Telefónica January-December 2015 Results Conference Call Transcript

26th February 2016

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Introduction

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

Good morning and welcome to Telefónica's conference call to discuss January-December 2015 results. I'm Pablo Eguirón, Head of Investor Relations. Before proceeding, let me mention that financial information contain in this document related to 2015 has been prepared under International Financial Reporting Standards, that's adopted by the European Union. This information is unaudited.

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Now, let me turn the call over to our Chairman and CEO, Mr. César Alierta, who will be leading this conference call.

Presentation

César Alierta - *Chairman and Chief Executive Officer*

Thank you Pablo. Good morning ladies and gentlemen and welcome to Telefónica's 2015 results conference call. With me today are José María Álvarez-Pallete, Chief Operating Officer and Ángel Vilá, Chief Strategy and Finance Officer, so during the Q&A session you will have the opportunity to address to us any questions you may have.

Before starting let me briefly explain to you the agenda for this conference call. First, I will do a recap of our vision of the crucial moment that we see for the sector, the highlights of the year and the outlook for 2016.

José María will then give an overview of last year's key achievements and the main priorities for 2016. And finally, Ángel will go over the 2015 results.

Unprecedented wealth creation ahead of us

We are lucky to work in an industry that is dramatically changing the world. Digitalisation will change everything, and social progress will be exponential with an even greater wealth creation.
We are living the deepest and most transforming technological revolution that has been experienced by any other generation in the history of human kind.

And changes led by the Digital Revolution in the next decade will lead to an unprecedented social development. We stop short of being able to imagine its impact.

But we need institutions, governments, unions, enterprises, policy makers and citizens, to realise the full potential of the digital world for the benefit of society. It is the opportunity to foster economic growth across the board.

Digitalisation will foster growth and innovation

Digitalisation is already having a very positive impact on innovation, productivity and growth.

Numbers show that the digital industry has accounted for nearly one-fifth of the global growth in the last 2 decades. And recent reports estimate that a 10% increase in digitalisation of the economy could increase GDP per capita growth rates by 40%.

I am convinced that these figures could be even higher as the traditional metrics to measure economy are not capturing the total benefits of the digital era. The so called "Digital Dividends", that include the broader development benefits from digital disruption.

To make this a reality, political ambition is needed to really take the lead in the digital economy. The Digital Single Market in Europe is a very clear step in that right direction.

Now, it is time to act, by implementing the policies linked to foster the digitalisation and Big Data adoption across all industries, because they will transform all the productivity models.

An era of exponential growth

Technological cycles are getting shorter and performance and capabilities are expanding. 4G is here and 5G is getting closer, supporting transmission speeds up to 50 or even 100 times those of 3G. We are talking about exponential speeds.

Today all of us are connected 24 hours a day, but the big changes from digitalisation are still to come. The Internet of Things is the next exciting phase. By 2020 it is estimated that there will be 50 billion of connected things. Wearables, cars, houses, dishwashers, tablets, and any gadgets of all kinds will have sensors. The growth in the number of connections will be exponential.

This comes with an exponential growth in data traffic volumes, which we are already seeing in our networks.

All this also drives an exponential growth in data from the information generated by us, businesses, consumers, in each of our digital interactions.

All this shows we are ahead of an era of exponential growth in the digital economy.

The Digital Economy opens up a new growth wave

Thanks to Big Data, we are facing a new wave of growth in our industry. Few sectors can have such a deep knowledge of their customers as that already available to telcos.

We have an opportunity to build a different kind of data relationship with our customers: to give customers back control over their data. It is about building a new competitive advantage that would allow us to rebalance clearly the value chain of the digital ecosystem. And we are determined to do so, with a view on reverting value back to our customers through improved services and customer experience, giving them visibility and control of their digital life. And, we know how to do it. We guarantee customers' data privacy and security and we have all the technological knowhow and it is not difficult at all to implement it.

In the connectivity wave, we have successfully captured growth around mobile data monetisation. And yet, there remains a significant additional potential that we intend to capture. Through increased penetration of LTE, prepaid data and data roaming, or elimination of zero rated tariffs, to mention a few of the drivers we continue to work on.

Beyond these additional prospects in mobile, we have as well a very important and sizeable potential around fixed data monetisation. A few years ago, we started in mobile the transition from 'all you can eat' tariffs to tiered pricing. Now, it makes perfect sense to consider a similar journey for fixed data.

There are operators in different countries already implementing it and we are working with this approach in some of our Operating Businesses, such as Argentina, Germany and Chile.

Moreover, in the context of the new relationship we intend to build with our customers, giving them back control over their data and their digital lives, they would be empowered to make a more sensible use of their data plans and we expect this to yield increased loyalty and reduced churn.

Under this scenario, we could double our revenue growth rate in the near, near future. This further growth opportunity is not being considered by the markets today. But it is clearly there, and we are going to seize it.

Telefónica's ongoing transformation

In the last years we have laid the foundations to capture the growth potential in our industry, with a significant transformation of the Company since 2012, as outlined in slide 7.

We have made significant headway, accelerating revenues and their mix, primarily thanks to data monetisation. This, along with efficiency initiatives and reinforced asset portfolio has led to stronger performances in our key markets, namely Spain, Germany and Brazil. We also achieved a record debt reduction, while providing outstanding shareholder returns.

In 2016 we will accelerate growth, leveraging a solid set of differential assets and data monetisation, while maximising synergies and efficiencies from integration and simplification. We will boost our Big Data and Innovation capabilities to provide support to our network and customer insight.

We will maintain financial flexibility, focusing on continued portfolio optimisation and improved Return on Capital Employed, and we reiterate our commitment to a full cash dividend, only subject to, and we will decide then, on the closing of the sale of O2 UK.

So, 2015 was very positive and for 2016 we have even better prospects as we capture the digital economy opportunities.

2015 Highlights: A profitable & growing Company

On slide 8, I would like to go over the key indicators of our progress:

- Consistent improvement in revenue evolution, accelerating growth by 5 p.p. in the last three years, underpinned by average revenue per access, which increased for the second consecutive year.
- Encouraging year-on-year trends in OIBDA to 3.6% year-on-year organically in 2015, just 40 basis points lower than revenue growth, which explains the flattish margin versus the erosion registered last years.
- Operating Cash flow returned to growth for the first time in recent years despite the peak in the CapEx to sales ratio that is allowing us to support our commercial activity and our transformation.
- Underlying Earnings per Share, the real EPS, delivered solid progress, expanding 22 euro cents to 1.12 euros.
- And Free cash flow ex-spectrum per share reached 0.98 euros in 2015.

