

NOTA DE PRENSA

PRESS RELEASE

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Spain consolidates the trend of improvement in quarterly revenue. In organic terms, revenue and OIBDA grow simultaneously for the first time since the third quarter of 2008

TELEFÓNICA POSTS NET PROFIT OF 776 MILLION EUROS IN THE FIRST QUARTER OF 2016 AND ALL BUSINESS UNITS SHOW PROFITABLE GROWTH

In the results report published today, José María Álvarez-Pallete, Executive Chairman of Telefónica, emphasized that "first quarter results reflect a general strengthening of the business". He also underlined "the significance of the return to OIBDA growth in Spain during the quarter" as well as the fact that "for the first time in 8 years both OIBDA and revenues are growing simultaneously". Finally, Álvarez-Pallete said that first quarter results "are in line with our expectations for the year-end and enable us to reiterate our guidance and the dividend of €0.75/share for 2016".

- The main financial items improved their performance until March and, in organic terms, revenue rose by 3.4%, while OIBDA increased by 5.5% while operating cash flow grew 3.6%.
- Mobile data (+19.9% in organic terms) is driving the growth of the consolidated revenue, which totalled 10,784 million euros in the quarter. Fixed broadband connectivity and services over connectivity grew at rates above 21% and 14%, respectively, in organic terms.
- OIBDA grew year-on-year in all business units in the quarter and totalled 3,376 million euros because of the materialization of synergies and greater cost efficiency. Thus, profitability expanded and the OIBDA margin totalled 31.3% (+0.6 percentage points, in organic terms).
- The variations in reported terms were particularly affected by the exchange rates, which take 16 percentage points off the evolution of income and 14.8 percentage points off the OIBDA, although this impact is neutral in terms of cash generation.
- Telefónica invested 1,503 million euros in the first quarter of the year (+7.8% in organic terms) to guarantee a set of unique distinctive platforms for its customers. The Company has over 32 million premises passed with fibre optic and LTE coverage reaches 83% of the population in Spain and 76% in Germany.
- Considering the financing activity until April and not taking into account the expected cash generation, Telefónica enjoys a solid liquidity position totalling nearly 20,000 million euros and has already covered all its debt maturities up to December 2017.
- By geographical areas, Spain, which confirms the clear recovery of its results, posted a sharp rise in revenue from Fusion (+26.2%), which already accounts for more than 30% of domestic business. Meanwhile, both Brazil and Germany showed solid improvements in profitability due to the execution of synergies and their data-centric strategy.

- The year-on-year variation of the net profit at the end of this quarter is affected by a non-recurrent positive fiscal impact in the first quarter of 2015. If we exclude this impact, the net profit for the quarter rose by 26%.

Madrid, 29 April 2016.- Today Telefónica announced its results for the first quarter of 2016, a period in which the company reached a net profit of 776 million Euros and made significant progress in terms of profitable and sustainable growth. Between January and March, Telefónica registered an improvement in the organic performance of its consolidated revenue, which totalled 10.784 million Euros or a +3.4% year-on-year increase, and an overall growth of the OIBDA in all its business units, resulting in a consolidated OIBDA of 3,376 million Euros and an OIBDA margin of 31.3% (+0.6 percentage points).

In reported terms, we should emphasize the impact of the variations in the exchange rates over the performance of the main financial items, which take 16 percentage points off the evolution of revenue and 14.8 percentage points off the OIBDA, although this impact is neutral in terms of cash generation. Additionally, the year-on-year variation of the net profit at the end of the first quarter was significantly affected by a non-recurrent positive fiscal impact in the first quarter of 2015. Excluding this impact, the net profit for the quarter rose by 26%.

In the results report released today José María Álvarez-Pallete, Executive Chairman of Telefónica, explained that *"in a context of intense technological disruption and transformation, our first quarter results reflected a strengthening of the business across the board and of the capacity of our platforms which is enabling us to reach more customers with higher value products and services"*. In addition, Álvarez-Pallete emphasized the *"the significance of the return to OIBDA growth in Spain during the quarter"* as well as the fact that *"the growth of the OIBDA is taking place in all the business units"*.

Finally, the Chief Executive of Telefónica said that *"the results are in line with our expectations for the year-end and enable us to reiterate our guidance and the dividend of €0.75/share for 2016"*.

322 million total accesses

Commercial activity in the quarter continued to focus on high-value customers and services. As such, accesses at March grew by 1% year-on-year and totalled 321.9 million, with a greater proportion of higher quality customers, who continued to be the main lever for growth: mobile contract (+5%), smartphones (+26%), pay TV (+7% organic), fibre and VDSL (+34% organic) and LTE (2.5x). Also, it is worth noting the sequential improvement of churn, across all services, and average revenue per access (+5.2%).

