

# NOTA DE PRENSA

## PRESS RELEASE

Madrid, February 26, 2016

In 2015 consolidated revenues increase 8.7%, and investment grows 10.3% whilst Spain (excluding DTS) reaffirms the growth path initiated in the previous quarter

### **THE NET INCOME OF TELEFÓNICA INCREASES 30%, REACHING 5,787 MILLION EUROS IN 2015, EXCLUDING NON-RECURRING IMPACTS**

*César Alierta, Executive Chairman of Telefónica, highlighted the efforts made by the Company to adapt the commercial offering, the networks and the structure of the Company to capture all the potential of the Digitalisation of the economy and concluded that "if 2015 has been a very positive year, in 2016 growth and data monetisation will accelerate, while we maximise the efficiencies from integration and simplification, and we boost our innovation and Big Data capabilities".*

- The operational guidance set for 2015, upgraded in July, is fulfilled. Furthermore, Telefónica announces guidance\* and confirms shareholder remuneration for 2016 :

- Revenue growth: expected to be >4% year-on-year.
- OIBDA margin: stabilizing vs. 2015
- CapEx/Sales excluding spectrum: at around 17%.
- Net Financial Debt/OIBDA ratio: <2.35x, adjusted for the closing of the O2 UK sale.
- The 2016 dividend is set at 0.75 euros per share. Payable in cash subject to the closing of the O2 UK sale. Additionally, the amortisation of treasury stock for a total of 1.5% of share capital (subject to the closing of the O2 UK sale) will be proposed at the 2016 AGM.

- Net income is affected by extraordinary factors, mainly a non-recurrent impact of 2,602 million euros in the fourth quarter of 2015 related to the Voluntary Suspension Plan in Telefónica España. The plan will improve the efficiency in coming years.
- The consolidated revenues increased to 47,219 million euros in 2015 whilst OIBDA stood at 14,926 million euros excluding non-recurring impacts.
- In organic terms, revenues accelerated its trend and grew 4% year-on-year, OIBDA increased 3.6% boosted by the efficiencies stemming from the integration synergies in Germany and Brazil and the simplification program of the Group while the operating cash flow in the year returned to growth (+1.9%).
- Telefónica reinvests approximately 17% of its annual sales, which together with spectrum acquisition in 2015 puts the Group investment (CapEx) in 9,578 million euros.

- As one of the principle pillars of its new strategy to becoming an *Onlife Telco*, the Company has focussed on transforming its fixed and mobile networks in order to guarantee excellent connectivity. Thus, Telefónica has in Spain the most extensive fibre to the home network (14.3 million premises passed) and the highest number of fibre connected clients in Europe. At the same time reaches 17 million premises passed in Brazil as well as an LTE coverage that reaches 75% of the population of the countries in which it operates in Europe.
- At the closing of 2015, the Group totals 322.3 million total accesses, with an outstanding behavior of the higher value services. Fibre clients increased over 3.5 times, LTE accesses have tripled, and pay television and smartphone accesses grew by 62.6% and 42.9%, respectively.
- In December 2015 the net financial debt reached 49,921 million euros, placing the debt ratio - considering the sale of O2 UK- at 2.38 times.
- In 2015, the Telefónica Group maintains a diversified structure and improves its competitive position in key markets. According to geographical areas, Spain, Germany, and Brazil account for 66% of the year's revenues, while Telefónica Hispanoamérica represents 30%.
  - Taking the consolidation of DTS into account as of May 1, revenues in Spain increased by 3.2% throughout the year whilst OIBDA is affected by the extraordinary provision to the abovementioned plan. This plan will improve efficiency with savings of around 370 million euros a year starting in 2017. Movistar Fusión has already reached 4.2 million clients and positively boosts broadband net adds (which almost double during the year), for fibre that increases 25%), and the return to growth of mobile contracts.
  - Germany has successfully executed the integration synergies goal revised upwards during the year and achieved an effective commercial strategy. This translates into an acceleration of the organic growth of the OIBDA in both the fourth quarter (+35.5%), and in 2015 as a whole (+20.9%).
  - Telefónica Brazil maintains a solid year-on-year organic increase of revenues (around +5%), despite the macroeconomic situation. Furthermore, the Company closes the year with a substantial improvement in its competitive position after capturing half of all new contract mobile accesses, and the entire increase in pay TV accesses of the market during 2015.
  - In organic terms, Telefónica Hispanoamérica grows by double digits (+10.1%) and shows a progressive improvement in the commercial activity of value clients. This is reflected in the fourth quarter with a record net profit gain in mobile contracts of more than 730 thousand new accesses.