2015 Main financials: a year of return to growth

So, the key highlight of 2015 is that we returned to organic growth simultaneously in main financial metrics: Revenues, OIBDA and Operating Cash Flow. Moreover, our OIBDA margin has been stabilised.

Going down the P&L, our Net Income and EPS grew very solidly in underlying terms.

Net financial debt increased to 49.9 Billion euros, primarily due to financial investments carried out to improve strategic positioning, despite generating a robust FCF during the year.

Let me stress that we have implemented different restructuring measures, to improve efficiency and productivity over the coming years, which affected our Q4 reported numbers. Ángel will explain it in detail later.

Delivering on our commitments

We have delivered on the guidance that we upgraded last July, as can be seen on slide 10.

In fact, in Revenues, OIBDA margin and CapEx to Sales we have beaten our commitments, and we keep working towards our leverage target.

And we are honouring our dividend policy. The dividend has been a combination of scrip and cash to be paid in Q2 16 and we have also executed the share buyback programme we announced, with the 1.5% share capital cancellation last June.

2016 Outlook

Let me now highlight the guidance for this year, which is above the 2-year ambition plan given in February 2015.

In 2016 we are targeting revenue growth higher than 4%, stabilising OIBDA margin and CapEx to sales ratio around the level of 17%.

We will continue to deleverage, with the goal of being below 2.35x.

And let me stress that we confirm the dividend per share for 2016 of 0.75 euros per share, which will be all cash, as I said before, and we might take a part of the scrip, subject to the sale of O2 UK sale, but basically it will be full cash, and we will also propose to the AGM the cancellation of treasury shares equal to 1.5% of share capital.

Now José María and Ángel will give you more details about our recent performance.

2015 Highlights: A profitable & growing Company

José María Álvarez-Pallete - *Chief Operating Officer*

Thank you, César. 2015 has been a year in which we have consolidated our position as a profitable and growing Company.

First, strong commercial momentum and investments to build an outstanding connectivity, namely fiber, LTE and Pay TV, are flowing directly to revenues, which ramped-up vs. last year.

Second, we are enhancing our competitive position in key markets via in-market consolidation and extracting clear benefits in terms of synergies, which will be incremental in the coming years. Simplification initiatives and efficiencies are also worth mentioning as they are one of the drivers behind the improved profitability and business model transformation.

Third, strong FCF generation enabled for attractive shareholder returns and investments. Our balance sheet has recovered its robustness (when including the proposed O2 UK sale) and we have reinforced our credit quality through diversified financing. At the same time, we continue to advance in our portfolio optimisation to improve ROCE.

Revenue & OIBDA growth with margin stabilisation

In 2015 we have seen sustained top line and OIBDA organic growth, as seen on slide 14.

On the revenue side, this year's 4% organic growth was built on several key drivers: namely the mobile data expansion and the growth of Hispam (+16.9% and +10.1% y-o-y respectively). Data and connectivity continued to transform our business, as reflected in the accelerated change in our revenue mix from traditional services towards connectivity and new services.

Furthermore, OIBDA posted a robust result, up 3.6% year-on-year and led to a positive operating leverage which flowed to margin, which is now stable year-on-year in organic terms.

Capturing value for Revenue per Access expansion

Our decision to invest in attracting and retaining higher value customers is paying off.

First let's take a look at the graph at the top of slide 15, which reflects the robust organic growth across all high-value services: fiber is growing 30% year-on-year, Pay TV is gaining momentum and LTE has skyrocketed, with 3 times more customers year-on-year reported, to name a few examples.

On the second half of the slide you can see clearly how the growth in those services has boosted average revenue per access.

And finally, our quality services and knowledge of our customers are also making us a much more desirable provider and, as such, churn reduction has continued across our markets.

Data monetisation: Accelerating data growth

Slide 16 shows some insights on how mobile data monetisation and connectivity is boosting growth.

LTE penetration reached 12% at the end of 2015, more than tripling vs. 2014, leading to strong usage, more than 60% higher than 3G, and double-digit ARPU uplift vs 3G.

Additionally, prepay data penetration is also fostering data traffic dynamics, with Hispam penetration up 11 p.p. year-on-year to 29%.

The boost in data traffic, 45% higher vs. Q4 14, is driving the acceleration in non-SMS mobile data revenues to 28% organic year-on-year.

I would like to highlight that 1/3 of current customers are using more data than they initially subscribed and more than 40% of them are subscribing additional “data snacks”.

Going forward, we also expect further upside as data test drives launched show very positive results in terms of data consumption dynamics and roaming propositions drive elasticity and improve customer experience. Overall, data monetisation is a reality but we are just in the first wave.

Digital Services: Driving innovation and value

In Digital Services, as seen on slide 17, we have made significant steps in driving value for the Company this year, with a strong revenue organic growth of 23.6% in 2015.

Furthermore, our vision to become a Video Company is now a reality. We have significantly increased our video customer base and our revenues and we will continue to invest in quality and scale in 2016 via differential content and technology.

Our other digital pillars have also posted strong results, pushing us further towards creating true innovation for ourselves and our customers. And we are not doing this alone: we have formed important strategic alliances worldwide to ensure we can deliver the best in the latest technology.

TGR: Creating value through transformation

On slide 18, we show how TGR is creating value for the Group.Our focus is the deployment of our future-proof UBB networks, which resulted in 31 million premises passed with fiber in 2015 and LTE coverage of 49%.

Network modernisation towards an All-IP network is a key pillar and we continue innovating with initiatives such as starting to shutdown legacy Copper Central Offices in Spain, VoLTE launched in Germany, LTE-A with 2 carriers or Research & Development 5G lab.

Also, we continued on transforming our operations and the launch of 4 Global Centers is delivering positive results in terms of E2E diagnosis and the new Home Gateway Unit which can deliver speeds of up to 300 Mbps.

Regarding IT, full stacks projects are being deployed in 15 countries; digitalisation is boosting Big Data and Real Time Decision and we are maintaining record IT Service Delivery. In parallel, on simplification we keep on reducing applications and physical servers, closing data centers and increasing virtualisation.

Telxius: A global infrastructure Company

On slide 19 we give a brief overview of our new global infrastructure Company: Telxius.

As Ángel mentioned in our Q3 call, we have been studying how to best optimise our portfolio of infrastructure assets to drive better return on capital employed.

Telxius is a combination of certain infrastructure assets of the Group including part of our towers and our submarine fiber optic cable and, in the future, we envisage more Telefónica-owned assets being incorporated into Telxius.

On the towers side, it will initially include close to15 thousand telecommunication towers. The cable business will consist of capacity and IP businesses through an International Tier-1 Network, with the largest and most reliable submarine fiber optic cable in Latin America.

