

Telefonica

Results

January - March

2020

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Creating a leading communications provider in the UK

Mr. José María Álvarez-Pallete
Chairman & CEO



Transaction Summary

Key Terms

- **Telefónica and Liberty Global have agreed to combine their telecom assets in the UK** (Telefónica UK and Virgin Media UK)
 - 50/50 JV creates UK leading convergent player with complementary strengths in mobile, broadband, video and B2B
 - Stronger, larger, more diversified; combined £11.0bn revs. £3.6bn⁽¹⁾ OIBDA and £1.5bn OIBDA-CapEx⁽²⁾ (pre-synergies)
 - Telefonica UK valued at 7.8x OIBDA 2019; Virgin Media UK at 9.3x
 - Enterprise Value of the combined entity estimated at c.£38bn, including synergies. £12.7bn EV for TUK, £18.7bn for VMED UK
 - Pro forma combined entity will have 46.5m⁽³⁾ accesses, of which, 32.6m correspond to mobile, 5.3m to broadband, 4.9m to fixed voice and 3.7m to Pay-TV
- **Liberty Global will make a cash payment to Telefónica of £2.5bn to equalize ownership in the JV**
- **New joint venture will target leverage of 4.0-5.0x OIBDA**
 - Telefónica expected to receive £5.5-5.8bn of proceeds in total from the transaction (post dividend recap)

Value-creation Rationale

- **Complementary fit creates leading UK integrated player, significant cross-selling opportunities for B2B, B2C and wholesale**
 - Convergent capabilities' platform with best-in-class infrastructure and a technological advantage over peers
- **Transaction to unlock significant value, with synergies of c.£6.25bn NPV** (after integration costs)
 - Sizeable and highly visible synergies and efficiencies run-rate of c.£540m
- **Transaction to create significant value for Telefónica shareholders**
 - FCF accretive⁽⁴⁾ for Telefonica from year 1 and expected to reduce Telefónica's net debt by £5.5-5.8bn⁽⁵⁾
 - Credit positive; improves competitive positioning and business sustainability, reduces net debt at Telefonica

Expected Key Dates

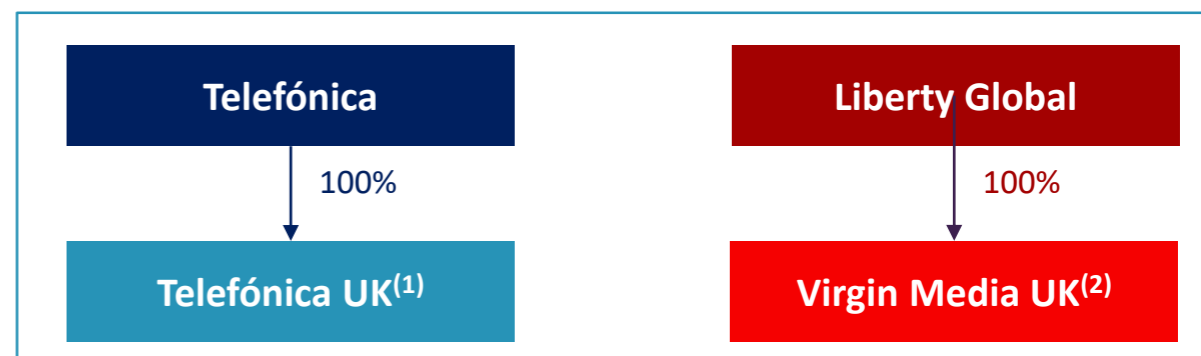
- **Transaction is subject to satisfactory approvals from relevant authorities and expected to close in mid-2021**

Transaction Structure and Key Terms

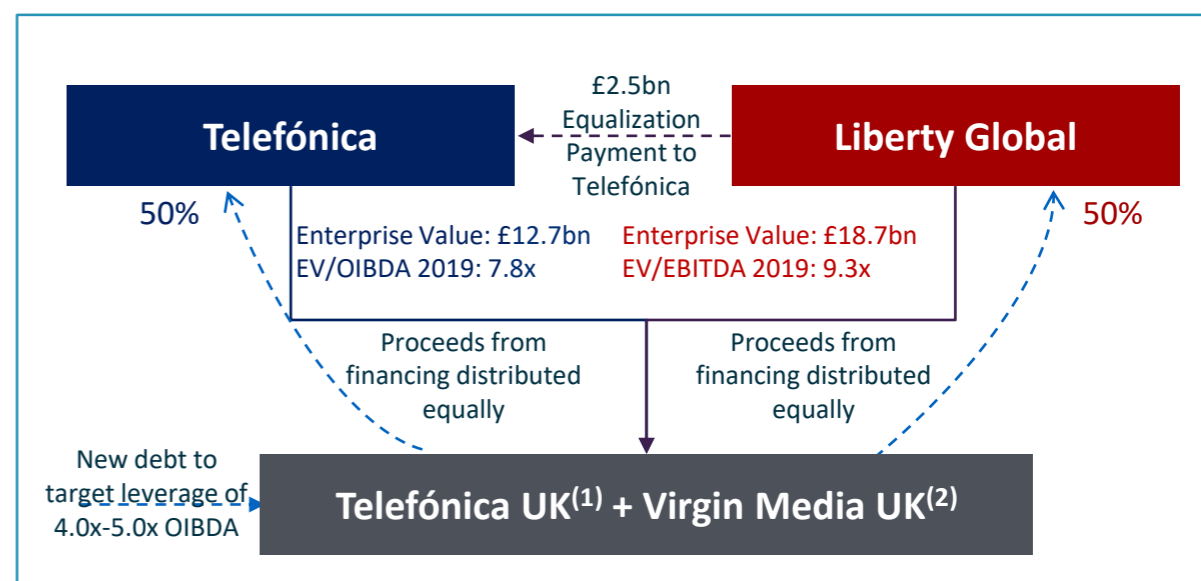
Key Terms

- Based on the enterprise value of each business, and after deducting Virgin Media UK's £11.3bn net debt, **Liberty Global will make a cash payment to Telefónica of £2.5bn to equalize JV ownership**
 - Telefónica UK contributed to the JV on a debt and cash free basis
 - Virgin Media's Irish business to be carved-out ahead of completion
 - Telefonica to contribute its 50% stake in CTIL
- The JV will target a leverage ratio of 4.0-5.0x OIBDA**
 - JV expected to raise new debt to reach its target leverage ratio; proceeds to be distributed equally between Telefónica and Liberty Global
 - The deal will not trigger a change of control under Virgin Media's existing third party debt
- Following completion of the transaction, **neither Telefónica nor Liberty Global will consolidate the JV**
- Equal governance rights in line with 50-50 shareholding**
- Telefónica and Liberty Global have agreed to provide a suite of services to the JV post completion

