



*Telefonica*

# RESULTS

JANUARY | DECEMBER 2019

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# 2019 Highlights

Mr. José María Álvarez-Pallete  
Chairman & CEO



# 2019 Highlights

**Strong starting position & attractive opportunities...**

**... within a changing world that requires foresight**

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## Key Messages from 2019

- **Core markets outperformance** (back to OIBDA growth in SP, BRA highest mobile share since 2006, UK: 14 Qs growing in revs., strong trading momentum in GER)
- **Efficiency = Profitability** (SP org. OIBDA margin 40%, BRA OIBDA margin 46%; exceeding 2019 digitalisation savings by 23% (>€420m))
- **Net debt decreases for 11 straight Qs**
- **ROCE-driven asset management**
- **Benchmark CapEx/Sales in the industry; CapEx peak remains behind**

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## New Action Plan, 3 axes

- **Prioritise markets where we can be relevant and deliver sustainable growth**
- **Promote growth opportunities; leverage value of our infrastructure**
- **Increase agility and improve efficiency**

# New Telefónica New Plan/Strategy

Mr. José María Álvarez-Pallete  
Chairman & CEO



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

**1** Spain, Brazil, Germany and the UK: Key markets

**2** Operational spin-off of the businesses in HispAm

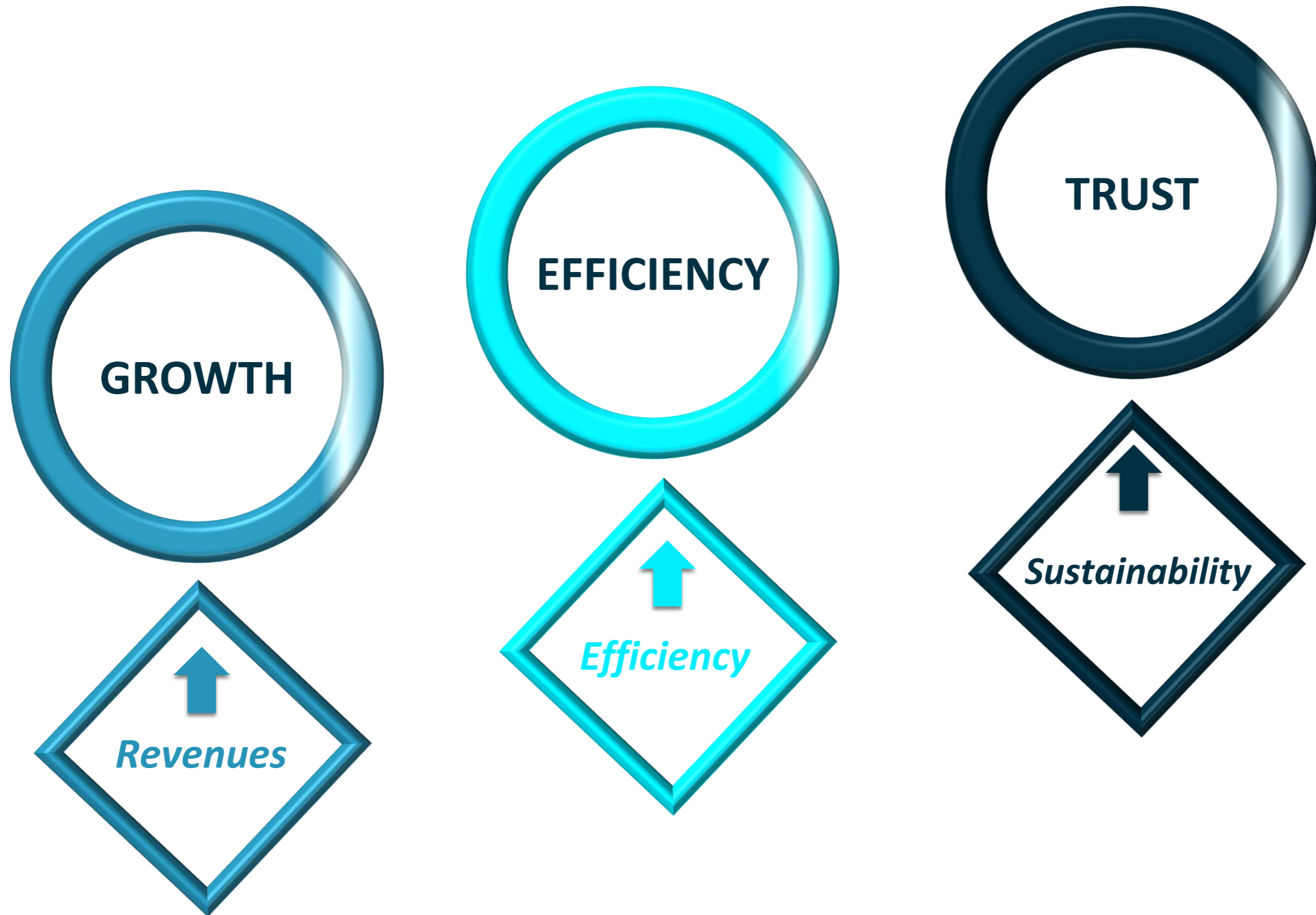
**3** Telefónica Tech launch

**4** Creation of Telefónica Infra

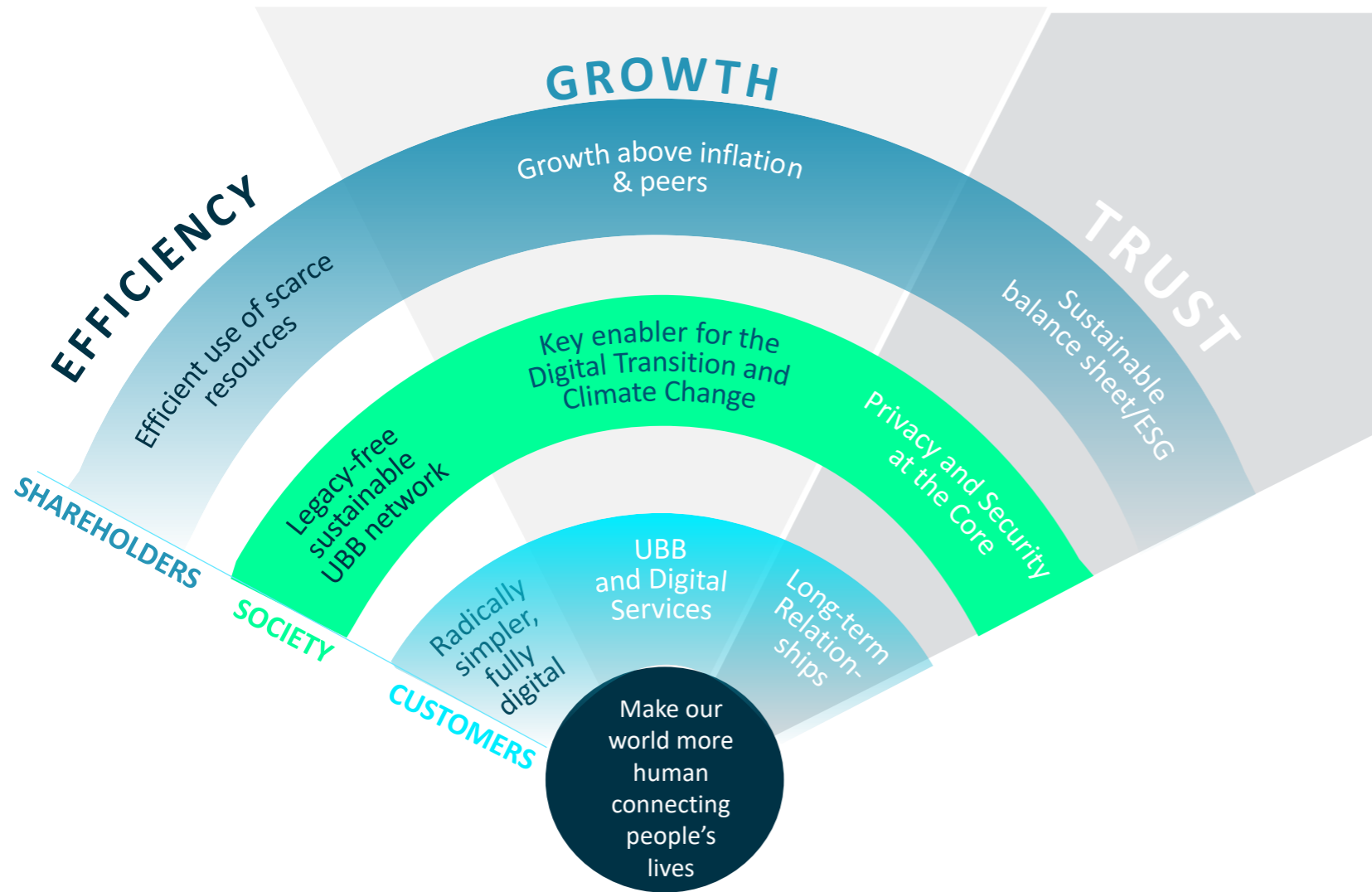
**5** New operating model

- Cutting-edge operators
- Units at the forefront of Technology
- All options open in Hispam
- Agility to capture opportunities
- Synergy model/economies of scale
- Optimise capital allocation

# Sustainable model



# Long-term integrated stakeholder approach



## Positive contribution in our footprint



The most admired telco in Europe & 4th worldwide

Leading ESG in our industry

### Climate Change



• 6<sup>th</sup> year in a row; only 8 telcos included

### Diversity



• 3<sup>rd</sup> year in a row; only 11 telcos

### ESG Global



• #1 Global ESG Ranking; telco industry among peers



• A rating

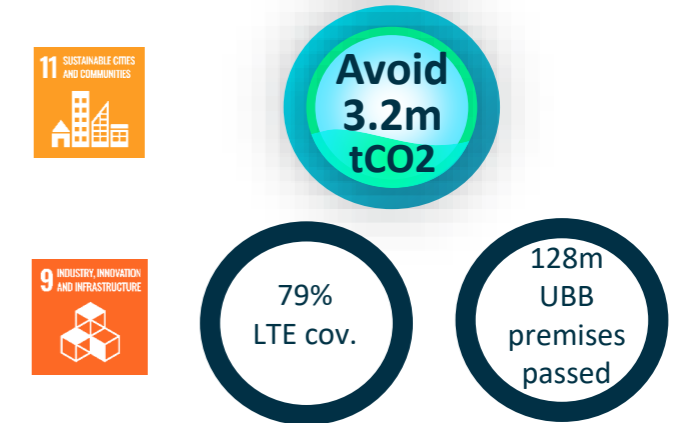
- ✓ 1<sup>st</sup> ever green bond in the telco industry (Jan-19)
- ✓ 1<sup>st</sup> ever green hybrid bond in the telco industry (Jan-20)



# Delivering long-term stakeholder value

## Growth; digitalisation; lever for social progress & decarbonisation

- A key enabler for digital & climate transition
  - Avoiding 3.2m tCO2 through our P&S: **10 tons of CO2 for every ton by 2025**
- **Inclusive network deployment**, including remote / rural areas; 1<sup>st</sup> fiber country in the OECD list



## Efficiency; a better network for the planet

- New targets aligned with 1.5 °C scenario and TFCDD compliance
- Greener supply chain: **-30% emissions per euro purchased by 2025**
- **Circular economy**: 98% waste recycled



- **Already 100% renewable energy** (Europe + Brazil), 82% T. Group



- -72% of energy consumption per unit of data traffic (2015-2019). **Target -85% in 2025**



- -50% carbon emissions (2015-19); **-70% in 2030E** and become **carbon neutral**, meaning zero-net emissions in 2050

## Trust; generating Trust Capital with our stakeholders

- A more diverse company
- Strengthening our corporate governance
- **Privacy and security** at the top of our priorities
- Customer satisfaction



- **2019: 26% women in management positions**
- **30% women in BoD**
- **1st in Ranking Digital Rights**
- NPS 21%
- Reptrack 56.4