The new global Company will enable a more specialised and focused management of Telefónica's infrastructure, with the aim of increasing the services provided to other operators and allowing the new Company to participate more actively in the growth opportunities that exist in the industry, including the possibility of acquiring third-party assets.

CapEx is paying off

CapEx intensity is paying off and has been the driver of our competitive advantage by transforming our network and systems as see on slide 20. We have also invested significantly in spectrum in 2015, which safeguards future growth and we expect these investments to be lower in the coming years.

Operating Cash Flow has returned to growth in full year 2015, as César mentioned before, thanks to the positive trends built on our superior networks, which have enabled us to become a more robust Company, and the improved OIBDA trends combined with efficiencies, both at OpEx and CapEx levels.

Now, Ángel will explain in more detail the 2015 results.

Key financials

Ángel Vilá - *Chief Strategy and Finance Officer*

Thank you José Maria. Moving to slide 22, let me summarise our key financials.

Reported year-on-year evolution is significantly affected by non-recurrent factors that were mostly booked in Q4, including:

1) A provision for restructuring costs impacting OIBDA by 3.1 billion euros, mainly affecting Spain with the announced Voluntary Employment Suspension Plan, and
2) Multiyear commitments relating to Telefónica's charitable Foundation.

It is important to note that these non-recurrent items have no impact on FCF generation in fiscal year 15 and are expected to enhance efficiency and FCF going forward.

In organic terms, revenues increased 4.0% in 2015 to a total of 47.2 billion euros, while OIBDA increased 3.6%, improving its year-on-year growth rate vs. last year by 3.4 p.p. and margin remained stable.

More significantly, OpCF returned to organic growth in the year.

Finally, Net Income reached 5.8 billion euros in underlying terms, growing by 29.7% vs. 2014.

Reported Q4 reflects non-recurrent & FX

Please turn to slide number 23 to see in more detail the impacts affecting Q4.

Non-recurrent effects reduced Q4 OIBDA and Net Income by 3.4 and 2.6 billion euros respectively, with the provision for restructuring costs accounting for approximately 90% in both cases.

FX is dragging the year-on-year OIBDA variation by 11.8 p.p., with the depreciation of Latam currencies since last August becoming more tangible as the year progressed.

The contribution of perimeter changes to OIBDA is 2.6 p.p. lower than last quarter, as the consolidation of E-Plus is no longer affecting year-on-year change.

Maintaining a solid FCF generation

Turning to slide 24, in 2015, FCF remained relatively immune to non-recurrent impacts and also absorbed most of the negative FX impact through lower CapEx, interest, taxes and minorities. As a result, FCF generated 3.5 billion euros or 4.8 billion euros excluding spectrum payments, up 1.6% vs. 2014.

I would like to highlight the outstanding performance of FCF in the quarter, 2.6 times higher vs. the same period of 2014, which resulted in a generation of 2.3 billion euros, based on improvements in most FCF metrics.

FCFS reached 0.71 euros in January-December, supporting an attractive shareholder remuneration, with a 66% cash dividend pay-out.

Spain: Sustained momentum, new market dynamics

Moving to slide 25 we start to show the performance of individual operations.

In Spain, strong commercial traction continued in the quarter with an excellent trading balance; higher loyalty and more gross adds.

As a result, net adds improved year-on-year in 2015 in every access category, with remarkable growth achieved in the highest value accesses. Fiber net adds amounted to 1 million (+25%) and Pay TV net adds reached 1.8 million (+47%), partly due to the incorporation of Digital+.

In addition, the leading convergent offer “Fusion+” and the “TV Premium” promotion proved to be powerful tools to drive customer upgrades towards higher end packages with price premiums. As such, 26% of the FBB base enjoyed UBB speeds and 53% of Pay TV customers had contracted TV add-ons.

This better mix along with the tariff update applied in the second quarter resulted in a 7% year-on-year increase of “Fusión” ARPU to 74 euros and, once the promo unwinds in Q1 16, growth will be even more visible.

In 2016, we continue progressing in our “more for more” strategy, repositioning again tariffs while adding more value, namely TV contents and data allowance.

Spain: Strong revenue recovery in 2015

Turning to slide 26, we can see the sustainable improvement in top line growth for Telefonica España excluding DTS, growing for a second consecutive quarter to 0.8% year-on-year.

After the end of the promotion, TV packages uptake has been very positive and will translate into an approximately €30m incremental revenue flow in Q1 16 vs. Q4 15. Moreover, Pay TV penetration is still in the 30%’s, so there are encouraging dynamics to make us believe that the positive trend in revenue is going to continue improving.

With regards to profitability, it must be seen at the new perimeter level, including DTS, because of the content allocation criteria. As such, organic OIBDA margin in 2015 stood at 42%, with a limited year-on-year decline of 1 p.p. despite the strong commercial activity and the impact of the TV discounted prices.

Importantly, I’d like to remark two relevant facts regarding cost items:

- First, net content cost per customer is declining 17% year-on-year in Q4 due to a larger part of cost recovered through the TV wholesale offer and strong growth in the Pay TV base.
- Second, a new restructuring plan has been launched and in the near future will drive sustainable efficiency gains.

Let me explain in more detail this plan in the next slide.

Spain: A reference in efficiency; new plan 16-17

The new Social Agreement signed with the unions includes a new Plan for Voluntary Employment Suspension for employees aged 53 years old or more that have worked for more than 15 years in the Company.

As benefits, we will save just in direct personnel expenses 370 million euros per year from 2017 and, indirect cost savings should increase this figure.

In cash terms, the Plan is cash-flow positive since year 1 as we expect more than 75% employees signing up to the Plan to leave the Company in 2016 and the rest in 2017.

Overall, the Company's transformation is accelerated to improve profitability in the coming years.

Germany: Successfully maintained momentum

Germany successfully maintained market momentum as shown in slide 28.

We recorded solid contract net adds with churn improving 0.2 p.p. year-on-year in a rational and dynamic market. As a result, our LTE base increased 13% since September to close to 8 million, leveraged on a 75% LTE coverage at the end of December. On the fixed side, let me remark the continued positive trend of VDSL.

Top line accelerated its year-on-year growth in the fourth quarter to 2% underpinned by strong handset sales. Mobile service revenues remained broadly flat in the year, with an increased share of the partner segment, and aligned with full year outlook. Finally, let me highlight the solid data monetisation results, with 40% of our O2 Blue gross adds opting for a tariff with more than 1 GB.

Germany: Anticipated synergies drive growth

On slide number 29, we highlight the significant synergies captured in 2015, explaining more than 50% of quarterly OIBDA growth driven by successful integration progress, including milestones such as:

- Execution of 50% of the leaver program target; 80% of expected shops reduction and consolidation of 30% of targeted in-city facilities. In addition, we had 3G National roaming available, offering our customers a better data experience.

