Video Strategy Session

Adrián Zunzunegui
Director of Investor Relations
Key Objectives

Laura Abasolo
Chief Financial and Control Officer
Key Objectives

- **Video at the core**
  - Video revenue (€1.4 bn in H1 18); 44% of Digital Service Revenue
  - TV base: 8.8m Pay TV (Spain + Latam); 1.1m OTT TV (Latam)

- **Differential Video Capabilities**
  - Powerful Video platforms: Fiber in Spain, Unified Platform in Latam
  - Relevant scale and distribution power (Movistar series); expanding our partner-based bundle offerings (Netflix deal)
  - Content and functionalities; AURA

- **Leading position: capturing new opportunities**
  - Enriched content portfolio (aggregation, production, acquisition)
  - Leading Video distributor in Spain
  - Focus on OTT Video in Latam

- **Focus on ROCE**
  - Accelerating data monetization and revenue growth (Spain: 25% lower churn in Fusion TV base, TV ARPU x3 vs. the following competitor)
  - More sustainable business model

*TV base as of August-18*
Video Strategy Latam

Michael Duncan
CEO Group Consumer of Telefónica
Capturing the OTT video opportunity in LatAm
Telefónica already delivers video services in most of its LatAm footprint, mainly via Pay TV.

Note: Pay TV (Satellite, IPTV and CATV) includes Set-Top-Box
Huge opportunity to enrich our connectivity with OTT video in LatAm

Industry Context opportunities

- LatAm socioeconomic specificities
- Avid demand for video consumption on smartphones
- Structural video industry challenges

Telefónica’s LatAm OTT video opportunity

TEF’s unique strategy pillars (assets & capabilities)

- Customer base & product
- Bundling capabilities
- Advanced Networks
- Customer relation and management
- UX and functionality
LatAm specifics: opportunity for TEF while huge challenge for traditional TV players

- Low credit card penetration in some key countries\(^1\)
- Low FTTX penetration\(^3\)
- Relatively high smartphone penetration\(^6\)
- Low formal Pay TV penetration\(^2\)
- Very low Interactive Pay TV penetration\(^5\)
- Low Video OTT penetration\(^4\)

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\(^1\) World Bank (2017)
\(^2\) National Statistical Institutes
\(^3\) Statista
\(^4\) Forbes: Netflix subscribers / Households
\(^5\) Internal estimations
\(^6\) GSMA (The Mobile Economy 2017)
Avid but latent demand for mobile video consumption

Huge demand for video consumption over smartphones

Although video usage has been limited to WiFi ...

... people are eager to consume on mobility

Demand for video on mobility will grow exponentially

Total video usage per smartphone (GB, WiFi & cellular) ¹

<table>
<thead>
<tr>
<th></th>
<th>Average Postpaid</th>
<th>Youtube User</th>
<th>Netflix User</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.8</td>
<td>~30 mins a day</td>
<td>4.4</td>
<td>2.4</td>
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</table>

Average Youtube User Netflix User

Service penetration ²

|       | 92%   | 29%   |

WiFi vs cellular traffic mix (%) Moderate dedicated data markets ²

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Youtube</th>
<th>Netflix</th>
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<tbody>
<tr>
<td>14%</td>
<td>8%</td>
<td>4%</td>
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</table>

WiFi vs cellular traffic mix (%) Dedicated data markets ³

<table>
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<tr>
<th></th>
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<th>Netflix</th>
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<tbody>
<tr>
<td>30%</td>
<td>29%</td>
<td>26%</td>
<td></td>
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World mobile data traffic (Exabytes per year)⁴

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>Video</th>
<th>Other</th>
<th>2023</th>
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<tr>
<td>178</td>
<td></td>
<td></td>
<td></td>
<td>1,278</td>
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</table>

Average Youtube Netflix

14% 8% 4%

Average Youtube Netflix

30% 29% 26%

1 AppAnnie: Youtube and Netflix usage for total LatAm TEF’s markets
2 AppAnnie: AR, BR & CO market average
3 AppAnnie: CL & PE market average
4 Ericsson
Content fragmentation and other structural challenges in the video industry

