in terms of the incoming revenues, out of which 16.5% is the cost and as a result is a net effect of roughly 9.2% of service revenues.

Damien Maltarp - Cazenove

Sorry, did you say 9.2%? I didn't quite hear the number.

José María Alvarez-Pallete - Telefónica

Yes. The answer is 25.6% in terms of the income out of those, 16.5% is the cost of that. So net is 9.1% to 9.2%

- Damien Maltarp>: Okay, thanks very much.

Terrence Sinclair - Citi

Good afternoon, it's Terry Sinclair from Citi. A couple of questions. First of all, on Spain, given that there is some kind of slowdown that you're seeing in your nevertheless good growth rate, one, do you agree that there is a slowdown in the growth rate? Would you expect to outperform the economy as the economy slows, and underperform it as the economy recovers?

Secondly, if we look at the cash conversion of your earnings, is it correct to say there was a significant working capital outflow? And could you tell us in which geography that has been incurred? And could you just explain something about the interest timing, since cash interest out significantly exceeded interest in income statement? Thank you.

Guillermo Ansaldo - Telefónica

Terence, this is Guillermo Ansaldo. Regarding the question on Spain, obviously the guidance that we provided this year is lower in terms of growth when you compare that to the actual growth we had last year, so we are acknowledging that the growth will be lower. The first quarter we have a decent and a solid growth, which is in line with the guidance, so we do believe we can outperform the economy and we are doing our best to do so. So we have to have very close monitoring of the situation, and we believe that we can, of course we can meet the guidance and we will again provide the very solid performance vis-à-vis what's going on in the market.

Santiago Fernández Valbuena - Telefónica

Yes, Terence, this is Santiago. Let me take your second double question on the cash conversion and the interest. The main reason for the difference between accrued and cash interest in Q1 comes from the fact that we have annual coupons, 400 million of which came due and were paid out in Q1. Of course that is only paid once per year, and so that effect will wash out in the remainder of 2008. And then you may have missed that point last year because we also issued the significant amount of bonds, which are becoming due for payment. With interest are become due for payment in early 2008. So that's the bulk of the explanation of the difference between interest and cash interest cost.

On the other part of your cash conversion question has a lot to do, not with geographies, but with the way CapEx accrued versus CapEx paid is behaving. Roughly half of the working capital consumption in Q1 comes from a net of this payment relative to accrued of almost 600 million euros, part of which is reflecting the exact inverse profile in Q3 and partially Q4 of 2007. This is also an effect that you may have seen in 2007 and we expect that the bulk, the majority of that number, will again be washed out as the year progresses as a difference between accrued and cash CapEx converges throughout the year.

Terrence Sinclair - Citi

Santiago, may I just press you on that? The CapEx term I understand because you write checks in January for commitments made at the end of the year. But there was a working capital outflow as well, wasn't there? Where which comes forward in the difference between EBITDA and the cash level on operations?

Santiago Fernández Valbuena - Telefónica

Well certainly. There's a reasonably long list of minor issues, which when taken together are contributing significantly to that working capital consumption. We have had something like the ILP, which is a long-term cash incentive paid to a large number of employees which became due and was paid out in Q1. There were one-off payments down in Brazil, down in Germany, which are due when they are due, and they are paid out, but they are not recurring and therefore will not happen again next year. There is a reasonably long list of them. And I'll be more than glad to go in detail with you over those.

Terrence Sinclair - Citi

Thank you very much indeed.

Christian Kern - Lehman Brothers

Hi, there. It's Christian Kern from Lehman Brothers. And two or three questions, please. The first one would be on the domestic mobile competition front. Orange Spain has just announced a fiat rate today, which includes mobile roaming. We've seen Vodafone moving in their domestic UK market moving towards fiat rate mobile and Internet. So just was wondering what your views are, how the Spanish competition is going to shape up?

Second question would be with regards O2 Germany, what makes you so confident in the turnaround and where do you stand on the network rollout? And finally, Santiago, if I may ask you on your views as you are accelerating the share buyback program the question is obviously when are you going to think about shareholders returns for '09? Is there anything we should put on the agenda for the second half? Thank you.