**Madrid, February 26, 2016.-** Telefónica presented today the corresponding results of the 2015 fiscal year, a year in which the Company firmly advanced down the road of long term profitable and sustainable growth, while simultaneously improving its competitive position in key markets.

At the end of 2015, and excluding non-recurring impacts, the net profit of Telefónica increased nearly 30% year-on-year, reaching 5,787 million euros throughout the entire year, raising the basic earnings per share to 1.12 euros in 2015 (+23.9%).

The net result of the fiscal year is affected by extraordinary factors, mainly an impact of 2.602 million euros during the fourth quarter of the year, stemming especially from the provision related to the

voluntary employment suspension plan of Telefónica España. Considering the aforementioned non-recurring impacts, the net profit of the fiscal year is 2,745 million euros (-8.5%).

The commercial activity in 2015, centered on growth and quality services (fibre, smartphones, LTE, pay TV), has intensified, boosted by the increase in revenues which grew 8.7% during the year, reaching 47,219 million euros. In organic terms, this item accelerates its behavior and emphasizes the double digit growth of mobile data revenues (+16.9%). Furthermore, in the fourth quarter the Company consolidates the return to positive behavior of the business in Spain (+0.8%, excluding DTS).

Simultaneously, the savings obtained from the integration synergies in Germany and Brazil, and the efficiencies generated by the simplification program, have contributed to improving the OIBDA (+3.6% organic year-o-year), and the return to the growth of the operating cash flow (+1.9% organic year-on-year).

Finally, in the results presented today, César Alierta, Executive Chairman of Telefónica, highlighted the efforts made by the Company to adapt the commercial offering, the networks and the structure of the Company to capture all the potential of the Digitalisation of the economy and concluded that "if 2015 has been a very positive year, in 2016 growth and data monetisation will accelerate, while we maximise the efficiencies from integration and simplification, and we boost our innovation and Big Data capabilities".

In this regard, Telefónica fulfilled all the operational guidance set for 2015 and upgraded in July. Furthermore, Telefónica announces guidance\* and confirms shareholder remuneration for 2016:

- Revenue growth: expected to be >4% year-on-year.
- OIBDA margin: stabilizing vs. 2015
- CapEx/Sales excluding spectrum: at around 17%.
- Net Financial Debt/OIBDA ratio: <2.35x, adjusted for the closing of the O2 UK sale.
- The 2016 dividend is set at 0.75 euros per share. Payable in cash subject to the closing of the O2 UK sale. Additionally, the amortisation of treasury stock for a total of 1.5% of share capital (subject to the closing of the O2 UK sale) will be proposed at the 2016 AGM.

For the analysis of the results, it's worth taking into account that in the fourth quarter, year-on-year performance reflected the consolidation of GVT's results in Telefónica Brasil and DTS' in Telefónica España (both since 1 May 2015). Likewise, Telefónica UK has been reported as a discontinued operation within Telefónica Group and its assets and liabilities are classified as "held for sale" in compliance with International Financial Reporting Standards (IFRS), as a result of the signing of the definitive sale agreement in March 2015.

#### **More than 322 million total accesses**

Total accesses at December, grew by 2% year-on-year to 322.3 million, underpinned by Telefónica Hispanoamérica (+2%) which represented 42% of the total. High-value customers' organic growth remained strong: fibre (+30% year-on-year), Pay TV (+12%), smartphones (+29%) and LTE (3.0x, reported).

Mobile accesses stood at 247.1 million (-1% year-on-year) and were affected by the more restrictive calculation in of the prepay base in T. Brasil. In the contract segment (+6% year-on-year), all regions posted year-on-year growth. Contract customer quarterly net additions reached 1.7 million for the Group, the highest level in six quarters.

Smartphones reached 112.9 million after growing by 1.4 times vs. 2014, with penetration increasing 15 percentage points to 48%. Contract smartphone penetration stood at 71% and in prepay penetration stood at 38%. LTE customers (29.7 million) accounted for 12% of total mobile accesses (+8 percentage points year-on-year) and obtained record net additions of 6.1 million (+42% year-on-year)

Retail broadband accesses totalled 21.0 million and grew 19% vs. December of last year while Fibre accesses stood at 6.1 million and increased 30% year-on-year in organic terms, mainly due to T. España.