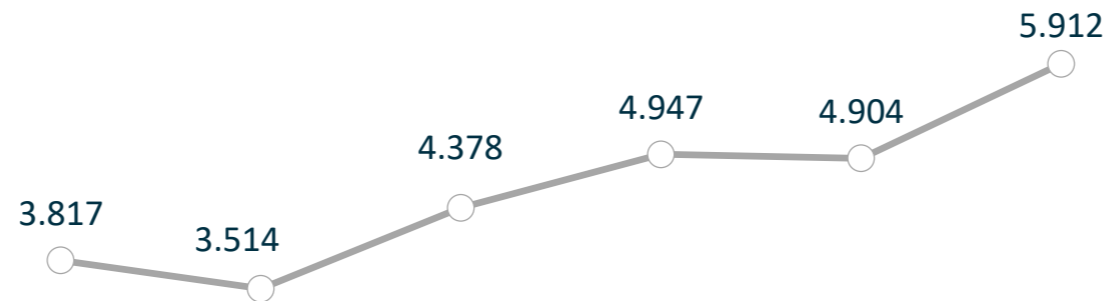
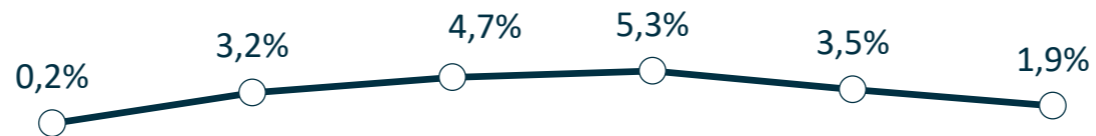
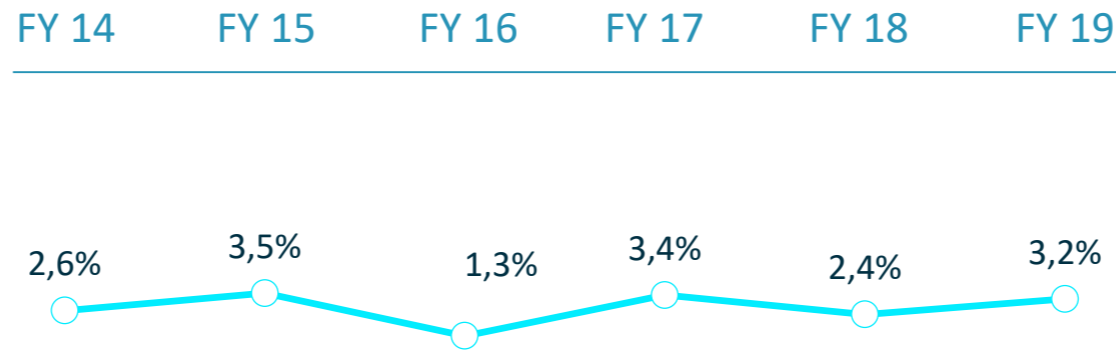
*Telefónica contributes through technology to reach the global UN SDGs*

# 2019 Highlights

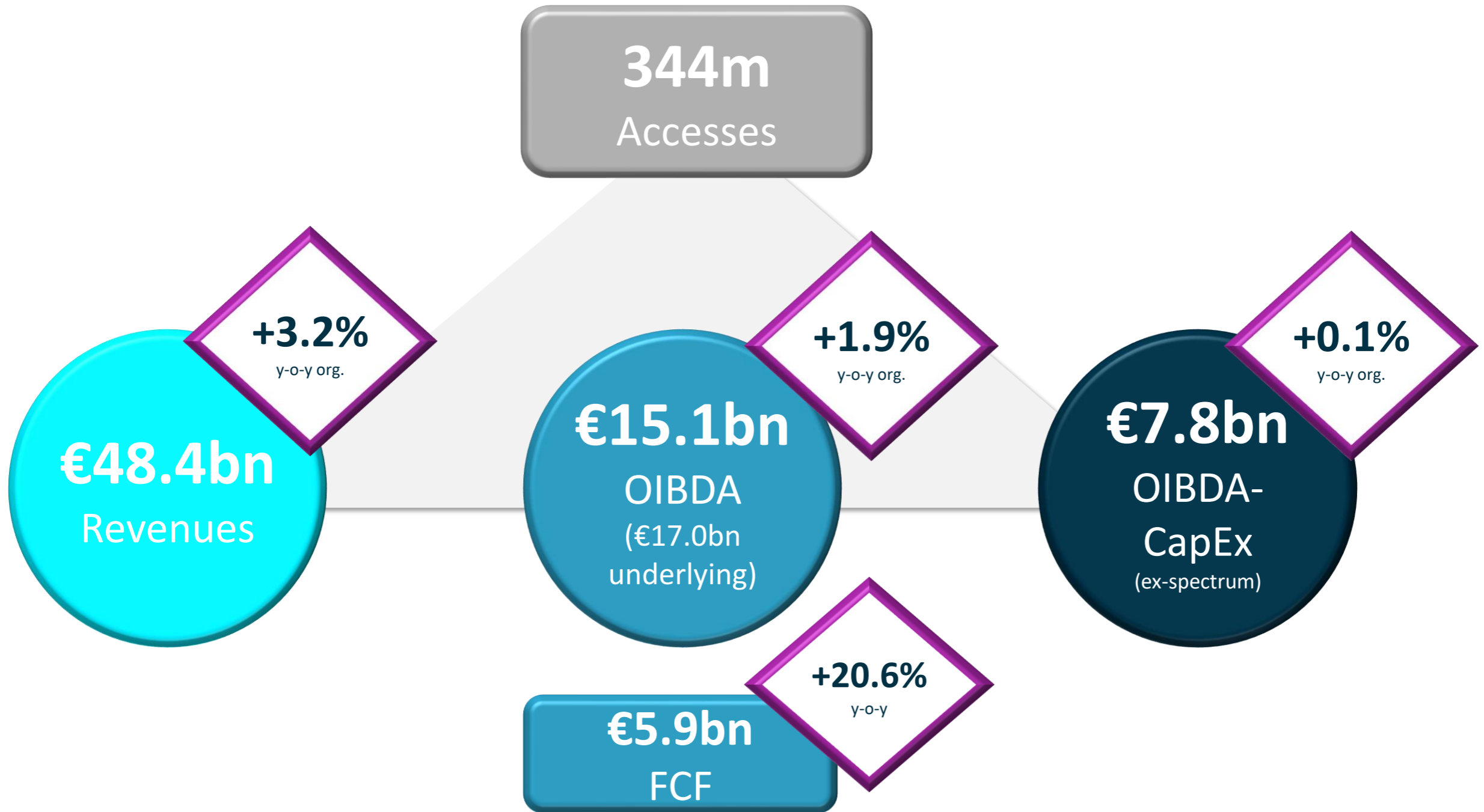
Mr. José María Álvarez-Pallete  
Chairman & CEO



# Consistent growth profile; strengthening balance sheet



# 2019 global reach and growth



# 2019 proof points of business sustainability

**+8%**

FTTx/Cable  
14.3m accesses

**69%**

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

**+18%**

LTE  
138.1m accesses

**58%**

LTE penetration  
+11 p.p. y-o-y

**4.3%**

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

**Churn**

Flat y-o-y

## Enlarging customer lifetime



8 years mobile contract



6 years O2 Free



5 years convergent



5 years mobile contract

## Improving customer experience



NPS 21%; +1 p.p. y-o-y

# 2019 guidance achieved | Above in revenues

2019 guidance (organic)	Guidance 2019E	FY 19
<b>Revenues</b>	Around +2%	3.2% ✓
<b>OIBDA</b>	Around +2%	1.9% ✓
<b>CapEx/Sales ex-spectrum</b>	Around 15%	15.0% ✓

## 2019 DIVIDEND

€0.4/SHARE

**Interim Dec-19**

€0.20/sh. ✓

**Final Jun-20**

€0.20/sh.

### 2019 calendar payments

20/Jun/19 €0.20/sh. ✓

19/Dec/19 €0.20/sh. ✓

## Sustainable & attractive dividend

€

1,15



FCFS

0,65



EPS  
Underlying

0,40



DPS

**6.4%**  
Dividend Yield\*

\* Closing of 14/02/2020

# FY & Q4 19 Results

Mr. Ángel Vilá  
COO



# 2019 financial highlights

**+3.2%**

Revenues y-o-y org.

€48,422m

Exceeding +2% 2019 target

**+1.9%**

OIBDA y-o-y org.

€15,119m

Underlying €16,982m

**€3,574**

Underlying

Net Income

EPS Underlying €0.65

**€5,912m**

FCF

+20.6% y-o-y

**€37,744m**

Net Debt

-8.1% y-o-y

**15.0%**

CapEx/Revenues

Ex-spectrum



# Financials in a nutshell

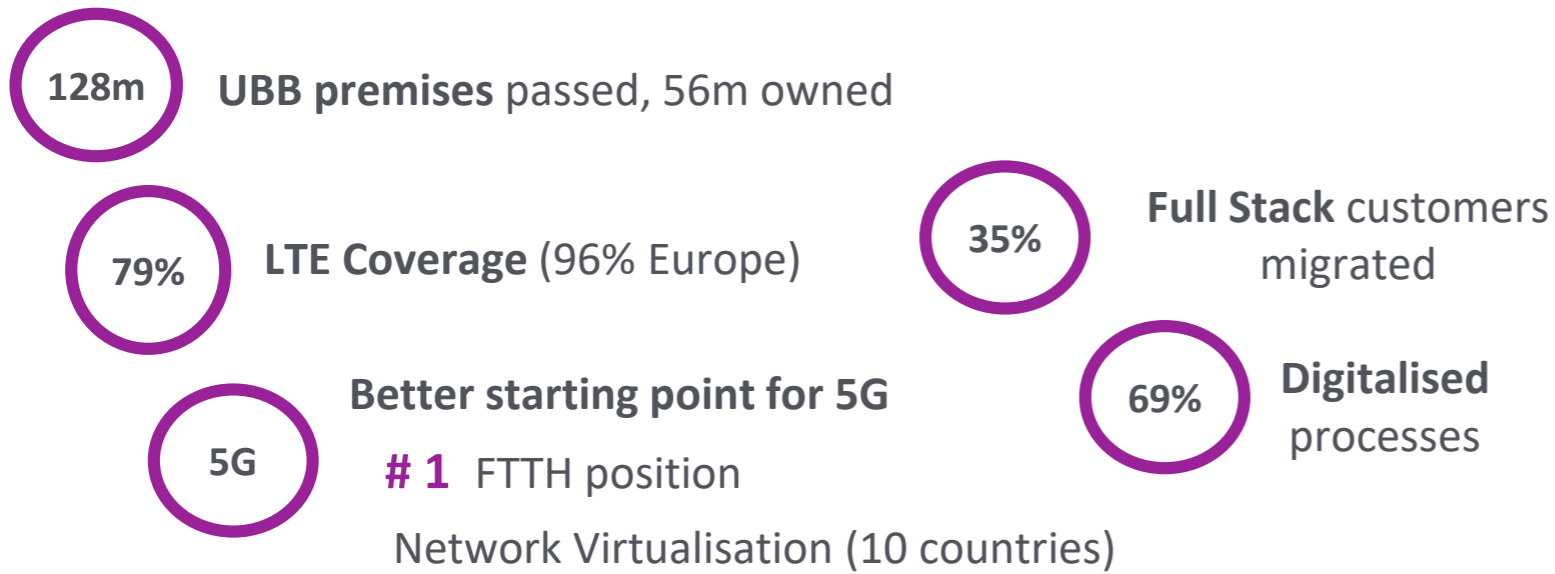
€ in millions	FY 19			Q4 19		
	Reported IFRS 16	Reported y-o-y	Organic y-o-y	Reported IFRS 16	Reported y-o-y	Organic y-o-y
<b>Revenues</b>	48,422	(0.6%)	3.2%	12,400	(4.0%)	2.0%
<b>OIBDA underlying</b>	16,982			4,370		
<b>OIBDA</b>	15,119	(2.9%)	1.9%	3,669	3.8%	4.0%
<b>OIBDA margin</b>	31.2%	(0.8 p.p.)	(0.4 p.p.)	29.6%	2.2 p.p.	0.6 p.p.
<b>OIBDA-CapEx</b> (ex-spectrum)	7,836	(5.8%)	0.1%	1,579	16.7%	5.6%
<b>Net Income</b>	1,142	(65.7%)		(202)	c.s.	
<b>EPS (€)</b>	0.17	(70.6%)		(0.05)	c.s.	
<b>EPS underlying (€)</b>	0.65			0.18		
<b>FCF</b>	5,912	20.6%		1,762	(9.5%)	
<b>Net Financial Debt</b> ex-leases	37,744	(8.1%)				

