# Telefónica Q1 09
# Results Conference Call Transcript

**13th May, 2009**

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*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*

# Introduction

*María García-Legaz*

Good afternoon, ladies and gentlemen, and welcome to Telefónica's conference call to discuss 2008 full year results. I am María García-Legaz, Head of Investor Relations. Before proceeding, let me mention that this document contains financial information that has been prepared under international financial reporting standards. This financial information is unaudited.

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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 Chairman and CEO, Mr. César Alierta, who will be leading this conference call.

# Presentation

**Q1 09 key highlights**

*Santiago Fernández Valbuena*

Good afternoon, ladies and gentlemen, and thank you for joining Telefónica´s 2009 first quarter results conference call. Today with me I have Julio Linares, Chief Operating Officer, Guillermo Ansaldo, head of Telefónica España, José María Alvarez-Pallete, head of Telefónica Latin America, and Matthew Key, head of Telefónica Europe. During the Q&A session you will have the opportunity to ask questions directly to any of them.

In a more difficult economic environment, Telefónica has again posted very solid earnings, showing our focused strategy and our strengths.

**As of today, we are delivering on the management priorities announced in February:**

- We are pursuing major growth opportunities in our markets which, combined with the benefits of our high geographic and businesses diversification and our leadership in key markets, some times underappreciated, allow us to post industry-leading organic top line growth. Revenue growth in Latin America continues to be very strong while Telefónica Europe has shown an outstanding performance.

- We are also leveraging our scale and execution capabilities to actively manage OpEx and CapEx to further enhance efficiency and increase cash-flow generation. And it's bearing fruits, as we continue to expand margin across geographies and operating cash-flow grows well ahead of revenues.
- And we are fully committed to have a very attractive shareholders remuneration, with growing dividends and share buyback programs tactically used. As we announced, in 2009 dividend per share will increase 15% y-o-y to 1.15€.

**At the same time, in the first quarter of 2009 we have recorded a strong 13% y-o-y increase in EPS, while we have reinforced our solid financial position, enhancing our debt maturities profile.**

The positive results recorded in the first months of the year allow us to reiterate our 2009 guidance for all metrics: revenue, OIBDA and OpCF growth and we do also confirm our previously stated EPS and FCFS targets for 2010.

**Solid Group performance leveraging diversified portfolio**
*Santiago Fernández Valbuena*

Slide number 4 shows a summary of first quarter earnings.

In organic terms, we continue to post healthy growth rates driven by Telefónica Latinoamerica, which contributed the most to the growth, and Telefónica Europe, which outstrips the lower contribution of Telefónica España. As a result, organic sales in the first three months of the year grew 2.8% year-on-year while OIBDA growth topped 2.5%. OIBDA margin stood at 39.1%, showing the benefits of scale and higher efficiencies achieved.

Operating Income growth stood at 3.9% year-on-year, purely organic.
Turning to cash generation, organic Operating Cash Flow grew by 4.5% year on year to reach 4.2 Billion Euros at the end of March.

Please notice that reported growth rates are negatively hit by forex, impacting major financial metrics in the 1.3 to 4.7 percentage points range.

Net income amounted to 1.7 billion euros, showing an outstanding 10% growth vs. last year figure.

Organic revenue growth is driven by the continued expansion of our customer base. We ended March-09 with more than 261 million accesses at the Group level or 12% above last year's figure. Growth rates posted by mobile, especially in mobile broadband, fixed broadband and Pay TV are to be highlighted.

**Double digit EPS and FCFS growth**
*Santiago Fernández Valbuena*

We are delivering very strong growth, not only in terms of cash but also in terms of EPS.

Reported EPS reached 0.37€ per share, up around 13% annually. If we exclude the impact from PPA´s, EPS would have reached 0.40 Euros.

And Free Cash Flow per share totalled 0.28 euros in the first quarter of the year, recording a notable 57% year-on-year growth.

**Fully on track to meet 2009 guidance**
*Santiago Fernández Valbuena*

A snapshot on guidance execution is presented in slide number 6. Taking into account the seasonality of CapEx, we are fully on track to meet our growth targets.

Under guidance criteria, consolidated year-on-year growth rates in revenues and OIBDA were 3.3% and 2.9%, respectively, within the guidance ranges announced last February.

CapEx up to March stood close to 1.3 Billion Euros.

As a result, under guidance criteria Operating Cash Flow growth reached 5.0%. However, growth will accelerate along the year as we recorded lower investments in Q1 08 in Telefónica O2 Germany due to timing differences, higher investments in Q1 09 in VIVO, that should not be extrapolated for the whole year, and the 3G licenses accounting in Q2 08 in VIVO.

**Delivering our priorities**
*Santiago Fernández Valbuena*

Turning now to slide 7...

Our strategy is adapted to market conditions in each of our geographies, and we are successfully executing our priorities in each region to deliver sound Group results, combining a solid top line performance with an even higher cash flow generation.

We are fully capturing our organic growth potential in those markets that keep growing, mainly in Latin America and Europe, while in countries like Spain, where trading conditions are more difficult, we are focused on increasing cash-flow.

I'd like to highlight that OpCF organic growth exceeded by close to 2 percentage points the growth rate of sales, on the back of our larger scale and the execution of our OpEx and CapEx efficiency measures. This is true not only for the Group as a whole, but for every single region of operations on a comparable basis.

**OpEx & CapEx discipline & flexibility to ensure OpCF generation**
*Santiago Fernández Valbuena*

Slide number 8 shows our ongoing focus to increase cash flow generation, with an active management of OpEx and CapEx. The key message I want to pass is that we have flexibility to manage them without jeopardizing growth opportunities.

Total Group CapEx decreased 4% year-on-year, in the first quarter of 2009 with reductions across most items mainly due to the high investments already made in past years in GSM in Europe and lower commercial activity in the traditional fixed line business. However, we continue to invest in growth platforms, such as fixed and mobile BB and Pay TV. These investments represent 30% of our total CapEx year to date, and are increasing 10% year on year, with an outstanding 36% rise in 3G CapEx vs. last year figure.

Two key data points show our flexibility to manage CapEx: first, 75% of the CapEx planned for 2009 is related to business transformation and growth projects, which could be managed and adapted to respond to changes in demand, competitive pressures and the economic environment; second: at the end of the first quarter CapEx committed was only 30% of our annual target.

We do also have a relative high flexibility to retain control of our costs, as a significant part of our expenses could be manageable in the short term to respond to changes in demand. This ability is reflected in the 4% organic annual drop in total commercial costs, on the back of lower handset subsidies, advertising and billing costs, and on the year-on-year decrease in interconnection costs, mainly driven by lower usage and tariffs in Spain.

As we explained in our previous conference call, we are also developing Global initiatives to further sharpen OpEx and CapEx efficiency at the Group level, leveraging on the advantages of the higher scale of our operations.

The global initiatives already launched in the first quarter of 2009 will generate more than 100 million euros savings for the whole year, while we keep working across areas to accelerate the transformation of the Company's operating model and obtain further efficiency gains.