Guillermo Ansaldo - Telefónica

Regarding your question in Spain regarding the mobile fiat rates, of course you know in the mobile market there are some characteristics that have to be taken into account. First, in the case of Spain, in the case of Orange, for example and Vodafone, we're speaking about semi-flat rates, meaning it's a package of minutes regardless of where we go commercially, but that is a package of minutes for a fixed price. It's different from the flat rates we have in there, for example, in the Duos in the fixed traffic business. Some of these tariffs, like the one in Vodafone is targeted to higher ARPU type of clients, so it has a very specific and very limited impact. In the case of Orange, it's a reposition of previous tariffs and also compares with the tariffs that we have, which is more expensive in terms of value. So our reaction will be targeted. We do have plans, we are going to launch more plans, but always targeted to

certain type of clients, of certain type of traffics. We do not want to enter into any kind of price wars. We have a strategy of providing more value and a targeted response. So we do have some plans, as you know, like the 30 plan, 60 over 90 where basically you pay a fixed amount and you get a very good price, and we will continue working on that arena, but always with targeted responses and always without entering in price wars.

Santiago Fernández Valbuena – Telefónica

In terms of the share buyback and the other shareholder compensation, well, typically this is around the end of the year that we start thinking about what the next year's policy should be, if there are any significant changes. So take that as just an indication of what has happened in the past. We don't commit to revising that every year. We think we have a reasonably attractive package in place. We just brought the share buyback program towards the end of this year, and we don't have any specific plans going on but it is likely that before the end of the year we will do another round of thinking about this.

Matthew Key – Telefónica

Should I pick up the German question, Santiago? Christian, I guess I would point to two or three things. The first thing is, if you look at our performance in the market over the last three quarters, actually we've done net adds of half a million for each of the last three quarters. So you can see clearly what we're doing in the marketplace is working, and I think that's from a tariff perspective. Fonic is clearly going very well' over 300,000 customers now. But also distribution perspective in terms of signing new partners and we just signed a deal with Debitel as far as expanding our distribution there. You used the word turnaround, I would use green shoot Germany and I think I'm very pleased that in the first quarter we've gone revenue positive for the first quarter in the last four, but it is green shoots at this moment. As far as the network is concerned, clearly we are rolling out now after the Huawei deal that we signed, particularly in 3G and HSDPA so you'll see from the German perspective an acceleration of our roll out in Germany over the next three quarters at the back end of this year.

Christian Kern – Lehman Brothers

That's very kind, can I ask you one more on the domestic environment? Just on the heading back lower bad debt provision. This sounds counterintuitive in an economy which is slowing down, just was wondering what your view on this is, the 25 million euros you added back on your OIBDA.

Guillermo Ansaldo – Telefónica

Well, in the case of Spain, we have an extra and not ordinary effect that we saved. We sold the portfolio of non-performing bills so that's why we have an external OIBDA impact and that's why the provision is negative. And that's a non-regular, non-normal impact so that's why in the information we share in the transparencies we were trying to show the numbers of the growth without this impact, also without the real estate and also without other effects, but this is something that was a one shot event. It's the same a typical sale of a bad loan portfolio, if you want

to put it that way. And that's why we have a reversion in the bad debt provision because the price was better than the provision we have already in the balance sheet now.

Javier Marín – Cheuvreux

Hi, I am Javier Marín from Cheuvreux Bank. Question on non-organic expansion. I was wondering whether you can share any of your views of doing business spending your money on two specific markets namely broadband in Germany and maybe the Pay TV in Spain and names that comes to my mind for instance in Germany. And also regarding Brazil the first steps on the creation of a national champion, has that increased your visibility on any potential corporate structure of your different businesses there? Thank you.

Santiago Fernández Valbuena - Telefónica

Well Javier, let me take the M&A question first. In Germany we continue to monitor the situation; we have not seen anything that makes us change our mind and it's already in May. So I think it's not likely that we will change our mind any time soon. Our chairman has specifically excluded some of our other possibilities just a few Weeks ago but we continue to monitor very closely Brazil, Mexico and Germany as our focused ones but, as you already know, we have had limited progress in all three of those fronts. And we continue, all I can tell you, that we continue to be very close to anything that is happening in those markets but we have nothing to report on that part. And on our Pay TV we will not consider that as an excursion into other territories. You know we are very interested in developing our triple play platforms and so certainly if anything that can accelerate or improve our position in that particular segment of the market will likely come under review, but there is nothing to report either on this front as of today.