€2.2bn restructuring provisions in FY; mainly €1.7bn in Q3 Spain

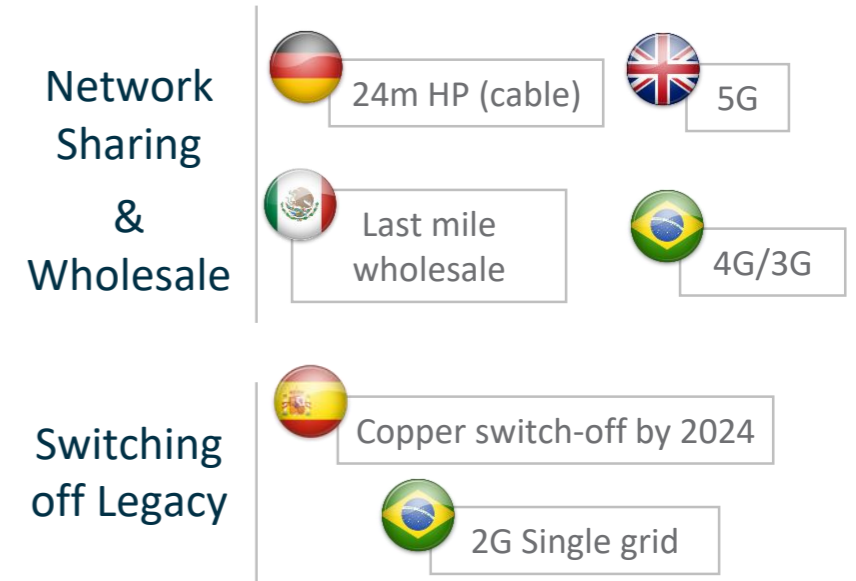
MEX DTA (-€454m in Q4)

# Well invested platforms

## 1st Platform & 2nd Platform

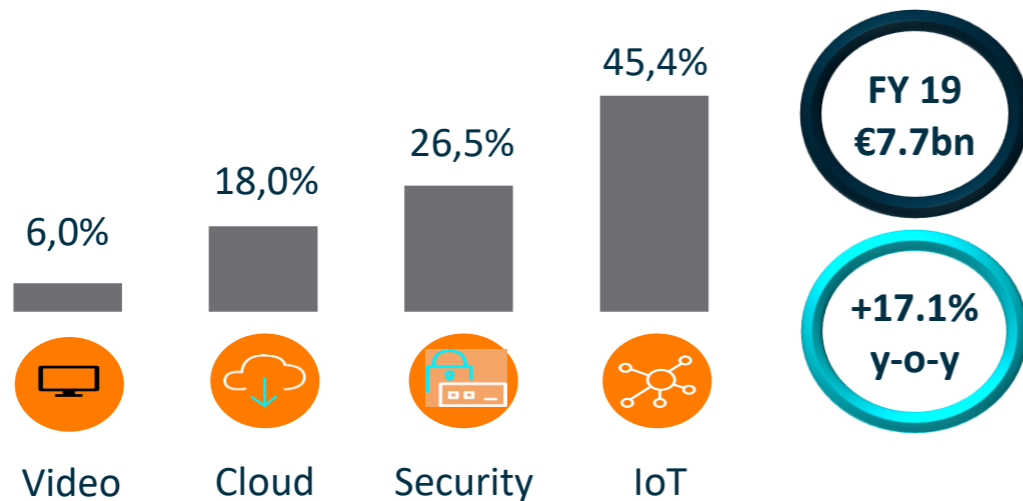


## New models & efficiency levers



## 3rd Platform

Digital Services 2019 (B2C+B2B)  
(y-o-y organic)



## 4th Platform

New customer relationship (AI)



Movistar Home

Living Apps

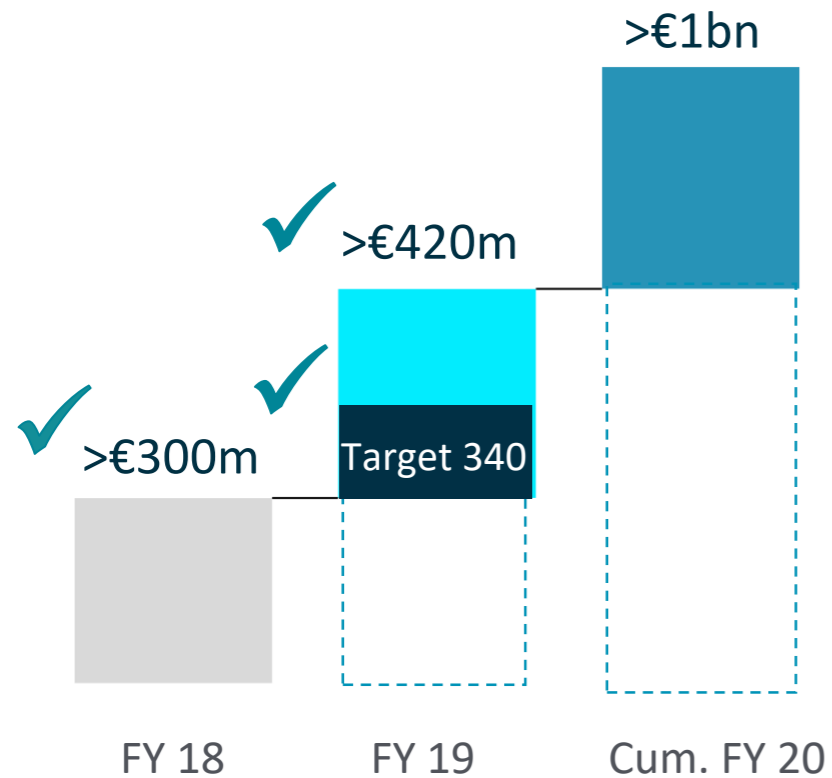
LUCA; AI for our customers

Internal application

Network Planning /offering personalisation...

# Becoming 100% Digital while reaping savings

## Exceeding savings path



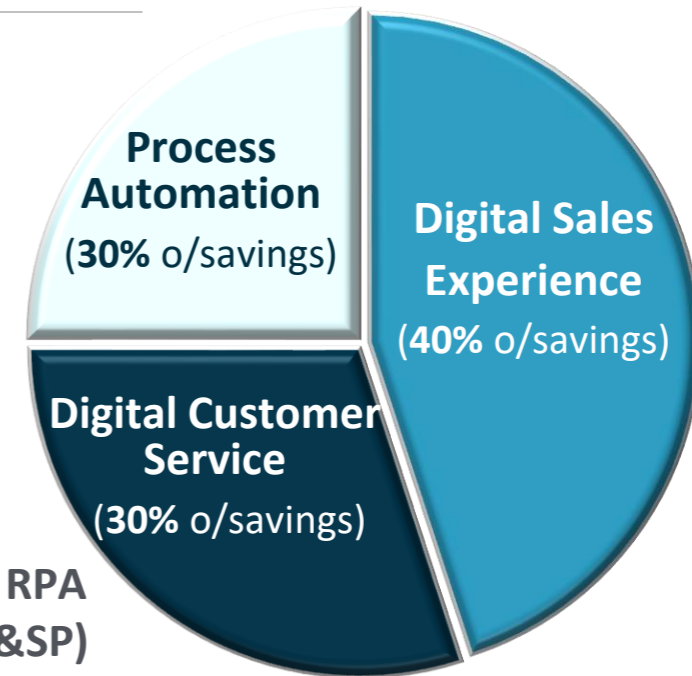
+23% over gross savings FY 19 E

>2/3 already achieved

## Outstanding execution in 2019

-12% y-o-y calls to Contact C. (B2C)

Top worldwide RPA programs (BRA&SP)

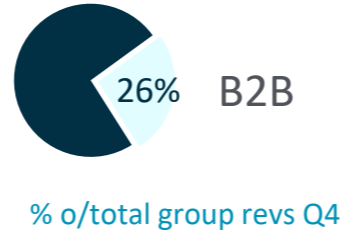
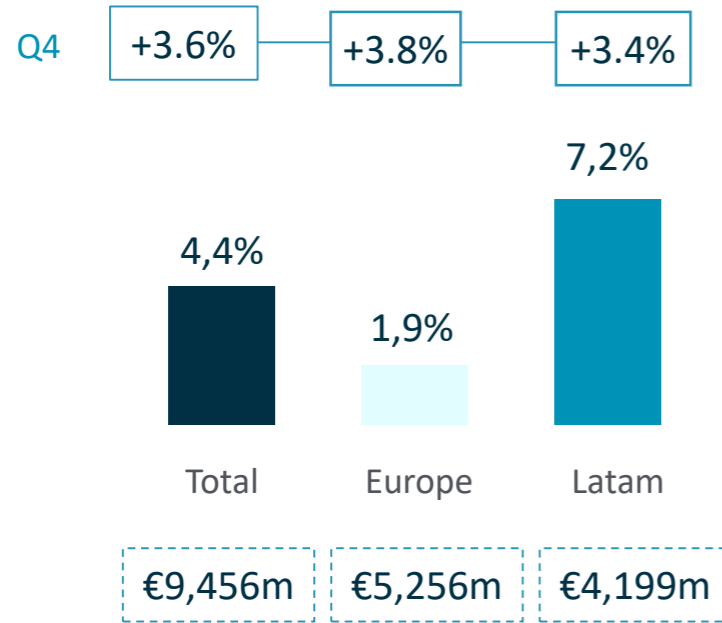


+28% y-o-y Online operations

# B2B | A distinctive growth engine

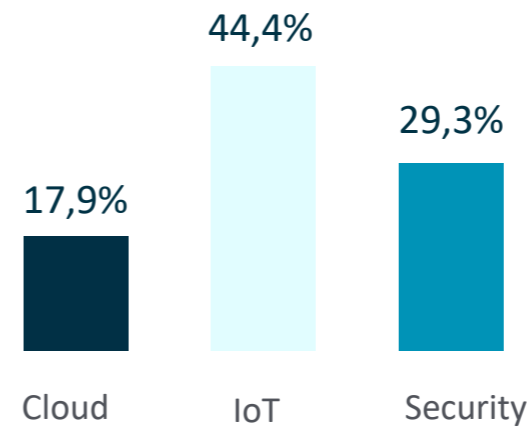
## Scaled-up on superior capabilities

FY y-o-y org. revenue

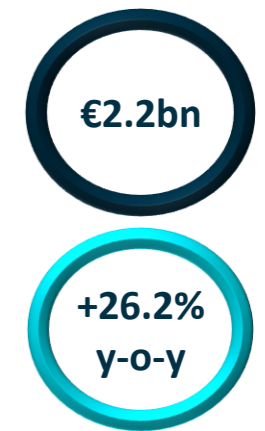


## Capturing digitalisation value

2019 y-o-y org. revenue



Total B2B Digital Services Rev.



