

Results

January – September 2017

Telefonica

Disclaimer

This document and the conference-call webcast (including the Q&A session) may contain forward-looking statements and information (hereinafter, the “Statements”) relating to the Telefónica Group (hereinafter, the "Company" or "Telefónica") or otherwise. These Statements may include financial forecasts and estimates based on assumptions or statements regarding plans, objectives and expectations that make reference to different matters, such as the customer base and its evolution, growth of the different business lines and of the global business, market share, possible acquisitions, divestitures or other transactions, Company results and other aspects related to the activity and situation of the Company.

The Statements can be identified, in certain cases, through the use of words such as “forecast”, "expectation", "anticipation", “aspiration”, "purpose", "belief" or similar expressions or variations of such expressions. These Statements reflect the current views of Telefónica with respect to future events, do not represent, by their own nature, any guarantee of future fulfilment, and are subject to risks and uncertainties that could cause the final developments and results to materially differ from those expressed or implied by such Statements. These risks and uncertainties include those identified in the documents containing more comprehensive information filed by Telefónica before the different supervisory authorities of the securities markets in which its shares are listed and, in particular, the Spanish National Securities Market Commission.

Except as required by applicable laws, Telefónica does not assume any obligation to publicly update the Statements to adapt them to events or circumstances taking place after the date hereof, including changes in the Company's business or business development strategy or any other unexpected circumstance.

This document and the conference-call webcast (including the Q&A session) may contain summarized, non-audited or non-GAAP financial information. The information contained herein and therein should therefore be considered as a whole and in conjunction with all the public information regarding the Company available, including any other documents released by the Company that may contain more detailed information.

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 and disclosure related to APM used in this presentation are included in the Appendix. Recipients of this document are invited to read our condensed consolidated interim financial statements and consolidated interim management report for 2017 submitted to the Spanish National Securities Market Commission.

Neither this document nor the conference-call webcast (including the Q&A session) nor any of their contents constitute an offer to purchase, sale or exchange any securities, a solicitation of any offer to purchase, sale or exchange of any securities, or a recommendation or advice regarding any security.

01 

Q3 17 Highlights

Mr. Ángel Vilá
COO



Q3: Solid execution on key priorities

Consistent and profitable organic growth



Company transformation
(more efficient and improving resource allocation)



Reinforcing Balance Sheet

- **Growing strategic KPIs:** fiber, LTE supporting customer lifetime value
 - Ramping-up avg. rev per access to +4.3% y-o-y; churn control
- **Revenue acceleration to +4.0% y-o-y; Spain back to service rev. growth**
- Continued OIBDA growth (+2.8% y-o-y); in spite of **RLAH dragging -1.7 p.p.**
- **9M EPS €0.44; +8.7% y-o-y**

- Continued investments in best network; **CapEx intensity starts reducing**
- Delivering results from **cost initiatives and synergies integration**
- **Leveraging on digitalisation;** improving operating leverage & differentiation
- **Cognitive Intelligence** (“Aura”); new relationship of trust (increase loyalty and reduce churn)

- **One more quarter of net debt reduction** (-€2.4Bn y-o-y) to €47.2Bn (Sep-17)
 - Incl. sale of 40% Telxius: €45.9Bn; -€3.6Bn (-7.4% y-o-y)
- **Strong 9M FCF: €3,226m; +39.2% y-o-y; Q3: €1,600; +6.7%**
- **Positive bond refinancing:** long-term and historical low levels

On track to deliver FY outlook

2017E Guidance (Organic)	Guidance 2017E	9M 17
Revenues	>1.5% (in spite of regulation: ~-1.2 p.p.)	2.9% (regulation -1.1 p.p.)
OIBDA margin	Expansion up to 1 p.p.	0.3 p.p.
CapEx ex-spectrum/Sales	Around 16%	14.1%

2017 Dividend	To be paid in 2017/18
Interim Dec-17	€0.20/sh. Cash
Final Jun-18	€0.20/sh. Cash

Dividends to be paid in 2017 calendar year amount to €0.40/sh.:

- Cash dividend already paid on 16th Jun-17; €0.20/sh.
- Cash dividend 14th Dec-17; €0.20/sh.

MAINTAINING A SOLID INVESTMENT GRADE RATING

Growth + Sustainable Dividend + Deleverage

Summary: Financials

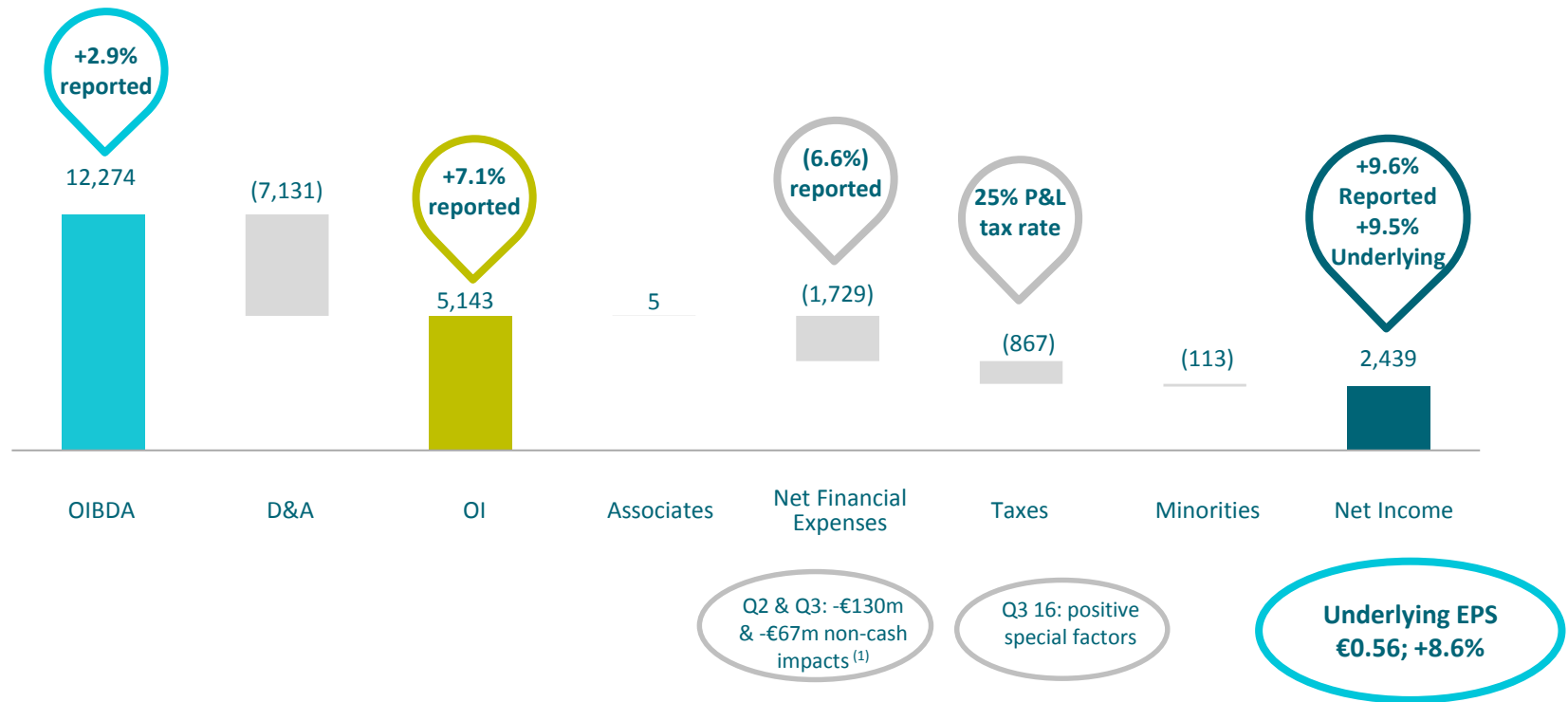
€ in millions	9M 17			Q3 17		
	Reported	Reported y-o-y	Organic y-o-y	Reported	Reported y-o-y	Organic y-o-y
Revenue	38,846	1.4%	2.9%	12,754	(2.5%)	4.0%
Service revenues	35,970	1.3%	2.7%	11,746	(3.3%)	3.3%
OIBDA	12,274	2.9%	3.8%	4,095	(1.9%)	2.8%
OIBDA Margin	31.6%	0.5 p.p.	0.3 p.p.	32.1%	0.2 p.p.	(0.4 p.p.)
OpCF (ex-spectrum)	6,815	8.9%	9.2%	2,138	(0.3%)	2.0%
Net Income	2,439	9.6%		839	(14.7%)	
EPS	0.44	8.7%		0.15	(17.5%)	
FCF	3,226	39.2%		1,600	6.7%	
Net Financial Debt	47,222	(4.8%)				

Q3 OIBDA impacted by RLAH (-1.7 p.p. y-o-y org.)