All this, together with our subsidy approach focused on retention, led to an exceptional 35.5% OIBDA growth in the fourth quarter in organic terms and to 19.9% year-on-year increase in 2015. As a result, organic OIBDA margin ex non-recurrents in the full year increased close to 4 p.p. to 23%.

Finally, I would like to point that OpCF more than doubled vs 2014, totalling 826 million euros and with a positive impact of 280 million euros in-year savings from synergy execution.

Brazil: Capturing value across segments

Please turn now to slide 30 to review our strong commercial performance in Brazil.

In the mobile business, our focused strategy on value is bearing fruit. We have captured half of new contract customers in 2015, allowing ARPU to maintain a positive year-on-year trend despite regulation and the macro environment.

Moreover, in the fixed business, our successful journey towards becoming a Fiber and Video Company is reflected in our growing market share of ultra-broadband and Pay TV services, with a significant positive impact on ARPU trends.

As a result, we have 97 million customers in a market of more than 200 million people.

Brazil: Sustained market outperformance

On slide 31 we detail the robust revenue trends in Telefónica Brasil, clearly outperforming peers.

The fixed business once again consolidated its positive and growing contribution this quarter.

And the mobile business strengthened its growth profile, with mobile data already representing almost 50% of mobile service revenues and growing by 38% year-on-year. Let me remark that in 2015 we have gained 5 percentage points of revenue market share in the mobile business.

In addition to this sound revenue performance, costs remained under control, growing well below inflation to drive an OIBDA increase of more than 7% year-on-year in Q4, with synergies extracted so far fully aligned with our best case scenario.

Hispam: Sound performance on quality growth

To review our progress in Hispanoamérica, please turn to slide 32.

Commercial performance in Q4 consolidates the increasing adoption of value services in the fixed and mobile businesses, with contract net additions tripling year-on-year to reach their best quarterly figure on record.

This outstanding performance is the main lever backing the solid top line and OIBDA growth throughout the year, with revenues in Q4 growing by more than 8% year-on-year and OIBDA by 4%, despite the acceleration of commercial expenses mainly from the second half of the year.

Hispam: Commercial momentum; solid performance

Reviewing performance per country, slide 33 shows how commercial momentum is driving growth.

In Mexico, our market positioning is gradually strengthening. We posted record-high quarterly net adds to reach more than 26 million accesses, after adding more than 3 million new customers throughout 2015. On top of that, LTE is booming underpinned by the accelerated network deployment, already reaching 45 million pops covered at the end of 2015.

As such, full-year revenue and OIBDA growth, rocketing year-on-year almost 8% and 39% respectively, whilst year-on-year deceleration in Q4 is driven by the strong tariff promotions and the higher commercial costs amid intense competition. All in all, let me also highlight Operating Cash Flow, which more than doubling year-on-year in Mexico to reach 215 million euros in 2015.

In other countries such as Colombia, Peru and Chile, commercial traction remains very solid, with robust momentum driving outstanding in high-value net adds.

In Argentina, revenue and OIBDA year-on-year trends in the last quarter are mainly affected by the different timelines of tariff updates but full year growth remains strong, with an impressive uptake of LTE devices in the second half of the year.

UK: Gaining market value

On slide 34, Telefónica UK added 0.7 million customers in 2015, with the last quarter being the strongest in the year, underpinned by market leading customer loyalty and successful commercial propositions.

The rapid roll-out of LTE is translated into an outdoor coverage of 80% at December, which led to an increase of 5 p.p. quarter-on-quarter in penetration to 35%.

Also, I would like to highlight that according to Ofcom, O2 had the most satisfied customers in the mobile market for the 7th year in a row.

As a result, mobile service revenue grew for a sixth quarter in a row excluding “O2 Refresh” and was up 3.4% vs 2014 thanks to ongoing customer appetite for high value tariffs. Total revenue increased 4.6% but a slowdown in high-end handset sales in the last three months led to revenue growth deceleration. OIBDA ex-non-recurrents grew by more than 2% in the year and maintained similar growth trend vs Q3 on the back of revenue flow through and continued cost control. With this, OIBDA margin grew 0.6 p.p. and reached 24.6% in 2015.

Leverage in line for reaching the target

Let me now move to the financial slides starting on slide 35.

Net debt at the end of the year stood at 49.9 billion euros, on track to achieve our leverage target after the sale of O2 UK.

Major drivers for the debt evolution have been:

- 3.5 billion euros free cash-flow generation or 4.8 billion euros pre-spectrum payments
- 4.2 billion euros dedicated mainly to dividends and share buy-backs, and
- 2.7 billion euros financial investments (net of equity funding) mainly for the acquisition of GVT and DTS

For 2016 and beyond our leverage will reflect the cash flow generation from improved operational performance, the sale of O2 UK and other corporate actions.

Effective interest cost below guidance

On slide 36, our effective interest cost has moved down by 57 basis points in the year, to 4.69%.

This improvement has been possible mainly thanks to a decrease in fixed-rate debt in euros, the reduction in Euribor rate and lower refinancing cost leading to 51 bps savings.

For 2016 we expect the effective interest cost to be below 5% continuing the declining trend.

In 2015, we completed another year of well balanced and robust financing activity for 18 billion euros. 26% was raised in the equity market, on top of the strong support received by the banking community and access to alternative funding sources by geography and product.

Our liquidity cushion has been increased to 19 billion euros to cover maturities beyond 2016. Should we factor in the cash proceeds out of the upfront payment on the UK sale, our liquidity cushion would be around 32 billion euros, with a very comfortable coverage of upcoming maturities.

So, now I hand back to César for the concluding remarks.

Summary

Thank you Ángel.

To finish, please move to slide 38 for our final conclusions.

- We posted a very solid set of results in 2015; better positioning us for further growth
- We invested in network differentiation, translating into a strong commercial momentum in fiber, 4G and Pay TV.
- We successfully integrated the Companies incorporated into our portfolio in a record time
- In 2016 we will maintain revenue momentum, with significant data monetisation opportunities ahead of us
- We will be accelerating transformation, synergies and simplification, while investments will be sustainable
- And we remain committed to enhance financial flexibility and to our attractive shareholder remuneration
- And finally, let me remark that when you see the wider picture, we are very excited about the brilliant future for the sector

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

Q&A session

Georgios Ierodiaconou – *Citi*

My first question is around the dividend policy. I know it's hard to comment on hypothetical scenarios but, given there is some uncertainty around the sale of O2, can you give us some colour on your thoughts should that event arise? Until last year you were distributing around 40 cents of cash dividend, do you see or expect that you can at least sustain that level of dividend in cash, even in the event of the sale being blocked?

