

RESULTS

JANUARY | JUNE 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 condensed consolidated interim financial statements and consolidated interim management report for the six-month period ended Jun 30, 2018 submitted to the Spanish National Securities Market Commission (CNMV), in Note 2, page 9 of the .pdf filed. Recipients of this document are invited to read it.

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Q2 18 Highlights

Mr. José María Álvarez-Pallete
Chairman & CEO

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Q2 Highlights | Continued progress with strategic priorities



Enable people with the power of connectivity

- **Strong demand drives value momentum;** +31% LTE; +23% FTTx/Cable; +6% Pay TV
- **UBB deployments;** +15% y-o-y premises passed with FTTx/Cable ; +6pp LTE cov.
- **Bundling & Upselling;** Avg. Rev per Access +3.0% org.; lower churn



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

- **Spain:** Consistent trends; stronger franchise (O2 brand; football rights' acquisition)
- **Brazil:** OIBDA accelerates, strong margin expansion; best ever fiber net adds
- **Germany:** Better commercial activity; new propositions (O2 Boost; O2 Connect)
- **UK:** Sustainably improving financial trends; leading loyalty
- **South Hispam:** High single-digit increase in Revs & OIBDA
- **North Hispam:** Accelerating momentum in value customers



Optimise our capabilities for a sustainable digital future

- **Radically transforming** networks, bringing new opportunities (Network slicing, Edge computing, Network as a Service)
- **Global digital ecosystem** (Novum, IoT, Movistar Play, Smart Wifi)
- **Digitalisation driving business strategies, starting to generate efficiencies**
- **Forefront runners in cognitive intelligence**



Strong Delivery continues

- **Profitable growth;** accelerating in revenues, OIBDA and margin vs Q1 y-o-y
- **Net debt decline for 5th consecutive Q**
- **Guidance reiterated;** H1 performance consistent with FY targets
- **Dividend payment of €0.2/share in cash**

Financial achievements

€ in millions	H1 18			Q2 18			
	Reported IFRS 15&9	Reported y-o-y	Organic y-o-y	Reported IFRS 15&9	Reported y-o-y	Organic y-o-y	
Revenues	24,334	(6.7%)	2.0%	12,144	(6.3%)	2.0%	Sustained Revenue, OIBDA and OpCF growth
Service revenues	22,042	(9.0%)	0.7%	11,002	(8.6%)	0.7%	
OIBDA	8,102	(0.9%)	3.7%	4,237	1.9%	4.1%	
OIBDA margin	33.3%	1.9 p.p.	0.5 p.p.	34.9%	2.8 p.p.	0.7 p.p.	
OpCF (ex-spectrum)	4,765	1.9%	2.4%	2,384	9.7%	0.3%	Net Income boost
Net Income	1,739	8.6%		902	9.9%		
EPS (€)	0.29	(0.8%)		0.16	11.0%		1.5x FCF ex-spectrum y-o-y
FCF	1,548	(4.8%)		998	(2.5%)		
FCF (ex-spectrum)	2,167	32.7%		1,588	54.7%		Cutting debt
Net Financial Debt	43,593	(10.1%)					

Reported figures y-o-y affected by

- Negative FX evolution & regulation
- Non-recurrent impacts (OIBDA: Q2: +€225m ; H1: +€215m; Net Income Q2: -€60m ; H1: -€68m)

Guidance confirmed

Operating 2018 guidance (organic)	Guidance 2018E (IAS 18)	H1 18
Revenues	Growth of around 1% (despite regulation dragging: -0.9 p.p.)	+2.0%
OIBDA Margin	Continues expanding around 0.5 p.p. (despite regulation dragging -1.6 p.p. on OIBDA growth)	+0.5 p.p.
CAPEX ex-spectrum/Sales	Around 15%	13.9 %

Solid balance sheet
Additional deleveraging
Improved ROCE
Attractive & well covered 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

€0.40/SH. CASH

Interim Dec-18

€0.20/sh.

Final Jun-19

€0.20/sh.

Continued Revenue, OIBDA and OpCF increase

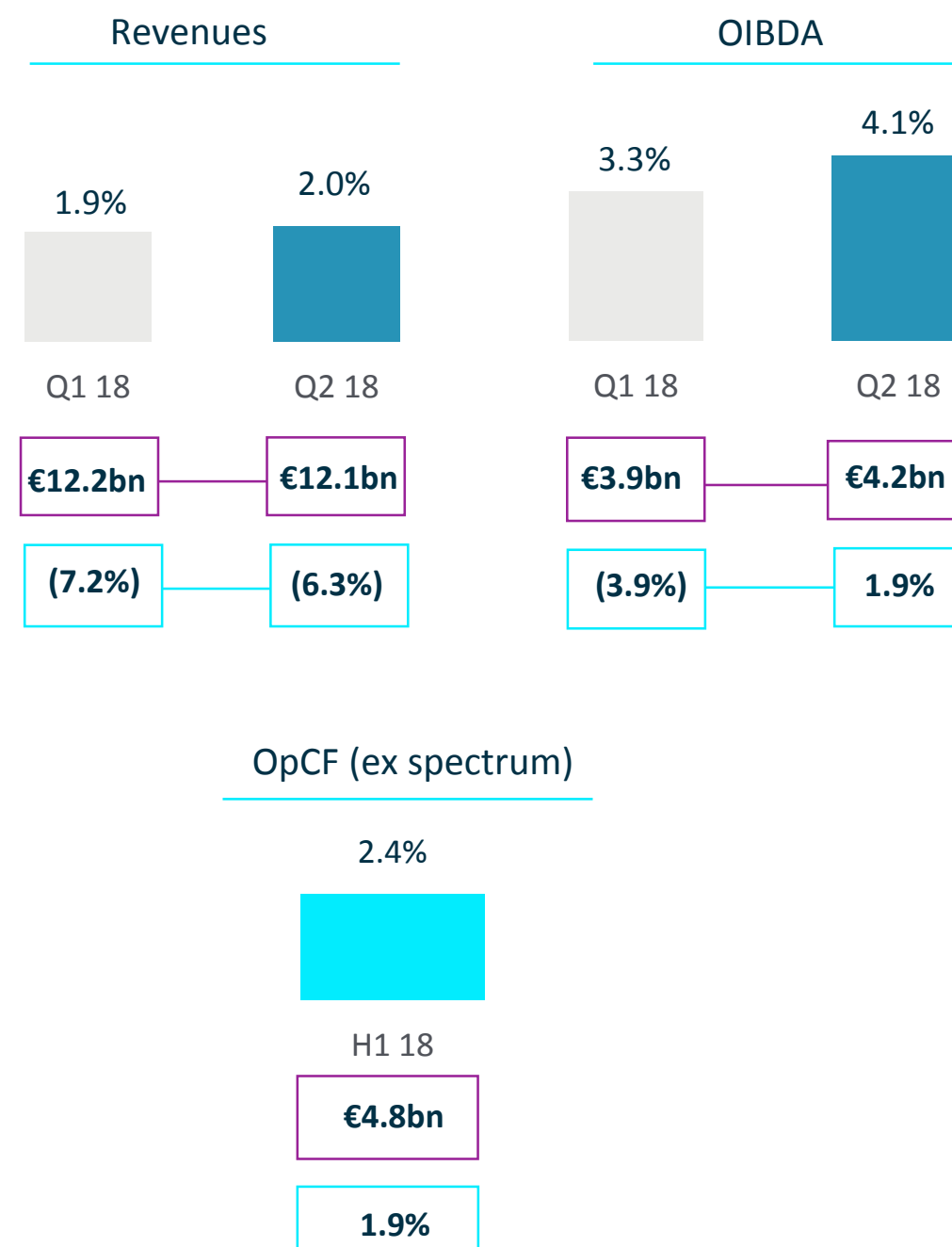
Healthy growth rates in main metrics

- Improving Q2 revenue trends y-o-y
 - Service rev. trends maintained (Q2: +0.7%; Q1: +0.8%), despite regulatory drag of -1.2p.p.
 - Handset sales improving (+19.6% y-o-y vs. +16.5% Q1)
- OIBDA growth ramping-up (+0.9 p.p. vs. Q1 18) levered on T. Brasil, N. Hispam and T. UK
 - All regions contributing to Q2 OIBDA growth (ex. N. Hispam)
 - Margin progression y-o-y (Q2:+0.7 p.p.; Q1 +0.4 p.p.)
- Steady growth in OpCF
 - CapEx phasing in Q2 (+8.8% y-o-y vs. +1.5% in Q1)

Revenues, OIBDA, & OpCF (ex spectrum)

y-o-y organic

Reported y-o-y



A platform Company advancing towards a Digital Telco

**Customer
centric**

**Artificial
Intelligence**

4P AI applied to E2E network control & customer care

1.3 PB/month

Data being normalised



AURA

Our customers
talking to the Network



Pilot in Spain on
Movistar Home

3P Digital value proposition enhancing revenue mix

53%

Connectivity & SoC Revs.
o/total (+2 p.p. y-o-y)

€3,271m

Digital Revs.
(+29% y-o-y H1)

€1,440m

Video

€858m

Content

€658m

IoT, Cloud, Sec..

Open
platforms

Own + Third
parties

2P Softwarisation (real time response)



62%

E2ED level
(+8 p.p. yoy)



25%

Full Stack
(customers migrated) (+8 p.p. yoy)

1P Cutting-edge smart networks for extreme performance

#1

Network virtualised

4 OBs



78m

UBB coverage
premises passed
(o/w 47m owned)
+51% Hispam UUll

Unified fixed devices

>3m
HGU



73%

LTE cov
92% EU
67% Latam



4.5G 5G

**across all
platforms**

Digitalisation

Data monetisation | Capturing the added value of connectivity

B2C

Open platform ecosystem to integrate digital services at home

- Smart Wi-Fi, Consumer IoT, Movistar Play

Evolved portfolio; increasing Customer Lifetime Value

- **Capturing the prepaid growth opportunity**
 - Integrated Recurrent Data Plans, more loyalty & ARPU
- **Accelerating the mobile postpaid potential**
 - Family plans (data sharing...)
 - Dedicated data (increasing value perceived with content)
 - Content bundling: “Movistar Play” (Video OTT) in almost all Latam countries
- **Fixed: Upselling with UBB and Video**

Prepaid recurrent plans

43% penetration
in Latam
(62% in BR)

+10%
ARPU
uplift

Video
penetration

40%
FBB

Family plans
VIVO

-12% churn
(vs. individual
plans)

B2B

A leading technological partner to B2B digitalisation

- Comprehensive solution: flexible, secure, on-demand

Differential capabilities to capture a large opportunity

- **Global capillarity**
 - 45k km network, 11 SOC's, Cloud VPN, 12k sales force...
- **Complete Digital ecosystem**
 - Leading own brands
 - Leading partners

acens

synergic

LUCA

Eleven
Paths



Cloud Revs.

+42%
y-o-y

Cybersecurity

1
Spain
& Latam

Security Revs.

