

MUNICH, 28 April 2016

Preliminary results for January to March 2016

Telefónica Deutschland has progressed further with integration while keeping momentum in a dynamic yet rational market environment

- **Solid OIBDA¹ growth of +6.2% year-on-year reflects successful synergy capture**
- **Operating cashflow savings related to synergies of ca. EUR 55m primarily from 2015 roll-over effects with customer migration and network integration progressing rapidly**
- **MSR shows a continuation of trends in line with guidance (-1.3% year-on-year), reflecting a continued strong development of the partner business, as well as legacy base and regulatory effects**
- **VDSL uptake drives continues improvement of retail DSL trends; 3 thousand positive net additions**

First quarter 2016 operational & financial highlights

- **Net additions in mobile postpaid** came to 181 thousand on the back of a continued strong performance of partners. Contract churn² remained low at 1.8% and broadly stable year-on-year as the Company maintained its focus on retention and customer base management.
- **Mobile prepaid** registered **net disconnection** of 236 thousand mainly due to seasonality effects.
- The **LTE customer base** stood at 8.7 million, +10.2% quarter-on-quarter as of the end of March, reflecting the successful data monetisation strategy. **Data usage** for LTE customers in O₂ consumer postpaid continued to benefit from the demand for music and video streaming services and stabilised quarter-on-quarter at 1.2 GB per month, up 50% year-on-year.
- **Revenues** reached EUR 1,858 million (-2.3% year-on-year) mainly as a result of lower year-on-year mobile services revenues and handset revenues. The reduction in handset revenue reflects seasonality as well as lower demand for handset in the market.
- **Mobile service revenues** was EUR 1,336 million (-1.3% year-on-year), showing a continuation of trends from previous quarters, as MSR continues to be impacted by continued strength of the partner business, legacy base drag and regulatory effects. The company continues to focus on retention and the development of our customer base.

¹ Excluding exceptional effects. As of 31 March 2016 these include restructuring expenses amounting to EUR 23 million while in the same period of 2015 a one-off gain from the sale of yourfone GmbH was registered.

² Starting 1 January 2014 M2M SIM-cards are excluded from calculation for postpaid churn and ARPU.

- **OIBDA** excluding exceptional effects³ grew 6.2% year-on-year to EUR 401 million, benefitting particularly from the rollover effect from synergy initiatives executed in 2015. At the same time there were upfront costs related to the larger integration projects running in parallel in the first half of 2016.
- **CapEx**⁴ came to EUR 218 million (-1.2% year-on-year), as Capex phasing across the year is back-end loaded due to the expected intensification of the network integration effort in the second half of 2016.
- **Consolidated net financial debt**⁵ was EUR 1,266 million at the end of March 2016 and with a leverage of 0.7x, in line with the stated target of at or below 1.0x.

³ Exceptional effects as of 31 March 2016 include restructuring expenses amounting to EUR 23 million while in the same period of 2015 a one-off gain from the sale of yourfone GmbH was registered.

⁴ Excluding capitalised costs on borrowed capital in the first three months of 2016 for investments in spectrum in June 2015

⁵ Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes the payables for the spectrum auction.

Progress of integration and transformation activities

Telefónica Deutschland made further progress with the execution of its integration and transformation initiatives and is executing according to plan. During 2016 the company focusses on a number of core projects which include the network integration, IT landscape transformation and customer migration.

- After the successful execution of the first wave of the restructuring programme of 800 FTEs in 2015, Telefónica Deutschland has now finalised the future target organisation of the company. After constructive negotiations with the workers council another 500 FTEs will be given clarity about their employment situation by the middle of 2016. The company continues to target a reduction of 1,600 FTEs in total by 2018.
- As part of the integration process Telefónica Deutschland has started to unify its brand and tariff portfolio and will henceforth focus on the O₂ brand in the premium sector. The transfer of BASE and E-Plus customers to O₂ has already started. We thus simplify our offer in the premium segment and provide customers with high-quality products and services under one brand. Over the coming months the company will continue with the migration in other customer segments.
- After the realisation of 3G national roaming and preparation of the key phase of the network integration in 2015, Telefónica Deutschland pushed ahead with the physical integration of O₂ and E-Plus networks in the first quarter. At the same time the company continues to focus significant efforts on rolling out LTE with the target of integrating the 4G networks from summer 2016.
- Telefónica Deutschland has sold its passive tower infrastructure of approximately 2,350 towers to Telxius, Telefónica S.A.'s infrastructure company for a purchase price of EUR 587 million. The company is hereby taking advantage of the current favourable market conditions for infrastructure assets. The transaction will have no impact on the targeted synergies related to the merger with E-Plus.

