

Telefonica

Results

January - September

2020

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Highlights

Mr. Ángel Vilá
COO



Q3 2020 in a nutshell

- **Q3 improving trends from Q2**

- Strong commercial activity across the board
- Spain showing recovery trends and solid commercial performance
- Germany outperforming the market, once reduced the quality gap
- Progressing on the regulatory approval for the National Connectivity Champion in UK
- Brazil multi-year record high in commercial activity, FCF generation growing at double digit in € (>50% in BRL)
- Sequential improvement in spite of COVID-19 and FX headwinds

- **Advancing on technological leadership in infrastructure** (5G launched in 4 core markets/fibre expansion) **and digitalisation**
- **Accelerating the carve-out of high growth Tech vehicles**
- **Strong FCF generation €1.6bn in Q3 (+13.2% y-o-y, €0.30/share. In 9M 20 €2.8bn; €0.53/share)**
- **Net debt reduced to €36.7bn; liquidity risen to €22.4bn; net debt maturities reduced to €1.9bn for 2020-2022**
- **Proposing cancellation of 1.5% of treasury stock**

Progress against our 5 strategic pillars during Q3 2020

Main developments

1

Focus on our four core markets:

- Spain
- UK
- Germany
- Brazil

2

Reduce exposure to Hispam

- ✓ **Strong recovery of operating trends; reinforcing market position**
- ✓ **SPAIN:** Launch of 5G with ambition to reach 75% nationwide coverage by year-end; sound recovery in commercial activity with controlled churn and margin expansion; Infrastructure leader, +795k premises passed with FTTH in Q3 to 24.4m
- ✓ **GERMANY:** Early extension of agreement with DT (10-year wholesale agreement, which includes FTTH); Launched 5G in the largest German cities; 6k towers transferred to Telxius (1st tranche execution)
- ✓ **UK:** Progress in in-market convergent consolidation, O2/VMED formally requested regulatory approval and £5.7bn recapitalisation process was completed; customer base growth in every segment
- ✓ **BRAZIL:** progress in in-market consolidation via joint offer for Oi (“preferred bidder” status achieved); 5G launched in 8 cities; FTTH leadership, +1.5m homes passed in Q3 to reach 14.6m

3

Launch T. Tech

- ✓ Filed for **regulatory approval of Costa Rican business sale to LLA**
- ✓ **Portfolio review underway;** spin-off and inorganic alternatives

4

Develop T. Infra

- ✓ All 3 companies (**Cyber, Cloud, IoT & Big Data**) already incorporated and fully functional
- ✓ **Acquisitions completed to enhance Cyber offering** (Govertis –consultancy- / iHacklabs- professional training-)

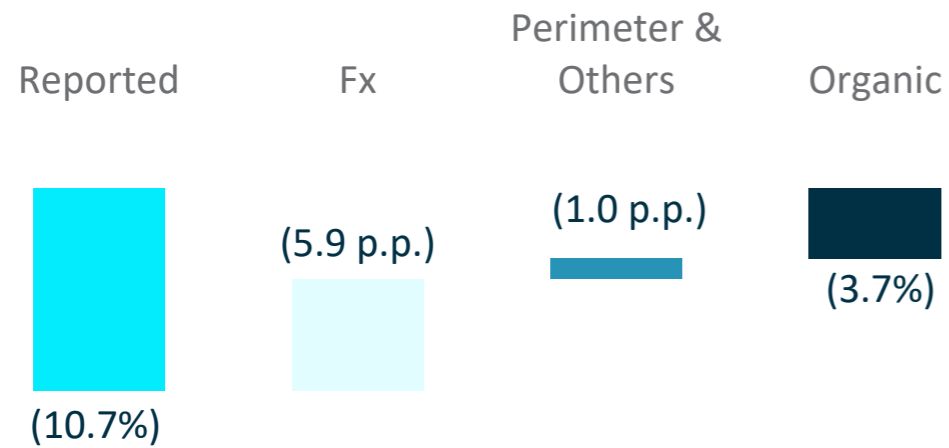
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New operational model

- ✓ **Announced JV with Allianz in Germany** to develop fibre in underserved areas
- ✓ **Expanded Telxius tower portfolio** through German deal (26.6k sites after 1st tranche; 33k sites full deal, including 2.4k BTS plan)
- ✓ **MoU signed with Rakuten** to cooperate on a shared vision to advance OpenRAN, 5G Core and OSS
- ✓ Restructuring costs re-skilling, tangible savings on digitalisation and focus on fostering agility
- ✓ **Growing cash generation capacity;** Q3 OIBDA-CapEx margin +0.7 p.p. y-o-y organic

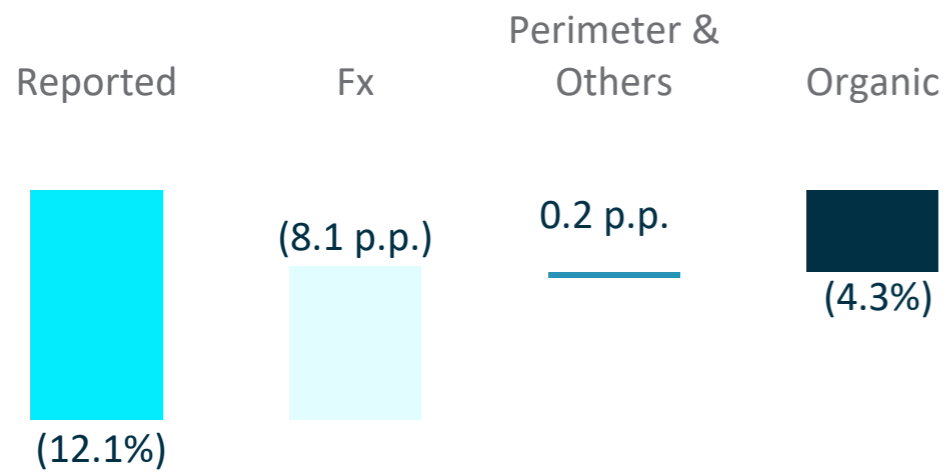
Revenue performance

9M 2020 y-o-y



- ✓ -3.9 p.p. impact of COVID-19
- ✓ -2.5% organic in our 4 core markets

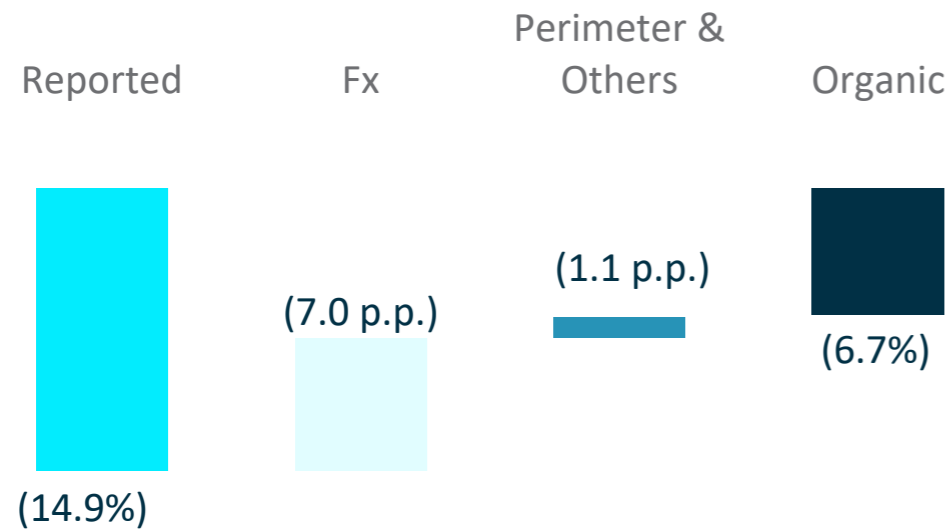
Q3 2020 y-o-y



- ✓ Improving from -5.6% organic in Q2.
- ✓ -4.9 p.p. impact of COVID-19
- ✓ -3.9% organic in our 4 core markets

OIBDA performance

9M 2020 y-o-y

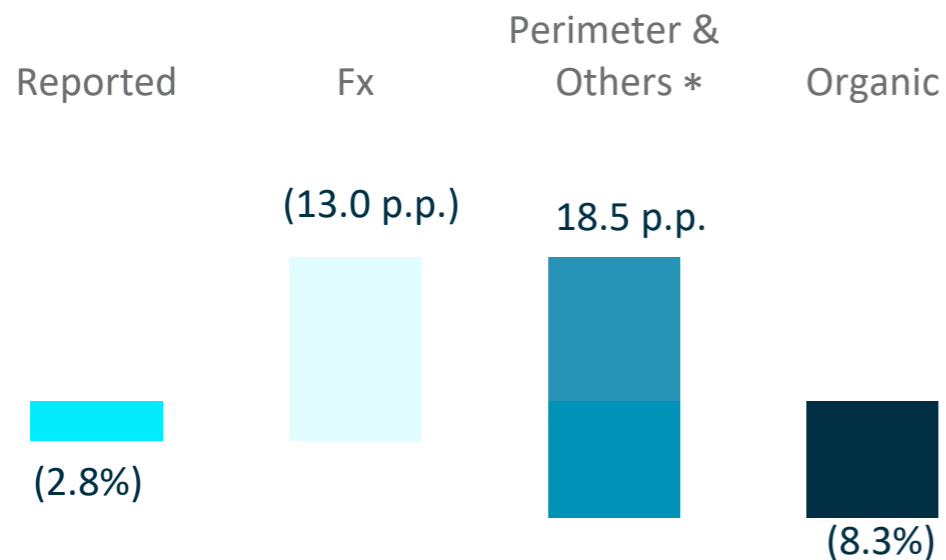


- ✓ -5.2 p.p. impact of COVID-19
- ✓ -3.1% organic in our 4 core markets

Focus on incremental cost efficiencies

OpEx down 3.0% organic in Q3

Q3 2020 y-o-y



- ✓ Improving from -10.0% organic in Q2
- ✓ -6.8 p.p. y-o-y impact of COVID-19
- ✓ -3.3% organic in our 4 core markets

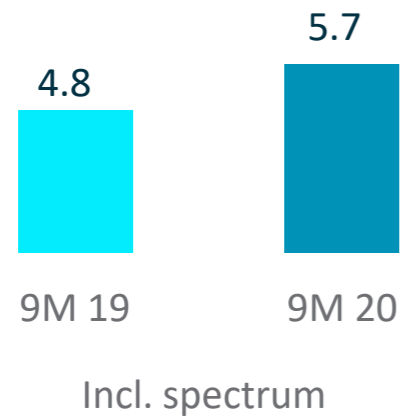
Group OIBDA

Q3 y-o-y -8.3% y-o-y organic; +175 bps vs. Q2

Strong cash flow generation; robust operating leverage

OIBDA-CapEx (reported)

