

MUNICH, 25 October 2017

### Preliminary results for January to September 2017

## **Telefónica Deutschland maintained strong operational momentum in the third quarter of 2017 and announces dividend proposal for the financial year 2017**

- **O<sub>2</sub> Free anniversary promotions and the new O<sub>2</sub> Free portfolio generate strong trading momentum and boost data usage**
- **Underlying MSR<sup>1</sup> at -0.1% year-on-year in Q3, a further sequential improvement**
- **OIBDA<sup>2</sup> up +2.1% year-on-year reflecting successful synergy capture as well as market invest and regulatory effects; refining guidance range to “flat to low single digit % growth”**
- **Fully on track to achieve 75% of total operating cash flow synergies by year-end 2017; additional savings of ~EUR 40 million at OIBDA level and ~EUR 30 million of Capex-relevant synergies**
- **Dividend proposal of EUR 0.26 per share for the financial year 2017, up 4% year-on-year**

### Third quarter 2017 operational & financial highlights

- **Mobile postpaid** posted 183 thousand net additions, leveraging solid trading momentum in retail on the back the 15-year anniversary promotions of the O<sub>2</sub> brand and the new O<sub>2</sub> Free portfolio launched on 6 September 2017. Partner trading reflects the shift to higher price points and larger data allowances with 53% share of gross adds. Contract churn remains low at 1.6% on the back of the continued focus on customer base development, +0.1percentage points quarter-on-quarter in line with seasonal dynamics
- **Mobile prepaid** saw 535 thousand net disconnections reflecting seasonality and lower demand from customers due to a more complex registration process following the introduction of the prepaid ID check and after the new roam-like-home regulation
- The **LTE customer base** was up 48.4% to 15.7 million, supported by strong demand in the prepaid base. The introduction of larger data buckets within O<sub>2</sub> Free 15 and the new O<sub>2</sub> Free portfolio further stimulated **data usage** amongst new and existing customers. For LTE customers in O<sub>2</sub> consumer postpaid data usage grew 17% quarter-on-quarter to 2.4 GB per month, up 51% year-on-year

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<sup>1</sup> Excluding the impact from regulatory changes in form of the termination rate effect and the glide path of the European roaming regulation

<sup>2</sup> Excluding exceptional effects. The nine months ending 30 September 2017 include restructuring expenses of EUR 51 million and EUR 2 million of acquisition related consultancy fees, while the same period of 2016 included restructuring expenses of EUR 59 million as well as the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352 million. For 2016, we have calculated an OIBDA comparable which includes the operating lease-related effects from the sale of Telefónica Deutschland's passive tower infrastructure as if it had occurred on 1 January 2016

- **Revenue** came to EUR 1,850 million (-1.3% year-on-year), reflecting the impact of regulatory effects in form of the reduction of termination rates and the European roaming legislation on **mobile service revenue**. Mobile service revenue were 3.6% lower year-on-year at EUR 1,344 million on a reported basis. Excluding regulation, mobile service revenue showed further sequential improvement of year-on year trend to -0.1% (-0.4% in Q2)
- **Handset revenue** totalled EUR 290 million (+27.9% year-on-year), benefitting from stock clearance activities and an improvement in the underlying trends
- **Fixed-line revenue** fell 12.8% year-on-year to EUR 214 million, reflecting the lower year-on-year customer base in retail DSL, as well as the effects of the planned decommissioning of the legacy infrastructure on wholesale DSL dynamics
- **OIBDA** excluding exceptional effects<sup>3</sup> was up 2.1% year-on-year to EUR 468 million and benefited from an additional ~EUR 40 million of Opex and revenue-related synergies. This was partly offset by investments into the market to drive commercial momentum as well as regulatory effects, in particularly from the roam-like-home regulation. The OIBDA margin excluding exceptional effects expanded by 0.9 percentage points year-on-year to 25.3% in the third quarter
- **CapEx**<sup>4</sup> amounted to EUR 254 million (-19.2% year-on-year) as the company benefitted from incremental synergy related savings of ~EUR 30 million, while continuing to invest in efficient network consolidation and LTE rollout
- **Consolidated net financial debt**<sup>5</sup> stood at EUR 1,514 million at the end of September 2017 with a leverage ratio of 0.8x, which is in line with target

<sup>3</sup> Excluding exceptional effects. The nine months ending 30 September 2017 include restructuring expenses of EUR 51 million and EUR 2 million of acquisition related consultancy fees, while the same period of 2016 it included restructuring expenses of EUR 59 million as well as the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352 million. For 2016, we have calculated an OIBDA comparable, which includes the operating lease related effects from the sale of Telefónica Deutschland's passive tower infrastructure as if it had occurred on 1 January 2016

<sup>4</sup> Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum

<sup>5</sup> Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes the payables for the spectrum auction

### **Progress of integration and transformation activities**

Telefónica Deutschland continues to execute on integration projects and milestones according to plan and remains fully on track to achieve cumulated integration related savings of ~EUR 670 million by year end 2017, i.e. 75% of the total target of ~EUR 900 million of operating cash flow from synergies in 2019.

