

Telefonica

RESULTS

JANUARY | DECEMBER 2018

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In October 2015, the European Securities Markets Authority (ESMA) published guidelines on Alternative Performance Measures (APM), applicable to regulated information published from July 3, 2016. Information related to APM used in this presentation are included in our consolidated financial statements and consolidated management report for the year 2018 submitted to the Spanish National Securities Market Commission (CNMV), in Note 2, page 17 of the .pdf filed. Recipients of this document are invited to read it.

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2018 Highlights

2019 Outlook

Mr. José M^a Álvarez-Pallete
Chairman & CEO



2018 Highlights

Gaining customers' relevance

- + Top digital customer experience, best technology at their service
- + Demand for FfTx/Cable, LTE, Pay TV unabated
- + Increasing customer lifetime = providing business sustainability

Transforming our revenue mix

- + Radical transformation in demand from voice to data
- + Increasing weight of high growing revenues (BB and SoC)
- + Created several unicorns

Investing to reinforce our platforms

- + Best technological platforms at the service of our customers' needs
- + At the forefront of technology
- + Pioneers in digitalisation, simplification, virtualisation & AI

Growth (sustainable & profitable)

- + Accelerating our growth path
- + Robust and sustainable FCF
- + Efficient use of investment resources for sustainable growth

Strengthening financial position

- + 3rd straight year of net debt decline
- + Organic deleverage driven by FCF
- + Reshaping our asset's portfolio via ROCE-driven inorganic actions

Dividends (sustainable & attractive)

- + Returned value to shareholders
- + Reinforced balance sheet
- + Investment grade credit rating

DESPITE TOUGH REGULATION

2018 proof points backing up our strategy

Gaining customers' relevance

- + 356 mill accesses; stable churn
- + Excellence in value customers
 - ✓ +21% FfTx/Cable
 - ✓ +20% LTE
 - ✓ +5% Pay TV
- + Leadership in Digital Experience
 - ✓ Record CSI (Customer Satisfaction)

Transforming our revenue mix

- + 53% BB & SoC revs; +1pp y-o-y
- + 35% Voice & access revs. ; -4pp y-o-y
- + Digital Revs €7Bn; +24.0% y-o-y
- ✓ Global Digital Ecosystem

Investing to reinforce our platforms

- #1 fiber in Europe & Latam
- #1 virtualisation
- #1 Shutdown
- ✓ Simplification programs



Growth (sustainable & profitable)

- + +2.4% Revs. (€48.7bn)
- + +3.2% Rev. per access (+3.8% in Q4)
- + +3.5% OIBDA (€15.8bn underlying)
- + +8.0% OpCF
- + 15.1% CapEx/Sales
- + +5.3% FCF ex spectrum (€5.6bn)

Strengthening financial position

- + Net debt -€2.4Bn in 2018. €41.8bn
 - ✓ +11% yoy avg.debt life (9.0 yrs)
 - ✓ +3 p.p. fixed rates to 74%
 - ✓ Cost of debt 3.41% (-0.04 p.p. qoq)
- + Net debt -€3.8bn incl. post closing events (disposals of T. Centro America, Antares) to €40.4bn

Dividends (sustainable & attractive)

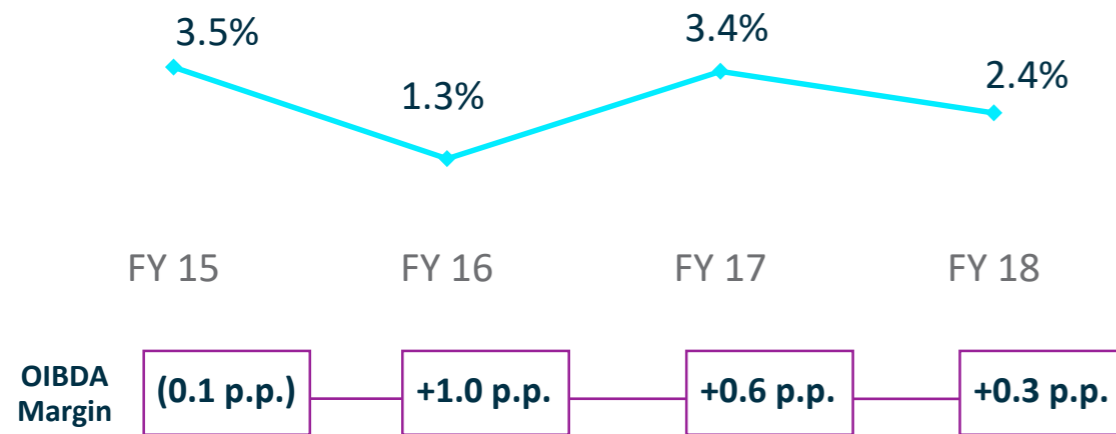
- + €0.40 DPS (42% FCF pay-out)
- + €0.96 FCFS (-1.2%)
- + €0.57 EPS (+2.2%)
- ✓ Focus on ROCE

y-o-y organic variations

Last 4 years: organic growth; growing cash; reducing debt

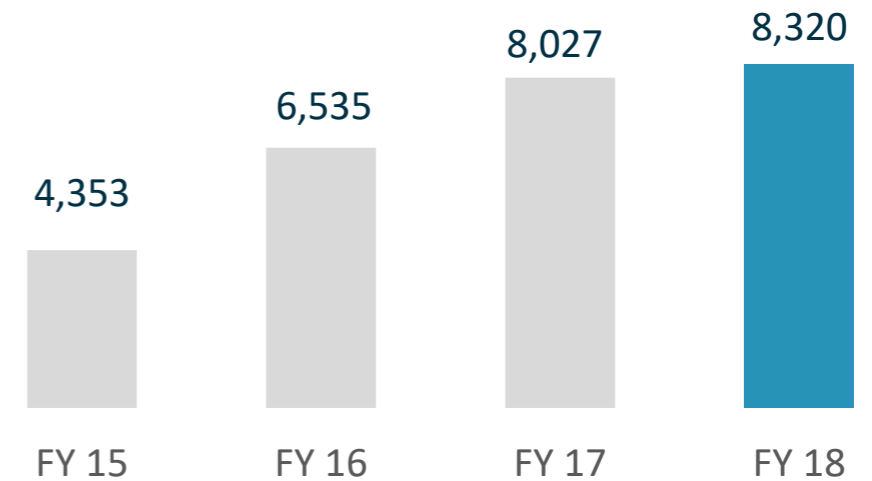
Revenues

y-o-y organic



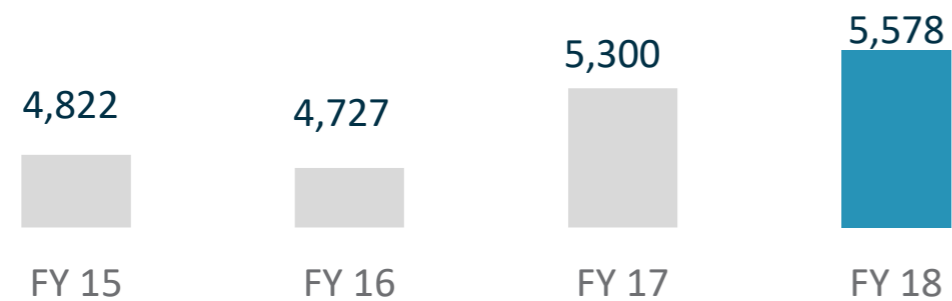
OpCF ex-spectrum

€m



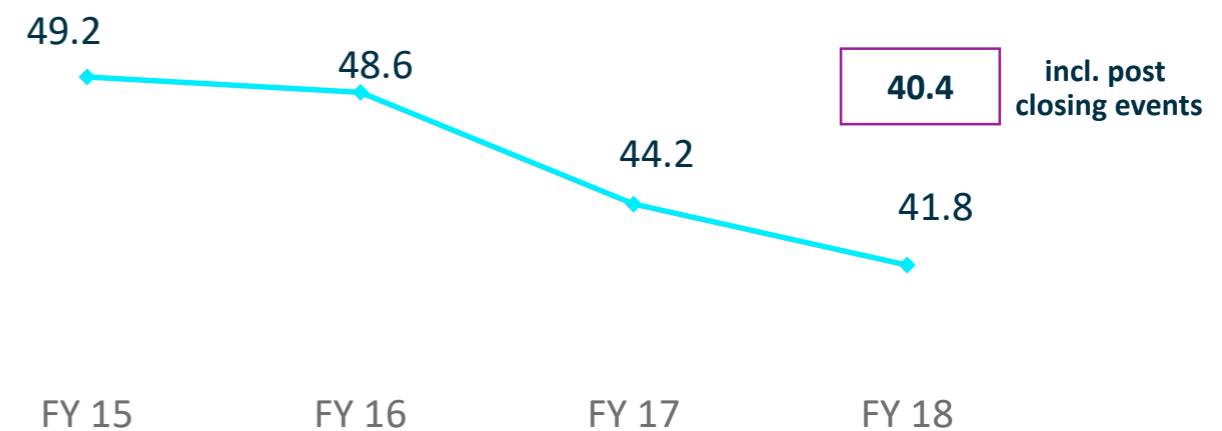
FCF ex-spectrum

€m



Net debt

€Bn



Financials in a nutshell

€ in millions	FY 18			Q4 18			
	Reported	Reported	Organic	Reported	Reported	Organic	
	IFRS 15&9	y-o-y	y-o-y	IFRS 15&9	y-o-y	y-o-y	
Revenues	48,693	(6.4%)	2.4%	12,917	(1.9%)	3.0%	▶ Profitable Growth
Service revenues	43,585	(8.9%)	1.0%	11,275	(5.1%)	1.3%	
OIBDA Underlying	15,813	(5.0%)		4,008	(5.2%)		
OIBDA	15,571	(3.8%)	3.5%	3,537	(9.6%)	2.4%	
OIBDA margin	32.0%	0.9 p.p.	0.3 p.p.	27.4%	(2.3 p.p.)	(0.2 p.p.)	
OpCF (ex-spectrum)	8,320	3.6%	8.0%	1,354	11.6%	31.1%	▶ Double-digit OpCF growth
Net Income	3,331	6.4%		610	(11.9%)		
EPS (€)	0.57	2.2%		0.11	(11.9%)		
FCF	4,904	(0.9%)		1,947	13.1%		▶ FCF boost
FCF (ex-spectrum)	5,578	5.3%		1,987	14.1%		
Net Financial Debt	41,785	(5.5%)					▶ Further ND decline

Reported headlines reflect

- FX swings & regulation
- Hyperinflation in Argentina in Q4 & FY 18: Revs. (+€305m; -€313m), OIBDA (+€80m; -€148m) & N. Income (-€46m; -€305m)
- Other special factors in Q4 & FY 18: (OIBDA: Q4: -€552m; FY: -€93m; N. Income Q4: -€606m; FY: -€811m)

Delivering on our commitments

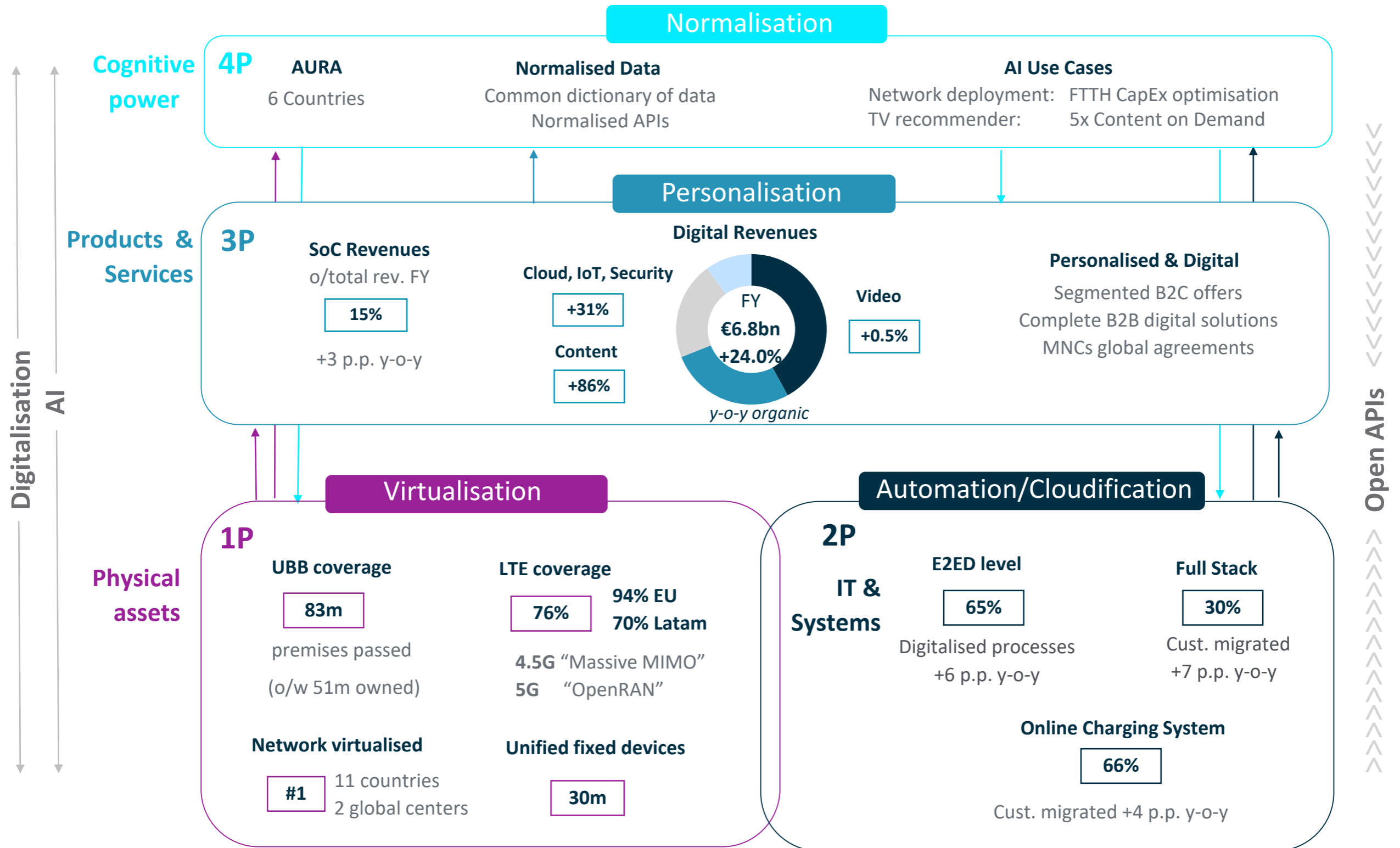
Operating 2018 guidance (organic)	Upgraded Guidance 2018	FY 18
Revenues	Growth of around 2% (despite regulation dragging: ~-0.9 p.p.)	+2.4% ✓
OIBDA Margin	Continues expanding around 0.5 p.p. (despite regulation dragging ~-1.6 p.p. on OIBDA growth)	+0.3 p.p. ✓
CAPEX ex-spectrum/Sales	Around 15%	15.1 % ✓

Solid balance sheet
Additional deleveraging
Improved ROCE
Attractive, stable & sustainable dividend

Dividends to be paid in 2018 calendar yr. €0.40/sh.
 Cash: 15/Jun/18 €0.20/sh.
 Cash: 20/Dec/18 €0.20/sh.

