



Results

January – June 2017

Telefonica

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In October 2015, the European Securities Markets Authority (ESMA) published guidelines on Alternative Performance Measures (APM), applicable to the 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.

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01 

H1 17 Highlights

Mr. José María Álvarez-Pallete
Chairman & CEO



Q2: Executing on strategy; structural quality

Organic growth acceleration
across the board



Ongoing transformation
(Efficiencies + Synergies
+ Digital Agenda)



Stronger Balance Sheet

- Demand for **fiber, LTE, smartphone** unabated; “**M4M**” gaining traction
 - Improving Avg. rev per access to +3.1% y-o-y; churn -0.2 p.p. q-o-q
 - Accelerating trends; **Revs +3.1%, OIBDA +7.2%, OpCF +17.5%**
 - Flowing through **EPS +16.3% y-o-y** (Q2: €0.15)
-
- Focus on efficiency driving Q2 **margin expansion to 32.1% (+1.2 p.p. org.)**
 - **Well invested & high quality assets**; strong competitive position
 - CapEx targeted to **UBB**, underpinning **E2E digitalisation** and **Cognitive Intelligence**; differential value proposition for customers
-
- **Net Debt Jun-17: €48.5Bn; €-3.7Bn y-o-y**
 - Net Debt €47.2Bn incl. Telxius deal; €-5.0Bn y-o-y
 - **Robust FCF (H1: €1,620m, 2x y-o-y; Q2: €1,021m, +36.8%)**
 - Falling cash interest cost & extended avg. debt maturity

2017 outlook upgraded;
dividend confirmed

Financial Summary

€ in millions	H1 17			Q2 17		
	Reported	Reported y-o-y	Organic y-o-y	Reported	Reported y-o-y	Organic y-o-y
Revenue	26,091	3.4%	2.3%	12,960	1.9%	3.1%
Service revenues	24,224	3.7%	2.3%	12,037	1.8%	2.9%
OIBDA	8,179	5.5%	4.3%	4,158	6.1%	7.2%
OIBDA Margin	31.3%	0.6 p.p.	0.6 p.p.	32.1%	1.3 p.p.	1.2 p.p.
OIBDA Underlying	8,292	6.0%		4,183	5.5%	
OpCF (ex-spectrum)	4,676	13.7%	13.0%	2,273	15.5%	17.5%
Net Income	1,600	28.9%		821	18.4%	
EPS	0.29	30.3%		0.15	16.3%	
FCF	1,620	98.6%		1,021	36.8%	
Net Financial Debt	48,487	(7.1%)				

- Accelerating growth in Revs., OIBDA, OpCF in Q2
- OIBDA margin expansion y-o-y
- Doubling H1 FCF y-o-y
- Significant net debt reduction y-o-y
- EPS +30.3% vs H1 16

Upgrading full year guidance

2017E Guidance (Organic)	Original Guidance 2017	UPGRADED GUIDANCE 2017
Revenues	Stable (in spite of regulation: ~-1.2 p.p.)	> 1.5% (regulation ~-1.2 p.p.)
OIBDA margin	Expansion up to 1 p.p.	Expansion up to 1 p.p.
CapEx ex-spectrum/Sales	Around 16%	Around 16%

H1 17
2.3% (regulation -1.0 p.p.)
+0.6 p.p.
13.4%

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

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

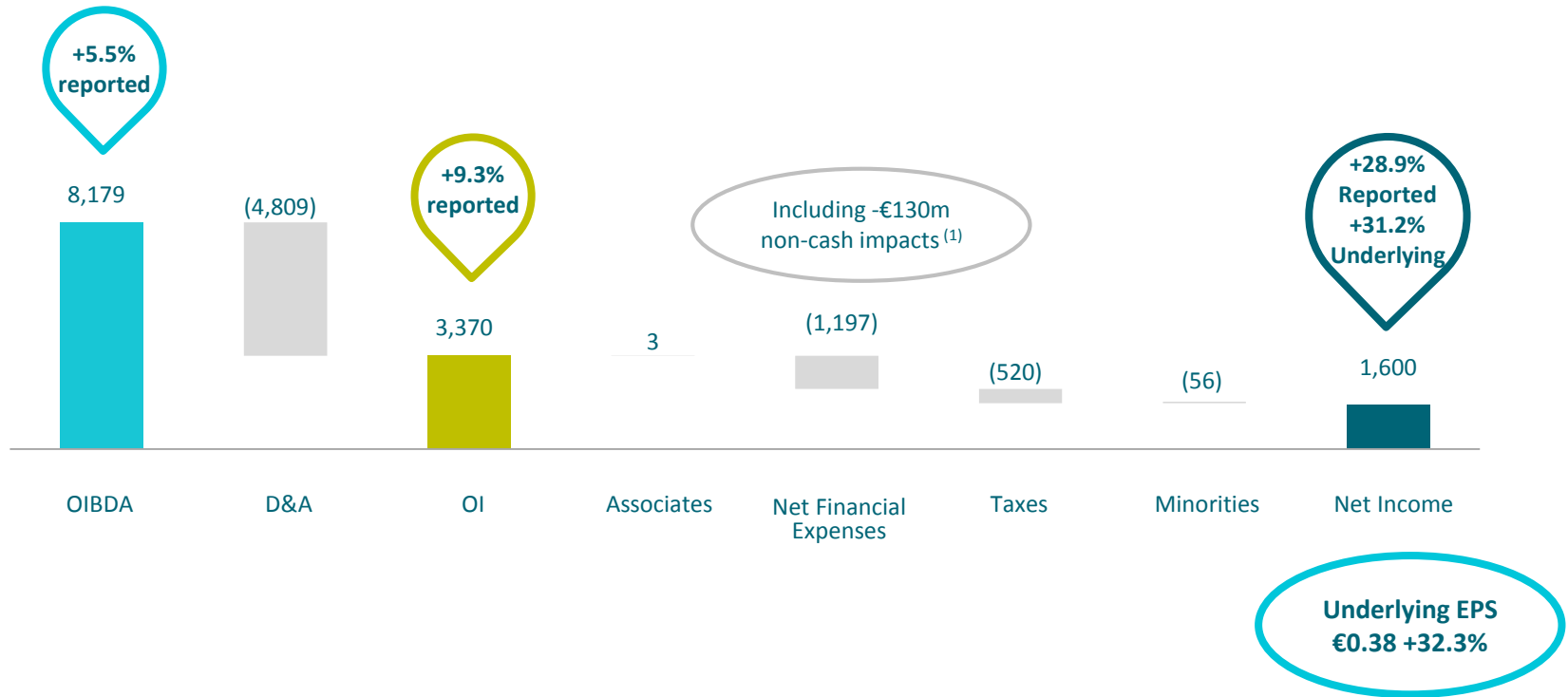
- Cash dividend already paid 16th June-17; €0.20/sh.
- Cash dividend 14th Dec-17; €0.20/sh.

