Telefónica Deutschland

MUNICH, 30 October 2018

Preliminary results[1] for January to September 2018

Telefónica Deutschland on track for full year outlook[2] on solid revenue and OIBDA trends and announces dividend proposal for the FY 2018

- **O_2 Free portfolio fuels data growth and supports ARPU-up strategy, reflected in trading and churn metrics**
- **Underlying[3] revenue flat year-on-year in the first nine months, while underlying[3] MSR remained positive year-on-year**
- **Strong OIBDA[4] growth of +6.0% year-on-year in the period January to September on the back of commercial momentum and ~EUR 90 million of OIBDA-relevant synergies year to date, partly bringing forward synergies from network consolidation from 2019 into 2018**
- **Re-iterating full year outlook but narrowing OIBDA[4] range to "slightly positive" year-on-year on the back of successful synergy capture**
- **Dividend proposal of EUR 0.27 per share for the financial year 2018, up +3% year-on-year**

Third quarter 2018 operational & financial highlights

- **Mobile postpaid** saw +233 thousand net additions in Q3 2018, with continued strong demand for the O_2 Free and Blau portfolios; while the contribution from partners remained solid (57% share of gross additions in the third quarter) in a rational market. Churn in the O_2 brand remained low and improved year-on-year to 1.4%, reflecting the sustained focus on retention activities. Total postpaid churn was 1.6%
- The **LTE customer base** was up +9.4% year-on-year to 17.2 million at the end of September 2018. The adoption of larger data packages in our O_2 Free portfolio further fuelled data growth of LTE customers in O_2 consumer postpaid with +15% quarter-on-quarter and +65% year-on-year growth to 3.9 GB per month
- **Underlying[3] revenue** was -0.4% lower year-on-year at **EUR 1,843 million (-0.8% year-on-year at EUR 1,836 million as per IAS 18 reporting**). Including negative regulatory impacts of EUR -13 million mainly from roaming, revenue was EUR 1,830 million, 1.1% lower year-on-year

[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] 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

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

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

- **Underlying[5] mobile service revenue** maintained a positive trend and came in at EUR 1,351 million, **+0.6% year-on year (flat year-on-year at EUR 1,344 million as per IAS 18 reporting),** with tailwinds from the refreshed O_2 Free portfolio. On a reported basis, mobile service revenue reached EUR 1,339 million, -0.4% year-on-year

- **Handset revenue** was at EUR 299 million, up +2.8% year-on-year, with continued high demand for smartphones but with tougher comps vs prior year due to stock clearance activities in Q3-2017

- **Fixed-line revenue** fell -10.6% year-on-year to EUR 191 million. We have finalised the wholesale customer migration as a prerequisite for the planned shutdown of the legacy infrastructure. **Fixed retail revenue** was down -2.4% year-on-year, as promotional activities and a higher bundle share offset the positive contribution from VDSL

- **OIBDA** adjusted for exceptional and regulatory effects[6] **reached EUR 494 million, up +5.6 year-on-year** and was positively impacted by an additional ~EUR 25 million of OIBDA-relevant synergies as we are making strong progress with the network consolidation. **As per IAS 18 reporting, OIBDA[7] growth was +3.8% year-on-year**, reaching EUR 486 million, excluding negative regulatory effects of EUR 17 million. The **OIBDA margin** adjusted for exceptional and regulatory effects expanded by +1.5 percentage points year-on-year to 26.8%

- **CapEx[8]** amounted to **EUR 316 million (+24.5% year-on-year).** The Capex peak in the third quarter is the result of the final stage of network consolidation, while also pushing ahead with the LTE rollout. Incremental Capex synergies amounted to ~EUR 10 million in Q3-2018 (~EUR 35 million in January-September) and were mainly related to network

- **Consolidated net financial debt[9]** was EUR 1,591 million as of the end of September 2018. With a leverage ratio of 0.9x we remained in line with our leverage target

[5] Excluding the negative impact from regulatory changes (mainly the European roaming regulation)
[6] Exceptional effects were EUR 14 million of restructuring expenses and EUR 3 million acquisition related consultancy fees in the period July to September 2018 and regulatory effects amounted to EUR 17 million in the same period of 2018
[7] Adjusted for exceptional effects and excluding the negative impact from regulatory changes (mainly the European roaming regulation)
[8] Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum
[9] 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

In the third quarter, we pushed ahead with the **network integration**, with the clear target to complete this final integration project by the end of 2018. Region by region, our consolidated network becomes available to more and more customers. Recent **network test** results are confirming the positive effects of the consolidation efforts, i.e. the connect magazin awarded the O_2 network a **"good" grade in the local network test in Munich** (830 points). Telefónica Deutschland network is now on par with Deutsche Telekom and slightly ahead of Vodafone in terms of network coverage in Munich; in terms of voice and data supply quality our network in Munich even ranks ahead of both competitors.