€bn



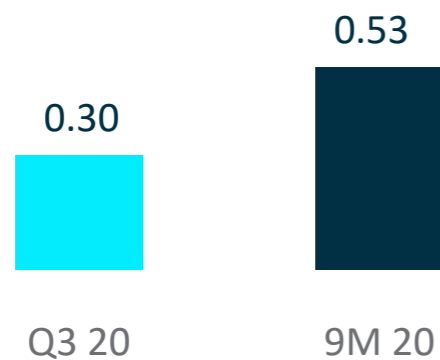
- ✓ +18.5% y-o-y reported (incl. spectrum)
- ✓ -1.8% organic
- ✓ +3.4% organic in our 4 core markets

Prioritising investments

50% CapEx (core 4 markets) in NGN (FTTH+LTE/5G)

FCFS

€



FCF strong improvement in Q3 (€1.6bn; +13.2% y-o-y) to €2.8bn in 9M

Double-digit FCF growth in Brazil in EUR terms

Financial update

€ in millions	9M 2020				Q3 2020			
	Reported	Reported y-o-y	Organic y-o-y	Organic y-o-y aggregated 4 core markets	Reported	Reported y-o-y	Organic y-o-y	Organic y-o-y aggregated 4 core markets
Revenues	32,167	(10.7%)	(3.7%)	(2.5%)	10,461	(12.1%)	(4.3%)	(3.9%)
OIBDA	9,747	(14.9%)	(6.7%)	(3.1%)	2,672	(2.8%)	(8.3%)	(3.3%)
OIBDA margin	30.3%	(1.5 p.p.)	(1.1 p.p.)	(0.2 p.p.)	25.5%	2.4 p.p.	(1.5 p.p.)	0.2 p.p.
OIBDA-CapEx (ex-spectrum)	5,680	(9.2%)	(1.8%)	3.4%	1,326	44.4%	(0.8%)	5.2%
OIBDA-CapEx / Revenues (ex-spectrum)	17.7%	0.3 p.p.	0.4 p.p.	1.4 p.p.	12.7%	5.0 p.p.	0.7 p.p.	2.1 p.p.
Net Income	671	(50.1%)			(160)	(63.9%)		
Underlying Net Income	2,052	(20.7%)			734	(8.9%)		
FCF (incl. leases principal payments)	2,801	(32.5%)			1,579	13.2%		
Net Financial Debt ex- leases	36,676	(4.2%)						

COVID-19 impacts (estimated and aprox.)

€ (m)	Q3	9M
Revenues	(591)	(1,397)
OIBDA	(315)	(687)

FX impacts

€ (m)	Q3	9M
Revenues	(959)	(2,135)
OIBDA	(358)	(806)

Argentina impairment

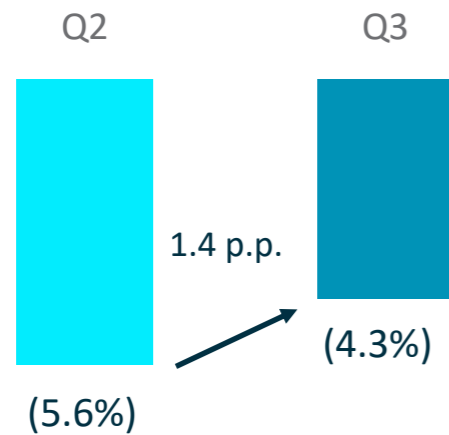
€ (m)	Q3	9M
OIBDA	(785)	(894)

Q3 19; €1.9bn restructuring costs (€1.7bn in Spain)

Improved revenue trends in Q3

Revenue

y-o-y organic



Contribution to the 1.4 p.p. q-o-q improvement

- ✓ Service revenue +0.7 p.p. (Germany & Hispam)
- ✓ Handset revenues +0.6 p.p. (Hispam, BZ and SP)
- ✓ Hispam largest contributor

Mix transformation

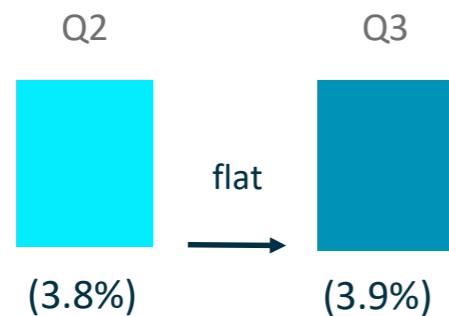
68% BB&SoC revenues/service revenues; +5 p.p. vs. Q3 19

T. Tech Revenues

+15.4% y-o-y org. in 9M 20

Revenue in 4 core markets

y-o-y organic



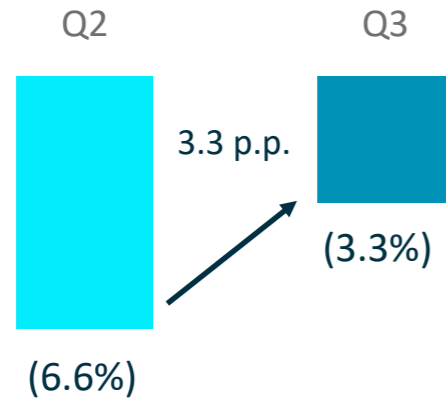
Contribution to stable q-o-q performance from

- ✓ UK -1.1 p.p. y-o-y
- ✓ Brasil +0.8 p.p.
- ✓ Spain +0.3 p.p.
- ✓ Germany flat

Solid sequential improvement in OIBDA and OIBDA-CapEx

4 core markets OIBDA

y-o-y organic

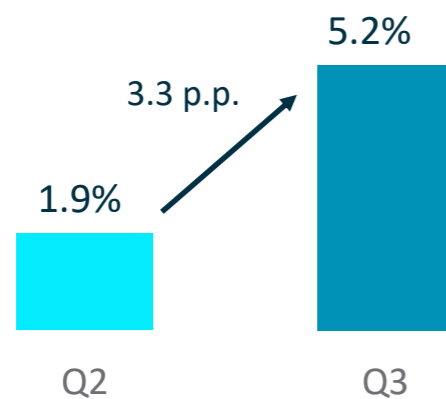


Contribution to the 3.3 p.p. q-o-q improvement

- ✓ Spain +1.6 p.p.
- ✓ Germany +1.0 p.p.
- ✓ UK +0.6 p.p.
- ✓ Brazil +0.1 p.p.

4 core markets OIBDA-CapEx

y-o-y organic

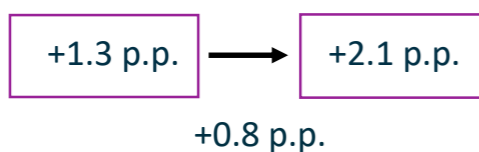


Contribution to the 3.3 p.p. q-o-q improvement

- ✓ Germany +3.7 p.p.
- ✓ Brazil +1.9 p.p.
- ✓ UK +1.0 p.p.
- ✓ Spain -3.4 p.p.

OIBDA-CapEx margin expansion in Q3 y-o-y; improved cash conversion

(OIBDA-Capex) /
Revenues
(ex-spectrum y-o-y org.)

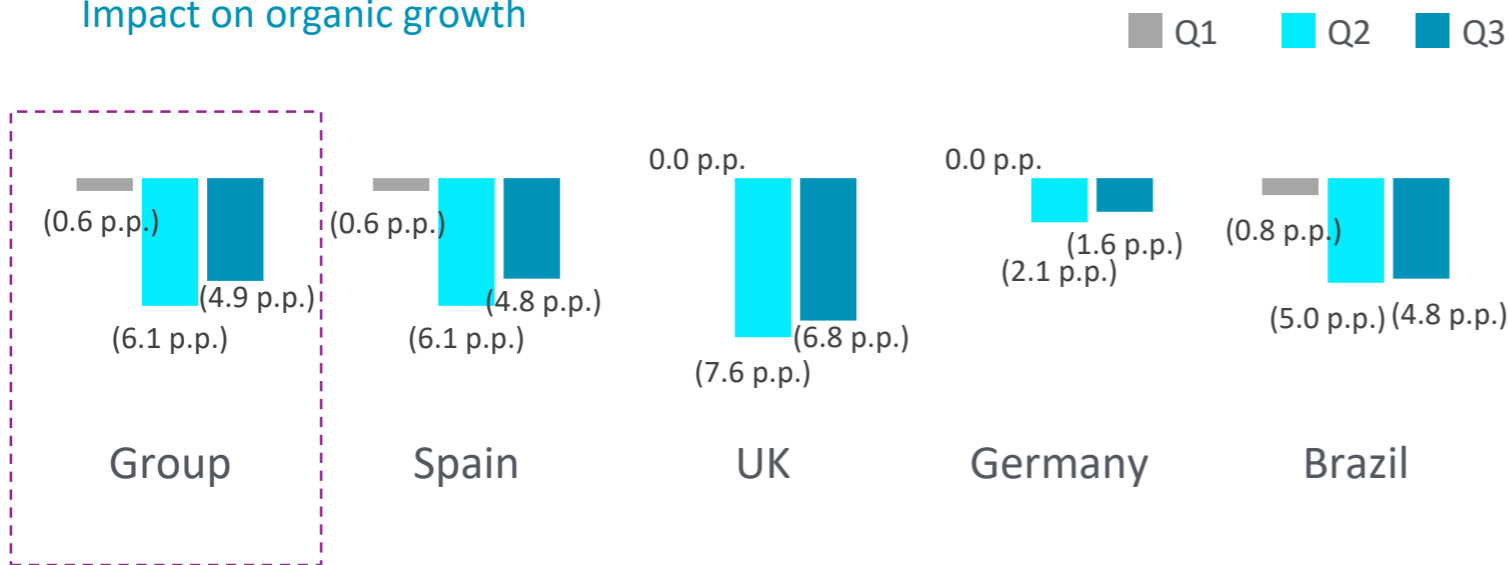


- ✓ Brazil +5.1 p.p. to 25.1%
- ✓ UK +2.6 p.p. to 19.5%
- ✓ Germany +2.0 p.p. to 17.4%
- ✓ Spain -0.4 p.p. to 29.7%