In the second half of 2017, our core focus remains on network integration:

- With the nationwide conversion to a common mobile network code (MNC) for our 2G, 3G and 4G networks we have achieved a further key milestone in the consolidation of our networks. As a result of the so-called recolouring, all of our customers now see the same network on their mobile devices – even in areas of the country where the network has not yet been consolidated
- Since mid-September mobile customers on the Telefónica Deutschland network can now also make calls from our network into the mobile network of Deutsche Telekom in HD voice quality – and vice versa
- Tests carried out by a independent service provider confirm the progress we are making in consolidated areas with regards to significantly improved network quality. Measured at signal strength (RSCP, received signal code power), we are on a par with competition

We will continue to progress with the network consolidation via a region by region approach in line with the original target to finalise the network integration by year-end 2018.

At the same time, we continue to push ahead with other ongoing integration activities such as personnel restructuring or the further optimisation of our shop footprint. All integration initiatives are running according to plan.

### **Transformation: Opportunities beyond connectivity**

We continue to leverage new business opportunities in the areas of Advanced Data Analytics (ADA) and the Internet of Things (IoT), bundled under Telefónica NEXT:

- We are enhancing our expertise in the area of analysing anonymised mobile network data for the benefits of optimising traffic, like in the cities of Munich and Berlin
  - Together with the partner Intraplan, a consulting partner for the transport sector, the findings from movement flows will complement existing traffic analysis in Munich, in particular to simulate traffic volumes in the context of selective events such as football matches
  - Telefónica NEXT has joined the ProTrain project team in Berlin-Brandenburg for a three-year project to optimise public transportation, promoted by the Federal Ministry of Transport and Digital Infrastructure
- Selective O<sub>2</sub> stores are now also benefitting from smart instore data analytics solutions. Measuring and analysing visitor flows and the time customers are spending in different areas of the shop, helps us to better understand customer needs and thus optimise the design of our shops in line with customer demand

In addition, we are increasingly focussing on the digital transformation of Telefónica Deutschland. We are placing the customer at the heart of our transformation agenda and firmly believe in the benefits of simplification and digitalisation as profitability drivers beyond integration.

### **Commercial update**

In a dynamic yet rational environment in the third quarter of 2017 the German mobile market continued to show an increasing focus on larger data bundles. Telefónica Deutschland has been at the forefront of this development by updating its O<sub>2</sub> Free portfolio to set new standards for mobile freedom. With regards to our commercial activities, we have maintained a clear focus on stimulating data usage amongst our customers:

- For 15 weeks, from the end of May until the beginning of September 2017, we celebrated the 15<sup>th</sup> birthday of our premium brand O<sub>2</sub>. The promotional 15 GB tariff as well as further selective offers for new and existing customers in mobile and fixed were a success with a significant impact on data growth
- The anniversary campaign was closely followed by an update of the O<sub>2</sub> Free portfolio from 6 September 2017. Our new tariff plans with larger data buckets are a further evolution of our successful data monetisation strategy. The focus on driving data consumption is the next logical step in an increasingly digital world and sets an end to compromises for our customers in their digital lives. As of the end of September, Telefónica Deutschland has also updated its O<sub>2</sub> Free business portfolio

## **Financial Outlook 2017**

In a dynamic competitive environment, Telefónica Deutschland maintained solid operational momentum in 2017, also supported by the strong performance of our partners. Our portfolio update in September was the next logical step in an increasingly digital world. We are setting a new standard for the mobile freedom of our customers by focusing on larger data packages. At the same time, we continue to invest in the market to benefit from the acceleration of data consumption. Headwinds from regulatory effects will continue to impact mobile service revenue in reported terms. Excluding the effects from the mobile termination rate cut and the roam-like-home regulation of 3-4% year-on-year in total, we reiterate our expectations for underlying mobile service revenue to be “slightly negative to flat” year-on-year.

Synergy execution through the year has been in line with expectations, and we confirm our full year savings target of an additional ~EUR 160 million in Opex and revenue-related synergies as well as ~EUR 80 million of Capex-related synergies. By year-end 2017 we are expecting to reach 75% (~EUR 670 million) of our total operating Cash Flow savings target of ~EUR 900 million in 2019.

While benefitting from synergies, OIBDA before exceptional effects<sup>6</sup> in 2017 will continue to reflect the effects from the above-mentioned regulatory changes (regulatory drag unchanged 4-5% year-on-year) as well as our investment focus. We already see a significant uptick in data usage from customers under the new roam-like-home regime, and the elasticity effects are weighing on connectivity-related wholesale costs. We continue to monitor this trend closely as customers are adopting the new regulated tariffs and changing their usage behaviour also as a result of larger data allowances. In addition, the changing environment in the German market also requires us to invest in the market to partake in the revenue opportunity presented by accelerating data usage growth. The combination of these effects allows us to refine our OIBDA<sup>6</sup> expectations within the original guidance range to “flat to-low single digit % growth”.

In terms of Capex<sup>7</sup> development, we are reiterating our full year 2017 outlook of around EUR 1 billion, as we maintain our focus on the efficient consolidation of our network and the further roll-out of LTE.

Our confidence in our ability to generate Free Cash Flow remains strong and our leverage target of “at or below 1.0x net debt to OIBDA” remains unchanged over the medium term, while being continually reviewed. We continue to view ourselves as a dividend-paying company. In line with our already announced plans for dividend growth over three years (2016-2018), we are proposing a dividend of EUR 0.26 per share (+4% year-on-year) to next year’s AGM, a dividend yield of ca. 6% at current share price levels.