2018 DIVIDEND	€0.4/SH. CASH
Interim Dec-18	€0.20/sh. ✓
Final Jun-19	€0.20/sh. ✓

Our platforms make us relevant to our customers



FY & Q4 18 Results

Mr. Ángel Vilá
COO



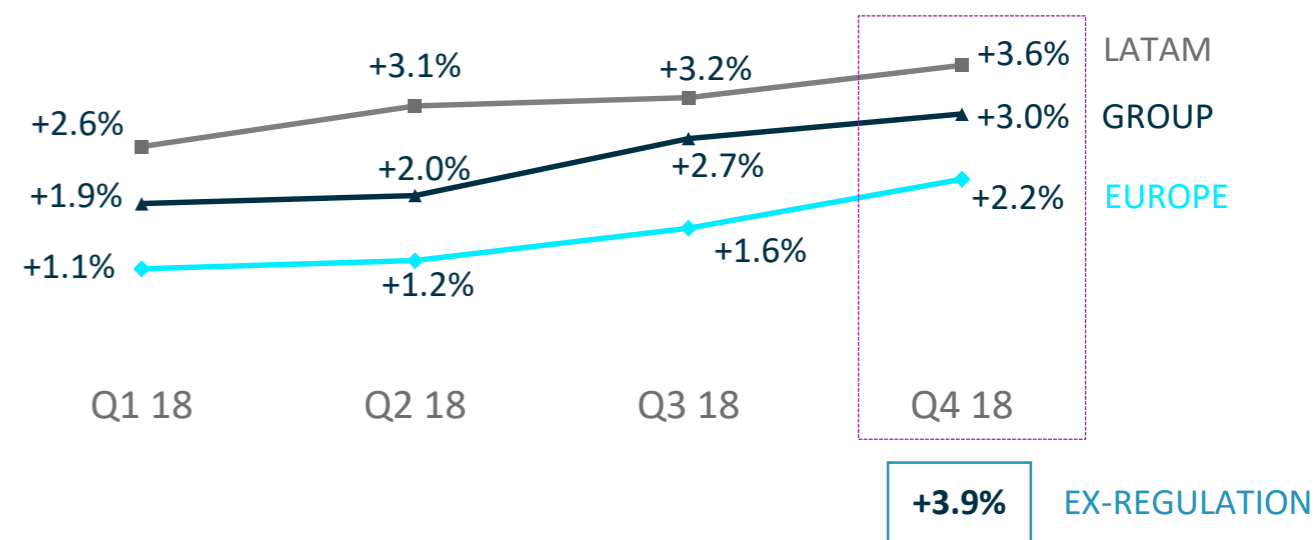
Ongoing strong momentum

Sequential improvement in Revenues & OpCF

- **+30 bps revs. acceleration**
 - Services revs. (+10 bps.); mainly Brazil + Spain
 - Handsets sales (+20bps)
- **Both Latam and Europe revs. ramping-up**
 - 60 bps Europe
 - 40 bps Latam
- **Q4 revs. €12.9bn** (€11.7bn Q3)
- **Outstanding Q4 OpCF** (+27.1 p.p. q-o-q)
- **Sustained OIBDA** (Q4:+2.4%)

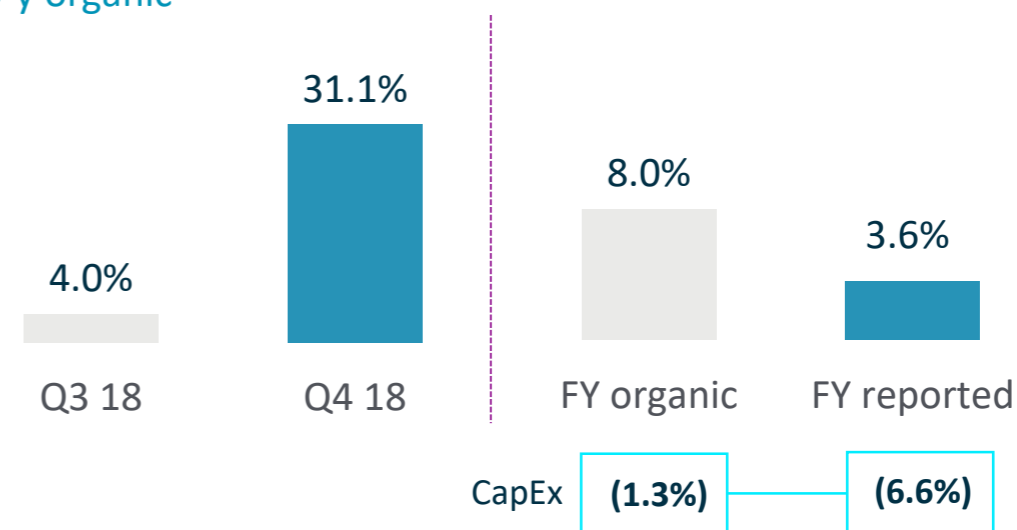
Revenues

y-o-y organic



OpCF (ex-spectrum)

y-o-y organic

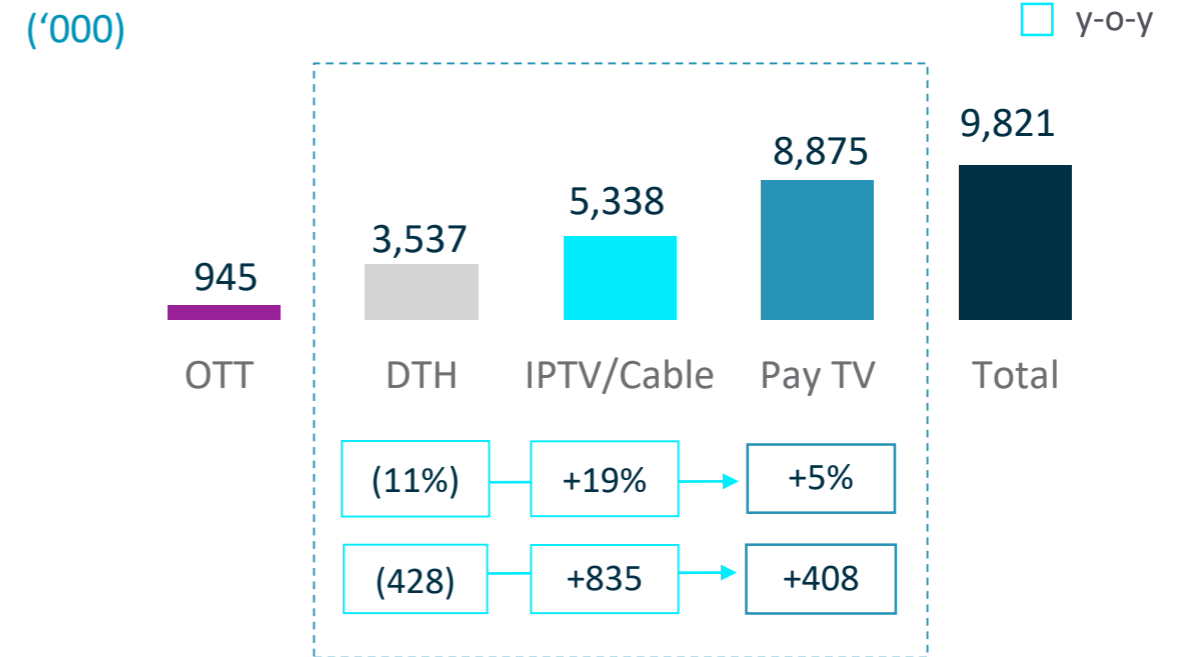


B2C | Enriched portfolio, video and data boost growth

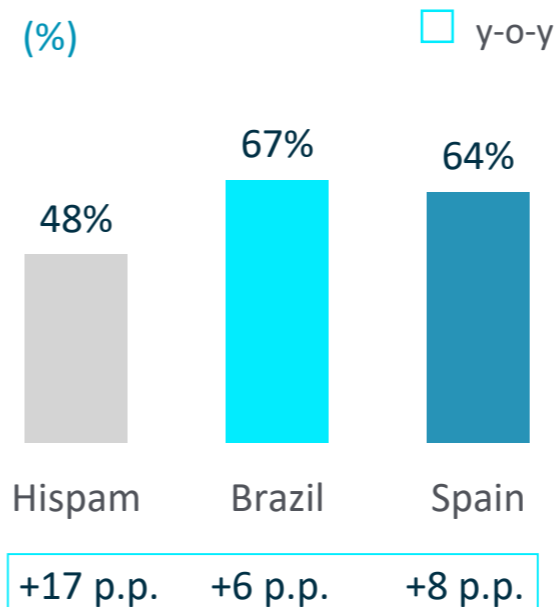
Growth across regions in 2018

- **New offers developed in convergent markets**
 - “M4M” new Fusión portfolio (SP Oct-18)
 - Pay TV launch (ARG Oct-18)
 - **First convergent offer** (PER Jan-19)
 - **Netflix** available (CHI, COL, ECU, UK, SP)
- **Prepaid growth with integrated data**
 - Integrated recurrent plans in all Latam (ex-MEX)
 - New features foster upsell and engagement (BRA)
- **Mobile post-paid, flexible & personalised**
 - “M4M” strategy (data & content) (COL, BRA, SP)
 - “Movistar Play” (OTT) in Latam; increasing loyalty
 - **Family plans** (ARG, UK, BRA, CHI, GER)
 - **Flexible tariffs** (UK, BRA)
- **Device integrated offers, innovative models**
 - **+18.8% handset revenue vs 2017** (€5.1Bn)

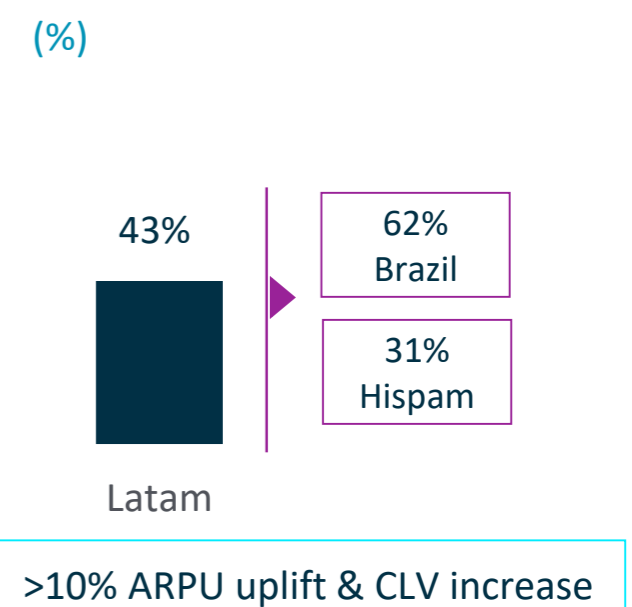
Larger scale in Video



FTTx/Cable in FBB



Recurrent data in prepay



B2B | Differentiated proposal, relevant and distinctive growth engine

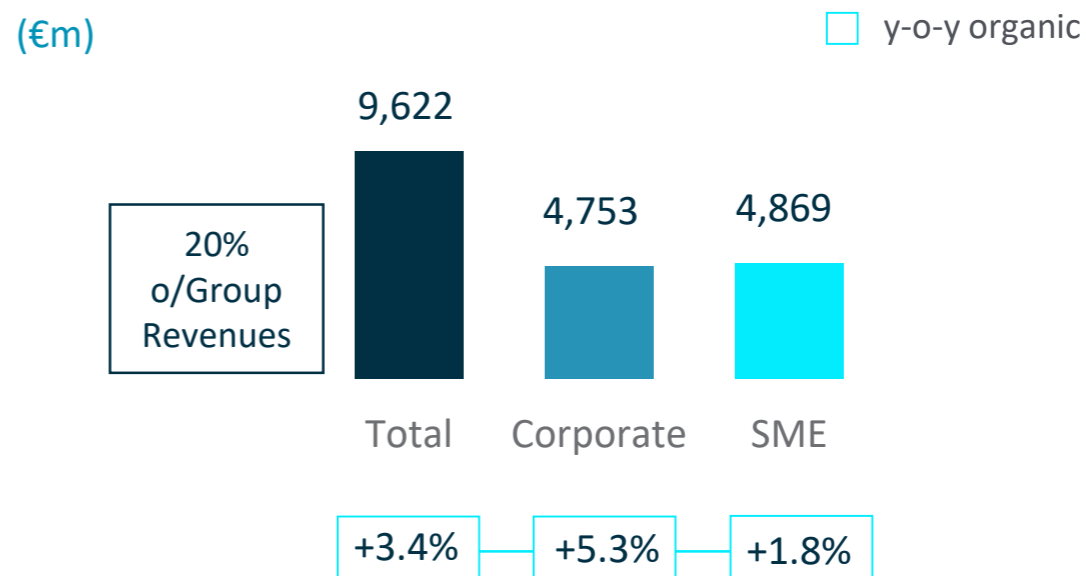
Lego-like value proposal

- **Integral Digital Solutions portfolio, ready to tailor**
 - “Digital Core“ services: Comms + Cloud + Security
 - Building blocks: In-house digital services (IoT...) + leading partners (AWS, MSFT, Cisco...)
- **Leveraged on Group’s unique global capabilities**

