



# Results

January – December 2017

*Telefonica*

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01 

# 2017 Highlights 2018 Outlook

Mr. José María Álvarez-Pallete  
Chairman & CEO



# Our mission: Let our customers choose it all

Enable people with  
the power of  
connectivity

Operate in countries  
where we can have  
an impact & create  
value

Optimise our  
capabilities for a  
sustainable digital  
future

**Strong financial performance  
& shareholders' returns**

# Our mission: Let our customers choose it all

Enable people with the power of connectivity

- UBB connectivity tailored to each market
- Integrated offer
  - fiber, mobile data, content, digital services
- Best experience, starting to leverage cognitive intelligence
- Trust, Privacy & Security

Operate in countries where we can have an impact & create value

- Leaders in convergent markets
- Leaders in mobility
- Leaders in key Latam markets
- Best positioned for structural growth in Latam

Optimise our capabilities for a sustainable digital future

- Becoming a platform Co.
- Pioneers in digitalisation
- Pioneering the new technological wave: SDN, eSON, 5G,...
- Relentless focus on efficiency
- Maximise group synergies

**Growing Revenues, OIBDA, OpCF, FCF & EPS  
Improving ROCE & B/S**

# Excellent execution of 2017 priorities

## Growth acceleration

Organic: **Revs.** +3.4%; **OIBDA** +5.3%; **OpCF** +12.2%

Reported: **Revs.** -0.1%; **OIBDA** +7.1%; **OpCF** +22.8%; **FCF** +13.0%

## Digital Co. transformation

**Data monetisation:** traffic explosion, more users, more services, turning volume into revenues

**Digital transformation:** cutting-edge smart networks (#1 fiber in Europe & Latam; Spain #3 OECD in fiber); pioneers in cognitive power

## Solid financial position

€4.4bn **Net Debt reduction:** organic (FCF= €4.9Bn) + inorganic (Telxius 40% sold)

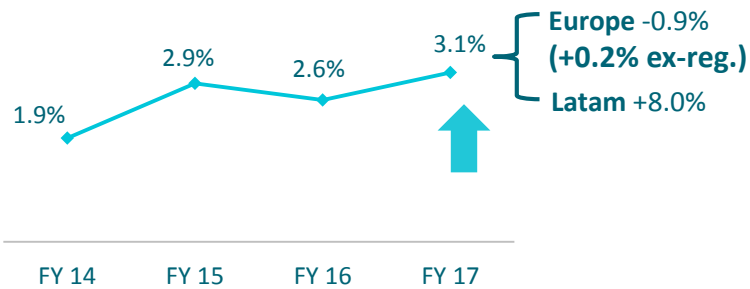
**Attractive shareholder remuneration**

**In spite of adverse regulatory impacts**

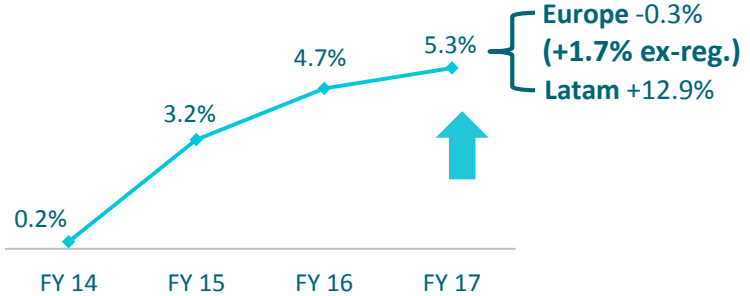
# Growth acceleration

**Growth acceleration**

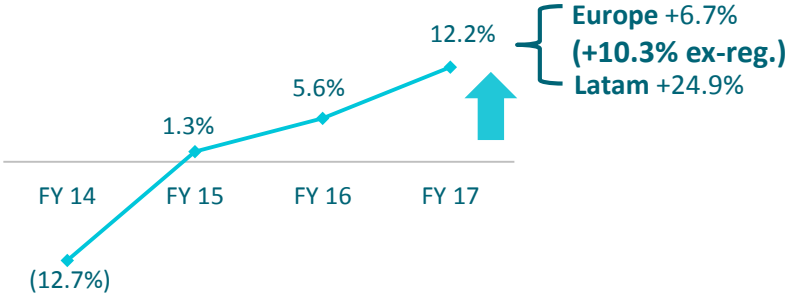
## Service revenues (y-o-y org.)



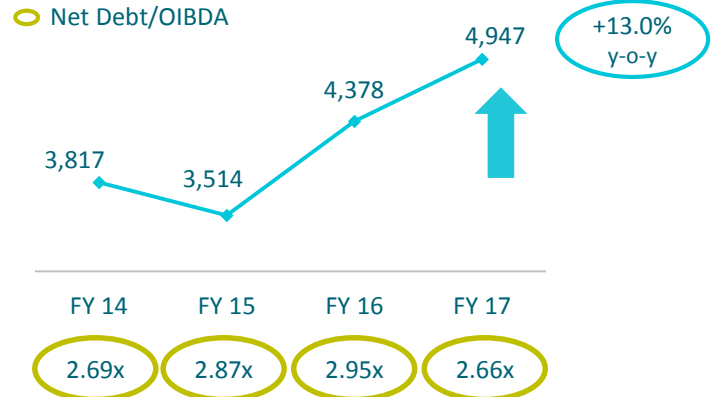
## OIBDA (y-o-y org.)



## OpCF (y-o-y org.)



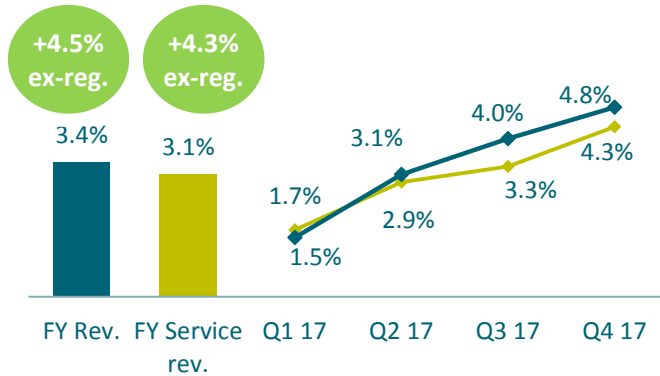
## FCF (€ in millions)



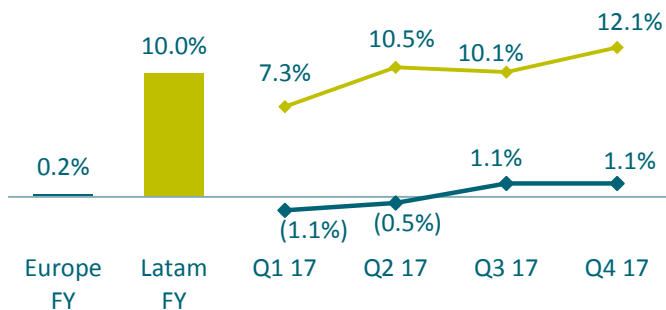
# Revenues gaining momentum

Growth acceleration

## Revenues & Service revenues (y-o-y organic)



## Revenues Europe & Latam (y-o-y organic ex-reg.)



## Yielding improvement in Europe & Latam ex-reg.

- **Further transforming our revenue mix towards BB and SoC**
  - 52% o/ total +5 p.p. vs. 2016
- **Turning volumes into revenues**
  - Mobile data revs +19.5% y-o-y in Q4 (FY: +16.8% y-o-y)
- **Balanced revenue distribution**
- **Strengthening profitability (FY OIBDA +5.3% y-o-y org.)**
  - Revenue acceleration; 85% of y-o-y in FY driven by service revs
  - Cost actions; best-in-class efficiency
  - Delivering merger synergies in BRA & GER



## Data monetisation

- Enhance high-value connectivity
  - FTTH, LTE, transport network, all-IP
- Monetisation of data traffic explosion
  - Fixed data traffic/ user in our networks x16 (2012-20E)
- More users, more services
  - Attract, bundle and upsell customers
  - Higher ARPU
- Selling more digital services
  - Enhanced offering (security, Big Data, Cloud, IoT)
  - Enhanced capabilities (specialised sales resources)

## Digital transformation

- Network leadership
  - New network elements virtualised, IP Comms, legacy switch-off
  - New technological wave: SDN, eSON, 5G
- Radical processes automation
  - Efficient sales processes, effective service provision, faster issue resolution
  - Largest full-stack deployment, zero back-office
- World-class digital customer experience
  - Distinctive and enriched digital user interfaces
- Distinctive digital value proposition
  - Align our offer to customer needs in real time

# Monetisation opportunities continuing

Data monetisation

## Speed & Capacity

- FTTH UBB >€10 premium vs. DSL
- FTTX >~€8-10 premium vs. DSL
- LTE ARPU uplift +10%
- New "O2 Free": €30; ARPU accretive
- "YoYo": Flexible data tariffs

## Services Beyond Connectivity

- ARPU uplift
  - ~€35 basic TV bundles; ~€55 All Premium
  - ~€30 Premium TV bundles; ~€4 mobile VAS
  - ~€15 in TV bundles
- Digital services
  - Security B2B revs: +24.3% vs. FY 16
  - "Oops": smartphone insurance included
  - "Movistar Play" in Hispam

## Cognitive Power

- Talk to technology and get things done: new options for customer to interact (speech recognition and natural language processing)
- Adapting the experience to any customer; offering customised proposition
- Enhance customer experience: Reduce churn and operational efficiency
- AURA: accessible through different channels; homogeneous user experience
- Novum, Smart WIFI,...
- AURA will be launched in 6 countries (MWC)
- 5G, eSON, SDN, network slicing

Higher customer value: +ARPU; - Churn

# Targeted, ROI-based CapEx effort; peak already behind us

## Platform Company

CapEx 2012-17 incl. spectrum

### Cognitive Power

A new customer relationship

### Products and services

Video, cloud, security, IoT...

