

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

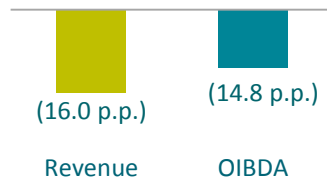
Financial summary

€ 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% } Ex-deferred tax asset O2 UK in Q1 15
EPS	0.14	(60.9%)	
FCF	69	(81.1%)	
Net financial debt	50,213	10.1%	

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

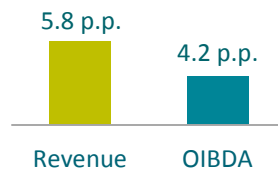
Latam currencies depreciation

Q1 y-o-y



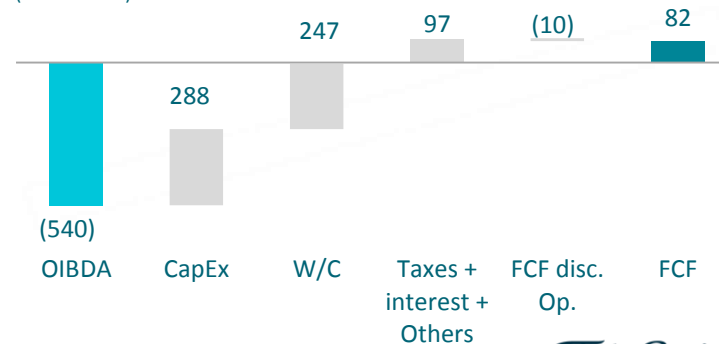
Positive contribution of GVT & DTS

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%

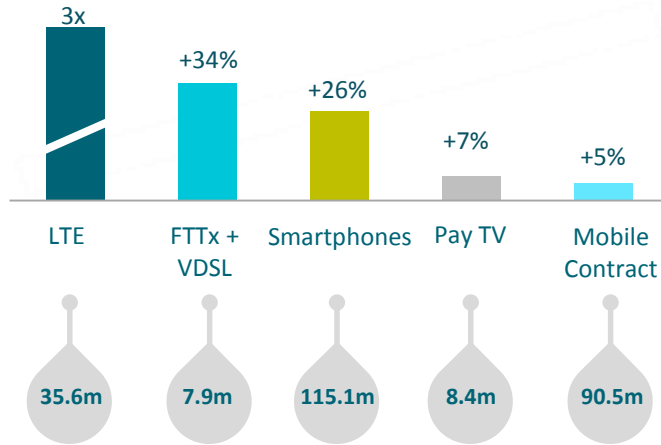
Net Financial Debt/OIBDA (adjusted for O2 UK sale)	<2.35x
Dividend (2016 full cash subject to the receipt of O2 UK proceeds) €0.4/share cash payment in May-16 (second tranche of 2015 dividend)	€0.75/sh. Proposal to the AGM (12 th May)
Share buyback: % share capital cancelled (treasury; subject to the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

Best quality customer base

Growth engines

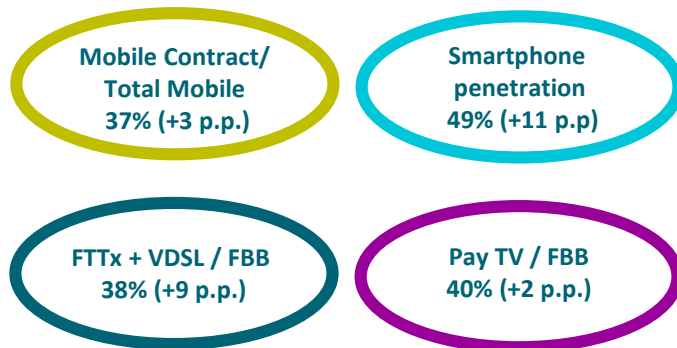
Accesses (y-o-y organic in fixed services)

● 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)

