

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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**Telefónica, S.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 -    |            |            | April -      |          |          |
|---|--------------|------------|------------|--------------|----------|----------|
|   | June<br>2017 | % Chg      |            | June<br>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.*

*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

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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 Sopolana (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      |           | % Chg  |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|--------|
|                                 | March     | June      | September | December  | March     | June      |        |
| 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<br>(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      |           | % Chg    |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|
|                               | March     | June      | September | December  | March     | June      |          |
| Contract<br>percentage (%)    | 38.9%     | 39.2%     | 39.6%     | 40.1%     | 40.7%     | 41.1%     | 1.9 p.p. |
| Smartphones<br>( 000)         | 128,326.0 | 130,058.4 | 144,588.9 | 147,161.8 | 151,547.7 | 155,126.7 | 19.3     |
| Smartphone<br>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<br>Guidance<br>(Feb-2017) | Upgraded Operative 2017<br>Guidance<br>(Jul-2017)       | Jan -Jun |
|-----------|------------------------|---|---|----------|
| 51,734    | Revenues (% Chg YoY)   | Stable<br>(in spite of regulation:<br>~-1.2 p.p.) | Growth >1.5%<br>(in spite of regulation:<br>~-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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## 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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**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<br>and<br>commercial<br>paper | Debt<br>with<br>financial<br>institutions | Other financial debt<br>(including governments) and<br>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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02

**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), OMVs 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 were 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     |          | % Chg  |
|------------------------------|----------|----------|-----------|----------|----------|----------|--------|
|                              | March    | June     | September | December | March    | June     |        |
| 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     |          | % Chg  |
|----------------------------|----------|----------|-----------|----------|----------|----------|--------|
|                            | March    | June     | September | December | March    | June     |        |
| 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     |          | % Chg     |
|----------------------------|----------|----------|-----------|----------|----------|----------|-----------|
|                            | March    | June     | September | December | March    | June     |           |
| 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    |         | % Chg |
|------------------|---------|---------|-----------|----------|---------|---------|-------|
|                  | March   | June    | September | December | March   | June    |       |
| 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      |           | % Chg    |
|-------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|
|                   | Q1        | Q2        | Q3        | Q4        | Q1        | Q2        |          |
| 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      |           | % Chg |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-------|
|                         | Jan - Mar | Jan - Jun | Jan - Sep | Jan - Dec | Jan - Mar | Jan - Jun |       |
| 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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03

**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 successful 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            |                 | % Chg      |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------|
|                              | March           | June            | September       | December        | March           | June            |            |
| 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)     |
| <b>Total Accesses</b>        | <b>48,252.2</b> | <b>48,605.0</b> | <b>49,195.6</b> | <b>49,346.4</b> | <b>49,549.8</b> | <b>49,906.7</b> | <b>2.7</b> |

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

SELECTED OPERATIONAL DATA

Unaudited figures

|                            | 2016     |          |           |          | 2017     |          | % Chg      |
|----------------------------|----------|----------|-----------|----------|----------|----------|------------|
|                            | March    | June     | September | December | March    | June     |            |
| 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<br>(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<br>(EUR)(cumulative<br>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<br>(TB) (cumulative<br>YTD)  | 612,603 | 1,216,470 | 1,811,886 | 2,518,545 | 709,516 | 1,399,083 | 15.0       |
| Mobile data traffic<br>(TB) (cumulative<br>YTD) | 51,599  | 113,324   | 187,685   | 269,326   | 86,423  | 185,036   | 63.3       |

Notes:

- 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 =  $10^{12}$  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.

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**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     |          | % Chg |
|------------------------------|----------|----------|-----------|----------|----------|----------|-------|
|                              | March    | June     | September | December | March    | June     |       |
| 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     |          | % Chg     |
|-----------------------------------|----------|----------|-----------|----------|----------|----------|-----------|
|                                   | March    | June     | September | December | March    | June     |           |
| 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<br>(TB) (cumulative<br>YTD) | 49,648 | 105,368 | 170,977 | 244,957 | 79,926 | 173,446 | 64.6 |
|---|--------|---------|---------|---------|--------|---------|------|

*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      |           | % Chg |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-------|
|                            | March     | June      | September | December  | March     | June      |       |
| 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     |          | % Chg    |
|----------------------------|----------|----------|-----------|----------|----------|----------|----------|
|                            | March    | June     | September | December | March    | June     |          |
| 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.*

## ACCESSSES

*Unaudited figures (Thousands)*

|                              | 2016     |          |           |          | 2017     |          | % Chg |
|------------------------------|----------|----------|-----------|----------|----------|----------|-------|
|                              | March    | June     | September | December | March    | June     |       |
| 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    |         | % Chg      |
|--|---------|---------|-----------|-----------|---------|---------|------------|
|  | March   | June    | September | December  | March   | June    |            |
| 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<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.*
- (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    | 32.6       | 26.7          |
| Fixed Business              | 463            | 440   | 5.2        | (2.3)         | 231          | 227   | 1.7        | (3.0)         |
| FBB and new services (1)    | 225            | 203   | 11.0       | 3.1           | 113          | 107   | 5.6        | 0.7           |
| Pay TV                      | 123            | 113   | 9.3        | 1.5           | 62           | 58    | 7.4        | 2.4           |
| Voice & access revenues     | 115            | 125   | (7.8)      | (14.4)        | 56           | 62    | (10.2)     | (14.2)        |
| OIBDA                       | 339            | 344   | (1.4)      | (8.0)         | 165          | 168   | (1.8)      | (5.9)         |
| OIBDA margin                | 30.8%          | 33.2% | (2.4 p.p.) | (2.2 p.p.)    | 30.6%        | 32.0% | (1.4 p.p.) | (1.3 p.p.)    |
| CapEx                       | 180            | 218   | (17.5)     | (23.4)        | 93           | 102   | (9.0)      | (13.2)        |
| Spectrum OpCF (OIBDA-CapEx) | 159            | 126   | 26.7       | 19.0          | 72           | 66    | 9.4        | 5.5           |

*Notes:*

- Since 1 May 2016, T. Chile reflects all the charges related to the towers transferred to Telxius, which are now presented in Telxius (Other Companies & Eliminations), and also, 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 T. Chile 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 revenues figure reported for 2016.
- OIBDA is presented before management and brand fees.

(1)

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*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     |          | % Chg |
|------------------------------|----------|----------|-----------|----------|----------|----------|-------|
|                              | March    | June     | September | December | March    | June     |       |
| Final Clients Accesses       | 12,741.5 | 12,481.1 | 12,430.0  | 12,301.3 | 12,210.5 | 12,142.9 | (2.7) |
| Fixed telephony accesses (1) | 1,459.0  | 1,438.4  | 1,422.8   | 1,406.5  | 1,380.5  | 1,365.1  | (5.1) |
| Internet and data accesses   | 1,109.1  | 1,150.8  | 1,146.2   | 1,140.5  | 1,138.8  | 1,162.9  | 1.0   |
| Broadband                    | 1,098.4  | 1,093.3  | 1,096.7   | 1,090.3  | 1,088.1  | 1,111.6  | 1.7   |
| FTTx                         | 268.9    | 290.2    | 312.2     | 324.3    | 329.0    | 341.9    | 17.8  |
| Mobile accesses              | 9,527.9  | 9,235.1  | 9,199.8   | 9,093.9  | 9,034.4  | 8,945.3  | (3.1) |
| Prepay                       | 6,524.9  | 6,150.1  | 6,070.5   | 5,956.0  | 5,891.1  | 5,817.3  | (5.4) |
| Contract                     | 3,002.9  | 3,085.0  | 3,129.2   | 3,137.9  | 3,143.3  | 3,128.0  | 1.4   |
| M2M                          | 331.2    | 354.8    | 378.0     | 369.4    | 377.8    | 387.0    | 9.1   |
| Pay TV                       | 645.6    | 656.8    | 661.3     | 660.5    | 656.8    | 669.7    | 2.0   |
| Wholesale Accesses           | 5.2      | 5.1      | 5.1       | 5.1      | 5.3      | 5.2      | 2.4   |
| Total Accesses               | 12,746.7 | 12,486.2 | 12,435.2  | 12,306.5 | 12,215.7 | 12,148.1 | (2.7) |

