



Telefónica January-September 2010 Results Conference Call Transcript

11th November, 2010

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Introduction

María García-Legaz - Telefónica S.A. - Head of IR

Good afternoon, ladies and gentlemen, and welcome to Telefónica's conference call to discuss January-September 2010 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 Chief Strategy Officer, Mr. Santiago Fernández Valbuena, who will be leading this conference call.

Presentation

Santiago Fernández Valbuena - Telefónica S.A. – Chief Strategy Officer

Solid execution, delivering on 2010 priorities

Good afternoon, ladies and gentlemen, and thank you for joining Telefónica 2010 nine months results conference call. Today with me I have Julio Linares, our Chief Operating Officer, Guillermo Ansaldo, head of Telefónica España, José María Álvarez-Pallete, head of Telefónica Latinoamérica, Matthew Key, head of Telefónica Europe and Miguel Escrig, our newly appointed Chief Financial Officer, who from now on will be joining these calls. During the Q&A session, you will have the opportunity to ask questions directly to any of them.

In the first nine months of the year we have posted a set of strong earnings, delivering on priorities established for the year on the back of our unmatched diversification and our execution skills.

Top line trends keep improving, with growth rate accelerating in the third quarter, driven by a sound commercial performance and strong mobile data revenues.

Our profitability continues to stand out, with the higher commercial activity through the year having a limited impact on OIBDA margin erosion, as we reap the benefits of our integrated approach and our scale.

We continue to deliver a strong cash flow generation, which is combined with our balance sheet strength.

And year to date results are aligned with our internal expectations of improving trends along the year and thus, we are comfortably on track to achieve 2010 outlook, as growth will be ramping up in the fourth quarter.

We also reiterate our 2012 guidance, including growing dividends. In 2010 we are distributing 1.40 euros per share, with a dividend charged to unrestricted reserves of €0.65 having been paid at the beginning of this week.

Sustained earnings momentum fuelled by diversification

Slide number 3 shows a summary of first nine months 2010 P&L, highlighting a sustained earnings momentum.

Reported year-on-year growth rates have been impacted positively mainly by the revaluation of our pre-existing stake in Vivo, changes in consolidation and forex.

However, focusing on organic growth rates and excluding the impacts from capital gains and restructuring costs in Germany, in 9M we have recorded a strong acceleration from first half figures, leveraging our diversified portfolio. Let me stress that in Q4 our diversification will go further, with a higher exposure to emerging markets due to our increased stake in Vivo.

Reported top line went up 6.0% year-on-year in the nine months to September 2010, pushing consolidated sales to top 44.3 Billion Euros. In organic terms, total revenue increased 2.5% year-on-year, 0.5 percentage points more than in the first half of the year.

OIBDA ended the period just around 20.4 Billion Euros, 22.5% up year-on-year in reported terms, which turned into a 2.3% year-on-year decline in organic terms, reflecting the lower contribution from our businesses in Spain, the sharp increase in commercial activity across regions and the negative impacts from regulatory measures, non recurrent effects and restructuring costs just mentioned.

As a proxy to cash flow generation, cumulative Operating Cash Flow to September exceeded 13 Billion Euros, with the year-on year performance impacted by close to 2.5 Billion Euros investments in spectrum in Germany and Mexico in 2010.

Robust bottom line

On the next slide, January-September 2010 net income exceeded 8.8 Billion Euros, with a 66% year-on-year growth, or 67% in terms of EPS, which reached 1.95 euros.

Reported figures show material impacts from several effects:

First, we have recorded 3.8 Billion euros at the OIBDA level in the third quarter derived from the revaluation of our pre-existing stake in Vivo at its fair value at the date of acquisition of the 50% stake of Portugal Telecom in Brasilcel. The impact in net income is lower, due to 321 million euros of tax effects.

Second, we have booked a restructuring charge of 202 million euros in the third quarter of the year in Germany, as the integration process of T. 02 Germany and Hansenet is going ahead of plans.

And third, in the third quarter of 2010 we have included a negative charge of 191 million euros related to the transfer of the difference in market value of our stake in BBVA from equity to financial results, which continues to be registered as financial investments available for sale.

As a result, we are fully on track to meet our 2010 EPS target of €2.10 per share.

Sound commercial performance across the board

Slide 5 shows the remarkable customer growth recorded up to September, driven by our solid commercial momentum across geographies.

Group accesses reached the 282 million mark. Organic net adds in the first nine months of the year almost doubled last year's figure and totalled 13.5 million, on the back of higher gross adds and churn containment.

We continue to push on value and growth levers: close to 60% of our organic mobile net adds year to date were on contract. Thus, already 31% of our base is on postpay, 3 percentage points more than in September 2009.

On the other hand, MBB adoption is booming, showing an outstanding 73% annual growth in accesses.

I'd also like to mention the higher penetration of bundles, a key driver of retail fixed broadband expansion and better trends in fixed line.

Strong sales, ramp up in growth rates

Turning to slide 6, we are actively pursuing the growth opportunities in our markets, leveraging our integrated approach and diversified portfolio, which drive our best in class organic growth rates.

Organic revenue year-on-year growth recorded the fourth sequential improvement, despite a weaker performance in Spain, ramping up 50 basis points from the first half to 2.5% up to September, underpinned by T. Latam and T. Europe. Global initiatives launched last year to fully capture the benefits of our scale are also a differentiated factor of our growth profile.

Excluding headwinds from MTR cuts, organic sales growth would have accelerated to 3.7% up to September.

In reported terms, revenue trends are also improving, with the 7.3% year-on-year growth recorded in the third quarter being fuelled by the fast customer growth and increased usage, on top of the positive impact from FX and changes in consolidation.

Booming mobile data revenue on increased MBB adoption

Slide number 7 outlines how we are fully exploiting the mobile data growth potential across regions.

Total mobile data revenues rose over 21% year-on year in the first nine months of 2010 in constant currency, driven by the continued adoption of smartphones and high-end devices. Data revenues already account for 26% of Group mobile service revenue, on the back of strong non P2P SMS data revenue, which rose 36% year-on-year ex forex.

We are recording strong MBB volumes, with active MBB users accounting for 9% of our mobile accesses, 4 percentage points more than a year ago. Specially remarkable is the robust take up in the more mature European markets, where MBB penetration has already reached close to 20% of our base. On the other hand, the low penetration in Latin America provides us with a differentiated additional growth lever vs. our peers. The strong demand recorded in countries like Venezuela, where penetration is well above the average for the region, further supports these high growth prospects.

