Telefónica Deutschland

MUNICH, 20 February 2019

Preliminary results[1] for January to December 2018

Telefónica Deutschland meets FY2018 guidance[2] across all metrics on strong operating momentum and synergy capture; network consolidation completed

- **O_2 Free portfolio fuels data growth and supports ARPU-up strategy, reflected in trading and churn metrics**
- **FY 2018 underlying[3] revenue +0.9% year-on-year with strong handset sales; underlying[3] MSR trend intact +0.4% year-on-year**
- **Strong OIBDA[4] growth of +5.3% year-on-year in FY 2018 on the back of commercial momentum and ~EUR 100 million of OIBDA-relevant synergies, reaching >90% of total OpCF target**
- **Capex up +1.7% year-on-year driven by ongoing LTE rollout with >6,700 new sites; C/S ratio at 13.2% and network consolidation largely completed by year-end 2018**
- **In 2019 we are building on prior-year achievements with a clear execution focus as we enter our next chapter: The transformation into Germany's Mobile Customer and Digital Champion**

Fourth quarter 2018 operational & financial highlights

- **Mobile postpaid** registered +279 thousand net additions in the fourth quarter of 2018, with continued strong demand for the O_2 Free and Blau portfolios and a strong contribution from partners (62% share of gross additions in the fourth quarter). Churn in the O_2 brand remained low with the usual seasonal uptick at 1.6% (flat year-on-year), reflecting the sustained focus on retention activities. The annualised O_2 churn rate was 17.3% in 2018 and total postpaid churn was 1.8% in the fourth quarter
- The **LTE customer base** reached 18.4 million at the end of 2018, an increase of +17.0% year-on-year. Data growth of LTE customers in O_2 consumer postpaid was fuelled by the adoption of larger data packages in our O_2 Free portfolio. Data usage was up +4% quarter-on-quarter and +47% year-on-year to 4.1 GB per month, with customers in the O_2 Free M tariff already using 6.5 GB

[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 were not reflected in the financial outlook
[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[3] revenue** grew **+3.5% year-on-year to EUR 1,970 million (+2.8% year-on-year to EUR 1,958 million as per IAS 18 reporting**) and benefitted from strong seasonal demand for handsets. Including negative regulatory impacts of EUR -5 million, revenue reached EUR 1,965 million, an increase of +3.2% year-on-year

- **Underlying[5] mobile service revenue[6]** trend remained intact at **EUR 1,335 million, +0.2% year-on year (-0.4% at EUR 1,327 million as per IAS 18 reporting)**. Q4 saw effects from a competitive Christmas season, tough comps versus another strong quarter in Q4 2017, less visitor roaming and our continued retention focus in the prolongation cycles of customers affected by customer service and network issues in the past. On a reported basis, mobile service revenue came to EUR 1,330 million (-0.2% year-on-year)

- **Handset revenue** reached EUR 445 million, a strong growth of +25.2% year-on-year as customer demand for high-end smartphones was seasonally strong with support from promotional activities

- **Fixed-line revenue** fell -11.0% year-on-year to EUR 185 million. We have finalised the wholesale customer migration and the migration of own retail customers is progressing according to plan; both a prerequisite for the shutdown of the legacy infrastructure. As such, **fixed retail revenue** was down -3.0% year-on-year, as the positive contribution from VDSL was offset by promotional activities and a higher bundle share

- **OIBDA** adjusted for exceptional and regulatory effects[7] **reached EUR 517 million** in Q4**, up +3.6% year-on-year** driven by additional ~EUR 10 million of OIBDA-relevant synergies mainly from network consolidation. **As per IAS 18 reporting, OIBDA[8] growth was +1.9% year-on-year**, reaching EUR 509 million, excluding negative regulatory effects of EUR -6 million. The **OIBDA margin** adjusted for exceptional and regulatory effects remained stable year-on-year at 26.3%

- **CapEx[9]** stood at **EUR 226 million (-13.7% year-on-year).** We continued to focus on efficient Capex spend while pushing ahead with the LTE rollout. Incremental Capex synergies amounted to ~EUR 15 million in Q4 2018 and were mainly related to network

- **Consolidated net financial debt[10]** was EUR 1,129 million as of 31 December 2018 with a leverage ratio of 0.6x

[5] Excluding the negative impact from regulatory changes (mainly the European roaming regulation)
[6] Mobile service revenues include base fees and fees paid by our customers for the usage of voice, sms and mobile data services. Also, access and interconnection fees as well as other charges levied on our partners for the use of our network are included
[7] Exceptional effects were EUR 38 million of restructuring expenses in the period October to December 2018 and regulatory effects amounted to EUR 6 million in the same period of 2018
[8] Adjusted for exceptional effects and excluding the negative impact from regulatory changes (mainly the European roaming regulation)
[9] Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum
[10] 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

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Progress of integration activities and network update

In the last quarter of 2018, Telefónica Deutschland has achieved extensive network quality improvements as a result of the **network integration**, which was **mostly completed at year end,** as well as the ongoing **LTE rollout**.

The successful LTE expansion with more than 6,700 new LTE stations in 2018 is reflected in the latest network tests, where we scored a "good" rating in the LTE network category by CHIP test and "strong LTE expansion" of the journal COMPUTER BILD. In particular, the magazine emphasised the network quality in densely populated regions and in city hotspots. CHIP described the O_2 network as having made a "quantum leap". In the 2018 connect network test we also achieved an impressive 127 points increase and have thus significantly reduced the gap to our competitors. No other German network operator has achieved such a substantial score improvement since 2012. Telefónica Deutschland is also the only German operator to have improved its result despite more stringent measurement criteria this year.

We have thus progressed significantly towards establishing Germany's largest and most modern mobile network, while at the same time also delivering upon the targeted incremental integration synergies of approx. EUR 150 million OpCF savings in 2018. In total, we have now delivered EUR 820 million in synergies by year-end of 2018 or >90% of the total target. The fourth quarter contributed ~EUR 10 million in OIBDA related synergies and ~EUR 15 million in Capex related synergies. As all integration workstreams are now successfully closed, we expect to realise the remainder of synergies in 2019 as a result of rollover effects.

