Telefónica

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Introduction

Pablo Eguirón – *Global Director of Investor Relations*

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

Before proceeding, let me mention that financial information contained in this document related to the second quarter 2020 has been prepared under international financial reporting standards, as adopted by the European Union. This financial information is unaudited.

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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 Chairman and Chief Executive Officer, Mr. José María Álvarez-Pallete.

Presentation

Key takeaways

Accelerated delivery of our strategic priorities

Thank you, Pablo. Good morning and welcome to Telefónica's second quarter results conference call. Today with me are Ángel Vilá, Chief Operating Officer, and Laura Abasolo, Chief Finance and Control Officer. As usual, we will first walk you through the slides and we'll then be happy to take any questions you may have.

We face extremely challenging operating conditions and unprecedented economic uncertainty. Still, we remain committed to our local markets and their long-term potential and accelerated the execution of our New Telefónica plan. We stayed true to our ideals, keeping in mind the long-term vision, without compromising either our strategy or our profitability.

And we did so through different means:

- Strengthening the value proposition in our core markets, that proved their resilience in such turbulent times, with organic OIBDA minus CapEx growing 2% y-o-y in Q2. Staying close to our customers also pays off, with record NPS levels.
- Making our core businesses more sustainable; in the UK through the deal agreed with Liberty Global, as we are trying to pursue in Brazil, again with the strongest possible partners, or in Spain with good commercial traction and historical levels of profitability.
- Sustainability and long-term profitability lie as well behind the steps we take in Hispam, where we progress in all strategic options (including inorganic alternatives as proven with the sale of Costa Rica only three months after Millicom refused to complete their deal). On top of this, we continue to optimise its business model (OIBDA minus capex improves 10pp in organic terms in Q2) whilst also neutralising FX impact via increasing debt at the local level.
- Securing key partners that join as well our fastest growing proposition, Telefonica Tech, that grows double digit in the quarter despite COVID 19 impacts and has generated 756 million euros in revenues in the first half.

- We also continue crystallising value and monetising assets at Telefonica Infra, as proven by the 1.5 billion euro tower transaction in Germany, that doubles Telxius' scale to 33k towers.

And as I said before, we can take all these actions thanks to our new operating model, based on digitalisation, agility and efficiency. We pave the way for the future, whilst proving cash-preserving despite the extremely challenging conditions; our OIBDA-CapEx margin improves by 1 percentage point in Q2 demonstrating strong execution.

Swift and effective action in response to COVID-19

Moving to the next two slides, we present the swift and effective actions we have taken in response to COVID-19.

In these unprecedented times managing commercial relationships becomes all the more critical, whilst introducing a wide range of measures to mitigate top-line impacts. We have been able to improve business efficiency and generated savings in OpEx and CapEx without compromising our business model. This has first allowed to deliver strong results at the Operating Cash Flow level. The good news is that our customers stayed with us, allowing for a notable commercial and operational recovery since June, suggesting Q2 will likely be the worst quarter in terms of COVID-19 impacts.

How can you turn more efficient in the midst of the pandemic? Fostering significant growth in sales through digital channels, while relying on our secure and top-quality networks.

This, again, strengthened our customers loyalty, which improved both year-on-year and quarter-on-quarter, with NPS reaching 24 in our core four markets.

OpEx was tightly controlled, declining 4.9% in the second quarter year-on-year in organic terms, whilst CapEx flexibility and execution slowdown as a result of COVID-19, resulted in a 22.3% organic decline.

All in all, we have neutralised negative revenue shock of €1.8bn, gradually reducing the gap from top to bottom line and we have generated a very attractive free cash flow while improving debt reduction vs. previous year.

Swift and effective action in response to COVID-19

On the next slide we show the support we have provided to all stakeholders during the crisis, with actions taken in each and every market.

- For our customers, we provided additional entertainment and mobile data at no extra cost.
- For our People, we focused on protecting the safety of all employees, with 95% working remotely and appropriate safety measures enacted for key workers.
- For our Suppliers, we acknowledged their need for liquidity, and offered flexible payments options.
- For wider Society, we created a 25 million euro fund to provide medical equipment and monetary aid, made our technologically advanced buildings available for governmental and public use across the majority of our footprint, and undertook many other measures across our markets.
- To safeguard the Environment, we updated our target of zero net emissions in our four core markets, bringing this forward to 2030 instead of 2050.
- And, for shareholders, we maintained our dividend and offered a voluntary scrip for the 2020 calendar payments.

Finally, we are leveraging our state-of-the-art infrastructure to support much-needed economic recovery across our markets.

Q2 performance highlights

Moving to slide 5 to review our Q2 performance highlights.

As you can see on the left-hand side of the slide, revenues declined in Q2 in organic terms, but excluding the COVID-19 impact, year-on-year revenue growth accelerated. We continued to support this growth, leveraging our high-quality access base, UBB network, and growing our digital revenues which topped 1.7 billion euros in Q2.

As mentioned before, effective operational management during the crisis led us to increase OIBDA-CapEx in our four core markets by 1.9% year-on-year in organic terms, while the margin expanded by 1.3 percentage points, a remarkable achievement given the circumstances. To note our 4 core markets represent more than 90% of T. Group OIBDA-CapEx, which amounted to 2.1 billion euros in Q2 20.

And importantly we remain on a clear deleveraging path, with a 1 billion euro reduction in net debt in the quarter, leading to a 7.5% reduction in the last 12 months.

2020 Dividend and Outlook reiterated; 2022 Guidance confirmed

Moving now to guidance and dividend.

Let me start with the 2020 dividend, which is confirmed at 40 euro-cents thanks to the high resilience of the business and our solid liquidity position. The dividend will be payable in two 20 euro-cents tranches, the first in December 2020, through a voluntary scrip dividend, and the second tranche in June 2021. I would like to note that for the payment made last June, 63% of shareholders opted to receive new shares, further enhancing our financial flexibility as just 371 million euros were paid in cash.

Regarding our 2020 outlook, we reiterate the target of slightly negative to flat OIBDA-CapEx growth year-on-year, based on the signs of recovery observed in June and July and the proactive measures taken to reduce operational and capital expenditure. For reference, the H1 figure was down 2.3%.

I am also pleased to reiterate our targets for 2022 of year-on-year organic revenue growth and OIBDA-CapEx/Revenues expansion of 2 percentage points vs. 2019, based on the sustained demand and long-term growth trends for connectivity and digital services.

I will now hand over to Ángel to take you with more detail through the Group results.

Ángel Vilá – *Chief Operating Officer*

Q2 20 Group results

Financial performance | Resilient performance in COVID-19 crisis

Thank you José María.

Moving to slide 7 and looking at our financial performance on slide 7, the reported figures this quarter are significantly affected by two factors: currency depreciation and COVID-19. You can see these impacts at the bottom of the slide and we will explain these in more detail later on. To a lesser extent, OIBDA was impacted by the absence of capital gains booked in Q2 2019.

