

TELEFONICA S A
Form 6-K
April 26, 2018
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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the month of April, 2018
Commission File Number: 001-09531
Telefónica, S.A.
(Translation of registrant s name into English)
Distrito Telefónica, Ronda de la Comunicación s/n,
28050 Madrid, Spain
3491-482 87 00
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes No

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Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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The financial information related to January-March 2018 contained in this document has been prepared under International Financial Reporting Standards (IFRS), as adopted by the European Union, which do not differ for the purposes of the Telefónica Group, from IFRS as issued by the International Accounting Standards Board (IASB).

Telefónica's management model, regional and integrated, means that the legal structure of the companies is not relevant for the release of Group financial information, and therefore, the operating results of each of these business units are presented independently, regardless of their legal structure. For the purpose of presenting information on a business unit basis, revenue and expenses arising from invoicing among companies within Telefónica's perimeter of consolidation for the use of the brand and management contracts have been excluded from the operating results for each business unit. This breakdown of the results does not affect Telefónica's consolidated earnings.

The English language translation of the consolidated financial statements originally issued in Spanish has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation, certain omissions or approximations may subsist. Telefónica, its representatives and employees decline all responsibility in this regard. In the event of a discrepancy, the Spanish-language version prevails.

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CONSOLIDATED RESULTS

Telefónica's **accesses** base stood at 356.9m at March 2018 (-1% y-o-y) and included 14.8m in wholesale mobile accesses.

Customer value continued to improve, driving average revenue per access growth (+2.5% y-o-y organic in the first quarter) and reducing churn levels (-0.1 p.p.).

Higher-value services maintained elevated growth rates, leveraged on the growing demand for data, speed and content: i) **LTE** customers totalled 102.9m (+36% y-o-y), with quarterly net additions of 5.4m and a penetration of 40% (+11 p.p. y-o-y); ii) **mobile contract** accesses (117.5m; +5% y-o-y) reported quarterly net additions of 1.6m (2.5 times y-o-y), representing 43% of the total (+3 p.p. y-o-y); iii) **smartphones** (+7% y-o-y; 161.6m), with quarterly net additions of 2.9m (+29% vs. October-December 2017), achieved a penetration of 64% (+5 p.p. y-o-y); iv) **FTTx/Cable** customers (11.5m; +20% y-o-y) posted net additions of 530k (+20% y-o-y) and represented 54% of total fixed broadband accesses (+9 p.p. y-o-y), with a coverage of 45.8m premises passed with proprietary network (+15% y-o-y); and v) **pay TV** accesses (8.6m; +5% y-o-y) accelerated their quarterly net additions to 137k (92k in October-December 2017; -70k in January-March 2017).

It is important to note that reported variations of the January-March 2018 consolidated financial results reflected the adoption of IFRS 15 and 9 (the financial results in the same period of 2017 are reported under prior accounting standards). Organic variations excluded the impact of the accounting change to IFRS 15 in 2018 results (- 10m in revenues; + 11m in OIBDA). The accounting change to IFRS 9 had no significant impact on the results.

Exchange rate fluctuations in January-March had a negative impact on key financial metrics, mainly the depreciation of the Brazilian real and the Argentine peso against the euro. Thus, in the first quarter of 2018 currencies dragged y-o-y growth of revenues by 8.6 p.p. and OIBDA by 9.2 p.p.

Nevertheless, it should be noted that the negative impact of the depreciation of currencies at OIBDA level has been significantly reduced in terms of cash flow generation, where the negative impact decreased to 26m, as it reduced the payment in euros of CapEx, taxes and interests.

Revenues in the quarter (12,190m) decreased 7.2% y-o-y. However, in organic terms, they grew 1.9% vs. January-March 2017, on the back of the strong pace of growth of handset sales (+16.5%) and the positive performance of service revenues (+0.8%).

Mobile data revenues increased 9.5% y-o-y in organic terms and represented 62% of mobile service revenues in the quarter (+4 p.p. y-o-y in organic terms).

Excluding the negative impact of regulation (-1.2 p.p.), revenues would have risen 3.1% y-o-y organic in the first quarter.

In the first quarter, provisions for restructuring costs amounted to 18m (14m in T. Deutschland and 3m in T. Centroamérica) impacting personnel expenses by 4m and other net income (expense) by 14m. In the first quarter of

2017, restructuring costs totalled 88m (mainly 76m in T. España and 11m in T. Deutschland).

Operating expenses amounted to 8,533m and decreased 8.7% y-o-y in reported terms. In organic terms, operating expenses increased 1.1% y-o-y in the quarter due to higher other operating expenses (+1.4% y-o-y; on higher network expenses and the appreciation of the USD, mainly against the Brazilian real and the Argentine peso), and supplies (+1.3% y-o-y; higher handset consumption and the impact of RLAH on European operations, despite interconnection savings). Personnel expenses remained stable y-o-y.

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The average headcount in January-March 2018 stood at 122,834 employees (-3.2% y-o-y).

The **gain on sale of fixed assets** in the first quarter (12m) mainly included the impact on OIBDA of capital gains from the sale of towers in T. Colombia (8m).

Operating income before depreciation and amortisation (OIBDA) amounted to 3,864m in the first quarter (-3.9% y-o-y).

In organic terms, OIBDA rose 3.3% y-o-y in the quarter, reflecting the positive revenue performance, efficiencies from the transformation process and digitalisation, and synergy capture. Excluding the impact of regulation (-2.2 p.p. in the quarter), OIBDA would have grown by 5.4% y-o-y in organic terms.

Underlying OIBDA climbed to 3,863m in January-March (-5.6% y-o-y) and excluded restructuring expenses (- 18m), tower sales (8m) and the impact on OIBDA of the accounting change to IFRS 15 (11m).

OIBDA margin stood at 31.7%, with an expansion of 1.1 p.p. vs. January-March 2017 (+0.4 p.p. in organic terms).

Depreciation and amortisation (2,227m) decreased by 9.2% y-o-y and included a negative impact of 7.6 p.p. from the evolution of exchange rates (-0.2% y-o-y in organic terms).

Thus, **operating income (OI)** reached 1,638 in January-March and rose 4.3% y-o-y (+8.2% in organic terms).

Net financial expenses (381m) decreased 15.0% compared with the first quarter of the previous year, mainly due to the reduction in both debt and cost of debt in European and Latin American currencies.

Tax expenses in the first quarter amounted to 359m and increased 14.3% y-o-y, mainly due to higher profit before tax (1,259m; +12.1% y-o-y).

Profit attributable to minority interests in the first quarter (64m) is higher than the same period of the previous year (30m), mainly due to the profit attributed to minority shareholders of Telxius, following the closing of the 40% stake sale of the company in the fourth quarter of 2017, and the higher results attributed to T. Colombia and T. Deutschland minority shareholders.

In this regard, the **profit attributable to ordinary equity holders of the parent** in January-March reached 837m (953m in underlying terms) growing by 7.4% y-o-y (-1.0% in underlying terms).

Basic earnings per share amounted to 0.12 in the first quarter and decreased 13.2% y-o-y, impacted by the result of the hybrid bond tender offer made in March 2018. In underlying terms, this impact is excluded (0.17; -3.0% y-o-y).

CapEx in January-March 2018 stood at 1,490m (-8.0% reported y-o-y) and included 7m of spectrum in Argentina. In organic terms, CapEx increased by 1.5% and continued to focus on the deployment of UBB networks, and the simplification and digitalisation of processes and systems.

Operating cash flow (OIBDA-CapEx) totalled 2,374m (-1.1% y-o-y). In organic terms, it increased 4.4% reflecting the positive performance of the business and CapEx efficiency.

Interest payments in the quarter (698m) increased 8.8% y-o-y, mainly due to calendar effects on coupon payments. The effective cost of interest payments in the last twelve months stood at 3.50% as of March 2018, similar to the 3.48% as of March 2017.

Tax payments totalled 21m vs. 149m in January-March 2017, due to larger tax refunds from previous years.

Working capital consumed 939m and reflected mainly CapEx seasonality, prepayment of taxes, site rentals and content, partially offset by the execution of factoring measures on accounts receivable and the extension of payment terms with suppliers or with the factoring company where those had been discounted. This is an improvement of 129m compared with January-March 2017, mainly because of lower consumption from restructurings.

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Operations with minority shareholders amounted to 168m (21m in the first quarter 2017), largely due to the payment of an extraordinary dividend to Telxius shareholders (166m), mainly associated with the optimisation of its capital structure.

The **free cash flow** before operations with minority shareholders amounted to 719m in the first quarter (+15.2% vs. the same period 2017) and the free cash flow reached 550m (-8.7% y-o-y).