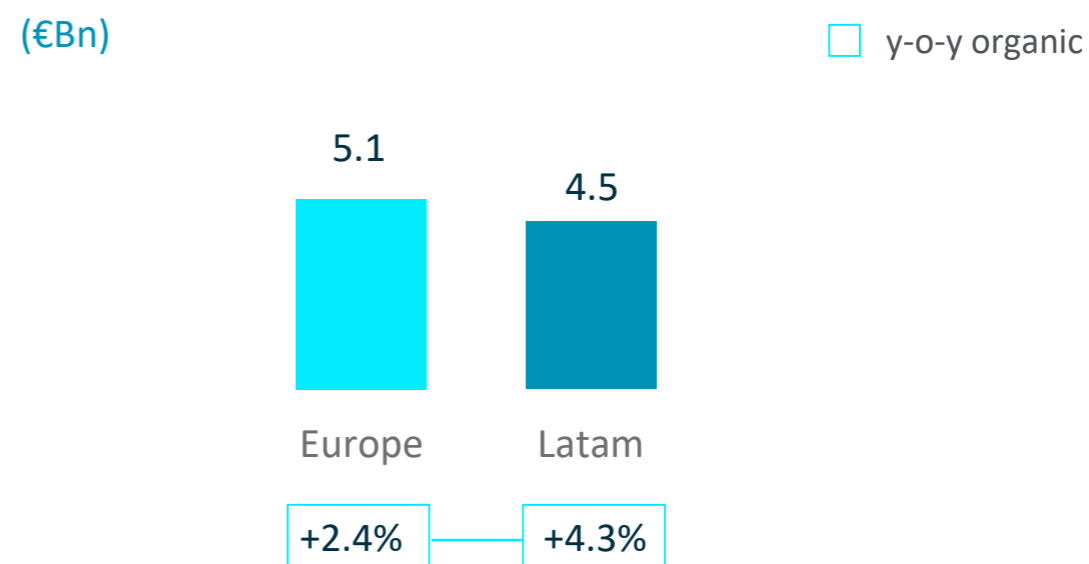
Capturing a large and growing opportunity

- **FY B2B Digital Services revs. (19% of FY B2B revs.): +31.5% y-o-y**
 - **Cloud Revenues: +21% y-o-y**
 - Leading infrastructure and partners
 - **IoT revenues: +31% y-o-y**
 - Leader in Gartner's Magic Quadrant
 - **Security revenues: +66% y-o-y**
 - Leading Security Operation Centres and brands

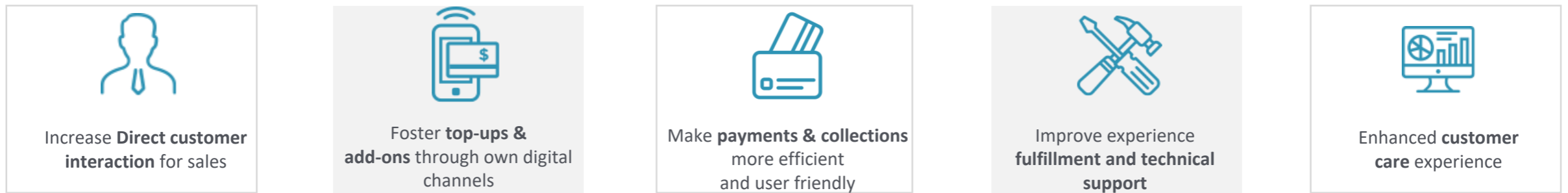
Business Revenues 2018



Split by Region 2018



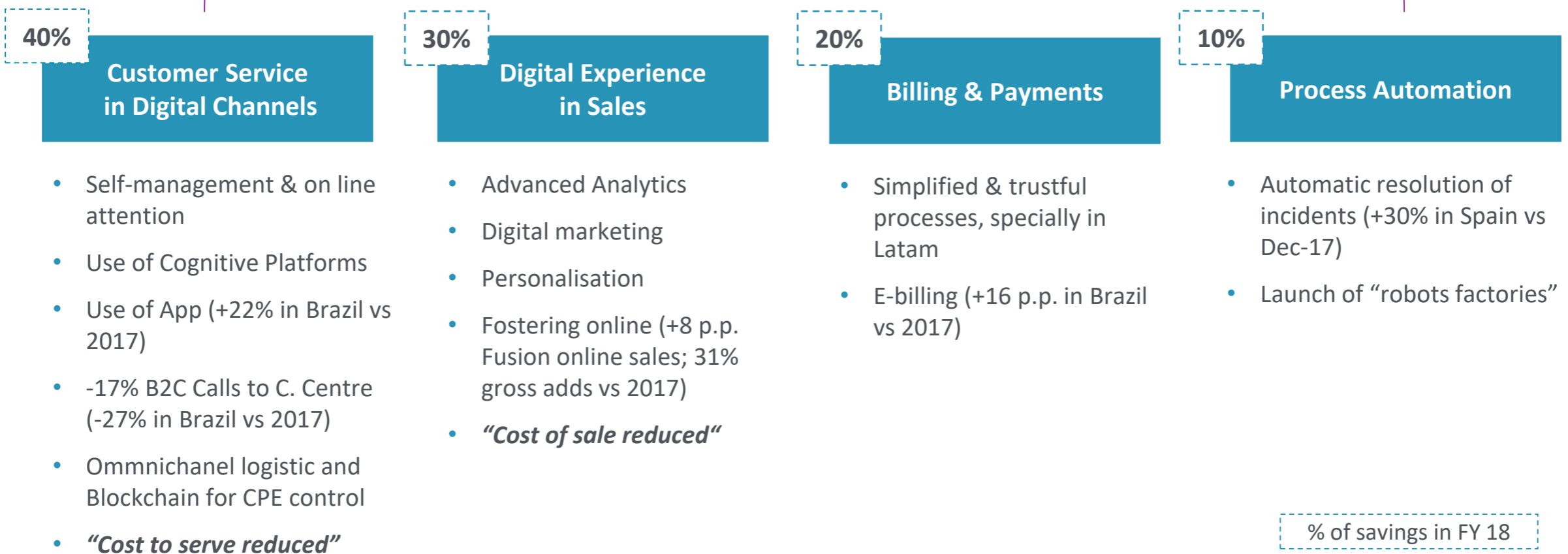
Digital Transformation | Customer at the centre



Transforming our digital relationship with our customers delivering operational efficiency



Agile Mindset



Spain | Competitive differentiation in a rational market

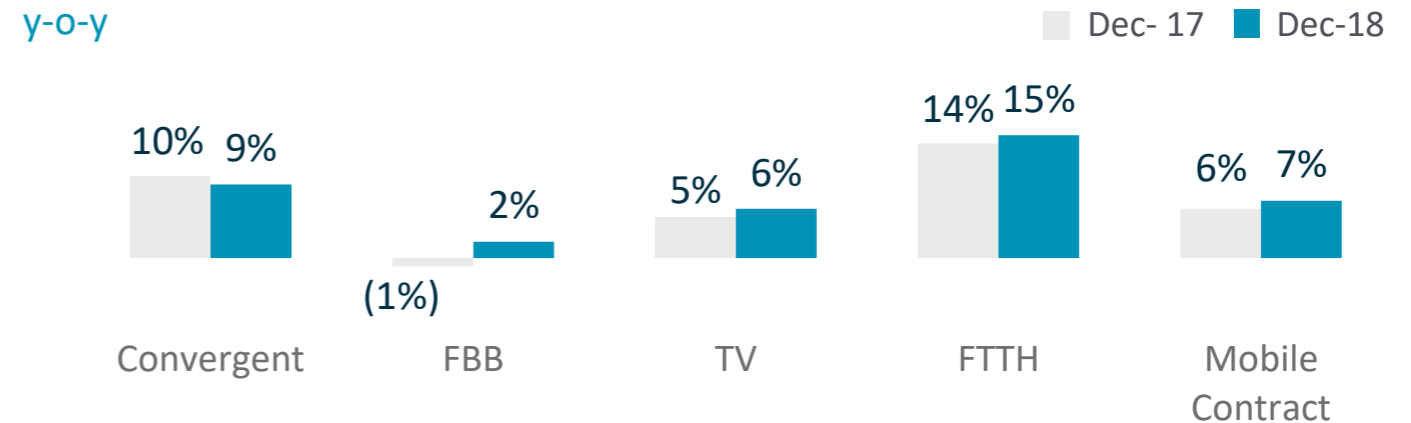
ARPU growth ramps up on value strategy

- **Competitive offering underpins sound trading**
 - New “Fusión”(Oct), “O2”(Oct), Netflix (Dec)
 - Positive contract portability (Q4 & FY)
- **Churn flat q-o-q** (convergent, mobile contract)
- **Further room for “M4M”**
- **Convergent ARPU up on better mix**
 - 30% high-end base: +3 p.p. y-o-y
 - Higher ARPU growth q-o-q despite “O2” launch

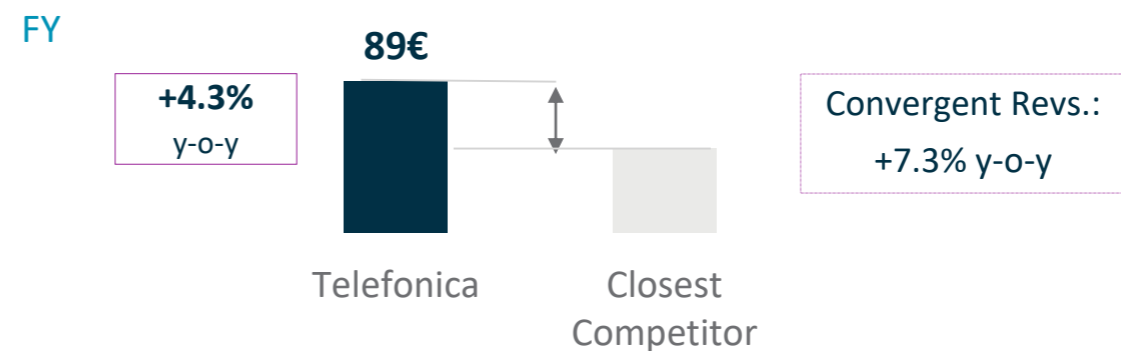
Growth levers

- **Differential TV increases engagement**
 - Increased football viewers (+90% Champions League audience vs last season)
 - 34% Pay TV penetration still below EU avg. (> 40 p.p. opportunity)
- **Fibre progress in coverage and connections**
 - 21.3m FTTH premises passed (+2.1m y-o-y)
 - 26% FTTH network uptake (+3 p.p. y-o-y)

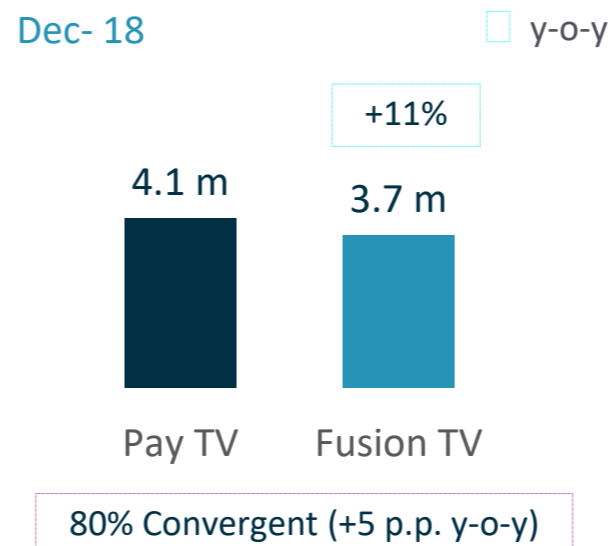
Accesses



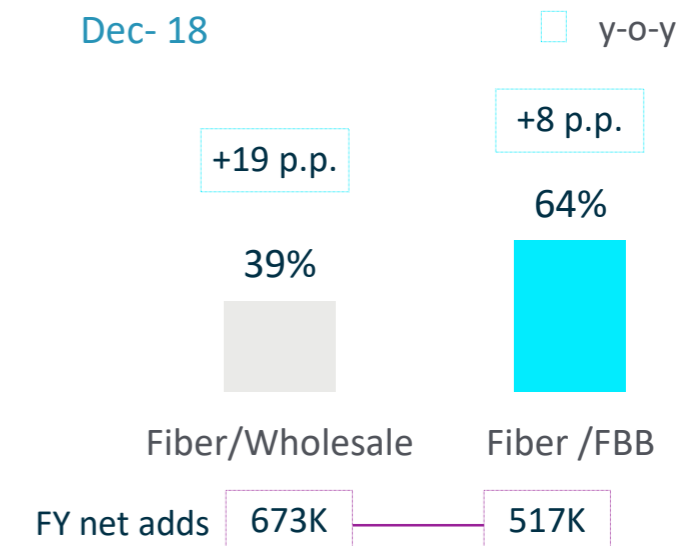
Convergent ARPU



Pay TV uptake



Fiber penetration



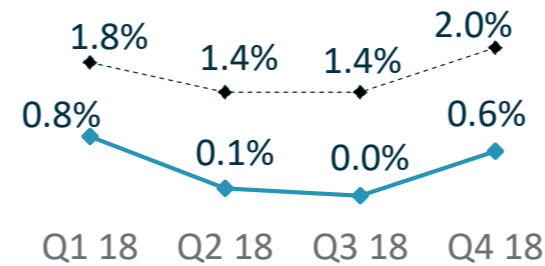
Spain | Improved delivery: revenue acceleration, stronger cash

6th straight quarter of SR growth

- **Q4 service revenues growth improved** (+0.6 p.p. q-o-q)
 - “Consumer” (+0.6 p.p.) on convergence (+7.1% y-o-y)
 - “Business” (+3.5 p.p.) on record IT sales & flat comms
 - “Wholesale & other” (-3.8 p.p.) on tough base
- **FY service revenues: +0.3% y-o-y** (+1.7% ex-MTR/MásMóvil)
- **Tailwinds ahead:** Tariffs update, promos expiry, IT, TV wholesale and easing regulation/MVNO impact

