Telefónica January-June 2016
Results Conference Call Transcript

28th July 2016

Important Notice:

Although we try to accurately reflect speeches delivered, the actual speech as it was delivered may deviate from the script made available on our website

DISCLAIMER

This document and the conference-call webcast (including the Q&A session) may contain forward-looking statements and information (hereinafter, the “Statements”) relating to the Telefónica Group (hereinafter, the "Company" or "Telefónica") or otherwise. These Statements may include financial forecasts and estimates based on assumptions or statements regarding plans, objectives and expectations that make reference to different matters, such as the customer base and its evolution, growth of the different business lines and of the global business, market share, possible acquisitions, divestitures or other transactions, Company results and other aspects related to the activity and situation of the Company.

The Statements can be identified, in certain cases, through the use of words such as “forecast”, "expectation", "anticipation", “aspiration”, "purpose", "belief" or similar expressions or variations of such expressions. These Statements reflect the current views of Telefónica with respect to future events, do not represent, by their own nature, any guarantee of future fulfilment, and are subject to risks and uncertainties that could cause the final developments and results to materially differ from those expressed or implied by such Statements. These risks and uncertainties include those identified in the documents containing more comprehensive information filed by Telefónica before the different supervisory authorities of the securities markets in which its shares are listed and, in particular, the Spanish National Securities Market Commission.

The content of this disclaimer must be taken into account by any individual or entity who may have to purchase or sell or elaborate or disseminate opinions related to any securities issued by the Company, and, in particular, by analysts and investors. Except as required by applicable laws, Telefónica does not assume any obligation to publicly update the Statements to adapt them to events or circumstances taking place after the date hereof, including changes in the Company's business or business development strategy or any other unexpected circumstance.

This document and the conference-call webcast (including the Q&A session) may contain summarized or non-audited financial information. The information contained herein and therein should therefore be considered as a whole and in conjunction with all the public information regarding the Company available, including any other documents released by the Company that may contain more detailed information.

Neither this document nor the conference-call webcast (including the Q&A session) nor any of their contents constitute an offer to purchase, sale or exchange any securities, a solicitation of any offer to purchase, sale or exchange of any securities, or a recommendation or advice regarding any security.

Introduction

Pablo Eguirón - *Head of IR*

Good afternoon, and welcome to Telefónica's conference call to discuss January-June 2016 results. I am Pablo Eguiron, Head of Investor Relations.

Before proceeding, let me mention that financial information contained in this document related to the first half of 2016 has been prepared under international financial reporting standards, as adopted by the European Union. This financial information is unaudited.

This conference–call webcast (including the Q&A session) may contain forward-looking statements and information relating to the Telefónica Group or otherwise. These Statements may include financial forecasts and estimates based on assumptions or statements regarding plans, objectives and expectations that make reference to different matters, such as the customer base and its evolution, growth of the different business lines and of the global business, market share, possible acquisitions, divestitures or other transactions, Company results and other aspects related to the activity and situation of the Company.

We encourage you to review our publicly available disclosure documents filed with the relevant securities market regulators. If you don't have a copy of the relevant press release and the slides, please contact Telefónica's investor relations team in Madrid by dialing the following telephone number, +34-91-482-8700. Now let me turn the call over to our Chairman & CEO, Mr. José María Álvarez-Pallete.

Presentation

José María Álvarez-Pallete – *Chairman and Chief Executive Officer*

Q2 16 Highlights; strategy is working

Thank you Pablo. Good afternoon and welcome to Telefónica's second quarter 2016 results conference call. Today with me is Ángel Vilá, Chief Financial and Strategy Officer, and during the Q&A session you will have the opportunity to address us with any questions you may have.

I'd like to begin this presentation by highlighting how our strategy is working in the second quarter of 2016:

Firstly, and this is the basis for the rest, profitable growth has remained solid. Service revenues growth is leveraged on positive data monetisation and higher customer lifetime value. The service revenue growth together with efficiencies and merger synergies are the drivers of OIBDA, margin and OpCF growth.

Secondly, we have built on best-in-class technology platforms, with fiber premises passed reaching 33 million and LTE coverage expanding to 55% or 84% in Europe.

Thirdly, our competitive position is superior in main markets; Spain is back to growth in OpCF, Brasil & Germany expanded margins, Hispam is leading value growth and UK stood out in customer acquisition & loyalty.

The fourth element I'd like to stress is that we are committed to deleveraging through better business trends and lower FX headwinds, flowing directly to FCF along with a broad diversity of financial and portfolio measures and attractive debt-refinancing.

Finally, we are pleased to reaffirm that we are fully on course to meet our 2016 guidance and dividend along with mid-term leverage target.

Key financials (UK full consolidation)

Turning to slide 2, you can see that our organic growth profile is supported across our key financials, from Service Revenues to Operating Cash Flow.

FX has impacted reported headlines, however, I'd like to highlight that these negative FX effects at OIBDA level were offset at the FCF level.

Net Income for the quarter was 693 million euros, leading to a reported EPS of 0.13 euros.

H1 affected by FX and perimeter impacts

On slide 3, we explain the impacts that FX and our perimeter have had on our H1 results.

Although these factors have been reduced in the second quarter, FX dragged 11.7 percentage points in revenues and 10.7 percentage points in OIBDA in the first half of this year. However, this effect will ease in the second part of the year as main depreciations took place in H2 15.

Perimeter had a positive impact of 3.3 p.p. in revenues and 2.3 p.p. in OIBDA in the first half of the year, with no impact to be had in the second semester of this year as the consolidation of GVT and DTS took place in May 2015.

Full-year guidance on track

As shown on slide 4, we are on track with our full-year guidance. Following its criteria, we are growing 5% in revenues, +0.1 p.p. in margin, and reached a CapEx to Sales ratio of 15.1%.

We confirm that we will pay the 2016 dividend of 0.75 euros per share in two tranches: the first will be in the form of a voluntary scrip of 0.35 euros per share in November this year, with the second tranche of 0.40 euros to be paid in cash in the second quarter of next year.

In addition, the Board of Directors will decide in the second half of the year regarding the potential amortisation of 1.5% of treasury.

Finally, we maintain our mid-term Net Debt/OIBDA target of lower than 2.35x.

Strong FCF performance in Q2 16

On slide 5, we demonstrate that our FCF generation is improving both sequentially and year-on-year, as shown in graph on the top left of the slide.

