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Introduction

Pablo Egirón – Global Director of Investor Relations

Good morning, and welcome to Telefónica’s conference call to discuss January-September 2020 results. I am Pablo Egirón, Global Director of Investor Relations.

Before proceeding, let me mention that the financial information contained in this document related to the third quarter 2020 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. These statements may include financial or operating forecasts and estimates or statements regarding plans, objectives and expectations regarding different matters. All forward-looking statements involve risks and uncertainties including risks relating to the effect of the COVID-19 pandemic, that could cause the final developments and results to materially differ from those expressed or implied by such statements.

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 or London. Now let me turn the call over to our Chief Operating Officer, Ángel Vilá.

Ángel Vila – Chief Operating Officer

Presentation

Q3 2020 in nutshell

Thank you Pablo. Good morning and welcome to Telefónica’s third quarter results conference call, today with me is Laura Abasolo, our Chief Financial and Control Officer. As usual, we will first walk you through the slides and we will then be happy to take any questions you may have.

Let me start with the main highlights of our third quarter results.

First, we had a very strong commercial activity in the quarter all across the board, with significantly improved trends versus Q2, including best FBB net adds in Spain since Q3 18, record FTTH connections and the highest prepaid net adds in years in Brazil, and a historic low churn in Germany.

Among, our core four markets, Spain showed better trends at both the ARPU, revenue and OIBDA levels, with a remarkable commercial traction despite competition noise; Germany outperformed its market, once the quality network gap has been reduced; in the UK we are progressing with the regulatory approval for being the National Connectivity Champion, whilst in Brazil, where again we registered multi-year record commercial activity, FCF grew double digit in euro terms, despite the currency depreciation.

Second, we advanced on technological leadership in infrastructure and digitalization. As such, 5G is already live in our four core markets and fibre continued to expand.

Third, we accelerated the carve-outs of high growth Tech vehicles.
Another remarkable highlight, our FCF during the quarter was outstanding at 1.6 billion euros, +13% year-on-year and 0.3 euros per share. In the January-September period, it totaled 2.8 billion euros or 0.53 euros per share.

Fifth, net debt continued to be reduced, liquidity cushion has surpassed the 22 billion euros mark whilst net debt maturities now stand at just 1.9 billion euros for the 2020-2022 period.

Finally, we are proposing to the next AGM the cancellation of 1.5% of treasury shares.

Progress against our 5 strategic pillars during Q3 2020

Moving to slide 3, let me explained the progress we continued to make across our 5 strategic pillars in Q3.

First, looking at our four core markets:

In Spain, we launched 5G services with the aim of reaching 75% coverage nationwide by year end. We also posted further recovery in commercial activity with controlled churn and margin expansion and continue to demonstrated our fibre leadership, with 795 thousand new premises passed in Q3, to reach 24.4 million.

In Germany, we signed an early extension of our agreement with DT, including FTTH, and we launched 5G services in key cities.

In the UK we are progressing in in-market convergent consolidation, our O2/VMED joint venture formally requested EU approval and the 5.7 billion pounds recapitalisation process was completed. It also worth highlighting the growth of the customer base in UK across all segments of the business.

In Brazil, we progressed with the joint offer for Oi, being now the “preferred bidder”. Meanwhile, we launched 5G in July while maintaining our leadership in FTTH, increasing the number of homes passed in Q3 by 1.5m to 14.6 million.

Second, in Hispam, we filed for regulatory approval of the Costa Rica sale to LLA and we continue to evaluate all available options for reducing our portfolio exposure in the region.

Third, Telefonica Tech’s three companies, Cybersecurity, Cloud and Big Data/IoT are now established, integrated and fully operational. Two acquisitions have been made to build out our capabilities in the Cyber arena – Govertis, a consultancy, and iHackLabs, a professional training business.

Fourth, at Telefónica Infra we have announced a JV with Allianz in Germany to develop fibre in underserved areas while we expanded Telxius towers portfolio through the German deal.

And Fifth, we signed a MOU with Rakuten on OpenRAN, a new step in our journey towards a “virtualized” networks model. In addition, our new operational model continued to improve our agility, deliver benefits from digitalization and helped us to identify further efficiencies, with OIBDA-CapEx margin in Q3 expanding 0.7 percentage points year-on-year in organic terms.

Revenue performance

Moving to results, let me highlight that we are managing our business to mitigate COVID-19 impacts.

On this slide, we can see revenue reconciliation between reported and organic year-on-year variations.

From January to September, reported revenues declined by 10.7%, which translates into a 3.7% organic drop after stripping out 5.9 percentage points of forex and 1.0 percentage point from changes in the consolidation perimeter and other effects. In our four core markets, the decline was limited to -2.5%. And the impact of COVID-19 was a drag of 3.9 percentage points year-on-year.

During the third quarter, reported revenues declined by 12.1%, which after excluding 8.1 percentage points from forex and changes in the perimeter and other factors led to a decrease of 4.3% organically, improving from the - 5.6% posted in Q2. COVID-19 dragged 4.9 percentage points year-on-year. Moreover, the decline in our four core markets is limited to -3.9% year-on-year.
OIBDA performance

Looking at slide 5 we show OIBDA reconciliation.

In the first nine months of 2020, reported OIBDA declined 15%, forex impacted in 7.0 percentage points while changes in the perimeter and others dragged 1.1 percentage points, as such reducing the organic decline to 6.7%. This decline is limited to 3.1% in our four core markets with a COVID-19 negative impact of 5.2 percentage points.

In the third quarter, reported OIBDA decreased by 2.8%. Stripping out Forex negative impact of 13 percentage points and adjusting 18.5 percentage points of other impacts, mainly restructuring costs booked in Q3 19, capital gains and impairments, we posted an organic decline of 8.3%, improving from the -10% posted in Q2. It is worth highlighting that the COVID-19 impacted growth by 6.8 percentage points y-o-y. In our four core markets, the rate of decline in OIBDA was -3.3%.

Strong cash flow generation; robust operating leverage

Moving to slide 6, we show the very strong cash flow generation, reflected in both OIBDA-CapEx and free cash flow per share metrics.

Our strong focus on profitability stands out with the 5.7 billion euros OIBDA-CapEx generated in January to September 2020, significantly above the figure of the same period of 2019 including spectrum. OIBDA-CapEx declined by 1.8% organically but grew by 3.4% year-on-year in organic terms in our four core markets.

Free cash flow per share increased to 0.3 euros in Q3, reaching 0.53 euros per share in the first nine months of the year, more than covering the 0.40 euros dividend to be paid in 2020. The result of all this is sequential growth in Free Cash Flow to 1.6 billion euros in the quarter, +13.2% year-on-year, including mid-to-high teens growth in Brazil’s FCF even in EUR terms.

