

TELEFONICA S A
Form 20-F
February 21, 2019
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As filed with the Securities and Exchange Commission on February 21, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission file number: 001-09531

TELEFÓNICA, S.A.
(Exact name of Registrant as specified in its charter)

KINGDOM OF SPAIN
(Jurisdiction of incorporation or organization)

Distrito Telefónica, Ronda de la Comunicación, s/n
28050 Madrid, Spain
(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Ordinary Shares, nominal value 1.00 euro per share* | New York Stock Exchange |
| American Depositary Shares, each representing one | New York Stock Exchange |
| Ordinary Share | |

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Guarantees** by Telefónica, S.A. of the \$1,000,000,000 Fixed Rate Notes Due 2019; \$1,400,000,000 Fixed Rate Guaranteed Senior Notes Due 2020; \$1,500,000,000 Fixed Rate Guaranteed Senior Notes Due 2021; \$750,000,000 Fixed Rate Guaranteed Senior Notes Due 2023; \$1,500,000,000 Fixed Rate Senior Notes Due 2027; \$2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; \$750,000,000 Fixed Rate Senior Notes Due 2038; \$2,500,000,000 Fixed Rate Senior Notes Due 2047 and \$1,250,000,000 Fixed Rate Senior Notes Due 2048; each of Telefónica Emisiones, S.A.U., and of the \$1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2030 of Telefónica Europe, B.V.

New York
Stock
Exchange

* Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

Not for trading, but only in connection with the listing of the \$1,000,000,000 Fixed Rate Notes Due 2019; \$1,400,000,000 Fixed Rate Guaranteed Senior Notes Due 2020; \$1,500,000,000 Fixed Rate Guaranteed Senior Notes Due 2021; \$750,000,000 Fixed Rate Guaranteed Senior Notes Due 2023; \$1,500,000,000 Fixed Rate Senior Notes Due 2027; \$2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; \$750,000,000 Fixed Rate Senior Notes Due 2038; \$2,500,000,000 Fixed Rate Senior Notes Due 2047 and \$1,250,000,000 Fixed Rate Senior Notes Due 2048; each of Telefónica Emisiones, S.A.U., and the \$1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2030 of Telefónica Europe, B.V. (each a wholly-owned subsidiary of Telefónica, S.A.)

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each class of capital stock of Telefónica, S.A. at December 31, 2018 was: Ordinary Shares, nominal value 1.00 euro per share: 5,192,131,686

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer” and “emerging growth company” in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.

The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”), as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this Annual Report can be identified, in some instances, by the use of words such as “will,” “shall,” “target,” “expect,” “aim,” “hope,” “anticipate,” “should,” “may,” “might,” “assume,” “estimate,” “plan,” and similar language or other formulations of a similar meaning or, in each case, the negative formulations thereof. Other forward-looking statements can be identified in the context in which the statements are made or by the forward-looking nature of discussions of strategy, plans or intentions. These statements appear in a number of places in this Annual Report including, without limitation, certain statements made in “Item 3. Key Information—Risk Factors,” “Item 4. Information on the Company,” “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk” and include statements regarding our intent, belief or current expectations with respect to, among other things:

- the effect on our results of operations of competition in telecommunications markets;
- trends affecting our business financial condition, results of operations or cash flows;
- ongoing or future acquisitions, investments or divestments;
- our capital expenditures plan;
- our estimated availability of funds;
- our ability to repay debt with estimated future cash flows;
- our shareholder remuneration policies;
- supervision and regulation of the telecommunications sectors where we have significant operations;
- our strategic partnerships;
- the potential for growth and competition in current and anticipated areas of our business; and
- the outcome of pending or future litigation or other legal proceedings.

Such forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated in the forward-looking statements as a result of various factors. The risks and uncertainties involved in our businesses that could affect the matters referred to in such forward-looking statements include but are not limited to:

- changes in general economic, business or political conditions in the domestic or international markets in which we operate or have material investments that may affect demand for our services or our cost structure, including as a result of the outcome of Brexit or increasing trade tensions in certain parts of the world;
- exposure to currency exchange rates, interest rates or credit risk, including in relation to our treasury investments or in some of our financial transactions;
- existing or worsening conditions in the international financial markets;
 - the impact of new accounting standards or current, pending or future legislation and regulation in countries where we operate, as well as any failure to renew or obtain the necessary licenses, authorizations and concessions to carry out our operations and the impact of limitations in spectrum capacity;
 - compliance with anti-corruption laws and regulations and economic sanctions programs;
- our inability to anticipate or adapt in a timely manner to changing customer demands and/or new ethical or social standards;
- changes in our competitive position, including as a result of the evolution of competition and market consolidation in the markets where we operate;

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- our inability to anticipate and adapt to the rapid technological changes that characterize the sector in which we operate, or to select the right investments to make;
- failure of suppliers to provide necessary equipment and services on a timely basis and otherwise meeting our performance expectations;
- the impact of unanticipated network interruptions;
- the impact of cyber-security actions;
- the impact of impairment charges on our goodwill and assets as a result of changes in the regulatory, business, economic or political environment or other factors;
- potential liability resulting from our Internet access and hosting services arising from illegal or illicit use of the Internet, including the inappropriate dissemination or modification of consumer data;
- sustainability and environmental risks, including climate change;
 - the effect of reports suggesting that electromagnetic fields may cause health problems; and
- the outcome of pending or future litigation or other legal proceedings.

Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this Annual Report. We do not undertake any obligation to update any forward-looking statements that may be made to reflect events or circumstances after the date of this Annual Report including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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CERTAIN TERMS AND CONVENTIONS

Our ordinary shares, nominal value 1.00 euro per share, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges (collectively, the "Spanish Stock Exchanges") and are quoted through the Automated Quotation System under the symbol "TEF." They are also listed on the London and Buenos Aires stock exchanges. American Depositary Shares ("ADSs"), each representing the right to receive one ordinary share, are listed on the New York Stock Exchange and on the Lima Stock Exchange. ADSs are evidenced by American Depositary Receipts ("ADRs") issued under a Deposit Agreement with Citibank, N.A., as Depositary.

As used herein, "Telefónica," the "Telefónica Group," the "Group," the "Company" and terms such as "we," "us" and "our" mean Telefónica, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

As used herein, "Atento" means Atento Holding, Inversiones y Teleservicios, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

Below are definitions of certain technical terms used in this Annual Report:

"Access" refers to a connection to any of the telecommunications services offered by Telefónica. A single fixed customer may contract for multiple services, and Telefónica believes that it is more useful to count the number of accesses a customer has contracted for, than to merely count the number of its customers. For example, a customer that has fixed line telephony service and broadband service is counted as two accesses rather than as one customer.

"ARPU" is the average revenues per access per month. ARPU is calculated by dividing total gross service revenues (excluding inbound roaming revenues) from sales to customers for the preceding 12 months (or another given period) by the weighted average number of accesses for the same period, and then dividing by 12 (or the number of months in such other given period).

"Bundles" refer to combination products that combine fixed services (wirelines, broadbands and television) and mobile services.

"Churn" is the percentage of disconnections over the average customer base in a given period.

"Cloud computing" is the delivery of computing as a service rather than a product, whereby shared resources, software and information are provided to computers and other devices as a utility over a network (typically the Internet).

"Commercial activity" includes the addition of new lines, replacement of handsets and migrations.

"Convergent" refers to the offer of more than a single service for a single price.

"Data ARPU" is the average data revenues per access per month. Data ARPU is calculated by dividing total data revenues (from sources such as Short Message Service ("SMS"), Multimedia Messaging Services ("MMS"), other mobile data services such as mobile connectivity and mobile Internet, premium messaging, downloading ringtones and logos, mobile mail and wireless application protocol ("WAP") connectivity from sales to customers) for a given period by the weighted average number of accesses for the same period, and then dividing by the relevant number of months in such period.

"Data revenues" include revenues from SMS, MMS, other mobile data services such as mobile connectivity and mobile Internet, premium messaging, downloading ringtones and logos, mobile mail and WAP connectivity from sales to customers.

"Data traffic" includes all traffic from Internet access, messaging (SMS, MMS) and connectivity services that is transported by the networks owned by Telefónica.

"Fixed telephony accesses" includes public switched telephone network (PSTN) lines (including public use telephony), and integrated services digital network (ISDN) lines and circuits. For the purpose of calculating Telefónica's number of fixed line accesses, Telefónica multiplies its lines in service as follows: PSTN (x1); basic ISDN (x1); and primary ISDN (x30, x20 or x10).

"Fixed termination rates" or "FTRs" is an established fixed network tariff that applies when a customer makes a call to someone in a network operated by another operator.

"Fiber to Home" or "FTTH" is the installation and use of optical fiber from a central point directly to individual buildings such as residences, apartment buildings and businesses to provide high-speed Internet access.

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"FTTx" is a generic term for any broadband network architecture that uses optical fiber to replace all or part of the metal local loop.

"Gross adds" means the gross increase in the customer base measured in terms of accesses in a period.

"HDTV" or "high definition TV" has at least twice the resolution of standard definition television (SDTV), allowing it to show much more detail than an analog television or digital versatile disc (DVD).

"Interconnection revenues" means revenues received from other operators which use Telefónica's networks to connect to or finish their calls and SMS or to connect to their customers.

"Internet and data accesses / Fixed Broadband (FBB)" include broadband accesses (including retail asymmetrical digital subscriber line ("ADSL") very high bit-rate digital subscriber line ("VDSL"), satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and the remaining non-broadband final customer circuits. Internet and data accesses also include "Naked ADSL", which allows customers to subscribe for a broadband connection without a monthly fixed line fee.

"IPTV" (Internet Protocol Television) refers to distribution systems for television subscription signals or video using broadband connections over the IP protocol.

"IT", or information technology, is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.

"Local loop" means the physical circuit connecting the network termination point at the subscriber's premises to the main distribution frame or equivalent facility in the fixed public telephone network.

"LTE" means Long Term Evolution, a 4G mobile access technology.

"M2M", or machine to machine, refers to technologies that allow both mobile and wired systems to communicate with other devices of the same ability.

"Market share" is the percentage ratio of the number of final accesses or operator revenues over the existing total market in an operating area.

"Mobile accesses" includes accesses to the mobile network for voice and/or data services (including connectivity). Mobile accesses are categorized into contract and pre-pay accesses.

"Mobile broadband" includes Mobile Internet (Internet access from devices also used to make voice calls such as smartphones), and Mobile Connectivity (Internet access from devices that complement fixed broadband, such as PC Cards/dongles, which enable large amounts of data to be downloaded on the move).

"MTR" means mobile termination rate, which is the charge per minute or SMS paid by a telecommunications network operator when a customer makes a call to another network operator.

"MVNO" means mobile virtual network operator, which is a mobile operator that is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with a mobile network operator in order to provide mobile access to their customers. An MVNO pays a determined tariff to such mobile network operator for using the infrastructure to facilitate coverage to their customers.

"Net adds" means the number of new accesses in a certain period.

"Non SMS data revenues" means data revenues excluding SMS revenues.

"OTT services" or "over the top services" means services provided through the Internet (such as television and video streaming).

"P2P SMS" means person to person short messaging service (usually sent by mobile customers).

"Pay TV" includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.

"p.p." means percentage points.

"Revenues" means net sales and revenues from rendering of services.

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"Service revenues" means revenues less revenues from handset sales. Service revenues are mainly related to telecommunications services, especially voice revenues and data revenues (SMS and data traffic download and upload revenues) consumed by Telefónica's customers.

"SIM" means subscriber identity module, a removable intelligent card used in mobile handsets, USB modems, etc. to identify the user in the network.

"Ultra-Broad Band" or "UBB" is the fiber-to-the-premise broadband which is capable of giving minimum downlink speed of 100 mbps and minimum uplink speed of 50 mbps.

"Unbundled local loop", or "ULL" includes accesses to both ends of the copper local loop leased to other operators to provide voice and digital subscriber line ("DSL") services (fully unbundled loop or "fully ULL") or only DSL services (shared unbundled loop or "shared ULL").

"Voice Traffic" means voice minutes used by Telefónica's customers over a given period, both outbound and inbound.

"VoIP" means voice over Internet protocol.

"Wholesale accesses" means accesses Telefónica provides to its competitors, who then sell services over such accesses to their residential and corporate clients.

"Wholesale ADSL" means accesses of broadband or fiber that Telefónica provides to its competitors, who then sell services over such accesses to their residential and corporate clients.

"YoY" or "y-o-y" means year-on-year.

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PRESENTATION OF CERTAIN FINANCIAL INFORMATION

In this Annual Report, references to “U.S. dollars,” “dollars” or “\$,” are to United States dollars, references to “pounds sterling,” “sterling” or “£” are to British pounds sterling, references to “reals” refer to Brazilian reals and references to “euro”, “euros” or “€” are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Community, as amended from time to time. Our consolidated financial statements as of December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016 included elsewhere in this Annual Report, including the notes thereto (the “Consolidated Financial Statements”), are prepared in conformity with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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PART I

Item 1. Identity of Directors, Senior Management and Advisors

A. Directors and Senior Management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following table presents certain selected consolidated financial data. It is to be read in conjunction with “Item 5. Operating and Financial Review and Prospects”, “Item 4. Information on the Company—Business Overview” and the Consolidated Financial Statements. The consolidated income statements and the consolidated statements of cash flow data for the years ended December 31, 2016, 2017 and 2018 and the consolidated statements of financial position data as of December 31, 2017 and 2018 set forth below are derived from, and are qualified in their entirety by reference to the Consolidated Financial Statements.

The selected consolidated financial data as of December 31, 2016, 2015 and 2014 and for the years ended December 31, 2015 and 2014 may differ from previously reported financial information as of such dates and for such periods in our respective annual reports on Form 20-F for certain prior years, mainly as a result of the retrospective revisions referred to below:

- The consolidated income statement and the consolidated statements of cash flow data for the year ended December 31, 2015 set forth below was retrospectively amended in 2016 to show the reclassification of the results attributable to our operations in the United Kingdom as continuing operations. As such, the information set forth below is not derived from Telefónica, S.A.’s consolidated financial statements presented for the year ended December 31, 2015, which are not included nor incorporated by reference in this Annual Report.
- The consolidated statement of financial position data as of December 31, 2014 set forth below was retrospectively amended in 2016 to show the finalization of the purchase price allocation for the acquisition of E-Plus and as such, is not derived from Telefónica, S.A.’s consolidated financial statements presented for the year ended December 31, 2014, which are not included nor incorporated by reference in this Annual Report.

Our Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB.

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The basis of presentation is described in detail in Note 2 to our Consolidated Financial Statements.

| Millions of euros | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------------|--------------|--------------|--------------|--------------|
| Revenues | 50,377 | 54,916 | 52,036 | 52,008 | 48,693 |
| Other income | 1,707 | 2,011 | 1,763 | 1,489 | 1,622 |
| Supplies | (15,182) | (16,547) | (15,242) | (15,022) | (14,013) |
| Personnel expenses | (7,098) | (10,349) | (8,098) | (6,862) | (6,332) |
| Other expenses | (14,289) | (16,802) | (15,341) | (15,426) | (14,399) |
| Depreciation and amortization | (8,548) | (9,704) | (9,649) | (9,396) | (9,049) |
| OPERATING INCOME | 6,967 | 3,525 | 5,469 | 6,791 | 6,522 |
| Share of (loss) income of investments accounted for by the equity method | (510) | (10) | (5) | 5 | 4 |
| Net finance expense | (2,519) | (2,341) | (2,706) | (2,290) | (1,232) |
| Net exchange differences | (303) | (268) | 487 | 91 | 277 |
| Net financial expense | (2,822) | (2,609) | (2,219) | (2,199) | (955) |
| PROFIT BEFORE TAX | 3,635 | 906 | 3,245 | 4,597 | 5,571 |
| Corporate income tax | (383) | (155) | (846) | (1,219) | (1,621) |
| PROFIT FOR THE YEAR | 3,252 | 751 | 2,399 | 3,378 | 3,950 |
| Attributable to equity holders of the Parent | 3,001 | 616 | 2,369 | 3,132 | 3,331 |
| Attributable to non-controlling interests | 251 | 135 | 30 | 246 | 619 |
| Weighted average number of shares-Basic (thousands)(1) | 4,850,311 | 5,070,588 | 5,060,519 | 5,110,188 | 5,126,575 |
| Basic and diluted earnings per share attributable to equity holders of the parent (euro)(1) | 0.58 | 0.07 | 0.42 | 0.56 | 0.57 |
| Basic and diluted earnings per ADS (euro)(1) | 0.58 | 0.07 | 0.42 | 0.56 | 0.57 |
| Weighted average number of ADS-Basic (thousands)(1) | 4,850,311 | 5,070,588 | 5,060,519 | 5,110,188 | 5,126,575 |
| Dividends per ordinary share (cash and scrip) (euro) | 0.75 | 0.75 | 0.75 | 0.40 | 0.40 |
| Dividends per ordinary share (cash and scrip) (\$) (2) | 0.98 | 0.83 | 0.82 | 0.46 | 0.46 |
| Consolidated Statement of Financial Position Data | | | | | |
| Cash and cash equivalents | 6,529 | 2,615 | 3,736 | 5,192 | 5,692 |
| Property, plant and equipment | 33,156 | 33,910 | 36,393 | 34,225 | 33,295 |
| Total assets | 122,348 | 120,329 | 123,641 | 115,066 | 114,047 |
| Non-current liabilities | 62,318 | 60,509 | 59,805 | 59,382 | 57,418 |
| Equity | 30,321 | 25,436 | 28,385 | 26,618 | 26,980 |
| Capital stock | 4,657 | 4,975 | 5,038 | 5,192 | 5,192 |
| Consolidated Cash Flow Data | | | | | |
| Net cash provided by operating activities | 12,193 | 13,615 | 13,338 | 13,796 | 13,423 |
| Net cash used in investing activities | (9,968) | (12,917) | (8,208) | (10,245) | (8,685) |
| Net cash used in financing activities | (4,041) | (3,612) | (4,220) | (1,752) | (3,880) |

The per share and per ADS computations for all periods presented have been reported using the weighted average number of shares and ADSs, respectively, outstanding for each period, and have been adjusted to reflect the stock dividends which occurred during the periods presented, as if these had occurred at the beginning of the earliest period presented and have also been adjusted for mandatorily convertible notes issued in 2014. In accordance with (1) IAS 33 (“Earnings per share”), the weighted average number of ordinary shares and ADSs outstanding for each of the periods covered has been restated to reflect the issuance of shares pursuant to Telefónica’s scrip dividend in December 2014, December 2015 and December 2016. As a consequence, basic and diluted earnings per share have also been restated from 2014 to 2015.

(2) Quantities in U.S. dollars are calculated in accordance with the conversion rate published by the Depository (Citibank, N.A.) in connection with each dividend payment.

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

The Telefónica Group's business is affected by a series of intrinsic risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The main risks and uncertainties facing Telefónica which could affect its business, financial position, reputation, corporate image and brand and its results of operations are set out below and must be considered jointly with the information set out in the Consolidated Financial Statements:

Worsening of the economic and political environment could negatively affect Telefónica's business.

Telefónica's international presence enables the diversification of its activities across countries and regions, but it exposes Telefónica to diverse legislation, as well as to the political and economic environments of the countries in which it operates. Any adverse developments or even uncertainties in this regard, including exchange-rate or sovereign-risk fluctuations, may adversely affect Telefónica's business, financial position, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.

Economic conditions may adversely affect the level of demand of existing and prospective customers, as they may no longer deem critical the services offered by the Group.

In Europe, the macro-financial outlook showed a slight deterioration during the second half of 2018, influenced by external factors such as the weaker and maturing global economic cycle, the recent tightening of financial conditions, the greater uncertainty associated with the trade tensions between China and the United States and the risks that such tensions pose on economic growth and global stability. On the regional front, the political uncertainty in Europe has diminished in part after the results of the general elections in some European countries, but it still persists in various countries, including Italy, given the lack of political commitment with a reformist agenda. Economic activity and financial stability in Europe could also be affected by the monetary normalization that the European Central Bank is expected to continue implementing and by how Greece continues to manage its ongoing banking and economic restructuring process, after the country's recent exit from its bailout program.

Furthermore, the planned exit of the United Kingdom from the European Union ("EU") following the outcome of the referendum held in June 2016 is expected to result in economic adjustments regardless of the nature of the new trade and investment relationships between the United Kingdom and the rest of Europe in the future. As of the date of this Annual Report, there is significant uncertainty regarding the Brexit negotiations and required parliamentary approvals, both in terms of timing (the process can be subject to delays) and the final outcome, with multiple options still being possible, including a no deal Brexit. In the meantime, uncertainty surrounding Brexit could have a negative impact on investment, economic activity and employment. It could also lead to financial market volatility, which could limit or restrict access to capital markets. This situation could worsen depending on the final terms of Brexit, which could increase regulatory and legal complexities, including those relating to tax, trade and security. Such changes could be costly and potentially disruptive to business relationships in these markets, including those of Telefónica, its suppliers and its customers. The elections to the European Parliament in May 2019 could also lead to political uncertainty, as they could result in a rebalancing of political groupings and significant changes in goals for the European project in the medium term, as well as in changes in key positions of the main European institutions during 2019.

In Spain, another possible source of uncertainty is Catalonia's political situation and its impact on the Spanish economy. Although recent developments have contributed to reduce such uncertainty, if political tensions re-emerge or intensify, there could be a negative impact both on financing conditions and on the Spanish macroeconomic scenario, given the demanding sovereign bond maturity calendar and the high dependence of the Spanish economy on the international investors and economic outlook. There is also some uncertainty regarding the economic policy mix to be implemented in 2019 as a result of the current high parliamentary fragmentation. In 2018, the Telefónica Group obtained 26.1% of its revenues in Spain (24.3% in 2017), 15.0% in Germany (14.0% in 2017) and 13.9% in the United Kingdom (12.6% in 2017).

In Latin America, exchange rate risk is particularly noteworthy. Certain external factors contributing to this risk are the uncertainty derived from the monetary normalization process in the United States, increasing global trade

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tensions, the continuing low commodity prices in certain cases and doubts about growth and financial imbalances in China. Certain internal factors contributing to this risk are the high fiscal and external deficits in major Latin American countries and the low liquidity in certain exchange markets, together with low productivity growth, which hinder a more accelerated progress in economic development and the rebalancing of still existing mismatches. In Argentina, the government is focused on resolving the country's macroeconomic and financial imbalances and on recovering international confidence, particularly after the agreement reached with the International Monetary Fund to provide financial support in the medium term. Even though the measures taken by the government are expected to have positive effects in the medium term, both the macroeconomic and exchange rate risks remain high in the short term. The major challenges the economy is facing, both internally (with an ongoing sharp reduction of public deficit in an environment of economic recession and high inflation) and externally (with significant financing needs in the medium term), make the Argentine economy vulnerable to episodes of volatility in the financial markets. Moreover, the presidential elections due to take place in 2019 pose additional risks, as they could result in a change in the current economic policy stance with very limited economic policy levers.

In Brazil, after the presidential elections resulted in a change of government, the effectiveness of such government in implementing the announced and needed reforms that would improve the potential growth of the economy and drive the fiscal accounts towards sustainability remains to be seen. On the other hand, while signs of stabilization have emerged and the economy has started to show positive growth figures, the pace of the recovery is still gradual. Despite the decreasing external financing needs, internal financing needs remain high, and financing conditions remain challenging, as the country sovereign credit rating remains below investment grade.

Mexico has a high commercial and financial exposure to the United States, which could generate uncertainty. Domestically, there is also uncertainty surrounding the new government's political agenda, despite having a relatively stable economic outlook. Both the political management by the new government of the structural achievements made in recent years and the final approval of the Agreement between the United States, Mexico and Canada (USMCA) are expected to have a material impact on the economy. While the signing of USMCA has significantly reduced uncertainty, it has not eliminated it, as the agreement still needs to be ratified by the respective national legislative chambers. Any higher than expected increase in interest rates in the United States and/or a possible renegotiation of trade agreements between the abovementioned countries could result in higher restrictions on imports into the United States, which, together with political uncertainty surrounding such matters, could negatively impact economic activity and exchange rates in Mexico. The relative weight of Mexico in the consolidated revenues of the Telefónica Group was 2.4% in 2018.

Chile, Colombia and Peru have been able to stabilize their economies with growth rates close to their potential growth led by domestic demand, while recent adjustments and political decisions have addressed certain fiscal and external account issues. Nevertheless, these economies are exposed not only to changes in the global economy given their vulnerability to abrupt movements in commodity prices, but also to unexpected changes in financial conditions.

In Ecuador, a decrease in domestic political uncertainty has allowed for an improvement in economic activity through exports, but risks persist, mainly on the fiscal front. The country's financing needs are still high, which, together with low international reserves, keep the country in a vulnerable position against volatility shocks.

In 2018, Telefónica Brazil represented 20.8% of the Telefónica Group's revenues (23.1% in 2017). In 2018, Telefónica Hispam Norte and Telefónica Hispam Sur represented 8.4% and 13.7% of the Telefónica Group's revenues, respectively (8.3% and 15.8%, respectively, in 2017). In 2018, 4.3% of Telefónica Group's revenues came from Chile, 4.3% from Peru and 4.8% from Argentina. In 2018, 28.2% of the Group's revenues were generated in countries that do not have investment grade status (in order of their contribution to the Group's revenues: Brazil, Argentina, Ecuador, Costa Rica, Nicaragua, Guatemala, El Salvador and Venezuela) and other countries are only one notch away from losing this status.

"Country risk" factors include, among others, the following:

- unexpected adverse changes in regulation or administrative policies, including changes that modify the terms and conditions of licenses and concessions and their renewal (or delay their approval);
- abrupt exchange-rate movements;
- high inflation rates;

• expropriation or nationalization of assets, adverse tax decisions, or other forms of state intervention;
• economic and financial downturns, political instability and civil disturbances; and

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maximum limits on profit margins imposed in order to limit the prices of goods and services through the analysis of cost structures (for example, in Venezuela, a maximum profit margin has been introduced that is set annually by the Superintendence for Defense of Socioeconomic Rights).

Any of the foregoing may adversely affect the business, financial position, results of operations and/or cash flows of the Group.

The Group's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to foreign currency exchange rates or interest rates.

In nominal terms, as of December 31, 2018, 73.6% of the Group's net financial debt plus commitments was pegged to fixed interest rates for a period greater than one year. As of the same date, 18.7% of the Group's net financial debt plus commitments was denominated in a currency other than the euro.

To illustrate the sensitivity of financial expenses to variations in short-term interest rates as of December 31, 2018: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica had a financial position at that date would have led to an increase in financial expenses of 102 million euros, (ii) whereas a 100 basis points decrease in interest rates in all currencies (even if negative rates are reached), would have led to a reduction in financial expenses of 88 million euros. These calculations were made assuming a constant currency and balance position equivalent to the position at that date and taking into account the derivative financial instruments arranged by the Group.

According to the Group's calculations, the impact on results and specifically on net exchange differences due to a 10% depreciation of Latin American currencies against the U.S. dollar and a 10% depreciation of the rest of the currencies against the euro would result in exchange losses of 1 million euros for the year ended December 31, 2018, primarily due to the weakening of the Venezuelan bolivar and, to a lesser extent, the Argentine peso. These calculations have been made assuming a constant currency position with an impact on profit or loss as of December 31, 2018, taking into account derivative instruments in place.

During 2018, Telefónica Brazil represented 27.7% (25.9% in 2017), Telefónica United Kingdom represented 12.0% (10.1% in 2017), Telefónica Hispam Norte represented 5.1% (7.8% in 2017) and Telefónica Hispam Sur represented 11.0% (14.1% in 2017) of the operating income before depreciation and amortization ("OIBDA") of the Telefónica Group.

The Telefónica Group uses a variety of strategies to manage this risk, among others the use of financial derivatives, which themselves are also exposed to risk, including counterparty risk. However, the Group's risk management strategies may not achieve the desired effect, which could adversely affect the Group's business, financial condition, results of operations and/or cash flows.

The evolution of exchange rates negatively impacted the Group's 2018 results, decreasing the year-on-year growth of the Group's consolidated revenues and OIBDA by an estimated 8.8 percentage points and 10.3 percentage points, respectively, mainly due to the depreciation of the Brazilian real and the Argentine peso (3.2 percentage points and 4.7 percentage points, respectively in 2017, mainly due to the depreciation of the Argentine peso, the Venezuelan Bolivar and the pound sterling) . Furthermore, translation differences had a negative impact on the Group's equity of 2,043 million euros as of December 31, 2018, whereas they had a negative impact on the Group's equity of 4,279 million euros as of December 31, 2017.

If the Group does not effectively manage its exposure to foreign currency exchange rates or interest rates, it may adversely affect its business, financial position, results of operations and/or cash flows.

Existing or worsening conditions in the financial markets may limit the Group's ability to finance, and consequently, the ability to carry out its business plan.

The operation, expansion and improvement of the Telefónica Group's networks, the development and distribution of the Telefónica Group's services and products, the implementation of Telefónica's strategic plan and new technologies, the renewal of licenses or the expansion of the Telefónica Group's business in countries where it operates, may require a substantial amount of financing.

A decrease in the liquidity of Telefónica, or a difficulty in refinancing maturing debt or raising new funds as debt or equity could force Telefónica to use resources allocated to investments or other commitments to pay its financial debt, which could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

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Funding could be more difficult and costly in the event of a deterioration of conditions in the international or local financial markets due, for example, to monetary policies set by central banks, including increases in interest rates and/or balance sheet reductions, increasing global political and commercial uncertainty and oil price instability, or if there is an eventual deterioration in the solvency or operating performance of Telefónica.

As of December 31, 2018, the Group's net financial debt amounted to 41,785 million euros (44,230 million euros as of December 31, 2017) and the Group's gross financial debt amounted to 54,702 million euros (55,746 million euros as of December 31, 2017). As of December 31, 2018, the average maturity of the debt was 8.98 years (8.08 years as of December 31, 2017).

As of December 31, 2018, the Group's gross financial debt scheduled to mature in 2019 amounted to 9,368 million euros and gross financial debt scheduled to mature in 2020 amounted to 6,417 million euros.

In accordance with its liquidity policy, Telefónica has covered its gross debt maturities for the next 12 months with cash and credit lines available at December 31, 2018. As of December 31, 2018, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of 12,219 million euros (11,887 million euros of which were due to expire in more than 12 months). Telefónica's liquidity could be affected if market conditions make it difficult to renew existing undrawn credit lines. As of December 31, 2018, 2.7% of the aggregate undrawn amount under credit lines was scheduled to expire prior to December 31, 2019.

In addition, given the interrelation between economic growth and financial stability, the materialization of any of the economic, political and exchange rate risks referred to above could lead to a negative impact on the availability and cost of Telefónica's financing and its liquidity strategy. This in turn could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.

Adoption of new accounting standards could affect the Group's reported results and financial position.

Accounting standard-setting bodies and other authorities may periodically change accounting regulations that govern the preparation of the Group's consolidated financial statements. Those changes could have a significant impact on the way the Group accounts for certain matters and presents its financial position and its results of operations. In some instances, a modified standard or a new requirement with retroactive effect must be implemented, which requires the Group to restate previous financial statements.

In particular, Telefónica is required to adopt the new accounting standard IFRS 16 Leases ("IFRS 16") effective from January 1, 2019.

This standard requires significant changes that will affect the accounting treatment for all lease contracts where Telefónica acts as lessee, other than certain short-term leases and leases of low-value assets. The Group estimates that the first-time adoption of IFRS 16 will have a material impact on the Group's financial statements and may make comparisons between periods less meaningful. It will also likely materially affect the amounts used to calculate certain financial metrics reported by the Group or used by analysts and investors to analyze the Group.

