

FINANCIAL HIGHLIGHTS

- **Sustained and profitable organic growth.**
 - **LTE** (1.6x y-o-y), **smartphones** (+8%) and **FTTx & cable** (+21%).
 - **Revenues** in the quarter (€12,754m) grew 4.0% y-o-y in organic terms (+0.9 p.p. vs. the previous quarter), with service revenues acceleration (+3.3%; +0.4 p.p). Mobile data revenues double-digit growth continued (+16.3% y-o-y in organic terms).
 - In the quarter, **OIBDA** (€4,095m) grew 2.8% in organic terms y-o-y. OIBDA margin stood at 32.1% (-0.4 p.p. y-o-y organic). RLAH impact dragged -1.7 p.p. to OIBDA growth y-o-y.
 - **Underlying OIBDA** totalled €4,116m (-2.7% y-o-y) and excluded €21m restructuring costs.
 - **Operating cash flow** (OIBDA-CapEx) excluding the spectrum (€6,815m in January-September) maintained a strong pace of growth (+9.2% y-o-y organic), reflecting lower CapEx intensity (-2.3%).
 - **Net income** in the first nine months reached €2,439m, +9.6% year-on-year, and earnings per share totalled €0.44, +8.7% (€839m and €0.15, respectively in the quarter).
- **Company transformation continued.**
 - 42.8m premises passed with FTTx & cable and 69% LTE coverage at September 2017.
 - The focus on E2E digitalisation of processes offers an unprecedented opportunity to transform the business, already delivering tangible benefits.
- **Reinforced balanced position.**
 - **Free cash flow** in the first nine months reached €3,226m (+39.2% y-o-y).
 - Net debt in September stood at €47,222m, less 4.8% y-o-y (-€1,265m vs. June 2017). Debt will be further reduced by an additional €1,275m in the fourth quarter, following the closing of Telxius 40% stake sale.
- **T. España** returned to growth in service revenues in the quarter (+0.4% y-o-y; €3,089m). OIBDA reached €1,306m (-0.6% y-o-y excluding capital gains from real estate sales). Operating cash flow grew 4.7% in January-September.
- **T. Brasil** widened its quality gap and posted sustained y-o-y growth in revenues (+1.2% organic; €2,935m) and OIBDA (+6.0%; €1,024m), and posted 3 quarters in a row of OIBDA margin expansion.
- **T. Deutschland** maintained a solid commercial momentum in July-September, revenues reached €1,850m (-1.3% organic) and OIBDA €457m in the quarter, while OIBDA margin expanded (+0.3 p.p. organic) despite the regulatory impact.
- **T. UK**; sustained revenue growth (+1.1% organic; €1,602m), despite the strong roaming impact in the quarter, which was reflected in a €412m OIBDA (-4.7% organic).
- **T. Hispanoamérica** maintained solid growth in revenues (+16.1% organic; €2,981m) and OIBDA (+9.3%; €883m) due to increased penetration of value accesses and efficiency measures.
- **The Company reiterated its guidance and the dividend announced for 2017.**

Comments from José María Álvarez-Pallete, Chairman and CEO:

“Third quarter results reflected the solid execution of the main strategic priorities set for the year. Thus, our organic growth is consistent and sustainable, highlighting the improvement in revenue growth trends and the increased OIBDA, despite the negative impact of the new regulation in Europe. Additionally, transformation remained key and the focus on digitalisation amongst the Company's different operating areas has contributed to increase our differentiation and become more efficient, and will enable us to pave a new way to interact with our customers through cognitive intelligence while improving resource allocation. Finally, we continued strengthening our balance sheet position with a clear advance in de-leveraging the Company thanks to growing cash-flow generation”.



TELEFÓNICA
SELECTED FINANCIAL DATA
Unaudited figures (Euros in millions)