In parallel to finalising the network integration, we are pushing ahead with the **LTE rollout** across Germany. In almost all cities in Germany we are densifying our network with additional LTE elements to improve network performance where our customers live and work. Simultaneously, we are also rolling out LTE to municipalities in less populated areas that are not yet covered with LTE. Furthermore, we are focusing on expanding LTE along key traffic infrastructure routes, such as motorways and rail routes. In the third quarter 2018 alone, we have built almost 2,000 new LTE sites and upgraded existing sites with additional LTE capacity. Thus, our network has already gained a total of around 5,000 LTE stations in 2018.

Additionally, since 4 September 2018, O_2 and Vodafone customers with HD Voice-enabled handsets are benefitting from the best possible voice standard. Since August, customers with corresponding handsets have been able to use Enhanced Voice Services (EVS) when making cross-network calls using VoLTE.

To further drive the expansion of our network, we signed the **national mobile pact** to ensure cooperation with other operators in July as well as the **mobile pacts in Bavaria and Hesse** in September. Politics, network operators and central municipal associations are aiming for a joint approach with regards to improve mobile coverage in Germany.

In addition, we are joining forces with Deutsche Telekom to speed up the expansion of our mobile network even further. In early October, we agreed to connect at least **5,000 mobile sites** of Telefónica Deutschland to the high-performance **fibre-optic network of Deutsche Telekom**.

In order to prepare our network for the **5G rollout**, we are pushing ahead with a number of innovative projects with various partners, e.g. the 5G Connected Mobility project with Ericsson.

Together with Samsung Electronics, we are testing **Fixed Wireless Access (FWA)** technology in Hamburg. FWA is intended to enable high-speed transmission of several gigabits per second into the household, and at the same time, minimise the need for the complex installation of fibre into the building.

Overall, we are paving the way to becoming the "Mobile Customer and Digital Champion" in Germany on the back of expense measures for network quality. We are building a **fully integrated, modern and efficient network** and, in addition, are also laying **the optimal foundation for future network technologies, such as 5G**.

Telefónica Deutschland

Digital transformation

As part of our **transformation programme Digital4Growth** (D4G), we consistently place our customers' needs and their user experience in the digital age at the centre of all our activities. Our clear focus lies on making use of innovative, new technologies to design **simpler, faster and better** processes. For instance, we want to ensure a consistent and positive user experience across all channels, to respond in real-time to changing customer requirements and changes in the market and to participate in the growth opportunities from big data analytics.

The **'My O_2' app** puts a clear focus on customer experience by offering mobile freedom in the digital world. In a test conducted by the connect magazine in September 2018, our app scored particularly well in the category "functional performance and handling", and was praised for its "modern design and clear structure" as well as for its "smooth operation".

In order to continuously improve customer experience in the areas of service, network and products, we also rely on **artificial intelligence (AI) and data analytics**. AI, for instance, is successfully used to simplify maintenance and optimisation of our mobile network, as well as to analyse social media content. Further possible applications include data analytics for better traffic management, the acceleration of service requests and the networking of employees among each other. In order to develop further AI-based solutions and make them available for our company and our customers, we have set up a **Centre of Excellence for Artificial Intelligence** where data experts are working on future proof solutions.

Commercial update

In the third quarter of 2018, the German mobile market remained dynamic yet rational across segments, with a clear focus on **profitable growth** on the back of growing data usage and the **monetisation of tariffs** with large data volumes. We have launched the following initiatives to further support and promote these targets:

- **O_2 Unlimited tariffs:** On 21 August 2018, we launched our Unlimited portfolio without speed or volume limitations. The O_2 Free Unlimited plan provides our customers with unlimited mobile communication services for EUR 59.99. The O_2 my All in One plan is available for EUR 79.99 and includes an additional fixed-line connection with telephone and internet flat rate, as well as the O_2 Connect multi-card option at no additional charge.

- **O_2 Free Business Unlimited tariff:** For business customers, we launched the O_2 Free Unlimited tariff on 1 October 2018. The plan costs EUR 80.00 and offers unlimited LTE high-speed data volume, voice and SMS services throughout Europe for up to five devices, plus additional roaming features for other countries. At EUR 84.20 it also included a fixed-line connection with voice and internet flat rate.

- **O_2 my Office tariffs:** On 16 October 2018, we launched a new DSL portfolio. The L-tariff offers download speeds of up to 100 Mbit/s for EUR 39.99, the M-tariff up to 50 Mbit/s for EUR 34.99, and the S tariff up to 10 Mbit/s for EUR 29.99. All plans include unlimited voice into all German fixed and mobile networks.

- **Sales partnership with Nintendo Deutschland:** Since 23 August 2018, O_2 customers are enabled to digitally buy games for their Nintendo consoles directly via the **O_2 Apps & Entertainment Store** and pay for them via their mobile phone bill.

- The **progress** we are making **on our way to becoming Germany's "Mobile Customer and Digital Champion"** is also reflected in a number of awards that we received lately, laying proof to our sustained focus on customer experience.
    - A number of well-known German tech magazines recognised our 'comeback', our position as 'price-value leader' in the market, our improved network quality, as well as our range of digital services including our successful O_2 banking app.