Note 3 to the Consolidated Financial Statements includes information on the main impacts expected from the first-time adoption of the new requirements.

The Group operates in a highly regulated industry which requires government concessions for the provision of a large part of its services and the use of spectrum, which is a scarce and costly resource.

The telecommunications sector is subject to laws and sector-specific regulations in the majority of the countries where the Group operates. Additionally, many of the services the Group provides require the granting of a license, concession or official approval, which usually requires certain obligations and investments to be made, such as those relating to the acquisition of spectrum capacity. Among the main legal risks are those related to spectrum regulation and licenses/concessions, rates, universal service regulation, regulated wholesale services over fiber networks, privacy, functional separation of businesses and network neutrality. The fact that the Group's business is highly regulated both affects its revenues and imposes costs on its operations.

As the Group provides most of its services under licenses, authorizations or concessions, it is vulnerable to administrative bodies' decisions, such as economic fines for serious breaches in the provision of services and, potentially, revocation or failure to renew these licenses, authorizations or concessions, or the granting of new licenses to competitors for the provision of services in a specific market. The spectrum to which most of the licenses and administrative concessions refer to is used for the provision of mobile services on 2G, 3G and 4G technologies. The

complementarity between the different frequency bands successively assigned to an operator in a geographic market

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enables greater flexibility and efficiency in both the deployment of the network and the provision of services to final customers over the capacities resulting from such network.

Any challenges or amendments to the terms of licenses, authorizations or concessions granted to the Group and necessary for the provision of its services or the Group's failure to obtain sufficient or appropriate spectrum capacity in the jurisdictions discussed below or any others in which it operates, or its inability to assume the related costs, could have an adverse impact on its ability to launch and provide new services and on its ability to maintain the quality of existing services, which may adversely affect the Group's business, financial condition, results of operations and/or cash flows.

Additional information on the key regulatory issues and concessions and licenses held by the Telefónica Group can be found in Appendix VI of the Consolidated Financial Statements.

Additionally, the Telefónica Group could be affected by regulatory actions of the antitrust authorities. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or impose heavy fines. Any such measures implemented by the antitrust authorities could result in economic and/or reputational loss for the Group, in addition to a loss of market share and/or harm to the future growth of certain businesses.

Regulation of spectrum and access to new government licenses/concessions of spectrum

In Europe, the Directive (EU) 2018/1972 of the European Parliament and of the Council establishing the European Electronic Communications Code ("EECC"), was approved on December 11, 2018. The aim of the EECC is fostering investment in new high-capacity networks (principally fiber networks and the fifth generation of mobile telecommunications, or 5G) and create a 'level playing field' between telecommunications companies and over-the-top providers ("OTTs"). Member States have a period of two years (until December 21, 2020) to transpose said Directive into their national legislation. Certain provisions included in the EECC are so extensive and complex that their final impact on operators, such as Telefónica, will largely depend on how they are interpreted by regulatory authorities in each Member State. The EECC will continue to oblige national regulatory authorities to analyze telecommunications markets and determine whether any operators dominate the market. Such operators will continue to be designated as having significant market power ("SMP") and face additional obligations in that territory. In the case of new fiber networks, such SMP obligations could be relaxed if co-investment agreements bear fruit among SMP and non-SMP networks operators.

Furthermore, in Europe, spectrum auctions are expected to take place in the coming years, requiring potential cash outflows to obtain additional spectrum or to meet the coverage requirements associated with some of these licenses. In Spain, the auction of the 3.6 GHz band was carried out during July 2018, and Telefónica was awarded 50 MHz. The Ministry of Economy and Business Affairs has published the roadmap to clear spectrum in the 700 MHz band from its current use (digital television), in line with the calendar approved by the European Commission ("EC") and with the 5G National Plan adopted in December 2017. The plan foresees the completion of the release of the 700 MHz band before June 30, 2020 and the Ministry has indicated its intention to hold the auction in 2020.

In the United Kingdom, the Office of Communications ("Ofcom"), the national telecommunications regulatory authority, conducted a spectrum auction for the 2.3 GHz and 3.4 GHz bands in March and April 2018. Telefónica United Kingdom won all of the 2.3 GHz spectrum available (40 MHz) and an additional 40 MHz of the 3.4 GHz spectrum band (out of the 150 MHz available), in both cases under 20-year renewable licenses. In December 2018, Ofcom launched a public consultation regarding the coverage obligations and auction design relating to the 700 MHz/3.6GHz bands, which are expected to be auctioned in the first quarter of 2020.

In Germany, on May 14, 2018 the Regulatory Agency for Electricity, Gas, Telecommunications, Post and Railway ("BNetzA") published Decisions I and II on the method to award frequencies nationwide, in the 2GHz band and a large part of the 3.6 GHz band. In addition, under the same decisions, BNetzA allocated 100 MHz in the 3.6 GHz band and also frequencies in the 26 GHz band, both for local/regional assignments upon application.

Subsequently, on November 26, 2018, BNetzA published Decisions III and IV establishing the conditions for frequency usage and auction rules on the above-mentioned 2 GHz and 3.6 GHz bands (Auction Rules). The rules include obligations for better coverage in both urban and rural areas, as well as along transport routes and other conditions, such as the obligation to negotiate on national roaming and network sharing. The above four decisions have been challenged in Court by Telefónica Deutschland Group. Nevertheless, Telefónica Deutschland Group

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submitted its application to the auction by January 25, 2019. The auction is scheduled to begin in the first quarter of 2019.

All of the bands mentioned above are considered to be technologically neutral, which means that they could potentially be used in the future for 5G services.

In Latin America, spectrum auctions are expected to take place in the coming years, potentially requiring cash outflows to obtain additional spectrum or to meet the coverage requirements or other obligations associated with these licenses. Specifically, the procedures that will take place in 2019 in jurisdictions that are relevant for the Group are:

Argentina: the government issued on January 21, 2018 a decree (Decreto de Necesidad y Urgencia) that contemplates the possibility of auctioning the spectrum previously reserved for ARSAT (a public company). The spectrum that was reserved for ARSAT includes 20 MHz in the 700 MHz band (national), 50 MHz in the AWS band (national) and 20 MHz in the 1900 MHz band (regional).

Brazil: In September 2018, the Brazilian regulator, Anatel, launched a first consultation to award spectrum in the 2.3GHz TDD (time-division duplexing) band and spectrum in the 3.5GHz TDD band. A consultation on the auction of the remaining spectrum in the 700 MHz band is expected to take place in the first half of 2019. Anatel's 5G commission has also identified 1500 MHz which could be auctioned. An auction to award spectrum in any of these bands could take place in 2019 or 2020.

Colombia: The consultation processes launched in 2017 and early 2018 on the conditions of the 700 MHz spectrum auction were suspended following the change of government that took place in August 2018. The new government has submitted to Congress a draft bill with regards to information and communication technologies. Among the measures included in the draft bill, there is an extension of the duration of spectrum licenses. The approval process of the draft bill may have an impact on the timing of the auction. This draft bill is expected to be discussed in the first quarter of 2019.

Peru: In October 2018, the Ministry of Transport and Communications approved a new regulation for the reorganization of frequency bands, known as "refarming". This could result in a spectrum award process in 2019 or 2020.

It is possible that some of the abovementioned spectrum tender procedures will not be completed, or even initiated within the proposed time frames. In addition, in the cases where Telefónica has submitted comments to the proposed conditions of auctions or allocation procedures, there is no certainty as to whether and to what extent such comments will be considered by the relevant regulator. In addition, Telefónica may decide to abstain from a particular process once it reviews the viability of each spectrum acquisition opportunity.

In addition to the spectrum tender procedures referred to above, it may be the case that certain administrations which have not yet announced their intention to release new spectrum may do so during 2019 and thereafter. The above does not include processes announced through general statements by administrations, which involve bands not key to Telefónica's needs. Furthermore, Telefónica may also seek to acquire spectrum on the secondary market where opportunities might arise.

Risks relating to concessions and licenses previously granted

In Spain, pursuant to the license for the 800 MHz spectrum band, there are a series of obligations that Telefónica is subject to with the aim of reaching coverage that allows access, with a speed of at least 30 Mb per second, to at least 90% of the inhabitants in population units of less than 5,000 inhabitants. The approval of the final terms and conditions to implement this coverage obligation was published in November 2018. Telefónica is undergoing a constant process of deployment and densification of Long Term Evolution ("LTE") solutions over the 800 MHz band that will be the base for compliance with such obligation.

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Telefónica owns two concessions in the 2.1 GHz and 3.5 GHz spectrum, both awarded in 2000, which expire in April 2020 but may be extended for an additional ten years.

In the state of São Paulo, Telefónica Brazil provides local and national long-distance Fixed Switched Telephony Services ("STFC") under the so-called public regime, through a concession agreement, which is expected to remain in force until 2025. At December 31, 2018, the estimated residual value of the assets assigned to the provision of STFC was 8,622 million Brazilian reais (approximately 1,943 million euros under the exchange rate applicable on such date) (8,763 million Brazilian reais as of December 31, 2017, approximately 2,209 million euros under the exchange rate applicable on such date), which comprised switching and transmission equipment and public use terminals, external network equipment, energy, system and operational support equipment. In principle, such assets were considered to be reversible assets, and were thus supposed to revert to the federal government at the end of the concession agreement. However, the implementation of a bill amending the regulatory framework in Brazil which establishes, among other things, that such assets would no longer be reversible under a new license regime in exchange for investment commitments, is currently pending. The bill was approved at both legislative houses, but was challenged before the Federal Supreme Court due to an alleged procedural defect. The outcome of this lawsuit is uncertain, although the Senate's board may overcome it by sending the bill for voting in the Plenary. In the event that the bill is finally approved, ANATEL would be entitled to adopt the relevant administrative decisions for the amendment of the respective licenses with the consequent amendment of the future obligations imposed on STFC providers.

As of the date of this Annual Report, there is no certainty that the proposed change in the regulatory framework will be completed, or that it will be completed in fully satisfactory terms for Telefónica Brazil. Only after this bill or a similar law is adopted (enabling the exchange of reversion obligations for investment commitments) could ANATEL impose the investment obligations referred to above.

As of the date of this Annual Report, it is not possible to estimate the hypothetical investment obligations that ANATEL could impose on the concessionaires, including Telefónica Brazil, in exchange for eliminating their obligation to revert assets used for the provision of the STFC services.

In Colombia, the ITC issued resolution 597 on March 27, 2014 to renew 850 MHz/1900 MHz band licenses for ten additional years. Under the scope of such resolution, Colombia Telecomunicaciones, S.A. ("ColTel") (67.5% of which is owned, directly and indirectly, by Telefónica and 32.5% of which is owned by the government of Colombia), renewed its license to exploit such spectrum to provide telecommunication services.

The concession agreements from 1994, which were renewed in 2004 and under which the mobile telephone services were provided until November 28, 2013, contained a reversion clause for the underlying assets. However, Law 422 of 1998 and Law 1341 of 2009 provided that upon expiration of a concession agreement for telecommunication services, only the spectrum reverts to the State. That was the understanding under which all the operators, including the authorities, operated between 1998 and 2013. In 2013, however, when analyzing an appeal on the constitutionality of said laws, the Constitutional Court confirmed the constitutionality of the laws but ruled that it could not be concluded that those laws modified with retroactive effect the reversion clause of the concession agreements of 1994. On February 16, 2016, the ITC started an arbitration proceeding against ColTel and other defendants in accordance with the terms of the relevant concession agreement of 1994, in order to clarify the validity and scope of such reversion clause. The arbitration award was rendered on July 25, 2017 and was not favorable to ColTel and its co-defendants. The arbitration tribunal ordered ColTel to pay 1,651,012 million Colombian pesos. On August 29, 2017, the shareholders' meeting of ColTel approved a capital increase in a total amount of 1,651,012 million Colombian pesos (470 million euros at the exchange rate as of such date) to pay the amount imposed by the arbitration award. The Telefónica Group and the Colombian government subscribed the capital increase pro rata to their respective shareholding in ColTel. Telefónica's decision to participate in the capital increase does not constitute, and should not be understood as, an acceptance of the arbitration award. Telefónica reserves all of its legal rights and the exercise by Telefónica or ColTel of any applicable legal action, national or international. Both ColTel and Telefónica have started legal actions. On August 18, 2017, ColTel filed an appeal to challenge the arbitration award at Colombia's highest court of administrative litigation (Consejo de Estado), which was dismissed on May 24, 2018. In addition, on December 18, 2017, ColTel also filed a constitutional action (acción de tutela) with the Constitutional Court seeking to protect its constitutional rights, jeopardized by the arbitration award. On March 15, 2018, the constitutional action

was denied and ColTel filed an appeal against this ruling on April 18, 2018, which was dismissed on May 24, 2018. On November 27, 2018 a recusal motion was filed at the Constitutional Court, which is pending resolution. In addition, pursuant to the relevant bilateral treaty, Telefónica notified Colombia of its intention to file a claim in the International Center for Settlement of Investment Disputes ("ICSID"). After the expiration of the required 90-day

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notice period, on February 1, 2018, Telefónica submitted the arbitration request to the ICSID and, on February 20, 2018, the General Secretary of ICSID registered the request for the institution of arbitration proceedings. The request for arbitration is ongoing and the arbitral tribunal is in the process of being appointed.

In Peru, Telefónica has concessions for the provision of fixed-line services until November 2027. In December 2013, Telefónica filed a partial renewal request for these concessions for five more years. On November 26, 2018, the Ministry of Transportation and Communications (Ministerio de Transportes y Comunicaciones) notified the denial of such renewals. Telefónica has filed an appeal for reconsideration. On February 5, 2019 the Ministry dismissed the mentioned appeal and Telefónica is considering to challenge the decision. In December 2014, June 2016 and May 2017 Telefónica filed renewal requests for an additional 20 years in relation to a concession for the provision of local carrier services, one of the concessions to provide mobile services in certain provinces, and one concession to provide fixed-line services, respectively. In addition, in April 2016, Telefónica filed a renewal request in relation to the 1900 MHz frequency spectrum for the Provincias (all of Peru except for Lima and Callao), which license expired in 2018. As of the date of this Annual Report, the decision of the Ministry of Transport and Communications (Ministerio de Transportes y Comunicaciones) in these proceedings is still pending and, according to the legislation, the underlying concessions remain in force as long as the proceedings are pending.

In Chile, Telefónica Móviles Chile, S.A. and other two telecommunications operators were awarded spectrum in the 700 MHz band in March 2014, with Telefónica Móviles Chile being awarded 2x10 MHz. While services are being provided on such spectrum, a consumer organization filed a claim before the Tribunal for the Defense of Free Competition (the "TDFC") against Telefónica Móviles Chile, S.A. and the other two operators, regarding the allocation of spectrum in the 700 MHz band and challenging the outcome of the spectrum allocation. The TDFC rejected this claim on consecutive occasions but, on June 25, 2018, the Supreme Court issued a final judgment stating that the assignment of spectrum in the 700 MHz band to the mobile operators constituted anticompetitive behavior as it awarded spectrum blocks without respecting the 60 MHz spectrum cap set by the Supreme Court in a ruling from 2009.

The Supreme Court ruled that the incumbent operators have to relinquish the same amount of spectrum that they acquired in the 700 MHz band auction. However, the ruling of the Supreme Court allows the operators to choose the band from which the spectrum that exceeds the fixed cap (60 MHz) is to be relinquished and no deadline has been set to complete such relinquishment. As of the date of this Annual Report, Telefónica Móviles Chile has not relinquished any of the required spectrum, since the proceeding has been temporally suspended by a resolution issued by the Constitutional Court on January 29, 2019.

The Supreme Court ruling also states that if the sector-specific authority ("Subtel") considers it necessary to review the maximum spectrum cap, it should put in place a consultation process before the TDFC. Subtel must otherwise initiate the necessary procedures to adapt the set cap to the fixed parameters of 60 MHz for each participating operator in the aforementioned radio spectrum. On October 3, 2018, Subtel submitted its proposal on the review of the maximum spectrum cap to the TDFC.

Additionally, Subtel submitted to the TDFC a proposal of "complementary conditions" with a general scope which would be applicable to all bands, as well as another proposal of "special conditions" to be considered in future auctions. The TDFC set a deadline of December 28, 2018 for interested parties to provide their comments. The process initiated by the TDFC is expected to last several months.

In addition, the Supreme Court rejected the appeal filed by Telefónica Móviles Chile, S.A. against the resolution of the TDFC that ordered immediate compliance with the spectrum relinquishment obligations, without waiting for the result of the spectrum cap consultation. However, on January 29, 2019, the Constitutional Court temporarily suspended the obligation to immediately comply with such spectrum relinquishment obligations until the remedy of inapplicability that has been filed by Telefónica is resolved.

Additionally, regarding the 3.5 GHz band, Subtel issued a decision on June 21, 2018 regarding the 3.4-3.8 GHz spectrum band, which, among other things, has suspended the granting of authorizations, the modification of concessions and the reception of network rollouts in connection with this spectrum band. Its purpose is to carry out an in-depth study on the efficiency of the usage of this band for 5G and ensuring the efficient usage of this band in light of international best practices and the need for efficient spectrum management. The decision had a limited impact on

Telefónica's operations as Telefónica Chile, S.A. only has 50 MHz of spectrum assigned in that band in Regions XI and XII (representing less than 2% of the population) and that spectrum is currently not in use. On October 3, 2018, Subtel modified the above mentioned resolution and resolved to release part of this spectrum to enable operators to provide wireless fixed services. Of the 50 MHz awarded to Telefónica Chile, S.A., 30 MHz were released and may only

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be used for mobile services, which is a required change for 5G provision, once future auctions on 3400-3800 MHz range are firmly awarded. The remainder of the spectrum may not currently be used for any service.

On November 20, 2018, Telefónica Chile, S.A. requested the TDFC to initiate a consultation process to determine whether the decision of Subtel regarding the 3.5 GHz band violates competition law. The deadline for third parties to provide background information expired on February 18, 2019.

In Mexico, in August 2018, Telefónica participated in the auction of the 2500-2690 MHz band and was awarded 2x20 MHz of spectrum. The rules and the procedure of the auction were challenged by an operator and Telefónica has responded to the allegations made. Telefónica's regional holdings in the 1900 MHz band (approximately 44% of the total 1900 MHz band) expired in October 2018. Telefónica has requested the renewal of this concession. The Instituto Federal de Telecomunicaciones ("IFT") is expected to decide on the renewal request during the first quarter of 2019. Telefónica may continue to use this spectrum while the IFT decision is pending.

In 2018, the Group's consolidated investment in spectrum acquisitions and renewals amounted to 868 million euros (538 million euros in 2017).

Regulation of wholesale services

The EC's proposal in respect of the regulatory framework for wholesale services intends, among other measures, to incorporate a costing methodology to fix a European upper limit for the call-termination prices for landline phones/mobile phones (FTRs/MTRs) applicable in the EU. According to this proposal, the decreases in wholesale mobile termination rates ("MTRs") in Europe have been noteworthy. It should be noted that since termination fees in mobile and fixed communications have decreased substantially in recent years, future decreases are expected to become smaller so that the negative impact on turnover is expected to be less significant than in the past.

In the United Kingdom, on June 1, 2018, the price of MTRs fell to 0.489 pence per minute. From April 1, 2019, they will be priced at 0.479 pence per minute, with a further reduction based on inflation (consumer prices index ("CPI") minus 3.7% from April 1, 2020).

In Spain, in January 2018 the Spanish National Regulatory and Competition Authority (Comisión Nacional de los Mercados y la Competencia or "CNMC") approved a decision setting the new MTRs for all mobile operators, which will result in a progressive reduction of 40% from January 2018 levels (0.0109 euros per minute). The approved MTRs are as follows: from the date the decision became effective until December 31, 2018 0.0070 euros per minute; from January 1, 2019 until December 31, 2019 0.0067 euros per minute; and as from January 1, 2020 0.0064 euros per minute. The CNMC launched a public consultation in November 2018 regarding fixed termination rates ("FTRs"), which proposed a progressive reduction in prices of 34% from November 2018 levels. The proposed prices are as follows: from the date the decision becomes effective until December 31, 2019 0.0640 euros per minute; from January 1, 2020 until December 31, 2020 0.0591 euros per minute and as from January 1, 2021 0.0543 euros per minute. A final decision is expected to be adopted in the first quarter of 2019.

In Germany, on December 1, 2018 the price of the MTR fell from 1.07 euro cents per minute to 0.95 euro cents per minute. This price will be in force until November 30, 2019. MTRs for subsequent periods will be decided in 2019.

In Brazil, Resolution 639/2014 established that MTRs will be subject to successive yearly reductions from 2016 until 2019, when the definitive cost-oriented-model fees are expected to be in force. In addition, through Act No. 6211/2014, ANATEL published the reference prices to be applied by operators with significant market power ("SMP"). In 2018, through Act No. 9919/2018, ANATEL published the reference prices to be applied by SMP operators from 2020 until 2023. In addition to the planned implementation of the cost-oriented-model, the Plano Geral de Metas de Competição ("PGMC"), amended by Resolution 649/2015, among other changes, updated the partial "bill and keep" model for MTRs, aiming to fix an imbalanced remuneration pattern between SMP operators and other companies operating in the relevant market. This measure was intended to adapt the networks to the reductions of MTRs and promote a gradual adaptation to the enforcement of the cost-oriented fees in early 2019. However, the new PGMC that was published in July 2018, among other changes, extended the "bill and keep" model, which was expected to expire in February 2019, until the next revision of the PGMC in four years.

In Mexico, on November 13, 2018, the IFT announced that the MTRs applicable to the so-called Prevailing Economic Agent ("PEA") for 2019 shall be 0.028313 pesos per minute while the MTRs applicable to the operators other than the PEA shall be 0.112623 pesos per minute. Both this decision and the decision that established the MTRs applicable to

2018 were challenged by Telefónica.

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In Peru, on December 21, 2018, the regulator, OSIPTEL, published the new MTRs. The new MTRs applicable to all operators of mobile public services was fixed at 0.00302 dollars per minute rated at the second, which entails a 54% decrease from the previous rate (0.0066.1 dollars per minute rated at the second). The new rates have been in effect since January 1, 2019 and will remain in effect until a new MTR value is defined by the regulator.

In Argentina, on August 17, 2018, the Ente Nacional de Comunicaciones ("Enacom") published the provisional termination and local origination charges for mobile communications services provided by networks until the final charges are decided pursuant to a cost model. Enacom set a tariff of 0.0108 dollars per minute and the measurement unit for valuation is per second. During the summer of 2018, Enacom launched a public consultation on the cost models for mobile communications services. On November 22, 2018, Enacom set the provisional termination charge in fixed networks at 0.0045 dollars per minute, the tariff for local transit services at 0.0010 dollars per minute, and the tariff for long distance transportation services at 0.0027 dollars per minute. In each case the measurement unit for valuation is per second.

In Chile, regarding mobile termination rates, on February 5, 2019, Subtel notified TMCH of a new proposal on tariff decree, which will be applicable for the next five years. The average tariff which will apply until 2024 is 1.8 Chilean pesos per minute (0.0024 euros, without VAT, based on the exchange rate as of February 6, 2019, to be charged on a per second basis). The new tariff decree is in effect since January 26, 2019. New tariffs on fixed operations will come into force in May 2019.

In Colombia, in December 2018, the regulator (Comisión de Regulación de Comunicaciones) published two consultations. The first initiative would reduce the FTRs from 0.01 to 0.003 dollars in 2019, which would be beneficial to ColTel as it is a net payer of FTRs. As of 2020, FTRs between fixed networks would be completely eliminated. The second initiative, on one hand seeks to substitute the national roaming charges in incoming calls charged to operators using national roaming, for mobile termination rates, which would negatively impact the revenues of ColTel; and, on the other hand, modifies the formula that defines the maximum regulated rate for network provision charged to MVNOs, from the minimum ARPU reported by MVNOs to the average ARPU from the past four (4) quarters.

As a result of the foregoing actions, the prices for certain wholesale services may be reduced, which may materially adversely affect the Group's business, financial condition, results of operations and/or cash flows. During 2018, the negative impact of these wholesale regulations (mainly MTRs, FTRs and roaming) is estimated to have resulted in the deduction of approximately 1.1 percentage points from the organic growth of the Group's revenues. (As calculated as set forth in "Item 4. Information on the Company—Business Overview").

Regulation of universal service obligations

Universal service obligations ("USO") refers to the obligations imposed on telecommunication operators which are aimed at granting access to all consumers in a country to a minimum set of services offered at reasonable and fair prices in order to avoid social exclusion.

As stated above, Directive (EU) 2018/1972, of December 11, 2018, which approves the EECC, updates USO provisions in Europe, removing the mandatory inclusion of the legacy outdated services (payphone boxes, directories and information services) and focusing on the provision of affordable broadband services. The EECC provides Member States with full flexibility in relation to the financing required for the provision of these services, allowing Member States to choose between public or industry funding. This ample room for discretion, together with the possibility that the affordability obligations could end up being too onerous, might result in higher costs for the industry.

In Spain, Telefónica is the operator responsible for the provision of universal service elements with respect to fixed network access with a broadband bandwidth of at least 1 Mb per second (until December 2019). On December 28, 2018, the government approved (by Royal Decree 1517/2018) the modification of the USO framework, eliminating the obligation to provide telephone directories to users (which had been assigned from January 1, 2017 to Telefónica), but maintaining Telefónica's designation as the operator responsible for the provision of public payphones until December 31, 2019, date on which it is expected that such obligation will be removed.

In Brazil, the General Plan of Universalization Targets (PGMU IV) of Fixed Switched Telephony Services (the "General Plan") that was due to have been published in 2016 was finally published on December 21, 2018

(Presidential Decree n. 9.619/2018) after a long period of discussion.

The General Plan lessens the USO framework in three ways: (i) there is a material decrease in the maintenance obligations with respect to Public Use Terminals; (ii) there is a material reduction of the obligations to meet requests

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for installation of individual accesses within seven days; and (iii) the extinction of the obligations to install and maintain Multifacilities Service Stations.

However, the General Plan imposes a new obligation with respect to "fixed wireless access systems with support for broadband connection" through the implementation of a base radio station in 310 pre-determined localities in the State of São Paulo.

The imposition on the Telefónica Group of additional or more onerous USO in the jurisdictions where it operates could have a material adverse effect on its business, financial condition, results of operations and/or cash flows.

Regulation of fiber networks

In Spain, on March 6, 2018, the CNMC approved a final decision on the economic replicability methodology (or ERT in its acronym in English) to be used to assess the maximum wholesale access price which Telefónica can charge other operators for accessing the optical fiber network in regulated areas (NEBA Local and NEBA services).

According to this methodology, from April 2018, Telefónica is to apply a wholesale access price (NEBA) of 17.57 euros per month, with this price being updated twice a year in order to assess whether Telefónica's retail offers (broadband flagship products) are economically replicable with such wholesale NEBA price. In July 2018, the CNMC approved a final decision on the methodology to assess if Telefónica's retail offers for the business sector can be replicated by other operators.

This and any other similar obligations and restrictions which may be imposed in the future in the various jurisdictions where the Telefónica Group operates could raise costs and limit Telefónica's flexibility in providing the aforementioned services, which could materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

Regulations on privacy

In Europe, the General Data Protection Regulation ("GDPR") of April 27, 2016, has been directly applicable in all Member States since May 25, 2018 and implementing measures have been introduced by Member States, including Spain, Germany and the United Kingdom.

In Spain, on December 5, 2018 the Personal Data Protection and Digital Rights Act was approved. This Act implements GDPR in Spain, addressing several particularities concerning data blocking for judicial purposes or specific matters on databases for advertising purposes or data relating to deceased people. Equally, it implements procedural mechanisms within the framework of legal investigations concerning potential infringements of the GDPR. In addition, on January 10, 2017, the EC presented its proposal for a regulation on privacy and electronic communications ("ePrivacy Regulation"), which will replace the current Directive 2002/58/EC. The proposal implies an extra layer of regulation on top of the GDPR and also introduces administrative fines of up to 4% of an undertaking's annual global turnover for breaching new regulations. In this area, a strict data protection and privacy regulation may result in limitations on the ability to offer innovative digital services such as big data services. The future ePrivacy Regulation is not expected to be adopted before the end of 2019.

The Privacy Shield, approved by the EC on July 12, 2016 to lay out the framework for the international transfer of personal data from the EU to the US, was challenged before the EU's General Court by civil-society groups. One of the appeals was not admitted and the admission of a second appeal is still pending as of the date of this Annual Report. The results of the second annual revision of the Privacy Shield by the Commission were published on December 19, 2018. The report concludes that the United States continues to guarantee an adequate level of protection of transferred personal data under the Privacy Shield and that the measures adopted by US authorities to implement the recommendations made by the Commission in the 2017 report have improved the functioning of the framework.

In Brazil, the Personal Data Protection Act (Act 13709/2018) was approved on August 14, 2018. This Act entails further obligations and restrictions for operators in relation to the collection of personal data and its processing and is based on the GDPR. The text was approved in the Chamber of Deputies and the Senate but the President vetoed the creation of the Authority for the Protection of Personal Data and of the National Council for the Protection of Personal Data and Privacy, after considering them to be unconstitutional. On December 27, 2018 the President of Brazil signed provisional measure 869/2018 that created the National Data Protection Authority (ANPD) and postponed to August 2020 the entry into force of the new Personal Data Protection Act. The approval of provisional measure 869/2018 by the National Congress and its conversion into law is still pending.

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In Chile and Argentina, two bills aligned with the GDPR are in process to pass into law.

Any obligations and restrictions arising from privacy regulations could raise costs and limit Telefónica's ability to provide certain services, which could materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

Regulation of network neutrality

Under the principle of network neutrality applicable to the Internet access services realm, network operators are not permitted to establish technical or commercial restrictions regarding the terminals that can be connected or the services, or applications and contents that can be accessed or distributed through the Internet by the end user. It also refers to the non-discriminatory behavior (e.g. non-anticompetitive) to be adopted by operators regarding the different types of Internet traffic circulating through their networks.

Net neutrality regulation is being implemented all across Europe and in most of the Latin America countries where Telefónica is operating.

In Mexico, it is expected that IFT will issue guidelines during 2019.

Any changes to regulation as it is established in the various jurisdictions where the Telefónica Group operates, could limit the commercial flexibility and might have an impact on its business, financial condition, results of operations and/or cash flows of the Group.

The Telefónica Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs.

The Telefónica Group is required to comply with the laws and regulations of various jurisdictions where it conducts operations. In particular, the Group's international operations are subject to various anti-corruption laws, including the US Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010, and economic sanctions programs, including those administered by the United Nations, the European Union and the United States, including the US Treasury Department's Office of Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Telefónica Group's business, it may deal with entities, the employees of which are considered government officials. In addition, economic sanctions programs restrict the Group's business dealings with certain sanctioned countries, individuals and entities.

Although the Group has internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that the Group's employees, directors, officers, partners, agents and service providers will not take actions in violation of the Group's policies and procedures (or, otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Group or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties, exclusion from government contracts, damage to the Group's reputation and result in other consequences, that could have a material adverse effect on the Group's business, results of operations and financial condition.

As of the date of this Annual Report, Telefónica is currently conducting internal investigations covering various countries regarding possible violations of applicable anti-corruption laws. Telefónica continues to cooperate with governmental authorities and continues with the ongoing investigations. Although it is not possible at this time to predict the scope or duration of these matters or their likely outcome, Telefónica believes that, considering the size of the Group, any potential penalty as a result of the resolution of these investigations would not materially affect the Group's financial condition.

Telefónica may not anticipate or adapt in a timely manner to changing customer demands and/or new ethical or social standards, which could adversely affect Telefónica's business and reputation.

