

*Telefonica*

# Results

January - December

2020

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# 2020 Highlights

Mr. José María Álvarez-Pallete  
Chairman & CEO



# Material progress against strategic objectives

## 1 Focus on 4 core markets

Improving our **value proposition** across core markets:

- ✓ **FTTH network**; 25.2m premises passed in Spain and 15.7m in Brazil
- ✓ 78% **5G** coverage in Spain; live in Germany, UK and Brazil. German network ranked “Very Good”
- ✓ JV with **O2 UK/Virgin Media** progressing to plan; **won auction** in joint bid for **Oi mobile in Brazil**

## 2 Reduce Hispam exposure

- ✓ **Risk profile mitigation**; maximising efficiencies and profitability; **reduced equity exposure**
- ✓ Independent **neutral fibre network vehicle in Chile** to reach 3.5m premises passed by FY 22
- ✓ Hispam **legal separation completed**, preserving **optionality** (disposal of CAM assets executed)

## 3 Optimise Telefónica Tech

- ✓ **Double-digit revenue growth**
- ✓ **Cloud, Cyber and IoT & Big Data carveouts almost completed** and fully functional
- ✓ Developing **additional capabilities**, building **IoT/Big Data portfolio**, **new Cloud solutions in Edge**

## 4 Develop Telefónica Infra

- ✓ **Sale of Telxius towers** to ATC for €7.7bn, implied multiple of **30.5x proforma OIBDAaL**
- ✓ **Partnership with Allianz for Germany FTTH rollout**, target of 2m rural & semi-rural premises passed
- ✓ Advanced talks to create a **fibre wholesale network in Brazil**; to pass >5.5m premises in 4 years

## 5 Simplify operating model

- ✓ **79% of all business processes digitalised** in 2020, up 10 p.p. y-o-y and managed in real time
- ✓ FY 20 Group (**OIBDA-CapEx**)/Revenues up **0.5 p.p.** y-o-y organic
- ✓ **MoU signed with leading European telcos to promote Open RAN**, successful testing

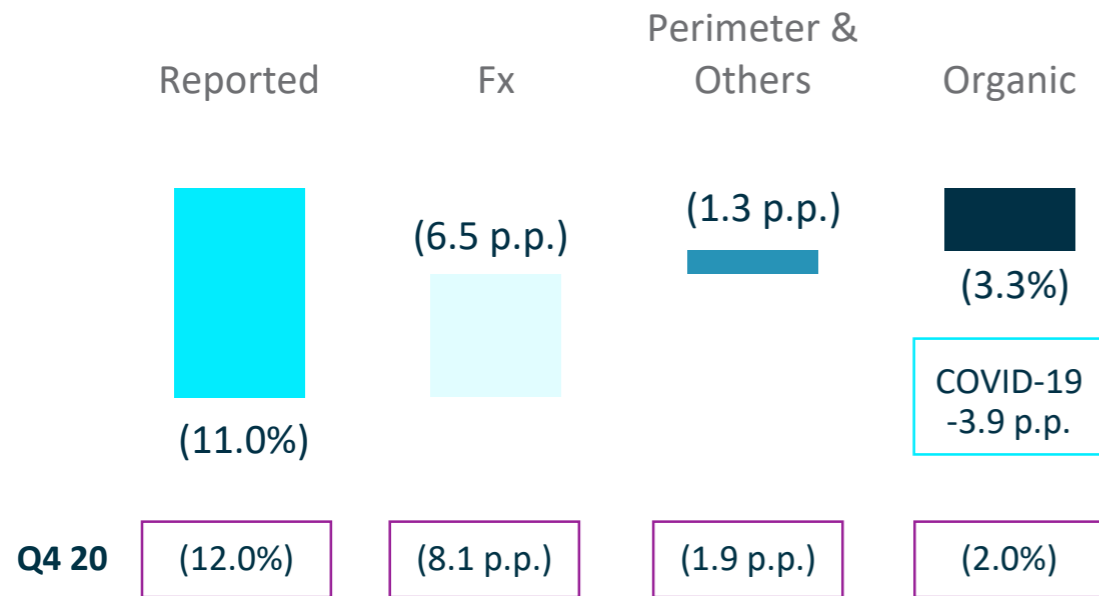
# 2020 performance highlights

| Revenues<br>y-o-y org          | OIBDA-CapEx<br>y-o-y org      | OIBDA-CapEx<br>Margin org<br>y-o-y org | Free cash flow<br>y-o-y             | Net debt<br>y-o-y                |
|--------------------------------|-------------------------------|--|-------------------------------------|----------------------------------|
| down 3.3% to<br><b>€43.1bn</b> | down 0.9% to<br><b>€7.6bn</b> | up 0.5 p.p. to<br><b>20.4%</b>         | Q4 €2.0bn (+13.2%)<br><b>€4.8bn</b> | down €2.5bn to<br><b>€35.2bn</b> |

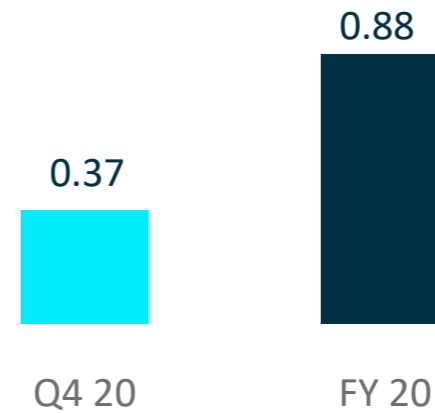
- Good momentum in Q4 20; accelerating organic trends in Revenues and OIBDA across all segments
- Group OIBDA-CapEx back to growth of 1.9% y-o-y organic in Q4 20, with margin expanding 0.7 p.p.
- Strong focus on delivering incremental **cost efficiencies with OpEx** down 2.2% y-o-y organic in Q4 20
- **2020 EPS** 0.24€/share, up 54.3% y-o-y
- **Prioritised investment in NGN** (UBB network; 134.8m premises passed)
- Improved customer engagement; **NPS in core markets at 24%** (+7.0 p.p. y-o-y); **4<sup>th</sup> consecutive Q of churn improvement**; -0.7 p.p. y-o-y
- **Key focus on digitalisation**; digital sales +40.5% y-o-y in the 4 core markets to 31% of total (+12 p.p. y-o-y)
- Notable improvement throughout the year in free cash flow generation
- Inorganic initiatives announced, add flexibility and further reduce net debt by **€9bn** (c. 25% of year-end €35.2bn net debt)