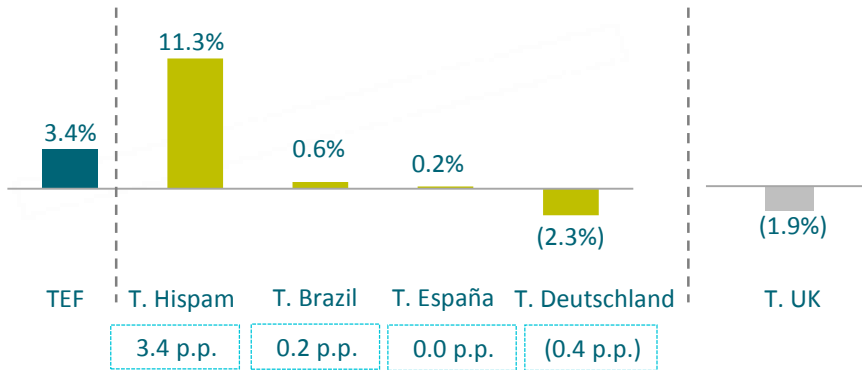
Delivering customer value

- **+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

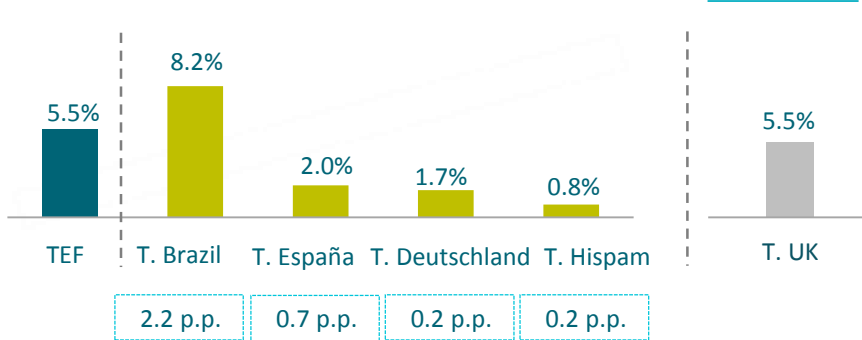


Consistent revenue growth (12th Q in a row)

- **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

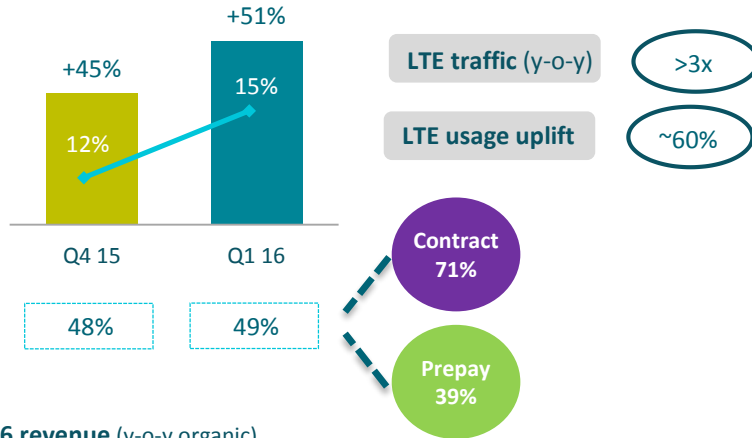
- **7th consecutive Q of OIBDA growth**
- **Sequential acceleration of OIBDA to +5.5% y-o-y** on proven execution
 - OpEx decelerating 2.3 p.p. q-o-q (+2.7% in Q1)
- **Sharp margin stabilisation (31.3%; +0.6 p.p. y-o-y organic)**
 - Transactions synergies savings
 - Progress on efficiencies from simplification: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

Further advances in data monetisation

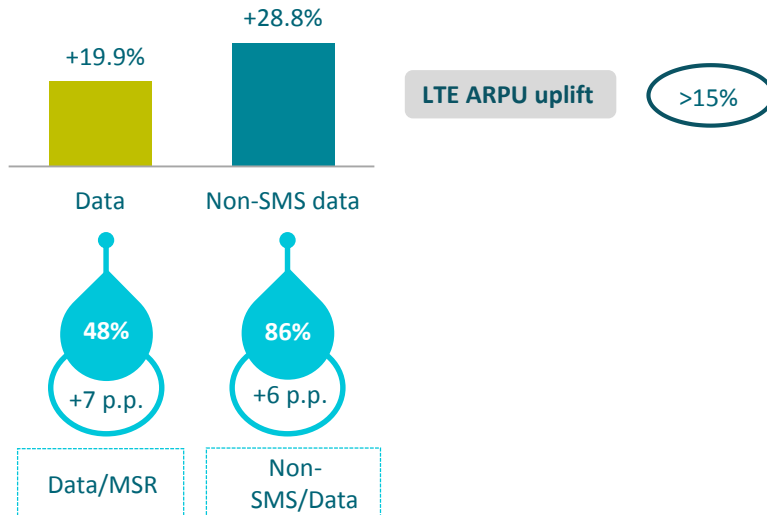
Mobile data traffic (y-o-y)

◆ LTE penetration

□ Smartphone penetration



Q1 16 revenue (y-o-y organic)



LTE: Key lever on mobile data

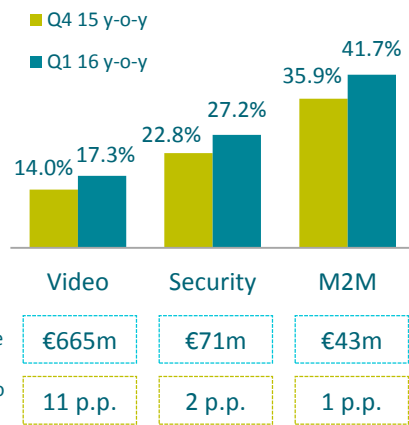
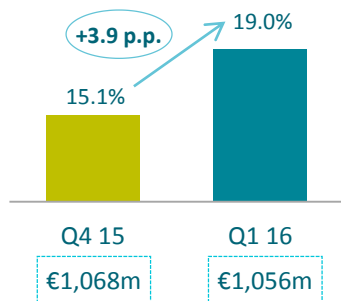
- **LTE traffic:** 25% of mobile data traffic (+14 p.p. vs. Q1 15)
 - Q1 avg. usage per smartphone +13% y-o-y (580 MB/month)
 - Q1 LTE shipments 73%
- **Capturing data opportunity in T. Hispam**
 - T. Hispam prepay Smartphone penetration: 29% (+8 p.p. y-o-y)
 - Prepay ARPU uplift after data adoption; 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