Financial update

Our financial update for the quarter on slide 7 clearly shows the significant impact of COVID-19 and currency depreciation on the reported figures. These impacts are detailed at the bottom of the slide and we will explain them in more detail later on. OIBDA was also impacted by an impairment allocated to Argentina (785 million euros) and by restructuring costs in Q3 19, including 1.7 billion euros in Spain.

Revenues reached 10.5 billion euros in Q3 20 and reported OIBDA decreased by 2.8%,

Our continuing focus on cost and CapEx management enabled us to restrict the year-on-year decline in organic OIBDA-Capex to just 0.8% in Q3 at group level while growing it significantly at 5.2% in our four core markets.

Net income reached 671 million euros and surpassed the 2 billion euros for the 9M 20 on an underlying basis, resulting in EPS of 0.36 euros for the 9M on the same basis.

FCF expanded sequentially to 1.6 billion euros and grew 13.2% year-on-year in Q3 2020, with FCF per share at 0.30 euros in the quarter.

Net financial debt declined a further 525 million euros in Q3 to 36.7 billion euros, down 4% versus September 2019.

Improved revenue trends in Q3

Moving to the next slide

Revenue performance improved sequentially year-on-year in Q3 20, up by 1.4 percentage points, led by both service and handset revenues and by Hispam.
Across our four core markets the decline was limited to 3.9% in Q3. This accounted for a negative contribution from the UK, primarily as a result from roaming, handset release delays together with the increase in higher margin direct distribution impacting revenue recognition. Despite these short term UK impacts, I would like to remark the better trends seen in Brazil and Spain, and the strength in Germany.

We are continuing to transform our revenue mix, with revenues from broadband and services beyond connectivity increasing by 5 percentage points year-on-year to 68% of total service revenue in the quarter. Meanwhile Telefónica Tech services delivered double digit revenue growth year-on-year vs. 9M 19.

**Solid sequential improvement in OIBDA and OIBDA-CapEx**

On the next slide we show also the improved trends in both OIBDA and OIBDA-Capex, optimizing our cash flow generation.

As such, OIBDA improved quarter-on-quarter by 3.3 percentage points in Q3, led by Spain on the back of better content costs, Germany coming back to growth, and improvements in the UK and Brazil.

OIBDA-Capex posted a significantly improved trend, growing by 5.2% year-on-year in Q3 and 1.9% in Q2, driven by the performance in Germany, Brazil and the UK.

This strong cash conversion is also shown in the OIBDA-CapEx margin, which expanded organically by 2.1 percentage points year-on-year in Q3, driven by an outstanding performance from Brazil, followed by the UK and Germany and a flattish trend in Spain in the quarter. I would like to highlight however that Spain retains a benchmark OIBDA-CapEx margin of 29.7%.

**COVID-19 impacts | Steady improvement vs. Q2 2020**

Moving to slide 10, our breakdown of the COVID-19 impacts by quarter and business line show a clear improvement versus the second quarter.

At the revenue level, this was due to better handset sales, supported by store re-openings across our different geographies. B2C continued to be pressured by discounts, promotions, and challenging trading conditions in postpaid, along with delays in closing new businesses. In B2B, discounts on renegotiations, project delays and lower demand from SMEs combined to deliver the negative impact seen. The quarter suffered significant impact on roaming.

Despite these negative impacts, we continue to implement significant cost containment measures, with lower commercial expenses and bad debts improving, among other initiatives.

At the same time, the crisis has allowed us to improve customer engagement based on our network’s reliability, with churn declining 0.3 and 0.1 percentage points year-on-year and quarter-on-quarter, respectively. We have also accelerated digitalisation, with sales via digital channels increasing 36% year-on-year in our four core markets in Q3. On top of all this, demand for cloud and cyber services has increased significantly.

**Confirming FY 2020 dividend and outlook**

As a result, on slide 11, we confirm our 2020 dividend of 0.4 euros per share, with a first tranche of 0.2 euros to be paid in December through voluntary scrip dividend, and the second tranche in June 2021.

Regarding treasury stock, the adoption of the corresponding corporate resolutions will be proposed to the AGM for the cancellation of the shares representing 1.5% of the share capital held as treasury stock.

We maintain our 2020 outlook, confirming our guidance of slightly negative to flat year-on-year organic OIBDA minus CapEx, as we continue to manage our cost base and operational flexibility without jeopardizing our investment priorities. Moreover, we will continue monitoring and adapting to COVID-19 related restrictions to mitigate their impacts on the business.
I will now hand over to Laura to take you with more detail through the Group results.

Laura Abasolo - Chief Financial and Control Officer

Q3 20 Group results

Spain | Sound recovery in commercial activity

Moving to slide 12,

Telefónica Spain consolidated the recovery trend in net adds amid a very competitive environment in Q3 20.

A superior, competitive and segmented offering continue to drive a growth in number of accesses. Recording the highest FBB net adds since Q3 18 and positive convergent net adds, with fibre net adds in the quarter exceeding 100k, taking fibre penetration to 76% of the retail broadband base and 67% of the wholesale base.

Our highest value TV convergent offering also performed well, posting positive net adds. However, the total Pay TV base fell due to a decline in lower value TV accesses (including Movistar+ Lite, OTT service, following a large, temporary increase in the base in Q2 due to COVID-19 related confinement when we added 57k accesses).

Our convergent customer base one again proved particularly resilient in the quarter. Quarterly churn reduced y-o-y to 1.5% despite the usual promotions in this period, while ARPU improved quarter-on-quarter despite the comparison base toughening due to the Q3 19 price upgrade, and excluding the COVID-19 impact it would even grown year-on-year.

T Spain continued to be at the forefront of the sector in Spain. Our FTTH network reached 24,4m premises passed with a 29% uptake, the 5G network was switched-on in the quarter with the aim of achieving 75% coverage by year end and innovative services recently launched will further enhance differentiation.

Spain | Sequential improvement in revenue and OIBDA

On slide 13,

While T. Spain results continued to be impacted by COVID-19 in Q3, year-on-year financial performance showed clear improvement vs Q2; with the y-o-y revenue decline improving +0.9 percentage points, despite an unfavourable comparison generated by the July 2019 convergent tariff increase and a reduction in roaming.

The OIBDA margin was close to 42% in Q3, as the year-on-year OIBDA trend improved by 4.1 p.p. sequentially driven by better revenue performance, lower content costs, lower roaming costs, and personnel efficiencies.

With regard to content, it is worth highlighting that for the first time the new cycle of football rights will not mean a y-o-y increase in net costs. It will be flat for the 2020/21 season and lower from the next season.

