

MUNICH, 25 April 2018

Preliminary results for January to March 2018

Telefónica Deutschland first quarter 2018 results show solid operational trends with strong OIBDA growth and continued margin expansion

- **O₂ Free continues to successfully feed customer demand for big data; partner trading benefitted from focus on 4G offers**
- **Fixing the basics: O₂ placed #2 in connect customer service test in April; now full focus on network consolidation**
- **Sustained revenue trends: Underlying¹ revenue +0.4% year-on-year supported by underlying¹ MSR growth of +0.4% year-on-year and stronger demand for handsets**
- **Strong OIBDA² growth of +5.4% year-on-year driven by successful synergy capture and value focus; additional in-year savings of ~EUR 35 million at OIBDA and ~EUR 15 million of Capex level**
- **Only minor impacts from the implementation of IFRS 15³ on revenue and OIBDA**
- **Reiterate full year 2018 outlook; solid cash flow dynamics support dividend commitment**

First quarter 2018 operational & financial highlights

- **Mobile postpaid** registered 157 thousand net additions in the first quarter, with solid demand for O₂ Free portfolio and a strong contribution from partners (61% share of gross additions). Churn in the O₂ brand was slightly better year-on-year at 1.5%, while total postpaid churn of 1.7% was slightly higher (0.1 percentage points) year-on-year
- The **LTE customer base** continued to grow to 16.1 million, up 15.2% year-on-year. Data usage for LTE customers in O₂ consumer postpaid was up 56% year-on-year to 2.8 GB per month, but was flat quarter-on-quarter as a result of seasonal effects
- **Underlying¹ Revenue** was up 0.4% year-on-year to EUR 1,778 million (+0.2% year-on-year as per IAS 18 reporting). Including negative regulatory impacts of EUR 11 million (mainly roaming) revenue reached EUR 1,767 million, -0.2% lower year-on-year
- **Underlying¹ mobile service revenue** continued to show a positive trend with +0.4% year-on-year (+0.3% year-on-year as per IAS 18 reporting) with tailwinds from the O₂ Free portfolio. On a reported basis, mobile service revenue came to EUR 1,287 million (-0.4% year-on-year)

¹ Excluding the negative impact from regulatory changes (mainly the European roaming regulation)

² Adjusted for exceptional effects and excluding the negative impact from regulatory changes (mainly the European roaming regulation)

³ Unless indicated otherwise, all financial KPIs and year-on-year comparisons published in this document are prepared in accordance with IFRS accounting standards as adopted by the European Union. Financial KPIs for 2018 therefore include the effects of the implementation of IFRS 15 as of 1 January 2018

- **Handset revenue** grew 10.8% year-on-year to EUR 280 million on the back of stronger demand for high-end devices
- **Fixed-line revenue** fell 10.7% year-on-year as the planned decommissioning of the legacy infrastructure still weighs on wholesale DSL dynamics
- **OIBDA** adjusted for exceptional effects⁴ and regulatory effects⁵ reached EUR 422 million, up 5.4% year-on-year driven by an additional ~EUR 35 million of Opex and revenue-related synergies. As per IAS 18 reporting, OIBDA⁶ growth was 4.6% year-on-year. The positive effect of these synergies was partially reduced by negative regulatory effects of EUR 14 million. The **OIBDA margin** adjusted for exceptional effects and regulatory effects increased by 1.1 percentage year-on-year to 23.8%
- **CapEx**⁷ amounted to EUR 197 million (-5.6% year-on-year) including Capex-related in-year synergies of EUR 15 million, as we maintained our focus on efficient investments while progressing well with network integration and the subsequent rollout and densification of our LTE-network
- **Consolidated net financial debt**⁸ was EUR 1,085 million as of the end of March 2018, with a leverage ratio of 0.6x – well in line with our target of at or below 1.0x

⁴ Exceptional effects were EUR 14 million of restructuring expenses in the period January to March 2018

⁵ Regulatory effects amounted to EUR 14 million in the period January to March 2018

⁶ Adjusted for exceptional effects and excluding the negative impact from regulatory changes (mainly the European roaming regulation)

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

⁸ 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 activities and network update

We are fixing the basics to become Germany's Mobile Customer and Digital Champion and have largely completed most of our integration project by the end of last year. In the connect magazine mobile hotline test 2018 we ranked in second place and lead the board in the category "quality of statements". Our service is also now "very good" with regards to quality, friendliness and cost. In addition, we have significantly improved accessibility and reduced waiting times. This is a clear confirmation of our execution strength as we managed to turnaround customer service perception during the integration process.