FCF is up 1bn euros in the first half of the year vs. the previous one thanks to i) improved Operating Cash Flow, and ii) Lower spectrum, CapEx, financial payments and minorities, despite higher WC consumption and slightly higher taxes from non-recurrent last year.

FCF is also up vs. the previous quarter due to WC and financial payments.

For the second half of the year, we expect FCF to improve further due to better operational performance, lower FX drag and other seasonal effects.

Continued strong momentum with quality customers

The quality of our customer base continues to expand, as seen on slide 6, driving service revenue and average revenue per access growth.

We are increasing penetration year-on-year in the different value segments, namely smartphones, LTE and FTTX + VDSL.

As such, the bundling of these LTE and FTTX is allowing us to have high-end pricing power.

Finally, churn levels were down vs. the last quarter and last year, clear proof that our winning proposition is creating customer loyalty.

Resilient growth of service revenues

To review the quality of our revenues, please turn to slide 7.

Organic service revenues growth, 1.5% year-on-year in Q2, have outpaced total revenues and also across all segments, offsetting the decline in handset sales, which impacted all businesses.

Revenue growth is mainly levered on Broadband Connectivity and Services over Connectivity which are fuelling service revenues maintaining similar growth trends as in the previous quarter in most markets.

Sustaining OIBDA growth, strong diversification

On slide 8, we review our sustained OIBDA growth.

Organic OIBDA grew for the eighth consecutive quarter, mainly due to impressive OpEx control measures, which led to a 0.8% year-on-year decline. These mainly included the synergies from the GVT and E-Plus mergers and the global simplification and efficiencies programmes, such as personnel, IT and networks, among others.

Profitability continues to improve, with margin expansion in all regions except Hispanoamérica and Operating Cash Flow back to growth in Spain and continuing to show a powerful expansion in Brazil.

Lastly, we have a highly diversified portfolio which is impacting positively on OIBDA performance.

Clear data monetisation results

Slide 9 shows the tangible results of data monetisation.

LTE customer base doubled vs. June 2015 and average usage increased by 68% driving an ARPU uplift of around 10%.

In particular, increasing prepaid data penetration in Hispam and a wider implementation of recurrent data plans is boosting data prepaid ARPU, delivering a 18% uplift in Q2.

As a consequence, non-SMS data revenues grow in the quarter 16% leading to a 9% year-on-year increase in data revenues.

On the other hand, fixed data traffic is accelerating its growth up to 50% year-on-year due to fiber expansion, OTT video and multidevice proliferation, which opens up a huge monetisation potential.

Digital Services: enhancing customer experience

Turning to slide 10,

Digital services continue to show solid growth, with total revenues up 15.7% year-on-year in the quarter, leveraged in particular on Video, Security, M2M and Cloud.

I am pleased to highlight the continuing integration of our own platforms, products and services into our customer's offering and into our internal processes.

Consumers, businesses and institutions are increasingly seeing the benefits of having Telefónica as their digital solutions provider and helping them to transform their business models, thereby increasing efficiency and productivity.

TGR: Technology excellence

On slide 11, we show the good progress made in enlarging our UBB footprint as shown by the double digit growth in premises passed with fiber and the expansion of our LTE coverage, with VoLTE already available in six countries.

Network modernisation towards All-IP advanced, in order to have a more efficient network with more capabilities, with the deployment of a new metro network in Spain with optical transport and the launch of a native VoWiFi solution in Germany.

Additionally, we continue to work to have smarter systems, with Full Stacks projects in 15 countries and a strong push in our Big Data platforms, by tripling their capacity year-on-year, with the aim to provide extremely valuable real time information.

Ángel will now explain in more detail the performance in the quarter.

Ángel Vilá – *Chief Strategy and Finance Officer*

Spain: Commercial momentum gaining pace

Thank you, José María.

Please turn to slide 12 for a review of our domestic business.

Over the past years, we have invested heavily to build a very robust platform. Our ultrabroadband network, a state-of-the-art TV product, and the continuous improvement of the offerings' quality, have translated into a very high level of customer loyalty.

As a result, Q2 trading is gaining momentum on the back of churn reduction across the board, and our convergent offer continues to deliver outstanding KPIs: double digit year-on-year growth in subscribers and ARPU driven by customers upgrading towards higher value packages.

In July, we launched a new “Fusión+” portfolio, updating tariffs while adding again more value, namely TV content and additional mobile lines.

Spain: Further progress in the new growth cycle

Moving to slide 13, our successful upselling is flowing into revenues, posting sustainable growth in service revenues across all segments, despite tariffs’ update having a lower impact in the Q2 year-on-year comparison.

On profitability, we captured the first savings from the restructuring program which are reflected in the 2.6% OIBDA growth year-on-year and 1.1 p.p. margin expansion to 41%.

I would like to highlight that, OpCF was back to growth in the quarter.

Germany: Outstanding OpCF; synergies on track

In an increasingly dynamic market in Germany, on slide 14, we maintained operational momentum, with a higher contribution from partners. This, together with lower handset sales, impacted revenue trends in the quarter.

With integration activities on track, we posted an OIBDA margin expansion of 1.9 p.p. year-on-year to 25%, which will continue throughout the year, as we will have incremental savings in the second half and as transformation OpEx peaked in Q2. Margin increase is reflected in the 17.3% growth of OpCF in the quarter.

As a result, the Company is reiterating the outlook for OIBDA, narrowing the range of MSR outlook to slightly negative and lowering the CapEx outlook due to more efficient spend and LTE rollout phasing, therefore improving the implicit OpCF expectation. Very importantly, the Company is committing to mid-term dividend growth over the next 3 years.

UK: Strong trading; leading loyalty

Please turn to slide 15 for a review of O2 UK.

O2 continued to post a solid performance in Q2, after posting the strongest net adds in 6 quarters, and an all-time high customer loyalty. One of the main drivers of this was the outstanding LTE adoption, with penetration up 17 p.p. year-on-year to 43%.

On financials, mobile service revenues excluding “O2 Refresh” remained stable year-on-year in the quarter as the benefits from customer base & subscription growth were offset by the impact of roaming and MTR cuts. Top-line growth in the quarter was also affected by a market-wide slowdown in handset sales. Profitability remained strong and was broadly flat year-on-year at 26.6% in the quarter.

