# Telefónica January-December 2019 Results Conference Call Transcript

## 20th February 2020

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## Introduction

**Pablo Eguirón** – *Global Director of Investor Relations*

Good morning, and welcome to Telefónica's conference call to discuss January-December 2019 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 fourth quarter 2019 has been prepared under international financial reporting standards, as adopted by the European Union. From the first of January 2019 we implemented IFRS 16. In organic terms, the effects of the accounting change to IFRS 16 are excluded in 2019. 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

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

### 2019 Highlights

Thank you, Pablo. Good morning and welcome to Telefónica's fourth quarter and full year conference call results. Today with me are Ángel Vilá, Chief Operating Officer and Laura Abasolo, Chief Finance and Control Officer, who will take us later through the main operating and financial highlights. During the Q&A session you will have the opportunity to ask any questions you may have.

2019 has been a crucial year. I would like to start highlighting the action plan we announced last November, the "New Telefónica". We are designing an ambitious, responsible and sustainable Company, full of opportunities within a changing world that requires foresight.

But as we also said back in November, we leverage on a very strong starting position, which we feel is even stronger once we look back at 2019 performance.

All our core markets are performing well. Spain has posted 10 straight quarters of revenue growth and OIBDA returned to growth and we believe it is probably the most sustainable business model in the sector in Europe. Brazilian macro momentum is gaining speed, which helps the competitive environment to turn more rational. And our market share is higher than in the last few years. The UK continues to stand out vs its peers growing for 14 straight quarters, whilst Germany's operational and trading momentum gains speed.

We are increasingly more efficient and benefits from legacy shutdowns are turning more and more evident. Digitalisation savings exceeded 2019 target by 23% to more than 420 million euros. This comes along with an improved capital structure, helped by disposals and other decisions that helped to improve ROCE, such as tower disposals or turning into a lighter-asset model in Mexico. And more should follow.

Over the next few slides I would go through the New Telefónica, and Laura and Ángel will later review in detail 2019 performance. But wanted to start my presentation today highlighting Telefónica's current strengths, as these are the foundations for what will come next.

## New plan based on 5 key decisions; aiming at long term impact and value creation

The new action plan will serve to accelerate the Company transformation and is centred around three axes:

- First, prioritise the markets where we can be relevant and grow following a long-term sustainable model.
- Second, promote growth opportunities, while we leverage the value of our infrastructure.
- Third, increase agility and improve efficiency.

This new plan consists of 5 strategic decisions whilst maintaining our focus on long-term impact, value creation and optimising capital allocation as you can see on slide number 3.

- First, prioritise Spain, Brazil, the UK and Germany as key markets where we can provide differential value to our customers and grow in a sustainable manner.
- Second, the operational spin-off of Hispam, while revaluating our portfolio to maximize its value, via growth, consolidation and potential corporate operations.
- Third, the launch of Telefónica Tech, to boost growth in areas with higher potential; bringing the most advanced value proposition in the B2B segment, focusing in Cybersecurity, IoT and Big Data and Cloud.
- Fourth, creation of Telefónica Infra, to optimise the value of existing assets by crystalizing and selective monetization and develop alternative models of infrastructure deployment to explore growth opportunities.
- Fifth, evolving the operating model to increase agility, speed up execution and maximise synergies between all Telefónica's units.

## Sustainable model

On slide number 4, we highlight our sustainable model based on 3 pillars:

- First, growth
- Second, efficiency
- And third, trust.

As summary, responsible and sustainable growth.

## Long-term integrated stakeholder approach

Slide 5 showed that sustainable long-term business strategy brings long-term shareholder value.

For that purpose, we follow 3 long-term value generation requirements:

First, growth: inclusive and sustainable; based in our ultrabroadband and digital services, key enables for the digital transition and climate change.

Second, trust: with all our stakeholders, customers, suppliers, shareholders, the society as a whole, respecting human values. Fortune magazine recognized us for the second consecutive year as Europe's most admired Telco and the fourth most admired worldwide.

Third, efficiency: we have been recognized as one of the eight Telco's all over the world to be A list in the CDP benchmark and we have been pioneers in issuing green bonds, with the first green bond of the telco industry in 2019 and the first hybrid green bond in 2020.

Across our footprint, we represent 0.5% of GDP, generate more than 1.1 million direct and indirect jobs and have a fiscal contribution to the public budget of 8.7 billion euros.

This is why we are top of the list of the main ESG benchmarks such as Sustainalytics, where we are 1st among our peers, MSCI, with A rating and we are part of Bloomberg Gender diversity index for the 3rd year in a row.

## Delivering long-term stakeholder value

On slide 6, we are also committed to the United Nations Sustainable Development Goals. It is not a rhetorical commitment, but it is reflected in our daily work.

We are the 1st fiber country in the OECD list. Digitalisation is not only a key lever for social progress, it is also critical to decarbonise the global economy. We have been able in 2019 to avoid 3.2 million of tCO2 to the atmosphere for our customers.

Our sustainable business model is based on transforming our networks, with lower environmental impact. This reverts to great efficiencies, which, together with renewable energies, places us as a benchmark in our sector.

Thanks to this, the energy consumption per unit of data traffic has decreased significantly to 72% (compared with 2015). In Europe and Brazil, 100% of the electricity in our operations is already renewable. We reduced by 50% in 2019 compared with 2015, reaching the goals we had set for 2025. It is remarkable that we are one of the few Telco's all over the world that are committed with the 1.5ºC scenario which has been also validated with Science Based Target Initiative.

But our final goal is to create TRUST capital with all our stakeholders. This is why we are committed with gender equality; with 26% women in management positions and 30% in our Board of Directors.

### Consistent growth profile; strengthening balance sheet

Turning to slide 7, you can see the consistent and solid growth track-record we have shown across all fronts during the last 6 years, highlighting revenues growing on average above 3% over the period and OIBDA at 2%.

Sustainable business models, hence shareholder value, must be supported by growing free cash flows. We reached in 2019 the record high FCF since 2013, at almost 6 billion euros. This strong cash generation is the main driver of net debt reduction across the period to 37.7 billion euros, bringing down leverage to 2.46 times, and helping us remain committed with our investment grade credit rating. Including post-closing events, net debt would reduce to approx. 37 billion euros, 15 billion less than in June 2016.

And as Laura will explain later, we have not only reduced the net debt, we have also extended its life, reduced its cost and granted fixed rates at current low levels for the long term; strengthening our capital structure.

### 2019 global reach and growth

Moving to slide 8, we can see our growth profile and global reach.

We offer our products and services to 344 million customers, and as you can see in main metrics, we posted growth, revenues, OIBDA, OIBDA minus CapEx and FCF. This was thanks to the efforts done during past years in Company transformation and investments.

### 2019 proof points of business sustainability

On slide number 9, let me go over the main proof points achieved in 2019 regarding our business sustainability.