**T.España: Successfully managing OpEx and CapEx to maximize OpCF**
*Santiago Fernández Valbuena*

Let’s now review the performance of our operations starting in Spain.

In a more challenging environment, Telefónica España has been focused on maximizing operating cash flow and retaining value customers.

Efficiency measures implemented have allowed to limit the OIBDA erosion despite revenue pressure. Let me remark the increased OIBDA margin in wireless and the flattish margins in wireline, reflecting the relative flexibility to adapt our cost base to the current situation.

Investments rationalization leveraging our integrated approach have driven CapEx significantly down by 28%.

Our OpEx & CapEx discipline have led to a strong performance in cash generation, with Operating cash flow increasing by 0.2% year-on-year on a comparable basis in the first quarter, offsetting top line decline across businesses.

**Revenue performance impacted by worse trading conditions**
*Santiago Fernández Valbuena*

Turning now to slide number 10, let me summarise the major trends we are seeing on top line.

In a weaker economic scenario, we continue to see positive drivers. IT services are growing by almost 25% on contracts won over the quarter, while wireline data revenues are also showing a sound performance. In wireless, data revenues keep growing by a notable 7% boosted by the sustained strong performance of connectivity revenues, up 50% in the first quarter.

On the negative side, the current environment is more noticeable in lower usage patterns across businesses, decreasing roaming in revenues, as we have a lower number of visitors in our network but also due to regulated price cuts.

Additionally, the different phasing of wireless handset shipments to the channel are behind the declining handsets revenues.

And we are also seeing a major impact from regulatory decisions. Contrary to trends happening in other European markets, full ULL prices have been cut by 20% this year, and the the PSTN monthly fee has remained unchanged vs. 2008. In addition, we are being hit by the cumulative 17% cut in MTRs in the last 12 months.

It's true that, in terms of commercial activity, during the quarter we have not led the growth of the market , but we remain focused on revenue share, and with some success I should say. In wireless we have seen over the last twelve months the positive gap between our customer revenue share and our access market share widening and our estimates for the quarter is that this gap continues to stand at between 4 to 5 percentage points. In wireline we think that the gap should also have improved in Q1.

**KPIs perfromance**
*Santiago Fernández Valbuena*

In slide number 11 we review the main KPIs of our Spanish operations. In Q1 we took a more rational commercial approach, which was not followed by other players in the market.

With a slowing wireline retail Internet Broadband market, as in other major European markets, we posted over 9% growth in accesses, maintaining our leadership in the market with an estimated share at 56%. In the wireless business, we post a robust evolution of wireless data flat rates, doubling last year figure.

In the wireless business we keep our focus on the value segment, expanding our contract customer base ahead of the total. The mobile market continues to grow, albeit at a slower pace, and competition stays very demanding. In this environment, we kept under control churn at 1.9%, practically unchanged versus last years figure, with the economic churn being well below this figure.

ARPU reflected lower usage patterns, mainly in voice and in the residential segments, and lower MTRs, though outgoing ARPU performed better underpinned by the solid data ARPU increase. Data ARPU increased its weight to 19% of total ARPU, 2.5 percentage points more than in January-March 2008, showing a very healthy performance.

Fixed telephony lines dropped 5.3% year-on-year, with still one of the best performance across main European markets despite the tougher economic environment. It is worth to mention that: first, 53% of lines lost are now Telefónica wholesale lines, and therefore generate revenues for the Company and second the ARPU of these customers is lower than the average ARPU, as most of the disconnections are single play accesses. The remaining 47% of lines losses are related to the lower market growth and higher unbundlers activity.

**OpEx & CapEx discipline to preserve OpCF generation**
*Santiago Fernández Valbuena*

To finish with T. España review, I'd like now to provide some more color on how we are managing our OpEx and CapEx base. And I will start saying we are doing a good job as our efficiency ratio shows:

Total OpEx plus CapEx over revenues has gone down by 1.3 percentage points over last twelve months–for the shake of fairness, we are using a 12 months rolling figure to avoid CapEx seasonality effects-.

In the first quarter CapEx went down 28% y-o-y, explained by:

- Lower investments in GSM.
- The fact that the deployment of traditional loops has mostly halted, as construction sector is frozen.
- Broadband demand has slowed down and related investments have been adjusted accordingly.
- And we have adapted our fiber rollout to the current economic environment.

These, together with other initiatives aimed at increasing CapEx efficiency, such as wireline and wireless network integration, IT systems rationalization and also per unit cost reductions on delivering Group purchasing power and vendors adjusting prices to adapt to economic situation will continue benefitting us in the coming quarters. At the same time, we keep investing in growth platforms, such as mobile data, without jeopardizing future growth prospects.

On the OpEx side, reductions came to 6% on a comparable basis due to commercial costs down 11%, handsets supplies 24%, and interconnection 12%. Also, last year's headcount reduction together with lower CPI is putting less pressure on personnel costs.

As with CapEx, initiatives being deployed will also provide some OpEx relief in the future: energy efficiency and rationalization programs, logistics simplification, mobile network sharing are among others.

**T.Latam: sustained strong results combining growth & enhanced efficiency**
*Santiago Fernández Valbuena*

Moving to slide number 13 to review of our Latin American properties, I'd like to stress the very solid performance we are posting across businesses, balancing growth and profitability.

During the first quarter, customer organic growth across the region reached a healthy 13% year-on-year, to surpass the 159 million accesses, mainly driven by broadband and mobile services. The strong fundamentals of the businesses have led to an over 10% revenue growth ex-fx and 9% up to March in organic terms, supported by the further expansion of mobile service revenues and Internet &Pay TV sales.

OIBDA performed even better, posting a 14% organic growth. The OIBDA margin reached 38.5%, improving almost 2 percentage points vs. March 2008 in organic terms, driven by the strong advance in the mobile business as we leverage scale economies and further commercial efficiencies. Wireless OIBDA increased 6 percentage points year on year to 38.2%.

Improved profitability boosted operating cash flow generation, which despite higher CapEx devoted to growth platforms, rose more than 12% year-on-year in organic terms.

**Wireless business: Robust customer growth fully flowing into financials**
*Santiago Fernández Valbuena*

Let me quickly sum up the evolution of our Latin American wireless businesses.

Customer growth remained very strong in the quarter, registering double digit growth rates in most operations in a region where the average wireless penetration has increased in the last 12 months 12 percentage points to 83%. Further potential is still to be captured, with the 2 largest markets, Brazil and Mexico, still lagging behind. Gross adds were lower than in the first quarter of 2008, but net adds in Q1 reached 1.3 million customers, as we capitalized on churn improvements year-on-year.

Our strategy to stimulate usage through new commercial offerings led to a 17% increase in traffic. However, ARPU performance was negatively impacted by the strong customer expansion and MTRs cuts.

In terms of financials, I would like just to highlight that mobile sales posted a sound evolution, mainly explained by the remarkable growth of outgoing services revenues. Mobile data services, and in particular data connectivity and content SMSs, continue to gain traction, and already represent 17% of service revenues up to March vs. 14% last year. This area is a huge growth opportunity for us, and we will further exploit it along the year with a push on our 3G networks and mobile broadband offerings.

