

MUNICH, 21 February 2018

Preliminary results for January to December 2017

Telefónica Deutschland meets 2017 outlook and continues to drive strong operational momentum with O₂ Free and partner business

- **O₂ Free portfolio fuels data growth in an dynamic environment; average usage >7GB per month**
- **2017 underlying MSR¹ almost flat; fourth quarter returning to growth with +0.8%¹ year-on-year**
- **Synergy capture in line with expectations; additional in-year savings of ~EUR 160 million of OIBDA-related and ~EUR 80 million of Capex-related synergies**
- **OIBDA² up +2.6% year-on-year in 2017, reflecting successful synergy capture partially offset by regulatory headwinds and commercial invest for future growth**
- **The 2018 Outlook reflects our execution focus, while we enter our next chapter: The transformation into Germany's Mobile Customer and Digital Champion**

Fourth quarter 2017 operational & financial highlights

- Net additions in **mobile postpaid** reached 186 thousand in the fourth quarter, with a strong contribution from partners (58% share of gross additions), while capturing momentum with our O₂Free portfolio. Contract churn remained stable year-on-year at 1.7%, with churn in the O₂ brand at 1.6% in the fourth quarter
- The **LTE customer base** continued to grow in an increasingly saturated market and was up 30.6% year-on-year to 15.8 million. Data usage for LTE customers in O₂ consumer postpaid grew 17% quarter-on-quarter to 2.8 GB per month, up 68% year-on-year
- **Revenue** came in 1.6% lower year-on-year at EUR 1,904 million and continued to reflect regulatory impacts from the reduction of termination rates and the European roaming regulation. Excluding regulatory effects of EUR 28 million in the fourth quarter, **mobile service revenue** returned to growth, up 0.8% year-on year (-0.1% in Q3), supported by inbound roaming trends. On a reported basis, mobile service revenue was EUR 1,332 million (-1.2% year-on-year)
- **Handset revenue** reached EUR 356 million (+4.4% year-on-year), benefitting from stronger demand for devices in the final quarter of the year

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

² Excluding exceptional effects. 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** fell 12.7% year-on-year to EUR 208 million, reflecting predominately the effects of the planned decommissioning of the legacy infrastructure which weighs on wholesale DSL dynamics
- **OIBDA** excluding exceptional effects³ increased 1.4% year-on-year to EUR 499 million, benefitting from an additional ~EUR 45 million of Opex and revenue-related synergies, partly offset by regulatory effects of EUR 10 million and continued market invest. The **OIBDA margin** excluding exceptional effects was 26.2% in the fourth quarter, an expansion of 0.8 percentage points year-on-year
- **CapEx**⁴ totalled EUR 262 million (-26.7% year-on-year), as we continued to optimise our investment profile in the context of the ongoing network consolidation. Also, we benefitted from incremental synergy related savings of ~EUR 30 million in the final quarter of the year on the back of the rollout of one LTE network
- **Consolidated net financial debt**⁵ stood at EUR 1,064 million at the end of December 2017, with the leverage ratio of 0.6x well in line with our mid-term target

³ Excluding exceptional effects. 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 activities and network update

Telefónica Deutschland progressed with the integration activities according to plan and delivered upon the expected savings target of approx. EUR 670 million in Operating Cash Flow by year-end of 2017, or ~75% of the total target in 2019. The fourth quarter contributed ~EUR 45 million in OIBDA related synergies and ~EUR 30 million in Capex related synergies.

In 2017 we largely completed several integration projects, such as the FTE restructuring programme and the optimisation of our shop and facility footprint.

Our core remaining project, the network consolidation, also progressed significantly. By year end 2017 we decommissioned approx. 8,000 sites and are now more than 50% through the consolidation process. We will continue our region by region approach in order to build the largest and most modern network in Germany with a focus on access and reliability for the majority of German customers. We are on track to largely finalise network consolidation by year-end 2018, while aiming for steady quality gains and keeping the focus on the subsequent LTE rollout.

In the fourth quarter independent tests with a focus on customer perception, such as connect Netzwetter and Computerbild, again acknowledged the improved performance of the Telefónica Deutschland network. Customers felt that the network had good bandwidth and excellent signal strength, according to the tests.

Paving the way to 5G, we have signed a Memorandum of Understanding about a joint 5G Innovation Cluster with Nokia. We have agreed to further develop 4G and 4.5G network solutions and technologies in our lab in Munich with focus on customer relevant enhancements. This will be followed by a common pilot network, the so-called "Early 5G Innovation Cluster", currently planned with priority in Berlin.

