Telefónica Deutschland

MUNICH, 26 July 2017

Preliminary results for January to June 2017

Telefónica Deutschland drives solid operating momentum in a market shifting to stronger data growth; reiterating full year 2017 outlook

- **Driving solid momentum with O_2 Free 15-year birthday tariff in a market increasingly focused on larger data buckets**
- **Underlying MSR[1] shows further sequential improvement to -0.4% year-on-year in Q2**
- **OIBDA[2] growth of +5.0% year-on-year on the back of an additional ~EUR 40 million of Opex and revenue-related synergies**
- **Reiterating full-year 2017 outlook; cash flow dynamics support mid-term dividend growth**

Second quarter 2017 operational & financial highlights

- **Mobile postpaid** saw 197 thousand net additions, leveraging the momentum from partners and the 15-year anniversary promotions of the O_2 brand. Partner trading stabilised at 55% share of gross adds as in prior quarter. Contract churn was 1.5%, 0.1 percentage points lower quarter-on-quarter, reflecting the successful focus on customer base development
- **Mobile prepaid** registered 322 thousand net additions on the back of the strong performance from partners
- The **LTE customer base** posted strong annual growth of 53.4% to 14.4 million supported by our successful data monetisation strategy. **Data usage** continued to benefit from the demand for music and video streaming and was further driven by the launch of bigger data buckets with O_2 Free 15. For LTE customers in O_2 consumer postpaid data usage grew 12% quarter-on-quarter to 2.0 GB per month, up 48% year-on-year
- **Revenue** fell 3.4% year-on-year to EUR 1,771 million, mainly driven by the impact of regulatory effects in form of the reduction of termination rates and the European roaming legislation on **mobile service revenue**. Roam-like-home came into force on 15 June 2017. Mobile service revenue fell -3.0% year-on-year to EUR 1,318 million on a reported basis. Excluding regulation, mobile service revenue continued to improve to -0.4% year-on-year vs -0.6% in the prior quarter
- **Handset revenue** stabilised at EUR 229 million (+1.5% year-on-year), reflecting market saturation and longer replacement cycles from customers

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[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 30 June 2017 include restructuring expenses of EUR 19 million and EUR 2 million of acquisition related consultancy fees, while the same period of 2016 included restructuring expenses of EUR 14 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.

- **Fixed-line revenue** showed a continuation of trends, falling 11.2% year-on-year to EUR 217 million, mainly as a result of the effects from the planned decommissioning of the ULL infrastructure
- **OIBDA** excluding exceptional effects[3] benefitted from EUR 40 million of additional Opex and revenue-related synergies and increased 5.0% year-on-year to EUR 472 million. This was partly offset by commercial and other investments, notably in the positioning of O_2 Free and the 15-year anniversary promotions. OIBDA margin excluding exceptional effects was up 2.1 percentage points year-on-year to 26.7% in the quarter
- **CapEx[4]** was EUR 226 million, up 6.9% year-on-year, as the company pushed ahead with network consolidation and the further roll-out of LTE, while also generating approx. EUR 10 million of Capex-related synergies
- **Consolidated net financial debt[5]** was EUR 1,575 million at the end of June 2017, bringing the leverage ratio to 0.9x, in line with target

[3] Excluding exceptional effects. The six months ending 30 June 2017 include restructuring expenses of EUR 30 million and EUR 2 million of acquisition related consultancy fees, while the same period of 2016 it included restructuring expenses of EUR 37 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

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

[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

Telefónica Deutschland continues to push ahead with the integration activities and is fully on track to deliver 75% or approx. EUR 670 million of the targeted cumulated savings level of approx. EUR 900 million operating cash flow synergies in 2019 already by year end 2017.

Our core project, the network integration, is progressing according to plan. In the first half of the year, we have already completed the consolidation in several areas in Southern Germany and are continuing with our integration efforts, aiming for sustained quality gains.

