

MUNICH, 05 May 2017

Preliminary results for January to March 2017

Telefónica Deutschland maintains solid operating momentum in a dynamic environment; pushing transformation agenda

- **Solid momentum for O₂ Free and further signs of easing competitive pressure in the non-premium segment; underlying MSR¹ shows further sequential improvement (-0.6 year-on-year)**
- **Solid OIBDA² growth (+2.1% year-on-year) on the back of an additional EUR 35 million of Opex and revenue-related synergies**
- **Reiterating full-year outlook; strong Cash Flow dynamics support mid-term dividend growth and proposal of EUR 0.25/share to the AGM on 9 May 2017**
- **Pushing transformation agenda organically and inorganically with acquisition of retail data analysis business Minodes to build momentum in ADA**

First quarter 2017 operational & financial highlights

- **Mobile postpaid** registered 172 thousand net additions; partner trading slowing sequentially with 55% share of gross adds after recent price increases. Contract churn remained stable quarter-on-quarter at 1.6%, reflecting the sustained focus on customer base development.
- **Mobile prepaid** saw 183 thousand net additions with a strong performance from partners.
- The **LTE customer base** passed the 14.0 million mark, posting strong sequential and annual growth of +15.8% and +60.7% respectively, supported by our successful data monetisation strategy. **Data usage** for LTE customers in O₂ consumer postpaid continued to benefit from the demand for music and video streaming and grew 9% quarter-on-quarter to 1.8 GB per month, up 52% year-on-year.
- **Revenues** fell -4.7% lower year-on-year to EUR 1,771 million, mainly driven by **mobile service revenues**. The latter fell -3.3% year-on-year to EUR 1,292 million, mainly as a result of regulatory effects in the form of a reduction of termination rates and the European roaming legislation, which caused a drag of EUR 35 million. Excluding these effects, mobile service revenues improved sequentially to -0.6% vs -0.9% year-on-year in the prior quarter.
- Trends in **handset and fixed-line revenues** were unchanged with slowing handset replacement cycles driving a -5.4% year-on-year reduction in handset revenues and the effects from the

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

² Excluding exceptional effects. The three months ending 31 March 2017 include restructuring expenses of EUR 11 million, while the same period of 2016 included restructuring expenses of EUR 23 million. For 2016, we have calculated an OIBDA comparable, which includes the operating lease-related effects from the sale of Telefónica Deutschlands passive tower infrastructure as if it had occurred on 1 January 2016

decommissioning of ULL infrastructure, resulting in a -11.9% yearly reduction in fixed-line revenues.

- **OIBDA** excluding exceptional effects³ increased 2.1% year-on-year to EUR 401 million, driven by EUR 35 million of additional Opex and revenue-related savings from synergies. This was partly offset by commercial and other investments, notably in the positioning of O₂ Free and customer service.
- **CapEx**⁴ amounted to EUR 208 million, -4.5% lower year-on-year, as we generated approx. 10 million of Capex-related synergies from the network consolidation and continued with the subsequent LTE roll-out.
- **Consolidated net financial debt**⁵ came to EUR 836 million at the end of March 2017 with a leverage of 0.5x, in line with the stated target of at or below 1.0x.
- On 4 May 2017 Telefónica Next acquired start-up Minodes, which specialises in intelligent data analysis in retail, supporting our Advanced Data Analysis and transformation effort.

³ Excluding exceptional effects. The three months ending 31 March 2017 include restructuring expenses of EUR 11 million, while the same period of 2016 included restructuring expenses of EUR 23 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

⁴ Excluding capitalised costs on borrowed capital for investments in spectrum in June 2015 both in the first three months of 2017 and 2016

⁵ 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

We continue to successfully execute our integration activities, targeting a cumulated total of EUR 900 million operating cash flow savings in 2019.

Our core project in 2017, the network consolidation, is progressing well. We have already finalised the consolidation in a number of areas in Southern Germany and are continually pushing ahead with the integration effort.