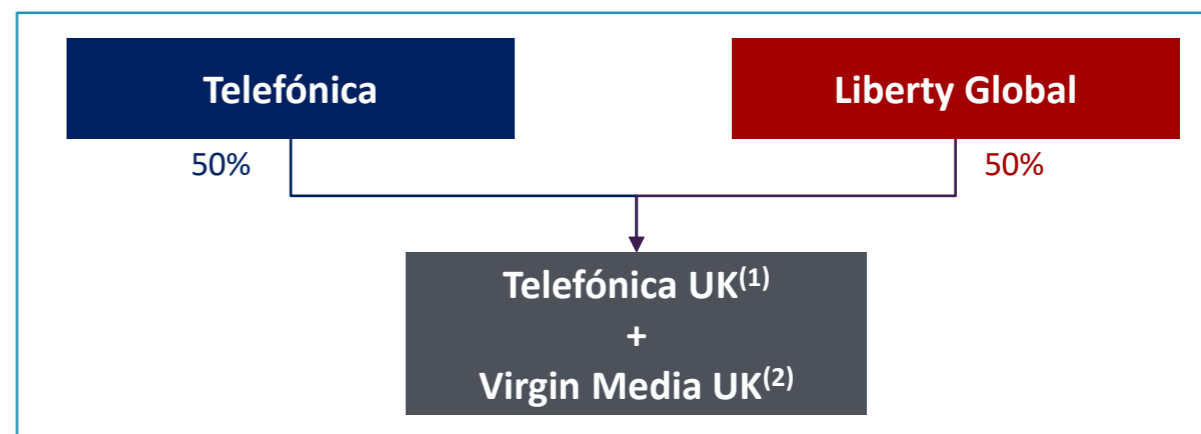
Pre-Transaction Structure



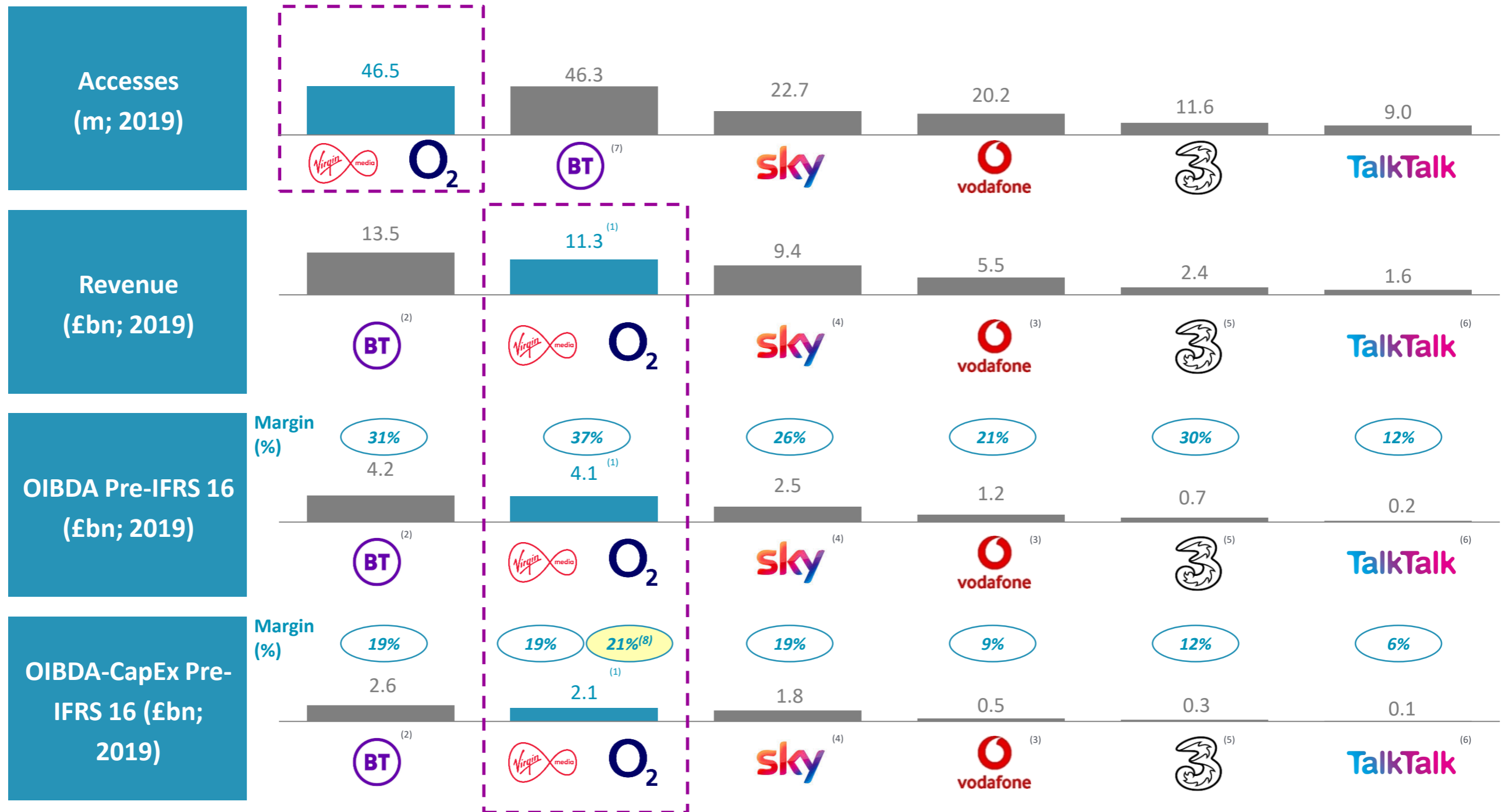
Intermediate Structure



Structure at Closing

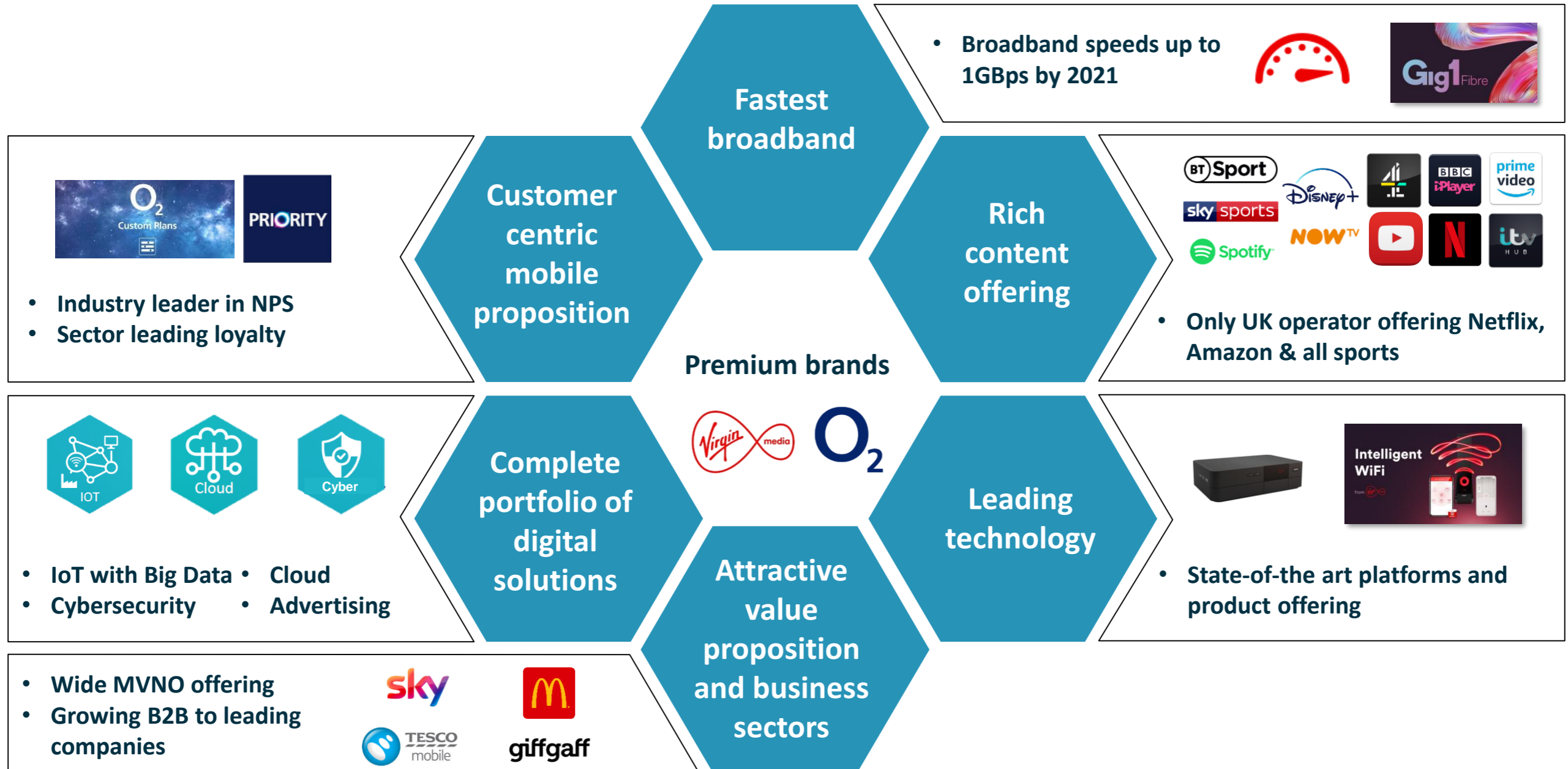


Stronger, larger and more sustainable player



EUR/GBP converted at 0.877; HK/GBP converted at 0.100; USD/GBP converted at 0.808. Source: Companies Information, Analysys Mason, Ampere Analysis, GlobalCom. Excluding M2M subscribers and including MVNO subscribers. (1) Pro-forma of run-rate synergies; (2) Financials for BT are LTM Dec-19A, excluding Global Services and Openreach; (3) Financials for Vodafone are LTM Dec-19A (Vodafone reports regional results half-yearly); (4) Sky UK financials based on 2019E broker estimates; (5) 3 UK financials are 2019A (reported in December 2019); (6) Talk Talk financials are 2019A statutory results (reported in March 2019); (7) Excluding Virgin Media MVNO subscribers; (8) Excluding Project Lightning.

Compelling and differentiated value proposition



National Connectivity Champion

Telefonica UK network: Highly competitive and cost-effective 5G ready mobile infrastructure

Virgin Media UK network: High performance & Ultrafast Today and Future proof for tomorrow



- **99% population 4G coverage** and consistently recognized as **most reliable** and **best coverage network**



- Access to the **largest tower portfolio** in the UK with **15k sites** through its 50% stake in CTIL



- **Successful long term relationship with Vodafone** extended to 5G & Industry-led single rural network progressing



- **O2 5G already live in 30 places** and will reach 50 towns and cities by summer 2020



- Strong holding of <1GHz frequency, **resulting in best in-door coverage; ongoing network optimization** with spectrum refarming



- **100% of VM UK homes DOCSIS 3.1** hardware ready and **100% 1Gbps coverage in 2021**



- **15 million homes passed** of which 14.3 million are HFC and 0.7 million are FTTP/RFOG



- Access network **100% ducted in owned ducts**, 0% aerial, creating flexibility in upgrade path to future coaxial or fibre