On the one hand, mobile accesses stood at 246.9 million, with increased weight of contract over total accesses to 37% following positive growth in all regions. Smartphones increased to 115.1 million, increasing their penetration 11 percentage points year-on-year to 49%. LTE customers (35.6 million) represented 15% of total mobile accesses (+9 percentage points year-on-year) and recorded net additions of 5.9 million (+39% year-on-year). On the other hand, fibre and VDSL accesses stood at 7.9 million and represented 38% of total fixed broadband, while the total pay TV base increased to 8.4 million with a penetration of 40% over total fixed broadband.

Income statement analysis

The performance of the main financial variables in the first quarter was affected by the depreciation of the Latin American currencies against the euro, particularly the Brazilian real, Argentine

peso, the Venezuelan bolivar and the Colombian peso. The evolution of exchange rates deducted 16 percentage points and 14.8 percentage points from reported revenue and OIBDA performance, respectively. These depreciations also reduced payments in euros related to CapEx, taxes and interest, with the exchange rate variance having a positive impact on free cash flow generation in the first quarter. On the other hand, changes in the consolidation perimeter (incorporation of GVT and DTS) contributed 5.8 percentage points and 4.2 percentage points to reported year-on-year revenue and OIBDA growth, respectively.

Revenues totalled 10,784 million euros and reflected a solid organic year-on-year growth rate of 3.4%. T. Hispanoamérica maintained double digit growth rates (+11.3%), while T. España accelerated its year-on-year trend 2.1 percentage points vs. the previous quarter to 0.2%. Excluding the impact of regulation, revenues would have increased by 4.4% organic year-on-year.

Mobile data revenues grew 19.9% organic year-on-year in January-March and represented 48% of mobile service revenues due to higher smartphone penetration and the growing weight of LTE customers. It is worth highlighting non-SMS data revenue performance (+28.8% year-on-year in the quarter), representing 86% of total data revenues. Also, mobile data traffic growth accelerated to 51%. The main driver of this growth was the increase in LTE customers (15% of total mobile customers), with higher average usage and ARPU uplift of more than 15%.

Operating expenses (7,651 million euros) increased by 2.7% organic vs. the first quarter of 2015 and decelerated by 2.3 percentage points versus the previous quarter reflecting efficiencies and integration synergies, despite higher expenses in T. Hispanoamérica related to higher commercial intensity, inflationary pressure and the impact of the appreciation of the US dollar against local currencies.

Evolution of OIBDA and profitability

Operating Income Before Depreciation and Amortization (OIBDA) totalled 3,376 million euros in the first three months of 2016, sequentially accelerating its year-on-year growth to 5.5% organic (+1.7 percentage points vs. the previous quarter), underpinned by the strong progress of T. Brasil (+8.2%) and the positive performance of T. España (+2%; +9.5 percentage points vs. the previous quarter). It is also particularly worth noting an across the board OIBDA growth, since in the first quarter all business units have increased year-on-year.

This way, thanks to revenue growth acceleration, the strict and increasing cost control, along with the synergies from the integration of acquired companies, OIBDA margin stood at 31.3% and presented an organic expansion of 0.6 percentage points vs. the same period of the previous year (stable in reported terms).

Depreciation and amortisation, 2,036 million euros in January-March, increased by 1.5% year-on-year organic, mainly due to the higher level of investments in Brazil and Argentina. As a result, operating income (OI) reached 1,340 million euros, 11.4% higher in organic terms compared to the same period of 2015.

Net financial expenses increased to 661 million euros, 2.8% more than in the first quarter of 2015. The effective cost of debt in the last twelve months stood at 4.66%, 39 basis points lower year-on-year, excluding exchange rate differences and the positive impact of the divestment in Telecom Italia, S.p.A. in 2015.

As such, profit from continuing operations stood at 406 million euros and decreased 15.2% vs. the first quarter of 2015. Profit from discontinued operations totalled 377 million euros. In 2015, this item amounted to 1,304 million euros, with 1,185 million euros corresponding to the impact of deferred tax assets resulting from the estimation of the difference in Telefónica, S.A. between the fiscal value and the agreed value for the sale of Telefónica's operations in the United Kingdom.

It is important to highlight that Telefónica UK, reported as discontinued operation, experienced a strong operating cash-flow growth in organic terms (+16%), resulting from robust OIBDA performance (+5.5% year-on-year organic). Commercially, the Company continued to expand its high-value customer base, while maintaining the best contract churn in the market, reflecting the high satisfaction level of the client base.

