



Telefónica January-December 2010 Results Conference Call Transcript

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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-December 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.

This presentation may contain announcements that constitute forward-looking statements, which are not guarantees of future performance and involve risks and uncertainties, and that certain results may differ materially from those in the forward-looking statements as a result of various factors. We invite you to read the complete disclaimer included in the first page of the presentation, which you will find on our website.

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. Cesar Alierta, who will be leading this conference call.

Presentation

César Alierta - *Telefónica, S.A.- Chairman & CEO*

Thank you Maria, good afternoon, ladies and gentlemen, and thank you for attending Telefónica's 2010 full year results conference call. Today I have with me Julio Linares, Chief Operating Officer, Santiago Fernandez Valbuena, Chief Strategy Officer, Guillermo Ansaldo, head of Telefónica España, José María Alvarez-Pallete, head of Telefónica Latinoamérica, Matthew Key, head of Telefónica Europe and Miguel Escrig, Chief Financial Officer.

During the Q&A session you will have the opportunity to ask questions directly to any of them.

2010 reinforces our track record as a highly predictable & reliable company

2010's achievements reinforce our track record as a highly predictable and reliable Company and proves our differentiated profile in the industry, with tangible results. First, in 2010 we have posted a solid set of results, delivering superior top line growth, best-in class profitability and high cash generation. Strong execution and diversification

have been key for this strong performance. Let me highlight that Latin America accounted for 43% of Group sales, while our push in MBB data has delivered a 19% annual organic growth in mobile data revenue.

This was achieved in a context of strong commercial effort, resulting in a very rapid expansion of the customer base and the acceleration of restructuring measures that will further increase efficiency in the future.

Second, we have completed key strategic transactions, particularly the acquisition of 50% of Brasilcel, following the M&A path set in October 2009.

Third, we continue delivering on our commitments, meeting our 2010 guidance and maintaining our robust balance sheet. All this, with leading cash returns for our shareholders, raising the dividend for 2011 14% year-on-year to 1.6 Euros per share.

Crystallizing the value of our diversification

Please turn to slide number 3 to review 2010 major financial metrics.

Reported year-on-year growth rates were impacted by several non-recurrent effects, changes in consolidation, especially the full consolidation of VIVO in the fourth quarter and forex.

Nevertheless, underlying results remained very robust.

Revenue increased 7.1% in nominal terms to 60.7 Billion Euros, and 2.4% year-on-year in organic terms.

2010 OIBDA exceeded 25.8 Billion Euros, up 14% or 0.8% in organic terms.

As a proxy to cash flow generation, Operating Cash Flow almost reached 15 Billion Euros in 2010 despite increased CapEx and spectrum acquisitions.

Solid growth in EPS, up 31.6% y-o-y

Net income exceeded the 10 Billion Euros mark, increasing by 31% vs. the previous year.

At the OIBDA level, the 3.8 Billion Euros positive impact derived from the revaluation of our pre-existing stake in VIVO was partially offset by our decision to accelerate operational restructuring, which led to non-recurrent restructuring expenses amounting to 1.3 Billion Euros in the second half of the year (1.1 Billion Euros in the fourth quarter). On top of that, in the fourth quarter of the year we have the impact of the tax assets reassessment in Colombia.

Non-recurring restructuring expenses were mainly related with personnel reorganization (658 million euros) and firm commitments relating to the Telefónica

Foundation's social activities. These reached 400 million euros in total, 70% recorded at Telefónica and the remaining 30% at Telefónica Latinoamérica.

D&A increased year-on-year, recording 84 million Euros in the fourth quarter due to the amortization of the Vivo's purchase price allocation. We estimate an annual impact on D&A of around 350 million Euros for the next five years, though these impacts are preliminary and unaudited.

As a result, EPS reached 2.25 Euros, above our target of 2.10 Euros per share.

Very high commercial activity focused on growth levers

Turning to slide number 5, a value-oriented strategy across the Group is behind the sound commercial performance recorded in 2010, which has allowed us to maintain our solid competitive position.

We focused our commercial investment on value and growth levers. MBB data continued to excel, with a remarkable year-on-year increase of 64%, to reach the 22 million mark. The contract segment kept gaining traction, accounting for 53% of mobile net adds, while FBB net adds increased over 44% in organic terms.

As a result, we now manage over 288 million accesses, 7% more than a year ago in organic terms.

Strong sales performance along the year

Let's turn to slide number 6 for the review of top line.

Reported revenue growth recorded the fourth sequential quarter of improvement, ramping up 9 percentage points from 2009 year end, underpinned by the faster customer base expansion and the full consolidation of Vivo since October 2010.

In organic terms sales sustained the positive trend posted up to September, showing a healthy 2.4% year-on-year growth. Excluding the drag from MTRs cuts, organic sales growth jumped to 3.4% year-over-year, 190 basis points more than a year ago, on the back of our strong commercial efforts to drive penetration and usage growth.

Improved revenue profile

Slide number 7 outlines the high-class diversification of our sales.

From a regional perspective, T. Latam continues to be the key growth driver of the Group. T. Europe also posted sound numbers, compensating the lower contribution from T. España.

From a business perspective, we are increasing our exposure to the highest growth businesses. Broadband connectivity, applications & new services revenues were already 23% of our total sales in 2010, 3 points more than a year ago, with significant growth rates across those services.

Driving fast adoption of MBB to further boost revenue

Let me turn now to the next slide to get more colour on our mobile broadband strategy.

MBB adoption is booming in our markets and we are capturing this growth opportunity. MBB active users already account for 10% of our total mobile base, 3 percentage points more than in previous year, backed by the increasing penetration of smartphones. I would like to stress the 20% MBB penetration mark already achieved in our European footprint, while the 5% level reached in Latinoamérica gives us a very clear opportunity for the future, as handset costs continue to decline very rapidly.

As a result, mobile data revenue recorded a solid 19% year-on-year increase, purely organic, driven by an over 32% growth in non-P2P SMS sales.

Please notice that we have already launched tiered pricing across our footprint, which will allow us to profitably monetise the data opportunity.

On top of that, we continue to enlarge our handset portfolio, leveraging our scale to further reduce costs. It was great to see the new devices, applications and continuous innovation in the recent Mobile World Congress. This is key to further stimulate growth in the mobile data business.

Benchmark underlying profitability

Turning to slide number 9, in 2010 we retained a benchmark profitability in a context of renewed commercial efforts to drive future revenue expansion.

Underlying OIBDA trend improved throughout the year, as we had previously outlined, driven by sales expansion, further advance in cost control initiatives and tangible synergies from our integrated management model and also from our global initiatives. The acceleration of the restructuring measures announced will further enhance efficiency in the future.

As such, underlying OIBDA margin stood at 38.3% for the Group, virtually stable vs. last year in organic basis.

Higher CapEx to support growth in customers & volumes

Let's turn to slide number 10.