# Robust financial performance in a challenging year

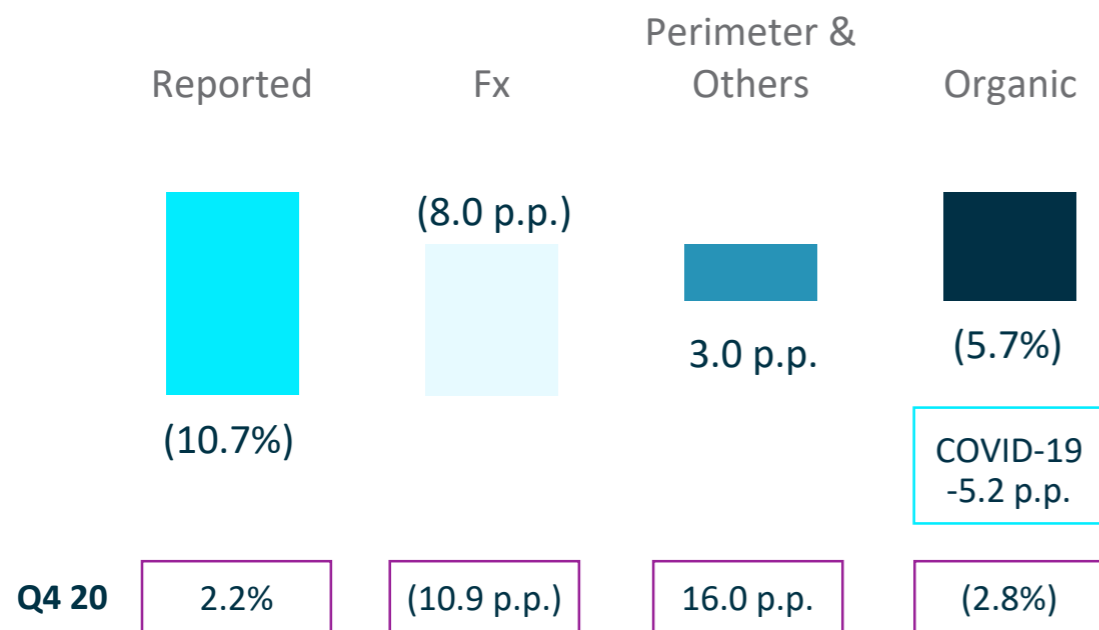
## Revenue 2020 y-o-y



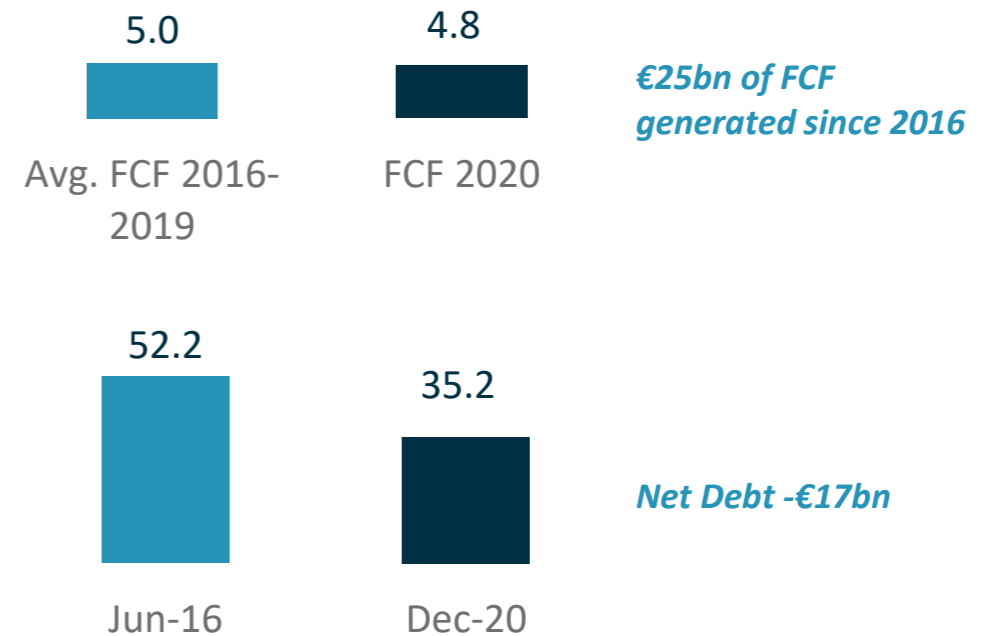
## Free cash flow per share



## OIBDA 2020 y-o-y



## Strong organic debt reduction (€bn)



# Financial summary

| € in millions                                   | FY 2020  |                |               |   | Q4 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 |
| <b>Revenues</b>                                 | 43,076   | (11.0%)        | (3.3%)        | (2.4%)                                  | 10,909   | (12.0%)        | (2.0%)        | (1.9%)                                  |
| <b>OIBDA</b>                                    | 13,498   | (10.7%)        | (5.7%)        | (2.6%)                                  | 3,751    | 2.2%           | (2.8%)        | (1.3%)                                  |
| <b>OIBDA margin</b>                             | 31.3%    | 0.1 p.p.       | (0.9 p.p.)    | (0.1 p.p.)                              | 34.4%    | 4.8 p.p.       | (0.3 p.p.)    | 0.2 p.p.                                |
| <b>OIBDA-CapEx</b><br>(ex-spectrum)             | 7,763    | (0.9%)         | (0.9%)        | 1.9%                                    | 2,083    | 31.9%          | 1.9%          | (2.6%)                                  |
| <b>OIBDA-CapEx / Revenues</b><br>(ex-spectrum)  | 18.0%    | 1.8 p.p.       | 0.5 p.p.      | 1.0 p.p.                                | 19.1%    | 6.4 p.p.       | 0.7 p.p.      | (0.2 p.p.)                              |
| <b>Net Income</b>                               | 1,582    | 38.5%          |               |   | 911      | c.s.           |               |   |
| <b>Underlying Net Income</b>                    | 3,086    | (13.7%)        |               |   | 1,035    | 4.9%           |               |   |
| <b>FCF</b><br>(incl. leases principal payments) | 4,794    | (18.9%)        |               |   | 1,993    | 13.2%          |               |   |
| <b>Net Financial Debt</b><br>ex- leases         | 35,228   | (6.7%)         |               |   |          |                |               |   |

## COVID-19 impacts (estimated)

| € (m)    | Q4 20 | FY 20   |
|----------|-------|---------|
| Revenues | (508) | (1,905) |
| OIBDA    | (291) | (977)   |

## FX impacts

| € (m)    | Q4 20   | FY 20   |
|----------|---------|---------|
| Revenues | (1,003) | (3,138) |
| OIBDA    | (399)   | (1,205) |

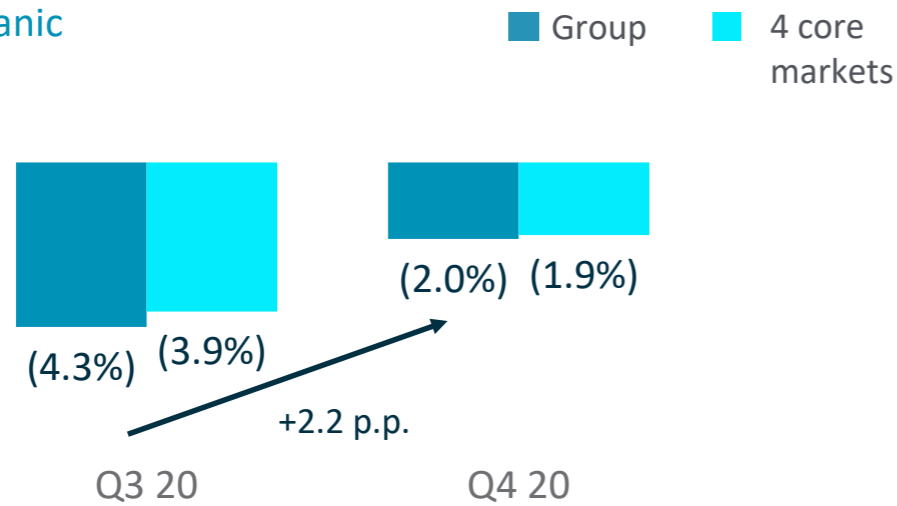
## Argentina impairment

| € (m) | FY 20 |
|-------|-------|
| OIBDA | (894) |

# Accelerated recovery in Q4 20

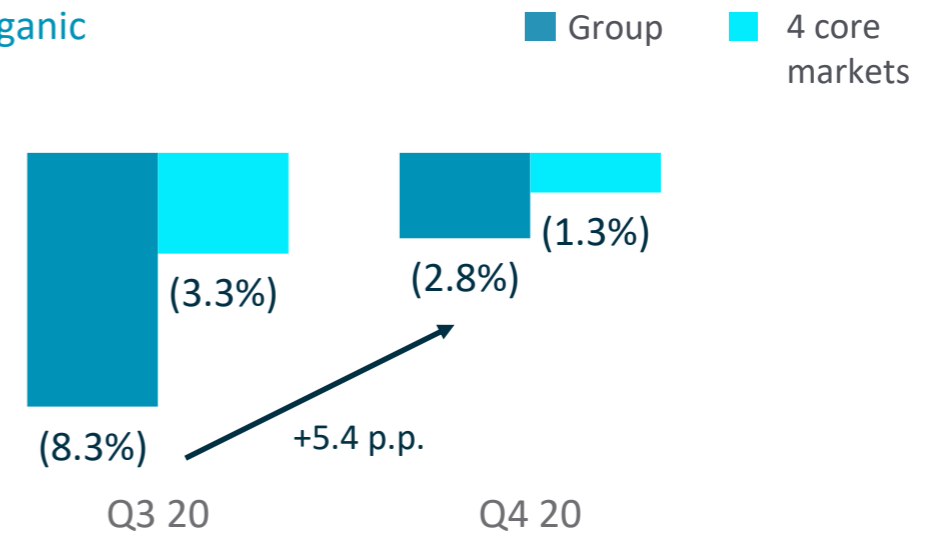
## Revenue

y-o-y organic



## OIBDA

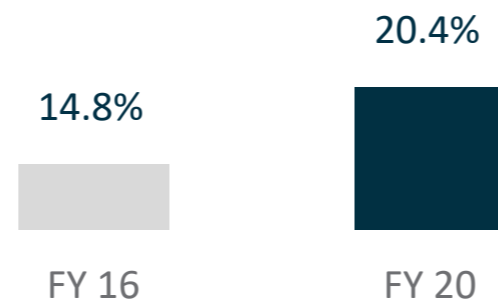
y-o-y organic



**Improvement in Revenue and OIBDA trends across all segments in Q4 20**

## (OIBDA-CapEx)/Revenues

organic



**Long track record of efficiency gains**



# 2020 financial outlook delivered

## Management of operations to preserve Operating Cash Flow

| Financial targets<br><small>(organic ex-contribution to growth from ARG)</small> | 2020E                            | FY 20         |
|--|----------------------------------|---------------|
| <b>OIBDA-CapEx</b>   | <b>Slightly negative to flat</b> | <b>(0.9%)</b> |

## More than covered by strong FCF generation

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

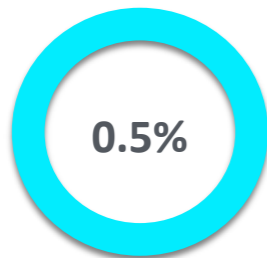
**Higher flexibility;  
Scrip dividend in  
2020 payments**

**December  
payment: 67% of  
shareholders opted  
for new shares;  
63% in June**

# ESG at the heart of our strategy throughout the pandemic

## HELPING SOCIETY TO THRIVE

Supporting customers and communities



Contribution to GDP



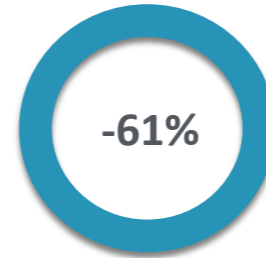
Impact on employment



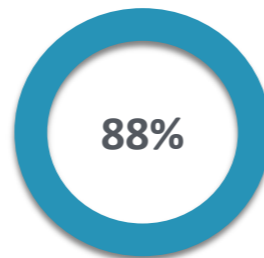
Fiscal contribution

## BUILDING A GREENER FUTURE

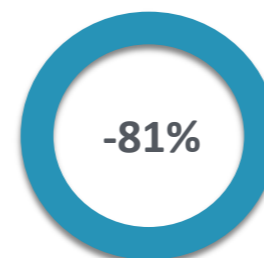
Digital innovation; lower carbon economy



GHG emissions (Scope I+II)\*



Renewable use



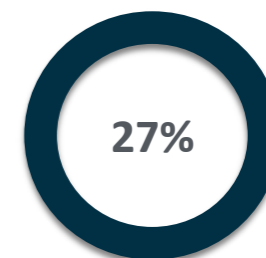
Energy per unit of traffic (MWh/PB)\*



Emissions avoided in our clients thanks to digitalisation

## LEADING BY EXAMPLE

Running an inclusive, fair and ethical business



Women in management positions (+1.8 p.p. y-o-y)



Increase in Society Trust\*\*



In Ranking Digital Rights (2<sup>nd</sup> consecutive year)

