MUNICH, 26 October 2016

Preliminary results for January to September 2016

Telefónica Deutschland shows strong operating momentum with launch of O_2 Free and generates incremental synergies; full-year outlook reiterated

- **Completion of postpaid customer migration; new premium portfolio O_2 Free successfully launched on 5 October with a focus on 'more-for-more'**
- **Underlying mobile service revenue (MSR) excluding regulatory effects improving versus prior quarter; continued headwinds from partner trading**
- **OIBDA[1] growth of +3.3% year-on-year driven by operating cash flow synergies of approx. EUR 125 million**
- **Reiterating full-year outlook for MSR, OIBDA, CapEx and synergies**

Third quarter 2016 operational & financial highlights

- **Mobile postpaid** saw 426 thousand net additions[2], mainly driven by strong partner trading. Contract churn[3] improved by 0.2 percentage points year-on-year to 1.5% on the back of successful retention activities.
- **Mobile prepaid** posted 231 thousand net additions[2] driven by summer seasonality in the partner business.
- The **LTE customer base** came to 10.6 million access at the end of September, a strong quarter-on-quarter increase of 12.4% reflecting the continued high demand from customers for high speed mobile access. **Data usage** for LTE customers in O_2 consumer postpaid continued to benefit from the demand for music and video streaming services and grew 15% quarter-on-quarter to 1.6 GB per month, up 46% year-on-year.
- The **retail DSL** business remained stable with a net loss of 2 thousand lines, while VDSL broadband demand continues strong with 63 thousand net additions.
- **Revenues** showed a slightly improving trend with a year-on-year decline of 5.2% to EUR 1,876 million compared to -5.9% year-on-year in the second quarter, primarily reflecting lower year-on-year mobile services and handset revenues, with the latter driven by a marked slowdown in the demand for handsets.

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[1] Excluding exceptional and special effects. For the period January to September 2016 exceptional effects include restructuring expenses amounting to EUR 59 million (EUR 66 million in the same period of 2015) and the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352 million, while in the same period of 2015 a one-off gain from the sale of yourfone GmbH was registered. For the period January to September 2016 special effects consist of the impact of the Telxius deal on OIBDA (EUR -15 million in the first nine months of 2016) resulting primarily from higher operating lease expenses starting in May 2016.

[2] Excluding reclassification of 172 thousand customers from prepaid to postpaid as part of the customer migration activities

[3] Starting 1 January 2014 M2M SIM-cards are excluded from calculation for postpaid churn and ARPU.

- **Mobile service revenues (MSR)** amounted to EUR 1,394 million, down 1.8% year-on-year and -0.9% excluding the effects from mobile termination and roaming rate cuts. MSR continues to be affected by the retail to wholesale shift resulting from price competition in the non-premium segment, plus legacy base effects. Underlying trends improve versus the prior quarter (-1.5% excluding regulatory effects), driven by a sustained focus on retention and the development of the customer base.
- **OIBDA** excluding exceptional and special effects[4] grew 3.0% year-on-year to EUR 467 million, as a result of approx. EUR 30 million of savings from incremental synergies mainly relating to employee restructuring and site decommissioning.
- **CapEx**[5] came to EUR 314 million, up 30.3% year-on-year, driven by phasing effects and intensified 4G network integration efforts in the second half of 2016.
- **Consolidated net financial debt**[6] was EUR 1,195 million at the end of September 2016. Leverage stood at 0.7x, in line with the stated target of at or below 1.0x.

[4] Excluding exceptional and special effects. For the period July to September 2016 exceptional effects include restructuring expenses amounting to EUR 22 million (EUR 63 million in the same period of 2015) and the special effect consist of the impact of the Telxius deal on OIBDA (EUR -9 million in the third quarter of 2016) resulting primarily from higher operating lease expenses starting in May 2016.
[5] Excluding capitalised costs on borrowed capital in the first nine months of 2016 for investments in spectrum in June 2015.
[6] 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

Telefónica Deutschland continues to execute on the integration of E-Plus, delivering milestones and the targeted synergies. At the same time, we are moving the focus from integration to longer-term, strategic transformation, gradually building our vision of the leading digital onlife telco in Germany.

- Telefónica Deutschland continues to execute the second wave of its FTE restructuring programme, which encompasses 80% of the total targeted reduction of 1,600 FTEs by 2018, with a subsequent significant reduction in personnel expenses over time.
- We have also now completed the postpaid customer migration of the former BASE and E-Plus customers to our premium brand O_2 as of the end of September. We now focus on the prepaid customer migration, which we expect to complete by the end of the year.
- Having started the physical integration of the 4G networks of O_2 and E-Plus on 1 July, Telefónica Deutschland is pushing ahead quickly, with a region-by-region approach and a prioritisation of metropolitan areas to ensure an effective and fast transformation. We are also now executing the decommissioning of mobile sites to reach our target state of approx. 25 thousand mobile stations, thereby generating additional synergies.
- We continue to optimise other infrastructure by further reducing our shop and facility footprint. We have now completed approx. two-thirds of our targeted shop reduction and approx. a third of our targeted facility reduction.