Now, we are focussing on the finalisation of our network integration activities, which we aim to mostly complete by the end of 2018. We are making solid progress with a region by region approach in order to build the largest and most modern network in Germany. By the end of March, we have completed almost 70% of the consolidation process, with a total of approx. 9,400 sites having been decommissioned already. Throughout the project, our focus lies on access and reliability of our network for the majority of German customers, while subsequently rolling out one LTE network.

Furthermore, we have taken another important step with regards to the 5G readiness of our network. At the Mobile World Congress in Barcelona, we extended our TechCity partnership with Huawei for another 3 years. TechCity was first launched in 2016. The test network with eight mobile stations in the north of Munich supports both companies in enhancing the research and development of different applications and services in order to drive 5G development.

Moreover, in cooperation with NGN Fiber Network KG, Telefónica Deutschland will connect at least 1,500 mobile sites to fibre in the upcoming years to improve LTE performance and create preconditions for 5G infrastructure.

Together with Nokia we have agreed to further develop 4G and 5G technologies and solutions in our lab in Munich. We focus on customer-relevant enhancements. Following this phase there will be a common pilot network called "Early 5G Innovation Cluster", which is currently planned in Berlin.

Transformation: Simpler, Faster, Better

At our Capital Market Day on 23 February 2018, we announced our digital transformation programme Digital4Growth. We will be executing a seamless transition from integration to transformation by making operations 'Simpler, Faster, Better' and becoming Germany's Mobile Customer & Digital Champion.

The Digital4Growth programme will further support our ambition to deliver superior shareholder remuneration. We have strong confidence in our Free Cash Flow generation ability, which is underpinned by the targeted ~EUR 600 million of OIBDA⁹ benefits by 2022.

Although Digital4Growth will start to deliver financial results only from 2019, we are pushing ahead with the transformation already in 2018. We believe we can already show progress this year for the following KPIs: Increasing O₂ app penetration, higher sales in self-assisted channels and the share of eCare events.

Among other things, we have also already launched the following initiatives as part of our digital transformation:

- We rely on new technologies to further improve our customer service quality. Aura, the advanced artificial intelligence of the Telefónica Group, was launched in February and helps O₂ customers via Facebook Messenger with questions about their tariffs.
- Our intelligent chatbot Lisa answers frequently asked questions from our O₂ customers and thus allows the hotline staff more time to help customers with more complex questions. Lisa already deals with >60% of online FAQs.

Commercial update

The first quarter of 2018 continued to see a dynamic yet rational German mobile market with a focus on profitable growth on the back of high data usage and the monetisation of big data bundles. We launched the following initiatives:

- Customers of Telefónica Deutschland are now able to retrace their data usage in real time using an 'Online Charging System' based on a strategic partnership with Huawei. With this new technology the company meets the increasing challenges connected with billing of data usage in real time
- In March, we have launched new O₂ DSL professional tariffs for business customers. The portfolio includes high-speed internet up to 100Mbps
- Telefónica Deutschland had several temporal offers for selected bundles of high-value devices and tariffs during the first quarter of 2018, e. g. the Huawei P10 lite, the Samsung Galaxy S8 or the iPhone 8
- On 20 and 21 April, Telefónica Deutschland presented its innovative services, tools and products for the digital future of its business customers at the 'Innovation & Style' fair at the airport Munich. Part of the

⁹ Adjusted for exceptional effects and before the implementation of IFRS9, IFRS15 and IFRS16

exhibition was also a joint pilot with the Munich airport for narrowband IoT. Together with Huawei and the IoT provider Q-Loud, Telefónica Deutschland has developed a smart energy solution for the airport, which could in the future monitor all the counters for electricity and water which are distributed within a radius of ten kilometres around the airport.

Financial Outlook 2018¹⁰

Telefónica Deutschland Q1-2018 results were in line with expectations. Thus we re-iterate our full year 2018 outlook, which remains unchanged as published in the 2017 Annual Financial Report.