After several trials, we have now launched a new software, SON – synonymous for Self-Organising Network – enabling flexible network capacity management with a focus on real-time capabilities. Our Service Operations Centre, which we set up in cooperation with Huawei, further supports our ability to react to customer demand fluctuations fast and effectively. Customer service is the key principle of our network development plan.

We are also running 5G trials and have already been able to achieve speeds of 1.65 Gbps in our testing environment 'TechCity' in Munich.

In addition, we have successfully run our first 3.5 GHz LTE TDD Massive MIMO field test (a multi antenna technology based on smaller antenna elements), reaching a download link rate of 640 Mbps

Furthermore, we also continue to work towards completing the outstanding integration workstreams, such as the remaining FTE restructuring and shop/facility reduction, where we are progressing according to plan.

Transformation: Opportunities beyond Connectivity

Parallel to our core business, we are working on innovative digital solutions. In 2016 Telefónica Deutschland founded Telefónica NEXT to provide innovative consumer insight based solutions to better address customer needs in a connected digital world. Core focus areas are targeted communication (Smart Media), decision-making based on customer movements (Smart moves), the customer journey (Smart Retail) and the development of smart products for customers (Smart Sensor solutions) based on our Geeny platform.

With Advanced Data Analytics (ADA), the company is leveraging the considerable social and economic benefits from the analysis of large data pools. Big data will drive business solutions of the future. We are also committed to ensuring that our customers retain control over their data and can shape their digital life with confidence.

The acquisition of Minodes, which specialises in smart retail, is a case in point. The company analyses anonymous data streams by reading and encrypting customer WiFi signals in shopping areas. Minodes is thus able to deliver business insights, all the while protecting customer privacy.

In the context of business solutions built around the Internet of Things (IoT), we are optimising business processes by connecting machines and vehicles to enable them to communicate with each other. Here we are currently building an IoT platform which helps companies develop their own IoT propositions in a fast and cost-efficient manner.

Commercial update

Telefónica Deutschland saw a dynamic first quarter of 2017 with a range of commercial activities to support our market position.

- After the launch of our O₂ Free portfolio in October 2016, we have now also relaunched our O₂ prepaid offer with high-speed data and EU roaming for our customers
- O₂ Banking now offers the first biometric SecureCode system for secure identification in Germany
- At the end of April we also launched new O₂ DSL tariffs, offering more bandwidth across the tariff range and speeds of up to 100 Mbps
- A customer survey by focus Money and Focus online showed that ALDI TALK has a competitive product offering attracting extremely loyal and satisfied customers, showing the value of our discount segment partnerships
- In the business space, Telefónica Deutschland signed a cooperation with QSC AG, offering our customers competitive internet, VPN and voice services
- At the end of the first quarter Telefónica Deutschland attended the Mobile World Congress in Barcelona and the Cebit in Hannover, successfully presenting Telefónica NEXT and a range of innovative business solutions

Financial Outlook 2017

The financial outlook for 2017 remains unchanged as published in the 2016 Annual Financial Report:

	Base line 2016 (EUR million)	Outlook 2017 (year-on-year)
Mobile Service Revenues underlying ⁶	5,437	Slightly negative to flat
OIBDA before exceptional effects ⁷	1,793	Flat to mid-single-digit % growth
CapEx	1,102	Around EUR 1 billion
Dividend⁸	0.25 EUR per share	Annual dividend growth for 3 years (2016 to 2018)

⁶ 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.

⁷ 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

⁸ For 2016: Proposal to the Annual General Meeting on 9 May 2017

Telefónica Deutschland operating performance in the first quarter of 2017

As of 31 March 2017 Telefónica Deutschland had 49.5 million **customer accesses** (+2.7% year-on-year) driven by a 3.9% year-on-year increase in the mobile base, which stood at 44.7 million. In addition to our existing customer metrics, we are also introducing a customer access count based on market standards for inactivity. Based on this metric, we have a total of 47.9 million mobile customer accesses. In the fixed business, the retail DSL customer base was broadly stable year-on-year (-0.3%) at 2.1 million accesses, while wholesale DSL accesses declined further (-18.7% quarter-on-quarter) due to the planned dismantling of the legacy ULL platform by 2019.