MAINTAINING A SOLID INVESTMENT GRADE RATING

Growth + Sustainable Dividend + Deleverage

OIBDA growth flowing to net income

H1 2017 (€m)



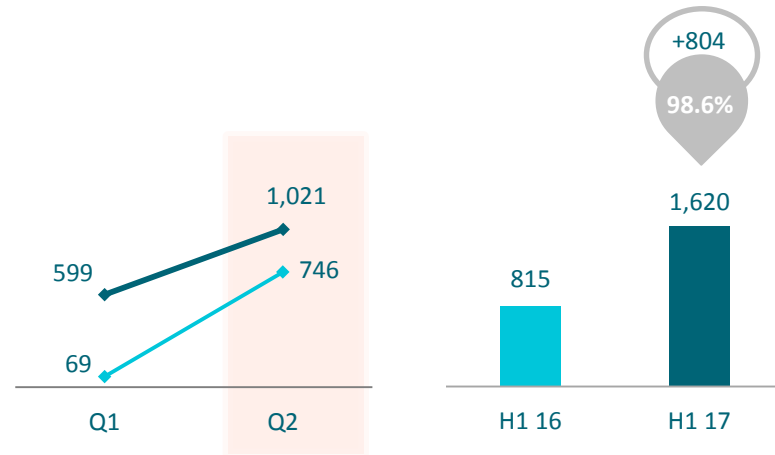
- Q2 impacted by the adoption of synthetic FX in VZ 3,547 VZ/\$ (710 VZ/\$ in Q1)
- H1 VZ weight over total Group reduced to 0.3% in Revs; 0.2% in OIBDA

(1) Capital loss in Mediaset Premium and CU; impairment in Prisa and net effect of VZ devaluation

Robust FCF generation; improvement y-o-y and q-o-q

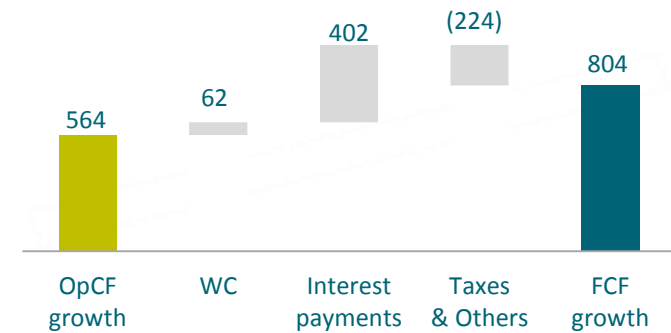
FCF (€m)

—◆— 2016 —◆— 2017 ● Y-o-Y



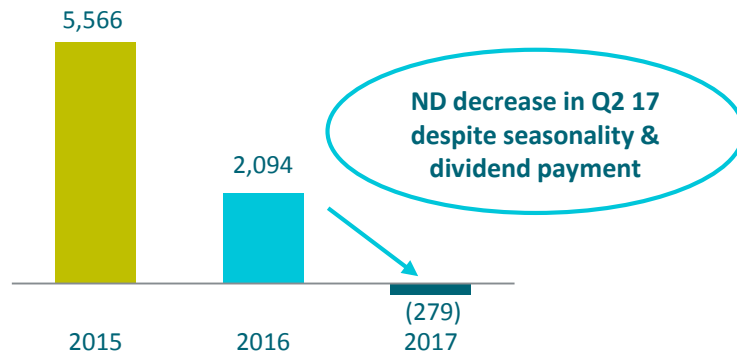
Growing FCF (y-o-y)

H1 17 (y-o-y in €m)

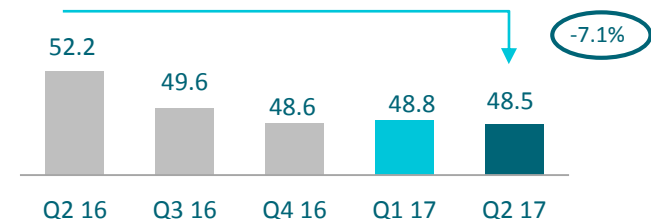


- FCF to accelerate in H2 17
- Continued net debt decline

Q2 q-o-q change in Net Debt (€m)

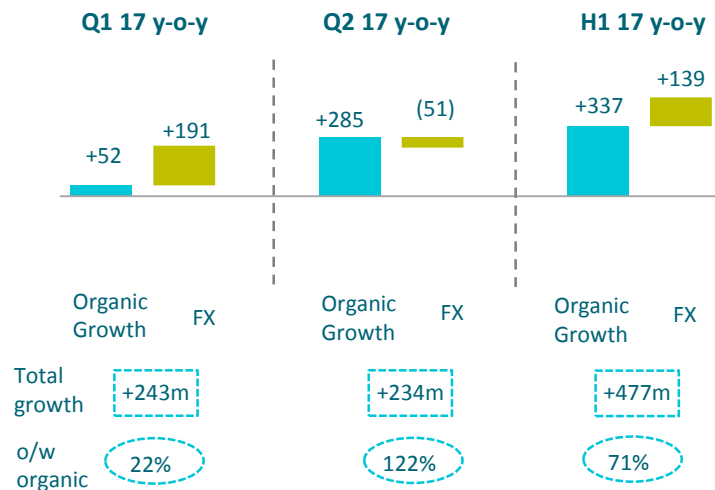


Net Debt (€m)



Accelerating OIBDA growth

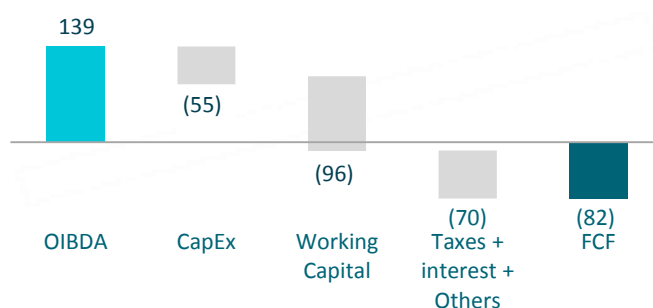
OIBDA: Organic growth & FX impact (€m)



Strong organic improvement in Q2

- Up to June, organic and FX added €477m to OIBDA
- Organic OIBDA trends ramping-up
 - +€285m in Q2 vs +52m in Q1
- FX impact reverting positive trend in Q1
 - -€51m in Q2 vs. +191m in Q1 due to VZ devaluation
 - Excluding VZ, **positive contribution** continues (+€70m) **mainly on BRL**
 - FX effect limited at FCF level

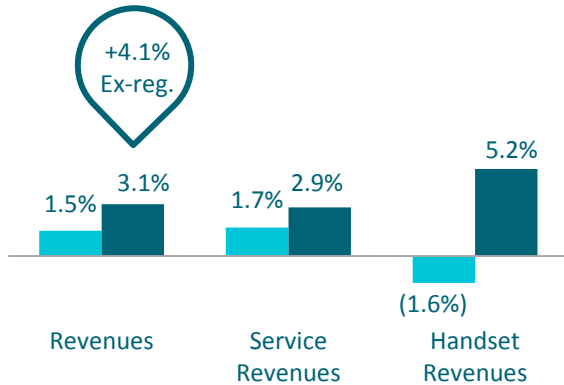
FX impact in H1 FCF (€m)