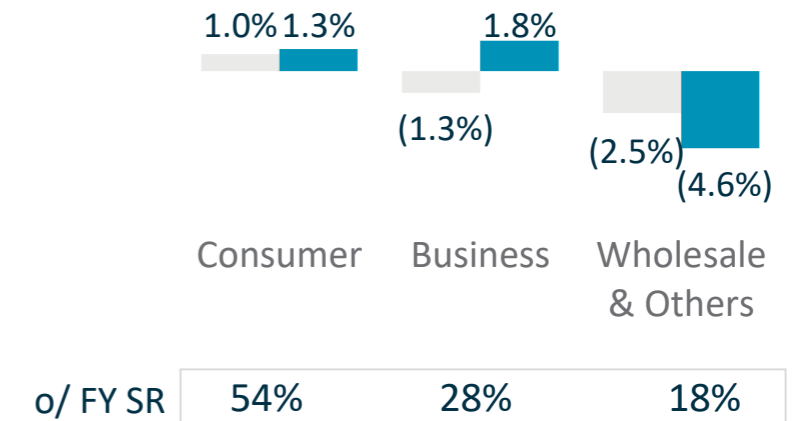
Service Revenues

y-o-y organic
 ----- SR ex-MTR/MásMóvil



Service Revenues

■ FY 17 ■ FY 18



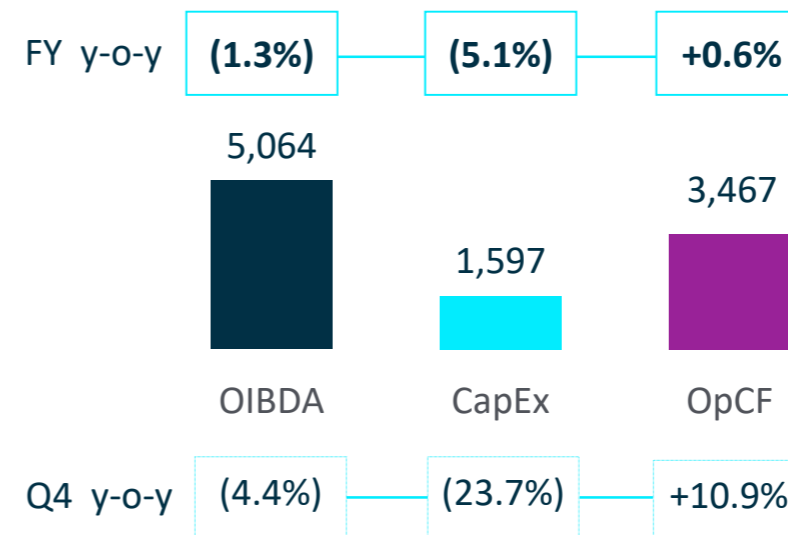
Growing OpCF despite OpEx peak

- **Q4 OpEx: +3.6% y-o-y** (+1.9 p.p. q-o-q); **content cost peak**
 - 297m provision (2016-18 plan; €40m extra savings run-rate)
- **Q4 OIBDA y-o-y: -3.2 p.p. vs Q3**
 - ~-2 p.p. content one-offs (calendar related)
 - -1.5 p.p. new football cycle
- **Benchmark organic OIBDA margin 40% in FY 18**
- **CapEx decline for a second year in a row**
- **Superior operating leverage: 27% OpCF margin**

FY OIBDA, CapEx & OpCF (organic)

(€m)

□ y-o-y organic



Germany | Network integration largely finalised

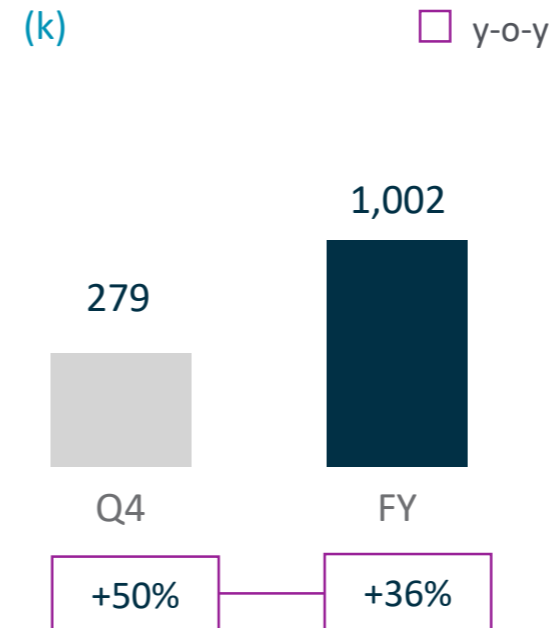
Positive operational momentum

- **47.1m accesses in EU largest market**
- **Monetising data demand:** Innovative tariff portfolio - O₂ Free with "Boost & Connect"
 - LTE cust. 18.4m (+17% y-o-y); penetration +7 p.p. y-o-y
 - Mobile churn improved -0.8 p.p. in Q4 (-0.2 p.p. in FY)
 - Strong partners contribution: +62% of Q4 gross additions (60% in 2018)
- **Step-up in network tests in H2 18:** Connect magazine (+127 points y-o-y); Computer Bild ("strong LTE expansion"); Chip ("very good" in Hamburg & Munich)

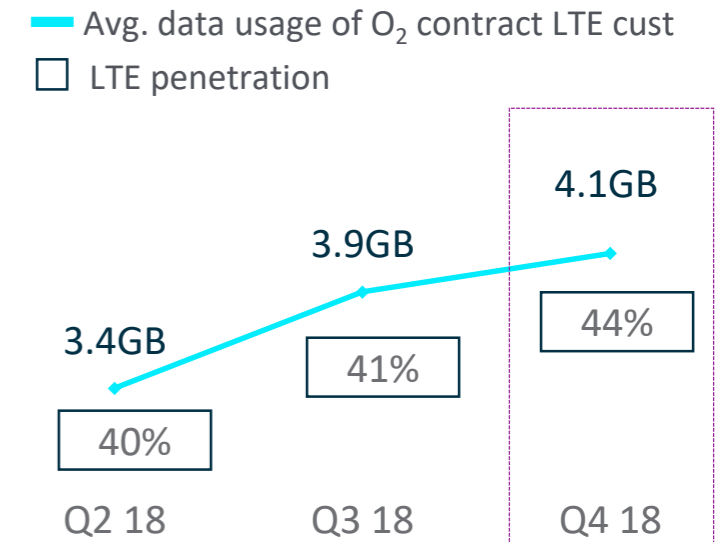
Key financial highlights

- **MSR -0.8% y-o-y** (in Q4 and FY)
 - MSR ex-reg -0.4% y-o-y in Q4 (flat in FY)
 - **Strong handset sales:** +24.2% y-o-y in Q4 (+12.3% in FY)
- **Q4 OIBDA ex-reg. -2.8% y-o-y** (+1.8% in FY)
 - **FY 18 OpCF €868m** (-3.7% y-o-y)

Contract net adds

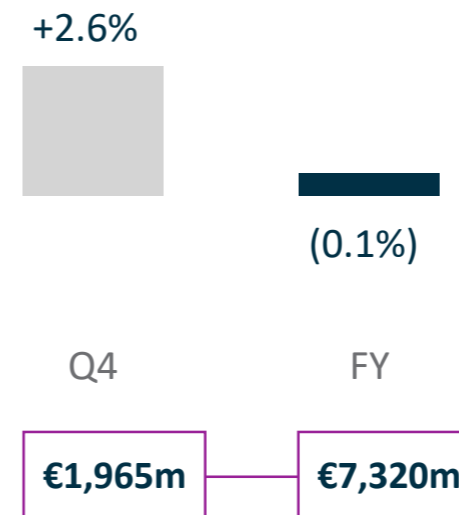


Accelerating data monetisation



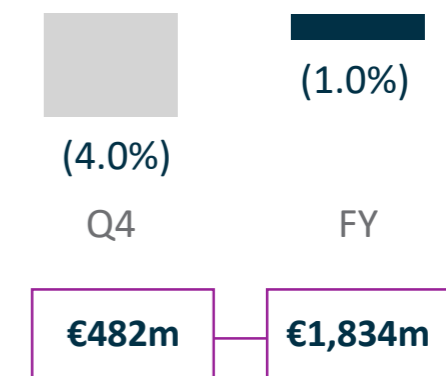
Revenues 2018

y-o-y organic



OIBDA 2018

y-o-y organic



UK | Consistently outperforming the market

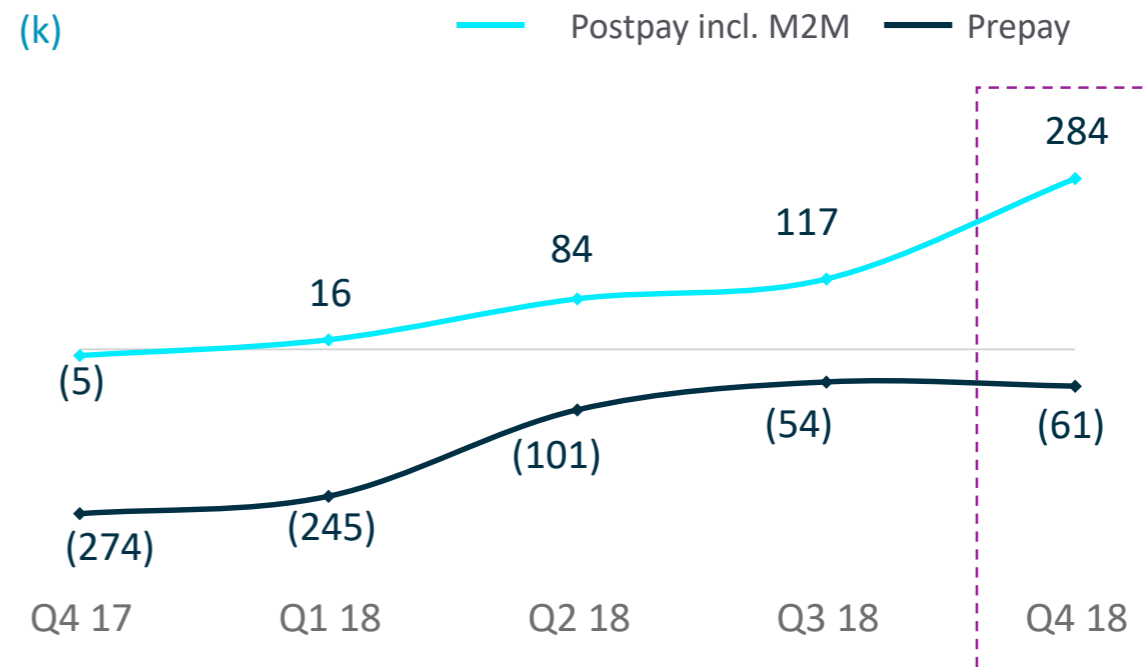
Customer-centric

- **Market-leading UK mobile operator with 32.6m accesses** (25.0m own brand + 7.6m MVNO partners)
- Strong contract net adds on the back of differentiated propositions (+284k in Q4; +501k in FY)
- Leading loyalty with lowest contract churn remaining at 1%
- **63% LTE penetration +3 p.p. y-o-y**

Strong growth across the board

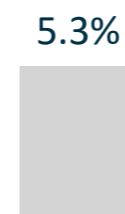
- **Strong top-line growth +5.3% y-o-y in Q4** (+5.4% in FY)
- **10th consecutive quarter of MSR growth** (+2.9% y-o-y in Q4; +2.8% in FY)
- **Robust Q4 OIBDA growth +23.8% y-o-y**
- **27.5% OIBDA margin in FY** (+1.5 p.p.)
- **2018 CapEx +7.1% y-o-y**
- **OpCF €988m ex-spectrum in FY**

Net adds



Revenues 2018

y-o-y organic



Q4

€1,846m



FY

€6,790m

OIBDA 2018

11.8%

FY

OpCF 2018

16.5%

FY

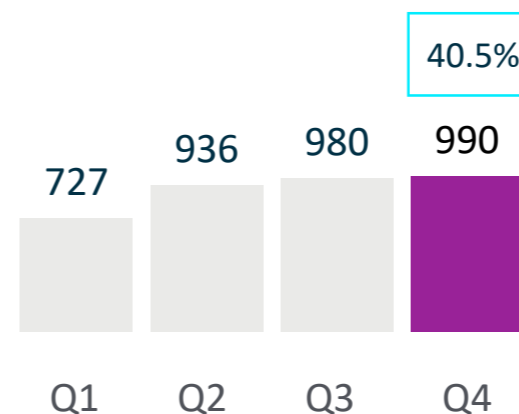
Brazil | Strong operating momentum

The best customer base profile

- **Strengthening leadership**
 - Contract Net adds: 3.6m (+7% vs 2017)
 - Churn 2018: stable y-o-y
- **Better performance in Q4 in prepaid**
 - Room to continue migration to contract
 - 33m prepaid accesses (25% market share)
- **Irreplicable assets**
 - Best 3G+4G coverage (95% coverage; 88% 4G coverage)
 - 1,000 4.5G cities (+819k cities in 2018)
- **Focus on Fiber/IPTV**
 - Outstanding results in cities launched since 2017: 42% up take
 - ARPU 2018 y-o-y; **FBB +11.0%, Pay TV +4.2%**

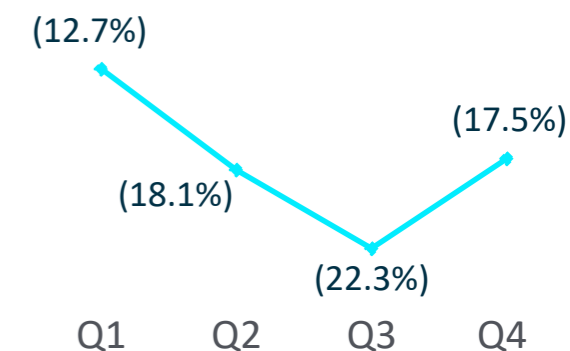
Contract Net adds 2018

('000) □ Contract MS



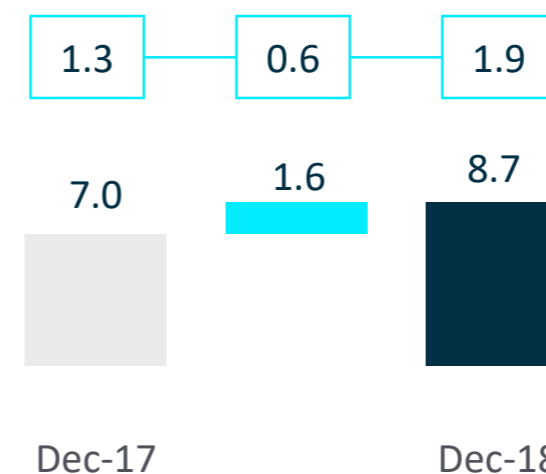
Prepaid Revenues 2018

(y-o-y)



