NOTA DE PRENSA
PRESS RELEASE

TELEFÓNICA DEMONSTRATES RESILIENCE TO COVID-19 BY INCREASING REVENUES IN THE THIRD QUARTER

- **The company revenues rose to €10,461m in July-September, +1.2% compared to the previous quarter, driven by an increased commercial and operational activity in its four main markets.**

- **Net income, excluding extraordinary impacts, grew by 5% in Q3 compared to 2Q, to €734M. In the nine months to September stood at €2,052m.**

- **Cash flow generation reached €1,579m, 59.8% higher than in the previous quarter of 2020 and +13.2% y-o-y.**

- **Net financial debt down €525m, to €36,676m.**

- **The Group has a liquidity position of €22,425m, enough to cover debt maturities over the next two years**

- **The company will propose to the General Shareholders' Meeting the cancellation of the share capital held as treasury stock, representing 1.5%.**

José María Álvarez-Pallete, Chairman and Chief Executive Officer:

"Telefónica continues to show its strength in the midst of an unusual situation we are experiencing, in which digitalisation and connectivity will continue to be key to economic recovery. Thanks to the implementation of the strategy presented a year ago and the robustness of our business, trends are improving in the third quarter, with a clear recovery in commercial activity in our key markets. We are growing in revenues compared to the previous quarter, and the operating cash flow margin remains stable, in line with our objectives.

Cash flow generation is also a proof of strength, reaching 1,579 million euros in the quarter, and exceeding both the cash flow posted in the previous quarter and year on year. This allows us to continue reducing debt, which falls by another 525 million euros in the quarter, and by more than 1,000 million so far this year.

We are facing the current scenario with a solid liquidity position, which exceeds 22,400 million euros, and allows us to cover debt maturities for the next two years.

At Telefónica we reaffirm our commitment to a fair, inclusive and sustainable digitalisation. Proof of it, we are bringing our zero net emissions target to 2025".

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Financial results January-September 2020:

Madrid, 29th October 2020.- Telefónica shows in the quarter its resilience to the pandemic. In the third quarter of 2020, the company improved its commercial and operational activity, mainly in the four main markets (Spain, Brazil, Germany and the UK), and thanks to a dynamic and agile management. This is mitigating the impact of the Covid-19 on revenues and operating income before depreciation and amortisation (OIBDA).

From July to September, the Group revenues totalled €10,461m, 1.2% more than in the second quarter of 2020. This is a 12.1% reduction y-o-y, mainly due to the exchange rate impact.

In the first nine months of the year, revenues totalled €32,167m (-10.7%). Organically, the decline limited to 3.7% in the Group and to 2.5% in the four strategic markets.

By geographies, Spain accounted for 29% of total revenues in the first nine months, up to €9,209m. Brazil contributed 18%, with €5,674m; Germany 17%, with €5,509m; the United Kingdom 15%, with €4,966m; and Hispam 19%, with €5,988m.

Net income evolution, excluding extraordinary impacts, showed an additional sign of improvement during the quarter. It reached €734m, +5% compared to the second quarter of the year. In the first nine months it stood at €2,052m, -20.7% y-o-y.

Tech and Infra continue to grow and Telxius doubles in size

All new business units continued to grow in the third quarter. Telefónica Tech's revenues increased by 15.4% to €1,113m in the first nine months, favoured by a context in which companies are increasingly demanding technological and value-added services.

Telefónica Infra's revenues totalled €609m, with the tower business growing by more than 20%. In the third quarter, Telxius, Telefónica's telecommunications infrastructure company, executed the first phase of the towers acquisition in Germany with the incorporation of 6,000 sites.

Once the process is complete, Telxius will have a portfolio of 33,000 sites, doubling in size since its creation in 2016.

Increased cash generation and strong liquidity position

Cash flow generation demonstrates the company's resilience and management capacity, confirming the validity and effectiveness of the strategy announced in November 2019. Cash flow generation reached €1,579m between July and September. This figure was up 59.8% compared to 2Q, and up 13.2% y-o-y.

This improvement brings a total for the first nine months to €2,801m, more than doubling the cash flow generated up to June. This progression represents another sign of the company's strength and its management capacity to face the current situation.

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Additionally, cash generation in the third quarter enabled the Group to reduce its financial commitments once again. Telefónica's net financial debt fell to €36,676m, 525 million less to June and €1,617m less y-o-y, when it amounted to €38,293m.