With the recently launched "Customer Experience Management Tool" (CEM), we are setting a new benchmark in the quality measurement of our network. The software developed by our partner Huawei together with customised use cases enables us to better understand the data usage of our customers and to enhance customer experience on our network. The project team and as such the CEM tool itselve were nominated for the Innovation Award "Excellence Awards 2017 and honoured as the winner in the categorie "Outstanding Contribution to Enabling Improved Customer Centricity" at the Telecommunications Forum in Nice in May.

Furthermore, we continue to make progress with our other integration projects such as personnel restructuring and optimisation of our shop footprint. All initiatives are running according to plan.

Transformation: Opportunities beyond Connectivity

As part of our transformation effort, Telefónica Deutschland has streamlined its senior management structure and eliminated several internal boards and committees. The company has elevated selected members to extend the management board as follows:

Director Controlling Markus Rolle replaces Rachel Empey as CFO, who is leaving the company upon her own request and as mutually agreed with the Supervisory Board to pursue new opportunities. Wolfgang Metze is appointed as Chief Consumer Officer responsible for the retail business with a clear focus on customer experience. Alfons Lösing is appointed Chief Partner and Business Officer, also responsible for Telefónica NEXT. Cayetano Carbajo Martin is appointed Chief Technology Officer. Guido Eidmann is appointed Chief Information Officer. Valentina Daiber is appointed Chief Officer for Legal and Corporate Affairs. Nicole Gerhardt is appointed Chief Human Resources Officer.

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

- Telefónica NEXT was awarded with the first price in the category Sustainability Innovation of the „German Awards for Excellence“ 2017 for its pilot project in Nuremberg to analyse and control traffic flows and air quality on the basis of anonymous mobile data

- We are closely cooperating with Telefónica, S.A., to leverage opportunitites arising from the implementation of AURA, an innovative voice-based user interface for a closer interaction with our customers and the extension our capacities. As a first application on the platform, the Telefónica

NEXT smartMedia division recently launched O_2 GET in cooperation with the European start-up people.io. This application gives customers full transparency and control over the data they share, while rewarding them for the data they have chosen to share with the app.

- Telefónica NEXT is expanding its services for intelligent data analytics leveraging its new partnership with Synergic Partners S.L., a wholly owned subsidiary of Telefónica, S.A., specialising on the consultation for big data strategies.

Commercial update

In the second quarter of 2017 we saw a dynamic competitive environment. German mobile is shifting to higher data usage with dynamic promotional activities and larger data buckets. We introduced a range of commercial initiatives to support our market position, mainly centered around the 15 year anniversary of the O_2 brand in May.

- Telefónica Deutschland celebrated the 15th birthday of its premium brand O_2 in May with selective offers for new and existing customers in fixed and mobile. The promotional O_2 Free 15 tariff has been a significant success. Early stats confirm that big data buckets clearly stimulate data growth and drive cross- and upselling.

- In the second quarter we halso renewed our O_2 DSL tariffs, enhancing the offers with higher bandwith across the portfolio and speeds of up to 100 Mbps.

- In June, the connect magazine praised the high service quality of our O_2-shops, ranking our premium brand shops as number 2 in the market, at eyes' level with the winner in many categories. The test praised particularly our O_2 guru system and their expert customer support.

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)	**H1 / 2017** (year-on-year)
Mobile Service Revenue underlying[6]	5,437	Slightly negative to flat	-0.5%
OIBDA before exceptional effects[7]	1,793	Flat to mid-single-digit % growth	+3.6%
CapEx[8]	1,102	Around EUR 1 billion	EUR 434 million

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

Telefónica Deutschland operating performance in the first half of 2017

As of 30 June 2017 Telefónica Deutschland's **customer accesses** totalled 49.9 million (+2.7% year-on-year) on the back of a 4.1% year-on-year increase in the mobile base, which stood at 45.2 million. Based on market standards for inactivity accounting as introduced with the first quarter results, we had 48.4 million mobile customer accesses and 53.1 million total accesses. In fixed, the retail DSL customer base was 1.0% lower year-on-year at 2.1 million accesses, while wholesale DSL accesses continued to decline at an accelerated speed of 23.8% quarter-on-quarter due to the planned dismantling of the legacy ULL platform by 2019.

