Telefónica

Video Strategy

London, September 27th 2018

Video Strategy Session

Adrián Zunzunegui
Director of Investor Relations

Telefónica

Key Objectives

Laura Abasolo
Chief Financial and Control Officer

Key Objectives

Video at the core

- ✓ **Video revenue (€1.4 bn in H1 18)**; 44% of Digital Service Revenue
- ✓ **TV base**: **8.8m Pay TV** (Spain + Latam); **1.1m OTT TV** (Latam)

Differential Video Capabilities

- ✓ **Powerful Video platforms:** Fiber in Spain, Unified Platform in Latam
- ✓ **Relevant scale** and distribution power (Movistar series); expanding our partner-based **bundle offerings** (Netflix deal)
- ✓ **Content and functionalities**; AURA

Leading position: capturing new opportunities

- ✓ **Enriched content portfolio** (aggregation, production, acquisition)
- ✓ **Leading Video distributor in Spain**
- ✓ **Focus on OTT Video in Latam**

Focus on ROCE

- ✓ **Accelerating data monetization and revenue growth** (Spain: 25% lower churn in Fusion TV base, TV ARPU x3 vs. the following competitor)
- ✓ **More sustainable business model**

TV base as of August-18

Video Strategy Latam

Michael Duncan
CEO Group Consumer of Telefónica

Capturing the OTT video opportunity in LatAm

Telefonica
September 2018

Telefónica already delivers video services in most of its LatAm footprint, mainly via Pay TV

Competition map (main players)

Note: Pay TV (Satellite, IPTV and CATV) includes Set-Top-Box

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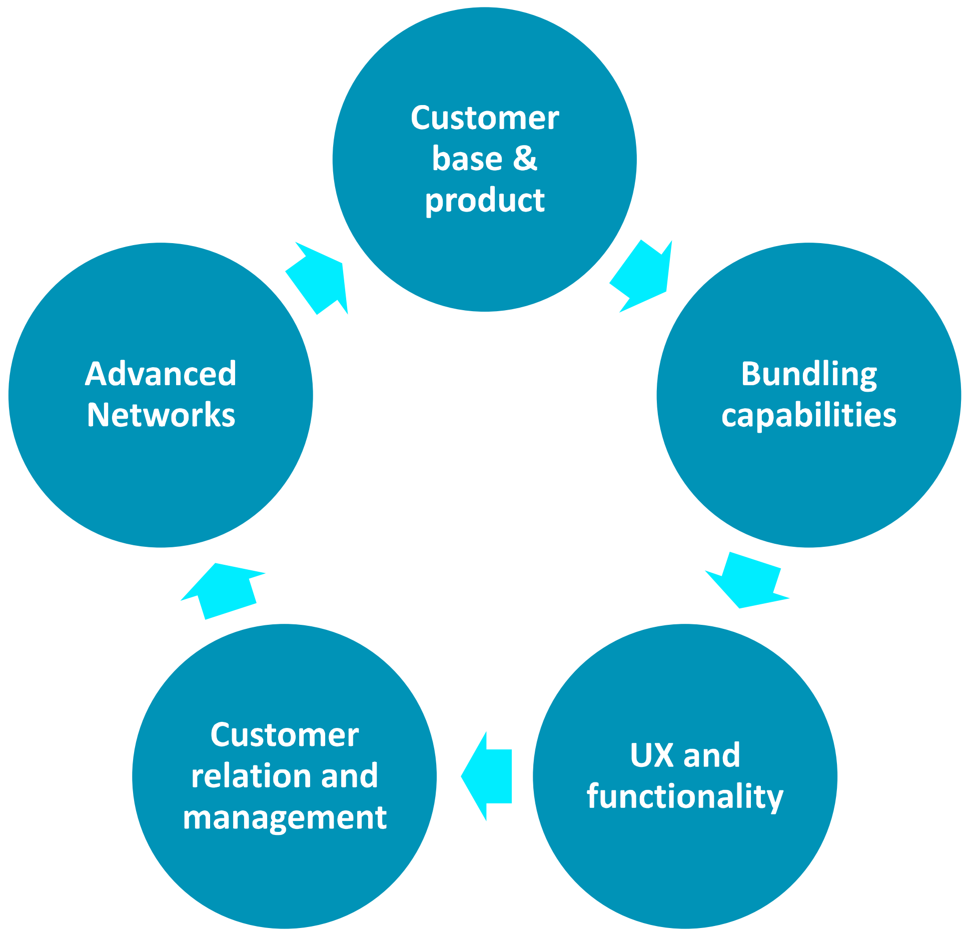
Huge opportunity to enrich our connectivity with OTT video in LatAm