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

SELECTED OPERATIONAL DATA

*Unaudited figures*

|                                   | 2016    |         |           |          | 2017    |         | % Chg      |
|-----------------------------------|---------|---------|-----------|----------|---------|---------|------------|
|                                   | March   | June    | September | December | March   | June    |            |
| Contract percentage (%)           | 31.5%   | 33.4%   | 34.0%     | 34.5%    | 34.8%   | 35.0%   | 1.6 p.p.   |
| Smartphones ( 000)                | 2,957.2 | 2,864.1 | 2,883.2   | 2,902.4  | 2,962.3 | 2,894.6 | 1.1        |
| Smartphone penetration (%)        | 32.9%   | 33.0%   | 33.5%     | 34.2%    | 35.3%   | 35.0%   | 2.0 p.p.   |
| LTE ( 000)                        | 1,179.6 | 1,340.9 | 1,583.4   | 1,743.7  | 1,837.2 | 1,879.7 | 40.2       |
| LTE penetration (%)               | 12.8%   | 15.1%   | 17.9%     | 20.0%    | 21.2%   | 22.0%   | 6.9 p.p.   |
| Mobile churn (quarterly)          | 3.6%    | 3.7%    | 3.2%      | 3.6%     | 3.3%    | 3.4%    | (0.3 p.p.) |
| Contract (1)                      | 2.0%    | 2.1%    | 2.2%      | 2.4%     | 2.4%    | 2.6%    | 0.4 p.p.   |
| Mobile churn (cumulative YTD)     | 3.6%    | 3.7%    | 3.5%      | 3.6%     | 3.3%    | 3.3%    | (0.4 p.p.) |
| Contract (1)                      | 2.0%    | 2.1%    | 2.3%      | 2.4%     | 2.4%    | 2.5%    | 0.4 p.p.   |
| Mobile ARPU (EUR)(cumulative YTD) | 8.9     | 9.0     | 9.1       | 9.5      | 10.1    | 9.8     | 1.5        |

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|   |         |         |           |           |         |         |        |
|---|---------|---------|-----------|-----------|---------|---------|--------|
| Prepay  | 3.0     | 3.0     | 2.9       | 2.6       | 2.9     | 2.8     | (10.9) |
| Contract (1)                                      | 24.7    | 24.8    | 24.9      | 23.9      | 26.6    | 25.8    | (2.6)  |
| Mobile data traffic<br>(TB) (cumulative<br>YTD)   | 27,449  | 55,131  | 90,932    | 131,081   | 42,969  | 92,426  | 67.6   |
| Fixed telephony ARPU<br>(EUR) (cumulative<br>YTD) | 13.1    | 13.3    | 14.8      | 14.5      | 13.0    | 12.8    | (10.1) |
| Pay TV ARPU (EUR)<br>(cumulative YTD)             | 24.4    | 24.6    | 24.8      | 25.2      | 26.1    | 25.6    | (3.5)  |
| Broadband ARPU<br>(EUR) (cumulative<br>YTD)       | 16.2    | 16.6    | 18.0      | 17.5      | 18.8    | 18.1    | 0.3    |
| Fixed data traffic (TB)<br>(cumulative YTD)       | 321,246 | 665,841 | 1,050,624 | 1,490,584 | 434,322 | 970,592 | 45.8   |

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.*

**Table of Contents****Telefónica Perú**

(y-o-y changes in organic terms)

The second quarter results of Telefónica Perú continue to be affected by higher competitive intensity, mainly in the mobile business, and were exacerbated by the natural disaster caused by the El Niño phenomenon. However, commercial activity in the fixed business remained positive during the quarter with signs of recovery in the mobile business and a continued focus on improving the quality of service (increased 4G coverage and high-speed network deployment).

**Total accesses** amounted to 19.9m as of June (-8% y-o-y). **Mobile accesses** amounted to 14.4m (-11% y-o-y). In contract, the net loss was 340k accesses in the quarter due to the competitive intensity. Moreover, in prepay (net loss of 32k in the quarter; -410k in the first half) positive signs started to be reflected in the commercial performance following the launch of Pre-Plan plans at the end of May, which resulted in a change in the direction of the top-up base trend (+1.6% since launch) and a decrease in churn in April-June (-0.1% y-o-y; -0.6% vs. the previous quarter). **Smartphones** maintained a strong growth (+70% y-o-y) and 4G accesses increased 35% with net additions of 135k, 6 times more than in the first quarter.

In the **fixed business**, there was significant growth in **pay TV** (+5% y-o-y up to 1.3m accesses) with net additions of 12k accesses in April-June leveraged on the exclusivity of the football offer. **Retail broadband accesses** amounted to 1.7m (+2% y-o-y) with quarterly net additions of 15k accesses and focus on the deployment of the FTTx and cable network, reaching a coverage of 3.0m premises passed (+38% y-o-y) and 822k homes connected as of June (+32% y-o-y).

**Revenues** amounted to 578m in April-June (-10.6% y-o-y; -9.5% in January-June).

**Mobile service revenues** in the quarter ( 275m) declined by 12.0% y-o-y (-14.6% in the first quarter), reflecting the decrease in the customer base, though there was a stabilization in the y-o-y ARPU decrease in the quarter (-3.1%; -5.7% in the previous quarter) after the launch of the new plans mentioned above. **Handset revenues** decreased by 4.9% y-o-y in April-June (+1.4% in January-June).

**Fixed business revenues** in April-June ( 266m) decreased by 9.9% y-o-y (-6.9% in the semester), affected by lower voice revenues (-26.8%) and the seasonal effect of IT projects. On the other hand, **pay TV revenues** grew 8.1% y-o-y, due to the increase in both accesses and ARPU (+3.3% y-o-y).

**Operating expenses** rose to 460m in the quarter (+2.9% y-o-y, stable in the first half), mainly on higher content costs, due to the growth in pay TV, and higher interconnection expenses. The y-o-y performance in the quarter is affected by other factors such as the negative impact related to the El Niño phenomenon.

Thus, **OIBDA** amounted to 137m in the second quarter with a 34.3% decrease compared with the previous year (-28.3% in the first half), impacted by the effect of the reversal of a canon expense provision (second quarter 2016).

**OIBDA margin** stood at 23.8% (-8.6 p.p. y-o-y, -6.5 p.p. in January-June).

**CapEx** ( 156m in January-June; -1.0% y-o-y) was aimed at expanding the UBB and 4G infrastructure in order to grow in new areas and provide higher speeds.

