Telefónica Deutschland

MUNICH, 25 July 2018

Preliminary results for January to June 2018

Telefónica Deutschland confirms full year 2018 outlook[1] with strong operating momentum

- **Launch of new O_2 Free with double-data Boost option and O_2 Connect for up to 10 devices support ARPU-up strategy, reflected in trading and churn metrics**
- **Underlying[2] revenue +0.3% higher year-on-year in the first half, driven by continued improvement of underlying[1] MSR performance**
- **Strong OIBDA[3] growth of +6.1% year-on-year in the period January to June on the back of commercial momentum and ~EUR 65 million of OIBDA-relevant synergies**
- **Reiterating full year 2018 outlook; cash flow dynamics support dividend commitment**

Second quarter 2018 operational & financial highlights

- **Mobile postpaid** had +333 thousand net additions in Q2 2018, with strong demand for the O_2 Free and Blau portfolios, while contributions from partners remained solid (58% share of gross additions) in a rational market. Churn in the O_2 brand improved both year-on-year and quarter-on-quarter to 1.2% on the back of successful retention activities. Total postpaid churn was 1.5%
- The **LTE customer base** climbed +15.1% year-on-year to 16.6 million at the end of June 2018. Data usage for LTE customers in O_2 consumer postpaid further benefitted from the adoption of larger data packages in our O_2 Free portfolio and increased +22% quarter-on-quarter to 3.4 GB per month, an increase of +69% year-on-year
- **Underlying[2] revenue** was **stable year-on-year (+0.1%) at EUR 1,773 million (-0.3% year-on-year as per IAS 18 reporting)**. Including negative regulatory impacts of EUR 15 million (mainly roaming) revenue was EUR 1,758 million, -0.7% year-on-year
- **Underlying[2] mobile service revenue** maintained an upward trend, **+0.6% year-on year (+0.2% year-on-year as per IAS 18 reporting)**, supported by the new O_2 Free portfolio. On a reported basis, mobile service revenue reached EUR 1,311 million (-0.5% year-on-year)
- **Handset revenue** was at EUR 249 million, an increase of +8.5% year-on-year, supported by the continued demand for smartphones

[1] 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

[2] Excluding the negative impact from regulatory changes (mainly the European roaming regulation)

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

- **Fixed-line revenue** still showed a negative trend of -11.8% year-on-year at EUR 192 million as a result of the effect of the ongoing decommissioning of the legacy infrastructure while fixed retail revenue trends further improved to -0.4% year-on-year.

- **OIBDA** adjusted for exceptional and regulatory effects[4] was positively impacted by an additional ~EUR 30 million of OIBDA-relevant synergies and **reached EUR 504 million, up +6.8% year-on-year**. **As per IAS 18 reporting, OIBDA[5] growth was +3.7% year-on-year.** Negative regulatory effects of EUR 17 million were more than offset by the contribution from synergies. The **OIBDA margin** adjusted for exceptional and regulatory effects increased by +1.8 percentage points year-on-year to 28.4%

- **CapEx[6]** totalled **EUR 228 million (+0.7% year-on-year)** while the network integration and the subsequent roll-out of the LTE-network progressed well with approx. EUR 10 million of Capex-related synergies

- **Consolidated net financial debt[7]** was EUR 1,797 million as of the end of June 2018 with a leverage ratio of 1.0x and remained in line with our target after the dividend payment for the financial year 2017 of EUR 773 million in May

  At the end of June we placed a **7-year unsecured bond with a total volume of EUR 600 million** via O2 Telefónica Deutschland Finanzierungs GmbH, which was very well received in the market and started trading at the Luxemburg stock exchange on 5 July 2018. The proceeds will be used for general company purposes and the refinancing the bond which matures in November 2018.

[4] Exceptional effects were EUR 18 million of restructuring expenses in the period April to June 2018 and regulatory effects amounted to EUR 17 million in the period April to June 2018

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

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

[7] 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

Telefónica Deutschland

Progress of integration activities and network update

On our journey to become Germany's Mobile Customer and Digital Champion we are currently focussing on finalising the consolidation of our mobile network. We are progressing well with a region by region approach with the clear target to largely finalise network integration by year-end 2018. The consolidated O_2 network is becoming available in more and more cities and regions. As an example, customers in Munich, Stuttgart, Hamburg, Halle (Saale), Braunschweig, Potsdam as well as most of Southern Germany are already benefitting from the improved quality in our new O_2 network as per the end of June. At the same time, we are making solid progress with our LTE network rollout. Currently we are activating more than 100 stations per week to provide customers in rural as well as urban regions with improved LTE access.

Furthermore, we have been focussing on enabling our network for a world of 5G. We are cooperating with our partners on multiple projects, such as e.g. the Munich-based TechCity project with Huawei, the 5G Connected Mobility project with Ericsson and the Early 5G innovation cluster with Nokia in Berlin. Also, we are cooperating with Vodafone and NGN Networks to improve fibre penetration in our backhaul.