+63%
y-o-y

Digital
transformation

Avianca
deal

Video | a key driver for engagement gaining scale

Latam

Pay TV _ More interactive & flexible



OTT Platform_ Aggregator approach



- Connected STB and “TV Everywhere” service (multidevice)
- Platform “Best in class”, advance life functionalities
- Content: **HBO**, **FOX**, ESPN/Disney, Viacom, Discovery & Turner
- Encouraging progress new IPTV service & UX IPTV launch in H2 18E
- Hard-bundling with F&M connectivity; strong commercial traction
- Competitive content proposition: linear channels, catch-up, VoD
 - Aggregation of premium 3rd parties **FOX** **NETFLIX** **HBO**
 - Exclusive channel (Movistar Series)
- Differential OTT functionalities (Pay TV mirroring approach)

Spain

Customers

3.9m

Viewers

10m

Movistar+_ Cornerstone of our strategy



M+ Largest video distribution platform in Spain

- Video + fiber enriching Fusion+; the leading **convergent offer**
- Widest **content portfolio** (smart bundling)
 - **Variety**: all Sports (Football, Basket, Golf, Motor,...); all “Majors” movies; the most complete offer of series **NETFLIX** ; quality TV shows
 - **Exclusive**: own production 3rd parties (NBA, Wimbledon, EuroLeague, NFL ...)
- **Best customer experience**, best functionalities
 - “TV Everywhere”, 80% customers use VoD, 20% content watched on-demand
 - Big data (TV Recommendation, AURA...)

UK

Netflix promotion already launched in the UK from mid June

O2 and Netflix
Now together

NETFLIX

Q2 18 Results

Mr. Ángel Vilá
COO



Digitalization increases customer value and lifespan

Build....

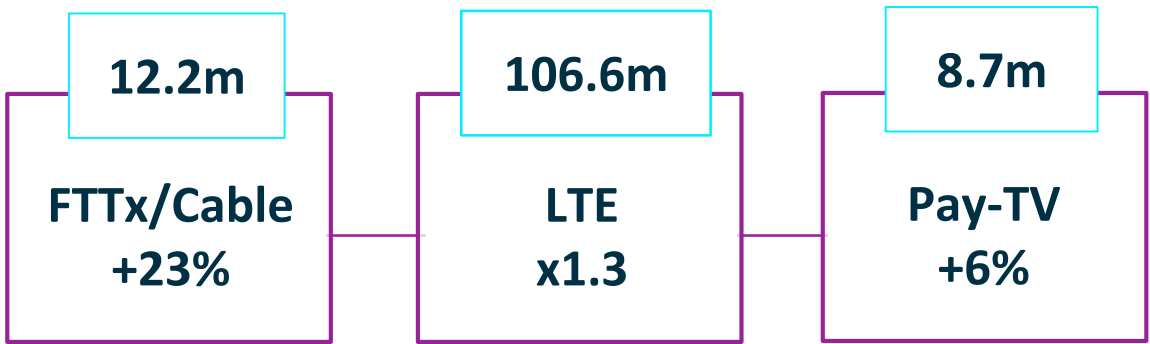
- **Leading-edge smart networks**
 - Network stands for >50% of total customer satisfaction
- **Radical processes automatisation**
 - Full stack deployment, the seed of our transformation

... to offer

- **World-class digital experience**
 - Novum, Movistar Play, IoT, Smart Wifi
- **Distinctive value proposition**
 - Customer satisfaction, loyalty, cross-sell, up-sell, winback

Accesses

y-o-y



Increasing customer lifetime

Clear proof points of business sustainability

Avg. Rev/Access
+3.0% y-o-y

		Q2 ARPU (y-o-y)	Avg. Lifetime
	Fusión (4.5m)	+5.5% (€89.5)	6 years
	Mobile contract (38.4m) FTTX (4.8m)	flat +9.1%	5 years 4 years
	Mobile contract (15.9m)	+1.9%	8 years
⋮			

Digital Transformation | Easing customer's digital life

5 priorities on the customer journey

2017-20



Increase **Direct customer interaction** for sales

x2.5 sales in self-assisted channels



Foster **top-ups & add-ons** through own digital channels

x2.1 online top-ups



Make the **payments & collections** more efficient and user friendly

+12% payments in self-assisted channels



Improve experience **Fulfilment and technical support**

+10% incidents solved remotely



Enhanced **customer care** experience

-30% calls handled in call centre per access
x4.8 unique users in app

...proof points on our largest operations enhancing customer experience and operational efficiency



Q2 y-o-y

- +45% sales in **digital** channels
- B2B: 61% customers use **digital** channels
- B2C: +54% customers using **App**
- +19% **technical self-management** (Jun-18 vs. Dec-17)
- -13% unsatisfied cust. with tech support (Jun-18 vs. Dec-17)



Q2 y-o-y

- +22% interactions in **digital** channels
- +66% users **App "Meu vivo"**
- +16% prepaid **digital top-ups**
- +53% **E-billing** customers
- -25% calls to **call center**

Digitalisation execution on track

Addressable cost base 2017

€11.6bn
32% o/OpEx

Digitalisation gross savings
Run-rate 2020E

> €1.0bn

Gross savings 2018E

> €0.3bn

Other structural initiatives identified

RPA

Cognitive Contact Center

Blockchain

Spain | Good trading; increasing long-term high-value

Growth in accesses; higher ARPU

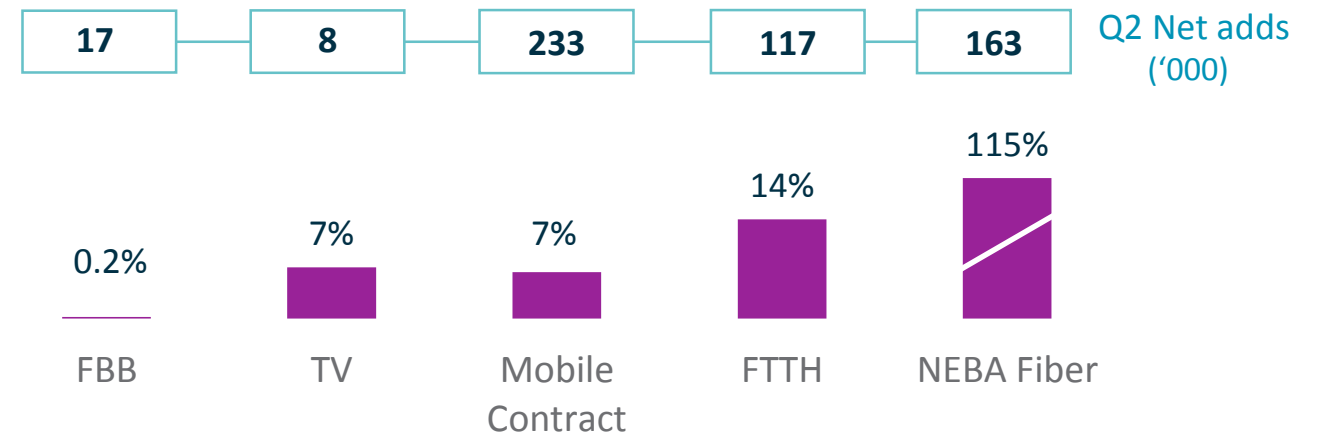
- Sustained growth at retail base (+1.4% y-o-y)
- FBB back to growth (Fiber net adds exceed DSL loss)
- "Fusión" trends positive overall
 - Growth in accesses y-o-y (+10%) and ARPU (+5.5%)
 - Longer CLV in mid-high segments (+ARPU, - churn)
 - High-end: 27% of "Fusión" base (+3 p.p. y-o-y)
- Churn reduction across services

Fiber gaining traction

- Predominant at retail; increasing at wholesale
 - Increasing ROCE, adding long-term value
 - Largest owned FTTH coverage & TV platform

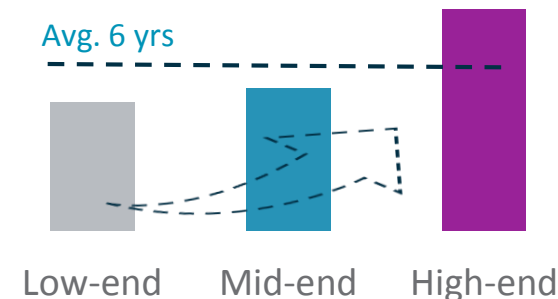
Accesses

(y-o-y)



"Fusión" KPI's

Customer Lifetime



Q2 ARPU

€89.5
+5.5% y-o-y

Customers

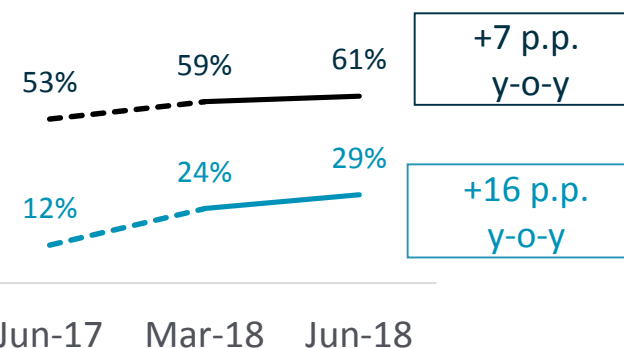
4.5m
+2% y-o-y

Churn

1.5%

Fiber penetration

o/FBB retail o/Wholesale



FTTH prem. passed

20.2m

Uptake

24%
+3.0 p.p. y-o-y

Spain | Solid financials; stronger franchise

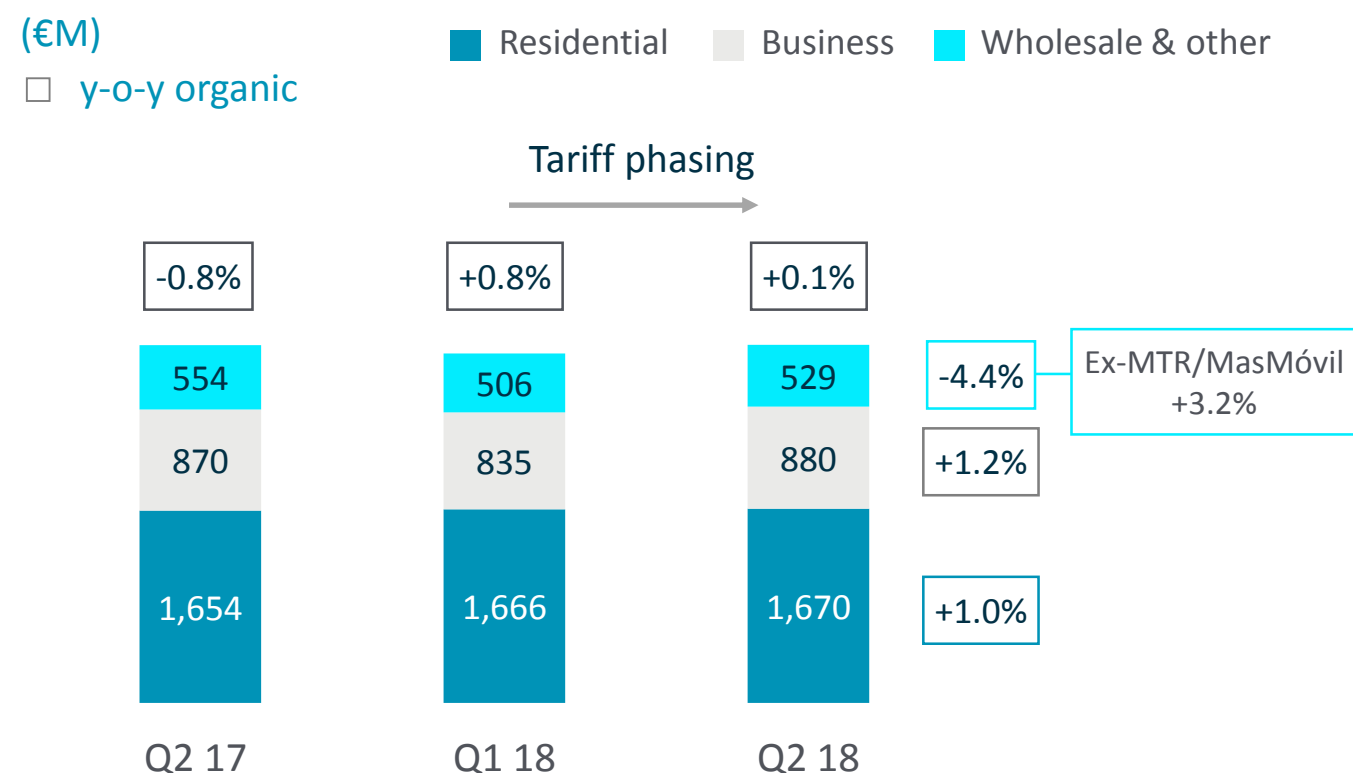
Q2 Serv. Revs. Growth; +1.4% ex-MTR/MasMóvil