Targeting net zero emission in our 4 main markets by 2025

# FY & Q4 20 Results

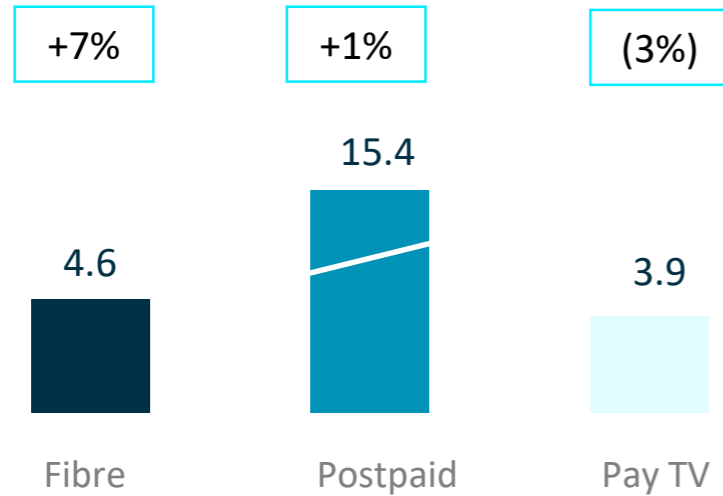
Mr. Ángel Vilá  
COO



# Spain | Strategy proven right, preserved value

## Growth in value

Accesses (m; y-o-y)



## Performance

- ✓ **Market cooled down to preserve value**
  - Tariff upgrade (more for more) announced in Q4
- ✓ **Polarisation remains, enhanced offering and innovative VAS**
  - Fibre UBB +9% y-o-y; O2 base doubling
  - Upselling on speed (1Gb) and Premium TV (new partnerships)
  - New revenue streams (alarms, eHealth..)
- ✓ **Resilient convergent base and KPIs**
  - 91% of consumer FBB base (+1 p.p. y-o-y)
- ✓ **Innovative infrastructure**
  - Increased fibre profitability and share; 78% 5G coverage

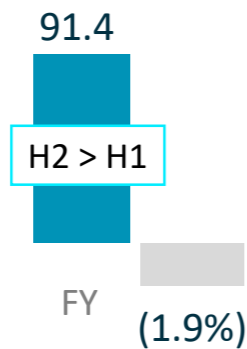
## Convergent base

y-o-y

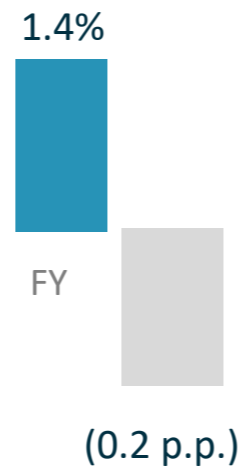
Customers (m)



ARPU (€)

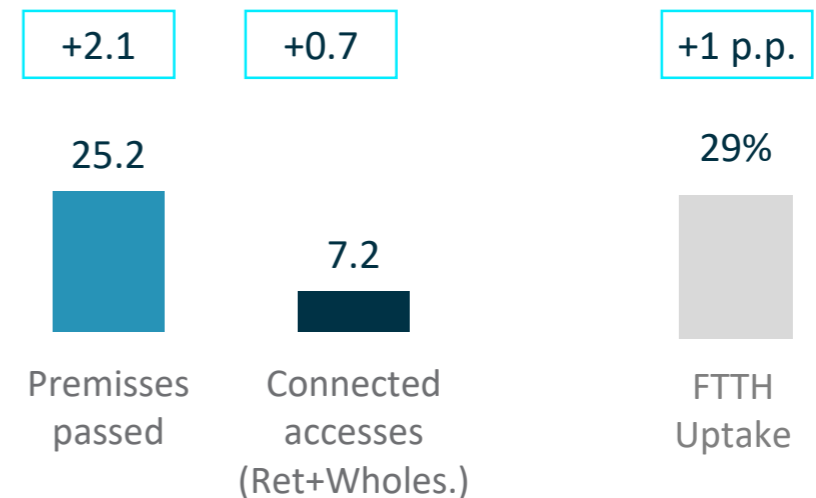


Churn



## Fibre uptake

Accesses (m; y-o-y)

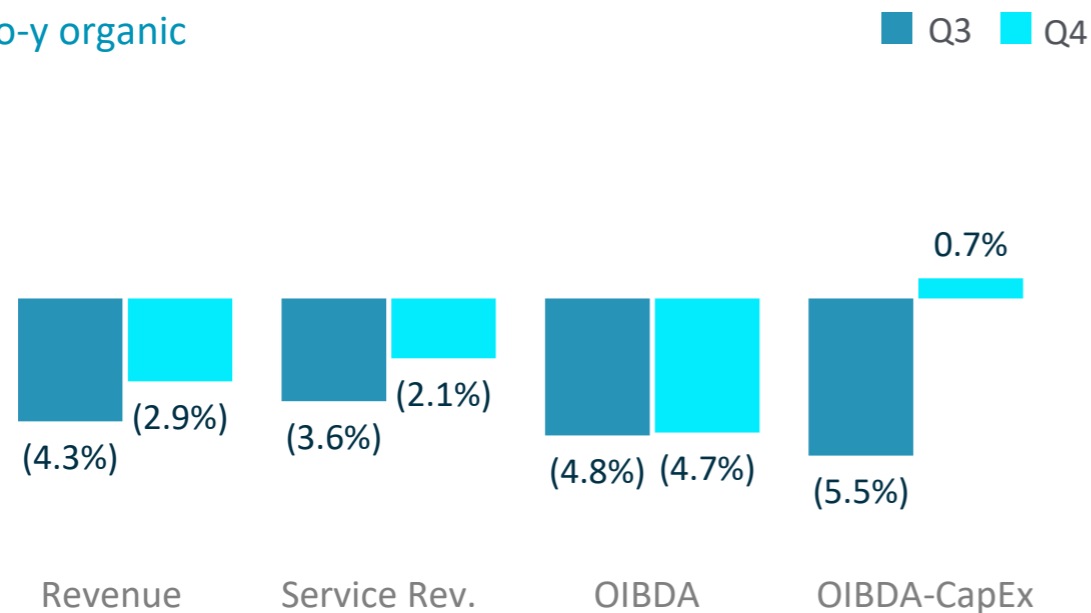


**Largest FTTH network in Europe**

# Spain | Strong execution, recurrent and solid cash generation

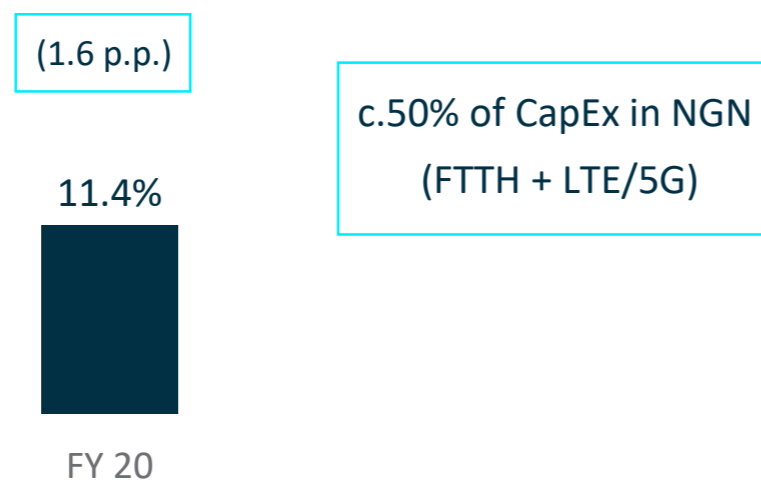
## Key financials 2020

y-o-y organic



## CapEx/Revenues

y-o-y organic



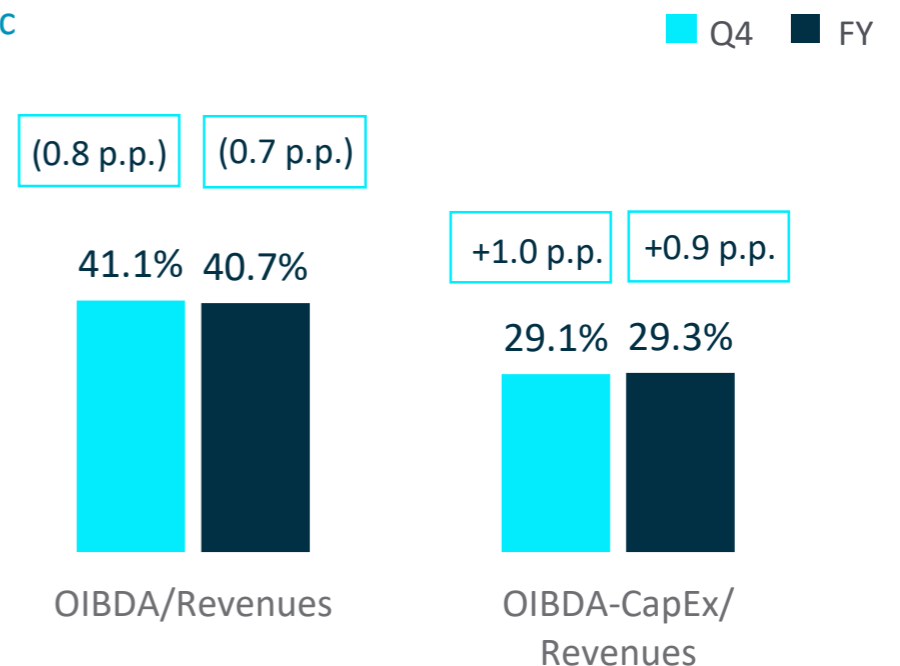
## Performance

- ✓ Continued improvement in financials in Q4
- ✓ Revenue trend better across the board
  - Solid convergent ARPU, record IT sales
  - “Wholesale & others” back to y-o-y growth
- ✓ Benchmark OIBDA margin, benefiting from digitalisation
  - Savings in network, systems, commercial costs
  - Progress on copper switch off (>750 CO’s closed)
- ✓ High cash conversion (OIBDA-CapEx): €3.6 Bn in 2020; -0.5% y-o-y
  - CapEx efficiency (lower legacy, 5G switch on)
- ✓ FY 20 COVID impacts y-o-y: Revenues -3.7 p.p.; OIBDA -3.9 p.p.