- Revenue growth accelerated in Q3 y-o-y org.
- OIBDA ex-regulation maintaining trends vs. H1
- 9M OIBDA margin expansion y-o-y
- High single-digit OpCF growth vs. 9M 16
- 9M FCF +39.2%
- Net debt reduction y-o-y and q-o-q

Bottom line increased by 10%, with EPS €0.44

9M 2017 (€m)

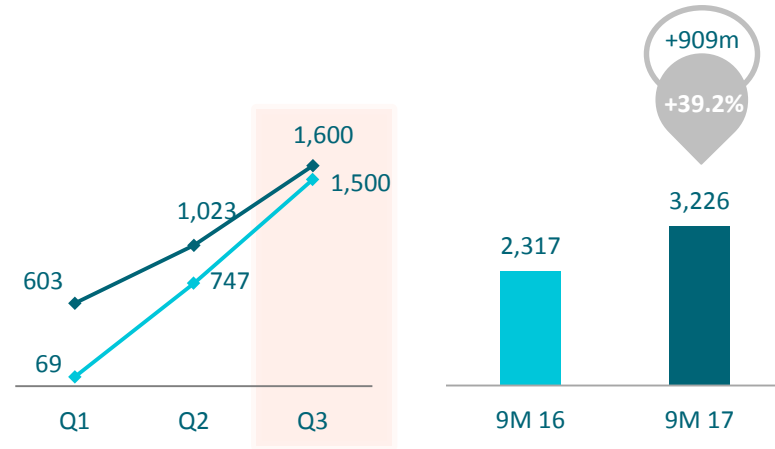


(1) Q2: Capital loss in Mediaset Premium and CU; impairment in Prisa and net effect of VZ devaluation. Q3: Contingency in ARG

Progressive improvement in FCF

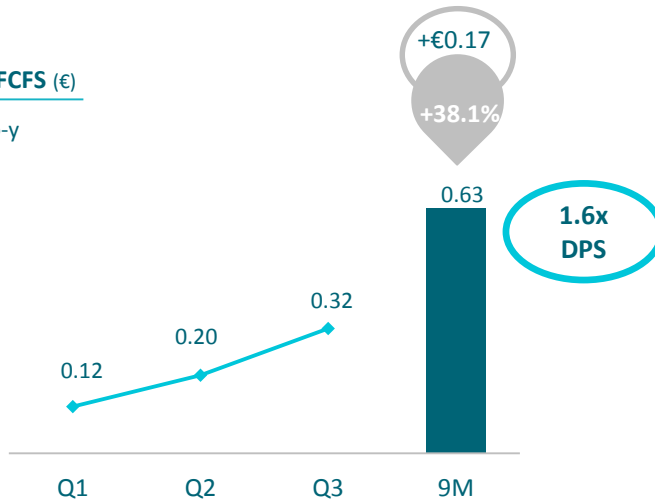
FCF (€m)

—◆— 2016 —◆— 2017 ● Y-o-Y



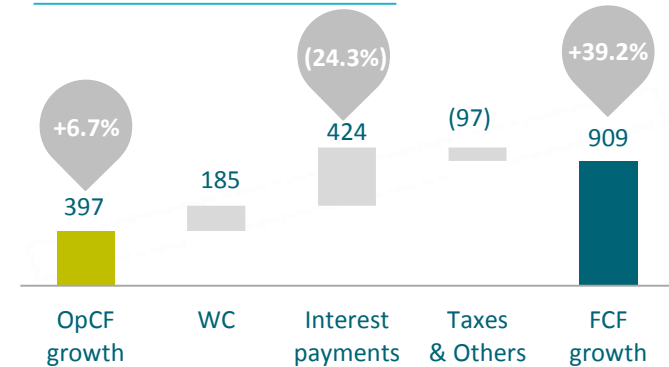
2017 FCFS (€)

● Y-o-Y



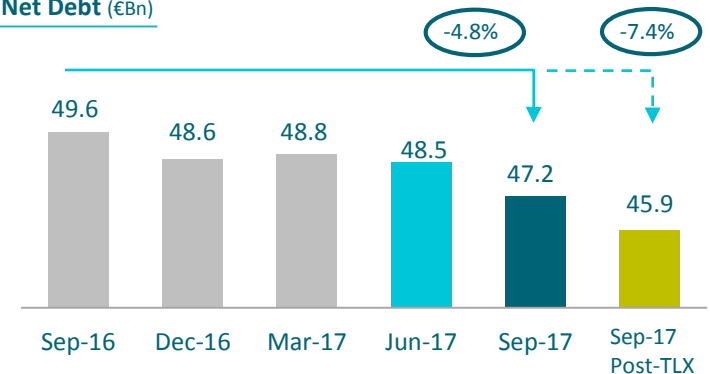
Strong FCF growth (y-o-y)

9M 17 FCF components (y-o-y; €m)



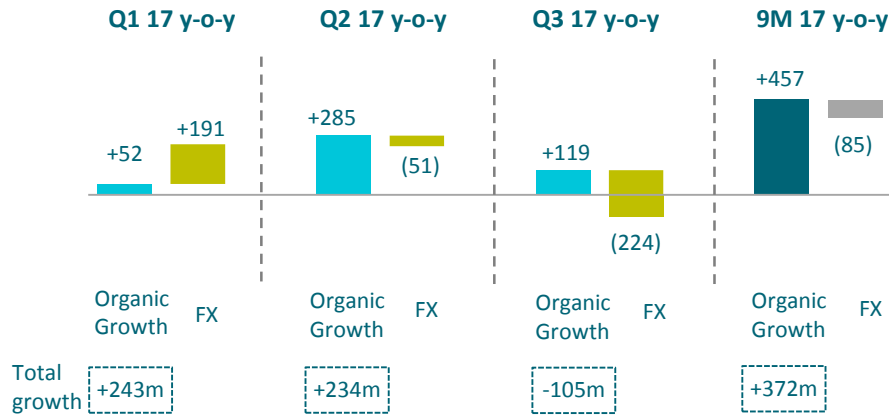
- FCF to improve in Q4 as seasonal factors impact positively
- Further net debt reduction

Net Debt (€Bn)

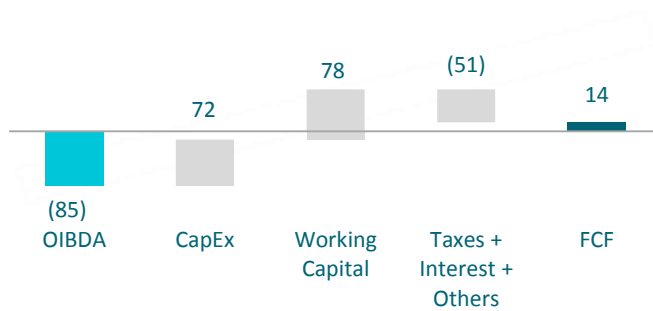


Growth fuelled by organic contribution

OIBDA: Organic growth & FX impact (€m)



FX impact in 9M FCF (€m)

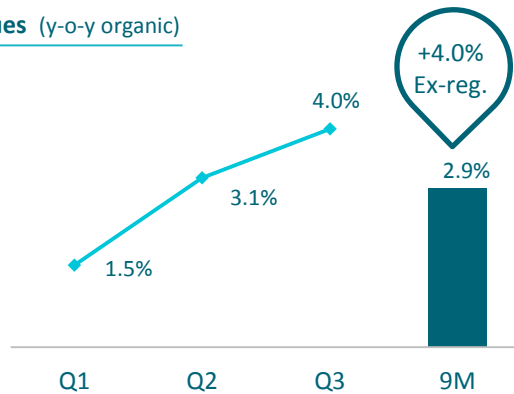


Remarkable organic trends despite regulation

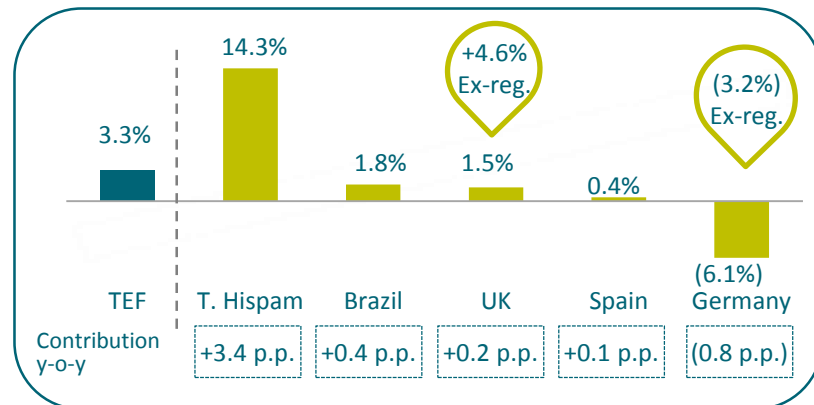
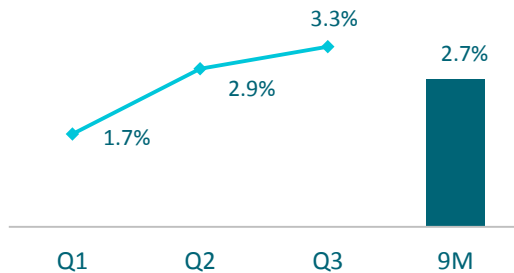
- **Up to September, organic performance added €457m** (+€119m in Q3)
 - FX dragged €85m or -0.7 p.p. y-o-y
 - RLAH ~-€70m in Q3 OIBDA
- **Negative FX effect in Q3 y-o-y** (-5.4 p.p.)
 - -€224m in Q3 vs. -€51m in Q2
 - Main currencies drained y-o-y: VZ, ARS, GBP, BRL
- FX persist as a headwind in H2 17 at current spot rates
- **9M OIBDA FX drag was offset at FCF level**