- **Serv. Rev. growth** deceleration due to calendar effect
- **“Residential” & “Business” revs. growing** (83% o/Serv. Rev.)
 - Solid “Fusión”: +7.7% y-o-y; accelerating IT: +7.4%
- **“Wholesale & Others” y-o-y decline on regulation and MVNO**
 - MVNO negative impact not material from Q4 18
 - MTR cut larger impact in Q2

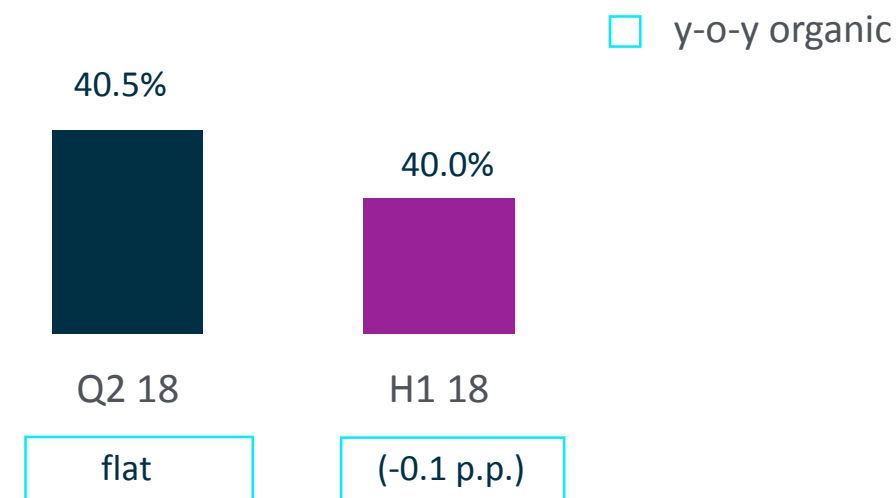
Solid profitability and operating leverage

- **Q2 OpEx stable y-o-y** (-0.7 p.p. q-o-q)
- **Acquisition of Premium football rights** (Jun-18)
- **High visibility on mid-term cost structure**
 - Further expected savings (personnel, distribution, digitalization....)
 - Football content cost peak Q4 18 (starting to decline in Q3 19)
- **Q2 CapEx (+16.2% y-o-y) on different phasing** (FY18E<FY17)

Service Revenues



OIBDA margin



Germany | Network integration well on-track

Robust operational momentum

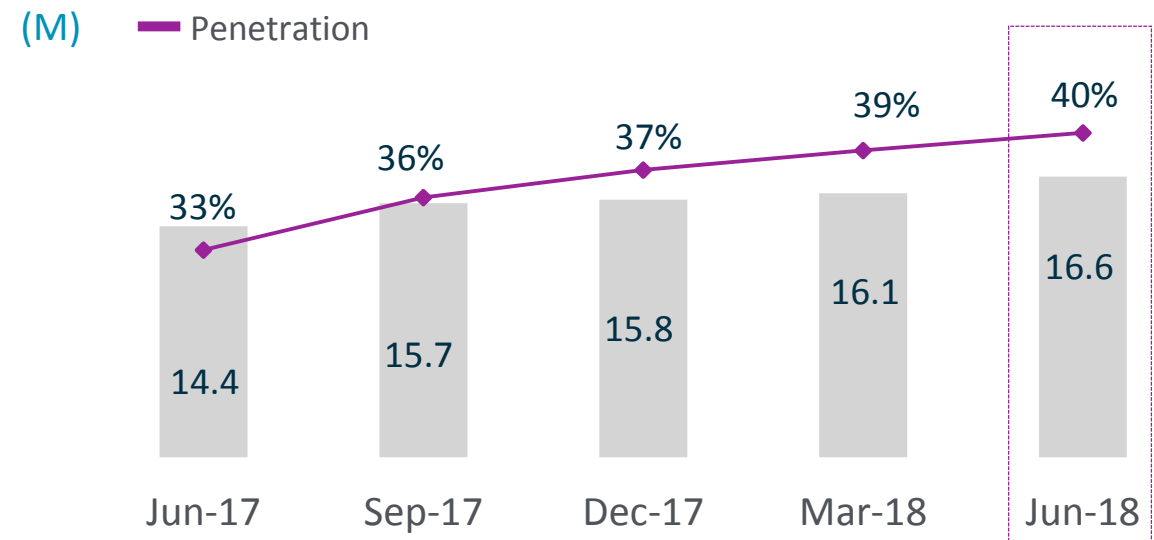
- **Q2 Contract net adds +333k (+69% y-o-y)**
 - Launched refreshed O₂ Free (boost option) & O₂ Connect
 - O₂ contract LTE cust. avg. data usage of 3.4GB (+22% q-o-q)
 - Partner trading; 58% of gross additions (+61% in Q1)

Focus on profitable growth

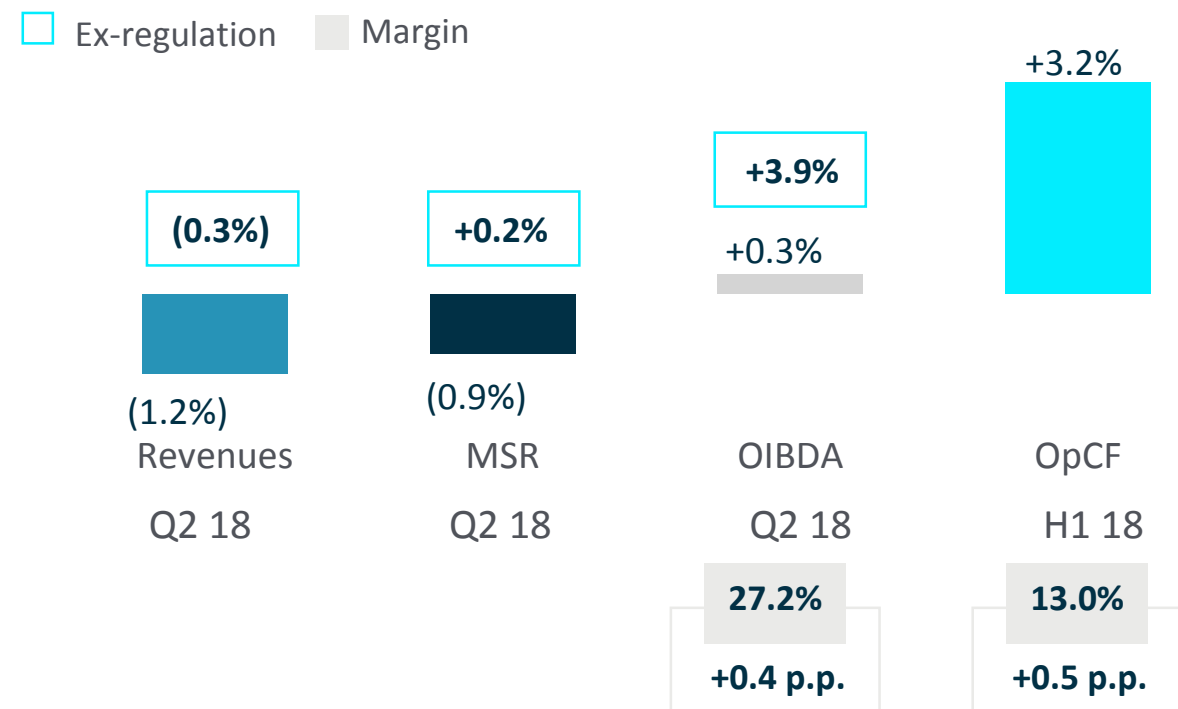
- **MSR ex reg. remains positive y-o-y** (H1 +0.3%)
 - Strong demand for high-end handsets (H1: +9.1% y-o-y)
- **Continued growth in OIBDA** (H1: +0.5% y-o-y)
 - Synergy capture (~€65m in H1)
 - Focus on value-over-growth approach and efficient cost controls
- **Efficient spend:** CapEx (-2.3% vs. H1 17); synergies ~ €25m in H1

Improving data monetisation

LTE customers & Penetration



Financials (y-o-y organic)



UK | Ongoing growth delivery across the period

Sustained customer growth

- **Remains the UK's favourite network carrier** (>32m customers)
 - Contract net adds 84k (43k ex-M2M)
 - Market leading loyalty with lowest churn at 1% in contract
- **59% LTE penetration** (+0.8 p.p. y-o-y)
- **Continuing investment in customers and the network**
 - Netflix promotion already launched in UK
 - Spectrum acquisition of 40MHz of 2.3GHz, and 40MHz of 3.4GHz
 - Mobile data traffic +58% vs. Q2 17

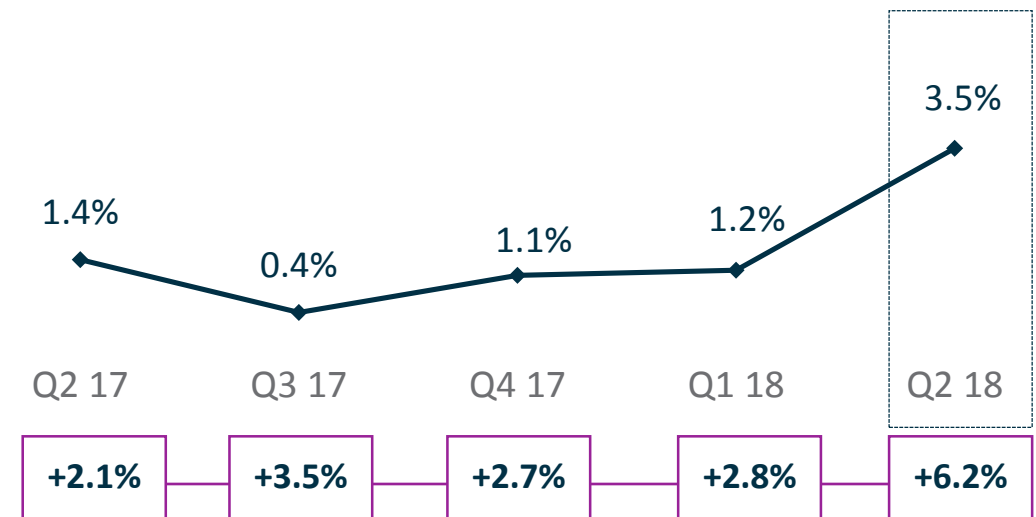
7th consecutive quarter of top-line growth

- **Consistent revenue** growth y-o-y: +4.2% in H1
 - Increased customer spend (incl. RPI impacts), handsets, wholesale and non-mobile
- **OIBDA growth and margin expansion** (top-line growth +lower annual licence fee payment)
- **Strong OpCF increase** of 21.0% in H1 ex-spectrum
 - CapEx (-6.1% vs. H1 17); due to phasing of spend