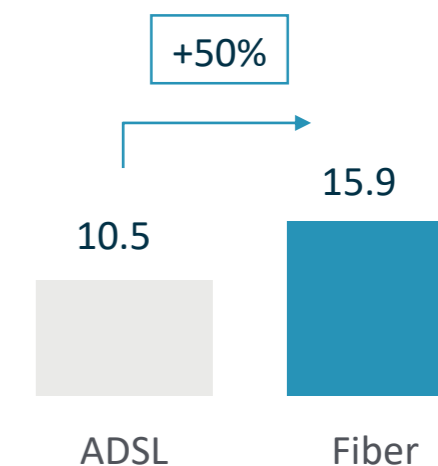
FTTH (Dec-18)

(premises passed in m) □ FTTH connected



ARPU FBB Q4

(€)



Brazil | Best quarterly OIBDA margin ever

Revenue trend reversed

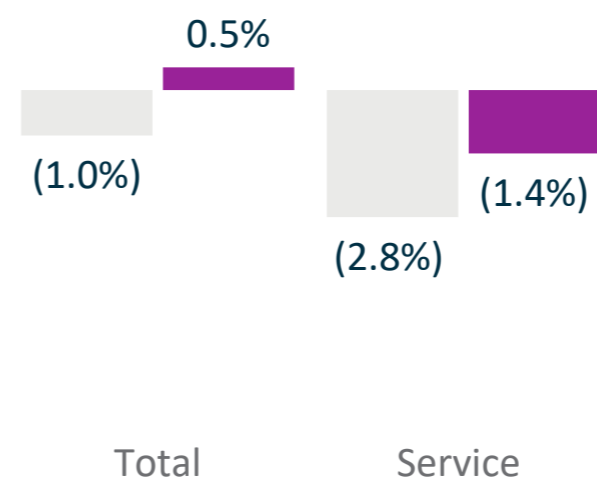
- **FY 18 Total Revenues: +0.3% y-o-y** (+1.5 p.p. q-o-q in Q4)
 - MSR +1.1% (+1.0 p.p. q-o-q in Q4)
 - Better macro & prepaid
 - Solid contract performance: prepaid migration & M4M
 - Fixed: -4.5% y-o-y (+1.9 p.p. q-o-q in Q4)
 - Fiber related products accelerating: Fiber revs.:+26.6%; IPTV +59.0%
 - B2B improving (+4.8 p.p. q-o-q)

12 consecutive quarters of OpEx decline

- **FY 18 OpEx -2.0% y-o-y** (Q4: -1.9%) on digitalisation & simplification
 - FY 18 CapEx (18.9% CapEx/Revenues, +0.4 p.p. y-o-y)
 - Acceleration in 4G and fiber deployment
- **FY 18 OIBDA +5.6% y-o-y** (+5.4% in Q4)
- **FY 18 OpCF €2,401m** (+9.1% y-o-y)

Revenues

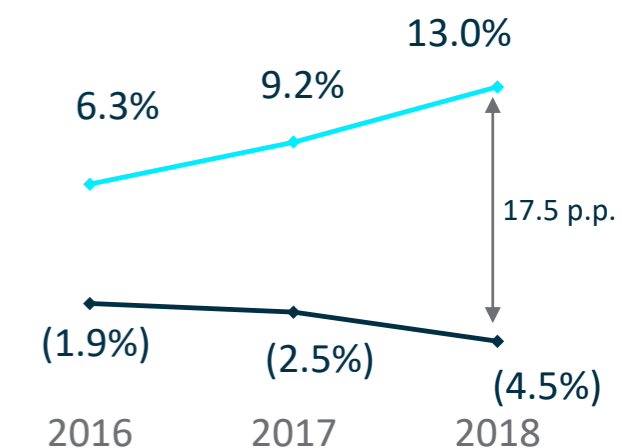
y-o-y organic ■ Q3 18 ■ Q4 18



OpEx vs Inflation

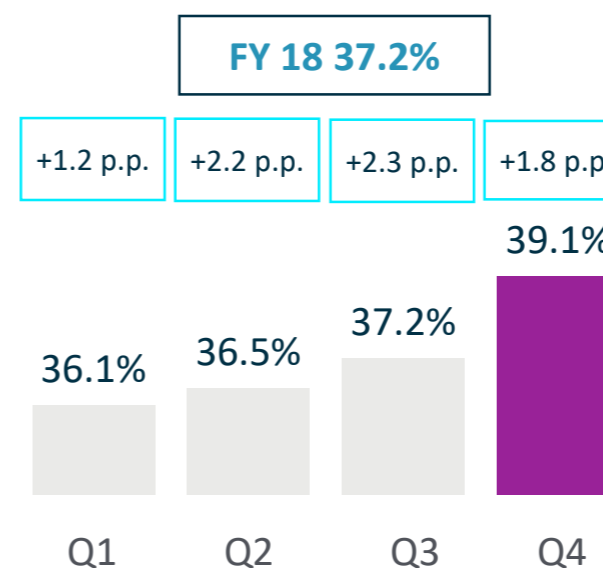
y-o-y organic cumulative

— OpEx — Inflation



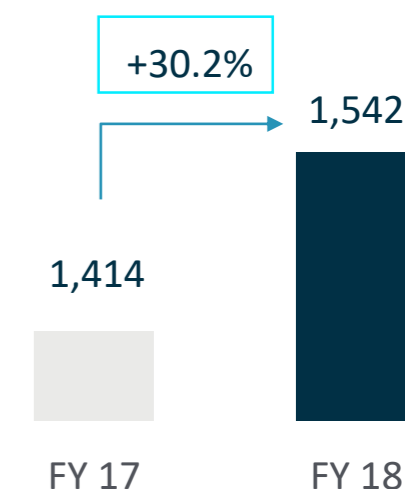
OIBDA margin (organic)

(€m) □ y-o-y



FCF (under Brazil reporting criteria)

(€m) □ y-o-y ex FX



South Hispam | Sustainable growth in a difficult environment

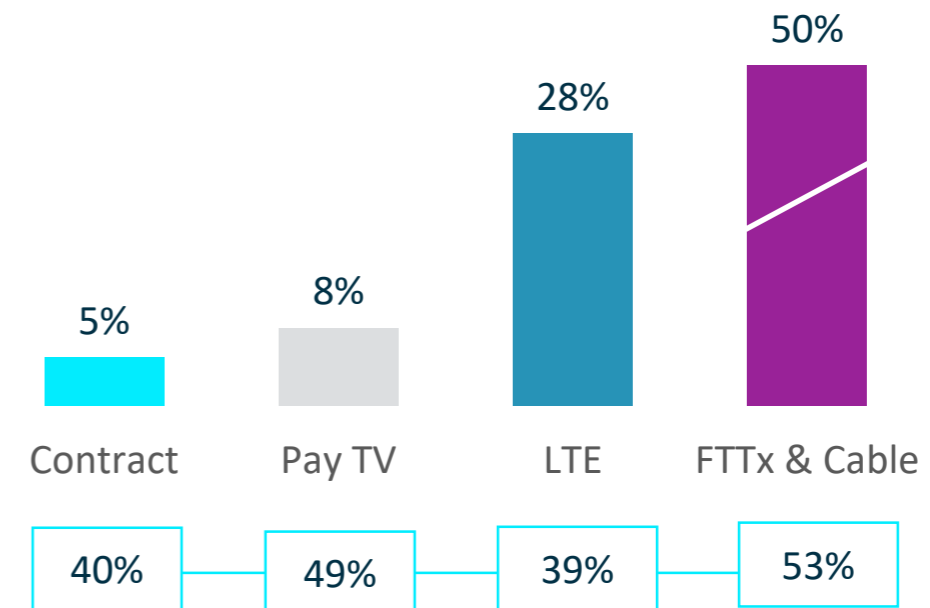
Growth in value; still low penetration

- **5th consecutive quarter of positive contract net adds**, +860k in 2018 (-565k in 2017)
- **Focus on fiber deployment**
 - 2.1m prem. Passed in 2018 (8.3m Dec-18); 30% FTTx take-up
- **FY 18 OpCF ex-spectrum €624m**
- **Q4 ARGENTINA** (Revs. €884m; OIBDA €252m)
 - Consistent Revenue & OIBDA (+28.2% & 29.5% y-o-y)
 - 469k FTTx connections (x2 y-o-y); 30k IPTV accesses (launch in Oct-18)
- **Q4 CHILE** (Revs. €524m; OIBDA €150m)
 - Accelerating contract (+13%) & FTTx accesses (+45%). Mobile ARPU +0.3% y-o-y after 6 Qs decreasing
 - Efficiencies boosting OIBDA: +11.2% y-o-y; margin +3.8 p.p.
- **Q4 PERU** (Revs. €528m; OIBDA €60m)
 - Accelerating contract (+5%) & FTTx/cable accesses (+42%)
 - Positive revenue growth ex-regulation (+3.1%). OIBDA -37.1% affected by intense competition

Accesses (Dec-18)

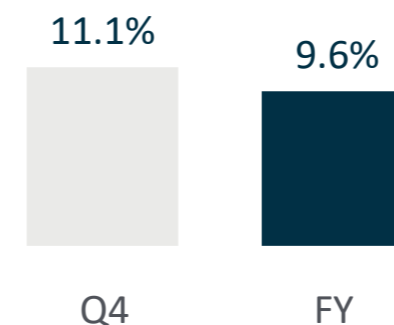
y-o-y

Penetration



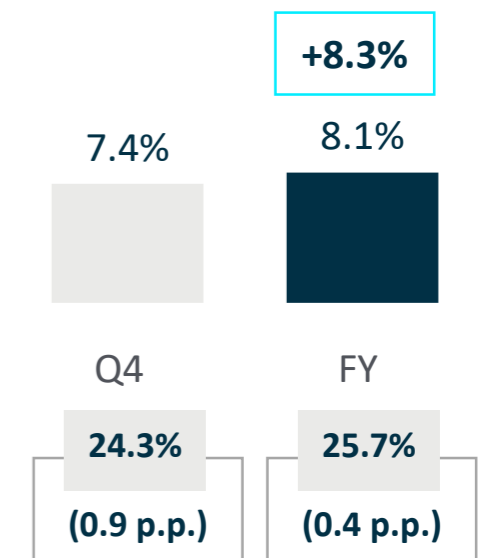
Revenues 2018

y-o-y organic



OIBDA 2018

OpCF Margin

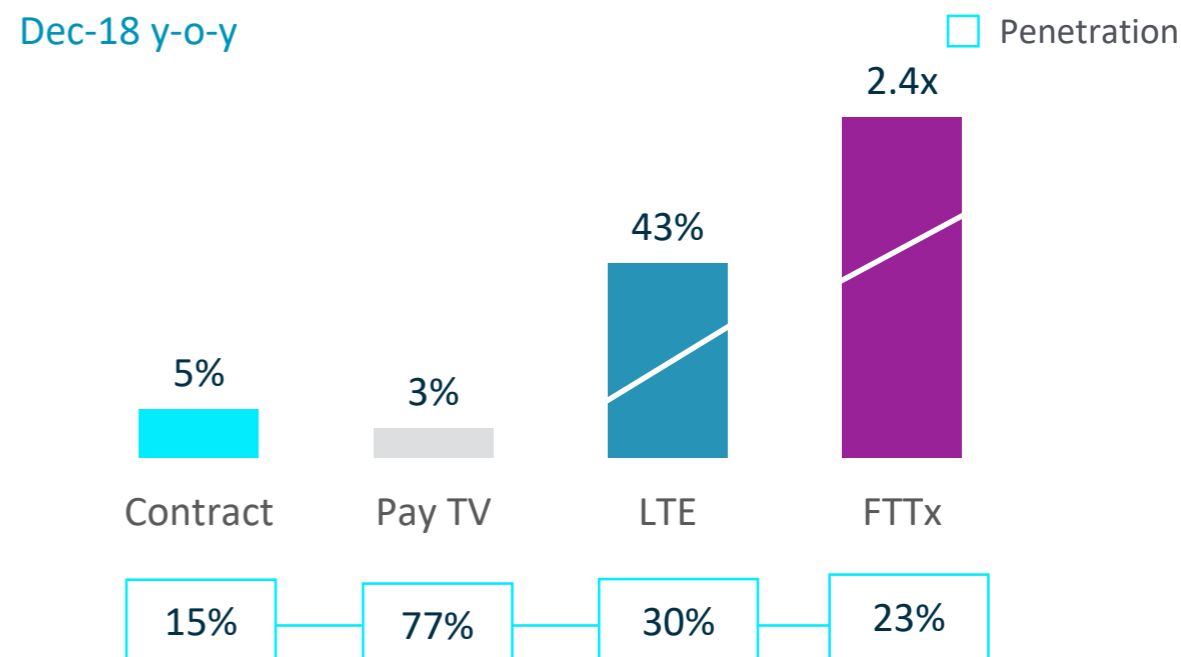


North Hispam | Regulation and competition dragging growth

Outstanding FY OpCF (+18%) in a difficult environment

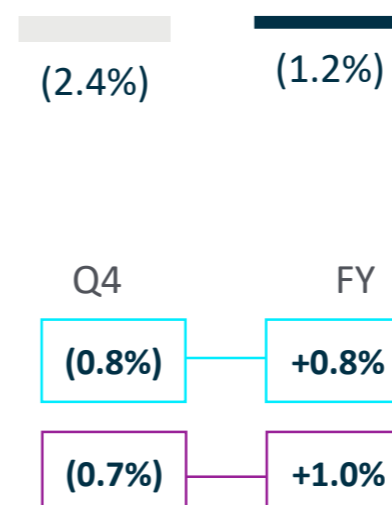
- **Value growth offsetting Mexico headwinds**
 - Contract accesses y-o-y growth in COL, MEX & CAM
 - 304k FTTx connections (x2.4 y-o-y); 27% FTTx take up
- **FY 18 OpCF ex-spectrum €260m**
- **FY 18 OIBDA margin organic: 27.4% (-2.3 p.p.)**
- **Q4 COLOMBIA** (Revs. €363m; OIBDA €148m)
 - Sound growth in contract (+3%), prepaid (+9%) and Pay TV (+3%)
 - Commercial success, efficiencies & CapEx rationalisation led OpCF x2 (€364m in FY)
- **Q4 MEXICO** (Revs. €308m; OIBDA €13m)
 - Commercial traction in both prepaid (+5%) & contract (+8%)
 - Revenue & OIBDA (-6.3% & -78.9% y-o-y) highly affected by regulation, competition & spectrum fees
- **Q4 CAM** (Revs. €228m; OIBDA €94m)
 - Strong acceleration in contract access (+15% y-o-y)
 - OpCF FY €172m, +25.2%

