



Telefonica

RESULTS

JANUARY | SEPTEMBER 2019

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Q3 19 Highlights

Mr. Ángel Vilá
COO



Q3 overview | Advancing on strategy execution

Relevance



Larger footprint, technologically more advanced

UBB leaders in Europe & LatAm, 123m premises passed (54m own network, +11% y-o-y)

#1 Virtualisation (~100m customers in “Full Stack”, +6pp) and AI

Better and more loyal customers

346m accesses: Mobile contract +6%, FTTx/Cable +11%

Avg. Rev/Access +4.3%; churn -0.2 p.p.

Sustainability



Growing sustainably

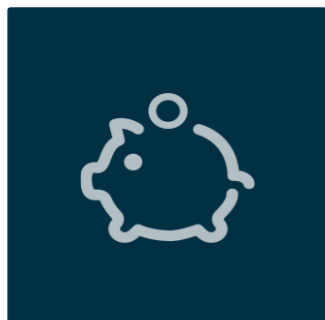
Growing profitably

Revenue +3.4% organic; +1.7% reported / Service revenue +1.8% organic y-o-y

OIBDA +0.8% organic / FCF growth +40.3% to €4,150m in 9M / €0.47 Underlying EPS in 9M

On track to meet 2019 guidance

Returns



Simpler, more efficient

Switching off legacy (>400 COs closed in Spain) / Sharing networks (TIM, American Tower, Vodafone)

Executing E2E Digital Transformation; 80% of 2019 targeted savings already achieved (>€340m)

Enhanced financial flexibility

10 Qs of Net Debt reduction, down EUR1.9bn in Q3 / Avg Net debt maturity >10yrs

Continued focus on portfolio management to improve ROCE

Accelerating strategic actions in Q3

Further efficiencies

Spain: Redundancy program 2019 (run rate of direct savings ~€210m from 2020; accretive in FCF since year 1)

Digitalisation savings (80% achieved in 9M)

Continued CO's switch off in Spain (157 in Q3; >400 in the past years; ~2k in 2021)

Legacy decommission across the Group

Portfolio management

Accelerating the monetisation of mobile telco infrastructure

First monetisation step; transfer to Telxius of towers in SP, PER and CHI. BRA, GER, UK to follow

New partners to enrich value proposition

Agreement with Prosegur (50/50 JV)

Growth opportunity in the residential/business security services market

Agreement with Atresmedia (50/50 JV)

Aiming to lead fiction series production in Spanish over the world

Alternative models to accelerate fiber expansion in Brasil

Partnership American Tower; Franchising Terra

Less CapEx ; reduced time to market

Key operating metrics

+11%

FTTx/Cable
14.2m accesses

67%

Penetration o/FBB
+8 p.p. y-o-y

+16%

LTE
129.8m accesses

54%

LTE penetration
+10 p.p. y-o-y

4.3%

Avg. Rev./Access
Q3 y-o-y

-0.2 p.p.

Churn Q3 y-o-y
Better sequential trend
-0.2 p.p. q-o-q



> Avg.lifetime value

Improving sustainability

UK: >8 yrs mobile contract

Fusion Spain: >5yrs

Key financial metrics

€ in millions	9M 19			Q3 19			
	Reported IFRS 16	Reported y-o-y	Organic y-o-y	Reported IFRS 16	Reported y-o-y	Organic y-o-y	
Revenues	36,023	0.7%	3.6%	11,902	1.7%	3.4%	
OIBDA underlying	12,611			4,243			
OIBDA	11,450	(4.9%)	1.1%	2,748	(31.9%)	0.8%	▶ €1.7Bn restructuring provision in Spain
OIBDA margin	31.8%	(1.9 p.p.)	(0.8 p.p.)	23.1%	(11.4 p.p.)	(0.8 p.p.)	
OIBDA-CapEx (ex-spectrum)	6,259	(10.2%)	(1.5%)	918	(59.4%)	0.3%	
Net Income	1,344	(50.6%)		(443)	c.s.		
EPS (€)	0.22	(52.6%)		(0.10)	c.s.		▶ Underlying EPS 9M €0.47
FCF	4,150	40.3%		1,394	(1.8%)		
Net Financial Debt ex- leases	38,293	(8.1%)					

Right on track for 2019 guidance | 9M in line with expectations

Operating 2019 guidance (organic)	Guidance 2019E	9M 19
Revenues	Around +2%	3.6%
OIBDA	Around +2%	1.1%
CapEx/Sales ex-spectrum	Around 15%	14.4%

Expect solid Q4 OIBDA to deliver full-year guidance

2019 DIVIDEND €0.4/SH. CASH

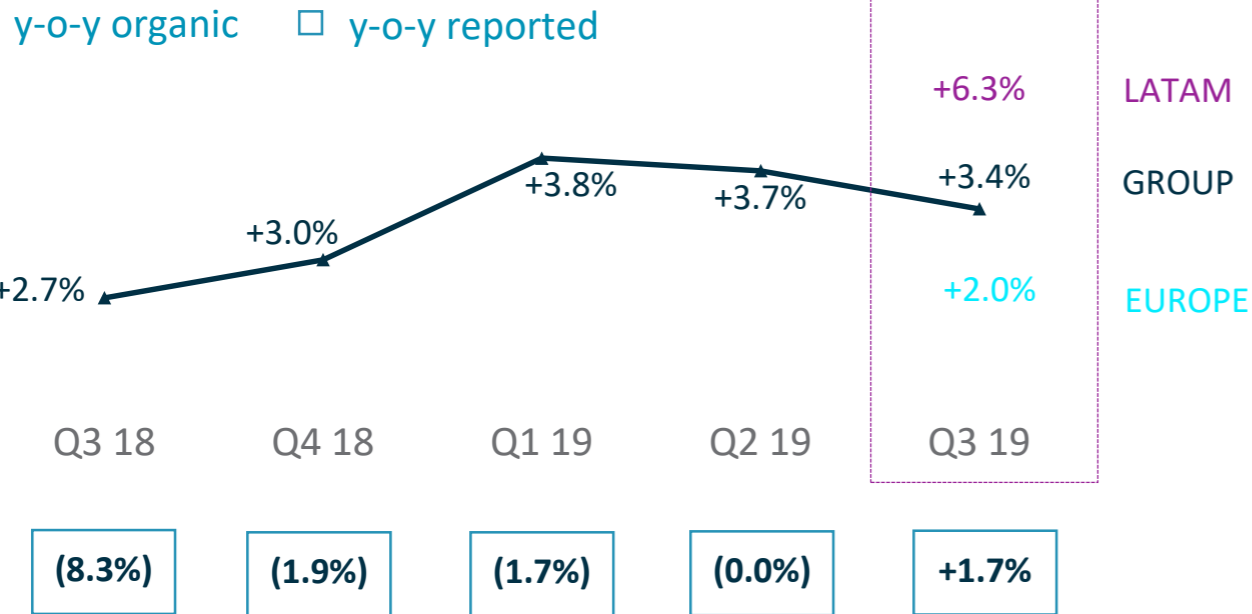
Interim Dec-19	€0.20/sh.
Final Jun-20	€0.20/sh.

Dividends to be paid in 2019 calendar yr. €0.40/sh.

Cash: 20/Jun/19 €0.20/sh.
Cash: 19/Dec/19 €0.20/sh.