Recent developments in Telefónica Deutschland's commercial offer and network

The company retained market momentum in a dynamic yet rational market environment driven by investments into the repositioning of the O₂ brand while at the same time keeping a clear focus on retention and the development of the customer base. Telefónica Deutschland has taken some important steps to enhance its network quality and focus on customer service as confirmed by independent surveys.

- Positioning of the O₂ brand for customers in the premium segment through a number of campaigns with a clear focus on supporting their digital lifestyle plus excellent network and customer service quality.
- LTE was launched for smartphone plans for new O₂ prepaid customers in February 2016; the LTE network will be opened for the existing O₂ consumer prepaid base from summer 2016.
- In early February 2016 the company launched 'Blue One', bringing together various fixed/mobile product combinations under a single brand name to facilitate ease of access for customers.
- At the end of February the company presented the first smartwatch with eSIM at the World Mobile Congress in Barcelona. The Samsung Galaxy Gear S2 has been available since April and the embedded SIM allows the remote, electronic installation of customer profiles.
- For six months, COMPUTERBILD has asked 60 of its readers to test the combined network of Telefónica Deutschland all over Germany. All trial users confirmed that the network clearly improved in all regions.
- Connect "Netzwerker", a customer perception-based test of mobile data usage in 3G and 4G, sees Telefónica Deutschland's network at eye level with competitors. LTE coverage clearly improved in rural areas due to the ongoing rollout.
- Network planning is one of the first areas where Telefónica Deutschland applies ADA (Advanced Data Analytics) to customer solutions. With new algorithms the company tailors the deployment of its LTE network to customer demand as data specialists are able to predict and data usage.

Financial outlook 2016

The financial outlook for 2016 remains unchanged as published in the Annual Financial Report 2015 (page 60ff).

Exceptional and special effects are excluded from our guidance. Exceptional effects include the capital gain from the sale of Telefónica Deutschland's passive tower infrastructure to Telxius, Telefónica S.A.'s infrastructure company, in the second quarter. The OIBDA impact resulting primarily from higher operating lease expenses between May and December 2016 will also be treated as a special effect for 2016 and thus excluded from our guidance.

Financial outlook 2016:

	Base line 2015 (EUR million)	Outlook 2016 (year-on-year)
MSR	5,532	Slightly negative to broadly stable
OIBDA Before exceptional effects	1,760	Low to mid single-digit % growth
CapEx⁶	1,032	% growth in the low tens

⁶ Excluding investments in spectrum in June 2015 amounting to EUR 1,198m (including capitalised costs on borrowed capital).

Telefónica Deutschland's operating performance in the first quarter of 2016

At the end of March 2016 Telefónica Deutschland's **access base was 48.3 million**, +1.2% year-on-year driven by a 2.0% year-on-year growth of the mobile base, which stood at 43.0 million.

Mobile postpaid saw 181 thousand net additions in the first quarter 2016 versus 141 thousand in the same period of 2015. Telefónica Deutschland maintained its focus on retention over acquisition and partner brands sustained their strong performance, contributing 45% of gross additions (43% in the fourth quarter of 2015). At the end of March mobile postpaid base consisted of 19.3 million accesses (+1.8% year-on-year), representing a broadly stable 44.8% share of total mobile customers.

The **mobile prepaid** customer base was up 2.1% year-on-year with a strong performance from partners to 23.7 million while the first quarter of 2016 registered 236 thousand net disconnections, mainly due to seasonality.

Postpaid churn⁷ was broadly stable year-on-year and quarter-on-quarter at 1.8% in the first three months of 2016 while the O₂ consumer brand reported an even lower churn of 1.4% again, clearly supported by the Company's retention focus.

Smartphone penetration⁸ across all brands continued to rise and was up 5.6 percentage point year-on-year to 55.4% at the end of March (+1.2 percentage points quarter-on-quarter) driven by the steady increase of demand for data both in the postpaid and the prepaid customer base; 77.8% and 26.9% smartphone penetration respectively within the O₂ consumer brand.