COVID-19 impacts | Steady improvement vs. Q2 2020

Revenues

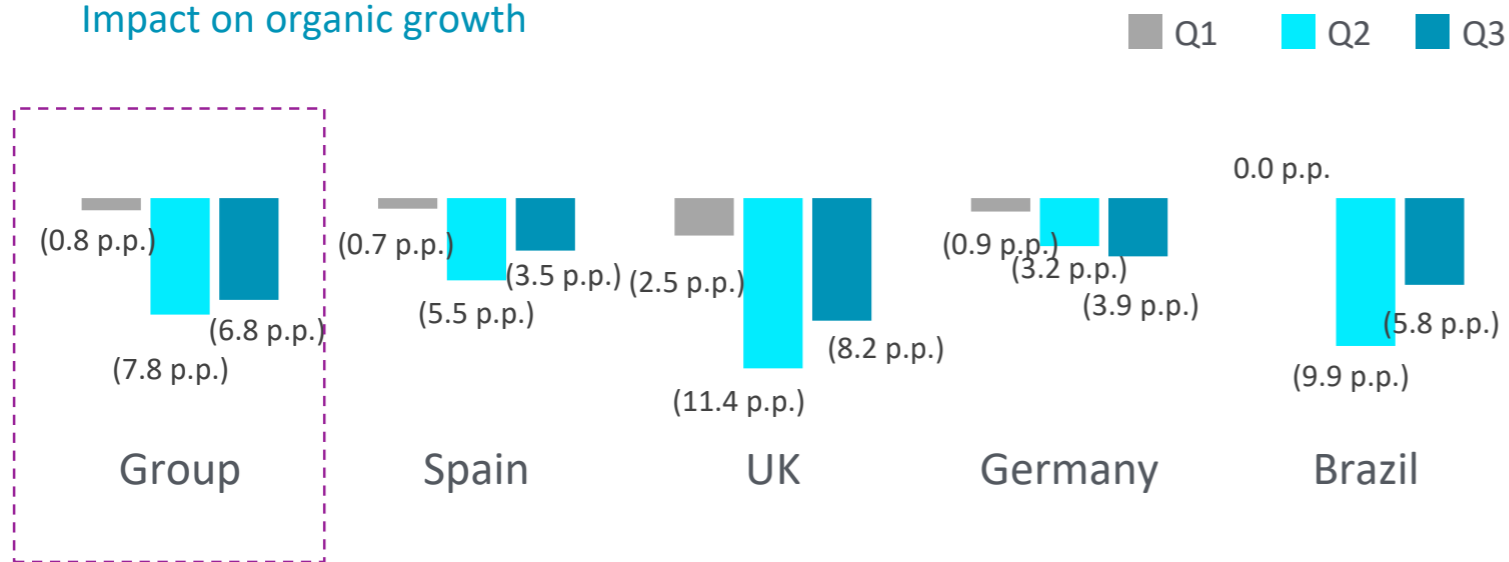
Impact on organic growth



- Lower impact vs. Q2 20
- Significant impact of roaming
- **B2C:** Discounts/Promos; new business delays, mainly Hispam in Q3
- **B2B:** Discounts, deferred projects, lower demand from SMEs

OIBDA

Impact on organic growth



- Significant cost cutting efforts; commercial expenses, improvement in bad debt q-o-q
- Deepening customer engagement; churn -0.3 p.p. y-o-y; NPS 23% (+3 p.p. y-o-y)
- Accelerated digitalisation; digital channel sales in our 4 core markets up +36% y-o-y
- Increasing demand for cloud & cyber services

Confirming FY 2020 dividend and outlook

Stable and sustainable dividend

2020 dividend	€0.40/share
Interim Dec-20	€0.20/sh. (Voluntary Scrip)
Final Jun-21	€0.20/sh.

Flexible dividend payments in 2020

1.5% treasury stock to be cancelled

Managing cost base and operational flexibility without jeopardising investment priorities

Financial targets (organic ex-contribution to growth from ARG)	2020E	9M
OIBDA-CapEx	Slightly negative to flat	(1.8%)

On track to meet 2020 outlook

Q3 2020 Results

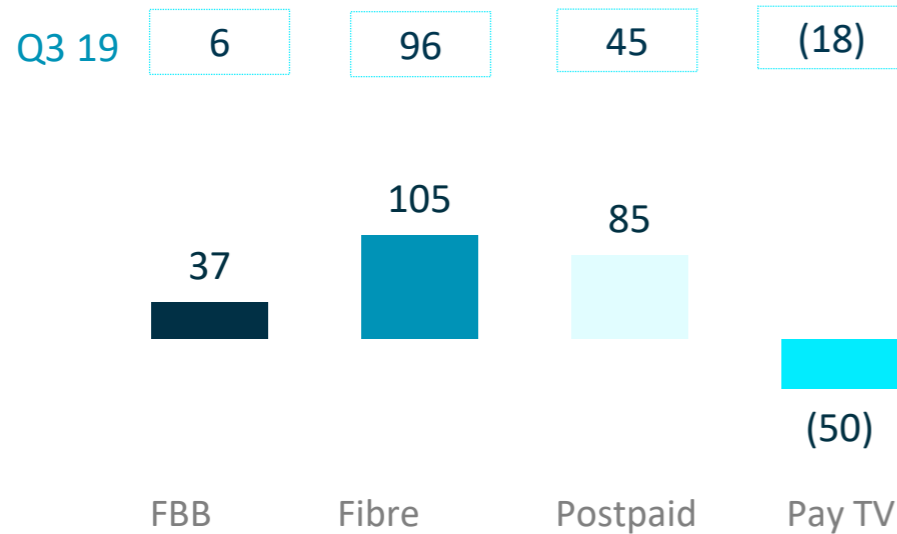
Ms. Laura Abasolo
CFCO



Spain | Sound recovery in commercial activity

Q3 Net adds

Accesses (k)

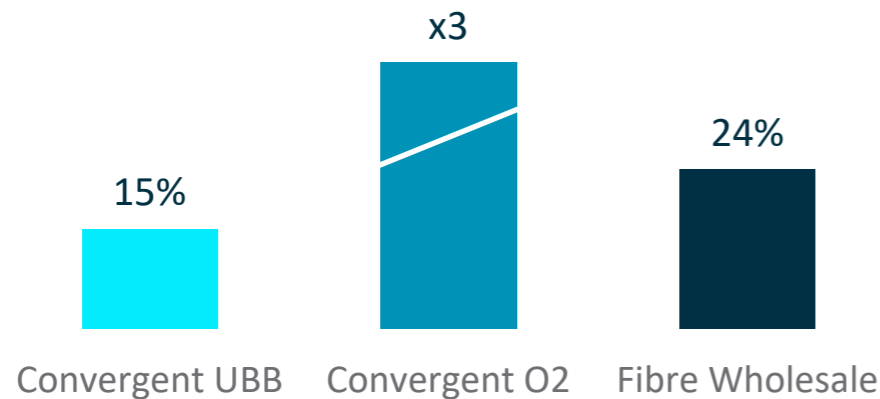


Performance

- ✓ Best FBB net adds since Q3 18; more than 100k in fibre
- ✓ Proven competitive and segmented offering, focused on value
 - Growing Premium TV; M+ Lite higher churn (due to Q2 peak adds)
- ✓ Resilient convergent base (+17k net adds) in a competitive market
 - Sequential q-o-q ARPU improvement; improving churn
- ✓ Differentiation; quality network and new services
 - FTTH network (24.4m, 29% uptake), 5G switch on (75% cov. YE 20)

Growth across the board

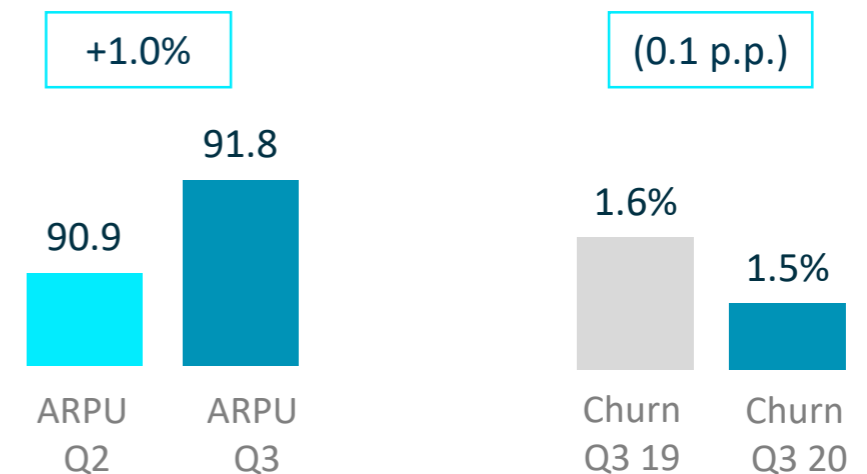
September y-o-y



Convergent KPIs

€/month

%

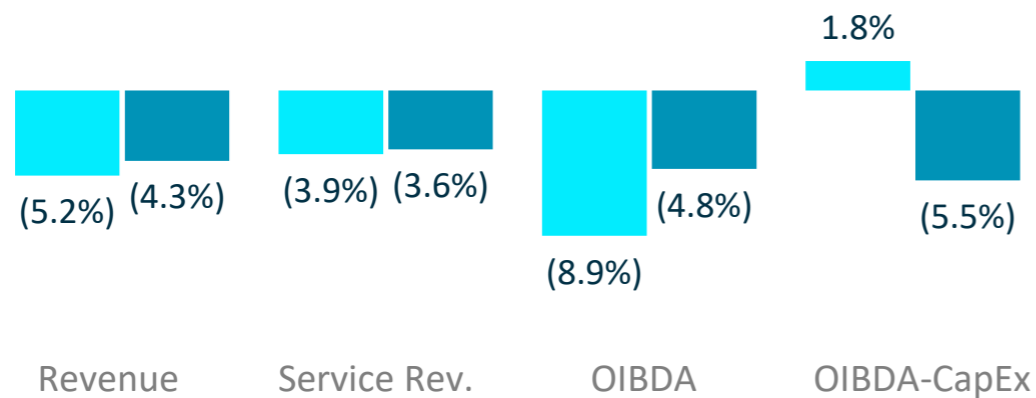


Spain | Sequential improvement in revenue and OIBDA

Key financials

y-o-y organic

■ Q2 ■ Q3

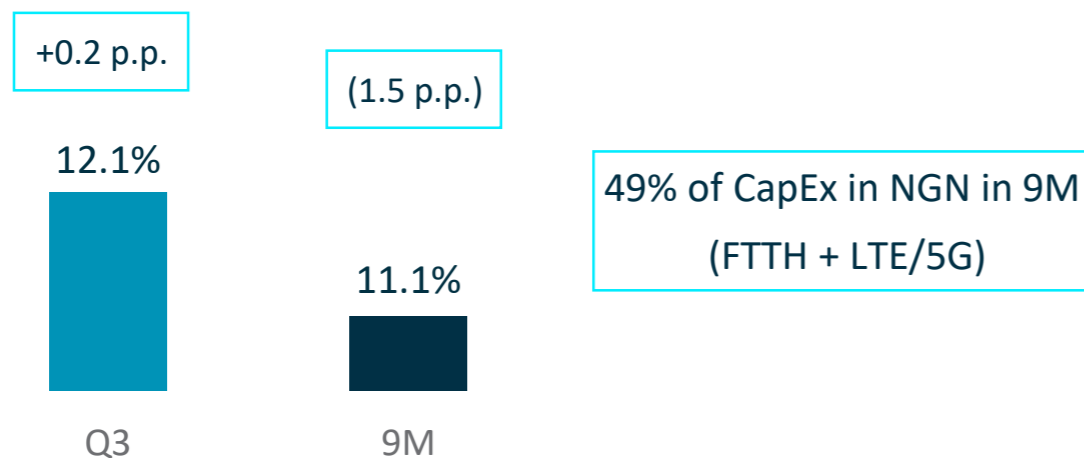


Performance

- ✓ Revenue trend +0.9 p.p. q-o-q, despite tougher comps
 - Retail price upgrade in Q3 19
 - Wholesale impacted by roaming
- ✓ OIBDA +4.1 p.p., benefitting among others from efficiencies in content costs
- ✓ Cash conversion benchmark
 - CapEx reactivation; in line with trading
 - OIBDA-CapEx/Revenue at record high levels