- ✓ **Lego-like value proposition** (Own + Partners ecosystem)
- ✓ **+14k B2B salespeople**
- ✓ **Low CapEx intensity**

### Cloud

>900k O365 licenses  
+53% y-o-y in SaaS rev.; +54% in IaaS

### IoT

**Leader in M2M services worldwide**  
(Gartner) – 6<sup>th</sup> consecutive year  
+1.4M IoT lines in Q4

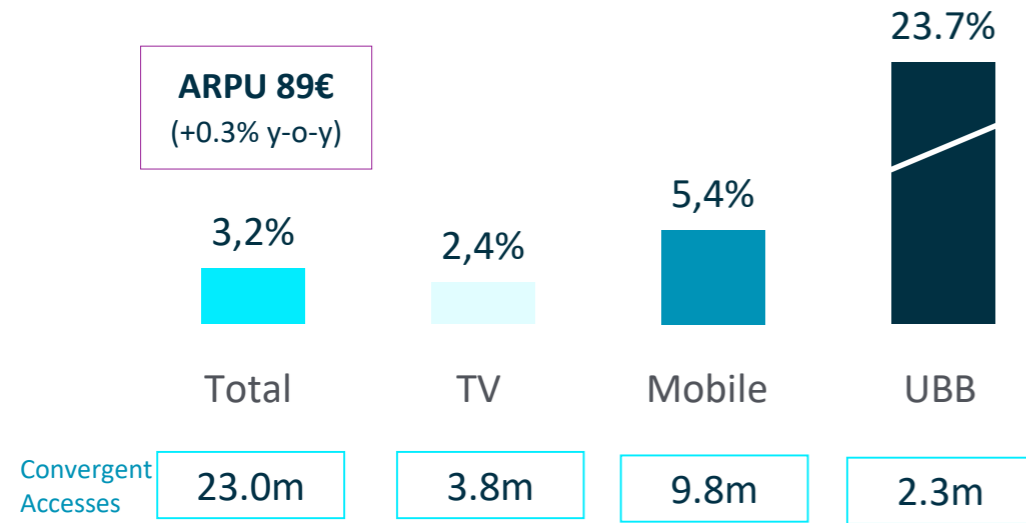
### Security

**11 SOCs & Telco Security Alliance**  
**Global leader as MSSP Provider**  
+1,800 MS professionals, +1,500 security certifications

# Spain | Back to FY OIBDA growth

## Growing convergent base and ARPU

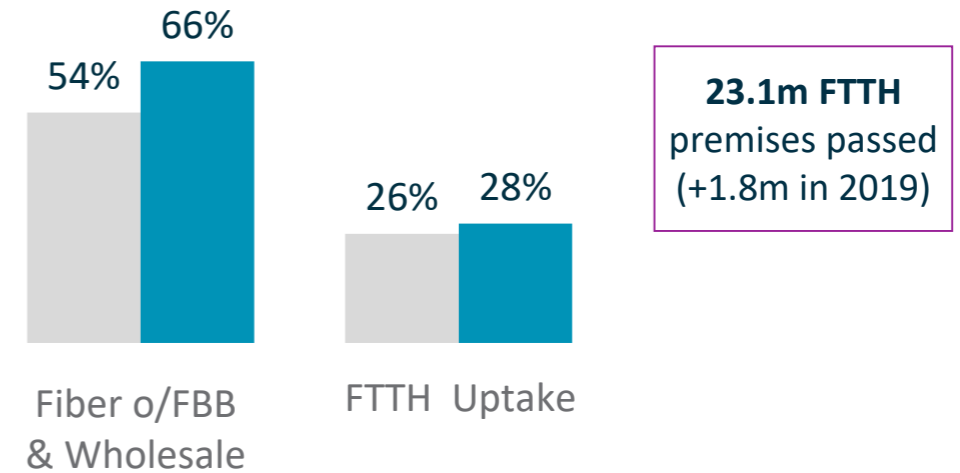
Accesses (Dec y-o-y)



## Increasing value and returns

(%)

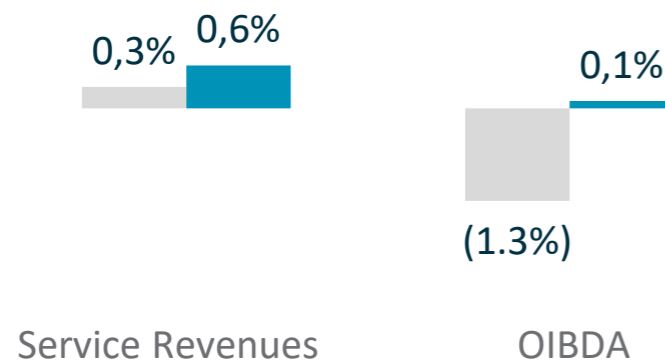
■ Dec-18 ■ Dec-19



## 10<sup>th</sup> Q of service rev. growth; higher profitability

y-o-y organic

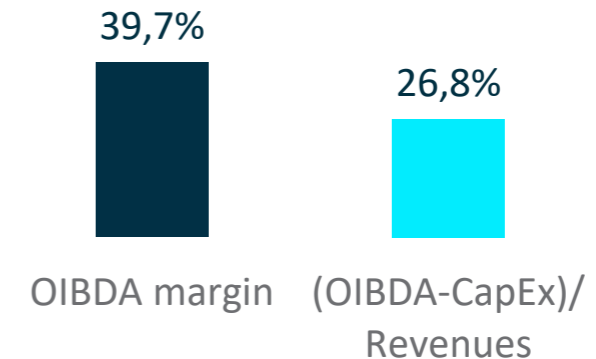
■ FY18 ■ FY19



OIBDA: €5,311m  
(OIBDA-CapEx): €3,671m  
FY19 underlying

## Robust Cash generation in best invested Co.

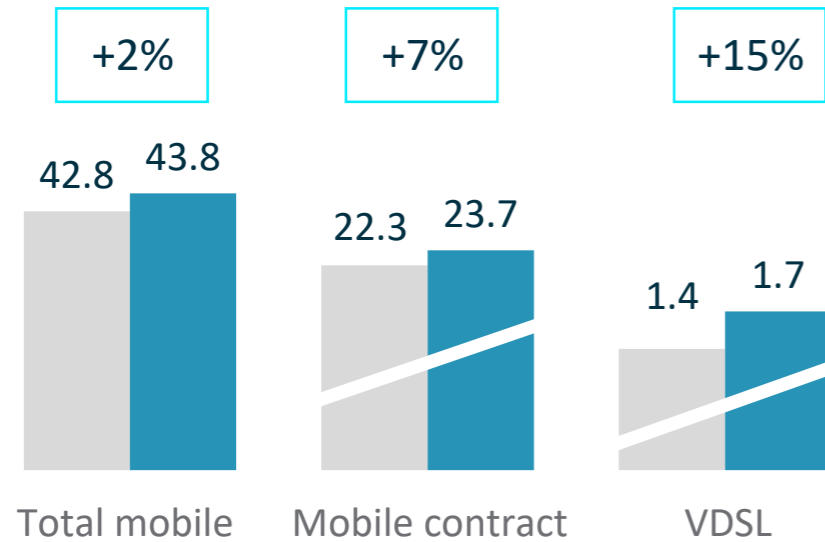
FY 19 organic



# Germany | Accelerating commercial momentum

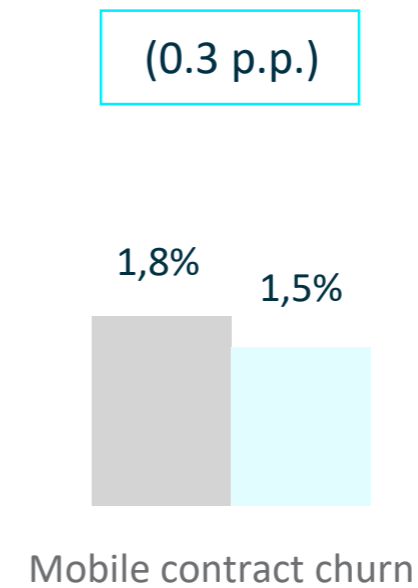
## Strong operational trends

Accesses (m, y-o-y) ■ 2018 ■ 2019



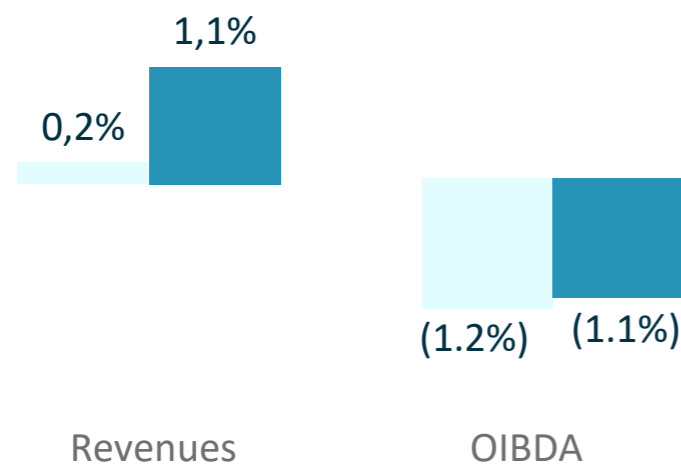
## Improving customer loyalty

y-o-y ■ Q4 18 ■ Q4 19



## Growing revenues

y-o-y organic ■ Q4 ■ FY



## Enhanced network quality

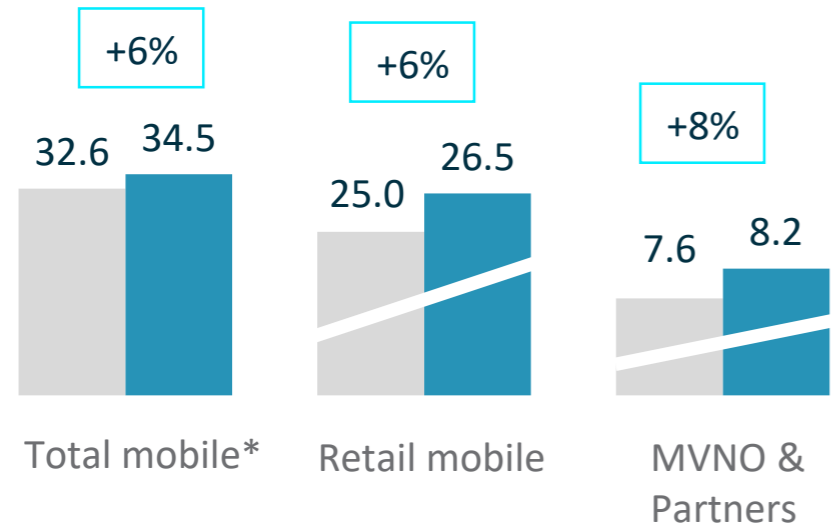
- ✓ 3x "Good" rating for the first time
- ✓ Evidencing network and customer experience



