



# 1



## Main Magnitudes 2016

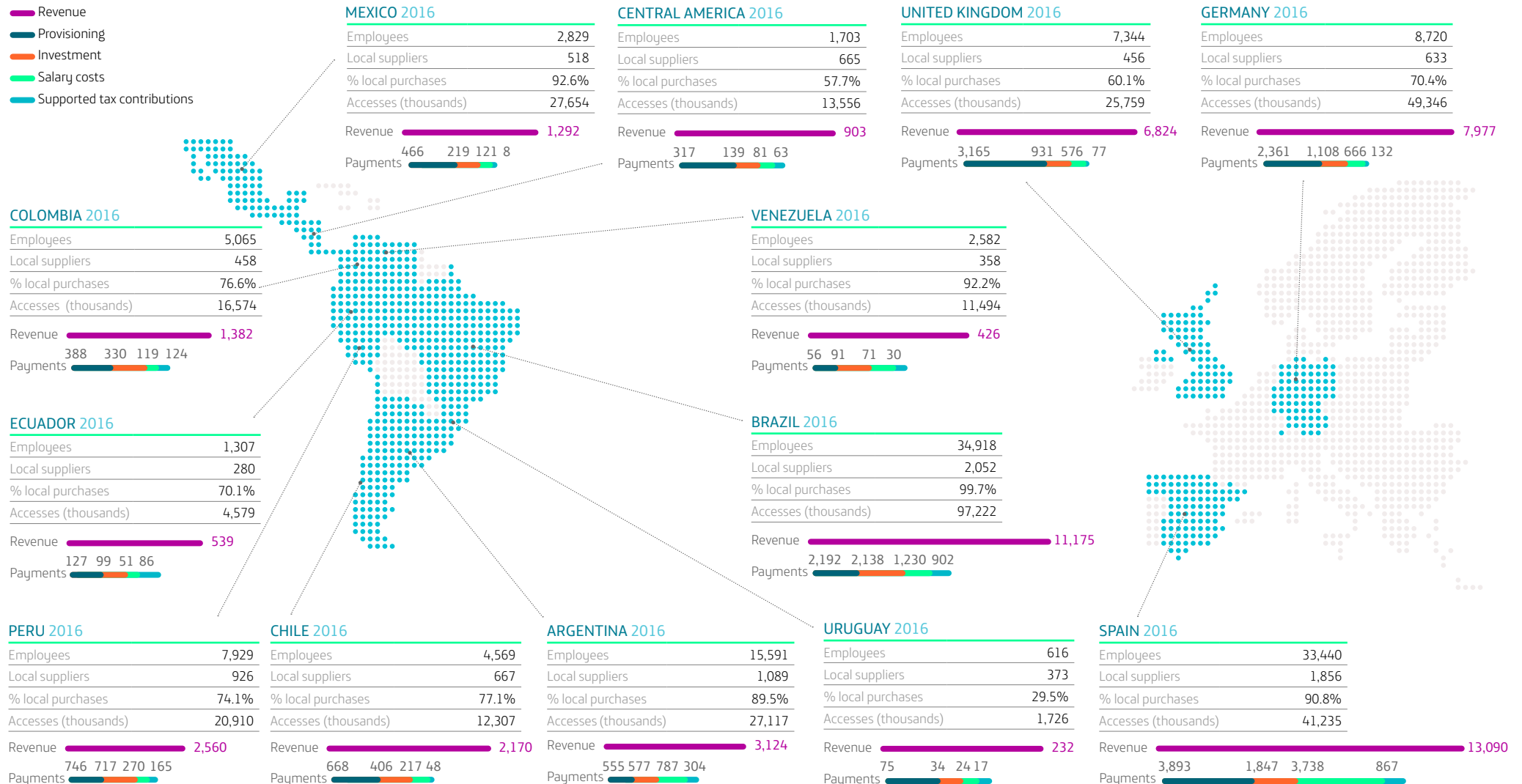
- Main magnitudes
- Consolidated results
- Consolidated statement of financial position
- Main non-financial indicators
- Share price performance