Industry Context opportunities

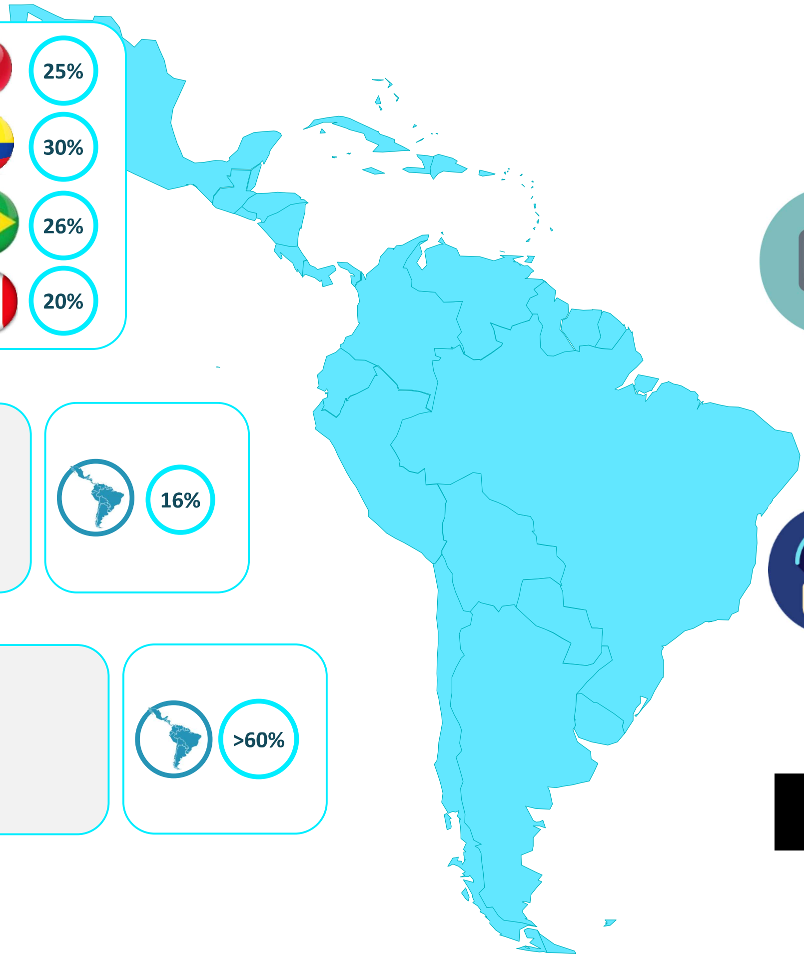
- LatAm socioeconomic specificities
- Avid demand for video consumption on smartphones
- Structural video industry challenges

Telefónica's LatAm OTT video opportunity

TEF's unique strategy pillars (assets & capabilities)



LatAm specifics: opportunity for TEF while huge challenge for traditional TV players



Low credit card penetration in some key countries[1]
25% | 30% | 26% | 20%

Low FTTX penetration[3]
16%

Relatively high smartphone penetration[6]
>60%

Low formal Pay TV penetration[2]
27% | 25% | 30%

Very low Interactive Pay TV penetration[5]
<5%

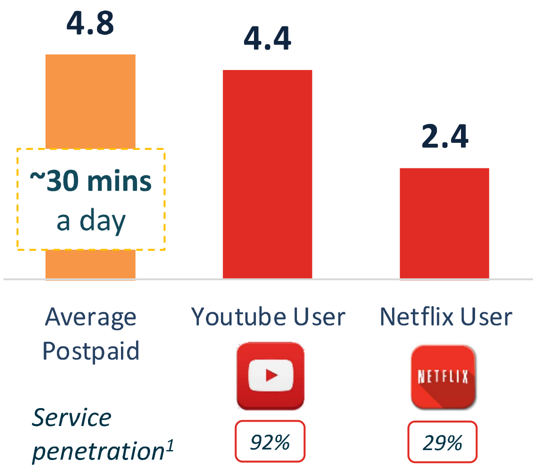
Low Video OTT penetration[4]
<10%

[1] World Bank (2017)
[2] National Statistical Institutes
[3] Statista
[4] Forbes: Netflix subscribers / Households
[5] Internal estimations
[6] GSMA (The Mobile Economy 2017)