My second question is around the real estate restructuring. Can you give us an idea of what you expect to do with the proceeds, if these proceeds in the end are for paying down debt or maybe using it to finance strategic options in LatAm? If I could ask, there are still 47,000 towers left. Will it be hard to monetise those towers because of their geographic mix or would you expect to have a second phase of real estate disposals in the coming years?

César Alierta - *Chairman and Chief Executive Officer*

With regards to the dividend, I have said various times that the 75 cents of dividend is fully assured, for the next I don't know, 5-10 years. And I have said that maybe, but I would say that the probabilities are around 2%, that if we don't sell O2, we will have part of a scrip dividend, that means 40 cents in cash and 35 cents in scrip dividend. But, let me remind again the probabilities are practically nothing. What is totally, totally assured is the payment of the 75 cents in dividends for the next 5-10 years, so this is going to be like that and I feel very, very confident that it will be like that.

Ángel Vilá - *Chief Strategy and Finance Officer*

I assume you're talking about Telxius, the company we're launching for passive infrastructure. The company will start with an initial contribution of mobile towers from the Telefónica portfolio of mobile towers, around 15,000 towers, and the submarine cable systems that we have around Latin America. The number of towers that we are contributing initially are not of course the whole portfolio of towers of Telefónica. That would probably, as José María was saying in the presentation, be contributed or brought down into the infrastructure vehicle later on as well, as potentially consolidating towers, or other infrastructures, from other third parties.

With this, this vehicle will have clear levers of growth. One would be the classic one of co-location in towers. We continue to build towers across our footprint, that would be a second lever of growth. We will also be able to consolidate infrastructure from third parties. And the fourth lever would be the continued contribution, obviously at arm's length, of Telefónica-owned infrastructure into the vehicle.

With respect to the proceeds, or the use of funds, or financially what we're aiming at with this transaction, we will be able to strengthen our balance sheet and part of that can be used for debt reduction. Also, we plan to release funds in order to invest in other areas of growth that are available and are in front of us. And third and clearly, we are trying to optimise the return on the capital employed that we have in this type of infrastructure.

Mathieu Robilliard - *Barclays*

First if I can come back to the question of the UK business. I understand you think the chances of a sale going through is very high, but still, imagining for a second that it doesn't happen, can you share with us what you think the reaction of the rating agencies would be? Do you think that would put the rating or the outlook at risk, or are you very confident that wouldn't be threatened?

The second question had to do with Hispanoamerica, excluding Venezuela and Argentina, still some good growth but there are areas of slowdown in the mobile business and I was wondering what was the outlook for 2016? I understand the slowdown is linked to more competition, but is it also the macro hitting consumer spending?

César Alierta - *Chairman and Chief Executive Officer*

With regards to O2, Ángel will explain more than me and will respond. We are very confident that the transaction will be approved. The European Union is very positive and is fully aware of the need to digitalise Europe and this means that the important thing is to digitalise all the countries and that means that this thing about three, four players is becoming irrelevant. That's a fact, and all the conversations we had during the Mobile World Congress this week are in that direction.

In regards to Latin America, you've seen our results, you saw the results of Brazil and you saw the results of the other countries. We are very happy to be in a region that has 350 million people, a region that has a rate of unemployment of 6%, a region that has a tremendous growth potential, a region that all the governments in Latin America, from Rio Grande to Patagonia, think that they need to be digitalised and they are going to support us and the rest through the correct regulations to digitalise because they need it. Our numbers show clearly, and let me again give you the figures of Brazil, that what macro investors think has nothing to do with the reality. The region is going to grow and it's totally undervalued, this is clear in my opinion, totally undervalued, and we are very happy with the position we have in Latin America and it's going to grow a lot, especially in our sector. There's going to be a tremendous growth in our sector in Latin America.

One thing you should not forget is that, when we talk about digitalisation, we only talk about consumers and we don't talk about business. There are millions of businesses in the footprint of Telefónica that need to be digitalised in the next two years. Who is going to help digitalise these businesses? Telefónica. And what this is going to mean is a tremendous increase in data traffic and monetisation. It is very clear that the only ones that are going to do that is us, and, I'm going to be very frank with you, OTTs are not going to monetise that, because they don't have the capabilities, the connection, the network or anything to do it; they look to us. And this has a tremendous potential which is not reflected in the expectations growth of our sector and especially in Telefónica.

Ángel Vilá - *Chief Strategy and Finance Officer*

Let me give some additional colour on the UK and complete a little bit the answer regarding your rating concern, Mathieu. So what are the reasons that make us feel confident that this transaction will be cleared by the European Commission?

First, we are convinced that the proposed transaction will have a positive impact on effective competition in the UK market, in particular with regards to price competition, network quality and consumers' choice.

Second, the preliminary competition concerns that have been raised by the Commission are not materially different, and even in some cases like the pricing, have less concerns than previous merger cases, which by the way, all of them have been cleared in the past.

The merged entity spectrum holdings will be less than both, those held by either Vodafone or by BT/EE. So there is not sufficient spectrum concentration post-merger that can give rise to competition concerns.

The combined market shares in this case are not materially higher than those from similar mergers such as Ireland and Germany.

We believe that Hutchison publicly has stated some promises, some very clear commitments with respect to this transaction. Promise number one, as per the letter send by Mr. Fok openly through the FT, was not to increase unit prices. Promise number two was regarding commitments of higher investment than the two individual entities are doing today. Promise number three: regarding opening networks and fractional share ownership to other companies.

We think that these, and other potential remedies to be discussed between Hutchison and the Commission, are demonstrating first, the commitment of Hutchison with the execution of the transaction; and second, an understanding of how to address the Commission concerns that, I have to insist, in some areas have lower concerns than the ones that had been expressed in previous transactions and, specifically, on the pricing. We think and we are confident that the transaction will go ahead, but what if not?

We have already been in conversations with rating agencies. We have presented confidentially to them what could be alternative plans for our UK asset and we have presented to them complementary plans for other assets that we have in our perimeter and rating agencies know that we would have plans in place to execute. It would take some time but we think we would be given credit and time, given our past historic execution of what we have been sharing with them.

Jonathan Dann- *RBC*

My understanding the CNMC has put out some new fiber regulation in the last days, if you could give us your thoughts on what are the implications?

And, then secondly in Latin America, I think you've mentioned that the local assets are undervalued, and I think historically you've talked about assets like Sky, perhaps other assets in Colombia, Mexico, do you think the there is a need for convergence, do you think we see a wave of consolidation perhaps in Latin America or perhaps more investment in fixed fiber or fixed cable from Telefónica?