- **8m km of fibre strands** of which the access network is 7.3m km

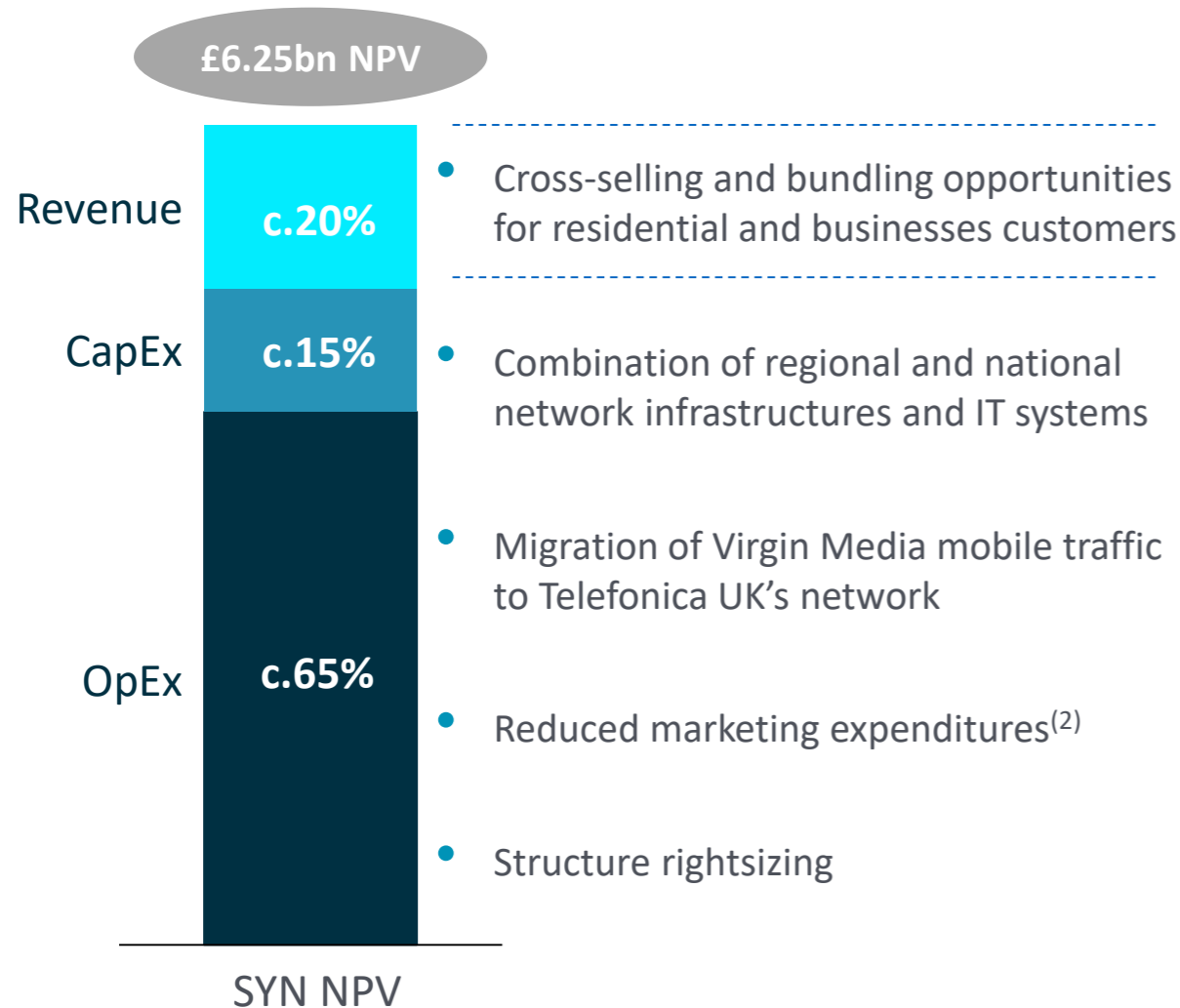


- Analogue TV and FM over cable radio services decommission complete

- ✓ *Unique infrastructure in Europe to seize new opportunities arising from Fixed-Mobile convergence*
- ✓ *No network monetization to date – retains ownership of its mobile and fixed infrastructure*
- ✓ *Clear market leader in UBB (FTTP, HFC)*

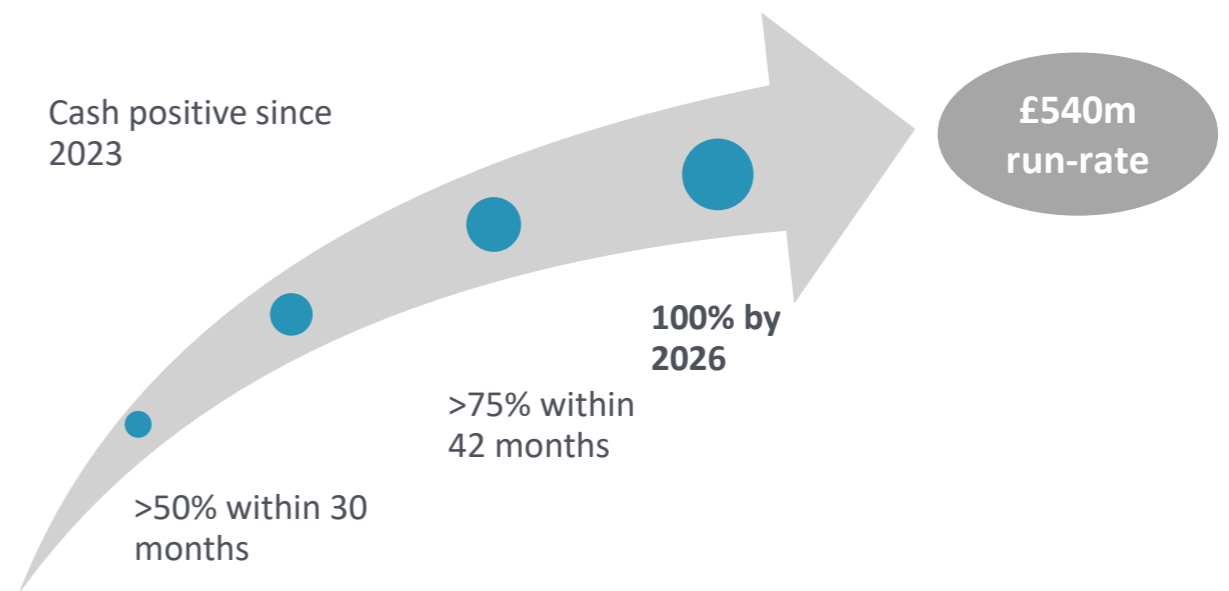
Identified synergies of c.£6.25 bn NPV, with 80% of full potential related to OpEx and CapEx synergies

Identified synergies of c.£6.25bn⁽¹⁾



- c.80% of full potential related to cost and capex synergies
- Financial / fiscal synergies not considered

Run-rate operating and revenue synergies of c.£540m



Proven track record delivering synergies

- Both parties have **completed several acquisitions over the last years with substantial value creation achieved through synergies**
- **Extensive experience** with respect to **building business cases, leading integration phases and realizing identified synergies**
- **Proven track-record of achieving and exceeding initial targets**

Transaction fully consistent with TEF's strategy

Transaction consistent with TEF's global strategy

Creates a leading and fully integrated champion in one of the 4 core markets for TEF



Significant value creation through synergies



Secures superior next generation fixed infrastructure to drive customer experience, complementing TUK's mobile network



Stronger, more valuable and sustainable platform with high dividends to continue reducing TEF's net debt



Partnering with VMED UK is the most compelling option for Telefonica UK and best strategic path forward

Governance, Exit and Timetable

Governance / Shareholders Agreement

- The **JV Board of Directors will consist of eight members**, four from each of Liberty Global and Telefonica
- Certain matters will require unanimous approval of both companies' representatives
- The position of **Chairman of the JV will be held for alternating 24 month periods** by a Telefónica or Liberty Global appointed director. The Chairman has no casting vote
- **Key management positions** will be announced prior to completion of the transaction

Exit

- **3 year lock-up**
- Each shareholder has the right to initiate an Initial Public Offering of the JV after the third anniversary of closing, with the opportunity for the other shareholder to sell shares in the IPO on a pro-rata basis
- The parties have agreed restrictions on other transfers of interests in the JV until the fifth anniversary of closing
 - After the fifth anniversary, each shareholder will be able to initiate a sale of the entire JV to a third party, subject to a right of first offer in favour of the other shareholder

Expected Transaction Timetable ⁽¹⁾

- Transaction notifiable to the European Commission (EC)
- The transaction may be referred back and require clearance by the Competition and Markets Authority (CMA)
- If approved **at Phase 1, closing** would take place **in Q4 2020 - Q3 2021**
- If approved at **Phase 2, closing** would take place **in Q2 2021 - Q1 2022**

Closing Remarks

- Creating a **leading integrated player with significant cross-selling opportunities in the second largest European market, improving market positioning**, group profile and **business sustainability**
- Combining Telefonica UK's **leading mobile operations** and Virgin Media UK's **extensive superfast broadband network** to benefit consumers, businesses and the public sector through investment to accelerate digital infrastructure deployment and improving customer experience
- Significant **value creation**: total cost, capex and revenue synergies with an estimated **NPV of c.£6.25bn** (after integration costs), additional financial / fiscal synergies not considered
- **M&A processes in 2 (UK and Brazil) out of 4 core markets**, progressing on the New Telefonica strategy
- Substantial value creation for Telefónica shareholders
 - **Stronger converged** challenger in the UK market, leading in customers and profitability
 - Improving **growth profile and market positioning**
 - **FCF accretive**⁽¹⁾ from the outset
 - Transaction expected to reduce Telefonica's **net debt** by £5.5-5.8bn⁽²⁾
 - **Credit positive** improving competitive positioning and long term business sustainability

COVID 19 implications

Q1 20 highlights

Mr. José María Álvarez-Pallete
Chairman & CEO



Telecoms proving essential; responding all stakeholders

Connectivity is critical

Guaranteed continuity of service; resources built upon years

- **Reliable, stable and secure networks**
 - +40% bandwidth demand; +50% mobile data traffic; ...
 - >€90Bn CapEx since 2012 pays off
- **Ring-fence cash** secure access to liquidity

Strengthened confidence on our resilience

Sustainable model for the long term; experience in crisis situations

- **Increased Demand for connectivity & digitalisation (B2C+B2B)**
- **Mobility work & security** solutions rising demand
- **CapEx flexibility** (~50% of annual OIBDA)

Telefónica part of the solution...