The total Pay TV base reached 8.3 million, 12% more in organic terms than at December 2014 driven by Hispanoamérica (+16%), T. España (+10%) and T. Brasil (+10%).

### **Income statement analysis**

Fourth quarter results were affected by the depreciation of Latin American currencies against the euro, particularly the Brazilian real, the Venezuelan bolivar, the Colombian peso and the Argentine peso. Thus, the evolution of exchange rates deducted 9.1 percentage points from revenue performance and 11.8 percentage points from OIBDA growth (-4.4 percentage points and -5.0 percentage points respectively, in 2015). On the other hand, the incorporation of GVT and DTS in the perimeter of consolidation contributed 5.7 percentage points to reported year-on-year revenue growth in the quarter and 4.6 percentage points to OIBDA performance (+8.8 percentage points).

In January-December revenues totalled 47,219 million euros and maintained a solid growth rate of 4.0% in organic terms compared to the same period of the previous year (+8.7% reported). Revenues increased by 3.3% year-on-year organic in the quarter (stable in reported terms) to 11,881 million euros, driven by T. Hispanoamérica and T. Brasil and mobile data revenues.

Thus, mobile data revenues grew in organic terms by 18.7% year-on-year in the quarter (+16.9% in January-December) and represented 42% of mobile service revenues due to higher smartphone penetration and the growing weight of LTE customers. In turn, non-SMS data revenue growth improved sequentially by 1 percentage point to 27.8% organic year-on-year (+25.3% in 2015) and represented 82% of data revenues. Another key highlight was the higher unitary usage of data traffic by LTE customers (63% higher vs. 3G customers), which translated into double-digit ARPU growth and also resulted in more efficient network usage.

The diversification of the Company's assets was evident in the revenue structure. Thus, T. España, T. Deutschland and T. Brasil accounted for 66% of revenues in 2015, while T. Hispanoamérica represented 30%, both percentages stable vs. the previous year.

The annual results and particularly those of the quarter were affected by various non-recurring impacts.

In this regard, in the fourth quarter, with the aim of enhancing future efficiency and representing a step further in the transformation and simplification processes which the Group is implementing, a provision of 3,122 million euros was booked. Per segment, it is important to highlight the Voluntary Employment Suspension Plan in T. España (2,896 million euros).

Other non-recurring items in the fourth quarter included a provision to provide Telefónica Foundation with the adequate financial structure for future years (325 million euros), a provision in Spain to optimise the distribution network (30 million euros) and valuation adjustments in Other Companies and Eliminations (23 million euros).

Meanwhile, in the fourth quarter other positive impacts were recorded, such as the final agreement related to the purchase price of E-Plus in Germany (102 million euros), the outcome of the spectrum swap in Mexico (79 million euros), the expiration of an account payable in Brazil (98 million euros), the sale of real estate assets in T. España (impact of 22 million euros on OIBDA) and tower sales in Latin America (18 million euros on OIBDA).

Operating expenses stood at 12,089 million euros in October-December 2015 (+35.7% reported). In 2015, expenses totalled 37,132 million euros and grew 4.6% year-on-year organic (+20.6% reported).

Supplies for the quarter, 3,371 million euros (reflected higher handset consumption (higher weight of high-end handsets) and the increase in content costs, partially offset by the positive impact of lower interconnection costs. Personnel expenses amounted to 4,811 million euros in October-December with the provision for non-recurrent restructuring costs mentioned before. Other operating expenses totalled 3,907 million euros in the fourth quarter and included a non-recurrent provision of 325 million euros, reflecting the Group's firm commitment to Fundación Telefónica, to provide the Foundation with the adequate financial structure for future years to serve several social projects, central to them being the digital education for children and young people.

The average headcount in 2015, excluding O2 UK, stood at 125,892 employees and increased 11.5% year-on-year.

Other net income increased to 232 million euros in the quarter, and mainly included an adjustment in T. Deutschland for the final agreement related to the acquisition of E-Plus (an impact of 102 million euros on OIBDA), the positive impact in T. Brasil of the expiration of an account payable and a provision in Spain to optimise the distribution network previously mentioned.