**Wireline business: Sustained business transformation**
*Santiago Fernández Valbuena*

On slide 15 we show the advance in the transformation of the wireline businesses.

In the first quarter of 2009 broadband net adds were 142 thousand, to reach a total retail broadband access base of 6.2 million in March 09 or a 19% increase on an annual basis. This strong expansion was driven by our strategy to foster bundles and a deeper market segmentation through innovative propositions.

Pay TV, through triple play solutions, is also key to limit the pressure on the traditional fixed line business. These accesses advanced by over 30%, topping the 1.6 million mark at the end of March.

As a result, Internet & Pay TV revenues continued increasing their weight quarter on quarter, to top 20% of total wireline revenues, 2.6 percentage points more than a year ago, being the driver of wireline top line expansion.

**Solid performance across major operations**
*Santiago Fernández Valbuena*

In summary, our operations in Latin America continue to record very healthy top line growth rates across most markets despite the slowdown in some of the economies.

And our scale, integrated management model and further efficiency gains continue to bear fruit with margin expansion across markets.

Let me outline the main topics across key countries:

- In Mexico, with a market share north of 19.5%, service revenue continues growing ahead of customer growth and doubling our main competitor growth rate. And we have posted a strong increase in profitability, with a close to 10 p.p. margin expansion and an over 40% increase in local currency in operating cash flow.

- In Brazil, Vivo is consolidating its leadership in a very competitive market, expanding its customer base by 19% in organic terms y-o-y with service revenues growing ahead in organic terms and further margin advances.

- Telesp has reinforced its strategy of bundling and segmentation, fostering local flat rates and 2P/3P offers with high BB speeds in this first quarter, though Q1 performance was impacted by the introduction of a new call center law.

- In Argentina, we are posting very robust double digit revenue growth both in mobile and wireline, on the back of a strong bundling and on-net traffic strategy. In addition, operation leverage and further cost control measures drive OIBDA up more than 30% year-on-year in local currency.

- And finally, in Venezuela the business is showing a very strong performance on all operating and financial metrics. Profitability continues to improve, reaching margins over 52% despite double digit growth in customers.

**T. Europe: Delivering on cash flow generation through a more rebalanced portfolio while maintaining momentum**
*Santiago Fernández Valbuena*

Turning now to slide 17…

Telefónica Europe continued posting a strong financial performance in the first quarter, maintaining market momentum with a steady revenue growth in constant currency, while delivering a year-on-year organic 12% growth in operating cash flow. It is worth mentioning the improved balance in our European business portfolio, particularly Germany, and the increasing revenue contribution from DSL activities.

Total customer base was up 9% to 47 million, highlighting an exceptional performance in the wireless contract segment built on propositions around flat rates, SIM-only and mobile broadband, as well as successful retention activities across markets.

Ongoing focus on efficiency programmes and flexible management of CapEx are also key to adapt business to a increasingly tough trading environment.

**T. O2 UK: Sustained outperformance in a slower market**
*Santiago Fernández Valbuena*

In the UK, Telefónica O2 business again outperformed in a slower market.

After adding close 300 thousand contract customers at the end of March, contract customers made up 43% of the mobile base, on the back of healthy gross adds and market leading contract churn rate at 1.2%. The Company's evolving range of innovative propositions and its leadership in customer satisfaction across all segments continue to drive market share gains.

Revenue growth remained solid, at 7% year-on-year in local currency, driven by the 5.2% rise in wireless service revenues. The increased number of mobile broadband connections and continued success of high-end phones such as the Blackberry and iPhone, driving Non P2P SMS data revenue year-on-year growth of 42%, outstripped voice ARPU declines as a reflect of the current trading environment.

The Company was able to keep margins in the quarter at 24%, leveraging on efficiency optimization of customer investment costs, continued operational efficiencies in non-commercial costs and improved contribution from the DSL business, that helped the business maintaining momentum in the market.

**T. O2 Germany: New commercial approach and innovation**
*Santiago Fernández Valbuena*

On slide number 19, we show that Telefónica O2 Germany keeps on track to realising its full potential in Europe's largest telco market.

The business continued to deliver profitable growth in the quarter, with total revenues increasing 3.6% year-on-year on sustained mobile business and fixed broadband performances.

A significant 38% growth in contract net adds quarter on quarter already shows the benefit from the ongoing investment in own network build-out and increased distribution channels. The recent introduction of the "O2 o" proposition in the German market, based on a clear, simple and transparent tariff structure, will help to drive momentum in the German market.

A clear outcome from building foundations of the business is the 24% year-on-year growth in OIBDA to top 23% margin in the first quarter of 2009.

**Steady financial profile**
*Santiago Fernández Valbuena*

Our financial profile remains steady.

In the first quarter our debt has been reduced by € 500 M and our debt ratios stand below 2x OIBDA or just above it when we include other cash commitments.

In the first quarter, we have further improved our financial profile acting both on the short and on the long term. We have raised 3 Bn Euros from the bond market, for pre-financing debt maturing in Telefonica S.A. in 2009, and we have extended 4 Bn Euros of our syndicated facility maturing in 2011, moving 50% 1 year later and 50% 2 years later. As such our existing cash balance exceeds gross maturities for remaining of 2009. Our average debt life exceeds 6.4 years in March 09 registering a 0.5 year increase thanks to our financing activities.

Our financial expenses stay at 5.95% of our average total debt of 45.1 Bn euros. As 45% of our debt remained exposed to floating rates, we expect a decreasing trend, as new lower rate fixings gradually replace the old ones.

**Conclusions**
*Santiago Fernández Valbuena*

To sum-up, we continue to post strong results, capitalizing on our highly diversified asset portfolio and delivering on the management priorities that we announced for 2009:

First, we are capturing growth opportunities in our markets, allowing us to post benchmark organic growth rates.

Second, we increasing our strong cash-flow generation across regions.

Third, 2009 dividend per share will increase 15% against fiscal year 2008.

In addition, we have a sound financial position and we have posted double digit EPS growth.

Finally, I'd like to reiterate our confidence to deliver again our commitments. We are fully on track to meet 2009 guidance and we do confirm our 2010 EPS and FCFS targets.

Thank you very much for you attention, and now we are ready to take your questions.

# Q&A session

**Mathieu Robilliard - Exane**

Good afternoon. I have two questions please. First with regards to Telesp, the trends deteriorated quite a bit vs. Q4. So, obviously positive revenue growth, but we note that in traffic the trends are much worse than throughout 2008. So, I was wondering if you could give us a bit of color here? And is this quarter an anomaly versus 2008, or is this the trend we should expect for this year?

And second, about your performance in Venezuela. I know that traffic is up 7%, yet ARPU is up 22%. So I was wondering if the increase in ARPU was merely due to the fact that you're able to pass the high inflation in the country to your customers, or is there anything else in terms of new product adoptions, etc.? Thank you.