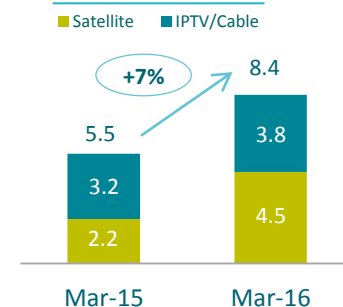
Revenue (y-o-y organic)



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

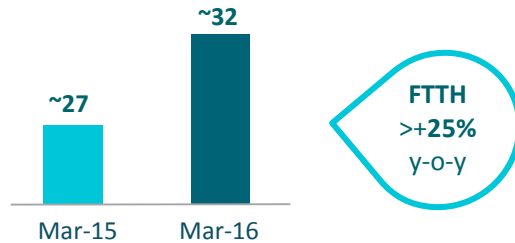
- Security (7% o/Digital Services rev.); >6m customers protect digital data with our “Personal Cloud” service
- M2M (4% o/Digital Services rev.); Building verticalized value proposition in recently created IoT global business area
- Cloud (8% o/Digital Services rev.); Partnerships with Amazon & VMware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

TGR: Adding value through technology evolution

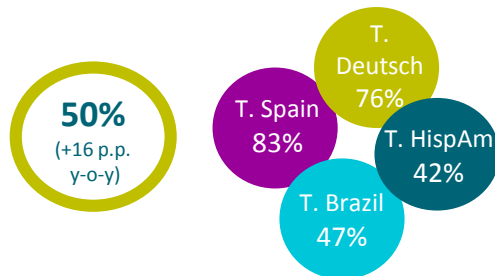
Accelerating UBB connectivity

Premises Passed with Fibre (FTTx)

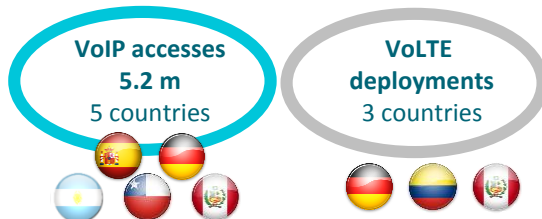
(million)



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

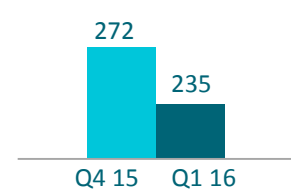
Mr. Angel Vilá
CSFO



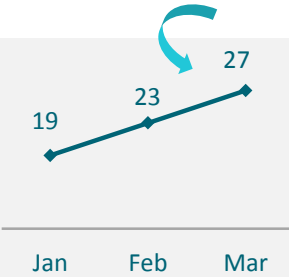
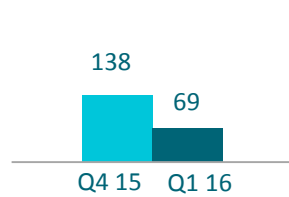
Spain: Focus on growing customer value

Net adds ('000)

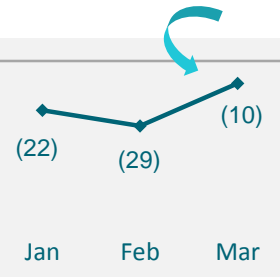
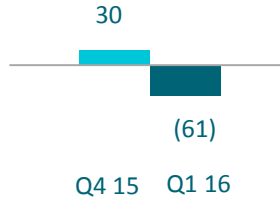
FTTH



Consumer "Fusión"



Mobile voice contract

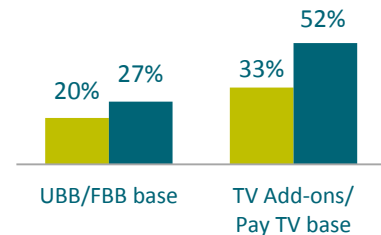


Trading improvement throughout Q1

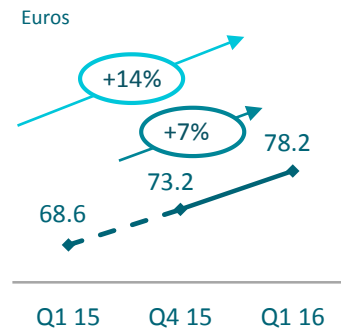
- **Q1 trading reflect tariff update**
 - "Fusión", mobile contract, FBB non-convergent
 - Temporary churn uptick
- **Commercial activity normalised from March**
- **Fixed telephony net adds recovering**
- **Successful results of TV promo in H2 15**
 - ~75% of subs. stuck to TV add-ons
 - Promos for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

