

Telefónica

Results

January – March 2015

Telefónica, S.A.
Investor Relations



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Q1 15: 1st step of the new profitable growth cycle

1 Delivering on growth

- **Returning to growth across the board: Revenues (+12.6%), OIBDA (+7.7%), Net Income (+162%), EPS (+164%)**
- **Robust organic top line growth (+3.3% y-o-y) and sustainable improvement in OIBDA (+2.4% y-o-y)**
 - ▶ Organic revenue growth ex-VZ accelerated on the back of improved performance in Spain, Brazil and Germany
 - ▶ Strong commercial performance maintained; enhancing commercial propositions with refreshed offers
 - ▶ Building high-quality & value KPIs
 - ▶ Successfully monetising mobile data
 - ▶ Continuous efforts to contain costs; ongoing savings on leaner operating model
- **Investing further in networks & platforms (CapEx +21.5% y-o-y organic) is the foundation for the above**
 - ▶ Building a differential future-proof network: Investments in growth & transformation are 76% of total

2 Deleveraging and strengthening the balance sheet

- **Net debt/OIBDA 2.13x** including O2 UK sale; **cost of debt declining to 5.27%** (-18 b.p. y-o-y)
- **Strong FCF (+25.8% y-o-y)** despite normal seasonality in Q1

3 Early signs of benefits from portfolio optimisation/in-market consolidation strategy

- **Focus on key markets** (Spain, Brazil and Germany), with solid and improving performance in Q1
- **In-market consolidation:** the first and boldest mover
- **Digital+ transaction closed on April 30th**; One step further to becoming a Video Company

4 Q1 performance fully consistent with FY guidance

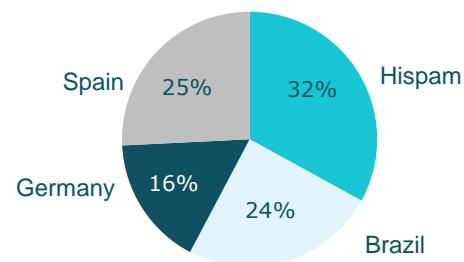
Key financials

€ in millions	Q1 15		
	Reported	Reported y-o-y	Organic y-o-y
Revenues	11,543	12.6%	3.3%
OIBDA	3,618	7.7%	2.4%
OIBDA Margin	31.3%	(1.4 p.p.)	(0.3 p.p.)
OpCF (ex-spectrum)	2,098	(5.0%)	(8.3%)
Net income	1,802	2.6x	--
EPS	0.38	2.6x	--
FCF	363	25.8%	--
Net financial debt	45,627	3.8%	--
ND/OIBDA (post O2 UK sale)	2.13x	--	--

Positive impacts from FX & changes in the perimeter

- Most Latam currencies added y-o-y
 - ▶ Revenue: +3.2 p.p.; OIBDA +2.5 p.p.
- Consolidation perimeter contributed y-o-y
 - ▶ Revenue: +5.9 p.p.; OIBDA +3.0 p.p.

2/3 of Revenues from Spain, Brazil and Germany



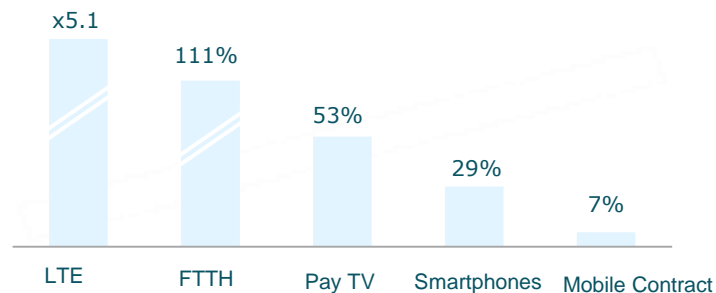
Fully on track to meet 2015 outlook

2015 Guidance (Constant FX 2014; ex-UK; ex-VZ; incl. 12M E-Plus and 6M GVT)	Guidance 2015E	Q1 15
Revenues	>7%	8.8%
OIBDA margin	Limited margin erosion around 1 p.p. (to allow for commercial flexibility if needed)	(1.0 p.p)
CapEx/Sales	Around 17%	13.3%
Net Debt/OIBDA (adjusted for O2 UK sale)	<2.35x	2.13x
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: €0.35/sh. Voluntary scrip proposal to the AGM (12 th June)
Share buyback: % share capital cancelled (treasury)	1.5%	Proposal to the AGM (12 th June)

Strong operating and financial performance

Building a quality platform

Accesses (Mar-15 y-o-y organic growth)

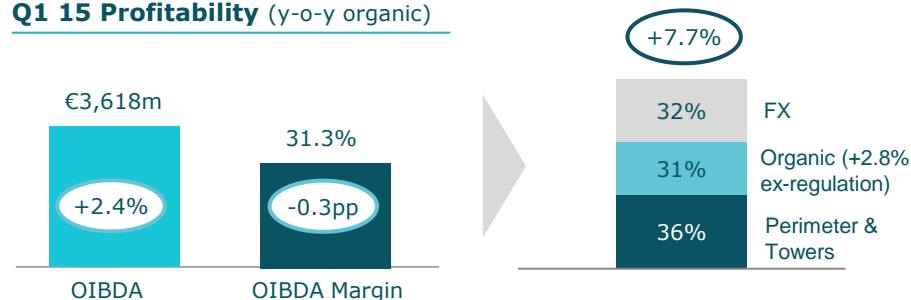


Q1 15 Revenue (y-o-y)

Organic
Reported



Q1 15 Profitability (y-o-y organic)



Strong increase in value base drives distinctive growth profile

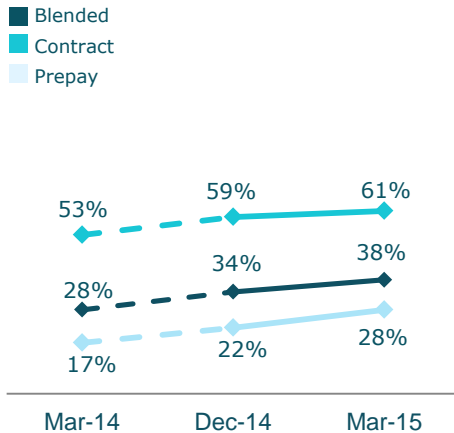
- **Average Revenue/Access +0.8% y-o-y organic**
 - ▶ Accesses +3% y-o-y organic
 - ▶ Lower churn: -0.2 p.p. y-o-y to 2.6%
- **Accelerating organic growth ex-VZ q-o-q**
 - ▶ Sequential improvements in Brazil, Germany and Spain
- **Transformation of top line**
 - ▶ CapEx effort made in recent years
 - ▶ Data monetisation key (data revenues +11.9% y-o-y organic)
 - ▶ Accelerating Digital Services: +33.7% y-o-y; Video +56.6% y-o-y