~€2bn

### IT & Systems

Full stack, computing

~€8bn

### Physical Assets

Networks, data centres, distribution...

~€45bn

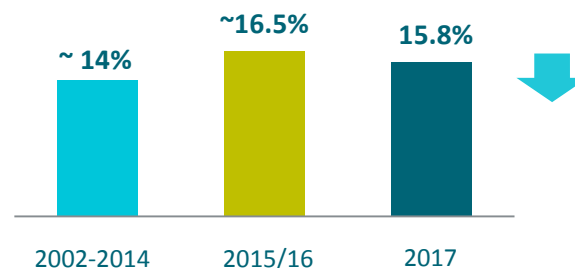
"Others"

~€2bn

~€56bn

## CapEx / Sales

(Ex-spectrum)



CapEx peak behind us

### ✓ Outpacing investments vs. competitors

- Largest UBB footprint owned among peers
- Spain FTTH deployment >75% of 2020 target

# 2017 key financials & solid financial position

Solid financial position

€ in millions	FY 17		
	Reported	Reported y-o-y	Organic y-o-y
Revenues	52,008	(0.1%)	3.4%
Service revenues	47,857	(0.3%)	3.1%
OIBDA	16,187	7.1%	5.3%
Underlying OIBDA	16,638	0.7%	
OIBDA margin	31.1%	2.1 p.p.	0.6 p.p.
OpCF (ex-spectrum)	8,027	22.8%	12.2%
Net Income	3,132	32.2%	
EPS	0.56	33.9%	
Underlying EPS	0.75	(0.3%)	
FCF	4,947	13.0%	
Net Financial Debt	44,230	(9.0%)	

Revenue growth and margin expansion

Double digit OpCF growth in €

EPS /FCF double digit growth

Leverage down from 2.95x to 2.66x

**Growing at all levels:** organic & reported; Revenues, OIBDA, OpCF, FCF, EPS

**Reducing debt across all fronts:** Net Debt -€4.4bn;

(Net Debt + Commitments) -€4.6bn; (Net Debt + Commitments + Hybrids) -€3.7bn

# Beating 2017 guidance

Solid financial position

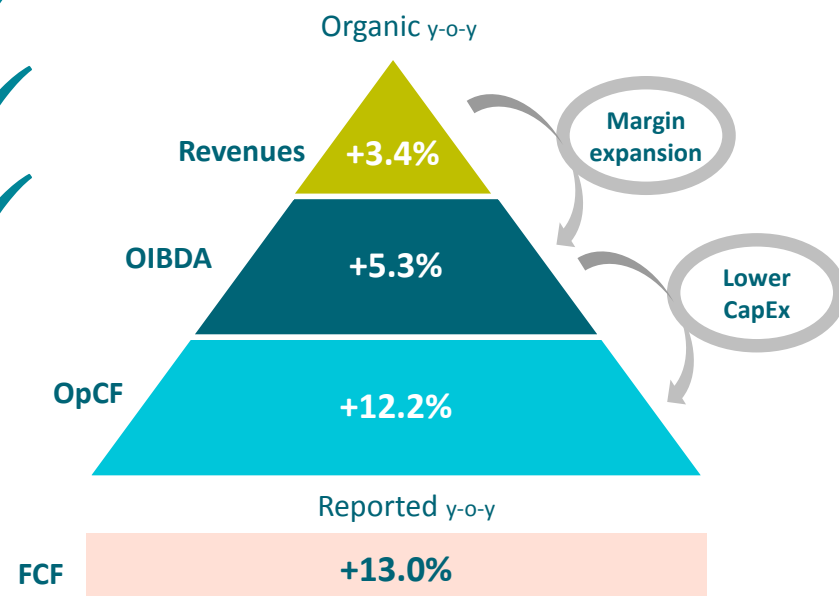
2017E Guidance (Organic)	Guidance 2017E	FY 17
Revenues	>1.5% (in spite of regulation: ~-1.2 p.p.)	3.4% (regulation -1.1 p.p.)
OIBDA margin	Expansion up to 1 p.p.	0.6 p.p.
CapEx ex-spectrum/Sales	Around 16%	15.8%



2017 Dividend	Payable in 2017/18
Interim 14-Dec-17	€0.20/sh. cash
Final Jun-18	€0.20/sh. cash

Dividends paid in 2017 calendar year amounted to €0.40/sh.:

- Cash dividend paid on 16th Jun-17 (€0.20/sh.)
- Cash dividend paid on 14th Dec-17 (€0.20/sh.)



02 

## FY & Q4 17 Results

Ms. Laura Abasolo  
CFCO



# 2017 key financials: FY & Q4

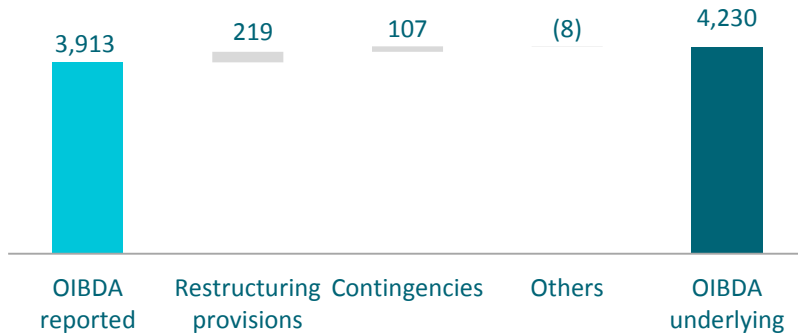
€ in millions	FY 17			Q4 17		
	Reported	Reported y-o-y	Organic y-o-y	Reported	Reported y-o-y	Organic y-o-y
<b>Revenues</b>	52,008	(0.1%)	3.4%	13,162	(4.1%)	4.8%
<b>Service revenues</b>	47,857	(0.3%)	3.1%	11,875	(4.9%)	4.3%
<b>OIBDA</b>	16,187	7.1%	5.3%	3,913	22.8%	9.2%
<b>Underlying OIBDA</b>	16,638	0.7%		4,230	(5.2%)	
<b>OIBDA margin</b>	31.1%	2.1 p.p.	0.6 p.p.	29.7%	6.5 p.p.	1.4 p.p.
<b>OpCF (ex-spectrum)</b>	8,027	22.8%	12.2%	1,213	4.3x	24.4%
<b>Net Income</b>	3,132	32.2%		693	4.8x	
<b>EPS</b>	0.56	33.9%		0.12	7.9x	
<b>Underlying EPS</b>	0.75	(0.3%)		0.18	(22.6%)	
<b>FCF</b>	4,947	13.0%		1,721	(16.5%)	
<b>Net Financial Debt</b>	44,230	(9.0%)				

## Q4 reported y-o-y affected by several factors

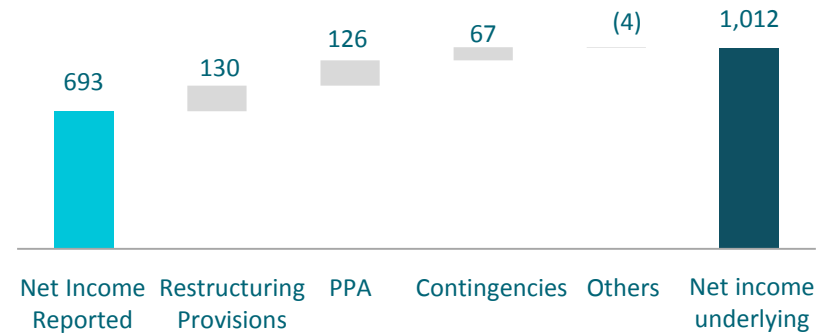
- **Non-cash factors in OIBDA** (Q4 16: -€1.3Bn vs. -€0.3Bn Q4 17)
- **FX FY drag in revenues & OIBDA** (-3.2 p.p. & -4.7 p.p.)
- **Roaming drag in OIBDA** (Q4 -0.7 p.p.; Q3: -1.7 p.p.)