**Operating cash flow** (OIBDA-CapEx) amounted to 137m as of June 2017 (-45.2% y-o-y).



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## TELEFÓNICA PERÚ

## SELECTED FINANCIAL DATA

*Unaudited figures (Euros in millions)*

|                             | January - June |       |            |               | April - June |       |            |               |
|-----------------------------|----------------|-------|------------|---------------|--------------|-------|------------|---------------|
|                             | 2017           | 2016  | % Chg      | % Organic Chg | 2017         | 2016  | % Chg      | % Organic Chg |
| Revenues                    | 1,199          | 1,245 | (3.7)      | (9.5)         | 578          | 620   | (6.8)      | (10.6)        |
| Mobile Business             | 647            | 689   | (6.0)      | (11.7)        | 313          | 338   | (7.4)      | (11.2)        |
| Mobile service revenues (1) | 565            | 612   | (7.7)      | (13.3)        | 275          | 299   | (8.2)      | (12.0)        |
| Data revenues               | 319            | 325   | (1.8)      | (7.8)         | 146          | 164   | (11.3)     | (14.8)        |
| Handset revenues            | 83             | 77    | 7.9        | 1.4           | 38           | 38    | (1.0)      | (4.9)         |
| Fixed Business              | 551            | 556   | (0.9)      | (6.9)         | 266          | 283   | (6.1)      | (9.9)         |
| FBB and new services (2)    | 278            | 278   | (0.1)      | (6.1)         | 134          | 145   | (7.2)      | (11.0)        |
| Pay TV                      | 161            | 140   | 15.3       | 8.3           | 80           | 71    | 12.9       | 8.1           |
| Voice & access revenues     | 112            | 138   | (18.8)     | (23.7)        | 51           | 67    | (23.8)     | (26.8)        |
| OIBDA                       | 294            | 390   | (24.6)     | (28.3)        | 137          | 202   | (32.1)     | (34.3)        |
| OIBDA margin                | 24.5%          | 31.3% | (6.8 p.p.) | (6.5 p.p.)    | 23.8%        | 32.6% | (8.9 p.p.) | (8.6 p.p.)    |
| CapEx                       | 156            | 149   | 5.1        | (1.0)         | 103          | 94    | 9.1        | 3.4           |
| Spectrum                    |                |       |            |               |              |       |            |               |
| OpCF (OIBDA-CapEx)          | 137            | 241   | (43.0)     | (45.2)        | 35           | 108   | (67.8)     | (67.2)        |

*Notes:*

- *Since 1 April 2016, T. Perú 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 T. Perú 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.*
  - *OIBDA is presented before management and brand fees.*
- (1) *Includes fixed wireless revenues.*
- (2)

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*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            |                 | % Chg        |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|
|                              | March           | June            | September       | December        | March           | June            |              |
| Fixed telephony accesses (1) | 2,452.1         | 2,491.0         | 2,486.8         | 2,445.1         | 2,455.0         | 2,458.2         | (1.3)        |
| Fixed wireless               | 127.7           | 117.6           | 95.5            | 72.3            | 84.6            | 84.9            | (27.8)       |
| Internet and data accesses   | 1,663.9         | 1,685.0         | 1,696.5         | 1,691.1         | 1,707.3         | 1,722.1         | 2.2          |
| Broadband                    | 1,639.2         | 1,660.3         | 1,666.8         | 1,660.9         | 1,676.8         | 1,691.9         | 1.9          |
| FTTx/Cable                   | 557.0           | 623.7           | 620.1           | 722.7           | 841.7           | 821.7           | 31.7         |
| Mobile accesses              | 16,445.4        | 16,211.9        | 15,954.2        | 15,498.5        | 14,810.6        | 14,438.8        | (10.9)       |
| Prepay                       | 10,530.0        | 10,228.5        | 10,214.7        | 9,807.8         | 9,429.8         | 9,397.5         | (8.1)        |
| Contract                     | 5,915.5         | 5,983.4         | 5,739.5         | 5,690.7         | 5,380.9         | 5,041.3         | (15.7)       |
| M2M                          | 81.7            | 79.7            | 90.1            | 85.1            | 82.9            | 82.1            | 2.9          |
| Pay TV                       | 1,229.6         | 1,250.3         | 1,261.3         | 1,275.1         | 1,297.4         | 1,309.3         | 4.7          |
| <b>Total Accesses</b>        | <b>21,791.0</b> | <b>21,638.3</b> | <b>21,398.8</b> | <b>20,909.8</b> | <b>20,270.3</b> | <b>19,928.4</b> | <b>(7.9)</b> |

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

SELECTED OPERATIONAL DATA

*Unaudited figures*

|                                   | 2016    |         |           |          | 2017    |         | % Chg      |
|-----------------------------------|---------|---------|-----------|----------|---------|---------|------------|
|                                   | March   | June    | September | December | March   | June    |            |
| Contract percentage (%)           | 36.0%   | 36.9%   | 36.0%     | 36.7%    | 36.3%   | 34.9%   | (2.0 p.p.) |
| Smartphones ( 000)                | 4,652.9 | 4,867.0 | 4,951.9   | 4,900.5  | 8,130.0 | 8,283.6 | 70.2       |
| Smartphone penetration (%)        | 28.6%   | 30.3%   | 31.4%     | 32.0%    | 55.5%   | 58.0%   | 27.7 p.p.  |
| LTE ( 000)                        | 1,464.1 | 1,851.4 | 2,095.7   | 2,348.3  | 2,370.0 | 2,505.4 | 35.3       |
| LTE penetration (%)               | 8.9%    | 11.5%   | 13.2%     | 15.2%    | 16.1%   | 17.5%   | 6.0 p.p.   |
| Mobile churn (quarterly)          | 4.8%    | 5.0%    | 5.2%      | 5.4%     | 5.3%    | 5.1%    | 0.1 p.p.   |
| Contract (1)                      | 2.5%    | 2.6%    | 3.5%      | 3.1%     | 2.7%    | 3.1%    | 0.4 p.p.   |
| Mobile churn (cumulative YTD)     | 4.8%    | 4.9%    | 5.0%      | 5.1%     | 5.3%    | 5.2%    | 0.3 p.p.   |
| Contract (1)                      | 2.5%    | 2.6%    | 3.1%      | 3.3%     | 2.7%    | 2.9%    | 0.3 p.p.   |
| Mobile ARPU (EUR)(cumulative YTD) | 6.3     | 6.2     | 6.1       | 6.3      | 6.3     | 6.3     | (3.1)      |
| Prepay                            | 2.8     | 3.0     | 2.5       | 2.5      | 2.1     | 2.0     | (24.7)     |

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|   |         |         |           |           |         |           |        |
|---|---------|---------|-----------|-----------|---------|-----------|--------|
| Contract (1)                                | 12.0    | 11.8    | 12.5      | 11.3      | 13.7    | 13.8      | 3.9    |
| Mobile data traffic (TB) (cumulative YTD)   | 11,451  | 23,486  | 39,758    | 77,864    | 37,157  | 84,961    | 261.8  |
| Fixed telephony ARPU (EUR) (cumulative YTD) | 9.4     | 9.1     | 7.6       | 8.3       | 7.5     | 7.0       | (13.5) |
| Pay TV ARPU (EUR) (cumulative YTD)          | 16.6    | 16.3    | 17.6      | 17.8      | 19.4    | 19.1      | 3.3    |
| Broadband ARPU (EUR) (cumulative YTD)       | 16.4    | 16.2    | 19.3      | 15.9      | 15.6    | 15.1      | (12.6) |
| Fixed data traffic (TB) (cumulative YTD)    | 407,019 | 809,376 | 1,317,625 | 1,968,734 | 692,053 | 1,378,078 | 70.3   |

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.

**Table of Contents****Telefónica Colombia**

(y-o-y changes in organic terms)

In the second quarter of the year, Telefónica Colombia consolidated the positive trend of the recent quarters with a strong y-o-y growth in both OIBDA (+9.7%) and operating cash flow (+27.5% in the first half), leveraged on a meaningful expansion of margins in an environment of greater competitive rationality.

Thus, **total accesses** rose to 16.6m at June (+3% y-o-y).