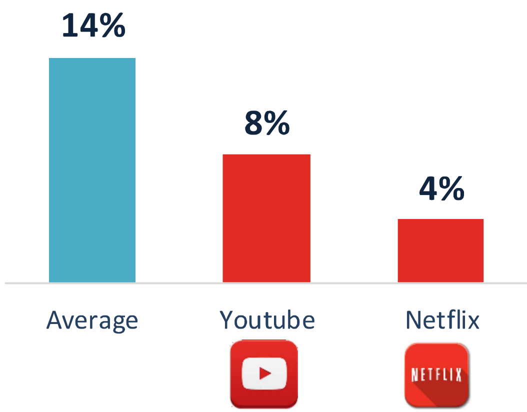
Avid but latent demand for mobile video consumption

Huge demand for video **consumption over smartphones**	Although video usage has been **limited to WiFi …**	… **people are eager to consume on mobility**	Demand for **video on mobility will grow exponentially**

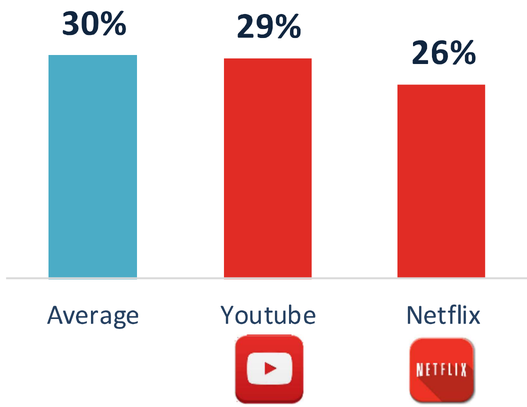
Total video usage per smartphone (GB, WiFi & cellular) [1]



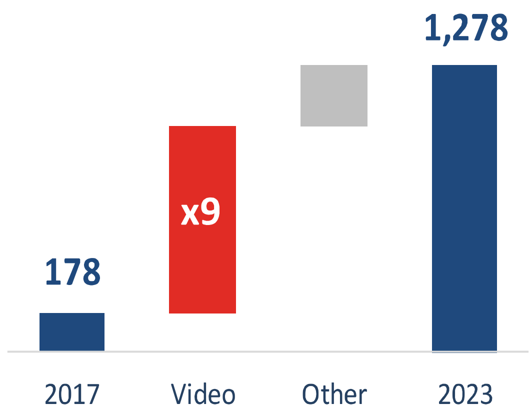
WiFi vs cellular traffic mix (%)
Moderate dedicated data markets [2]



WiFi vs cellular traffic mix (%)
Dedicated data markets [3]



World mobile data traffic (Exabytes per year)[4]



[1] AppAnnie: Youtube and Netflix usage for total LatAm TEF's markets
[2] AppAnnie: AR, BR & CO market average
[3] AppAnnie: CL & PE market average
[4] Ericsson

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Content fragmentation and other structural challenges in the video industry

Content fragmentation, makes it difficult for customer to access and discover content

Difficult direct to consumer for content providers

Current players **limited to A/B clusters**

Cannibalization risks for traditional Pay TV players

Some Fragmentation examples:

- 4 of the most iconic TV shows belong to different companies

- Other very relevant players: Disney ESPN Local TV

- Different seasons of the same show in different distribution channels

Season 1 & 2 **Season 3**

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Unique opportunity for TEF to leverage video as a new value attribute and improve monetization

Context opportunities	TEF's strengths
LatAm socioeconomic specificities	More than 160M mobile customers, with full bundling and billing capabilities
Avid demand for video consumption on smartphones	Network connectivity at the core of our business, with video as one of the most adjacent businesses
Structural video industry challenges (fragmentation)	We add value via content aggregation and unified content discovery experience

TEF's opportunity

New value lever to foster monetization beyond pure connectivity

Enriching offer appeal:
- Bundling high engagement content
- From pure data to content and digital services

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Reaching customers with a modular product based on aggregation and selective exclusive content

160M mobile customers, most of them **already able to engage with video**: 70% with smartphone

Aggregation is king: Disrupting the fragmentation ecosystem and adding value integrating **all relevant content in one single access point:**

- FTA channels and local content
- International channels
- Premieres
- Premium players subscriptions
- Own content: Movistar series

Leveraging Spain own production efforts with LatAm potential reach

Open platform: Telefónica as **the ideal partner** to maximise impact and scale

Internet TV offer

Premium
VoD catalogue + Live TV
Ex: FOX Premium (HBO

FOX PREMIUM HBO GO NETFLIX

M Play PREMIUM

Live TV
International channels

M Play FULL

Exclusive
Telefónica Content

Series eSports

Premieres

Live TV
Local Free to air channels

Core Hard bundle

M Play LITE

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Bundling with our core offer to drive up ARPU and improve customer stickiness

