

TELEFONICA S A  
Form 6-K  
July 27, 2017  
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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 July, 2017**

**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**

**3491-482-8700**

**(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:

Ye

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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**FINANCIAL HIGHLIGHTS**

**Growth acceleration across the board in main financials and KPIs.**

**Customer base** quality improvement: LTE (1.6x y-o-y), **smartphones** (+19%), FTTx & cable (+19%) and mobile contract (+5%).

**Revenues** totaled 12,960m in the quarter (+1.9% y-o-y reported) and increased 3.1% organic (+1.6 p.p. vs. the first quarter), accelerating service revenue growth (+2.9%; +1.2 p.p.) and handset sales (+5.2%; +6.8 p.p.).

Double-digit growth in mobile data revenues continued (+17.8% y-o-y in organic terms).

**OIBDA** ( 4,158m; +6.1% y-o-y) growth accelerated to 7.2% y-o-y organic vs. 1.3% in the first quarter. The OIBDA margin stood at 32.1% (+1.2 p.p. y-o-y in organic terms).

**Underlying OIBDA** in the quarter excluded 25m restructuring costs ( 4,183m; +5.5% y-o-y).

**Operating Cash Flow** excluding spectrum ( 2,273m) improved its organic growth by 8.6 p.p. vs. the first quarter to reach 17.5% year-on-year.

**Net income** totaled 821m (+18.4% y-o-y) and earnings per share 0.15 (+16.3%). In underlying terms, net income totaled 1,092m (+23.6%) and earnings per share 0.20 (+21.9%).

**Ongoing Company transformation.**

CapEx ( 3,507m in January-June): mainly devoted to UBB network expansion, simplification, digitalisation and cognitive intelligence. As of June, 41.2m premises passed with FTTx & cable and LTE coverage of 68%.

**Progress in de-leveraging.**

**Free cash flow** in first the half year reached 1,620m (2x y-o-y).

Net debt stood at 48,487m at the end of June and decreased 3,706m vs. June 2016.

**T. España** improved service revenues (-0.8% y-o-y in organic terms in the quarter; +0.8 p.p. vs. the first quarter) and OIBDA (-1.5%; +0.9 p.p.); operating cash flow grew a solid 7.8%.

**T. Brasil** accelerated revenue growth in the quarter (+1.8% y-o-y in organic terms) and maintained solid performance in OIBDA (+7.0%) and operating cash flow (+11.6%), levered on margin expansion.

**T. Deutschland** posted in April-June solid commercial momentum, OIBDA growth acceleration (+3.8% y-o-y in organic terms) and margin expansion (+1.9 p.p.).

**T. UK**; revenues and OIBDA accelerated their pace of growth in April-June (+2.6% and +3.9% y-o-y in organic terms respectively) and the operating cash flow returned to growth (+5.3%).

**T. Hispanoamérica** in the quarter reported strong growth acceleration in revenues (+15.5% y-o-y in organic terms) and OIBDA (+20.9%) and a significant operating cash flow evolution (+71.8%).

**The Company upgrades guidance and reiterates the dividend announced for 2017.**

Revenue guidance upgraded to growth >1.5% (vs. stable previously), despite the negative impact from regulation (approximately 1.2 p.p.).

OIBDA margin guidance (y-o-y expansion up to 1 p.p.) and CapEx/Sales excluding spectrum (around 16%) reiterated.

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**Comments from José María Álvarez-Pallete, Executive Chairman:**

*During the second quarter of the year we have accelerated organic growth through the execution of our structural quality-based strategy, which was reflected in the strong competitive positioning in our main markets. Moreover, we continued to make progress in our transformation towards becoming a platform Company, with CapEx devoted to UBB networks, underpinning E2E digitalization and cognitive intelligence, with a differential value proposition for customers. All this, with a stronger balance sheet, after doubling Free Cash Flow in the last twelve months and reducing net debt by 5 billion euros, when considering the sale of the stake in Telxius.*

*The strength and better business trends in the first half of the year, as well as being well-positioned to continue capturing sustainable growth in the coming quarters, allow us to upgrade our guidance for 2017 .*

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## TELEFÓNICA

## SELECTED FINANCIAL DATA

*Unaudited figures (Euros in millions)*

	January - June 2017	% Chg		April - June 2017	% Chg	
		Reported	Organic		Reported	Organic
Revenues	26,091	3.4	2.3	12,960	1.9	3.1
Telefónica España	6,226	(2.3)	(2.3)	3,160	(2.0)	(1.9)
Telefónica Deutschland	3,542	(4.1)	(4.1)	1,771	(3.4)	(3.4)
Telefónica UK	3,208	(7.4)	2.3	1,607	(6.2)	2.6
Telefónica Brasil	6,193	21.8	1.7	3,028	14.1	1.8
Telefónica Hispanoamerica	6,419	6.7	12.3	3,134	5.9	15.5
Other companies & eliminations	504	(16.9)	(8.5)	259	(23.5)	(12.9)
Telxius	370	27.1	8.3	182	18.7	11.4
OIBDA	8,179	5.5	4.3	4,158	6.1	7.2
Telefónica España	2,425	(5.0)	(1.9)	1,282	(1.6)	(1.5)
Telefónica Deutschland	861	2.1	2.7	461	2.2	3.8
Telefónica UK	849	(7.4)	2.2	433	(5.0)	3.9
Telefónica Brasil	2,138	30.1	7.2	1,034	23.3	7.0
Telefónica Hispanoamerica	1,796	5.7	13.5	892	6.9	20.9
Other companies & eliminations	110	10.2	(7.7)	56	55.4	108.5
Telxius	179	78.0	11.1	87	17.8	7.9
OIBDA margin	31.3%	0.6 p.p.	0.6 p.p.	32.1%	1.3 p.p.	1.2 p.p.
Telefónica España	38.9%	(1.1 p.p.)	0.1 p.p.	40.6%	0.2 p.p.	0.2 p.p.
Telefónica Deutschland	24.3%	1.5 p.p.	1.6 p.p.	26.1%	1.4 p.p.	1.9 p.p.
Telefónica UK	26.5%	(0.0 p.p.)	(0.0 p.p.)	27.0%	0.3 p.p.	0.3 p.p.
Telefónica Brasil	34.5%	2.2 p.p.	1.8 p.p.	34.1%	2.5 p.p.	1.7 p.p.
Telefónica Hispanoamerica	28.0%	(0.3 p.p.)	0.3 p.p.	28.5%	0.3 p.p.	1.3 p.p.
Operating Income (OI)	3,370	9.3	12.2	1,800	14.9	19.0
Net income attributable to equity holders of the Parent	1,600	28.9		821	18.4	
Basic and diluted earnings per share (euros)	0.29	30.3		0.15	16.3	
CapEx	3,507	(4.0)	(5.7)	1,886	(3.7)	(3.3)
Telefónica España	704	(21.2)	(20.6)	371	(19.8)	(18.6)

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Telefónica Deutschland	435	0.5	1.3	226	6.3	6.9
Telefónica UK	434	4.4	15.4	209	(6.5)	2.4
Telefónica Brasil	915	15.5	(3.6)	518	16.6	2.7
Telefónica Hispanoamerica	923	(9.4)	(6.2)	493	(11.5)	(3.9)
Other companies & eliminations	96	(5.7)	(2.6)	68	17.4	22.4
Telxius	56	29.2	24.8	44	85.7	86.0
Spectrum	4	(57.9)	(56.3)	1	(93.8)	(95.8)
Telefónica España						
Telefónica Deutschland	1	(79.8)	(79.8)	0	(78.7)	(78.7)
Telefónica UK						
Telefónica Brasil						
Telefónica Hispanoamerica	4	n.m.	n.m.	0	n.m.	n.m.
OpCF (OIBDA-CapEx)	4,672	13.9	13.0	2,272	16.0	17.5
Telefónica España	1,720	3.7	8.0	910	8.5	7.8
Telefónica Deutschland	426	3.8	4.0	235	(1.4)	1.2
Telefónica UK	415	(17.3)	(8.7)	224	(3.6)	5.3
Telefónica Brasil	1,223	43.7	17.0	515	30.9	11.6
Telefónica Hispanoamerica	873	28.2	43.2	399	44.0	71.8
Other companies & eliminations	14	c.s.	(30.5)	(12)	(45.1)	(71.5)
Telxius	123	115.5	5.7	43	(14.0)	(23.9)

- **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 in 2016.
- **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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*The financial information related to January-June 2017 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.*

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*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**

During the quarter, the quality of the Telefónica Group's customer base continued improving, as reflected by average revenue per customer increase (+3.1% y-o-y in organic terms; +1 p.p. vs. January-March) and churn reduction (-0.2 p.p. vs. the first quarter). Total accesses stood at 346.2m at June and remained stable y-o-y.

The Company remained focused on increasing the weight of higher-value services. Thus, i) **LTE** customers totalled 81.6m (1.6x y-o-y) with quarterly net additions of 6.1m and 32% penetration (+12 p.p. y-o-y); ii) **mobile contract** accesses stood at 112.6m (+5% y-o-y) with quarterly net additions of 1.2m (1.9x vs. January-March) and accounted for 41% of the total (+2 p.p. y-o-y); iii) **smartphones** (+19% y-o-y; 155.1m) achieved 61% penetration (+10 p.p. y-o-y) and quarterly net additions of 3.6m (2.1x y-o-y); iv) **FTTx and cable** customers (10.0m) grew 19% vs. June 2016 and accounted for 47% of the total fixed broadband accesses (+7 p.p. y-o-y), reaching a coverage of 41.2m premises passed (+14% y-o-y); and v) **Pay TV** accesses improved sequentially and returned to post positive net additions in the quarter (+56k) for the first time since the second quarter of 2016.

In the second quarter, **revenues** ( 12,960m) increased 1.9% y-o-y ( 26,091m in the first half; +3.4%). In organic terms, revenue growth accelerated to 3.1% (+1.6 p.p. vs. January-March; +2.3% y-o-y growth in the first six months) with improved trends across the board. Excluding the negative impact of regulation, organic revenues would have risen 4.1% y-o-y in the second quarter (+3.3% in January-June).

Also, growth accelerated in service revenues (+2.9% y-o-y organic; +1.2 p.p. vs. the first quarter) and handset sales (+5.2%; +6.8 p.p.).

Mobile data revenues continued to be a key growth driver and improved their pace of growth in the second quarter to 17.8% y-o-y in organic terms (+15.7% organic in the first half), increasing their weight over mobile service revenues by 6 p.p. to 60%.

Separately, given the absence of official exchange rates representative of the economic situation in Venezuela, the Company has considered the need to estimate a synthetic exchange rate that matches the progression of inflation to reflect the economic and financial position of the Group's subsidiaries in Venezuela in a more accurate way. This rate has been fixed at 3,547 VEF/USD at the end of June 2017, affecting the January-June 2017 results reported by the Company. This new exchange rate reversed the positive contribution of exchange rates in the first quarter, which became negative in the second quarter, detracting 0.8 p.p. and 1.3 p.p. to the y-o-y growth of revenues and OIBDA respectively. Excluding Venezuela, the contribution would have been positive (+1.5 p.p. in revenues and +1.8 p.p. in OIBDA in the quarter) on the back of the appreciation of most Latin American currencies vs. the euro, particularly the Brazilian real.

Mobile data traffic in the quarter maintained a strong pace of growth (+83% y-o-y), underpinned by LTE traffic, which accounted for 50% of the total (+19 p.p. y-o-y) with higher average use (+59% in January-June) and ARPU around 10% higher in the first half. The average traffic per customer has thus reached 1.3GB per month (+52% y-o-y).

**Operating expenses** ( 9,048m in April-June; -0.2% y-o-y) grew 1.2% y-o-y in organic terms due to higher network and system costs and increased personnel expenses, mostly associated with inflationary pressures in some Latin

American countries, despite the savings linked to redundancy programmes and lower supplies (interconnection savings). Operating expenses in January-June amounted to 18.396m and grew 2.1% y-o-y (+1.1% organic). The average headcount in the first half totalled 126,388 employees (-6.3% y-o-y).

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In the second quarter, a provision for restructuring costs amounting to 25m (primarily T. Deutschland) affected personnel expenses in 11m and other net income/expense in 14m. In the second quarter of 2016, the provision for restructuring costs amounted to 42m (primarily in T. Brasil and T. Deutschland).

**Operating income before depreciation and amortisation (OIBDA)** totalled 4,158m in the second quarter, growing 6.1% vs. April-June 2016 ( 8,179m in the first half of the year; +5.5% y-o-y).

In organic terms, OIBDA growth accelerated to 7.2% y-o-y (+1.3% in the first quarter), with an improved contribution from all the segments, reflecting the acceleration of revenues, costs containment efforts, synergy capture and efficiencies arising from the transformation process. Excluding the impact of the regulation, OIBDA would have risen 8.9% y-o-y organic in the quarter.

**Underlying OIBDA** ( 4,183m), which excluded restructuring costs, increased 5.5% vs. April-June 2016.

**OIBDA margin** stood at 32.1% in the second quarter, reflecting a y-o-y expansion (+1.3 p.p. reported; +1.2 p.p. organic). In January-June, the margin reached 31.3% (+0.6 p.p. reported; +0.6 p.p. organic).