Solid fundamentals

Revenues

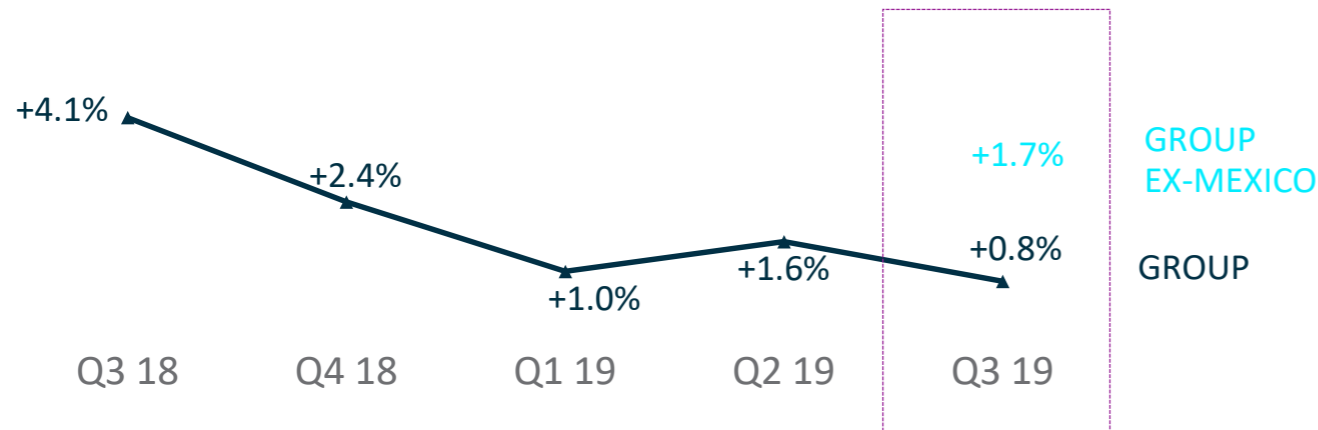


Delivering consistent growth trends

- ✓ BB & SoC 55% of total revenues; +2 p.p. y-o-y
- ✓ Q3 Digital revenues +17.4% y-o-y
- ✓ Strong momentum in B2B (+3.7% y-o-y)

OIBDA

y-o-y organic

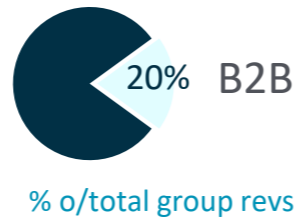
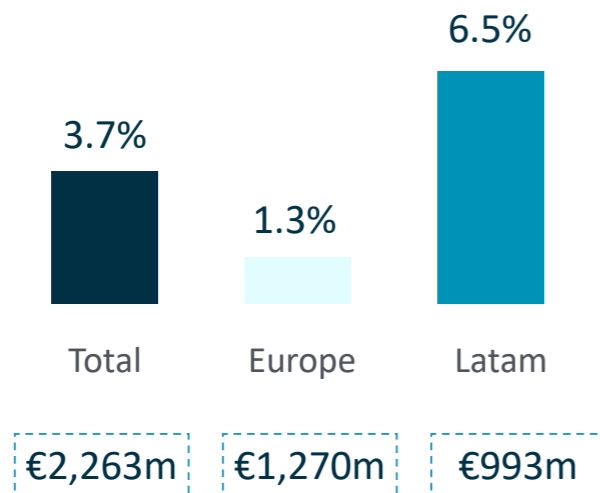


- ✓ Improved OIBDA trends in key markets SP, GER and BRA; strong UK performance
 - SP: +1.8 p.p. q-o-q
 - BRA: +4.3 p.p. q-o-q
 - GER: +1.0 p.p. q-o-q
 - UK: +5.7% vs. Q3 18

B2B | Growth momentum

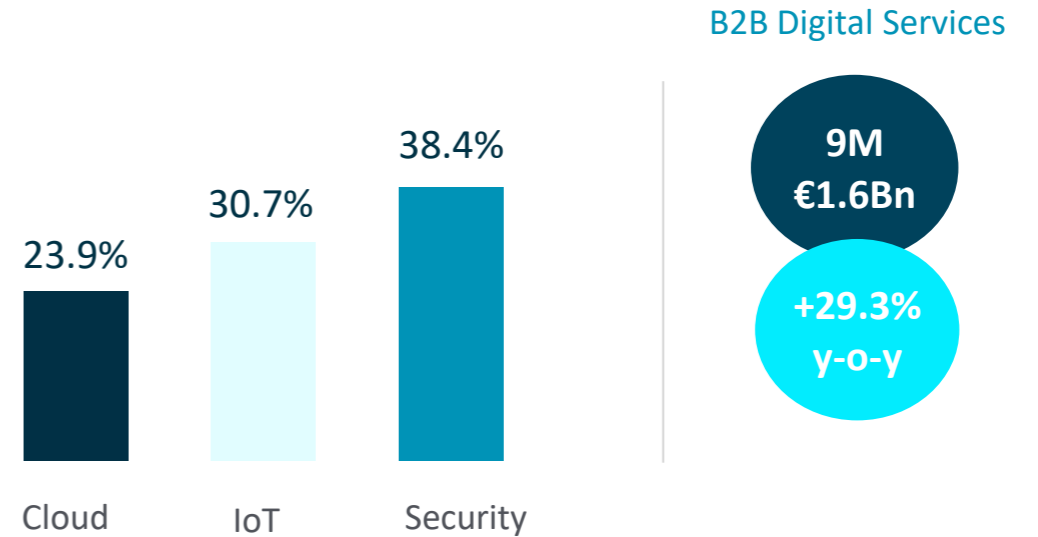
Business Scale

Q3 y-o-y org. revenue



Digitalisation opportunity

Q3 y-o-y org. revenue



B2B Digital Services



Cloud
Top 3 reseller worldwide
825k O365 licenses

IoT
Leader in M2M services
worldwide (Gartner)

Security
Global MSSP Player (GlobalData/Gartner/Forrester)
due to network, customer relationship and scale
11 SOCs & Telco Security Alliance

- ✓ Tailor-made solutions (own + global partners)
- ✓ Customer focus: IT for growth, efficiency and returns
- ✓ Relevant deals; improved CSI
- ✓ Low CapEx intensity

Room to grow even further in the ICT market

B2C | Data-centric value proposals

Maximising monetisation

- **Data and handset flexible offer** (GER) (following UK)
- **Unlimited data** launch in UK (entry level >blended ARPU)
- **Flexible data** (roaming and data-sharing)



Integrated Devices

- +High-end devices
- +Financing
- +Renewals
- Subsidy

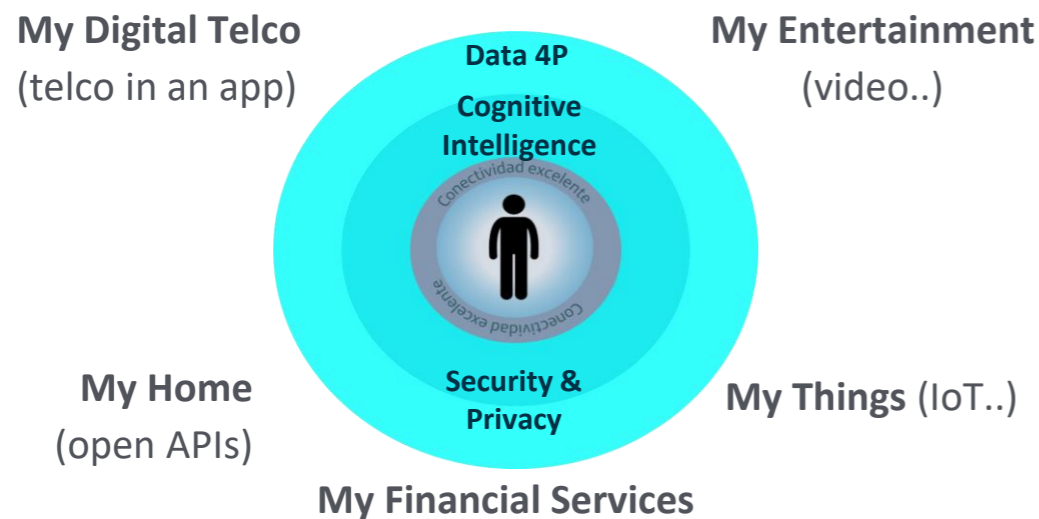


Q3 Handset renewals y-o-y

“Phoenix” Program
7 countries

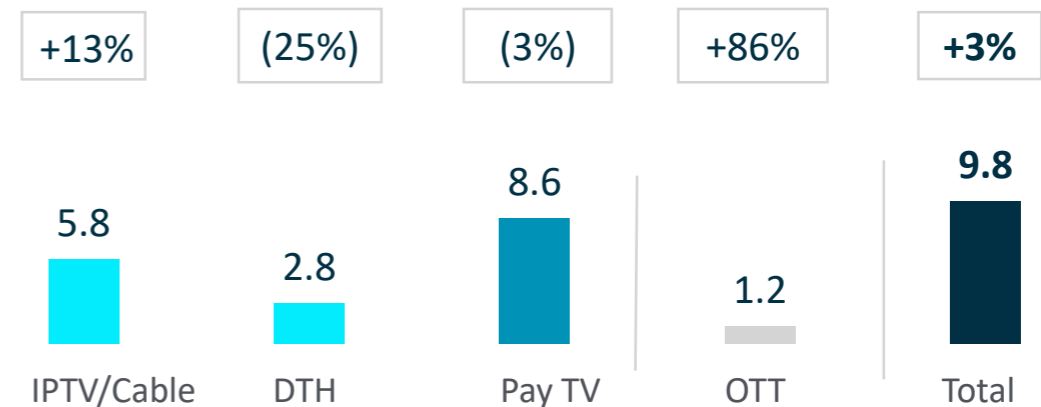


Key digital spaces to play scale



Video engagement

(Sep-19; m) □ y-o-y



Leading-edge technological platforms

1st Platform & 2nd Platform

123m UBB premises passed
54m own (+11% y-o-y)