**Mobile accesses** stood at 13.8m (+4% y-o-y) posting net additions of 166k accesses in the quarter, with a sound performance both in contract accesses (+5% y-o-y), with net additions of 43k accesses in the quarter, and prepay (+4%; net additions of 122k accesses) due to the Todo en Uno offer and the new Prepagada offer, which had a positive impact in the sequential churn performance (-1.1 p.p.). On the other hand, the strong y-o-y growth trend in **smartphones** (+21%) and **LTE accesses** (+92%) was maintained.

In the **fixed business** the bundling strategy continued to be successfully executed, leveraged on **pay TV** (529k accesses, +2% y-o-y) with net additions of 4k accesses in the quarter. **Retail broadband accesses** totalled 969k (-3% y-o-y), with focus on increasing speeds through the deployment of the FTTx network (21k connected homes in the quarter; 441k premises passed at June), highlighting the FTTH launch in five cities with speeds of up to 100 Mbps.

**Revenues** totalled 368m (+0.8% in the quarter; +2.6% in January-June), with a slowdown in y-o-y growth, mainly due to the impact of IT projects in the second quarter of 2016 in the fixed business. Moreover, the recent increase in VAT slightly slowed consumption levels, and regulatory measures (end of the asymmetry in mobile termination and the new regulation of MVNOs and national roaming tariffs, from February in both cases) had an effect of -2.4 p.p. in the y-o-y change (-2.1 p.p. in the semester).

**Mobile service revenues** (194m) maintained a positive y-o-y growth (+2.8%; +3.4% in the half year) as a result of solid commercial performance, a better customer mix towards contract and strong growth in data revenues (+40.1% y-o-y). Furthermore, there was a significant growth in **handset revenues** in the quarter (+16.7% y-o-y) in an environment characterised by the lower level of subsidies.

**Fixed business revenues** in the second quarter (138m) decreased by 4.9% (+0.7% in the first quarter) due to the positive effect of IT revenues in the second quarter of 2016 mentioned above, and despite continuing to be driven by **pay TV revenues** (+16.0% y-o-y) and broadband revenues (+14.5%), with ARPU growing by 11.9% and 20.4% y-o-y respectively due to the management of the customer base towards higher value plans.

**Operating expenses** totalled 252m in April-June and declined by 3.1% y-o-y (+0.1% in January-June) given the decrease in subsidies, the reduction in tariffs after the end of the asymmetry and the higher expenses associated with IT projects in the second quarter of 2016.

Therefore, **OIBDA** in the second quarter (124m) increased by 9.7% y-o-y (+7.3% in January-June), while **OIBDA margin** expanded y-o-y by 2.7 p.p. to reach 33.7% (+1.5 p.p. to 33.6% in the first half).

**CapEx** ( 116m in January-June; -9.7% y-o-y) included the licence renewal related to the TV services, the continuous improvement of the fixed broadband network and other projects such as the FTTH network launch and deployment.

Hence, **operating cash flow** (OIBDA-CapEx) totalled 138m in the first half of 2017, with strong y-o-y growth of 27.5%.

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## TELEFÓNICA COLOMBIA

## SELECTED FINANCIAL DATA

*Unaudited figures (Euros in millions)*

|                         | January - June |       |          |               | April - June |       |          |               |
|-------------------------|----------------|-------|----------|---------------|--------------|-------|----------|---------------|
|                         | 2017           | 2016  | % Chg    | % Organic Chg | 2017         | 2016  | % Chg    | % Organic Chg |
| Revenues                | 756            | 670   | 12.8     | 2.6           | 368          | 347   | 6.0      | 0.8           |
| Mobile Business         | 472            | 406   | 16.2     | 5.7           | 230          | 209   | 9.9      | 4.7           |
| Mobile service revenues | 400            | 352   | 13.7     | 3.4           | 194          | 180   | 7.9      | 2.8           |
| Data revenues           | 221            | 144   | 53.8     | 39.9          | 112          | 76    | 47.6     | 40.1          |
| Handset revenues        | 72             | 55    | 32.2     | 20.3          | 36           | 29    | 22.7     | 16.7          |
| Fixed Business          | 284            | 264   | 7.5      | (2.2)         | 138          | 138   | (0.1)    | (4.9)         |
| FBB and new services    |                |       |          |               |              |       |          |               |
| (1)                     | 143            | 139   | 3.1      | (6.2)         | 70           | 74    | (5.5)    | (10.1)        |
| Pay TV                  | 45             | 35    | 28.1     | 16.6          | 22           | 18    | 21.9     | 16.0          |
| Voice & access revenues | 95             | 90    | 6.0      | (3.6)         | 46           | 46    | (0.0)    | (4.7)         |
| OIBDA                   | 254            | 215   | 17.8     | 7.3           | 124          | 108   | 15.1     | 9.7           |
| OIBDA margin            | 33.6%          | 32.1% | 1.4 p.p. | 1.5 p.p.      | 33.7%        | 31.0% | 2.7 p.p. | 2.7 p.p.      |
| CapEx                   | 116            | 117   | (0.8)    | (9.7)         | 56           | 83    | (32.5)   | (36.8)        |
| Spectrum                |                |       |          |               |              |       |          |               |
| OpCF (OIBDA-CapEx)      | 138            | 99    | 39.7     | 27.5          | 68           | 25    | 175.5    | 179.8         |

*Notes:*

- 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     |          | % Chg |
|------------------------------|----------|----------|-----------|----------|----------|----------|-------|
|                              | March    | June     | September | December | March    | June     |       |
| Final Clients Accesses       | 15,977.2 | 16,161.0 | 16,503.1  | 16,573.4 | 16,471.3 | 16,610.7 | 2.8   |
| Fixed telephony accesses (1) | 1,414.2  | 1,402.7  | 1,389.4   | 1,353.4  | 1,352.7  | 1,330.6  | (5.1) |

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|                            |          |          |          |          |          |          |        |
|----------------------------|----------|----------|----------|----------|----------|----------|--------|
| Internet and data accesses | 1,008.4  | 1,011.6  | 1,025.1  | 977.2    | 990.0    | 982.3    | (2.9)  |
| Broadband                  | 999.9    | 1,003.2  | 1,003.2  | 964.1    | 976.8    | 969.1    | (3.4)  |
| FTTx                       |          |          |          | 27.1     | 33.4     | 54.6     |        |
| Mobile accesses            | 13,057.2 | 13,226.3 | 13,556.9 | 13,725.3 | 13,603.0 | 13,768.6 | 4.1    |
| Prepay                     | 9,625.1  | 9,730.2  | 10,019.0 | 10,136.8 | 9,974.3  | 10,096.8 | 3.8    |
| Contract                   | 3,432.1  | 3,496.1  | 3,537.9  | 3,588.5  | 3,628.6  | 3,671.8  | 5.0    |
| M2M                        | 471.0    | 464.3    | 481.3    | 478.7    | 474.8    | 463.7    | (0.1)  |
| Pay TV                     | 497.4    | 520.4    | 531.7    | 517.5    | 525.6    | 529.3    | 1.7    |
| Wholesale Accesses         | 0.6      | 0.6      | 0.6      | 0.5      | 0.5      | 0.5      | (16.7) |
| Total Accesses             | 15,977.8 | 16,161.6 | 16,503.7 | 16,573.9 | 16,471.8 | 16,611.2 | 2.8    |

(1) Includes fixed wireless and VoIP accesses.