# Q4 results factors

## Q4 impacts in OIBDA (€0.3Bn)



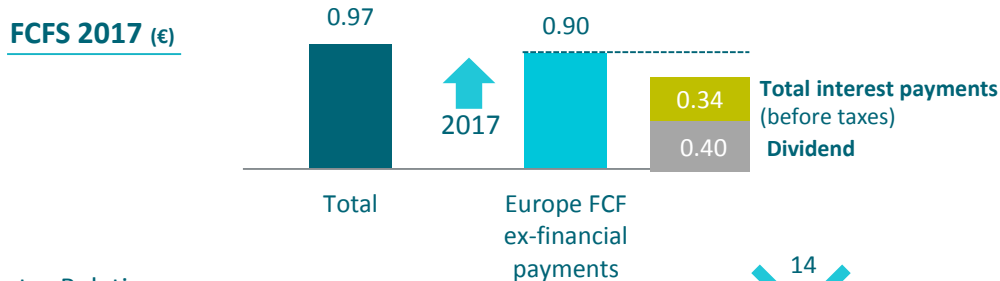
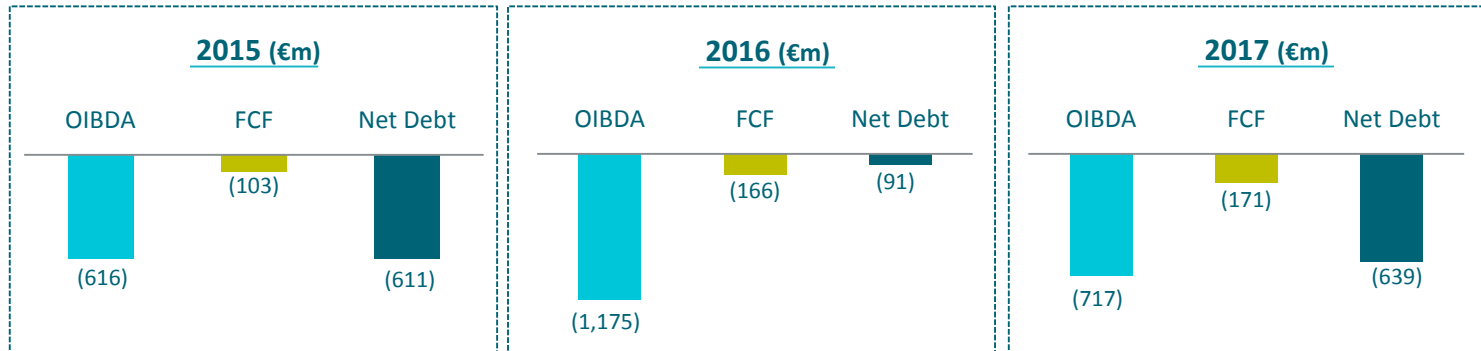
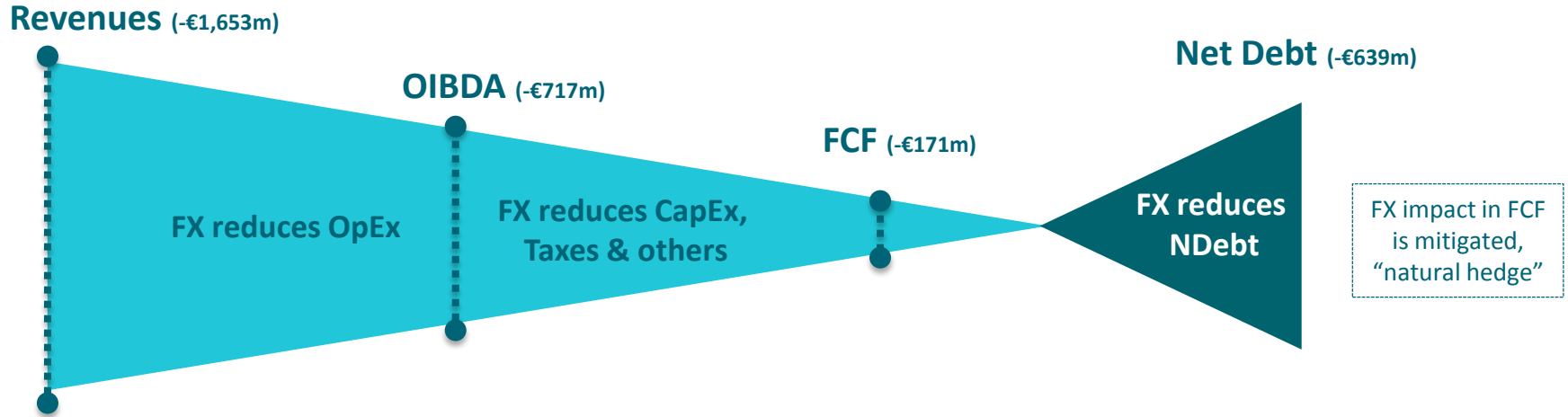
## Q4 impacts in Net Income (€0.3bn)



- **Non-cash:**
  - **Restructuring costs, enhancing future profitability and cash flow**
    - -€219m in OIBDA (T. España -€102m; T. DE -€30m; T. Hispam -€98m and Others +€11m)
  - **Contingencies in T. Brazil (-€50m) and "Other Companies" (-€57m)**
- **Capital gain on tower sales (+€6m), mainly COL**



# FX impact structurally neutralised



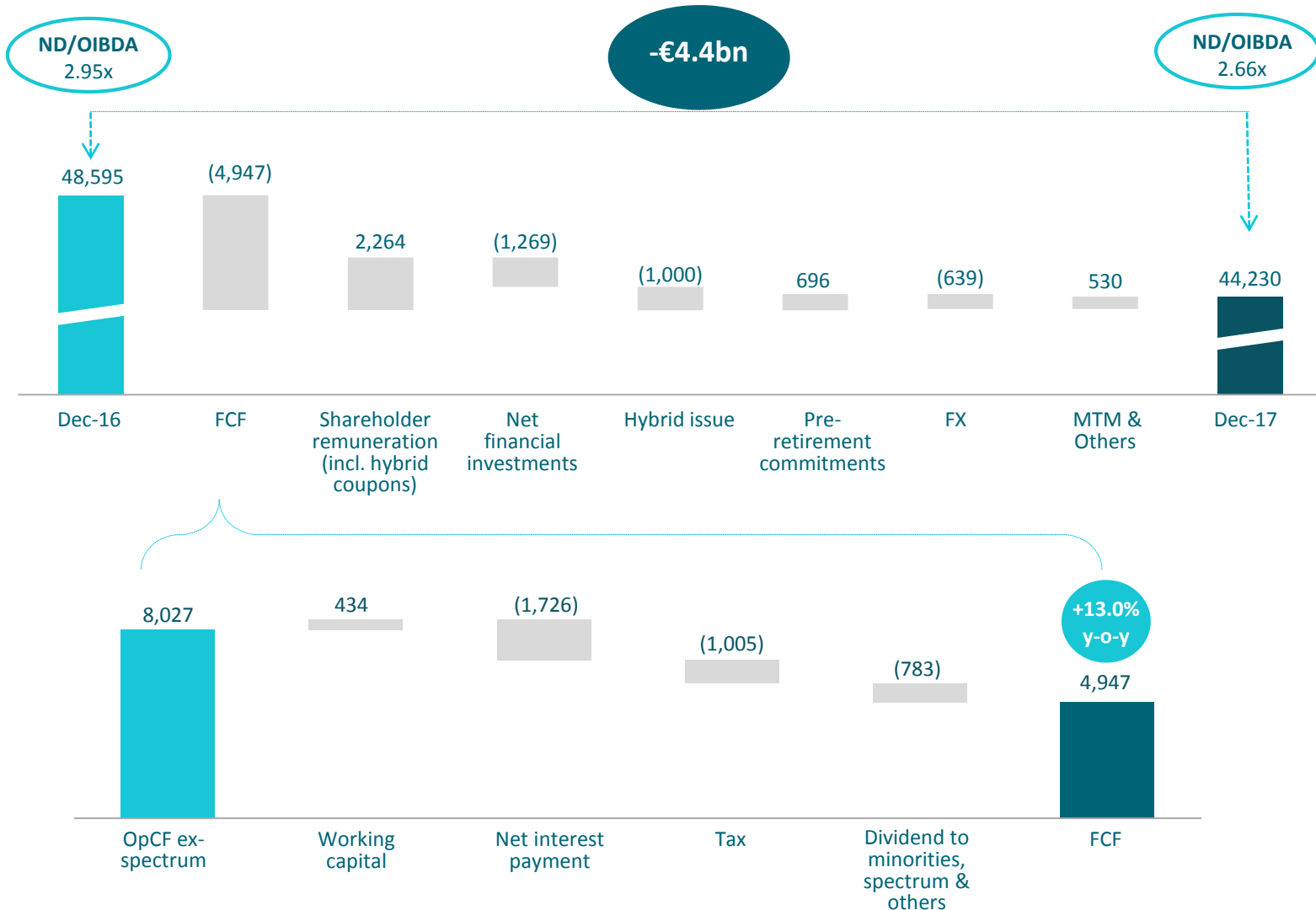
European FCF significantly..