A positive signal for the expansion of the mobile networks in Germany came from politics at the mobile summit on 12 July 2018: The federal government, the federal states, central municipal associations and industry have jointly signed an ambitious declaration to close white spots in Germany. In return, the German government plans above all to improve payment terms for spectrum allocation as well as launching a support programme for mobile communications. Details will be agreed at a later stage.

Transformation: Simpler, Faster, Better

With our transformation programme Digital4Growth (D4G) we are paving our way to become Germany's Mobile Customer and Digital Champion by making our operations "Simpler, Faster, Better" with a clear focus on customer experience. We are aiming to make customer interaction simpler and more intuitive, to fulfil customer requests in real time and offer an excellent customer experience across each touchpoint.

D4G will also support our ambition to deliver superior shareholder remuneration. We are expecting D4G to deliver financial results already from 2019, as we are pushing ahead with selected projects in the areas of IT architecture and omni-channel capabilities already this year. These projects will contribute to improving KPIs such as an increasing O_2 app penetration, higher sales in self-assisted channels and our share of eCare events.

We remain confident in the targeted ~EUR 600 million of OIBDA[8] benefits by 2022 and thus our superior Free Cash Flow generation ability in the mid-term.

[8] Adjusted for exceptional effects and before the implementation of IFRS9, IFRS15 and IFRS16

Telefonica
Deutschland

Commercial update

The competitive environment in Germany in the second quarter of 2018 remained rational across the premium and non-premium segments, with a sustained focus on profitable growth by stimulating and monetising data usage via big data bundles. In line with this, we saw the following commercial initiatives and events in the second quarter:

- **New O_2 Free portfolio:** On 5 June 2018, we launched our streamlined new O_2 portfolio with three tariffs. As before, it comprises the O_2 Free S with 1GB high-speed data volume for EUR 19.99 and the O_2 Free M with 10 GB high-speed data volume for EUR 29.99. The data volume of the O_2 Free L tariff was upgraded from 20GB to 30GB at EUR 39.99. Simultaneously, we introduced the **O_2 Free Boost** and the **O_2 Connect** options. For an additional EUR 5.00 our customers can double their high speed data volume and they can connect up to ten mobile devices to the same tariff via two additional multi cards and seven data only cards. COMPUTER BILD has nominated the Connect function of the O_2 tariffs for the "Golden Computer", one of the key industry innovation awards
- **New Blau portfolio:** After a long period of inactivity, we relaunched our secondary brand Blau in June with new postpaid and prepaid portfolios focussing on higher data volumes within existing market price ranges to maintain our fair market share
- **New DSL portfolio:** At the beginning of June we also launched the new O_2 DSL Free portfolio with higher download speeds and the suspension of throttling after the consumption of the included high-speed volume. This also applies for existing customers
- **Annual fixed network test by connect magazine:** In the annual Connect fixed network test O_2 DSL received a **"good" rating.** With 420 points vs 406 last year we improved despite stricter criteria
- **O_2 Banking:** In co-operation with the finance technology service provider Bezahlen.de we are further enhancing the capabilities of our full-fledged bank account O_2 Banking. From August onwards O_2 Banking customers can withdraw money free of charge and without a minimum purchase amount at more than 11,000 retail partner branches in Germany. O_2 Banking customers have been enabled to deposit money to their bank account at supermarkets or drugstores already since May 2018

Financial outlook 2018[9]

Telefónica Deutschland second quarter and half year 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	H1 2018
Revenue	EUR 7,296 million	Broadly stable y-o-y (excl. negative regulatory effects of EUR 30-50m)	EUR 3,540 million; 0.0% y-o-y Based on IAS 18 ---------- EUR 3,551 million; +0.3% y-o-y Based on implementation of IFRS 15 as 1 January 2018
OIBDA Adj. for exceptional effects[10]	EUR 1,840 million	Flat to slightly positive y-o-y (excl. negative regulatory effects of EUR 40-60m)	EUR 909 million; +4.1% y-o-y Based on IAS 18 ---------- EUR 927 million; +6.1% y-o-y Based on implementation of IFRS 15 as 1 January 2018
Capex to Sales Ratio	13%	Approx. 12-13%	12.0%
Dividend	EUR 0.26/share Resolved by AGM, 17 May 2018	Annual dividend growth for 3 consecutive years (2016 – 2018)	N/A

[9] 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

[10] Exceptional effects such as restructuring costs or the sale of assets are excluded

Telefónica Deutschland operating performance in the first half of 2018

As of 30 June 2018 Telefónica Deutschland's **customer accesses** reached 47.2 million (-5.5% year-on-year) including 43.0 million were mobile accesses (-4.9% y-o-y). The reduction was mainly due to a -12.7% year-on-year decrease in the mobile prepaid base to 21.2 million customers due to changes in the regulatory environment in 2017 as well as a base correction in the last quarter of 2017. Mobile postpaid reached 21.8 million customers, up +4.1% year-on-year. At the end of June, our mobile postpaid base represented 50.7% of our total mobile base, an increase of +4.4 percentage points year-on-year. Based on market standards for inactivity accounting, we had 45.2 million mobile customer accesses and 49.4 million accesses in total. In fixed, the retail DSL customer base was -1.6% lower year-on-year at 2.0 million accesses. The migration of wholesale DSL accesses continues and is expected to be completed by the end of 2018 in line with the subsequent dismantling of the legacy platform.

