

Telefónica



Results

January - December 2015

Investor Relations
Telefónica, S.A.

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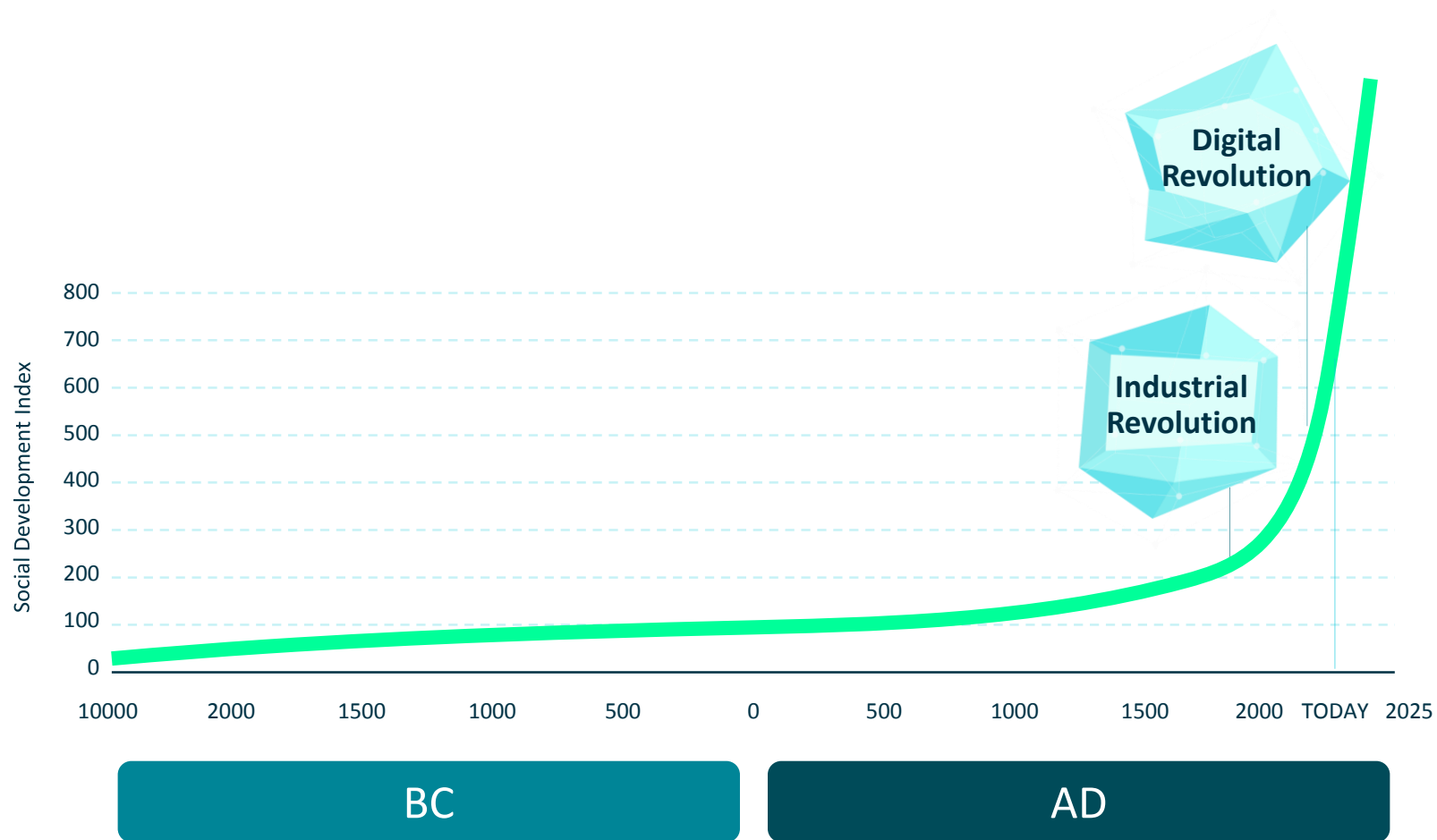
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01 

2015 Highlights 2016 Outlook

Mr. César Alierta
Chairman & CEO

Unprecedented wealth creation ahead of us



Digitalisation will foster growth and innovation

Positive economic impact...

- 1/5 of global growth in the last two decades
- A 10% rise in digitalisation of the economy increases GDP/capita growth by 40%

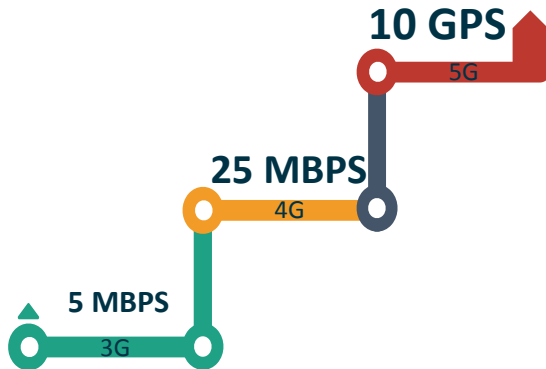
... though not fully reflected in traditional metrics

- Digitalisation yields benefits from
 - Enhanced efficiency & productivity
 - Greater innovation across industries
 - Inclusion

- Digitalisation and Big Data will transform all the productive models
- Industrial Internet is a huge opportunity to unleash all the potential of the Digital Economy
- Digital Single Market in Europe is a clear step in the right direction to foster digitalisation

An era of exponential growth

Exponential speeds



Source: Huawei and Telefónica

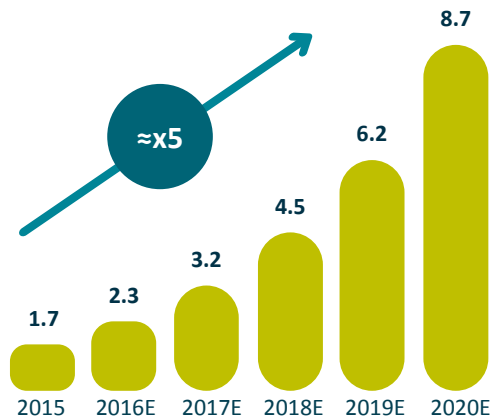
Exponential growth in connections



Source: Ericsson

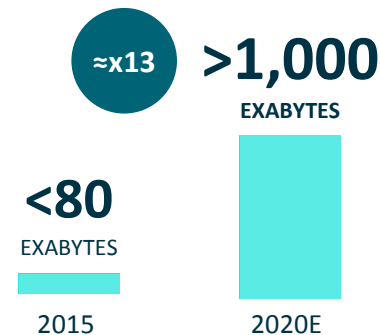
Exponential traffic growth

(EB/month estimated in TEF networks)



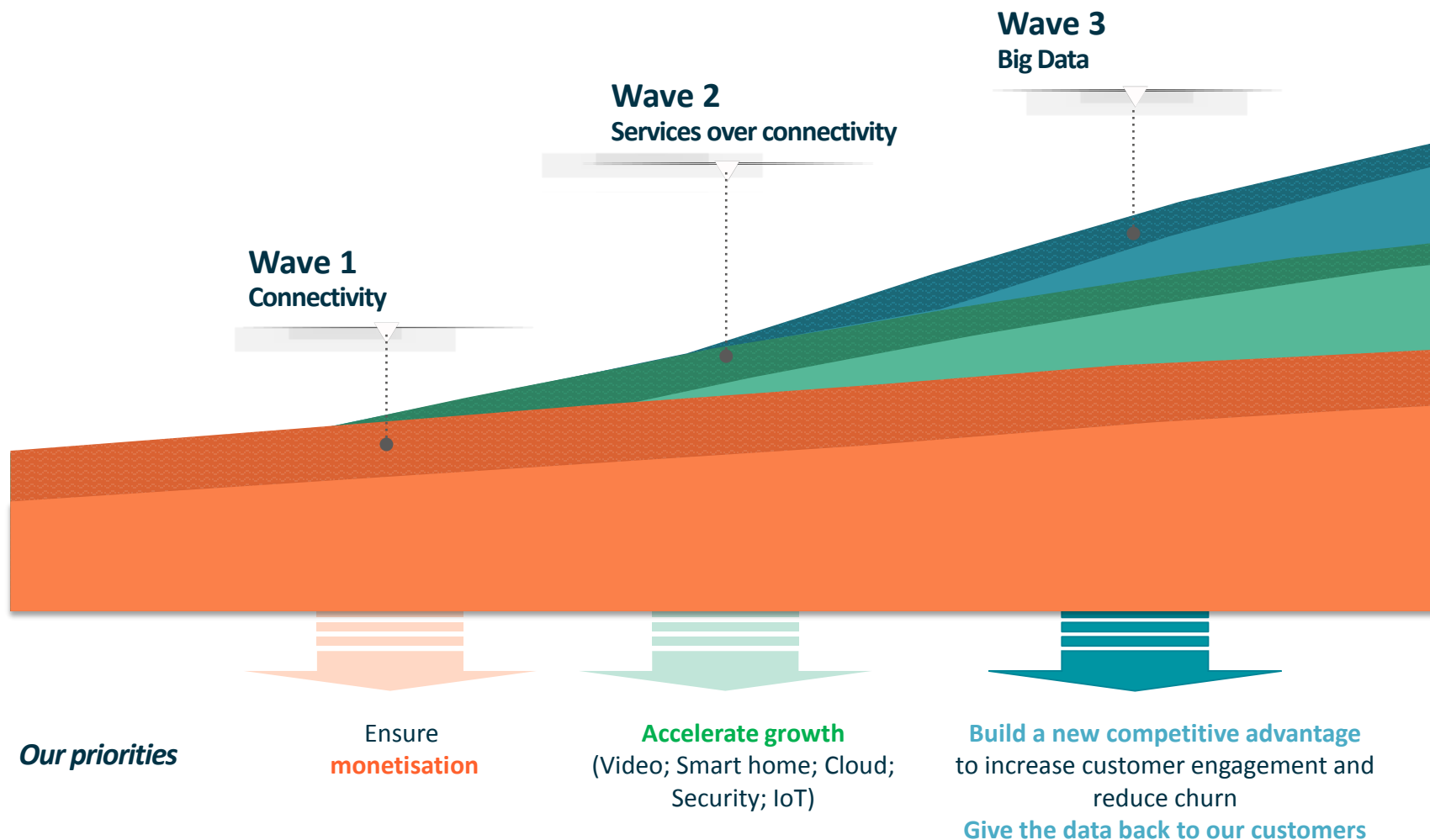
Exponential information volume

(Data/month)