The **LTE customer base** was up 10.2% quarter-on-quarter to 8.7 million as of 31. March 2016, reflecting the success of the company's data monetisation strategy.

Mobile ARPU was EUR 10.3 (-3.3% year-on-year) in the first quarter. Postpaid ARPU⁷ came to EUR 16.6 and reflects the high share of wholesale gross adds, the legacy customer base mix and regulatory effects with the rate of year-on-year decline slowing to 3.8% (from -4.3% in the prior quarter). As a result of the growing demand for data amongst prepaid customers the prepaid ARPU continued to rise, reaching EUR 5.7 in the first three months of 2016 (+1.3% year-on-year).

On the back of continued strong demand for VDSL – up 4.6% quarter-on-quarter to 76 thousand net additions – **retail fixed broadband** registered 3 thousand net additions in the quarter after 5 years of net losses. The total retail DSL customer base stabilised at 2.1 million.

Fixed wholesale accesses continued to decline as expected (61 thousand net disconnections until March) due to the progressive decommissioning of the ULL (unbundled local loop) broadband access infrastructure.

⁷ Starting 1 January 2014 M2M SIM-cards are excluded from calculation for postpaid churn and ARPU.

⁸ Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M and data-only accesses.

Telefónica Deutschland's financial performance in the first quarter of 2016

Revenues came to EUR 1,858 million, 2.3% lower year-on-year mainly as a result of the performance of mobile service revenues and the handset business.

Mobile service revenues (MSR) reflect the continued strength of the partner business and the associated higher share of wholesale revenues as well as the company's ongoing focus on the development of its customer base and regulatory effects. As a result, MSR declined 1.3% year-on-year to EUR 1,336 million.

Mobile data revenues rose 5.4% year-on-year to EUR 729 million for the three months period and increased their share over MSR by 3.4 percentage points year-on-year to 54.6% as revenue growth in non-SMS data outweighed the further decline in SMS revenues. Non-SMS data revenues amounted to EUR 550 million, a strong 12.7% year-on-year growth and increased their share of data revenues to 75.4%, up 4.9 percentage points.

Handset revenues fell 5.5% year-on-year to EUR 267 million, mainly due to a lower demand for handsets after a particular strong Q4 2015 as well as growing smartphone saturation in the market.

Fixed revenue trends stabilised with a year-on-year decline of 3.1% (-3.2% in the prior quarter) and came to EUR 253 million on the back of the growing traction of VDSL in the retail business while we continued to benefit from spot trading opportunities in the carrier voice business. DSL retail revenue performance was broadly stable year-on-year at -3.9%.

Other income was EUR 31 million with the year-on-year decline resulting from the exceptional gain from the sale of yourfone in the first quarter of 2015.

Operating expenses including restructuring costs of EUR 23 million amounted to EUR 1,509 million until March 2016, down 2.7% year-on-year mainly driven by savings from integration projects. Restructuring costs were mainly related to the lever programme.

- **Supplies** came to EUR 629 million, 4.6% lower year-on-year mainly due to lower hardware costs of sales (44% of supplies) and lower connectivity-related cost of sales (47% of supplies).
- **Personnel expenses** were EUR 173 million (including restructuring costs of EUR 18 million) with the decline of 3.1% year-on-year mainly resulting from the successful execution of the first wave of the employee restructuring programme in 2015.
- **Other operating expenses** were broadly stable year-on-year (-0.9%) at EUR 707 million, including restructuring expenses of EUR 4 million. Commercial costs and non-commercial costs made up 56% and 40% respectively. Savings resulted from the 2015 synergy initiatives while at the same time we registered costs related to the 2016 integration activities and investments into the company's commercial positioning and brands.

Operating Income before Depreciation and Amortisation (OIBDA) in the period up to March 2016 benefitted from the roll-over effect of synergies executed in prior year and were affected by the before-mentioned cost positions. OIBDA in reported terms fell 4.2% year-on-year to EUR 379 million, as the company had a capital gain from the sale of yourfone in the prior year period.

Excluding exceptional effects⁹ OIBDA rose 6.2% year-on-year to EUR 401 million with in-year savings from integration activities (OPEX & revenue) amounting to EUR 55 million. The OIBDA margin increased by 1.7 percentage points year-on-year to 21.6%

Group fees amounted to EUR 13 million in the first quarter of 2016

Depreciation & Amortisation amounted to EUR 540 million in the first three month of 2016, a slight increase of 2.1% year-on-year compared to the same period of 2015 (EUR 529 million).