Also, our customers and the German mobile environment will benefit from the planned co-operation between Telefónica Deutschland and Vodafone for the accelerated the connection of mobile sites with fibre. Together, we will set up a pilot to connect parts of our respective mobile sites to each other's high-speed backhaul. As a result, even more customers will directly benefit from 4G high-speed data coverage. From July 2018 onwards, we will in a first step start connecting around 100 shared or neighbouring locations to our respective networks. Herewith, we are further improving the network quality for our customers while taking a first joint step towards 5G. In this context, Telefónica Deutschland has also disposed a no longer needed part of its strong spectrum ownership in 3.5GHz to Vodafone; the licenses will expire in 2021 and we still are still having 42 Mhz at hand.

Transformation: Opportunities beyond connectivity

With the vast majority of our integration activities now completed, we are entering the next chapter in the evolution of Telefónica Deutschland: The digital transformation into Germany's Mobile Customer and Digital Champion. We own the largest owned mobile customer base in Germany, which is our biggest asset. We will build on our proven track record in execution to offer these customers a simpler, faster and better customer experience. Full details about our transformation programme will be disclosed at our capital markets day on 23 February 2018.

Commercial update

The German mobile market environment remains dynamic yet rational in the fourth quarter of 2017 with a clear focus on generating profitable growth by stimulating data usage amongst our customers. We want our customers to partake in the opportunities of a digital lifestyle by offering them mobile freedom.

- In September 2017, we celebrated one year of mobile freedom with our customers and launched our new O₂ Free portfolio. First we enabled them to stay connected even after having consumed their databundle by offering a 3G flat, then we introduced big bundles on 4G. Telefónica Deutschland is driving data consumption in an environment that is becoming ever more connected.
- The new O₂ Free tariffs have been awarded best tariff of 2017 by the reader of inside-handy.de. Additionally, Computerbild recommends the tariffs of Telefónica Deutschland, especially to users using many different services.
- Telefónica Deutschland is the first network operator in Germany to provide voice calls via LTE and WiFi for all customers of its own brands and partner brands. Customers will benefit from improved voice quality and expanded network coverage via LTE and WiFi at no additional cost. The services will be gradually implemented by the end of March 2018. Also, we have further expanded the availability of HD voice quality for our customers by enabling HD calls between our 3G network and the fixed network.
- In December the company launched a new DSL campaign introducing digital freedom also within the fixed portfolio, offering super-fast internet of up to 100 Mbit/s to our customers. For customers who have both the mobile and one of the new DSL tariffs with O₂, we are the only German telecommunications provider sending just one invoice to the customer.

Financial Outlook 2018⁶

Telefónica Deutschland achieved a solid operational result in 2017, while also progressing with the integration activities according to plan. After a period of significant headwinds to mobile service revenue, Telefónica Deutschland achieved flat MSR (excluding regulatory effects) year-on-year in 2017. The delivery of approx. 75% or EUR 670 million of the total synergy target of cumulated Operating Cash Flow savings of EUR 900 million in 2019 also drove growth of OIBDA (adjusted for exceptional effects) of 2.6% year-on-year. Furthermore, Telefónica Deutschland invested EUR 950 million in Capex in 2017. The company will continue to build on these achievements in 2018.

In 2017 the German mobile market remained rational, yet dynamic. There was a strong focus on profitable growth by stimulating customer data usage. Telefónica Deutschland successfully introduced large data bundles to its O₂ Free portfolio, thereby setting a new standard for mobile freedom. We consider large data bundles as the next logical step in an increasingly digital world and an important driver for data monetisation, helping to counteract gradually declining legacy base and OTT effects on mobile service revenue. Telefónica Deutschland will continue to invest in the positioning of the O₂ brand and the O₂ Free portfolio in the premium segment of the German market in 2018 to maintain a fair market share.

Telefónica Deutschland will continue to focus on its successful multi-brand and multi-channel strategy. While we expect pricing to further stabilise in 2018, trading in the partner business will likely remain strong due to a focus on larger data buckets and 4G in this segment also. In the prepaid segment, we saw lower demand from customers in the second half of 2017 driven by the introduction of legitimisation checks and the RLH-regulation. We expect this trend to continue in 2018 and beyond. In reported terms, regulatory changes (termination rate cuts and RLH) remained headwinds for revenue and OIBDA performance in 2017 and will continue to have an impact in 2018.

Telefónica Deutschland will also continue to leverage new business opportunities in the areas of Advanced Data Analytics (ADA) and the Internet-of-Things (IoT). In the mid-term, we expect especially the IoT business to generate additional growth opportunities. We expect significant device and sensor growth which we expect to monetise through cross- and upselling into our owned customer base, which includes more than 80% of our total customer base.