Net financial debt at March 2018 (43,975m) decreased by 255m compared with December 2017 thanks to free cash flow generation (550m) and the replacement of capital instruments (226m). On the other hand; i) shareholder remuneration (224m, including the payment of capital instrument coupons), ii) labour-related commitments (201m), iii) financial investments (54m) and iv) other factors (43m), increased debt.

During the first quarter 2018, **Telefónica s financing activity** amounted to approximately 10,692m equivalent (without considering the refinancing of commercial paper and short-term bank loans) and focused on maintaining a solid liquidity position, and refinancing and extending debt maturities (in an environment of low interest rates). Therefore, as of the end of March, the Group has covered debt maturities for the next two years. The average debt life stood at 9.11 years (vs. 8.08 years in December 2017).

The main financing operations of the quarter included:

A senior debt issuance of 1,000m was closed in January (maturing in January 2027 and annual coupon of 1.447%).

In March, Telefónica Emisiones, S.A.U. closed a USD bond issue in two tranches (750m USD at 20 years and 1,250m USD at 30 years), with coupons of 4.665% and 4.895%, respectively, the latter being the lowest coupon ever paid by Telefónica in an issue in dollars at this term.

In March, Telefónica Europe, B.V. launched two transactions simultaneously. Firstly, the issue of deeply subordinated guaranteed fixed rate reset securities guaranteed on a subordinated basis by Telefónica, S.A. for a total amount of 2,250m, divided into two tranches (1,250m, 5.7 Year Non-Call from the issue date and 1,000m, 8.5 Year Non-Call from the issue date). Secondly, a tender offer for the purchase of existing hybrid bonds in euros and pound sterling, through which a nominal of 1,777m equivalent was purchased, extending the average Non-Call date from 3.2 to 4.7 years, and reducing the average coupon paid by 0.93 basis points, from 5.34% to 4.41%.

Also in March, Telefónica, S.A. entered into a syndicated facility agreement for a maximum aggregate amount of 5,500m maturing in 5 years and with two annual extension options, for a maximum maturity of 7 years. This new agreement combines and replaced the following two existing revolving credit facilities: a revolving credit facility for 3,000m maturing in February 2021 and a credit facility for 2,500m maturing in February 2022.

Separately, Telefónica Deutschland Holding issued debt instruments in the local market (*Schuldscheindarlehen* and *Namenschuldverschreibung*) maturing up to 15 years and a target volume of 250m, including a tranche via Blockchain technology amounting to 75m with a maturity slightly longer than one year.

Throughout the quarter, Telefónica Group obtained funding by means of extending payment terms with suppliers or with the factoring firm where those had been discounted, for a total of 120m (367m equivalent in January-March 2017).

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Meanwhile, Telefónica, S.A. and its holding companies continued their issuance activity under the Promissory Notes and Commercial Paper Programmes (Domestic and European), maintaining an outstanding notional balance of approximately 2,052m at the end of March.

At the end of the quarter, Telefónica maintained undrawn, committed credit lines with different credit institutions for an approximate amount of 12,511m (11,558m maturing in more than twelve months) which, combined with the cash equivalents position and current financial assets excluding Venezuela, placed liquidity at 20,274m.

Definitions:

Organic growth: Assumes average constant foreign exchange rates of 2017, except for Venezuela (2017 and 2018 results converted at the closing synthetic exchange rate for each period). For organic comparative purposes, this synthetic exchange rate has been fixed at 2,091 VEF/USD at the end of March 2017. Considers constant perimeter of consolidation. Excludes the effects of the accounting change to IFRS 15 in 2018, write-downs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts. CapEx excludes spectrum investments.

Underlying growth: Excludes the effects of the accounting change to IFRS 15 in 2018, write-downs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts. CapEx excludes spectrum investments. The January-March 2017 results in Venezuela are converted at the synthetic exchange rate set at 2,091 VEF/USD at the close of March 2017.

Digitalisation and Monetisation

(y-o-y changes in organic terms)

In recent years, Telefónica has progressed significantly in its transformation towards becoming a Platform Company, with a strategic focus Digitalisation and Data Monetisation, as an additional catalyst for digital transformation, in which the Company is already a pioneer.

Digitalisation entails going even further in the transformation of the operating model, increasing its efficiency by modernising processes and networks, so that they operate automatically and in real time. All this will enable the Company to offer a genuinely digital value proposition.

Moreover, the new role of CDTO (Chief Digital Transformation Officer) contributes to accelerate the Company's digital transformation and to maximise its impact on the business, supporting the operating businesses with the implementation of initiatives.

The Company's **E2E Digitalisation Programme** is focused on five priorities around the customer:

- i. Increase **direct interaction** with our customers in sales (focus on online sales).
- ii. Promote top-ups and sale of additional packages through **digital channels**.
- iii. Increase the efficiency of **payment and collection processes**, improving the customer experience.

iv. Improve the experience in **technical support and services**.

v. Enhance the experience we provide in **customer service**.

The operating businesses are executing these E2E initiatives and their impact on operational KPIs, customer experience and operating expenses is as expected.

The **radical automation of processes** to convert them into real-time processes is leveraged on the new networks and transformation of systems that continued to progress, with Full Stack migration now at 25% over the total customer base (+10 p.p. y-o-y; +2 p.p. vs. December). Thus, the digital capacity indicator reached 61% as of March 2018 (+9 p.p. y-o-y).

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Customers are becoming more digital, requesting more data, higher speeds and greater personalisation of products and services and therefore the **monetisation** opportunities are increasingly greater.

Data traffic continued to grow at elevated rates in mobile networks (+67% y-o-y in the quarter) and fixed networks (+35% y-o-y), driven by two levers: larger customer base with data tariffs and growth in average data consumption. In the mobile network, total LTE traffic (+121% y-o-y) grew on the back of a larger LTE customer base (40% of the total; +11 p.p. y-o-y) with higher average use (+69% after LTE adoption) and ARPU uplift (+10%). Thus, the average mobile data traffic per customer reached 2GB/month (+54% y-o-y) and reflected the transformation of the data offering, focused on increasing the weight of recurrent plans in both prepay and contract, the launch of family plans with data-sharing and the incorporation of digital services such as video, cloud or music. In the fixed network, due to the adoption of fibre and growing demand for video, fibre customers in Spain presented, compared to DSL customers, a higher average data usage (x2.6; 136GB/month) and greater ARPU (+20%).

Telefónica's priority continued to build next-generation networks in order to provide **excellent connectivity**, including customer equipment to improve user experience:

In 2018 **UBB deployment** accelerated with a boost in Hispam, where FTTx/cable coverage extended to 7.5m premises passed (+50% y-o-y), in addition to the 19.7m and 18.6m passed premises in Spain and Brazil respectively. Overall, the coverage of the proprietary FTTx/cable network expanded to 45.8m passed premises (+15% y-o-y), and connected customers increased to 11.4m (+20% y-o-y).

On the mobile network, **LTE network** coverage expanded to 73% (+9 p.p. y-o-y) at the end of March (92% in Europe and 66% in Latam) and LTE traffic doubled y-o-y, representing 61% of total traffic. In parallel, the network progressed technologically with 4.5G deployments in Germany, Brazil, Mexico and Colombia, with the optimisation spectrum use and improvement in access speed as the foundations for 5G. Thus, the **5G technological cities** programme was created in Spain to coordinate initial deployments to demonstrate capacity, such as the 5G Network Slicing concept presented at the MWC (delivery of specific network capacities to different services over a common infrastructure), supported on the proprietary UNICA network virtualisation platform.

The Company continued to incorporate innovation. Thus, the portfolio of **single fixed access** hardware for all operators performed notably well, the most advanced in the market because of cutting-edge technology (Smart WiFi, 802.11 pre-ax, developments in GPON); and the **transformation of the video ecosystem** through the global implementation of a unified platform and development of end-user devices for the incorporation of 4K services.

At the home level, **Smart WiFi** is already launched in 6 countries and seeks to become the home service platform, providing excellent experience and reinforcing the FBB proposition through single devices that ensure high-speed connectivity and full coverage, as well as digital interaction through an application to easily and securely manage this connectivity and digital services related to security and parental control.

In this context, Telefónica has committed to a more interactive and digital **customer-centric relationship model** with the launch of a single application adapted to each operation. Today, this application, which is transforming the way that Telefónica interacts with its customers, both in marketing and support, is already available in Argentina, Brazil and UK and will be deployed in further countries in the coming months. This application is one of the channels through which customers can access **Aura**. Aura, which has already been launched in six countries, proposes a customer relationship model that, through artificial intelligence, allows customers to use technology in a simple manner to engage with Telefónica products and services, providing a solution that lets customers transparently control and manage their data in an open ecosystem with third parties, for which the customers themselves decide how their own data is used.