To accelerate MBB adoption, we continue to broaden our portfolio of devices, with good demand for recently launched i-phone4, Blackberry Curve 9300, HTC Touch, Samsung Galaxy and Nokia 5800, among others. On top of this, new operating systems will further foster competition and enhance the MBB opportunity.

In parallel, we continue to enhance MBB traffic monetization through more segmented data tariffs based on offers with data control, thus avoiding flat rates.

Healthy profitability driven by costs discipline & scale benefits

The drive on commercial activity has had a limited impact on our profitability, and we continue to post strong margins in underlying terms, as you can see in slide number 8. Group operating expenses grew 6% year-on-year in organic terms up to September. Commercial costs, with a high single digit organic increase and networks costs, mainly in T. Latam, explain close to 2/3 of the consolidated OpEx y-o-y growth.

On the other hand, OIBDA performance continues to be dragged by non recurrent items and negative regulatory impacts. Excluding these effects, OIBDA would have increased year-on-year.

Stripping out the restructuring costs recorded in the quarter in Germany, pressure on OIBDA and OIBDA margin eased during the third quarter, as we are reaping benefits from the revenue revamp and taking advantage of our scale. Let me also stress that global initiatives have contributed with 0.9 percentage points to the nine months OIBDA growth.

High cash flow generation despite increased CapEx

Moving on to slide number 9.

It shows that January to September 2010 CapEx reached over 7 Billion Euros, 66% above last year figure in nominal terms, mainly due to investments in spectrum in Germany and Mexico. In organic terms and excluding spectrum acquisitions, CapEx increased 6% year-on-year.

However, we continue to prioritize CapEx in growth platforms, which account for 76% of total investments to September, excluding spectrum costs.

As a result, operating cash flow rose by 7% year-on-year to exceed the 13 Billion Euros mark, while stripping out investments in spectrum it would have posted a 5.2% drop year-on-year, purely organic. It is worth highlighting the underlying growing cash from T. Latam and T. Europe, that offset the lower contribution of T. España.

I'd like to highlight the Telefónica's competitive advantage in OpEx and CapEx leveraged on our integrated management model.

2010 guidance confirmed

On slide number 10, under guidance criteria revenue growth in the first nine months of the year was 3.9%, fully aligned with our 2010 target.

OIBDA is still below full year guidance, but consistent with the anticipated performance along the year. We do reiterate our target, with a further acceleration in the last quarter

of the year as we will have less challenging year-on-year comparisons in Telesp and Colombia wireline and commercial activity ramped up from Q3 09 onwards.

CapEx up to September surpassed 4.6 Billion Euros. However, mainly due to seasonality, this figure should not be annualised as an estimate for the full year. We do maintain our targets for 2010.

T. España: Gradual improvement continues y-o-y

Please turn to slide number 11 to review our regional performance, starting with Spain.

Adverse trading conditions continue to impact the business, though on comparable terms, year-on-year declines in top line show a gradual recovery versus last year, dropping 3.8% year-on-year to September, 2.6 p.p. below the decline posted in the first nine months of 2009 on the back of the stronger commercial activity recorded in the last 12 months.

In the third quarter we posted a weaker performance, mainly driven by lower voice traffic across businesses.

Due to pressure on high margin revenues and higher commercial costs, OIBDA in comparable terms dropped 5.8% to September, though showing as well a better year-on-year improvement, as further efficiencies were captured in costs.

It is worth highlighting that T. España continues to post a benchmark profitability, with a healthy 47.8% OIBDA margin on a comparable basis up to September.

Continued strength in contract and MBB

On the wireless business, commercial activity in the third quarter remained solid, with a remarkable performance in contract.

Postpay net adds increased sequentially along the year and in the first nine months of the year were 1.7 times higher than in the same period last year, leading to a 7% year-on-year growth in the contract base. Our focused commercial efforts drove gross adds up sharply, while we sustained our best in class postpay churn at 1.4%. As a result, 67% of our mobile customers are already on contract.

Despite difficult conditions, mobile data revenue continues gaining traction, with active MBB users doubling last year's figure, driving growth in connectivity revenue to 59% year-on-year to September. Please notice that total data revenue are still impacted by a lower contribution from premium SMS due to changes in regulation. As a result, non-P2P SMS data revenues accounted for 66% of total data revenues, up close to 6 percentage points year-on-year.

MSR weaker performance quarter-on-quarter is mainly explained by lower traffic in a difficult environment. It is also worth to mention that MTR cuts had a negative impact of over 3 percentage points in the service revenue year-on-year change.

Enhanced commercial activity across portfolio

On the wireline business in Spain, on slide 13, I would like to highlight the increased commercial activity recorded in the third quarter, across all services.

Retail line losses continued to improve significantly, recording the lowest quarterly net loss since Q3 08. These losses are almost offset by net adds in the wholesale segment, that generate revenue for us, leading to a limited decline of our total wireline accesses year-on-year of only 0.6%.

Quarterly fixed broadband net adds increased 24% sequentially, driven by the improvement in gross adds and churn, reflecting our constant efforts to increase the premium value of our offer, which allowed us to record the highest share of net adds since the third quarter of 2009 and to sustain a strong 54% market share.

In Pay TV, we continued enhancing our competitive position with a 19% market share, as net adds to September almost doubled year-on-year.

On the revenue side, Q3 10 year-on-year performance in comparable terms was mainly affected by lower voice and access revenues driven by weaker traffic, and the lower contribution from the subsidiaries that offset higher data and IT revenues. Internet and broadband revenue were negatively hit by the 8% year-on-year erosion in BB ARPU amid stiff competition.

On the positive side, it should be noticed the decreasing exposure to traditional voice and access revenues, with new businesses accounting for 43% of total wireline revenue.

T.Latam: Revenue and OIBDA growth acceleration

Moving to slide number 14 to review our Latin American operations, I'd like to stress the sustained acceleration of our businesses amid good economic growth in the region.

Strong commercial momentum remains, with total net adds of 10.6 million in the first nine months of 2010, close to two times those of the previous year.

Year-on-year organic growth rate accelerated for third consecutive quarter to reach 6.9% up to September, fuelled by double digit growth in mobile service revenues and fixed broadband and pay TV revenues, and the ramp-up in growth in countries that account for 70% of our revenues in the region.

OIBDA trends also improved, with a 4.8% year-on-year organic OIBDA growth in the first nine months of 2010, a 0.9 p.p. sequential improvement, ahead of revenues.