In order to further speed up the expansion and **5G readiness** of our mobile network, we are joining forces with several partners and signed cooperation with Deutsche Telekom, Vodafone, NGN Networks, GasLine and Unitymedia to bring fibre to the backhaul. In total we will connect >9.000 additional sites with fibre. This is a major milestone to achieve our target of more than 90% of fibre connections in urban areas and more than 25% in rural areas by 2022.

In addition, we are pushing ahead with a number of projects to develop future-proof technology and applications, such as e.g. the 5G Connected Mobility project with Ericsson, the Early 5G Innovation Cluster with Nokia in Berlin or the 5G TechCity project in Munich. First results of our **Fixed Wireless Access (FWA)** tests with Samsung Electronics are promising, achieving speeds of almost 3Gbps via 26 and 28 GHz bands.

Digital transformation

As part of our four-year **transformation programme Digital4Growth** (D4G), we 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.

We expect to deliver EUR 600 million gross OIBDA gains from our D4G programme between 2019 and 2022, with 60% stemming from revenue-related activities and 40% stemming from cost-related activities.

On the revenue side, we have clustered our activities into five main work streams: Portfolio & ARPU-up mechanisms, digital sales & omnichannel initiatives, churn analytics, eSIM and Advanced Data Analytics & Internet of Things-based projects.

On the cost side, we see four main work streams: Customer service efficiency, channel mix & shop optimisation, the integration of fixed broadband customer service systems and robotics process optimisation.

We want to modernise our systems architecture, optimise E2E processes, reimagine the customer journey and scale-up digitisation to become Germany's mobile customer and digital champion.

In 2019, we will mainly focus on further adjustments in our portfolio that are further supporting our ARPU-up strategy as well as intelligent churn analytics tools that will further enhance our retention focus and help us to gradually reduce churn. On the revenue-side, channel optimisation will be our core focus, while on the cost side customer service efficiency and robotics will help generate first savings.

As presented at our CMD, we have set ourselves concrete KPI targets, which we intend to deliver in the next four years.

- 'Simpler': We want to make interactions with our customers simpler and more intuitive. We have set ourselves the following key targets to track our progress:
    - Increase the O_2 app penetration to over 80%
    - Reduce the number of active tariffs by 40%
    - Reduce the IT-spend per subscriber by 15%
    - Reduce postpaid churn by at least 2% percentage points
- 'Faster': We want to fulfil customer requests in real time and respond quickly to changing market requirements. We will track the target achievement using the following KPIs:
    - Reduce the lead time for product changes to within hours
    - Reduce manual back-office interventions by ~80%
    - Increase the sales in self-assisted channels to over 25%
    - Receive a fair share of gross adds in SME of ~30%

- 'Better': We further aim to offer excellent customer experience across all touchpoints. We want to offer tailored communication and customer-friendly IoT devices to personalise customer experience. We have set ourselves the following targets:
  - Number of connected devices by customer: 4
  - Increase the number of eCare events to ~80%
  - Reduce the number of shops by more than 10%
  - Generate ~EUR 200-300m cumulated revenues from new business areas incl. IoT and Advanced Data Analytics

Commercial update

The German mobile market remained dynamic yet rational across all segments in the fourth quarter of 2018, with a clear focus on **profitable growth** by stimulating and monetising data usage via tariffs with large data volumes. In line with this, we saw the following commercial initiatives to enhance our product portfolio:

- **New Blau Flex tariffs:** As of 14 February, Blau postpaid tariffs are available without a minimum contract period. Thus, Blau customers benefit from increased flexibility for the same data speed and usage for an additional cost of only EUR 2/month
- **Convergent tariff O_2 my All in One XL**: Since 5 February 2019 we offer our customers mobile, fixed and broadband service in a bundle for EUR 59.99/month, thus enabling our customers to surf with high speeds both at home and on the go
- **O_2 Business Spot with mobile LTE router**: As of December 2018, the O_2 Business Spot is also available with a new Huawei router, which is independent from the electric power supply. Business travellers and mobile workers benefit from the additional flexibility and mobile freedom
- **O_2 Business Fusion:** On 30 November 2018, we launched a new All-in-One-Package for our business customers. O_2 Business Fusion combines mobile and fixed product portfolios in a modular approach to address customers' convergence needs. All O_2 Business Fusion customers will also benefit from single-point-service-touchpoints for fixed and mobile portfolio-related inquiries
- Again, we received a number of awards in the last months, which lay testimony to our ongoing efforts to drive technological and commercial innovation
    - Well-known German tech magazines recognised our improved network quality:
        - Connect test (December 2018): Substantial score improvement (+127 point y-o-y)
        - CHIP (November 2018): Overall grade "good"; in Hamburg and Munich O_2 network even received a "very good" rating
        - Computer Bild (November 2018): Improvement of network quality thanks to "strong LTE expansion"
    - Several customer service awards lay proof to our sustained focus on customer experience:
        - Wirtschaftswoche (November 2018): Top mark for O_2 Business customer service
        - Wirtschaftswoche and 'Deutsches Kundeninstitut' (German customer institute) (November 2018): Top ratings for O_2 retail and business customer service
    - CCV Quality Award (November 2018): Telefónica Deutschland awarded for customer satisfaction

Financial outlook 2019 and mid-term expectations

Effects from the implementation of IFRS16 as of 1 January 2019 are not reflected in the financial outlook[11]

In 2019, Telefónica Deutschland will continue to build on its operational and financial achievements of the financial year 2018, which were in line with our expectations. Based on IAS 18 accounting standards, total operating revenue came in flat at +0.5% year-on-year excluding a significant headwind from regulation in the amount of EUR 44 million (-0.1% year-on-year including the negative regulatory effects). OIBDA (based on IAS 18) adjusted for exceptional effects grew slightly at +3.4% year-on-year excluding regulatory effects of EUR 54 million (+0.4% year-on-year including these effects), benefitting from the delivery of approx. EUR 100 million of revenue and OIBDA-relevant synergies. In total, we have now reached EUR 820 million (>90%) of the total synergy target of cumulated Operating Cash Flow savings of EUR 900 million in 2019. Our final integration project, the consolidation of our networks, is now completed and marks a major milestone on our way to becoming Germany's "Mobile Customer and Digital Champion". Furthermore, Telefónica Deutschland Group invested EUR 966 million in Capex[12] with a C/S ratio of 13.2% in 2018, also in line with our guidance of 12-13% of C/S for the financial year 2018.