Financial outlook 2018[10]

Telefónica Deutschland's third quarter and first nine months 2018 results were in line with expectations.

Thus, we re-iterate our full year 2018 outlook. However, we narrow the range for OIBDA[11] from "flat to slightly positive" to "slightly positive" in the light of the current operating performance, mainly on the back of successful synergy capture. In particular, we are bringing ~EUR 20 million of network consolidation-related savings at OIBDA level forward from 2019 to 2018. We are thus updating our full-year target for incremental OIBDA[11]-relevant synergy contribution in 2018 from ~EUR 80 million to ~EUR 100 million. The total cumulated target of ~EUR 900 million Operating Cash Flow savings in 2019 remains unchanged. We continue to focus on profitable growth, while maintaining the flexibility to invest into the market to benefit from the revenue-growth opportunities arising from accelerated data usage in a dynamic, yet rational market environment.

With regards to negative regulatory effects, we confirm EUR 30-50 million at revenue and EUR 40-60 million at OIBDA-level on the back of a steady adoption of customers into the EU-regulated tariffs and the usage elasticity effects from data roaming. We continue to monitor these trends closely.

We have strong confidence in our ability to generate Free Cash Flow, while maintaining financial flexibility on the back of a conservative financial profile with a leverage target of at our below 1.0x[12] net debt to OIBDA. In line with our guidance for three consecutive years of dividend growth between 2016 and 2018, the management board of Telefónica Deutschland aims to propose a dividend of EUR 0.27 per share (+3% year-on-year) to the AGM in May 2019.

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

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

[12] Not considering the expected impacts form the implementation of IFRS 16 as of 1 January 2019

	Actual 2017	Updated Outlook[13] 2018	9M 2018
Revenue	EUR 7,296 million	Broadly stable y-o-y (excl. negative regulatory effects of EUR 30-50m)	EUR 5,376 million; -0.3% y-o-y Based on IAS 18 -- EUR 5,393 million; flat y-o-y Based on implementation of IFRS 15 as 1 January 2018
OIBDA Adj. for exceptional effects[14]	EUR 1,840 million	Slightly positive y-o-y (excl. negative regulatory effects of EUR 40-60m)	EUR 1,394 million; +4.0% y-o-y Based on IAS 18 -- EUR 1,421 million; +6.0% y-o-y Based on implementation of IFRS 15 as 1 January 2018
Capex to Sales Ratio	13%	Approx. 12-13%	13.8%
Dividend	EUR 0.26/share Resolved by AGM, 17 May 2018	Annual dividend growth for 3 consecutive years (2016 – 2018)	Dividend proposal of EUR 0.27/share to AGM in May 2019

[13] 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

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

Telefónica Deutschland operating performance in the first nine month of 2018

As of 30 September 2018 Telefónica Deutschland's **customer accesses** were 47.3 million (-4.3% year-on-year), including 43.0 million mobile accesses (-4.0% y-o-y). The reduction was mainly due to a -11.4% year-on-year decrease in the mobile prepaid base to 21.1 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 22.0 million customers, up +4.3% year-on-year. At the end of September, our mobile postpaid base represented 51.1% of our total mobile base, an increase of +4.1 percentage points year-on-year. Based on market standards for inactivity accounting, we had 45.4 million mobile customer accesses and 49.6 million accesses in total. In fixed, the DSL retail customer base was -0.9% lower year-on-year at 2.1 million accesses. We have now completed the wholesale customer migration as a prerequisite for the planned shutdown of the legacy infrastructure.

Mobile postpaid saw +723 thousand net additions in the first nine months of 2018 with +233 thousand in the third quarter. This compares with +551 thousand and +183 thousand in the same periods of the prior year and shows the success of our recent portfolio initiatives with a clear focus on value generation and aiming for fair market share. In a rational market, the share of partner brands remained solid and contributed 59% of gross additions in the period until September and 57% in the third quarter. Telefónica Deutschland maintains its primary focus on customer retention and customer base development.

Mobile prepaid trends are stabilising although the impact of regulatory changes (legitimation check and roaming legislation) introduced in the summer of the last year remain visible. As a result, we continue to see lower customer demand for prepaid offers and registered -829 thousand net disconnections in the first nine months of 2018, inlcuding -145 thousand in the third quarter and compared to -535 thousand and -30 thousand in the respective prior-year periods.

Postpaid churn was stable at 1.6% both in the nine months period as well as in the third quarter of 2018. O_2 consumer postpaid churn remained on low levels and saw a year-on-year improvement of 0.1 percentage points to 1.4% in the first nine months as well as in the third quarter of 2018.

Smartphone penetration[15] at the end of September was 64.9% across brands and segments, up +6.3 percentage points year-on-year.

The **LTE customer base** grew +9.4% year-on-year to 17.2 million accesses as of 30 September 2018, driven by the increasing demand for high-speed mobile data services and the good reception of the updated O_2 Free portfolio.