Javier Marín - Cheuvreux

Okay, thank you very much.

Will Milner – Arete Research

Thanks this is Will Milner from Arete Research. Couple of questions, firstly on Spain and mobile broadband, I just wonder what is your strategy with respect to mobile broadband and specifically how it's priced in Spain. Overall prices seem fairly high, particularly in relation to other European markets where we've seen them fall pretty sharply. I just wonder if you will be the first to lower prices to drive take up or whether you are going to take a back seat and wait for others to lower those prices first.

Second question on Latin America, obviously Colombia has taken a fairly huge termination rate hit this year and obviously that's coming from America Moviles numbers as well. I wonder if you could just talk about which of the other businesses are exposed to termination rate cuts over the next couple of years that we should be aware of. Thanks.

Guillermo Ansaldo - Telefónica

On the mobile broadband, first point, we've got it under review, we do see the service as a complementary service to the fixed broadband. And we have analyzed this very carefully and we are tracking the results and we are very satisfied to see that literally two-thirds of the additions are complementary and another sixth, so half of the remaining third is new market, meaning clients that are not, that we are not considering fixed broadband and they're adding up to the mobile broadband. Regarding pricing we have two types of tariffs. We have daily tariffs that are for the people that use mobile broadband on an occasional basis and we also have the traditional flat tariff, monthly tariff for people that have more intense usage. As long as users increase we will see as we've seen in fixed broadband, better pricing and better offers, but will be linked to more usage and more value added.

José María Alvarez-Pallete - Telefónica

With regards to your question about the termination rate exposure that we may have globally, after the Columbian example that you mentioned. First on the Columbian example let me tell you that the impact is basically neutral for us in terms of the structure of our revenues and cost in our mobile operation in Columbia. But globally speaking, our exposure to the incoming exposure that we have in terms of termination rate is less and less every year. I've been already saying this, in this call, that the net exposure this year is about 9% and is becoming less and less relevant as the outcome in part of our revenues increasing significantly year-on-year. So whatever the trend is in the region, which is again showing I would say, year after year, a more reduced exposure to the termination rate effect.

Will Milner – Arete Research

Okay. Can I just, I mean specifically, which markets do you know about where you have termination rate cuts coming through and do you see a risk for example with Vivo that rates might be cut earlier than 2010?

José María Alvarez-Pallete - Telefónica

For the time being we don't have, or we are not aware of having any major cuts in mind, but you might imagine, we will monitor that. But what I can tell you is that the trend of increasing dependence keeps going on year in year 2008 so the net effect at the end of the year is going to be even lower than the one that we have right now.

Laurent Sierra – Redburn

Hi. It's Laurent Sierra from Redburn in London. A couple of questions. The first one on associates. It seems that the lower profit was due to Portugal Telecom. Can you give us any update on Zone or so as you own 5% of the company?

My other question was on other companies and eliminations. This is an accounting question because it seems that you have eliminated up to 200 million euros compared to last year's reporting and the results of the contribution from Atento, which was around 300 million euros. So can you give me a bit more visibility on

that? And I would like to know also that you have apparently changed your reporting on the number of fixed lines in Spain and also in Latin America. What was the change in the reporting? It seems that in Latin America you have added the fixed wireless, but that's not occurring in Spain. Can you give me more clarity on that? Thanks.

Santiago Fernández Valbuena - Telefónica

Yes, on the question about the contribution of our associates. You are right in pointing out that the main difference between this year and last year is the lower contribution, but still positive of Portugal Telecom. You know that Portugal Telecom went last year through a very dynamic change in its perimeter. And so the total contribution that Portugal Telecom had to us has come down quite significantly from 33 million euros, to slightly above 7 million euros. And that explains the vast majority of the total. The rest is the only inclusion in the list of associates that is with us this year. This is mostly in Telco, our investment vehicle in Italy with our Italian partners, which showed a very small negative contribution as a consequence of the interest costs borne by the vehicle. But other than that, there is not much more to report. If you look at the caption, changes in other companies and eliminations, you will see that Endemol, which was last year with us, is no longer part of the company. And that explains probably, although I don't have all the numbers in my head, the vast majority of the changes, Endemol being present in '07 and not being present in '08. By the way you mentioned the percentage on PT, is close to 10%, almost 10%, not 5%, which I think is the number that you mentioned. We continue to hold the same percentage that we did.