Revenues amounted to 10.3 billion euros, declining 14.8% year-on-year on a reported basis and 5.6% in organic terms. In our four core markets, revenues declined by 3.8% from the previous year. It is worth highlighting the continued transformation of our top line, especially in the context of the COVID-19 crisis, with 67% of our service revenues coming from broadband and connectivity services, 4 percentage points higher than a year ago.

OIBDA reached 3.3 billion euros, down 25.3% year-on-year, or 10% organically. This drop was significantly lower in our four core markets, with a 6.6% annual decline in organic terms.

Thanks to our focus on profitability, OIBDA-CapEx was broadly flat, declining by only 0.7% in organic terms and grew by 1.9% year-on-year in our 4 core markets despite the challenging conditions. OIBDA-CapEx margin also increased year-on-year, for both the Group and our core markets, both in the second quarter and in the first half, thanks to the effective operational management mentioned previously.

Net income reached 425 million euros in Q2 and above 0.8 billion euros in H1. Earnings per Share stood at 0.23 euros in underlying terms in the first half of the year.

FCF performance improved sequentially in Q2, nearing 1 billion euros.

And finally, net financial debt stood at 37.2 billion euros as of June, declining 7.5% year-on-year, thanks to a 1 billion euro reduction in Q2.

COVID-19 | Financial and operational impacts

Slide 8 shows the financial and operational impacts in the first full quarter affected by COVID-19, with clear signs of recovery evident from June 2020.

The estimated revenue impact in Q2 amounted to nearly 730 million euros, with a 338 million euros impact on OIBDA, detracting around 6 and 8 percentage points respectively from organic growth.

The main impacts and challenges at the revenue level came in the form of lower overall commercial activity, derived from lockdowns and travel restrictions. We saw lower handset sales and lower service revenues as a result of almost absent roaming due to travel bans. Service revenues were also affected by a decline in mobile prepaid, a reduction in B2B due to delayed IT projects and certain contract renegotiations, lower SME revenue and overall promotional activity and discounted tariffs.

Nevertheless, during the quarter, we leveraged our strengths to exploit opportunities presented by the crisis. We took proactive steps to improve our OpEx, with as much as 50% of the negative top-line effects being absorbed through lower direct and commercial expenses, while successfully controlling churn that was down by 40 bps versus Q2 2019.

CapEx savings, thanks to our flexible operating business model, also supported financial performance. Meanwhile digitalisation has proven key during the pandemic, as shown by the 12 percentage points increase in the digital channel mix in just one quarter to 39% in our core 4 markets, and by the high rate of growth in the use of online apps in Brazil.

I would like to note that, to date, we have seen a sharp recovery in post-lockdown markets, with a strong resurgence in commercial activity as stores re-open.

We also believe that the COVID-19 crisis is likely to significantly accelerate the digitalisation shift, and we are already registering an increase in underlying demand for Cloud, Cyber, IoT, and eHealth services.

Revenue | Notable improvement from June 2020

Moving to slide 9,

As previously stated, we are seeing a clear path to recovery. Year-on-year revenue growth trends are getting better by the month, in line with the gradual lifting of COVID-19 restrictions, as you can see in our Spanish operations. We can therefore identify May as the month worst affected by COVID-19. As such, operating trends remain positive ex-COVID-19.

Looking ahead, our intention is to further leverage our capabilities and infrastructure to capitalise on accelerating trends in IoT, Big Data, and ICT, among others.

Q2 y-o-y declines reducing from top to bottom

Moving to slide 10, where we show how a year-on-year revenue decline of 1.8 billion euros translated into a 1.1 billion euros drop at OIBDA level, as a result of measures implemented by the Group to mitigate the negative effects of the COVID-19 pandemic, resulting in outstanding cost-management. OpEx declined -13.7% in reported terms and -4.9% in organic terms.

Moreover, the OIBDA decline was further reduced to 0.5 billion euros in terms of OIBDA-CapEx, thanks to our efficient and effective management of investments during the crisis.

All this outlines the resilience of our business in the middle of the deepest economic crisis in this century.

Execution skills | Moving at pace on operational management

On slide 11, we highlight the impact of our proven execution skills.

In Q2, we moved at pace in the operational management of our 4 core markets, delivering growth year-on-year in the (OIBDA-CapEx)/Revenues ratio despite the COVID-19 impact. At a regional level, it is worth highlighting the growth posted in both Spain and Brazil, our two largest operations.

Q2 20 segments results

Spain | Resilient commercial activity

Turning to slide 12.

Telefónica España's Q2 20 results were impacted by strict government measures introduced in response to COVID-19. Throughout this period, we leveraged the strength of the largest FTTH network in Europe to provide reliable service for our customers, while leading efforts to support the wider society.

Since the lifting of restrictions and supported by a refreshed offering and football competition restart, commercial activity recovered throughout the quarter (fibre net adds in May were 21 times higher than in April, and mobile and TV improved as well). This is reflected in net adds recorded across all key types of accesses.

Our segmented offering and differential assets are reflected in the growth seen across different tiers of the retail market as well as in the fibre wholesale arena.

On the other hand, despite the challenging environment, our strategy to offer added value to our customers allowed us to maintain robust ARPU and limit churn in our convergent base.

Spain | Resilient Cash Flow generation

Turning to slide 13.

The recovery in commercial activity was reflected in improving revenue trends throughout Q2 20 For example, the year-on-year drop in service revenue in June was half of the level of decline recorded during April and May.

In this environment, the Company prioritised cash generation and showed significant resilience. Thanks to strong OpEx and CapEx management, we achieved year-on-year growth in both OIBDA-CapEx and OIBDA-CapEx/Revenues for Q2 20.

However, investments in growth areas have continued at a pace, with 51% of total CapEx devoted to NGN deployment, 12 percentage points above Q2 19, translating into 228 thousand new premised passed in Q2 20.

Given our leading position in Spain, where we have a well invested and diversified business, we are confident we are very well positioned to continue to deliver solid cash flow generation going forward.

Germany | Solid operational performance despite COVID-19

Moving to slide 14,

Telefónica Deutschland delivered a solid operational performance, despite experiencing some COVID-19 impacts throughout the quarter. Following the reopening of O2 shops from the end of April, footfall and trading dynamics have been experiencing a gradual recovery. O2 contract churn improved 0.1 p.p. year-on-year in Q2 and own brand ARPU grew by 0.7% year-on-year in the month of June.

In terms of financial performance, the OIBDA-CapEx/Revenues ratio remained broadly stable versus H1 19 despite the full COVID-19 impact, demonstrating the robust profitability and cash generation of the business.

Finally, the Company won several industry awards during the quarter, including a “Very good" rating in Connect Magazine´s 2020 Fixed Network Test and Best MNO in Telecom Handel’s reader’s choice awards.

UK | Resilient performance

Moving onto slide 15 and the UK Business.

Despite being in lockdown for almost all of the second quarter, O2 remains the UK’s number one for customers, growing its base to by 2.5% 34.1 million. Contract churn stood at 0.9%, as customers continued to value our award winning customer service, network resilience, brand and unique propositions.

Looking at our financial performance, revenue declined by 3.8% y-o-y primarily due to COVID-19 impacts on roaming and calls and OIBDA declined by 4.1% excluding special factors in the prior year.