CapEx/Revenues

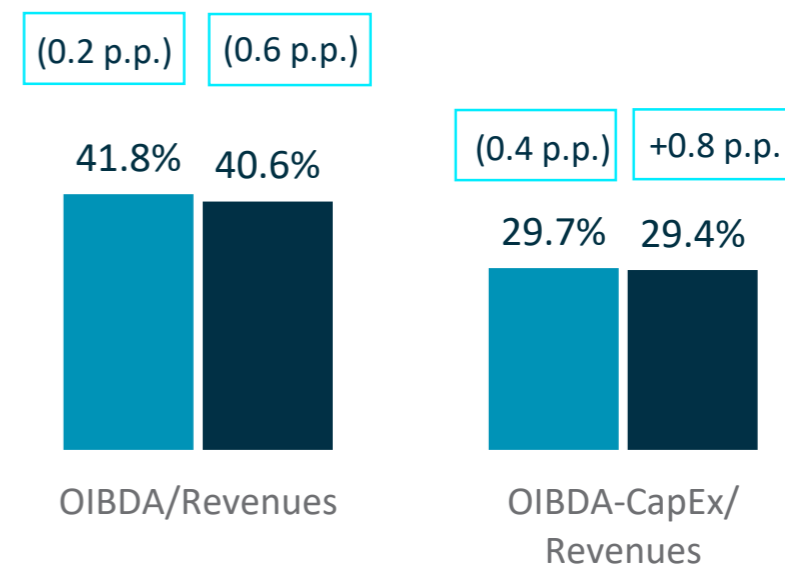
y-o-y organic



Strong Cash generation

y-o-y organic

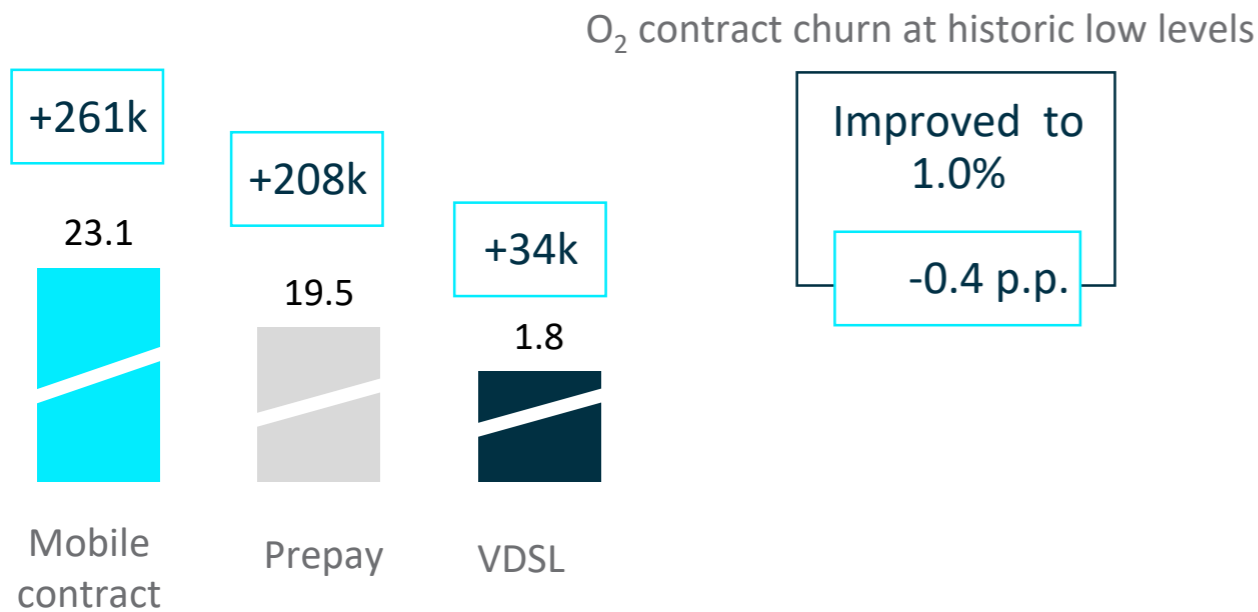
■ Q3 ■ 9M



Germany | Solid commercial performance and financials

Q3 trading dynamics driven by O₂ brand

Accesses (m, net adds)



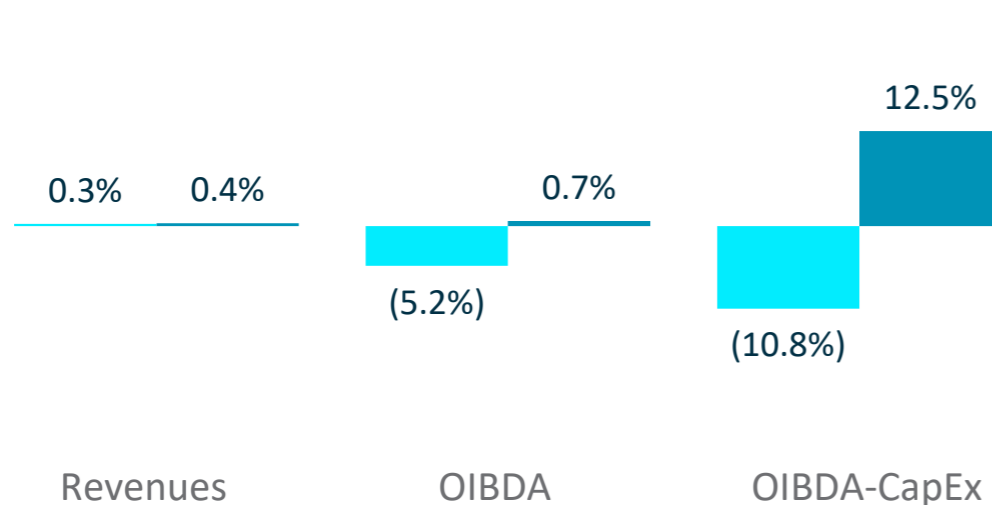
Key milestones

- ✓ Core business momentum intact; OIBDA back to growth
- ✓ COVID impacts (-1.6 p.p. revenue; -3.9 p.p. OIBDA) on travel restrictions
- ✓ CapEx back-end loaded deployment due to COVID-19
- ✓ 5G network active in 15 cities

Key financials

y-o-y organic

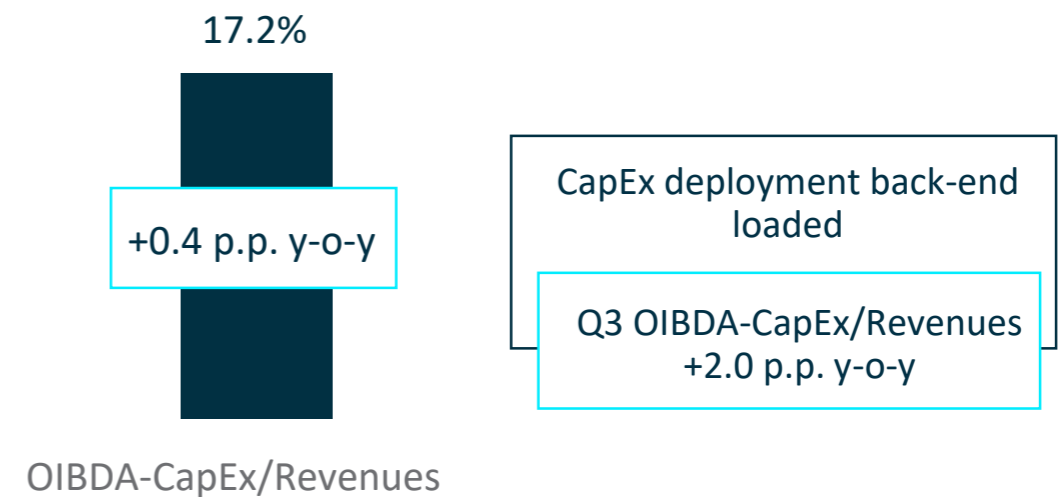
■ Q2 ■ Q3



OIBDA-CapEx margin improvement

y-o-y organic

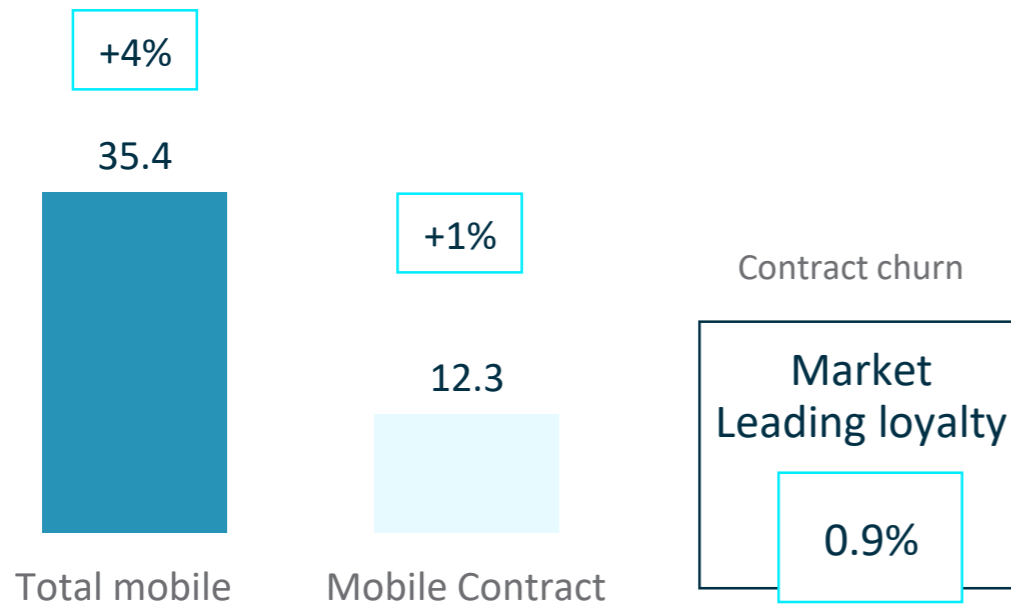
■ 9M



UK | #1 network in the UK

Customer Base

Accesses (m; y-o-y)