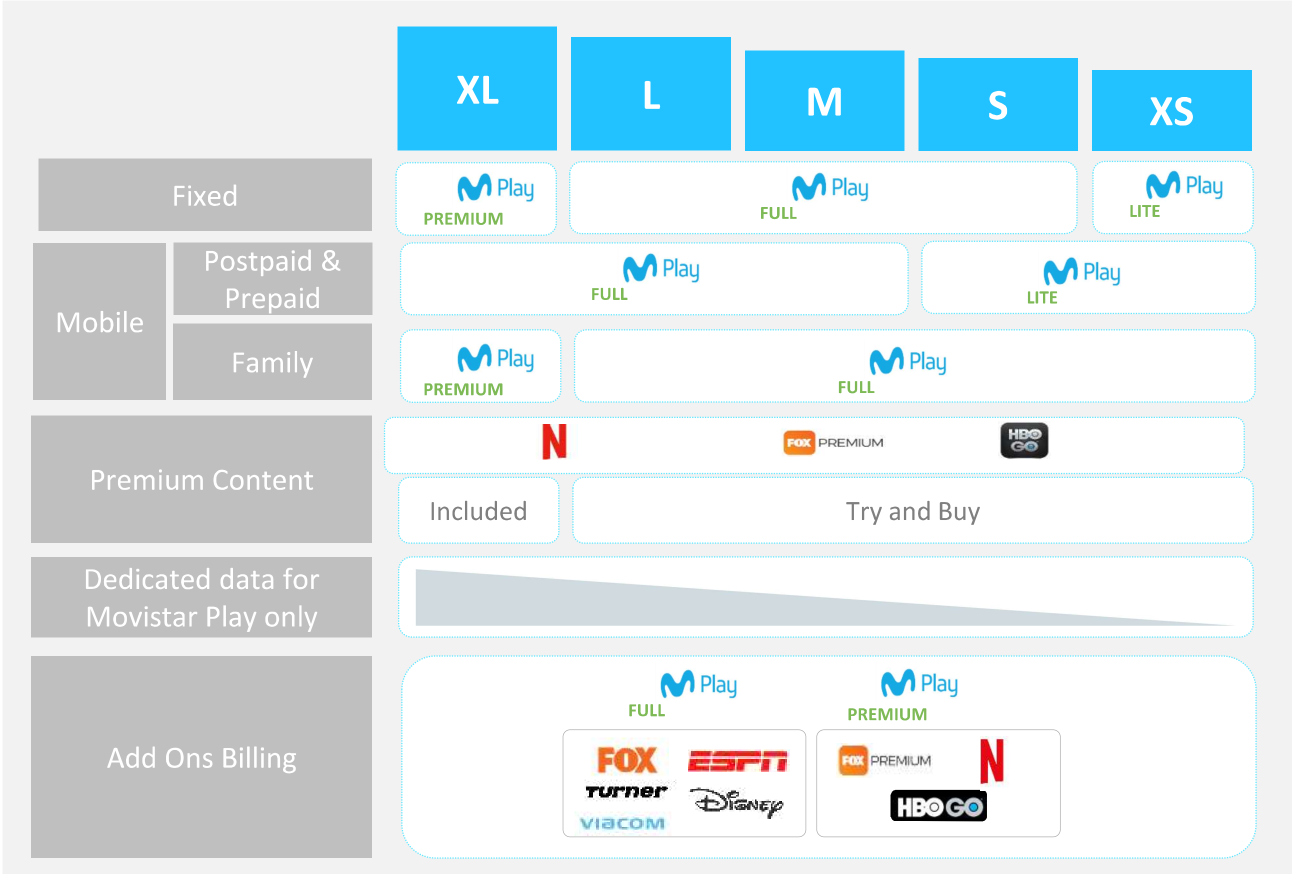
Hardbundling video content **to gain scale**

Bundling different products **depending on the plan value** to foster upsell and ARPU

Specific portfolio design to reap the **prepaid opportunity** (weekly / fortnightly plan)

Dedicated data: content plan adoption multiplies almost x2 if dedicated data is included[1]

Tier-pricing Bundling to foster upsell and increase ARPU



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[1] Market research (Conjoint analysis simulator)

Optimal video experience via best in class functionality

Most advanced, simple and easy UX:

- Personal recommendations and content curation
- Unified search
- Download to Play
- Time-shifting options
  - Start-over
  - Catch-up
- Online recording
- Transactional purchases
- Binge Watching

Unified video service: homogeneous user experience in all devices

Deploy Interactive services and a homogeneous experience across devices

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Complemented with distinct customer management capabilities

Differential **billing capabilities**:

- Simplicity and convenience: Video content integration in one single bill for the customer
- Potential to obtain value from all customer segments, regardless of its banking circumstances

Sales and marketing power, leveraging all Telefónica's commercial distribution structure: points of sale, communications and advertising, customer care, self care App, …