Mobile postpaid net additions came to 368 thousand in the first half of 2017 versus 197 thousand in the second quarter and 520 thousand in the same period of 2016. The rebalancing of retail versus wholesale continued as a result of the improvements in the discount pricing environment. Partner brands contributed 55% of gross adds both in the second and in the first quarter. In the retail business, Telefónica Deutschland maintained its strategic focus on customer base development and retention, leveraging the positive customer response to its O_2 Free portfolio. At the end of June, the mobile postpaid base was 20.9 million accesses, up 6.6% year-on-year and the postpaid share of total mobile customers further increased by 1.1 percentage points year-on-year to 46.3%.

Mobile prepaid saw 505 thousend net additions in the period January to June versus 322 thousand in the second quarter with a strong performance from partners. The customer base was up 2.0% year-on-year to 24.3 million.

Postpaid churn was slightly lower year-on-year at 1.6% in the six months period and 1.5% in the second quarter (-0.1 percentage points year-on-year in both periods) and the O_2 consumer postpaid brand reported an even lower churn of 1.4% in the first half year and 1.3% in the second quarter reflecting our successful brand management and the sustained retention focus.

Smartphone penetration[9] as of the end of June was up 1.2 percentage points year-on-year across brands and segments at 57.4%.

The **LTE customer base** continued to benefit from the increasing demand for high-speed mobile and posted another quarter of strong growth, reaching 14.4 million accesses as of 30 June 2017, up 53.4% year-on-year.

Regulatory changes further impacted **ARPU** and outweighed accretive effects from O_2 Free in the first half of 2017. The blended mobile ARPU came to EUR 9.6 in the first half year and EUR 9.7 in the second quarter, 6.6% and 6.5% lower year-on-year respectively. The postpaid ARPU was EUR 15.5 both in the six month period and the second quarter, 6.4% and 6.5% lower year-on-year respectively. The prepaid ARPU continued to be affected by the prepaid to postpaid dynamics in the discount segment and fell 10.9% year-on-year to EUR 5.1 in the period up to June and 9.4% year-on-year to EUR 5.2 in the second quarter.

[9] 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** fell 1.0% year-on-year to 2.1 million accesses. In the first half of 2017 we registered 22 thousand net disconnection (-13 thousand in the second quarter). The demand for VDSL remained strong with 154 thousand net additions for the six months period, of which 88 thousand fell into the period April to June.

Fixed wholesale accesses were 428 thousand at the end of June, posting 263 thousand net disconnections in the first half year (134 thousand in the second quarter) due to the planned decommissioning of the ULL broadband access infrastructure.

Telefónica Deutschland's financial performance in the first half of 2017

Revenue were 4.1% lower year-on-year at EUR 3,542 million (-3.4% year-on-year in the second quarter to EUR 1,771 million) due to the regulatory headwinds on mobile services revenue as well as continued trends in the fixed business.

Mobile service revenue totalled EUR 2,610 million, 3.1% lower year-on-year, in the first half of the year and EUR 1,318 million, -3.0% year-on-year, in the second quarter on a reported basis. Excluding regulatory effects from termination rate cuts and the European roaming legislation of in total EUR 70 million (EUR 35 million in each of the quarters), mobile service revenue was down 0.5% year-on-year in the six months period and 0.4% year-on-year in the second quarter, compared to -0.6% year-on-year in the prior quarter. Top-line headwinds from the retail to wholesale mix-shift as well as legacy base effects in a dynamic competitive environment continued to outweigh the benefits from the successful marketing of the O_2 Free portfolio to new and existing customers.

