

TELEFONICA S A
Form 6-K
October 31, 2018
[Table of Contents](#)

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 October, 2018
Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant's name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,
28050 Madrid, Spain
3491-482 87 00

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

Yes

No

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

Yes

No

Edgar Filing: TELEFONICA S A - Form 6-K

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

Yes

No

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

Table of Contents

Telefónica, S.A.

TABLE OF CONTENTS

| Item | | Sequential Page Number |
|-------------|---|---------------------------------------|
| 1. | Telefónica 2018 Third quarter financial results | 2 |

Table of Contents

INTERIM MANAGEMENT STATEMENT

JANUARY SEPTEMBER 2018

Table of Contents

TABLE OF CONTENTS

TELEFÓNICA**Consolidated Results** 5_____ Digitalisation and Monetisation 9_____ Telxius 11**RESULTS BY BUSINESS UNITS****Telefónica España** 18**Telefónica Deutschland** 23**Telefónica UK** 25**Telefónica Brasil** 27**Telefónica Hispam Sur** 30

Argentina, Chile, Perú

Telefónica Hispam Norte 38

Colombia, México

ADDENDA**Key Holdings of the Telefónica Group** 44**Changes to the Perimeter** 45**Alternative performance measures** 46

The financial information related to January-September 2018 contained in this document has been prepared under International Financial Reporting Standards (IFRS), as adopted by the European Union, which do not differ for the purposes of the Telefónica Group, from IFRS as issued by the International Accounting Standards Board (IASB). Telefonica Group applies hyper-inflation accounting to its companies whose functional currency is the Argentine peso for financial information of periods ended after July 1, 2018. According to the accounting reporting standards, hyper-inflation adjustment to financial results is applied retroactively since 1 January 2018 and the information presented in prior results will not be restated.

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.

Edgar Filing: TELEFONICA S A - Form 6-K

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.

Table of Contents

01

CONSOLIDATED RESULTS

During the quarter it is worth to highlight the strong commercial momentum both in customer acquisition and quality; 4.9m net additions in LTE, +1.9m in mobile contract, +550k in UBB and +109k in pay TV. This commercial activity in high-value customers accelerated growth in average revenue per access to +3.5% y-o-y in organic terms (+3.0% in January-September), while churn remained stable. Thus, Telefónica Group's **access base** stood at 356.3m, virtually stable y-o-y.

The growth in high value accesses was driven by the strong demand for data, speed and content: i) **LTE** customers totalled 111.5m (+25% y-o-y) with quarterly net additions of 4.9m and a penetration of 44% (+10 p.p. y-o-y); ii) **mobile contract** accesses (121.6m; +7% y-o-y) reported net additions of 1.9m (+32% y-o-y), backed by the highest mobile contract quarterly net additions in Spain over the last ten years, and represented 45% of total mobile accesses (+3 p.p. y-o-y); iii) **smartphones** (+7% y-o-y; 166.8m), with quarterly net additions of 2.9m (2.1x y-o-y), reached a penetration of 67% (+5 p.p. y-o-y); iv) **FTTx/Cable** (12.8m; +21% y-o-y) reported quarterly net additions of 550k already representing 59% of total fixed broadband accesses (+10 p.p. y-o-y), with a coverage of 49.0m premises passed with proprietary network (+15% y-o-y); and v) **pay TV** (8.8m; +6% y-o-y), with quarterly net additions of 109k (+8% y-o-y).

It should be noted that the following factors impacted third quarter results:

T. Brasil; another favourable court ruling regarding the base for calculating the company's contributions to PIS (Programa de Integração Social) and COFINS (Contribuição para Financiamento da Seguridade Social), complementing a similar ruling in the first half of the year and covering the period between September 2003 and June 2017. This factor had a positive impact in July-September 2018 of 307m on OIBDA and 223m on net financial expenses (+ 792m and + 667m respectively in January-September 2018). In addition, a negative impact of 110m due to various contingencies was registered (- 216m in January-September).

T. Hispam Sur; restructuring costs of 24m (- 20m in Peru and - 4m in Argentina)

T. Hispam Norte; capital gains on the sale of towers in Colombia (24m impact on OIBDA).

Other Companies; capital gains on the sale of digital companies (Tokbox and Digital Inc.) with an impact on OIBDA of 21m in the third quarter.

T. Deutschland; restructuring costs (- 14m).

Additionally, the Group has applied hyperinflation accounting to its companies whose functional currency is the Argentine peso for periods ending 1 July 2018. The inflation adjustment on the financial statements is calculated retroactively since 1 January 2018, with a negative impact on the consolidated results of the Telefónica Group in July-September (- 361m in revenues, - 123m in OIBDA, - 112m in OI and - 76m in CapEx) and January-September (- 618m in revenues, - 229m in OIBDA, - 281m in OI and - 123m in CapEx). Moreover, the depreciation of foreign currencies against the euro, in particular the Brazilian real and Argentine peso, had a negative impact on the Company's reported results. In the third quarter, the exchange rate evolution (excluding the hyperinflation adjustment) reduced y-o-y growth of revenues by 8.1 p.p. and OIBDA by 9.5 p.p. (-8.5 p.p. and -9.8 p.p. respectively in January-September). However, the negative impact of the depreciation of currencies at OIBDA level (- 1,205m in the first nine months of 2018) decreased significantly in terms of cash flow generation (- 330m), since the depreciation also entailed lower payments in terms of CapEx, taxes, interests and dividends to minority shareholders.

Table of Contents

Reported variations of the consolidated financial statements for January-September 2018 reflected the adoption of IFRS 15 and 9 since 1 January 2018 (results of January-September 2017 are reported following prior accounting standards). Organic variations excluded the impact of the accounting change to IFRS 15 in 2018 (- 23m in revenues and + 15m in OIBDA for the third quarter; - 50m and + 36m respectively in the first nine months). The accounting change to IFRS 9 had no significant impact on the results.

Revenues (11,699m in July-September; 35,776m in January-September) accelerated y-o-y growth to 2.7% in organic terms (+2.2% in January-September), on the back of improving service revenues (+1.2% in the quarter; +0.9% in January-September) and the strong progress in handset sales (+20.7% in the third quarter; +19.0% in the nine months). Nevertheless, revenues in reported terms decreased by 8.3% y-o-y in the quarter (-7.9% in the nine months) due to the currency depreciation effect aforementioned.

Mobile data revenues increased in the quarter by 7.8% y-o-y in organic terms (+7.9% in January-September), already representing 61% of mobile service revenues (+4 p.p. y-o-y in organic terms).

Excluding the negative impact of regulation (-1.0 p.p. in the quarter and -1.1 p.p. in January-September), revenue growth would have accelerated to 3.7% y-o-y in organic terms in the quarter (+3.3% in the nine months).

Operating expenses totalled 7,980m in the quarter and decreased 10.2% y-o-y in reported terms (-10.6% in January-September 2018).

In the third quarter, provisions for restructuring costs amounted to 34m (mainly 24m in T. Hispam Sur), affecting personnel expenses (21m) and other net income/expense (12m). In January-September, restructuring costs totalled 98m (135m for the same period in 2017).

Also, contingencies in Brazil amounted to 110m in the third quarter, affecting other operating expenses (112m) and other net income/expense (- 2m).

Finally, reported evolution of operating expenses (other operating expenses) was affected by the before mentioned Brazilian court rulings (307m in the third quarter; 792m in January-September).

In organic terms, operating expenses increased by 2.8% y-o-y in the third quarter (+1.9% in the first nine months). Supplies accelerated their y-o-y growth (+4.6% in July-September; +3.5% in January-September) due to increased handset consumption and higher content costs despite interconnection savings. Other operating expenses increased y-o-y (+1.6% in the third quarter; +1.0% in the first nine months), reflecting increased network and systems costs and higher distribution costs associated to the positive commercial performance. Personnel expenses increased by 1.2% y-o-y in organic terms in the quarter (+0.3% in January-September) despite savings from redundancy programmes, affected by salary updates in Argentina since August.

The average headcount in January-September 2018 stood at 122,151 employees (-3.0% y-o-y).

Gain on sale of fixed assets in the third quarter amounted to 65m (18m in the same period in 2017), highlighting the impact on OIBDA of 24m from capital gains on the sale of towers in T. Hispam Norte, 21m from capital gains on the sale of Tokbox and Digital Inc., and 10m from the sale of real estate assets in T. España (10m in the third quarter of 2017).

Thus, **Operating income before depreciation and amortisation (OIBDA)** totalled 4,038m in the third quarter, decreasing by 1.4% y-o-y. In January-September, OIBDA amounted to 12,035m (-2.0% y-o-y).

In organic terms, OIBDA increased by 4.1% y-o-y in the quarter (+3.8% in January-September), reflecting the positive revenue evolution, savings from digitalisation and simplification, and cost containment efforts.

Excluding the impact from regulation (-1.3 p.p. in the third quarter and -1.9 p.p. in January-September), OIBDA would have risen by 5.4% y-o-y in organic terms in the quarter and 5.7% in the first nine months.

OIBDA margin stood at 34.5% in the third quarter (+2.4 p.p. y-o-y) and 32.7% in organic terms (+0.4 p.p. y-o-y). In January-September, it reached 33.6% (+2.0 p.p. y-o-y) and 32.5% in organic terms (+0.5 p.p. y-o-y).

Table of Contents

Underlying OIBDA reached 3,939m in the quarter (-4.3% y-o-y), excluding the impact associated with the before mentioned Brazilian court ruling (307m), contingencies in Brazil (- 110m), hyperinflation adjustment in Argentina(- 123m), restructuring costs (- 34m), capital gains on the sale of towers (24m) and digital companies (21m), and the adoption of IFRS 15 (15m). Underlying OIBDA in the first nine months amounted to 11,804m (-4.9%).

Depreciation and amortisation stood at 2,112m in the quarter and declined by 9.0% y-o-y (-7.7% in January-September). In organic terms, it decreased by 2.4% y-o-y (-1.5% in January-September).

Operating income (OI) thus reached 1,926 in the quarter and rose by 8.6% y-o-y (+6.0% in January-September). In organic terms, it grew by 12.6% y-o-y in the quarter (+11.1% in the first nine months).

Net financial expenses in the third quarter (209m) were affected by the positive impacts on the financial statements associated with the before mentioned favourable court ruling in Brazil (223m) and the hyperinflation adjustment in Argentina (13m). Excluding these impacts, net financial expenses would have improved by 87m compared to the same period in the previous year, reflecting mainly savings due to the reduction in both debt and average cost of debt.

Corporate income tax (366m in July-September) was mainly affected by the impact associated with the aforementioned favourable court ruling in Brazil.

Profit attributable to non-controlling interests in the third quarter (209m) increased by 152m y-o-y, mainly due to the greater profit attributed to minority shareholders of T. Brasil, the profit attributed to minority shareholders of Telxius (after the closing of a 40% stake sale in the fourth quarter 2017 and 9.99% in July 2018), and higher profits attributed to minority shareholders of T. Colombia and T. Deutschland.

In this regard, the **profit attributable to ordinary equity holders of the parent** in the third quarter reached 1,139m and grew 35.8% y-o-y (2,721m in January-September; +11.6% y-o-y).

In underlying terms, this profit increased 12.6% y-o-y in the third quarter (+3.1% in the first nine months of 2018) after excluding in July-September the following impacts: i) Brazilian court ruling (258m), ii) depreciation and amortisation charges from purchase price allocation processes (- 101m), iii) contingencies in Brazil (- 83m), iv) capital gains on the sale of digital companies (21m), v) restructuring costs (- 13m), vi) capital gains on the sale of towers (10m), vii) adoption of IFRS 15 (6m) and viii) hyperinflation adjustment in Argentina (- 103m).

Basic earnings per share reached 0.21 in the third quarter, growing 39.8% y-o-y (0.46 in the first nine months; +6.1% y-o-y). In underlying terms, they stood at 0.21 in July-September (+14.1% y-o-y) and 0.58 in January-September (+3.0% y-o-y).

CapEx in the first nine months of 2018 totalled 5,680m (+4.7% y-o-y) and included 612m from spectrum (19m in the third quarter: 11m in Argentina and 7m in Spain). In organic terms, it increased by 5.0% and continued to focus on the radical transformation of networks (deployment of ultrabroadband networks and network virtualisation) and quality improvement.

Operating cash flow (OIBDA-CapEx) reached 6,354m in January-September 2018 and increased by 0.7% y-o-y. In organic terms, it grew by 2.9% reflecting the good business performance.

Interest payments in the first nine months of the year (1,283m) decreased by 3.0% y-o-y, and the effective cost of interest payments in the last twelve months stood at 3.45% at September 2018 (3.48% at June 2018).

Tax payments amounted to 518m in January-September 2018, decreasing by 27.4% y-o-y, mainly due to larger tax refunds from previous years and exchange rates evolution.

Working capital consumed 1,160m in January-September 2018 due to CapEx seasonality, payments of taxes and site rentals, and the effect associated with the aforementioned Brazilian court rulings, partially offset by the execution of factoring measures on accounts receivable and the extension of payment terms with suppliers or with the factoring firm where those had been discounted. This consumption was 237m greater than in the same period in 2017, mostly because of the Brazilian court rulings, despite lower restructuring payments.

Table of Contents

Operations with minority shareholders amounted to 527m in the first nine months of 2018, a 51.1% y-o-y increase, affected by the payment in the first quarter of 2018 of an extraordinary dividend to Telxius shareholders (166m; mainly associated with the optimisation of the company's capital structure). In July-September 2018, payments to minority shareholders totalled 122m compared to 94m in the third quarter 2017, due to higher dividend payments to T. Brasil minority shareholders reflecting improved profits.

Free cash flow reached 2,957m in the first nine months of the year (-8.3% y-o-y) and increased by 0.9% excluding spectrum payments.

Net financial debt at September (42,636m) decreased by 1,594m compared to December 2017 thanks to free cash flow generation (2,957m; including 634m spectrum payment, mainly in the UK), net financial divestments (349m) and other factors for a net amount of 553m (including the aforementioned favourable court rulings in Brazil, extension of payment terms with suppliers or the factoring firm, and lower value in euros of net debt in foreign currencies). On the other hand; i) shareholder remuneration (1,684m, including coupon payments and the replacement of capital instruments) and ii) labour-related commitments (581m), increased debt.

Debt in the third quarter was reduced by 957m thanks to free cash flow generation (1,420m), net financial divestments (449m, including the sale of an indirect 9.99% stake in Telxius for 379m) and the lower value in euros of net debt in foreign currencies (36m). On the other hand; i) shareholder remuneration (725m, including the payment of coupons and the replacement of capital instruments), ii) labour-related commitments (185m) and iii) and other factors for a net amount of 38m (mainly including the second favourable court ruling in Brazil and extension of payment terms with suppliers or the factoring firm), increased debt.

During the first nine months of 2018, the **financing activity of Telefónica** increased to approximately 12,360m equivalent (without considering the refinancing of commercial paper) and focused on maintaining a solid liquidity position, and refinancing and extending debt maturities (in an environment of low interest rates). Therefore, as of the end of September, the Group has covered debt maturities for the next two years. The average debt life stood at 9.16 years (versus 8.08 years in December 2017).

Among the main financial transactions in the quarter, outstood in September an issuance of 1,000m bond for a term of 7 years and an annual coupon of 1.495% by Telefónica Emisiones, S.A.U. Additionally, in July, Telefónica Deutschland closed a senior debt issuance of 600m maturing in July 2025 with an annual coupon of 1.750%.

Throughout the first nine months, Telefónica Group obtained funding by means of extending payment terms with suppliers or with the factoring firm where those had been discounted for a total of 349m equivalent (609m equivalent in January-September 2017).

Additionally, Telefónica, S.A. and its holding companies continued their issuance activity under the Promissory Notes and Commercial Paper Programmes (Domestic and European), maintaining an outstanding notional balance of approximately 1,967m at the end of September.

At the end of September, Telefónica maintained undrawn, committed credit lines with different credit institutions for an approximate amount of 12,083m (11,620m maturing in more than twelve months) which, combined with the cash equivalents position and current financial assets, placed liquidity at 20,425m.

Definitions:

Organic growth: Assumes average constant foreign exchange rates of 2017, except for Venezuela (2017 and 2018 results converted at the closing synthetic exchange rate for each period) and excludes in 2018 the hyperinflation adjustment in Argentina. Considers constant perimeter of consolidation. Excludes the effects of the accounting change to IFRS 15 in 2018, write-downs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts. CapEx excludes spectrum investments.

Underlying growth: Excludes the effects of the accounting change to IFRS 15 in 2018, write-downs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts as well as depreciation and amortisation charges from purchase price allocation processes. Excludes in 2018 the hyperinflation adjustment in Argentina.

Table of Contents

Digitalisation and Monetisation

(y-o-y changes in organic terms)

In a context where connectivity and digitalisation are key to the global digital ecosystem, Telefónica continued developing its platforms and fostering a differential customer experience. The purpose of the **first platform** is thus to guarantee **excellent connectivity** in a differential, scalable, and efficient network:

The Group's FTTx/Cable coverage reached 81.0m premises passed at the end of September (49.0m for proprietary network, +15% y-o-y), 20.8m FTTH in Spain, 9.0m **FTTx/Cable** in Hispam (+45% y-o-y) and 19.3m in Brazil. Connected accesses grew by 21% y-o-y (12.8m). Process industrialisation makes deployment increasingly efficient on reduced network incidents, lower equipment costs and installation times which is enhanced by the interoperability with next-generation FTTH network equipment (XGS-PON) from this quarter onwards.

LTE coverage stood at 75% at September (+6 p.p. y-o-y; 92% in Europe and 69% in Latam) and LTE traffic represented 64% of the total traffic. In parallel, progress has been made towards 5G with the use of Massive MIMO and 4.5G deployment in Germany, Brazil, Mexico and Colombia. The opening of the new 5G innovation centre in Malaga for connected vehicles, joint efforts with other operators in order to promote new 4G/5G network equipment architectures based on open solutions, were particularly prominent. Telefónica will thus have greater control over the value chain (in HW and SW), will be more cost-efficient and flexible with new functional features and services without having to rely on third parties.

Unified fixed access customer devices continued expanding and are the basis for integrating proprietary and third-party high-quality services. Thus, of the over 30 million installed devices, more than 4m are lower cost HGU (Home Gateway Units) incorporating the latest technologies (Smart WiFi, 802.11 pre-ax, GPON upgrade), whose growth is expected to accelerate thanks to the availability of global software for Smart WiFi deployment (with the use of multiband WiFi and signal repeaters), all controlled by the customer from a mobile app.

The global UNICA solution, key in the Company's **virtualisation** programme, reached 30 data centres in 11 countries, and enables dynamic, virtual and centralised management of network functions through SDN/NFV solutions.

In the **second platform** (structural transformation of **systems and IT**), 27% of the customer base has been already migrated to Full Stack (+8 p.p. y-o-y), and 63% of processes are digitalised and managed in real time (+8 p.p. y-o-y), improving time-to-market and customer experience.

The Company continued focused on **E2E digitalisation**. The 5 defined priorities are: i) Increase **direct sales interaction** with our customers (focusing on online sales), ii) Promote top-ups and sale of additional bundles through **digital channels**, iii) Increase the efficiency of **payment and collection process**, improving customer experience, iv)

Improve the experience in the **provision process and technical support**, and v) Improve the experience in **customer service**.

Thus, progress is made in all operations, and proof of this are the following examples of the third quarter.

In Spain:

Digital channel sales (28% of total) increased by 50% y-o-y in overall accesses and by 73% in Fusión.

68% of corporate customers use digital channels (+9 p.p. y-o-y).

Use of the Mi Movistar app grew by 43% y-o-y (2.9m customers), while web use increased by 28% (10.0m users).

Table of Contents

40% of the calls for technical incidents were self-managed (+21% y-o-y).

Over 50 use cases based on Advanced Analytics were implemented (VoD TV content recommender or identification of root causes for calls to the call centre).

In Brazil:

Use of the Meu Vivo App increased by 46% y-o-y to 7.6m users.

Prepay top-ups in digital channels increased by 20% y-o-y (new options and focus on UX).

E-billing grew by 41% y-o-y; half of our customer base are using only digital invoicing.

63% of the technical problems were resolved through digital tools.

Calls to the call centre decreased by 30% y-o-y.

In the **third platform**, we have an attractive offering of **products and services**.

In the **consumer segment**, the offering drives demand for data and speed, increase in ARPU and customer loyalty. In addition to the family data plans, integration of digital services (video, music, cloud, etc.) and recurring data plans in prepay (43% penetration in Latam), flexible and tailored tariffs to customer needs have been launched, such as **Vivo Easy** in Brazil (100% digital experience) and **Your phone your way** in the United Kingdom (linked to handsets). Additionally, a new and simpler convergent portfolio with more football content was launched in Spain at the end of October.

In the **corporate segment**, a portfolio of differential solutions continued to be built to boost the digitization of large customers (companies, multinational corporations, public sector customers) and SME customers, backed by global capabilities as connectivity and digital services provider (own and third-parties). Thus, the good performance in advanced IP and digital communications services (Cloud, security, IoT, etc.) and the global agreements reached (Dufry, digital transformation in 12 countries within the next 2 years) highlight the leadership as IT provider (ranked 3rd in Spain according to Gartner).

The weight of **revenues from services beyond connectivity** continued increasing and account for 14% of the Group revenues (+1 p.p. vs. September 2017). **Digital service revenues** are worth highlighting (1,650m in Q3; +19.4% y-o-y and 4,901m in 9M; +25.3%):

i) **Video revenues** (44% of digital service revenues in 9M) stood at 710m (-0.7% vs. Q3 17) and 2,149m in 9M (+0.2 y-o-y). The total Video access base amounted to 9.9m (8.8m Pay TV accesses, +6% y-o-y, and 1.0m active accesses in the Movistar Play OTT service in Latam, and it is worth highlighting the launch of Netflix integrated in the Movistar

platform in Chile (joining Colombia, Ecuador and the UK).

ii) Revenues from **Advanced Digital Services** (20% of digital service revenues in 9M), mainly aimed at corporate customers, stood at 344m in the quarter (+23.1% y-o-y; 990m, +26.6% in the first nine months), driven by **M2M** (99m; +40.5% y-o-y) and, in particular by managed connectivity services (Smart M2M) and value-added E2E services and **Security** (96m; +64.4% y-o-y, +99% in corporates), with the meaningful opening in the quarter of a Security Operating Centre in Ecuador, which raises the total number of centres to 11 worldwide, and the closing of several deals with key customers.

iii) **Contents** (27% of the digital service revenues in 9M; 452m in revenues in the quarter) maintained solid growth (+67.5 y-o-y) again driven by Brazil. In the first nine months they amount to 1,305m (+107.6%).

iv) **Other Digital Services** (9% of revenues in digital services in 9M; 144m in Q3) grew by 5.9% (+10.1% in 9M to 457m) supported by the advertising business.

Table of Contents

Finally, in the **fourth platform**, the Movistar Home smart device was presented in October in Spain (with access to **Aura**, Telefónica's cognitive intelligence) and provides users with the possibility of managing Movistar+ content, communications and home connectivity.

The pre-order campaign (5,000 units at €49) was a success, quickly exceeding the units available, which will be delivered from 15th November. Later on, the Christmas campaign will be launched, during which the device will be sold at €79.

Telxius

(y-o-y changes in organic terms)

In the third quarter, **Telxius** posted a solid business performance, being worth highlighting the new towers built and BRUSA submarine cable (connecting the USA, Puerto Rico and Brazil) being ready for service.

Revenues amounted to €231m and grew by 33.6% y-o-y, positively impacted by an exceptional sale of capacity associated to the BRUSA's ready for service (excluding this impact revenues would have increased by +5.3% y-o-y). Tower revenues (€85m) maintained a solid growth of 11.8% y-o-y in the quarter and cable revenues (€149m) strongly improved (+50.6% y-o-y) mainly driven by the positive impact from the mentioned transaction.

In the first nine months of the year, revenues reached €597m (+13.6% y-o-y), Towers business totalled €243m (+10.0%) and Cable business amounted to €354m (+16.2% y-o-y).