Continuation of improving trends in diversified OIBDA

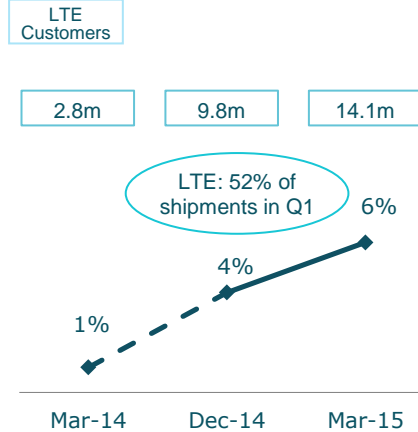
- **Executing on OIBDA growth and stabilising margin (y-o-y organic)**
 - ▶ Synergies from simplification program on track; Synergies from acquisitions to increase throughout the year
- **Focus on customer lifetime value along with market investment (OpEx +4.0% y-o-y organic)**
 - ▶ Commercial costs (+4.4% y-o-y); Net adds: 12.4m smartphones, fiber 308k (x2 y-o-y); Pay TV 379k (>x3 y-o-y)
 - ▶ Network & systems costs up 7.4% y-o-y on traffic increase

LTE and Prepay data: Main levers for data monetisation

Smartphone penetration



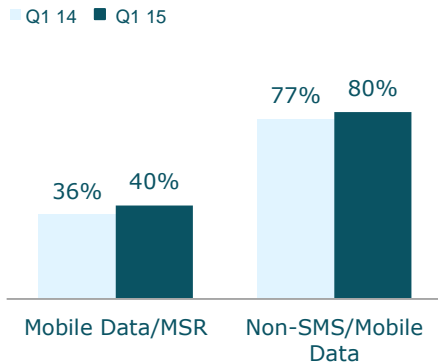
LTE penetration



Encouraging data dynamics

- **Accelerating usage growth**
 - ▶ Mobile data traffic: +52% y-o-y
 - ▶ Average usage per smartphone +25% y-o-y (512 MB/month)
- **LTE fostering growth** (usage +60% vs 3G)
 - ▶ LTE traffic at 11% of total mobile data traffic (+9 p.p. y-o-y)
- **Prepay data upside in HispAm** (21% prepay smartphone penetration; +7 p.p. y-o-y)

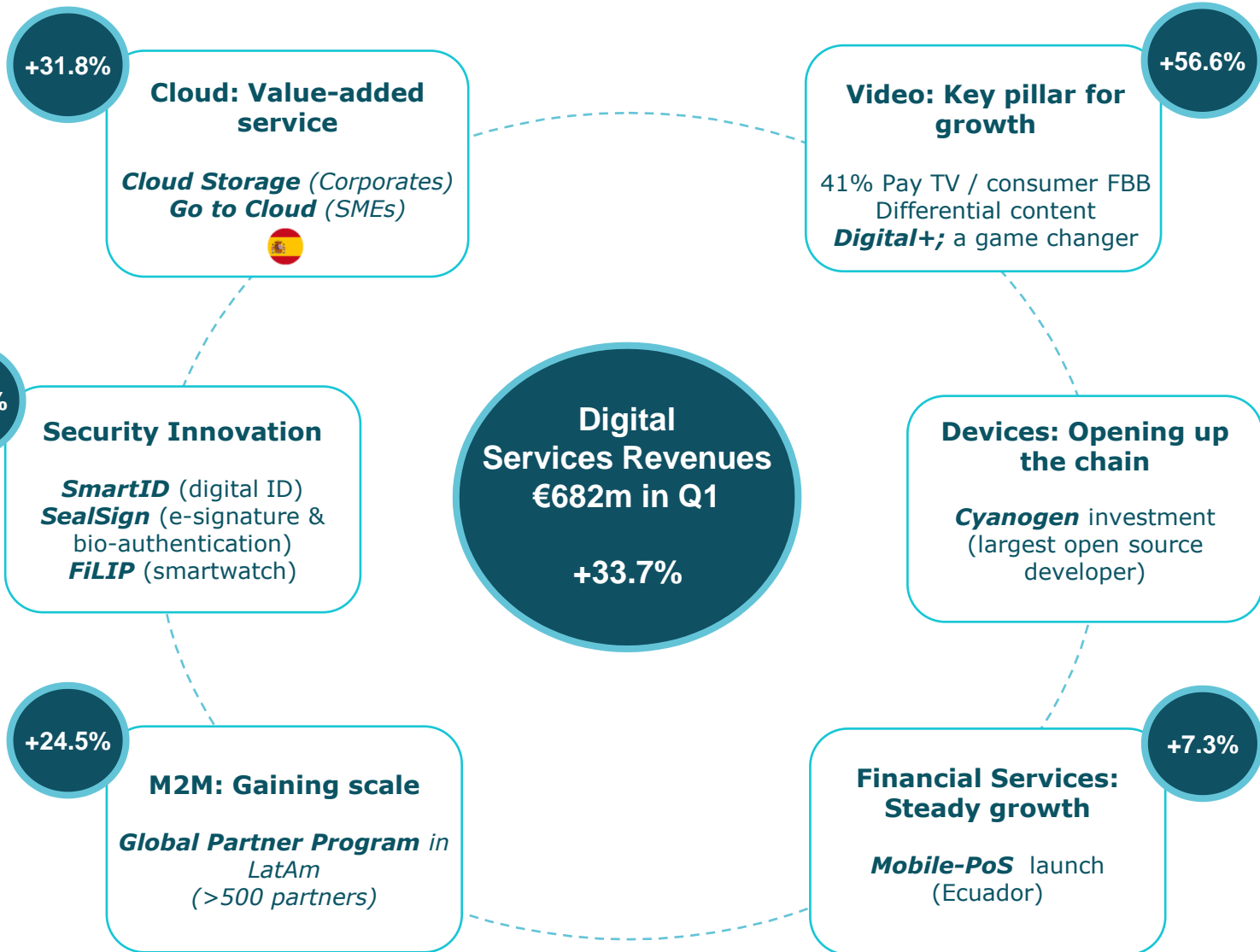
Q1 Mobile data revenue



Additional revenues coming from data

- **Monetising data beyond the allowance**
 - ▶ Contribution of 1 p.p. to Q1 15 y-o-y revenue growth
 - ▶ “Bundle Breakage”: 25% customers; of which ~1/3 buy data snack
 - ▶ New commercial schemes to optimise revenues in Spain, Germany & Brazil
- **LTE ARPU uplift: double digit**

