

*Telefonica*

**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

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# Highlights | Execution of strategic priorities



Enable people with the power of connectivity

- **357m accesses**; +36% LTE; +7% smartphones; +20% FTTx/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	
<b>Revenues</b>	12,190	(7.2%)	1.9%	
<b>Service revenues</b>	11,040	(9.4%)	0.8%	
<b>OIBDA</b>	3,864	(3.9%)	3.3%	
<b>Underlying OIBDA</b>	3,863	(5.6%)		
<b>OIBDA margin</b>	31.7%	1.1 p.p.	0.4 p.p.	
<b>OpCF (ex-spectrum)</b>	2,381	(1.0%)	4.4%	
<b>Net Income</b>	837	7.4%		
<b>EPS (€)</b>	0.12	(13.2%)		
<b>Underlying EPS (€)</b>	0.17	(3.0%)		
<b>FCF</b>	550	(8.7%)		
<b>Net Financial Debt</b>	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

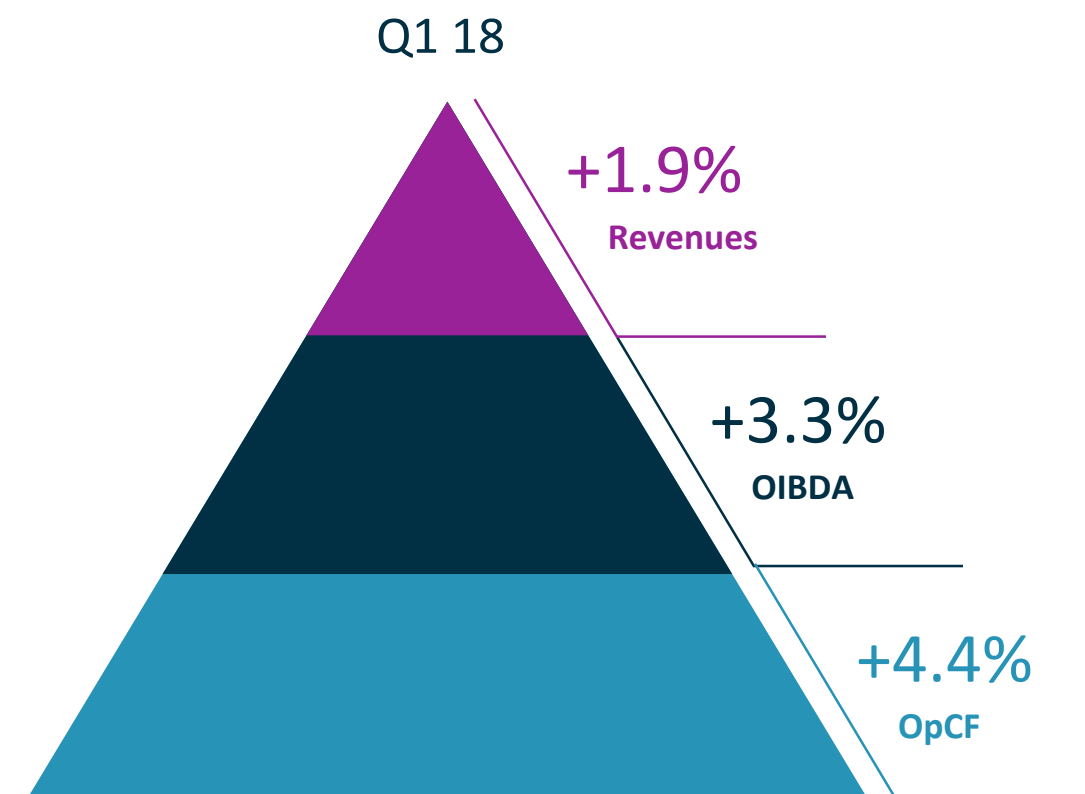
Operating 2018 guidance organic	Guidance 2018E (IAS 18)	Q1 18
<b>Revenues</b>	<b>Growth of around 1%</b> (despite regulation dragging: -0.9 p.p.)	<b>+1.9 %</b>
<b>OIBDA Margin</b>	<b>Continues expanding around 0.5 p.p.</b> (despite regulation dragging -1.6 p.p. on OIBDA growth)	<b>+0.4 p.p.</b>
<b>CAPEX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

**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.

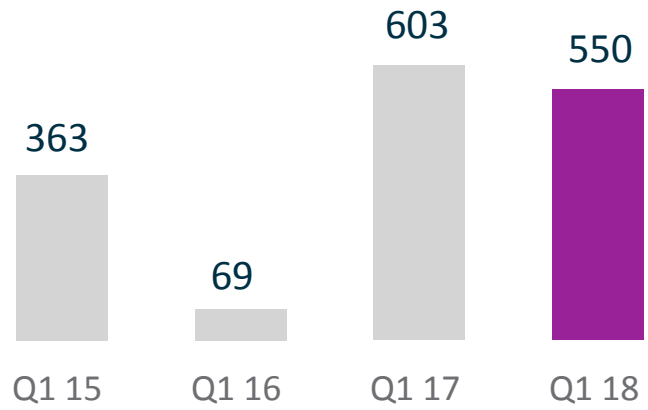
**Final Jun-19**

€0.20/sh.