Revenue trends ramped-up

Revenues (y-o-y organic)



Service Revenues (y-o-y organic)



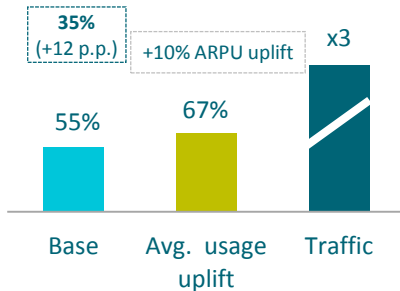
Strong and quality top line

- Q3 revenues accelerated +90 bps
- Q3 service revs increased y-o-y in all segments, except Germany
 - Better performance in Spain; explains most of the improvement
- Growth engines contributing in Q3
 - Spain back to growth in service revs y-o-y
 - Hispam improved 60 bps to +14.3% y-o-y service revs
 - Mobile data revs +16.3% y-o-y
- 9M BB Connectivity & SoC revs. gaining ground to 51% o/total
- Robust commercial momentum
 - Continued growth on high value base
 - “M4M” and portfolio optimisation
 - Innovation & Big Data capabilities increasing differentiation

Revenue growth based on successful data monetisation

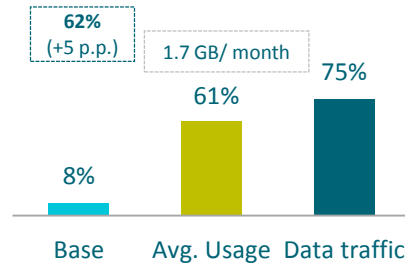
LTE (Q3 y-o-y organic)

☐ Penetration



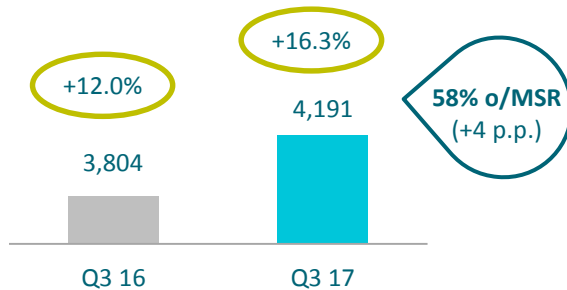
Smartphones (Q3 y-o-y organic)

☐ Penetration



Mobile Data Revenues (€m)

y-o-y organic



FTTH (Q3 17)

FTTH



x2.4 (vs. DSL)

Usage

>€10 premium

ARPU uplift

+39% vs. Q3 16
fixed
data traffic

Several levers to foster data revenues

- **Prepaid recurrent plans in Latam boost ARPU growth**
 - High penetration: >50% Brazil, ~30% Hispam
 - >10% ARPU uplift after data adoption
- **“M4M” to improve value for money**
 - Upselling strategy in Spain
 - New postpaid portfolio in BRA
 - New “O2 Free” portfolio in GER with ARPU up potential
 - Video dedicated data in COL and PER
 - Family plans in mobile only & convergent portfolios
- **Neuropricing: Improving value mix**
 - Being rapidly deployed: 12 countries
 - Proven value accretion (+5% ARPU of gross adds)
- **A new prepaid concept (APP’s) leveraging digital capabilities**
 - MEX: Flexible, Real Time control, reward programme
 - BRA: Community data sharing, data rollover

Movistar On

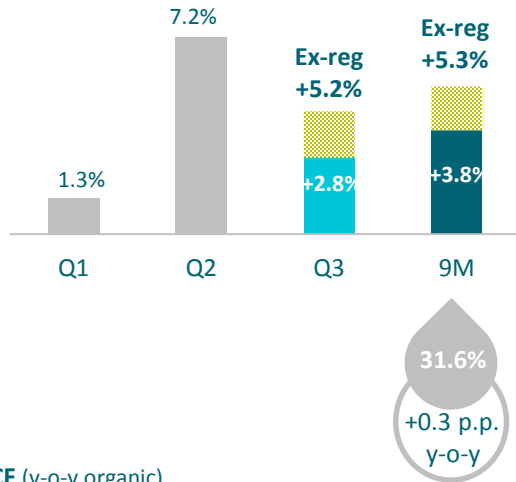
Meu Vivo App



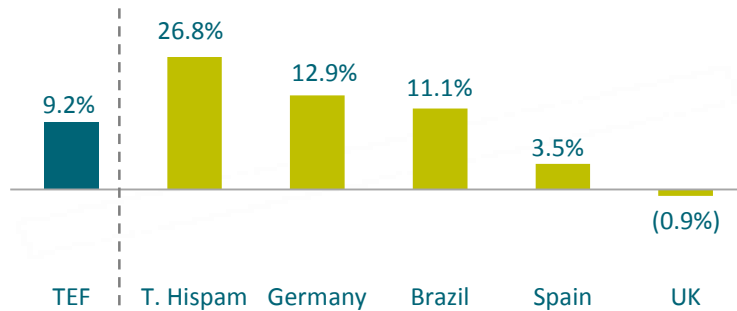
Generating profitability and cash

OIBDA (y-o-y organic)

● Margin



9M OpCF (y-o-y organic)



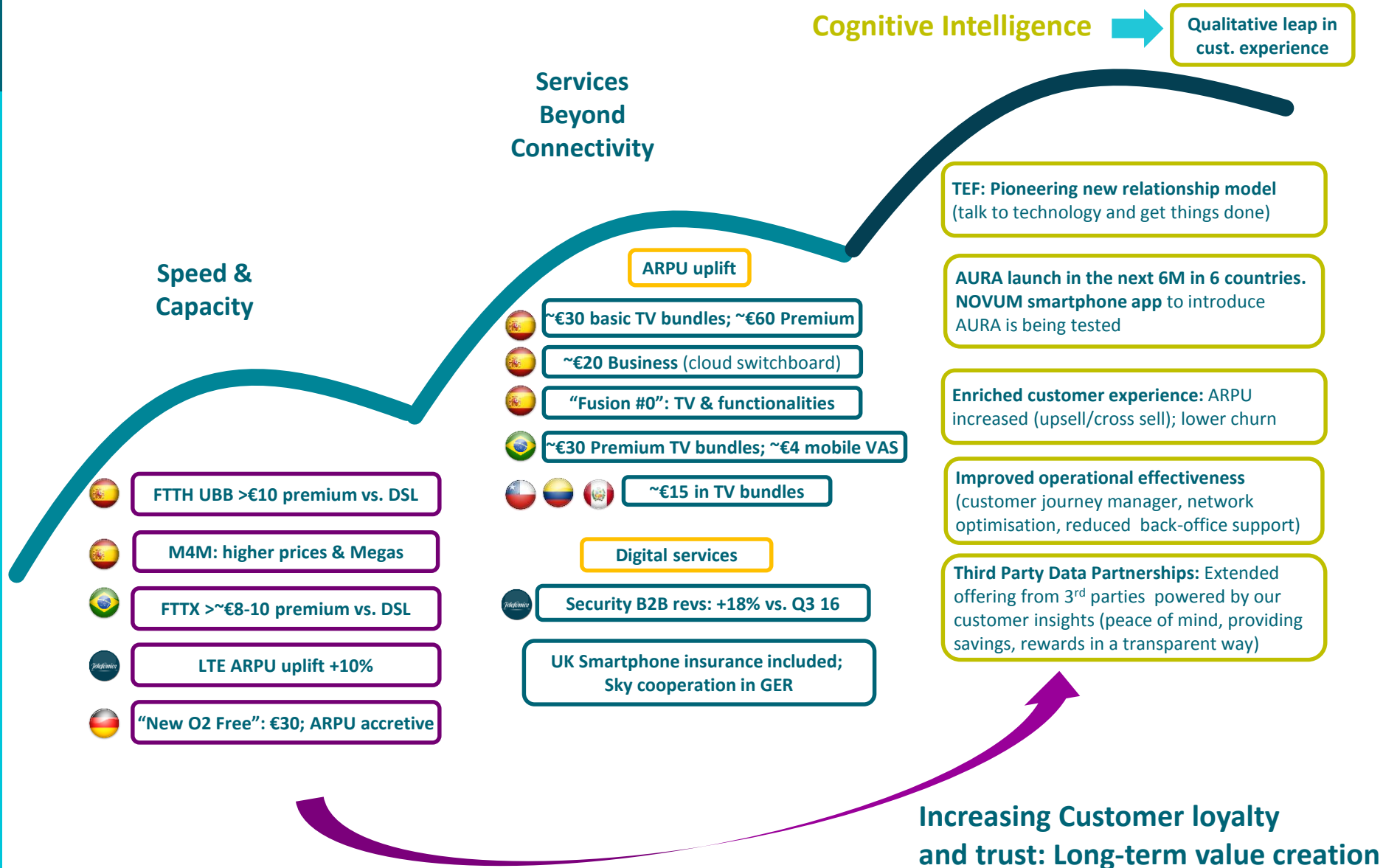
Contribution y-o-y	+4.8 p.p.	+1.2 p.p.	+2.3 p.p.	+1.4 p.p.	(0.1 p.p.)	
CapEx y-o-y	(2.3%)	+0.8%	(7.4%)	+2.5%	(14.5%)	+0.6%