Digital services: a strong start to 2015

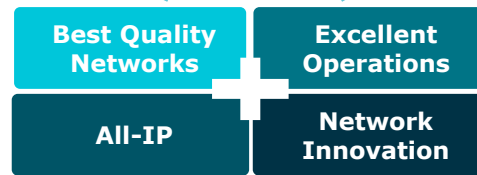
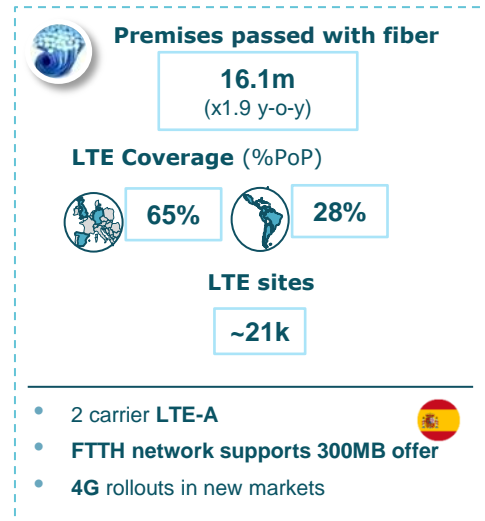


Organic Revenue
y-o-y growth

TGR: Network and IT supporting business transformation

Differential technology for Best Network Experience

UBB Deployments (Mar-15)



Addressing demand more efficiently

- Customer Experience:** global tool for enhanced self-care & fast diagnosis in call centers
- Global platforms** (Video, M2M, Cloud): leveraging scale and boosting performance

Trials for Technological excellence

- 3 carrier LTE-A
- "LTE in a box" private networks
- E2E 4G virtualised network

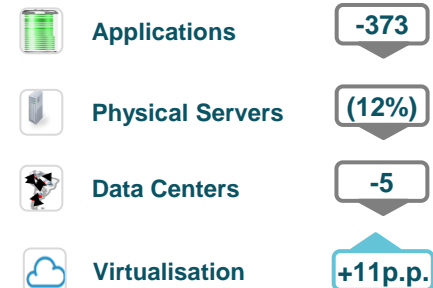
- VoLTE available, best-in-class QoS
- Proactive migration of DSL customers within fiber areas

IT: Execute business transformation + enable differential digital capabilities

+Customer experience +Efficiency

- Progressing on Full Stack projects in Argentina, Chile, Peru & Mexico
- Big Data (pilot in Spain)
- Online Channel renovation in Spain: sales automation
- DC consolidation through "Midrange" projects (Brazil + Spain)

+Simple and agile (y-o-y organic)

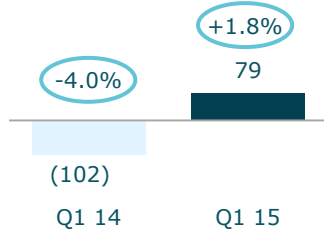


Spain: Enhanced value mix in a better environment

25% of Group revenue

Mobile contract net adds ('000)

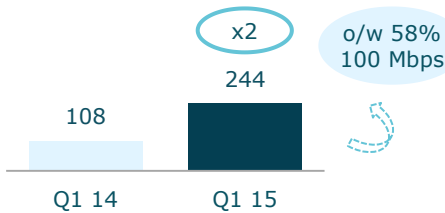
○ Accesses y-o-y



Q1 contract portability loss reduced -74% y-o-y

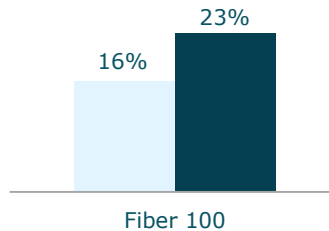
FTTH net adds ('000)

○ Accesses y-o-y



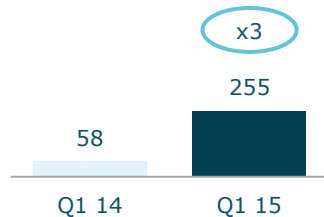
Fiber 100 in "Fusión"

Penetration
 Mar-14 Mar-15



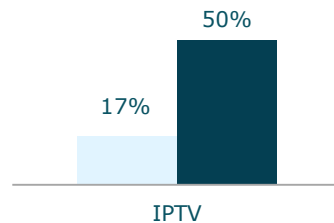
Pay TV net adds ('000)

○ Accesses y-o-y



Pay TV in "Fusión"

Penetration
 Mar-14 Mar-15



Outstanding commercial performance

- **Access base back to growth:** +1% y-o-y; **Churn reduction** across the board
- **FTTH base:** 1.6 m (x2 y-o-y): 26% of FBB base
 - ▶ Fiber 100 Mb to 1.2m (10€ premium; lower churn vs DSL)
- **Strengthened Pay TV leadership:** 2.1m (x3 y-o-y)

Upselling on differential Quad-Play offer

- **3.9m "Fusión" customers** (+21% y-o-y); 1.4m mobile additions
- **"Fusión" KPIs in the right direction**
 - ▶ ARPU virtually stable y-o-y at €69.6
 - ▶ Churn: 0.9% -0.3 p.p. y-o-y
- **Enhanced offer to increase premium quality**
 - ▶ MBB data caps up ~25-36%; Fiber speed to 300 Mb

Spain: first place in FTTH coverage and connections in Europe

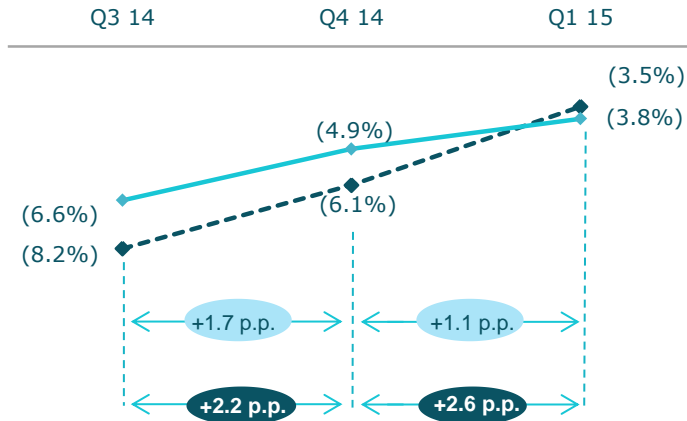
- **Strong investment effort with current regulatory conditions**
 - ▶ T. España: 11.5m premises passed
- **LTE coverage** to accelerate; 800 MHz available from April

Spain: Another step ahead towards revenue growth

25% of Group revenue

Revenue (y-o-y)