⁶ 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

We measure the success of these new business areas by their positive contribution to the development of our revenues. Therefore, we have decided to introduce revenues as a key financial performance indicator as of 2018, so as to better reflect the above-mentioned opportunities. Revenues are mainly driven by mobile service revenues. Additionally, they include revenues from the sale of mobile handsets as well as from the sale of fixed-line services. For 2018 we expect revenues to remain broadly stable year-on-year, excluding a regulatory drag in the amount of approx. EUR 30-50 million. This drag results mainly from the annualisation effect of the European Roam-like-home regulation in the first half of the year and to a lesser extent the next mobile termination rate cut from EURc 1.1 per minute to EURc 1.07 as of 1 December 2017 and to EURc 0.95 as of 1 December 2018. Handset revenues depend on market dynamics as well as the launch cycles and availability of new device generations. Fixed revenues will continue to show the implications of the progressive decommissioning of our ULL broadband access infrastructure. At the same time, we continue to market fixed broadband and converged products based on our wholesale access to competitors' networks. Our assumptions are based on a sustained rational competitive environment as well as stable economic conditions.

From a strategic perspective, OIBDA adjusted for exceptional effects remains a crucial key financial performance indicator. We reiterate our cumulated synergy target of approx. EUR 900 million Operating Cash Flow synergies in 2019 and aim to reach a total savings level of approx. EUR 800 million or close to 90% of the total target by year-end 2018. Additional in-year savings of approx. EUR 80 million at OIBDA level are mainly related to savings from the consolidation of our network, which we expect to largely complete by the end of 2018, as well as some roll-over effects from the restructuring of 1,600 FTE, which we largely completed by year-end 2017. At Capex-level we expect additional in-year savings of approx. EUR 50 million as a result of the roll-out of one LTE network. Against this background, we expect OIBDA adjusted for exceptional effects⁷ and adjusted for negative regulatory effects in the amount of approx. EUR 40-60 million to remain flat to slightly positive year-on-year. We expect the before-mentioned integration savings to balance our continued market investment. Our estimation of regulatory impacts and market investment needs are based on the expectation of a continued rational customer response to the roaming legislation and a rational market structure. We expect handsets margins to continue to be broadly neutral.

In the context of our focus on revenue as a key performance indicator, we consider the Capex to sales ratio (C/S) as the more meaningful indicator in terms of industry standards and comparability. As such, we are replacing total Capex by C/S as a key performance indicator for the financial year 2018. Telefónica Deutschland will continue to focus on network consolidation, the further roll-out and densification of LTE and the digital transformation of our business this year. We expect C/S to come to approx. 12-13% for the financial year 2018.

⁷ Exceptional effects such as restructuring costs or the sale of assets are excluded

Our leverage⁸ target of at or below 1.0x Net Debt/OIBDA remains unchanged, but will be subject to continual review, as will be the case with the implementation of IFRS16 from 1 January 2019. We maintain a strong confidence in our ability to generate solid Free Cash Flow. We continue to support a high dividend pay-out ratio in relation to Free Cash Flow. We also reiterate our dividend outlook with a projected dividend growth over 3 years (2016-18), including the proposal for a dividend of EUR 0.26 per share for the financial year 2017 to the Annual General Meeting scheduled for May 2018. We remain committed to generating superior shareholder return and aim to maintain a high pay-out ratio in relation to Free Cash Flow.

At our upcoming Capital Markets Day on 23 February 2018, we are going to present our transformation agenda in detail as well as our medium term business expectations.

Financial Outlook 2018⁹:

	Actual 2017	Outlook 2018
Revenue	EUR 7,296 million	Broadly stable y-o-y (excl. negative regulatory effects of EUR 30-50m)
OIBDA Adjusted for exceptional effects ¹⁰	EUR 1,840 million	Flat to slightly positive y-o-y (excl. negative regulatory effects of EUR 40-60m)
Capex to Sales Ratio	13%	Approx. 12-13%
Dividend	EUR 0.26/share Proposal for FY 2017 to next AGM	Annual dividend growth for 3 years (2016 – 2018)

⁸ Leverage is defined as net financial debt divided by the OIBDA of the last twelve months before exceptional effects

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 2017

At the end of December **customer accesses** of Telefónica Deutschland had 47.6 million customers, -3.5% year-on-year, mainly reflecting a lower prepaid base. The latter saw a technical customer base adjustment in the final quarter of the year combined with lower demand as a result of changes in the regulatory environment. As a result, mobile customer accesses stood 2.6% lower year-on-year at 43.2 million, including 1.0 million M2M accesses. Based on market standards for inactivity accounting, we had 45.9 million mobile customer accesses and 50.4 million accesses in total. In fixed, the retail DSL customer base stood at 2.1 million accesses (-1.5% year-on-year), while wholesale DSL accesses were at 188 thousand at the end of December, -72.8% year-on-year due to the planned dismantling of the legacy platform.