SELECTED OPERATIONAL DATA

Unaudited figures

|   | 2016    |         |           |          | 2017    |         | % Chg      |
|---|---------|---------|-----------|----------|---------|---------|------------|
|   | March   | June    | September | December | March   | June    |            |
| Contract percentage (%)                     | 26.3%   | 26.4%   | 26.1%     | 26.1%    | 26.7%   | 26.7%   | 0.3 p.p.   |
| Smartphones ( 000)                          | 4,391.3 | 4,516.1 | 4,744.8   | 5,043.4  | 5,324.1 | 5,477.0 | 21.3       |
| Smartphone penetration (%)                  | 35.5%   | 36.0%   | 36.8%     | 38.6%    | 41.1%   | 41.7%   | 5.7 p.p.   |
| LTE ( 000)                                  | 1,375.6 | 1,667.1 | 1,943.0   | 2,340.6  | 2,682.5 | 3,193.6 | 91.6       |
| LTE penetration (%)                         | 10.9%   | 13.1%   | 14.9%     | 17.7%    | 20.4%   | 24.0%   | 10.9 p.p.  |
| Mobile churn (quarterly)                    | 3.2%    | 3.2%    | 2.9%      | 3.5%     | 4.2%    | 3.4%    | 0.2 p.p.   |
| Contract (1)                                | 1.8%    | 1.7%    | 1.7%      | 1.6%     | 1.5%    | 1.6%    | (0.2 p.p.) |
| Mobile churn (cumulative YTD)               | 3.2%    | 3.2%    | 3.1%      | 3.2%     | 4.2%    | 3.8%    | 0.6 p.p.   |
| Contract (1)                                | 1.8%    | 1.8%    | 1.6%      | 1.5%     | 1.5%    | 1.5%    | (0.3 p.p.) |
| Mobile ARPU (EUR)(cumulative YTD)           | 4.2     | 4.3     | 4.3       | 4.4      | 4.7     | 4.6     | 0.7        |
| Prepay                                      | 1.1     | 1.2     | 1.1       | 1.0      | 1.2     | 1.2     | 0.5        |
| Contract (1)                                | 14.6    | 14.8    | 15.0      | 14.2     | 16.4    | 15.9    | (1.0)      |
| Mobile data traffic (TB) (cumulative YTD)   | 14,077  | 29,400  | 46,343    | 66,085   | 22,498  | 48,002  | 63.3       |
| Fixed telephony ARPU (EUR) (cumulative YTD) | 9.8     | 10.1    | 10.7      | 10.7     | 11.1    | 10.8    | (1.4)      |
| Pay TV ARPU (EUR) (cumulative YTD)          | 11.0    | 11.3    | 11.9      | 12.2     | 14.3    | 14.1    | 11.4       |
| Broadband ARPU (EUR) (cumulative YTD)       | 8.2     | 8.5     | 10.3      | 9.2      | 11.0    | 11.1    | 18.7       |
| Fixed data traffic (TB) (cumulative YTD)(2) | 70,654  | 149,797 | 234,125   | 319,800  | 89,505  | 192,552 | 28.5       |

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.*
- (2) *Includes solely traffic pertaining to FBB accesses, not Business customers.*



**Table of Contents****Telefónica México**

(y-o-y changes in organic terms)

In the second quarter, Telefónica Mexico's results showed a greater rationality in the competitive environment and a significant improvement in the performance of its main financial metrics, returning to y-o-y growth in both revenues and OIBDA.

**Mobile accesses** stood at 25.3m (-3% y-o-y), increasing the quality of the base with a greater weight of contract accesses (8%, +1 p.p. y-o-y), **smartphones** (48%, +3 p.p.) and **LTE** (16%, +7 p.p.). Thus, quarterly contract net additions increased to 62k accesses (143k accesses in the half year) with a 43% y-o-y increase in gross additions and a 1.0 p.p reduction in churn. On the other hand, in prepay, there was a loss of 442k accesses (-1.4m in the half year) as a result of the reduction in low-value accesses.

Mobile ARPU showed a significant improvement in its y-o-y trend decreasing by 2.5% (-22.3% in the first quarter of 2017 and -30.1% in the fourth quarter of 2016) and improved sequentially as a result of the higher average revenue per minute in prepay and in contract.

**Revenues** ( 356m) returned to growth in the quarter (+5.4% y-o-y; -6.4% in the half year) thanks to the improvement in **service revenues** (-3.0%; -11.8% in the half year), with better performance in outgoing revenues (increased sequentially for the first time in the last 5 quarters), as well as **handset sales** (+85.8% in the quarter; +36.5% in the half year) due to the strong growth of contract gross additions and the greater weight of the high value range.

**Operating expenses** stood at 292m in the quarter increasing 3.3% y-o-y, reversing the y-o-y trend vs. the previous quarter (-5.3% y-o-y in January-June) due to higher commercial expenses, which returned to growth on the back of increased activity in the higher-value segment, and lower decrease in interconnection expenses.

Thus, **OIBDA** stood at 81m increasing 22.8% y-o-y in the quarter (-11.6% in the half year) as a result of the improvement in service revenues and the positive impact of capital gains generated by fibre optic sales in the quarter, which formed part of the asset optimisation strategy (impact of 12m). Thus, **OIBDA margin** stood at 22.8% with a y-o-y increase of 3.2 p.p. (21.7% in the half year, -1.3 p.p. y-o-y).

**CapEx** amounted to 79m in the first half of the year with an 18.5% y-o-y decrease, primarily aimed at the deployment and improvement in mobile networks.

Overall, **operating cash flow (OIBDA-CapEx)** reached 67m in January-June (-2.9% y-o-y).

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## TELEFÓNICA MÉXICO

## SELECTED FINANCIAL DATA

*Unaudited figures (Euros in millions)*

|                    | January - June |       |            |               | April - June |       |          |               |
|--------------------|----------------|-------|------------|---------------|--------------|-------|----------|---------------|
|                    | 2017           | 2016  | % Chg      | % Organic Chg | 2017         | 2016  | % Chg    | % Organic Chg |
| Revenues           | 670            | 746   | (10.2)     | (6.4)         | 356          | 337   | 5.6      | 5.4           |
| Service revenues   | 561            | 663   | (15.4)     | (11.8)        | 294          | 303   | (3.0)    | (3.0)         |
| Data revenues      | 270            | 300   | (10.0)     | (6.3)         | 159          | 133   | 19.5     | 20.7          |
| Handset revenues   | 109            | 83    | 31.0       | 36.5          | 62           | 33    | 84.6     | 85.8          |
| OIBDA              | 146            | 168   | (13.3)     | (11.6)        | 81           | 62    | 31.4     | 22.8          |
| OIBDA margin       | 21.7%          | 22.5% | (0.8 p.p.) | (1.3 p.p.)    | 22.8%        | 18.4% | 4.5 p.p. | 3.2 p.p.      |
| CapEx              | 79             | 96    | (18.0)     | (18.5)        | 35           | 54    | (35.3)   | (35.7)        |
| Spectrum           | 4              |       |            |               | 0            |       |          |               |
| OpCF (OIBDA-CapEx) | 67             | 72    | (7.0)      | (2.9)         | 46           | 8     | n.m.     | n.m.          |

*Note:*

- Since 1 January 2016 Data Revenues have been revised due to different allocation criteria between Data revenues and other service revenues. This change does not affect total Service revenues figure reported for 2016.
- OIBDA is presented before management and brand fees.