Mobile postpaid saw +490 thousand net additions in the first half of 2018 compared to +368 thousand in the same period of the previous year, including +333 thousand in the second quarter of the year (+197 thousand in Q2 2017) as a result of a number of portfolio initiatives in this period. The share of partner brands remained solid in a rational market and contributed 59% of gross additions in the period until June and 58% in the second quarter. Telefónica Deutschland continues with a value-driven market approach with a primary focus on customer retention and customer base development.

Mobile prepaid registered -683 thousand net disconnections in the first six month of 2018, thereof -148 thousand in the second quarter (compared to +505 thousand net additions in the first half of 2017) as a result of lower customer demand for prepaid offers. This is mainly driven by regulatory changes (legitimation check and roaming legislation) introduced in the summer of the last year.

Postpaid churn was stable at 1.6% in the six months period and 1.5% in the second quarter of 2018 (1.6% and 1.5% year-on-year respectively in the prior year). O_2 consumer postpaid churn saw a further year-on-year improvement to 1.4% in the first half year and 1.2% in the second quarter period.

Smartphone penetration[11] at the end of June was 63.5% across brands and segments, +6.0 percentage points higher year-on-year.

The **LTE customer base** grew +15.1% year-on-year to 16.6 million accesses as of June 2018, driven by the increasing demand for high-speed mobile data services.

ARPU accretive effects from O_2 Free in the first half of 2018 were partly offset by the continued impact of regulatory changes and mix-shift effects in the base. The blended mobile ARPU came to EUR 9.9 in the first six month and EUR 10.0 in the April to June period, up +2.5% and +3.0% year-on-year respectively. **Postpaid ARPU** fell -4.5% year-on-year to EUR 14.8 in reported terms in the first half year and the second quarter respectively. **Prepaid ARPU** reached EUR 5.7 in the January to June period and EUR 5.8 in the second quarter, +11.3% and +11.2% higher year-on-year respectively mainly as a result of the base correction in the last quarter of 2017, which was however neutral for mobile service revenue.

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

The **fixed retail ARPU** reached EUR 24.7 for the first half of 2018 , remaining broadly stable year-on-year (-0.2% year-on -year), and EUR 24.6 in the second quarter (+0.4% year-on-year).

The **retail fixed broadband customer base** fell -1.6% year-on-year to approx. 2.0 million accesses. In the first half of the year we saw -24 thousand net disconnection (-11 thousand in the second quarter). The demand for VDSL remained strong with +178 thousand net additions in the first six months and +86 thousand in the second quarter 2018.

Fixed wholesale accesses registered -180 thousand net disconnections in the period January to June (-55 thousand in the second quarter) due to the planned decommissioning of the ULL broadband access infrastructure. We expect to finalise the migration of the remaining 8 thousand wholesale accesses before year end 2018.

Telefónica Deutschland

Telefónica Deutschland financial performance in the first half of 2018

Revenue totalled EUR 3,525 million in the first half of 2018, -0.5% year-on-year in reported terms (-0.7% year-on-year in the second quarter to EUR 1,758 million). Excluding a regulatory drag of EUR 26 million in the first two quarters (EUR 15 million in Q2), **revenue was up +0.3% year-on-year to EUR 3.551 million** in the six months period **(flat as per IAS 18 reporting)** and up +0.1% in the second quarter to 1,773 million (-0.3% year-on-year as per IAS 18 reporting)**.**

Mobile service revenue reached EUR 2,598 million, -0.5% year-on-year on a reported basis, in the first half and EUR 1,311 million (-0.5% year-on-year) in the second quarter of 2018. Excluding regulatory effects of EUR 26 million (EUR 15 million in Q2), **underlying mobile service revenue** trends remained **positive with +0.5% year-on-year growth in the first half of the year (+0.3% as per IAS 18 reporting)** and +0.6% year-on-year in Q2 (+0.2% year-on-year as per IAS 18 reporting). Tailwinds from the O_2 Free portfolio were partly offset by remaining headwinds from OTT trends and mix-shift effects in the legacy base.

Mobile data revenue declined -4.2% year-on-year to EUR 1,426 million in the period January to June compared to EUR 725 million (-6.1% year-on-year) in the second quarter, reflecting sustained OTT-trends on SMS-revenues and the demand from customers for higher data bundles. As a percentage of data revenues, non-SMS data revenues increased +4.0 percentage points year-on-year to 84.6% in the first half year.