Transformation: New business concepts and opportunities beyond connectivity

Parallel to our core business, we are working on innovative digital solutions.

In the new Advanced Data Analytics (ADA) division, the company is focusing on the considerable social and economic benefits from the analysis of large data pools. Big data will drive the business solutions of the future. Our 44 million mobile customer base generates four billion data points per day. We are also committed to ensuring that our customers retain sovereignty over their data and can shape their digital life with confidence.

- We subject customer data to an elaborate anonymisation procedure before developing data statistics. Our Data Anonymisation Platform (DAP) ensures that customer data cannot be traced back to any individual. The platform has been certified by the TÜV Saarland.
- We are also currently running research projects in Stuttgart and Nuremberg to evaluate the potential application of learnings from mobile data analysis to the optimisation of traffic planning and the prevention of air pollution.

With our new Internet of Things (IoT) division we are focusing on the optimisation of business processes by connecting machines and vehicles to enable them to communicate with each other. Here we are currently building an IoT platform which helps companies develop their own IoT propositions in a fast and cost-efficient manner.

Commercial update

In the commercial space Teléfonica Deutschland was able to maintain market momentum throughout the third quarter in a highly competitive market environment. We launched our new premium portfolio O_2 Free on 5 October with a focus on 'more-for-more'. We also remain well-positioned via a range of retail brands and partnerships in the non-premium segment. At the same time, various independent surveys showed that Telefónica Deutschland is progressing well with the development of the mobile network.

- Telefónica Deutschland successfully launched the new O_2 Free portfolio for retail and business customers. Our 4G smartphone proposition offers more content for higher price points. We thus aim to satisfy growing customer demand for more data and at the same time monetise this trend. All tariffs include LTE at maximum speed up to the data allowance included, as well as a 3G flat throttled to 1 Mbps after exceeding the 4G allowance. Existing O_2 Blue All-in customers can buy an upgrade package. All tariffs include European roaming up to 1GB.

- Independent, customer perception-based network tests have confirmed significant quality improvements of the network, even during the 4G network integration.

  Connect 'Netzwetter' confirmed this improvement as well as attesting Telefónica Deutschland the best signal strength across all technologies. Connect also showed that voice drop call rates have reduced significantly to 0.3%.

  The Telefónica Deutschland UMTS network again ranked second place in the SMARTPHONE Magazine test, specifically showing a significant improvement of download speeds.

- We also continue to develop our products and services portfolio to add value for our customers.

- Our O_2 Banking App won the 'Diamond Star' award from Handelsblatt and Euroforum in the category 'digital retail banking' for outstanding digital innovation, showing our company's focus on innovation and the implementation of digital trends in everyday life. The O_2 Banking App is the No.1 of direct bank apps in the google appstore category "Finance" in October.

  We are also continuing to develop our O_2 TV and video app with the intention of integrating Live TV, Catch-up TV and Video on Demand services. We will offer personalised recommendations based on viewing behaviour as well as guided and direct search options. There will also be direct links to partner content from within the app, including exclusive services for O_2 customers.

Financial outlook 2016

We reiterate our outlook for the financial year 2016, as published in the Interim Group Report 2016 (page 47).

	Base line 2015 (EUR million)	**Outlook 2016** (year-on-year)
MSR	5,532	Slightly negative
OIBDA Before special & exceptional effects	1,760	Low to mid single-digit % growth
CapEx[7]	1,032	Mid to high single-digit % growth
Dividend[8]	EUR 0.24/share	Proposal: EUR 0.25/share

[7] Excluding investments in spectrum in June 2015 amounting to EUR 1,198m (including capitalised costs on borrowed capital).

[8] Proposal to the Annual General Meeting 2017.

Operating performance in the first nine months of 2016

Telefónica Deutschland's **access base** grew by 1.1% year-on-year to **49.2 million** as of the end of September 2016. The mobile customer base stood at 44.1 million, a 1.8% year-on-year increase.

Mobile postpaid continued to show good momentum in the market, registering 945 thousand net additions[9] in the nine months period and 426 thousand[9] in the third quarter of 2016 versus 511 thousand and 169 thousand respectively in the same periods of 2015. Partner brands showed an increasingly strong performance, delivering 53% of postpaid gross additions in for January to September and 59% in the third quarter. As a result, the postpaid customer base was up 4.7% year-on-year to 20.2 million accesses as of the end of September, 45.8% of total mobile customers (+1.3 percentage points year-on-year).