MSR

y-o-y organic

MSR ex-regulation



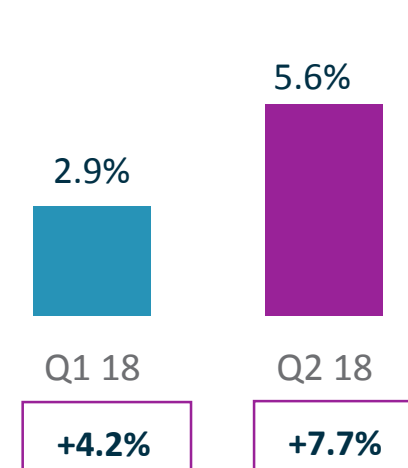
Financials

y-o-y organic

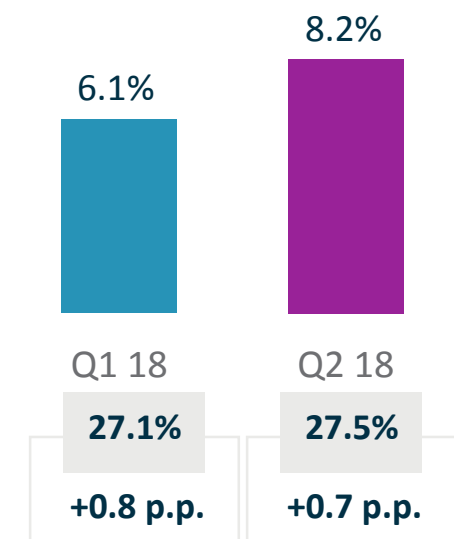
Ex-regulation

Margin

Revenues



OIBDA



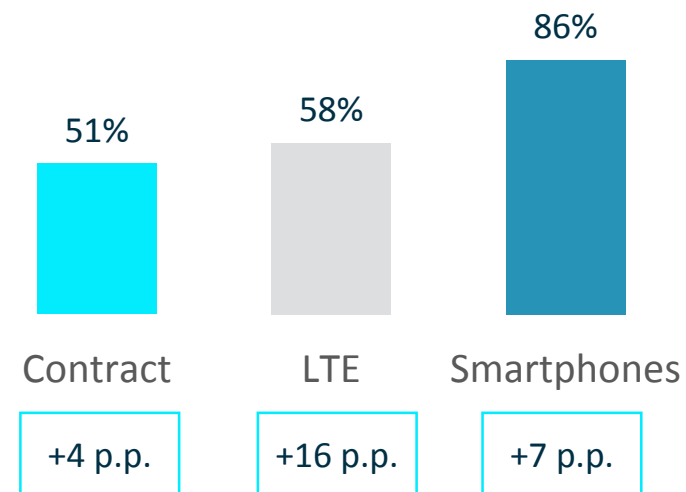
Brazil | Reinforcing a leading sustainable business

Unrivalled assets; enhancing differentiation

- **Accelerating high-quality growth**
 - **Sustainable leadership:** 41.3% contract M.S. (stable q-o-q)
 - 4G+: 714 cities (+596 in 2018)
 - 0.9m Q2 contract net adds (+9% y-o-y)
 - 1.8% Q2 contract churn (stable y-o-y)
- **H1 Mobile ARPU +1% y-o-y (+11.8% Data ARPU)**
- **Outstanding fiber expansion**
 - 18.8m FTTx premises passed
 - **4.8M already connected (+10% y-o-y)**
 - **FTTH record high Q2 Net adds (162K)**
 - Q2 IPTV net adds 56k (+36% y-o-y)
- **H1 FBB ARPU +8% y-o-y; Pay TV +4%**

Mobile Penetration (Jun-18)

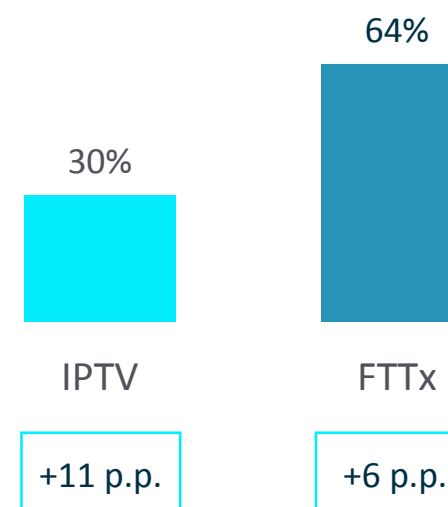
(y-o-y)



Highest ARPU & lowest mobile churn in the market

Fixed Penetration (Jun-18)

(y-o-y)



Fiber; driver for ARPU and loyalty expansion

Brazil | Expanding profitability

Consistent evolution of revenue

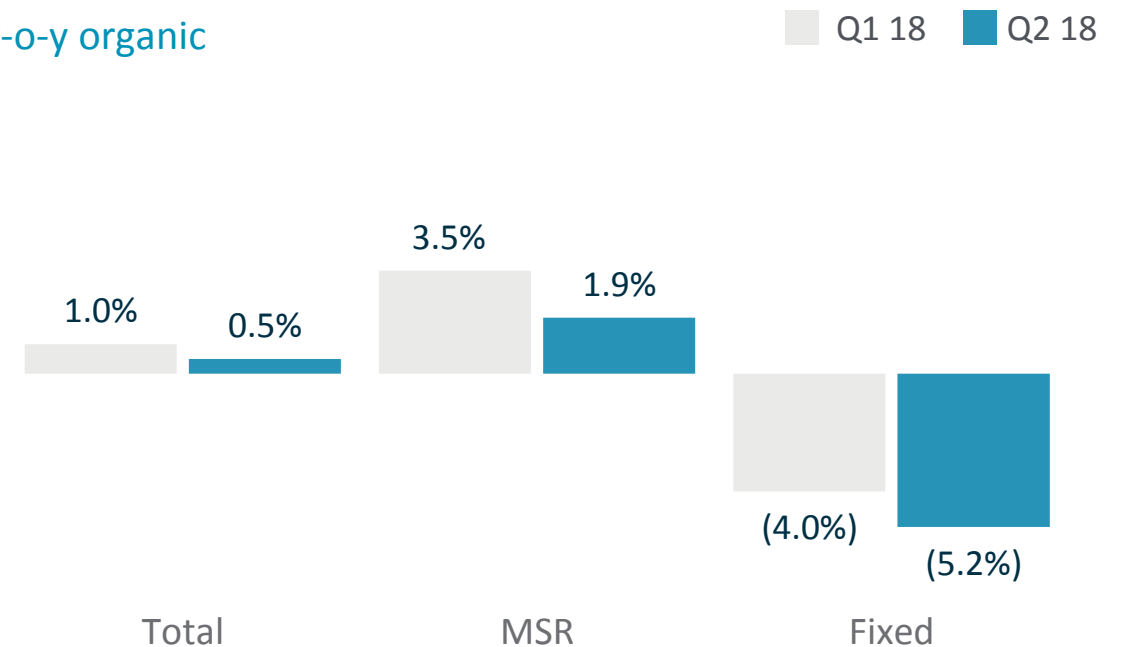
- **Total Revenue : Q2 +0.5% y-o-y**
 - MSR +1.9%
 - Sustained postpaid evolution offsetting weaker prepaid trend on tougher macro trends
 - +11.8% data revenue driven by plan upgrades
 - Handset sales soaring (+60.5% in Q2; +20.8% in Q1)
- **Fixed: -5.2% vs Q2 17**
 - Affected by fixed to mobile voice substitution, regulation & DTH
 - Double digit growth in Fiber (+20.3%) and IPTV (+59.1%)

Highest Q2 margin since 2013

- **OpEx continue declining** (-0.7% in Q2; 10th consecutive Qs of cost reduction) driven by digital initiatives
- **OpCF -2.6% vs. H1 17; 26.1% margin**
 - CapEx (+17.2% in H1 18; on different CapEx phasing)
 - IT transformation to full stack (accelerated pace)

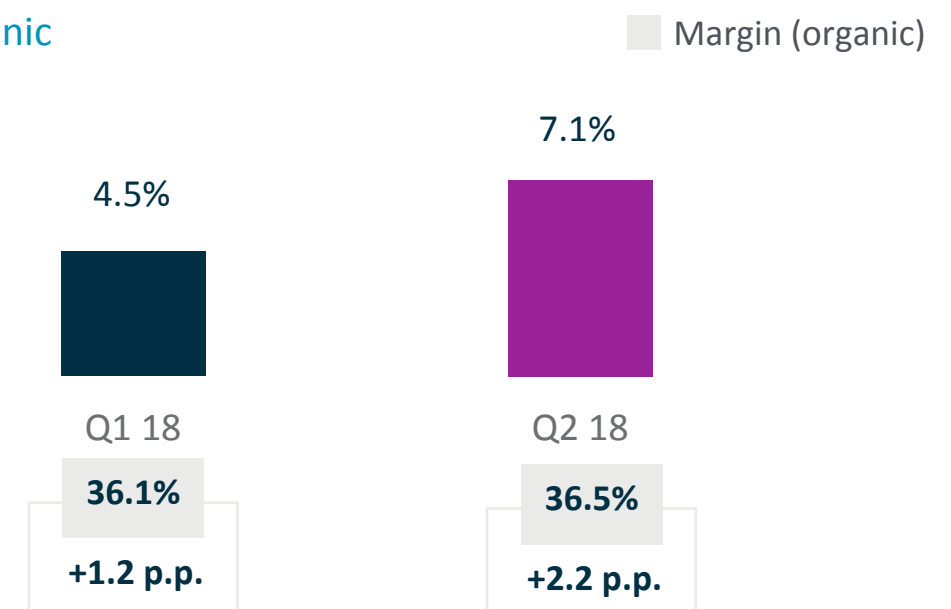
Revenues

y-o-y organic



OIBDA

y-o-y organic



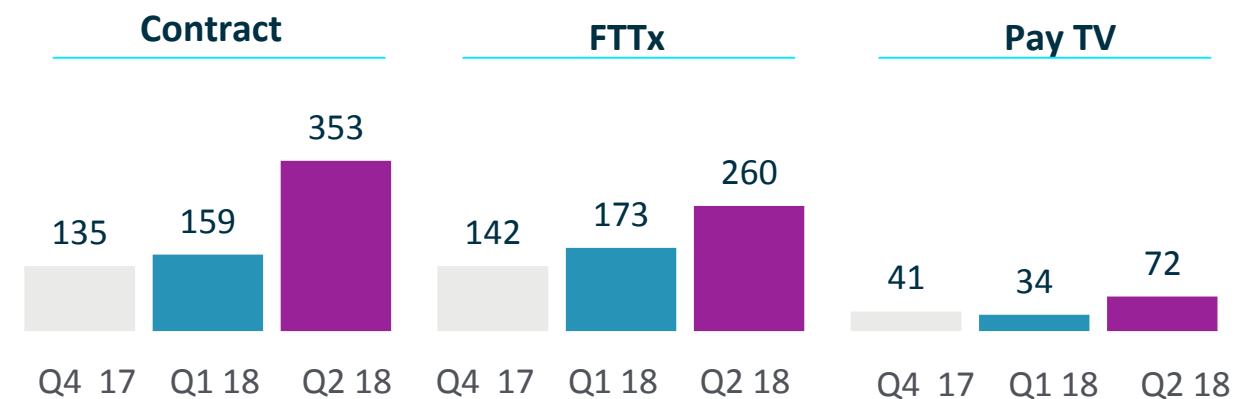
South Hispam | Solid revenue & OIBDA growth