OIBDA stood at €107m in July-September and grew by 30.9% y-o-y (€280m; +11.5% in the first nine months) driven by both businesses, and showing the revenues and expenses related to the sale of capacity associated to BRUSA in the quarter (excluding this impact it would have increased by 6.5% y-o-y). The OIBDA margin stood at 46.0% in the quarter (46.8% in the first nine months).

In the **tower business** it is worth mentioning the addition of 101 towers newly built to the portfolio in the quarter, mainly in Spain, Brazil and Peru, and thus reached 16,554 towers at end of September (+266 in the first nine months). Additionally, the tenancy ratio continued its growing trend and improved to 1.35x (+0.01x q-o-q; +0.04x y-o-y).

In the **cable business**, it is particularly noteworthy the ready for service of BRUSA submarine cable, with the highest capacity to date connecting the Americas, with a length of 11,000km and 8-fibre pairs with a capacity up to 138Tbps between USA, Brazil and Puerto Rico. Additionally, the demand for international traffic managed maintained substantial growth (+25% y-o-y in IP traffic and +20% in broadband capacity service).

CapEx amounted to €132m in the first nine months (+4.6% y-o-y) and started to show the downward trend after MAREA and BRUSA cables came into service.

Thus, **operating cash flow** (OIBDA-CapEx) increased by +18.9% y-o-y in the first nine months and reached €148m.

On 27 July 2018, Telefónica transferred 9.99% of its indirect stake in the share capital of Telxius to the Pontegadea Group for €379m.

Table of Contents

TELEFÓNICA

ACCESSES

Unaudited figures (thousands)

| | 2017 | | | | 2018 | | | % Chg |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--------|
| | March | June | September | December | March | June | September | |
| Final Clients | | | | | | | | |
| Accesses | 341,785.7 | 341,347.3 | 339,843.1 | 338,997.9 | 337,921.1 | 338,521.8 | 337,077.3 | (0.8) |
| Fixed | | | | | | | | (4.4) |
| telephony | | | | | | | | |
| accesses (1) | 37,853.0 | 37,488.4 | 37,028.0 | 36,898.6 | 36,404.2 | 35,973.3 | 35,414.0 | |
| Internet and | | | | | | | | 1.8 |
| data accesses | 21,657.8 | 21,697.3 | 21,696.7 | 21,864.6 | 21,827.0 | 21,911.5 | 22,087.7 | |
| Broadband | 21,196.4 | 21,240.4 | 21,243.8 | 21,417.5 | 21,385.9 | 21,460.2 | 21,638.0 | 1.9 |
| FTTx/Cable | 9,580.6 | 9,960.5 | 10,511.8 | 10,961.6 | 11,491.8 | 12,216.0 | 12,766.4 | 21.4 |
| Mobile | | | | | | | | (0.7) |
| accesses | 274,055.6 | 273,886.6 | 272,742.7 | 271,766.9 | 271,084.9 | 271,901.0 | 270,730.3 | |
| Prepay | 162,648.4 | 161,271.6 | 158,662.8 | 155,868.5 | 153,623.2 | 152,234.0 | 149,131.7 | (6.0) |
| Contract | 111,407.2 | 112,615.0 | 114,079.9 | 115,898.4 | 117,461.7 | 119,667.0 | 121,598.5 | 6.6 |
| M2M | 14,488.0 | 15,009.9 | 15,572.9 | 16,137.2 | 16,778.1 | 17,623.4 | 18,397.9 | 18.1 |
| Pay TV | 8,219.3 | 8,274.9 | 8,375.8 | 8,467.7 | 8,604.9 | 8,736.1 | 8,845.3 | 5.6 |
| Wholesale | | | | | | | | 2.4 |
| Accesses | 18,392.2 | 18,507.4 | 18,752.0 | 19,124.9 | 19,021.1 | 18,966.5 | 19,207.0 | |
| Fixed | | | | | | | | |
| wholesale | | | | | | | | |
| accesses | 5,087.1 | 4,887.2 | 4,689.4 | 4,460.2 | 4,222.2 | 4,082.6 | 3,987.7 | (15.0) |
| Mobile | | | | | | | | |
| wholesale | | | | | | | | |
| accesses (2) | 13,305.1 | 13,620.2 | 14,062.6 | 14,664.7 | 14,798.9 | 14,883.9 | 15,219.3 | 8.2 |
| Total Accesses | 360,177.9 | 359,854.7 | 358,595.1 | 358,122.8 | 356,942.2 | 357,488.4 | 356,284.3 | (0.6) |

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

TELEFÓNICA

MOBILE ACCESSES

Unaudited figures

| | 2017 | | | | 2018 | | | % Chg |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--------|
| | March | June | September | December | March | June | September | |
| Contract percentage (%) | 40.7% | 41.1% | 41.8% | 42.6% | 43.3% | 44.0% | 44.9% | 3.1 p. |
| Smartphones ('000) | 151,547.7 | 155,126.7 | 156,511.5 | 158,717.7 | 161,572.5 | 163,886.0 | 166,794.1 | 6.6 |
| Smartphone | | | | | | | | |
| Penetration (%) | 59.4% | 60.9% | 61.8% | 63.0% | 64.4% | 65.3% | 66.9% | 5.1 p. |
| Revenue ('000) | 75,458.8 | 81,604.2 | 88,978.7 | 97,534.0 | 102,910.4 | 106,617.8 | 111,529.1 | 25.3 |
| Revenue penetration (%) | 29.1% | 31.5% | 34.6% | 38.2% | 40.5% | 41.9% | 44.2% | 9.6 p. |

Table of Contents

TELEFÓNICA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

| | January - September | | % Chg | | July - September | | % Chg | |
|--|---------------------|---------------|-----------------|-----------------|------------------|--------------|-----------------|-----------------|
| | 2018 | 2017 | Reported | Organic | 2018 | 2017 | Reported | Organic |
| Revenues | 35,776 | 38,846 | (7.9) | 2.2 | 11,699 | 12,754 | (8.3) | 2.7 |
| Internal exp. capitalised in fixed assets | 595 | 644 | (7.6) | (1.9) | 193 | 214 | (10.1) | (4.4) |
| Operating expenses | (24,395) | (27,280) | (10.6) | 1.9 | (7,980) | (8,884) | (10.2) | 2.8 |
| Supplies | (10,015) | (11,018) | (9.1) | 3.5 | (3,366) | (3,656) | (7.9) | 4.6 |
| Personnel expenses | (4,472) | (5,091) | (12.2) | 0.3 | (1,401) | (1,598) | (12.3) | 1.2 |
| Other operating expenses | (9,909) | (11,171) | (11.3) | 1.0 | (3,213) | (3,630) | (11.5) | 1.6 |
| Other net income (expense) | 54 | 25 | n.m. | n.m. | 62 | (3) | c.s. | n.m. |
| Gain (loss) on sale of fixed assets | 117 | 35 | n.m. | 84.6 | 65 | 18 | n.m. | 9.6 |
| Impairment of goodwill and other assets | (112) | 5 | c.s. | c.s. | (1) | (4) | (84.5) | (91.2) |
| <i>Underlying operating income before D&A (OIBDA)</i> | <i>11,804</i> | <i>12,408</i> | <i>(4.9)</i> | | <i>3,939</i> | <i>4,116</i> | <i>(4.3)</i> | |
| Operating income before D&A (OIBDA) | 12,035 | 12,274 | (2.0) | 3.8 | 4,038 | 4,095 | (1.4) | 4.1 |
| <i>OIBDA Margin</i> | <i>33.6%</i> | <i>31.6%</i> | <i>2.0 p.p.</i> | <i>0.5 p.p.</i> | <i>34.5%</i> | <i>32.1%</i> | <i>2.4 p.p.</i> | <i>0.4 p.p.</i> |
| Depreciation and amortization | (6,581) | (7,131) | (7.7) | (1.5) | (2,112) | (2,322) | (9.0) | (2.4) |
| Operating income (OI) | 5,454 | 5,143 | 6.0 | 11.1 | 1,926 | 1,773 | 8.6 | 12.6 |
| Share of profit (loss) of investments accounted for by the equity method | 2 | 5 | (64.5) | | (3) | 2 | c.s. | |

Edgar Filing: TELEFONICA S A - Form 6-K

| | | | | | | |
|--|---------|---------|--------|-------|-------|--------|
| Net financial income (expense) | (575) | (1,729) | (66.7) | (209) | (532) | (60.7) |
| Profit before taxes | 4,881 | 3,419 | 42.7 | 1,714 | 1,243 | 37.9 |
| Corporate income tax | (1,669) | (867) | 92.5 | (366) | (347) | 5.4 |
| Profit for the period | 3,212 | 2,552 | 25.8 | 1,348 | 896 | 50.5 |
| Attributable to equity holders of the Parent | 2,721 | 2,439 | 11.6 | 1,139 | 839 | 35.8 |
| Attributable to non-controlling interests | 491 | 113 | n.m. | 209 | 57 | n.m. |
| Weighted average number of ordinary shares outstanding during the period (millions) | 5,127 | 5,105 | 0.4 | 5,127 | 5,125 | 0.0 |
| Basic and diluted earnings per share attributable to equity holders of the Parent (euros) | 0.46 | 0.44 | 6.1 | 0.21 | 0.15 | 39.8 |
| Underlying basic and diluted earnings per share attributable to equity holders of the Parent (euros) | 0.58 | 0.56 | 3.0 | 0.21 | 0.19 | 14.1 |
| Notes: | | | | | | |

- January-September and July-September 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.
- Following the consideration of the Argentine economy as hyperinflationary from an accounting perspective for periods ended after 1 July 2018, the operations of Telefónica in Argentina adjusted by inflation are to be accounted at the closing exchange rate Argentine Peso/Euro. Consolidated reported results for July-September 2018 have been calculated taking as a reference first half 2018 results adjusted by inflation in Argentina (see explanation in Alternative Performance Measures appendix).
- The operations of Telefónica in Venezuela adjusted by inflation are to be accounted at the closing exchange rate Bolívar Soberano/Euro. For the January-September 2018 period Telefónica uses a synthetic Exchange rate of 428.30 Bolívares Soberanos/USD as of end of September 2018.
- Basic and diluted earnings per share ratio is calculated dividing Profit for the period Attributable to equity holders of the Parent, adjusted for the net coupon corresponding to Other equity instruments (340m in January-September 2018 and 63m in July-September 2018), by the weighted average number of ordinary shares outstanding during the period.

TELEFÓNICA

GUIDANCE 2018

| 2017 Base | 2018 Guidance | Upgraded 2018 Guidance (Oct-2018) | 2018 Jan - Sep |
|------------------------|---|--|-------------------|
| 52,037 | growing around 1% (in spite of regulation: ~-0.9 p.p.) | growing around 2% (in spite of regulation: ~-0.9 p.p.) | |
| Revenues (% Chg YoY) | | | 2.2% |
| 32.0% | Expansion of around 0.5 p.p. (despite regulation dragging -1.6 p.p.) | Expansion of around 0.5 p.p. (despite regulation dragging -1.6 p.p.) | 0.5 p.p. |
| OIBDA margin (Chg YoY) | | | |
| 15.7% | CapEx / Sales | Around 15% | Around 15% |
| | | | 14.5% |

- **Organic growth:** Assumes average constant foreign exchange rates of 2017, except for Venezuela (2017 and 2018 results converted at the closing synthetic exchange rate for each period) and excludes in 2018 the hyperinflation adjustment in Argentina. Considers constant perimeter of consolidation. Excludes the effects of the accounting change to IFRS 15 in 2018, write-downs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts. CapEx excludes spectrum investments.

Table of Contents

TELEFÓNICA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures (Euros in millions)

| | September 2018 | December 2017 | % Chg |
|---|----------------|----------------|--------------|
| Non-current assets | 91,248 | 95,135 | (4.1) |
| Intangible assets | 16,822 | 18,005 | (6.6) |
| Goodwill | 25,739 | 26,841 | (4.1) |
| Property, plant and equipment | 33,125 | 34,225 | (3.2) |
| Investments accounted for by the equity method | 65 | 77 | (15.3) |
| Financial assets and other non-current assets | 8,118 | 8,167 | (0.6) |
| Deferred tax assets | 7,378 | 7,820 | (5.7) |
| Current assets | 22,015 | 19,931 | 10.5 |
| Inventories | 1,813 | 1,117 | 62.4 |
| Receivables and other current assets | 10,528 | 10,093 | 4.3 |
| Tax receivables | 1,246 | 1,375 | (9.3) |
| Other current financial assets | 2,204 | 2,154 | 2.3 |
| Cash and cash equivalents | 6,138 | 5,192 | 18.2 |
| Non-current assets classified as held for sale | 86 | 0 | n.m. |
| Total Assets = Total Equity and Liabilities | 113,263 | 115,066 | (1.6) |
| Equity | 25,194 | 26,618 | (5.4) |
| Equity attributable to equity holders of the parent and other holders of equity instruments | 16,273 | 16,920 | (3.8) |
| Equity attributable to non-controlling interests | 8,921 | 9,698 | (8.0) |
| Non-current liabilities | 59,881 | 59,382 | 0.8 |
| Non-current financial liabilities | 47,482 | 46,332 | 2.5 |
| Payables and other non-current liabilities | 1,827 | 1,687 | 8.3 |
| Deferred tax liabilities | 2,579 | 2,145 | 20.2 |
| Non-current provisions | 7,993 | 9,218 | (13.3) |
| Current liabilities | 28,188 | 29,066 | (3.0) |
| Current financial liabilities | 8,506 | 9,414 | (9.6) |
| Payables and other current liabilities | 15,641 | 15,095 | 3.6 |
| Current tax payables | 1,981 | 2,341 | (15.4) |
| Current provisions | 2,056 | 2,216 | (7.2) |
| Liabilities associated with non-current assets held for sale | 4 | | n.m. |
| Financial Data | | | |
| Net Financial debt | 42,636 | 44,230 | (3.6) |

- Following the consideration of the Argentine economy as hyperinflationary from an accounting perspective for periods ended after 1 July 2018, the operations of Telefónica in Argentina are adjusted by inflation.

TELEFÓNICA

NET FINANCIAL DEBT PLUS COMMITMENTS

Unaudited figures (Euros in millions)

| | September 2018 |
|--|----------------|
| Non-current financial liabilities | 47,482 |
| Current financial liabilities | 8,506 |
| Gross Financial Debt | 55,988 |
| Cash and cash equivalents | (6,138) |
| Other current financial assets | (2,204) |
| Positive mark-to-market value of long-term derivative instruments | (2,610) |
| Other liabilities included in Payables and other non-current liabilities | 686 |
| Other liabilities included in Payables and other current liabilities | 112 |
| Other assets included in Financial assets and other non-current assets | (2,169) |
| Other assets included in Receivables and other current assets | (753) |
| Other assets included in Tax receivables | (276) |
| Net Financial Debt (1) | 42,636 |
| Gross commitments related to employee benefits | 5,916 |
| Value of associated Long-term assets | (727) |
| Tax benefits | (1,370) |
| Net commitments related to employee benefits | 3,818 |
| Net financial debt plus commitments | 46,454 |
| Net Financial Debt / OIBDA | 2.68x |

Notes:

- (1) Net financial debt includes a positive value of the derivatives portfolio for a net amount of 628m, 2,769m included as financial liabilities and 3,397m included as financial assets.

Table of Contents

TELEFÓNICA

CONSOLIDATED CASH FLOW STATEMENT

Unaudited figures (Euros in millions)

| | January - September | | % |
|---|---------------------|----------------|---------------|
| | 2018 | 2017 | Var |
| Cash received from operations | 43,393 | 47,716 | |
| Cash paid from operations | (32,382) | (35,818) | |
| Net payments of interest and other financial expenses net of dividends received | (1,283) | (1,322) | |
| Net interest and other financial expenses paid | (1,305) | (1,346) | |
| Dividends received | 22 | 24 | |
| Taxes paid | (518) | (713) | |
| Net cash flow provided by operating activities | 9,210 | 9,863 | (6.6) |
| (Payments)/proceeds on investments in property, plant and equipment and intangible assets | (6,345) | (6,794) | |
| Proceeds from the sale in property, plant and equipment and intangible assets | 102 | 79 | |
| Payments on investments in property, plant and equipment and intangible assets | (6,447) | (6,873) | |
| Proceeds on disposals of companies, net of cash and cash equivalents disposed | 29 | 36 | |
| Payments on investments in companies, net of cash and cash equivalents acquired | (2) | (108) | |
| Proceeds on financial investments not included under cash equivalents | 597 | 234 | |
| Payments on financial investments not included under cash equivalents | (657) | (843) | |
| (Payments)/proceeds on placements of cash surpluses not included under cash equivalents, net | (247) | (525) | |
| Government grants received | 37 | | |
| Net cash flow used in investing activities | (6,588) | (8,000) | (17.7) |
| Dividends paid | (1,720) | (1,395) | |
| Proceeds from issue of share capital increase | | 2 | |
| Proceeds/(payments) of treasury shares and other operations with shareholders and with minority interests | 379 | (1) | |
| Operations with other equity holders (1) | (492) | (274) | |
| Proceeds on issue of debentures and bonds, and other debts | 4,268 | 8,088 | |
| Proceeds on loans, borrowings and promissory notes | 3,197 | 3,886 | |
| Cancellation of debentures and bonds, and other debts | (3,833) | (6,534) | |

Edgar Filing: TELEFONICA S A - Form 6-K

| | | | |
|---|----------------|----------------|---------------|
| Repayments of loans, borrowings and promissory notes | (2,923) | (4,447) | |
| Financed operating payments and investments in property, plant and equipment and intangible assets payments | (321) | (1,012) | |
| Net cash used in financing activities | (1,445) | (1,687) | (14.3) |
| Effect of changes in exchange rates | (231) | (216) | |
| Effect of changes in consolidation methods and others | | | |
| Net increase (decrease) in cash and cash equivalents during the year | 946 | (40) | c.s. |
| Cash and cash equivalents at the beginning of the period | 5,192 | 3,736 | |
| Cash and cash equivalents at the end of the period | 6,138 | 3,696 | |

Notes:

- *Following the consideration of the Argentine economy as hyperinflationary from an accounting perspective for periods ended after 1 July 2018, the operations of Telefónica in Argentina adjusted by inflation are to be accounted at the closing exchange rate Argentine Peso/Euro.*
- 1) *Includes issuance and coupons of undated deeply subordinated securities.*

Table of Contents

TELEFÓNICA

FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

| | | January - September | | |
|------------|--|---------------------|---------|-------|
| | | 2018 | 2017 | % Chg |
| I | Cash flow from operations | 11,049 | 11,898 | (7.1) |
| II | Net interest payment (1) | (1,283) | (1,322) | |
| III | Payment for income tax | (518) | (713) | |
| A=I+II+III | Net cash provided by operating activities (2) | 9,248 | 9,863 | (6.2) |
| B | Net payment for investment in fixed and intangible assets (3) | (6,344) | (6,794) | |
| | Spectrum (4) | (634) | (333) | |
| C=A+B | Net free cash flow after CapEx | 2,903 | 3,068 | (5.4) |
| D | Net payment for financial investment | (33) | (680) | |
| E | Net payment for operations with minority shareholders and treasury stock (5) | (1,833) | (1,668) | |
| F=C+D+E | Free cash flow after dividends | 1,037 | 720 | 44.0 |
| G | Effects of exchange rate changes on net financial debt | (106) | (514) | |
| H | Effects on net financial debt of changes in consolid. and others | (452) | (139) | |
| I | Net financial debt at beginning of period | 44,230 | 48,595 | |
| J=I-F+G+H | Net financial debt at end of period | 42,636 | 47,222 | (9.7) |

TELEFÓNICA

RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited figures (Euros in millions)

| | | January - September | | |
|---|--|---------------------|---------|-------|
| | | 2018 | 2017 | % Chg |
| OIBDA | | 12,035 | 12,274 | (2.0) |
| - CapEx accrued during the period | | (5,680) | (5,962) | |
| - Payments related to cancellation of commitments | | (581) | (507) | |
| - Net interest payment | | (1,283) | (1,322) | |
| - Payment for tax | | (518) | (713) | |
| - Gain (loss) on sale of fixed assets and impairment of goodwill and other assets | | 91 | (7) | |
| | | (1,160) | (695) | |

| | | | |
|--|-------|-------|-------|
| - Investment In working capital and other deferred income and expenses and Others (3)(6) | | | |
| = Net Free Cash Flow after CapEx | 2,903 | 3,068 | (5.4) |
| + Payments related to cancellation of commitments | 581 | 507 | |
| - Dividends paid to minority shareholders | (527) | (349) | |
| = Free Cash Flow | 2,957 | 3,226 | (8.3) |
| Weighted average number of ordinary shares outstanding during the period (millions) | 5,127 | 5,105 | |
| = Free Cash Flow per share (euros) | 0.58 | 0.63 | (8.7) |

Notes:

- Following the consideration of the Argentine economy as hyperinflationary from an accounting perspective for periods ended after 1 July 2018, the operations of Telefónica in Argentina adjusted by inflation are to be accounted at the closing exchange rate Argentine Peso/Euro.

- (1) Includes cash received from dividends paid by subsidiaries that are not fully consolidated.
- (2) Includes government grants received.
- (3) Includes Net Cash received from sale of Real Estate.
- (4) Figures in m. 2018 includes mainly: 15 in Spain, 591 in UK, 5 in Argentina, 3 in Colombia and 20 in Costa Rica. In 2017 mainly: 4 in Spain, 1 in UK, 321 in Colombia, 2 in México and 6 in Uruguay.
- (5) 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.
- (6) Other deferred expenses include 76m in 2017 related to commitments associated with long-term restructuring plans in Spain. Includes 153m in Q3 17 associated to the assumption of a portion of Coltel's indebtedness by the Colombian Government.

Table of Contents

TELEFÓNICA

EXCHANGES RATES APPLIED

| Currency units per Euro | P&L and CapEx (1) | | Statement of Financial Position (2) | |
|--------------------------------|-------------------|----------------|-------------------------------------|---------------|
| | Jan - Sep 2018 | Jan - Sep 2017 | September 2018 | December 2017 |
| USA (US Dollar) | 1.194 | 1.111 | 1.158 | 1.199 |
| United Kingdom (Sterling) | 0.884 | 0.872 | 0.888 | 0.888 |
| Argentina (Argentine Peso) (3) | 47.369 | 17.954 | 47.369 | 22.518 |
| Brazil (Brazilian Real) | 4.276 | 3.525 | 4.638 | 3.968 |
| Chile (Chilean Peso) | 750.008 | 726.723 | 764.930 | 737.333 |
| Colombia (Colombian Peso) | 3,444.297 | 3,264.773 | 3,442.530 | 3,579.008 |
| Costa Rica (Colon) | 682.594 | 635.728 | 678.426 | 686.813 |
| Guatemala (Quetzal) | 8.895 | 8.173 | 8.921 | 8.809 |
| Mexico (Mexican Peso) | 22.712 | 20.961 | 21.686 | 23.584 |
| Nicaragua (Cordoba) | 37.435 | 33.168 | 36.979 | 36.921 |
| Peru (Peruvian Nuevo Sol) | 3.895 | 3.629 | 3.822 | 3.888 |
| Uruguay (Uruguayan Peso) | 35.886 | 31.675 | 38.470 | 34.551 |
| Venezuela (4) | 496.074 | 9,950.249 | 496.074 | 43,316.682 |

(1) Average exchange rate for the period.

(2) Exchange rates as of 30/09/18 and 31/12/17.

(3) Following the consideration of the Argentine economy as hyperinflationary from an accounting perspective for periods ended after 1 July 2018, the operations of Telefónica in Argentina adjusted by inflation are to be accounted at the closing exchange rate Argentine Peso/Euro.

(4) The operations of Telefónica in Venezuela adjusted by inflation are to be accounted at the closing exchange rate Bolívar Soberano/Euro. For the January-September 2018 period Telefónica uses a synthetic Exchange rate of 428.30 Bolívares Soberanos/USD as of end of September 2018. For prior periods, the synthetic exchange used is based on Bolivar Fuerte.

