

*Telefonica*

# Results

January – March 2016



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01 

## Q1 16 Highlights

Mr. José María Álvarez-Pallete  
Chairman & CEO



# Q1 16 Highlights; a good start

## Accelerating sustainable profitable growth

- **+3.4% organic Revenue growth**
  - Clear path to further data monetisation (mobile data revenues: +19.9%)
- **Continued progress with value customers** (fiber, smartphones LTE, Pay TV)
  - Enhancing digital experience and loyalty
- **Accelerating organic growth in OIBDA to +5.5% and OpCF to 3.6%**
  - Focus on efficiency and cost rationalisation; maintaining strong margin at 31.3% (+0.6 p.p. y-o-y)

## Outstanding connectivity

- **Enhancing leadership in differential platforms** (CapEx +7.8% y-o-y)
  - 32.1m fiber premises passed (+17% y-o-y); LTE coverage 50% (+16 p.p. y-o-y)

## Strong market position across the board

- **Spain: revenues & OIBDA, growing simultaneously for the first time since Q3 08**
- **Brazil & Germany:** synergies driving OIBDA & OpCF growth
- **Hispan:** Revenue growth acceleration; strong performance in value
- **UK:** continued strong profitability; market leading contract churn

## Robust liquidity position

- **€9bn financing since November at historical lows**
- **€19.9bn liquidity** (incl. EUR bond April), covering all maturities until Dec-17 without considering any FCF generation
- **Mid term Net Debt / OIBDA target < 2.35x confirmed**

‰: y-o-y organic

**2016 guidance and dividend reiterated**

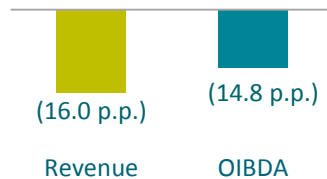
# Financial summary

€ in millions	Q1 16		
	Reported	Reported y-o-y	Organic y-o-y
Revenues	10,784	(6.6%)	3.4%
OIBDA	3,376	(6.7%)	5.5%
OIBDA Margin	31.3%	0.0 p.p.	0.6 p.p.
OpCF (ex-spectrum)	1,875	(10.6%)	3.6%
Net income	776	(56.9%)	} +25.7% } +21.7%
EPS	0.14	(60.9%)	
FCF	69	(81.1%)	} Ex-deferred tax asset } O2 UK in Q1 15
Net financial debt	50,213	10.1%	

## Reported growth rates impacted by FX (with limited impact on FCF) and Perimeter

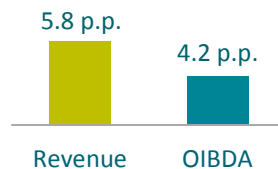
### Latam currencies depreciation

Q1 y-o-y



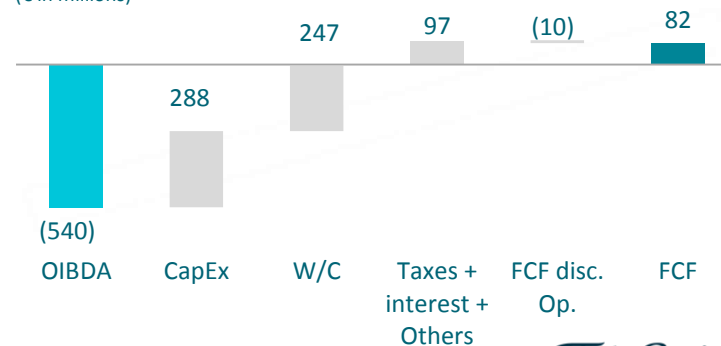
### Positive contribution of GVT & DTS

Q1 y-o-y



### Positive FX impact in FCF

(€ in millions)



# Q1 performance in line with year-end targets

2016 Guidance (Constant FX 2015; ex-VZ; ex-UK)	Guidance 2016E	Q1 16
Revenue	>4%	+8.0%
OIBDA margin	Stabilising vs. 2015	+0.1 p.p.
CapEx/Sales	Around 17%	14.2%

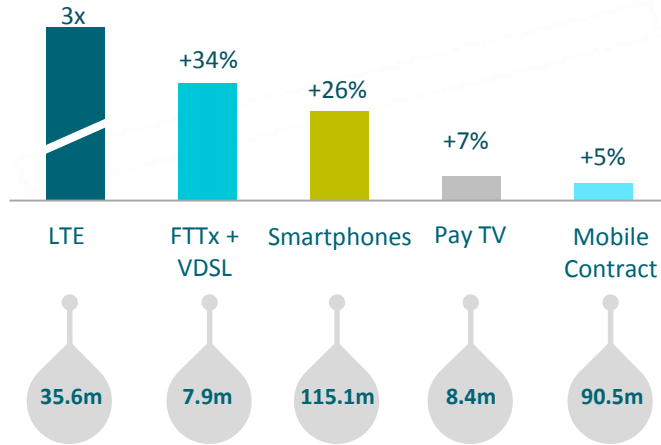
Net Financial Debt/OIBDA (adjusted for O2 UK sale)	<2.35x
Dividend (2016 full cash subject to the receipt of O2 UK proceeds) €0.4/share cash payment in May-16 (second tranche of 2015 dividend)	€0.75/sh. Proposal to the AGM (12 <sup>th</sup> May)
Share buyback: % share capital cancelled (treasury; subject to the receipt of O2 UK proceeds)	1.5% Proposal to the AGM (12 <sup>th</sup> May)

# Best quality customer base

## Growth engines

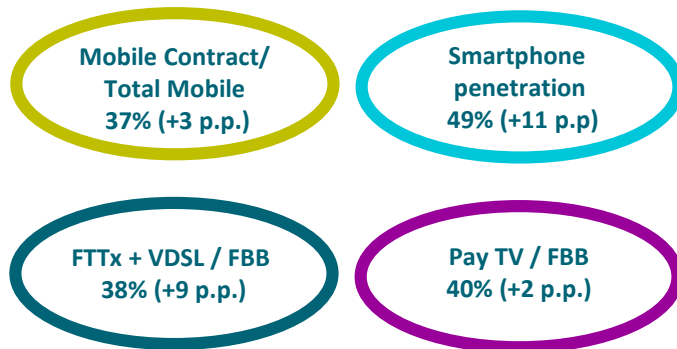
Accesses (y-o-y organic in fixed services)

● Accesses (Mar-16)



## Increasing reach

Mar-15 (p.p.): y-o-y organic in fixed services



## Strong commercial progress on high-quality

### Expanding services

- 2.2m smartphones added to base in Jan-Mar 16
- Rapid adoption of LTE; 15% penetration (5.9m net adds)
- Pay TV reach the 8.4m mark; fostering video adoption
- Outstanding fiber performance (378k net adds)