Given the situation, we have maintained our OpEx & CapEx flexibility to manage operating cash flow, which remained broadly stable in the first half of the year whilst continuing to invest in our network to boost 4G and 5G coverage and capacity.

Brazil | Resilient cash generation despite COVID-19 impacts

Let’s now move to the performance of our Brazilian operations on slide 16.

Even though commercial activity was significantly impacted by lockdown restrictions during the quarter, with the gradual re-opening of stores in June we are starting to see signs of recovery: mobile contract gross adds increased 73% in June compared to April, and we reached a new all-time record in FTTH net adds in June. This confirms Vivo’s high-quality value proposition and demonstrates our ability to steer our business through a difficult environment.

In terms of our financial performance, despite COVID-19, we delivered a resilient service revenue trend and a notable improvement in profitability, with an OIBDA-CapEx margin above 25% for the first six months of the year.

I also want to highlight the FCF generation in Brazil which has increased by 44.5% in the first half of the year, which means that FCF in Brazil is growing at double digit in euros, despite the currency depreciation.

Infra| Telxius accelerating growth and tower expansion

Moving to slide 17,

During Q2, Telxius continued to deploy new sites, mainly in Brazil and Spain, with 91 new towers added in the quarter. Its total tower portfolio reached 20,422 and the tenancy ratio stood at 1.34x prior to closing the German deal.

Revenues were up 8.1% year-on-year, excluding the exceptional cable capacity sale in Q2 19, with the tower business growing at a higher pace of 9.7% year-on-year due to both the strong performance in Germany, and the towers recently acquired in Latin America. OIBDA grew by 13.5% year-on-year, excluding the sale of cable capacity.

A high level of profitability was maintained during the quarter with a OIBDA-CapEx over Revenues ratio of 56.2% as of June, up 0.8 percentage points year-on-year, excluding the exceptional cable capacity sale and CapEx related to inorganic acquisitions.

Tech| Driving growth

On slide 18,

Tech services have become even more essential during recent months due to the heightened need for reliable access to communication networks among business customers and for remote management and collaborative work tools.

While COVID-19 has had a notable impact on SMEs, larger Corporates (which account for 60% of our B2B revenue) were less affected. As a result, revenues from B2B Tech services grew by a significant 18.0% year-on-year in H1.

In Q2, our Cloud and Cybersecurity segments continued to outperform the market, delivering high revenue growth rates of 27% and 20% year-on-year respectively. This was achieved largely thanks to our large distribution platform, high-quality professional services and superior infrastructure which is highly valued by our best in class partners including Amazon, Google, Microsoft or SAP. The combinations of these strengths enhance our value proposition and increases our relevance in the global market.

I will now hand over to Laura to cover Hispam and financial results.

Laura Abasolo – *Chief Financial and Control Officer*

Q2 20 Results

Hispam | Transformation to Fibre; Focus on profitability

Thank you Ángel.

Moving to slide 19,

In Hispam, our focus has been on improving and expanding connectivity and supporting local communities during the COVID-19 crisis.

While Q2's performance was strongly impacted by the challenging economic and social environment, commercial activity has been gradually recovering throughout the quarter. For example, new UBB connections doubled versus the previous quarter to 88,000.

Despite the significant impact of COVID-19 on revenue and OIBDA trends year-on-year, increasing synergies and efficient management of OpEx and CapEx allowed OIBDA-CapEx to improve 10% year-on-year in the quarter, in addition to preserving cash flow generation.

Foreign exchange | Managing impact on FCF

Slide 20 shows how currency headwinds were limited in terms of FCF generation through the effective hedging strategy implemented by the Group.

During the second quarter, the COVID-19 crisis contributed to the depreciation of Latin American currencies versus the euro. FX effect increased, dragging down the second quarter's year-on-year variation by 6.5 percentage points in Revenues and by 6.7 percentage points in OIBDA. This was mainly due to the depreciation of the Brazilian real against the euro.

The negative impact of 448 million euros at OIBDA level was largely contained, with FCF generation affected by a much lower 111 million euros. At net debt level, this had a positive impact of 1.0 billion euros in H1 or 1.7 billion euros when looking at net debt plus leases.

Debt Clear focus on continuous debt reduction

On slide 21, you can see the continuous decline in our net debt to €37.2 billion euros at the end of June 2020. Since June 2016, we have reduced our net debt by 15 billion euros, mainly due to strong free cash flow generation, coupled with inorganic measures during this period.

FCF generation reached 1.2 billion euros in the first half and is expected to improve further during the second half of the year.

Our decision to offer a voluntary scrip dividend payment, which reduced our cash outflows by more than 600 million euros, demonstrates our clear focus on net debt reduction.

De-risked balance sheet: debt cut and termed out with lower financial payments

Slide 22 shows Telefónica's proactive and broad financing exercise completed in recent years, with over 52 billion euros raised in total since 2016. This year, we have issued more than 10 billion euros, benefiting from minimum costs, including a 500 million euro 20 years euro bond with a coupon of 1.864%, a 500 million US dollar 10 year bond out of Colombia and a 4 billion pound sterling syndicated loan to back the O2 – Virgin Media merger.

Telefonica's ample and diversified financing activity has contributed to almost doubling average debt life from 5.7 years in December 2015 to 11.2 years at June 2020, and to a robust liquidity position of 23.7 billion euros which covers more than 2 years of upcoming maturities. On top of that, we have 4 billion pound sterling of additional liquidity to secure the financing of the joint venture of O2 with Virgin Media.

This financing activity has been executed at historical low interest rates, enabling us to lower our total financial payments by nearly 1 billion euros and reduce our total financial payment cost to 3.41%, 155 basis points lower than in December 2015.

In summary, we have been successfully strengthening our balance sheet in the last four years.

De-risked balance sheet: lower HISPAM equity exposure and changed FX mix

The second stage of our balance sheet de-risking is to gradually change the FX mix of our capital structure.

We are working on two main levers:

- Firstly, we are reducing overall exposure to Hispam by reducing capital employed and equity in the region.
- Secondly, we are going to gradually increase our exposure to Brazilian reals taking advantage of the massive cut in rates in Brazil to their current levels.

We are currently working to reduce capital employed and equity exposure to the region via inorganic measures. Execution has been slower than expected due to COVID-19 but we remain on track to execute in due course.

In Brazil, debt in local currency amounted to 3 billion euros at the end of June, a reduction of 0.9 billion euros equivalent year to date due to currency depreciation. In the context of the historic reductions in interest rates we plan to gradually increase our leverage in Brazil.

On slide 23 you can see how SELIC and local 10-year swaps have fallen by 1,200 bps and 943bps respectively, since December 2015, in both nominal and real terms, meaning, it now makes sense to gradually increase our debt in reals.

Optimising capital allocation and increasing returns

Moving to slide 24,

Telefonica's credit profile continues to improve by means of:

- Robust cash flow generation with an expected improvement in (OIBDA-CapEx) margin and a focus on prioritising investment;
- a prudent financial policy, based on a sustainable and balanced dividend policy, together with a smooth maturity profile and a strong liquidity cushion;
- a solid balance sheet, as demonstrated by the significant debt reduction since June 2016 and a clear path to deleveraging; and finally,
- a de-risked portfolio on reduced capital employed and improved ROCE.