Management decisions taken in recent months also lead to a solid liquidity position to rely on in the unpredictable scenario caused by the pandemic. At the end of September, the Group had a liquidity position of €22,425m, enough to cover debt maturities over the next two years.

These figures reinforce the validity and timeliness of the new strategy announced by the company a year ago, when it introduced a roadmap, based on five pillars, to build the New Telefónica.

Impairment in Argentina

The measures implemented in order to control operational and capital expenditure also made possible to contain the direct effect of Covid-19 on the accounts. In the third quarter, the impact on revenues was cut by 18.9%, from €729m in 2Q to €591m in 3Q. The impact from unfavourable foreign exchange dynamics stood at 959 million euros on revenues, although thanks to the hedging strategies implemented, the effect in cash flow generation was reduced to 189 million in the third quarter.

An impairment allocated to Argentina has also impacted on the Group's accounts. This adjustment, of €785m, means that the company's net profit in the quarter shows a loss of €160m, which is in any case lower than the €443m loss reported in the same period of 2019. Net income for the first nine months stood at €671m, down 50.1% compared to 3Q19. OIBDA was also impacted. In the first nine months it fell by 14.9% to €9,747m, although organically the y-o-y fall limited to 6.7% and to 3.1% in the four main markets.

The resilience of Spain, Brazil, Germany and the UK can be also seen in (OIBDA-CapEx), up +5.2% organic y-o-y in the quarter compared to 2Q (+1,9%). (OIBDA-CapEx)/Revenues ratio increased by 2.1 p.p y-o-y in the third quarter against 1.3 p.p. in 2Q.

Increase in loyalty and high value customers

In the third quarter, Telefónica also focused on attracting and retaining high-value customers and on improving the experience of all of them, thanks to the quality of the infrastructure and services offered.

This work has resulted in a low churn rate, of 2.4% from 2.7% in September 2019. Customer satisfaction also improved, with NPS (Net Promoter Score) indicator rising to 23%, three p.p. higher y-o-y.

The addition of high value accesses also continued during the third quarter. At the end of September, the ultra-broadband network (UBB) increased to 133.1 million homes passed, two million more compared to June and six million more y-o- y. Overall, 60.1 million were passed in the company's own network, +10% y-o-y. The figures for Brazil are outstanding, with 14.6 million homes passed with fibre to the home (FTTH), +43.3% y-o-y. Also in Brazil, more than 3 million accesses were connected to the FTTH for the first time.

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Regarding Spain, it reached 24.44 million homes passed with FTTH, almost 800,000 more than last quarter, proving the quality of this differential infrastructure.

The Group's total accesses base stood at 341.5 million at September 2020, up from 337.3 million in June 2020.

Treasury stock cancellation

During the third quarter, Telefónica made progress in meeting the strategic priorities set in November 2019. The Company is making progress with the UK operation to create a leading converged operator thanks to the O2/Virgin Media merger. Also, 5G networks are already up and running in the Group's four core markets. Brazil, Spain and Germany have already joined the UK, where the fifth generation of mobile technology was already launched at the end of 2019.

The Company has continued to work on reducing its exposure at Hispam, actively managing the portfolio and pending approval of the sale of the operation in Costa Rica. It has also strengthened Telefónica Tech, with the three operating companies (Cyber, Cloud, IoT & Big Data) already integrated and fully functional. And Telefónica Infra in this case with the joint venture launched with Allianz to deploy fiber in Germany and contribute to the social and digital development that this project will bring about.

In addition, Telefónica will propose to the General Shareholders' Meeting the adoption of the corresponding corporate resolutions for the cancellation of the shares representing 1.5% of the share capital held as treasury stock At present, according to public filings, Telefónica's treasury stock position stands at 1.54% of the capital, equivalent to 82.32 million shares.

An inclusive and sustainable strategy

During the third quarter of the year, Telefónica also strengthened its commitment to the future in order to contribute to a greener and more prosperous recovery for all. With the launch of 5G in key markets, the Company is renewing its intention to promote fair and inclusive digitalisation, in which nobody is left behind and in which companies and individuals have the essential infrastructure to keep working, educating and continuing social and personal relations from any location.

This commitment also calls for a more sustainable world, which is why the Company has pushed its ambition against the climate crisis. Telefónica anticipated in June its goal of having zero net emissions by 2030. Now, the company is bringing that objective forward to 2025, going further in the ambition to reduce its carbon footprint.

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