Telefónica January-March 2012 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-March 2012 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 dialling the following telephone number, +34-91-482-8700. Now let me turn the call over to our Chief Financial and Corporate Development Officer, Mr. Ángel Vilá, who will be leading this conference call.

Presentation

Ángel Vilá - *Telefónica S.A. - Chief Financial and Corporate Development Officer*

Thank you, María.

Good afternoon ladies and gentlemen and welcome to Telefónica's first quarter results conference call. It is my pleasure to chair this call.

Today with me are the members of the Executive Committee, so during the Q&A session they will have the opportunity to answer the questions you may have.

Delivering on our 2012 strategy

Progress year-to-date shows that we are delivering on our growth strategy, fully executing the priorities set for 2012.

First, on the commercial side, we have had a very strong start for 2012, leveraging the new propositions launched across markets since the second half of 2011. Growth in the quarter was underpinned by the expansion of our mobile base, especially on the mobile broadband space.

Second, top line has recorded a significant improvement year-on-year, as increased commercial push is already flowing into revenue. In the middle of the crisis we are back to positive growth rates, despite material drags from regulation and Spain. Mobile data sales continue to post very solid growth and will drive further top line growth acceleration along the year.

Third, our businesses in Latin America have delivered an outstanding evolution in the first quarter, with sustainable high single digit top line expansion. To highlight, Brazil already accounts for about one fourth of our total revenues, similar to Spain. And despite having our headquarters in Europe, for the first time, over 50% of our OIBDA comes from Latin America.

Fourth, we are setting the new paradigm in the sector, working in several areas including commercial approach, devices and networks, which I will explain further later on. Let me stress that we continue to invest for future growth, with focused investments in Mobile Broadband and fibre, where the quantum leap in terms of coverage is particularly remarkable.

Finally, on the financial front we have been proactive year-to-date, with 2012 maturities already been fully refinanced, more than 40% of 2013 prefinanced and the Colombian restructuring executed. And we are taking further actions to progressively reduce the leverage ratio and to protect the rating.

Financial summary

Please turn now to slide number 4 for a review of Q1 12 financial performance.

Revenue reached over 15.5 billion euros in the first quarter, up 0.5% year-on-year, despite the adverse conditions faced in most of our European markets. Excluding MTR cuts, revenue growth was 1.6%.

Below the revenue line, both in 2011 and 2012 we have booked several material exceptional items. In particular, 2012 accounts include the non-cash impact of the reduction in the value of our indirect investment in TI, with a negative effect in net income of 337 million euros, while a year ago we recorded the positive impact from the reduction in our stake in PT.

So, to better understand the underlying performance of the Company we will focus on the P&L excluding those non-recurrent effects.

As such, underlying OIBDA was close to 5.1 billion euros, down 7.4% year-on-year, while underlying net income totalled almost 1.3 billion euros.

CapEx to sales was 11%, higher than a year ago, though below our 2012 target due to different quarterly execution path along the year.

Finally, let me highlight that Q1 results are aligned with our internal expectations and, therefore, we reiterate our 2012 guidance.

Solid commercial start for 2012

Slide 5 shows the sustained ramp-up in accesses growth to 7% year-on-year.

The very strong performance in mobile, particularly in broadband, underpinned accesses expansion to over 309 million, in spite of the 2 million mobile disconnections in Spain in Q1.

Mobile net adds reached 4.3 million in the first quarter, 1.5 times higher than a year ago, on the back of higher gross adds, churn control and a twofold rise in net adds in Latin America.

We again posted record smartphone sales, accounting for 81% of commercial activity in Europe in the first quarter of 2012.

Revenue growth driven by key strategic areas

Top line reacceleration was driven by 2 key strategic pillars: Latin America and mobile data, as shown in slide number 6.

Revenues in Latin America posted high single digit growth, with a very remarkable 580 basis points acceleration quarter-on-quarter. This performance more than offset the decrease in top line in Europe.

On the mobile data space, the growing demand of smartphones and the strong traction of the new tiered data propositions led to a 55% year-on-year increase in our mobile broadband accesses, with a 17% Mobile Broadband penetration.

As a result, data revenues rose 15% year-on-year to reach over one third of Mobile Service Revenues. Non-SMS revenues already accounts for 55% of total data sales, as we leverage tiered pricing to monetise the strong increase in data traffic, with traffic and revenue growth rapidly converging.

Outstanding performance in Latam, our key growth engine

Let me now stress the outstanding performance or our main growth engine, Latin America, on slide 7.
Our operations in the region keep posting growth acceleration, on the back of a very strong commercial momentum, which allowed us to grow access base by almost 11% in the first quarter, with a particularly robust performance in mobile.

We have led the growth in the region, with 4.7 million net additions, posting a new record for a first quarter, and more than doubling last year figure. We also continue to lead the Mobile Broadband adoption in the region, with 2.3 million Mobile Broadband quarterly net adds.

As a result, and reflecting the steady expansion of Mobile Service Revenues, up 13% year-on-year, top line growth ramped-up to close to 10% if we exclude the negative impact from regulation. Please notice that mobile revenues already account for close to 70% of our sales in the region.

On the fixed business, it is worth to highlight the increased contribution of Fixed Broadband and new services, already accounting for over 40% of these sales.

Clearly, our unique portfolio in Latin America is a key differentiator factor and a strong growth platform going forward. 48.5% of our revenues and over 50% of our OIBDA already come from this growing region.

Increased customer investment impacting profitability

Please turn now to slide 8 to analyse OIBDA margin evolution.

OIBDA was primarily impacted by the rise in commercial costs, which were up close to 11% year-on-year in organic terms, on the strong push in volumes from the second half of 2011 and the increased weight of smartphones on the mix.

The higher focus on retention will drive churn reduction in the coming months, benefiting also top line performance and revenue share, as we keep the most valuable customers on board.

Additionally, our initiatives to promote more rational markets and enhance mobile data monetisation should lead to a more efficient commercial expenditure. On top of that, we will benefit from easier comparison in the second half of the year.

Secondly, network and systems costs rose on the enhanced coverage and capacity of our networks, especially in Latin America. Moreover, high inflation in some countries also drove higher costs.

On the other hand, we are implementing cost cutting initiatives across regions, with savings from the headcount reduction in Spain already flowing in the P&L and others linked to recent redundancy programs in Brazil, Czech Republic and Ireland to come.

We also continued to optimise capital allocation, selling non-strategic towers in Brazil and in Spain, which were partially offset by the restructuring costs booked in the quarter.

We will deliver improved profitability along the year, leveraging cost contention measures and the benefits of Telefónica Global Resources.