During 2019 we drove a consistent commercial performance, with ongoing strong momentum on high-value accesses; +18% in LTE accesses and +8% in FTTx/Cable.

Our growth in strategic accesses supported the 4.3% average growth in revenue per access in organic terms vs. 2018. Loyalty continues to be key for us, and our Group churn level remained stable year-on-year.

Clear examples of improvement in customer lifetime are: 8 year in mobile contract in UK, 6 years in O2 Free in Germany and 5 years in convergence in Spain and in mobile contract in Brazil.

Network leadership is as well key for an improved digital customer experience. Net Promoter score finished the year in 21%, 1 percentage point year-on-year improvement.

### 2019 guidance achieved | Above in revenues

Moving to slide 10, all guidance metrics were achieved in 2019, and we surpassed the targeted revenue growth of 2% as we ended growing 3.2% in organic terms. OIBDA grew 1.9%, in line with the guided "around 2%", and CapEx to Sales stood at 15%, as targeted.

We confirm the 2019 dividend of 0.40 euros, with the second tranche to be paid in June 2020 (0.20 euros).

As you can see in the slide right-hand side chart, our dividend is more than covered with FCF per share of 1.15 euros and underlying EPS of 0.65 euros. Finally, our dividend yield stands at 6.4% with share price of the last Friday.

I now hand over to Ángel to go through a detailed review of the business performance.

**Ángel Vilá** – *Chief Operating Officer*

## 2019 financial highlights

Thank you José María.

Turning to slide 11, key financial highlights for 2019 are:

Revenues topped 48.4 billion euros, growing organically 3.2%.

Underlying OIBDA reached almost 17 billion euros, while reported OIBDA was 15.1 billion euros, increasing organically 1.9%.

Underlying net income and EPS reached 3.6 billion euros and 0.65 euros per share, respectively.

FCF reached 5.9 billion euros, up 20.6% vs. 2018.

Net debt decreased 8% vs Dec 2018 to 37.7 billion euros.

CapEx over Sales stood at 15%.

## Financials in a nutshell

Turning to slide 12, we look in more detail to our financial performance. Reported figures have been affected by non-recurrent factors which Laura will explain later.

During Q4 steady organic revenue growth continued, with all segments but Hispam North in positive. As for the latter, as you know we have recently announced a transformational new model in Mexico that will allow to reverse operating trend.

Furthermore, and thanks to our investments in the past years and our innovation efforts, it is worth to highlight that our revenue mix continues transforming. As such, 55% of our total revenues came from Broadband connectivity and Services beyond connectivity, 3 percentage points more than a year ago with digital services reaching 7.7 billion euros in the period January to December, up 17% versus 2018 in organic terms.

Revenue performance comes along with efficiency savings that are increasingly visible. In fact, we have overachieved the digitalisation efficiency savings target for 2019. These and other savings, and overall execution on key drivers explain OIBDA performance, growing organically 1.9% in the year.

## Well invested platforms

On slide 13 we can see that, thanks to our investment in network and systems, we have closed 2019 with a strengthened leadership position in FTTH coverage, and the largest UBB footprint in Europe and Latam with access to 128 million premises passed, of which 56 million are owned. In addition, we continued signing network sharing agreements in the UK, Germany, Brazil and Mexico, while switching-off our legacy networks.

Digital services continue to deliver strong revenue growth, at close to 20% year-on-year in 2019, already delivering almost 8bn of revenues, with IoT in the lead growing at a 45% rate.

Finally, 40 products based on Artificial Intelligence and Big Data have been deployed during the year on standardised capabilities, and services such as device recommender and personalised offers have been launched.

## Becoming 100% Digital while reaping savings

Slide 14 shows the E2E Digital Transformation program acceleration, which allowed us to capture more than €420m of savings in 2019, largely above the target of more than €340m, and additional to those captured in 2018. In sum, more than two thirds of the more than €1bn savings commitment under the 3 years (2017-20) program, has been already completed.

Digital sales increased by 28% year-on-year in 2019 with "Agile" improving the 'time to market' and campaign effectiveness; calls to contact centres were reduced by 12% vs 2018; and more than 1,500 robots were deployed in 2019, with a significant impact on both quality of service and efficiency.

### B2B | A distinctive growth engine

Moving to slide 15, we look at the B2B segment, one of Telefónica's superior growth drivers.

The B2B segment, accounting for 26% of Group revenues in the fourth quarter, is leveraged on our "Core Digital" offer to provide communication, cloud and security services to corporates, enriched with owned and third-party's VAS.

B2B digital services, as the main growth engine, delivered solid revenue growth of 26% year-on-year to 2.2 billion euros in 2019, mainly in Cloud, IoT and Security, where we enjoy a distinctive profile.

### Spain | Back to FY OIBDA growth

Moving to slide 16, we review the solid and sustainable performance of our Spanish operation.

Telefónica España closed 2019 with a larger and better-quality customer base. We have grown both our convergent customer base and ARPU, at a time most of our peers struggle.

Our differential positioning supports the increased value of our customer base as well as improved returns on investments, particularly in fibre. We have already passed more than 23m premises with FTTH, and uptake levels stood at 28% at the end of 2019, 2 percentage points above those of the previous year.

As such, financials continue pointing in the right direction. Service revenues have grown for 10 straight quarters, and by 0.6% year-on-year in 2019, with OIBDA back to growth in organic terms at the end of the year.

Within a competitive environment our best invested Company continues to deliver benchmark margins and robust OIBDA-CapEx; €3.7bn in 2019 in underlying terms at 27% OIBDA-CapEx margin.

### Germany | Accelerating commercial momentum

Moving to slide 17,

Telefónica Deutschland is accelerating its commercial momentum and reported strong operational trends.

The Company continued growing its customer base by a combined 2% year-on-year and reduced mobile contract churn by 0.3 percentage points to 1.5%. The business has achieved a "good" rating across the main three network tests evidencing the improved network quality and customer experience.

Revenue growth in 2019 was 1.1% mainly driven by the good traction of the O2 Free portfolio somewhat offset by ongoing regulatory impacts. OIBDA declined by 1.1% mainly impacted by regulation and further investment into the positioning of the O2 brand.

Full year CapEx increased by 8.1% year-on-year on LTE roll-out further enhancing customer experience.

### UK | 14th consecutive quarter of top-line growth

Moving to slide 18,

Telefónica UK posted a 14th consecutive quarter of year-on-year top-line growth.

Once again, the Company confirmed its market leading position as the UK's favourite mobile network with a sector leading customer loyalty at 1.0%.

2019 revenues strongly grew by 3.8% and OIBDA posted a solid growth of 2.3%.

Overall, Telefónica UK has delivered strong and consistent outperformance over the last few years reporting CAGR 17-19 of 4% for revenues and more than 20% for OIBDA-minus-CapEx.

## Brazil | Investing for growth bears fruit

On slide 19 we review our Brazilian operation.