**Depreciation and amortisation** ( 2,358m) grew 0.3% y-o-y in the quarter; -0.9% in organic terms.

Thus, **operating income (OI)** ( 1,800m) increased y-o-y by 14.9% in April-June (+19.0% organic vs. +5.2% in the first quarter). In the first six months, operating income ( 3,370m) increased by 9.3% (+12.2% organic).

**Net financial expenses** in January-June ( 1,197m) decreased compared with the same period in the previous year ( 1,320m), primarily due to the reduction in the cost of the debt, thanks to the refinancing in European currencies. In the second quarter, financial expenses ( 748m) rose 13.3% y-o-y mainly due to the savings from GBP hedging management associated to T. UK in 2016 and higher losses and impairments in 2017 from the stake in Mediaset Premium ( 76m) and Prisa ( 30m).

**Corporate Income Tax** in the second quarter totalled 206m ( 520m in January-June 2017) and decreased 17.8% y-o-y, primarily due to a higher activation of deferred tax assets in 2017.

**Profit attributable to minority interests** in April-June amounted to 26m and reversed signs in comparison with the same period in 2016 ( -37m), mainly due to the greater profit attributable to the minority interests of T. Deutschland and T. Brasil.

As a result, **profit attributable to ordinary equity holders of the parent** in the quarter ( 821m) increased 18.4% y-o-y. In January-June, it reached 1,600m (+28.9% y-o-y).

In underlying terms, this profit rose to 1,092m and grew 23.6% y-o-y in the second quarter ( 2,052m in the first half; +31.2% y-o-y).

**Basic earnings per share** stood at 0.15 in the second quarter (+16.3%; 0.20 in underlying terms, +21.9%). In January-June, it reached 0.29 (+30.3%; 0.38 underlying, +32.3%).

**CapEx** in the first half ( 3,507m) was focused on 4G and fibre optic network expansion, and the simplification and digitalisation of processes and systems, and its y-o-y performance (-4.0% reported; -5.7% organic) reflected integration synergies, consolidation and network optimisation ( big data ).

In January-June 2017, **free cash flow** totalled 1,620m, doubling y-o-y, despite the seasonality associated with working capital. Thus:

i) **Operating cash flow (OIBDA-CapEx)** reached 4,672m in January-June and grew at double digit rates (+13.9% y-o-y in reported terms; +13.0% organic) reflecting business performance (organic growth in all segments except T. UK) and lower CapEx intensity. Y-o-y growth accelerated sequentially in the second quarter 8.6 p.p. up to 17.5% in organic terms (+16.0% reported).

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ii) **Interest payments** in the first half ( 976m) reduced by 29.2% y-o-y mainly due to the lower cost of debt in European currencies and the deferral to the third quarter of the Parapat payments corresponding to the second quarter. These payments amounted to 334m in April-June (-31.8% y-o-y). The effective cost of interest payments in the last 12 months stood at 3.22% as of June, 72 b.p. lower than the 3.94% at December 2016.

iii) **Tax payments** totalled 537m vs. 228m in January-June 2016 due to lower refunds from previous years. The effective payment rate stood at 24.7%.

iv) **Working capital** consumed 1,351m in January-June 2017 ( 278m in the second quarter), affected by CapEx seasonality, payments of taxes and rentals, partially offset by the execution of factoring measures on receivables and the extension of payment terms with suppliers or with the factoring company where those had been discounted. This consumption is 62m lower vs. the first half of 2016, mainly due to the regularisation of payments in foreign currency in Argentina in 2016.

v) **Operations with minority shareholders** in January-June ( 255m) were mainly associated with dividend payments in T. Deutschland and T. Brasil, and the y-o-y performance (-3.4%) is explained by the higher stake of Telefónica in T. Deutschland (+6 p.p. y-o-y).

**Net financial debt** as of June ( 48,487m) decreased by 279m compared with March thanks to free cash flow generation ( 1,021m) and the lower value in euros of the net debt in foreign currencies ( 648m), which more than offset: i) shareholder remuneration ( 829m, including the dividend and coupons of capital instruments), ii) payment of labour-related commitments ( 164m) and iii) other factors ( 397m), including the extension of payment terms with suppliers or with the factoring company where those had been discounted.

Compared with December 2016, net financial debt decreased by 108m thanks to free cash flow generation ( 1,620m) and the lower value in euros of net debt in foreign currencies ( 506m), partially offset by: i) shareholder remuneration ( 1,016m, including the dividend and coupons of capital instruments), ii) payment of labour-related commitments ( 331m) and iii) other factors ( 671m), including the extension of payment terms with suppliers or with the factoring company where those had been discounted.

During the first half of 2017, **Telefónica s financing activity** amounted to approximately 6,884m equivalent (without considering the refinancing of short-term bank loans and commercial paper) and focused on strengthening the liquidity position, and refinancing and extending debt maturities (in an environment of very low rates). Therefore, as of the end of June, the Group maintained a comfortable liquidity position, covering debt maturities for around the next 2 years. The average debt life stood at 7.82 years.

The main financing transactions in the quarter included the first transaction on the South Asian market in April targeting Taiwanese investors amounting to 200m USD at a 20-year term and a coupon of 4.90%. The 30-year bond issued in March 2017 was also re-opened in April for an amount of 500m USD.

Throughout the first half, Telefónica Group obtained funding by means of extending payment terms with suppliers or with the factoring company where those had been discounted, for a total 598m equivalent ( 231m in the second quarter). In the first six months of 2016, this financing amounted to 788m equivalent.

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Moreover, Telefónica S.A. and its holding companies continued their issuance activity under the Promissory Notes and Commercial Paper Programmes (Domestic and European), maintaining an amount outstanding of approximately 2,503m at the end of June.

At the end of June, Telefónica maintained undrawn, committed credit lines with different credit institutions for an approximate amount of 11,697m ( 10,754m maturing in more than twelve months) which, combined with the cash equivalents position and current financial assets excluding Venezuela placed liquidity at 21,303m.



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**Definitions:**

**Organic Growth:** Assumes constant exchange rates from 2016, excludes the impact of hyperinflationary adjustments in Venezuela in both years and considers a constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, sale of towers, restructuring costs and material non-recurring impacts. CapEx also excludes investment in spectrum.

**Underlying Growth:** Reported figures excluding the impact of write-downs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts, as well as depreciation and amortisation charges from purchase price allocation processes.

**Digital Services**

(y-o-y changes in organic terms)

Digital service revenues totalled 1,284m, +0.8% more than in the second quarter of 2016 ( 2,558m in the half year; +2.7%), driven by the growth in Video and M2M.

**Video**, with 747m revenues in the quarter, maintained a solid growth rate of 4.8% y-o-y (+0.2 p.p. compared with the first quarter; +4.7% in January-June), thanks to improvements in ARPU and the customer base in Hispanoamerica (+2% y-o-y). Pay TV accesses declined 1.7% y-o-y, mainly due to the decline in satellite TV accesses (-8.4% to 4.1m).

**Security** revenues totalled 84m in April-June and decreased 1.4% y-o-y (stable in the first half) affected by the consumer security business. Nonetheless, it is worth noting the another quarter of robust growth in the B2B segment (+24.9%), which accelerated by 5.9 p.p vs. the previous quarter. Additionally, ElevenPaths announced that its security platform has complied with the new European data protection regulation one year ahead of its implementation.

**M2M** (revenues of 70m in April-June) reported a 25.5% y-o-y growth (+31.1% in January-June), supported by both the Smart M2M managed connectivity platform, which enables global and digital IoT connectivity management, and also the end-to-end services catalogue (Metering, Retail, energy efficiency and connected car). By launching Open Labs , Telefónica takes the lead in new IoT connectivity and networks (NB-IoT and LTE-M).

**Cloud revenues** ( 116m in the quarter) decreased by 19.4% compared with April-June 2016 (-14.7% in January-June 2017) due to higher competitive pressure in main markets and a tougher y-o-y comparison associated with specific projects carried out in Spain and Hispanoamerica in 2016.

**Telefónica Global Resources**

The **Global Network and Operations** area kept a steady pace in UBB rollout with 41.2m premises passed with FTTx and cable (+14% y-o-y); 17.7M in Brazil (FTTx and cable), 18.0m in Spain (FTTH) and 5.4m in Hispanoamérica (FTTx and cable). Video consumption fostered the average consumption of fixed data by customers (+41% in the quarter) and total fixed broadband traffic (+38% y-o-y). Additionally, 4G coverage rose to 68% (+12 p.p. y-o-y) with a total of 63,726 sites, and LTE traffic tripled year-on-year in the quarter accounting for more than 50% of the total for mobile data. In Europe, LTE coverage reached 89% of the population.

In the quarter it was remarkable the launch of the *Service Operations Centres* (SOC) in Argentina, Chile and Germany for smart network management based on real-time analysis of customer experience. In addition, an LTE voice pilot (VoLTE) was also launched for international *roaming* at Telefónica Brasil. Deployments also began in the quarter in Colombia, Peru, Germany and Argentina for UNICA, la Telefónica's network virtualisation solution that will provide Group's operators with a common environment and appropriate tools to be able to efficiently manage the evolution of physical network equipment towards end-to-end virtual solutions.

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Regarding innovation, it is noteworthy the initiative carried out in Peru to provide emergency mobile internet in areas affected by flooding, and in the field of 5G, the award received for *CloudRAN based 5G UCNC (user-centric no-cell) Network* 5G, which is highly relevant for 5G's future commercial deployment.

The **Global IT** area, focused on the end-to-end digitalisation of the Company, continued progressing with **Full Stack** : Uruguay concluded the migration of all of its customers, Chile of 2.7m prepay customers, Peru of 5.0m of prepay customers and Mexico 800k contract customers. On the other hand, progress was made in the integration of systems in Uruguay (tariff calculator), Argentina (commission management) and Chile (commercial logistics notification management).

Regarding the digitalisation of channels and data management, the corporate mobile application was launched in Argentina for B2B customers, and the B2C mobile application was renovated in Spain, Brazil and Colombia. **Movistar TV** was also deployed in Nicaragua in the quarter.

All the above has led to a 52% level of capacity enablement in the quarter. Finally the quarter saw the reduction of 1.6% servers, -1 Data Centres and -42 applications, thus increasing virtualisation by 0.6 p.p. in comparison with March.

## **Telxius**

(y-o-y changes in organic terms)

Telxius posted solid results in the second quarter of 2017, with revenues of 182m and a strong growth of 11.4% y-o-y (+8.3% in the first half), driven by new tower lease contracts and by adjustments in pass-through revenues/costs affecting the second quarter of 2016, which also reflected the cancellation of IRU contracts in the cable business.

**OIBDA** amounted to 87m ( 179m in the first half) with a margin of 47.9% (48.4% in January-June). It should be kept in mind that as the Company was created in 2016, the y-o-y OIBDA comparison does not reflect actual business performance as it was affected by the progressive establishment of activities over the course of the year and by the negative impacts associates with the formation of the Company.

The **tower business** reported a quarterly increase in its tenancy ratio of 0.02x to 1.30x at June, with new lease contracts signed primarily in Spain, Germany and Brazil. Moreover, the tower portfolio grew (15,907 towers as of June) with the net addition of 10 towers in the quarter (37 in the half year). Revenues have thus amounted to 77m in April-June ( 153m in January-June).

In the **cable business**, the international traffic demand managed by Telxius showed strong y-o-y growth in IP traffic (+31% y-o-y in the first half) and bandwidth in capacity services (+62%). As such, revenues totalled 105m in the quarter ( 216m in the first six months). Additionally, it is worth mentioning that marine deployment of MAREA has started since the beginning of June (cable that will connect the USA with northern Spain) from the landing station at Sopelana (Vizcaya). BRUSA (cable that will connect the USA with Brazil) continues its rollout as expected.

**CapEx** reached 56m in the first six months of the year, albeit this item is subject to a high degree of seasonality during a year of notable investment for Telxius, in the context of the above-mentioned rollout of new cables. Likewise, project execution seasonability also affected the operating cash flow (OIBDA-CapEx), which stood at 123m

in January-June.

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## TELEFÓNICA

## ACCESSES

*Unaudited figures (thousands)*

	2016				2017		
	March	June	September	December	March	June	% Chg
Final Clients Accesses	341,262.7	341,922.3	343,932.9	344,671.1	341,785.7	341,347.3	(0.2)
Fixed telephony accesses							
(1)	39,606.5	39,262.1	38,914.0	38,280.1	37,853.0	37,488.4	(4.5)
Internet and data accesses	21,507.7	21,641.4	21,738.4	21,652.1	21,657.8	21,697.3	0.3
Broadband	21,097.2	21,195.9	21,266.5	21,194.9	21,196.4	21,240.4	0.2
FTTx/Cable	7,933.6	8,378.1	8,704.0	9,137.6	9,580.6	9,960.5	18.9
Mobile accesses	271,783.2	272,596.8	274,883.7	276,450.0	274,055.6	273,886.6	0.5
Prepay	166,005.2	165,619.6	165,912.1	165,663.2	162,648.4	161,271.6	(2.6)
Contract	105,778.0	106,977.2	108,971.6	110,786.8	111,407.2	112,615.0	5.3
M2M	12,583.9	12,988.2	13,591.7	14,002.0	14,488.0	15,009.9	15.6
Pay TV	8,365.4	8,422.0	8,396.7	8,289.0	8,219.3	8,274.9	(1.7)
Wholesale Accesses	5,826.7	5,591.7	5,480.7	5,300.9	5,087.1	4,887.2	(12.6)
Total Accesses	347,089.4	347,514.0	349,413.5	349,972.1	346,872.8	346,234.5	(0.4)

*(1) Includes fixed wireless and VoIP accesses.*

## TELEFÓNICA

## MOBILE ACCESSES

*Unaudited figures*

	2016				2017		
	March	June	September	December	March	June	% Chg
Contract percentage (%)	38.9%	39.2%	39.6%	40.1%	40.7%	41.1%	1.9 p.p.
Smartphones							
( 000)	128,326.0	130,058.4	144,588.9	147,161.8	151,547.7	155,126.7	19.3
Smartphone penetration (%)	50.6%	51.1%	56.4%	57.1%	59.4%	60.9%	9.8 p.p.

