

NOTA DE PRENSA

PRESS RELEASE

Madrid, 22 February 2018

TELEFÓNICA'S NET PROFIT INCREASES 32.2% IN 2017 TO 3,132M€

Highlights:

- Revenues increased 3.4% y-o-y organic (-0,1% reported) in 2017 to 52,008M€. In the quarter, revenues grew 4.8% y-o-y organic (-4,1% reported) to 13.162M€.
- **OIBDA** reached 16,187M€ in 2017 (+5.3% organic; +7.1% reported) and accelerated growth in the 4Q (+9.2% organic; 22.8% reported).
- Net debt stood at 44.230M€ as of December 2017, a decrease of 4,400M€ y-o-y. Free cash flow reached €4,947m in 2017 (+13.0% y-o-y).
- Telefónica met 2017 objectives and announces today guidance for 2018:
 - **Revenues:** growing around 1% vs. 2017 (despite the negative impact from regulation, approximately -0.9 p.p.).
 - **OIBDA Margin:** y-o-y expansion of around 0.5 p.p. (despite regulation dragging -1.6 p.p. to OIBDA y-o-y growth in 2018).
 - **CapEx/Sales** excluding spectrum: around 15%.
- The Company confirms shareholder remuneration for 2017 (second tranche of 2017 dividend, €0.20 per share in cash, to be paid in June 2018); and announces remuneration policy for 2018, a dividend of €0.40 per share in cash, to be paid in December 2018 (€0.20 per share) and in June 2019 (€0.20 per share).

José María Álvarez-Pallete, Executive Chairman:

"In 2017 we have delivered solid results, we have met the guidance set for 2017, which was upgraded in July. The highlights were the growth in revenues, OIBDA, OpCF, EPS and FCF, the 4.4 billion euro net debt reduction; and we achieved all this despite regulatory drags. Beyond financial results, we continued to make progress in the intensive process of digitalisation and we are advancing towards transforming into a platform Company. Thanks to the investments made during recent years we are in a strengthened position; we cover more than 90% of the population in Europe with LTE technology and we have surpassed the 70 million mark of premises passed with fibre.

We have entered 2018 with clear priorities to execute our strategy, with revenue growth, margin expansion for the third year in a row and lower capital intensity thanks to the efforts already undertaken. At the same time, we maintain our objective to continue strengthening our financial position, compatible with attractive shareholder remuneration".

Financial Results January-December 2017:

Telefónica today presented its financial results for the year 2017, which highlights its strength and growth, both operational and financial, as well as the strong reduction in debt, and all this in a context of ultra-

broadband network deployment acceleration. Net profit for the year increased 32.2% and reached 3,132 million euros.

Solid operating and financial results

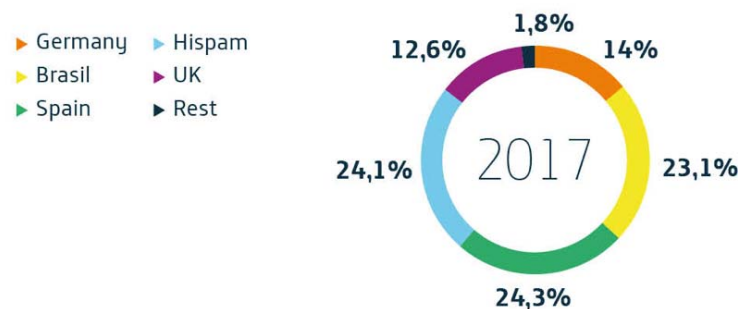
Telefónica group's total accesses stood at 343.5m as of December 2017 and customer value continued to improve, with average revenue per customer growth accelerating to 5.4% y-o-y in organic terms in the fourth quarter and stable churn. This performance reflected a growing demand for data, speed and content driving the growth of high-value services: LTE customers reached 97.5m (1.5x y-o-y), mobile contract accesses (115.9m; +5% y-o-y), and smartphones (+8% y-o-y; 158.7m). On fixed access, fixed broadband customers grew (21.4m; +1% y-o-y), FTTx/cable customers (11.0m) increased 20% vs. December 2016, and pay TV accesses (8.5m; +2% y-o-y).

Revenues in 2017 stood at €52,008m and grew +3.4% y-o-y in organic terms (-0.1% reported). In the quarter revenues reached €13,162m and accelerated growth to 4.8% (-4.1% y-o-y reported), driven by mobile service revenues, which improved their y-o-y performance to 4.3% (+3.1% in January-December), while handset revenues maintained a strong pace of growth (+9.8% in the quarter; +6.5% in 2017).