The y-o-y decline in CapEx decelerated in line with increased commercial activity in the quarter, while our strong cash generation was reflected in a record high OIBDA - CapEx/Revenue ratio of nearly 30%.

Germany | Solid commercial performance and financials

Moving to slide 14,

Telefónica Deutschland achieved solid financial results in the COVID-19 environment, with trading dynamics recovering to close to pre-pandemic levels and O2 churn reaching historic lows at 1.0%.

Revenues grew by 0.4% year-on-year supported by the strong performance of the O2 Free portfolio, whilst OIBDA returned to growth, increasing +0.7% year-on-year in Q3 supported by enhanced cost efficiencies. CapEx
decreased by 7.1% due to more back-end loaded deployment in 2020 and adapted phasing within the existing investment programme.

As such, OIBDA-CapEx increased by 12.5% year-on-year in the quarter and by 4.0% in the first nine months.

It is worth highlighting the launch of the 5G network, which is now operational in 15 cities, targeting over 30% population coverage by the end of 2021 and around 50% coverage by the end of 2022.

UK | #1 network in the UK
Moving to the UK on slide 15, we continue to be UK’s number 1 network, now with over 35 million mobile customers and market leading loyalty and NPS.

Looking at the financial performance, revenue declined by 9.5% in the third quarter primarily due to roaming, SMIP, the iPhone 12 launch delay, together with an increase in higher margin direct distribution impacting revenue recognition.

OIBDA declined by 4.5% in Q3, with OIBDA-Capex growing by 3.7% year-on-year in the quarter demonstrating OpEx discipline as well as CapEx flexibility and focus on growth areas.

Brazil | Significantly improved performance across the board
Let’s now move to the performance of our Brazilian operations on slide 16.

A strong commercial recovery was seen in Q3 in all growth segments, once most restrictions were lifted. Vivo ended the quarter with record mobile market share, driven by the highest prepaid net adds and lowest contract churn seen in years:

Contract net adds are back to pre-COVID-19 levels with a benchmark churn of 1.2%, down 0.7 percentage points year-on-year.

In prepaid, nets adds reached the highest level of the last 8 years, indicating a strong commercial recovery.

In fixed, the Company continues to capture the huge fibre opportunity, with a record level of FTTH connections in the quarter. Additionally, recent agreements with Phoenix and the option to create a Neutral Fibre Vehicle will further strengthen our vehicle.

FCF grew by 50% year-on-year in 9M 20 in local currency, and by mid to high teens in EUR terms.

Looking at our financial performance, we delivered outstanding OIBDA-Capex growth of 22.2%, with margin expansion of 5 p.p. in Q3 20. This outstanding result was supported by our continuing focus on driving OpEx efficiencies and optimizing capital allocation, of which 70% was dedicated to growth areas.

Infra| Expanding Telxius’ towers portfolio
Moving now to slide 17, T. Infra continued to deliver a solid performance during Q3, demonstrating the robustness and resilience of its business model.

Continued progress was made on the strategic front, and in Q3 Telxius executed the first tranche of its acquisition of sites from T. Deutschland, adding approximately 6,000 sites to its portfolio, which is expected to reach 33,000 sites once the deal is completed.

On the operational front, the total number of sites increased 46.7% year on year while tenants rose 38.5% year on year.

It is worth highlighting the positive performance in the Tower business, with both Revenues and OIBDA growth accelerating to +20.2% and +18.1%, respectively, driven primarily by higher colocation revenues and acquisitions. This positive performance saw Telefonica Infra’s Revenues grow 2.1% and OIBDA 0.3% in the quarter, despite
the negative impacts from contract extensions in Cable. The OIBDA-CapEx / Revenue ratio excluding M&A CapEx from inorganic operations stood at 51.2% for the first 9 months of the year.

**Tech | Essential services driving growth**

On slide 18 we can see that Telefónica Tech has continued to make significant progress. Its Tech companies are already up and running, with the first phase of transfer of Cybersecurity, Cloud and IoT/Big Data assets completed.

Telefónica Tech services continued to exhibit sustained double-digit growth rates, with revenues up 15.4% y-o-y in 9M 20.

Going forward, Telefónica Tech is expected to continue outperforming, underpinned by its critical role amid accelerating digitalization during the Covid-19 crisis, and by the strengthening of its capabilities. Bolstered by recent acquisitions, we are now able to combine our integration and consultancy capabilities, with our Managed services, to provide customers with a complete end to end service.

- In Cloud, our Multicloud services for enterprises of all sizes were the key driver of 23% y-o-y growth in revenues in 9M 20, as we establish ourselves a trusted partner for migration to the Cloud.
- In Cybersecurity, we are combining our in-house solutions and security operations centres with the very best partners, to provide security as a service for all steps of the digital transformation. With the acquisitions made during the period we have added new consulting and training skills, further strengthening our offering, and with Telefonica Tech Ventures, we aim to detect disruptive innovation particularly in cybersecurity start-ups.
- In IoT and Big Data, we are developing Internet of Things for different sectors, where our unique value proposition transforms raw data into valuable, actionable information, and our new "COVID Compliant" use cases are helping businesses identify the requirements necessary for business recovery in the new environment.

**Hispam | Marked commercial recovery**

Turning to Hispam on slide 19,

We saw robust commercial activity in Q3, surpassing pre-COVID-19 levels as contract net adds almost doubled versus Q3 19 and fibre to the home connections maintained a clear upward trend.

In terms of financials, revenues showed a pronounced year-on-year improvement compared to the previous quarter, with revenues decreasing -6% year-on-year, versus -11% in Q2.

OIBDA was impacted by temporary duplicated network costs in Mexico, where more savings are expected from 2021 onwards as the benefits of new operational model flow through. Excluding this effect, the year-on-year OIBDA trend would otherwise be stable versus the previous quarter, despite strong commercial activity and tough comps.

And OIBDA-CapEx improved 2% year-on-year in the quarter, again reflecting increasing synergies and efficiencies at both the OpEx and CapEx levels.

**FX headwinds | Neutralised at FCF level**

Moving to slide 20, we review in detail how FX movements are impacting our results, while again proving how currency headwinds are structurally neutralized at the Free Cash Flow level through our effective hedging strategy.

The negative FX impact increased in Q3 20 mainly due to the depreciation of the Brazilian real vs. the euro. It acted as a 8.1 percentage point drag on revenues year-on-year and reduced OIBDA by 13.0 percentage points.

For the first nine months, the negative contribution was lower at 5.9 and 7.0 percentage points, respectively.
Nevertheless, the negative effect of 809 million euros at OIBDA level translated into just a 300 million euros impact at FCF level.