# Main magnitudes

All the economic data, in millions of euros

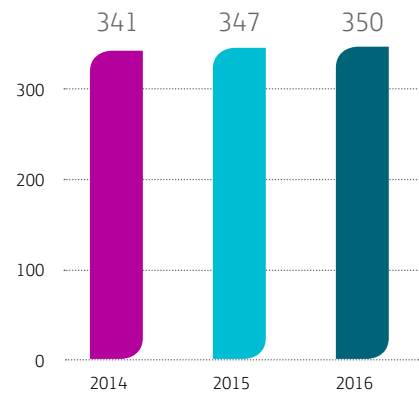
- Revenue
- Provisioning
- Investment
- Salary costs
- Supported tax contributions





TOTAL ACCESSES

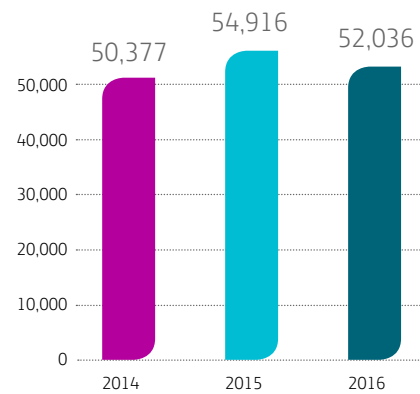
Millions



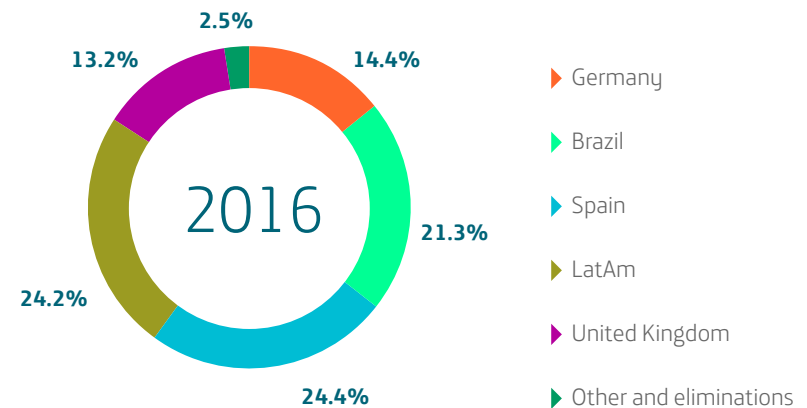
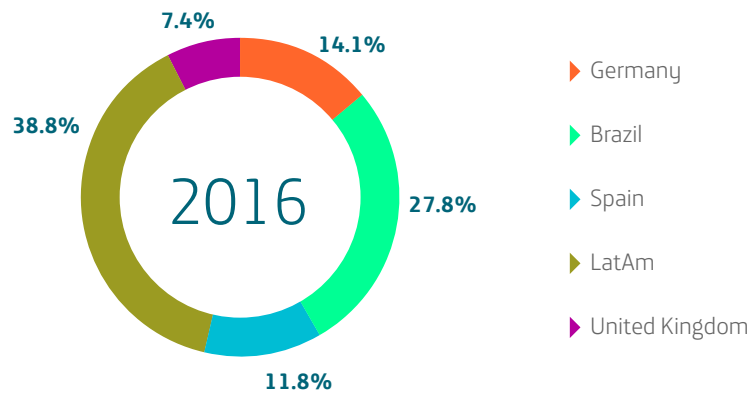
In December 2016 the Telefónica Group's total accesses increased by 1% compared with 2015 to reach 350 million, with a continuous improvement in the quality of the customer base. LTE customers stood at 66.3 million (1.8 times more than in the previous year), achieving a penetration rate of 25% (+10 p.p. year-on-year). We should also highlight the increase in *smartphones* (+17% year-on-year), which stood at 147.2 million, with a penetration of 57% (+8 p.p. year-on-year) and FTTx and cable customers, who grew by 24% in comparison with 2015 and accounted for 43% of the total fixed broadband accesses (+8 p.p. year-on-year).