Brazil: Best positioned in the market

To review T. Brasil, please turn to slide 16.
With a rational and data centric strategy, we continue to lead in contract.

We captured 55% of new contract customers in the last 12 months, reinforcing our leadership with a market share over 42%.

Q2 Data ARPU accelerated to 41% year-on-year thanks to high 4G adoption.

In the fixed business, 50% year-on-year growth in ultrabroadband and IPTV led to a very solid ARPU performance.

Brazil: Growing market share with margin expansion

Moving to slide 17, it is worth highlighting that:
Service revenues accelerated its year-on-year growth to almost 2% thanks to mobile, with data revenues increasing their weight to 52% of total mobile service revenues.

Once again, OpEx improved year-on-year trends through efficiency and better than expected synergies. This allowed OIBDA to increase 6% year-on-year, with a margin expansion of 1.5 p.p. to 31.7%.

As such, Vivo posted an outstanding growth of 35.3% in OpCF in Q2 resulting from consistent OIBDA and optimised CapEx.

Finally, we have identified additional opportunities in terms of synergies, allowing us to build the case for a trending NPV of about R$25Bn.

HispAm: Reinforcing leadership in high-value

In Hispam, as shown on slide 18, we are reinforcing our leadership in high-value segments, as investments in quality are paying-off.

In mobile, contract net adds more than doubled vs. Q2 15, despite intense competition, which particularly affected prepay. Smartphones and LTE continued to thrive but still penetration is far from the Group average.

Meanwhile, in fixed the growing adoption of bundled services, leveraged on the differential Pay TV offering and higher speeds in FBB, led to an improvement in churn levels across services.

HispAm: Healthy growth in top line

In Hispam, as shown on slide 18, we are reinforcing our leadership in high-value segments, as investments in quality are paying-off.

In mobile, contract net adds more than doubled vs. Q2 15, despite intense competition, which particularly affected prepay. Smartphones and LTE continued to thrive but still penetration is far from the Group average.

Meanwhile, in fixed the growing adoption of bundled services, leveraged on the differential Pay TV offering and higher speeds in FBB, led to an improvement in churn levels across services.

HispAm: Healthy growth in top line

Moving to slide 19, revenues grew 3.6% year-on-year organically in Q2, leveraged on mobile data and the strong performance in the fixed business (+16% year-on-year), in which all operations accelerated and registered positive growth.

OIBDA was impacted by forex depreciation and a strong competition, which also resulted in higher interconnection costs.

Leverage impacted by Q2 dividend payment

Let me now move to the financial slides starting on slide 20. As a traditional seasonal effect, net debt in the second quarter grew by nearly 2 billion euros, mainly stemming from the cash dividend payment despite the progress made in FCF generation, which reached almost 750 million euros in the quarter.

Consequently, our leverage ratio has topped 3.20x as no deleveraging measures have yet kicked in; as is the case with the announced voluntary scrip dividend for the 0.35 euros dividend payment due in November this year or the recent disposal of 1.5% in China Unicom for over 300 million euros.

These and other corporate actions jointly with our expected improving cash flow performance will be key in showing deleveraging progress for the remainder of the year.

Strong liquidity to face upcoming maturities

On slide 21, we continued reducing the effective interest cost, which has moved down by 96 basis points year-on-year to 4.35%. Our liquidity cushion is robust at 17.3 billion euros, including cash and undrawn facilities.

Such cushion has been strengthened with over 5.5 billion euros long-term financing year-to-date, accessing different pockets of liquidity and benefitting from lowest historical benchmark rates.

I will now hand back to José María to recap.

José María Álvarez-Pallete – *Chairman and Chief Executive Officer*

Summary: Structural transformation

Thank you, Ángel.

To finish, please move to slide number 22 for our final conclusions:

Today's results demonstrate our ability to execute while building for the future, as we bear the fruits of structural transformation.

As such, network upgrades and product differentiation drove good operational momentum on value and quality, improving businesses sustainability, profitable growth and market positioning.

Furthermore, let me highlight that organic growth, FCF and FX drag will improve in the second half of the year.

Finally, we reiterate all our commitments, including the dividend and leverage.

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

Q&A session

Georgios Ierodiaconou – *Citi*

The first one is around CapEx levels. Both in Brazil and Germany, you mentioned there may be opportunities for slightly lower CapEx. Is it possible to give us some idea of how you expect CapEx to progress later this year, but more importantly in 2017 across the Group?

My second question is on the UK. You highlighted some of the headwinds you had in the second quarter but I wanted to better understand why you've seen the margin improvement reverse in this quarter and, whether it's something that's going to carry on because of the change of the mix of the revenues with the roaming regulation?

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

In terms of the CapEx level, we stick to the guidance of around 17% CapEx over sales ratio this year as there is a phasing effect in the second half of the year that always occurs. And therefore, before reviewing that, we need to check what the impact of that seasonal effect is as the approval process of the CapEx takes basically six months to get through. So we will revisit at the end of the year.

We expect our revenues to continue growing next year and we expect the CapEx over sales ratio to be reduced in 2017, as our CapEx effort during the last four years is starting to pay off in terms of value revenues coming through our accounts. So, summarizing, I think that before reviewing this year's CapEx, we need to check what the trend during the second half of this year is and remember that FX also has an impact on CapEx. And, we do feel that going forward CapEx intensity will be progressively reduced.

In terms of the financial performance, namely in margins in the UK, the improving trend that we have been seeing in subscription rates has been offset by lower roaming margins and this is a trend. We also think that due to phasing of marketing spend and underlying cost saving, we might have lower functional costs going forward, namely in the second half of this year. Also, take into account that lower handset sales, due to the market slowdown, is resulting in lower hardware margin and therefore that's also affecting our margins. So the roaming effect, the termination rate cut and the handset impact that had a positive impact last year is not here anymore.

So that's what has been affecting our margins and, depending on the handset activity going forward, the margin would evolve accordingly. So there are some effects that are here to stay, some others that will depend on market evolution, namely on the hardware margin part of the business.

Mathieu Robilliard - *Barclays*

First, with regards to Hispanoamerica. Obviously very strong performance in fixed, but we've seen some decelerations on the mobile side across different markets. And I wanted to understand please, if this is something structural that is affecting the region, or it's just a coincidence, and if it's something that could revert in the next few quarters.