**Content fragmentation, makes it difficult for customer to access and discover content**

**Difficult direct to consumer for content providers**

**Current players limited to A/B clusters**

**Cannibalization risks for traditional Pay TV players**

**Some Fragmentation examples:**

- 4 of the most iconic TV shows belong to different companies
- Different seasons of the same show in different distribution channels

- Other very relevant players:
  - Netflix
  - HBO
  - Amazon
  - Fox
  - Disney
  - ESPN
  - Local TV

Season 1 & 2
Season 3
Unique opportunity for TEF to leverage video as a new value attribute and improve monetization

<table>
<thead>
<tr>
<th>Context opportunities</th>
<th>TEF’s strengths</th>
<th>TEF’s opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>LatAm socioeconomic specificities</td>
<td>More than 160M mobile customers, with full bundling and billing capabilities</td>
<td>New value lever to foster monetization beyond pure connectivity</td>
</tr>
<tr>
<td>Avid demand for video consumption on smartphones</td>
<td>Network connectivity at the core of our business, with video as one of the most adjacent businesses</td>
<td></td>
</tr>
<tr>
<td>Structural video industry challenges (fragmentation)</td>
<td>We add value via content aggregation and unified content discovery experience</td>
<td>Enriching offer appeal:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Bundling high engagement content</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• From pure data to content and digital services</td>
</tr>
</tbody>
</table>
Reaching customers with a modular product based on aggregation and selective exclusive content

160M mobile customers, most of them already able to engage with video: 70% with smartphone

Aggregation is king: Disrupting the fragmentation ecosystem and adding value integrating all relevant content in one single access point:
- FTA channels and local content
- International channels
- Premieres
- Premium players subscriptions
- Own content: Movistar series

Leveraging Spain own production efforts with LatAm potential reach

Open platform: Telefónica as the ideal partner to maximise impact and scale

Internet TV offer
- Premium VoD catalogue + Live TV
  Ex: FOX Premium (HBO)
- Live TV
  International channels
- Exclusive Telefónica Content
- Premieres
- Live TV
  Local Free to air channels

Core Hard bundle
Bundling with our core offer to drive up ARPU and improve customer stickiness

**Hardbundling** video content to gain scale

Bundling different products **depending on the plan value** to foster upsell and ARPU

Specific portfolio design to reap the **prepaid opportunity** (weekly / fortnightly plan)

**Dedicated data**: content plan adoption multiplies almost x2 if dedicated data is included\(^1\)

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### Tier-pricing Bundling to foster upsell and increase ARPU

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<thead>
<tr>
<th></th>
<th>XL</th>
<th>L</th>
<th>M</th>
<th>S</th>
<th>XS</th>
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<tbody>
<tr>
<td>Fixed</td>
<td>Play PREMIUM</td>
<td>Play FULL</td>
<td>Play FULL</td>
<td>Play LITE</td>
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<tr>
<td>Mobile</td>
<td>Postpaid &amp; Prepaid</td>
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<tr>
<td></td>
<td>Family</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Premium Content</td>
<td>Included</td>
<td>Try and Buy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dedicated data for Movistar Play only</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Add Ons Billing</td>
<td>Play FULL</td>
<td>Play PREMIUM</td>
<td></td>
<td></td>
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\(^1\) Market research (Conjoint analysis simulator)
Optimal video experience via best in class functionality

**Most advanced, simple and easy UX:**
- Personal recommendations and content curation
- Unified search
- Download to Play
- Time-shifting options
  - Start-over
  - Catch-up
- Online recording
- Transactional purchases
- Binge Watching

**Unified video service:** homogeneous user experience in all devices

Deploy Interactive services and a homogeneous experience across devices
Complemented with distinct customer management capabilities

**Differential billing capabilities:**
- Simplicity and convenience: Video content integration in one single bill for the customer
- Potential to obtain value from all customer segments, regardless of its banking circumstances

**Sales and marketing power,** leveraging all Telefónica’s commercial distribution structure: points of sale, communications and advertising, customer care, self care App, …

**4th Platform and Aura:** personalized experiences leveraging customer behavior analytics and AI
Enabled by our high capacity networks (4G, 5G and UBB)

More capable, agile and efficient networks to facilitate traffic growth, and ensure optimal customer experience.