José María Álvarez-Pallete - *Chief Operating Officer*

On the new regulatory framework that was issued yesterday by the CNMC, first let me say we don't get to understand why somebody needs to regulate something that has been performing well. Spain has become the leader in Europe in ultra-broadband, has become an ultra-broadband powerhouse in the middle of the crisis, and it has become again the leader in terms of absolute connections on fiber. Having said that, it is not just Telefónica who has been driving this effort. Our competitors in Spain have also been deploying ultra-broadband networks and, if I'm not wrong, Orange has more fiber in Spain than in France.

Taking all of that into consideration, the CNMC ruling of yesterday needs to be completed, because some of the decisions are still pending, namely on the prices of the direct and indirect access, but basically it has some positives:

- First, geographical segmentation. They acknowledge that there are significant parts of Spain in which competition already exists, having more than at least three ultra-broadband networks. We don't get to understand why this has been limited to the coverage that was established in mid-last year and why not at the end of this year, or a more dynamic approach, but that's positive.

- A second positive thing is that in indirect access it is not cost-orientated, it is retail minus and based on replicability, but in our opinion it will significantly incentivise investment because first, without knowing what are going to be the prices of indirect access, it would force us to focus on the already defined as competition zones and I guess that our competitors are not going to get into further investments until they know where and how those zones and prices are going to be declared.

So, for us there are still some unknowns that need to be clear, like the prices of the wholesale bitstream access, or in direct virtual unbundling of the local access. As far as we don't know those prices, it is hard for us to say what are going to be the total implications. So, it's too soon to say. We will focus on our investments in the competition zones and we will expand in some other areas, but we will emphasise connections towards more home passed.

Ángel Vilá - *Chief Strategy and Finance Officer*

It has been, and it is, a critical element in our strategy, to manage our portfolio in a way that we focus in certain geographies and we try to be stronger in those geographies, via in-market consolidation; we have been doing this consistently in the last few years and these in-market consolidations sometimes have taken the form of mobile to mobile, sometimes have taken the form of convergence consolidations. So you should expect us to be analysing any such type of opportunities that could arise in our portfolio regularly.

With respect to the Latin American assets that you were pointing at, we think that the region is suffering, the valuations of assets in the region have been suffering from the cyclicality that we have seen and we have lived through this many times, or several times, in the past. We believe that some valuation cases are very compelling because concerns are in the prices but the upsides are not. Having said this, we analyse cases very rationally, taking into account what are the potential benefits for our shareholders, what are the potential synergies, what's the right valuation and when is the right time to do any move. So you should expect us to analyse in-market consolidation opportunities and you should expect us to be extremely rational before moving on those.

Andrew Lee - *Goldman Sachs*

Just one follow-up because my other question had been asked, but on differentiation, which you're making a big point on in the presentation, your fixed network differentiation is clear, but my question would be on your confidence in the benefit of your video strategy. Content costs appear to have diluted returns and margins in most European markets. What do you think is different about the Spanish market and your setup that means you can capture greater value from your investment?

José María Álvarez-Pallete - *Chief Operating Officer*

Focusing on the Spanish situation, remember that we are coming from a convergence process that we initiated back in 2011 with the creation of Fusión, the launching of Fusión, and therefore pushing very hard for a convergence strategy here in Spain.

A crucial part of that strategy was to deploy fiber, having a very attractive and quality-based product, and coverage also in terms of LTE. Therefore, in terms of trying to be able to capture the first wave of data monetisation, as César was stating in the presentation, which is trying to capture ARPU uplift coming from speed and capacity, we have tried and now we think that we have been somehow successful in doing that.

The second wave for data monetisation, once you have in place this robust infrastructure of fiber and LTE, it's about value-added services, and the main value-added service is video. Video, it's the crucial component to drive up data consumption in this new world, and that's why we have been so focused on the content part of our strategy in Spain as well. We have tried to do that in a rational manner and we have tried to do that combined with the remedies that were applied out of the acquisition of Digital Plus. That's why we have been trying to progressively put more value in our offer, more value meaning both at the same time, more gigabits or more megabits per second at speed and at the same time more content. Thanks to that, we have been able recently to move ARPU upwards, and thanks to that we are capturing more value out of the value proposition that we are making to our customers. Our customers in Spain see value in us providing more content, more speed, more capacity, and are willing to share more of their income with us. That's why we have been so keen.

In terms of the impact on the margins, we are trying to make sure that this is compatible with margin stability and, that's why you are seeing us absorbing the extra costs of those contents, doing extra efforts in other components of the cost structure of Telefónica España, like this Voluntary Suspension Plan and others that we have been putting in place very recently.

The major outcome that we are having out of all of that is a significant improvement in churn. We are not just improving ARPU, but also churn is improving. So, the content strategy needs to be put in the context of the overall strategy that we are following in Spain that is driving revenue growth and hopefully OIBDA stabilisation in the coming quarters.

Andrew Lee - *Goldman Sachs*

Can I just follow up with one question, what other markets or what other companies do you look at that have successfully executed a similar strategy? Is there a real world example that gives you confidence in this strategy?

José María Álvarez-Pallete - *Chief Operating Officer*

The answer is that we are taking pieces from different components, what happened in the US, what has also happened in other places, but mainly this strong convergence we think that it's uniquely happening here in Spain.

I think that, taking into consideration our starting point and in terms of the situation that we had in Spain back in 2010, 2011, in the quality of our network, you will not see in Europe one single country in which there is a stronger network in terms of fiber to the home and, as a result, you will not see in Europe at least a strategy similar in terms of such a strong convergence, and it has been mainly supply-driven, not demand-driven.

Mandeep Singh – *Redburn*

The first question is on the Spanish EBITDA. Organically, in Q4 I think EBITDA declined over 6% year-over-year. The revenue growth is accelerating. Can you just sort of give us, excluding the benefits of the headcount restructuring, what other drivers do you see of actually getting EBITDA to be stable in Spain and potentially growing? I'm not asking you for your prediction on timetable; it's just to understand some of the drivers.

Secondly, on Brazil you reported 7.3% EBITDA growth in Q4, but if you adjust for the workforce provision you took in the fourth quarter of 2014, EBITDA growth in Brazil was actually zero. Again, if I look at consensus numbers for 2016, I think people are organically looking for about 10% EBITDA growth. So, could you just explain to us some of the drivers of EBITDA growth in Brazil organically in 2016, given the exit run rate was 0%?