...exceeds dividends and interest payments...

...Latam is all upside

# Deleverage driven by growing organic FCF

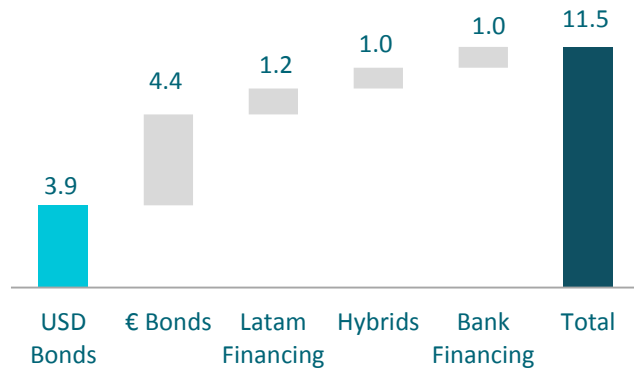
## Net Financial Debt (€m)



# Cost effective long-term financing strengthens B/S

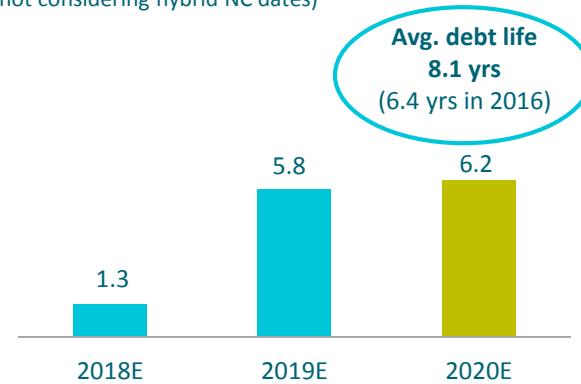
## Sources of long-term financing (FY 17 & 2018 YTD)

(€bn)



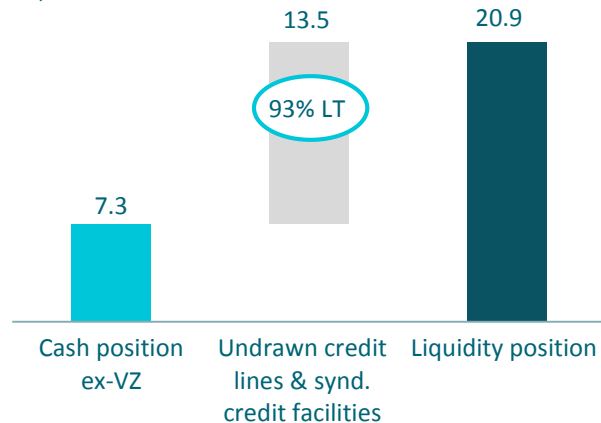
## Net Debt maturities (Dec-17)

(€bn; not considering hybrid NC dates)

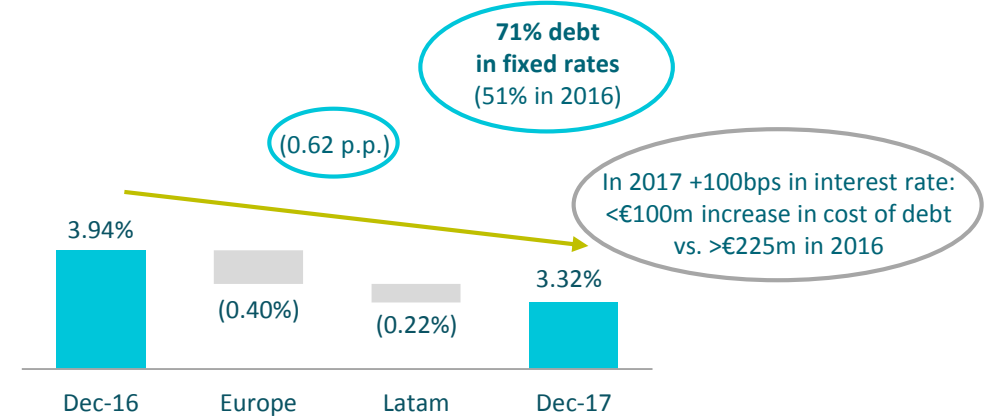


## Liquidity position (Dec-17)

(€bn)



## Interest payments cost (Dec-17)



03 

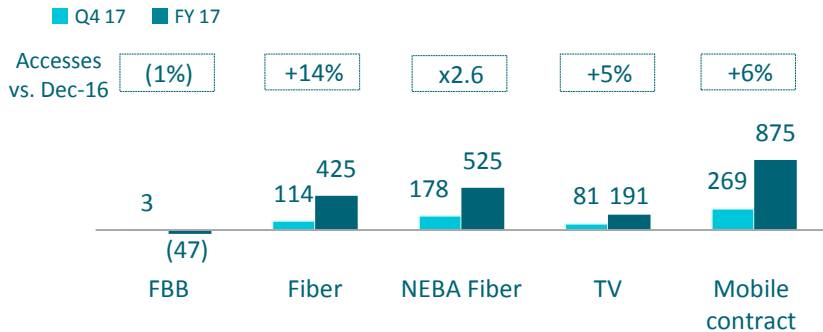
## FY & Q4 17 Results

Mr. Ángel Vilá  
COO

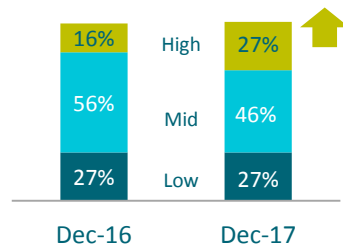


# Spain: Improved trading and value mix

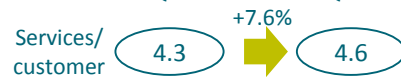
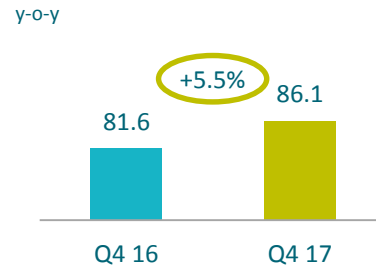
## Net adds ('000)



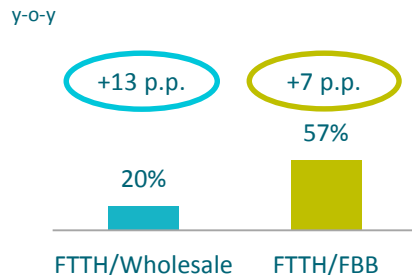
## "Fusión" mix (% base)



## "Fusion" ARPU (€)



## Fiber penetration (Dec-17)



## Superior offer for premium customers

- **Improved operational momentum, seasonal promos Q4**
  - "Fusión" net adds recovered (+41k; +31k q-o-q)
  - FBB growth; strong TV, positive mobile portability
  - "Fusión" churn impacted by tariff upgrades/promos
- **"Fusión" value mix continue to show value upselling**
  - Fostering services growth per customer
  - Consistent ARPU growth in 2017
- **"M4M" continued in Q1 18** (convergent & non-convergent)

## Quality assets enhance monetisation

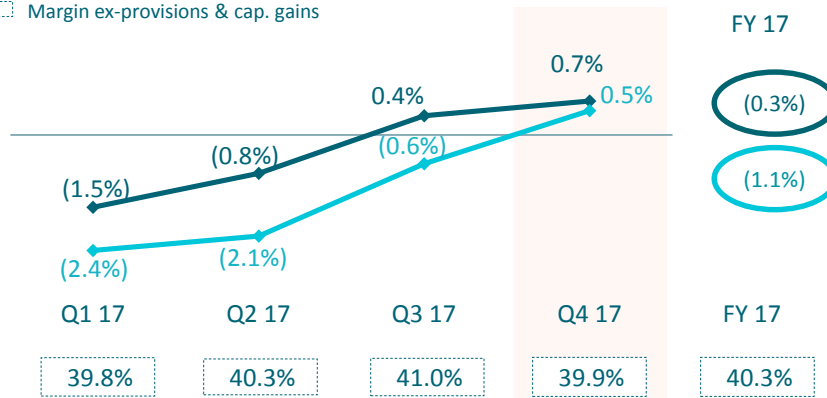
- **Largest NGN network** (structural advantage)
  - LTE: 97% pop.; FTTH: 19.2m premises passed
  - Fiber wholesale; growth opportunity
- **Largest TV distribution platform & production skills**
  - Excellent audience for in-house series (more viewers of three series than "El Clásico" football match)

*The most advanced telco in Europe, best-positioned to compete with future-proof infrastructure*