Mobile postpaid saw 172 thousand net additions in the first quarter of 2017 compared to 181 thousand in the same period of 2016. Partner brands contributed 55% of gross adds in the quarter vs 58% in the fourth quarter, reflecting the improvement in the discount pricing environment. At the same time, Telefónica Deutschland 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 was 20.7 million accesses, up +7.5% year-on-year, bringing the postpaid share of total mobile customers to 46.4% (+1.6 percentage points year-on-year).

Mobile prepaid registered 183 thousand net additions in the period January to March with a strong performance from partners, bringing the customer base to 24.0 million (+0.9% year-on-year).

Both the O₂ consumer brand and postpaid churn remained broadly stable quarter-on-quarter at 1.6%, reflecting our successful brand management and retention focus.

Smartphone penetration⁹ across brands and segments was 1.6 percentage points higher year-on-year at 57.0% as of the end of March.

The **LTE customer base** benefitted from the high demand for high-speed mobile access across all segments and posted another quarter of strong growth, up 15.8% quarter-on-quarter to 14.0 million accesses as of 31 March 2017.

The **ARPU** was impacted by the regulatory changes which outweighed accretive effects from O₂ Free in the first quarter of 2017. The blended mobile ARPU came to EUR 9.6, down -6.7% year-on-year, while the postpaid ARPU fell -6.2% year-on-year to EUR 15.5. The prepaid ARPU continues to be affected by the prepaid to postpaid dynamic resulting from postpaid pricing levels in the discount segment and fell -12.4% year-on-year to EUR 5.0.

The **retail fixed broadband customer base** was broadly flat year-on-year at 2.1 million accesses (-0.3% year-on-year). The quarter saw -9 thousand net disconnection, while the demand for VDSL remained strong with 67 thousand net additions.

Fixed wholesale accesses continued to decline as expected (129 thousand net disconnections) due to the planned decommissioning of the ULL broadband access infrastructure, ending the quarter at 562 thousand accesses.

⁹ Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M and data-only accesses

Telefónica Deutschland financial performance in the first quarter of 2017

Revenues were -4.7% lower year-on-year at EUR 1,771 million, mainly driven by regulatory headwinds for mobile services revenues as well as continued trends in the fixed business.

Mobile service revenues were **EUR 1,292 million**, -3.3% year-on-year on a reported basis. Excluding regulatory effects from termination and roaming of EUR 35 million, mobile service revenues sequentially improved to -0.6% vs -0.9% year-on-year in the prior quarter. We continued to face top-line headwinds from the retail to wholesale mix-shift as well as legacy base effects in a dynamic competitive environment, which continued to overshadow benefits from the successful marketing of O₂ Free to new and existing customers.

Mobile data revenues fell -1.9% year-on-year to EUR 716 million for the period January to March, mainly on the back of continued OTT trends. Non-SMS data revenues as a percentage of data revenues increased 4.0 percentage points year-on-year to 79.4% and amounted to EUR 568 million, an increase of +3.3% year-on-year. Quarter-on-quarter non-SMS revenues fell -2.6%, with this decline mainly relating to the customer integration and the associated allocation of data revenues.

Handset revenues fell -5.4% year-on-year to EUR 252 million, mainly due to a lower demand for handsets in line with general market trends.

Fixed revenues trend saw a further year-on-year decline of -11.9% to EUR 223 million. Fixed retail revenues benefitted from the continued strong performance of VDSL and contributed -2.1% to the year-on-year decline, a further sequential improvement. The fixed wholesale revenues decline continued to accelerate on the back of the planned dismantling of the legacy infrastructure, contributing -5.9% to the year-on-year decline.¹⁰

Other income was EUR 27.8 million compared to EUR 30.6 million in the first quarter of 2016.

