Telefónica

RESULTS

JANUARY | MARCH 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 the our consolidated financial statements and consolidated management report for the year 2017 submitted to the Spanish National Securities Market Commission (CNMV), in Note 2, page 283 of the .pdf filed. Recipients of this document are invited to read it.

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Q1 18 Highlights

Mr. Ángel Vilá
COO

Telefónica

Highlights | Execution of strategic priorities

Enable people with the power of connectivity

- **357m accesses**; +36% LTE; +7% smartphones; +20% FFTx/Cable; +5% Pay TV
- Extending leadership in **FTTx/Cable**: 45.8m premises passed (+5.9m y-o-y)
- **More services, more usage**; **more ARPU**

Operate in markets where we can have an impact & create value

All business units growing in Revenues & OIBDA ex-regulation

- **Spain:** Accelerating revenue and OIBDA growth
- **Brazil:** Growth and margin expansion
- **Germany:** MSR ex-reg. continued to grow
- **UK:** Robust financial performance; new spectrum to further strengthen operations
- **South Hispam:** Solid growth rates
- **North Hispam:** Impacted by new regulation in MEX

Optimise our capabilities for a sustainable digital future

- Strengthened our **differential platforms**
- **Solid advance in customer-centric digitalisation & data monetisation**
- **Launch of AURA in 6 countries**

Deliver on our financial targets

- Revs, OIBDA, OpCF org. growth in Q1
- **Further net debt reduction**
- **Q1 results in line with expectations**
- **Reiterating guidance**

Key financials Q1 18

Q1 18 (€m)	Reported IFRS 15 & 9	Reported y-o-y	Organic y-o-y
Revenues	12,190	(7.2%)	1.9%
Service revenues	11,040	(9.4%)	0.8%
OIBDA	3,864	(3.9%)	3.3%
Underlying OIBDA	*3,863*	*(5.6%)*	
OIBDA margin	31.7%	1.1 p.p.	0.4 p.p.
OpCF (ex-spectrum)	2,381	(1.0%)	4.4%
Net Income	837	7.4%	
EPS (€)	0.12	(13.2%)	
Underlying EPS (€)	*0.17*	*(3.0%)*	
FCF	550	(8.7%)	
Net Financial Debt	43,975	(9.8%)	

Accelerating growth, from Revenues to OpCF

Mid-single digit growth in Net Income

Growing FCF pre-dividends to minorities

Ongoing debt reduction

Reported figures y-o-y affected by

- Negative FX evolution
- Regulation
- Restructuring costs, tower sales
- Different accounting standards (2018 IFRS 15 & 9; 2017 IAS18)

IFRS 15 impacts Q1 18
-€10m in Revenues
+€11m in OIBDA

Guidance confirmed

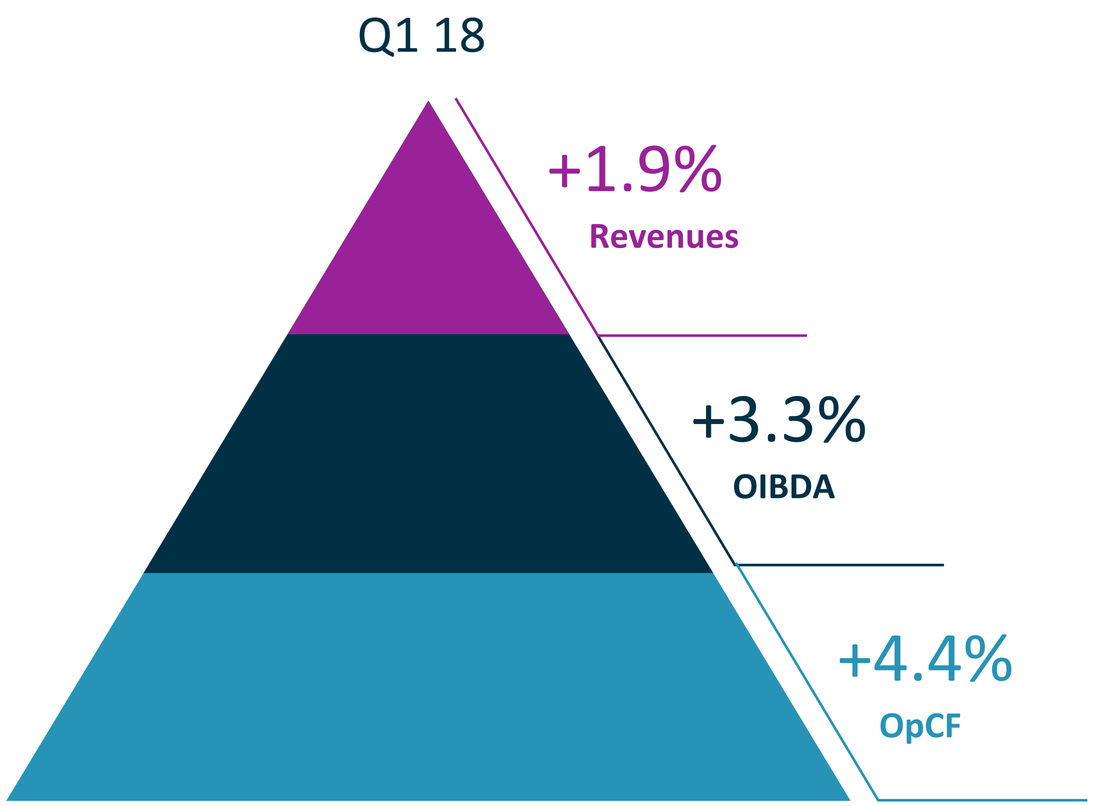
Operating 2018 guidance organic	Guidance 2018E (IAS 18)	Q1 18
Revenues	**Growth of around 1%** (despite regulation dragging: -0.9 p.p.)	**+1.9 %**
OIBDA Margin	**Continues expanding around 0.5 p.p.** (despite regulation dragging -1.6 p.p. on OIBDA growth)	**+0.4 p.p.**
CAPEX ex-spectrum/Sales	**Around 15%**	**12.3 %**

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.

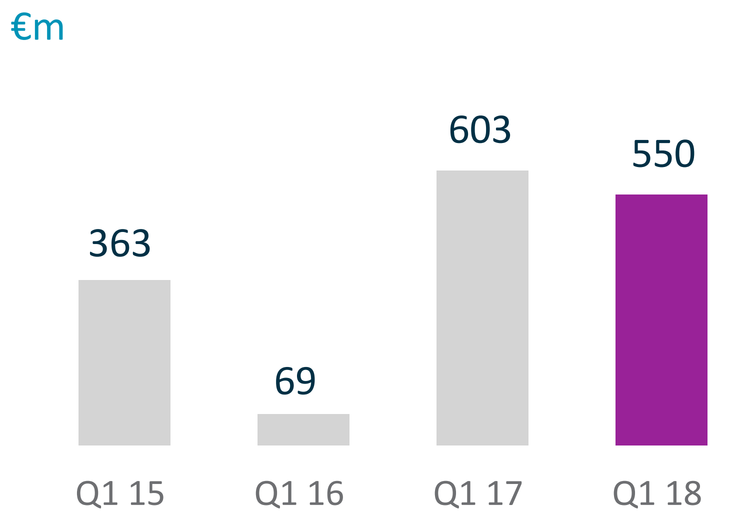
Cash: 20/Dec/18 €0.20/sh.



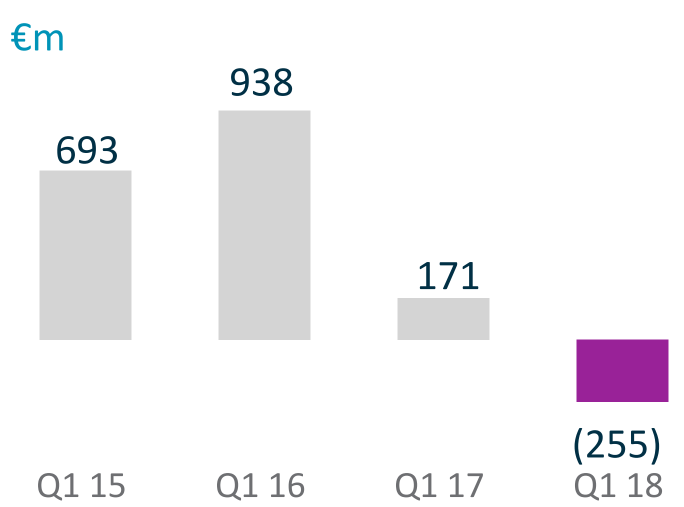
2018 DIVIDEND	€0.4/SH. CASH
Interim Dec-18	€0.20/sh.
Final Jun-19	€0.20/sh.

Sustained free cash flow generation

FCF



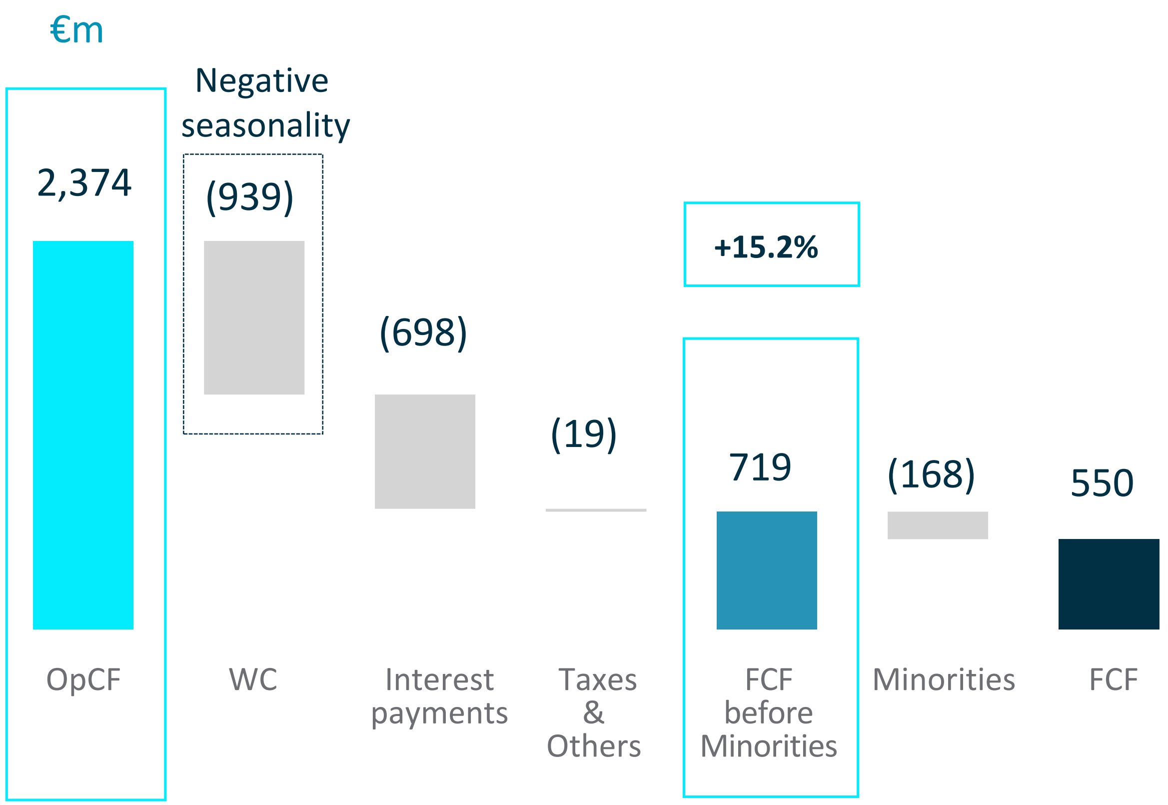
Q1 q-o-q change in Net Debt



ND decrease in Q1, changing trends vs. previous years

ND -9.8% y-o-y; (-€4.8bn y-o-y)