Latam: Robust growth acceleration across regions

Let me now focus on the performance of our businesses by regions, starting with a more detailed review of Latin America on slide 9.

Looking at the revenue growth components by geographies, I'd like to highlight that we delivered top line growth acceleration across all our footprint. Even in Mexico, where were are facing operating challenges due to drastic MTR cuts, we are gradually turning around the business, coming back to positive revenue growth rates.

OIBDA grew close to 1%, with increased commercial costs due to higher activity volumes driving the OIBDA margin erosion. Please notice that tower sales were virtually offset by restructuring costs in the quarter.

Brazil: Widening leadership

Turning to slide 10 to review the performance of our Brazilian business, mobile net additions reached a new record level in the first quarter, allowing Vivo to gain market share in a highly competitive mobile market across all segments.

We continued focused on the high-end segment driven by strong smartphone uptake, with a smartphone base more than 4 times higher than a year ago. At the same time, new customer propositions further stimulated customer expansion in the prepaid segment.

Fast accesses growth was compatible with best-in class quality indexes, as reflected by the lowest levels of complains in the industry across services.

In parallel Vivo is leading the sector transformation. At the end of March Vivo had over 2,700 municipalities covered with 3G, which is more than the rest of our competitors together and allows Vivo to push strongly Mobile Broadband adoption. In parallel, Vivo is adopting a selective fibre deployment, a superior solution for Fixed Broadband which allows faster speeds than the solutions provided by our peers, and we are rapidly increasing the numbers of households connected.

Brazil: Commercial momentum flowing to financials, synergies materialised below OIBDA

On slide number 11, Mobile Service Revenues in Brazil kept growing at almost 15% year-on-year excluding MTRs, driving the contribution of the mobile business to over 60% of Vivo's revenue.

It is worth to highlight that data revenues already account for 25% of Mobile Service Revenues, reducing the Company's exposure to further reductions in termination rates.

In the fixed business, sales showed a marginal quarter-on-quarter improvement, excluding the impact of regulation. One clear evidence of the benefits of our integrated strategy is the strengthening of our position in the corporate segment, which already represents 48% of our fixed revenues.

In terms of profitability, the increased commercial activity, higher weight of smartphones and restructuring costs led to margin erosion in the quarter. Nevertheless, we continue to focus on generating further efficiencies and all the savings from the 10% personnel reduction in place and the April rebranding are still to come.

Synergies' crystallisation is clearly visible below the OIBDA line, allowing for a sharp increase in FCF generation.

Latam: Widespread growth acceleration (i)

Turning to slide number 12, I just want to highlight the widespread acceleration in the rest of our Latin America footprint, where commercial momentum since the second half of 2011 is delivering the results we expected.

In the Southern Region, revenues are accelerating to reach double digit growth, as we are maximizing the benefits stemming from our integrated assets, accelerating growth while transforming the operations. As an example, let me highlight that the agreement with the Colombian government to integrate the fixed and mobile businesses opens new opportunities ahead of us.

Latam: Widespread growth acceleration (ii)

Turning to slide number 13, it is particularly noteworthy the turnaround in the Mexican operation, where we are starting to see the results of our commercial efforts flowing into revenue performance. The improvement in operational KPIs makes us feel confident about a progressive consolidation of revenue growth acceleration along the year.

The performance in Venezuela continues to be very strong, not only in terms of revenues but also in terms of benchmark margins.

Finally, the evolution of the results in Central America also reflects strong revenue acceleration, and please let me remind you that OIBDA is reflecting the start-up impact from the recent launch of operations in Costa Rica.

T. Europe: Building momentum on commercial refresh

Let me now review our performance in Europe, starting on slide number 14.

Telefónica Europe continued executing its strategy to regain momentum in key markets and to increase Mobile Broadband adoption, among economic headwinds and strong competition.

The success of our enhanced commercial propositions launched from the second half of 2011 and our increased focus on retention pushed handset upgrades up 16% year-on-year. Additionally Mobile Broadband customers posted a solid growth of 27%, reaching close to 30% penetration over the total mobile accesses.

The Mobile Broadband momentum and our strategy to monetise this growth engine clearly flowed in revenues, with non-SMS data revenues up 21% year-on-year.

Nevertheless, optimization of use in a challenging macro environment, lower price points and the on-going regulation drag impacted Mobile Service Revenues performance.

On the efficiency front, I'd like to highlight that our focus on cost contention led non-commercial expenses to decline 6% year-on-year, partially offsetting the significant increase in commercial costs, which resulted in a 33% OIBDA margin in the quarter.

In parallel, we continue working to have more rational dynamics in our markets, with clear examples: in Germany the successful "My Handy" model and in Spain the acquisition subsidies' removal.

Spain: Executing our transformation plan (i)

If we move to Spain, on page 15, I'd like to highlight that we are executing our plan to transform and turn around the business.

The first step was to refresh our tariffs across services to become more competitive, stop the loss of high value customers and drive churn reduction. New tariffs are getting a strong traction in the marketplace. 50% of our Fixed Broadband customers and 37% of our mobile customers in the consumer segment are already enjoying the new tariffs.

Churn reduction is clearly visible for example in Fixed Broadband, with a 30 basis points decline from Q1 11 to April-12. Moreover, early indications in mobile churn of those customers that have opted for the new mobile tariffs point out to a sharp reduction in churn.

Regarding ARPU, early data on the new mobile tariffs shows a limited impact, with positive elasticity in the low-end segments and a slightly higher year-on-year erosion in the ARPU of the high-end customers.

Fixed Broadband ARPU declined 9% year-on-year, as we actively migrated customers to the new tariffs to further reduce churn. The fast expansion of our fibre network coverage to 1.3 million households, 3 fold the homes passed a year ago, and the strong traction of the offering, with 177 thousand houses already connected, will drive further churn contention and will help us manage ARPU. In fact, in those areas where we have fibre results are very positive.

Spain: Executing our transformation plan (ii)

The second step is the implementation of a new industrial model to enhance market dynamics. And that is why we have gradually reduced mobile handset subsidies since February. Some of our competitors have already announced they will follow us, and therefore you should expect a more rational market going forward.

The results so far show a consistent reduction in mobile number portability churn. However, gross and net additions were penalised in the quarter, as we were the only player in the market lowering subsidies up to mid-April.

We are setting the stage for a redefinition of the value chain in the mobile business to foster a return to profitable growth in the market.

Spain: Further efficiency gains across the board

Finally, the third step is aimed at increasing efficiency beyond commercial costs and delivering the best experience to our customers leveraging best in class networks.