Positive OIBDA: operating leverage increase

- Committed to improve efficiency and operational excellence
- Q3 y-o-y OIBDA maintaining trends ex-regulation
 - RLAH -1.7 p.p. impact in Q3
 - Tougher comparisons in ARG, lower real estate cap. gains in Spain
- Well diversified 9M OIBDA growth; margin expanding
- 9M OpCF +9.2% y-o-y
 - CapEx intensity begins to lessen (-2.3% y-o-y)
 - Smart investments associated with further business transformation

Upselling existing customer relationships

Cognitive Intelligence → Qualitative leap in cust. experience



Digital Services: differentiated offering



VIDEO: Revs: +6.8% vs. Q3 16

- Accelerated revenue growth (+2.0 p.p. q-o-q)
 - IPTV 40% o/total base
 - Continued ARPU expansion
- 8.4m accesses; IPTV +11% y-o-y
- New series produced by Movistar+ premiered at S. Sebastian Film Festival

58%
o/9M Dig. Revs.



10%
o/9M Dig. Revs.



CLOUD: Revs: +25.0% vs. Q3 16

- Sequential improvement
 - IaaS and SaaS (Spain)
 - New projects launched in Brazil
- Movistar "Fusión" Cloud for SMEs



€3,864m
9M Digital Serv. Revs.
+4.6% y-o-y org.
(Q3: €1,307m; +8.1%)



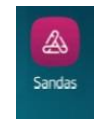
SECURITY: Revs -14.7% vs. Q3 16

- Sustained growth in B2B (+17.8% y-o-y)

Security Products



Cybersecurity Solutions



6%
o/9M Dig. Revs.

M2M: Revs: +41.0% vs. Q3 16

- IoT traction and Smart M2M boosting growth
- Strong focus on developing Smart Mobility, Energy & Retail
- Top 2 player: Gartner's Magic Quadrant for Managed M2M Services



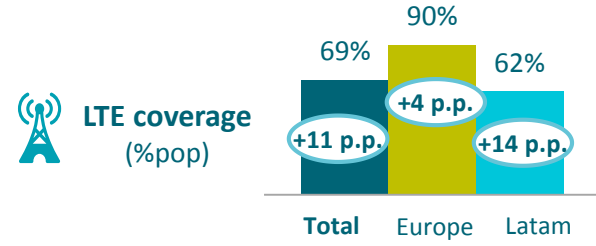
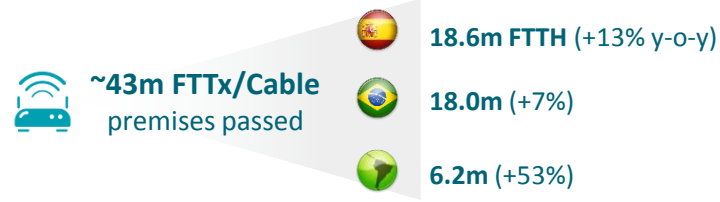
5%
o/9M Dig. Revs.



Other digital services (21% o/9M Dig. Revs.) include: Advertising, Applications and Financial Services

TGR: progressing on UBB & digitalisation

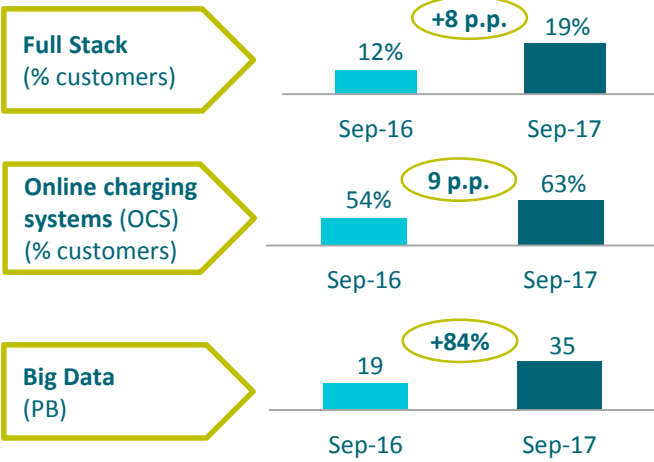
Excellent connectivity



Enabling digital capabilities



E2E Digitalisation



- ✓ **Real Time Decision:** 2 new use cases in Q3 (33 in 2017)
- ✓ **Critical Incidents** -7% y-o-y

Network transformation to All-IP

- Virtualisation**
Deployment in 5 countries of **UNICA** - Telefónica's global solution -
- VoIP**
8m customers (+31% y-o-y); 7 countries
- VoLTE**
7 countries Commercial launch
- VoWiFi**
Commercial launch
- Innovation**
5G: >10 5G tests/PoCs in own laboratories

At the forefront of digitalisation

DRIVER FOR DIFFERENTIATION AND EFFICIENCY

...tomorrow

Moving towards Digital Customer Engagement



Network Operating System (NOS). Transparent Network providing customers with E2E network management



Personalised Quality of Experience (customer needs and profile) leveraging AURA & 4th Platform



Brand differentiation; improving customer perception



E2E Digitalisation Programme

Connectivity; foundation for digital revolution
Digital services over connectivity

A Platform Company
CapEx ~ €54Bn 2012-9M17
(incl. spectrum)

...today...

2012-17...

Best in class networks

FTTH

LTE

4G to 4.9G

Leaders in FTTH deployment in Europe & LatAm

Legacy simplification

Digital Services and their functionalities improve customer experience

Video

Digital Home
(innovation hardware)

IoT

Security

Cloud

Advertising

Big Data
LUCA

WiFi 5 GHz High
Quality

Digitalisation of customer processes to increase customer satisfaction...

Self-management

Automation

...during Customer Lifecycle



Sales



Provisioning & installation



Payments & top-ups



Technical Support



Post-sales & Care

Network Digitalisation

All-IP Networks

Self-Organized Networks

Service Operation Center

NFV / SDN

Virtualisation UNICA

New value propositions to differentiate, increase customer loyalty and use

Data Sharing

Bundles

Smart WiFi

Contents

Making all this available to our customers through



Mi Movistar | MeuVivo | My O2

E2E digitalisation programme underway



LEVER TO TRANSFORM CUSTOMER PROCESSES ...

- Automation and real-time processes
- Fostering digital channels
- Reducing assisted channels interactions
- Improving customer experience

Impact on Operations

Increasing unique users in app/web

Increasing the interactions in digital channels

Reducing calls to call center

Reducing orders with manual intervention and incidents



... AND ALSO TO TRANSFORM OUR NETWORK

- All-IP Networks
- Radical network virtualisation: "UNICA"
- NFV/SDN
- Using Big Data
 - Network deployment optimisation
 - Network capacity planning
 - E2E service quality management

IMPACTING DIRECTLY ON COST STRUCTURE



Back-office and commercial Costs



Commissions & payments



Invoice printing & sending



Customer care



Technical support



Network OpEx reduction



CapEx optimisation



Faster deployments



Flexible network management

Digitalisation bearing clear benefits in Spain

- ✓ Transformation process started in 2012 towards building a leaner and more competitive Company
- ✓ Simplification programmes and Full Stack have driven benchmark efficiency and business process enhancement

Commercial

- Portfolio simplification
- Channels optimisation (size /mix/ efficiency)
- Automated processes (E2ED front and back)
- Fostering online experience

	Var 12-17E	2017E
Share of sales online	+20 p.p.	24%
Points of sale	(63%)	---
Unique digital users	---	41%
Handset subsidies	(97%)	---

Network & Operations

- NGN deployment (FTTH/LTE)
- Network optimisation
- Legacy network/platforms switch-off

	Var 12-17 E	2017 E
Failures/access	(41%)	
Remote solved incidents	---	82%
Calls to call center/access	(50%)	---
Legacy closed	---	65%

IT & Systems

- Transformation operating model
- Virtualisation/automation
- Simplification

	Var 12-17 E
Reduction of:	
Systems	(19%)
Servers	(47%)
Data centers	(57%)
Platforms	(28%)

Organisation

- Workforce simplification

	9M 17 annualised
Productivity (OpCF/employee)	€128k

Tangible Benefits

- ✓ Improved **TTM**
- ✓ Improved **CSI**
- ✓ **Commercial costs** (-67% in 12-17E)
- ✓ Lower **failures**
- ✓ **Energy** efficiency
- ✓ Sale of **freed assets**
- ✓ Increase **FTTH take**
- ✓ **Revenue** increase
- ✓ Lower unitary maintenance cost of customer equipment: **FTTH vs. Copper -40%**
- ✓ **OpEx+CapEx Systems:** (-37% in 12-17E)
- ✓ **Productivity** (+9% in 14-9M 17A)