Commercial momentum

- **Value-accesss growth acceleration**
 - Positive contract net adds in every country
 - FTTx/Cable: 2.1M connected (1.5M FTTH/Cable)
- **Q2 ARGENTINA** (Revs. €703m; OIBDA €218m)
 - Accesses: Contract +5%; LTE +43%; FTTx: x3
 - Sound Revenue & OIBDA growth
- **Q2 CHILE** (Revs. €525m; OIBDA €158m)
 - Fixed & mobile ARPU trends stabilized in Q2
 - Both Rev & OIBDA growing y-o-y for the 1st time in 10 Qs
- **Q2 PERU** (Revs. €518m; OIBDA €111m)
 - Positive trend in Contract; more rational market
 - Differential attributes in Pay TV (Q2: 66k net adds)
 - Improved Rev & OIBDA trends

Net adds

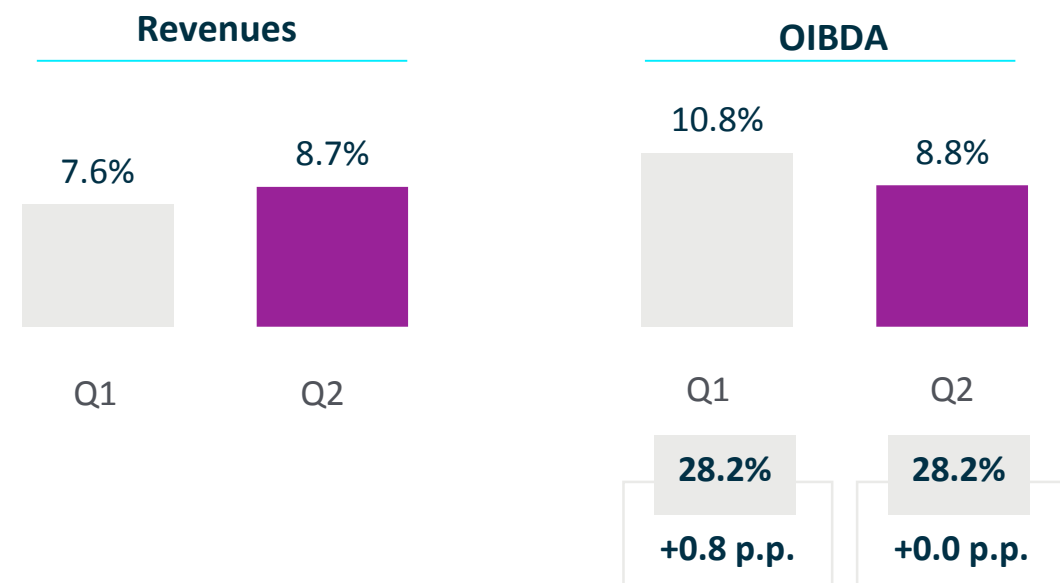
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Financials 2018

y-o-y organic

Margin



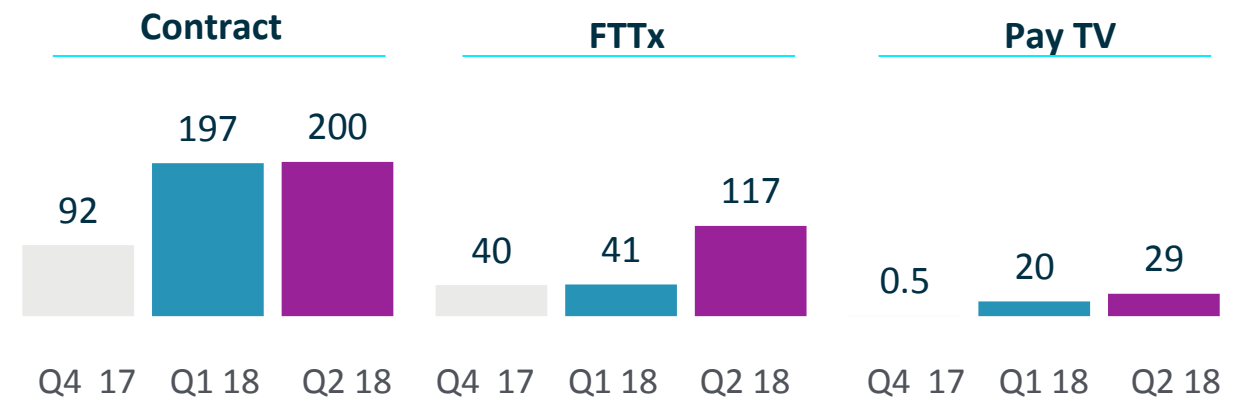
North Hispam | Maintaining solid commercial performance

Network improvements driving value growth

- FTTx/Cable: 284k connected (+117 in Q2 18)
- Record **Pay TV** net adds in Q2
- **LTE** (+70%), **Smartphones** (+1%)
- Financials strongly affected by Mexican regulation
- **Q2 COLOMBIA** (Revs. €370m; OIBDA €128m)
 - Acceleration in FTTx net adds (x6 vs. Q2 17)
 - Highest contract net adds in the last 8 quarters
 - OpCF growing by 38.7% vs. H1 17
- **Q2 MEXICO** (Revs. €297m; OIBDA €55m)
 - Further deterioration in competitive environment in prepaid
 - Solid contract performance (7Qs with positive net adds)
 - Rev. and OIBDA (-6.1% and -24.6%) strongly affected by regulation (-28.3 p.p. in OIBDA)

Net adds

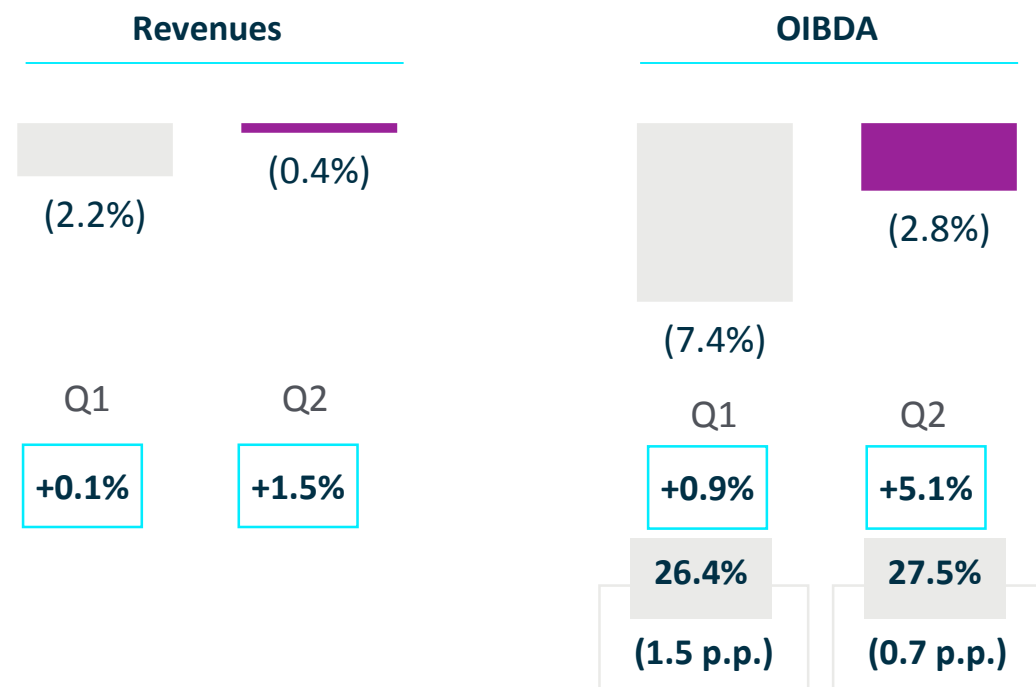
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Financials 2018

y-o-y organic

Margin (organic) Ex-regulation



Telxius | Accelerating growth

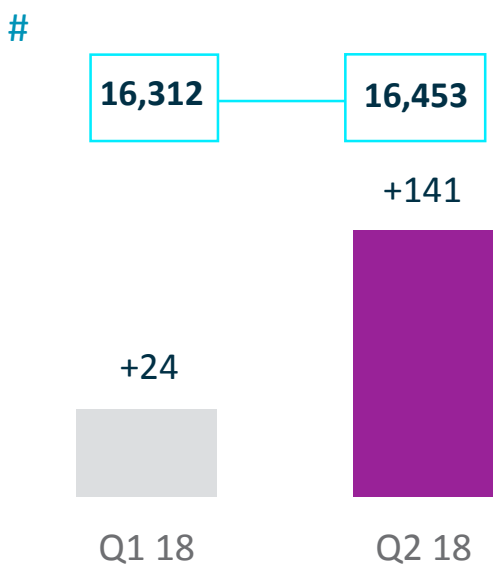
Speeding up infrastructure deployment

- Adding 141 towers in Q2
- Steady increase of new tenants; 1.34x ratio
- Strong international cable demand, both in IP traffic and bandwidth capacity services

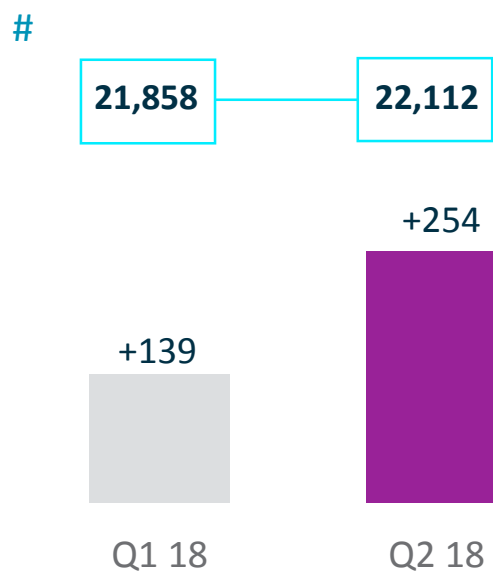
Strong financials

- Solid revenue growth across businesses in Q2
 - +8.8% y-o-y towers; +4.1% y-o-y cable
- Improving OIBDA trends (+3.9 p.p. q-o-q)
 - OIBDA margin 47.0% (47.3% in H1)
- CapEx mainly intended for MAREA and BRUSA deployments
 - To be reduced once BRUSA comes into service in H2 18