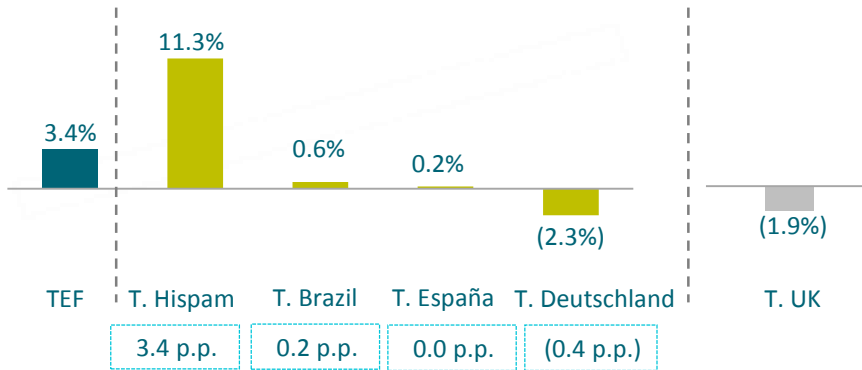
### Delivering customer value

- **+5.2% Avg. Revenue/Access** (y-o-y organic)
  - Accesses +1% y-o-y to 321.9m
- Continued **focus on loyalty**
  - Churn improving 0.6 p.p. q-o-q
- **Enhancing customers offers**
  - Improving digital experience

# OIBDA growth across the board

## Revenue (organic y-o-y)

☐ Contribution to Q1 y-o-y

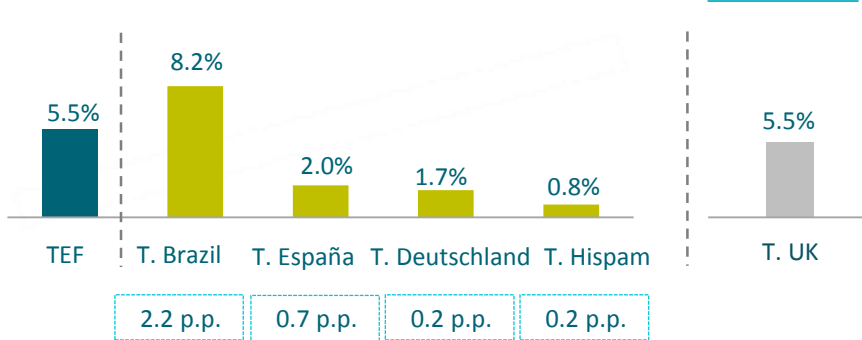


## Consistent revenue growth (12<sup>th</sup> Q in a row)

- **Benefitting from unmatched diversification**
- **Ongoing transformation of sales mix towards OnLife Telco**
  - BB Connectivity & SoC: 47% o/total; growing double digit
  - Progressive decline in voice & access to 44% o/total
- **Organic growth ramping-up sequentially (+0.2 p.p.)** mainly due to Hispam & Spain

## OIBDA (organic y-o-y)

☐ Contribution to Q1 y-o-y



## Strengthening operating leverage

- **7<sup>th</sup> consecutive Q of OIBDA growth**
- **Sequential acceleration of OIBDA to +5.5% y-o-y** on proven execution
  - OpEx decelerating 2.3 p.p. q-o-q (+2.7% in Q1)
- **Sharp margin stabilisation (31.3%; +0.6 p.p. y-o-y organic)**
  - Transactions synergies savings
  - Progress on efficiencies from simplification: personnel, network and IT initiatives, support, customer care
- **OpCF accelerated to +3.6% y-o-y**

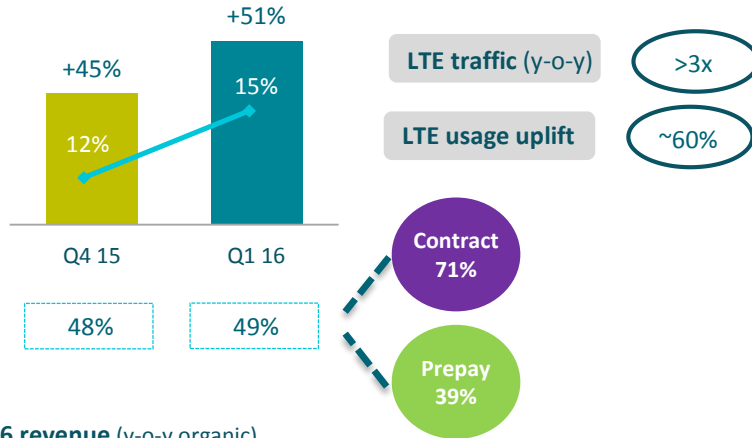


# Further advances in data monetisation

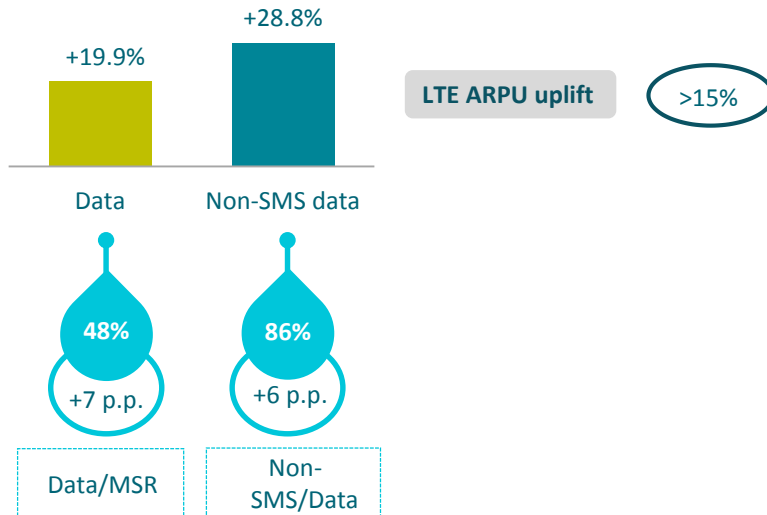
## Mobile data traffic (y-o-y)

◆ LTE penetration

□ Smartphone penetration



## Q1 16 revenue (y-o-y organic)



## LTE: Key lever on mobile data

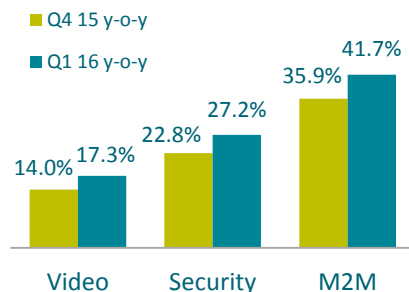
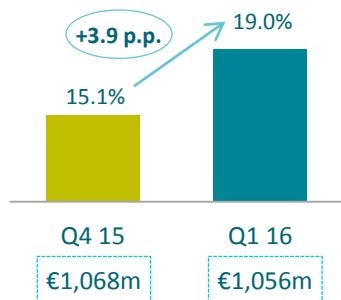
- **LTE traffic:** 25% of mobile data traffic (+14 p.p. vs. Q1 15)
  - Q1 avg. usage per smartphone +13% y-o-y (580 MB/month)
  - Q1 LTE shipments 73%
- **Capturing data opportunity in T. Hispam**
  - T. Hispam prepay Smartphone penetration: 29% (+8 p.p. y-o-y)
  - Prepay ARPU uplift after data adoption; Q1 16: ~20%
- **Data test drive driving further usage**
  - Extra data take sales: x2.3 📱