Total CapEx reached 10.8 Billion Euros in 2010, rising close to 50% year-on-year mainly due to investments in spectrum in Germany and Mexico totalling 2.6 Billion Euros. In organic terms and stripping out spectrum acquisitions, CapEx increased 6% year-on-year to support growing usage and fast customer expansion.

By regions, Spain and Latin America underpinned the increase in CapEx, with focused investments in FBB and MBB networks. Lower CapEx at T. Europe was driven by Germany, where we already have a high quality own network.

77% of the Group CapEx, excluding spectrum costs, was devoted to growth and transformation, with maintenance accounting for the remaining.

Meeting our year-end targets for 8 years in a row

Let me just finish this section highlighting that we have delivered our annual targets for 8 years in a row, as slide number 11 outlines.

Now let me hand over the call to Santiago.

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

T. España: Delivering on 2010 priorities

Thank you César and good afternoon ladies and gentlemen. Let me now summarise the performance of our businesses in Spain, where we have delivered on the business priorities we announced for the year.

Amid a backdrop of strong competition and a weaker than anticipated telco market, our value oriented commercial activity allowed us to maintain our undisputed leadership in the market, with an estimated revenue share of 53% and limited erosion year-on-year.

We have also retained a comparable benchmark OIBDA margin at close to 47%, in spite of reinvesting efficiency gains to set the basis for future growth. Cost cutting measures in those areas where OpEx are manageable in the very short term have been already implemented, leading to a 3% year-on-year decline in non-labour costs on a comparable basis, despite increased commercial efforts.

Cash-flow generation remained strong, with an OpCF margin of 36% on comparable terms, again a best in class mark.

Taking into account the significant pressure in revenues, the increased CapEx and higher commercial volumes year-on-year, it should be highlighted the efficient management of the working capital, which allowed to limit the decline in OpCF after working capital in reported terms to 5.5%, well below the drop of the OpCF numbers.

Top line impacted by regulation and increased competition in a difficult economic environment

Slide number 13 outlines top line performance in Spain.

On top of challenging economic conditions, adverse regulatory measures explain 1.4 p.p. of the 4.4% y-o-y decline in revenues. ULL prices in Spain are not only the lowest in Western Europe, but they are also below our costs according to the regulator's cost accounting methodology. In our view, current prices are not sustainable.

Obviously, competitors are taking advantage of these attractive prices to launch aggressive commercial campaigns in the FBB market, therefore impacting our retail access and FBB revenues. These, together with lower consumption patterns, are the main drivers of the decline in sales.

Price pressure intensified in the fourth quarter of the year and has continued during the first months of 2011, with the traditional rational network competitors launching very aggressive campaigns. So, there might be some regulatory consequences as, according with the press, one player has sued one of them in the CMT, the local regulator for dumping.

We continue to focus on value. Therefore, though this situation is also affecting our pricing policy, leading to higher promotions, we keep upgrading and enhancing our FBB offer to increase its perceived value and to preserve the value of the market. We expect competitors rationality to come back to the market.

There is still ample room to further increase our efficiency

To finish with Spain, I would like to stress that we keep working to have a more competitive cost structure.

On top of the initiatives already launched that have allowed non-labour costs to go down in 2010, we are making progress in our goal to reshape personnel expenses and we aim to accelerate these measures in the coming months.

We are already reducing manager positions in Spain and we are analyzing the potential outsourcing of some operations and further headcount restructuring processes. At the same time, we will negotiate with labour unions to have more flexible labour conditions and pay reviews not linked to CPI.

We will continue optimizing operational and commercial costs while further capitalizing Group scale will led to additional savings.

Finally, an active management of our asset portfolio should help us to deliver a healthy profitability which will continue to be benchmark in the sector.

T.Latam: Sound profitable growth

Please turn now to slide number 15 to review our Latin American operations.

2010 results confirm the success of our profitable growth model, on the back of an integrated management of the operations in the region. A model that is now bringing benefits to Vivo, as the company is already under full control of Telefónica.

Revenues from Latin America increased 7% y-o-y in organic terms up to December, fuelled by double digit growth in MSRs and sequential acceleration of fixed broadband revenues.

OIBDA performance was strong, with year-on-year growth ramping up to 9% in organic terms by year end, leading to a solid OIBDA margin of close to 40% if we exclude the capital gain from the revaluation of our pre-stake in VIVO and non recurrent charges booked in the fourth quarter of the year.

The improvement in profitability was achieved despite higher commercial volumes, especially in mobile contract and in 2010, mobile contract net adds reached 6.7 million and were almost half of total net additions, a benchmark ratio for the region.

As a result, we reached 184 million total accesses by the end of December 2010, or 9% higher than a year ago.

Wireless: A perfect combination of voice and data growth

Moving to slide 16, on mobile we are enjoying the perfect combination of growing voice and data revenues.

Strong net adds and the higher quality of the accesses growth drove double digit growth in MSRs with positive growth in voice revenues and over 40% year-on-year increase in data revenues shows our focus on enhancing customer value.

Our strategy in the region is not about capturing growth at any price, but to focus our commercial efforts in the higher value segments. This is proven by the sound performance of the contract segment, up 29% year-on-year in 2010, on the back of higher gross adds, lower churn rates and an active prepaid to contract migration policy.

It's also worth noting the strong push in MBB accesses, which have almost doubled vs. 2009 and already account for over 5% of our total mobile base in the region.

As a consequence, ARPU ex-fx remained almost flat year-on-year despite the 11% rise in the customer base and negative regulatory impacts.

Wireline: Enhanced quality fuelling commercial activity

Regarding our wireline business in Latin America, in 2010 we posted a strong commercial momentum, which gradually led to improved trends in financials metrics through the year.

Broadband accesses rose 16% year-on-year, on the back of very strong net adds, which almost tripled vs. 2009, reflecting the success of our strategic levers: bundles and churn contention leveraging enhanced quality.

It's also worth mentioning the positive evolution of fixed accesses, which remained virtually stable year-on-year as we continued to push bundles.

Pay TV also delivered a positive performance in the fourth quarter, leading to a 9% y-o-y increase in the access base.

As a result, Internet and Pay TV revenues growth improved sequentially to account for 22% of total wireline revenues in 2010 and growing contribution across our markets.

Brazil: Sound momentum across business

On slide number 18, reviews the strong results recorded in Brazil in 2010, with fourth quarter figures confirming the trends already delivered up to September.

In Telesp, our efforts to enhance quality led to a record level of FBB net adds, over 680 thousand accesses. More importantly, the Company continued to regain market share, leveraging an enhanced BB offer. We also managed to turnaround the traditional business, with a positive growth in the customer base vs. significant line losses in 2009.

As a result, the financial metrics continued to gradually recover along the year, especially in the top line.

On the other side, Vivo continues to outperform in a very competitive wireless market, with even better results in the fourth quarter.

The focus on quality growth allowed Vivo to gain market share in the contract segment, which accounted for a third of total net adds in 2010. Thus, the strong rise in customers and the actions to foster voice and data usage led to a healthy 11% increase in MSR in 2010, with an acceleration in the fourth quarter.