Source: Alcatel-Lucent

The Digital Economy opens up a new growth wave



Telefónica's ongoing transformation

2012-2015: Positive proof points; returning to growth

- Data monetisation underway (smartphones x2; double digit ARPU uplift), driving revenue growth
- Back to growth in Spain, expanding profitability in Germany and widening leadership in Brazil
- Building a solid set of differential assets
- Active portfolio management & record debt reduction
- Outstanding shareholder returns

2016: Step forward in accelerating growth

- Increase data monetisation to foster revenue acceleration
- Enhance Big Data & Innovation capabilities
- Massive value from synergies (integration & simplification)
- Maintain financial flexibility & continue portfolio optimisation (improve ROCE)
- Full cash dividend (post-O2 UK sale)

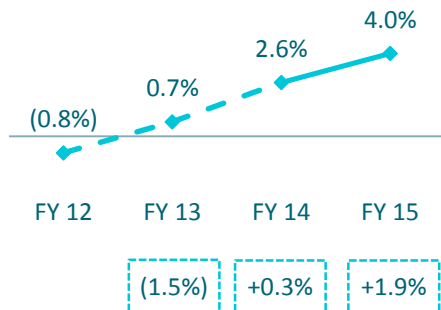
Positive 2015, better prospects for 2016 and further upside potential from Data revolution

2015 Highlights: A profitable & growing Company

Accelerating revenue growth

(organic y-o-y)

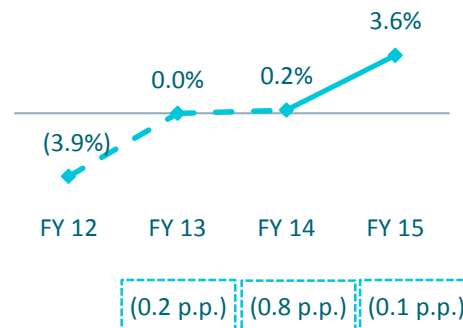
□ Avg. revenue per accesses



Clear progress on OIBDA growth

(organic y-o-y)

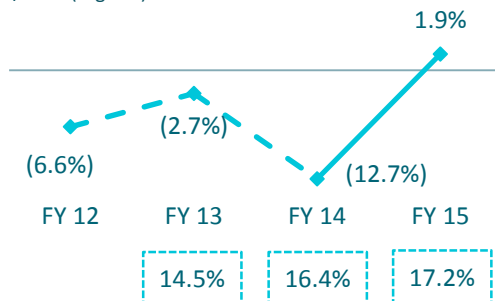
□ Margin y-o-y organic



Return to OpCF growth

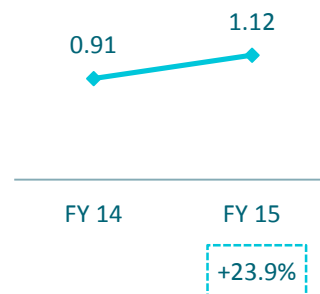
OIBDA-CapEx (organic y-o-y)

□ CapEx/Sales (organic)



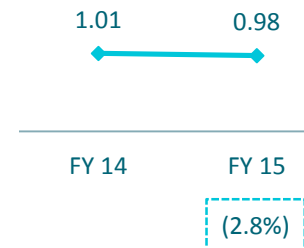
Underlying EPS

(Euros) □ y-o-y



FCFS ex-spectrum

(Euros) □ y-o-y



2015 Main financials: a year of return to growth

€ in millions	FY 15	
	Reported	Organic y-o-y
Revenues	47,219	4.0%
OIBDA	11,414	3.6%
OIBDA Margin	24.2%	(0.1 p.p.)
OpCF (ex-spectrum)	3,420	1.9%
Net Income	2,745	
EPS	0.51	
FCF	3,514	
FCF pre-spectrum	4,821	
Net Financial Debt	49,921	

€ in millions	FY 15
	Underlying
OIBDA	14,926
OIBDA Margin	31.3%
OpCF (ex-spectrum)	6,872

	Underlying	Underlying y-o-y
Net Income (€ millions)	5,787	29.7%
EPS (€)	1.12	23.9%

Non-cash effects

- Mainly €3.2bn Restructuring charges to improve **profitability & productivity** going forward

Delivering on our commitments

2015 Guidance (Constant FX 2014; ex-UK; ex-VZ; incl. 12M E-Plus, 8M GVT, 8M DTS)	UPGRADED Guidance 2015	FY 15	
Revenues	Growth >9.5%	12.3%	✓
OIBDA margin	Limited margin erosion around 1.2 p.p. (to allow for commercial flexibility if needed)	(1.1 p.p)	✓
CapEx/Sales	Around 17%	16.9%	✓
Net Financial Debt/OIBDA (adjusted for O2 UK sale)	<2.35x	2.38x	
Dividend	€0.75/sh. <ul style="list-style-type: none"> • €0.35/sh. voluntary scrip Q4 15 • €0.40/sh. Cash Q2 16 	First Tranche Scrip dividend: €0.35/sh. Nov-15	✓
Share buyback: % share capital cancelled (treasury)	1.5%	Executed in Jun-15	✓

2016 Outlook

Base 2015 (Ex-VZ; incl. 8M GVT & DTS)	Guidance (Constant FX 2015; Ex-VZ)	2016E
46,757	Revenues	>4%
31.5%	OIBDA margin	Stabilising vs. 2015
16.8%	CapEx/Sales	Around 17%

**Better than
2yr outlook
guided in
Feb- 15**

€0.75/sh.	Full Cash Dividend (subject to the closing of O2 UK sale)	€0.75/sh.
1.5%	Share buyback: % share capital cancelled (treasury; subject to the closing of O2 UK sale)	1.5%
	Net Financial Debt/OIBDA (adjusted for O2 UK sale)	<2.35x

02

2015 Achievements 2016 Priorities

Mr. José María Alvarez-Pallete
COO

2015 Highlights: A profitable & growing Company

Strong year of commercial performance/ accelerating revenue growth

- Focus on value customers (Fiber, LTE, Pay TV, ...) rather than volumes
 - Increasing customer lifetime value
- Several assets delivering organic growth
- Focused level of investments to build outstanding connectivity
 - CapEx/Sales ex-spectrum 16.9%

Focus on value customers

	FY 14	FY 15
• Smartphone penetration	34%	48%
• Fiber connections	1.8m	6.1m
• Pay TV	5.1m	8.3m

Benefitting from consolidation in key markets/ Simplifying to transform

- Enhancing competitive position via in-market consolidation
- Spain recovering top line traction; Germany accelerating profitability; Brazil continuing leadership expansion
- E-Plus, GVT & DTS integration on track and ramping-up
- Driving profitability; advancing in simplification

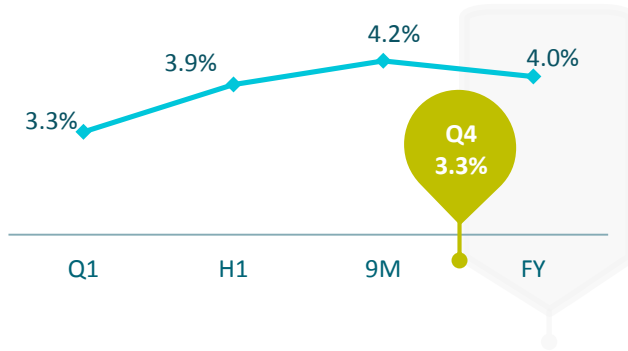
Healthy FCF generation/ Robust Balance Sheet

- FCF of €4.8bn pre-spectrum, up nearly 2% y-o-y
 - Enabled shareholder returns and high investments (network, systems and financial)
- Leverage progressing towards post-O2 UK sale target (2.38x as of Dec-15)
- Substantial diversified financing reinforcing credit quality
- Managing asset portfolio to improve ROCE