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LTE ( 000)	43,870.2	50,077.3	57,342.4	66,295.7	75,458.8	81,604.2	63.0
LTE penetration (%)	16.9%	19.3%	22.1%	25.3%	29.1%	31.5%	12.2 p.p.

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## TELEFÓNICA

## CONSOLIDATED INCOME STATEMENT

*Unaudited figures (Euros in millions)*

	January - June		% Chg		April - June		% Chg	
	2017	2016	Reported	Organic	2017	2016	Reported	Organic
Revenues	26,091	25,235	3.4	2.3	12,960	12,723	1.9	3.1
Internal exp. capitalized in fixed assets	430	428	0.5	(1.2)	222	214	3.4	2.7
Operating expenses	(18,396)	(18,010)	2.1	1.1	(9,048)	(9,067)	(0.2)	1.2
Supplies	(7,362)	(7,423)	(0.8)	(1.2)	(3,632)	(3,748)	(3.1)	(2.2)
Personnel expenses	(3,493)	(3,436)	1.7	1.7	(1,675)	(1,687)	(0.7)	4.3
Other operating expenses	(7,541)	(7,152)	5.4	3.2	(3,741)	(3,632)	3.0	3.3
Other net income (expense)	28	98	(71.8)	(55.8)	(1)	49	c.s.	(68.3)
Gain (loss) on sale of fixed assets	18	8	n.m.	n.m.	10	2	n.m.	n.m.
Impairment of goodwill and other assets	9	(2)	c.s.	c.s.	16	(3)	c.s.	c.s.
<i>Underlying operating income before D&amp;A (OIBDA)</i>	8,292	7,824	6.0		4,183	3,964	5.5	
Operating income before D&A (OIBDA)	8,179	7,756	5.5	4.3	4,158	3,918	6.1	7.2
<i>OIBDA Margin</i>	31.3%	30.7%	0.6 p.p.	0.6 p.p.	32.1%	30.8%	1.3 p.p.	1.2 p.p.
Depreciation and amortization	(4,809)	(4,673)	2.9	(1.1)	(2,358)	(2,351)	0.3	(0.9)
Operating income (OI)	3,370	3,083	9.3	12.2	1,800	1,567	14.9	19.0
Share of profit (loss) of investments accounted for by the equity method	3	(3)	c.s.		1	0	n.m.	

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Net financial income (expense)	(1,197)	(1,320)	(9.3)	(748)	(660)	13.3
Profit before taxes	2,176	1,760	23.7	1,053	907	16.1
Corporate income tax	(520)	(549)	(5.2)	(206)	(251)	(17.8)
Profit for the period	1,656	1,211	36.7	847	656	29.1
Attributable to equity holders of the Parent	1,600	1,241	28.9	821	693	18.4
Attributable to non-controlling interests	56	(30)	c.s.	26	(37)	c.s.
Weighted average number of ordinary shares outstanding during the period (millions)	5,094	5,066	0.6	5,123	5,053	1.4
Basic and diluted earnings per share attributable to equity holders of the Parent (euros)	0.29	0.22	30.3	0.15	0.13	16.3
<i>Underlying basic and diluted earnings per share attributable to equity holders of the Parent (euros)</i>	<i>0.38</i>	<i>0.28</i>	<i>32.3</i>	<i>0.20</i>	<i>0.16</i>	<i>21.9</i>

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-June 2017 period Telefónica has adopted a synthetic exchange rate of 3,547 Venezuelan bolivars fuertes per dollar at June 2017 (please see Note 3 of the Condensed Consolidated Interim Financial Statements for the six-month period ended June 30, 2017).
- 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 ( 68m in April-June 17; 136m in January-June 17), by the weighted average number of ordinary shares outstanding during the period.
- 2016 and 2017 reported figures include hyperinflationary adjustments in Venezuela in both years.

TELEFÓNICA

GUIDANCE 2017

2017



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2016 Base		Original Operative 2017 Guidance (Feb-2017)	Upgraded Operative 2017 Guidance (Jul-2017)	Jan -Jun
51,734	Revenues (% Chg YoY)	Stable (in spite of regulation: ~-1.2 p.p.)	Growth >1.5% (in spite of regulation: ~-1.2 p.p.)	2.3%
31.8%	OIBDA margin (Chg YoY)	Expansion up to 1 p.p.	Expansion up to 1 p.p.	0.6 p.p.
16.5%	CapEx / Sales	Around 16%	Around 16%	13.4%

- **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.

2016 adjusted base excludes:

- The results of the companies sold in 2016 (Telef , T. Personalizadas and Vocem) from 1 January, 2016 to the date of exiting the perimeter of consolidation.
- OIBDA excludes additionally write-downs, capital gains/losses from the sale of companies, tower sales, material non-recurrent impacts and restructuring costs.
- CapEx excludes additionally spectrum acquisition.

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TELEFÓNICA

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION***Unaudited figures (Euros in millions)*

	June 2017	December 2016	% Chg
Non-current assets	97,475	103,667	(6.0)
Intangible assets	18,813	20,518	(8.3)
Goodwill	27,362	28,686	(4.6)
Property, plant and equipment and Investment properties	34,202	36,393	(6.0)
Investments accounted for by the equity method	71	76	(6.5)
Non-current financial assets	8,863	9,765	(9.2)
Deferred tax assets	8,164	8,229	(0.8)
Current assets	22,876	19,974	14.5
Inventories	1,029	1,055	(2.5)
Trade and other receivables	10,740	10,675	0.6
Current financial assets	3,590	2,954	21.5
Tax receivables	1,454	1,533	(5.1)
Cash and cash equivalents	6,046	3,736	61.8
Non-current assets and disposal groups classified as held for sale	17	21	(19.6)
<b>Total Assets = Total Equity and Liabilities</b>	<b>120,351</b>	<b>123,641</b>	<b>(2.7)</b>
Equity	25,534	28,385	(10.0)
Equity attributable to equity holders of the parent and other holders of equity instruments	16,877	18,157	(7.0)
Non-controlling interests	8,657	10,228	(15.4)
Non-current liabilities	62,331	59,805	4.2
Non-current financial liabilities	48,780	45,612	6.9
Non-current trade and other payables	1,802	1,925	(6.4)
Deferred tax liabilities	2,284	2,395	(4.6)
Non-current provisions	9,465	9,873	(4.1)
Current liabilities	32,486	35,451	(8.4)
Current financial liabilities	13,715	14,749	(7.0)
Current trade and other payables	14,386	16,150	(10.9)
Current tax payables	2,313	2,332	(0.8)
Current provisions	2,072	2,220	(6.7)
Liabilities associated with non-current assets and disposals groups held for sale			
<b>Financial Data</b>			
Net Financial debt	48,487	48,595	(0.2)

*Notes:*

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

## NET FINANCIAL DEBT PLUS COMMITMENTS

Unaudited figures (Euros in millions)

	June 2017
Non-current financial liabilities	48,780
Current financial liabilities	13,715
Gross Financial Debt	62,495
Cash and cash equivalents	(6,046)
Current financial assets	(3,590)
Positive mark-to-market value of long-term derivative instruments	(3,894)
Other non-current liabilities included in Trade and other payables	726
Other current liabilities included in Trade and other payables	230
Other assets included in Non-current financial assets	(907)
Other assets included in Current trade and other receivables	(527)
Net Financial Debt (1)	48,487
Gross commitments related to employee benefits	6,524
Value of associated Long-term assets	(732)
Tax benefits	(1,510)
Net commitments related to employee benefits	4,282
Net financial debt plus commitments	52,769
Net Financial Debt / OIBDA	2.86x

Notes:

(1) Net financial debt includes a positive value of the derivatives portfolio for a net amount of 2,185m, 3,296m included as financial liabilities and 5,482m included as financial assets.

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TELEFÓNICA

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

	January - June		
	2017	2016	% Var
Cash received from operations	32,024	30,670	
Cash paid from operations	(24,557)	(23,673)	
Net payments of interest and other financial expenses net of dividends received	(976)	(1,377)	
Taxes paid	(537)	(228)	
<b>Net cash flow provided by operating activities</b>	<b>5,954</b>	<b>5,392</b>	<b>10.4%</b>
(Payments on investments)/proceeds from the sale in property, plant and equipment and intangible assets, net	(4,405)	(4,643)	
Proceeds on disposals of companies, net of cash and cash equivalents disposed	30	450	
Payments on investments in companies, net of cash and cash equivalents acquired	(6)	(103)	
Proceeds on financial investments not included under cash equivalents	155	34	
Payments on financial investments not included under cash equivalents	(544)	(128)	
(Payments)/proceeds on placements of cash surpluses not included under cash equivalents, net	(1,112)	(40)	
Government grants received			
<b>Net cash flow used in investing activities</b>	<b>(5,882)</b>	<b>(4,430)</b>	<b>32.8%</b>
Dividends paid	(1,136)	(2,211)	
Proceeds from issue of share capital increase	3		
(Payments)/proceeds of treasury shares and other operations with shareholders, net	0	(651)	
Operations with other equity holders (1)	(135)	(118)	
Proceeds on issue of debentures and bonds, and other debts	6,789	3,415	
Proceeds on loans, borrowings and promissory notes	2,823	10,445	
Cancellation of debentures and bonds, and other debts	(2,534)	(6,534)	
Repayments of loans, borrowings and promissory notes	(2,439)	(3,728)	
Financed operating payments and investments in property, plant and equipment and intangible assets payments	(841)	(1,457)	
<b>Net cash used in financing activities</b>	<b>2,530</b>	<b>(839)</b>	<b>c.s.</b>
Effect of changes in exchange rates	(292)	151	c.s.
Effect of changes in consolidation methods and others	0	(5)	c.s.
	<b>2,310</b>	<b>269</b>	<b>n.m.</b>

**Net increase (decrease) in cash and cash equivalents  
during the year**

<b>Cash and cash equivalents at the beginning of the period</b>	<b>3,736</b>	<b>2,615</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>6,046</b>	<b>2,884</b>

*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-June 2017 period Telefónica has adopted a synthetic exchange rate of 3,547 Venezuelan bolivars fuertes per dollar at June 2017 (please see Note 3 of the Condensed Consolidated Interim Financial Statements for the six-month period ended June 30, 2017).*
- *2016 and 2017 reported figures include the hyperinflationary adjustments in Venezuela in both years.*
- 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 - June		
		2017	2016	% Chg
I	Cash flow from operations	7,467	6,996	6.7
II	Net interest payment (1)	(976)	(1,377)	
III	Payment for income tax	(537)	(228)	
A=I+II+III	Net cash provided by operating activities	5,954	5,391	10.4
B	Net payment for investment in fixed and intangible assets	(4,411)	(4,644)	
	Spectrum (2)	(8)	(13)	
C=A+B	Net free cash flow after CapEx	1,543	747	106.6
D	Net Cash received from sale of Real Estate	6	1	
E	Net payment for financial investment	(366)	244	
F	Net payment for operations with minority shareholders and treasury stock (3)	(1,268)	(2,970)	
G=C+D+E+F	Free cash flow after dividends	(85)	(1,978)	(95.7)
H	Effects of exchange rate changes on net financial debt	(506)	(165)	
I	Effects on net financial debt of changes in consolid. and others	314	1,220	
J	Net financial debt at beginning of period	48,595	49,161	
K=J-G+H+I	Net financial debt at end of period	48,487	52,193	(7.1)

## TELEFÓNICA

## RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX FROM CONTINUING OPERATIONS

*Unaudited figures (Euros in millions)*

	January - June		
	2017	2016	% Chg
OIBDA	8,179	7,756	5.5
- CapEx accrued during the period	(3,507)	(3,654)	
- Payments related to cancellation of commitments	(331)	(332)	
- Net interest payment	(976)	(1,377)	
- Payment for tax	(537)	(228)	

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- Gain (loss) on sale of fixed assets and impairment of goodwill and other assets	(10)	(6)	
- Investment In working capital and other deferred income and expenses (4)	(1,275)	(1,412)	
= Net Free Cash Flow after CapEx	1,543	747	106.6
+ Payments related to cancellation of commitments	331	332	
- Dividends paid to minority shareholders	(255)	(264)	
= Free Cash Flow	1,620	815	98.6
Weighted average number of ordinary shares outstanding during the period (millions)	5,094	5,066	
= Free Cash Flow per share (euros)	0.32	0.16	97.5

## Notes:

- 2016 and 2017 reported figures include hyperinflationary adjustments in Venezuela in both years.
- (1) Includes cash received from dividends paid by subsidiaries that are not fully consolidated.
- (2) Figures in m. 2017 includes mainly: 4 in Spain, 2 in Colombia and 2 in Mexico. In 2016 mainly: 4 in Spain, 2 in Germany, 2 in Colombia and 6 in Peru.
- (3) 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.
- (4) Other deferred expenses include 76m in Q1 2017 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)	
	Jan - Jun 2017	Jan - Jun 2016	June 2017	December 2016
USA (US Dollar)	1.082	1.115	1.140	1.054
United Kingdom (Sterling)	0.860	0.778	0.879	0.855
Argentina (Argentine Peso)	16.980	15.968	18.930	16.706
Brazil (Brazilian Real)	3.437	4.118	3.773	3.435
Chile (Chilean Peso)	713.796	768.533	757.587	705.622
Colombia (Colombian Peso)	3,161.635	3,474.913	3,478.866	3,162.745
Costa Rica (Colon)	616.523	606.796	661.376	591.366
Guatemala (Quetzal)	7.991	8.561	8.365	7.928
Mexico (Mexican Peso)	20.979	20.137	20.599	21.733
Nicaragua (Cordoba)	32.116	31.532	34.262	30.904
Peru (Peruvian Nuevo Sol)	3.544	3.772	3.710	3.537
Uruguay (Uruguayan Peso)	30.733	35.012	32.497	30.924
Venezuela (Bolivar Fuerte) (3)	4,045.307	697.350	4,045.307	710.227

(1) Average exchange rate for the period.