Evolution to 5G, that paves the way for new formats and service evolution:
- 4k / 8k video
- Augmented / Virtual reality
- Video 360

Adding value to our FTTX deployment leadership.

Exploring new video business opportunities:
Edge Computing:
- Improved customer experience computing and storing assets close to the end user.

Evolving to 5G

Coverage
- Extending 4G PoP coverage in all our footprint

New services
- NB-IoT / LTE-M, IoT and Industry 4.0
- Fixed Wireless Access (FWA)
- Vehicular comms (V2X)
- 5G devices (H2 19E)

Capacity
- Spectrum management (refarming)
- Carrier Aggregation (up to 3-5)
- Multi and Massive MIMO Antennas

New Architectures
- Single RAN
- Heterogeneous Networks
- Virtualization in the Mobile Access
Huge opportunity with encouraging early results

Our Internal Opportunity

- TEF mobile Access base – June
- Aprox 1% Registered users penetration
- 10-20% OTT Penetration Ambition over Mobile Customer Base

Movistar Play growth

Movistar Play roll-out

- 1.5 M Registered users Aug 2018
- 78% 90 days active users

- Preliminary analysis confirms very material impact on customer retention
- In Q4 we will start focusing on add-ons upsell
To wrap up: our objective is to take advantage of context opportunities and unique capabilities to increase our monetization potential.

- Improved customer engagement and loyalty
- Enhanced ARPU development via upsell and add-ons
- Increased brand awareness and communication impact
Video Strategy Spain

Sergio Oslé
Video Director Spain/President of Movistar+
Creating sustainable value through leadership

Sergio Oslé
President of Movistar+ / Video Director Spain
September 2018
Key messages

1. Unbeatable proposition that translates to value
2. A new TV scenario that brings new opportunities
3. A case for growth
Distinctive assets in the market...

**Best Network**
- Largest FFTH network in Europe
- ~20M premises coverage
- 68% households
- Modern & efficient 4G network
- ~97% coverage of the population
- All TV distribution tech
- ~100% TV Coverage - IPTV/DTH

**Best Content**
- Own content production
- “All football & Top 10 majors sports in exclusivity“
- “~95% Foreign & ~85% Spanish Box Office“
- “Most complete offer - all majors“

**Best Technology**
- Multidevice
- Aura
- Cloud-based
- On Demand & Linear

**Telefónica**
...that translates into customer leadership and sizeable local scale...

Movistar+

- **~4M** TV Households
- **~12M** TV users
- **~60%** Pay TV market share
- **15-20%** “Prime time” share

-M+ own production channels

Data as of June 2018
... ensuring a healthy growth and customer stickiness

More TV subscribers...

- x3 vs the next competitor
- ~ 4M
- ~7%

Pay TV Penetration in Spain

- 34%

June 2017

June 2018

... while growing ARPU...

- x3 TV ARPU vs the next competitor
- ~ 90€
- ~6%

Fusion customers with TV

- ~80%

Fusion TV High Value(2) customers

- 48%

Q2 2017

Q2 2018

... and increasing loyalty

TV drives churn reduction vs Fusion non-TV customers

- ↓25%

Best in class churn - stable


(1) Fusion ARPU
(2) High value customers does not include Fusión Series, Fusión #0 and old modalities such as Contigo, Mini

Data as of August 2018.
As a plus, positive spillover in brand attributes

6 FEROZ Awards
4 Vergüenza - 2 La Zona

San Sebastián International film festival
'La peste', first TV series that participates in the Official Section

2 Fotogramas Awards
“La Zona”, Best Spanish TV Series 2017 according to the critic.
Malena Alterio, best TV Actress for 'Vergüenza'

‘Radio Gaga’ (#0), Revelation Show Award
Key messages

1. Unbeatable proposition that translates to value
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A new scenario that brings new opportunities

- **New customer habits**
- **Emergent new players**
  - Amazon
  - Netflix
  - HBO
  - Apple TV
  - Facebook
  - YouTube
- **Advanced technologies**
  - Cognitive capabilities
  - Telco-Media advantage