REVENUE

Millions of euros

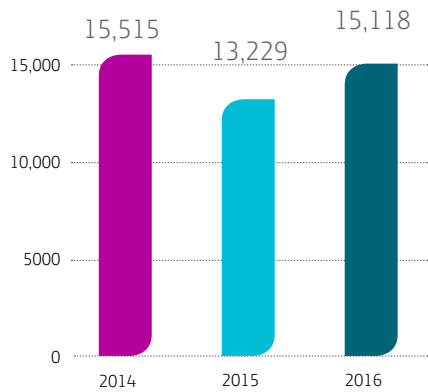


Revenue totalled 52,036 million euros, which represents +1.3% year-on-year organic growth (-5.2% in reported terms). Moreover, excluding the negative impact of regulation, revenue rose by +2.2% in 2016. The Company's high degree of diversification and scale is reflected in its revenue structure: thus, T. Spain accounted for 24.4% of the consolidated income in January-December, followed by T. Latin America (24.2%), T. Brazil (21.3%), T. Germany (14.4%) and T. United Kingdom (13.2%).



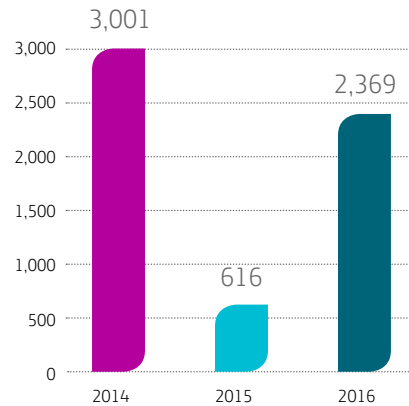


OIBDA Millions of euros

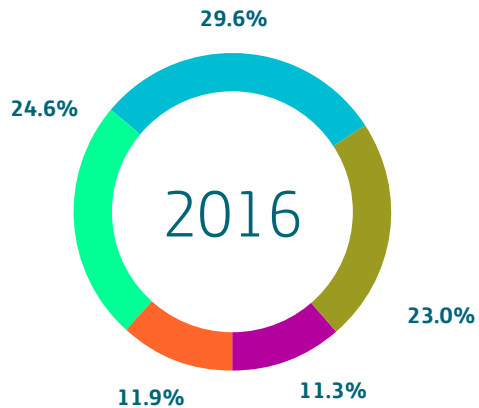


In 2016, the OIBDA totalled 15,118 million euros and increased by 4.7% in organic terms (+14.3% year-on-year in reported terms). In underlying terms, the OIBDA totalled 16,519 million euros. The OIBDA margin totalled 31.5% in organic terms and rose by 1.0 p.p. compared with the previous year.

NET PROFIT Millions of euros



The underlying net profit totalled 4,038 million euros (2,369 million euros in reported terms) and increased by 4.8% year-on-year. The underlying basic net profit per share stood at 0.75 euros in January-December (+5.1% set against 2015).



- ▶ Germany
- ▶ Brazil
- ▶ Spain
- ▶ LatAm
- ▶ United Kingdom
- Others and Eliminations (-0.3%)

**DEFINITIONS:**

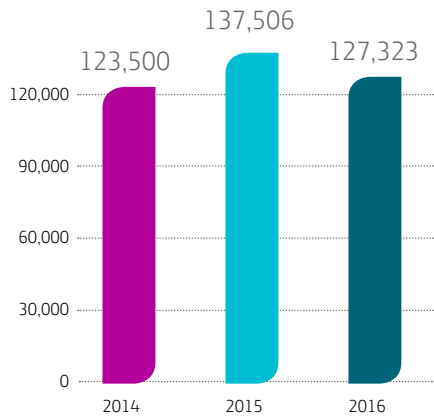
**Organic growth:** Constant average exchange rates are assumed in 2015; the impact of the adjustment due to hyperinflation in Venezuela is excluded from both years and the perimeter of consolidation is deemed constant. At an OIBDA and OI level, writedowns, capital gains/losses due to the sale of companies, sales of towers, restructuring costs and non-recurrent material impacts are excluded. The CapEx also excludes investments in spectrum.