## ACCESSES

*Unaudited figures (Thousands)*

|                        | 2016     |          |           |          | 2017     |          | % Chg  |
|------------------------|----------|----------|-----------|----------|----------|----------|--------|
|                        | March    | June     | September | December | March    | June     |        |
| Mobile accesses        | 25,655.4 | 25,928.8 | 25,937.5  | 26,557.2 | 25,657.9 | 25,277.7 | (2.5)  |
| Prepay                 | 23,803.2 | 24,069.1 | 24,081.0  | 24,620.1 | 23,639.3 | 23,197.6 | (3.6)  |
| Contract (1)           | 1,852.2  | 1,859.7  | 1,856.5   | 1,937.2  | 2,018.6  | 2,080.1  | 11.9   |
| M2M                    | 602.6    | 629.2    | 658.3     | 668.4    | 710.1    | 744.0    | 18.2   |
| Fixed Wireless         | 1,296.9  | 1,252.9  | 1,176.8   | 1,057.4  | 974.4    | 924.2    | (26.2) |
| Wholesale Accesses (1) |          |          | 54.8      | 39.8     | 39.2     | 38.5     |        |
| Total Accesses         | 26,952.3 | 27,181.7 | 27,169.1  | 27,654.4 | 26,671.5 | 26,240.4 | (3.5)  |

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

## SELECTED OPERATIONAL DATA

Unaudited figures

|   | 2016     |          |           |          | 2017     |          | % Chg      |
|---|----------|----------|-----------|----------|----------|----------|------------|
|   | March    | June     | September | December | March    | June     |            |
| Contract percentage (%)                   | 7.2%     | 7.2%     | 7.2%      | 7.3%     | 7.9%     | 8.2%     | 1.0 p.p.   |
| Smartphones ( 000)                        | 10,916.0 | 11,489.4 | 11,569.6  | 11,961.4 | 11,865.9 | 11,789.9 | 2.6        |
| Smartphone penetration (%)                | 43.8%    | 45.6%    | 45.8%     | 46.3%    | 47.6%    | 48.1%    | 2.5 p.p.   |
| LTE ( 000)                                | 2,154.7  | 2,477.9  | 2,776.6   | 3,312.1  | 3,658.0  | 4,035.0  | 62.8       |
| LTE penetration (%)                       | 8.6%     | 9.8%     | 11.0%     | 12.8%    | 14.7%    | 16.4%    | 6.6 p.p.   |
| Mobile churn (quarterly)                  | 3.5%     | 3.3%     | 3.6%      | 3.7%     | 4.8%     | 3.9%     | 0.6 p.p.   |
| Contract (1)                              | 1.7%     | 2.9%     | 1.7%      | 1.9%     | 2.1%     | 1.9%     | (1.0 p.p.) |
| Mobile churn (cumulative YTD)             | 3.5%     | 3.4%     | 3.5%      | 3.6%     | 4.8%     | 4.4%     | 0.9 p.p.   |
| Contract (1)                              | 1.7%     | 2.4%     | 1.7%      | 1.4%     | 2.1%     | 1.7%     | (0.7 p.p.) |
| Mobile ARPU (EUR)(cumulative YTD)         | 3.8      | 3.5      | 3.3       | 3.3      | 2.7      | 2.9      | (11.9)     |
| Prepay                                    | 3.3      | 3.0      | 2.8       | 2.1      | 2.3      | 2.4      | (14.3)     |
| Contract (1)                              | 14.6     | 14.2     | 14.2      | 12.8     | 12.1     | 12.4     | (11.5)     |
| Mobile data traffic (TB) (cumulative YTD) | 17,192   | 37,369   | 60,088    | 86,315   | 30,861   | 69,939   | 87.2       |

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.

**Table of Contents****Other Hispam countries**

## SELECTED FINANCIAL DATA

*Unaudited figures (Euros in millions)*

|                            | January - June |      |        |               | April - June |      |        |               |
|----------------------------|----------------|------|--------|---------------|--------------|------|--------|---------------|
|                            | 2017           | 2016 | % Var  | % Organic Chg | 2017         | 2016 | % Var  | % Organic Chg |
| Revenues                   | 912            | 931  | (2.0)  | 41.0          | 381          | 428  | (11.1) | 51.5          |
| Telefónica Venezuela       | 66             | 98   | (33.0) | n.m.          | (32)         | 21   | c.s.   | n.m.          |
| Telefónica Central America | 450            | 447  | 0.6    | (0.8)         | 216          | 220  | (1.8)  | (2.5)         |
| Telefónica Ecuador         | 273            | 280  | (2.5)  | (5.5)         | 137          | 135  | 1.4    | (1.3)         |
| Telefónica Uruguay         | 124            | 106  | 17.0   | 2.7           | 60           | 52   | 14.7   | 1.3           |
| Service revenues           | 843            | 871  | (3.2)  | 41.6          | 347          | 399  | (13.1) | 52.5          |
| Telefónica Venezuela       | 64             | 96   | (33.1) | 275.6         | (31)         | 21   | c.s.   | 410.2         |
| Telefónica Central America | 419            | 419  | 0.0    | (1.3)         | 200          | 205  | (2.7)  | (3.4)         |
| Telefónica Ecuador         | 244            | 258  | (5.3)  | (8.2)         | 122          | 124  | (2.2)  | (4.7)         |
| Telefónica Uruguay         | 116            | 99   | 17.3   | 2.9           | 56           | 48   | 16.2   | 2.5           |
| OIBDA                      | 258            | 256  | 0.5    | 58.9          | 109          | 117  | (6.5)  | 87.9          |
| Telefónica Venezuela       | 20             | 26   | (21.5) | n.m.          | (2)          | 4    | c.s.   | n.m.          |
| Telefónica Central America | 114            | 110  | 3.3    | 5.0           | 51           | 57   | (10.9) | (5.7)         |
| Telefónica Ecuador         | 80             | 83   | (3.9)  | (6.8)         | 39           | 38   | 2.2    | (0.6)         |
| Telefónica Uruguay         | 43             | 37   | 17.2   | 3.3           | 21           | 17   | 18.7   | 5.3           |
| CapEx                      | 95             | 128  | (25.4) | 9.1           | 60           | 71   | (16.0) | 37.2          |
| Telefónica Venezuela       | 7              | 22   | (68.8) | 84.8          | 4            | 13   | (71.6) | 114.3         |
| Telefónica Central America | 50             | 67   | (24.8) | (26.3)        | 30           | 35   | (13.8) | (15.3)        |
| Telefónica Ecuador         | 26             | 30   | (14.1) | (16.7)        | 19           | 18   | 4.1    | 0.8           |
| Telefónica Uruguay         | 13             | 9    | 42.2   | 24.8          | 8            | 6    | 34.3   | 18.3          |
| Spectrum                   |                |      |        |               |              |      |        |               |
| Telefónica Venezuela       |                |      |        |               |              |      |        |               |
| Telefónica Central America |                |      |        |               |              |      |        |               |
| Telefónica Ecuador         |                |      |        |               |              |      |        |               |
| Telefónica Uruguay         |                |      |        |               |              |      |        |               |
| OpCF (OIBDA-CapEx)         | 162            | 128  | 26.2   | 114.6         | 49           | 45   | 8.6    | 191.8         |
| Telefónica Venezuela       | 13             | 3    | n.m.   | n.m.          | (5)          | (9)  | (42.8) | c.s.          |
| Telefónica Central America | 64             | 44   | 45.9   | 52.3          | 21           | 22   | (6.3)  | 9.2           |
| Telefónica Ecuador         | 54             | 53   | 1.9    | (1.1)         | 20           | 20   | 0.4    | (1.9)         |
| Telefónica Uruguay         | 31             | 28   | 9.4    | (3.4)         | 13           | 12   | 11.0   | (1.1)         |

- 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 is presented before management and brand fees.
- 2016 and 2017 reported figures include the hyperinflationary adjustments in Venezuela in both years.
- Central America includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