## Starting to address FBB opportunity

- Booming FBB traffic (Q1 16: +45% y-o-y)
- Traffic expansion demanding faster speeds

# Digital Services: monetising beyond connectivity

## Revenue (y-o-y organic)

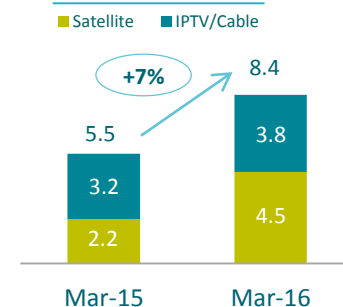


Q1 16 Revenue	€665m	€71m	€43m
Contribution to Q1 16 y-o-y	11 p.p.	2 p.p.	1 p.p.

## Video: traffic & ARPU growth

- **63% o/Digital Services rev.**
- **Bolstering LatAm presence & quality:**
  - New HD channels launched
  - OTT service launched in Uruguay, El Salvador, Guatemala & Costa Rica, more countries to follow
- **Own productions in Spain:**
  - Original content & exclusive channels (“Movistar #0”)

## Pay TV Accesses (m)



## Digital services bundling solutions

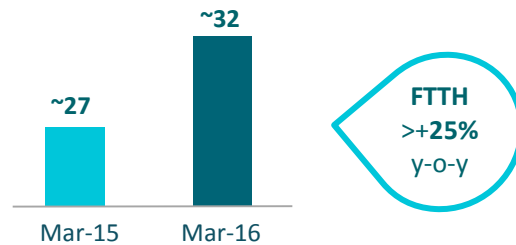
- **Security (7% o/Digital Services rev.);** >6m customers protect digital data with our “Personal Cloud” service
- **M2M (4% o/Digital Services rev.);** Building verticalized value proposition in recently created IoT global business area
- **Cloud (8% o/Digital Services rev.);** Partnerships with Amazon & VMware to enhance our proposition
- **Telefónica Open Future\_;** JV with ScytI (eDemocracy) to create Open Seneca platform

# TGR: Adding value through technology evolution

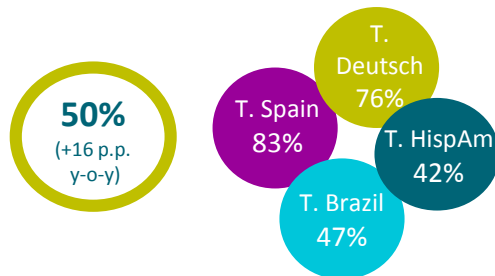
## Accelerating UBB connectivity

### Premises Passed with Fibre (FTTx)

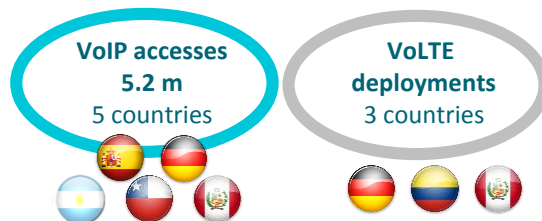
(million)



### LTE Coverage (%PoP)



### Step forward to All-IP



## E2E Digitalisation

- **Full Stack:** 15 countries
- **Boosting digitalisation capabilities:**
  - **Big Data:** Deploying infrastructure and enabling business capabilities
  - Real Time Decision
- **Single Online Charging System (OCS) consolidation**
- **Maintained Record IT Service Delivery**
- **Security integrated in transformation projects**
- **Continued IT simplification & virtualisation**

13% Full Stack Customers

7.1 PB (x1.5 y-o-y)

50% Single OCS customers

-56% IT critical incidents

## Network Transformation

- **All-IP Architecture:**
  - VoLTE deployment in Peru and Colombia
- **Quality:**
  - New Big Data project (monitor & improve customer experience)
- **Innovation:**
  - Successful SDN-IP trial in Peru

02 

## Q1 16 Results

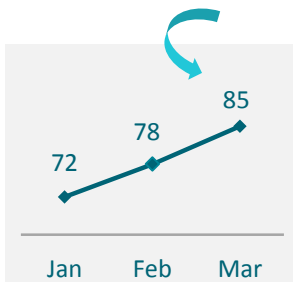
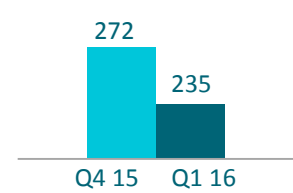
Mr. Angel Vilá  
CSFO



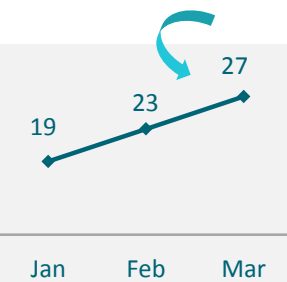
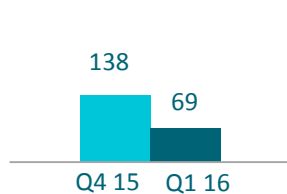
# Spain: Focus on growing customer value

## Net adds ('000)

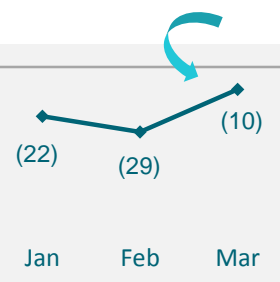
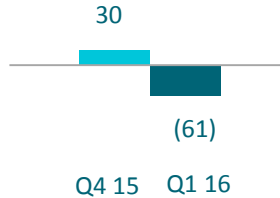
### FTTH



### Consumer "Fusión"



### Mobile voice contract

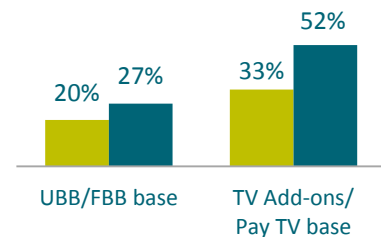


## Trading improvement throughout Q1

- **Q1 trading reflect tariff update**
  - "Fusión", mobile contract, FBB non-convergent
  - Temporary churn uptick
- **Commercial activity normalised from March**
- **Fixed telephony net adds recovering**
- **Successful results of TV promo in H2 15**
  - ~75% of subs. stuck to TV add-ons
  - Promos for new customers launched in Q1