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

ARPU accretive effects from O_2 Free in the first nine months 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 10.0 in the first nine months and EUR 10.2 in the third quarter, up +3.1% and +4.2% year-on-year respectively. **Postpaid ARPU** continues to see a stable trend and fell -4.6% year-on-year to EUR 14.9 in reported terms in the nine months period and -4.6% year-on-year to EUR 15.0 for July to September respectively. **Prepaid ARPU** reached EUR 5.8 in the January to September period and EUR 6.0 in the third quarter, +12.8% and +15.8% higher year-on-year respectively, mainly driven by the base correction in the final quarter of 2017, which had no impact on mobile service revenue.

The **fixed retail ARPU** was slightly lower year-on-year in the period up to September 2018 and came to EUR 24.6 (-0.7% year-on -year) and EUR 24.4 in the third quarter (-1.8% year-on-year).

The **fixed retail broadband customer base** was broadly flat (-0.9% year-on-year) at approx. 2.1 million accesses. In the first nine months of the year we saw -18 thousand net disconnection (+6 thousand net additions in the third quarter). The demand for VDSL remained solid with +237 thousand net additions in the first nine months and +59 thousand in the third quarter 2018.

Fixed wholesale accesses registered -188 thousand net disconnections in the period January to September (-8 thousand in the third quarter) and the wholesale customer migration is now finalised as a prerequisite for the planned decommissioning of the ULL broadband access infrastructure.

Telefónica Deutschland financial performance in the first nine month of 2018

Revenue reached EUR 5,355 million in the first nine months of 2018, -0.7% year-on-year in reported terms (-1.1% year-on-year in the third quarter to EUR 1,830 million). Excluding a regulatory drag of EUR 39 million in the nine months period (EUR 13 million in Q3), **revenue was flat year-on-year with EUR 5,393 million** in the nine months period **(-0.3% year-on-year at EUR 5,376 million as per IAS 18 reporting)** and down -0.4% in the third quarter to 1,843 million (-0.8% year-on-year to EUR 1,836 million as per IAS 18 reporting)**.**

Mobile service revenue reached EUR 3,937 million (-0.4% year-on-year) on a reported basis in the first nine months and EUR 1,339 million (-0.4% year-on-year) in the third quarter of 2018. Excluding regulatory effects of EUR 38 million (EUR 12 million in Q3), **underlying mobile service revenue** trends remained **positive with +0.5% year-on-year growth in the first nine months of the year at EUR 3,975 million (+0.2% as per IAS 18 reporting at EUR 3,961 million)** and +0.6% year-on-year in Q3 (flat 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 -3.0% year-on-year to EUR 2,170 million in the period January to September and -0.8% year-on-year to EUR 744 million in the third quarter, reflecting ongoing OTT-trends affecting SMS-revenues and the demand from customers for higher data bundles. As a percentage of data revenues, non-SMS data revenues increased +4.4 percentage points year-on-year to 85.0% in the first nine months.

Handset revenues were +7.1% higher year-on-year at EUR 827 million in the first nine months and +2.8% higher at EUR 299 million in the third quarter of the year, with continued strong demand for smartphones.

Fixed revenue saw a further decline to EUR 582 million (-11.0% year-on-year) in the period January to September and to EUR 191 million (-10.6% year-on-year) in the third quarter. This was mainly the result of the expected reduction in fixed wholesale revenues on the back of the migration. VDSL demand remained solid while fixed retail revenue trends weakened slightly (-1.5% year-on-year until September 2018 and -2.4% year-on-year in the third quarter) as a result of the lower customer base, promotional activities and the higher share of bundles in the customer base.

Other income was EUR 117 million compared to EUR 97 million in the first nine months of 2017 (EUR 49 million in Q3 vs 38 million in Q3 2017).

Operating expenses showed a -1.3% year-on-year reduction in the nine months period and -1.6% year-on-year in the third quarter, reaching EUR 4,148 million and EUR 1,418 million respectively. This is the result of the in-year phasing of incremental integration savings, maintaining a stringent value focus. Operating expenses include exceptional[16] costs of EUR 49 million in the first nine months of 2018 (EUR 17 million in the third quarter), which were mainly related to the network consolidation.

- **Supplies** totalled EUR 1,747million in the period until September (-0.7% lower year-on-year) and EUR 622 million in July to September (-0.8% year-on-year). Hardware cost of sales (50% of supplies in the third quarter) were higher year-on-year in line with the demand for handsets, while connectivity-related cost of sales (41% of supplies in the third quarter) were lower year-on-year, as lower costs for voice termination compensated higher wholesale costs for outbound roaming
- **Personnel expenses** contain restructuring costs of EUR 3 million in the nine months up to September 2018 and EUR 22 million in same period of 2017 respectively; thereof EUR 2 million in the third quarter of 2018 and EUR 9 million in prior year period. Adjusted for restructuring costs, personnel expenses were flat (-0.1% year-on-year) at EUR 448 million in the first nine months of 2018 and -1.8% lower year-on-year in the third quarter as inflation-related salary adjustments in 2018 were offset by savings related to the employee restructuring programme
- **Other operating expenses** fell by -1.1% year-on-year to EUR 1,950 million for the period January to September and included exceptional[16] effects of EUR 46 million. In the third quarter other operating expenses came to EUR 649 million (-1.2% year-on-year) and included exceptional[16] effects of EUR 15 million. Commercial costs and non-commercial costs made up 59% and 38% respectively in the period January to September 2018

Operating Income before Depreciation and Amortisation (OIBDA) amounted to EUR 1,324 million in the first nine months of 2018,+2.8% year-on-year (EUR 1,297 million and+0.7% year-on-year based on IAS 18). In the third quarter of 2018, OIBDA reached EUR 461 million, +3.2% year-on-year (EUR 452 million, +1.3% year-on-year based on IAS 18).