One again, Telefónica Brazil showed a stellar set of results in this quarter, backed by a more rational competitive environment, within a macro environment that should gain further growth momentum in 2020. Within this framework we have reinforced our mobile leadership, maintaining a solid year-on-year increase in revenues, and accelerated both OIBDA growth and margin expansion.

- Mobile market share reached 32.9% as of December 2019, the highest since 2006 supported by our differential assets, and we continue widening this quality gap through accelerating our CapEx efforts. Likewise, we remained focused on revamping the fixed business, by accelerating fibre deployment and connections, allowing FBB ARPU to increase by 10% year-on-year in Q4.
- Revenues rose by a remarkable 2% in 2019 thanks to the successful execution of our M4M strategy in mobile, the higher rationalisation in the market, and by high growth fibre performance, that more than offsets the legacy businesses performance and the negative impact of regulation. It is worth to highlight that fixed revenues have sequentially grown by 1% in Q4.
- This top-line growth coupled with efficiencies and the ongoing digitalisation process allowed FCF to increase 19% year-on-year in 2019.

## Hispam | Growth in value; focus on efficiencies

Moving on to our Hispam operations on slide 20.

In Hispam South, Revenue and OIBDA showed a sustainable upward trend as a result of tariffs update in Argentina, the overall growth in contract and fibre accesses, and the efficiencies achieved from the simplification and digitalisation process. All this more than offset the tough competitive environment in the region.

In the North region, we highlight the annual revenue growth seen in Mexico and Colombia in Q4, and the strong improvement at the OIBDA level, positively impacted by tower sales, within our already announced intention to crystallise shareholder value from our infrastructure.

It is also worth mentioning that we reached an agreement with AT&T during the quarter, under which the latter will provide wholesale last-mile wireless access to Telefónica Mexico. This new operational model of Telefónica México allows a more efficient and sustainable use of resources and is expected to have an annual positive impact on FCF of around €230m from year 3.

## Telxius | Sustained growth delivery

On slide 21 we review Telxius' solid results in 2019.

Tower portfolio significantly increased, with 512 towers built and 1,157 towers acquired from Telefónica in Spain, Peru and Chile during the year. Including the agreed purchase of 1,909 towers from Telefónica in Brazil, Telxius portfolio will exceed 20,257 towers.

Telxius closes 2019 with a tenancy ratio of 1.36x, with third party tenants having grown by 48% since its creation in December 2016.

Both revenues and OIBDA again posted sustained growth in 2019, and we are proud to show the consistent high-single digit outperformance over the last few years with CAGR 17-19 surpassing 7% in Revenues and OIBDA.

I now hand over to Laura to continue the review of the business performance.

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

### OIBDA & Net income | Non-recurrent factors

Thank you Ángel.

On slide 22, you can see OIBDA performance was as well affected by non-recurrent factors such as restructuring charges, that will bring further efficiencies, the impacts of the transformation of the operating model of T. México, following the agreement with AT&T and the impairment of T. Argentina. Capital gains from Central American assets and data centers, stemming from our portfolio optimisation, are also included.

As such, all these factors deducted in Q4 close to 700 million euros at the OIBDA level and 1.2 billion euros in net income, while in 2019 reported figures decreased by 1.9 billion euros and 2.4 billion euros respectively.

### FX impact structurally neutralised

Moving to slide 23, we see FX (mainly Argentinian peso depreciation vs. the euro), dragged 1.7 billion euros in revenues, 0.5bn in OIBDA but just 0.2bn in FCF in 2019. At the net debt level, it implied an increase of 0.3 billion euros.

### Deleverage mainly driven by growing organic FCF

Let's now move to balance sheet metrics on slide 24.

Our net debt is reduced to 37.7 billion euros, declining for the 11th consecutive quarter in a row. Annual debt reduction of 3.3 billion euros mainly due to strong free cash flow generation, growing by almost 21% year-on-year, coupled with inorganic measures.

Once post-closing events are taken into consideration, net debt figure would stand at around 37 billion euros.

Lastly, let me mention that when putting together FCF and net disposals we have reached a figure of 7 billion euros.

### Robust liquidity position and attractive LT financing

Slide 25 shows our proactive and broad financing activity, €10bn in total since January 2019 to date, allowing us to extend our average debt life over 10 years while achieving the lowest coupons ever in recent deals.

As a result, our effective interest payments cost stands at 3.49% as of December 2019, 45 basis points lower than in December 2016.

Our percentage of fixed rate debt is 75% and we have a strong liquidity position relative to our maturity profile. In summary, our balance sheet continues to strengthen on a quarterly basis as seen during all of 2019; just put in context that the net maturities that we have for the next 3 years are like the refinancing activity we did in the last 14 months.

### Active hybrid management increased average life at lower cost

On slide 26 we wanted to share a key data points regarding our hybrid management execution to highlight again the improving trends in our debt profile.

Over the last nine quarters we have been the most active issuer in terms of hybrids liability management exercises in Europe and we have replaced a total of 4 billion euros in hybrids, increasing our non-call dates average life by almost 1.5 years and, more importantly, substantially trimming our hybrid cost by 200 basis points to 3.74% achieving 150 million euros in annual coupon payment savings.

In January of 2019 we issued the first green bond in the sector globally and in January 2020 we have become the first telco to issue a green hybrid bond.

I will now hand back to Jose María to recap.

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

## New Guidance criteria | Consistent with New Telefónica

Thank you, Laura.

Turning on to next slide, we believe it is time to commit for growth on the long-term, whilst also reassuring on 2020 outlook.

But before doing so, as we will show on the next few slides, we believe our guidance criteria needs to be adjusted, and along this our new guidance excludes the contribution to growth of Argentina. We believe this is consistent with the New Telefónica, with a higher focus on the core, and removes an element of volatility. This lower-for-longer approach is aligned with our new focus.

As shown on the upper table on slide 27, 2019 Revenues and OIBDA growth excluding contribution to growth in Argentina would have stood at 0.8% a 0.5% respectively, with CapEx to Sales of 15.2%. This is the new base for both 2020 and 2022 guidance.

At the bottom of the slide you can see that all our four business lines showed strong performance in 2019.

## 2019-2022 Financial Guidance

Moving on to slide 28, we are ready to commit for growth in the long-term. When we announced our new action plan last November, we shared with you that new measures will generate, among other effects, more than 2 billion euros of additional revenues in Cloud, IoT/Big Data and Cybersecurity, and 2 percentage points increase in OIBDA-CapEx to Revenues by 2022.

This increased focus on our growing digital services portfolio, along with further data monetisation on more valuable and engaged customers, allow us to guide for revenue growth in 2019-2022 period.

At the OIBDA-CapEx to Revenues level we expect a 200-basis points improvement (from the 19.9% margin reached in 2019) over the period on the back of extreme digitalisation and UBB allowing for legacy switch-offs and more efficient and environmental operations.