Net additions in **mobile postpaid** came in at 737 thousand in 2017 (186 thousand in the fourth quarter of 2017) compared to 1,281¹¹ thousand in the same period of 2016 (336 thousand in the fourth quarter) and benefitted from the strong contribution of partner brands to gross additions (55% in 2017 and 58% of gross adds in the fourth quarter vs. 54% resp. 58% in the same periods of prior year). The latter was largely due to a growing focus on 4G offers and big data bundles in the partner segments. In retail, we continued to see solid traction with new and existing customer on the back of our O₂ Free portfolio. We continue to focus on customer retention and stimulating data usage. Mobile postpaid access stood at 21.3 million accesses at the end of December, up 3.6% year-on-year, and increased their share over total base to 49.3% (+3.0 percentage points year-on-year)

Mobile prepaid saw 1,903 thousand net disconnections from January to December 2017 (-195¹¹ thousand in the same period of 2016) with the fourth quarter contributing the main share (1,873 thousand compared to 89 thousand net disconnections in the same quarter of 2016). This was due to a technical base adjustment driven by a final IT-process harmonisation resulting from the customer migration activities. At the same time, the demand from customers continued to be lower as a result of the legitimization check for prepay SIM-cards introduced in July 2017 plus the "Roam Like At Home" regulation effects affecting travellers in Europe. Thus, the customer base stood at 8.0% lower year-on-year at 21.9 million.

Postpaid churn remained stable at 1.6% in the full year (1.7% in the fourth quarter compared to 1.6% in the same period of 2016). O₂ consumer postpaid again saw even lower churn of 1.5% in 2017 (1.6% in the fourth quarter).

Smartphone penetration¹² continued to rise and was up 2.2 percentage points quarter-on-quarter at 60.9% across brands and segments at the end of December 2017.

The increasing demand for high-speed data continued to drive growth of our **LTE customer base** which reached 15.8 million accesses as of 31 December 2017, up 30.6% year-on-year.

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

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

Regulatory effects continued to weigh on **ARPU** and offset accretive effects from O₂ Free. The blended mobile ARPU came to EUR 9.7 in 2017 and EUR 9.8 in the fourth quarter, -5.7% and -2.6% year-on-year respectively. The postpaid ARPU was EUR 14.8 in the full year and EUR 14.5 in the fourth quarter, 6.5% and 5.9% lower year-on-year respectively. The prepaid ARPU continued to be affected by the prepaid to postpaid dynamics in the discount segment and was 8.5% lower year-on-year at EUR 5.2 in the period January to December. In the fourth quarter, it came in 0.7% higher year-on-year at EUR 5.6, driven by the accretive effect from the base correction.

Retail fixed broadband customer base remained broadly stable year-on-year (-1.5%) at 2.1 million accesses, with 32 thousand net disconnection in the full-year period (mostly flat in the fourth quarter). The demand for high-speed VDSL remained strong with 346 thousand net additions in 2017 (+19.9% year-on-year) at 1.2 million accesses, with the fourth quarter posting 89 thousand net additions.

Fixed wholesale accesses stood at 188 thousand at the end of December, with 503 thousand net disconnections in 2017, of which 110 thousand came from the fourth quarter, due to the planned decommissioning of the ULL broadband access infrastructure.

Telefónica Deutschland financial performance in 2017

Revenue totalled EUR 7,296 million (-2.8% year-on-year) in the twelve month period and EUR 1,904 million (-1.6% year-on-year) in the fourth quarter, reflecting primarily the impact from regulatory changes on mobile service revenue.

Mobile service revenue decreased 2.8% year-on-year to EUR 5,287 million in the year 2017 and -1.2% year-on-year in the fourth quarter to EUR 1,332 million on a reported basis, driven by continued regulatory headwinds, OTT-trends, the higher share of wholesale revenues and the ongoing legacy base rotation. These impacts outweighed benefits from the successful implementation of the updated O₂ Free portfolio in a dynamic competitive environment. Regulatory effects amounted to EUR 146 million for the period January to December and EUR 28 million in the fourth quarter. Excluding the impact from regulatory effects, **underlying mobile service revenue** was largely flat (-0.1% year-on-year) in the full year period and reported growth of 0.8% year-on-year in the fourth quarter of 2017.