Handset revenues were +9.7% higher year-on-year at EUR 529 million in the first half and +8.5% higher at EUR 249 million in the second quarter of the year, with continued strong demand for smartphones.

Fixed revenue saw a further decline to EUR 391 million (-11.2% year-on-year) in the period January to June and to EUR 192 million (-11.8% year-on-year) in the second quarter. This was mainly the result of the decline in fixed wholesale revenues while fixed retail revenue trends showed a further improvement (-1.0% year-on-year until June 2018 and -0.4% year-on-year in the second quarter) driven by demand for VDSL.

Other income was EUR 68 million compared to EUR 59 million in the first half of 2017 (EUR 34 million in Q2 vs 32million in Q2 2017).

Operating expenses were slightly lower with a -1.1% year-on-year reduction in the half year and -2.1% in the second quarter, reaching EUR 2,730 million and EUR 1,322 million respectively as a result of integration savings and a stringent value focus. Operating expenses include restructuring costs of EUR 32 million in the first half year of 2018 (EUR 18 million in the second quarter), which were mainly related to the network consolidation project.

- **Supplies** totalled EUR 1,125 million, -0.6% lower year-on-year and EUR 538 million, -1.7% year-on-year, in the first half and second quarter respectively. Hardware cost of sales (47% of supplies in the second quarter) were higher year-on-year in line with the demand for handsets, while connectivity-related cost of sales (43% of supplies in the second quarter) were lower year-on-year, as higher wholesale costs for outbound roaming were more than offset by lower costs for voice termination

- **Personnel expenses** adjusted for EUR 1 million restructuring costs in both periods of 2018 came to EUR 302 million in the first six months of the year, up +0.7% year-on-year and EUR 150 million in Q2, down -0.9% year-on-year. The inflation-related salary adjustments in 2018 were overcompensated by savings related to the successful completion of the employee restructuring programme
- **Other operating expenses** reached EUR 1,302 million and were down -1.0% year-on-year, including restructuring costs of EUR 31 million. In the second quarter other operating expenses came to EUR 632 million (-2.2% year-on-year) and including restructuring costs of EUR 17 million. Commercial costs and non-commercial costs made up 58% and 38% respectively in the period January to June 2018

Operating Income before Depreciation and Amortisation (OIBDA) amounted to EUR 863 million in the first half of 2018 compared to EUR 841million in the previous year. In the second quarter of 2018, OIBDA reached EUR 469 million compared to EUR 452 million in the same period 2017.

OIBDA adjusted for exceptional and regulatory effects[12] increased **+6.1% year-on-year to EUR 927 million in the first half year and +6.8% year-on-year to EUR 504 million in Q2**. Exceptional effects amounted to EUR 32 million and EUR 18 million respectively and were mainly related to the network consolidation. Negative regulatory effects of EUR 31 million (EUR 17 million in the second quarter period) were mainly related to higher wholesale cost due to the European roaming legislation. In-year savings from OIBDA-relevant integration activities reached approx. EUR 65 million (EUR 30 million in the second quarter). Thus, the OIBDA margin increased by +1.4 percentage points year-on-year to 26.1% in the half year period of the year.

Group fees amounted to EUR 19 million in first half of 2018 and to EUR 9 million in the second quarter.

Depreciation & Amortisation amounted to EUR 937 million in the January to June period 2018, a decrease of -2.8% year-on-year compared to the same period of 2017, mainly due to the extended useful life of network equipment as a result of network integration measures.

The **operating loss** the first six month of 2018 was EUR -74 million compared to an operating loss of EUR -123 million in the same period of 2017.

The net financial expenses for the half year came to EUR 19 million versus EUR 16 million in prior year.

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

The net loss for the six months period of 2018 was EUR -93 million, compared to a net loss of EUR -139 million in the same period of the prior year.

CapEx[13] fell -2.3% year-on-year to EUR 424 million but was up +0.7% year-on-year to EUR 228 million in the second quarter, as we pushed ahead with network consolidation and the further roll-out of LTE while

[12] Exceptional effects were EUR 32 million of restructuring expenses in the period January to June 2018 and regulatory effects amounted to EUR 31 million in the period January to June 2018

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

generating approx. EUR 25 million of Capex-related synergies in the first half of the year, mainly in relation to network integration.

Operating cash flow (OIBDA minus CapEx[14]) in the January to June period 2018 reached EUR 439 million, an increase of +7.8% year-on-year.

Free cash flow (FCF)[15] amounted to EUR 84 million until June 2018 versus EUR 68 million in the prior year, mainly resulting from working capital seasonality.

Working capital movements and adjustments were negative in the amount of EUR -343 million. This development was mainly driven by the seasonal prepayments (mainly rents for leased lines and mobile sites) of EUR -112 million, a change in Capex payables of EUR -87 million and the change in restructuring provisions of EUR -24 million. The remaining working capital movements of EUR -120 million include silent factoring transactions for handset receivables in the gross amount of EUR 336 million as well as other working capital movements, including a reduction in trade & other payables.