We aim to accelerate growth, efficiency and sustainability whilst crystallising value and to achieve this goal simplification is a must. This should allow unparallel business transformation, second to none future infrastructure, a sounder FCF profile and improved capital structure, all aimed at improving shareholder returns.

## 2020 Guidance | We will continue to execute

2020 Guidance, excluding contribution to growth in Argentina and operations in Central America, will continue delivering growth, while combined with a stricter capital allocation and portfolio management within the New Telefónica, all shown on slide 29:

Accordingly, we look for stable revenue, OIBDA and OIBDA-CapEx to Revenues and a sustainable dividend at 40 cents.

We will continue to execute our strategy, with a long-term stakeholder approach to ensure business sustainability.

## 2019-2022 Financial Guidance

Going into more detail about our 2022 guidance on slide 30 and show from where the more than 2 billion euros of additional revenues will come from.
We are developing our already relevant positioning in Security, IoT & Big Data and Cloud. The key business levers are:

- In Cybersecurity, we will automate operations and expand SoC capacity, reinforce sales force in B2B, the brand and product team. At the same time, we will enter in new P&S categories like fraud or IoT security and capture internal business. So, we will activate countries with high opportunity in our footprint and markets outside footprint. B2B Information security market is expected to grow at a 9% CAGR 19-22 within our footprint, according to Gartner.

- In IoT & Big Data, we are already a recognized leading IoT player, with cutting edge platform and analytics in Big Data. We will combine this for making tailor-made solutions to specific industries such as retail, mobility….. Thus, we will accelerate revenue streams beyond connectivity leveraging in-house platforms and partner ecosystem.

- In Cloud, we will deploy new businesses like Edge Computing and cloud network services, to have the best-in-class multi-cloud portfolio (>900k O365 licences and leading SaaS portfolio) with strong professional and managed services to help our clients migrate to the cloud.

## 2019-2022 Financial Guidance

On slide 31 we highlight how we aim to achieve a new level of simplicity.

We are looking for operational excellence; so first, we will streamline the corporate center being simpler and more efficient. How? We will refocus key functions prioritising differential, value-adding activities for other units, linked to new operating models in Telefónica Tech, Telefónica Infra and key markets. We will extract value from synergies & economies of scale.

Second, we continue optimising the use of assets with mobile network sharing opportunities, legacy shutdown in all operations; copper decommission is well advanced in Spain and in Latam is kicking-off. In mobile 2G is at a minimum across countries and 3G will transferred to 4G.

Third, digitalisation efforts will continue along with automation for driving commercial and back office efficiencies. The key axis; one simplifying processes, improving commercial efficiency and focus on customer experience such as digital channel and assistants.

## Summary

To recap, please move to slide 32.

We are creating a new model for Telefónica, that starts with the implementation of an action plan where we show our commitment with the long term and with sustainability. We will focus on those key markets where we can be relevant with a proven sustainable model; we are developing the settings to capture new growth opportunities in areas of higher potential, where we are already established players; and we are taking steps to gain agility so as we can accelerate the execution whilst being more efficient.

This new model is leveraged on the foundations we have built during our recent transformation journey such as UBB massification and digitalisation, that coupled with a ROCE-driven portfolio management positioned us to deliver meaningful progress on our outlook for the next years.

## Q&A session

**Jakob Bluestone** - *Credit Suisse*

I had a couple of questions, please. Firstly, on Spain, can you maybe give us a little bit more some insight into what your expectations are and the outlook? The KPIs did seem to weaken a fair bit during Q4, so your convergent subs and broadband subs both shrank. There was a bit of a deterioration in consumer revenues as well. And so, if you can maybe share with us what do you expect to see in terms of sort of commercial performance in Spain during 2020. And, what should we expect in terms of revenue and EBITDA for that segment?

And then just secondly, your medium-term guidance is for growing revenues, but for 2020, you're guiding for flat revenues. Could you maybe give us a little bit of a sense of when you think the business will start to accelerate and on the back of which initiatives?

**Ángel Vilá** - *Chief Operating Officer*

Thank you, Jakob, for the questions. I'll take the one on Spain.

First, you were touching upon the commercial performance. Here, what I can say is that the Q4 operational performance was impacted by the end of promotional periods, especially at the beginning of the quarter. This was in October, but it showed recovery signs as the quarter improved.

Converged churn was stable from the previous quarter at 1.6%. But within the quarter, the churn was declining as we moved to 1.2% in December. At the same time, we managed to increase the convergent ARPU to EUR 88.4, that's +0.2% year-on-year. Ramp-up of O2 subscribers is going up. We kept on improving the mix of broadband subscribers to fibre within the mix. So, all in all, this was a quieter quarter commercially, but ARPU was up, the mix was stable, the churn was also stable, and we managed to improve our revenue share.

When we look into 2020, what we see is continuation of certain trends. In 2018, we promised to deliver revenue growth in our Spanish operation, which we did. Then in 2019, not only we reached revenue growth, but we accelerated the rate of its revenue growth, and we delivered OIBDA growth, positive OIBDA performance in organic terms. So, when we look into 2020, what we see is growth in key accesses, in value accesses, we see growth in digital services, we see the benefits from launching new services, and we see a positive continued outlook for B2B and wholesale revenues. This should support the evolution of the top line.

At the same time, in OIBDA, what we see is that the benefits from copper decommissioning and digitalization will continue, on top of improved trends in other cost lines; for instance, personnel, the benefits from the latest restructuring program that started flowing in November and December will get full year impact from the first day of 2020, and also the cost of content, that you saw basically stabilized already in Q4 ,is going to stay stable quarter-on-quarter getting into 2020.

CapEx and CapEx intensity in Spain is stable. You should not expect any increase in CapEx intensity in Spain. So, our expectation, and this is not guidance, but this is a trend that we see, is that we are aiming for operating cash flow growth in our Spanish operation.

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

Jakob, going to your guidance question. First, please remind that we are excluding Argentina this time, so we have changed the criteria. And 2019 revenue and OIBDA growth excluding Argentina and Venezuela would have stood at 0.8% and 0.5%, respectively, with CapEx to sales of 15.2%.

And this is the new base for both 2020 and 2022 guidance. Based on that new criteria, we are basically guiding for stability. We'd rather be prudent we are guiding for 2020 on continuing delivering growth while combining with a stricter capital allocation and portfolio management within the new Telefónica. This is a stable revenue, OIBDA and OIBDA-CapEx /revenue.

But we are also ready to commit for growth in the long term. We are more visible through providing both short-term and long-term guidance. When we announced our new action plan that José María commented, we shared with you that the new measures will generate, among other, FX more than 2 billion euros of additional revenues in cloud, IoT, big data and cybersecurity.