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<sup>6</sup> Exceptional effects (mostly restructuring costs) are excluded from our OIBDA guidance. For 2016, we have calculated an OIBDA comparable, which includes the operating lease-related effects from the sale of Telefónica Deutschland’s passive tower infrastructure as if it had occurred on 1 January 2016

<sup>7</sup> Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum

	<b>Base line 2016</b> (EUR mil- lion)	<b>Outlook 2017</b> (year-on-year)	<b>9 months 2017</b> (year-on-year)	<b>Outlook 2017 NEW</b> (year-on-year)
<b>Mobile Service Revenue</b> underlying <sup>8</sup>	5,437	Slightly negative to flat	-0.4%	Slightly negative to flat
<b>OIBDA</b> before exceptional effects <sup>9</sup>	1,793	Flat to mid-single- digit % growth	+3.1%	Flat to low-single- digit % growth
<b>Capex</b> <sup>10</sup>	1,102	Around EUR 1 billion	EUR 688 million	Around EUR 1 billion
<b>Dividend</b>	EUR 0.25 per share	Dividend growth over three years (2016-2018)	n. a.	EUR 0.26 per share (proposal)

<sup>8</sup> The impact from regulatory changes in form of the termination rate effects and the glide path of the European roaming legislation are excluded from the MSR guidance. Altogether these effects will result in a drag on 2017 MSR of approx. 3-4% year-on-year

<sup>9</sup> Exceptional effects such as restructuring costs are excluded from our OIBDA guidance. For 2016, we have calculated an OIBDA comparable, which includes the operating lease-related effects from the sale of Telefónica Deutschland's passive tower infrastructure as if it had occurred on 1 January 2016

<sup>10</sup> Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum

**Telefónica Deutschland operating performance in the first nine months of 2017**

Telefónica Deutschland had 49.4 million **customer accesses** (+0.4% year-on-year) at the end of September on the back of a 1.7% year-on-year increase in the mobile base, which was 44.8 million. Based on market standards for inactivity accounting as introduced with the first quarter results, we had 48.4 million mobile customer accesses and 52.9 million accesses in total. In fixed, the retail DSL customer base was 2.1 million accesses (-1.4% year-on-year). Wholesale DSL accesses (298 thousand at the end of September, -62.3% year-on-year) continued to decline in line with expectations due to the planned dismantling of the legacy ULL platform by 2019.

**Mobile postpaid** net additions totalled 551 thousand in the nine month period (183 thousand in the third quarter of 2017) compared to 945<sup>11</sup> thousand in the same period of 2016 (426 thousand<sup>11</sup> in the third quarter). As a result of the improvements in the discount pricing environment, the rebalancing of retail versus wholesale trading continued. Contribution of partner brands was 53% of gross adds in the third quarter vs. 55% in the first and second quarter of the year. Retail trading momentum improved on the back of the strong traction of the 15-year anniversary promotions of the O<sub>2</sub> brand and the new O<sub>2</sub> Free portfolio launched on 6 September 2017. Telefónica Deutschland maintained a clear focus on customer base development and retention. At the end of September, the mobile postpaid base was 21.1 million accesses, up 4.4% year-on-year. The postpaid share of total mobile customers further increased by 1.2 percentage points year-on-year to 47.0%.

**Mobile prepaid** saw 30 thousand net disconnections for January to September 2017 (-107 thousand in the same period of 2016) with the third quarter contributing 535 thousand<sup>11</sup> net disconnections (59 thousand<sup>11</sup> net additions in the same quarter of 2016) reflecting slightly lower demand from customers on the back of a more complex registration process following the introduction of the prepaid legitimization check in July 2017. In addition, the roam-like-home regulation impacted the demand for short-term use of SIM-cards by European visitors. Churn improved by 0.5 percentage points year-on-year in the nine months period. The customer base remained broadly stable year-on-year at 23.8 million.

**Postpaid churn** remained low and broadly stable year-on-year at 1.6% - both in the nine months period (+ 0.1 percentage points year-on-year) and in the third quarter (-0.1 percentage points year-on-year). The O<sub>2</sub> consumer postpaid brand continued to reflect our successful brand management and retention focus and reported an even lower churn of 1.3% in the first nine months and 1.5% in the third quarter.

**Smartphone penetration**<sup>12</sup> as of the end of September was 58.7% across brands and segments, up 1.2 percentage points quarter-on-quarter.

The **LTE customer base** saw another quarter of strong growth driven by the increasing demand for high-speed mobile also in our prepaid customer base and reached 15.7 million accesses as of 30 September 2017, up 48.4% year-on-year.

<sup>11</sup> Excluding reclassification of 172 thousand customers from prepaid to postpaid as part of the customer migration activities in Q3-2016

<sup>12</sup> Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M and data-only accesses

The effects from regulatory changes outweighed accretive effects from O<sub>2</sub> Free on the **ARPU**. The blended mobile ARPU came to EUR 9.7 in the first nine months and EUR 9.8 in the third quarter, 6.8% and 7.0% lower year-on-year respectively. The postpaid ARPU was EUR 15.6 in the nine month period and EUR 15.7 in the third quarter, 6.1% and 5.5% lower year-on-year respectively. The prepaid ARPU continued to be affected by the prepaid to postpaid dynamics in the discount segment. It came in 11.4% lower year-on-year at EUR 5.1 in the period January to September, and 12.5% lower year-on-year at EUR 5.2 in the third quarter.