NET FINANCIAL DEBT STRUCTURE BY CURRENCY

Unaudited figures

| Net financial debt structure by currency | September 2018 | | | |
|--|----------------|-------|-----|-----|
| | EUR | LATAM | GBP | USD |
| TOTAL FINANCIAL LIABILITIES BREAKDOWN | 80% | 10% | 8% | 2% |

Unaudited figures

| | September 2018 | | |
|---------------------------------|-------------------------------------|---|--|
| | Bonds and commercial paper | Debt with financial institutions | Other financial debt (including governments) and net derivatives |
| Total financial liabilities (1) | 83% | 15% | 2% |

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

CREDIT RATINGS

| | Long-Term | Short-Term | Perspective | Date of last rating change |
|---------------------|-----------|------------|-------------|----------------------------|
| Moody ^{1s} | Baa3 | P-3 | Stable | 11/7/2016 |
| Fitch ¹ | BBB | F-3 | Stable | 9/5/2016 |
| S&P ¹ | BBB | A-2 | Stable | 5/17/2016 |

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

Table of Contents

02

TELEFÓNICA ESPAÑA

(y-o-y changes in organic terms)

Telefónica España posted an excellent commercial activity in the third quarter of 2018, with record figures in fixed and mobile portability, the highest mobile contract net additions in ten years and the highest fixed broadband net additions since Fusión launch. This intense commercial activity is primarily related to high-value customers as a consequence of our differential value offer in the start of the football season amid a new competitive scenario.

In financial terms, revenues and OpCF maintained its y-o-y variation stable and the OIBDA margin surpassed the 40% bar despite of the bold commercial effort, higher content costs in the quarter, regulatory impact and the loss of the wholesale contract with Yoigo/Pepephone.

Excluding the regulatory impact (related to MTR cut) and the loss of the above-mentioned wholesale contract, which will no longer be relevant in 2019, service revenues increased by 1.4% y-o-y, in line with the previous quarter.

Telefónica España continues focusing on increasing the sustainability and value of its customer base (a sector benchmark), as well as on offering an increasingly complete and differential commercial proposal. Thus, the visibility over the football rights ownership for the next four years, the greater capability for content design and development (as rights owner), and further initiatives, such as the launch of the exclusive sports channel #Vamos (September 16th) reinforced this strategy and enabled acceleration in customer acquisition especially for higher value (fibre, TV, contract mobile). Growth is not only in retail accesses (+2.3% y-o-y) but also in total accesses (+1.2% y-o-y).

After the end of the quarter, a new Fusión+ portfolio was defined with more television content in all its options (especially for football, which will reach a larger number of our customers) and the O2 brand launching was completed.

Movistar Fusión customers (4.6m) increased by 4% y-o-y, with quarterly net additions of 81k, the largest since the fourth quarter in 2015, already achieving 90% of the TV customer base (+4 p.p. y-o-y), 87% of the broadband customer base (+2 p.p.) and 83% of the mobile contract customer base (+5 p.p.).

Fusión's quality improvement is reflected in total accesses (21.8m, +10% y-o-y), with 2.0 mobile lines per customer on average (vs. 1.8 in September 2017) and in a better customer mix: 29% high-value bundles (+3 p.p. y-o-y; 40% of the gross additions in the quarter), 79% with TV (+6 p.p. y-o-y) and 39% with high-speed fibre.

The quarterly Fusión ARPU stood at 89.2, with a 1.8% y-o-y increase supported by the value strategy; the lower growth versus the previous quarter was due to several factors: i) different tariffs update calendar in 2018 versus 2017, ii) the strong volume of customers acquisition during the second half of the quarter, which had an initial dilutive effect in ARPU, iii) a lower excess in seasonal data consumption as the allowances were increased from February (however data usage continue to growth in at a good pace). Churn stood at 1.5%, virtually unchanged y-o-y despite the intense promotional activity in the market. In high-value bundles, which had the greatest commercial traction in the quarter, the churn continued to be lower.

It is worth to highlight the ARPU of quarterly gross adds, which despite promotions, was higher than the one seen during the first half of the year. This secures Fusion ARPU growth when the promotional periods end.

Mobile accesses reported quarterly net additions of 294k, with solid progress in contract (+7% y-o-y), backed by the outstanding performance of Fusión+ , after adding 370k new lines (+59% vs. Q2) with a better portability balance (+80k). In this regard, both figures are the highest in the last 10 years.

Table of Contents

Fixed broadband accesses (6.1m; +1.5%) posted the best net additions since *Fusión* was launched (in Q4 12) and totalled 79k accesses, underpinned by the higher volume of gross additions (+23% q-o-q). Higher-quality fibre accesses (3.8m) accelerated their strong growth (+15% y-o-y; +155k net additions) and now represent 63% of the broadband base (+8 p.p. vs. September 2017). Moreover, **fixed telephony** accesses (-3% y-o-y) reduced quarterly net losses to minimum levels at -4k (-92k in Q2), posting a positive portability balance for the first time in August and September.

Pay TV customers surpassed 4 million (+7% y-o-y), after adding 101k new accesses (the best figure since the acquisition of DTS in 2015), vs. +8k in the previous quarter.

Wholesale accesses rose to 3.9m (-8% y-o-y), reflecting the solid progress in NEBA fibre accesses, which doubled compared with the previous year (+151k in the quarter) to reach 1.3m, representing 33% of the total (+18 p.p. y-o-y, +4 p.p. q-o-q). The wholesale activity in the quarter, with net additions similar to the previous one, is particularly noteworthy because it means that the solid retail commercial activity did not occur at the expense of wholesale accesses. In other words, it reflects the strength of Europe's most extensive fibre network.

Premises passed with fibre to the home stood at 20.8m (522k new in the quarter) and the connected customer uptake increased up to 25% (18% retail, +1 p.p. y-o-y; and 6% wholesale, +3 p.p. y-o-y), meaning 1.2m more customers connected to the T. España fibre network (wholesale or retail access) compared to the previous year.

Revenues reached 3,188m in the quarter (+0.1% y-o-y) thanks to the stability of **service revenues** (3,090m; +1.4% when excluding the impacts of the MTR cut and MVNO loss commented before, in line with the previous quarter) and higher handset sales (+4.6% y-o-y vs. +7.5% in Q2). In the first nine months of the year, total revenues (9,453m) and service revenues (9,176m) grew by 0.5% and 0.3% y-o-y respectively.

Consumer revenues in the quarter (1,684m) increased 0.4% y-o-y, and posted a slowdown versus the previous quarter (-0.6 p.p.) mainly because of the different upgrade calendar (in September 2017 for high-value *Fusión* bundles) and the lower excess in mobile data consumption. In y-o-y terms, *Fusión* revenues (72% of the total) grew by 5.0% in the quarter.

Corporate revenues (838m) once again improved its y-o-y performance with a 1.5% growth (+0.4% p.p. vs. Q2), driven by the solid and sustained progress of IT revenues (+13.3%; +5.9 p.p. q-o-q). Communications revenues decreased by 1.6%.

Wholesale and other revenues (567m in the quarter) decreased by 3.4% versus the previous year, affected by the cut in the regulated mobile interconnection rate (-36% since early February) and by the MVNO migration of Yoigo/Pepephone. Its y-o-y performance improved versus the previous quarter (+1.0 p.p.) as football revenues began to increase, although the full effect will be seen in the last quarter of the year.

Operating expenses in July-September (1,986m) increased 1.7% y-o-y, impacted by higher content costs, energy and IT equipment. In January-September, expenses totalled 5,902m and increased by 0.8% y-o-y.

Supplies (905m in the quarter) increased by 4.3% y-o-y (+0.8 p.p. sequentially), mainly reflecting higher content costs in the quarter (inclusion of all the rights to the Champions/Europa League and the higher cost for the new La Liga season). The net content cost (of wholesale revenues) grew by 19% y-o-y (vs. +11% in Q2). It is worth to

mention that this quarter is not yet totally reflecting the higher cost of the Champions/Europa League and La Liga , which will happen in the fourth quarter and in the first half of 2019.

Personnel expenses (479m) decreased by 5.2% in the quarter due to the incremental savings of the voluntary employment suspension plan (29m). Headcount at the end of September totalled 26,377 employees (-5% y-o-y).

Other operating expenses (602m) increased 3.7% y-o-y (+4.0 p.p. vs. Q2), reflecting increased energy costs and reduced commercial costs on sales associated with a greater commercial activity.

Table of Contents

OIBDA in July-September rose to 1,290m and the **OIBDA margin** stood at 40.5%, impacted by a 10m capital gain related to real estate sales (similar in amount, 10m, to the figure reported in the same quarter in 2017).

Thus, excluding these capital gains, OIBDA would have decreased by 1.3% y-o-y in the quarter, mainly because of the greater growth in net content cost, and the margin would have decreased by 0.6 p.p. y-o-y. OIBDA reached 3,797m in the first nine months (similar to the same period in 2017) and the OIBDA margin remained virtually stable y-o-y (-0.2 p.p. excluding capital gains).

CapEx in the first nine months of 2018 totalled 1,157m (+4.8% y-o-y), affected by different execution calendars.

Operating cash flow stood at 2,641m (-1.9% y-o-y, excluding capital gains).

Table of Contents

TELEFÓNICA ESPAÑA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

| | January - September | | % Chg | | July - September | | % Chg | |
|--|---------------------|---------|----------|------------|------------------|---------|------------|------------|
| | 2018 | 2017 | Reported | Organic | 2018 | 2017 | Reported | Organic |
| Revenues | 9,453 | 9,410 | 0.5 | 0.5 | 3,188 | 3,184 | 0.1 | 0.1 |
| Mobile handset revenues | 277 | 259 | 7.0 | 8.7 | 98 | 95 | 3.2 | 4.6 |
| Revenues ex-mobile handset revenues | 9,176 | 9,151 | 0.3 | 0.3 | 3,090 | 3,089 | 0.0 | (0.0) |
| Consumer (1) | 5,020 | 4,951 | 1.4 | 1.4 | 1,684 | 1,677 | 0.4 | 0.4 |
| Fusión | 3,578 | 3,334 | 7.3 | 7.3 | 1,207 | 1,150 | 5.0 | 5.0 |
| Non-Fusión | 1,442 | 1,617 | (10.8) | (10.8) | 477 | 527 | (9.5) | (9.5) |
| Business | 2,553 | 2,536 | 0.7 | 0.7 | 838 | 826 | 1.5 | 1.5 |
| Communications | 1,951 | 1,981 | (1.5) | (1.5) | 640 | 650 | (1.6) | (1.6) |
| IT | 602 | 554 | 8.6 | 8.6 | 198 | 175 | 13.3 | 13.3 |
| Wholesale and Other (2) | 1,602 | 1,664 | (3.7) | (3.7) | 567 | 586 | (3.2) | (3.4) |
| Internal expenditure capitalised in fixed assets | 217 | 229 | (5.2) | (5.2) | 69 | 76 | (9.3) | (9.3) |
| Operating expenses | (5,902) | (5,935) | (0.6) | 0.8 | (1,986) | (1,954) | 1.6 | 1.7 |
| Supplies | (2,642) | (2,539) | 4.1 | 4.1 | (905) | (867) | 4.3 | 4.3 |
| Personnel expenses | (1,473) | (1,626) | (9.4) | (4.9) | (479) | (505) | (5.2) | (5.2) |
| Other operating expenses | (1,786) | (1,771) | 0.9 | 1.0 | (602) | (582) | 3.5 | 3.7 |
| Other net income (expense) | 3 | 0 | n.m. | n.m. | 4 | (11) | c.s. | c.s. |
| Gain (loss) on sale of fixed assets | 34 | 33 | 2.8 | 2.8 | 18 | 15 | 23.4 | 23.4 |
| Impairment of goodwill and other assets | (7) | (5) | 29.8 | 29.8 | (2) | (4) | (46.1) | (46.1) |
| Operating income before D&A (OIBDA) | 3,797 | 3,731 | 1.8 | (0.2) | 1,290 | 1,306 | (1.2) | (1.3) |
| OIBDA Margin | 40.2% | 39.7% | 0.5 p.p. | (0.3 p.p.) | 40.5% | 41.0% | (0.5 p.p.) | (0.6 p.p.) |
| CapEx | 1,157 | 1,097 | 5.4 | 4.8 | 379 | 392 | (3.4) | (5.2) |
| Spectrum | 7 | | | | 7 | | | |
| OpCF (OIBDA-CapEx) | 2,641 | 2,634 | 0.2 | (2.2) | 911 | 914 | (0.3) | 0.4 |

Notes:

- January-September and July-September 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.

- OIBDA before management and brand fees.

(1) Consumer revenues include residential and SOHO revenues.

(2) Wholesale and other revenues include subsidiaries and other revenues.

TELEFÓNICA ESPAÑA

ACCESSES

Unaudited figures (Thousands)

| | 2017 | | | | 2018 | | | |
|------------------------------|----------|----------|-----------|----------|----------|----------|-----------|--------|
| | March | June | September | December | March | June | September | % Chg |
| Final Clients Accesses | 36,537.3 | 36,464.3 | 36,614.6 | 36,768.5 | 36,884.3 | 36,970.3 | 37,441.3 | 2.3 |
| Fixed telephony accesses (1) | 9,584.2 | 9,463.3 | 9,387.4 | 9,304.7 | 9,180.9 | 9,089.2 | 9,085.7 | (3.2) |
| Internet and data accesses | 6,075.9 | 6,044.4 | 6,040.7 | 6,039.6 | 6,032.8 | 6,050.1 | 6,129.4 | 1.5 |
| Broadband | 6,050.9 | 6,020.1 | 6,017.6 | 6,020.3 | 6,014.7 | 6,032.0 | 6,110.5 | 1.5 |
| FTTH | 3,127.8 | 3,213.5 | 3,309.3 | 3,423.7 | 3,550.5 | 3,667.5 | 3,822.2 | 15.5 |
| Mobile accesses | 17,261.7 | 17,289.8 | 17,419.6 | 17,576.5 | 17,743.3 | 17,896.1 | 18,189.8 | 4.4 |
| Prepay | 2,135.9 | 2,000.4 | 1,905.4 | 1,793.4 | 1,683.9 | 1,603.6 | 1,527.3 | (19.8) |
| Contract | 15,125.7 | 15,289.4 | 15,514.1 | 15,783.1 | 16,059.3 | 16,292.5 | 16,662.5 | 7.4 |
| M2M | 2,015.6 | 1,974.7 | 2,020.9 | 2,015.6 | 2,083.7 | 2,149.2 | 2,227.4 | 10.2 |
| Pay TV (2) | 3,615.6 | 3,666.8 | 3,766.9 | 3,847.6 | 3,927.3 | 3,934.9 | 4,036.4 | 7.2 |
| Wholesale Accesses | 4,442.3 | 4,377.8 | 4,295.7 | 4,221.1 | 4,119.0 | 4,035.1 | 3,948.0 | (8.1) |
| Fibre | 426.2 | 539.7 | 671.7 | 849.5 | 995.8 | 1,158.9 | 1,309.8 | 95.0 |
| Total Accesses | 40,979.6 | 40,842.1 | 40,910.3 | 40,989.6 | 41,003.2 | 41,005.4 | 41,389.2 | 1.2 |

(1) Includes fixed wireless and VoIP accesses.

Table of Contents

TELEFÓNICA ESPAÑA

CONSUMER ACCESSES (Fusión + non-Fusión)

Unaudited figures (thousands)

| | 2017 | | | | 2018 | | | |
|----------------------------|----------|----------|-----------|----------|----------|----------|-----------|--------|
| | March | June | September | December | March | June | September | % Chg |
| Fixed telephony accesses | 7,146.2 | 7,041.5 | 6,972.1 | 6,895.4 | 6,799.9 | 6,721.7 | 6,716.6 | (3.7) |
| Internet and data accesses | 5,195.3 | 5,174.0 | 5,178.0 | 5,181.9 | 5,187.7 | 5,198.6 | 5,274.0 | 1.9 |
| Mobile accesses | 11,754.9 | 11,813.6 | 11,885.8 | 12,024.8 | 12,141.4 | 12,236.6 | 12,450.2 | 4.7 |
| Prepay | 2,135.9 | 2,000.4 | 1,905.4 | 1,793.4 | 1,683.9 | 1,603.6 | 1,527.3 | (19.8) |
| Contract | 9,618.9 | 9,813.2 | 9,980.3 | 10,231.4 | 10,457.5 | 10,633.0 | 10,922.8 | 9.4 |
| Pay TV | 3,615.6 | 3,666.8 | 3,766.9 | 3,847.6 | 3,927.3 | 3,934.9 | 4,036.4 | 7.2 |
| Total Consumer Accesses | 27,711.8 | 27,695.9 | 27,802.7 | 27,949.7 | 28,056.3 | 28,091.8 | 28,477.1 | 2.4 |

TOTAL MOBILE ACCESSES

Unaudited figures

| | 2017 | | | | 2018 | | | |
|----------------------------|----------|----------|-----------|----------|----------|----------|-----------|----------|
| | March | June | September | December | March | June | September | % Chg |
| Contract percentage (%) | 87.6% | 88.4% | 89.1% | 89.8% | 90.5% | 91.0% | 91.6% | 2.5 p.p. |
| Smartphones (000) | 10,800.7 | 11,240.4 | 11,473.6 | 11,857.7 | 12,264.6 | 12,356.6 | 12,731.9 | 11.0 |
| Smartphone penetration (%) | 71.3% | 73.8% | 74.8% | 76.4% | 78.5% | 78.7% | 79.9% | 5.2 p.p. |
| LTE (000) | 6,589.6 | 6,976.3 | 7,322.8 | 7,686.2 | 8,002.5 | 8,270.0 | 8,596.5 | 17.4 |
| LTE penetration (%) | 43.2% | 45.6% | 47.6% | 49.4% | 51.1% | 52.5% | 53.9% | 6.3 p.p. |

CONSUMER FUSIÓN

Unaudited figures (thousands)

Edgar Filing: TELEFONICA S A - Form 6-K

| | 2017 | | | | 2018 | | | |
|------------------|----------|----------|-----------|----------|----------|----------|-----------|-------|
| | March | June | September | December | March | June | September | % Chg |
| Fusión Customers | 4,379.0 | 4,374.7 | 4,384.7 | 4,426.2 | 4,460.0 | 4,482.1 | 4,562.6 | 4.1 |
| High speed Fibre | 1,669.1 | 1,677.9 | 1,691.3 | 1,701.8 | 1,708.5 | 1,696.9 | 1,773.6 | 4.9 |
| IPTV/Satellite | 2,970.9 | 3,071.9 | 3,218.7 | 3,347.8 | 3,470.6 | 3,508.6 | 3,625.6 | 12.6 |
| Mobile add-ons | 2,861.6 | 3,138.5 | 3,365.9 | 3,690.9 | 4,036.7 | 4,248.0 | 4,482.3 | 33.2 |
| Fusión Accesses | 18,969.5 | 19,334.6 | 19,738.7 | 20,317.2 | 20,887.3 | 21,203.0 | 21,795.7 | 10.4 |
| CONSUMER FUSIÓN | | | | | | | | |

Unaudited figures

| | 2017 | | | | 2018 | | | |
|---------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | % Chg org. |
| Fusión ARPU (EUR) | 81.6 | 84.8 | 87.6 | 86.1 | 87.8 | 89.5 | 89.2 | 1.8 |
| Fusión churn | 1.4% | 1.3% | 1.5% | 1.6% | 1.5% | 1.5% | 1.5% | (0.0 p.p.) |
| | | | | | | | | |
| | Jan - Mar | Jan - Jun | Jan - Sep | Jan - Dec | Jan - Mar | Jan - Jun | Jan - Sep | % Chg org. |
| Fusión ARPU (EUR) | 81.6 | 83.2 | 84.7 | 85.1 | 87.8 | 88.6 | 88.8 | 4.9 |
| Fusión churn | 1.4% | 1.4% | 1.4% | 1.5% | 1.5% | 1.5% | 1.5% | 0.1 p.p. |
| SELECTED OPERATIONAL DATA | | | | | | | | |

Unaudited figures

| | 2017 | | | | 2018 | | | |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------|
| | Jan - Mar | Jan - Jun | Jan - Sep | Jan - Dec | Jan - Mar | Jan - Jun | Jan - Sep | % Chg |
| Total data traffic (TB) | 1,473,501 | 3,166,713 | 4,860,008 | 6,863,956 | 2,113,454 | 4,296,235 | 6,598,644 | 35.8 |
| Fixed data traffic | 1,406,556 | 3,009,891 | 4,581,394 | 6,466,074 | 1,978,154 | 4,010,990 | 6,120,345 | 33.6 |
| Mobile data traffic | 66,944 | 156,821 | 278,614 | 397,882 | 135,300 | 285,245 | 478,299 | 71.7 |

Notes:

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

Table of Contents

03

TELEFÓNICA DEUTSCHLAND

(y-o-y changes in organic terms)

Telefónica Deutschland maintained strong operational momentum in the third quarter of 2018 as the updated O₂ Free tariff portfolio with Boost & Connect continued to be well received by customers, further fuelling data growth and supporting ARPU-up strategy. For the first nine months of the year, results were fully on-track with full year guidance, supported by successful synergy capture and a clear value over volume approach.

Contract mobile customers (22.0m; +4% y-o-y) benefitted from 233k net additions in Q3 18 (+723k in 9M 18) supported by the O₂ Free portfolio and strong partner trading (57% of gross additions in Q3 18; 58% in Q2 18). **Prepay customers** (21.1m; -11% y-o-y) trends are stabilising though the impact of the regulatory changes introduced during the summer of last year remain visible, as a result, lower demand continues to drive net disconnections in the quarter (-145k vs -829k in 9M). **Smartphone** penetration continued to grow by 6.3 p.p. y-o-y to 65% and **LTE accesses** increased to 17.2m (+9% y-o-y), with a penetration of 41% (+5.2 p.p. y-o-y). The average data usage for O₂ contract LTE customers increased by 65% y-o-y to 3.9 GB per month in the quarter (+15% q-o-q). As for **retail broadband accesses** (2.1m; -1% y-o-y) the demand for VDSL (1.4m; +31% y-o-y) remained solid with 59k net additions in Q3 18 (+237k in 9M 18). **Wholesale DSL** registered quarterly disconnections of 8k (-188k in 9M 18) as a result of the finalised wholesale customer migration, which is a prerequisite for the planned shutdown of the legacy infrastructure.

Revenues totalled 1,830m declining by 1.5% y-o-y (5,355m in 9M 18; -1.0% y-o-y) and -0.8% y-o-y excluding regulatory effects in Q3 18. **Mobile service revenues** reached 1,339m declining by 0.9% y-o-y (3,937m in 9M 18; -0.8% y-o-y) mainly due to negative regulatory effects (mostly RLAH). MSR ex-regulation remained stable y-o-y in Q3 18 (+0.2% y-o-y in 9M 18). **Handset revenues** totalled 299m, up 2.9% vs. Q3 17 (827m in January-September, +6.8% y-o-y), with continued strong demand for high value handsets in line with market trends, while Q3 17 benefited from stock clearance activities. **Fixed revenues** amounted to 191m in July-September and declined by -11.6% y-o-y (582m; -12.3% y-o-y in January-September) reflecting the completion of the wholesale DSL customer migration, promotional activities and a higher share of bundles in the customer base.

Operating expenses amounted to 1,390m in Q3 18 and decreased by 1.9% y-o-y (-1.0% y-o-y in 9M 18). **Supplies** (622m) decreased by 0.8% y-o-y (-0.7% y-o-y in 9M 18), mainly as a result of lower interconnection costs, despite higher handset consumption and higher costs for outbound roaming. **Personnel expenses** (148m) were lower by 1.8% y-o-y (-0.1% y-o-y in 9M 18) primarily reflecting savings related to the successful completion of the employee restructuring programme. **Other operating expenses** (620m) were -2.9% y-o-y (-1.5% y-o-y in 9M 18) benefitting from integration synergies. Restructuring costs reached 14m in Q3 18 (21m in Q3 17).