The German mobile market remained rational, yet dynamic across segments throughout 2018 with a strong focus on profitable growth by stimulating customer data usage and 'mobile freedom' to maintain a fair market share. Telefónica Deutschland successfully relaunched its O_2 Free and Blau portfolios. The new O_2 Free tariffs – with the double-data Boost option and the unique O_2 Connect option for up to 10 devices – support our ARPU-up strategy and help us counteract ongoing legacy base management topics and OTT effects. On the partner side, we continued to leverage our existing partnerships.

In 2019, Telefónica Deutschland will continue to pursue our successful multi-brand and multi-channel strategy. We expect pricing in the premium and discount segments to remain stable in 2019 as per the current market environment. Postpaid will remain the strongest value-generator for our business. Prepaid will also remain an important pillar of our operational and financial performance; however, we expect the current trend of lower customer demand in this segment to prevail as a result of the introduction of legitimisation checks, accelerating the pre- to postpaid migration trend in the market.

[11] For more information, please refer to the materials of the quarterly reporting during the period. We expect to report on an IFRS 16 basis from the first quarter of 2019
[12] Of which EUR 8 million additions from capitalised financing leases

Regulatory changes are expected to remain major headwinds for the financial performance in 2019. Revenue will be affected by the negative effects of the termination rate cut for mobile voice minutes from EURc 1.07 to EURc 0.95 as of 1 December 2018 and the new regulation for intra-EU calls/SMS, now capped at EUR 0.19 per minute/EUR 0.06 per SMS, as of 15 May 2019. We will also continue to see minor effects from roam-like-home, as customers are still actively switching away from legacy roaming packages. In total, we expect the negative regulatory impact on total revenue to amount to approx. EUR 60-70 million in 2019. Similarly, OIBDA performance will reflect the negative usage elasticity effects from the roam-like-home regulation, the before-mentioned intra-EU calls/SMS and, to a lesser extent, termination rate effects. In total, we expect the negative regulatory impact on OIBDA to amount to approx. EUR 40-50 million.

For 2019 we expect total revenue to remain broadly stable year-on-year, excluding the above-mentioned negative regulatory effects of approx. EUR 60-70 million. Handset revenue continue to depend on market dynamics as well as the launch cycles and availability of new device generations. In the fixed business, the wholesale customer migration as a prerequisite for the decommissioning of our ULL broadband access infrastructure is now completed and we expect returns to normalise over time, as we market fixed broadband and converged products based on our wholesale access to competitors' networks. In the mid-term, we expect to grow our revenues with the market, capturing market share in Internet-of-Things (IoT). Our own customers are our biggest asset and we are looking to reward and develop them, while serving many more customers based on our successful multi-channel and multi-brand approach. Our assumptions are based on a sustained rational competitive environment as well as stable economic conditions.

With all integration activities completed by 2018 year-end, we reiterate our cumulated total synergy target of approx. EUR 900 million Operating Cash Flow synergies in 2019 with intra-year incremental savings of approx. EUR 40 million at OIBDA level. These are mainly roll-over effects from network consolidation. At Capex level we expect additional in-year savings of approx. EUR 40 million as a result of the roll-out of one LTE network.

2019 will also mark the first year of Telefónica Deutschland's four-year transformation programme Digital4Growth, which we launched at our Capital Markets Day in February 2018. It has a clear focus on customer experience in the digital age. We are striving for continued profitable growth by capturing additional revenue growth opportunities in our core business, while also pushing into new business areas such as those arising from e-SIM capabilities, Advanced Data Analytics (ADA) or the Internet-of-Things (IoT). We also target efficiency gains from the further automation and digitalisation of processes, thus becoming 'simpler, faster and better'. We reiterate our transformation plan of capturing an additional EUR 600 million of gross OIBDA between 2019 & 2022, including growth and efficiency gains. In the first year we foresee an additional EUR 40 million gross gains at OIBDA level, with a significant gradual ramp up in subsequent years.

Against this background, we expect OIBDA adjusted for exceptional effects in 2019 to be broadly stable to slightly positive year-on-year, excluding the afore-mentioned negative regulatory effects of EUR 40-50 million. We thus expect the before-mentioned integration and transformation savings to largely balance our continued market investment. We expect handsets margins to continue to be broadly neutral.

The assumption around market investments are based on an expectation of a rational outcome to the upcoming spectrum auction, which is supposed to start at the end of Q1 2019, and a continuation of the current rational market environment with continued exponential data growth. In 2018, we have seen a significant stabilisation and quality improvements in our network as a result of our consolidation and ongoing LTE roll-out efforts. Building on these achievements, we are moving ahead with the expansion and optimisation of our mobile network, thus continually improving customer experience. We intend to add further ~10,000 LTE sites (~30,000 LTE cells) in 2019.

In addition, as part of our 4-year transformation programme, we will be investing in our omni-channel capabilities and the end-to-end digitalisation and the harmonisation of our process landscape, e.g. via robotics. The investment needs for our digital transformation are front-end loaded. As a result, we expect C/S to come to approx. 13-14% for the financial year 2019; in the mid-term we expect a stable Capex envelope of approx. EUR 1 billion. These figures include investment needs for back- and fronthaul for 4G and backhaul only for 5G based on the current regulatory framework.