Top line performance continued to be impacted by a challenging trading environment, with pretty stable trends in the fixed business. Weaker performance in Mobile Service Revenues was mainly driven by further usage optimization, lower prices, and our new commercial policy on SMS premium. Additionally, increased commercial efforts also impacted Mobile Service Revenues, as loyalty points are accounted as lower revenues.

Nevertheless, strong focus on the cost side has allowed to contain OIBDA deterioration q-o-q despite increased top line pressure.

The successful execution of the new redundancy program has led to savings of over 55 million euros in the quarter. Roughly 4,400 employees have joined the first two tranches of the plan, and 3,149 have already left the company, with the remaining leaving before year-end.

As a result of all our efficiency actions, OIBDA margin expanded sequentially.

UK: Regaining momentum

Turning to slide number 18, in the UK we are regaining commercial momentum in a highly competitive market.

Contract mobile net adds were the highest since Q3 10, underpinned by the strong volume upgrades around high-end smartphones and 8% year-on-year increase in gross adds. As such, we have improved our relative position vs. other players, while also expanding our smartphone penetration to 41%.

I'd like to mention the recent launch of the new proposition "On&On", around tiered data tariffs, to further reinforce our position on Mobile Broadband, which is central to data revenue growth. This offer is an additional step to secure the level of market share, with the right commercial initiative and lower incremental costs. I'd like to highlight that unlimited data propositions launched by certain competitors have not impacted our market share of gross adds, proving the success of our rationale approach.

Top line continued to be under pressure, mainly impacted by usage optimisation and contract renewals at lower price points, though stabilising year-on-year growth trends, as commercial efforts start flowing into revenue. Voice performance improved, while SMS trends stabilised, with data revenues increasing their weight to 48% of Mobile Service Revenues.

Regarding profitability, higher activity around retention and acquisition explains most of the OIBDA erosion. Please notice that activity in Q1 11 was particularly low, while we have also increased commercial efforts quarter-on-quarter.

Going forward, the efficiencies derived from improved contract churn and the lower volume of customers out of contract (as the bulk of renewals were done in the quarter), should translate into a lower year-on-year increase in commercial expenses.

Germany: Successful strategy driving growth

In Germany, on slide 19, our growth story continued. We recorded a strong set of results, gaining value market share, with the best-ever quarterly contract net adds, at close to 300 thousand, on the back of consistent churn improvement and continued growth of gross adds.

It is worth highlighting our partner distribution channels activity as well as the strong business segment performance. Consequently, smartphone penetration increased 5 percentage points to 21%, with a 95% smartphone share over total shipments.

This, combined with successful monetisation of data services and a better revenue mix, led to a sequential acceleration of Mobile Service Revenues growth to 10.5% in the first quarter, excluding the negative impact from MTR cuts in Q4.

OIBDA posted a robust double digit annual growth, as revenue growth flows through, which, coupled with higher efficiencies, led to a margin year-on-year improvement of 2.2 percentage points to 23.4%.

Czech Republic: Further improvement in financial performance

Please turn to slide 20 to review our operations in the Czech Republic.

Commercial momentum continued in the mobile value segment, with a strong growth in the contract base, up 6% year-on-year, underpinned by better contract churn and Mobile Broadband growth.

In the fixed business, Fixed Broadband accesses continued to increase, with VDSL already representing 19% of the base.

Revenues showed a sequential improvement for a third quarter in a row, driven by the continuous improvement of the mobile segment, as well as increased contribution from Slovakia.

In parallel, profitability remained strong, with a 40.5% margin, showing a limited year-on-year erosion leveraged on on-going efficiency agenda in the Czech Republic, sale of non-core assets and growing OIBDA in Slovakia, despite higher commercial costs and different ICT projects phasing.

Balanced access to credit markets, 2012 refinancing completed

Now, to finalise the presentation, let's move to the financial side, on slide 21.

We have been able to execute a well-balanced financing exercise year-to-date, relying on both the capital markets as well as the financial institutions, jointly with alternative funding sources, for an amount of up to 7.5bn euros. And we have been able to successfully do so under quite difficult market conditions.

Such refinancing allows us to say that 2012 has already been fully refinanced, taken into consideration our extension options on the preferred shares that mature in December. Moreover, given the level of financing completed we could apply resources to cope with more than 40% of the maturities for next year 2013.

This proactive management has also allowed to improve our healthy liquidity position, as we continue to increase our cash position, excluding Venezuela, to 6.3bn euros. More significantly, we have again increased by 1.3bn euros our undrawn committed credit lines reaching 11.4bn euros. It is to highlight that we have been able to extend 1.5bn euros bilateral lines maturities ranging from 2 to 4 years.

Effective interest costs have increased year-on-year though we continue to remain at the bottom part of our guidance.

Implementing measures to reduce our debt

Turning to slide 22, we can see how we are able to reduce our debt thanks to our asset rationalization, mainly stemming from the agreement reached on Colombian restructuring and other assets disposal such as Hispasat, PT and Zon, resulting in 1.5bn euros debt reduction. Nevertheless, this is offset by negative FX movements, non-recurrent financial expenses, commitments cancellation and share repurchases.

Going forward we expect our FCF to enhance our financial flexibility as the impact on higher payments vs. accruals on seasonality and non-recurrent effects recorded in the first quarter should not be extrapolated for the whole year.

Working capital secular seasonality will revert the consumption seen in the first quarter of this year.

Further actions to enhance financial flexibility

Turning to slide 23, we remain mindful on the importance of enhancing financial flexibility and are focused towards improving our leverage ratio by year-end.

We are in portfolio optimisation mood and looking for a selective monetisation of our assets across geographies, with 1.6 billion euros already achieved.

We expect in excess of additional 1.5 billion euros proceeds from further assets sales already undergoing, including Atento, while we continue to actively analyse other divestitures options to maximise the value of our portfolio.

On top of that, we adapted our shareholder remuneration to a more sustainable trend under current market conditions, providing us additional flexibility.

Concluding remarks: Delivering on our 2012 strategy

To recap,

We had a very solid commercial start for 2012.

Our top line has recorded a significant improvement.

We have posted an outstanding performance in Latin America.

At the same time, we are setting a new paradigm in the sector.

Finally, we do reiterate our 2012 outlook, as we will deliver a progressive improvement along the year.

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. I had a question on the Spanish mobile market. If you look at the number of customers you lost in Q1, I don't know if you could give us detail of how many of those customers were lost in the month of March. On the math I do with the 2.5 million customers you lost on a yearly basis; that is approximately 500 million euros of revenues. Otherwise, you can give us a little detail on what is that customer loss in April and whether you are seeing any improvements in the month of May so far. Thank you.