Delivering on operating guidance in all metrics

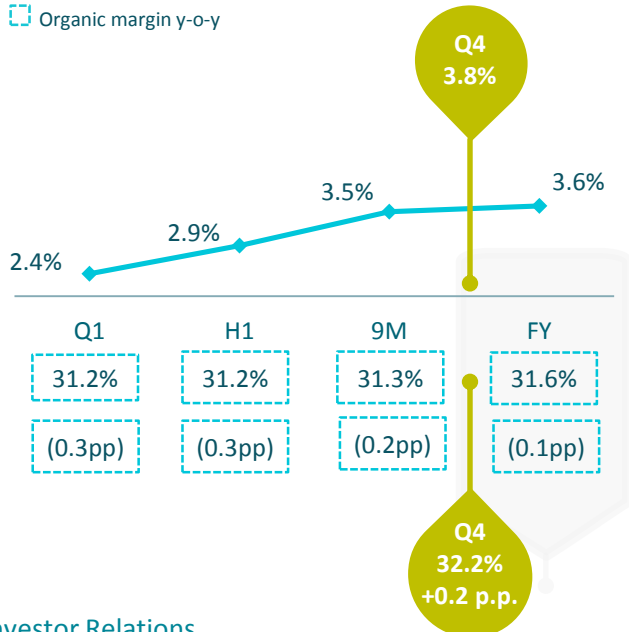
Revenue & OIBDA growth with margin stabilisation

Revenue 2015 (organic y-o-y growth)



OIBDA 2015 (organic growth y-o-y)

Organic margin y-o-y



Strong organic revenue increase in 2015

- Engines of organic growth
 - Mobile data: Q4 15 +18.7% y-o-y (FY 15 +16.9%)
 - T. Hispam: Q4 15 +8.1% y-o-y (FY 15 +10.1%)
- Revenue mix improvement
 - BB Connectivity & SoC: 43% o/total; +5 p.p. y-o-y
 - Access & Voice: <50% o/total for the first time ever (47%)

Improving OIBDA growth in 2015

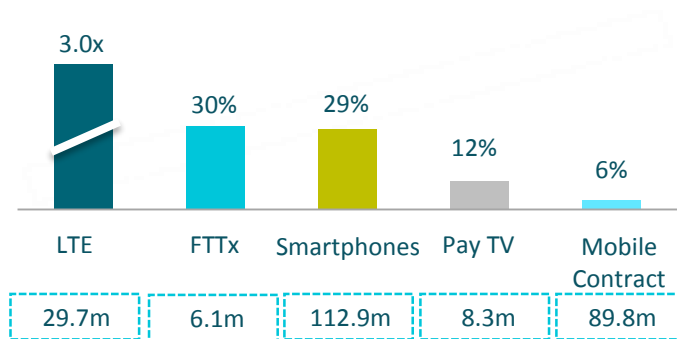
- Positive, meaningful operating leverage
 - Revenue flow-through
 - Execution in synergies & simplification initiatives
- Maintaining cost control: FY +4.6% y-o-y organic
- Good momentum in organic OIBDA margin: ongoing expansion in absolute level and y-o-y stabilisation

Capturing value for Revenue per Access expansion

Quality platform

Accesses (y-o-y organic; LTE reported)

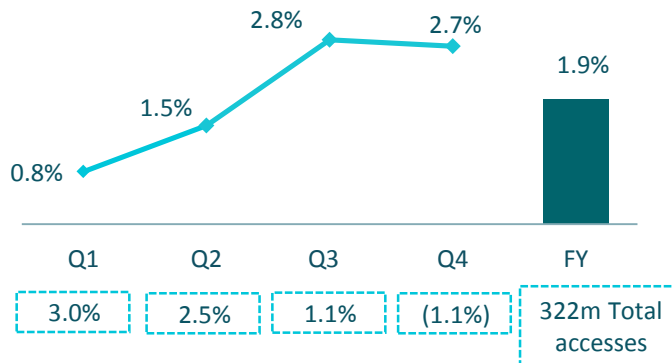
Accesses base



Strengthened customer value

Average Revenue / Access (organic y-o-y)

Accesses y-o-y organic



Profitable growth driven by high quality connections

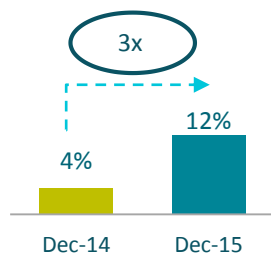
- **Strong momentum in KPIs**
 - Added 6.1m LTE devices in Q4; +42% y-o-y; +22% q-o-q
 - 271k fiber connections net adds in Q4
 - Pay-TV take-up gaining traction to 8.3m accesses
 - Record mobile contract net adds in the last 6 Qs (1.7m)
- **T. Hispam delivered accesses growth (42% o/total): +2% y-o-y**

Excellent customer retention

- **Continued churn reduction across regions coupled with higher commercial activity** (growth and quality services)
- **Enhancing customer experience**
 - Customer knowledge embedded in every decision taken

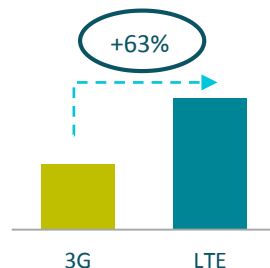
Data monetisation: Accelerating data growth

LTE penetration



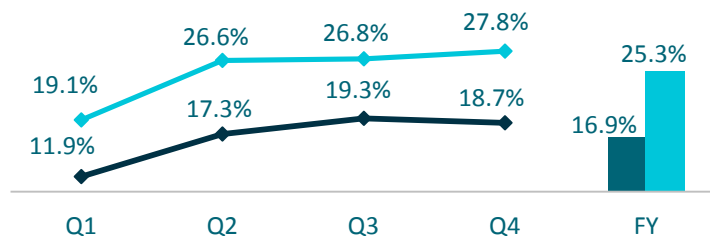
LTE usage

Usage per customer



2015 revenue (y-o-y organic)

■ Data ■ Non-SMS data



FY Mobile data/MSR: 42% (+5 p.p. y-o-y)

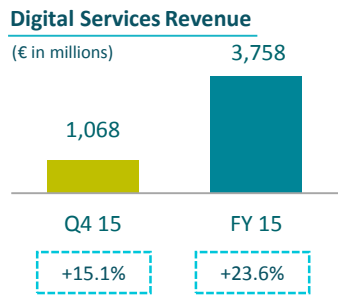
Strong mobile data performance

- **LTE: Outstanding dynamics**
 - LTE traffic (4x y-o-y) is 20% of mobile data traffic in Q4
 - Double digit LTE ARPU uplift
- **Continued smartphone growth: 48% penetration** (+15 p.p. y-o-y)
 - Q4 avg. usage per smartphone +27% y-o-y (643 MB/month)
 - Capturing the prepay data opportunity in Brazil & T. Hispam
 - T. Hispam prepay penetration: 29% (+11 p.p. y-o-y)
 - Double digit prepay ARPU uplift once client uses data
 - Roaming initiative to foster usage and improve experience
- **Continued monetisation data usage**
 - Mobile data traffic up 45% vs. Q4 14
 - ~30% of customers run-out of data
 - >40% of customer hitting caps buy extra data
 - Further usage & monetisation through data test drive

Connectivity & data monetisation is starting;
but it is just the first wave



Digital Services: Driving innovation and value

VIDEO:
Wider footprint & robust content portfolio





2015

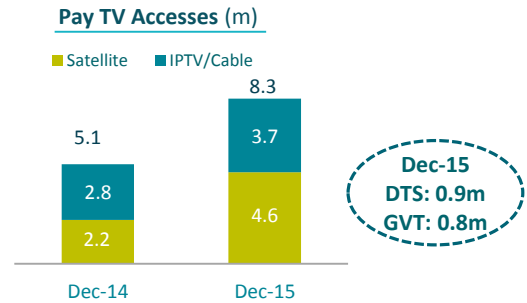
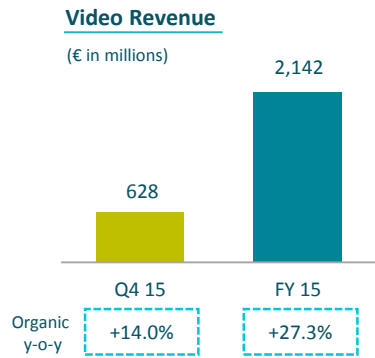
Video: larger scale (+63% accesses y-o-y); **higher traffic** (+74% y-o-y)

- Investing in content to drive customer upgrades 
- Expanding uptake and expansion of Pay TV services across LatAm 

2016

Leading growth

- VoD, multi-device, multi-platform, differential content (own productions, exclusive, football) 
- Consolidate HD leadership, improve content & simplify platforms 



Dec-15
DTS: 0.9m
GVT: 0.8m

(€ in millions in FY 15; % y-o-y organic)

OTHER DIGITAL SERVICES:
Combining partnerships with in-house capabilities to support open ecosystems

- Cloud** (€402m; +28.7%): continued growth and strong alliances. **Huawei:** joint innovation center using "OpenStack"
- Security** (€282m; +34.7%): B2B HispAm: 56% growth. **Alliances w/market leaders:** Palo Alto Networks, Bluecoat, RSA...
- M2M** (€169m; +16.5%): future-proofing solutions. **4G-LTE IoT:** new "Smart m2m" solutions
- LTE supporting surge in data usage:** 56% of purchased smartphones were LTE. **Joint Procurement Program w/ China Unicom**
- Big Data:** consolidating worldwide reach. **China Unicom JV:** "Smart Steps" technology in China