**Underlying growth:** Reported figures excluding the effect of writedowns, capital gains/losses due to the sale of companies, sales of towers, restructuring costs and non-recurrent material impacts, as well as amortizations of assets arising from purchasing price assignment processes.



EMPLOYEES

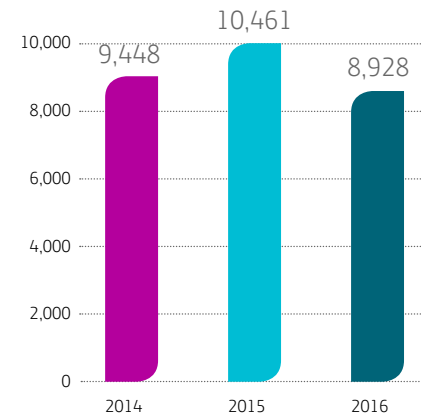
People



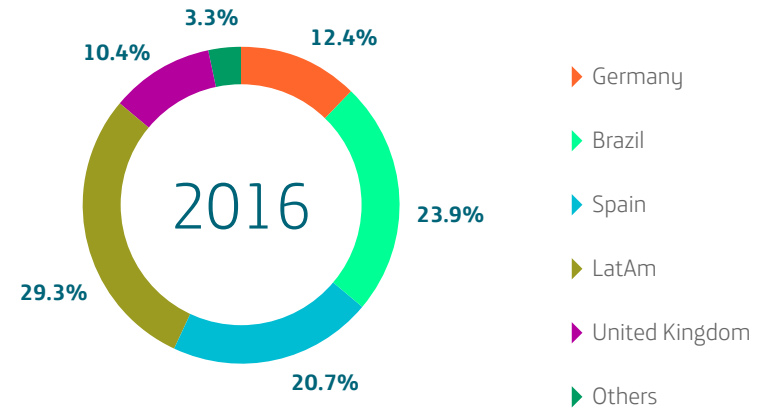
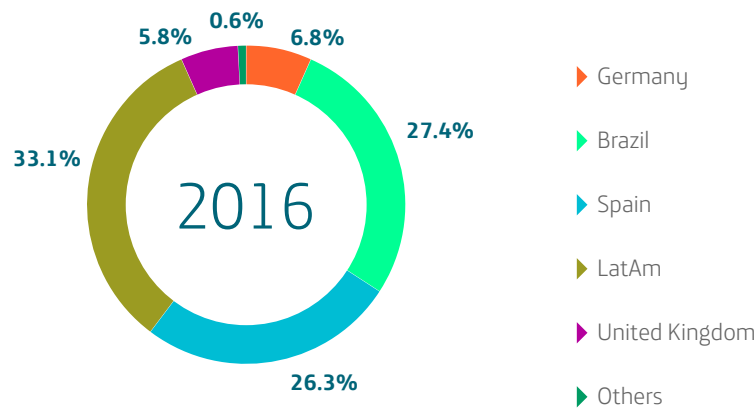
The number of Telefónica employees on 31 December 2016 totalled 127,323, which represents a decrease of 7.4% compared with the previous year. This decrease was mainly generated by the sales of Telefe in Argentina and Vocem in Venezuela, as well as the implementation of the Plan of measures for the individual suspension of the employment relationship in Spain for 2016 and 2017. The number of professional women stood at 47,933, or 37.6% of the total, while the number of men stood at 79,390, or 62.4% of the total. The percentage of women at management level stood at 20.5%.