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Broadband connectivity and services over connectivity revenues continued to increase their weight over the total revenues of the Company and represented 53% of the total in the first quarter 2018 (+3 p.p. y-o-y).

In particular, **Digital Services revenues** totalled 1,608m in the quarter with a notable growth of 28.6% vs. the same period in the previous year. In light of the different degrees of maturity of the digital services, and view to giving an overview of these services in their entirety, they are structured in the following four blocks:

i. **Video** revenues in January-March stood at 722m, with a y-o-y change of 1.0%. Pay TV accesses reached 8.6m (+5% y-o-y), with prominent growth in IPTV (+18% y-o-y) and a continuous improvement in content and functional features, driving a reduction in churn (-0.1 p.p.). The launch of **Movistar Series** was announced in February, through which 12 original TV series produced by Movistar will reach over 13 countries in 2018 via the **Movistar TV** (fixed) and **Movistar Play** (OTT) platforms.

ii. **Advanced Digital Services**, focused on supporting the digital transformation of B2B customers, posted revenues of 305m (+22.5% y-o-y) driven by the positive performance in the **Cloud** business (133M ; +32.9% y-o-y) and due to greater **Security** revenues (93m; +25.4% y-o-y). Of note this quarter, **Multicloud for Businesses** from Microsoft Azure and Amazon Web services have been included in the offering, as well as the creation of the largest global Telco alliance in security (total customers surpassed 1,200m) together with Etisalat, Singtel and SoftBank, which will support the B2B information security business, whose revenues grew 78.1% y-o-y this quarter.

iii. **Content** contributed 423m to quarterly revenues, with a strong growth of 152.0% y-o-y. Their performance in Brazil has been particularly relevant after the bundling of mobile contents (in-house and third party productions) into flat rates for different mobile segments since the second quarter 2017.

iv. Lastly, **Other Digital Services** also contributed to revenue growth (+16.1%), primarily driven by the positive performance of the Advertising business.

Telxius

(y-o-y changes in organic terms)

Telxius continued to make progress to become the benchmark provider of telecommunications infrastructures, and reported a solid operational performance in the first quarter 2018.

Revenues amounted to 180m in January-March and rose to 2.0% y-o-y, mainly driven by the tower business (80m; +9.4% y-o-y), as the cable business decreased 3.1% vs. January-March 2017 mainly due to the euro/dollar appreciation impacting contracts denominated in dollars and a seasonal incoming revenue in the first quarter of 2017. Both effects subtracted 4.0 p.p. in the quarter from Telxius y-o-y revenue growth in the quarter. **OIBDA** reached 86m (+0.6% y-o-y, the above mention effects subtracted 5 p.p. from y-o-y growth) and the margin stood at 47.6% (-0.7 p.p. y-o-y).

At an operational level, the tenancy ratio in the **tower business** improved to 1.34x (+0.01x q-o-q and +0.06x vs. January-March 2017) over a base portfolio of 16,312 towers (+24 towers in the first quarter; primarily in Spain and Brazil).

In the **cable business**, the international managed data traffic improved significantly (+22% y-o-y in IP traffic and +52% bandwidth in Capacity services). Since the end of March 2018, Telxius services can also be commercialised through the new MAREA cable (Spain, USA), state-of-the-art submarine infrastructure. The new BRUSA cable (Brazil, Puerto Rico, USA) remains on target to enter into service during 2018.

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CapEx reached 57m (vs. 13m in January-March 2017), reflecting the investment effort in the deployment of the MAREA and BRUSA cables. This investment will significantly decrease in the second half of the year.

TELEFÓNICA

ACCESSES

Unaudited figures (thousands)

	2017				2018	% Chg
	March	June	September	December	March	
Final Clients Accesses	341,785.7	341,347.3	339,843.1	338,997.9	337,921.1	(1.1)
Fixed telephony accesses (1)	37,853.0	37,488.4	37,028.0	36,898.6	36,404.2	(3.8)
Internet and data accesses	21,657.8	21,697.3	21,696.7	21,864.6	21,827.0	0.8
Broadband	21,196.4	21,240.4	21,243.8	21,417.5	21,385.9	0.9
FTTx/Cable	9,580.6	9,960.5	10,511.8	10,961.6	11,491.8	19.9
Mobile accesses	274,055.6	273,886.6	272,742.7	271,766.9	271,084.9	(1.1)
Prepay	162,648.4	161,271.6	158,662.8	155,868.5	153,623.2	(5.5)
Contract	111,407.2	112,615.0	114,079.9	115,898.4	117,461.7	5.4
M2M	14,488.0	15,009.9	15,572.9	16,137.2	16,778.1	15.8
Pay TV	8,219.3	8,274.9	8,375.8	8,467.7	8,604.9	4.7
Wholesale Accesses	18,392.2	18,507.4	18,752.0	19,124.9	19,021.1	3.4
Fixed wholesale accesses	5,087.1	4,887.2	4,689.4	4,460.2	4,222.2	(17.0)
Mobile wholesale accesses (2)	13,305.1	13,620.2	14,062.6	14,664.7	14,798.9	11.2
Total Accesses	360,177.9	359,854.7	358,595.1	358,122.8	356,942.2	(0.9)

(1) Includes fixed wireless and VoIP accesses.

(2) Mobile Wholesale accesses have been included since the first quarter 2018 and this information is also given for comparative purposes from January 2017.

TELEFÓNICA

MOBILE ACCESSES

Unaudited figures

	2017				2018	% Chg
	March	June	September	December	March	

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Contract percentage (%)	40.7%	41.1%	41.8%	42.6%	43.3%	2.6 p.p.
Smartphones (000)	151,547.7	155,126.7	156,511.5	158,717.7	161,572.5	6.6
Smartphone penetration (%)	59.4%	60.9%	61.8%	63.0%	64.4%	5.0 p.p.
LTE (000)	75,458.8	81,604.2	88,978.7	97,534.0	102,910.4	36.4
LTE penetration (%)	29.1%	31.5%	34.6%	38.2%	40.5%	11.4 p.p.

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CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - March		% Chg	
	2018	2017	Reported	Organic
Revenues	12,190	13,132	(7.2)	1.9
Internal exp. capitalized in fixed assets	193	208	(7.1)	(1.8)
Operating expenses	(8,533)	(9,348)	(8.7)	1.1
Supplies	(3,317)	(3,730)	(11.1)	1.3
Personnel expenses	(1,570)	(1,818)	(13.7)	0.0
Other operating expenses	(3,647)	(3,800)	(4.0)	1.4
Other net income (expense)	5	29	(84.1)	(39.6)
Gain (loss) on sale of fixed assets	12	8	51.2	(57.7)
Impairment of goodwill and other assets	(2)	(7)	(65.7)	(72.1)
<i>Underlying operating income before D&A (OIBDA)</i>	<i>3,863</i>	<i>4,094</i>	<i>(5.6)</i>	
Operating income before D&A (OIBDA)	3,864	4,021	(3.9)	3.3
<i>OIBDA Margin</i>	<i>31.7%</i>	<i>30.6%</i>	<i>1.1 p.p.</i>	<i>0.4 p.p.</i>
Depreciation and amortization	(2,227)	(2,451)	(9.2)	(0.2)
Operating income (OI)	1,638	1,570	4.3	8.2
Share of profit (loss) of investments accounted for by the equity method	2	2	19.7	
Net financial income (expense)	(381)	(449)	(15.0)	
Profit before taxes	1,259	1,123	12.1	
Corporate income tax	(359)	(314)	14.3	
Profit for the period	900	809	11.2	
Attributable to equity holders of the Parent	837	779	7.4	
Attributable to non-controlling interests	64	30	111.0	
Weighted average number of ordinary shares outstanding during the period (millions)	5,127	5,062	1.3	
Basic and diluted earnings per share attributable to equity holders of the Parent (euros)	0.12	0.14	(13.2)	
<i>Underlying basic and diluted earnings per share attributable to equity holders of the Parent (euros)</i>	<i>0.17</i>	<i>0.18</i>	<i>(3.0)</i>	

Notes:

- January-March 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.
- After considering Venezuela as a hyperinflationary country, P&L and CapEx from the operations in the country are to be accounted at the closing exchange rate Bolivar Fuerte/Euro. For the January-March 2018 period

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- Telefónica uses a synthetic exchange rate of 256,571 Venezuelan bolivars fuertes per dollar at March 2018.*
- *Basic and diluted earnings per share ratio is calculated dividing Profit for the period Attributable to equity holders of the Parent, adjusted for the net coupon corresponding to Other equity instruments (211m in January-March 2018), by the weighted average number of ordinary shares outstanding during the period.*
- GUIDANCE 2018