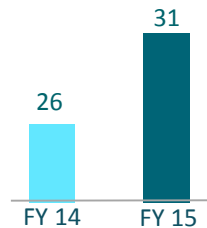
TGR: Creating value through transformation

Excellent Connectivity

Best Network: Quality & Capacity

Premises Passed with Fiber (FTTx)

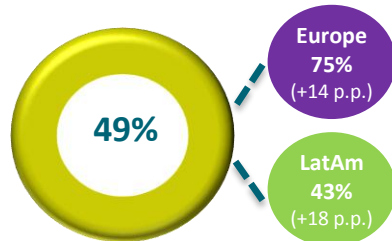
Million



>30%
FTTH
y-o-y

LTE Coverage (%PoP)

p.p. y-o-y



2015
>33K LTE sites

All-IP Transformation

All IP & Network Innovation

- **All-IP Architecture:** Starting to shutdown legacy Copper COs
- VoLTE launched in Germany
- LTE-A with 2 carriers available
- R&D 5G lab to develop and test 5G technologies
- Automated Virtual Network Functions deployment trials

Transforming Operations

- **4 Global Centers launched, delivering results**
 - E2E diagnosis and integrated field force management
 - Home Gateway Unit (ONT+router+video bridge)
 - Up to 300Mbps speed
 - >60% new home devices designed by Devices Global Center

E2E digitalisation

Simplification

(y-o-y organic)

Applications	-321 (-8%)
Physical Servers	-1,447 (-8%)
Data Centers	-3 (-5%)
Virtualisation	+5.7 p.p.

Unprecedented transformation

- **Full Stack Acceleration:** 15 countries
- **Digitalisation capabilities:**
 - Boosting Big Data and Real Time Decision
- **Maintained Record IT Service Delivery**

13%
Full Stack
Customers

-40%
IT Critical
Incidents

Optimising TEF's asset portfolio & improving ROCE by bringing together best-in-class infrastructure assets

- Specialised and focused management of the telecommunications infrastructure
- Targeting to increase services provided to other operators
- More active participation in growth opportunities of the industry, including the possibility of acquiring third party assets
- More of TEF's assets expected to be progressively incorporated (towers, DAS, Small Cells, Backhaul)

Tower business



Submarine cable business

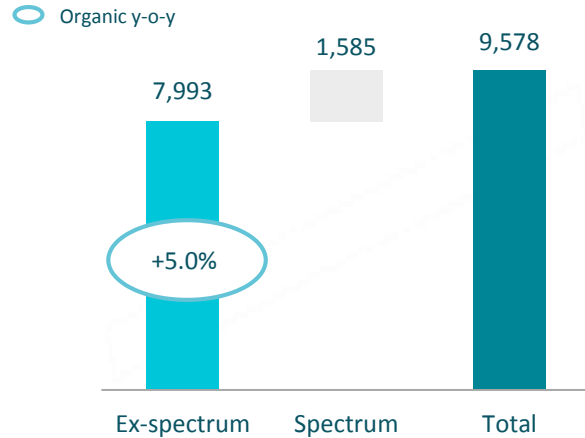
- ~15k telecommunication towers out of ~62k total owned by Telefónica
 - ~11k towers in Spain; ~4k in other countries
- **Primary functions include** to build, maintain and operate passive tower infrastructure

- **Extensive international network with over 65k km of which 31k km of proprietary submarine fiber optic cable**
 - SAM-1 (25k km) the largest submarine cable connecting the US with LatAm
 - PCCS (6k km) linking Ecuador, Panama, Colombia, the Caribbean and the US
 - Unisur (0.2k km) linking Argentina and Uruguay
- **Capacity & IP businesses**
 - Capacity: >3.5Tbps of lit capacity on submarine systems
 - IP: >4.5Tbps of IP traffic delivered during peak hours
 - Non-TEF clients representing approx. 50% of revs
- **International Tier 1 Network**
 - Reduce traffic costs and improve sustainability on peering agreements; maximise content access quality

Considering different strategic alternatives

CapEx is paying off

CapEx 2015 (€ in millions)



75% of total devoted to growth & transformation

2015 OpCF

(OIBDA - CapEx organic y-o-y)



CapEx intensity in technology leadership

- **Driving competitive advantage**
 - Transforming networks and systems (Fiber, LTE, Full Stacks...)
 - CapEx/Sales 13-14% in Germany & Spain and 19% in LatAm
- **Reinforcing our network position and securing future growth through spectrum acquisition**
 - Passing peak investment for spectrum, expected to be lower in the coming years

Back to growth in OpCF

- **Investment boost enabled us to become a stronger Co.**
- **Improved trends throughout the year** led by enhanced profitability and targeted efficiencies (CapEx+OpEx)
- **Simplification, CapEx optimisation and prioritisation**

03

2015 Results

Mr. Angel Vilá
CSFO

Key financials

€ in millions	FY 15		Q4 15	
	Reported	Organic y-o-y	Reported	Organic y-o-y
Revenues	47,219	4.0%	11,881	3.3%
OIBDA	11,414	3.6%	401	3.8%
OIBDA Margin	24.2%	(0.1 p.p.)	3.4%	0.2 p.p.
OpCF (ex-spectrum)	3,420	1.9%	(2,078)	17.6%
Net Income	2,745		(1,832)	
EPS	0.51		(0.38)	
FCF	3,514		2,307	
FCF pre-spectrum	4,821			
Net Financial Debt	49,921			

€ in millions	FY 15	Q4 15
	Underlying	Underlying
OIBDA	14,926	3,781
OIBDA Margin	31.3%	31.8%
OpCF (ex-spectrum)	6,872	1,302

	FY 15	
	Underlying	Underlying y-o-y
Net Income (€ in millions)	5,787	29.7%
EPS (€)	1.12	23.9%

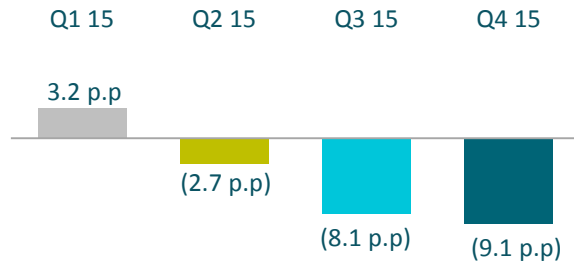
Q4 results strongly impacted by non-recurrent / non-cash effects

- TOTAL Personnel reorganisation: -€3,122m in OIBDA in Q4 (T. España Voluntary Employment Suspension Plan: -€2,896m, Other Companies: -€227m, mainly Telefónica Headquarters)
- Additionally, Q4 includes, among others, commitments in the following years relating to TEF's Foundation: -€325m in OIBDA

Reported Q4 reflects non-recurrent & FX

FX: Latam depreciation dragging growth in H2

Forex impact revenue (y-o-y)

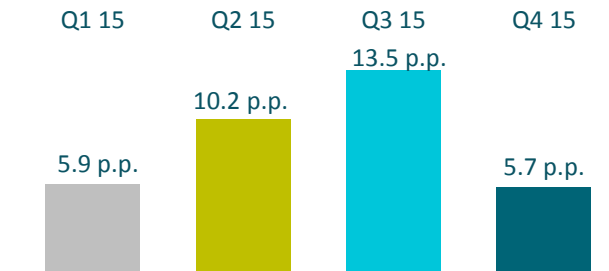


FX impact OIBDA (y-o-y)



Perimeter: E-Plus no longer impacting in Q4

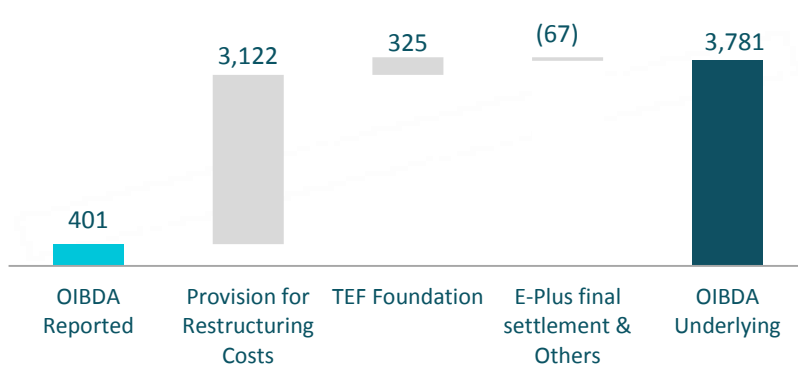
Perimeter impact revenue (y-o-y)



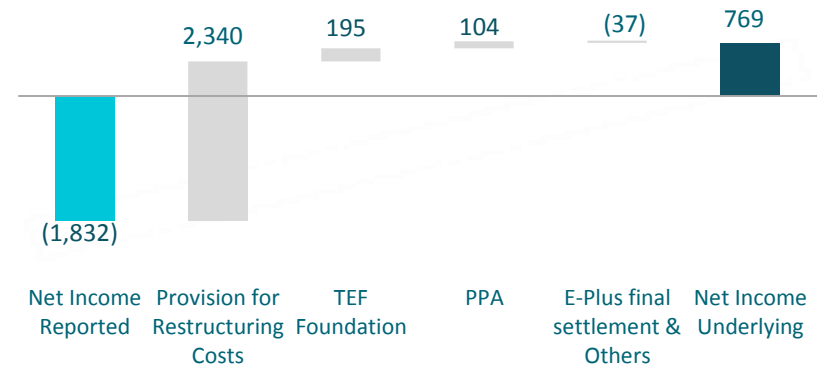
Perimeter impact OIBDA (y-o-y)