High-value penetration

■ Mar-15 ■ Mar-16



Consumer "Fusión" ARPU

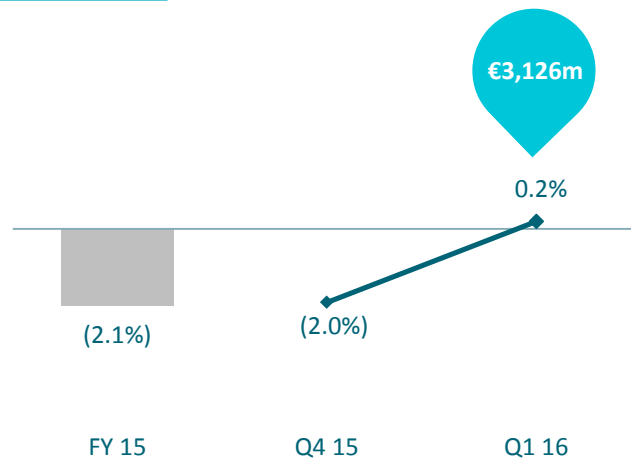


Superior proposal makes the difference

- **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

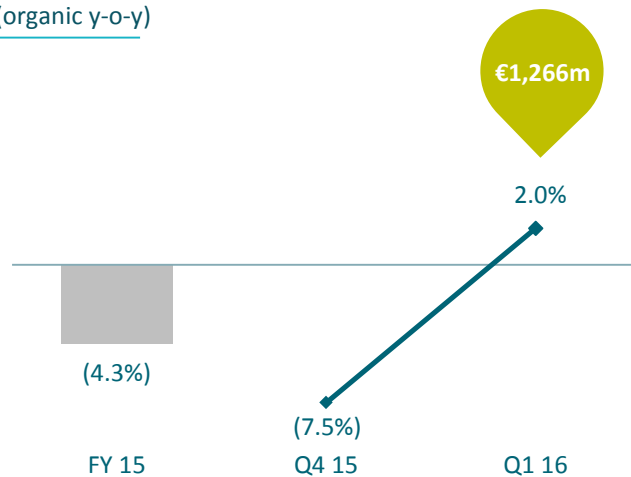
Revenue (organic y-o-y)



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)



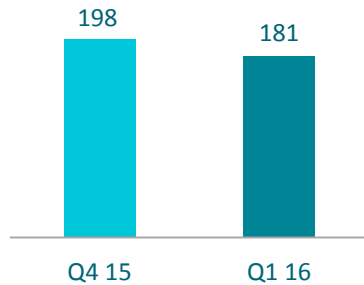
Strong operating leverage

- **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

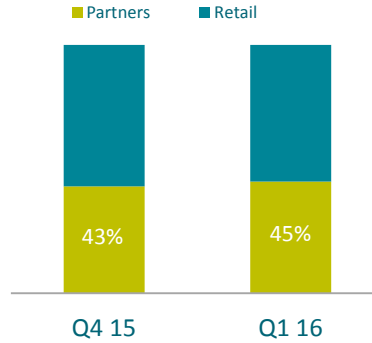
Contract net adds ('000)

Ex-adjustments: 400k in Q4 15



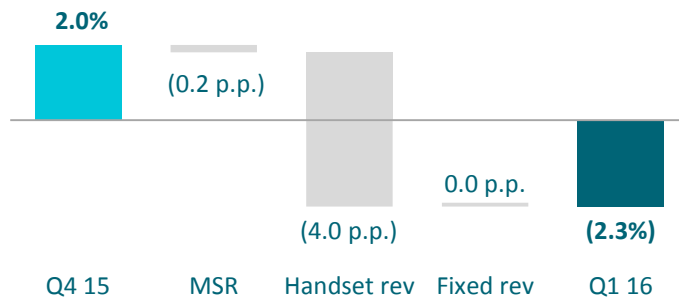
Low contract churn levels;
Q1: 1.8%

Contract gross adds mix



Partner share broadly stable from Q2 15

Revenue (y-o-y organic)



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)**

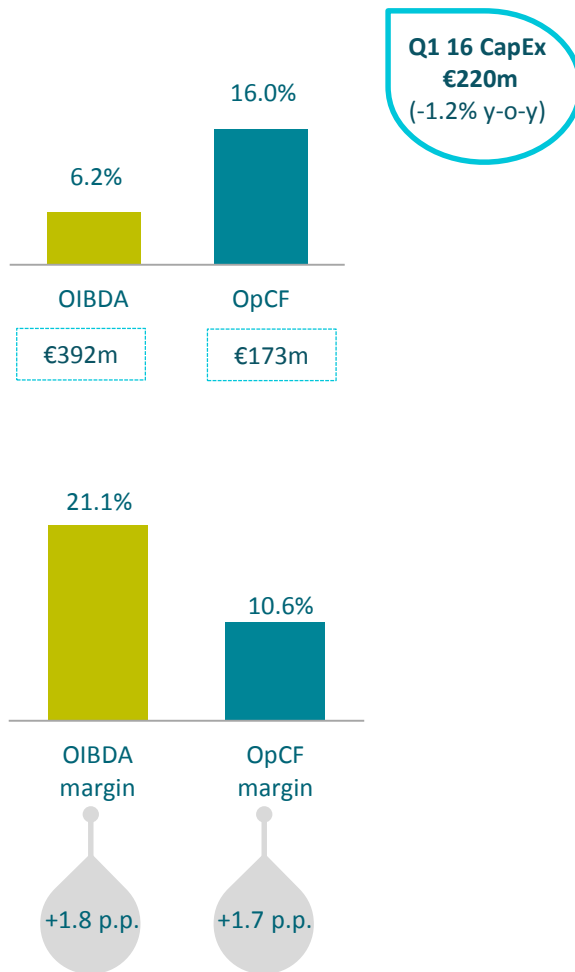
Revenue reflects base mix effect

- **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)