# UK | 14<sup>th</sup> consecutive quarter of top-line growth

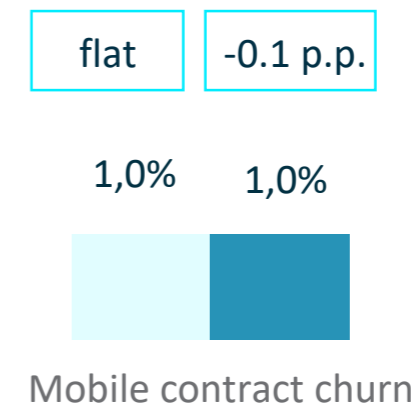
## Market leader & favourite network

Accesses (m; y-o-y) ■ 2018 ■ 2019



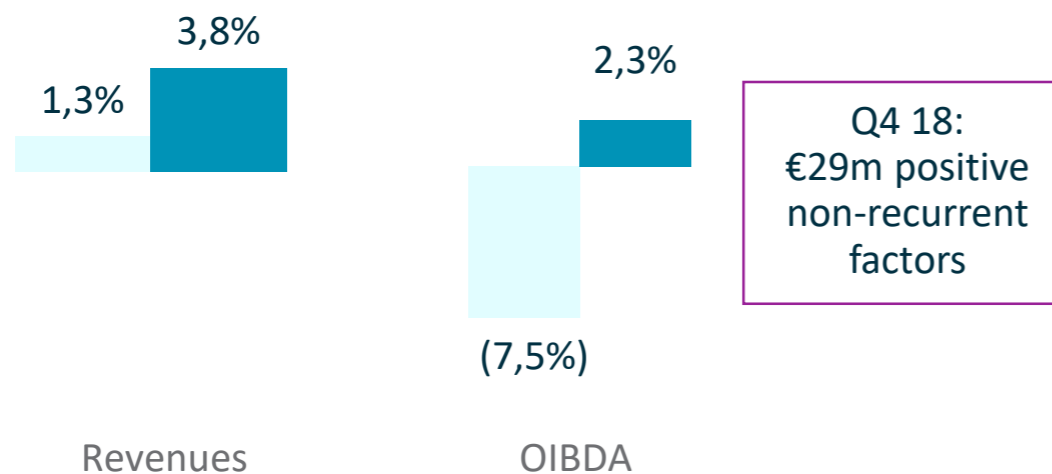
## Sector leading loyalty

y-o-y ■ Q4 ■ FY



## Healthy FY growth

y-o-y organic ■ Q4 ■ FY



## Strong & consistent outperformance

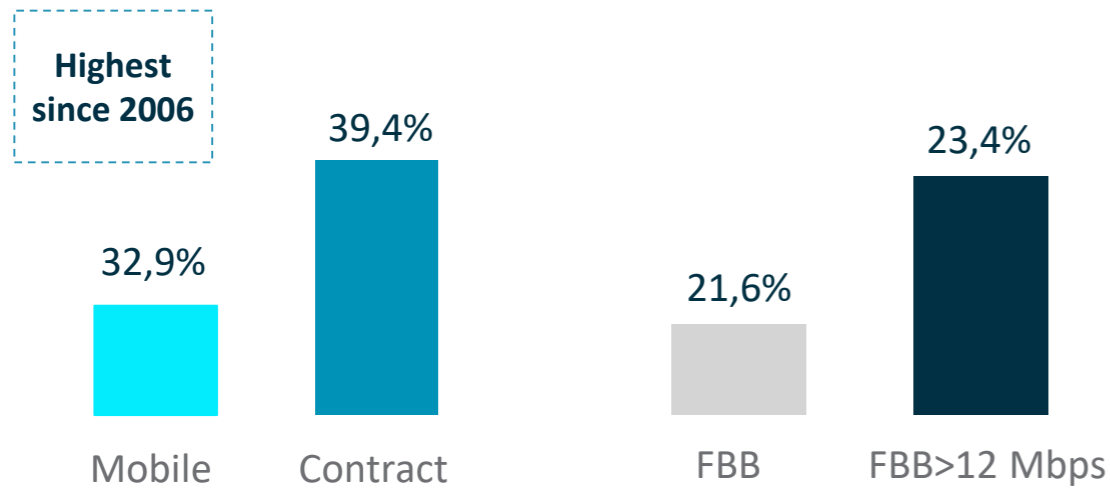
- ✓ Revenues CAGR 17-19: +4%
- ✓ OIBDA margin 29.7% FY 19 (25.1% FY 17)
- ✓ (OIBDA-CapEx)/Revenues 16.9% FY 19 (12.4% FY 17)

**+22% CAGR 17-19  
OIBDA-CapEx**

# Brazil | Investing for growth bears fruit

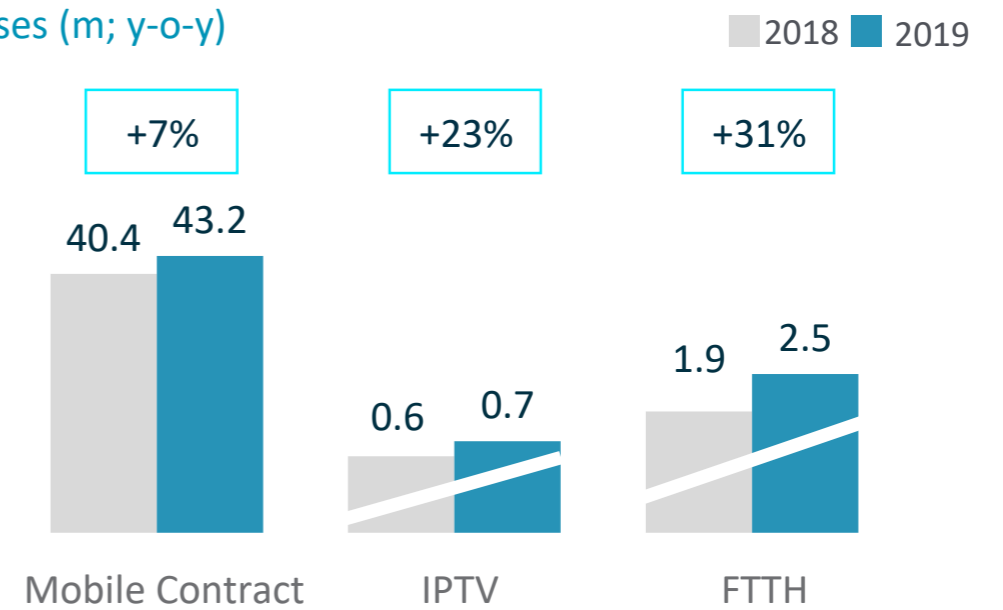
## Strengthened market leadership

Market Share (Dec-19)



## Growing in most valuable segments

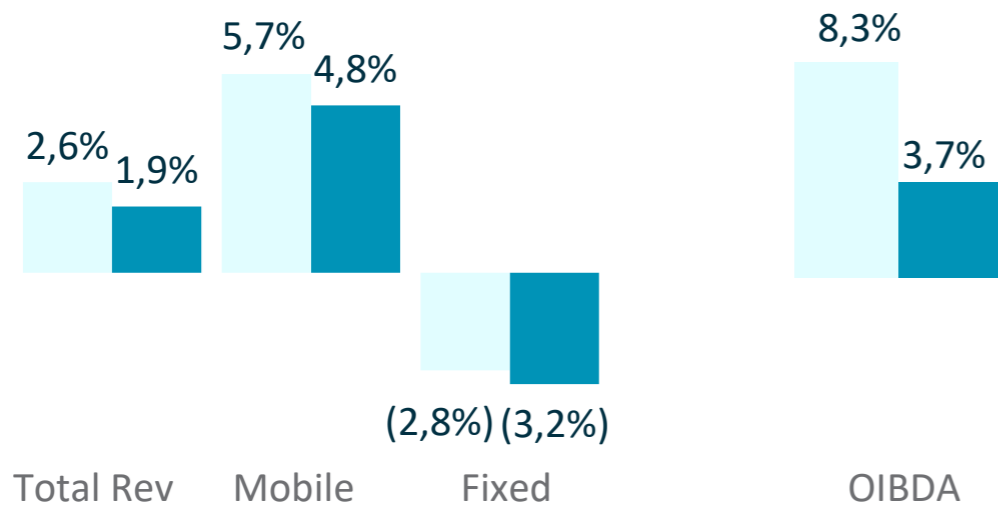
Accesses (m; y-o-y)



## Sustainable growth

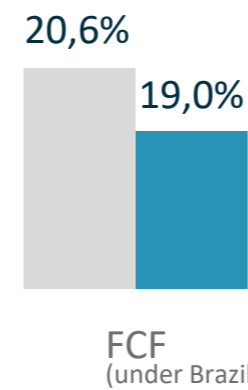
y-o-y organic

Q4 FY



## Sound FCF growth

2018 2019



2019 CapEx/Sales 20%

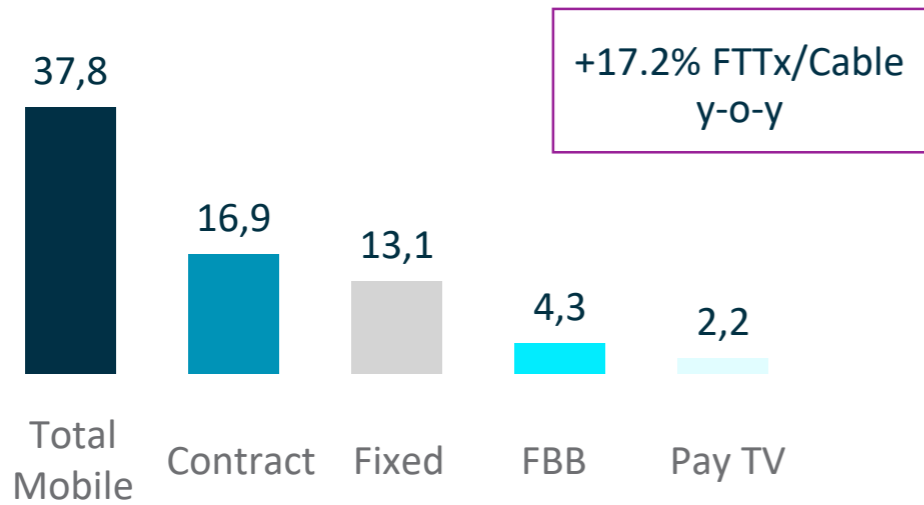


# Hispam | Growth in value; focus on efficiencies

## Hispam South

### Growing in value despite competition

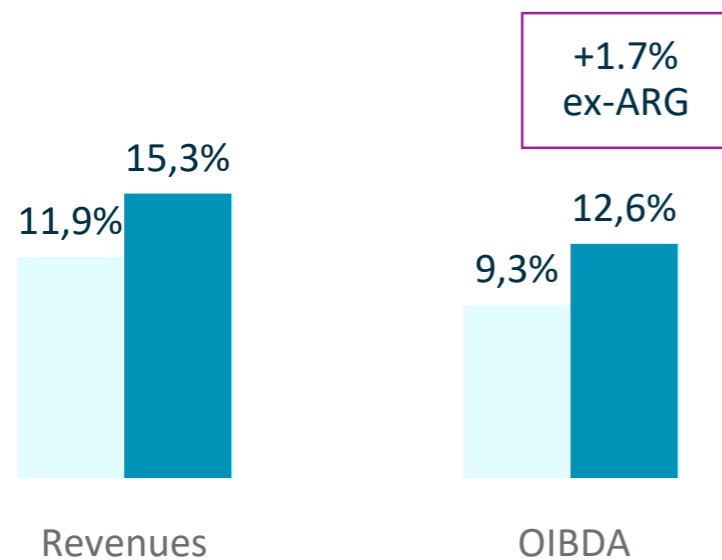
Accesses (m)



### Stable trends despite macro & competition

y-o-y org.

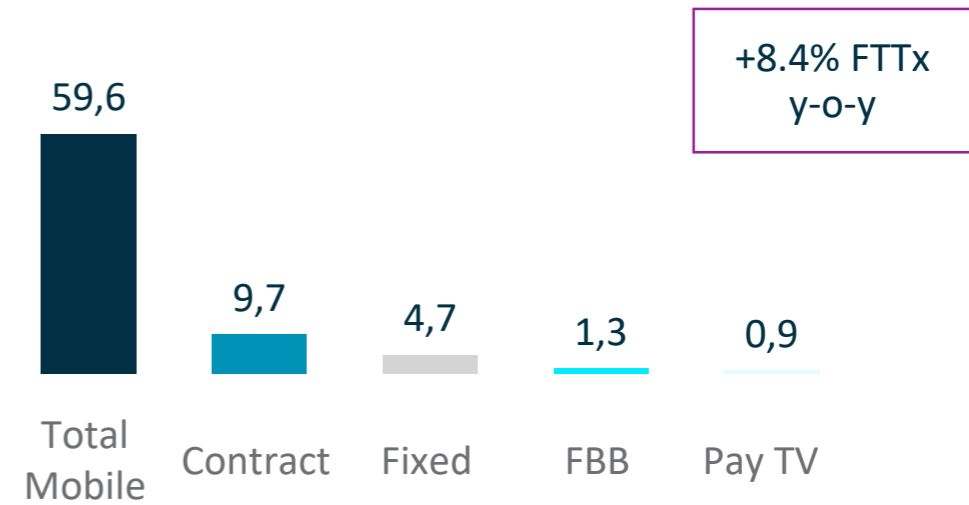
Q4 FY



## Hispam North

### Sound commercial performance

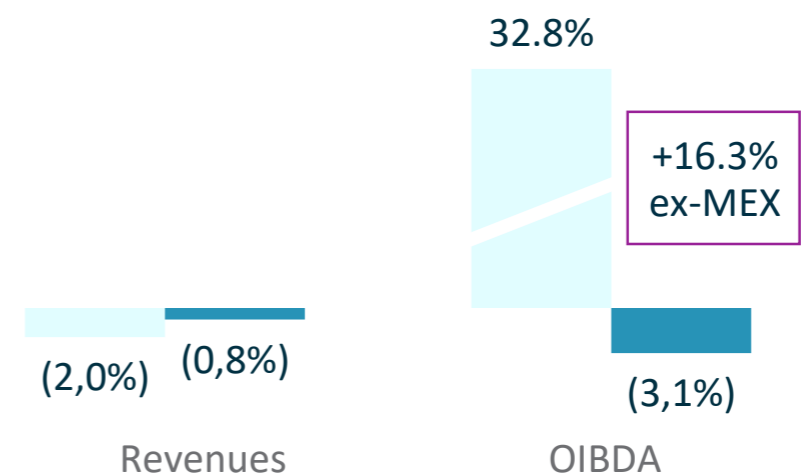
Accesses (m)



### Redefining operational model

y-o-y org.

