

FINANCIAL HIGHLIGHTS

- **Main financial and operational metrics growing.**
 - Continued **customer base** quality improvement: LTE (1.7x y-o-y), smartphones (+18%), FTTx and cable (+21%) and mobile contract (+5%).
 - **Revenues** (€13,132m) were up 5.0% vs. January-March 16 (+1.5% organic driven by service revenues +1.7%).
 - Mobile data revenues maintained double-digit growth (+13.5% y-o-y organic) and accounted for 58% of mobile service revenues (+5.4 p.p. y-o-y organic).
 - **OIBDA** (€4,021m) grew 4.8% y-o-y in the quarter (+1.3% organic). OIBDA margin stood at 30.6% and remained stable y-o-y.
 - **Underlying OIBDA** excluded €88m in restructuring costs and reached €4,109m (+6.5% y-o-y).
 - **Operating cash flow** (OIBDA-CapEx excluding spectrum; €2,404m) growth accelerated in the quarter to 12.1% y-o-y (+15.0% in underlying terms to €2,492m).
 - **Net income** reached €779m (+42.2% y-o-y) and earnings per share stood at €0.14 (+48.8%).
- **Progress in the Company's transformation.**
 - Infrastructure 39.9m premises passed with FTTx and cable; LTE coverage 64% (88% in Europe).
 - New customer relationship model based on cognitive intelligence, a pioneer in the sector.
- **Focus on deleverage.**
 - Free cash flow totalled €599m, reflecting seasonality, and improved by €530m vs. January-March 2016.
 - Net debt stood at €48,766m at the end of March 2017.
- **The Company reiterates its guidance and dividend announced for 2017.**
- **T. España:** service revenues fell by 1.5% organic y-o-y and OIBDA by 2.4%; while operating cash flow (OIBDA-CapEx) growth accelerated to +8.3%.
- **T. Brasil** accelerated the growth rate of revenues (+1.6% y-o-y organic), OIBDA (+7.5%) and operating cash flow (+21.6%).
- In **T. Deutschland**, OIBDA growth (+1.4% y-o-y organic) and margin expansion (+1.4 p.p.) continued, while operating cash flow returned to grow (+7.7%), reflecting incremental synergies.
- **T. UK** reinforced its position as a leading mobile operator in the market (contract customers +2% y-o-y), with growth in revenues and OIBDA (+2.1% and +0.6% y-o-y organic, respectively).
- **T. Hispanoamérica:** solid revenue (+9.2% y-o-y organic) and OIBDA (+6.2%) pace of growth, with a significant operating cash flow increase (+23.6%).



Comments from José María Álvarez-Pallete, Executive Chairman:

“First quarter results reflected a further step forward in our business model, which is focused on the pursuit of sustainable growth. The differential quality of our asset portfolio enables us to offer differential services, which translated into improvements in our results; in particular: i) the growth in main financial metrics, including the positive impact of foreign exchange rates in the quarter; ii) the savings obtained from synergy capture and process simplification; and iii) the strengthening of our balance sheet and the strong free cash flow growth, 9x higher vs. January-March 2016. In addition, we have announced the launch of AURA, a new, more innate and simple customer relationship model, a pioneer in the area of cognitive intelligence.

At the same time, the results are aligned with our expectations and allow us to reiterate the guidance set for 2017”.



TELEFÓNICA
SELECTED FINANCIAL DATA
Unaudited figures (Euros in millions)