OIBDA margin stood at a healthy 38.1% in the first nine months, excluding the impact from the revaluation of our pre-existing stake in VIVO, and despite the higher commercial activity vs. last year.

Let me highlight that OpCF generation remains solid, growing in Euro terms year-on-year despite the strong Bolivar devaluation.

Wireless: growth in voice & data fuel double digit top line

Let's now turn to slide number 15 to explain the performance of our wireless business in Latin America.

Up to September growth in wireless accesses was strong at 12%, driven by good gross adds and churn contention. Our focus on enhancing customer value was reflected in the rapid expansion of our contract accesses, with 53% of total net adds in the first nine months of the year being on this segment.

MBB users, another key lever to foster growth, more than doubled year-on-year. Total mobile revenue growth was driven by the 12.5% year-on-year organic increase in service revenues. Data revenues are booming, up by almost 50% year-on-year while voice traffic rose close to 30%, fuelled by our focus to exploit the community effect across countries.

As a result, and despite the drag from regulation and fast customer growth, ARPU remained flat year-on-year, with outgoing ARPU growing close to 3%.

Wireline: Strong commercial performance

Let me outline the performance of our wireline properties in the region, where we are recording a strong commercial push.

Broadband net adds continued the positive trend of previous quarters, and just in the third quarter net adds surpassed the levels recorded in the first nine months of 2009, accelerating broadband access year-on-year growth to 14%, on higher gross adds and lower churn.

The traditional business also posted good results in Q3, with very low net line losses driven by an improved quality and increased focus on bundles, with 66% of retail fixed lines already bundled. If we were to exclude fixed wireless accesses, the traditional business would have recorded positive net adds in the quarter.

As a result of the ongoing business transformation process, new revenue sources as Internet and Pay TV represent already close to 22% of total wireline revenues, 1 percentage point higher than last year figure in constant currency.

Brazil: Gaining momentum across businesses

Let me now spend a few minutes to sum up the performance of our Brazilian assets.

Telesp commercial momentum continues, with net adds in the third quarter at similar levels to previous quarter, both in the traditional and in the FBB business, resulting in a drastic change compared with the performance recorded in the first nine months of 2009. Year to date we gained 45 thousand fixed traditional lines, with positive net adds in the last 7 months, while fixed broadband net adds reached 500 thousand, vs. just 22 thousand last year.

The good operating performance is gradually flowing into financials sequentially. Revenues turned positive in the third quarter and on cumulative terms, while OIBDA keeps improving.

In wireless, Vivo's posted another outstanding quarter, both in terms of operating and financial metrics. Net adds were strong and Vivo increased its market share year-on-year to over 30%, with a particularly notable performance in the contract segment, where Vivo captured 50% of market net adds in the third quarter.

Financial results accelerate on cumulative terms across all metrics on the back of the strong performance of the data business, the boom in traffic and an efficiency mindset. Please notice the solid MSR growth, close to double digit and the OIBDA margin expansion to 31.2% up to September.

Good performance in key operations

On slide 18 we review quickly the performance of the other key operations in Latin America.

In Mexico, addressing the contract segment has been our focus more recently, leading to a 53% year-on-year increase in our contract base and driving MSR up 6%. We are now focused on the reshuffle of our prepay commercial offer, as we have lost momentum in the market, and on a more aggressive push of MBB, a big opportunity for us that, after the spectrum acquisition last July, we can now better tackle.

In Venezuela, our commercial activity was mainly impacted by the availability of handsets, though financial results continue to be very robust.

In Peru, revenue growth ramped up in the quarter, driven by sound customer growth in FBB and mobile, while OIBDA growth turned positive.

In Argentina, the strong operating performance with stable traditional accesses and solid growth in mobile and FBB is behind the robust revenue growth and the healthy OIBDA margin.

In Chile, we continue to post strong results, with sequential improvements in revenue and OIBDA.

To finish, Colombia, where revenues are back to grow in both businesses in the third quarter of the year, underpinned by the sustained accesses growth for the third quarter in a row.

T.Europe: Sound financials driven by commercial momentum

Let's now turn to slide number 19.

T. Europe once again delivered robust financial results in very competitive markets, leveraging a diversified asset portfolio.

Our total customer base across T. Europe's footprint grew by 6% year-on-year in organic terms, driven by strong growth in mobile. The contract base continues on its upward curve, accounting for over 60% of total mobile net adds in the January-September period, reaching close to 50% of our total base.

Our broad smartphone portfolio, as well as our targeted commercial push underpinned growth of our MBB base, up 46% year-on-year.

Organic revenue growth for the first nine months of 2010 ramped up to 3.7% year-on-year, or to 6.4% when excluding the impact of MTRs. Non-P2P SMS revenues, up 28% year-on-year in organic terms, are the main growth driver of top line expansion.

Profitability in comparable terms was sustained in the first nine months of the year, with an OIBDA margin of 26%, impacted by higher commercial investment in customers.

UK and Germany continue to drive OIBDA performance, while OpCF grew steadily by double digit on a comparable basis.

T.O2 UK: Mobile Internet boosting customer lifetime value

Slide number 20 reviews our operation in the UK, where Telefónica O2 UK continues to perform strongly by focusing on targeted investment in high value base, in a highly competitive market. This was evidenced by O2's market-leading customer retention rates, with contract churn of just 1.1% in the first nine months of 2010.

UK's mobile customer base rose 4.8% on last year, after recording a 20% year-on-year increase in net adds in the third quarter. 67% of new customers were in the contract segment. As a result, postpay customers account now for 47% of our total base, driven largely by the increasing demand for high-end smartphones and dongles from new and existing customers. 20% of our mobile base is on MBB, with strong sales of iPhone and continuing success of other devices such as Blackberry and HTC.

Revenue growth ramped-up in the third quarter to 8.5% year-on-year in local currency mainly driven by the sustained improvement in mobile service revenue to 6.3% in the third quarter and the success of hardware sales.

Third quarter comparable OIBDA growth was hit by higher commercial costs following the launch of iPhone 4, as we saw an increase in the number of handset upgrades. However, profitability remained stable in the first nine months of the year compared to last year.

T.02 Germany: Solid financials, acceleration of HanseNet integration

To review the commercial and financial performance of T. 02 Germany, please turn to slide 21.

Our mobile customer base in Germany increased 8% year-on-year after adding 1.1 million customers for the first nine months of the year. Strength in the contract segment continued, with 48% of the customer base in the contract segment.