79% LTE Coverage
(95% Europe)


Better starting point for 5G

- # 1 FTTH position
- # 1 Virtualisation

67% Digitalised
processes

33% Full Stack
customers migrated

Network Sharing & Wholesale agreements

 VDSL; Cable (24m homes passed)

 5G

 4G/2G

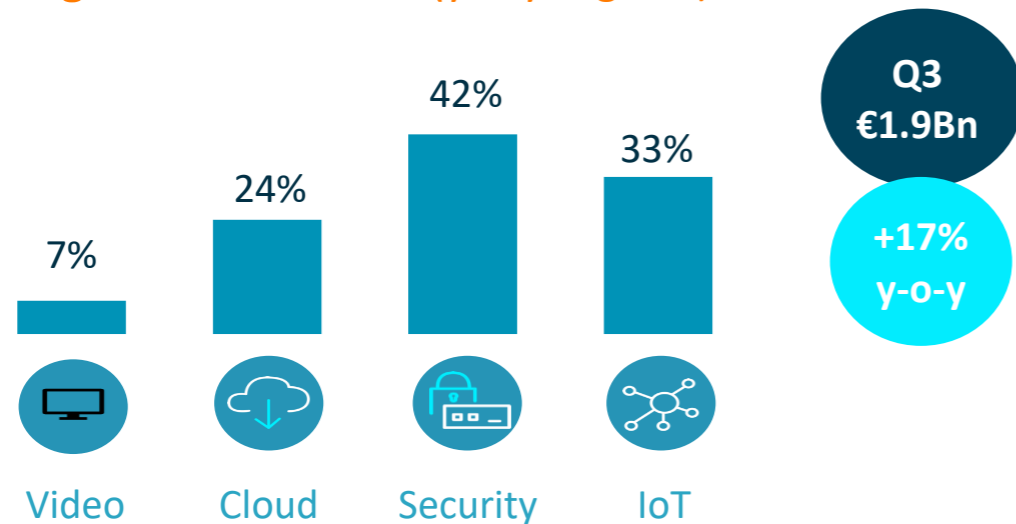
Switching off Legacy

 Copper decommission 2020-25

 2G Single grid

3rd Platform

Digital Services Q3 (y-o-y organic)



4th Platform

New customer relationship



AURA

8 Countries

Movistar Home

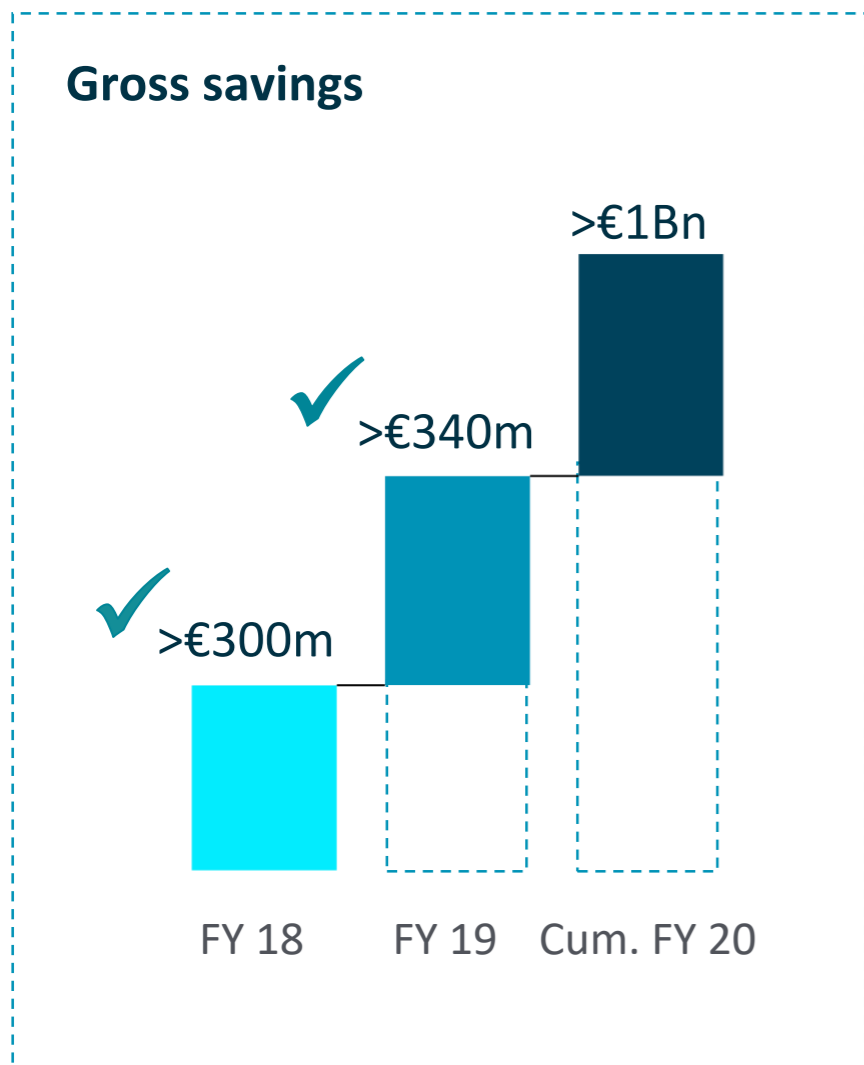
Home as a Computer

Internal application

Network Planning /offering personalisation...

Digital Transformation at the core

✓ 80% achieved
(o/FY 19E)



Digital Sales Experience
(45% o/savings)

+27% y-o-y
Online operations

- >75% **personalized** offers (SP)
- >60% FTTH sales y-o-y (BRA)
- >27% y-o-y (UK)

Digital Customer Service
(30% o/savings)

-13% y-o-y
calls to Contact C.
(B2C)

- **Cognitive Contact Centers** (>34M calls in BRA & PE)
- **Use of chatbots and WhatsApp**

Process Automation
(25% o/savings)

> 1,000
robots

- **Top worldwide RPA programs** (BRA & SP)
- **Leaders in Blockchain** (>800K daily operations in BRA)

Q3 19 Results

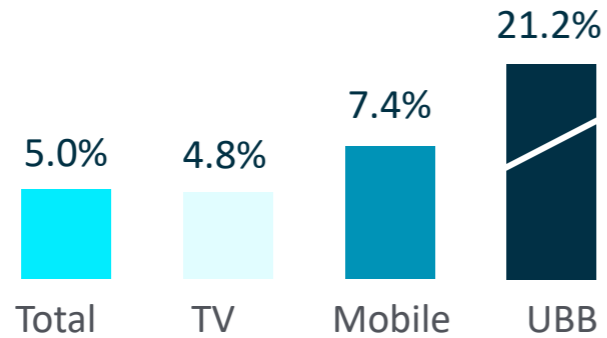
Ms. Laura Abasolo
CFCO



Spain | Solid value strategy

Convergent accesses

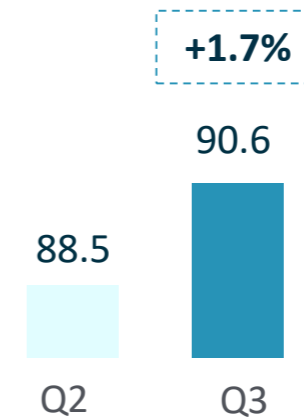
Sep-19 y-o-y



- ✓ 22.9 million accesses (+5% y-o-y)
- ✓ 4.9 accesses/convergent customer (+0.1 y-o-y)
- ✓ Q3 churn 1.6%