Furthermore, this acceleration was underpinned by the growth in mobile data revenues, which increased by 19.5% y-o-y in organic terms (+16.8% in January-December) and represented 60% of mobile service revenues in the quarter (+6 p.p. y-o-y in organic terms). Excluding the negative impact of regulation (-1.0 p.p. in the quarter; -1.1 p.p. in January-December), revenues would have risen by 5.9% y-o-y in organic terms in the fourth quarter (+4.5% in January-December).

Group Revenue FY 2017: 52 billion euros

Revenues split by geographies



Exchange rate fluctuations in January-December had a negative impact on key financial indicators, mainly due to the strong devaluation of the Venezuelan bolivar and the depreciation of the Argentine peso and pound sterling against the euro. Thus, in 2017 currencies reduced the y-o-y growth of revenues by 3.2 p.p. and that of OIBDA by 4.7 p.p. Nevertheless, it is important to highlight that the negative impact of FX evolution at OIBDA level has been significantly reduced in terms of cash generation, as it reduces the payment in euros of CapEx, taxes and other items.

In organic terms, operating expenses increased by 2.2% y-o-y in 2017 and +2.7% in the quarter.

Operating income before depreciation and amortization (OIBDA) reached €16,187m in January-December (+7.1% y-o-y), and €3,913m in the fourth quarter (+22.8% y-o-y). In organic terms, OIBDA grew by 5.3% in 2017 and 9.2% y-o-y in the quarter, reflecting the sustained revenue improvement and cost containment efforts, efficiencies from the transformation process and digitalisation, synergy capture and a lower regulatory impact. Excluding the impact of the regulation (-1.5 p.p. in the quarter), OIBDA would have increased by 10.8% y-o-y in organic terms in the quarter (+6.7% in January-December).

Underlying OIBDA amounted to €16,638m in January-December (+0.7% vs. 2016) and €4,230m in October-December (-5.2% y-o-y). In the fourth quarter, underlying OIBDA mainly excluded the following factors: restructuring expenses (-€219m), provisions to cover regulatory contingencies (-€107m; Brazil -€50m and Other Companies -€57m) and tower sales (€6m). OIBDA margin stood at 29.7% in the fourth quarter, expanding 6.5 p.p. y-o-y (+1.4 p.p. organic). OIBDA margin reached 31.1% in January-December (+2.1 p.p. reported; +0.6 p.p. in organic terms).

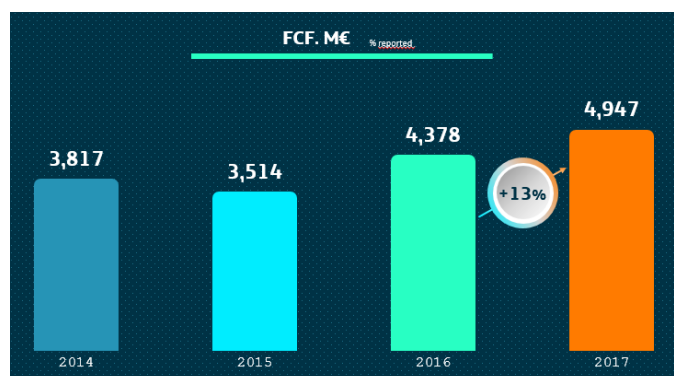
Thus, operating income (OI) reached €1,648m in October-December (2.5x y-o-y; +21.0% organic) and €6,791m in the twelve-month period, growing by 24.2% vs. 2016 (+14.1% in organic terms).

In this regard, the net profit in January-December reached €3,132m, growing by 32.2% y-o-y. In the fourth quarter it stood at €693M, 4.8x higher vs. October-December 2016. Basic earnings per share totalled €0.56 in January-December and grew 33.9% y-o-y. In the fourth quarter, basic earnings per share amounted to €0.12 and were 7.9x higher y-o-y.