To maintain and improve its position in the market vis-à-vis its competitors, it is vital that Telefónica has the ability to anticipate and adapt to the evolving needs and demands of its customers, and that it avoids commercial actions that may generate a negative perception of the Group or the products and services it offers, or that may have or be perceived to have a negative impact on society. In addition to harming Telefónica's reputation, such actions could also result in fines and other sanctions.

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There is growing social and regulatory demand for companies to behave in a socially responsible manner. In addition, the risks associated with potential damage to a brand's reputation have become more relevant, especially due to the impact that the publication of news through social networks can have.

If Telefónica were not able to anticipate or adapt to the evolving needs and demands of its customers or avoid inappropriate actions, its reputation could be adversely affected or it could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Telefónica's competitive position in some markets could be affected by the evolution of competition and market consolidation.

The Telefónica Group operates in highly competitive markets and it is possible that the Group may not be able to market its products and services effectively or respond successfully to the different commercial actions carried out by its competitors. The Group may also fail to meet its growth plans or to retain its customers, any of which may result in the decrease of the Group's profits and revenue margins.

In addition, increased market concentration, including as a result of mergers and acquisitions, or alliances and collaboration agreements among other industry players, could adversely affect the competitive position of Telefónica, as well as the efficiency of its operations and its business continuity.

The entry of new competitors into markets where Telefónica is a leader, in addition to changes in market dynamics which have led to aggressive data offers and broadband deployments by the Group's competitors and mergers of operators in certain markets, have adversely affected the competitive position of Telefónica, negatively impacting the evolution of revenues and its share of customers.

If Telefónica is not able to face the challenges posed by its competitors, the business, financial condition, results of operations and/or cash flows of the Group could be negatively affected.

Telefónica operates in a sector characterized by rapid technological changes and it may not be able to anticipate and adapt to such changes or select the right investments to make.

The pace of innovation and Telefónica's ability to keep up with its competitors is a critical issue in a sector so affected by technology such as telecommunications.

While automation and other digital processes may lead to significant cost and efficiency gains, there are also significant risks associated with such transformation processes.

New products and technologies are constantly emerging that can render products and services offered by the Telefónica Group obsolete, as well as its technology. In addition, the explosion of the digital market and the entrance of new players in the communications market, such as MNVOs, Internet companies or device manufacturers, could imply the loss of value of certain assets, affect the generation of income, or otherwise cause Telefónica to have to update its business model. This forces Telefónica to invest in the development of new products, technology and services in order to compete effectively with current or future competitors, which may result in the decrease of the Group's profits and revenue margins. Additionally, this investment may not lead to the development or commercialization of successful products or services. In this respect, margins from traditional voice and data business are shrinking, while new sources of revenues are derived from mobile Internet and connectivity services that are being launched. Examples of these services include IPTV services, IoT services, financial, security and cloud services.

Research and development costs amounted to 947 million euros in 2018, representing an increase of 9.8% from 862 million euros in 2017 (906 million euros in 2016). These expenses represented 1.9%, 1.7% and 1.7% of the Group's consolidated revenues in 2018, 2017 and 2016, respectively. These figures have been calculated using the guidelines established in the Organization for Economic Cooperation and Development ("OECD") manual.

One of the technologies currently being developed by telecommunications operators, including Telefónica (in Spain and Latin America), is the new FTTx type networks, which allow to offer broadband accesses over fiber optics with high performance, such as 600MB Internet connections or high definition television services. However, the deployment of such networks, in which the copper of the access loop is totally or partially replaced by optical fiber, implies high levels of investments. As of December 31, 2018, in Spain, fiber coverage reached 21.3 million premises. There is a growing demand for the services that these new networks can offer to the end customer. However, the high level of investments required by these networks results in the need to continuously consider the expected return on investment, and no assurance can be given that these investments will be profitable.

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In addition, the ability of the Telefónica Group's IT systems (operational and backup) to adequately support and evolve to respond to Telefónica's operating requirements is a key factor in the commercial development, customer satisfaction and business efficiency of the Telefónica Group. Any failure by the Telefónica Group to develop or implement IT systems that adequately support and respond to the Group's evolving operating requirements could have an adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

If Telefónica were not able to anticipate and adapt to the technological changes and trends in the sector, or to properly select the investments to be made, this could negatively affect the Group's business, financial condition, results of operations and/or cash flows.

Telefónica depends on its suppliers.

The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets with a high concentration in a small number of suppliers, poses risks that may affect Telefónica's operations, and may cause legal contingencies or damages to its image in the event that a participant in the supply chain engages in practices that do not meet acceptable standards or that otherwise fail to meet Telefónica's performance expectations. This may include delays in the completion of projects or deliveries, poor-quality execution, cost deviations and inappropriate practices.

As of December 31, 2018, the Telefónica Group depended on two handset suppliers and ten network infrastructure suppliers, which, together, accounted for 71% and 80%, respectively, of the total contracted handsets as of such date. One of the handset suppliers represented 42% of all contracted handsets as of such date.

These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own stock shortfalls and business requirements or for other reasons. In addition, the suppliers on which Telefónica relies may also be subject to litigation with respect to technology on which Telefónica depends, including litigation involving claims of patent infringement. Such claims are frequently made in the communications industry.

If suppliers cannot supply their products to the Telefónica Group within the agreed deadline or such products and services do not meet the Group's requirements, this could hinder the deployment and expansion plans of the network, which in certain cases could affect Telefónica's compliance with the terms and conditions of the licenses under which it operates, or otherwise adversely affect the business and operating results of the Telefónica Group. In addition, the possible adoption of new protectionist measures in certain parts of the world, including as a result of trade tensions between the United States and China, may have an adverse impact on certain of Telefónica's suppliers and other significant players in the industry.

The imposition of trade restrictions could result in higher costs and lower margins, and could adversely affect the Group's business, financial condition, results of operations and/or cash flows.

Unanticipated network interruptions can lead to quality loss or the interruption of the service.

Unforeseen network interruptions due to system failures, including those due to natural disasters caused by natural or meteorological events or phenomena, network failures, hardware or software failures, theft of network elements or cyber-attacks that affect the quality of, or cause interruption to, the provision of the services of the Telefónica Group, could cause customer dissatisfaction, a reduction in revenues and traffic, the realization of expensive repairs, the imposition of sanctions or other measures by regulatory bodies, and damage to the image and reputation of the Telefónica Group or could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Information technology is key to the Group's business and it could be subject to cybersecurity risks.

The Group operates in an environment increasingly prone to cyber-threats. Consequently, it is necessary for the Group to continue to advance its capacity to identify and detect technical threats and vulnerabilities and improve its ability to react to incidents. This includes the need to strengthen security controls in the supply chain as well as to place increased focus on security measures adopted by partners of the Group and other third parties.

Telecommunications companies worldwide face increasing cybersecurity threats as businesses have become increasingly dependent on telecommunications and computer networks and have adopted cloud computing technologies. Cybersecurity threats may include gaining unauthorized access to Telefónica's systems or inserting computer viruses or malicious software in its systems to misappropriate consumer data and other sensitive information, corrupt Telefónica's data or disrupt its operations. Unauthorized access may also be gained through

traditional means

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such as the theft of laptop computers, data devices and mobile phones and intelligence gathering by employees with access. Further, the Group's employees or other persons may have unauthorized or authorized access to the Group's systems and/or take actions that affect the Group's networks in an inconsistent manner with the Group's policies or otherwise adversely affect the Group or its ability to adequately process internal information.

Telefónica attempts to mitigate these risks through a number of measures, including backup, log review, vulnerabilities checks, network segregation measures and protective systems such as firewalls, intrusion detection or prevention systems, virus scanners and other physical and logical security measures. However, the application of these measures may not always be effective. The Telefónica Group has insurance policies in place which could cover, subject to the policies terms, conditions, exclusions, limits and sublimits of indemnity, and deductibles applying, certain losses arising out of this type of incidents. To date the insurance policies in place have covered some incidents of this sort, yet due to the potential severity and uncertainty of the mentioned events, these policies may not be sufficient to cover all possible monetary losses arising out of an individual event.

Possible regulatory, business, economic or political changes and other factors could lead to asset impairment.

The Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the value of assets and cash-generating units, to assess whether their carrying values can be supported by the future expected cash flows, including, in some cases synergies allowed for in acquisition costs. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and to recognize impairments in goodwill, intangible assets, property, plant and equipment or financial assets. Although the recognition of impairments of these assets results in a non-cash charge on the income statement, it could adversely affect the results of the Telefónica Group's operations. In this respect, the Telefónica Group has experienced impairments on certain of its investments, affecting its results of operations in the year in which they were experienced. In 2018, impairment losses in the value of goodwill, have been recognized amounting to 350 million euros, related to Telefónica's operations in Mexico. No impairments were recognized in 2017. In 2016, impairment losses, in the value of goodwill, were recognized amounting to 215 million euros, related to Telefónica's operations in Venezuela (124 million euros) and in Mexico (91 million euros). In addition, Telefónica may not be able to realize deferred tax assets on its statement of financial position to offset future taxable income. The recoverability of deferred tax assets depends on the Group's ability to generate taxable income over the period for which the deferred tax assets remain deductible. If Telefónica believes it is unable to utilize its deferred tax assets during the applicable period, it may be required to record an impairment against them resulting in a non-cash charge on the income statement. In 2018, Telefónica Móviles México derecognized deferred tax assets amounting to 327 million euros. Further details on intangible assets and goodwill are provided in Notes 6 and 7 to the Consolidated Financial Statements.

The Telefónica Group's networks carry and store large volumes of confidential, personal and corporate data, and its Internet access and hosting services may lead to claims for illegal or illicit use of the Internet.

The Telefónica Group's networks carry and store large volumes of confidential, personal and business data, through both voice and data traffic. The Telefónica Group stores increasing quantities and types of customer data in both business and consumer segments. Despite its best efforts to prevent it, the Telefónica Group may be found liable for any loss, transfer, or inappropriate modification of the customer data or general public data stored on its servers or transmitted through its networks, any of which could involve many people and have an impact on the Group's reputation, or lead to legal claims and liabilities that are difficult to measure in advance.

In addition, the Telefónica Group's Internet access and hosting servers could lead to claims for illegal or unlawful use of the Internet. Telefónica, like other telecommunications providers, may be held liable for any loss, transfer or inappropriate modification of the customer data stored on its servers or carried by its networks.

In most countries in which the Telefónica Group operates, the provision of its Internet access and hosting services (including the operation of websites with shelf-generated content) are regulated under a limited liability regime applicable to the content that it makes available to the public as a technical service provider, particularly content protected by copyright or similar laws. However, regulatory changes have been introduced imposing additional obligations on access providers (such as blocking access to a website) as part of the struggle against some illegal or illicit uses of the Internet, notably in Europe.

Any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.

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Telefónica and Telefónica Group companies are party to lawsuits, antitrust, tax claims and other legal proceedings. Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings in the ordinary course of their businesses, the financial outcome of which is unpredictable. An adverse outcome or settlement in these or other proceedings could result in significant costs and may have a material adverse effect on the Group's business, financial condition, results of operations, reputation and/or cash flows. In particular, the Telefónica Group is party to certain judicial tax proceedings in Peru concerning the clearance of certain previous years' income tax, in respect of which a contentious-administrative appeal is currently pending and to certain tax and regulatory proceedings in Brazil, primarily relating to the ICMS (a Brazilian tax on telecommunication services) and the corporate tax. Further details on these matters are provided in Notes 22 and 26 to the Consolidated Financial Statements. Additional details on provisions for litigation, tax sanctions and claims can be found in Note 21 to the Consolidated Financial Statements.

The telecommunications industry could be affected by factors related to sustainability and the environment. It could also be affected by the possible effects that electromagnetic fields could have on health.

Telefónica's operations and assets (including its towers and submarine cables) are located in many areas that are subject to natural disasters and severe weather, and which may be adversely affected in the future by climate change. Climate-related factors, such as heat waves, drought, sea levels, storms or flooding, could lead to unanticipated network interruptions and costly repairs, and negatively impact the demand for Telefónica's services in affected areas. Furthermore, if the Group's insurance did not fully cover business interruptions or losses resulting from these events, any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.

In addition, government restrictions, standards, or regulations intended to reduce greenhouse gas emissions or potential climate change impacts are likely to result in increased energy, transportation, or raw material and other supply costs. Moreover, local, national or international policy responses to climate change, such as carbon pricing or levies, emission caps or subsidy withdrawals may also lead to the stranding or financial impairment of certain of the Group's assets. Furthermore, the Group may face increased reputational pressure if its activities are perceived to be inconsistent with addressing climate change.

While the Group has taken several steps to increase its resilience to climate change and to limit its carbon footprint, there is no certainty as to whether such steps will be effective or sufficient.

The telecommunications industry could also be affected by the possible effects that electromagnetic fields emitted by mobile devices and base stations could have on health, as well as by concerns relating to such matters. These concerns have led some governments and administrations to take measures that have compromised the deployment of the necessary infrastructures to ensure quality of service, and have affected the criteria for the deployment of new networks and the development of digital services such as smart meters.

There is consensus among several groups of experts and public health agencies, including the World Health Organization, who state that, to date, there have been no proven risks of exposure to low radio-frequency signals from mobile communications. The scientific community continues to investigate this issue, especially with regard to mobile devices.

Concerns about electromagnetic fields may discourage the use of mobile telephony and new digital services, and may lead government authorities to impose significant restrictions on the location and operation of antennas or cells and the use of radio frequencies by mobile phones, as well as the deployment of smart meters and other products that use mobile technology. This could lead to the impossibility of expanding or improving the Group's mobile network.

Any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.

Item 4. Information on the Company

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A. History and Development of the Company

Overview

Telefónica, S.A., is a corporation duly organized and existing under the laws of the Kingdom of Spain, incorporated on April 19, 1924. We:

- are a diversified telecommunications group which provides a comprehensive range of services through one of the world's largest and most modern telecommunications networks;
- are focused on providing telecommunications services; and
- operate principally in Europe and Latin America.

The following significant events occurred in 2018:

- On January 22, 2018, Telefónica Emisiones, S.A.U., a wholly-owned subsidiary of Telefónica, issued notes guaranteed by Telefónica, S.A. in an aggregate principal amount of 1,000 million euros. The notes are due on January 22, 2027, pay an annual coupon of 1.447% and were issued at par (100%).
- On January 31, 2018, the Board of Directors of Telefónica resolved to adopt a new organizational structure in order to make the Group more agile, simple and focused on management, customer service, growth, efficiency and profitability. The main changes were:

- The areas of General Counsel, and Public Affairs and Regulation were unified;

- A new Executive Chairman was appointed for Telefónica España, who was also appointed as a member of the Executive Committee of Telefónica, S.A.;

- Telefónica Hispanoamérica was split into two new units: (i) Telefónica Hispam Sur (encompassing operations in Argentina, Chile, Peru and Uruguay); and (ii) Telefónica Hispam Norte (encompassing operations in Colombia, México, Central America, Ecuador and Venezuela); and

- The area of People (Human Resources) was enhanced and now reports directly to the Executive Chairman. This area is led by Ms. Marta Machicot, who also joined the Executive Committee.

- On January 31, 2018, the Board of Directors of Telefónica appointed Mr. Jordi Gual Solé as a member of the Board of Directors, as a Proprietary Director, replacing Mr. Antonio Massanell Lavilla who had voluntarily resigned from the Board on December 21, 2017. Mr. Gual was also appointed as a member of the Regulation and Institutional Affairs Committee and of the Strategy and Innovation Committee.

- On February 22, 2018, Telefónica filed with the United States Securities and Exchange Commission (the "SEC") its annual report on Form 20-F for the year ended December 31, 2017.

- On March 6, 2018, Telefónica Emisiones, S.A.U. issued notes guaranteed by Telefónica in an aggregate principal amount of 2,000 million dollars under its SEC shelf program. The issue was split into two tranches. The first tranche, with an aggregate principal amount of 750 million dollars and due on March 6, 2038, carries a coupon of 4.665%, payable semi-annually, and was issued at par. The second tranche, with an aggregate principal amount of 1,250 million dollars and due on March 6, 2048, carries a coupon of 4.895%, payable semi-annually, and was also issued at par.

- On March 15, 2018, Telefónica entered into a syndicated facility agreement (the "Facility Agreement") with several domestic and international financial entities for a maximum aggregate amount of 5,500 million euros, which unifies and replaces two existing revolving credit facilities: a revolving credit facility of 3,000 million euros with maturity in February 2021, and a credit facility of 2,500 million euros with maturity in February 2022. This Facility Agreement is composed of a five-year single tranche revolving credit facility in an aggregate amount of up to 5,500 million euros, with the option of two annual extensions, at the request of Telefónica, for a maximum maturity of seven years.

- On March 22, 2018, Telefónica Europe B.V. issued two series of undated deeply subordinated guaranteed fixed rate reset securities, with the subordinated guarantee of Telefónica: 5.7 year non-call securities (exercisable from December 4, 2023) with an aggregate nominal amount of 1,250 million euros and 8.5 year non-call securities (exercisable from September 22, 2026) with an aggregate nominal amount of 1,000 million euros.

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- On April 5, 2018, as a result of its participation in the principal stage of the spectrum auction conducted in the United Kingdom, Telefónica UK Limited ("O2 UK") was granted four blocks of 10 MHz in the 2.3 GHz spectrum band and eight blocks of 5 MHz in the 3.4 GHz band. The investment commitment for these new frequencies by O2 UK is 523,616,000 pounds (approximately 600 million euros).
- On April 25, 2018, the Board of Directors of Telefónica took formal note and record of the voluntary resignation as Director of Telefónica by Ms. Eva Castillo Sanz, and as a result, of her resignation as member of the Service Quality and Customer Service Committee, Regulation and Institutional Affairs Committee, and Strategy and Innovation Committee, and Ms. María Luisa García Blanco was appointed as an Independent Director, occupying the vacancy resulting from Ms. Eva Castillo Sanz's resignation.
- On May 30, 2018, the Board of Directors of Telefónica appointed Independent Director Mr. Peter Löscher as a member of the Service Quality and Customer Service Committee; and Independent Director Ms. María Luisa García Blanco as a member of the Service Quality and Customer Service Committee and of the Regulation and Institutional Affairs Committee. Additionally, Mr. Peter Löscher was appointed Chairman of the Service Quality and Customer Service Committee.
- On June 8, 2018, the Annual General Shareholders' Meeting of Telefónica was held at second call with the attendance, present or represented, of shareholders holding shares representing 53.42% of the share capital of Telefónica. All the resolutions submitted were approved at the meeting. Furthermore, Telefónica announced that the Annual General Shareholders' Meeting had agreed a dividend distribution in cash to be charged to unrestricted reserves, by means of a payment of a fixed gross amount of 0.40 euros during 2018, payable in two tranches, for each existing Telefónica share and carrying entitlement to this distribution on the following dates: the first payment in cash of a gross amount of 0.20 euros per share on June 15, 2018; the second payment in cash of a gross amount of 0.20 euros per share on December 20, 2018.
- On June 25, 2018, Telefónica announced that it had been declared the winner of the tender to acquire the rights to broadcast all the paid Campeonato Nacional de Liga de Primera División (the Spanish soccer premier league) matches in the Spanish residential market for the 2019-2022 cycle (packages 4 and 5). The award was made at an identical price for each of the three seasons (980 million euros), which represents a slight reduction in relation to the last season of the 2016-2019 cycle.
- On June 28, 2018, Telefónica reached an agreement with Mediapro, S.L.U. ("Mediapro") pursuant to which Telefónica acquired the exploitation rights by means of pay television of matches from the "UEFA Champions League" and "UEFA Europa League" competitions in the Spanish residential market for three seasons (2018-2021). These matches can be offered in thematic channels of Telefónica for sale to private or residential clients. The license granted to Telefónica has been given on an exclusive basis with the exception of certain matches from the "UEFA Europa League" that Mediapro has reserved for its broadcast on free-to-air television along with highlight programs of both competitions. The price agreed per season amounts to 360 million euros. Pursuant to this agreement, Telefónica may sublicense its rights to other operators interested in this content. The agreement signed with Mediapro also stipulates the revenue share of advertising incomes related to the new channel or channels that Telefónica intends to launch.
- On July 27, 2018, Telefónica transferred to a subsidiary of the Pontegadea Group 16.65% of the share capital of Telefónica's subsidiary Pontel Participaciones, S.L. ("Pontel"), which owns 60% of the share capital of Telxius Telecom, S.A. ("Telxius"), for an amount of 378.8 million euros. 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.
- On September 11, 2018, Telefónica Emisiones, S.A.U. issued notes guaranteed by Telefónica in an aggregate principal amount of 1,000 million euros. These notes mature on September 11, 2025, carry an annual coupon of 1.495% and were issued at par (100%).
- On November 8, 2018, Telefónica reached an agreement with Grupo Catalana Occidente for the sale of 100% of Antares, its insurance company in Spain, for a total amount of 161 million euros. Antares offers health, life, accident and life savings insurance to more than 200,000 insured individuals in Spain. The transaction is expected to generate capital gains of around 90 million euros for Telefónica and a reduction in net financial debt of close to 30 million euros.

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Business areas

On January 31, 2018, the Board of Directors of Telefónica resolved to adopt a new organizational structure in order to make the Group more agile, simple and focused on management, customer service, growth, efficiency and profitability. The previous organizational structure, which was approved by the Board of Directors of Telefónica, S.A. on February 26, 2014 was made up of the following segments: Telefónica Spain, Telefónica United Kingdom, Telefónica Germany, Telefónica Brazil and Telefónica Hispanoamérica (formed by the Group's operators in Argentina, Chile, Peru, Colombia, Mexico, Venezuela, Central America, Ecuador and Uruguay).

Following the Board of Directors' resolution on January 31, 2018, Telefónica Hispanoamérica was split into two new segments in order to more effectively manage the different market situations: Telefónica Hispam Norte, encompassing the operations in Colombia, Mexico, Central America, Ecuador and Venezuela, and Telefónica Hispam Sur, encompassing operations in Argentina, Chile, Peru and Uruguay.

Due to the implementation of the new organizational structure referred to above, the comparative results of the segments of the Group for 2017 and 2016 and the comparative segmentation of assets, liabilities and investments accounted for by the equity method as of December 31, 2017 have been restated to reflect this new organization. These changes in the segments have had no impact on the consolidated results of the Group. Restated numbers are identified as "revised data" in the tables included in this Annual Report.

The segments referred to above include the information related to the fixed, wireless, cable, data, Internet and television businesses and other digital services provided in each country.

Information relating to other Group companies not specifically included in these segments (see the section "Other companies" of Appendix I of the Consolidated Financial Statements) is reported under "Other companies and eliminations", which includes Telxius, holding companies, companies whose main purpose is to provide cross-sectional services to Group companies and other companies.

Telxius' results are fully reported under "Other companies and eliminations" since January 1, 2017, reflecting the integration within Telxius of the mobile telecommunications towers transferred from the Telefónica Spain, Telefónica Germany, Telefónica Brazil and the old Telefónica Hispanoamérica segments and the international submarine fiber optic cable (which had already been previously reported under "Other companies and eliminations"). The 2016 comparative segment results have been revised accordingly in Telefónica's consolidated financial statements for the year ended December 31, 2017. Based on the different dates on which assets were contributed to Telxius by each operating segment, this affected the results of Telefónica Spain (since January 1, 2016), Telefónica Germany (since May 1, 2016), Telefónica Brazil (since April 1, 2016) and the old Telefónica Hispanoamérica segment (Telefónica Peru since April 1, 2016 and Telefónica Chile since May 1, 2016, both of which are currently part of Telefónica Hispam Sur). The results of the segments do not include the intra-group capital gains resulting from the transfer of towers to Telxius.

In addition, from 2017 Telefónica Spain includes the companies Telefónica Studios and Telefónica Servicios Audiovisuales (which were previously reported under "Other companies and eliminations"), and Telefónica Spain and Telefónica Hispanoamérica include the results of the data center business in Spain and Chile, respectively (which were previously reported under "Other companies and eliminations"). As a consequence, the 2016 comparative segment results have been revised accordingly in Telefónica's consolidated financial statements for the year ended December 31, 2017.

The Group centrally manages borrowing activities, mainly through Telefónica, S.A. and other companies included in "Other companies" (see Note 17, Appendix III and Appendix V of the Consolidated Financial Statements), so most of the Group's financial assets and liabilities are reported under "Other companies and eliminations". In addition, Telefónica, S.A. is the head of the Telefónica tax group in Spain (see Note 22 to the Consolidated Financial Statements). Therefore, a significant part of the deferred tax assets and liabilities is included under "Other companies and eliminations". For these reasons, the results of the segments are disclosed up to operating income.

Revenue and expenses arising from intra-group invoicing for the use of the trademark and management services were eliminated from the operating results of each Group segment. These adjustments had no impact on the Group's consolidated results. In addition, segment reporting considers the impact of the purchase price allocation to the assets acquired and the liabilities assumed by the companies included in each segment. The assets and liabilities presented in

each segment are those managed by the heads of each segment, regardless of their legal structure.

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The following chart shows the organizational structure of the principal subsidiaries of the Telefónica Group at December 31, 2018, including their jurisdictions of incorporation and our ownership interest. For further detail, see Exhibit 8.1 to this Annual Report.

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Telefónica, S.A., the parent company of the Telefónica Group, operates as a holding company with the following objectives:

- coordinate the Group's activities;
- allocate resources efficiently among the Group;
- provide managerial guidelines for the Group;
- manage the Group's portfolio of businesses;
- foster cohesion within the Group; and
- foster synergies among the Group's subsidiaries.

Our principal executive offices are located at Distrito Telefónica, Ronda de la Comunicación, s/n, 28050 Madrid, Spain, and our registered offices are located at Gran Vía, 28, 28013 Madrid, Spain. Our telephone number is +34 900 111 004.

Capital Expenditures

Our principal capital expenditures during the three years ended December 31, 2018, consisted of additions to property, plant and equipment and additions to intangible assets, including spectrum. In 2018, 2017 and 2016, we made capital expenditures of 8,119 million euros, 8,697 million euros and 8,928 million euros, respectively.

Year ended December 31, 2018

Capital expenditures in 2018 decreased 6.6% compared to 2017. Capital expenditures in 2018 included the cost of spectrum mainly in United Kingdom, Mexico, Spain and Argentina, amounting to 868 million euros.

Investment by Telefónica Spain amounted to 1,719 million euros and was primarily focused on rapid fiber optic rollout, exceeding 21 million premises passed by year-end 2018, investments in LTE network, with a 96% population coverage, and transport network transformation. Investment by Telefónica United Kingdom in 2018 amounted to 1,464 million euros and was mainly focused on enhancing the LTE navigation experience, achieving 99% population coverage by year-end 2018, and also pursuing the improvement of network capacity and quality of customer experience. Investment by Telefónica Germany in 2018 amounted to 966 million euros and was focused on extension of LTE coverage, achieving a population coverage of 88% by year-end 2018. Investment by Telefónica Brazil in 2018 amounted to 1,910 million euros and was mainly dedicated to extend the coverage and capacity of LTE mobile networks, the deployment and connection of fiber network in the fixed business as well as network integration and simplification of processes and systems. Investment by Telefónica Hispam Norte in 2018 amounted to 668 million euros and was mainly focused on improving the coverage and capacity of LTE networks and ultra-broadband fixed capabilities (fiber / HFC) in Colombia and processes and systems simplification and digitalization in the region. Investment by Telefónica Hispam Sur in 2018 amounted to 1,116 million euros and was mainly focused on improving the coverage and capacity of LTE networks and ultra-broadband fixed capabilities (fiber / HFC).

Year ended December 31, 2017

Capital expenditures in 2017 decreased 2.6% compared to 2016. Capital expenditures in 2017 included the cost of spectrum mainly in Colombia, Uruguay and Costa Rica, amounting to 538 million euros.

Investment by Telefónica Spain amounted to 1,683 million euros and was primarily focused on rapid fiber optic rollout, exceeding 19 million premises passed by year-end 2017, together with investments in the LTE network, with a 97% population coverage, and transport network modernization. Investment by Telefónica United Kingdom in 2017 amounted to 827 million euros and was mainly focused on increasing LTE coverage, achieving 99% population coverage by year-end 2017, and also pursuing the improvement of network capacity and quality of customer experience. Investment by Telefónica Germany in 2017 amounted to 951 million euros and was focused on network integration in order to enhance customer experience and to capture integration synergies and further LTE network rollout achieving a population coverage of 82% by year-end 2017. Investment by Telefónica Brazil in 2017 amounted to 2,225 million euros and was mainly dedicated to extend the coverage and capacity of 4G and 3G mobile networks, the deployment and connection of fiber network in the fixed business as well as network integration and simplification of processes and systems. Investment by Telefónica Hispam Norte in 2017 amounted to 1,264 million euros and was mainly focused

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on the coverage and capacity of 4G and 3G networks and the simplification and digitalization of processes and systems. Investment by Telefónica Hispam Sur in 2017 amounted to 1,414 million euros and was mainly focused on improving the rollout of ultra-broadband fixed capabilities (fiber / HFC), the coverage and capacity of 4G and 3G networks, and the simplification and digitalization of processes and systems.

Year ended December 31, 2016

Capital expenditures in 2016 decreased 14.7% compared to 2015. Capital expenditures in 2016 included the cost of spectrum mainly in Peru and Brazil, amounting to 345 million euros.

Investment by Telefónica Spain amounted to 1,852 million euros and was primarily focused on rapid fiber optic rollout, together with investments in the LTE network, reaching a 96% population coverage, and transport network modernization. Investment by Telefónica United Kingdom in 2016 amounted to 931 million euros and was mainly focused on increasing LTE coverage, achieving 95% population coverage by year-end 2016 and also, pursuing the improvement of network capacity. Investment by Telefónica Germany in 2016 amounted to 1,107 million euros, with LTE rollout being the company's main focus, achieving a coverage of 79% by year-end 2016, and network consolidation activities, aimed at allowing to enhance customer experience and to capture integration synergies. Investment by Telefónica Brazil in 2016 amounted to 2,137 million euros and was mainly dedicated to extend the coverage and capacity of 4G and 3G mobile networks, as well as improving network quality, and the deployment and connection of fiber network in the fixed business. Investment by Telefónica Hispam Norte in 2016 amounted to 878 million euros and was mainly focused on improving the coverage and capacity of 3G and the digitalization of processes and systems. Investment by Telefónica Hispam Sur in 2016 amounted to 1,737 million euros and was mainly focused on the coverage and capacity of 4G and 3G networks, the rollout of ultra-broadband fixed capabilities (fiber / HFC) and the quality enhancement in broadband and TV services.

Financial Investments and Divestitures

There were no significant financial investments in 2018. Our principal financial divestitures in 2018 were: (i) the transfer to a subsidiary of the Pontegadea Group of 16.65% of the share capital of Pontel (which owns 60% of Telxius), equivalent to a 9.99% economic interest in the share capital of Telxius, for an amount of 378.8 million euros; (ii) the agreement of sale entered into with Grupo Catalana Occidente for 100% in the share capital of Antares for a total amount of 161 million euros.

Our principal financial investments in 2017 were: (i) the swap agreement with KPN pursuant to which we agreed to deliver 72.0 million Telefónica shares held in treasury in exchange for 178.5 million shares in our subsidiary Telefónica Deutschland held by KPN, representing 6.0% of the share capital of Telefónica Deutschland, and (ii) our pro-rata participation in the two capital increases completed by ColTel in 2017. Our principal financial divestiture in 2017 was the sale of 40% of the share capital of Telxius for 1,275 million euros to KKR. Telefónica retained control over Telxius. We also divested Telefónica treasury shares as a result of the swap agreement referred to above.