José María Álvarez-Pallete - Telefónica

In terms of your question about the changing criteria in the fixed line accounting or in terms of the reporting, in Latin America we are including the fixed wireless units right now, this at year in terms of fixed line accesses, rather than in the previous year that were included in the wireless activity. That's for Latin America.

Guillermo Ansaldo - Telefónica

Regarding Spain, the only change that we made in the way we presented the numbers in accesses is that we have included Iberbanda. Iberbanda is a small company where we have 51% control and basically we have restated all the numbers from December 2006. So the number is in the tables in our report are already all the numbers we have given. To give you a flavor of the numbers, which are very small, in the fixed lines is only 23,000 and in broadband roughly 60,000. So the only change is very small.

James Ratzert - New Street Research

Yes. It's James Ratzert from New Street Research. I have two questions please. The first one was just regarding your Mexican business. It seems like you have adopted a slowdown in competitive activity in the first quarter. Your average price per minute seemed to rise for the first quarter in three years. And as a result, your revenue market share in Mexico seems to have stabilized. I was wondering if you could

explain your strategy here in a bit more detail. Is this a distinct decision you've taken? Do you expect to get more aggressive on pricing in the upcoming quarters?

And the second question is regarding O2 UK. The rate of growth in this business continues to be pretty phenomenal. Your service revenue growth accelerated to the highest level in five quarters. Is there anything on the horizon that means you can't continue that rate of growth over the the year? Thank you very much.

José María Alvarez-Pallete – Telefónica

Well, thanks for your question. Taking the Mexican market first, we have basically in this first quarter we have slightly changed one of the promotions that we were making in terms of not adding so many free minutes. But, you could expect that we will keep pursuing the same strategy of maintaining or even lowering the ARPM in terms of because for us the elasticity has proved to be very positive. And we think that that's the right way to approach that market, Which is by the way, growing very significantly. Our ARPU has been increasing in the first quarter of this year in spite of the seasonal effect of Easter. We have been able to increase ARPU and we have been also having, I would say a significant and sound share of net adds. So, for us the Mexico market has proven to be very sound this first quarter. Take also into consideration that we have a different criteria in comparison and When you compare to different ARPUs between ours and Telcel's ARPU, the client base calculation is different. We clean up the client base after 90 days of non activity, which is different. So I think that's the levels of ARPU are actually non comparable, even though we have been able to increase our ARPU in the first quarter. And on top of that our minutes of usage are growing, which is also important for our strategy. So we tend to think that the proposal, the value proposition that we have made to customers in Mexico has proven to be successful and we'll keep going in to the same direction.

James Ratzner – New Street Research

Revenue growth potentially will accelerate, as we go through the year?

José María Alvarez-Pallete – Telefónica

Well, we keep going in the same direction, we are right now and 19% market share in terms of total customer base, but again, taking into consideration that the customer base are probably not comparable. Ours is different, we employ a much more strict criteria than our competitors. So we guess we'll keep going to the same direction.

Matthew Key – Telefónica

James, it's Matthew here. I'll pick up the O2 UK question. Yes, 13% growth in quarter one we were very pleased with. We expected to outperform the market and I think we will continue to outperform the market for the balance of the year. I think the outstanding question for us is: will we continue to outperform the market to the extent we did in the first quarter? And I think that does have to be questionable because you must see how competitors react, I think to the results we're producing in the UK.

John Karidis – MF Global

Thank you very much. It's MF Global. I have two questions please. Firstly, is it possible to get some guidance on tax, both in terms of P&L tax rate and cash tax?. If it's possible for the full year and may be for an extra year that would be great.

And secondly in Germany, yesterday the regulator announced a naked DSL rate of 20 euros. Is this close to irrelevant for your business in your local unbundling business in Germany or does it actually undermine it?