Strengthening organic trends; sustainable growth

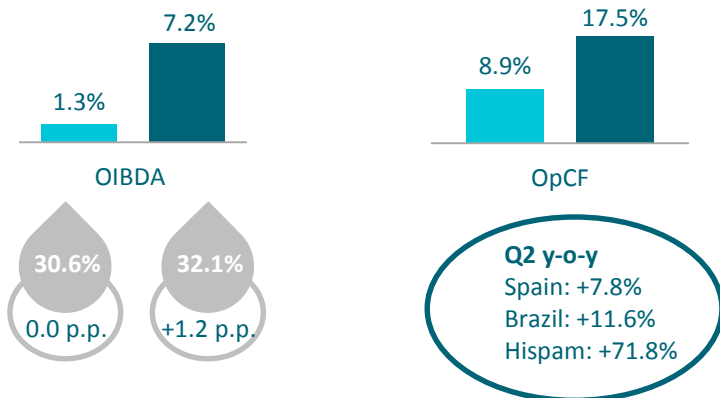
Top line (y-o-y organic)

■ Q1 17 ■ Q2 17



Q2 17 Profitability (y-o-y organic)

■ Q1 17 ■ Q2 17 ● Margin

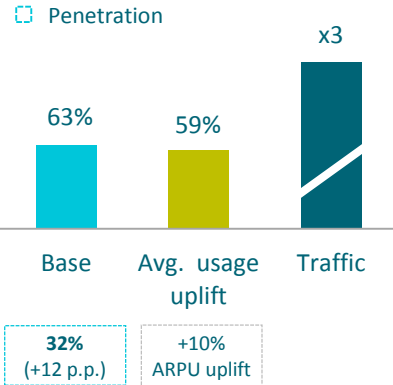


Operating leverage improving returns

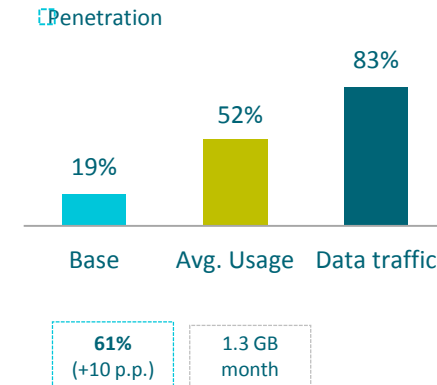
- **Q2 Service revenues ramping up +120 bps**
 - All segments accelerating; UK stable
- **Outstanding sequential improvement in OIBDA of +590 bps**
 - All segments improving q-o-q; Brazil stable
- **OpCF sequential improvement +860 bps**
 - CapEx easing y-o-y decline to -3.3%
- **Hispam: Main growth lever** of acceleration in Q2 in all metrics
- **Q2 OpCF growth in all segments**

Gaining momentum in data monetisation

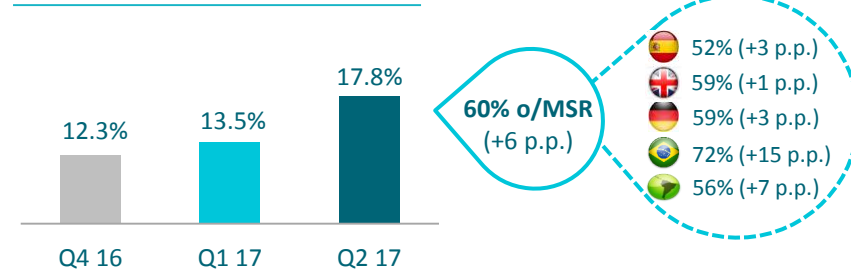
LTE (H1 y-o-y organic)



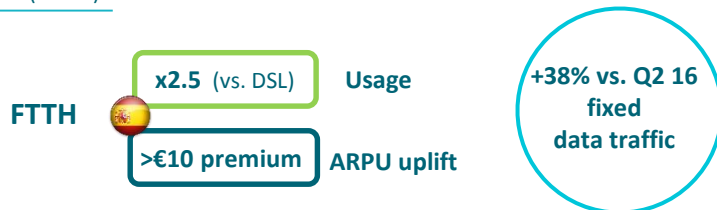
Smartphones (H1 y-o-y organic)



Mobile Data Revenues (y-o-y organic)



FTTH (H1 17)