OIBDA (470m in Q3 18) decreased by 0.5% y-o-y (1,352m in 9M 18; +0.2% y-o-y) due to lower incremental synergies (~ 25m in Q3 18 vs ~ 40m in Q3 17; ~ 90m in 9M 18 vs ~ 115m in 9M 17). Regulatory effects stood at - 17m (- 48m in 9M 18). However, **OIBDA margin** was 25.7% in the quarter and expanded by 0.3 p.p. (25.2% in 9M 18; +0.3p.p.) supported by value-over-volume marketing approach and focus on efficient spending.

CapEx amounted to 740m in the first nine months and increased by 7.6% y-o-y as a result of entering the final stage of network consolidation; project is fully on-track to be completed by the end of the year. Incremental CapEx synergies of ~ 35m in January-September 2018.

As such, **operating cash flow (OIBDA-CapEx)** was down 7.3% y-o-y to 612m in January-September 2018.

Table of Contents

TELEFÓNICA DEUTSCHLAND

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

| | January - September | | % Chg | | July - September | | % Chg | |
|--|---------------------|---------|----------|----------|------------------|---------|----------|----------|
| | 2018 | 2017 | Reported | Organic | 2018 | 2017 | Reported | Organic |
| Revenues | 5,355 | 5,392 | (0.7) | (1.0) | 1,830 | 1,850 | (1.1) | (1.5) |
| Mobile Business | 4,764 | 4,727 | 0.8 | 0.4 | 1,638 | 1,634 | 0.2 | (0.2) |
| Mobile service revenues | 3,937 | 3,954 | (0.4) | (0.8) | 1,339 | 1,344 | (0.4) | (0.9) |
| Data revenues | 2,170 | 2,238 | (3.0) | (3.1) | 744 | 750 | (0.8) | (0.9) |
| Handset revenues | 827 | 772 | 7.1 | 6.8 | 299 | 290 | 2.8 | 2.9 |
| Fixed Business | 582 | 654 | (11.0) | (12.3) | 191 | 214 | (10.6) | (11.6) |
| FBB and new services (1) | 446 | 507 | (12.0) | (13.7) | 145 | 163 | (10.9) | (12.2) |
| Voice & access revenues | 136 | 147 | (7.7) | (7.7) | 46 | 51 | (9.7) | (9.7) |
| Internal expenditure capitalised in fixed assets | 81 | 76 | 7.4 | 7.4 | 27 | 27 | (1.0) | (1.0) |
| Operating expenses | (4,053) | (4,122) | (1.7) | (1.0) | (1,390) | (1,426) | (2.5) | (1.9) |
| Supplies | (1,747) | (1,759) | (0.7) | (0.7) | (622) | (627) | (0.8) | (0.8) |
| Personnel expenses | (451) | (471) | (4.2) | (0.1) | (148) | (158) | (6.7) | (1.8) |
| Other operating expenses | (1,855) | (1,893) | (2.0) | (1.5) | (620) | (641) | (3.2) | (2.9) |
| Other net income (expense) | (31) | (29) | 9.8 | n.m. | 3 | 5 | (44.8) | (8.8) |
| Gain (loss) on sale of fixed assets | 0 | 1 | (63.5) | (63.5) | | | | |
| Impairment of goodwill and other assets | | | | | | | | |
| Operating income before D&A (OIBDA) | 1,352 | 1,318 | 2.6 | 0.2 | 470 | 457 | 2.9 | (0.5) |
| OIBDA Margin | 25.2% | 24.4% | 0.8 p.p. | 0.3 p.p. | 25.7% | 24.7% | 1.0 p.p. | 0.3 p.p. |
| CapEx | 740 | 688 | 7.5 | 7.6 | 316 | 254 | 24.5 | 24.5 |
| Spectrum | | 1 | | | | | | |
| OpCF (OIBDA-CapEx) | 612 | 630 | (2.8) | (7.3) | 154 | 203 | (24.0) | (28.8) |

Notes:

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

TELEFÓNICA DEUTSCHLAND

ACCESSES

Unaudited figures (Thousands)

| | 2017 | | | | 2018 | | | |
|------------------------------|----------|----------|-----------|----------|----------|----------|-----------|--------|
| | March | June | September | December | March | June | September | % Chg |
| Final Clients Accesses | 48,988.0 | 49,478.7 | 49,105.1 | 47,415.8 | 47,011.3 | 47,171.6 | 47,268.1 | (3.7) |
| Fixed telephony accesses (1) | 2,000.1 | 1,987.9 | 1,979.3 | 1,979.6 | 1,968.7 | 1,958.8 | 1,966.4 | (0.7) |
| Internet and data accesses | 2,312.5 | 2,297.2 | 2,284.2 | 2,281.5 | 2,265.6 | 2,251.1 | 2,252.8 | (1.4) |
| Broadband | 2,095.3 | 2,082.4 | 2,072.5 | 2,072.2 | 2,060.0 | 2,048.5 | 2,054.4 | (0.9) |
| VDSL | 872.2 | 959.9 | 1,062.5 | 1,151.6 | 1,243.4 | 1,329.7 | 1,388.9 | 30.7 |
| Mobile accesses | 44,675.3 | 45,193.6 | 44,841.6 | 43,154.7 | 42,777.0 | 42,961.6 | 43,048.9 | (4.0) |
| Prepay | 23,967.0 | 24,288.6 | 23,753.8 | 21,880.9 | 21,345.9 | 21,197.6 | 21,052.4 | (11.4) |
| Contract | 20,708.4 | 20,905.0 | 21,087.8 | 21,273.8 | 21,431.1 | 21,764.0 | 21,996.5 | 4.3 |
| M2M | 830.1 | 896.8 | 969.4 | 1,027.0 | 1,067.2 | 1,103.4 | 1,134.9 | 17.1 |
| Wholesale Accesses | 561.8 | 428.0 | 297.9 | 188.1 | 63.3 | 8.0 | 0.2 | (99.9) |
| Total Accesses | 49,549.8 | 49,906.7 | 49,402.9 | 47,603.9 | 47,074.6 | 47,179.6 | 47,268.3 | (4.3) |

(1) Includes fixed wireless and VoIP accesses.

SELECTED OPERATIONAL DATA

Unaudited figures

| | 2017 | | | | 2018 | | | |
|-----------------------------------|----------|----------|-----------|----------|----------|----------|-----------|------------|
| | March | June | September | December | March | June | September | % Chg |
| Contract percentage (%) | 46.4% | 46.3% | 47.0% | 49.3% | 50.1% | 50.7% | 51.1% | 4.1 p.p. |
| Smartphones (000) | 24,781.1 | 25,227.4 | 25,554.2 | 25,466.1 | 25,707.5 | 26,411.1 | 27,079.8 | 6.0 |
| Smartphone penetration (%) | 57.0% | 57.4% | 58.7% | 60.9% | 62.0% | 63.5% | 64.9% | 6.3 p.p. |
| LTE (000) | 13,967.6 | 14,422.0 | 15,679.2 | 15,759.1 | 16,093.5 | 16,595.8 | 17,157.3 | 9.4 |
| LTE penetration (%) | 31.9% | 32.6% | 35.7% | 37.4% | 38.6% | 39.6% | 40.9% | 5.2 p.p. |
| Mobile churn (quarterly) | 1.9% | 1.9% | 2.1% | 3.1% | 2.2% | 1.8% | 2.0% | (0.1 p.p.) |
| Contract (1) | 1.6% | 1.5% | 1.6% | 1.7% | 1.7% | 1.5% | 1.6% | (0.0 p.p.) |
| Mobile churn (cumulative YTD) | 1.9% | 1.9% | 2.0% | 2.2% | 2.2% | 2.0% | 2.0% | 0.0 p.p. |
| Contract (1) | 1.6% | 1.6% | 1.6% | 1.6% | 1.7% | 1.6% | 1.6% | 0.0 p.p. |
| Mobile ARPU (EUR)(cumulative YTD) | 9.6 | 9.6 | 9.7 | 9.7 | 9.8 | 9.9 | 10.0 | 3.1 |

Edgar Filing: TELEFONICA S A - Form 6-K

| | | | | | | | | |
|---|---------|-----------|-----------|-----------|---------|-----------|-----------|-------|
| Prepay | 5.0 | 5.1 | 5.1 | 5.2 | 5.6 | 5.7 | 5.8 | 12.8 |
| Contract (1) | 15.5 | 15.5 | 15.6 | 15.5 | 14.8 | 14.8 | 14.9 | (4.6) |
| Fixed data traffic (TB) (cumulative YTD) | 709,516 | 1,399,083 | 2,063,429 | 2,794,399 | 718,369 | 1,383,972 | 2,067,582 | 0.2 |
| Mobile data traffic (TB) (cumulative YTD) | 86,423 | 185,036 | 295,720 | 418,086 | 126,040 | 277,660 | 443,100 | 49.8 |

Notes:

- ARPU: monthly average revenue divided by the monthly average accesses of the period. % organic change.
 - Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 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.

Table of Contents

04

TELEFÓNICA UK

(y-o-y changes in organic terms)

Telefónica UK delivered another strong set of results, growing key metrics again in the third quarter of 2018. The Company remained the UK's favourite mobile network carrier with a total base of 32.3m customers, while O2 continued to lead customer loyalty with the lowest contract churn in the market. At the end of August, the Company launched an industry-first proposition, Custom Plans, providing customers with flexibility and choice allowing them to customise their plans by choosing the contract terms (up to 36 months), amount of upfront payment and data plan, supporting its customer led, mobile first strategy. The Company continues to invest in its award-winning network with rapid deployment of the spectrum awarded in the recent auction.

Total mobile accesses were stable y-o-y (-0.1%) but remained market-leading at 32.3m (including partners on Telefónica UK's network at 7.5m). Own brand **contract** net additions improved for the 8th consecutive quarter to 117k/120k ex-M2M (217k/168k ex-M2M in 9M) and drove growth of 1% y-o-y resulting in 16.0m contract customers (65% penetration, +2 p.p. y-o-y). This positive customer trend was supported by its innovative tariffs and higher trading levels. Contract churn remained stable at 1% in Q3 18 (both y-o-y and q-o-q). **LTE accesses** were +6% y-o-y to 13.4m with a penetration of 62% (+5 p.p. y-o-y). In **prepay**, net quarterly additions improved to -54k (-400k in 9M), though still affected by market trend of migration to postpay, including SIMO.

Revenues continued to increase to 1,721m, up 7.9% y-o-y (1,494.5m up 5.5% y-o-y in the first nine months). This revenue increase was mainly driven by higher value smartphone sales supported by the launch of Custom plans, as well as the RPI effect on airtime rates in April.

Mobile service revenues continued to grow for the 9th consecutive quarter and totalled 1,241m up +3.6% y-o-y (+1,362.5m; +2.8% in January-September), mainly driven by higher average subscriptions and continuing MVNO growth. Following the anniversary of its introduction, RLAH regulation had less of an impact on MSR this quarter.

Handset & other revenues amounted to 480m, up 23.3% y-o-y (1,319m; +15.4% in 9M), as a result of the introduction of higher value handsets in the quarter, as well as continued growth from the smart metering programme (SMIP) and B2B ICT solutions.

Operating expenses totalled 1,286m and were up +7.2% y-o-y (+4.6% y-o-y in 9M), mainly driven by increased hardware costs due to increased trading and higher value handsets in the quarter. **Supplies** (589m) grew by 4.3% y-o-y (+3.8% y-o-y in the first nine months). **Personnel expenses** amounted to 112m in Q3 and increased by 1.4% y-o-y (+1.1% y-o-y in 9M), and **other expenses** (585m) grew by 15.5% y-o-y (+7.5% in 9M).

OIBDA totalled 464m in the quarter, representing an accelerated growth of +9.8% y-o-y (1,343m up 8.1% in 9M), mainly as a result of the strong top-line performance and also supported by a reduction in Annual Licence Fee payments, a commercial settlement of 18m, and a reduced impact of RLAH in the quarter. Excluding this commercial settlement OIBDA would have increased 5.5% y-o-y. Thus, **OIBDA margin** improved by 0.5 p.p. y-o-y to 26.9% in Q3 18 (27.2%; +0.6 p.p. in the first nine months).

CapEx amounted to 1,202m, up 3.0% y-o-y when compared with January-September 2017, on the back of the ongoing investment in network capacity and customer experience. **Operating cash flow** (OIBDA-CapEx) strongly improved by 12.8% y-o-y to 141m in January-September.

Table of Contents

TELEFÓNICA UK

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

| | January - September | | % Chg | | July - September | | % Chg | |
|--|---------------------|--------------|-----------------|-----------------|------------------|--------------|-----------------|-----------------|
| | 2018 | 2017 | Reported | Organic | 2018 | 2017 | Reported | Organic |
| Revenues | 4,945 | 4,810 | 2.8 | 5.5 | 1,721 | 1,602 | 7.4 | 7.9 |
| Mobile service revenues | 3,625 | 3,789 | (4.3) | 2.8 | 1,241 | 1,258 | (1.3) | 3.6 |
| Data revenues | 2,065 | 2,186 | (5.5) | 1.6 | 698 | 718 | (2.9) | 2.1 |
| Handset revenues and other | 1,319 | 1,021 | 29.2 | 15.4 | 480 | 344 | 39.4 | 23.3 |
| Internal expenditure capitalised in fixed assets | 92 | 86 | 6.7 | 8.2 | 29 | 27 | 10.4 | 9.6 |
| Operating expenses | (3,687) | (3,637) | 1.4 | 4.6 | (1,286) | (1,219) | 5.5 | 7.2 |
| Supplies | (1,668) | (2,246) | (25.7) | 3.8 | (589) | (767) | (23.3) | 4.3 |
| Personnel expenses | (331) | (332) | (0.2) | 1.1 | (112) | (110) | 2.0 | 1.4 |
| Other operating expenses | (1,688) | (1,059) | 59.3 | 7.5 | (585) | (342) | 71.1 | 15.5 |
| Other net income (expense) | (6) | 1 | c.s. | n.m. | (1) | 0 | n.m. | n.m. |
| Gain (loss) on sale of fixed assets | | 2 | | | | 2 | | |
| Impairment of goodwill and other assets | | | | | | | | |
| Operating income before D&A (OIBDA) | 1,343 | 1,261 | 6.5 | 8.1 | 464 | 412 | 12.6 | 9.8 |
| <i>OIBDA Margin</i> | <i>27.2%</i> | <i>26.2%</i> | <i>0.9 p.p.</i> | <i>0.6 p.p.</i> | <i>26.9%</i> | <i>25.7%</i> | <i>1.2 p.p.</i> | <i>0.5 p.p.</i> |
| CapEx | 1,202 | 604 | 99.1 | 3.0 | 215 | 170 | 26.7 | 25.0 |
| Spectrum | 588 | | | | | | | |
| OpCF (OIBDA-CapEx) | 141 | 658 | (78) | 12.8 | 249 | 242 | 3 | (0.9) |

Notes:

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

TELEFÓNICA UK

ACCESSES

Unaudited figures (Thousands)

| | 2017 | | | | 2018 | | | |
|-------------------------------|----------|----------|-----------|----------|----------|----------|-----------|-------|
| | March | June | September | December | March | June | September | % Chg |
| Fixed telephony accesses (1) | 277.2 | 281.3 | 281.9 | 283.9 | 285.8 | 296.1 | 301.3 | 6.9 |
| Internet and data accesses | 24.0 | 24.7 | 24.8 | 25.3 | 25.7 | 26.6 | 27.7 | 11.6 |
| Broadband | 24.0 | 24.7 | 24.8 | 25.3 | 25.7 | 26.6 | 27.7 | 11.6 |
| Mobile accesses | 25,009.3 | 25,139.7 | 25,283.0 | 25,003.9 | 24,775.3 | 24,758.7 | 24,821.4 | (1.8) |
| Prepay | 9,375.4 | 9,427.4 | 9,477.4 | 9,203.7 | 8,959.1 | 8,858.3 | 8,804.0 | (7.1) |
| Contract (2) | 15,633.9 | 15,712.3 | 15,805.6 | 15,800.2 | 15,816.2 | 15,900.3 | 16,017.4 | 1.3 |
| M2M | 3,330.3 | 3,373.1 | 3,434.4 | 3,358.9 | 3,370.1 | 3,411.7 | 3,408.3 | (0.8) |
| Wholesale accesses | 6,879.0 | 6,859.0 | 7,018.0 | 7,162.0 | 7,247.1 | 7,340.0 | 7,457.2 | 6.3 |
| Mobile wholesale accesses (3) | 6,879.0 | 6,859.0 | 7,018.0 | 7,162.0 | 7,247.1 | 7,340.0 | 7,457.2 | 6.3 |
| Total accesses | 32,189.5 | 32,304.7 | 32,607.7 | 32,475.1 | 32,334.0 | 32,421.4 | 32,607.6 | (0.0) |

*(1) Includes fixed wireless and VoIP accesses.**(2) Includes the disconnection of 228 thousand inactive contract accesses in the first quarter 2017.*

MOBILE ACCESSES

Unaudited figures (Thousands)

| | 2017 | | | | 2018 | | | |
|-------------------------------|----------|----------|-----------|----------|----------|----------|-----------|-------|
| | March | June | September | December | March | June | September | % Chg |
| Retail mobile accesses | 25,009.3 | 25,139.7 | 25,283.0 | 25,003.9 | 24,775.3 | 24,758.7 | 24,821.4 | (1.8) |
| Wholesale mobile accesses (3) | 6,879.0 | 6,859.0 | 7,018.0 | 7,162.0 | 7,247.1 | 7,340.0 | 7,457.2 | 6.3 |
| Total mobile accesses | 31,888.3 | 31,998.7 | 32,301.0 | 32,165.9 | 32,022.4 | 32,098.6 | 32,278.6 | (0.1) |

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

SELECTED OPERATIONAL DATA

Unaudited figures

| | 2017 | | | | 2018 | | | % Chg |
|---|----------|----------|-----------|----------|----------|----------|-----------|------------|
| | March | June | September | December | March | June | September | |
| Contract percentage (%) | 62.5% | 62.5% | 62.5% | 63.2% | 63.8% | 64.2% | 64.5% | 2.0 p.p. |
| Smartphones (000) | 14,910.2 | 15,514.3 | 15,667.9 | 15,961.0 | 15,917.8 | 15,979.7 | 15,824.1 | 1.0 |
| Smartphone penetration (%) | 71.2% | 73.8% | 74.3% | 76.5% | 77.2% | 77.8% | 76.8% | 2.4 p.p. |
| LTE (000) | 12,438.0 | 12,592.0 | 12,611.0 | 12,891.1 | 12,773.3 | 12,500.3 | 13,362.6 | 6.0 |
| LTE penetration (%) | 57.4% | 57.8% | 57.7% | 59.6% | 59.7% | 58.6% | 62.4% | 4.7 p.p. |
| Mobile churn (quarterly) | 2.2% | 1.5% | 1.7% | 2.2% | 1.9% | 1.9% | 2.1% | 0.4 p.p. |
| Contract (1)(2) | 1.5% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 0.1 p.p. |
| Mobile churn (cumulative YTD) | 2.2% | 1.9% | 1.8% | 1.9% | 1.9% | 1.9% | 2.0% | 0.1 p.p. |
| Contract (1)(2) | 1.5% | 1.2% | 1.1% | 1.1% | 1.0% | 1.0% | 1.0% | (0.1 p.p.) |
| Mobile ARPU (EUR)(cumulative YTD) | 16.1 | 16.1 | 16.0 | 15.9 | 14.7 | 15.0 | 15.1 | 2.3 |
| Prepay | 7.3 | 7.1 | 7.0 | 6.9 | 6.8 | 6.9 | 7.1 | 1.7 |
| Contract (1)(2) | 26.6 | 27.0 | 26.8 | 26.8 | 24.2 | 24.7 | 24.8 | 1.1 |
| Mobile data traffic (TB) (cumulative YTD) | 79,926 | 173,446 | 280,109 | 401,489 | 126,797 | 274,846 | 442,731 | 58.1 |

Notes:

- *ARPU: monthly average revenue divided by the monthly average accesses of the period. % organic change.*
 - *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10¹² bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non-rounded.*
- (1) *Excludes M2M.*
- (2) *Includes the disconnection of 228 thousand inactive contract accesses in the first quarter 2017.*

Table of Contents

05

TELEFÓNICA BRASIL

(y-o-y changes in organic terms)

In the third quarter of 2018, Telefonica Brasil continued showing a solid commercial performance, especially in value (+980k mobile contract net additions in the quarter, +167k FTTH and +50k IPTV), which, together with the gradual reduction in costs (digitalisation and simplification), enabled to increase OIBDA margin for the seventh straight quarter (+2.3 p.p. y-o-y) and to post a solid y-o-y growth in OIBDA (+5.5% in organic terms in the quarter). The drop in fixed voice revenues and the uncertain macroeconomic environment were factors behind the slowdown in revenues.

Contract **mobile accesses** increased by 11% when compared to September 2017, reaching a total penetration of 53% (+5 p.p. y-o-y). Quarterly net contract additions rose to 980k (2,643k in 9M) after leading the capture of new contract accesses for the past 5 months (40% share of net additions in July-August; 34% in 9M), allowing Telefonica Brasil to maintain the leadership with a market share of 41.2%. Growth in mobile contract offset the drop in prepay (-10% y-o-y), affected by the migration to contract and the disconnection of low-value accesses.

In the fixed business, the acceleration in FTTH deployment continued, having already passed 8.0 million homes (437k passed in the quarter; 962k passed in 9M), boosting FTTH connections to 1,741m (3,176m connected with FTTx) after achieving a new historical record of connections in the quarter (167k, 451k in 9M). The transformation of the business towards fibre enables a progressive improvement in the quality of **retail fixed broadband accesses** (+0.2% y-o-y), which translates into an ARPU improvement (+14.9% y-o-y; +10.3% in 9M). Additionally, pay TV ARPU increased y-o-y (+2.6% in the quarter) thanks to IPTV accesses (+53%), which reported 50k net additions in the quarter (+155k in 9M).

Revenues in the quarter (2,345; 7,572m in 9M) decreased by 1.0% y-o-y (+0.2% in 9M), affected by the deterioration of the macroeconomic environment and regulatory impact (excluding this regulatory impact, revenues would have increased by 0.5% in Q3 and +1.8% in 9M). **Mobile service revenues** (1,355m in July-September) decreased by 1.0% y-o-y (+1.5% in 9M). It is worth highlighting the solid performance of contract revenues (accounted for 75% of mobile service revenues in the quarter), which almost offset the worse performance of prepay revenues (accelerated drop in the quarter due to the deterioration of the macroeconomic environment). **Handset revenues** accelerated its growth to 72.4% (+51.3% in 9M) as a result of higher sales of 4G handsets and smartphones with margin.

Fixed revenues fell by 5.4% y-o-y (-4.9% January-September) as a result of the decline of the mature voice service, regulatory impacts and the registration of a B2B contract in the third quarter of 2017. These impacts were partially offset by the strong acceleration in fibre revenues (+30.1% in the quarter, +24.2% in 9M). Thus, broadband and new services and pay TV revenues accounted for 61% of the fixed revenues in the quarter (+4 p.p. y-o-y).

Operating expenses (1,312m in the quarter) decreased for the eleventh straight quarter (-3.4% y-o-y, -2.0% in 9M) thanks to digitalisation measures and the lower Fistel rate on declining prepay accesses. **Supplies** (465m) increased by 4.2% y-o-y (+5.0% in 9M) due to higher handset consumption, which were partially compensated by the termination rates reduction. **Personnel expenses** (234m) included the benefits from the restructuring plans implemented in previous quarters and grew by 2.8% y-o-y in July-September (+2.9% in 9M), growing below inflation. **Other operating expenses** (613m) fell by 8.8% y-o-y in the quarter (-6.9% in 9M), positively impacted by digitalisation

measures that mainly reduced call centre and billing expenses.