(2) Exchange rates as of 30/06/17 and 31/12/16.

(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-June 2017 period Telefónica has adopted a synthetic exchange rate of 3,547 Venezuelan bolivars fuertes per dollar at June 2017 (please see Note 3 of the Condensed Consolidated Interim Financial Statements for the six-month period ended June 30, 2017).

## NET FINANCIAL DEBT STRUCTURE BY CURRENCY

Unaudited figures

	June 2017			
	EUR	LATAM	GBP	USD
Net financial debt structure by currency	80%	11%	7%	2%

## TOTAL FINANCIAL LIABILITIES BREAKDOWN

Unaudited figures



	June 2017		
	Bonds and commercial paper	Debt with financial institutions	Other financial debt (including governments) and net derivatives
Total financial liabilities (1)	82%	16%	2%

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

#### CREDIT RATINGS

	Long-Term	Short-Term	Perspective	Date of last rating change
Moody <sup>1</sup> s	Baa3	P-3	Stable	7/11/2016
Fitch <sup>1</sup>	BBB	F-3	Stable	5/9/2016
S&P <sup>1</sup>	BBB	A-2	Stable	05/17/2016

(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 second quarter of 2017 T. España's results showed a sequential improvement in revenue performance. This evolution is driven by higher commercial activity, with churn reduction in virtually all services, which reflects the sustainability of the Company's value strategy. Quarterly service revenues improved their year-on-year performance compared with the previous quarter and decreased by 0.8%; this growth would have been positive (+0.2%) if the impact of the lower revenues from wholesale TV rights of La Liga were excluded; an impact that will be neutralised since August.

The penetration of **Movistar Fusión** reached 85% in broadband, 84% in TV and 77% in mobile contract. Fusión continues growing in value, which is reflected in the customers with UBB fibre (38%, +7 p.p. y-o-y) and TV (70%, +3 p.p.) and in the high-value bundles (24%, +3 p.p. q-o-q). The quarterly ARPU stood at 84.8 and accelerated its year-on-year growth to 6.4% while churn was reduced vs previous quarter to 1.3%. In addition, Fusión+ portfolio was enlarged at the beginning of July with the launch of a new convergent entry level proposal incorporating TV and all its functionalities.

**Mobile accesses** increased year-on-year for the second quarter in a row (+1%), posting the best performance since the third quarter of 2010. Net additions (+69k ex M2M) reflect the success of the totalisation strategy and the better evolution of the portability balance. As such, contract accesses ex M2M growth accelerated their growth rate (+5%; +1.7 p.p. q-o-q) and churn reduced (1.3%; -0.2 p.p. q-o-q).

**Fixed telephony accesses** (-4% y-o-y) reduced their quarterly net loss (-121k vs -136k in the first quarter) as the effect of tariff repositioning dilute. **Fixed broadband accesses** remained stable year-on-year and still posted a net loss of 31k; however, the monthly performance showed an improvement anticipating a shift in trend that is expected to be consolidated in the coming months on the back of the new Fusión+ bundles. The broadband churn stood stable vs the first quarter (1.6%). **Fibre accesses** already represent 53% of the total broadband (+9 p.p. y-o-y), and 67% are ultrafast broadband (300Mb). Premises passed with fibre to the home reached 18.0m (+500k compared with March).

**Pay TV** net additions returned to positive figures (+51k vs. -41k in the previous quarter), fostered by new customers and the migration from low-value options to the Fusión+ Ocio bundle launched in April (151k customers as of 30 June).

**Wholesale accesses** totalled 4.4m (-7% year-to-year), slowing their quarter decline (-65k vs. -83k in the first quarter) due to the higher growth of NEBA fibre (+114k quarterly net additions vs. 101k in the previous quarter) to reach 540k accesses.

**Revenues** in the second quarter reached to 3,160m (-1.9% year-to-year) and improved compared with the previous quarter (+0.6 p.p.), thanks to the better **service revenue** performance (-0.8%, +0.8 percentage points compared with the first quarter) and despite a higher decline in handset sales (-31.8%, -1.9 p.p.). Total revenues ( 6,226m) and service revenues ( 6,062m) in the semester declined 2.3% and 1.1% respectively.

**Consumer revenues** ( 1,654m) returned to growth in the quarter (+1.1% y-o-y; +1.4 p.p vs. the first quarter), pushed by a higher growth in Fusión revenues (+9.7%), reflecting tariff upgrade in April in some Fusión bundles and a better value mix. Non-converging revenues improved their year-on-year performance (-13.0%).

**Business revenues** ( 870m) decreased by 1.3% year-on-year (-1.4 p.p. vs. the first quarter), affected by seasonal factors resulting in a drop in communications revenues (-3.9%), though IT revenues continued to post strong growth (+8.4%).

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**Other revenues** ( 554m) dropped by 5.1% year-on-year because of less wholesale TV revenues (impact of - 30m in the quarter and whose comparison will be much more favourable since August), OMs and regulatory impacts (NEBA, ORLA, etc.).

**Operating expenses** in the quarter rose to 1,978m but reduced by 1.2% year-on-year (vs. -3.3% in the previous quarter). In the semester they stood at 3,981m and posted a 2.3% year-on-year reduction.

**Supplies** ( 856m) changed their trend and decreased 2.4% (+3.6% in the first quarter) on the back of a smaller growth in content and handset costs. The net content cost increased by 11% year-on-year (+21% in January-March) with an increasingly homogeneous comparison.

**Personnel expenses** ( 520m) decreased by 1.9% slowing down their pace of year-on-year decline (vs. -12.6% in the first quarter) due to the lower year-on-year savings arising from the employment suspension plan ( 28m), since most personnel departures occurred in the second quarter of 2016 (2,256 of a total of 4,600 since January 2016 up to June 2017). Personnel expenses were also affected in the quarter by particular cost of 9m. Headcount at the end of June totalled 28,033 employees (-5.0% y-o-y).

**Other operating expenses** ( 602m) increased in the quarter by 1.0% (-3.2% in the first quarter) mainly because of higher commercial costs.

An 8m capital gain on real estate sales was registered in the quarter.

**OIBDA** in April-June rose to 1,282m, which is 1.5% less than the same period a year ago, driving a sequential improvement of 0.9 percentage points explained by the better revenue performance and cost containment. The OIBDA margin thus stood at 40.6% (+0.8 p.p. q-o-q, +0.2 p.p. y-o-y). In the first half of the year, OIBDA stood at 2,425m with a 1.9% year-on-year reduction.

**CapEx** in the semester rose to 704m (-20.6% y-o-y), reflecting a lower pace of deployment in fiber and 4G as well as higher efficiencies, and **operating cash flow** grew soundly to 1,720m (+8.0% y-o-y).

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## TELEFÓNICA ESPAÑA

## CONSOLIDATED INCOME STATEMENT

*Unaudited figures (Euros in millions)*

	January - June		% Chg		April - June		% Chg	
	2017	2016	Reported	Organic	2017	2016	Reported	Organic
Revenues	6,226	6,374	(2.3)	(2.3)	3,160	3,224	(2.0)	(1.9)
Mobile handset revenues	165	238	(30.9)	(30.9)	83	121	(31.8)	(31.8)
Revenues ex-mobile handset revenues	6,062	6,136	(1.2)	(1.1)	3,077	3,103	(0.8)	(0.8)
Consumer (1)	3,273	3,262	0.4	0.4	1,654	1,636	1.1	1.1
Fusión	2,184	1,994	9.5	9.5	1,114	1,015	9.7	9.7
Non-Fusión	1,090	1,268	(14.0)	(14.0)	540	621	(13.0)	(13.0)
Business Communications	1,710	1,721	(0.6)	(0.6)	870	881	(1.3)	(1.3)
IT	1,331	1,374	(3.2)	(3.2)	667	694	(3.9)	(3.9)
Other (2)	379	346	9.6	9.6	203	187	8.4	8.4
Other (2)	1,078	1,153	(6.5)	(6.2)	554	586	(5.4)	(5.1)
Internal expenditure capitalized in fixed assets	153	169	(9.8)	(9.8)	77	82	(7.1)	(7.1)
Operating expenses	(3,981)	(3,997)	(0.4)	(2.3)	(1,978)	(2,003)	(1.2)	(1.2)
Supplies	(1,672)	(1,664)	0.4	0.5	(856)	(877)	(2.4)	(2.4)
Personnel expenses	(1,121)	(1,131)	(0.9)	(7.6)	(520)	(531)	(1.9)	(1.9)
Other operating expenses	(1,189)	(1,202)	(1.1)	(1.1)	(602)	(596)	1.0	1.0
Other net income (expense)	11	(2)	c.s.	c.s.	9	(7)	c.s.	c.s.
Gain (loss) on sale of fixed assets	18	10	76.2	76.2	14	6	147.0	147.0
Impairment of goodwill and other assets	(2)	(2)	6.6	6.6	(1)	(1)	8.3	8.3
Operating income before D&A (OIBDA)	2,425	2,553	(5.0)	(1.9)	1,282	1,302	(1.6)	(1.5)
OIBDA Margin	38.9%	40.0%	(1.1 p.p.)	0.1 p.p.	40.6%	40.4%	0.2 p.p.	0.2 p.p.
CapEx	704	894	(21.2)	(20.6)	371	463	(19.8)	(18.6)
Spectrum		7				7		
OpCF (OIBDA-CapEx)	1,720	1,659	3.7	8.0	910	839	8.5	7.8

*Notes:*

- *Since 1 January, 2016, T. España reflects all the charges related to the towers transferred to Telxius, which are now presented in Telxius (Other Companies & Eliminations), and includes the results of the data center business, of T. Studios and of T. Servicios Audiovisuales, which where before presented in Other Companies & Eliminations.*
- *The results of the T. España do not include intra-group capital gains resulting from the transfer of towers to Telxius in 2016.*
- *T. Personalizadas has been deconsolidated since 1 January, 2017.*
- *OIBDA before management and brand fees.*
- (1) *Consumer revenues include residential and SOHO revenues.*
- (2) *Other revenues include wholesale, subsidiaries and other revenues.*

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## TELEFÓNICA ESPAÑA

## ACCESSES

*Unaudited figures (Thousands)*

	2016				2017		
	March	June	September	December	March	June	% Chg
Final Clients Accesses	36,791.3	36,765.2	36,769.8	36,709.4	36,537.3	36,464.3	(0.8)
Fixed telephony accesses (1)	9,910.6	9,854.2	9,783.7	9,720.2	9,584.2	9,463.3	(4.0)
Internet and data accesses	6,012.8	6,061.6	6,076.6	6,094.5	6,075.9	6,044.4	(0.3)
Broadband	5,978.6	6,030.2	6,045.3	6,067.3	6,050.9	6,020.1	(0.2)
FTTH	2,458.3	2,675.7	2,830.7	2,998.3	3,127.8	3,213.5	20.1
Mobile accesses	17,140.1	17,094.4	17,198.2	17,237.7	17,261.7	17,289.8	1.1
Prepay	2,675.7	2,579.7	2,466.1	2,329.3	2,135.9	2,000.4	(22.5)
Contract	14,464.5	14,514.7	14,732.1	14,908.4	15,125.7	15,289.4	5.3
M2M	1,827.2	1,890.5	1,968.8	2,006.3	2,015.6	1,974.7	4.5
Pay TV (2)	3,727.8	3,755.0	3,711.4	3,657.0	3,615.6	3,666.8	(2.4)
Wholesale Accesses	4,866.9	4,693.3	4,589.3	4,525.5	4,442.3	4,377.8	(6.7)
Fibre	176.6	210.3	259.7	324.9	426.2	539.7	156.6
Total Accesses	41,658.2	41,458.6	41,359.2	41,234.9	40,979.6	40,842.1	(1.5)

*(1) Includes fixed wireless and VoIP accesses.*

CONSUMER ACCESSES (Fusión + non-Fusión)

*Unaudited figures (thousands)*

	2016				2017		
	March	June	September	December	March	June	% Chg
Fixed telephony accesses	7,428.5	7,382.1	7,319.0	7,260.4	7,146.2	7,041.5	(4.6)
Internet and data accesses	5,145.4	5,186.4	5,195.5	5,207.8	5,195.3	5,174.0	(0.2)
Mobile accesses	11,759.7	11,676.5	11,691.5	11,732.3	11,754.9	11,813.6	1.2
Prepay	2,675.7	2,579.7	2,466.1	2,329.3	2,135.9	2,000.4	(22.5)
Contract	9,084.0	9,096.8	9,225.4	9,403.0	9,618.9	9,813.2	7.9
Pay TV	3,727.8	3,755.0	3,711.4	3,657.0	3,615.6	3,666.8	(2.4)
Total Consumer Accesses	28,061.4	28,000.0	27,917.4	27,857.6	27,711.8	27,695.9	(1.1)

## TOTAL MOBILE ACCESSES

*Unaudited figures*

	2016				2017		
	March	June	September	December	March	June	% Chg
Contract percentage (%)	84.4%	84.9%	85.7%	86.5%	87.6%	88.4%	3.5 p.p.
Smartphones ( 000)	10,200.2	10,295.8	10,500.3	10,715.8	10,800.7	11,240.4	9.2
Smartphone penetration (%)	67.2%	68.3%	69.5%	70.9%	71.3%	73.8%	5.5 p.p.
LTE ( 000)	4,520.7	5,050.0	5,444.0	6,073.0	6,589.6	6,976.3	38.1
LTE penetration (%)	29.5%	33.2%	35.7%	39.9%	43.2%	45.6%	12.3 p.p.