Profitability improved, with OIBDA margin expansion year-on-year despite the increased commercial efforts and efficiency initiatives. Again, a very different performance vs. our key competitors.

I'd also like to highlight that we are fully on track with the capture of synergies derived from the combination of Vivo and Telesp. We will provide further details on the

execution process in our Investor Day, but we are very positive about all the opportunities we have ahead of us.

Brazil: Tender offer for Vivo's ONs and Corporate Restructuring

To finalise with Brazil, let me remind you that the tender offer for Vivo's ordinary shares has already been launched, and is expected to finish by the third week of March. The total outflow should be below 800 million euros, in line with our expectations.

On the other side, the corporate restructuring of Vivo and Telesp is on track, with the full process expected by the end of the first half of this year.

Good performance in key operations

To finish with Latin America on slide 20 let me just make two comments on Mexico and Venezuela:

In Mexico in 2010 we continued to gain market share. We reshuffled our prepay offer in the fourth quarter, already leading to better commercial results, as prepay net adds doubled quarter-on-quarter. Nevertheless, it is too soon to see the results in financial metrics, though we expect sequential improvements throughout 2011. We have also strengthened our position through the investment in spectrum, which should lead to better results in the MBB market in 2011.

In Venezuela, we posted strong financial results, leveraging a very robust increase in data revenues, despite lower commercial activity, impacted mainly by limited availability of handsets.

T.Europe: Continuing strong performance

Let's now turn to slide number 21.

Telefónica Europe delivered strong financial and operating performance in 2010, with continued expansion of our customer base and the fast growth of mobile data revenues. Of our new mobile customers, 65% were in the contract segment and now represent close to 50% of the base. Significantly, active users of mobile broadband increased 46% year-on-year in 2010, resulting in a customer base close to 10 million.

As a result, organic revenue accelerated its growth trend throughout the year, topping a 7% year-on-year growth when excluding MTR cuts, underpinned by the healthy organic rise in non-SMS P2P revenue, 26% year-on-year in 2010.

We managed to maintain a stable OIBDA margin in 2010 despite higher commercial investment, recording a very solid 17% OpCF growth, both in comparable terms.

T.02 UK: Leading the wave of profitable data monetization

Slide number 22 shows Telefónica O2 UK strong results in 2010, underpinned by the growth of mobile broadband while mobile core continued to excel.

23% of our customer base actually paid for using data services at year end 2010, which is a significant 7 percentage point improvement over 2009. We advanced on our goal to profitably monetize the mobile data opportunity with the introduction of data caps in the fourth quarter, already taken by 36% of retail mobile contract data users. We also reduced handset subsidies in the fourth quarter, leading to higher hardware revenues.

As a result, total revenue growth for the year was 6.5% year-on-year in local currency, underpinned by the strong 5.6% rise in MSRs, despite the drag from MTR cuts.

Continued efficiencies led to a sound 7% year-on-year OIBDA growth in comparable terms.

We also increased the investment in the network, including the recent 900 Megahertz refarming to ensure best-in-class quality.

T.02 Germany: Maintaining strong momentum

Let's now turn to slide number 23 to explain the performance of Telefónica O2 Germany.

2010 continued to deliver growth in the mobile business, in particular in the contract segment, which accounted for over 50% of total net adds in the fourth quarter. This was driven by improved customer service and strong demand for mobile broadband, including the iPhone, which we have been selling from October.

LTE network rollout in rural areas is already in progress, with most of the planned sites for this year located in existing O2 premises, and commercial operations due to begin in the second quarter of 2011 after successful trials with customers in four locations.

Mobile service revenue growth accelerated through 2010 to 5% year-on-year in the fourth quarter, excluding mobile termination rate cuts, which were halved in December. This, compounded with "My Handy" handset model, which does not allocate subsidies into mobile service revenues, led to a strong 8% organic year-on-year increase in total revenues for the year.

Profitability improved sharply in 2010, further capturing synergies with HanseNet and continued operational efficiencies, leading to an operating cash flow that more than tripled 2009 figures in comparable terms.

Leverage ratio within target range after Brasilcel acquisition

Turning to slide 24, I would like to highlight that we have generated close to 8.5 bn euros cash, and dedicated 80% of it (nearly 6.8 bn euros) to shareholder remuneration.

On the first chart, you see that our debt has increased by 12 bn euros in the year, of which 8.6 bn euros are due to financial investments (mainly the Vivo acquisition) and 2.4 bn to FX rates changes (close to 50% due to Bolivar devaluation in Venezuela).

Even so, our financial flexibility at the beginning of the year has allowed us to accommodate this increase without exceeding our 2.5x limit for the debt and commitments over OIBDA, as shown on the bottom chart.

That limit is respected both on a reported basis, and if adjusted by (i) adding Vivo's OIBDA not consolidated in the first nine months and (ii) subtracting the positive result of the gains on the sale of fixed assets net of non-recurrent restructuring expenses. Even if non-recurrent restructuring expenses other than the firm commitment to Telefónica Foundation were kept within OIBDA the leverage ratio would still not exceed 2.5x.

Turning to the next slide.

Contained interest expense and strong liquidity position

We show here that we have decreased our effective interest rate (ex-fx) at 5% of our debt, 54 bps lower than in 2009, while implementing a prudent financial management. So we have succeeded in keeping our financial expenses ex-fx at 2.5 Bn euros, nearly exactly the same level as in 2009 (excluding from the previous year c. 600 million charge due to hyperinflation in Venezuela), despite the aforementioned debt increase.

On our financial management, let me mention first that we have taken advantage of the low rate environment to increase our fixed rate debt by close to 13 bn euros, though 6.8 bn euros have been implemented through forward swaps starting to fix our debt in the middle of 2011. The weighted average interest rate of this swaps is 2.7%, with average maturity in 2017. Have we fixed this amount of debt at the end of January 2011, we estimate that the equivalent cost would have been 60 bps higher at 3.3%.

Second, we have been reinforcing our liquidity position by increasing our undrawn committed credit lines up to 9 billion euros, 1.8 billion euros up in the year, with 100% of the amount of the credit lines maturing in 2010 rolled out successfully.

Lastly, we have raised rough 16 bn euros long term financing in 2010, 8 Bn euros through a syndicated loan, close to 6 Bn euros through bond issues and around 2 Bn euros in Latam financing and public entities. Despite a less active fourth quarter, not surprising, led to one quarter reduction in the average life of our debt in the quarter (not surprisingly), the issuance at the beginning of the year by 3.2 Bn euros would be

enough to slightly exceed our 6 years medium term limit for the average life of our debt.

Let me now hand back the call to our Chairman.

César Alierta - *Telefónica, S.A.* - Chairman & CEO

2011 guidance: continued focus on growth

Thank you Santiago. Let me now share with you our priorities for 2011.