And the second question had to do with your leverage. You highlight that you expect deleveraging by the end of the year. I just wanted to understand if that was compared to H1 or the end of last year, and also when you talk about the mid-term target being still below 2.35 times OIBDA, what do you mean by mid-term, is that 2017, 2018, 2019?

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

In terms of HispAm, let me highlight first that we do think that we are the best positioned operator in the region.

I would like to highlight that we have outperformed across all core markets, our major competitor in the region. It is true that we have had weaker performance, in terms of the mobile side, but on the fixed side our performance, our growth, has been accelerating. And in spite of everything, we continue posting growth in revenues in the region. And it is true that some of the markets, namely Mexico and on the mobile side, somehow Peru as well, have been weaker compared to the first quarter. There are some effects that have been affecting our performance, namely MTR cuts, significant MTR cuts in some of the markets and, in specific case of Mexico, is a very aggressive competitive landscape that has been significantly affecting our revenues. On that regard, I would like to say that Mexico represents 3% of the total Group revenues. And therefore, the impact is more limited on our side than some of our competitors.

Going forward, we think that some of those trends will ease, namely the mobile termination rates decline. The rate of decline should at some point start to diminish.

And we do see overall a more rational environment in HispAm. In most of the markets, some of the zero-rated tariffs are starting to disappear. The unlimited data tariffs are also starting to disappear, because of the financial situation of some of our competitors and, we do think that also overall ForEx impact will ease progressively during this year.

So, summarizing, on the fixed side the growth has been accelerated in our different units. On the wireline side there have been weaker trends in Mexico, in Peru and somehow in Chile as well, because of termination rates. But overall, sound competitive positioning. And we do think that some of those effects would start to ease progressively. And again, let me stress the fact that we see overall a more rational environment in the region going forward.

Ángel Vilá - *Chief Strategy and Finance Officer*

Regarding leverage, we maintain our commitment to a mid-term target of 2.35 times.

What do we mean by mid-term? That would be end of 2017. We also plan to make visible progress in that direction during 2016.

To this end, you have to remind the seasonality that our debt level has. It's been traditional in the last several years to have a lower level of debt at the end of the year compared to the one at June, maybe out of the last five years, maybe in one because there was a big Venezuela devaluation this was not the case, but in all the other years net debt at year-end was lower than net debt in June. So, bear in mind the seasonal effect.

We will have very strong free cash flow generation in the second half, as you also saw last year. We plan to implement financial measures and we will execute on portfolio management.

Giovanni Montalti - *UBS*

Can I ask you to guide us through your different deleveraging options? Obviously you have many. But I think it will be good if you can help us have a framework, discussing briefly each of the options you may consider. Thank you.

Ángel Vilá - *Chief Strategy and Finance Officer*

First and foremost, strong free cash flow generation. You saw that in the first half of the year our free cash flow is EUR1 billion higher than it was last year. For the second half of the year, we expect a strong performance on this metric.

Why is that the case? Well, first, because as per our guidance you will see that operating cash flow is going to perform strongly. As José María was saying, the FX drag will ease very substantially in the second half. The big devaluations took place in the third and fourth quarter of last year, so the comparisons will improve.

With respect to spectrum, to June it has been not significant and the figure that we will have for the full year could be in the few hundreds of million euros compared to what was EUR1.6 billion last year. So, substantially lower figure in spectrum.

Working capital is going to contribute positively, although it's already normalizing. So the figure that you should expect could be around one-third of what we had last year. Financial payments and taxes are declining, will decline for the full-year in the low teens versus 2015.

So all in all, we expect a stronger free cash flow performance than last year. If you remember, in the second half of last year we generated free cash flow well in excess of EUR3 billion. And this year we feel that it should not be different, it should be similar. So, first and foremost, strong free cash flow generation.

Second, we are already implementing financial measures. The scrip dividend, the voluntary scrip dividend is already approved by the shareholder meeting; it will depend obviously on the take-up of shares by the shareholders. But, this will not contribute to a huge cash drain from the cash generated in the second half and this will help deleverage. We have other potential financial measures available to us, like hybrids and so on that we could use, but we will be pragmatic but prudent on those, because those are expensive instruments. So if anything, some single tranche benchmark issuance at some point, still undecided.

And then on portfolio management, you know that we have been active and pragmatic in the last few years. What we do not want to do is to not realize the right value of stakes or assets that we may divest, but we have very attractive opportunities ahead of us. Telxius is something that is public that we are working on. Also, we have consolidated the UK back, and this helps us our debt service and, we will evaluate and are already starting preparatory work for potential minority divestment in the UK, be it on the public markets or on private transaction. And we also have non-core assets. We have stakes, transversal businesses and the geographic review of our portfolio of assets, which we have all the time.

So we have multiple options. We plan to make progress already in 2016 towards the target of leverage by the end of 2017.

Giovanni Montalti - *UBS*

So among these options, should for any reason the operational performance be less good than expectations, should any of the portfolio management options not be viable for market conditions or anything else, would you consider a pragmatic approach to dividend, as you have showed already this year, considering a larger portion for the scrip?

I mean, can we consider that your priority is deleverage and therefore if needed, you would be pragmatic about dividend, at least for, let's say, the balance of 2016 dividend and eventually for 2017 dividend, if needed?

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

Let me take that question. But first of all let me stress that the free cash flow trends that we see and that Ángel has mentioned are improving, are improving at the Group level. Let me try to cover that in a little bit more of detail.

The two largest units that contribute more to the free cash flow generation of the Group, namely Spain and Brazil, both turned the corner. In fact in the case of Spain, it's a turnaround move that took place after four years of decline, with significant CapEx effort. In Brazil, we are talking about double-digit local currency free cash flow growth.

Germany is improving as well. So, we have a much more balanced quality of free cash flow generation, therefore more recurrent, we depend much less on working capital contribution. We are seeing acceleration in contribution of OIBDA minus CapEx, of operating cash flow.

As a result, the free cash flow estimate that we have for 2016 comfortably covers nominal dividend, including the scrip part that we have just announced, and therefore we count on that part to accelerate our deleveraging process.

Overall, we foresee a very robust free cash flow generation in the second half of this year, as Angel has said. And keep in mind that free cash flow has already grown with negative FX headwinds in the first half of the this year more than EUR1 billion compared with the previous year.

So, going forward, we think that the simplification effort that we have been doing and that we plan to accelerate jointly with the synergies programs that we have in place in two of the largest units of the Group, like Germany and Brazil, should help us to grow OIBDA.