Caring for employees

- **Our people = our greatest asset**
- **95% working from home;**
- **Health & Safety come first;** ahead of any commercial initiative

Responding to society needs

- **Services & capabilities to Public Admin.** (big data, mobility data)
- **Wiring and connecting field hospitals**
- **Donating sanitary equipment;**
- **Free educational and training content**

... doing good

We care about our customers

- **Increasing data allowances, broadband speeds**
- **Enriching content bundles, children apps available**

Caring about our vendors

- **Shortened payments to key suppliers**
- **Protect health or providers**
- **Help vendors** (problems of liquidity)

Evidence-based mission: “Making our world more human by connecting lives”

Doing well; not immune, but relatively well protected

Potential hit...

- Managing impacts; **yet uncharted territory**
- **Pressure on B2B revs** (SMEs; corporates with higher exposure to COVID19; sales funnel, com. activity...)
- **Pressure on B2C revs** (roaming, prepaid, lower traffic to stores)
- Potential increase in **bad debt**
- Potential **supply chain/network/handset inventory** disruptions

...but relatively well protected

- **Demand for telcos on the rise**; potential for further **monetization**
- **Stable L/T revenue base**: flat rate contracts, L/T customers
- High quality, **future-proof asset base** (e.g. Fiber networks)
- **OIBDA better covered than top line** (costs relief, lower churn...)
- **Social goodwill earned** (close to society needs & all stakeholders)

**FCF Buffers
from top to
bottom**

- **Upselling of digital services**, specially Cybersecurity and Cloud
- **Higher demand in some services** (TV consumption, content fiction; VoD, higher BB speeds)
- **Accelerate digitalization**; strengthen on-line channels; transform network/ IT
- **Decrease in churn, commercial costs, advertising**
- **Discretionary CapEx management = OIBDA-CapEx shelter**
- **Delay of spectrum auctions** (Spain, UK, Brazil)

**We need to
adapt to new
reality**

**Lever to
secure FCF**

2022 Guidance and 2020 €0.4 dividend reiterated

2022 Guidance Confirmed

Financial Targets <small>(organic ex-contribution to growth from ARG)</small>	Guidance 2019-2022E
Revenues	Revenue growth
(OIBDA-CapEx)/ Revenues	+2 p.p. by 2022

Despite current uncertainty; confidence in future demand growth for connectivity, digital services...

2020 Stable & Sustainable Dividend

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

2020 calendar payments
 Jun/20 €0.20/sh. (Voluntary Scrip)
 Dec/20 €0.20/sh. (Voluntary Scrip)

Confidence in business model flexibility to weather current environment, coupled with solid liquidity position & business resiliency

2020 Guidance Withdrawn; significant changes in context & high level of uncertainty

Closely monitoring business evolution; managing Opex+CapEx



2020 current outlook: slightly negative to flat OIBDA-CapEx

Q1 20 Results

Mr. Ángel Vilá
COO



Financial summary

€ in millions	Q1 20				
	Reported	Reported y-o-y	Organic y-o-y	Organic y-o-y aggregated 4 core markets	
Revenues	11,366	(5.1%)	(1.3%)	0.1%	▶ 65% BB & SoC/Service Revs; +2 p.p.
OIBDA	3,760	(11.8%)	(1.7%)	0.8%	▶ FX impact & Cap gains Q1 19
OIBDA margin	33.1%	(2.5 p.p.)	(0.1 p.p.)	0.2 p.p.	▶ Maintaining leading profitability
OIBDA-CapEx (ex-spectrum)	2,275	(16.6%)	(3.8%)	3.2%	
OIBDA-CapEx / Revenues (ex-spectrum)	20.0%	(2.8 p.p.)	(0.5 p.p.)	0.7 p.p.	
Net Income	406	(56.2%)			
EPS (€)	0.06	(62.0%)			▶ €0.11 Underlying EPS
FCF (inc. leases principal payments)	233	(83.4%)			▶ Q1 seasonal effect; Q1 19 tax refund €702m
Net Financial Debt ex-leases	38,223	(5.3%)			▶ Reduction of €14Bn since Jun-16

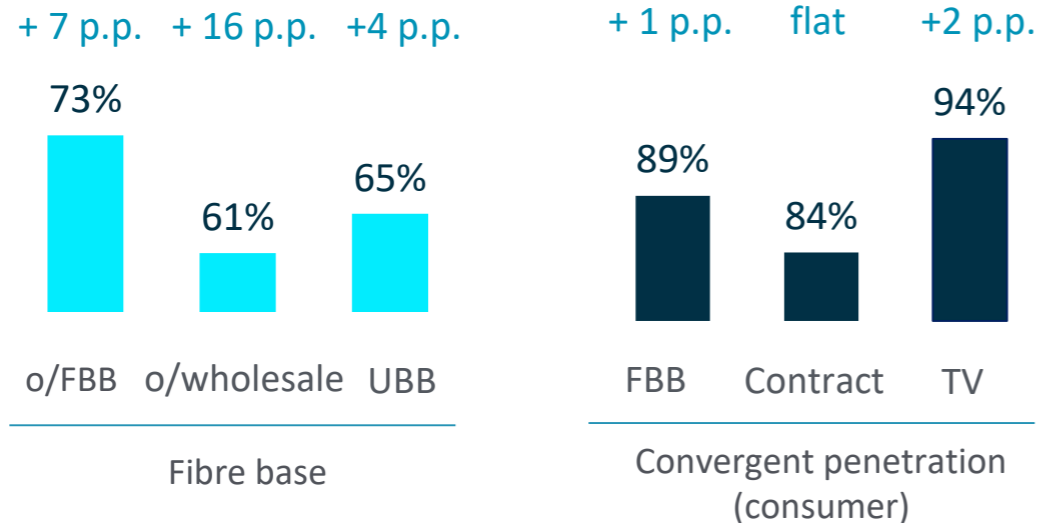
Q1 COVID 19 impacts;

Revenues (-€77m); OIBDA (-€33m); CapEx (-€17m)

Spain | The most reliable and advanced telco in Europe

Engaged customer base

y-o-y



- ✓ Churn improved y-o-y
- ✓ No TV lock in period

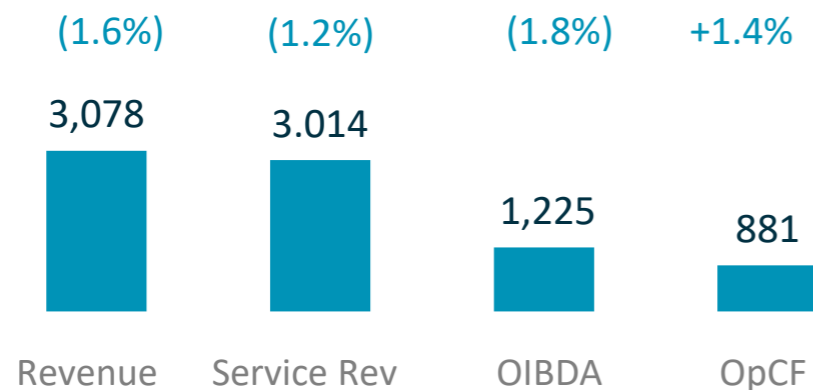
Leading content platform

Proof-tested network

- ✓ **Outstanding delivery with record traffic** (both retail & wholesale)
- ✓ **Critical connectivity on top quality assets**
 - Largest FTTH network & digitalisation
- ✓ **Effective remote activity**
 - Best in class Cloud, Security, Big Data
 - >50% activity in online/phone channel
- ✓ **Value added to the offer for free**
 - MBB, Premium TV (even to non-customers)