Q4 non-recurrent impacts in OIBDA (€3.4bn)



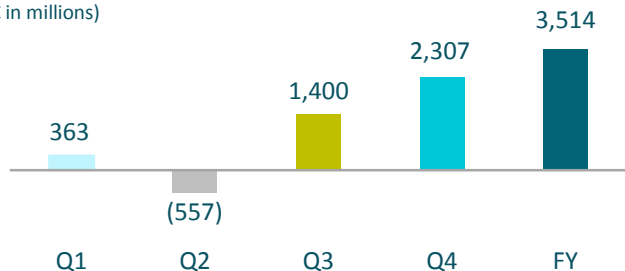
Q4 non-recurrent impacts in Net Income (€2.6bn)



Maintaining a solid FCF generation

FCF 2015

(€ in millions)



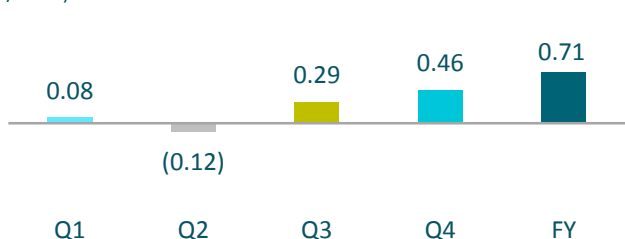
FY FCF
ex-spectrum
€4,821m

€1.4Bn FCF improvement in Q4 y-o-y

- Improved Cash from Operations (+€441m)
- Lower spectrum payments (+€750m)
- Savings on tax payments (+€173m)

FCFS 2015

(€/share)



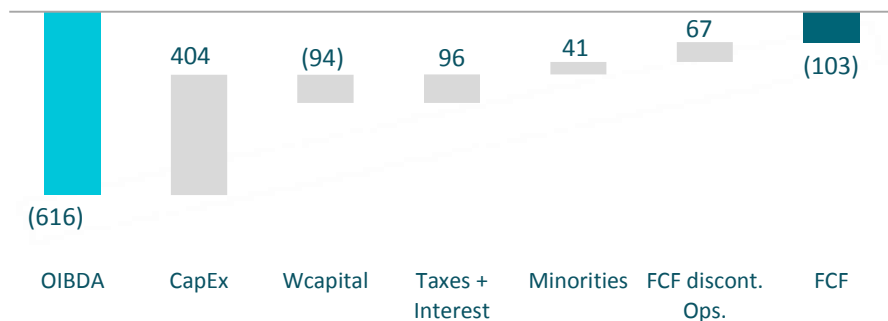
FY FCFS
ex-spectrum
€0.98

Attractive shareholder returns

- 66% cash dividend pay-out
- 48% cash dividend pay-out ex-spectrum payments
- €1.12 underlying EPS: +23.9% vs. FY 14

Reduced FX impact in 2015 FCF

(€ in millions)

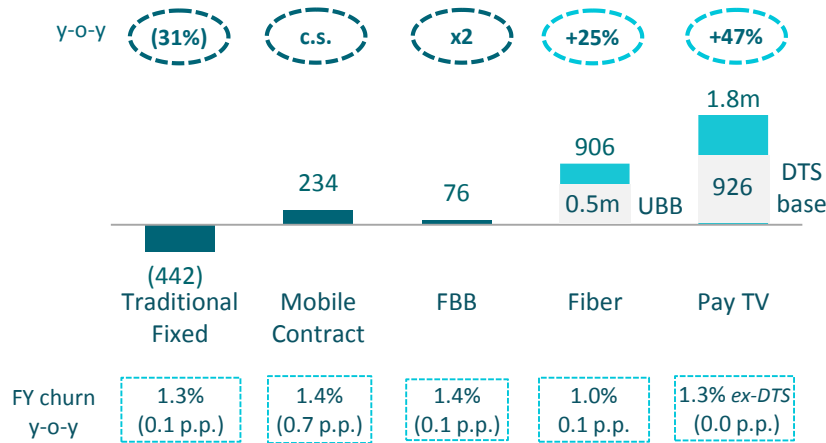


Negative FX effect mitigated at FCF level

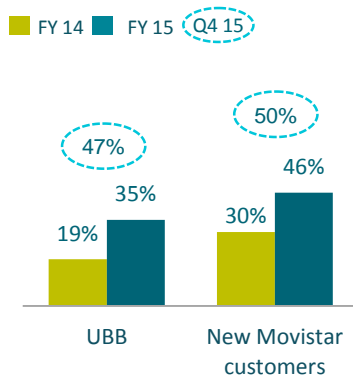
- FX impact in OIBDA absorbed through lower CapEx, interest, taxes and minorities

Spain: Sustained momentum, new market dynamics

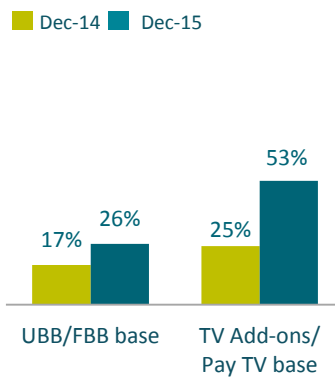
Net adds FY 15 (000)



"Fusión" gross adds mix



High-value penetration



Reinforced leadership based on value

- **Excellent trading balance: higher loyalty and gross adds**
 - Solid Q4 net adds improving q-o-q
 - Churn decline y-o-y despite eliminating retention
- **"Fusión" ARPU uplift: +7.3% y-o-y to €74.4 in Q4**
 - 4.2m base (+13% y-o-y); 36% with mobile add-ons
- **Largest Pay TV platform**
 - 3.7m customers (+10% y-o-y organic)
 - "TV Premium" promo reached ~700K customers in Q4
- **Largest FTTH in Europe: 14.3m premises passed (+4.0m y-o-y)**
- **LTE expansion: 75% pop. coverage (+17 p.p. y-o-y)**

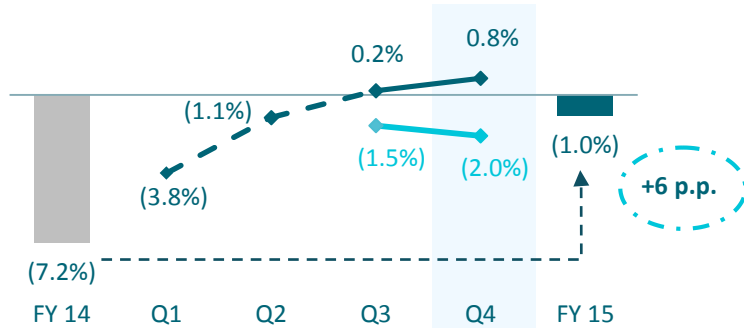
"More for more": further commercial upgrades

- **New tariff repositioning from Q1 16**
 - "Fusión", mobile contract, FBB non convergent
- **Best content guaranteed until 2018/19**

Spain: Strong revenue recovery in 2015

Revenue ex-DTS 2015 (y-o-y)

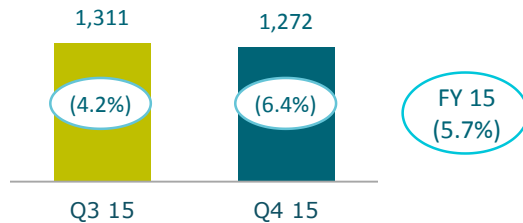
◆ Including DTS since May (y-o-y organic)



OIBDA including DTS 2015

(since May, ex non-recurrent)

○ y-o-y



Solid start from a leading position

- **Second consecutive quarter of revenue growth (ex-DTS)**
 - Strong performance in IT and handset sales in Q4
 - Growth y-o-y decelerated vs. Q3 partly due to TV promo
- **FY Revenue including DTS (May 1st) €12.4Bn: -2.1% y-o-y organic**
- **Successful TV add-ons uptake post promo**
 - ~€30m incremental revenue (Q1 16E vs. Q4 15)
 - Pay TV penetration still at 30%

Profitability reflecting TV promo

- **Non-recurrent:** Restructuring costs, tower and real estate sales gains and adjustment in DTS supplies in Q3
- OIBDA (ex -DTS) non-representative due to content cost allocation
- **FY organic margin incl. DTS: 42.1% (-1.0 p.p. y-o-y)**
- **Q4 net content cost including DTS: -8.1% y-o-y organic**
 - Q4 net content cost/Pay TV sub: -16.8% y-o-y organic

Spain: A reference in efficiency; new plan 16-17

Voluntary Employment Suspension Plan

- **Adapt the organization to the new competitive, economic and technological reality**
- **Conditions**
 - **2 year plan** (2016-2017)
 - Minimum age: **53 years old before YE 17** with at least 15 year in the Co.
 - 68% of salary until age of 65 + social security + social benefits fully covered by TEF
 - Periods to join: Jan-Mar 16; Jan-Mar 17. Acceptance so far in line with expectations
 - Will leave no later than Dec-17
- **Agreed with largest unions**
- **Other agreements**
 - **Salary increases:** +1.9% in 2016; +1.5% in 2017
 - Job creation through the incorporation of young talent