Accesses



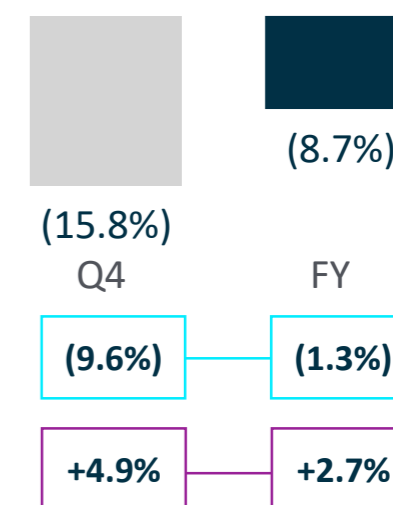
Revenues 2018

y-o-y organic



OIBDA 2018

ex-Reg Ex-MEX

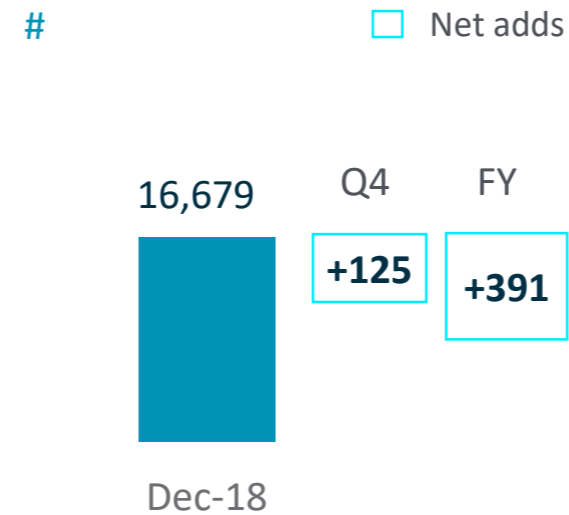


Telxius | Crystallising value from premium infrastructure

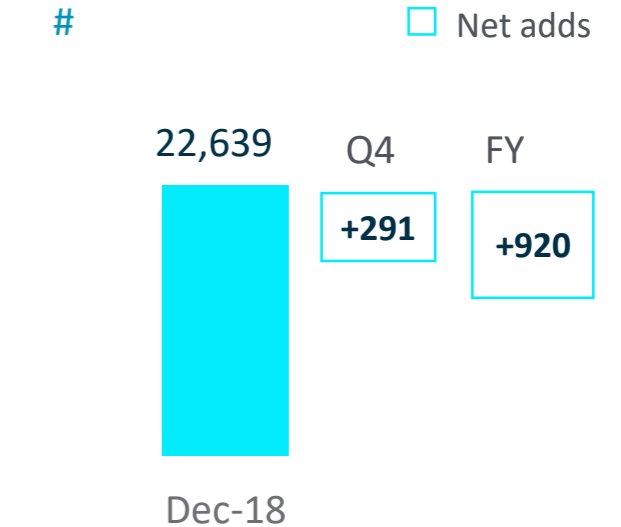
Growing asset portfolio

- **Increased traction in Towers**
 - 291 new tenants in Q4; largest quarterly gain in 2018
 - Higher tenancy ratio: 1.36 (+0.01x q-o-q; +0.03x y-o-y)
- **Commercial momentum in Cable**
 - New cables BRUSA (US-Brazil) and MAREA (US-Spain) fully on service
 - Ongoing capacity sales

Towers



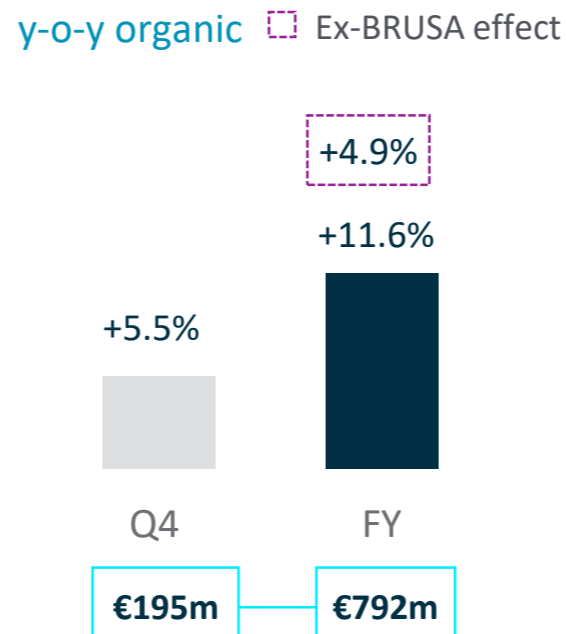
Tenants



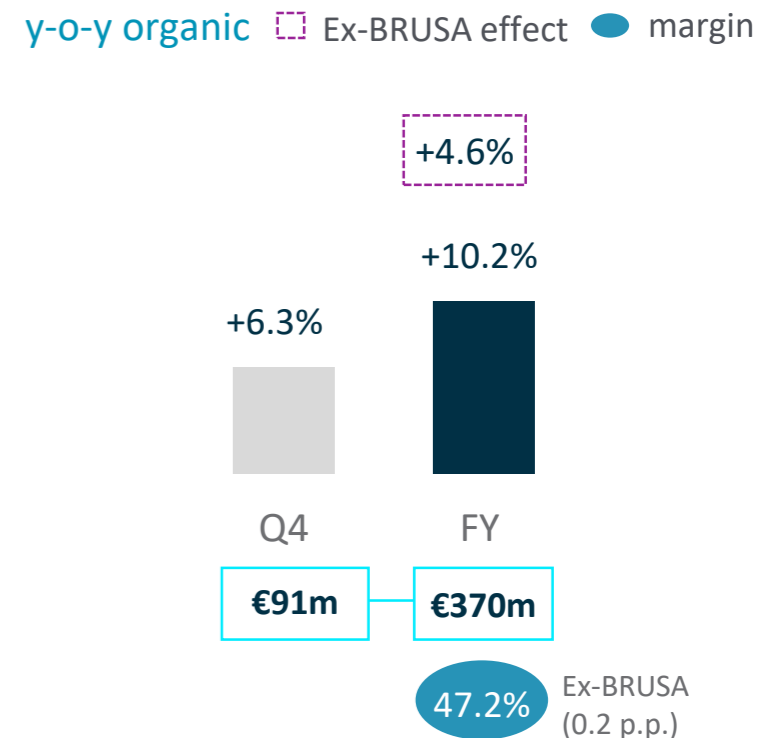
Increasing revenue and cash flow

- **Healthy service revenues growth in Q4**
 - Towers: +10% y-o-y
 - Cable: +2% y-o-y
- **Capital intensity down** (-6.3% y-o-y in FY); new cables are already completed
- **Robust FY 18 OpCF** (+33.9% y-o-y; €189m)