Convergent ARPU

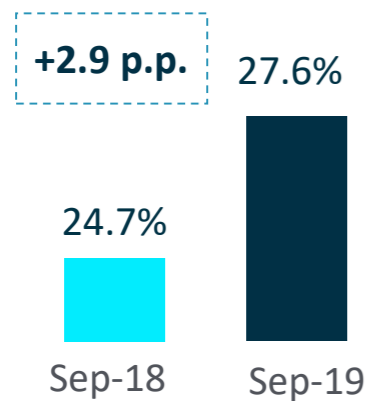
€/month; y-o-y



- ✓ More services per bundle
- ✓ M4M in Q3
- ✓ More customers out of promo

Superior networks; higher returns

FTTH Uptake



- ✓ 22.7m FTTH premises passed (+1.9m in LTM)

Stronger and more segmented offer

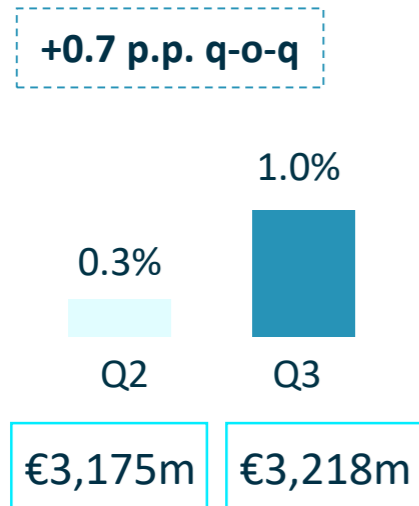
- ✓ Allowing to capture value in new tiers
- ✓ Digital Services; differentiation & revenue stream
 - Movistar Money, Movistar Car...
 - Security JV created in Q3

Stability and growth: Reinforcing leadership

Spain | Strong improvement in Revenue and OIBDA trends

Revenue

y-o-y organic

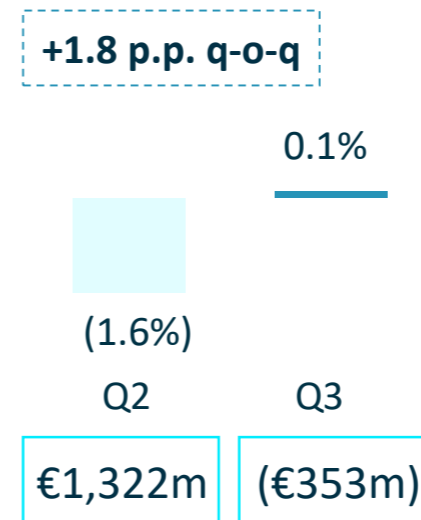


- ✓ Growth for 9th Qs in a row
- ✓ Service revenues +1.0% (Q2: +0.3%)

- ✓ **B2C Revenue** (Q3: +0.2%)
 - Convergent accelerating (Q3: +5.4%; Q2: +2.9%)
- ✓ **B2B Revenue** (Q3: +0.4%)
- ✓ **Wholesale & Other growth stable** (Q3: +4.1%)
 - FTTH and TV accelerating

OIBDA

y-o-y organic



- ✓ Revenue improvement
- ✓ Net content cost easing
- ✓ Increased commercial savings (E2ED)

New Redundancy program in place (Q3 19)

- ✓ **Q3: €1,732m provision**
 - ~€210m direct savings run-rate since 2020

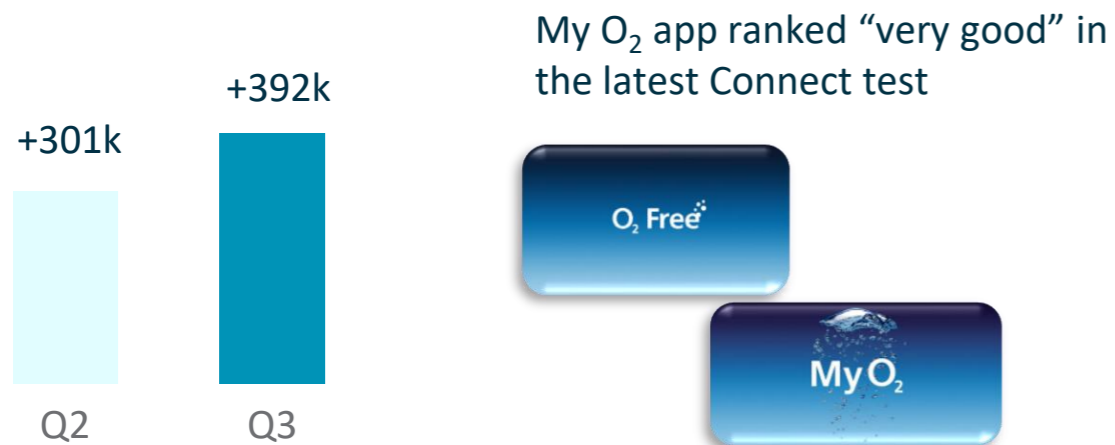
Strong cash conversion

9M OIBDA-CapEx (organic): €2,566m
Further growth and efficiency ahead

Germany | Robust commercial performance

+6% customer growth

Contract net adds

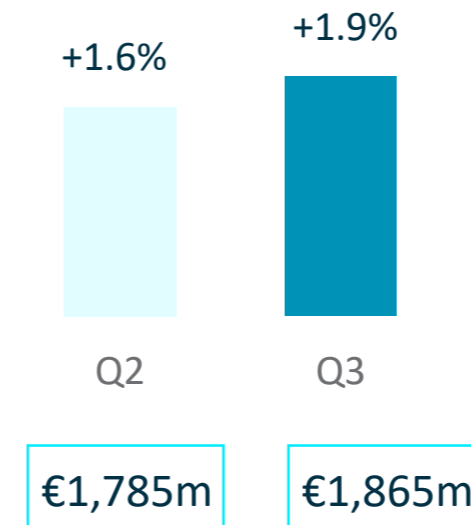


- ✓ Strong net adds growth (own brand + partners)
- ✓ Q3 contract churn stable at low levels (1.5%)
- ✓ +37% avg. data usage: 5.4GB (O₂ contract LTE)

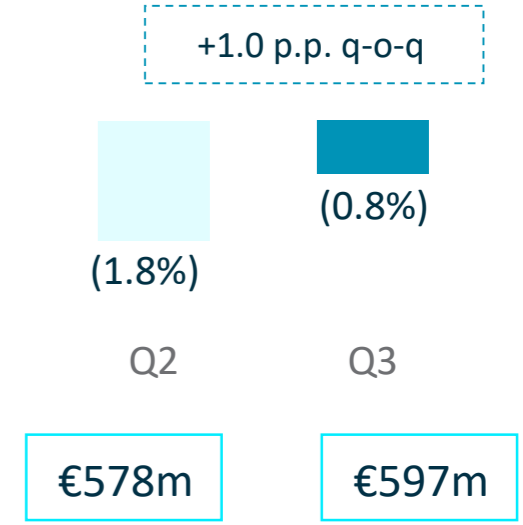
Sequential top-line improvement (+0.3 p.p.)

y-o-y organic

Revenue



OIBDA



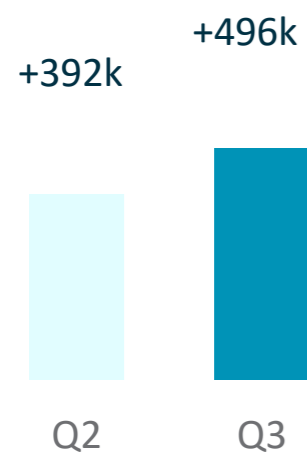
- ✓ Accelerating MSR growth (Q3: +1.6%)
 - Good traction in retail
- ✓ Improved OIBDA trend
- ✓ CapEx (9M: +5.7%); enhanced customer experience

UK | Continued strong financial and operational momentum

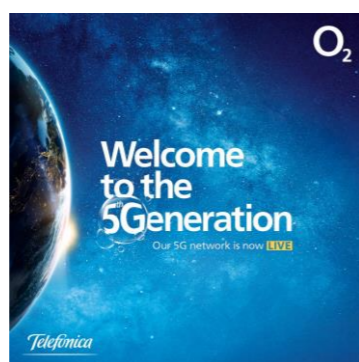
Reiterated market leading position

Contract net adds

k (incl. M2M)



O₂ 5G Launch (17 Oct 2019)
Unlimited Data, Custom Plans

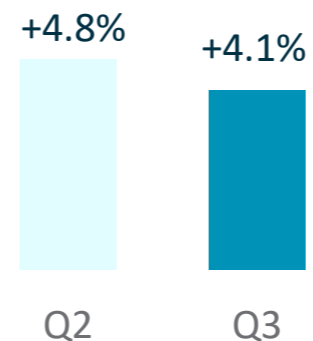


- ✓ **6% customer growth**
 - +9% contract own brand; +8% MVNO partners
- ✓ **Q3 postpay churn at 1.0%**