I'd like to highlight that according with the annual network rankings published by the authoritative German publication, Connect, Telefónica O2 Germany has for the first time overtaken DT and moved into second place. This is a very significant achievement and we will fully leverage the network investment made over recent years to further push MBB penetration, capitalizing also on the recent launch of the iPhone 4.

Organic revenues posted a solid 7.2% year-on-year growth to September, driven by mobile service revenues which saw an acceleration in the third quarter due to non-P2P SMS revenue growth, up 34% year-on-year. Also note that handset revenues performed strongly, after the introduction of "My Handy" model in the second quarter of 2009, but this impact will be diluted over time, as already shown in the third quarter of the year.

In addition, we are making good progress with the integration of HanseNet, resulting in the acceleration of our restructuring plans, originally expected for 2011 and this will show pay back benefits in two years. As such, we have recorded a one-off charge of 202 million euros in the third quarter.

The Company continued advancing in terms of profitability, growing OIBDA in comparable terms up to September, expanding its margin and increasing its Operating Cash Flow.

Leverage ratio within target range after Brasilcel acquisition

Turning to slide 22, you see that we keep our leverage ratio after Brasilcel acquisition at 2.4 times OIBDA, considering 100% of Vivo, within our committed target range.

Along this year despite difficult market conditions, Telefónica has been able to put in place a balanced financing exercise. We have entered into bank financing for an amount

of €8bn to partly finance Brasilcel acquisition and prefinance 2011 existing debt; we have tapped the Euro, US dollar and sterling bond market for an amount above €5bn; and we have raised close to €2bn in Latam and loan agreements with public entities. All in all, showing Group's ability in diversifying its funding sources in a tough credit market and keeping an average debt life of our total debt at 6 years.

All this activity has been done while containing our financial expenses in the 5% mark, in spite of the FX loss due to commercial debt in US dollars in Venezuela, after excluding the impact of transferring from equity to financial results the difference in market value in our stake in BBVA.

Finally, we have also been reinforcing our liquidity position, not only through our cash and short term financial investments but by our level of unused committed credit lines, which in turn has built sufficient room to accommodate the pending payments on Brasilcel acquisition.

Summary

To sum-up...

In the first nine months of the year we have posted strong earnings, clearly ahead of the pack, despite our exposure to Spain. Financial performance was solid across the P&L, with sound growth rates from top to bottom line.

Revenue continued to trend up, improving sequentially, as we do leverage our diversification, one of our key strengths that will be even reinforced in the fourth quarter of the year with the full consolidation of Vivo, further enhancing the stability of our growth profile.

We are focused on enhancing customer value, pushing key levers, namely MBB and contract, where we are gaining good traction.

We maintain a high cash generation profile and a strong financial position, with leverage ratio in line with outlined target.

Finally, I'd like to reiterate our confidence to deliver once more on our commitments. We are on track to meet 2010 and 2012 guidance, including dividends.

Please notice that the revaluation of our pre-existing stake in Vivo has had a significant positive impact in our third quarter net income. Nevertheless we still have to complete the last quarter of the year in which we normally finalize the review of several areas such as fixed assets, financial investments, commitments, obligations, and so on, so we cannot guarantee that we will maintain this level of net income.

Thank you very much for your attention. Now we are ready to take your questions.

Q&A session

Jesús Romero - *Bank of America - Merrill Lynch*

Thank you. The first question I wanted to ask, Guillermo, if you can talk about the trends in Spain in the month of October and if you can talk about how you see the fourth quarter in both mobile and fixed.

And, then, the second question was on the organic EBITDA for the third quarter. You've indicated that you've shown improvement in organic revenue in the third quarter. But, when I do the math for organic EBITDA, I come up with a negative number for the third quarter. And I'm wondering if in that number, you reported, I think it's in slide 3, if you included the provision in Germany or what is the reason? Intuitively, it should be a positive number. Thank you.

Guillermo Ansaldo - *Chairman and CEO Telefónica España*

Jesús, this is Guillermo. Thank you for the question. What you have seen in the third quarter in Spain, we have witnessed a discontinuity in the recovery path that we have been experiencing during the last quarters. October looks very similar to September, which was a very tough month in our numbers. August and July, as you know, particularly, August has a lot of seasonality due to different pace of summer campaigns. But, in September, it was evident that the consumption was going in a different pattern than in the previous month. October has the particularity that has less labour days than the previous year. We have more Sundays and Saturdays than previous year. But, all in all, it looks that it's a month that is similar to September.

Regarding the rest of the quarter, it's hard to predict because the Christmas campaign is starting in a few days, and the market conditions are much more volatile than before.

Regarding next year, we still believe that next year is going to be better than this year, and this year obviously is better than previous year. So we still believe the worst is over, but we are much more concerned about the rate and the pace of the recovery. And that puts a lot of uncertainty on that rate of recovery. So we are optimistic on the midterm, but we acknowledge that, quarter on quarter, we may see some bumps and recoveries.

Santiago Fernandez Valbuena - *Telefónica S.A. - Chief Strategy Officer*

Jesús, this is Santiago. On the guidance question you asked, if you compare the six months and the nine months, you see that OIBDA went down by 2.3% in each of those two periods. But, in the last nine months, we do include EUR202 million charges, which are coming from the personnel restructuring in Germany in that number. So that may be the one number you need to reconcile your expectation and the guidance we have provided in organic terms.

Jesús Romero - *Bank of America - Merrill Lynch*

Okay. Thank you.

María García-Legaz - *Telefónica S.A.- Head of IR*

Next question please?

Tim Boddy - *Goldman Sachs*

Yes, a couple of questions. Can you just clarify on Spain? It was helpful to get those comments. But is the impact you're seeing more competitive or economical or some combination of both? It would just be helpful to understand to what extent you're seeing that, because, obviously, at a macro level, things from a GDP perspective look slightly better.

And then, in Latin America, it would be helpful to understand. You obviously had a very, very weak number in Venezuela because of the hyperinflation accounting. How should we sort of model out the rest of the year? I guess it will depend a lot on where the currencies are. But my understanding is that it would be wrong to extrapolate the weakness of the third quarter number, because you've got a kind of catch-up effect from currency restatement year to date. Thank you.