# Sustained free cash flow generation

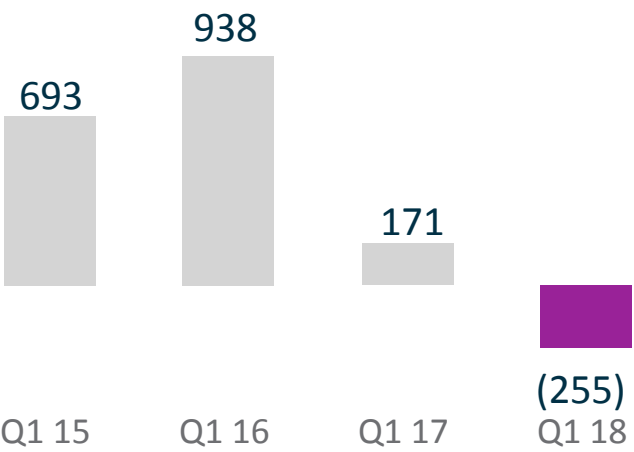
FCF

€m



Q1 q-o-q change in Net Debt

€m

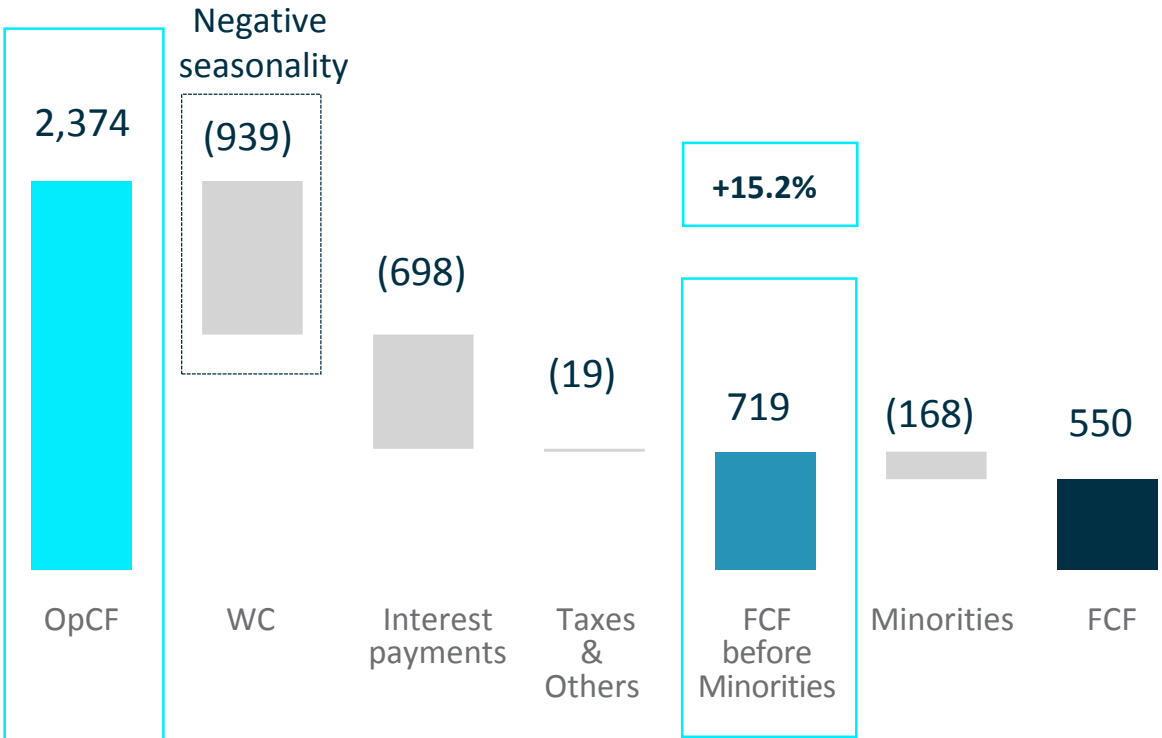


**ND decrease in Q1**, changing trends vs. previous years

**ND -9.8% y-o-y;**  
(-€4.8bn y-o-y)

Strong Q1 FCF, operational leverage

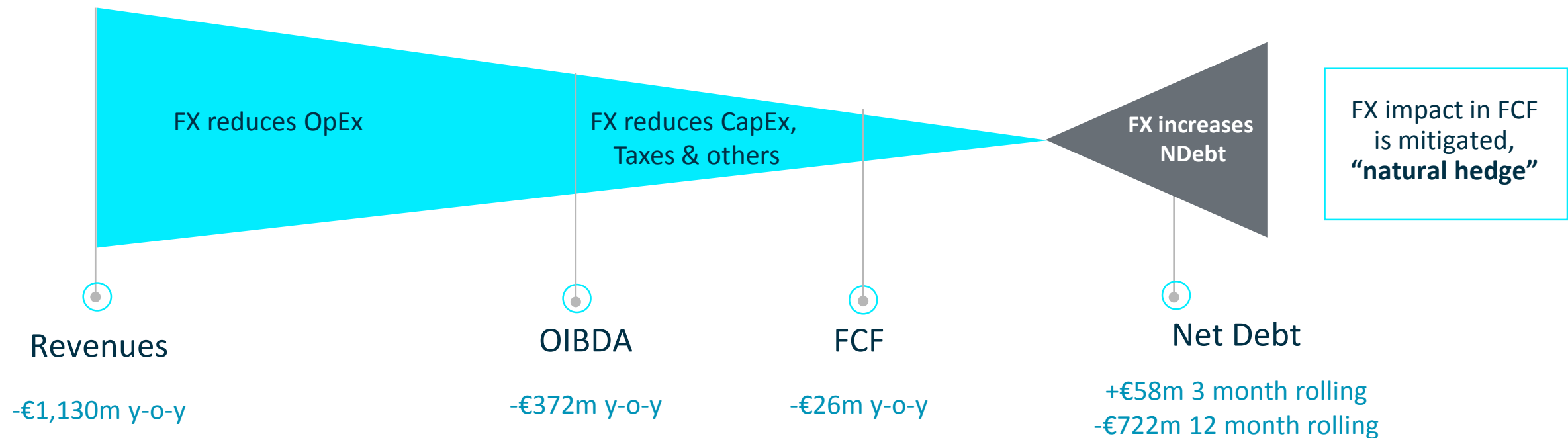
€m



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

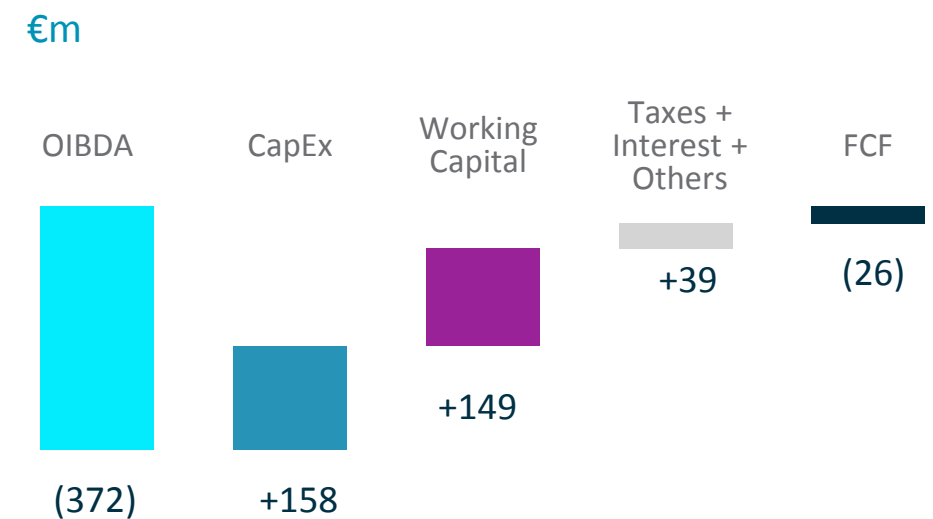
**...FCF to improve** throughout the year