Mobile data revenue was 0.7% higher year-on-year at EUR 1,488 million for the period January to June and EUR 772 million (+3.1% year-on-year) in the second quarter, reflecting continued OTT trends as well as demand from customers for higher data bundles. The **non-SMS data revenue** share of data revenue increased 2.1 percentage points year-on-year to 57.0 % and amounted to EUR 1,199 million (+6.6% year-on-year) in the first half of 2017 and EUR 630 million (+9.8% year-on-year) in the second quarter.

Handset revenue fell 2.2% year-on-year to EUR 482 million and rose 1.5% to EUR 229 million in the second quarter, reflecting continued lower demand for handsets in line with general market trends.

Fixed revenue continued to fall to EUR 440 million (-11.6% year-on-year) and EUR 217 million (-11.2% year-on-year) in the second quarter. Fixed retail revenue in the first half of 2017 benefitted from the continued strong performance of VDSL and contributed -2.3% to the year-on-year decline respective -2.6% in the second quarter. The fixed wholesale revenue decline continued to accelerate on the back of the planned dismantling of the legacy infrastructure, contributing -6.5% to the year-on-year decline (-7.2% in the period April to June).

Other income was EUR 59 million compared to EUR 436 million in the first half of 2016, which included an exceptional effect of EUR 352 million from the sale of tower assets in April.

Operating expenses were 6.7% lower year-on-year both in the six months period and in the second quarter at EUR 2,760 million and EUR 1,351 million respectively. This is mainly a result of the additional savings from integration projects. Restructuring costs of EUR 30 million (EUR 19 million in the second quarter) were mainly related to network, the optimisation of our shop footprint and the leaver programme.

- Cost for **supplies** came to EUR 1,132 million, 6.2% lower year-on-year and 5.3% lower year-on-year at EUR 547 million in the second quarter. Hardware cost of sales (44% of supplies in the second quarter) were slightly higher year-on-year, while connectivity-related cost of sales (45% of supplies in the second quarter) were lower year-on-year on the back of the mobile termination rate reduction in December 2016.

- **Personnel expenses** came to EUR 313 million including restructuring costs of EUR 13 million, a decline of 6.3% year-on-year, and EUR 157 million in the second quarter (-1.8% year-on-year).

- **Other operating expenses** totalled EUR 1,315 million including restructuring costs of EUR 17 million, a decrease of 7.2% year-on-year, and EUR 646 million in the second quarter (-9.0% year-on-year). In the second quarter, commercial costs and non-commercial costs made up 57% and 39% respectively. Savings from integration were partly offset by higher commercial investments into the positioning of O_2 Free.

Operating Income before Depreciation and Amortisation (OIBDA) in the first half of 2017 amounted to EUR 841 million compared to EUR 1,170 million in the prior year, and EUR 452 million in the second quarter compared to EUR 791 million in the prior year; with both comparative periods in 2016 including the exceptional effect of EUR 352 million from the sale of tower assets in April.

OIBDA excluding exceptional effects[10] rose 3.6% year-on-year to EUR 873 million (EUR 472 million or +5.0% in the second quarter) with in-year savings from OPEX & revenue-related integration activities amounting to approx. EUR 75 million (EUR 40 million for the period April to June). The OIBDA margin increased by 1.8 percentage points year-on-year to 24.6% in the first six month of the year.

Group fees amounted to EUR 20 million in the first half of 2017 and EUR 10 million in the second quarter.

Depreciation & Amortisation came to EUR 964 million in the first six month of 2017, a 9.8% year-on-year decrease compared to EUR 1,069 million in the same period of 2016, mainly as a result of the accelerated amortisation of software assets due to IT integration measures and the expiration of various spectrum licenses in 2016.

The **operating loss** for January to June 2017 was EUR 123 million versus an operating income of EUR 100 million in the same period of 2016, due to the above-metioned sale of passive tower infrastructure which was partly offset by an amortization decrease of EUR 105 million year-on-year.