Guillermo Ansaldo - *Chairman and CEO Telefónica España*

Hi Tim, this is Guillermo Ansaldo. Let me take the question from Spain. Regarding competitive environment and macroeconomics and our numbers, well, you know, the two main competitors that we have in Spain, Vodafone and Orange, have also published their results, and they're both showing a third quarter which is weaker in terms of revenues than the second quarter. So, basically, what we are saying is that, in the larger players in the markets, we are all having a third quarter that is weaker in terms of revenues and results compared to the second one.

In our case, our view is that that's market conditions, basically, consumption. And some people now claim that this is linked to the austerity measures that were put in place in between May and July. What we are seeing is that the traffic, particularly, mobile and, also, in the fixed lines, is weaker in this quarter than before. And, also, the market continues to be as competitive as before. But it's not a significant change in the competitive dynamics within the third quarter and the second quarter. What has changed quarter on quarter is, basically, the consumption situation.

José María Álvarez-Pallete - *Chairman and CEO Telefónica Latinoamérica*

Taking your question on the impact of inflation and currency slide in Venezuela. First, all the percentual changes that you see are measured in constant terms, or is excluding

both effects and in terms of the currency, what we are doing on a quarterly basis is that we adjust the slide that we have seen in the dollar/euro parity as the bolivar per dollar is fixed. So what you see in the third quarter is the adjustment of the dollar/euro movement all along the quarter, extrapolated to the beginning of the year. And that's why you see this volatility. So you should take into account that the main impact is going to be the actual behaviour of the dollar/euro until the end of the year.

María García-Legaz - *Telefónica S.A. - Head of IR*

Next question please?

Luis Prota - *Morgan Stanley*

(...) understand what's the nature of the cost cutting in place to allow margins to be supported at current levels? And also, you've been mentioning that next year is going to be better than 2010 but it's going to be bumpy. So, is there further room for cost cutting if we continue with this weakness in revenues to sustain margins and EBITDA at current levels? Or the low hanging fruit has already been reaped and it's going to be more difficult to sustain margins?

And second question is on Mexico, you are mentioning some change in the commercial approach and if you could elaborate on this would be useful. Why is this so negative on traffic this quarter? And when we should expect Mexico to come back to more normal growth? Thank you.

Guillermo Ansaldo - *Chairman and CEO Telefónica España*

Luis, let me take this. This is Guillermo, and thank you for the question. Let me take the Spanish ones. First, let me expand on the cost cutting. Two things, one comment, we are focusing more and more on value generation, that means that, for example, in the mobile market, we are focusing more on postpaid because that generates for us more margin than prepaid and you have seen that in our numbers in the last four quarters.

Second, we have been defending our margin successfully, meaning that we still have revenue, for example, market share which is in the mobile business, for example, four percentage points above our access market share. So, in the commercial effort we are stronger than last year, but focusing more on value.

Regarding costs, well, we are focusing on cost measures all across the place. Obviously, there are some cost initiatives that are linked to Group scale initiatives, in IT, in network, for example, and others are much more local, but there is still room for improvement. It's not easy, but there's still room for improvement looking into next year. So I think that we have proved to be defending our margin, which is a benchmark in Europe, successfully, and we will continue focusing on that. Regarding the local ones, for example, our bad loans for non-collectable provisions, has been a positive on our

margin. We've been continuing improving on our ratios. And we are reducing costs in all contracts and all but personnel costs.

José María Álvarez-Pallete - *Chairman and CEO Telefonica Latinoamérica*

Hi, Luis. Taking your question on Mexico, we have done two things, one of them has been successful and the other has not. The first one is moving upwards our best in class prepaid customers into contract and fostering the contract product in Mexico. And therefore we have been successful on that side, increasing our customer base by more of 53%. But at the same time, we have been increasing the proposal, the value proposal to our prepaid customer upwards by eliminating micro recharges and by doing two price increases effectively. One, in order to transmit or to transfer the value added tax that was put on us to the customers, and a second price increase, trying to move upwards with the prepaid offer product betting on a better market situation. And on that side we have been wrong because the market has been very active on the low-end part of the business and therefore we have been losing market share of net gain in this part of the market.

We reacted, as you might imagine, we reacted very rapidly. We have raised all the micro recharges and we are back on track on doing traffic campaigns in terms of bonus minutes and bundles, but it's going to be taking a while until the market, well, the markets are really reacting and we are seeing positive signs, but as the free and the first minutes that are being accounted are the free minutes even if we take a few weeks to see these new traffic flowing into revenues.

So it has been a wrong marketing bet on the prepaid segment on our side, a successful one on contract. It will take a little while this new policy to be transferring to revenues and OIBDA, but the good thing is that it's not any structural problem, it's much more a tactical one and therefore we think that we are track to solve. On top of that, we have been successful in getting the new spectrum that we needed in order to be more aggressive on mobile broadband and as a result we think that we have everything needed to be back on track and to be competitive on the Mexican market. So you should expect from us to react and to do better on prepaid in the next weeks.

Luis Prota - *Morgan Stanley*

Thank you.

María García-Legaz - *Telefónica S.A.- Head of IR*

Next question please?

Mathieu Robilliard - *Exane BNP Paribas*

Yes, good afternoon. I have two questions, please; first, with regards to the restructuring at O2 Germany. When can we expect to see some benefits in terms of the costs kicking in?

And, second, with regards to Latin America, a number of the subsidiaries have had, apparently, some positive one-offs. That's what you report in the report, specifically, Chilean fixed, Peru mobile, Colombian mobile. I was wondering if you could quantify those positive one-offs that impacted the OIBDA. Thank you.

Matthew Key - *Chairman and CEO Telefónica Europe*

Hi, it's Matthew. I'll pick up the Germany question. We'll actually start to see people leaving the business from quarter one next year, so you should start to see the benefits flowing through from there through next year. And the payback of the restructuring cost is a circa two-year payback.

José María Álvarez-Pallete - *Chairman and CEO Telefónica Latinoamérica*

Taking your question on the one-offs, we are not any longer disclosing underlying trends in OIBDA excluding one-offs because it was too complex to track. But I can tell you that, in terms of one-offs, globally speaking in Latin America, we have less one-offs this year than the year before. So the underlying trend is robust. And, mainly, the most important trade that we have been scoring into our numbers this quarter was the sale of fixed towers in Chile, and that's basically the major one. But, again, I can tell you that the absolute number of one-offs in terms of revenues and OIBDA is smaller this year than the year before and that the underlying trend in OIBDA is more robust than what the accounting suggests.

Mathieu Robilliard - *Exane BNP Paribas*

Thank you very much.