# Spain: Revenue acceleration & OIBDA growth

## Improving Service Rev. & OIBDA

- Service revenues (y-o-y organic)
- OIBDA (y-o-y ex-provisions & cap. gains)
- Margin ex-provisions & cap. gains



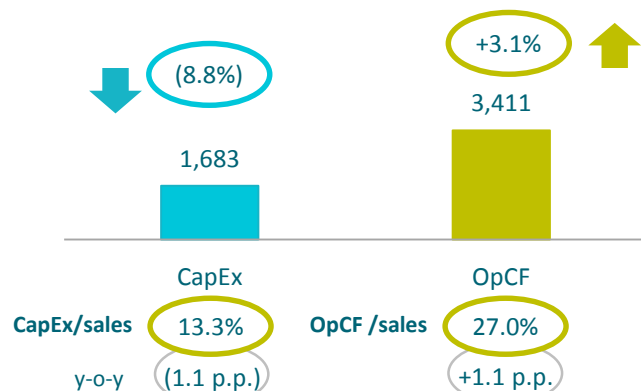
## Service Revenue consolidate growth

- **QoQ service revenues growth improved** (+0.3 p.p. q-o-q)
  - “Consumer” (53% of SR): +1.3% in Q4; +1.0% in FY
  - “Business” (28% of SR): -2.6% in Q4; -1.3% in FY
  - “Wholesale & Other” (19% of SR): +4.2% in Q4; -2.5% in FY
- **Q4 OIBDA growth driven by revenue flow**
- **Sustained benchmark OIBDA margin** (FY 40.3% ex-provisions & cap. gains)

## Cash growth momentum

- **Further cost savings to come**
  - Redundancy; 490M€ run-rate savings from 2019 (365M€ in 2017)
  - Digitalisation (channels, network, IT...)
  - Copper switch-off
- **Visible growth in cash-engine on slowing CapEx**
  - FTTH/LTE build matures
  - Lower unitary CapEx

## Falling CapEx & growing OpCF 2017 (ex-provisions & cap. gains)

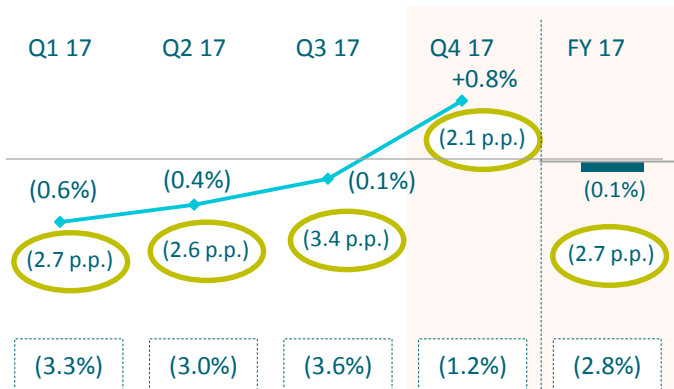


*Q4 back to Ser. Rev. & OIBDA growth. The best OpCF margin among European peers*

# Germany: MSR ex-regulation back to growth

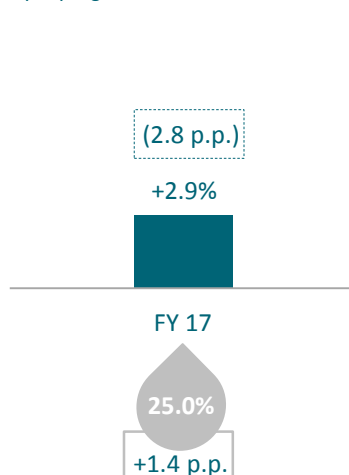
## MSR ex-regulation (y-o-y organic)

MSR Regulation



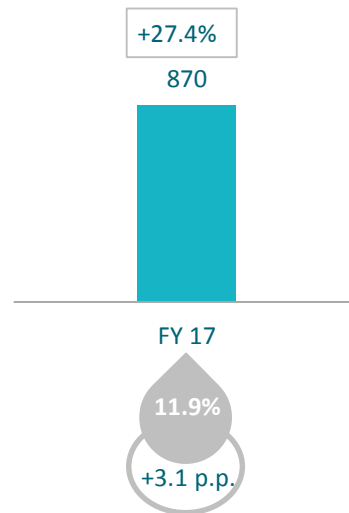
## 2017 OIBDA (y-o-y organic)

Regulation Margin  
y-o-y organic



## 2017 OpCF (€m)

y-o-y organic



## Solid momentum driven by larger data buckets

- **O<sub>2</sub> Free portfolio well received; data usage >7 GB/month**
  - Avg. use postpay LTE customers 2.8 GB/month (+68% y-o-y)
  - Mobile data traffic up 55% vs. 2016
- **Strong Q4 contract net additions (+186k; +2% q-o-q)**
  - Solid partner momentum (Q4: 58% gross adds; +5 p.p. q-o-q)
  - LTE cust. (+31% y-o-y); penetration 37% (+10 p.p.); cov. (82%)

## Synergy delivery fully on-track

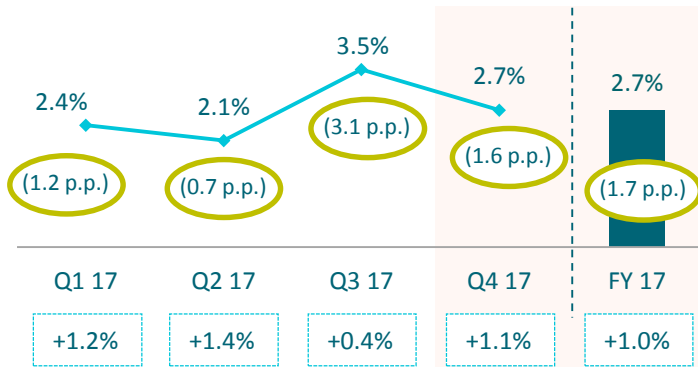
- **Q4 OIBDA y-o-y accelerating**
  - Regulatory drag (€-10m vs. €-28m in Q3)
- **Efficient CapEx spend (FY 17: -13.7% y-o-y; ~€80m synergies)**
- **Improving cash conversion**
  - 75% of full 2019 synergy target achieved

*Largest mobile operation in the leading European market*

# UK: Solid financials and commercial performance

## MSR ex-regulation (y-o-y organic)

MSR Regulation

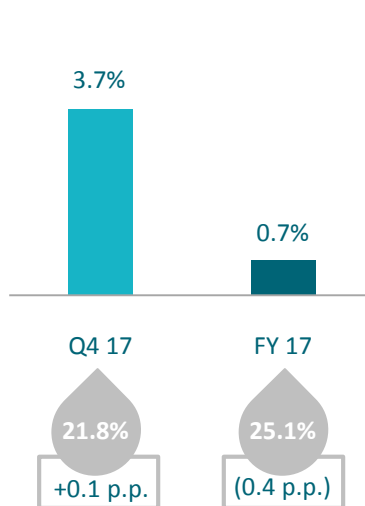


## Momentum despite competition

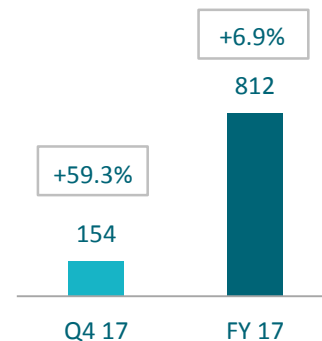
- **Contract base expanding**
  - Q4 net adds +70k (excl. M2M; Q3: +32k)
  - Sustained, best-in-class contract churn: 1.0% in Q4
- **60% LTE penetration** (+5 p.p. vs. Dec-16)
- **Avg. data usage per smartphone +46%** vs. 2016

## 2017 OIBDA (y-o-y organic)

Margin y-o-y organic



## 2017 OpCF (€m)



## Robust financials

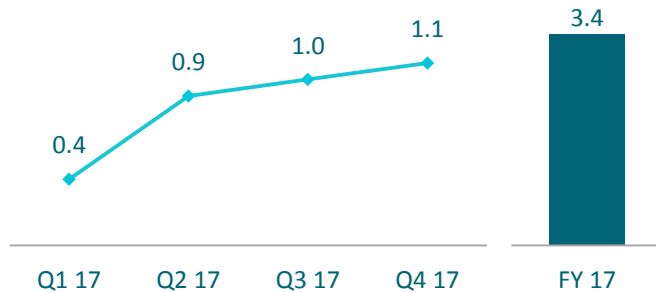
- **Revenue growth** (ex-regulation): **Q4: +4.5%** y-o-y (FY: +3.6%)
  - + High-value tariff take-up (new customer propositions)
  - + Wholesale growth (MVNOs)
  - + Handset sales (flagship devices)
  - RLAH impact y-o-y (Q4: -1.2 p.p. & FY: -1.3 p.p.)
- **Revenue expansion flowed through to OIBDA**, RLAH drag (Q4: -€25m; Q3: -€48m)
- **CapEx -4.8% vs. FY 16**; LTE indoor coverage objective met (98%)

