



Telefónica January-March 2015 Results Conference Call Transcript

14th May, 2015

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Introduction

Pablo Eguirón - *Telefónica S.A. - Head of IR*

Good afternoon and welcome to Telefónica's conference call to discuss January-March 2015 results. I am Pablo Eguirón, Head of Investor Relations.

Before proceeding, let me mention that financial information contained in this document related to first quarter 2015 has been prepared under international financial reporting standards, and that this financial information is unaudited.

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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

Q1 15: 1st step of the new profitable growth cycle

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

Thank you Pablo. Good afternoon and welcome to Telefónica's first quarter 2015 results conference call. Today with me is José María Álvarez-Pallete, Chief Operating Officer, so during the Q&A session you will have the opportunity to address to us with any questions you may have.

I'd like to begin this presentation by highlighting how, in Q1 15, we are clearly starting a profitable growth cycle, which is underpinned by three main pillars:

The first, which is the basis for the rest, is that organic growth is improving at a sustainable rate. Improving both on top line and OIBDA, thanks to the high-value customer base built on heavy investment in recent years. We aren't being complacent however, and we will continue to invest in the next two years to enlarge our network differentiation.

The second is the balance sheet, which we have deleveraged and strengthened to the point where Net Debt/OIBDA now stands at 2.13x, including the sale of O2 UK, and our cost of debt has been reduced year-on-year. FCF has markedly improved, 25.8% compared to Q1 14, despite being affected by the normal seasonality at this time of year and the higher CapEx.

The third is that we are reaping the early benefits gained from our proactive portfolio optimisation, having been a bold catalyst of in-market consolidation, which we continue to believe is beneficial for the industry and for the customers. We also just closed on April 30th the acquisition of Digital Plus.

All of this has allowed us to deliver growth at every level and not just on organic basis. We are growing the top line, OIBDA, Net Income and EPS.

Thus, we are on the right track to meet FY guidance.

Key financials

Moving to the next slide, let me briefly sum up our key financials for the quarter. These figures account for O2 UK as a discontinued operation.

Results showed a consistent improvement across P&L lines, returning to reported year-on-year growth in revenues (+13%), OIBDA (+8%), Net Income (+162%) and EPS (+164%).

Both FX and changes in the consolidation perimeter had positive impacts this quarter. LatAm currencies have contributed year-on-year 3.2 percentage points to sales and 2.5 percentage points to OIBDA, while changes in perimeter have added 5.9 percentage points and 3.0 percentage points respectively.

Revenue surpassed €11.5 billion, growing 3.3% in organic terms, while OIBDA topped €3.6 billion, an organic increase of 2.4% year-on-year. OIBDA margin stood at 31.3%, virtually flat. Net Income totalled 1.8 billion euros and EPS €0.38, benefitting from the €1.2 billion deferred tax asset derived from the O2 UK sale. OpCF totalled 2.1 billion euros, excluding spectrum.

Finally, we are focusing our efforts in our key markets, which are already bearing fruit as two-thirds of revenues now come from Spain, Brazil and Germany.

Fully on track to meet 2015 outlook

I am also pleased to confirm that our Q1 performance is consistent with our 2015 outlook.

In terms of shareholder remuneration, we just paid on May 12th €0.40 per share in cash corresponding to the second tranche of 2014 dividend. And our proposals for the voluntary scrip dividend of €0.35 per share to be paid in Q4 15 and the amount of treasury stock to be cancelled are both included in the agenda of the AGM which will be held on June 12th.

Strong operating and financial performance

On slide 5, we show how our growth this quarter is driven by solid and sustainable bases.

Our client portfolio is rapidly changing, with more and more customers taking up higher value services such as LTE, fiber and Pay TV, which have grown between 1.5 and 5.1 times year-on-year. This translated into an expansion of average revenue per access of almost 1% year-on-year and reduced churn by 0.2 p.p.

Total revenue accelerated in organic terms, ex-Venezuela, on better performance from Brazil, Germany and Spain. Data revenues, digital services and video continued to improve sequentially at very robust year-on-year growth rates. Breaking down the 12.6% reported year-on-year growth, let me remark that perimeter represented 47%, organic performance 28% and FX 25%.

This quarter was strong on OIBDA execution as we reaped value from our operating model, implementing simplification processes and starting to realise synergies from acquisitions. I'd like to note that the latter will be higher in H2 15. Meanwhile, our market investment drive in recent years and the focus on customer lifetime value are certainly paying off in revenues, but impacting on year-on-year OIBDA margin erosion as commercial networks & systems costs are growing.

LTE and Prepay data: Main levers for data monetisation

Slide 6 shows the solid growth of future key drivers, LTE and prepay data. Smartphone traction continued to grow and penetration expanded 11 percentage points year-on-year to 38%, while LTE customers reached 14.1 million, multiplying last year's figure by more than 5 times. These factors, together with growing average usage per smartphone of +25% year-on-year and LTE customers using 60% more data than 3G customers, led to a 52% increase in mobile data traffic.

In this sense, I would like to highlight the strong upside we have in Hispanoamerica, where prepay smartphone penetration is just 21% and, on the other side, the multi-device opportunity.

Solid operating results translated in non-SMS data revenue growing close to 20% as a result of: LTE ARPU uplift: double digit, Data beyond the allowance, driven by continued bundle breakage and new commercial schemes, with a contribution of around 1 p.p. to Q1 15 revenue year-on-year change, and, upselling dynamics, as customers move to bundles with higher data allowances and new services.

Maybe a good summary of LTE potential is that LTE traffic already represents 11% of total traffic while LTE penetration is still at 6%.

Digital services: a strong start to 2015

On slide 7 you can see our progress on Digital Services, revenues exceeded 680 million euros in the quarter and grew 34% year-on-year organically.

First, I would like to highlight the visible results of our drive to become a Video Company, as 41% of our residential FBB base already has Pay TV, 15 p.p. more than a year ago, which is reflected in the 57% year-on-year organic increase in video revenues. And the future is looking very positive for us in this space, as we leverage on our differential content and user experience, plus the game-changing deal after closing Digital Plus acquisition.

In other areas, we continue to push forward with our innovative solutions for the digital era, for both consumers and businesses. Through our affiliate Eleven Paths, we have launched a number of cybersecurity solutions, to protect our customers' identities, and entered into the smart wearables arena. Revenues in Security have grown 76% vs Q1 14 in organic terms.

Moreover, we have successfully converted Cloud into a highly appreciated value-added service, after launching products in Spain for the SME and Enterprise segments.

Lastly, M2M and Financial services continue to gain global scale; and in Devices let me mention that we recently invested in Cyanogen, collaborating closely with them for offering our consumers a wider range of mobile services in their smartphones.

TGR: Network and IT supporting business transformation

Global Resources is consistently contributing to network transformation and IT simplification.

In networks, we are accelerating the deployment of UBB infrastructure in main markets. On fiber, premises passed reached 16 million in March, almost doubling last year's figure while on LTE our coverage reached 65% in Europe and 28% in Latin America.

In addition, we are evolving towards an all-IP Company, with VoLTE available in Germany and the proactive migration of customers to fiber in Spain; while we continue to improve customer experience, with enhanced self-care and fast diagnosis in call centers.