All of that jointly with the measures that Ángel covered make us think that the current level of dividend is comfortably covered and that we can do both things; that we can show that we can deleverage and that we can show that this EUR0.75 of dividend is compatible and sustainable at this level. So, at the end of the year, we will review and we will revisit, but those are the trends that we see right now.

And keep in mind also the answer that we gave to the first question, we see CapEx intensity being more moderate in the coming years that should also contribute to this acceleration of free cash flow.

Andrew Lee - *Goldman Sachs*

In the UK, I just wonder if you could talk to us about your plans to address what looks like increasing convergence pressures in the absence of consolidation, which could help lower the cost base. What can you do to compete more effectively on a quad-play basis there and do you think that's a problem?

And then secondly on Brazil, I was wondering your view on the macro picture there and how you see this impacting the telecoms market through the second half? Thank you.

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

Thanks for your question. First, let me say that after the sale approval process at the European Union level the O2 – Three transaction, we have now a much clear picture of what other players in the UK market are really looking for in the different layers, in the different segments of competition. We do believe that with the current market structure, there is room for a pure mobile leading brand mobile player. And let me remind you that O2 is the best mobile asset in the UK market. It has the best operational performance among the MNOs, it's the best brand in the market, it has a differential value proposition to customers and it has effectively the lowest churn and an outstanding commercial activity during these two quarters.

As Ángel is saying, we are exploring all alternatives and we will be analysing the different moves in the market. It is inevitable that the UK's convergence take-up will increase, but it is also true that it is starting from a very small starting point, as some customers will always look for value versus discount quad-play services. Convergence is not new in the UK, Virgin Media is offering it since 2007, but it has had so far a relative low take-up.

We do think, according to our own experience at the Group level, that convergence so far is not demand driven, is much more supply driven, and therefore it implies that in order to be forced, you need to do significant discounts on the bundling; and we do not see BT going into that direction so far. That's why their quad-play traction since launch has been minimal. In fact their overall mobile base has been declining in the last year, while our mobile base has been growing and therefore, it looks like there is continued appetite for mobile-only propositions.

As a result of all of that, we will be analysing the different movements that might occur in the UK market, and that's why we are preparing our unit for those scenarios. But we do think that we have the best mobile asset in the UK market, that it is increasingly valuable, because of what we have been seeing in the different approaches that most of our competitors have taken during the failed approval process of the Hutch transaction. Therefore, we think that we have optionality cantered around the fact that we have the best mobile asset in the UK.

Andrew Lee - *Goldman Sachs*

And on Brazil?

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

Talking about the macro in Brazil, we are more positive than the market overall. What we see ahead of us is a Brazil that is better prepared than in previous occasions for the shock it has had. It has been most of all a political crisis, it has affected the macro economy, but the stabilizers of the

Brazilian economy, in terms of internal consumption and in terms of domestic reserves are acting effectively.

We think that the trends that we have seen recently, in the last weeks, are more positive than in the previous year; and as a result of that the Brazilian Real has been significantly strengthening; in fact it's much stronger than it has been in the last twelve months. Remember that the move of depreciation, move of the Brazilian currency has started in September last year and, therefore in the second half of this year this positive effect of the translation effect should start to flow through our P&L.

And in the meantime, we have been able to keep growing in Brazil. Our unit Vivo has been the only telecom operator that has been able to grow in the middle of significant decline of GDP. So, we do feel, according to the commercial activity that we see in the market, that the worst is behind and probably in our opinion and again, this is just our own internal estimates, recovery could be faster than what most people is anticipating.

Just in our case, remind that the second half of this year, the currency effects will start to flow positively through P&L and therefore the headwinds that we have been having so far against the Real should significantly ease. So we are pretty positive about Brazil.

Mandeep Singh - *Redburn*

I have one question around sort of monetization of football rights. Previously you were charging an extra EUR25 for premium football, now you no longer charge that, and instead you are increasing the prices of various Fusión packages. Can you just explain the dynamics? -obviously not everybody was paying the EUR25 and some people were on promotions- but can you sort of explain to us the before and the after and maybe give us some comfort that you are effectively able to cover the extra football cost that you've been incurring? Thank you.

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

First let me try to clarify the impact that we are going to have, namely, for example, this year in 2016 because of the football rights in Spain.

We are going to have two wave of impacts, the first one already occurred, it happened in the first quarter of this year, which was the fact that we were accounting for the Champions League that we didn't have a year ago and therefore that extra cost is already flowing into our accounts. The second one is going to be starting end of August, which is the extra cost of the auction of the next three years of the domestic championship. And therefore, there are going to two negative impacts on football rights cost in Telefónica España accounts.

The strategy that we are trying to follow is the following. We have increased the value of our basic offer by including eight of the matches of the next season in the basic product and we have upgraded the value of that product two euros. And therefore now all our Fusión base product is already accounting for some of the football rights for a EUR2 extra cost, and therefore that applies to a significantly larger amount of customers than the previous with the add-on of football rights.

On top of that, we'll have the additional best match of the weekend. And therefore, we have reserved some upselling effect for the most significant match of the weekend. As a result, we expect to have a more positive effect on the impact of those costs into Telefónica España revenues.

But overall, I think that you should take into account the OIBDA global impact and therefore in order to judge our strategy, not just on the football rights, also on other sports like Formula 1 or movies or series, the OIBDA margin is the only thing that is absolute truth.

On that regard Telefónica España, in spite of having that extra cost of the first wave of the Champions during the first half of this year, has been able to slightly increase OIBDA margin in the first half of this year, because of the efforts that we are doing in other fronts, like the voluntary retirement plan in Spain and also the efficiency measures that we're taking on our distribution channel. So, at the end of the year you will have a full year of the extra cost that is going to be here to stay for the next two years.

And the additional price upgrade that we have been doing already in the first week of July has not had as a result a pickup in churn. So, it proves that the valuable position for customers is fair and in fact the churn levels of the fibre product of the Fusión products keeps being at historically low levels.

So, I think that by the end of this year we will have a full picture of our full-year of the new equation of costs in Spain. We stick to what we've said previously, we think that the cost measure that we're taking to take down cost will more than compensate the extra costs of the content rights in Spain.