# FX impact structurally neutralised



- **€ 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





# Positive delivery on Revenues, OIBDA & OpCF

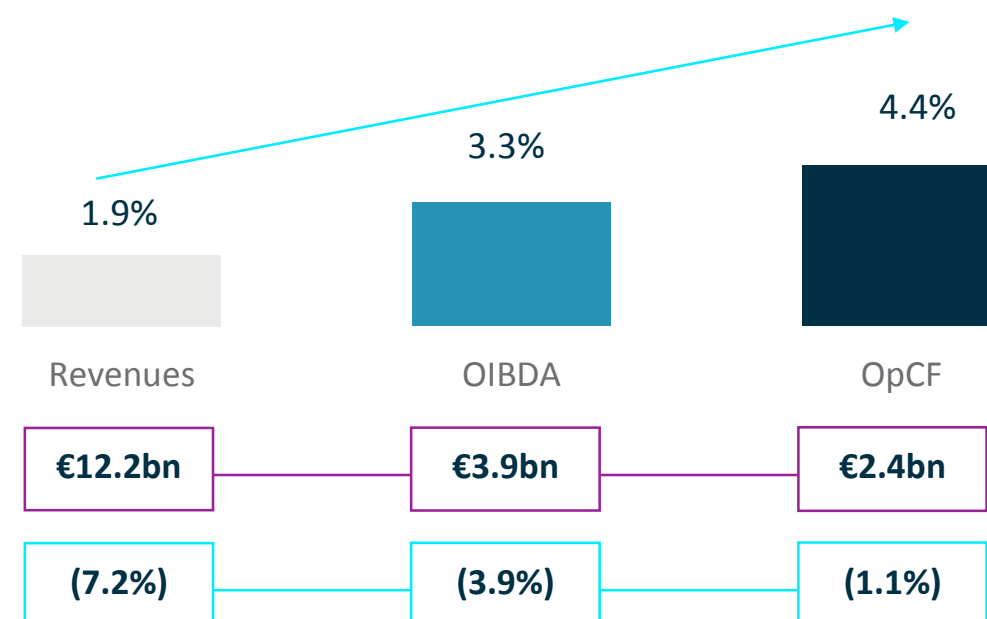
## Growth acceleration

- 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

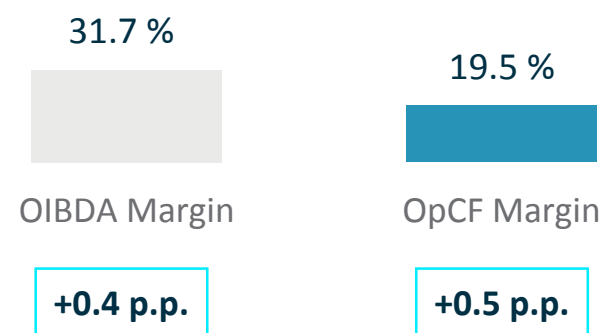
y-o-y organic

Reported y-o-y



Q1 18 Robust profitability

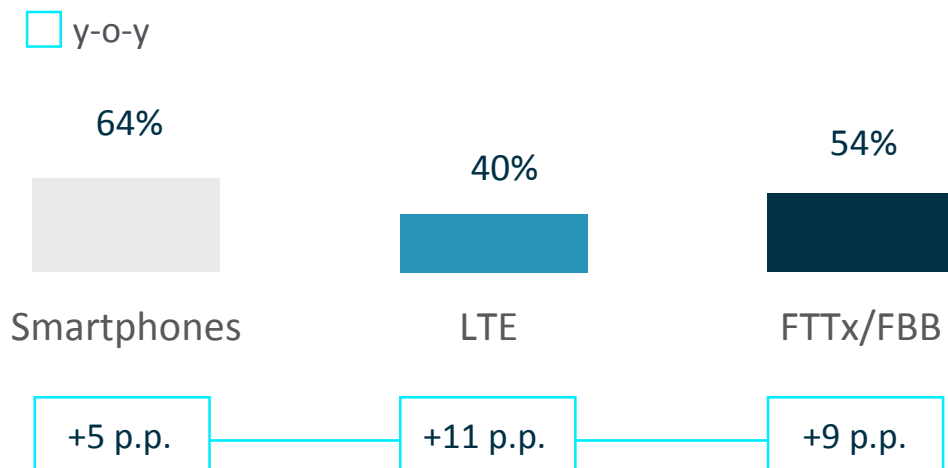
y-o-y organic



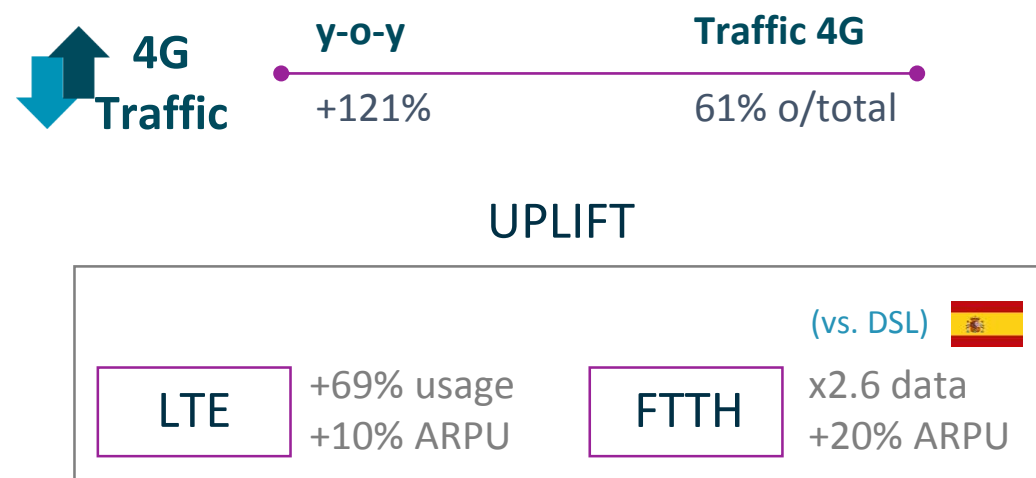
# Monetisation focus enhanced

## Attracting, bundling and upselling

More users, more data services (penetration %)



More usage, more revenue



## 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

## 4<sup>th</sup> 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

## 3<sup>rd</sup> 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...)

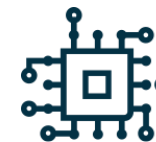
## 2<sup>nd</sup> Platform

### E2E Digitalisation enabling Real Time processes



61%

E2ED level  
(+9 p.p. yoy)



25%

Full Stack  
(customers migrated)

## 1<sup>st</sup> Platform

### Leading-edge Smart networks to cope with data explosion



1# Network  
Virtualisation



76m

UBB coverage  
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

# 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



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

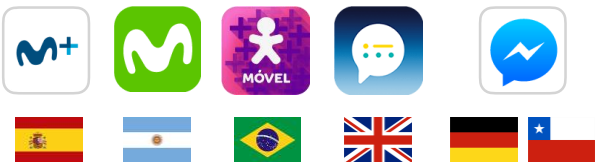


## BASED ON DATA TRANSPARENCY & SECURITY

Data Portability Cooperation

Aura will empower the customer

Aura is available in 6 countries



Simply Talk to Aura

A one-stop shop for customers' needs

Unified and Digital

# Digitalisation, a leap forward in our bold transformation

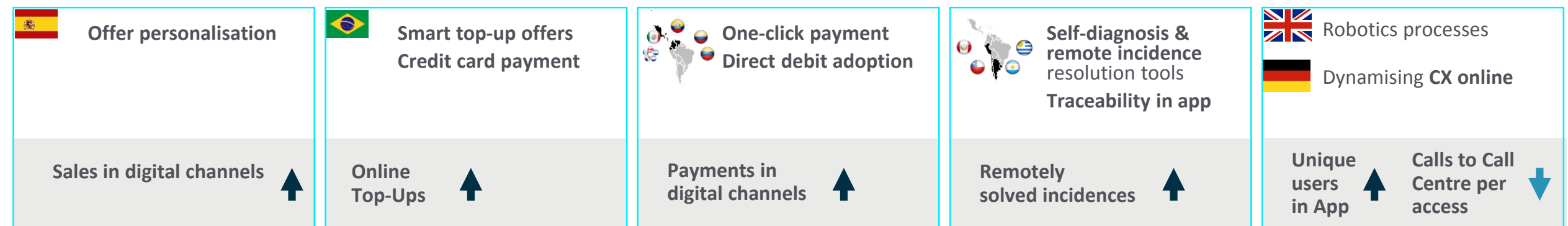
Enhancing Customer Experience and Operational Efficiency

Focus on 5 priorities centred on the customer journey....

2017-20



...initiatives already onboard to capture impact along 2018



Digitalisation drives cost savings....