## CONSUMER FUSIÓN

*Unaudited figures (thousands)*

	2016				2017		
	March	June	September	December	March	June	% Chg
Fusión Customers	4,209.1	4,268.8	4,286.1	4,333.2	4,379.0	4,374.7	2.5
Fibre 100/300	1,267.4	1,345.9	1,491.0	1,593.5	1,669.1	1,677.9	24.7
IPTV/Satellite	2,768.6	2,873.6	2,914.9	2,943.1	2,970.9	3,071.9	6.9
Mobile add-ons	2,023.3	2,084.1	2,302.7	2,542.0	2,861.6	3,138.5	50.6

## CONSUMER FUSIÓN

*Unaudited figures*

	2016				2017		
	Q1	Q2	Q3	Q4	Q1	Q2	% Chg
Fusión ARPU (EUR)	78.2	79.8	81.8	81.6	81.6	84.8	6.4
Fusión churn	1.3%	1.1%	1.3%	1.4%	1.4%	1.3%	0.2 p.p.
	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec	Jan - Mar	Jan - Jun	% Chg
Fusión ARPU (EUR)	78.2	79.0	79.9	80.4	81.6	83.2	5.4
Fusión churn	1.3%	1.2%	1.2%	1.3%	1.4%	1.4%	0.1 p.p.



## SELECTED OPERATIONAL DATA

*Unaudited figures*

	2016				2017		
	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec	Jan - Mar	Jan - Jun	% Chg
Total data traffic (TB)	1,333,989	2,697,613	4,140,131	5,690,140	1,473,501	3,166,713	17.4
Fixed data traffic	1,291,860	2,610,901	3,991,793	5,479,375	1,406,556	3,009,891	15.3
Mobile data traffic	42,129	86,712	148,338	210,765	66,944	156,821	80.9

*Notes:*

- *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10<sup>12</sup> 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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**TELEFÓNICA DEUTSCHLAND**

(y-o-y changes in organic terms)

In a dynamic market increasingly focused on larger data buckets, Telefónica Deutschland maintained solid momentum in the second quarter, leveraging on QFree and the 15 year anniversary promotions of the Qbrand.

**Contract mobile customers** (20.9m; +7% y-o-y) posted strong quarterly net additions of 197k (+172k in the first quarter) on the back of continued resilient partner trading (55% of gross additions; stable q-o-q). **Prepay customers** stood at 24.3m, up 2% y-o-y, with robust quarterly net additions of 322k (4.6x y-o-y; +183k in January-March). **Smartphone** penetration continued to grow y-o-y (+1 p.p. to 57%), as a result of the succesful data monetization strategy, **LTE accesses** (14.4m) increased 53% and penetration (33%) was 11 p.p. higher. The average data usage for O<sub>2</sub> contract LTE customers was up 48% vs. April-June 2016 to 2.0 GB. At 2.1m **retail broadband accesses** were slightly lower y-o-y (-1%); however, the strong demand for VDSL (88k quarterly net additions; +67k in the first quarter) drove the VDSL base to 960k (+43% y-o-y). **Wholesale DSL** (428k accesses) registered 134k net disconnections due to the planned dismantling of the legacy infrastructure.

In the second quarter, **revenues** reached 1,771m and improved their y-o-y trend to -3.4% (-4.1% to 3,542m in the first half). **Mobile service revenues** (MSR) (1,318m) decreased 3.0% y-o-y (-3.3% in January-March), on strong regulatory headwinds (termination rate cuts and European roaming regulation), the higher share of wholesale revenues and the ongoing legacy base rotation. Excluding regulation, MSR performance improved sequentially by 0.2 p.p. to -0.4% y-o-y. **Handset revenues** (229m) increased 1.5% y-o-y (-2.2% in January-June to 482m), despite continued longer replacement cycles. **Fixed revenues** (217m) fell 11.2% y-o-y (-11.6% y-o-y in the first half) as a result of the lower year-on-year customer base in retail DSL and the planned phasing-out of the wholesale DSL business.

**Operating expenses** stood at 1,313m in April-June and decreased 8.6% y-o-y (2,696m in the first six months; -7.5% y-o-y). **Supplies** totalled 547m (-5.6% y-o-y; -6.8% in January-June), benefitting from lower interconnection and hardware costs. **Personnel expenses** (157m) increased 1.3% vs April-June 2016(-1.8% in the first half) mainly due to the insourcing of external employees (e.g. in customer service), that offset savings obtained from the execution of the employee restructuring programme. **Other operating expenses** (609m in the quarter) were down 13.2% y-o-y (-9.5% in the first six months) on the back of successful synergy capture (network consolidation and FTE restructuring). Total restructuring costs amounted to 19m in the quarter (14m in the second quarter of 2016).

**OIBDA** reached 461m and its y-o-y growth rate accelerated to 3.8% in the quarter (861m in January-June; +2.7% y-o-y) as incremental synergies of 40m offset the the negative effect from regulation as well as continued investments into the positioning of the O<sub>2</sub> brand in the premium segment and the O<sub>2</sub> 15 anniversary promotion. **OIBDA margin** was 26.1% and expanded 1.9 p.p. y-o-y.

In the first half of 2017 **CapEx** totalled 435m (+1.3% y-o-y), benefitting from incremental synergy related savings of 20m while Telefónica Deutschland pushed ahead with network integration and further rollout of the LTE network.

**Operating cash flow (OIBDA-CapEx)** totalled 426m in January-June 2017; up 4.0% y-o-y.



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## TELEFÓNICA DEUTSCHLAND

## CONSOLIDATED INCOME STATEMENT

*Unaudited figures (Euros in millions)*

	January - June		% Chg		April - June		% Chg	
	2017	2016	Reported	Organic	2017	2016	Reported	Organic
Revenues	3,542	3,691	(4.1)	(4.1)	1,771	1,834	(3.4)	(3.4)
Mobile Business	3,092	3,187	(3.0)	(3.0)	1,548	1,584	(2.3)	(2.3)
Mobile service revenues	2,610	2,694	(3.1)	(3.1)	1,318	1,358	(3.0)	(3.0)
Data revenues	1,488	1,478	0.7	0.7	772	749	3.1	3.1
Handset revenues	482	493	(2.2)	(2.2)	229	226	1.5	1.5
Fixed Business	440	498	(11.6)	(11.6)	217	245	(11.2)	(11.2)
FBB and new services (1)	344	379	(9.3)	(9.3)	167	187	(10.5)	(10.5)
Voice & access revenues	96	118	(18.7)	(18.7)	50	58	(13.4)	(13.4)
Internal expenditure capitalized in fixed assets	48	51	(5.9)	(5.9)	27	26	2.2	2.2
Operating expenses	(2,696)	(2,923)	(7.7)	(7.5)	(1,313)	(1,439)	(8.8)	(8.6)
Supplies	(1,132)	(1,206)	(6.2)	(6.8)	(547)	(578)	(5.3)	(5.6)
Personnel expenses	(313)	(333)	(6.3)	(1.8)	(157)	(160)	(1.8)	1.3
Other operating expenses	(1,252)	(1,383)	(9.5)	(9.5)	(609)	(701)	(13.2)	(13.2)
Other net income (expense)	(33)	23	c.s.	c.s.	(24)	30	c.s.	c.s.
Gain (loss) on sale of fixed assets	1				0	(0)	c.s.	c.s.
Impairment of goodwill and other assets								
Operating income before D&A (OIBDA)	861	843	2.1	2.7	461	451	2.2	3.8
OIBDA Margin	24.3%	22.8%	1.5 p.p.	1.6 p.p.	26.1%	24.6%	1.4 p.p.	1.9 p.p.
CapEx	435	432	0.5	1.3	226	213	6.3	6.9
Spectrum	1	3	(79.8)	(79.8)	0	1	(78.7)	(78.7)
OpCF (OIBDA-CapEx)	426	411	3.8	4.0	235	238	(1.4)	1.2

*Notes:*

- Since 1 May, 2016, T. Deutschland reflects all the charges related to the towers transferred to Telxius, which are now presented in Telxius (Other Companies & Eliminations)

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- *Organic y-o-y changes reflect all the charges related to the towers transferred to Telxius since 1 January 2016. The results of the T. Deutschland do not include intra-group capital gains resulting from the transfer of towers to Telxius in 2016.*
- *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)*

	2016				2017		
	March	June	September	December	March	June	% Chg
Final Clients Accesses	47,341.7	47,754.9	48,404.8	48,655.5	48,988.0	49,478.7	3.6
Fixed telephony accesses (1)	2,002.8	2,007.4	2,006.5	2,010.3	2,000.1	1,987.9	(1.0)
Internet and data accesses	2,330.9	2,329.8	2,324.8	2,324.5	2,312.5	2,297.2	(1.4)
Broadband	2,101.5	2,103.9	2,101.6	2,104.0	2,095.3	2,082.4	(1.0)
FTTx	593.0	669.3	731.8	805.5	872.2	959.9	43.4
Mobile accesses	43,008.0	43,417.8	44,073.5	44,320.7	44,675.3	45,193.6	4.1
Prepay	23,743.5	23,814.2	23,872.8	23,784.0	23,967.0	24,288.6	2.0
Contract	19,264.4	19,603.6	20,200.7	20,536.6	20,708.4	20,905.0	6.6
M2M	682.2	704.3	748.0	787.8	830.1	896.8	27.3
Wholesale Accesses	910.5	850.1	790.8	691.0	561.8	428.0	(49.7)
Total Accesses	48,252.2	48,605.0	49,195.6	49,346.4	49,549.8	49,906.7	2.7

(1) *Includes fixed wireless and VoIP accesses.*

SELECTED OPERATIONAL DATA

*Unaudited figures*

	2016				2017		
	March	June	September	December	March	June	% Chg
Contract percentage (%)	44.8%	45.2%	45.8%	46.3%	46.4%	46.3%	1.1 p.p.
Smartphones ( 000)	23,083.0	23,707.1	25,353.5	25,623.1	24,781.1	25,227.4	6.4
Smartphone penetration (%)	55.4%	56.2%	59.2%	59.5%	57.0%	57.4%	1.2 p.p.
LTE ( 000)	8,690.5	9,399.8	10,566.3	12,063.1	13,967.6	14,422.0	53.4
LTE penetration (%)	20.5%	22.0%	24.4%	27.7%	31.9%	32.6%	10.6 p.p.
Mobile churn (quarterly)	2.5%	2.1%	2.1%	2.3%	1.9%	1.9%	(0.3 p.p.)
Contract (1)	1.8%	1.6%	1.5%	1.6%	1.6%	1.5%	(0.1 p.p.)

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Mobile churn (cumulative YTD)	2.5%	2.3%	2.2%	2.3%	1.9%	1.9%	(0.4 p.p.)
Contract (1)	1.8%	1.7%	1.5%	1.6%	1.6%	1.6%	(0.1 p.p.)
Mobile ARPU (EUR)(cumulative YTD)	10.3	10.3	10.4	10.3	9.6	9.6	(6.6)
Prepay	5.7	5.7	5.8	5.7	5.0	5.1	(10.9)
Contract (1)	16.6	16.6	16.6	16.5	15.5	15.5	(6.4)
Fixed data traffic (TB) (cumulative YTD)	612,603	1,216,470	1,811,886	2,518,545	709,516	1,399,083	15.0
Mobile data traffic (TB) (cumulative YTD)	51,599	113,324	187,685	269,326	86,423	185,036	63.3
<i>Notes:</i>							

- *ARPU: monthly average revenue divided by the monthly average accesses of the period.*
  - *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10<sup>12</sup> 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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04

**TELEFÓNICA UK**

(y-o-y changes in organic terms)

Telefónica UK delivered a robust financial performance in a competitive market, demonstrating the success of its customer-led, mobile-first strategy, with yet another quarter of revenue and OIBDA growth built on its market-leading customer loyalty.