Mobile data revenue reached EUR 2,985 million (-0.2% year-on-year) for the period January to December and EUR 747 million in the fourth quarter (+0.1% year-on-year), showing sustained OTT trends and the continued demand from customers for higher data bundles. Mobile data revenue increased their share of mobile service revenue by 1.4 percentage points year-on-year to 56.5% in 2017. **Non-SMS data revenue** grew +4.8% year-on-year in 2017 and reached EUR 2,411 million and EUR 608 million (+4.2% year-on-year) in the fourth quarter.

Handset revenue grew 6.4% year-on-year to EUR 1,128 million up to December and 4.4% year-on-year to EUR 356 million in the fourth quarter, benefitting from stronger demand in the second half of the year as well as stock clearance activities in the July to September period.

Fixed revenue decreased further and totalled EUR 862 million (-12.2% year-on-year) in the full year period and EUR 208 million (-12.7% year-on-year) in the fourth quarter. Fixed retail revenue in the 2017 benefitted from the strong demand for high speed VDSL and contributed -2.4% to the year-on-year decline (-2.1% contribution in the fourth quarter). The decline of fixed wholesale revenue continued to accelerate on the back of the planned dismantling of the legacy infrastructure and contributed -7.5% to the year-on-year decline and -8.7% in the October to December period.

Other income amounted to EUR 159 million compared to EUR 502 million in 2016, which included an exceptional effect of EUR 352 million from the sale of tower assets in April 2016.

Operating expenses decreased 4.5% year-on-year in the full year and were 2.4% lower in the fourth quarter at EUR 5,670 million and EUR 1,469 million respectively, benefitting from additional integration synergies while we continued to invest in the market. Operating expenses included restructuring costs of EUR 82 million (EUR 30 million in the fourth quarter), which are mainly driven by network consolidation and employee restructuring.

- **Supplies** totalled EUR 2,396 million (-2.3% year-on-year) in the period up to December and decreased 5.5% year-on-year to EUR 637 million in the fourth quarter. The decline was mainly driven by connectivity-related cost of sales (42% of supplies in 2017), which were lower mainly on the back of the mobile termination rate reduction in December 2016, partly offset by the impact of usage elasticity effects on wholesale costs for outbound roaming. Hardware cost of sales were 48% of supplies in the full year and 44% in the same period last year.
- **Personnel expenses** reached EUR 642 million (-0.6% year-on-year) and included EUR 44 million of restructuring costs, while the fourth quarter saw a 8.5% year-on-year increase to EUR 171 million driven by EUR 22 million of restructuring costs. Excluding restructuring costs personnel expenses reflect the successful completion of the employee restructuring programme.
- **Other operating expenses** were 7.2% lower at EUR 2,633 million (including restructuring costs of EUR 38 million) and 2.0% lower at EUR 661 million in the fourth quarter (EUR 9 million of restructuring costs). Savings from integration initiatives were partly offset by commercial investments into the positioning and marketing of O₂ Free. In the fourth quarter, commercial costs were 63% of other opex and non-commercial costs made up 35% respectively.

Operating Income before Depreciation and Amortisation (OIBDA) in the twelve month period totalled EUR 1,785 million (EUR 2,069 million in the prior year, which included the exceptional effect of EUR 352 million from the sale of tower assets in April). In the fourth quarter it reached EUR 497 million which was an increase of 7.5% year-on-year and included proceeds from the sale of assets in the amount of EUR 28 million.

OIBDA excluding exceptional effects¹³ increased 2.6% higher year-on-year to EUR 1,840 million until December and was up 1.4% year-on-year at EUR 499 million in the fourth quarter. The effect from regulatory changes on OIBDA came to EUR 51 million in the full year period and EUR 10 million for October to December. In-year savings from OPEX & revenue-related integration activities amounted to approx. EUR 160 million for the full year and ~EUR 45 million for the fourth quarter. The OIBDA margin in the fourth quarter stood at 26.2%, an increase of 0.8 percentage points year-on-year.

Group fees amounted to EUR 36 million in 2017 (same period in 2016: EUR 55 million) and EUR 6 million in the fourth quarter (same period 2016: EUR 9 million).

¹³ Excluding exceptional effects. The twelve months ending 31 December 2017 include restructuring expenses of EUR 82 million and EUR 2 million of acquisition related consultancy fees as well as proceeds from the sale of assets of EUR 28 million, while the same period of 2016 included restructuring expenses of EUR 89 million as well as the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352 million. For 2016, we have calculated an OIBDA comparable which includes the operating lease-related effects from the sale of Telefónica Deutschland's passive tower infrastructure as if it had occurred on 1 January 2016.

Depreciation & Amortisation reached EUR 1,869 million until December compared to EUR 2,118 million in prior year, mainly due to the accelerated amortisation of software assets on the back of IT integration measures and the expiration of various spectrum licenses in 2016.