...higher CSI and digital engagement

Addressable cost base 2017

€11.6bn  
32% o/OpEx

Digitalisation gross savings Run-rate 2020E

>€1.0bn

Gross savings 2018

>€0.3bn

Increased customer satisfaction, loyalty and usage 



# Q1 18 Results

Ms. Laura Abasolo  
CFCO



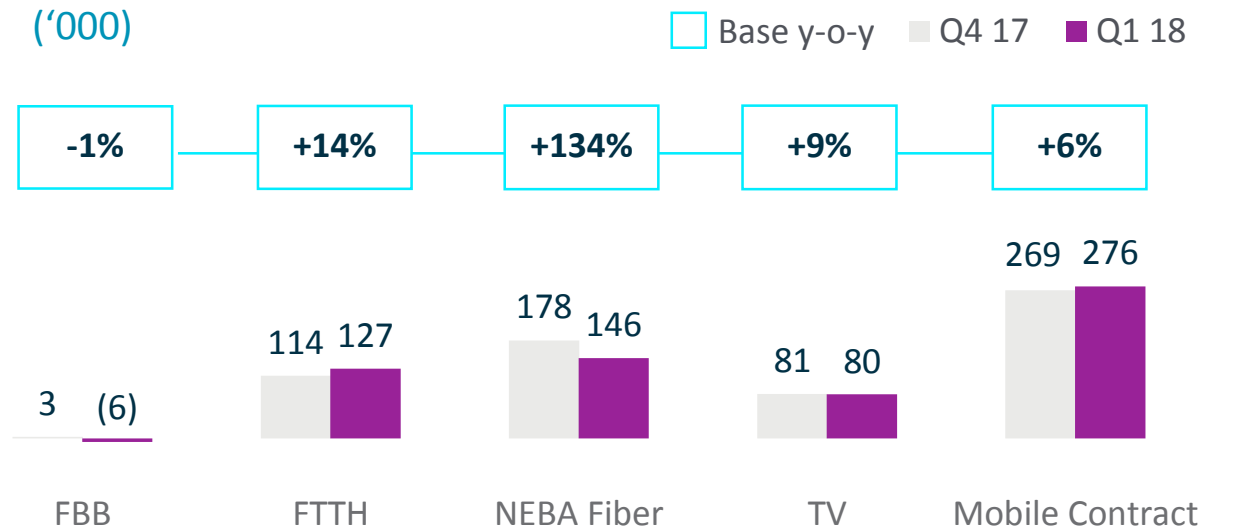
# Spain | Solid trading in a rational market

## 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

## Net adds

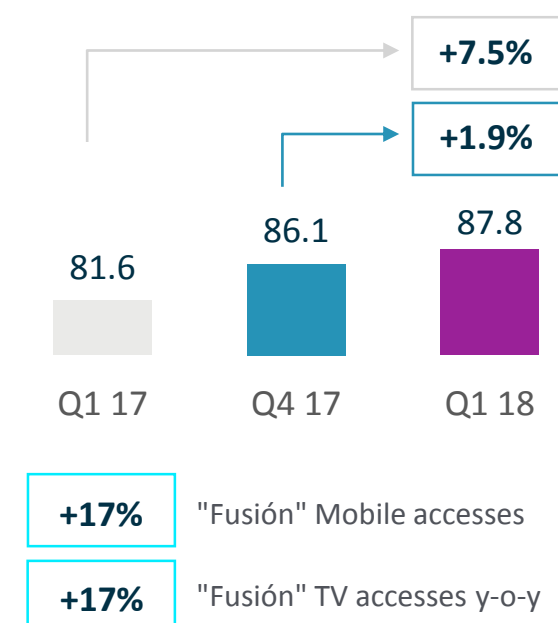
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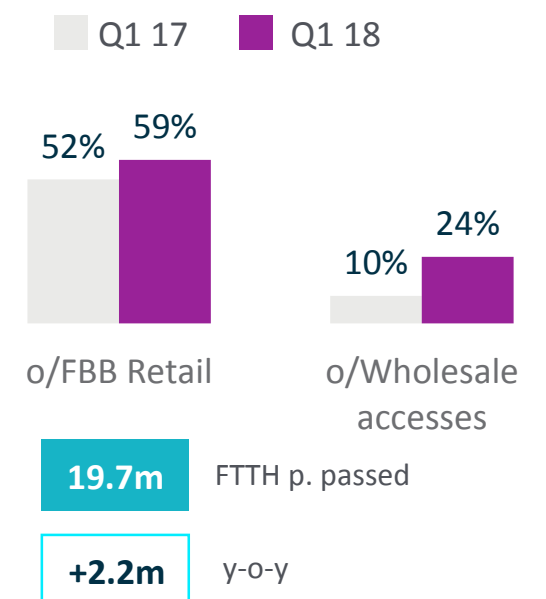
## Unmatchable platforms in quality and scale

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

## "Fusión" ARPU Q1 18



## FTTH penetration



# 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

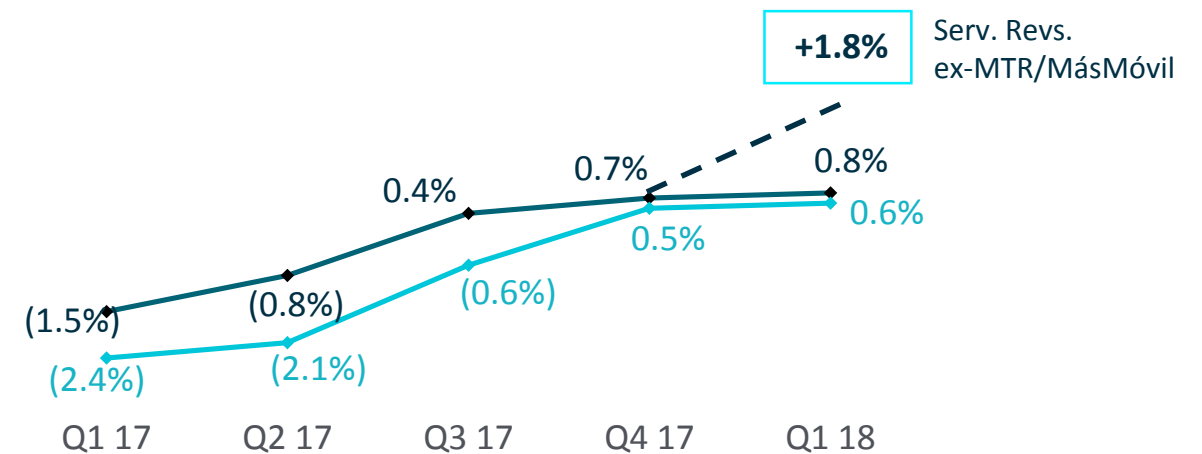
## Cash conversion

- **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

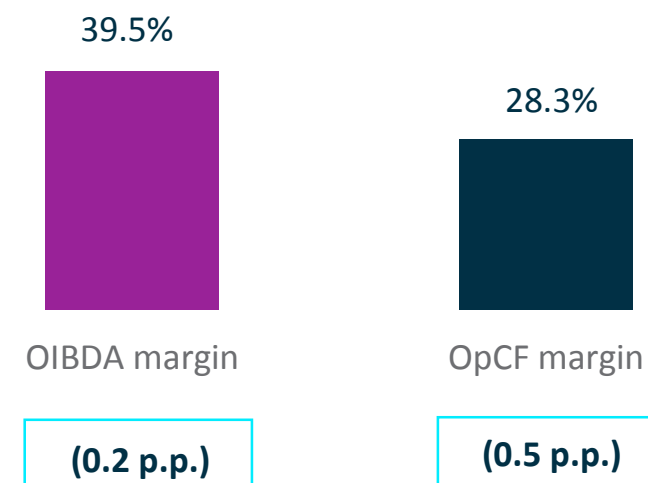
Serv. Revs. y-o-y organic

OIBDA y-o-y ex-provisions & cap.gains



## Strong margins

□ y-o-y organic



# 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<sub>2</sub> Free ARPU accretive**
- **O<sub>2</sub> 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<sub>2</sub> Free “M” tariff