Gains on sale of fixed assets totalled 158 million euros in the fourth quarter. In 2015, this item increased to 275 million euros and mainly comprised of the outcome of the spectrum swap with AT&T in Mexico (79 million euros impact on OIBDA), the sale of real estate assets in T. España (impact of 73 million euros on OIBDA), tower sales (impact of 65 million euros on OIBDA) and the sale of "yourfone GmbH" in Germany (15 million euros of OIBDA impact).

## **Evolution of OIBDA and profitability**

Operating Income Before Depreciation and Amortization (OIBDA) for the fourth quarter reached 401 million euros, affected by non-recurrent factors mentioned, and would have reached 3,781 million euros underlying. In organic terms, OIBDA increased 3.8% vs. the same period of 2014, underpinned by the strong growth of T. Deutschland, reflecting significant integration synergies, associated with solid revenue performance and efficiency measures focussed on cost control, and T. Hispanoamérica.

In January-December 2015, OIBDA (11,414 million euros) improved its pace of growth in organic terms (+3.6%) vs. 2014. OIBDA would have reached 14,926 million euros in underlying terms.

Thus, OIBDA margin in the fourth quarter stood at 32.2% in organic terms and expanded 0.2 percentage points vs. the same period of the previous year. This year-on-year growth enabled the full year 2015 margin to remain stable vs. 2014, thanks to revenue growth acceleration, cost containment and the tangible benefits of synergies generated from the integration of the acquired companies

Operating income (OI) reached 2,897 in January-December, affected in the fourth quarter by the aforementioned non-recurrent impacts. Net financial expenses in 2015 increased to 2,581 million euros, 7.1% lower than the previous year. The negative exchange rate differences increased to 620 million euros, mainly due to the impact of the adoption of the Venezuelan bolivar exchange rate set at SIMADI.

Profit from discontinued operations for October-December totalled 394 million euros (104 million euros in the same period of 2014), impacted by the cessation of depreciation and amortisation since the signing of the final sale agreement of Telefónica's operations in the United Kingdom. In 2015 this item reached 2,582 million euros.

Profit attributable to minority interests reduced net income for the quarter by 95 million euros. In January-December, net income decreased by 135 million euros, 116 million euros less than in 2014, mainly due to lower results attributed to minority interests in T. Brasil and T. Colombia.

As a consequence of the previous items, consolidated net income for the fourth quarter of 2015 stood at 769 million in underlying terms, excluding the non-recurring impacts mentioned above. In 2015, net income reached 5,787 million euros in underlying terms (+29.7% vs. 2014). Basic earnings per share in underlying terms increased to 1.12 euros in January-December 2015 (+23.9% year-on-year).

### **Investment and operating cash flow increase**

In 2015, the Company took yet another step forward in its ongoing investment plan focussed on growth and transformation of networks and systems, having dedicated 75% of the total, excluding spectrum acquisition, to these projects. Thus, CapEx grew in 2015 by 5.0% organic year-on-year to 9,578 million euros including 1,585 million euros of spectrum acquisition.

Operating cash flow (OIBDA-CapEx) sequentially accelerated its year-on-year organic growth in the fourth quarter by 11.1 percentage points to 17.6%. In 2015, operating cash flow returned to growth, after increasing by 1.9% year-on-year in organic terms.

Free cash flow excluding spectrum payments grew by 1.6% in 2015 to 4,821 million euros. In the fourth quarter, free cash flow generation amounted to 2,307 million euros (2.6x year-on-year).

Net financial debt stood at 49,921 million euros at December 2015. The leverage ratio (net debt over OIBDA1) in the last 12 months at the end of December 2015 stood at 2.38 times considering the closing of the sale of O2 UK.

### **Financing activity**

In 2015, Telefónica's financing activity reached around 18 billion equivalent euros, without considering the re-financing of commercial paper and short-term bank loans. Activity was mainly focused on financing the GVT acquisition as well as on strengthening the liquidity position, refinancing maturing debt and actively managing the cost of debt, through the extension of the maturity of the credit lines and the reduction of credit margins.

Telefónica maintained undrawn committed credit lines with different credit institutions for an approximate amount of 13,684 million euros, with around 12,497 million euros maturing in more than 12 months, which, along with the adjusted cash position, placed liquidity at 19.1 billion euros.