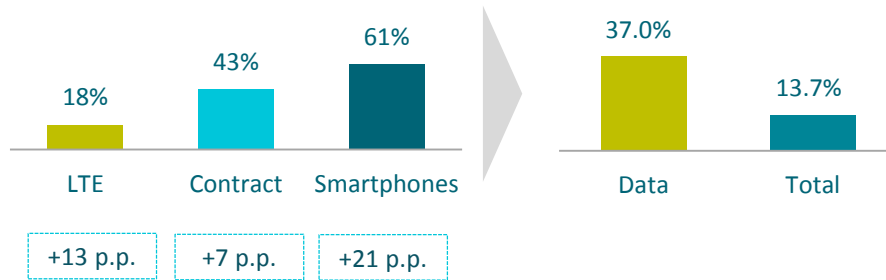
Ongoing robust profitability

- **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

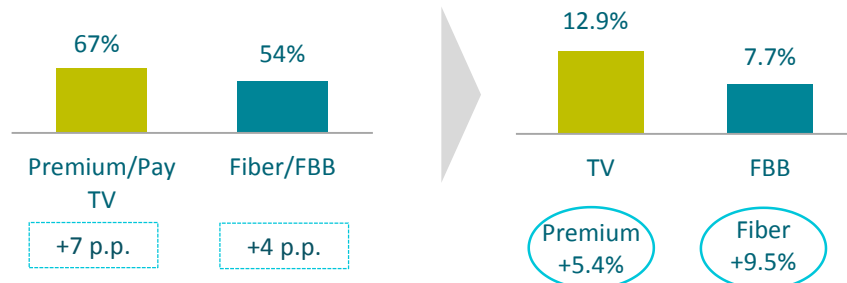


Data-centric strategy driving ARPU acceleration

- **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

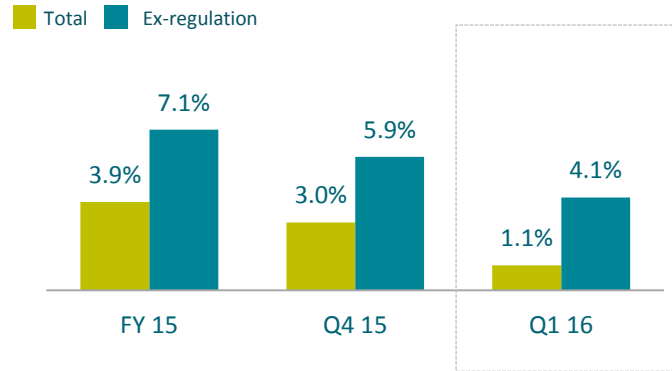


Smart bundling to support long-term strategy

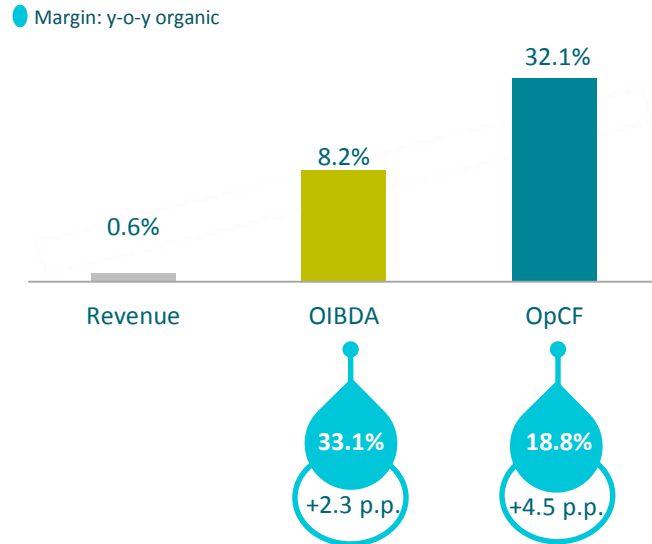
- **16.8m homes passed with fiber in 185 cities nationwide**
 - 3.9m HH connected
- Improving **legacy cooper network in SP** generating higher returns
- Strategy to differentiate **TV is paying off**
 - **ARPU y-o-y improvement** (+5 p.p. q-o-q); better sales mix
 - **Differential value proposition:**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