María García-Legaz - *Telefónica S.A.- Head of IR*

Next question please?

Luigi Minerva – *HSBC*

Yes, good afternoon. I wanted to ask you on mobile data tariffs, as we are observing a shift towards tiered data plans. If you believe that may lead to some form of pricing power. I would appreciate if you can tell me your first observations about it in UK, Germany, and Spain.

And, secondly, a question about the future ownership structure of Vivo and Telesp in Brazil. Thank you.

Matthew Key - *Chairman and CEO Telefónica Europe*

Luigi, hi, it's Matthew. I'll pick up your data question. The first thing to say is it's very early to say in the UK, as we've started implementing the tiered data pricing from the first of October. The good news is, as we expected, customers' usage pattern has continued to increase, so more and more users are actually moving into the band where we think there will be excess charges to pay.

The second thing I would say is we're also looking at how we increase the level of penetration by some further tiered pricing on data. But we're still working on that one. So good news that data use is going up and more people are moving into the bands where we will charge. And, secondly, we're looking at options of actually driving that data usage penetration faster.

Santiago Fernandez Valbuena - *Telefónica, S.A. - Chief Strategy Officer*

On the Vivo/Telesp combination, we've made public that, ideally, we would like to combine the two entities into a single entity. This is a multiple-step process, and we are still working on the advantages and disadvantages of proceeding through alternative routes. Our ideal state of the world is to have one listed company with the two classes of shares that we think would optimize both the value for Telefónica shareholders and decrease the volatility of operations there.

Guillermo Ansaldo - *Chairman and CEO Telefónica España*

So, Luigi, this is Guillermo. I believe you also asked about mobile data pricing in Spain. First, the structure in Spain and the Spanish market, the data tariffs were already tiered. So the overall majority of all the tariffs in our case, almost 100% of our tariffs are semi-flat, meaning that the customer has an allowance of high-speed traffic. And, once that allowance is used, the speed is reduced to a minimum. So there's no pure variable nor sort of pure flat type. So that structure was already in place, so there's no change in the market so far.

Luigi Minerva - *HSBC*

Thanks.

María García-Legaz - *Telefónica S.A. - Head of IR*

Next question please?

Simon Weeden - *Citigroup*

(...) UK and one on Venezuela.

And, on the UK, I wondered if you'd already passed the anniversary of taking the MTR cuts a year ago or if that's still to come in the coming quarter and, if so, how much of an impact that might have.

And the second thing is, have you been in the process of varying your commercial policies because there's been a difference in trend between looking at the ARPU trend and looking at the service revenue, which makes it look like third-party revenue share that disappears off has now been captured by yourself increasingly as the quarters go by. So that may have had an implication for subsidies, and I wondered about your thinking behind that or whether I've got the wrong end of the stick altogether.

And then, third, on Venezuela, could you just update us on how much cash you have local currency in the banks in Venezuela and what the latest in terms of the outlook for that is. Thank you.

Matthew Key - *Chairman and CEO Telefónica Europe*

Simon, I'll pick up the U.K. question. Yes, we actually lapsed that in the middle of August. So you haven't seen a full quarter's impact this quarter, but you will see a full quarter in the fourth quarter of like on like. Our expectation, although we're still in discussion with Ofcom is that we will see the next change around April 2011 in the UK, with the level of reduction still to be determined.

Miguel Escrig - *Telefonica, S.A. - CFO*

Simon, this is Miguel Escrig. Regarding your question on Venezuela, I can tell you that we have at the end of September around EUR1.3 billion equivalent, all of them denominated in bolivars. And this is giving us some return. Really, when we look at the impact on the financial expenses in the year, we are seeing like EUR27 million of positive financial results due to the yield of this cash and the impact of the hyperinflation.

Simon Weeden – *Citigroup*

Thanks for that. And do you mind, Matthew, could you come back to me on the commercial terms question about the ARPU/third-party pay-away on shared revenue?

Matthew Key - *Chairman and CEO Telefónica Europe*

Sorry, Simon. I missed the question.

Simon Weeden - *Citigroup*

I was just saying, service revenue growth is different from growth you get from ARPU kind of stuff (...)

Matthew Key - *Chairman and CEO Telefónica Europe*

Sorry, I didn't hear that first time around. The ARPU is obviously customer spend. Some of that we have traditionally shared with third parties, and that's largely off the back of aligning our objectives with some of the distribution channels. But that is slowly unwinding, which is why you're seeing that differential when you do that mathematical calculation.

Miguel Escrig - *Telefonica, S.A. – CFO*

Going back to your question on Venezuela, we have seen some positive signs this year. We have been able to reduce virtually to zero commercial debt in US dollar as Cadivi has been granting us access to US dollar for paying the imports. And we are also working on some structures for small amounts to be able to repatriate part of the cash at the official rate.

Simon Weeden - *Citigroup*

Okay. That's good. Thank you very much.

María García-Legaz - *Telefónica S.A.- Head of IR*

Next question please?

Jonathan Dann - *Barclays Capital*

Hello. Two questions. The first one, with Vivo and Telesp; can you talk us through extracting synergies and how dependent that is on creating a single company?

And my second question. Can you just walk us through the cash that you would expect to repatriate from Latin America, during 2011? I guess how much from Brazil, Argentina, Peru, Colombia, et cetera, et cetera?.

José María Álvarez-Pallete - *Chairman and CEO Telefónica Latinoamérica*

On the question on the synergies between Vivo and Telesp, I would say some, if not most of the synergies, we are going to be able to capture them independently of the final structure of the company. We are already working on those in order to try to be a little bit more concrete on what is the first line of work that we are already implementing. Therefore, in terms of revenue, for example, we are already preparing our products in order to launch a fixed wireless product outside Sao Paulo, mainly for SMEs and corporates. We're extending the Open Telefónica projects in terms of revenues that were not including Vivo or Telesp to both companies. And we are also doing some joint planning for network inside and outside Sao Paulo, mainly in terms of fiber deployment on the IP network.

On top of that, we have already a plan to consolidate the data centers of both companies in order to both companies were requiring further data capacity in terms of data centers, and we already planning that jointly in order to save CapEx and OpEx for both companies.

And, in terms of joint purchasing, we are incorporating Vivo to the joint purchasing effort of Telefónica. And we are already negotiating jointly Vivo and Telesp for the equipment of both networks.