[10] Excluding exceptional effects. The six months ending 30 June 2017 include restructuring expenses of EUR 30 million and EUR 2 million of acquisition related consultancy fees, while the same period of 2016 it included restructuring expenses of EUR 37 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

The net financial loss for the six months period amounted to EUR 16 million, which was broadly stable year-on-year.

The Company reported no material **income tax** for January to June 2017.

The net loss for the first half of 2017 came to EUR 139 million.

CapEx[11] **grew** 1.1% year-on-year to EUR 434 million and EUR 226 million in the second quarter (+6.9% year-on-year), as we pushed ahead with network consolidation and further rolled out LTE while generating approx. EUR 20 million of Capex-related synergies, mainly in relation to network integration.

Operating cash flow (OIBDA minus CapEx[11]) for the first six months of 2017 was EUR 407 million, down 45.0% year-on-year.

Free Cash Flow (FCF)[12] for the first six months of 2017 reached EUR 68 million.

Working capital movements came to a negative EUR 326 million, primarily driven by seasonal prepayments of EUR 221 million mainly for leased lines and rental contracts for mobile sites, as well as other recurring working capital movements, which include silent factoring transactions and the change in restructuring provisions.

Consolidated net financial debt[13] amounted to EUR 1,575 million at the end of June 2017, bringing the leverage ratio to 0.9x versus 0.4x at year-end 2016. The increase mainly results from the EUR 744 million dividend payment for the financial year 2016 paid in May 2017.

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

[12] 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 paments for investments in spectrum as well as related interest paments

[13] Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

	April 1 to June 30			January 1 to June 30		
(Euros in millions)	2017	2016	% Chg	2017	2016	% Chg
Revenues	1,771	1,834	(3.4)	3,542	3,691	(4.1)
Operating income before depreciation and amortisation (OIBDA), before exceptional effects (1) and before special effects (2)	472	459	3.0	873	860	1.5
OIBDA before exceptional effects and special effects-margin	*26.7%*	*25.0%*	*1.7%-p.*	*24.6%*	*23.3%*	*1.4%-p.*
Special effects (2)	–	(6)	(100.0)	–	(6)	(100.0)
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)	472	453	4.3	873	854	2.2
OIBDA before exceptional effects-margin	*26.7%*	*24.7%*	*2.0%-p.*	*24.6%*	*23.1%*	*1.5%-p.*
Exceptional effects (1)	(20)	338	(>100,0)	(32)	316	(>100,0)
Operating income before depreciation and amortisation (OIBDA)	452	791	(42.9)	841	1,170	(28.1)
OIBDA margin	*25.5%*	*43.1%*	*(17.6%-p.)*	*23.8%*	*31.7%*	*(7.9%-p.)*
Group fees	10	13	(24.3)	20	26	(23.1)
Operating income before depreciation and amortisation (OIBDA) and before group fees	461	804	(42.6)	861	1,196	(28.0)
OIBDA before group fees margin	*26.1%*	*43.8%*	*(17.8%-p.)*	*24.3%*	*32.4%*	*(8.1%-p.)*
Operating income	(31)	262	(>100,0)	(123)	100	(>100,0)
Total profit (loss) for the period	(40)	252	(>100,0)	(139)	83	(>100,0)
Basic earnings per share (in euros) (3)	(0.01)	0.08	(>100,0)	(0.05)	0.03	(>100,0)
CapEx (4)	(226)	(212)	6.9	(434)	(430)	1.1
Operating cash flow (OIBDA-CapEx) (4)	226	579	(61.1)	407	740	(45.0)
Free cash flow pre dividends and payments for spectrum (5)	69	619	(88.8)	68	599	(88.6)

(1) Exceptional effects as of 30 June 2017 include restructuring expenses amounting to EUR 30m and acquisition related consultancy costs amounting to EUR 2m. Exceptional effects as of 30 June 2016 include restructuring expenses amounting to EUR 37m 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 June 2016 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 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.