## Digital Services and Telefónica Global Resources

In the fourth quarter of 2015, Digital Services revenues stood at 1,068 million euros, 15.1% higher than in the same period of 2014 (3,758 million in January-December; +23.6% year-on-year). Per area, Video revenues reached 628 million euros, 14.0% higher than in October-December 2014 (2,142 million euros in 2015; +27.3% year-on-year). Revenues continue to be supported by the solid growth of pay TV accesses, with quarterly net additions of 117 thousand, resulting in a total base of 8.3 million in December (4.6 million of which are satellite TV), 12% higher than in 2014, driven by Brazil (+10% year-on-year), Hispanoamérica (+16%) and Spain (+10%, including DTS).

In regards of the Global Resources unit, throughout 2015, TGR, has consolidated as the technological reference for the Group, supporting growth in the operating businesses, enabling end-to-end digitalisation and accelerating transformation.

The Global Network and Operations area advanced on the deployment of ultra broadband (UBB), both in terms of coverage and quality, as well as in the All-IP transformation, the creation of global centres and the commitment to innovation. The investment in UBB has been focused on offering excellent connectivity, increasing speed, reliability and improving the quality and security of the network. At the end of 2015 premises passed with fibre to the home totalled 19 million, 14 million in Spain and 5 million in Brazil. Additionally, GVT contributed with 12 million premises passed with fibre to the cabinet. In LTE, coverage in Europe and Latin America reached 75% and 43% of the population, respectively.

The Global IT area reached a new record in IT Service Delivery, reducing the number of critical incidents by 40% vs. last year, and delivered significant transformation, with almost all operating business included in the Full Stack processes and applications programmes.

Finally, throughout the year, the transformation has been reinforced by the continuous effort and execution of simplification measures, with the closing of 3 Data Centres, the reduction of 321 applications and 8% of servers, while virtualisation increased by 5.7 percentage points.

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### Operational guidance 2016:

**2015 adjusted base: Revenues (46,757 million euros), Margin OIBDA (31.5%) and CapEx (ex-spectrum) to sales ratio (16.8%)**

- ✓ **Excludes:**
  - T. Venezuela results from January-December 2015.
  - OIBDA excludes additionally tower sales, the provision for restructuring costs, the provision to optimise the distribution network in Spain, the provision for Telefónica Foundation, write-downs and the final settlement agreement related to the acquisition of E-Plus.
  - CapEx excludes additionally spectrum acquisition and the Real Estate efficiency plan.
- ✓ **Includes:**
  - Since May 2015, GVT results consolidated in T. Brasil results and DTS results in T. España results.

### **2016E guidance:**

- ✓ Assumes **constant exchange rates as of 2015** (average FX in 2015) **and maintaining current Company perimeter.**
- ✓ **Excludes:**
  - T. Venezuela results.
  - OIBDA excludes additionally: write-downs, capital gains/losses from the disposal of companies, tower sales, material non-recurring impacts and restructuring costs.
  - CapEx excludes additionally spectrum acquisition and the Real Estate efficiency plan.

### Financial guidance 2016:

**Net financial debt / OIBDA both adjusted for the closing of the sale of O2 UK**

## TELEFÓNICA ESPAÑA

Telefónica España's financial and operating results consolidate DTS from 1 May 2015, the date upon which it was incorporated into the Telefónica Group perimeter.

The commercial activity in the quarter was underpinned by the quality of the Company's assets and by the positive reception of the new convergent offer "Movistar Fusión+" launched in July. As such, annual net additions of broadband almost doubled versus 2014, fibre grew by 25%, growth returned in contract mobile (234 thousand accesses). Likewise, the continuous effort to improve the quality and coverage of the networks (14.3 million premises passed with fibre and 75% population coverage with LTE), the integration of the most complete content offer (including all football until 2019) and the launch of the exclusive "Movistar#0" channel in February 2016 contributed to strengthening a solid starting position from which to approach 2016.

Telefónica España accesses stood at 42.0 million at the end of the year. "Movistar Fusión" improved its quarterly net additions to 145 thousand accesses reaching 4.2 million customers and 1.5 million additional mobile lines, and maintained solid year-on-year growth (+13% and +8% respectively). It is worth noting the strong growth in the penetration of high-value services in "Movistar Fusión"; 32% of customers enjoy ultrafast fibre of 100 or 300 Mb and 62% Pay TV.