[16] Exceptional effects were EUR 46 million of restructuring expenses (mostly in other expenses) and EUR 3 million of acquisition related consultancy fees in the period January to September 2018

OIBDA adjusted for exceptional and regulatory[17] effects increased **+6.0% year-on-year to EUR 1,421 million in the first nine months (+4.0% year-on-year to EUR 1,394 million based on IAS 18)** and +5.6% year-on-year to EUR 494 million in the third quarter (+3.8% year-on year to EUR 486 million based on IAS 18). Exceptional effects amounted to EUR 49 million and EUR 17 million respectively and were mainly related to the network consolidation. Usage elasticity effects related to the European roaming legislation were the main driver of a negative regulatory drag of EUR -48 million (EUR -17 million in the third quarter period). In-year savings from OIBDA-relevant integration activities came approx. EUR 90 million year to date (~EUR 25 million in the third quarter) as the network consolidation is progressing well and in the full year we were able to bring forward ~EUR 20 million of savings from 2019 to 2018. Thus, the OIBDA margin increased by +1.5 percentage points year-on-year to 26.3% in the first nine months of the year.

Group fees were at similar levels to prior year and amounted to EUR 28 million in the period January to September 2018 and to EUR 9 million in the third quarter.

Depreciation & Amortisation was EUR 1,416 million in the January to September period, a decrease of -1.7% 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 nine months 2018 was EUR -92 million compared to an operating loss of EUR -152 million in the same period of 2017.

The net financial expenses for the Jan-Sept period came to EUR -31 million versus EUR -26 million in prior year.

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

The net loss for the nine months period of 2018 was EUR -123 million, compared to a net loss of EUR -178 million in the same period of the prior year.

CapEx[18] increased +7.6% year-on-year to EUR 740 million and due to in-year phasing was up +24.5% year-on-year to EUR 316 million in the third quarter, as we have entered the final stage of network consolidation while also pushing ahead with LTE rollout. Capex-related incremental synergies amounted to approx. EUR 35 million in the first nine months of the year.

Operating cash flow (OIBDA minus CapEx[18]) in the January to September period 2018 reached EUR 584 million, a decrease of -2.7% year-on-year due to the before mentioned in-year phasing of Capex.

Free cash flow (FCF)[19] amounted to EUR 301 million until September 2018 compared to EUR 268 million in the prior year, up +12.3% year-on-year.

[17] Exceptional effects were EUR 46 million of restructuring expenses and EUR 3 million of acquisition related consultancy fees in the period January to September 2018; regulatory effects amounted to EUR 48 million in the period January to September 2018

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

[19] 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

Working capital movements and adjustments were negative in the amount of EUR -253 million in the nine months period, reflecting the usual seasonality. Working capital was driven by seasonal prepayments for leased line and mobile site rental (EUR -32 million), an increase in Capex payables (EUR +22 million), a reduction in restructuring provisions (EUR -27 million) as well as other working capital movements in the amount of EUR -216 million. The latter include silent factoring transactions for handset receivables in the gross amount of EUR 478 million which were offset by other working capital movements including a reduction in trade and other payables.

Consolidated net financial debt[20] was down to EUR 1,591 million at the end of September 2018 (EUR 1,797 million as of 30 June 2018) as a result of FCF dynamics with the typical in year phasing. The leverage ratio came to 0.9x, in line with our leverage target of at or below 1.0x.

[20] 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	Q3	Q1	Q2	Q3	Q4
Final clients accesses	47,011	47,172	47,268	48,988	49,479	49,105	47,416
Fixed telephony accesses	1,969	1,959	1,966	2,000	1,988	1,979	1,980
Internet and data accesses	2,266	2,251	2,253	2,313	2,297	2,284	2,281
Narrowband	206	203	198	217	215	212	209
Broadband	2,060	2,048	2,054	2,095	2,082	2,072	2,072
thereof VDSL	*1,243*	*1,330*	*1,389*	*872*	*960*	*1,063*	*1,152*
Mobile accesses	42,777	42,962	43,049	44,675	45,194	44,842	43,155
Prepaid	21,346	21,198	21,052	23,967	24,289	23,754	21,881
Postpaid	21,431	21,764	21,997	20,708	20,905	21,088	21,274
thereof M2M	*1,067*	*1,103*	*1,135*	*830*	*897*	*969*	*1,027*
Postpaid (%)	50.1%	50.7%	51.1%	46.4%	46.3%	47.0%	49.3%
Smartphone penetration (%) (1)	62.0%	63.5%	64.9%	57.0%	57.4%	58.7%	60.9%
LTE customers (2)	16,094	16,596	17,157	13,968	14,422	15,679	15,759
Wholesale accesses (3)	63	8	0	562	428	298	188
Total accesses	**47,075**	**47,180**	**47,268**	**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 customer defined 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.