You asked about revenue but let me remind you that we have also committed to 200 basis points increase in OIBDA - CapEx/revenue by 2022. By focusing on revenue and the acceleration you talked about, an acceleration will precisely come from executing on the 4 main strategic decisions. The increased focus on our growing digital service portfolio along with further data monetization on more valuable and engaged customers will allow us to fulfil this revenue growth guidance in the mid - term.

**Michael Bishop** - *Goldman Sachs*

Just 2 questions, please.

Firstly, if I could just have a follow-up on the guidance question. So, if you're guiding to stable for 2020, and we look at the Telefónica Germany guidance, which is stable to, I think, slight growth in EBITDA, and then expectations I think that Brazil will continue to deliver fairly strong growth. Could you just give us a little bit more colour on how we should think about the Spanish and also the U.K. outlook within that stable growth outlook for 2020?

And then my second question is, we've had various news articles around the Hispam process. But I was just wondering if you could give us a bit more clarity from your side. Is it a case of all options are on the table for Hispam? Or are you focused on a more holistic approach there? Or could we see a sort of piecemeal approach to the asset portfolio?

**Ángel Vilá** - *Chief Operating Officer*

To reiterate on what was said in a previous response on the Spanish outlook, we see elements that make us feel supportive that top line should be progressing as what we have seen in 2018 and 2019.

We see an environment of similar competitive pressure but focused on the low end. In convergence, we see a solid performance of ARPU; we are adding new services within Fusion. The O2 base will keep on growing, and this is a small drag on the convergent ARPU, but despite this drag, we are increasing, and we expect to increase the ARPU of convergent products. In mobile post-paid, we see similar trends as 2019. In fibre, you will see increased penetration with the benefits that it has both at revenue and cost level.

So, we see support on the trends in the top line in Spanish business. This combined with efficiencies coming from the copper decommission, the digitalization, the better trend on content cost, and the further personnel efficiencies are also supportive of OIBDA. And then, stabilization of CapEx would make me, if I was a betting person, to bet that operating cash flow would be increasing.

At the same time, in the U.K., we have been seeing top and bottom line growth for the last 3 years, several quarters in a row of growth and outperformance in the market. At the same time, what we see is a very competitive market with increasing regulatory intervention. So, we may perceive headwinds increasing in our U.K. business, but we expect to continue outperforming the market.

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

Michael, regarding Hispam, we have a new organization and dedicated team already in place from December. We continue focus on improved of the operating performance of our OBs in Hispam. But at the same time, we are analysing all inorganic alternatives.

We have advanced in the operative carve-out, and we are preparing for a potential financial carve-out. This process, as you can imagine, is generating a lot of attention from third-parties. So, we are in parallel having multiple conversations with potential for in-market consolidation synergies. Since November, we have obviously prioritized the options, and are working actively on some of those alternatives. We will decide based on value creation and also execution certainty and timing.

**Carl Murdock-Smith**– *Berenberg*

I was just wondering, could you possibly provide us with the mix of Spanish converged customers between the high, mid and low-end that you provided in previous quarters? And then secondly, just in terms of the visibility of Telefónica

Tech and Telefónica Infra. Are you contemplating changing how you present your financials, or you continue with the current country split?

**Ángel Vilá** – Chief Operating Officer

Regarding the first question, high-end of Fusion, the way that we define high-end, which is the products that have retail prices between EUR114 and EUR194, is 30%. Then mid-end, which is 27% of the customer base, these are products that have retail prices between EUR99 and EUR109. And then what we define as low-end is 43%. What we defined as low-end has an average ARPU, which is the average overall ARPU of our closest competitor, these are products of prices between EUR50 and EUR75.

Then, regarding Tech and Infra. First on Infra. At this moment, the asset which is within the portfolio of Telefónica Infra is Telxius. That is already disclosed as one of the segments of our business, so we will continue the same disclosure. By the way, this unit is now, if one were to look at OBs, the fifth highest valuable in terms of enterprise value within our group. As Telefónica Infra progresses, it will become a portfolio of equity stakes, some of them majority, some of them can be minority, in infrastructure assets with a wholesale approach open to all competitors in businesses such as towers, submarine cable, fiber (which can be fiber between base stations to support backhaul in mobile, or FTTH), and also, maybe in a later stage, data centers for edge computing. These are the asset categories that we are looking at. But in terms of reporting, which was your question, we will continue to report Telxius in the same way.

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

Let me just complement that probably during the first quarter, we will adapt our results presentation to the action plan that we announced in November. So, we'll give more visibility not just to the infrastructure that Angel just mentioned, but also to Telefonica, Telefónica Tech.

**Mathieu Robilliard**– *Barclays*

First, I had a question about your guidance for EBITDA in 2020, following up on the previous questions. So, if we line up the tailwinds you have, you mentioned that, if I heard correctly, Spain revenues would be broadly stable, and you have some positives in terms of the costs, notably on personnel. I think you had mentioned at the Q3 that you could have a tailwind of more than EUR 200 million cost savings in 2020. As was pointed out earlier, Brazil should be growing, Germany is at least flat… Yet you come up with a guidance for the full year '20 EBITDA of flat. So, I was wondering, what are the negatives that will be offsetting all of these positives? And there's also the reduced spectrum fees in Mexico. So maybe if you could give a little bit of color on the negatives, or maybe you're just being very cautious here and why in that case.

And then the second question, with regards to Hispanoamerica. Chile and Peru saw some deterioration in the revenue trends. Obviously, the political situation in some of these countries has been tough. I mean are you already seeing an improvement in 2020 in these 2 countries?

**Ángel Vilá** – *Chief Operating Officer*

Mathieu, at the risk of repeating myself. Well, you've seen the guidance published by Germany, of broadly stable to slight growth. Brazil also presented results yesterday with a constructive view. At the same time, I've been describing how we see the outlook, which is not guidance for the Spanish business, where again we see supportive trends and we believe that operating cash flow should grow as a combination of supportive trends in revenues, OIBDA and stabilization of CapEx. I also spoke in a previous question to headwinds that we are seeing in our U.K. operation, and the environment in certain Hispam countries continues to be challenging. Telxius will continue to be supportive towards our OIBDA and revenue growth.

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

Regarding the question on Peru and Chile. In Peru, let me highlight that part of the revenue performance in Q4 is associated to the lower margin revenues: handsets and some B2B IT. If you look at the higher-margin revenue, it's definitely going in the right direction. Also in Peru, we have had extraordinary disconnections. Otherwise, the churn would have been similar to previous quarter. And when you clean all of that, we should have had positive net adds in all of the services. So, we are working on that very actively. And I think it's in the right direction. We are focusing much more on our converged proposition there, and also on retention.

In the case of Chile, definitely the social situation has affected us, mainly in contract, but we are starting to reach a floor in some of our services, for instance, prepaid.