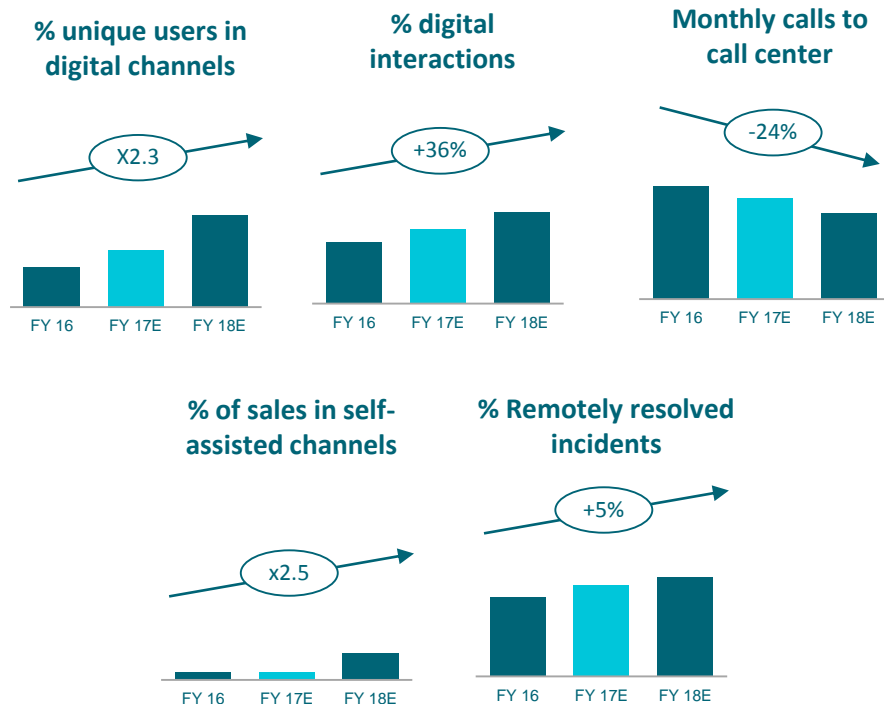
MORE TO COME...

Digitalisation being gradually adopted group-wide

SELF-MANAGEMENT LEVEL, PROCESS AUTOMATION

BRAZIL EXAMPLE






Impact on Operations...



... is boosted by BUSINESS INITIATIVES to become digital

- ... Initiatives promoting the use of digital channels
- ... Simplify and communicate our value proposition
- ... Boosting e-billing and new payment methods
- ... Initiatives for filtering calls towards self-assisted channels
- ... Promotion of field operations improvement (problems diagnosis, traceability, ...)

... and supported by key TECHNOLOGICAL ENABLERS

- 
Full Stack
 Providing **automated, real-time processes** and **360° customer view**
- 
Online Charging
 Enabling **real-time spend control** and data sharing
- 
Payment Systems
 Providing **new payment methods**
- 
Network Diagnosis
 Systems providing **service monitoring, remote diagnosis and resolution, self-healing ...**
- 
App / NOVUM
 New app for a **differential self-management experience**

02 

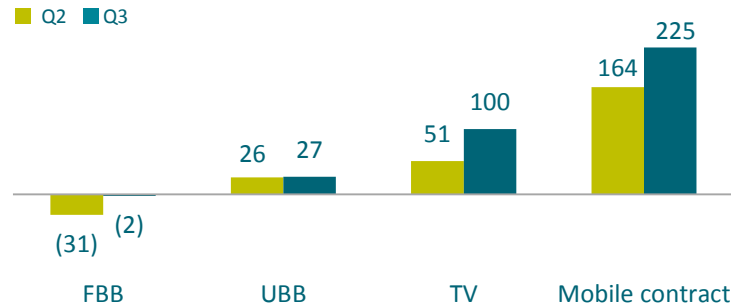
Q3 17 Results

Ms. Laura Abasolo
CFCO



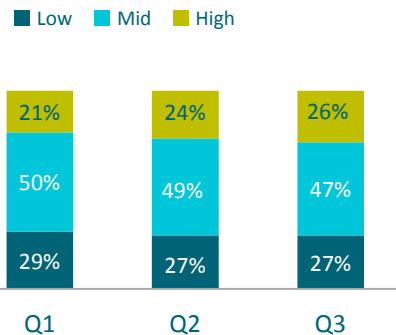
Spain: Recovered momentum; focus on value

Net adds 2017 ('000)

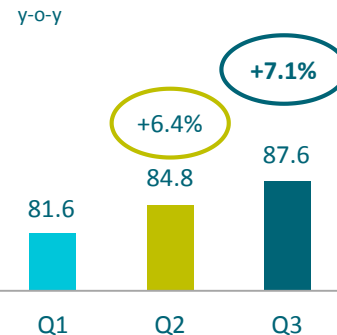


Positive net adds
Aug. +4k
Sep. +9k

"Fusión" mix 2017 (% base)



"Fusión" ARPU 2017 (€)



Better trading on enhanced positioning

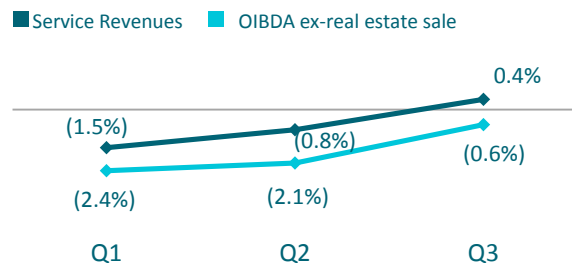
- **Positive volumes from new "Fusión" packs** (launched in July)
 - Q3 gross adds recovery: "Fusión" (+16% y-o-y), FBB (+13%)
 - Best contract quarterly net adds in last 10 years
 - FBB net adds (+29k q-o-q)
- **Better "Fusión" customer mix**
 - Consistent ARPU growth, accelerating in Q3
 - UBB penetration (39%; +4 p.p. y-o-y); TV (73%; +5 p.p.)
 - Upgrades offsetting limited downgrades

Clear focus on convergence upselling

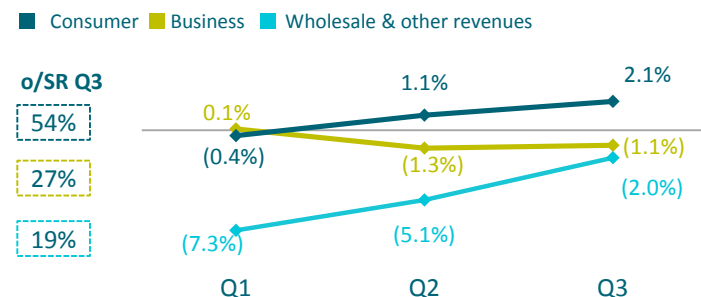
- **Value oriented strategy**
 - Segmentation of the offer; ARPU & loyalty increase
- **Clear market-leadership in network & service quality**
 - LTE: 97% pop. cov.
 - 18.6m premises passed FTTH (>60% households)
 - Exclusive TV content and functionalities

Spain: Improved revenue trends; strong OpCF

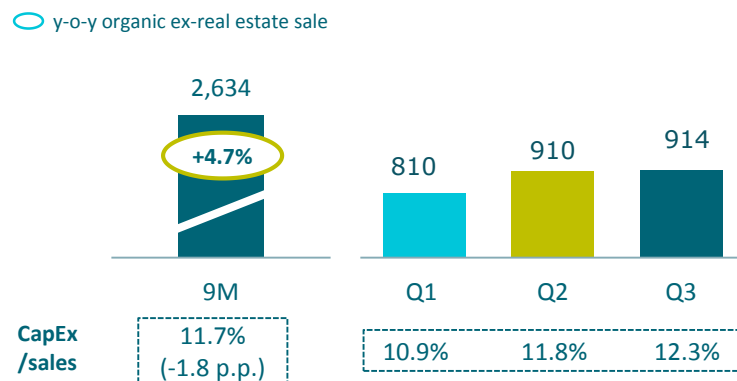
2017 Financials (y-o-y organic)



2017 Service Revenues by segment (y-o-y organic)



2017 OpCF (€m)



Back to growth in Service Revenue

- **Consumer revs. ramping-up** (+1.0 p.p. q-o-q)
- **Business revs.** (+0.2 p.p. q-o-q) affected by **IT seasonality**
- **Wholesale & Other revs. improved trend** (+3.2 p.p. q-o-q)
 - Comparable wholesale TV revs. from mid-August
 - FTTH wholesale increase
 - Marginally positive impact from RLAH