¹⁰Please note a change in the definition of the fixed retail/wholesale split, which better reflects revenue allocation across segments

Operating expenses fell -6.6% year-on-year to EUR 1,409 million for the three months ended 31 March 2017, mainly driven by savings from integration projects. Restructuring costs of EUR 11 million were related to the leaver programme and the network consolidation.

- Cost for **supplies** came to EUR 585 million, down -7.0% year-on-year. Thereof, hardware cost of sales (47% of supplies) were broadly stable year-on-year, while connectivity-related cost of sales (42% of supplies) were lower year-on-year on the back of the mobile termination rate reduction in December 2016.
- **Personnel expenses** came to EUR 155 million including restructuring costs of EUR 7 million, a reduction of -10.4% year-on-year, primarily on the back of the successful execution of the employee restructuring programme.
- **Other operating expenses** totalled EUR 669 million including restructuring costs of EUR 4 million, a decrease of -5.4% year-on-year. Commercial costs and non-commercial costs made up 61% and 36% respectively. Savings from integration were partly offset by higher commercial investments into the positioning of O₂ Free.

Operating Income before Depreciation and Amortisation (OIBDA) in the first quarter of 2017 amounted to EUR 390 million compared to EUR 379 million in the prior year.

OIBDA excluding exceptional effects¹¹ rose 2.1 % year-on-year to EUR 401 million with in-year savings from OPEX & revenue-related integration activities amounting to approx. EUR 35 million. The OIBDA margin increased by 1.5 percentage points year-on-year to 22.6%.

Group fees amounted to EUR 10 million in the first quarter of 2017.

Depreciation & Amortisation came to EUR 481 million in the first three month of 2017, compared to the EUR 540 million in prior year. The decrease is the result of the accelerated amortisation of software assets in 2016 due to IT integration measures, lower depreciation of property, plant and equipment due to the sale of the passive tower infrastructure, as well as the expiration of various spectrum licenses in 2016.

The **operating loss** for the period was EUR 91 million (vs. EUR -161 million in the same period of 2016), as depreciation & amortisation expenses continued to exceed OIBDA.

The **net financial loss** for the first quarter of 2017 amounted to EUR 8 million, which was broadly stable year-on-year.

The Company did not incur any **income tax expense** for the three months ended 31 March 2017.

The **net loss** for the period came to EUR 99 million compared to EUR 170 million in prior year.

CapEx¹¹ fell -4.5% year-on-year to EUR 208 million as we generated approx. EUR 10 million of Capex-related synergies from the network consolidation and continued with the subsequent LTE roll-out.

¹¹ Excluding exceptional effects. The three months ending 31 March 2017 include restructuring expenses of EUR 11 million, while the same period of 2016 included restructuring expenses of EUR 23 million. For 2016, we have calculated an OIBDA comparable, which includes the operating lease related effects from the sale of Telefónica Deutschlands passive tower infrastructure as if it had occurred on 1 January 2016

Operating cash flow (OIBDA minus CapEx)¹² for the first three months of 2017 was EUR 181 million, up 12.9% year-on-year.

Free Cash Flow (FCF)¹³ for the first quarter of 2017 was negative in the amount of EUR 1 million as a result of working capital effects.

Working capital movements were negative EUR 177 million were primarily driven by seasonal prepayments for leased lines and rental contracts for mobile sites of EUR 201 million, as well as other recurring working capital movements, which include silent factoring transactions as well as other factoring transactions.

Consolidated net financial debt¹⁴ amounted to at EUR 836 million at the end of March 2017, up EUR 38 million since 31 December 2016; maintaining a broadly stable leverage ratio of 0.5x.