Q4 FY

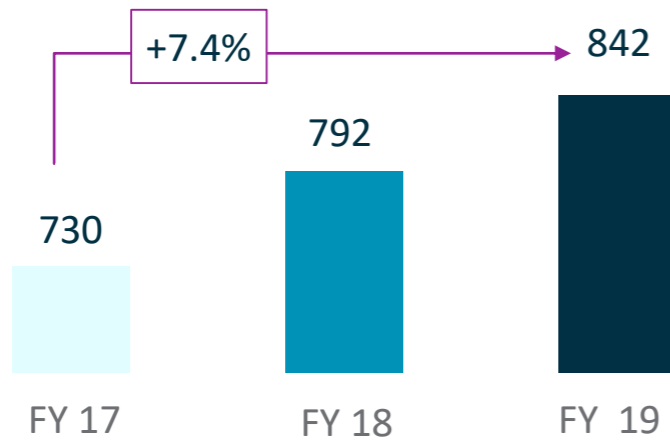


# Telxius | Sustained growth delivery

## Revenues

€ in millions

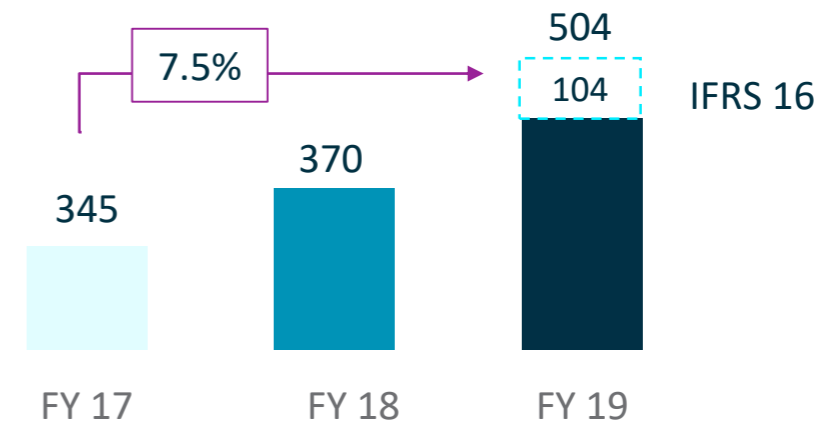
□ CAGR reported



## OIBDA

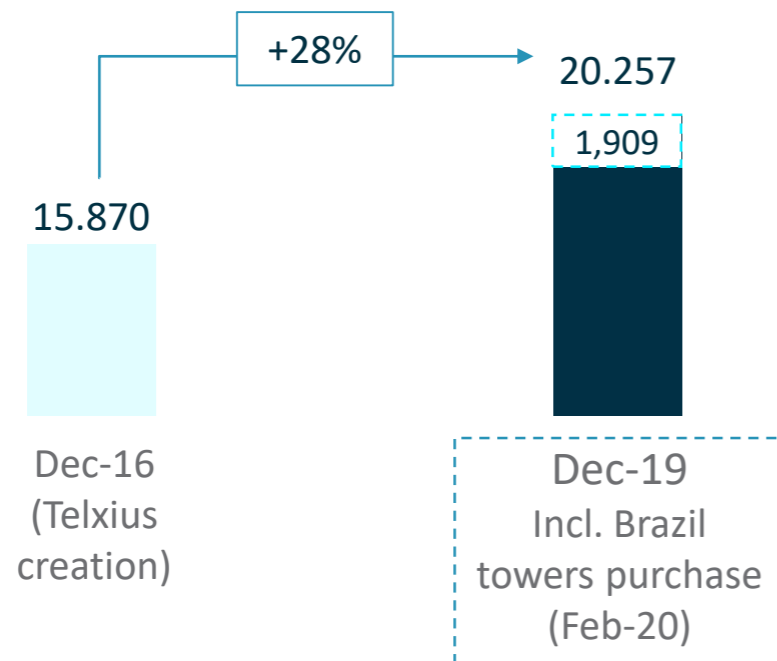
€ in millions

□ CAGR reported



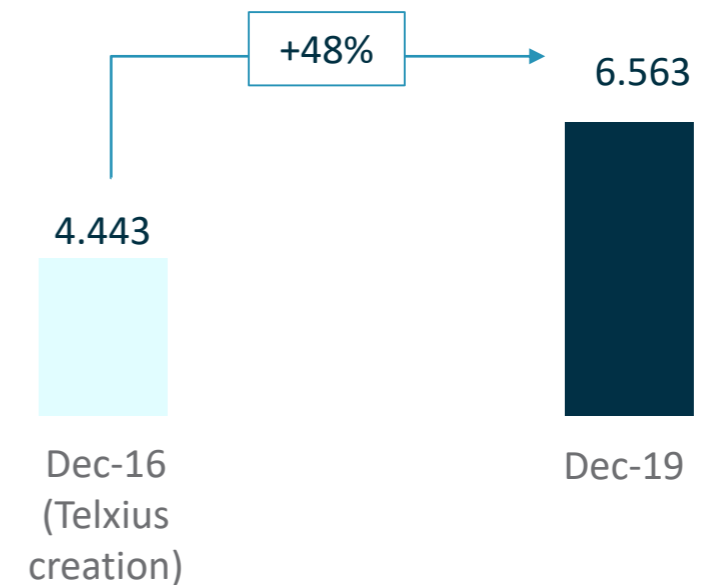
## Sites Evolution

#



## 3<sup>rd</sup> Party Tenants

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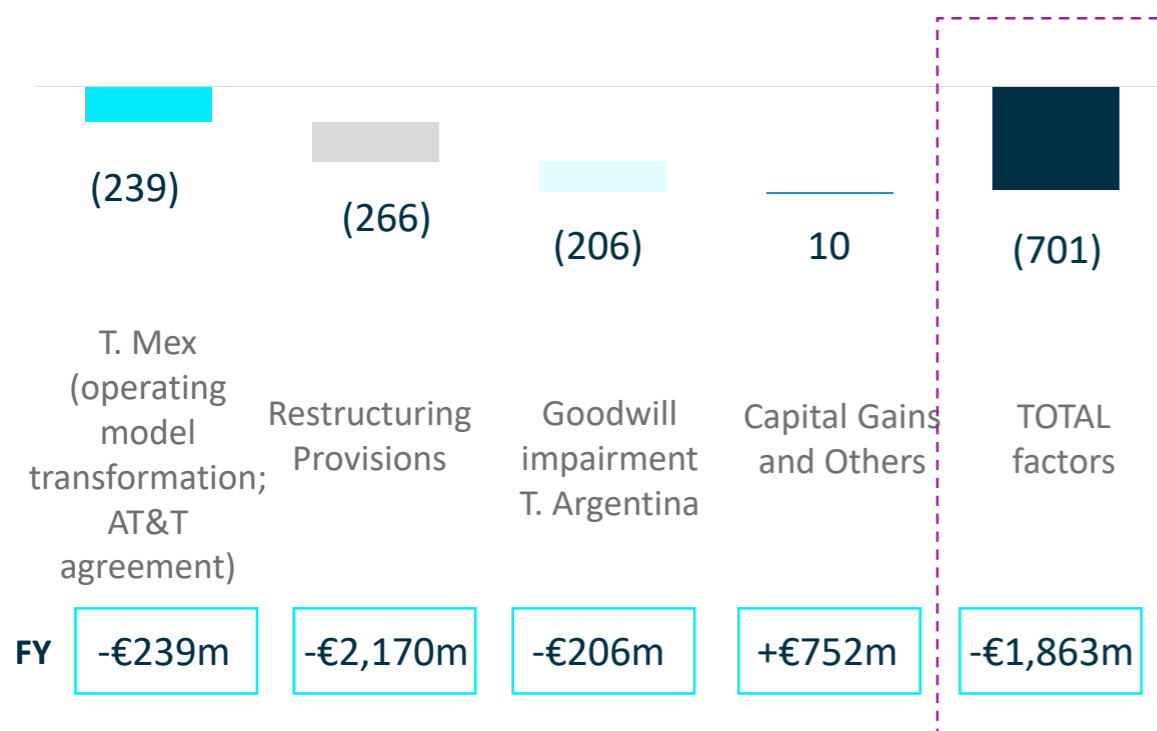
# FY & Q4 19 Results

Ms. Laura Abasolo  
CFCO

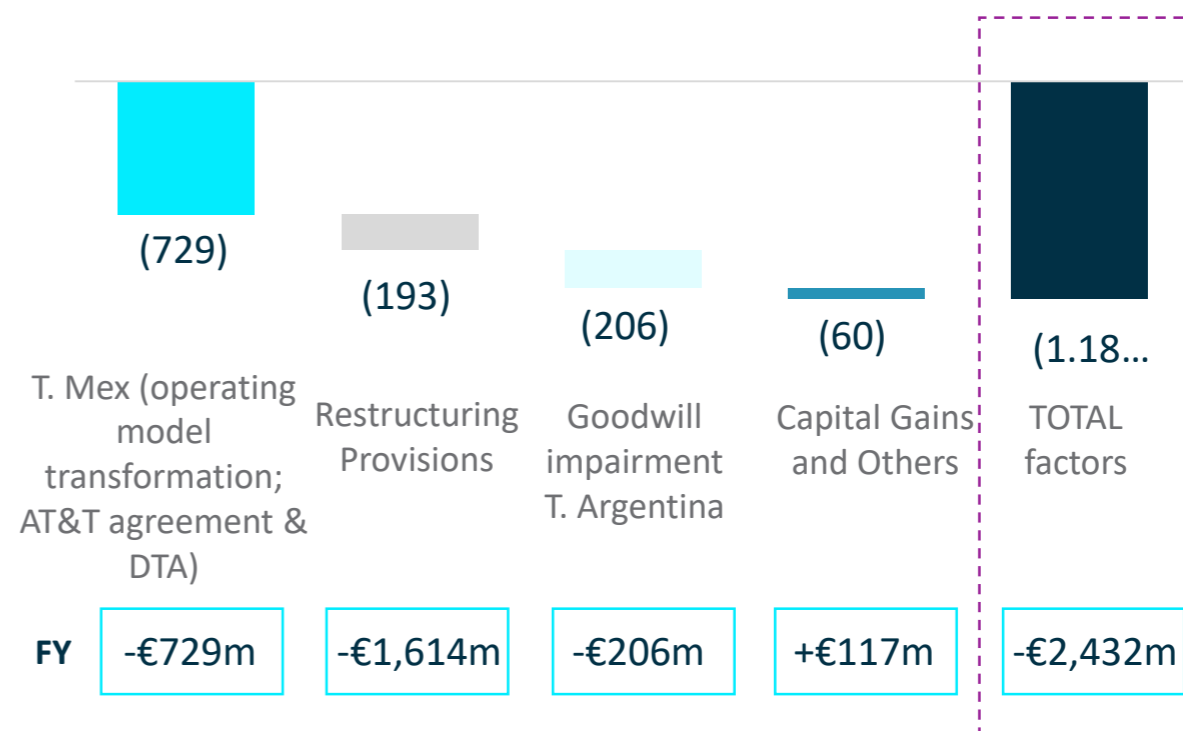


# OIBDA & Net income | Non-recurrent factors

## Q4 OIBDA -€701m



## Q4 Net Income -€1,188m



### Q4:

- ✓ **Restructuring costs:** enhancing efficiency and FCF going forward
  - OIBDA: -€266m mainly related to H. Sur, Other companies, H. Norte and UK
- ✓ **T. Mexico operating model transformation (AT&T agreement):** OIBDA: -€239m; N. Income: -€275m
- ✓ **T. Mexico DTA:** N. Income: -€454m
- ✓ **T. Argentina goodwill impairment:** OIBDA and Net income: -€206m

### FY:

- ✓ **Restructuring costs:** -€2,170m OIBDA (o/w Spain -€1.7bn in Q3)
- ✓ **Capital Gains:** OIBDA: +€98m Antares, +€213m Data Centers, +€365m CAM (Panamá, Nicaragua, Guatemala)