We continue to prioritise revenue growth, leveraging our diversification. Further momentum at T. Latam and T. Europe will outpace top line pressure in T. España. We will focus our efforts on capturing the mobile data growth opportunity in our footprint, with commercial efforts oriented to increasing customer value and therefore, quality growth. As a result, and according to guidance criteria, Group revenue is expected to increase up to 2% in 2011, with reported growth rates being significantly higher due to the full consolidation of Vivo in the Group accounts since Q4 10.

Despite increased commercial activity, we will be able to deliver an industry leading profitability. We expect Group OIBDA margin to be in the uppers 30s, limiting margin erosion despite higher commercial activity, based on executing our profitable growth business model and further leveraging scale economies and benefits from global initiatives.

Total CapEx, ex spectrum costs, should be around 9 billion Euros this year, as we continue setting the foundations for future growth, improving network capabilities to support the mobile data explosion and further growth in FBB.

CapEx, excluding spectrum acquisition, will go up in Latam and Spain, remaining nearly flat in Europe, despite higher investment in the UK network. Please notice that the full consolidation of Vivo have a significant impact in this figure, as we are fully consolidating 100% of Vivo's CapEx in 2011, which is expected to be around 2.7 billion reais.

Please be aware that the quarterly profile is going to be heavily back-loaded. As the market recovery in Spain takes longer to materialize and the bulk of the synergies in Vivo Telesp start after the operational integration is completed.

Maintaining premium returns on strong FCF generation

In 2011 we will honor our commitment to deliver growing dividends.

There are no key strategic transactions pending on the M&A front, and therefore the focus will be on acquiring additional spectrum in countries we are already present to secure future growth.

We will continue analyzing value creation opportunities, maintaining an active management of our non core asset portfolio.

And we do expect to improve the leverage ratio.

Therefore, the Board will propose the distribution of a DPS of 1.6 euros in 2011, growing 14.3% year-on-year. As usually, the dividend will be paid in two tranches. FCF payout is clearly below 100%.

With no doubts, we do reiterate our commitment to pay 1.75 euros in dividends next year.

Regional priorities

Regional priorities are outlined on slide 28, though there is one clear common priority for all of them: Increase the value of the customer base and monetize the MMB opportunity in a very profitable way.

By region, in Spain we will defend our revenue leadership. With a rational commercial approach, focused on leveraging our integrated profile where, we aim to foster BB revenues, both fixed and mobile, and to capture the remaining growth opportunities in the corporate segment, where the demand for ICT services should recover strongly in 2011.

In Latin America, we will speed up the integration of fixed and mobile business to maximize the benefits of being integrated, maintaining at the same time a strong commercial momentum.

In Europe, we aim to continue outperforming in the contract segment and to lead the MBB monetization.

In summary, our high-class diversification, with a growing bias towards emerging markets and integrated operations will allow us to deliver further top line expansion and to prove we continue to generate a strong cash-flow for our shareholders.

Closing remarks

To recap,

We have delivered a solid set of numbers at the Group level, leveraging our high-class diversification and our strong execution skills that mitigate external challenges.

Once again, we have met year-end targets for the eight year in a row.

We have also completed key strategic transactions in 2010, positioning us much better for the future and following the M&A path set in October 2009.

And finally, in 2011 we will continue to focus on capturing the growth opportunity of the digital world, while maintaining premium returns.

Thank you very much for your attention. I hope you will join us in our next Investor Day in London, where we will share with you the main challenges and opportunities for the industry and we will provide an update of Telefónica strategy for the coming years.

And now we are ready to take your questions.

Q&A session

David Wright - *Deutsche Bank*

Yes, good afternoon, everyone. A couple of questions from me. First of all, just on the revenue guidance you have given, can you just elaborate a little on the assumptions for Spain within that, I know, Santiago, you said that January had been very similar to Q4. Are you actually assuming things get a great deal better in 2011? So just a little more a thought around that, please.

And then second of all, just on the restructuring and Telefónica's Foundation charges to OIBDA, could give us some guidance on how they will feed it through the cash flow statement, please, in 2011? Whether they are immediate impacts or whether they are run over a certain period? Thank you.

Julio Linares - *Telefónica S.A. – COO*

Regarding our revenue guidance and looking into Spain, we expect strong commercial activity in Spain, value-oriented, focused on total broadband, both fixed and mobile, and we expect a gradual recovery in consumption around the year.

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

Yes, David, this is Santiago. On the restructuring charges, what we have done is accept as irrevocable some of the commitments that had been previously done with the Telefónica Foundation, especially to fund our star program which is called "Proniño"; and you may have very well heard of it. By making this irrevocable commitment, we had to register in our accounts the full amount that is going to be disbursed over a three-to-four-year period. So hitting the cash flow is going to be spread out over three or four years, depending on whether we are looking at Latin America or Europe.

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

Next question, please.

Tim Boddy - *Goldman Sachs*

Yes, thanks. A couple of questions from me. The first is just around the way you framed your guidance, which is obviously somewhat open-ended to the downside. Normally you give a much more precise range of guidance. So I'd just like to understand why you have changed that. Obviously one conclusion could be that with the uncertainty in Spain there is less visibility at this point in the year than normal. So if you could talk to that a bit, it would be grateful.

Secondly, you talk in the release also about regulatory pressures. Some of your peers have articulated the size of regulatory impact this year on revenue and EBITDA for the major markets, I guess particularly in Europe. If you could do the same, that would be most helpful. Thanks very much.

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

Tim, Santiago again. Let me take the first part of the question on how we frame the guidance. After having given it a lot of thought and having made all the comparisons, we have decided that besides building credibility (which is what we think we have been able to build over the past eight years, as the Chairman explained), we should build some flexibility going forward.

We think we are in a growing sector, and that is why we are, and certainly we are a growing Company and that is why we have guided to positive growth, a modest but positive growth Group-wide for 2011. But we wanted to hold a few of our cards in case that we have to fight back on some commercial fronts or we want to increase the commercial efforts, should those be necessary. So it is not our intention to be vague. It is our intention to become more flexible than we have been in the past, and that is why we have framed it the way we have.

Julio Linares - *Telefónica S.A. – COO*

Regarding the impact that we see in the regulatory front for 2011, basically we expect that MTR changes in Europe will have an impact of around EUR 1 billion in our all footprint in Europe in the year, on revenues.

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

Next question, please.

Mathieu Robilliard - *Exane BNP Paribas*

Yes, good afternoon. Two questions please. First with regard to CapEx, I think if I understood well that you plan to increase CapEx in Spain. Maybe you could give us a little bit of color as to where that CapEx will go.

Second, with regards to Latin America there was a very noticeable reacceleration in mobile service revenue growth in pretty much all the countries. Maybe, you could give a little bit more color in terms of whether that was driven by more volumes or a better pricing environment.

And the follow-up to that, it would be if you fear or you include maybe a potential negative impact from rising inflation in some of these countries. Thank you.

Guillermo Ansaldo - *Chairman and CEO Telefónica España*

Yes, Mathieu, this is Guillermo. I will take the first question regarding CapEx in Spain. Yes, what our priorities or policy for next year regarding CapEx in Spain is the following:

We will continue investing in the future in the next years. Second we will continue focusing on value customers. And third, we will focus on premium quality.

