

Telefónica Q3/9M 20 Financial Results Highlights

29th October 2020

Improving trends in Q3

Further progress against strategic objectives

- **Continuously monitoring and adapting to COVID-19 related restrictions to mitigate their impacts on the Company**
- Q3 20 **Group revenues** of €10,461m, down 12.1% y-o-y as a result of COVID-19 and intensifying foreign exchange headwinds, but on an **improving trajectory versus Q2 20** (€10,340m; -14.8% y-o-y). In organic terms, Q3 20 revenue improved to -4.3% y-o-y (-5.6% in Q2 20)
- **Group OIBDA down 2.8% y-o-y** to €2,672m in Q3 20 and it is impacted by the impairment allocated to T. Argentina (-€785m). In organic terms, Q3 20 OIBDA improved to -8.3% y-o-y (-10.0% in Q2 20)
- Negative effects of COVID-19 (revenues -€591m and OIBDA -€315m) mitigated by effective **OpEx and CapEx management**, optimising operating cash flow
- **Q3 organic OIBDA-CapEx stable** q-o-q and y-o-y; (OIBDA-CapEx)/Revenues margin up 0.7 p.p. y-o-y in organic terms
- **Recovery across 4 core markets** driven by proactive management and dynamic commercial activity
 - Q3 20 y-o-y organic revenues and OIBDA declines contained at 3.9% and 3.3%, respectively
 - Accelerated y-o-y organic growth in both OIBDA-CapEx (+5.2%) and OIBDA-CapEx/Revenues margin (+2.1 p.p.)
- Q3 20 **net income** (-€160m) impacted by the impairment allocated to T. Argentina, but reached €734m on an underlying basis. Underlying EPS 9M 20 stood at €0.36 (-22.0% y-o-y).
- **Strong FCF sequential improvement** to €1,579m in Q3 20 (+13.2% y-o-y; €0.30 per share) and to €2,801m in 9M 20
- **Net financial debt down €525m versus June 20** to €36,676m, supported by organic FCF generation

€ in millions	9M 20				Q3 20			
	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)						

- **Continuing growth in value accesses y-o-y, UBB, FTTH and contract (up +5%, +20%, +2%)**, with access mix showing continued improvement as FTTH/UBB reached 63%; +8 p.p. y-o-y. Also, noteworthy are net adds incurred in Q3 20 vs. Q2 20 with FTTH x1.4

- **High NPS** level at 23% (+3 p.p. y-o-y) in Q3 20 and **low churn** of 2.4% (-0.3 p.p. y-o-y) reflect benefits of network leadership advantage in driving customer engagement
- **Prioritising investments** to further strengthen next generation network; 2m premises passed in Q3 20, 6m in the last twelve months, with a total of 133.1m premises passed (60.1m in own network; +10% y-o-y)
- **Accelerating digitalisation** and on-line transactions; digital sales represent 30% of total sales in 4 core markets, an increase of 36% vs. Q3 19
- **Continued progress against strategic objectives**
 - **Focus on our core markets: Spain, UK, Germany and Brazil**
 - Spain;
 - 5G launched with the ambition of achieving 75% nationwide coverage by year-end
 - Sound recovery in commercial activity with controlled churn and margin expansion
 - Infrastructure leader; +795k premises passed in Q3 20 to 24.4m
 - Germany;
 - Signed an early extension to our existing agreement with Deutsche Telekom on fixed networks and expanded our cooperation further. The new ten-year contingent contract, will now see T. Deutschland market Telekom's FTTH service to its customers
 - T. Deutschland transferred 6,000 towers to Telxius; having executed the first tranche of the transaction which involves 10,100 towers in total and a commitment to build a further 2,400 sites
 - 5G launched in the largest cities, with plans for a wider rollout now accelerating
 - UK;
 - Progress in in-market convergent consolidation, JV (O2/VMED) formally requested regulatory approval and £5,700m recapitalisation process was completed. In addition, Q3 showed the growth of the customer base across all segments of the business.
 - Brazil;
 - Progress in in-market consolidation via the joint bid offer for Oi; now designated as "preferred bidder" for the auction
 - 5G launched in 8 cities; FTTH leadership with 1.5m premises passed in Q3 20 to 14.6m
 - **Reduce exposure to Hispam**
 - Filed for regulatory approval of the sale of operations to LLA in Costa Rica
 - Portfolio review is underway
 - **T. Tech**
 - All 3 operating companies (Cyber, Cloud, IoT & Big Data) incorporated and fully functional
 - Acquisition of Cybersecurity companies to foster capabilities (consultancy Govertis; iHackLabs professional training)
 - **Develop T. Infra**
 - Announced JV with Allianz in Germany to develop fibre in underserved areas
 - Expanded Telxius tower portfolio through German deal (26,600 sites after the first tranche; 33,000 sites after the full completion of the deal, including 2,400 BTS plan)
 - **Simplifying our new operating model**
 - Signed a MoU with Rakuten to cooperate on a shared vision for advancing OpenRAN, 5G Core and OSS
 - Restructuring costs incurred in Q3 20; tangible benefits from digitalisation, reskilling and fostering agility
 - OIBDA-CapEx margin grew by 0.7 p.p. y-o-y in organic terms in Q3 20

Outlook

- Flat to slightly negative FY 2020 OIBDA-CapEx (y-o-y organic) guidance and EUR 0.40 2020 dividend maintained
- 2022 guidance:
 - Organic revenue growth
 - 2 p.p. improvement in (OIBDA-CapEx)/Revenues ratio vs. 2019
- The adoption of the corresponding corporate resolutions will be proposed to the AGM for the cancellation of the shares representing 1.5% of the share capital held as treasury stock (1.54% as of 28th September 2020, according to the CNMV filing)

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2020 OUTLOOK

2020 Outlook (y-o-y organic change)	Jan - Sep 2020
	% Chg. Organic
OIBDA-CapEx is to be slightly negative to flat	(1.8)%

Organic criteria: Assumes constant exchange rates of 2019 (average in 2019). Considers constant perimeter of consolidation, does not include capital gains/losses from the sale of companies and assets sales (material), restructuring costs and other impacts (write-offs, material non-recurring impacts). In addition, excludes contribution to growth from T. Argentina and T. Venezuela and the results from Central America. CapEx excludes investments in spectrum.

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GUIDANCE 2019-2022

2019-2022 Guidance

Revenue growth

+ 2 p.p. (OIBDA-CapEx)/Revenues ratio

Organic criteria: Assumes constant exchange rates of 2019 (average in 2019). Considers constant perimeter of consolidation, does not include capital gains/losses from the sale of companies and assets sales (material), restructuring costs and other impacts (write-offs, material non-recurring impacts). In addition, excludes contribution to growth from T. Argentina and T. Venezuela and the results from Central America. CapEx excludes investments in spectrum.

Commenting on the announcement, José María Álvarez-Pallete, Chairman and Chief Executive Officer, said:

"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 revenue compared to the previous quarter. Furthermore, we continue to optimise the operating cash flow and move forward in line with our objective.

Cash flow generation is also a proof of strength, reaching 1,579 million euros in the third 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".

Results presentation

The management will host a webcast to discuss the results at 11:30am CET on 29 October 2020. To access the webcast, please click [here](#).

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For further information please refer to the information on 2020 third quarter Interim Management Statement filed by the Company and also available on the Company's website: www.telefonica.com