On the other hand, following the income statement analysis, profit attributable to minority interests reduced net income by 7 million euros, driven by the results attributed to minority interests in T. Brasil (+19 million euros in the first quarter of 2015).

As a result of the items mentioned above, consolidated net income for the first quarter of 2016 stood at 776 million euros. Basic earnings per share reached 0.14 euros per share (0.37 euros in January-March 2015).

CapEx increased 7.8% organic year-on-year to 1,503 million euros, with 75% of total CapEx devoted to growth and transformation of networks and systems. Operating cash flow (OIBDA-CapEx) stood at 1,873 million euros and increased by 3.6% year-on-year in organic terms.

Financial position

Net financial debt stood at 50,213 million euros at March 2016 and increased in the quarter by 292 million euros. The leverage ratio (net debt over OIBDA) of the last 12 months at end March 2016 stood at 3.02 times. Considering the closing of the sale of O2 UK, the ratio stood at 2.52 times.

In the first quarter of 2016, Telefónica's financing activity increased close to 1,984 million equivalent euros, without considering the re-financing of commercial paper and short-term bank loans. The activity focused mainly on strengthening the liquidity position and refinancing the debt maturities in an environment of very low interest rates.

Telefónica maintained undrawn committed credit lines with different credit institutions for an approximate amount of 11,370 million euros, with around 10,006 million euros maturing in more than twelve months, which, along with the adjusted cash position, placed liquidity at 17,102 million euros as of 31 March. Moreover, considering the financing activity until April and not taking into account the expected cash generation, Telefónica enjoys a solid liquidity position totalling nearly 20,000 million euros and has already covered all its debt maturities up to December 2017.

Digital Services (year-on-year changes in organic terms) and Telefónica Global Resources

In the first quarter of 2016, Digital Services revenues (1,056 million euros) accelerated their growth to 19% year-on-year (+3.9 p.p. vs. the previous quarter).

Per area, it is important to highlight that video revenues totalled 665.4 million euros, up 17.3% vs. the first quarter of 2015 and improved by 3.3 percentage points their year-on-year change vs. the fourth quarter of 2015. Pay TV accesses totalled 8.4 million at March (4.5 million satellite TV).

In the first quarter of 2016, Telefónica Global Resources continued to accelerate the Group transformation, supporting growth of the operating businesses and enabling end-to-end digitalisation.

The Global Network and Operations area accelerated the deployment of ultra broadband (UBB), the All-IP transformation and continued improving network quality and efficiency. The investment in UBB focused on offering excellent connectivity, increasing speed, reliability and network security. As such, the network is prepared to support the strong growth in data traffic (+46% year-on-year in the first quarter 2016).

At the end of the first quarter, the premises passed with fibre to the home totalled 20 million (15.1 in Spain and 4.7 in Brazil) and the total number of premises covered with fibre in Brazil to 16.8 million, with GVT contributing 12 million premises passed with fibre to the cabinet. Thanks to the 36,529 LTE sites in service, the population coverage reached 50% in the Group (83% in Spain, 76% in Germany, 47% in Brazil and 42% in Hispanoamerica). Furthermore, 96% of the 3G and LTE base stations are connected via IP and fibre links to the transport network. The higher coverage enables service to be provided to 2.5 times more LTE customers year-on-year, reaching 35.6 million.

TELEFÓNICA ESPAÑA

Telefónica España showed a clear recovery in its first quarter 2016 results, with organic growth of 0.2% year-on-year in revenues (+8.6% reported) and 2.0% in OIBDA, which is a significant change in the trend as revenues and OIBDA had not grown year-on-year simultaneously since the third quarter of 2008.

Total accesses stood at 41.7 million, of which 28.1 million were consumer accesses (-2% organic year-on-year in both). Consumer "Movistar Fusión" customers reached 4.2 million (+9% year-on-year), and 2 million additional mobile lines (+8% year-on-year). In the Consumer segment, "Fusión" now accounts for 82% of fixed broadband customers, 74% of TV customers and 69% of mobile contract customers. The acquisition of high-value customers was sustained by the quarterly gross additions, since 51% are completely new customers and 91% incorporated at least one new service. As a result, the higher penetration of value services in the "Fusión" customer base is noteworthy; 30% now have ultrafast fibre and 66% pay TV.