I will now hand back to Jose Maria to give a brief update on the execution of our strategy and to recap.

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

1. Strengthened "focus" on our four core markets: Spain, UK, Germany and Brazil

Thank you Laura. Turning to slide 25,

With regard to our first pillar, we are able to clearly show how we are focusing on our 4 core markets and strengthening our positions.

In Spain, we continue growing our FTTH network with 526 thousand new premises passed year to date, expanding the largest FTTH network in Europe. We offer attractive differentiated content based on own production, Disney+ and the UEFA Champions League which has been secured for the next three seasons. We are also leveraging partnerships to create unique propositions such as our Prosegur JV in the smart security space, our A3 media JV in Spanish language content production, our work with Movistar Car/ Eurotaller on connected cars, and with Epic Games on worldwide gaming and eSports.

In the UK, we announced a transformative deal with Liberty Global back in May to form a JV between O2 UK and Virgin Media that will create the UK's connectivity champion. But we will not remain idle until the deal is approved. We are deploying 5G, now available in 60 cities, and leveraging partnerships including our position as the exclusive distributor of Disney+ mobile content.

In Germany, we continue to strengthen the largest mobile network by boosting mobile coverage and increasing urban capacity. We are also strengthening our convergent proposition based on agnostic fixed access and partnerships with a range of leading enterprises including Ericsson and Kidomi.

In Brazil we are expanding the leading FTTH network with 2 million additional premises passed year to date. We have bid for OI's mobile assets to improve our spectrum position nationwide and increase our scale in subscale regions. We are also working on strategic partnerships, such as our agreement with American Towers to offer FTTH services in Minas Gerais.

There is significant opportunity in our four core markets, and we could therefore see further consolidation or the acceleration of network deployments by co-investing with strategic or financial partners.

2. while reducing exposure and optimising our non-core Hispam portfolio

We are also making progress in our plan to optimise our HispAm portfolio and reduce capital employed.

We have announced the sale of our Costa Rican operation to Liberty Latin America, only three months after Millicom walked away from their contractual commitment.

We are monetising assets, including buildings and data centres and towers. 2,400 towers have been sold year to date, to Telxius in Chile and Perú, and to Phoenix towers in Colombia and Ecuador.

We are securing network sharing agreements to reduce our capital intensity and optimise investment.

And we are also increasing debt in local units to improve capital structure.

In addition, we have a wide range of options to further reduce our exposure to the region - all inorganic options are on the table, as well as a potential operational and financial spin off.

3. Launching Tech to better capitalise digital growth opportunity

We have achieved significant progress in launching Telefónica Tech. We are creating a new company, and at the same time maintaining strong revenues, with organic growth of 18.0% year-on-year in H1.

We are reaching strategic agreements with the leading players in the ecosystem, like Amazon Web Services, Microsoft and Google Cloud, leveraging our premium infrastructure. We are also partnering with companies like GE healthcare and Fortinet, and investing in companies like Nozomi, a leader in industrial IoT cybersecurity.

We are already completing the carve-out of the cybersecurity business to create a separate entity with significant opportunity. Cloud and IoT/big data will follow soon. We'd also like to highlight the awards we are receiving in Cloud and Cyber security from the likes of WMWare and Gartner which are testament to the quality of our offering.

As a separate entity, Telefonica Tech will provide a dedicated platform for us to foster the growth of our large tech operations and provide significant optionality. We are looking at potential M&A targets with complementary capabilities to accelerate our growth, we are assessing new verticals to add to Telefonica Tech, and we have the potential to bring an equity partner on board to crystallise value and add new resources.

4. Creating Infra to extract more value from existing assets while building a leading global infrastructure player

Moving to slide 28, we are one of the largest owners of future infrastructures in the sector. The UBB network reached 131 million premises passed, almost 60 million owned, 10% more than a year ago, with accesses connected increasing by 5% to almost 15 million, while we are analysing new fibre vehicles in Brazil and Germany.

One of the largest transactions that the sector witnessed during the first half of 2020 by Telefonica Tech was the sale of 10,100 towers to Telxius. This sale will turn Telefonica Infra into the controlling shareholder of one of the largest telco-owned TowerCos, with close to 33 thousand towers.

Telefonica Infra has a range of significant opportunities to maintain growth into the future, Telefónica owns 50% of CTIL, the largest portfolio of towers in the UK. And its aspiration goes well beyond towers: as an infraco that can leverage the demand and capabilities in TEF operations, it can develop new business lines for FTTH and data centres, in addition to its successful submarine cable businesses. In short, a huge portfolio of highly attractive assets.

5. Rolling out a new operating model; taking advantage of digitalisation and adapting the HQ to the new portfolio

Moving to pillar 5 on slide 29, we show how we are rolling out a new operating model that takes advantage of digitalisation and adapting our headquarters to reflect the new business portfolio.

Digitalisation has progressed significantly in the period. Digital sales increased 53% versus Q2 2019, while the number of robots automating internal processes reached over 1,800 million.

We have signed significant network sharing agreements both in our core markets (e.g. Brazil with TIM) and HispAm, to add to the highly structural ones we already had in the UK and Colombia.

Our legacy shut down is progressing with the closure of around 500 central offices in Spain over the last 12 months.

And we are streamlining our support functions, both in business lines and at our headquarters. Our headquarters building is being refitted with costs reduced by circa.6% during H1 2020 compared to 2019.

All of these initiatives have contributed to a 0.3 percentage point expansion in organic OIBDA-CapEx/Revenues ratio in H1, in line with the 2022 guidance announced back in November 2019 to highlight organic margin increase to 20.8% in H1 20.

And there is still room for further optimisation on several fronts, namely centralisation, insourcing/outsourcing, and more agile ways of working.

Priorities H2; continue executing and delivering value

Looking forward, our priority is to continue executing and creating value with our strategy.

In our 4 core markets, our short-term priorities are stabilising operating cash flow generation to mitigate the impact of COVID-19, closing the UK deal with Liberty Global, strengthening our competitive advantages via FTTH deployments and partnerships, and continually assessing consolidation options.

In HispAm, our focus is similarly on stabilising organic cash flow generation to mitigate COVID-19 impacts, closing the deals in Costa Rica and El Salvador, and continuing to develop our strategic options.

At Telefónica Tech, our priority is maintaining strong growth momentum, strengthening our capabilities through inorganic acquisitions, and finalising pending carve outs.

At Telefónica Infra, our focus is on closing the German towers acquisition, developing strategic options, and increasing the towers tenancy ratio.

And finally, in regard to the new operating model, our short-term priorities are accelerating digitalisation, expanding network sharing agreements, and maintaining a relentless focus on simplification and streamlining.