The **retail fixed broadband customer base** was broadly stable (-1.4% year-on-year) as of the end of September at 2.1 million accesses, with 31 thousand net disconnection in the nine months period and -10 thousand in the third quarter. The demand for high-speed VDSL remained strong with 257 thousand net additions in the nine months up to September (+19.5% year-on-year) at 1.1 million accesses, with the third quarter posting record net additions of 103 thousand.

**Fixed wholesale accesses** were 298 thousand at the end of September, registering 393 thousand net disconnections in the first nine month of 2017 (-130 thousand in the third quarter) due to the planned decommissioning of the ULL broadband access infrastructure.



## **Telefónica Deutschland financial performance in the first nine months of 2017**

**Revenue** was 3.1% lower year-on-year at EUR 5,392 million (-1.3% year-on-year in the third quarter to EUR 1,850 million) with headwinds from regulatory changes weighing on mobile services revenue and unchanged trends in the fixed business.

**Mobile service revenue** amounted to EUR 3,954 million (-3.3% year-on-year) in the first nine months of the year and EUR 1,344 million (-3.6% year-on-year) in the third quarter on a reported basis, reflecting strong regulatory headwinds as well as sustained OTT-trends, the ongoing legacy base rotation and the retail to wholesale shift. Excluding regulatory effects from termination rate cuts and the European roaming legislation, which totalled EUR 118 million for January to September (EUR 48 million in the third quarter), mobile service revenue was down 0.4% year-on-year in the nine months period and 0.1% year-on-year in the third quarter. In a dynamic competitive environment, the before-mentioned top line headwinds continued to outweigh the benefits from the successful marketing of the O<sub>2</sub> Free portfolio to new and existing customers.

**Mobile data revenue** was broadly stable year-on-year at EUR 2,238 million (-0.3% year-on-year) for the period January to September and down -2.2% year-on-year to EUR 750 million, reflecting sustained OTT trends as well as demand from customers for higher data bundles. **Non-SMS data revenue** amounted to EUR 1,803 million (+5.0% year-on-year) up to September 2017 and EUR 605 million (+2.1% year-on-year) in the third quarter, increasing the share of data revenue by 1.7 percentage points year-on-year to 56.6 % in the nine months period.

**Handset revenue** grew 7.3% year-on-year to EUR 772 million up to September, with slight improvement of the underlying demand for handsets in the third quarter of the year, which also benefitted from stock clearance activities and posted an increase of 27.9% year-on-year to EUR 290 million.

**Fixed revenue** continued to fall to EUR 654 million (-12.0% year-on-year) in the nine months period and EUR 214 million (-12.8% year-on-year) in the third quarter. Fixed retail revenue in the first nine months of 2017 benefitted from the increasing demand for VDSL and contributed -2.5% to the year-on-year decline (-2.8% contribution in the third quarter). The decline of fixed wholesale revenue continued to accelerate and contributed -7.2% to the year-on-year decline and -8.4% in the July to September period, on the back of the planned dismantling of the legacy infrastructure.

**Other income** totalled EUR 97 million compared to EUR 469 million in the nine months of 2016, which included an exceptional effect of EUR 352 million from the sale of tower assets in April.

**Operating expenses** were 5.2% lower year-on-year in the nine months period and 2.1% lower in the third quarter at EUR 4,201 million and EUR 1,442 million respectively and continued to benefit from additional integration synergies while we continued to invest in the market. Restructuring costs amounted totally to EUR 51 million (EUR 21 million in the third quarter) and were mainly related to network, the optimisation of our shop footprint and the leaver programme.

- Cost for **supplies** were EUR 1,759 million, 1.1% lower year-on-year in the period up to September, while they were up 9.6% year-on-year at EUR 627 million in the third quarter. Hardware cost of sales (47% of supplies in the third quarter) were up year-on-year driven by higher volumes. Connectivity-related cost of sales (43% of supplies in the third quarter) were lower year-on-year on the back of the mobile termination rate reduction in December 2016, partly offset by the impact of usage elasticity effects on wholesale costs for outbound roaming.
- **Personnel expenses** declined 3.6% year-on-year to EUR 471 million including restructuring costs of EUR 22 million, while the third quarter saw a 2.4% year-on-year increase to EUR 158 million (including restructuring costs of EUR 9 million), as the insourcing of customer service employees offsets savings from the FTE restructuring programme.
- **Other operating expenses** amounted to EUR 1,972 million (-8.9% year-on-year, including restructuring costs of EUR 29 million) and EUR 657 million in the third quarter (-12.0% year-on-year). Savings from integration initiatives were partly offset by higher commercial investments into the positioning and marketing of O<sub>2</sub> Free. In the third quarter, commercial costs were 59% of other opex and non-commercial costs made up 38% respectively.

**Operating Income before Depreciation and Amortisation (OIBDA)** in the first nine months period came to EUR 1,288 million (EUR 1,606 million in the prior year, which included the exceptional effect of EUR 352 million from the sale of tower assets in April). In the third quarter it was up 2.4% year-on-year to EUR 447 million.