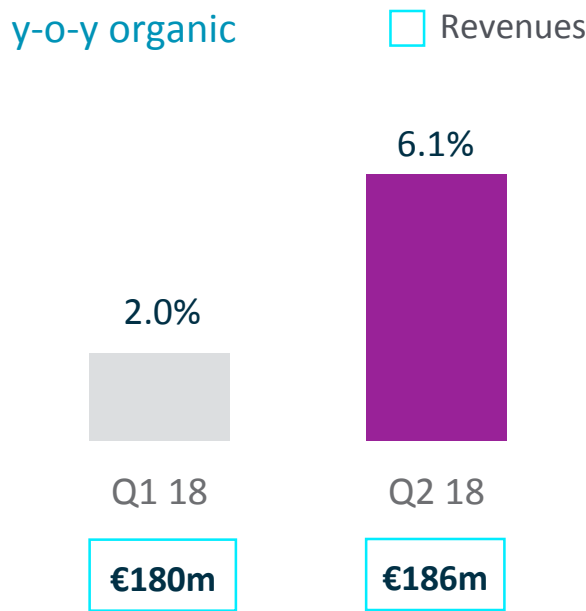
Towers



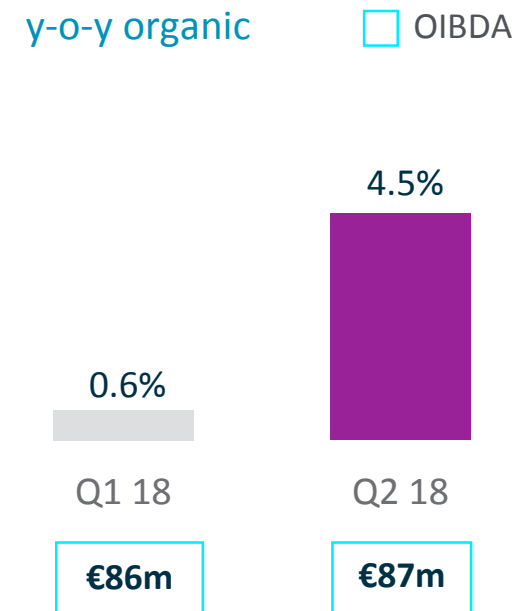
Tenants



Revenues



OIBDA



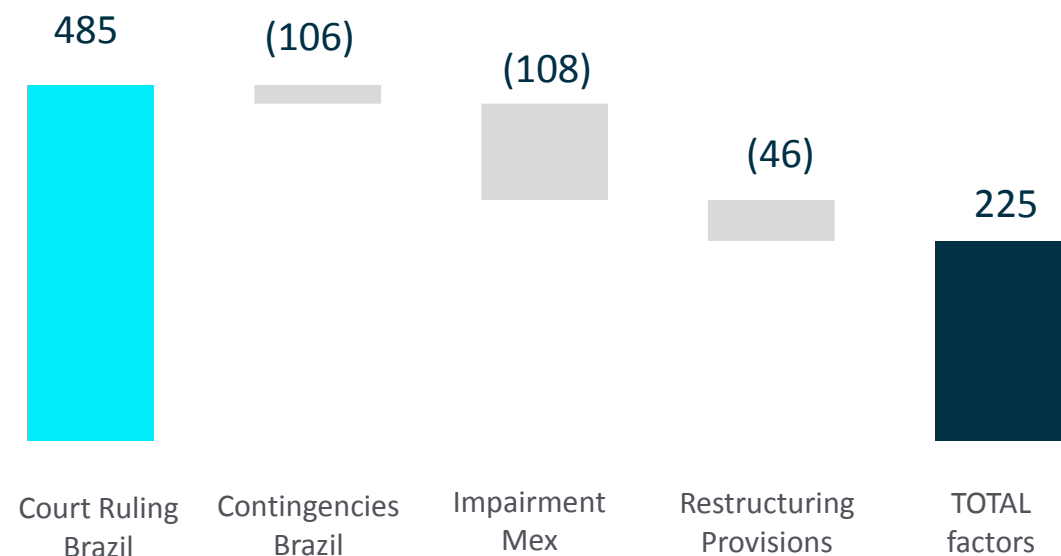
Q2 18 Results

Ms. Laura Abasolo
CFCO

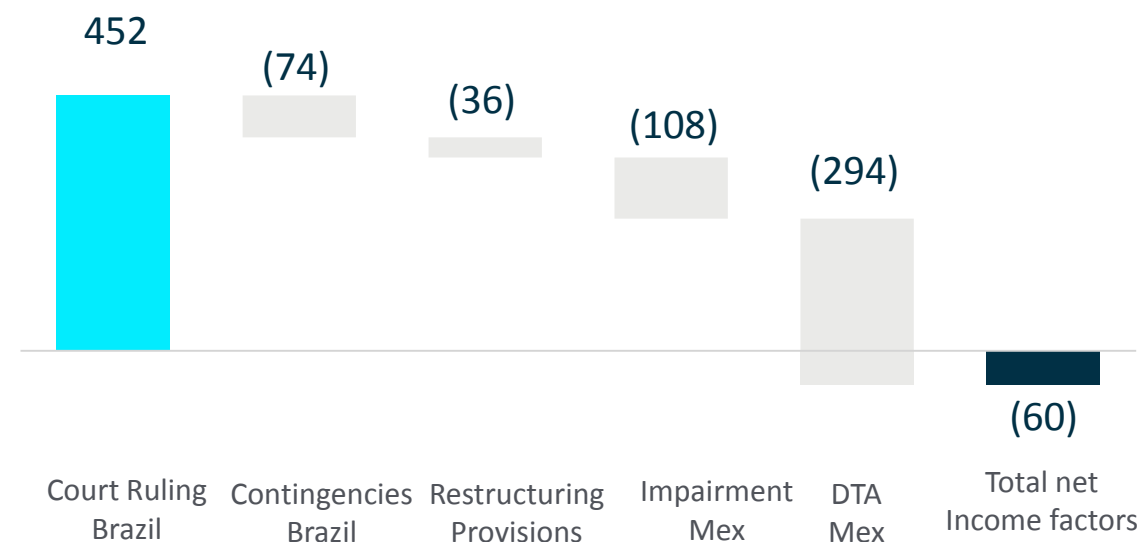


Q2 results factors

Q2 impacts in OIBDA €225m



Q2 impacts in Net Income -€60m

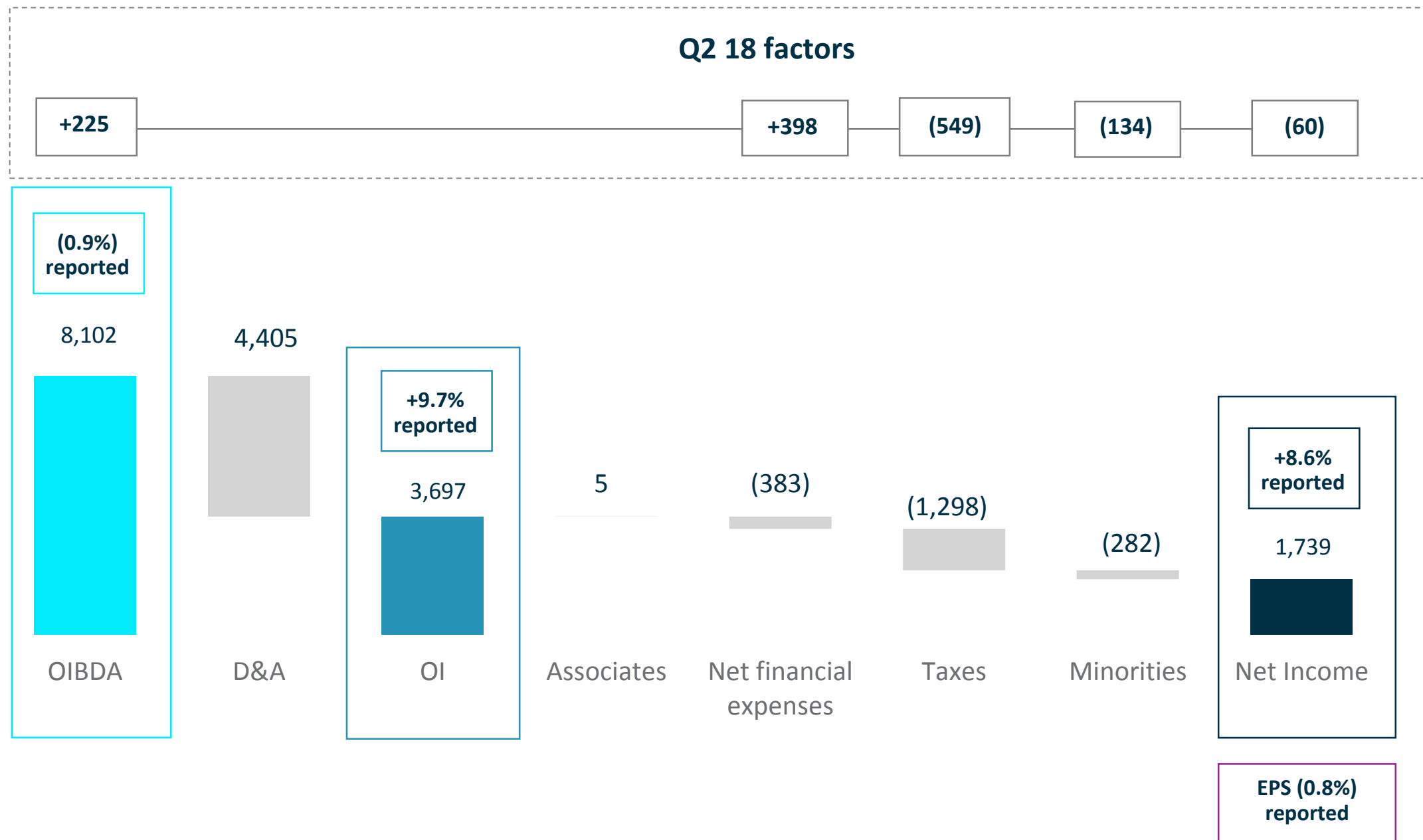


- **Non-cash:**
 - Contingencies in T. Brasil
 - Goodwill impairment & DTA reversal in Mexico
- **Court Ruling in Brazil:**
 - **FCF neutral in Q2 18;** to flow in FCF from 2019 onwards
- **Restructuring costs**, enhancing future profitability and cash flow
 - T. DE -€18m; T. Brasil -€28m