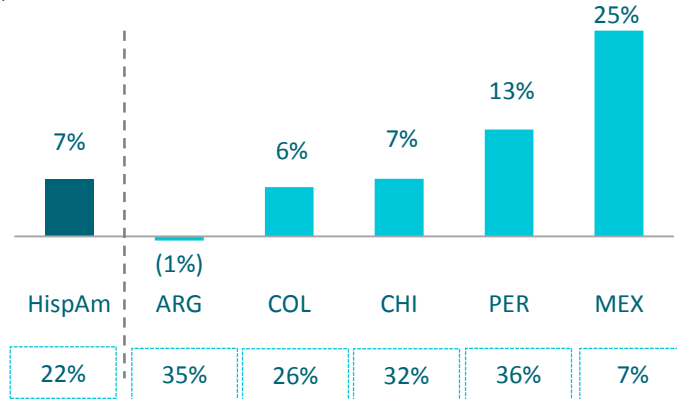
Synergies and efficiencies initiatives

- 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

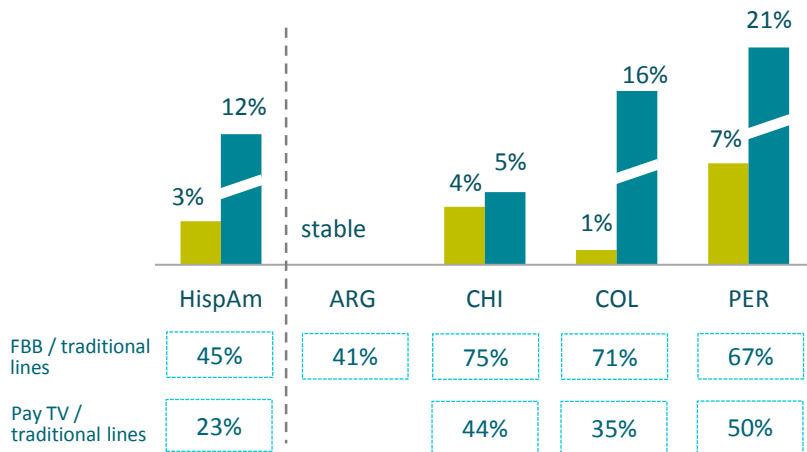
Contract accesses y-o-y

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:

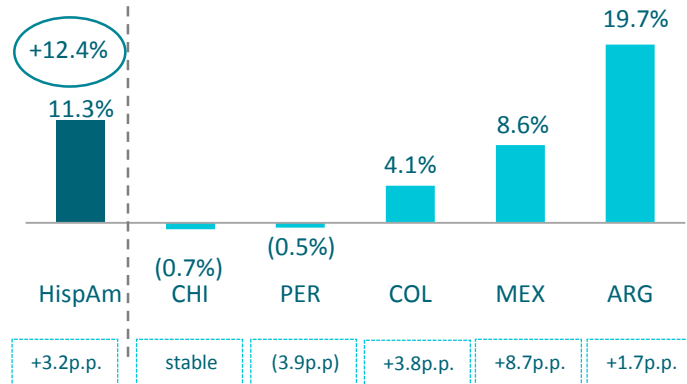
- Continued momentum in contract (net adds x4 y-o-y)
- Competition intensifying

HispAm: Focus on quality flowing into revenues

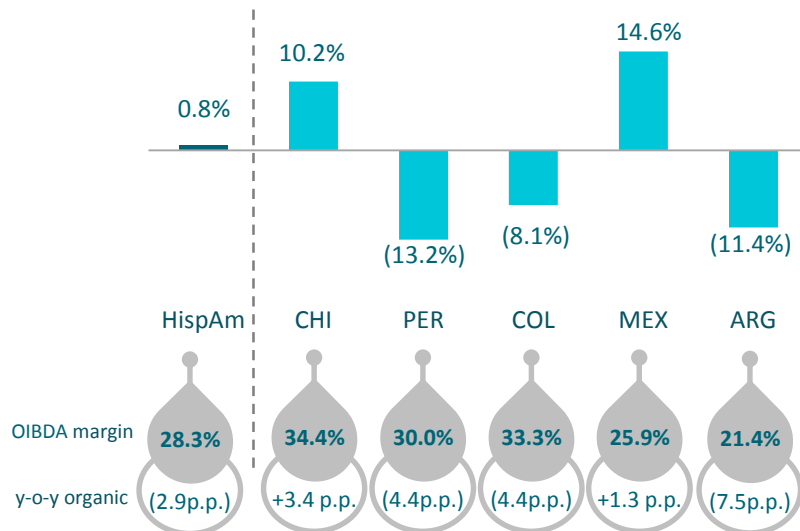
Revenue (organic y-o-y)

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%)

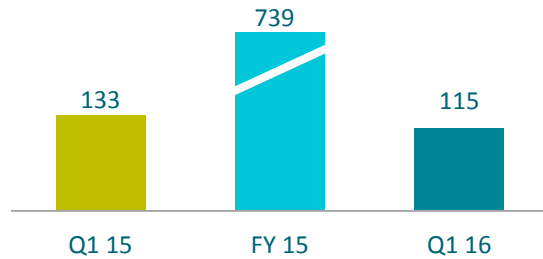
Steady OIBDA growth

- 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)