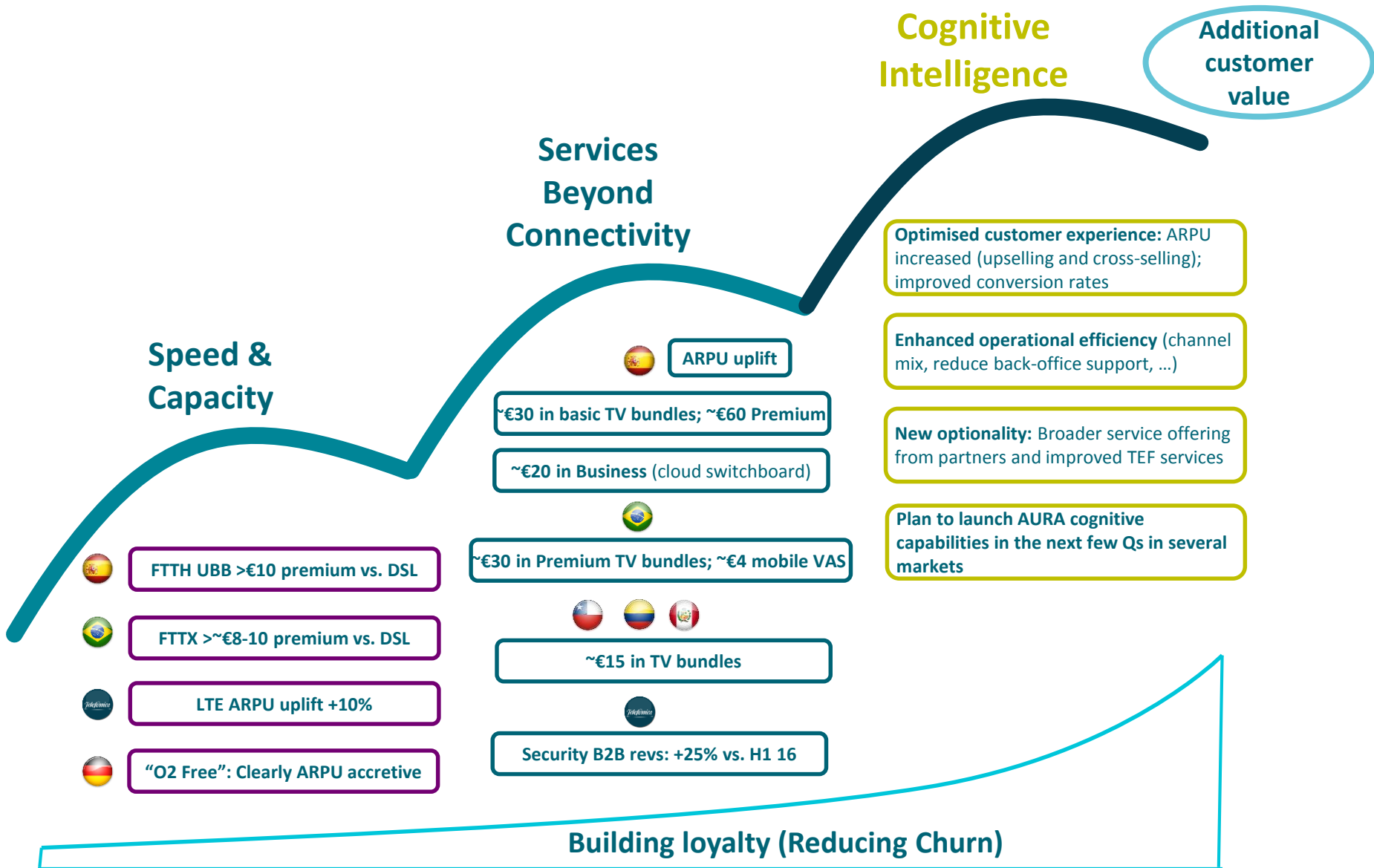
Fostering data usage and revenue growth

- **Ensuring ARPU growth in Latam: recurrent plans & tiered pricing**
 - ~10% ARPU uplift after data adoption
 - 46% smartphone penetration in prepay (+7 p.p. y-o-y)
- **Increasing ARPU; higher value for money in mobile data proposals**
 - “M4M” in mobile-only (Spain)
 - “O2 Free” portfolio (Germany)
- **Neuropricing: Pioneer in the sector; more effective communication**
 - Proving different techniques to foster higher value plans
 - Proven value accretion (+5% ARPU of gross adds)

Ample growth opportunity


- **Better trends in Data traffic in Q2 y-o-y (mobile and fixed)**
 - Mobile data (+15 p.p. vs Q1)
 - Fixed data (+7 p.p. vs Q1)



New wave of value creation opportunities



Digital Services: progress in the new ecosystem

Video: pillar of current & future growth

- **Solid revenue growth +4.8% y-o-y**
 - IPTV accesses growth acceleration to +7% y-o-y
 - Widespread ARPU expansion
- **Strong TV platform**
- 8.3m accesses 
 - Large-scale content distribution in Hispanic markets

- **Leveraging pay TV differentiation:**
 - New entry-level “Fusión+”; exclusive content and functionalities 
 - Enhanced FTTx bundles including IPTV 

59%
o/H1 Dig. Revs.

8%
o/H1 Dig. Revs.

CLOUD: Revs: -14.7%

- Continue to evolve towards a **B2B multicloud** approach
- Revenues y-o-y comps. negatively affected by strong Q2 16

H1 Digital Serv. Revs.
€2,558m
+2.7% y-o-y organic

6%
o/H1 Dig. Revs.

SECURITY: Revs: Stable

- Strong growth in B2B, **cybersecurity** sales

5%
o/H1 Dig. Revs.

M2M: Revs: +31.1%

- **Smart M2M and E2E services** portfolio boosting growth




Other digital services (22% o/H1 Dig. Revs.) include: Advertising, Applications and Financial Services

Global Resources: Progress on technology evolution

Connectivity is essential

Leading NGN

41m FTTx/Cable premises passed

 18m FTTH (+15%)
 18m (+5%)
 5m (+49%)

 LTE coverage (68% pop.)
89% Europe (+5 p.p.)
61% LatAm (+15 p.p.)

Network Virtualization

Telefonica solution "UNICA"; deployment in 4 countries    



Network evolution






VoIP
7.4m customers


VoLTE+ Roaming



Service Operation Centers

- Smart network management based on real time customer experience   

Innovation

- CloudRAN based 5G "user-centric no-cell" award
- Mobile Internet in emergency area 

E2E Digitalisation

Enabling new capabilities

52% E2ED Enablement

Full Stack

-  Full migration
-  Fixed B2C pilot
-  2.7m prepaid migrated
-  800k postpaid migrated
-  5m prepaid migrated

18% Full Stack customers

Progressing Single Online Charging System

63% OCS customers

Boosting data capabilities

- Real Time Decision: 14 use cases

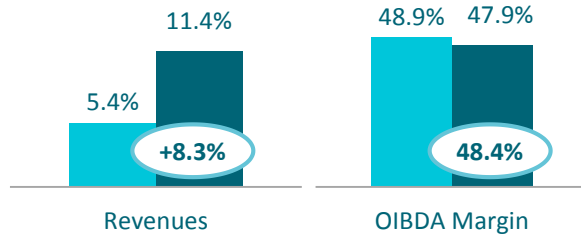
29 PB
(x2 y-o-y)

Full digitalisation to become a converged and real time company

Telxius: Consolidating solid results

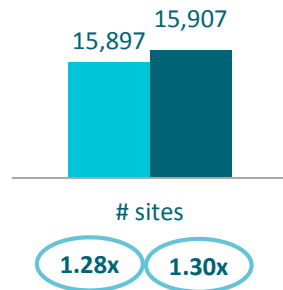
Financials (y-o-y organic)

■ Q1 ■ Q2 ○ H1

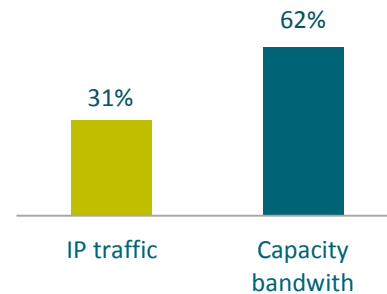


Towers

■ Q1 ■ Q2 ○ Tenancy Ratio



H1 Cable (y-o-y)



Accelerating revenue growth

- **Delivering strong revenue growth** while maintaining **robust profitability**
 - New tower contracts signed in Spain, Germany and Brazil (tenancy ratio +0.02x q-o-q)
 - Strong traffic demand in Cable
 - Q2 y-o-y fostered by Q2 16 negative effects: IRU cable contracts cancellation & pass-through revs/cost adj. in towers
- **H1 Financials**
 - Revenues: €370m
 - OIBDA: €179m
 - OpCF: €123m
- **Developing the 2 new cables (to be active in 2018)**
 - MAREA, connecting US & Spain, already launched from Sopelana (Vizcaya) in Jun-17
 - BRUSA, connecting Brazil, Puerto Rico & USA, evolving as planned

02 

H1 17 Results

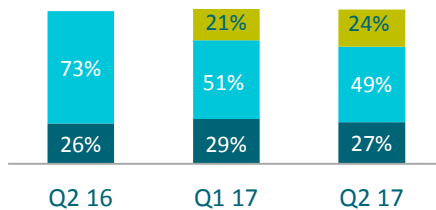
Mr. Ángel Vilá
COO



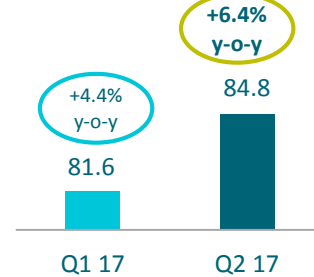
Spain: Improved trading, ongoing upselling

“Fusión” mix (% base)

■ Low ■ Mid ■ High



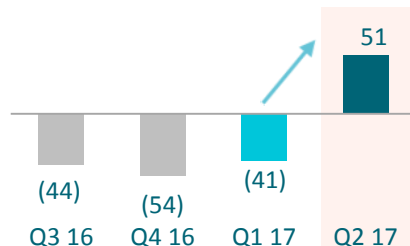
“Fusión” ARPU (€)