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

	April 1 to June 30			January 1 to June 30		
(Euros in millions)	2017	2016	% Chg	2017	2016	% Chg
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)(6)	472	453	4.3	873	854	2.2
Special effects, January - April	–	(3)	(100.0)	–	(12)	(100.0)
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)(6) and after special effects for comparable purposes	472	450	5.0	873	842	3.6

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

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

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

Unaudited

	2017		2016			
	Q1	Q2	Q1	Q2	Q3	Q4
ARPU (in Euros) (1)	9.6	9.7	10.3	10.4	10.5	10.1
Prepaid	5.0	5.2	5.7	5.7	5.9	5.6
Postpaid excl. M2M	15.5	15.5	16.6	16.6	16.6	16.0
Data ARPU (in Euros)	5.4	5.7	5.6	5.8	5.8	5.6
% non-SMS over data revenues (2)	79.4%	81.7%	75.4%	76.7%	77.2%	78.2%
Voice Traffic (m min) (3)	23,966	23,709	23,696	24,689	23,275	24,553
Data Traffic (TB) (4)	86,423	98,612	51,599	61,726	74,361	81,641
Churn (%)	1.9%	1.9%	2.5%	2.1%	2.1%	2.3%
Postpaid churn (%) excl. M2M	1.6%	1.5%	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 on the company's network, both outbound and inbound. Promotional traffic and traffic not associated to

(4) Data traffic is defined as Terabytes used by the company's customers for uploads and downloads (1TByte = 10^12 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 has not been rounded.

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED INCOME STATEMENT

Unaudited

(Euros in millions)	April 1 to June 30				January 1 to June 30			
	2017	2016	Change	% Chg	2017	2016	Change	% Change
Revenues	1,771	1,834	(63)	(3.4)	3,542	3,691	(150)	(4.1)
Other income	32	405	(374)	(92.2)	59	436	(376)	(86.4)
Operating expenses	(1,351)	(1,448)	98	(6.7)	(2,760)	(2,958)	198	(6.7)
Supplies	(547)	(578)	30	(5.3)	(1,132)	(1,206)	74	(6.2)
Personnel expenses	(157)	(160)	3	(1.8)	(313)	(333)	21	(6.3)
Other expenses	(646)	(710)	64	(9.0)	(1,315)	(1,418)	103	(7.2)
Operating income before depreciation and amortization (OIBDA)	**452**	**791**	**(339)**	**(42.9)**	**841**	**1,170**	**(328)**	**(28.1)**
OIBDA margin	25.5%	43.1%		*(17.6%-p.)*	23.8%	31.7%		*(7.9%-p.)*
Depreciation and amortisation	(483)	(529)	46	(8.7)	(964)	(1,069)	105	(9.8)
Operating income	**(31)**	**262**	**(293)**	**(>100,0)**	**(123)**	**100**	**(223)**	**(>100,0)**
Net financial income (expense)	**(9)**	**(9)**	**–**	**(4.7)**	**(16)**	**(18)**	**1**	**(6.0)**
Profit (loss) before tax for the period	**(40)**	**252**	**(293)**	**(>100,0)**	**(139)**	**83**	**(222)**	**(>100,0)**
Income tax	–	–	–	(>100,0)	–	–	–	>100,0
Total profit for the period	**(40)**	**252**	**(293)**	**(>100,0)**	**(139)**	**83**	**(222)**	**(>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)**	**0.08**	**(0.10)**	**(>100,0)**	**(0.05)**	**0.03**	**(0.07)**	**(>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)	April 1 to June 30				January 1 to June 30			
	2017	2016	Change	% Change	2017	2016	Change	% Change
Revenues	**1,771**	**1,834**	**(63)**	**(3.4)**	**3,542**	**3,691**	**(150)**	**(4.1)**
Mobile business	**1,548**	**1,584**	**(37)**	**(2.3)**	**3,092**	**3,187**	**(95)**	**(3.0)**
Mobile service revenues	1,318	1,358	(40)	(3.0)	2,610	2,694	(84)	(3.1)
Handset revenues	229	226	3	1.5	482	493	(11)	(2.2)
Fixed business	**217**	**245**	**(27)**	**(11.2)**	**440**	**498**	**(58)**	**(11.6)**
Other revenues	**6**	**5**	**1**	**19.5**	**9**	**6**	**3**	**43.3**
Mobile service revenues (excl. regulatory effects 2017)	**1,353**	**1,358**	**(5)**	**(0.4)**	**2,681**	**2,694**	**(14)**	**(0.5)**