Strong top and bottom line growth

y-o-y organic

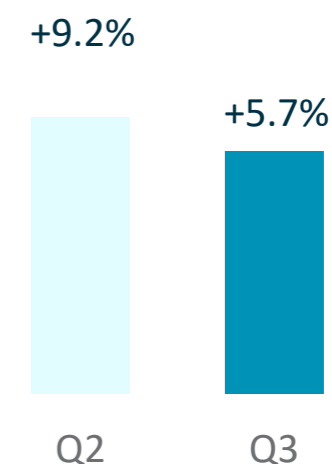
Revenue



€1,720m

€1,773m

OIBDA



€548m

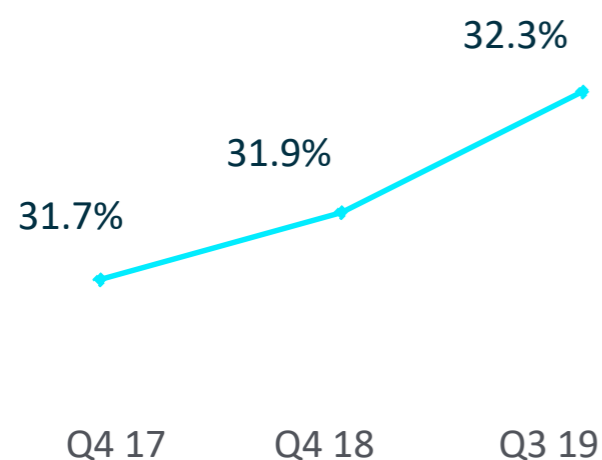
€543m

- ✓ **Growing in contract, prepay, MVNO and handsets**
- ✓ **CapEx (9M: +6.1%)**
 - Improving network and customer experience
- ✓ **OIBDA-CapEx (9M: +6.2%)**

Brazil | Gaining customers & growing ARPU

Enhanced customer experience

Total Mobile Market Share



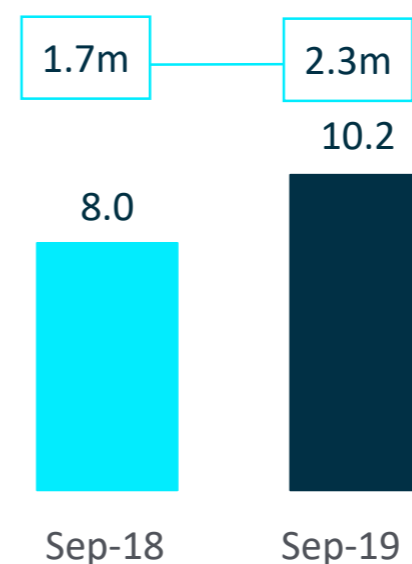
39.8% Contract Market Share

- ✓ **M4M in entry plans** (contract and prepaid)
 - +4.7% ARPU y-o-y with no churn impact
- ✓ **585k contract net adds (+1.9m in 9M)**
- ✓ **Prepaid improving trend** (stable y-o-y top ups; 9M: -8%)

Transforming fixed business

FTTH

(premises passed; m) FTTH connected



33 new cities passed in 9M19
(154 cities covered)

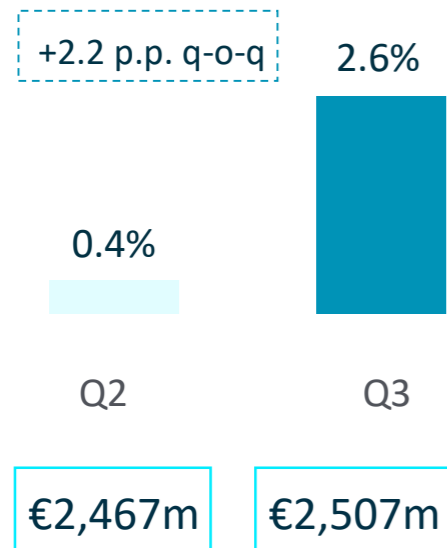
- ✓ **Consistent sequential ARPU increase**
 - Q3 FBB: +12.0% y-o-y (9M: +14.0%)
 - Q3 Pay TV: +3.9% y-o-y (9M: +4.1%)
- ✓ **FTTH uptake increasing y-o-y despite deployment acceleration**

Brazil | Largest revenue growth in 15Qs, record-level margins

Accelerating revenue growth despite legacy

Revenue 2019

y-o-y organic

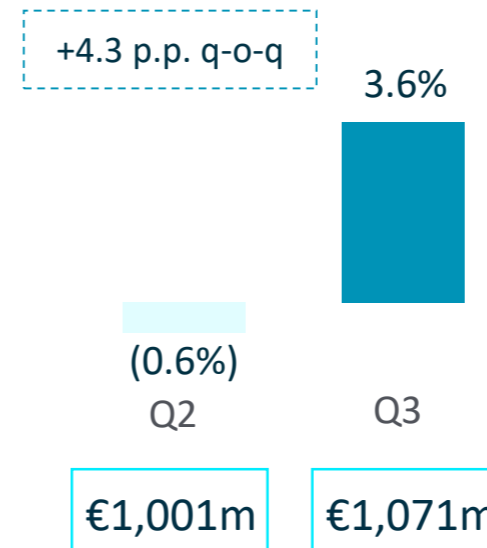


- ✓ Record revenue growth in 15 Qs
 - MSR Q3: +4.6%; Q2: +0.1%
- ✓ Fixed: -3.9% vs -2.8% in Q2
 - Affected by DTH discontinuity
 - FTTH +44.5% y-o-y; IPTV +26.1%

OIBDA margin expansion to 42.7% (+0.4 p.p.)

OIBDA 2019

y-o-y organic



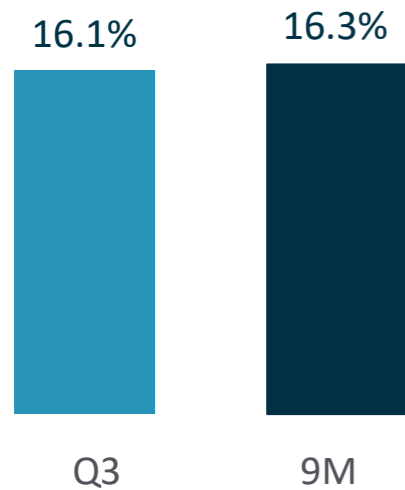
- Digitalisation/simplification driving cost control
- 20% CapEx/Revenues (+1 p.p. y-o-y)
- 9M FCF: +15% y-o-y (under Brazil reporting criteria)

Hispam | Accelerating growth in value; contract and FTTx

Hispanam South

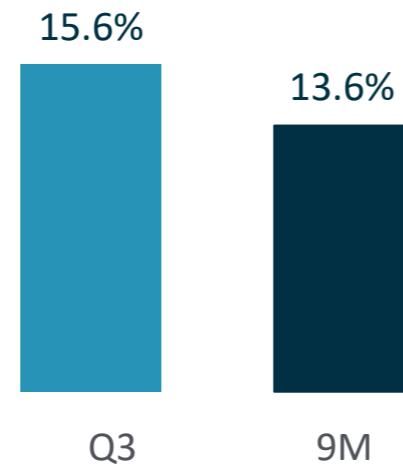
Revenue 2019

y-o-y organic



OIBDA 2019

y-o-y organic

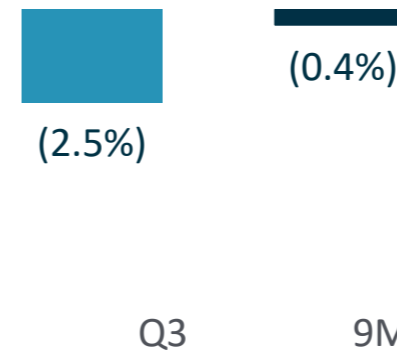


- ✓ **Positive contract net adds in each country in Q3**
 - 224k net adds (+365k in 9M)
 - 2.9m FTTx & cable accesses (+28% y-o-y)
- ✓ **Stable financial trend despite macro, regulation and competition**
- ✓ **Peru:** Back to growth in Revenue (+0.6%) after 2.5 yrs
- ✓ **Argentina:** Revenues +47.7% y-o-y
- ✓ **Chile:** FTTH revenues x2 y-o-y