2017 Base		2018 Guidance	2018 Jan - Dec
52,037	Revenues (% Chg YoY)	growing around 1% (in spite of regulation: ~-0.9 p.p.) Expansion of around 0.5 p.p.	1.9%
32.0%	OIBDA margin (Chg YoY)	(despite regulation dragging -1.6 p.p.)	0.4 p.p.
15.7%	CapEx / Sales	Around 15%	12.3%

- **2018 Organic criteria** *assumes average constant foreign exchange rates of 2017, except for Venezuela (2017 and 2018 results converted at the closing synthetic exchange rate for each period). For organic comparative purposes, this synthetic exchange rate has been fixed at 2,091 VEF/USD at the end of March 2017. Considers constant perimeter of consolidation. Excludes the effects of the accounting change to IFRS 15 in 2018, write-downs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts. CapEx excludes spectrum investments.*

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TELEFÓNICA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures (Euros in millions)

	March 2018	December 2017	% Chg
Non-current assets	93,933	95,135	(1.3)
Intangible assets	17,369	18,005	(3.5)
Goodwill	26,566	26,841	(1.0)
Property, plant and equipment and Investment properties	33,660	34,225	(1.7)
Investments accounted for by the equity method	70	77	(8.1)
Non-current financial assets and other non-current assets	8,369	8,167	2.5
Deferred tax assets	7,899	7,820	1.0
Current assets	20,840	19,931	4.6
Inventories	1,174	1,117	5.1
Current receivables and other current assets	10,800	10,093	7.0
Tax receivables	1,103	1,375	(19.8)
Other current financial assets	2,941	2,154	36.5
Cash and cash equivalents	4,822	5,192	(7.1)
Non-current assets classified as held for sale	1	0	n.m.
Total Assets = Total Equity and Liabilities	114,773	115,066	(0.3)
Equity	27,218	26,618	2.3
Equity attributable to equity holders of the parent and other holders of equity instruments	17,729	16,920	4.8
Non-controlling interests	9,490	9,698	(2.1)
Non-current liabilities	61,820	59,382	4.1
Non-current financial liabilities	48,850	46,332	5.4
Non-current payables and other non-current liabilities	1,749	1,687	3.7
Deferred tax liabilities	2,222	2,145	3.6
Non-current provisions	8,999	9,218	(2.4)
Current liabilities	25,735	29,066	(11.5)
Current financial liabilities	7,053	9,414	(25.1)
Current payables and other current liabilities	14,073	15,095	(6.8)
Current tax payables	2,367	2,341	1.1
Current provisions	2,243	2,216	1.2
Liabilities associated with non-current assets and disposals groups held for sale			
Financial Data			
Net Financial debt	43,975	44,230	(0.6)

TELEFÓNICA

NET FINANCIAL DEBT PLUS COMMITMENTS

Unaudited figures (Euros in millions)

	March 2018
Non-current financial liabilities	48,850
Current financial liabilities	7,053
Gross Financial Debt	55,903
Cash and cash equivalents	(4,822)
Current financial assets	(2,941)
Positive mark-to-market value of long-term derivative instruments	(2,409)
Other non-current liabilities included in Trade and other payables	655
Other current liabilities included in Trade and other payables	94
Other assets included in Non-current financial assets	(1,773)
Other assets included in Current trade and other receivables	(732)
Net Financial Debt (1)	43,975
Gross commitments related to employee benefits	6,362
Value of associated Long-term assets	(782)
Tax benefits	(1,482)
Net commitments related to employee benefits	4,098
Net financial debt plus commitments	48,073
Net Financial Debt / OIBDA	2,67x

Notes:

(1) Net financial debt includes a positive value of the derivatives portfolio for a net amount of 308m, 3,394m included as financial liabilities and 3,086m included as financial assets.

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TELEFÓNICA

CONSOLIDATED CASH FLOW STATEMENT*Unaudited figures (Euros in millions)*

	January - March		
	2018	2017	% Var
Cash received from operations	15,069	16,569	
Cash paid from operations	(11,729)	(13,036)	
Net payments of interest and other financial expenses net of dividends received	(698)	(641)	
Net interest and other financial expenses paid	(709)	(655)	
Dividends received	11	14	
Taxes paid	(21)	(149)	
Net cash flow provided by operating activities	2,621	2,743	(4.4)
(Payments)/proceeds on investments in property, plant and equipment and intangible assets	(2,104)	(2,285)	
Proceeds from the sale in property, plant and equipment and intangible assets	10	11	
Payments on investments in property, plant and equipment and intangible assets	(2,114)	(2,296)	
Proceeds on disposals of companies, net of cash and cash equivalents disposed	5	30	
Payments on investments in companies, net of cash and cash equivalents acquired	(53)	(6)	
Proceeds on financial investments not included under cash equivalents	83	18	
Payments on financial investments not included under cash equivalents	(389)	(219)	
(Payments)/proceeds on placements of cash surpluses not included under cash equivalents, net	(986)	(910)	
Government grants received	0	0	
Net cash flow used in investing activities	(3,444)	(3,372)	2.1
Dividends paid	(335)	(73)	
Proceeds from issue of share capital increase	0	1	
(Payments)/proceeds of treasury shares and other operations with shareholders, net	0	0	
Operations with other equity holders (1)	170	(135)	
Proceeds on issue of debentures and bonds, and other debts	2,612	6,083	
Proceeds on loans, borrowings and promissory notes	1,675	1,498	
Cancellation of debentures and bonds, and other debts	(2,410)	(1,466)	
Repayments of loans, borrowings and promissory notes	(1,070)	(1,210)	

Financed operating payments and investments in property, plant and equipment and intangible assets payments	(126)	(465)	
Net cash used in financing activities	516	4,233	(87.8)
Effect of changes in exchange rates	(64)	51	
Effect of changes in consolidation methods and others	1	0	
Net increase (decrease) in cash and cash equivalents during the year	(370)	3,655	(110.1)
Cash and cash equivalents at the beginning of the period	5,192	3,736	
Cash and cash equivalents at the end of the period	4,822	7,391	

Notes:

- *After considering Venezuela as a hyperinflationary country, P&L and CapEx from the operations in the country are to be accounted at the closing exchange rate Bolivar Fuerte/Euro. For the January-March 2018 period Telefónica uses a synthetic exchange rate of 256,571 Venezuelan bolivars fuertes per dollar at March 2018.*

1) *Includes issuance and coupons of undated deeply subordinated securities.*

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TELEFÓNICA

FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

		January - March		
		2018	2017	% Chg
I	Cash flow from operations	3,340	3,534	(5.5)
II	Net interest payment (1)	(698)	(641)	
III	Payment for income tax	(21)	(149)	
A=I+II+III	Net cash provided by operating activities	2,621	2,743	(4.4)
B	Net payment for investment in fixed and intangible assets (2)	(2,104)	(2,285)	
	Spectrum (3)	(29)	(4)	
C=A+B	Net free cash flow after CapEx	518	457	13.1
D	Net payment for financial investment	(353)	(177)	
E	Net payment for operations with minority shareholders and treasury stock (4)	(166)	(207)	
F=C+D+E	Free cash flow after dividends	(1)	74	(102.0)
G	Effects of exchange rate changes on net financial debt	58	141	
H	Effects on net financial debt of changes in consolid. and others	(315)	104	
I	Net financial debt at beginning of period	44,230	48,595	
J=I-F+G+H	Net financial debt at end of period	43,975	48,766	(9.8)

TELEFÓNICA

RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited figures (Euros in millions)

		January - March		
		2018	2017	% Chg
OIBDA		3,864	4,021	(3.9)
- CapEx accrued during the period		(1,490)	(1,621)	
- Payments related to cancellation of commitments		(201)	(166)	
- Net interest payment		(698)	(641)	
- Payment for tax		(21)	(149)	
- Gain (loss) on sale of fixed assets and impairment of goodwill and other assets		2	7	
		(939)	(992)	

- Investment In working capital and other deferred income and expenses and Others (2)(5)			
= Net Free Cash Flow after CapEx	518	457	13.1
+ Payments related to cancellation of commitments	201	166	
- Dividends paid to minority shareholders	(168)	(21)	
= Free Cash Flow	550	603	(8.7)
Weighted average number of ordinary shares outstanding during the period (millions)	5,127	5,062	
= Free Cash Flow per share (euros)	0.11	0.12	(9.8)

Notes:

- (1) Includes cash received from dividends paid by subsidiaries that are not fully consolidated.
- (2) Includes Net Cash received from sale of Real Estate.
- (3) Figures in m. 2018 includes mainly: 1 in UK, 7 in Argentina, 1 in Colombia and 20 in Costa Rica. In 2017 mainly: 1 in UK, 1 in Colombia and 2 in México.
- (4) Dividends paid by Telefónica S.A., operations with treasury stock, issuance of shares, issuance and coupons of undated deeply subordinated securities, issuance of mandatorily convertible bonds into Telefónica S.A. shares and operations with minority shareholders from subsidiaries that are consolidated through the equity method.