◆ Revenue ex- handset sales ◆ Revenue

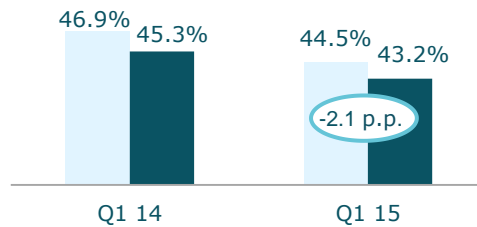


Revenue to continue improving on solid fundamentals

- Strong trading in high-end services & churn reduction
- Increased value in customer mix (TV & Fiber)
- Upselling & tariff update
 - ▶ 76% FBB & 59% mobile contract base in “Fusión” (consumer)
- High penetration of convergence
- Improved market conditions
- Handset sales softening y-o-y (Q1:-10.3% ;Q4 14: +14.7%)

OIBDA margin

○ Organic y-o-y
■ Ex-tower sales



Solid profitability despite improved commercial activity

- Q1 OIBDA (-8.4% y-o-y organic) affected by:
 - ▶ Higher trading; Pension plan, Higher content costs
- Efficiency progress
 - ▶ IT Simplification & distribution channel optimisation

Fiber 100 net adds



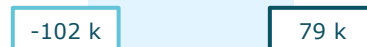
TV net adds



FBB net adds



Mobile contract net adds



y-o-y

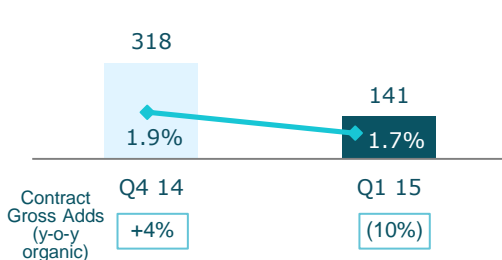
Germany: Executing on operations & key integration milestones

16% of Group revenue

Contract net adds ('000)

Ex-428k customer adjustment in E-Plus in Q4

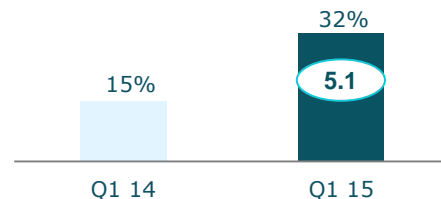
◆ Contract Churn



LTE driving growth

% Gross Adds with >1GB (O2 consumer contract)

○ LTE customers (m)



Focus on data monetisation in a more profitable environment

- **Mobile base: 42.2m** (+2% y-o-y organic)
- **Stronger focus on customer base development**
 - ▶ 86% share of LTE-enabled Smartphones sold (O2 Premium)
 - ▶ LTE coverage at 68% (62% at Dec-14); 75% target by year-end
- **Value approach to handset sales** from the beginning of the year
- **VDSL uptake** (66k net adds) **improving retail fixed base**

30% of target synergy run-rate⁽¹⁾ in 2015 on track

Headcount restructuring

1,600 FTEs by 2018
(50% in 2015 from Q2)

Shop reduction

Planned by 1/3rd by year 5

Decommission of 14k mobile sites

Planned by year 5

Synergy target on track (€250m in 2015; more biased to H2)

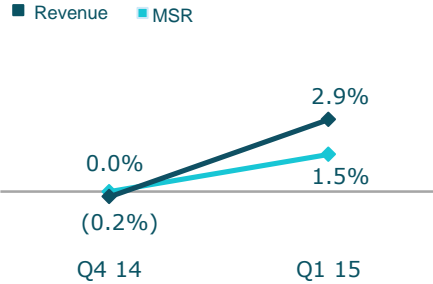
- **Staff negotiation process**
 - ▶ Agreement with Workers Councils reached in February
 - ▶ 2015 full-year goal well-advanced at the end of April
- **Distribution network consolidation**
 - ▶ Drillisch to take 301 shops in H2 15; significant portion of LT target
- **3G National Roaming agreement** from mid-April

(1) Run-rate: Approx. €800m run-rate OpCF synergies from year 5 of integration onwards

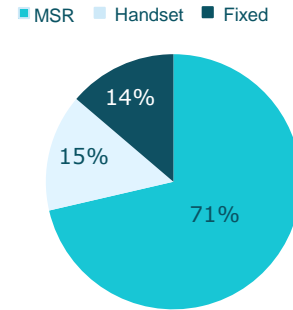
Germany: Solid financial performance

16% of Group revenue

Revenue (y-o-y organic)



Revenue composition

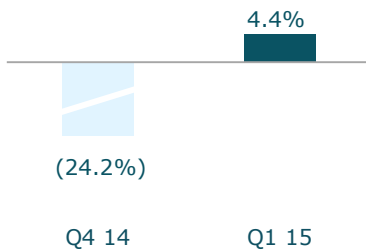


Strong revenue performance driven by data centric strategy

- **Top line growing sequentially**
 - ▶ MSR momentum; favorable customer mix in acquisition & retention
 - Data revs/MSR: 51%
 - Non-SMS data revs +7.3% y-o-y (71% of data revs)
 - SMS volume decline stabilisation
 - ▶ Robust handset revenues y-o-y (Q1: +28.8%; Q4 14: +5.4%)

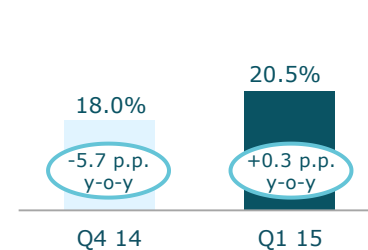
OIBDA (y-o-y)

Organic ex non-recurrent items



OIBDA margin

Organic ex non-recurrent items



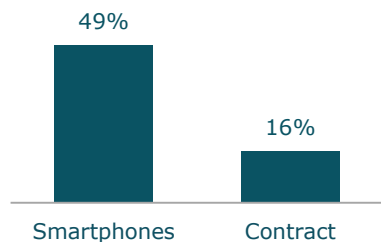
Profitability turnaround

- **Revenue flow-through**
- **Efficient commercial approach**
 - ▶ Customer base retention
 - ▶ Value-based handset sales
- **OpEx synergies to accelerate from H2**
- **OpCF at €187m (+6.4% y-o-y organic ex non-recurrent items)**

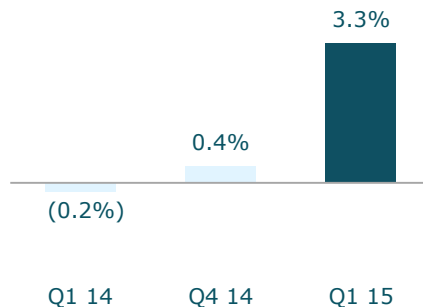
Brazil: Quality growth driving ARPU improvement

24% of Group revenue

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



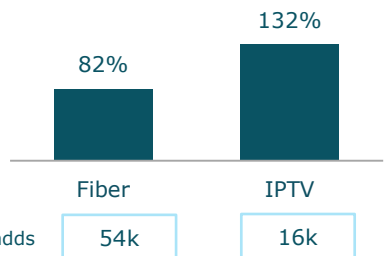
ARPU (y-o-y)