Hispanam North

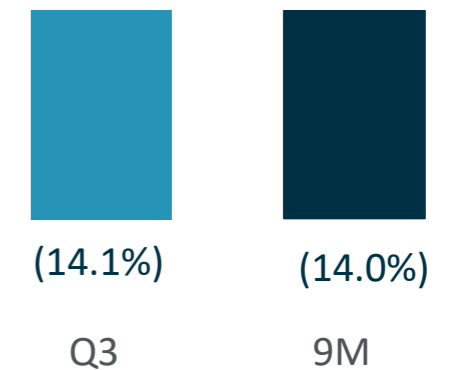
Revenue 2019

y-o-y organic



OIBDA 2019

y-o-y organic

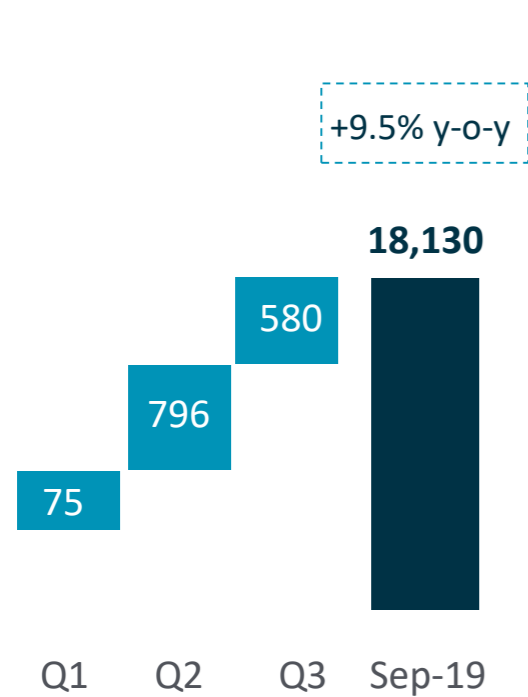


- ✓ **+2% contract accesses y-o-y**
 - Record contract net adds in COL for the last 15 Qs
 - 4 Qs in a row with positive net adds in MEX
- ✓ **OIBDA trend strongly affected by spectrum fee in MEX**
- ✓ **Mexico back to revenue growth (Q3: +0.6%)**

Telxius | Accelerating tower expansion, increased cash visibility

Towers

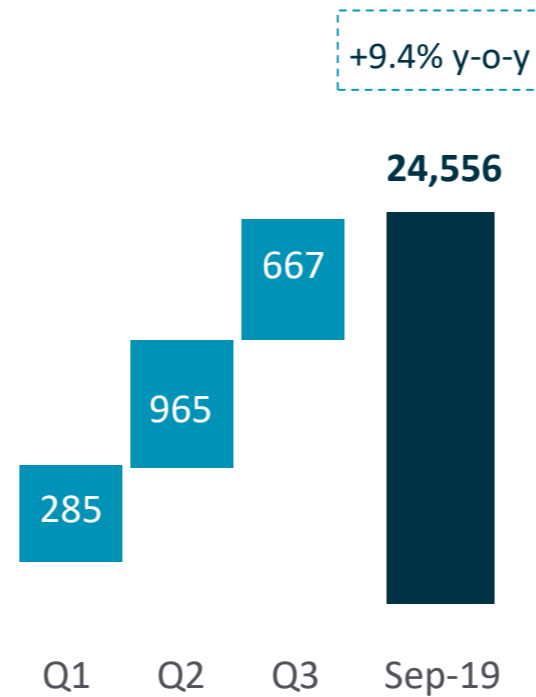
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- 9M: 1,090 towers acquired (Q3: 432)
- 9M: 361 BTS towers (Q3: 148)

Tenants

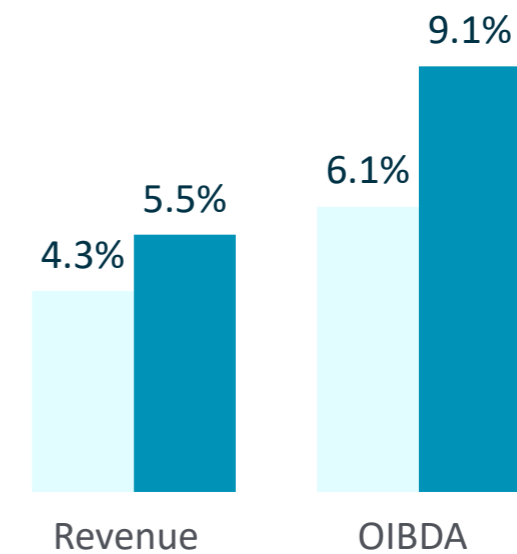
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- 1.35x ratio
- 9M: +466 tenants (ex anchor tenant); +28% y-o-y

Revenue / OIBDA

■ 9 M y-o-y organic ■ organic ex-one-time 2018 capacity sale



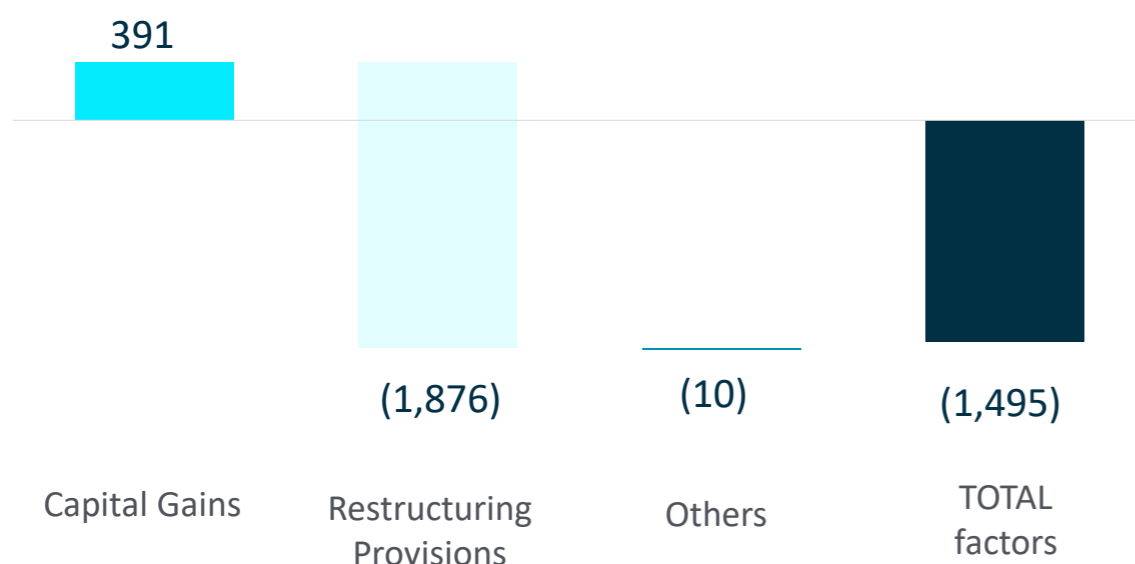
- Tower rev. Q3: +7.6% (9M: +8.8%)
- Cable rev. Q3: -27.5%; +7.5% ex one-time 2018 capacity sale (9M: +1.2%)
- CapEx -56% y-o-y 9M (ex-tower acquisition)

9M OIBDA-CapEx; €204m; +62% y-o-y (ex-tower acq.)