UBB network deployment acceleration

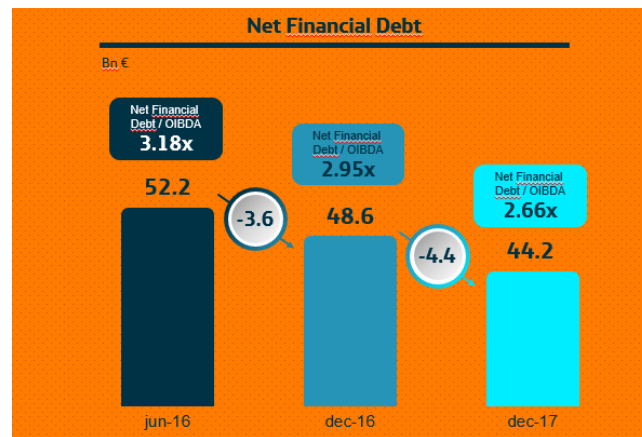
CapEx in the full year (€8,697m; -2.6% reported; -1.2% in organic terms) continued to focus on expanding 4G and UBB networks and simplifying and digitalising processes and systems, reflected integration synergies and included €538m in spectrum and licences. In this regard, FTTx/cable network coverage increased to 44m premises passed (+13% y-o-y) and connected premises increased to 11m, which represented 22% of total passed premises (+1 p.p. y-o-y). For the mobile network, 4G coverage increased to 72% (+10 p.p. y-o-y), LTE customers amounted to 38% of the total (+13 p.p. y-o-y) and LTE traffic multiplied 2.5x representing 52% of total traffic.

In January-December 2017, free cash flow reached €4,947m, increasing by 13.0% y-o-y, due, among other factors, to Operating cash flow (OIBDA-CapEx) in the twelve months (€7,490m) maintained a strong pace of growth (+21.0% y-o-y reported; +12.2% in organic terms), as a result of good business performance and lower CapEx intensity.



Substantial debt reduction

Net financial debt as of December 2017 (€44,230m) decreased by €2,992m vs. September 2017, mainly due to free cash generation (€1,721m), the closing of the 40% stake sale of Telxius (€1,275m), the issuance of capital instruments (€915m; net of coupon payments) and the lower value in euros of net debt in foreign currencies (€125m), which comfortably offset the payment of the first tranche of the dividend announced for 2017 (€858m) and payment of labour-related commitments (€189m). Compared with December 2016, net financial debt decreased €4,365m.



During 2017, Telefónica's financing activity amounted to approximately €10,501m equivalent (without considering the refinancing of commercial paper and short-term bank loans) and focused on maintaining a solid liquidity position and refinancing and extending debt maturities (in an environment of very low interest rates). Therefore, as of the end of December, the Group has covered debt maturities for the next two years. The average debt life stood at 8.08 years (vs. 6.35 years in December 2016).

Definitions/Organic growth: Assuming constant exchange rates (average in 2016), excluding hyperinflationary accounting in Venezuela in both years and considering a constant perimeter of consolidation. At OIBDA and OI levels, write-offs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts are excluded. CapEx excludes spectrum investments.

TELEFÓNICA
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - December		% Chg		October - December		% Chg	
	2017	2016	Reported	Organic	2017	2016	Reported	Organic
Revenues	52,008	52,036	(0.1)	3.4	13,162	13,721	(4.1)	4.8
Internal exp. capitalized in fixed assets	863	867	(0.5)	(0.1)	219	231	(5.2)	(2.6)
Operating expenses	(36,758)	(38,043)	(3.4)	2.2	(9,478)	(10,852)	(12.7)	2.7
Supplies	(15,022)	(15,242)	(1.4)	0.6	(4,004)	(4,134)	(3.2)	1.5
Personnel expenses	(6,862)	(8,098)	(15.3)	3.0	(1,772)	(2,958)	(40.1)	5.2
Other operating expenses	(14,874)	(14,703)	1.2	3.4	(3,702)	(3,760)	(1.5)	2.8
Other net income (expense)	(60)	186	c.s.	(61.3)	(85)	39	c.s.	(52.0)
Gain (loss) on sale of fixed assets	111	296	(62.6)	22.9	75	266	(71.7)	74.1
Impairment of goodwill and other assets	24	(224)	c.s.	c.s.	20	(219)	c.s.	c.s.
Underlying operating income before D&A (OIBDA)	16,638	16,519	0.7		4,230	4,464	(5.2)	
Operating income before D&A (OIBDA)	16,187	15,118	7.1	5.3	3,913	3,187	22.8	9.2
OIBDA Margin	31.1%	29.1%	2.1 p.p.	0.6 p.p.	29.7%	23.2%	6.5 p.p.	1.4 p.p.
Depreciation and amortization	(9,396)	(9,649)	(2.6)	(1.3)	(2,265)	(2,518)	(10.1)	(1.1)
Operating income (OI)	6,791	5,469	24.2	14.1	1,648	669	146.3	21.0
Share of profit (loss) of investments accounted for by the equity method	5	(5)	c.s.		(0)	(2)	(88.3)	
Net financial income (expense)	(2,199)	(2,219)	(0.9)		(470)	(369)	27.6	
Profit before taxes	4,597	3,245	41.6		1,177	298	n.m.	
Corporate income tax	(1,219)	(846)	44.1		(352)	(105)	236.3	
Profit for the period	3,378	2,399	40.8		825	193	n.m.	
Attributable to equity holders of the Parent	3,132	2,369	32.2		693	145	n.m.	
Attributable to non-controlling interests	246	30	n.m.		132	49	172.4	
Weighted average number of ordinary shares outstanding during the period (millions)	5,110	5,061	1.0		5,281	5,053	4.5	
Basic and diluted earnings per share attributable to equity holders of the Parent (euros)	0.56	0.42	33.9		0.12	0.01	n.m.	
Underlying basic and diluted earnings per share attributable to equity holders of the Parent (euros)	0.75	0.75	(0.3)		0.18	0.23	(22.6)	