Santiago Fernández Valbuena - Telefónica

This is Santiago; let me take the tax question first. We don't provide specific guidance but I can give you an idea of where things might be headed. Two things have happened this year and it is that in some of the European markets where we're most exposed, tax rates have come down. The Spanish tax rate has come down from 32.5% to 30%. That is going to have a positive P&L effect as the flows of this year would be, on tax terms lower than those of last year. We have in a very varied array of businesses in Latin America where the tax rate and the tax systems are wildly divergent, so it's hard to generalize. I would think that this year's P&L tax rate should come lower by one or two percentage points versus last years as other countries like Germany have also been included in the lower tax rates. And in the cash terms, it's highly volatile on a quarterly basis, but we should end up 2008 with slightly higher cash tax consumption than last year. The Q1 number, which is about 50% of cash tax over P&L tax, is unlikely to continue and I would expect the number to be closer to last year's average, or last year's Q1 which is closer to two-thirds or so. So in order to model that, although I insist it is highly volatile, anywhere from 50% to 66% seems a sensible approach.

Matthew Key - Telefónica

Hi, John. I'll pick up the German question. I think that first thing to say is it was broadly where we thought it would be. And interestingly we've got a balance in our business, because obviously we've got a retail DSL business as well as our local loop unbundling business. So clearly it may bring some more pressure on the local loop unbundling part of our business, but probably brings us some potential upside and on the retail side. And the other thing I would say is on the wholesale side, clearly we've got our partners and it's not just a matter of price, it's also a matter of quality as well. So, I would take out that it was probably in line to where we expected it to come out.

Luis Prota – Morgan Stanley

Yes, hello. Luis Prota from Morgan Stanley. I have two questions. The first one is whether you can clarify if you have included any kind of one-off charge this quarter to reflect the retroactive cut in bitstream tariffs recently by the regulator?

And the second question is, following your exit from Sogecable and the speculation on new shareholders that are coming to Prisa, do you see any risk or change to your strategy and contents or any other implication business-wide?

Guillermo Ansaldo - Telefónica

Luis, this is Guillermo. Regarding the question in Spain, yes, we do have one, one-time effect, negative effect that is recorded in our numbers. Basically have an impact of 18 million euros in the OIBDA. This is a retroactive effect of the OIBA new regulation. We don't agree, will not agree with this regulation. We are applying against this regulation, but we are accounted in this and it's drawing a negative effect. Fortunately, the business absorbs some positive effects, so this impact, so the growth that we're having in Iberia, in Spain is well in line with guidance.

Julio Linares López - Telefónica

Luis, this is Julio Linares. You know we have commercial agreements with Sogecable regarding bundles in both sides for both companies. And in addition to that, we're having content and those agreements are working. We are very pleased with the way that they're evolving and, of course we are going to continue this kind of cooperation with Sogecable.

Guy Peddy - Macquarie

Yes, hello. It's Guy Peddy from Macquarie. Two quick questions, firstly aiming at Matthew. In the UK, Matthew, retail data was recently shocking but your performance has totally been absolutely exceptional in Q1. But do you think that you have flexibility in your business, in your model, to be pro-active and actually cut your voice pricing, given the fact that a UK consumer continues to pay what is a relatively high actual revenue yield relative to, for example, other markets and especially your own German property?

And on a secondary question, Santiago, you highlighted the effective interest rate was around just over 6.2% in Q1, but you've got a target of just 6% for the full year. Can you just talk us through how you expect the interest rates to decline and what would be the drivers of those in the coming quarters? Thank you very much.

Matthew Key - Telefónica

So, I'll pick up the UK question first Santiago. Yeah, I think the reason for our key success in the UK. Guy, is basically we're doing the right thing for customers and what customers want. And I would use an example of Simplicity in the UK, which when we looked at the market last summer we felt there was room for a SIM only proposition without a handset, that gave good value in terms of the rates, in terms of pence per minute and was a 30-day rolling contract, which effectively meant people didn't have to commit to 18-months or two years when they were a little bit nervous about the economic outlook. So, and on that one product, we've now got over half a million customers. So, I would say that what we've done in the UK is absolutely done the right thing for the customer and produced products that the customers love. So, very happy with that performance and don't see any reason why we can't continue to win in the market.