(5) *Other deferred expenses include 76m in Q1 17 related to commitments associated with long-term restructuring plans in Spain.*

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TELEFÓNICA

EXCHANGES RATES APPLIED

Currency units per Euro	P&L and CapEx (1)		Statement of Financial Position (2)	
	2018	Jan - Mar 2017	March 2018	December 2017
USA (US Dollar)	1.229	1.065	1.232	1.199
United Kingdom (Sterling)	0.883	0.860	0.875	0.888
Argentina (Argentine Peso)	24.165	16.685	24.815	22.518
Brazil (Brazilian Real)	3.988	3.347	4.095	3.968
Chile (Chilean Peso)	739.733	697.988	743.318	737.333
Colombia (Colombian Peso)	3,509.967	3,110.942	3,425.268	3,579.008
Costa Rica (Colon)	702.741	601.323	701.262	686.813
Guatemala (Quetzal)	9.049	7.911	9.115	8.809
Mexico (Mexican Peso)	23.013	21.581	22.508	23.584
Nicaragua (Cordoba)	38.057	31.414	38.385	36.921
Peru (Peruvian Nuevo Sol)	3.978	3.501	3.975	3.888
Uruguay (Uruguayan Peso)	35.025	30.344	34.972	34.551
Venezuela (Bolivar Fuerte) (3)	316,069.669	758.150	316,069.669	43,316.682

(1) Average exchange rate for the period.

(2) Exchange rates as of 31/03/18 and 31/12/17.

(3) After considering Venezuela as a hyperinflationary country, P&L and CapEx from the operations in the country are to be accounted at the closing exchange rate Bolivar Fuerte/Euro. For the January-March 2018 period Telefónica uses a synthetic exchange rate of 256,571 Venezuelan bolivars fuertes per dollar at March 2018.

NET FINANCIAL DEBT STRUCTURE BY CURRENCY

Unaudited figures

Net financial debt structure by currency	March 2018			
	EUR	LATAM	GBP	USD
	82%	12%	6%	0%

TOTAL FINANCIAL LIABILITIES BREAKDOWN

Unaudited figures

March 2018

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	Bonds and commercial paper	Debt with financial institutions	Other financial debt (including governments) and net derivatives
Total financial liabilities (1)	81%	15%	4%

(1) Includes positive value of derivatives and other financial debt.

CREDIT RATINGS

	Long-Term	Short-Term	Perspective	Date of last rating change
Moody ¹ s	Baa3	P-3	Stable	07/11/2016
Fitch ¹	BBB	F-3	Stable	05/09/2016
S&P ¹	BBB	A-2	Stable	17/05/2016

(1) *The rating is issued by a credit rating agency established in the EU and registered under Regulation (EC) 1060/2009.*

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TELEFÓNICA ESPAÑA

(y-o-y changes in organic terms)

In the first quarter of 2018 Telefónica España bolstered the y-o-y growth in service revenues (+0.8%) and OIBDA (+0.6%), as well as the increased value of its customer base.

Particularly noteworthy was the sequential churn improvement observed across all services, in a market characterised this quarter by lower promotional activity and tariff upgrades implemented by the main market operators, centred on the *More for More* strategy.

Total **Movistar Fusión** accesses reached 20.9m, 10% more than in March 2017, driven by the growth in mobile accesses (1.3m) and in TV (+500k), while **Movistar Fusión** customers grew by 2% to 4.5m (+34k in the quarter) and accounted for 88% of TV accesses (+6 p.p. y-o-y), 86% of broadband (+2 p.p.) and 81% of mobile contract (+6 p.p.).

Furthermore, it is worth highlighting the continuous progress in the average mobile lines per customer (1.9 vs. 1.7 in March 2017) and in the **Fusión** customer base with TV; 78% (+10 p.p. y-o-y) and UBB fibre; 38%.

Fusión ARPU (€87.8) growth accelerated to 8% y-o-y (vs. +6% in the previous quarter) on the tariff upgrades and the y-o-y improvement of the customer mix, and churn was reduced by 0.1 p.p. q-o-q to stand at 1.5%.

Net additions in **mobile accesses** (167k) were the highest since 2010 (vs. 157k in the previous quarter), supported by solid progress in the contract base (+6% y-o-y), with record net additions of 276k accesses, and lower churn (1.5%; -0.1 p.p. y-o-y and q-o-q) in spite of the tariff updates, altogether indicating the benefits from the *totalisation* strategy.

Fixed broadband reached 6.0m accesses and churn improved 0.1 p.p. q-o-q (1.7%), however a quarterly net loss of 6k accesses was posted due to the lower volume of gross additions. **Fibre** accesses reflected the improved customer quality and maintained strong growth (+14% y-o-y), now representing 59% of broadband base (+7 p.p. y-o-y). **Fixed telephony** accesses (-4% y-o-y) recorded a net loss of 124k.

Pay TV accesses grew to 3.9m and their growth accelerated to 9% y-o-y (quarterly net additions of 80k, similar to the previous quarter), fostered by a highly compelling commercial offering with exclusive content and features.

Wholesale accesses totalled to 4.1m (-7% y-o-y) with a quarterly loss of 102k accesses, with a noteworthy increase in the NEBA fibre base which more than doubled y-o-y (+146k accesses in the quarter) to reach 996k, 24% of total wholesale accesses (+15 p.p. y-o-y; +4 p.p. q-o-q).

Total premises passed with fibre to the home stood at 19.7m (+500k in the quarter) and connected customer uptake rose to 23% (18% retail and 5% wholesale).

Quarterly **revenues** rose to €3,098m and recovered y-o-y growth (+1.1%), which was the highest rate since the second quarter 2016 and a sequential improvement of 1.2 p.p. This performance was underpinned by the continuous progress in **service revenues** for the fifth straight quarter (€3,007m; +0.8% y-o-y, +0.1 p.p. q-o-q) and by the return of growth in

handset sales (+14.5% y-o-y).

Consumer revenues in January-March (1,666m) accelerated y-o-y growth to 2.9% (+1.6 p.p. vs. the previous quarter), reflecting the acceleration in the growth of convergent and non-convergent ARPUs; with greater growth in Fusión revenues (+9.5% y-o-y; +1.5 p.p. q-o-q) and an improved trend in non-Fusión revenues (-10.0% y-o-y; +0.9 p.p. q-o-q).

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Business revenues (835m) progressed towards stabilisation (-0.6% y-o-y), with a 2.0 p.p. sequential improvement in their y-o-y performance, driven by both Communications revenues (-2.2%; +2.1 p.p. q-o-q) and IT revenues (+5.2%; +2.7 p.p. q-o-q).

Wholesale and other revenues (506m; -3.5% y-o-y) reverted their trend, highly affected by the migration of wholesale/MNVO customers (Yoigo and Pepephone) and the regulatory impact related to mobile interconnection rate cut (-36% from the start of February).

Quarterly **operating expenses** (1,939m) performance improved (+0.6% y-o-y) vs. the previous quarter (+0.7% y-o-y), primarily because of the reduction in commercial costs in a more rational market.

Supplies (852m in October-December) increased by 4.4% y-o-y (vs. +3.6% y-o-y in the previous quarter) because of the growth in content costs and expenses driven by higher mobile handset sales in the quarter. The net cost (of wholesale revenues) of content grew by 8% y-o-y.

Personnel expenses (503m in the quarter) decreased by 4.0% y-o-y, impacted by the savings related to the employment suspension plan (29m). Headcount at the end of March stood at 27,062 employees (-5% y-o-y).

Other operating expenses (584m) reverted their trend and decreased by 0.4% y-o-y due to lower commercial expenses.

OIBDA in the first quarter amounted to 1,224m and grew by 0.6% y-o-y leading to OIBDA margin to 39.5% (-0.2 p.p. y-o-y).

CapEx in January-March rose to 346m (+3.9% y-o-y) due to the different phasing of investments, and **operating cash flow** stood at 878m (-0.7% y-o-y, +2.3 p.p. vs. the previous quarter).