José María Álvarez-Pallete - *Chairman & CEO Telefónica Europe*

Thanks for your question, Jesus. Out of those 2.5 million that you were mentioning, 2 million are coming from a clean-up of the base and out of that 1.3 million is coming from prepaid because we have applied different criteria. We have passed from balanced criteria to activity criteria, because it was more realistic. And on the contract side, we have been cleaning up some customers that were not effectively using one of our services and that were providing us with a significant amount of churn when we realized that. So we are actively cleaning up, and that accounts for 2 million.

The other 500,000, we have the real activity of the quarter. If we focus mainly on the trends of March, in which we decided to take away the handset subsidy, the bulk of those are coming from that math and as the operators have started to be aligned, this trend has been improved significantly in the month of April and in the first weeks of May.

It is worth mentioning that different players are having a different commercial approach. Some of them have decided, namely Vodafone, to eliminate subsidies as well. It looks like other players like Yoigo are going in that direction and Orange is staying with a subsidy model, though we think with a lower intensity. So we are closely monitoring portability figures to check our productive performance with different players and we have different tactical reactions depending on the different players.

But it was a hot quarter. We knew that. But the economic model in terms of getting churn down and retaining high value-added customers and putting the focus of our loyalty programs and subsidies effort on existing customers, which are the most valuable ones, is starting to get some traction and we are starting to have some churn indicators that looks are going into the right direction, though it is still soon. So this is a little bit of the colour that I can share with you.

Jesús Romero - *Bank of America-Merrill Lynch*

Thank you.

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

Next question please.

Torsten Achtmann – *JP Morgan*

The first one is on Spanish broadband ARPU. So in mobile, the growth has been slowing to 4.5% after a plus 11% in the previous quarter. Is that a trend we have to assume will persist in the future as penetration has already reached 30%? Secondly, on fibre, in all of your markets where you roll out fibre, the success, the take-up is quite successful, is there a case that you should accelerate the fibre rollout to catch more of that broadband market? Thank you.

José María Álvarez-Pallete - *Chairman & CEO Telefónica Europe*

I didn't get the first question. I think it was on managed mobile service revenue ex-MTRs in Spain. There are three major, if that is the question, there are three major effects on the acceleration of the decline of mobile service revenue.

The first one is that we have cut our commercial practice based on SMS premium programs with partners that were creating a significant amount of quality concerns and claims and a significant amount of cost in IT. And in terms of billing claims, we have cut and we have become much more selective on the SMS trading agreements and commercial understanding and promotions that we were doing with third parties. That explains basically one-third of that growth.

Then you have the loyalty programs, which are accounted as negative revenues so to say that are netted from revenues. Those loyalty programs have increased compared with the previous quarter because that takes part of the commercial strategy of blending or making sure that we retain the most valuable customers that we have and therefore we invest in the loyalty programs to make sure that they stay with us. And then we accrue that and those therefore are flowing through revenues.

And there is another part, which is a lower part of this, the new tariffs. We have been effectively migrating actively 3.3 million customers from out of total base of residential contract customers of roughly 7 million. That is, 40% of the base has already been migrated and that creates another tension in terms of lower ARPU, but again with a significant improvement in churn. So the overall equation will be improving sequentially around the year. So that explains that drop on the mobile service revenue.

Considering the fibre deployment, so far results in terms of ARPU, churn, CSI and customer experience basically in terms of: i) installation time and the learning curve, ii) the average cost of subscriber acquisition costs, iii) the service provisioning timing in the households, are improving significantly. And that explains why the take-up ratio is improving so significantly.

At the same time, we are trying to be very selective in the home passed criteria in order to make sure that before we passed one neighbour on one city, we have commercial traction and therefore the take-up ratio is improved. And that very geographical approach has helped us to be much more efficient. We are pretty positive on the deployment and the commercial results. Therefore, we will keep with our current plan of significantly increasing our deployment and our speed of connections.

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

Next question please.

Georgios Ierodiaconou - *Citi*

Hello. Two questions please. My first question is around the leap year effect and whether you can give us an idea of how much your revenue growth benefited in Q1 and perhaps if you could comment as to how you expect to get to the more than 1% growth for the full year given the start that we have.

And my second question; and I am sure there may be more questions on KPN later, but I am more interested about the general principles. Given your commitment to the leverage target, can you rule out either changing the dividend policy or using your shares as currency in order to execute any strategic transactions? Thank you.

Julio Linares - *Telefónica SA - COO*

This is Julio Linares. Regarding your first question, generally speaking, at group level, we did not see, of course there was a positive effect, but we did not see a relevant effect. Though there are different behaviours for different markets and in some of them, the impact is bigger than in others. But overall, there is not a big impact at group level.

Ángel Vilá - *Telefónica S.A. - Chief Financial and Corporate Development Officer*

This is Ángel Vilá. Regarding the second question, first respect to KPN, we don't have any comments regarding that specific situation. We would only say that it evidences the strong undervaluation of the European telco sector and the valuation that the strategic players are ready to attach to European telcos.

With respect to the dividend, we are not envisaging any change to the dividend policy that we announced in December of last year.

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

Next question please.

Luis Prota - *Morgan Stanley*

Yes, thank you. I have a couple of questions. First, on the UK, you have been mentioning something in the presentation on this, but I would like you to elaborate a bit more on whether there is seasonality in spending in the first quarter that has brought forward costs and therefore could drive better margin throughout the year and your view on whether such a high level of spending is worth and when revenues will turn around. That's my first question.

And the second question is on the subsidies elimination in Spain. First thing, whether that was already included in your guidance or not and secondly whether you are expecting a net positive impact on EBITDA from this year or the savings that you could get from subsidies will be fully offset by increasing subscriber retention costs and maybe also the attention is turning into lower tariffs from competitors. Thank you.

José María Álvarez-Pallete - *Chairman & CEO Telefónica Europe*

Thanks, Luis, for your questions.

Taking the first one on the UK, and more specifically on the evolution of the margin in this first quarter. First message is that in the first quarter of the previous year we had almost no retention costs as we had no expiration or almost no expiration of contracts with iPhone customers. And the bulk of those happened mainly in the fourth quarter of that year.

That means that we want to preserve those highly valuable customers. By the way, I would like to stress that the life value of the contract customers is higher in average than in any other segment. So we want to preserve those and that is why we have been investing heavily in retention costs in this first quarter of the year.

Whether that is recurrent or not for the future, I would focus on the seasonality fact that most of the customers were reaching the iPhone in the first waves of the iPhones. And therefore, the bulk of those have already been flowing through, but it will keep going through the year, probably at a much slower pace in terms of that.