Table of Contents

OIBDA reported in the quarter was positively impacted by 307m from the court decision related to the exclusion of ICMS from the PIS/COFIN tax base in Vivo between July 2004 and June 2013 (in addition to the 485m recorded in the second quarter associated with equivalent court decisions for the subsidiaries Telesp and TData from September 2003 to June 2017) as well as to diverse contingencies amounting to - 110m (- 216m in 9M).

Therefore, **OIBDA** reached 1,075m (3,332m in 9M) and increased in the quarter in organic terms (excluding the aforementioned impacts, IFRS 15 and exchange rates) by 5.5% (+5.7% y-o-y in 9M in organic terms). The **OIBDA margin** increased by 2.3 p.p. y-o-y to 37.2% in organic terms (36.6% in 9M; +1.9 p.p. y-o-y).

CapEx in the first nine months stood at 1,422m (+14.0% y-o-y) and was mainly allocated to expanding the fibre and 4G networks and improving quality. **Operating cash flow** stood at 1,910m in the first nine months decreasing by 1.9% y-o-y.

Table of Contents**TELEFÓNICA BRASIL****CONSOLIDATED INCOME STATEMENT***Unaudited figures (Euros in millions)*

| | January - September | | % Chg | | July - September | | % Chg | |
|--|---------------------|---------|----------|----------|------------------|---------|-----------|----------|
| | 2018 | 2017 | Reported | Organic | 2018 | 2017 | Reported | Organic |
| Revenues | 7,572 | 9,128 | (17.0) | 0.2 | 2,345 | 2,935 | (20.1) | (1.0) |
| Mobile Business | 4,748 | 5,563 | (14.7) | 3.4 | 1,463 | 1,782 | (17.9) | 1.8 |
| Mobile service revenues | 4,431 | 5,344 | (17.1) | 1.5 | 1,355 | 1,713 | (20.9) | (1.0) |
| Data revenues | 3,471 | 3,796 | (8.5) | 12.3 | 1,076 | 1,248 | (13.8) | 8.4 |
| Handset revenues | 317 | 219 | 44.4 | 51.3 | 108 | 68 | 57.4 | 72.4 |
| Fixed Business | 2,824 | 3,565 | (20.8) | (4.9) | 882 | 1,153 | (23.5) | (5.4) |
| FBB and new services (1) | 1,331 | 1,501 | (11.3) | 5.0 | 434 | 525 | (17.4) | 2.3 |
| Pay TV | 336 | 408 | (17.7) | (0.1) | 107 | 131 | (18.5) | 0.6 |
| Voice & access revenues | 1,157 | 1,656 | (30.1) | (15.2) | 341 | 497 | (31.3) | (15.0) |
| Internal expenditure capitalised in fixed assets | 88 | 107 | (18.0) | (0.5) | 27 | 33 | (18.3) | 0.9 |
| Operating expenses | (4,284) | (6,047) | (29.1) | (2.0) | (1,312) | (1,938) | (32.3) | (3.4) |
| Supplies | (1,498) | (1,723) | (13.0) | 5.0 | (465) | (553) | (15.8) | 4.2 |
| Personnel expenses | (808) | (902) | (10.4) | 2.9 | (234) | (283) | (17.5) | 2.8 |
| Other operating expenses | (1,978) | (3,422) | (42.2) | (6.9) | (613) | (1,103) | (44.4) | (8.8) |
| Other net income (expense) | (53) | (24) | 124.9 | c.s. | 5 | (8) | c.s. | c.s. |
| Gain (loss) on sale of fixed assets | 7 | (12) | c.s. | c.s. | 9 | 3 | n.m. | n.m. |
| Impairment of goodwill and other assets | 2 | 11 | (78.3) | (73.7) | 1 | (0) | c.s. | n.m. |
| Operating income before D&A (OIBDA) | 3,332 | 3,162 | 5.4 | 5.7 | 1,075 | 1,024 | 5.0 | 5.5 |
| OIBDA Margin | 44.0% | 34.6% | 9.4 p.p. | 1.9 p.p. | 45.9% | 34.9% | 10.9 p.p. | 2.3 p.p. |
| CapEx | 1,422 | 1,513 | (6.0) | 14.0 | 530 | 598 | (11.3) | 9.4 |
| Spectrum OpCF (OIBDA-CapEx) | 1,910 | 1,649 | 15.8 | (1.9) | 545 | 426 | 27.8 | 0.2 |

Notes:

- January-September and July-September 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.
 - Since 1 July 2017 T. Brasil includes the results of Terra. For organic comparative purposes Terra's results are included since 1 January 2017.
 - 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)

| | 2017 | | | | 2018 | | | % Chg |
|------------------------------|----------|----------|-----------|----------|----------|----------|-----------|--------|
| | March | June | September | December | March | June | September | |
| Final Clients Accesses | 97,331.7 | 97,679.1 | 97,732.9 | 97,890.8 | 97,905.1 | 97,897.8 | 96,817.2 | (0.9) |
| Fixed telephony accesses (1) | 14,242.0 | 14,167.6 | 14,007.3 | 13,837.3 | 13,679.5 | 13,459.7 | 13,209.6 | (5.7) |
| Internet and data accesses | 7,439.6 | 7,537.2 | 7,554.0 | 7,534.5 | 7,544.9 | 7,569.9 | 7,583.4 | 0.4 |
| Broadband | 7,369.5 | 7,468.6 | 7,485.5 | 7,466.1 | 7,476.6 | 7,489.9 | 7,502.6 | 0.2 |
| FTTx/Cable | 4,226.8 | 4,365.9 | 4,472.2 | 4,541.0 | 4,643.2 | 4,791.7 | 4,917.3 | 10.0 |
| Mobile accesses | 73,988.8 | 74,327.1 | 74,553.6 | 74,931.3 | 75,089.3 | 75,253.9 | 74,423.6 | (0.2) |
| Prepay | 40,171.5 | 39,652.1 | 38,897.4 | 38,168.1 | 37,599.0 | 36,827.1 | 35,017.0 | (10.0) |
| Contract | 33,817.3 | 34,675.0 | 35,656.2 | 36,763.2 | 37,490.3 | 38,426.8 | 39,406.7 | 10.5 |
| M2M | 5,271.5 | 5,590.8 | 5,845.3 | 6,312.5 | 6,664.9 | 7,105.5 | 7,628.7 | 30.5 |
| Pay TV | 1,661.3 | 1,647.2 | 1,618.0 | 1,587.7 | 1,591.5 | 1,614.3 | 1,600.5 | (1.1) |
| Total Accesses T. Brasil | 97,349.2 | 97,696.1 | 97,749.8 | 97,905.1 | 97,919.1 | 97,912.7 | 96,832.0 | (0.9) |

(1) Includes fixed wireless and VoIP accesses.

SELECTED OPERATIONAL DATA

Unaudited figures

| | 2017 | | | | 2018 | | | % Chg |
|--------------------------------|----------|----------|-----------|----------|----------|----------|-----------|-------|
| | March | June | September | December | March | June | September | |
| Fixed line penetration (%) | 45.7% | 46.7% | 47.8% | 49.1% | 49.9% | 51.1% | 52.9% | 5.0 |
| Fixed line subscriptions (000) | 50,647.3 | 52,687.8 | 53,323.6 | 54,077.9 | 56,291.8 | 57,636.1 | 58,725.5 | 14.0 |
| Fixed line penetration | 76.0% | 78.8% | 79.5% | 80.5% | 83.8% | 86.0% | 89.3% | 9.0 |
| Fixed line subscriptions (000) | 25,422.1 | 28,645.5 | 31,645.4 | 35,042.6 | 37,566.4 | 39,404.1 | 40,325.9 | 14.0 |
| Fixed line penetration (%) | 37.0% | 41.7% | 46.1% | 51.1% | 54.9% | 57.8% | 60.4% | 14.0 |

Edgar Filing: TELEFONICA S A - Form 6-K

| | | | | | | | | |
|-------------------|-----------|-----------|------------|------------|-----------|------------|------------|----|
| churn (quarterly) | 3.3% | 3.3% | 3.4% | 3.3% | 3.1% | 3.0% | 3.7% | 0 |
| t (1) | 1.6% | 1.8% | 1.9% | 1.7% | 1.6% | 1.8% | 1.9% | 0 |
| churn | | | | | | | | |
| ive YTD) | 3.3% | 3.3% | 3.4% | 3.3% | 3.1% | 3.0% | 3.3% | (0 |
| t (1) | 1.6% | 1.7% | 1.8% | 1.8% | 1.6% | 1.7% | 1.8% | (0 |
| ARPU | | | | | | | | |
| cumulative | | | | | | | | |
| | 8.2 | 8.0 | 7.8 | 7.7 | 7.0 | 6.6 | 6.4 | |
| | 4.1 | 3.9 | 3.8 | 3.7 | 3.2 | 3.0 | 2.8 | |
| t (1) | 15.4 | 15.1 | 14.6 | 14.4 | 13.0 | 12.4 | 11.9 | |
| data traffic (TB) | | | | | | | | |
| ive YTD) | 129,160 | 286,854 | 471,023 | 676,538 | 228,836 | 477,228 | 777,616 | |
| lephony ARPU | | | | | | | | |
| cumulative | | | | | | | | |
| | 13.7 | 13.3 | 12.7 | 12.3 | 10.3 | 9.8 | 9.3 | |
| ARPU (EUR) | | | | | | | | |
| ive YTD) | 28.2 | 27.5 | 27.3 | 26.9 | 24.7 | 23.9 | 23.3 | |
| and ARPU | | | | | | | | |
| cumulative | | | | | | | | |
| | 14.5 | 14.2 | 13.9 | 13.9 | 13.2 | 12.7 | 12.6 | |
| ata traffic (TB) | | | | | | | | |
| ive YTD) | 3,428,917 | 7,379,965 | 11,808,743 | 16,467,417 | 4,838,067 | 10,190,227 | 15,949,403 | |

Notes:

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

Table of Contents

06

TELEFÓNICA HISPAM SUR

(y-o-y changes in organic terms)

During the third quarter, **Hispam Sur** maintained solid growth in revenues and OIBDA, despite the highly competitive environment, especially in Peru. It is worth noting the growth in value, with positive net additions in contract for the fourth consecutive quarter and sustained increase in FTTH accesses.

Mobile accesses decreased compared with September 2017 (-5%), although quality increased since contract weight rose to 40% of total (+4 p.p. y-o-y) and LTE to 36% (+12 p.p. y-o-y). Contract net additions rose to 164k in the quarter (+677k in 9M), with an outstanding performance in Chile, which continued to accelerate net adds since third quarter of 2017.

In the **fixed** business, accesses connected to FTTx and cable networks increased by 51% to 2.3m (+197k new accesses connected in the quarter) after accelerating the deployment (7.9m premises passed, +514 passed in the quarter). In the pay TV business, accesses maintained solid growth despite the negative impact of the World Football Cup's ending and the momentum of Movistar Play service, which already counts with 777k registered accesses (497k active accesses in the last 90 days), not included in pay TV accesses.

Revenues in Q3 rose to 1,315m and increased by 11.2% y-o-y (+9.1% in 9M) driven by the aforementioned good operating performance and the tariffs updates. **Operating expenses** increased by 13.6%, accelerating versus the previous quarter (+9.7% in 9M) on higher expenses in Argentina (inflation impact on salaries update, customer service and higher energy costs). Personnel expenses included 24m of workforce restructuring costs in the quarter (4m in Argentina and 20m in Peru).

OIBDA reached 311m in Q3 (+5.4% y-o-y). Quarterly **OIBDA margin** stood at 23.7% (-1.5 p.p. y-o-y) and at 26.4% in January-September (-0.2 p.p. y-o-y).

CapEx totalled 685m (+10.8% vs. 9M 17) and **operating cash flow** (OIBDA-CapEx) amounted to 551m (+5.7% vs. 9M 17).

In the third quarter, **Telefónica Argentina** reported y-o-y growth in revenues and OIBDA (+29.0% and +30.4% respectively) leveraged on higher value accesses, efficiency measures and progressive tariffs updates. Pay TV service was launched in September and will enhance the value of the fibre network.

The reported results for January-September 2018 and July-September 2018 were affected by the accounting treatment of Argentina as a hyperinflationary economy since July 1, 2018, applied retroactively since January 1, 2018. The hyperinflationary adjustment reflects the changes in the purchasing power in local currency derived from inflation and from the impact of applying the closing period exchange rate vs. the average accumulated exchange rate in conversion into euros, in accordance with the accounting rule. In the first nine months of 2018, this resulted in 624m lower revenues, 214m lower OIBDA and 122m lower CapEx in reported terms. The Q3 impact was - 365m, - 114m and - 76m in revenues, OIBDA and CapEx respectively.

Mobile accesses (18.4m) decreased by 7% y-o-y due to prepay, although contract increased by 4% with quarterly net additions of 44k (+181k in 9M). LTE accesses grew by 26% y-o-y, penetration rose to 38% (+10% p.p. y-o-y) and 4G coverage up to 79%.

Table of Contents

Retail broadband accesses (1.5m) decreased by 10% y-o-y affected by the loss of copper accesses due to the focus on fibre deployment, highlighting the launch of the 300MB symmetrical fibre offer in the quarter. Thus, accesses connected to FTTx networks were multiplied by 2.2x y-o-y (417k as of September), with 64k new accesses connected in the quarter, of which 65k with FTTH, after accelerating the deployment in the quarter to 1.9m premises passed.

Revenues amounted to 232m in Q3 (+29.0% y-o-y; 1,431m in 9M, +25.4%). **Mobile service revenues** (128m in the quarter) increased by 28.5% y-o-y, with ARPU growth thanks to the increase in contract and LTE accesses and the progressive tariffs updates. Data revenues increased by 56.4% y-o-y, noting the data traffic expansion of 50%.

Handset revenues (+27.3% y-o-y) slowed down compared with the previous quarter due to lower handset sales caused by the peso depreciation. **Fixed broadband revenues** (82m) increased by 30.0% y-o-y thanks to broadband ARPU y-o-y growth of 16.6% in the first nine months (greater weight of fibre accesses and tariffs updates).

Operating expenses (181m in the quarter) increased by 28.5% y-o-y, accelerating vs. the previous quarter (+20.0%) following salary updates in August (+16%) and higher expenses, mostly in call centre (impact of inflation and tariffs update) and electricity (elimination of government subsidies). Operating expenses included 4m of personnel restructuring expenses in the quarter.

The quarterly **OIBDA** rose to 54m (+30.4% y-o-y) and 417m in January-September (+36.2% y-o-y). **OIBDA margin** stood at 23.2% (+0.3 p.p. y-o-y; +2.5 p.p. January-September).

CapEx stood at 246m in September (including 17m investment in the 2.6 GHz spectrum, 11m in Q3) and increased by 29.0% y-o-y, mainly allocated to expanding the fibre network and improving service quality. **Operating cash flow** (OIBDA-CapEx) amounted to 171m in the first nine months (+45.6% y-o-y).

Telefónica Chile s results confirm the shift in the trend initiated in the previous quarter, supported by the improvement of contract and fibre performance and by the adoption of efficiency measures. Thus, OIBDA increased by 3.0% y-o-y and margin expanded by 0.9 p.p. y-o-y.

Mobile accesses (8.8m) decreased by 3%, though it is worth noting the increase in contract (+11% y-o-y) driven by gross additions acceleration and churn reduction (-0.4 p.p.), resulting in the highest quarterly net additions (+121k accesses) in the last 7 years (+306k in 9M). Prepay accesses (-11% y-o-y) are affected by the migration to contract plans and higher competitive intensity. The 4G network expansion boosted LTE accesses (3.0m; +37% y-o-y; 36% penetration, +11 p.p.) and **smartphones** (+17%; 43% penetration, +8 p.p.).

Retail broadband accesses (1.1m; -1% y-o-y) reflected the loss in copper accesses, however it is worth to highlight the performance in FTTH (+91% y-o-y), with 65k net additions in the quarter and 299k premises connected (1.0m premises passed; 1.7m with FTTx). Pay TV accesses (670k) decreased by 2% y-o-y due to the focus on IPTV and Movistar Play (132k registered accesses; 93k active accesses in the last 90 days).

Quarterly **revenues** amounted to 505m (9M: 1,556m), stable y-o-y in both periods. **Mobile service revenues** (223m) decreased by 5.7% y-o-y (9M: -6.4%) due to prepay despite the improved contract performance. **Handset revenues** (73m) continued to present solid growth of 57.3% y-o-y in the quarter (9M: +58.8%) in a more rational context of subsidy levels. **Fixed business revenues** (209m) decreased by 3.9% y-o-y (9M: -2.7%) due to lower voice and pay TV revenues, and a B2B contract signed in 2017 whose revenues were registered in the third and fourth quarter of last year. Despite this, it is noteworthy the improvement in fixed broadband revenues trend that increased by 2.1% y-o-y in

the quarter (vs. +0.3% in Q2), after reaching 2.0% y-o-y ARPU growth for the first time in six quarters.

Operating expenses stood at 357m in the quarter and decreased by 1.7% y-o-y (+0.4% in 9M) driven by efficiency measures achieved mainly in support costs and lower interconnection and roaming expenses.

OIBDA (156m; 467m in 9M) growth accelerated in the quarter to 3.0% y-o-y (+1.3% in Q2 and stable in 9M) and **OIBDA margin** increased by 0.9 p.p. y-o-y to 30.9% (30.0% in 9M, stable y-o-y).

Table of Contents

CapEx amounted to 231m as of September (stable y-o-y) and was focused on fibre and LTE networks deployment. **Operating cash flow (OIBDA-CapEx)** amounted to 237m in the first nine months (stable y-o-y).

Telefonica Peru s results were affected by the strong level of commercial aggressiveness in the market, which impacted both service revenues, due to the general tariffs decline in the industry, and expenses mainly due to higher commercial expenses. Despite this, revenues improved their y-o-y trend thanks to handset sales growth.

Mobile accesses (13.5m) decreased by 3% y-o-y due to greater competitive intensity in the market that affected mainly the prepaid segment, even though contract accesses increased by 3% y-o-y. 4G accesses increased by 81% (32% penetration; 73% coverage).

Retail broadband accesses (1.9m; +10% y-o-y) registered quarterly net additions of 55k, with remarkable growth in FTTx and cable accesses (+44%; 1.4m connected; 74k connected in the quarter with FTTH). Premises passed with FTTx and cable amounted to 4.2m (51k passed in the quarter; +530k in 9M). **Pay TV** accesses (1.5m) increased by 13% y-o-y with quarterly net additions of 26k, slowing down from recent quarters trend after the end of the World Football Cup.

Likewise, the impulse of Movistar Play OTT service remained as a differentiating element of the fixed and mobile offer with 540k accesses registered as of September (401k active accesses in the last 90 days).

Revenues stood at 527m in the quarter, improving the y-o-y trend (-4.3% y-o-y; 1,546m in 9M; -5.9%), despite the negative impact of regulation (+1.4% y-o-y excluding regulation). **Mobile service revenues** (187m) decreased by 14.5% y-o-y (-13.7% in January-September) impacted by competitive intensity and the impact of regulation. **Handset revenues** increased by 40.8% y-o-y in July-September (+8.7% in January-September) on financed sale of handsets and a greater rationality on subsidies. Quarterly **fixed business revenues** (264m) decreased by 0.6% y-o-y as a consequence of lower voice and access revenues (-2.3%; -1.0% in 9M) and the change in the commercialisation of fixed equipment, partially offset by **Pay TV** revenues (+1.6% y-o-y; +3.0% in 9M).

Operating expenses (458m in the quarter) increased by 5.8% (+2.1% in January-September), mainly on higher commercial expenses related to the increasing activity and to the higher consumption of handsets and included 20m of personnel restructuring expenses in the quarter.

Thus, **OIBDA** amounted to 80m (-30.9% y-o-y) and 290m in the first nine months (-28.6%). **OIBDA margin** stood at 15.2% (-7.4 p.p. y-o-y, -6.1 p.p. in January-September).

CapEx as of September (192m; -9.9% y-o-y) was focused on the service quality improvement, 4G coverage increase and high-speed networks deployment. **Operating cash flow (OIBDA-CapEx)** amounted to 98m in the first nine months (-48.5% y-o-y).

Table of Contents

TELEFÓNICA HISPAM SUR

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

| | January - September | | % Chg | | July - September | | % Chg | |
|-----------------------|---------------------|-------|----------|---------|------------------|-------|----------|---------|
| | 2018 | 2017 | reported | organic | 2018 | 2017 | reported | organic |
| Revenues | 4,689 | 6,150 | (23.8) | 9.1 | 1,315 | 1,942 | (32.3) | 11.2 |
| Telefónica Argentina | 1,431 | 2,604 | (45.1) | 25.4 | 232 | 810 | (71.3) | 29.0 |
| Telefónica Chile | 1,556 | 1,621 | (4.1) | 0.0 | 505 | 523 | (3.4) | 0.0 |
| Telefónica Perú | 1,546 | 1,756 | (12.0) | (5.9) | 527 | 558 | (5.5) | (4.3) |
| Telefónica Uruguay | 164 | 180 | (8.7) | 3.0 | 53 | 55 | (4.7) | 4.0 |
| Others & eliminations | (8) | (12) | (32.1) | 33.1 | (2) | (4) | (47.6) | 58.8 |
| Service revenues | 4,089 | 5,677 | (28.0) | 6.6 | 1,140 | 1,780 | (36.0) | 8.9 |
| Telefónica Argentina | 1,290 | 2,385 | (45.9) | 23.6 | 209 | 729 | (71.3) | 30.0 |
| Telefónica Chile | 1,330 | 1,500 | (11.3) | (4.8) | 432 | 482 | (10.3) | (4.8) |
| Telefónica Perú | 1,329 | 1,638 | (18.8) | (7.0) | 451 | 522 | (13.6) | (7.4) |
| Telefónica Uruguay | 148 | 167 | (11.7) | 1.3 | 48 | 51 | (5.4) | 4.5 |
| Others & eliminations | (8) | (12) | (32.1) | 22.8 | (1) | (4) | (75.1) | 25.1 |
| OIBDA | 1,236 | 1,750 | (29.3) | 8.4 | 311 | 567 | (45.1) | 5.4 |
| Telefónica Argentina | 417 | 747 | (44.3) | 36.2 | 54 | 241 | (77.7) | 30.4 |
| Telefónica Chile | 467 | 497 | (5.9) | 0.0 | 156 | 158 | (1.2) | 3.0 |
| Telefónica Perú | 290 | 442 | (34.4) | (28.6) | 80 | 148 | (45.9) | (30.9) |
| Telefónica Uruguay | 60 | 64 | (5.6) | 5.0 | 20 | 21 | (3.8) | 5.2 |
| Others & eliminations | 2 | 0 | n.m. | n.m. | 2 | 0 | n.m. | n.m. |
| CapEx | 685 | 938 | (26.9) | 10.8 | 178 | 293 | (39.1) | 18.0 |
| Telefónica Argentina | 246 | 423 | (41.8) | 29.0 | 38 | 126 | (69.7) | 33.5 |
| Telefónica Chile | 231 | 238 | (3.1) | 0.0 | 63 | 58 | 7.7 | 9.0 |
| Telefónica Perú | 192 | 229 | (16.0) | (9.9) | 71 | 73 | (2.8) | (2.2) |
| Telefónica Uruguay | 16 | 48 | (66.5) | (8.2) | 7 | 36 | (81.6) | (2.1) |
| Others & eliminations | | | | | | | | |
| Spectrum | 17 | 28 | (40.6) | 41.6 | 11 | 28 | (59.3) | 7.0 |
| Telefónica Argentina | 17 | | | | 11 | | | |
| Telefónica Chile | | | | | | | | |
| Telefónica Perú | | | | | | | | |
| Telefónica Uruguay | | 28 | | | | 28 | | |
| Others & eliminations | | | | | | | | |