~6GB / month

~€25 ARPU

~60% Share

### LTE customers

Q1 18 Q4 17

**16.1m**  
(+2.1% q-o-q)

**15.8m**  
(+0.5% q-o-q)

### Mobile Data traffic

**+46% y-o-y**

**+55% y-o-y**

## Financials (y-o-y organic)

Ex-regulation Margin

**+0.2%**

(0.4%)  
Revenues

**+0.3%**

(0.5%)  
MSR

**+4.2%**

+0.7%

OIBDA

**22.8%**

**+0.3 p.p.**

**+7.1%**

OpCF

**11.7%**

**+0.9 p.p.**

# UK | Solid financials, capability enhanced

## Largest customer base & trusted network

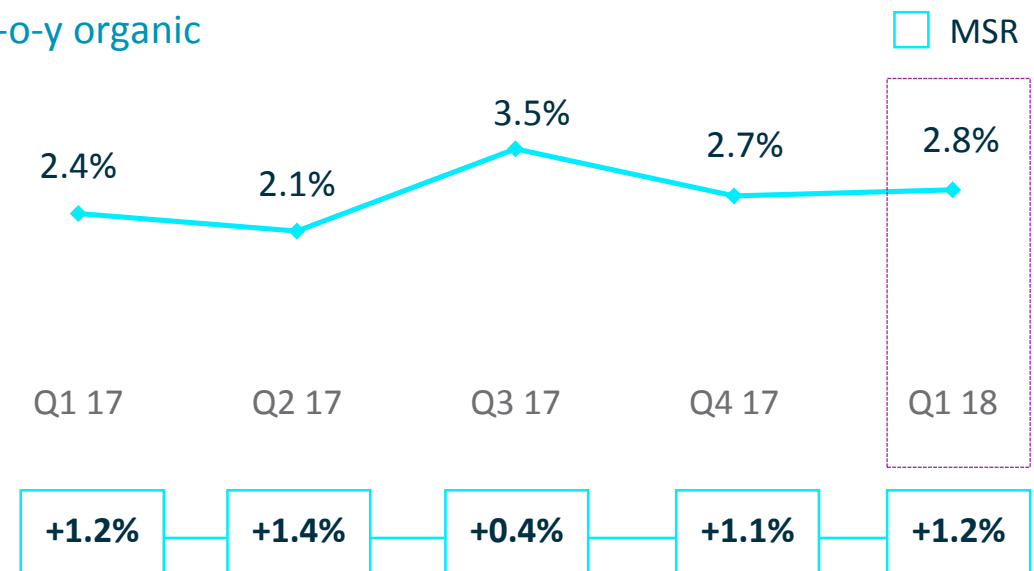
- **Leading network: 32.0m customers** (incl. MVNO partners)
- Continued **contract base expansion**, despite seasonally slower Q
  - **Market-leading churn: 1.0%** (broadly stable y-o-y and q-o-q)
- **Network quality assured** with latest spectrum auction results
  - 40 MHz of 2.3 GHz and 40 MHz of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

## 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

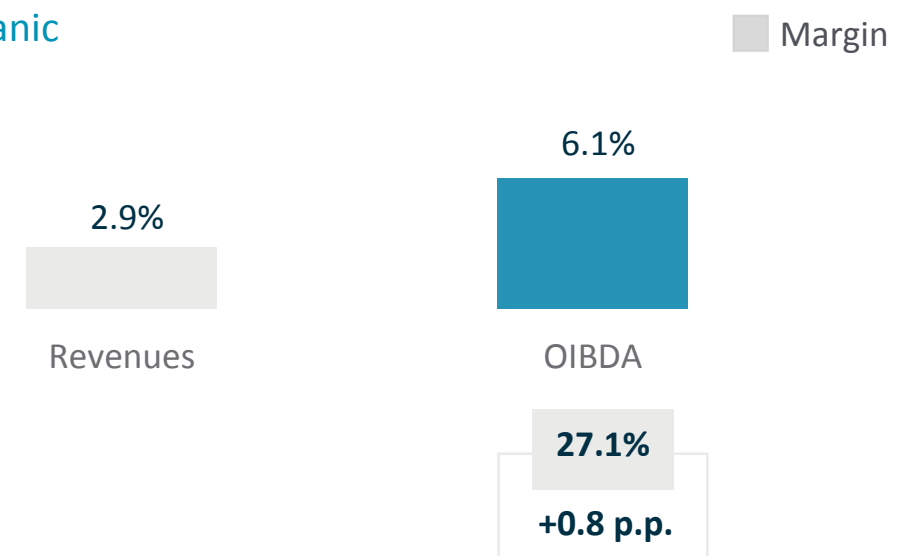
## MSR ex-regulation

y-o-y organic



## Q1 18

y-o-y organic





# Brazil | Growth and value

## Unique assets

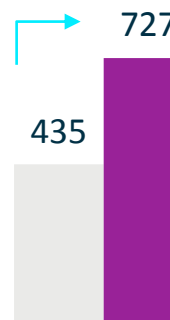
- **M4M strategy is paying off**
  - New hybrid portfolio launched in February
  - Largest and most reliable 3G and 4G network
  - **Sustainable leadership:** 41.4% contract market share
  - 1.6% contract churn (stable y-o-y); unrivaled value proposition
  - **Strong growth opportunity;** LTE penetration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

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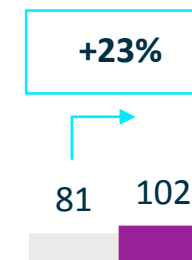
■ Q1 17 ■ Q1 18

+67%



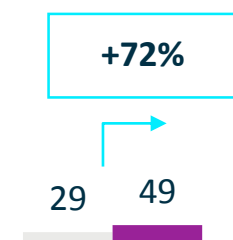
Contract

+23%



FTTx / Cable

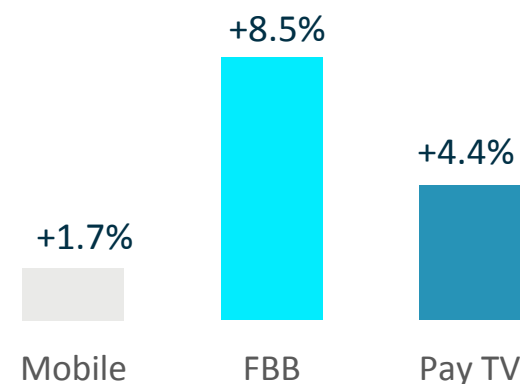
+72%



IPTV

## ARPU Q1 18

y-o-y



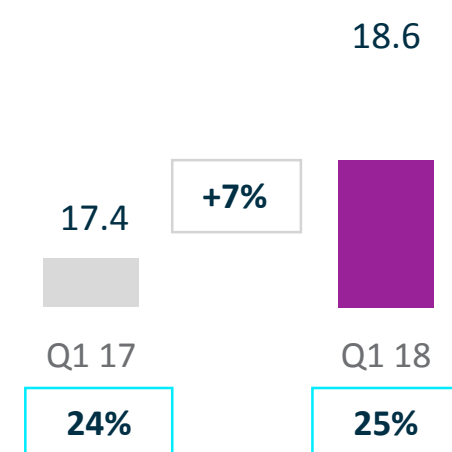
Mobile

FBB

Pay TV

## FTTx deployment

□ P.Passed (m) □ Take-up



Q1 17

Q1 18

# 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%)

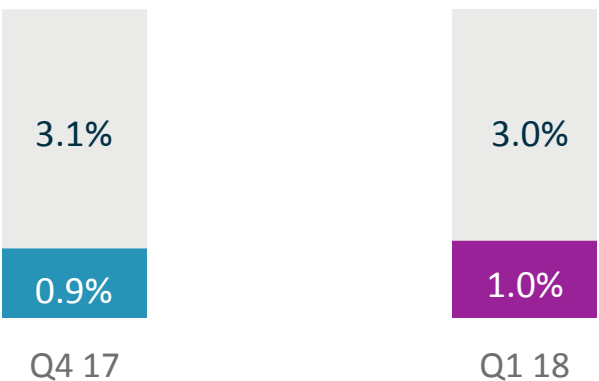
## Digital initiatives drive margins upward

