

The background of the entire page is a complex, abstract digital landscape. It features a grid of perspective lines that create a sense of depth and movement. Overlaid on this grid are various patterns of binary code (0s and 1s) and some larger, stylized characters. The overall color palette is a range of blues, from light sky blue to deep navy blue, with some white highlights. The composition is dynamic and futuristic, suggesting a high-tech or data-driven environment.

Telefonica

RESULTS

JANUARY | MARCH 2019

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Q1 19 Highlights

Mr. Ángel Vilá
COO



Q1 Group achievements

1. Increasing customer relevance

- + **Best technology to engage customers**
 - ✓ FfTx/Cable +18% (63% penetration, +9 p.p.)
 - ✓ LTE +18% (49% penetration, +9 p.p.)
 - ✓ Pay TV +3% (26% penetration, +2 p.p.)
- + **Leveraging Customer Lifetime Value**
 - ✓ Avg. Revenue/Access +4.2% (+44bps vs Q4 18)
 - ✓ Stable churn
- + **Benefits customer satisfaction & brand value**
 - ✓ “Movistar 2nd* most valuable Spanish brand”

2. Leading technological platforms

- + Deeper customer relationships with the **best CX & AI**
- + **Telco cloud** (#1 network technology); virtualisation progress
- + **Advancing in network elements switch-off**
- + **Testing 5G**; Spain, Germany, UK, 4.5G, Massive MIMO

3. Consistent & profitable growth

- + **Reliable revenue growth (accelerating to +3.8%)**
 - ✓ 56% of revenues coming from BB & SoC
- + **OIBDA (+1.0%)**
 - ✓ E2E digital transformation benefits (€340m in 2019E)
- + **EPS +33.8% y-o-y**
- + **€926m Net Income (+10.6%)**
- + **Efficient CapEx management** (13.1% CapEx/Sales)
- + **Substantial FCF improvement** (€1,408m; 2.6x vs. Q1 18)

4. Stronger Balance sheet

- + **Steady deleveraging path, 8 straight Qs of debt reduction**
 - ✓ Lower absolute net debt; €40.4Bn
 - ✓ €38.7bn including post-closing events
- + **Improving ROCE through asset sales**
- + **Committed with solid investment grade rating**
- + **Steady and balanced dividend policy** (2019: €0.4 €/sh)

Financial summary

| € in millions | Q1 19 | | | |
|--|---------------------|-------------------|------------------|-----------------------------|
| | Reported IFRS 16 | Reported y-o-y | Organic y-o-y | |
| Revenues | 11,979 | (1.7%) | 3.8% | ▶ Consistent revenue growth |
| Service revenues | 10,700 | (3.1%) | 2.6% | |
| OIBDA | 4,264 | 10.3% | 1.0% | ▶ Reported & Organic growth |
| OIBDA margin | 35.6% | 3.9 p.p. | (0.9 p.p.) | |
| OIBDA underlying | 3,730 | (3.9%) | | |
| OpCF (ex-spectrum) | 2,728 | 14.6% | (5.3%) | |
| Net Income | 926 | 10.6% | | ▶ Double-digit growth |
| EPS (€) | 0.16 | 33.8% | | |
| FCF | 1,408 | 2.6x | | ▶ Almost triple FCF |
| Net Financial Debt ex- leases | 40,381 | (5.7%) | | ▶ Net debt falling |

Reported growth rates affected by

- Adverse FX
- Negative regulation
- IFRS 16 positive impact at OIBDA level; negative at Net Income (+€414m and -€17m respectively); leases (€7,439m)
- Other special factors: €+120m in OIBDA; €-29m in Net Income (HYP in ARG, restructuring costs, net capital gains, PPA)

2019 guidance reiterated

| Operating 2019 guidance (organic) | Guidance 2019E | Q1 19 | |
|-----------------------------------|----------------|-------|---|
| Revenues | Around +2% | 3.8% | Sustained revenue & OIBDA growth despite regulation |
| OIBDA | Around +2% | 1.0% | |
| CapEx / Sales ex-spectrum | Around 15% | 13.1% | CapEx rationality |

2019 DIVIDEND €0.4/SH. CASH

| | |
|-----------------------|-----------|
| Interim Dec-19 | €0.20/sh. |
| Final Jun-20 | €0.20/sh. |

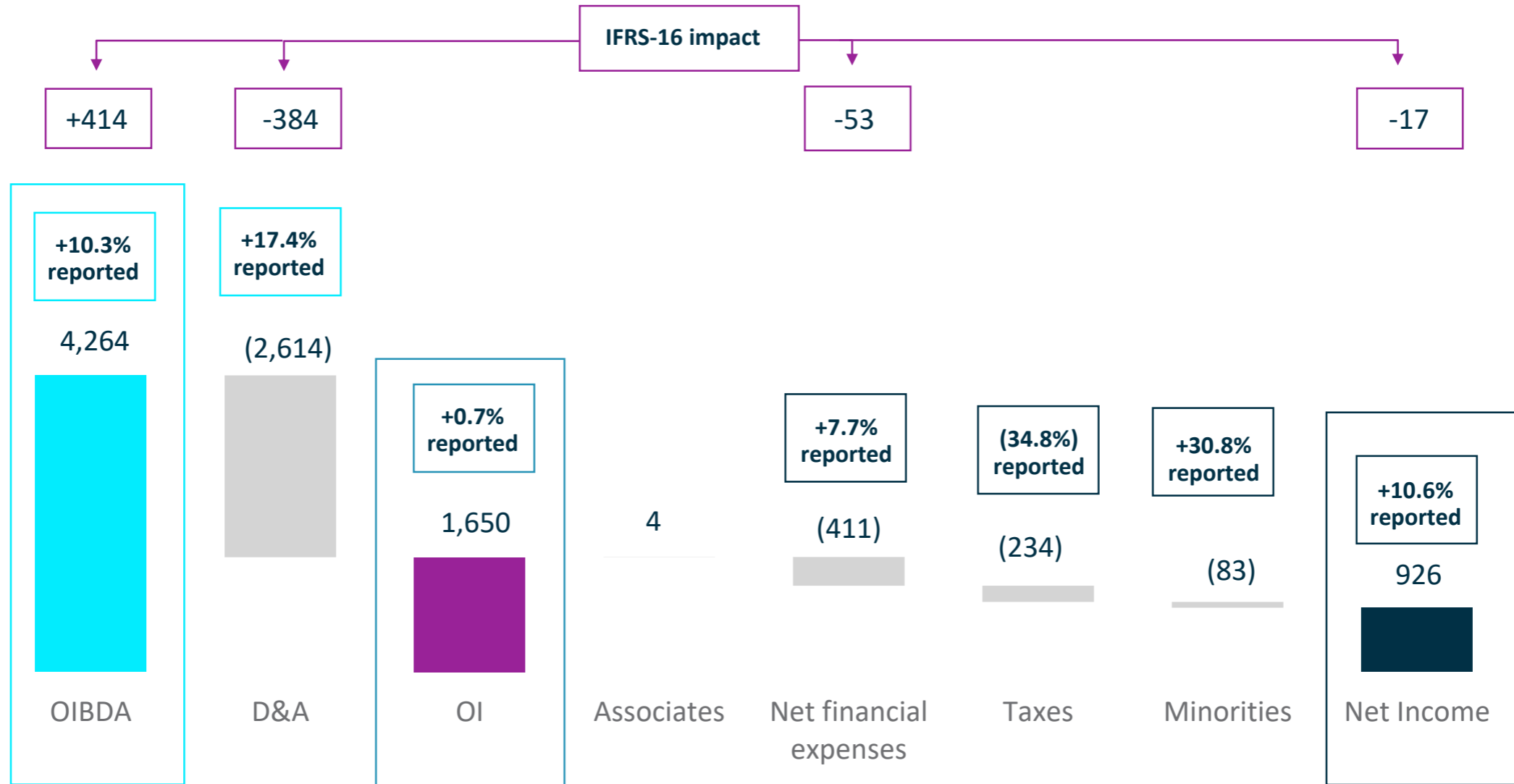
Dividends to be paid in 2019 calendar yr. €0.40/sh.

Cash: 20/Jun/19 €0.20/sh.
Cash: 19/Dec/19 €0.20/sh.

Double digit increase in net income

Q1 19 Reported

€m



EPS 0.16€
+33.8% y-o-y

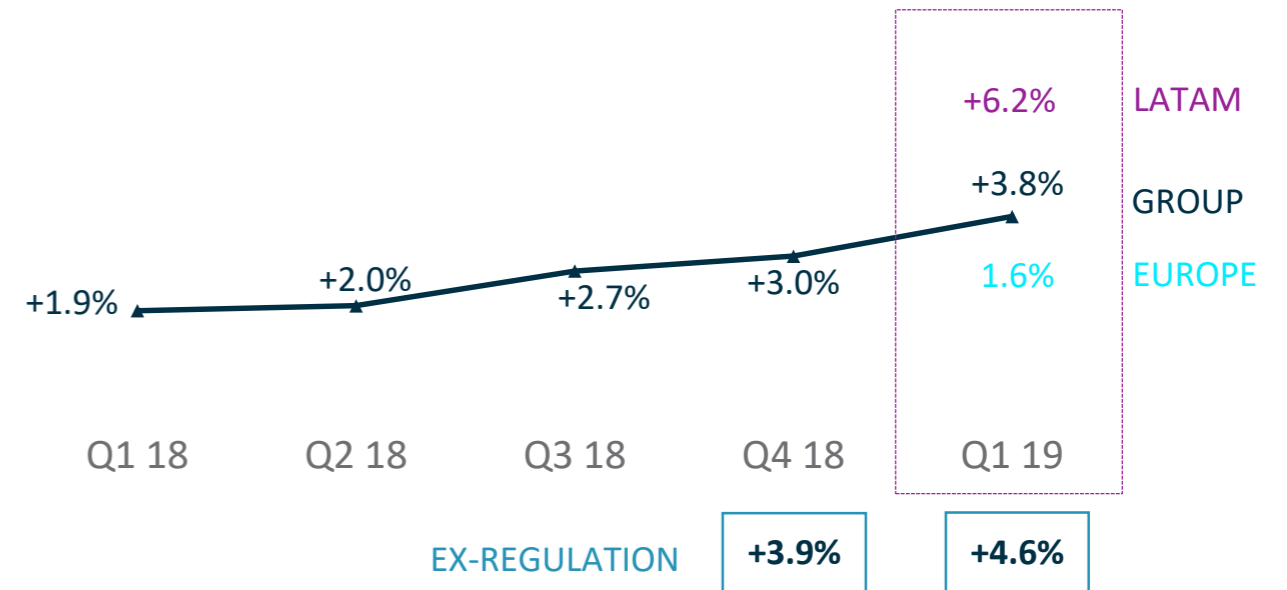
Revenue trends ramped-up

Growth and quality at the top line

- **Q1 shows +80 bps acceleration**
 - Service revenues +130 bps to +2.6%
 - Handsets sales +15.6% vs. Q1 18
- **All revenue segments growing y-o-y (org.)**
 - UK, steady growth of +5.3%
 - Brazil, improving q-o-q to +1.7%
 - Germany +0.7%
 - Spain sustained at +0.3%
 - South Hispam (+15.2%) supported by ARG
 - North Hispam (+1.2%) reversing Q4 18 trend
 - Telxius +18.7%
- **Unmatched diversification**
 - LatAm accelerating to +6.2%; +260 bps q-o-q
 - Europe +1.6%