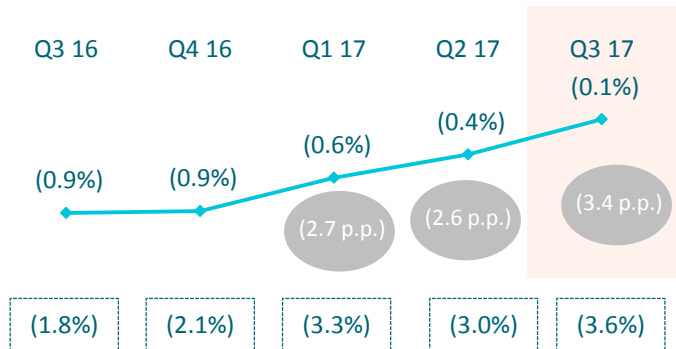
High operating leverage, strong upside

- **Q3 OpEx +0.2% y-o-y** (-1.2% in Q2)
 - (+) Personnel savings
 - (-) Handsets, roaming-out, content cost
- **Q3 OIBDA margin: 41.0%**; -0.1 p.p. y-o-y ex-real estate sale
- **High visibility on CapEx reduction**
- **Growing OpCF throughout the year**

Germany: Data monetisation opportunity ahead

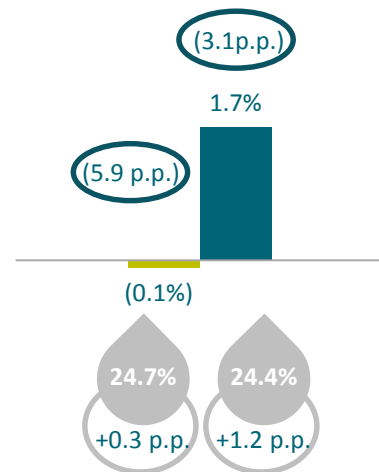
MSR ex-regulation (y-o-y organic)

MSR Regulation



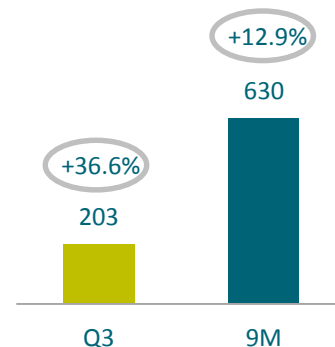
2017 OIBDA (y-o-y organic)

Q3 9M Margin Regulation y-o-y organic



2017 OpCF (€m)

y-o-y organic



Larger data buckets

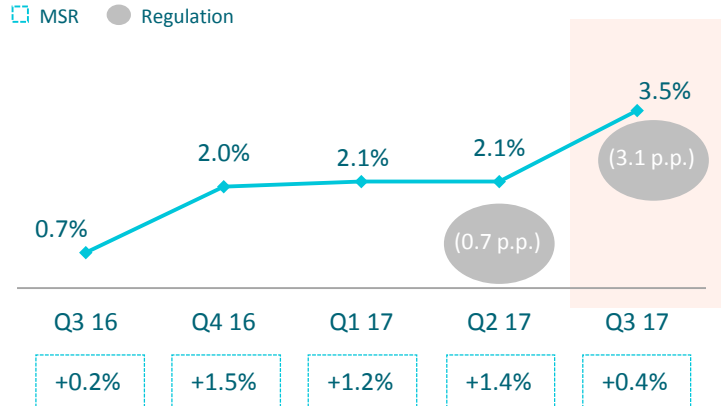
- **Stimulating data usage** (mobile data traffic +49% vs Q3 16)
 - **Commercial activities** O₂ Free 15 & new O₂ Free portf. (Sep.)
 - O2 Free 15 cust. data usage > 5GB; ARPU-up potential
- **Solid momentum: Contract** (+4% y-o-y); 183k net adds
 - LTE cust. (+48% y-o-y); penetration 36% (+11p.p.); cov. (81%)
 - Resilient partner contribution (Q3: 53% of gross adds; 9M: 55%)

Strong cash conversion

- **Better revenue trends y-o-y** (Q3: -1.3%; 9M:-3.1%)
 - **Q3 MRS ex-reg:** continued gradual improvement
- **Q3 OIBDA y-o-y reflecting**
 - Higher commercial efforts
 - Regulation headwinds (-€28m in Q3, mostly related to RLAH)
 - ~ €40m incremental OIBDA synergies (~€115m in 9M)
- Lower **CapEx** intensity (-7.4% y-o-y in 9M 17); ~€50m **synergies**

UK: Sustained top line growth in spite of RLAH

MSR ex-regulation (y-o-y organic)

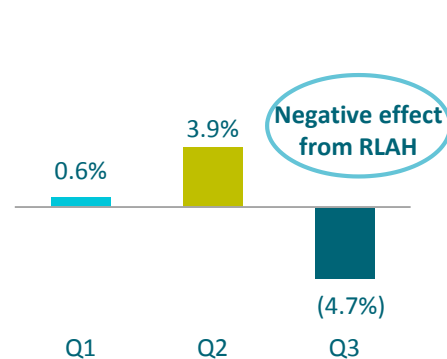


Strong operational base and KPIs

- **Contract expanding: 63% o/total** (+1 p.p.)
 - Sustained, best-in-class contract churn: 1.0% in Q3
- **58% LTE penetration** (+6 p.p.); **98% outdoor cov.** (+5 p.p.)
- **Avg. data usage per smartphone +55%** vs. Q3 16; 2.1 GB per month

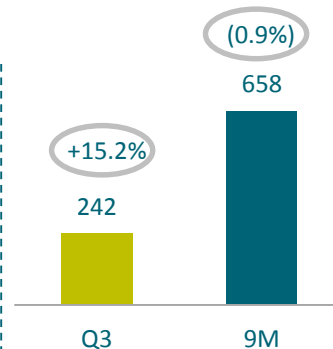
2017 OIBDA (y-o-y organic)

● Margin ○ y-o-y organic



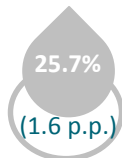
2017 OpCF (€m)

○ y-o-y organic



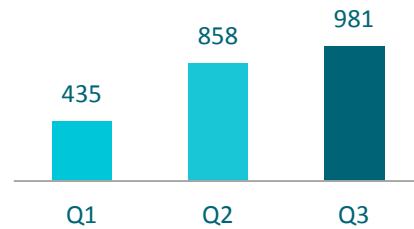
Financials reflecting RLAH impact

- **Total revenue growth**
 - + Higher spend: subscription (larger data allowances) & out-of-bundle
 - + Quality customer base growth
- **Q3 OIBDA** impacted by RLAH effect (€48m)
- **CapEx +0.6% vs. 9M 16**; LTE rollout investment



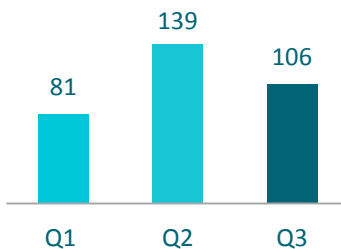
Brazil: Enhancing best-in-class value positioning

Contract net adds 2017 ('000)

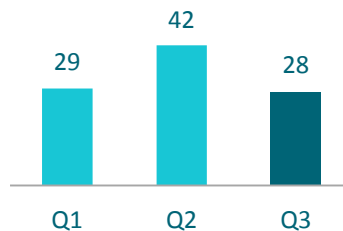


Highest contract net adds in last 7 Qs

FTTx net adds 2017 ('000)



IPTV TV net adds 2017 ('000)

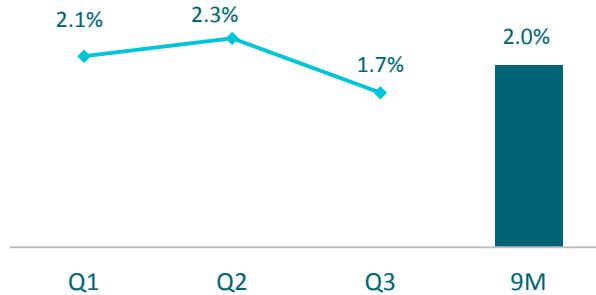


Expanding differentiation gap

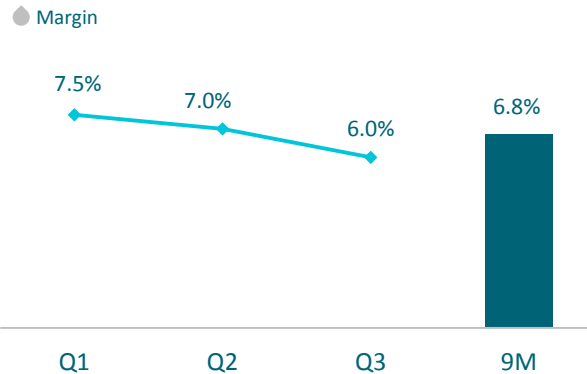
- **Network quality widening**
 - 76% population 4G cov.; 1,919 cities already covered (700 MHz spectrum in 199 cities)
 - 18.0m premises passed with FTTx; 4.5m connected
 - 12 new cities in 2017: 40% already connected o/premises passed & 82% m. share
- **Growing in strategic accesses (higher ARPU)**
 - Contract +10%; ARPU 4x vs prepay
 - 4G +73%
 - FTTx +9%; ARPU 1.2x vs Copper
 - IPTV +54%; ARPU 1.2x vs DTH
 - **New contract portfolio** from October 23rd; unique and innovating features aligned with “M4M” strategy
- **Outperforming the market**
 - Mobile: 42.3% contract m. share; ~46% net adds share in Jan-Aug
 - Fixed: 36.6% FBB>34 Mbps m. share

Brazil: Delivering growth; expanding profitability

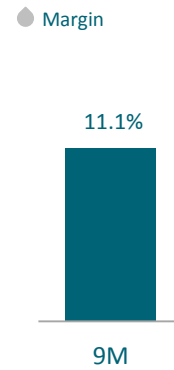
2017 Service revenues (y-o-y organic)



2017 OIBDA (y-o-y organic)



OpCF (y-o-y organic)



34.6%
+1.7 p.p.