Retail broadband accesses presented net additions of 56 thousand accesses in the quarter, the highest number since the launch of "Movistar Fusión" (and more than four times those of the fourth quarter of 2014), and 76 thousand in the year, adding up to 6.0 million (+1% year-on-year). Fibre accesses increased from October to December by 272 thousand and recorded a new record in annual net additions (906 thousand) taking the base to 2.2 million (1.7x compared to 2014), accounting for 37% of total fixed broadband accesses. Pay TV accesses totalled 3.7 million, 10% more compared to December 2014 in organic terms, and included 926 thousand DTS satellite TV accesses. The total base of mobile accesses stood at 17.3 million, 2.0% lower than in 2014. LTE customers totalled 3.3 million, almost doubling those of one year ago, and LTE penetration stood at 21%.

Revenue included DTS' contribution from 1 May 2015 and reached 3,220 million euros in the quarter (+6.0% year-on-year) and 12,402 in the year (+3.2% year-on-year). Excluding the incorporation of DTS, revenue in the fourth quarter increased by 0.8% (+0.2% the previous quarter) and decreased by 1.0% in 2015, reflecting a significant recovery vs. the decline of 7.2% recorded in 2014.

OIBDA including the consolidation of DTS since 1 May reached 2,336 million euros in 2015, strongly impacted by the extraordinary provisions in the quarter. Excluding these non-recurrent impacts, OIBDA in Telefónica España, including DTS, would stand at 1,272 million euros in the fourth quarter. As such, OIBDA margin in organic terms (affected in part by the incorporation of DTS) stood at 42.1% in January-December.

CapEx including DTS from 1 May 2015 reached 1,827 million euros, and increased by 4.5% year-on-year organic (+5.5% reported) due to the continuous investment in growth projects.

## TELEFÓNICA DEUTSCHLAND *(year-on-year changes in organic terms)*

In 2015, Telefónica Deutschland maintained market momentum, increasing slightly mobile service revenue market share while at the same time successfully delivering its improved integration targets (280 million euros in 2015). Mobile service revenue came in broadly stable as guided for the full year, with continued strength in the partner business. As a result of the accelerated execution of synergies

and the optimisation of commercial costs, Telefónica Deutschland also achieved its upgraded OIBDA guidance. In 2016, the Company will be moving from integration to transformation and will push ahead with core projects such as network integration, IT transformation and brand migration.

The total access base grew 1% year-on-year and stood at 48.4 million at the end of December, mainly explained by a 2% increase of the mobile base (43.1 million). Smartphone penetration reached 54% driven by the continued growth of LTE customers to almost 8 million at the end of December 2015. Data traffic increased 36% in the fourth quarter (+45% year-on-year in 2015) as a result of a growing LTE customer base and higher usage of music and video streaming.

For the full year, revenues increased 1.2% year-on-year and totalled 7,888 million euros (+42.9% year-on-year reported). OIBDA (586 million euros) growth continued to accelerate in the quarter and grew by 35.5% year-on-year in organic terms. The strong growth in OIBDA reflected the Company's more efficient commercial strategy to focus on retention over acquisition as well as the early capture of integration synergies. As a result, OIBDA for the full year totalled 1,858 million euros (+2.5x year-on-year in reported terms). The OIBDA margin excluding the previously mentioned non-recurrent impacts stood at 23.9% in the fourth quarter (+5.9 percentage points year-on-year) and at 23.0% for 2015 (+3.6 percentage points year-on-year).

CapEx amounted to 2,230 million euros (1.2 billion euros related to spectrum) and declined 11.1% year-on-year excluding spectrum. The strong year-on-year decline reflects the realisation of synergies which outweighed network integration costs and investments in the accelerated LTE rollout, with outdoor coverage reaching the targeted 75% at year-end.

#### TELEFÓNICA BRASIL *(year-on-year changes in organic terms)*

Telefónica Brasil closed 2015 with a substantial improvement in its competitive position in the market. Thus, in the mobile business, it is worth noting the strengthening of its leadership in higher value segments, which allowed it to capture the whole growth in the year of mobile service revenues and, in the fixed business, to boost the transformation towards fiber and pay TV following the integration of GVT, enabling fixed business revenues to return to year-on-year growth after 4 years of decline.

Telefónica manages 96.9 million accesses in Brazil. In the mobile segment, Vivo strengthened its leadership in the higher value segments, reaching a contract market share of 42.4% after capturing 69% of the new accesses in the quarter (50% in the year). The strong acceleration of LTE accesses in the last three months should be noted, multiplying by 4 times year-on-year to reach 10.2 million accesses (15% penetration), following the increase in coverage to 183 cities (47% of population coverage) maintaining its leadership in the segment with a share of 37.5%. In the fixed segment, retail broadband accesses amounted to 7.1 million accesses. It is worth mentioning the growing weight in fibre accesses, already accounting for 53% of the base. Pay TV accesses increased year-on-year by 10% to 1.8 million. Thus, Telefónica Brasil closed 2015 having captured all new pay TV access in the market in 2015.