*Customer-centric approach, great brand, most loyal contract customers in Europe*



# Brazil: Further improvement on differentiation

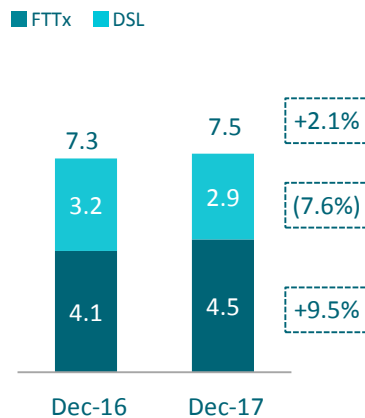
## Contract net adds (m)



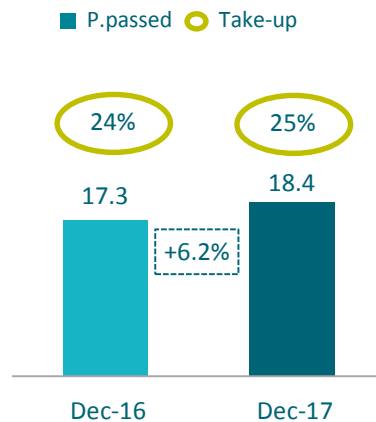
## Better customer mix

- **Strongest contract net adds over last 3 years**
  - **New contract portfolio** (23<sup>rd</sup> October) delivering results
    - Better mix on high-end Family Plans: +82% y-o-y
  - 42% contract market share
  - 84% 4G population cov.
  - Q4 mobile ARPU up +1.0% y-o-y (FY +2.6%)
  - Record levels of customer satisfaction

## FBB accesses



## FTTx deployment



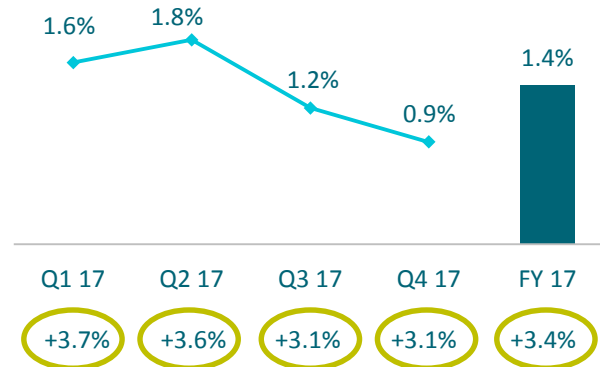
- **Fixed business transformation on-track**
  - **16 new cities** deployed with FTTx in 2017
    - 79% m. share, 40-60% take-up 6m after deployed
  - IPTV (+51% y-o-y); continued focus on profitability
  - Q4 ARPU FBB +15.0% y-o-y (FY +11.3%); pay TV +5.6% (FY +6.1%)

*Best network, best brand, best market positioning,  
best customers... The best LatAm telco*

# Brazil: Solid margin improvement, above 35%

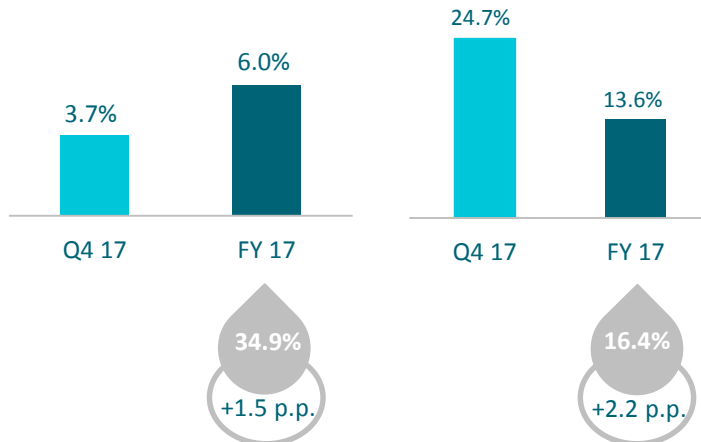
## Revenues (y-o-y organic)

● Ex-regulation



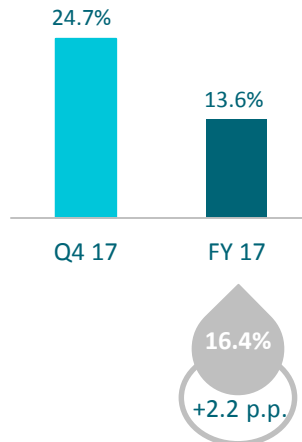
## OIBDA (y-o-y organic)

● Margin



## OpCF (y-o-y organic)

● Margin



## Consistent revenue growth

- **MSR growing above inflation** (Q4: +3.9% y-o-y; FY: +4.4%)
  - Data still booming y-o-y (Q4: +24.9%; FY: +30.2%)
  - Postpaid revenue improved to +9.3% y-o-y (FY: +9.6%)
- **Fixed revs -3.8% y-o-y** (regulation and voice decline)
  - Strong growth in fiber (+29.8%) and IPTV (+64.6%)

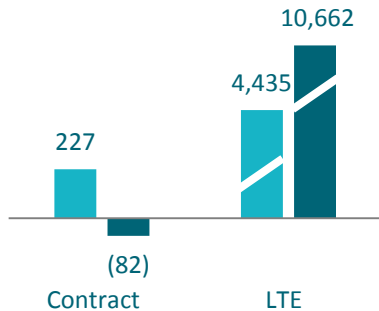
## Double-digit OpCF growth

- **Highest OIBDA margin in 2 years** (Q4: 35.6%, +1.0 p.p.)
  - OpEx declining for 8 Qs in a row (Q4: -0.2% y-o-y; FY: -0.6%)
  - Benefits from digitalisation and synergies
- **CapEx stable y-o-y**; in line with 2017-2019 guidance
  - Focused on 4G and fiber to guarantee superior quality; improved customer experience
- **Successful execution of operational synergies**

# Hispam: Sound commercial results

## Mobile net adds (k)

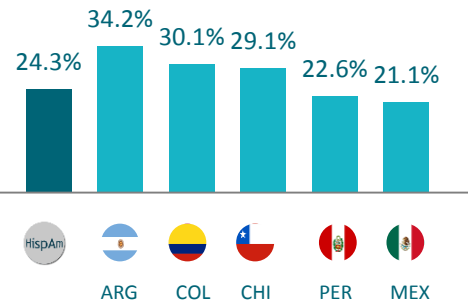
■ Q4 17 ■ FY 17



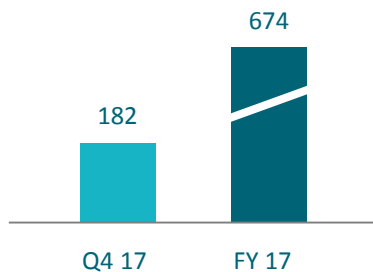
## LTE penetration

○ y-o-y (p.p.)

+10.5 +15.7 +12.4 +9.1 +7.4 +8.3



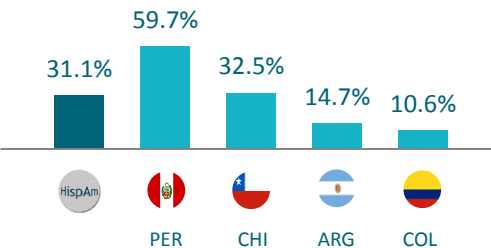
## FTTx & cable net adds (k)



## FTTx & cable penetration (over FBB)

○ y-o-y (p.p.)

+11.2 +16.2 +2.7 +12.8 +7.8



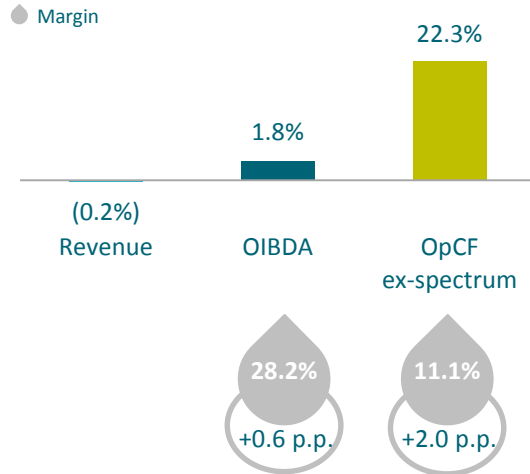
## Value customers growth yielding results