Revenues 2018



OIBDA 2018

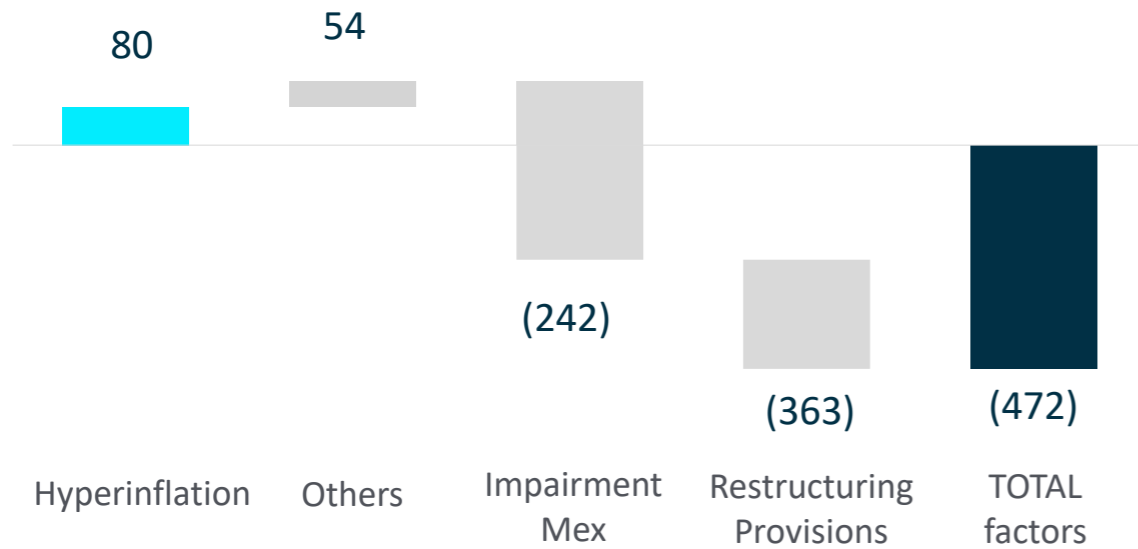


FY & Q4 18 Results

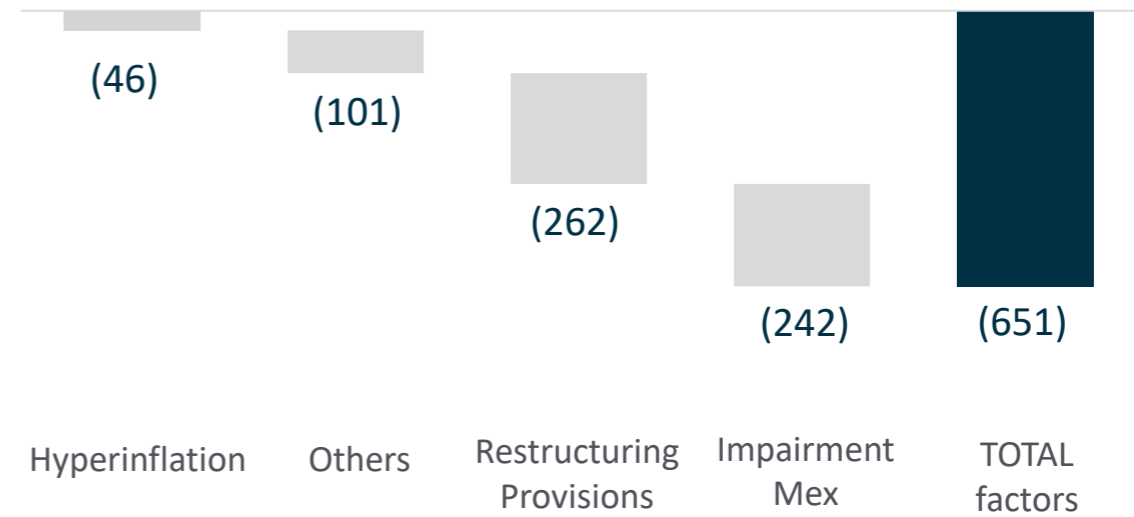
Ms. Laura Abasolo
CFCO

Q4 OIBDA & Net income special factors

Q4 impacts in OIBDA -€472m



Q4 impacts in Net Income -€651m

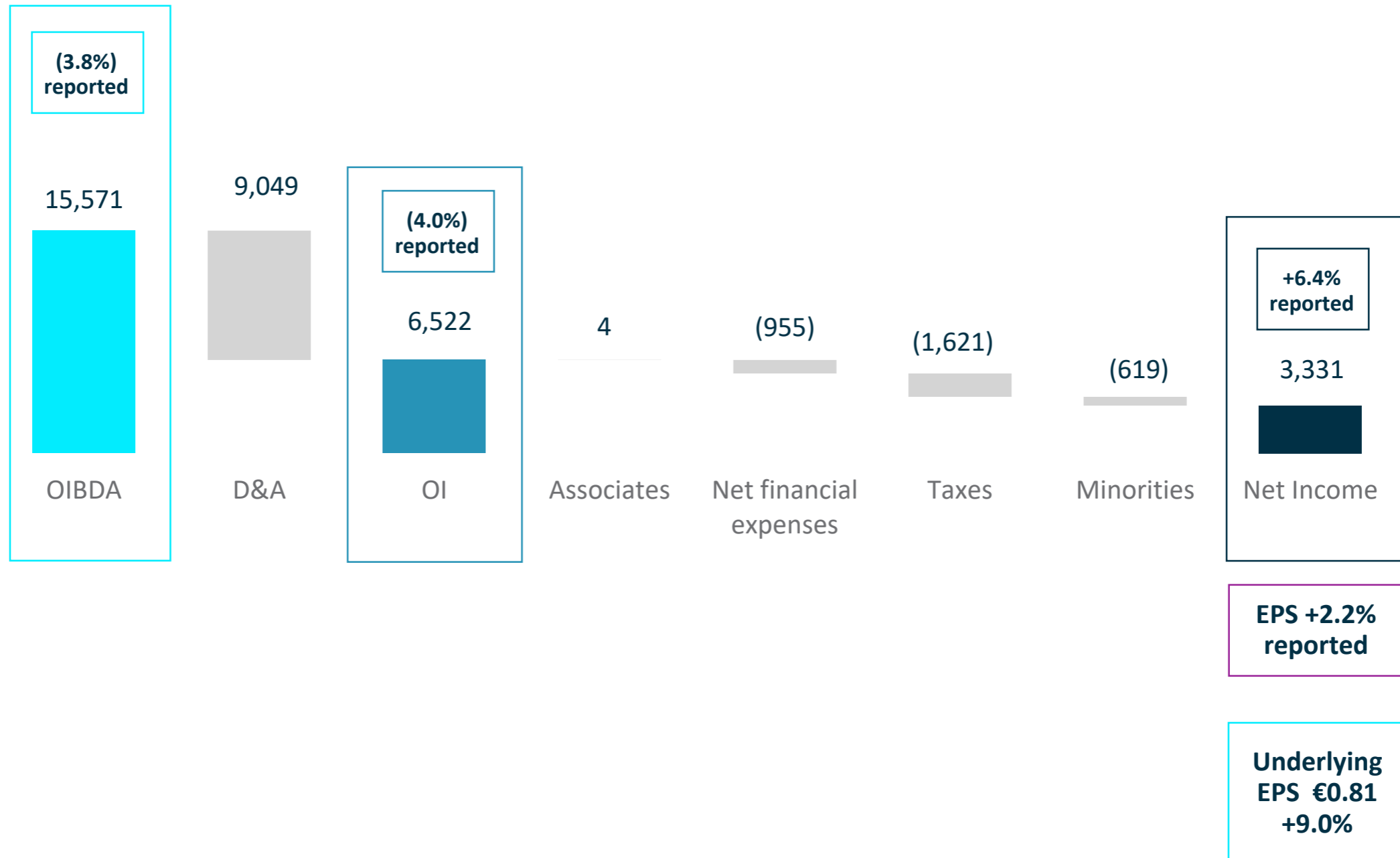


- **Restructuring costs:** enhancing profitability and FCF going forward
 - OIBDA: (SPA -€297m; GER -€38m, BRA -€19m; PER -€18m, CHI -€7m; COL -€6m; MEX -€5m, ECU -€3m; Others +€29m)
- **Capital gains on towers**
 - OIBDA: Towers: CAM +€16m; COL +€3m
- **Capital loss on sale of Catsa in Spain** (-€3m OIBDA)
- **Mexican impairment** (€-242m OIBDA)
 - T. Mexico DTA de-recognition (-€28m Net Income)
- **Hyperinflation in ARG** (+€80m OIBDA, -€46m Net Income)

FY Net income surpassed €3.3bn; EPS €0.57

FY 2018

€m



Managing FX headwinds

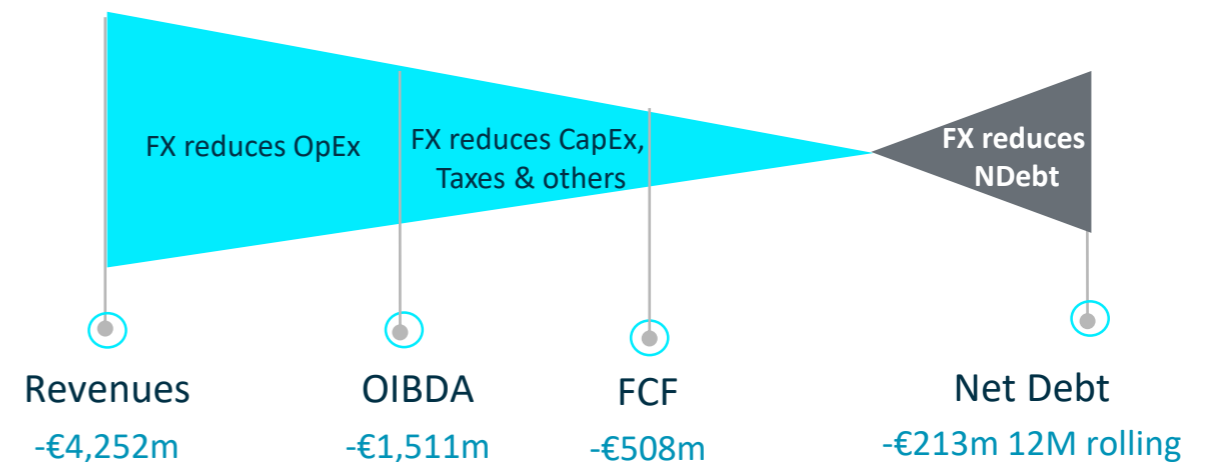
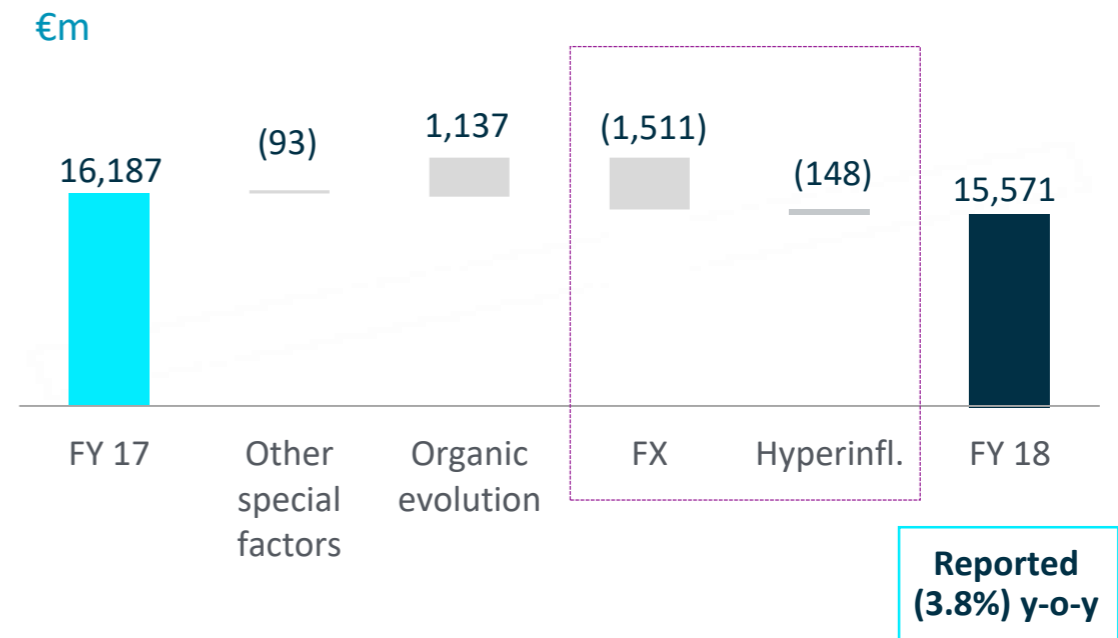
Lower drag from FX in Q4

- **FX (ex. hyperinflation) reduced y-o-y**
 - Revs. (Q4: -7.2 p.p.; FY: -8.2 p.p.)
 - OIBDA (Q4: -7.8 p.p.; FY: -9.3 p.p.)
- **Positive contribution from hyperinflation in Q4**
- **Solid organic contribution**

OIBDA FX impact significantly reduced at FCF

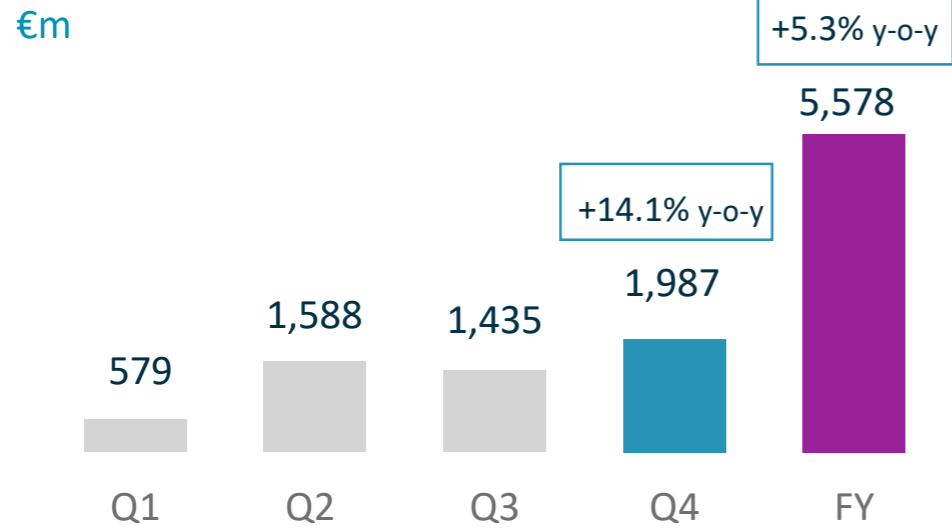
- **FX deducting -€4,252m; -€1,511m and -€508m in Revs., OIBDA and FCF respectively**
- **FX reduced net debt (-€213m 12M rolling)**