Regarding network innovation, we are performing trials around three carrier LTE-A and LTE-in-a-box private networks, among others.

With all this, we continue to advance towards having the best quality networks as our key differentiation tool.

In IT, simplification is delivering results as we decommissioned more than 370 applications year-on-year, increased virtualised servers by 11 p.p. after closing 12% of physical servers. Lastly, "Full Stack" projects allow for business transformation, with several countries in Latin America migrating customers or preparing for their migration.

Spain: Enhanced value mix in a better environment

Please turn to slide 9 for an update on our operations in Spain.

Commercial trends continued to be noteworthy, most significantly in high value services, and churn reduction continued amid more favourable market conditions.

This is leveraged on a clear strategy focused on enhancing our “quality premium”, supporting differentiation and fostering upselling. Thus, mobile data caps increased, TV content was enriched and FBB speed will be tripled up to 300 Mb in the coming weeks, as recently announced.

As a result, contract mobile base grew by 2% year-on-year, fibre net adds were close to 250 thousand, with an increased uptake of the 100 Mb speed product, and Pay TV market share topped 40%. These factors drove “Fusión” ARPU to increase quarter-on-quarter to 70 euros, remaining virtually flat year-on-year.

Lastly, let me underline that delivering differential services is only possible on top-quality networks such as our FTTH network, which is now the largest in Europe, both in terms of reach and connected customers.

Spain: Another step ahead towards revenue growth

On the next slide we take you through the financial performance in Spain.

Our upselling strategy coupled with low levels of churn is leading to a new phase of sustainable revenue evolution, which is set to continue, though it will be more evident in H2 when the tariffs renewal will be fully reflected. Revenue year-on-year trend improved again in the quarter, and was further intensified when excluding handset sales.

In addition, OIBDA declined 8.4% organically as commercial activity was significantly more intense across the board and due to higher content and personnel costs.

As such, OIBDA margin stood at 44.5%, or 43.2% excluding tower sales, with a 2.1 percentage points organic decrease. It is important to highlight that year-on-year comparisons should ease from Q2 as it is the anniversary of the intensification of our commercial activity.

Germany: Executing on operations & key integration milestones

To review Telefónica Deutschland, please turn to slide 11.

Our approach to customer and customer value is reflected in higher retention efforts, with better sequential churn and lower gross additions. I would like to highlight the improved customer mix, especially in premium brands, as 32% of O2 consumer contracts are tariffs with more than 1GB allowance (+17 p.p. year-on-year). We are still seeing very positive signs of LTE adoption, with 86% of devices sold being LTE-enabled, and encouraging data consumption patterns.

With this, and with the fast roll-out of the LTE network, with the goal to reach 75% at year-end, we are well positioned to further capturing and monetising the data opportunity.

Regarding synergies, important milestones have been achieved in the first quarter, including an agreement in February with the Workers' Councils for the redundancy program for 1,600 full-time positions until 2018, of which 50% will be this year. Furthermore, Drillisch will take over 301 O2/E-Plus shops in H2 15.

Overall, we are fully aligned to deliver 2015 synergy targets, which will be more biased towards the second half.

Germany: Solid financial performance

In terms of financial performance in Germany, turn to slide 12.

Top line evolution is driven by the mobile business. On the one hand, mobile service revenues contributing to growth leveraged on non-SMS data sales, which already represent 71% of data, and on the stabilisation of SMS decline. On the other hand, handset revenues grew close to 30%

year-on-year on increased customer demand and the new approach to subsidies mentioned before.

Revenue flow-through and value-oriented commercial approach resulted in a profitability expansion vs the previous quarter, with OIBDA growth improving to 4.4% year-on-year organic and excluding non-recurrent effects. Margin expanded by 2.5 percentage points sequentially to 20.5%. With this, operating cash flow grew 6% (organic and ex-non-recurrent) to 187 million euros.

Brazil: Quality growth driving ARPU improvement

Let me now review the performance of Telefónica Brazil in slide number 13, where strategic focus on value growth delivered a strong set of results.

As such, booming smartphone adoption and strengthened leadership in the contract segment are bringing an outstanding ARPU performance in Q1, with a year-on-year growth of more than 3%. It is also remarkable that this performance is almost purely based on data growth, making this differential performance sustainable.

In the fixed business, our focus on the most profitable services is translated into growth of both fiber connections (+82% year-on-year) and Pay TV accesses, up +23%.

In addition, and after the successful completion of its key milestones during last months, closing the GVT acquisition will take place in the coming days following the EGM, further reinforcing our positioning in the Brazilian market.

Brazil: Strong revenue growth acceleration

Turning to slide number 14 we show how this quality growth is flowing into the P&L in Brazil.

In Q1, revenue year-on-year growth accelerated to 4.3%, the highest rate in the last three years, as a result of a strong improvement in mobile service revenues, up 8.4% year-on-year, on a successful data monetization strategy, and a better fixed revenue trend.

On top of that and despite higher commercial costs and the more challenging macro environment, OIBDA delivered year-on-year positive growth.

Hispan: Resuming reported & organic growth

In slide number 15 let me highlight the progress made by Telefonica Hispanoamerica.

First, commercial momentum remained solid in fixed broadband, pay TV and mobile accesses, with a growing adoption of smartphones and, accordingly, data services.

Second, financial performance remained strong with double digit growth at OIBDA level based on a solid revenue growth coupled with margin expansion for 5th consecutive quarter, expanding by 1.8 p.p. in the first quarter organic, and ex-Venezuela.

Mexico: Operational momentum fostering growth

Please turn now to slide number 16 to review our Mexican operation.

Strong trading momentum continued in Q1, with gross additions reaching the 2nd highest level ever and with smartphone net adds reaching a new record-high; both despite negative seasonality of Q1.

Commercial activity and data expansion continue supporting high single digit revenue growth, that this quarter was impacted by regulation. In addition, OIBDA maintained healthy growth at 70% year-on-year on larger scale, efficiency measures and benefits from changes in regulation in effect since last year.

Rest of Hispam: Growth across the board

Turning to slide number 17, let me remark on the growth across the board posted in the rest of the countries in Hispanoamerica.

In Colombia, revenue performance and margin expansion drive solid OIBDA organic growth year-on-year.

In Peru, we maintain our strong growth in higher-value segments such as Pay TV, mobile contract and smartphones, which along with a more intense competitive environment generates a 2.2% year-on-year organic decline in OIBDA.

In Argentina, we are accelerating the 4G network deployment to continue providing the best service to our customers and we achieved an improvement in profitability of 3.3 p.p. year-on-year.

UK: Commercial momentum & robust financials

On slide 18, we give you a brief overview of our operation in UK, now booked as a discontinued operation in our accounts.

Commercial traction continued, positioning O2 UK as the fastest growing mobile operator in the market, leveraged on the successful "O2 Refresh" proposition. Contract net adds, at 133 thousand, remained stable year-on-year but with an improved mix, after recording 784 thousand LTE net adds and reaching an LTE penetration of 22%. I would like to highlight, once again, the benchmark contract churn, which improved 0.1 p.p. year-on-year to a market record of 1% thanks to successful customer base management leading to highest customer loyalty and popular commercial propositions. This, and the turnaround of the prepay segment, with the base growing for the first time in seven years, led to total net adds of 138 thousand customers, vs net disconnections of 73 thousand a year ago.