Mandeep Singh - *Redburn*

You obviously absorbed the extra Champions League costs and the headcount reduction savings have kicked in to offset that along with other measures. But you obviously have to then absorb extra costs from the end of August or early September. Can you still grow margins with that extra cost, given that the headcount savings have already kicked in, or do you expect some margin pressure as a result of those extra costs from the end of August?

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

We are talking about the extra cost being more than compensated by the savings' program; we are taking at year end. Therefore we do think that by year-end, you will have a full picture and we think that with the extra revenues that we're getting from the offer upgrade jointly with the cost measures, we can more than compensate the extra costs of the content.

Keval Khiroya - *Deutsche Bank*

Two questions, basically related to the headcount reduction. Roughly 3,000 employees are now less the Spanish business versus the end of 2015. Can you give us some color on where we should expect that number to be by the end of the year to sort of give an idea where the personnel expenses should get to?

And secondly related to that, could you give us some guidance on how much we should expect the restructuring charges to be within the cash flow statement for this year and the year after? Thank you.

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

As we shared at the time of announcing the program, we were expecting 6,000 people joining the program during the two years of the program. More than 3,000 already left in the first half of this year, and therefore the program is going according to plan. I don't think I have the cash flow effects here, I will hand it over to Ángel.

Ángel Vilá - *Chief Strategy and Finance Officer*

Yes, the treatment of this pre-retirement is we took a hit in OIBDA at the end of last year and then we are paying it in the subsequent years and as you can see it in the waterfall of debt, there is an increase in debt after what we call pre-retirement commitments. So the figure that will flow into debt due to pre-retirement commitments in 2016 is around 700 million euros, of which 332 have already been included up to the month of June.

Keval Khiroya - *Deutsche Bank*

Can I just follow up? Should we expect that number to accelerate as more people leave?

Ángel Vilá - *Chief Strategy and Finance Officer*

In 2017 the estimate we have is slightly lower than 2016. In 2018, around 650 million.

Luis Prota - *Morgan Stanley*

I have two questions on revenues in Spain and whether you expect revenues to continue growing in the third quarter and the fourth quarter taking into account two things. First, the lower wholesale revenues from football rights from August and also the new Fusión tariffs, whether in the medium term the value in terms of upselling and cross selling is obvious, whether in the short term you could have some kind of small dilutive impact?

And the second question is about the roaming contract with Yoigo that apparently is not going to be renewed following the acquisition by MasMovil. How are you seeing this impacting your revenues and EBITDA and from when please? Thank you.

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

In terms of revenues from Spain, do we see revenues growing ahead of us? Well, let me remind you that this quarter, is a quarter in which we don't have any price upgrade, and on top of that we are comparing with our same quarter of 2015 in which we had a price upgrade that was relatively significant. And therefore it is probably one of the toughest quarters in terms of comparison. And in spite of that, we have been able to grow service revenues, taking into account the fact as well that we have fully consolidated Digital Plus.

If you were to do an apple to apple comparison, we will be growing service revenue significantly in Spain in spite of not having the price upgrade. Now, take into consideration the fact that we have been doing a price upgrade in the first week of July of 2 euros for the basic offer and 5 euros to the second tranche. And therefore, we think that the third and fourth quarter should help us to keep going into this part of revenue recovery.

Also, if you add to the fact that the SME segment is starting to recover as well, and is therefore further contributing to revenue growth, I think that the overall picture for the Spanish business, as we see today, is even much sounder than a year ago, because we have been able to prove that we have upgraded the offer and at the same time kept the lowest level of churn. So, I do think that those trends are sustainable.

In terms of the wholesale revenues that you were mentioning, it is true that we have on one part lower wholesale revenues coming from the football rights, but it's also true that because of the price increase of that offer, we have some further contribution on that side. So, I think that the overall picture is probably going to be much more compensated that the one you were describing.

And finally on the roaming contract, we don't have any official statement coming from MasMovil and therefore I cannot answer you, but just to put it in context, it is EUR100 million of revenues out of a total of EUR 12.7 billion in Spain. So it's a relatively small issue. Having said that, we are still waiting for the final resolution on that.

Luis Prota - *Morgan Stanley*

Can I follow up on the first point? You don't see any major risk from those clients that previously were paying for football EUR25, and in total between EUR93 to EUR105 per month depending on whether they were in the 30 Mb or 300 Mb offer, now that you are offering everything except the best match of the week for EUR70 to EUR85, particularly the 85 price per month, and may be saying “I just missed the best match of the week and I am just sticking to EUR85”? Is that giving rise to some dilutive implications in the third quarter or fourth quarter?

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

Well two things. First, remember that it is true that we are putting eight matches on the basic package, but it is also true that that supply a much wider customer base than before, and therefore in terms of marginal revenue contribution it applies to a much larger customer base than before. Second, we have additionally the best match of the weekend.

Allow me to remind you as well that Fusión ARPU as the basic metric keeps growing 11.8% year-on-year, and that we have been adding a new mobile line on a new package and therefore we are adding also new mobile customers.

So, the answer is that overall we foresee revenue trends in Spain to keep going into the same direction. And in fact, the equation is going to be affecting also to OIBDA as I was trying to describe before. I think that during the third quarter, you will have all the effects already embedded, the new content cost, the new offer already in place and therefore, the new revenue transfer already in place, and the churn levels, once we have been upgraded the offer for the third time in less than 14 months.

So, overall, I can share with you that the picture that we see today of the Spanish market confirms the strategy that we were outlining in the previous two years.

Akhil Dattani - *JP Morgan*

Firstly, just a follow-up on the last few questions you had around the Spanish revenue outlook. If we just look at this much bigger picture and I obviously appreciate there's lots of differences between operators, the service revenue growth that we've seen reported by your Spanish peers has been in the mid-single digit range, which has obviously accelerated much more than we've seen from yourselves. Now, you mentioned the tougher comps you've had this quarter. Obviously your price increases are coming a little bit later, but as we look through into the second half of the year into next year, with all of these mix effects going forward, do you see some opportunities, start see that revenue difference converge or are there other structural differences we need to think about that make you feel that that's a very optimistic view?

And then the second point, I guess somewhat related to that is, there's been some commentary from some of the players in the Spanish market around Jazztel, and some of the aggressive offers they have got in the market. Maybe you could just give us a little bit of color in terms of what you think about that and to what extent that is or is not impacting, how you think about the competitive environment. Thanks a lot.