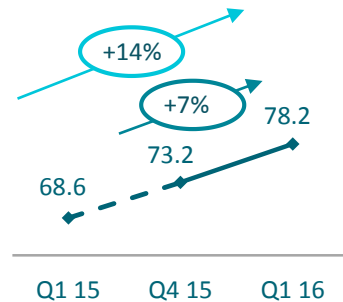
## High-value penetration

■ Mar-15 ■ Mar-16



## Consumer "Fusión" ARPU

Euros

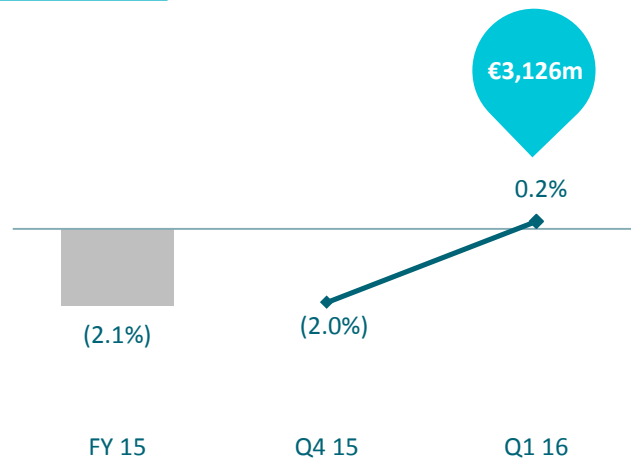


## Superior proposal makes the difference

- **Largest FTTH in Europe:** 15m prem. passed (0.7m in Q1)
  - 16% uptake at Mar-16
- **LTE expansion:** 83% pop. coverage (+8 p.p. q-o-q)
- **Nationwide Quad-Play capabilities**
- **Best Pay TV offer:** quality & price

# Spain: Revenue & OIBDA growing including DTS

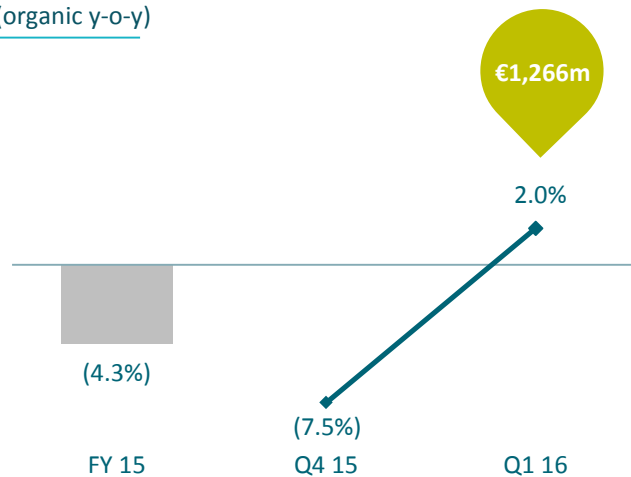
## Revenue (organic y-o-y)



## Starting a new cycle

- **First quarterly top line y-o-y increase** after DTS consolidation
- **ARPU uplift & customer expansion driving consumer revenue**
  - Higher quality in the customer mix (UBB, TV)
- **“Fusion” & Business IT, the growth engines** (+26% & +9% y-o-y)
- **Q1 Service Revenue (SR) €3,009m; +1.0% y-o-y organic**
  - **Consumer: 54% SR; +1.8% y-o-y** (Q4: -2.0% y-o-y)
  - **Business: 28% SR; -2.8% y-o-y** (Q4: -4.1% y-o-y)
  - **Others: 18% SR; +5.1% y-o-y** (Q4: -0.1% y-o-y)

## OIBDA (organic y-o-y)



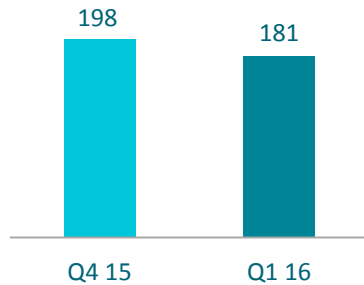
## Strong operating leverage

- **Q1 OIBDA (€1,266 m): +2.0% y-o-y organic**
  - +9.5 p.p. vs Q4
- **OIBDA Margin: 40.5%** (+0.7 p.p. y-o-y organic)
- **Better organic OpCF trends y-o-y** (Q1: -0.5% vs. Q4: -7.5%)
- **Voluntary Suspension Plan savings from Q2 16** (no impact on Q1)

# Germany: Continued data monetisation

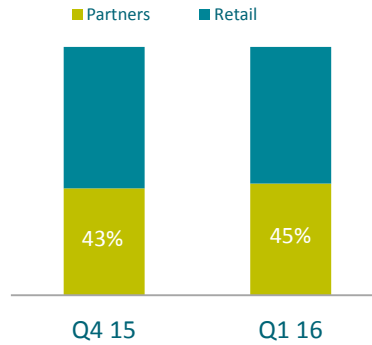
## Contract net adds ('000)

Ex-adjustments: 400k in Q4 15



Low contract churn levels; Q1: 1.8%

## Contract gross adds mix

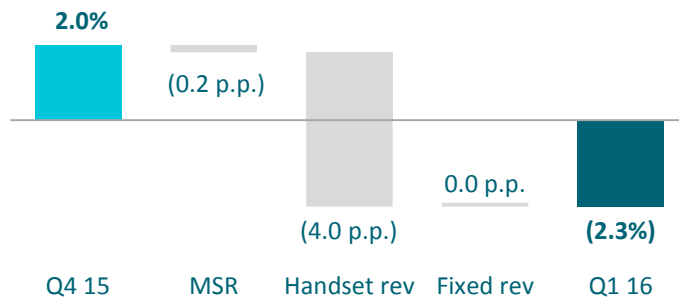


Partner share broadly stable from Q2 15

## Customer base focus drives momentum

- **Further LTE deployment**
  - Mobile data traffic up 28% y-o-y (video and music streaming)
  - Average LTE data usage up 50% y-o-y
  - Continued LTE upside; penetration at 21%
  - Coverage at 76% (+8 p.p. y-o-y)
- **Record VDSL net adds in Q1: 76k (+16% y-o-y)**