That means that we will continue investing heavily on 3G, since we are seeing great growth opportunities and profitability there. Second, we will continue investing on SMEs and Corporates, where we now have a very strong market position, and that means fiber for this type of customer, new services, cloud computing, machine-to-machine, and so on.

And third, we will continue with our very selective deployments in fiber for the residential and SOHO business. That will mean that the CapEx level will be about the same level or a little bit over the number that we have in 2010. Also, please take into account when you compare Spain with other incumbent operators in Europe, we are in the lower part of the range.

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

Taking your question on Latin America on the services revenue growth, in fact it is due to both said, parties volume, significant parties' volume, as traffic keeps growing and there is also a question of value, that we have been able to focus on value and foster migration to prepaid to postpaid and prioritizing contract customers with regard to prepaid.

And, as a result we have been able to reach our customer base, which is in contract, in fact surpassed 20% of the total customer base at the end of 2010, as well as we keep significantly growing data revenues, which are growing 43.4% with an ARPU that is practically stable.

So it is a mix of different effects. We have been managing our customer base, the existing one and the new adds. And we keep focusing, very focused on value customers.

With regard to inflation, inflation is much more focused as you know in two countries, Venezuela and Argentina. In both countries we are holding up as much as we can with inflation on the mobile tariffs.

In other countries in fact we are holding on pretty well, namely in Brazil, where you know that VIVO has been having an outstanding year. So it is a mix of different effects.

I would outline the customer, the contract, the postpaid focus that we have been having, the value focus that we have been having; and in fact trying to be much more effective in terms of campaigns and subsidizing less in terms of handsets.

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

Next question, please.

Torsten Achtmann - *JP Morgan*

Good afternoon. Two questions please. Number one is on Venezuela, if you could give me any update on cash and if there is any improvement in terms of getting the cash out.

Secondly on Brazil, Vivo is clearly outperforming all its competitors, which I think is mainly driven by the focus on data. So looking into 2011, where all the competitors are investing more, where do you think that is sustainable? And also on the MTR cuts in Brazil, is it more likely that we don't see any MTR cuts in 2011 now? Thank you.

Miguel Escrig - *Telefónica S.A.-Chief Financial Officer*

Hello Torsten. Regarding the cash we have in Venezuela, it is equivalent roughly speaking to EUR1.1 billion. This year we have been granted authorization to pay import denominated in US dollar for around \$500 million in the year. And we have been able to repatriate small amounts based on structure notes.

We have not been granted access to dividends that we have been claiming for the year, and we expect that this could happen in the future. That's it.

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

Taking your question on Brazil on Vivo. Yes, we have a very good 2010, with revenues 9.3% up and a very sound OIBDA performance, which is also very, very important with our stable and growing OIBDA margin, which is the highest in the industry.

Our efforts are based on several factors. The first one being that Vivo is the most valuable and recognized brand on the mobile market in Brazil. By the way, the Brazilian mobile market is the fastest growing out of the 10 largest mobile markets on earth.

We have the largest coverage of 3G thanks to our network in Brazil. We were the first one to deploy and we have been pretty consistently investing in that front.

We have also been at the forefront on the data expansion, both in smartphones and in big screen, and we will keep going. In fact, we have been growing at a very high rate in 2010.

We have been also basing, namely in the last part of this year, on contract. And in fact the contract customer already accounted for 21% of our total customers in Brazil.

The traffic of our network has been up significantly. Our MOU is slightly decreasing, almost stable, a 1.1% decrease. And ARPU is almost flattish, a 3% decrease.

Data ARPU has been growing 31%, so it is having a mix of some different factors. I would say that I think that we have an outstanding distribution network, an outstanding brand, which is by the way the most valuable brand in Brazil. The customer satisfaction index is the highest in the industry. So it is a mix of different factors and we intend to keep going into the same direction.

We have been aggressive in the last spectrum auction in Brazil because we wanted to increase the spectrum capacity of the Group, and we have been successful on that front. This is especially important in the northeast part of the country where we are a new entrant.

So I would say that our plan is to keep going, to preserve our leadership position, to optimize the level of our OIBDA margin. And I think that VIVO has an outstanding platform to keep leading the Brazilian market.

Luigi Minerva - HSBC

Yes, good afternoon, everyone. Two questions please. The first question is on mobile applications. It looks like the Wholesale Application Community has made little progress since it was launched more than a year ago.

Do you think operators are still in a position to regain a role here and properly monetize the application layer in mobile? Or shall we consider this opportunity as lost for good to the likes of Google and Apple?

My second question is on your core holdings. Is your stake in Telecom Italia still core to your strategy? Thank you.

Julio Linares - Telefonica S.A. - COO

This is Julio Linares. Regarding your first question on WAC, I think that the WAC was announced one year ago. Progress has been pretty good till now, taking into account

the number of memberships, inboards; taking into account that WAC 1.0 was released in September for developers community.

Based on that, there are around 12,000 widgets already available in September last year. The number is increasing. It is very important to take into account that the release 2.0 was delivered in February this year, including HTML 5 and is available for the developers community with significant improvement versus previous version.

And there is a commitment on WAC in order release WAC 3.0 in September this year, that will include network APIs that will be a significant differentiation regarding other ecosystems. So overall we are pretty comfortable with the progress till now and very confident on the future of WAC.

Cesar Alierta - *Telefónica S.A. – Chairman & CEO*

This is Cesar regarding Telecom Italia. We are very happy with the present participation we have in Telecom Italia. We don't intend to put it up or put it down. So we are going to maintain the present position.

I want to stress that our relation with telco shareholders are very, very fluent and very good on key strategic issues. We are very happy with the management of Telecom Italia. So I think now as I said we will stay as we are, and I think Telecom Italia's on the right track.

María Garcia-Legaz - *Telefónica S.A. – Head of IR*

Next question, please.

James McKenzie - *Fidentiis Equities*

Hi, thanks for taking the questions. A couple if possible. Firstly, the financing costs in the last couple of years in the cash flow statement has been around EUR2 billion. That is well below the P&L cost. Is this more representative of the sort of clean cash cost of interest for you in these two years and then going forward?

And then secondly, I wonder could you remind us how much intangible or PPA depreciation has been in 2010? Maybe give us a guess just what it might be in 2011 in total. Thanks very much.

Miguel Escrig - *Telefónica S.A.-Chief Financial Officer*

Hello, James. This is Miguel. Regarding the difference between the accrual and the payments in interest ex-FX, really in the financial expenses ex-FX, we have had this year some extraordinary effects.

One of them is the fact that we are including there the write-down of our participation in BBVA as financial expense, while there is no payment related to that. Other than that we have also some zero coupons that are creating some savings in payments.

Also partially there are some effects at year-end depending on the payment date of some interests in loans, which amount roughly speaking to EUR50 million in that area. But over time we estimate that we will be converging to the same amount as we are accruing.