This was the base for consistent revenue increases ex "O2 Refresh", +5.8% year-on-year, with mobile service revenues up by close to 3%.

Despite commercial activity, OIBDA excluding non-recurrent items grew by 6.1% year-on-year on continued efficiencies, namely in marketing and overheads. As a result, OIBDA margin stood at 24.5%, with "O2 Refresh" contributing 0.7 percentage points of margin.

Substantial deleverage following O2 UK sale

Let me now move to the financial slides, on slide 19.

Leverage ratio in the quarter has remained broadly stable, both before and after adjusting by the UK business disposal. The completion of the transaction will allow us to stay comfortably below our leverage target.

FCF year-on-year growth has reached 26%, benefitting from higher OIBDA and lower financial payments of 0.3 billion euros (for interest and taxes), more than offsetting higher CapEx payments.

Substantial diversified financing reinforcing credit quality

Moving to slide 20, our strict financial policy has led to rating stabilisation, most recently from Moody's.

As part of this prudent approach we have kept a healthy 17 billion euros liquidity buffer following 11 billion euros of diversified financing activity. Substantial funds have been raised in the equity markets or with equity content, with 4.2 billion euros through capital increases at Telefónica S.A. and Vivo for GVT acquisition, and 0.5 billion US dollars through a hybrid from our Colombian subsidiary, to meet its specific needs. This has been complemented with the renewal of 5.5 billion euros of unused syndicated credit facilities.

Our financial expenses have benefited from the euribor rate reduction and intentionally decreasing fixed rate debt in euros.

Higher debt in Latin American currencies has partially mitigated those benefits, but there has still been 18 basis points reduction in the financial cost, to 5.27%.

Outstanding support for both capital increases

I would like to emphasise the success of the capital increases undertaken at Telefónica SA and Telefónica Brasil levels, as seen on slide 21.

Telefónica raised 3 billion euros through a rights issue, at a discount to TERP significantly lower than other European right issues in the last 2 years. Subscription was very successful as demand was 3.7x the shares offered during the subscription period.

In addition, Telefónica Brasil increased capital by 16.1 billion reais or 4.7 billion euros, with Telefónica participating with approximately 75%. It was successful priced with a lower discount than precedent transactions. Market book was substantially oversubscribed at 2.70x times, with high demand from quality institutional investors globally. In addition, it is the largest equity transaction in Brazil and Latin America in the last 4 years and the first public registered offering in Brazil in the last 6 months.

We want to thank all of you who participated in these deals for your support.

Conclusion

To conclude, our first quarter results reflected a solid start of the year and, more relevantly represent the starting point of a new cycle of profitable growth.

First, we are accelerating our growth across the board.

Second, our clear commercial strategy focus on value is enlarging our differentiation, with very high uptake of fiber, smartphones, LTE and Pay TV.

Third, we are improving our positioning in main markets through our proactive portfolio optimisation, leading the in-market consolidation movements in Europe and LatAm.

Fourth, recall our balance sheet strength.

And finally, we confirm our outlook for 2015 and ambition for 2016, which remain unchanged. Thank you very much for your attention and now we are ready to take your questions.

Q&A session**Paul Marsch - Berenberg**

Yes, thank you very much. I wanted to ask about the Spain OIBDA trends because last year there was a lot of talk about OIBDA stabilisation and we did see stabilisation I think sequentially for a few quarters last year, but obviously in Q1 we are still seeing an 8% decline. So what is your message now on the timing of domestic OIBDA stabilisation? Do you think that that can happen during 2015?

And then maybe just to put that within the Group context because your guidance has clearly reserved the scope for maybe 1 percentage point of margin dilution for investments in commercial expenses, discretionary I guess. So in the context of the Group guidance, given that you have seen margin expansion in some other business units, is there a trade-off here between margin improvements elsewhere in the Group that maybe leaves you with the scope to bear more margin pressure in Spain if you need to? Thank you.

José María Álvarez-Pallete - Telefónica S.A. - Chief Operating Officer

Thanks for your question. Focusing on the OIBDA, in Spain, let me remind you that this quarter, we have several effects that probably need to be considered.

First, the comparison with the first quarter of 2014 in which our commercial activity was still lower as we didn't see traction in the market yet at that time. We'd really started to be more aggressive commercially speaking in the second quarter of 2014.

Second, the impact of content is progressively impacting the quarter-on-quarter and as we will have a growing base of TV customers, especially now that the Digital Plus transaction has been approved, it will be progressively being diluted.

Third, I would highlight the pension fund contribution that has been retaken and this having a full impact progressively this year.

And fourth, and probably even more importantly, taking the link with the second part of your question, we are seeing a sound market ahead of us and we have been accelerating commercially and that's why for the first quarter this year, since I think from the second quarter 2011, we have positive growth in accesses at the level of Telefónica España.

And therefore we thought it was a good idea to accelerate commercially and to reposition, to upgrade our offers and to be more aggressive on the market. Thanks to this effort, we think that we are in a better position now to have more visibility about revenue growth in Spain and that's where we have been accelerating.

So, it is not just a question of having more room at the Group level. We are not contemplating being more aggressive in Spain. But again the key, in our opinion, the key issue in Spain is returning back to revenue growth as soon as possible and as we see profitable growth ahead of us, that's where we have been accelerating.

We will keep you posted over the next quarters but we are not taking advantage of the room in terms of the guidance of the Group to accelerate in Spain. Because of the situation of Spain and that we see profitable growth ahead of us, we have been accelerating.

Paul Marsch - Berenberg

Maybe a follow-on, I mean as some of those drags on OIBDA annualised through the rest of the year, so you mentioned the pension fund contribution for example. I mean on content costs, do you start to hit scale benefits or break points on the cost of content at a certain scale of customer base? Does that benefit the second half of this year as well?.

José María Álvarez-Pallete - *Telefónica S.A. - Chief Operating Officer*

Well, in my opinion, we will have the bulk of the effect for the content impact as you're saying all around the year and the pension fund, as well, and also the increase in other costs, as well. But the sooner we get back to revenue growth or at least to revenue stabilisation, the sooner that impact will be mitigated because again the most important accretion to OIBDA and to margin is the revenue decline. And on that side, upgrading our customers, the trend that we are seeing in Fusion ARPU should help us, so we are focusing on stabilising revenues as soon as possible in order to make sure that we can build on a sound OIBDA margin evolution.

Nick Brown - *Goldman Sachs*

Thanks. If I can just follow up on your comments in Spain, do you still believe full year revenues may be able to grow in 2015 excluding DTS or you're just looking for growth year-on-year in the third or fourth quarter?

And then secondly, can I just clarify we should expect margins to continue to climb with DTS, is that what you're saying? What's your expectation for increasing content costs from the changes to sports rights?

José María Álvarez-Pallete - *Telefónica S.A. - Chief Operating Officer*

Well, in terms of revenue strength in Spain, even though our guidance is just at the Group level, we have stated that we have the ambition to turn back to growth in Spain this year.