	2018			2017			
(in thousands)	Q1	Q2	Q3	Q1	Q2	Q3	Q4
Mobile accesses on a market comparable basis (4)	45,285	45,201	45,383	47,861	48,388	48,372	45,918
Prepaid	23,508	23,122	23,039	26,770	27,150	26,906	24,300
Postpaid	21,777	22,079	22,344	21,091	21,237	21,467	21,617
Mobile accesses on a market comparable basis (4)	44,218	44,097	44,248	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	Q3	Q1	Q2	Q3	Q4
ARPU (in euros) (1)	9.8	10.0	10.2	9.6	9.7	9.8	9.8
Prepaid	5.6	5.8	6.0	5.0	5.2	5.2	5.6
Postpaid excl. M2M	14.8	14.8	15.0	15.5	15.5	15.7	15.2
Data ARPU (in euros)	5.4	5.6	5.8	5.4	5.7	5.6	5.6
% non-SMS over data revenues (2)	85.0%	84.1%	85.9%	79.4%	81.7%	80.6%	81.4%
Voice Traffic (m min) (3)	23,341	24,554	23,899	23,966	23,709	23,006	23,667
Data Traffic (TB) (4)	126,040	151,620	165,440	86,423	98,612	110,684	122,367
Churn (%)	2.2%	1.8%	2.0%	1.9%	1.9%	2.1%	3.1%
Postpaid churn (%) excl. M2M	1.7%	1.5%	1.6%	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 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 = 10^12 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.

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Telefónica
Deutschland

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited

	July 1 to September 30				January 1 to September 30			
(Euros in millions)	2018	2017	Change	% Change	2018	2017	Change	% Change
Revenues	**1,830**	**1,850**	**(20)**	**(1.1)**	**5,355**	**5,392**	**(37)**	**(0.7)**
Revenues (excl. regulatory effects 2018)	**1,843**	**1,850**	**(8)**	**(0.4)**	**5,393**	**5,392**	**1**	**0.0**
Mobile business	**1,638**	**1,634**	**3**	**0.2**	**4,764**	**4,727**	**38**	**0.8**
Mobile service revenues	1,339	1,344	(5)	(0.4)	3,937	3,954	(17)	(0.4)
Mobile service revenues (excl. regulatory effects 2018)	1,351	1,344	7	0.6	3,975	3,954	21	0.5
Handset revenues	299	290	8	2.8	827	772	55	7.1
Fixed business	**191**	**214**	**(23)**	**(10.6)**	**582**	**654**	**(72)**	**(11.0)**
Other revenues	**1**	**2**	**(1)**	**(39.7)**	**9**	**11**	**(3)**	**(23.9)**
Other income	**49**	**38**	**11**	**29.1**	**117**	**97**	**20**	**20.5**
Operating expenses	**(1,418)**	**(1,442)**	**23**	**(1.6)**	**(4,148)**	**(4,201)**	**53**	**(1.3)**
Supplies	(622)	(627)	5	(0.8)	(1,747)	(1,759)	12	(0.7)
Personnel expenses	(148)	(158)	11	(6.7)	(451)	(471)	20	(4.2)
Impairment losses in accordance with IFRS 9 (1)	(14)	(22)	8	(34.8)	(54)	(59)	5	(8.5)
Other expenses	(635)	(635)	0	(0.1)	(1,897)	(1,913)	16	(0.9)
thereof Group fees	(9)	(10)	1	(8.4)	(28)	(30)	2	(7.4)
Operating income before depreciation and amortization (OIBDA)	**461**	**447**	**14**	**3.2**	**1,324**	**1,288**	**36**	**2.8**
OIBDA margin	25.2%	24.1%		1.0%-p.	24.7%	23.9%		0.8%-p.
Exceptional effects (2)	(17)	(21)	5	(21.9)	(49)	(53)	4	(8.0)
OIBDA adjusted for exceptional effects (2)	**478**	**468**	**10**	**2.0**	**1,373**	**1,341**	**32**	**2.4**
OIBDA margin adjusted for exceptional effects	26.1%	25.3%		0.8%-p.	25.6%	24.9%		0.8%-p.
OIBDA adjusted for exceptional effects (2) (excl. regulatory effects 2018)	**494**	**468**	**26**	**5.6**	**1,421**	**1,341**	**80**	**6.0**
OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2018)	26.8%	25.3%		1.5%-p.	26.3%	24.9%		1.5%-p.
Depreciation and amortization	(479)	(476)	(3)	0.6	(1,416)	(1,440)	24	(1.7)
Operating income	**(18)**	**(29)**	**12**	**(39.3)**	**(92)**	**(152)**	**60**	**(39.5)**
Net financial income (expense)	**(12)**	**(9)**	**(3)**	**31.1**	**(31)**	**(26)**	**(5)**	**20.5**
Profit (loss) before tax for the period	**(30)**	**(39)**	**9**	**(22.6)**	**(123)**	**(178)**	**55**	**(30.8)**
Income tax	0	0	0	>100,0	0	0	0	>100,0
Total profit for the period	**(30)**	**(39)**	**9**	**(23.3)**	**(123)**	**(178)**	**55**	**(30.9)**
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)	(0.01)	(0.01)	0	(23.3)	(0.04)	(0.06)	0	(30.9)
CapEx (4)	(316)	(254)	(62)	24.5	(740)	(688)	(52)	7.6
Operating cash flow (OIBDA-CapEx) (4)	145	193	(48)	(24.8)	584	600	(16)	(2.7)
Free cash flow pre dividends and payments for spectrum (5)	217	200	17	8.5	301	268	33	12.3