## Record OIBDA-CapEx margin

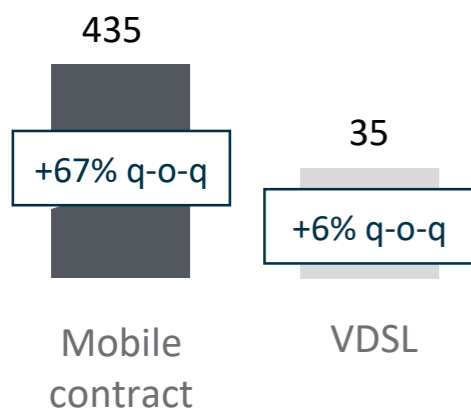
y-o-y organic



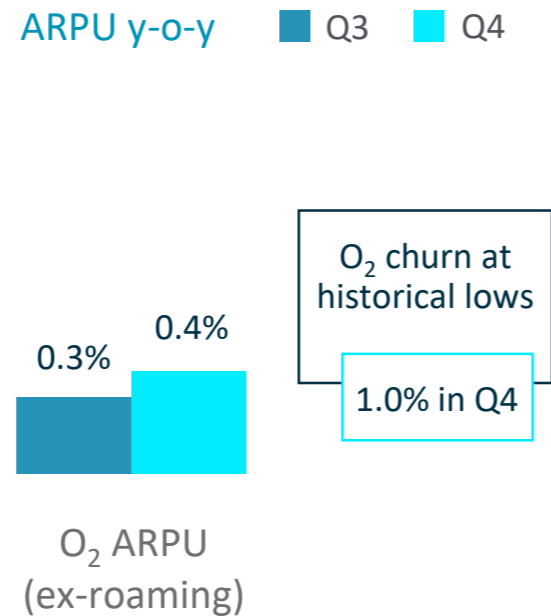
# Germany | Delivery of targets

## Operational KPIs

Q4 Net additions (k)



ARPU y-o-y



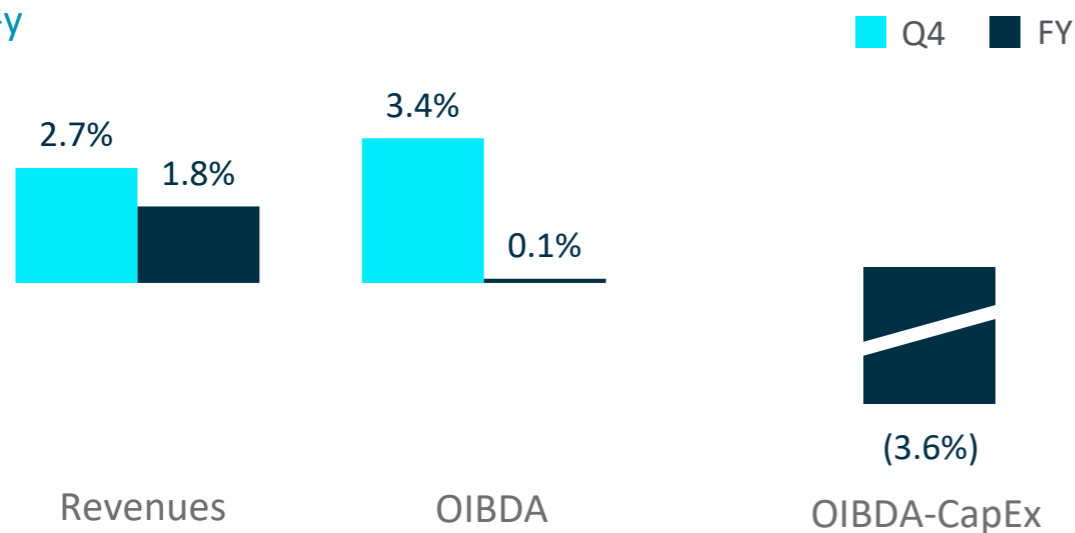
## Key milestones

- ✓ Delivery on FY 20 guidance, revenues, OIBDA and Capex/Sales
- ✓ Strong trading; O<sub>2</sub> Free tariffs remained highly popular
- ✓ Network quality equalisation; LTE coverage completed
- ✓ Ranked “very good” in *Connect Magazine* network test
- ✓ 5G network active in 15 cities, targeting >30% coverage by FY 21



## 2020 Key financials

y-o-y



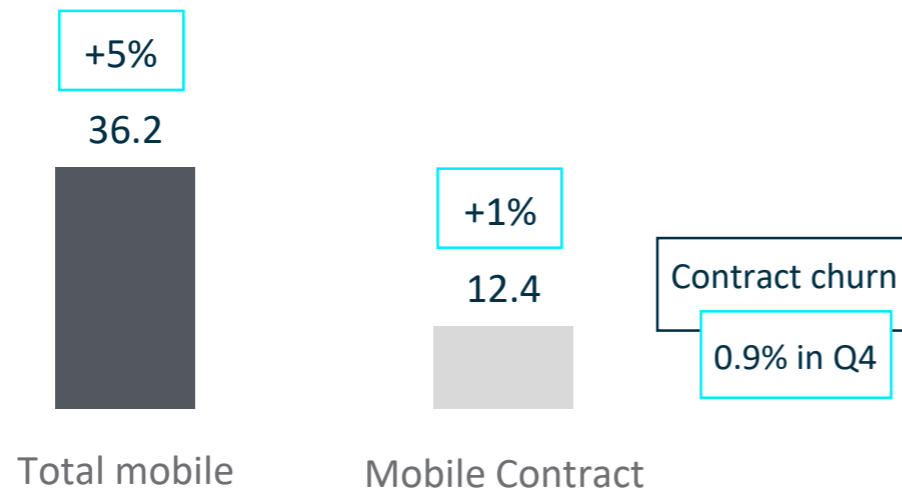
## Strong financial performance

- ✓ Positive momentum in mobile revenues (+2.1% y-o-y in Q4)
- ✓ FY 20 handset revenues up 5.7% y-o-y on high value handsets sales
- ✓ Q4 OIBDA up 3.4% y-o-y; a strong improvement (+0.7% in Q3 20)
- ✓ FY 20 CapEx up 4.8% y-o-y, investment in 4G/LTE and 5G launch
- ✓ FY 20 COVID impacts y-o-y: Revenues -1.0 p.p.; OIBDA -2.5 p.p.

# UK | #1 network in the UK

## 2020 operational KPIs

Accesses, m (y-o-y)



## Customer leadership

- ✓ Rated #1 MNO for NPS and satisfaction by Ofcom<sup>1</sup>
- ✓ Industry leading low level of customer loyalty
- ✓ 5G available in over 150 towns and cities

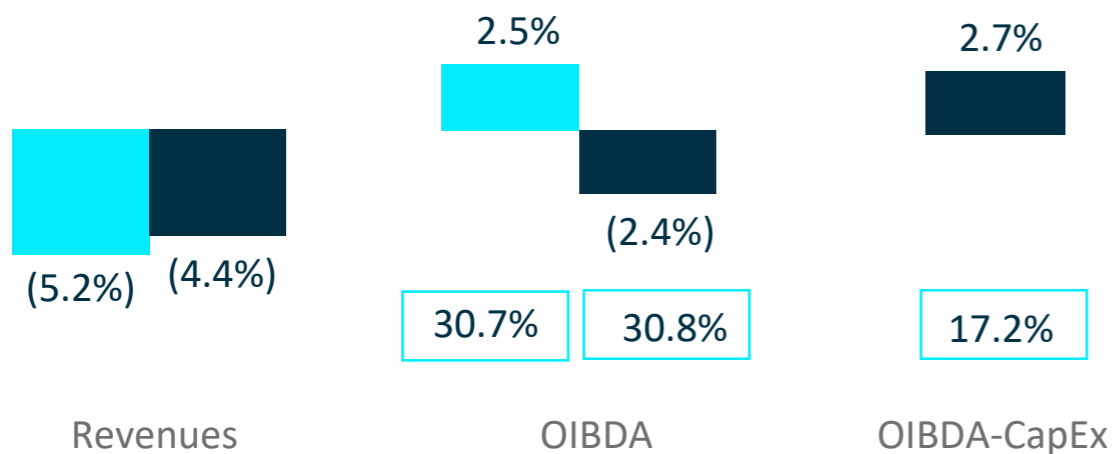


## 2020 Key financials

y-o-y organic

Margin over revenues

Q4 FY



## Continued efficiency gains

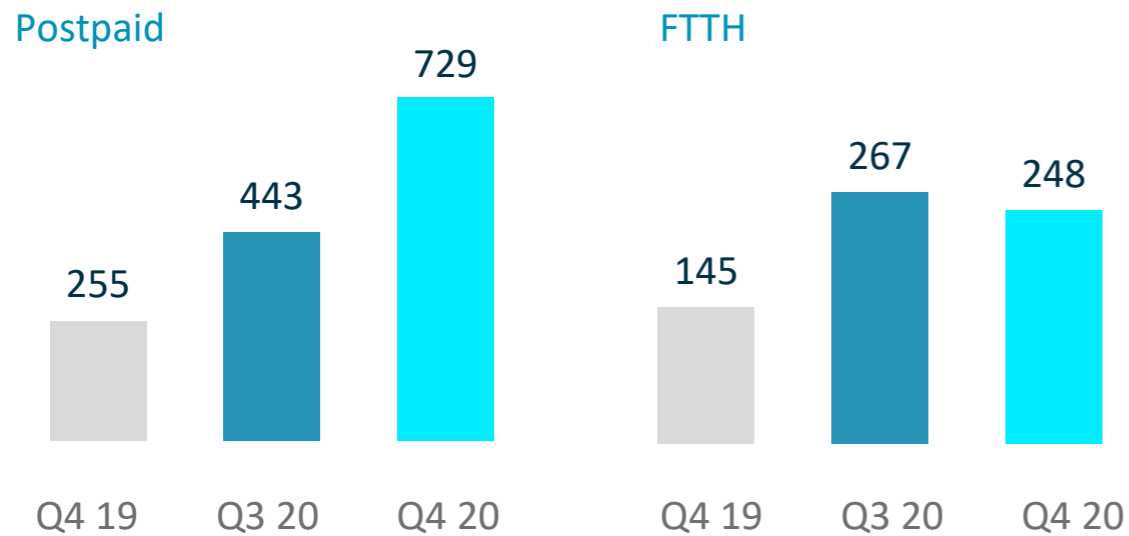
- ✓ Strong cost control and focus on direct trading resulting in Q4 OIBDA growth
- ✓ 5th consecutive year of expanding OIBDA margin
- ✓ CapEx flexibility and increased investment in growth areas including 5G
- ✓ Continued cash generation; FY OIBDA-CapEx margin +1.3 p.p. y-o-y
- ✓ FY 20 COVID impact y-o-y: -4.7 p.p. revenues, -7.3 p.p. OIBDA