The operating result for January to March 2016 was negative in the amount of EUR 161 million as depreciation & amortisation charges still exceed OIBDA.

The net financial result for the three months period was negative in the amount of EUR 8 million resulting from various financing activities including the bonds issued in November 2013 and February 2014 as well as promissory note executed in March 2015, as well as interest expenses from finance lease obligations.

The Company did not report **income tax expense** for January to March.

The result for the first quarter of 2016 came to EUR -170 million.

CapEx was EUR 218 million (-1.2% year-on-year) in the first quarter of 2016. Telefónica Deutschland is executing according to plan with back-end loaded Capex phasing across the year due to the expected intensification of the network integration effort in the second half of 2016.

Operating cash flow (OIBDA minus CapEx)¹⁰ for the three months period of 2016 was EUR 161 million. Excluding exceptional effects⁹, operating cash flow was up 16.7% year-on-year.

Free Cash Flow (FCF)¹¹ for the first quarter of 2016 reached EUR -20 million in 2015.

Working capital movements of EUR 159 million were mainly driven by seasonal prepayments (mainly rents) of EUR 186 million as well as regular working capital movements which include silent factoring transactions for O₂ myHandy receivables.

Consolidated net financial debt¹² stood at EUR 1,266 million at the end of March 2016, maintaining a leverage ratio of 0.7x. The slight increase compared to year end 2015 mainly comes from different financing activities that resulted in offsetting effects as well as from the negative FCF that was generated in the period.

⁹ Exceptional effects as of 31 March 2016 include restructuring expenses amounting to EUR 23 million while in the same period of 2015 a one-off gain from the sale of yourfone GmbH was registered.

¹⁰ Excluding capitalised costs on borrowed capital in the first three months of 2016 for investments in spectrum in June 2015

¹¹ 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.

¹² 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

(Euros in millions)	1 January to 31 March		
	2016	2015	% Chg
Revenues	1,858	1,901	(2.3)
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)	401	378	6.2
<i>OIBDA before exceptional effects-margin</i>	21.6%	19.9%	1.7%-p.
exceptional effects	(23)	17	(>100,0)
Operating income before depreciation and amortization (OIBDA)	379	395	(4.2)
<i>OIBDA margin</i>	20.4%	20.8%	(0.4%-p.)
Group fees	13	13	6.5
Operating income before depreciation and amortization (OIBDA) and before group fees	392	408	(3.8)
<i>OIBDA before group fees margin</i>	21.1%	21.5%	(0.3%-p.)
Operating income	(161)	(133)	20.8
Profit (loss) for the period	(170)	(145)	17.0
Basic earnings per share (in euros) (2)	(0.06)	(0.05)	17.0
CapEx (3)	(218)	(221)	(1.2)
Operating cash flow (OIBDA-CapEx) (3)	161	175	(7.9)
Free cash flow pre dividends and payments for spectrum (4)	(20)	105	(>100,0)

(1) Exceptional effects as of 31 March 2016 include restructuring expenses amounting to EUR 23m.

(2) 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.

(3) Excluding capitalised costs on borrowed capital for investments in spectrum in June 2015 amounting to EUR 2m.

(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 interest payments for investments in spectrum amounting to EUR 1m.