- **Contract net adds** back to positive (+227k; -82k in 2017)
  - Improvements in ARG, MEX, CHI and PER
- **Positive prepaid** net adds (+194k; -4.6m in 2017)
  - Change in trend in MEX and better in COL & PER
- **FTTx/cable** connections +60.8% y-o-y (1.8m)
  - 6.8m premises passed (1.4x y-o-y)
- **ARGENTINA:** Quality increase: contract +5%, LTE +71%. 51k new fiber connections (209k in 2017)
- **CHILE:** Positive Q4 contract net adds (+52k) & portability
- **PERU:** Better contract performance amid competition. Solid net adds in fiber & pay TV (highest in last 2 years)
- **COLOMBIA:** Fostering FTTx (Q4: 40k net adds) & LTE (529k)
- **MEXICO:** Positive ARPU growth for 2<sup>nd</sup> consecutive Q on more rational competition

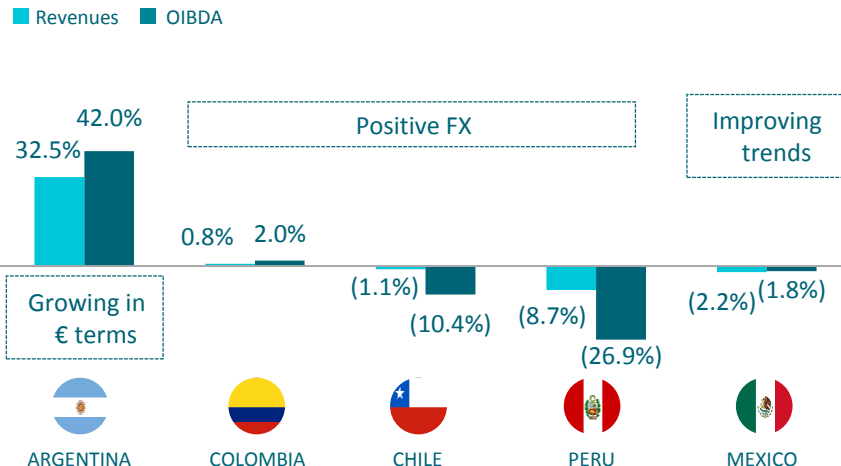
*A well-diversified portfolio of leading players in most markets; macro improving, structural growth ahead*

# Hispam: Delivering strong financial performance

## FY 17 Financials (y-o-y reported)



## FY 17 Revenues & OIBDA (y-o-y organic)

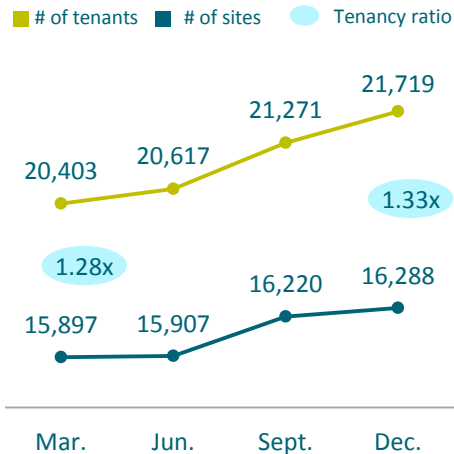


## Expanding profitability

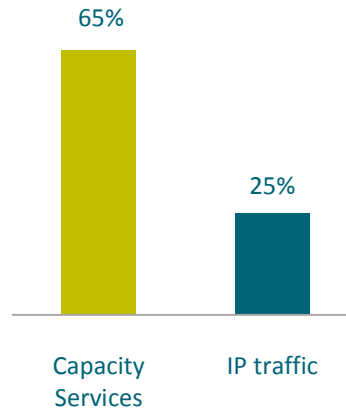
- **Organic growth more than offsetting FX depreciation**
  - VZ contribution 0.2% o/group revs from 0.8% FY 16
  - ARG reported OIBDA +21.8% y-o-y (organic +42.0%)
  - FX in CHL, COL & PER positive impact
- **2017 OpCF ex-spectrum €1.4bn** vs. €1.1bn in FY 16
- **ARGENTINA:** Strong Q4 Rev. & OIBDA, growing in € despite depreciation; FY 17 OpCF €370m (+67.8% in €)
- **CHILE:** Flattish revs. on intense competition. FY 17 OpCF €274m
- **PERU:** Improvement in Rev. & OIBDA. FY 17 OpCF €194m
- **COLOMBIA:** Improving Rev. & OIBDA trends
- **MEXICO:** Recovering revenue growth in H2; OIBDA margin improving. OpCF FY 17 €86m

# Telxius: Leading infrastructure, solid profitability

## Tenants & towers (#)



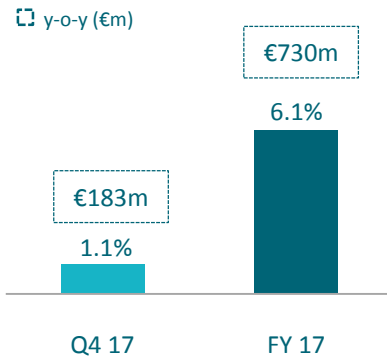
## Cable demand 2017 (y-o-y)



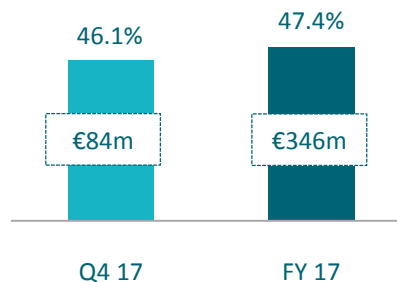
## Robust operational performance

- Growing demand across businesses
- New cables to come into service, capturing further market growth
  - MAREA (connecting US & Spain) in Q1 18
  - BRUSA (connecting Brazil, Puerto Rico & US) by mid-2018

## Revenues (y-o-y organic)



## OIBDA Margin (%)



## Solid revenue growth; high profitability

- **Balanced revenue streams: cable (€100m), towers (€83m)**
  - Q4 y-o-y deceleration on tougher cable comps in Q4 16
- **Solid FY 17 OIBDA margin**
  - High operating efficiency in both businesses
  - Q4 higher seasonal maintenance costs in towers
- **€142m OpCF in FY 17**
  - CapEx (€203m) reflected deployment of new cables

## Data monetisation

### Enhanced Connectivity



73m

**FTTx/Cable**  
premises passed  
(o/w 44m owned)



91%

**Europe LTE cov.**  
(66% in Latam)



VoLTE 7 countries

VoIP cust. >8m

### Digital Revenues

vs. 2016 org.

€5bn  
Revs

+6.8%

**Video**

main growth  
engine

+6%  
57% o/total

Cloud

Big data,  
AI, Adv.

Security

M2M

## Digital transformation



#1

**Network virtualisation worldwide**

Source: Telco Cloud Index, Analysis Mason



**E2ED level**

(+9 p.p. vs. 2016)

15

**Countries with Full Stack**  
(23% customers migrated)

62%

**OCS Customers**

42

**Big Data Storage (Petabytes)**

**IT simplification vs. 2016**

Applications -8%; Physical servers -6%;  
Data Centers -2%; +2 p.p. Virtualisation

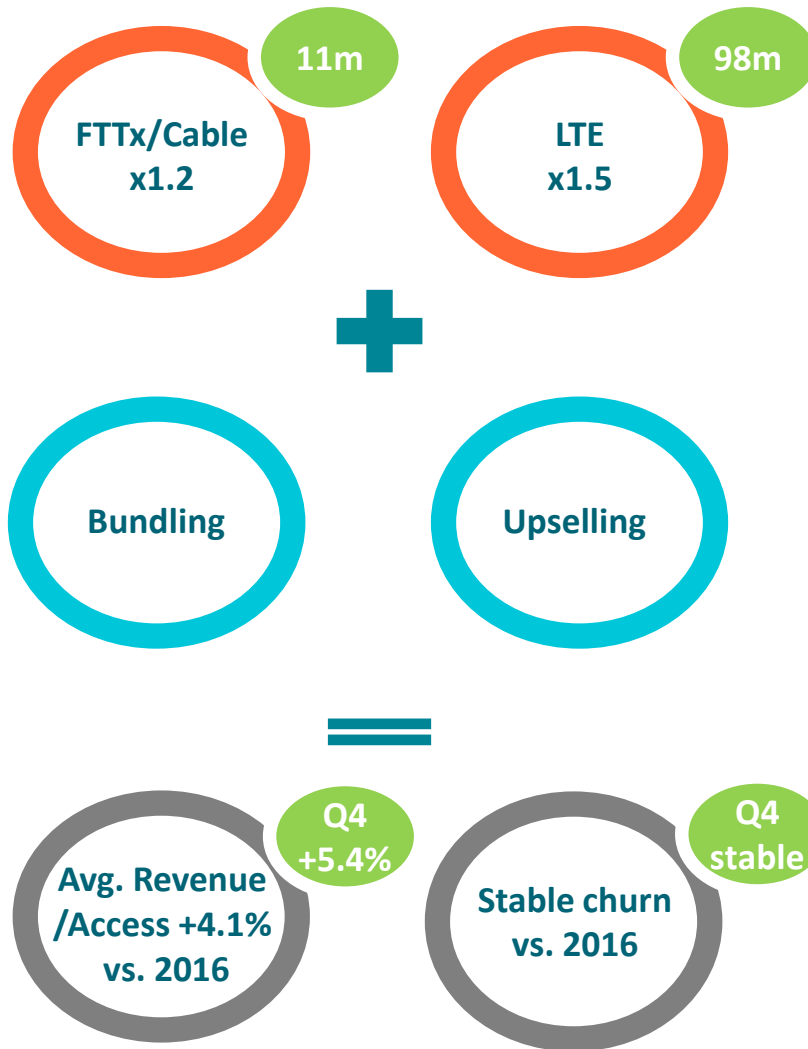


Mi Movistar | MeuVivo | My O2 | Mein O2

x1.6 unique users y-o-y

# More value customers, more services

Data  
monetisation



## Demand for fiber and LTE unabated

- Significant growth of contract, LTE, FTTx/Cable accesses
  - Q4 LTE net adds +16% q-o-q to 8.6m
  - FTTx/Cable drives 450k net adds, +4% vs. Q4 16
  - Pay TV gaining traction (FY net adds x10.3 y-o-y)