# FX impact structurally neutralised

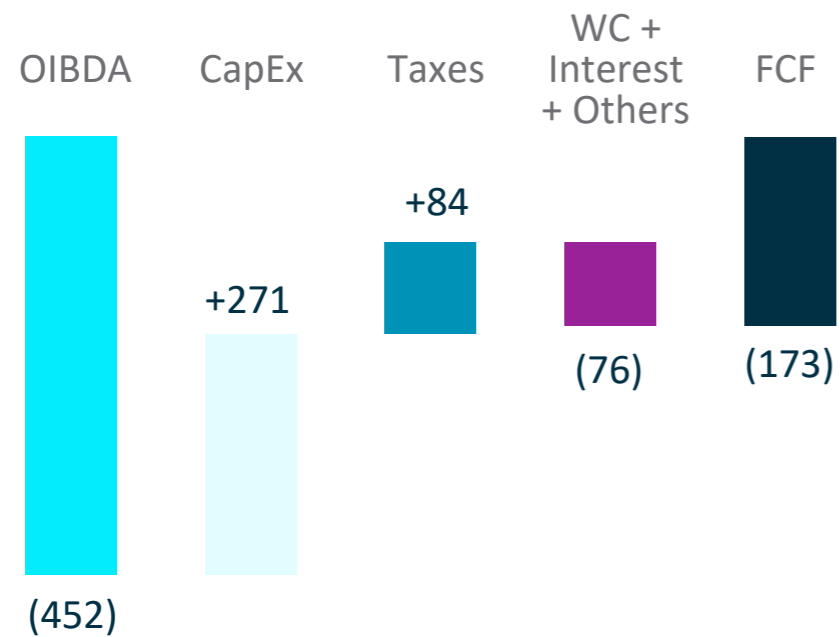
## FX headwinds

y-o-y

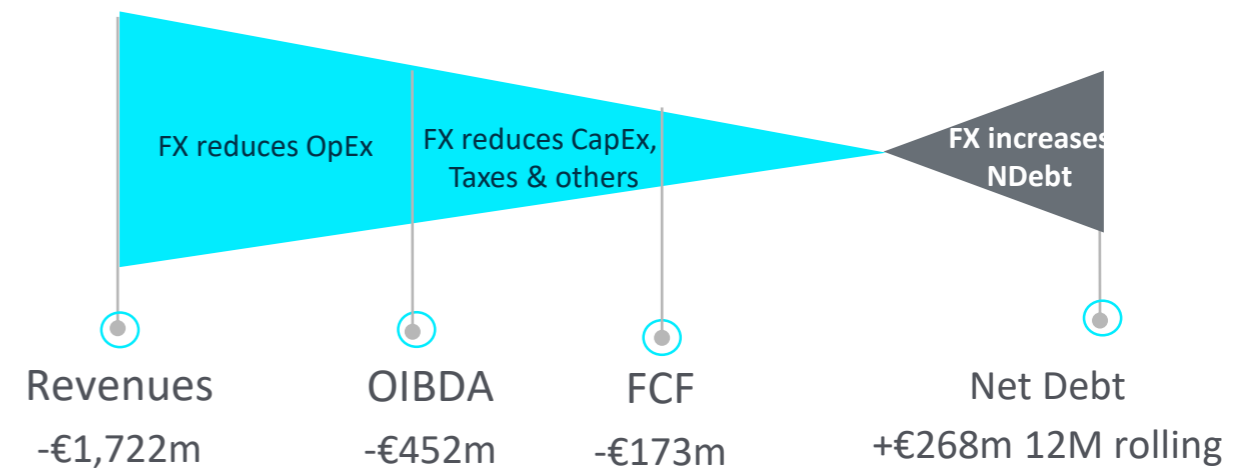
- ✓ Revenue (Q4: -3.0 p.p.; FY: -3.5 p.p.)
- ✓ OIBDA (Q4: -1.7 p.p.; FY: -2.9 p.p.)
- ✓ ARS; major drag in FY

## 2019 FX impact

€ in millions



## 2019 FX effect

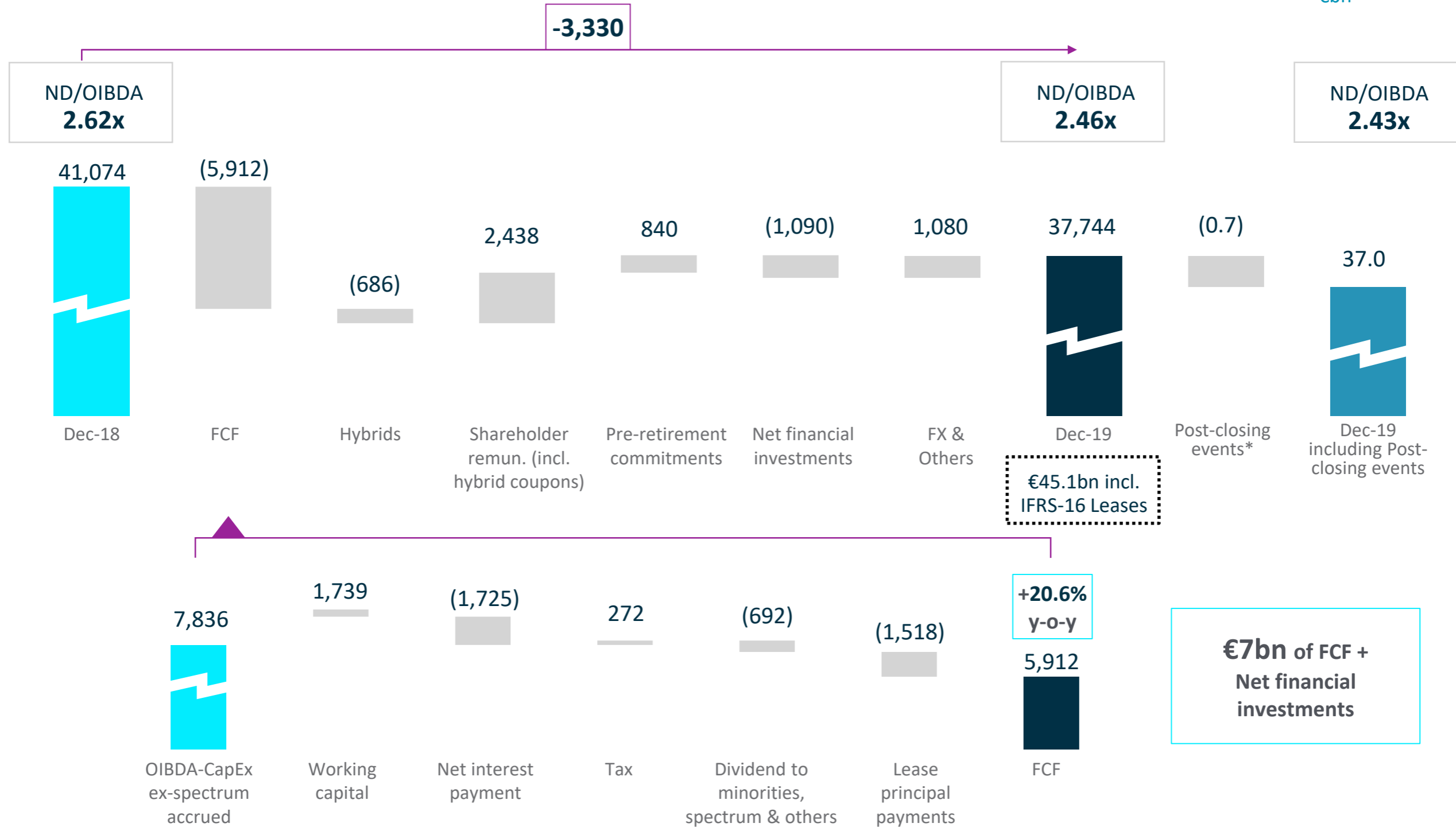


# Deleverage mainly driven by growing organic FCF

Net Financial Debt; 11 Qs in a row of reduction (-€549M in Q4)