- **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

## Revenues

y-o-y organic

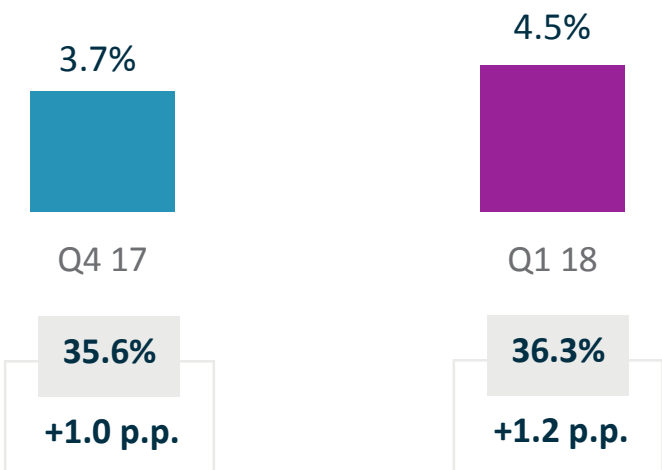
Ex- regulation



## OIBDA

y-o-y organic

Margin



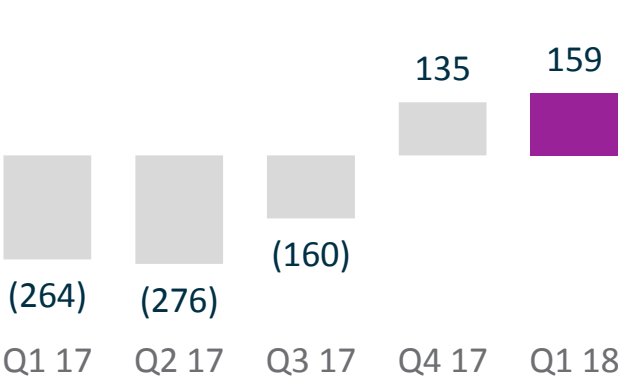
# South Hispam | Healthy and consistent growth

## 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

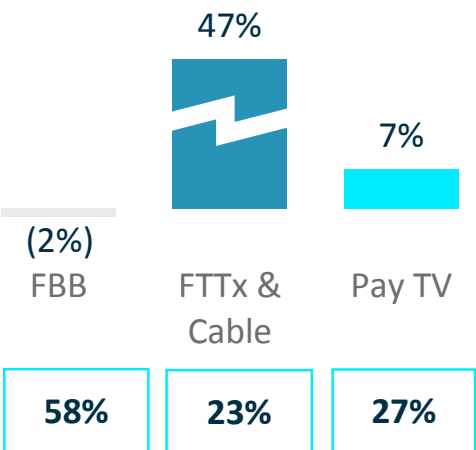
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## Fixed accesses

y-o-y

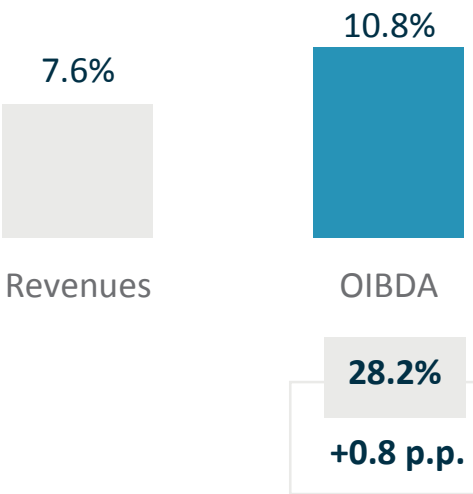
Penetration o/ voice acc.



## Financials

y-o-y organic

Margin



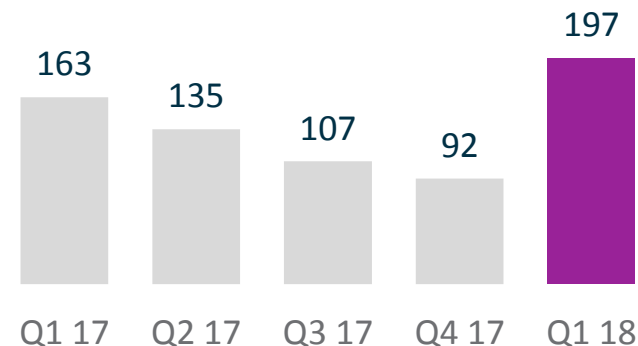
# North Hispam | Commercial success overshadowed by regulation

## 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)

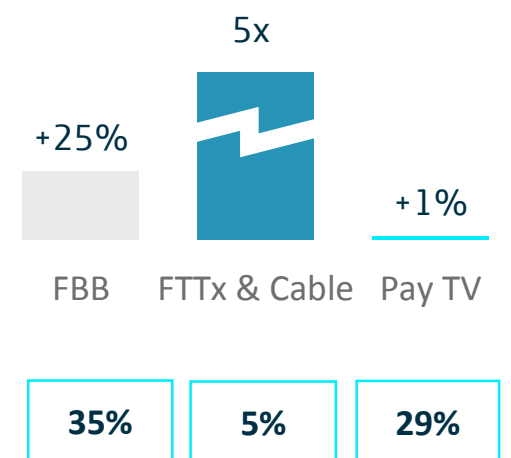
## Contract net adds

('000)



## Fixed accesses

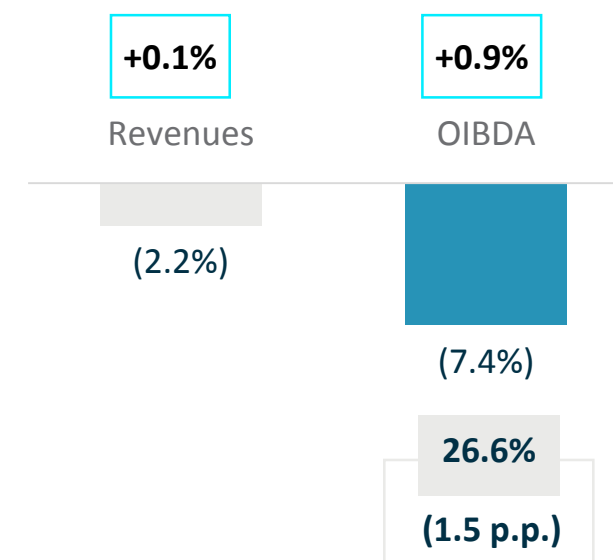
y-o-y Penetration o/ voice acc.