## Upgrading customer base

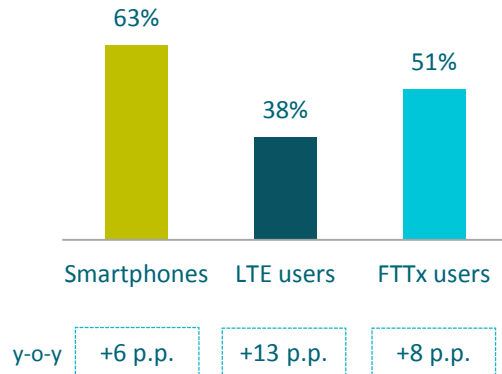
- Renewing commercial propositions
  - **Bundling:** fixed services, prepaid, postpaid, convergence
  - **Upselling:** speed/allowance, data sharing, content, VAS/Digital, HGU, Smart Wifi, Connected Homes, "M4M"

## World-class digital customer experience

- State of the art connectivity powered by Artificial Intelligence
- Differentiated & diversified high-quality base

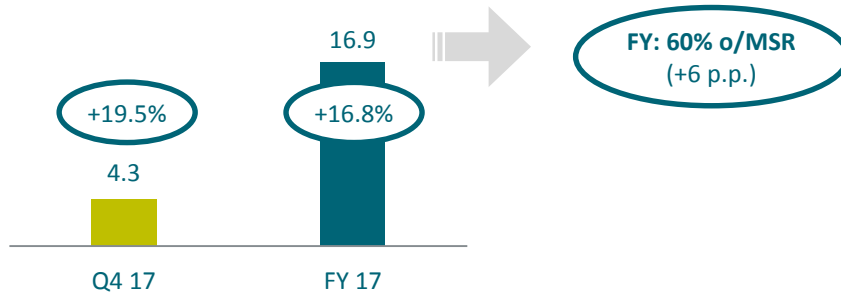
# Driving usage, increasing yield

## Data penetration (Dec-17)



## Mobile data revenues (€bn)

y-o-y organic



## Data monetisation strategy; upselling

- **“M4M”**; enhancing value beyond pure data
  - Dedicated data for certain Apps & Video
    - BRA, PER, CHI.. 🇧🇷 🇵🇪 🇨🇱
    - Capturing traffic from WiFi
  - Double FBB speed & more mobile data in Spain
  - Family plans (CHI, BRA, SP, UK...) 🇨🇱 🇧🇷 🇪🇸 🇬🇧
  - Video OTT
- **Neuropricing**: Significant value accretion (+5% in gross adds)
- **More recurrent data in Prepaid Latam**; ARPU growth
  - High penetration: ~60% Brazil, ~30% Hispam
  - >10% ARPU uplift
- **Strong levers to further upsell**

LTE

Q4 17:  
+74% usage  
+10% ARPU

FTTH

Q4 17:  
x2.4 data (vs. DSL)  
+20% ARPU




# Digitalisation at the core of customer journey

Digitalisation

## Digitalisation evolves towards a customer centric digital experience


**Increase Direct customer interaction for Sales**



- ▶ Foster online sales
- ▶ Foster own channels
- ▶ Personalisation and contextualisation
- ▶ Point of sale experience

**x2.5 sales in self-assisted channels**


**Foster top-ups & add-ons through own digital channels**



- ▶ Reduce commissions
- ▶ Real-time promotions

**x2.1 online top-ups**


**Make the payments & collections more efficient and user friendly**



- ▶ Increase conversion rate
- ▶ Foster online electronic payments

**+12% payments in self-assisted channels**

**Improve experience Fulfillment and technical support**




- ▶ Self management and customer experience
- ▶ Field force effectiveness

**+10% incidents solved remotely**

**2017-2020E**

**Enhanced customer care experience**



- ▶ Root cause analysis
- ▶ Digital first

**-30% calls handled in call center per access**

**x4.8 unique users in app**

## Digitalisation brings efficiency to our cost structure...

## ...higher customer satisfaction and stickiness

**Addressable cost base**

**€11.6bn**

32% o/OpEx

**Digitalisation gross savings Run-rate 2020E**

**>€1.0bn**

o/w >€0.3bn already in 2018

**Plus CapEx optimisation**

**Unit cost per Fiber HP -47%**

- Improving CSI; expanding gap

**... and a closer customer relationship**



Mi Movistar



MeuVivo



My O2



**Aura**  
Commercial launch in MWC

# Further room to improve efficiency

## 2017 Figures

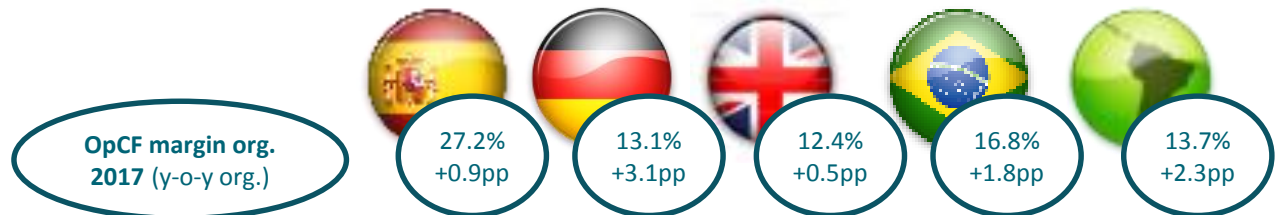
CapEx: €8.7bn

- **More invested than peers ~ More sustainable business**
- Group efficiencies being captured; ahead of the curve in the learning process of FTTH deployment
  - Unit cost of homes passed -47% over last five years in Spain; -33% in Brazil
  - HGU equipment: -35% savings vs. legacy equipment
- **Scaling it up! Efficiencies to be captured at group scale**

Opex: €36.8bn

- **Network modernisation/legacy switch-off**
  - Copper switch off starting in Spain (decommission of ~650 Central Offices up to 2020); other legacy projects ahead
  - Network virtualisation reducing core network, energy savings
  - Automate network operation => improving productivity/reducing OpEx
- **Digitalisation**
  - Initial defined gross savings run-rate 2020E >€1bn
- **Further savings from restructuring to continue flowing**

Σ €45.5bn



# 04

## Conclusion

Mr. José María Álvarez-Pallete  
Chairman & CEO



# 2018 outlook

Solid financial position

Operating 2018 Guidance organic	Guidance 2018E (IAS 18)
Revenues	Growth of around 1% (despite regulation dragging: -0.9 p.p.)
OIBDA margin	Continues expanding around 0.5 p.p. (despite regulation dragging -1.6 p.p. on OIBDA growth)
CapEx ex-spectrum/Sales	Around 15%

~2%

Sustained profitable growth

Third consecutive year of margin expansion  
(cost discipline, digitalisation, synergies, network...)

CapEx peak behind us

Applying 2017 organic criteria



**SOLID BALANCE SHEET/ INVESTMENT GRADE**  
**ADDITIONAL DELEVERAGE**  
**IMPROVED ROCE**  
**ATTRACTIVE, STABLE & SUSTAINABLE DIVIDEND**

2018 Dividend	€0.4/sh. Cash
Interim Dec-18	€0.20/sh.
Final Jun-19	€0.20/sh.

Dividends to be paid in 2018 calendar year €0.40/sh.:

- Cash: Jun-18 €0.20/sh.
- Cash: Dec-18 €0.20/sh.

# Closing remarks

2017

- Solid results: Growing across all fronts
- Advancing in digitalisation and data monetisation
- Firm progress on deleverage

2018

- Exploiting a more sustainable business model
- Growing revenues, higher margins, lower CapEx
- Value creation through digitalisation (+Revs; -OpEx; -CapEx)
- Improve ROCE & improve financial flexibility

*Profitable and sustainable growth*  
*Technology as a key enabler going forward*  
*Massive transformation during the last 7 yrs*  
*At the forefront of the digitalisation process*

*Telefonica*

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