Edgar Filing: TELEFONICA S A - Form 6-K

| | | | | | | | | |
|-----------------------|-----|-----|--------|--------|-----|------|--------|--------|
| OpCF (OIBDA-CapEx) | 551 | 812 | (32.1) | 5.7 | 133 | 275 | (51.6) | (5.5) |
| Telefónica Argentina | 171 | 325 | (47.4) | 45.6 | 16 | 115 | (86.3) | 27.0 |
| Telefónica Chile | 237 | 258 | (8.5) | (0.0) | 93 | 99 | (6.4) | (0.6) |
| Telefónica Perú | 98 | 213 | (54.2) | (48.5) | 10 | 76 | (87.3) | (58.6) |
| Telefónica Uruguay | 44 | 16 | n.m. | 11.0 | 13 | (15) | c.s. | 9.2 |
| Others & eliminations | 2 | | | | 2 | | | |

Table of Contents

TELEFÓNICA HISPAM SUR

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

| | January - September | | % Chg | | July - September | | % Chg | |
|--|---------------------|---------|------------|------------|------------------|---------|------------|------------|
| | 2018 | 2017 | reported | organic | 2018 | 2017 | reported | organic |
| Revenues | 4,689 | 6,150 | (23.8) | 9.1 | 1,315 | 1,942 | (32.3) | 11.2 |
| Mobile Business | 2,799 | 3,742 | (25.2) | 10.1 | 761 | 1,174 | (35.2) | 12.0 |
| Mobile service revenues | 2,199 | 3,270 | (32.8) | 6.0 | 584 | 1,012 | (42.3) | 8.1 |
| Data revenues | 1,284 | 1,840 | (30.2) | 16.0 | 334 | 588 | (43.1) | 23.0 |
| Handset revenues | 600 | 472 | 27.0 | 38.9 | 177 | 162 | 9.0 | 36.3 |
| Fixed Business | 1,890 | 2,407 | (21.5) | 7.6 | 556 | 768 | (27.7) | 10.0 |
| FBB and new services revenues | | | | | | | | |
| (1) | 963 | 1,286 | (25.2) | 9.5 | 275 | 413 | (33.4) | 14.5 |
| Pay TV revenues | 401 | 426 | (5.9) | 0.5 | 133 | 138 | (4.0) | (2.0) |
| Voice & access revenues | 526 | 695 | (24.3) | 8.3 | 148 | 216 | (31.8) | 9.1 |
| Internal expenditure capitalised in fixed assets | 51 | 66 | (23.1) | 0.7 | 16 | 23 | (29.9) | (0.9) |
| Operating expenses | (3,537) | (4,494) | (21.3) | 9.7 | (1,026) | (1,404) | (26.9) | 13.6 |
| Supplies | (1,440) | (1,689) | (14.7) | 9.1 | (431) | (531) | (18.9) | 10.9 |
| Personnel expenses | (636) | (919) | (30.8) | 10.5 | (174) | (277) | (37.2) | 16.5 |
| Other operating expenses | (1,461) | (1,886) | (22.5) | 9.8 | (421) | (596) | (29.2) | 14.7 |
| Other net income (expense) | 32 | 25 | 28.5 | 94.4 | 6 | 5 | 29.7 | n.m. |
| Gain (loss) on sale of fixed assets | 3 | 3 | (16.6) | (44.5) | 0 | 2 | (99.4) | c.s. |
| Impairment of goodwill and other assets | | | | | | | | |
| Operating income before D&A | | | | | | | | |
| (OIBDA) | 1,236 | 1,750 | (29.3) | 8.4 | 311 | 567 | (45.1) | 5.4 |
| OIBDA Margin | 26.4% | 28.5% | (2.1 p.p.) | (0.2 p.p.) | 23.7% | 29.2% | (5.5 p.p.) | (1.5 p.p.) |
| CapEx | 685 | 938 | (26.9) | 10.8 | 178 | 293 | (39.1) | 18.0 |
| Spectrum | 17 | 28.20 | (40.6) | 41.6 | 11 | 28 | (59.3) | 7.0 |
| | 551 | 812 | (32.1) | 5.7 | 133 | 275 | (51.6) | (5.5) |

OpCF
(OIBDA-CapEx)

Notes:

- January-September and July-September 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.
 - OIBDA before management and brand fees.
 - Following the consideration of the Argentine economy as hyperinflationary from an accounting perspective for periods ended after 1 July 2018, the operations of Telefónica in Argentina adjusted by inflation are to be accounted at the closing exchange rate Argentine Peso/Euro. Consolidated reported results for July-September 2018 have been calculated taking as a reference first half 2018 results adjusted by inflation in Argentina (see explanation in Alternative Performance Measures appendix).
- (1) Includes broadband connectivity services (retail and wholesale), including value added services, data and ICT revenues, other services over connectivity and FBB equipment.

TELEFÓNICA HISPAM SUR

ACCESSES

Unaudited figures (thousands)

| | 2017 | | | | 2018 | | | |
|------------------------------|----------|----------|-----------|----------|----------|----------|-----------|--------|
| | March | June | September | December | March | June | September | % Chg |
| Final Clients Accesses | 60,569.0 | 59,760.0 | 59,093.9 | 58,419.9 | 57,783.3 | 57,531.8 | 56,723.6 | (4.0) |
| Fixed telephony accesses (1) | 8,209.7 | 8,137.8 | 8,044.3 | 7,938.5 | 7,811.1 | 7,684.6 | 7,549.9 | (6.1) |
| Internet and data accesses | 4,687.0 | 4,687.4 | 4,688.0 | 4,656.1 | 4,611.4 | 4,648.1 | 4,675.4 | (0.3) |
| Broadband | 4,565.4 | 4,566.1 | 4,567.1 | 4,535.4 | 4,492.4 | 4,528.3 | 4,554.9 | (0.3) |
| FTTx/Cable | 1,246.5 | 1,297.3 | 1,514.7 | 1,656.2 | 1,829.2 | 2,089.2 | 2,285.8 | 50.9 |
| Mobile accesses | 45,718.0 | 44,955.8 | 44,352.3 | 43,775.1 | 43,276.3 | 43,042.8 | 42,324.7 | (4.6) |
| Prepay | 29,273.2 | 28,787.5 | 28,344.3 | 27,631.8 | 26,973.7 | 26,386.8 | 25,504.3 | (10.0) |
| Contract | 16,444.7 | 16,168.3 | 16,008.0 | 16,143.3 | 16,302.6 | 16,655.9 | 16,820.4 | 5.1 |
| M2M | 1,082.3 | 1,126.1 | 1,164.9 | 1,199.8 | 1,240.2 | 1,339.4 | 1,396.2 | 19.9 |
| Pay TV | 1,954.3 | 1,979.1 | 2,009.4 | 2,050.3 | 2,084.6 | 2,156.4 | 2,173.5 | 8.2 |
| Total Accesess Hispam Sur | 60,594.7 | 59,785.4 | 59,134.0 | 58,445.9 | 57,808.9 | 57,556.0 | 56,747.9 | (4.0) |

(1) Includes fixed wireless and VoIP accesses.

SELECTED OPERATIONAL DATA

Unaudited figures

Edgar Filing: TELEFONICA S A - Form 6-K

| | 2017 | | | | 2018 | | | % Chg |
|----------------------------|----------|----------|-----------|----------|----------|----------|-----------|-----------|
| | March | June | September | December | March | June | September | |
| Contract percentage (%) | 36.0% | 36.0% | 36.1% | 36.9% | 37.7% | 38.7% | 39.7% | 3.6 p.p. |
| Smartphones (000) | 21,113.6 | 20,799.2 | 21,267.5 | 21,650.2 | 21,331.4 | 21,507.3 | 21,056.7 | (1.0) |
| Smartphone penetration (%) | 47.9% | 48.1% | 49.9% | 51.5% | 51.4% | 52.2% | 52.1% | 2.2 p.p. |
| LTE (000) | 8,761.2 | 9,542.5 | 10,383.5 | 12,529.0 | 13,713.1 | 13,777.7 | 14,694.1 | 41.5 |
| LTE penetration (%) | 19.6% | 21.8% | 24.0% | 29.4% | 32.6% | 33.0% | 36.0% | 11.9 p.p. |

Table of Contents

TELEFÓNICA ARGENTINA

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

| | January - September | | | | July - September | | | |
|--------------------------|---------------------|-------|----------|---------------|------------------|-------|------------|---------------|
| | 2018 | 2017 | % Chg | % Organic Chg | 2018 | 2017 | % Chg | % Organic Chg |
| Revenues | 1,431 | 2,604 | (45.1) | 25.4 | 232 | 810 | (71.3) | 29.0 |
| Mobile Business | 945 | 1,694 | (44.2) | 26.9 | 151 | 530 | (71.6) | 28.3 |
| Mobile service revenues | 804 | 1,475 | (45.5) | 24.3 | 128 | 449 | (71.6) | 28.5 |
| Data revenues | 471 | 858 | (45.1) | 44.9 | 66 | 277 | (76.4) | 56.4 |
| Handset revenues | 140 | 219 | (35.9) | 44.9 | 23 | 81 | (71.6) | 27.3 |
| Fixed Business | 486 | 910 | (46.6) | 22.5 | 82 | 281 | (70.9) | 30.0 |
| FBB and new services (1) | 257 | 549 | (53.2) | 22.9 | 32 | 171 | (81.3) | 33.2 |
| Voice & access revenues | 229 | 361 | (36.5) | 21.9 | 50 | 109 | (54.6) | 25.0 |
| OIBDA | 417 | 747 | (44.3) | 36.2 | 54 | 241 | (77.7) | 30.4 |
| OIBDA margin | 29.1% | 28.7% | 0.4 p.p. | 2.5 p.p. | 23.2% | 29.7% | (6.5 p.p.) | 0.3 p.p. |
| CapEx | 246 | 423 | (41.8) | 29.0 | 38 | 126 | (69.7) | 33.5 |
| Spectrum | 17 | | | | 11 | | | |
| OpCF (OIBDA-CapEx) | 171 | 325 | (47.4) | 45.6 | 16 | 115 | (86.3) | 27.0 |

Notes:

- *January-September and July-September 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.*
 - *OIBDA is presented before management and brand fees.*
 - *Following the consideration of the Argentine economy as hyperinflationary from an accounting perspective for periods ended after 1 July 2018, the operations of Telefónica in Argentina adjusted by inflation are to be accounted at the closing exchange rate Argentine Peso/Euro. Consolidated reported results for July-September 2018 have been calculated taking as a reference first half 2018 results adjusted by inflation in Argentina (see explanation in Alternative Performance Measures appendix).*
- (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)

Edgar Filing: TELEFONICA S A - Form 6-K

| | 2017 | | | | 2018 | | | % Chg |
|---|----------|----------|-----------|----------|----------|----------|-----------|--------|
| | March | June | September | December | March | June | September | |
| Final Clients Accesses | 26,370.4 | 25,981.8 | 25,770.2 | 25,077.2 | 24,507.7 | 24,208.3 | 23,798.2 | (7.7) |
| Fixed telephony accesses (1) | 4,374.3 | 4,314.5 | 4,221.9 | 4,120.8 | 4,023.4 | 3,908.5 | 3,770.6 | (10.7) |
| Fixed wireless Internet and data accesses | 233.3 | 227.7 | 221.8 | 206.1 | 192.9 | 184.5 | 170.4 | (23.2) |
| Broadband | 1,841.0 | 1,802.5 | 1,758.9 | 1,700.6 | 1,648.5 | 1,613.3 | 1,579.9 | (10.2) |
| FTTx | 1,800.5 | 1,762.6 | 1,720.3 | 1,663.5 | 1,613.5 | 1,578.6 | 1,545.5 | (10.2) |
| Mobile accesses | 75.8 | 133.6 | 192.7 | 243.8 | 294.7 | 353.2 | 416.9 | 116.3 |
| Prepay | 20,155.1 | 19,864.8 | 19,789.4 | 19,255.9 | 18,835.8 | 18,686.5 | 18,446.3 | (6.8) |
| Contract | 12,936.0 | 12,561.7 | 12,386.1 | 11,717.1 | 11,259.6 | 11,011.4 | 10,726.8 | (13.4) |
| M2M | 7,219.1 | 7,303.1 | 7,403.3 | 7,538.7 | 7,576.2 | 7,675.1 | 7,719.5 | 4.3 |
| Pay TV | 546.2 | 581.0 | 588.0 | 596.6 | 614.3 | 629.4 | 658.0 | 11.9 |
| | | | | | | | 1.4 | n.m. |
| Total Accesses | 26,390.8 | 26,002.0 | 25,805.1 | 25,098.1 | 24,528.1 | 24,227.4 | 23,817.1 | (7.7) |

(1) Includes fixed wireless and VoIP accesses.

SELECTED OPERATIONAL DATA

Unaudited figures

| | 2017 | | | | 2018 | | | % Chg |
|---|---------|---------|-----------|----------|---------|---------|-----------|------------|
| | March | June | September | December | March | June | September | |
| Contract percentage (%) | 35.8% | 36.8% | 37.4% | 39.2% | 40.2% | 41.1% | 41.8% | 4.4 p.p. |
| Smartphones (000) | 9,194.8 | 8,789.6 | 9,195.1 | 9,253.8 | 8,879.0 | 8,988.5 | 8,949.3 | (2.7) |
| Smartphone penetration (%) | 47.2% | 45.9% | 48.2% | 49.9% | 49.0% | 50.1% | 50.6% | 2.4 p.p. |
| LTE (000) | 4,136.7 | 4,707.5 | 5,363.2 | 6,387.8 | 6,673.1 | 6,714.7 | 6,751.7 | 25.9 |
| LTE penetration (%) | 21.1% | 24.4% | 27.9% | 34.2% | 36.6% | 37.2% | 38.0% | 10.0 p.p. |
| Mobile churn (quarterly) | 3.4% | 3.1% | 2.9% | 3.1% | 3.2% | 2.9% | 2.6% | (0.3 p.p.) |
| Contract (1) | 1.2% | 1.2% | 1.2% | 1.1% | 1.1% | 1.1% | 1.3% | 0.0 p.p. |
| Mobile churn (cumulative YTD) | 3.4% | 3.2% | 3.1% | 3.1% | 3.2% | 2.9% | 2.8% | (0.3 p.p.) |
| Contract (1) | 1.2% | 1.2% | 1.2% | 1.2% | 1.1% | 1.1% | 1.2% | (0.0 p.p.) |
| Mobile ARPU (EUR)(cumulative YTD) | 8.6 | 8.7 | 8.4 | 8.5 | 7.8 | 7.5 | 4.2 | 33.0 |
| Prepay | 2.5 | 2.6 | 2.6 | 2.7 | 2.4 | 2.4 | 1.3 | 34.1 |
| Contract (1) | 21.0 | 21.0 | 19.9 | 19.7 | 16.7 | 15.9 | 8.9 | 18.2 |
| Mobile data traffic (TB) (cumulative YTD) | 42,378 | 92,707 | 153,286 | 220,535 | 71,626 | 147,967 | 230,363 | 50.3 |

| | | | | | | | | |
|--|---------|---------|-----------|-----------|---------|---------|-----------|------|
| Fixed telephony ARPU (EUR) (cumulative YTD) | 8.6 | 9.5 | 9.1 | 9.4 | 8.5 | 8.4 | 4.8 | 37.2 |
| Broadband ARPU (EUR) (cumulative YTD) | 20.8 | 21.7 | 21.3 | 21.2 | 18.1 | 17.1 | 9.4 | 16.6 |
| Fixed data traffic (TB) (cumulative YTD) (2) | 296,597 | 636,815 | 1,018,913 | 1,420,297 | 425,127 | 893,893 | 1,466,706 | 43.9 |

Notes:

- *ARPU: monthly average revenue divided by the monthly average accesses of the period. % organic Change.*
- *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10¹² bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non-rounded.*
- (1) *Excludes M2M.*
- (2) *Includes solely traffic related with FBB accesses, not Business customers.*

Table of Contents

TELEFÓNICA CHILE

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

| | January - September | | | | July - September | | | |
|-------------------------|---------------------|-------|------------|---------------|------------------|-------|----------|---------------|
| | 2018 | 2017 | % Chg | % Organic Chg | 2018 | 2017 | % Chg | % Organic Chg |
| Revenues | 1,556 | 1,621 | (4.1) | 0.0 | 505 | 523 | (3.4) | 0.0 |
| Mobile Business | 909 | 936 | (2.8) | 2.0 | 296 | 300 | (1.5) | 2.9 |
| Mobile service revenues | 684 | 814 | (16.0) | (6.4) | 223 | 259 | (14.1) | (5.7) |
| Data revenues | 356 | 415 | (14.2) | (5.0) | 118 | 131 | (10.1) | (1.0) |
| Handset revenues | 226 | 122 | 85.4 | 58.8 | 73 | 41 | 78.0 | 57.3 |
| Fixed Business | 646 | 686 | (5.7) | (2.7) | 209 | 222 | (5.9) | (3.9) |
| FBB and new services | | | | | | | | |
| (1) | 332 | 336 | (1.2) | 1.9 | 111 | 111 | (0.1) | 2.1 |
| Pay TV | 172 | 183 | (5.7) | (2.7) | 54 | 60 | (8.4) | (6.4) |
| Voice & access revenues | 142 | 167 | (14.9) | (12.1) | 44 | 52 | (15.3) | (13.5) |
| OIBDA | 467 | 497 | (5.9) | 0.0 | 156 | 158 | (1.2) | 3.0 |
| OIBDA margin | 30.0% | 30.6% | (0.6 p.p.) | (0.0 p.p.) | 30.9% | 30.2% | 0.7 p.p. | 0.9 p.p. |
| CapEx | 231 | 238 | (3.1) | 0.0 | 63 | 58 | 7.7 | 9.0 |
| Spectrum | | | | | | | | |
| OpCF | | | | | | | | |
| (OIBDA-CapEx) | 237 | 258 | (8.5) | (0.0) | 93 | 99 | (6.4) | (0.6) |

Notes:

- January-September and July-September 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.
- 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)

| | 2017 | | | | 2018 | | | |
|------------------------|----------|----------|-----------|----------|----------|----------|-----------|-------|
| | March | June | September | December | March | June | September | % Chg |
| Final Clients Accesses | 12,210.5 | 12,142.9 | 12,248.6 | 12,227.9 | 12,061.9 | 11,887.5 | 11,836.3 | (3.4) |
| | 1,380.5 | 1,365.1 | 1,350.5 | 1,326.5 | 1,289.1 | 1,273.5 | 1,251.9 | (7.3) |

Fixed telephony
accesses (1)

| | | | | | | | | |
|-------------------------------|----------|----------|----------|----------|----------|----------|----------|--------|
| Internet and data accesses | 1,138.8 | 1,162.9 | 1,170.4 | 1,160.8 | 1,141.9 | 1,151.0 | 1,156.1 | (1.2) |
| Broadband | 1,088.1 | 1,111.6 | 1,118.6 | 1,108.5 | 1,089.2 | 1,097.8 | 1,102.0 | (1.5) |
| FTTx | 329.0 | 341.9 | 354.3 | 360.0 | 379.0 | 421.5 | 475.1 | 34.1 |
| Mobile accesses | 9,034.4 | 8,945.3 | 9,044.6 | 9,056.6 | 8,957.4 | 8,783.8 | 8,758.8 | (3.2) |
| Prepay | 5,891.1 | 5,817.3 | 5,889.7 | 5,849.2 | 5,658.8 | 5,391.6 | 5,245.6 | (10.9) |
| Contract | 3,143.3 | 3,128.0 | 3,154.9 | 3,207.4 | 3,298.5 | 3,392.2 | 3,513.2 | 11.4 |
| M2M | 377.8 | 387.0 | 405.6 | 409.5 | 422.1 | 426.8 | 440.8 | 8.7 |
| Pay TV | 656.8 | 669.7 | 683.1 | 684.0 | 673.6 | 679.2 | 669.5 | (2.0) |
| Total Accesses | 12,215.7 | 12,148.1 | 12,253.8 | 12,233.0 | 12,067.0 | 11,892.6 | 11,841.7 | (3.4) |

(1) Includes fixed wireless and VoIP accesses.

SELECTED OPERATIONAL DATA

Unaudited figures

| | 2017 | | | | 2018 | | | |
|--|---------|---------|-----------|-----------|---------|-----------|-----------|------------|
| | March | June | September | December | March | June | September | % Chg |
| Contract percentage (%) | 34.8% | 35.0% | 34.9% | 35.4% | 36.8% | 38.6% | 40.1% | 5.2 p.p. |
| Smartphones (000) | 2,962.3 | 2,894.6 | 2,933.0 | 3,285.8 | 3,344.5 | 3,411.8 | 3,437.9 | 17.2 |
| Smartphone penetration (%) | 35.3% | 35.0% | 35.1% | 39.3% | 40.5% | 42.2% | 42.7% | 7.6 p.p. |
| LTE (000) | 1,837.2 | 1,879.7 | 2,210.6 | 2,517.2 | 2,700.0 | 2,823.9 | 3,035.2 | 37.3 |
| LTE penetration (%) | 21.2% | 22.0% | 25.6% | 29.1% | 31.6% | 33.8% | 36.5% | 10.9 p.p. |
| Mobile churn (quarterly) | 3.3% | 3.4% | 3.0% | 3.4% | 3.4% | 3.5% | 2.9% | (0.1 p.p.) |
| Contract (1) | 2.4% | 2.6% | 2.7% | 2.6% | 2.2% | 2.3% | 2.3% | (0.4 p.p.) |
| Mobile churn (cumulative YTD) | 3.3% | 3.3% | 3.2% | 3.2% | 3.4% | 3.5% | 3.3% | 0.1 p.p. |
| Contract (1) | 2.4% | 2.5% | 2.6% | 2.6% | 2.2% | 2.3% | 2.3% | (0.3 p.p.) |
| Mobile ARPU (EUR)(cumulative YTD) | 10.1 | 9.8 | 9.5 | 9.3 | 8.5 | 7.9 | 7.9 | (7.2) |
| Prepay | 2.9 | 2.8 | 2.6 | 2.6 | 2.3 | 2.2 | 2.2 | (13.8) |
| Contract (1) | 26.6 | 25.8 | 25.2 | 24.7 | 22.1 | 20.0 | 19.6 | (11.9) |
| Mobile data traffic (TB) (cumulative YTD) | 42,969 | 92,426 | 150,683 | 212,517 | 74,641 | 162,246 | 260,842 | 73.1 |
| Fixed telephony ARPU (EUR) (cumulative YTD) | 13.0 | 12.8 | 12.5 | 12.4 | 11.8 | 11.7 | 11.4 | (6.2) |
| Pay TV ARPU (EUR) (cumulative YTD) | 26.1 | 25.6 | 24.9 | 24.5 | 22.8 | 23.1 | 22.5 | (6.5) |
| Broadband ARPU (EUR) (cumulative YTD) | 18.8 | 18.1 | 17.4 | 17.3 | 17.1 | 17.1 | 16.7 | (0.9) |
| Fixed data traffic (TB) (cumulative YTD) (2) | 434,322 | 970,592 | 1,502,438 | 2,006,161 | 524,361 | 1,133,870 | 1,794,715 | 19.5 |

Notes:

- ARPU: monthly average revenue divided by the monthly average accesses of the period. % organic Change .
 - Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10¹² bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non-rounded.
- (1) Excludes M2M.
- (2) Includes solely traffic related with FBB accesses, not Business customers.