**José María Álvarez-Pallete - Head of Telefónica Latin America**

Good afternoon and thanks for the question. On Telesp I would like to outline that part of the performance has been driven by the impact that we have been having on the new law on call centres. That has been forcing us to focus our main activity in addressing quality concerns and sustaining the number of lines, and therefore, we have been freezing some other commercial activities until those problems were fixed.

It is true that this new call centre law was issued in December, but the main impacts have been flowing in January and February. On top of that, it is true that we have been forced to adapt the commercial offer, in order to focus on new products and bundles. But mainly the impact in Telesp in the first quarter is driven by this fact that we have been focusing our main activity in addressing the impact of this new call centre law.

It is also true that the figures of last year were impacted by the TVA incorporation, and therefore growth last year appears to be higher than the organic growth. But mainly the impact has been on that, and therefore we are focusing all our efforts in addressing the situation, and we are confident that the situation will be improving gradually in the next quarter.

On top of that, Brazil is sending some signs of recuperation in terms of industrial activity, in terms of credit activity, so we do think that the Brazilian market can offer some additional possibilities in the next quarters.

In Venezuela, we have several effects. It is true that we have been increasing tariffs, but it is also true that we have been focusing on the mobile to mobile traffic, on net traffic and contract customers. It is also true that the handset activity in Venezuela, in terms of handset sales, has also been very high.

And therefore there are several effects that are mixing in Venezuela, not only the pass-through of inflation. We are also driving the quality of our customers and that is why you will see that our share of revenues is higher than the share that we have on market share on customers. So I think that there are several effects that are being mixing in Venezuela.

**Mathieu Robilliard - Exane**

Thank you.

**Mitchell Collett - Cazenove**

Three questions please. Firstly, the CapEx level in Spain is very low this quarter. I wondered whether that was sustainable going forward?

And secondly, you have mentioned the roaming effect and what that does to service revenues. Can you perhaps quantify how much of the revenues are roaming, and also perhaps give us an indication of what sort of effect you would expect in later quarters, presumably it's got a greater effect in Q2 and Q3?

And then finally, performance in Colombia looks a touch light. I think you probably lost subscriber market share. Can you perhaps talk to us about what has happened there? Thanks.

**Guillermo Ansaldo- Head of Telefónica España**

This is Guillermo Ansaldo. Regarding your questions in CapEx, yes, it is a low level, but has several levers that is playing that level. First, we are reducing CapEx on 2G and we are focusing on 3G. That is a strategic move and that will be sustained.

Second, the lower level of commercial activity in some CapEx intensive accesses, like broadband or pay TV, is bad news on the revenue side, but on the CapEx side we are able to obviously save money on that front. Obviously also, third, we are adapting the fiber rollout to the current environment. That means that whenever we have a case where we see a positive NPV and a very short repayment period we will do it, but otherwise we will postpone it or we will think for future times.

Another very strong factor is that we are getting better prices on the purchasing vendor side, profiting from the scale of the group and our industrial alliances. So that is our very sustainable reasons.

Obviously, I hope that the trading conditions improve, and I will be able to spend more money on the commercial side. But also quarter per quarter we have some seasonality in the way we spend the money, but the savings due to module our spending to the commercial activities is something that is very natural. And the purchasing savings and the scale savings, they will be there to remain.

Regarding your roaming questions, let me see if I get it right. You want the numbers. Let me give you all the numbers, then see if I answered your questions. Total service revenues is without handset revenues, is 1.921 . There is a table in the information we published. Out of that, 29 millions is roaming-in. And that has a decrease of 32%.

And that is based on two factors. One is approximately a 7.7% decrease in the visitors, and also there is a decrease in the traffic linked to the visitor of 5.9%. And the rest is price reduction. So the price reduction on some of these savings are in line also with the expense reduction related to roaming costs. But roughly 29 millions in the quarter for roaming-in.

**Mitchell Collett - Cazenove**

I guess what I was trying to get at, is that going to be a greater impact in Q2 and Q3, if we have the same trends?

**Guillermo Ansaldo- Head of Telefónica España**

Well, it is 29 million out of almost 2,000, not, 1.921 millions. So that is basically the level of impact that we get. On the OIBDA level, remember that on the roaming expense all the price reductions we also get some reduction on volume reduction on the expense. So it is not that relevant. I am much more concerned on the customer revenues than on the roaming one.

**Mitchell Collett - Cazenove**

Yes. Okay.

**José María Álvarez-Pallete - Head of Telefónica Latin America**

Taking your question about Colombia wireless, I mean, it is true that subscriber rates have been decreasing in the first quarter, because we have been cleaning up parts of our customer base after the Christmas campaign, which is I would say normal. And our main competitor did the same in the same period.

It is true that on the contract site we need to replace the offer, and we are focusing on that on the prepaid. While we have a, I would say, an attractive offer on the market, we need to strengthen our commercial distribution network in Colombia, and that is what we are doing.

But let me stress that in the same time we are highly focusing on profitability. We are having reducing handset subsidies. And we have been much more focused on profitability on our traffic campaign. And as a result of that, let me stress that OIBDA has been increased by 28%, and that operating cash flow has been increased by roughly 70%. So it is a mix of looking for more profitability and replacing and refocusing our commercial campaigns there.

**Mitchell Collett - Cazenove**

Great. Thank you.

**Jesus Romero, BAS-ML.**

Thank you. Guillermo, I don't know if you can provide us a bit more detail on traffic in Spain in mobile. I know you're not reporting MOU anymore, but if you can give us some thoughts of what the numbers look like?

And then a question on Venezuela, what is the cash position by now at the end of Q1? And what can you do to get that money out, if there's anything you can do. Thank you.

**Guillermo Ansaldo- Head of Telefónica España**

Well Jesús, this is Guillermo. Regarding traffic in Spain in the mobile business, two comments first. You see, service revenues are decreasing, but the gap is half the gap of the total revenues because of the handset sales.

By focusing on client revenues, roughly, roughly again 75% is ARPU reduction and 25% is less access growth. And in ARPU reduction obviously we are seeing more deceleration, particularly in prepaid. Postpaid is decelerating the same, is behaving the same way as in the fourth quarter, but prepaid is the one that has changed shape in this quarter.

So roughly in terms of MOU to give you the actual numbers, we are decreasing 6% total MOU, minutes. And again, if you take away the two things that we usually take away, like the data-only SIMs and the campaigns, so we can compare in the same level, that number goes down to, I think, 4.4%. So basically a 6% reduction in MOU, and 4.4% reduction if you take away these two effects.

Again, it is much more focused the change in trend in prepaid. So the top-ups in the quarter, particularly in March, were lower than expected. And obviously that it was hitting the MOU and obviously hitting the ARPU.

**Santiago Fernández Valbuena - Telefónica S.A. CFO**

Jesús, this is Santiago. On terms of the cash position in Venezuela, as you know, the Venezuela operation there are currency controls, so you have to ask permission to the CADIVI, the local currency agency, to repatriate dividends or other payments.