Revenues in 2014 were roughly €12,023 million. Therefore we need to generate slightly above €3 billion per quarter to turn back to revenue growth. We are not yet there in the first quarter of 2015 but we are in the neighbourhood of €2,875 if I remember correctly. So we need to improve. But we have improved, and we sequentially improved quarter-on-quarter, especially in this first quarter with traditional seasonality, would imply a lower rate of growth in the last quarter of 2014 and we have been able to beat that.

Therefore, the trend looks like going into that direction. This improvement is even more noticeable if you exclude handset sales, in pure service revenues. So one of the main growth drivers is precisely upselling our customers and we have been upgrading our offers all along the chain in the first quarter of 2015, which was on the assumption in order to be able to get back to revenue growth.

And customers have been positively reacting to that and moving up in the value chain. Starting in January and up to May, what we have upgraded our Fusion offers, we have upgraded the tariffs in one-play, double-play, triple-play and Fusion for data over allowances. Unfortunately now, I think that all the players are moving into the same direction.

So I think that all the assumptions that needed to be implemented in the first quarter to be able to be credible on that effort to turning back to revenue growth have been executed. It's true that we have had some impacts like the strikes that we suffered, that even though it has been called off in May, was unexpected and has impacted the installation efforts especially during weeks in April and it is also true that we have been delayed in the approval process of Digital Plus.

But overall, the revenue trends keep improving sequentially, beating seasonality quarter-on-quarter and all the factors that needed to be in place make sure that we will be able to deliver revenue growth in the next few quarters are there. If I may, I would suggest to focus on the absolute quarterly revenues, the closer we will get in the second quarter to €3 billion, the more credible we will be on that ambition that we have.

And again, in terms of OIBDA in Spain, what we have seen is that the sooner we get to revenue growth or to revenue stabilisation, the easier it will be to see margins stabilising. Because again, we have been able to reposition customers to upgrade to our customer base, to upsell our customers, to move up on the value chain to a slightly increased Fusion ARPU. So all the different elements of the equation looks like going into the right direction.

Georgios Ierodias – Citi

Hi, I've got two questions on Spain unfortunately, I'm guessing that it will be the topic of today. Firstly on the cost base, and I appreciate the comments you made earlier, there was a €20 million increase in the costs year-on-year, so obviously most of the decline that was seen came from revenue. So I just wanted to ask firstly on the revenue side, how did you arrive to the decision for the price increases you announced earlier this quarter, whether you see any risk of churn picking up on the back of that, and whether you are comfortable that the good KPIs you have managed to deliver the last couple of quarters will not unwind after the price increases?

And secondly on the cost side, could you perhaps give us an idea of this €20 million growth that we've seen year-on-year in costs of which €15 million is the pension contribution, whether that is the run rate we should expect to see for the rest of the year excluding Digital Plus, and perhaps if you could comment on the impact that Digital Plus will have on your content cost. Thank you.

José María Álvarez-Pallete - Telefónica S.A. - Chief Operating Officer

First, it has been a gradual movement starting in January and with the final move being on the Fusion offer recently in April and therefore, you have already some embedded effects on the first quarter churn, especially in the single offer, in the one-play, the double-play and part of the triple-play.

And as you can see, churn levels have improved in the first quarter of 2015, which looks like saying that quality and the upgrading that has been going along with those upselling have been appreciated by customers. It is true that the most significant thing will be probably on Fusion and therefore we will need to show what is the impact on Fusion when it was first upsell and then upgraded because we have moved to 300 MB offer after increasing the price, the nominal price of Fusion, and that has happened in April and therefore we need to focus on the second quarter.

What I can tell you on the second quarter is that in April we have this price increase in Fusion and the strike and that has impacted us during a few weeks, but most recent trends in May I were checking just before entering here looks like going to the same direction, to the right direction. Once we have been installing the backlog that was created by the strike and once the upgrade of the speed of connection to 300 MB looks to be welcomed by customers. So we will update you in the second quarter but so far it looks in spite of some impact in April, May looks going into the right direction and the first quarter has been pretty good in terms of churn improvements.

In terms of the cost structure of Spain, operational expenses in Spain are €1,735 million. It has increased 1.2% year-on-year. Out of that, supplies are €604 million, it has been 3% up year-on-year and it has several effects. We have less handset costs, less interconnection and more content costs. Labour force is up 6% because of the pension plan contribution, and others have been down 4.7% because of simplification. So just to tell you that we are trying to absorb at least part of the content cost, and all the other costs that are going to be impacting us all along this year, to be able to have a good evolution in terms of margins. But again, let me stress that the sooner we get back to revenue stabilisation, the sooner that effort will be even more noticeable. So all the guidelines that were prepared when we were preparing the budget of Spain for this year are going into the direction that we thought it would go in spite of some unexpected events like this delay in the Digital Plus approval and the strike.

And in terms of the content effort or the content impact of Digital Plus, well, most of the content we already have those impacts, namely the soccer rights because we were paying to Digital Plus and the Formula 1 rights and the MotoGP rights and the series. So most of the impacts, we have already been affected by those and it's not going to be increasing because of Digital Plus. But the most important thing of Digital Plus is that it will have, in my opinion, two positive effects. First, we are going to be able to cross-sell to offer our services to the customer base of Digital Plus and secondly, and probably more importantly, the TV customer base is going to be significantly increased and that should lead to some optimisation of the content costs going forward.

Giovanni Montalti - UBS

Good morning, just a question on the fixed telephony lines, when do you expect this trend to improve further during the year? What's the share of these fixed line losses that are going mobile-only and what is the commercial driver behind this? Why do you think we still have a significant part of your line losses that is going mobile-only in Spain?

And finally, also about these, if I look at your wholesale accesses in Q1, they are decreasing. This is a pretty unusual trend. I wanted to know if there is any specific element, any specific adjustment there.

José María Álvarez-Pallete - Telefónica S.A. - Chief Operating Officer

In terms of traditional lines in Spain it's -5% year-on-year, and it's another sequential improvement, once we keep bundling and moving customer towards "Fusión".

So it's the best net loss of wireline voice after "Movistar Fusión" launch in the fourth quarter of 2012, probably with one exception, so it keeps improving. Too soon to say when that's going to be ending but we keep improving.

But for the first time, and let me stress that, we have been able to more than cover that with the other elements of our accesses in Spain, mobile contract, TV offer and fibre. So, it is hard for us to read right now, how much of that is just pure mobile substitution, once it has become a fully integrated and convergent market in Spain. But what I can tell you is that in the overall equation of accesses in Spain, we are growing for the first time in the last four years.

And in terms of the wholesale decrease, I don't have enough element of information right now with me because in terms of the wholesale revenues in Spain, we are increasing. I mean we are doing much better than the previous year. So let me try to focus where those lines are being lost and I will get back to you offline if I may.

Giovanni Montalti - UBS

Sorry, if I may very quickly follow up about your fibre rollout. The decision of the CMT is still pending, can you give us maybe an update about what your discussion are with the CMT and about the way you'll, let's say, fine-tune your fibre investments; if there is a minimum floor of fibre rollout that you will do in any case? And how are you going to select the areas of the country where you want to let's say target your fibre rollout regardless of the regulatory decision?