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

So, James, Santiago again. On the impact of the PPA, what I can tell you is that increase from last year into this year has meant going from EUR753 million to EUR867 million.

And the greatest contribution is something we have mentioned in the call; it is the inclusion of Vivo and the new PPA of EUR84 million allocated to Vivo. So the overall number is EUR867 million in PPA amortization this year.

María Garcia-Legaz - *Telefónica S.A. – Head of IR*

Next question, please.

Jonathan Dann - *Barclays Capital*

Hi there. Could you elaborate on your comments around the guidance that the performance would be back-end loaded, if I understood correctly?

Also, am I right in thinking, does the guidance still allow you to include any M&A within the guidance? Could you just walk through the guidance on a clean basis, excluding the additional quarters of Vivo, just for a bit of clarity?

Julio Linares - *Telefónica S.A. - COO*

This is Julio Linares. Regarding the guidance that we provided for the whole year, organically this is back-end, at the end of the last part of the year.

Cesar Alierta - *Telefónica S.A. – Chairman & CEO*

But with regards to M&A, I want to make clear that we have fulfilled our M&A strategy. We are very happy with the present footprint we have. We might do more acquisitions on the level that we did with Tuenti or Jajah or some bilateral business. But we have completed our footprint.

We think with the footprint we have now, we have tremendous capacity of organic growth; and with that we're going to concentrate our organization to deliver organic growth of the Group because we have tremendous potential.

Justin Funnel - *Credit Suisse*

Thank you. Yes, a couple of things. In Brazil, obviously there is this trend with long-distance pricing that TSU is exploiting. I guess if we look at Brazil it's quite an archaic market, quite an old market. Most markets long distance is gone.

Just wondering what your exposure is to long-distance within Telesp and whether at some point, perhaps post the merger, we should expect you to attack that mobile long-distance market and take some share back of TSU.

Secondly just big-picture in LatAm. Could you give us a feel in 2010 as to how much of your mobile data growth is driven by dongles versus smartphones? And whether 2011 is the year where you hit a sort of tipping point on smartphones coming down to the right price to hit the Class B and Class C parts of the population in that region? Thank you.

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

Thanks for the questions. The first one we are looking for the exact figure of exposure to long-distance; but in the meantime let me tell you that as we have been bundling aggressively in the last three to four years in Telesp, not only traditional products with broadband, but as well within the traditional products in terms of voice, between domestic long-distance and international long distance, I think that the exposure that we have to the traditional long distance or plain-vanilla long-distance product has been significantly reduced in the last four years. We are looking for the current figure; as soon as I have it I will give it to you.

While you were asking your question I remind that I didn't ask about the MTRs cut in Brazil in the previous one. Let me stress the fact that nothing has happened yet on that front on the mobile side.

That if you remember the initial draft for public hearing that Anatel issued some months ago, were proposing a steady decline of 10% in the next two years. This draft is still under discussion, so it is not clear for us when this is going to happen. But it is clear for us that it is probably going to be steadier, and nothing significant or immediate cut, at last with the current environment.

In the meantime, Vivo exposure to interconnection rate keep being reduced, as we are fostering on-net traffic.

With regard to your comment on the mobile broadband in Latin America in terms of how much we have, out of the total 7.5 million mobile broadband customers that we have in the region approximately 3.5 are smartphones, and this amount is growing very rapidly. The smartphone penetration in Latin America at the end of 2010 is in the neighborhood of 5%. That compares with something in the neighborhood of 30-something in Europe.

So the rules of the game are still to be written in Latin America in terms of subsidies. The main barrier of entry is the price of the handset; it is still too expensive to be massified. But in the last year prices have declined very, very dramatically. We are seeing already some handsets in the neighborhood of \$150 and going down.

So I guess that probably 2011 is going to be a year of explosion of smartphones in Latin America, and that provides us with a very good opportunity. And that is why we have been working so hard in the last two years in our customers postpaid database and namely on being more, I would say, precise on the knowledge that we have of our customers.

I am afraid that we don't have the number that you were asking us in terms of the long-distance; but please get back to our investor relations team and we will share that number with you. But remember that most of our traffic of our traditional voice is already bundled in Telesp.

María Garcia-Legaz - *Telefónica S.A. – Head of IR*

Next question, please.

Luis Prota - *Morgan Stanley*

Yes, hello, everyone. I have two questions. The first one is on the guidance slide in the presentation. You are mentioning setting basis for profitable mobile broadband growth, and you are mentioning this throughout the whole presentation many times. So if you could elaborate a bit on this, I am wondering whether the focus is on the cost and subsidy of the handset, maybe tiered pricing and ARPU implications, maybe applications. I guess that all of them important; but if you could elaborate a bit on what is the main focus now and how you see this evolving, that would be very helpful.

The second question is on retail share of broadband in Spain, which you are mentioning to be around 53%. You are saying a solid market share, 53%; but that has come down 1 percentage point or around that in the fourth quarter, and around 2 percentage points for the full year. So clearly accelerating in the fourth quarter. So I am interested in getting your thoughts in whether this negative trend is going to continue or it was especially aggressive fourth quarter, and you are expecting this aggressiveness to slow down. And if possible, what could be the level of market share at which you would consider kind of minimum at which market share should stabilize? Thank you.

Cesar Alierta - *Telefónica S.A. – Chairman & CEO*

Luis, it is Cesar. We talk a lot about that because that is one of the biggest leverage of growth opportunities, not only for Telefónica but the whole industry. In our Investor Day we will elaborate a lot more on that.

But there is one thing which is clear, it is clear now; it wasn't so clear last year. It is tiered pricing is working in our markets and it is working very well.

You know that we are serious people and really working at setting the tiered pricing. So that is really good news on one front.

The second thing which is very good news is that smartphones are going down in the prices. And every time there is going to be more competition, it's smartphones. The competition in smartphones is going to be very strong, especially in the second part of this year.

So both news are good. So you have seen in our presentations, and we have talked a lot the value of the client. We are weighting a lot on Telefónica on the value of the client in every three of the business lines: Europe, Spain, and LatAm. But as I said we are very confident on that. It is going to be tremendous growth.

But this is something that on Investor Day we are going to talk a lot more about it.

Guillermo Ansaldo - *Chairman and CEO Telefónica España*

This is Guillermo, I will take your question regarding retail market share on broadband. First, it is true; in the last quarter of last year, we witnessed an increased level of competition, price-based competition in fixed broadband.

Two type of conducts or behaviors. One is aggressive promotions, as usual; and second, cross-promotions, meaning that players with mobile operations giving discount to fixed broadband if they bring also the voice with them. This is a conduct that has been challenged by another operator under CMT. We'll see what happens with that.

My belief is that that will soften in the near future, that players will become more rational. And also take into account that according to the CMT own accounting, regulatory accounting, the ULL prices are below cost. So that is something that should be solved in the future in some way or another.

And finally, keep in mind that our focus is on value. That means that we will put more emphasis on value market share, not in access market share. That is why we have been highlighting that our retail revenue market share is around 53% and only 1.3 points below last year. So we keep the leadership in the market.