Notes:

- After considering Venezuela as a hyperinflationary country, P&L and CapEx from the operations in the country are to be accounted at the closing exchange rate Bolívar Fuerte/Euro. For the January-December 2017 period Telefónica uses a synthetic exchange rate of 36,115 Venezuelan bolivars fuertes per dollar at December 2017.
- Basic and diluted earnings per share ratio is calculated dividing Profit for the period Attributable to equity holders of the Parent, adjusted for the net coupon corresponding to "Other equity instruments" (€70m in October-December 17; €276m in January-December 17), by the weighted average number of ordinary shares outstanding during the period.
- 2016 and 2017 reported figures include hyperinflationary adjustments in Venezuela in both years.

Meeting guidance and shareholder remuneration

Telefónica announced guidance¹ for 2018:

- Revenues: growing around 1% vs. 2017 (despite the negative impact from regulation, approximately -0.9 p.p.).
- OIBDA Margin: y-o-y expansion of around 0.5 p.p. (despite regulation dragging -1.6 p.p. to OIBDA y-o-y growth in 2018).
- CapEx/Sales excluding spectrum: around 15%.

Telefónica confirms shareholder remuneration for 2017 and announces remuneration policy for 2018:

- The second tranche of 2017 dividend (€0.20 per share in cash) to be paid in June 2018.
- Dividend for 2018 of €0.40 per share in cash, to be paid in December 2018 (€0.20 per share) and in June 2019 (€0.20 per share).

Results by geographies: *(y-o-y changes in organic terms)*

Telefónica España. Telefónica España's results for 2017 acknowledge a progressive improvement in revenue and OIBDA trend and solid growth in cash flow generation. Service revenue growth accelerated to 0.7% y-o-y in the quarter, OIBDA returned to growth (+0.5%, excluding provisions and capital gains) and operating cash flow increased by 3.1% in the year.

The greater commercial activity, in particular the solid performance of gross additions, in a quarter characterised by strong promotional activity, resulted in net additions in fixed broadband, solid progress in TV and a positive balance in total mobile portability (contract + prepaid) for the first time since the second quarter of 2008.

Organic revenues in the fourth quarter stood at €3,243m (stable y-o-y) and their performance improved vs. the previous quarter (+0.3 p.p.) on the back of service revenues (€3,123m; +0.7% y-o-y, +0.3 p.p. q-o-q) and handset sales (-15.6%, +3.3 p.p. q-o-q). Total revenues in 2017 amounted to €12,653m (-1.2% y-o-y) and service revenues, €12,274m, remained virtually stable y-o-y (-0.3%, after the growth reported in the last two quarters of the year).

OIBDA increased to €1,221m in October-December; though it would have reached €1,295m in the quarter and €5,094m in 2017 excluding €102m in restructuring provisions in the fourth quarter (for both personnel €89m, and the distribution channel €13m) and in the first quarter (personnel: €76m), and capital gains on the sale of real estate (€27m in the fourth quarter and €8m in the second). Thus, excluding those provisions and capital gains in 2017 and the ones recorded in 2016, quarterly OIBDA returned to growth increasing

¹ **Guidance 2018:**

Guidance 2018:

- ✓ Assumes constant exchange rates (average in 2017), except for Venezuela (2017 and 2018 results converted at the closing synthetic exchange rate for each period) and considering a constant perimeter of consolidation.
- ✓ Excludes:
 - Write-offs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts are excluded.
 - CapEx excludes spectrum investments.