José María Álvarez-Pallete - Telefónica S.A. - Chief Operating Officer

Our rollout is not going to be independent of the regulatory decision. It would be totally subject to the regulatory decision. What we are doing in 2015, we keep rolling out, but namely on the zones that have been already declared as having enough competition and therefore in which regulation is probably not going to be affecting.

I think that one of the most important positive news of this new regulation is geographical segmentation. Several regions of Spain have been declared already competitive zones because they have more than three networks, and what we are doing till we see how much the scope of geographical segmentation is increased, while we see those, we are biasing our coverage efforts in the zones that we know are not going to be affected by future regulation.

So, and as you might imagine, we keep having a significant amount of interactions with the regulator. So I think that we keep aiming to deploy fibre broadly in Spain. Spain, in the middle of the crisis between 2011 and 2015, has become the leader in Europe in terms of fibre coverage and connection, absolute leader in fibre-to-the-home. I am not talking about relative terms; I'm talking in absolute terms and this is due to regulation that was fostering investment.

And therefore, we think this should go on. And we think that in the meantime, we keep deploying our efforts in Spain in terms of ARPU expansion, in terms of customer satisfaction and in terms of

revenue accretion. But until we have our clear picture of what is going to be the final outcome of regulation, we are biasing our investment efforts towards the competition zones.

Mathieu Robilliard - *Barclays*

Good afternoon, thank you very much. Crossing the Atlantic actually, I had some questions in Latin America. In Brazil, a very strong performance in terms of the revenues but there was one element that was unwelcome was the increase of bad debt provisions, and apparently it's due to the economy. I was wondering is that's becoming or can that become a topic or an issue in other countries?

And second and maybe related to that, the trends in terms of OIBDA margin in Venezuela and Argentina, two high inflationary countries, were very different with Venezuela margin quite down and Argentina actually positively surprising. So if you could give a little bit of colour on these two countries and what's behind the trends that would be helpful.

José María Álvarez-Pallete - *Telefónica S.A.* - *Chief Operating Officer*

In terms of Brazil, as the Vivo team was covering yesterday on their conference call, we have been impacted in terms of bad debt in Brazil and it has been having somehow an impact. We are working in two fronts, as you know; commercially we have become more demanding in terms of the credit scoring and also on the credit collection solutions. We are starting to see some results, but too soon to say, and it is due to macroeconomic effects. It is also true that in terms of our performance; relatively to our competitors we are doing better because we have, in our opinion, a much sounder customer base.

But it is something that we are monitoring and we are already acting in terms of the scoring, but also in terms of the migration of customers from prepaid to postpaid, for example, in order to be more demanding in terms of the stabilisation of the customer base. And that explains as well, why we have been more successful on prepaid and we have been slowing down our performance, even though it's still good, on postpaid, because we have been adding customers on prepaid, but we have not been moving aggressively customers from prepaid to postpaid until they demonstrate that they are stable customers.

And that's exactly what we are doing in the remaining Latin America where, by the way, we are not seeing those impacts yet, either in Chile or in Peru or in Colombia or in Mexico. Our performance there is pretty sound and commercially speaking, we are accelerating.

And in terms of Venezuela and Argentina, the OIBDA margin in Argentina increased significantly, almost 3 percentage points year-on-year. It's due to lower commercial activity, as we were seeing a weaker macro and we have seen less aggressiveness on the subsidies part of the market. On the handset part of the market we have been slowing down our commercial activity and that has been impacting positively our margins there. And we have also been putting some efficiency measures in Argentina to offset the inflationary pressure in the Argentinean peso, namely in terms of network, system and contracts, contracts that were linked to inflation.

In terms of Venezuela, we have been having this quarter higher availability of handsets and we have become more aggressive on the market, and it has been having a good commercial return. And as you might imagine, OpEx is extremely affected because of forex. Even though our team is also doing an effort, we have decided in Venezuela to be more aggressive commercially and that has an impact in OIBDA. We have been having some price increases all along the quarter that will be fully reflected in the second quarter in Venezuela, and that explains the different performances between the Venezuelan and Argentinian operations.

Keval Khiroya - *Deutsche Bank*

I've got two questions please, the first on TEF Hispanoamérica.

When you look at the mobile service revenues excluding termination rate cuts, the service revenue growth slowed in all of the markets other than Argentina and Venezuela. So could you give a little bit more colour on what explains this slowdown? Is it just you being more margin focused from now?

And secondly, could you remind us how much cash you have in Argentina?

José María Álvarez-Pallete - *Telefónica S.A. - Chief Operating Officer*

Taking the first one on revenue performance, we are still seeing solid growth both in revenues and in OIBDA and we are seeing, namely in OIBDA, an accelerating contribution from Mexico and Colombia. What is the impact on revenues? Well, first we are seeing, this is the fifth consecutive quarter of almost double-digit revenue growth and therefore comparables start to be much more demanding. A strong Q1 namely in Colombia, Chile and Mexico requires a much stronger Q1 in 2015, so year-on-year comparisons are starting to get tougher.

We have higher regulatory effects. Regulation is dragging out almost 2 percentage points of growth this quarter and it's more than previous year.

And then finally, it's a very intense competitive environment, namely Peru and Chile, have become even more aggressive than in the previous years.

So those three effects, tougher comps, higher regulatory effects namely interconnection, and more severe competition namely in Peru and Chile, explains why we have been declining one and something percentage point of growth this quarter, but still we are almost at double-digit growth.

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

Regarding the cash in Argentina, we have the equivalent of €352 million in cash in Argentina, the equivalent of €294 million in pesos and the equivalent of €57 million in strong currencies, mostly dollars.

Will Millner – *Arete*

Thank you. Have a couple of questions again on Spain. I just want to focus on the price rises on Fusion that are coming through this quarter, and just to understand or clarify that those price rises apply to the entire Fusion base, those in contract, those out of contract. And then also just get your thoughts: I understand there is a legal challenge on the Fusion price rises, since when you launched Fusion, they were advertised as prices being fixed forever. I just wouldn't mind getting your thoughts on whether the changes you've made to the tariffs will get you around any kind of legal question mark.

And then also on Spain, just to understand in the fixed business, if you can explain the benefit you're getting from the large government contract. I think that's added about €70 million into the other revenue line and if in the second quarter we'll be seeing that very large benefit. Just to remind us of the scope of that government project and possibly the capacity you have to win more government contracts like that going forward.

José María Álvarez-Pallete - *Telefónica S.A. - Chief Operating Officer*

Well, in terms of your question about the upgrade or the upsell of the Fusion customers, it's an opt-in. And therefore, if you want to have access to the 300 megabytes offer, you need to respond to one of the letters; and on the existing customer base, it was notified during the time of the billing process at the end of April, and they have one month to withdraw of the service if they do not agree with the price increase. So those are the two effects.

As I was telling you, during the month of May, we are not seeing much of an impact yet. We saw some impact in April because of the two effects, and also because of the strike impact. But, in May looks like we're taking the good momentum on that side.

So to summarize: for the existing customer base, they were notified during the billing process of April and they have one month to withdraw out of the offer if they do not agree.

And on the 300 megabytes of the upsell offer, it's an opt-in and therefore, they will need to call us if they want to be upgraded on that offer.