Consolidated net financial debt[16] was up EUR 1,797 million at the end of June 2018 (EUR 1,085 million as of 31 March 2018) mainly as a result of the dividend payment of EUR 773 million in May. The leverage ratio came to 1.0x after the dividend payment, in line with our leverage target of at or below 1.0x.

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

[15] 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

[16] 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

	2018		2017			
(in thousands)	Q1	Q2	Q1	Q2	Q3	Q4
Final clients accesses	47,011	47,172	48,988	49,479	49,105	47,416
Fixed telephony accesses	1,969	1,959	2,000	1,988	1,979	1,980
Internet and data accesses	2,266	2,251	2,313	2,297	2,284	2,281
Narrowband	206	203	217	215	212	209
Broadband	2,060	2,048	2,095	2,082	2,072	2,072
thereof VDSL	*1,243*	*1,330*	*872*	*960*	*1,063*	*1,152*
Mobile accesses	42,777	42,962	44,675	45,194	44,842	43,155
Prepaid	21,346	21,198	23,967	24,289	23,754	21,881
Postpaid	21,431	21,764	20,708	20,905	21,088	21,274
thereof M2M	*1,067*	*1,103*	*830*	*897*	*969*	*1,027*
Postpaid (%)	50.1%	50.7%	46.4%	46.3%	47.0%	49.3%
Smartphone penetration (%) (1)	62.0%	63.5%	57.0%	57.4%	58.7%	60.9%
LTE customers (2)	16,094	16,596	13,968	14,422	15,679	15,759
Wholesale accesses (3)	63	8	562	428	298	188
Total accesses	**47,075**	**47,180**	**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.

	2018		2017			
(in thousands)	Q1	Q2	Q1	Q2	Q3	Q4
Mobile accesses on a market comparab	45,285	45,201	47,861	48,388	48,372	45,918
Prepaid	23,508	23,122	26,770	27,150	26,906	24,300
Postpaid	21,777	22,079	21,091	21,237	21,467	21,617
Mobile accesses on a market comparab	44,218	44,097	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	Q2	Q1	Q2	Q3	Q4
ARPU (in Euros) (1)	9.8	10.0	9.6	9.7	9.8	9.8
Prepaid	5.6	5.8	5.0	5.2	5.2	5.6
Postpaid excl. M2M	14.8	14.8	15.5	15.5	15.7	15.2
Data ARPU (in Euros)	5.4	5.6	5.4	5.7	5.6	5.6
% non-SMS over data revenues (2)	85.0%	84.1%	79.4%	81.7%	80.6%	81.4%
Voice Traffic (m min) (3)	23,341	24,554	23,966	23,709	23,006	23,667
Data Traffic (TB) (4)	126,040	151,620	86,423	98,612	110,684	122,367
Churn (%)	2.2%	1.8%	1.9%	1.9%	2.1%	3.1%
Postpaid churn (%) excl. M2M	1.7%	1.5%	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 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 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'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.

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

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED INCOME STATEMENT & SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