José María Álvarez-Pallete - *Chief Operating Officer*

First, focusing on OIBDA trends in Spain: in the last quarter of 2015, we have a full impact of TV rights, namely football rights. And also we have some things that were making comparison namely the year-on-year with 2014 more difficult some other components of the cost function in Spain, namely the labour force and the pension fund contribution that was retaken during this year. So, those are most of the effects that have been scored during the last quarter.

Going forward, during 2016, we are going to have several trends going around. First, we will have a full year of content cost impact, also a full year of wholesale revenues, coming out of the obligation that we have to share those contents. And then, you have all the saving trends going around on the effort that were done during 2015 and the effort of the suspension plan that has been taking place.

Global trends: in terms of the overall cost impact of content coming in 2016, it would be higher than in 2015 because we will have the Champions League and some of the other content costs will also be increased, namely the Formula 1 and some MotoGP, but in exchange of that, we'll have positive trends coming from the optimisation of the distribution that was provisioned at the end of 2015, the insourcing of activities that is being carried out in Spain, and then the savings coming from the Voluntary suspension plan that has been taking place. Overall, and just as a bold figure, I need to tell you that on an ongoing basis, on a recurring basis, the savings coming from the voluntary suspension plan are higher than the extra content cost that we are going to have recurrently. So, we do think that OIBDA trend should improve in the coming quarters in Spain.

And taking your question on Brazil, during 2015, we have significant impacts on OIBDA deteriorating our trends. First, we have a significant regulatory impact coming from interconnection. Second, we have significant bad debt provisioning, mainly in the first three quarters of the year. And third, we have a significant inflation on the energy cost that was impacting us all along the year. In exchange of that, we have a few limited exposures to the synergies that were starting to be generated just in the fourth quarter.

Going forward, we think that most of the impacts on a year-on-year basis will be smooth, mainly the energy cost will remain similar to the full year of 2015. Also, remember that bad debt has been significantly improved mainly in the third quarter and, therefore, that would ease our comparison going forward. And then synergies will be significantly accelerating the rate of flow-through cash flow in this year.

So, we feel comfortable with the trends going forward in Brazil, even taking into consideration some of the impacts like the energy cost are here to stay. So overall, I think that the management that our team is doing Brazil, namely in synergy generation is been accelerated, the integration has been pretty successful. And I guess that we are going to be trying to be very transparent on that as we have been in our German case because I think that the synergy case in Brazil is a credibility factor for us. So, you should expect from us to be very transparent on synergy generation going forward.

James Britton – *Nomura*

Can you just help us understand where the revenue growth in Spain in 2015 actually fell short of your expectations of positive growth? Clearly, it's going in the right direction, but where did it fall short of your expectations? Which KPIs were you expecting to be better through the year?

And then, on the "Fusión" products, I know you talked about churn starting to come down. But, I think "Fusión" churn has been pretty flat for most of the year. So, when do you expect churn to actually come down below the 1.2% monthly figure?

José María Álvarez-Pallete - *Chief Operating Officer*

In terms of what did not go in the direction that we had foreseen in 2015, there are mainly two factors. First, the strike that we had within the month of April and mid-May, last year, and second, the delay on the approval process of Digital Plus that delayed our joint commercial effort on TV. So, those are the two major or the two largest things that were not going into the direction that we were contemplating when designing our numbers at the end of 2014.

And in terms of "Fusión", you're right, they are somehow flat, improving in some products and stable in others. But you need to score into the model the fact that we have been stepping out of retention clauses during 2015. And therefore, having a stable churn without retention clauses, and therefore competing with our competitors here in Spain without that retention tool, is a significant proof point of the fact that our product is working.

Remember also that in the meantime, that stable churn has come with some ARPU upgrades. We have been putting more value for slightly more money. So, those two factors allow us to think that the underlying churn trends are good, and therefore we should see improvement going forward.

So, to make a long story short, having a stable churn with price moves even if we have been upgrading significantly the offer, and without retention clauses, I think it's a good outcome for 2015.

Keval Khiroya – *Deutsche Bank*

Just going back to LatAm, we've obviously seen some quite important market structure changes, say for example Entel in Peru, Millicom in Colombia and Wom most recently in Chile. Can you talk a little bit more that where these smaller players have had an impact on your business and also how the pricing trends have developed in Peru, Chile and Colombia specifically?

Secondly you mentioned the benefits of readjusting your football tariffs in Spain but obviously your competitor is still charging less than you. To what degree are you concerned about this price gap between you and your competitors and do you think it could threaten your ability to monetise the more expensive rights which start in the second half of this year?

José María Álvarez-Pallete - *Chief Operating Officer*

Regarding the entry of new players in Chile, Peru and competitive dynamics in Colombia in terms of MVNOs, it is true they are affecting mainly on the low-end, on prepaid and therefore on those layers of low-end customers they are having an impact, for different reasons and for different strategies. The strategy of Wom in Chile is very different from Bitel in Peru and certainly different from Virgin in Colombia. They are focused on different layers of customers and they are having an impact.

Our overall strategy is to focus on value customers, to make sure that we do not lose the customers that are generating a better ARPU, a better churn, because we think we have in all those countries a good network and therefore we can compete on value, we can compete on speed, we can compete on capacity. So, different countries, different dynamics. It is true that they have increased in the low-end. So far, they are not affecting us on the mid-high end and that's why underlying revenue trends are still looking good, but it's something that we need to monitor, in the case they will be moving upwards on the value chain, but we do not see their network or their infrastructure capabilities being able to move into that direction.

In the case of Spain, competitors have promoted as we have promoted initially as well, but if we read them right, they are moving upwards. They are moving upwards because of exactly the same impact that we are going to have in terms of having more content costs. They will have them also because they will share, they have decided to get those contents as well, and therefore the impact that this is going to have on their accounts is going to be also relevant. And, therefore, we think that they are going to be focused as well on more value, that they will provide more value on their offer, but we think that they will be moving their ARPU up as well. So, the trends that we see in Spain, not just for us, is a little bit more money for more value and we think this trend is going to affect all of our competitors here as well.

Luis Prota – *Morgan Stanley*

One kind of follow-up question on Spain on the football costs and the economics of the football costs. So what I would like to understand is the underlying assumptions you have maybe with a medium or long-term view, my numbers might be wrong, but if I look at the total cost of the Mediapro deal, 2.4 billion, and then at the cost of the match that you were acquiring yourself, the total cost per year is like 1 billion. Then looking at the total pay TV subscribers you have, it's probably 2.4 million, so the average cost per subscriber a month is €35. Not all those clients are paying for football, so probably the average cost with existing now customers could be like €50, maybe that's too high, I don't know. So what I would like to understand, is the gap between this €50 and the €25 you are charging, I know that probably is about churn rate, I would like to understand the economics and also whether you think that you will end up having to wholesale this or to renegotiate the agreement with Mediapro if the CNMC forces to wholesale to Vodafone and Orange as well?