There were no significant financial investments in 2016. Our principal financial divestiture in 2016 was the sale of Telefé, which was completed on November 11, 2016, for 345 million U.S. dollars (approximately 322 million euros) and the sale on July 10, 2016 of 361,794,559 shares of China Unicom (Hong Kong) Limited (“China Unicom”), representing 1.51% of the share capital of the company, at a price of 7.80 Hong Kong dollars per share for a total amount of 2,822 million Hong Kong dollars, approximately 322 million euros.

Active portfolio management is part of Telefónica’s strategy and therefore it may undertake transactions involving its or its subsidiaries' shares, including transactions similar to those undertaken in the 2016-2018 period or otherwise, at any time. See “—Recent Developments” below for information on certain divestitures undertaken in 2019.

Public Takeover Offers

Not applicable.

Recent Developments

The principal events that have occurred since December 31, 2018, are set forth below:

On January 23, 2019, Telefónica announced that Telefónica UK Limited had agreed non-binding heads of terms with Vodafone Limited to strengthen their existing network sharing partnership in the United Kingdom. The parties plan to extend the term of their existing network sharing partnership and include 5G capacity at joint radio network sites, and to upgrade transmission networks to support 5G technology. They also intend

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to devolve more activities to their joint venture company, Cornerstone Telecommunications Infrastructure Limited (CTIL), which manages passive tower infrastructure.

On January 23, 2019, Telefónica announced that it was notified of a resolution issued by the Spanish Central Economic-Administrative Tax Court (Tribunal Económico-Administrativo Central) partially upholding the claims filed against the assessments relating to the 2008-2011 Corporate Income Tax Audit. Final execution on this resolution will most likely lead to a tax refund related to overpayments made by the company in those tax years. This resolution is not final. At this point in time, it is not possible to quantify the exact amount of the expected refunds since, as pointed out by the Central Economic-Administrative Court's resolution, the final amount shall only be settled once the resolution is duly executed by the Spanish Tax Authorities.

On January 24, 2019, Telefonica Centroamérica Inversiones, S.L. (60% of which is owned, directly and indirectly, by Telefonica and 40% of which is owned by Corporación Multi Inversiones), reached an agreement with América Móvil, S.A.B. de C.V. for the sale of the entire share capital of Telefónica Móviles Guatemala, S.A. and 99.3% of Telefónica Móviles El Salvador, S.A. de C.V. The closing of the Telefónica El Salvador sale is subject to applicable regulatory conditions while the sale of Telefónica Móviles Guatemala was completed on such date.

The aggregate consideration for both companies (enterprise value) is 648 million US dollars (approximately 570 million euros at the exchange rate on the date of the agreement, 293 million of which correspond to Telefónica Móviles Guatemala and 277 million of which correspond to Telefónica Móviles El Salvador).

On February 5, 2019, Telefónica Emisiones, S.A.U. issued under its Guaranteed Euro Program for the Issuance of Debt Instruments ("EMTN Program") notes in the Euro market guaranteed by Telefónica, S.A., amounting to 1,000 million euros. These notes are due on February 5, 2024, pay an annual coupon of 1.069% and were issued at par (100%). The net proceeds of the notes are to be allocated towards projects aiming to improve energy efficiency in the network transformation from copper to fiber optic in Spain.

On February 8, 2019, Telefónica announced that, within the framework of its portfolio management policy, based on a strategy of value creation and strategic positioning, it is studying the potential sale of some of its Data Centers, which may result in one or several transactions, related to either all or some of those assets.

On February 14, 2019, once the pertinent regulatory approvals were obtained, Telefónica transferred to Grupo Catalana Occidente 100% of Antares' share capital for a total amount of 161 million euros. On the closing of the sale, Telefónica and Grupo Catalana Occidente executed an agreement pursuant to which Grupo Catalana Occidente will continue to manage the insurance policies of the Telefónica Group on an exclusive basis for the next 10 years.

On February 20, 2019, Telefónica reached an agreement with Millicom International Cellular, S.A. for the sale of the entire share capital of Telefónica de Costa Rica TC, S.A., and for the sale by Telefónica's subsidiary Telefonica Centroamérica Inversiones, S.L. (60% of which is owned, directly and indirectly, by Telefónica and 40% of which is owned by Corporación Multi Inversiones) of the entire share capital of Telefónica Móviles Panamá, S.A. and Telefónica Celular de Nicaragua, S.A. The closing of the sale of these three companies is subject to the applicable regulatory conditions and will take place for each transaction once those conditions are satisfied.

The aggregate amount of the transaction (enterprise value) for the three companies is 1,650 million dollars (approximately 1,455 million euros at the current exchange rate, 503 million of which correspond to Telefónica Costa Rica, 573 million to Telefónica Panama and 379 million to Telefónica Nicaragua).

For more information related to our significant financing transactions in 2019, see "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Anticipated Sources of Liquidity".

Public Information

The SEC maintains an Internet site (www.sec.gov) that contains reports and other information regarding issuers that file electronically with the SEC, including Telefónica. See "Item 10. Additional Information—Documents on Display". Additional information on the Group is also available on our website at www.telefonica.com. The information contained on such websites does not form part of this Annual Report on Form 20-F.

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B. Business Overview

Telefónica is one of the world's leading communications service providers. Our objective is to create, protect and promote fixed and mobile connections for our customers helping them to take control over their digital lifestyle. Therefore, we primarily offer our customers the connectivity they need to interact and live in the markets where we operate through simple products and services while protecting their data and managing it in a responsible way. We rely on modern technology to create a better and more inclusive society. We aim at offering our customers the possibility to reach the digital world regardless of their location, economical status, level of digital knowledge and capacities.

The organizational structure approved by the Board of Directors of Telefónica, S.A. on January 31, 2018 is made up of the following segments: Telefónica Spain, Telefónica United Kingdom, Telefónica Germany, Telefónica Brazil, Telefónica Hispam Norte (formed by the Group's operators in Colombia, Mexico, Venezuela, Central America and Ecuador) and Telefónica Hispam Sur (formed by the Group's operators in Argentina, Chile, Peru and Uruguay). These segments include the information related to the fixed, wireless, cable, data, Internet and television businesses and other digital services provided in each country. Information relating to other Group companies not specifically included in these segments is reported under "Other companies and eliminations". Telxius' results are fully reported under "Other companies and eliminations" since January 1, 2017, reflecting the integration within Telxius of the mobile telecommunications towers transferred from Telefónica Spain, Telefónica Germany, Telefónica Brazil and Telefónica Hispam Sur (Telefónica Peru and Telefónica Chile) segments and the international submarine fiber optic cable (which had already been previously reported under "Other companies and eliminations").

The Telefónica Group's strategy aims to:

Enhance value through:

• Offering good connectivity, for which our infrastructure management and our continuous investment in network and platforms are key.

• Good connectivity is the enabler for all digital services. Telefónica provides a wide range of services over connectivity through a fixed and mobile bundled offer which includes video and digital services. We offer our customers additional data in order to amplify services through unique, simple and clear offers.

With the following enablers:

• End-to-end digitalization: seeking the reduction of our legacy investments to increase virtualization, the reduction of physical servers, data centers and applications, the digitalization of IT systems and processes and the digitalization of front and back office, in order to be able to offer a true digital experience to our customers.

• Big data and innovation to add value to our customers and return the control over data to our customers.

• Continued focus on capital allocation in our legacy investments and the simplification of processes in order to continue investing.

• Digital trust: as we manage ever more personal information about our customers, their trust in us is key. Telefónica seeks a relationship of trust with its customers, and therefore we invest in network security. Telefónica is developing tools to protect information in end user devices and communications, fixed and mobile, networks, as well as to protect customers' digital identity.

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2018 highlights

2018 was characterized by positive growth in OIBDA Margin and operating cash flow (OIBDA-CapEx excluding acquisitions of spectrum), up by 0.9 percentage points and by 3.6% respectively year-on-year in reported terms. Furthermore, the Company continued its transformation process with 50.5 million premises passed ready to use FTTx. Additionally, the LTE coverage reached 76.0% as of December 31, 2018 (+3.6 percentage points year-on-year). The capex over revenues ratio reached 16.7%. The Company closed the year with a total of 356.2 million accesses (down 0.5% year-on-year), mainly as a result of the decrease in prepay and fixed voice. In line with our strategic focus to grow in high-value customers, post-pay customers grew by 6.8% year-on-year, reaching 123.8 million customers, while UBB customers reached 13.2 million customers at December 31, 2018, representing a 20.5% increase year-on-year.

In 2018, revenues totaled 48,693 million euros, down 6.4% compared to 2017 in reported terms (+2.4% in organic terms). OIBDA totaled 15,571 million euros in 2018, down 3.8% in reported terms as compared to 2017. In organic terms, OIBDA was up 3.5%, mainly due to the positive evolution in Telefónica Brazil, Telefónica United Kingdom and Telefónica Hispam Sur, which offset the lower OIBDA in Telefónica Spain, Telefónica Hispam Norte and Telefónica Germany. In 2018, operating income was 6,522 million euros, down by 4.0% as compared to 2017 in reported terms (+6.3% in organic terms), which included depreciation and amortization of 9,049 million euros, down by 3.7% as compared to 2017 in reported terms. See “—2018/2017 Consolidated results—Adjustments made to calculate organic variations” for an explanation on how organic variations are calculated.

Telefónica’s total accesses reached 356.2 million as of December 31, 2018, decreasing by 0.5% year-on-year, mainly as a result of the reduction of the prepay base in Telefónica Brazil (-14.2% year-on-year) and Telefónica Hispam Sur (-7.5% year-on-year) due to the strong market competition and, to a lesser extent, in Telefónica Germany (-6.1% year-on-year), as a result of the adoption of the requirement that identification be provided by customers for pre-paid SIM cards since July 2017. During 2018, the relative weight of high value services continued to increase, as reflected in the sustained growth of post-pay (smartphones and LTE), fiber and Pay TV accesses.

The below table shows the evolution of accesses over the past two years as of December 31 of such years:

ACCESSES

| Thousands of accesses | 2017 | 2018 | %Reported YoY | |
|--------------------------------|-----------|-----------|---------------|----|
| Fixed telephony accesses (1) | 36,898.6 | 34,941.4 | (5.3 | %) |
| Internet and data accesses (2) | 21,864.6 | 22,087.5 | 1.0 | %) |
| Broadband (3) | 21,417.5 | 21,645.2 | 1.1 | %) |
| FTTx/Cable | 10,961.6 | 13,213.1 | 20.5 | %) |
| Mobile accesses | 271,766.9 | 270,814.9 | (0.4 | %) |
| Prepay | 155,868.5 | 147,062.0 | (5.6 | %) |
| Contract | 115,898.4 | 123,752.9 | 6.8 | %) |
| M2M | 16,137.2 | 19,483.0 | 20.7 | %) |
| Pay TV | 8,467.7 | 8,875.4 | 4.8 | %) |
| Final Clients Accesses | 338,997.9 | 336,719.3 | (0.7 | %) |
| Wholesale Accesses | 19,124.9 | 19,520.0 | 2.1 | %) |
| Fixed wholesale accesses | 4,460.2 | 3,951.5 | (11.4 | %) |
| Mobile wholesale accesses (4) | 14,664.7 | 15,568.5 | 6.2 | %) |
| Total Accesses | 358,122.8 | 356,239.4 | (0.5 | %) |

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

(3) Includes DSL, satellite, optic fiber, cable modem and broadband circuits.

(4) Mobile wholesale accesses information has been included in total accesses since the first quarter 2018. 2017 figures have been revised accordingly for comparative purposes.

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The below table shows the evolution of accesses by segment:

| | YoY variation | % Over | |
|---------------------------|---------------|--------|-------|
| | | Total | |
| Accesses 2018 | | 2017 | 2018 |
| Telefónica Spain | 1.4% | 11.4% | 11.7% |
| Telefónica United Kingdom | 1.5% | 9.1% | 9.3% |
| Telefónica Germany | (1.1%) | 13.3% | 13.2% |
| Telefónica Brazil | (2.7%) | 27.3% | 26.8% |
| Telefónica Hispam Norte | 1.4% | 20.3% | 20.6% |
| Telefónica Hispam Sur | (2.6%) | 16.3% | 16.0% |
| Other companies | 8.8% | 2.3% | 2.5% |

Mobile accesses totaled 270.8 million at December 31, 2018, down 0.4% compared to December 31, 2017. Lower prepaid accesses (-5.6% year-on-year) more than offset the increase in mobile contract accesses, which grew by 6.8% year-on-year and continued increasing their weight over total mobile accesses reaching 45.7% (+3.1 percentage points year-on-year).

Smartphone accesses grew by 5.7% year-on-year, totaling 167.7 million accesses and representing 67.5% of total mobile accesses (+4.5 percentage points year-on-year), reflecting the Company's strategic focus on its data services growth.

Fixed broadband accesses stood at 21.6 million at December 31, 2018, up 1.1% year-on-year. Fiber accesses stood at 13.2 million at December 31, 2018 compared to 11.0 million in 2017, growing 20.5% year-on-year.

Pay TV accesses totaled 8.9 million at December 31, 2018, growing 4.8% year-on-year, due to the growth in Telefónica Spain (6.3% year-on-year) and Telefónica Peru (+11.8% year-on-year).

The table below shows the evolution of our estimated access market share for mobile and fixed broadband for the past two years.

Competitive Position Evolution

| | Mobile | |
|-----------------|-----------|-------|
| | Market | |
| | Share (1) | |
| Telefónica | 2017 | 2018 |
| Spain | 29.3% | 29.7% |
| United Kingdom | 26.3% | 26.3% |
| Germany | 36.9% | 36.7% |
| Brazil | 31.7% | 31.9% |
| Argentina | 32.8% | 31.4% |
| Chile | 32.2% | 29.7% |
| Peru | 36.8% | 34.6% |
| Colombia | 24.4% | 24.6% |
| Venezuela | 39.1% | 40.9% |
| Mexico | 22.0% | 21.6% |
| Central America | 28.4% | 26.7% |
| Ecuador | 30.0% | 29.8% |
| Uruguay | 34.2% | 35.9% |

(1) Internal estimates in both years.

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| | FBB Market Share (1) | |
|------------|-------------------------|-------|
| Telefónica | 2017 | 2018 |
| Spain | 40.6% | 40.4% |
| Brazil | 26.5% | 24.4% |
| Argentina | 24.1% | 22.0% |
| Chile | 34.6% | 32.9% |
| Peru | 73.9% | 71.6% |
| Colombia | 15.3% | 18.2% |

(1) Internal estimates in both years.

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2018/2017 Consolidated results

In this section, we discuss changes in the Group's consolidated income statements for the years ended December 31, 2018 and 2017. Changes in the Group's consolidated income statements for the years ended December 31, 2017 and 2016 are discussed in a separate section further below.

| Consolidated Results | Year ended December 31 | | | | Variation | |
|--|------------------------|---------------|---------------|---------------|--------------|----------------|
| | 2017 | | 2018 | | 2018 vs 2017 | |
| Millions of euros | Total | % of revenues | Total | % of revenues | Total | % |
| Revenues | 52,008 | 100.0 % | 48,693 | 100.0 % | (3,315) | (6.4 %) |
| Other income | 1,489 | 2.9 % | 1,622 | 3.3 % | 133 | 8.9 % |
| Supplies | (15,022) | (28.9 %) | (14,013) | (28.8 %) | 1,009 | (6.7 %) |
| Personnel expenses | (6,862) | (13.2 %) | (6,332) | (13.0 %) | 530 | (7.7 %) |
| Other expenses | (15,426) | (29.7 %) | (14,399) | (29.6 %) | 1,027 | (6.7 %) |
| OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA) | 16,187 | 31.1 % | 15,571 | 32.0 % | (616) | (3.8 %) |
| OIBDA Margin | 31.1 % | | 32.0 % | | 0.9 p.p. | |
| Depreciation and amortization | (9,396) | (18.1 %) | (9,049) | (18.6 %) | 347 | (3.7 %) |
| OPERATING INCOME | 6,791 | 13.1 % | 6,522 | 13.4 % | (269) | (4.0 %) |
| Share of (loss) income of investments accounted for by the equity method | 5 | 0.0 % | 4 | 0.0 % | (1) | (10.4 %) |
| Net financial expense | (2,199) | (4.2 %) | (955) | (2.0 %) | 1,244 | (56.6 %) |
| PROFIT BEFORE TAX | 4,597 | 8.8 % | 5,571 | 11.4 % | 974 | 21.2 % |
| Corporate income tax | (1,219) | (2.3 %) | (1,621) | (3.3 %) | (402) | 33.0 % |
| PROFIT FOR THE YEAR | 3,378 | 6.5 % | 3,950 | 8.1 % | 572 | 17.0 % |
| Attributable to equity holders of the Parent | 3,132 | 6.0 % | 3,331 | 6.8 % | 199 | 6.4 % |
| Attributable to non-controlling interests | 246 | 0.5 % | 619 | 1.3 % | 373 | n.m. |

n.m.: not meaningful

Adjustments made to calculate organic variations

Year-on-year percentage changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis, by considering a constant perimeter of consolidation and constant average foreign exchange rates and by making certain other adjustments which are described herein.

"Organic" variations should not be viewed in isolation or as an alternative to reported variations.

For purposes of this report, 2018/2017 "organic" variation is defined as the reported variation as adjusted to exclude the impacts detailed below:

Foreign exchange effects and hyperinflation adjustments in Argentina: we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year (using average foreign exchange rates of 2017 for both years), except for Venezuela (in respect of which 2017 and 2018 results were converted at the closing synthetic exchange rate for each period).

Foreign exchange rates had a negative impact on our reported 2018 results, mainly due to the depreciation versus the euro of various Latin American currencies (in particular the Brazilian real and the Argentine peso).

The impact of hyperinflation adjustments in Argentina has been excluded by reversing such adjustments.

Foreign exchange effects and hyperinflation in Argentina decreased revenue growth by 8.8 percentage points and OIBDA growth by 10.3 percentage points in 2018 as compared with 2017.

Changes in the scope of consolidation: we have excluded the impact of changes in our consolidation perimeter in 2018 and 2017. The main changes in our consolidation perimeter in such years related to the

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inclusion of the Colombian companies Telebucaramanga, Metrotel and Optecom in our consolidation perimeter since October 2017. No significant changes took place in the scope of consolidation of the Group in 2018.

To exclude the impact of the mentioned perimeter changes in the calculation of organic variations, the 2017 comparative figures include the results of Telebucaramanga, Metrotel and Optecom for the whole year.

Restructuring costs: we have excluded the impact in 2018 and 2017 of restructuring costs, mainly those related to the first Collective Agreement of Related Companies in Spain (Individual Suspension Plan), restructuring processes relating to Telefónica Germany, Telefónica Brazil, Telefónica Hispam Norte and Telefónica Hispam Sur, and the Group's simplification program in global areas.

The distribution by segment of the restructuring costs, in terms of their impact on OIBDA, is as follows:

| Millions of euros | 2017 | 2018 |
|---------------------------|-------|-------|
| Telefónica Spain | 165 | 297 |
| Telefónica Brazil | — | 46 |
| Telefónica Germany | 82 | 84 |
| Telefónica Hispam Norte | 24 | 18 |
| Telefónica Hispam Sur | 79 | 50 |
| Other companies | (10) | (34) |
| Total restructuring costs | 340 | 461 |

Results of tower sales: the results attributable to the sale of towers in 2018 and 2017 have been excluded.

In 2018, the impact on OIBDA from the sale of towers totaled 51 million euros, which was related mainly to Telefónica Hispam Norte.

In 2017, the impact on OIBDA from the sale of towers totaled 7 million euros and the sales were also related mainly to Telefónica Hispam Norte.

Spectrum acquisition: we have excluded from Capex the impact of spectrum acquisitions in 2018 and 2017.

In 2018, these acquisitions totaled 868 million euros, 588 million euros corresponding to Telefónica United Kingdom, 135 million euros corresponding to Telefónica México, 122 million euros corresponding to Telefónica Spain, 21 million euros corresponding to Telefónica Hispam Sur and 2 million euros corresponding to Telefónica Brazil.

In 2017, these acquisitions totaled 538 million euros, 470 million euros corresponding to Telefónica Colombia, 4 million euros corresponding to Telefónica México, 36 million euros corresponding to Telefónica Central America (21 million euros in Costa Rica and 15 million euros in El Salvador), 27 million euros corresponding to Telefónica Uruguay and 1 million euros corresponding to Telefónica Germany.

Gains or losses on the sale of companies: the gains obtained or losses incurred from the sale of companies have been excluded from calculations of organic variations.

In 2018, the 21 million euros in profit obtained from the sale of Telefónica Digital Ltd. and the loss of 3 million euros incurred in the sale of Centro de Asistencia Telefónica, S.A. have been excluded. In 2017 no results have been recorded related to sales of companies.

Impairment of goodwill: the impairment losses on goodwill are excluded from calculations of organic variations.

In 2018, the impairment of the goodwill allocated to Telefónica Móviles México, amounting to 350 million euros has been excluded. In 2017, no goodwill impairments were recorded.

Judicial decision related to the exclusion of ICMS from the tax basis of PIS/COFINS: the organic variations exclude the positive impact of the judicial decisions of the Brazilian Supreme Court recognizing

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the right to deduct the state tax on goods and services (ICMS) from the calculation of the basis of the Social Integration Program-PIS (Programa de Integração Social) and the Financing of Social Security-COFINS (Contribuição para Financiamento da Seguridade Social). Telefônica Brasil has presented the tax authorities a refund request for the payments of PIS/COFINS affected by the decisions, together with the corresponding default interest. The positive impact in 2018 (789 million euros in the OIBDA of Telefônica Brazil) has been excluded from the calculation of organic variations.

IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") impact: the organic variations exclude the impact of the adoption of IFRS 15 in 2018, which had a negative impact in revenues amounting to 35 million euros and a positive impact in OIBDA amounting to 76 million euros.

Other adjustments: in 2018, the impact of the provision relating to certain labor and tax contingencies in Telefônica Brazil (amounting to 215 million euros) has been excluded. In 2017, the impact of the provision relating to certain regulatory contingencies in Telefônica Brazil (amounting to 50 million euros) and in other Group companies (amounting to 57 million euros), as well as the provisions recorded in Telefônica Spain to optimize the distribution network (in the amount of 13 million euros) have been excluded. In addition, the positive impact of tariff increases in Telefônica Venezuela in the last quarter of 2017 has been excluded (6 million euros in revenues and 2 million euros in OIBDA).

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the consolidated income statement and capital expenditures ("CapEx") and OIBDA-CapEx:

| TELEFÓNICA 2018 | YoY variation | | |
|--------------------|----------------|---------------|----|
| | % Reported YoY | % Organic YoY | |
| Revenues | (6.4) | %)2.4 | % |
| Other income | 8.9 | % 11.7 | % |
| Supplies | (6.7) | %)4.7 | % |
| Personnel expenses | (7.7) | %)0.7 | % |
| Other expenses | (6.7) | %)0.7 | % |
| OIBDA | (3.8) | %)3.5 | % |
| Operating income | (4.0) | %)6.3 | % |
| CapEx | (6.6) | %)1.3 | %) |
| OpCF (OIBDA-CapEx) | (0.5) | %)8.0 | % |

The table below shows the contribution to reported growth of each item considered to calculate the organic variations, as explained above. For each line item, the contribution to reported growth, expressed in percentage points, is the result of dividing the amount of each impact (on a net basis when the impact affects both years) by the consolidated reported figure for the previous year.

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| TELEFÓNICA 2018 | Contribution to reported growth (percentage points) | | | | | | | | | |
|-----------------------|---|---------------------|------------------------|-----------------|-------------------------|--|-------------|-------------------------------------|-----------------|----------------------|
| | Exchange rate effect and hyperinflation | Perimeter change | Restructuring costs | Towers sales | Spectrum acquisition | Capital gains/losses on sale of companies | Impairments | Judicial decisions PIS/COFINS | IFRS impacts | Other adjustments |
| Revenues | (8.8) | 0.1 | — | — | — | — | — | — | (0.1) | (0.0) |
| Other income | (7.2) | 0.2 | — | 3.2 | — | 1.4 | — | — | (0.4) | — |
| Supplies | (5.8) | (0.0) | — | — | — | — | — | — | (5.6) | — |
| Personnel expenses | (10.3) | 0.1 | 1.6 | — | — | — | — | — | (0.0) | 0.2 |
| Other expenses | (9.3) | 0.1 | 0.2 | 0.0 | — | — | 2.3 | (6.1) | 4.7 | 0.8 |
| OIBDA | (10.3) | 0.1 | (0.9) | 0.3 | — | 0.1 | (2.2) | 5.8 | 0.5 | (0.9) |
| Operating income | (17.3) | (0.0) | (2.1) | 0.7 | — | 0.3 | (5.2) | 13.9 | 1.1 | (2.0) |
| CapEx | (9.8) | 0.2 | — | — | 4.1 | — | — | — | — | — |
| OpCF (OIBDA-CapEx) | (10.8) | (0.0) | (1.9) | 0.6 | (4.8) | 0.2 | (4.7) | 12.6 | 1.0 | (1.9) |
| Results discussion | | | | | | | | | | |

Revenues totaled 48,693 million euros in 2018, decreasing 6.4% as compared to 2017 in reported terms, impacted by the negative evolution in foreign exchange rates and hyperinflation in Argentina (-8.8 percentage points). In organic terms (for additional information on organic variations, see "—Adjustments made to calculate organic variations" above), revenues increased by 2.4% driven by the higher service revenues (+1.0% year-on-year) and the good performance of handset revenues (+18.8% year-on-year). The structure of revenues reflects Telefónica's business diversification. The segment with the largest contribution to our revenues is Telefónica Spain, representing 26.1% (+1.8 percentage points compared to 2017), followed by Telefónica Brazil representing 20.8% (down 2.3 percentage points compared to 2017), Telefónica Germany representing 15.0% (+1.0 percentage points compared to 2017), Telefónica United Kingdom representing 13.9% (+1.4 percentage points compared to 2017), Telefónica Hispam Sur representing 13.7% (-2.1 percentage points compared to 2017) and Telefónica Hispam Norte representing 8.4% (stable year-on-year).

Mobile business revenues totaled 30,792 million euros in 2018 (of which 25,684 million euros corresponded to service revenues and 5,108 million euros corresponded to handset revenues), down 6.2% year-on-year in reported terms. This decrease was mainly due to the impact of changes in foreign exchange rates and hyperinflation in Argentina (-9.1 percentage points). The adoption of IFRS 15 had a negative impact of 0.1 percentage points. In organic terms, revenues from the mobile business grew by 3.9% due to higher revenues in Telefónica Hispam Sur, Telefónica Spain, Telefónica United Kingdom and Telefónica Brazil despite the adverse impact of regulatory restrictions in some operators of the group, mainly those related to MTRs.

Mobile service revenues, which include mobile data revenues, totaled 25,684 million euros in 2018, down 10.4% year-on-year in reported terms mainly due to the impact of changes in foreign exchange rates and hyperinflation in Argentina (which contributed 9.2 percentage points to the decrease) and the adoption of IFRS 15 (which contributed 2.0 percentage points to the decrease). Excluding these impacts, mobile service revenues grew by 1.7% as a result of higher data consumption.

Fixed revenues totaled 16,734 million euros in 2018, down 8.7% year-on-year in reported terms mainly due to the impact of changes in foreign exchange rates and hyperinflation in Argentina (which contributed 8.6 percentage points to the decrease). Excluding this impact and the impact of the adoption of IFRS 15 (+0.2 percentage points), fixed revenues decreased by 0.8%, affected mainly by the evolution of Telefónica Brazil where the increase in fiber revenues did not fully offset the decrease in revenues in the traditional business.

Other income totaled 1,622 million euros in 2018, up 8.9% year-on-year in reported terms, and mainly included own work capitalized in our fixed assets, profit from the sale of other assets (in particular, the profit from the sale of Telefónica Digital Ltd amounting to 21 million euros in 2018 and the profit from the sales of towers, which amounted

to 51 million euros in 2018, compared to 7 million euros in 2017).

Total expenses, which include supply costs, personnel costs and other expenses (principally external services and taxes) but do not include amortization and depreciation expenses, were 34,744 million euros in 2018, down 6.9% year-on-year in reported terms. This decrease was mainly attributable to the impact of changes in foreign

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exchange rates and hyperinflation in Argentina (-8.1 percentage points). In organic terms, total expenses increased by 2.3% due to higher supplies. These costs are explained in greater detail below:

Supplies amounted to 14,013 million euros in 2018, down 6.7% year-on-year in reported terms mainly as a result of the impact of foreign exchange rates and hyperinflation in Argentina (-5.8 percentage points) and the impact of the adoption of IFRS 15 (-5.6 percentage points). In organic terms, supplies expenses increased by 4.7% year-on-year, mainly due to the intense competition in the European markets, where the Group incurred higher handset costs and the impact of RLaH (Roaming Like at Home) regulation in Europe (which is in effect since June 15, 2017), which resulted in higher traffic. These higher costs more than offset the reduction in interconnection costs in several countries in Latin America.

Personnel expenses amounted to 6,332 million euros in 2018, down 7.7% year-on-year in reported terms mainly as a result of the impact of changes in foreign exchange rates and hyperinflation in Argentina (-10.3 percentage points). In organic terms, personnel costs were in line with 2017 (+0.7% year-on-year), as savings in Telefónica Spain and Telefónica Germany were offset by the increase in personnel expenses in some countries in Latin America as a result of inflation.

The average headcount was 121,853 employees in 2018, down 2.8% as compared to 2017.

Other expenses amounted to 14,399 million euros in 2018, down 6.7% year-on-year in reported terms. This decrease was mainly attributable to the impact of foreign exchange rates and hyperinflation in Argentina (-9.3 percentage points) and to the impact of the judicial decision related to the exclusion of ICMS from the tax basis of PIS/COFINS (-6.1 percentage points), offset in part by the increase in expenses resulting from the adoption of IFRS 15, the impairment of goodwill in Telefónica Hispam Norte (relating to Telefónica Móviles México) and higher provisions for labor and tax contingencies in Brazil. In organic terms, other expenses increased by 0.7% year-on-year.

OIBDA was 15,571 million euros in 2018, down 3.8% in reported terms, mainly due to the negative impact of foreign exchange rates and hyperinflation in Argentina (-10.3 percentage points), the impairment in 2018 of the goodwill allocated to Telefónica Móviles México amounting to 350 million euros (-2.2 percentage points), the higher restructuring costs incurred in 2018 compared to 2017 (-0.9 percentage points) and certain provisions relating to labor and tax contingencies in Brazil totaling 215 million euros (-0.9 percentage points), which more than offset the positive impact of the judicial decision of the Brazilian Supreme Court that the ICMS should not be included on the tax basis of the PIS/COFINS (+5.8 percentage points) and the increased sale of towers (+0.3 percentage points).

In organic terms, OIBDA grew by 3.5% mainly due to the positive evolution of revenues and the continuous effort to contain costs.

OIBDA margin stood at 32.0% in 2018, up 0.9 percentage points compared to 2017 in reported terms.

By segments, the main contributors to the Group's OIBDA were: Telefónica Spain with 30.6% (in line with 2017) and Telefónica Brazil with 27.7% (+1.8 percentage points compared to 2017), followed by Telefónica United Kingdom with 12.0% (+1.9 percentage points compared to 2017), Telefónica Germany with 11.8% (+0.5 percentage points compared to 2017), Telefónica Hispam Sur with 11.0% (-3.0 percentage points compared to 2017 due to the evolution in Peru and Argentina), and Telefónica Hispam Norte with 5.1% (-2.7 percentage points compared to 2017).

Depreciation and amortization amounted to 9,049 million euros in 2018, down 3.7% year-on-year in reported terms, mainly due to the impact of foreign exchange rates and hyperinflation in Argentina (-5.1 percentage points) and higher amortization in Telefónica Germany and Telefónica Brazil.