Let me stress the fact that thanks to that effort, churn is best-in-class, so we do not only have the best customers in the UK market, but we have the lowest churn customers thanks to that effort. And we deeply think, taking your question that if it is worth the effort as well in Spain with the subsidies; the answer is yes. We deeply think it is the right thing to do to create value and to preserve the most valuable customers.

On top of that, there are other efforts that we have been doing in the first quarter in the UK. We have been investing a little bit more in advertising that will be phasing out somehow at the end of the year. So basically the comparison is not fair because in the first quarter of last year we almost had no retention costs and we have been having a significant effort in this quarter.

With respect to the subsidies in Spain, if that was included in the budget or not, the answer is yes; it was designed that way. We knew that the first quarter was going to be very tough. We knew that it would take a while till others may consider following that path or not in terms of competition in Spain. But we deeply think that the payback of that effort in terms of churn reduction is lower than a year.

So we are monitoring on a weekly basis churn evolution because thanks to the handset subsidy strategy (which, by the way, we are not eliminating and we are just focusing this handset subsidy effort on our existing customers thanks to the loyalty programs and to the new tariff refresh) we think that we might be able to get much better churn figures in the next month. And in fact, things are starting to go into that direction.

For us, it is key to monitor the portability. We make sure that this is not reflected in a heavy loss in customers. At a very early stage it was designed that way. We think it is needed at the sector level but mainly in Spain with the current markets circumstances. So we think this is the right direction that we really want to go, we need to monitor that on a weekly basis, but we are deeply convinced this is the right direction.

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

Next question please.

Luigi Minerva - *HSBC*

Yes, good afternoon. Two questions please. The first one on Germany, could you describe what you mean in your release by tiered data pricing driving growth in contract ARPU in Germany? Is this the way that you design tariffs, which means that new customers are naturally taking the higher levels or I should say willing to pay more when they take a new tariff?

And secondly on the CapEx in Latin America, can you maybe elaborate a bit on the allocation of capital? Thank you.

José María Álvarez-Pallete - *Chairman & CEO Telefónica Europe*

Well, taking the question on the German market. Tiered data pricing means, generally speaking not just in Germany, that we think that we can be competitive in the market without having an all-you-can-eat data tariff. That means that if you have the right business intelligence measure in terms of reading your customers' database knowing what is the normal usage in terms of capacity and in terms of speed of downloads, you can design the right tariff, including bundles of SMS and voice.

That is what we have done in Germany. By the way, we have done exactly the same in the UK and that is why we think we can be competitive in the market. That requires a permanent reading on the download necessities or requirements from your customers and that is what we tried to do.

The message here is that we think you can be competitive in the market without having an all-you-can-eat data tariff, which, by the way, puts a significant pressure on your network. That is why we think that, with the current caps and mainly with the current information systems that we have in by which we can top up our customer demand if they require extra data capacity but without a big shock, this is the right strategy and that is what we are trying to do.

Santiago Fernández Valbuena - *Chairman & CEO Telefónica Latinoamérica*

Yes Luigi, this is Santiago. On CapEx in LatAm, very few surprises actually. We have significantly increased the amount spent on CapEx in Q1, although the seasonality effect makes all the quarterly comparisons difficult to draw big conclusions from. Our priorities are well known. We want to cater to the data needs of Latin Americans and in order to do that, we will expand coverage, we will participate in spectrum auctions and we will provide coverage and quality, which is second to none.

This is especially true in the case of Brazil where, on top of mobile coverage, we are also extending gradually but surely the fibre deployment in a similar vein to the one that Jose Maria was mentioning before on Spain. Other than that, there is no specific geographic allocation of capital. The budget is proceeding as expected and whether or not it is enough, I think the market will have to tell us in a year's time.

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

Next question please.

Robin Bienenstock - *Bernstein Research*

Yes, hi. Two questions I guess for Santiago. Just a question on Mexican minutes. I am trying to get to the bottom of this Mexican minutes and what has actually gone on there. Their business is clearly turning around. Your off-net minutes are now cheaper than your competitors and so, but minutes are down hugely. How much of that is about accounting? Presumably minutes are actually up if you didn't take into account the accounting change of minutes to seconds.

And then secondly, is there a risk about your Brazilian business given the premium prices with MTR cuts coming and a lot of prices likely to fall? Are you concerned at all about a sort of premium price overhang in your Brazilian wireless business? Thanks.

Santiago Fernández Valbuena - *Chairman & CEO Telefónica Latinoamérica*

Robin, I am not sure I got well your second question, but let me try and answer a little bit of the Mexican minutes. What is going on is a change in the shape and the form of the customers that we are attracting and the customers that we are leaving behind. That may have a confusing effect until the year lapses because of the different nature of the prepay customers that come and the prepay customers that go. Not much more than I can be explicit and if you wouldn't mind going again through the second question where the sound was not very good, I would appreciate it.

Robin Bienenstock - *Bernstein Research*

Yes, sure. The second question is just you are currently placed at a premium in Brazilian wireless to peers. So as mobile termination rates cuts come and mobile wireless prices come, are you concerned at all that you're going to have a gross overhang and have to cut your prices substantially in Brazil on wireless?

Santiago Fernández Valbuena - *Chairman & CEO Telefónica Latinoamérica*

Okay, got you. Thank you for going back again. The reason we have the premium pricing in Brazil is two-fold. For instance, we are much better exposed to the fast-growing and more valuable data traffic and that explains partially why we have the price premium. And second, we tend to cater in excess of our overall market share to the upper half of the market just because we have the better products, the better coverage and the better customers.

Is that price premium going to converge? Well, I think the jury is still out. We certainly have no signs. We can point to no signs of that being the case. If we are modestly correct about the market being tiered and segmented, there will be different habitats for customers to live in and to the extent that we continue providing good service and the quality experience, I don't see why overall pricing should converge. The lower rungs of the ladder, those occupied by the aggressive pricing entry-level prepaid, might be different, but it is a much more structured market than that statement would suggest.

Robin Bienenstock - *Bernstein Research*

Thanks.

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

Next question please.

Mathieu Robilliard - *BNP Paribas*

Yes, good afternoon. Thank you very much. First: a question on Latin America. You mentioned that there has been a lot of increase in commercial expenses and that is one reason why the margin diluted a bit. But when I look at, for instance, the press release of VIVO and I look at, for instance, personal costs, which are growing 8% year-on-year on an adjusted basis, it does seem that there is also a little bit of cost inflation. So maybe if you could comment on that with regards to Brazil, but also in other countries in the region, are you generally seeing some cost inflation?