Impacts

Cash Flow positive since year 1

Direct cost savings run-rate ~370m since year 2

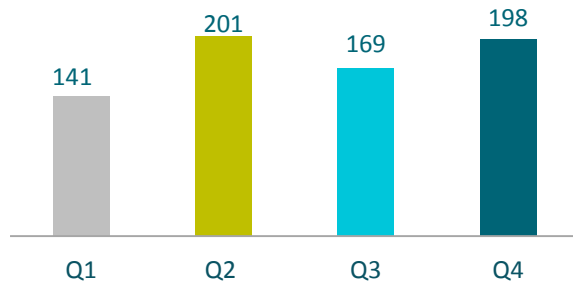
- **One-off cost recorded in Q4 15**
 - €2.9Bn (before taxes) as personnel expenses
- **Additional efficiency gains**
 - Indirect savings (G&A) in the coming years
- **Committed payments**
 - > 75% FTEs signed up to leave in 2016
 - Total cash commitments in Spain (this plan and former ones) will peak in 2016 and then recede

Speeding up transformation to improve profitability in a new growth cycle

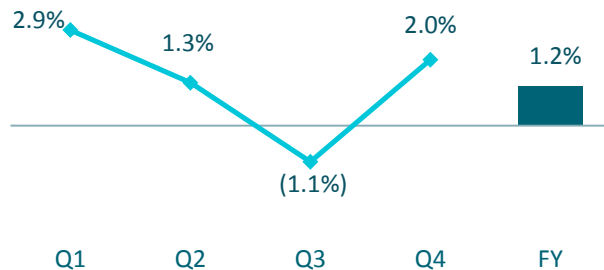
Germany: Successfully maintained momentum

Contract net adds 2015 ('000)

Ex-adjustments: 400k in Q4 15; 428k in Q4 14



2015 Revenue (y-o-y organic)



Solid commercial performance

- **Rational and dynamic market**
- **Contract delivers growth & loyalty**
 - Solid LTE demand: 7.9m base (+13% q-o-q) to 19% penetration
 - LTE coverage at 75% (+13 p.p. y-o-y)
 - Contract churn improved 0.2 p.p. to 1.7% in Q4
- **VDSL drives fixed performance**
 - Strong VDSL net adds in Q4: 73k (+12% y-o-y)

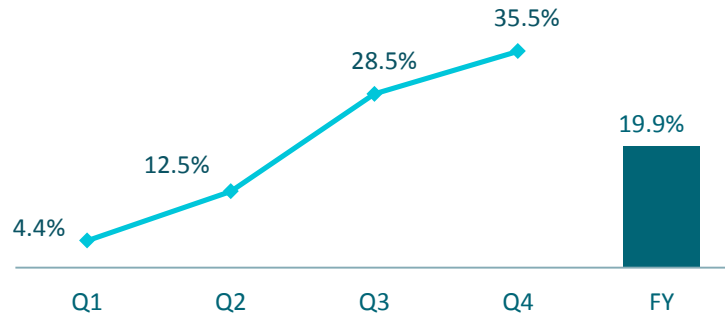
Slight MSR market share increase

- **Sequential top line improvement**
 - Strong handset sales (Q4 +17.9% y-o-y vs. Q3 +2.7%) on Christmas promotions
 - Better fixed trends (Q4: -3.2% y-o-y vs. Q3: -9.5%)
- **Continued data monetisation**
 - 40% of new *O₂ Blue* opting for a tariff with >1GB
- **MSR (+0.1% vs. FY14) meets outlook;** higher contribution from partners

Germany: Anticipated synergies drive growth

OIBDA 2015

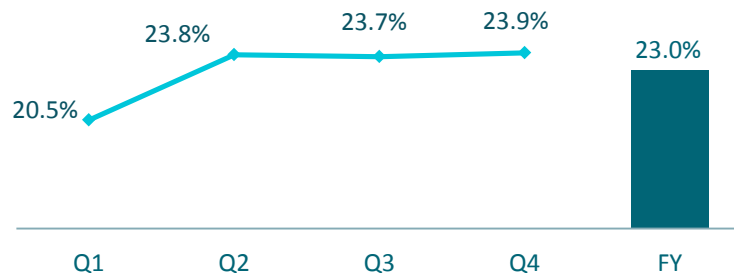
Organic y-o-y ex non-recurrent



OIBDA margin 2015

Organic ex non-recurrent

□ y-o-y



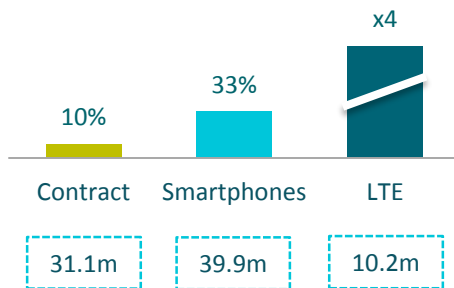
Strong profitability

- **Better OIBDA growth trends throughout 2015** (+35.5% in Q4)
- **Synergies & commercial efficiencies drive exceptional OIBDA growth**
 - Synergies: >50% of Q4 OIBDA growth; successful execution in first full year of integration
 - Leavers programme: 50% of total target
 - Shop footprint reduction: 80% of target
 - In-city consolidation of facilities: 30% of target
 - 3G National roaming
 - Focused subsidy approach based on retention of value base
- **Continued OIBDA margin expansion to 23.9% in Q4**
- **FY 15 OpCF at €826m (>2x vs 2014)**
 - Rev & OpEx synergies of €140m
 - CapEx synergies of €140m
- **Reported OIBDA** (2015: €1,858m; Q4: €586m) affected by
 - Final agreement on E-Plus purchase price (Q4: +€102 m)
 - Restructuring expenses (2015: €73m; Q4: €7m)
- **2015 OIBDA & synergies meet upgraded outlook**

Brazil: Capturing value across segments

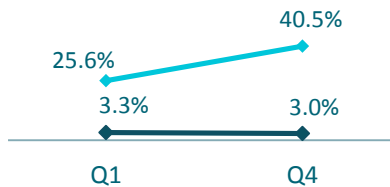
Mobile accesses (Dec-15 y-o-y)

Accesses



ARPU 2015 (y-o-y)

Data Total

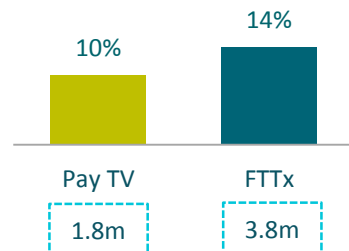


Outstanding commercial results

- 97m customers in a market of >200m people
- New portfolio of mobile tariffs launched in Nov-15 to further push market outperformance
 - 69% Q4 contract net adds share (50% in FY 15)
 - 100% of 2015 MSR market growth
- Data ARPU: 52% of total (+15 p.p. vs. Q4 14) boosted by LTE
 - LTE 15% penetration (+11 p.p. y-o-y)

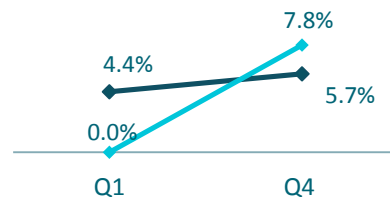
Fixed accesses (Dec-15 y-o-y)

Accesses



ARPU 2015 (y-o-y)

Pay TV FBB

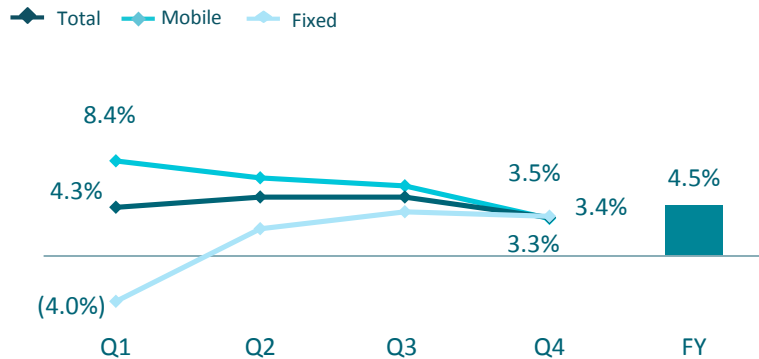


Increased uptake of UBB & Pay TV

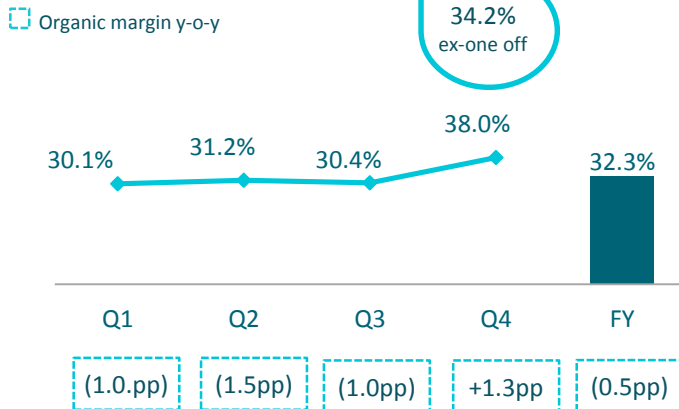
- Growing share of UBB & Pay TV
 - Capturing 100% of Pay TV market growth in 2015
 - 52% UBB net adds share in 2015
- 16.6m FTTx premises passed as of Dec-15 (4.7m FTTH ex. GVT)
 - Increasing take-up ratio (3.8m HH connected vs 3.3m a year ago)