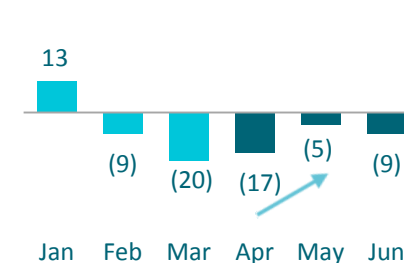
Quality, ARPU & loyalty increase

- **Churn improvement q-o-q** (Fusión, TV, mobile)
- **Steady “Fusión” upselling**; high-end: 24% (+3 p.p. q-o-q)
- **Mobile voice contract growth acceleration**
 - Improved portability
- **TV recovery** fostered by new bundle (“Fusión+ Ocio”)
- **Gradual improvement in FBB**; stable churn
 - FBB base largely on fiber (53% o/FBB; +9 p.p.)
 - New offer to foster trading in H2

TV net adds ('000)



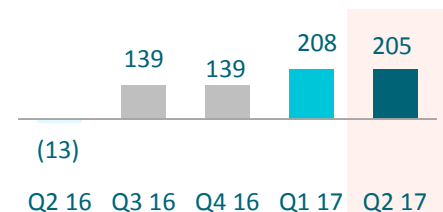
FBB net adds 2017 ('000)



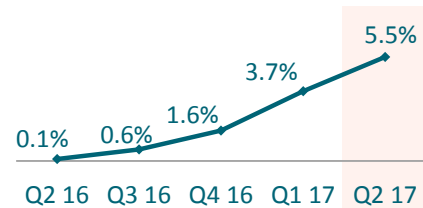
New entry-level; adding differentiation

- **Segmentation strengthens competitive positioning**
 - 2 new bundles in July: “Fusión #0”; “Fusión Series”
 - Best value for money: TV, exclusive content & VAS
- **Leading assets**
 - 18m premises passed FTTH, LTE 97% pop., Pay TV 100% pop.

Mobile contract net adds ex M2M ('000)



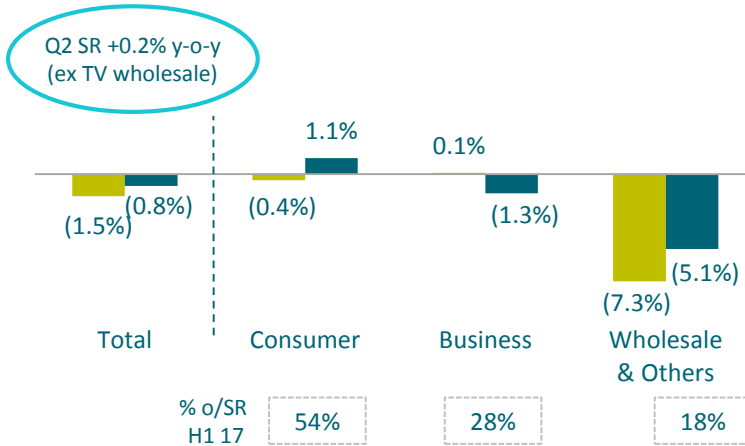
Mobile contract (y-o-y ex M2M)



Spain: Revenues trending upwards, solid cash flow

2017 Service Revenues (organic y-o-y)

■ Q1 ■ Q2

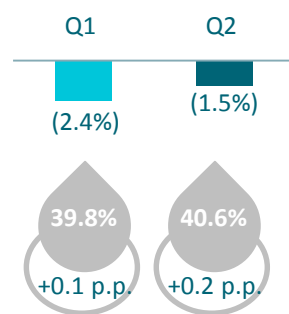


Revenues in the right direction

- **Consumer revs. back to growth** (+1.4 p.p. q-o-q)
 - Tariff upgrade and upselling
- **Business revs.** (-1.4 p.p. q-o-q) reflecting seasonal factors
- **Wholesale & Other revs. eased decline** (+2.2 p.p. q-o-q)
 - Flat y-o-y in Q2 ex-TV ("La Liga")
 - Drag (-€30m; -1.0 p.p. of SR) to disappear in August
 - FTTN wholesale continues to grow, strong potential

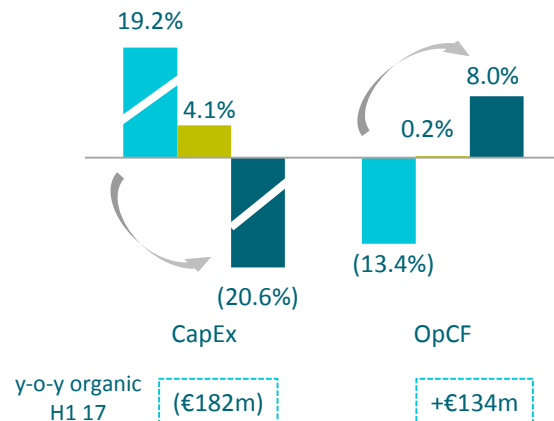
OIBDA & Margin 2017

(organic y-o-y)



Declining CapEx intensity (organic y-o-y)

■ H1 15 ■ H1 16 ■ H1 17



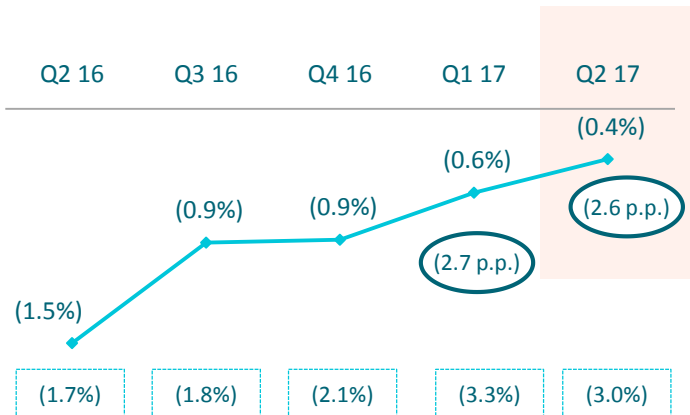
Benchmark cash conversion

- **Q2 OIBDA improving** (-1.5% y-o-y; +0.9 p.p. q-o-q)
 - Q2 margin expansion: 40.6% organic (+0.8 p.p. q-o-q)
- **H1 OpCF solid growth**
 - 27.6% OpCF margin (+2.7 p.p. y-o-y); 70.9% OpCF/OIBDA (+6.6 p.p.)
- **CapEx/Sales 11.3% (-2.6 p.p. vs H1 16)**