OIBDA

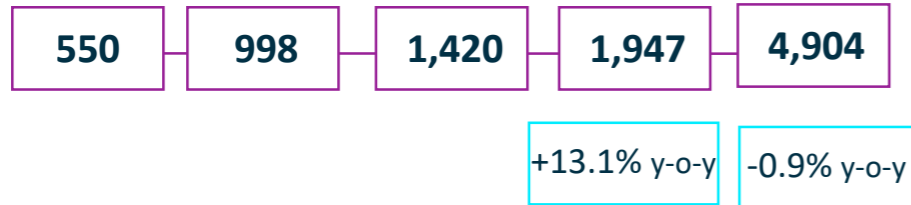


Strong FCF; mid-single digit growth in FY ex-spectrum

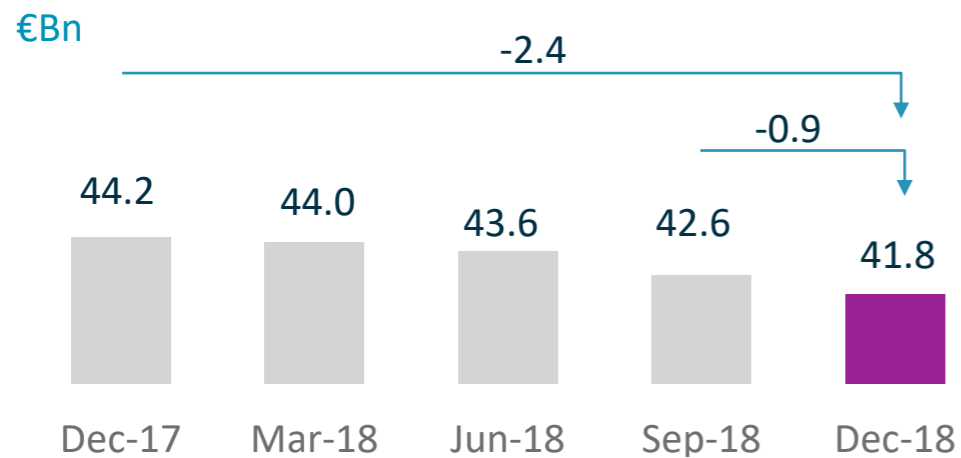
FCF ex-spectrum 2018



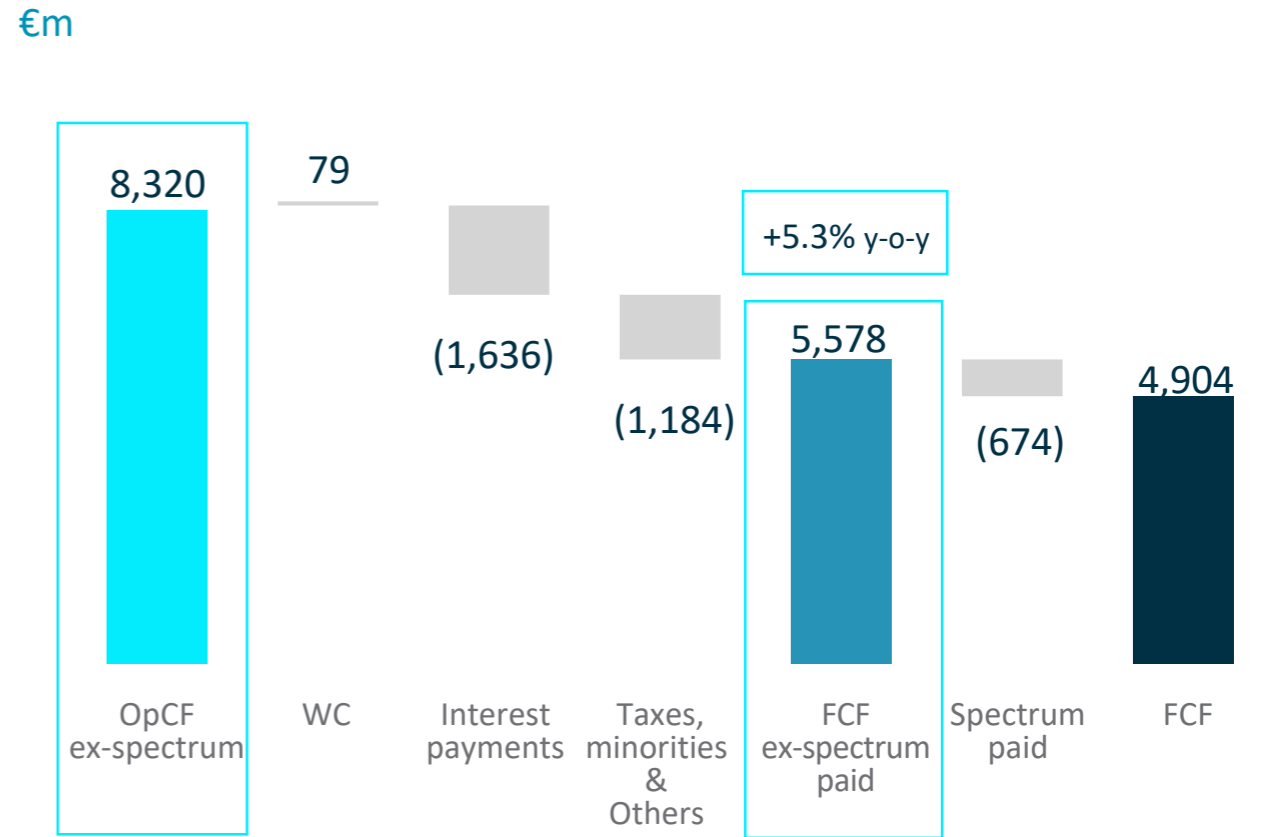
FCF reported



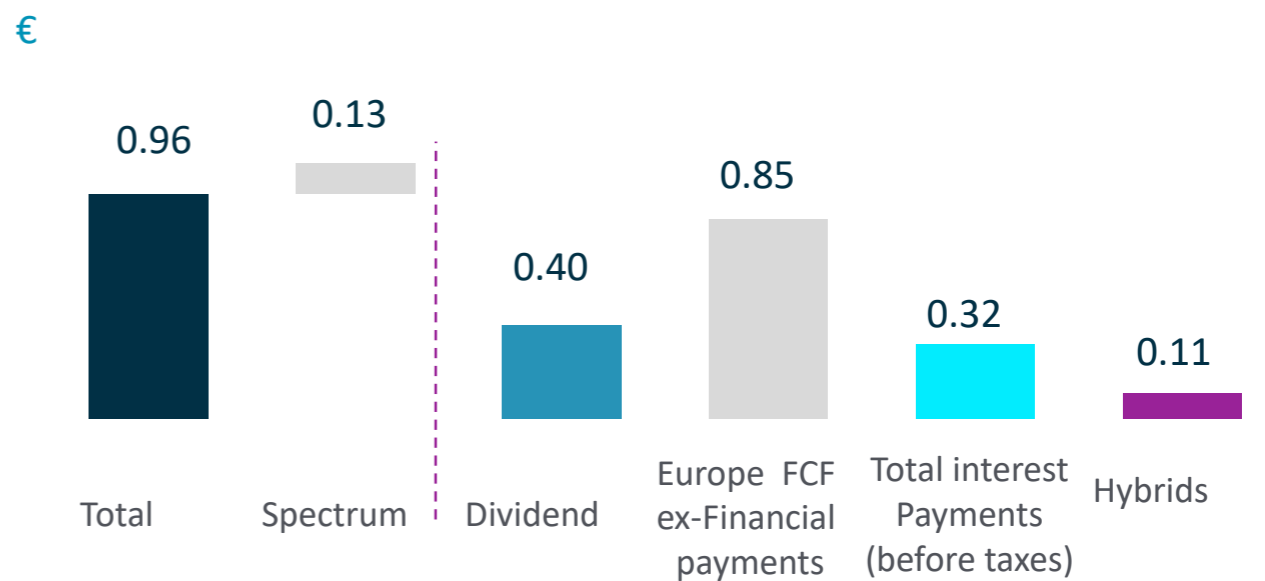
Net financial debt (7th Q in a row declining)



FCF ex-spectrum growing on improved business performance



FCF/sh. 2018

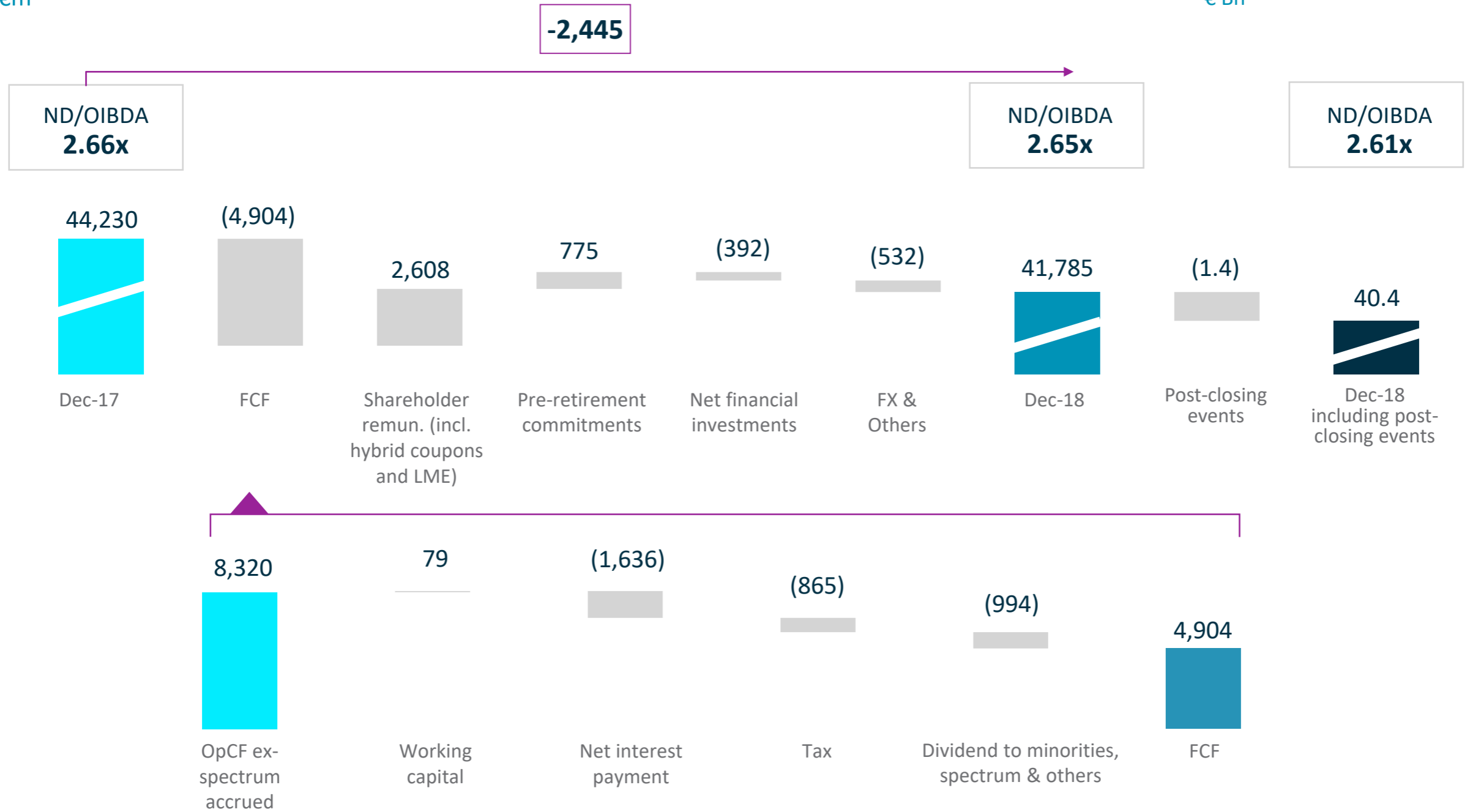


Steady net debt reduction out of strong FCF

Net Financial Debt

€m

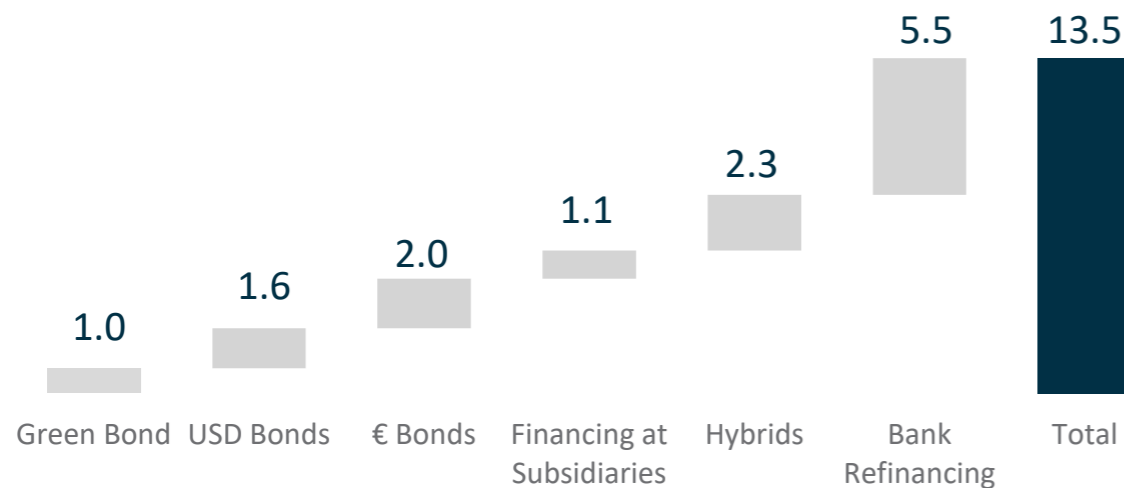
€ Bn



Strong liquidity thanks to attractive long-term financing

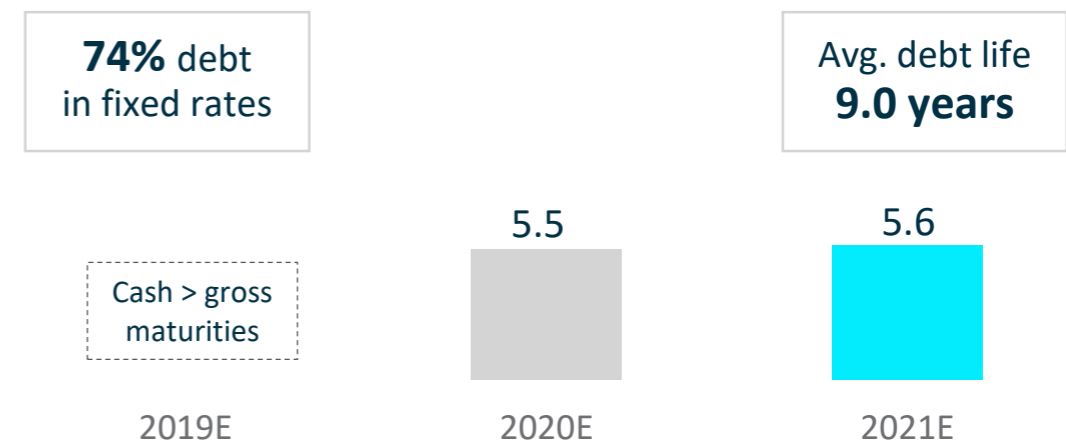
Sources of long-term financing

FY 2018 & 2019 YTD | €Bn



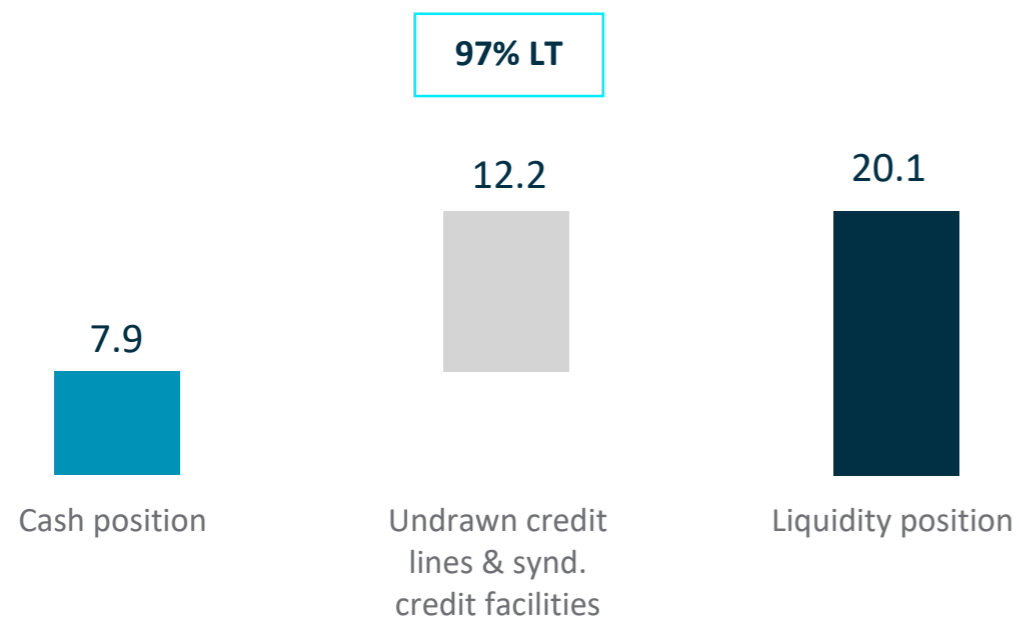
Net Debt maturities

Dec-18 | €Bn; not considering hybrid NC dates



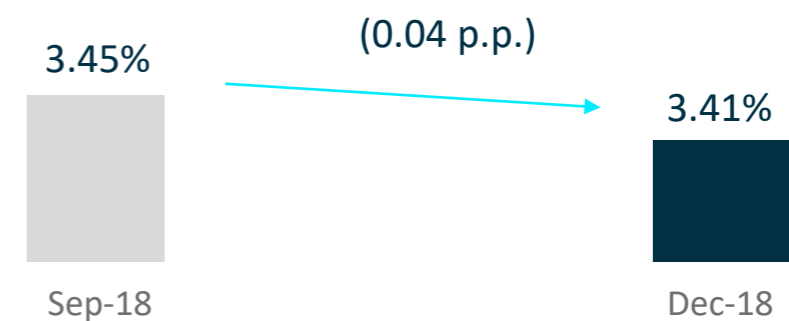
Liquidity position

Dec-18 | €Bn



Interest payment costs

Dec-18



Conclusion

Mr. José M^a Álvarez-Pallete
Chairman & CEO



2019 guidance

Operating 2019 guidance (organic)	Guidance 2019E	
Revenues	Around +2%	Sustainable revenue & OIBDA growth despite regulation
OIBDA	Around +2%	
CapEx / Sales ex-spectrum	Around 15%	CapEx rationality

Attractive, stable & sustainable dividend

Dividends to be paid in 2019 calendar yr. €0.40/sh.
 Cash: Jun/19 €0.20/sh.
 Cash: Dec/19 €0.20/sh.

2019 DIVIDEND	€0.40/SH. CASH
Interim Dec-19	€0.20/sh.
Final Jun-20	€0.20/sh.

Summary

2018



- Focus and invest in transformation
- Leading the pack in digitalisation, virtualisation & AI
- Upgrade customer base; clear drive towards FTTx and 4G
- Sustainable organic growth; margin expansion; further deleverage on robust FCF

2019



- Growth & returns; leveraging our differential assets and our global capabilities
- Network transformation enables to better customer experience, regain differentiation
- Monetisation of our leading value proposition
- Capture benefits of digitalisation efforts; flexibility to reallocate resources across footprint
- Increase ROCE

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