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

In terms of the comparison with our closer competitors here in Spain and their performance in terms of revenue growth, I think that this comparison needs to be made in the context of comparable basis and that has to do with the phasing of the offer upgrades that each of us have been doing.

Again, for us this quarter we are comparing with a previous quarter, in which we had a price upgrade and a value offer upgrade, and we don't have one this quarter. Our competitors have different phasing in terms of their offers and in terms of their upgrades. So, I think that that will be progressively normalized because the trend that we see in Spain is “more for more”, which means that ourselves, as the leader on the market, we are trying to show the path of data monetization in terms of capacity included in the offer, in terms of speed and symmetry of connection and therefore, we do not see a major structural difference going forward. Probably rather the opposite. We think that we are becoming again a value brand in Spain.

I think that the Jazztel brand has not repositioned much since it was acquired. I think that they are staying more aggressive than the rest, and in fact Vodafone has already been complaining around that. What we have been doing in our case is trying to match some of the attributes of the brand, preserving value differentiators. We have included a second mobile line in our Fusión offer and I think that that is going to help us to mitigate the impact of the aggressive Jazztel offer.

So, overall, to make a long answer short, I think that there is no reason why trends should be diverging. I think that the market is going to one direction and I think is the right one, because this is infrastructure-based competition in Spain.

It is a rational environment and I think that data monetization is going into the right direction.

And we are the market leaders and we are starting to be back again having the best brand perception around the Spanish competitors. So, we do not see a reason why we should be diverging from our competitors here.

James Ratzer - *New Street*

Two questions please. The first one just going back to some of the early questions around portfolio management seems like you talked about geographic review. Are there any specific other markets you might consider for disposal and could you confirm, would you consider selling down part of your stake in Telefonica Deutschland at all as a means of deleveraging?

And secondly, I was wondering if you could talk a little bit more about the trends you are currently seeing in Peru, where you've seen some service revenue weakness in the second quarter. Do you think that's a temporary effect or you are seeing a kind of structural increase in competition there? And you mentioned a reversal of a provision supporting EBITDA in the quarter, I was wondering if you could quantify that, please.

Ángel Vilá - *Chief Strategy and Finance Officer*

Hi, James, on portfolio management let me elaborate a bit:

First, I would like to talk about Telxius, which is something that we've been working a lot on. Telxius is a very attractive company, it's predictable and it's resilient. It's a company that enjoys long-term contracts mostly denominated in euros and dollars, so for instance, no GBP exposure. It has an attractive free cash flow yield at a time of low interest rates. The valuation of its comparables is going up. So, it's as defensive an asset as it gets and the right asset to hold in the current volatile times. So, on this one, as you would expect, we are monitoring market conditions and we'll be ready to move expeditiously.

Moving to geographies, the first that I would want to talk about is UK. As we have been saying, as José María was talking about, UK is performing well. It provides us with a great platform in a key and attractive market. We have decided to retain control of that business to realize its full potential. We have fully consolidated it back into our portfolio. This allows us to have better dividend coverage, to have a better debt service and improves our geographic exposure. So, we continue to explore alternatives for O2 UK while maintaining a control position. And as I said before, we are open to a minority divestment, be it in potential public flotation or potential private transaction. And we have several alternatives that we're considering and we are getting ready to act on that.

Regarding Telefonica Deutschland, we have no such intention to reduce our stake in Deutschland. Actually, we may increase our stake over time.

And regarding other geographies, as you know, we are always monitoring our portfolio of assets along two axis: one is revenue market share in a specific market, the other axis being operating cash flow margin and we try to get our businesses to the top right-hand part of these metrics. Therefore more share of operating cash flow, more share of value in the markets where we operate. And those businesses that we feel with the strategic plan or the business plan cannot move in such direction, they are candidates for some potential inorganic actions. So, I hope with this I have given you some color.

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

Taking the second part of your question around Peru, well, first let me answer that we have been having in Peru solid results in terms of the high value part of the customer layers, namely postpaid, smartphones and Pay TV. It is true that it has become a very, very intensive competitive environment. In Pay TV, we are growing 15% year-on-year, in fixed broadband, we are growing 6% year-on-year. In contract, we are growing 1% year-on-year and it is in prepay in which we have been declining 11% year-on-year.

The second quarter results on the mobile side are strongly affected by a MTR cut of more than 19% and that's why our revenues have been down 2.1%. If you were to exclude the regulatory effect, our revenues would have been growing 1.4% in the second quarter, versus a decline of 0.5% in the first quarter. We have been turning around the growth in our revenues in Peru if we were to exclude this regulatory effect.

On top of that, we have been having a very solid performance on the fixed business. It has been accelerating its growth to 4.2% in the quarter compared with 3.3% in the previous quarter.

And I'm afraid that we don't disclose the impact that you were mentioning so far, but overall and acknowledging that revenues have been declining minus 2.1%, keep in mind this regulatory effect, because without that our revenues would have grown 1.4%.

James Ratzer - *New Street*

Just quickly getting back to the Telefonica Deutschland comment, are you suggesting you might be willing to buy shares directly off KPN or did you have something else in mind there?

Ángel Vilá - *Chief Strategy and Finance Officer*

We may increase our stake over time buying shares, and these are bearer shares.

Dhananjay Mirchandani - *Bernstein*

This relates to Spain. You have pushed through a number of price increases in the Spanish market.

Firstly, so there are two parts to this question, typically you would observe 2 to 3 percentage points in incremental churn in the order of magnitude of price increases that you've pushed through. What sort of incremental churn rates have you observed on a hard well measured core basis?

The second question, mid-to-long-term under what pre-conditions would you expect the competition regulator to step in and declare joint dominance, in what effectively is a three-player market? Thank you very much.

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

Well, first in terms of churn increase. I am going to try to give you the exact number. Churn in the first quarter of this year was 1.3%, churn in the second quarter is 1.1% on Fusión overall. And remember that we had our first price upgrade during the first quarter of this year. So we have not being seeing any major impact on that so far. And as far as the July upgrade, we feel that we are in similar levels in spite of the fact that it's too soon to conclude.

So, we have not been seeing any major impact of the offer upgrades, because remember that this offer upgrade has been combined with much more value put in place. We are talking about putting more speed of access, 300 megabits symmetric speed, more capacity on the mobile side, a second mobile line, and 8 football matches on the basic offer.