¹² Excluding capitalised costs on borrowed capital for investments in spectrum in June 2015 for the first three months of 2017 and 2016

¹³ Free cash flow pre dividends and payments for spectrum (FCF) is defined as the sum of cash flows from operating activities and cash flows from investing activities

¹⁴ 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 payables for the spectrum auction

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP
SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

(Euros in millions)	1 January to 31 March		
	2017	2016	% Chg
Revenues	1,771	1,858	(4.7)
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)(5)	401	401	(0.1)
<i>OIBDA before exceptional effects-margin</i>	22.6%	21.6%	1.0%-p.
Exceptional effects (1)	(11)	(23)	(50.2)
Operating income before depreciation and amortization (OIBDA)	390	379	2.9
<i>OIBDA margin</i>	22.0%	20.4%	1.6%-p.
Group fees	10	13	(22.0)
Operating income before depreciation and amortization (OIBDA) and before group fees	400	392	2.0
<i>OIBDA before group fees margin</i>	22.6%	21.1%	1.5%-p.
Operating income	(91)	(161)	(43.3)
Total profit (loss) for the period	(99)	(170)	(41.5)
Basic earnings per share (in euros) (2)	(0.03)	(0.06)	(41.5)
CapEx (3)	(208)	(218)	(4.5)
Operating cash flow (OIBDA-CapEx) (3)	181	161	12.9
Free cash flow pre dividends and payments for spectrum (4)	(1)	(20)	(95.0)

(1) Exceptional effects include restructuring expenses of EUR 11m and EUR 23 m for the three months ended 31 March 2017 and 31 March 2016, respectively.

(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 2.975 Mio. for the years 2017 and 2016.

(3) Excluding investments in spectrum (including capitalised costs on borrowed capital).

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

(5) 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 Telefonía Deutschland's passive tower infrastructure in April 2016, as if it had occurred on 1 January 2016.

(Euros in millions)	1 January to 31 March		
	2017	2016	% Chg
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)(5)	401	401	(0.1)
Special effects, January - March	-	(9)	(100.0)
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)(5) and after special effects for comparable purposes	401	392	2.1

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
ACCESSES
Unaudited

(in thousands)	2017	2016			
	Q1	Q1	Q2	Q3	Q4
Final clients accesses	48,988	47,342	47,754	48,405	48,655
Fixed telephony accesses	2,000	2,003	2,007	2,007	2,010
Internet and data accesses	2,313	2,331	2,330	2,325	2,324
Narrowband	217	229	226	223	221
Broadband	2,095	2,101	2,104	2,102	2,104
<i>thereof VDSL</i>	872	593	669	732	806
Mobile accesses	44,675	43,008	43,417	44,074	44,321
Prepaid	23,967	23,744	23,814	23,873	23,784
Postpaid	20,708	19,264	19,603	20,201	20,537
<i>thereof M2M</i>	830	682	704	748	788
Postpaid (%)	46.4%	44.8%	45.2%	45.8%	46.3%
Smartphone penetration (%) (1)	57.0%	55.4%	56.2%	59.2%	59.5%
LTE customers (2)	13,968	8,691	9,400	10,566	12,063
Wholesale accesses (3)	562	911	850	791	691
Total accesses	49,550	48,252	48,605	49,196	49,346

(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.

**TELEFÓNICA DEUTSCHLAND GROUP
SELECTED OPERATIONAL DATA**
Unaudited

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

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED INCOME STATEMENT

Unaudited

(Euros in millions)	1 January to 31 March			
	2017	2016	Change	% Chg
Revenues	1,771	1,858	(87)	(4.7)
Other income	28	31	(3)	(8.9)
Operating expenses	(1,409)	(1,509)	100	(6.6)
Supplies	(585)	(629)	44	(7.0)
Personnel expenses	(155)	(173)	18	(10.4)
Other expenses	(669)	(707)	38	(5.4)
Operating income before depreciation and amortisation (OIBDA)	390	379	11	2.9
<i>OIBDA margin</i>	22.0%	20.4%		1.6%-p.
Depreciation and amortisation	(481)	(540)	59	(10.9)
Operating income	(91)	(161)	70	(43.3)
Net financial income (expense)	(8)	(8)	1	(7.4)
Profit (loss) before tax for the period	(99)	(170)	70	(41.5)
Income tax	(0)	0	(0)	(>100,0)
Total profit for the period	(99)	(170)	70	(41.5)
Number of shares in millions as of end of period date	2,975	2,975	-	-
Basic earnings per share (in Euros) (1)	(0.03)	(0.06)	0.02	(41.5)

(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 2.975 Mio. for the years 2017 and 2016.