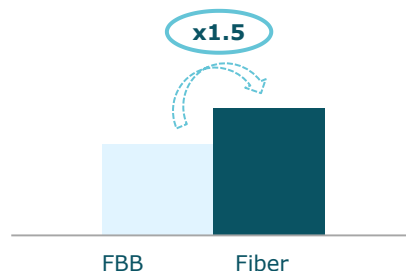
Consistent growth in high value segments

- **Mobile data acceleration leading to y-o-y growth in ARPU**
 - ▶ 40% Smartphones penetration (+12 p.p. y-o-y); 5% LTE penetration (+4 p.p. y-o-y)
 - ▶ Data traffic booming (+50% y-o-y) driven by LTE higher usage on new data propositions
- **Strengthened leadership in mobile contract**
 - ▶ Market share of 41.6% (+1.0 p.p. y-o-y)
 - ▶ Best customer satisfaction on best quality and network coverage (141 cities covered with LTE)

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



ARPU



Focus on most profitable services

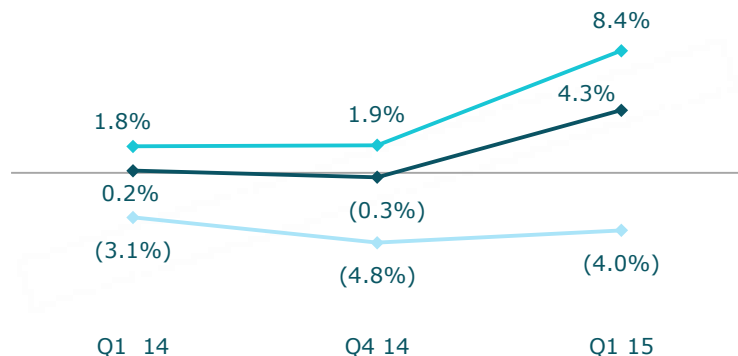
- **FTTH premises passed almost doubling y-o-y** (4.3m at Mar-15)
 - ▶ 429k HH connected
- **Pay TV accesses : +23% y-o-y**
- EGM (May 28th) to close GVT transaction

Brazil: Strong revenue growth acceleration

24% of Group revenue

Revenue (organic y-o-y)

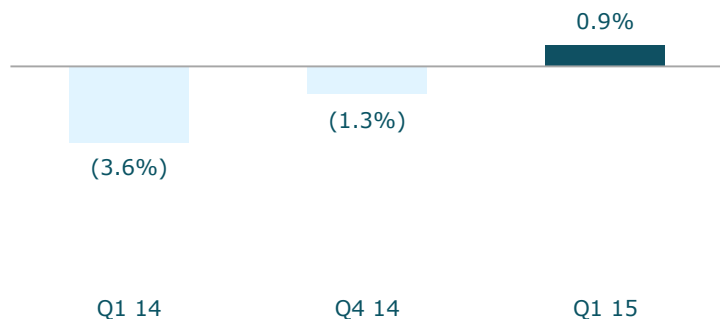
Fixed Mobile Total



Best revenue growth in last 3 years

- **Strong MSR improvement in Q1 (+4.6 p.p. vs Q4 14) leveraging data monetisation strategy**
 - ▶ Data revenues/MSR: 39% (+7 p.p. y-o-y; +3 p.p. q-o-q); Non-SMS revenues +42.0% y-o-y
 - ▶ 8x higher adoption of data snacks since throttling elimination
- **Enhanced fixed revenue y-o-y trend**; higher contribution from Pay TV and fiber revenues
- **Negative impact of regulation** (-3.2 p.p. in y-o-y revenue growth)

OIBDA (organic y-o-y)



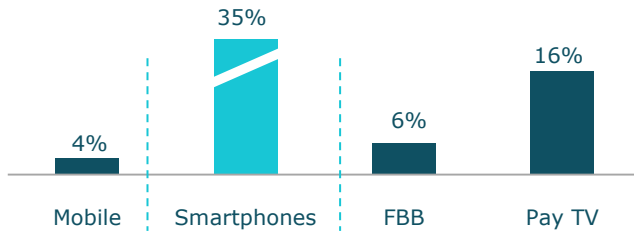
Positive y-o-y OIBDA growth

- **OpEx (+4.9% y-o-y)** once again below inflation:
 - ▶ Strong efficiency efforts (personnel and G&A expenses) and MTR reduction
 - ▶ Offset higher subsidies (LTE adoption) and bad debt (more difficult environment)
- **OIBDA margin stood at 30.1%** (-1.0 p.p. y-o-y)

Hispam: Resuming reported & organic growth

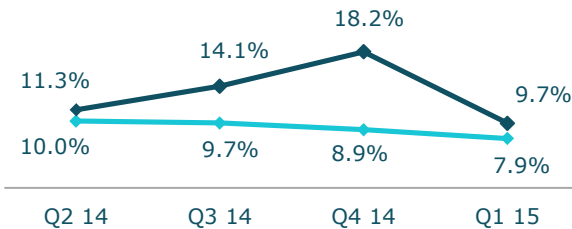
32% of Group revenue

Accesses (Mar-15 y-o-y)



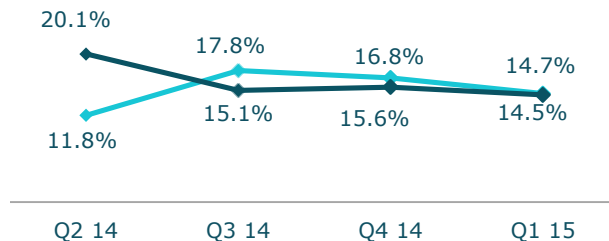
Revenue (organic y-o-y)

◆ Hispam ◆ Hispam ex-Venezuela



OIBDA (organic y-o-y)

◆ Hispam ◆ Hispam ex-Venezuela



OIBDA margin ex-VZ (organic y-o-y)



Commercial momentum across services

- **3.1m Smartphone net adds** (+62% vs. Q1 14)
 - ▶ Limited penetration (29% total; 21% prepay) provides significant upside
- **Record-high net adds in Pay TV** (104k)
- **Volumes growing strongly y-o-y:** Voice (+6%) & data traffic (+52%)

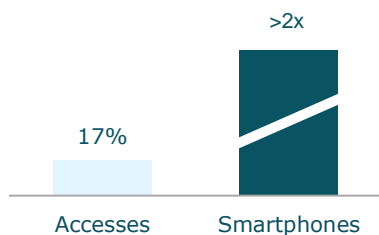
Margin expansion for 5th consecutive Q (organic y-o-y and ex-VZ)

- **Positive impact from FX:** all currencies but Colombian COP\$ contributing positively y-o-y
- **Combination of access & ARPU growth** fueling revenues
- **Data revenues 1/3 of total Q1 revenues**
 - ▶ Non-SMS data +25.1% y-o-y
- **Margin improvement: y-o-y trend maintained**
 - ▶ Main contributors: Mexico (+9.2 p.p.), Argentina (+3.3 p.p.) and Colombia (+3.0 p.p.)