Currently we have asked for the 2006 dividends to be repatriated. And on top of that we have a cash position which is roughly equivalent to the dividends that we would expect to claim to go home for 2007 and 2008. The net cash position is roughly equivalent to 2 billion dollars as of present, which is also roughly the amount that the two dividends, the two net profit figures for 2007 and 2008 should look like.

**Jesus Romero, BAS-ML.**

If I could follow up, the black-market rate of the bolivar is what, 8 bolivares against the euro right now, against the official price of 3, more or less?

**Santiago Fernández Valbuena - Telefónica S.A. CFO**

It is not a black market. It is actually a so-called parallel. It is a very thin market, and has been going from 4 to 8, depending on when you look at it.

Certainly Venezuela is under severe inflationary pressures, and that is not a secret. But it is anybody's guess exactly to where the currency issue that should be aligned if the market were to be burst open.

What we can say, what we have been saying all along, is that tensions are significant, but so far we have been repatriating at the official exchange rate with some delay. While the cash is there, it is not simply sitting idly. It is earning interest. And so this has a mitigating impact on the time delay relative to the terms when we request the repatriation.

**Jesus Romero, BAS-ML.**

Okay. Thank you.

**Terence Sinclair - Citi**

Could I ask you two questions? First of all, in Spain I am keen to know whether the slowdown or shrinkage rather, got worse during the quarter, or whether the exit rate from the quarter was similar to the beginning of the quarter?

Secondly, I don't really understand why Argentina did so well from a profit point of view, given the slowdown in revenue growth. I wonder if I could ask you to link the answer to the level of inflation in Argentina? What was the real ex inflation rate of sales and profit growth, please?

**Guillermo Ansaldo - Head of Telefónica España**

It is Guillermo Ansaldo. If I understood correctly your question, you want to know the shape of the slowdown across the quarter. March was worse than the first two months in terms of traffic, in terms of all buying patterns and consumer patterns.

Good news is that April is better than March. And so we're still trying to understand what happens in the minds of the consumer, but March was a very low month for trading in Spain in general and also in our business.

April was slightly better than March in some categories, much better, in some, slightly better, but it is a different month, so we will see. But March was the worst month in the three months of the quarter.

**Terence Sinclair - Citi**

Could I just follow up? I was unclear whether you were claiming that you have taken or lost revenue share during the quarter?

**Guillermo Ansaldo - Head of Telefónica España**

First, in the quarter we have an estimation, because we don't have all the companies publishing their results. So for example, up to now, if I am correct, Vodafone has not published their results.

Also we do estimation. So in mobile our estimation - again, this is our estimation - you can compare that to the first quarter of last year, we have improved. That is our estimation.

In fixed, you know, we tend to decrease, because we are losing, we are the incumbent and we lose more fixed lines. So we are defending very well, but with a trend going down. I will estimate to give you a flavor that we lost in one year 1 percentage point in the fixed business in revenue share. But you combine both, we are pretty stable.

Basically first quarter compared to first quarter is better in mobile. Again with an estimation, because we don't have all the public figures for all the companies. And in wireline, we are slightly decreasing, but due to the fixed line. When you can combine both we are flattish, and you know these are estimates.

In the case of mobile what we tend to measure is outgoing traffic. The other categories are very harder and tricky to estimate.

**José María Alvarez Pallete - Head of Telefónica Latin América**

Taking your question about Argentina, let me say that with inflation, which is in the neighborhood of 16%, all our consolidated revenues in the countries are growing 20%, and our OIBDA is growing like roughly at 31%. So it is more than inflation.

And let me remind you that on the wireline business, 50% of our revenues are subject to a tariff frozen for the last eight years. So on the wireline business we had revenue growth of 17.4%. You need to compare that with half of our revenue base being frozen for eight years, and OIBDA increased by 14.3%.

We have been able to basically maintain flat the number of our traditional lines, to increase in ADSL, roughly at 25% year on year. And the margin of OIBDA has been flat on the wireline side year on year.

On the wireless side it is even, I would say, more outstanding on the operational side. Revenues are growing 21.4%, OIBDA 46%. Margins are expanding therefore. Operating cash flow roughly growing 50%. And we have been able to increase further on our share of revenues. So it is not inflation which has mainly driven the operation outperformance over our business in Argentina. We are highly focusing on quality in both wireline and wireless, on customer base, migrating prepay customers to contract customers, unbundling and with ADSL and pushing up the speed of access of ADSL. So I would outline that it is more than just inflation.

**Terence Sinclair - Citi**

A pretty modest positive inflation, but the EBITDA expansion has been much greater than it was in the fourth quarter. I just wondered if there were any one-offs or nonpermanent effect there?

**José María Alvarez Pallete - Head of Telefónica Latin América**

We have been more rational in terms of subsidizing handsets, for example, on the wireless side. Much more focused on value-added campaigns on the traffic side. And the contract base of our customers is the highest in the region, because we are, I would say, successfully migrating upwards prepay customers to contract customers. So it is a mix of different things, but let's say that from an operational standpoint we are highly focused on improving the performance in Argentina and it is going well.

**Robin Bienenstock - Sanford Bernstein**

I just wonder, you have been pushing for more enterprise contracts, I understand, through O2, and I was just wondering the contribution of your growth -- what contribution that made to your numbers in this quarter?

**María García-Legaz - IR**

Can you repeat the question please?

**Robin Bienenstock - Sanford Bernstein**

Yes, I understand that you have been pushing for more enterprise contracts through O2, and I wanted to know what contribution that made to your growth in this quarter - large enterprise contracts as opposed to retail contracts?

**Matthew Key - Head of Telefónica Europe**

Just to be clear, are you talking about multinational corporate work we have been doing?

**Robin Bienenstock - Sanford Bernstein**

Yes.

**Matthew Key - Head of Telefónica Europe**

As far as in the quarter is concerned, it is absolutely immaterial, because the one big contract that we signed was with DHL, which we declared the amount of revenue which was EUR350 million, but actually we haven't started earning revenue on that in the quarter. And just to be clear, it is a groupwide contract, so it is not just a European contract.

**Robin Bienenstock - Sanford Bernstein**

Okay. So far not much.

**David George - Credit Suisse**

First question is just on the Spanish mobile. I think we have seen some new tariff plans from Orange in recent weeks, where they have halved the call setup fee. I wonder if that is a trend that Telefonica or other operators might follow?

Then secondly, just on Germany, we did see a slight slowdown I think in the service revenue growth trends compared to Q4. Now obviously, we've got quite a big termination rate cut impacting from the start of April. I wondered is it still realistic to expect positive service revenue trend for O2 Germany this year?

**Guillermo Ansaldo - Head of Telefónica España**

Regarding Spain, we are focusing our commercial activity in mobile in three areas with three objectives. The first one is to stimulate usage. As I mentioned in other answers, we did suffer from usage from our existing customers in our first quarter. So we are focusing a lot of the promotions on trying to stimulate usage with our customers. Examples are top-up promotions, special rates for international calls, flat rates, some on the weekend, some during the day.