	Actual 2017	Outlook 2018	Q1 2018
Revenue	EUR 7,296 million	Broadly stable y-o-y (excl. negative regulatory effects of EUR 30-50m)	+0.2% y-o-y as per IAS 18 reporting ---- +0.4% y-o-y
OIBDA Adjusted for exceptional effects ¹¹	EUR 1,840 million	Flat to slightly positive y-o-y (excl. negative regulatory effects of EUR 40-60m)	+4.6% y-o-y as per IAS 18 reporting ---- +5.4% y-o-y
Capex to Sales Ratio	13%	Approx. 12-13%	11.1%
Dividend	EUR 0.26/share Proposal for FY 2017 to the AGM on 17 May 2018	Annual dividend growth for 3 consecutive years (2016 – 2018)	N/A

¹⁰ The effects from the implementation of IFRS15 as of 1 January 2018 and IFRS16 as of 1 January 2019 are not reflected in the financial outlook. For more information, please refer to the materials of the quarterly reporting during the period

¹¹ Exceptional effects such as restructuring costs or the sale of assets are excluded

Telefónica Deutschland operating performance in the first quarter of 2018

As of March 2018 Telefónica Deutschland had 47.1 million **customer accesses** (-5.0% year-on-year) and thereof 42.8 million mobile accesses (-4.2% y-o-y), driven by a 10.9% year-on-year decrease in the mobile prepaid base (21.3 million customers) on the back of changes in the regulatory environment. Mobile postpaid posted 3.5% year-on-year growth to 21.4 million customers. In fixed, the retail DSL customer base stood at 2.1 million accesses (-1.7% year-on-year). The migration of wholesale DSL accesses continues and is expected to be completed by the end of 2018 in line with the dismantling schedule of the legacy platform. Based on market standards for inactivity accounting, we had 45.3 million mobile customer accesses and 49.6 million accesses in total.

Mobile postpaid registered 157 thousand net additions in the first quarter of 2018 compared to 172 thousand in the same period of the previous year. As a result of an increasing focus on 4G offers on the Telefónica Deutschland network, the performance of partner brands remained strong and contributed 61% of gross additions in the first quarter of 2018 compared to 58% of gross adds in the fourth quarter of 2017. At the same time, Telefónica Deutschland pursued a value-driven marketing approach and maintained its strategic focus on customer base development and retention, leveraging the positive customer response to O₂ Free. At the end of March, our mobile postpaid base (21.4 million accesses) represented 50.1% (+3.7 percentage points year-on-year) of our total mobile base.

Mobile prepaid saw 535 thousand net disconnections in the first quarter of 2018 (+183 thousand in the same period of 2017) as customer demand remains lower on the back of regulatory changes introduced in the summer of 2017 (legitimation check and RLH). Thus mobile prepaid accesses fell 10.9% year-on-year to 21.3 million.

Postpaid churn was slightly higher at 1.7% in the first quarter of the year (1.6% in the same period of 2017), while O₂ consumer postpaid churn again improved year-on-year to 1.5% in the first three months (1.6% in Q1 2017).

Smartphone penetration¹² across brands and segments was 5.0 percentage points higher year-on-year at 62.0% as of the end of March.

The LTE customer base continued to benefit from the increasing demand for high-speed mobile and reached 16.1 million accesses as of 31 March 2018, up 15.2% year-on-year.

ARPU was impacted by the regulatory changes which outweighed accretive effects from O₂ Free in the first quarter of 2018. The blended mobile ARPU came to EUR 9.8, up 2.1% year-on-year. Postpaid ARPU fell -4.6% year-on-year to EUR 14.8 in reported terms, driven by regulatory effects and the ongoing mixshift within the customer base. Prepaid ARPU rose by 11.4% year-on-year to EUR 5.6, mainly as a result of the base correction in the last quarter of 2017, which was however neutral for mobile service revenue.

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

The **retail fixed broadband customer base** was 1.7% lower year-on-year at 2.1 million accesses. The quarter saw 12 thousand net disconnection. The demand for VDSL remained strong with 92 thousand net additions.

Fixed wholesale accesses continued to decline as expected, with 125 thousand net disconnections in the quarter due to the planned decommissioning of the ULL broadband access infrastructure. Thus, we expect to finalise the migration of the remaining 63 thousand wholesale accesses over the course of the year.