## Revenue (y-o-y organic)



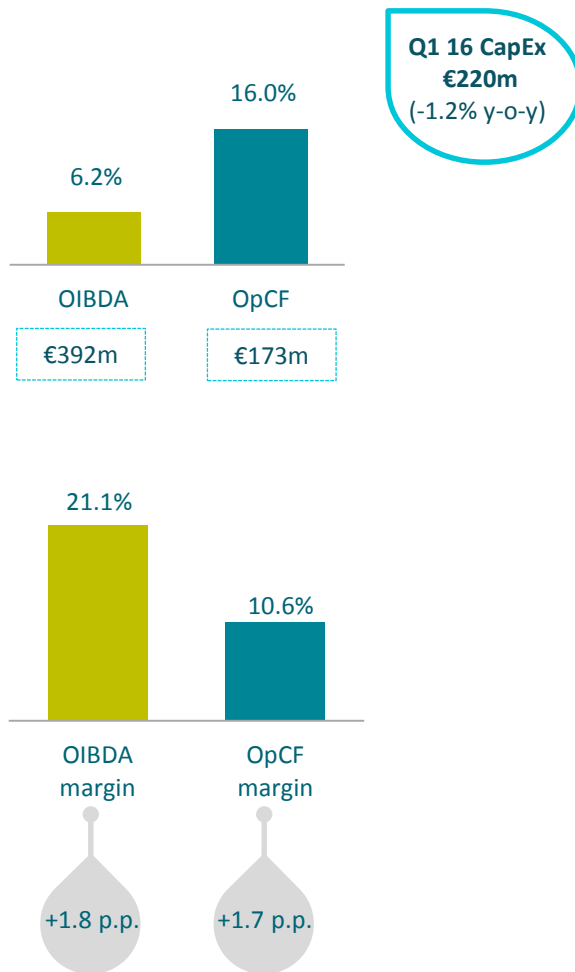
## Revenue reflects base mix effect

- **Sustained MSR performance** (Q1: -1.3%; -0.3 p.p. q-o-q)
  - Ramp-up of non-SMS data revenues to +12.7% y-o-y
  - Data revenues 55% of MSR (+4 p.p. y-o-y)
  - Regulatory impact: -0.3 p.p. in Q1 y-o-y
- Lower handset sales y-o-y (Q1: -5.5% vs. Q4 15: +17.9%)
- Maintained fixed revenue trends (Q1: -3.1% y-o-y)

# Germany: Progressing in integration

## Q1 16 financials

y-o-y organic ex non-recurrent



## Synergy evolution

- **Repositioning of the O2 brand, customer base migration, network integration and IT transformation**
  - Q1 integration efforts with parallel work streams
  - Requiring upfront investments in H1 16; incremental synergies from H2 and will generate savings in the latter years
  - CapEx integration effects back-end loaded
- **Network improvements reflected in surveys** (*ComputerBild* magazine)

## Ongoing robust profitability

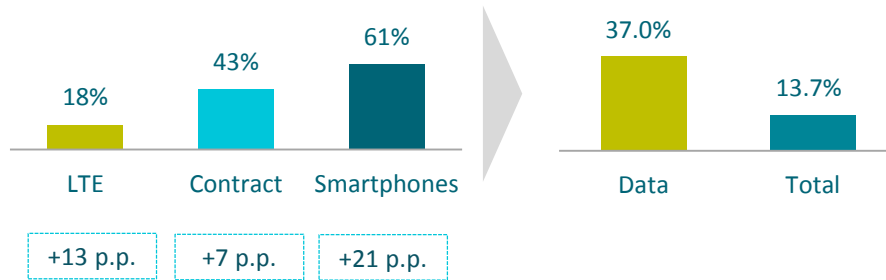
- **OpEx -5.0% y-o-y**
  - Synergy capture: €55m
  - Benefits from first wave of restructuring (2015: 800 FTEs)
  - Lower MTRs and handset cost of sale
- **Solid OIBDA increase y-o-y driven by synergy execution**
  - Restructuring expenses (€23m in Q1 16); Disposal of “yourfone” (Q1 15: +€17m)



# Brazil: Focus on profitable growth

## Mobile penetration

☐ y-o-y

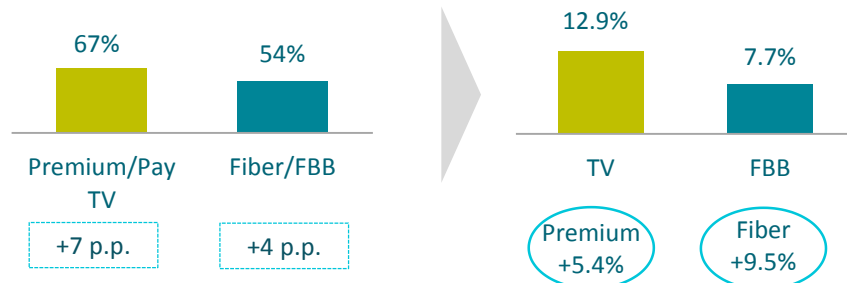


## Data-centric strategy driving ARPU acceleration

- **Contract market share 42.4%** (+0.8 p.p. y-o-y)
  - **Contract churn stable** y-o-y despite macro environment
  - Largest mobile network, covering 89% of pop (3G & 4G)
  - **Superior customer satisfaction**

## Fixed quality access

☐ y-o-y

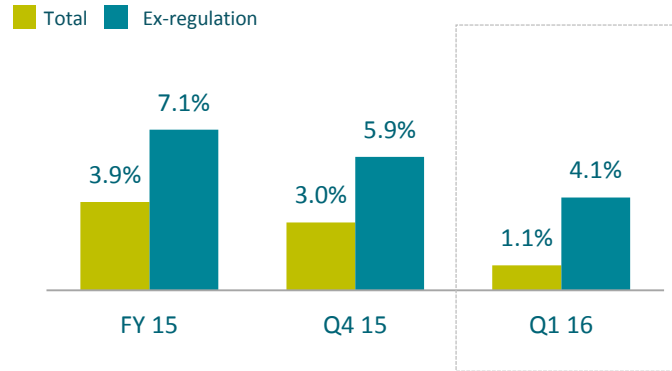


## Smart bundling to support long-term strategy

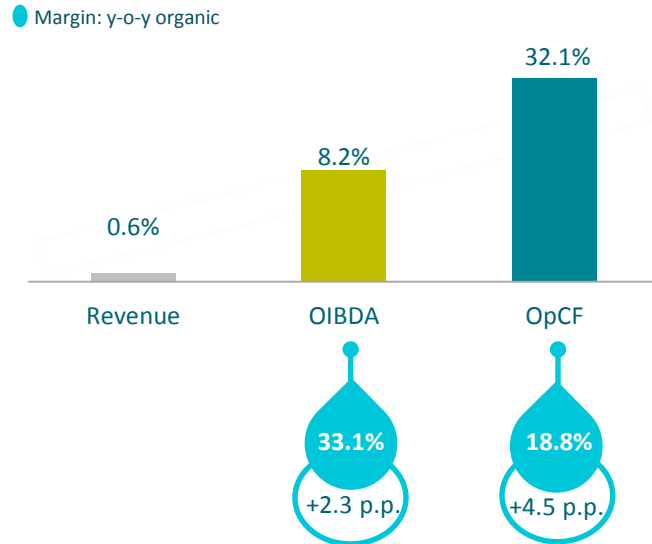
- **16.8m homes passed with fiber in 185 cities nationwide**
  - 3.9m HH connected
- Improving **legacy cooper network in SP** generating higher returns
- Strategy to differentiate **TV is paying off**
  - **ARPU y-o-y improvement** (+5 p.p. q-o-q); better sales mix
  - **Differential value proposition:** Multiroom PVR, Real Catch up
- **Successful brand unification** during April 16