Since the IPO and throughout the integration of Telefónica Deutschland and E-Plus, we have maintained a strong balance sheet and a conservative leverage[13] target of at or below 1.0x. This has been reflected in a solid investment grade rating from Fitch and sustained access to capital markets. Over the course of the financial year 2019 we will review our self-defined leverage target for two reasons: Firstly, we will reflect the technical changes triggered by the introduction of the IFRS 16 accounting standard. We expect the implementation of IFRS 16 to have significant effects on margins, the balance sheet and leverage. Secondly, we envisage a move to an increased target leverage, allowing us to utilise our full financial flexibility with regards to the upcoming 5G investments, whilst maintaining our BBB investment grade rating from Fitch.

We maintain strong confidence in our ability to generate Free Cash Flow growth in the mid-term on the back of solid momentum in the operating business and further support from the Digital4Growth programme. As such, we continue to target a high dividend pay-out ratio in relation to Free Cash Flow. For the financial year 2018 we reiterate our dividend proposal of EUR 0.27 per share to the Annual General Meeting in May 2019.

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

Financial Outlook 2019 and mid-term expectations:

Effects from the implementation of IFRS16 as of 1 January 2019 are not reflected in the financial outlook[14]

	Actual 2018	Outlook 2019	Mid-term outlook
Revenue	EUR 7,320 million	Broadly stable y-o-y (excl. negative regulatory effects of EUR 60-70 million)	Growth in line with German market
OIBDA Adjusted for exceptional effects[15]	EUR 1,884 million	Broadly stable to slightly positive y-o-y (excl. negative regulatory effects of EUR 40-50 million)	Ongoing margin improvement
Capex to Sales Ratio	13.2%	Approx. 13-14%	Keeping Capex stable at approx. EUR 1 billion
Dividend	EUR 0.27/share Proposal for FY 2018 to next AGM	High pay-out ratio over FCF	

[14] For more information, please refer to the materials of the quarterly reporting during the period. We expect to report on an IFRS 16 basis from the first quarter of 2019

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

Telefónica Deutschland operating performance 2018

As of 31 December 2018 Telefónica Deutschland's **customer accesses** reached 47.1 million (-1.1% year-on-year), thereof 42.8 million mobile accesses (-0.8% y-o-y). The reduction was mainly driven by a -6.1% year-on-year decrease in the mobile prepaid base (20.5 million customers) on the back of changes in the regulatory environment in 2017 and the market trend towards postpaid offers. Mobile postpaid registered a growth of +4.7% year-on-year and reached 22.3 million customers. Our mobile postpaid base represented 52.0% of our total mobile base as of the end of December, an increase of +2.7 percentage points year-on-year. Based on market standards for inactivity accounting, our mobile customer accesses stood at 45.3 million accesses and our total access base reached 49.5 million. In fixed, the DSL retail customer base grew +0.4% year-on-year to 2.1 million accesses, benefitting from the continued solid demand for VDSL. At the same time, the migration of our own retail ADSL customers was advancing according to plan. The migration of our wholesale customer has now been completed; both a prerequisite for the planned shutdown of the legacy infrastructure.

Mobile postpaid registered +1,002 thousand net additions in 2018 and +279 thousand in the fourth quarter. This compares favourably with +737 thousand net additions and +186 thousand net additions in the same periods of the prior year. It is clear proof of our successful portfolio initiatives with a stringent focus on value generation and a fair market share across segments. In a rational, yet dynamic market, the share of partner brands remained solid and contributed 60% of gross additions in 2018 and 62% in the fourth quarter, helped by customer migrations to our network. The primary focus of Telefónica Deutschland remains on customer retention and customer base development.

Mobile prepaid registered -1,338 thousand net disconnections in 2018, including -509 thousand in the fourth quarter, compared to -1,873 thousand (including one-off adjustment) in Q4 last year. While prepaid remains a significant contributor for our business, demand remains lower on the back of the regulatory changes introduced in summer 2017 and a general market trend towards postpaid offers.

Postpaid churn was stable at 1.6% year-on-year in 2018 and at 1.8% in the fourth quarter of the year, as a result of the usual seasonality. O_2 consumer postpaid churn continues to improve year-on-year by +0.1 percentage points to 1.4% in 2018. Annualised churn in O_2 consumer postpaid stood at 17.3%, an improvement of +0.7 percentage points year-on-year.

Smartphone penetration[16] across brands and segments reached 66% at the end of the year, up +5.1 percentage points year-on-year.

The **LTE customer base** continued to benefit from the increasing demand for high-speed mobile data services and the good reception of the updated O_2 Free portfolio and grew +17.0% year-on-year to 18.4 million accesses as of 31 December 2018. LTE-penetration of the base increased by +6.9 percentage points year-on-year to 44.3%.

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

ARPU reflected the continued headwinds from regulatory changes and the mix-shift effects in the base, which was partly offset by the ARPU-accretive effects from the O_2 Free portfolio in 2018. The blended mobile ARPU reached EUR 10.0 in 2018 and EUR 10.1 in the fourth quarter, up +3.1% and +3.0% year-on-year respectively. **Postpaid ARPU** decreased -4.0% year-on-year to EUR 14.9 in 2018 and -2.3% year-on-year to EUR 14.8 for October to December respectively. **Prepaid ARPU** was at EUR 5.8 in 2018 and EUR 6.0 in the fourth quarter, +11.1% and +6.4% higher year-on-year respectively.

The **fixed retail ARPU** came to EUR 24.5 (-1.3% year-on-year) and reached EUR 24.1 in the fourth quarter (-3.2% year-on-year), a result promotional activities and the higher share of bundles in the customer base.

The **fixed retail broadband customer base** was slightly higher +0.4% year-on-year at approx. 2.1 million accesses. In 2018 we saw +8 thousand net additions (+25 thousand net additions in the fourth quarter), with continued solid demand for VDSL (+290 thousand net additions in 2018 thereof +52 thousand in the fourth quarter).

The **Fixed wholesale accesses** migration as a prerequisite for the planned decommissioning of the ULL broadband access infrastructure in near future has been completed.