Table of Contents

TELEFÓNICA PERÚ

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

| | January - September | | | | July - September | | | |
|--------------------------|---------------------|--------------|-------------------|-------------------|------------------|--------------|--------------------|-------------------|
| | 2018 | 2017 | % Chg | % Organic Chg | 2018 | 2017 | % Chg | % Organic Chg |
| Revenues | 1,546 | 1,756 | (12.0) | (5.9) | 527 | 558 | (5.5) | (4.3) |
| Mobile Business | 785 | 938 | (16.3) | (10.9) | 264 | 291 | (9.3) | (7.6) |
| Mobile service revenues | 568 | 819 | (30.6) | (13.7) | 187 | 255 | (26.5) | (14.5) |
| Data revenues | 377 | 471 | (19.9) | (14.0) | 125 | 151 | (17.4) | (17.0) |
| Handset revenues | 217 | 119 | 82.9 | 8.7 | 76 | 36 | 111.9 | 40.8 |
| Fixed Business | 761 | 819 | (7.0) | (0.2) | 264 | 267 | (1.3) | (0.6) |
| FBB and new services (1) | 377 | 412 | (8.5) | (1.8) | 132 | 134 | (1.9) | (1.2) |
| Pay TV | 229 | 239 | (4.1) | 3.0 | 78 | 77 | 1.0 | 1.6 |
| Voice & access revenues | 155 | 168 | (7.6) | (1.0) | 54 | 55 | (2.9) | (2.3) |
| OIBDA | 290 | 442 | (34.4) | (28.6) | 80 | 148 | (45.9) | (30.9) |
| <i>OIBDA margin</i> | <i>18.7%</i> | <i>25.2%</i> | <i>(6.4 p.p.)</i> | <i>(6.1 p.p.)</i> | <i>15.2%</i> | <i>26.6%</i> | <i>(11.4 p.p.)</i> | <i>(7.4 p.p.)</i> |
| CapEx | 192 | 229 | (16.0) | (9.9) | 71 | 73 | (2.8) | (2.2) |
| Spectrum | | | | | | | | |
| OpCF (OIBDA-CapEx) | 98 | 213 | (54.2) | (48.5) | 10 | 76 | (87.3) | (58.6) |

Notes:

- January-September and July-September 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.
- 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)

| | 2017 | | | | 2018 | | |
|--|-------|------|-----------|----------|-------|------|-----------|
| | March | June | September | December | March | June | September |

| | | | | | | | | % Chg |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Fixed telephony accesses (1) | 2,455.0 | 2,458.2 | 2,471.9 | 2,491.2 | 2,498.6 | 2,502.6 | 2,527.5 | 2.2 |
| Fixed wireless | 84.6 | 84.9 | 85.4 | 85.8 | 84.6 | 84.7 | 85.2 | (0.3) |
| Internet and data accesses | 1,707.3 | 1,722.1 | 1,758.7 | 1,794.7 | 1,821.0 | 1,883.8 | 1,939.5 | 10.3 |
| Broadband | 1,676.8 | 1,691.9 | 1,728.2 | 1,763.4 | 1,789.7 | 1,852.0 | 1,907.4 | 10.4 |
| FTTx/Cable | 841.7 | 821.7 | 967.7 | 1,052.4 | 1,155.5 | 1,314.6 | 1,393.8 | 44.0 |
| Mobile accesses | 14,810.6 | 14,438.8 | 13,826.5 | 13,745.1 | 13,816.4 | 13,915.5 | 13,474.9 | (2.5) |
| Prepay | 9,429.8 | 9,397.5 | 9,073.7 | 9,049.4 | 9,093.0 | 9,038.0 | 8,597.2 | (5.3) |
| Contract | 5,380.9 | 5,041.3 | 4,752.7 | 4,695.7 | 4,723.5 | 4,877.5 | 4,877.7 | 2.6 |
| M2M | 82.9 | 82.1 | 92.7 | 108.5 | 112.4 | 187.1 | 199.5 | 115.3 |
| Pay TV | 1,297.4 | 1,309.3 | 1,326.2 | 1,366.3 | 1,411.0 | 1,477.1 | 1,502.6 | 13.3 |
| Total Accesses | 20,270.3 | 19,928.4 | 19,383.2 | 19,397.3 | 19,547.1 | 19,779.1 | 19,444.4 | 0.3 |

(1) Includes fixed wireless and VoIP accesses.

SELECTED OPERATIONAL DATA

Unaudited figures

| | 2017 | | | | 2018 | | | |
|--|---------|-----------|-----------|-----------|---------|-----------|-----------|------------|
| | March | June | September | December | March | June | September | % Chg |
| Contract percentage (%) | 36.3% | 34.9% | 34.4% | 34.2% | 34.2% | 35.1% | 36.2% | 1.8 p.p. |
| Smartphones (000) | 8,130.0 | 8,283.6 | 8,291.3 | 8,246.5 | 8,230.3 | 8,231.3 | 7,803.0 | (5.9) |
| Smartphone penetration (%) | 55.5% | 58.0% | 60.7% | 60.8% | 60.4% | 60.3% | 59.1% | (1.6 p.p.) |
| LTE (000) | 2,370.0 | 2,505.4 | 2,324.4 | 3,087.6 | 3,725.1 | 3,586.3 | 4,217.9 | 81.5 |
| LTE penetration (%) | 16.1% | 17.5% | 16.9% | 22.6% | 27.2% | 26.1% | 31.9% | 15.0 p.p. |
| Mobile churn (quarterly) | 5.3% | 5.1% | 5.5% | 5.6% | 5.8% | 6.2% | 7.1% | 1.6 p.p. |
| Contract (1) | 2.7% | 3.1% | 3.1% | 3.3% | 3.0% | 3.2% | 3.5% | 0.4 p.p. |
| Mobile churn (cumulative YTD) | 5.3% | 5.2% | 5.3% | 5.3% | 5.8% | 6.2% | 6.5% | 1.2 p.p. |
| Contract (1) | 2.7% | 2.9% | 3.0% | 3.0% | 3.0% | 3.2% | 3.3% | 0.3 p.p. |
| Mobile ARPU (EUR)(cumulative YTD) | 6.3 | 6.3 | 6.2 | 6.1 | 5.2 | 4.4 | 4.4 | (11.1) |
| Prepay | 2.1 | 2.0 | 2.1 | 2.0 | 1.8 | 1.7 | 1.7 | (9.4) |
| Contract (1) | 13.7 | 13.8 | 13.7 | 13.6 | 12.0 | 9.6 | 9.5 | (8.2) |
| Mobile data traffic (TB) (cumulative YTD) | 37,157 | 84,961 | 133,034 | 185,166 | 64,198 | 133,741 | 224,923 | 69.1 |
| Fixed telephony ARPU (EUR) (cumulative YTD) | 7.5 | 7.0 | 6.8 | 6.7 | 5.8 | 5.8 | 5.8 | (8.7) |
| Pay TV ARPU (EUR) (cumulative YTD) | 19.4 | 19.1 | 18.8 | 18.6 | 17.5 | 17.6 | 17.5 | (0.1) |
| Broadband ARPU (EUR) (cumulative YTD) | 15.6 | 15.1 | 14.7 | 14.3 | 12.6 | 12.7 | 12.7 | (7.4) |
| Fixed data traffic (TB) (cumulative YTD) (2) | 692,053 | 1,378,078 | 2,075,593 | 2,814,311 | 752,346 | 1,559,607 | 2,463,278 | 18.7 |

Notes:

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

MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non-rounded.

(1) Excludes M2M.

(2) Includes solely traffic related with FBB accesses, not Business customers.

Table of Contents

07

TELEFÓNICA HISPAM NORTE

(y-o-y changes in organic terms)

Hispam Norte delivered a solid commercial performance in the third quarter of the year, with positive net additions in the most valuable accesses (mobile contract, fixed broadband and Pay TV), which allowed operational revenues to reverse its y-o-y trend and grow 0.4% in the quarter (-0.4% in Q2 18; -2.2% in Q1 18), despite the competitive environment and regulatory impacts. On the other hand, OIBDA (-8.0% y-o-y) was still impacted by regulation over termination rates in Mexico; excluding this effect, OIBDA would have remained virtually stable y-o-y (-0.6%). Operating cash flow increased 16.8% in January-September.

Total accesses amounted to 72.9m (+2% y-o-y). **Mobile accesses** (67.2m) increased 2% y-o-y, progressively improving the quality of the customer base due to a greater contract penetration (15%, +0.4 p.p. y-o-y) and LTE penetration (27%, +8.9 p.p., after expanding 4G coverage to 51%).

In the fixed business, **retail broadband accesses** rose to 1.3m (+34% y-o-y), +10k net additions in the quarter driven by FTTx (3.5 times higher y-o-y). **Pay TV accesses** increased 5% after registering +4k net additions in Q3 (+53k in 9M).

Revenues in Q3 increased 0.4% y-o-y to 1,041m (-0.7%, 3,038m in 9M) led mostly by the better performance improvement in Colombia. Excluding negative regulatory impacts, revenues would have increased 2.3% y-o-y (+1.3% in 9M).

Operating expenses totalled 773m in the last three months (+4.4% y-o-y; 2,305m, +2.5 % in 9M) mainly reflecting higher network expenses through the region, which were partially offset by the reduction in commercial expenses and efficiency measures.

OIBDA amounted to 314m in the quarter (-8.0% y-o-y; 748m, -6.1% in 9M), negatively affected by regulation in Mexico. Excluding this impact, OIBDA would have remained virtually stable y-o-y (-0.6%; + 1.8% in 9M) mostly due to the acceleration in revenue growth in Colombia. **OIBDA margin** stood at 30.2% (-2.6 p.p. y-o-y; 24.6%, -1.5 p.p. in 9M).

CapEx totalled 297m in 9M (-30.5% y-o-y) and was mainly allocated to the expansion of fixed and mobile infrastructures. **Operating cash flow** (OIBDA-CapEx) rose to 451m and increased 16.8% when compared to 9M 17.

Telefónica Colombia continued reporting positive net additions in all products in the quarter (except for fixed voice), which, along with a favourable macroeconomic environment and digitalisation efforts translated into both an acceleration of revenues and OIBDA y-o-y growth and margin expansion.

Mobile accesses (15.3m) grew 8% after posting +220k net additions in Q3 (+700k in 9M). Contract accesses rose 2% y-o-y after reporting +49k net additions in Q3 (+88k in 9M) led by a substantial increase in gross additions (+11% y-o-y) and good portability results. In prepay, accesses increased 10% and posted +171k net additions in Q3 (+612k in 9M). Smartphones reached a penetration of 45% (+1.9 p.p. y-o-y) and LTE accesses grew 47% y-o-y (37%

penetration; +9.8 p.p. y-o-y; 62% coverage).

The fixed business continued its transformation process with the connection of 22k FTTH fibre accesses in the quarter thanks to the acceleration in the network deployment (1,083m premises passed with FTTx as of September; of which 44% with FTTH). **Retail broadband accesses** (1.2m) rose 27% y-o-y (positively affected by the inclusion of accesses from the Telebucaramanga and Metrotel subsidiaries consolidated in Q4 17) after reporting +2k net additions in Q3 (+38k accesses in 9M). Additionally, **Pay TV** accesses rose 6% y-o-y.

Table of Contents

Revenues (383m in Q3) increased 7.8% y-o-y (1,104m; +3.0% in 9M) mainly driven by the growth in value accesses and tariffs update in both fixed and mobile in July. **Mobile service revenues** (202m) grew 10.4% y-o-y (+4.7% in 9M) and **fixed business revenues** (151m) increased 9.0% (+2.9% y-o-y in 9M), worth highlighting the good performance from broadband and new services (+27.4% y-o-y; +21.0% in 9M).

Operating expenses stood at 264m (+7.4% y-o-y; 770m, +4.7% in 9M) due to higher commercial and network expenses and the change in the accounting recognition of the sale of fixed equipment (previously recognised as CapEx, now OpEx), partly offset by the positive impact from digitalisation measures on customer care.

OIBDA (157m) accelerated its growth to 11.4% y-o-y (408m in 9M, +4.0%). A capital gain of 24m from tower sales was recorded in the quarter (32m in 9M). **OIBDA margin** stood at 40.9% (+1.1 p.p. y-o-y; +37.0% in 9M, +0.3 p.p.).

CapEx totalled 118m in 9M (-38.9% y-o-y, affected by the previously mentioned change in the recognition criteria of sale of fixed equipment) and was mainly allocated to the fibre network deployment and LTE expansion. **Operating cash flow** (OIBDA- CapEx) increased 53.1% y-o-y in 9M.

Telefónica México s performance continues to be affected by negative regulatory impacts and by an increase in the competitive intensity of the market (mainly in prepay), although the commercial performance improved since the launch of the new offer in July.

Mobile accesses (25.5m; +4% y-o-y) posted +25k net additions in Q3 (454k in 9M) with a good performance in contract accesses (+9%), and in LTE (+35%; 24% penetration, +6 p.p. y-o-y; 56% coverage), driving mobile data traffic (+52% y-o-y in 9M). In prepay (+4%), accesses with frequent top-ups stabilised its performance since the roll out of the new commercial offer and the churn decreased to 3.9% in the quarter (-1.0 p.p. y-o-y).

In the fixed business, internet al hogar accesses (internet at home ; broadband offered through the mobile network) has already reached 47k users since its launch in Q4 17.

Revenues totalled 293m (-6.5% y-o-y; 867m in 9M, -6.0%) and remained affected by mobile termination rates and by the aggressive competitive environment. Nevertheless, handset sales accelerated its growth (+32.2% y-o-y in Q3; +27.8% in 9M). Excluding the negative regulatory impact, revenues would have remained virtually stable (-0.9% y-o-y in Q3; -0.3% in 9M).

Operating expenses stood at 259m after increasing 4.5% y-o-y in the quarter due to higher network expenses, although they were partially offset by lower commercial expenses and greater rationality in subsidies. Operating expenses growth slightly accelerated when compared to previous quarters (766m in 9M; +2.5% y-o-y) due to higher interconnection costs driven by higher traffic from unlimited plans.

OIBDA totalled 40m (-42.5% y-o-y; 137m in 9M, -31.9%). Excluding the negative regulatory impact mentioned previously, OIBDA would have decreased 13.6% y-o-y (-1.3% in 9M). **OIBDA margin** stood at 13.7% (-9.1 p.p. y-o-y; +15.8% in 9M, -6.2 p.p. y-o-y).

CapEx stood at 88m in 9M (-25.4% y-o-y). **Operating cash flow** (OIBDA- CapEx) decreased 40.6% y-o-y.

Table of Contents

TELEFÓNICA HISPAM NORTE

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

| | January - September | | % Chg | | July - September | | % Chg | |
|---------------------------|---------------------|-------|----------|---------|------------------|-------|----------|---------|
| | 2018 | 2017 | reported | organic | 2018 | 2017 | reported | organic |
| Revenues | 3,038 | 3,250 | (6.5) | (0.7) | 1,041 | 1,037 | 0.3 | 0.4 |
| Telefónica Colombia | 1,104 | 1,094 | 1.0 | 3.0 | 383 | 338 | 13.4 | 7.8 |
| Telefónica México | 867 | 1,002 | (13.5) | (6.0) | 293 | 332 | (11.8) | (6.5) |
| Telefónica Centroamérica | 645 | 663 | (2.6) | 5.9 | 220 | 213 | 3.1 | 3.5 |
| Telefónica Ecuador | 407 | 405 | 0.6 | 8.4 | 142 | 132 | 7.7 | 7.2 |
| Telefónica Venezuela | 16 | 88 | (82.0) | (82.0) | 3 | 23 | (86.2) | (86.2) |
| Others & eliminations | (1) | (2) | (44.4) | (40.1) | (0) | (1) | n.m. | (32.1) |
| Service revenues | 2,622 | 2,894 | (9.4) | (3.5) | 902 | 924 | (2.4) | (2.3) |
| Telefónica Colombia | 1,006 | 990 | 1.6 | 3.9 | 353 | 306 | 15.2 | 10.4 |
| Telefónica México | 680 | 843 | (19.3) | (12.4) | 231 | 282 | (18.1) | (13.4) |
| Telefónica Centroamérica | 589 | 617 | (4.5) | 4.8 | 201 | 199 | 1.1 | 1.3 |
| Telefónica Ecuador | 332 | 360 | (7.8) | 0.2 | 115 | 116 | (0.9) | (0.8) |
| Telefónica Venezuela | 16 | 86 | (81.8) | (81.8) | 3 | 22 | (86.0) | (86.0) |
| Others & eliminations | (1) | (2) | (43.2) | (38.8) | (0) | (1) | (29.4) | (27.8) |
| OIBDA | 748 | 929 | (19.5) | (6.1) | 314 | 316 | (0.6) | (8.0) |
| Telefónica Colombia | 408 | 367 | 11.3 | 4.0 | 157 | 113 | 38.2 | 11.4 |
| Telefónica México | 137 | 224 | (39.0) | (31.9) | 40 | 79 | (48.9) | (42.5) |
| Telefónica Centroamérica | 189 | 180 | 5.1 | 15.5 | 69 | 66 | 3.5 | 5.0 |
| Telefónica Ecuador | 113 | 120 | (5.6) | 0.2 | 41 | 40 | 2.3 | 0.7 |
| Telefónica Venezuela | 1 | 25 | (96.2) | (96.2) | 0 | 5 | (94.7) | (94.7) |
| Others & eliminations (1) | (101) | 13 | c.s. | (45.3) | 7 | 13 | (43.8) | (43.8) |
| CapEx | 297 | 915 | (67.5) | (30.5) | 133 | 638 | (79.2) | (21.6) |
| Telefónica Colombia | 118 | 657 | (82.0) | (38.9) | 52 | 542 | (90.5) | (34.0) |
| Telefónica México | 88 | 132 | (33.0) | (25.4) | 43 | 53 | (18.9) | (13.4) |
| Telefónica Centroamérica | 55 | 72 | (24.4) | (18.4) | 23 | 22 | 5.5 | 8.7 |
| Telefónica Ecuador | 35 | 43 | (18.5) | (12.0) | 14 | 17 | (15.3) | (13.1) |
| Telefónica Venezuela | 1 | 11 | (86.9) | (86.9) | 0 | 4 | (97.5) | (97.5) |
| Others & eliminations | | | | | | | | |
| Spectrum | | 474 | | | | 470 | | |
| Telefónica Colombia | | 470 | | | | 470 | | |
| Telefónica México | | 4 | | | | | | |

Telefónica Centroamérica

Telefónica Ecuador

Telefónica Venezuela

Others & eliminations

| | | | | | | | | |
|---------------------------|-------|-------|--------|--------|-----|-------|--------|--------|
| OpCF (OIBDA-CapEx) | 451 | 14 | n.s. | 16.8 | 181 | (322) | c.s. | 8.4 |
| Telefónica Colombia | 290 | (291) | c.s. | 53.1 | 105 | (428) | c.s. | 98.2 |
| Telefónica México | 49 | 93 | (47.5) | (40.6) | (3) | 26 | c.s. | c.s. |
| Telefónica Centroamérica | 135 | 108 | 24.8 | 37.5 | 45 | 44 | 2.5 | 3.1 |
| Telefónica Ecuador | 79 | 77 | 1.5 | 6.8 | 27 | 23 | 15.0 | 10.2 |
| Telefónica Venezuela | (0) | 14 | c.s. | c.s. | 0 | 1 | (76.3) | (76.3) |
| Others & eliminations (1) | (101) | 13 | c.s. | (45.3) | 7 | 13 | (43.8) | (43.8) |

(1) Includes goodwill impairment of 108m in Mexico in April-June 2018

Table of Contents

TELEFÓNICA HISPAM NORTE

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

| | January - September | | % Chg | | July - September | | % Chg | |
|--|---------------------|---------|------------|------------|------------------|-------|------------|------------|
| | 2018 | 2017 | reported | organic | 2018 | 2017 | reported | organic |
| Revenues | 3,038 | 3,250 | (6.5) | (0.7) | 1,041 | 1,037 | 0.3 | 0.4 |
| Mobile Business | 2,489 | 2,697 | (7.7) | (0.7) | 848 | 871 | (2.7) | (1.2) |
| Mobile service revenues | 2,072 | 2,342 | (11.5) | (4.2) | 709 | 758 | (6.5) | (4.9) |
| Data revenues | 1,168 | 1,265 | (7.7) | (0.4) | 393 | 408 | (3.6) | (2.5) |
| Handset revenues | 417 | 356 | 17.1 | 22.2 | 139 | 113 | 22.6 | 23.6 |
| Fixed Business | 549 | 552 | (0.5) | (1.1) | 193 | 166 | 16.2 | 8.6 |
| FBB and new services revenues (1) (2) | 300 | 274 | 9.4 | 15.9 | 109 | 86 | 27.1 | 27.5 |
| Pay TV revenues | 67 | 67 | 0.6 | 6.3 | 23 | 20 | 15.7 | 14.6 |
| Voice & access revenues (2) | 182 | 211 | (13.8) | (21.8) | 61 | 60 | 0.7 | (15.5) |
| Internal expenditure capitalised in fixed assets | 36 | 39 | (9.1) | (6.6) | 12 | 15 | (20.3) | (22.9) |
| Operating expenses | (2,305) | (2,387) | (3.4) | 2.5 | (773) | (740) | 4.5 | 4.4 |
| Supplies | (982) | (1,036) | (5.3) | 1.8 | (333) | (315) | 5.5 | 6.9 |
| Personnel expenses | (263) | (276) | (4.8) | (1.9) | (86) | (85) | 1.2 | (1.6) |
| Other operating expenses | (1,061) | (1,075) | (1.3) | 4.3 | (354) | (339) | 4.5 | 3.6 |
| Other net income (expense) | 23 | 16 | 47.6 | 53.8 | 6 | 3 | 61.1 | 47.7 |
| Gain (loss) on sale of fixed assets | 64 | 12 | n.m. | n.m. | 29 | 0 | n.m. | c.s. |
| Impairment of goodwill and other assets (3) | (108) | | | | | | | |
| Operating income before D&A (OIBDA) | 748 | 929 | (19.5) | (6.1) | 314 | 316 | (0.6) | (8.0) |
| OIBDA Margin | 24.6% | 28.6% | (4.0 p.p.) | (1.5 p.p.) | 30.2% | 30.5% | (0.3 p.p.) | (2.6 p.p.) |
| CapEx | 297 | 915 | (67.5) | (30.5) | 133 | 638 | (79.2) | (21.6) |
| Spectrum | | 474 | | | | 470 | | |
| OpCF (OIBDA-CapEx) | 451 | 14 | n.m. | 16.8 | 181 | (322) | c.s. | 8.4 |

Notes:

- January-September and July-September 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.

- OIBDA before management and brand fees.
- The operations of Telefónica in Venezuela adjusted by inflation are to be accounted at the closing exchange rate Bolívar Soberano/Euro. For the January-September 2018 period Telefónica uses a synthetic Exchange rate of 428.30 Bolívares Soberanos/USD as of end of September 2018.
- (1) Includes broadband connectivity services (retail and wholesale), including value added services, data and ICT revenues, other services over connectivity and FBB equipment.
- (2) Following the pre-payment of the debt derived from the operating agreement with PARAPAT and after taking over its subsidiaries Telebucaramanga, Metrotel and Optecom, the consolidated results are included in the fixed business from 1 October 2017. For organic comparative purposes, the results of these subsidiaries are included since 1 January 2017.
- (3) Includes goodwill impairment of 108m in Mexico in April-June 2018

TELEFÓNICA HISPAM NORTE

ACCESSES

Unaudited figures (thousands)

| | 2017 | | | | 2018 | | | |
|---------------------------------|----------|----------|-----------|----------|----------|----------|-----------|-------|
| | March | June | September | December | March | June | September | % Chg |
| Final Clients Accesses | 72,524.4 | 71,947.4 | 71,102.9 | 72,554.6 | 72,590.0 | 73,145.9 | 72,902.0 | 2.5 |
| Fixed telephony accesses (1)(2) | 3,539.7 | 3,450.6 | 3,327.8 | 3,554.7 | 3,478.3 | 3,484.8 | 3,301.0 | (0.8) |
| Internet and data accesses (2) | 1,006.9 | 999.9 | 1,003.0 | 1,229.2 | 1,253.1 | 1,274.7 | 1,332.3 | 32.8 |
| Broadband | 979.4 | 971.9 | 974.3 | 1,199.9 | 1,223.2 | 1,244.0 | 1,301.4 | 33.6 |
| FTTx | 33.4 | 54.6 | 86.5 | 126.8 | 167.7 | 284.4 | 302.7 | n.m. |
| Mobile accesses | 66,989.6 | 66,515.0 | 65,790.4 | 66,788.6 | 66,857.0 | 67,355.8 | 67,233.7 | 2.2 |
| Prepay | 57,725.3 | 57,115.6 | 56,284.5 | 57,190.7 | 57,061.5 | 57,360.4 | 57,226.8 | 1.7 |
| Contract | 9,264.2 | 9,399.4 | 9,506.0 | 9,597.9 | 9,795.4 | 9,995.4 | 10,006.9 | 5.3 |
| M2M | 1,545.1 | 1,582.9 | 1,635.8 | 1,686.7 | 1,785.1 | 1,882.0 | 1,914.3 | 17.0 |
| Pay TV | 988.2 | 981.9 | 981.6 | 982.1 | 1,001.6 | 1,030.6 | 1,034.9 | 5.4 |
| Total Accesess Hispam Norte | 72,564.2 | 71,986.4 | 71,141.8 | 72,565.4 | 72,590.5 | 73,146.4 | 72,902.5 | 2.5 |

- (1) Includes fixed wireless and VoIP accesses.
- (2) Following the pre-payment of the debt derived from the operating agreement with PARAPAT and after taking over its subsidiaries Telebucaramanga, Metrotel and Optecom, the consolidated results are included in the fixed business from 1 October 2017.