Germany: Solid momentum; realisation of synergies

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

MSR Regulation

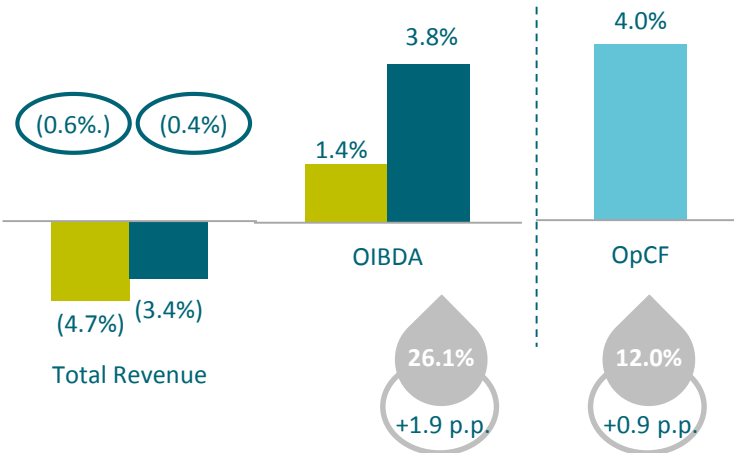


Promotions with larger data buckets

- **Contract (+7% y-o-y);** 197k net adds (172k in Q1)
 - 55% of gross adds from partners (stable q-o-q)
 - **Promotional activities;** 15yr anniversary O₂ and Non-Premium
 - Churn improving 0.1 p.p. y-o-y to 1.5% in Q2
- Prepay (+2% y-o-y); strong 322k net adds (4.6x y-o-y)
- **Driving data usage** (mobile data traffic +60% vs. Q2 16)
 - LTE cust. +53%, penetration 33% (+11 p.p.); cov. 80% (+4 p.p.)
 - “O₂ Free 15” cust. >3GB of data usage

Financials (y-o-y organic)

Q1 17 Q2 17 Margin Handset sales



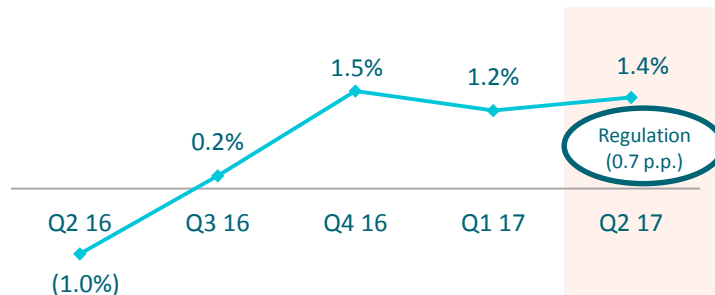
H1 OpCF (y-o-y organic)

Improving financial trends

- **Continued recovery in MSR ex-reg** (+0.2 p.p. q-o-q)
- **OIBDA growth rate accelerated to 3.8% y-o-y** (+2.7% in H1)
 - Revenue flow (+1.2 p.p. sequentially; -4.1% in H1)
 - ~€40m incremental OIBDA synergies (~€75m in H1)...
 - ...despite investments in “O2 Free” positioning and 15y anniversary promotions
- ~€20m **CapEx synergies** in H1

UK: Customer focus delivers robust performance

MSR (y-o-y organic)

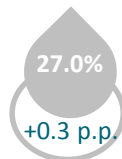
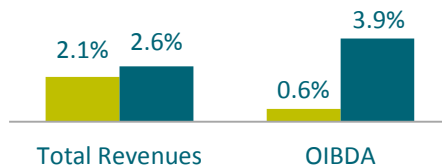


Quality customer base growing...

- **Contract growing: 62% o/total** (+1 p.p.)
 - Contract accesses: +2% y-o-y
 - Leading contract churn: 1.0% in Q2
- **58% LTE penetration** (+9 p.p.); **97% outdoor cov.** (+7 p.p.)
- **Avg. data usage per smartphone +66%** vs. Q2 16

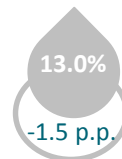
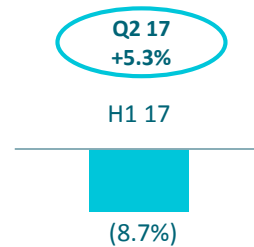
Financials (y-o-y organic)

■ Q1 17 ■ Q2 17 ● Margin



OpCF (y-o-y organic)

● H1 Margin

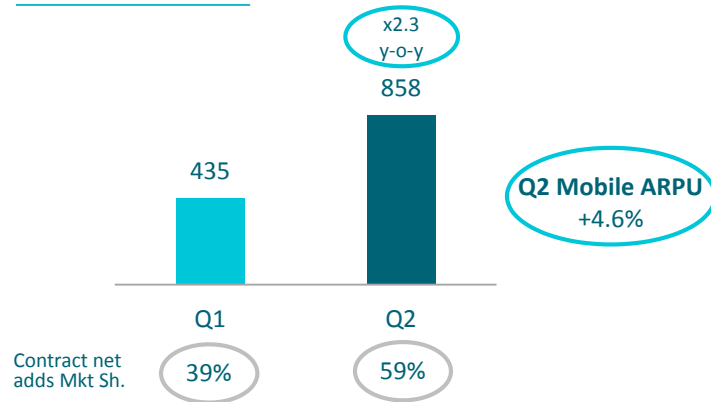


... Leading to sound financial performance

- **MSR continued to grow: H1 +1.3% y-o-y**
 - + Larger spend: subscription & out-of-bundle
 - + Quality customer base growth
 - Impact from regulation (-0.9 p.p.)
- **Handset and other revs. +7.6% vs Q2 16**
 - + FX driving up handset prices, Smart Metering contribution
- **OIBDA boosted by top line acceleration & lower commercial activity**
- **CapEx +15.4% y-o-y in H1:** accelerating LTE rollout

Brazil: Accelerating profitable growth

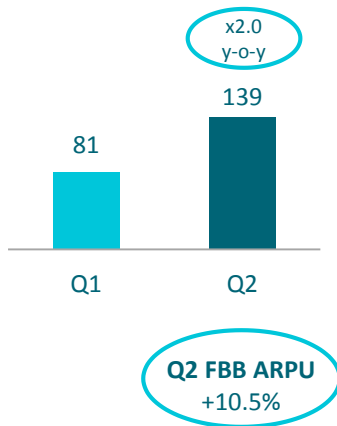
Contract Net adds (k)



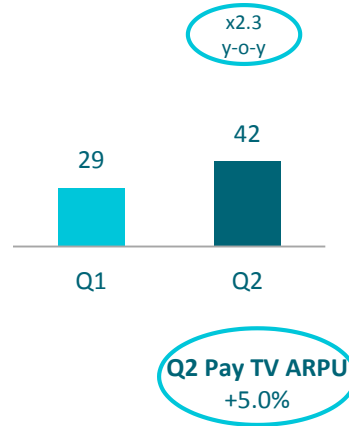
Quality-centric strategy continues delivering

- **Strengthening mobile leadership**
 - Total market share of 30.6%; 42.3% in contract
 - Smartphones accesses (+33%), LTE (+90%)
 - 4G coverage to 71% of pop.; +657 cities with 4G in Q2
 - Booming data ARPU (+35.9%)

FTTx Net adds 2017 (k)



IPTV Net adds 2017 (k)

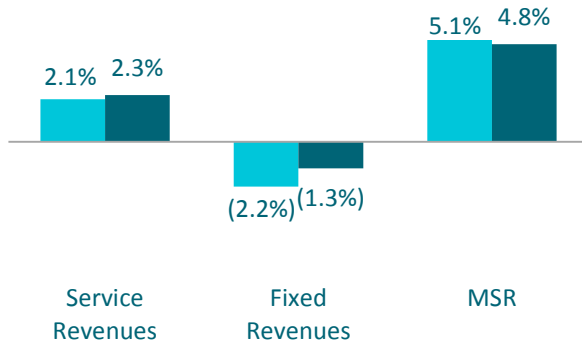


- **Fixed; widening quality gap**
 - 17.7m premises passed with FTTx, 4.4m connected
 - Record high net adds in FTTx and IPTV
 - Reaching 69 cities with FTTH, 5 new cities in H1 17