**OIBDA excluding exceptional effects**<sup>13</sup> was 3.1% higher year-on-year at EUR 1,341 million until September and up 2.1% year-on-year to EUR 468 million for July to September. The drag from regulatory changes on OIBDA came to EUR 42 million in the nine months period and EUR 28 million for July to September while in-year savings from OPEX & revenue-related integration activities amounted to approx. EUR 115 million (~EUR 40 million for the third quarter). The OIBDA margin in the third quarter increased by 0.9 percentage points year-on-year to 25.3%.

**Group fees** amounted to EUR 30 million in the first nine months of 2017 (same period in 2016: EUR 46 million) and EUR 10 million in the third quarter (same period 2016: EUR 20 million).

<sup>13</sup> Excluding exceptional effects. The nine months ending 30 September 2017 include restructuring expenses of EUR 51 million and EUR 2 million of acquisition related consultancy fees, while the same period of 2016 it included restructuring expenses of EUR 59 million as well as the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352 million. For 2016, we have calculated an OIBDA comparable, which includes the operating lease related effects from the sale of Telefónica Deutschland's passive tower infrastructure as if it had occurred on 1 January 2016

**Depreciation & Amortisation** totalled EUR 1,440 million up to September from EUR 1,602 million in prior year mainly due to the accelerated amortisation of software assets on the back of IT integration measures and the expiration of various spectrum licenses in 2016.

The **operating loss** for January to September 2017 was EUR 152 million compared to an operating income of EUR 4 million in the same period of 2016, due to the above-mentioned sale of passive tower infrastructure which was partly offset by an amortisation decrease of EUR 162 million year-on-year.

**The net financial loss** for the nine months period was stable year-on-year at EUR 26 million.

The company reported no material **income tax** for January to September 2017.

**The net loss** for the first nine months of 2017 was EUR 178 million.

**CapEx**<sup>14</sup> benefitted from ~EUR 50 million of integration related savings (~EUR 30 million in the third quarter), mainly from network integration, and amounted to EUR 688 million (-7.5% year-on-year) and EUR 254 million in the third quarter (19.2% lower year-on-year). We maintained our focus on the efficient consolidation of the network while further rolling out LTE infrastructure and bringing fibre to the backhaul as a preparation for 5G.

**Operating cash flow** (OIBDA minus CapEx<sup>14</sup>) was EUR 600 million, 30.4% lower year-on-year.

**Free Cash Flow (FCF)**<sup>15</sup> amounted to EUR 268 million up to September 2017.

**Working capital movements** were negative in the amount of EUR 322 million, primarily driven by seasonal prepayments of EUR 110 million mainly for leased lines and rental contracts for mobile sites, as well as other recurring working capital movements, which include Capex payables, silent factoring transactions and the change in restructuring provisions.

**Consolidated net financial debt**<sup>16</sup> was EUR 1,514 million at the end of September 2017, with a leverage ratio of 0.8x compared to 0.4x at year end 2016. The increase resulted mainly from the EUR 744 million dividend payment in May 2017 for the financial year 2016.

<sup>14</sup> Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum

<sup>15</sup> Free cash flow pre dividends and payments for spectrum (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum as well as related interest payments

<sup>16</sup> Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes the payables for the spectrum auction

## APPENDIX – DATA TABLES

### TELEFÓNICA DEUTSCHLAND GROUP SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

(Euros in millions)	January 1 to September 30			January 1 to September 30		
	2017	2016	% Chg	2017	2016	% Chg
Revenues	1,850	1,876	(1.3)	5,392	5,567	(3.1)
Operating income before depreciation and amortisation (OIBDA), before exceptional effects (1) and before special effects (2)	468	467	0.1	1,341	1,327	1.0
OIBDA before exceptional effects and special effects-margin	25.3%	24.9%	0.4%-p.	24.9%	23.8%	1.0%-p.
Special effects (2)	–	(9)	(100.0)	–	(15)	(100.0)
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)	468	458	2.1	1,341	1,312	2.2
OIBDA before exceptional effects-margin	25.3%	24.4%	0.9%-p.	24.9%	23.6%	1.3%-p.
Exceptional effects (1)	(21)	(22)	(2.9)	(53)	294	(>100.0)
Operating income before depreciation and amortisation (OIBDA)	447	436	2.4	1,288	1,606	(19.8)
OIBDA margin	24.1%	23.3%	0.9%-p.	23.9%	28.8%	(5.0%-p.)
Group fees	10	20	(49.6)	30	46	(34.5)
Operating income before depreciation and amortisation (OIBDA) and before group fees	457	456	0.1	1,318	1,652	(20.2)
OIBDA before group fees margin	24.7%	24.3%	0.4%-p.	24.4%	29.7%	(5.2%-p.)
Operating income	(29)	(96)	(69.4)	(152)	4	(>100.0)
Total profit (loss) for the period	(39)	(105)	(63.1)	(178)	(22)	>100.0
Basic earnings per share (in euros) (3)	(0.01)	(0.04)	(63.1)	(0.06)	(0.01)	>100.0
CapEx (4)	(254)	(314)	(19.2)	(688)	(743)	(7.5)
Operating cash flow (OIBDA-CapEx) (4)	193	123	57.7	600	863	(30.4)
Free cash flow pre dividends and payments for spectrum (5)	200	352	(43.1)	268	951	(71.8)

(1) Exceptional effects as of 30 September 2017 include restructuring expenses amounting to EUR 51m and acquisition related consultancy costs amounting to EUR 2m. Exceptional effects as of 30 September 2016 include restructuring expenses amounting to EUR 59m as well as the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352m.