4th Platform and Aura: personalized experiences leveraging customer behavior analytics and AI

Enabled by our high capacity networks (4G, 5G and UBB)

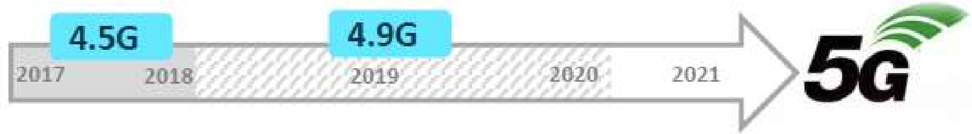
More **capable, agile and efficient** networks to facilitate traffic growth, and ensure **optimal customer experience**

Evolution to 5G, that paves the way for **new formats and service evolution**:
- 4k / 8k video
- Augmented / Virtual reality
- Video 360

Adding value to our **FTTX deployment leadership**

Exploring **new video business opportunities**:
Edge Computing:
- Improved customer experience computing and storing assets close to the end user

Evolving to 5G



Coverage
- Extending 4G PoP coverage in all our footprint

New services
- NB-IoT / LTE-M. IoT and Industry 4.0
- Fixed Wireless Access (FWA)
- Vehicular comms (V2X)
- 5G devices (H2 19E)

Capacity
- Spectrum management (refarming)
- Carrier Aggregation (up to 3-5)
- Multi and Massive MIMO Antennas

New Architectures
- Single RAN
- Heterogeneous Networks
- Virtualization in the Mobile Access

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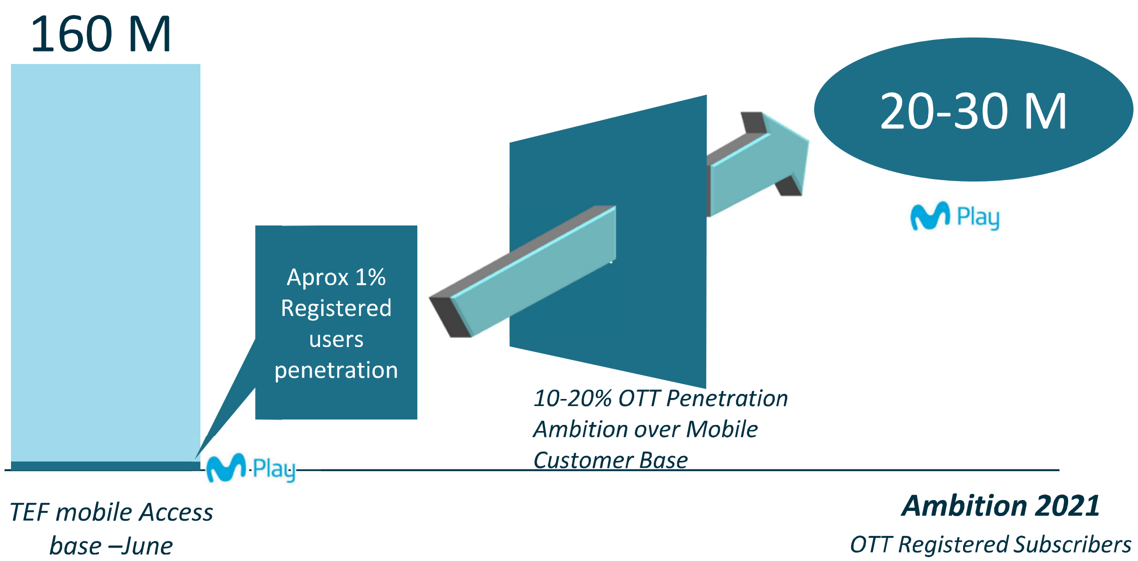
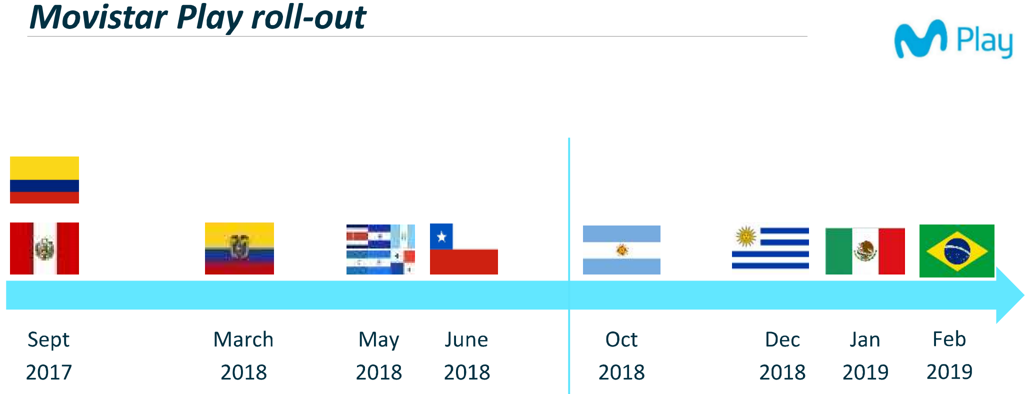
Huge opportunity with encouraging early results