Brazil: Sustained benchmark performance

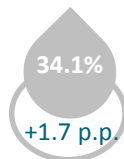
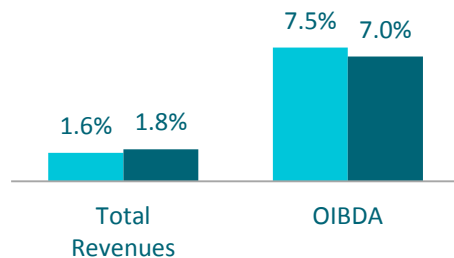
Revenues (y-o-y organic)

■ Q1 17 ■ Q2 17



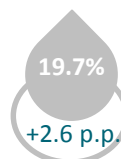
Financials (y-o-y organic)

■ Q1 17 ■ Q2 17 ● Margin



H1 OpCF (y-o-y organic)

● Margin



Accelerating revenue growth

- **Consistent mid-single digit MSR growth**
 - Double-digit postpay growth
 - Data / MSR: 72% (+15 p.p. vs Q2 16)
- **Fixed revs. improving trend on FBB performance**
 - UBB revs.: +19.5% y-o-y in Q2
- **Regulation dragged 1.8 p.p. to revs. y-o-y**

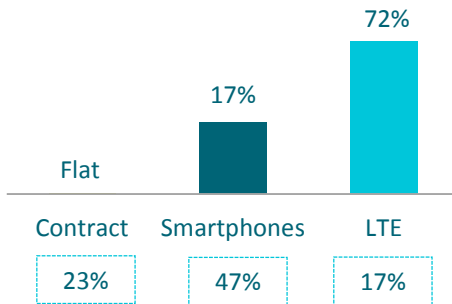
Expanding margins once again

- **Sustained OpEx reduction**; 6th consecutive Q of efficiencies and synergies
- **Successful execution of operational synergies** (€286m in OpCF in H1; €833m over last two years)

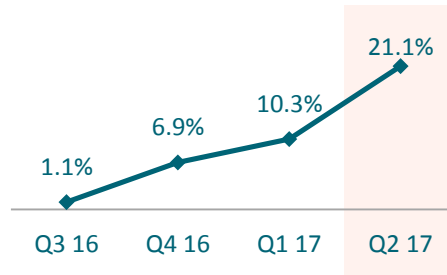
HispAm: Focus on value driving ARPU acceleration

Mobile accesses (y-o-y)

□ Penetration



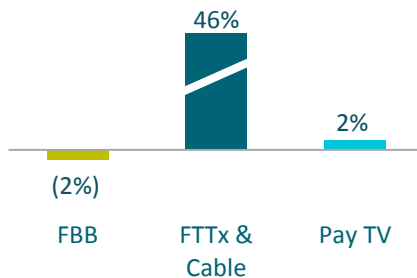
Mobile ARPU (y-o-y local currency)



Network upgrades driving superior growth

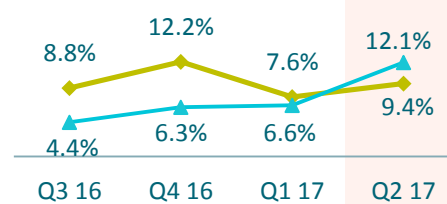
- **Strong ARPU increase on booming data**
 - Mobile data ARPU 55% o/total
 - LTE coverage 54%; +9 p.p. y-o-y
 - 5.4m premises passed FTTx/Cable (+1.8m in LTM)
- **ARGENTINA:** Solid value growth (Contract +6%; LTE +91%); fiber uptake (58k net adds)
- **MEXICO:** Sequential ARPU improvement; easing pricing pressure and solid contract performance
- **CHILE:** Growth across value accesses (contract +1%; LTE +40%; FTTx +18%; Pay TV +2%) amid intense competition
- **PERU:** Positive adoption of new prepay portfolio (“Preplan”) and strong momentum in FTTx (+32% to 822k connections)
- **COLOMBIA:** Sound growth in mobile (contract +5%; prepay +4%); FTTH launch in 5 cities

Fixed accesses (y-o-y)



ARPU (y-o-y local currency)

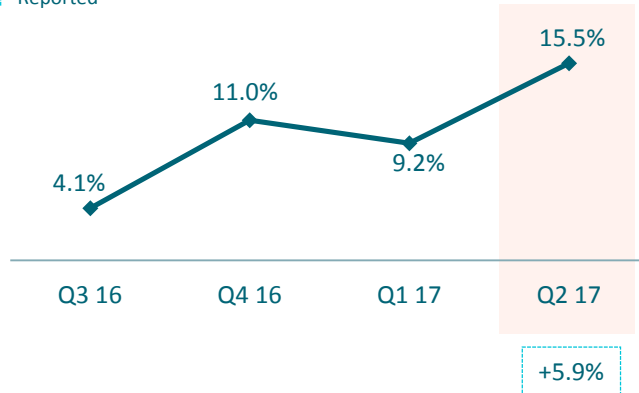
■ FBB ■ Pay TV



HispAm: Growth acceleration across the board

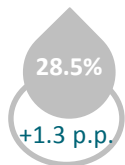
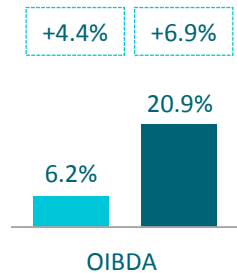
Revenues (y-o-y organic)

Reported



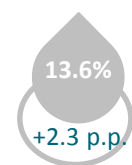
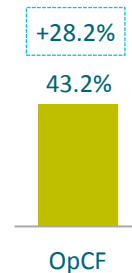
OIBDA (y-o-y organic)

Q1 17 Q2 17 Margin Reported



H1 OpCF (y-o-y organic)