	January - September		% Chg		July - September		% Chg	
	2017	Reported	Organic	2017	Reported	Organic		
Revenues	38,846	1.4	2.9	12,754	(2.5)	4.0		
Telefónica España	9,410	(1.7)	(1.6)	3,184	(0.3)	(0.3)		
Telefónica Deutschland	5,392	(3.1)	(3.1)	1,850	(1.3)	(1.3)		
Telefónica UK	4,810	(6.4)	1.9	1,602	(4.4)	1.1		
Telefónica Brasil	9,128	13.6	1.5	2,935	(0.5)	1.2		
Telefónica Hispanoamerica	9,400	2.8	13.6	2,981	(4.7)	16.1		
Other companies & eliminations	706	(18.0)	(5.0)	202	(20.7)	4.5		
Telxius	547	19.1	8.0	177	5.3	7.5		
OIBDA	12,274	2.9	3.8	4,095	(1.9)	2.8		
Telefónica España	3,731	(4.5)	(2.4)	1,306	(3.5)	(3.4)		
Telefónica Deutschland	1,318	1.4	1.7	457	0.1	(0.1)		
Telefónica UK	1,261	(8.3)	(0.2)	412	(10.0)	(4.7)		
Telefónica Brasil	3,162	20.6	6.8	1,024	4.7	6.0		
Telefónica Hispanoamerica	2,679	0.4	12.0	883	(9.0)	9.3		
Other companies & eliminations	123	105.8	32.5	13	c.s.	(177.1)		
Telxius	261	48.7	11.4	82	9.6	12.1		
OIBDA margin	31.6%	0.5 p.p.	0.3 p.p.	32.1%	0.2 p.p.	(0.4 p.p.)		
Telefónica España	39.7%	(1.2 p.p.)	(0.3 p.p.)	41.0%	(1.3 p.p.)	(1.3 p.p.)		
Telefónica Deutschland	24.4%	1.1 p.p.	1.2 p.p.	24.7%	0.4 p.p.	0.3 p.p.		
Telefónica UK	26.2%	(0.5 p.p.)	(0.6 p.p.)	25.7%	(1.6 p.p.)	(1.6 p.p.)		
Telefónica Brasil	34.6%	2.0 p.p.	1.7 p.p.	34.9%	1.7 p.p.	1.6 p.p.		
Telefónica Hispanoamerica	28.5%	(0.7 p.p.)	(0.4 p.p.)	29.6%	(1.4 p.p.)	(1.8 p.p.)		
Operating Income (OI)	5,143	7.1	11.2	1,773	3.2	9.4		
Net income attributable to equity holders of the Parent	2,439	9.6		839	(14.7)			
Basic and diluted earnings per share (euros)	0.44	8.7		0.15	(17.5)			
CapEx	5,962	(0.9)	(2.3)	2,455	3.9	3.7		
Telefónica España	1,097	(14.9)	(14.5)	392	(0.8)	(0.7)		
Telefónica Deutschland	688	(8.0)	(7.4)	254	(19.6)	(19.2)		
Telefónica UK	604	(7.7)	0.6	170	(28.7)	(23.4)		
Telefónica Brasil	1,513	10.6	2.5	598	3.7	12.6		
Telefónica Hispanoamerica	1,853	2.9	0.8	931	19.0	15.7		
Other companies & eliminations	207	32.6	40.2	111	104.5	123.4		
Telxius	136	111.8	107.5	79	n.m.	n.m.		
Spectrum	502	47.5	46.9	498	50.6	50.0		
Telefónica España	-	-	-	-	-	-		
Telefónica Deutschland	1	(86.7)	(86.7)	-	-	-		
Telefónica UK	-	-	-	-	-	-		
Telefónica Brasil	-	-	-	-	-	-		
Telefónica Hispanoamerica	502	78.1	77.4	498	76.8	76.0		
OpCF (OIBDA-CapEx)	6,312	6.7	9.2	1,640	(9.6)	2.0		
Telefónica España	2,634	0.7	3.5	914	(4.6)	(4.5)		
Telefónica Deutschland	630	14.1	12.9	203	44.4	36.6		
Telefónica UK	658	(8.9)	(0.9)	242	10.4	15.2		
Telefónica Brasil	1,649	31.7	11.1	426	6.2	(1.8)		
Telefónica Hispanoamerica	825	(5.0)	26.8	(48)	c.s.	2.7		
Other companies & eliminations	(84)	(13.0)	54.9	(97)	3.6	29.1		
Telxius	126	12.6	(25.8)	3	(94.1)	(91.1)		

- Reconciliation included in the excel spreadsheets.

Notes:

- 2016 and 2017 reported figures include hyperinflationary adjustments in Venezuela in both years.

- OIBDA and OI are presented before brand fees and management fees.

- Telxius financials are fully reported in Other Companies & Eliminations in T. Group since 1 January, 2017, reflecting the final integration into Telxius of the mobile communications towers transferred from T. España, T. Deutschland, T. Brasil and T. Hispanoamérica segments and the international submarine fiber optic cable (which was already being reported within Other Companies and Eliminations). As a consequence, 2017 reported figures for these segments follow the same criteria. In addition, 2016 segment results have been revised to reflect the different dates of asset integration into Telxius, affecting T. España (since 1 January, 2016), T. Deutschland (since 1 May, 2016), T. Brasil (since 1 April, 2016) and T. Hispanoamérica (T. Perú since 1 April 2016 and T. Chile since 1 May 2016). Organic y-o-y changes on segments reflect all the charges related to the towers transferred to Telxius since 1 January 2016. The results of the segments do not include intra-group capital gains resulting from the transfer of towers to Telxius.

- **Organic criteria:** Assumes constant exchange rates as of 2016 (average FX in 2016), excludes the impact from hyperinflation in Venezuela in both years and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales, material non-recurring impacts and restructuring costs. CapEx also excludes investment in spectrum.

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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 the present document are included in the Appendix. Moreover, recipients of this document are invited to read our condensed consolidated interim financial statements and consolidated interim management report for the six-month period ended June 30, 2017 submitted to the Spanish National Securities Market Commission.

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For further information please refer to the information on 2017 third quarter financial results filed by the Company and also available on the Company's website: www.telefonica.com