€m

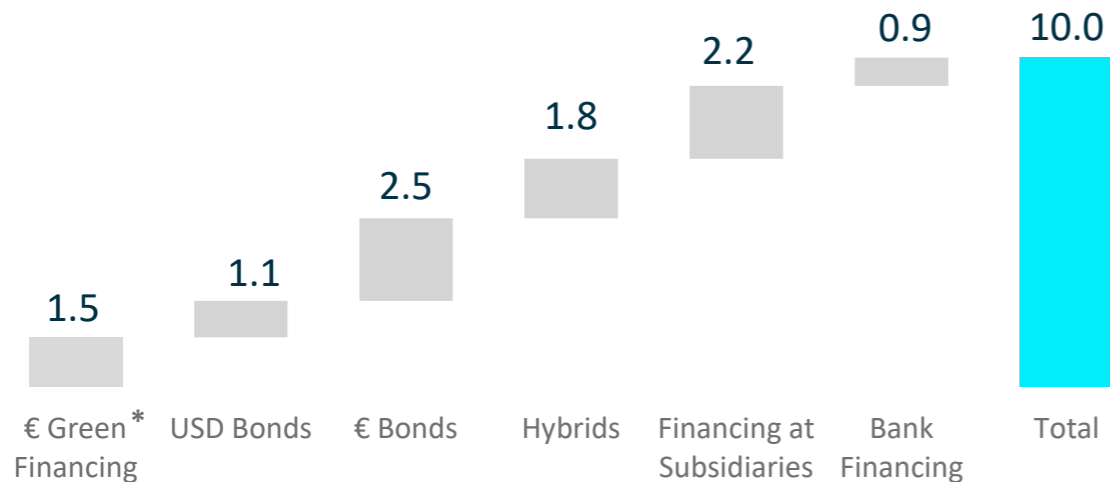
€bn



# Robust liquidity position and attractive LT financing

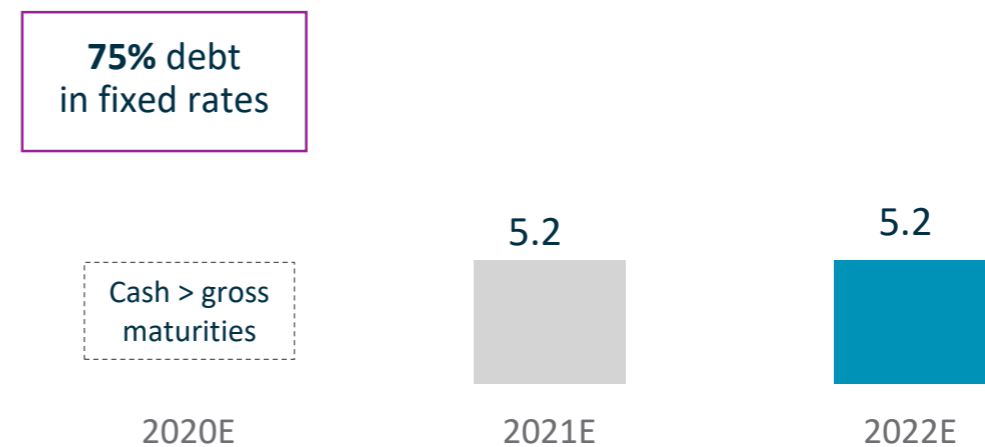
## Sources of long-term financing

2019 & 2020YTD | €bn



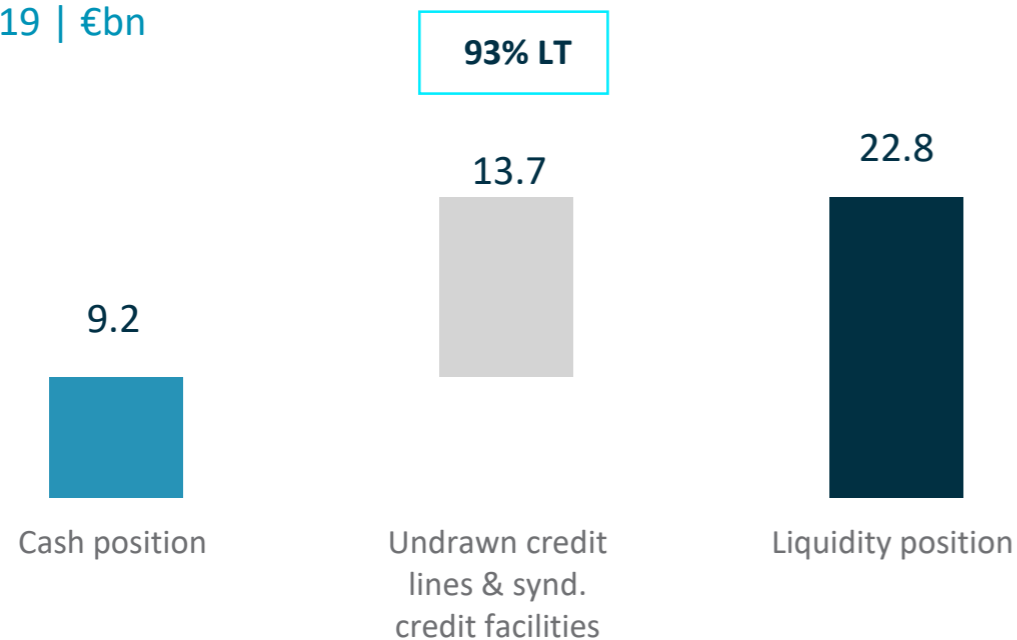
## Net Debt maturities

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



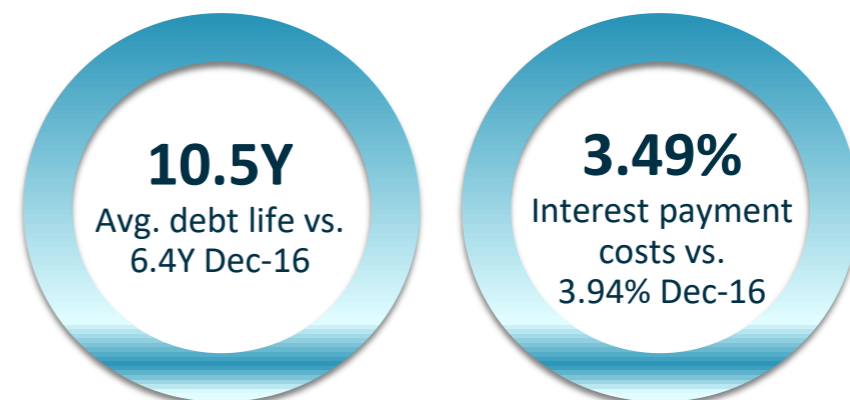
## Liquidity position

Dec-19 | €bn



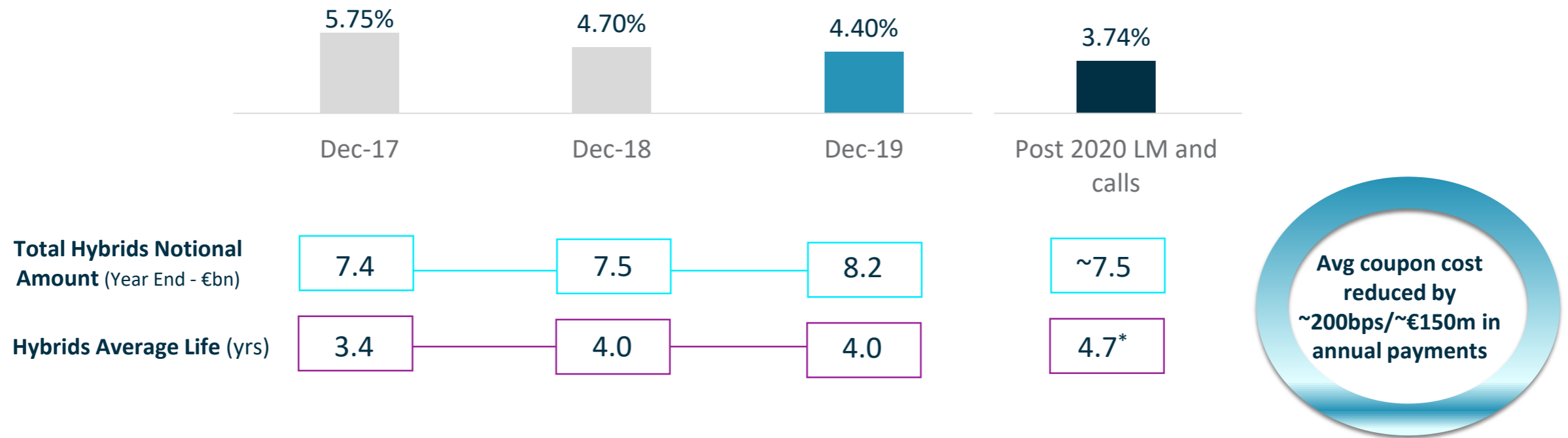
## Strengthening debt profile

Dec-19



# Active hybrid management increased average life at lower cost

## TEF Hybrids Average Coupon Cost vs. Outstanding Notional



- ✓ In just 9 Qs we executed:
  - €4bn replacement through Liability Management exercises, largest globally
  - Issued **1<sup>st</sup> green hybrid bond in the telco industry**
  - Average **hybrid life increased** from 3.4 years to 4.7 years
  - Temporary hybrid amount increase in 2019 to €8.2bn will be reduced in Q1 20 with hybrid calls (NC Mar.20 and Telefónica Colombia)



# 2020 & 2022 Guidance

Mr. José María Álvarez-Pallete  
Chairman & CEO



# New Guidance criteria | Consistent with New Telefonica

Financial Performance (organic)	2019	2019 ex-contribution to growth from ARG
<b>Revenues</b>	<b>+3.2%</b>	<b>+0.8%</b>
<b>OIBDA</b>	<b>+1.9%</b>	<b>+0.5%</b>
<b>CapEx/Sales</b>	<b>15.1%</b>	<b>15.2%</b>

- Ex-contribution to growth of Argentina, consistent with New Telefonica focus
- Improves visibility and reliability
- 2019 Revenues and OIBDA growth ex-contribution to growth from Argentina: +0.8% and +0.5% respectively...

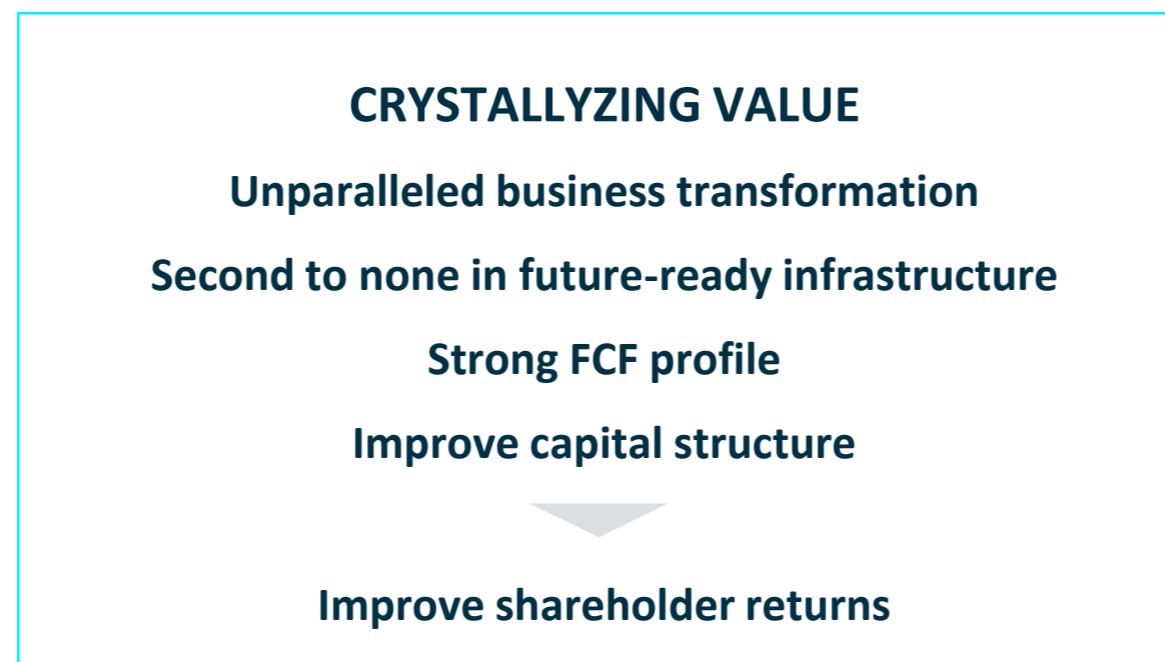
Core Markets (organic y-o-y)	Revenues 2019	OIBDA 2019
<b>Spain</b>	<b>+0.5%</b>	<b>+0.1%</b>
<b>UK</b>	<b>+3.8%</b>	<b>+2.3%</b>
<b>Germany</b>	<b>+1.1%</b>	<b>(1.1%)</b>
<b>Brazil</b>	<b>+1.9%</b>	<b>+3.7%</b>

- ... with business lines growing in Revenue & OIBDA

# 2019-2022 Financial Guidance

Financial Targets (organic ex-contribution to growth from ARG)	2019	Guidance 2019-2022E
<b>Revenues</b>	€47,875m	Revenue growth
<b>(OIBDA-CapEx)/ Revenues</b>	19.9%	+2 p.p. by 2022

Ex Central America



# 2020 Guidance | We will continue to execute

2020E: Organic ex-contribution to growth from ARG

## Stable Revenues, OIBDA and (OIBDA-CapEx)/Revenues

Ex Central America

2019 Basis for Guidance: Revenues (€47,875m); OIBDA (€16,762m); (OIBDA-CapEx)/Revenues 19.9%

### 2020 STABLE & SUSTAINABLE DIVIDEND

2020 DIVIDEND €0.40/SHARE

Interim Dec-20 €0.20/sh.

Final Jun-21 €0.20/sh.

#### 2020 calendar payments

Jun/20 €0.20/sh.

Dec/20 €0.20/sh.

*Long-term stakeholder approach to ensure business sustainability*

# 2019-2022 Financial Guidance

## > €2bn Revenues 2019-2022

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### Cybersecurity

- Automate operations and expand SoC capacity
  - Reinforce B2B sales, brand and product team
  - Enter in new P&S categories (i.e. fraud, IoT security) and capture internal business
  - Activate countries with high opportunity and markets outside footprint
- 

### IoT/Big Data

- Accelerate solutions beyond connectivity (B2B & B2C; in house-platforms & partner ecosystem)
  - Leading IoT player; cutting-edge platforms and services (analytics & AI) to extract value from multiple sources
  - Tailored offerings for specific industries: retail, mobility, utilities, industry 4.0, public or financial sector
- 

### Cloud

- New business development: Edge computing & Cloud network services
- Best-in class private/hybrid cloud portfolio and hyperscalers agreements
- Strong professional and managed services to help our clients migrate to the cloud

# 2019-2022 Financial Guidance

**+2 p.p. (OIBDA-CapEx)/Revenues by 2022; achieve a new level of simplicity**

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## **Operational excellence; Streamline corporate center**

- Refocusing key functions (focus on differential, value-adding activities for other units)
  - Greater simplicity and efficiency
  - Synergies & Economies of scale
- 

## **Optimise use of assets**

- Mobile network sharing
- Legacy shut down in all operations

Copper decommission well advanced in Spain (>450 Cos; 100% before 2025), kicking-off in Latam

Mobile; 2G at minimum; 3G transferred to 4G; Single Grid 2G in Brasil

---

## **Sustained digitalization efforts**

- Digitalisation and automation will drive commercial and back-office efficiencies
  - Simplifying IT processes
  - Improving commercial efficiency
  - Focused on customer experience (digital channels, assistants, ...)

# Conclusion

Mr. José María Álvarez-Pallete  
Chairman & COO



# Summary

**The New Telefónica; A new model begins to deliver long-term value creation**

**Leveraged on the foundations built during transformation journey**

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## **Focus on key markets**

Differential value with a sustainable model

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## **UBB massification**

Towards a 100% UBB based telco

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## **Focus on opportunities**

Of higher potential growth

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## **Digitalisation**

At the forefront in Full Stack deployments & AI

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## **Focus on agility**

Accelerate the execution and improve efficiency

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## **Portfolio management**

Improving capital allocation

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## **A sustainable model**

Growth; Efficiency; Trust

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## **Guidance**

Growing sustainably

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# Telefonica

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Dow Jones  
Sustainability Indexes



FTSE4Good



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