SELECTED OPERATIONAL DATA

Unaudited figures

| | 2017 | | | | 2018 | | | |
|---------------------|-------|-------|-----------|----------|-------|-------|-----------|----------|
| | March | June | September | December | March | June | September | % Chg |
| Contract percentage | 13.8% | 14.1% | 14.4% | 14.4% | 14.7% | 14.8% | 14.9% | 0.4 p.p. |

| | | | | | | | | |
|-------------|---------|---------|----------|----------|----------|----------|----------|----------|
| (%) | | | | | | | | |
| Smartphones | | | | | | | | |
| (000) | 8,130.0 | 8,283.6 | 8,291.3 | 8,246.5 | 8,230.3 | 29,995.2 | 31,376.2 | 7.4 |
| Smartphone | | | | | | | | |
| penetration | | | | | | | | |
| (%) | 55.5% | 58.0% | 60.7% | 60.8% | 60.4% | 46.2% | 48.4% | 2.4 p.p. |
| LTE (000) | 8,280.3 | 9,426.0 | 11,336.8 | 13,626.0 | 14,761.5 | 16,069.9 | 17,392.6 | 53.4 |
| LTE | | | | | | | | |
| penetration | | | | | | | | |
| (%) | 12.7% | 14.5% | 17.7% | 21.0% | 22.7% | 24.6% | 26.6% | 8.9 p.p. |

Table of Contents

TELEFÓNICA COLOMBIA

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

| | January - September | | | | July - September | | | |
|-----------------------------|---------------------|-------|----------|---------------|------------------|-------|----------|---------------|
| | 2018 | 2017 | % Chg | % Organic Chg | 2018 | 2017 | % Chg | % Organic Chg |
| Revenues | 1,104 | 1,094 | 1.0 | 3.0 | 383 | 338 | 13.4 | 7.8 |
| Mobile Business | 671 | 686 | (2.2) | 3.1 | 233 | 214 | 8.9 | 7.0 |
| Mobile service revenues | 572 | 582 | (1.6) | 4.7 | 202 | 182 | 11.1 | 10.4 |
| Data revenues | 339 | 326 | 3.9 | 10.5 | 118 | 106 | 11.4 | 11.0 |
| Handset revenues | 98 | 104 | (5.4) | (5.8) | 31 | 32 | (4.0) | (12.5) |
| Fixed Business | 434 | 408 | 6.3 | 2.9 | 151 | 124 | 21.2 | 9.0 |
| FBB and new services | | | | | | | | |
| (1) (2) | 240 | 209 | 14.9 | 21.0 | 85 | 66 | 29.4 | 27.4 |
| Pay TV | 64 | 66 | (1.7) | 3.7 | 22 | 20 | 8.2 | 6.5 |
| Voice & access revenues (2) | 129 | 133 | (3.1) | (19.6) | 43 | 38 | 13.8 | (14.2) |
| OIBDA | 408 | 367 | 11.3 | 4.0 | 157 | 113 | 38.2 | 11.4 |
| OIBDA margin | 37.0% | 33.5% | 3.4 p.p. | 0.3 p.p. | 40.9% | 33.5% | 7.4 p.p. | 1.1 p.p. |
| CapEx | 118 | 657 | (82.0) | (38.9) | 52 | 542 | (90.5) | (34.0) |
| Spectrum | | 470 | | | | 470 | | |
| OpCF | | | | | | | | |
| (OIBDA-CapEx) | 290 | (291) | c.s. | 53.1 | 105 | (428) | c.s. | 98.2 |

Notes:

- January-September and July-September 2018 results reported under accounting standards IFRS 15 & 9, effective since January 2018.
- 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.
- (2) Following the pre-payment of the debt derived from the operating agreement with PARAPAT and after taking over its subsidiaries Telebucaramanga, Metrotel and Optecom, the consolidated results are included in the fixed business from 1 October 2017. For organic comparative purposes, the results of these subsidiaries are included since 1 January 2017.

ACCESSES

Unaudited figures (Thousands)

Edgar Filing: TELEFONICA S A - Form 6-K

| | 2017 | | | | 2018 | | | |
|-------------------------------------|----------|----------|-----------|----------|----------|----------|-----------|-------|
| | March | June | September | December | March | June | September | % Chg |
| Final Clients Accesses | 16,471.3 | 16,610.7 | 16,964.5 | 17,940.1 | 18,116.5 | 18,515.9 | 18,728.2 | 10.4 |
| Fixed telephony accesses (1) (2) | 1,352.7 | 1,330.6 | 1,319.7 | 1,609.6 | 1,619.8 | 1,635.8 | 1,626.0 | 23.2 |
| Internet and data accesses (2) | 990.0 | 982.3 | 984.9 | 1,210.0 | 1,233.9 | 1,245.8 | 1,247.7 | 26.7 |
| Broadband | 976.8 | 969.1 | 971.5 | 1,196.4 | 1,220.2 | 1,232.2 | 1,234.2 | 27.1 |
| FTTx | 33.4 | 54.6 | 86.5 | 126.8 | 167.7 | 284.4 | 302.7 | n.m. |
| Mobile accesses | 13,603.0 | 13,768.6 | 14,130.1 | 14,590.6 | 14,716.1 | 15,070.6 | 15,290.6 | 8.2 |
| Prepay | 9,974.3 | 10,096.8 | 10,401.1 | 10,857.7 | 11,003.8 | 11,298.3 | 11,469.3 | 10.3 |
| Contract | 3,628.6 | 3,671.8 | 3,729.0 | 3,732.9 | 3,712.3 | 3,772.3 | 3,821.3 | 2.5 |
| M2M | 474.8 | 463.7 | 468.6 | 454.3 | 452.1 | 480.2 | 491.5 | 4.9 |
| Pay TV | 525.6 | 529.3 | 529.8 | 529.9 | 546.7 | 563.8 | 563.9 | 6.4 |
| Total Accesses | 16,471.8 | 16,611.2 | 16,965.0 | 17,940.5 | 18,117.0 | 18,516.4 | 18,728.7 | 10.4 |

(1) Includes fixed wireless and VoIP accesses.

(2) Following the pre-payment of the debt derived from the operating agreement with PARAPAT and after taking over its subsidiaries Telebucaramanga, Metrotel and Optecom, the consolidated results are included in the fixed business from 1 October 2017.

SELECTED OPERATIONAL DATA

Unaudited figures

| | 2017 | | | | 2018 | | | |
|---|---------|---------|-----------|----------|---------|---------|-----------|------------|
| | March | June | September | December | March | June | September | % Chg |
| Contract percentage (%) | 26.7% | 26.7% | 26.4% | 25.6% | 25.2% | 25.0% | 25.0% | (1.4 p.p.) |
| Smartphones (000) | 5,324.1 | 5,477.0 | 5,761.4 | 5,977.1 | 6,069.0 | 6,304.2 | 6,539.8 | 13.5 |
| Smartphone penetration (%) | 41.1% | 41.7% | 42.7% | 42.7% | 42.9% | 43.6% | 44.6% | 1.9 p.p. |
| LTE (000) | 2,682.5 | 3,193.6 | 3,731.2 | 4,260.0 | 4,585.6 | 5,006.8 | 5,492.4 | 47.2 |
| LTE penetration (%) | 20.4% | 24.0% | 27.3% | 30.1% | 32.1% | 34.3% | 37.1% | 9.8 p.p. |
| Mobile churn (quarterly) | 4.2% | 3.4% | 2.9% | 2.9% | 3.4% | 3.2% | 3.3% | 0.4 p.p. |
| Contract (1) | 1.5% | 1.6% | 1.5% | 1.7% | 1.7% | 1.6% | 1.7% | 0.2 p.p. |
| Mobile churn (cumulative YTD) | 4.2% | 3.8% | 3.5% | 3.3% | 3.4% | 3.2% | 3.2% | (0.3 p.p.) |
| Contract (1) | 1.5% | 1.5% | 1.5% | 1.6% | 1.7% | 1.6% | 1.6% | 0.1 p.p. |
| Mobile ARPU (EUR)(cumulative YTD) | 4.7 | 4.6 | 4.5 | 4.4 | 4.0 | 4.0 | 4.0 | (5.6) |
| Prepay | 1.2 | 1.2 | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 | (5.0) |
| Contract (1) | 16.4 | 15.9 | 15.3 | 15.0 | 13.4 | 13.4 | 13.5 | (5.7) |
| | 22,498 | 48,002 | 75,237 | 105,623 | 31,191 | 65,600 | 105,536 | 40.3 |

| | | | | | | | | |
|--|--------|---------|---------|---------|---------|---------|---------|--------|
| Mobile data traffic (TB) (cumulative YTD) | | | | | | | | |
| Fixed telephony ARPU (EUR) (cumulative YTD) | 11.1 | 10.8 | 10.2 | 9.3 | 8.0 | 8.1 | 8.2 | (15.6) |
| Pay TV ARPU (EUR) (cumulative YTD) | 14.3 | 14.1 | 13.5 | 13.2 | 12.5 | 12.6 | 12.8 | (0.2) |
| Broadband ARPU (EUR) (cumulative YTD) | 11.0 | 11.1 | 10.9 | 10.3 | 10.6 | 10.9 | 11.1 | 7.9 |
| Fixed data traffic (TB) (cumulative YTD) (2) | 89,505 | 192,552 | 296,678 | 401,577 | 295,782 | 619,750 | 964,597 | n.m. |

Notes:

- *ARPU: monthly average revenue divided by the monthly average accesses of the period. % organic change.*
 - *Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10¹² bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non-rounded.*
- (1) *Excludes M2M.*
- (2) *Includes solely traffic pertaining to FBB accesses, not Business customers.*

Table of Contents

TELEFÓNICA MÉXICO

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

| | January - September | | | | July - September | | | |
|------------------|---------------------|-------|------------|---------------|------------------|-------|-------------|---------------|
| | 2018 | 2017 | % Chg | % Organic Chg | 2018 | 2017 | % Chg | % Organic Chg |
| Revenues | 867 | 1,002 | (13.5) | (6.0) | 293 | 332 | (11.8) | (6.5) |
| Service revenues | 680 | 843 | (19.3) | (12.4) | 231 | 282 | (18.1) | (13.4) |
| Data revenues | 352 | 411 | (14.5) | (7.4) | 123 | 141 | (12.7) | (14.8) |
| Handset revenues | 187 | 159 | 17.1 | 27.8 | 62 | 50 | 23.2 | 32.2 |
| OIBDA | 137 | 224 | (39.0) | (31.9) | 40 | 79 | (48.9) | (42.5) |
| OIBDA margin | 15.8% | 22.4% | (6.6 p.p.) | (6.2 p.p.) | 13.7% | 23.7% | (10.0 p.p.) | (9.1 p.p.) |
| CapEx | 88 | 132 | (33.0) | (25.4) | 43 | 53 | (18.9) | (13.4) |
| Spectrum | | 4 | | | | | | |
| OpCF | | | | | | | | |
| (OIBDA-CapEx) | 49 | 93 | (47.5) | (40.6) | (3) | 26 | c.s. | c.s. |

Notes:

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

ACCESSES

Unaudited figures (Thousands)

| | 2017 | | | | 2018 | | | |
|-----------------|----------|----------|-----------|----------|----------|----------|-----------|--------|
| | March | June | September | December | March | June | September | % Chg |
| Mobile accesses | 25,657.9 | 25,277.7 | 24,539.2 | 25,070.9 | 25,269.3 | 25,499.9 | 25,525.0 | 4.0 |
| Prepay | 23,639.3 | 23,197.6 | 22,408.7 | 22,882.4 | 22,977.1 | 23,124.3 | 23,193.1 | 3.5 |
| Contract | 2,018.6 | 2,080.1 | 2,130.5 | 2,188.5 | 2,292.2 | 2,375.6 | 2,331.9 | 9.5 |
| M2M | 710.1 | 744.0 | 789.2 | 854.5 | 932.7 | 982.8 | 1,002.1 | 27.0 |
| Fixed Wireless | 974.4 | 924.2 | 849.5 | 808.4 | 750.6 | 768.6 | 706.9 | (16.8) |
| Total Accesses | 26,671.5 | 26,240.4 | 25,427.1 | 25,889.5 | 26,019.9 | 26,268.5 | 26,231.9 | 3.2 |

SELECTED OPERATIONAL DATA

Unaudited figures

Edgar Filing: TELEFONICA S A - Form 6-K

| | 2017 | | | | 2018 | | | % Chg |
|---|----------|----------|-----------|----------|----------|----------|-----------|------------|
| | March | June | September | December | March | June | September | |
| Contract percentage (%) | 7.9% | 8.2% | 8.7% | 8.7% | 9.1% | 9.3% | 9.1% | 0.5 p.p. |
| Smartphones (000) | 11,865.9 | 11,789.9 | 11,483.8 | 11,576.0 | 11,339.0 | 11,020.6 | 11,464.6 | (0.2) |
| Smartphone penetration (%) | 47.6% | 48.1% | 48.4% | 47.9% | 46.7% | 45.0% | 46.8% | (1.6 p.p.) |
| LTE (000) | 3,658.0 | 4,035.0 | 4,309.6 | 5,111.2 | 5,427.6 | 5,591.8 | 5,828.7 | 35.2 |
| LTE penetration (%) | 14.7% | 16.4% | 18.1% | 21.1% | 22.3% | 22.8% | 23.8% | 5.6 p.p. |
| Mobile churn (quarterly) | 4.8% | 3.9% | 4.7% | 3.7% | 3.7% | 3.6% | 3.8% | (0.9 p.p.) |
| Contract (1) | 2.1% | 1.9% | 2.2% | 2.5% | 2.0% | 2.3% | 3.0% | 0.8 p.p. |
| Mobile churn (cumulative YTD) | 4.8% | 4.4% | 4.5% | 4.3% | 3.7% | 3.6% | 3.7% | (0.8 p.p.) |
| Contract (1) | 2.1% | 1.7% | 1.9% | 2.1% | 2.0% | 2.3% | 2.5% | 0.6 p.p. |
| Mobile ARPU (EUR)(cumulative YTD) | 2.7 | 2.9 | 3.0 | 3.0 | 2.4 | 2.4 | 2.4 | (12.7) |
| Prepay | 2.3 | 2.4 | 2.5 | 2.5 | 1.9 | 2.0 | 2.0 | (14.2) |
| Contract (1) | 12.1 | 12.4 | 12.5 | 12.3 | 11.4 | 10.4 | 10.5 | (8.3) |
| Mobile data traffic (TB) (cumulative YTD) | 30,861 | 69,939 | 112,251 | 155,767 | 46,704 | 101,195 | 170,382 | 51.8 |

Notes:

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

Table of Contents

08

ADDENDA

Key Holdings of the Telefónica Group

| | % Stake |
|---|---------|
| TELEFÓNICA ESPAÑA | |
| Telefónica de España | 100.0 |
| Telefónica Móviles España | 100.0 |
| Telyco | 100.0 |
| Acens Technologies | 100.0 |
| Telefónica Servicios Integrales de Distribución | 100.0 |
| DTS, Distribuidora de Televisión Digital | 100.0 |
| TELEFÓNICA UK | 100.0 |
| TELEFÓNICA DEUTSCHLAND | 69.2 |
| TELEFÓNICA BRASIL | 73.7 |
| TELEFÓNICA HISPAM SUR | |
| Telefónica de Argentina | 100.0 |
| Telefónica Móviles Argentina | 100.0 |
| Telefónica Móviles Chile | 100.0 |
| Telefónica Móviles Uruguay | 100.0 |
| Telefónica del Perú | 98.6 |
| Telefónica Chile | 99.1 |
| TELEFÓNICA HISPAM NORTE | |
| Telefónica Móviles México | 100.0 |
| Telefónica Venezolana | 100.0 |
| Telefónica Ecuador | 100.0 |
| Telefónica Costa Rica | 100.0 |
| 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 |

(1) As of 20 February 2018, stake communicated to CNMV.

| | % Stake |
|--------------------------|---------|
| OTHER STAKES | |
| Telefónica de Contenidos | 100.0 |
| Telxius Telecom S.A.U | 50.0 |
| Telefónica Digital | 100.0 |
| China Unicom | 0.6 |

| | |
|-----------|-----|
| BBVA | 0.7 |
| Prisa (1) | 9.4 |

Table of Contents

Changes to the Perimeter

During the first nine months of 2018, the following changes have been made to the perimeter of consolidation:

On 27 July 2018, Telefónica transferred to a company of the Pontegadea Group 16.65% of the share capital of the Telefónica's subsidiary Pontel Participaciones, S.L. (Pontel) that owns 60% of the share capital of the company Telxius Telecom, S.A. (Telxius), for an amount of 378.8 million euros, which entailed a price of 15.2 euros per share of Telxius.

This participation of 16.65% in the capital stock of Pontel is equivalent, in economic terms, to an indirect participation of 9.99% in the share capital of Telxius.

Table of Contents

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.

In addition, an explanation on the calculation of July-September consolidated results adjusted by inflation in Argentina is included.

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.

The detailed reconciliation of Telefónica Group's OIBDA and Operating Income and each of its segments, can be found in this document (Telefónica Group and Segment P&Ls), as well as on the selected financial information contained in <https://www.telefonica.com/documents/162467/142176244/rdos18t3-data.zip>.

The OIBDA is also defined on the financial information published by the Group as of 30 June, 2018 (see particularly Note 2 of the Condensed Consolidated Interim Financial Statements for the 6-month ended June 30, 2018).

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 Payables and other non-current liabilities and Payables and other current liabilities (mainly corresponding to payables for deferred payment of radio spectrum that have a financial component). From these liabilities, the following are subtracted: i) cash and cash equivalents, ii) current financial assets (which include 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 Receivables and other current assets, Tax receivables and Financial assets and other non-current assets in our consolidated statement of financial position). The accounts included in the net

financial debt calculation recorded in Payables and other non-current liabilities or Financial assets and other non-current assets have a maturity beyond one year and a financial component. In Receivables and other current assets we include the customer financing of terminal sales classified as short term, and Financial assets and other non-current assets includes derivatives, instalments for the long-term sales of terminals to customers and other long term financial assets.

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

Table of Contents

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 as presented in the consolidated statement of financial position.

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 2018 can be found on page 14 of this document and in the financial information contained in

<https://www.telefonica.com/documents/162467/142176244/rdos18t3-data.zip> . Net financial debt is also defined on the financial information published by the Group as of June 30, 2018 (see Note 2 of the Condensed Consolidated Interim Financial Statements for the 6-month ended June 30, 2018).

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 in

<https://www.telefonica.com/documents/162467/142176244/rdos18t3-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 (Payments on investments)/Proceeds from the sale of investments in property, plant and equipment and intangible assets, net, adding the cash received from government grants and deducting dividends paid to minority interests. The cash used to cancel commitments related to employee benefits (originally included in the Net cash flow provided by operating activities) is added as it represents the payments of 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 and other equity holders (which is why free cash flows do not consider payments to minority interests). 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 various flows of cash as presented in 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 in <https://www.telefonica.com/documents/162467/142176244/rdos18t3-data.zip> . Free cash flow is also defined in the financial information published by the Group as of June 30, 2018 (see Note 2 of the Condensed Consolidated Interim Financial Statements for the 6-month ended June 30, 2018).

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:

Table of Contents

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.

For the purposes of this document, "organic" variation 2018/2017 is defined as the reported variation adjusted by the following factors:

Assumes average constant foreign exchange rates of 2017, except for Venezuela (2017 and 2018 results converted at the closing synthetic exchange rate for each period).

Excludes in 2018 the hyperinflation adjustment in Argentina.

Considers a constant perimeter of consolidation.

Excludes in 2018 the impact of IFRS 15 accounting change.

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 in the selected financial information contained in

<https://www.telefonica.com/documents/162467/142176244/rdos18t3-data.zip> .

The Management Report contained in the Consolidated Financial Statements for the period ended June 30, 2018 of Telefónica Group also includes the description of the adjustments for the calculation of the organic variations.

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.

Table of Contents

For the purposes of this document, underlying variation 2018/2017 is defined as the reported variation as adjusted by the following factors:

Excludes in 2018 the impact of IFRS 15 accounting change.

At OIBDA level, excludes write-downs, capital gains/losses from the sale of companies, sale of towers, restructuring expenses and material non-recurrent impacts. Excludes in 2018 the hyperinflation adjustment in Argentina.

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/162467/142176244/rdos18t3-data.zip> .

Third quarter (July-September) reported results including hyper-inflation adjustment in Argentina

Telefonica Group applies hyper-inflation accounting to its companies whose functional currency is the Argentine peso for periods ended after 1 July 2018. According to the accounting reporting standards, hyper-inflation adjustment to financial results is applied retroactively since 1 January 2018 and the information presented in prior results will not be restated.

Consolidated reported results for July-September 2018 have been calculated taking as a reference first half 2018 results adjusted by inflation in Argentina (first half 2018 reported results did not include such adjustment).

An inflation rate of 16.03%, corresponding to January-June 2018 period, has been used for the calculation of the inflation adjustment as of 30 June 2018. The closing exchange rate for the Argentine peso as of 30 June 2018 was 33.632 Argentine pesos per euro.

An inflation rate of 31.38%, corresponding to January-June 2018 period, has been used for the calculation of the inflation adjustment as of 30 September 2018. The closing exchange rate for the Argentine peso as of 30 September 2018 was 47.369 Argentine pesos per euro.

Table of Contents

DISCLAIMER

This document may contain forward-looking statements and information (hereinafter, the **Statements**) relating to the Telefónica Group (hereinafter, the **Company** or **Telefónica**) or otherwise. 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, market share, possible acquisitions, divestitures or other transactions, Company's results and other aspects related to the activity and situation of the Company.

The Statements can be identified, in certain cases, through the use of words such as **forecast** , **expectation** , **anticipation** , **aspiration** , **purpose** , **belief** or similar expressions or variations of such expressions. These Statements 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 materially differ from those expressed or implied by such Statements. 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 law, Telefónica does not assume any obligation to publicly update the Statements to adapt them to events or circumstances taking place after the date hereof, 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 regulated information published from July 3, 2016. Information related to APM used in the present document are included in the Appendix **Alternative performance measures** , page 46 of this document. 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, 2018 submitted to the Spanish National Securities Market Commission (CNMV), in Note 2, page 13, of the pdf filed.

Neither this document nor any of its contents constitute an offer to purchase, sale or exchange any security, a solicitation of any offer to purchase, sale or exchange any security, or a recommendation or advice regarding any security.

Investor Relations

Distrito Telefónica - Ronda de la Comunicación, s/n
28050 Madrid (Spain)
Telephone: +34 91 482 87 00

Pablo Eguirón (pablo.eguiron@telefonica.com)

Isabel Beltrán (i.beltran@telefonica.com)

Adrián Zunzunegui

(adrian.zunzunegui@telefonica.com)

Christian Kern (christian.kern@telefonica.com)
ir@telefonica.com

www.telefonica.com/shareholders&investors

Table of Contents

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: October 31, 2018

By: /s/ Laura Abasolo García de Baquedano
Name: Laura Abasolo García de Baquedano
Title: Chief Finance and Control Officer for
Telefonica, S.A.