All this while network investments to improve customer experience continued, resulting in 97% outdoor population **LTE** coverage (+7 p.p. y-o-y), and driving LTE base growth up 17% y-o-y to 12.6m accesses, with a penetration of 58% (+9 p.p. y-o-y).

**Total mobile accesses** were broadly stable y-o-y at 25.1m and **contract** net additions reached 78k (customer base +2% y-o-y), as the shift towards postpay continued (representing 62% of the total) while contract churn remained broadly stable y-o-y at 1.0%. **Prepay** quarterly net additions amounted to 52k and customers with frequent top-ups increased by 0.4% y-o-y.

**Revenues** continued to grow this quarter, up 2.6% y-o-y to 1,607m (+2.3% in the first half, 3,208m), building on the 2.1% growth seen in the first quarter, on better trends in both mobile service and other revenues.

**Mobile service revenues** reached 1,276m (+1.4% y-o-y; +1.3% in January-June), driven by higher average subscriptions, with an update of tariffs for RPI since April, and out-of-bundle revenue. Growth was partially offset by the continued impact from regulation (-0.7 p.p.; -0.9 p.p. in January-June 2017).

**Handset & other revenues** increased 7.6% y-o-y to 331m (+6.4% in the first six months) driven by a widespread increase in the price of devices across the market due to the impact of FX. Contribution from the smart metering programme (SMIP) helped other revenues.

**Operating expenses** were up 2.4% y-o-y (decelerating vs. first quarter +3.1%), totalling 1,204m in April-June. **Supplies** (732m) grew 1.7% y-o-y in the quarter due to the impact of FX on handset costs. **Personnel expenses** totalled 111m (-10.1%) on lower headcount. **Other expenses** were up 8.8% reaching 360m on IT and network growth.

The robust revenue and expenses performance resulted in **OIBDA** growing by 3.9% y-o-y to 433m in April-June (vs. +0.6% in the first quarter; 849m, +2.2% in January-June), while **OIBDA margin** stood at 27.0% in the quarter, up 0.3 p.p. y-o-y, and was flat y-o-y in the six months to June (26.5%).

**CapEx** amounted to 434m in January-June, up 15.4% y-o-y, as Telefónica UK continued to invest in the rollout of LTE. Thus, **operating cash flow (OIBDA-CapEx)** decreased by 8.7% y-o-y to reach 415m in the first half.

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## TELEFÓNICA UK

## CONSOLIDATED INCOME STATEMENT

*Unaudited figures (Euros in millions)*

	January - June		% Chg		April - June		% Var	
	2017	2016	Reported	Organic	2017	2016	Reported	Organic
Revenues	3,208	3,464	(7.4)	2.3	1,607	1,712	(6.2)	2.6
Mobile service revenues (1)	2,531	2,761	(8.3)	1.3	1,276	1,376	(7.3)	1.4
Data revenues	1,468	1,573	(6.7)	3.1	740	786	(5.9)	2.9
Handset revenues and other (1)	677	703	(3.7)	6.4	331	336	(1.5)	7.6
Internal expenditure capitalized in fixed assets	59	70	(15.5)	(6.6)	30	36	(14.6)	(6.5)
Operating expenses	(2,418)	(2,601)	(7.0)	2.8	(1,204)	(1,285)	(6.3)	2.4
Supplies	(1,479)	(1,594)	(7.2)	2.5	(732)	(787)	(7.0)	1.7
Personnel expenses	(222)	(267)	(16.9)	(8.0)	(111)	(135)	(17.9)	(10.1)
Other operating expenses	(718)	(741)	(3.1)	7.1	(360)	(362)	(0.5)	8.8
Other net income (expense)	0	(13)	c.s.	c.s.	(0)	(4)	(92.7)	(92.1)
Gain (loss) on sale of fixed assets	0	(2)	c.s.	c.s.	0	(2)	c.s.	c.s.
Impairment of goodwill and other assets								
Operating income before D&A (OIBDA)	849	918	(7.4)	2.2	433	456	(5.0)	3.9
OIBDA Margin	26.5%	26.5%	(0.0 p.p.)	(0.0 p.p.)	27.0%	26.6%	0.3 p.p.	0.3 p.p.
CapEx	434	415	4.4	15.4	209	223	(6.5)	2.4
Spectrum OpCF (OIBDA-CapEx)	415	502	(17.3)	(8.7)	224	233	(3.6)	5.3

*Notes:*

(1) T. UK mobile service revenues include revenues from MVNOs since 1 January 2017, which were previously accounted as Handset revenues and others ; these criteria are applied across T. Group. For



comparative purposes, mobile service revenues and handset revenues for 2016 are reported using the same criteria.

- OIBDA before management and brand fees.

## TELEFÓNICA UK

### ACCESSES

Unaudited figures (Thousands)

	2016				2017		
	March	June	September	December	March	June	% Chg
Fixed telephony accesses (1)	249.8	257.7	264.7	272.6	277.2	281.3	9.1
Internet and data accesses	21.5	22.3	23.1	23.7	24.0	24.7	10.4
Broadband	21.5	22.3	23.1	23.7	24.0	24.7	10.4
Mobile accesses	24,933.0	25,172.5	25,404.2	25,462.7	25,009.3	25,139.7	(0.1)
Prepay	9,640.1	9,745.8	9,778.0	9,701.4	9,375.4	9,427.4	(3.3)
Contract (2)	15,292.8	15,426.7	15,626.2	15,761.3	15,633.9	15,712.3	1.9
M2M	3,143.4	3,176.8	3,250.9	3,266.9	3,330.3	3,373.1	6.2
Total Accesses	25,204.2	25,452.6	25,692.0	25,759.0	25,310.5	25,445.6	(0.0)

(1) Includes fixed wireless and VoIP accesses.

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

### SELECTED OPERATIONAL DATA

Unaudited figures

	2016				2017		
	March	June	September	December	March	June	% Chg
Contract percentage (%)	61.3%	61.3%	61.5%	61.9%	62.5%	62.5%	1.2 p.p.
Smartphones ( 000)	13,267.7	13,301.8	14,130.8	14,680.8	14,910.2	15,514.3	16.6
Smartphone penetration (%)	62.8%	62.4%	65.9%	68.4%	71.2%	73.8%	11.4 p.p.
LTE ( 000) (1)	9,460.3	10,783.4	11,530.3	12,092.4	12,438.0	12,592.0	16.8
LTE penetration (%)	43.4%	49.0%	52.0%	54.5%	57.4%	57.8%	8.8 p.p.
Mobile churn (quarterly)	2.0%	1.5%	1.8%	2.1%	2.2%	1.5%	0.0 p.p.
Contract (2)(3)	0.9%	0.8%	0.9%	1.0%	1.5%	1.0%	0.1 p.p.
Mobile churn (cumulative YTD)	2.0%	1.8%	1.8%	1.9%	2.2%	1.9%	0.1 p.p.
Contract (2)(3)	0.9%	0.9%	0.9%	0.9%	1.5%	1.2%	0.3 p.p.
Mobile ARPU (EUR)(cumulative YTD)	17.9	17.7	17.3	17.0	16.1	16.1	0.5
Prepay	7.8	7.7	7.5	7.5	7.3	7.1	1.3
Contract (2)(3)	30.1	29.9	29.3	28.8	26.6	27.0	(0.2)

Mobile data traffic (TB) (cumulative YTD)	49,648	105,368	170,977	244,957	79,926	173,446	64.6
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*Notes:*

- *ARPU: monthly average revenue divided by the monthly average accesses of the period. % Change in local currency.*
- *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10<sup>12</sup> 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) *giffgaff accesses included since 1 January 2017, and also given for comparative purposes since January 2016.*
- (2) *Excludes M2M.*
- (3) *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 second quarter of 2017, Telefónica Brasil continued to show an acceleration in revenue growth that, coupled with a reduction in operating expenses for the sixth consecutive quarter, allowed to maintain solid growth in OIBDA and operating cash flow, in a context of expanding margins. This performance was achieved in spite of the regulatory impacts (-45.6% in mobile interconnection rates, -17.7% in fixed-mobile retail, -35.3% in fixed local and -50.9% in fixed inter-urban, since 25 February 2017).

**Mobile accesses** increased by 1% y-o-y, highlighting growth in the contract segment (+10%), **smartphones** (+33%; 79% penetration, +19 p.p. y-o-y) and **LTE** (+90%; penetration of 42%, population coverage of 71%). Net contract additions rose to 858k accesses in the quarter (1,292k accesses in the half year), 2.3x higher than those reported in the same quarter of the previous year (381k accesses, 560k in the first half). Thus, the Company captured 59% of new contract accesses in the market in the second quarter, strengthening leadership in the segment (market share of 42.3% as of June, +0.3 p.p. vs. March 2017), despite greater competitive intensity in the market.

**Retail broadband accesses** (7.5m; +3% y-o-y) reported a significant improvement in the quarterly net additions (99k; 158k in the half year) as a consequence of the boost in FTTx accesses (record net additions of 139k accesses, 220k in the half year). Thus, FTTx and cable accesses increased 9% y-o-y to 4.4m connected (premises passed reached 17.7m in 204 cities as of June, 5 new ones in the half year). The **pay TV** strategy continued to focus on value (IPTV accesses +65% y-o-y) and thus ARPU increased 5.0% in the quarter.

**Revenues** in the second quarter ( 3,028m) grew 1.8% y-o-y (+1.7% in the half year) despite the regulatory effects (impact of -1.8 p.p. in y-o-y change for the second quarter; -2.0 p.p. for January-June) and lower handset sales (-0.4 p.p. in y-o-y change for the quarter and for the half year).

**Mobile service revenues** ( 1,776m in April-June) increased 4.8% y-o-y in the quarter (+5.0% in January-June) with an ARPU growth of 4.6% driven by data (+35.9%). The y-o-y trend in **fixed revenues** improved, decreasing 1.3% (-2.2% in the first quarter), mainly due to the strong broadband revenue growth (+7.3% in the quarter; +7.6% in January-June) and despite regulation and voice decline.

**Operating expenses** ( 2,006m in the quarter) decreased y-o-y for yet another quarter (-0.2% in the quarter, -0.7% in January-June) thanks to efficiency measures and despite inflation. **Supplies** ( 557m) decreased by 7.3% y-o-y in the quarter due to the reduction in termination rates and lower content expenses. **Personnel expenses** ( 300m; +1.1% y-o-y in the quarter) reflected the impact of the annual collective agreement, which is almost offset by the headcount reduction (in the second quarter of 2016, a provision of 25m was recorded for this reason, without any impact on organic growth). **Other operating expenses** ( 1,149m) grew 3.2% compared to April-June 2016, mainly due to greater commercial activity in value accesses.

Thus, **OIBDA** totalled 1,034m in the second quarter (+7.0% y-o-y; +7.2% in the half year) and **OIBDA margin** stood at 34.1% in the quarter and at 34.5% in the first six months (+1.7 p.p. and +1.8 p.p. y-o-y respectively).

**CapEx** for January-June 2017 ( 915m; -3.6% y-o-y) was primarily allocated to the expansion of the 4G and fibre networks. As a result, **operating cash flow** (OIBDA-CapEx) amounted to 1,223m in the first half (+17.0% compared to January-June 2016). In the first half of the year, synergies due to the purchase of GVT had a positive impact in operating cash flow of 286m ( 833m in the last two years).

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## TELEFÓNICA BRASIL

## CONSOLIDATED INCOME STATEMENT

*Unaudited figures (Euros in millions)*

	January - June		% Chg		April - June		% Chg	
	2017	2016	Reported	Organic	2017	2016	Reported	Organic
Revenues	6,193	5,085	21.8	1.7	3,028	2,654	14.1	1.8
Mobile Business	3,781	3,037	24.5	4.0	1,850	1,589	16.4	3.8
Mobile service revenues	3,631	2,888	25.7	5.0	1,776	1,511	17.5	4.8
Data revenues	2,548	1,581	61.2	34.5	1,276	856	49.0	32.3
Handset revenues	151	148	1.6	(15.2)	74	78	(4.8)	(15.2)
Fixed Business	2,411	2,048	17.7	(1.7)	1,178	1,065	10.7	(1.3)
FBB and new services (1)	976	757	29.0	7.6	483	401	20.5	7.3
Pay TV	277	233	19.0	(0.7)	134	122	9.9	(1.9)
Voice & access revenues	1,159	1,059	9.4	(8.6)	562	543	3.6	(7.4)
Internal expenditure capitalized in fixed assets	74	52	42.9	19.3	37	27	36.3	21.3
Operating expenses	(4,109)	(3,475)	18.2	(0.7)	(2,006)	(1,819)	10.3	(0.2)
Supplies	(1,171)	(1,062)	10.2	(8.2)	(557)	(538)	3.6	(7.3)
Personnel expenses	(619)	(538)	15.1	0.7	(300)	(290)	3.6	1.1
Other operating expenses	(2,319)	(1,875)	23.7	3.2	(1,149)	(991)	15.9	3.2
Other net income (expense)	(16)	(19)	(15.4)	(29.4)	(22)	(21)	4.1	(14.2)
Gain (loss) on sale of fixed assets	(15)	1	c.s.	c.s.	(20)	(0)	n.m.	n.m.
Impairment of goodwill and other assets	11	(0)	c.s.	c.s.	17	(2)	c.s.	c.s.
Operating income before D&A (OIBDA)	2,138	1,643	30.1	7.2	1,034	838	23.3	7.0
OIBDA Margin	34.5%	32.3%	2.2 p.p.	1.8 p.p.	34.1%	31.6%	2.5 p.p.	1.7 p.p.
CapEx	915	792	15.5	(3.6)	518	444	16.6	2.7
Spectrum OpCF (OIBDA-CapEx)	1,223	851	43.7	17.0	515	394	30.9	11.6

## Notes:

- Since 1 April 2016, T. Brasil reflects all the charges related to the towers transferred to Telxius, which are now presented in Telxius (Other Companies & Eliminations)
  - Organic y-o-y changes reflect all the charges related to the towers transferred to Telxius since 1 January 2016. The results of the T. Brasil do not include intra-group capital gains resulting from the transfer of towers to Telxius in 2016.
  - OIBDA before management and brand fees.
- (1) Includes broadband connectivity services (retail and wholesale), including value added services, ICT revenues, other services over connectivity and FBB equipment.