Operating income (OI) in 2018 totaled 6,522 million euros, down 4.0% in reported terms (up 6.3% in organic terms) as compared to 2017.

The share of income (loss) of investments accounted for by the equity method for 2018 was a gain of 4 million euros (compared to a gain of 5 million euros in 2017).

Net financial results amounted to 955 million euros in 2018, 1,244 million lower than the previous year, mainly due to the non-recurring effect of interests associated with favorable rulings in court in Brazil and, to a lesser extent, savings due to the reduction of the debt and its cost.

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Corporate income tax amounted to 1,621 million euros in 2018. Considering a profit before taxes of 5,571 million euros, the effective tax rate stood at 29.1%, compared to an effective tax rate of 26.5% in 2017. This increase was mainly the result of the cancellation of tax credits in Mexico in 2018 and the higher proportion of deferred taxes in 2017.

As a result, profit for the year attributable to equity holders of the parent for 2018 was 3,331 million euros (3,132 million euros in 2017).

Profit attributable to non-controlling interest was 619 million euros, 373 million euros higher than in 2017, mainly due to the increase in the profit attributable to minority interests at Telefónica Brazil, Telefónica Germany, and at Telxius (after the sale of 40% of the share capital of such company in the last quarter of 2017 and a further 9.99% sale in the third quarter of 2018).

2018/2017 Segment results

TELEFÓNICA SPAIN

The below table shows the evolution of accesses in Telefónica Spain over the past two years as of December 31 of such years:

ACCESSES

| Thousands of accesses | 2017 | 2018 | %Reported YoY | |
|--------------------------------|----------|----------|------------------|----|
| Fixed telephony accesses (1) | 9,304.7 | 9,029.1 | (3.0 | %) |
| Internet and data accesses (2) | 6,039.6 | 6,129.6 | 1.5 | % |
| Broadband | 6,020.3 | 6,113.5 | 1.5 | % |
| FTTH | 3,423.7 | 3,940.6 | 15.1 | % |
| Mobile accesses | 17,576.5 | 18,384.4 | 4.6 | % |
| Prepay | 1,793.4 | 1,440.1 | (19.7 | %) |
| Contract | 15,783.1 | 16,944.3 | 7.4 | % |
| M2M | 2,015.6 | 2,333.2 | 15.8 | % |
| Pay TV | 3,847.6 | 4,091.3 | 6.3 | % |
| Final Clients Accesses | 36,768.5 | 37,634.4 | 2.4 | % |
| Wholesale Accesses | 4,221.1 | 3,912.9 | (7.3 | %) |
| Total Accesses | 40,989.6 | 41,547.3 | 1.4 | % |

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

In 2018, commercial activity continued to leverage on the differentiated assets of the Company, principally through the convergent offer (which means the offer of more than a single service for a single price) "Movistar Fusión+" and through the "Más por Más" strategy. The Company continued to modify the above mentioned offer and to adapt it to incremental customer demand, mainly through: i) an increase in data to all mobile lines offered in "Movistar Fusión"; and ii) the doubling of fiber speed, from 50 Mb to 100 Mb in low speed bundles, and from 300 Mb to 600 Mb in high speed bundles. In addition, in June 2018, a new operator of the Group was created in Spain, O2, to respond to a customer segment that demands only voice services and which requires a simple offer with a premium service. The new operator targets this premium service segment with a simple offer which consists of two tariffs: mobile and fiber-mobile. Additionally, in late October 2018, Telefónica launched a new "Movistar Fusión" portfolio, which seeks, on one hand, to simplify and reduce the number of offers available to customers, which decreased from ten to six, and, on the other hand, to facilitate access to what is among the most requested content by our customers, namely, football (soccer). Finally, in December 2018, the Company added Netflix to its offer, and created new packages with more GBs and an additional mobile line.

Telefónica Spain had 41.5 million accesses as of December 31, 2018 (+1.4% compared to December 31, 2017), changing the downward trend of previous years, mainly as a result of the increase in higher value accesses: mobile contract accesses, fiber accesses and TV accesses.

The consumer convergent offer had a customer base of 4.6 million customers with 4.7 million additional wireless lines associated with such customer base as of December 31, 2018, increasing by 4.2% and 27.0% year-on-year,

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respectively, and contributing 87.6% of the fixed retail broadband customer base (+2.1 percentage points year-on-year) and 83.9% of the wireless contract customer base (+4.5 percentage points year-on-year). There was significant growth in the penetration of the high value services of the convergent offer, with 39.5% of the customer base already using 600 Mb ultra-fast broadband (+1.1 percentage points year-on-year) and 80.4% of the customer base having Pay TV as of December 31, 2018 (+4.8 percentage points year-on-year), as well as growth in mobile lines (each main Fusión package had 2.0 mobile lines on average compared to 1.8 in 2017). In 2018, the consumer "Movistar Fusión" convergent offer churn stood at 1.5%, the same as last year despite the high commercial competition in the market during the year.

Fixed accesses decreased 3.0% year-on-year, with a net loss of 276 thousand accesses in 2018.

Retail broadband accesses increased by 93.2 thousand accesses in 2018, totaling 6.1 million accesses (+1.5% year-on-year) due to the increase in gross adds (+13.8% year-on-year) and churn stability (1.7%, +0.02 percentage points year-on-year).

Fiber accesses showed a good evolution in terms of net adds, reaching 3.9 million customers at December 31, 2018 (up 15.1% compared to December 31, 2017), representing 64.5% of broad band accesses (+7.6 percentage points year-on-year), with 516.9 thousand new accesses in 2018. Ultra-speed fiber accesses with 600 Mb (with higher ARPU) reached 2.4 million accesses (60.2% of total fiber accesses). At December 31, 2018 the fiber deployment reached 21.3 million premises, 2.1 million more than at December 31, 2017, and continues to be the largest in Europe.

Total mobile accesses stood at 18.4 million as of December 31, 2018, increasing by 4.6% compared to December 31, 2017, as a result of the increase in contract accesses, which more than offset the decrease in prepay accesses (-19.7% year-on-year), reflecting the success of the convergent offer and the positive evolution of the prepay to postpay migration in the third and fourth quarters of 2018. The contract access base accelerated its growth during 2018, growing by 7.4% year-on-year. Smartphone penetration as of December 31, 2018 stood at 80.5% of the mobile voice base (+4.1 percentage points year-on-year) and significantly boosted data traffic growth to 68.1% year-on-year due to the higher number of customers with superior data packages.

LTE network rollout continued to progress well, and coverage reached approximately 97.7% of the population (based on the calculation criteria used by competitors (pursuant to which all inhabitants of the cities that have some LTE coverage are considered)) at December 31, 2018, increasing by 0.7 percentage points compared to 2017. The LTE customer base reached 8.8 million customers as of December 31, 2018, +15.1% compared to December 31, 2017 with penetration of 55.1% (+5.7 percentage points year-on-year) over the total mobile base.

Pay TV accesses reached 4.1 million at the end of 2018, growing by 6.3% compared to December 31, 2017 driven by the inclusion of TV services in all "Fusión" portfolio convergent packages since July 2017 and the good performance of such packages in 2018.

Wholesale accesses stood at 3.9 million at the end of 2018, decreasing by 7.3% year-on-year. However, the net adds of NEBA (New Ethernet Broad Band Service for Wholesale) and fiber accesses increased to 1.5 million accesses, representing 38.9% of the total wholesale accesses (+18.8 percentage points year-on-year), reflecting the positive evolution of the network due to the use of superior technologies.

The table below shows Telefónica Spain's results over the past two years:

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Millions of euros

| TELEFÓNICA SPAIN | 2017 | 2018 | % Reported YoY | % Organic YoY (3) | |
|-------------------------------|----------|----------|-------------------|----------------------|---------|
| Revenues | 12,653 | 12,706 | 0.4 | % 0.4 | % |
| Consumer (1) | 6,602 | 6,689 | 1.3 | % 1.3 | % |
| Fusion | 4,470 | 4,795 | 7.3 | % 7.3 | % |
| Out of Fusion | 2,132 | 1,894 | (11.2) | %(11.2) | %(11.2) |
| Corporate | 3,401 | 3,462 | 1.8 | % 1.8 | % |
| Communications | 2,631 | 2,602 | (1.1) | %(1.1) | %(1.1) |
| IT | 770 | 860 | 11.6 | % 11.6 | % |
| Others (2) | 2,271 | 2,169 | (4.5) | %(4.5) | %(4.5) |
| Other income | 410 | 389 | (5.2) | %(5.2) | %(5.2) |
| Supplies | (3,481) | (3,663) | 5.2 | % 5.2 | % |
| Personnel expenses | (2,212) | (2,248) | 1.6 | % (4.7) | %(4.7) |
| Other expenses | (2,418) | (2,421) | 0.1 | % 0.6 | % |
| OIBDA | 4,952 | 4,763 | (3.8) | %(1.3) | %(1.3) |
| OIBDA margin | 39.1 | %37.5 | %(1.6 p.p.) | (0.7 p.p.) | |
| Depreciation and amortization | (1,688) | (1,650) | (2.3) | %(2.3) | %(2.3) |
| Operating income (OI) | 3,264 | 3,113 | (4.6) | %(0.8) | %(0.8) |
| CapEx | 1,683 | 1,719 | 2.1 | % (5.1) | %(5.1) |
| OpCF (OIBDA-CapEx) | 3,269 | 3,044 | (6.9) |)%0.6 | %(6.9) |

(1) Consumer revenues also include freelance revenues.

(2) Other includes wholesale, subsidiaries and other revenues.

(3) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Spain, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

- Restructuring costs: the impact of certain restructuring costs related to the Individual Suspension Plan amounting to 297 million euros and 165 million euros in 2018 and 2017, respectively, have been excluded.
- Spectrum acquisition: we have excluded the impact of spectrum acquisitions in 2018, which totaled 122 million euros. During 2017 no acquisitions were made.
- Optimization of the distribution network: the impact of the provisions recorded totaling 13 million euros in 2017 was excluded.
- IFRS 15 impact: the organic variations exclude the impact of the adoption of IFRS 15 in 2018.
- Gains or losses on the sale of companies: the loss of 3 million euros incurred on the sale of Centro de Asistencia Telefónica, S.A. in 2018 has been excluded.

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The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

| TELEFÓNICA SPAIN 2018 | YoY variation | | Contribution to reported growth (percentage points) | | | | | Capital gains/losses on sale of companies |
|-----------------------------|----------------------|---------------------|---|-------------------------|----------------------------------|-------------------|-------|--|
| | % Reported YoY | % Organic YoY | Restructuring costs | Spectrum acquisition | Spain distribution network | IFRS 15 impact | | |
| Revenues | 0.4 | % 0.4 | % — | — | — | (0.0) | — | |
| Other income | (5.2 | %) (5.2 | %) — | — | — | — | — | |
| Supplies | 5.2 | % 5.2 | % — | — | — | — | — | |
| Personnel expenses | 1.6 | % (4.7 | %) 6.0 | — | — | — | — | |
| Other expenses | 0.1 | % 0.6 | % — | — | (0.5 |)(0.1 |) 0.1 | |
| OIBDA | (3.8 | %) (1.3 | %) (2.7 |) — | 0.3 | (0.0) | (0.1 | |
| CapEx | 2.1 | % (5.1 | %) — | 7.2 | — | — | — | |
| OpCF (OIBDA-CapEx) | (6.9 | %) 0.6 | % (4.0 |)(3.7 |) 0.4 | (0.0) | (0.1 | |

Results discussion

Revenues in Telefónica Spain in 2018 were 12,706 million euros, growing by 0.4% year-on-year in reported terms mainly as a result of the increase in service revenues (+0.4% year-on-year, or +0.3% excluding the impact of the adoption of IFRS 15) and handset revenues (+1.8% year-on-year, or +3.4% excluding the impact of the adoption of IFRS 15).

Given the high penetration level of convergent offers (i.e., a bundled offer of several services for a single price), the revenue breakdown by service is considered to be increasingly less relevant. For this reason, Telefónica Spain has established the below revenue breakdown that management believes is more meaningful.

Consumer revenues (6,689 million euros in 2018) grew by 1.3% year-on-year in reported terms mainly driven by the growth in ARPU and in the number of customers, as well as a significant improvement in the customers' mix. There was significant growth in the revenues relating to convergent offers during 2018 (which totaled 4,795 million euros, +7.3% year-on-year in reported terms) which more than offset the drop in revenues not relating to convergent offers. Corporate revenues (3,462 million euros in 2018) increased by 1.8% year-on-year in reported terms, changing the trend from prior years mainly due to the good evolution of IT revenues, which grew by 11.6% year-on-year in reported terms and more than offset the decrease in communications revenues (-1.1% year-on-year).

Other revenues, which include wholesale, subsidiaries and other revenues (2,169 million euros in 2018) decreased by 4.5% year-on-year in reported terms, due mainly to the decrease in wholesale revenues from MVNOs (as a result of the migration of Yoigo/Pepephone from Telefónica's network to Orange's network) and to the effect of price regulatory changes applicable throughout 2018, mainly the decrease of mobile interconnection rates.

Convergent ARPU rose to 88.7 euros in 2018, up 4.3% year-on-year in reported terms, boosted by the demand of higher value packages and tariff revisions (as a result of the implementation of the "Más por Más" strategy, pursuant to which there was an increase in contract tariffs in exchange for more data), as well as the improvement in the customers' mix stimulated by the renovation of our portfolio including additional mobile lines, additional contents as well as an improvement in functionalities in the convergent offers.

OIBDA amounted to 4,763 million euros in 2018, down 3.8% year-on-year in reported terms. In 2018, OIBDA was negatively affected by the provision of 297 million euros recorded in connection with the 'Individual Suspension Plan' implemented by the Group in 2016, and subsequently extended to 2017 and 2018, and our payment commitments thereunder. The related impact on OIBDA in 2017 was 165 million euros. For additional information, see "Item 6. Directors, Senior Management and Employees—Employees".

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In organic terms, OIBDA decreased 1.3% year-on-year, mainly due to the lower wholesale revenues and the higher supply costs, partially offset by the decrease in personnel expenses and the increase in consumer and business revenues. The increase in supplies (+5.2% year-on-year in both organic and reported terms) was mainly attributable to the higher content costs and IT equipment purchases. Personnel expenses decreased by 4.7% year-on-year in organic terms driven by the savings generated by the 'Individual Suspension Plan' (118 million euros).

OIBDA margin was 37.5% in 2018 in reported terms, down by 1.6 percentage points in reported terms as compared to 2017.

TELEFÓNICA UNITED KINGDOM

The table below shows the evolution of accesses in Telefónica United Kingdom over the past two years as of December 31 of such years:

ACCESSES

| Thousands of accesses | 2017 | 2018 | %Reported YoY | |
|--------------------------------|----------|----------|------------------|-----|
| Fixed telephony accesses (1) | 283.9 | 306.9 | 8.1 | % |
| Internet and data accesses (2) | 25.3 | 28.1 | 11.2 | % |
| Broadband | 25.3 | 28.1 | 11.2 | % |
| Mobile accesses | 25,003.9 | 25,044.1 | 0.2 | % |
| Prepay | 9,203.7 | 8,742.6 | (5.0) | (%) |
| Contract (3) | 15,800.2 | 16,301.4 | 3.2 | % |
| M2M | 3,358.9 | 3,578.0 | 6.5 | % |
| Final Clients Accesses | 25,313.1 | 25,379.1 | 0.3 | % |
| Wholesale Accesses | 7,162.0 | 7,599.2 | 6.1 | % |
| Mobile wholesale accesses (4) | 7,162.0 | 7,599.2 | 6.1 | % |
| Total Accesses | 32,475.1 | 32,978.3 | 1.5 | % |

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

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

(4) Mobile wholesale accesses information has been included in total accesses since the first quarter 2018. 2017 figures have been revised accordingly for comparative purposes.

In 2018, despite the competitive environment, Telefónica United Kingdom remained as the main telecommunications operator in United Kingdom, a position underpinned by the strength of the O2 brand, custom loyalty and successful commercial propositions such as the "Custom Plan", which provides customers with flexibility and choice by allowing them to customize their plans by choosing the contract terms (up to 36 months), the amount of payment upfront and the data plan. Such propositions have allowed the Company to achieve continuous customer growth in a competitive market.

Total accesses grew by 1.5% year-on-year, standing at 33.0 million by the end of December 2018.

Mobile net additions reached 40 thousand accesses in 2018, driven by contract mobile accesses, which grew by 3.2% year-on-year to 16.3 million and increased their proportion over the total mobile accesses to 65.1%. Prepay accesses decreased by 5.0% year-on-year to 8.7 million by the end of December 2018 due to disconnections of inactive customer accesses and market dynamics, including prepay to postpay migration. Smartphone penetration over the total mobile base rose 2.4 percentage points year-on-year up to 79.0%. The base of LTE customers base reached 13.5 million at the end of 2018 with a 4.7% year-on-year growth and 62.9% penetration over the mobile base.

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The table below shows the evolution of Telefónica United Kingdom's results over the past two years:

Millions of euros

| TELEFÓNICA UNITED KINGDOM | 2017 | 2018 | % Reported YoY | % Organic YoY (1) | |
|-------------------------------|---------|---------|----------------|-------------------|----|
| Revenues | 6,540 | 6,790 | 3.8 | % 5.4 | % |
| Mobile service revenues | 5,050 | 4,837 | (4.2) | %)2.8 | % |
| Other income | 135 | 158 | 16.7 | % 17.9 | % |
| Supplies | (3,125) | (2,359) | (24.5) | %)3.5 | % |
| Personnel expenses | (442) | (445) | 0.6 | % 1.7 | % |
| Other expenses | (1,469) | (2,279) | 55.2 | % 4.8 | % |
| OIBDA | 1,639 | 1,865 | 13.8 | % 11.8 | % |
| OIBDA margin | 25.1 | %27.5 | %2.4 p.p. | 1.5 p.p. | |
| Depreciation and amortization | (1,047) | (943) | (9.9) | %)9.0 | %) |
| Operating income (OI) | 592 | 922 | 55.7 | % 48.4 | % |
| CapEx | 827 | 1,464 | 77.2 | % 7.1 | % |
| OpCF (OIBDA-CapEx) | 812 | 400 | (50.7) | %)16.5 | % |

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica United Kingdom, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

Exchange rate effect: we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rate of 2017 for both years.

Restructuring costs: we have excluded the impact in 2018 and 2017 of restructuring costs, amounting to 48 thousand euros and 314 thousand euros, respectively.

IFRS 15 impact: the organic variations exclude the impact of the adoption of IFRS 15 in 2018.

Spectrum acquisition: we have excluded the impact of spectrum acquisitions in 2018, which totaled 588 million euros. During 2017 no acquisitions were made.

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

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| TELEFÓNICA UNITED KINGDOM 2018 | YoY variation | | Contribution to reported growth (percentage points) | | | |
|--------------------------------|----------------|---------------|---|---------------------|----------------|----------------------|
| | % Reported YoY | % Organic YoY | Exchange rate effect | Restructuring costs | IFRS 15 impact | Spectrum acquisition |
| Revenues | 3.8 | % 5.4 | %(1.0) | — | (0.6) | — |
| Other income | 16.7 | % 17.9 | %(1.2) | — | — | — |
| Supplies | (24.5) | %(3.5) | %(1.0) | — | (27.0) | — |
| Personnel expenses | 0.6 | % 1.7 | %(1.0) | (0.1) | — | — |
| Other expenses | 55.2 | % 4.8 | %(1.0) | — | 51.5 | — |
| OIBDA | 13.8 | % 11.8 | %(1.1) | (0.0) | 3.1 | — |
| CapEx | 77.2 | % 7.1 | %(1.1) | — | — | 71.1 |
| OpCF (OIBDA-CapEx) | (50.7) | %(16.5) | %(1.1) | 0.0 | 6.3 | (72.4) |

Results discussion

Total revenues increased by 3.8% year-on-year in reported terms to 6,790 million euros in 2018, in spite of the depreciation of the pound sterling (which detracted 1.0 percentage points from the increase) and the impact of the adoption of IFRS15 (which detracted 0.6 percentage points from the increase). In organic terms, total revenues grew by 5.4% driven by higher handset revenues (driven by the higher value smartphone sales) and higher mobile service revenues and M2M program revenues.

Mobile service revenues totaled 4,837 million euros in 2018, decreasing by 4.2% in reported terms mainly due to the adoption of IFRS 15 (which detracted 6.1 percentage points from the year-on-year variation) and the depreciation of the pound sterling (which detracted 1.0 percentage points from the year-on-year variation). Excluding these impacts, mobile service revenues increased by 2.8% driven by the growth of in-bundle tariffs which are indexed to inflation.

Mobile ARPU fell by 5.4% year-on-year in reported terms mainly due to the adoption of IFRS 15 and the depreciation of the pound sterling. In organic terms, ARPU increased by 2.0% as a consequence of the positive commercial strategies, such as the offering of flexible tariffs through “custom plans” and the effect of inflation on airtime rates since April 2018.

| TELEFÓNICA UNITED KINGDOM | 2017 | 2018 | %YoY | %Organic YoY |
|-------------------------------------|--------|--------|------------|--------------|
| Voice Traffic (millions of minutes) | 94,723 | 93,772 | (1.0) | %(1.0) |
| ARPU (EUR) | 15.9 | 15.1 | (5.4) | %(2.0) |
| Prepay | 6.9 | 7.1 | 2.7 | % 3.8 |
| Contract (1) | 26.8 | 24.6 | (8.3) | %(0.3) |
| Data ARPU (EUR) | 9.7 | 9.2 | (4.8) | %(2.3) |
| % non-SMS over data revenues | 65.5 | %66.6 | % 1.1 p.p. | 1.2 p.p. |

(1) Excludes M2M.

OIBDA totaled 1,865 million euros in 2018, increasing by 13.8% in reported terms, despite the depreciation of the pound sterling (which detracted 1.1 percentage points from the increase). The adoption of IFRS 15 contributed 3.1 percentage points of the year-on-year growth. In organic terms, OIBDA increased 11.8% year-on-year mainly driven by the higher mobile service revenues and savings in the cost base.

OIBDA margin stood at 27.5% in 2018, growing 2.4 percentage points in reported terms compared to 2017.

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TELEFÓNICA GERMANY

The below table shows the evolution of accesses in Telefónica Germany over the past two years as of December 31 of such years:

ACCESSES

| Thousands of accesses | 2017 | 2018 | %Reported YoY | |
|--------------------------------|----------|----------|------------------|----|
| Fixed telephony accesses (1) | 1,979.6 | 1,996.0 | 0.8 | % |
| Internet and data accesses (2) | 2,281.5 | 2,274.7 | (0.3 | %) |
| Broadband | 2,072.2 | 2,079.8 | 0.4 | % |
| VDSL | 1,151.6 | 1,441.3 | 25.2 | % |
| Mobile accesses | 43,154.7 | 42,818.8 | (0.8 | %) |
| Prepay | 21,880.9 | 20,542.9 | (6.1 | %) |
| Contract | 21,273.8 | 22,275.9 | 4.7 | % |
| M2M | 1,027.0 | 1,187.9 | 15.7 | % |
| Final Clients Accesses | 47,415.8 | 47,089.5 | (0.7 | %) |
| Wholesale Accesses | 188.1 | 0.0 | (100.0 | %) |
| Total Accesses | 47,603.9 | 47,089.5 | (1.1 | %) |

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

Telefónica Germany continued to show a strong operational momentum. In a dynamic market environment, the company remained focused on profitable growth by stimulating data usage, leveraging the well-received O₂ Free tariff portfolio and the unique O₂ Connect option to share high-speed data volumes on up to 10 devices. During 2018 Telefónica Germany largely finalized its network integration, with significant quality improvements, delivering the first milestone of its "Mobile Customer and Digital Champion" strategy.

The total access base fell 1.1% year-on-year and stood at 47.1 million at the end of 2018, mainly driven by the decrease in the prepay mobile base.

The contract mobile access base grew 4.7% year-on-year and reached 22.3 million accesses, increasing the share over the total mobile base up to 52.0%. Net adds reached 1.0 million accesses on the back of the O₂ Free tariff portfolio and solid contribution of partners (second brands), which represented 60% of gross adds in 2018. Smartphone penetration reached 66.0% of the total mobile access base, up 5.1 percentage points year-on-year driven by the continued growth of LTE customers (+17.0% year-on-year reaching 18.4 million customers at the end of 2018). LTE penetration reached 44.3% of the total mobile access base.

The prepay mobile access base decreased 6.1% year-on-year to 20.5 million due to the lower demand after the implementation of certain regulatory changes introduced in 2017 (mainly the need for a legitimization check in connection with SIM cards). Prepay posted a net loss of 1.3 million accesses in 2018.

The retail broadband access base increased by 7.6 thousand accesses in 2018, experiencing strong demand for VDSL, with net adds of 289.7 thousand accesses in 2018 (accesses went up 25.2% year-on-year). The planned wholesale DSL customer migration (which was required for the planned shutdown of Telefónica Germany's legacy infrastructure) was completed at the end of September 2018. This migration is the result of Telefónica Germany's decision, in 2013, to stop investing in its own ADSL-based infrastructure and enter into a wholesale partnership (Kontingentmodell) with Deutsche Telekom AG.

The table below shows the evolution of Telefónica Germany's results over the past two years:

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Millions of euros

| TELEFÓNICA GERMANY | 2017 | 2018 | % Reported YoY | % Organic YoY (1) |
|-------------------------------|---------|---------|----------------|-------------------|
| Revenues | 7,296 | 7,320 | 0.3 | % (0.1 %) |
| Mobile Business | 6,415 | 6,539 | 1.9 | % 1.5 % |
| Mobile service revenues | 5,287 | 5,267 | (0.4 | %) (0.8 %) |
| Fixed Business | 862 | 767 | (11.0 | %) (12.4 %) |
| Other income | 159 | 177 | 11.0 | % 11.0 % |
| Supplies | (2,396) | (2,459) | 2.7 | % 2.7 % |
| Personnel expenses | (642) | (610) | (5.0 | %) (1.1 %) |
| Other expenses | (2,596) | (2,594) | (0.1 | %) (1.0 %) |
| OIBDA | 1,821 | 1,834 | 0.7 | % (1.0 %) |
| OIBDA margin | 25.0 | %25.1 | %0.1 p.p. | (0.2 p.p.) |
| Depreciation and amortization | (1,954) | (2,071) | 6.0 | % 6.0 % |
| Operating income (OI) | (133) | (237) | 79.0 | % n.m. |
| CapEx | 951 | 966 | 1.6 | % 1.7 % |
| OpCF (OIBDA-CapEx) | 870 | 868 | (0.3 | %) (3.7 %) |

n.m.: not meaningful.

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Germany, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

Restructuring costs: we have excluded the impact of restructuring costs associated with simplification processes implemented in Germany. Restructuring costs totaled 84 million euros and 82 million euros in 2018 and 2017, respectively.

Spectrum acquisition: the organic variations exclude the impact of spectrum acquisitions, which in 2017 amounted to 1 million euros. During 2018, no acquisitions were made.

IFRS 15 impact: the organic variations exclude the impact of the adoption of IFRS 15 in 2018.

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement measures and CapEX and the contribution of each item for which we have adjusted to our reported growth:

| TELEFÓNICA GERMANY 2018 | YoY variation | | Contribution to reported growth (percentage points) | | |
|-------------------------|---------------|--------------|---|----------------------|---------|
| | %Reported YoY | %Organic YoY | Restructuring costs | Spectrum acquisition | IFRS 15 |
| Revenues | 0.3 | % (0.1 %) | — | — | 0.4 |
| Other income | 11.0 | % 11.0 | % — | — | — |
| Supplies | 2.7 | % 2.7 | % — | — | — |
| Personnel expenses | (5.0 | %) (1.1 | %) (4.0 |) — | — |
| Other expenses | (0.1 | %) (1.0 | %) 1.1 | — | (0.2) |
| OIBDA | 0.7 | % (1.0 | %) (0.1 |) — | 1.9 |
| CapEx | 1.6 | % 1.7 | % — | (0.1 |) — |
| OpCF (OIBDA-CapEx) | (0.3 | %) (3.7 | %) (0.3 |) 0.1 | 4.0 |

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Results discussion

Total revenues were 7,320 million euros in 2018, increasing 0.3% year-on-year in reported terms mainly as a result of the adoption of IFRS 15. In organic terms, total revenues decreased by 0.1% due mainly to the lower service revenues.

Mobile service revenues totaled 5,267 million euros in 2018, decreasing 0.4% year-on-year in reported terms despite the positive impact of IFRS 15 (which contributed +0.4 percentage points in the year-on-year evolution). Excluding this impact, mobile service revenues decreased by 0.8% reflecting the impact of RLaH (Roaming Like at Home) regulation in Europe (which is in effect since June 15, 2017), the ongoing customer base rotation, as well as the increasing contribution of partners (second brands, with lower ARPU) to the detriment of our own brands. Data revenues decreased by 2.1% year-on-year in reported terms and accounted for 55.5% of mobile service revenues in 2018. Non-P2P SMS data revenues amounted to 2,482 million euros (increasing 3.5% year-on-year), and accounted for 84.9% of the total data revenues (+4.6 percentage points year-on-year).

Fixed revenues were 767 million euros in 2018, down 11.0% year-on-year in reported terms despite the positive impact of IFRS 15 (which contributed +1.4 percentage points in the year-on-year evolution). Excluding this impact, fixed revenues decreased by 12.4% mainly as a result of the completion of the wholesale DSL customer migration (in connection with the ADSL infrastructure dismantling) referred to above, while the retail business performed positively in the period.

Mobile ARPU was 10.0 euros in 2018 (+3.1% year-on-year), while contract ARPU stood at 14.9 euros (-4.0% year-on-year), as a result of the higher share of second brands, which have a lower ARPU. Data ARPU was 5.7 euros (+2.0% year-on-year).

| TELEFÓNICA GERMANY | 2017 | 2018 | %YoY | |
|-------------------------------------|--------|--------|------------|----|
| Voice Traffic (millions of minutes) | 98,084 | 96,905 | (1.2 | %) |
| ARPU (EUR) | 9.7 | 10.0 | 3.1 | % |
| Prepay | 5.2 | 5.8 | 11.1 | % |
| Contract (1) | 15.5 | 14.9 | (4.0 | %) |
| Data ARPU (EUR) | 5.6 | 5.7 | 2.0 | % |
| % non-SMS over data revenues | 80.3 | % 84.9 | % 4.6 p.p. | |

(1) Excludes M2M.

OIBDA totaled 1,834 million euros in 2018 (+0.7% year-on-year in reported terms), and was positively affected by the adoption of IFRS 15 (which contributed +1.9 percentage points in the year-on-year evolution). In organic terms, OIBDA decreased 1.0% year-on-year mainly due to the lower integration synergies (as a consequence of the integration of activities after the acquisition of E-Plus in 2014) than those recorded in 2017 and the adverse impact of changes in regulation (mainly European roaming regulation).

The OIBDA margin stood at 25.1% in reported terms in 2018, up 0.1 percentage points compared to 2017.