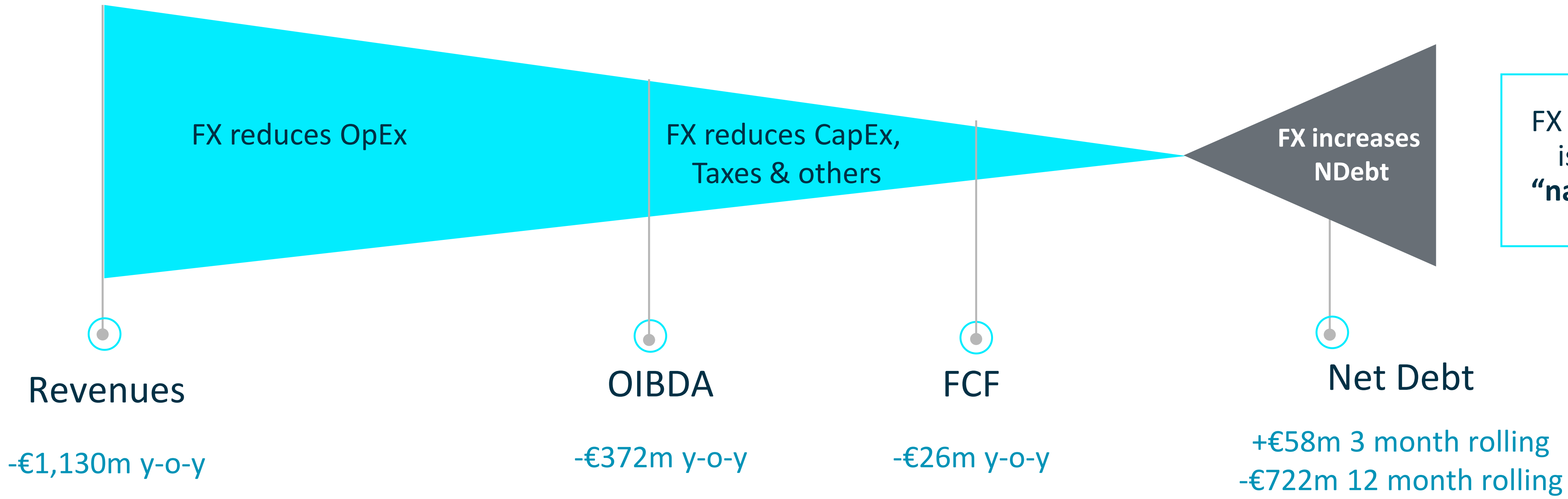
Strong Q1 FCF, operational leverage



Q1 FCF affected by WC seasonality
and extraordinary minority payment...

...FCF to improve throughout the year

FX impact structurally neutralised

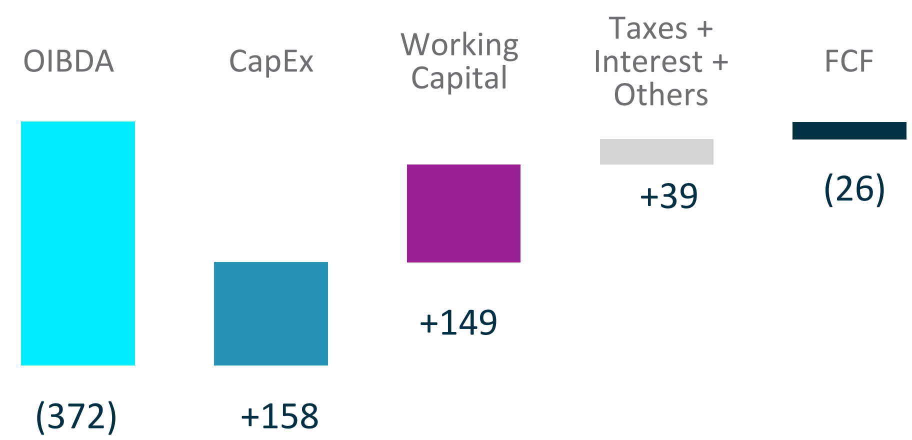


FX impact in FCF is mitigated, **"natural hedge"**

- **€ appreciation, the major drag in Q1**
  - Q1: BRL and ARS explain 80% of negative FX impact in OIBDA
  - FX spot rates explain Q1 increase in Net Debt
- **At current FX, weaker H1 18 y-o-y comps than in H2 18**
- **Strong organic contribution**
  - Q1 y-o-y: +€250m to revenues; +€134m to OIBDA

FX impact in Q1 FCF

€m

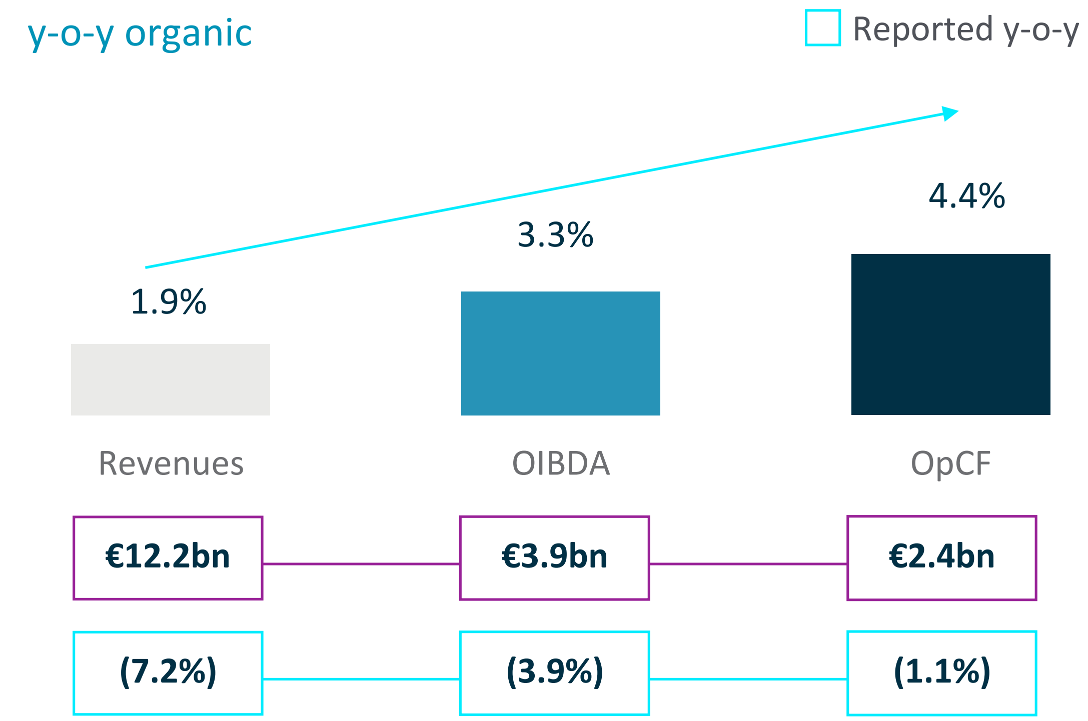


Positive delivery on Revenues, OIBDA & OpCF

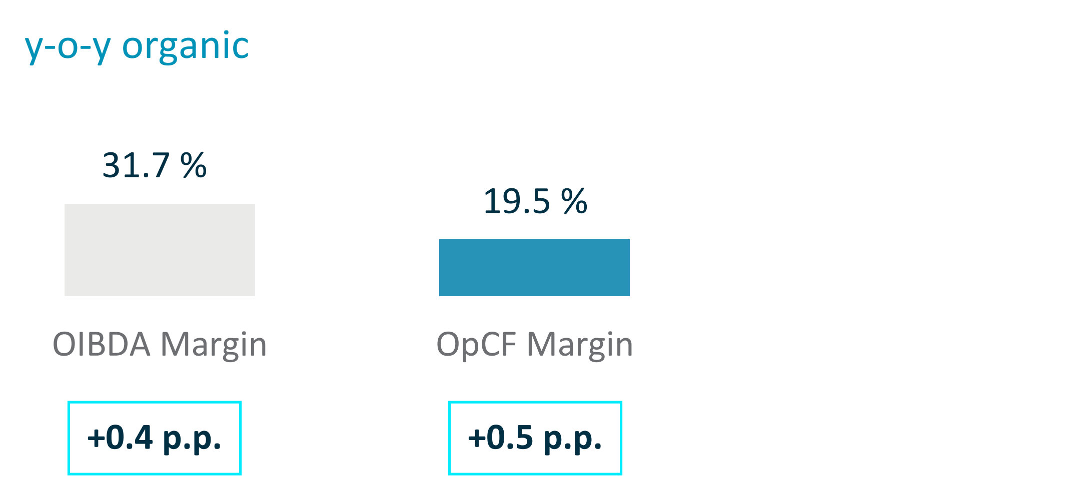
Growth acceleration

- **Revenue mix transformation**
- **Service Revenue growth +0.8%,** despite regulation (-1.2 p.p.)
- **Margin expansion**; continued focus on **efficiencies & synergies; increasing relevance of digitalisation**
- **All regions contributing to OIBDA growth** (ex. N. Hispam)
- **Reported OpCF stable** despite FX
- **Holistic and efficient CapEx** (+1.5% y-o-y)
  - Covering more with less investments