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
ACCESSES
Unaudited

(in thousands)	2016	2015			
	Q1	Q1	Q2	Q3	Q4
Final clients accesses	47,342	46,573	46,981	47,627	47,391
Fixed telephony accesses	2,003	2,022	2,010	2,000	1,998
Internet and data accesses	2,331	2,372	2,355	2,339	2,331
Narrowband	229	243	240	236	233
Broadband	2,101	2,128	2,115	2,103	2,098
<i>thereof VDSL</i>	593	322	380	444	517
Mobile accesses	43,008	42,179	42,617	43,289	43,063
Prepaid	23,744	23,264	23,501	24,004	23,979
Postpaid	19,264	18,915	19,116	19,285	19,083
<i>thereof M2M</i>	682	443	506	571	632
Postpaid (%)	44.8%	44.8%	44.9%	44.5%	44.3%
Smartphone penetration (%) (1)	55.4%	49.8%	51.3%	52.9%	54.2%
LTE customers (2)	8,691	5,146	6,093	7,002	7,883
Wholesale accesses (3)	911	1,085	1,059	1,018	972
Total accesses	48,252	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	Q1	Q2	Q3	Q4
ARPU (in euros) (1)	10.3	10.6	10.8	10.9	10.5
Prepaid	5.7	5.6	5.9	6.0	5.8
Postpaid excl. M2M	16.6	17.2	17.2	17.4	16.9
Data ARPU (in euros)	5.6	5.5	5.6	5.6	5.5
% non-SMS over data revenues (2)	75.4%	70.5%	71.5%	71.9%	72.5%
Voice Traffic (m min) (3)	15,490	15,837	15,492	15,487	15,879
Data Traffic (TB) (4)	51,599	40,172	42,255	45,898	50,501
Churn (%)	2.5%	2.4%	2.1%	2.1%	2.8%
Postpaid churn (%) excl. M2M	1.8%	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)	1 January to 31 March			
	2016	2015	Change	% Chg
Revenues	1,858	1,901	(43)	(2.3)
Other income	31	46	(16)	(34.0)
Operating expenses	(1,509)	(1,552)	42	(2.7)
Supplies	(629)	(659)	31	(4.6)
Personnel expenses	(173)	(179)	6	(3.1)
Other expenses	(707)	(713)	6	(0.9)
Operating income before depreciation and amortisation (OIBDA)	379	395	(16)	(4.2)
<i>OIBDA margin</i>	<i>20.4%</i>	<i>20.8%</i>		<i>(0.4%-p.)</i>
Depreciation and amortisation	(540)	(529)	(11)	2.1
Operating income	(161)	(133)	(28)	20.8
Net financial income (expense)	(8)	(11)	3	(26.4)
Profit (loss) before tax for the period	(170)	(145)	(25)	17.1
Income tax	–	–	–	>100,0
Total profit for the period	(170)	(145)	(25)	17.0
Number of shares in millions as of end of period date	2,975	2,975	–	–
Basic earnings per share (in euros) (1)	(0.06)	(0.05)	(0.01)	17.0

(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

(Euros in millions)	1 January to 31 March			
	2016	2015	Change	% Change
Revenues	1,858	1,901	(43)	(2.3)
Mobile business	1,603	1,636	(33)	(2.0)
Mobile service revenues	1,336	1,354	(17)	(1.3)
Handset revenues	267	282	(16)	(5.5)
Fixed business	253	261	(8)	(3.1)
Other revenues	2	3	(2)	(50.9)

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 31 March	As of 31 December	Change	% Change
	2016	2015		
NON-CURRENT ASSETS	14,174	14,406	(232)	(1.6)
Goodwill	1,955	1,955	–	–
Other intangible assets	6,835	7,059	(224)	(3.2)
Property, plant and equipment	4,544	4,507	37	0.8
Trade and other receivables	133	157	(24)	(15.3)
Other financial assets	67	63	5	7.5
Other non-financial assets	135	160	(25)	(15.6)
Deferred tax assets	505	505	–	–
CURRENT ASSETS	2,410	2,248	163	7.2
Inventories	126	123	3	2.4
Trade and other receivables	1,528	1,520	8	0.5
Other financial assets	11	10	1	8.9
Other non-financial assets	258	61	197	>100,0
Cash and cash equivalents	486	533	(47)	(8.8)
Total assets = Total equity and liabilities	16,585	16,654	(69)	(0.4)
EQUITY	10,117	10,321	(203)	(2.0)
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	7,143	7,346	(203)	(8.0)
Equity attributable to owners of the company	10,117	10,321	(203)	(2.0)
NON-CURRENT LIABILITIES	3,192	2,779	413	14.9
Interest-bearing debt	1,937	1,686	251	14.9
Trade payables and other payables	154	154	–	–
Provisions	681	516	165	32.0
Deferred income	421	424	(2)	(0.5)
CURRENT LIABILITIES	3,275	3,554	(279)	(7.8)
Interest-bearing debt	283	568	(284)	(50.1)
Trade payables and other payables	2,240	2,272	(32)	(1.4)
Provisions	171	196	(25)	(12.7)
Other non-financial liabilities	110	48	63	>100,0
Deferred income	471	471	–	–
Financial Data				
Net financial debt (1)	1,266	1,225	41	3.4
Leverage (2)	0.7x	0.7x	–	2.0