TELEFÓNICA BRAZIL

The below table shows the evolution of accesses in Telefónica Brazil over the past two years as of December 31 of such years:

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ACCESSES

| Thousands of accesses | 2017 | 2018 | %Reported YoY | |
|--------------------------------|----------|----------|------------------|-----|
| Fixed telephony accesses (1) | 13,837.3 | 13,004.6 | 6.0 | (%) |
| Internet and data accesses (2) | 7,534.5 | 7,564.7 | 0.4 | (%) |
| Broadband | 7,466.1 | 7,485.2 | 0.3 | (%) |
| FTTx/Cable | 4,541.0 | 4,991.1 | 9.9 | (%) |
| Mobile accesses | 74,931.3 | 73,151.3 | 2.4 | (%) |
| Prepay | 38,168.1 | 32,754.4 | 14.2 | (%) |
| Contract | 36,763.2 | 40,396.9 | 9.9 | (%) |
| M2M | 6,312.5 | 8,203.3 | 30.0 | (%) |
| Pay TV | 1,587.7 | 1,566.6 | 1.3 | (%) |
| Final Clients Accesses | 97,890.8 | 95,287.2 | 2.7 | (%) |
| Wholesale Accesses | 14.3 | 14.8 | 4.2 | (%) |
| Total Accesses | 97,905.1 | 95,302.0 | 2.7 | (%) |

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

In 2018, Telefónica Brazil maintained its leadership in the higher value mobile segment, which permitted the operator to capture consistent revenue growth in that segment. In the fixed business, there was continued focus on fiber, which allowed the operator to capture high-value clients in the Pay TV business. This allowed Telefónica Brazil to offset in part the downturn in the traditional fixed business.

Revenues decreased year-on-year due to the exchange rates effect. Excluding such impact, revenues were positively supported by the expansion of value offers mainly due to the acceleration of mobile data consumption and the good evolution of fiber and IPTV customers. Additionally, OIBDA evolution was positively affected by the adoption of cost control measures and gains resulting from the digitalization process undertaken by Telefónica Brazil, which allowed the Group to offset the negative impact of the complex political situation throughout the year, which resulted in adverse macroeconomic circumstances, and the deterioration of the traditional fixed business.

Telefónica Brazil reached 95.3 million accesses as of December 31, 2018, down 2.7% as compared to December 31, 2017, mainly as a result of the decrease in the prepay customer base (which was adversely affected by political uncertainty and macroeconomic deterioration) and in the fixed telephony accesses base (which continued to be adversely affected by the migration to mobile, which was further supported by the existence of multiple voice offers in the market). However, there was an improvement in the high-value customer mix, supported by the higher weight of postpaid, UBB and IPTV products.

In the mobile business, the strategic focus remained on gaining and retaining high-value customers, having a market share of 40.5% in the contract segment as of December 31, 2018 (source: ANATEL). Telefónica Brazil maintained its market leadership in terms of total accesses with a market share of 31.9% as of December 31, 2018 (source: ANATEL). The growth in the contract accesses (+9.9% year-on-year) substantially compensated the decrease in prepay accesses (-14.2% year-on-year). Commercial offers focused on data plans allow data to be accumulated, shared or duplicated, and such plans are focused on the use of social networks and music and video apps. These plans also offer value-added services (as opposed to voice services), with unlimited off-net minutes plans and international roaming plans. High-value offers also focus on family plans comprising OTT services (such as Netflix and VIVO Music).

In the fixed business, Telefónica Brazil maintained its strategic focus on fiber deployment, with 19.8 million premises passed with FTTx at December 31, 2018 and 5.0 million homes connected, growing by 9.9% year-on-year. This growth helped to offset the negative evolution of ADSL accesses. Retail broadband customers totaled 7.5 million customers in 2018, up 0.3% year-on-year. Fixed telephony accesses decreased by 6.0% year-on-year due to the fixed-mobile migration. Pay TV customers stood at 1.6 million, decreasing 1.3% year-on-year due to a more selective commercial activity directed to capture IPTV clients, which increased 52.1% year-on-year, representing 37% of the

total Pay TV accesses.

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The table below shows the evolution of Telefónica Brazil's results over the past two years:

Millions of euros

| TELEFÓNICA BRAZIL | 2017 | 2018 | % Reported YoY | % Organic YoY (1) | |
|-------------------------------|----------|----------|----------------|-------------------|----|
| Revenues | 12,019 | 10,126 | (15.8 | %)0.3 | % |
| Mobile Business | 7,360 | 6,372 | (13.4 | %)3.3 | % |
| Mobile service revenues | 7,062 | 5,924 | (16.1 | %)1.1 | % |
| Fixed Business | 4,659 | 3,754 | (19.4 | %)4.5 | %) |
| Other income | 358 | 312 | (13.0 | %)3.9 | % |
| Supplies | (2,268) | (2,039) | (10.1 | %)7.0 | % |
| Personnel expenses | (1,196) | (1,080) | (9.7 | %)1.8 | % |
| Other expenses | (4,722) | (3,008) | (36.3 | %)8.0 | %) |
| OIBDA | 4,191 | 4,311 | 2.9 | % 5.6 | % |
| OIBDA margin | 34.9 | %42.6 | %7.7 p.p. | 1.9 p.p. | |
| Depreciation and amortization | (2,228) | (1,990) | (10.6 | %)6.7 | % |
| Operating income (OI) | 1,963 | 2,321 | 18.2 | % 4.4 | % |
| CapEx | 2,225 | 1,910 | (14.1 | %)2.4 | % |
| OpCF (OIBDA-CapEx) | 1,966 | 2,401 | 22.1 | % 9.1 | % |

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Brazil, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

Exchange rate effect: we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rate of 2017 for both years.

Changes in the scope of consolidation: Terra Networks Brasil was included in the consolidation perimeter of Telefónica Brazil in July 2017. To exclude the impact of this perimeter change in the calculation of organic variations, the 2017 comparative figures include the results of Terra Networks Brasil for the whole year, with an impact on OIBDA of 14 million euros.

Restructuring costs: we have excluded the impact of restructuring costs associated with the simplification processes implemented in Telefónica Brazil. In 2018, these restructuring costs totaled 46 million euros. There were no such restructuring costs during 2017.

Contingencies: the impact of the provisions relating to certain contingencies recorded in 2018 and 2017 has been excluded in Telefónica Brazil (215 and 50 million euros, respectively).

Results of tower sales: the results attributable to the sale of towers have been excluded (89 thousand euros in 2018 and 107 thousand euros in 2017).

Judicial decision related to the exclusion of ICMS from the tax basis of PIS/COFINS: the organic variations exclude the positive impact in 2018 (789 million euros in the OIBDA of Telefónica Brazil) of the judicial decision of the Brazilian Supreme Court that the ICMS (an indirect tax) should not be included on the tax basis of the PIS/COFINS tax.

Spectrum acquisition: the impact of spectrum acquisitions has been excluded (2 million euros in 2018). During 2017 no acquisitions were made.

IFRS 15 impact: the organic variations exclude the impact of the adoption of IFRS 15 in 2018.

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The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

| TELEFÓNICA BRAZIL 2018 | YoY variation | | Contribution to reported growth (percentage points) | | | | | | |
|---------------------------|----------------------|---------------------|---|---------------------|-----------------------------|--------------------|-----------------|------------------------------------|-------------------------|
| | % Reported YoY | % Organic YoY | Exchange rate effect | Perimeter change | Restruc- turing costs | Contingen- cies | Towers Sales | Judicial decision PIS/COFINS | Spectrum acquisition |
| Revenues | (15.8) | %)0.3 | % (16.3) | 0.3 | — | — | — | — | — |
| Other income | (13.0) | %)3.9 | % 16.9 | 0.0 | — | — | 0.0 | — | — |
| Supplies | (10.1) | %)7.0 | % (17.4) | 0.3 | — | — | — | — | — |
| Personnel expenses | (9.7) | %)1.8 | % (17.6) | 0.7 | 4.6 | 0.9 | — | — | — |
| Other expenses | (36.3) | %)(8.0 | %)(12.4) | 0.1 | — | 4.2 | — | (19.9) | — |
| OIBDA | 2.9 | % 5.6 | % (19.9) | 0.3 | (1.3) | (4.9) | (0.0) | 22.5 | — |
| CapEx | (14.1) | %)2.4 | % (16.7) | — | — | — | — | — | 0.1 |
| OpCF (OIBDA-CapEx) | 22.1 | % 9.1 | % (23.5) | 0.7 | (2.8) | (10.5) | (0.0) | 47.9 | (0.1) |

Results discussion

Revenues totaled 10,126 million euros in 2018, down by 15.8% in reported terms, mainly due to the depreciation of the Brazilian real (negatively impacting the evolution by 16.3 percentage points). The consolidation of Terra Networks Brasil for the whole year (compared to six months, since July 2017, in 2017) in Telefónica Brazil's results contributed 0.3 percentage points to the year-on-year variation. In organic terms, revenues grew by 0.3% year-on-year, principally due to the good evolution of the mobile business (+3.3% year-on-year), despite the interconnection tariff reductions required to be implemented by law since February 25, 2018, in the mobile business tariff (-45.0%), fixed-mobile tariff (-13.1%), fixed-local tariff (-31.7%) and fixed-interurban tariff (-50.6%). Fixed revenues were also adversely impacted by regulatory restrictions and decreased by 4.5% in organic terms.

Revenues from the mobile business totaled 6,372 million euros in 2018, down by 13.4% in reported terms due mainly to the depreciation of the Brazilian real (which negatively impacted the evolution by 16.7 percentage points).

Excluding this impact, revenues from the mobile business increased by 3.3% due to the positive evolution of service revenues (+1.1% year-on-year in organic terms) mainly as a result of the bigger contract customer base and the higher data and connectivity revenues penetration, which offset the decrease in interconnection tariffs and the fall in prepay revenues resulting from the drop in accesses due to the macroeconomic deterioration. Handset revenues were up by 50.3% in reported terms, due to a boost in this business line and increased demand for accessories associated with higher value customers, especially smartphones.

Fixed telephony revenues totaled 3,754 million euros in 2018, down by 19.4% in reported terms due mainly to the depreciation of the Brazilian real (which negatively impacted the evolution by 15.6 percentage points). The consolidation of Terra Networks Brasil for the whole year (compared to six months, since July 2017, in 2017) in Telefónica Brazil's results contributed 0.8 percentage points to the year-on-year variation. Excluding these effects, fixed telephony revenues decreased by 4.5% mainly as a result of the fall in voice traffic, due to the ongoing mobile-fixed migration, and the reduction of the fixed-mobile and fixed-fixed tariffs required to be implemented by law since February 25, 2018. The resulting decrease in revenues more than offset the increase in broadband and new services revenues, which were up by 5.8% year-on-year in organic terms supported by the increase in fiber revenues. The mobile ARPU decreased by 16.7% year-on-year in reported terms due mainly to the depreciation of the Brazilian real. In organic terms, the mobile ARPU increased by 0.4% year-on-year as a consequence of the higher data ARPU which offset the negative impact of the interconnection tariff reduction.

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| TELEFÓNICA BRAZIL | 2017 | 2018 | %YoY | %Local Currency YoY |
|-------------------------------------|---------|---------|------------|---------------------------|
| Voice Traffic (millions of minutes) | 333,752 | 300,087 | (10.1 %) | (10.1 %) |
| ARPU (EUR) | 7.7 | 6.4 | (16.7 %) | 0.4 % |
| Prepay | 3.7 | 2.8 | (24.1 %) | (9.4 %) |
| Contract (1) | 14.4 | 11.9 | (17.3 %) | (0.1 %) |
| Data ARPU (EUR) | 5.4 | 4.9 | (10.4 %) | 8.4 % |
| % non-SMS over data revenues | 92.2 | % 94.2 | % 2.0 p.p. | 2.0 p.p. |

(1) Excludes M2M.

OIBDA stood at 4,311 million euros in 2018, increasing 2.9% in reported terms as compared to 2017. OIBDA was significantly affected by the judicial decision of the Brazilian Supreme Court that the ICMS should not be included on the tax basis of the PIS/COFINS tax (which resulted in a contribution of 789 million euros to OIBDA and 22.5 percentage points of the year-on-year variation), which more than offset the impact of the depreciation of the Brazilian real (which detracted 19.9 percentage points from the year-on-year variation), the provisions recorded in connection with certain tax and labor contingencies (-4.9 percentage points) and the personnel restructuring plan (-1.3 percentage points). OIBDA was also positively affected by the consolidation of Terra Networks Brasil (+0.3 percentage points). In organic terms, OIBDA increased 5.6% year-on-year due to postpaid, fiber and IPTV revenues' growth, the adoption of cost control measures, gains resulting from the digitalization process undertaken by Telefónica Brazil, and the lower call center costs. Personnel expenses totaled 1,080 million euros in 2018, down by 9.7% in reported terms mainly as a result of the depreciation of the Brazilian real. In organic terms, personnel expenses increased by 1.8% year-on-year, below inflation, due to the collective agreement signed in 2017. Supply costs totaled 2,039 million euros in 2018, decreasing 10.1% in reported terms mainly due to the depreciation of the Brazilian real. In organic terms, supply costs increased by 7.0% due to higher equipment and handset costs which more than offset the positive impact of the reduction in interconnection rates, lower content costs and lower top ups. Other expenses totaled 3,008 million euros in 2018, down by 36.3% in reported terms (down by 8.0% in organic terms) as compared to 2017. The OIBDA margin stood at 42.6% in reported terms in 2018, up 7.7 percentage points compared to 2017.

TELEFÓNICA HISPAM NORTE

The below table shows the evolution of accesses in Telefónica Hispam Norte over the past two years as of December 31 of such years:

ACCESSES

| Thousands of accesses | 2017 (*) | 2018 | %Reported YoY |
|--------------------------------|----------|----------|------------------|
| Fixed telephony accesses (1) | 3,554.7 | 3,169.8 | (10.8 %) |
| Internet and data accesses (2) | 1,229.2 | 1,337.1 | 8.8 % |
| Broadband | 1,199.9 | 1,305.6 | 8.8 % |
| FTTx/Cable | 126.8 | 303.7 | 139.5 % |
| Mobile accesses | 66,788.6 | 68,041.1 | 1.9 % |
| Prepay | 57,190.7 | 58,010.4 | 1.4 % |
| Contract | 9,597.9 | 10,030.7 | 4.5 % |
| M2M | 1,686.7 | 1,922.8 | 14.0 % |
| Pay TV | 982.1 | 1,007.6 | 2.6 % |
| Final Clients Accesses | 72,554.6 | 73,555.6 | 1.4 % |
| Total Accesses | 72,565.4 | 73,556.1 | 1.4 % |

(*) Revised data.

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

The table above includes accesses for Guatemala (3.2 million and 2.8 million total accesses as of December 31, 2017 and 2018, respectively) and El Salvador (2.0 million and 2.1 million total accesses as of December 31, 2017 and 2018,

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respectively). On January 24, 2019, Telefónica reached an agreement for the sale of Telefónica Móviles Guatemala, S.A. and Telefónica Móviles el Salvador, S.A. de C.V. The closing of the Telefónica El Salvador sale is subject to applicable regulatory conditions while the sale of Telefónica Móviles Guatemala was completed on such date. The table also includes accesses for Costa Rica (2.2 million and 2.2 million total accesses as of December 31, 2017 and 2018, respectively), Panama (1.6 million and 1.6 million total accesses as of December 31, 2017 and 2018, respectively) and Nicaragua (4.4 million and 4.0 million total accesses as of December 31, 2017 and 2018, respectively). On February 20, 2019, Telefónica reached an agreement for the sale of Telefónica de Costa Rica TC, S.A., and for the sale by Telefónica's subsidiary Telefónica Centroamérica Inversiones, S.L. (60% of which is owned, directly or indirectly, by Telefónica and 40% of which is owned, directly or indirectly, by Corporación Multi Inversiones) of the entire share capital of Telefónica Móviles Panamá, S.A. and Telefónica Celular de Nicaragua, S.A. The closing of the sale of these three companies is subject to the applicable regulatory conditions and will take place for each transaction once those conditions are satisfied. For additional information, see “-History and Development of the Company-Recent Developments”.

Total accesses reached 73.6 million at December 31, 2018 (+1.4% year-on-year).

Mobile accesses increased by 1.9% year-on-year to 68.0 million customers.

Contract accesses increased 4.5% year-on-year, due to the good performance in almost all the countries in the region as a result in part of the Group's continued focus on attracting high-value customers. Contract accesses grew in Mexico (+8.0%), Central America (+15.1%), Colombia (+2.7%) and Venezuela (+0.3%). Only Ecuador experienced a decrease in contract accesses (-1.6%).

Prepay accesses increased 1.4% year-on-year, with positive net adds of 820 thousand accesses at December 31, 2018, mainly as a result of the evolution in Colombia (+1.0 million accesses) and Mexico (+1.1 million accesses), which was partially offset by Central America (-791 thousand accesses) and Venezuela (-637 thousand accesses).

The smartphone customer base increased 7.6% year-on-year, reaching 32.0 million accesses (+2.3 million compared to December 31, 2017) with a mobile access penetration of 47.6% (+2.4 percentage points year-on-year), mainly due to Colombia (+15.2%), Central America (+22.5%) and Venezuela (+5.7%), which offset the evolution of Mexico (-1.9%). In addition, accesses with 4G handsets increased by 43.2%, reaching 19.5 million accesses at December 31, 2018.

Fixed accesses stood at 3.2 million at December 31, 2018 (-10.8% year-on-year) with negative net adds of 385 thousand customers due to the erosion of the traditional fixed business.

Fixed broadband accesses reached 1.3 million at December 31, 2018 (+8.8% year-on-year), mainly due to Mexico and Ecuador's launch of the "Movistar al hogar" offer and a slight increase in FBB accesses in Colombia (+0.9%). The penetration of FBB accesses over fixed accesses stood at 41.2% (+7.4 percentage points year-on-year), as a result of the focus on UBB deployment mainly in Colombia, reaching 1.1 million real estate units and 304 thousand connected accesses at year-end 2018 (177 thousand of them connected in 2018). The penetration of UBB accesses over fixed broadband accesses stood at 23.3% (+12.7 percentage points year-on-year).

Pay TV accesses stood at 1.0 million, increasing +2.6% year-on-year, as a result of positive net adds in Colombia (+18 thousand accesses) and Central America (+24 thousand accesses) which offset net negative adds in Venezuela (-16.5 thousand accesses). “Movistar Play”, a TV service rendered through the Internet, was launched in Colombia, Central America and Ecuador and accounted for 455 thousand accesses as of December 31, 2018.

The table below shows the evolution of Telefónica Hispam Norte results over the past two years:

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Millions of euros

| TELEFÓNICA HISPAM NORTE 2017 (*) | 2018 | % Reported YoY | % Organic YoY (1) |
|----------------------------------|----------|----------------|-------------------------|
| Revenues | 4,331 | 4,075 | (5.9 %)(1.2 %) |
| Mobile Business | 3,595 | 3,343 | (7.0 %)(1.5 %) |
| Mobile service revenues | 3,089 | 2,744 | (11.2 %)(5.0 %) |
| Fixed Business | 736 | 732 | (0.6 %)(0.2 %) |
| Other income | 114 | 229 | 100.4 % 69.1 % |
| Supplies | (1,385) | (1,349) | (2.6 %)(3.2 %) |
| Personnel expenses | (375) | (352) | (6.1 %)(2.1 %) |
| Other expenses | (1,422) | (1,810) | 27.3 % 7.1 % |
| OIBDA | 1,263 | 793 | (37.2 %)(8.7 %) |
| OIBDA margin | 29.2 | % 19.5 | % (9.7 p.p.) (2.3 p.p.) |
| Depreciation and amortization | (992) | (967) | (2.5 %)(1.0 %) |
| Operating income (OI) | 271 | (174) | c.s. (42.9 %) |
| CapEx | 1,264 | 668 | (47.1 %)(26.8 %) |
| OpCF (OIBDA-CapEx) | — | 125 | n.m. 17.9 % |

c.s.: change of sign.

n.m.: not meaningful

(*) Revised data.

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Hispam Norte, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

Exchange rate effects: we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year (using the average foreign exchange rate of 2017 for both years), except for Venezuela (in respect of which 2017 and 2018 results were converted at the closing synthetic exchange rate for each period).

Restructuring costs: we have excluded the impact of restructuring costs in 2018 and 2017, amounting to 18 and 24 million euros impact in OIBDA, respectively.

Results of tower sales: the results attributable to the sale of towers have been excluded (51 million euros in 2018 and 7 million euros in 2017).

Spectrum acquisition: the impact of spectrum acquisitions has been excluded in 2018 (135 million euros, mainly in Mexico) and 2017 (510 million euros, mainly in Colombia).

IFRS 15 impact: the organic variations exclude the impact of the adoption of IFRS 15 in 2018.

Goodwill impairments: impairment losses from goodwill in consolidation are excluded to calculate organic variations.

In 2018, the impairment loss on the goodwill assigned to Telefónica Móviles Mexico amounting to 350 million euros was excluded. In 2017, no goodwill impairments were recorded.

Changes in the scope of consolidation: we have excluded the impact of changes in our consolidation perimeter in 2018 and 2017. The main changes in our consolidation perimeter in such years related to the inclusion of the Colombian companies Telebucaramanga, Metrotel and Optecom in our consolidation perimeter since October 2017. No significant changes took place in the scope of consolidation of the Group in 2018.

To exclude the impact of the mentioned perimeter changes in the calculation of organic variations, the 2017 comparative figures include the results of Telebucaramanga, Metrotel and Optecom for the whole year.

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Other adjustments: the positive result of Telefónica Venezuela's tariff increases in the last quarter of 2017 is excluded (6 million euros in revenues and 2 million euros in OIBDA in 2017).

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

| TELEFÓNICA HISPAM NORTE 2018 | YoY variation | | Contribution to reported growth (percentage points) | | | | | | | |
|------------------------------------|-----------------|----------------|---|------------------------|-----------------|-------------------------|----------------------|-------------|---------------------|----------------------|
| | Reported YoY | Organic YoY | Exchange rate effect | Restructuring costs | Towers sales | Spectrum acquisition | IFRS 15 impact | Impairments | Perimeter change | Other adjustments |
| Revenues | (5.9 | %) (1.2 | %) (5.4 |)— | — | — | (0.1 |)— | 0.8 | (0.1 |
| Other income | 100.4 | %) 69.1 | %) (11.0 |)— | 42.2 | — | — | — | 2.6 | — |
| Supplies | (2.6 | %) 3.2 | %) (5.7 |)— | — | — | 0.3 | — | (0.4 |)— |
| Personnel expenses | (6.1 | %) (2.1 | %) (5.2 |) (1.4 |)— | — | — | — | 2.4 | — |
| Other expenses | 27.3 | %) 7.1 | %) (5.9 |)— | 0.1 | — | 0.1 | 24.4 | 1.4 | — |
| OIBDA | (37.2 | %) (8.7 | %) (5.0 |) 0.4 | 3.7 | — | (0.7 |) (27.7 |) 1.2 | (0.1 |
| CapEx | (47.1 | %) (26.8 | %) (3.1 |)— | — | (28.9 |)— | — | 1.3 | — |
| OpCF (OIBDA-CapEx) | n.m. | 17.9 | %) n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. |

n.m.: not meaningful.

Results discussion

Revenues amounted to 4,075 million euros in 2018, decreasing 5.9% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange effect, which contributed 5.4 percentage points of the decrease, and the adoption of IFRS 15, which contributed 0.1 percentage points of the decrease. In organic terms, revenues decreased by 1.2% year-on-year, driven mainly by the interconnection tariff reductions in Mexico, which more than offset the increase in mobile handset sales and the positive evolution of residential postpaid, fixed broadband, new services and TV revenues.

Mobile service revenues reached 2,744 million euros in 2018, decreasing 11.2% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange effect, which contributed 5.2 percentage points to the decrease, and the adoption of IFRS 15, which contributed 1.0 percentage points of the decrease. Excluding these impacts, these revenues decreased by 5.0%. Mobile service revenues performance by country was as follows:

In Colombia, mobile service revenues reached 759 million euros in 2018, decreasing by 1.1% year-on-year in reported terms, driven by the foreign exchange effect, which contributed 4.8 percentage points to the decrease, and the adoption of IFRS 15, which contributed 0.7 percentage points to the decrease. Excluding these impacts, these revenues increased by 4.4% due to the positive evolution of prepay revenues, mobile IT services, mobile interconnection and national roaming which more than offset the drop in MVNOs revenues.

In Mexico, mobile service revenues reached 889 million euros in 2018, decreasing by 19.3% year-on-year in reported terms. This decrease was mainly attributable to the foreign exchange effect, which contributed 5.4 percentage points of the decrease, and the adoption of IFRS 15, which contributed 1.1 percentage points of the decrease. Excluding these impacts, these revenues decreased by 12.8%, principally due to the reduction of interconnection tariffs from 19.1 to 11.3 cents per minute (incoming) and the decrease in prepay revenues, affected by the decrease in top ups. Data revenues in the segment reached 1,564 million euros in 2018, decreasing by 6.8% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange effect, which contributed 5.4 percentage points of the decrease, and the adoption of IFRS 15, which contributed 0.3 percentage points of the decrease. Excluding these impacts, data revenues decreased by 1.1%, as the decrease in data revenues in Mexico more than offset the growth of these revenues in other countries in the region.

Fixed business revenues reached 732 million euros in 2018, decreasing by 0.6% year-on-year in reported terms. Excluding foreign exchange effects, which contributed 2.3 percentage points of the decrease, and the adoption

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of IFRS 15, which contributed 2.9 percentage points of the decrease, these revenues decreased by 0.2% year-on-year, as the decline in accesses and voice revenues in Colombia more than offset the growth in TV and fixed broadband revenues.

OIBDA reached 793 million euros in 2018, decreasing 37.2% year-on-year in reported terms, mainly as a result of the impairment of goodwill in Mexico, which contributed 27.7 percentage points of the decrease, foreign exchange effects, which contributed 5.0 percentage points of the decrease, and the adoption of IFRS 15, which contributed 0.7 percentage points of the decrease. In organic terms, OIBDA decreased by 8.7%, due to lower revenues and higher handsets, network and IT expenses. The higher expenses were mainly attributable to:

- higher supply costs due to higher handsets costs driven by the increase of commercial activity in Mexico and Ecuador while interconnection costs remained stable, and

- higher network expenses, due to the expansion of the fixed networks principally in Colombia and mobile networks both in Colombia and Central America.

The increases in expenses referred to above more than offset the decrease in personnel expenses mainly in Ecuador and Venezuela. Personnel expenses increased in Colombia and Central America.

Below is additional information by country:

Colombia: OIBDA amounted to 556 million euros in 2018, increasing 15.4% year-on-year in reported terms, despite the exchange rate evolution (which decreased growth by 5.6 percentage points). The adoption of IFRS 15 increased growth by 0.3 percentage points. Excluding these impacts, OIBDA increased by 20.7% due to the good performance of service revenues and the capital gains derived from the sale of buildings and towers.

Mexico: OIBDA amounted to 150 million euros in 2018, decreasing 50.4% year-on-year in reported terms, affected in part by the exchange rate effect (which contributed 3.3 percentage points to the decrease) and the adoption of IFRS 15 (which contributed 1.3 percentage points to the decrease). Excluding these impacts, OIBDA decreased by 45.7% as a result of the reduction of the interconnection margin, the payment of higher spectrum fees in October 2018 and the negative evolution of prepay revenues.

OIBDA margin reached 19.5% in 2018, and decreased by 9.7 percentage points year-on-year in reported terms, mainly impacted by the lower margin in Mexico.

TELEFÓNICA HISPAM SUR

The below table shows the evolution of accesses in Telefónica Hispam Sur over the past two years as of December 31 of such years:

ACCESSES

| Thousands of accesses | 2017 (*) | 2018 | %Reported YoY | |
|--------------------------------|----------|----------|---------------|----|
| Fixed telephony accesses (1) | 7,938.5 | 7,435.2 | (6.3 | %) |
| Internet and data accesses (2) | 4,656.1 | 4,669.7 | 0.3 | % |
| Broadband | 4,535.4 | 4,549.5 | 0.3 | % |
| FTTx/Cable | 1,656.2 | 2,490.8 | 50.4 | % |
| Mobile accesses | 43,775.1 | 42,575.1 | (2.7 | %) |
| Prepay | 27,631.8 | 25,571.6 | (7.5 | %) |
| Contract | 16,143.3 | 17,003.5 | 5.3 | % |
| M2M | 1,199.8 | 1,457.7 | 21.5 | % |
| Pay TV | 2,050.3 | 2,209.9 | 7.8 | % |
| Final Clients Accesses | 58,419.9 | 56,889.9 | (2.6 | %) |
| Total Accesses | 58,445.9 | 56,913.1 | (2.6 | %) |

(*) Revised data.

(1) Includes "fixed wireless" and Voice over IP accesses.

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(2) Also referred to as fixed broadband accesses.

Total accesses reached 56.9 million at December 31, 2018 (-2.6% year-on-year).

Mobile accesses fell by 2.7% year-on-year to 42.6 million customers in 2018, mainly due to a lower prepaid customer base.

Contract accesses increased 5.3% year-on-year, with growth in all countries in the region, as a result in part of the Group's continued focus on attracting high-value customers. Contract accesses grew in Chile (+12.5%), Argentina (+2.9%), Peru (+4.8%) and Uruguay (+1.7%).

Prepay accesses decreased 7.5% year-on-year, with negative net adds of 2.1 million accesses at December 31, 2018, mainly as a result of the evolution in Chile (-892 thousand accesses) and Argentina (-810 thousand accesses), with Uruguay and Peru also reducing their accesses to a lesser extent. This evolution was mainly the result of intense market competition and the Group's continued focus on attracting high-value customers.

The smartphone customer base decreased 1.3% year-on-year at December 31, 2018, reaching 21.4 million accesses (-280 thousand compared to December 31, 2017) with a mobile access penetration of 51.3% (+0.6 percentage points year-on-year). The decrease was mainly attributable to the evolution in Peru (-4.5% year-on-year) and Argentina (-1.9% year-on-year), which more than offset the growth in Chile (+7.5% year-on-year) and Uruguay (+3.1% year-on-year). In addition, accesses with 4G handsets increased 27.5% year-on-year, reaching 16.0 million accesses by December 31, 2018.

Fixed accesses stood at 7.4 million at December 31, 2018 (-6.3% year-on-year) with negative net adds of 503 thousand customers, due to the erosion of the traditional fixed business.

Fixed broadband accesses reached 4.5 million at December 31, 2018 (+0.3% year-on-year), mainly as a result of the positive results in Peru (+10.1% year-on-year), which more than offset the decreases in accesses in Argentina (-9.1% year-on-year) and Chile (-1.1% year-on-year), as both operators focused on fiber (high-value customers), which negatively affected the growth in the copper business. The penetration of FBB accesses over fixed accesses stood at 61.2% (+4.0 percentage points year-on-year), as a result of the focus on UBB deployment in the region, reaching 8.3 million real estate units and 2.5 million connected accesses (+50.4% year-on-year). The penetration of UBB accesses over fixed broadband accesses stood at 54.7% (+18.2 percentage points year-on-year).

Pay TV accesses stood at 2.2 million (+7.8% year-on-year) with net adds of 160 thousand accesses mainly due to positive results in Peru (+11.8% year-on-year). "Movistar Play", a TV service rendered through the Internet, was launched in the region and accounted for 490 thousand accesses as of December 31, 2018.

The table below shows the evolution of Telefónica Hispam Sur results over the past two years:

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Millions of euros

| TELEFÓNICA HISPAM SUR 2017 (*) | 2018 | % Reported YoY | % Organic YoY (1) | |
|--------------------------------|----------|----------------|-------------------|------------|
| Revenues | 8,218 | 6,677 | (18.8 %) | 9.6 % |
| Mobile Business | 4,993 | 3,965 | (20.6 %) | 9.8 % |
| Mobile service revenues | 4,319 | 3,115 | (27.9 %) | 5.9 % |
| Fixed Business | 3,225 | 2,712 | (15.9 %) | 9.3 % |
| Other income | 160 | 148 | (7.5 %) | 21.7 % |
| Supplies | (2,288) | (2,051) | (10.4 %) | 9.2 % |
| Personnel expenses | (1,269) | (943) | (25.7 %) | 12.6 % |
| Other expenses | (2,546) | (2,112) | (17.1 %) | 10.7 % |
| OIBDA | 2,275 | 1,719 | (24.4 %) | 8.1 % |
| OIBDA margin | 27.7 | %25.7 | % (1.9 p.p.) | (0.4 p.p.) |
| Depreciation and amortization | (1,198) | (1,167) | (2.6 %) | 0.6 % |
| Operating income (OI) | 1,077 | 552 | (48.7 %) | 15.9 % |
| CapEx | 1,414 | 1,116 | (21.1 %) | 8.0 % |
| OpCF (OIBDA-CapEx) | 860 | 603 | (29.9 %) | 8.3 % |

(*) Revised data.