Revenues

y-o-y organic



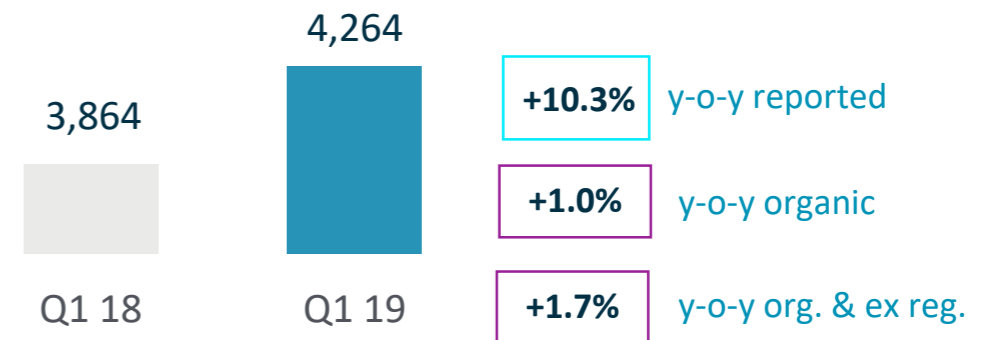
OIBDA growth: both reported & organic

IFRS 16 impacting OIBDA/margin since Jan-19

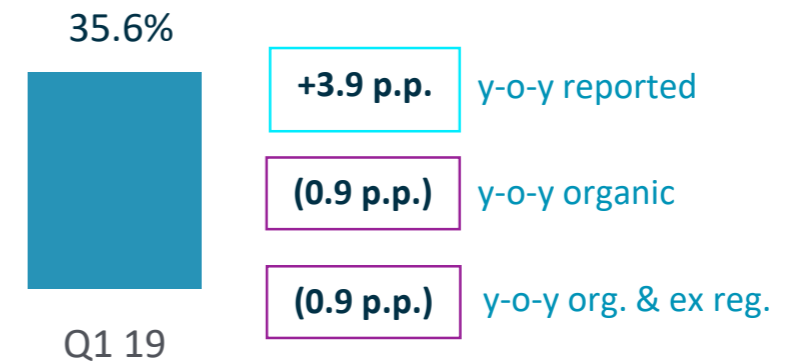
- **Reported OIBDA growth (+€400m) reflecting**
 - Positive impact from IFRS-16 (+€414m)
 - FX drag (-€180m)
 - Organic growth (+€40m)
- **Sustained organic y-o-y OIBDA increase**
 - Key contributors: South Hispam (+0.9 p.p.), BRA (+0.8 p.p.) & UK (+0.4 p. p.)
 - Spain improves y-o-y trend vs. Q4 18 (+3.0 p.p.)
- **Operating leverage**
 - +14.6% OpCF ex spectrum (reported)
 - OpCF -5.3% org. due to CapEx phasing (+11.2%)

OIBDA

Reported (€m)