Brazil: Sustained market outperformance

Revenue 2015 (organic y-o-y)



OIBDA Margin 2015



Robust revenue performance

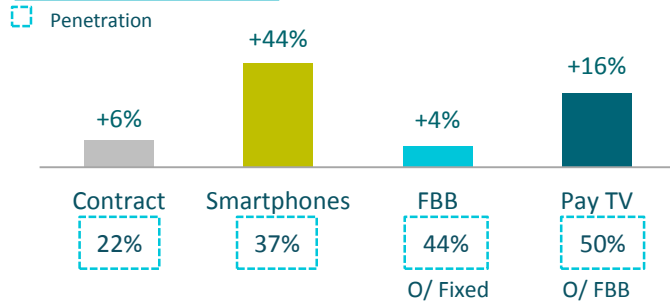
- **Balanced mobile & fixed growth**
 - Q4 MSR +2.7% y-o-y (+5.3% FY)
 - Mobile revenue market share +5p.p. in 2015
 - 2nd consecutive Q leading fixed revenue growth
 - Negative impact of regulation y-o-y (-2.5 p.p. Q4 15; -2.7 p.p. FY)
- **Accelerating mobile data trends (Q4 +37.6% y-o-y; FY +34.5%)**
 - Mobile data 49% o/MSR in Q4
 - New data monetisation initiatives

Accelerating OIBDA growth despite macro

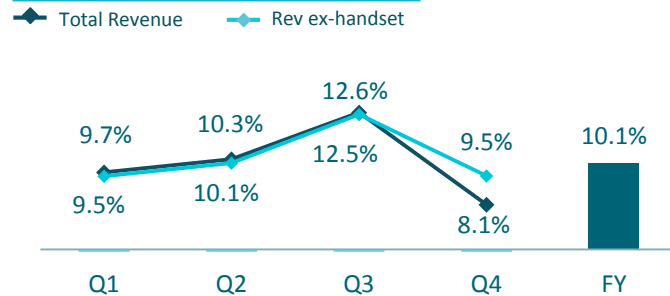
- **Outstanding OIBDA performance: +7.3% y-o-y in Q4; +2.9% in FY**
 - OpEx y-o-y well below inflation (Q4 15: +5.6%; FY: +6.1%)
 - Better sequential costs trend; bad debt reduction standing out
- **Synergy initiatives aligned with Best case scenario**
- Organisation fully integrated and operating as a single Co.

Hispam: Sound performance on quality growth

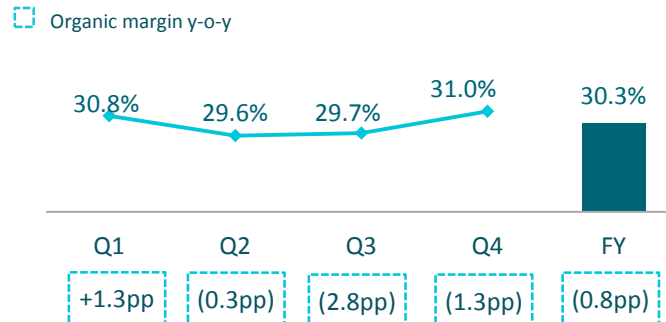
Accesses (Dec-15 y-o-y)



Revenue 2015 (organic growth y-o-y)



OIBDA Margin 2015



Increase adoption of value services

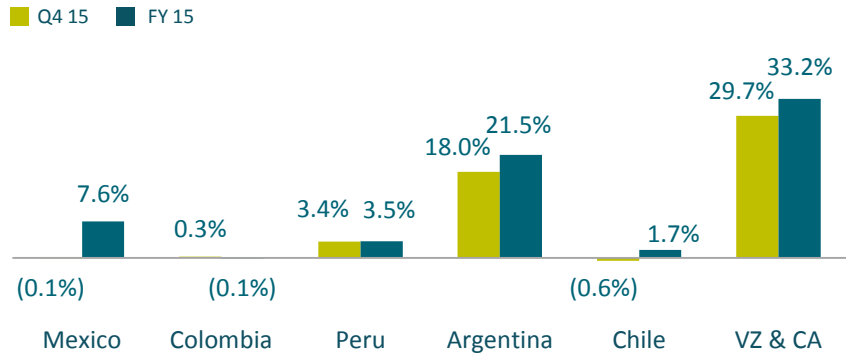
- **Contract mobile consolidates improving trend in Q4**
 - Highest-ever net adds (732k; >3x y-o-y)
 - Booming Smartphone & LTE penetration (+10 p.p. y-o-y & +6 p.p.)
- **Enhanced capabilities pushing bundled fixed services**
 - FBB speeds >4Mb: 54%; +4 p.p. y-o-y
 - Growing Pay TV: best-ever net adds (380k in 2015; +27% y-o-y)

Solid top line growth & profitability over the year

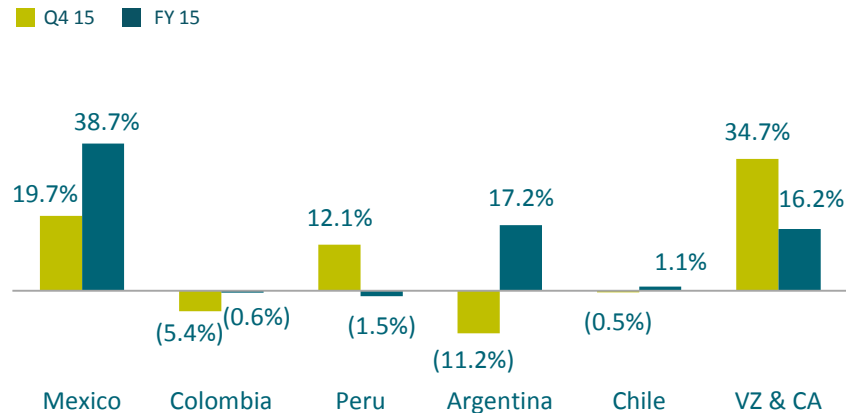
- **Sequential revenue growth deceleration**
 - Lower handset sales y-o-y (Q4: -5.0%; Q3: +13.7%)
 - Tariffs promotions & repositioning in MEX / different seasonality on tariffs update in ARG
 - Strong Pay TV & FBB top line expansion
- **Solid OIBDA increase** (Q4: +4.0% y-o-y; FY: +7.2%)
 - Efficiency measures and cost rationalisation offsetting FX impact and higher commercial expenses

Hispam: Commercial momentum; solid performance

Revenue (organic y-o-y)



OIBDA (organic y-o-y)



OIBDA margin (organic y-o-y)

Q4 15	+5.3 p.p.	(2.3 p.p.)	+2.8 p.p.	(6.0 p.p.)	Flat	+1.2 p.p.
FY 15	+6.1 p.p.	(0.2 p.p.)	(1.7 p.p.)	(0.4 p.p.)	(0.2 p.p.)	(4.1 p.p.)

• Mexico

- Strengthening market position with Q4 best-ever net adds (postpay and prepay); LTE coverage of 45m POPs at Dec-15
- Sound FY Rev, OIBDA & OpCF increase; Q4 deceleration on intense tariff promotions and higher commercial costs

• Colombia:

- Continued momentum on value segments: highest quarterly net adds of last 2 years (72k) in contract mobile
- Sequential OIBDA margin improvement (Q4 36.3% vs. Q3 34.3%) despite commercial intensity

• Peru:

- Robust accesses (contract mobile +13%; FBB +8%; Pay TV +27%) driving revenue & profitability improvement
- Data promotions underpinned traffic (2.5x vs. Q4 14)

• Argentina:

- Rev & OIBDA y-o-y trends affected by seasonality of tariffs update & higher commercial expenses

• Chile:

- Steady growth of contract mobile (+4%), FBB (+6%) and Pay TV (+7%)
- Lower handset sales & regulation dragging revenue y-o-y

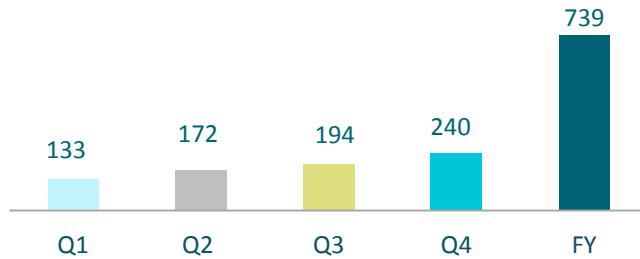
• VZ & CA:

- Handset availability limiting commercial trading and leading y-o-y margin expansion in Q4

UK: Gaining market value

Consolidated as discontinued operation

Contract net adds 2015 ('000)

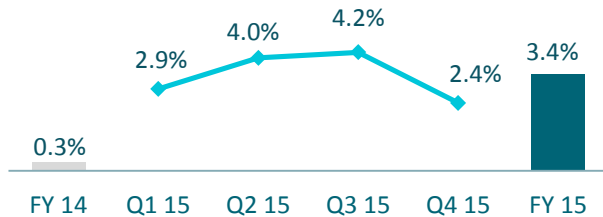


Best loyalty in UK; Q4 contract churn 1.0%

Contract mobile base: +5% to 14m
Total base >25m

MSR (y-o-y ex "O2 Refresh")

