

FINANCIAL HIGHLIGHTS

- **Commercial activity focused on high value customers:** LTE (1.9x year-on-year), smartphones (+20%), fibre + VDSL (+26%), mobile contract (+6%) and pay TV (+3%).
 - Differential infrastructure; 33.7 million homes passed with fibre (+11% year-on-year); LTE coverage of 58% (86% in Europe).
- **Revenues for the quarter totalled 13,080 million euros** (-0.2% organic year-on-year).
 - Solid growth in service revenues (+1.4% organic year-on-year), stable vs. the previous quarter.
- **Acceleration of organic growth of OIBDA year-on-year (+3.1%) and operating cash flow (+10.8%).**
 - OIBDA margin expansion (31.9%; +1.0 percentage points organic year-on-year) due to synergies and efficiencies.
 - CapEx in the quarter (-3.8% organic year-on-year) continued to focus on growth and transformation.
- **Significant improvement in reported OIBDA** (4,175 million euros; **-1.0% year-on-year**; +6.1 p.p. vs. the previous quarter)
- **Free cash flow of 1,500 million euros in the quarter (+7.1% year-on-year) and 2,315 million euros in January-September (+91.9% year-on-year), 0.47 euros per share.**
- **Net income for the first nine months stood at 2,225 million euros.**
 - Strong progress in quarterly net income (+38.5% year-on-year) and earnings per share (+44.8%).
- **Net financial debt decreased by 2,584 million euros in the quarter and stood at 49,984 million euros.**
- **T. España;** solid performance of service revenues, OIBDA and operating cash flow (+0.6%, +1.8%, and +7.1% year-on-year respectively, excluding non-recurrents). The success of Movistar "Fusión" is reflected in the strong growth of 10.8% year-on-year of quarterly ARPU and the low level of churn (1.3%).
- **T. Brasil** maintained its leadership in mobile contract and UBB and progressed in synergies and efficiencies, translating into accelerated revenue, OIBDA and operating cash flow growth in July-September (+1.1%, +9.5% y +37.9%, respectively) with strong expansion of margins (OIBDA +2.5 percentage points; OpCF +4.0 percentage points).
- **T. Deutschland;** acceleration of year-on-year OIBDA growth in the quarter (+3.6% organic and excluding non-recurrents) and expansion of OIBDA margin thanks to the capture of incremental synergies (+2.2 percentage points excluding non-recurrents).
- **T. UK** maintained a solid commercial momentum and improved year-on-year trends in the main metrics (revenues +0.1% ex "O2 Refresh"; OIBDA +1.6% and margin +1.0 percentage points).
- **T. Hispanoamérica;** sequential improvement in quarterly revenue growth in the quarter (+0.5 percentage points) and returned to OIBDA and margin growth (+6.3% and +0.6 percentage points, respectively), as a result of the higher penetration of high-value services, cost efficiencies and the lower impact of currency depreciations vs. the USD in 2015 on the business.

Comments from José María Álvarez-Pallete, Executive Chairman:

“Third quarter results showed growth acceleration in the main operational metrics, driven by a broad improvement across different business units, and reflected the success of our transformation strategy, initiated before most of our competitors, focused on network differentiation as a way to capture and monetise the growing demand for data, and on efficiencies, cost optimisation and synergy capture.

All this translated into an acceleration in deleverage in the quarter, mainly due to the significant improvement in free cash flow generation. In this context, the Company has decided to modify the dividend in order to strengthen the balance sheet and intensify organic deleverage, maintaining an attractive shareholder remuneration”.



TELEFÓNICA
SELECTED FINANCIAL DATA
Unaudited figures (Euros in millions)