Telefónica Deutschland financial performance in 2018

Revenue totalled EUR 7,320 million in 2018, +0.3% year-on-year in reported terms (+3.2% year-on-year in the fourth quarter to EUR 1,965 million). Excluding a regulatory drag of EUR -44 million in 2018 (EUR -5 million in Q4), **revenue was up +0.9% with EUR 7,364 million** in 2018 **(+0.5% year-on-year at EUR 7,334 million as per IAS 18 reporting)** and up **+3.5% in the fourth quarter to 1,970 million (+2.8% year-on-year to EUR 1,958 million as per IAS 18 reporting).**

Mobile service revenue[17] came in at EUR 5,267 million (-0.4% year-on-year) on a reported basis in 2018 and EUR 1,330 million (-0.2% year-on-year) in the fourth quarter of 2018. Excluding regulatory effects of EUR -44 million (EUR -5 million in Q4), **underlying mobile service revenue** trends remained **positive with +0.4%** year-on-year growth in 2018 **at EUR 5,310 million (flat as per IAS 18 reporting at EUR 5,288 million)** and **+0.2%** year-on-year to EUR 1,335 million in Q4 **(-0.4% year-on-year to EUR 1,327 million as per IAS 18 reporting)**. The trend reflects tailwinds from the O_2 Free portfolio as well as remaining headwinds from OTT-trends and the ongoing legacy base rotation. In addition, Q4 saw effects from a competitive Christmas season, tough comps versus another strong quarter in Q4 2017, less visitor roaming and our continued retention focus in the prolongation cycles of customers having been affected by customer service and network issues in the past.

Mobile data revenue was -2.1% lower year-on-year at EUR 2,922 million in 2018 and grew +0.7% year-on-year to EUR 753 million in the fourth quarter, reflecting customer demand for higher data bundles. As a percentage of data revenues, non-SMS data revenues increased +4.6 percentage points year-on-year to 85.4% in 2018.

Handset revenue rose +12.8% year-on-year at EUR 1,272 million in 2018 and was +25.2% higher at EUR 445 million in the fourth quarter of the year, as customer demand for high-end smartphones was seasonally strong in Q4 helped by promotional activities.

Fixed revenue saw a further decline and reached EUR 767 million (-11.0% year-on-year) in 2018 and EUR 185 million (-11.0% year-on-year) in the fourth quarter. This was mainly the result of the expected reduction in fixed wholesale revenues on the back of the migration. VDSL demand remained solid with slightly weaker fixed retail revenue trends (-1.9% year-on-year in 2018 and -3.0% year-on-year in the fourth quarter) as a result promotional activities and the higher share of bundles in the customer base.

Other income for 2018 was EUR 177 million compared to EUR 159 million in 2017 (EUR 59 million in Q4 2018 vs 62 million in Q4 2017).

[17] Mobile service revenues include base fees and fees paid by our customers for the usage of voice, sms and mobile data services. Also, access and interconnection fees as well as other charges levied on our partners for the use of our network are included

Operating expenses showed a slight increase of +0.5% year-on-year in 2018 and +5.6% year-on-year in the fourth quarter, reaching EUR 5,700 million and EUR 1,551 million respectively. Operating expenses include exceptional[18] costs of EUR 87 million in 2018 (EUR 38 million in the fourth quarter), mainly related to network. At the same time, we delivered incremental integration savings and maintained a stringent value focus.

- **Supplies** came to EUR 2,459 million in 2018 (+2.7% year-on-year) and to EUR 712 million in the fourth quarter (+11.9% year-on-year). Hardware cost of sales (60% of supplies in the fourth quarter) were higher year-on-year in line with the strong demand for handsets, while connectivity-related cost of sales (33% of supplies in the fourth quarter) were lower year-on-year, as lower costs for voice termination compensated higher wholesale costs for outbound roaming
- **Personnel expenses** adjusted for restructuring costs were -1.1% lower year-on-year at EUR 591 million in 2018 and -4.1% lower year-on-year in the fourth quarter at EUR 143 million, as inflation-related salary adjustments in 2018 were offset by savings related to the employee restructuring programme. Restructuring costs were EUR 19 million in 2018 (EUR 16 million in the fourth quarter), compared to EUR 44 million in same period of 2017 (EUR 22 million the fourth quarter 2017)
- **Other operating expenses** remained stable (-0.1% year-on-year) at EUR 2,631 million in 2018 and included exceptional[18] effects of EUR 66 million. In the fourth quarter, other operating expenses rose +2.9% year-on-year and came in at EUR 680 million, including exceptional[18] effects of EUR 22 million. Commercial costs and non-commercial costs made up 59% and 37% respectively in 2018

Operating Income before Depreciation and Amortisation (OIBDA) reached EUR 1,797 million in 2018, +0.7% year-on-year (EUR 1,762 million and -1.3% year-on-year based on IAS 18). In the fourth quarter of 2018, OIBDA amounted to EUR 473 million, -4.8% year-on-year (EUR 464 million, -6.6% year-on-year based on IAS 18).

[18] Exceptional effects were EUR 84 million of restructuring expenses (mostly in other expenses) and EUR 2 million of consultancy fees in the context of corporate transactions in the period January to December 2018

Telefónica Deutschland

OIBDA adjusted for exceptional and regulatory[19] effects was **+5.3%** higher year-on-year **at EUR 1,938 million in 2018 (+3.4% year-on-year to EUR 1,903 million based on IAS 18)** and grew **+3.6%** year-on-year to **EUR 517 million in the fourth quarter (+1.9% year-on year to EUR 509 million based on IAS 18)**. Exceptional effects amounted to EUR 87 million and EUR 38 million respectively and were mainly related to the network consolidation. Negative regulatory drag of EUR -54 million (EUR -6 million in the fourth quarter period) were mainly driven by usage elasticity effects related to the European roaming legislation. In-year savings from OIBDA-relevant integration activities came to approx. EUR 100 million year to date (~EUR 10 million in the fourth quarter) as the network consolidation was largely completed. As announced with our Q3 results, we were also able to bring forward ~EUR 20 million of savings from 2019 to 2018. Thus, the OIBDA margin increased by +1.1 percentage points year-on-year to 26.3% in 2018.

Group fees amounted to EUR 37 million in 2018 and to EUR 9 million in the fourth quarter.