Our Internal Opportunity



Movistar Play growth

Movistar Play roll-out



1.5 M

Registered users Aug 2018

78%

90 days active users

- Preliminary analysis confirms **very material impact on customer retention**
- In Q4 we will start focusing on add-ons upsell

To wrap up: our objective is to take advantage of context opportunities and unique capabilities to increase our monetization potential

- Improved customer engagement and loyalty
- Enhanced ARPU development via upsell and add-ons
- Increased brand awareness and communication impact

Video Strategy Spain

Sergio Oslé
Video Director Spain/President of Movistar+

Telefónica

Creating sustainable value through leadership

Sergio Oslé
President of Movistar+ / Video Director Spain
September 2018

movistar
ELIGE TODO

Key messages

1. Unbeatable proposition that translates to value
2. A new TV scenario that brings new opportunities
3. A case for growth

Distinctive assets in the market…

Best Network

Largest FFTH network in Europe

~20M Premises coverage

68% households

Modern & efficient 4G network

~97% Coverage of the population

All TV distribution tech

~100%

TV Coverage - IPTV/DTH

Best Content

Own content production

Originales movistar+

#0 de movistar+

Sports

#VAMOS de movistar+

*"All football & Top 10 majors sports **in exclusivity**"*

Movies

"~95% Foreign & ~85% Spanish Box Office"

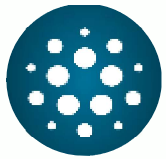
Series

"Most complete offer - all majors"

Entertainment

Best Technology

Multidevice



Aura

Cloud-based

On Demand & Linear

...that translates into customer leadership and sizeable local scale...

Movistar+

The reference in the Spanish market

~4M TV Households

~12M TV users

~60% Pay TV market share

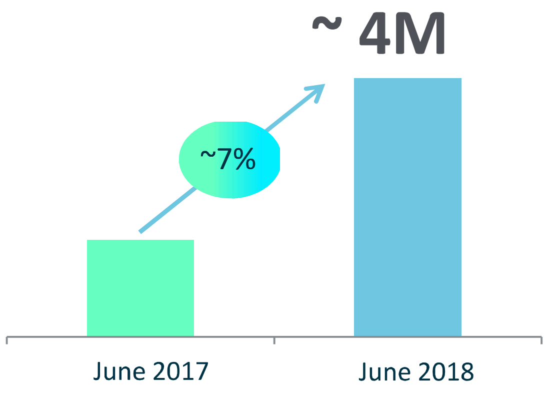
15-20% "Prime time" share
M+ own production channels

Data as of June 2018

… ensuring a healthy growth and customer stickiness

More TV subscribers…

x3 vs the next competitor

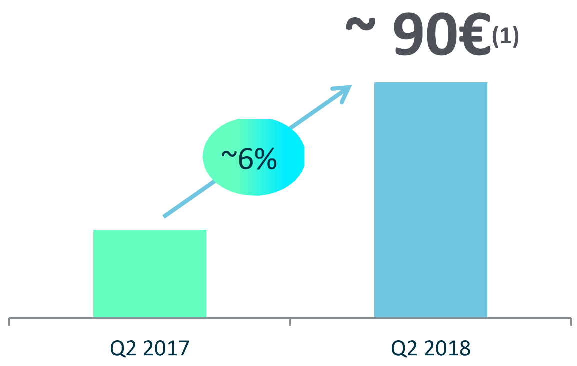


34% *Pay TV Penetration in Spain*

Source: Telefonica, Quaterly reports – June 2018 – CNMC Data 2017 – and Analisys Mayson Dec. 2017 TV penet.