Q1 18



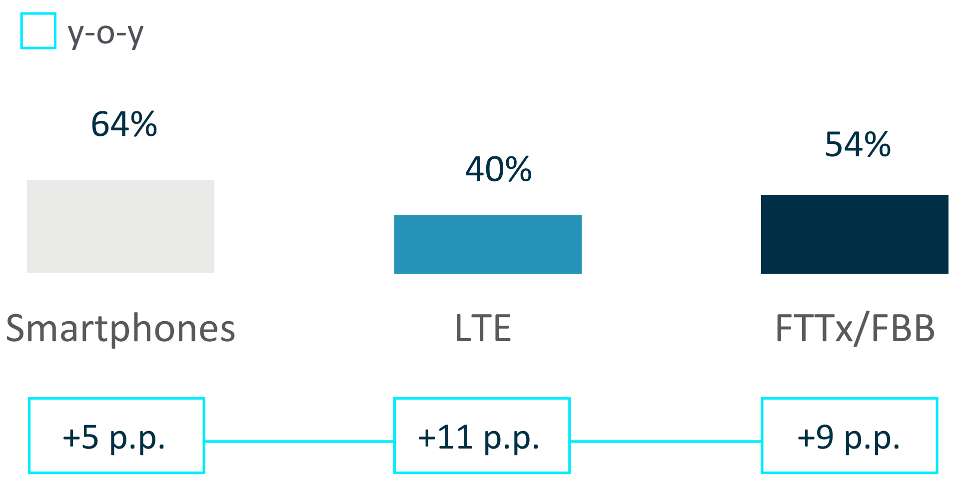
Q1 18 Robust profitability



Monetisation focus enhanced

Attracting, bundling and upselling

More users, more data services (penetration %)



More usage, more revenue

4G Traffic

y-o-y	**Traffic 4G**
+121%	61% o/total

UPLIFT

(vs. DSL)

LTE	+69% usage +10% ARPU	FTTH	x2.6 data +20% ARPU

Capturing more usage with improved capabilities

- **M4M evolution to add more value**
  - **Revamped mobile in Latam**
    - "Movistar Series" launch (Feb-18)
    - "Movistar Play" (OTT video) in 13 countries
  - **New bundle with TV at the core**
    - " Fusion+ Ocio Total" (300 Mbps + series&films +2 mobiles) (Feb-18)
  - **Enhanced prepaid portfolio in mid-high tiers**
    - More data and digital services ("GoRead", "NBA", "Vivo Bem")
- **Continued to develop recurrent data plans in prepaid Latam**
  - >10% ARPU increase

    \+ Launched in Feb.
- **Enriched prepaid mid-level plans** (Mar-18)

We are a platform Co. to better serve customer needs

4th Platform

Pioneer in AI, Cognitive Intelligence in an open data ecosystem

1.3 PB/month Data being normalised

30 TFlops Processing capacity

AURA
Commercial launch in March
Personalised Quality Experience

3rd Platform

Distinctive value proposition

53% Connectivity & Services over Connectivity Revs. o/Total. (+3 p.p. y-o-y)

€1,608m Digital Revenues (+29% vs. Q1 17 organic)

Weight o/digital revs.

45% Video Revs

26% Content Revs.

19% Advanced Revs. (IoT, Cloud, Sec...)

2nd Platform

E2E Digitalisation enabling Real Time processes

61% E2ED level (+9 p.p. yoy)

25% Full Stack (customers migrated)

1st Platform

Leading-edge Smart networks to cope with data explosion

UNIC@

1# Network Virtualisation

UBB coverage
76m premises passed (o/w 46m owned)

4K
Unified video platform

Fixed equipment
New tech (Smart WiFi)

4G cov.

92% **Europe**

66% **Latam**

4.5G GER, BRA, MEX, COL

5G Spain Cities

Telefónica

Aura, the new customer relationship model

Leading the integration of AI in networks & customer care

OPEN ECOSYSTEM

Our 4th Platform is open to main technological players

Aura works with

Main virtual assistants

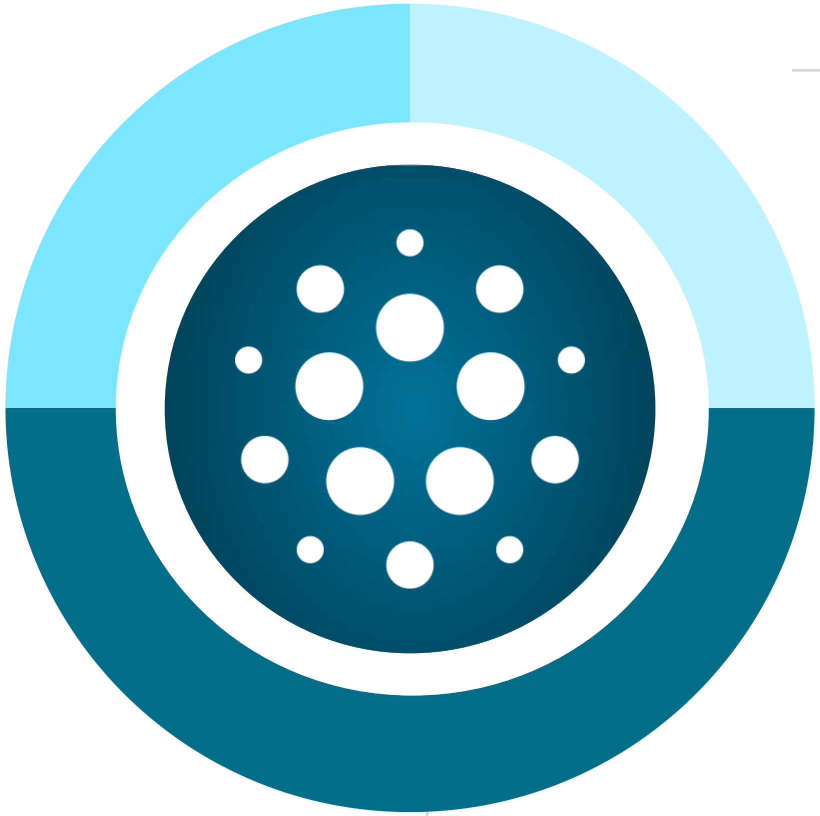
Google ASSISTANT — **In the coming months**

Hey Cortana — **2019E**

Our 4th Platform allows us to be wherever our customers are

Movistar Home

Aura will come to the home via Movistar Home device



Simply Talk to Aura

A one-stop shop for customers' needs

Unified and Digital

BASED ON DATA TRANSPARENCY & SECURITY

Data Portability Cooperation

Aura will empower the customer

Aura is available in 6 countries

Digitalisation, a leap forward in our bold transformation

Enhancing Customer Experience and Operational Efficiency

Focus on 5 priorities centred on the customer journey….

2017-20

Increase **Direct customer interaction** for sales	Foster **top-ups & add-ons** through own digital channels	Make the **payments & collections** more efficient and user friendly	Improve experience **Fulfilment and technical support**	Enhanced **customer care** experience
x2.5 sales in self-assisted channels	**x2.1 online top-ups**	**+12% payments in self-assisted channels**	**+10% incidents solved remotely**	**-30% calls handled in call centre per access** **x4.8 unique users in app**

…initiatives already onboard to capture impact along 2018

Offer personalisation	**Smart top-up offers** **Credit card payment**	**One-click payment** **Direct debit adoption**	**Self-diagnosis & remote incidence** resolution tools **Traceability in app**	Robotics processes Dynamising **CX online**
Sales in digital channels ↑	**Online Top-Ups** ↑	**Payments in digital channels** ↑	**Remotely solved incidences** ↑	**Unique users in App** ↑ **Calls to Call Centre per access** ↓

Digitalisation drives cost savings….

Addressable cost base 2017	**Digitalisation gross savings** Run-rate 2020E	**Gross savings** 2018
€11.6bn **32% o/OpEx**	**>€1.0bn**	**>€0.3bn**

…higher CSI and digital engagement

Increased customer satisfaction, loyalty and usage ↑

Q1 18 Results

Ms. Laura Abasolo
CFCO

Telefónica

Spain | Solid trading in a rational market

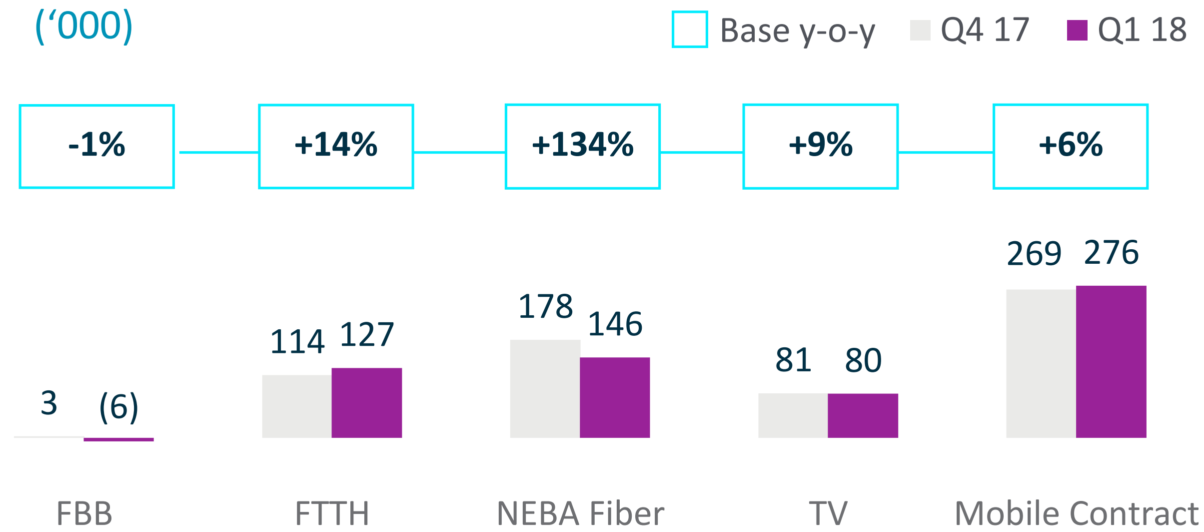
Improving churn

- **“M4M”, main strategy in the market in Q1**
- **Increasingly competitive offering**: solid Mobile, Fiber (retail & wholesale) and TV
- **"Fusión" growing base and ARPU**
  - Improved value mix: 27% in high-value (+6 p.p. y-o-y)
- **Churn reduction across services**
  - "Fusión", FBB, TV, Mobile: -0.1 p.p. q-o-q