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TELEFÓNICA ESPAÑA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - March		% Chg	
	2018	2017	Reported	Organic
Revenues	3,098	3,066	1.0	1.1
Mobile handset revenues	91	82	11.7	14.5
Revenues ex-mobile handset revenues	3,007	2,985	0.8	0.8
Consumer (1)	1,666	1,620	2.9	2.9
Fusión	1,171	1,070	9.5	9.5
Non-Fusión	495	550	(10.0)	(10.0)
Business	835	840	(0.6)	(0.6)
Communications	650	664	(2.2)	(2.2)
IT	185	176	5.2	5.2
Wholesale and Other (2)	506	525	(3.5)	(3.5)
Internal expenditure capitalized in fixed assets	69	76	(8.7)	(8.7)
Operating expenses	(1,939)	(2,003)	(3.2)	0.6
Supplies	(852)	(816)	4.4	4.4
Personnel expenses	(503)	(601)	(16.2)	(4.0)
Other operating expenses	(584)	(587)	(0.4)	(0.4)
Other net income (expense)	(3)	2	c.s.	c.s.
Gain (loss) on sale of fixed assets	3	4	(18.3)	(18.3)
Impairment of goodwill and other assets	(5)	(1)	n.m.	n.m.
Operating income before D&A (OIBDA)	1,224	1,143	7.0	0.6
<i>OIBDA Margin</i>	<i>39.5%</i>	<i>37.3%</i>	<i>2.2 p.p.</i>	<i>(0.2 p.p.)</i>
CapEx	346	333	3.9	3.9
Spectrum				
OpCF (OIBDA-CapEx)	878	810	8.3	(0.7)

Notes:

- January-March 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.
- OIBDA before management and brand fees.
- (1) Consumer revenues include residential and SOHO revenues.
- (2) Other revenues include subsidiaries and other.

TELEFÓNICA ESPAÑA

ACCESSES

Unaudited figures (Thousands)

	2017				2018	% Chg
	March	June	September	December	March	
Final Clients Accesses	36,537.3	36,464.3	36,614.6	36,768.5	36,884.3	0.9
Fixed telephony accesses (1)	9,584.2	9,463.3	9,387.4	9,304.7	9,180.9	(4.2)
Internet and data accesses	6,075.9	6,044.4	6,040.7	6,039.6	6,032.8	(0.7)
Broadband	6,050.9	6,020.1	6,017.6	6,020.3	6,014.7	(0.6)
FTTH	3,127.8	3,213.5	3,309.3	3,423.7	3,550.5	13.5
Mobile accesses	17,261.7	17,289.8	17,419.6	17,576.5	17,743.3	2.8
Prepay	2,135.9	2,000.4	1,905.4	1,793.4	1,683.9	(21.2)
Contract	15,125.7	15,289.4	15,514.1	15,783.1	16,059.3	6.2
M2M	2,015.6	1,974.7	2,020.9	2,015.6	2,083.7	3.4
Pay TV (2)	3,615.6	3,666.8	3,766.9	3,847.6	3,927.3	8.6
Wholesale Accesses	4,442.3	4,377.8	4,295.7	4,221.1	4,119.0	(7.3)
Fibre	426.2	539.7	671.7	849.5	995.8	133.6
Total Accesses	40,979.6	40,842.1	40,910.3	40,989.6	41,003.2	0.1

(1) Includes fixed wireless and VoIP accesses.

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TELEFÓNICA ESPAÑA

CONSUMER ACCESSES (Fusión + non-Fusión)

Unaudited figures (thousands)

	2017				2018	% Chg
	March	June	September	December	March	
Fixed telephony accesses	7,146.2	7,041.5	6,972.1	6,895.4	6,799.9	(4.8)
Internet and data accesses	5,195.3	5,174.0	5,178.0	5,181.9	5,187.7	(0.1)
Mobile accesses	11,754.9	11,813.6	11,885.8	12,024.8	12,141.4	3.3
Prepay	2,135.9	2,000.4	1,905.4	1,793.4	1,683.9	(21.2)
Contract	9,618.9	9,813.2	9,980.3	10,231.4	10,457.5	8.7
Pay TV	3,615.6	3,666.8	3,766.9	3,847.6	3,927.3	8.6
Total Consumer Accesses	27,711.8	27,695.9	27,802.7	27,949.7	28,056.3	1.2

TOTAL MOBILE ACCESSES

Unaudited figures

	2017				2018	% Chg
	March	June	September	December	March	
Contract percentage (%)	87.6%	88.4%	89.1%	89.8%	90.5%	2.9 p.p.
Smartphones (000)	10,800.7	11,240.4	11,473.6	11,857.7	12,264.6	13.6
Smartphone penetration (%)	71.3%	73.8%	74.8%	76.4%	78.5%	7.2 p.p.
LTE (000)	6,589.6	6,976.3	7,322.8	7,686.2	8,002.5	21.4
LTE penetration (%)	43.2%	45.6%	47.6%	49.4%	51.1%	7.8 p.p.

CONSUMER FUSIÓN

Unaudited figures (thousands)

	2017				2018	% Chg
	March	June	September	December	March	
Fusión Customers	4,379.0	4,374.7	4,384.7	4,426.2	4,460.0	1.8
Fibre 100/300	1,669.1	1,677.9	1,691.3	1,701.8	1,708.5	2.4
IPTV/Satellite	2,970.9	3,071.9	3,218.7	3,347.8	3,470.6	16.8
Mobile add-ons	2,861.6	3,138.5	3,365.9	3,690.9	4,036.7	41.1
Fusión Accesses	18,969.5	19,334.6	19,738.7	20,317.2	20,887.3	10.1

CONSUMER FUSIÓN

Unaudited figures

	2017				2018	% Chg org.
	Q1	Q2	Q3	Q4	Q1	
Fusión ARPU (EUR)	81.6	84.8	87.6	86.1	87.8	7.5
Fusión churn	1.4%	1.3%	1.5%	1.6%	1.5%	0.1 p.p.

	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec	Jan - Mar	% Chg org.
Fusión ARPU (EUR)	81.6	83.2	84.7	85.1	87.8	7.5
Fusión churn	1.4%	1.4%	1.4%	1.5%	1.5%	0.1 p.p.

SELECTED OPERATIONAL DATA

Unaudited figures

	2017				2018		% Chg
	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec	Jan - Mar		
Total data traffic (TB)	1,473,501	3,166,713	4,860,008	6,863,956	2,113,454		43.4
Fixed data traffic	1,406,556	3,009,891	4,581,394	6,466,074	1,978,154		40.6
Mobile data traffic	66,944	156,821	278,614	397,882	135,300		102.1

Notes:

- *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10¹² bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non-rounded.*

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03

TELEFÓNICA DEUTSCHLAND

(y-o-y changes in organic terms)

Telefónica Deutschland first quarter results came in on-track for full year guidance, with revenue trends further sequentially improving and sustained OIBDA growth on the back of successful synergy capture and a clear value-over-volume focus in a dynamic yet rational competitive environment. The Company continued to proof its execution strength during the integration process and was ranked #2 in the Connect Mobile Hotline-Test.

Contract mobile customers (21.4m; +3% y-o-y) posted solid net additions in the quarter (+157k) leveraging on the demand for the O₂ Free portfolio and strong partner trading (61% of gross additions), which benefitted from the introduction of 4G offers. **Prepay customers** (21.3m; -11% y-o-y) saw 535k net disconnections as the demand for prepay offers remained affected by the regulatory changes introduced in the summer of 2017. **Smartphone** penetration continued to grow (+5 p.p. y-o-y to 62%) and **LTE accesses** increased (15% y-o-y) to 16.1m with LTE penetration reaching 39% (+7 p.p. y-o-y). The average data usage for O₂ contract LTE customers was up 56% y-o-y to 2.8 GB per month. O₂ Free portfolio continued driving ARPU-up with M tariff being the most popular tariff with over 60% share of new customers, data usage of ~6GB per month and average ARPU of ~ 25. **Retail broadband accesses** were slightly lower y-o-y at 2.1m, while VDSL (1.2m; +43% y-o-y) again saw solid traction (92k net additions, up 38% y-o-y). **Wholesale DSL** (63k) registered 125k net disconnections due to the planned dismantling of the legacy infrastructure.

Revenue (1,767m in the first quarter; -0.4% y-o-y) trends continued improving and returned to growth excluding regulatory effects (+0.2% y-o-y). **Mobile service revenues** (1,287 m; -0.5% y-o-y) reflected the ongoing rotation of the legacy base, an increasing share of partner MSR and headwinds from the European roaming legislation. Ex-regulation, MSR growth trend continued in the quarter (+0.3% y-o-y). **Handset revenues** amounted to 280m in the quarter (+10.5% y-o-y), mainly driven by an increase in customer demand. **Fixed revenues** (199m; -12.3% y-o-y) trends remain unchanged due to the ongoing migration of the wholesale customer base.

Operating expenses (1,383m in January-March; +0.5% y-o-y) reflected continued market invest into the positioning of the O₂ brand and O₂ Free portfolio to drive future MSR with a clear focus on value-over-volume. **Supplies** (587m) increased 0.4% y-o-y mainly as a result of the higher demand for handsets. **Personnel expenses** (152m) increased 2.4% y-o-y reflecting an inflation-related salary adjustment effective 1 January 2018. **Other operating expenses** reached 644m in the quarter and were broadly stable (+0.1% y-o-y). Restructuring expenses amounted to 14m (11m in January-March 2017).