Conclusion

Supporting sustainable economic recovery post COVID-19

As we move towards a post COVID-era, we are supporting sustainable economic recovery in our markets based on 3 pillars, which are aligned with the United Nations Sustainable Development Goals:

- First, building a greener future, with digital innovation to power a lower carbon economy
- Second, helping society to thrive by supporting communities and customers
- And third, leading by example and running an inclusive, fair and ethical business inside out

The future, now more than ever, will be built on networks and digitalisation and we are well positioned to support all of our stakeholders on that journey.

Summary | Value creation for all stakeholders

So in summary, first, we have delivered robust performance for our stakeholders in the midst of an unprecedented global crisis.

Second, our commercial and financial performance has proven resilient in Q2, despite adverse FX impacts and GDP trends, and we continue focused on improving return on capital employed.

Third, our outlook for OIBDA-CapEx and the 2020 dividend has been confirmed.

Fourth, we have accelerated our delivery against our strategic priorities.

And finally, we are well positioned to capitalise on the favourable long-term trends accelerated by recent developments.

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

Q&A Session

Michael Bishop – *Goldman Sachs*

Firstly, you had quite a solid revenue and ARPU performance in Spain, particularly as you highlight in June and the exit run rate. So I was just keen to get your thoughts on the Spanish outlook for the second half, both for revenues, but in particular, the trajectory of Spanish EBITDA and the different moving parts there. And then my second question is just on free cash flow in the second half and so for the full year. You delivered 1.2 billion in the first half. But could you just give us an indication on whether you expect the usual seasonality in free cash flow in the second half, and in particular whether you can give us any level guidance on working capital for the year.

Ángel Vilá – *Chief Operating Officer*

Thank you, Michael, for your question. I will take the one on the Spanish market. As you have seen in the results, we have had quite resilient commercial activity and quite resilient cash generation. COVID-19 was impacting the second quarter because we had a lock down in place for most of the quarter, but if one would adjust for the COVID impacts, top line would have been growing 0.9%. OIBDA, if we exclude COVID impacts would be at -3.4% and taking away the property sale of 1 year ago, would have been flat y-o-y; and operating cash flow positive 4.1% growth.

We saw notable recovery along the quarter. Net adds positive across the line, which is great contrast to some of our competitors. And this was improving sequentially across the quarter. We had a record NPS during the crisis. We increased 10 p.p., now stands at 28% and we are widening the gap versus competitors.

All this we achieved while maintaining OIBDA margin at 40% levels and operating cash flow margin at 29.9%, which is benchmark across operators in Europe. So, we saw improving trends as months were going by in the quarter. And what we're seeing also in July, is the same improving trend that we saw in June.

So, when we look at the second half, we have positive expectations in B2C with commercial trading recovering. ARPU in the second half, we are expecting it to be higher than in the first half, and churn, which in the quarter was at 1.2% (even in the last month of the quarter was below what we're seeing in Q1) should also be controlled. We are expecting, now that OTTs are no longer going to be offering soccer, probably football subscriber gains. And August, which used to be in an atypical month for football competitions, this year is going to be an active month. We're also launching new services. Our launch of Alarms with Prosegur is getting very good traction, and we're exploring new lines like insurance and Ehealth to contribute to top line. On B2B, we're already capturing opportunities. You saw the growth in the digital services for B2B, and wholesale in the second half we should show even better figure than in the first half. So, we have good expectation on the trend of revenues.

At the same time, the type of efficiencies that we have been capturing in the first half of the year, some of them are going to be continued and will remain, so, we're aiming potentially to even improve OIBDA margin slightly versus the first half. And will continue with very effective CapEx management. I hope this can provide you a view of the confidence we have in the resilience of our business, both commercially and financially regarding cash flow generation.

Laura Abasolo - *Chief Financial and Control Officer*

Michael, on free cash flow, as you pointed out, free cash flow in the first half of the year has amounted to €1.2bn, and it's been €1bn in Q2 20, and as you pointed out, it will be backloaded. So, we expect free cash flow to be strong and higher in the second half of the year.

We do not guide on free cash flow but let me remind you we do expect a robust free cash flow generation. It will comfortably exceed dividend payments, labour-commitments and the hybrid coupons, and it will continue to be a sustainable driver for continuing deleverage.

In this COVID situation, not only we are more resilient at revenue level, although not immune, but we have many levers to manoeuvre and we will closely monitor our free cash flow generation along the year. There's plenty of efficiency improvements and CapEx savings, as you have seen in Q2 this year. We will continue delivering a robust FCF, which is a priority for us.

Regarding working capital, it has been impacted by some COVID measures that will fade away in the second part of the year. And in general, there has been higher WC consumption due to CapEx phasing and some restructuring payments that took place in Q1 2020, although they were accrued in the previous year. In general, working capital consumption will be slightly higher in 2020 than in 2019 but it would also have less supply financing.

Jakob Bluestone – *Credit Suisse*

Firstly, on CapEx, which, as you alluded to, is down to sort of protect the cash flow generation. Can you maybe just help us understand how sustainable the lower CapEx will be? Should we be expecting that maybe next year, there has to be a sort of a period of catch up or is this something that you can essentially keep at this lower level. It's not just a delay in CapEx payments? And then secondly, just around the sort of prospects of M&A and consolidation, I think you've made some public statements in recent weeks and months. Can you maybe just sort of share with us what your thinking is around the potential for consolidation in Spain specifically? Do you think post the U.K. decision, that's something which is more feasible with acceptable remedies? So just sort of any thoughts you can share on that topic.

Laura Abasolo - *Chief Financial and Control Officer*

We have been monitoring and managing CapEx. First, there was an initial reduction due to the lockdown, that was immediate. But what we have done on top is strict capital allocation, strict screening and approval processes with a view to prioritise everything which is related to customer service, customer quality and ultra-broadband development.

So, we have not stopped, in what really matters, and we've been much stricter on legacy and maintenance that could be deprioritised in these circumstances. So, you can see the ultra-broadband figures, they have been progressing despite the situation. And you can also see that revenue in the lines not affecting by COVID have performed well as is the case in Spain. So, we don't envisage a potential catch up in the coming years. I think this reduction will be crystallised throughout the following months.

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

In terms of consolidation, overall, you know that our position is that current market structure in Europe is unsustainable. There are more than 400 mobile players, almost 1 mobile player per million inhabitants, which I don't think it's competitive or sustainable in the future. So, we think that in-market consolidation should be fostered.

In the case of Spain, we don't see any signs yet, but we think that the undergoing transaction around MasMóvil is something to monitor because the multiple at which this transaction is being done, enhance the value of the Spanish market and proves the sustainability of the value going forward. So, I think it's a good sign for the overall Spanish market.

In terms of the U.K, the joint venture will create a stronger fixed and mobile competitor in the U.K. market. And I think it has the scale to innovate in this very changing landscape. This is a move toward convergence and won't reduce competition. So, we are confident that the deal should be quickly approved by regulators without significant remedies as also proved by precedents in that market. The sooner this happens, the sooner we'll be able to transfer to consumers a very large and ambitious investment program of more than GBP 10 billion in the digital infrastructure over the next 5 years. So basically, we expect closing in between the end of 2020 and mid-2021. It should happen without significant remedies, but we'll keep you posted.