And in terms of net debt, this had a positive impact of 1.2 billion euros for the first nine months or 2.1 billion euros on a net debt plus leases basis.

**Debt | Ongoing debt reduction**

As shown on slide 21, our net debt reduced to €36.7bn at the end of September 2020. In the last nine months we have reduced net debt by €1.1bn, mainly due to a resilient free cash flow generation that reached 2.8 billion euros for the period. This performance comfortably exceeds dividends, hybrid coupons and commitments while helping to bring down net debt.

We remain focused on net debt reduction as demonstrated by our decision to offer a voluntary scrip dividend payment, which reduced our cash outflows by more than 600 million euros in the first tranche paid in July.

**Strong liquidity position coupled with smoother maturity profile and lower financial payments**

Slide 22 presents Telefónica’s ample and diversified financing activity totaling 16.7 billion euros year-to-date. Of this, €6.3bn relates to the Virgin Media O2UK financing we successfully closed at the beginning of September.

At the Group level, Telefónica’s financing activity amounts to €10.4bn and contributes to both an extension of our average debt life at close to 11 years and a robust liquidity position of more than 22 billion euros. This position exceeds debt maturities beyond 2022. In addition, including UK cash-in related with O2/VMED deal, net debt maturities will be 1.9 billion euros from now to 2022.

Telefónica’s financing activity has been executed at historical low interest rates and has allowed us to lower our interest payments effective cost to 3.15% as of September 2020.

I will now hand back to Ángel to close.

**Ángel Vila – Chief Operating Officer**

**Fully committed to ESG excellence**

Thank you Laura,

Slide number 23 shows the growing importance of ESG in the post COVID-19 era and our full commitment.

Digitalisation is one the most important pillars to tackle climate change, it will enable other sectors to reduce their carbon emissions. But we have to advance digitalization with the most efficient networks in terms of energy and emissions. We announce therefore a new objective to increase the ambition, because climate crisis is urgent. We will become net zero by 2025, reducing our emissions and compensating the remaining ones.

We will become more and more relevant for our customers in this topic. For example, Telefónica’s B2B customers in Spain avoided GHG emissions through our digital services and avoided 2.2 million tons of CO2 during the first 3 months of the pandemic.

Telefónica has been recognized for the success of its initiatives in this area. We have been Awarded the ‘Sustainable Procurement Award’ at the Amazon Business Exchange for promoting sustainability in our supply chain. And we are the one of the top 25 most diverse and inclusive companies in the world, according to Refinitiv, which ranks over 450 environmental, social and governance metrics for more than 9,000 listed companies.
Finally, our sustainability strategy is reinforced by our inclusion in the FTSE4 good sustainability Index, with an improved score of 4.3, exceeding the sector average, and by our entry into Moody’s Euronext Vigeo-Eiris Europe 120.

All in all our role is becoming more and more important for the societies where we operate, we are a key component of the solution for the recovery of the economy and the digital transformation of the society.

Wrap-up | Sustainable long-term business strategy

To recap, we are continuing to act decisively and execute rapidly to deliver our sustainable long-term business strategy:

- First, we are providing ongoing support to all stakeholders to contribute to economic recovery.
- Second, we have proven our business’s resilience in the face of COVID-19, FX and GDP headwinds, delivering improved financial and operational trends and maintaining investment in strategic growth areas.
- Third, we are delivering progress on our strategic priorities across all fronts
- Fourth, we are taking a proactive approach to balance sheet management, with a continued contribution to net debt reduction.
- And finally, we are reiterating our full year guidance and dividend for 2020.

Thank you very much for listening. We are now ready to take your questions.

Q&A Session

Georgios Ierodiaconou – Citigroup

The first one is around the agreement you announced with Allianz today. I’ll be curious to understand some of the motivations behind you engaging in this agreement and also whether there are other similar options you may be looking at either in Germany or in other markets? I know you have some type of agreements in Brazil, but whether you plan to expand them beyond these two markets.

And the second question kind of linked to that. So far, your agreements seem to be more oriented towards rolling out new infrastructure. I was curious whether looking at your fixed line infrastructure in Spain, in Brazil and in some of the other markets you see an opportunity perhaps to monetize some of the existing fibre that you own.

Ángel Vilá – Chief Operating Officer

Thank you, Georgios, for your question. This morning, we have announced a 50/50 joint venture with Allianz in Germany. We believe that there is a massive opportunity for FTTH in that market because the penetration is low, there are programs to grow on fibre through different players, but there is a big opportunity. We are doing this with a pure wholesale approach. It would be a neutral vehicle open to all the players in the market. It has been structured in such a way that it will not be consolidated by either Allianz or ourselves. It is ring-fenced, both from an accounting and from a rating point of view.

We are approaching this as a complementary access to fixed broadband to the different vehicles or agreements that T. Deutschland has. We have extended the agreement with Deutsche Telekom, accessing also fibre to the home. We have an exclusive agreement with Vodafone to access their cable. We have an agreement with Tele Columbus and now T. Deutschland is going to be anchor client, shareholder and also supplier of some services to this new FiberCo.
Clearly, our objective is to be complementary to other fibre vehicles in Germany to avoid overbuild in the country to maximize the take and we are aiming to have a project with a very substantial IRR. And we saw last year the valuation at which Deutsche Glasfaser was valued in that market.

We are looking at similar, although a little bit different projects in other markets in Brazil and in Chile. In Brazil, we are quite progressed. We are in round two of offers for a FibreCo, which, unlike Germany which is pure greenfield, in Brazil, we have a brownfield component plus a greenfield build-out to reach. In Germany, it is going to be slightly over 2 million fibre home passed. In Brazil, we’re aiming for above 5m, including the initial contribution of brownfield plus the build-out of greenfield. That second project is progressing nicely, we have interested parties in the second round, as I said. And in Chile, we are also in the process of bringing potentially investors into the fibre vehicle.

Regarding the fibre that we have in Spain, it is a different situation. In Spain, we don’t have the under-penetration that we have in other markets. It’s a very well penetrated market in fibre, actually the leader in Europe. There are very active commercial agreements in place to wholesale that fibre. It is regulated, but also there are commercial agreements with all the players in the market for access to that. Clearly, it’s a very valuable and very well-developed FibreCo or fibre presence in the country. It gives us lots of optionality, but it’s a different situation from markets where the fibre is not as developed as in Spain.

**Jakob Bluestone – Credit Suisse**

Firstly, your working capital was minus €764m in the first 9 months compared to positive €482m in the first 9 months last year, so kind of a swing of about €1bn. Can you maybe just help us understand why working capital is such a big drag? And I don’t know if you can give any guidance either for the year or sort of how you see that evolving?