Santiago Fernández Valbuena – Telefónica

Okay, in terms of the evolution of interest and of the rate of interest cost, the main reason why we expect them to converge lower than what they are is that in Q1 we have registered a strong increase in costs coming from the mark-into-market of the value of our personal liabilities. This had had, and I'm speaking off the top of my head, something like 200 million. It is in our view unlikely that this mark-into-market will be necessary again as the interest rates that we are now going through are more stable relative to Q1 than they were relative to Q4. It is that and together with the interest rates that we have already fixed, and the environment of interest rates, that makes us believe that we are going to end the year, as we said, around the 6% level.

David George – Credit Suisse

Yes. Thank you. It's David George from Credit Suisse. A couple of questions, firstly on the fiber trials in Spain, could you update us on your progress there? And specifically I think we've had a number of comments now from the CMT on how they see the regulation of fiber developing. I wonder if you could give us your thoughts on how you feel about that and when we might see the start of a more full scale fiber build in Spain? Is that possibly next year? And secondly, just going back to the domestic trends question on Spanish Mobile, just on the ARPU outlook for the rest of the year, obviously some of these roaming cuts will begin to drop out in Q2 but you also have some termination records to come. So I wondered how you see that ARPU trend evolving. Is it possible to see a better ARPU trend in the second half of the year?

Guillermo Ansaldo - Telefónica

David, this is Guillermo. Regarding the fiber, we do have authorization to do a new pilot in fiber to the home up to 5,000 clients and we agree that we are not going to win the clients from the competition, so it's basically for our clients or new clients. This pilot will help us to keep on improving all the processes and the value proposition for clients and help on the technical and commercial side.

Regarding full scale launching, we are not, we have not been authorized yet to launch our retail fiber to the home services. We expect and we hope to launch the services in the last part of this year but it will depend on regulation. We are analyzing the last Thursday resolution from our regulator and we have to see if we are able to launch it this year or we have to delay it to next year. But our intention is to launch it as soon as possible.

Regarding the trends in ARPU there is several, as you know, several things impacting. On the positive side, data ARPU is behaving very healthy and very strong and the trends in connectivity we see that that will continue and we continue in a positive way in data connectivity. Regarding SMS, that will also continue along the same trends that we have seen the last six months. Regarding premium SMS, we do have a campaign this quarter that will not be repeated in the following quarter but we will come with similar campaigns maybe later in the third and fourth quarter, so that will have a discontinue on a quarter on quarter basis. And regarding incoming ARPU, as you know that's affected, as you mentioned by the MTR cuts that are in April and October so that's something that we can focus on and, as you know, the decrease we have is lower than the competitor's because we are converging to the

same number and to end with asymmetries and so the decrease is negative for us but it's more negative for the competition. Regarding the rest of voice, that will depend of course on the MQU evolution and the trend that we are seeing in the last six months, we hope we continue in the rest of the year and we are also planning for several target measures in order to boost MoU consumption. We understand that that's very challenging in this year but we will continue working on those lines. So all in all, it's very hard to predict the number for the rest of the year, we have to take a closer look but there are some positive trends and some challenges ahead of us.

Mathieu Robilliard – Exane BNP Paribas

Yes, good afternoon. Mathieu Robilliard, Exane BNP Paribas. I have two questions regarding Latin America. First, at Telesp, I see margins are a bit under pressure, it ends up you are facing a lot of competition from cable operators in Brazil and that forces you to integrate different platforms to do triple play now. How when do you think you can contain that margin pressure because for the moment, as far as I understand, IPTV is forbidden?, and in terms of the personal, you've already done quite a lot, so is there a moment where you think you can stabilize your margins there?

And then a second question also on margins in Argentina, unofficial inflation is apparently running above 20% and a lot of your tariffs are actually regulated and you can't increase your prices. So how are you going to escape also margin compression in Argentina, please? Thank you.

José María Alvarez-Pallete - Telefónica

Thanks for your question. Considering Telesp, of course if you run the comparison, the first quarter of 2007 versus this first quarter, you need to, I would say, deplete some effects that we had in the first quarter of 2007, like the real estate sale of Pompeia. Out of that, if you have that and if you take into consideration the fact that also in this quarter we have been including a contingency which is a fine that has relating to a boost to us as imposed to us and that of course we are going to keep fighting but we have been accounting.