	April 1 to June 30				January 1 to June 30			
(Euros in millions)	2018	2017	Change	% Change	2018	2017	Change	% Change
Revenues	**1,758**	**1,771**	**(13)**	**(0.7)**	**3,525**	**3,542**	**(17)**	**(0.5)**
Revenues (excl. regulatory effects 2018)	**1,773**	**1,771**	**2**	**0.1**	**3,551**	**3,542**	**9**	**0.3**
Mobile business	**1,560**	**1,548**	**12**	**0.8**	**3,127**	**3,092**	**34**	**1.1**
Mobile service revenues	1,311	1,318	(7)	(0.5)	2,598	2,610	(12)	(0.5)
Mobile service revenues (excl. regulatory effects 2018)	1,326	1,318	8	0.6	2,624	2,610	13	0.5
Handset revenues	249	229	20	8.5	529	482	47	9.7
Fixed business	**192**	**217**	**(26)**	**(11.8)**	**391**	**440**	**(49)**	**(11.2)**
Other revenues	**6**	**6**	**0**	**1.0**	**7**	**9**	**(2)**	**(20.3)**
Other income	**34**	**32**	**2**	**6.2**	**68**	**59**	**9**	**15.1**
Operating expenses	**(1,322)**	**(1,351)**	**29**	**(2.1)**	**(2,730)**	**(2,760)**	**30**	**(1.1)**
Supplies	(538)	(547)	9	(1.7)	(1,125)	(1,132)	7	(0.6)
Personnel expenses	(151)	(157)	6	(3.6)	(303)	(313)	9	(3.0)
Impairment losses in accordance with IFRS 9 (1)	(18)	(18)	(1)	3.4	(39)	(37)	(3)	7.1
Other expenses	(614)	(629)	15	(2.3)	(1,262)	(1,278)	16	(1.3)
thereof Group fees	9	10	(0)	(3.1)	19	20	(1)	(6.9)
Operating income before depreciation and amortization (OIBDA)	**469**	**452**	**18**	**3.9**	**863**	**841**	**22**	**2.6**
OIBDA margin	26.7%	25.5%		1.2%-p.	24.5%	23.8%		0.7%-p.
Exceptional effects (2)	(18)	(20)	3	(12.9)	(32)	(32)	(0)	1.4
OIBDA adjusted for exceptional effects (2)	**487**	**472**	**15**	**3.2**	**895**	**873**	**22**	**2.6**
OIBDA margin adjusted for exceptional effects	27.7%	26.7%		1.0%-p.	25.4%	24.6%		0.8%-p.
OIBDA adjusted for exceptional effects (2) (excl. regulatory effects 2018)	**504**	**472**	**32**	**6.8**	**927**	**873**	**54**	**6.1**
OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2018)	28.4%	26.7%		1.8%-p.	26.1%	24.6%		1.4%-p.
Depreciation and amortization	(471)	(483)	12	(2.6)	(937)	(964)	27	(2.8)
Operating income	**(1)**	**(31)**	**30**	**(95.4)**	**(74)**	**(123)**	**48**	**(39.5)**
Net financial income (expense)	**(10)**	**(9)**	**(2)**	**19.2**	**(19)**	**(16)**	**(2)**	**14.7**
Profit (loss) before tax for the period	**(12)**	**(40)**	**28**	**(70.6)**	**(93)**	**(139)**	**46**	**(33.1)**
Income tax	(0)	0	(0)	(122.5)	(0)	0	(0)	(456.9)
Total profit for the period	**(12)**	**(40)**	**28**	**(70.5)**	**(93)**	**(139)**	**46**	**(33.0)**
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) (3)	(0.00)	(0.01)	0	(70.5)	(0.03)	(0.05)	0	(33.0)
CapEx (4)	(228)	(226)	(1)	0.7	(424)	(434)	10	(2.3)
Operating cash flow (OIBDA-CapEx) (4)	242	226	16	7.1	439	407	32	7.8
Free cash flow pre dividends and payments for spectrum (5)	70	69	0	0.6	84	68	16	23.4

(1) For the comparison period rules in accordance with IAS 39 were effective.

(2) Exceptional effects as of 30 June 2018 include restructuring expenses amounting to EUR 32m. Exceptional effects as of 30 June 2017 include restructuring expenses amounting to EUR 30m and acquisition related consultancy costs amounting to EUR 2m.

(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 2018 and 2017.

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

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

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

CONSOLIDATED INCOME STATEMENT - IAS 18 RECONCILIATION

Unaudited

	1 January to 31 March 2018			1 April to 30 June 2018			1 January to 30 June 2018		
(Euros in millions)	IFRS 15	Adjustments	IAS 18	IFRS 15	Adjustments	IAS 18	IFRS 15	Adjustments	IAS 18
Revenues	**1,767**	**(3)**	**1,764**	**1,758**	**(7)**	**1,750**	**3,525**	**(11)**	**3,514**
Revenues (excl. regulatory effects 2018)	**1,778**	**(3)**	**1,774**	**1,773**	**(7)**	**1,765**	**3,551**	**(11)**	**3,540**
Mobile business	**1,566**	**(2)**	**1,564**	**1,560**	**(7)**	**1,553**	**3,127**	**(9)**	**3,117**
Mobile service revenues	1,287	(2)	1,285	1,311	(5)	1,306	2,598	(7)	2,591
Mobile service revenues (excl. regulatory effects 2018)	1,298	(2)	1,296	1,326	(5)	1,321	2,624	(7)	2,617
Handset revenues	280	(1)	279	249	(2)	247	529	(3)	526
Fixed business	**199**	**(4)**	**195**	**192**	**(3)**	**189**	**391**	**(6)**	**384**
Other revenues	**2**	**2**	**4**	**6**	**2**	**8**	**7**	**5**	**12**
Other income	**35**	**–**	**35**	**34**	**–**	**34**	**68**	**–**	**68**
Operating expenses	**(1,408)**	**(0)**	**(1,408)**	**(1,322)**	**(7)**	**(1,329)**	**(2,730)**	**(7)**	**(2,737)**
Supplies	(587)	–	(587)	(538)	–	(538)	(1,125)	–	(1,125)
Personnel expenses	(152)	–	(152)	(151)	–	(151)	(303)	–	(303)
Impairment losses in accordance with IFRS 9 (1)	(21)	(0)	(21)	(18)	1	(17)	(39)	1	(39)
Other expenses	(648)	0	(648)	(614)	(8)	(622)	(1,262)	(8)	(1,270)
thereof Group fees	9	–	9	9	–	9	19	–	19
Operating income before depreciation and amortization (OIBDA)	**394**	**(3)**	**390**	**469**	**(15)**	**455**	**863**	**(18)**	**845**
OIBDA margin	22.3%		22.1%	26.7%		26.0%	24.5%		24.0%
Exceptional effects (2)	(14)	–	(14)	(18)	–	(18)	(32)	–	(32)
OIBDA adjusted for exceptional effects (2)	**408**	**(3)**	**405**	**487**	**(15)**	**472**	**895**	**(18)**	**877**
OIBDA margin adjusted for exceptional effects	23.1%		23.0%	27.7%		27.0%	25.4%		25.0%
OIBDA adjusted for exceptional effects (2) (excl. regulatory effects 2018)	**422**	**(3)**	**419**	**504**	**(15)**	**490**	**927**	**(18)**	**909**
OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2018)	23.8%		26.8%	28.7%		28.0%	26.1%		29.1%
Depreciation and amortization	(467)	–	(467)	(471)	–	(471)	(937)	–	(937)
Operating income	**(73)**	**(3)**	**(76)**	**(1)**	**(15)**	**(16)**	**(74)**	**(18)**	**(92)**
Net financial income (expense)	**(9)**	**0**	**(8)**	**(10)**	**0**	**(10)**	**(19)**	**1**	**(18)**
Profit (loss) before tax for the period	**(81)**	**(3)**	**(84)**	**(12)**	**(14)**	**(26)**	**(93)**	**(17)**	**(110)**
Income tax	(0)	–	(0)	(0)	–	(0)	(0)	–	(0)
Total profit for the period	**(82)**	**(3)**	**(85)**	**(12)**	**(14)**	**(26)**	**(93)**	**(17)**	**(110)**