And our profitability measure, for example, as OIBDA margin, is a benchmark in Europe.

María Garcia-Legaz - *Telefónica S.A. – Head of IR*

Next question, please.

Jesús Romero - *Bank of America - Merrill Lynch*

Thank you; it is Jesus from Merrill Lynch. The first one is on cash taxes. You have given us guidance for operating free cash flow in 2011. I wanted to know if you could give us something on cash taxes for 2011 and also working capital, whether there was a big movement in the fourth quarter.

And the second question on the Vivo dividend. From a Telefónica shareholders' point of view, can you explain the logic for such a high increase in the Vivo dividend? And why that, versus maybe delaying that dividend for a later stage after the merger with Telesp, or perhaps doing a buyback of minorities in Vivo? Thank you.

Miguel Escrig - *Telefónica S.A. - CFO*

Okay, Jesus. This is Miguel. Well, we have had this year a effective tax rate of 27.5%, and we may be within the range we have stated previously; and certainly around 27% in the next year.

Regarding working capital, we are working a lot on that front but we do not expect to repeat the excellent result of 2010 that has also been underpinned by some extraordinary facts such as the fact that we are not paying in full in the spectrum acquired in Mexico, or that the provisions that we have recorded in the last quarter had no impact in cash, while depressing the OIBDA.

This has been behind the extraordinary result in 2010 in part, on top of a lot of efforts on the CapEx payment and also on the bad debt recovery especially in Spain. For the next year, we expect maybe something slightly negative, also driven by the fact that we expect some revenue growth that has always a negative impact on the working capital.

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

Jesus, this is Santiago again. Just a quick comment. Not that there is much we can say about this, but the one thing I do want to say is that we don't change our mind depending on the size of our stake. So we had a dividend policy in place before this whole thing started, and when this is over we will probably have to review it. But until that happens, we think we are on the right track in applying the policy, the dividend policy that had been done at the regional level.

And at the top level, you know that we pride ourselves in being a shareholder-oriented Company. You may or may not like the policy that we have towards the dividend, but certainly we will give you an update on the Investor Day as how we think about this going forward. But for the time being, we thought this was the right way of completing the top Company payment.

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

Next question, please?

David Strauch - *Natixis*.

Yes, thank you. My first question is, I would like to know to which extent you're committed to come back quickly to the middle or the low end of your comfort zone in terms of net debt to OIBDA ratios, or if you are pretty easy with the current level at 2.5 times.

And secondly, in terms of organic revenue growth, 2011 in fact should be close to 2010 despite Vivo's having a higher weight in 2011, which implies probably weaker trends out of Brazil. So is it mainly coming from the MTR cuts in Europe, or are there any other reasons?

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

Hello, David. Regarding our comfort with the current leverage, it is not very high, certainly. We have stated that we want to be in the 2 -2.5 range, and we are in the 2.5, which is the upper limit. So we want to reduce it, and we count on improving that ratio over the year.

And this is our ratio that we had as well in the past, if we have been able of acquiring Brasilcel in 2010, this is partly due to the fact that we have flexibility and that we were not at the top of our leverage. And also it's good to be below that limit in order to accommodate any unforeseen damage such as could happen with a devaluation for instance in Venezuela or in other countries. So we are committed to going towards the middle.

Julio Linares - *Telefónica S.A. - COO*

Regarding your second question, the impact on our revenue organic growth of the MTRs that we see over the whole year, it is around EUR1 billion, as I mentioned before, for the whole Telefónica Group, basically in Europe. So today in Brazil we do not see an immediate impact.

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

Next question, please?

James Ratzer, *New Street Research*

Yes, good afternoon. I had two questions, please. The first one was just regarding your CapEx guidance. I believe in 2009 in Madrid you talked about CapEx gradually being able to come down from a level of about EUR8.4 billion. So this seems a bit of a change in the CapEx outlook. I was wondering, is this a case of front-end loading CapEx, so we

can expect a sharp decline in 2012? Or do you see CapEx now on an ongoing level nearer the EUR9 billion mark?

The second question I had, please, was just regarding your Vivo shares. Last year you wrote the value of those up in your books following the offer for Brasilcel. Does that mean that if the offer made by Telesp for your current Vivo ON shares is below the price on your books that you pay for Portugal Telecom you will have to make a write-down in the 2011 P&L? And is that something you would be happy to do? Thank you.

Julio Linares - *Telefónica S.A. - COO*

Regarding the first question on our CapEx, first of all you have to take into account the difference in our perimeter, because now we have new companies in Germany, we have the 100% of Vivo; so that has significant impact. In addition to that, based on our commitment to capture revenue growth opportunities, there is a change in the mix of our CapEx, and we are going to go deeper in the development of all the broadband networks, particularly in the mobile side of the business.

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

Hi James, Santiago back again. In terms of the accounting impact, you are absolutely right in pointing out the effect that our proposal to buy the 50% of Brasilcel had on our accounts. Let me also remind the audience that we did not imply that that offer was going to be recorded at exactly that price on our books.

It was rather a lower number, which is closer to the one that we have proposed to the minorities, the voting minorities of Vivo to come in. So yes it is based on the offer that we made; but no, it is not the exact price, but a lower number.

With the ongoing process of putting together Vivo and Telesp, we do not expect any change in either the valuation or in the accounting impact of them. But of course as this is a pending and ongoing issue, we will have to wait until the end, until that is fully realized.

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

Next question, please?

Giovanni Montalti - *Cheuvreux.*

Could you please provide us some comments on the competitive dynamics in the Spanish mobile? It seems that in Q4 the mobile service revenues trend of Vodafone and especially Orange was better than yours, even more than it was already in Q3. If you could provide us some comments, please. Thank you.

Guillermo Ansaldo - *Chairman and CEO Telefónica España*

Yes Giovanni, this is Guillermo. The last quarter, as you know, is always a quarter of strong seasonality and a lot of campaigns in the mobile market. In Spain it was very active and what we have seen in the last months is a stronger price competition, started from the mobile virtual operators, Yoigo and then Orange competing against Yoigo with the smaller tariffs. And later Vodafone made some moves in order to be competitive on the pricing arena.

So looks like dynamics in the last quarter were a little bit more loaded towards the tariff price, while Spain's traditional market, was a little more balanced between handsets and prices. I think during this year 2011 we will see more rational or balanced approach and we continue focusing on our market share.

Let me remind you to give you an example, that in terms of in the mobile market, in revenue market share, when you compare our revenue market share with our access market share at the beginning of the year, in 2010, we had a 4 percentage point difference and at the end of the year, 5 percentage point difference, that means that a lot of the accesses that have been traded in the market has some of them, and the majority of them have little value. Thank you.

Ivón Leal - BBVA

Hello, good afternoon, everybody. A couple of them, the first one on the broadband business in Spain. How concerned you are about ONO upgrading the networks to DOCSIS 3.0? Maybe it would be useful if you could share with us the share of net adds in the areas where ONO is upgrading and where it is not. And eventually if that would push or could push you in the future to anticipate a fiber to the home deployment in Spain?