OIBDA margin ex-non recurrent



24.0%

24.6%

Substantial progress in commercial momentum

- **Strongest quarterly contract net adds in 2015**
 - Solid gross adds on successful propositions
 - O2 had the most satisfied customers in the mobile market for the 7th year in a row (Ofcom)
- **LTE as main lever of growth**
 - LTE Penetration: 35% (+5 p.p. q-o-q)
 - 80% outdoor coverage at Dec-15

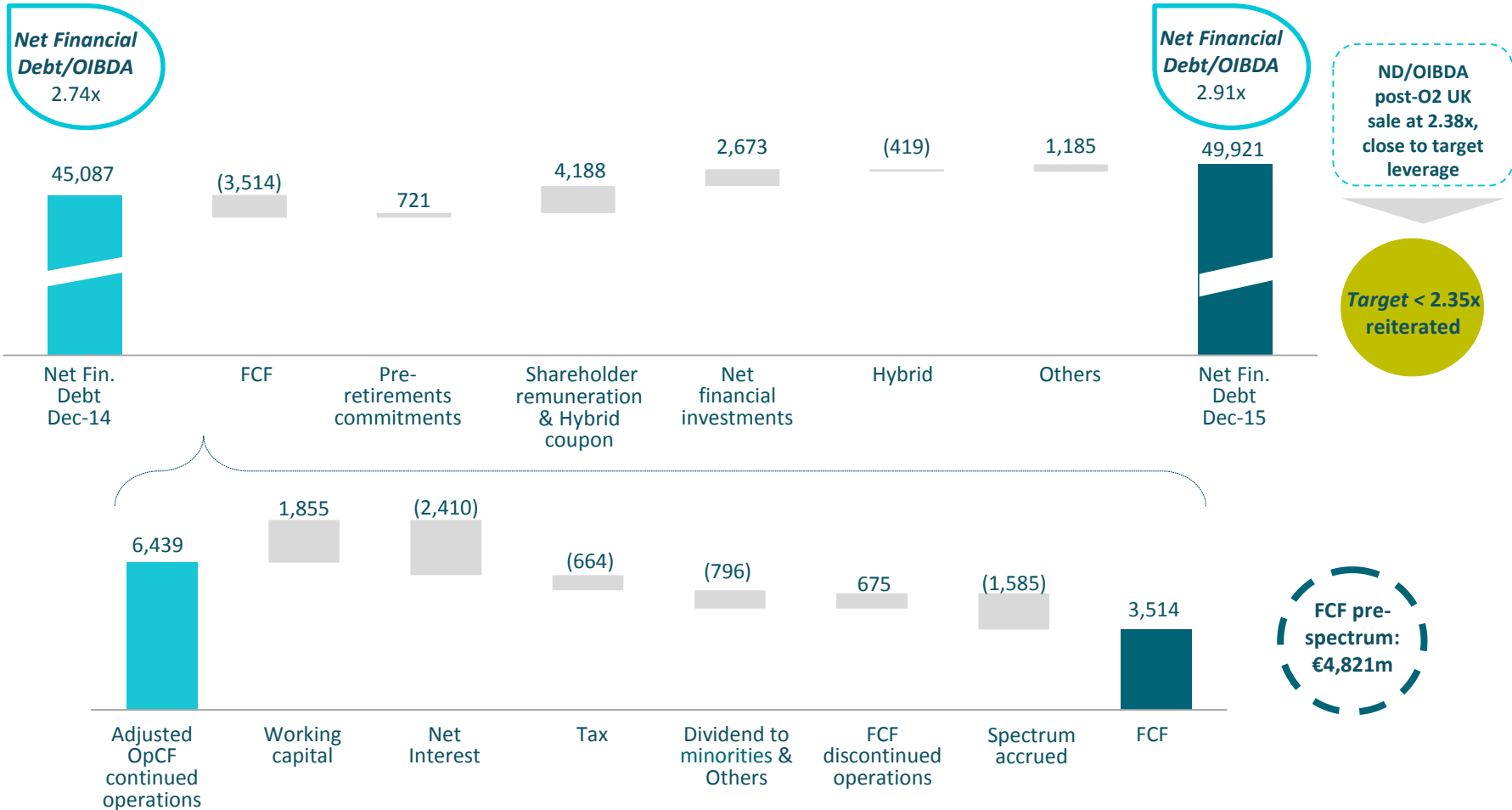
Continued revenue growth

- **Total revenue up 4.6% y-o-y in FY ex "O2 Refresh"**
 - Ongoing customer appetite for high-value tariffs
 - Q4 growth decelerating y-o-y
 - Primarily due to slowdown of high-end handset sales
- **Strong OIBDA margin on top-line progress and cost control**
- **2015 OIBDA grew 2.2% y-o-y ex non-recurrent**
 - Q4 OIBDA maintained similar growth to Q3

Leverage in line for reaching the target

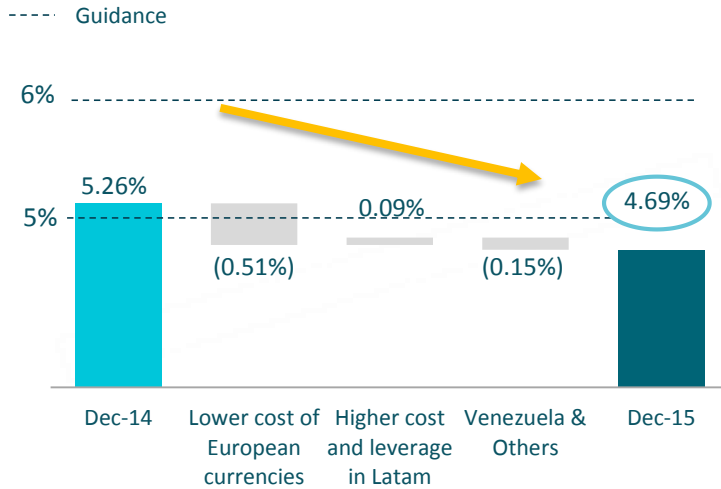
Net Financial Debt

€ in millions



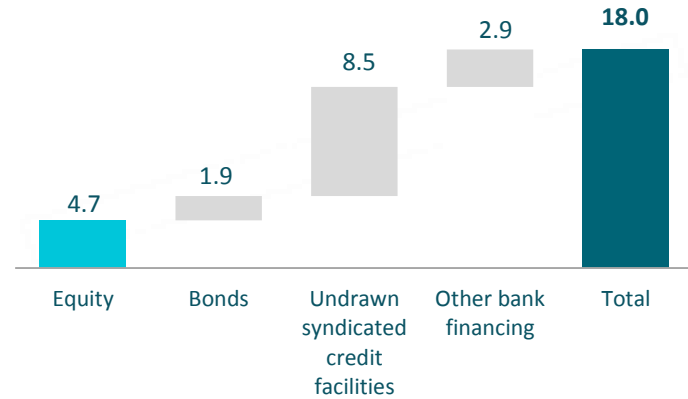
Effective interest cost below guidance

Effective interest cost: 57 b.p. lower y-o-y



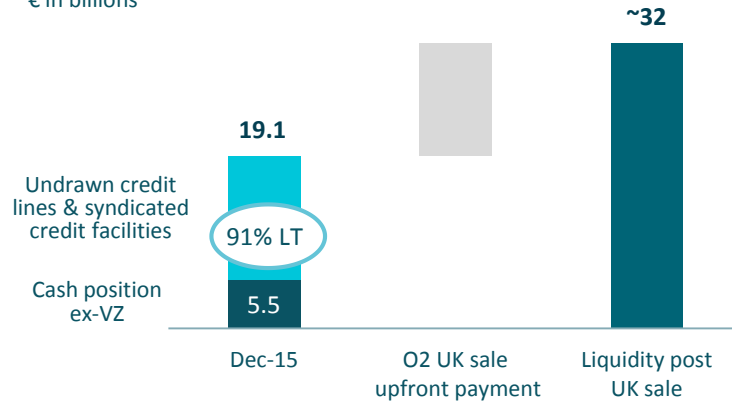
Sources of financing

€ in billions



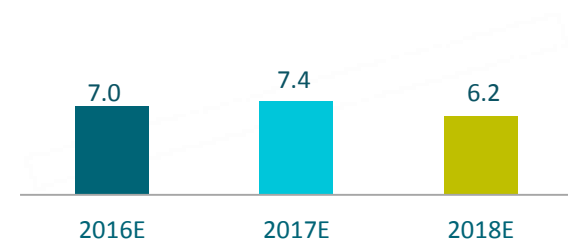
Liquidity position

€ in billions



Net debt maturities (Dec-15)

€ in billions; not considering hybrid NC dates



Average debt life at 5.15 years

04

Conclusion

Chairman & CEO

Summary

2015

Solid set of results in 2015; Improving position to accelerate growth

2015

Robust momentum in fiber, 4G and Pay TV; Investing in differentiation

2015

Bold step in integration (GVT, DTS, E-Plus); Advances in simplification

2016

Maintain revenue momentum; Significant data monetisation potential

2016

Accelerate in transformation, Synergies & Simplification

2016

Ongoing investments & Attractive shareholder remuneration

GROW PROFITABLY; MAINTAINING FINANCIAL FLEXIBILITY

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