(1) For the comparison period rules in accordance with IAS 39 were effective.

(2) Exceptional effects as of 30 June 2018 include restructuring expenses amounting to EUR 32m.

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 30 June 2018	As of 31 December 2017	Change	% Change
NON-CURRENT ASSETS	**11,490**	**11,940**	**(450)**	**(3.8)**
Goodwill	1,960	1,960	–	–
Other intangible assets	5,113	5,485	(373)	(6.8)
Property, plant and equipment	3,904	4,041	(137)	(3.4)
Trade and other receivables	59	69	(10)	(14.1)
Other financial assets	102	94	8	9.0
Other non-financial assets	223	129	94	72.5
Deferred tax assets	129	162	(33)	(20.3)
CURRENT ASSETS	**2,186**	**2,160**	**26**	**1.2**
Inventories	123	105	18	17.5
Trade and other receivables	1,159	1,265	(105)	(8.3)
Other financial assets	12	17	(6)	(32.2)
Other non-financial assets	571	186	385	207.2
Cash and cash equivalents	321	587	(266)	(45.4)
Total assets = Total equity and liabilities	**13,676**	**14,100**	**(424)**	**(3.0)**
EQUITY	**7,707**	**8,297**	**(590)**	**(7.1)**
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	4,732	5,323	(590)	(11.1)
Equity attributable to owners of the company	7,707	8,297	(590)	(7.1)
NON-CURRENT LIABILITIES	**2,361**	**2,141**	**219**	**10.2**
Interest-bearing debt	1,451	1,268	183	14.4
Trade and other payables	20	19	1	5.7
Provisions	563	599	(37)	(6.1)
Deferred income	225	255	(29)	(11.6)
Deferred tax liabilities	102	1	101	13,153.0
CURRENT LIABILITIES	**3,608**	**3,662**	**(53)**	**(1.5)**
Interest-bearing debt	898	637	261	40.9
Trade and other payables	2,017	2,224	(206)	(9.3)
Provisions	142	142	1	0.5
Other non-financial liabilities	56	132	(76)	(57.4)
Deferred income	495	527	(32)	(6.1)

Financial Data				
Net financial debt (1)	1,797	1,064	733	68.9
Leverage (2)	1.0x	0.6x	0.4	66.7

(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.

(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

	2018		2017			
(Euros in millions)	Jan - Mar	Jan - June	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
OIBDA	**394**	**863**	**390**	**841**	**1,288**	**1,785**
- CapEX (1)	(182)	(420)	(208)	(433)	(679)	(932)
= Operating Cashflow (OIBDA-CapEx) (1)	**212**	**443**	**181**	**409**	**609**	**853**
+/- Change in working capital	**(184)**	**(343)**	**(177)**	**(326)**	**(322)**	**(132)**
+/- (Gains) losses from sale of assets	(0)	(0)	(1)	(1)	(1)	(30)
+/- Proceeds from sale of fixed assets and other effects	0	–	1	1	1	31
+ Net interest payments	(16)	(19)	(14)	(15)	(16)	(27)
+ Taxes paid	–	–	0	–	–	–
+/- Proceeds / Payments on financial assets	4	3	8	9	5	14
+ Acquisition of companies net of cash acquired	(0)	(0)	–	(9)	(9)	(29)
= Free cash flow pre dividends and payments for spectrum (2)	**15**	**84**	**(1)**	**68**	**268**	**680**
- Payments for spectrum	–	–	–	–	(111)	(111)
- Dividends	–	(773)	–	(744)	(744)	(744)
= Free cash flow post dividends and payments for spectrum	**15**	**(689)**	**(1)**	**(675)**	**(586)**	**(175)**
Net financial debt at the beginning of the period	1,064	1,064	798	798	798	798
+ Other changes in net financial debt	35	44	37	101	129	91
= Net financial debt at the end of the period (incl. Restricted cash)	**1,085**	**1,797**	**836**	**1,575**	**1,514**	**1,064**