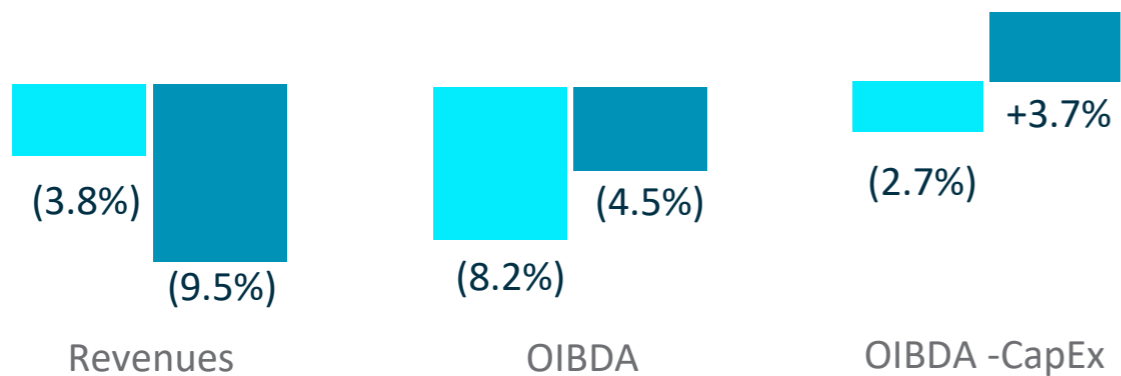
Performance

- ✓ Customer base growth in every segment
- ✓ Enhanced focus on direct distribution proving a value accretive move
- ✓ Revenue trend affected by roaming, handset release delay, increase in direct trading and SMIP
- ✓ CapEx focus on areas of growth and customer experience
- ✓ Market Leading NPS

Key financials

y-o-y organic

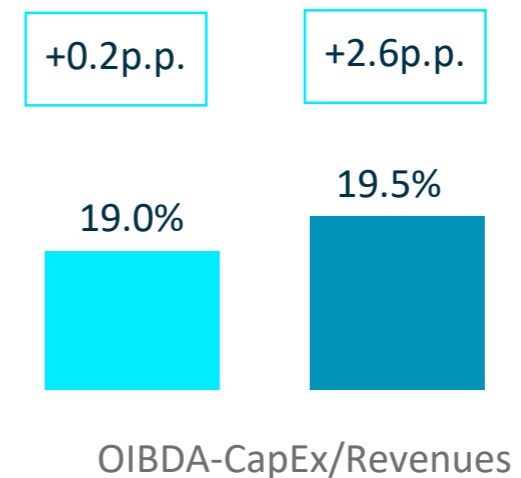
■ Q2 ■ Q3



Profitability and cash generation

y-o-y organic

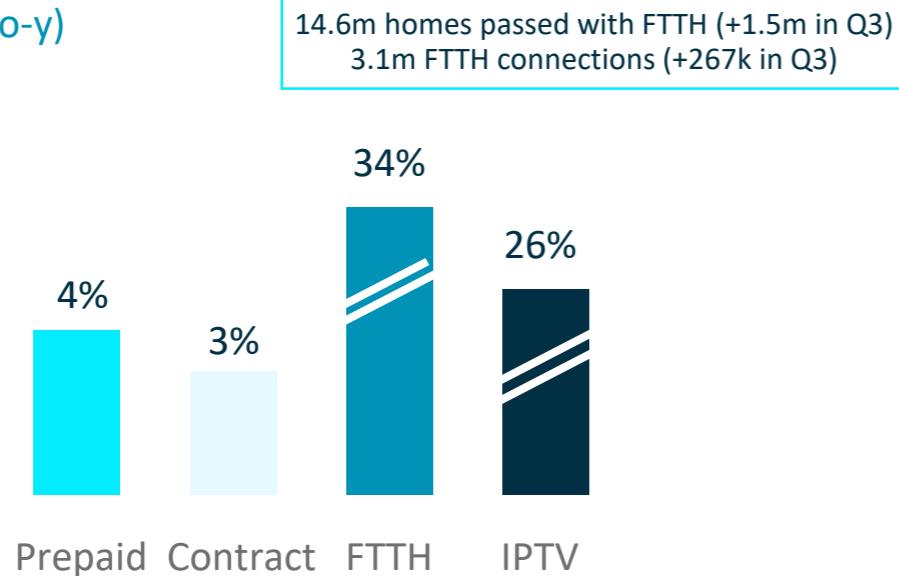
■ Q2 ■ Q3



Brazil | Significantly improved performance across the board

Growing value accesses, improved mix

Accesses (y-o-y)



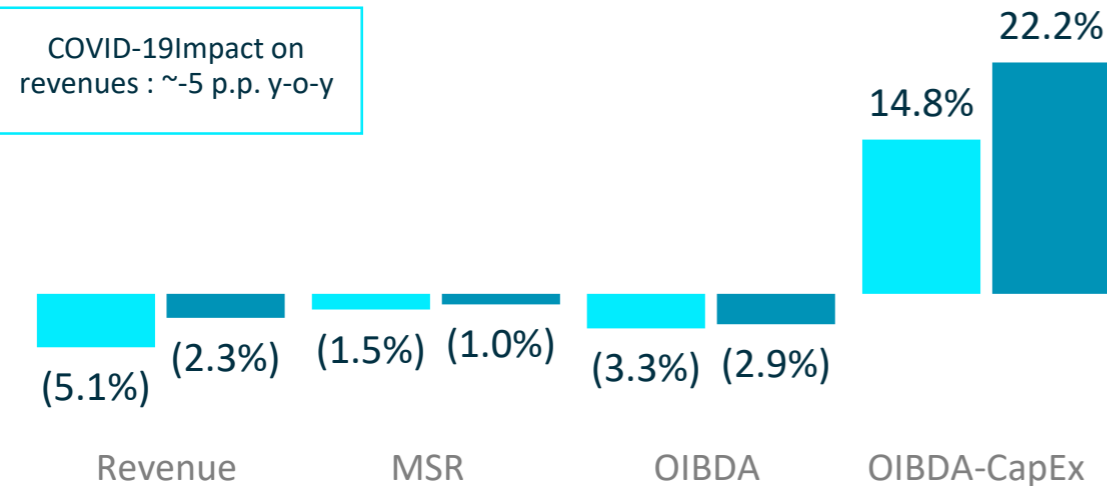
Reinforced leadership

- ✓ Record mobile market share (33.3%)
- ✓ **Strong recovery in all growth segments:**
 - Highest level of **prepaid** net adds in 8 years
 - Record level of **FTTH** connections
 - Lowest **contract** churn (1.2%) in 5 years
- ✓ Continued **digitalisation** boosting OIBDA margin
- ✓ **Growth CapEx 70% of total** (fibre +20.3%; legacy -53% y-o-y)
- ✓ **FCF grows 50% y-o-y** in 9M (mid-to-high teens growth in €)