Margin Reported

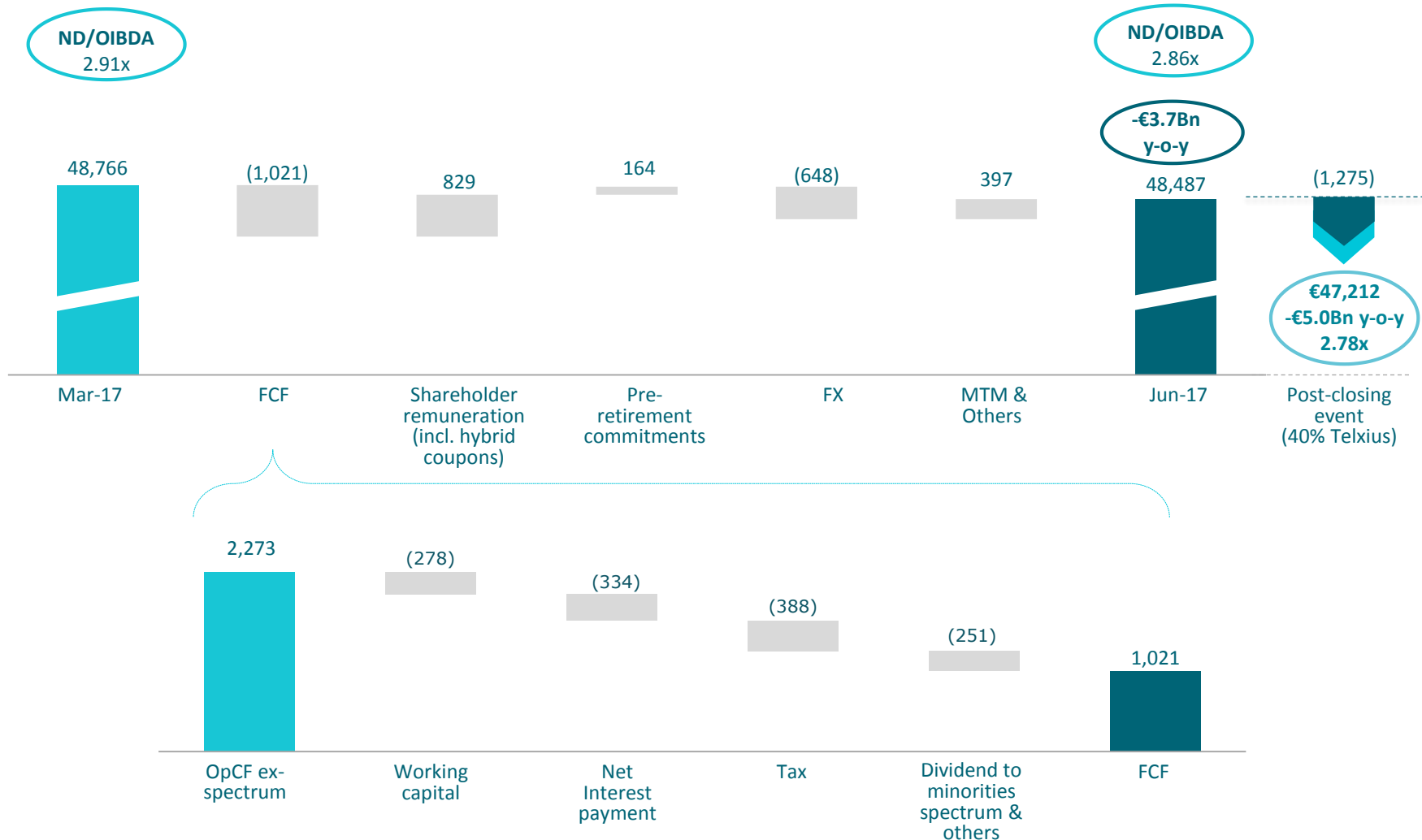


Strong Revs., OIBDA, OpCF both organic & reported

- **Organic top line ramped-up on MSR (Q2: +18.2%; Q1: +10.6%) and fixed (Q2: +5.7%; Q1: +4.1%)**
 - Mobile data revs. +34.7% in Q2 (+23.1% in Q1)
 - Pay TV revs. +13.4% in Q2; FBB & new services +7.3%
- **OpCF accelerating y-o-y growth (+71.8% Q2; +23.6% Q1)**
- **ARGENTINA:** Revs. & OIBDA y-o-y acceleration driving strong OpCF (H1: €210m, +€207m y-o-y)
- **CHILE:** Top line trend affected by commercial intensity. H1 OpCF +19% y-o-y to €159m
- **PERU:** Revs & OIBDA trends impacted by intense competition; mobile ARPU stabilization along Q2
- **COLOMBIA:** Solid revenue and OIBDA performance amid consolidation of positive commercial trends. OpCF +27.5% y-o-y
- **MEXICO:** Positive revs. & OIBDA y-o-y on ARPU improvement

Deleverage on strong organic FCF and disposals

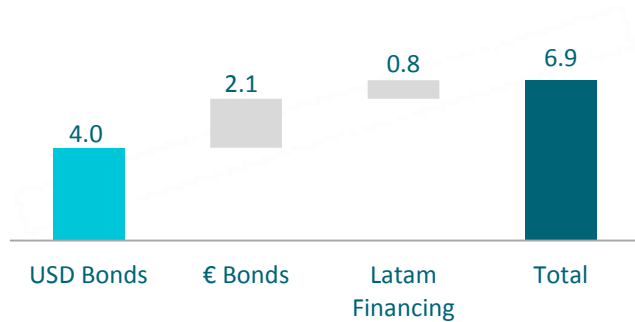
Net Financial Debt (€m)



Solid and diversified liquidity

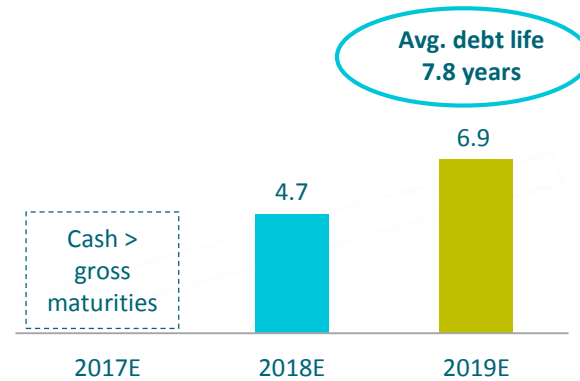
Sources of long-term financing (2017 YTD)

(€Bn)



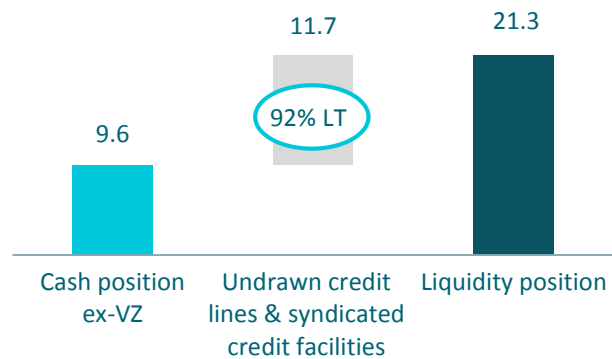
Net Debt maturities (Jun-17)

(€Bn; not considering hybrid NC dates)

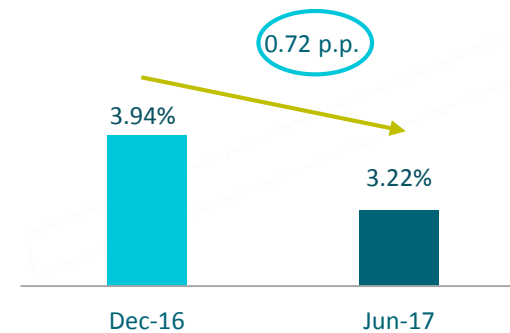


Liquidity position (Jun-17)

(€Bn)



Interest payments cost



Closing remarks

- **Solid acceleration in organic growth; Revenues, OIBDA and OpCF**
- **Sustained commercial momentum; adding higher value customers & “M4M” actions**
- **Strengthening our differentiation; network leadership & quality businesses**
- **Upfront CapEx investments fading**
- **Sound earnings growth**
- **Robust FCF generation; reducing leverage organically**
- **2017 guidance upgraded; dividend reiterated**

Positioning for sustainable long-term growth

Telefonica

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