Revenues for the fourth quarter of the year totalled 2,587 million, showing a solid year-on-year growth of 3.4% despite the deterioration in the macroeconomic situation and the impact of regulatory changes. Revenues totalled 11,060 million euros in the year (+4.5% year-on-year). OIBDA amounted to 983 million euros in the quarter and increased by 7.3% year-on-year positively impacted by the solid performance of revenues and the containment and efficiency measures taken to limit the growth of expenses. OIBDA in the year reached 3,573 million euros (+2.9% year-on-year) and the OIBDA margin stood at 32.3% in the year.

CapEx in the year 2015 amounted to 2,105 million euros and was mainly devoted to expanding coverage and improving capacity in 3G and 4G mobile networks, as well as to the deployment of the fibre network both in transport and access.

#### TELEFÓNICA HISPANOAMÉRICA *(year-on-year changes in organic terms)*

Telefónica Hispanoamérica closed 2015 with solid year-on-year growth both of revenues and OIBDA and with a gradual improvement in the commercial activity of value customers.

The total accesses of Telefónica Hispanoamérica reached 134.6 million at the end of the year from which 113.3 million were mobile accesses. Thus, net additions in the fourth quarter reached 2.1 million accesses, with 732 thousand in contract (an historic record for the Company and more than three times higher than those of the fourth quarter of 2014).

Fixed broadband accesses reached 5.6 million accesses, 4% year-on-year more than in December 2014 while Pay TV accesses posted solid year-on-year growth of 16% reaching 2.8 million accesses, with net additions of 380 thousand in January-December, the highest level of net additions ever recorded in a year by Telefónica in Hispanoamérica.

Revenues in the fourth quarter increased by +10.1% year-on-year in January-December to 14,387 million euros. OIBDA for totalled 4,356 million growing by 7.2% year-on-year and OIBDA margin stood at 30.3% in January-December.

CapEx totalled 3,060 million euros in 2015, 17.2% more than in 2014 (excluding 338 million euros of spectrum acquisition in 2015 and 405 million in 2014). Investment is mainly devoted to the deployment of 3G and 4G networks, with significant efforts to expand the coverage of this latest technology, as well as to the continuous improvement of the transport network to support the growing consumption of data traffic.

Below, main operating figures country by country, considering year-on-year variations in organic terms:

**Telefónica Argentina:** Telefónica Argentina ended 2015 with solid year-on-year revenue and OIBDA growth. Likewise, it should be highlighted that the acquisition of value customers continued in the quarter after posting positive contract net additions for the second consecutive quarter. Additionally, LTE accesses adoption was significantly boosted, after reaching a coverage of 65% of the population at the end of the year. The Company managed 26.9 million accesses (+1% year-on-year), of which 20.4 million are mobile accesses. Retail broadband accesses totalled 1.9 million (+1% year-on-year) highlighting the progressive increase in the quality of the base.

Revenues amounted to 3,915 million euros in the year (+21.5%), while OIBDA exceeds 1,000 million in 2015. The OIBDA margin stood at 25.4% in the year. CapEx totalled 938 million euros, with a 38.8% year-on-year increase devoted to the expansion of capacity and coverage mainly of the 4G network, as well as the fixed networks.

**Telefónica Chile:** During 2015, Telefónica Chile consolidated its leadership position in the market, highlighting the progress made in the high-value segments. Telefónica managed 13.2 million accesses in Chile, of which 9.9 million are mobile accesses. LTE accesses (1.1 million in December 2015) more than doubled year-on-year due to the accelerated deployment of LTE coverage (76%). Regarding commercial activity in the fixed business, broadband and pay TV maintained the positive performance

shown throughout the year thanks to the service-bundling strategy and a differentiated offer. Retail broadband accesses grew by 6% year-on-year to 1.1 million, while Pay TV accesses amounted to 645 thousand (+7% year-on-year).