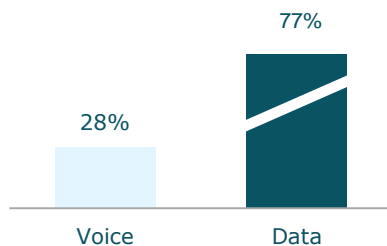
Mexico: Operational momentum fostering growth

4% of Group revenue

Accesses (Mar-15 y-o-y)



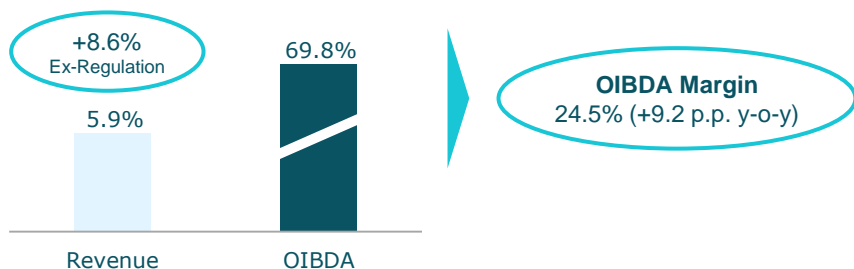
Q1 Traffic (y-o-y)



Strong commercial momentum

- **Strengthened market positioning** boosting y-o-y accesses & traffic growth
 - ▶ Strong gross adds (Q1: 2.7m; +10% y-o-y); 2nd quarterly volume ever despite seasonality
 - ▶ Record-high in Smartphones; Q1 net adds 2.0m; New LTE plans fostering adoption (820k accesses at Mar-15)

Q1 Revenue & OIBDA (y-o-y organic)



Larger scale bringing further profitability

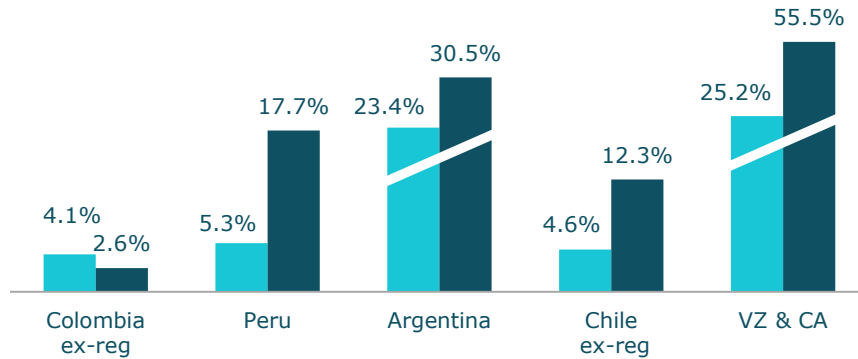
- **Strong revenue growth y-o-y**
 - ▶ Steady increase of both accesses & usage (MOU +18%)
 - ▶ MTRs reduction dragging MSR growth by 3.2 p.p. in Q1
- **Increased profitability y-o-y**
 - ▶ Strong access growth delivering economies of scale
 - ▶ Successful implementation of efficiency plan
 - ▶ Asymmetric interconnection tariff

Rest of Hispam: Growth across the board

28% of Group revenue

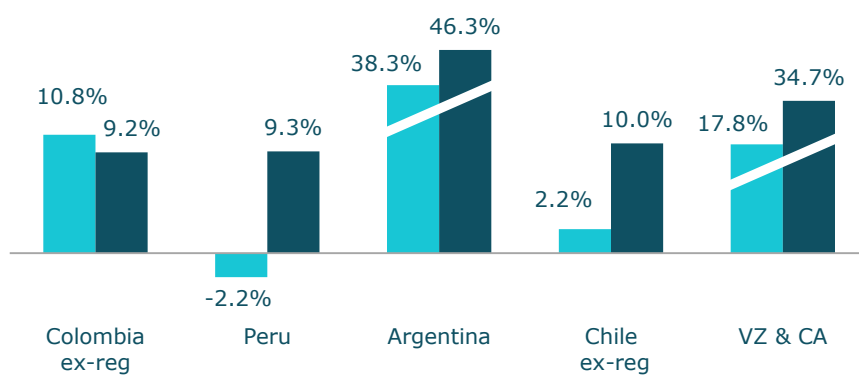
Q1 Revenue (y-o-y)

Organic Reported



Q1 OIBDA (y-o-y)

Organic Reported



Q1 OIBDA margin (organic y-o-y)

+3.0 p.p.

Colombia

(2.6 p.p.)

Peru

+3.3 p.p.

Argentina

(0.8 p.p.)

Chile

(1.7 p.p.)

VZ & CA

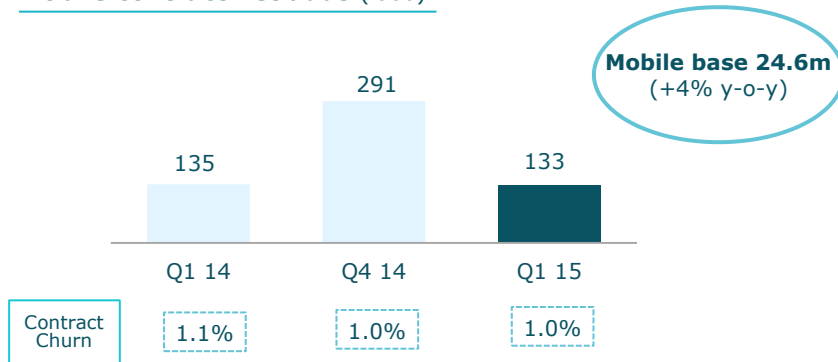
Solid start of the year

- **Colombia:**
 - ▶ Strong organic OIBDA growth and margin expansion y-o-y
 - ▶ Asymmetric regulation extended until 2017
- **Peru:**
 - ▶ Solid growth in high-value accesses y-o-y: contract mobile +13%; Smartphones +31%; FBB +7%; Pay TV +15%
 - ▶ OIBDA y-o-y organic decline impacted by more intense competition
- **Argentina:**
 - ▶ Continued LTE deployment aiming to cover all provincial capitals by year end
 - ▶ Strong margin increase on efficiency efforts and rationalisation of commercial costs
- **Chile:**
 - ▶ Focus on quality of service: LTE (67% pop coverage) and FTTH (307k premises passed)
 - ▶ Regulatory effects dragging revenues and OIBDA y-o-y (-4.2 p.p. and -4.3 p.p. respectively)
- **Venezuela & Central America:**
 - ▶ 4G services launched in Q1 in Venezuela & Panama
 - ▶ Strong traffic volumes (voice +10% y-o-y; data +43% y-o-y)