Carl Murdock – *Berenberg*

I just wanted to ask about "other" OIBDA. In H1, it's come in at EUR 265 million. Is there anything in H1 in particular that's causing it to run higher than normal run rates or should we expect it to continue at that kind of level going forward, so maybe 500 million in the year? Because that's currently about double where consensus currently sits. So any kind of colour on where we should expect OIBDA in "Other" to kind of be on a regular run rate, because it certainly looks higher in H1.

Laura Abasolo - *Chief Financial and Control Officer*

Thank you for the question. I'd rather not guide on "Other" for the next half of the year because it also depends on potential capital gains and inorganic moves. But let me explain that probably what it was high was the first half last year, 2019.

You have to remember that last year was abnormally high, in the line of "Others", because we had the capital gains of Nicaragua or Antares, for instance. So, what you are seeing in H1 2020 is more similar to what it should happen. It was 100 negative in Q1 and 165 negative in Q2. Variation versus last year is explained as I said mainly because of the capital gains, changes in perimeter, and also as we are reducing CapEx, we have a little bit less revenue and OIBDA from our supply company.

Carl Murdock – *Berenberg*

That's great. So I take the point on the year-on-year, but that means that the current rate is kind of normal which leads to you to around 500 million a year, whereas I think consensus for next year is currently at 264.

Laura Abasolo - *Chief Financial and Control Officer*

This line was actually below consensus because, as I said, last year was abnormally high. So, consensus is actually wrong in this line. You are more right on your view for the rest of the year.

Joshua Mills – *Exane BNP Paribas*

First, on Spain, I think you refer in the presentation to B2B revenues at group level being down about 3%. It'd be great to get an idea from you on how the consumer versus B2B revenues in Spain have performed relative to one another. I know on the consolidated basis, you've reported down just over 3.4%, but that's going to be very helpful.

And then the second question on Germany. I think at the end of the presentation, you're saying that a new fibre deal could be under analysis. Could you give us a sense of what form that might take, whether this is a co-investment scheme you're looking at other partners, and your kind of big picture thoughts around the convergence opportunity in the German market right now?

Ángel Vilá – *Chief Operating Officer*

Thank you for the questions. Revenues in Spain were affected by COVID. In the second quarter we saw handset sales declining by 50% on the drop of COVID and service revenues, -3.9% on the back of lower convergent revenues and business communications not compensated by the growth, both in IT and wholesale.

These service revenues were improving month-by-month in Q2, so this was -2% in the month of June. We are also seeing that upselling has been contributing to revenue improvement and, although the trend worsens in Q2 versus Q1, we have different COVID effects in retail. In consumer, it dragged 2 percentage points and in business dragged 1.5 percentage points in the year-on-year trend. Also, we have lower wholesale growth; we have positive wholesale revenues but lower rate of growth, mainly from interconnection and roaming, roaming decline.

So, if one were to remove the impact from COVID, this top line would be growing 0.9%. But -3.9% was 0.6 percentage points positive in wholesale and was 4.5 percentage points drag in what is retail services, combining consumer and B2B.

The second question was on a fibre deal in Germany. Germany is a market which is underdeveloped in terms of fibre. We have a very good position from Telefónica Deutschland with wholesale agreements to access the fixed network from Deutsche Telekom, an exclusive deal to access the cable network of Vodafone, and also with Tele-Columbus. With these we have access to the largest footprint of ultrabroadband in Germany.

But we have also seen that there is an opportunity, which we're going to develop mostly from Telefónica Infra (potentially Telefónica Deutschland can take an equity stake, but it would be mostly developed by Telefónica Infra) to develop fibre in areas which are underserved in Germany, aiming for a neutral model, absolutely wholesale, open to all the players, with a very tight geographic segmentation going to areas which are not covered because we want to avoid overbuild, and this would be done along financial partners.

The philosophy is a neutral company with a modular deployment model, depending on the demand, along with financial partners, which would not be consolidated with full integration into Telefónica, and with limited financial exposure on our side, but at the same time making Telefónica Deutschland an anchor customer or an anchor player of this wholesale company, but it being open to all the players in the market. We have already launched the process; we have received indications of interest, and as the process progresses when there is more detailed news to give to the market we will do.

Fernando Cordero – *Santander*

Thanks for taking my two questions. The first one is related also with infra assets and in that sense, trying to understand if there has been any change on your views on what kind of assets should be fully controlled, and when I say fully controlled is 100% ownership within the group, namely, for example, the Spanish fibre, and which assets can be open to have not only minority stake, but also even losing the control of those assets.

And the second question is related with the Spanish OpEx looking into the second half. As far as I understand, you have been including the full cost of the premium content, particularly the football, during the first half of the year. And I would like to know at which extent we should see any kind of cost regularisation during the second half, given the lower content delivered by the different sport properties, not only football but also for example Formula 1, and so on. So, in that sense, trying to understand if there is any kind of tailwind on the OpEx for the second half.

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

Thanks for your question. I'll take the first one.

Our view hasn't changed in terms of the strategic ownership of strategic assets, the fibre being one of them. But It is also true that telecom infrastructure assets are generating lots of interest from new long-term oriented capital, and Telefónica is one of the largest owners of next generation networks. Just in terms of ultra-broadband assets, let me remind you some key facts:

- We own 58.2 million premises passed and this figure keeps growing every quarter. In the last 12 months, we have passed more than 5 million additional ones.
- We have 14.6 million homes connected, which means that despite these networks are relatively new, we are filling-in them rapidly. As you know, this is the key for improving the profitability. In the last 12 months, we have connected 1.4 new homes.
- Demand is on the rise and the current situation has, if any, brought forward that demand. In the last quarter and despite COVID crisis, or maybe as one of its consequences, we are seeing historical demand levels for customers willing to be connected.
    - In Hispam, demand for fibre has multiplied by 2x in one quarter.
    - Brazil has its best month ever in June in terms of fibre-to-the-home net adds.
    - 80% of our market, next-generation network net adds in the first quarter were connected in Telefonica's network in Spain.

- And in addition, we have been for years operating wholesale agreement with our peers in fibre-to-the-home and this is another critical factor towards future profitability of these assets.

So, we know how to implement long-term profitable wholesale models without generating market distortions.

And all these factors demonstrate basically 2 things. The first 1 is an unparalleled experience in executing fibre to the home business model. And probably second and second to none opportunity in terms of the size of the assets we have already up and running.

Obviously, under these metrics, our assets are generating interest for these big pockets of capital that I mentioned before. And it is now public that as we have been saying, we are exploring options in Brazil and Chile, and there could be other projects under analysis.

It's also a fact that as it has happened with other telco infrastructure asset, there is big arbitrage opportunity by transferring these assets in the private market.

But we will always do this, it's analysed our options with long-term perspective. We think these types of assets are critical, and therefore, control is essential. And they have very long-life periods. So we believe some financial models are probably underestimating that factor.

To sum up, we started before anybody deploying fiber, and at the time, a lot of people questioned us; but now we own one of the largest network worldwide, and these assets are attracting a lot of interest from capital providers willing to put capital at work. So, we think that what we have ahead of us is a lot of optionality, and we think this is a good place to be.