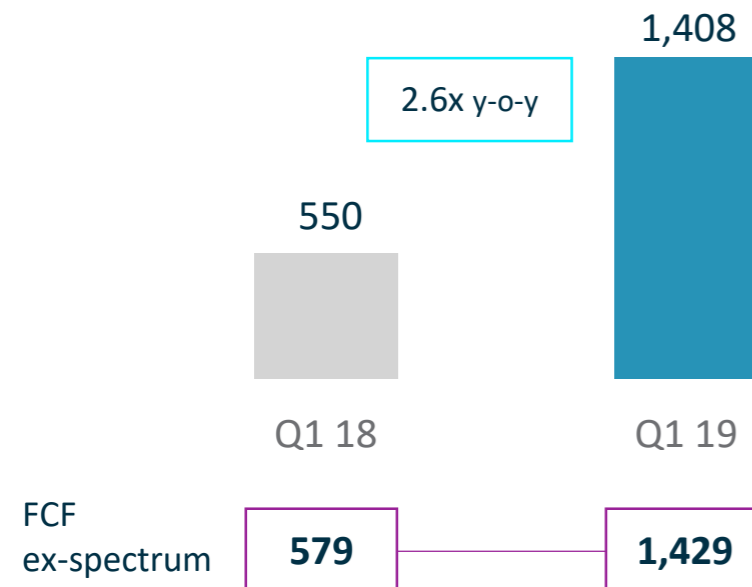
OIBDA margin



Accelerated deleverage on robust FCF generation

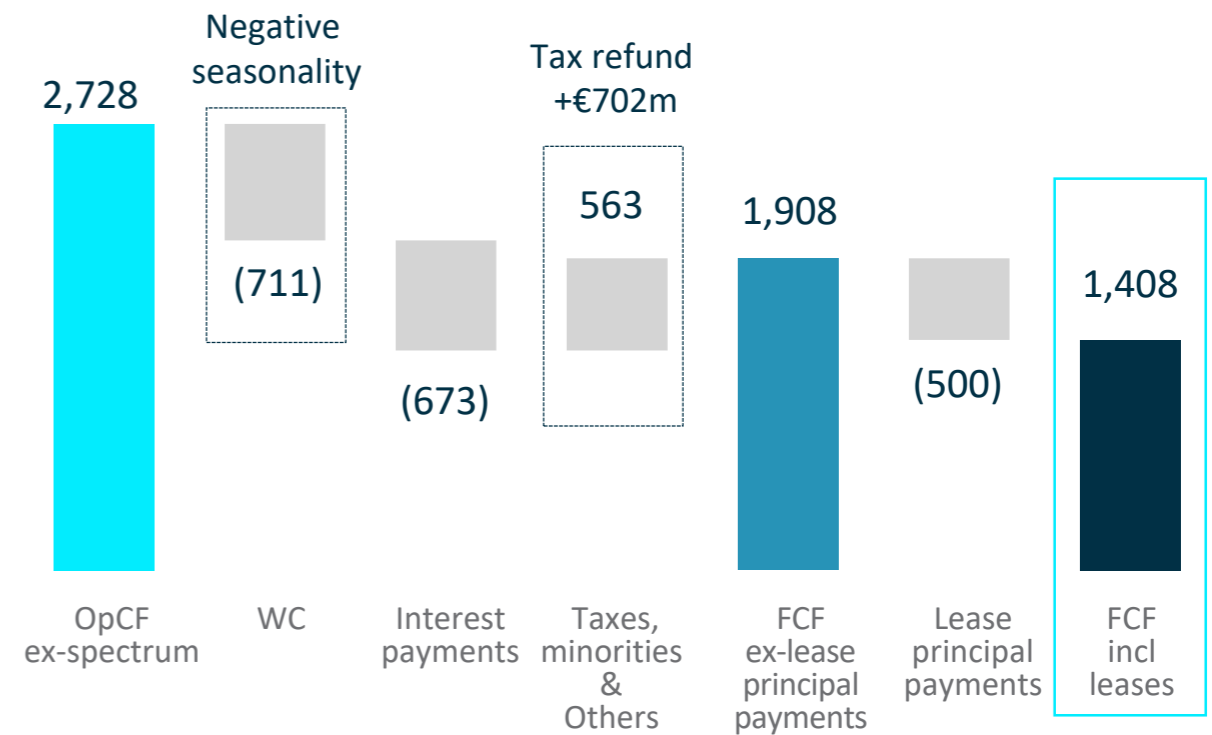
FCF incl. lease principal payments

€m



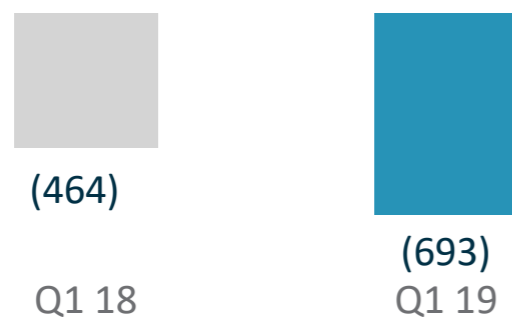
€+858m higher FCF y-o-y

€m



Q1 q-o-q reduction in Net Debt

€m



FCF ex spectrum to improve throughout the year as WC seasonality swings

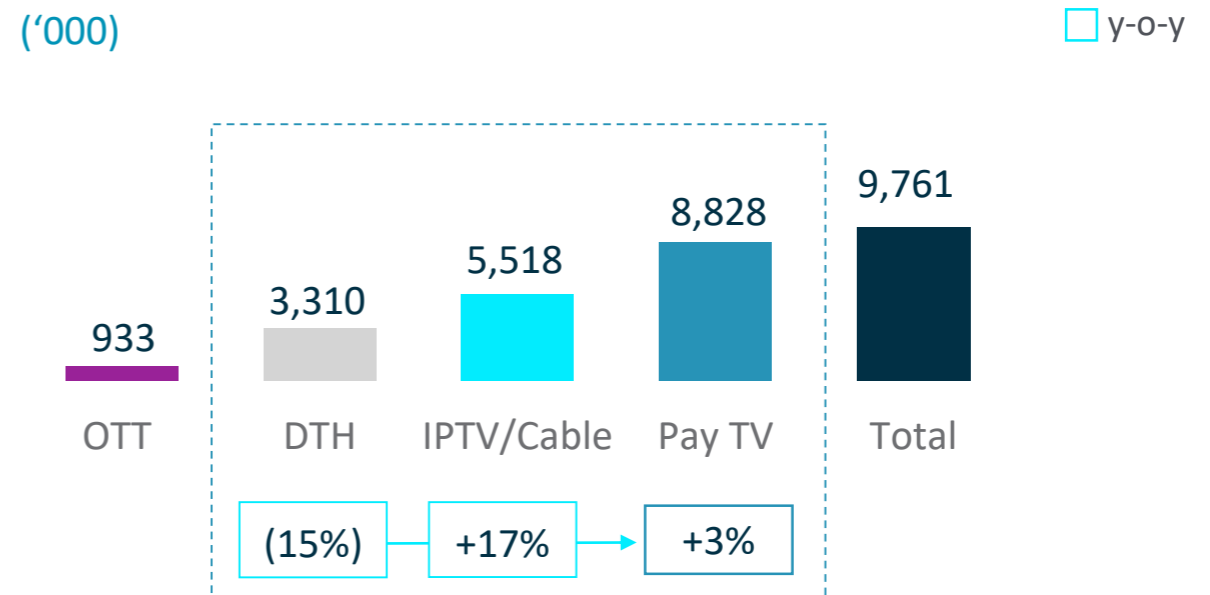
8th straight quarter of debt reduction

B2C | Accelerating data monetisation, fueling growth

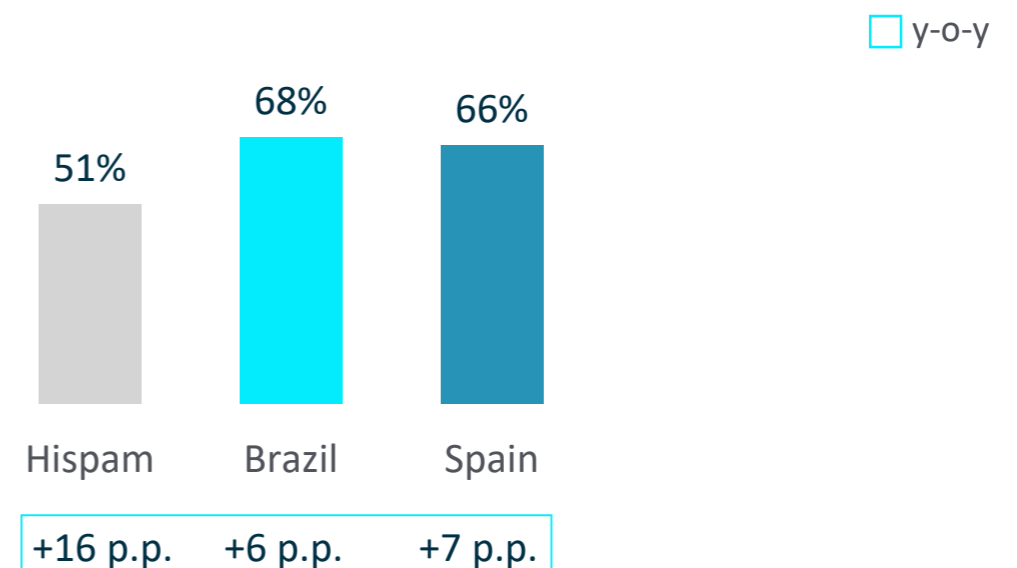
Increased differentiation & customisation

- **Convergent markets; more video and M4M**
 - First convergent offer in Latam (PER Jan-19)
 - “Movistar Play” (OTT) in all HispAm (MEX & ARG Q1)
 - M4M in Spain & Brazil; Digital services (Cloud, Smart Wifi)
- **Mobile contract, enriched offer**
 - Roaming and data sharing (ARG, CHI, COL)
 - Social Apps add-ons launched in BR
- **Prepaid evolution, higher ARPU and CLV**
 - Integrated data plans in all Latam (ex-MEX)
 - Benefits linked to top-ups
 - “Movistar Play” bundle in PER
- **Device integrated offer focused on value**
 - High-end devices, financing, personalised renewal
 - Positive impact on ARPU & churn

Video: Increased scale



UBB penetration



B2B | Speeding up growth on a sustainable basis

Superior proposal for a key segment

- Growth y-o-y improved across regions
- 20% of Group revenue
- Evolved Lego-like offering
 - “Digital Core” (Comms + Cloud + Security) leveraging leading network and enabling cloud E2E secure
 - Best-in-class Digital Services (in-house + leading partners)

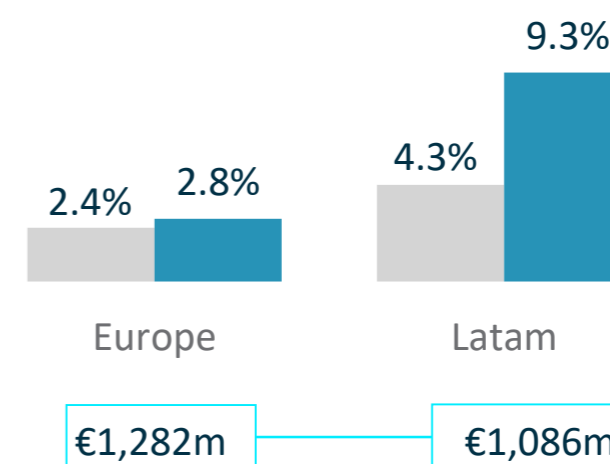
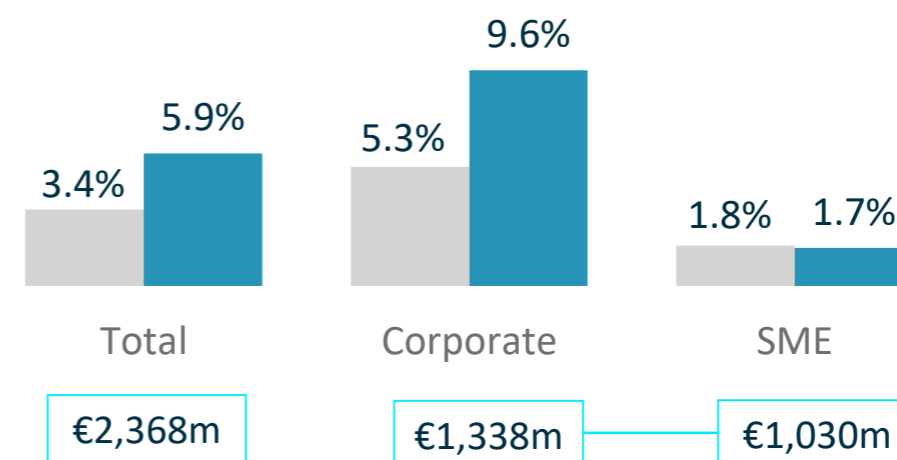
Capturing digitalisation opportunity

- B2B Digital revenues +34% y-o-y (21% of B2B revs.)
 - Cloud: +32% y-o-y
 - New agreements (i.e. CloudBlue)
 - Most innovative Cloud service provider (VMare)
 - IoT : +62% y-o-y
 - +905K accesses in Q1, mainly in UK, BR, SP
 - Security : +35% y-o-y
 - New Security Operation Centre in UK
 - Best player in Security for IoT (MWC'19)

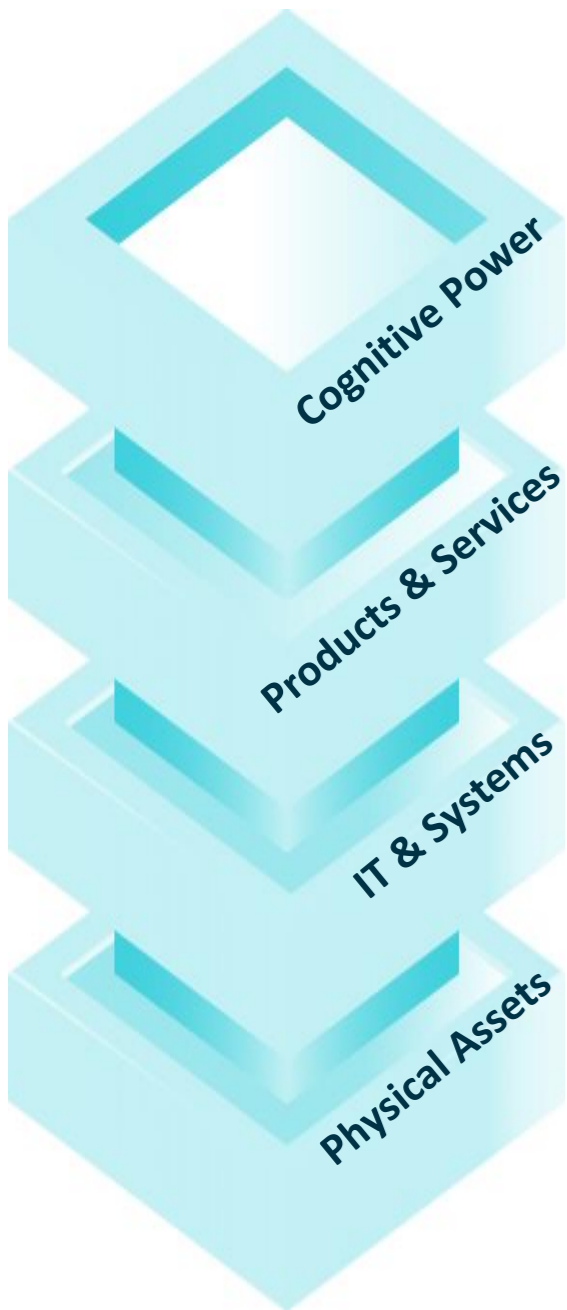
Business Revenues

y-o-y organic

■ Q4 18 ■ Q1 19



Best platforms; improving customer relationship & operations



4P AI focused on personalisation and decision making

AURA
6 Countries



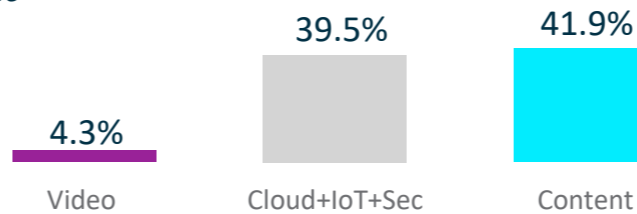
Movistar Home (Spain)
New functionalities (videocalls...)
Open to 3rd parties (eCommerce,...)