Key financials

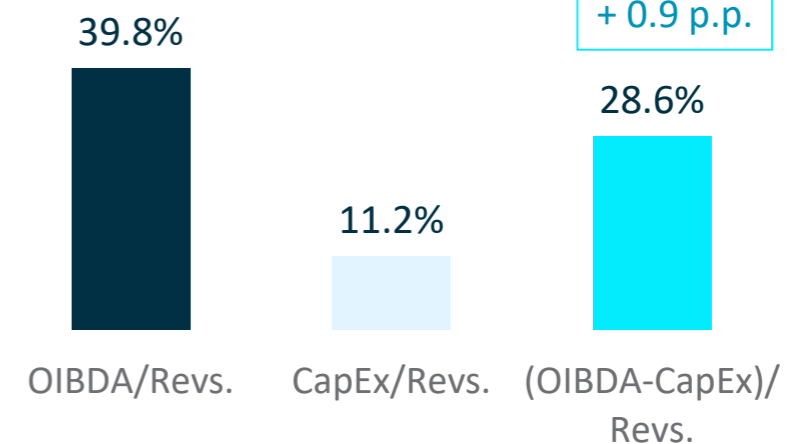
y-o-y organic



Limited impact from COVID-19 so far
Proven success of transformation strategy

Sound (OIBDA-CapEx)/Revs.; cash in focus

y-o-y organic

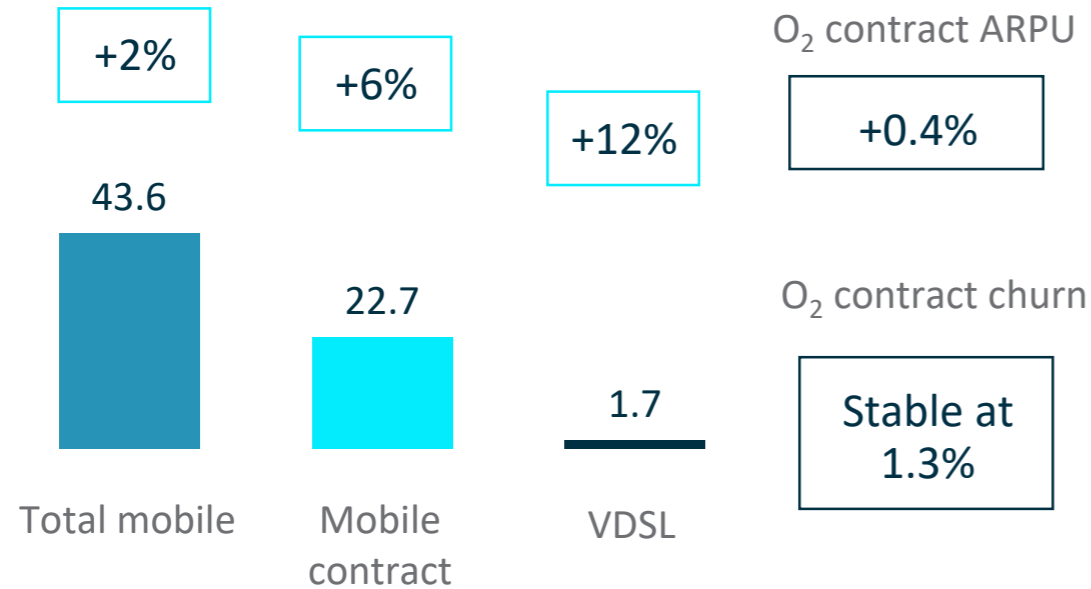


Prudent OpEx/CapEx policy
5G auction delayed

Germany | Robust start to year

Good commercial performance

Accesses (m, y-o-y)

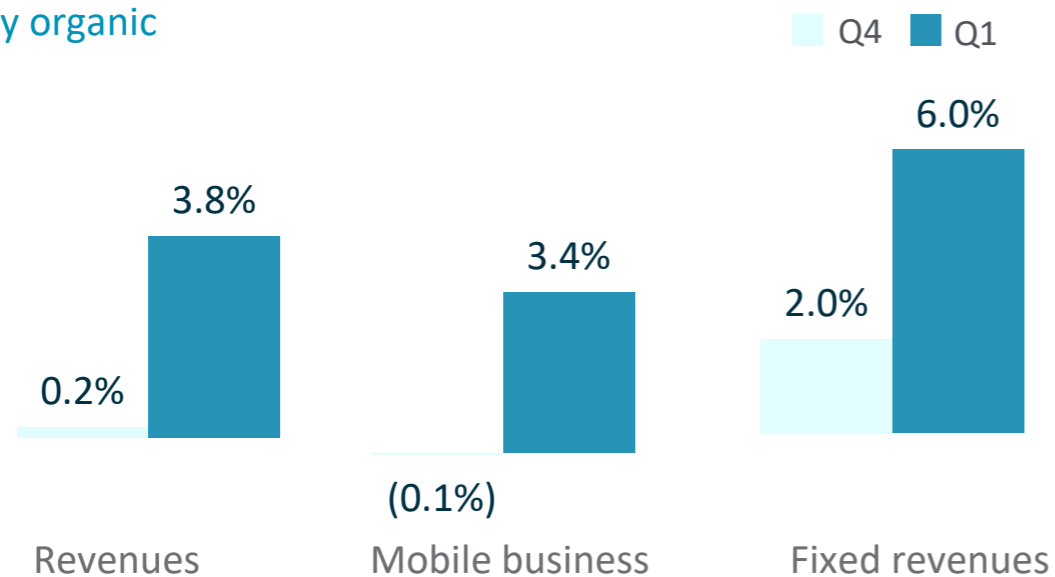


Solid trading

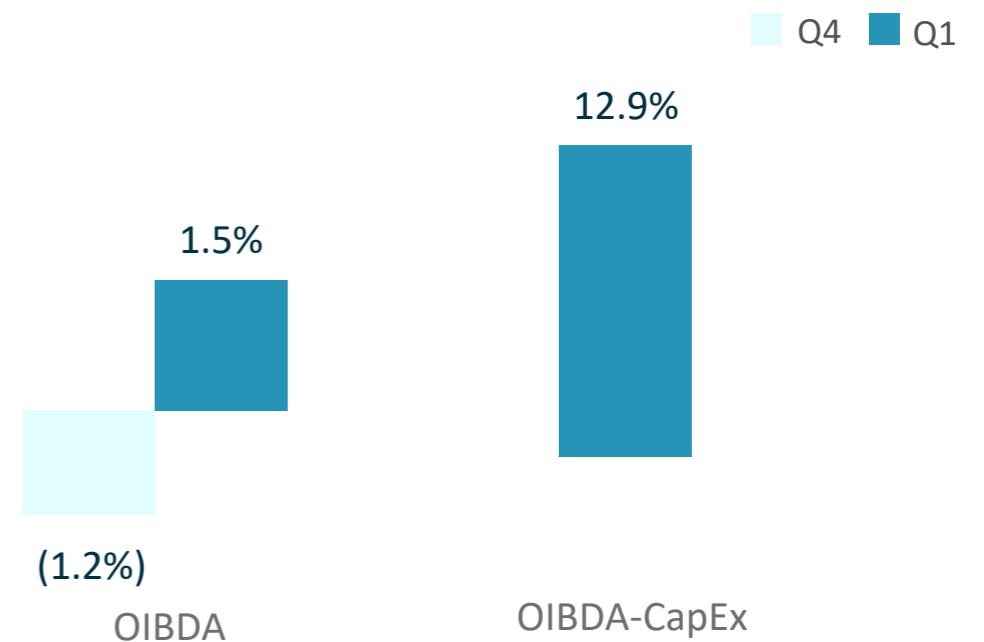
- ✓ **Good contract momentum** of O₂ brand; blended ARPU stable and contract churn -0.1 p.p. y-o-y
- ✓ **Sustained VDSL demand**: +36k net adds; 76% o/FBB
- ✓ **Resilient network** coping with COVID-19 traffic increase
- ✓ Supporting employees, customers and the wider society
- ✓ **4G/LTE steady progress**; preparing 5G deployment

Gaining momentum across all revenue lines

y-o-y organic



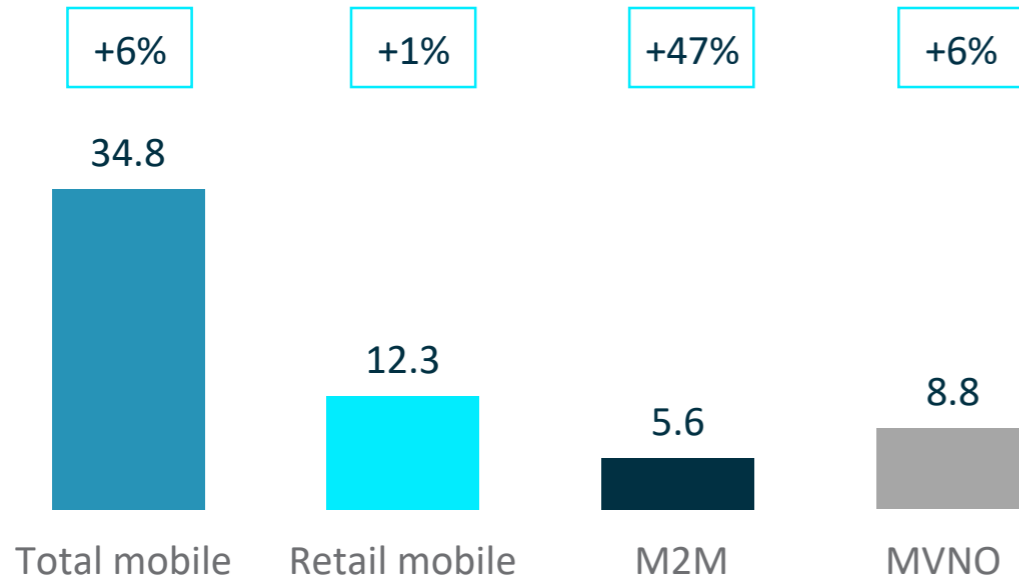
Improving profitability



UK | Once again outperforming the market

Continued contract customer growth

Accesses (m; y-o-y)