2017 adjusted base: Revenues (€52,037m) and OIBDA Margin (32.0%).

- ✓ Consider:
 - Reported figures for full year 2017.
- ✓ Includes:
 - January-September results of Telesociadas in Colombia.
- ✓ Excludes:
 - Write-offs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts.
 - CapEx excludes spectrum investments.

0.5% y-o-y (+1.2 p.p. compared to the previous quarter) due to the improved revenue performance. OIBDA margin stood at 39.9% in the quarter (+0.2 p.p. y-o-y) and 40.3% in the year (stable vs. 2016).

CapEx in 2017 reached €1,683m (-8.8% y-o-y), reflecting the reduced rollout pace of fiber and 4G networks compared to 2016, as well as the capture of efficiencies, and operating cash flow grew solidly to €3,411m (+3.1% y-o-y) excluding provisions and capital gains.

Telefónica Deutschland. Telefónica Deutschland delivered solid results and met 2017 guidance, with cumulated OpCF synergies reaching €670m (75% of 2019 target). In a dynamic yet rational competitive environment, the Company continued to show solid operational momentum with a clear focus on future profitable growth. Supported by the good perception of the new O2 Free portfolio (launched in Sept), data usage again showed significant growth (+17% q-o-q).

Revenues totalled €1,904m in Oct-Dec and fell 1.6% y-o-y (-2.8% to €7,296m in 2017), in organic terms. Mobile service revenues ex-regulation continued with its trend of improvement and posted growth in the quarter (+0.8% y-o-y; +1.0 p.p. vs. Jul-Sep) supported by inbound roaming trends and operational momentum. OIBDA totalled €503m in the last three months and growth accelerated to 6.3% y-o-y (€1,821m in Jan-Dec; +2.9% y-o-y) mainly due to higher incremental synergy related savings (~€45m in Oct-Dec; ~€160m in Jan-Dec) and capital gains on the sale of assets (€29m) while the regulatory drag was -€10m in Oct-Dec (-€28m in Jul-Sep) and the company continued to invest in the market. OIBDA margin stood at 26.4% in the quarter (+2.1 p.p. y-o-y) and at 25.0% in 2017 (+1.4 p.p.).

CapEx amounted to €951m, lower 13.7% vs. 2016 benefitting from incremental CapEx synergies (~€80m) and being focused on network integration, LTE network rollout and getting 5G ready by bringing fibre to the backhaul. As such, operating cash flow (OIBDA-CapEx) increased 27.4% y-o-y to €870m in 2017.

Telefonica UK. Telefónica UK delivered another solid performance in the fourth quarter of 2017. The company continued to demonstrate the success of its customer-led, mobile-first strategy with increased customer spend, sustained leading levels of loyalty, improved customer metrics and robust revenue and OIBDA growth (+3.2% and +3.7% y-o-y respectively). This was despite significant regulatory impacts, especially in the second half.

Organic revenues continued to grow this quarter, up 3.2% y-o-y to €1,730m, with positive growth in both MSR and other revenues more than offsetting regulatory impacts (-1.2 p.p.). For the full year, revenues totalled €6,540m, up 2.2% y-o-y (+3.6% excluding regulation). OIBDA totalled €377m in the quarter, up 3.7% y-o-y as a result of solid revenue growth and despite the impact of regulatory changes to European roaming charges (-€25m in the quarter). Full year OIBDA grew 0.7% y-o-y to reach €1,639m. Thus, OIBDA margin stood at 21.8% in the quarter (+0.1 p.p. y-o-y) and 25.1% for the full year (-0.4 p.p.).

CapEx amounted to €827m for the 12 months (-4.8% y-o-y) due to ongoing network investments, as well as the further rollout of LTE which enabled T. UK to meet their year-end coverage target of 98% indoor population coverage (99% outdoor coverage, +4 p.p. y-o-y), and helped drive the LTE base growth. Operating cash flow (OIBDA-CapEx) increased by 6.9% y-o-y in the full year to December to reach €812m.