Second, going to Germany, I mean obviously we have seen probably one of your competitors getting a new shareholder with deep pockets. Does that change in any way the way you think about your strategic position in Germany and how well you are positioned? Thank you.

Santiago Fernández Valbuena - *Chairman & CEO Telefónica Latinoamérica*

Mathieu, it's Santiago again. On Brazilian cost increases, you are partially right that there is a bit of cost inflation going on in the region. There is no way denying it, but I don't think that is the main explanation of why costs showed up in the first quarter. They are typically related to the expansion of our customer base, which, as I think we mentioned in the presentation, reached record levels. Brazil has added more customers in the first quarter than it has ever had. So the last areas of market capture are still going on and that had an effect on commercial expenditure.

Also I would like to highlight the fact that because of the excesses of data products and the higher cost, unit cost of smartphones, it is only natural that when you have a big increase, which is likely happening this year in the adoption of these devices, you will have a unit cost increase that is not going to be permanent as smartphone adoption is increasing, but it is not going to be doubling every year.

So, two components to that cost increase. One is genuine cost inflation in some quarters. Most of them, however, related to the strong customer growth and partially related to unit cost increase as the customers turn away from feature phones into smartphones.

Ángel Vilá - *Telefónica S.A. - Chief Financial & Corporate Development Officer*

And with respect to the situation that may have indirect implications on the German market, we would like to reiterate that, at this stage, we would not want to make any comments regarding that specific situation.

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

Next question please.

Tim Boddy - *Goldman Sachs*

Yes. Thanks for taking my question. A couple of things that caught my eye:

On page 23 towards the end of the presentation, you talk about opportunities under review for I guess faster deleveraging and I know you talked about portfolio management. I guess we have seen a couple of situations recently where operators are now able to sell into private equity at significant premium to current trading multiples. Is that something that you are thinking about? And can you give us the framework by which you decide what kind of assets are core and which ones you might look to selectively monetize?

Secondly, I just wanted to ask a broader question about commercial costs. Is this now a sort of change in the attitude of the Company which is going to last for a while? So you are going to continue to invest at this high level in commercial costs, particularly in LatAm and then look to get better revenues as a way of improving growth and profitability? Or is this time bound? Is this a period you are investing for and then you will see the margins recover as you reduce the competitive intensity? Thank you.

Ángel Vilá - *Telefónica S.A. - Chief Financial and Corporate Development Officer*

Thank you, Tim. This is Ángel Vilá taking your first question regarding slide number 23, as you have seen, even taking into account the post-closing events related to the Colombian restructuring and so on, we would still be outside or above the target leverage that we have expressed and committed to the market of 2.35x, and this has come from increased CapEx payouts, from some negative FX movements and some other effects which are explained on slide number 22. But we remain committed to this leverage ratio. We remain committed to preserve our rating. We remain committed to our shareholders' remuneration.

So clearly, we have to step up our efforts with respect to activities or actions regarding debt reduction. We have already achieved 1.6 billion euros. We have in progress potential transactions that would have in excess of 1.5 billion euros. We do not want to provide specific numbers but our estimate, and given the progress of those, would be in excess of that. And then we are assessing a variety of potential actions that we are reviewing. And we are lucky in the sense that we have multiple options on which we can act. We can tap capital markets with potential IPOs of some of our assets and we are assessing the attractiveness of those. We are also analysing which assets, if any, we could deem additionally to be non-core. And we can also use the lever of selectively monetizing stakes in some of our operations.

So this is what we are working. We wanted to highlight it to point out that we remain committed to our leverage target, our shareholder remuneration target and that we will continue to activate these actions obviously subject to market conditions.

Tim Boddy - *Goldman Sachs*

Could you share any more just on the framework of your thinking on that? Is it about long-term market structure attractiveness? How are you thinking about making those decisions?

Ángel Vilá - *Telefónica S.A. - Chief Financial and Corporate Development Officer*

Those decisions are linked to obviously market attractiveness. We are not looking at expanding our portfolio in other operations. We are looking at options that can increase the value of operations that we have and, obviously, to the return on capital that we have employed in our operations.

Tim Boddy - *Goldman Sachs*

Okay, thanks. On the commercial side?

Julio Linares - *Telefónica SA - COO*

Regarding your second question, as you saw from the last part of last year I think we have had a strong commercial push in most of our most relevant markets. And because of that you have seen a commercial cost increase, very much related with our commercial activity that delivered very significant access growth.

Regarding the rest of the year, though we are going to keep a high level of activity, we will see a positive impact because of the subsidies cut in some countries, and we will see as well a positive impact because of the iPhone impact dilution along the year. In any case, we will manage these commercial costs very much in line with our revenue growth for the rest of the year.

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

Next question please.

Will Milner – *Arete Research*

Thanks very much. I just want to come back to Spanish mobile. Service revenues fell 18% in the quarter and I just want to understand; what was the service revenue trend before and after the change in subsidy policy?

And then second question: moving to Brazil, I think the OIBDA fell in the quarter adjusted for restructuring and tower sales. And just, I mean, thinking back to the large synergies that you anticipated at the time of the VIVO deal and obviously the good mobile growth that you're seeing, it seems quite disappointing. You mentioned some of the reasons were customer growth, smartphone take-up and cost inflation, but I wonder if you can just talk in a bit more detail about how and when this OIBDA growth trend might start to improve from here? Thanks.

José María Álvarez-Pallete - *Chairman & CEO Telefónica Europe*

Okay. Taking your question about the mobile service revenue in Spain excluding MTRs, the decline year-on-year is 16.2% compared with the 12.4% in the previous quarter, in Q4 2011. And again, three major sources of that deviation and none of them strictly linked to handset subsidy. So we have not been seeing an acceleration of that because of the handset subsidy.

The SMS premium, that we have been much more selective because it was costing us a significant amount of bad revenues that we were forced to correct in other quarters and claims and costs in IT and billing claims.

The loyalty programs, which is the one that is somehow related to handset subsidies because we are increasing the handset subsidy activity in our existing customers, because we consider to have the best, the most valuable customers. And therefore we are increasing the loyalty efforts, the counterpart are the savings that we have in all the handset subsidies below the revenue line.

And the third one which is derived from the effect of the migration to the new tariffs; those are customers whose promotions were expiring or which we have been actively migrating and therefore they have a lower ARPU. You have also there, on that part, a positive increase of the leap year of roughly 0.7 p.p. in the quarter.

So the net of that is the evolution, none of them is strictly directly related to the subsidies, except in the loyalty programs.