…while growing ARPU…

x3 TV ARPU vs the next competitor



~80% *Fusion customers with TV*

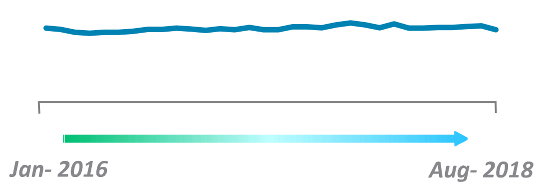
48% *Fusion TV High Value[2] customers*

(1) Fusion ARPU
(2) High value customers does not include Fusión Series, Fusión #0 and old modalities such as Contigo, Mini

… and increasing loyalty

↓25% *TV drives churn reduction vs Fusion non-TV customers*

Best in class churn - stable



Data as of August 2018

As a plus, positive spillover in brand attributes

VARIETY ≡ FILM TV MUSIC TECH GAMING THEATER

HOME > FILM > GLOBAL — MAY 23, 2018 1:00AM PT

Movistar + Moves Into Original Film With Alejandro Amenábar's Next Project (EXCLUSIVE)

By JOHN HOPEWELL and EMILIANO DE PABLOS

CREDIT: CLAUDIO ONORATI/EPA/REX/SHUTTERSTOCK

Movistar +, the high-flying pay-TV division of Telefonica, one of Europe's biggest telecoms, is powering into original film production with a project by Spanish director Alejandro Amenábar ("The Others").

Fotogramas

Fotogramas CINE SERIES TV ESTRENOS CRÍTICAS GENTE — SUSCRÍBETE SÍGUEN

NOMINACIONES DE LOS PREMIOS IRIS 2018: LA SERIE 'EL DÍA DE MAÑANA' PARTE COMO FAVORITA

Los Premios Iris, que reconocen a los mejores producto y profesionales televisivos de España, se entregarán el octubre.

POR ÁLVARO ONIEVA 20/07/2018

LA VANGUARDIA

Pleno para Movistar+ en los Premios Feroz, emitidos por la plataforma

- 'Vergüenza' y 'La Zona' fueron las grandes triunfadoras de la noche

Los actores Javier Gutiérrez y Malena Alterio posan con los premios a "Mejor actor y mejor actriz protagonista de una serie" por su trabajo en "Vergüenza", durante la entrega de los premios Feroz (Juanjo Martín / EFE)

ELLE

La primera gran alfombra (azul) de la temporada

Por Marta Alameda 12/09/2018

1/33 DIAPOSITIVAS © Gtresonline — Pantalla completa

Movistar+ celebró ayer su evento 'upfront' para presentar durante su alfombra azul todas las novedades de la temporada televisiva 2018/2019. Amaia Salamanca, Mónica Cruz, Marta Hazas, Inmma Cuesta, Juana Acosta, Mario Casas... nadie quiso perderse esta gran cita que da comienzo a todas las fiestas de la temporada tras el final del verano. Repasamos los mejores looks de los invitados.

6 FEROZ Awards

4 Vergüenza - 2 La Zona

San Sebastián International film festival

'La peste', first TV series that participates in the Official Section

Fotogramas DE PLATA 2017

2 Fotogramas Awards

"La Zona", Best Spanish TV Series 2017 according to the critic.

Malena Alterio, best TV Actress for 'Vergüenza'

FESTVAL

'Radio Gaga' (#0), Revelation Show Award

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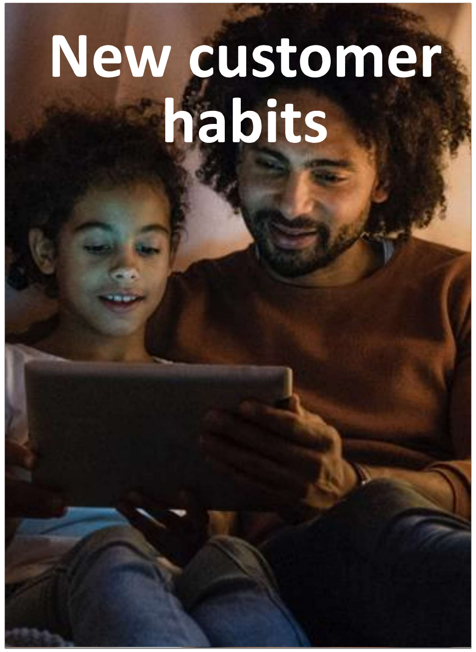
Key messages

1. Unbeatable proposition that translates to value
2. **A new TV scenario that brings new opportunities**
3. A case for growth

A new scenario that brings new opportunities



- Unique platform

- New alliances
- Differentiation through exclusivity

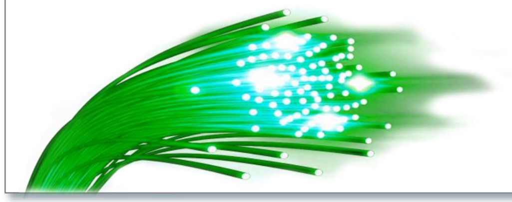
- Cognitive capabilities
- Telco-Media advantage

A unique platform, differential for new consumer habits

Network

300M TV interactions/day

3Tbps CDN Capacity
(x10 in two years)