OIBDA (403m in the first quarter) posted a y-o-y growth of 0.7%, with incremental synergies of 35m mainly rollover effects from FTE restructuring and network consolidation (35m in January-March 2017), while the regulatory drag was - 14m (- 7m in the same quarter last year). **OIBDA margin** stood at 22.8% in the quarter (+0.3p.p. y-o-y).

CapEx (197m) was 5.6% lower y-o-y benefiting from incremental CapEx synergies of ~ 15m, while network integration, the subsequent LTE rollout and the strategy to bring fibre to the backhaul progressed according to plan.

As such, **Operating cash flow (OIBDA-CapEx)** was up 7.1% y-o-y to 207m in the first quarter of 2018.

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TELEFÓNICA DEUTSCHLAND

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - March		% Chg	
	2018	2017	Reported	Organic
Revenues	1,767	1,771	(0.2)	(0.4)
Mobile Business	1,566	1,545	1.4	1.3
Mobile service revenues	1,287	1,292	(0.4)	(0.5)
Data revenues	973	963	1.1	0.9
Handset revenues	280	252	10.8	10.5
Fixed Business	199	223	(10.7)	(12.3)
FBB and new services (1)	153	177	(13.1)	(15.2)
Voice & access revenues	46	46	(1.4)	(1.4)
Internal expenditure capitalized in fixed assets	27	21	24.4	24.4
Operating expenses	(1,383)	(1,383)	(0.1)	0.5
Supplies	(587)	(585)	0.4	0.4
Personnel expenses	(152)	(155)	(2.4)	2.4
Other operating expenses	(644)	(643)	0.1	0.1
Other net income (expense)	(8)	(10)	(12.6)	c.s.
Gain (loss) on sale of fixed assets	0	1	(40.9)	(40.9)
Impairment of goodwill and other assets				
Operating income before D&A (OIBDA)	403	400	0.8	0.7
<i>OIBDA Margin</i>	<i>22.8%</i>	<i>22.6%</i>	<i>0.2 p.p.</i>	<i>0.3 p.p.</i>
CapEx	197	208	(5.7)	(5.6)
Spectrum				
OpCF (OIBDA-CapEx)	207	192	7.9	7.1

Notes:

- *January-March 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.*
- *OIBDA before management and brand fees.*
- (1) *Includes broadband connectivity services (retail and wholesale), including value added services, data and ICT revenues, other services over connectivity and FBB equipment.*

TELEFÓNICA DEUTSCHLAND

ACCESSES

Unaudited figures (Thousands)

	2017				2018	% Chg
	March	June	September	December	March	
Final Clients Accesses	48,988.0	49,478.7	49,105.1	47,415.8	47,011.3	(4.0)
Fixed telephony accesses (1)	2,000.1	1,987.9	1,979.3	1,979.6	1,968.7	(1.6)
Internet and data accesses	2,312.5	2,297.2	2,284.2	2,281.5	2,265.6	(2.0)
Broadband	2,095.3	2,082.4	2,072.5	2,072.2	2,060.0	(1.7)
FTTx	872.2	959.9	1,062.5	1,151.6	1,243.4	42.6
Mobile accesses	44,675.3	45,193.6	44,841.6	43,154.7	42,777.0	(4.2)
Prepay	23,967.0	24,288.6	23,753.8	21,880.9	21,345.9	(10.9)
Contract	20,708.4	20,905.0	21,087.8	21,273.8	21,431.1	3.5
M2M	830.1	896.8	969.4	1,027.0	1,067.2	28.6
Wholesale Accesses	561.8	428.0	297.9	188.1	63.3	(88.7)
Total Accesses	49,549.8	49,906.7	49,402.9	47,603.9	47,074.6	(5.0)

(1) Includes fixed wireless and VoIP accesses.

SELECTED OPERATIONAL DATA

Unaudited figures

	2017				2018	% Chg
	March	June	September	December	March	
Contract percentage (%)	46.4%	46.3%	47.0%	49.3%	50.1%	3.7 p.p.
Smartphones (000)	24,781.1	25,227.4	25,554.2	25,466.1	25,707.5	3.7
Smartphone penetration (%)	57.0%	57.4%	58.7%	60.9%	62.0%	5.0 p.p.
LTE (000)	13,967.6	14,422.0	15,679.2	15,759.1	16,093.5	15.2
LTE penetration (%)	31.9%	32.6%	35.7%	37.4%	38.6%	6.7 p.p.
Mobile churn (quarterly)	1.9%	1.9%	2.1%	3.1%	2.2%	0.2 p.p.
Contract (1)	1.6%	1.5%	1.6%	1.7%	1.7%	0.1 p.p.
Mobile churn (cumulative YTD)	1.9%	1.9%	2.0%	2.2%	2.2%	0.2 p.p.
Contract (1)	1.6%	1.6%	1.6%	1.6%	1.7%	0.1 p.p.
Mobile ARPU (EUR)(cumulative YTD)	9.6	9.6	9.7	9.7	9.8	2.1
Prepay	5.0	5.1	5.1	5.2	5.6	11.4
Contract (1)	15.5	15.5	15.6	15.5	14.8	(4.6)
Fixed data traffic (TB) (cumulative YTD)	709,516	1,399,083	2,063,429	2,794,399	718,369	1.2
Mobile data traffic (TB) (cumulative YTD)	86,423	185,036	295,720	418,086	126,040	45.8

Notes:

- ARPU: monthly average revenue divided by the monthly average accesses of the period. % organic change.

- *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10¹² bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non-rounded.*
- (1) *Excludes M2M.*

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TELEFÓNICA UK

(y-o-y changes in organic terms)

Telefónica UK continued to deliver solid results in the first quarter of 2018. As the UK's leading mobile network carrier, the Company continued to demonstrate the success of its customer-led, mobile-first strategy with sustained leading levels of loyalty and customer spend, as well as robust growth in financials, in spite of continued regulatory impacts and accounting adjustments (IFRS 15: - 18m in Revenues; - 0.2m in OIBDA).

The Company successfully acquired the largest share of airwaves in Ofcom's latest spectrum auction investing c. 600m to obtain 40MHz of immediately useable 4G spectrum (2.3GHz) and 40MHz of spectrum expected to be used in the launch of 5G (3.4GHz). The investment will provide an immediate improvement to current capacity and provide an enhanced service to an already award-winning network (uSwitch awards February 2018), as well as preparing the network for future technology.

Total mobile accesses were broadly stable y-o-y and remained market-leading at 32.0m including partners on Telefónica UK's network (7.2m). Own brand **contract** net additions were 16k (5k ex-M2M) leading to contract base growth of 1.2% y-o-y to 15.8m (64% of the total, +1.3 p.p. y-o-y reflecting market trends), while churn was sustained at 1.0% (practically flat y-o-y excluding the base adjustment in Q1 17 and flat q-o-q) as the Company continued to lead the market in loyalty. Furthermore, the LTE base grew 2.7% y-o-y to 12.8m accesses with a penetration of 60% (+2.3 p.p. y-o-y). In **prepay**, net quarterly losses were 245k, in line with industry trends.

Revenues continued to grow this quarter to 1,586m, up 2.9% y-o-y (vs. +3.2% in Q4 17) with growing service (particularly MVNO), hardware and non-mobile revenues offsetting continuing regulatory impacts (-1.3 p.p.).

Mobile service revenues sustained growth and reached 1,163m in the quarter (+1.2% y-o-y, +2.8% excluding the regulatory impacts from roaming and MTRs; vs. +1.1% and +2.7% respectively in Q4), with higher average subscriptions and further growth in MVNO revenues offsetting ongoing regulatory impacts.

Handset & other revenues increased 9.1% y-o-y (vs. +9.4% in Q4) to 423m, driven by flagship device sales together with continuing growth from the smart metering programme (SMIP) and B2B ICT solutions.

Operating expenses totalled 1,181m in the quarter (+1.4% y-o-y; +3.1% in Q4). **Supplies** (534m) grew 1.5% y-o-y mainly due to the impact of higher cost flagship handsets. **Personnel expenses** were broadly stable (-0.4% y-o-y) at 107m and **other expenses** grew 1.8%, totalling 540m, mainly due to continuing network growth.

OIBDA totalled 430m (+6.1%; +3.7% in Q4), reflecting the solid revenue growth in the quarter, more than offsetting the impact of regulatory changes to European roaming charges (- 23m in the quarter) and also benefitting from a reduction in Annual Licence Fee payments. Thus, **OIBDA margin** was 27.1% (+0.8 p.p. y-o-y).