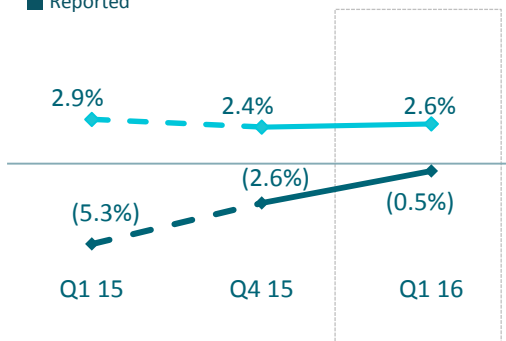


Sustained market leading contract churn <1%

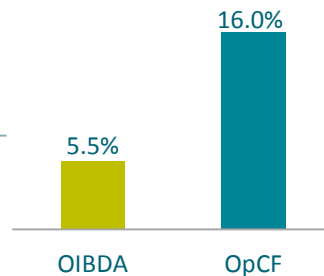
- Mobile base 25m
- Customer experience leadership (7 years in a row)
- Successful market propositions (“Refresh”, “Business Essentials”)
- LTE as a growth lever
 - 639k net adds in Q1 16
 - Penetration: 38% (+3 p.p. q-o-q)
 - 87% outdoor coverage at Mar-16

MSR (y-o-y)

■ Ex “O2 Refresh”
■ Reported



Profitability (y-o-y)