Mobile prepaid posted 107 thousand net disconnections for the nine months period but 231 thousand net additions[9] in the third quarter, mainly driven by summer seasonality in the partner business. As a result the customer base fell 0.5% year-on-year to 23.9 million accesses.

Postpaid churn[10] on an underlying basis improved by 0.1 percentage points year-on-year to 1.6% in the period until September and by 0.2 percentage points to 1.5% in the third quarter. The O_2 consumer brand reported a stable churn of only 1.3% for both periods, a reflection of the success of our continued retention focus even during the ongoing postpaid customer migration.

Smartphone penetration[11] was 59.2% at the end of September, up 6.3 percentage points year-on-year and rose across all brands driven by the steady increase of data demand both in the postpaid and the prepaid customer base. Within the O_2 consumer brand smartphone penetration for postpaid customers stood at 77.7% as of 30 September 2016.

The **LTE customer base** was up 12.4% quarter-on-quarter to 10.6 million as of 30 September 2016, reflecting the continued high demand for high-speed mobile access from customers.

Mobile ARPU came to EUR 10.4 in the in the period until September (-3.6% year-on-year) and EUR 10.5 for the third quarter 2016 (-3.8% year-on-year, stable quarter-on-quarter). The postpaid ARPU[10] came to EUR 16.6 both for January to September and the third quarter, a year-on-year decline of 3.9% and 4.7% respectively. This decline reflects the increasing share of wholesale customers in the customer base. The prepaid ARPU came to EUR 5.8 for the nine months period (-1.1% year-on-year) and EUR 5.9 in the third quarter (-1.8% year-on-year), partly driven by prepaid to postpaid migration.

VDSL saw 215 thousand net additions up to September 2016 (+14.6% year-on-year) and 63 thousand in the third quarter (-2.5% year-on-year) as a result of continued solid demand for VDSL broadband. Retail DSL thus posted 4 thousand positive net additions in the nine months period (-2 thousand in the third quarter). The **total retail DSL customer base** remains stable at approximately 2.1 million.

[9] Excluding reclassification of 172 thousand customers from prepaid to postpaid as part of the customer migration activities
[10] Starting 1 January 2014 M2M SIM-cards are excluded from calculation for postpaid churn and ARPU.
[11] Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M and data-only accesses.

Fixed wholesale accesses continued to fall with 181 thousand net disconnections until September and 59 thousand in the third quarter, as a result of the progressive decommissioning of the ULL (unbundled local loop) broadband access infrastructure.

Telefónica Deutschland's financial performance in the first nine months of 2016

Revenues totalled EUR 5,567 million until September, 4.5% lower year-on-year, mainly as a result of the mobile service and handset revenues declines. The third quarter saw a slightly improved trend of -5.2% year-on-year to EUR 1,876 million versus -5.9% year-on-year recorded in the second quarter of 2016.

Mobile service revenues (MSR) fell 1.6% year-on-year for January to September 2016 to EUR 4,088 million and -1.8% in the third quarter to EUR 1,394 million. This is a reflection of the competitive intensity in the partner business, which also drives a slightly higher share of wholesale revenues. We continue to focus on the development of our customer base through retention and upselling mechanisms. In addition, Telefónica Deutschland continues to see regulatory headwinds after the MTR cut from EURc 1.72 to EURc 1.66 in December 2015 and a stepdown in the glidepath for European roaming fees in April 2016. Excluding those regulatory effects, MSR fell -1.2% and -0.9% for the nine months and third quarter period, respectively.

Mobile data revenues totalled EUR 2,245 million in the nine months period (+5.5% year-on-year) and EUR 767 million for July to September (+5.4% year-on-year), as sustained revenue growth in non-SMS data outweighs the continuous decline in SMS revenues. Mobile data revenues share over MSR was up 3.8 percentage points year-on-year to 55.1% in the third quarter. **Non-SMS data** revenues were EUR 1,717 million (+13.2% year-on-year) in the January to September period and EUR 592 million in the third quarter (+13.2% year-on-year). As a result, share of non-SMS data revenues over total data revenues in the third quarter was up 5.3 percentage points year-on-year to 77.2% in the quarter.

Handset revenues came in 18.8% lower year-on-year at EUR 720 million for January to September 2016 and 24.5% lower at EUR 227 million in the third quarter. This reflects lower demand from customers and longer replacement cycles in line with broader European market trends.

Fixed revenues fell by 4.4% year-on-year in the nine months period to EUR 743 million and by 4.3% year-on-year in the third quarter to EUR 245 million with continued good traction for VDSL in the retail business. On the one hand wholesale DSL continued to decline as we are dismantling our legacy infrastructure, while on the other hand we benefitted from spot trading opportunities in the carrier voice business. DSL retail revenue contributed -8.0% to the overall quarterly decline in fixed on the back of a broadly stable year-on-year customer base and the phasing of promotional effects.