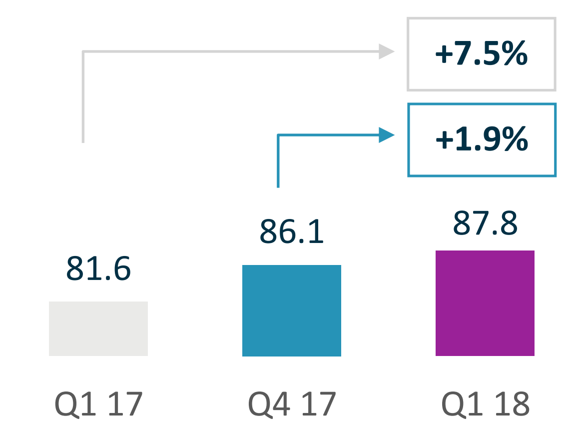
Unmatchable platforms in quality and scale

- **Largest Fiber, LTE and TV coverage**
  - Wholesale upside (just 24% accesses on Fiber)
  - Fiber wholesale agreements with main players

Net adds



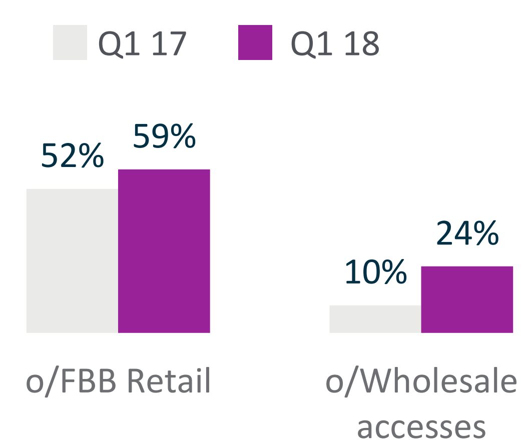
"Fusión" ARPU Q1 18



+17% "Fusión" Mobile accesses

+17% "Fusión" TV accesses y-o-y

FTTH penetration



19.7m FTTH p. passed

+2.2m y-o-y

Spain | Improving revenue and OIBDA trend

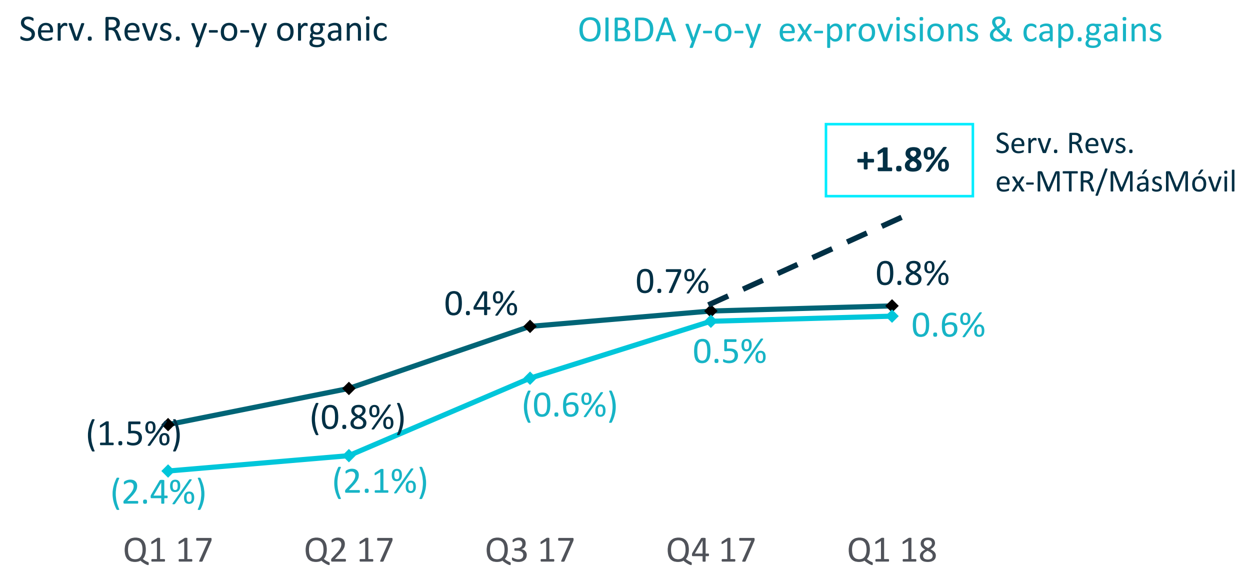
Sustained growth

- **Serv. Revs. growth improved to +0.8%; +1.8% ex-MTR/MásMóvil**
  - Acceleration in “Consumer”: +2.9% in Q1 (+1.6 q-o-q)
  - Improvement in “Business”: -0.6% in Q1 (+2.0 q-o-q)
  - Decline in “Wholesale & Other”: -3.5% in Q1 (-7.7 q-o-q)
- **Negative impacts at Wholesale revs. line start to kick-in**
  - Wholesale/MVNO loss and MTR cut
  - Partially offset by fiber wholesale growth

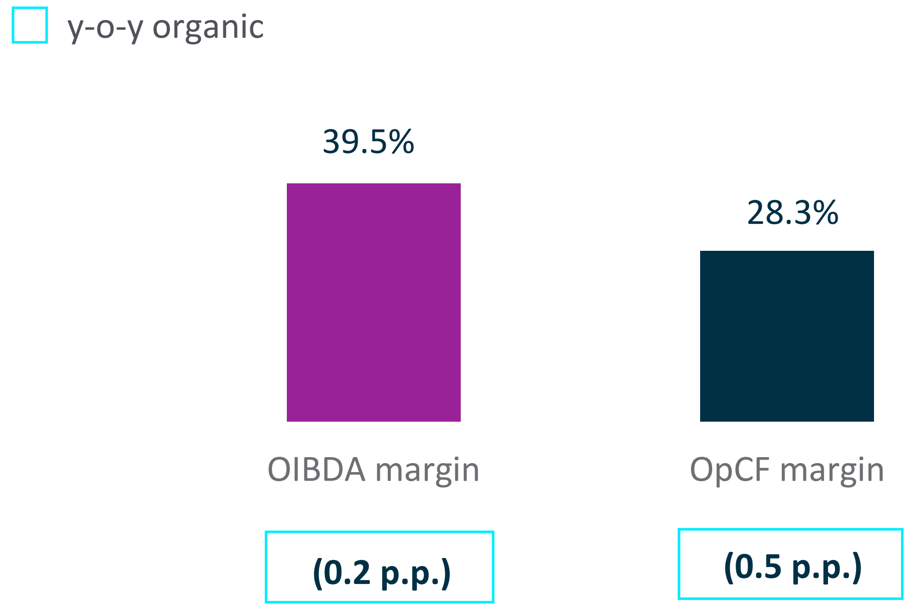
Cash conversion

- **OpEx increase eased** (+0.6% y-o-y; -0.1 p.p. q-o-q)
  - Lower commercial cost q-o-q
- **Upside in savings (personnel, digitalisation…)**
- **Margin impacted by revenue mix**
  - +0.2 p.p. y-o-y excluding Wholesale/MVNO loss
- **CapEx (+3.9%) & OpCF (-0.7%) on different CapEx phasing**

Service Revenues & OIBDA



Strong margins



Germany | Positive financial performance

Continuous market momentum

- **Solid Q1 mobile contract net adds (+157K)**
  - Strong Partner trading on 4G offers
  - LTE cust. (+15% y-o-y); penetration 39% (+7 p.p.)
- **O_2 Free ARPU accretive**
- **O_2 Ranked #2 in Connect Mobile Hotline-Test**

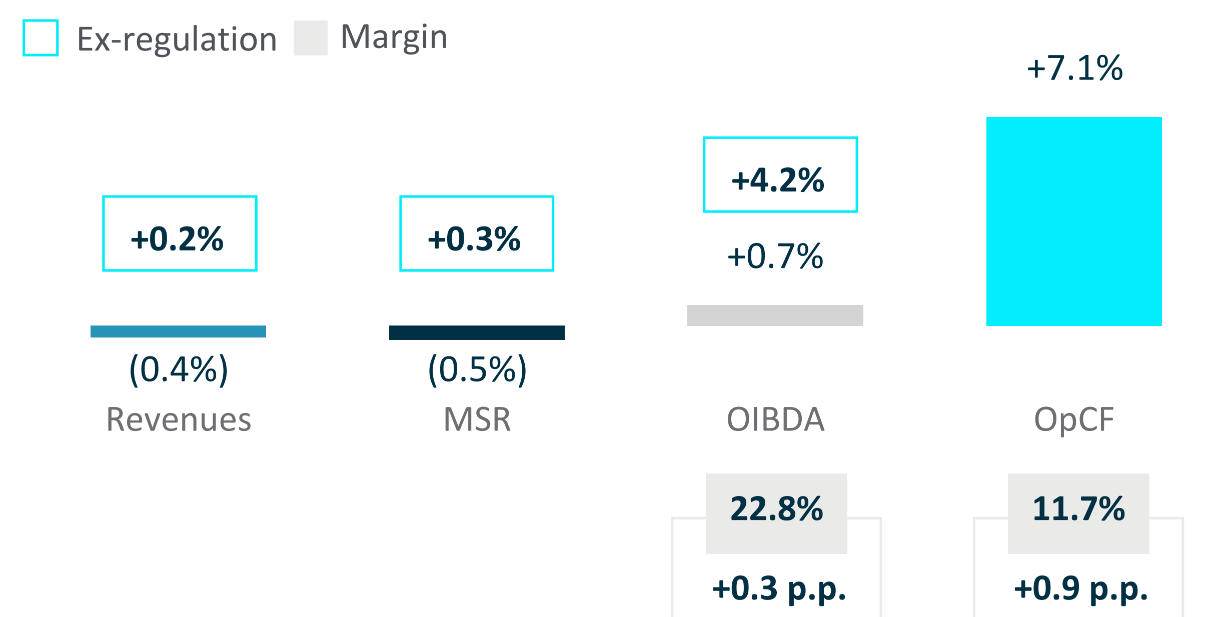
Strong OpCF

- **Revenue trend improving**
  - MSR ex-regulation (+0.3% y-o-y); handset sales (+10.5%)
- **Sustained OIBDA growth and margin expansion**
  - Regulatory drag (-€14m vs. -€7m in Q1 17)
- **Incremental synergy savings on-track** (OIBDA: €35m; CapEx: ~€15m)
- **CapEx** (-5.6% y-o-y): **efficient network consolidation & LTE rollout**