Santiago Fernández Valbuena - *Chairman & CEO Telefónica Latinoamérica*

Yes, this is Santiago. In terms of when or if Brazilian OIBDA margin will recover, you rightly pointed out that there are a number of one-off effects that are not going to be coming back for the remainder of the year, most of them related to personnel restructuring. I have also mentioned cost inflation. I think it is fair to expect that, despite the high competitive temperature in the market in Brazil, those trends will smooth out as the year progresses. The reasons being for the one-off nature of some of these movements and also a part of the savings that are going to come from the integration of our fixed and mobile businesses, which is already completed, will start transpiring as the year progresses.

We have no way of knowing how strong the market will continue pushing. What we have been able to record last year is a slight increment in our OIBDA market share and irrespective of what ends up happening we would expect that to continue being the case this year.

So, I think there are one-off very clear effects that are not going to come back in the coming quarters so that should be an improvement in growth rates relative to last year. And the fruits of the integration are going to be highly visible, probably in the second half.

Will Milner – *Arete Research*

Thank you.

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

Next question please.

Justin Funnell – *Credit Suisse*

Thanks. Yes, just two follow-up questions, please.

The strategy where you have got a very large gap between your level of SRC per unit and your SAC is quite unusual when we look at the history of the industry. Do you think that is a temporary phase that you are going through? I know that are you planning ultimately to try and lower your SRCs over time as well, perhaps once you have locked customers into these new plans. Is that something we can look forward to see later in the year in terms of margin improvement?

Secondly, just a question of principles rather than specifically about KPN, do you think given your performance in Germany that you need to be involved in German mobile consolidation?

José María Álvarez-Pallete - *Telefónica S.A. - Chairman & CEO Telefónica Europe*

Okay. Taking your question, even though it's global, I think that probably you are referring to the Spanish market mainly because it's the most affected.

Justin Funnell – *Credit Suisse*

Yes, sorry. I meant Spain.

José María Álvarez-Pallete - *Telefónica S.A. - Chairman & CEO Telefónica Europe*

So I would say that, yes, we see it as a change of paradigm, which means that we knew that this was going to be a first phase, which was going to be tough, because when you remove subsidies, you don't know what the other competitors are going to do. But you think that being the market leader you will have some effect on the market and you will try to readdress the margin trends of the whole industry.

So we think that the retention costs was here through the handset subsidies, or in the UK is something that you need to have because we have very valuable customers. Again when you do the net present value of the chain of revenues of the different customers, we have an outstanding customer base that we need to retain and therefore, subscriber acquisition costs of the existing customers increases.

At the same time, you bet on the churn reduction because you think that, on top of that, if you apply these loyalty programs, you improve your quality indexes and you put the right incentives in the distribution chain, you can drive that down to a much better churn improvement. Remember that at the same time, we have been totally refreshing the tariffs so that the entry levels are much lower than they were a year ago. And therefore, you will also be hit by the fact that the renewals are coming at a lower ARPU but they are not churning.

So the full effect, you need to have a few months to see if the churn is applying the positive countermeasures. We think and we are measuring that for the last seven months since we have started with this strategy. And at this early stage of month, churn indicators prove that we are going in the right direction. But still we need a few months to make sure that this is the case. Was it that to be the case, the payback of the effort is less than one year.

Justin Funnell – *Credit Suisse*

And German consolidation, please?

Ángel Vilá - *Telefónica S.A. - Chief Financial and Corporate Development Officer*

Yes, this is Angel. With respect to the second question, we are very happy with our German asset which is a core asset. It is an asset where we have invested substantially in the last years. The return on that investment is growing. The company is growing at subscriber level, revenue level, OIBDA, OIBDA margin, operating cash flow, so we are very satisfied with our operation. And with respect to something non-organic, on that I said I can only reiterate that we are not going to make comments on this situation.

Justin Funnell – *Credit Suisse*

Okay, thank you.

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

Next question, please.

Paul Marsch - *Berenberg*

Yes, hi. I just wondered if you could quantify for us how much Spanish EBITDA benefited in the quarter from the actions that you took on handset subsidies. And secondly, would you be able to give us the actual change in Spanish mobile service revenues in March year-over-year?

José María Álvarez-Pallete - *Chairman & CEO Telefónica Europe*

So, thanks for the question. But unfortunately, you are asking very sensitive commercial information that we do not disclose. I stress what I have said before: things are going to the direction that we were planning, early stage. We started in March and that is why the figures of customers in March were affected because others followed, but later. But unfortunately I cannot be more specific because, as you might imagine, this is highly commercial sensitive information.

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

Next question, please.

Keval Khiroya - *Deutsche Bank*

Yes, two questions if I can. So firstly on Brazil, your Brazilian fixed KPIs seemed quite mixed with the loss of pay TV subs and slowing broadband additions. What explains the slowdown and should we expect any improvements in the rate of fixed phone revenues declines for the rest of the year? And second on Spain, you reduced the commercial expense by 3% in Q1. Should we view this level of reduction as sustainable for the rest of 2012?

Santiago Fernández Valbuena - *Chairman & CEO Telefónica Latinoamérica*

Yes, this is Santiago again. Thanks for the question. On Brazilian fixed, I think there are two opposing factors. One is that we continue having erosion in both fixed lines and in single product contribution at the same time that we have an increase and reasonable growth on the broadband product, including fibre, which is off to a small in size, but very promising development. So my expectation is that the contribution of fixed to Brazil, despite the high-growth nature of the wireless asset, will stabilize and turn positive throughout the year.

Keval Khiroya - *Deutsche Bank*

Thank you.

José María Álvarez-Pallete - *Chairman & CEO Telefónica Europe*

Taking your question on Spain; the commercial cost in the first quarter. Remember that the subsidy issue in March is just one month out of the three of the quarter, and it has other effects. For example, at the same time that we were removing subsidies we were less active on TV campaigns and on commercial campaigns. And therefore, these are as well some one-offs in terms of commercial efforts that we are going to be deciding very practically if we need to renew or not.

Having said that, and including churn, as I was telling you, the payback of the effort should be less than one year and therefore, we are betting that the churn improvement will be flowing through our accounts and therefore will be helping us to dulcify as well other commercial actions in a much more tactical manner. So the answer is yes, we wanted to be into that direction, but again it is too soon to say that the whole strategy is working and we will need to monitor that.

Keval Khiroya - *Deutsche Bank*

OK very clear.

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

Next question, please.

Nick Lyall - *UBS*

Hi there. Two questions please. First on Spanish mobile, some press reports and distribution channels have suggested you would have to reintroduce subsidies and increase discounts quite heavily for customers porting from Orange. Could you confirm whether you have had to maybe tune strategy a bit into April and maybe some of those savings as Keval sort of suggested there, might disappear?