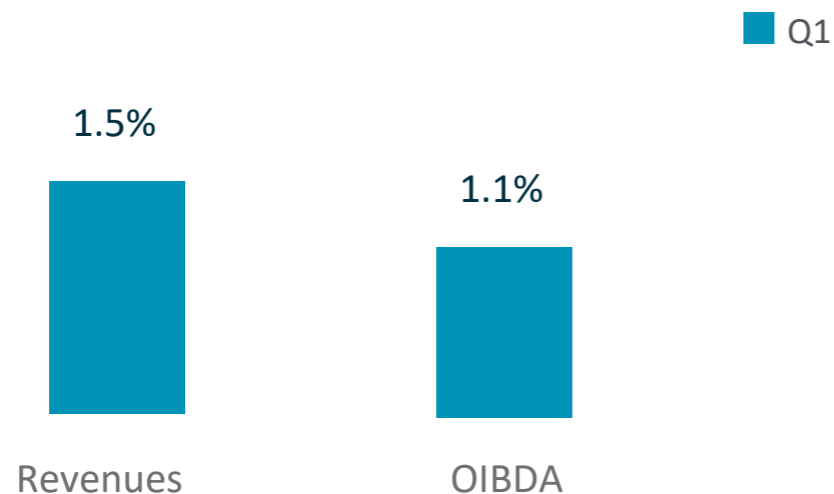


Another solid quarter

- ✓ Largest UK network carrier
- ✓ Continued revenue and OIBDA growth
- ✓ Market leading loyalty with 1% contract churn
- ✓ Exclusive agreement for mobile distribution of Disney+
- ✓ Continued investment momentum in network

15th consecutive quarter of y-o-y top-line growth

y-o-y organic



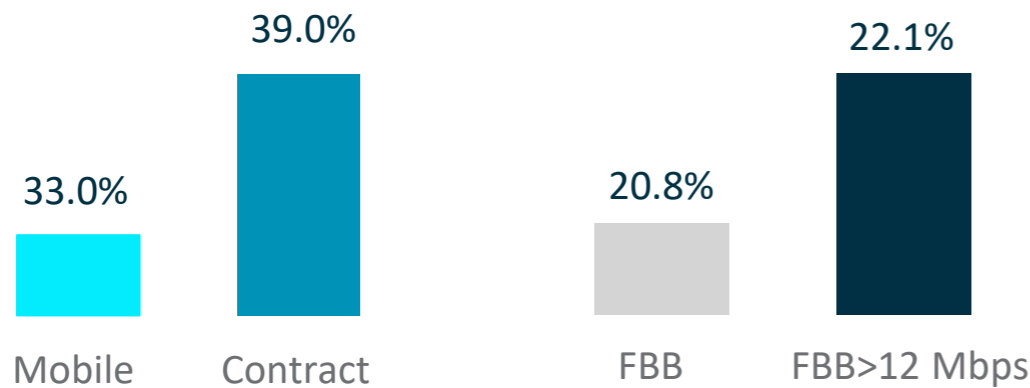
COVID -19 – keeping communities connected

- ✓ Network voice and data resilience
- ✓ Industry cooperation and ongoing dialog w/ government
- ✓ Existing processes supporting vulnerable customers
- ✓ Free access to NHS and 22 additional websites
- ✓ Connectivity provision for Nightingale hospitals

Brazil | Predictable & resilient FCF generation

Strengthened market leadership

Market Share (Feb-20)

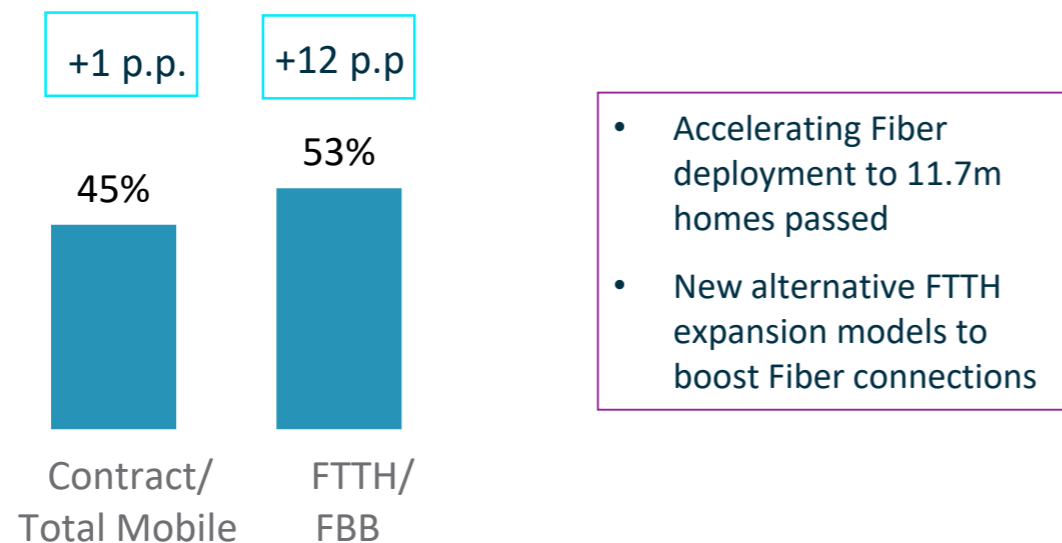


Resilient Business

- ✓ Better fixed and mobile network in the market
- ✓ Low prepaid impact & handset exposure (~10% & ~5% of Total Revs)
- ✓ Highest contract penetration in the market
- ✓ Robust OIBDA-Capex/Revs (22.5% 2019; 27.7% Q1)
- ✓ Solid FCF generation

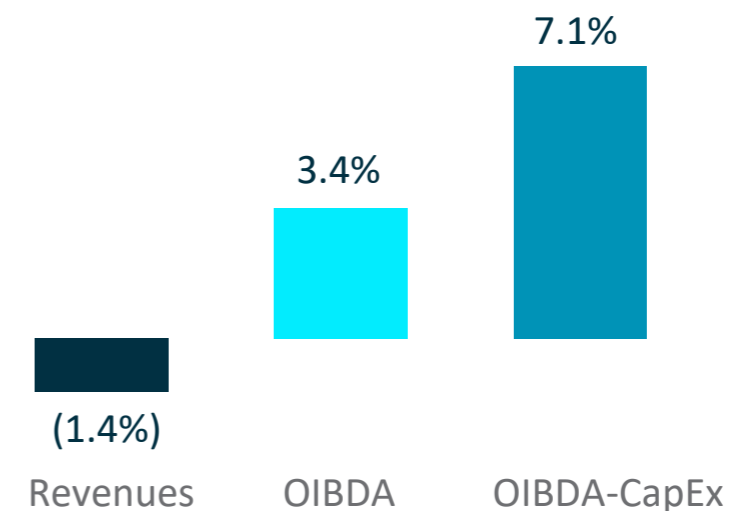
Exposed to most valuable segments

Accesses Penetration (m; y-o-y)