And, in terms of SG&A optimization, of course, we already are on track with those. So, in terms of the operational synergies, full speed. We are already trying to capture the most immediate one; even, optimally, some of them before year end and we will keep reporting you, but the more we get into the detail, the more optimistic we are that we should be able to capture the value of the synergies that we have communicated.

Miguel Escrig - *Telefonica, S.A. - CFO*

Hi, Jonathan, this is Miguel taking your question on repatriation. Year-to-date, we have repatriated EUR1.26 billion from Latam. Roughly speaking, EUR475 million from Brazil, EUR350 million from Argentina, EUR300 million from Chile, EUR75 million from Peru, and the rest from other countries. We have no special restriction for repatriation, other than in Venezuela, and our policy is just to repatriate the cash we are generating there and we are confident in continuing doing so.

Jonathan Dann - *Barclays Capital*

Thank you.

Torsten Achtmann - *J.P. Morgan Cazenove*

Hello, I'm seeing in your Spanish broadband trends that broadband ARPU is accelerating a downward trend. Can you give us some comment if that it's driven by promotion, if there is pre-promotional pricing pressure or if it's more macro environment which drives that?

And, secondly, the margin in Telesp. There's very good revenue growth reported in Telesp in the third quarter, but margin is down. Is that a margin level, the 32%, we have to live going forward, or do you see a chance of bringing that back to old levels?. Thank you.

Guillermo Ansaldo - *Chairman and CEO Telefónica España*

Yes, this is Guillermo. Let me take your question regarding the broadband part here in Spain. The third quarter was pretty similar to the second quarter; slightly better, 9.2% decrease compared to 9.4%. We were expecting a better performance, to be honest, but was slightly better, but not much better. Reasons?; first, the different rate of the

promotions that we implemented both in second quarter and third quarter and the ones that we have implemented in similar quarters last year.

The second driver is, obviously, competition. It's a very agile market, and this can be very intense competition, particularly from resellers, from unbundlers. And the third one is a minor adjustments in prices like we did in April, where we reduced our 10-megabit connection from EUR44.9 to EUR41.9. The main driver is still competition and the different pace and relevance of the promotions that we implement in the market.

José María Álvarez-Pallete - *Chairman and CEO Telefonica Latinoamérica*

Torsten, I'm taking your question on Telesp and the OIBDA margin. First, this 32% level that you were mentioning is measured in local accounting standards. I would say the comparable terms is different because in local Brazilian GAAP we're including some charges, like, for example, the brand fee responding to international transfer pricing standards that is eliminated in consolidation.

On top of that, you have extraordinary positive items in 2009 with a reversion of a provision that has not been accounted in 2010.

And, on top of that, you have some fines and contingencies that are, by definition, non-recurring but that we are including in the OIBDA terms. For us internally, running all those numbers and doing the comparison in the three quarters of this year, we have been seeing a stable OIBDA margin in Telesp, in spite of a much higher commercial activity and in spite of a much higher effort in quality, and remember that we are already in historical highs in terms of quality standards and that we are even beating our nearest competitors in customer satisfaction already.

So what I can tell you is that the margin evolution of Telesp looks stable. It looks above the level that you have mentioned, in spite of a significant commercial effort and a significant quality effort.

Torsten Achtmann - *J.P. Morgan Cazenove*

Thank you.

María García-Legaz - *Telefónica S.A.- Head of IR*

Next question please?

Justin Funnel - *Credit Suisse*

A couple of simple questions, hopefully. Just, in Spain mobile, the regulation of texts to game shows events (premium SMS). I think it was started November last year. I just wondered if you could give us a feeling for how much that took off your growth rates in

the year to date in domestic mobile and to what degree we could expect your growth to recover as we lap that effect.

Secondly, just sort of big picture in Latam, I just wondered if you had some basic stats on smartphone adoption at this stage in, say, Brazil, and what you think it will take to get that smartphone penetration really accelerating from current rates in terms of sort of handset price, price per month on data access. I'm not sure if you can talk in that sort of detail, but any feeling for the potential growth there would be useful. Thank you.

Guillermo Ansaldo - *Chairman and CEO Telefónica España*

Let me take the question regarding mobile data in Spain. Overall, the mobile data is behaving extremely well in Spain. And connectivity revenues are growing almost 60% in the first nine months of the year compared to the similar period last year. When you open the data revenues, obviously, connectivity is doing very well. Traditional SMS is not behaving that well because of overall market trends and also because of cannibalization from other communication means. And premium SMS, as you mentioned, this has been hurt a little bit because of the changes in regulation, which shrunked the size of the market.

But, overall, to give you a flavor, just checking the numbers, premium SMS in one quarter is EUR32 million, and the decrease when you compare to the same quarter of last year is roughly 25 million euros. So that's a severe decrease, but the amount is not significant in the overall numbers of the company. What changed, obviously, is the shape of the growth in data mobile ARPU, which, each quarter, is more relevant in the part that is non-SMS, as you can see in the chart we showed. But, right now, 68% of all data revenues, mobile data revenues, are non-SMS. So that's a regulation that changed a year before. And had that hit, which is relevant for that category but not relevant for the overall mobile data or revenue category.

José María Álvarez-Pallete - *Chairman and CEO Telefónica Latinoamérica*

Taking your question on data mobile broadband or data in Latam, what I can tell you is that this has become one of the major, if not the major, growth drivers in the region. On the mobile side, revenue growth is increasing on data, mainly 70% in Brazil. It's practically doubling in Colombia. It's 50% higher in Argentina, Chile, and Venezuela. And the growth keeps going. We still have a very low penetration of mobile broadband, like 4% in Latin America, but this is increasing very rapidly. Remember that we already manage 6.5 million mobile broadband customers, including smartphones and dongles. That figure has practically doubled in 12 months. And it has taken us less than two years to make a similar figure than the one that we have in wireline. So it's really booming. Data ARPU in local currency is up about 29% year on year, and the growth keeps coming. And good news is that we have managed, for example, in Brazil to combine that growth on mobile broadband with a sound growth on wireline broadband. So, therefore, we are still not at the point of cannibalization. Remember that Telesp is doing very well on the wireline side; namely, internet, data, TV and IT revenues are up

30% in Argentina, 17% in Colombia, 12% in Chile, and are back on track on Telesp. Telesp has been on a record high in gross additions in the quarter.

So, ADSL represent one-third of our total lines in Latin America so probably at the beginning of the curve, growing very rapidly, a lot of room to grow. And that's why we are preparing our network in that way and we are investing heavily. And that's why CapEx is up 8% year on year. And that's why we have been going for the spectrum in Mexico and in other places. So, in good shape, starting, and very promising.