# Brazil: Best-in-class profitability

## Service Revenue (organic y-o-y)



## Financial (y-o-y organic)



## Outperforming the market

- **MSR +0.4% y-o-y** (+3.3% ex-regulation)
  - Growth engine: Data revenues/MSR: +9 p.p. to 48%
- **Fixed revenues** (+2.0% y-o-y; +4.5% ex-regulation)
  - Pay TV and fiber: +21.1% and +24.0% y-o-y
- Revenue +0.6% vs. Q1 15 despite macro affected by
  - Regulation (-2.7 p.p. y-o-y)
  - Lower handset sales (-0.4 p.p. y-o-y)

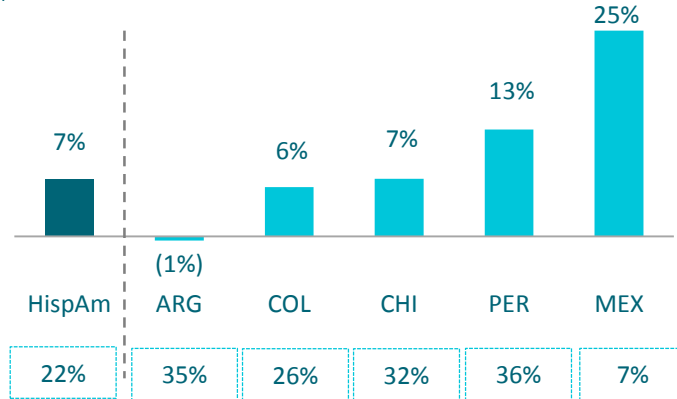
## Synergies and efficiencies initiatives

- Sequential **improvement in OpEx trend** despite inflation pressure
  - Commercial cost -1.8% y-o-y on more selective approach
  - Continued **bad debt improvement** (-13.4% y-o-y)
  - All key projects milestones achieved in 2016 enabling capturing predicted **synergies** (€48m in Q1 OIBDA)

# HispAm: Growing adoption of high-value services

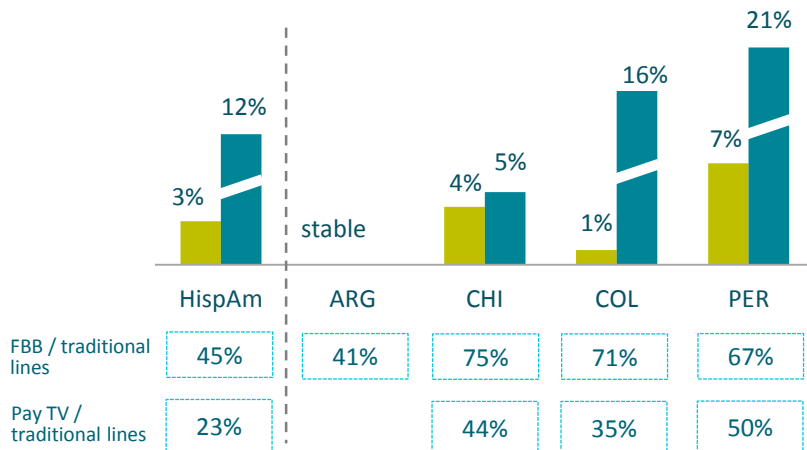
## Contract accesses y-o-y

Contract / total mobile



## FBB & Pay TV accesses y-o-y

FBB Pay TV



### T. HispAm:

- Further push in contract (net adds x8 y-o-y)
- Smartphone penetration +9 p.p. y-o-y to 38%
- FBB & Pay TV penetration +4 p.p. y-o-y

### Argentina:

- Strong LTE deployment (coverage of 69%)
- Maintaining low churn levels in contract and FBB

### Chile:

- The largest contract accesses growth in more than 4 years
- 80% of FBB base >4 Mb; +9 p.p. y-o-y

### Peru:

- Outstanding contract, FBB & TV accesses; outperforming peers on assets' quality

### Colombia:

- Strong contract net adds & lower churn

### Mexico:

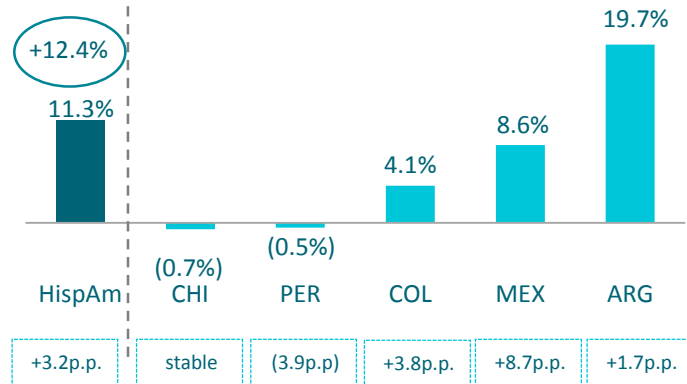
- Continued momentum in contract (net adds x4 y-o-y)
- Competition intensifying

# HispAm: Focus on quality flowing into revenues

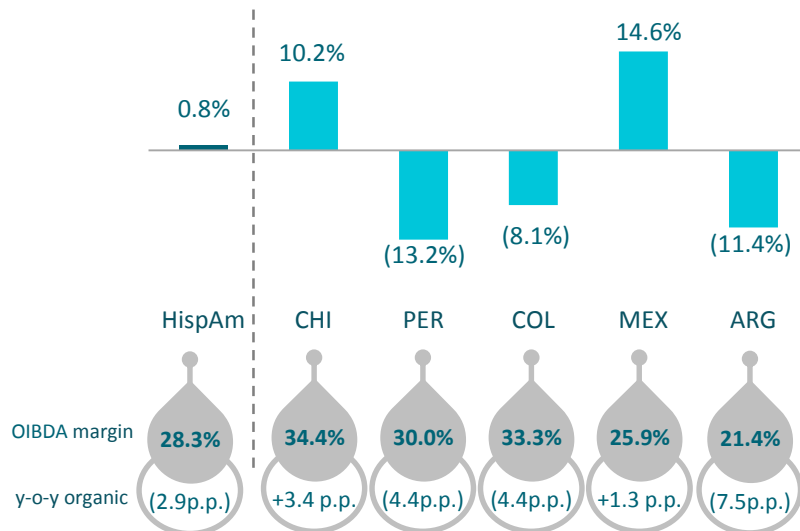
## Revenue (organic y-o-y)