Efficient Architecture

~2M Multi device customers

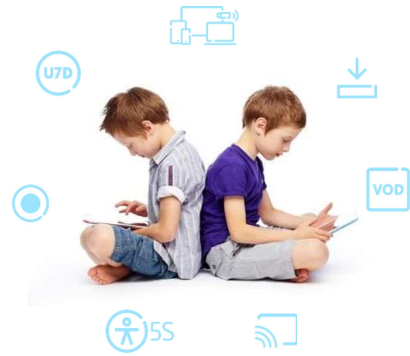
Robust OTT - already tested

20% Of total M+ Consumption is OnDemand

Cloud-based

80% Customers using advanced functionalities

Cost-effective equipment



Cognitive Intelligence

~500K Customers have used AURA

x3.5 Personalization - Content viewing multiplier

Improvement of own production

Data as of August 2018

Differential content: The case for own production

Fiction

EXCLUSIVE

Originales movistar+

10 Movistar Originals Series launched

5 Originals in TOP 6 platform series audience

48 Countries – International sales

BBC · N · STARZ · Rai · amazon · SKY · SONY Entertainment Television

1st Movie - producing:

"Mientras dure la guerra"
Alejandro Amenábar - End of 2019

12-15 series per year

Entertainment

EXCLUSIVE

#0 de movistar+

+35% Ratings growth in prime time vs 2017

23% #0 addicted fans

5 Shows nominated to Spanish TV Emmys in 4 different categories

20-30 entertainment shows per year

Data as of August 2018

Differential content: The case for selected exclusive rights

Sports

Premium content

Exclusive deals…

SHOWTIME, Disney, BBC, ATRESMEDIA, MEDIASET españa.

…and exclusive priority **blockbusters releases**(1)

Walt Disney Pictures, 20th Century Fox, Warner Bros. Pictures, Universal, Paramount, Columbia Pictures

Focus on key properties

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(1) Content from top majors – “Movistar Estrenos”.
Scope for Atresmedia and Mediaset agreement in Spanish movies

Differential content: The case for football rights

Critical rights for **high value customers**

- **Highest ARPU**
- **Lowest churn**

Provides **stability** while controlling **inflation**

- **Gaining visibility for 3-4 years**
- **From Q3 2019, flat football costs**

Ownership of rights providing extra **flexibility**

- **Gaining commercial/monetization flexibility**
- **Financial flexibility** by eliminating intermediary margin
- **New advertising** revenue streams

No Champions League FTA TV from Q3 18

- **Additional growth for Pay TV market**/ higher penetration
- **Football 3 out of 5 most watched TV** events last season

Status today: **plan is working**

- **Strong commercial traction in August** (the start of La Liga) **& Sept** (Start of Champions League), first "Clasico" (R. Madrid-FCB Barcelona) **in Oct**
- **Strengthening Revenue growth & value** for the future

Differential content: Extracting the best value from other sports

New channel, new experience

- Launched **16th September** 2018
- **Upgrade tool** for premium packages
- **Advertising opportunity**

Building new alliances: Netflix as a case of example

UX Integration

Total integration of the Netflix experience within the Movistar+ UX

Commercial bundling

Agreement with Netflix allows us to boost **commercial offers with bundles to maximize ARPUs**

Establishment of a new integration model

In conversation with **other partners**

New tech that enables new opportunities

1 Personalized advertising

VoD (today)

Linear (Oct-15th)

- Creation of different signals for advertising commercial clusters - #0 channels

2 Movistar Home

October / November

- Comms, television, video calls and connectivity, all in the same device to manage and interact with Aura

3 More than TV

2019

- **+ Button** that allows enjoy new services and products such as e-commerce, videoconference and home automation

Key messages

1. Unbeatable proposition that translates to value
2. A new TV scenario that brings new opportunities
3. **A case for growth**

A case for growth

- **Value generating business**: positive margins stand-alone plus additional value through increased stickiness and ARPU growth
- Leadership position, enabling **differentiation** on scale and commercialization
- Relevant scale enabling **efficiency in negotiation** and own content production
- 34% **TV market penetration** in Spain allow for further healthy growth
- Superior tech platform opening up **new growth opportunities**

Strong focus on value creation

Key Takeaways

Laura Abasolo
Chief Financial and Control Officer

Key Takeaways

Unmatchable Video Platform

We built a superior platform to deliver a unique UX and drive stickiness

Flexible approach

To continue leading in Spain and to unlock value in Latam leveraging enhanced capabilities

Sustainable and profitable lever

Video to drive further scale and profitable growth

Q&A Session

Laura Abasolo

Michael Duncan

Sergio Oslé

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