## ACCESSES

Unaudited figures (Thousands)

|                              | 2016            |                 |                 |                 | 2017            |                 | % Chg      |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------|
|                              | March           | June            | September       | December        | March           | June            |            |
| Fixed telephony accesses (1) | 1,276.1         | 1,263.7         | 1,250.3         | 1,229.8         | 1,212.6         | 1,195.8         | (5.4)      |
| Internet and data accesses   | 13.7            | 13.7            | 13.0            | 13.3            | 16.9            | 17.6            | 28.3       |
| Broadband                    | 6.7             | 6.9             | 2.8             | 3.0             | 2.6             | 2.7             | (60.2)     |
| Mobile accesses              | 28,613.6        | 28,960.4        | 29,407.0        | 29,644.2        | 29,446.6        | 29,175.6        | 0.7        |
| Prepay                       | 24,461.3        | 24,780.9        | 25,155.7        | 25,360.7        | 25,128.1        | 24,832.2        | 0.2        |
| Contract                     | 4,152.2         | 4,179.5         | 4,251.4         | 4,283.5         | 4,318.5         | 4,343.5         | 3.9        |
| M2M                          | 389.6           | 397.9           | 423.5           | 438.6           | 435.5           | 451.2           | 13.4       |
| Pay TV                       | 478.2           | 478.1           | 468.7           | 466.1           | 462.6           | 452.7           | (5.3)      |
| <b>Total Accesses</b>        | <b>30,381.6</b> | <b>30,715.9</b> | <b>31,139.0</b> | <b>31,353.4</b> | <b>31,138.7</b> | <b>30,841.7</b> | <b>0.4</b> |

(1) Includes fixed wireless and VoIP accesses.

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**ADDENDA**

## Key Holdings of the Telefónica Group

|   | % Stake |
|---|---------|
| <b>TELEFÓNICA ESPAÑA</b>                        |         |
| Telefónica de España                            | 100.0   |
| Telefónica Móviles España                       | 100.0   |
| Telyco  | 100.0   |
| Iberbanda                                       | 100.0   |
| Acens Technologies                              | 100.0   |
| Tuenti  | 100.0   |
| Telefónica Servicios Integrales de Distribución | 100.0   |
| DTS, Distribuidora de Televisión Digital        | 100.0   |
| <b>TELEFÓNICA UK</b>                            | 100.0   |
| <b>TELEFÓNICA DEUTSCHLAND</b>                   | 69.2    |
| <b>TELEFÓNICA BRASIL</b>                        | 73.7    |
| <b>TELEFÓNICA HISPANOAMÉRICA</b>                |         |
| Telefónica de Argentina                         | 100.0   |
| Telefónica Móviles Argentina                    | 100.0   |
| Telefónica Móviles Chile                        | 100.0   |
| Telefónica Móviles México                       | 100.0   |
| Telefónica Venezuela                            | 100.0   |
| Telefónica Ecuador                              | 100.0   |
| Telefónica Móviles Uruguay                      | 100.0   |
| Telefónica Costa Rica                           | 100.0   |
| Telefónica del Perú                             | 98.6    |
| Telefónica Chile                                | 99.0    |
| Telefónica Colombia                             | 67.5    |
| Telefónica Móviles El Salvador                  | 59.6    |
| Telefónica Móviles Guatemala                    | 60.0    |
| Telefonía Celular Nicaragua                     | 60.0    |
| Telefónica Móviles Panamá                       | 60.0    |
|   | % Stake |
| <b>OTHER STAKES</b>                             |         |
| Telefónica de Contenidos                        | 100.0   |
| Telxius Telecom S.A.U (1)                       | 100.0   |
| Telefónica Digital                              | 100.0   |
| Mediaset Premium (2)                            |         |
| China Unicom (3)                                | 0.8     |
| BBVA  | 0.7     |

- (1) On February 10, 2017, Telefónica reached an agreement for the sale of up to 40% of the total share capital of Telxius Telecom, S.A.U. The closing is subject to obtaining the corresponding regulatory approvals.*
- (2) As of 19 June 2017, Telefónica S.A. sold 11.1% of the share capital of Mediaset Premium. As a result, Telefónica no longer maintains a stake in the Company.*
- (3) As of 24 May 2017, Telefónica S.A. sold 0.2% of the share capital of China Unicom.*
- (4) As of February 19, 2016, stake communicated to CNMV.*

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Changes to the Perimeter

During the first six months of 2017, the following changes have been made to the perimeter of consolidation:

On 13 March 2017, Telefónica increased its shareholding in Telefónica Deutschland Holding AG from 63.2% to 69.2% through a share swap agreement with KPN. Telefónica delivered 72.0m of its treasury shares (representing 1.43% of its share capital), in exchange for 178.5m shares of its subsidiary Telefónica Deutschland Holding AG, representing 6.0% of the share capital of the latter.

Additionally, on 20 February 2017, Telefónica reached an agreement for the sale to Taurus Bidco S.à.r.l. of up to 40% of the capital stock of Telxius for 1,275m ( 12.75 per share). The closing is subject to obtaining the corresponding regulatory approvals. After the transaction Telefónica will maintain control over Telxius.



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### **Alternative performance measures**

Information included in compliance with the ESMA Guidelines, 5 October 2015, on Alternative Performance Measures (APM), applicable to published regulated information from 3 July 2016.

The management of the Group uses a series of APM in its decision-making, in addition to those expressly defined in the IFRS, because they provide additional information useful to assess the Group's performance, solvency and liquidity. These measures should not be viewed in isolation or as a substitute for the measures presented according to the IFRS.

The APM included in this report are: Operating Income Before Depreciation and Amortization, Net financial debt and Net financial debt plus commitments, leverage ratio, Free cash flow, Organic result and Underlying result.

Operating income before amortisation (OIBDA)

Operating income before depreciation and amortization (OIBDA) is calculated by excluding solely depreciation and amortization from operating income. OIBDA is used to track the performance of the business and to establish operating and strategic targets of the Telefónica Group companies. OIBDA is a commonly reported measure and is widely used among analysts, investors and other interested parties in the telecommunications industry, although not a measure explicitly defined in IFRS, and therefore, may not be comparable to similar indicators used by other companies. OIBDA should not be considered as a substitute for operating income or cash flow from operating activities.

The detailed reconciliation of Telefónica Group's OIBDA and Operating Income and each of its segments, can be found on this document (Telefónica Group and Segment P&Ls), as well as on the selected financial information contained on <https://www.telefonica.com/documents/162467/138879215/rdos17t2-data.zip>.

The OIBDA is also defined on the financial information published by the Group as of 30th June, 2017 (see particularly Note 3 and Note 5 of the Condensed Consolidated Interim Financial Statements for the six-month period ended June 30, 2017).

### **Debt indicators**

#### **a) Net financial debt and Net financial debt plus commitments**

As calculated by us, net financial debt includes: (i) current and non-current financial liabilities in our consolidated statement of financial position (which includes the negative mark-to-market value of derivatives) and (ii) other payables included in Trade and other payables (mainly corresponding to payables for deferred payment of radio spectrum). From these liabilities, it is deducted: i) the cash and cash equivalents, ii) the current financial assets (which includes short-term derivatives), iii) the positive mark-to-market value of derivatives with a maturity beyond one year, and iv) other interest-bearing assets (components of Trade and other receivables and Non-current financial assets in our consolidated statement of financial position).

We calculate net financial debt plus commitments by adding to net financial debt gross commitments related to employee benefits, and deducting the value of long-term assets associated with those commitments and the tax benefits arising from the future payments of those commitments.

We believe that net financial debt and net financial debt plus commitments are meaningful for investors and analysts because they provide an analysis of our solvency using the same measures used by our management. We use net financial debt and net financial debt plus commitments to calculate internally certain solvency and leverage ratios used by Management. Nevertheless, neither net financial debt nor net financial debt plus commitments as calculated by us should be considered as a substitute for gross financial debt.