Key financials

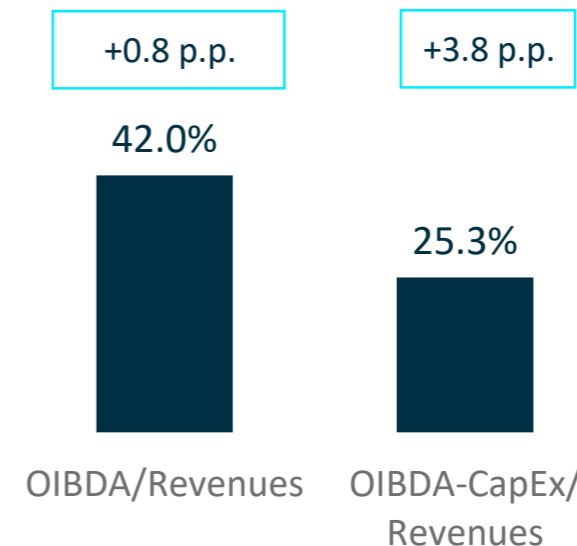
Q2 y-o-y organic

■ Q2 ■ Q3



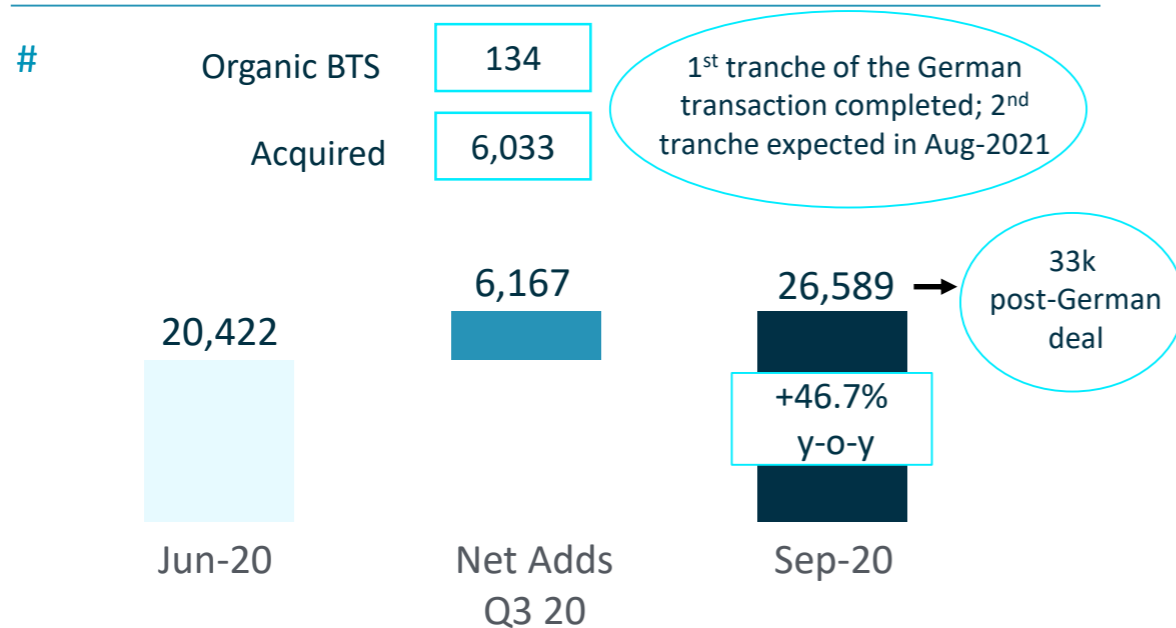
Profitability and cash generation

■ 9M □ y-o-y organic

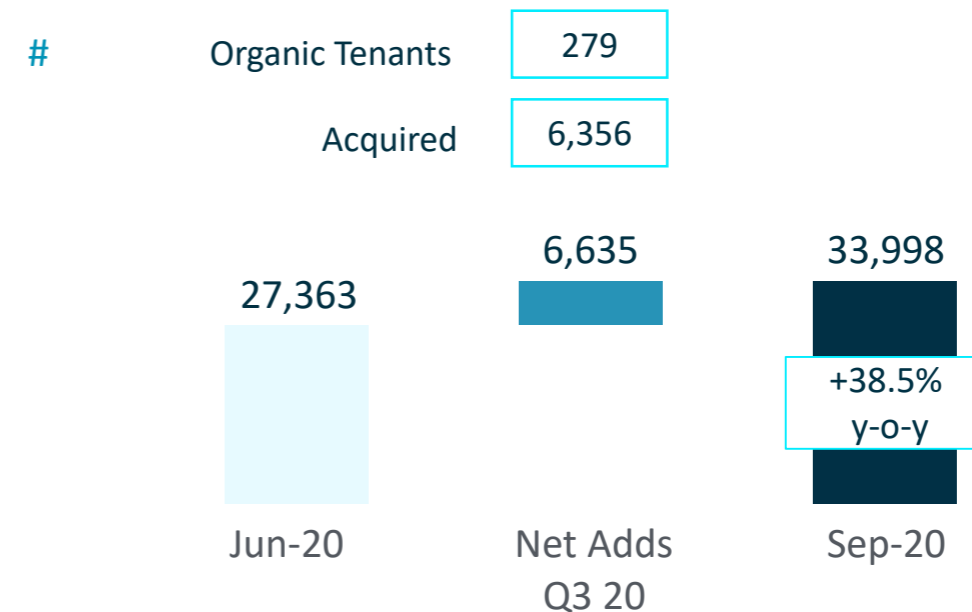


Infra | Expanding Telxius' towers portfolio

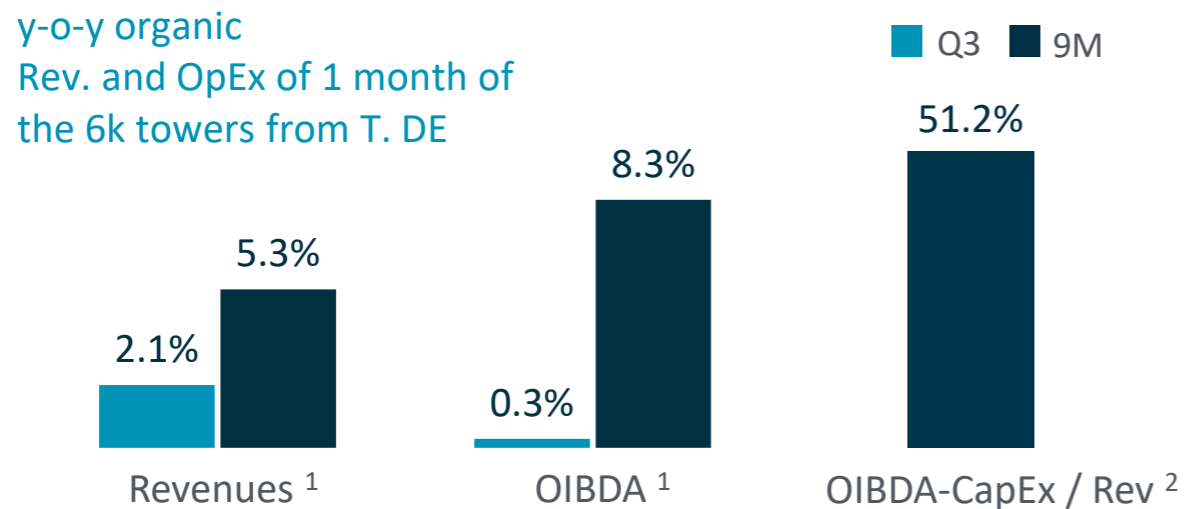
Sites | Germany acquisition first tranche



Tenants

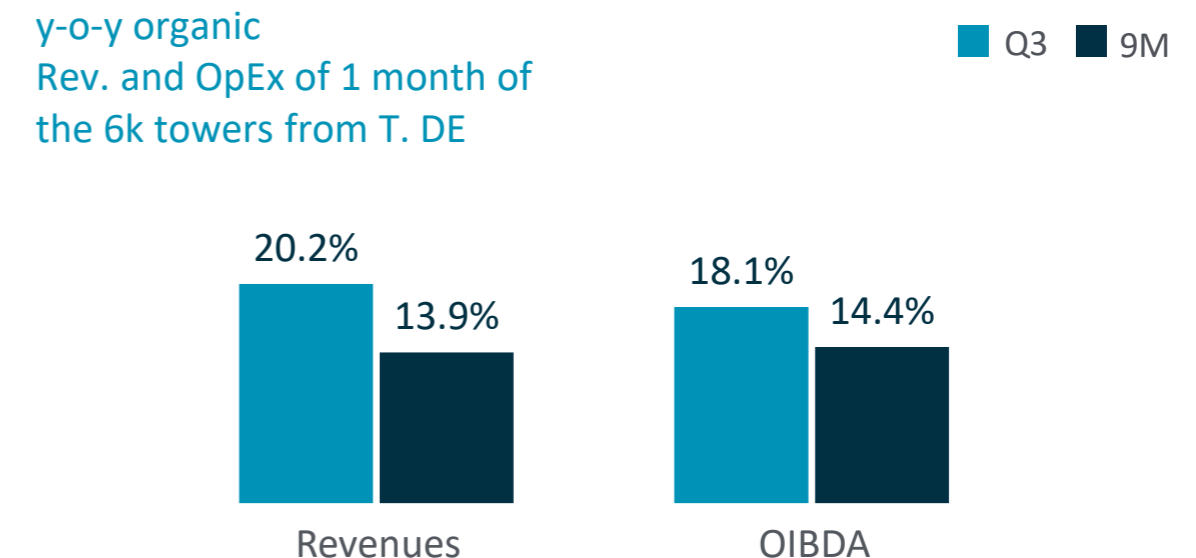


Revenues, OIBDA & Profitability: Telxius



- Accelerated revenue growth in Tower due to higher colocation revenue and acquisitions
- Contract extensions in Cable (Net FCV \$324m) with negative impact in the short-term

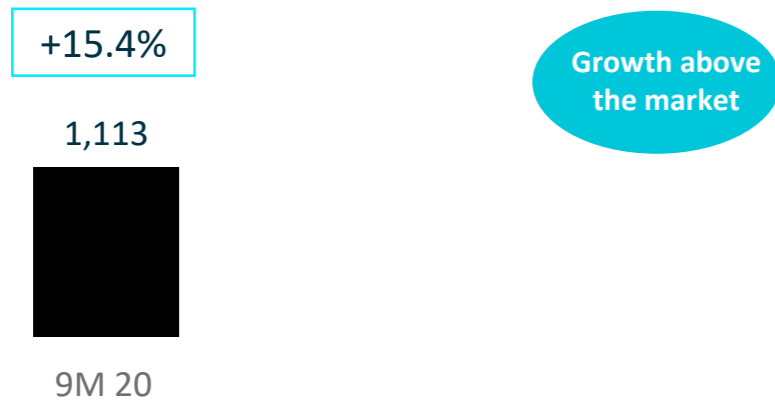
Revenues & OIBDA: Tower business



Tech | Essential services driving growth

Double-digit growth

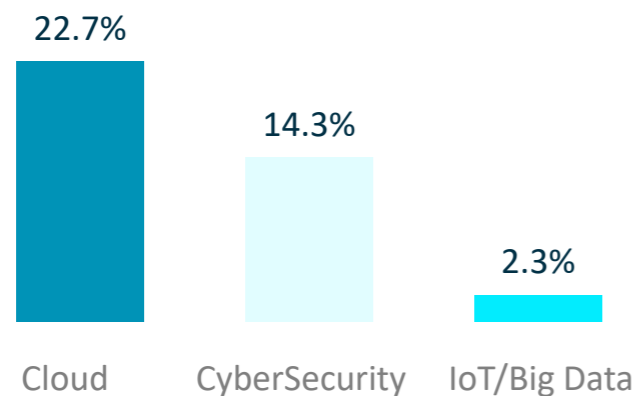
T. Tech revenues y-o-y organic



- ✓ Digital Transformation accelerated by COVID-19
- ✓ Corporate channel back to pre-COVID levels in Sep (60% of 9M sales)
- ✓ Carve-outs progressing: Tech Companies established and operational
- ✓ Reinforced capabilities: strategic M&A, more than 300 partners
- ✓ Launch of T. Tech Ventures, bringing new investment in cybersecurity

Operational highlights

T. Tech revenues; 9M y-o-y organic



Cloud

- Multicloud portfolio for all B2B sizes; Hub in Spain (South Europe)
- +49% SaaS revenue y-o-y; +30% IaaS in 9M 20

Cybersecurity

- Enhanced capabilities (acquisition of Govertis & iHackLabs)
- 12 Security operation centres unified; global alliances

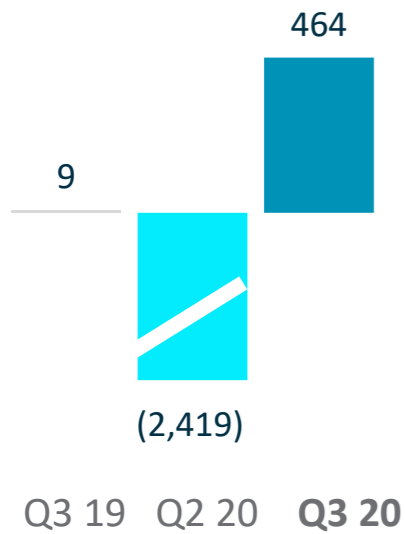
IoT & Big Data

- “COVID-19 Compliant” solutions, expertise in data analysis
- 22.9M IoT lines (+8% y-o-y); revenue growth despite lockdown