	January - March	% Chg	
	2017	Reported	Organic
Revenues	13,132	5.0	1.5
Telefónica España	3,066	(2.6)	(2.6)
Telefónica Deutschland	1,771	(4.7)	(4.7)
Telefónica UK	1,601	(8.6)	2.1
Telefónica Brasil	3,165	30.2	1.6
Telefónica Hispanoamerica	3,285	7.6	9.2
Other companies & eliminations	244	(8.6)	(3.3)
Telxius	188	36.4	5.4
OIBDA	4,021	4.8	1.3
Telefónica España	1,143	(8.6)	(2.4)
Telefónica Deutschland	400	2.0	1.4
Telefónica UK	416	(9.8)	0.6
Telefónica Brasil	1,104	37.2	7.5
Telefónica Hispanoamerica	904	4.4	6.2
Other companies & eliminations	53	(15.8)	(44.7)
Telxius	92	n.m.	14.3
OIBDA margin	30.6%	(0.1 p.p.)	(0.0 p.p.)
Telefónica España	37.3%	(2.4 p.p.)	0.1 p.p.
Telefónica Deutschland	22.6%	1.5 p.p.	1.4 p.p.
Telefónica UK	26.0%	(0.4 p.p.)	(0.4 p.p.)
Telefónica Brasil	34.9%	1.8 p.p.	1.9 p.p.
Telefónica Hispanoamerica	27.5%	(0.8 p.p.)	(0.8 p.p.)
Operating Income (OI)	1,570	3.6	5.2
Net income attributable to equity holders of the Parent	779	42.2	
Basic and diluted earnings per share (euros)	0.14	48.8	
CapEx	1,621	(4.4)	(8.4)
Telefónica España	333	(22.7)	(22.7)
Telefónica Deutschland	208	(5.1)	(4.2)
Telefónica UK	225	17.1	30.8
Telefónica Brasil	397	14.1	(11.0)
Telefónica Hispanoamerica	430	(6.8)	(9.0)
Other companies & eliminations	28	(36.6)	(35.2)
Telxius	13	(37.1)	(41.6)
Spectrum	4	140.7	161.3
Telefónica España	-	-	-
Telefónica Deutschland	0	n.m.	n.m.
Telefónica UK	-	-	-
Telefónica Brasil	-	-	-
Telefónica Hispanoamerica	3	n.m.	n.m.
OpCF (OIBDA-CapEx)	2,400	12.0	8.9
Telefónica España	810	(1.2)	8.3
Telefónica Deutschland	192	11.0	7.7
Telefónica UK	191	(29.1)	(21.0)
Telefónica Brasil	707	54.7	21.6
Telefónica Hispanoamerica	474	17.3	23.6
Other companies & eliminations	26	30.0	(52.9)
Telxius	79	n.m.	35.0

- Reconciliation included in the excel spreadsheets.

Notes:

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

- 2016 and 2017 reported figures include hyperinflationary adjustments in Venezuela in both years.

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

- Telxius financials are fully reported in Other Companies & Eliminations in T. Group since 1 January, 2017, reflecting the final integration into Telxius of the mobile communications towers transferred from T. España, T. Deutschland, T. Brasil and T. Hispanoamérica segments and the international submarine fiber optic cable (which was already being reported within Other Companies and Eliminations). As a consequence, 2017 reported figures for these segments follow the same criteria. In addition, 2016 segment results have been revised to reflect the different dates of asset integration into Telxius, affecting T. España (since 1 January, 2016), T. Deutschland (since 1 May, 2016), T. Brasil (since 1 April, 2016) and T. Hispanoamérica (T. Perú since 1 April 2016 and T. Chile since 1 May 2016). Organic y-o-y changes on segments reflect all the charges related to the towers transferred to Telxius since 1 January 2016. The results of the segments do not include intra-group capital gains resulting from the transfer of towers to Telxius in 2016.

- **Organic criteria:** Assumes constant exchange rates as of 2016 (average FX in 2016), excludes the impact from hyperinflation in Venezuela in both years 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.

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In October 2015, the European Securities Markets Authority (ESMA) published guidelines on Alternative Performance Measures (APM), applicable to the regulated information published from July 3, 2016. Information and disclosure related to APM used in the present document are included in the Appendix. Moreover, recipients of this document are invited to read our consolidated financial statements and consolidated management report for 2016 submitted to the Spanish National Securities Market Commission.

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For further information please refer to the information on 2017 first quarter financial results filed by the Company and also available on the Company's website: www.telefonica.com