Depreciation & Amortisation totalled EUR 1,987 million in 2018, a growth of +6.3% year-on-year compared to 2017, mainly due to the shortened useful life of network equipment as a result of network integration measures.

The **operating loss** in 2018 came to EUR -190 million compared to an operating loss of EUR -84 million in 2017.

The net financial expenses in 2018 was EUR -42 million versus EUR -34 million in the prior year.

The Company reported no material **income tax expenses** in 2018.

The net loss in 2018 was EUR -230 million, compared to a net loss of EUR -381 million in the prior year.

CapEx[20] was **+1.7% higher year-on-year, amounting to EUR 966 million** in the FY 2018 as we continued to push ahead with the LTE roll-out. It fell **-13.7% year-on-year to EUR 226 million** in the fourth quarter, as we largely finalised our network consolidation. We also saw approx. EUR 50 million of Capex-related incremental synergies in 2018.

Operating cash flow (OIBDA minus CapEx[20]) reached EUR 831 million in 2018, a reduction of -0.5% year-on-year.

Free cash flow (FCF)[21] amounted to EUR 733 million in 2018 compared to EUR 680 million in the prior year, up +7.8% year-on-year.

[19] Exceptional effects were EUR 84 million of restructuring expenses and EUR 2 million of consultancy fees in the context of corporate transactions in the period January to December 2018; regulatory effects amounted to EUR -54 million in the period January to December 2018

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

[21] 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 -79 million in 2018, Working capital was driven by prepayments for leased line and mobile site rental (EUR +68 million), a decrease in Capex payables (EUR -21 million), a reduction in restructuring provisions (EUR -17 million) as well as other working capital movements in the amount of EUR -110 million. The latter include silent factoring transactions for handset receivables in the gross amount of EUR 629 million which were offset by other working capital movements including a reduction in trade and other payables.

Consolidated net financial debt[22] was up EUR 1,129 million at the end of 2018 compared to EUR 1,064 million in 2017. The leverage ratio came to 0.6x, in line with our leverage target of at or below 1.0x.

[22] 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	Q4	Q1	Q2	Q3	Q4
Final clients accesses	47,011	47,172	47,268	47,089	48,988	49,479	49,105	47,416
Fixed telephony accesses	1,969	1,959	1,966	1,996	2,000	1,988	1,979	1,980
Internet and data accesses	2,266	2,251	2,253	2,275	2,313	2,297	2,284	2,281
Narrowband	206	203	198	195	217	215	212	209
Broadband	2,060	2,048	2,054	2,080	2,095	2,082	2,072	2,072
thereof VDSL	*1,243*	*1,330*	*1,389*	*1,441*	*872*	*960*	*1,063*	*1,152*
Mobile accesses	42,777	42,962	43,049	42,819	44,675	45,194	44,842	43,155
Prepaid	21,346	21,198	21,052	20,543	23,967	24,289	23,754	21,881
Postpaid	21,431	21,764	21,997	22,276	20,708	20,905	21,088	21,274
thereof M2M	*1,067*	*1,103*	*1,135*	*1,188*	*830*	*897*	*969*	*1,027*
Postpaid (%)	50.1%	50.7%	51.1%	52.0%	46.4%	46.3%	47.0%	49.3%
Smartphone penetration (%) (1)	62.0%	63.5%	64.9%	66.0%	57.0%	57.4%	58.7%	60.9%
LTE customers (2)	16,094	16,596	17,157	18,434	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**	**47,089**	**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 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.

	2018				2017			
(in thousands)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Mobile accesses on a market comparable basis (4)	45,285	45,201	45,383	45,256	47,861	48,388	48,372	45,918
Prepaid	23,508	23,122	23,039	22,627	26,770	27,150	26,906	24,300
Postpaid	21,777	22,079	22,344	22,629	21,091	21,237	21,467	21,617
Mobile accesses on a market comparable basis (4) without M2M	44,218	44,097	44,248	44,068	47,031	47,491	47,403	44,891

(4) At the beginning of the year 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	Q4	Q1	Q2	Q3	Q4
ARPU (in euros) (1)	9.8	10.0	10.2	10.1	9.6	9.7	9.8	9.8
Prepaid	5.6	5.8	6.0	6.0	5.0	5.2	5.2	5.6
Postpaid excl. M2M	14.8	14.8	15.0	14.8	15.5	15.5	15.7	15.2
Data ARPU (in euros)	5.4	5.6	5.8	5.8	5.4	5.7	5.6	5.6
% non-SMS over data revenues (2)	85.0%	84.1%	85.9%	86.3%	79.4%	81.7%	80.6%	81.4%
Voice Traffic (m min) (3)	23,341	24,554	23,899	25,616	23,966	23,709	23,006	23,667
Data Traffic (TB) (4)	126,040	151,620	165,440	179,250	86,423	98,612	110,684	122,367
Churn (%)	2.2%	1.8%	2.0%	2.3%	1.9%	1.9%	2.1%	3.1%
Postpaid churn (%) excl. M2M	1.7%	1.5%	1.6%	1.8%	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 GROUP

CONSOLIDATED INCOME STATEMENT & SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