Ángel Vilá – *Chief Operating Officer*

And regarding the second question, Fernando, on OpEx in Spain, first, we have seen in the second quarter OpEx year-on-year decrease, thanks to efficiency measures, and cost reduction in several elements like roaming and commercial.

On personnel cost, since we had the PSI plan, we already saw in Q2 the same savings as in Q1. When we look at supply costs (which includes content) the second quarter was half the increase that we saw in the first quarter because the new cycles with deflation are starting to kick in. Commercial costs were sharply declined from lower activity, and we had, in the rest of Opex, similar trends.

The content costs, to your question, have peaked in the first half, and then we will see better trend or stability in Q4. It's very important to see that we had previously achieved slight decline in La Liga when we renewed the last cycle. Now we have achieved 15% deflation in the Champions League and some other relevant sports, which are being auctioned at the moment, we will most likely be able to show double-digit deflation as well.

In addition to this, as you were saying, some sports didn't take place. So, for instance, some tennis competitions, different calendar and structure for Formula 1 races and so on, so we are managing each content as the situation clarifies in each one of the competitions. So initial savings have been achieved already and some more may come.

All of this allows us, as I was responding before in a question about the outlook, to be optimistic that the OIBDA margin in the second half could be slightly higher than the one we had in the first half.

David Wright – *Bank of America Merrill Lynch*

The first one is about the dividend; you've obviously had huge pressure from Latin American currencies, also the operations have deteriorated somewhat over the last couple of years. S&P sounds very much like they're about to downgrade you. But even Moody's on the lowest level of IG, I think they have an outlook for EBITDA this year, 15.5 billion. And I think your commentary this morning, from IR suggests that you're comfortable with levels below 15 right now.

So, it does feel like the Moody's number could be missed. In which case, are you worried about the current balance sheet rating? And if so, if Moody's were to take a more cautious view, does dividend become part of the equation? You've obviously moved to scrip, but that does feel quite an expensive offset right now given the current share price level.

And then my second question, just on the ARPU growth in Spain H2. That seems, given the current trend, which has seen the ARPU declining year-on-year in an accelerated fashion in Q4, Q1, Q2, that seems extremely difficult to achieve especially given the current dilutive effect of the O2 app, unless you're planning some kind of price rises. Could you confirm that? Otherwise, how do you expect ARPU to get better in the second half?

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

Thanks for your questions. I'll start with the dividend. We feel comfortable with the current level of €0.4/share. Even with our revised figures reflecting full COVID impacts our dividend shows very prudent organic free cash flow coverage. Even if it was to be fully payable in cash terms. Allow me to say that free cash flow will be significantly above current market expectation this year.

These dividend levels allow us additionally to keep enough financial flexibility to keep reducing debt levels. It is a strategic decision of the company to keep reducing debt levels and preserve a strong credit rating profile. As you know, we do not have a long-term dividend policy as we think that with the current volatile macroeconomic scenario, an additional level of caution is required. But we feel comfortable with the current dividend level.

In order to preserve additional financial flexibility, you know that our shareholders approved in our last shareholders' meeting to introduce scrip dividend option to shareholders. This option was approved for the last tranche of 2019 dividend, which was paid last month, and the first tranche of 2020 dividend that will be paid in November this year, both tranches each of €0.2/share. In the last June payment, 63% of shareholders decided to afford shares and 37% in cash. And that means that out of a total dividend of EUR 1 billion, EUR 371 million was paid in cash and 631 in shares.

So, in summary, we think that the dividend is comfortably covered with expected free cash flow generation, and allow me to stress that our estimate for free cash flow for this year is significantly above current market expectations, and even if we were to include all COVID impacts. Scrip dividend has been introduced to provide additional flexibility, and the scrip dividend option looks like have been welcomed by investors, by shareholders ,because 63% opted for shares. I hand it over now to Laura for rating outlook.

Laura Abasolo – *Chief Financial and Control Officer*

On the credit rating, let me remind you that we maintain stable outlooks both with Fitch and Moody's. So, we have a stable outlook with Moody's at present. The negative outlook of S&P reflects the risk of downgrade, you are right, if they no longer expect Telefónica to make significant progress in reducing its leverage in 2020 as an intermediary step for returning to comfortably below the maximum adjusted debt/EBITDA ratio under S&P methodology.

We are in constant conversations with rating agencies. They have welcomed Telefónica's measures undertaken to protect the credit rating. They know our commitment to solid investment grade, and they have also welcomed the script dividend.

It's also worth highlighting the strong financing activity that we keep undertaking to maintain an appropriate level of liquidity, and also the active portfolio management we have done. In the last year: partial disposal of Telxius, agreements for the sale of Central America, sale of 11 data centres, sale of towers in Brazil, Ecuador, Colombia. But also, in Q2, in the midst of COVID, we have undertaken the sale of towers in Germany to Telxius and the sale of Costa Rica, both reducing net debt by slightly below 1 billion.

You also mentioned FX as a reason for credit rating, and we have shown how FX has reduced free cash flow only by EUR 111 million, and we pay down debt with free cash flow, not with OIBDA. You know we are not very fond of the OIBDA to debt ratio. First, because the FX moves at different rates, in the numerator and denominator, and also because you have to look at the ratios in light of the revenue prospects going forward and also of the CapEx commitments going forward. As José María explained, we are well ahead in fibre deployment, so our CapEx going forward should be lower than many, many of our competitors.

David Wright – *Bank of America Merrill Lynch*

If I could just check then. So, you're not expecting S&P to cut. And if you do miss the Moody's EBITDA target, you're not expecting a more cautious outlook there? Is that correct?

Laura Abasolo – *Chief Financial and Control Officer*

I think we have to go to the facts. We have a stable outlook with Moody's, and we have a negative outlook with S&P, and that's obviously a risk. If we have a negative outlook, there could be a downgrade.

So, it's for them to judge and it's for us to explain everything we are doing to deleverage and confirm our commitment to a solid investment grade.

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

Allow me also to remind that we have inorganic transactions that are under approval process. That would imply sources of funds and capital gains and which would also accelerate debt reduction.

Notably, out of the U.K. merger, when approved, it would generate between GBP 5.5 and GBP 5.8 billion of funds for Telefónica and a significant capital gain. We have announced today the sale of Costa Rica. We have El Salvador under approval process, and in addition we have Telefónica Infra, which owns Telxius that has a significant number of towers that could be put into value.

Telefónica Tech is growing significantly, is sizable and we are also looking at it as a potential source of value. Then we have Telefónica Hispam process of inorganic measures that would also be a source of additional comfort.

So overall, we think that we have enough organic and inorganic measures to preserve a strong credit profile and to make sure that all the components of the financial equation of the company, dividend and debt reduction are preserved.

David Wright – *Bank of America Merrill Lynch*

And can I just ask as a follow-up, you mentioned about potential demerger optionality around the Hispam asset. It's hard to imagine that you could demerge the business with the same level of credit that you currently have, the same level of leverage you currently have in Telefónica Group I would have thought way over 3x. So, could a demerger even be a releveraging event for the Telefónica core business? How are you thinking about that?