Telefónica Deutschland financial performance in the first quarter of 2018

Revenue trends continued to improve and revenue totalled EUR 1,767 million in the first quarter of 2018, -0.2% year-on-year in reported terms. Excluding a regulatory drag of EUR 11 million in the quarter, revenue was up +0.4% year-on-year to EUR 1.778 million (+0.2% as per IAS 18 reporting).

Mobile service revenue totalled EUR 1,287 million, -0.4% year-on-year on a reported basis. Excluding the before-mentioned regulatory effect, **underlying mobile service revenue** trends remained positive with +0.4% year-on-year growth in the first quarter of 2018 (+0.3% as per IAS 18 reporting). The latter reflects tailwinds from the O₂ Free portfolio as well as remaining headwinds from OTT-trends and the ongoing legacy base rotation.

Mobile data revenue was 2.1% lower year-on-year at EUR 701 million in the period January to March, reflecting the demand from customers for higher data bundles as well as sustained OTT-trends on SMS-revenues. **Non-SMS data revenues** as a percentage of data revenues increased 5.6 percentage points year-on-year to 85.0% and amounted to EUR 596 million, an increase of +4.8% year-on-year.

Handset revenues rose 10.8% year-on-year to EUR 280 million, benefitting from stronger demand in hardware.

Fixed revenue continued to fall to EUR 199 million (-10.7% year-on-year), mainly as a result of the decline in fixed wholesale revenues, which contributed -10.2% to the year-on-year. Fixed retail revenue trends showed a further improvement supported by the strong performance of VDSL (-1.1% contribution to the year-on-year decline, compared to -2.1% in the prior quarter).

Other income was EUR 35 million compared to EUR 28 million in the first quarter of 2017.

Operating expenses were broadly flat (-0.1% year-on-year) at EUR 1,408 million as a result of the additional integration savings and a focus on value over volume in the quarter. Operating expenses include restructuring costs of EUR 14 million in the first quarter of 2018, which were mainly related to the network consolidation project.

- **Supplies** came to EUR 587 million, 0.4% higher year-on-year. Hardware cost of sales (48% of supplies in the first quarter) were also higher year-on-year in line with the demand for handsets. Connectivity-related cost of sales (40% of supplies in the first quarter) were lower year-on-year, as higher wholesale costs for outbound roaming were offset by lower costs for voice termination
- **Personnel expenses** came to EUR 151 million compared to EUR 148 million (adjusted for restructuring costs) in the first quarter of last year, up 2.4% year-on-year. This was mainly the result of inflation-related salary adjustments with effect of 1 Jan 2018, which partly offset the savings related to the successful completion of the employee restructuring programme
- **Other operating expenses** totalled EUR 669 million and were broadly stable year-on-year (+0.1%) including restructuring costs of EUR 14 million. Commercial costs and non-commercial costs made up 57% and 39% respectively

Operating Income before Depreciation and Amortisation (OIBDA) reached EUR 394 million in the first three month of 2018 compared to EUR 390 million in the previous year.

OIBDA adjusted for exceptional effects and excluding regulatory effects grew 5.4% year-on-year to EUR 422 million (4.6% as per IAS 18 reporting). Exceptional effects amounted to EUR 14 million and were mainly driven by network consolidation. The negative regulatory effect totalled EUR 14 million and was mainly related to higher wholesale cost due to the European roaming legislation. In-year savings from OPEX & revenue-related integration activities amounted to approx. EUR 35 million. Thus, the OIBDA¹³ margin increased by 1.1 percentage points year-on-year to 23.8%.

Group fees amounted to EUR 9 million in first quarter of 2018.

Depreciation & Amortisation amounted to EUR 467 million in the first quarter of 2018, a slight decrease of 3% year-on-year compared to the same period of 2017, mainly due to the extended useful life of network equipment due to network integration measures.

The **operating loss** for January to March 2018 was EUR 73 million compared to an operating loss of EUR 91 million in the same period of 2017.

The net financial expenses for the year were broadly stable year-on-year at EUR 9 million.

The Company reported no material **income tax expenses** in the first quarter of 2018.

The net loss for the three months period of 2018 was EUR 82 million, compared to a net loss of EUR 99 million in the same period of the prior year.