Other income was EUR 469 million for January to September with the year-on-year growth mainly resulting from the capital gain related to the sale of the passive tower infrastructure in the second quarter of 2016.

Operating expenses including restructuring costs amounted to EUR 4,430 million in the nine months of 2016, down 6.0% year-on-year mainly as a result of the savings from integration projects. For the period July to September, operating expenses came to EUR 1,473 million, 9.5% lower year-on-year. Restructuring costs of EUR 59 million in the period until September and EUR 22 million in the third quarter were mainly driven by the leaver programme and network consolidation.

- **Supplies** came to EUR 1,778 million, 9.5% lower year-on-year in the nine months period and EUR 572 million, down 13.3% year-on-year in the third quarter. This was mainly driven by lower hardware costs of sales (41% of supplies in 2016 vs 47% in the first nine months of 2015), while connectivity-related cost of sales were slightly higher in percentage terms (50% of supplies in the period January to September 2016 vs 47% in the same period of prior year).
- **Personnel expenses** totalled EUR 488 million in the period until September (EUR 155 million in the third quarter), down 2.4% year-on-year mostly on the back of the successful execution of the employee restructuring programme in 2015. This includes restructuring costs of EUR 37 million for the nine months period and EUR 9 million for the third quarter. Excluding restructuring costs, personnel expenses fell 9.8% year-on-year in the nine month period.
- **Other operating expenses** were EUR 2,164 million, down 3.8% year-on-year and included EUR 15 million from higher operating lease expenses related to the sale of tower assets. In the third quarter other operating expenses amounted to EUR 746 million (-8.1% year-on-year) with commercial and non-commercial costs contributing 52% and 44% respectively. Savings resulted from 2015 synergy initiatives as well as incremental gains in the third quarter, but were partly offset by commercial and other investments related to customer and brand migration activities in the first half of 2016.

Operating Income before Depreciation and Amortisation (OIBDA) in the period up to September 2016 benefitted from the net capital gain related to the sale of the Company's passive tower infrastructure in the second quarter of 2016 of EUR 352 million as well as the before-mentioned cost reductions. In reported terms OIBDA amounted to EUR 1,606 million in the nine months period and EUR 436 million in the third quarter.

OIBDA excluding exceptional and special effects[12] grew 3.3% year-on-year to EUR 1,327 million in the first nine month of 2016 and 3.0% year-on-year to EUR 467 million in the third quarter. In-year savings from Opex & revenue-related integration activities amounted to approximately EUR 125 million in the nine months period and approximately EUR 30 million in the third quarter. The OIBDA margin increased by 1.8 percentage points year-on-year to 23.8% for the nine months period and 2.0 percentage points year-on-year in the third quarter to 24.9%.

Group fees totalled EUR 46 million in the nine months period and EUR 20 million in the third quarter of the year, with the latter resulting from phasing.

[12] For the period January to September 2016 exceptional effects include restructuring expenses amounting to EUR 59 million (EUR 66 million in the same period of 2015) and the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352 million, while in the same period of 2015 a one-off gain from the sale of yourfone GmbH was registered. For the period January to September 2016 special effects consist of the impact of the Telxius deal on OIBDA (EUR -15 million in the first nine months of 2016) resulting primarily from higher operating lease expenses starting in May 2016.

Depreciation & Amortisation amounted to EUR 1,602 million in the first nine month of 2016, a 3.7% year-on-year increase compared to the same period of 2015, resulting from higher software investments due to IT integration measures and the accelerated amortisation of certain software assets.

Operating income for the period January to September 2016 came to EUR 4 million on the back of the net capital gain from the sale of tower assets. However, depreciation & amortisation charges still exceed OIBDA excluding exceptional and special effects.

The net financial result for the nine months period was negative in the amount of EUR 26 million mainly resulting from the interest costs of various financing activities including the bonds issued in November 2013 and February 2014, a promissory note executed in March 2015, a syndicated credit facility issued in March 2016 as well as interest expenses from finance lease obligations.

Telefónica Deutschland did not report **income tax expense** for January to September.

The result for the first nine months of 2016 came to negative EUR 22 million.

CapEx was EUR 743 million (+5.7% year-on-year) in the period up to September and EUR 314 million in the third quarter of 2016 (+30.3% year-on-year) on the back of the expected back-end loaded CapEx phasing through the year, driven by the network consolidation.

Operating cash flow (OIBDA minus CapEx)[13] came to EUR 863 million for the first nine months of 2016. Excluding exceptional and special effects[14], operating cash flow was EUR 584 million (+0.4% year-on-year).