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Hispam Sur, we have made the following adjustments in order to calculate 2018/2017 variations in organic terms:

Exchange rate effects and hyperinflation adjustments in Argentina: we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year (using the average foreign exchange rates of 2017 for both years). In 2018, we have also excluded the impact of hyperinflation adjustments in Argentina.

Restructuring costs: we have excluded the impact of restructuring costs in 2018 and 2017, amounting to a 50 and 79 million euros impact in OIBDA, respectively.

Spectrum acquisition: the impact of spectrum acquisitions has been excluded in 2018 (21 million euros in Argentina) and 2017 (27 million euros in Uruguay).

IFRS 15 impact: the organic variations exclude the impact of the adoption of IFRS 15 in 2018.

The table below shows 2018/2017 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

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| TELEFÓNICA HISPAM SUR 2018 | YoY variation | | Contribution to reported growth (percentage points) | | | |
|-------------------------------|-------------------|------------------|---|------------------------|-------------------------|-------------------|
| | % Reported YoY | % Organic YoY | Exchange rate effect and hyperinflation | Restructuring costs | Spectrum acquisition | IFRS 15 impact |
| Revenues | (18.8 | %)9.6 | % (28.0 |)— | — | (0.4) |
| Other income | (7.5 | %)21.7 | % (25.4 |)— | — | (3.8) |
| Supplies | (10.4 | %)9.2 | % (19.5 |)— | — | (0.0) |
| Personnel expenses | (25.7 | %)12.6 | % (36.0 |)(1.5 |)— | — |
| Other expenses | (17.1 | %)10.7 | % (27.3 |)— | — | (0.5) |
| OIBDA | (24.4 | %)8.1 | % (32.6 |)0.9 | — | (1.1) |
| CapEx | (21.1 | %)8.0 | % (29.8 |)— | 0.8 | — |
| OpCF (OIBDA-CapEx) | (29.9 | %)8.3 | % (37.2 |)2.2 | (1.3 |)(2.9) |

Results discussion

Revenues amounted to 6,677 million euros in 2018, decreasing 18.8% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange rate effect and hyperinflation in Argentina, which contributed 28.0 percentage points to the decrease, and the adoption of IFRS 15, which contributed 0.4 percentage points to the decrease. In organic terms, revenues grew 9.6% year-on-year, driven by the positive performance of both mobile and fixed revenues and the increase in handset sales, in spite of interconnection tariff reductions.

Mobile service revenues reached 3,115 million euros in 2018, decreasing 27.9% year-on-year in reported terms. This decrease was mainly driven by the foreign exchange rate effect and hyperinflation in Argentina, which contributed 29.2 percentage points to the decrease, and the adoption of IFRS 15, which contributed 4.5 percentage points to the decrease. Excluding these effects, mobile service revenues grew by 5.9%. Mobile service revenues performance by country was as follows:

In Argentina, mobile service revenues reached 1,270 million euros in 2018, decreasing by 35.4% year-on-year in reported terms. This decrease was mainly due to the foreign exchange effect and hyperinflation, which contributed 49.8 percentage points to the decrease, and the adoption of IFRS 15, which contributed 9.1 percentage points to the decrease. Excluding these effects, these revenues grew by 23.5% due to the adjustment in tariffs in order to reflect the increase in inflation, a bigger customer base in postpaid and higher handsets revenues.

In Chile, mobile service revenues reached 905 million euros in 2018, decreasing by 15.3% year-on-year in reported terms, due mainly to the adoption of IFRS 15, which contributed 6.7 percentage points to the decrease, and the foreign exchange effect, which contributed 3.1 percentage points to the decrease. Excluding these impacts, these revenues decreased by 5.5%, as a result of increased commercial competition.

In Peru, mobile service revenues reached 748 million euros in 2018, decreasing by 30.2% year-on-year in reported terms mainly due to the adoption of IFRS 15, which contributed 11.2 percentage points to the decrease, and to the foreign exchange effect, which contributed 4.5 percentage points to the decrease. Excluding these impacts, these revenues decreased by 14.6% as a result of the smaller customer base, and increased competition in the market due to the entry of new competitors, which also had an adverse impact on ARPU.

Data revenues in the segment reached 1,800 million euros in 2018, decreasing by 26.3% year-on-year in reported terms, due to the foreign exchange effect and hyperinflation in Argentina, which contributed 42.3 percentage points to the decrease, and the adoption of IFRS 15, which contributed 1.4 percentage points to the decrease. Excluding these effects, these revenues grew by 17.5% year-on-year mainly driven by higher data revenues in Argentina, which more than offset the decrease in Peru and Chile.

Fixed business revenues reached 2,712 million euros in 2018, decreasing by 15.9% year-on-year in reported terms. Excluding foreign exchange effects and hyperinflation in Argentina (-24.9 percentage points), and the adoption of IFRS 15 (-0.3 percentage points), these revenues grew by 9.3% year-on-year due to higher fixed

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broadband revenues and accesses and voice revenues in Argentina due to tariff adjustments, higher speed offers and the increase in high-value customers.

OIBDA reached 1,719 million euros in 2018, decreasing 24.4% year-on-year in reported terms, mainly as a result of the foreign exchange effect and hyperinflation in Argentina, which contributed 32.6 percentage points to the decrease, and the adoption of IFRS 15, which contributed 1.1 percentage points to the decrease. In organic terms, OIBDA increased by 8.1%, due to the increase in revenues which more than offset the increase in handset, network and IT expenses. The increase in expenses was mainly attributable to:

- higher supply costs due to higher handsets costs driven by the increase in commercial activity, partially offset by the lower interconnection costs in all countries in the region, except Argentina and Chile;

- higher personnel expenses driven by the increased inflation in some countries of the region, which were partially offset by the savings resulting from the restructuring plans carried out during 2018 in Chile; and

- higher network expenses, mainly in Peru and Argentina, due to the expansion of the fixed and mobile networks, as well as a result of inflation and the depreciation of Latin American currencies against the U.S. dollar.

Below is additional information by country:

- Argentina: OIBDA amounted to 669 million euros in 2018, decreasing by 31.1% in reported terms. The exchange rate effect and hyperinflation (-71.2 percentage points) and the adoption of IFRS 15 (-0.2 percentage points) contributed significantly to this decrease. Excluding these effects, OIBDA grew by 40.3%

- year-on-year, thanks to the positive performance of revenues, which offset the effect of higher expenses as a result of inflation. Customer service expenses also increased as a result of changes in IT systems aimed at providing a better service and unifying the brand name. Personnel expenses increased as a result of inflation.

Chile: OIBDA amounted to 617 million euros in 2018, decreasing 2.1% year-on-year in reported terms due to the exchange rate evolution (which contributed 3.5 percentage points to the decrease) and the adoption of IFRS 15 (which contributed 3.6 percentage points to the decrease). Excluding these effects, OIBDA increased by 5.0%, due to efficiency efforts carried out throughout the year which resulted in a decrease in costs that more than offset the decrease in revenues.

Peru: OIBDA amounted to 350 million euros in 2018, decreasing 40.5% in reported terms. Excluding the impact of the exchange rate effect (which contributed 3.3 percentage points to the decrease) and the adoption of IFRS 15 (which contributed 0.1 percentage points to the decrease), OIBDA decreased by 37.1%, as a result of the decrease in revenues and the higher commercial expenses incurred with the objective of turning around last year's commercial trend. The increased commercial activity in 2018 resulted in an increase in the customer base.

OIBDA margin reached 25.7% in 2018, decreasing by 1.9 percentage points year-on-year in reported terms, mainly impacted by the lower margin in Peru.

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2017 Highlights

2017 was characterized by positive growth in OIBDA and operating cash flow (OIBDA-CapEx), up by 7.1% and by 21.0% respectively year-on-year in reported terms. Furthermore, the Company continued its transformation process with 44.4 million premises passed ready to use FTTx, additionally, the LTE coverage reached 72% as of December 31, 2017 (+10.5 percentage points year-on-year), as a result of which the CapEx over revenues ratio remained at 16.7%. The Company closed the year with a total of 343 million accesses (down 1.9% year-on-year), explained by the decrease in prepay and fixed voice. In line with our strategic focus to grow in high-value customers, post-pay customers grew by 4.6% year-on-year, reaching 116 million customers, while UBB customers reached 11 million customers at December 31, 2017, representing a 20% increase year-on-year.

In 2017, revenues totaled 52,008 million euros, down 0.1% compared to 2016 in reported terms (+3.4% in organic terms). OIBDA totaled 16,187 million euros in 2017, up 7.1% in reported terms. In organic terms, OIBDA was up 5.3%, mainly due to the positive evolution of all regions and offsetting the lower service revenues in Spain. In 2017, operating income was 6,791 million euros, up by 24.2% as compared to 2016 in reported terms (+14.1% in organic terms), which included depreciation and amortization of 9,396 million euros, down by 2.6% as compared to 2016 in reported terms.

Telefónica's total accesses totaled 343.5 million as of December 31, 2017, decreasing by 1.9% year-on-year, mainly as a result of the reduction of the prepay base in Telefónica Hispam Norte, Telefónica Hispam Sur and Telefónica Germany. By service, commercial activity related to high value customers increased, resulting in a growth of the contract mobile segment (smartphones and LTE), fiber and Pay TV. Accesses in Telefónica Hispam Sur decreased by 5.8% year-on-year (representing 17.0% of the Group's total accesses as of December 31, 2017), accesses in Telefónica Germany decreased by 3.5% (representing 13.9% of the Group's total accesses as of December 31, 2017) and accesses in Telefónica Hispam Norte decreased by 1.7% year-on-year (representing 21.1% of the Group's total accesses as of December 31, 2017).

The below table shows the evolution of accesses for 2016 and 2017 as of December 31 of such years:

ACCESSES

| Thousands of accesses | 2016 | 2017 | %Reported YoY | |
|--------------------------------|-----------|-----------|------------------|---|
| Fixed telephony accesses (1) | 38,280.1 | 36,898.6 | 3.6 | % |
| Internet and data accesses (2) | 21,652.1 | 21,864.6 | 1.0 | % |
| Broadband (3) | 21,194.9 | 21,417.5 | 1.1 | % |
| FTTx/Cable | 9,137.6 | 10,961.6 | 20.0 | % |
| Mobile accesses | 276,450.0 | 271,766.9 | 1.7 | % |
| Prepay | 165,663.2 | 155,868.5 | 5.9 | % |
| Contract | 110,786.8 | 115,898.4 | 4.6 | % |
| M2M | 14,002.0 | 16,137.2 | 15.2 | % |
| Pay TV | 8,289.0 | 8,467.7 | 2.2 | % |
| Final Clients Accesses | 344,671.1 | 338,997.9 | 1.6 | % |
| Wholesale Accesses | 5,300.9 | 4,460.2 | 15.9 | % |
| Total Accesses | 349,972.1 | 343,458.1 | 1.9 | % |

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

(3) Includes DSL, satellite, optic fiber, cable modem and broadband circuits.

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The below table shows the evolution of accesses by segment:

| | YoY variation | % Over | |
|---------------------------|---------------|--------|----------|
| | | Total | Accesses |
| Accesses 2017 | | 2016 | 2017 |
| Telefónica Spain | (0.6%) | 11.8% | 11.9% |
| Telefónica United Kingdom | (1.7%) | 7.4% | 7.4% |
| Telefónica Germany | (3.5%) | 14.1% | 13.9% |
| Telefónica Brazil | 0.7% | 27.8% | 28.5% |
| Telefónica Hispam Norte | (1.7%) | 21.1% | 21.1% |
| Telefónica Hispam Sur | (5.8%) | 17.7% | 17.0% |
| Other companies | 28.9% | 0.1% | 0.2% |

Mobile accesses totaled 271.8 million at December 31, 2017, down 1.7% compared to December 31, 2016. The decrease in prepay accesses (-5.9% year-on-year) more than offset the increase in accesses in mobile contract (+4.6% year-on-year), which continued to increase their weight over total mobile accesses reaching 42.6% (+2.6 percentage points year-on-year).

Smartphone accesses grew (up 7.9% year-on-year), totaling 158.7 million accesses and reaching a penetration rate over total accesses of 63.0% (+5.9 percentage points year-on-year), reflecting the Company's strategic focus on the growth of its data services.

Fixed broadband accesses stood at 21.4 million at December 31, 2017, up 1.1% year-on-year. Fiber accesses stood at 11.0 million at December 31, 2017 compared to 9.1 million in 2016.

Pay TV accesses totaled 8.5 million as of December 31, 2017, growing 2.2% year-on-year, due to the growth in Telefónica Spain (+5.2% year-on-year), that expanded its TV offer to the whole Fusión base and in Telefónica Hispam Sur (+5.9% year-on-year) where all countries offering this service grew.

The table below shows the evolution of our estimated access market share for mobile and fixed broadband during 2016 and 2017.

Competitive Position Evolution

| | Mobile Market Share (1) | |
|-----------------|-------------------------|-------|
| | 2016 | 2017 |
| Spain | 29.7% | 29.3% |
| United Kingdom | 26.9% | 26.3% |
| Germany | 37.9% | 36.9% |
| Brazil | 30.2% | 31.7% |
| Argentina | 33.3% | 32.8% |
| Chile | 32.6% | 32.2% |
| Peru | 44.0% | 36.8% |
| Colombia | 23.4% | 24.4% |
| Venezuela | 37.8% | 39.1% |
| Mexico | 24.2% | 22.0% |
| Central America | 29.9% | 28.4% |
| Ecuador | 30.7% | 30.0% |
| Uruguay | 33.0% | 34.2% |

(1) Internal estimates in both years

Table of ContentsFBB Market
Share (1)

| | | |
|------------|-------|-------|
| Telefónica | 2016 | 2017 |
| Spain | 42.5% | 40.6% |
| Brazil | 27.9% | 26.5% |
| Argentina | 28.4% | 24.1% |
| Chile | 36.5% | 34.6% |
| Peru | 78.7% | 73.9% |
| Colombia | 16.3% | 15.3% |

(1) Internal estimates in both years
2017/2016 Consolidated results

In this section, we discuss changes in the Group's consolidated income statements for 2017 and 2016.

| Consolidated Results | Year ended December 31, | | | | Variation | |
|--|-------------------------|---------------|-------------|---------------|--------------|----------|
| | 2016 | | 2017 | | 2017 vs 2016 | |
| Millions of euros | Total | % of revenues | Total | % of revenues | Total | % |
| Revenues | 52,036 | 100.0 | % 52,008 | 100.0 | % (28) | (0.1 %) |
| Other income | 1,763 | 3.4 | % 1,489 | 2.9 | % (274) | (15.5 %) |
| Supplies | (15,242) | (29.3 | %) (15,022) | (28.9 | %) 220 | (1.4 %) |
| Personnel expenses | (8,098) | (15.6 | %) (6,862) | (13.2 | %) 1,236 | (15.3 %) |
| Other expenses | (15,341) | (29.5 | %) (15,426) | (29.7 | %) (85) | 0.5 % |
| OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA) | 15,118 | 29.1 | % 16,187 | 31.1 | % 1,069 | 7.1 % |
| OIBDA Margin | 29.1 | % | 31.1 | % | 2.1 | p.p. |
| Depreciation and amortization | (9,649) | (18.5 | %) (9,396) | (18.1 | %) 253 | (2.6 %) |
| OPERATING INCOME | 5,469 | 10.5 | % 6,791 | 13.1 | % 1,322 | 24.2 % |
| Share of (loss) income of investments accounted for by the equity method | (5) | 0.0 | % 5 | 0.0 | % 10 | c.s. |
| Net financial expense | (2,219) | (4.3 | %) (2,199) | (4.2 | %) 20 | (0.9 %) |
| PROFIT BEFORE TAX | 3,245 | 6.2 | % 4,597 | 8.8 | % 1,352 | 41.6 % |
| Corporate income tax | (846) | (1.6 | %) (1,219) | (2.3 | %) (373) | 44.1 % |
| PROFIT FOR THE YEAR | 2,399 | 4.6 | % 3,378 | 6.5 | % 979 | 40.8 % |
| Attributable to equity holders of the Parent | 2,369 | 4.6 | % 3,132 | 6.0 | % 763 | 32.2 % |
| Attributable to non-controlling interests | 30 | 0.1 | % 246 | 0.5 | % 216 | n.m. |

c.s.: change of sign

n.m.: not meaningful

Adjustments made to calculate organic variations

Year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis, by considering a constant perimeter of consolidation and constant average foreign exchange rates and by making certain other adjustments which are described herein.

“Organic” variations should not be viewed in isolation or as an alternative to reported variations.

For purposes of this report, 2017/2016 “organic” variation is defined as the reported variation as adjusted to exclude the impacts detailed below:

Foreign exchange effects and hyperinflation adjustments in Venezuela: we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rates of 2016 for both years.

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Foreign exchange rates had a negative impact on our reported 2017 results, mainly due to the depreciation versus the euro of various Latin American currencies (in particular the Venezuela bolivar and the Argentine peso) and the pound sterling.

The impact of hyperinflation adjustments in Venezuela has been excluded by reversing such adjustments.

Foreign exchange effects and hyperinflation in Venezuela decreased revenue growth by 3.2 percentage points and OIBDA growth by 4.7 percentage points.

Changes in the scope of consolidation: we have excluded the impact of changes in our consolidation perimeter in 2017 and 2016. The main changes in our consolidation perimeter in such years related to the sale of Telef  and the sale of Telecomunicaciones Personalizadas in the last quarter of 2016, and the inclusion of the Colombian companies Telebucaramanga, Metrotel and Optecom in our consolidation perimeter since October 2017.

To exclude the impact of the mentioned perimeter changes in the calculation of organic variations, the 2016 comparative figures exclude the consolidated results of Telef  and Telecomunicaciones Personalizadas, and in 2017 we exclude the results of Telebucaramanga, Metrotel and Optecom.

Restructuring costs: we have excluded the impact in 2017 and 2016 of restructuring costs, mainly those related to the first Collective Agreement of Related Companies in Spain (Individual Suspension Plan), restructuring processes relating to Telef nica Germany, Telef nica Hispam Norte and Telef nica Hispam Sur, and the Group's simplification program in global areas.

The distribution by segment of the restructuring costs was as follows (impacts on OIBDA):

| Millions of euros | 2016 | 2017 |
|---------------------------|-------|-------|
| Telef nica Spain | 837 | 165 |
| Telef nica Brazil | 40 | - |
| Telef nica Germany | 89 | 82 |
| Telef nica United Kingdom | 37 | - |
| Telef nica Hispam Norte | 18 | 24 |
| Telef nica Hispam Sur | 66 | 79 |
| Other companies | 293 | (10) |
| Total restructuring costs | 1,380 | 340 |

Results of tower sales: the results attributable to the sale of towers in 2017 and 2016 have been excluded.

In 2017, the impact on OIBDA from the sale of towers totaled 7 million euros, mainly in Telef nica Hispam Norte.

In 2016, the impact on OIBDA from the sale of towers totaled 1 million euros, mainly in Telef nica Hispam Norte.

Spectrum acquisition: we have excluded the impact of spectrum acquisitions in 2017 and 2016.

In 2017, these acquisitions totaled 538 million euros, 470 million euros corresponding to Telef nica Colombia, 4 million euros corresponding to Telef nica M xico, 36 million euros corresponding to Telef nica Central America (21 million euros in Costa Rica and 15 million euros in El Salvador), 27 million euros corresponding to Telef nica Uruguay and 1 million euros corresponding to Telef nica Germany.

In 2016, these acquisitions totaled 345 million euros, 284 million euros corresponding to Telef nica Peru, 48 million euros corresponding to Telef nica Brazil, 7 million euros corresponding to Telef nica Spain and 6 million euros corresponding to Telef nica Germany.

Gains or losses on the sale of companies: the gains obtained or losses incurred from the sale of companies have been excluded from calculations of organic variations.

In 2017 no results were recorded related to sales of companies. In 2016, the 199 million euros in profit obtained from the sale of Telef  and the 29 million euros obtained from the sale of Telecomunicaciones Personalizadas were excluded. Similarly, the loss of 16 million euros incurred in the sale of Vocem was also excluded.

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Impairment of goodwill: the impairment losses on goodwill are excluded in calculations of organic variations. In 2017, no goodwill impairments were recorded. The comparative base for 2016 excludes the impairment of the goodwill allocated to Telefónica Venezolana and Telefónica Móviles México, amounting to 124 million euros and 91 million euros, respectively.

Other adjustments: the impact of the provision of certain regulatory contingencies is excluded in 2017, amounting to 50 million euros in Telefónica Brazil and 57 million euros in other companies, as well as the provisions recorded in Telefónica Spain to optimize the distribution network in the amount of 13 million euros in 2017 and 18 million euros in 2016. Also the positive result of Telefónica Venezuela tariff increases in the last quarter of 2017 is excluded (6 million euros in revenues and 2 million euros in OIBDA).

The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the consolidated income statement and CapEx and OIBDA-CapEx:

| TELEFÓNICA 2017 | YoY variation | | |
|--------------------|----------------|---------------|----|
| | % Reported YoY | % Organic YoY | |
| Revenues | (0.1) | %)3.4 | % |
| Other income | (15.5) | %)3.6 | %) |
| Supplies | (1.4) | %)0.6 | % |
| Personnel expenses | (15.3) | %)3.0 | % |
| Other expenses | 0.5 | % 3.7 | % |
| OIBDA | 7.1 | % 5.3 | % |
| Operating income | 24.2 | % 14.1 | % |
| CapEx | (2.6) | %)1.2 | %) |
| OpCF (OIBDA-CapEx) | 21.0 | % 12.2 | % |

The table below shows the contribution to reported growth of each item considered to calculate the organic variations, as explained above. For each line item, the contribution to reported growth, expressed in percentage points, is the result of dividing the amount of each impact (on a net basis when the impact affects both years) by the consolidated reported figure for the previous year.

| TELEFÓNICA 2017 | Contribution to reported growth (percentage points) | | | | | | | |
|--------------------|---|------------------|---------------------|--------------|----------------------|---|-------------|-------------------|
| | Exchange rate effect and hyperinflation | Perimeter change | Restructuring costs | Towers sales | Spectrum acquisition | Capital gains/losses on sale of companies | Impairments | Other adjustments |
| Revenues | (3.2) |)(0.3 |)— | — | — | — | — | — |
| Other income | 0.1 | — | — | 0.4 | — | (12.9 |)— | — |
| Supplies | (1.8) |)(0.2 |)— | — | — | — | — | — |
| Personnel expenses | (4.3) |)(0.8 |)(12.7 |)— | — | — | — | — |
| Other expenses | (4.5) |)(0.1 |)— | — | — | (0.1 |)(1.4 |)3.2 |
| OIBDA | (4.7) |)(0.2 |)6.8 | — | — | (1.4 |)1.4 | (0.6 |
| Operating Income | (10.7 |)(0.5 |)18.9 | 0.1 | — | (3.9 |)3.9 | (1.8 |
| CapEx | (3.6 |)— | — | — | 2.2 | — | — | — |
| OpCF (OIBDA-CapEx) | (6.4 |)(0.4 |)16.7 | 0.1 | (3.1 |)(3.4 |)3.5 | (1.6 |

Results discussion

Revenues totaled 52,008 million euros in 2017, decreasing 0.1% compared to 2016 in reported terms, impacted by the negative evolution in foreign exchange rates and hyperinflation in Venezuela (-3.2 percentage points year-on-year)

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and the changes in the consolidating perimeter (-0.3 percentage points year-on-year), which offset the higher revenues of Telefónica Hispam Norte, Telefónica Hispam Sur, Telefónica Brazil and Telefónica United Kingdom. In organic terms (for additional information on organic variations, see "Adjustments made to calculate organic variations"), revenues increased by 3.4%. The structure of revenues reflects Telefónica's business diversification. The segment with the largest contribution to our revenues was Telefónica Spain, representing 24.3% (-0.3 percentage points compared to 2016), followed by Telefónica Brazil, representing 23.1% (+1.8 percentage points compared to 2016), and Telefónica Hispam Sur, representing 15.8% (+0.7 percentage points compared to 2016).

Since January 1, 2017 Mobile Service Revenues (mainly data revenue) and Fixed revenues were revised due to different allocation criteria. For comparative purposes, these numbers for 2016 are reported using the same criteria. This change does not affect the total Mobile Business Revenues figures reported for 2016.

Mobile business revenues totaled 32,827 million euros in 2017 (of which 28,677 million euros corresponded to service revenues and 4,150 million euros corresponded to handset revenues), up 1.2% year-on-year in reported terms as a result of the higher revenues of Telefónica Hispam Sur, Telefónica Brazil and Telefónica United Kingdom, which were partially offset by the negative impact of the evolution in foreign exchange rates and hyperinflation in Venezuela (-4.1 percentage points year-on-year). In organic terms, mobile business revenues grew by 5.3% despite the regulatory impacts affecting interconnection revenues in some operators of the Group.

Mobile service revenues, which include mobile data revenues, totaled 28,677 million euros in 2017, up 0.9% year-on-year in reported terms mainly explained by higher data consumption. Excluding the impact of changes in foreign exchange rates and hyperinflation in Venezuela the growth was 5.1%.

Mobile data revenues totaled 16,942 million euros in 2017, up 11.5% in reported terms mainly due to higher consumption of data by our customers. Excluding the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-5.4 percentage points year-on-year), the growth of mobile data revenues was 16.8% as a result of the popularization of the use of data with the growth of commercial plans including data-inclusive prepay plans. Mobile data revenues accounted for 59.1% of mobile service revenues in 2017, up 5.6 percentage points compared to 2016 in reported terms.

Fixed revenues totaled 18,331 million euros in 2017, up 1.8% year-on-year in reported terms, despite the negative impact of changes in foreign exchange rates and hyperinflation in Venezuela (-0.1 percentage points year-on-year). Excluding such impact, fixed revenues increased by 1.9% mainly as a result of higher broadband connection revenues and Pay TV revenues due to the commercial actions carried out by the Company in order to increase our value proposition by giving even more speed to our customers.

Other income totaled 1,489 million euros in 2017, which mainly included own work capitalized in our fixed assets and the profit from the sale of other assets.

In 2016, other income also included the profit obtained from the sale of Telef  (199 million euros) and Telecomunicaciones Personalizadas (29 million euros).

Total expenses, which include supply costs, personnel costs and other expenses (principally external services and taxes) but do not include amortization and depreciation expenses, amounted to 37,310 million euros in 2017, down 3.5% year-on-year in reported terms. This decrease was mainly attributable to the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-3.4 percentage points year-on-year) and to lower restructuring costs in 2017 (-2.7 percentage points year-on-year). These costs are explained in detail below:

- Supplies amounted to 15,022 million euros in 2017, down 1.4% year-on-year in reported terms mainly as a result of the impact of foreign exchange rates and hyperinflation in Venezuela (-1.8 percentage points). In organic terms, supplies expenses increased by 0.6% year-on-year, mainly due to higher handset costs.

Personnel expenses amounted to 6,862 million euros in 2017, down 15.3% year-on-year in reported terms. This decrease was mainly attributable to lower restructuring costs in 2017 (303 million euros in 2017 versus 1,336 million euros in 2016). In organic terms, personnel costs increased 3.0% year-on-year mainly due to inflationary pressure in some Latin American countries.

The average headcount was 125,371 employees in 2017, down 5.1% compared to 2016.

Other expenses amounted to 15,426 million euros in 2017, up 0.5% year-on-year in reported terms, mainly as a result of inflationary pressure in some Latin American countries and the depreciation of certain Latin American currencies

against the U.S. dollar, which offset the impact of foreign exchange rates and hyperinflation

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in Venezuela (-4.5 percentage points). There were also increases in network costs, as a result of the growth in data traffic, and higher systems costs, due to the transformation process of our systems which require us to have both systems cohabitating, as we are still decommissioning some IT systems. In organic terms, other expenses increased by 3.7% year-on-year.

OIBDA was 16,187 million euros in 2017, up 7.1% in reported terms, mainly due to the lower restructuring costs in 2017 compared to 2016 (+6.8 percentage points), partially offset by the impact of foreign exchange rates and hyperinflation in Venezuela (-4.7 percentage points). In organic terms, OIBDA grew by 5.3% mainly due to the positive evolution of service revenues and the continuous effort to contain costs.

OIBDA margin stood at 31.1% in 2017, up 2.1 percentage points compared to 2016 in reported terms.

By segments, the main contributors to Group OIBDA were: Telefónica Spain with 30.6% (+1.5 percentage points compared to 2016), Telefónica Brazil with 25.9% (+1.4 percentage points compared to 2016) and Telefónica Hispam Sur with 14.1% (reducing its contribution by 1.6 percentage points compared to 2016 due to the lower contribution of Peru and Chile).

Depreciation and amortization amounted to 9,396 million euros in 2017, down 2.6% year-on-year in reported terms, mainly due to the impact of foreign exchange rates and hyperinflation in Venezuela (-1.3 percentage points) and lower amortization in Telefónica Spain and Telefónica Germany.

Operating income (OI) in 2017 totaled 6,791 million euros, up 24.2% in reported terms (14.1% in organic terms).

The share of income (loss) of investments accounted for by the equity method for 2017 was a gain of 5 million euros (compared to a loss of 5 million euros in 2016).

Net financial results amounted to a loss of 2,199 million euros in 2017, 0.9% lower than the previous year, due to a lower cost of debt in European and Latin American currencies, which was partially offset by a lower impact associated to Venezuela and by not generating this year the savings from 2016 in FX hedging linked to Telefónica United Kingdom.

Corporate income tax amounted to 1,219 million euros in 2017. Considering a profit before taxes of 4,597 million euros, the effective tax rate stood at 26.5%, in line with the previous year (26.1%).

As a result, profit for the year attributable to equity holders of the parent for 2017 was 3,132 million euros (2,369 million euros in 2016).

Profit attributable to non-controlling interests was 246 million euros, 216 million euros higher than in 2016, mainly due to the increase in the profit attributable to minority interests at Telefónica Brazil and Telefónica Colombia and lower loss attributable to Telefónica Germany.

2017/2016 Segment results

TELEFÓNICA SPAIN

The below table shows the evolution of accesses in Telefónica Spain for 2016 and 2017 as of December 31 of such years:

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ACCESSES

| Thousands of accesses | 2016 | 2017 | %Reported YoY | |
|--------------------------------|----------|----------|------------------|----|
| Fixed telephony accesses (1) | 9,720.2 | 9,304.7 | (4.3 | %) |
| Internet and data accesses (2) | 6,094.5 | 6,039.6 | (0.9 | %) |
| Broadband | 6,067.3 | 6,020.3 | (0.8 | %) |
| FTTH | 2,998.3 | 3,423.7 | 14.2 | % |
| Mobile accesses | 17,237.7 | 17,576.5 | 2.0 | % |
| Prepay | 2,329.3 | 1,793.4 | (23.0 | %) |
| Contract | 14,908.4 | 15,783.1 | 5.9 | % |
| M2M | 2,006.3 | 2,015.6 | 0.5 | % |
| Pay TV | 3,657.0 | 3,847.6 | 5.2 | % |
| Final Clients Accesses | 36,709.4 | 36,768.5 | 0.2 | % |
| Wholesale Accesses | 4,525.5 | 4,221.1 | (6.7 | %) |
| Total Accesses | 41,234.9 | 40,989.6 | (0.6 | %) |

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

In 2017 the commercial activity continued to leverage the differentiated assets of the Company, mainly through the convergent offer (which means the offer of more than a single service for a single price) "Movistar Fusión+" and the "Más por Más" strategy. The Company continued to evolve the above mentioned offer and to adapt it to incremental customer demand mainly through the rise of data in all mobile lines included in the Fusión portfolio. In addition, in July 2017 the portfolio was increased with the launching of two new options for "Fusión +" ("Fusión Series" and "Fusión #0") which include TV services and its functionalities in all the convergent portfolio.