The **operating loss** for January to December 2017 was EUR 84 million compared to an operating loss of EUR 50 million in the same period of 2016, due to the already mentioned sale of the passive tower infrastructure, partly offset by an amortisation decrease of EUR 249 million year-on-year.

The net financial expenses for the year was stable year-on-year at EUR 34 million.

The Company reported an **income tax expense** for January to December 2017 of EUR 262 million, as a result of changes in deferred taxes in the context of accounting adjustments. The recognition of tax assets and liabilities depends on a series of factors, including development of temporary differences and estimates with respect to the timing of the realisation of future taxable income.

The net loss for the financial year 2017 was EUR 381 million.

CapEx¹⁴ amounted to EUR 950 million (-13.7% year-on-year) and EUR 262 million in the fourth quarter (26.7% lower year-on-year). It benefitted from ~EUR 80 million of integration related savings (~EUR 30 million in the fourth quarter) from the roll-out of one LTE network. We maintained our focus on the efficient consolidation of the network while further rolling out LTE infrastructure and pushing ahead with fibre backhaul in preparation for 5G.

Operating cash flow (OIBDA minus CapEx¹⁴) was EUR 835 million, compared to EUR 967 million in prior year as a result of the sale of a tower asset in 2016.

Free Cash Flow (FCF)¹⁵ amounted to EUR 680 million in December 2017.

Working capital movements were negative in the amount of EUR 132 million, primarily driven other recurring working capital movements, which include Capex payables, silent factoring transactions and the change in restructuring provisions.

Consolidated net financial debt¹⁶ was EUR 1,064 million at the end of December 2017 vs EUR 798 million at the end of 2016, with a leverage ratio of 0.6x compared to 0.4x at year end 2016. The increase resulted mainly from the EUR 744 million dividend payment in May 2017 for the financial year 2016, as well as the final 700MhZ spectrum payment of EUR 111 million.

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

(in thousands)	2017				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Final clients accesses	48,988	49,479	49,105	47,416	47,342	47,754	48,405	48,655
Fixed telephony accesses	2,000	1,988	1,979	1,980	2,003	2,007	2,007	2,010
Internet and data accesses	2,313	2,297	2,284	2,281	2,331	2,330	2,325	2,324
Narrowband	217	215	212	209	229	226	223	221
Broadband	2,095	2,082	2,072	2,072	2,101	2,104	2,102	2,104
thereof VDSL	872	960	1,063	1,152	593	669	732	806
Mobile accesses	44,675	45,194	44,842	43,155	43,008	43,417	44,074	44,321
Prepaid	23,967	24,289	23,754	21,881	23,744	23,814	23,873	23,784
Postpaid	20,708	20,905	21,088	21,274	19,264	19,603	20,201	20,537
thereof M2M	830	897	969	1,027	682	704	748	788
Postpaid (%)	46.4%	46.3%	47.0%	49.3%	44.8%	45.2%	45.8%	46.3%
Smartphone penetration (%) (1)	57.0%	57.4%	58.7%	60.9%	55.4%	56.2%	59.2%	59.5%
LTE customers (2)	13,968	14,422	15,679	15,759	8,691	9,400	10,566	12,063
Wholesale accesses (3)	562	428	298	188	911	850	791	691
Total accesses	49,550	49,907	49,403	47,604	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.

(in thousands)	2017			
	Q1	Q2	Q3	Q4
Mobile accesses on a market comparable basis (4)	47,861	48,388	48,372	45,918
Prepaid	26,770	27,150	26,906	24,300
Postpaid	21,091	21,237	21,467	21,617

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

TELEFÓNICA DEUTSCHLAND GROUP SELECTED OPERATIONAL DATA

Unaudited

	2017				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ARPU (in euros) (1)	9.6	9.7	9.8	9.8	10.3	10.4	10.5	10.1
Prepaid	5.0	5.2	5.2	5.6	5.7	5.7	5.9	5.6
Postpaid excl. M2M	15.5	15.5	15.7	15.2	16.6	16.6	16.6	16.0
Data ARPU (in euros)	5.4	5.7	5.6	5.6	5.6	5.8	5.8	5.6
% non-SMS over data revenues (2)	79.4%	81.7%	80.6%	81.4%	75.4%	76.7%	77.2%	78.2%
Voice Traffic (m min) (3)	23,966	23,709	23,006	23,667	23,696	24,689	23,275	24,553
Data Traffic (TB) (4)	86,423	98,612	110,684	122,367	51,599	61,726	74,361	81,641
Churn (%)	1.9%	1.9%	2.1%	3.1%	2.5%	2.1%	2.1%	2.3%
Postpaid churn (%) excl. M2M	1.6%	1.5%	1.6%	1.7%	1.8%	1.6%	1.2%	1.6%