Successful data usage monetisation highlights

O_2 Free "M" tariff	LTE customers	Mobile Data traffic
	Q1 18 / Q4 17	
~6GB / month	**16.1m** (+2.1% q-o-q)	**+46% y-o-y**
~€25 ARPU	**15.8m** (+0.5% q-o-q)	**+55% y-o-y**
~60% Share		

Financials (y-o-y organic)

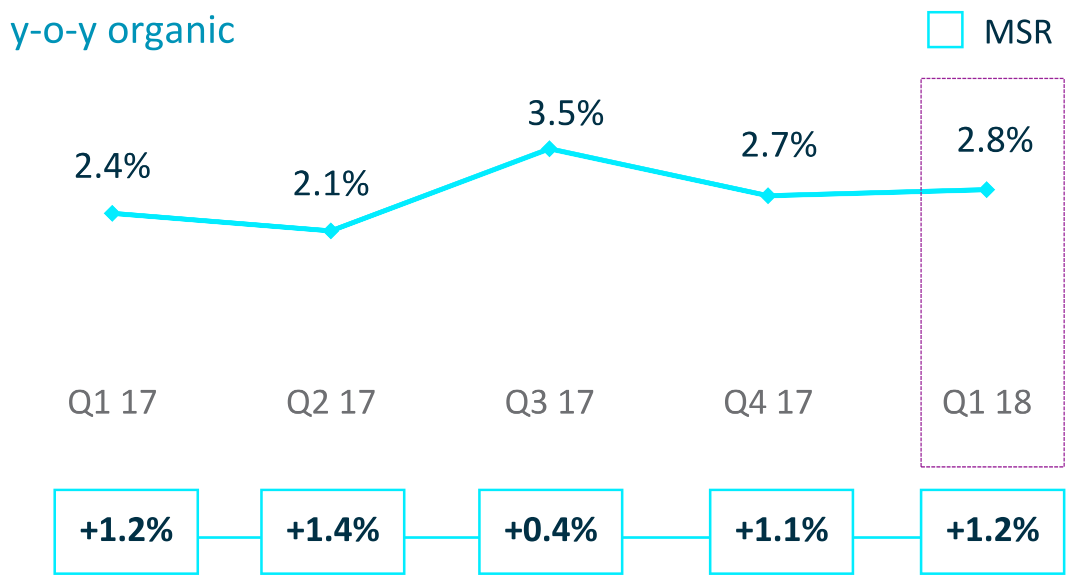


UK | Solid financials, capability enhanced

Largest customer base & trusted network

- **Leading network: 32.0m customers** (incl. MVNO partners)
- Continued **contract base expansion,** despite seasonally slower Q
  - **Market-leading churn**: 1.0% (broadly stable y-o-y and q-o-q)
- **Network quality assured** with latest spectrum auction results
  - 40 MHz of 2.3 GHz and 40 MHz of 3.4 GHz
  - Av. data usage per smartphone +36% vs. Q1 17

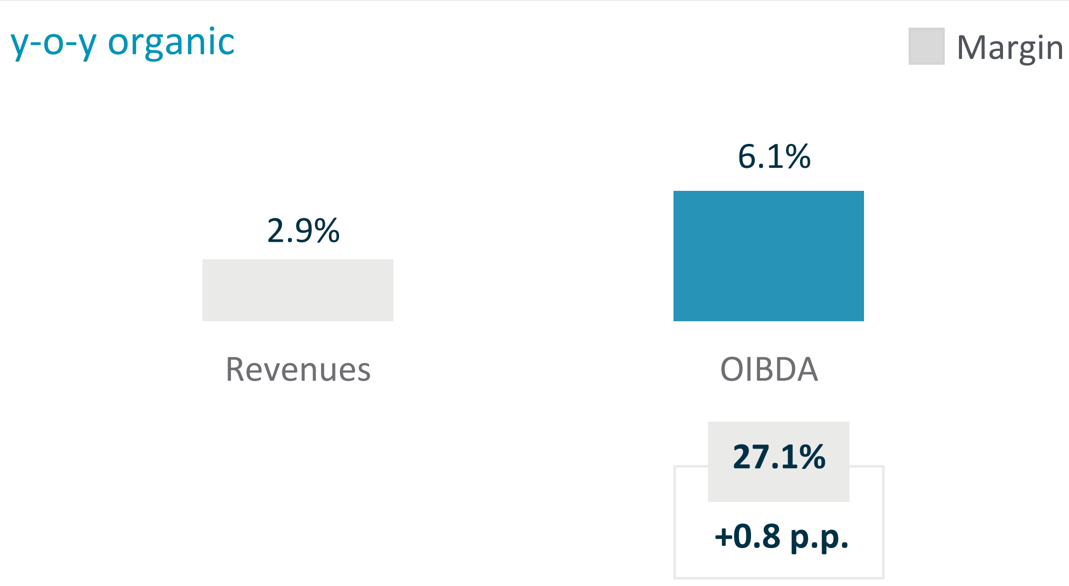
MSR ex-regulation



Robust financials

- **Revenue** growth (ex-reg.): +4.2% y-o-y (vs. +4.5% in Q4)
  - Growing subscriptions, handsets, MVNO & non-mobile revenues
- **Consistent OIBDA growth**
  - Ongoing impact from RLAH (-€23m in Q1; -€25m in Q4)
  - Supported by reduced annual licence fee payment
- **Strong OpCF growth +32.9%** y-o-y on CapEx phasing

Q1 18



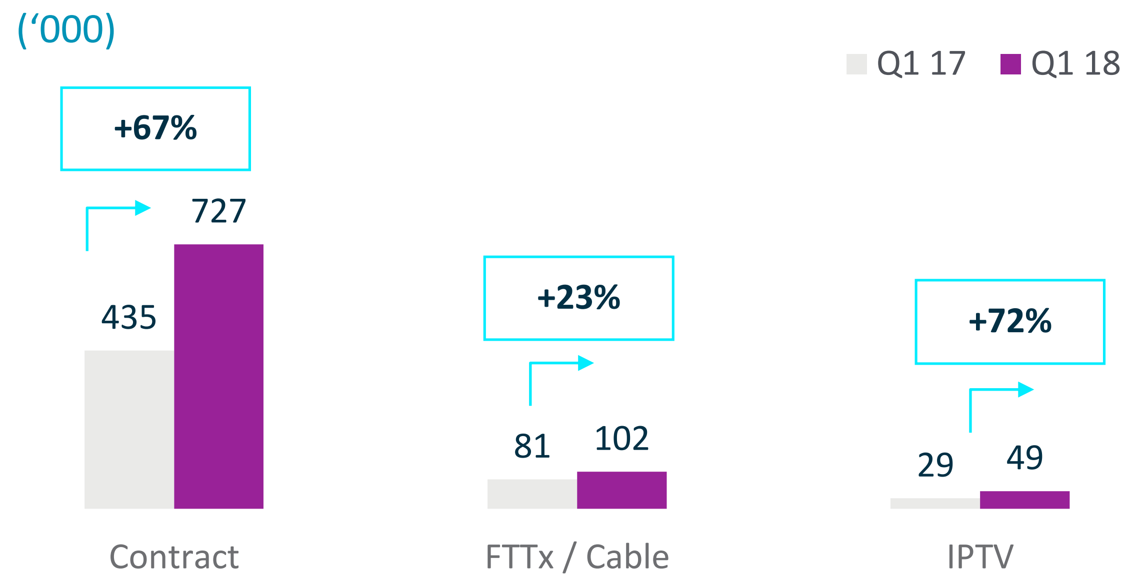
Brazil | Growth and value

Unique assets

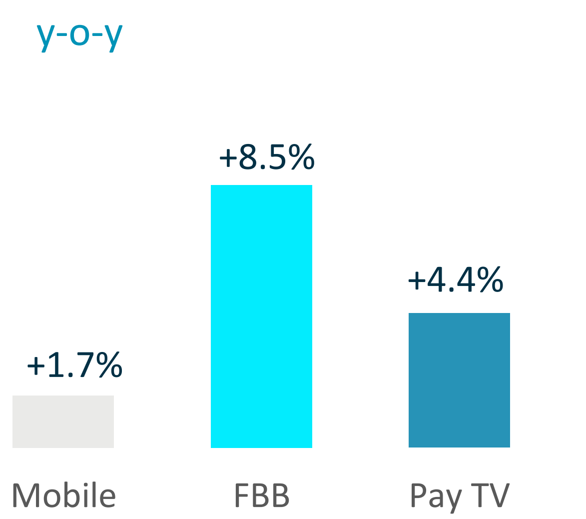
- **M4M strategy is paying off**
  - New hybrid portfolio launched in February
  - Largest and most reliable 3G and 4G network
  - **Sustainable leadership**: 41.4% contract market share
  - 1.6% contract churn (stable y-o-y); unrivaled value proposition
  - **Strong growth opportunity;** LTE penetration 55%
    - 364 cities with 4G+ (+250 in Q1 18)

- **Fiber as growth engine**
  - **88 cities already covered with FTTH**
    - 4.6M already connected
  - **TV: Best value proposition with cutting-edge technology**
    - IPTV available in 65 new cities