And then second, just try again on the German situation, you emphasized in the presentation a lot on the financial flexibility you have got. Could you just confirm that there are no time or liquidity constraints that restrict you from reacting to AMX's move if you decide to? Thank you.

José María Álvarez-Pallete - *Chairman & CEO Telefónica Europe*

Taking your question on the noise on the distribution chain and getting back to subsidies, the answer is that we are pretty firm on our strategy of trying to change the paradigm of the sector, mainly in Spain, with the subsidy strategy and we are therefore devoting the bulk of our effort to our existing customers. We are therefore trying to move away from incentivising churn of customers either from us or from the others.

Having said that, tactically and not just through subsidies, there are other actions that we can take in order to make sure that in the portability field we do not lose the battle in a hard way or that we balance that situation. That does not have to be through subsidies. There are other actions that we can take; but again we are pretty firm on this new handset strategy. We need to try to see if the churn is going to the right direction and again, we think it is, so we are not going to be altering that for now.

Ángel Vilá - *Telefónica S.A. - Chief Financial and Corporate Development Officer*

Regarding the second question, I can only reiterate that we have no comment to make on potential situations that may be evolving in the European Telco area.

Nick Lyall - *UBS*

Okay, thanks very much.

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

Next question, please.

Guy Peddy *–Macquarie Research*

Yes, hello, everyone. Just a couple of things. I was just intrigued to know: are you doing anything different in Germany to what you are doing in the UK given the noticeable difference in performance? And secondly, in the UK, you talk about usage optimization. Is that something that the consumer is stimulating or is it something that you are actively stimulating, so that you can actually secure your customer base? Thank you.

José María Álvarez-Pallete - *Chairman & CEO Telefónica Europe*

Okay, thanks for the question. We know that both markets are different in terms of a significant amount of features. Mainly on the distribution schemes and others, but namely the most important differentiating factor that I would point out is that, in Germany, for example, we are away from subsidizing handsets for a long, long while. We are financing them through a third-party and therefore, the commercial model is different.

Having said that, we have refreshed our tariffs in Germany as well as we did in the UK. We have most of the database analysis, our customer intelligence is shared in terms of our best practices are on the route. So we do not see major differences apart from the specific differences of each market.

On top of that, taking the out-of-bundle of the usage strategy in the UK, we are not necessarily fostering that. Every customer decides, but we have been refreshing our tariffs and we have been launching a new tariff that includes a much higher degree of SMS, unlimited SMS, and unlimited voice and a significant amount of data capacity because we wanted to be competitive against the "all-you-can-eat" data offer from other players.

For us, the important message is that, thanks to this tariff, we have been able to prove ourselves and the market that you do not need to have an "all-you-can-eat" data tariff to be competitive in the market if you have the right information about the usage demand, the capacity demand of your customers. And therefore, designing the right strategy and designing the right product attracts the right customers and helps us to make a better and most efficient use of our network. So that is a little bit what I can comment to you.

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

Next question, please.

Fabián Lares - *JB Capital*

Hi, it's Fabian Lares from JB Capital Markets in Madrid. Two questions please. The first one is regarding Argentina. Surrounding the situation that happened with Repsol YPF recently, are you in any way shape or form concerned following the fine that you were imposed, a possible worse relationship with the government and any other interference from the Argentine authorities? And in particular, how that can concern aspects related to repatriation of cash and possible treatment of the amount in hyperinflation states.

And second, regarding Central America, with the launch of the Costa Rican operations, while I understand that these are small, I was wondering if you could give us some kind of context of the expectations of what we should look forward to in terms of potential size of the market. And would this be a kind of operation similar in size and contribution to say Uruguay or something along these lines? Thank you very much.

Santiago Fernández Valbuena - *Chairman & CEO Telefónica Latinoamérica*

Thank you Fabián. This is Santiago. First, in Argentina, I think I can go as far as saying that not much has changed on the telecom space in Argentina. Certainly nothing has changed on our end and whatever is happening in the other sectors is certainly not for us to comment on.

On the CNC fine, we are going through the review of the exact wording of that number. You may have seen that there are two very different components. One is the fine itself, which is 6 billion pesos or roughly 1.5 million euros. The remainder of the full amount being 10 pesos pro rata per customer compensation that the regulatory authorities suggest that we do for our customers.

Two comments there: One is that the interruption of service is more likely than not going to be proven not to have been a problem of Telefónica, but something initiated from out of the Company that may have a final effect and we are cooperating with authorities on that investigation.

And second, and most important, is that after the five to six hour service interruption, we immediately reacted compensating our customers on the prepaid and on the postpaid or contract segments by either erasing that day from the charges extending the lives of the top-ups, or in this case, because it was Easter week, giving them for free until that Friday, so additional four days, free SMS and connectivity capabilities.

So we think we have done more than what is required to first sort out the problem. Second, we are optimistic that the true nature of that interruption is going to be proven not to have originated from Telefónica and that has an effect. And third on the compensation, we think that we have more than done our fair share of the whole thing.

On Central America, I think that the fact that the numbers are small does not mean that they are unimportant. Costa Rica, because of its start-up nature, is likely to contribute negatively for a while yet and the rest of the region, the four major Central American markets, behave in quite different ways. Certainly, we are making progress in some of those, as you may have seen and the competition, especially on tariffs and new products, is accelerating. We have the intention of completing the 3G coverage there where we are lagging behind so that we can provide as good a coverage as possible and as competitive a service as any of our competitors can.

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

Next question, please.

Simon Cook - *Insight Investment*

Hi, good afternoon. Two questions, please. Firstly, did the two syndicated loans you raised this quarter both expire in 2013? And secondly, with regard to the disposals that you got in progress, do you have interested parties for all of them and if so, is that how you got to the estimate of just over 1.5 billion euros? Thank you.

Ángel Vilá - Telefonica S.A. - *CFO & Chief Corporate Development Officer*

On the first question, the syndicated facility that was refinanced and extended, maturities are in 2015 and 2017. Could you please repeat the second question?

Simon Cook - *Insight Investment*

So the second question is with regard to the disposal in progress, PT, Rumbo, Atento. Do you have interested parties for each of those disposals and is that how you got to your estimate of over 1.5 billion euros?

Ángel Vilá - Telefonica S.A. - *CFO & Chief Corporate Development Officer*

Well, the value that we are estimating is in excess of 1.5 billion euros. We are not attributing value to a specific asset. We don't want to disclose that the bigger of these transactions or estimates would be Atento, and that process is progressing very positively.

Well, ladies and gentlemen, thank you for attending this conference call and looking forward to seeing all of you at the Investor Day of Telefónica Digital that we would hold in early July. Thank you.