Notes:

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

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

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

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

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

(Euros in millions)	1 October to 31 December				1 January to 31 December			
	2017	2016	Change	Change %	2017	2016	Change	Change %
Revenues	1,904	1,936	(31)	(1.6)	7,296	7,503	(206)	(2.8)
Mobile business	1,688	1,690	(2)	(0.1)	6,415	6,498	(83)	(1.3)
Mobile service revenues	1,332	1,349	(17)	(1.2)	5,287	5,437	(150)	(2.8)
Mobile service revenues (excl. regulatory effects 2017)	1,361	1,349	11	0.8	5,433	5,437	(4)	(0.1)
Handset revenues	356	341	15	4.4	1,128	1,061	67	6.4
Fixed business	208	238	(30)	(12.7)	862	981	(119)	(12.2)
Other revenues	8	8	—	4.6	19	23	(4)	(17.7)
Other income	62	32	29	90.2	159	502	(343)	(68.3)
Operating expenses	(1,469)	(1,505)	37	(2.4)	(5,670)	(5,936)	266	(4.5)
Supplies	(637)	(674)	37	(5.5)	(2,396)	(2,452)	56	(2.3)
Personnel expenses	(171)	(157)	(13)	8.5	(642)	(646)	4	(0.6)
Other expenses	(661)	(674)	13	(2.0)	(2,633)	(2,838)	205	(7.2)
thereof Group fees	6	9	(3)	(34.4)	36	55	(19)	(34.5)
Operating income before depreciation and amortization (OIBDA)	497	463	34	7.5	1,785	2,069	(284)	(13.7)
OIBDA margin	26.1%	23.9%		2.2%-p.	24.5%	27.6%		(3.1%-p.)
Exceptional effects (1)	(2)	(30)	28	(92.6)	(55)	264	(319)	(>100.0)
OIBDA adjusted for exceptional effects (1)	499	493	7	1.4	1,840	1,805	35	2.0
OIBDA margin adjusted for exceptional effects	26.2%	25.4%		0.8%-p.	25.2%	24.1%		1.2%-p.
OIBDA adjusted for exceptional effects (1) (2)	499	493	7	1.4	1,840	1,793	47	2.6
OIBDA margin adjusted for exceptional effects	26.2%	25.4%		0.8%-p.	25.2%	23.9%		1.3%-p.
Depreciation and amortization	(429)	(517)	87	(16.9)	(1,869)	(2,118)	249	(11.8)
Operating income	68	(54)	122	(>100.0)	(84)	(50)	(35)	69.7
Net financial income (expense)	(8)	(11)	3	(24.4)	(34)	(36)	3	(7.1)
Profit (loss) before tax for the period	60	(65)	124	(>100.0)	(118)	(86)	(32)	37.4
Income tax	(262)	(90)	(173)	192.1	(262)	(90)	(172)	>100.0
Total profit for the period	(203)	(154)	(48)	31.3	(381)	(176)	(204)	>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) (3)	(0.07)	(0.05)	—	31.3	(0.13)	(0.06)	—	>100.0
CapEx (4)	(262)	(358)	96	(26.7)	(950)	(1,102)	151	(13.7)
Operating cash flow (OIBDA-CapEx) (4)	235	104	130	>100.0	835	967	(132)	(13.7)
Free cash flow pre dividends and payments for spectrum (5)	412	457	(45)	(9.9)	680	1,408	(727)	(51.7)

(1) Exceptional effects as of 31 December 2017 include restructuring expenses amounting to EUR 82m, acquisition related consultancy costs amounting to EUR 2m as well as income from sale of assets amounting to EUR 28m. Exceptional effects as of 31 December 2016 include restructuring expenses amounting to EUR 89m as well as the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352m.

(2) For 2016 an OIBDA comparable was calculated, 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.