(1) Excluding additions from business combinations, captalised finance leases and capitalised costs on borrowed capital for investments in spectrum. From Q2 2018 on the definition of finance lease additions was updated leading to a cumulated reduction amounting to EUR 11m.

(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 - June	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
= Free cash flow pre dividends and payments for spectrum (Euros in millions)	15	84	(1)	68	268	680
Number of shares (in millions)	2,975	2,975	2,975	2,975	2,975	2,975
= Free cash flow per share (in Euros)	0.00	0.03	(0.00)	0.02	0.09	0.23

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

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

(Euros in millions)	As of 30 June 2018	As of 31 December 2017	% Change
A Liquidity	**321**	**587**	**(45.4)**
B Current financial assets (1)	**164**	**177**	**(7.1)**
C Current financial debt (2)	**896**	**635**	**41.1**
D=C-A-B Current net financial debt	**411**	**(129)**	**(419.4)**
E Non-current financial assets (1)	**65**	**75**	**(13.8)**
F Non-current financial debt (2)	**1,451**	**1,268**	**14.4**
G=F-E Non-current net financial debt	**1,386**	**1,193**	**16.2**
H=D+G Net financial debt (3)	**1,797**	**1,064**	**68.9**

(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.

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.

Further information

Telefónica Deutschland Holding AG

Investor Relations

Georg-Brauchle-Ring 50

80992 München

Dr. Veronika Bunk-Sanderson, Director Communications & Investor Relations

Marion Polzer, Head of Investor Relations

Eugen Albrecht, Senior Investor Relations Officer

Abigail Gooren, Investor Relations Officer

Pia Hildebrand, Investor Relations Officer

Saskia Puth, Office Manager Investor Relations

(t) +49 89 2442 1010

ir-deutschland@telefonica.com

www.telefonica.de/investor-relations

Telefónica
Deutschland

Disclaimer:

This document contains statements that constitute forward-looking statements and expectations about Telefónica Deutschland Holding AG (in the following "the Company" or "Telefónica Deutschland") that reflect the current views and assumptions of Telefónica Deutschland's management with respect to future events, including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations which may refer, among others, to the intent, belief or current prospects of the customer base, estimates regarding, among others, future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. Forward-looking statements are based on current plans, estimates and projections. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions. Such forward-looking statements, by their nature, are not guarantees of future performance and are subject to risks and uncertainties, most of which are difficult to predict and generally beyond Telefónica Deutschland's control and other important factors that could cause actual developments or results to materially differ from those expressed in or implied by the Company's forward-looking statements. These risks and uncertainties include those discussed or identified in fuller disclosure documents filed by Telefónica Deutschland with the relevant Securities Markets Regulators, and in particular, with the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin). The Company offers no assurance that its expectations or targets will be achieved.

Analysts and investors, and any other person or entity that may need to take decisions, or prepare or release opinions about the shares / securities issued by the Company, are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this document. Past performance cannot be relied upon as a guide to future performance.

Except as required by applicable law, Telefónica Deutschland undertakes no obligation to revise these forward-looking statements to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica Deutschland's business or strategy or to reflect the occurrence of unanticipated events.

The financial information and opinions contained in this document are unaudited and are subject to change without notice.

This document contains summarised information or information that has not been audited. In this sense, this information is subject to, and must be read in conjunction with, all other publicly available information, including if it is necessary, any fuller disclosure document published by Telefónica Deutschland.

None of the Company, its subsidiaries or affiliates or by any of its officers, directors, employees, advisors, representatives or agents shall be liable whatsoever for any loss however arising, directly or indirectly, from any use of this document its content or otherwise arising in connection with this document.

This document or any of the information contained herein do not constitute, form part of or shall be construed as an offer or invitation to purchase, subscribe, sale or exchange, nor a request for an offer of purchase, subscription, sale or exchange of shares / securities of the Company, or any advice or recommendation with respect to such shares / securities. This document or a part of it shall not form the basis of or relied upon in connection with any contract or commitment whatsoever.

These written materials are especially not an offer of securities for sale or a solicitation of an offer to purchase securities in the United States, Canada, Australia, South Africa and Japan. Securities may not be offered or sold in the United States absent registration under the US Securities Act of 1933, as amended, or an exemption there from. No money, securities or other consideration from any person inside the United States is being solicited and, if sent in response to the information contained in these written materials, will not be accepted.