Global Big Data & Data Analytics
Single data & management tools bank
More use cases (device sales, NW deployment)

3P Enlarged offering, new revenue stream

Digital Revenues *y-o-y organic*

€1,875bn
+21.2%



Global Service Platforms
B2C customer development
Best partner in B2B digitalisation
>100 agreements with 3rd parties

1P Network leadership

UBB; industrialised rollout, fiber evolution

85m premises

52m owned (+13% y-o-y)
XGS-PON (10 Gbps), Open Access

LTE, 4.5 & 5G

78% LTE

71% LTE traffic o/ total; 7% VoLTE
5G tests, Massive MIMO, OpenRAN, OSM

Network virtualisation



10 countries

Innovative and more efficient network

Core transformation (-40% CapEx need vs legacy)
Fiber maintenance (-50% failure vs copper)
VoLTE & IP migration (spectrum refarming)

2P Agile virtual systems

Digitalised processes

66%

(+4 p.p. y-o-y)

Full Stack (customers migrated)

30%

(+6 p.p. y-o-y)

Digital Transformation | Progressing as planned

Gross savings



Agile Mindset



39%

Digital Experience in sales



- **Boosting own digital channels**
 - +12% of operations since Dec-18
- Leveraging on **personalisation**, digital marketing, automation, Advanced Analytics

31%

Digital Customer Service



- Contact Centers (-11% y-o-y of B2C calls in Q1)
- **Cognitive platforms** on board (BR & PE)
- **Digital Channels + Bots** enhancing customer experience
- **Supply Chain:** Blockchain & Advanced Analytics

30%

Process Automation



- **Robot factories** in almost all countries to reduce manual tasks
 - **Freed resources** to provide real value to customers
 - SP & BR, biggest projects in the industry

Q1 19 Results

Ms. Laura Abasolo
CFCO

Spain | Growing share of value within a rational market

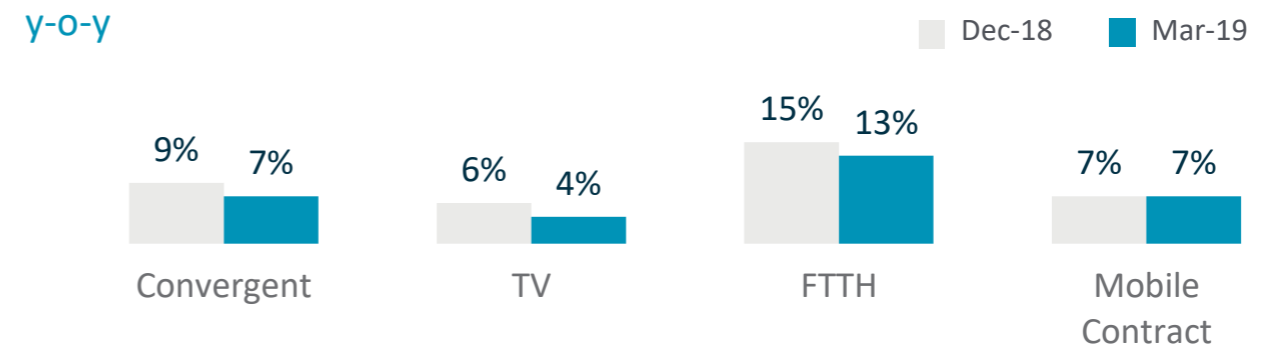
Sustained growth in value accesses

- **Tariff upgrades' impact fades along the Q**
 - Trading improved gradually; Mar better than Feb, Feb better than Jan
- **Continue improving mix at convergent base**
 - "Convergent" ARPU €88.2 (+0.6% y-o-y), stable q-o-q
- **Taking the lion's share in Spanish Fiber growth**
 - Retail accesses +13%/wholesale x1.7 y-o-y
- **Increased customer loyalty, room for M4M**
 - New differential VAS's: "Priority", 2nd homes...

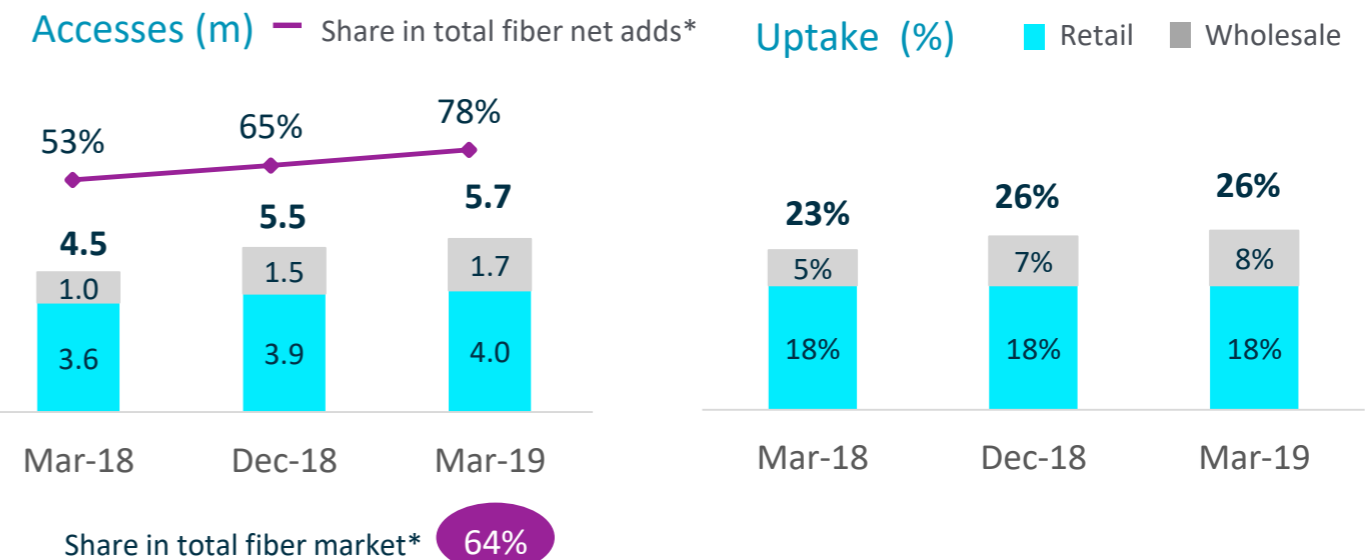
Unmatchable platforms yield superior returns

- **Best-in-class NGN and TV network**
 - FTTH wholesale agreements bring-in sustainability
 - Leading LTE coverage/speed (OCU)
 - Addressing Pay TV upside (5m): improved offering (convergent & OTT)
- **Improved share of retail revenue**

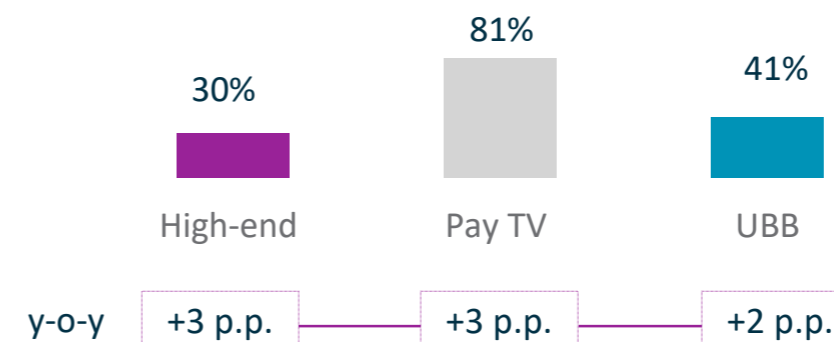
Accesses



FTTH improving returns



High-value o/convergent base



Spain | Improving revenue and OIBDA trends

Setting better trends on wholesale turnaround

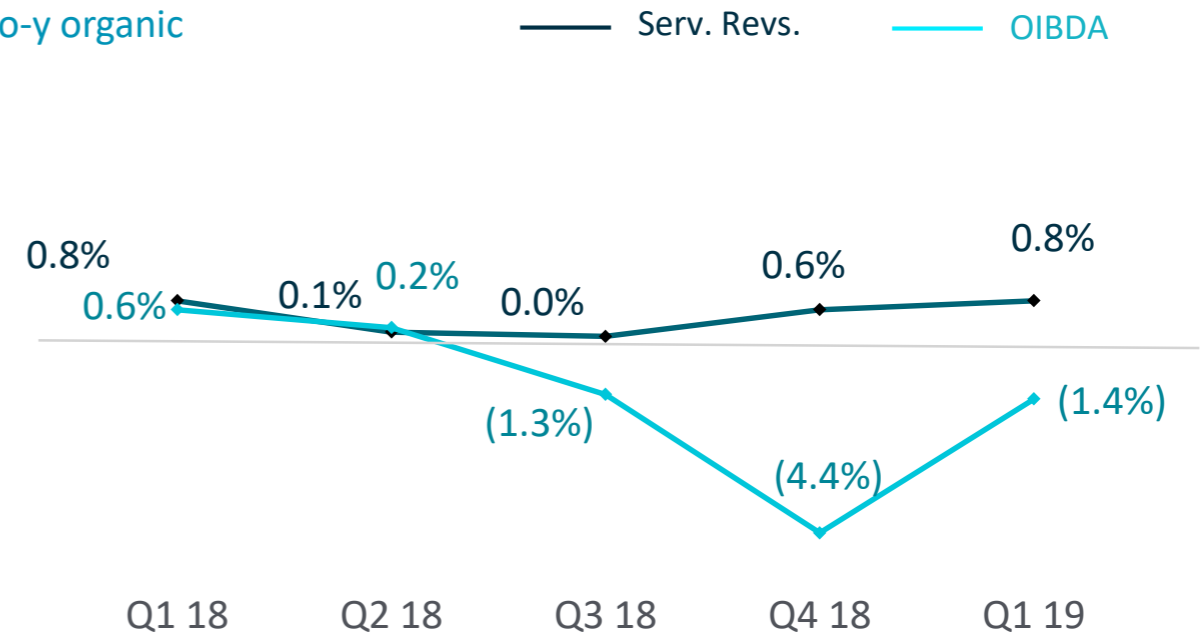
- **Service Revenue grows for 7 straight Qs**
 - “Consumer” flat y-o-y; lower tariff impact vs. Q1 18
 - “Business” +3.0%; growing for 4 Q’s
 - “Wholesale & Other” reverses trend; +0.2% (vs. -7.1% in Q4 18)
- **Drags in wholesale being gradually removed**
 - TV wholesale growth set to accelerate
- **Tailwinds ahead for H2**
 - Tariff update, promo’s expiry, fiber & MVNO agreements

OIBDA y-o-y improvement (+3.0 p.p.)

- **Negative content one-offs seen in Q4 removed**
 - Incremental savings (personnel, digitalisation...)
- Reported OIBDA impacted by IFRS and others
- CapEx +9.2% y-o-y on phasing
- Benchmark in CapEx/Sales; 31.3% OpCF margin

Service Revenues & OIBDA

y-o-y organic



Strong cash conversion

€m

973



OpCF

Capex/Sales

12.1%



Q1

Germany | Strong trading performance

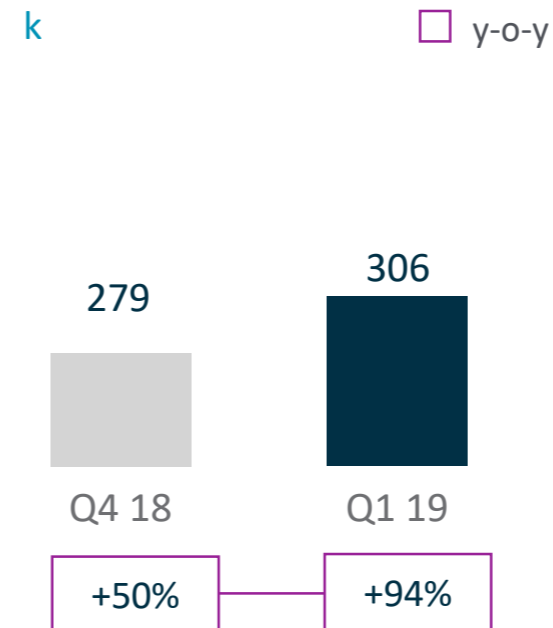
Innovative commercial propositions

- New value-added initiatives to enhance ARPU and churn
- Enhanced infrastructure portfolio; cable wholesale access through long term agreement with Vodafone
- Strong own and partner trading; partners 60% of gross additions
- LTE cust. 19.3m (+20% y-o-y); penetration +8 p.p. y-o-y
- O₂ contract churn improved by 0.2 p.p. y-o-y