But let me tell you that the strategy we are following in Chile and Peru, which is similar to all Hispam, is regardless the macro situation, regulatory still hitting precisely more in Chile and Peru than in other geographies, and also competition, we are building on contract and fiber and Pay TV, with a new technology and lower churn. Our fiber has grown in Hispam South by 17%, and that's the basis for the future. So, we are building a sustainable value access base for the future. We are working a lot on efficiency. So, you see the OIBDA performance compensating part of that revenue headwinds, and we are also working on differentiation. We definitely need to get out of competition just on pricing. We are putting lots of services in place: Movistar play already have 1.3 million active users, If we talk about registered it's 2 million, and it's a platform we just launched a year ago. We are doing data sharing family plans. We are improving the digital interaction with our customers through Novum. So, we are definitely working on a sustainable business model going forward.

So, to summarize; Perú, affected by low-margin and also disconnections. Chile, it's been a poor quarter due to the social situation, we are seeing some improvement in Q1, but it's still soon to see as some of the social situation remains.

**Joshua Mills** – *Exane*

I would like to ask one on the factors going into the guidance and one on your strategy in the UK.

So, if we look at the guidance, what have you built in so far on the potential wholesale revenue losses if Orange were to expand their FTTH footprint in Spain, as has been reported, and also what's been built in for the potential launch of Euskatel's nationwide expansion and then, bringing to the market of new convergent sub-brands by Orange. It would be great to get a sense of how much of a buffer are in place for those three factors.

And then secondly, on the UK, I know the message has always been that "this isn't as convergent market as Spain, we don't need to have fixed line access". But, in Germany, you're doing quite well. In the UK, clearly, the mobile market is under more pressure. And there's an increasing number of alternative operators you could work with at the same time, Virgin and BT are pushing convergence. So, has there been any revision of your strategy regarding UK fixed line and convergence? It would be great to hear what the options are.

**Ángel Vilá** – *Chief Operating Officer*

In your first question, you are linking guidance with wholesale revenues in Spain. I should say that guidance is expressed at group level. We do not guide on a specific revenue lines, on specific OBs. Having said this, I can give you the trends that we are seeing in the wholesale business in Spain.

The "wholesale & others" business in Spain accounts for 18% of our service revenues. It is posting y-o-y growth, which is positively impacted by NEBA wholesale fiber and TV (of the wholesale revenues that we get from selling content to other operators), and this more than offsets the unbundled local loop decline in copper and some non-linearity of other revenues. So, we have been experiencing substantial growth in wholesale revenues of 12% y-o-y, which is higher than what we saw in Q3. And again, TV sale and NEBA upside continue to be there. So, we see positive trends in the wholesale results. With respect to fiber sale by other players, I should say that we have reached agreements with Vodafone, with Orange, with MásMóvil that support the trends that we are seeing in the wholesale business.

Regarding strategy in the UK, we continue to have an outperformance in the market. We see convergence being not demand-led, but more supply-led. It's progressing, but very steadily, I would say. But slower than what we have seen in other markets, such as Spain and others, where us from the supply side drove the increase in convergence.

Of course, as we move into 5G, more fiber is going to be needed in order to have backhaul for the aggregation network. And here, we are in talks with all the players that can supply us with this backhaul fiber for the aggregation network to cope with all the data that will come with 5G. And in this sense, we are already in active talks with other players in order to have the best economics for access to this backhaul fiber.

We continue with our mobile-centric strategy. We have some hedges with respect to convergence moves, such as the MVNO agreement with Sky, and we will continue monitoring the market developments as they move. But our expectation, again, is, within a competitive and regulatory impacted scenario in the UK, we expect to continue outperforming the market and continue to be the mobile operator of choice for the customers in the UK.

**Soomit Datta –** *New Street*

First of all, on Brazil. Could you give a sense as to what process there may be taking place regarding consolidation, and expectations or what we might be looking at. So, in wireless business, is there any kind of process underway? Do you have any ability to kind of proactively drive that process from your perspective, please?

And then secondly, on the share price and on the buyback. As every quarter goes by, pretty much you're deleveraging the company, and the shares are kind of hovering just over the €6 level. To what degree are you inclined to consider a buyback at this time?

**Ángel Vilá** – *Chief Operating Officer*

Regarding your first question in Brazil, the first thing I should say is that our Brazilian operation has posted one more quarter and one more year of outperformance with respect to the market, achieving the best OIBDA margin ever, having the highest market share of contract customers of the last years, accelerating the growth in revenues, accelerating also the margin expansion, and with a 19% growth in FCF. So, we have a very good performance in Brazil.

At the same time, we have always defended that in-market consolidation would be a positive, not only for the competitive environment, but also for the customers in Brazil, especially when there are still investments to be done in such a country that has a continental size.

We think that in-market consolidation would be possible, but none of the three players in Brazil would be capable of doing it alone.

One could look at Oi Mobile from a double point of view, from the spectrum and from the customer base. With respect to the spectrum, it's public the spectrum position of the different players. There are also spectrum caps in Brazil, and this would imply that probably two players could be better suited than the remaining third player to approach this from a spectrum point of view.

At the same time, the second element is the customer base. Oi's customer base is mostly prepaid. Anatel publishes the regional market shares. So, one could clearly see how the market share could be naturally split if there was going to be an in-market consolidation, be it through a consortium of players or be it through remedies back-to-back between the players.

It's a complex process. It's very difficult to proactively accelerate it. Oi is still under some judicial oversight, so they need to be extremely careful, and they are doing it very nicely to go with a process step-by-step to achieve the result. We think that this could be beneficial for all parties involved, but the process is moving slower than what we had expected. We remain interested. We thought that this would be more of some "speed dating", and it probably will turn out to be some "slow-motion dance", but we continue to be interested.

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

Taking your question on potential share buybacks. Currently, we are not analyzing any significant share buybacks, but we will certainly do so once we feel comfortable with debt reduction and leverage profile. We have reduced debt significantly in the past few years, in fact, close to €15bn.

And we are committed to reduce debt going forward on the back of the strong FCF generation we are having. And therefore, we aim to maintain a solid investment-grade credit rating. But we are also analyzing very significant inorganic measures that we are executing. And therefore, we think we are getting closer to the moment where net debt will be less of a concern and therefore, we will then rethink shareholder remuneration policy, including both dividends and potential buybacks. In this respect, I think that we expect multi-billion disposals in the coming future, further crystallization of infrastructure, reduce exposure to Hispam, completion of the pending Central American disposals. And certainly, that will have to bring that moment forward.

You are totally right, on equity free cash flow yield our share price is very attractive. And definitely, share buyback look as a potential efficient use of our capital to improve our ROCE, but we need to feel comfortable with debt levels and credit rating agencies.