**O2 UK / Virgin Media JV progressing to plan. Joint EV £38bn including synergies. O2 valued at 7.8x EV/OIBDA 2020. Synergies NPV £6.2bn. Cash inflow for Telefónica £5.5bn-£5.8<sup>2</sup>. Closing estimated by mid-2021**

# Brazil | Growth in value and efficiencies driving profitability

## Improving mix and monetisation

Net adds ('000)



## Second to none quality of service

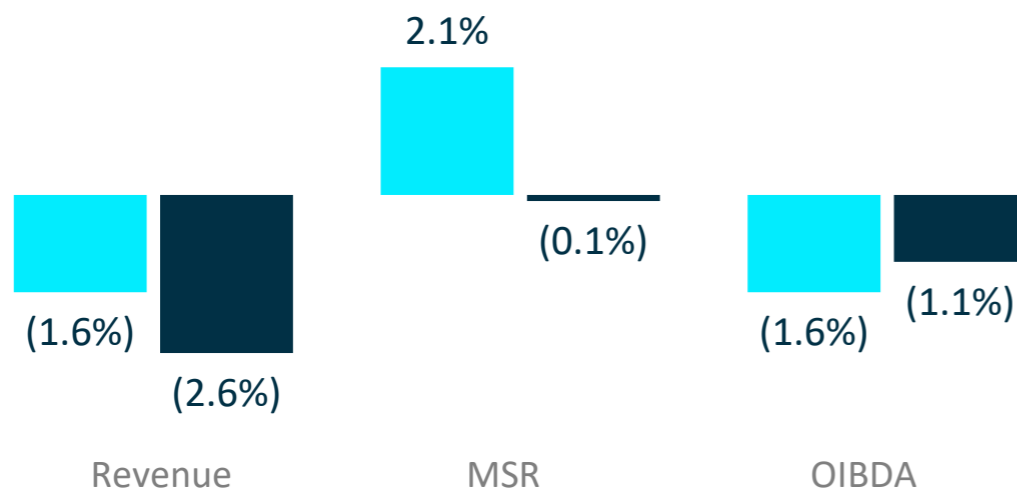
- ✓ Reinforced **mobile leadership** (33.6% MS; +0.6 p.p. y-o-y)
- ✓ **Strong net adds in core segments**
  - **Historical low contract churn** levels at 1.1% (-0.5 p.p. y-o-y)
  - Largest FTTH footprint in LatAm (15.7M)
  - In talks for FTTH vehicle to reach >5.5m premises passed in 4 yrs
- ✓ **Oi acquisition** to reinforce spectrum and service leadership
- ✓ **Optimised capital allocation**
  - Growth CapEx 71% of total (> fibre; < legacy)
- ✓ **FY 20 COVID impacts y-o-y**: Revenues -4.0 p.p.; OIBDA -4.3 p.p



## Key financials 2020

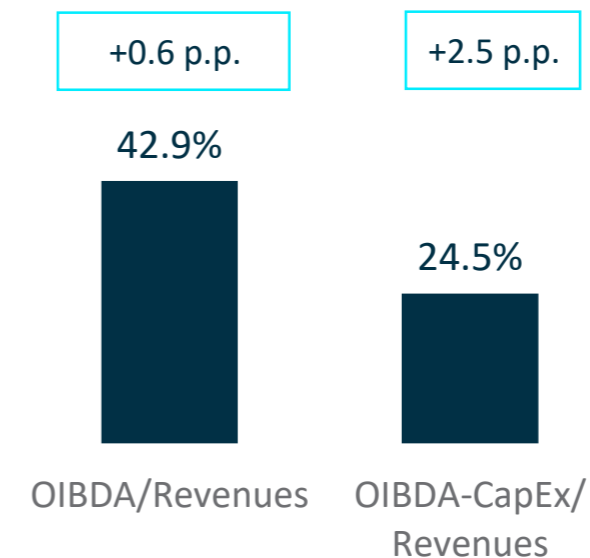
y-o-y organic

■ Q4 ■ FY



## Profitability and cash generation

■ FY 20 □ y-o-y organic



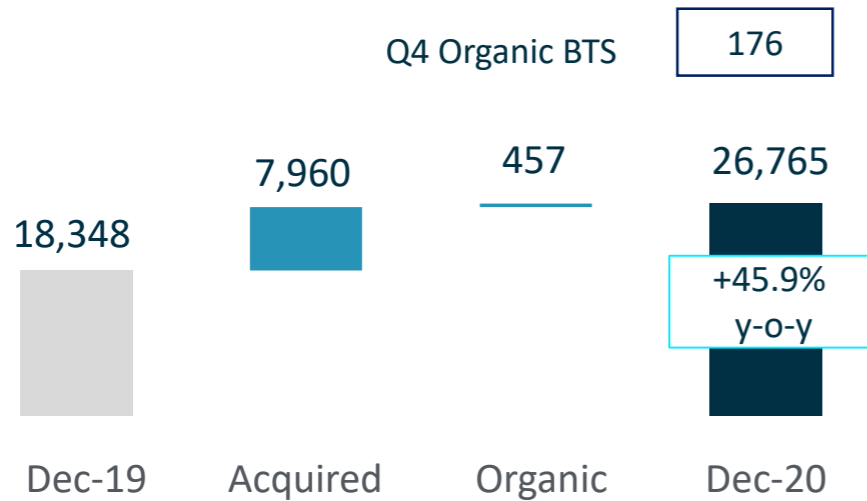
*Oi Mobile acquisition progressing to plan. Full deal value €2.6bn. 4.0x EV/OIBDA 2020 post synergies. Vivo's investment €0.9bn. Closing expected H2 2021*



# Infra | Telxius: delivering growth, unlocking value

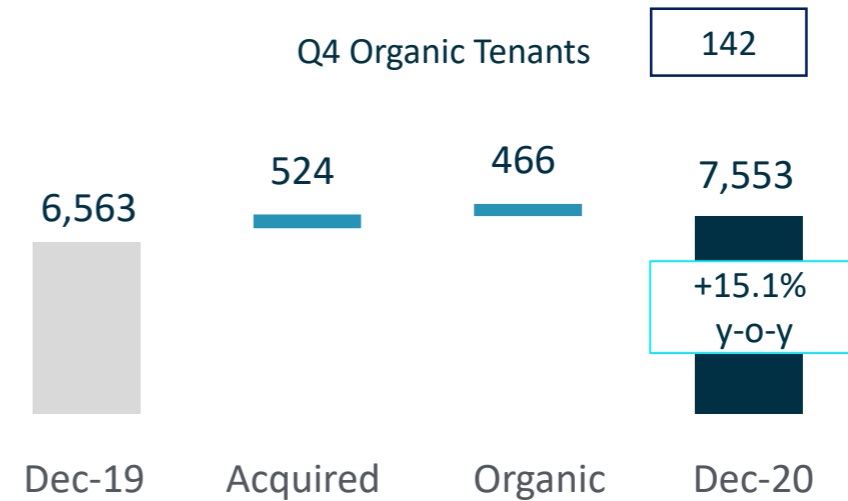
## Sites

#



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

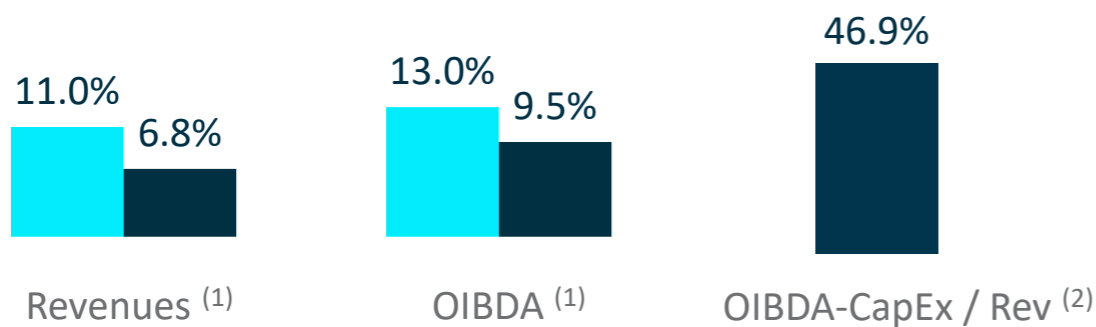
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## Revenues, OIBDA & Profitability: Telxius

y-o-y organic

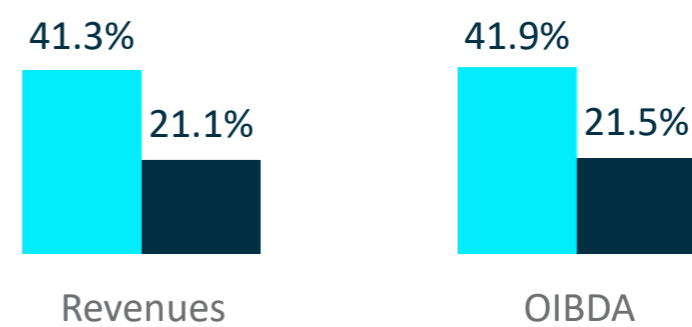
■ Q4 ■ FY



## Revenues & OIBDA: Tower business

y-o-y organic

■ Q4 ■ FY



### Sale of Telxius Towers to ATC

- ✓ €7.7bn transaction, €3.5bn capital gain
- ✓ 30.5x OIBDAaL, highest multiple ever
- ✓ €4.6bn net debt reduction
- ✓ Expected closing 2021