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 30 June 2017	As of 31 December 2016	Change	% Change
NON-CURRENT ASSETS	**12,525**	**13,055**	**(530)**	**(4.1)**
Goodwill	1,939	1,932	7	0.4
Other intangible assets	5,861	6,215	(354)	(5.7)
Property, plant and equipment	4,042	4,217	(174)	(4.1)
Trade and other receivables	52	77	(26)	(33.0)
Other financial assets	53	60	(8)	(12.8)
Other non-financial assets	152	128	24	19.0
Deferred tax assets	427	427	–	–
CURRENT ASSETS	**2,231**	**2,246**	**(15)**	**(0.7)**
Inventories	131	85	46	53.9
Trade and other receivables	1,147	1,460	(313)	(21.4)
Other financial assets	20	25	(5)	(18.6)
Other non-financial assets	259	63	197	312.8
Cash and cash equivalents	673	613	60	9.8
Total assets = Total equity and liabilities	**14,756**	**15,301**	**(545)**	**(3.6)**
EQUITY	**8,542**	**9,408**	**(866)**	**(9.2)**
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	5,568	6,434	(866)	(13.5)
Equity attributable to owners of the company	8,542	9,408	(866)	(9.2)
NON-CURRENT LIABILITIES	**3,332**	**2,637**	**696**	**26.4**
Interest-bearing debt	2,456	1,721	735	42.7
Trade and other payables	17	17	–	1.6
Provisions	562	561	1	0.2
Deferred income	296	338	(43)	(12.6)
Deferred tax liabilities	1	0	1	100.0
CURRENT LIABILITIES	**2,881**	**3,256**	**(374)**	**(11.5)**
Interest-bearing debt	36	37	(1)	(2.9)
Trade and other payables	2,109	2,286	(177)	(7.7)
Provisions	122	190	(67)	(35.5)
Other non-financial liabilities	58	79	(22)	(27.3)
Deferred income	556	664	(108)	(16.2)

Financial Data				
Net financial debt (1)	1,575	798	777	97.3
Leverage (2)	0.9x	0.4x	0.4	95.6

(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.

Note:
The pending payment for spectrum of EUR 111m 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 the OIBDA for the last twelve months before exceptional effects.

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET DEBT

Unaudited

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

(1) Excluding additions from captalised 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 304m and EUR 194m in 2016 (transactions took place in March and June 2017 as well as March and June 2016).
(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 as related interest payments.
(4) Dividend payments of EUR 744m in May 2017 and EUR 714m in May 2016 respectively.

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

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

	As of 30 June	As of 31 December	
(Euros in millions)	2017	2016	% Change
A Liquidity	**673**	**613**	**9.8**
B Current financial assets (1)	**175**	**251**	**(30.0)**
C Current financial debt (2)	**29**	**31**	**(3.6)**
D=C-A-B Current net financial debt	**(819)**	**(833)**	**(1.7)**
E Non-current financial assets (1)	**62**	**89**	**(30.5)**
F Non-current financial debt (2)	**2,456**	**1,721**	**42.7**
G=F-E Non-current net financial debt	**2,394**	**1,631**	**46.8**
H=D+G Net financial debt (3)	**1,575**	**798**	**97.3**

(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.
The pending payment for spectrum of EUR 111m 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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