## Financials

y-o-y organic

Ex-reg. Margin



# Telxius | New "MAREA" cable now in service

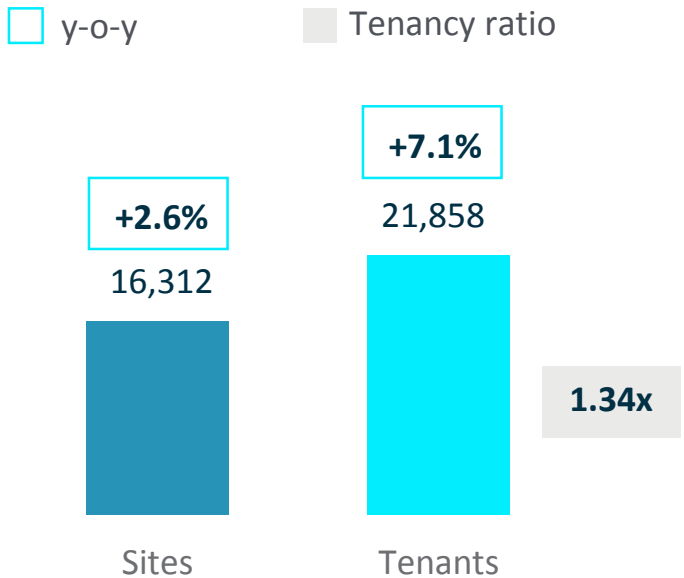
## Sustained commercial momentum

- **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

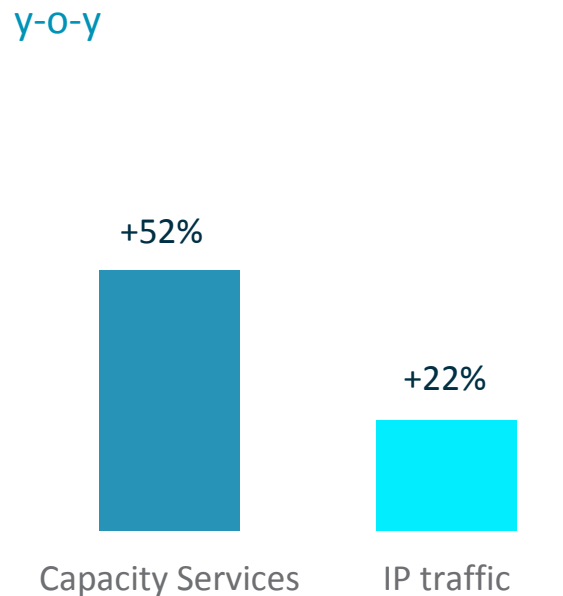
## Solid financials across business

- **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

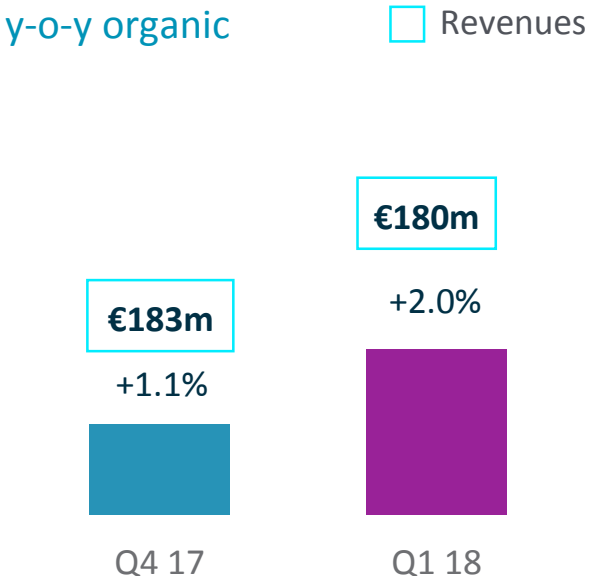
### Tenants & towers



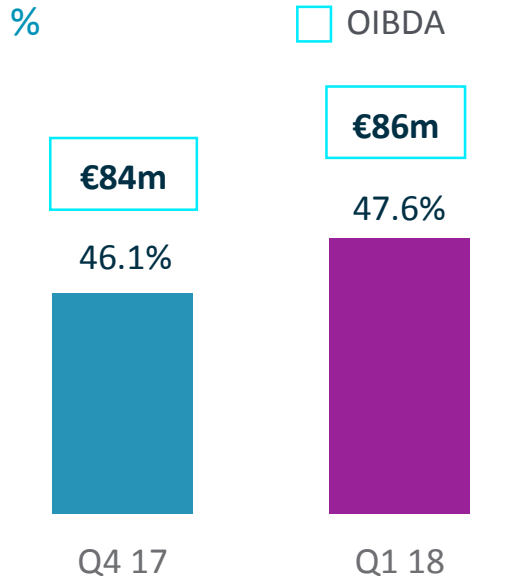
### Cable demand



### Revenues



### OIBDA Margin

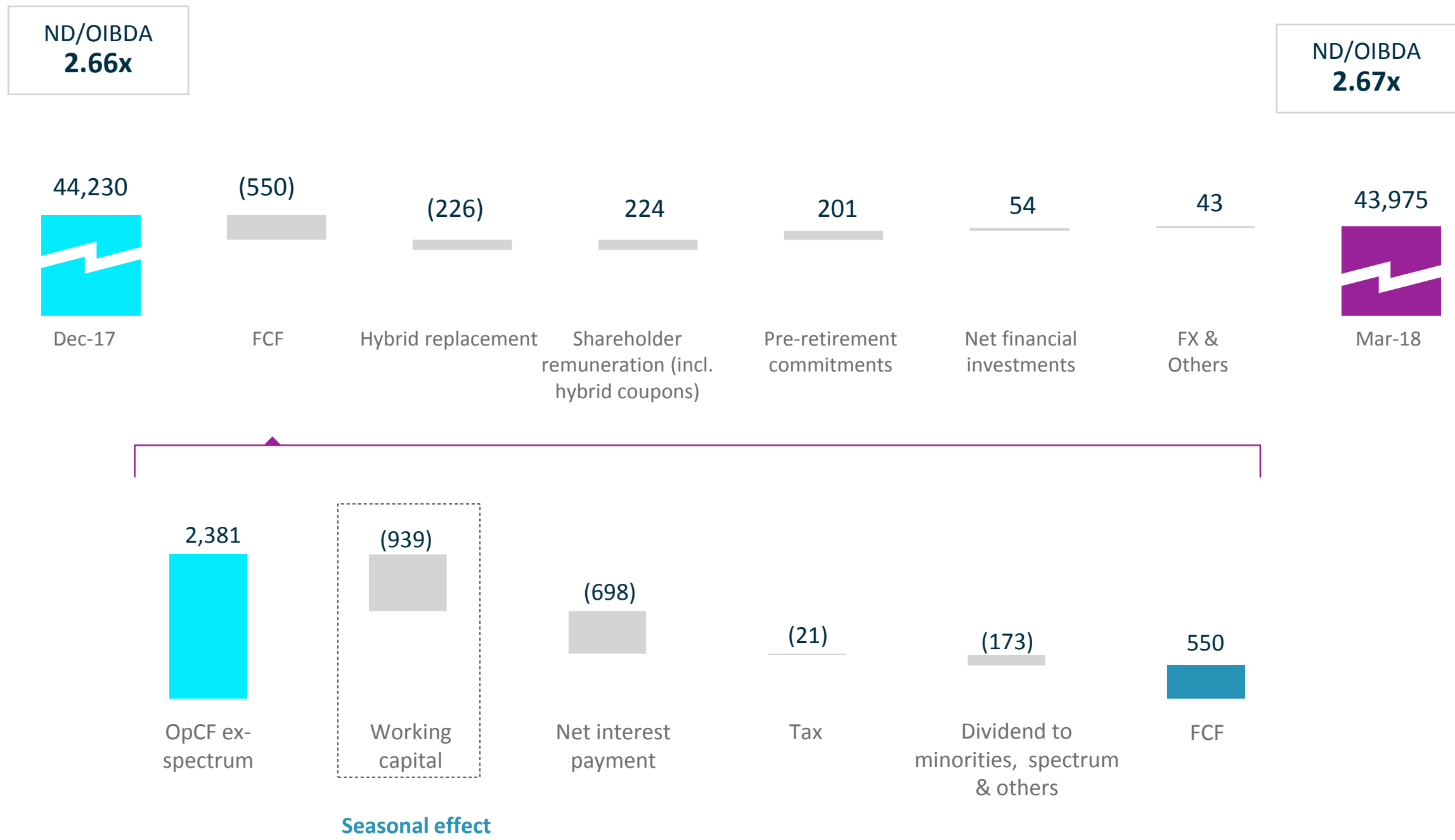




# Net debt reduction despite seasonal Q1 effects

## Net Financial Debt

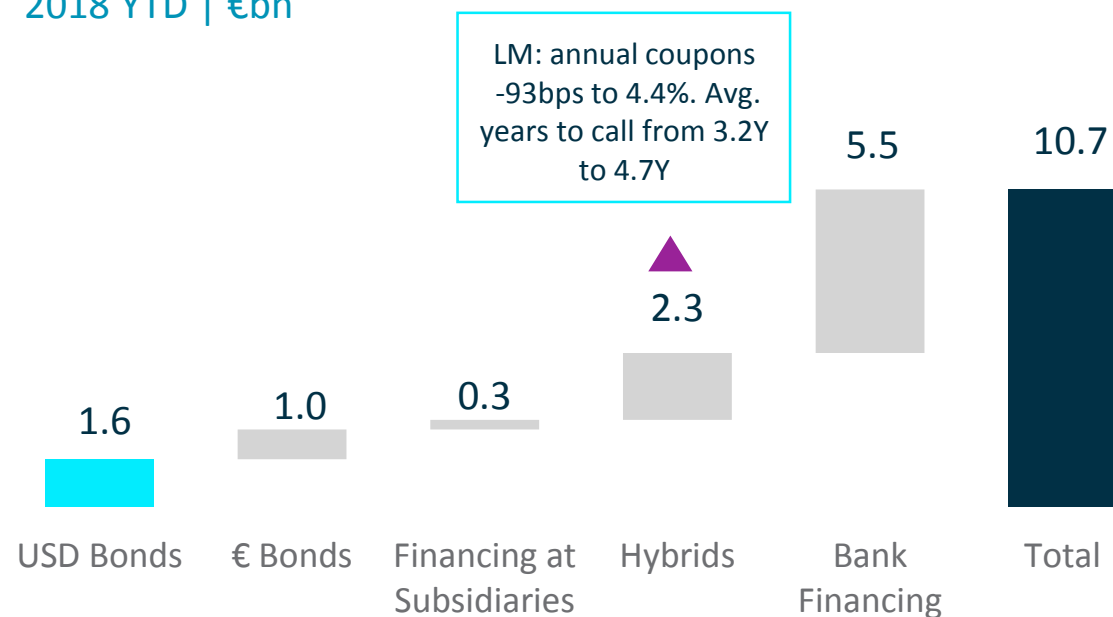