And on top of that you consider the restructuring provisions that we have been also including in the last quarter. You will find that the margin that we are having in Telesp in this first quarter of 2008 compared with the last quarter of 2007 is basically the same, in the neighborhood of 39%. So we are starting to stabilize margins, it's taking us a while. Take into consideration also that the products of Telesp in terms of revenues is completely changing. We are now having more bundles. We are now having more TV and more broadband and the back of those businesses out of the total revenue of Telesp is increasing and those businesses have lower margins than the previous ones.

And you are right. We keep doing a significant effort in terms of labor costs, but because in an I would say a non-ending loop for efficiency. And I think that we still have to look when we're taking into consideration that intensive restructuring of the payroll, 1,000 people have been leaving Telesp in April and those are not included in March. So we keep going to the efficiency practice. So net of all the

comments I just made, roughly EBITDA margin is more or less the similar or the same in the last quarter of 2007 and in this quarter 2008.

In Argentina, the situation is different because of the impact of inflation. You're right, and we are facing significant pressure from the inflation point of view and we have not been able to impact that properly in the revenue line, in spite of the fact that we are growing 10% in revenues in Argentina. So we keep looking for efficiency and we keep acting and talking with the government on that. Also take into consideration that we are increasing also the transformation taken in this bundling, and when we bundle, we are effectively having slight price increases. So we'll keep you posted.

Basically, Telesp, we think we are on the right track and in Argentina we'll need to see for another ways to contain inflation in the push that we are having right now.

Ivón Leal – BBVA

Hello. Good afternoon, gentlemen, BBVA. Just couple of questions, the first one on coming back to the domestic business, and most specifically the Broadband business. We've seen a sound member of subscriber growth in the first quarter of the year, though the revenues growth just grew by 11%, which shows slight weakness on the ARPU. I would be concerned that, in fact, your most aggressive promotions in terms of Broadband offers have come up, I think in March and April. So should we be concerned about the ARPU decreases in the Broadband business in Spain? And if that's the case, do you think you will be able to compensate that through a stronger increase in subscribers?

And the second question is regarding Latin America. Given that seeing your presentation now Venezuela is one of the countries which most supports growth in the region, how comfortable do you feel about the possibilities about repatriating the dividends from the country? I think that in this first quarter you were pending the authorizations on repatriating dividends I think from year 2005, 2006. Do you have the okay on that? And how comfortable do you feel on how that is going to double up in the future? Thanks.

Guillermo Ansaldo - Telefónica

Ivón, this is Guillermo. So you have a revenue question about the domestic broadband. When you see the numbers of broadband income you have to take an accounting of, obviously, the retail side and the wholesale sides, so that's effective for both effects: the retail and the wholesale. I mean the wholesale, as you know; there have been reductions in the fees we charge to third players in the indirect access so that affects also our numbers. Regarding the retail, take into account that you have also connectivity and value added services. And as you know, we, our connectivity ARPU is being reduced by between 5% to 6% on a yearly basis.

And we are growing in value of the services, Imagenio is part of that. And so the net impact so you have to know obviously affects wholesale, value of services and also domestic retail connectivity.

Regarding connectivity, as you mentioned, we launched new products on the lower side and on the upper side of our portfolio. On the lower side from 19.9 and at 1 megabits with limitation of download capacity of 2 gigabits and at 29.9 both are bundled with voice and 1 megabit. And so and on the upper side we have been selling for the last quarter 10 megabits. So the game here is to sell as much as possible of lower and higher part of the portfolio so as to defend the connectivity. So basically that's the game we're trying to play. We're going to keep on adding services on the upper part of the portfolio. And we have to monitor that in order to sustain our revenue. That's the trick to sustain connectivity so that the decrease is no more than 5%, 6% or 7% and to keep on selling value-added services.

José María Alvarez-Pallete - Telefónica

With regards to your question about Venezuela and the dividend approval. The one that was pending was finally approved I think a few weeks ago when we submitted the approvals. So for the time being, we are not seeing any major difficulties on having those approvals being done. So we'll keep you posted on that but for the time being, things are running normal.

Santiago Fernández Valbuena – Telefónica

Well, ladies and gentlemen, with this we bring this conference call to an end. We appreciate your presence and your interest. Let me remind you that our investor relations team is available to answer any further questions that you might have. Thank you.