Free Cash Flow (FCF)[15] for the first nine months of 2016 reached EUR 951 million and includes the proceeds from the sale of passive tower infrastructure to Telxius of EUR 587 million.

Working capital movements of EUR -125 million were mainly driven by prepayments (mainly for rental contracts) of EUR 55 million, changes in restructuring provisions amounting to EUR 62 million as well as other working capital movements, which include silent factoring transactions for O_2 myHandy receivables.

The **consolidated net financial debt[16]** stood at EUR 1,195 million at the end of September 2016, maintaining a leverage ratio of 0.7x. The decrease over the nine months period mainly results from the fact that the FCF including the before mentioned proceeds from the sale of tower assets amounted to EUR 951 million and exceeded the EUR 714 million dividend payment for the financial year 2015 paid in May 2016 and payments relating to spectrum amounting to EUR 114 million.

[13] Excluding capitalised costs on borrowed capital in the first nine months of 2016 for investments in spectrum in June 2015

[14] For the period January to September 2016 exceptional effects include restructuring expenses amounting to EUR 59 million (EUR 66 million in the same period of 2015) and the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352 million, while in the same period of 2015 a one-off gain from the sale of yourfone GmbH was registered. For the period January to September 2016 special effects consist of the impact of the Telxius deal on OIBDA (EUR -15 million in the first nine months of 2016) resulting primarily from higher operating lease expenses starting in May 2016.

[15] Free cash flow pre dividends and payments for spectrum as well as pre-acquisition of E-Plus (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities.

[16] Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes payables for the spectrum auction.

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

	1 July to 30 September			1 January to 30 September		
(Euros in millions)	2016	2015	% Chg	2016	2015	% Chg
Revenues	1,876	1,979	(5.2)	5,567	5,828	(4.5)
Operating income before depreciation and amortisation (OIBDA), before exceptional effects (1) and before special effects (2)	467	454	3.0	1,327	1,285	3.3
OIBDA before exceptional effects and special effects-margin	*24.9%*	*22.9%*	*2.0%-p.*	*23.8%*	*22.0%*	*1.8%-p.*
Special effects (2)	(9)	–	–	(15)	–	–
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)	458	454	1.0	1,312	1,285	2.1
OIBDA before exceptional effects-margin	*24.4%*	*22.9%*	*1.5%-p.*	*23.6%*	*22.0%*	*1.5%-p.*
Exceptional effects (1)	(22)	(66)	(67)	294	(51)	(>100,0)
Operating income before depreciation and amortisation (OIBDA)	436	388	12.4	1,606	1,234	30.2
OIBDA margin	*23.3%*	*19.6%*	*3.7%-p.*	*28.8%*	*21.2%*	*7.7%-p.*
Group fees	20	15	30.2	46	38	19.6
Operating income before depreciation and amortisation (OIBDA) and before group fees	456	403	13.1	1,652	1,272	29.9
OIBDA before group fees margin	*24.3%*	*20.4%*	*3.9%-p.*	*29.7%*	*21.8%*	*7.8%-p.*
Operating income	(96)	(124)	(22.2)	4	(312)	(>100,0)
Total profit (loss) for the period	(105)	(134)	(22.2)	(22)	(347)	(93.8)
Basic earnings per share (in euros) (3)	(0.04)	(0.05)	(22.2)	(0.01)	(0.12)	(93.8)
CapEx (4)	(314)	(241)	30.3	(743)	(704)	5.7
Operating cash flow (OIBDA-CapEx) (4)	123	147	(16.8)	863	530	62.8
Free cash flow pre dividends and payments for spectrum (5) and pre-acquisition of E-Plus net of cash acquired	352	247	42.3	951	350	>100,0
Free cash flow pre dividends and payments for spectrum (5)	352	247	42.3	951	372	>100,0

(1) Exceptional effects as of 30 September 2016 include restructuring expenses amounting to EUR 59m and the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352m.

(2) Special effects as of 30 September 2016 consist of the Telxius deal's OIBDA impact resulting primarily from higher operating lease expenses starting in May 2016.

(3) Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 2,975m for the years 2016 and 2015.

(4) Excluding investments in spectrum in June 2015 and excluding capitalised costs on borrowed capital.

(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.

Note:
OIBDA margin, OIBDA before group fees margin and OIBDA before exceptional effects-margin are calculated as percentage of total revenues, respectively.