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

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

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

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of December 31		Change	% Change
	2017	2016		
NON-CURRENT ASSETS	11,940	13,055	(1,115)	(8.5)
Goodwill	1,960	1,932	28	1.5
Other intangible assets	5,485	6,215	(729)	(11.7)
Property, plant and equipment	4,041	4,217	(175)	(4.2)
Trade and other receivables	69	77	(8)	(10.8)
Other financial assets	94	60	33	55.3
Other non-financial assets	129	128	1	0.9
Deferred tax assets	162	427	(265)	(62.1)
CURRENT ASSETS	2,160	2,246	(86)	(3.8)
Inventories	105	85	20	23.0
Trade and other receivables	1,265	1,460	(195)	(13.4)
Other financial assets	17	25	(8)	(30.4)
Other non-financial assets	186	63	123	>100,0
Cash and cash equivalents	587	613	(26)	(4.2)
Total assets = Total equity and liabilities	14,100	15,301	(1,201)	(7.8)
EQUITY	8,297	9,408	(1,111)	(11.8)
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	5,323	6,434	(1,111)	(17.3)
Equity attributable to owners of the company	8,297	9,408	(1,111)	(11.8)
NON-CURRENT LIABILITIES	2,141	2,637	(496)	(18.8)
Interest-bearing debt	1,268	1,721	(453)	(26.3)
Trade and other payables	19	17	1	8.2
Provisions	599	561	39	6.9
Deferred income	255	338	(84)	(24.7)
Deferred tax liabilities	1	0	1	–
CURRENT LIABILITIES	3,662	3,256	406	12.5
Interest-bearing debt	637	37	600	>100,0
Trade and other payables	2,224	2,286	(62)	(2.7)
Provisions	142	190	(48)	(25.2)
Other non-financial liabilities	132	79	53	66.7
Deferred income	527	664	(137)	(20.6)
Financial Data				
Net financial debt (1)	1,064	798	266	33.3
Leverage (2)	0.6x	0.4x	0.1	30.8

(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.

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

TELEFÓNICA DEUTSCHLAND GROUP
RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET DEBT
Unaudited

(Euros in million)	2017				2016			
	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
OIBDA	390	841	1,288	1,785	379	1,170	1,606	2,069
- CapEX (1)	(208)	(433)	(679)	(932)	(218)	(430)	(743)	(1,102)
= Operating Cash Flow (OpCF)	181	409	609	853	161	740	863	967
+ Silent Factoring (2)	136	304	405	621	135	194	315	424
-/+ Other working capital movements	(312)	(630)	(726)	(753)	(294)	(554)	(440)	(187)
Change in working capital	(177)	(326)	(322)	(132)	(159)	(360)	(125)	237
+/- (Gains) losses from sale of assets	(1)	(1)	(1)	(30)	-	(353)	(353)	(352)
+/- Proceeds from sale of fixed assets and other effects	1	1	1	31	-	591	591	591
+ Net interest payments	(14)	(15)	(16)	(27)	(18)	(19)	(16)	(23)
+ Taxes paid	-	-	-	-	-	-	-	-
+/- Proceeds / Payments on financial assets	8	9	5	14	(4)	(1)	(10)	(13)
+ Acquisition of companies net of cash acquired	-	(9)	(9)	(29)	-	-	-	-
= Free cash flow pre dividends and payments for spectrum (3)	(1)	68	268	680	(20)	599	951	1,408
- Payments for spectrum	-	-	(111)	(111)	(1)	(2)	(114)	(115)
- Dividends	-	(744)	(744)	(744)	-	(714)	(714)	(714)
= Free cash flow post dividends and payments for spectrum	(1)	(675)	(586)	(175)	(21)	(117)	123	578
Net financial debt at the beginning of the period	798	798	798	798	1,225	1,225	1,225	1,225
+ Other changes in net financial debt	37	101	129	91	20	15	93	152
= Net financial debt at the end of the period (incl. Restricted cash)	836	1,575	1,514	1,064	1,266	1,356	1,195	798

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

(2) Accumulated impact of silent factoring transactions for the reporting period in 2017 of EUR 621m and EUR 424m in 2016 (transactions took place in March, June, September and December 2017 as well as March, June, September and December 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 spectrum related interest payments.

(Euros in million)	2017				2016			
	Jan - Mar	Jan - Jun	Jan - Sept	Jan - Dec	Jan - Mar	Jan - Jun	Jan - Sept	Jan - Dec
= Free cash flow pre dividends and payments for spectrum (Euros in million)	(1)	68	268	680	(20)	599	951	1,408
Number of shares (in millions)	2,975	2,975	2,975	(381)	2,975	2,975	2,975	2,975
= Free cash flow per share (in Euros)	-	0.02	0.09	(1.79)	(0.01)	0.20	0.32	0.47

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED NET FINANCIAL DEBT EVOLUTION
Unaudited

(Euros in millions)	As of 31 December		Change %
	2017	2016	
A Liquidity	587	613	(4.2)
B Current financial assets (1)	177	251	(29.4)
C Current financial debt (2)	635	31	>100,0
D=C-A-B Current net financial debt	(129)	(833)	(84.6)
E Non-current financial assets (1)	75	89	(15.8)
F Non-current financial debt (2)	1,268	1,721	(26.3)
G=F-E Non-current net financial debt	1,193	1,631	(26.9)
H=D+G Net financial debt (3)	1,064	798	33.3

(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.

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