And in terms of the contract that you are mentioning, I'm not aware of any major contract that is distorting the one that we were somehow commenting. I think in the previous quarter, there was a relatively small contract of roughly €1 million of the Spanish Parliament for two years. But I'm not aware of any major government contract that is distorting the revenue evolution.

If you want more color, I am more than happy to cover that off line with the investor relations team, but let me summarize that we are not aware of any major government contract that is distorting the trends year-on-year.

Jonathan Dann - *Royal Bank of Canada*

Hi there. Of the four pillars, three of them, Spain, Germany and Brazil, all seem to have reasonable network advantages and paths back to growth. But I guess across the rest of Hispanoamerica, places like Colombia, Mexico, they don't. I think it feels reasonably fair to say they don't seem to have best-in-class networks. Is there a plan next year with the improved balance sheet to begin to address some of those very large geographies?

José María Álvarez-Pallete - *Telefónica S.A.* - *Chief Operating Officer*

Well, the answer to that is out of the major, as you were saying, all in Spain, Germany and Brazil, our aim is to have the best network and the best distribution network. And, therefore, we are acting in those regions. And Brazil is pretty recent, because we have become leaders on that market in terms of customer base recently, but we are not an integrated player there yet. For being the leader we need to act and send the right messages in terms of bundles, subsidies, data allowances, tiered pricings, and so on, and we are doing it. And it looks like competition is following us. So it's not just the network. It's being the leader because of the scale and having the responsibility of showing the pace of a rational market, and therefore of accretion of ARPU, of accretion of services, more data allowances for customers and, therefore, data upselling.

In the countries that you were mentioning and that's also the case in places like Chile or Argentina or Peru. So, focusing on the ones that you were mentioning that were namely Mexico and Colombia, you know that in both countries regulation has for the first time moved towards creating more competition, more real competition, and therefore asymmetry is really happening. And this is fostering our results and we are taking advantage of that move, or that effort, to significantly upgrade our networks. And upgrading our network doesn't mean that we aim to replicate the incumbent network on those regions but that we are significantly improving, accelerating our move from 2.5G to 3G, from 3G to 4G, network sharing agreements and wholesale agreements in order to increase our capacity.

So, the answer is yes, but it is not just the network. It's also the distribution network. And in both fronts we are advancing and we are taking advantage of asymmetry to accelerate and to build the basis for the future. And that's why you will see that out of the contribution, namely to OIBDA in this quarter, the largest contributors in Hispanoamerica, namely Colombia and Mexico, were the largest contributors because we are taking advantage of that to accelerate.

So, we are doing both things at the same time. We are accelerating commercially. We are significantly improving our capillarity in terms of distribution and in terms of network. But you are right. We need to accelerate, but we cannot behave in the same manner in those countries, the way we are behaving in countries where we are leaders.

Jonathan Dann - *Royal Bank of Canada*

Can I ask a follow-on? On all the other results calls, somebody has asked the CEO of DT, etc., their thoughts on pan-European consolidation. Where do you guys stand given you've recently been exiting?

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

This is Ángel Vilá. We are happy with the scale that we have. We believe that with the footprint that we have and the scale that we have as Telefonica Group, there is no need for cross-border consolidation. We have been working a lot in in-market consolidation because we see clear benefits, be it mobile consolidation, be it convergent consolidation, and we have been leading in many of the markets on this front.

But we are focused on delivering, on strengthening our operations in our current footprint, on delivering on the synergies of the transactions that we have already announced. And we have no ambitions for cross-border consolidation, empire building and getting into any of such euphoria that some others seem to be thinking about.

James Ratzer - *Newstreet Research*

The first one is just to come back to Spain and Fusion re-pricing. I was just wondering if you could help me quantify what the impact of that would be to revenues. It looks like Fusion is about just over 25% of your domestic revenues and you're putting through roughly a 7% increase. So should that imply a 2% step-up in revenues from Fusion, or do you think you will see some customers spin down to some of the lower packages? So I'd just like you to help quantify the impact of that, please.

And then, secondly, a question on Venezuela. We've seen a number of other companies this quarter switching away from the SICAD II rate; some companies even saying that it actually no longer exists and moving to another rate called SIMADI at a rate of around 190 VEF/USD. I was just wondering if you could give us your thoughts on that.

José María Álvarez-Pallete - *Telefónica S.A. - Chief Operating Officer*

Taking your question on Spain, as you might imagine, we don't disclose in such a detail the impact of the upgrading of the Fusion offer. What I can tell you is that when we're calculating our budget for this year, and we were assuming that at some point we'll upgrading our offer and therefore upselling our customers, it was as intrinsic part of our ambition to turn back to revenue growth in Spain.

So, as I was telling you before, in the first quarter we were below, slightly but below the €3 billion threshold. On a monthly basis, we are counting on those upselling to get us to the threshold that we need to turn back to revenue growth, which is still what we are aiming at this year in Spain. So it was a strategic pillar to get there. It was tough, as you might imagine, because we needed to put a lot of elements in place of the offer. But we were counting on those extra revenues from the upselling of our customers, to make sure that we are able to beat in the second, third and fourth quarter the expectation to turn back to revenue growth in Spain.

That was strategic and that's why implementing that was easy on the paper, but then you need to go to the market and commercially implement that and expect the competition to follow. It looks like competition is following. Therefore, all the assumptions that were embedded in our ambition to get back to revenue growth as soon as possible in Spain looks like going into the right direction in spite of those unexpected events that I was mentioning before.

So, I am not going to be able to detail to you what is the impact of that upgrading of our offer on Fusion, but it was embedded in our assumption, that we needed to have, in order to increase our monthly revenues to get back to revenue growth in Spain as soon as possible.

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

Regarding Venezuela, there are three exchange rates. One is called Cencoex, which is at 6.3 VEF/USD, which is very limited for some products and services, and which paradoxically some companies still continue to use. Then the SICAD, which substitutes the former SICAD I and SICAD II, which is still on the process of being regulated. And then the SIMADI, which is the third system, which really is not so representative because it doesn't have liquidity and has a huge volatility.

We decided at the end of last year to move from what used to be SICAD I to SICAD II to the rate of 50 VEF/USD. We are using the rate that applied to the last SICAD II auction, which was of 52 VEF/USD, which we think at this stage is still the most representative and less volatile.

It's quite important to say that once we made the move to SICAD II and to the 50 VEF/USD, which is now 52 VEF/USD, we slashed pretty much our exposure to Venezuela; our net cash in the country is €0.4 billion, our book value is €0.9 million. So, any subsequent devaluation or adjustment of the FX rate from SICAD to some other SICAD when we see the next auction, or getting closer to SIMADI, would have a very small impact compared to the ones that you have seen in our accounts at the end of last year.

Luis Prota - *Morgan Stanley*

Two questions, please. First is on the Digital Plus acquisition and the remedies with the obligation to wholesale 50% of the premium content. I would like to understand how you plan, or how you could bundle the content to make propositions from your competitors not that attractive. And also, whether you could share with us some analysis I'm sure you've done on potential cross-selling opportunities with the clients coming from Digital Plus relative to the risk of TV ARPU dilution, as these clients are paying, my understanding is, something like €40 just for TV, and any cross-selling with TV products I suspect might give rise to some kind of dilution.