The second question is on your net debt. If I look in the release on page 14, you disclosed that your net debt includes a positive value of a derivatives portfolio with a net value of about €2.2bn. Last quarter, that was about €4bn. And so, can you help us understand why did the derivatives portfolio fall in value by about €2bn? And am I correct that your net debt would have been €2bn lower if that hadn’t happened? So, maybe if you can just help us understand what is going on with this derivatives portfolio?

**Laura Abasolo - Chief Financial and Control Officer**

Thank you, Jakob, for the questions. The working capital, not only for this Q, but also for the full 2020 vs. 2019 is going to be very much affected by the deferred payments of the German spectrum acquired in 2019. If you recall, we accounted everything in CapEx. However, the payment itself is going to be deferred in more than ten years. So that’s affecting the whole working capital comparison this year. If you exclude that, it’s actually lower consumption. In Q3 20 vs. Q3 19, it’s pretty much stable, slightly lower. And if you look at the 9M, there’s lower consumption.

So, we keep managing working capital very well with CapEx phasing. I mean, there are restructuring playing negative because we accounted for it in 2019, and we are paying it now. But on the other side, some of the one-offs that were executed Q4 last year are being cashed now. And then you have all the timing of the multiyear contracts, mainly wholesale contracts and AT&T in Mexico is working negatively, but it’s very, very much affected by the German spectrum.

Therefore, similar consumption in Q3 and a little bit more favourable for the first nine months of the year. So, nothing different on that front, once you take the spectrum of Germany out.

On the net debt, we did some changes in the way we are accounting for mark-to-market of derivatives last year. And we disclosed that in detail, and the Investor Relations team can explain you. But what we did precisely is that this will not impact our net debt evolution. Much of these mark-to-market changes have to do with the debt we have in dollars, because we have derivatives to move from variable to fixed, and then we also have derivatives to hedge for the U.S. dollar vs euro. So, you have very, very large movements. They do not have a cash impact...
and, at the end of the derivatives life, it will become neutral, and we actually excluded it from the net debt to avoid all that volatility. We can give you more detail on that, but your net debt evolution y-o-y has nothing to do with this.

Joshua Mills - Exane BNP Paribas

Two from my side. The first on Spain, specifically the EBITDA. So, you refer in the press release to lower content costs, which I think may be related to some rebates from your content spend earlier in the year. Could you quantify how much lower the content costs were in Q3? And then also let us know if that’s going to continue into Q4, just so that we can think about modelling that out would be very helpful.

And then the second question on the fibre to the home business in Germany. What kind of take-up rates or network utilization do you anticipate in the 2 million homes you’ll be rolling out to? And have you already started to have active discussions with other wholesale operators in the market outside of Telefonica Deutschland?

Ángel Vilá – Chief Operating Officer

Thank you for the questions. As you saw and we had anticipated to the market, the OIBDA margin of our Spanish operation has reached 41.8%, higher than it was in the first half of the year, and we expect as well the OIBDA margin of the second half of the year to continue to be higher than the one of the first half.

This is the result of an OpEx year-on-year decrease despite the activation of commercial costs, thanks to efficiency measures and thanks to better evolution of the TV content.

Personnel cost was down high single digit in the year, same savings from the personnel reduction program as in Q2. Supply cost was down low single digit on lower content costs, Commercial costs were stable on back to normalized activity.

Content costs will reach stability year-on-year in Q4 once all the contents are comparable year-on-year. We have full Liga and European competitions with deflation starting from next season. So, you will see stability in content cost and deflation from next year. It is true that in the first half of the year, we ended up having fewer content that we originally had contracted for; this applies to some of the sports right we exploit. The figures are not public, but yes, we can confirm that some savings were generated over the third quarter based on this lower content that we had over the year.

So, going forward, and in specific regarding sports content, stability for the rest of the current sports season and decline from the current next season when the new Champions League cycle, which we achieved with a 15% deflation, will kick-in into our figures.

Regarding the FiberCo co in Germany, we are aiming, and there will be a period of build-out to reach this in excess of 2 million homes, to be very complementary to the deployments of other players in the market. So, we are addressing underserved, non-urban but affluent regions in Germany.

As such, I cannot disclose the targets that we have of take-up, but I can tell you that we’re aiming for those targets to be quite positive in our projections.

Joshua Mills - Exane BNP Paribas

So, there will be no further content compensation in Q4, have they all been booked in Q3 in Spain?

Ángel Vilá – Chief Operating Officer

We have had content savings in Q3. Depends on the evolution of the situations. In the spring we had a lockdown, a closure of many of the social venues that were displaying sports content to their patrons. Many of those are
back. A huge percentage of those are back because we have had soccer season all over the summer. The new wave could result potentially in some of those social venues having some restriction. And then we could have adjustments also in the costs to deliver to those as well.

So, the situation is fluid. We have booked savings in the Q3. Depending on how the situation evolves, and the evolution of the different sports going forward, we may see those in the future. Those are not factored at this moment in our outlook for the rest of the year in Spain, which, again, we are looking forward to having a higher OIBDA margin in the second half than in the first half. If those additional content savings were to be produced, they would be incremental to this outlook.

Keval Khiroya - Deutsche Bank

I’ve got two questions, please.

So first on CapEx, you’ve obviously made impressive reductions in CapEx this year helping you at the free cash flow level. As we look in the coming quarters and next year, you’re going to start to push more into 5G as well, how should we think about how the capital intensity should evolve at the group level?

And secondly, just within the “Other companies and eliminations” line on EBITDA, obviously, it’s a bit more difficult for us to have a clear view on where that should be. Could you help us get an idea of how we should think about how large that negative number should be going forward?

Ángel Vilá – Chief Operating Officer

Thank you, Keval.

On CapEx, we had the 2020 CapEx embedded in our guidance which envisaged CapEx growth in certain markets. Given the situation created by COVID-19, we are offsetting some of the impact, clearly via OpEx efficiencies, but also via lower CapEx to preserve operating cash flow, and aim for the outlook for the year of slightly negative to flat operating cash flow (OIBDA-CapEx).

CapEx spend and pressure has been reduced. Some rollouts were impacted by lockdowns, some related provision in portability, temporary in some markets, some deployment speed have been delayed. And clearly, there was delay on spectrum auctions that also had some coverage and maintenance work that was postponed.

We are actively managing CapEx to adjust to the new economic context and perspectives. We are reprioritizing our most profitable investments and considering the competitive situation in every market. But all of these without impacting the network’s quality and reliability, without jeopardizing our key investment priorities and fully meeting the network coverage obligations. And, for instance, we have launched 5G already in our 4 core markets, and we are achieving record fibre to the home deployments and connections all over the footprint.