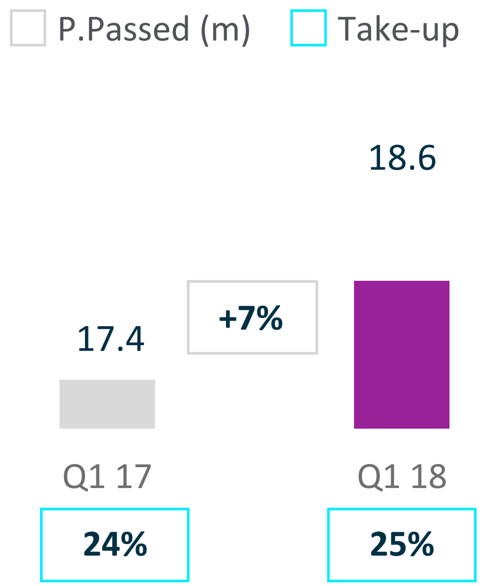
Net adds



ARPU Q1 18



FTTx deployment



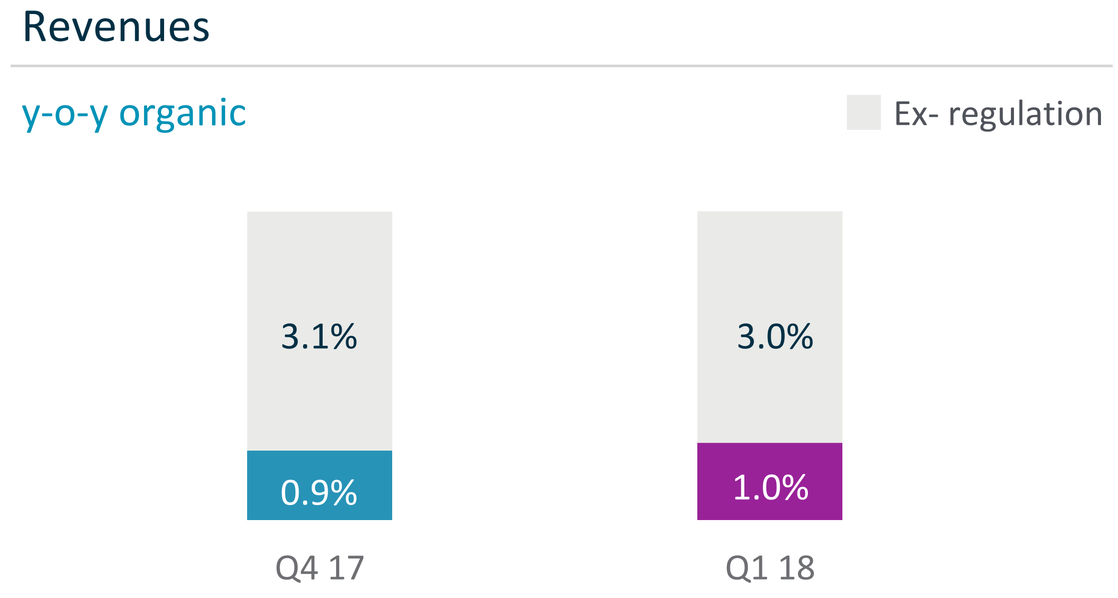
Brazil | Delivering profitable growth

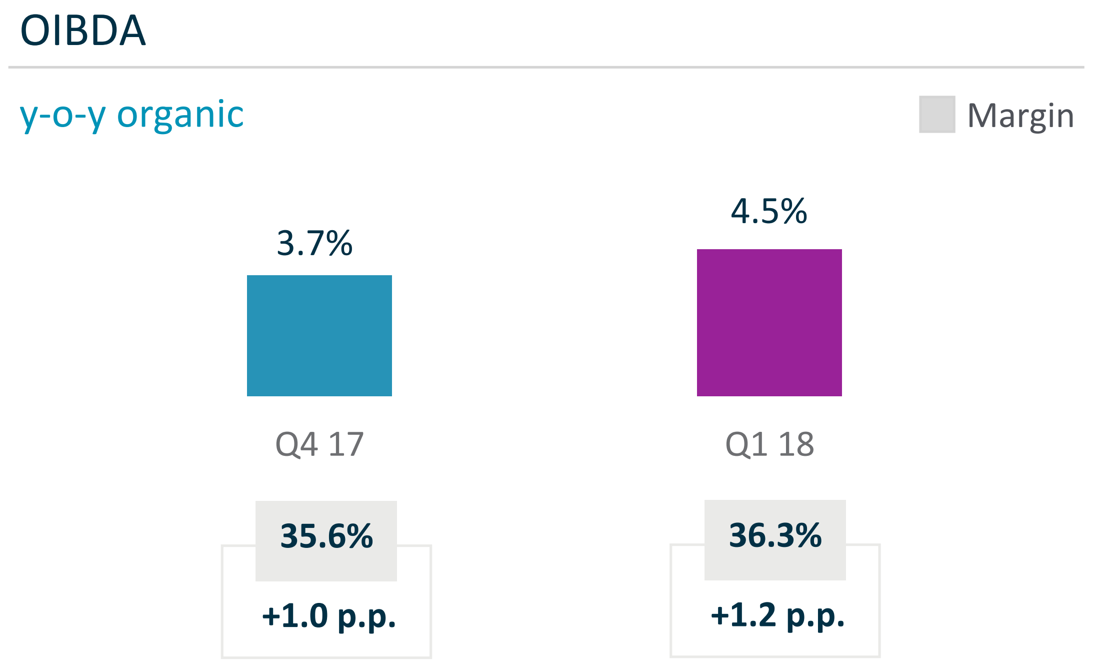
Sustained revenue growth

- **MSR : +3.5%** (+3.9% in Q4 17)
  - Boosted by data growth (+17.1%) and price upgrades
  - Outgoing postpaid revenue improved to +9.2% (Q4 17: +9.3%)
- **Fixed: -4.0%** (-3.8% in Q4 17)
  - Affected by voice decrease, fixed to mobile substitution & DTH
  - Double digit growth in Fiber (+21.7%) and IPTV (+66.8%)

Digital initiatives drive margins upward

- **OIBDA and margin growth**
- **OpEx continue declining** (-1.9%; 9 consecutive Qs of cost reduction)
- **Best Q1 margin** since 2009
  - Digitalisation and efficiency as main levers
- **CapEx** (+16.5%; on different phasing)
  - Solid investment over the years to create a unique combination of network, IT and service platforms
- **OpCF** (-2.2%; different CapEx phasing); 22.0% margin





South Hispam | Healthy and consistent growth

Commercial recovery & margin expansion

- Strong improvement in **contract net adds**
    - Better performance in Chile and Peru

- **FTTx/Cable**: 1.8M connected (1.2M FTTH/cable connected)

- **ARGENTINA** (Revs. €755m; OIBDA €245m)
    - Growth in value: (contract +5%; LTE +61%; FTTx: x4)
    - Solid Revenues and OIBDA growth

- **CHILE** (Revs. €526m; OIBDA €153m)
    - Positive contract net adds for the 3rd consecutive quarter
    - Accelerating FTTx net adds (x4 y-o-y)
    - Better y-o-y OIBDA trend: -4.3% (vs -14.5% in Q4 17)

- **PERU** (Revs. €501m; OIBDA €98m)
    - Positive contract net adds for the first time in 7 Qs
    - Continued solid performance in fixed business
    - Revenues and OIBDA declined affected by commercial intensity, competition and regulation

Contract net adds

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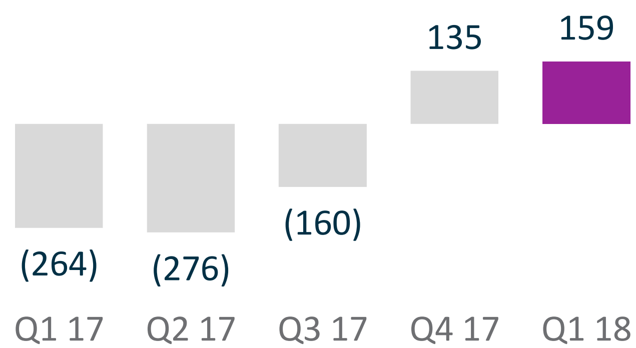
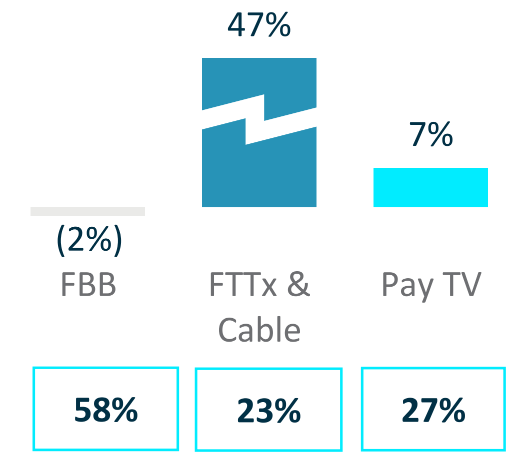


Fixed accesses

y-o-y

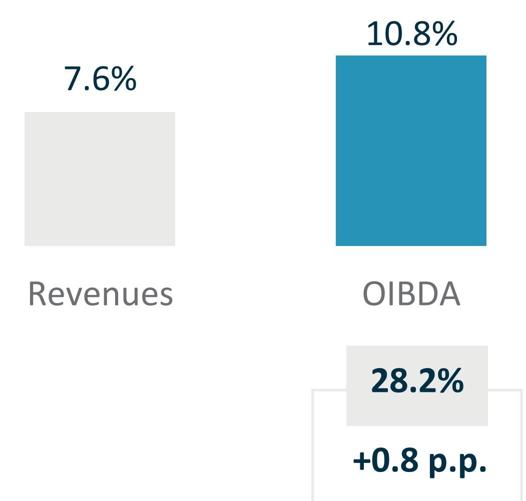
Penetration o/ voice acc.