INVESTMENT

Millions of euros



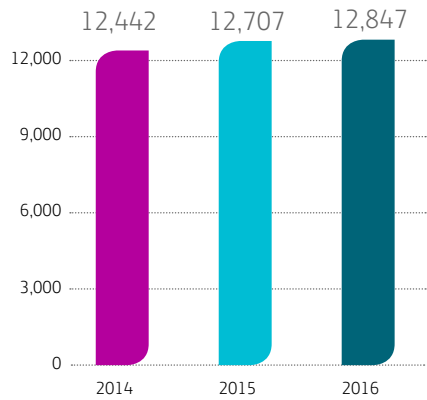
In 2016, the CapEx for January-December totalled 8,928 million euros, including 345 million euros for the acquisition of spectrum, and increased by 3.9% in organic terms compared with 2015 (-14.7% in reported terms). The investment effort was mainly focused on the deployment of ultra-fast networks, which meant that investment in growth and transformation accounted for 78.8% of the total (+0.2 p.p. year-on-year) and that investment levels over total income stood at 17%.





### SUPPLIERS

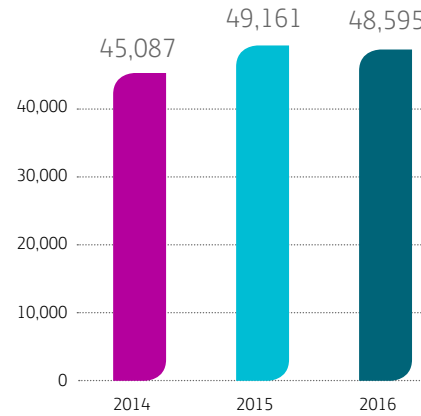
Units



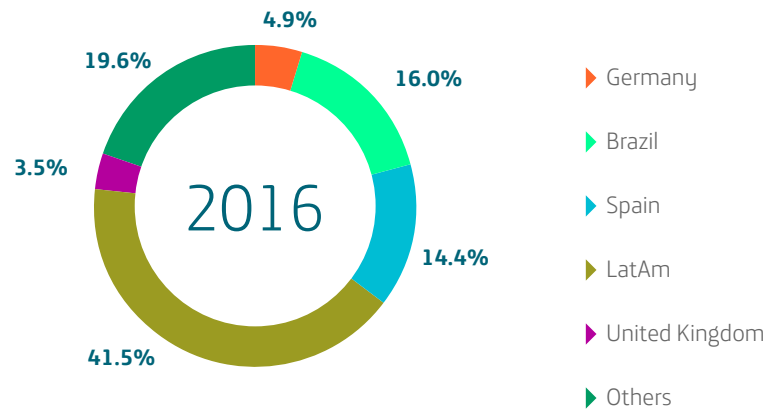
The total number of suppliers that worked with Telefónica during 2016 grew slightly to 12,847, with a total awarded volume of 26,063 million euros, of which 81.88% was awarded to local suppliers.

### NET FINANCIAL DEBT

Millions of euros



Net financial debt stood at 48,595 million euros in December 2016. In relation to the previous year, net financial debt decreased by 566 million euros, mainly due to i) the generation of free cash totalling 4,370 million euros, ii) net financial divestments amounting to 500 million euros, chiefly associated with the sale of shares in China Unicom and Telefe, and iii) the lower value in euros of the net foreign currency debt (91 million euros). On the other hand, the factors which increased the debt were: (i) shareholder remuneration (dividends, treasury stock, issuance of equity instruments net of coupons) totalling 2,389 million euros, (ii) the payment of labour-related commitments (738 million euros) and (iii) other factors affecting the valuation of the liabilities, totalling 1,268 million euros (including the refinancing of commercial liabilities).