Retail broadband accesses grew by 1% year-on-year, with net quarterly additions of 17 thousand accesses, while fibre accesses stood at 2.5 million, and represent 41% of broadband accesses. Ultrafast fibre accesses account for 67% of the fibre base. The fibre-to-the-home coverage increased by 700 thousand new premises passed reaching 15 million, the widest coverage in Europe. On the other hand, pay TV accesses totalled 3.7 million (+4% organic year-on-year) including 823 thousand DTS accesses via satellite. Finally, mobile accesses (17.1 million) reflect the continuous growth in contract (+1%). Smartphone penetration (67%) is driving mobile data traffic (+69% year-on-year). LTE coverage reached 83% and LTE penetration 30%.

Regarding financial figures, operating revenue (3,126 million euros) increased by 0.2% year-on-year in organic terms, with an improvement of 2.1 percentage points compared with the previous quarter (+8.6% reported). Breakdown by item, consumer revenues (1,626 million euros) grew by 1.8% organic year-on-year. It is worth highlighting the strong growth "Fusión" revenues (979 million euros; +26.2% year-on-year). On the other hand, OIBDA amounted to 1,266 million euros in January-March and grew 2% organic year-on-year (+9.5% percentage points vs. the previous quarter). OIBDA margin stood at 40.5% in January-March (+0.7 percentage points year-on-year in organic terms). Finally, CapEx amounted to 427 million euros in the first quarter of the year (+7% organic year-on-year).

TELEFÓNICA DEUTSCHLAND *(year-on-year changes in organic terms)*

In the first quarter of 2016, Telefónica Deutschland continued to drive momentum in a dynamic market, while at the same time made further progress with a number of integration projects (started to unify the brand and tariff portfolio). In addition, the Company is focussing on the execution of crucial projects in 2016 with longer lead times that will generate savings in the latter years, while requiring upfront investments in the first half of 2016 (repositioning of the O2 brand, customer base migration, network integration and IT transformation).

The total access base was higher by 1% year-on-year and stood at 48.3 million at the end of March, mainly on the back of a 2% of mobile growth (43 million). The contract mobile customer base (45% of total) grew by 2% year-on-year, while smartphone penetration reached 55%, up 6 percentage

points year-on-year, reflecting the strong increase in LTE accesses (8.7 million accesses; +10% quarter-on-quarter). On the other hand, retail broadband posted the best performance since the second quarter of 2011 driven by strong uptake of VDSL.

Revenues in the first three months of 2016 declined by 2.3% year-on-year to 1,858 million euros, and OIBDA in the period up to March totalled 392 million euros and grew by 6.2% year-on-year (excluding non-recurrent impacts) leveraged on synergy capture from the rollover of 2015 initiatives executed. OIBDA margin stood at 21.1% in the first quarter, up 1.8 percentage points year-on-year. CapEx amounted to 220 million euros (-1.2% year-on-year) mainly due to different year-on-year phasing across the year, as investments are back-end loaded on the expected intensification of the network integration effort in the second half of 2016.

TELEFÓNICA BRASIL *(year-on-year changes in organic terms)*

Telefónica Brasil improved its profitability in the quarter, accelerating OIBDA growth year-on-year, leveraged on the data centric strategy and with a focus on capturing synergies and efficiencies, offsetting the macro impact. Additionally, the Company continues to reinforce its positioning in the highest value segments: mobile contract, fibre and pay TV.

Telefónica managed 97.3 million accesses in Brazil. Mobile accesses stood at 73.3 million and decreased by 10.5% year-on-year due to lower prepaid accesses, partially neutralised by the increase in contract. Thus, market share in contract stood at 42.4% (+0.8 percentage points year-on-year), after capturing 41% of new accesses in January and February. LTE accesses posted strong growth (3x times year-on-year) to 12.5 million, after increasing coverage to 188 cities (47% of population coverage). On the other hand, retail broadband accesses increased by 4% year-on-year to 7.2 million accesses as of March. Fibre accesses accounted for 54% of the base. The number of premises passed with FTTx amounts to 16.8 million (4.7 million premises passed with FTTH in Sao Paulo). Finally, pay TV accesses totalled 1.8 million (+5% year-on-year).

Regarding financial figures, revenues for the period January-March 2016 increased to 2,431 million euros and increased by 0.6% year-on-year (+3.3% excluding regulatory changes). On the other hand, OIBDA totalled 805 million euros in the first three months of the year and grew 8.2% year-on-year. This performance reflected the implementation of different cost containment and simplification measures and the benefits obtained through synergies. As such, OIBDA margin stood at 33.1% in the quarter (+2.3 percentage points year-on-year). CapEx reached 348 million euros in the quarter and was dedicated mainly to boosting commercial growth and offering a differential quality in connectivity.