## TELEFÓNICA BRASIL

## ACCESSES

Unaudited figures (thousands)

	2016				2017		% Chg
	March	June	September	December	March	June	
Final Clients Accesses	97,283.7	97,121.4	97,276.6	97,204.2	97,331.7	97,679.1	0.6
Fixed telephony accesses (1)	14,945.4	14,742.1	14,629.9	14,338.4	14,242.0	14,167.6	(3.9)
Internet and data accesses	7,294.2	7,321.8	7,397.5	7,383.2	7,439.6	7,537.2	2.9
Broadband	7,229.2	7,263.5	7,325.3	7,311.0	7,369.5	7,468.6	2.8
FTTx/Cable	3,954.5	4,023.2	4,115.4	4,145.8	4,226.8	4,365.9	8.5
Mobile accesses	73,257.4	73,296.1	73,486.9	73,769.8	73,988.8	74,327.1	1.4
Prepay	42,011.5	41,669.4	40,995.6	40,387.2	40,171.5	39,652.1	(4.8)
Contract	31,245.8	31,626.7	32,491.3	33,382.6	33,817.3	34,675.0	9.6
M2M	4,390.0	4,590.3	4,770.4	5,005.1	5,271.5	5,590.8	21.8
Pay TV	1,786.7	1,761.4	1,762.2	1,712.7	1,661.3	1,647.2	(6.5)
Wholesale Accesses	21.0	20.7	18.7	17.9	17.5	17.0	(18.0)
Total Accesses T. Brasil	97,304.7	97,142.1	97,295.4	97,222.2	97,349.2	97,696.1	0.6
Terra Accesses	141.5	133.8	125.4	118.2	111.9	106.6	(20.4)

(1) Includes fixed wireless and VoIP accesses.

## SELECTED OPERATIONAL DATA

Unaudited figures

	2016				2017		% Chg
	March	June	September	December	March	June	
percentage (%)	42.7%	43.1%	44.2%	45.3%	45.7%	46.7%	
ones ( 000)	40,327.0	39,670.8	49,573.1	50,008.2	50,647.3	52,687.8	3

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one penetration (%)	61.0%	60.0%	74.8%	75.2%	76.0%	78.8%	1
00)	12,498.3	15,115.2	18,295.7	22,240.9	25,422.1	28,645.5	8
etration (%)	18.1%	22.0%	26.6%	32.3%	37.0%	41.7%	1
urn (quarterly)	3.3%	3.1%	3.4%	3.5%	3.3%	3.3%	
(1)	1.8%	1.9%	1.8%	1.7%	1.6%	1.8%	(
urn (cumulative YTD)	3.3%	3.2%	3.3%	3.4%	3.3%	3.3%	
(1)	1.8%	1.8%	1.8%	1.8%	1.6%	1.7%	(
ARPU (EUR)(cumulative YTD)	6.1	6.4	6.8	7.1	8.2	8.0	
	3.2	3.3	3.5	3.4	4.1	3.9	(
(1)	11.5	12.1	12.9	12.9	15.4	15.1	
ata traffic (TB) (cumulative YTD)	79,146	164,803	265,603	379,541	129,160	286,854	7
ephony ARPU (EUR) (cumulative YTD)	11.3	11.7	12.2	12.3	13.7	13.3	(
ARPU (EUR) (cumulative YTD)	20.6	21.6	23.0	23.8	28.2	27.5	
nd ARPU (EUR) (cumulative YTD)	10.3	10.8	11.3	11.7	14.5	14.2	
ata traffic (TB) (cumulative YTD)	2,485,715	5,215,363	8,031,104	11,164,483	3,428,917	7,379,965	4

Notes:

- *ARPU: monthly average revenue divided by the monthly average accesses of the period. % Change in local currency.*
  - *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10<sup>12</sup> 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 HISPANOAMÉRICA**

(y-o-y changes in organic terms)

In the second quarter of the year, Telefónica Hispanoamérica recorded strong year-on-year growth in revenue, OIBDA and operating cash flow both in organic and reported terms, despite the change in the Venezuelan exchange rate to a synthetic conversion rate of 3.547 bolivars fuertes per US dollar.

**Mobile accesses** rose to 111.5m at June 2017 (-2% y-o-y), affected by a quarterly net loss of 1.1m accesses in the prepay segment. In the contract segment, accesses remained stable compared to June 2016, recording a net loss in the quarter of 141k accesses (-256k in the first half) with noteworthy solid net additions in countries such as Argentina, Mexico and Colombia, compensated by the competitive intensity in Peru and Chile. Moreover, the continuous improvement in the quality of the network resulted in an increase of 17% in **smartphones** (47% penetration, +8 p.p. y-o-y) and of 72% in **LTE accesses** (17% penetration, +8 p.p. y-o-y).

Additionally, **retail broadband accesses** (-2% y-o-y) reflected the results of the investment efforts in new networks (FTTx and cable) and the aim to increase speeds and bundling, with 1.4m accesses connected to FTTx and cable (+46% y-o-y; coverage of premises passed at 5.4M as of June). Additionally, **pay TV** accesses increased by 2% with net additions of 19k accesses in the quarter (42k in the first half).

**Revenues** in the second quarter ( 3,134m) were up 15.5% y-o-y (+12.3% in January-June), posting robust acceleration (+9.2% in the first quarter), with a positive contribution from mobile service revenues (+18.2% y-o-y; +10.6% y-o-y in January-March) and fixed (+5.7%; +4.1% y-o-y in the first quarter). In reported terms, revenues increased by 5.9% (+6.7% in January-June).

**Operating expenses** in the quarter ( 2,313m) increased by 14.1% y-o-y (+12.0% in the first half), mainly because of inflation, which was primarily reflected in higher personnel expenses (+24.9%; +22.7% in January-June) and other operating expenses (+19.5%; +16.6% in January-June). Supplies (+4.2% y-o-y; +2.8% in the first half) indicated higher interconnection costs in Peru and Argentina, which were offset by lower interconnection costs in Mexico, Colombia and Chile and lower commercial activity (focused on value).

**OIBDA** reached 892m in the quarter and accelerated its y-o-y growth up to 20.9% (+6.2% in the first quarter; +13.5% in the first half) with the notable positive contributions from Argentina, Mexico and Colombia. In reported terms, OIBDA increased 6.9% (+5.7% in the first six months of the year to 1,796m). Thus, **OIBDA margin** stood at 28.5% for the six-month period (+1.3 p.p. y-o-y) and 28.0% in the half year (+0.3 p.p. y-o-y).

**CapEx** amounted to 923m in January-June, decreasing by 6.2% y-o-y, and was mainly aimed at improving the network, with the deployment of 4G and fibre optic networks, as well as the simplification and digitalisation of processes and systems.

Thus, **operating cash flow (OIBDA-CapEx)** amounted to 873m in the first six months with a year-on-year growth of 43.2% (+28.2% in the reported terms).





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## TELEFÓNICA HISPANOAMÉRICA

## CONSOLIDATED INCOME STATEMENT

*Unaudited figures (Euros in millions)*

	January - June		% Chg		April - June		% Chg	
	2017	2016	Reported	Organic	2017	2016	Reported	Organic
Revenues	6,419	6,014	6.7	12.3	3,134	2,961	5.9	15.5
Mobile Business	4,394	4,070	8.0	15.8	2,128	1,969	8.0	20.4
Mobile service revenues	3,841	3,637	5.6	14.3	1,844	1,760	4.8	18.2
Data revenues	2,109	1,796	17.4	28.8	1,038	876	18.5	34.7
Handset revenues	553	433	27.6	28.9	284	209	35.6	39.2
Fixed Business	2,025	1,944	4.2	4.9	1,007	991	1.5	5.7
FBB and new services revenues (1)	1,060	994	6.7	8.8	526	518	1.6	7.3
Pay TV revenues	335	293	14.2	12.0	166	149	11.0	13.4
Voice & access revenues	629	657	(4.2)	(4.3)	315	324	(3.0)	(0.6)
Internal expenditure capitalized in fixed assets	68	55	23.3	21.1	34	28	20.6	19.4
Operating expenses	(4,737)	(4,409)	7.4	12.0	(2,313)	(2,172)	6.5	14.1
Supplies	(1,878)	(1,813)	3.6	2.8	(920)	(897)	2.5	4.2
Personnel expenses	(832)	(745)	11.7	22.7	(397)	(365)	8.9	24.9
Other operating expenses	(2,027)	(1,851)	9.5	16.6	(996)	(911)	9.4	19.5
Other net income (expense)	32	39	(18.5)	(27.9)	23	18	25.8	12.0
Gain (loss) on sale of fixed assets	13	(0)	c.s.	c.s.	14	(1)	c.s.	c.s.
Impairment of goodwill and other assets								
Operating income before D&A (OIBDA)	1,796	1,700	5.7	13.5	892	834	6.9	20.9
OIBDA Margin	28.0%	28.3%	(0.3 p.p.)	0.3 p.p.	28.5%	28.2%	0.3 p.p.	1.3 p.p.
CapEx	923	1,018	(9.4)	(6.2)	493	557	(11.5)	(3.9)
Spectrum	4							
OpCF (OIBDA-CapEx)	873	682	28.2	43.2	399	277	44.0	71.8

## Notes:

- *T. Hispanoamérica results reflects all the charges related to the towers transferred to Telxius (T. Perú since 1 April 2016 and T. Chile since 1 May 2016), which are now presented in Telxius (Other Companies & Eliminations). Likewise, since 1 January 2016, T. Chile includes the results of the data center business which were before presented in Other Companies & Eliminations of T. Group.*
  - *Organic y-o-y changes reflect all the charges related to the towers transferred to Telxius since 1 January 2016. The results of the T. Hispam do not include intra-group capital gains resulting from the transfer of towers to Telxius in 2016.*
  - *Since 1 January 2016 Mobile Revenues and Fixed revenues have been revised due to different allocation criteria. This change does not affect total revenue figure reported for 2016.*
  - *Also since 1 January 2016 Mobile Data Revenues have been revised due to different allocation criteria between Mobile Data revenues and Other Mobile Service revenues. This change does not affect total Mobile Service Revenue figure reported for 2016.*
  - *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-June 2017 period Telefónica has adopted a synthetic exchange rate of 3,547 Venezuelan bolivars fuertes per dollar at June 2017 (please see Note 3 of the Condensed Consolidated Interim Financial Statements for the six-month period ended June 30, 2017).*
  - *OIBDA before management and brand fees.*
  - *2016 and 2017 reported figures include the hyperinflationary adjustments in Venezuela in both years.*
- (1) *Includes broadband connectivity services (retail and wholesale), including value added services, data and ICT revenues, other services over connectivity and FBB equipment.*

## ACCESSES

Unaudited figures (thousands)

	2016				2017		
	March	June	September	December	March	June	% Chg
Final Clients Accesses	134,274.3	134,422.4	135,343.0	135,850.3	133,093.4	131,707.4	(2.0)
Fixed telephony accesses							
(1)	12,497.9	12,400.6	12,229.2	11,938.6	11,749.5	11,588.3	(6.6)
Internet and data accesses	5,706.8	5,772.1	5,791.0	5,707.9	5,693.9	5,687.3	(1.5)
Broadband	5,624.8	5,642.2	5,645.8	5,570.7	5,544.8	5,538.0	(1.8)
FTTx/Cable	835.4	923.8	946.2	1,109.1	1,279.9	1,351.9	46.3
Mobile accesses	113,218.7	113,344.0	114,399.7	115,284.5	112,707.5	111,470.8	(1.7)
Prepay	87,934.3	87,810.5	88,799.5	89,461.2	86,998.6	85,903.0	(2.2)
Contract (2)	25,284.4	25,533.6	25,600.2	25,823.3	25,709.0	25,567.8	0.1
M2M	2,315.1	2,354.3	2,532.4	2,561.3	2,627.4	2,709.0	15.1
Pay TV	2,850.9	2,905.6	2,923.1	2,919.2	2,942.5	2,961.0	1.9
Wholesale Accesses	28.2	27.5	81.8	66.5	65.5	64.5	134.0
Total Accesses T.							
Hispanoamerica	134,302.5	134,449.9	135,424.8	135,916.8	133,158.9	131,771.9	(2.0)

(1) Includes fixed wireless and VoIP accesses.

(2) Since the third quarter 2016, 55 thousand wholesale accesses have been reclassified from Mobile contract to Wholesale accesses in México.