# Consolidated results

Millions of euros	2015	2016
<b>Revenues</b>	<b>54,916</b>	<b>52,036</b>
Internal expense capitalised	946	867
Operating expenses	(43,075)	(38,043)
Supplies	(16,547)	(15,242)
Personnel costs	(10,349)	(8,098)
Other operating expenses	(16,179)	(14,703)
Other net revenues (expenses)	270	186
Result of disposal of fixed assets	279	296
Impairment and goodwill	(106)	(224)
<b>Underlying Operating Income Before Depreciation and Amortization (OIBDA)</b>	<b>16,851</b>	<b>16,519</b>
<b>Operating Income Before Depreciation and Amortization (OIBDA)</b>	<b>13,229</b>	<b>15,118</b>
<b>OIBDA Margin</b>	<b>24.1%</b>	<b>29.1%</b>
Depreciation and amortization	(9,704)	(9,649)
<b>Operating income (OI)</b>	<b>3,525</b>	<b>5,469</b>
Share of investment results by the equity method	(10)	(5)
Net financial income	(2,609)	(2,219)
<b>Pre-tax income</b>	<b>906</b>	<b>3,245</b>
Income tax	(155)	(846)
<b>Profit for the year</b>	<b>751</b>	<b>2,399</b>
Attributable to minority interests	(135)	(30)
<b>Net income</b>	<b>616</b>	<b>2,369</b>
<b>Weighted average number of ordinary shares outstanding (millions)</b>	<b>5,071</b>	<b>5,071</b>
<b>Basic net earnings per share (euros)</b>	<b>0.07</b>	<b>0.42</b>
<b>Underlying basic net earnings per share (euros)</b>	<b>0.71</b>	<b>0.75</b>

## Notes:

Since the second quarter of 2016, Telefónica United Kingdom's operations have ceased to be reported as discontinued operations, and its assets and liabilities as "held for sale", and are now reported line by line, using the global integration method in accordance with the IFRS. For comparative purposes, the Telefónica Group's consolidated results for 2015 and the first three months of 2016, until 31 March, are reported under the same criterion.

The weighted average number of shares outstanding during the period is obtained by applying the IAS 33, "Earnings per share". Therefore, the weighted average of treasury shares during the period is not counted as outstanding shares. Moreover, the denominators are adjusted with the operations which entail a modification of the number of outstanding shares, without an associated variation in the equity figure (as if they had occurred at the beginning of the first presented period), as in the case of the "scrip dividend" for 2015 and 2016. Likewise, the ordinary shares which are issued for the conversion of the imperatively convertible bonds issued on 24 September 2014 are included in the calculation from that date onwards.

The basic net earnings per share are obtained by dividing the figure for net income, adjusted for the allocation to the year of the net coupon corresponding to "Other equity instruments", between the weighted average of ordinary outstanding shares during the period.

The data reported in 2015 and 2016 include the adjustments for hyperinflation in Venezuela in both years.

The consolidated results of the Telefónica Group have consolidated the results of GVT and DTS since 1 May 2015.

The consolidated results of the Telefónica Group exclude Telefe, with effect from 1 November 2016.



# Consolidated statement of financial position

Millions of euros	2015	2016
Non-current assets	101,614	103,667
Intangible	21,149	20,518
Goodwill	27,395	28,686
Tangible fixed assets and investment properties	33,910	36,393
Equity-accounted investments	80	76
Non-current financial assets	10,405	9,765
Deferred tax assets	8,675	8,229
Current assets	18,715	19,974
Stocks	1,456	1,055
Debtors and other accounts receivable	10,226	10,675
Current financial assets	3,053	2,954
Tax receivables	1,341	1,533
Cash and cash equivalents	2,615	3,736
Non-current assets held for sale	24	21
<b>Total Assets = Total Liabilities</b>	<b>120,329</b>	<b>123,641</b>
Net worth	25,436	28,385
Net worth attributable to parent company shareholders and other equity instruments holders	15,771	18,157
Net worth attributable to minority interests	9,665	10,228
Non-current liabilities	60,509	59,805
Long-term financial debt	47,117	45,612
Creditors and other long-term accounts payable	2,388	1,925
Deferred tax liabilities	2,550	2,395
Long-term provisions	8,454	9,873
Current liabilities	34,384	35,451
Short-term financial debt	12,970	14,749
Creditors and other short-term accounts payable	17,134	16,150
Tax payables	2,241	2,332
Short-term provisions	2,022	2,220
Liabilities associated with non-current assets held for sale	17	-
<b>Financial data</b>		
Net financial debt <sup>(1)</sup>	49,161	48,595
<b>Net financial debt / OIBDA</b>	<b>2.87 (times)</b>	<b>2.95 (times)</b>

<sup>(1)</sup> Includes 418 million euros as of December 16, corresponding to the "O2 Refresh" product portfolio in the United Kingdom and generating the corresponding financial interests. The net financial debt for the comparative periods has been re-stated using the same criterion.