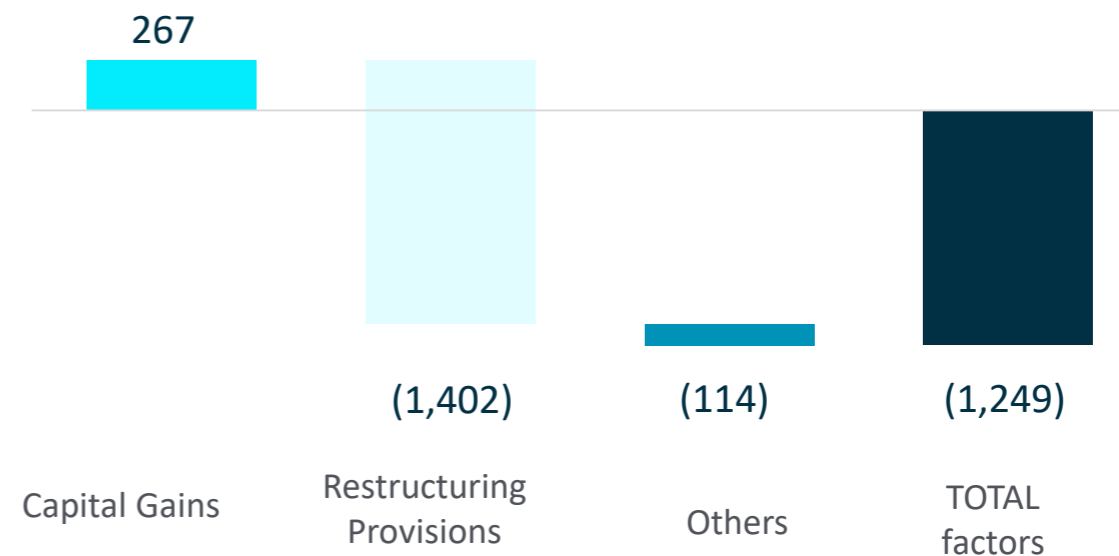
Room for further organic and inorganic growth

Q3 OIBDA & Net income | Non-recurrent factors

OIBDA -€1,495m



Net Income -€1,249m



- ✓ **Restructuring costs:** enhancing profitability and FCF going forward
 - OIBDA: -€1,876m mostly related to Spain (-€1,732m)
- ✓ **Capital Gains**
 - Panamá: +€199m OIBDA
 - 9 Data Centers: +€197m OIBDA

Currency headwinds minimised at FCF level

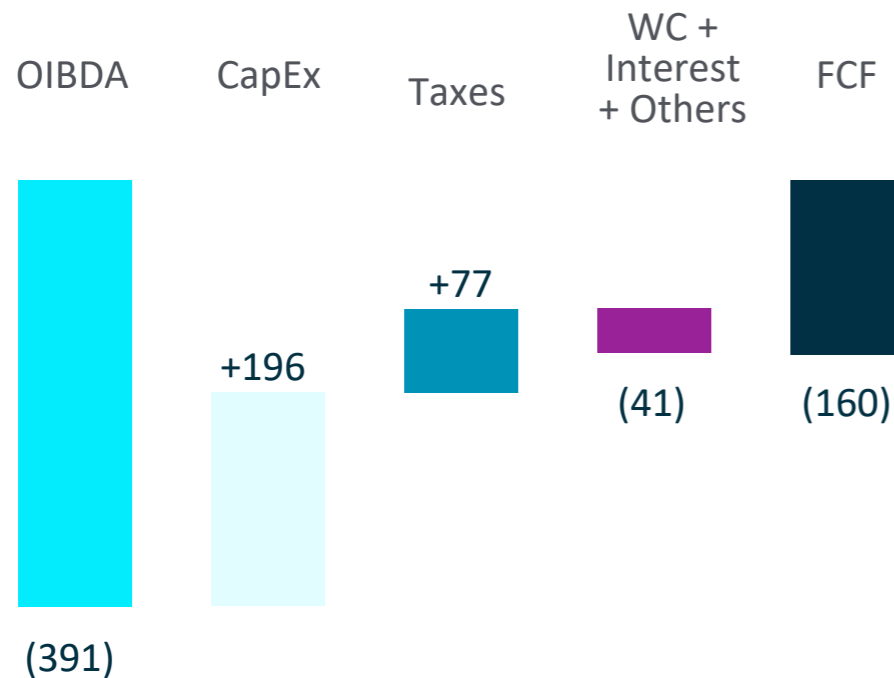
FX negative effect dragging Revs. & OIBDA

y-o-y

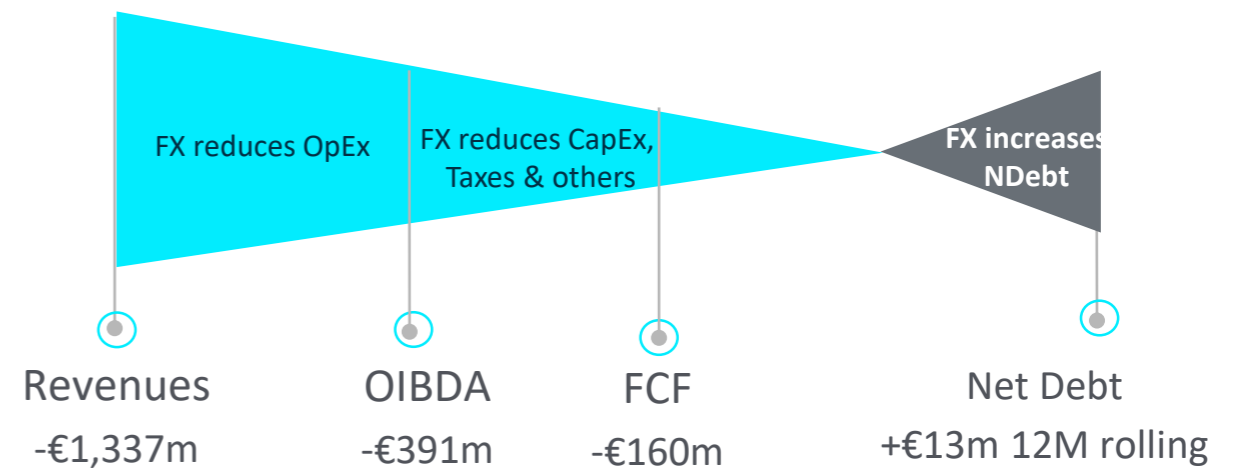
- ✓ Revenue (Q3: -2.0 p.p.; 9M: -3.7 p.p.)
- ✓ OIBDA (Q3: -1.5 p.p.; 9M: -3.2 p.p.)
- ✓ FX drag softened y-o-y
 - ✓ BRL easier comps in Q3