€m



# Focused on attractive long-term financing

## Sources of long-term financing

2018 YTD | €bn



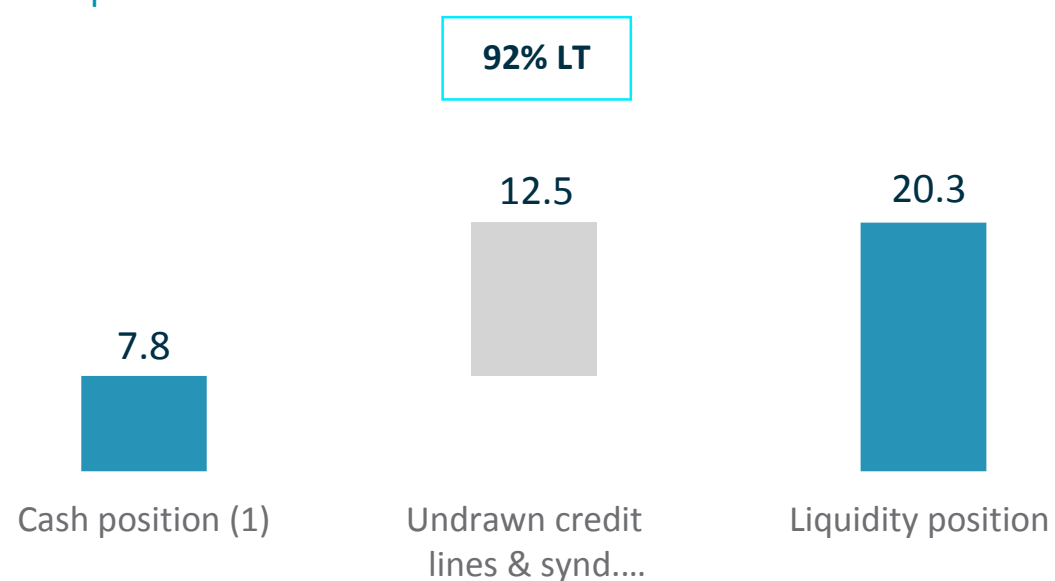
## Net Debt maturities

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



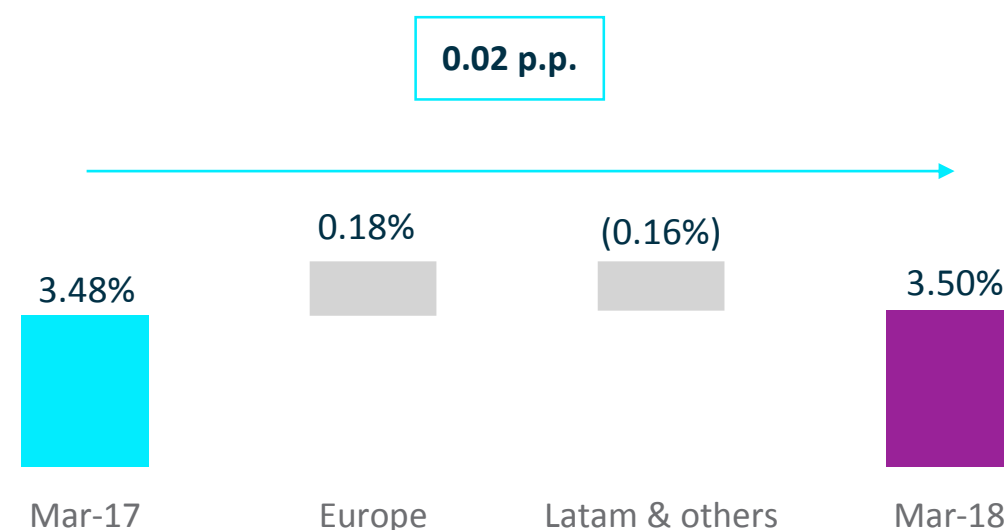
## Liquidity position

Mar-18 | €bn



## Interest payments cost

Mar-18



# Conclusion

Mr. Ángel Vilá  
COO

A solid red rectangular box used to redact the signature of Mr. Ángel Vilá.



1

Progress  
on  
**strategy**



2

**Robust**  
start to  
the year



3

Reiterating  
2018  
**guidance**

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