CapEx¹³ fell 5.6% year-on-year to EUR 197 million, as we pushed ahead with network consolidation and the further roll-out of LTE while generating approx. EUR 15 million of Capex-related synergies, mainly in relation to network integration.

Operating cash flow (OIBDA minus CapEx¹⁴) in Q1 2018 reached EUR 197 million, an increase of 8.7% year-on-year.

Free cash flow (FCF)¹⁴ amounted to EUR 15 million until March 2018 versus a negative EUR 1 million in the prior year.

Working capital movements and adjustments were negative in the amount of EUR 184 million, primarily as a result of seasonal prepayments for leased lines and rental contracts for mobile sites of EUR 185 million, partly compensated by other recurring working capital movements, in this case mostly driven by silent factoring transactions in the amount of EUR 166 million partly offset by a reduction in payables.

Consolidated net financial debt¹⁵ was broadly stable at EUR 1,085 million at the end of March 2018 (EUR 1,064 million as of 31 December 2017), with an unchanged leverage ratio of 0.6x well below the stated target of at or below 1.0x.

¹³ Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum

¹⁴ 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

¹⁵ 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

ACCESSES

Unaudited

(in thousands)	2018	2017			
	Q1	Q1	Q2	Q3	Q4
Final clients accesses	47,011	48,988	49,479	49,105	47,416
Fixed telephony accesses	1,969	2,000	1,988	1,979	1,980
Internet and data accesses	2,266	2,313	2,297	2,284	2,281
Narrowband	206	217	215	212	209
Broadband	2,060	2,095	2,082	2,072	2,072
thereof VDSL	1,243	872	960	1,063	1,152
Mobile accesses	42,777	44,675	45,194	44,842	43,155
Prepaid	21,346	23,967	24,289	23,754	21,881
Postpaid	21,431	20,708	20,905	21,088	21,274
thereof M2M	1,067	830	897	969	1,027
Postpaid (%)	50.1%	46.4%	46.3%	47.0%	49.3%
Smartphone penetration (%) (1)	62.0%	57.0%	57.4%	58.7%	60.9%
LTE customers (2)	16,094	13,968	14,422	15,679	15,759
Wholesale accesses (3)	63	562	428	298	188
Total accesses	47,075	49,550	49,907	49,403	47,604

(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 customers are defined as customers with LTE enabled handsets & LTE tariffs.

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

(in thousands)	2018	2017			
	Q1	Q1	Q2	Q3	Q4
Mobile accesses on a market comparable basis (4)	45,285	47,861	48,388	48,372	45,918
Prepaid	23,508	26,770	27,150	26,906	24,300
Postpaid	21,777	21,091	21,237	21,467	21,617
Mobile accesses on a market comparable basis (4) without M2M	44,218	47,031	47,491	47,403	44,891

(4) At the beginning of 2017 Telefónica 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

	2018	2017			
	Q1	Q1	Q2	Q3	Q4
ARPU (in Euros) (1)	9.8	9.6	9.7	9.8	9.8
Prepaid	5.6	5.0	5.2	5.2	5.6
Postpaid excl. M2M	14.8	15.5	15.5	15.7	15.2
Data ARPU (in Euros)	5.4	5.4	5.7	5.6	5.6
% non-SMS over data revenues (2)	85.0%	79.4%	81.7%	80.6%	81.4%
Voice Traffic (m min) (3)	23,341	23,966	23,709	23,006	23,667
Data Traffic (TB) (4)	126,040	86,423	98,612	110,684	122,367
Churn (%)	2.2%	1.9%	1.9%	2.1%	3.1%
Postpaid churn (%) excl. M2M	1.7%	1.6%	1.5%	1.6%	1.7%

Notes:

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

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

(3) Voice Traffic is defined as minutes used on the company's network, both outbound and inbound. Promotional traffic and 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 is not rounded.