CapEx amounted to 183m (-16.6% y-o-y) as ongoing network investments are phased throughout the year. In the period, Ofcom confirmed that the Company's LTE network has fulfilled the regulatory indoor population coverage obligation of 98%.

Operating cash flow (OIBDA-CapEx) increased by 32.9% y-o-y in the period to reach 247m.

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TELEFÓNICA UK

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - March		% Chg	
	2018	2017	Reported	Organic
Revenues	1,586	1,601	(1.0)	2.9
Mobile service revenues	1,163	1,255	(7.3)	1.2
Data revenues	669	728	(8.2)	0.4
Handset revenues and other	423	346	22.2	9.1
Internal expenditure capitalized in fixed assets	29	29	0.0	2.7
Operating expenses	(1,181)	(1,215)	(2.8)	1.4
Supplies	(534)	(747)	(28.5)	1.5
Personnel expenses	(107)	(111)	(3.0)	(0.4)
Other operating expenses	(540)	(357)	51.2	1.8
Other net income (expense)	(4)	1	c.s.	c.s.
Gain (loss) on sale of fixed assets				
Impairment of goodwill and other assets				
Operating income before D&A (OIBDA)	430	416	3.3	6.1
<i>OIBDA Margin</i>	<i>27.1%</i>	<i>26.0%</i>	<i>1.1 p.p.</i>	<i>0.8 p.p.</i>
CapEx	183	225	(18.8)	(16.6)
Spectrum				
OpCF (OIBDA-CapEx)	247	191	29.3	32.9

Notes:

- January-March 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.
- OIBDA before management and brand fees.

TELEFÓNICA UK

ACCESSES

Unaudited figures (Thousands)

	2017				2018	
	March	June	September	December	March	% Chg
Fixed telephony accesses (1)	277.2	281.3	281.9	283.9	285.8	3.1
Internet and data accesses	24.0	24.7	24.8	25.3	25.7	7.1

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Broadband	24.0	24.7	24.8	25.3	25.7	7.1
Mobile accesses	25,009.3	25,139.7	25,283.0	25,003.9	24,775.3	(0.9)
Prepay	9,375.4	9,427.4	9,477.4	9,203.7	8,959.1	(4.4)
Contract (2)	15,633.9	15,712.3	15,805.6	15,800.2	15,816.2	1.2
M2M	3,330.3	3,373.1	3,434.4	3,358.9	3,370.1	1.2
Wholesale accesses	6,879.0	6,859.0	7,018.0	7,162.0	7,247.1	5.4
Mobile wholesale accesses	6,879.0	6,859.0	7,018.0	7,162.0	7,247.1	5.4
Total accesses	32,189.5	32,304.7	32,607.7	32,475.1	32,334.0	0.4

(1) Includes fixed wireless and VoIP accesses.

(2) Includes the disconnection of 228 thousand inactive contract accesses in the first quarter 2017.

MOBILE ACCESSSES

Unaudited figures (Thousands)

	2017				2018	% Var
	March	June	September	December	March	
Retail mobile accesses	25,009.3	25,139.7	25,283.0	25,003.9	24,775.3	(0.9)
Wholesale mobile accesses (1)	6,879.0	6,859.0	7,018.0	7,162.0	7,247.1	5.4
Total mobile accesses	31,888.3	31,998.7	32,301.0	32,165.9	32,022.4	0.4

(1) Mobile Wholesale accesses information has been included since the first quarter 2018 and is also given for comparative purposes from January 2017.

SELECTED OPERATIONAL DATA

Unaudited figures

	2017				2018	% Chg
	March	June	September	December	March	
Contract percentage (%)	62.5%	62.5%	62.5%	63.2%	63.8%	1.3 p.p.
Smartphones (000)	14,910.2	15,514.3	15,667.9	15,961.0	15,917.8	6.8
Smartphone penetration (%)	71.2%	73.8%	74.3%	76.5%	77.2%	6.0 p.p.
LTE (000)	12,438.0	12,592.0	12,611.0	12,891.1	12,773.3	2.7
LTE penetration (%)	57.4%	57.8%	57.7%	59.6%	59.7%	2.3 p.p.
Mobile churn (quarterly)	2.2%	1.5%	1.7%	2.2%	1.9%	(0.3 p.p.)
Contract (1)(2)	1.5%	1.0%	1.0%	1.0%	1.0%	(0.5 p.p.)
Mobile churn (cumulative YTD)	2.2%	1.9%	1.8%	1.9%	1.9%	(0.3 p.p.)
Contract (1)(2)	1.5%	1.2%	1.1%	1.1%	1.0%	(0.5 p.p.)
Mobile ARPU (EUR)(cumulative YTD)	16.1	16.1	16.0	15.9	14.7	0.1
Prepay	7.3	7.1	7.0	6.9	6.8	(2.0)

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Contract (1)(2)	26.6	27.0	26.8	26.8	24.2	0.7
Mobile data traffic (TB) (cumulative YTD)	79,926	173,446	280,109	401,489	126,797	58.6

Notes:

- *ARPU: monthly average revenue divided by the monthly average accesses of the period. % organic change.*
- *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10¹² bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non-rounded.*

(1) *Excludes M2M.*

(2) *Includes the disconnection of 228 thousand inactive contract accesses in the first quarter 2017.*

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TELEFÓNICA BRASIL

(y-o-y changes in organic terms)

In the first quarter of 2018, Telefónica Brasil maintained a solid y-o-y growth in revenues and OIBDA, translating into an OIBDA margin of 36.3% (the highest in the last 2 years). The Company also maintained a solid commercial performance in contract LTE, FTTx and IPTV, allowing a continuous improvement in the quality of accesses.

Contract mobile accesses (+11% y-o-y) posted 0.7m net additions in the quarter (+67.3% y-o-y) with a positive performance of gross additions and churn (1.6%, stable y-o-y), leveraged on differential assets and the successful **More for More** strategy. Therefore, the contract market share stood at 41.4% as of March 2018. LTE accesses rose by 48% y-o-y (55% penetration, +18 p.p. y-o-y) and smartphones by 11% (84% penetration, +8 p.p. y-o-y). Thus, total ARPU increased 1.7% y-o-y, leveraged on strong data growth (+15.4% y-o-y).

In **fixed retail broadband accesses** (7.5m at March; +1% y-o-y) it is worth highlighting the growth in FTTx accesses (+10% y-o-y, quarterly net additions of 102k) after reaching 18.6m premises passed (87 cities passed). IPTV accesses increased by 53% y-o-y (0.4m; 49k net additions in the quarter) after the extension of the service, now available in 59 cities. Thus, the greater weight of FTTx and IPTV customers was translated into a solid y-o-y ARPU growth (+8.5% and +4.4% y-o-y for broadband and pay TV, respectively).

First quarter **revenues** (2,705m) increased by 1.0% y-o-y (+0.9% q-o-q), supported primarily by the growth in data and broadband as well as higher handset sales, which more than offset the regulatory impacts (-2.0 p.p. y-o-y).

Mobile service revenues (1,599m in January-March) increased by 3.5% y-o-y, reflecting the robust growth in data (+17.1% in the quarter) resulting from customer migrations to higher-value plans and from the increased penetration of LTE and smartphone accesses. In **fixed revenues** (-4.0% y-o-y), it is worth highlighting the solid performance in **broadband and new service revenues** (+6.5% y-o-y) backed by the growth in fibre revenues (+21.7% y-o-y), which partly offset the negative impact of regulation and the decrease in voice revenues due to fixed-to-mobile substitution.

Operating expenses (1,740m in the quarter) decreased for the ninth consecutive quarter (-1.9% y-o-y, -0.2% y-o-y in the fourth quarter of 2017) thanks to digitalisation and simplification measures. **Supplies** (504m) decreased by 2.8% y-o-y due to lower interconnection expenses and efficiencies resulting from the digitalisation processes. **Personnel expenses** (279m) increased by 3.2% y-o-y in the quarter as a result of the annual collective agreement. **Other operating expenses** (957m) decreased by 2.8% y-o-y thanks to the capture of efficiencies in customer service and in commercial expenses throughout the quarter.

Thus, **OIBDA** reached 982m and increased by 4.5% in the quarter (+3.7% y-o-y in the fourth quarter of 2017) with **OIBDA margin** expanding 1.2 p.p. y-o-y to 36.3%.

CapEx amounted to 388m in the quarter (+16.5% y-o-y, as a result of phasing of investments throughout the year) and is mainly allocated to expanding fibre and 4G networks. Thus, **operating cash flow** stood at 594m, decreasing by 2.2% y-o-y.

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TELEFÓNICA BRASIL

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - March		% Chg	
	2018	2017	Reported	Organic
Revenues	2,705	3,165	(14.5)	1.0
Mobile Business	1,696	1,932	(12.2)	