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

(2) Exceptional effects as of 30 September 2018 include restructuring expenses amounting to EUR 46m and acquisition related consultancy costs amounting to EUR 3m. Exceptional effects as of 30 September 2017 include restructuring expenses amounting to EUR 51m 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.

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TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED INCOME STATEMENT - IAS 18 RECONCILIATION

Unaudited

	1 July to 30 September 2018			1 January to 30 September 2018		
(Euros in millions)	IFRS 15	Adjustments	IAS 18	IFRS 15	Adjustments	IAS 18
Revenues	**1,830**	**(7)**	**1,823**	**5,355**	**(18)**	**5,337**
Revenues (excl. regulatory effects 2018)	**1,843**	**(7)**	**1,836**	**5,393**	**(18)**	**5,376**
Mobile business	**1,638**	**(7)**	**1,630**	**4,764**	**(17)**	**4,747**
Mobile service revenues	1,339	(8)	1,331	3,937	(14)	3,923
Mobile service revenues (excl. regulatory effects 2018)	1,351	(8)	1,344	3,975	(14)	3,961
Handset revenues	299	0	299	827	(3)	825
Fixed business	**191**	**(2)**	**189**	**582**	**(8)**	**574**
Other revenues	**1**	**3**	**4**	**9**	**7**	**16**
Other income	**49**	**–**	**49**	**117**	**–**	**117**
Operating expenses	**(1,418)**	**(2)**	**(1,420)**	**(4,148)**	**(9)**	**(4,157)**
Supplies	(622)	–	(622)	(1,747)	–	(1,747)
Personnel expenses	(148)	–	(148)	(451)	–	(451)
Impairment losses in accordance with IFRS 9 (1)	(14)	0	(14)	(54)	1	(53)
Other expenses	(635)	(2)	(637)	(1,897)	(10)	(1,907)
thereof Group fees	(9)	–	(9)	(28)	–	(28)
Operating income before depreciation and amortization (OIBDA)	**461**	**(9)**	**452**	**1,324**	**(27)**	**1,297**
OIBDA margin	25.2%		24.8%	24.7%		24.3%
Exceptional effects (2)	(17)	–	(17)	(49)	–	(49)
OIBDA adjusted for exceptional effects (2)	**478**	**(9)**	**469**	**1,373**	**(27)**	**1,346**
OIBDA margin adjusted for exceptional effects	26.1%		25.7%	25.6%		25.2%
OIBDA adjusted for exceptional effects (2) (excl. regulatory effects 2018)	**494**	**(9)**	**486**	**1,421**	**(27)**	**1,394**
OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2018)	26.8%		26.5%	26.3%		25.9%
Depreciation and amortization	(479)	–	(479)	(1,416)	–	(1,416)
Operating income	**(18)**	**(9)**	**(26)**	**(92)**	**(27)**	**(119)**
Net financial income (expense)	**(12)**	**0**	**(12)**	**(31)**	**1**	**(30)**
Profit (loss) before tax for the period	**(30)**	**(8)**	**(38)**	**(123)**	**(25)**	**(148)**
Income tax	0	–	0	0	–	0
Total profit for the period	**(30)**	**(8)**	**(38)**	**(123)**	**(25)**	**(148)**

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

(2) Exceptional effects as of 30 September 2018 include restructuring expenses amounting to EUR 46m and acquisition related consultancy costs amounting to EUR 3m.