TELEFÓNICA HISPANOAMÉRICA *(year-on-year changes in organic terms)*

Telefonica Hispanomérica's results in euros reflect the depreciation of the region's currencies, which have deducted 28 percentage points and 24 percentage points from the year-on-year growth of revenues and OIBDA, respectively. In organic terms, the year-on-year revenue growth accelerated in the quarter thanks to the continued focus on acquiring high-quality customers, such as LTE, smartphones, mobile contract, broadband and pay TV.

Total accesses reached 134.3 million at the end of March (+1% year-on-year). In the mobile business, contract accesses growth improved to 7% year-on-year, after recording net additions of 315

thousand accesses in January-March, eight times higher than that of the same period of the previous year. Similarly, this improvement in net additions was posted in all the countries across the region.

In the fixed business, broadband accesses (5.6 million) increased by 3% year-on-year, while pay TV accesses reached 2.9 million (+12% year-on-year).

Revenues increased by 11.3% vs. January-March 2015 and improved their trend compared with the previous quarter, explained by Mexico, Venezuela, Colombia and Argentina. OIBDA for January-March amounted to 866 million euros and increased 0.8% year-on-year. CapEx totalled 459 million euros, and grew 31.1% vs. the first three months of 2015 (excluding spectrum acquisitions). This investment was dedicated to the deployment and increase of 3G and 4G capacity, the improvement of the copper network and the development of fibre and VDSL networks.

Below, main operating figures country by country, considering year-on-year variations in organic terms:

Telefónica Argentina: In the first quarter of the year Telefónica Argentina maintained the focus on the acquisition and retention of customers, highlighting the fast roll-out of LTE, which enabled coverage to be increased to 69%. Accesses managed by the Company totalled 26.5 million and remained stable year-on-year. Revenues reached 689 million euros in the first quarter of 2016 and accelerated their growth to 19.7% year-on-year boosted by fixed revenues. OIBDA increased to 149 million euros in the first quarter and OIBDA margin for the quarter stood at 21.4%. CapEx (159 million euros in the first three months of the year) increased 76.8% year-on-year mainly due to the expansion of 3G and 4G networks and the improvements implemented in the fixed network.

Telefónica Chile: In the first quarter of the year the Company maintained its leadership in high-value segments. The total number of accesses amounted to 12.7 million. It is worth highlighting the 7% year-on-year growth in mobile contract accesses, the highest level in more than four years. Regarding financial figures, revenues in the first quarter of 2016 reached 511 million euros and were reduced by 0.7% year-on-year, negatively impacted by lower handset sales and regulation. OIBDA reached 176 million euros in January-March, and grew by 10.2% year-on-year. As such, the OIBDA margin stood at 34.4% in the quarter. CapEx totalled 114 million euros in the quarter (+7.2% year-on-year, excluding spectrum acquisition) and was devoted to the improvement of 4G and fibre networks.

Telefónica Perú: In the first quarter of the year, total accesses stood at 21.8 million, with strong commercial momentum in high value customers (mobile contract, smartphones, LTE, and pay TV). Regarding main financial items, revenues amounted to 624 million euros in the quarter (-0.5% year-on-year), and OIBDA stood at 187 million euros in the quarter. The OIBDA margin stood at 30%. CapEx (55 million euros) was mainly devoted to increasing fixed infrastructure speeds (deployment plan for fixed ultra broadband networks) and the deployment and maintenance of 3G and 4G networks.

Telefónica Colombia: Telefónica Colombia managed 16 million accesses (13.1 million mobile accesses) as of March and posted revenue growth acceleration underpinned by the simplification strategy in the mobile offer, the outstanding performance of pay TV and the solid B2B IT revenue growth. Revenues reached 323 million euros in the first three months of the year, with a continued growth trend improvement (+4.1% year-on-year). OIBDA reached 107 million euros in the quarter and OIBDA margin stood at 33.3%. CapEx (33 million euros) reflected the improvements in capacity in both mobile and fixed networks.

Telefónica México: Telefónica México presented a solid set of results in the first quarter of 2016 despite the strong competitive environment in prepay. Accesses in Telefónica México amounted to 27 million and increased by 12% vs. March 2015. Mobile accesses stood at 25.7 million (+14% year-on-year) featuring solid growth in contract (+25% year-on-year). Regarding financial items, revenues reached 409 million euros in the first quarter (+8.6% year-on-year) driven by double digit growth in the customer base in a highly competitive environment, lower handset sales and regulatory impact. OIBDA totalled 106 million euros in the quarter, growing 14.6% year-on-year. Thus, OIBDA margin stood at 25.9%. Finally, CapEx stood at 42 million euros in the first three months of the year (+4.7% year-on-year) and was focused on the development of the 3G and 4G networks along with the improvement of the distribution channel.

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