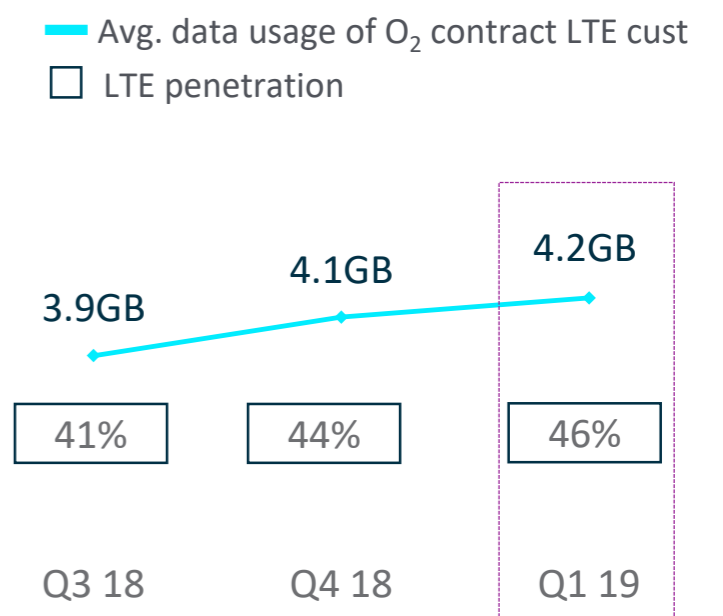
Key financial highlights

- Sustained revenue growth
 - MSR ex-reg. stable (+0.3% y-o-y; -0.4% in Q4 18)
 - Strong handset sales: +12.6% y-o-y
- Improved OIBDA y-o-y (+3.8 p.p. vs Q4 18)
- Reported OIBDA includes +€129m of IFRS 16 implementation
- Strong Q1 CapEx increase (+28.3% y-o-y), due to front-loaded LTE roll-out, a trend expected to normalise over the full year

Contract net adds



Accelerating data monetisation



Revenues

y-o-y organic

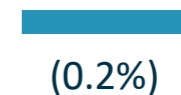


Q1 19

€1,779m

OIBDA

y-o-y organic



Q1 19

€522m

UK | Customer centric approach drives growth trends

Strong commercial performance

- **Leading as UK's favourite mobile network**
 - Q1 customer growth of +2% y-o-y
 - O₂ contract customers +4% y-o-y
 - Strong customer loyalty; leading Q1 postpay churn at 0.9%
- **65% LTE penetration** (+5 p.p. y-o-y)

O2 contract net dds

(incl. M2M)

+220k



Q1 19

Leading in the UK

“Best Network Performance”
at Mobile News Awards



“Best Sponsorship of the last 25 years”
at UK Sponsorship Awards



Good growth across all key financials

- **Strong top-line**
 - Continued MSR growth in Q1 (+0.5% y-o-y)
 - Accelerated handset & other revenue growth (+18.7% y-o-y)
- **Reported OIBDA** includes +€55m of IFRS 16 implementation
- **Q1 CapEx** of €185m broadly stable (+0.2% y-o-y)

Revenues

y-o-y organic

5.3%



Q1 19

€1,691m

OIBDA

y-o-y organic

3.4%



Q1 19

€504m

OpCF

y-o-y organic

5.8%



Q1 19

€319m

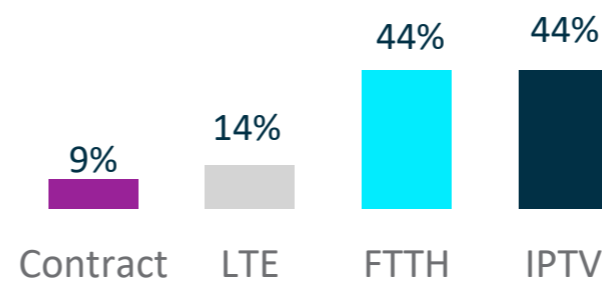
Brazil | Delivering profitable value growth

Value growth amidst M4M strategy

- **M4M strategy backs solid mobile ARPU growth & stable churn**
 - Tariff changes: +9% in Pure Contract in Sep-18; +11% in Hybrid Dec-18; +20% in prepaid in Mar-Apr
 - Contract churn: 1.7% (stable q-o-q; +0.1 p.p. y-o-y)
 - Q1 19 contract net adds 616k
- **Well built leadership**
 - 40.1% contract mkt. share; 32.1% total mob. mkt. share
- **88% 4G coverage; 63% 4.5G coverage**
- **Fixed: Transformation journey to major ARPU increase**
 - FTTH: 9.0m HPs (1.7m in LTM; 0.3m in Q1 19)
 - 2m connected (623k connected in LTM; 141k in Q1 19)
 - Outstanding results in cities launched since 2017 with occupation above average
 - IPTV offered in all cities with FTTH (130 vs. 121 in Q4)

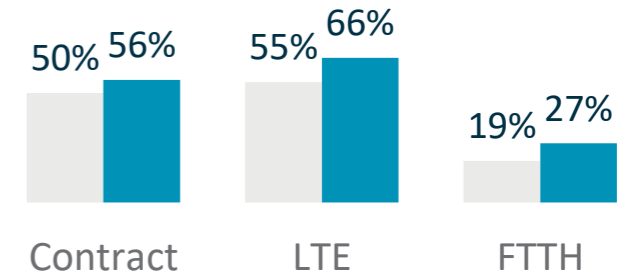
Accesses

y-o-y



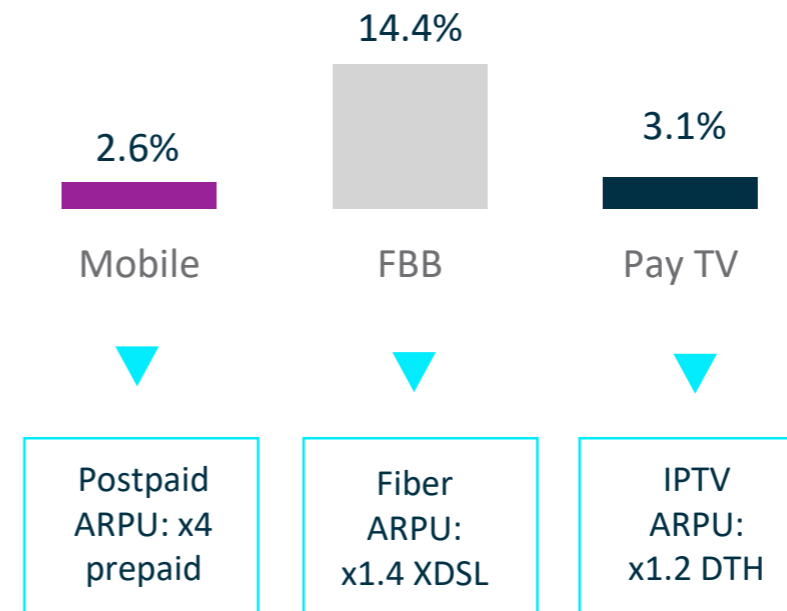
Penetration

■ Q1 18 ■ Q1 19



ARPU

y-o-y organic



Brazil | Confirmation of top-line improvement

Value growth flowing into P&L

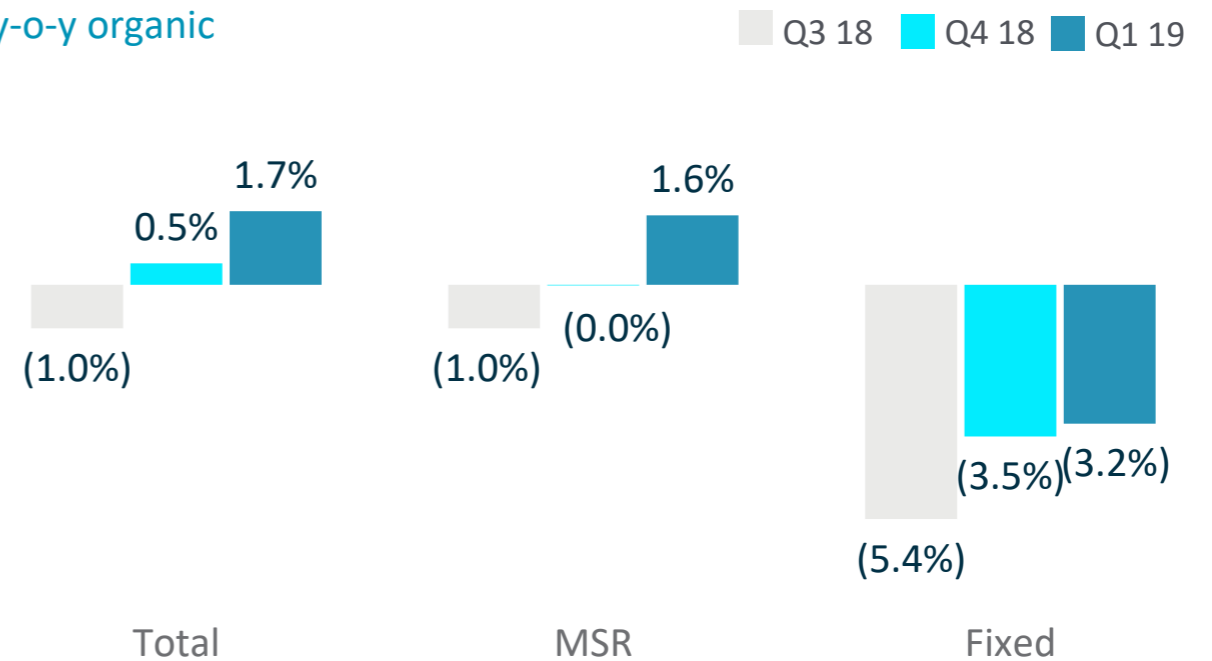
- **Service revenue y-o-y trend again improved (+1.1 p.p. vs Q4 18)**
 - MSR:
 - Strong postpaid growth (+8.2% vs. +6.9% in Q4 18)
 - Fostering migration to higher data plans
 - Fixed: Revenue ex voice +7.9% y-o-y
 - Fiber outperforms (+25.7%); IPTV +45.1%
 - Voice -18.1% (reducing weight o/ fixed revs: -7 p.p. y-o-y)
 - B2B improving (+0.9 p.p. q-o-q)