TELEFÓNICA DEUTSCHLAND GROUP
REVENUE BREAKDOWN

Unaudited

(Euros in millions)	1 January to 31 March			
	2017	2016	Change	% Change
Revenues	1,771	1,858	(87)	(4.7)
Mobile business	1,545	1,603	(58)	(3.6)
Mobile service revenues	1,292	1,336	(44)	(3.3)
Handset revenues	252	267	(14)	(5.4)
Fixed business	223	253	(30)	(11.9)
Other revenues	4	2	2	111.4
Mobile service revenues (excl. regulatory effects 2017)	1,328	1,336	(8)	(0.6)

TELEFÓNICA DEUTSCHLAND GROUP
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 31 March	As of 31 December	Change	% Change
	2017	2016		
NON-CURRENT ASSETS	12,752	13,055	(303)	(2.3)
Goodwill	1,932	1,932	–	–
Other intangible assets	6,047	6,215	(168)	(2.7)
Property, plant and equipment	4,101	4,217	(116)	(2.7)
Trade and other receivables	60	77	(17)	(22.0)
Other financial assets	54	60	(6)	(10.2)
Other non-financial assets	132	128	4	3.0
Deferred tax assets	427	427	–	–
CURRENT ASSETS	2,141	2,246	(105)	(4.7)
Inventories	91	85	5	6.3
Trade and other receivables	1,158	1,460	(302)	(20.7)
Other financial assets	21	25	(5)	(18.2)
Other non-financial assets	260	63	197	>100.0
Cash and cash equivalents	612	613	(1)	(0.2)
Total assets = Total equity and liabilities	14,893	15,301	(408)	(2.7)
EQUITY	9,320	9,408	(88)	(0.9)
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	6,345	6,434	(88)	(5.4)
Equity attributable to owners of the company	9,320	9,408	(88)	(0.9)
NON-CURRENT LIABILITIES	2,599	2,637	(37)	(1.4)
Interest-bearing debt	1,720	1,721	(1)	(0.1)
Trade payables and other payables	16	17	(1)	(8.1)
Provisions	550	561	(10)	(1.9)
Deferred income	314	338	(25)	(7.3)
CURRENT LIABILITIES	2,973	3,256	(282)	(8.7)
Interest-bearing debt	28	37	(9)	(24.7)
Trade payables and other payables	2,239	2,286	(46)	(2.0)
Provisions	148	190	(41)	(21.8)
Other non-financial liabilities	54	79	(25)	(31.9)
Deferred income	504	664	(160)	(24.1)
Financial Data				
Net financial debt (1)	836	798	38	4.7
Leverage (2)	0.5x	0.4x	0.0	4.8

(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.

- Current and non-current financial assets include handset receivables (current: EUR 216m in 2017 and EUR 245m in 2016; non-current: EUR 61m in 2017 and EUR 77m in 2016), positive fair value hedges for fixed interest financial liabilities (current: EUR 1m in 2017 and EUR 2m in 2016; non-current: EUR 11m in 2017 and EUR 12m in 2016) as well as loans to third parties (current: EUR 4m in 2017 and EUR 4m in 2016; non-current: EUR 0m in 2017 and EUR 0m in 2016).

- Current and non-current net financial debt includes bonds, promissory notes and registered bonds issued (EUR 1,411m in 2017 and EUR 1,422m in 2016), other loans (EUR 298m in 2017 and EUR 298m in 2016), as well as finance leases (current: EUR 15m in 2017 and EUR 15m in 2016; non-current: EUR 17m in 2017 and EUR 17m in 2016).

Note:

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

The present value of pending payment for spectrum of EUR 110m (including capitalised costs of borrowed capital) is presented in trade payables due to third parties on the Consolidated Statement of Financial Position and therefore excluded from the net financial debt calculation.