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

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TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED INCOME STATEMENT & SELECTED CONSOLIDATED FINANCIAL DATA
Unaudited

(Euros in millions)	1 January to 31 March			
	2018	2017	Change	% Chg
Revenues	1,767	1,771	(4)	(0.2)
Revenues (excl. regulatory effects 2018)	1,778	1,771	7	0.4
Mobile business	1,566	1,545	22	1.4
Mobile service revenues	1,287	1,292	(5)	(0.4)
Mobile service revenues (excl. regulatory effects 2018)	1,298	1,292	5	0.4
Handset revenues	280	252	27	10.8
Fixed business	199	223	(24)	(10.7)
Other revenues	2	4	(2)	(54.8)
Other income	35	28	7	25.2
Operating expenses	(1,408)	(1,409)	1	(0.1)
Supplies	(587)	(585)	(2)	0.4
Personnel expenses	(152)	(155)	4	(2.4)
Impairment losses in accordance with IFRS 9	(21)	(19)	2	10.5
Other expenses	(648)	(650)	1	(0.2)
thereof Group fees	9	10	(1)	(10.3)
Operating income before depreciation and amortization (OIBDA)	394	390	4	1.1
<i>OIBDA margin</i>	22.3%	22.0%		0.3%-p.
Exceptional effects (1)	(14)	(11)	(3)	27.6
OIBDA adjusted for exceptional effects (1)	408	401	7	1.8
<i>OIBDA margin adjusted for exceptional effects</i>	23.1%	22.6%		0.5%-p.
OIBDA adjusted for exceptional effects (1) (excl. regulatory effects 2018)	422	401	22	5.4
<i>OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2018)</i>	23.8%	22.6%		1.1%-p.
Depreciation and amortization	(467)	(481)	14	(3.0)
Operating income	(73)	(91)	19	(20.3)
Net financial income (expense)	(9)	(8)	(1)	9.6
Profit (loss) before tax for the period	(81)	(99)	18	(17.9)
Income tax	(0)	(0)	(0)	>100,0
Total profit for the period	(82)	(99)	18	(17.8)
Number of shares in millions as of end of period date	2,975	2,975	–	–
Basic earnings per share (in euros) (2)	(0.03)	(0.03)	0	(17.8)
CapEx (3)	(197)	(208)	12	(5.6)
Operating cash flow (OIBDA-CapEx) (3)	197	181	16	8.7
Free cash flow pre dividends and payments for spectrum (4)	15	(1)	16	(>100,0)

(1) Exceptional effects as of 31 March 2018 include restructuring expenses amounting to EUR 14m. Exceptional effects as of 31 March 2017 include restructuring expenses amounting to EUR 11m.

(2) 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 2018 and 2017.

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

(4) 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.

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TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED INCOME STATEMENT - IAS 18 RECONCILIATION
Unaudited

(Euros in millions)	1 January to 31 March 2018		
	IFRS 15	Adjustments	IAS 18
Revenues	1,767	(3)	1,764
Revenues (excl. regulatory effects 2018)	1,778	(3)	1,774
Mobile business	1,566	(2)	1,564
Mobile service revenues	1,287	(2)	1,285
Mobile service revenues (excl. regulatory effects 2018)	1,298	(2)	1,296
Handset revenues	280	(1)	279
Fixed business	199	(4)	195
Other revenues	2	2	4
Other income	35	–	35
Operating expenses	(1,408)	(0)	(1,408)
Supplies	(587)	–	(587)
Personnel expenses	(152)	–	(152)
Impairment losses in accordance with IFRS 9	(21)	(0)	(21)
Other expenses	(648)	0	(648)
thereof Group fees	9	–	9
Operating income before depreciation and amortization (OIBDA)	394	(3)	390
<i>OIBDA margin</i>	22.3%		22.1%
Exceptional effects (1)	(14)	–	(14)
OIBDA adjusted for exceptional effects (1)	408	(3)	405
<i>OIBDA margin adjusted for exceptional effects</i>	23.1%		23.0%
OIBDA adjusted for exceptional effects (1) (excl. regulatory effects 2018)	422	(3)	419
<i>OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2018)</i>	23.8%		26.8%
Depreciation and amortization	(467)	–	(467)
Operating income	(73)	(3)	(76)
Net financial income (expense)	(9)	0	(8)
Profit (loss) before tax for the period	(81)	(3)	(84)
Income tax	(0)	–	(0)
Total profit for the period	(82)	(3)	(85)

(1) Exceptional effects as of 31 March 2018 include restructuring expenses amounting to EUR 14m.