Profitability continues to expand

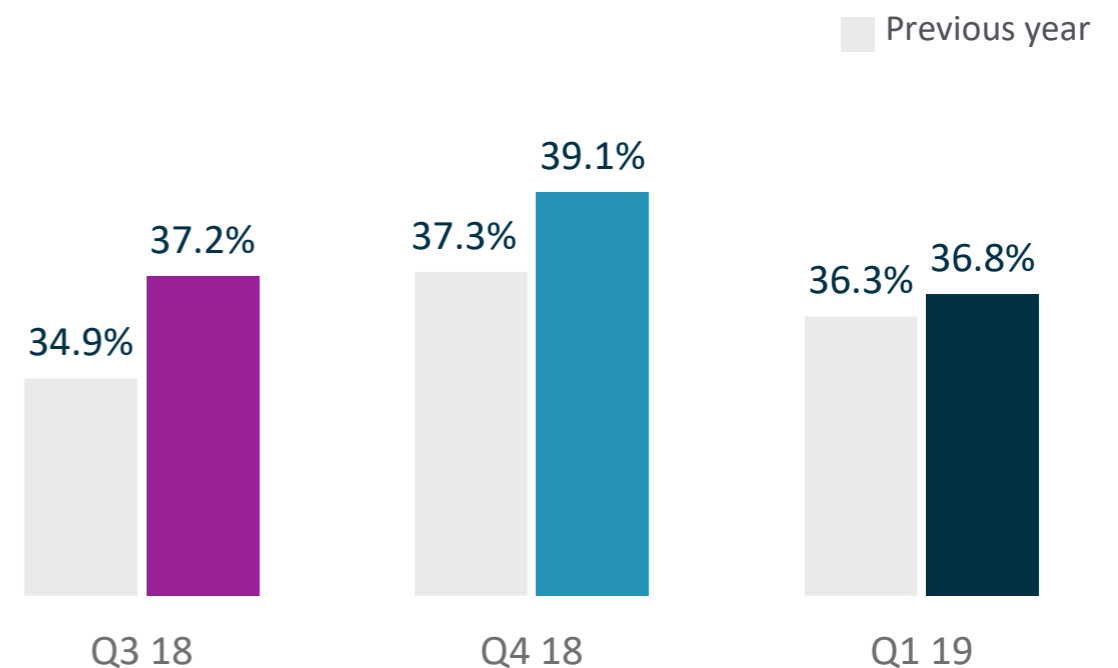
- **OpEx +2.3% y-o-y on higher handset consumption, still well below inflation (4.6% in LTM)**
- **OIBDA +3.1% y-o-y**
- **OpCF €654m (-1.2%) on CapEx acceleration (+9.6% y-o-y; fiber and 4G deployment)**
- **FCF 16% y-o-y (under Brazil reporting criteria)**

Revenues

y-o-y organic



OIBDA Margin (organic)

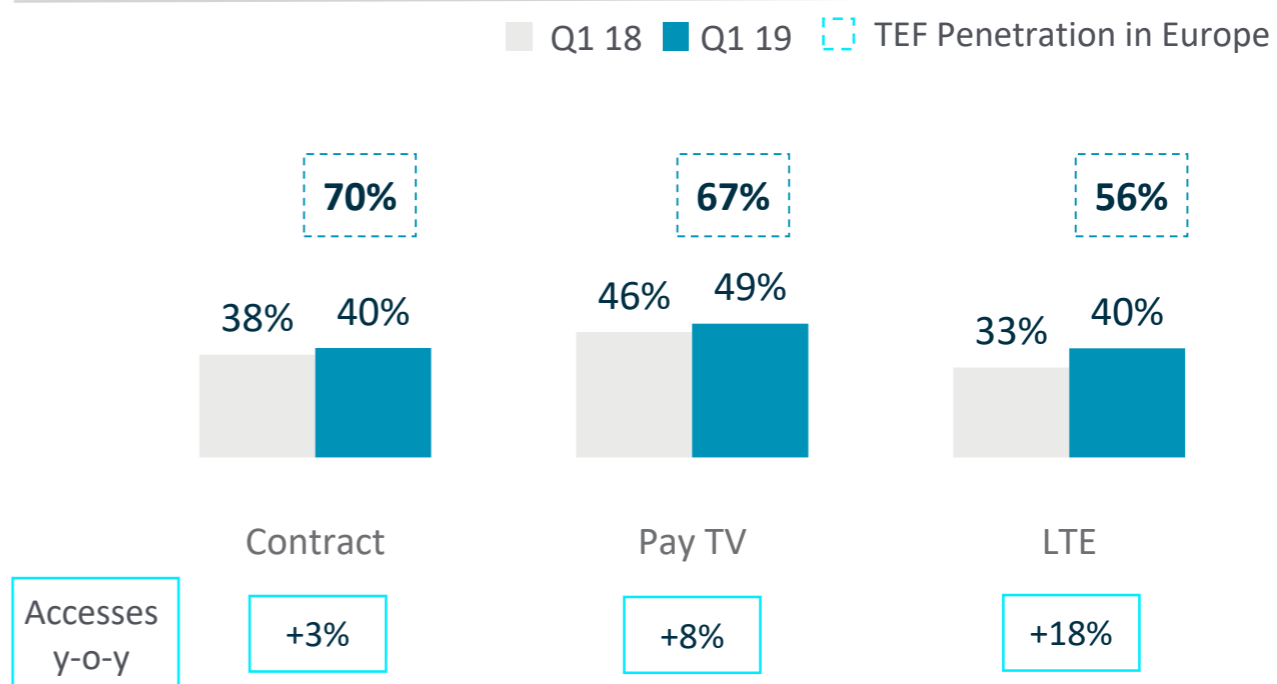


South Hispam | Better revenue trends

Positive contract net adds for 6th consecutive Q

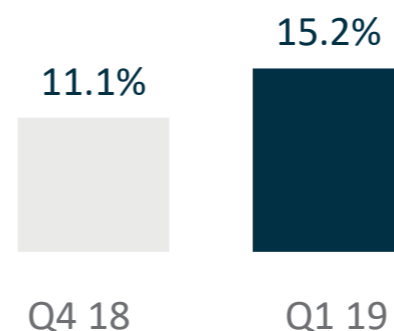
- **Fiber deployment acceleration:** 8.8m premises passed (8.3m Dec-18); 30% FTTx take-up
- **Q1 ARGENTINA** (Revs. €543; OIBDA €145m)
 - 495k FTTx connections (1.7x y-o-y); 59k IPTV accesses (launched in Oct-18). Movistar Play launched since Mar-19
 - Revenue y-o-y acceleration (+40.0%). OIBDA: +17.4% y-o-y
- **Q1 CHILE** (Revs. €498m; OIBDA €169m)
 - Continued solid contract (+11%) and mobile ARPU growth (+2.6%)
 - 556k FTTx connections (1.5x y-o-y) and 90k IPTV accesses
- **Q1 PERU** (Revs. €518m; OIBDA €107m)
 - Positive net adds in contract (66k) backed by Movistar Total launch
 - OIBDA y-o-y trend improved to -7.9% (+29 p.p. q-o-q) on better revenues, lower subsidies and network cost efficiencies

Penetration



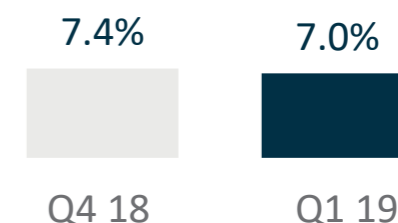
Revenues

y-o-y organic



OIBDA

y-o-y organic



North Hispam | Top-line turns around

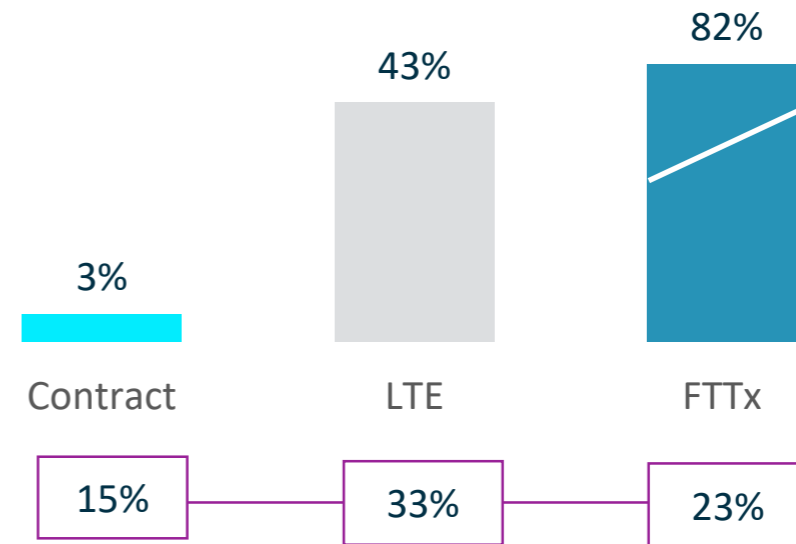
Accelerating revenue growth in COL & CAM

- **Value growth:** contract (+3%), FTTx (+82%) & LTE (+43%)
- **OIBDA:** -14.9% highly affected by MEX (+0.3% ex. MEX)
- **Q1 COLOMBIA** (Revs. €359m; OIBDA €131m)
 - Sound increase in contract (+4%) & prepaid (+9%)
 - Fiber deployment accelerates: 1.2m FTTx premises passed (x1.6 y-o-y); 305k connections (x1.8 y-o-y)
 - Revenues +3.8%; OIBDA +3.2% y-o-y
- **Q1 MEXICO** (Revs. €296m; OIBDA €22m)
 - Contract accesses +3% y-o-y
 - Revenue trend reversed (+1.2% y-o-y) on improved ARPU and lower regulatory impact. OIBDA impacted by spectrum fees/regulation
- **Q1 CAM** (Revs. €189m; OIBDA €72m)
 - Revenue & OIBDA growth improvement (+6.5% & +5.6% y-o-y)