José María Álvarez-Pallete - *Chief Operating Officer*

Well, first of all the numbers that you were doing with the Mediapro deal, I think we need to calculate the fact that all of our competitors are probably going to have the same content and, therefore, Mediapro will sell that to them and therefore the amount that we will be paying will be less. We will not have that differentiation, but the cost will be split between the players. We are by law required to share the "partidazo", the best match of the weekend, with them and therefore that will have also wholesale revenues, and therefore you need to score that when running your numbers on average cost. Having said that, you need also to consider the evolution on the average cost that happened during 2015 and, going forward, the churn reduction, the impact on revenue increases that we are having is also going to have an impact on the profitability of the content costs that we are acquiring. Therefore, I think that before running the definite numbers you need to know how much of the costs going forward is going to be shared.

Second, what is going to be the impact on potential ARPU, so the different products on the different players, and again our view is that promotions are going to be much more limited.

And, therefore, the third factor is expanding the penetration, the footprint of this initial customer base that are acquiring football. All those trends should help you to calculate what is the real impact of the content costs going forward. In our numbers it makes sense.

In our numbers it contributes to significant revenue growth for Spain. It helps us to stabilise OIBDA and it has a positive impact on free cash flow generation.

Paul Marsh - *Berenberg*

I just want to understand why the cash dividend commitment is dependent upon the sale of O2, because you published today that your cash earnings per share was 71 cents and you gave guidance for 4% revenue growth, stable margins. I guess that might suggest that your cash earnings per share in 2016 should be more than maybe 71 cents, maybe 75 cents, in which case the dividend would be one times covered. So why would you not still pay out a full cash dividend bearing in mind obviously that that cash earnings per share is both continuing and discontinued businesses, so includes the cash flow you would be getting from O2 earnings?

Relating to the €9 promotion that you have been running through December because you say in the press release that this is going to generate incremental revenues of 30 million in Q1, but that's compared to Q4 and Q4 I'm assuming would have been impacted by spin-down from existing customers who previously were spending €40-50, taking advantage of the promotion at €9, so my question is: is it incremental to the revenues of the business relative to before you ran the promotion?

Ángel Vilá - *Chief Strategy and Finance Officer*

Regarding your first question, if the UK sale were not to be completed we would have more free cash flow. We would have more free cash flow per share, so the fact that we are conditioning moving to the full cash dividend with respect to the UK transaction is not linked to dividend coverage on free cash flow per share because actually free cash flow that we derive from the UK would help us to have an even better coverage on free cash flow.

The financial point here is that we would need some time to implement other measures to reduce the debt on our balance sheet if we were not to close the UK sale; and the dividend, staying in scrip and knowing that around 80% of our shareholders are opting for shares instead of cash could help us to have some cash preservation in our balance sheet. So, it's not due to dividend coverage, which actually keeping the UK in our perimeter would improve that coverage, but it's linked to balance sheet position and to preserve some cash in order to shore up the net debt position, the leverage position in the balance sheet until a second or an alternative plan were to be implemented regarding that asset.

José María Álvarez-Pallete - *Chief Operating Officer*

Taking your question on the end of the promotion in Spain and the impact going forward, first we are talking about a net effect of all things being considered, the customers that move from the high-end package downwards and also the ones that have been moving upwards. The overall outcome out of the roughly 700,000 customers that were onto that promotion is that a significant amount of them, I would say more than 78% of them have move upwards, therefore we have been having an upward move that is more than compensating the initial downward move, so it's a net effect. They are moving outwards in different packages. Some of them move into the premium package, others move just into the football, others just move into the fiction package. Overall the impact that that is having is roughly between €10-12 million additional per month, and that's why we have been giving this indication of slightly more than €30 million per quarter, so summarising it is a net impact and it's considering the net effect of the ones that initially were up and came down to the promotion and the ones that are moving upward after entering into the promotion. The net impact of that is positive 30 million per quarter.

Ivón Leal - *BBVA*

My two questions, one is on Spain. I would like to understand if you really have the choice to freeze fiber deployment in regulated areas given the investment you're making on content and by this I mean do you think you can deliver a sufficiently attractive customer experience on the IPTV product through the copper network?

You talk about different alternatives for Telxius, would that include losing control of the asset? And I would like to understand if, for you guys, there is a difference between strategic infrastructure you have to control and non-strategic infrastructure that you can sell?

José María Álvarez-Pallete - *Chief Operating Officer*

If we had the choice, first I think that we need to see if we can keep growing in revenues with this new framework. The answer is yes, and still we have not decided if we will keep going or not into the other zone because we don't know the prices that are going to be established for this direct access or for the wholesale bitstream access. But for the meantime, again I have to stress as well that there are some positives on this new regulation like the geographical segmentation and the retail minus orientation when deciding the price of the access to both the bitstream wholesale and the local access. Having said that, we have 14.3 million households passed and therefore just connecting those households would give us significant room for manoeuvre during the next few years; and on top of that we will not disregard getting to other zones depending on what the price of this unbundling might be, so that's where we see value because we have been acquiring the content rights for three years and with the existing regulation, we see value ahead of us in keeping growing our customer base and therefore accelerating the distribution capabilities that we will have for these content costs. And also remember that we have 100% coverage to satellite through the Digital Plus acquisition and therefore we can also optimise through the distribution there.

And then on the InfrastructureCo, you know we are expanding very heavily our infrastructure layer, was that to be fiber, LTE, backbone, backhaul, submarine cables, distributions, we are consolidating data centres. So we have a first layer, a first platform of infrastructure that this is amazingly powerful. We need to have operating control of that but, in some infrastructure, we don't need to have full control of that, and that's why we think that having investors that are attracted by sharing the growth that we have foreseen out of the creation of this big infrastructure that is going to deliver speed and capacity is something that is appealing. So the answer is yes, we see value in sharing that, mostly in order to accelerate and being able to sustain our infrastructure deployment; and also we aim to have operational control of the strategic parts of our network and therefore on the strategic ones we will not be losing control.

César Alierta - *Chairman and Chief Executive Officer*

Thank you very much to all of you for attending this conference call. I would like to make a final comment. The underlying earnings per share, which is the real earnings per share, of this company is €1.12. We are fully committed to the dividend of €0.75 and the dividend yield is about 8%. And we are fully committed to this dividend as a minimum for the coming years.

Also let me stress one point which is very, very important and which I mentioned at the beginning of the presentation: that our monetisation is there and it’s going to increase clearly our financial metrics: revenues, EBITDA, anything goes.