Change vs. Q4 15 y-o-y

Ex-regulation



## OIBDA (organic y-o-y)



## Accelerating top line growth

- Revenue improvement despite lower handset sales (-4.5% y-o-y)
  - MEX: Solid performance despite strong ARPM reduction
  - COL: Continued data revenue growth
  - ARG: Fixed revenues boosted performance
- CHI: Stable growth despite competition & regulatory impacts
- PER: Strong competition in prepay and regulation
- Main levers of revenue growth (y-o-y): mobile data (+32.5%), FBB (+22.2%) and Pay TV (+18.2%)

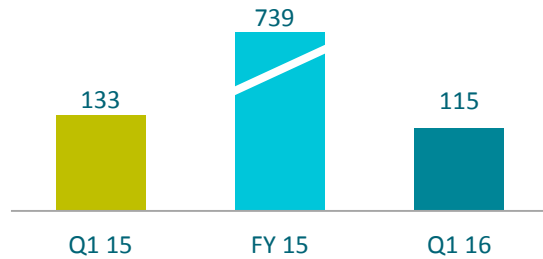
## Steady OIBDA growth

- OIBDA and margin expansion vs. Q1 15
  - CHI: Improved y-o-y trends; more rational approach on subsidies
  - MEX: Positively affected by revenues, economies of scale & interconnection agreement
- OIBDA margin erosion y-o-y
  - ARG: Inflation & higher commercial expenses
  - PER: Tough comps & FX impact
  - COL: Increasing commercial cost, FX & inflation

# UK: Market benchmark performance

Consolidated as discontinued operation

## Contract net adds ('000)

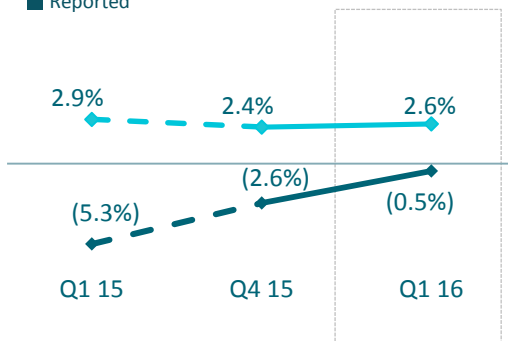


## Sustained market leading contract churn <1%

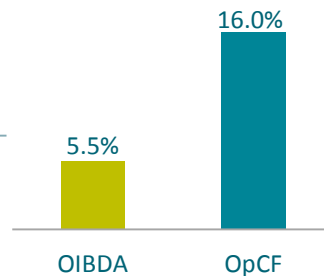
- Mobile base 25m
- Customer experience leadership (7 years in a row)
- Successful market propositions (“Refresh”, “Business Essentials”)
- LTE as a growth lever
  - 639k net adds in Q1 16
  - Penetration: 38% (+3 p.p. q-o-q)
  - 87% outdoor coverage at Mar-16

## MSR (y-o-y)

■ Ex “O2 Refresh”  
■ Reported



## Profitability (y-o-y)



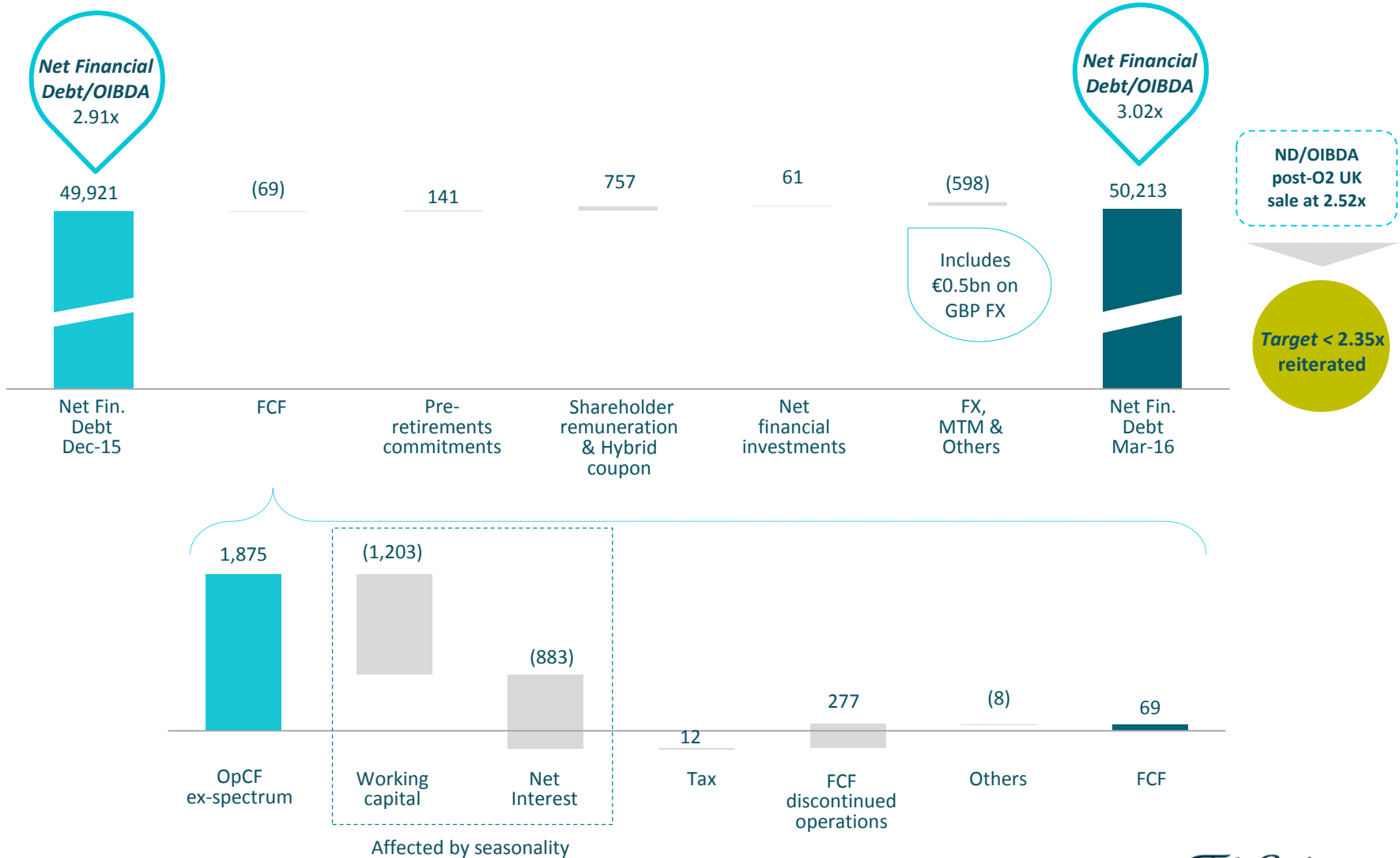
## Strong financials: Ramp-up in growth

- Better trends in revenue (ex “O2 Refresh”): +1.5% y-o-y vs. Q1 15
  - Seventh quarter of MSR increase (ex “O2 Refresh”)
  - Slower handset sales as customer await new high-end devices
- OIBDA margin up to 26.3% (+1.9 p.p. y-o-y)