**Mandeep Singh** – *Redburn*

First of all, on Germany, once we've seen the results, we've seen the guidance. Sort of really ask you if you're satisfied with the financial and the management performance in Germany because the actual cash flow generation of the asset is quite poor. And you've talked about having delivered the 900 million euros of operating free cash flow synergies, yet the EBITDA minus CapEx of the total company is less than the synergies the company has delivered. So, can you just talk a little bit about the cash generation there? Because if we adjust for spectrum costs, and obviously, the higher CapEx now, there's very, very little cash generation and the dividend isn't covered. So just some thoughts on how you think about that into the medium-term and how the cash generation can improve.

Secondly, obviously, you referred to the gains from the copper shutdown. I understand you've been giving notice now for 5 years. Can you just give us a few drivers of where the money is coming from? Is it from selling the exchange and then realizing a real estate gain? Is it efficiency savings from no longer having the costs? But could you give us some idea of the quantum and the sort of tenure of this? Is this going to be an increasing momentum in terms of how many central offices get closed down? And will that rate of savings or gains be improving over the next multiple quarters? So just some more color on that, please.

**Ángel Vilá** – *Chief Operating Officer*

Regarding Germany, what we are seeing is that Germany is posting growth and having a strong trading and operational momentum.

This had not been the case in the prior years since we did the combination with E-plus. We went through a process of integration that took its toll in the network consolidation. Also, we had to agree to the remedies that led to the market conditions that you know. But finally, in all the network tests that we have in the market, we have achieved (not only in network but also in customer experience) "Good ratings". This is allowing us, with some investment in our brand and the launch of the "O2 Free" packages, which are ARPU accretive, to go back to growth.

And Germany used to guide growth ex-regulation impacts, now we are talking about growth period, without qualifying this. We have been able to reduce mobile contract churn by 0.3 p.p. to 1.5% q-o-q. And we have to invest, and this was very well flagged by our German colleagues in the Investor Day that they had back in December; we are going to have to invest in the network for the next 2 years with CapEx intensity, and therefore cash flow generation is normalizing on year 3.

Regarding copper shutdown in Spain. We have done around 500 closures of central switches in Spain, out of around 8,500 switches that we have. So, it's less than 10% of the switches that we have in Spain. This process is the result of having invested solidly and consistently in fiber in the country, which is allowing us now to reap the benefits in terms of efficiency and in terms of reducing capital intensity.

So, here we have benefits of divesting the copper itself, we have the benefits of being able to free-up real estate, real estate that can either be divested or can be re-utilized for activities such as edge computing. At the same time, the operation of a full fiber network is at a fraction of the cost of operating a copper network, it increases customer satisfaction because of the lower failures. And also the ability for us to remotely address those failures with fiber is much enhanced compared to what it was with copper. So, all of these are benefits that we're going to be seeing for the years to come. As José María was saying in his part of the presentation, we are going to expect to close all our copper switches before 2025.

So, you should be expecting us to continue this efficiency process in which we are pioneers in the sector globally. And we would expect also other players to take this type of approach. In due course, you should see similar optimization of our network in places like Brazil as we grow our fiber network in the country. This will allow us, especially in the state of São Paulo, to conduct a similar process.

**Akhil Dattani** – *JP Morgan*

If I could start maybe with the B2B market in Spain, please. You've actually delivered a strong quarter in Q4, but I was keen to understand the outlook beyond that, and specifically, we've seen some comments in the Spanish press suggesting the public sector contracts in Spain start to see some downward pressure. So specifically, there have been comments around the police and civil guard contracts, which apparently have been priced down quite hard, and we've seen some of your peers come into those contracts. So, just I guess keen to understand what we see in the public sector. Is this article accurate? And is there a broader trend here? Or should we not put too much emphasis on this article? So, I guess that's the first question.

And then the second question, I guess, is pooling some of the comments you already made on Spain as a whole and just focus on the consumer segment. You've had a relatively stable performance through the last 12 months. But obviously, Vodafone has been very poor, and we've seen Orange's trends deteriorating. So, if I look at the market as a whole, it does look like the Spanish consumer market is currently in decline. So, I guess just keen to understand how you sustain your outperformance at the moment. And do you see the market recovering? Or do you think the current market pressures we're seeing will sustain?

**Ángel Vilá** – *Chief Operating Officer*

The B2B segment accounts for 29% of our service revenues in Spain. It's been growing now for the seventh quarter in a row on the back of excellent IT growth.

This is the combination of 2 components. One is the communications revenue, which is very competitive and shows a decline y-o-y of 3.3%. This is where the competition for renewal of contracts, such as big corporate contracts or public administration contracts, especially when they are based on just pure communications, we are seeing pressure in these renewals. But at the same time, what we have is a growth in IT. We have growth in digital services to the tune of 15.1% y-o-y, and this is of course, supported by our capabilities in digital services for B2B. So, the combination of these 2, a challenged and declining communication revenue, but a double-digit growing digital services is supportive of the trend that we see of growth in the B2B segment going forward.

On the consumer, and especially on the market environment, I should say that concerns about the competitive situation in the Spanish market we feel are overdone. We think that those concerns are exaggerated.

The fact is that there is competition, of course. But this competition is quite intense in the low end of the market, and we have proven again to grow even in this environment of competition.

We have grown in revenues, we have grown, very importantly, in revenue share, while achieving benchmark OIBDA and operating cash flow margins. The market is getting more polarized, but we have a track record of successful anticipation and adaptation to the market conditions. We were pioneers in fiber, we were pioneers in convergence, we were pioneers in TV, we were pioneers in transforming the channels, we were pioneers in switching-off the copper with the fiber transformation, we are pioneers in launching new digital services…

So, we continue fostering different initiatives, and we are looking for new opportunities. The environment, of course, is demanding, and requires actions to anchor our value customers, and of course, actions on efficiency; but we have been doing this for years and we have many more levers that we can play with and defend ourselves. So, we believe that this is the reality of the Spanish market, and concerns are being overdone.

We have a solid and sustainable model in Spain, and you may think that these are words, but I can give you facts.

So, portability: average mobile portability in the market has been around 600k per month in the last 3 years; 2018 was 633k, and it's been 614k in 2019, so stable to slightly better. That's for the market, but for us: the average mobile portability loss for Telefónica España since 2014 is 28k per month. In 2019, it was, guess…28k per month, so stable.

Total sector revenues in the market are flattish. We are increasing our market share of revenues in a flat market. So, we believe that we can navigate well and continue to create value and capture value in a market that is being more polarized, but where we continue to be strong in the value segments of the market.

**Luigi Minerva** - *HSBC*

Good morning and thanks for taking my questions. It's about your infrastructure strategy and firstly, I wanted to ask you know what's your view about the ownership of Telxius, and in general, of Telefónica Infra, and whether you would consider giving up control in order to crystallize better value for the group.

And secondly, looking at the U.K., what are your options there, particularly with regarding CTIL?

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

Taking your first question. We are really satisfied with our existing space in Telxius. Let me elaborate a little bit more.