Accesses

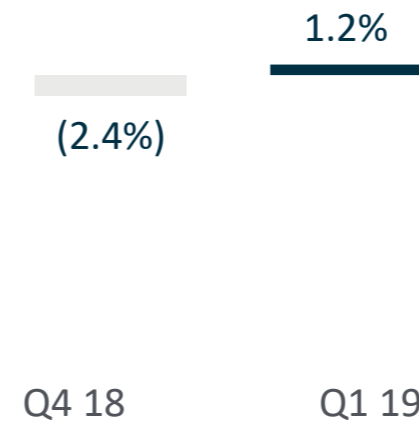
Mar-19 y-o-y organic

Penetration



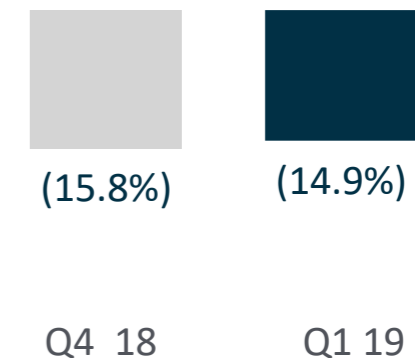
Revenues

y-o-y organic



OIBDA

y-o-y organic

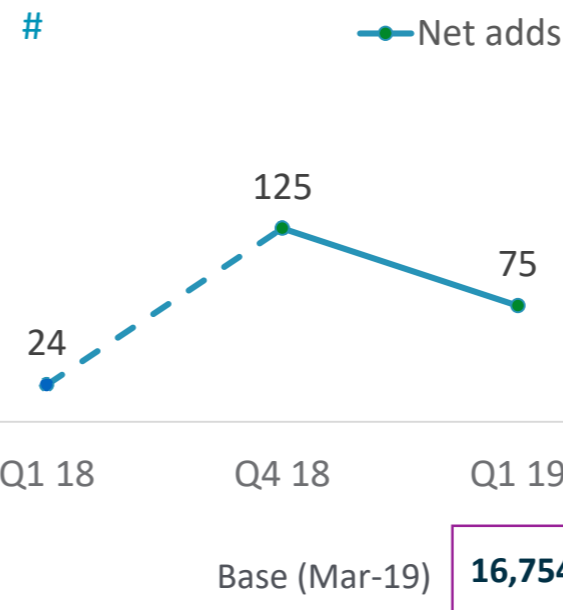


Telxius | Reaping the benefits of premium infrastructure

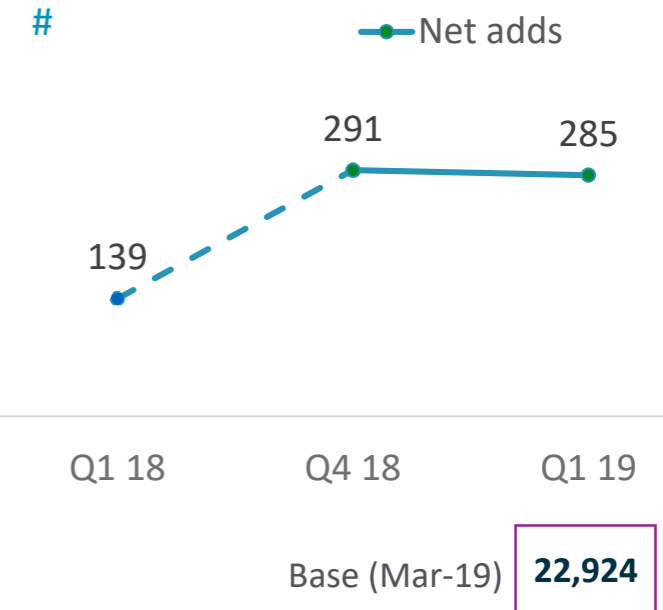
Positive operational momentum

- **Towers**
 - Solid growth of new tenants in Q1 (>2x net adds y-o-y)
 - 75 towers built in Q1 (>3x y-o-y)
 - Increased tenancy ratio: 1.37x (+0.03x y-o-y)
- **Cable**
 - Sustained commercial momentum

Towers



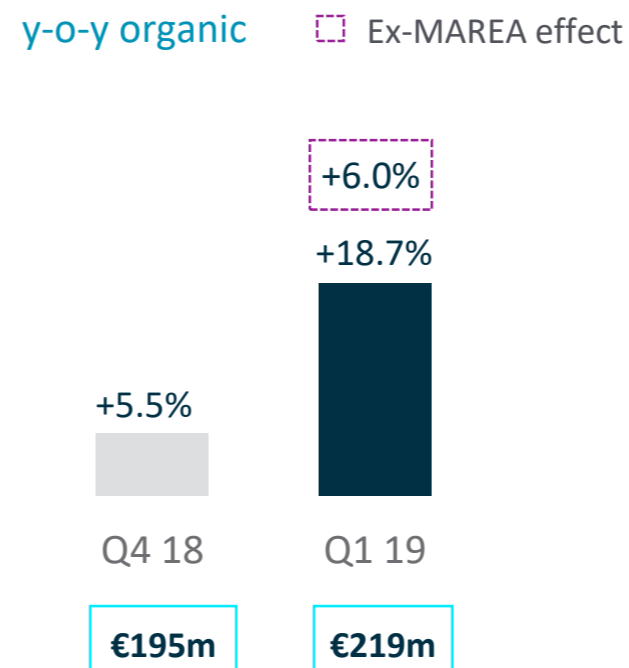
Tenants



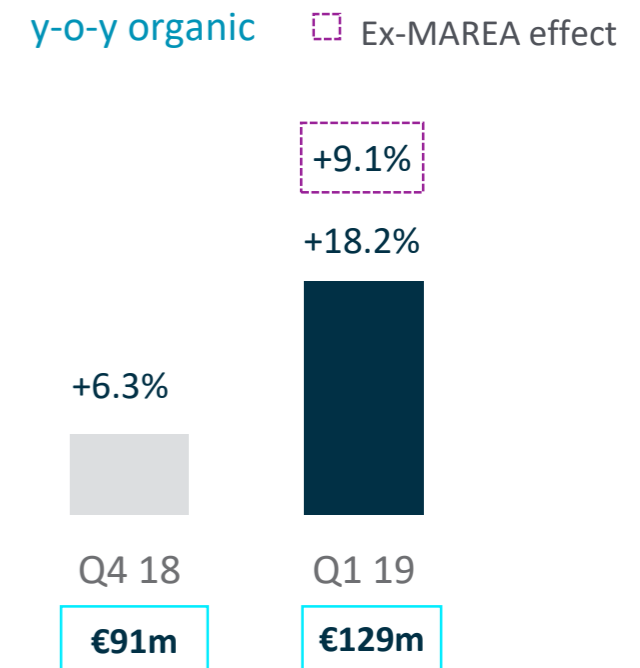
Accelerating growth trends

- **Q1 financials impacted by exceptional sale in Cable**
- **Improving top-line growth**
 - Towers: +8.0% y-o-y (vs. Q4 at +10.1%)
 - Cable: +27.4% y-o-y (+4.5% ex-MAREA effect)
- **Q1 Reported OIBDA impacted by IFRS16 (24M€)**
- **CapEx down 83.6%** once new cables are completed
- **Improved OpCF (2.9x y-o-y organic ex-MAREA effect)**

Revenues



OIBDA



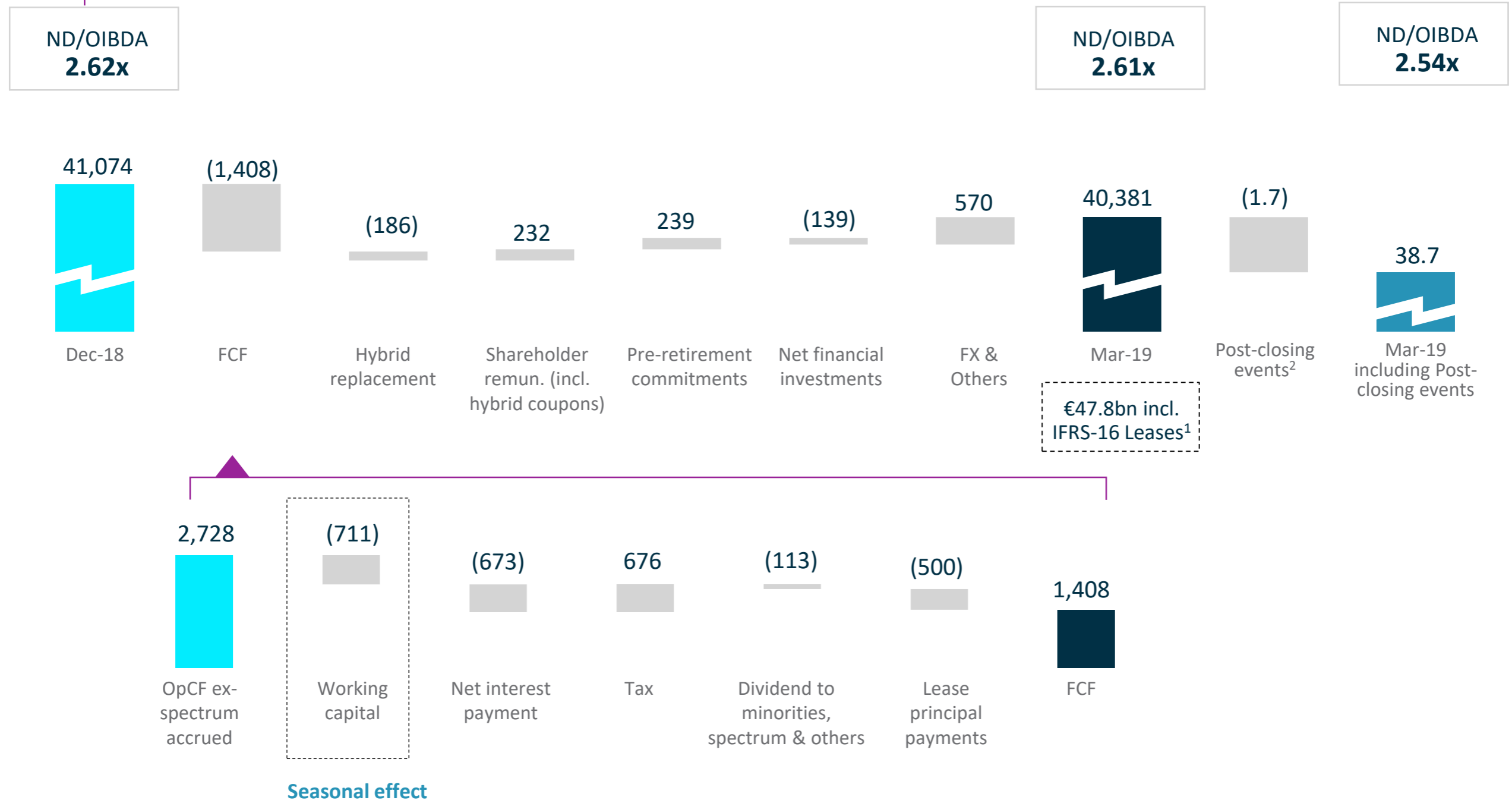
One more quarter of material debt reduction