H1 Net income of €1.7bn and EPS of 0.29€

H1 2018 impacted by Q2 factors

€m

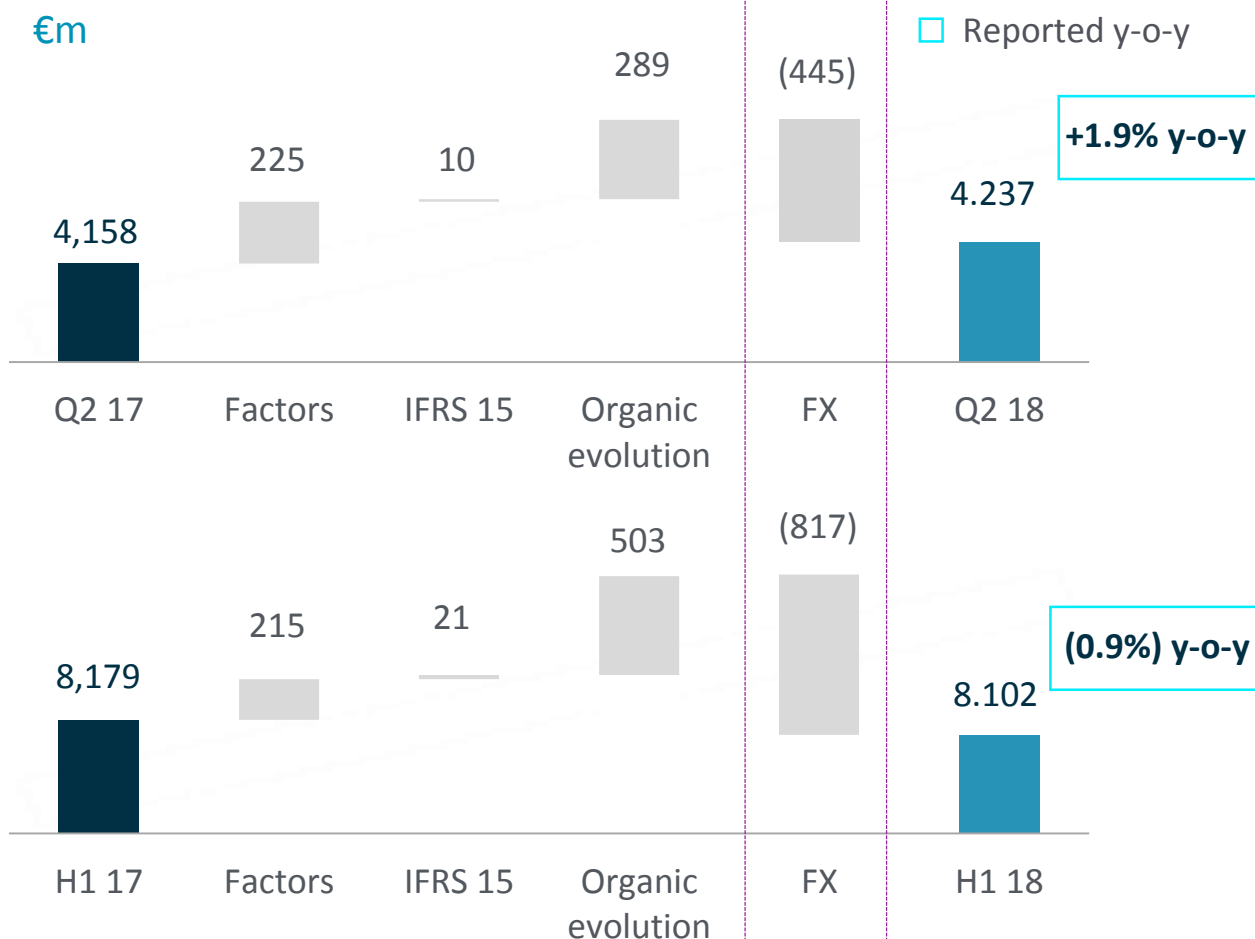


FX remains a major drag in Q2 OIBDA year-on-year

Better organic performance vs Q1

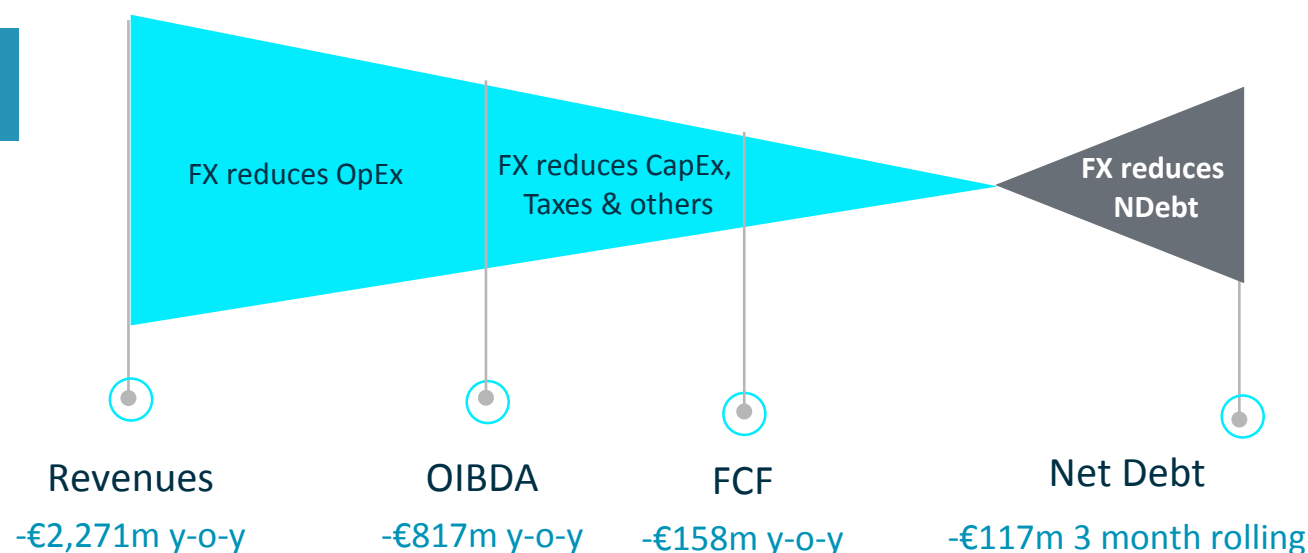
- FX drag of 10.7 p.p. on H1 18 OIBDA growth
 - -€445m in Q2 vs. -€361m in Q1 (continued BRL and ARS depreciation vs. the EUR)
- Organic OIBDA contribution ramping-up
 - +€289m in Q2 vs +€214m in Q1

OIBDA



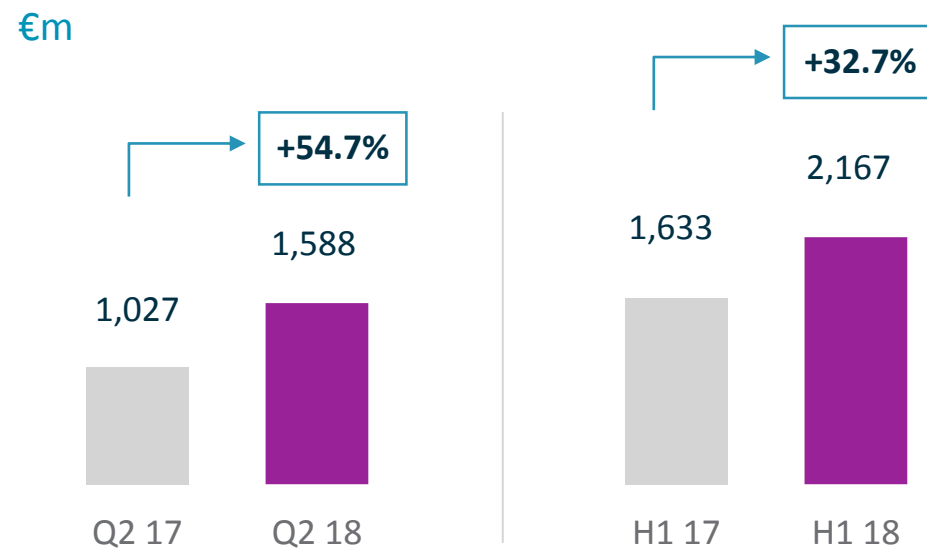
FX effect reduced at FCF level

- -817M€ FX H1 18 OIBDA drag down to -158M€ at FCF level
- FX evolution helping to reduce Net Debt