Those are plans that are in some cases are massive, in some cases are targeted to specific groups. But the idea behind those plans are to stimulate usage, to get more traffic, for example, more activity from our existing customers.

The second objective is a very specific need, which is the SIM-only offers. That is a trend that we have adapted from the success in the UK. These are specific low tariffs, but SIM-only. That means that we are not investing in subsidizing handsets and so on. So we are giving away on tariffs, but saving on the subsidies.

The third area obviously is trying to boost mobile data adoption, which is going very well. We are much more focused on flat tariffs. In that sense, we have basically doubled the number of flat tariffs that we have both for small screen and large screen. That is roughly 1 million customers. And so we are not trying to enter in a price war and we are not in a price war.

Basically I think that the wise thing to do is try to stimulate usage and try to push up the mobile data adoption, which is a trend that is positive even in this scenario. And obviously to address the specific segment needs.

**Matthew Key - Head of Telefónica Europe**

It is Matthew here. A very marginal slowdown. I think the quarter four number year on year was 0.8% and the Q1 number is 0.6%. If I had to point to anything, it would be actually giving customers extra value in the tariffs.

When I look forward, you are right, the MTR cut comes in from the start of quarter two. That will approximately take out a couple of percentage points out of revenue growth in Germany.

The key offset to that is we have just launched a new tariff in Germany called O2o. We launched it at the start of May. And from our perspective we've got great hopes for the tariff, because we think it is actually revolutionary in the German market. So we think that is going to get some great traction, hopefully to offset some of the MTR downside.

**David Wright - Deutsche Bank**

Just a quick question on the EPS guidance, please. The EPS stress test guidance in particular. Was that based around trends we saw in Q3 and Q4 in Spain, for instance, because it would seem like trends into the beginning of the year have further deteriorated, and indeed you just indicated that perhaps March once again has slipped. So does the EPS stress test guidance reflect this Q1 dynamic? Does it reflect these pressures, certainly in the Spanish market?

And then just another couple of questions, please, to Jose María. It looks like in Mexico the 3G license auctions have been pushed back again. And you guys I think are sort of scrambling for capacity there. Is that proving to hold you back now, AMX, indicating that it is looking to price closer to you guys to take some share away? Thanks.

**Santiago Fernández Valbuena - Telefónica S.A. CFO**

It is Santiago Fernández Valbuena. Let me answer briefly the EPS, the 2010 question. What we meant when we said that the stress test included the prevailing trends was exactly what turned out to happen in Q1. That is the weak economy pushing a lot of pressure on the top line, but us being able to counterattack by first managing costs, and second adapting CapEx deployment to the environmental condition. This is basically what we meant. And as you probably have seen in the Q1 numbers, we are right on track, both on the EPS and on the free cash flow front.

Of course, you can always design a scenario where the doomsday is foreseen and everything falls apart. We certainly do not think that the current environment is conducive to that kind of outcome. But we certainly will continue to monitor the outlook. But so far, so good is what I would answer.

I would say that you may also have noticed that the currencies that were a dragging factor have actually turned for the better. And it is only a matter of time, should they stay where they are, that they start contributing in a small positive way.

**David Wright - Deutsche Bank**

So just to check on that, Santiago, the EPS stress test then assumes that this kind of pressure in Spain, the kind of materially sort of negative service revenue growth and the line loss trends, are we assuming they continue or are we assuming they recover until 2010?

**Santiago Fernández Valbuena - Telefonica S.A. CFO**

We are half way down the line from October '07 long-term guidance towards the end of 2010. So let's take the game as it comes. And what we can say is what we have said. That is so far we do not see that our EPS and free cash flow guidance is at risk. We have no reason to believe, despite the relatively weak-ish March, which has been probably more than compensated, as Guillermo explained, by a not so weak-ish April. I am sure we are going to see a couple of these months, some good, some not so good.

**David Wright - Deutsche Bank**

That's cool. And Mexico?

**José María Alvarez-Pallete - Head of Telefonica Latin America**

Thanks for the question. It is José María speaking. In Mexico we do not have an issue on the voice part of our offer. And the only thing that we would require is more spectrum in order to massify wireless broadband. That we think it could be an opportunity, and therefore we keep looking for the regulator to do this auction of traditional spectrum.

But let me stress that from the voice point of view, we are in good capacity terms. And in fact, after the first quarter we will become a little more aggressive in terms of doing more voice offers in the second quarter, because we do think there is room for that in Mexico.

**David Wright - Deutsche Bank**

That's great. Thank you.

**Jonathan Dann – JPMorgan**

Three questions. The first one was just could you dive into the changing, or the improvement, in margin between the first quarter '09 and the first quarter '08? And could you just clarify whether or not you included a savings from, I guess, not paying Deutsche Telekom for their network? I think Deutsche Tel had mentioned not receiving EUR42 million from you guys.

My second question is if you could provide an update on what you expect to be announced in the next weeks from Ofcom on sort of beyond 2011 MTRs? And the same for Spain, would be the third question. Obviously, the CMT, not Ofcom.

**Matthew Key - Head of Telefonica Europe**

It is Matthew. Let me pick up your first two. I presume your first question was specifically related to Germany, was it?

**Jonathan Dann - JPMorgan**

Yes.

**Matthew Key - Head of Telefonica Europe**

Firstly, let me say that I actually don't recognize the numbers Deutsche Telekom quoted. But it just happens to be about the same as our year on year OIBDA from Germany, which I think it is circa EUR40 million.

I would point to four things as far as the increase in Germany year on year. The first is we are getting more throughput through Telefonica Deutschland, which is our DSL wholesale business. That is simply through more customers. And that has now moved into a positive situation.

Secondly, we are benefiting from the rollout of our increased retail stores. So we are getting a higher proportion of our connections direct, and therefore not paying the indirect channels.

Thirdly, we have moved our commercial model, more to SIM-only and away from pure handset. And fourthly, we are certainly using less of the minutes that we have committed to T-Mobile, because there is a better quality network.

If I break those four down, very roughly, you can take about 25% of the improvement on each of the four. So put EUR10 million alongside each of those four items. Whereas T-Mobile, that EUR42 million comes from, I don't know.

Do you want me to pick the Ofcom MTR answer? That was a UK question?

**Jonathan Dann - JPMorgan**

If you could pick up the Ofcom MTR, and also the sort of Kip Meek spectrum cap document this morning?

**Matthew Key - Head of Telefonica Europe**

I don't know how many days you have got for me to go through the Kip Meek spectrum.

**Jonathan Dann - JPMorgan**

About one or two minutes.

**Matthew Key - Head of Telefonica Europe**

Let me try. Effectively, what Kip Meek's proposals are, it suggests that there is a way forward on UK spectrum, such that the potential outcome is that us and Vodafone hold on to our 900 megahertz spectrum, but we are blocked for a period from buying 800 megahertz spectrum, but the all the operators are allowed to buy 2600 spectrum.

We welcome Kip's approach. We think it is a great proposal for Digital Britain to give a USO potential. And from our perspective, we will be supporting the proposal through the next five weeks of consultation process, which will happen with all the networks.