UK: Commercial momentum & robust financials

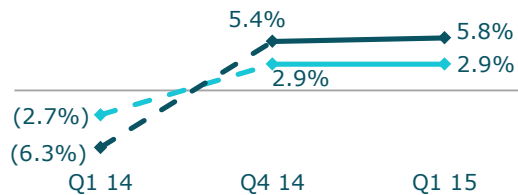
Consolidated as discontinued operation

Mobile contract net adds ('000)

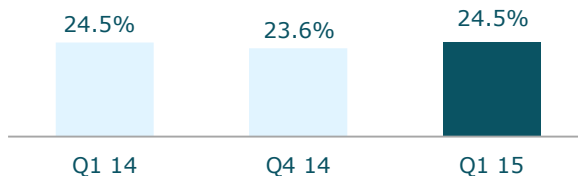


Revenues (y-o-y ex "O2 Refresh"¹)

◆ Revenue ◆ MSR



OIBDA margin



(1) Q1 15 growth of new perimeter
 (2) Q1 14: €24m true-up commissions & €5m restructuring costs

Continued growth of customer base

- **Fastest growing mobile operator**
- **Total net adds 138k (Q1 14:-73k)**
 - ▶ **Contract net adds** reflect Q1 seasonality
 - Contract gross adds: +2% y-o-y on popularity on high-end devices
 - LTE penetration: 22%; 784k LTE net adds
 - ▶ Prepay base grew in Q1 for first time in 7 years
 - ▶ Continued LTE roll-out (66% outdoor coverage at Mar-15)
- **Customer loyalty remains at record levels**
 - ▶ Highest customer satisfaction
 - ▶ Popular commercial propositions: "Big Bundles", "O2 Refresh"

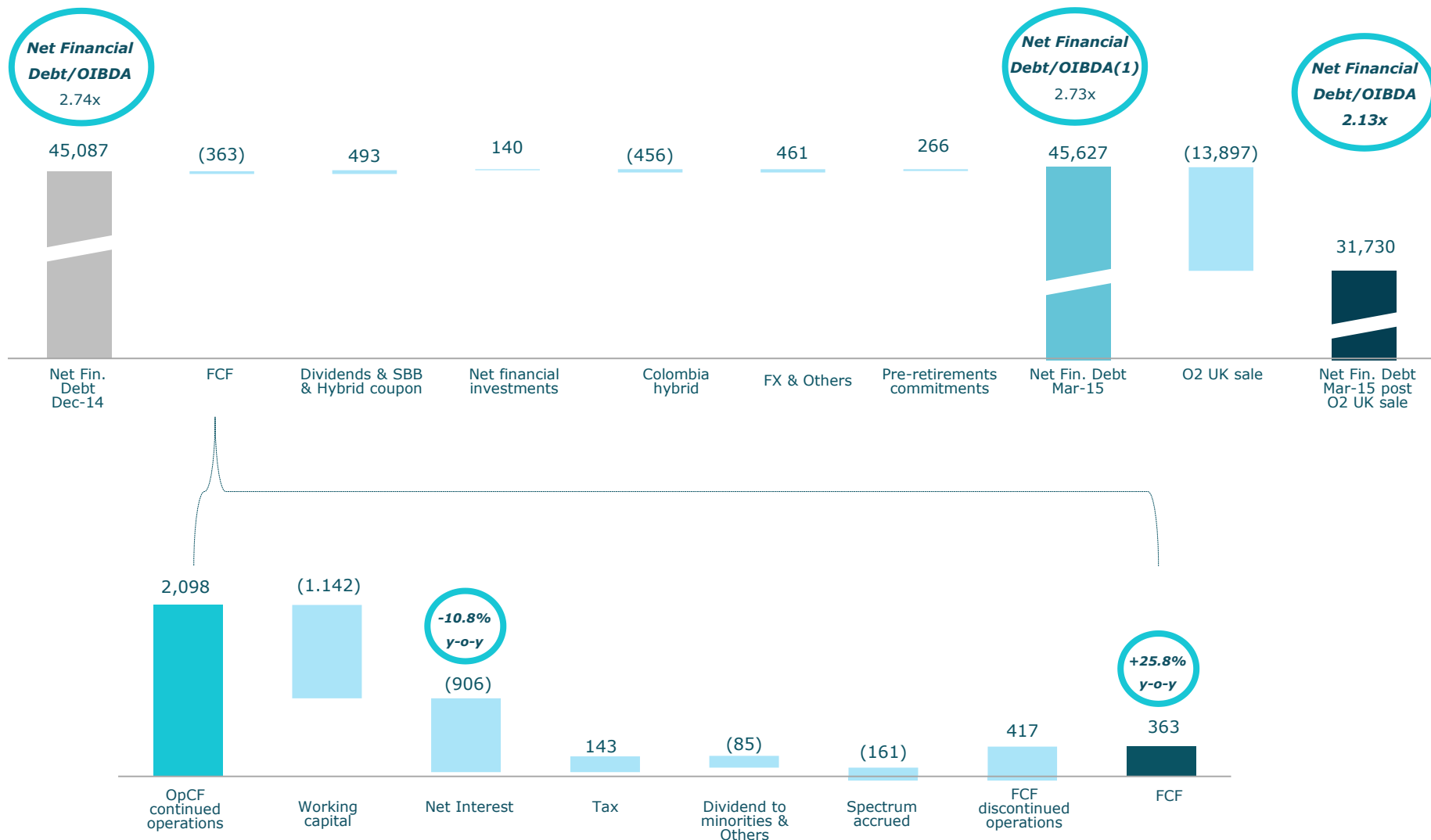
Sustained financial performance

- **Total revenue growth +1.1% y-o-y**
- **Q1 OIBDA +1.1% y-o-y (+6.1% ex non-recurrent items²)**
 - ▶ Continued efficiencies with savings in marketing and overheads
 - ▶ "O2 Refresh" represents 0.7 p.p. of OIBDA margin

Substantial deleverage following O2 UK sale

Net Financial Debt

€ in millions

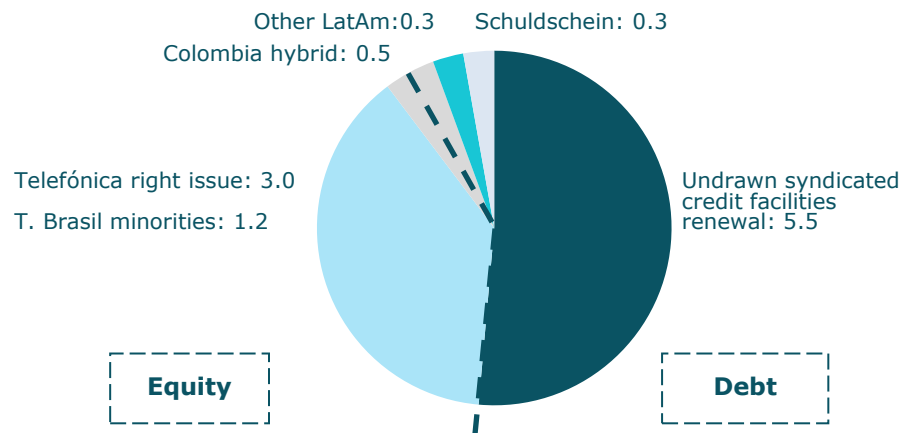


(1) OIBDA 12 month rolling, not considering O2 UK discontinuation, incorporating E-Plus OIBDA corresponding to April-Sep 14 and excluding the non-recurring impact from restructuring costs in 2014.