The reconciliation of Telefónica Group's gross financial debt according to the consolidated statement of financial position, net financial debt and net financial debt plus commitments at the end of June 2017 can be found on page 12 of this document and on the financial information contained on

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<https://www.telefonica.com/documents/162467/138879215/rdos17t2-data.zip> . Net financial debt is also defined on the financial information published by the Group as of 30th June 2017 (see Note 3 of the Condensed Consolidated Interim Financial Statements for the six-month period ended June 30, 2017).

**b) Leverage ratio**

The leverage ratio is calculated as the ratio of net financial debt over OIBDA for the past 12 months, including or excluding the OIBDA of the companies which are incorporated or removed from the perimeter of consolidation, and excluding certain factors in line with the calculation of organic OIBDA.

The reconciliation of the leverage ratio can be found in the selected financial information contained on <https://www.telefonica.com/documents/162467/138879215/rdos17t2-data.zip> .

**Free Cash Flow**

The Group's Free cash flow is calculated starting from Net cash flow provided by operating activities as indicated in the consolidated statement of cash flows, deducting payment/proceeds on investments/divestments of property, plant and equipment and intangible assets (excluding cash received from the sale of real state), adding the cash received from government grants and deducting dividends paid to minority interests. The impact of the cancellation of commitments related to employee benefits is added back (originally included in the Net cash flow provided by operating activities) as it represents the payments for the principal of the debt incurred with those employees.

We believe that Free cash flow is a meaningful measure for investors and analysts because it provides an analysis of the cash flow available to protect solvency levels and to remunerate the parent company's shareholders. The same measure is used internally by our management. Nevertheless, Free cash flow as calculated by us should not be considered as a substitute for the consolidated statements of cash flows.

The reconciliation of net cash flow from operations, according to the consolidated statement of cash flows (on a straight-line basis) and the Group's Free cash flow according to the above definition, can be found on the selected financial information contained on <https://www.telefonica.com/documents/162467/138879215/rdos17t2-data.zip> . Free cash flow is also defined in the financial information published by the Group as of 30th June 2017 (see Note 3 of the Condensed Consolidated Interim Financial Statements for the six-month period ended June 30, 2017).

**Organic Result**

Year-on-year changes referred to in this document as organic or presented in organic terms intend to present a homogeneous comparison, by applying a constant perimeter of consolidation, constant exchange rates and other specific adjustments which are described herein. Organic variations, provide useful information about the evolution of the business due to several factors:

They provide information on the organic performance of the Group's operations in the different markets in which it operates, by maintaining constant exchange rates and perimeter, removing the impact of certain

exogenous factors which may distort the year-on-year comparison since they are specific to a certain moment and not associated with the ordinary performance of the business (such as, for example, capital gains or losses from the sale of companies or restructuring associated to simplification plans and aimed at improving efficiency and future profitability of the Company) and therefore, helping the business performance analysis in homogeneous terms.

Organic results are therefore used both internally and by the various agents in the market to conduct consistent monitoring of trends and of the operating performance of the business. Moreover, this data helps the comparison between the business performance of Telefónica and that of other operators, although the term *organic* is not a term defined in IFRS, and the *organic* measures included herein may not be comparable to similar measures presented by other companies.

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For the purposes of this document, organic variation 2017/2016 is defined as the reported variation adjusted by the following factors:

Assumes average constant foreign exchange rates of 2016, excludes the impact of hyperinflation adjustment in Venezuela in both years.

Considers a constant perimeter of consolidation.

At OIBDA and Operating cash flow levels, excludes write-downs, capital gains/losses from the sale of companies, sale of towers, restructuring expenses and non-recurrent material impacts.

CapEx also excludes investment in spectrum.

Reconciliation between reported data and organic revenue figures, OIBDA and operating cash flow can be found on the selected financial information contained on

<https://www.telefonica.com/documents/162467/138879215/rdos17t2-data.zip> .

The Management Report contained in the Consolidated Financial Statements for the six-month period ended June 30, 2017 of Telefónica Group also include the description of the adjustments for the calculation of the organic results

## **Underlying Result**

Underlying results or results in underlying terms and year-on-year changes referred to in this document as underlying or presented in underlying terms intend to present a comparison with the adjustment of certain factors which distort the year-on-year comparison of the business performance. Unlike the organic result, no exchange rate or perimeter adjustments are made to the underlying result. Likewise, the underlying result is calculated up to net income, while organic variations are calculated up to the Operating Cash Flow (OIBDA - CapEx). The underlying result and variations, provide useful information for the company and market agents because:

They provide additional information on the underlying performance of the Group's operations in the different markets, removing the impact of certain factors which distort the year-on-year comparison, as they are specific to a certain moment and not associated with the ordinary performance of the business, and facilitate the underlying analysis of the business.

The inclusion of the business underlying performance is used both internally and by the various agents in the market to perform consistent monitoring of trends and operating performance of the business; this data also facilitates the comparison between the business performance of Telefónica and that of other operators, although the term underlying is not a term defined in IFRS, and the underlying measures included herein

may not be comparable to similar measures presented by other companies.

For the purposes of this document, underlying variation 2017/2016 is defined as the reported variation as adjusted by the following factors:

At OIBDA level, excludes write-downs, capital gains/losses from the sale of companies, sale of towers, restructuring expenses and material non-recurrent impacts.

At net income level, amortisation of assets from purchase price allocation processes is also excluded. Reconciliation between reported data and OIBDA underlying figures and net can be found on the selected financial information contained on <https://www.telefonica.com/documents/162467/138879215/rdos17t2-data.zip> .

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**DISCLAIMER**

This document may contain forward-looking statements regarding intentions, expectations or forecasts related to the Telefónica Group (hereinafter, the Company or Telefónica ). These statements may include financial forecasts and estimates based on assumptions or statements regarding plans, objectives and expectations that make reference to different matters, such as the customer base and its evolution, growth of the different business lines and of the global business, the market share, possible acquisitions, divestitures or other transactions, Company results and other aspects related to the activity and situation of the Company.

The forward-looking statements can be identified, in certain cases, through the use of words such as expectation , anticipation , purpose , belief or similar expressions, or the corresponding negative forms, or through the own predictive nature of all issues referring to strategies, plans or intentions. These forward-looking statements or forecasts reflect the current views of Telefónica with respect to future events, do not represent, by their own nature, any guarantee of future fulfilment, and are subject to risks and uncertainties that could cause the final developments and results to differ substantially from the ones put forward through these intentions, expectations or forecasts. These risks and uncertainties include those identified in the documents containing more comprehensive information filed by Telefónica before the different supervisory Authorities of the securities markets in which its shares are listed and, in particular, the Spanish National Securities Market Commission.

Except as required by applicable laws, Telefónica does not assume any obligation to publicly update these statements to adapt them to events or circumstances taking place after this document, including changes in the Company s business, in its business development strategy or any other unexpected circumstance.

This document may contain summarized, non-audited or Non-GAAP financial information. The information contained herein should therefore be considered as a whole and in conjunction with all the public information regarding the Company available, including, if any, other documents released by the Company that may contain more detailed information.

In October 2015, the European Securities Markets Authority (ESMA) published guidelines on Alternative Performance Measures (APM), applicable to the regulated information published from July 3, 2016. Information and disclosure related to APM used in the present document are included in the Appendix. Moreover, recipients of this document are invited to read our condensed consolidated interim financial statements and consolidated interim management report for the six-month period ended Jun 30, 2017 submitted to the Spanish National Securities Market Commission.

Finally, it is hereby stated that neither this document or any of its contents constitutes an offer to purchase, sale or exchange any securities, a solicitation of any offer to purchase, sale or exchange of securities, or a recommendation or advice regarding any security.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Telefónica, S.A.**

Date: July 27, 2017

By: /s/ Laura Abasolo García de Baquedano

Name: Laura Abasolo García de Baquedano

Title: Chief Finance and Control Officer for Telefonica, S.A.