(2) Special effects as of 30 September 2017 consist of the Telxius deal's OIBDA impact resulting primarily from higher operating lease expenses starting in May 2016.

(3) Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 2,975m for the years 2017 and 2016.

(4) Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum.

(5) Free cash flow pre dividends and payments for spectrum is defined as the sum of the cash flows from operating activities and the cash flows from investing activities and does not contain payments for investments in spectrum as well as related interest payments.

(6) Exceptional effects include restructuring costs. We have calculated an OIBDA comparable for 2016 reported, which includes the operating lease-related effects from the sale of Telefonica Deutschland's passive tower infrastructure in April 2016, as if it had occurred on 1 January 2016.

(Euros in millions)	January 1 to September 30			January 1 to September 30		
	2017	2016	% Chg	2017	2016	% Chg
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)(6)	468	458	2.1	1,341	1,312	2.2
Special effects, January - April	–	–	–	–	(12)	(100.0)
Operating income before depreciation and amortisation (OIBDA), before exceptional effects (1)(6) and after special effects for comparable purposes	468	458	2.1	1,341	1,301	3.1

Note:

OIBDA margin, OIBDA before group fees margin and OIBDA before exceptional effects-margin are calculated as percentage of total revenues, respectively.

**TELEFÓNICA DEUTSCHLAND GROUP**

(in thousands)	2017			2016			
	Q1	Q2	Q3	Q1	Q2	Q3	Q4
Final clients accesses	48,988	49,479	49,105	47,342	47,754	48,405	48,655
Fixed telephony accesses	2,000	1,988	1,979	2,003	2,007	2,007	2,010
Internet and data accesses	2,313	2,297	2,284	2,331	2,330	2,325	2,324
Narrowband	217	215	212	229	226	223	221
Broadband	2,095	2,082	2,072	2,101	2,104	2,102	2,104
thereof VDSL	872	960	1,063	593	669	732	806
Mobile accesses	44,675	45,194	44,842	43,008	43,417	44,074	44,321
Prepaid	23,967	24,289	23,754	23,744	23,814	23,873	23,784
Postpaid	20,708	20,905	21,088	19,264	19,603	20,201	20,537
thereof M2M	830	897	969	682	704	748	788
Postpaid (%)	46.4%	46.3%	47.0%	44.8%	45.2%	45.8%	46.3%
Smartphone penetration (%) (1)	57.0%	57.4%	58.7%	55.4%	56.2%	59.2%	59.5%
LTE customers (2)	13,968	14,422	15,679	8,691	9,400	10,566	12,063
Wholesale accesses (3)	562	428	298	911	850	791	691
<b>Total accesses</b>	<b>49,550</b>	<b>49,907</b>	<b>49,403</b>	<b>48,252</b>	<b>48,605</b>	<b>49,196</b>	<b>49,346</b>

(1) Smartphone penetration is calculated based on the number of customers with a smallscreen tariff (e.g. for smartphones) divided by the total mobile customer base, less M2M and customers with a bigscreen tariff (e.g. for surfsticks, dongles, tablets).

(2) LTE customer defined customer with LTE enabled handset & LTE tariff.

(3) Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access.

(in thousands)	2017			2016			
	Q1	Q2	Q3	Q1	Q2	Q3	Q4
Mobile accesses on a market comparable basis (4)	47,861	48,388	48,372	—	—	—	—
Prepaid	26,770	27,150	26,906	—	—	—	—
Postpaid	21,091	21,237	21,467	—	—	—	—

(4) At the beginning of the year Telefonica Deutschland introduced an additional methodology for counting mobile accesses. It takes into account the prevailing market definition of the time window for counting inactive prepaid customers.

**TELEFÓNICA DEUTSCHLAND GROUP**
**SELECTED OPERATIONAL DATA**
*Unaudited*

	2017			2016			
	Q1	Q2	Q3	Q1	Q2	Q3	Q4
ARPU (in euros) (1)	9.6	9.7	9.8	10.3	10.4	10.5	10.1
Prepaid	5.0	5.2	5.2	5.7	5.7	5.9	5.6
Postpaid excl. M2M	15.5	15.5	15.7	16.6	16.6	16.6	16.0
Data ARPU (in euros)	5.4	5.7	5.6	5.6	5.8	5.8	5.6
% non-SMS over data revenues (2)	79.4%	81.7%	80.6%	75.4%	76.7%	77.2%	78.2%
Voice Traffic (m min) (3)	23,966	23,709	23,006	23,696	24,689	23,275	24,553
Data Traffic (TB) (4)	86,423	98,612	110,684	51,599	61,726	74,361	81,641
Churn (%)	1.9%	1.9%	2.1%	2.5%	2.1%	2.1%	2.3%
Postpaid churn (%) excl. M2M	1.6%	1.5%	1.6%	1.8%	1.6%	1.2%	1.6%

**Notes:**

(1) ARPU (average revenue per user) is calculated as monthly average of the quarter.

(2) % non-SMS over data revenues in relation to the total data revenues.

(3) Voice Traffic is defined as minutes used by the company customers, both outbound and inbound. Only outbound on-net traffic is included, inclusive of promotional traffic. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume is non rounded.