Laura Abasolo – *Chief Financial and Control Officer*

Yes, you're right. It will be very difficult to maintain our actual credit rating in an Hispam only vehicle, but the Hispam de-merger movement will take a releverage effort. And in fact, we are already working on releveraging in Hispam because that's non-regret move, and we can also do it organically.

Ángel Vilá – *Chief Operating Officer*

Okay. I'll answer the Spanish ARPU question.

So, if one looks at the evolution of the convergent ARPU in the first half, it has had negative and positive impacts in this evolution. On the negative side, you have COVID-19 effects like downgrades, some promotions to hold the mix, some disconnections and the closing down of social venues (bars) basically that were showing football packages to their customers. Also, we had smaller dilutive effect from multi-brand options. And we had consumer upselling of new services and higher ratio of additional high-value lines.

In the second half of the year, many of these impacts are not going to be there. Actually downgrades regarding football probably will become upgrades with the reopening of the season. August which used to be a very muted month even in which some customers disconnected and then re-joined; this is not going to be the case this year.

Also, without soccer on over-the-top, we are going to get a fair share of those customers that will improve the mix. The reopening of the social venues is also going to help us. We are seeing big demand, for instance, of internet in second homes and all the services that go along with those. And we are expecting less impact of promotions.

So, all these factors are the ones that make us confident in an improvement in the ARPU versus what we've seen in the first half.

Luigi Minerva – *HSBC*

The first one is on the announcement in Brazil yesterday about the option for a neutral fibre network available to wholesale customers (perhaps a similar plan to what you described for Germany), can you please elaborate on what it actually implies? And then I was wondering, just following up on previous comments, I understand that the Spanish fibre is core and strategic but whether you would be interested in minority investors in the Spanish fibre.

And second question is on what you are seeing in the business (B2B) segment, whether there is some evidence of customers, for example, missing payments or downgrading their packages. I presume that the impact there will come with a lag so it will be more important in the second half as the government support starts to diminish. Thank you.

Ángel Vilá – *Chief Operating Officer*

Hi, Luigi. On the Brazilian fiberCo that was described yesterday at Telefónica Brasil's call, it's a project which is also in motion. Our Brazilian operation first is showing record levels of deployment and connections in fibre. We are, at this moment, connecting every month 140-150,000 homes with fibre, which is above the highest we ever achieved when deploying in Spain. There is a very healthy demand. But of course, it's a huge market. We cannot cover all the market with our CapEx. So we have decided to segment 3 type of situations.

- There is a first tier of cities and markets that we are investing directly from the CapEx from Telefónica Brasil.
- Then, there is a second tier that we are looking to address with new models that I will describe in a second.
- And then there is a third tier of towns in Brazil, that we are going to a franchise model in which the CapEx is made by the local partners and we provide the technology and we have some revenue share.

But in the mid-tier, we are doing different models. The first one, for instance, is the agreement that we reached with American Towers to deploy fibre in Minas Gerais. But we have also launched a process to attract financial partners to do a FibreCo that would not be consolidated into our accounts. Here would be a joint project between Telefónica Brasil and Telefónica Infra, aiming to bring onboard a partner that would take 50% of that company, and between Telefónica Brasil and Infra would have 50%.

The difference with the German project is that the German project is purely greenfield. The project in Brazil will be mixed, will be having part brownfield (by contribution of some of the fibre that Vivo has in the regions that are going to be the object of this project), and the rest will be greenfield build-out. Will be also a model which will be open to wholesale to all the players in the market.

We think that there is a huge opportunity in Brazil. We are showing the high double-digit growth in the fixed broadband/ultra-broadband services in Brazil. And again, even with the cuts in CapEx that we commented on before, we are deploying at the highest, and connecting, at the highest level we've ever done in Brazil.

Laura Abasolo - *Chief Financial and Control Officer*

If I may complement Angel, because we are also doing fibre projects in Hispam. As you know, we are completely focused on ultrabroadband, and we are progressing very well and having beaten previous quarters this quarter despite COVID. We have agreements with ATC and ATP in Chile, Colombia and Argentina, but we are going a step further in the line of the other infra projects.

We are working on the carve-out of FTTH and related assets in Chile and we will sell a majority stake of that vehicle. Is a way to monetise, but also and more importantly, accelerate the transformational deployment plan in Chile. And more projects of this kind could come in the rest of the Hispam region.

Ángel Vilá – *Chief Operating Officer*

Yes, regarding the B2B business, we are quite well-positioned in markets like Spain andBrazil in this segment. And we are very well-positioned to capture the post-COVID opportunity, especially in services in IT, such as cloud, cybersecurity, elements linked to smart working scenarios, and we leverage this on our bigger share in corporates.

Where we see more difficulty in some of our customers is in the SME segment. Here, we have been ready to financially facilitate life to those customers. Obviously, we are doing this with a very thorough monitoring of the potential bad-debt risk, which is not an issue at the moment. And with a progressive return of activity, we think that this segment should be performing nicely in the next quarters.

So monitoring very carefully some of the segments and the financial impacts that may come from those, but we think that there are opportunities that we're already capturing in cybersecurity and cloud, that as you have seen in our presentation are growing at a very substantial double digit.

Jerry Dellis – *Jefferies*

First question was just following up on the Spanish sort of ARPU issue. And I just wondered whether you could clarify for me one particular point. I remember that in July last year, you applied a rather large price increase, about €10 to about 1.5m sort of high-end Fusión customers. That seems to me to create a fairly difficult comp. for the second half of this year. Is it correct to sort of think about that or is there some offsetting issue particularly in relation to the high-end Fusión base and the comp. into the second half?

And then my second question is in the U.K. If we understand it, the Project Lightning investment is included within the proposed U.K. joint venture. What is your attitude to accelerating the deployment of Project Lightning and perhaps investing more capital in that project to accelerate the current run-rate of build above what's been achieved over the last 4 years? Thank you.

Ángel Vilá – *Chief Operating Officer*

Thank you for your questions. Regarding the Spanish ARPU, you're right. We had a price increase or an offer increase in the third quarter last year, which will not be repeated this year, and that is one of the drags that we will have in the third quarter. Roaming potentially will also be one of those. We think that there are some positives, as I was describing before and I would not need to repeat myself from the previous answer. And, bear in mind that the answer that I was giving before was relating to the second half, was not relating to the third quarter.

And regarding your question on Project Lightning. Our merger in the U.K. aims to build one of the leading converged players in the market. It was one of the main attributes that attracted us to combine our business with Virgin Media, and Project Lightning is a very important part in that. We have shown in our markets and in the markets where we are converged that we are firm believers in fibre. At the moment each company is operating independently, and we cannot share or revise or do anything with respect to making plans together. So, once the transaction is closed, we will assess if there are opportunities to accelerate that deployment that are value creative for the shareholders, we will look at them. I think it was evident in this call that, not only we have one of the largest fibre footprints globally, but that we are analysing vehicles to deploy fibre in an operationally and financially effective way across our footprint. And the U.K. should not be any different from that once the transaction is concluded. Thank you.

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

Thank you very much for your participation, and we certainly 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 morning and thank you.