As far as Ofcom MTRs post 2011, it is pretty difficult to say actually, because clearly it is in the future, and it very much depends on what happens from an European perspective. But also it seems related clearly with the spectrum question from a cost perspective. But the current environment actually kicks in back end of this year, so we will wait and see what Ofcom are going to do post 2011.

**Guillermo Ansaldo - Head of Telefonica España**

Regarding MTR in Spain, as far as we know, we expect news in July. And you know the glide path ended this last April. We don't know if the CMT is going to issue a three year or four year glide path or a year by year.

We do know or we expect two things. First, continuous reduction of asymmetry. We want to converge to similar tariffs. That is good for us. Second, we expect - we hope to continue with non-disruptive path, so a reduction but a non-disruptive reduction.

**Jonathan Dann - JPMorgan**

Do you think similar to the current percentage, your cuts?

**Guillermo Ansaldo - Head of Telefonica España**

Yes, that I meant by nondisruptive, similar to that we had in the past.

**Jonathan Dann - JPMorgan**

Thank you.

**Luis Prota - Morgan Stanley**

I have two questions. The first one is on domestic mobile revenue trends in the second quarter. I'm trying to figure out what could be the impact from the new tariffs that you were launching late first quarter?

And more specifically, I would like to understand whether this new low-cost tariff and subsidies that you're giving are going to be revenue accretive or revenue dilutive? And how do you address the risk of other customers migrating to this cheaper tariff by looking out? So I wonder whether figures like percentage of customers already benefiting from on-net or bundles at cheaper prices could help us understand this risk.

Then the other question is on mobile data revenues, the spend are up 7% this quarter, which is around half the rate of the last few quarters. So, I'm interested on hearing on SMS revenue trends within this, and whether this is affected mostly by volumes or pricing, and any change in dynamics that you have seen here?

**Guillermo Ansaldo - Head of Telefonica España**

Regarding the impact of new tariffs, well, you know we have a long tradition of launching savings tariffs in mobile in Spain, numbers like “Mis favoritos” which are savings models to one specific number, “Mis cinco”, which is why is five specific numbers, a lower tariff, the on-net and so on. And also some flat rates in our portfolio.

Obviously, you always run a risk of cannibalization, but the way we try to deal with this is that we try to target more aggressively with outbound marketing, for example, customers where we believe there is a trade up. So we can improve revenues, while giving customers a lot of value.

Obviously, we monitor, we measure, week by week how we are advancing. And if we see that any specific trend is not generating the elasticity we expect, or the cannibalization is higher than expected, we do what we have to do. We change the promotion or we change the product.

So far, it is too soon to tell about these new products. Because some of them have been launched in February, some of them in April. Some of them are doing very well and above our expectations. Some others, like the "Weekend plan" tariffs have only two weeks of life, so it is too early to tell.

As you have seen, some of them have TV campaigns and some not. The ones that don't have TV campaigns are the ones that are much more open market driven. So it is something that we tend to manage in all our operations. And we monitor week by week. So we are not expecting a disruptive effect on cannibalization because we monitor that. And if we have a problem we will try to compensate or change the product.

Regarding data revenues, one thing to comment. I don't know if you are tracking that, but you have seen that we are improved in data revenues. We are at 7% up this quarter compared to the first quarter. While the fourth quarter last year we were up 14%. That is explained exclusively due to this premium SMS grand contest that we have. This quarter we have only 15 days of one of these "Super Concurso". And while the first quarter last year was up almost the whole month. So if you take away this premium SMS grand contest, the rate will be 11%, so basically the same rate.

If you take away person-to-person SMS, the data revenues are above 20%, and connectivity revenues are up 50%. So we see that data revenues are growing very healthy. And obviously this "SuperConcursos" for premium SMS contest, depending on the seasonality on when specifically they are done, they affect the quarter measures. But if you take that effect away, we are the same growth in data and we are improving in ARPU.

**Tim Boddy – Goldman Sachs**

Two questions. The first on Latin America, similar to the earlier question on Spain. If you could just talk about the trends through the quarter, the trend in March relative to the earlier month, and how it has continued into April, that would be helpful. Obviously, there is concern about growth continuing to slow.

Secondly, just to clarify the comments earlier about cash held in Venezuela. Would it be possible to understand at what rate that's hedged, and whether -I guess when the hedge runs out, whether it is possible to re-hedge it at that point? My understanding is the hedging market is becoming a lot less liquid.

**José María Álvarez-Pallete - Head of Telefónica Latin America**

Taking your question on trends in Latin America, those are not homogenous. Those depend on country by country. But globally speaking let me tell you that we do think that the situation is improving in Brazil, which is the main economy in the region. It has showed some signs at the end of the year and in January because of the summer campaign and another macroeconomic impacts, but it is getting better. All the macroeconomic indicators in the country are showing our strength. It is too soon to say those are sustainable, but Brazil, being the main economic division, is doing better.

We, in our operation there, both in wireless, and mainly in Telesp, I covered the fact that we have some impacts of the new call center law, that they are stabilizing. And therefore we tend to think that the situation in Brazil should get improved month after month.

But I just want to say, globally speaking, let me address the fact that in May we have the Mothers' Campaign in most of the countries and that is going to be the first real sign of evolution. It is too soon to say, but according to preliminary indications, it proves to be okay.

Generally speaking, let me stress the fact that in these economic environments and with different patterns of behavior in different countries, thanks to the diversification of our portfolio, we have been able to grow roughly 9% in revenues and roughly 14% in OIBDA. So if that is an indication of how we are experiencing the current economic situation in Latin America, I think it is a good trend.

It is true that in terms of customers, especially on the mobile side, we have been a little bit weaker. But it is also true that we have been reducing handset subsidies because of the movement in the currencies and because we are also focused on preserving profitability. So part of the deceleration in the customer base may have been caused by our less active way of subsidizing handsets. And also, mainly in Mexico, for example, we have been doing less profit campaigns.

I would say that we are running normal business in those countries, and Mothers' Campaign is going to give us the sign of the year.

**Santiago Fernández Valbuena - Telefónica S.A CFO**

This is Santiago again. There is no hedging instrument or market for the Venezuelan Bolivar, neither onshore nor offshore. So for all practical purposes, you can assume that we go naked on the Venezuelan Bolivar exposure. There is no other way to run this game.

**James McKenzie - Fidentiis**

I am just following up on the question on domestic business. What sort of factors do you think could influence coming quarters, either up or down? Particularly, I can think of a couple of the negatives on mobile with the Easter affecting the second quarter, with these new tariffs. And then obviously in the summer, the roaming may actually bring revenues down. Is that reasonable or are there any other countering effects that might mean that the service revenue decline in the first quarter was the lowest of the year?

**Guillermo Ansaldo - Head of Telefonica España**

In the coming quarters, obviously, we have Easter in April; when I said that April was better than March, it was taking away obviously the Easter effect.