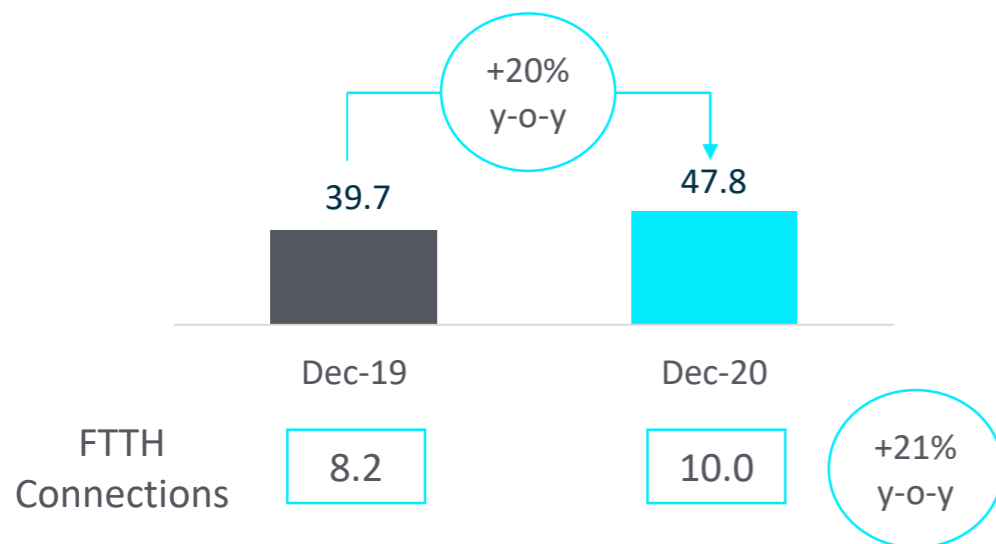
# Developing fibre opportunity across our markets

## Deployment boost driving connection growth

- ✓ Penetration stable at 21%
- ✓ Strongest technological transformation in the sector provides visibility to long-term revenues: UBB/ FBB 77% (+6 p.p. y-o-y)

**Strong network footprint**  
+  
**FTTH infrastructure consolidating as a core asset class seeing buoyant M&A activity at very rich valuations**

## Owned FTTH network (premises passed; m)



### ✓ **Unsere Grüne Glasfaser (UGG)<sup>1</sup>**

*JV 40% T. Infra / 10% T. Deutschland / 50% Allianz*

- Neutral wholesale operator benefiting from T. Group FTTH expertise
- Massive market opportunity, just c.10% FTTH coverage in Germany<sup>2</sup>
- Targeting >2m premises passed over >50,000km fibre deployed over 6 years
- EC approval received; construction starting in 2021
- Phased investment & long-term returns



### ✓ **InfraCo SpA**

*New JV 60% KKR / 40% T. Chile*

- Accelerating deployment without CapEx impact
- Expected net debt reduction of c.0.4bn USD
- Transfer of T. Chile's footprint (c.2m premises passed) at 18.4x EV/OIBDA
- Plan of 3.5m premises passed by year-end 2022
- Expectation to be operational from H2 21



### ✓ **FiBrasil**

*Advanced negotiations with a leading international financial investor*

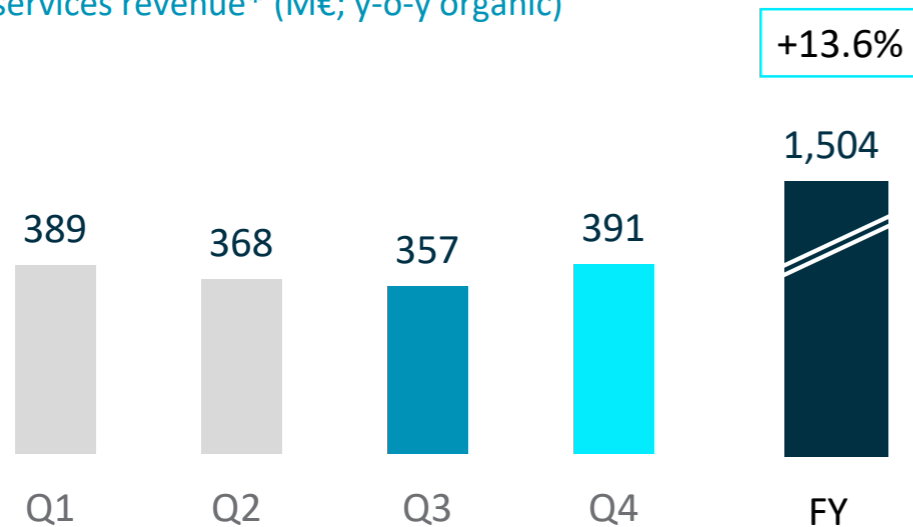
- Independent and neutral fibre wholesale network
- To accelerate deployment and reduce time-to-market (convergent offer)
- Vivo to carve out 1.6m FTTH premises passed; FiBrasil target >5.5m over the next 4 years
- Vivo will hold a stake in FiBrasil together with T. Infra and the Investor

**Further fibre  
Optionality (Europe & Hispam)**

# Tech | Resilient and fast growing business

## Solid growth

Tech services revenue\* (M€; y-o-y organic)

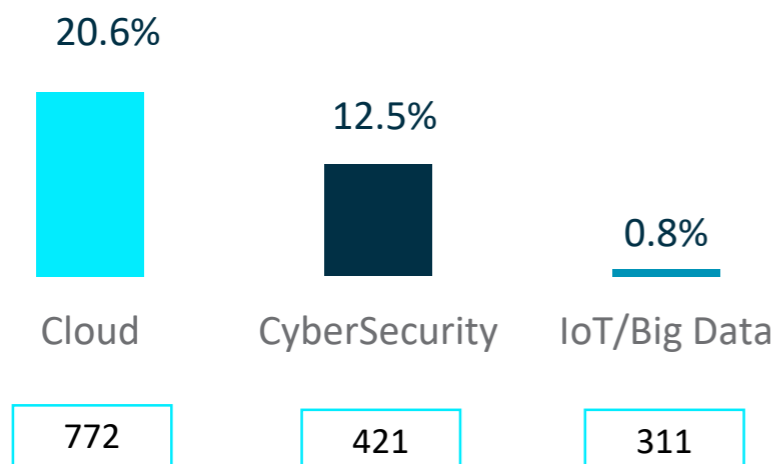


## Outperforming the market Initial carve out c. 50% of revenues to Tech COs

- ✓ COVID-19 increasing companies' need for digital transformation
- ✓ Corporate B2B back to growth in Q4 (~60% of B2B FY 20 revenue)
  - Key role for Public Administration
- ✓ Tech Companies up & running, carve-out almost finished
  - Cyber & Cloud in a single unit with a fully integrated proposal

## Operational highlights

Tech services revenue\* (FY 20; M€; y-o-y organic)



### Cloud

- **Multicloud portfolio reinforced:** new VDC with Edge Computing in Spain, own VDC in 4 countries updated.
- **Accelerated migration:** +60% SaaS rev. y-o-y; +22% IaaS&PaaS in FY

### Cybersecurity

- **Differential assets:** 12 SOCs owned; +1.5k security professionals
- **Telefónica Tech Ventures, vehicle for investment,** 14 startups

### IoT & Big Data

- **Commercial activity improved in Q4 vs Q3**
- Developing solutions for different sectors
- **23M IoT accesses (+4%);** revenue growth despite lockdown

# FY & Q4 20 Results

Ms. Laura Abasolo  
CFCO



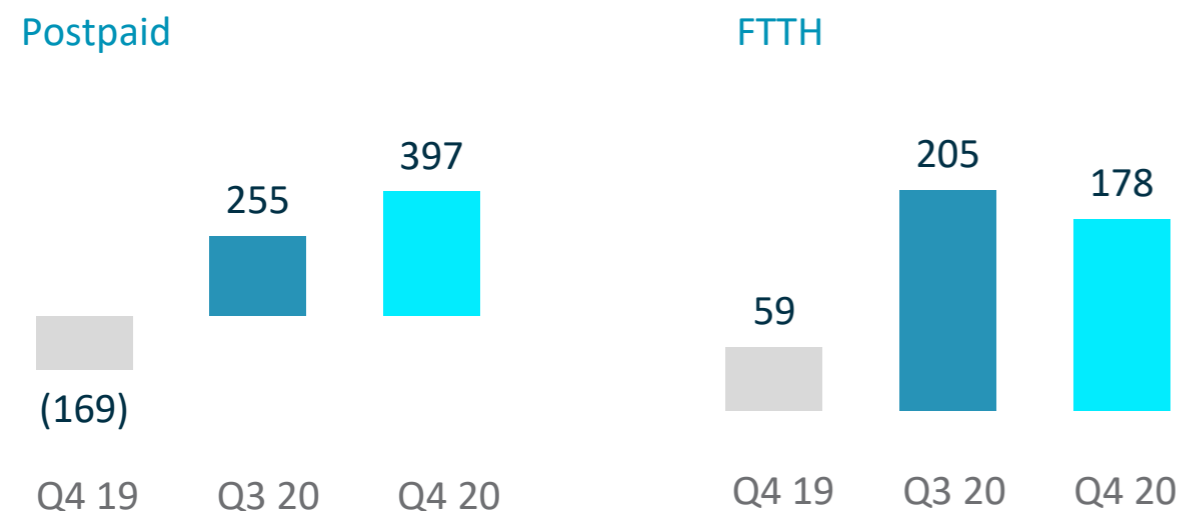
# Hispam | Maximising value; reduced exposure

## Improving growth trajectory

- ✓ **Focus on value growth**
  - Contract net adds +56% q-o-q; churn -0.6 p.p. y-o-y to 2.2% in Q4
  - FTTH net adds x3 y-o-y; churn -1.2 p.p. y-o-y to 1.9% in Q4
  - 9.9m premises passed with FTTH (+1.2m in FY 20)
- ✓ **Positive NPS evolution in the region**
- ✓ **Acceleration in digitalisation & efficiencies**
  - FY 20 Digital sales reached 22% of total (+11 p.p. y-o-y)
  - Transformation towards a new operating model
- ✓ **Recovery in financial trends**
  - OIBDA y-o-y evolution improved despite tougher comps
- ✓ **FY 20 COVID impacts y-o-y:** Revenues -5.5 p.p.; OIBDA -10.6 p.p.