(4) Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10<sup>12</sup> bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non-rounded.

**TELEFÓNICA DEUTSCHLAND GROUP**
**CONSOLIDATED INCOME STATEMENT**
*Unaudited*

(Euros in millions)	July 1 to September 30				January 1 to September 30			
	2017	2016	Change	% Change	2017	2016	Change	% Change
Revenues	1,850	1,876	(25)	(1.3)	5,392	5,567	(175)	(3.1)
Other income	38	34	4	13.0	97	469	(372)	(79.3)
Operating expenses	(1,442)	(1,473)	31	(2.1)	(4,201)	(4,430)	229	(5.2)
Supplies	(627)	(572)	(55)	9.6	(1,759)	(1,778)	19	(1.1)
Personnel expenses	(158)	(155)	(4)	2.4	(471)	(488)	17	(3.5)
Other expenses	(657)	(746)	90	(12.0)	(1,972)	(2,164)	192	(8.9)
Operating income before depreciation and amortization (OIBDA)	447	436	10	2.4	1,288	1,606	(318)	(19.8)
OIBDA margin	24.1%	23.3%	0.9% p.		23.9%	28.8%	(5.0% p.)	
Depreciation and amortisation	(476)	(533)	57	(10.6)	(1,440)	(1,602)	162	(10.1)
Operating income	(29)	(96)	67	(69.4)	(152)	4	(156)	(>100,0)
Net financial income (expense)	(9)	(8)	(1)	13.2	(26)	(26)	–	0.1
Profit (loss) before tax for the period	(39)	(104)	66	(63.0)	(178)	(21)	(156)	>100,0
Income tax	–	–	–	(>100,0)	–	–	–	(>100,0)
Total profit for the period	(39)	(105)	66	(63.1)	(178)	(22)	(156)	>100,0
Number of shares in millions as of end of period date	2,975	2,975	–	–	2,975	2,975	–	–
Basic earnings per share (in euros) (1)	(0.01)	(0.04)	0.02	(63.1)	(0.06)	(0.01)	(0.05)	>100,0

(1) Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 2,975m for the years 2017 and 2016.

TELEFÓNICA DEUTSCHLAND GROUP  
REVENUE BREAKDOWN

Unaudited

(Euros in millions)	July 1 to September 30				January 1 to September 30			
	2017	2016	Change	% Change	2017	2016	Change	% Change
Revenues	1,850	1,876	(25)	(1.3)	5,392	5,567	(175)	(3.1)
Mobile business	1,634	1,621	14	0.8	4,727	4,808	(81)	(1.7)
Mobile service revenues	1,344	1,394	(50)	(3.6)	3,954	4,088	(134)	(3.3)
Handset revenues	290	227	63	27.9	772	720	52	7.3
Fixed business	214	245	(31)	(12.8)	654	743	(89)	(12.0)
Other revenues	2	9	(7)	(77.8)	11	16	(4)	(28.3)
Mobile service revenues (excl. regulatory effects 2017)	1,392	1,394	(2)	(0.1)	4,072	4,088	(16)	(0.4)

TELEFÓNICA DEUTSCHLAND GROUP  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

	As of 30 September	As of 31 December		
(Euros in millions)	2017	2016	Change	% Change
<b>NON-CURRENT ASSETS</b>	<b>12,294</b>	<b>13,055</b>	<b>(761)</b>	<b>(5.8)</b>
Goodwill	1,939	1,932	7	0.4
Other intangible assets	5,673	6,215	(542)	(8.7)
Property, plant and equipment	4,016	4,217	(201)	(4.8)
Trade and other receivables	52	77	(25)	(32.4)
Other financial assets	53	60	(7)	(12.0)
Other non-financial assets	135	128	7	5.5
Deferred tax assets	427	427	–	–
<b>CURRENT ASSETS</b>	<b>1,986</b>	<b>2,246</b>	<b>(260)</b>	<b>(11.6)</b>
Inventories	97	85	11	13.2
Trade and other receivables	1,188	1,460	(272)	(18.6)
Other financial assets	25	25	–	0.1
Other non-financial assets	165	63	103	>100,0
Cash and cash equivalents	511	613	(102)	(16.6)
<b>Total assets = Total equity and liabilities</b>	<b>14,280</b>	<b>15,301</b>	<b>(1,021)</b>	<b>(6.7)</b>
<b>EQUITY</b>	<b>8,504</b>	<b>9,408</b>	<b>(905)</b>	<b>(9.6)</b>
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	5,529	6,434	(905)	(14.1)
Equity attributable to owners of the company	8,504	9,408	(905)	(9.6)
<b>NON-CURRENT LIABILITIES</b>	<b>2,723</b>	<b>2,637</b>	<b>86</b>	<b>3.3</b>
Interest-bearing debt	1,865	1,721	144	8.4
Trade and other payables	18	17	1	6.9
Provisions	562	561	2	0.3
Deferred income	276	338	(63)	(18.5)
Deferred tax liabilities	1	0	1	–
<b>CURRENT LIABILITIES</b>	<b>3,054</b>	<b>3,256</b>	<b>(202)</b>	<b>(6.2)</b>
Interest-bearing debt	394	37	357	>100,0
Trade and other payables	1,951	2,286	(335)	(14.6)
Provisions	118	190	(71)	(37.7)
Other non-financial liabilities	90	79	11	13.3
Deferred income	500	664	(164)	(24.6)
<hr/>				
<b>Financial Data</b>				
Net financial debt (1)	1,514	798	715	89.6
Leverage (2)	0.8x	0.4x	0.4	86.6

(1) Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.