It’s early to quantify the details, some CapEx, maybe, will have been delayed to 2021, but clearly, some other CapEx efficiencies are going to be permanent and are not going to imply catch-up in 2021. For the rest of 2020, what I can confirm is that we fully stand by the outlook that we have given to the market on operating cash flow evolution. And this should not imply any CapEx shoot-up on the period.

And for next year, we will give the guidance when we present the full year results. But again, many of the CapEx efficiencies, due to reprioritization, and reducing the investment in legacies and so on are here to stay. Those would not be spilling over to next years.

Laura Abasolo - Chief Financial and Control Officer

On the “Other and eliminations”, I understand it’s difficult to follow, because you have to take into account here, we include Headquarters, we include small subsidiaries, some of them being affected also for COVID. For
instance, in the small subsidiaries, we have our purchasing unit and as we are reducing OpEx and CapEx the result of this unit also got reduced.

But going forward, you saw that in Q2 it was around EUR 165 million and in Q3 has increased about EUR30 million to EUR 200 million. That EUR 30 million can be explained by our donation to Fundación. As you know, we accrued for an extraordinary donation some years ago. That has lasted longer than expected because they have also prioritized many of the projects. That has no impact on free cash flow because the free cash flow is going through anyway.

Going forward, and I think some of the small subsidiaries that are part of this will improve also with COVID, I think around EUR 200 million could be a right amount for Q4. You also have to take into account here, I’m not including capital gains that would help or either restructuring that would worsen; if I try to go to the underlying “Other and eliminations”, I think the figure you’ve seen for Q3 could be a right extrapolation for Q4.

Finally, as it’s part of the others, it’s hard to see, but I can assure you that on the Headquarters line, there’s been a lot of efficiency also, not only aligned to COVID, as it was part of the operating model strategic decision we took on Q4 last year. So, we are simplifying the organization and operating model, and that’s leading to significant savings.

**Mathieu Robilliard – Barclays**

First, I had a question on Spain. So obviously, because of COVID, we’re seeing some difficult trends. But on the convergent product, basically, what we’re seeing is an ARPU decline, which I suspect is also part of down spin in the market. And so, my question really is, how do you manage this going forward? Do you think volume growth can offset the structural ARPU erosion? Or do you think that despite the tough macro and competitive environment, there is scope for more-for-more initiatives in the future so that you can stabilize the ARPU and, at some point, your top line in Spain?

And then the second question had to do with the leverage and the debt rating. So recently, Fitch positively maintained the debt rating and the stable outlook, but I do know that one assumption, among others, is that the euro to Brazil rate stays at 6.3. It’s already at 6.8. So obviously, that’s one assumption that is not in the right direction. And so, I was wondering what are the levers you think you can work on to offset that? And specifically, do you have any progress in terms of what you can do with the Hispam business?

**Ángel Vilá – Chief Operating Officer**

Thank you, Mathieu, for your questions. I’ll take the first one on the Spanish convergent ARPU. The ARPU of our convergent products was down, yes, y-o-y, but it was up 1% sequentially. Here, you have different moving pieces. When you look at the y-o-y drivers, it’s very significant the impact of the price increase that took place in the third quarter of 2019, which was not the case in this third quarter of 2020. Also, we have COVID-19 effects, and we have lower extra consumption out of the bundle, given that we have moved to more allowances in mobile, for instance, and we have the dilutive effect from multi-brand options (increased penetration of our O2 proposition). At the same time, we have upselling, we have new digital services with quite strong traction, and we have lower y-o-y promotion weight.

So yes, declined versus last year with 2 significant effects from the price increase comparison from one year ago and the COVID impact being the most important.

But q-o-q, it’s improving, as we said in the previous call. It’s improving because of economic reactivation; it’s improving because of the return of the football and the social venues reopening, and despite these tougher comps.

In addition to growing q-o-q, what we have also is a churn, which is 0.1% lower than one year ago, and we expect convergent ARPU in the H2 20 to be higher than in the H1 20.
Mathieu Robilliard – Barclays

Sorry, if I can just follow-up. So, you think that this kind of the spin down, I think we’ve seen a little bit, and you alluded to that with your multi branding strategy, can be offset over the next quarters. Right?

Ángel Vilá – Chief Operating Officer

We are expecting the ARPU of H2 20 to be higher than the one of H1 20. That’s how I would synthesize all the moving pieces, so that you can build it into your models.

Laura Abasolo - Chief Financial and Control Officer

Thank you, Mathieu, for your question. It was actually more than one question, because you asked about the rating, inorganic options and also progress on Hispam. So, I will try to answer all of them.

You are right, Fitch has maintained a stable outlook. It is true that they mentioned that there’s a risk associated to FX and translation impact, but they also affirm the willingness and capacity of Telefónica to protect cash flow generation through disposals, and also the organic free cash flow generation.

On the inorganic, we are actively managing our asset portfolio. I think we are being bolder, and we are executing faster because we need to remove uncertainty on our deleverage path. We have a balance sheet in excess of €100bn, it’s full of high-quality assets; we have infrastructure assets, more than other companies in the sector. So, we believe we have huge capacity to generate value with our asset base.

In this regard, as you know, we have executed already, and we have transactions that are under approval processes. It’s the U.K. merger, it’s the sale of Costa Rica, it’s also the sale of the German towers to Telxius (part of that benefit will go through already in Q4 this year). Telefónica Tech also offers optionality and, obviously, Telefónica Hispam.

And with regards to Telefónica Hispam, our strategy has organic and inorganic angles. In the organic front, we need to boost efficiency and we need to focus much more in this unit, with a dedicated team we have in place to generate free cash flow and reduce the exposure to the region. In the inorganic option, we keep on working in parallel in getting ourselves prepared for the spin-off, and in that regard, we have done lots of work. We have done the operational carve-out, we have also done the corporate carve-out, which is almost completed, we are preparing the documentation, working on the capital structure of the company, and we are closely monitoring market conditions and progressing in all work streams, so when the window comes, to be fully prepared. But we are also exploring and working in different M&A alternatives.

Having said that and us being more active than ever in the inorganic front, let me tell you that on the organic front, I think our free cash flow has proved to be very, very, very robust. Free cash flow is part of our DNA, and it’s an absolute priority for us and even more this year. We have demonstrated during the pandemic that we have levers that we will continue to pull to minimize the revenue impact all the way to free cash flow, through efficiencies and CapEx prioritization.