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 30 September 2018	As of 31 December 2017	Change	% Change
NON-CURRENT ASSETS	**11,305**	**11,940**	**(635)**	**(5.3)**
Goodwill	1,960	1,960	–	–
Other intangible assets	4,921	5,485	(564)	(10.3)
Property, plant and equipment	3,928	4,041	(114)	(2.8)
Trade and other receivables	56	69	(13)	(18.5)
Other financial assets	91	94	(3)	(3.1)
Other non-financial assets	221	129	92	71.0
Deferred tax assets	129	162	(33)	(20.3)
CURRENT ASSETS	**2,825**	**2,160**	**665**	**30.8**
Inventories	162	105	57	54.7
Trade and other receivables	1,183	1,265	(82)	(6.5)
Other financial assets	12	17	(6)	(32.8)
Other non-financial assets	499	186	313	168.5
Cash and cash equivalents	932	587	346	58.9
Assets held for sale	37	0	37	>100,0
Total assets = Total equity and liabilities	**14,131**	**14,100**	**31**	**0.2**
EQUITY	**7,676**	**8,297**	**(621)**	**(7.5)**
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	4,702	5,323	(621)	(11.7)
Equity attributable to owners of the company	7,676	8,297	(621)	(7.5)
NON-CURRENT LIABILITIES	**2,921**	**2,141**	**780**	**36.4**
Interest-bearing debt	2,047	1,268	779	61.4
Trade and other payables	19	19	(0)	(0.0)
Provisions	553	599	(46)	(7.7)
Deferred income	201	255	(54)	(21.1)
Deferred tax liabilities	102	1	101	>100,0
CURRENT LIABILITIES	**3,533**	**3,662**	**(128)**	**(3.5)**
Interest-bearing debt	706	637	69	10.8
Trade and other payables	2,125	2,224	(98)	(4.4)
Provisions	139	142	(3)	(2.3)
Other non-financial liabilities	76	132	(57)	(42.9)
Deferred income	484	527	(43)	(8.2)
Liabilities held for sale	4	0	4	(>100,0)

Financial Data				
Net financial debt (1)	1,591	1,064	527	49.5
Leverage (2)	0.9x	0.6x	0.3	47.8

(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 before exceptional effects.

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Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET DEBT

Unaudited

	2018			2017			
(Euros in million)	Jan - Mar	Jan - June	Jan - Sept	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
OIBDA	**394**	**863**	**1,324**	**390**	**841**	**1,288**	**1,785**
- Other non-cash income / expenses	–	–	(15)	–	–	–	–
- CapEX (1)	(182)	(420)	(732)	(208)	(433)	(679)	(932)
= Operating Cashflow (OIBDA-CapEx) (1)	**212**	**443**	**577**	**181**	**409**	**609**	**853**
+/- Change in working capital	**(184)**	**(343)**	**(253)**	**(177)**	**(326)**	**(322)**	**(132)**
+/- (Gains) losses from sale of assets	(0)	(0)	(0)	(1)	(1)	(1)	(30)
+/- Proceeds from sale of fixed assets and other effects	0	–	0	1	1	1	31
+ Net interest payments	(16)	(19)	(22)	(14)	(15)	(16)	(27)
+ Taxes paid	–	–	–	0	–	–	–
+/- Proceeds / Payments on financial assets	4	3	0	8	9	5	14
+ Acquisition of companies net of cash acquired	(0)	(0)	(1)	–	(9)	(9)	(29)
= Free cash flow pre dividends and payments for spectrum (2)	**15**	**84**	**301**	**(1)**	**68**	**268**	**680**
- Payments for spectrum	–	–	–	–	–	(111)	(111)
- Dividends	–	(773)	(773)	–	(744)	(744)	(744)
= Free cash flow post dividends and payments for spectrum	**15**	**(689)**	**(472)**	**(1)**	**(675)**	**(586)**	**(175)**
Net financial debt at the beginning of the period	1,064	1,064	1,064	798	798	798	798
+ Other changes in net financial debt	35	44	55	37	101	129	91
= Net financial debt at the end of the period (incl. Restricted cash)	**1,085**	**1,797**	**1,591**	**836**	**1,575**	**1,514**	**1,064**

(1) Exklusive der Zugänge aus Unternehmenszusammenschlüssen, aktivierten Finanzierungsleasingverhältnissen und der aktivierten Fremdkapitalkosten für Investitionen in Spektrum. Ab dem 2. Quartal 2018 erfolgte eine Anpassung der Definition der Zugänge aus Finanzierungsleasingverhältnissen, was zu einer kumulierten Verringerung um 11 Mio. EUR führt.

(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 - Sept	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
= Free cash flow pre dividends and payments for spectrum (Euros in millions)	15	84	301	(1)	68	268	680
Number of shares (in millions)	2,975	2,975	2,975	2,975	2,975	2,975	2,975
= Free cash flow per share (in Euros)	0.00	0.03	0.10	(0.00)	0.02	0.09	0.23

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TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

(Euros in millions)	As of 30 September 2018	As of 31 December 2017	Change %
A Liquidity	**932**	**587**	**58.9**
B Current financial assets (1)	**168**	**177**	**(4.9)**
C Current financial debt (2)	**706**	**635**	**11.2**
D=C-A-B Current net financial debt	**(395)**	**(129)**	**>100,0**
E Non-current financial assets (1)	**61**	**75**	**(18.9)**
F Non-current financial debt (2)	**2,047**	**1,268**	**61.4**
G=F-E Non-current net financial debt	**1,986**	**1,193**	**66.5**
H=D+G Net financial debt (3)	**1,591**	**1,064**	**49.5**

(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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