	1 October to 31 December				1 January to 31 December			
(Euros in millions)	2018	2017	Change	Change %	2018	2017	Change	Change %
Revenues	**1,965**	**1,904**	**61**	**3.2**	**7,320**	**7,296**	**24**	**0.3**
Revenues (excl. regulatory effects 2018)	**1,970**	**1,904**	**66**	**3.5**	**7,364**	**7,296**	**68**	**0.9**
Mobile business	**1,775**	**1,688**	**87**	**5.2**	**6,539**	**6,415**	**125**	**1.9**
Mobile service revenues	1,330	1,332	(2)	(0.2)	5,267	5,287	(20)	(0.4)
Mobile service revenues (excl. regulatory effects 2018)	1,335	1,332	2	0.2	5,310	5,287	23	0.4
Handset revenues	445	356	89	25.2	1,272	1,128	144	12.8
Fixed business	**185**	**208**	**(23)**	**(11.0)**	**767**	**862**	**(95)**	**(11.0)**
Other revenues	**5**	**8**	**(3)**	**(39.1)**	**13**	**19**	**(6)**	**(30.1)**
Other income	**59**	**62**	**(3)**	**(4.1)**	**177**	**159**	**17**	**11.0**
Operating expenses	**(1,551)**	**(1,469)**	**(83)**	**5.6**	**(5,700)**	**(5,670)**	**(29)**	**0.5**
Supplies	(712)	(637)	(76)	11.9	(2,459)	(2,396)	(64)	2.7
Personnel expenses	(159)	(171)	12	(7.1)	(610)	(642)	32	(5.0)
Impairment losses in accordance with IFRS 9 (1)	(25)	(15)	(10)	70.2	(79)	(73)	(5)	7.3
Other expenses	(655)	(647)	(9)	1.3	(2,552)	(2,560)	8	(0.3)
thereof Group fees	(9)	(6)	(3)	52.6	(37)	(36)	(1)	2.8
Operating income before depreciation and amortization (OIBDA)	**473**	**497**	**(24)**	**(4.8)**	**1,797**	**1,785**	**12**	**0.7**
OIBDA margin	24.1%	26.1%		(2.0%-p.)	24.6%	24.5%		0.1%-p.
Exceptional effects (2)	(38)	(2)	(36)	1,595.6	(87)	(55)	(31)	56.6
OIBDA adjusted for exceptional effects (2)	**511**	**499**	**12**	**2.3**	**1,884**	**1,840**	**43**	**2.4**
OIBDA margin adjusted for exceptional effects	26.0%	26.2%		(0.2%-p.)	25.7%	25.2%		0.5%-p.
OIBDA adjusted for exceptional effects (2) (excl. regulatory effects 2018)	**517**	**499**	**18**	**3.6**	**1,938**	**1,840**	**98**	**5.3**
OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2018)	26.3%	26.2%		0.0%-p.	26.3%	25.2%		1.1%-p.
Depreciation and amortization	(571)	(429)	(142)	33.0	(1,987)	(1,869)	(118)	6.3
Operating income	**(98)**	**68**	**(166)**	**(>100,0)**	**(190)**	**(84)**	**(106)**	**>100,0**
Net financial income (expense)	**(11)**	**(8)**	**(3)**	**43.4**	**(42)**	**(34)**	**(9)**	**26.0**
Profit (loss) before tax for the period	**(109)**	**60**	**(169)**	**(>100,0)**	**(233)**	**(118)**	**(114)**	**97.0**
Income tax	2	(262)	265	(>100,0)	3	(262)	265	(>100,0)
Total profit for the period	**(107)**	**(203)**	**96**	**(47.2)**	**(230)**	**(381)**	**150**	**(39.5)**
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)	(0)	0	(47.2)	(0)	(0)	0	(39.5)
CapEx total (4)	(226)	(262)	36	(13.7)	(966)	(950)	(16)	1.7
thereof CapEx (5)	(226)	(253)	27	(10.8)	(958)	(932)	(26)	2.8
thereof additions from capitalised finance leases (6)	(1)	(9)	9	(93.3)	(8)	(18)	10	(55.5)
Operating cash flow (OIBDA-CapEx) (5)	247	244	3	1.3	839	853	(14)	(1.7)
Free cash flow pre dividends and payments for spectrum (7)	432	412	20	4.9	733	680	53	7.8

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

(2) Exceptional effects as of 31 December 2018 include restructuring expenses amounting to EUR 84m and acquisition related consultancy costs amounting to EUR 2m. 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.

(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) Excluding additions from business combinations and capitalised costs on borrowed capital for investments in spectrum.

(5) CapEx total excluding additions from captalised finance leases.

(6) From Q2 2018 on the definition of finance lease additions was updated leading to a cumulated reduction amounting to EUR 11m.

(7) 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 October to 31 December			1 January to 31 December		
(Euros in millions)	IFRS 15	Adjustments	IAS 18	IFRS 15	Adjustments	IAS 18
Revenues	**1,965**	**(12)**	**1,953**	**7,320**	**(30)**	**7,290**
Revenues (excl. regulatory effects 2018)	**1,970**	**(12)**	**1,958**	**7,364**	**(30)**	**7,334**
Mobile business	**1,775**	**(11)**	**1,764**	**6,539**	**(28)**	**6,512**
Mobile service revenues	1,330	(8)	1,322	5,267	(22)	5,245
Mobile service revenues (excl. regulatory effects 2018)	1,335	(8)	1,327	5,310	(22)	5,288
Handset revenues	445	(3)	442	1,272	(6)	1,266
Fixed business	**185**	**(4)**	**182**	**767**	**(12)**	**755**
Other revenues	**5**	**2**	**7**	**13**	**10**	**23**
Other income	**59**	**–**	**59**	**177**	**–**	**177**
Operating expenses	**(1,551)**	**4**	**(1,548)**	**(5,700)**	**(5)**	**(5,705)**
Supplies	(712)	–	(712)	(2,459)	–	(2,459)
Personnel expenses	(159)	–	(159)	(610)	–	(610)
Impairment losses in accordance with IFRS 9 (1)	(25)	0	(25)	(79)	1	(77)
Other expenses	(655)	3	(652)	(2,552)	(7)	(2,559)
thereof Group fees	(9)	–	(9)	(37)	–	(37)
Operating income before depreciation and amortization (OIBDA)	**473**	**(9)**	**464**	**1,797**	**(35)**	**1,762**
OIBDA margin	24.1%		23.8%	24.6%		24.2%
Exceptional effects (2)	(38)	–	(38)	(87)	–	(87)
OIBDA adjusted for exceptional effects (2)	**511**	**(9)**	**502**	**1,884**	**(35)**	**1,849**
OIBDA margin adjusted for exceptional effects	26.0%		25.7%	25.7%		25.4%
OIBDA adjusted for exceptional effects (2) (excl. regulatory effects 2018)	**517**	**(9)**	**509**	**1,938**	**(35)**	**1,903**
OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2018)	26.3%		26.0%	26.3%		25.9%
Depreciation and amortization	(571)	–	(571)	(1,987)	–	(1,987)
Operating income	**(98)**	**(9)**	**(107)**	**(190)**	**(35)**	**(225)**
Net financial income (expense)	**(11)**	**0**	**(11)**	**(42)**	**2**	**(41)**
Profit (loss) before tax for the period	**(109)**	**(8)**	**(118)**	**(233)**	**(33)**	**(266)**
Income tax	2	3	5	3	3	5
Total profit for the period	**(107)**	**(5)**	**(112)**	**(230)**	**(31)**	**(261)**

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

(2) Exceptional effects as of 31 December 2018 include restructuring expenses amounting to EUR 84m and acquisition related consultancy costs amounting to EUR 2m.