This also applies to FX. As you also saw, and you mentioned the BRL, and it’s not good news, but you have also shown how the over €2bn FX impact in revenue has got reduced at free cash flow to €300m, even with this huge BRL depreciation. And we still think we are going to deliver very, very robust free cash flow in this complex year in the remaining of 2020.

Ángel Vilá – Chief Operating Officer

Let me, Mathieu, give you a couple of figures to give you comfort on what I said before. We have had record fixed broadband net adds, highest for the last 2 years. This is in part due to the second residences. But these have come in this quarter with the new football season, with the reopening of the social venues, which has meant that we have had convergent gross adds significantly higher than in Q3 19. The football gross adds in the quarter
growing double-digit, and the mix of the gross adds in convergence with the best value mix in the last 4 quarters, 76% of the gross adds were in the mid and the high-end of the Fusion packages. Just for you to have some colour or some evidence of what is behind my statement before that we expect ARPU in the H2 20 higher than H1 20.

Akhil Dattani – JP Morgan

I've just got one question, please, with 2 parts to it. So just around the balance sheet and capital structure. I think as you've outlined on the call, you've done a very good job of managing down debt and protecting cash flow from the currency impacts you've had. But I guess it's more of a conceptual question about the bigger picture on how you think about the balance sheet. I guess what we've seen this year as investors as a whole are feeling increasingly uncomfortable with high levels of leverage. And I think in many ways, a lot of the debates now shifted to looking at net debt as a portion of your EV, which obviously has gone up a lot, given how much asset has gone down.

So how do you think about that metric? How do you think about the comfort you have internally with the balance sheet and how you're managing that going forward? And secondly, is just a very quick clarification point. I mean you've made very clearly the point this year that you've the script to address the dividend and give you flexibility. Any comments you can give around how you think about the dividend and scripts going forward?

Laura Abasolo - Chief Financial and Control Officer

Thank you, Akhil. Yes, as our share price is not performing at the level we would like, and actually it's quite below the sum of the parts and most of the analysts’ recommendations, the proportion of net debt is increasing its share. And we're monitoring that. What I can tell you on that front is that we have an absolute commitment to keep on reducing leverage, and we have an absolute commitment to remain with a solid investment grade. In order to deliver that, we have to generate free cash flow, and we have to execute inorganic moves. There's no other solution.

On the free cash flow, it's the most sustainable way to reduce net debt. And with a very strong free cash flow, also the share price should go up. So part of that unbalance we have now between the net debt and equity should be resolved. You know we do not include free cash flow as part of our official guidance. So please take this comment more as a forecast, but we are just 2 months ahead of closing. And unless there's something unexpected that I cannot think of at present on top of the the pandemic uncertainty, of course, I definitely think our free cash flow should be above EUR 4 billion, and that's well above the current market consensus now.

So with this message, I can tell you that there's a lot of management focus on delivering free cash flow as a sustainable way for our share price appreciation and also for deleverage. And in the inorganic, everything we have done already in the first 9 months, more is definitely going to come. I also tell you that the inorganic moves also includes investment, because as part of the strategy, we need to reinforce our core OBs So the bid, we did for Oi and also the news we launched today on the FibreCo in Germany go on that direction. You can also be that we are doing this with partners, so we take care of the capital as we want to increase and improve return on capital employed.

On the dividend and scrip, you know our shareholders approved the dividend being scrip in order to give flexibility and in order to show prudence, which is well needed in these times. We are aware that the scrip dividend for those that take the cash has dilutive effect, and that's why we took the action of partially compensating part of the dilution for the June '20 scrip, and that's why we are proposing amortising 1.5% of treasury stock. But we still think an extra level of prudence is needed. And, also, this within the frame of our commitment to the solid investment grade.

It's soon to talk about future dividend, but let me stress the factors to take into consideration. First, the strong free cash flow generation with the forecast I gave you, that comfortably covers the dividend, the reduction of net debt organically and all other commitments. The active portfolio management, I mentioned the high-quality assets above EUR 100 billion. And, also, that we have done our homework, so that the net debt figure may be
high, but it’s been very well managed. We have a maturity of debt, which is now 11 years. We have refinanced over almost EUR 17 billion. We have a liquidity cushion of EUR 22 billion, and that’s without considering the U.K. proceeds.

So, I think despite a complicated year, we have proved that free cash flow is not affected even with a double dip impact from COVID and FX that has been tremendous in our portfolio. Our business, therefore, it’s a robust cash generator. We own a sizable base of top-quality assets and we have a healthy financial and liquidity position. So, we will keep taking down debt, we will improve the ratio you referred to, and we will crystallise value for the benefit of our shareholders.

Mandeep Singh – Redburn

It’s a relatively simple question, hopefully, but I actually asked it before. I’m really just looking at sort of medium-term outlook for your consumer business in Spain. I’m not asking you for a specific forecast. But just conceptually, your ARPU levels are very high, amongst the highest, if not the highest, by some margin in the market. And to every external observer, Spanish pricing is under severe pressure in the market. So, the simple question really is how can you grow or stabilise your consumer business in Spain?

Ángel Vilá – Chief Operating Officer

Thank you, Mandeep. I think that this question is being asked continuously in every call. And we continue producing results every quarter that prove that we can be able to maintain the performance of our Spanish business. Here, what we have is differential assets in the sense of the best network available in the country. We also have best products and services, including exclusive content, and a positioning with respect to customers that are in the upper segments of the market, which are valuing what we’re giving them in terms of connectivity, functionalities, content and so on.

In addition, our ARPU is made of more services per customer than the ARPU of some of our competitors. And we continue adding new services to appeal to our customers. For instance, our home security solutions in the joint venture with Prosegur are getting spectacular traction. We are selling 4x what Prosegur stand-alone was selling 1 year ago. Or, for instance, we have just launched e-health services that become extremely relevant in these times.

So yes, we have ARPU premium with respect to our competitors, at the same time we’re including in that ARPU more services than what you have in the ARPU of our competitor service. Which are providing not only that ARPU, but which are providing stickiness of the customers with us. And therefore, we are maintaining or having the possibility to increase ARPU quarter-on-quarter while reducing churn at the same time.

We understand that we need to keep on proving this every quarter, and you can be absolutely sure that we’re going to continue working to prove it every quarter.

Giovanni Montalti – UBS

Just wondering if you can share with us some colour about the next auction for La Liga rights. Is there anything planned for next year? Is there any thoughts you can share with us? I mean, assuming there is anything planned for next year.

Ángel Vilá – Chief Operating Officer

Well, I think its early days to think about La Liga. What you saw in the previous cycle, we achieved deflation in La Liga. Admittedly, it was slight deflation, but we achieved deflation. Most recently, in the Champions League new contract we have achieved 15% savings versus the previous cycle, and we have stabilised the price of each one
of the years of the cycle without having the intra-cycle inflation. We have negotiated also, for instance, other sport rights like Formula One, renewed for 3 seasons with more than 25% deflation versus the current cycle, so the trend is here.