18.1%
+1.6 p.p.

Data driving steady positive revs performance

- **Q3 Revenue growth +1.2% y-o-y** (9M; +1.5%)
 - Healthy MSR performance (Q3: +3.8% y-o-y) on data revs. (+28.2%) despite tougher comps
 - Gradual improvement in fixed revs y-o-y on fiber revs. (+21.9%) and IPTV (+76.9%)
- Regulation dragging 1.9 p.p. on Q3 revenue y-o-y

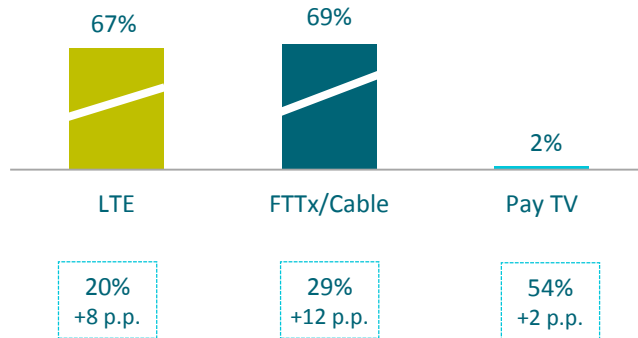
Expansion in OIBDA & OpCF margins

- **Consistent OpEx y-o-y reduction** (Q3: -1.1%; 9M: -0.8%) **on efficiency measures**
 - 7 consecutive quarters with OpEx reduction
 - Digitalisation initiatives bearing fruits (billing and collection, top-ups, call-center...)
- **Successful execution of operational synergies** (OpCF 9M; €392m; €939m over last two years)

HispAm: Improved commercial traction

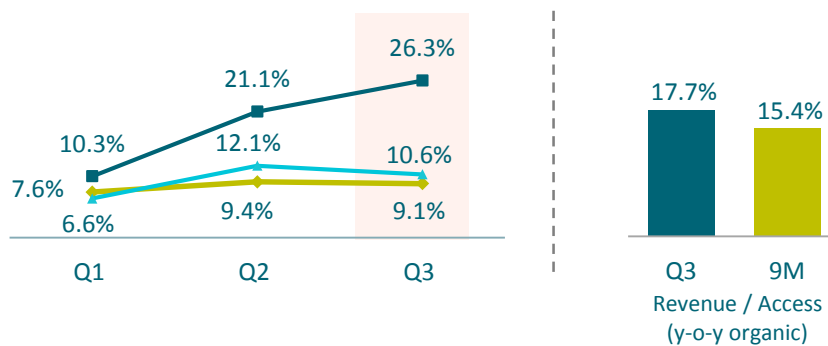
Accesses (y-o-y)

☐ Penetration; y-o-y



2017 ARPU (y-o-y local currency)

■ FBB ■ Pay TV ■ Mobile

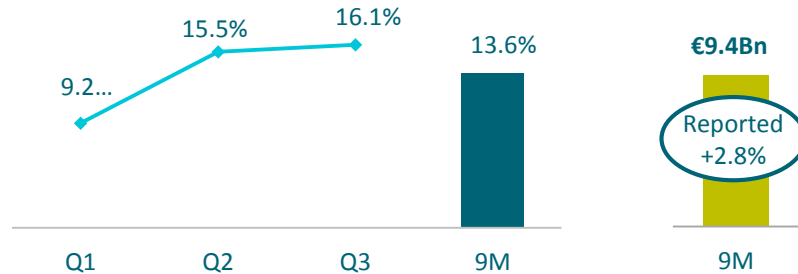


Focus on value

- LTE cov. 56% (+8 p.p. y-o-y); 6.2m premises passed FTTx & Cable (+2.1m LTM)
 - Record net adds in Q3 for LTE (2.8m; 9M 6.2m) & FTTx/cable (249k; 9M 492k)
- **ARGENTINA:** Growing uptake of contract; LTE & fiber driving data traffic up (9M: +76% mobile; +41% fixed)
- **CHILE:** Back to positive net adds (contract 27k; LTE 331k; FTTx 12k; Pay TV 13k)
- **PERU:** Solid trading in fixed; record FTTx net adds (146k); reshaped commercial portfolio driving signs of recovery in mobile
- **COLOMBIA:** Robust commercial performance; fostering adoption of FTTx (32k Q3 net adds) & LTE (538k)
- **MEXICO:** Sound contract (+15%) and LTE (+55%) accesses growth & easing pricing pressure. Positive ARPU (Q3: +3.9% y-o-y)

HispAm: Solid revenues & OIBDA; OpCF +26.8%

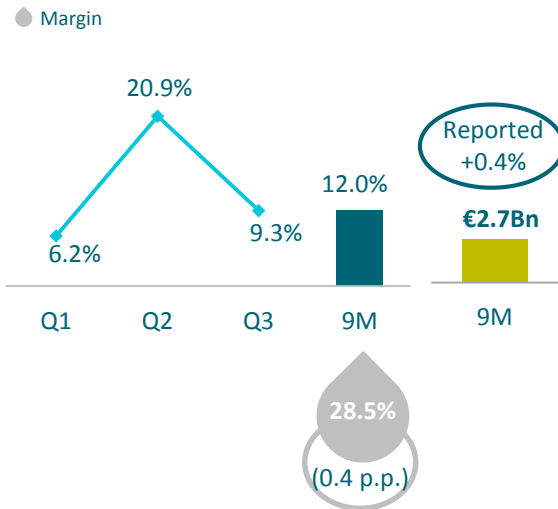
2017 Revenues (y-o-y organic)



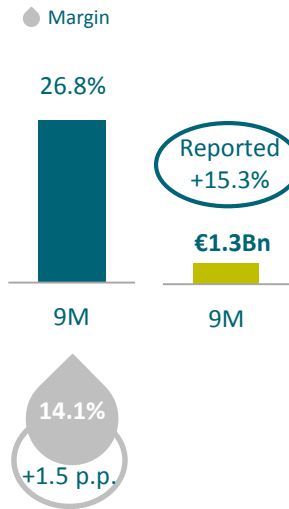
Delivering growth

- **Solid MSR and fixed growth** (Q3: +19.0% and +5.6%, respectively)
 - Mobile data revs. acceleration Q3: +38.2%; +3.5 p.p. q-o-q
 - Double-digit growth in FBB & new services (Q3:+10.0% Q2:+7.3%) and pay TV (Q3: +11.1%; Q2: +13.4%)
- **Q3 OIBDA margin** -1.8 p.p. y-o-y (inflation driven costs, higher commercial efforts & tougher comparisons)

2017 OIBDA (y-o-y organic)



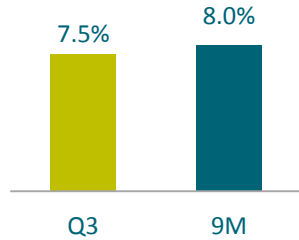
OpCF (y-o-y organic)



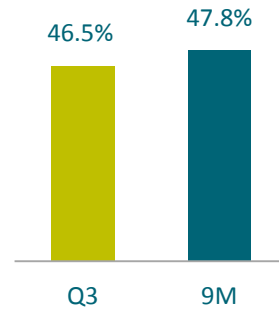
- **ARGENTINA:** Outstanding growth across all metrics (Q3 Revs. + 30.6% & OIBDA +37.8%; 9M OpCF >4x)
- **CHILE:** Enhanced top line trend despite competition. 9M OpCF +5.5% y-o-y to €258m
- **PERU:** Better revs & OIBDA performance amid continued competition; OIBDA margin +2.5 p.p. q-o-q
- **COLOMBIA:** Tougher comps in rev & OIBDA growth. 9M OpCF +39.1%
- **MEXICO:** Consolidating positive rev. growth despite earthquake

Telxius: Solid operational momentum

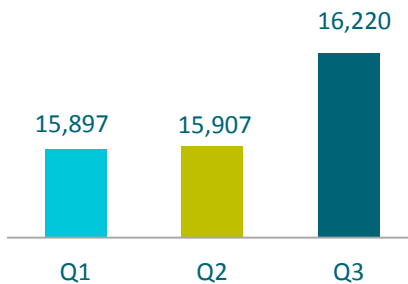
Revenue (y-o-y organic)



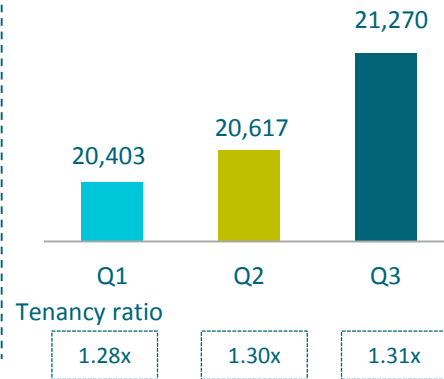
OIBDA Margin



Towers (# sites)