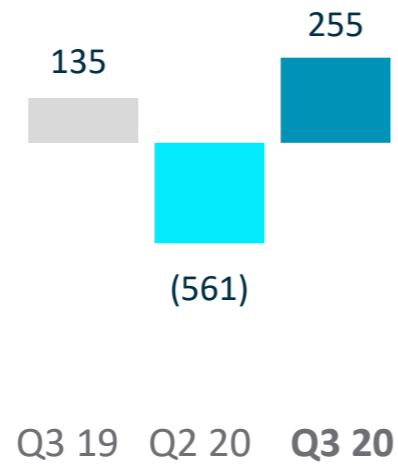
Hispanam | Marked commercial recovery

Above pre-COVID-19 levels

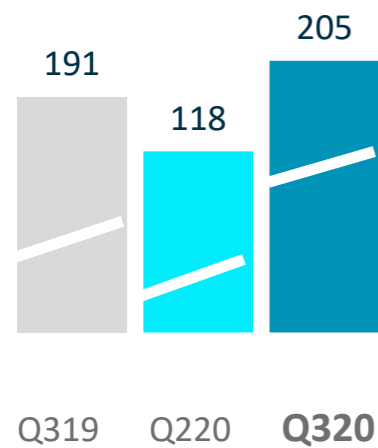
Mobile Net additions (k)
Prepaid



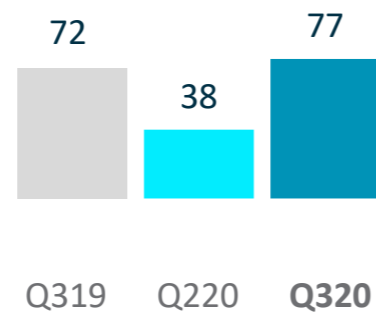
Postpaid



Fixed Net additions (k)
FTTH



IPTV

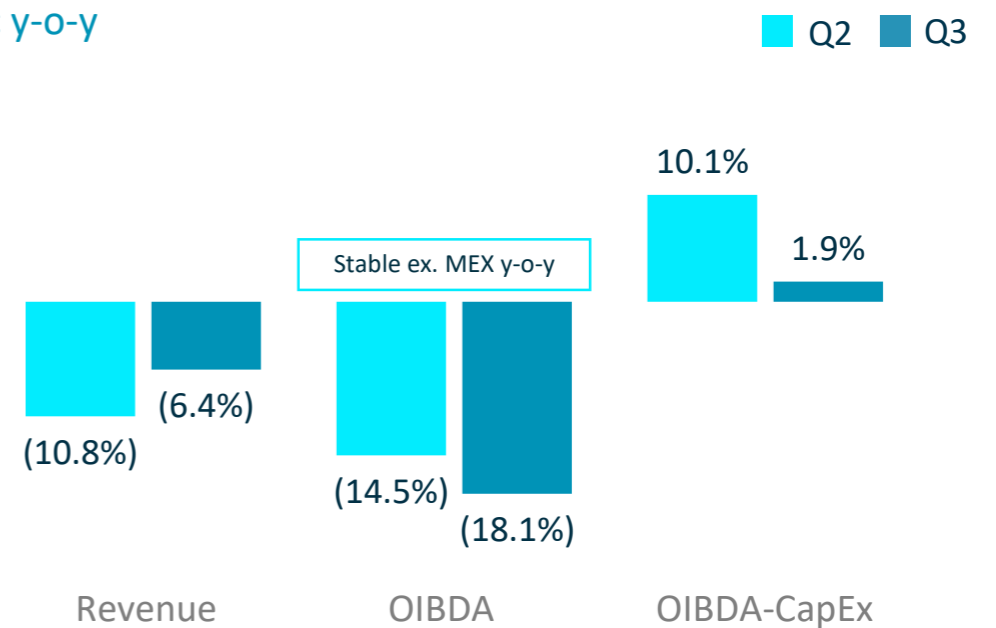


Substantial q-o-q improvement in Q3

- ✓ **Accelerating fibre connections**
 - Progressing in the process of creating a vehicle to deploy FTTH
 - Progressing co-investments deal with ATC & ATP in region
- ✓ **MEX: Contract accesses +5%; OpCF +133%; benefits of new model**
- ✓ **Recovery in revenues vs Q2 20**
- ✓ **OIBDA y-o-y significantly impacted by temporary duplicate network costs in MEX. Larger savings expected from 2021.**

Key Financials

Organic y-o-y



FX headwinds | Neutralised at FCF level

Structurally neutralised; effective hedging strategy

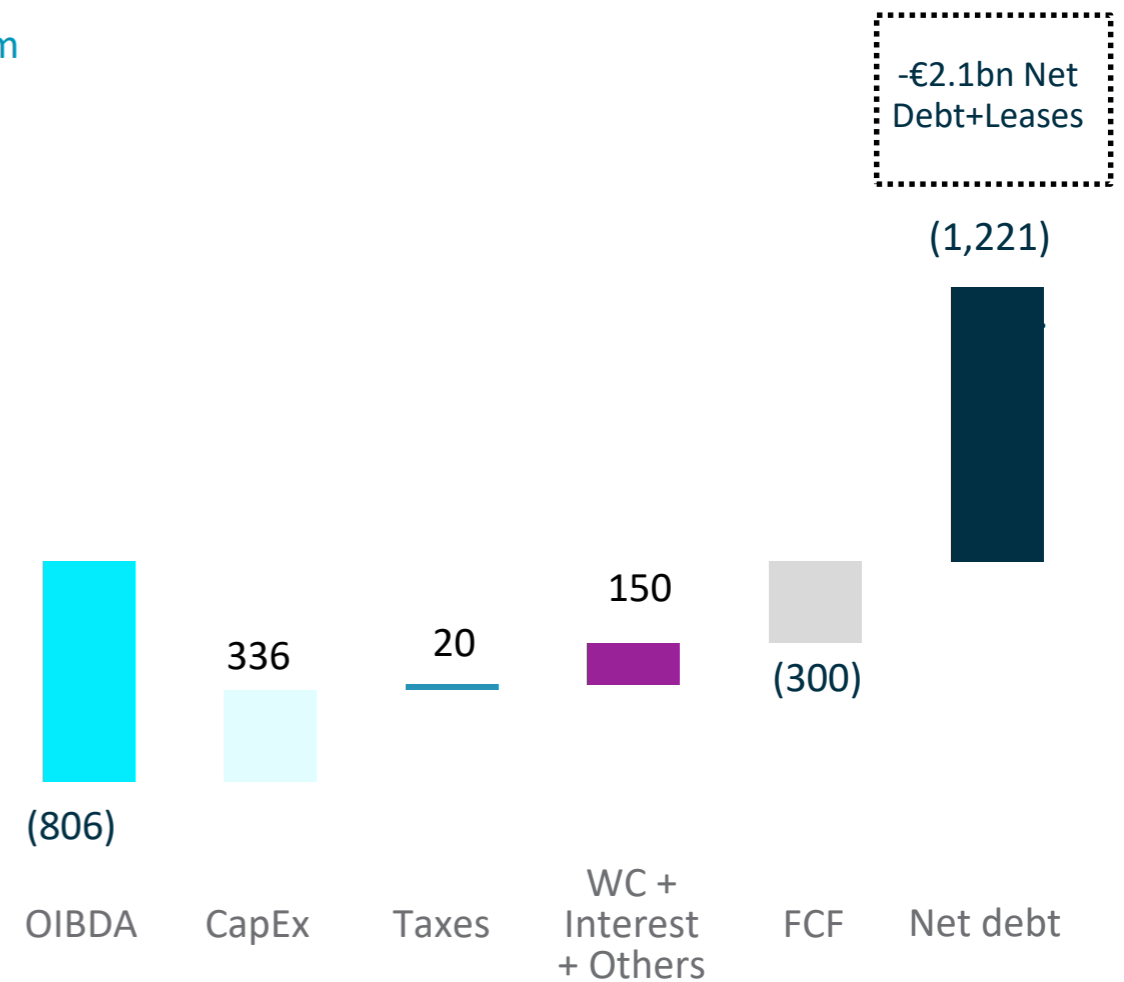
Impacts on main metrics

y-o-y

- ✓ **FX effect** increased in Q3 20 mainly due to BRL
- ✓ **Revenue:** Q3 20 -8.1 p.p; 9M 20 -5.9 p.p.
- ✓ **OIBDA:** Q3 20 -13.0 p.p.; 9M 20 - 7.0 p.p.
- ✓ -€806m **OIBDA** impact reduced to -€300m of **FCF** in 9M 20
- ✓ **Net debt** reduced by €1.2bn in 9M 20
 - Net debt and leases -€2.1bn