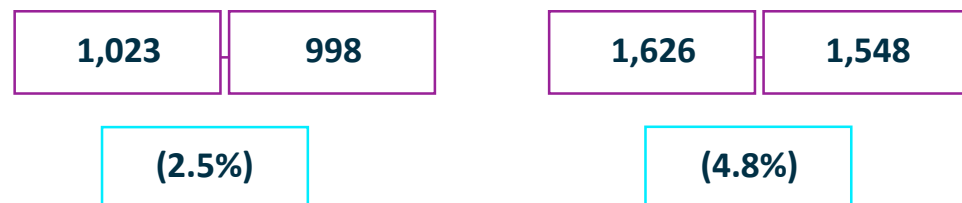


Strong cash generation

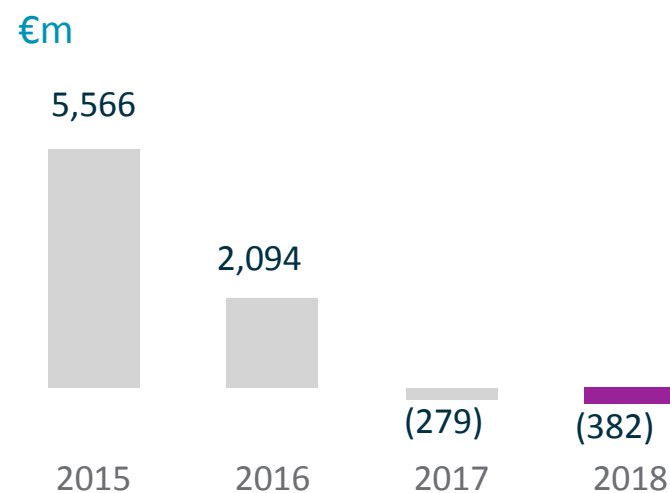
FCF ex. spectrum



FCF reported

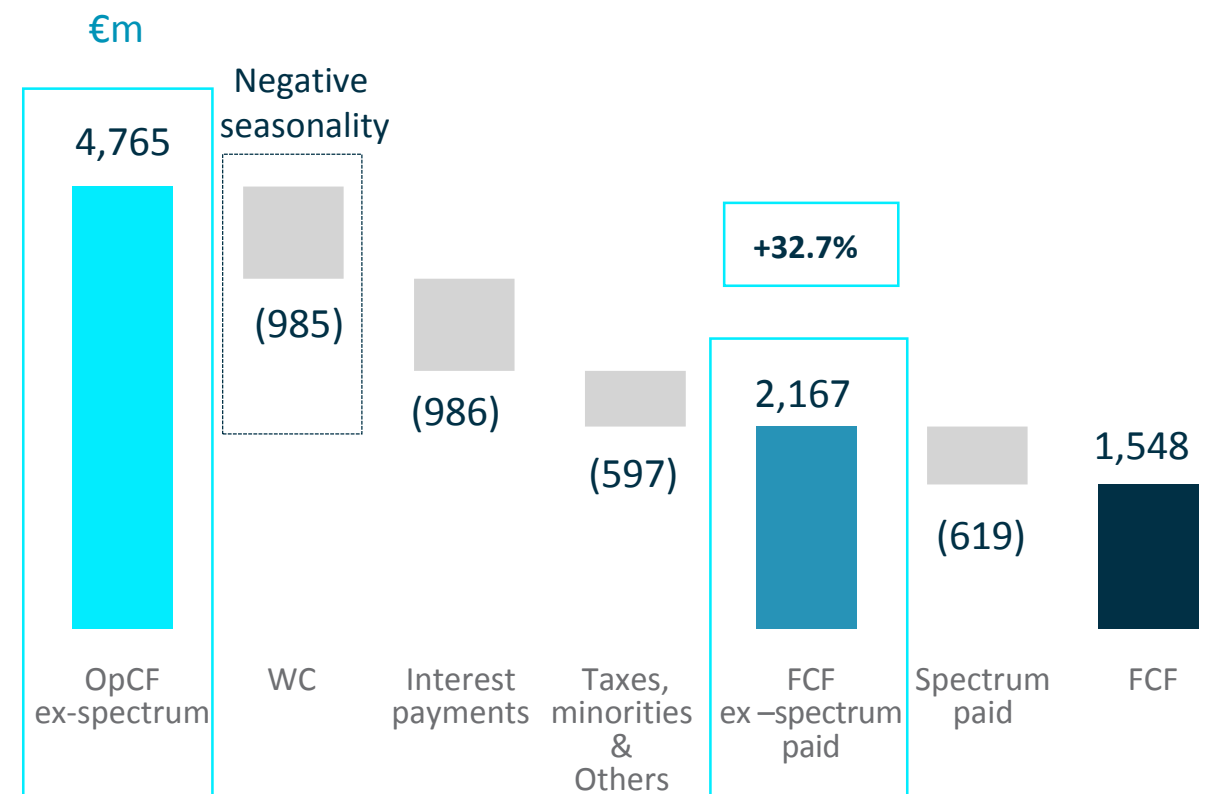


Q2 q-o-q change in Net Debt



Q2 ND decline
despite dividend &
negative H1
seasonality

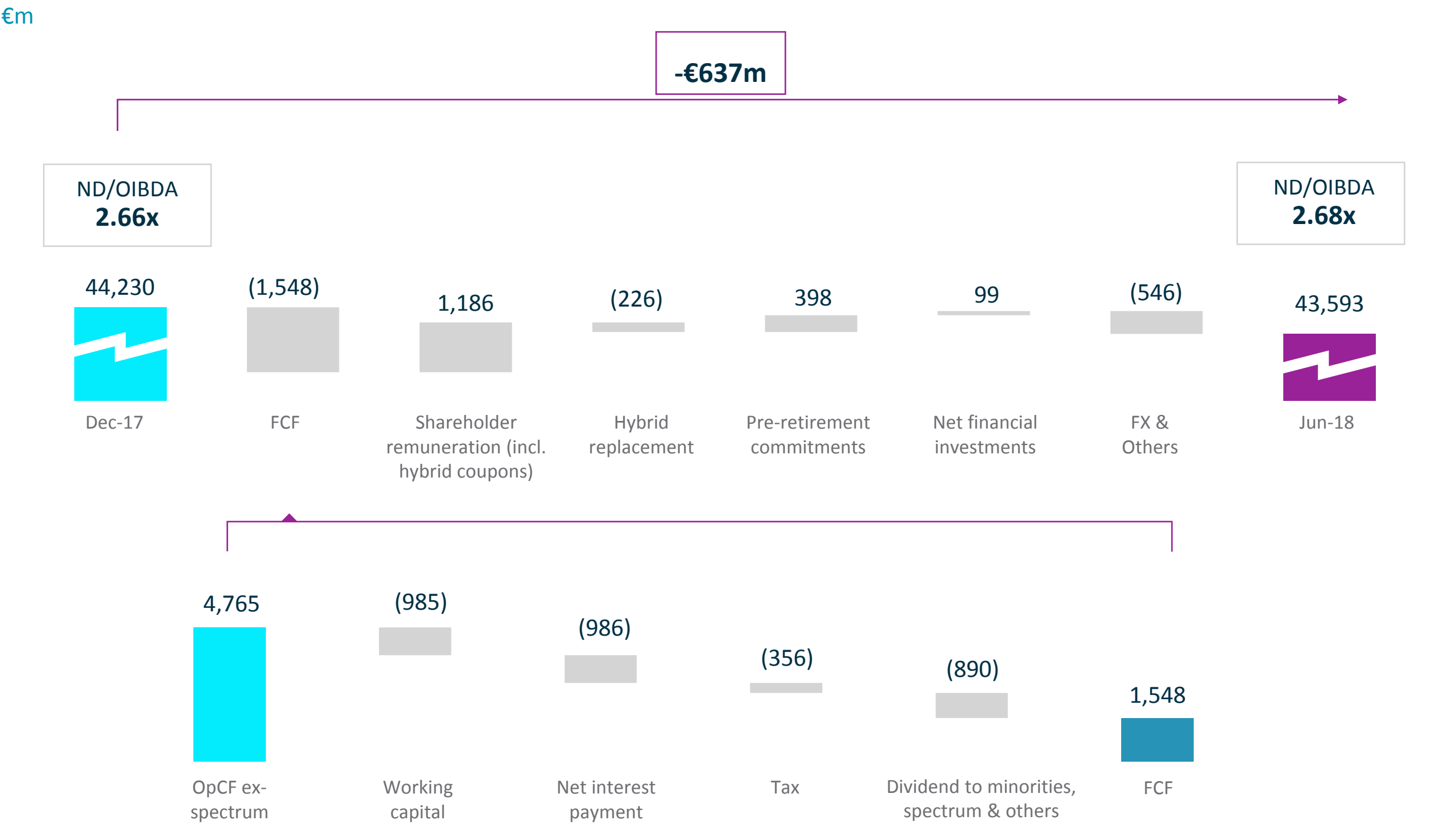
H1 18 FCF affected by UK spectrum & H1 seasonality



FCF to improve in H2

Net debt reduction on strong FCF

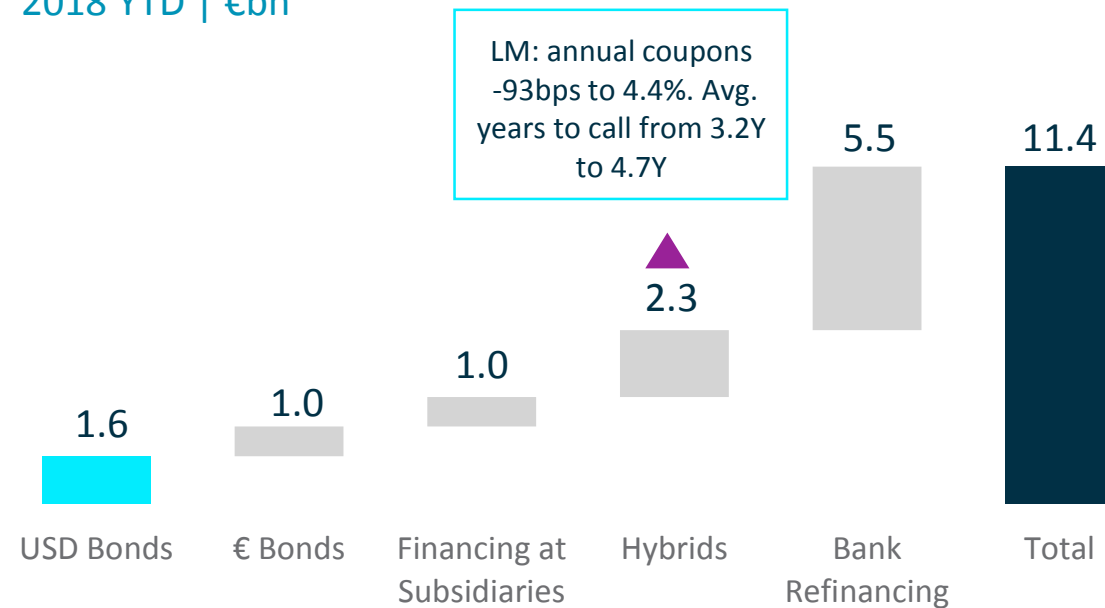
Net Financial Debt



Strong liquidity thanks to attractive long-term financing

Sources of long-term financing

2018 YTD | €bn



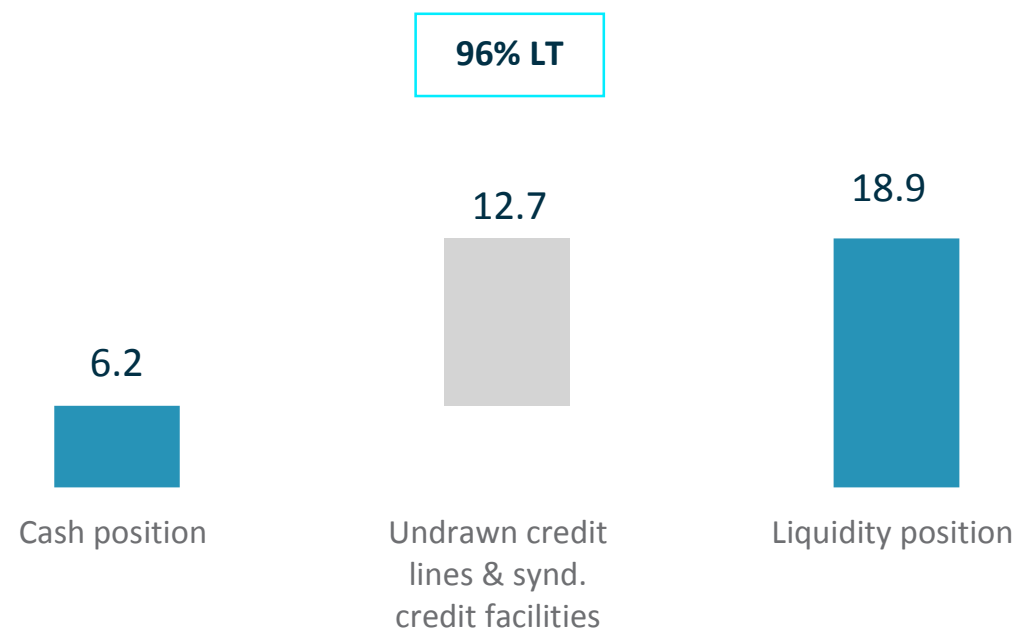
Net Debt maturities

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



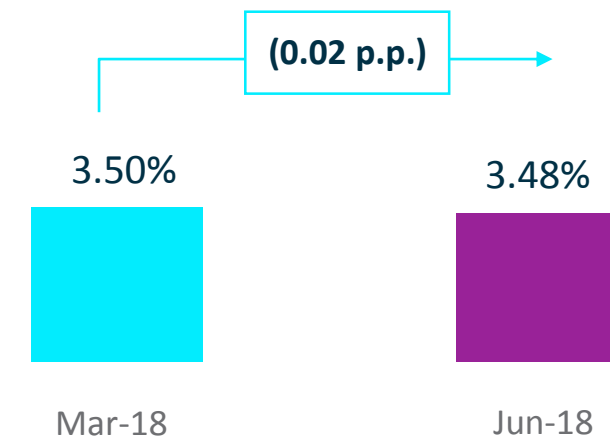
Liquidity position

Jun-18 | €bn



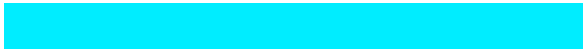
Interest payment costs

Jun-18



Conclusion

Mr. José María Álvarez-Pallete
Chairman & CEO

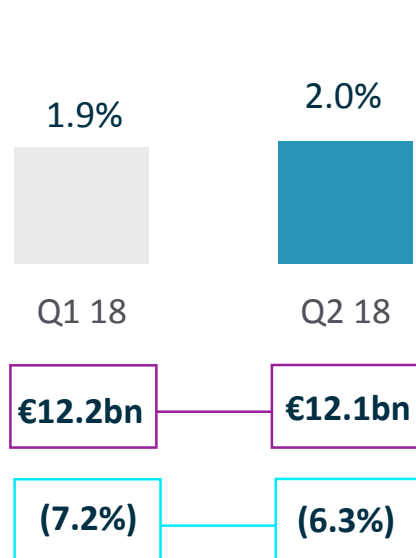


Concluding remarks | Solid quarterly results

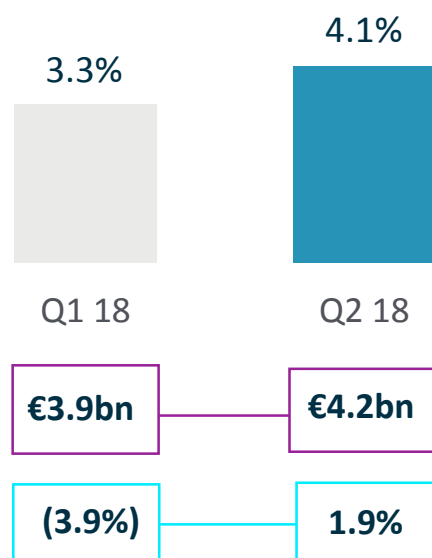


Revenues (y-o-y organic)

Reported y-o-y



OIBDA (y-o-y organic)



- **Spain:** Consistent trends; stronger franchise (O2 brand; football rights' acquisition)
- **Brazil:** OIBDA accelerates, strong margin expansion; best ever fiber net adds
- **Germany:** Better commercial activity; new propositions (O2 Boost; O2 Connect)
- **UK:** Sustainably improving financial trends; leading loyalty
- **South Hispam:** High single-digit increase in Revs & OIBDA
- **North Hispam:** Accelerating momentum in value customers

Net debt decline for 5th consecutive Q

Customer-centric transformation
(digitalisation + values)

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