Tenants (#)

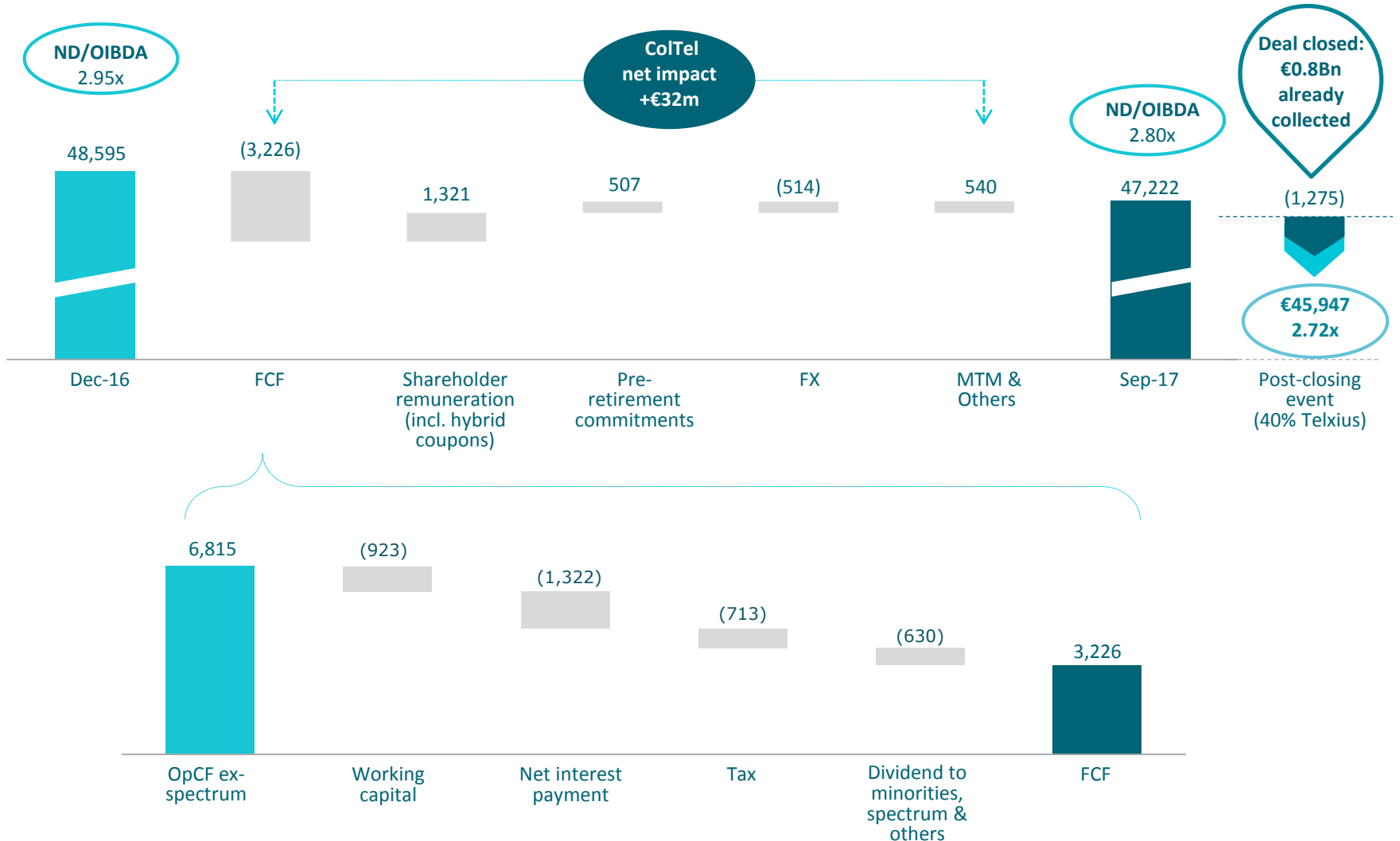


Strong set of results

- **9M financials; strong revenue growth and solid profitability**
 - Revenues: €547m
 - OIBDA: €261m
 - OpCF: €126m
- **Robust OIBDA margin across both businesses**
 - Sequential decline on seasonal taxes and hurricanes effect
- **Infrastructure; expanding the reach**
 - Tenancy ratio improved +0.03x vs. Dec. 16 in Q3 17
 - Argentina added 304 towers & 539 tenants to the perimeter
 - Stimulating traffic demand and revenue growth in Cable
- **Developing the 2 new cables** (to be active in 2018)
 - MAREA (connecting US & Spain) wet plant deployment already completed Sept. 17
 - BRUSA (connecting Brazil, Puerto Rico & USA) construction as planned

Deleverage on strong organic FCF and disposals

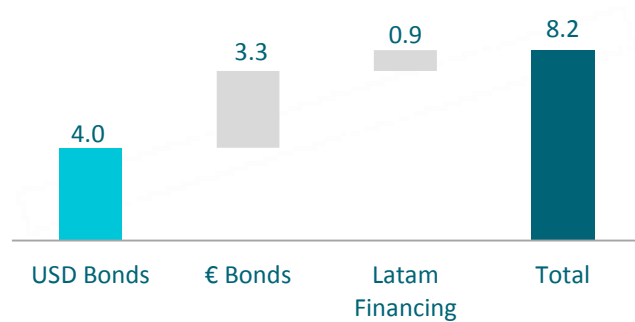
Net Financial Debt (€m)



Stronger balance sheet and credit profile

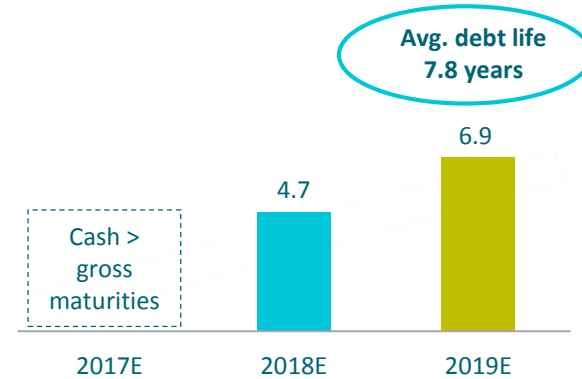
Sources of long-term financing (YTD)

(€bn)



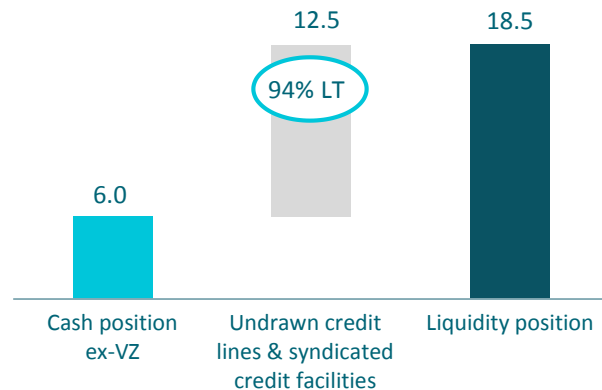
Net Debt maturities (Sep-17)

(€bn; not considering hybrid NC dates)

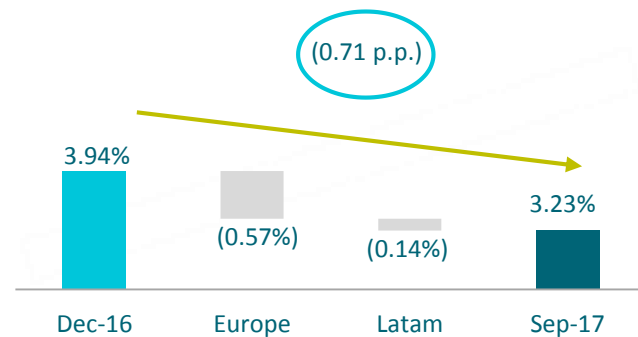


Liquidity position (Sep-17)

(€bn)



Interest payments cost



Summary: executing on fundamentals

- **Delivering profitable organic growth**
 - Top line accelerating trends; sound OIBDA performance despite regulation, high-single digit OpCF growth in 9M (CapEx peak is behind)
- **Best technology platforms, IT systems integration, development of new digital P&S**
 - Building for the future (Cognitive Intelligence: better customer value; new value-added propositions)
- **Focused on digitalisation, started with simplification and E2E task some years ago**
 - Proof points already reached. Big opportunity ahead (customer experience, new revenue streams, higher efficiencies)
- **Progressive leverage improvement**
 - Growing OIBDA, solid FCF generation and inorganic actions (40% Telxius) leading to sharp debt reduction
- **Secured market position**
 - Best assets in key markets
- **2017 outlook and dividend confirmed**

Clear and consistent strategy: growth and digitalisation

Telefonica

For further information:

Investor Relations

Tel. +34 94 482 87 00

ir@telefonica.com

www.telefonica.com/investors