9M FX impact in FCF

€m



9M FX impact

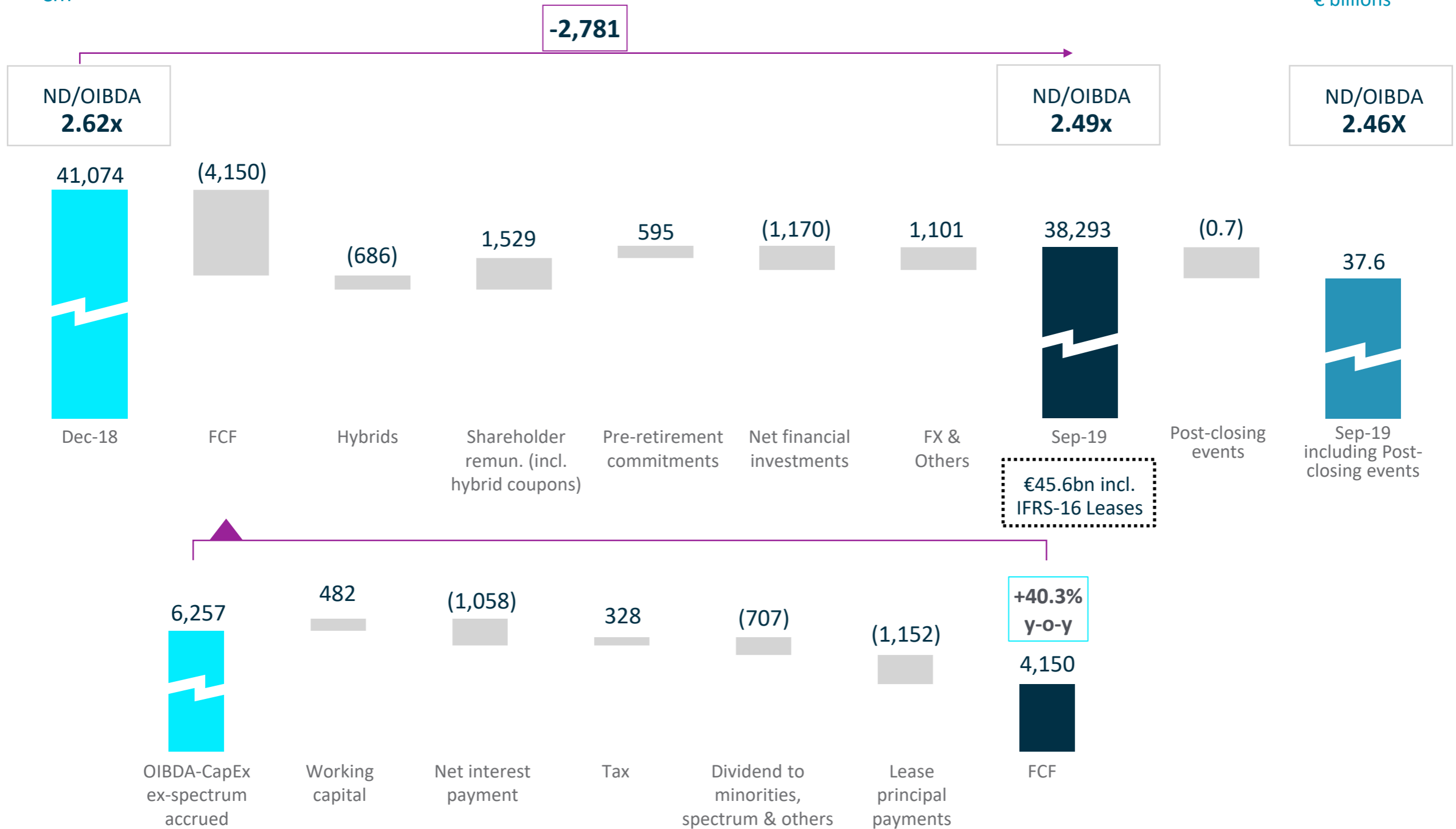


Steady net debt reduction

Net Financial Debt

€m

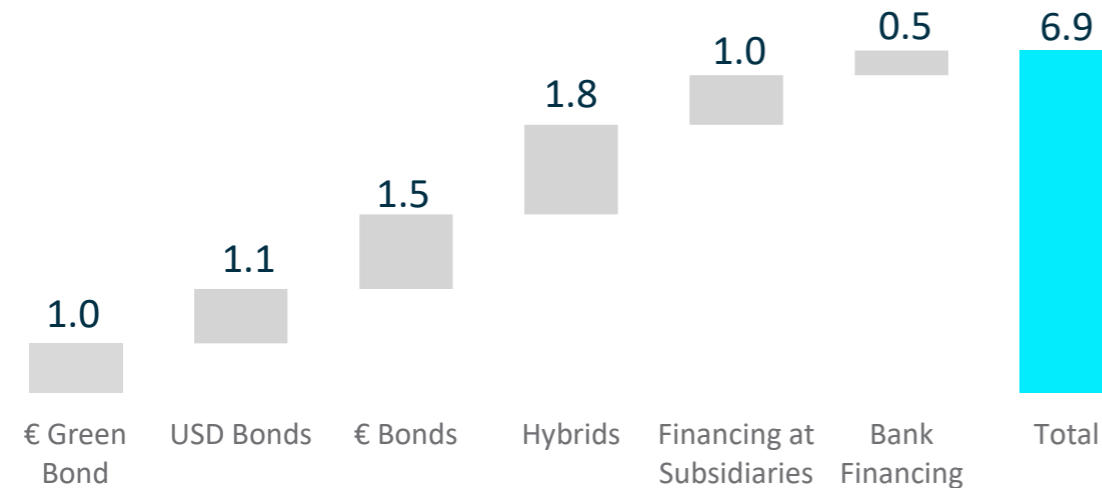
€ billions



Refinancing at historically low rates and longer tenors

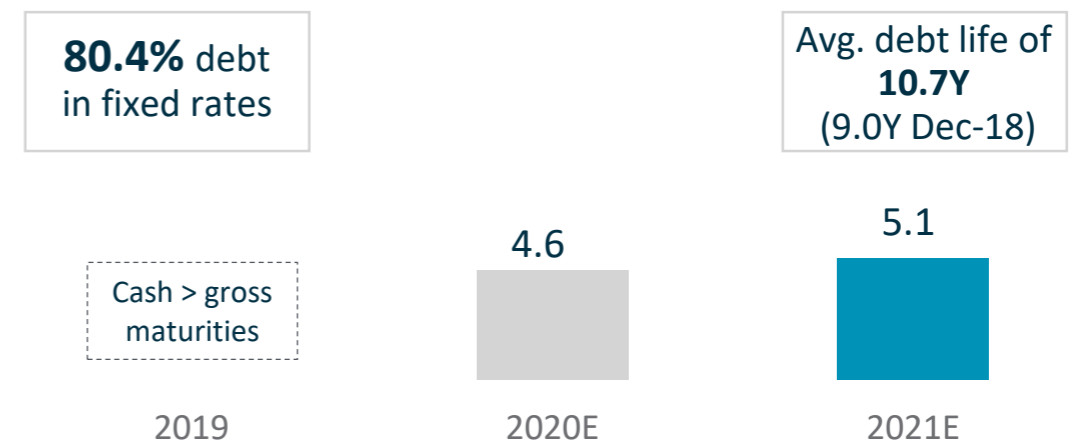
Sources of long-term financing

2019 YTD | €bn



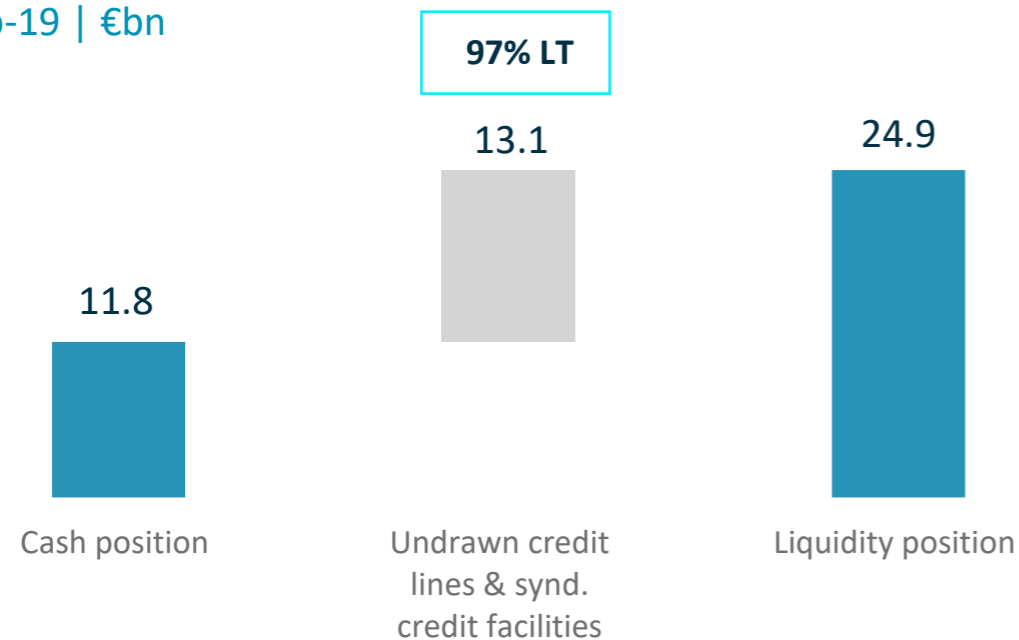
Net Debt maturities

Sep-19 | €bn; not considering hybrid NC dates

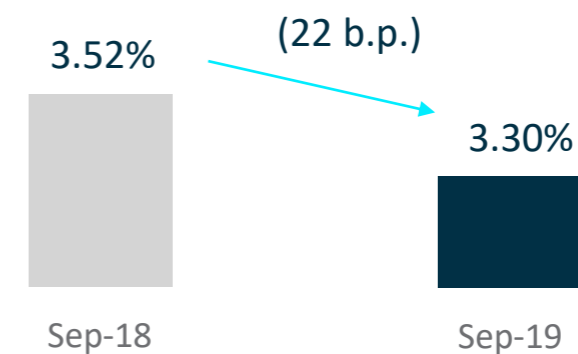


Liquidity position

Sep-19 | €bn



Interest payment costs



Conclusion

Mr. Ángel Vilá
COO



Q3 Summary

Best-in class customer profile
Increasing customer lifetime value

Technological advantage
UBB/FFTH 123m; LTE cov. 79%

Continued focus on digitalisation
Efficiencies and transforming customer relationship

Reliable & Solid growth
Revenue +3.4%; OIBDA +0.8% org. y-o-y

Net debt lowered for 10th Q in a row
-€1.9Bn in Q3 to 38.3Bn€; **strong FCF generation**

Reaffirmed 2019 guidance and dividend
9M aligned with internal expectations

Progress on strategic decisions
Towers monetisation; Restructuring in Spain; New products partnerships...

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