#### Notes:

Since the second quarter of 2016, Telefónica United Kingdom's operations have ceased to be reported as discontinued operations within the Telefónica Group, and its assets and liabilities as "held for sale", and are now reported line by line, using the global integration method in the financial statements of the Telefónica Group, in accordance with the IFRS. For comparative purposes, the Telefónica Group's consolidated results for 2015 and the first three months of 2016, until 31 March, are reported under the same criteria.

The data reported in 2015 and 2016 include the adjustments for hyperinflation in Venezuela in both years.





# Main non-financial indicators

ECONOMIC	Unit	2015	2016
<b>Impact on communities</b>			
% purchases awarded locally	Percentage	84.7%	81.9%
Average period for payment to suppliers (Spain)	Days	49	45
Global tax contribution: total contribution (borne and collected)	Millions of euros	11,454	11,364
<b>Internal impact</b>			
Number of audits or assessments performed on risk suppliers	Units	n.s. <sup>(1)</sup>	11,678
Risk suppliers with improvement plans arising from the audits performed	Units	608	468
Minimum salary for entry into local company vs local SMI (Spain)	Times	2.15	2.24
<b>Customer</b>			
Managed traffic (December 2016)	Tbytes/month	1,653,406	2,562,525
Customer satisfaction index	Points out of 10	7.51	7.46
<b>Digital Trust</b>			
Attendees at courses related to data protection	People	49,352	25,498
Number of fines confirmed due to data protection issues in 2016	Units	78	55
<b>Internal complaint mechanisms</b>			
Total number of complaints received	Units	822	1,152
Total number of valid complaints	Units	206	641
Measures taken to terminate the employment contract as a result of the valid complaints received	Units	38	135
<b>Anti-corruption</b>			
Number of confirmed cases of corruption	Units	0	2
Measures taken in relation to employees in the workplace as a result of confirmed cases of corruption	Units	0	2
<b>ENVIRONMENTAL</b>			
<b>Energy</b>			
Total energy consumption	MWh	5,984,252	5,819,320
Energy from renewable sources	MWh	1,244,140	2,601,744
<b>Emissions of greenhouse gases (GHG)</b>			
Direct emissions (scope 1)	tCO <sub>2</sub> eq	137,014	137,043
Indirect emissions (scope 2, "method based on localisation")	tCO <sub>2</sub> eq	1,835,220	1,586,302
Indirect emissions (scope 2, "method based on the market")	tCO <sub>2</sub> eq	1,381,710	811,711
<b>Waste</b>			
Waste managed	Tonnes	26,782	23,508
% recycled waste	Percentage	96.5%	97.2%
<b>Consumption</b>			
Water	Thousands of cubic metres	3,926	3,754

SOCIAL	Unit	2015	2016
<b>Internal (HR)</b>			
Total number of employees at the end of the period	People	129,890	127,323
Percentage of women on the payroll	Percentage	37.7%	37.6%
Voluntary turnover	Percentage	7.8%	6.8%
Employees younger than 30 years of age	People	25,791	24,331
Percentage of women in management positions	Percentage	19.1%	20.5%
Number of employees with disabilities	People	886	855
Total average salary of women in comparison with that of men with no difference in seniority: managers (Spain)	Percentage	96.5%	97.3%
Total average salary of women in comparison with that of men with no difference in seniority: middle management (Spain)	Percentage	96.2%	95.9%
Percentage of employees covered by collective bargaining agreements	Percentage	70.4%	64.8%
Rating of overall work environment	Points out of 100	79.0	79.0
Number of training hours	Thousands of hours	3,986.4	4,910.1
Absenteeism rate (AR) <sup>(2)</sup>	Units		0.02
Incident rate (IR) <sup>(3)</sup>	Units	1.04	1.05
Number of discrimination cases detected	Units	0	0
Measures taken as a result of discrimination cases	Units	0	0
<b>External</b>			
Penetration of broadband over fixed plant	Percentage	52.8%	55.4%
Pre-pay mobile customers	Thousands	157,284	165,663

<sup>(1)</sup> The data for 2016 are not comparable with those of 2015, as from this year onwards the data also include the evaluations performed on suppliers and administrative audits.