We have reversed a trend of many years of inflation and now we can prove that in 3 of the main sports content rights that we are enjoying, we have achieved deflation in all 3.

Giovanni Montalti - UBS

Is there any visibility on the potential timing of the auction, as far as you are aware?

Ángel Vilá – Chief Operating Officer

No, we don't have visibility on that timing.

Luigi Minerva – HSBC

I have 2 questions. One is a follow-up on the dividend. And I was wondering whether given where the share price is, the Board would consider a share buyback program as perhaps a better way to send a signal of confidence in the outlook of the business.

And my second question is on Telxius; I mean you continue yet to transfer assets, but it seems to me that until Telxius is consolidated within the group, you cannot properly develop it, as you would probably do, so is control of Telxius something that you would consider changing?.

Laura Abasolo - Chief Financial and Control Officer

Thank you, Luigi. On the first question, you are actually implying shareholder remuneration. And as I said, we have a shareholder remuneration for 2020, we don't have a multiyear policy. So, we will comment on this at due time. But let me tell you that, although we have increased our treasury stock up to 1.54% (we communicated at the end of September from a previous point, 0.53% at July 14th), it's been more tactical, and we do not have any program in place at the moment. In addition, we bought these shares after the massive de-rating year to date, and we have used this to mitigate part of the dilution from the scrip dividend.

We will analyse potential share buyback programs once we feel comfortable with debt reduction and leverage. And under current circumstances of volatility and uncertainty, in general, not only in Telefonica, we believe we need to provide with an extra level of prudency.

Ángel Vilá – Chief Operating Officer

Regarding Telxius, we believe that this is a very valuable asset in the sum of the parts of Telefonica. As you can see on Slide 17, the Company is performing very nicely with substantial growth and very high margin. Different development in the 2 businesses:

- In the towers, as you can see on the bottom right of Slide 17, growing organically at 20% in revenues in the third quarter, 18% in OIBDA. With the German tower deal, we are now at close to 27,000 towers from the 16,000 which Telxius started 3 years ago. When we close the second tranche of the German deal, 33,000 towers. A very substantial and valuable tower company, which gives us optionality. It has been clearly growing, doubling its size since the company was created, and we think that in order to facilitate the development and the growth of the company, we could be open to contemplate options.
• At the same time, when one looks at the evolution of the consolidated Telxius, the behaviour of the submarine cable business has been different. And let me explain why you see the change in trend in this quarter. The service contracts between the submarine cable division of Telxius and Telefonica’s operating businesses were expiring in 2020 and 2021. What we have done is renegotiate those early in exchange for an extended period of 5 years. The trade-off for this extension has been to reduce the fixed prices. And that’s why you see the submarine cable reducing its performance compared to previous quarters. In reciprocity, this reduction in the fixed prices of the submarine cable will improve the operating businesses margins. From Telxius point of view, this reduction in prices is impacting the short-term revenues, but the extension of the contract gives full visibility and growth ahead for the Telxius submarine cable for mid- and long-term. And this visibility in long-term will allow Telxius to contemplate all possible strategic alternatives for this subsea cable unit.

David Wright – BOFAML

Just on Spain, just on the fight around O2, we’ve got our analysis suggests it’s tracking about 20% to 25% of gross adds. So, I just wondered whether you could give us any kind of indication of whether that’s a reasonable ballpark, just when we’re forecasting ARPU, please?

And then, second of all, just Laura, clearly, some more progress on the Hispam potential demerger, I wondered if you could give us some more indication on what leverage range you could indicate, you could put on that vehicle. From my perspective, it seems hard to imagine it could carry the net debt to EBITDA Telefónica Group has. So could the spin-off actually be a leveraging event for Telefónica Group?

And also, you’ve written down Argentina substantially today. So obviously, you’re happy with the current book values of those LATAM assets. Do you actually have a book value for Telefónica Hispam post the Argentina write-down?

Ángel Vilá – Chief Operating Officer

Thank you, David. On O2, it’s having a good commercial traction and is making us be relevant in a segment of market which is not covered by our Fusion convergent offers. So we had 76,000 convergent net adds. And the customer base is 3x year-on-year. It has low levels of churn at 1% and ARPU, which is stable at €49, and is leading in Net Promoter Score.

Laura Abasolo - Chief Financial and Control Officer

David, on your Hispam question on potential spin-off, we are actually working on the potential capital structure, as you may imagine. But I’d rather not disclose that as it’s not an isolated and independent entity. We have to position the region as a sum of flexible and diversified number of countries and operations, some of them with very large-scale in the countries they operate, and that should support its credit profile. The leverage ratio of competitors, as you know as well as me, is between 2x to 4x, so it’s a pretty wide range.

You are right, it could be leverage-neutral, depends on the ratio. But the main target of the spin-off is to de-risk the balance sheet, lower the equity exposure, changing the FX mix and simplify the equity story. So, we will give you more colour as we progress on this, no doubt. And obviously, to have it as leverage friendly as possible, is also very nice to have, but it’s not the ultimate goal as it’s more the de-risk and simpler equity story.

On the book value, my understanding is that we give detail on book value at the annual accounts. So, you will see that, and you can see how it was for the different Hispam assets. We will have this in the next accounts with more detail on the main OBs that formed the Telefónica Group perimeter. And therefore, you could figure it out for the Hispam book value of the assets.

Not sure if you want me to comment anything on the Argentinean impairment, but I would like to emphasize that it has lots to do with the macro environment. Argentina is suffering a very severe confinement, and also the
legacy of some unbalances. As a result, inflation expectations continue to rise, and that has implications on our discount rates. And that, together with the FX, explains about 75% or even more of the impairment. The remaining has to do with the decree not allowing increase in tariffs in many of our services. I can tell you, the operation is working on a plan to reverse commercial trends and change the operating model, so us to reduce OpEx and prioritize CapEx to protect free cash flow. Argentina is also very advanced in digitalization, not only in their operations, but also in the interaction with the customers. And that allows for OpEx to start growing, hopefully, below inflation.

I don’t want to minimise the impact of this, no doubt, but it’s non-cash, as you know. There hasn’t been a correction in the value of Argentina in the past. And you also have to take into account Argentina revenue accounts for less than 4%; OIBDA, operating cash flow, free cash flow less than 3%. We have taken Argentina out of our organic growth. So, from this point, unless the macro continues reversing, what it is in our hands and it’s under management, I think you have to look at these specific assets as optionality going forward.