9M 20 currency effect

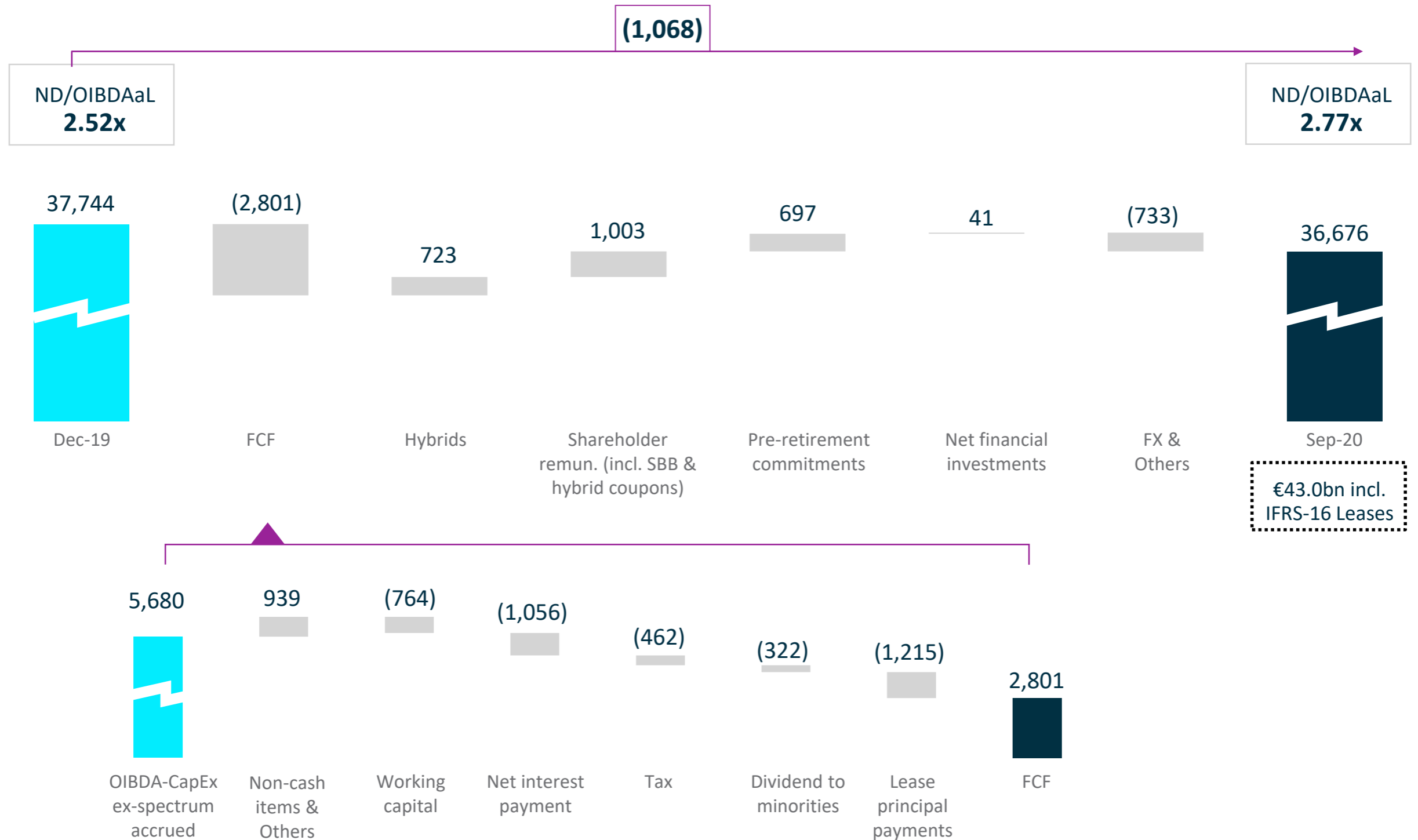
€m



Debt | Ongoing debt reduction

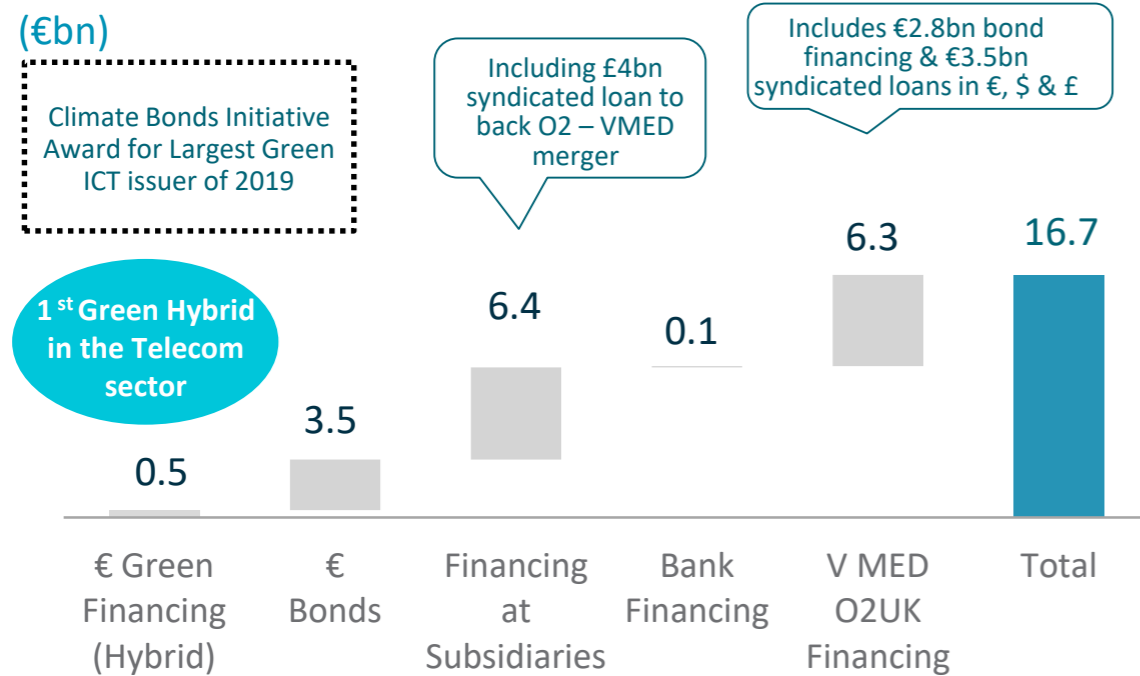
Net Financial Debt

€m



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

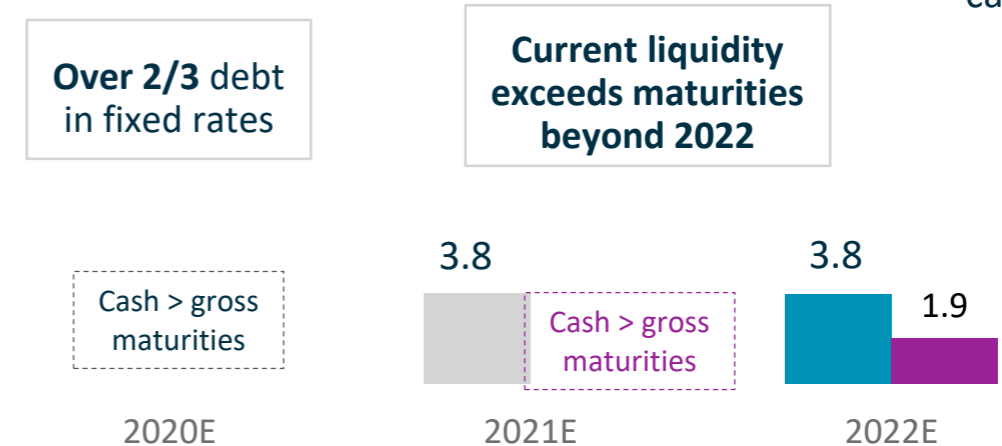
Sources of long-term financing (2020 YTD)



Net Debt Maturities

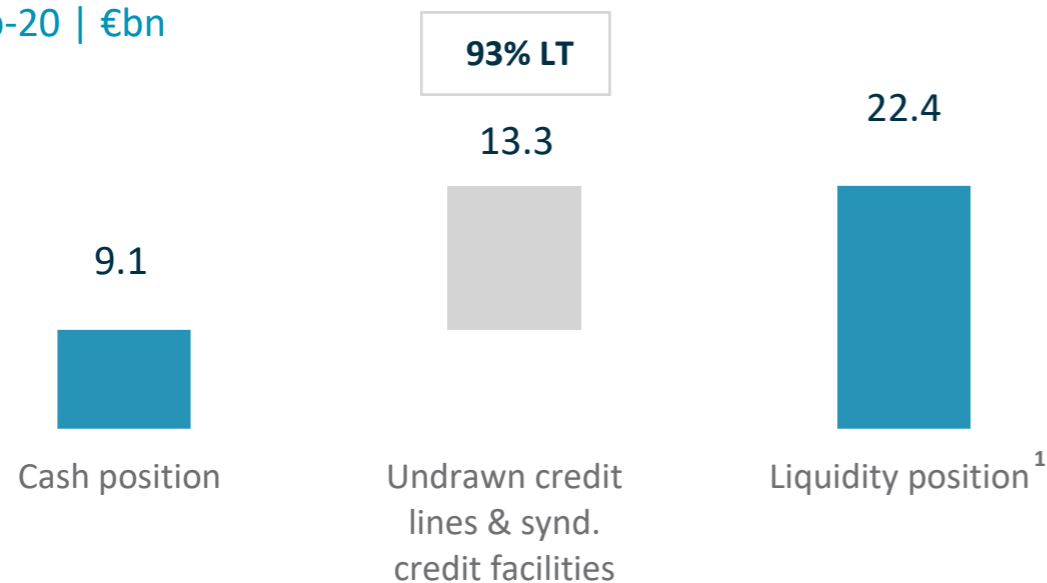
Sep-20 | €bn; not considering hybrid NC dates

■ Including UK cash-in



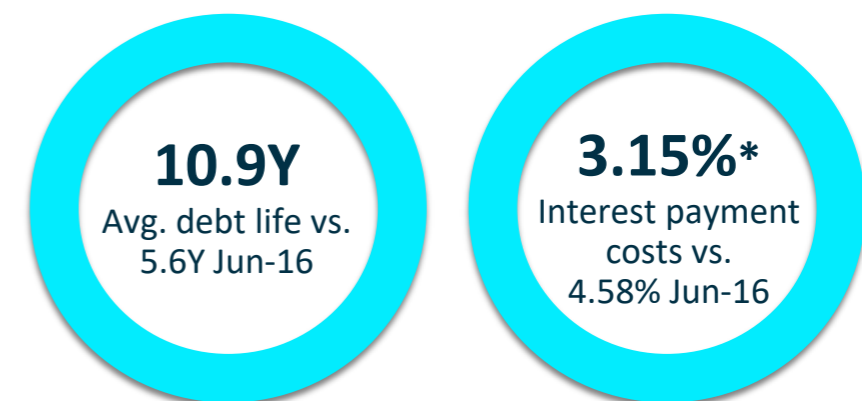
Liquidity position

Sep-20 | €bn



Average Debt Life and Interest payment costs

Sep-20



*Ex IFRS

Conclusion

Mr. Ángel Vilá
COO



Fully committed to ESG excellence

DIGITALISATION:

Greening the economy through telecom networks

1. We will reduce our GHG emissions aligned with 1.5° scenario and compensate the remaining emissions

NET ZERO
2025

- ✓ Efficient network transformation
- ✓ Renewable electricity
- ✓ Carbon capture projects

2. Telefónica's B2B customers in Spain avoided more GHG emissions through our digital services during 3 months COVID-19:

2.2m CO2 tons
avoided
in 3 months

AWARDS

1. Telefónica was awarded the 'Sustainable Procurement Award' at the Amazon Business Exchange Awards for promoting sustainability in its supply chain



2. Telefónica is one of the top 25 more diverse and inclusive companies in the world, according to Refinitiv

- ✓ Ranking verifies over 450 environmental, social and governance metrics for more than 9k listed companies
- ✓ 24 diversity and inclusion metrics assessed (diversity, inclusion, personal development and disputes)

INDEXES

1. Revalidated our presence in the FTSE4good sustainability Index

Improved
Score to 4.3
(exceeding sector
average)

2. Joined Moody's Euronext Vigeo-Eiris Europe 120, recognising Telefónica's sustainability strategy

Wrap-up | Sustainable long-term business strategy

- **Ongoing support to all stakeholders and economic recovery post COVID-19**
- **Proven resilience in the face of COVID-19, FX depreciation and GDP contraction**
 - Improved trading dynamics and financial trends, continuing to invest in strategic growth areas
- **Strong execution across strategic priorities**
 - Further market focus across our 4 core markets; improved churn, NPS, advancing in consolidation
 - Network reliability; 5G launched in Germany, Brazil, Spain; Open RAN cooperation with Rakuten
 - Strengthened capabilities in T. Tech, Telxius completed first tranche of towers deal, FibreCo in Germany
 - Generating cost savings through restructuring, simplification, higher digitalisation and reskilling
- **Proactive balance sheet management; net debt reduced**
 - Ongoing portfolio review, monetisation of assets, scrip dividend
 - Proactive refinancing policy executed YTD; €22.4Bn liquidity, almost 11yrs of avg. debt maturity; historical minimal refinancing needs
- **2020 OIBDA-CapEx outlook and dividend (0.4€/sh.) confirmed**

Results presentation and Q&A Session

The management will host a webcast to discuss the results on **29th October at 11:30am (CET), 10:30am (BST), 06:30am (EST)**

Participants from Telefónica: **Ángel Vilá** (COO), **Laura Abasolo** (CFCO), and **Pablo Eguirón** (Global Head of IR).

Webcast

- To access the webcast: [click here](#)
- The webcast recording **will be available on Telefónica IR's website** after the event

Q&A Session

- To **participate in the Q&A session**, join the call using the following link (available 15 minutes before the call): [click here](#)
- **No need to dial in**⁽¹⁾

(1) From any device, click the link above, then simply enter your details and phone number and the system will call you back
If you have further questions, please contact the Investor Relations team at ir@telefonica.com or +34 914 828 700

Telefonica



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