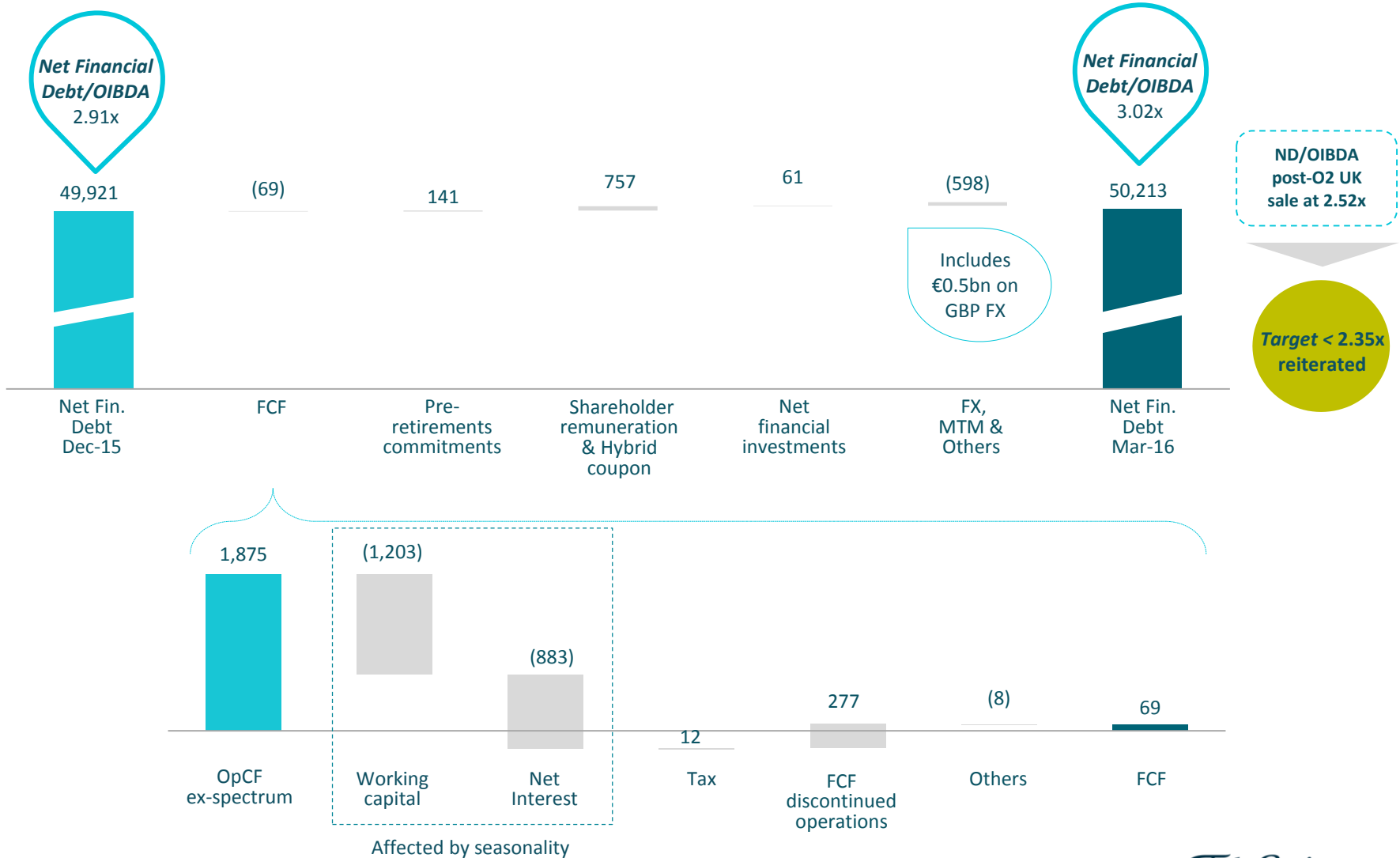
Strong financials: Ramp-up in growth

- 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

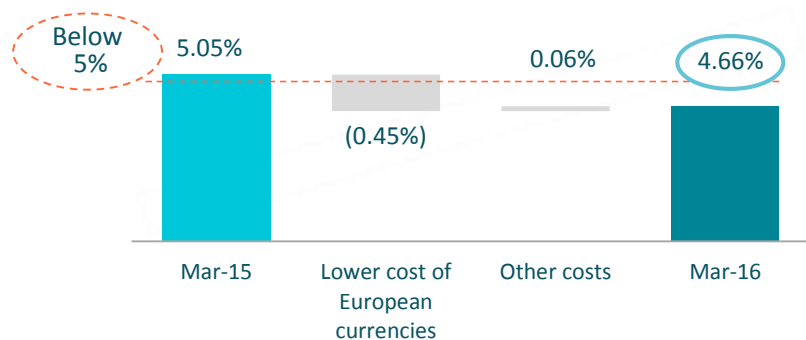
€ in millions



Strong liquidity to face upcoming maturities

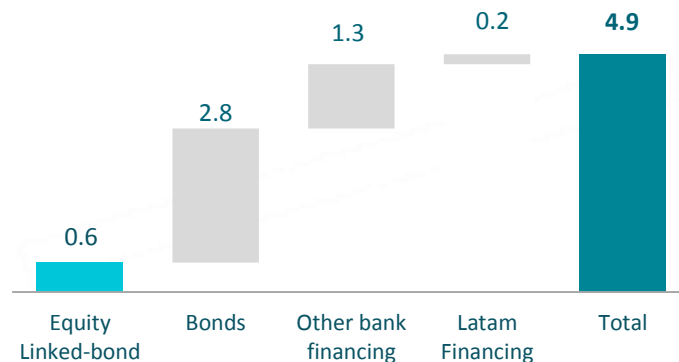
Effective interest cost: 39 b.p. lower y-o-y

----- Guidance



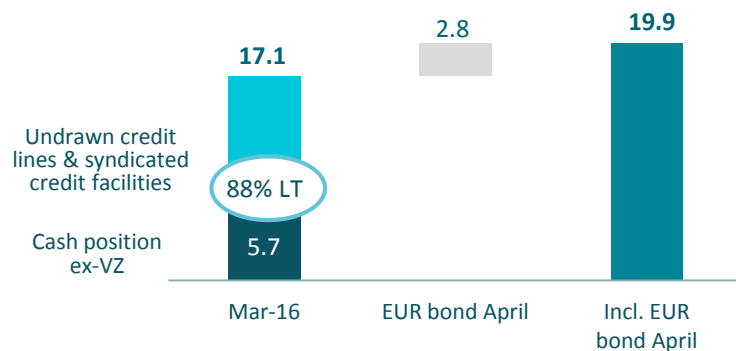
Sources of long-term financing

€ in billions



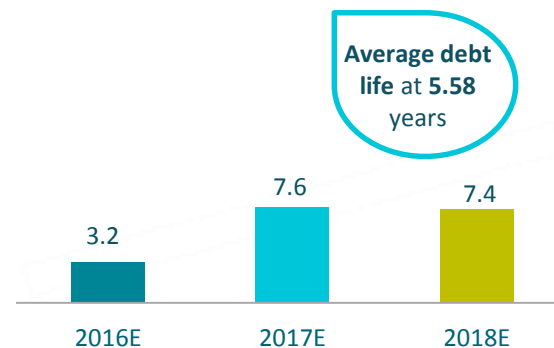
Liquidity position

€ 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)

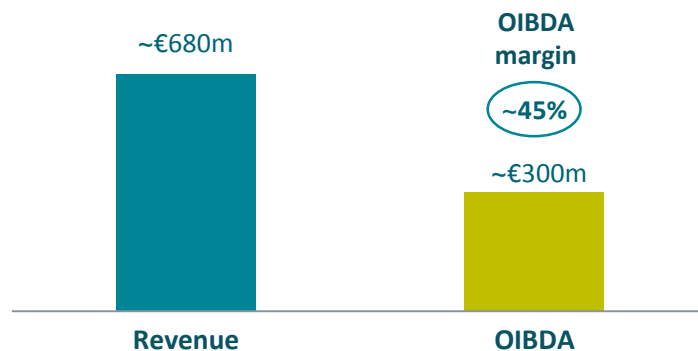
2



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

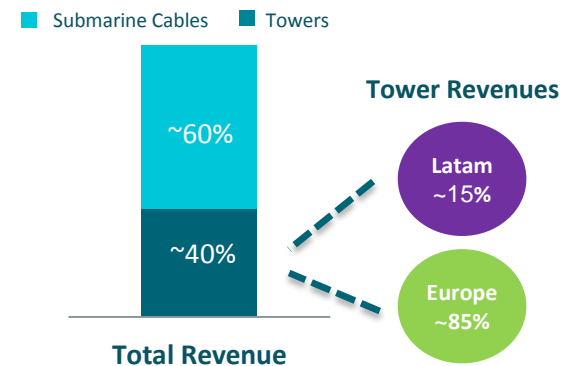
Substantial and profitable

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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