Revenues and OIBDA show a positive performance despite the strong competition and regulatory changes impact. Revenues reached 2,220 million in the year (+1.7% year-on-year) and OIBDA reached 760 million in 2015 (+1.1% year-on-year), with an OIBDA margin of 34.2% in the year. CapEx totalled 433 million euros in 2015 and was mainly allocated to the accelerated deployment of the 4G network, the increase in 3G capacity and the continued improvement of the fixed network quality, both in the transport and in the access.

**Telefónica Perú:** At the end of the year, the Company managed 22.2 million accesses (+1%). Mobile accesses stood at 16.8 million, supported by the positive performance of contract accesses (+13% year-on-year) that already represent 34% of the total. Regarding the fixed business, particularly noteworthy once again was the success of the bundling campaigns underpinned by the differential attributes of the pay TV offer. Retail broadband accesses reached 1.6 million in December 2015 (+8% year-on-year) Pay TV accesses stood at 1.2 million customers at the end of the year (+27% year-on-year).

In January-December revenues increased to 2,766 million euros (+3.5% year-on-year). OIBDA stood 943 million in the year (-1.5%) and OIBDA margin reached 34.1% in 2015 (-1.7%). CapEx amounted to 491 million euros in 2015 (+9.3% year-on-year) and reflected an increase in the investment both in fixed broadband (with loops cut to increase the speed of the base, deployment of higher capacity networks and digitalisation of the TV base), and in the mobile business, with higher capacity to maintain quality due to the growing data demand.

**Telefónica Colombia:** Telefónica Colombia reached 15.8 million accesses at the end of the year (+1% year-on-year). Mobile accesses stood at 12.9 million, stable year-on-year and retail broadband accesses stood at 1.0 million (+4% year-on-year). Pay TV accesses stood at 489 thousand at the end of the year (+17% year-on-year).

Revenues in the fourth quarter consolidated the year-on-year growth trend supported by the acceleration of the fixed business. In the year, revenues reached 1,508 million euros and remained broadly stable compared to 2014 (-0.1% year-on-year). OIBDA reached 547 million euros in the year, (-0.6% year-on-year) and OIBDA margin stood at 36.2% (-0.2 percentage points year-on-year). CapEx amounted to 342 million euros in 2015 and reflected the Company's commitment to continuous improvement through the deployment and maintenance of high capacity mobile networks (3G and 4G) and fixed networks (higher speed broadband).

**Telefónica México:** Telefónica México showed significant progress in its competitive position with a progressive commercial restructuring. In this way, the offer portfolio has continued adapting to the new regulatory environment and improving its efficiency in its distribution channel. Telefónica México accesses grew by 13% year-on-year to 26.3 million accesses. Mobile accesses stood at 24.9 million (a solid +15% increase year-on-year). Mobile accesses stood at 24.9 million (+15% year-on-year). It worth noting the strong acceleration in the year-on-year increase in contract accesses in the second half of the year (+22% vs +2% at June 2015).

The commercial boost and economies of scale generated were reflected in the solid revenue performance and significant improvement in profitability in the year. Revenues amounted to 1,783 million euros in the whole year (+7.6%). OIBDA amounted to 481 million euros in the year (+38.7%

year-on-year) with an OIBDA margin of 27.0% in the year (+6.1 percentage points). CapEx amounted to 266 million euros in the year, increasing by 1.8% year-on-year and was mainly devoted to both the development and improvement in 3G and 4G mobile networks and the distribution channel.

**Telefónica Venezuela y Centroamérica:** In 2015, Telefónica continued to strengthen its differential position in Venezuela and Central America due to its innovative offer and the quality of its network, with a positive trend in revenues and OIBDA, supported by strong increases in traffic. On the other hand, it is worth to note that the reported results in Venezuela as of December 2015 were affected by the Company's decision to adopt an exchange rate for the Venezuelan bolivar of 199 bolivars fuertes per dollar (last assignment of SIMADI), which was effective since the second quarter of 2015.

Regarding the business' operating performance at the end of 2015, accesses stood at 24.4 million and grew 5% year-on-year. In Venezuela, accesses totalled 11.8 million (-1% year-on-year) and in Central America 12.7 million (+11% year-on-year).

Revenues amounted to 1,379 million in 2015 (+33.2% year-on-year). In Venezuela, revenues 74.9% in the year. OIBDA stood at 342 million in the year (+16.2% year-on-year) and OIBDA margin reached 24.8%. CapEx totalled 317 million euros in 2015 reflecting the continuous improvement in the network and infrastructures in the region.