(2) Leverage is defined as net financial debt divided by 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 millions)	2017	2016			
	Jan - Mar	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
OIBDA	390	379	1,170	1,606	2,069
- CapEX (1)	(208)	(218)	(430)	(743)	(1,102)
= Operating Cash Flow (OpCF)	181	161	740	863	967
+ Silent Factoring (2)	136	135	194	315	424
-/+ Other working capital movements	(312)	(294)	(554)	(440)	(187)
Change in working capital	(177)	(159)	(360)	(125)	237
+/- (Gains) losses from sale of assets	(1)	-	(353)	(353)	(352)
+/- Proceeds from sale of fixed assets and other effects	1	-	591	591	591
+ Net interest payments	(14)	(18)	(19)	(16)	(23)
+ Taxes paid	0	-	-	-	(0)
+/- Proceeds / Payments on financial assets	8	(4)	(1)	(10)	(13)
= Free cash flow pre dividends and payments for spectrum (3)	(1)	(20)	599	951	1,408
- Payments for spectrum	-	(1)	(2)	(114)	(115)
- Dividends (4)	-	-	(714)	(714)	(714)
= Free Cash Flow post dividends and payments for spectrum	(1)	(21)	(117)	123	578
Net financial debt at the beginning of the period	798	1,225	1,225	1,225	1,225
+ Other changes in net financial debt	37	20	15	93	152
= net financial debt at the end of the period (incl. Restricted cash)	836	1,266	1,356	1,195	798

(1) Excluding investments in spectrum (including capitalised costs on borrowed capital).

(2) Accumulated impact of silent factoring transactions for the reporting period in 2017 of EUR 136m and EUR 135m in 2016 (transactions took place in March 2017 as well as March 2016).

(3) Free cash flow pre dividends and payments for spectrum is defined as the sum of all cash flows from operating activities and cash flows from investing activities excluding any payments for investments in spectrum and spectrum related interest payments.

(4) Dividend payment of EUR 714m in May 2016.

	2017	2016			
	Jan - Mar	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
= Free cash flow pre dividends and payments for spectrum (Euros in millior)	(1)	(20)	599	951	1,408
Number of shares (in millions)	2,975	2,975	2,975	2,975	2,975
= Free cash flow per share (in Euros)	(0.00)	(0.01)	0.20	0.32	0.47

TELEFÓNICA DEUTSCHLAND GROUP
 CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

(Euros in millions)	As of 31 March	As of 31 December	Change %
	2017	2016	
A Liquidity	612	613	(0.2)
B Current financial assets	221	251	(11.7)
C Current financial debt	21	31	(30.1)
D=C-A-B Current net financial debt	(811)	(833)	(2.6)
E Non-current financial assets	72	89	(19.4)
F Non-current financial debt	1,720	1,721	(0.1)
G=F-E Non-current net financial debt	1,648	1,631	1.0
H=D+G Net financial debt (1)	836	798	4.7

(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.

B+E Current and non-current financial assets include handset receivables (current: EUR 216m in 2017 and EUR 245m in 2016; non-current: EUR 61m in 2017 and EUR 77m in 2016), positive fair value hedges for fixed interest financial liabilities (current: EUR 1m in 2017 and EUR 2m in 2016; non-current: EUR 11m in 2017 and EUR 12m in 2016) as well as loans to third parties (current: EUR 4m in 2017 and EUR 4m in 2016; non-current: EUR 0m in 2017 and EUR 0m in 2016).

C+F Current and non-current net financial debt includes bonds, promissory notes and registered bonds issued (EUR 1,411m in 2017 and EUR 1,422m in 2016), other loans (EUR 298m in 2017 and EUR 298m in 2016), as well as finance leases (current: EUR 15m in 2017 and EUR 15m in 2016; non-current: EUR 17m in 2017 and EUR 17m in 2016).

Note:

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

The present value of pending payment for spectrum of EUR 110m (including capitalised costs of borrowed capital) is presented in trade payables due to third parties on the Consolidated Statement of Financial Position and therefore excluded from the net financial debt calculation.

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