## Strong commercial recovery underway

Net additions (k)

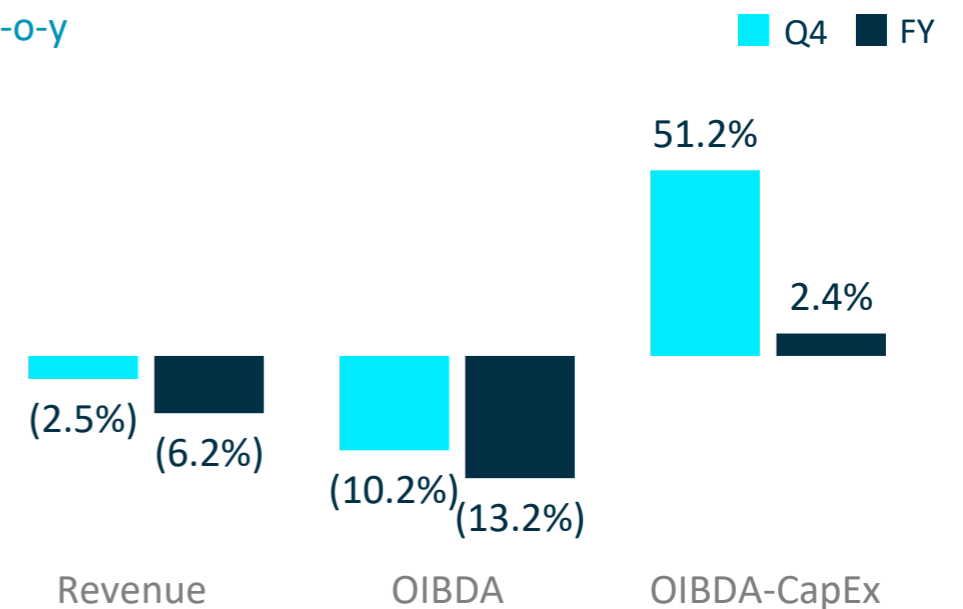


## Reduced average capital employed by c. 20%

- ✓ **Asset light model**
  - Co-investments deals with ATC & ATP / Chile InfraCo
  - 4G sharing in COL, AT&T agreement in MEX
  - CapEx/Sales 11% (-3 p.p. vs. FY 19)
- ✓ **Improved capital structure**
  - COP leverage +1.3x and CLP +0.7x
- ✓ **Value crystallisation through disposals**
  - \$1bn Chile InfraCo / \$500 EV/premise passed
  - LatAm towers sale to ATC
  - CAM sale at ~7x EV/OIBDA

## Key Financials 2020

organic y-o-y



# Mitigated FX impact on FCF

## FX impact structurally neutralised; Natural hedge

### FX negative factor in Q4 20 and FY 20

y-o-y

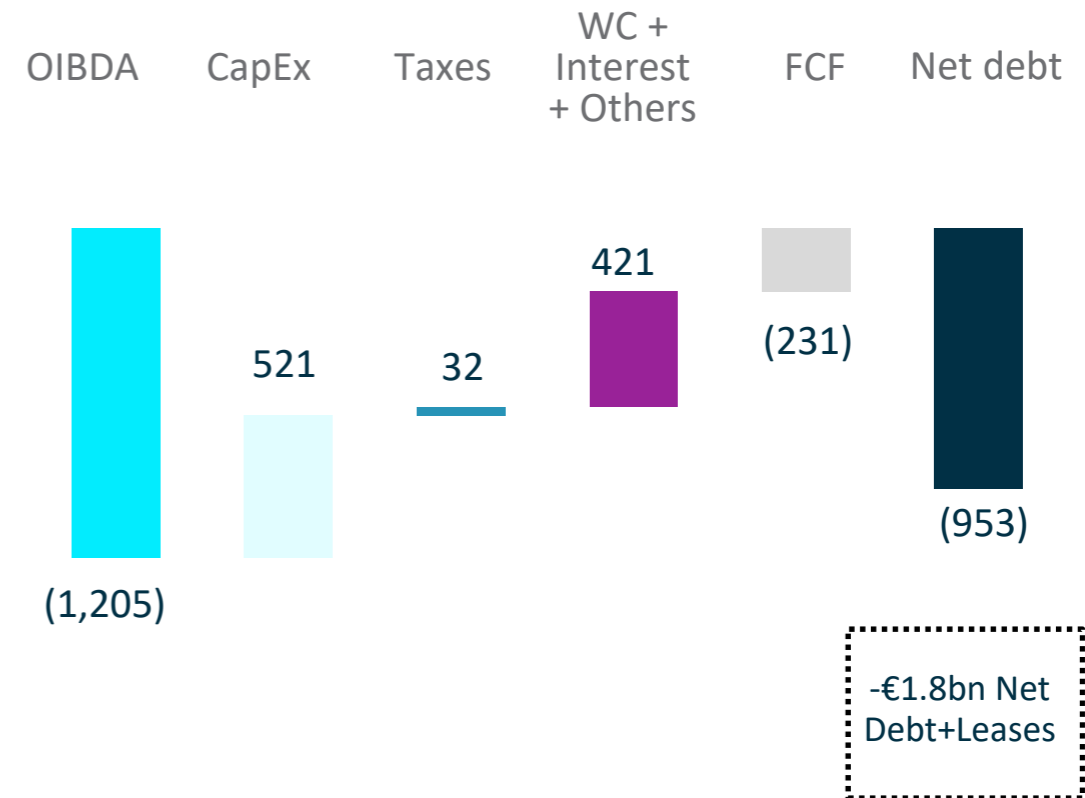
- ✓ **Revenue:** Q4 -8.1 p.p.; FY -6.5 p.p.
- ✓ **OIBDA:** Q4 -10.9 p.p.; FY -8.0 p.p.
- ✓ -€1,205m in **OIBDA**, down to -€231m in **FCF** in FY
- ✓ Depreciation of BRL vs. EUR main drag

### FX positive factor in Net Debt

- ✓ **Net debt** reduced by €953m in FY due to debt structure
- ✓ Net debt and leases -€1.8bn in FY