And looking at the underlying trends, in the mobile business usage will be key, meaning what type of traffic, SMS, data usage, our existing customer would happen during the quarter. That in my opinion is key. Obviously, second in mobile, in the second degree will be access growth, as we saw a low access growth in the first quarter. As Santiago explained in the presentation, we tried to play too much on rational commercial efforts on getting better results. Our success was on the churn. Churn is stable, but we are not very successful in controlling the gross adds, so we hope to improve in gross adds. But the key factor in mobile, to be honest, is the usage. If we get some elasticity on our customers, if we convince them through these tariffs and so on that they can spend more money on mobile, that will be key on the revenue side.

In the fixed business, a different story. It is much more scattered through different lines. First quarter you saw three revenue lines going down, which were basically accesses, fixed access, voice and broadband. And two going up, data and IT.

The two going up basically means that we are focusing on high-value customers, so in large corporate and in the large companies we are continuing to focus on structural profitable value. And again, voice traffic is something that is not as relevant as in mobile, but also we suffer a negative evolution in the first quarter, so usage again will be key. And also demand for new broadband lines is also another indication of improvement or not.

But if I had to sum up, there are many factors, but usage in general is the main factor that we are going to try to foster. And that will help to explain much of the revenue side.

On the margin and on the operating cash flow we have done very well in the quarter. Obviously, it is an easier task if the topline goes, will go better. We will continue pushing for savings and efficiencies, and obviously we will try to be prepared for different scenarios.

So again, answer to your question, usage in the first time and then keep on working on efficiency. And also as you notice, we are keeping a very close eye on revenue market share as a health indicator that we are not losing track in the market.

**Will Milner - Arete Research**

A couple of questions on Latin America. Firstly again, Venezuela. I guess just looking at a 33% revenue growth; it is obviously a great result in a market over 100% penetrated. I just wondered to what extent you're taking revenue share in that market? And then if you can talk just around the sustainability of that trend as you see it?

Secondly, on Mexico, I wonder if you could help me understand the 16% growth in service revenues in the quarter. I can't quite reconcile that with the 20% growth in the average mobile customer base with a 10% ARPU decline, because I think that gets you to around 8% service revenue growth. So I guess I'm missing something.

**José María Álvarez-Pallete - Head of Telefónica Latin America**

On the Venezuela question, you are right, we are focusing on revenue market share rather than customer market share. We have reduced to almost zero the handset subsidy, and that´s helping us to boost revenue there, both in terms of service revenue and in terms of handset revenues.

On top of that, the on-net effect and the strategy we have followed to migrate customers to contract, and we are highly focused on churn; we have been reducing churn again this quarter. Jointly with the fact that we are a fully integrated company, I would say, in Venezuela because we are providing also fixed wireless and wireless broadband. We are massifying the wireless broadband in Venezuela, and therefore wireless broadband is also helping us to boost revenues. I would say it is a mix of issues of issues in Venezuela, and all of them are helping us to boost revenues and to increase profitability. Also we launch last year, and it is too soon to say how we are going in our satellite TV offering as part of a bundle. Remember that in Venezuela you have all services. You have public telephony, fixed wireless, and also wireless, a very complete wireless offer. Wireless broadband and bundling is taking us upward in the value chain of our customers. There is a full amount of initiatives going on. ARPU has been going up 22%. So in Venezuela it is a mix of issues. And remember also we are not subsidizing handsets. The handset activity is also helping us to boost our revenue there.

Taking your question of ARPU and service growth in Mexico, let me remind you two things. First, on the basis of calculation of ARPU, the difference between the total customer base at the end of the period and the average customer base, that helps to reconcile a little bit the numbers. But mostly the fact that some revenues, some service revenues are not included in ARPU calculation, mainly roaming in or wholesale revenues or the fixed wireless activity that we have there in Mexico. So these factors explain the difference, or reconcile the difference between the service revenue growth and the ARPU growth.

**Luigi Minerva - HSBC**
A follow-up question on Telesp. The margins weakness was explained as a spike in TV content expenses. Can you give us some guidance on how the margins will develop over the year? Are they going to go more down, or as the business gets more scale, we have seen the bottom of it?

Second, on Spain, you are running on a CapEx over sales ratio of around 4% in mobile and 8% in fixed line. Shall we assume that it is a floor, so no more room to go below that? So if you need more CapEx flexibility that has to come outside Spain?

**José María Alvarez-Pallete - Head of Telefonica Latin America**

Thanks for the question. Taking the Telesp one, as you know, we don't give any guidance for markets. But let me comment on some issues that we have tried, to help you in understanding the evolution.

First thing, in this first quarter we have been increasing the call center expenses in order to match the requirements of the new call center law, which the initial impact has been higher than the one that we were estimating, and therefore have forced us to increase the number of attendants in order not to destroy the quality levels. And that has driven us to reduce the commercial efforts, because we have been putting retention and quality efforts before trying to do additional commercial efforts on the call center. So that will help you to understand part of the trends.

On top of that, the trends in March in last year were driving to stabilization. We think that with the effort that we are doing on those, the transformation effort that we are doing in order to simplify the offers that we have in Telesp, and the new contracts that we are having with the sub-contractor activity should help you to address our present situation. So I don't think that you should extrapolate the initial impact of the call center law in the margins. We are working very hardly to address that situation.

But let me add, that Telesp in the meantime, for example, in terms of net adds for ADSL, the quarter has been pretty stable compared with the previous one. In fact, we have been adding roughly a little bit more than 100,000 ADSL lines. This is slightly above last year's figure of the first quarter. And it is above the figure that we have in the Christmas campaign.

So we tend to think that, even if it is true that we have been having an impact on margins on the first quarter, we should be able to address or stabilize the situation.

**Guillermo Ansaldo - Head of Telefonica España**

This is Guillermo. Regarding your question of CapEx, well, you know the combined CapEx for revenues for the quarter is 6.9%. Obviously always first quarters are a little bit lighter than next quarters in general. But if you look at the split between mobile and fixed, two comments.

First, a lot of the common infrastructure, like transport and so on, even that we are an integrated business unit, are done on the fixed, tend to be a little bit more loaded with transport and connection, also due to base stations and so on.

Second, the mobile number, in this case is low. It is going to increase a little bit over the year, not a lot. And the fixed number, maybe is there or reducing a little bit. So you will see the evolution during the year. You will see a lot of reduction compared to previous quarter, to last year, in similar quarters this year. But the photo for the first quarter is a little bit skewed to the lower part in mobile, and will increase a little bit during the year.

Is that the floor? In fixed? Well, we think that we can continue reducing CapEx. We will see. Maybe some reductions are easier to get than others, but I think in fixed we can do more.

**Operator**
At this time no further questions will be taken. Mr. Santiago Fernández Valbuena, I turn the call back over to you for closing remarks.

**Santiago Fernández Valbuena - Telefónica S.A. CFO**

Thank you. Just a reminder that we will be holding our Investor Day in October, as we previously announced. We confirm that it is going to be held in Madrid. And we hope to see you at the end of July for the presentation of our Q2 numbers.

Thanks all for attending this call. And we certainly do hope that we have provided some useful insights for you. Good afternoon.