Sustainable business model

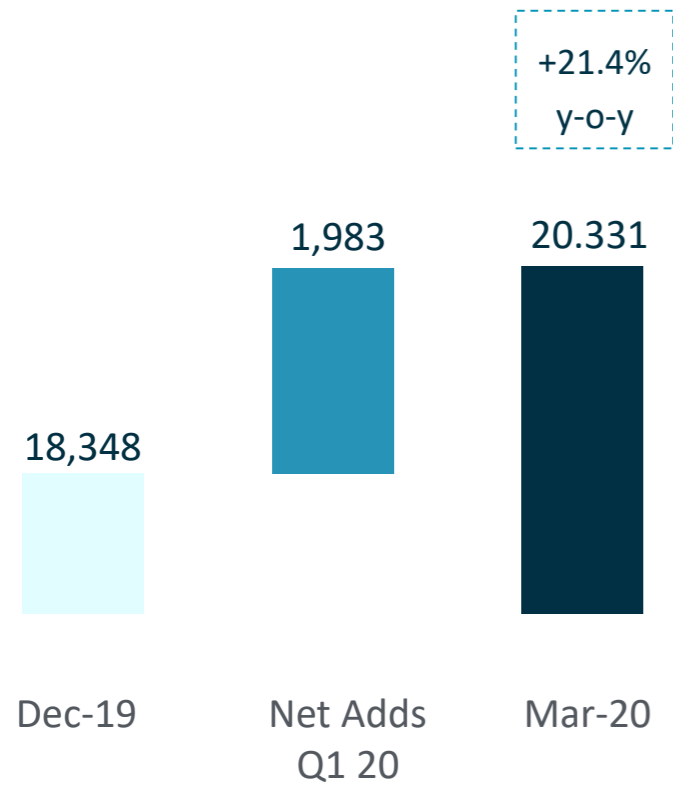
Q1 y-o-y organic



Telxius | Growth and margin; continuing tower expansion

Sites

#



BTS

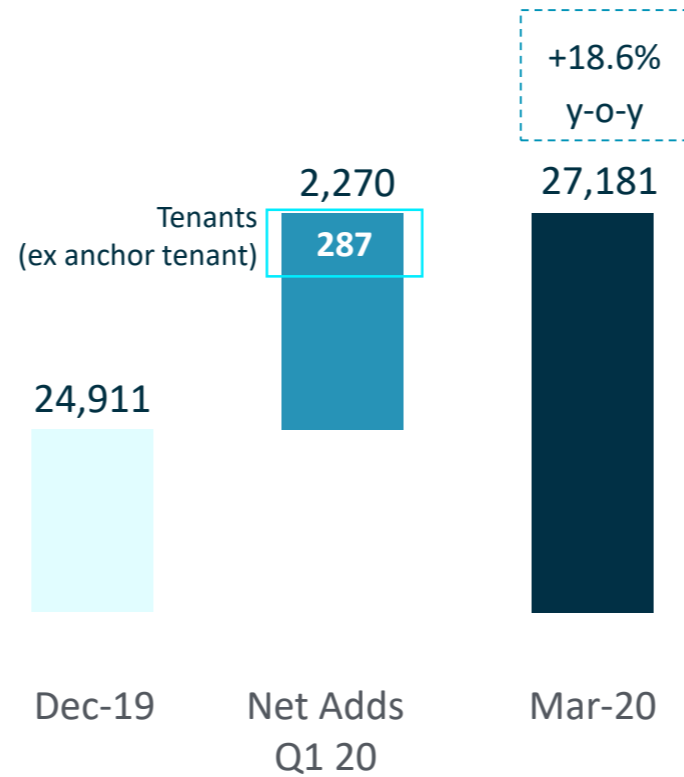
56

Acquired

1,927

Tenants

#



Tenancy Ratio

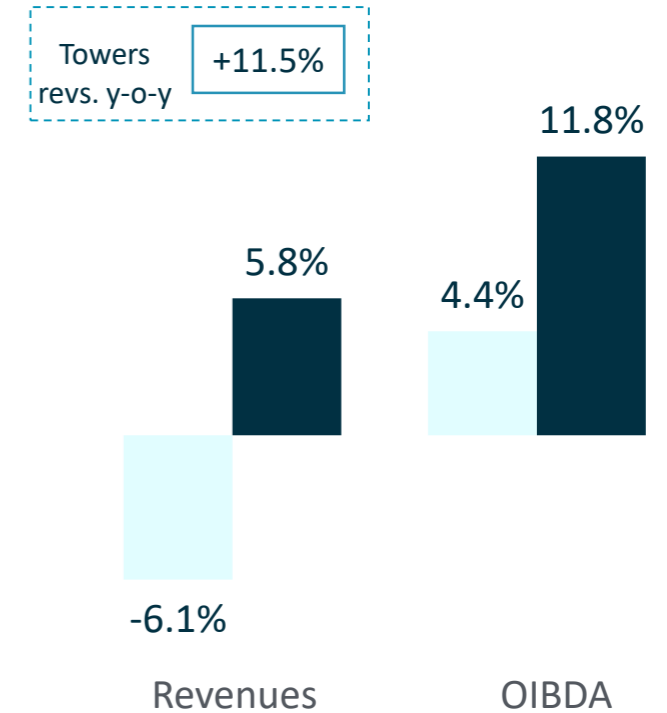
1.34x

1.36x ex acquisition

Revenues & OIBDA

■ Q1 20 y-o-y organic

■ Q1 20 y-o-y organic ex-capacity sale in Q1 19 (cable)



€207M

€135M

CapEx ⁽¹⁾

€22M

OIBDA-CapEx ⁽¹⁾

€113M

Inorganic investment

€133M

Q1 20 Results

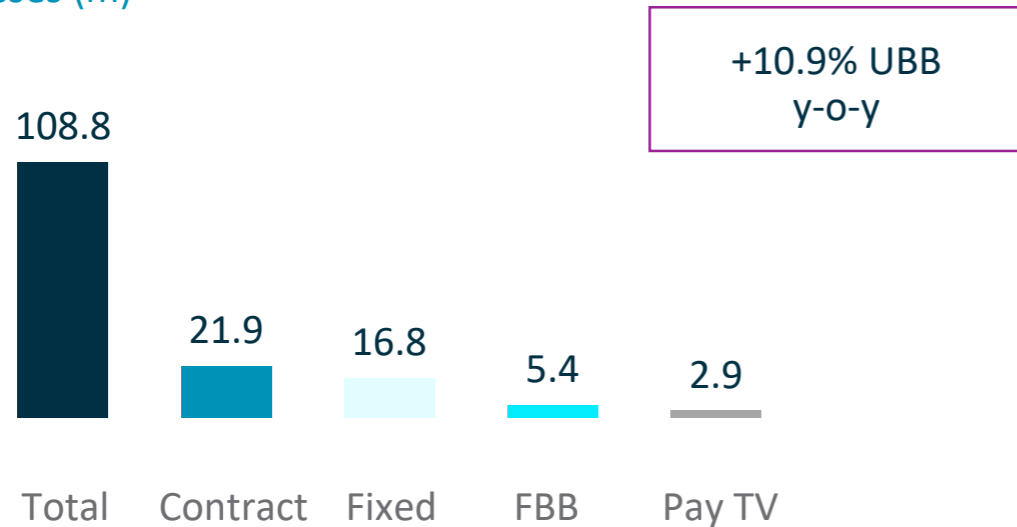
Ms. Laura Abasolo
CFCO



Hispam | Working on transformation; increasing efficiencies

Large accesses base

Accesses (m)

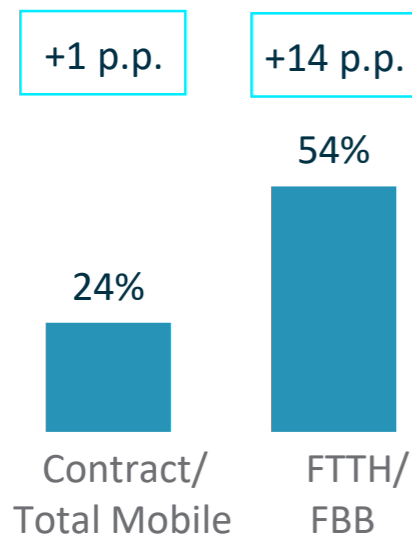


Simplification to support cash generation

- ✓ Largest Fiber network in the region (9.0m FTTH homes passed)
- ✓ Prepaid less relevant (~11% of Total Revenues)
- ✓ High contract penetration (24%)
- ✓ Digitalisation process is still on-going
- ✓ Achieving CapEx efficiencies

Higher penetration in valuable segments

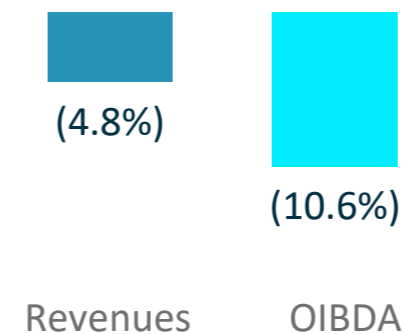
Accesses Penetration (m; y-o-y)



9.0m FTTH homes passed (+1.7m in LTM)
Co-investing with ATP & ATC in most relevant markets

Strongly affected by competition in Peru & Chile

y-o-y org.



Similar y-o-y trend vs Q4 19 excluding ARG and one-offs
MEX; Back to OIBDA growth (transformation model paying off)

Currency headwinds structurally neutralised

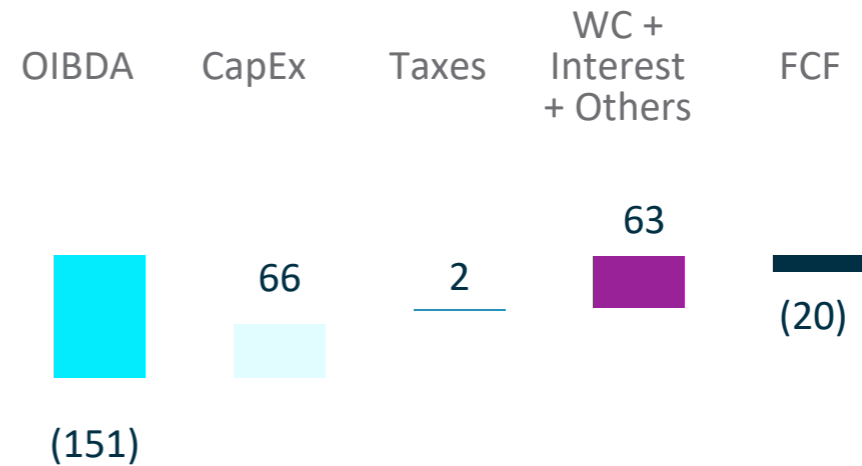
Effects on FX moves

y-o-y

- ✓ **BRL**; major drag in Q1 Revenue & OIBDA y-o-y
- ✓ **Revenue**: Q1: -3.2 p.p. y-o-y
- ✓ **OIBDA**: Q1: -3.5 p.p. y-o-y
- ✓ -€151m at OIBDA **down to -€20m in FCF**
- ✓ **FX reduce net debt** (-€824m 12 month rolling)