#### SELECTED OPERATIONAL DATA

*Unaudited figures*

	2016				2017		
	March	June	September	December	March	June	% Chg
Contract percentage (%)	22.3%	22.5%	22.4%	22.4%	22.8%	22.9%	0.4 p.p.
Smartphones ( 000)	41,448.0	43,082.8	45,031.3	46,134.0	50,408.4	50,456.8	17.1
Smartphone penetration (%)	37.8%	39.3%	40.7%	41.3%	46.3%	46.9%	7.6 p.p.
LTE ( 000)	9,859.6	11,023.3	12,998.2	15,493.4	17,041.5	18,968.5	72.1
LTE penetration (%)	8.9%	9.9%	11.9%	13.8%	15.5%	17.5%	7.5 p.p.

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**Telefónica Argentina**

(y-o-y changes in organic terms)

In the second quarter of 2017, Telefónica Argentina reported an acceleration of y-o-y growth in revenue (+39.3%) and OIBDA (+79.0%), leading to an OIBDA margin expansion of 6.6 p.p. to 30.0%. This solid performance was based on the positive commercial results, price update, improved efficiency and a more favourable macroeconomic environment.

Thus, the Company's focus on greater value accesses and the growth in prepay top-ups (+44.8% y-o-y) boosted the y-o-y growth of mobile and broadband ARPU in the quarter (+49.1% and +32.4% respectively).

In **mobile accesses** (stable y-o-y), higher value segment performance stood out: postpay (net additions of 84k accesses; +118k in the first half), with a positive net portability in the three months (+62k, +132% y-o-y); and the strong y-o-y increase in **LTE accesses** and **smartphones** (+91% and +6% y-o-y). In prepay, net additions continued to be affected by the disconnection of low value accesses (-374k in the quarter; -1.0m in the first half), though accesses with frequent top-ups increased by 6% y-o-y.

In **retail broadband accesses**, the focus on improving quality of the access base translated into a positive rate of FTTx access connections with net additions that reached 58k accesses (+99k accesses in the first half, coverage of 799k premises passed) and already accounted for 8% of the total broadband accesses one year after its launch.

**Revenues** in the second quarter rose to 918m, accelerating y-o-y growth to 39.3% (+36.4% in the half year) with better performance both in the mobile and fixed businesses.

Thus, **mobile service revenues** ( 515m in the second quarter) accelerated their y-o-y growth (+47.3% in the second quarter, +45.2% in the first six months), boosted by stronger performance in contract and prepay. Data revenues continued to be the main driver of growth following a 65.6% y-o-y increase due to higher data traffic (+78.5% y-o-y). Likewise, **handset sales** continued to show a solid increase (+63.7% in the quarter; +47.8% in the first half) with tactical promotions in an environment of a generalised reduction in subsidies.

**Fixed business revenues** ( 327m in the second quarter) increased by 24.4% y-o-y in the quarter (+22.3% in the first half) with broadband ARPU growth driven by base quality improvements (average speed y-o-y growth of more than 50%) and the growth of FTTx accesses.

**Operating expenses** in the second quarter rose to 653m maintaining a similar y-o-y growth level to the previous quarter (+28.8% in the quarter and +27.5% in the first half). Y-o-y growth continued to be affected by inflation, mainly on personnel expenses and higher interconnection costs as a result of the rise in termination rates.

**OIBDA** ( 275m in the second quarter of 2017) increased by 79.0% y-o-y (+71.4% in the first half) and the **OIBDA margin** stood at 30.0%, growing 6.6 p.p. y-o-y (28.2% in the first six months, +5.8 p.p. y-o-y).

**CapEx** totalled 297m in the first half (+1.4% y-o-y) dedicated to improving and expanding the 3G and 4G mobile networks, the deployment of the fibre network and improvements in copper network.

Thus, **operating cash flow (OIBDA-CapEx)** rose to 210m ( 3m in the first half of 2016).

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## TELEFÓNICA ARGENTINA

## SELECTED FINANCIAL DATA

*Unaudited figures (Euros in millions)*

	January - June				April - June			
	2017	2016	% Chg	% Organic Chg	2017	2016	% Chg	% Organic Chg
Revenues	1,794	1,398	28.3	36.4	918	709	29.4	39.3
Mobile Business	1,164	851	36.8	45.5	591	426	38.6	49.2
Mobile service revenues	1,026	751	36.5	45.2	515	377	36.8	47.3
Data revenues	580	382	51.8	61.4	302	196	53.9	65.6
Handset revenues	138	99	39.0	47.8	75	50	52.3	63.7
Fixed Business	630	548	15.0	22.3	327	283	15.6	24.4
FBB and new services (1)	378	348	8.5	15.4	193	179	7.4	15.7
Voice & access revenues	252	200	26.3	34.3	135	104	29.8	39.6
OIBDA	506	314	61.2	71.4	275	165	66.7	79.0
OIBDA margin	28.2%	22.5%	5.8 p.p.	5.8 p.p.	30.0%	23.3%	6.7 p.p.	6.6 p.p.
CapEx	297	311	(4.6)	1.4	146	152	(3.8)	3.7
Spectrum								
OpCF (OIBDA-CapEx)	210	3	n.m.	n.m.	129	13	n.m.	n.m.

*Notes:*

- Since 1 January 2016 Mobile revenues and Fixed revenues have been revised due to different allocation criteria. This change does not affect total revenue figure reported for 2016.
  - Also since 1 January 2016 Mobile data revenues have been revised due to different allocation criteria between Mobile data revenues and Other mobile service revenues. This change does not affect total Mobile service revenues figure reported for 2016.
  - OIBDA is presented 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.

## ACCESSES

*Unaudited figures (Thousands)*

	2016				2017		
	March	June	September	December	March	June	% Chg
Final Clients Accesses	26,430.8	26,242.8	26,755.4	27,096.0	26,370.4	25,981.8	(1.0)
Fixed telephony accesses (1)	4,599.7	4,550.5	4,503.3	4,447.7	4,374.3	4,314.5	(5.2)

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Fixed wireless	276.0	256.2	243.5	237.2	233.3	227.7	(11.1)
Internet and data accesses	1,911.8	1,910.9	1,907.7	1,882.9	1,841.0	1,802.5	(5.7)
Broadband	1,880.6	1,878.5	1,875.6	1,851.5	1,800.5	1,762.6	(6.2)
FTTx	9.1	9.8	13.8	35.1	75.8	133.6	n.m.
Mobile accesses	19,919.2	19,781.5	20,344.4	20,765.4	20,155.1	19,864.8	0.4
Prepay	12,989.8	12,851.6	13,258.6	13,579.8	12,936.0	12,561.7	(2.3)
Contract	6,929.4	6,929.9	7,085.8	7,185.6	7,219.1	7,303.1	5.4
M2M	439.2	428.3	501.3	521.3	546.2	581.0	35.6
Wholesale Accesses	22.4	21.8	21.3	21.1	20.4	20.2	(7.5)
Total Accesses	26,453.2	26,264.7	26,776.7	27,117.1	26,390.8	26,002.0	(1.0)

(1) Includes fixed wireless and VoIP accesses.

# SELECTED OPERATIONAL DATA

Unaudited figures

	2016				2017		
	March	June	September	December	March	June	% Chg
Contract percentage (%)	34.8%	35.0%	34.8%	34.6%	35.8%	36.8%	1.8 p.p.
Smartphones ( 000)	7,700.6	8,328.3	9,286.3	8,953.5	9,194.8	8,789.6	5.5
Smartphone penetration (%)	39.8%	43.4%	47.1%	44.5%	47.2%	45.9%	2.5 p.p.
LTE ( 000)	2,213.3	2,462.0	3,130.3	3,744.8	4,136.7	4,707.5	91.2
LTE penetration (%)	11.4%	12.7%	15.8%	18.5%	21.1%	24.4%	11.7 p.p.
Mobile churn (quarterly)	3.3%	3.1%	2.7%	2.7%	3.4%	3.1%	(0.1 p.p.)
Contract (1)	1.2%	1.4%	0.8%	1.3%	1.2%	1.2%	(0.2 p.p.)
Mobile churn (cumulative YTD)	3.3%	3.2%	3.1%	3.0%	3.4%	3.2%	(0.0 p.p.)
Contract (1)	1.2%	1.3%	1.1%	1.1%	1.2%	1.2%	(0.1 p.p.)
Mobile ARPU (EUR)(cumulative YTD)	6.5	6.6	6.6	7.1	8.6	8.7	45.6
Prepay	1.9	2.0	1.9	1.9	2.5	2.6	50.1
Contract (1)	16.2	16.2	16.1	15.7	21.0	21.0	42.8
Mobile data traffic (TB) (cumulative YTD)	23,517	51,940	87,337	126,846	42,378	92,707	78.5
Fixed telephony ARPU (EUR) (cumulative YTD)	6.6	7.1	9.2	8.5	8.6	9.5	49.0
Broadband ARPU (EUR) (cumulative YTD)	17.6	18.1	22.0	18.4	20.8	21.7	27.9
Fixed data traffic (TB) (cumulative YTD) (2)	203,887	449,311	723,644	1,011,610	296,597	636,815	41.7

Notes:



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- *ARPU: monthly average revenue divided by the monthly average accesses of the period. % Change in local currency.*
  - *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte =  $10^{12}$  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 solely traffic related with FBB accesses, not Business customers.*

**Table of Contents****Telefónica Chile**

(y-o-y changes in organic terms)

In the second quarter of the year, Telefónica Chile maintained its competitive positioning, based on the quality of service in an environment of high competitive intensity, which affected the y-o-y comparison of revenues and OIBDA. The progressive deployment of high-speed networks in both the fixed and mobile businesses resulted in a strong increase in value accesses (pay TV, FTTx and LTE). Additionally, the quarterly results were affected by the reduction in MTRs (-23% since 25 January) and FTRs (-9% since 7 May 2016).

**Mobile accesses** stood at 8.9m and, while they decreased 3% y-o-y in an environment of elevated competitive intensity with high subsidy levels, their decline slowed once again (-5% at March) in light of lower net losses in prepay (-74k in the quarter; -375k in the same quarter in 2016), thanks to an ongoing improvement of the offering ( PrePlan launched in the previous quarter) and timely promotions. Contract accesses remain relatively stable (+1% y-o-y), with a small net loss of 15k accesses (-10k in the first six months). On the other hand, **smartphones** increased 1% y-o-y and **LTE accesses** rose by 40% (up to 1.9m) with a population coverage that reached 81% (+2 p.p. y-o-y).

**Retail fixed broadband accesses** stood at 1.1m (+2% compared with June 2016) with net additions of 23k accesses in the quarter. FTTx accesses grew 18% y-o-y to 342k after once again reporting quarterly net additions of 13k accesses (+5k in the previous quarter); and coverage continued to increase steadily (1.2m premises passed; 29% connected). Additionally, **pay TV accesses** grew by 2% y-o-y to 670k, with net additions of 13k (net loss of 4k at March 2017).

**Revenues** amounted to 538m in the second quarter with a y-o-y decrease of 1.9% (-1.3% in the first half of the year), reflecting the competitive intensity, primarily in the mobile prepay segment and also the effect of the regulation, which had a negative impact of 0.9 p.p. on the y-o-y change in the quarter as well as in the first half.

**Mobile service revenues** ( 268m) decreased 4.1% y-o-y (-3.6% in the first six months), mainly caused by a lower prepay base, lower ARPU (-1.1% in the quarter; +1.5% in the first half) and regulatory impact (-1.7 p.p. in April-June; -1.8 p.p. in January-June). On the other hand, **handset revenues** reported a 26.7% increase (+26.4% in the half year), reflecting the increased commercial activity in both segments. **Fixed business revenues** stood at 231m in the quarter (-3.0% y-o-y, -2.3% in the first six months of the year), despite the growth in **pay TV revenues** (+2.4% y-o-y; +1.5% in January-June) and **broadband and new services revenues** (+0.7% y-o-y; +3.1% in January-June) with a solid performance in the B2B segment.

**Operating expenses** amounted to 383m in April-June, practically stable y-o-y (+1.6% in the half year to 777m), despite greater commercial activity, due to simplification and efficiency measures.

**OIBDA** amounted to 165m in the quarter and decreased by 5.9% y-o-y (-10.0% in the first quarter). Thus, **OIBDA margin** stood at 30.6% in April-June (-1.3 p.p. y-o-y; 30.8% in January-June, -2.2 p.p.), improving compared with performance in the first quarter (-3.2 p.p.).

**CapEx** amounted to 180m in January-June (-23.4% y-o-y), primarily aimed at expanding the 4G network and improving the fixed network (FTTx coverage). Thus, **operating cash flow (OIBDA-CapEx)** stood at 159m and increased by 19.0% vs. the first half of 2016.



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### TELEFÓNICA CHILE

### SELECTED FINANCIAL DATA

*Unaudited figures (Euros in millions)*

	January - June				April - June			
	2017	2016	% Chg	% Organic Chg	2017	2016	% Chg	% Organic Chg
Revenues	1,099	1,035	6.2	(1.3)	538	523	2.7	(1.9)
Mobile Business	636	594	6.9	(0.6)	307	296	3.5	(1.0)
Mobile service revenues	555	535	3.7	(3.6)	268	267	0.3	(4.1)
Data revenues	284	263	8.0	0.3	137	133	3.1	(1.4)
Handset revenues	81	59	36.1	26.4	39	29		