Financials

y-o-y organic

Margin



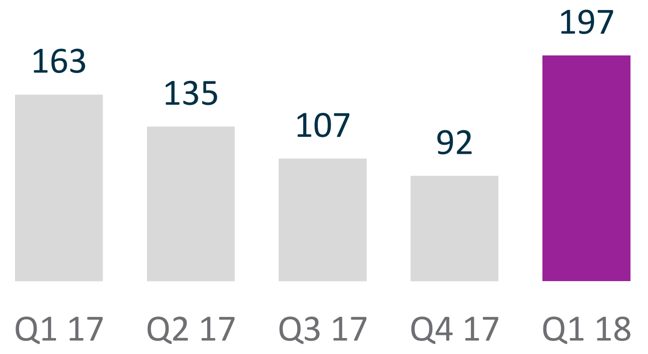
North Hispam | Commercial success overshadowed by regulation

Negative regulatory impact in MEX

- **Contract net adds** accelerated to 197k
- **FTTx/Cable**: 168k connected
- **COLOMBIA** (Revs. €351m; OIBDA €124m)
  - Highest Pay TV net adds in 7 quarters
  - Mobile positive net adds for 4 quarters in a row
  - OpCF growing by 42.2% y-o-y
- **MEXICO** (Revs. €277m; OIBDA €41m)
  - Sustained commercial momentum in contract: +104k Positive net adds
  - Revenues and OIBDA grew ex-regulation (+0.7% and +7.6%, respectively)

Contract net adds

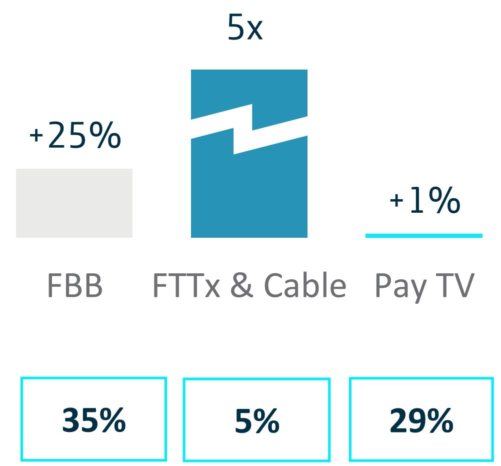
(‘000)



Fixed accesses

y-o-y

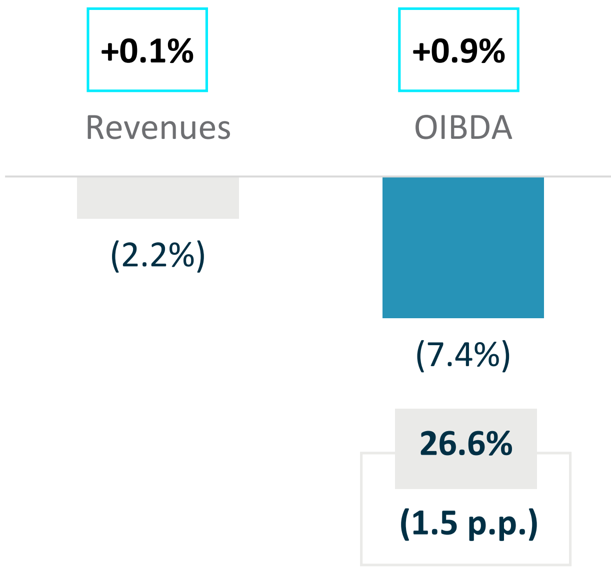
Penetration o/ voice acc.



Financials

y-o-y organic

Ex-reg.
Margin



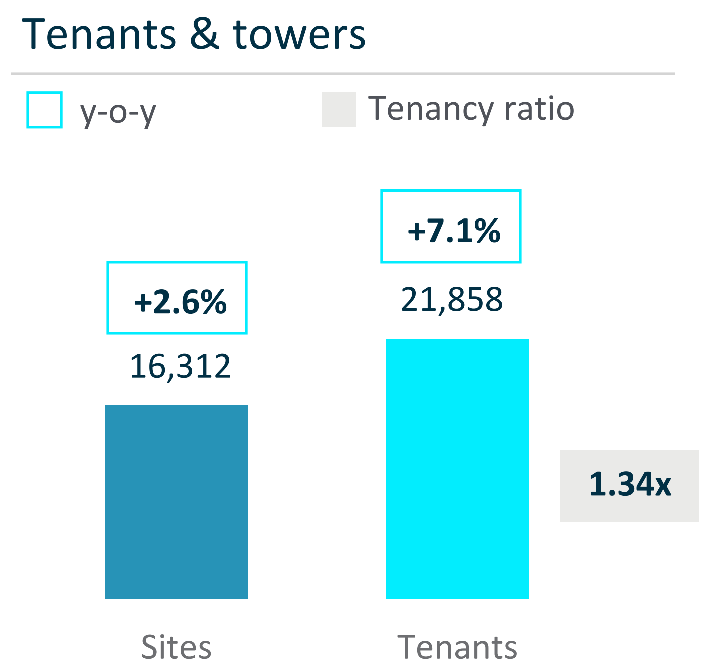
Telxius | New "MAREA" cable now in service

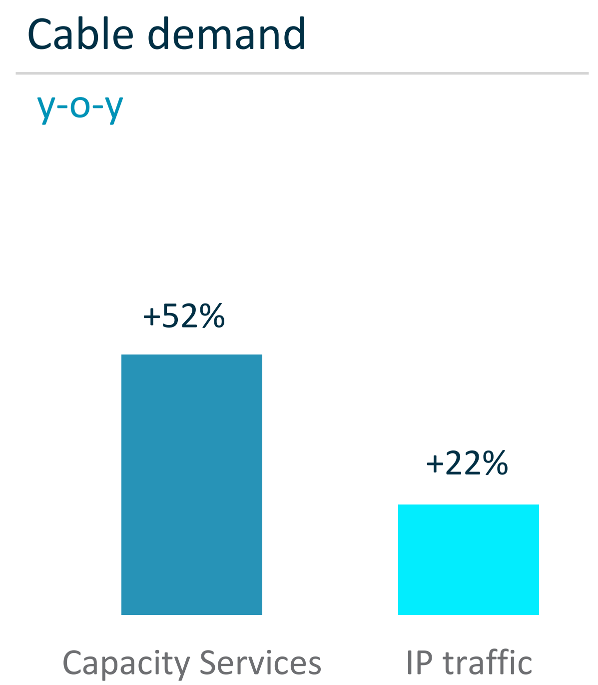
Sustained commercial momentum

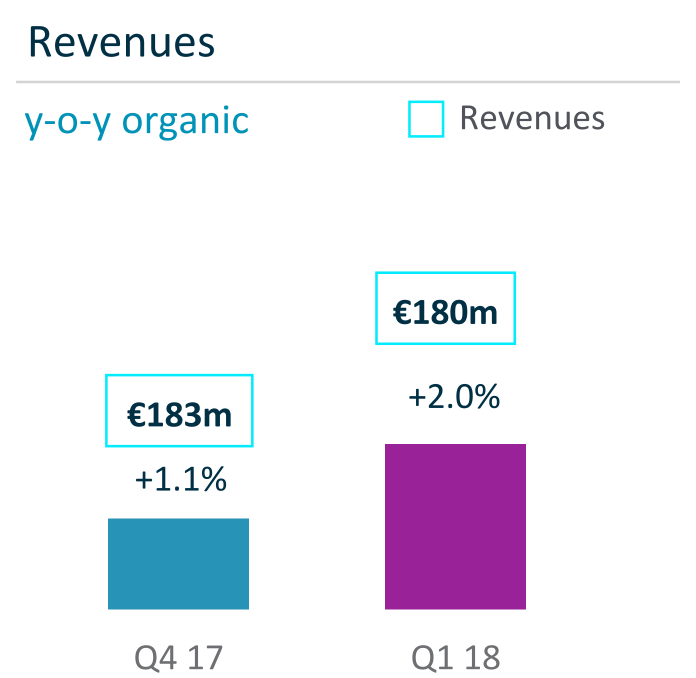
- **New state-of-the-art cables progressed according to plan**
  - MAREA (US-Europe) in service since the end of March
  - BRUSA (Brazil-US) to come into service later this year

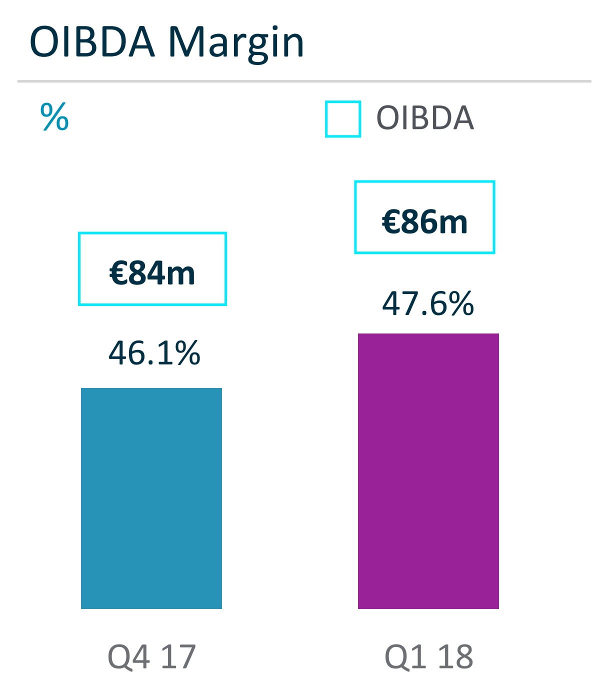
Solid financials across business

- **Revenue increase explained by towers;** cable impacted by tougher comps in Q1 17
- **Operating efficiency sustained high OIBDA margin**
- **CapEx intensity reflects deployment efforts in MAREA and BRUSA**
  - To be reduced during H2 18