FX impact neutralised at FCF level

€m; Q1 20 FX impact

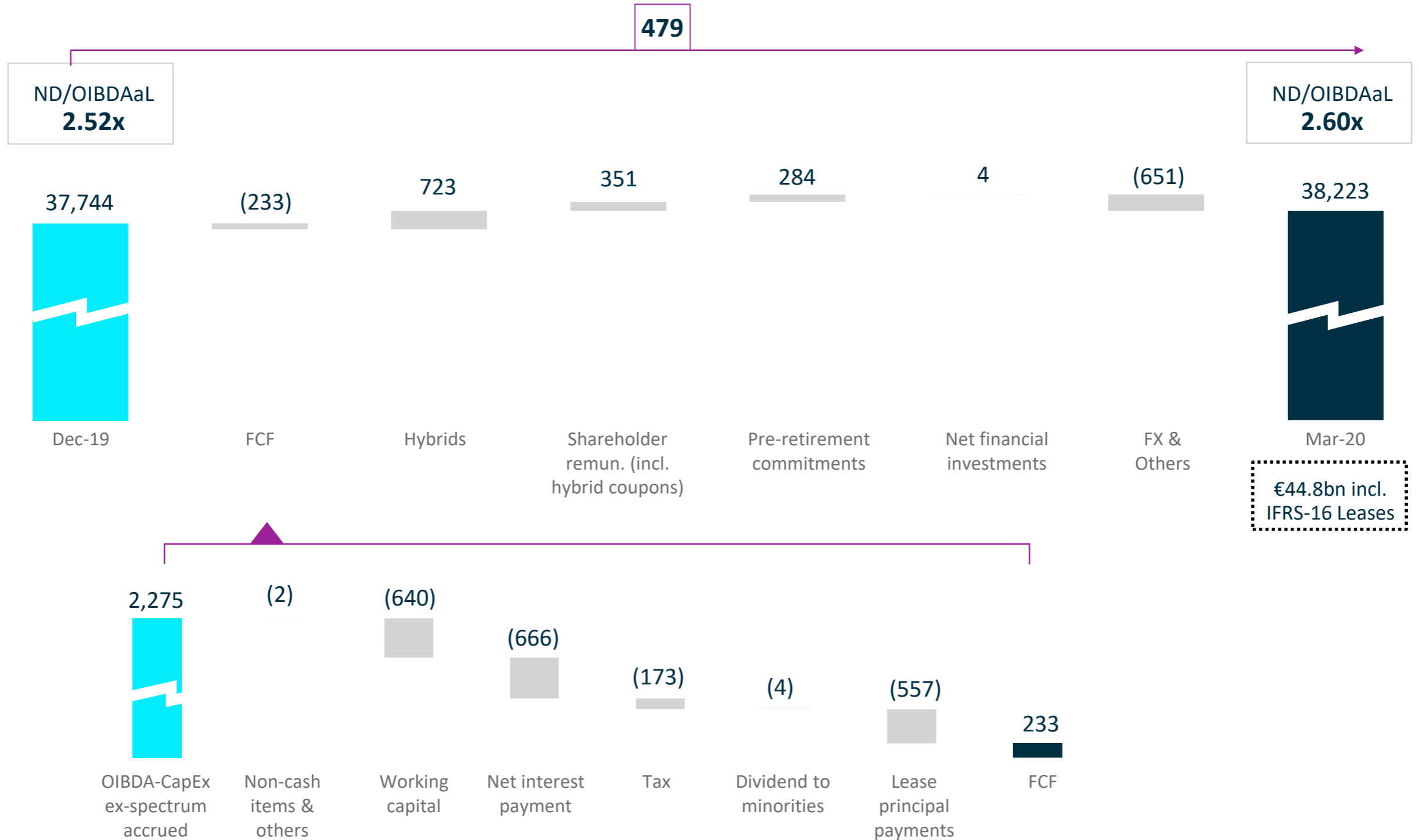


Actively hedging 2020 Cash flows of Brazil and UK

Slight debt increase on hybrids amortisation

Net Financial Debt

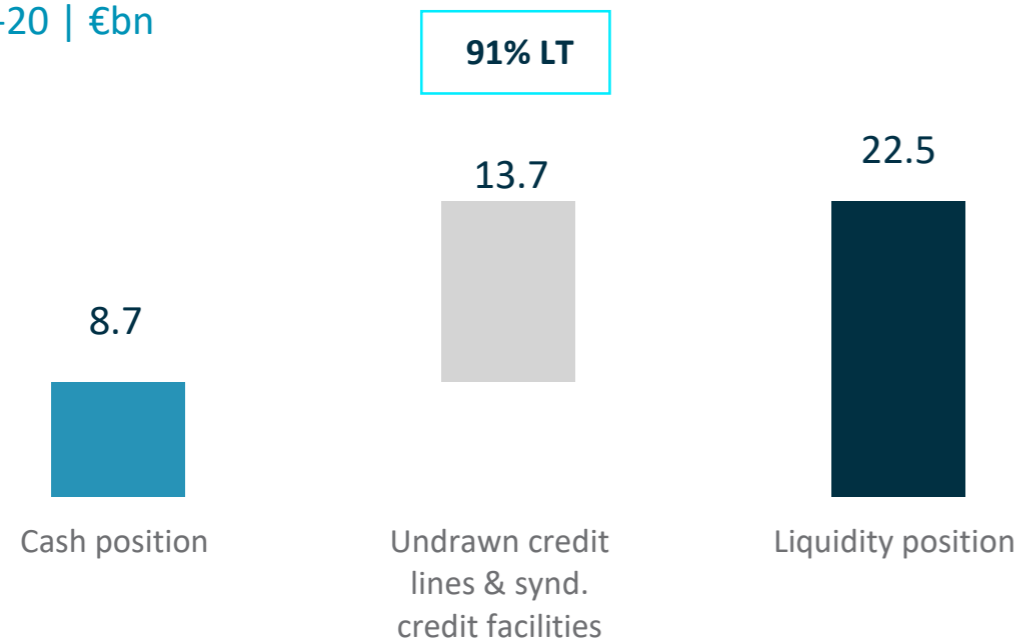
€m



Strong liquidity position coupled with smooth maturity profile

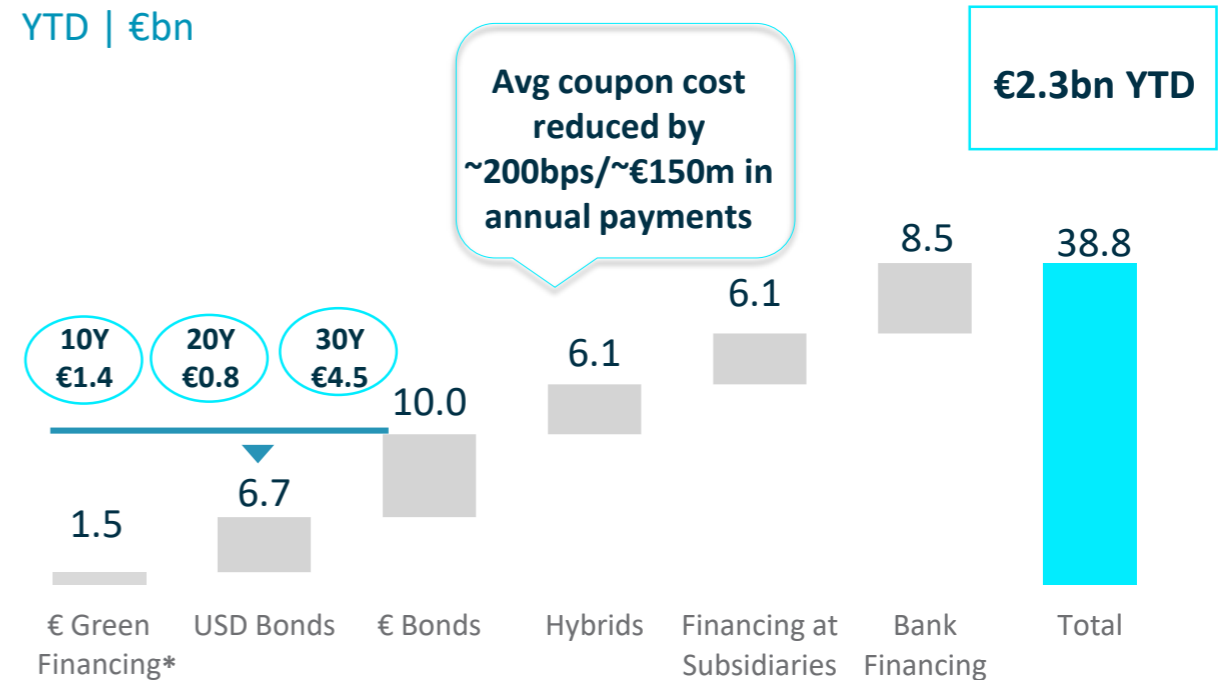
Liquidity position

Mar-20 | €bn



Financing activity from June 16 to YTD

YTD | €bn



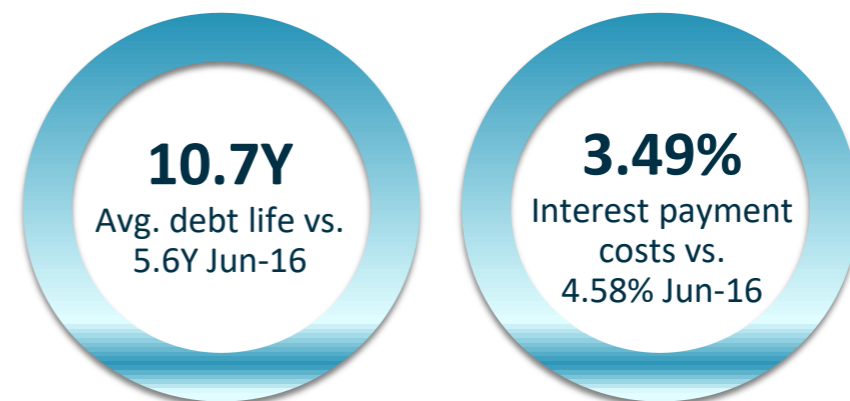
Net Debt maturities

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



Strengthening debt profile

Mar-20



Conclusion

Mr. José María Álvarez-Pallete
Chairman & COO



Conclusion | Sustainable; Long term focus

1

Telecoms proving essential...

2


... responding socially to all stakeholders....

3

... doing well; not immune...

4

...committed to our strategy and guidance



Delivering value for all stakeholders

Resilient business

- Robust, reliable and secure network
 - Good liquidity; BS in a good shape
 - Society; serve everyone everywhere
 - Protecting human rights in our value chain
 - Customers; enable safety through P&S
 - Employees; ensure protected continuity
 - Provide support to providers
 - Progression in sustainable model; growth, efficiency and trust
-

2020 Dividend and 2022 Guidance reiterated

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