We think that the way Telxius is being managed contributes to the strategy of the Group. I mean not just in terms of putting together all the towers and creating the value, something that by the way we did start years ago and some of our competitors are starting to think over now. But also, in terms of co-location, in terms of contributing to our strategy, in terms of contributing to generate additional revenues, and therefore, the expertise that the Telxius management team has accumulated over the past year is a very valuable piece going forward. So, we don't think about reducing our stake in Telxius.

But on the other side, we are significantly contributing more and more towers into Telxius. As Ángel has said before, including the ones that we have signed with Brazil a few weeks ago (it's 3,000 towers more) Telxius has now 20,257 towers, therefore has crystal-real assets, that, again, have significant value. But you should not expect from us to dilute our share.

And we are also very happy with the existing shareholders or partners in Telxius. We might think about crystallizing the value of Telxius in different manners. And on that, we are talking with our partners because we think that there is value on this kind of assets. Although (some of our competitors) are lagging behind in putting together those units, we have that unit being created. And we think we can accelerate the value crystallization of that without having to reduce our stake.

And remember that we still have more than 40,000 towers within the Telefónica Group and Telxius will always be our preferred option to crystallize the value of those towers. So, I think that going forward, you should expect from us to realize more value through Telxius without having to reduce our stake.

**Ángel Vilá** – *Chief Operating Officer*

Regarding CTIL, is a very attractive asset. It's a very unique asset in the U.K. It has around 16,000 towers, monetizable towers. It's owned 50% by us and by Vodafone.

We are in a 2-stage process. The first one is business preparation. The business preparation means converting a company that was wholly owned subsidiary of the 2 partners with a cost-orientation mode, into a tower company that has market conditions and a P&L of a tower company with all the arms-length contracts with both the shareholders (Vodafone and ourselves), and also ready to accommodate co-location of other players in the company. We are almost finalized with the business preparation, so, then we will move to the second stage which is the monetization or valuation of this asset.

Our preferred route, as José María was saying, is to contribute it to Telxius. When we contribute towers or stake of a tower company into Telxius, it's from our side an equity contribution in-kind, and our partners are topping-up the equity contribution in cash. So, we are monetizing the asset because we continue to consolidate that cash, that is injected as equity by the partners into Telxius, into our net debt figure, which reduces accordingly.

So, we are monetizing this way. But at the same time, the asset is generating lots of interest from different players in the market. And we remain open to alternatives with, again, Telxius being our preferred route for this transaction because it allows us to achieve a double objective; on the one hand, monetize, and on the second one, maintain the control of a more and more valuable asset.

**Fernando Cordero** - *Santander*

Thank you for taking my two questions. The first one is related with your strategy in LatAm and, in that sense, I would like to know how you stand your exposure to the international wholesale business, that I believe it's quite relevant in the region. Could it justify Telefónica Group maintaining a minority stake in the current Latin American operations figure if there's going to be a common number of all of them or if there is going to be, let's say, strategic decisions on a per country basis?

And my second question is related with spectrum investments in 2020. Taking into account that those auctions, particularly in Europe, are going to take place in low-frequency bands, and also considering your recent decision in Colombia, although you cannot extrapolate the same situation in Colombia to European markets as you have withdrawn from this auction. I would like to know what are your views and your behaviour regarding this two spectrum auctions Spain and U.K.?

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

Thank you for your question. On the international wholesale business angle that you mentioned, obviously, that's an important part, but that can continue regardless any ownership structure with Telefónica Hispam.

In any case, with the decision we took in November, we want to increase the optionality of our portfolio but also to modulate our exposure to Hispam. We are not saying that we will reduce our exposure to Hispam completely, but rather reduce it. As well as we are creating ways to maximize the value, both organically and inorganically.

So that's an important piece, but obviously, is not a critical part of the decision at all. And as I said, our line of thought is to reduce the exposure rather than decreasing completely.

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

With regards to your questions about upcoming spectrum auctions, you know, we are going to apply the same criteria that we have been applying in the different auctions. And therefore, it's a strict financial discipline.

We have a team that has a significant expertise in valuing spectrum, and you are right around the bands, it's also right that we need to also contemplate the spectrum map in every single country. So I cannot give you more visibility around that, but you can count that we'll be really disciplined on those auctions.

**Nawar Cristini** – *Morgan Stanley*

I have 2 questions, please. Firstly, I wanted to ask about fibre regulation in Spain. Could you update us on the CNMC's review of the competitive cities? Or what are the next milestones here? And where do you see the number of the cities going? And what are the implications on Telefónica?

My second question is on your pricing strategy. You increased recently the price points on Movistar, which is very positive, in particular, given the market conditions. But at the same time, you continued to push "O2" as well by introducing it to the shops, by fleshing out the "O2" portfolio with a number of new offers. So, I was keen to better understand the positioning of the "O2" brand. Is it all about retention? Is it more? And more generally, could you help us understand what sort of actions you have put in place to keep the cannibalization risk under control?

**Ángel Vilá** – *Chief Operating Officer*

Thank you for the questions. Regarding the competitive areas in Spain, we're expecting the revision to be done finally by 2020. This revision is very much overdue. We estimate that the current number of total competitive towns to be more than 250, that would be exceeding 2/3 of the population; but only 66 cities, which is 35% of the population, are currently recognized as competitive areas, and therefore, unregulated. We think that the current market reality is not well reflected, that 66 competitive areas is outdated, but we are encouraged by the fact that this review is going to be taking place during 2020. And we are confident that the regulator will reflect the market reality, that has evolved very much since 2015 when the last review was done.

The second question, which was a long one. I think that there was a part linked to the multi-brand strategy. And if we fail to respond completely, please feel free to complement the question. Our multi-brand strategy is designed to suit all market segments, with a profile of positioning of channels and propositions which is designed to avoid cannibalization between the different brands. We are also using this tool to compete in the lower segment of the market, which is more competitive, while preserving our premium positioning of the Movistar brand in the upper-part of the market.

We are very satisfied with the performance of “O2”. “O2” is achieving very nice results (over 175,000 fixed broadband subscribers, more than 350,000 mobile subscribers) and at the same time, doing it with a low churn of around 1%. So this is a positive performance, and you should expect us to continue using this strategy, especially given the polarization that we're seeing in the Spanish market.

**Nawar Cristini** – *Morgan Stanley*

My question was, I guess it's also about how do you keep the cannibalization risk under control. Is it “O2” used only as a retention or is it more? So, the question I guess is how can you prevent this cannibalisation risk going forward?

**Ángel Vilá** – *Chief Operating Officer*

Well, one differential clearly is the content which our Movistar “Fusión” propositions have different degrees of TV, which would not be the case of the propositions in “O2”. So, these are differentiated in terms of the proposition to the customer, in addition to the differentiation of positioning, channels and segments of the market that it's addressed to. So, we are using it, and obviously we have the information to monitor how a potential cannibalization may be happening, and this is not a concern at all for us.