And the second one is about Telesp. It's true that the top line is doing rather well. But still the company looks to be lagging a bit in terms of EBITDA. So I don't know, when do you expect to see EBITDA stabilize in Telesp? Somewhere in 2011 or maybe still too soon? And if there is a way to slow down that aggressive fixed mobile substitution in Brazil?

Guillermo Ansaldo - Chairman and CEO Telefónica España

This is Guillermo; I will take the first question regarding the broadband market in Spain, and particularly the cable operator ONO. As it has been published by ONO, ONO is upgrading its network to DOCSIS 3.0. They have been focusing so far more on their own customer base, which is logic, in order to improve the quality and speed of the network and to retain the customer base.

You know, ONO in the last years has been losing or flattish in terms of market share. So this looks like in the first wave a defensive move. In the future we will see if they

escalate to be on defensive side, taking into account that given the leverage that ONO has the room for manoeuvre is limited.

I don't have here rank in shares per region. We usually don't disclose that. But if you look at the Spanish market and the information that is provided by the CMT, you will see that in 2010 the ones that are gaining market share are the unbundlers, not the cable operators.

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

Good afternoon Ivon; it's Jose Maria speaking on your question on Telesp. You know that after a very complex and tough and difficult 2009, we decided to turn around Telesp, basing on several pillars. The first one of them being the quality, quality and customer satisfaction index.

And, as a result of that during the whole of 2010 we have been working on that front. We have increased significantly the subcontracting effort in order to ensure that we were able to preserve both the level of quality of the existing customers and the existing network, and at the same time retaking our commercial effort.

It is true that in terms of revenues we have been having a turnaround situation, and we have been able to slightly increase revenues in the company during 2010. It is also true that the OIBDA has been impacted by several effects, one of them being positive, like tower sales. But also another one is being the fact that we have incurred in more costs to ensure quality and preserve the level of net adds.

Taking everything into consideration, the year for Telesp has been outstanding. We have been able to almost maintain the number of customers of traditional lines. While in 2009 we had been losing 400,000, we have an increasing broadband almost 700,000 customers which is historically high. We have been adding more customers.

We have been having more net adds in the month of December of 2010 than in the three previous years all together. We have also been retaking growth on the TV part, which is part of our pending issues. And we have been able to do that with the highest level in the history of Telesp of customer satisfaction.

Taking everything into consideration and excluding non-recurring items, the tower sales, and other one-time impacts of 2009, OIBDA margin in Telesp is more stable in 2010 than in 2009. It is true, that at a lower level; but it is not decreasing, at least not decreasing at the same pace and we think that all the effort that we are doing in Telesp are going to be paying off in 2011.

Take into consideration as well the fact, and I take advantage of the opportunity to communicate that to you, that in the first two months of this year it has been raining even more than in the previous year. 2010 was the heaviest rain period in the last 63 years; 2011 has been the highest one in the last 64 years. And therefore we have also

focused on quality, and therefore commercial activity in the first two months of the year is going to be lower. But we are fully confident that we will be retaking the commercial effort as the Brazilian market is booming.

In terms of fixed-to-mobile substitution that you were mentioning, I would just outline the fact that we have been able to preserve basically the number of traditional lines. We have been just losing 39,000 in 2010. So I think that the bundling strategy and the transformation strategy and the quality focus that we have been putting is paying off.

So we will keep you posted. We are much more optimistic about Telesp, and we are waiting for the final process of the Vivo tender offer and integration in order to do even more things together with Vivo.

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

Next question, please.

Will Milner - *Arete Research*

Yes, thank you. A couple of questions. Firstly on Spain on the restructuring charge, I just wonder what level of savings on personnel costs you might achieve this year, after you book the EUR202 million charge. And also I guess, how many employees does that cover?

You also mentioned outsourcing. I just wonder what sort of political pressure you are under to not reduce headcount too much given the unemployment levels in Spain right now.

And a second question again, just it was interesting to see the Vivo dividend yesterday. And I just wonder; after you have completed the merger between Telesp and Vivo is there anything to prevent a full 100% payout of free cash flow of the consolidated entity? I am thinking really around distributable reserves, in that context. Thanks.

Guillermo Ansaldo - *Chairman and CEO Telefónica España*

Well, this is Guillermo. Regarding human resources in Spain, yes, it is provision for several projects, restructuring projects in Spain for a total amount of EUR202 million. Among them there is a program for example for reducing managers' positions that was mentioned in the presentation.

Roughly we are thinking about a reduction of 6% of these management positions, roughly 250 people. Obviously, the unit costs are completely different to the ones we had in the previous redundancy programs, because we are talking about managers; and the payback is similar to the previous one.

Regarding outsourcing, we will have no political pressure at all. This is basically a typical managerial discussion and analysis that we are conducting. We will give more color information in the Investor Day in London.

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

Taking your question on the dividend policy of the integrated unit, as the process is completed, as we are right in the middle of the process we are highly restricted of sharing additional information. We will wait for the final process to be completed and achieved in order to share with you the dividend policy of the joint unit afterwards.

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

Jeremy Dellis - *Jefferies*

Yes, good afternoon. I just have two questions please. Firstly on Spain, you noted there has been a certain amount of price promotion on the fixed broadband side. I wonder how much additional pricing pressure you have been seeing on the mobile side and whether your guidance accommodates an element of price rebalancing on the mobile side during 2011.

And then secondly, just on Vivo and just to sort of labour the point on distributable reserves. Obviously the Vivo dividend is a 127% payout ratio. And I just wondered whether there is anything to prevent you in future running down those distributable reserves to boost cash flows into the corporate center. Thank you.

Guillermo Ansaldo - *Chairman and CEO Telefonica España*

Jeremy, this is Guillermo. Yes, there is price promotions in the fixed broadband and also, some more intensive pro-activity on the mobile side. That is taken into account obviously in our guidance in the future.

Let me stress that our focus in present and in the future will be on value. That means revenue market share is a much more relevant metric than access market share, and we have been defending very well that metric.

Profitability as usual is a very good measure, and we still have almost 47% OIBDA margin. So we will put focus on value. We will not enter in destructive price wars or tactics, and we will continue focusing on our best customers and on our bottom line.

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

Taking your question on the structure, would there be any restriction or limitation on the deal or the integrated unit dividend payment after the process is completed?

Again, we are highly restricted to comment, but it is going to be highly dependable on the final structure of the exchange ratios and all that. So it is very soon to conclude. We will keep you posted, but for the time being we do not see any major limitation.

César Alierta - *Telefónica, S.A. - Chairman & CEO*

Okay. This is Cesar Alierta. I want to thank all of you on behalf of all the team of Telefónica for your attendance at today's conference call.

As I said before we are looking very much forward to see you in London on the 13th and 14th of April, in which we will share with you how we see the main trends especially the big opportunity for the industry, and update you on the strategy of Telefónica for the coming year. Thank you very much and good weekend.