Telefónica Brasil. In the fourth quarter of 2017, Telefónica Brasil once again posted solid growth in revenues and OIBDA, and a sustained expansion of the OIBDA margin, that, along with similar investments to 2016, translated into strong growth in the operating cash flow. Commercial performance was particularly noteworthy after consolidating the company's leadership in higher value segments, with greater contract net adds in the last three years and a progressive improvement in the quality of broadband and pay TV customers. At the same time, acceleration in FTTx deployment continued (18.4m premises passed; 16 new cities passed with FTTH in 2017).

Revenues in the fourth quarter (€2,892m) increased by 0.9% y-o-y (€12,019m; +1.4% in the year) despite the regulatory impacts (-2.2 p.p. and -2.0 p.p. in the y-o-y change for the quarter and for full year). Thus, OIBDA was €1,028m and increased by 3.7% in the quarter (€4,191m, +6.0% in the year) with OIBDA margin expanding by 1.0 p.p. y-o-y to 35.6% (34.9% in the full year; +1.5 p.p.).

CapEx amounted to €2,225m in 2017 (-0.1% y-o-y) and was mainly allocated to the 4G network, which attained a population coverage of 84% after covering 2,084 new cities in the year (2,600 cities already covered) and the development of fixed networks (expansion of fibre and pay TV). Thus, operating cash flow (OIBDA-CapEx) reached €1,966m in 2017 (+13.6% y-o-y). In this period, the synergies from the purchase of GVT had a positive impact on operating cash flow of approximately €657m (€1,204m since the second quarter of 2015).

Telefónica Hispanoamérica. Telefónica Hispanoamérica closed 2017 with strong organic growth that more than offset the negative impact of the depreciation of some currencies in the region, achieving a solid y-o-y growth in 2017 in reported terms in OIBDA (+1.8%) and operating cash flow (+22.3%, excluding spectrum); due to the greater penetration of value services (mobile contract, LTE, FTTx, pay TV), higher consumption per user and the ongoing implementation of efficiency measures.

Revenues in 2017 totalled €12,552m (€3,151m in the fourth quarter) and posted a strong y-o-y organic increase (+15.3% in the year, 19.9% in the fourth quarter) that offset the negative impact in the year of the depreciation of some currencies in the region (-0.2% y-o-y in reported terms in the year; -8.3% in the quarter). OIBDA reached €3,538m in 2017 (+19.9% y-o-y organic) and €859m in the quarter (+39.8%), posting a reported growth of 1.8% in 2018 and 6.8% in the quarter. OIBDA margin stood at 28.2% in 2017 (+1.2 p.p. y-o-y) and 27.3% in the quarter (+5.3 p.p. y-o-y).

CapEx amounted to €2,678m in 2017 (+8.6% y-o-y organic; -8.2% in reported terms excluding spectrum) and was allocated towards expanding and improving fixed and mobile networks. Thus, operating cash flow (OIBDA-CapEx) amounted to €860m (+38.3% y-o-y organic; +22.3% in reported terms excluding spectrum) highlighting Argentina, Chile and Peru as main contributors.

TELEFÓNICA
SELECTED FINANCIAL DATA
Unaudited figures (Euros in millions)

	January - December	% Chg		October - December	% Chg	
	2017	Reported	Organic	2017	Reported	Organic
Revenues	52,008	(0.1)	3.4	13,162	(4.1)	4.8
Telefónica España	12,653	(1.3)	(1.2)	3,243	(0.1)	(0.0)
Telefónica Deutschland	7,296	(2.8)	(2.8)	1,904	(1.6)	(1.6)
Telefónica UK	6,540	(4.7)	2.2	1,730	0.5	3.2
Telefónica Brasil	12,019	8.4	1.4	2,892	(5.4)	0.9
Telefónica Hispanoamerica (1)	12,552	(0.2)	15.3	3,151	(8.3)	19.9
Other companies & eliminations	947	(20.3)	(9.3)	241	(26.4)	(19.6)
Telxius	730	13.1	6.1	183	(1.6)	1.1
OIBDA	16,187	7.1	5.3	3,913	22.8	9.2
Telefónica España	4,952	12.5	(1.8)	1,221	146.0	0.1
Telefónica Deutschland	1,821	2.8	2.9	503	6.6	6.3
Telefónica UK	1,639	(4.1)	0.7	377	13.1	3.7
Telefónica Brasil	4,191	13.2	6.0	1,028	(4.9)	3.7
Telefónica Hispanoamerica	3,538	1.8	19.9	859	6.8	39.8
Other companies & eliminations	47	(21.4)	(43.0)	(76)	n.m.	n.m.
Telxius	346	30.1	6.9	84	(6.3)	(4.4)