TELEFÓNICA DEUTSCHLAND GROUP

	2016			2015			
(in thousands)	Q1	Q2	Q3	Q1	Q2	Q3	Q4
Final clients accesses	47,342	47,754	48,405	46,573	46,981	47,627	47,391
Fixed telephony accesses	2,003	2,007	2,007	2,022	2,010	2,000	1,998
Internet and data accesses	2,331	2,330	2,325	2,372	2,355	2,339	2,331
Narrowband	229	226	223	243	240	236	233
Broadband	2,101	2,104	2,102	2,128	2,115	2,103	2,098
thereof VDSL	*593*	*669*	*732*	*322*	*380*	*444*	*517*
Mobile accesses	43,008	43,417	44,074	42,179	42,617	43,289	43,063
Prepaid	23,744	23,814	23,873	23,264	23,501	24,004	23,979
Postpaid	19,264	19,603	20,201	18,915	19,116	19,285	19,083
thereof M2M	*682*	*704*	*748*	*443*	*506*	*571*	*632*
Postpaid (%)	44.8%	45.2%	45.8%	44.8%	44.9%	44.5%	44.3%
Smartphone penetration (%) (1)	55.4%	56.2%	59.2%	49.8%	51.3%	52.9%	54.2%
LTE customers (2)	8,691	9,400	10,566	5,146	6,093	7,002	7,883
Wholesale accesses (3)	911	850	791	1,085	1,059	1,018	972
Total accesses	**48,252**	**48,605**	**49,196**	**47,658**	**48,041**	**48,645**	**48,363**

(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.

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

Unaudited

	2016			2015			
	Q1	Q2	Q3	Q1	Q2	Q3	Q4
ARPU (in euros) (1)	10.3	10.4	10.5	10.6	10.8	10.9	10.5
Prepaid	5.7	5.7	5.9	5.6	5.9	6.0	5.8
Postpaid excl. M2M	16.6	16.6	16.6	17.2	17.2	17.4	16.9
Data ARPU (in euros)	5.6	5.8	5.8	5.5	5.6	5.6	5.5
% non-SMS over data revenues (2)	75.4%	76.7%	77.2%	70.5%	71.5%	71.9%	72.5%
Voice Traffic (m min) (3)	15,490	16,207	15,859	15,837	15,492	15,487	15,879
Data Traffic (TB) (4)	51,599	61,726	74,361	40,172	42,255	45,898	50,501
Churn (%)	2.5%	2.1%	2.1%	2.4%	2.1%	2.1%	2.8%
Postpaid churn (%) excl. M2M	1.8%	1.6%	1.2%	1.7%	1.7%	1.7%	2.4%

Notes:

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

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

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

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

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited

(Euros in millions)	July 1 to September 30 2016	2015	Change	% Chg	January 1 to September 30 2016	2015	Change	% Chg
Revenues	1,876	1,979	(103)	(5.2)	5,567	5,828	(261)	(4.5)
Other income	34	36	(3)	(7.7)	469	119	350	>100,0
Operating expenses	(1,473)	(1,627)	154	(9.5)	(4,430)	(4,714)	283	(6.0)
Supplies	(572)	(660)	88	(13.3)	(1,778)	(1,965)	187	(9.5)
Personnel expenses	(155)	(155)	1	(0.5)	(488)	(500)	12	(2.4)
Other expenses	(746)	(812)	66	(8.1)	(2,164)	(2,248)	85	(3.8)
Operating income before depreciation and amortization (OIBDA)	**436**	**388**	**48**	**12.4**	**1,606**	**1,234**	**372**	**30.2**
OIBDA margin	23.3%	19.6%		*3.7%-p.*	28.8%	21.2%		*7.7%-p.*
Depreciation and amortisation	(533)	(512)	(21)	4.0	(1,602)	(1,545)	(57)	3.7
Operating income	**(96)**	**(124)**	**28**	**(22.2)**	**4**	**(312)**	**316**	**(101.3)**
Net financial income (expense)	**(8)**	**(11)**	**3**	**(23.8)**	**(26)**	**(36)**	**10**	**(28.5)**
Profit (loss) before tax for the period	**(104)**	**(134)**	**30**	**(22.4)**	**(21)**	**(347)**	**326**	**(93.8)**
Income tax	(0)	(0)	(0)	>100,0	(0)	0	(0)	>100,0
Total profit for the period	**(105)**	**(134)**	**30**	**(22.2)**	**(22)**	**(347)**	**326**	**(93.8)**
Number of shares in millions as of end of period date	**2,975**	**2,975**	**–**	**–**	**2,975**	**2,975**	**–**	**–**
Basic earnings per share (in euros) (1)	**(0.04)**	**(0.05)**	**0.01**	**(22.2)**	**(0.01)**	**(0.12)**	**0.11**	**(93.8)**

(1) Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 2,975m for the years 2016 and 2015.