	January - September		% Chg		July - September		% Chg	
	2016	Reported	Organic	2016	Reported	Organic		
Revenues	38,315	(6.7)	0.8	13,080	(5.9)	(0.2)		
Telefónica España (1)	9,497	3.4	(0.1)	3,169	(0.4)	(0.4)		
Telefónica Deutschland	5,567	(4.5)	(4.5)	1,876	(5.2)	(5.2)		
Telefónica UK	5,140	(11.8)	(2.8)	1,676	(17.1)	(2.1)		
Telefónica Brasil (2)	8,039	(5.1)	0.9	2,952	7.9	1.1		
Telefónica Hispanoamérica	9,144	(15.1)	6.4	3,129	(13.9)	4.1		
Other companies & eliminations	928	(5.1)		279	(20.8)			
OIBDA	11,931	(4.6)	3.1	4,175	(1.0)	3.1		
Telefónica España (1)	3,955	(0.3)	0.8	1,372	(0.6)	(0.6)		
Telefónica Deutschland	1,314	3.3	2.6	464	15.1	4.2		
Telefónica UK	1,375	(8.5)	1.0	458	(14.0)	1.6		
Telefónica Brasil (2)	2,629	1.5	7.8	982	18.1	9.5		
Telefónica Hispanoamérica	2,672	(17.3)	1.2	970	(10.1)	6.3		
Other companies & eliminations	(14)	(75.2)		(71)	n.m.			
OIBDA margin	31.1%	0.7 p.p.	0.7 p.p.	31.9%	1.6 p.p.	1.0 p.p.		
Telefónica España (1)	41.6%	(1.6 p.p.)	0.4 p.p.	43.3%	(0.1 p.p.)	(0.1 p.p.)		
Telefónica Deutschland	23.6%	1.8 p.p.	1.7 p.p.	24.7%	4.4 p.p.	2.3 p.p.		
Telefónica UK	26.8%	1.0 p.p.	1.0 p.p.	27.3%	1.0 p.p.	1.0 p.p.		
Telefónica Brasil (2)	32.7%	2.1 p.p.	2.1 p.p.	33.3%	2.9 p.p.	2.5 p.p.		
Telefónica Hispanoamérica	29.2%	(0.8 p.p.)	(1.5 p.p.)	31.0%	1.3 p.p.	0.6 p.p.		
Operating Income (OI)	4,800	(9.0)	2.8	1,718	(5.5)	(0.4)		
Net income	2,225	(22.0)		983	38.5			
Basic earnings per share (euros)	0.41	(23.6)		0.19	44.8			
CapEx	6,016	(22.4)	0.5	2,362	5.3	(3.8)		
Telefónica España (1)	1,283	(3.0)	(0.4)	393	(9.1)	(9.1)		
Telefónica Deutschland	748	(60.6)	5.7	316	30.2	30.4		
Telefónica UK	654	0.3	10.5	238	0.8	18.0		
Telefónica Brasil (2)	1,369	(8.8)	(10.3)	577	6.8	(6.6)		
Telefónica Hispanoamérica	1,798	(18.4)	5.7	782	7.3	(17.2)		
Other companies & eliminations	164	(6.5)		56	(11.8)			
Spectrum	341	(78.5)	n.m.	331	c.s.	n.m.		
Telefónica España (1)	7	(85.0)	n.m.	-	-	-		
Telefónica Deutschland	4	(99.6)	n.m.	2	6.9	n.m.		
Telefónica UK	-	-	-	-	-	-		
Telefónica Brasil (2)	47	n.m.	n.m.	47	n.m.	n.m.		
Telefónica Hispanoamérica	282	(17.5)	n.m.	282	c.s.	n.m.		
OpCF (OIBDA-CapEx)	5,915	24.4	5.7	1,814	(8.2)	10.8		
Telefónica España (1)	2,672	1.0	1.3	979	3.2	3.3		
Telefónica Deutschland	566	c.s.	(0.9)	148	(7.7)	(23.8)		
Telefónica UK	721	(15.2)	(6.3)	219	(25.8)	(11.4)		
Telefónica Brasil (2)	1,260	15.7	34.9	405	39.2	37.9		
Telefónica Hispanoamérica	874	(15.1)	(4.8)	188	(46.4)	55.4		
Other companies & eliminations	(178)	(22.8)		(125)	76.8			

- Reconciliation included in the excel spreadsheets.

Notes:

- Since the second quarter of 2016 Telefonica's operations in the United Kingdom are no longer reported as discontinued operations within Telefonica Group and all its assets and liabilities have ceased to be reported as "held for sale", and have been reclassified back into full consolidation within Telefonica Group financial statements, in compliance with International Financial Reporting Standards (IFRS). For comparative purposes, the results of Grupo Telefonica of 2015 and the first quarter of 2016 are reported following the same criteria.

- 2015 and 2016 reported figures include hyperinflationary adjustments in Venezuela in both years.

- **Organic criteria** : Assumes constant exchange rates as of 2015 (average FX in 2015) and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales, material non-recurring impacts and restructuring costs. CapEx also excludes investment in spectrum.

- OIBDA and OI are presented before brand fees and management fees.

- OIBDA margin calculated as OIBDA over revenues.

(1) DTS has been consolidated since 1 May 2015.

(2) GVT has been consolidated since 1 May 2015.

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For further information please refer to the information on 2016 third quarter financial results filed by the Company and also available on the Company's website: www.telefonica.com