Justin Funnel - *Credit Suisse*

Thank you.

María García-Legaz - *Telefónica S.A.- Head of IR*

Next question please?

Will Milner - *Arete*

Yeah, thanks very much, good afternoon. It's actually just, really, following on from the last question. But I wonder if you could just talk a bit about how your efforts to monetize mobile data in Latin America differ from the strategy you're using in Europe. I might imagine, given the differences in network costs and the levels of consumer wealth, you need quite distinct approaches. So I'm quite interested in hearing how those differ and, also, how you're modernizing networks and how that strategy is different. Thanks.

José María Álvarez-Pallete - *Chairman and CEO Telefónica Latinoamérica*

In terms of pricing strategy, for example, the answer is most likely the same that Guillermo did. We have already been applying tiered pricing in Latin America since the beginning, so almost all our tariffs all around in the region and non unlimited. And, therefore, in terms of data usage, the consumer is showing some rational behavior.

In terms of our network costs, again, we are upgrading our networks. We have increased our CapEx 8% this year. And we'll keep doing that. We will need more spectrum in some places. The cost of our network is very optimal and very competitive because we take advantage of the scale of the group. Our purchasing is centralized, and, therefore, we take advantage of the prices that Telefónica as a Group is able to obtain and, therefore, highly competitive with local competitors.

And, on top of that, we have one of, if not the, most extensive fiber network in Latin America, with roughly 190,000 kilometers, if I remember correctly, of optical fiber. And, on top of that, we have the submarine cable.

So, basically speaking, we have a lot of infrastructure in place. We will keep building on that. It would require still a sound CapEx effort, but we are starting from a very sound and a very competitive position.

María García-Legaz - *Telefónica S.A. - Head of IR*

Next question please?

Fabián Lares - *JB Capital Markets*

One question on Latin America related to Argentina. I was wondering if you could give us an update regarding the last negotiations surrounding raising rates after they had been frozen. And if there's been some news flow there, but I just want to be up to date as to what the latest is regarding your ability to change rates there. Thank you.

José María Álvarez-Pallete - *Chairman and CEO Telefónica Latinoamérica*

Not major news on that side. On the wireline side, the regulatory prices keeps frozen. And, therefore, there are no major changes on that one. Probably the most noticeable one is that the non-subject to regulatory fees products of revenues is already 50% of the total revenues. And, on that part, we have been able to increase prices steadily. So no major news on the traditional basket of lines. But we keep advancing on the ADSL on new products and services and on the bundle of TV. And, therefore, we have less and less reliant or dependence on the frozen tariffs. And that explains the performance of the Argentinean operation. So, still, half of our revenues are frozen. That's bad news. The good news is that half of our other revenues are not frozen and are growing very nicely.

Fabian Lares - *JB Capital Markets*

There was a follow-up on regulation, again, on the changes made to the audiovisual law regarding ownership of pay and free to air television assets there. If this made a change that affects you?

José María Álvarez-Pallete - *Chairman and CEO Telefónica Latinoamérica*

Well, if have you refer to the Fibertel decree upon which this concession or this license was deemed to be expired. As you know, this decree has been contested in justice, and, therefore, is temporarily suspended. And, therefore, we are waiting for the outcome of that process, which is looking to take a while.

So, on the competitive side and on the commercial front, no major changes. Fibertel keeps being in the market very aggressively as we are, as Telecom is, so the market on the commercial side keeps the same, awaiting for the final outcome of this Fibertel issue.

Fabian Lares - *JB Capital Markets*

Thank you.

María García-Legaz - *Telefónica S.A. - Head of IR*

We have time now for one additional question

Ivón Leal - *BBVA*

First question, back on Telesp for Jose María. I want to know if you could tell us how much room there is still to grow from the broadband business there. Net adds have been very strong. I don't know if you could remind us what is the broadband penetration in the Sao Paulo region and how much you can hit. And, eventually, I think the division is coming from mid 40s margins back in 2006. I don't know what's your internal target in terms of OIBDA margin there.

José María Álvarez-Pallete - *Chairman and CEO Telefonica Latinoamérica*

In terms of Telesp, we are seeing a very dynamic market. This is the first message. Since we are back on track after the suspension of last year, our product is doing very well. We have been progressively gaining market share this year, even in the third quarter, once that NET has been reacting aggressively in terms of pricing. So we are seeing a very dynamic market on broadband. Penetration in Sao Paulo is in the neighborhood of 26% of fixed broadband over fixed accesses in Sao Paulo, so we think there is still room to grow on that side. But, as I was telling you before, we are pretty focused on quality, and that's why churn is highly contained. So, for us, it's as important to keep growing in terms of gross adds as to preserve the level of churn and not to be back on quality issues that we were mixed in the middle of last year.

So we see a very robust market. Take into consideration, or score into the model, the fact that mobile broadband is really booming in Sao Paulo, where we will have an excellent network and is being very active, as well as our other competitors. So the good news is that we see significant growth ahead of us. But, again, we should keep in mind that we cannot go backwards in terms of quality.

On top of that, remember that more than 55% or 56% of our total accesses have already bundled in Telesp, and more than half of our total ADSL lines are bundled with some other product. So the loyalty of our customers is also increasing.

So we will keep you posted. But, so far this year, it looks in good shape. It looks that we are back being competitive with NET because NET has reacted sharply this last quarter. And, in spite of that, we keep gaining market share.

Ivón Leal - *BBVA*

What's your internal target in terms of OIBDA margin there.

José María Álvarez-Pallete - *Chairman and CEO Telefonica Latinoamérica*

As I was telling you before, we have been seeing stabilization of margin in the last few quarters, excluding one-offs. In spite of the fact that we have been having, as you know, heavy rains in the first quarter of this year, and, therefore, we have been including in that underlying margin the effort in subcontracting that we have been doing in order to preserve quality efforts.

So we are more positive on margin evolution as we speak, but we resist to give guidance on that side.

We are more positive. We see more benign trends, but we will keep you updated on a quarterly basis.

Ivón Leal - *BBVA*

Okay. Thank you very much.

Santiago Fernández Valbuena - *Telefónica S.A. - Chief Strategy Officer*

Well, ladies and gentlemen, thanks a lot for your attention. And, with this, we bring this conference call to a close. And we expect to either see you in person over the next couple of weeks or listen from you again as we publish our full-year results sometime in late February. Thanks for your attention.