And related to this Digital Plus, something that is not clear to me is if you are going to start consolidating this from April. So for two months, from the second quarter, what will be the revenue and OIBDA contribution from this (if you could give us some kind of order of magnitude)? And whether when you were in the last few quarters talking about this ambition to go back to revenue growth in Spain, whether you were always considering and you are still considering or not whatever the contribution is in revenues in an organic way from Digital Plus.

José María Álvarez-Pallete - *Telefónica SA – Chief Operating Officer*

Thanks, Luis. In terms of the remedies, there were several remedies imposed. The ones on the premium, first is the definition of premium content, which is more restrictive and it goes to some, not all, but some sporting events and some majors. And also the important thing is also this percentage, this 50%. And therefore, whoever wants to have access to this wholesale offer on this premium content needs to choose and, therefore, that would contribute to have some exclusivity on some of the contents because our competitors will need to choose between 50% of the defined, predefined, premium contents which are, again, not all of them.

And therefore, we think that if you also take into consideration that a part of the fixed cost of those contents, specifically the premium contents, needs to be distributed, again, as a fixed part of the cost, not at a variable part, among the ones that are going to be willing to have access to those contents, that is going to help the first make those contents stable in the market, namely Spanish League for example; but also, in terms of distributing the effort among the ones that are going to be willing to have those contents.

So I think that overall, is a pretty reasonable set of remedies that we think are going to contribute to distribute in a more fair way the cost of those contents.

In terms of the cross-selling opportunities, yes, we were considering those, but we are not considering the Digital Plus revenues to turn back to revenue growth. In Spain, the digital revenues were non-organic and therefore, we were not counting on those, on the Digital Plus revenues, to

turn back the revenue growth in Spain. But, yes, we are aiming to have an up-take in terms of revenues in this second part of the year because of the cross-selling possibilities for the Digital Plus customer base.

And that is going to help to precisely anchor the ARPU that those customers will have on TV. And we aim to do what we have been doing on the "Fusión" part of our customer base, which is upgrading those customers with attractive both wireline, wireless voice and broadband.

So we think there is room for manoeuvre. We think there is room to anchor the value of that ARPU and we think there is room to contribute to revenues, to new revenues on consolidated terms on the combined effort.

And then in terms of consolidation, I turn to Ángel.

Ángel Vilá - *Telefónica SA - Chief Financial and Corporate Development Officer*

Yes. Hi, Luis. Regarding accounting, we will start consolidating Digital Plus from May. Initially it's been acquired by Telefónica Contenidos, so it would be, if not decided otherwise, under the "Other Companies" caption. But we're assessing the corporate reorganization to best allocate the wholesale and retail parts of the business. The retail part of the business probably to Telefónica España, so that we optimize not only the organizational logic, but also tax and accounting impacts.

We are still work in progress. We are going to give full detail on that by Q2 results, or ahead of those, so that you can incorporate to your models.

Luis Prota - *Morgan Stanley*

Thank you. If I can just clarify something José María was saying. José María, did I understand well that what you said is that what you were taking into account in terms of coming back to revenue growth was just the cross-selling opportunity but not what we can call the legacy revenues from DTS?

José María Álvarez-Pallete - *Telefónica SA - Chief Operating Officer*

That's correct, yes.

Justin Funnell - *Credit Suisse*

Just wanted to ask about your medium-term planning for your balance sheet. Obviously, subject to the O2 deal getting done, you'll be down at 2.1 times levered, which when OIBDA was shrinking was probably the right number, but if OIBDA is growing going forward, would probably be a bit under-levered.

We've seen DT go through this sort of journey and ultimately end up with dividend, full cash dividend and dividend growth. Do you think that's where you can end up as well on a one to two-year view, please?

Ángel Vilá - *Telefónica SA - Chief Financial and Corporate Development Officer*

Yes. First, we reiterate our objective of 2.35 times or lower net debt to OIBDA. Clearly, with the O2 UK divestment, we are going to be below that. And what we decided is to maintain financial flexibility, so not imposing a too stringent leverage target, given the current environment of debt markets.

Second, we want to maintain flexibility for growth, to finance the growth of the Company be it organic or inorganic in the places where it makes sense to consolidate.

And third, we decided to improve the shareholder remuneration by two ways. One is after the O2 transaction closes, the cash dividend of €0.75 would become 100% cash instead of the partial voluntary scrip plus cash that we have now in 2015. We have €0.35 voluntary scrip and then €0.40 to be paid for in cash. In 2016, we would move to 100% cash dividend. And also, we have taken the decision to cancel the treasury shares instead of placing those in the market so that we would improve the EPS.

As you rightly say, going forward and post the O2 UK transaction, there would be some margin between the leverage target and the net debt position, but we think it makes sense to have financial flexibility in order to be able to take opportunities as they for sure will present themselves in the organic and inorganic arena going forward.

Justin Funnell - *Credit Suisse*

Okay. Thank you. And just on a detailed question on Spain. And you've probably answered this already. I just didn't understand it. Your content costs seem to be one of the key drivers of your slightly weaker margins in Q1. Are those largely fixed costs now? Are they rising as you grow your IPTV customer base? And when could we see these content costs no longer dragging on margin?

José María Álvarez-Pallete - *Telefónica SA - Chief Operating Officer*

Well, in terms of content costs, in the first quarter in this year, they have been 50% higher year-on-year, and almost two-thirds of that is fixed, and therefore, is not linked to the number of customers.

So, in this part, the number of subscribers, it's going to be increased. The average cost per subscriber is going to decline. On this form, content is booked annually while TV channels' contents are booked depending on the number of subscribers.

First quarter, the cost grew quarter-on-quarter, on more subs, on more TV channel, and that's a variable cost. But also let me add that the more TV customers we will have, and that would be the case once we will consolidate in the Digital Plus customers, this variable part will be diminishing. And also, as part of the remedies, part of the fixed cost of those contents will be distributed according to the wholesale offer. So, I think this trend is there to stay, but is going to be diluted the more we grow on the TV side.

Fernando Cordero - *Santander*

The first one is related with the one-off accounted in the first quarter, and I would like to know which is then this €1.18 billion one-off could be fully considered in terms of cash, and fully considered as tax credit going forward in order to understand the cash impact of this event.

And the second question is related with DTS as a follow-up. You have been describing what could be the potential synergies in top line, but I would also like to know your views on the potential synergies in terms of the platform operations in that sense at which stand; and excluding the content costs, which is the room in order to obtain some synergies from the operations of Canal+, obviously not including the tax synergies that are present already in the Digital Plus.

Ángel Vilá - *Telefónica SA - Chief Financial and Corporate Development Officer*

Regarding the tax credit arising from the sale of O2 UK, this arises from the fact that the book value of O2 UK is different for accounting purposes and for tax purposes. The accounting book value was reduced by the dividends received, including those dividends received before 2009 where the tax law changed in Spain. So, this accounting book value will probably generate a capital gain when we close the transaction.

Tax-wise, the book value was not reduced by dividends received prior to 2009, so it will generate a tax loss. We already had a deferred tax asset in our individual books for this concept, but once O2 UK is recorded as "held for sale", this tax asset has to be taken to the consolidated P&L. And this is

an item that fully accrues to Telefónica. Although it's reported in the line of discontinued operations, this will fully accrue to, obviously, the parent company and shareholder. And this will be converted into cash or used against taxable gains.