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of December 31 2018	2017	Change	% Change
NON-CURRENT ASSETS	**11,061**	**11,940**	**(880)**	**(7.4)**
Goodwill	1,960	1,960	–	–
Other intangible assets	4,727	5,485	(759)	(13.8)
Property, plant and equipment	3,793	4,041	(248)	(6.1)
Trade and other receivables	70	69	1	1.0
Other financial assets	101	94	8	8.2
Other non-financial assets	206	129	77	59.8
Deferred tax assets	204	162	42	26.0
CURRENT ASSETS	**2,736**	**2,160**	**576**	**26.7**
Inventories	261	105	156	>100,0
Trade and other receivables	1,301	1,265	36	2.9
Other financial assets	9	17	(8)	(46.1)
Other non-financial assets	413	186	227	>100,0
Cash and cash equivalents	751	587	164	28.0
Total assets = Total equity and liabilities	**13,796**	**14,100**	**(304)**	**(2.2)**
EQUITY	**7,569**	**8,297**	**(728)**	**(8.8)**
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	4,594	5,323	(728)	(13.7)
Equity attributable to owners of the company	7,569	8,297	(728)	(8.8)
NON-CURRENT LIABILITIES	**2,901**	**2,141**	**760**	**35.5**
Interest-bearing debt	2,004	1,268	736	58.1
Trade and other payables	19	19	0	1.2
Provisions	526	599	(74)	(12.3)
Deferred income	176	255	(78)	(30.7)
Deferred tax liabilities	177	1	176	>100,0
CURRENT LIABILITIES	**3,326**	**3,662**	**(336)**	**(9.2)**
Interest-bearing debt	145	637	(492)	(77.3)
Trade and other payables	2,419	2,224	196	8.8
Provisions	188	142	46	32.4
Other non-financial liabilities	39	132	(93)	(70.6)
Deferred income	535	527	8	1.6

Financial Data				
Net financial debt (1)	1,129	1,064	65	6.1
Leverage (2)	0.6x	0.6x	0.0	8.5

(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.

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TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET DEBT

Unaudited

(Euros in million)	2018 Jan - Mar	2018 Jan - June	2018 Jan - Sept	2018 Jan - Dec	2017 Jan - Mar	2017 Jan - June	2017 Jan - Sept	2017 Jan - Dec
OIBDA	**394**	**863**	**1,324**	**1,797**	**390**	**841**	**1,288**	**1,785**
- CapEX (1)	(182)	(420)	(732)	(958)	(208)	(433)	(679)	(932)
= Operating Cashflow (OIBDA-CapEx) (1)	**212**	**443**	**592**	**839**	**181**	**409**	**609**	**853**
- Other non-cash income / expenses	–	–	(15)	(15)	–	–	–	–
+/- Change in working capital	**(184)**	**(343)**	**(253)**	**(79)**	**(177)**	**(326)**	**(322)**	**(132)**
+/- (Gains) losses from sale of assets	(0)	(0)	(0)	(0)	(1)	(1)	(1)	**(30)**
+/- Proceeds from sale of companies	–	–	–	21	–	–	–	–
+/- Proceeds from sale of fixed assets and other effects	0	0	0	0	1	1	1	31
+ Net interest payments	(16)	(19)	(22)	(33)	(14)	(15)	(16)	(27)
+ Taxes paid	–	–	–	–	0	–	–	–
+/- Proceeds / Payments on financial assets	4	3	0	1	8	9	5	14
+ Acquisition of companies net of cash acquired	(0)	(0)	(1)	(1)	–	(9)	(9)	(29)
= Free cash flow pre dividends and payments for spectrum (2)	**15**	**84**	**301**	**733**	**(1)**	**68**	**268**	**680**
- Payments for spectrum	–	–	–	–	–	–	(111)	(111)
- Dividends	–	(773)	(773)	(773)	–	(744)	(744)	(744)
= Free cash flow post dividends and payments for spectrum	**15**	**(689)**	**(472)**	**(40)**	**(1)**	**(675)**	**(586)**	**(175)**
Net financial debt at the beginning of the period	1,064	1,064	1,064	1,064	798	798	798	798
+ Other changes in net financial debt	35	44	55	25	37	101	129	91
= Net financial debt at the end of the period (incl. Restricted cash)	**1,085**	**1,797**	**1,591**	**1,129**	**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 Jan - Mar	2018 Jan - Jun	2018 Jan - Sept	2018 Jan - Dec	2017 Jan - Mar	2017 Jan - Jun	2017 Jan - Sept	2017 Jan - Dec
= Free cash flow pre dividends and payments for spectrum (Euros in million	15	84	301	733	(1)	68	268	680
Number of shares (in millions)	2,975	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	0.25	(0.00)	0.02	0.09	0.23

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TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

	As of 31 December		
(Euros in millions)	2018	2017	Change %
A Liquidity	**751**	**587**	**28.0**
B Current financial assets (1)	**182**	**177**	**2.8**
C Current financial debt (2)	**145**	**635**	**(77.2)**
D=C-A-B Current net financial debt	**(788)**	**(129)**	**>100,0**
E Non-current financial assets (1)	**87**	**75**	**15.6**
F Non-current financial debt (2)	**2,004**	**1,268**	**58.1**
G=F-E Non-current net financial debt	**1,917**	**1,193**	**60.7**
H=D+G Net financial debt (3)	**1,129**	**1,064**	**6.1**

(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.

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