(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 314m in 2016 and EUR 321m in 2015; non-current: EUR 133m in 2016 and EUR 157m in 2015), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 1m in 2016 and EUR 2m in 2015; non-current: EUR 15m 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 1m in 2016 and EUR 1m in 2015)

* Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,413m in 2016 and EUR 1,420m in 2015), other loans (EUR 648m in 2016 and EUR 501m in 2015), finance lease payables (current: EUR 121m in 2016 and EUR 180m in 2015; non-current: EUR 32m in 2016 and EUR 32m in 2015) as well as current interest bearing trade payables (EUR 2m 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 220m (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 of the last twelve months before exceptional effects.

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET DEBT

Unaudited

(Euros in million)	2016	2015			
	Jan - Mar	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
OIBDA	379	395	845	1,234	1,804
- Other income and expenses resulting from finalization of purchase price ⁽¹⁾	-	-	-	-	(102)
- CapEX ⁽²⁾	(218)	(221)	(463)	(704)	(1,032)
= Operating Cash Flow (OpCF)	161	175	383	530	670
+ Silent Factoring ⁽³⁾	135	314	367	301	544
-/+ Other working capital movements	(294)	(421)	(672)	(503)	(515)
Change in working capital	(159)	(107)	(306)	(201)	29
+/- (Gains) losses from sale of companies	-	(17)	(17)	(15)	(15)
+/- Proceeds from sale of companies	-	68	61	58	57
+/- Proceeds from sale of companies, fixed assets and other effects	-	-	-	-	1
+ Net interest payments	(18)	(14)	(18)	(22)	(33)
+ Taxes paid	-	-	-	-	-
+/- Proceeds / Payments on financial assets	(4)	-	-	-	(10)
= Free cash flow pre dividends and payments for spectrum ⁽⁴⁾ as well as pre-acquisition of E-Plus net of cash acquired	(20)	105	102	350	700
+ Acquisition of E-Plus net of cash acquired ⁽⁵⁾	-	-	22	22	132
= Free cash flow pre dividends and payments for spectrum ⁽⁴⁾	(20)	105	125	372	832
- Payments for spectrum	(1)	-	(976)	(977)	(978)
- Dividends ⁽⁵⁾	-	-	(714)	(714)	(714)
= Free cash flow post dividends and payments for spectrum	(21)	105	(1,565)	(1,319)	(860)
= Net financial debt at the beginning of the period	1,225	18	18	18	18
+ Other change in net financial debt	20	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	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 134 million. The differences between the preliminary purchase price and the final purchase price was recognized in an amount of EUR 30 million directly to goodwill within the twelve-month period. EUR 104 million less expenses to reach the agreement in the amount of EUR 3 million (of which EUR 2 million 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 three month period in 2016 of EUR 135m and of EUR 314m in the three month period 2015 (transactions have been executed in March 2016 respectively in January, March, June, October and December 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 amounting to EUR 978m as well as related interest payments.

(5) Dividend payment of EUR 714m in May 2015.

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

TELEFÓNICA DEUTSCHLAND GROUP
 CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

(Euros in millions)	As of 31 March	As of 31 December	Change %
	2016	2015	
A Liquidity	486	533	(8.8)
B Current financial assets	316	324	(2.3)
C Current financial debt	280	564	(50.4)
D=C-A-B Current net financial debt	(523)	(292)	78.9
E Non-current financial assets	148	169	(12.5)
F Non-current financial debt	1,937	1,686	14.9
G=F-E Non-current net financial debt	1,788	1,517	17.9
H=D+G Net financial debt (1)	1,266	1,225	3.4

(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 314m in 2016 and EUR 321m in 2015; non-current: EUR 133m in 2016 and EUR 157m in 2015), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 1m in 2016 and EUR 2m in 2015; non-current: EUR 15m 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 1m 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 1,413m in 2016 and EUR 1,420m in 2015), other loans (EUR 648m in 2016 and EUR 501m in 2015), finance lease payables (current: EUR 121m in 2016 and EUR 180m in 2015; non-current: EUR 32m in 2016 and EUR 32m in 2015) as well as current interest bearing trade payables (EUR 2m 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 220m (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.

Further information

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