# Leverage impacted by Q1 seasonal effects

## Net Financial Debt

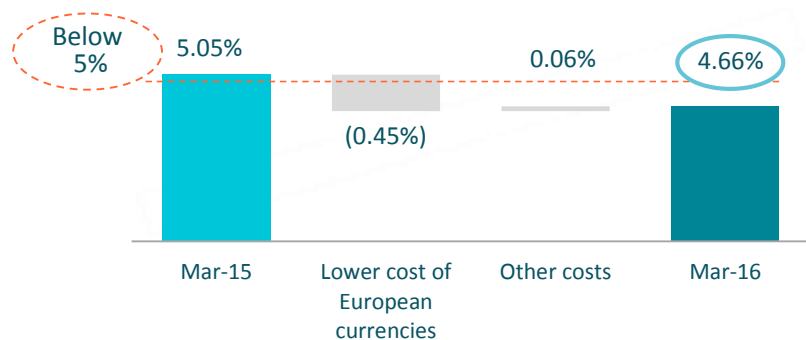
€ in millions



# Strong liquidity to face upcoming maturities

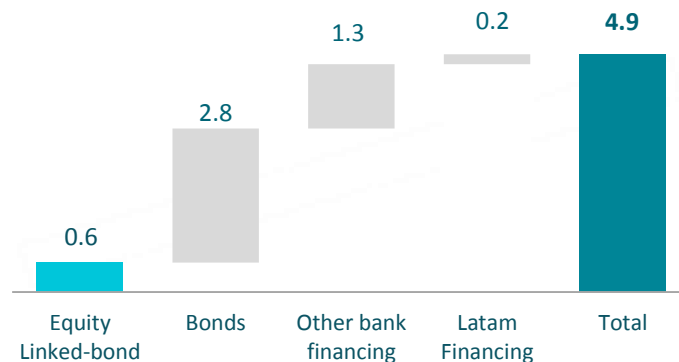
## Effective interest cost: 39 b.p. lower y-o-y

----- Guidance



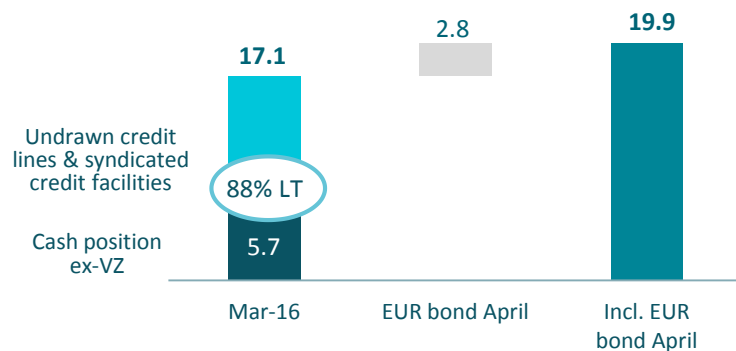
## Sources of long-term financing

€ in billions



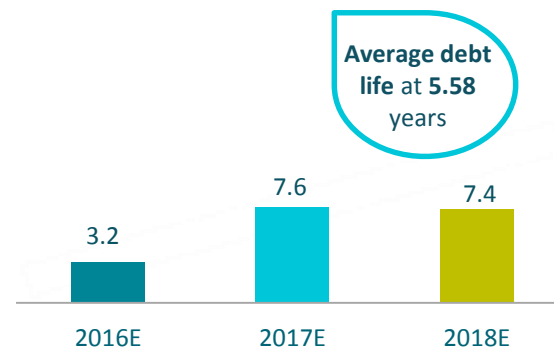
## Liquidity position

€ in billions



## Net debt maturities (Mar-16)

€ in billions; not considering hybrid NC dates



# Telxius: a leading telecom infrastructure Co.

## Created with selected assets from TEF...

- One of the **leading** telecom infrastructure service providers in **Europe** and the **Americas**
- **Secular industry trends and revenues visibility** levered by long-term contractual relationships
- **Strong cash conversion** driven by high profitability and low recurrent maintenance CapEx

## ... formed by fiber-optic submarine cables and mobile towers

1



**International network:** >65,000km submarine fiber-optic cables (~31,000km are owned)

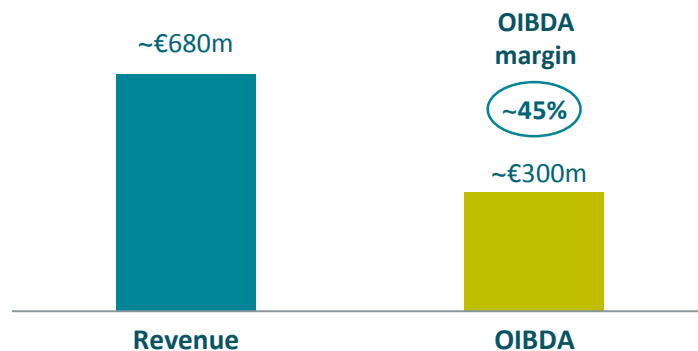
2



~16,000 **telecom towers** in Spain, Germany and selected countries in LatAm

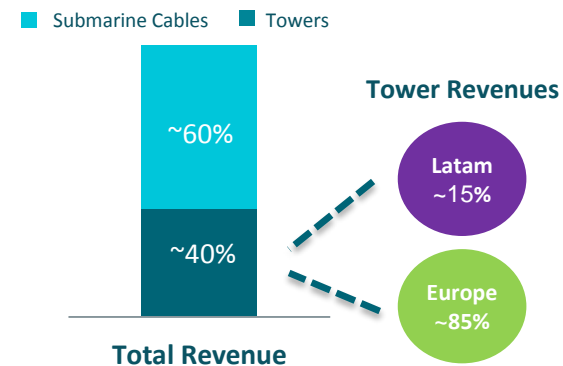
## Substantial and profitable

### Financial highlights (2015PF)



## Balanced portfolio & exposed to mature and emerging markets

### Operations breakdown (2015PF)





# Conclusion

**Solid  
start of  
2016**

- **Growth accelerating; organic OIBDA +5.5%**
- **OIBDA increasing across the board**
- **Spain growing in revenues & OIBDA; stabilising OpCF**
- **Strong execution in fiber, LTE and Pay TV**
- **Delivering a differentiated network experience**
- **Synergies and simplification efficiencies drive margin stability**
- **OpCF accelerates despite higher CapEx to enhance differentiation**

**Full year guidance & dividend confirmed**

*Telefonica*

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