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

	As of 31 March 2018	As of 31 December 2017	Change	% Change
(Euros in millions)				
NON-CURRENT ASSETS	11,740	11,940	(200)	(1.7)
Goodwill	1,960	1,960	–	–
Other intangible assets	5,298	5,485	(188)	(3.4)
Property, plant and equipment	3,964	4,041	(77)	(1.9)
Trade and other receivables	64	69	(5)	(6.8)
Other financial assets	101	94	8	8.1
Other non-financial assets	225	129	95	73.8
Deferred tax assets	129	162	(33)	(20.3)
CURRENT ASSETS	2,678	2,160	519	24.0
Inventories	100	105	(5)	(5.2)
Trade and other receivables	1,093	1,265	(171)	(13.5)
Other financial assets	12	17	(5)	(31.1)
Other non-financial assets	633	186	447	>100,0
Cash and cash equivalents	840	587	253	43.2
Total assets = Total equity and liabilities	14,419	14,100	319	2.3
EQUITY	8,490	8,297	193	2.3
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	5,516	5,323	193	3.6
Equity attributable to owners of the company	8,490	8,297	193	2.3
NON-CURRENT LIABILITIES	2,499	2,141	358	16.7
Interest-bearing debt	1,527	1,268	259	20.4
Trade payables and other payables	21	19	2	12.8
Provisions	599	599	(0)	(0.1)
Deferred income	250	255	(4)	(1.7)
Deferred tax liabilities	102	1	101	>100,0
CURRENT LIABILITIES	3,430	3,662	(232)	(6.3)
Interest-bearing debt	631	637	(6)	(1.0)
Trade payables and other payables	2,120	2,224	(104)	(4.7)
Provisions	146	142	4	2.9
Other non-financial liabilities	71	132	(61)	(46.4)
Deferred income	462	527	(65)	(12.3)
Financial Data				
Net financial debt (1)	1,085	1,064	21	1.9
Leverage (2)	0.6x	0.6x	0.0	1.5

(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 adjusted for exceptional effects.

Unless indicated otherwise all financial KPIs and year-on-year comparisons published in this document are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Therefore the financial KPIs for 2018 include the effects of the IFRS 15 implementation as of 1 January 2018.

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET DEBT

Unaudited

(Euros in millions)	2018	2017			
	Jan - Mar	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
OIBDA	394	390	841	1,288	1,785
- CapEX (1)	(182)	(208)	(433)	(679)	(932)
= Operating Cash Flow (OpCF)	212	181	409	609	853
+/- Change in working capital	(184)	(177)	(326)	(322)	(132)
+/- (Gains) losses from sale of assets	(0)	(1)	(1)	(1)	(30)
+/- Proceeds from sale of fixed assets and other effects	0	1	1	1	31
+ Net interest payments	(16)	(14)	(15)	(16)	(27)
+ Taxes paid	-	0	-	-	-
+/- Proceeds / Payments on financial assets	4	8	9	5	14
= Free cash flow pre dividends and payments for spectrum (3)	15	(1)	68	268	680
- Payments for spectrum	-	-	-	(111)	(111)
- Dividends	-	-	(744)	(744)	(744)
= Free cash flow post dividends and payments for spectrum	15	(1)	(675)	(586)	(175)
Net financial debt at the beginning of the period	1,064	798	798	798	798
+ Other changes in net financial debt	35	37	101	129	91
= Net financial debt at the end of the period (incl. Restricted cash)	1,085	836	1,575	1,514	1,064

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

(2) 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 as related interest payments.

	2018	2017			
	Jan - Mar	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
= Free cash flow pre dividends and payments for spectrum (Euros in million)	15	(1)	68	268	680
Number of shares (in millions)	2,975	2,975	2,975	2,975	2,975
= Free cash flow per share (in Euros)	0.00	(0.00)	0.02	0.09	0.23

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TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED NET FINANCIAL DEBT EVOLUTION
Unaudited

	As of 31 March	As of 31 December	
(Euros in millions)	2018	2017	Change %
A Liquidity	840	587	43.2
B Current financial assets (1)	161	177	(9.1)
C Current financial debt (2)	629	635	(1.0)
D=C-A-B Current net financial debt	(372)	(129)	>100,0
E Non-current financial assets (1)	70	75	(6.8)
F Non-current financial debt (2)	1,527	1,268	20.4
G=F-E Non-current net financial debt	1,457	1,193	22.1
H=D+G Net financial debt (3)	1,085	1,064	1.9

(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.

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