Net Financial Debt

€m

-693

€ billions



€47.8bn incl. IFRS-16 Leases¹

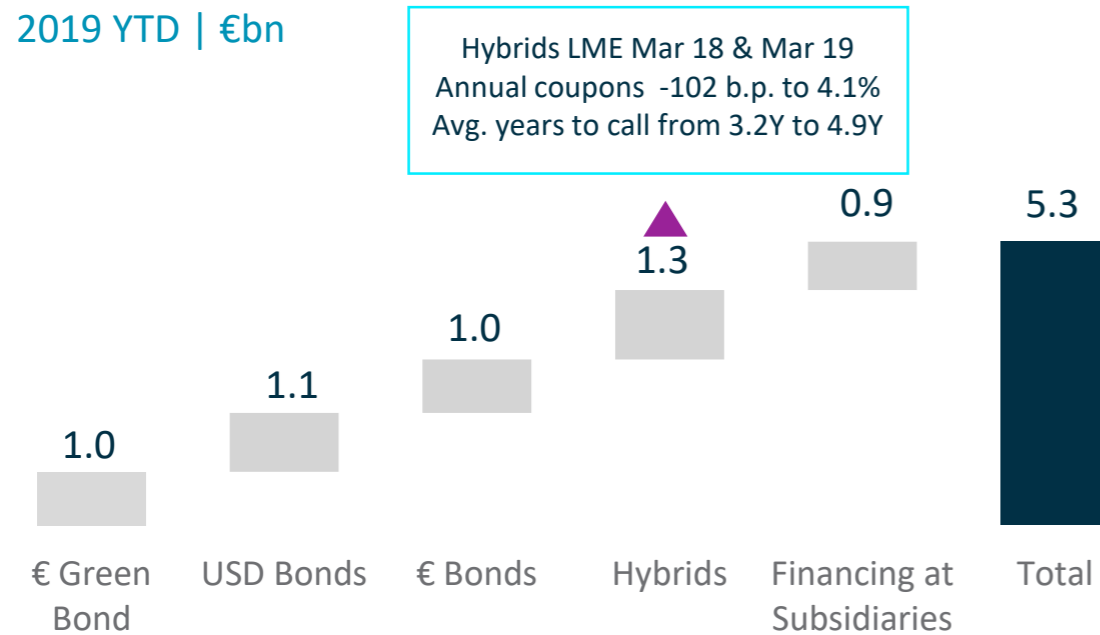
1. IFRS 16 leases: €7.4bn (lower part of the range)

2. Post-closing events: sale of Telefónica Costa Rica, Telefónica Móviles Panamá, Telefónica Celular de Nicaragua and Telefónica Móviles El Salvador; sale of 11 Data Centers

Strong liquidity thanks to attractive long-term financing

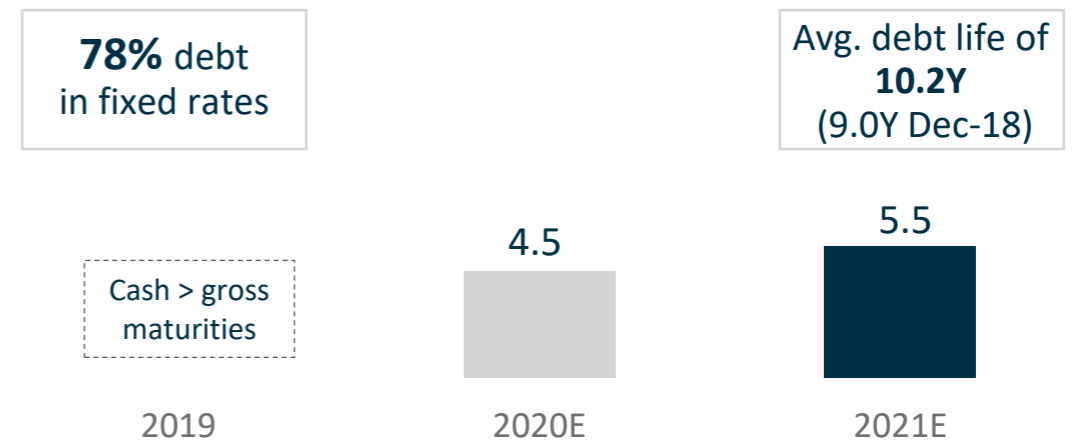
Sources of long-term financing

2019 YTD | €bn



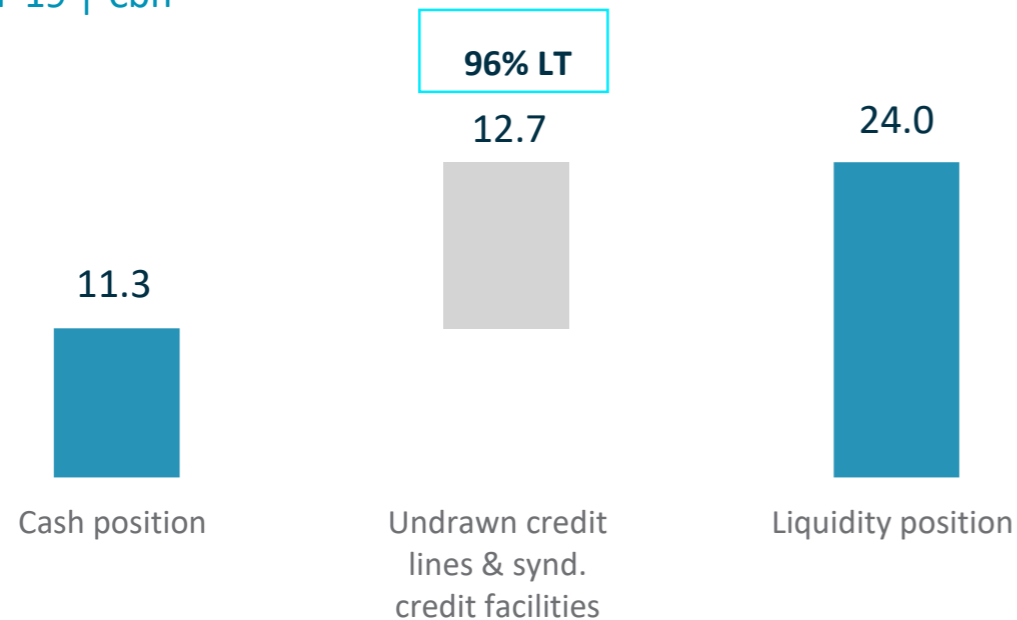
Net Debt maturities

Mar-19 | €bn; not considering hybrid NC dates



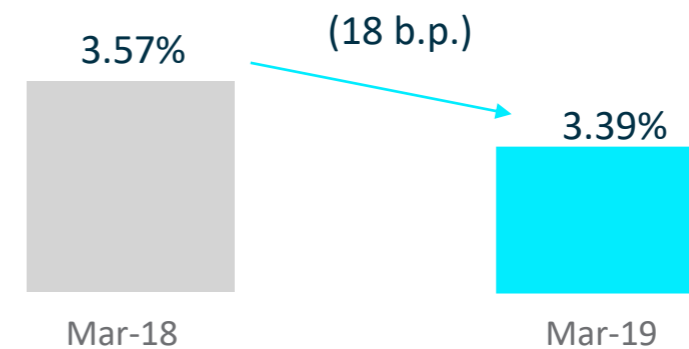
Liquidity position

Mar-19 | €bn



Interest payment costs

Mar-19



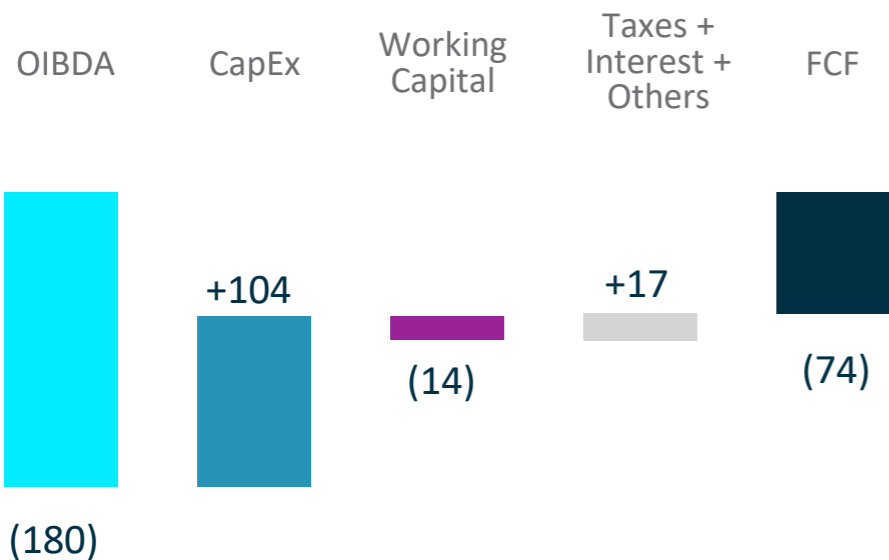
FX impact neutralised at FCF

Currency weakness in Q1

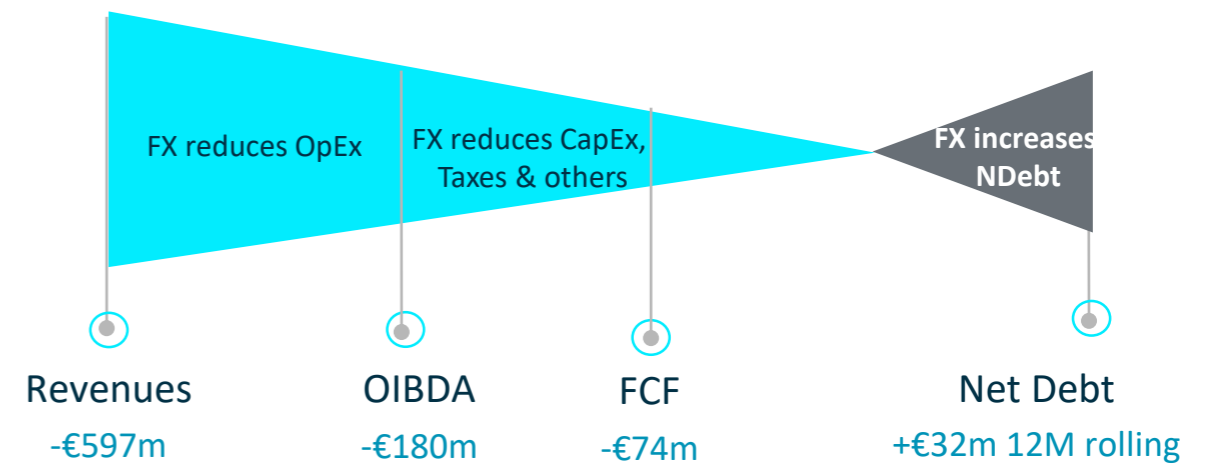
- Solid organic contribution to Revenues & OIBDA
 - Q1 y-o-y: +€464m revenues & +€40m OIBDA
- FX detracts 4.9 p.p. in revenues, 4.7 p.p. in OIBDA
- ARG & BRL depreciation, major drags in Q1
- Impact in net debt (Spot GBP/EUR appreciation)

FX impact in Q1 FCF

€m



FX headwinds



Conclusion

Mr. Ángel Vilá
COO



Wrap-up | Solid start of the year

Consistent, profitable & sustainable growth

Revenue
+3.8% organic

EPS & Net Income double digit growth

EPS +33.8%
Net Income
+10.6%

Continued net debt reduction, for 8 consecutive quarters

Net Debt
-€0.7Bn
in Q1

Infrastructures are key to ensure best customer-experience

Cov.
Fiber 52m
LTE 78%

Improving efficiencies; monetisation B2C + B2B & digitalisation

Savings
digitalisation
2019E >€340m

Outlook 2019 reiterated

Telefonica



For further information:

Investor Relations

Tel. +34 91 482 87 00

ir@telefonica.com

www.telefonica.com/investors

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