Substantial diversified financing reinforcing credit quality

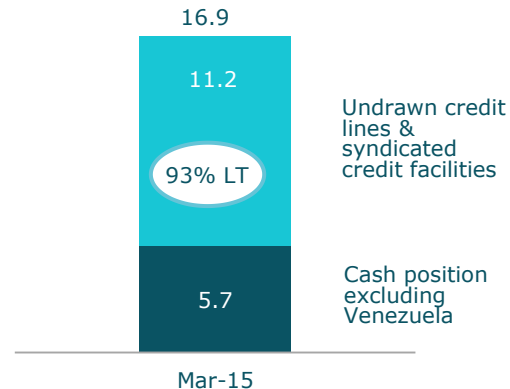
Long-term financing (€10.8Bn YTD)

€ in billions



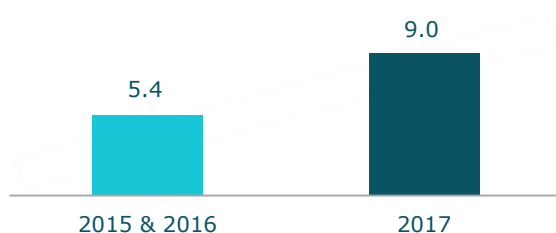
Liquidity position (Mar-15)

€ in billions



Net debt maturities (Mar-15)

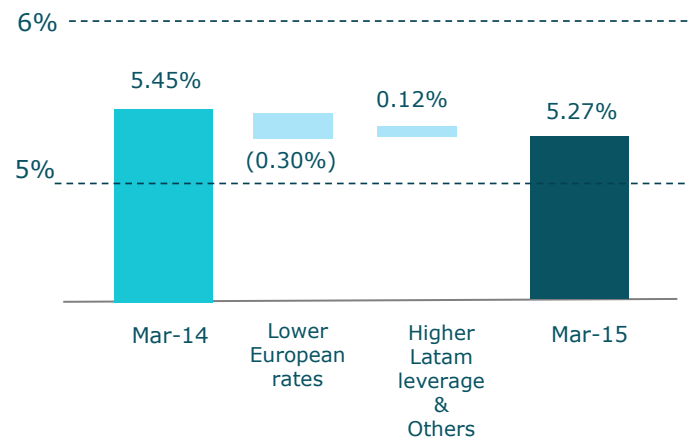
€ in billions



Average debt life at 6 years

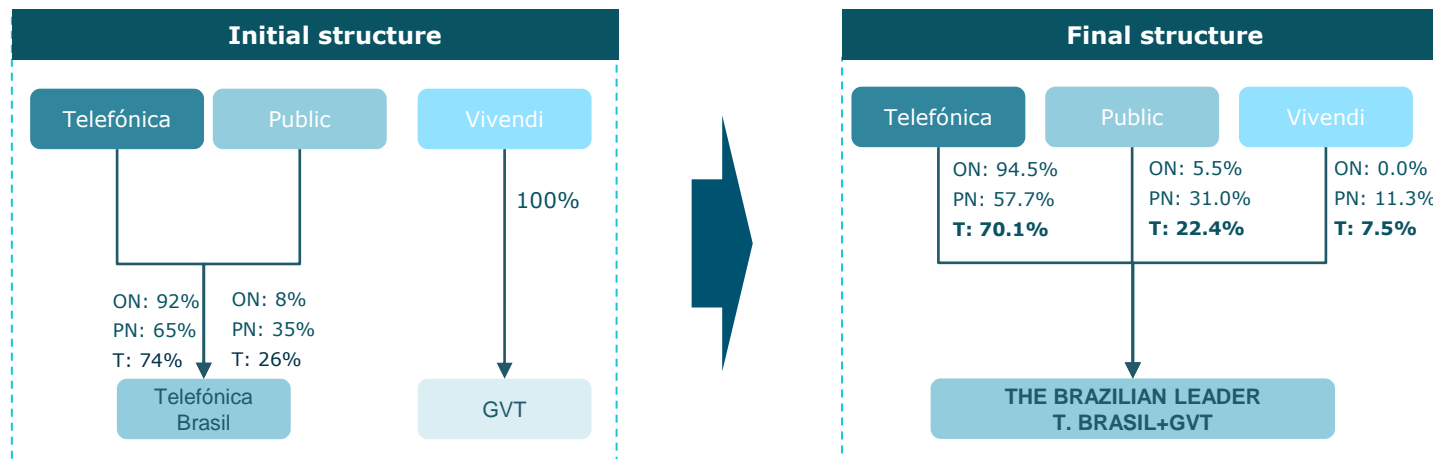
Effective interest cost (12 month rolling)

----- Guidance



18 b.p. reduction in effective interest cost

Outstanding support for both capital increases



Telefónica Right issue

- **Offering size**
 - ▶ €3Bn; issuance of new shares (281.2m)
- **Subscription price**
 - ▶ €10.84: discount to TERP of 18.9%

- **Demand: 3.7x** of the shares offered in the rights issue
- **Discount to TERP significantly lower** than other European rights issues in the last 2 years (~10 p.p)

T. Brasil follow-on offering

- **Offering size**
 - ▶ BRL16.1Bn (~€4.7Bn)
- **Subscription price**
 - ▶ BRL47/share for PN shares (-2.4% discount to last price)

- **Largest equity transaction in LatAm in the last 4 years**
- **First public registered offering in Brazil in the last 6 months**
- **Market book oversubscribed**
- **Lower discount than precedents**

Conclusion

SOLID START TO 2015; BEGINNING A NEW CYCLE OF PROFITABLE GROWTH

- 1** Strengthening growth in Revenue, OIBDA & EPS
- 2** Encouraging demand for LTE, Smartphones, Fiber and Pay TV. Enlarging differentiation
- 3** Early signs of portfolio optimisation/in market consolidation benefits
- 4** Sound balance sheet
- 5** 2015 Guidance and 2016 ambition confirmed

Telefonica

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