TELEFÓNICA DEUTSCHLAND GROUP
REVENUE BREAKDOWN
Unaudited

(Euros in millions)	1 July to 30 September 2016	2015	Change	% Change	1 January to 30 September 2016	2015	Change	% Change
Revenues	**1,876**	**1,979**	**(103)**	**(5.2)**	**5,567**	**5,828**	**(261)**	**(4.5)**
Mobile business	**1,621**	**1,720**	**(99)**	**(5.8)**	**4,808**	**5,041**	**(233)**	**(4.6)**
Mobile service revenues	1,394	1,419	(25)	(1.8)	4,088	4,155	(66)	(1.6)
Handset revenues	227	301	(74)	(24.5)	720	887	(167)	(18.8)
Fixed business	**245**	**256**	**(11)**	**(4.3)**	**743**	**778**	**(34)**	**(4.4)**
Other revenues	**9**	**3**	**7**	**>100,0**	**16**	**10**	**6**	**64.9**

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 30 September 2016	As of 31 December 2015	Change	% Change
NON-CURRENT ASSETS	**13,331**	**14,406**	**(1,075)**	**(7.5)**
Goodwill	1,932	1,955	(23)	(1.2)
Other intangible assets	6,424	7,059	(635)	(9.0)
Property, plant and equipment	4,170	4,507	(337)	(7.5)
Trade and other receivables	99	157	(58)	(36.8)
Other financial assets	71	63	9	13.9
Other non-financial assets	129	160	(31)	(19.4)
Deferred tax assets	505	505	–	–
CURRENT ASSETS	**2,087**	**2,248**	**(161)**	**(7.2)**
Inventories	76	123	(47)	(38.5)
Trade and other receivables	1,560	1,520	40	2.6
Other financial assets	14	10	4	35.6
Other non-financial assets	133	61	72	>100,0
Cash and cash equivalents	304	533	(229)	(43.0)
Total assets = Total equity and liabilities	**15,418**	**16,654**	**(1,236)**	**(7.4)**
EQUITY	**9,514**	**10,321**	**(806)**	**(7.8)**
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	6,540	7,346	(806)	(11.0)
Equity attributable to owners of the company	9,514	10,321	(806)	(7.8)
NON-CURRENT LIABILITIES	**2,906**	**2,779**	**126**	**4.5**
Interest-bearing debt	1,848	1,686	162	9.6
Trade and other payables	41	154	(113)	(73.6)
Provisions	649	516	133	25.8
Deferred income	368	424	(56)	(13.1)
CURRENT LIABILITIES	**2,998**	**3,554**	**(556)**	**(15.6)**
Interest-bearing debt	60	568	(508)	(89.4)
Trade and other payables	2,146	2,272	(125)	(5.5)
Provisions	179	196	(17)	(8.6)
Other non-financial liabilities	108	48	61	>100,0
Deferred income	504	471	33	7.0

Financial Data				
Net financial debt (1)	1,195	1,225	(29)	(2.4)
Leverage (2)	0.7x	0.7x	(0.0)	(3.9)

(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.

* Current and non-current financial assets include handset - receivables (current: EUR 288m in 2016 and EUR 321m in 2015; non-current: EUR 99m in 2016 and EUR 157m in 2015), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 3m in 2016 and EUR 2m in 2015; non-current: EUR 14m in 2016 and EUR 12m in 2015) as well as loans to third parties (current: EUR 1m in 2016 and EUR 1m in 2015; non-current: EUR 0m in 2016 and EUR 1m in 2015)

* Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,428m in 2016 and EUR 1,420m in 2015), other loans (EUR 423m in 2016 and EUR 501m in 2015), finance lease payables (current: EUR 37m in 2016 and EUR 180m in 2015; non-current: EUR 17m in 2016 and EUR 32m in 2015) as well as current interest bearing trade payables (EUR 0 in 2016 and EUR 119m in 2015).

Note:

Handset - receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position.

Pending payments for spectrum amounting to EUR 110m (including capitalised costs of borrowed capital) are shown under trade payables against third parties in the Consolidated Statement of Financial Position and are therefore not included in the net financial debt calculation.