Our current estimate is between year 5 and year 8 because we have other tax loss carry-forwards that we can use ahead of that, but this will fully go to reducing our cash tax rate in the future.

José María Álvarez-Pallete - *Telefónica SA - Chief Operating Officer*

And in terms of your question about synergies, in terms of content, let me also try to stress the fact that we aim to have synergies in content not just in Spain. We are going to be aggregating the content acquisition of all the TV platforms that we have all around the Group. And remember that we are growing significantly in TV in Brazil and in the remainder of Latin America. And therefore, in terms of content synergies, we are going to be aggregating volume not just because of the customers of the former "Fusión" offer in Spain, Movistar TV, but also because of the customers that we have in Latin America.

Other source of synergy that we were exploring when we were doing the calculation of the value of the Digital Plus includes for sure technology, namely the over-the-top platforms. You know that they have a successful over-the-top platform that we intend to explore and to massify. I have been already detailing the cross-selling opportunities in terms of revenues on their Digital Plus customer base and on the "Fusión" customer base in places where we don't have TV capacity with our own network in Spain. But also, namely satellite capacity that we aim to put on top of the table to reach additional synergies.

So there are revenues because of cross-selling in both customer base and content; simplification in terms of systems, in terms of the offering, and so on; platforms, as I have been covering, and satellite capacity. They will be the largest chapter of synergies that we are analyzing and trying to implement.

Mandeep Singh - *Redburn*

I have two questions, please. One, sorry to keep on coming back to Spain. I know it's been a big focus of the conference call, but referring back to the transcript of the Q4 results, clearly, Spain was guided, and it was guidance, not ambition, to grow on a cumulative basis. So I'm just wondering if you could give a little bit more color on the softening of that tone.

Secondly, just wanted to ask your perspectives on Brazilian consolidation, whether you think there's any sense of urgency on your part or on the part of the consortium. And where do you stand on Brazilian consolidation?

José María Álvarez-Pallete - *Telefónica S.A. - Chief Operating Officer*

On your question of Spain, we were aiming at revenue growth and we are still aiming at revenue growth on cumulative basis this year. We have just one written guidance which is the Group guidance. We are not guiding by regions and we just have guidance on the listed companies, namely in Germany and in Brazil. But we are reiterating that we are still aiming to a cumulative revenue growth in Spain this year. We are just updating on the recent events.

And in order to get there, to that revenue growth, we need to implement several things and we have been implementing during this first four months of the year. And it looks like going into the right direction in spite of unexpected events, as I was mentioning before; the strike and the delay on the cross-selling activity on the Digital Plus customer base.

And in terms of consolidation in Brazil?

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

In terms of consolidation in Brazil, our focus now is closing GVT, which we expect by the end of May, and executing a very smooth integration, capturing full synergies because with the combination of Vivo/GVT, we will have the best assets and the best management in Brazil.

We have full optionality regarding potential consolidation. We are market leaders and we can benefit in many ways from potential consolidation, in which we are believers. We would be supportive. But we believe we have full optionality actively or passively in that process when it starts.

Mandeep Singh - *Redburn*

Can I just follow up very quickly, please?

Previously, you have referred to whether the stars have been aligned or not been aligned. So where are we now on cosmic activity, please?

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

Well, we aligned one of the most shining stars that there were in Brazil, which was GVT. For the rest, it's gotten a bit cloudy, so we cannot really see the stars. But we believe that at some point, it makes sense that the market may consolidate because there are potentially very strong synergies on that type of transaction.

For it to happen, probably some issues need to be addressed. One important item is the concession negotiation this year that affects different players, and that can take off one of the roadblocks. Another possibility is to see whether there could be new entrants or those potential new entrants actually decide to divest out of the market, which could create other opportunities. So there are many moving pieces and we obviously continue to monitor.

We think we have a position in which we can have lots of optionality in any of the potential scenarios that could develop in Brazil and create value for our shareholders in doing so.

Ivón Leal - *BBVA*

Just coming back to Spain. Sorry about that. My question is on the mobile service revenues. Given the price increase announced in February, I would have expected slight sequential improvement in mobile service revenues where there is actually the reverse trend. There's a slight deterioration versus four quarters. So I don't know if you could explain that. Maybe is there any trend I'm missing?

And given that you guys have some visibility on the second quarter, I wonder if you could share with us if the price increases are already improving the trends on mobile service revenues on the second quarter.

And the second one is a very brief one on Digital Plus. Do you have an estimate of what percentage of Digital Plus customers are already your broadband customers, just to give a sense of what is the cross-selling opportunity there?

José María Álvarez-Pallete - *Telefónica S.A. - Chief Operating Officer*

Thanks, Ivón, for your questions. In terms of mobile services revenue, we have been trying to guide you, or to indicate to you during these last quarters that because of allocation, it makes less and less sense to follow those independently because of the allocation that we do namely on the Fusion and because Fusion has become so relevant in terms of size in Spain.

In spite of this effort that we have been doing to upgrade our offer in Spain, it's going to be less relevant to monitor in terms of mobile service revenue because it has a very marginal impact considering the allocation of the bulk of the revenue.

So, I would strongly suggest to keep focusing on service revenues, on overall service revenues. Excluding handset, it has been improving more than 1 percentage point quarter- on-quarter in spite of seasonality. And again, that drives us to the idea that the revenue growth in Spain, of revenue stabilization in Spain, keeps going into the right direction.

And I think that was a significant part or a very important part of our overall guidance at the Group level in terms of accelerating our revenue growth all along this year. In terms of overall guidance, we said that we will be growing above 7%, if I remember correctly. We are growing close to 9%. And therefore, I think that if you judge upon the trends in Spain and the trends everywhere else, you will see that all along this year, we should be updating you on our guidance evolution, because if we keep going to the right direction in Spain, and it looks like we are going to the right direction in Spain, and the remainder of the Group, namely Brazil, keeps going into the right direction, we are beating our competitors, we are doing better at competition and the remainder of Latin America, and we keep executing the synergies and the rationalization of the markets in Germany, I think that we are on the right track to be able to update you on our guidance all along this year.

In terms of the cross-selling opportunity in Spain, yes, we have an idea now that we have been able to get closer to Digital Plus, to the customer base of Digital Plus, because we were not able to do that before the approval for the completion of the process. We have an idea that we are talking about several hundred thousands of customers. We do not disclose that, but it's a significant part of the customer base that are still not with us. And therefore, I think that the up-selling opportunity that we were seeing there, contemplating there, is at least of the size that we thought it would be.

So I think that this opportunity is there, and now it's about executing. It's about execution. It's about how fast we are going to be able to offer an attractive proposition to those customers. But the size of the customer base that we thought would be there and we thought would be a subject for cross-selling is the same size or slightly higher than what we thought.

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

Thank you very much for your participation. We do certainly hope to have provided some useful insights for you regarding the results of a quarter that represents the starting point of a new profitable growth cycle. Should you still have further questions, we kindly ask you to contact our investor relations department.

Thank you. Good afternoon.