### FY 20 currency impact

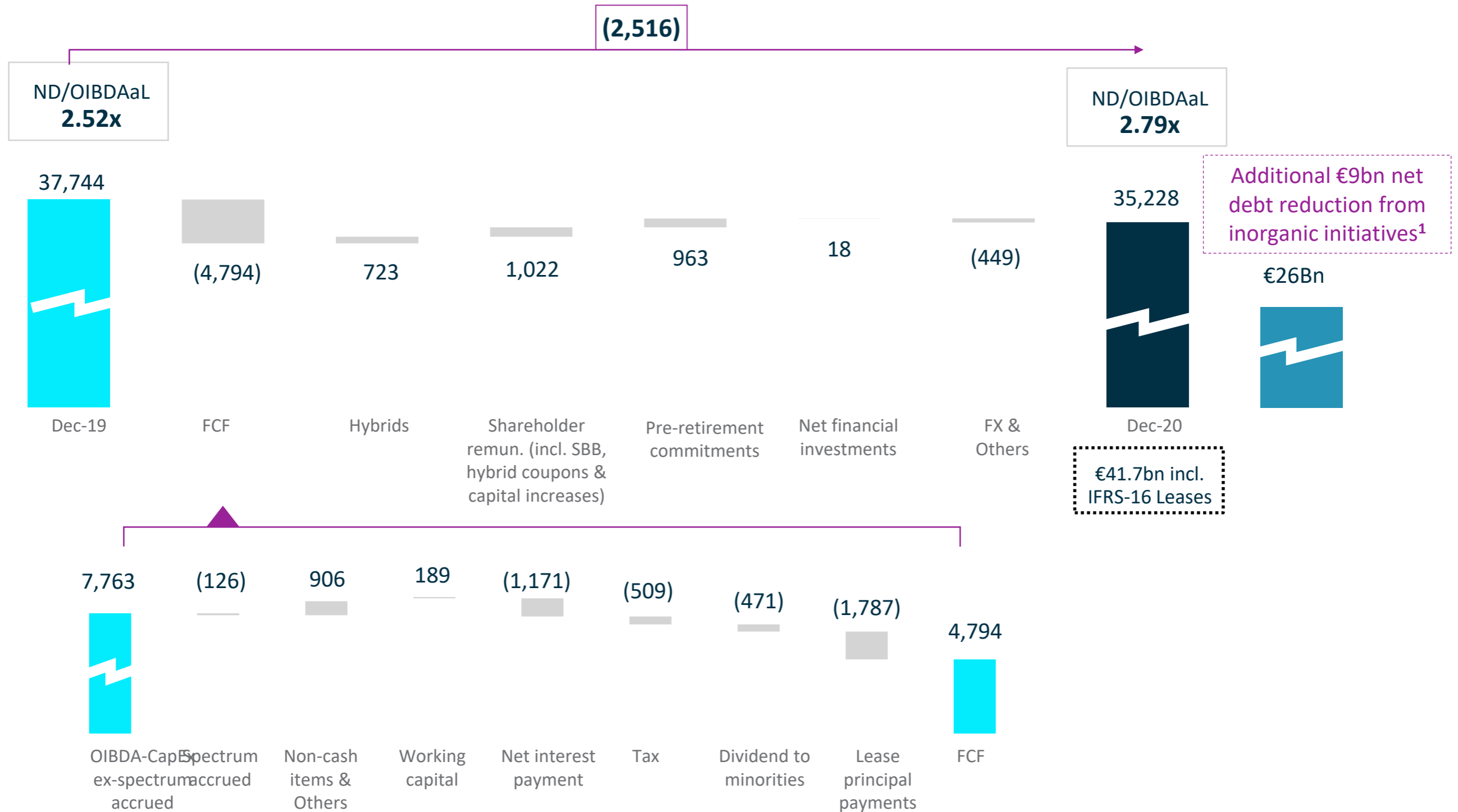
€m



# Debt | Strong FCF and inorganic initiatives

## Net Financial Debt

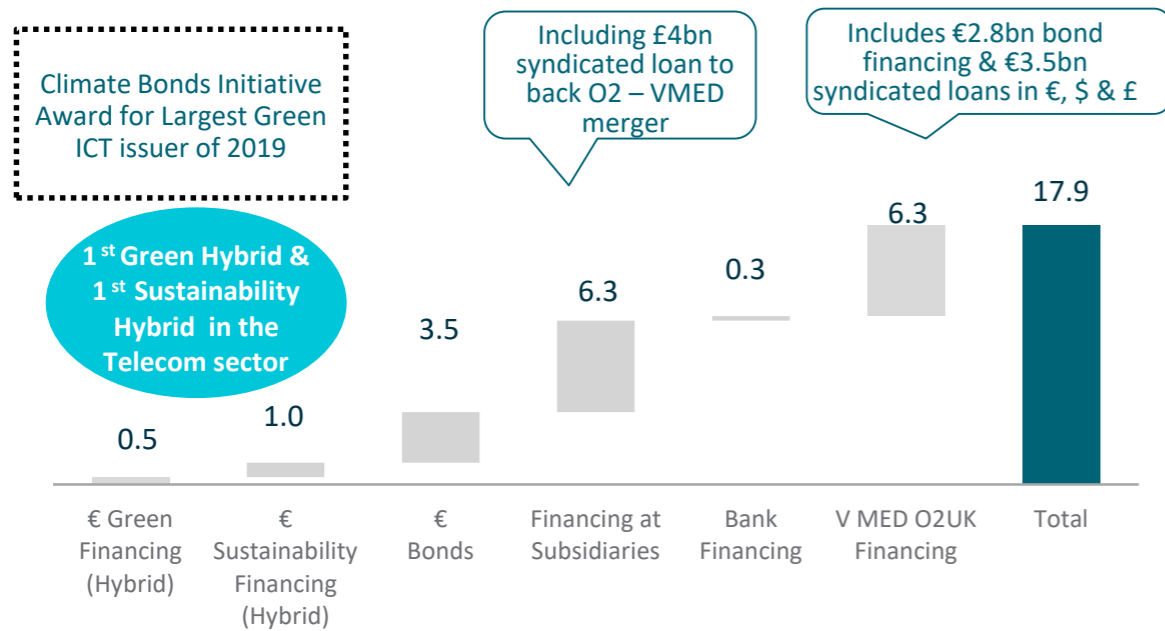
€m



# De-risked balance sheet

## Sources of long-term financing (2020 & YTD)

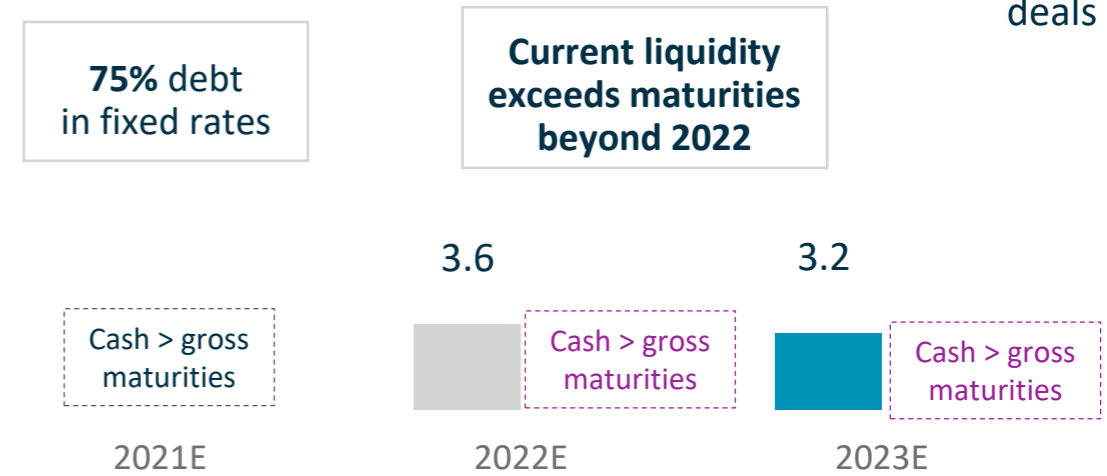
(€bn)



## Flatter maturity profile

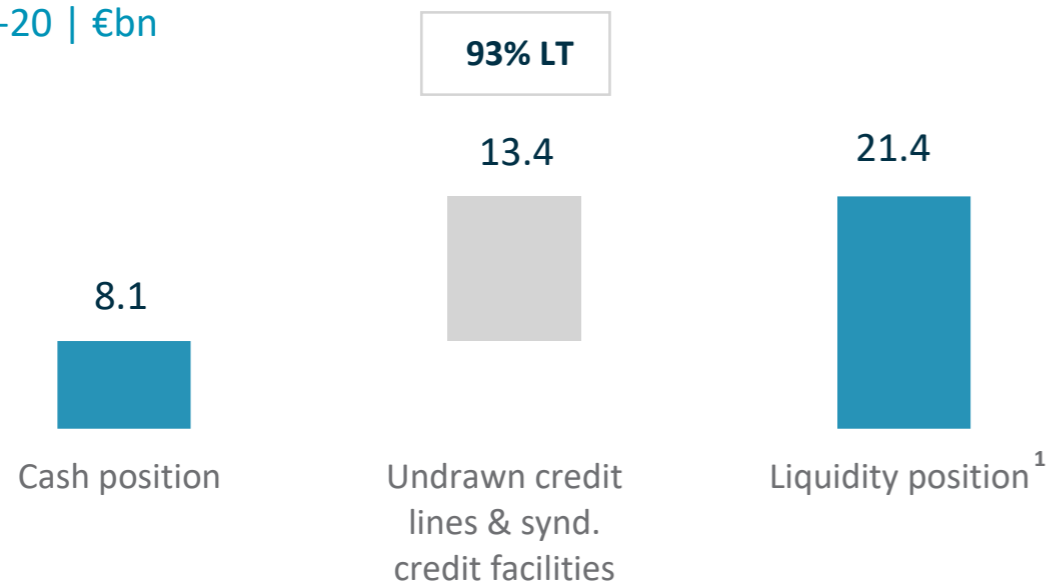
Net debt maturities at Dec-20 | €bn; not considering hybrid NC dates

■ Including inorganic deals



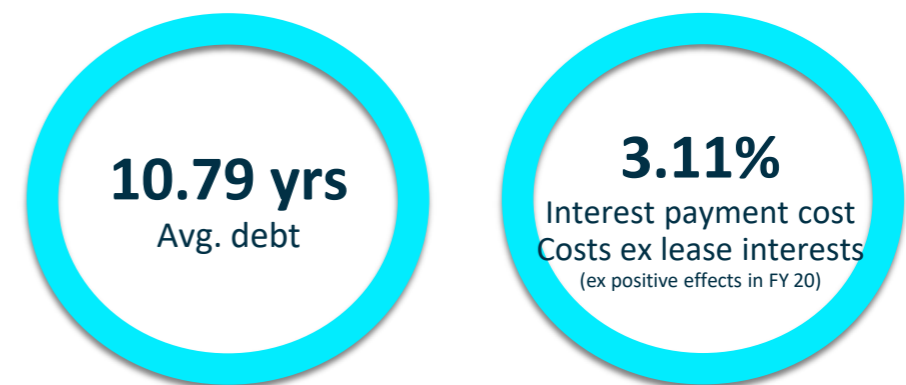
## Robust liquidity position

Dec-20 | €bn



## Long Average Debt Life and low interest costs

Dec-20





# Conclusion

Mr. José María Álvarez-Pallete  
Chairman & CEO



# 2021 guidance | Recovery more evident from Q2

## 2021 guidance

| Financial Targets<br>(organic y-o-y) | 2021                                  |
|--------------------------------------|---------------------------------------|
| <b>Revenues</b>                      | “Stabilisation”                       |
| <b>OIBDA</b>                         | “Stabilisation”                       |
| <b>CapEx/Sales</b> (ex spectrum)     | Back to normalised level<br>up to 15% |

### CRYSTALLISING VALUE FOR THE BENEFIT OF SHAREHOLDERS

**A digital company**

**Best networks (base for future growth)**

**Disciplined execution**

**Best-in class efficiency and high cash-flow generation**

**Active portfolio management (value creation)**

**Continued deleveraging**

**Comfortable financial position**

**Improved ROCE**

### 2021 DIVIDEND

€0.30/SHARE

**Interim Dec-21**

€0.15/sh. (Voluntary Scrip)

**Final Jun-22**

€0.15/sh. (Voluntary Scrip)

#### 2021 calendar payments

Jun/21 €0.20/sh.; voluntary scrip

Dec/21 €0.15/sh.; voluntary scrip

**1.5% treasury stock to be cancelled**

# Key takeaways

- **Proven resilience in challenging times; delivering for all stakeholders**
  - Strong improvement across four core markets
  - Leveraging best-in-class network infrastructure to maintain and grow high-value customer base
  - Prioritising network investments to further strengthen quality gap
  - Effective management of OpEx and CapEx through the COVID-19 crisis
  - Delivery of 2020 outlook
  - Strong FCF generation; FCF/Sh. €0.88 in 2020; €25bn in 2016-20
- **Material progress towards strategic objectives**
  - Strengthened position in the UK and Brazil via in-market consolidation
  - Reducing and modulating our exposure to Hispam
  - Sale of Telxius tower division to ATC at record multiples
  - Telefónica Infra and Telefónica Tech provide enhanced platform for value optimisation and future growth
  - Material savings generated through streamlining operating model and growing digitalisation
- **Proactive de-leveraging**
  - Net debt down to €35.2bn in 2020, €9bn additional ND reduction from announced inorganic transactions
  - Average debt maturity of 10.79 years
- **Positive outlook**
  - Well positioned to drive economic recovery and leverage growth opportunities

# Results presentation and Q&A Session

The management will host a webcast to discuss the results on **25<sup>th</sup> February at 10:00am (CET), 9:00am (GMT), 04:00am (EST)**

Participants from Telefónica: **José María Álvarez-Pallete** (Chairman & CEO), **Ángel Vilá** (COO), **Laura Abasolo** (CFCO), and **Pablo Eguirón** (Global Director of IR).

## Webcast

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

## Q&A Session

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- To **participate in the Q&A session**, please register using the following link to receive the dial in and PIN details. [click here](#)

If you have any questions, please contact the Investor Relations team at [ir@telefonica.com](mailto:ir@telefonica.com) or +34 914 828 700

# Telefonica

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