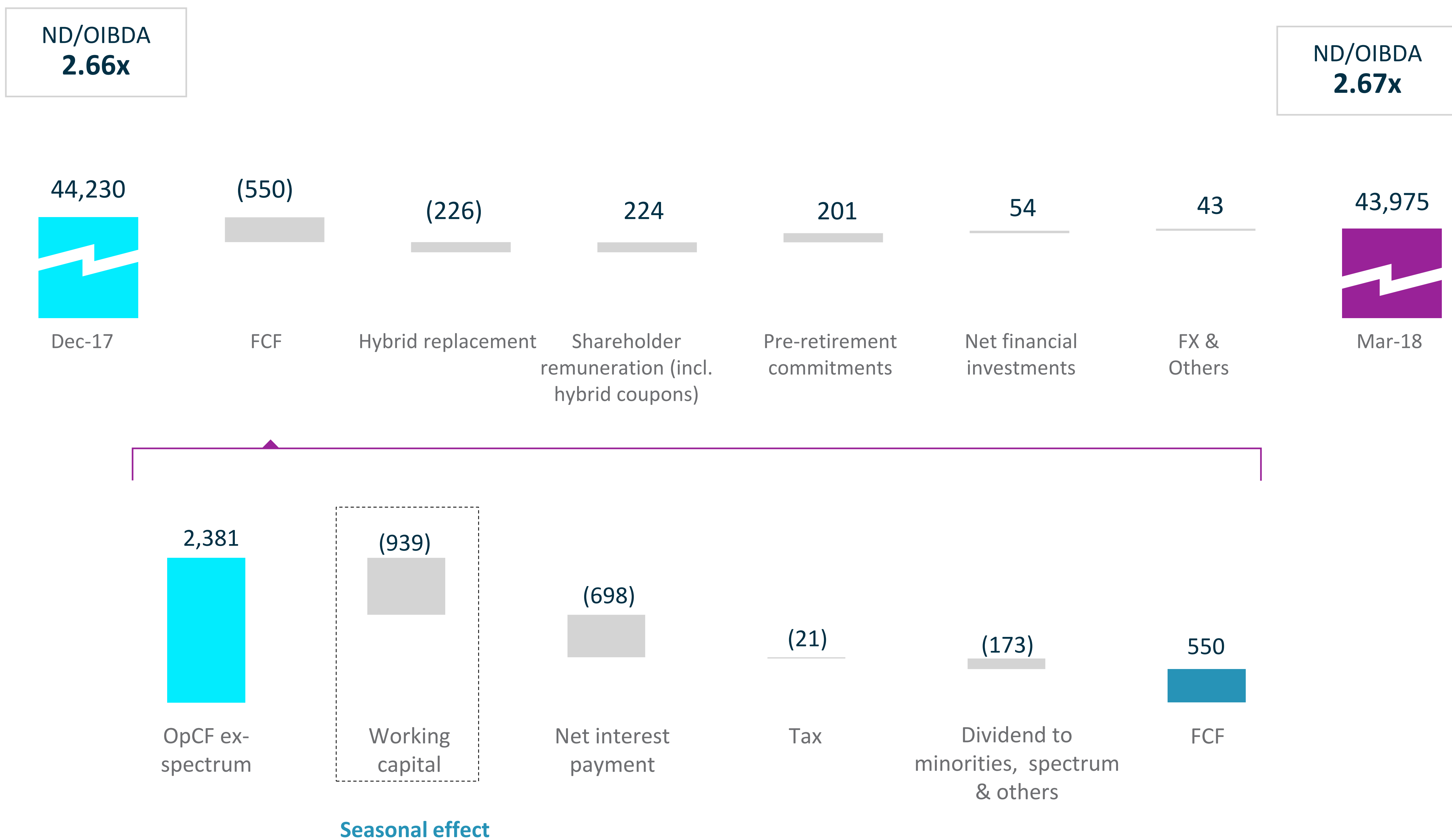




Net debt reduction despite seasonal Q1 effects

Net Financial Debt

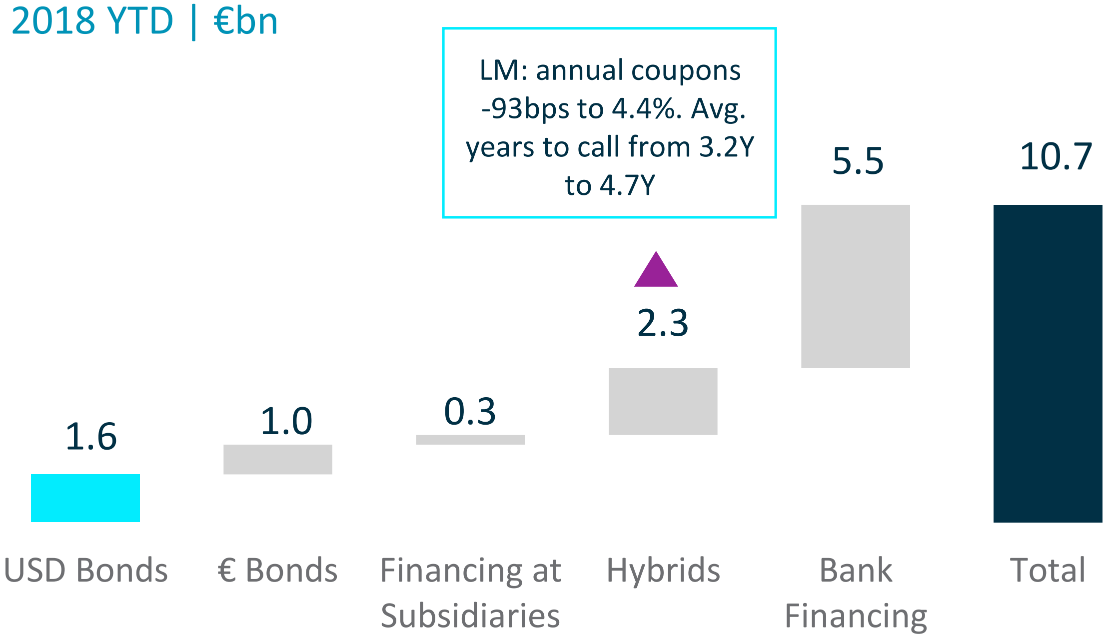
€m



Focused on attractive long-term financing

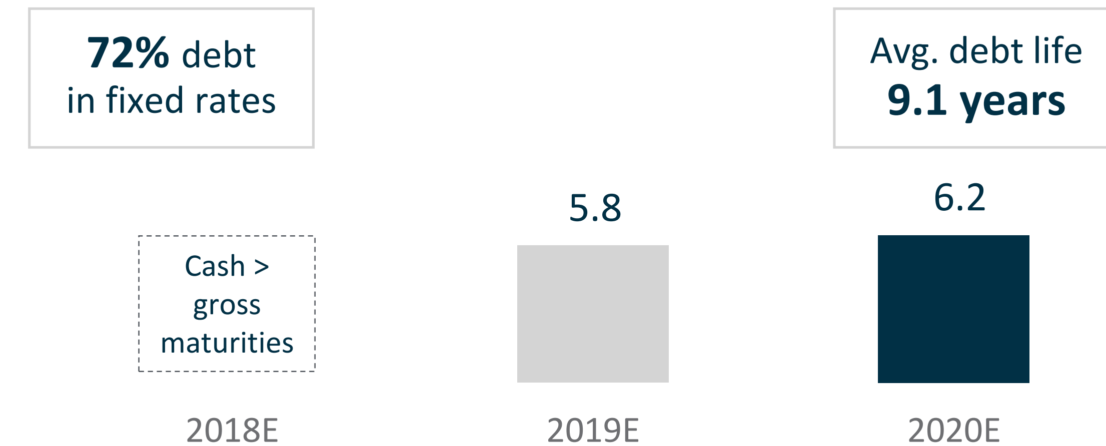
Sources of long-term financing

2018 YTD | €bn



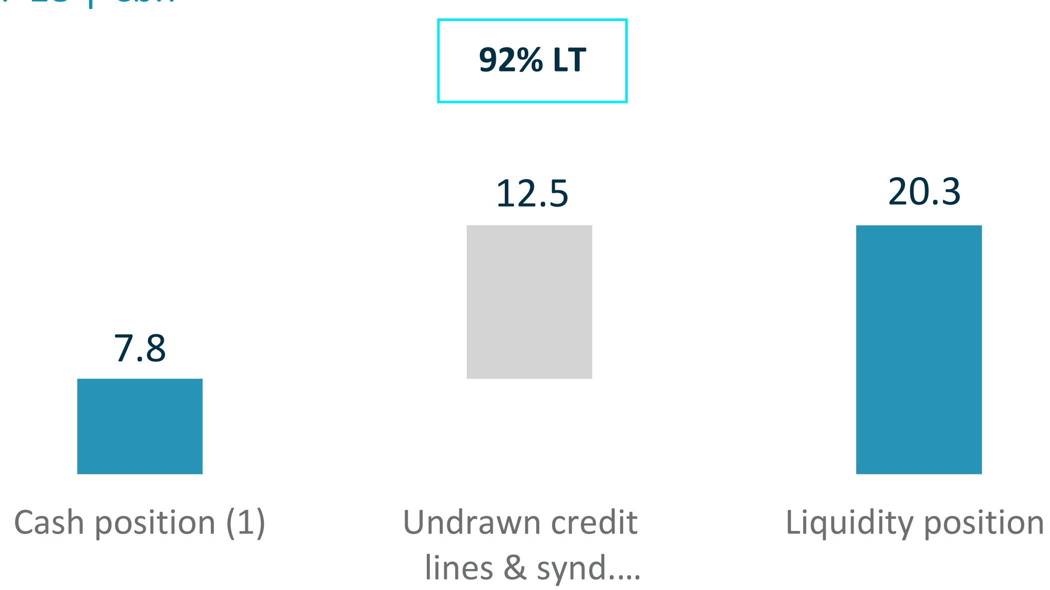
Net Debt maturities

Mar-18 | €bn; not considering hybrid NC dates



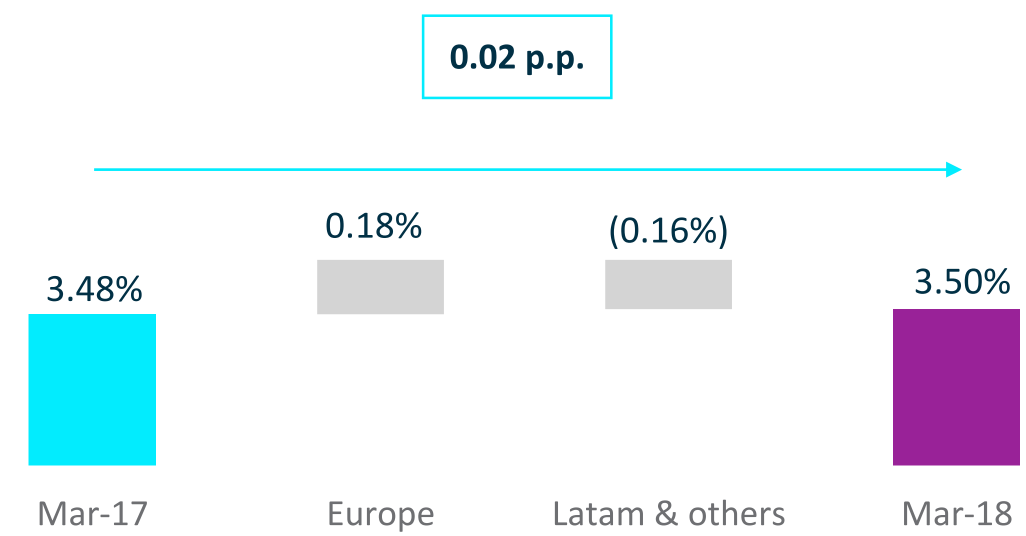
Liquidity position

Mar-18 | €bn



Interest payments cost

Mar-18



(1) Includes Venezuela that amounts to €15M

Conclusion

Mr. Ángel Vilá
COO

Q1 summary | Delivering robust financials

1 Progress on **strategy**

2 **Robust** start to the year

3 Reiterating 2018 **guidance**

Our mission

Let our customers choose it all

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