In 2017 Consumer "Fusión" churn rose up to 1.5% (+0.2 percentage points year-on-year), reflecting increased commercial competition in the market during the year. Broadband accesses decreased by 47 thousand year-on-year and fixed telephony accesses net loss, reached 416 thousand customers. On the other hand, high-value accesses such as fiber accesses, increased by 425 thousand and mobile contract accesses increased by 875 thousand, showing the success of the convergent strategy (which means the offer of more than a single service for a single price) that from 2017 includes a second mobile line in all "Fusión" tariffs additional to the main line that was already included in the package.

Telefónica Spain had 41.0 million accesses at the end of December 2017, down 0.6% year-on-year, explained by the decrease in prepay mobile accesses, fixed telephony accesses as well as copper wholesale accesses. Retail accesses increased by 0.2% year-on-year.

Consumer "Movistar Fusión", with a customer base of 4.4 million with 3.7 million additional mobile add-ons to the original offer as of December 31, 2017, maintained a solid year-on-year growth (+2.1% and +45.2% respectively compared to December 31, 2016) and contributed 85.5% of the fixed retail broadband customer base (+2.2 percentage points year-on-year) and 79.3% of the wireless contract customer base (+6.2 percentage points year-on-year). There was significant growth in the penetration of the high-value services of "Movistar Fusión", with 38.4% of the customer base already using 300 Mb ultra-fast broadband (+1.7 percentage points year-on-year) and 75.6% of the customer base having Pay TV as of December 31, 2017 (+7.7 percentage points year-on-year), as well as growth in mobile lines (each main Fusión package had 1.8 mobile lines in average compared to 1.6 in 2016).

Retail broadband accesses decreased 47 thousand accesses in 2017, totaling 6 million accesses (-0.8% year-on-year). Fiber accesses showed a good evolution in terms of net adds, reaching 3.4 million customers at December 31, 2017 (up 14.2% compared to December 31, 2016), representing 56.9% of broad band accesses (+7.5 percentage points year-on-year), with 425 thousand new accesses in 2017. Ultra-speed fiber accesses with 300 Mb (with additional ARPU of 10-12 euros, including VAT) reached 2.2 million accesses (64.5% of total fiber accesses). At December 31, 2017 the fiber deployment reached 19.2 million premises, 2.1 million more than at December 31, 2016, and continues to be the largest in Europe.

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Total mobile accesses stood at 17.6 million, up 2.0% compared with year-end 2016 as a result of the increase in contract accesses and despite the decrease in prepaid accesses, reflecting the success of the convergent strategy and the good evolution of the mobile number portability in the last quarter of the year, boosted by the improvement of the portability offer. The contract access base accelerated its growth during 2017, growing by 5.9% year-on-year. Smartphone penetration stood at 76.4% of the mobile voice base (+5.6 percentage points compared to year-end 2016) and significantly boosted data traffic which grew by 110.8% year-on-year in 2017 due to the higher number of customers with the renewed portfolio containing superior data packages.

LTE network rollout continued to progress and coverage reached approximately 97% (criteria based on competitors' calculation by summing up all inhabitants of the cities with some LTE coverage) of the population at December 31, 2017, up 0.7 percentage points compared to December 31, 2016. As a result, the LTE customer base was over 7.6 million customers at December 31, 2017, while penetration reached 49.4% (+9.5 percentage points year-on-year) over the total mobile base.

Pay TV accesses reached 3.8 million at the end of 2017, growing by 5.2% compared to December 31, 2016 driven by the inclusion of TV services in all "Fusión" portfolio convergent packages since July 2017.

Wholesale accesses stood at 4.2 million at the end of 2017, decreasing by 6.7% year-on-year, however NEBA (New Ethernet Broad Band Service for Wholesale) Fiber accesses net adds increased to 850 thousand accesses, representing 20.1% of total wholesale accesses (+12.9 percentage points year-on-year) and reflecting the positive evolution of the network due to the use of superior technologies.

The table below shows Telefónica Spain's results for 2016 and 2017:

Millions of euros

| TELEFÓNICA SPAIN | 2016 | 2017 | %Reported YoY | %Organic YoY (3) | |
|-------------------------------|---------|---------|------------------|---------------------|----|
| Revenues | 12,815 | 12,653 | (1.3 | %(1.2 | %) |
| Consumer (1) | 6,536 | 6,602 | 1.0 | % 1.0 | % |
| Fusión | 4,096 | 4,470 | 9.1 | % 9.1 | % |
| Out of Fusión | 2,440 | 2,132 | (12.6 | %(12.6 | %) |
| Corporate | 3,445 | 3,401 | (1.3 | %(1.3 | %) |
| Communications | 2,721 | 2,631 | (3.3 | %(3.3 | %) |
| IT | 724 | 770 | 6.4 | % 6.4 | % |
| Others (2) | 2,337 | 2,271 | (2.8 | %(2.5 | %) |
| Other income | 474 | 410 | (13.5 | %(8.0 | %) |
| Supplies | (3,406) | (3,481) | 2.2 | % 2.2 | % |
| Personnel expenses | (3,022) | (2,212) | (26.8 | %(6.3 | %) |
| Other expenses | (2,458) | (2,418) | (1.6 | %(1.4 | %) |
| OIBDA | 4,403 | 4,952 | 12.5 | % (1.8 | %) |
| OIBDA Margin | 34.4 | %39.1 | %4.8 p.p. | (0.2 p.p.) | |
| Depreciation and amortization | (1,827) | (1,688) | (7.6 | %(7.6 | %) |
| Operating income (OI) | 2,576 | 3,264 | 26.7 | % 1.3 | % |
| CapEx | 1,852 | 1,683 | (9.1 | %(8.8 | %) |
| OpCF (OIBDA-CapEx) | 2,551 | 3,269 | 28.2 | % 2.0 | % |

(1) Consumer revenues also include freelance revenues.

(2) Other includes wholesale, subsidiaries and other revenues.

(3) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Spain, we have made the following adjustments in order to calculate 2017/2016 variations in organic terms:

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Changes in the scope of consolidation: the main change in 2017 as compared with the previous year related to the sale of Telecomunicaciones Personalizadas in the last quarter of 2016.

Restructuring costs: the impact of certain restructuring costs related to the Individual Suspension Plan and other plans in Spain amounting to 165 million and 837 million euros in 2017 and 2016, respectively, were excluded.

Spectrum acquisition: we have excluded the impact of spectrum acquisitions in 2016, which totaled 7 million euros.

During 2017 no acquisitions were made.

Gains or losses on the sale of companies: in the comparative base of 2016, the gain obtained from the sale of Telecomunicaciones Personalizadas for 29 million euros was excluded.

Optimization of the distribution network: the impact of the provisions recorded totaling 13 and 18 million euros in 2017 and 2016, respectively, were excluded.

The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

| TELEFÓNICA SPAIN 2017 | YoY variation | | Contribution to reported growth (percentage points) | | | | |
|-----------------------------|------------------|-----------------|---|------------------------|-------------------------|--|----------------------------------|
| | %Reported YoY | %Organic YoY | Perimeter change | Restructuring costs | Spectrum acquisition | Capital Gains/losses on sale of companies | Spain distribution network |
| Revenues | (1.3 | %(1.2 | %(0.1 |)— | — | — | — |
| Other income | (13.5 | %(8.0 | %)— | — | — | (6.0 |)— |
| Supplies | 2.2 | % 2.2 | % — | — | — | — | — |
| Personnel expenses | (26.8 | %(6.3 | %)— | (22.3 |)— | — | — |
| Other expenses | (1.6 | %(1.4 | %)— | — | — | — | (0.2 |
| OIBDA | 12.5 | % (1.8 | %(0.1 |)15.3 | — | (0.7 |)0.1 |
| CapEx | (9.1 | %(8.8 | %)— | — | (0.4 |)— | — |
| OpCF (OIBDA-CapEx) | 28.2 | % 2.0 | % (0.2 |)26.4 | 0.3 | (1.1 |)0.2 |

Results discussion

Revenues in Telefónica Spain in 2017 were 12,653 million euros, down 1.3% year-on-year in reported terms mainly as a result of the decrease in handset revenues. In organic terms (excluding Telecomunicaciones Personalizadas from the consolidation perimeter), revenues were down 1.2% year-on-year.

Given the high penetration level of convergent offers (which means the offer of more than a single service for a single price), the revenue breakdown by service is considered to be increasingly less relevant. For this reason, Telefónica Spain has established a revenue breakdown that management believes is more meaningful.

Consumer revenues (6,602 million euros in 2017) grew by 1.0% year-on-year in reported terms mainly driven by the growth in ARPU and in the number of customers as well as a significant improvement in the customers' mix. It is worth highlighting the strong growth in "Fusión" revenues during 2017 (4,470 million euros, +9.1% year-on-year in reported terms) which more than offset the drop in "non-Fusión" revenues.

Business revenues (3,401 million euros in 2017) decreased by 1.3% year-on-year in reported terms, mainly due to a better evolution in the communications revenues trend and higher IT revenues.

Other revenues, which include wholesale, subsidiaries and other revenues (2,271 million euros in 2017) decreased by 2.8% year-on-year in reported terms, due mainly to lower wholesale revenues from TV and MVNOs and, to a lesser extent, to the effect of price regulatory changes applicable throughout 2017 (affecting NEBA (New Ethernet Broad Band Service for Wholesale), ORLA (leased lines reference offer including Ethernet interfaces), etc.).

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Fusión ARPU rose to 85.1 euros in 2017, up 5.8% year-on-year in reported terms, boosted by the demand of higher value packages and the tariff revisions, as well as the improvement in the customers' mix stimulated by the renovation of our portfolio including additional mobile lines, additional contents as well as an improvement in functionalities in the convergent offers.

OIBDA amounted to 4,952 million euros in 2017, up 12.5% year-on-year in reported terms. In 2016, OIBDA was adversely affected by the provisions recorded in connection with the restructuring costs resulting from the extension to 2018 of the 'Individual Suspension Plan' and other restructuring plans (837 million euros) and the restructuring of the distribution channel (18 million euros). In 2017, OIBDA included lower provisions related mainly to the 'Individual Suspension Plan' as a result of its increased acceptance (165 million euros), which we expect will result in further cost savings, and the restructuring of the distribution channel (13 million euros).

In organic terms, OIBDA decreased 1.8% year-on-year, mainly due to the lower wholesale revenues and higher content costs, partially offset by the decrease in personnel expenses. Personnel expenses decreased 6.3% year-on-year in organic terms driven by the savings generated by the 'Individual Suspension Plan' (158 million euros). On the other hand, the increase in supplies (+2.2% in reported terms) which were impacted by higher content costs and IT equipment purchases, were partially offset by the other expenses, which dropped 1.6% in reported terms principally due to lower commercial costs.

OIBDA margin was 39.1% in 2017 in reported terms, down 4.8 percentage points year-on-year in reported terms.

TELEFÓNICA UNITED KINGDOM

The table below shows the evolution of accesses in Telefónica United Kingdom for 2016 and 2017 as of December 31 of such years:

ACCESSES

| Thousands of accesses | 2016 | 2017 | %Reported YoY | |
|--------------------------------|----------|----------|---------------|---|
| Fixed telephony accesses (1) | 272.6 | 283.9 | 4.1 | % |
| Internet and data accesses (2) | 23.7 | 25.3 | 6.6 | % |
| Broadband | 23.7 | 25.3 | 6.6 | % |
| Mobile accesses | 25,462.7 | 25,003.9 | (1.8) | % |
| Prepay | 9,701.4 | 9,203.7 | (5.1) | % |
| Contract | 15,761.3 | 15,800.2 | 0.2 | % |
| M2M | 3,266.9 | 3,358.9 | 2.8 | % |
| Final Clients Accesses | 25,759.0 | 25,313.1 | (1.7) | % |
| Total Accesses | 25,759.0 | 25,313.1 | (1.7) | % |

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

In 2017, Telefónica United Kingdom maintained a competitive position which has been underpinned by the strength of the O2 brand, new and innovative commercial propositions and customer experience. These factors have allowed the Company to maintain customer loyalty and continue to keep growing in high-value customers in a competitive market.

The total access base went down by 1.7% year-on-year and stood at 25.3 million at December 31, 2017, mainly driven by a 1.8% decline in the mobile customer base.

The contract mobile customer base grew 0.2% year-on-year and stood at 15.8 million accesses, with a broadly stable 63.2% share over the total mobile base. Mobile accesses decreased by 459 thousand customers, driven by higher volatility in the prepay customer base (which decreased 5.1% year-on-year to 9.2 million at December 31, 2017) and 228 thousand inactive disconnections in postpay. Smartphone penetration reached 76.5% of the total mobile accesses base, up 8.1 percentage points year-on-year. LTE customers, increased by 6.6% year-on-year reaching 12.9 million at December 31, 2017. LTE penetration reached 59.6% of the total mobile access base.

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The table below shows the evolution of Telefónica United Kingdom's results for 2016 and 2017:

Millions of euros

| TELEFÓNICA UNITED KINGDOM | 2016 | 2017 | %Reported YoY | %Organic YoY (1) | |
|-------------------------------|---------|---------|------------------|---------------------|----|
| Revenues | 6,861 | 6,540 | (4.7 | %)2.2 | % |
| Mobile service revenues (2) | 5,363 | 5,050 | (5.8 | %)1.0 | % |
| Other income | 148 | 135 | (9.0 | %)2.4 | %) |
| Supplies | (3,226) | (3,125) | (3.1 | %)3.9 | % |
| Personnel expenses | (528) | (442) | (16.2 | %)3.4 | %) |
| Other expenses | (1,546) | (1,469) | (5.0 | %)1.9 | % |
| OIBDA | 1,709 | 1,639 | (4.1 | %)0.7 | % |
| OIBDA Margin | 24.9 | %25.1 | %0.1 p.p. | (0.4 p.p.) | |
| Depreciation and amortization | (1,090) | (1,047) | (4.0 | %)3.0 | % |
| Operating Income (OI) | 619 | 592 | (4.3 | %)3.1 | %) |
| CapEx | 931 | 827 | (11.2 | %)4.8 | %) |
| OpCF (OIBDA-CapEx) | 778 | 812 | 4.4 | % 6.9 | % |

(1) See adjustments made to calculate organic variation below.

(2) Mobile service revenues include revenues from MVNOs since January 1, 2017, which were previously accounted as "Handset revenues and others"; these criteria are applied across Telefónica Group. For comparative purposes, mobile services and handset revenues for 2016 are reported using the same criteria.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica United Kingdom, we have made the following adjustments in order to calculate 2017/2016 variations in organic terms:

Exchange rate effect: we have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates year-on-year. In particular, we have used the average foreign exchange rates of 2016 for both years.

Restructuring costs: we have excluded the impact in 2017 and 2016 of restructuring costs, amounting to 314 thousand euros and 37 million euros, respectively.

The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement and other measures, and the contribution of each item for which we have adjusted to our reported growth:

| TELEFÓNICA UNITED KINGDOM 2017 | YoY variation | | Contribution to reported growth (percentage points) | |
|--------------------------------------|----------------|---------------|--|------------------------|
| | % Reported YoY | % Organic YoY | Exchange rate effect | Restructuring costs |
| Revenues | (4.7 | %)2.2 | % (6.9 |)— |
| Other income | (9.0 | %)2.4 | %)6.6 |)— |
| Supplies | (3.1 | %)3.9 | % (7.0 |)— |
| Personnel expenses | (16.2 | %)3.4 | %)6.1 |)(7.0) |
| Other expenses | (5.0 | %)1.9 | % (6.9 |)— |
| OIBDA | (4.1 | %)0.7 | % (7.0 |)2.2 |
| CapEx | (11.2 | %)4.8 | %)6.4 |)— |
| OpCF (OIBDA-CapEx) | 4.4 | % 6.9 | % (7.6 |)4.8 |

Results discussion

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Total revenues were 6,540 million euros in 2017, down by 4.7% year-on-year in reported terms mainly due to the depreciation of the pound sterling (which accounted for 6.9 percentage points of the year-on-year decrease). In organic terms, revenues increased by 2.2% year-on-year due mainly to higher mobile service revenues and the handset revenues growth as well as revenues linked to M2M programs.

Mobile service revenues totaled 5,050 million euros in 2017, down by 5.8% year-on-year in reported terms due mainly to the depreciation of the pound sterling (which accounted for 6.8 percentage points of the year-on-year decrease). Excluding this impact, mobile service revenues grew by 1.0% due to the increase in "In-Bundle" tariffs (which are linked to the RPI (Retail Price Index)) and the higher data consumption that offset the significant negative impact from changes in the European roaming regulation that became effective on June 15, 2017.

Mobile ARPU decreased by 6.5% year-on-year in reported terms due mainly to the depreciation of the pound sterling. In organic terms, ARPU increased by 0.3% with a data ARPU growth of 1.1% year-on-year, despite the significant negative impact from changes in the European roaming regulation, due to the growth of high-speed network penetration that led to the increased adoption of high end tariffs by our customers.

| TELEFÓNICA UNITED KINGDOM | 2016 | 2017 | %YoY | %Organic YoY | |
|-------------------------------------|--------|--------|---------------|-----------------|----------|
| Voice Traffic (millions of minutes) | 93,306 | 94,723 | 1.5 | % 1.5 | % |
| ARPU (EUR) | 17.0 | 15.9 | (6.5 | %)0.3 | % |
| Prepay | 7.5 | 6.9 | (7.0 | %)0.3 | % |
| Contract (1) | 28.8 | 26.8 | (6.8 | %)0.2 | % |
| Data ARPU (EUR) | 10.3 | 9.7 | (5.8 | %)1.1 | % |
| % non-SMS over data revenues (2) | 64.2 | % 65.5 | % 1.3 p.p. | | 1.3 p.p. |

(1) Excludes M2M.

(2) Mobile data revenues have been revised, for comparative purposes mobile data revenues for 2016 are reported using the same criteria.

OIBDA totaled 1,639 million euros in 2017, down by 4.1% year-on-year in reported terms, mainly as a result of the depreciation of the pound sterling. In organic terms, OIBDA increased by 0.7% year-on-year mainly as a result of higher mobile service revenues (+1.0% year-on-year in organic terms) despite the significant negative impact from the new European roaming regulation (RLAH "Roaming Like at Home") and the costs growth, associated with 4G network deployment needed to support the higher data traffic demand.

The OIBDA margin stood at 25.1% in reported terms in 2017, with an increase of 0.1 percentage points compared to 2016.

TELEFÓNICA GERMANY

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The below table shows the evolution of accesses in Telefónica Germany for 2016 and 2017 as of December 31 of such years:

ACCESSES

| Thousands of accesses | 2016 | 2017 | % Reported YoY | |
|--------------------------------|----------|----------|----------------|----|
| Fixed telephony accesses (1) | 2,010.3 | 1,979.6 | (1.5 | %) |
| Internet and data accesses (2) | 2,324.5 | 2,281.5 | (1.9 | %) |
| Broadband | 2,104.0 | 2,072.2 | (1.5 | %) |
| FTTx | 805.5 | 1,151.6 | 43.0 | % |
| Mobile accesses | 44,320.7 | 43,154.7 | (2.6 | %) |
| Prepay | 23,784.0 | 21,880.9 | (8.0 | %) |
| Contract | 20,536.6 | 21,273.8 | 3.6 | % |
| M2M | 787.8 | 1,027.0 | 30.4 | % |
| Final Clients Accesses | 48,655.5 | 47,415.8 | (2.5 | %) |
| Wholesale Accesses | 691.0 | 188.1 | (72.8 | %) |
| Total Accesses | 49,346.4 | 47,603.9 | (3.5 | %) |

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

During 2017 Telefónica Germany maintained solid operational momentum in a dynamic competitive environment increasingly focused on the monetization opportunity driven by large data packages. Data usage showed significant year-on-year growth, supported by the good reception from new and existing customers of the O2 Free 15th anniversary promotions and the new O2 Free portfolio.

The total access base decreased 3.5% year-on-year and stood at 47.6 million at December 31, 2017, mainly driven by a 2.6% decrease in the mobile base (which fell to 43.2 million).

The contract mobile customer base grew 3.6% year-on-year and reached 21.3 million accesses, with a broadly stable 49.3% share over the total mobile base. Net adds reached 0.7 million contract accesses due to the solid contribution of partners (second brands) and increasing demand for tariffs with large data volumes. Smartphone penetration reached 60.9% of the total mobile access base, up 1.4 percentage points year-on-year driven by the continued growth of LTE customers (+31% year-on-year reaching 15.8 million at December 31, 2017) which reflects the continuous demand by customers for high speed mobile data access. LTE penetration reached 37.4% of the total mobile access base.

The prepay mobile access base decreased 8.0% year-on-year to 21.9 million. The prepay segment lost 1.9 million accesses in 2017 mainly due to a technical base adjustment of 1.2 million inactive users driven by IT-harmonization after systems integration and the implementation of regulatory changes (mainly, the need for a legitimation check for prepay SIM-cards as well as requirements applicable to European travelers).

The retail broadband net additions were negative in 2017 with 31.8 thousand accesses. VDSL accesses grew driven by strong demand with 346 thousand net additions in 2017 (+19.9% year-on-year), while the wholesale DSL customer base continued to fall according to the planned dismantling of the old legacy infrastructure.

The table below shows the evolution of Telefónica Germany's results for 2016 and 2017:

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Millions of euros

| TELEFÓNICA GERMANY | 2016 | 2017 | %Reported YoY | %Organic YoY (1) | |
|-------------------------------|---------|---------|------------------|---------------------|----------|
| Revenues | 7,503 | 7,296 | (2.8 | %) | (2.8 %) |
| Mobile Business | 6,498 | 6,415 | (1.3 | %) | (1.3 %) |
| Mobile service revenues | 5,437 | 5,287 | (2.8 | %) | (2.8 %) |
| Fixed Business | 981 | 862 | (12.2 | %) | (12.2 %) |
| Other income | 146 | 159 | 9.2 | % | 9.2 % |
| Supplies | (2,452) | (2,396) | (2.3 | %) | (2.6 %) |
| Personnel expenses | (646) | (642) | (0.6 | %) | (0.3 %) |
| Other expenses | (2,780) | (2,596) | (6.6 | %) | (6.6 %) |
| OIBDA | 1,771 | 1,821 | 2.8 | % | 2.9 % |
| OIBDA Margin | 23.6 | %25.0 | % 1.4 p.p. | | 1.4 p.p. |
| Depreciation and amortization | (2,200) | (1,954) | (11.2 | %) | (10.9 %) |
| Operating Income (OI) | (429) | (133) | (69.1 | %) | (85.3 %) |
| CapEx | 1,107 | 951 | (14.2 | %) | (13.7 %) |
| OpCF (OIBDA-CapEx) | 664 | 870 | 31.1 | % | 27.4 % |

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year percentage changes referred to in this document as “organic” or presented in “organic terms” intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Germany, we have made the following adjustments in order to calculate 2017/2016 variations in organic terms:

Restructuring costs: we have excluded the impact of restructuring costs associated with simplification processes implemented in Germany. In 2017, restructuring costs had an 82 million euros impact on OIBDA. In 2016, restructuring costs had an 89 million euros impact on OIBDA.

Spectrum acquisition: the CapEx organic variation exclude spectrum acquisition, which in 2017 amounted to 1 million euros (6 million euros in 2016).

Changes in the scope of consolidation: in 2016, we have excluded the results of four months of the tower business transferred to Telxius on May 1, 2016, which had a 12 million euros impact on OIBDA (11 million euros on OpCF). The table below shows 2017/2016 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain line items of the income statement measures and CapEX and the contribution of each item for which we have adjusted to our reported growth:

| TELEFÓNICA GERMANY | YoY variation | | Contribution to reported growth (percentage points) | | |
|--------------------|------------------|-----------------|---|-------------------------|---------------------|
| | %Reported YoY | %Organic YoY | Restructuring costs | Spectrum acquisition | Perimeter change |
| 2017 | | | | | |
| Revenues | (2.8 | %) | (2.8 | %) | — |
| Other income | 9.2 | % | 9.2 | % | — |
| Supplies | (2.3 | %) | (2.6 | %) | 0.3 |
| Personnel expenses | (0.6 | %) | (0.3 | %) | — |
| Other expenses | (6.6 | %) | (6.6 | %) | 0.1 |
| OIBDA | 2.8 | % | 2.9 | % | (0.7) |
| CapEx | (14.2 | %) | (13.7 | %) | (0.1) |
| OpCF (OIBDA-CapEx) | 31.1 | % | 27.4 | % | 1.1) |

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Results discussion

Total revenues were 7,296 million euros in 2017 down 2.8% year-on-year in reported terms due mainly to the lower service revenues.

Mobile service revenues totaled 5,287 million euros in 2017, decreasing 2.8% year-on-year in reported terms due to the negative impact of regulatory developments (termination rate cuts and European roaming regulation), OTT trends, the higher share of wholesale revenues and the ongoing legacy base rotation. Telefónica Germany continued to focus on data revenues, which decreased by 0.2% and accounted for 56% of mobile service revenues in 2017. Non-P2P SMS data revenues amounted to 2,398 million euros (increasing +5.0% year-on-year) and accounted for 80.3% of the total data revenues (+4.0 percentage points year-on-year).

Fixed revenues were 862 million euros in 2017 (down 12.2% year-on-year), as a result of the lower year-on-year customer base in retail DSL and the planned phasing-out of the wholesale DSL business.

Mobile ARPU was 9.7 euros in 2017 (down 5.7% year-on-year), while contract ARPU stood at 15.5 euros (down 6.0% year-on-year), as a result of the regulatory developments, high pricing pressure in a competitive market, a higher share of wholesale customers in the customer base and the consequent change in the weight of retail to wholesale.

Data ARPU was 5.6 euros (down 2.8% year-on-year).

| TELEFÓNICA GERMANY | 2016 | 2017 | %YoY |
|-------------------------------------|---------|--------|------------|
| Voice Traffic (millions of minutes) | 113,896 | 98,084 | (13.9 %) |
| ARPU (EUR) | 10.3 | 9.7 | (5.7 %) |
| Prepay | 5.7 | 5.2 | (8.5 %) |
| Contract (1) | 16.5 | 15.5 | (6.0 %) |
| Data ARPU (EUR) | 5.7 | 5.6 | (2.8 %) |
| % non-SMS over data revenues (2) | 76.3 | % 80.3 | % 4.0 p.p. |

(1) Excludes M2M.

(2) Mobile data revenues have been revised, for comparative purposes mobile data revenues for 2016 are reported using the same criteria.

OIBDA totaled 1,821 million euros in 2017, increasing 2.8% year-on-year in reported terms. In organic terms, OIBDA grew by 2.9% year-on-year, driven by the integration synergies captured (as a consequence of the integration of activities after the E-Plus acquisition in 2014) and the capital gains on the sale of assets, which offset the decrease in service revenues as a result of the impact of regulation and the continued commercial investments to drive O2 brand positioning.

The OIBDA margin stood at 25.0% in reported terms for 2017, up 1.4 percentage points compared to 2016.

TELEFÓNICA BRAZIL

The below table shows the evolution of accesses in Telefónica Brazil for 2016 and 2017 as of December 31 of such years:

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ACCESSES

| Thousands of accesses | 2016 | 2017 | %Reported YoY | |
|--------------------------------|----------|----------|---------------|---|
| Fixed telephony accesses (1) | 14,338.4 | 13,837.3 | (3.5) | % |
| Internet and data accesses (2) | 7,383.2 | 7,534.5 | 2.0 | % |
| Broadband | 7,311.0 | 7,466.1 | 2.1 | % |
| FTTx/Cable | 4,145.8 | 4,541.0 | 9.5 | % |
| Mobile accesses | 73,769.8 | 74,931.3 | 1.6 | % |
| Prepay | 40,387.2 | 38,168.1 | (5.5) | % |
| Contract | 33,382.6 | 36,763.2 | 10.1 | % |
| M2M | 5,005.1 | 6,312.5 | 26.1 | % |
| Pay TV | 1,712.7 | 1,587.7 | (7.3) | % |
| Final Clients Accesses | 97,204.2 | 97,890.8 | 0.7 | % |
| Wholesale Accesses | 17.9 | 14.3 | (20.4) | % |
| Total Accesses | 97,222.2 | 97,905.1 | 0.7 | % |

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

Telefónica Brazil closed the year 2017 improving its competitive position in the mobile market. In the mobile business, leadership was maintained in the higher value segments, which permitted the operator to capture mobile market revenue growth in 2017. In the fixed business, the transformation towards value-added clients resulted in the increase in fiber in broadband and in IPTV in the Pay TV business.

Revenues and OIBDA evolution was positively supported by the acceleration of mobile adoption and the good evolution of fiber and IPTV. Additionally, Telefónica Brazil carried out cost control measures and generated benefits from the synergies with GVT that offset the negative impacts of adverse political conditions in Brazil, the aggressiveness of competitors and the worsening of the traditional fixed business.

However, results in 2017 were adversely affected by the interconnection tariff reduction in the mobile business (-45.6%), in the retail fixed-mobile tariff (-17.7%), in the fixed-local tariff (-35.3%) and in the fixed-interurban tariff (-50.9%) since February 25, 2017.

Telefónica Brazil reached 97.9 million accesses at December 31, 2017, up 0.7% compared with December 31, 2016. In the mobile business, the strategic focus remained on gaining and retaining high value customers, reaching a market share of 41.8% in the contract segment as of December 31, 2017 (source: Anatel), preserving the leadership.

Telefónica Brazil maintained its market leadership in terms of total accesses with a market share of 31.7% as of December 31, 2017 (source: Anatel), driven in part by the contract clients growth (10.1% year-on-year), which offset the fall in prepay clients (-5.5% year-on-year). The improvement in contract accesses was the consequence of the offering of more attractive plans, the applications and certain special roaming plans for pure contract clients.

In its fixed business, Telefónica Brazil maintained its strategic focus on fiber deployment, with 18.4 million premises passed with fiber at December 31, 2017 and 4.5 million homes connected. Traditional accesses decreased 3.5% due to the fixed-mobile migration. Retail broadband accesses totaled 7.5 million accesses at the end of 2017, increasing 2.1% year-on-year. Among them, 61% accesses were connected with FTTx. Pay TV customers reached 1.6 million as of December 31, 2017, down 7.3% year-on-year due to the discontinuation of the DTH business and a commercial strategy based on value clients of IPTV. IPTV accesses increased in relevance representing 24% of total Pay TV accesses.

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The table below shows the evolution of Telefónica Brazil's results for 2016 and 2017:
Millions of euros

| TELEFÓNICA BRAZIL | 2016 | 2017 | %Reported YoY | %Organic YoY (1) | |
|-------------------------|--------|--------|------------------|---------------------|----|
| Revenues | 11,090 | 12,019 | 8.4 | % 1.4 | % |
| Mobile Business | 6,663 | 7,360 | 10.5 | % 3.7 | % |
| Mobile service revenues | 6,351 | 7,062 | 11.2 | % 4.4 | % |
| Fixed Business | 4,427 | 4,659 | 5.2 | % (2.1 | %) |
| Other income | 348 | 358 | | | |