(2) Leverage is defined as net financial debt divided by the OIBDA for the last twelve months before exceptional effects.



TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET DEBT

Unaudited

(Euros in million)	2017			2016			
	Jan - Mar	Jan - June	Jan - Sept	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
<b>OIBDA</b>	<b>390</b>	<b>841</b>	<b>1,288</b>	<b>379</b>	<b>1,170</b>	<b>1,606</b>	<b>2,069</b>
- CapEX (1)	(208)	(433)	(679)	(218)	(430)	(743)	(1,102)
<b>= Operating Cash Flow (OpCF)</b>	<b>181</b>	<b>409</b>	<b>609</b>	<b>161</b>	<b>740</b>	<b>863</b>	<b>967</b>
+ Silent Factoring (2)	136	304	405	135	194	315	424
-/+ Other working capital movements	(312)	(630)	(726)	(294)	(554)	(440)	(187)
<b>Change in working capital</b>	<b>(177)</b>	<b>(326)</b>	<b>(322)</b>	<b>(159)</b>	<b>(360)</b>	<b>(125)</b>	<b>237</b>
+/- (Gains) losses from sale of assets	(1)	(1)	(1)	-	(353)	(353)	(352)
+/- Proceeds from sale of fixed assets and other effects	1	1	1	-	591	591	591
+ Net interest payments	(14)	(15)	(16)	(18)	(19)	(16)	(23)
+ Taxes paid	-	-	-	-	-	-	-
+/- Proceeds / Payments on financial assets	8	9	5	(4)	(1)	(10)	(13)
+ Acquisition of companies net of cash acquired	-	(9)	(9)	-	-	-	-
<b>= Free cash flow pre dividends and payments for spectrum (3)</b>	<b>(1)</b>	<b>68</b>	<b>268</b>	<b>(20)</b>	<b>599</b>	<b>951</b>	<b>1,408</b>
- Payments for spectrum	-	-	(111)	(1)	(2)	(114)	(115)
- Dividends (4)	-	(744)	(744)	-	(714)	(714)	(714)
<b>= Free cash flow post dividends and payments for spectrum</b>	<b>(1)</b>	<b>(675)</b>	<b>(586)</b>	<b>(21)</b>	<b>(117)</b>	<b>123</b>	<b>578</b>
Net financial debt at the beginning of the period	798	798	798	1,225	1,225	1,225	1,225
+ Other changes in net financial debt	37	101	129	20	15	93	152
<b>= Net financial debt at the end of the period (incl. Restricted cash)</b>	<b>836</b>	<b>1,575</b>	<b>1,514</b>	<b>1,266</b>	<b>1,356</b>	<b>1,195</b>	<b>798</b>

(1) Excluding additions from capitalised finance leases and capitalised costs on borrowed capital for investments in spectrum.

(2) Accumulated impact of silent factoring transactions for the reporting period in 2017 of EUR 405m and EUR 315m in 2016 (transactions took place in March, June and September 2017 as well as March, June and September

(3) Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum as well

(4) Dividend payments of EUR 744m in May 2017 and EUR 714m in May 2016 respectively.

	2017			2016			
	Jan - Mar	Jan - June	Jan - Sept	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
= Free cash flow pre dividends and payments for spectrum (Euros in millions)	(1)	68	268	(20)	599	951	1,408
Number of shares (in millions)	2,975	2,975	2,975	2,975	2,975	2,975	2,975
= Free cash flow per share (in Euros)	-	0.02	0.09	(0.01)	0.20	0.32	0.47

TELEFÓNICA DEUTSCHLAND GROUP  
CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

*Unaudited*

	As of 30 September	As of 31 December	
(Euros in millions)	2017	2016	Change %
<b>A Liquidity</b>	<b>511</b>	<b>613</b>	<b>(16.6)</b>
<b>B Current financial assets (1)</b>	<b>167</b>	<b>251</b>	<b>(33.5)</b>
<b>C Current financial debt (2)</b>	<b>388</b>	<b>31</b>	<b>&gt;100,0</b>
<b>D=C-A-B Current net financial debt</b>	<b>(290)</b>	<b>(833)</b>	<b>(65.2)</b>
<b>E Non-current financial assets (1)</b>	<b>62</b>	<b>89</b>	<b>(31.0)</b>
<b>F Non-current financial debt (2)</b>	<b>1,865</b>	<b>1,721</b>	<b>8.4</b>
<b>G=F-E Non-current net financial debt</b>	<b>1,803</b>	<b>1,631</b>	<b>10.6</b>
<b>H=D+G Net financial debt (3)</b>	<b>1,514</b>	<b>798</b>	<b>89.6</b>

(1) Current and non-current financial assets include handset receivables not yet due, positive fair value hedges for fixed interest financial liabilities as well as loans to third parties.

(2) Current and non-current net financial debt includes bonds, promissory notes and registered bonds issued, other loans, as well as finance leases.

(3) Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.

Note:

Handset receivables are presented in trade and other receivables on the Consolidated Statement of Financial Position.

### **Further information**

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