- Unique platform
- New alliances
- Differentiation through exclusivity
A unique platform, differential for new consumer habits

**Network**
- TV interactions/day: 300M
- CDN Capacity (x10 in two years): 3Tbps

**Efficient Architecture**
- ~2M Multi device customers
- Robust OTT - already tested
- 20% Of total M+ Consumption is OnDemand

**Cloud-based**
- 80% Customers using advanced functionalities
- Cost-effective equipment
- ~500K Customers have used AURA

**Cognitive Intelligence**
- x3.5 Personalization - Content viewing multiplier
- Improvement of own production

Data as of August 2018
Differential content: The case for own production

**Fiction**

- **10** Movistar Originals Series launched
- **5** Originals in TOP 6 platform series audience
- **48** Countries – International sales
- **1st** Movie - producing: “Mientras dure la guerra” Alejandro Amenábar - End of 2019

**Entertainment**

- **+35%** Ratings growth in prime time vs 2017
- **23%** #0 addicted fans
- **5** Shows nominated to Spanish TV Emmys in 4 different categories

**Statistics**

- **12-15 series per year**
- **20-30 entertainment shows per year**

Data as of August 2018
Differential content: The case for selected exclusive rights

Focus on key properties

Sports

Premium content

Exclusive deals...

...and exclusive priority blockbusters releases

(1) Content from top majors – “Movistar Estrenos”. Scope for Atresmedia and Mediaset agreement in Spanish movies.
Differential content: The case for football rights

Critical rights for **high value customers**
- Highest ARPU
- Lowest churn

Provides **stability** while controlling **inflation**
- Gaining visibility for 3-4 years
- From Q3 2019, flat football costs

Ownership of rights providing extra **flexibility**
- Gaining commercial/monetization flexibility
- Financial flexibility by eliminating intermediary margin
- New advertising revenue streams

**No Champions League FTA TV from Q3 18**
- Additional growth for Pay TV market/ higher penetration
- Football 3 out of 5 most watched TV events last season

Status today: **plan is working**
- Strong commercial traction in August (the start of La Liga) & Sept (Start of Champions League), first “Clasico” (R. Madrid-FCB Barcelona) in Oct
- Strengthening Revenue growth & value for the future
Differential content: Extracting the best value from other sports

New channel, new experience

-Launched 16th September 2018

-Upgrade tool for premium packages

-Advertising opportunity
Building new alliances: Netflix as a case of example

**UX Integration**

Total integration of the Netflix experience within the Movistar+ UX

**Commercial bundling**

Agreement with Netflix allows us to boost commercial offers with bundles to maximize ARPU's

**Establishment of a new integration model**

In conversation with other partners
New tech that enables new opportunities

1. **Personalized advertising**
   - VoD (today)
   - Linear (Oct-15th)
   - Creation of different signals for advertising commercial clusters - #0 channels

2. **Movistar Home**
   - October / November
   - Comms, television, video calls and connectivity, all in the same device to manage and interact with Aura

3. **More than TV**
   - 2019
   - + Button that allows enjoy new services and products such as e-commerce, videoconference and home automation

- Security
- eHealth
- Cloud
Key messages

1. Unbeatable proposition that translates to value
2. A new TV scenario that brings new opportunities
3. A case for growth
**A case for growth**

- **Value generating business**: positive margins stand-alone plus additional value through increased stickiness and ARPU growth.
- Leadership position, enabling **differentiation** on scale and commercialization.
- Relevant scale enabling **efficiency in negotiation** and own content production.
- 34% **TV market penetration** in Spain allow for further healthy growth.
- Superior tech platform opening up **new growth opportunities**.

**Strong focus on value creation**
Key Takeaways

Laura Abasolo
Chief Financial and Control Officer
Key Takeaways

Unmatchable Video Platform

We built a superior platform to deliver a unique UX and drive stickiness

Flexible approach

To continue leading in Spain and to unlock value in Latam leveraging enhanced capabilities

Sustainable and profitable lever

Video to drive further scale and profitable growth
Q&A Session

Laura Abasolo
Michael Duncan
Sergio Oslé
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