So, we try to compensate the nominal ARPU uplift with significant value, and the customers are starting to appreciate the fact that they are taking more value. And thanks to that, we have been able to increase Fusion ARPU roughly 12% year-on-year with a level of churn that is below the one that we had a year ago. So we think the equation makes sense, it makes sense for the customer, it makes sense for us, it allows us to preserve margins and therefore we will be going into the same direction.

And in terms of the competition authorities, allow me to remind that in most places in Spain, you have at least three networks, which is not the case in other places, namely in the UK on the wireline side. I think that the regulatory strategy that Spain has been applying during the last five years have significant positive effects:

First, Spain is today the leader in Europe in ultrabroadband deployment, there is more Fibre-to-the Home in Spain than in any other market in Europe and we are the third country in the OECD.

And second, you have now three networks in Spain competing and you have a partial deregulation in the places where you have three networks, ex-post regulation in places where you have two networks and ex-ante regulation in places where you have one network. And in fact, the approach to wholesale pricing is on retail minus basis, not on a cost basis.

So, I think that the regulation put in place has allowed Spain to go into the right direction and to become the leader in the middle of the crisis, because remember that Spain has been doing that overall in the middle of the crisis and some of our competitors here have more fibre here than in their home country, which implies that they think this market is attractive with the current regulatory environment.

So, I think that probably Spain is a model in terms of regulation compared with other European countries.

Dhananjay Mirchandani - *Bernstein*

My question was specific to the price increases. I completely agree with your points around the structure of the market, but my question is at what point in time and under what circumstances do these price increases become a thorn in the eyes of the competition authorities, not the industry regulator?

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

It's already there, I'm sorry I didn't cover that part of the question. Remember that in our case, in our specific case, every single offer that we launch needs the specific ex-ante approval of the Competition Authority in Spain, because of the remedies that were imposed at the time of DTS acquisition.

And remember that so far in terms of price per megabit or price per gig, prices have been declining in Spain. We are putting much more value, much more speed for a little bit more of price. So Competition Authorities are already analysing every single offer and in fact we cannot launch any single offer without the previous ex-ante approval of the Competition Authority.

Jerry Dellis - *Jefferies*

In terms of Spain you are very clear that you expect to be able to deliver an expanded margin by the year end. But would do you anticipate proforma revenue growth including DTS, progressively strengthening through the second half as well, please?

And then in terms of the UK business, accepting your point that the operating trends that O2 has been reporting are certainly stronger than those that we see from Vodafone and EE, there remains the suspicion, supported by independent network tests, that O2's 4G network is perhaps not quite as good as that of EE. And somehow the cornerstone project with Vodafone might be a constraint on fixing network quality. I wondered if you could just talk about what you feel you need to do to the UK network in order to maintain the leadership of O2 in the UK and what constraints the network joint venture might place upon you?

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

In Spain, we have said that we think that the cost initiatives that we are taking in order to take down cost will more than compensate the extra cost of the content acquisition, and we stick to that. And in terms of revenues, we stick to the fact that we see growing revenues in Spain including everything. Take into account also the fact that handset revenues in Spain have been significantly declining. So in terms of service revenues in Spain, we are already growing in organic terms proforma with DTS in this first half of the year and we think that this trend will continue throughout this year.

In terms of the UK, we have the best brand perception including the network effect. O2 have the greatest improved indoor coverage over the last 12 months and we continue to build on that, and at the end of June outdoor coverage is already at 91%.

According to some surveys, the fact is that we have won the best coverage award in the last two years voted by customers. So the perception that the customers have on the overall brand is that O2 has the overall best service in the UK. In spite of that, we aim to preserve that attribute and therefore we'll continue, and we do not feel that our joint venture with Vodafone is refraining us from going to that direction. And in fact we're having very positive conversations with Vodafone on that front, because we both share the same interests.

So first, we feel that we are leading, because the customers feel that we are leading, and we are the only operator that has committed to deliver 98% 4G coverage by 2017, including the cornerstone, or Beacon, agreement. And, we do not feel that we are at a disadvantage; we feel that we are aligned with Vodafone on that interest and, overall, the perception that our customers have is that we have the best brand and the best service in the UK.

David Wright - *BofAML*

CapEx to sales for O2 UK stepped up to 13%, which is the highest now for 12 quarters and looks like one of the highest spends historically. So you have increased investment a little. Is that anything intentional and is that a new level we should now be using as a benchmark?

And just back to the whole of Spain content monetization, I did notice some of the low Fusión net addition print very similar to Q1, which I think you admitted at the time was slightly impacted by low promotions, but you have been promoting in Q2 and still the Fusión adds seem to be structurally lower. Is that the kind of level we should now be rolling forward (50-60,000), when you used to do sort of 150,000? And on that basis, given you're raising ARPU, is there even any incremental risk to that?

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

In terms of the CapEx on the UK, continuing investment remains a very important part of our strategy in the UK, as we are rolling out 4G at the fastest ever rate for the UK and especially after the failed merger. We intend to continue to invest efficiently in order to preserve this attribute of having the best brand perception and in fact I would stress that we are the only operator to have committed to this 98% 4G coverage in 2017. So, yes, you should expect for us to speed up in 4G, because we are seeing profitable growth ahead of us, but when I was making my comments about the CapEx intensity of the Group going forward, we were already acknowledging this impact of the UK situation.

Overall, we think it's worth preserving that value, because we have been having a good commercial reaction and we keep adding differential value customers to our customer base.

And in the case of Spain, the net adds in the quarter were a little bit lower because we have fewer gross adds. But we have an improved churn and that has helped to have a better churn level. We have been having some promotions but not structural promotions. And again, remember that the second quarter has a seasonality effect derived from the fact that after the end of the football championship there is seasonality. Once we have been putting in place our new offering in July, in the first week of July, we are starting to notice more traction. The new offering includes not just more football rights on the basic offer for EUR2 more but also a second mobile line, and thanks to that we are re having better commercial traction in the most recent weeks. So I think that by the third quarter you will have more colour of the impact of the new offer. But so far trends are going into the right direction.

José María Álvarez-Pallete - *Chairman and Chief Executive Officer*

Thank you very much for your participation and we certainly do hope that we have provided some useful insights for you. Should you still have further questions we kindly ask you to contact our Investor Relations Department. Good afternoon and for those of you leaving for holiday soon we wish you enjoy your summer break. Thank you.