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

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited

(Euros in million)	2016 Jan - Mar	2016 Jan - June	2016 Jan - Sept	2015 Jan - Mar	2015 Jan - June	2015 Jan - Sept	2015 Jan - Dec
OIBDA	**379**	**1,170**	**1,606**	**395**	**845**	**1,234**	**1,804**
- Other income and expenses resulting from finalization of purchase price [1]	–	–	–	–	–	–	(102)
- CapEX [2]	(218)	(430)	(743)	(221)	(463)	(704)	(1,032)
= Operating Cash Flow (OpCF)	**161**	**740**	**863**	**175**	**383**	**530**	**670**
+ Silent Factoring [3]	135	194	315	314	367	301	544
-/+ Other working capital movements	(294)	(554)	(440)	(421)	(672)	(503)	(515)
Change in working capital	**(159)**	**(360)**	**(125)**	**(107)**	**(306)**	**(201)**	**29**
+/- (Gains) losses from sale of assets	–	(353)	(353)	(17)	(17)	(15)	(15)
+/- Proceeds from sale of companies	–	–	–	68	61	58	57
+/- Proceeds from sale of fixed assets and other effects	–	591	591	0	–	0	1
+ Net interest payments	(18)	(19)	(16)	(14)	(18)	(22)	(33)
+ Taxes paid	–	–	–	–	0	0	0
+ /- Proceeds / Payments on financial assets	(4)	(1)	(10)	0	(0)	(0)	(10)
= Free cash flow pre dividends and payments for spectrum [4] as well as pre-acquisition of E-Plus net of cash acquired	**(20)**	**599**	**951**	**105**	**102**	**350**	**700**
+ Acquisition of E-Plus net of cash acquired [1]	–	–	–	–	22	22	132
= Free cash flow pre dividends and payments for spectrum [4]	**(20)**	**599**	**951**	**105**	**125**	**372**	**832**
- Payments for spectrum	(1)	(2)	(114)	–	(976)	(977)	(978)
- Dividends [5]	–	(714)	(714)	–	(714)	(714)	(714)
= Free cash flow post dividends and payments for spectrum	**(21)**	**(117)**	**123**	**105**	**(1,565)**	**(1,319)**	**(860)**
= Net financial debt at the beginning of the period	1,225	1,225	1,225	18	18	18	18
+ Other change in net financial debt	20	15	93	212	195	72	340
+ capital increase (less transaction costs of the period)	–	–	–	5	6	6	6
= Net financial debt at the end of the period (incl. Restricted cash)	**1,266**	**1,356**	**1,195**	**130**	**1,784**	**1,415**	**1,225**

(1) In the fourth quarter 2015, an agreement on the final purchase price was reached with KPN. The original purchase price was reduced overall by EUR 134m. The differences between the preliminary purchase price and the final purchase price was recognized in an amount of EUR 30m directly to goodwill within the twelve-month period. EUR 104m less expenses to reach the agreement in the amount of EUR 3m (of which EUR 2m have been paid) have been recognized at the end of the 12-month period in December 2015 in the income statement.

(2) Excluding investments in spectrum in June 2015 amounting to EUR 1,198m and excluding capitalised costs on borrowed capital.

(3) Full impact (YTD) of silent factoring in the first nine months of 2016 of EUR 315m and of EUR 301m in the first nine months of 2015 (transactions have been executed in March, June and September 2016 respectively in January, March and June of the year 2015).

(4) 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 in June 2015 as well as related interest payments.

(5) Dividend payments of EUR 714m in May 2016 and EUR 714m in May 2015 respectively.

	2016 Jan - Mar	2016 Jan - June	2016 Jan - Sept	2015 Jan - Mar	2015 Jan - June	2015 Jan - Sept	2015 Jan - Dec
= Free cash flow pre dividends and payments for spectrum (millions)	(20)	599	951	105	125	372	832
Number of shares (millions)	2,975	2,975	2,975	2,975	2,975	2,975	2,975
= Free cash flow per share (in euros) [6]	(0.01)	0.20	0.32	0.04	0.04	0.13	0.28

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

(Euros in millions)	As of 30 September 2016	As of 31 December 2015	Change %
A Liquidity	**304**	**533**	**(43.0)**
B Current financial assets	**292**	**324**	**(9.8)**
C Current financial debt	**57**	**564**	**(89.9)**
D=C-A-B Current net financial debt	**(539)**	**(292)**	**84.5**
E Non-current financial assets	**113**	**169**	**(33.0)**
F Non-current financial debt	**1,848**	**1,686**	**9.6**
G=F-E Non-current net financial debt	**1,735**	**1,517**	**14.4**
H=D+G Net financial debt (1)	**1,195**	**1,225**	**(2.4)**

(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.

B + E Current and non-current financial assets include handset - receivables (current: EUR 288m in 2016 and EUR 321m in 2015; non-current: EUR 99m in 2016 and EUR 157m in 2015), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 3m in 2016 and EUR 2m in 2015; non-current: EUR 14m in 2016 and EUR 12m in 2015) as well as loans to third parties (current: EUR 1m in 2016 and EUR 1m in 2015; non-current: EUR 0m in 2016 and EUR 1m in 2015)

C + F Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,428m in 2016 and EUR 1,420m in 2015), other loans (EUR 423m in 2016 and EUR 501m in 2015), finance lease payables (current: EUR 37m in 2016 and EUR 180m in 2015; non-current: EUR 17m in 2016 and EUR 32m in 2015) as well as current interest bearing trade payables (EUR 0 in 2016 and EUR 119m in 2015).

Note:

Handset - receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position.

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Telefónica Deutschland

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