<sup>(2)</sup> Number of days lost due to absences during the period/total number of days worked during the period.

<sup>(3)</sup> (Total number of accidents/total hours worked) x 200,000.

# Share price performance

The European equity markets recorded volatile behaviour in 2016, a year marked by different political events. The initial months of the year were overshadowed by doubts regarding economic growth in China, adversely affecting the performance of the emerging countries. In June, the United Kingdom voted in a referendum not to continue within the European Union, triggering sharp falls in the markets, which recorded minimum annual levels. In November, the elections in the United States generated a further increase in market volatility. As for monetary policy, the European Central Bank (ECB) extended the debt repurchase programme and lowered interest rates to 0%, in order to generate greater economic activity and raise levels of inflation. For its part, the Federal Reserve delayed the expected rise in rates until December.

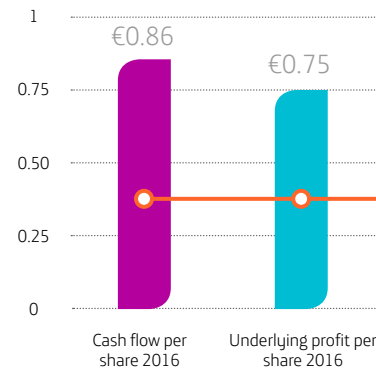
Within this context, the main European indices ended 2016 with a display of mixed behaviour (EStoxx-50 +0.7%). On the positive side, we can highlight the performance of the FTSE-100 (+14.4%), driven up by the strong influence of the mining companies and the depreciation of the pound, which favoured export companies and multinationals with limited exposure to the domestic market; as well as DAX (+6.9%) and CAC-40 (+4.9%). The Ibex-35 (-2.0%) and the FTSEMIB (-10.2%) were the only indices which ended the year with falls,

due to their exposure to the developing countries and, in the case of Italy, to doubts concerning the situation of the banking sector.

By sector, and within the DJ Stoxx-600 (-1.2%) in Europe, basic resources (+61.9%), energy (+22.9%) and construction materials (+9.2%) led the positive returns, while the health sector (-10.2%), travel and leisure (-11.1%) and telecommunications (-15.8%) registered the most negative. The comparatively bad performance of the telecommunications sector during the year was due to the cancellation of certain corporate operations, adverse regulatory news, weak revenue growth trends and concerns about increases in levels of investment, together with the stock market rotation towards more cyclical sectors following the elections in the United States.

Telefónica shares ended 2016 at 8.82 euros per share, with shareholder return totalling -6.3%, a reflection of the share price performance (-13.8%) and the dividends distributed over the year (0.40 euros in cash and 0.35 euros in

Telefónica offers attractive and sustainable *shareholder remuneration*, preserving cash and organic deleveraging



## DIVIDEND PER SHARE

*Dividend 2017*  
**€0.40**  
 100% cash

scrip). The return was higher than that of the sector in Europe overall, which registered a total shareholder return, after dividends, of -11.7%.

Telefónica closed 2016 with a market capitalisation of 44,433 million euros, making it the eleventh largest company in the telecommunications sector worldwide. The daily trading volume on the Spanish continuous market reached 24.6 million shares.

At the Shareholders' Office we ensure that we maintain smooth and transparent communication with our private investors. Over the past year we have attended a total of 67,246 calls on the shareholder information line (900 111 004), receiving a monthly average of 5,604 inquiries, and we have dealt with 6,271 inquiries via e-mail and post.

**FURTHER INFORMATION** Refer to the "Shareholders and Investors" section of our website