Telefónica Deutschland

MUNICH, 24 July 2019

**Preliminary results[1] for January to June 2019**

## Telefónica Deutschland showing sustained quality, trading and financial momentum; guidance reiterated

- **Underlying[2] revenue was +1.8% year-on-year in H1 and +2.4% in Q2 with continued strong demand for handsets; underlying[2] MSR posted growth of +0.9% and +1.5% in H1 and Q2 respectively – reported MSR crossing the zero line with +0.6% in Q2**
- **Underlying[3] OIBDA (as per IAS 17) +0.7% year-on-year in H1 reflecting market & transformation invest; underlying[3] margin expansion to 31.2% as per IFRS 16**
- **C/S ratio of 13.9% in H1; pushing LTE rollout with focus on network densification and roll-out into suburban areas to improve customer experience**
- **Telefónica Deutschland acquired a total of 90 MHz spectrum in the German 5G auction for a total of EUR 1.425 billion, maintaining a highly competitive frequency position**

**Second quarter 2019 operational & financial highlights**

- **Mobile postpaid** saw +301[4] thousand net additions in Q2 2019 and benefitted both from the sustained customer demand for the $O_2$ Free portfolio and a strong partner business. Partners contributed 63% of gross additions in Q2, with the increase versus prior quarter primarily driven by an expansion of partnerships with non-MBA partners and migration effects. In line with contract renewal cycles, **churn** in the $O_2$ brand remained at low levels of -1.2%. The implied annualised churn rate of -14.3% in Q2 already goes beyond our 2 p.p. target for 2022 (vs. -18.0% for FY 2017). Total postpaid churn was -1.5% in the second quarter with a typical seasonality
- **LTE customer base** grew +21.6% year-on-year to 20.2 million at the end of June 2019, bringing the **LTE penetration** to 48%, up +8 p.p. year-on-year. The continued adoption of LTE and the $O_2$ Free portfolio with large data buckets is driving sustained data growth with a CAGR of 50%. Monthly data usage of $O_2$ LTE customers increased +13% quarter-on-quarter and +41% year-on-year to almost 5 GB, while customers in the most popular $O_2$ Free M tariff are already using around 7.5GB

[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 2019 therefore include the effects of the implementation of IFRS 16 as of 1 January 2019

[2] Excluding the negative impact from regulatory changes; mainly driven by the MTR regulation (mobile termination rate cut to EURc 0.95 per minute as of 1 Dec 2018) and the international call regulation within the EU that kicked-in as of 15 May 2019

[3] Adjusted for exceptional effects and excluding the negative impact from regulatory changes; mainly usage elasticity effects from the European roaming regulation and the international call regulation within the EU

[4] Excluding a revenue-neutral technical base correction in M2M, mobile postpaid saw +369 thousand net additions

- **Underlying[5] revenue** reached **EUR 1,799 million**, up **+2.4% year-on-year** due to the good traction of the consumer business and a continued strong demand for high value handsets. Including negative regulatory effects of EUR -14 million, revenue was up +1.6% year-on-year and reached EUR 1,785 million

- **Underlying[5] mobile service revenue[6]** (MSR) showed a trend improvement and grew **+1.5% year-on year** to **EUR 1,331 million** with visible effects from $O_2$ Free new connector APRU while headwinds from legacy base rotation and the continued retention focus in renewal cycles were further easing. **In reported terms MSR was in positive territory for the first time since 15 quarters with +0.6% year-on-year growth** to EUR 1,319 million

- **Handset revenue** posted another quarter of strong growth and reached **EUR 281 million**, **+12.9% year-on-year** on sustained customer demand for high-value smartphones across segments

- **Fixed-line revenue** decline further slowed to -3.5% year-on-year (from -8.6% year-on-year in Q1 2019) and reached EUR 185 million, with **fixed retail revenue** declining only -0.9% on continued strong demand for VDSL services and despite a higher bundle share in the customer base

- **OIBDA adjusted for exceptional and regulatory effects[7] based on IAS 17** reached **EUR 489 million, up +0.5% year-on-year**, reflecting continued market and transformation invest in an investment-heavy quarter. Under IFRS 16 accounting standards, underlying[4] OIBDA saw an increase of +21.7% year-on-year totalling EUR 593 million in the second quarter of 2019. The **OIBDA margin** adjusted for exceptional and regulatory effects[7] was broadly stable year-on-year at 27.2% under IAS 17 and expanded by +5.2 percentage points year-on-year to **32.9% under IFRS 16**

- **CapEx[8]** came to **EUR 243 million with a C/S ratio of 13.6%** as the company is pushing ahead with the densification of the LTE network and its further expansion into suburban areas with a clear focus on improving customer experience

[5] Excluding the negative impact from regulatory changes; mainly driven by the MTR regulation (mobile termination rate cut to EURc 0.95 per minute as of 1 Dec 2018) and the international call regulation within the EU that kicked-in as of 15 May 2019

[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 22 million of restructuring expenses in the period January to June 2019 (EUR 40 million based on IAS 17). The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16. Regulatory effects amounted to EUR -15 million in the period January to June 2019

[8] Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

- Following the dividend payment for the financial year 2018 of EUR 803 million in May, **consolidated net financial debt[9] under IFRS 16** stood at EUR 4,464 million as of 30 June 2019 with a leverage ratio of 1.9x[10]. Under IAS 17, the leverage ratio was 1.0x and thus in line with the self-defined target. The implied leverage ratio including both the annualised IFRS 16 effects and the effects of the upcoming payment[11] for 5G spectrum would be 2.5x[10] as of 30 June 2019.

  As reflected in the outlook 2019, 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. 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.

  Fitch has confirmed our BBB Rating on 26 June 2019, envisaging that Telefónica Deutschland's FFO adjusted net leverage increases to 2.7x in 2019 (from 2.2x in 2018) driven by spectrum payments.

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

[10] Non-audited. Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects. Thus, leverage under IFRS 16 is calculated based on an extrapolated rolling 12-month OIBDA. It will only be possible to report a leverage ratio based on actuals under IFRS 16 with the publication of the financial statements for 2019

[11] Telefónica Deutschland acquired a total of 90 MHz in spectrum at a total cost of EUR 1.425 billion, thereof EUR 1.25 billion are due in September 2019 and EUR 170 million in 2024

**5G frequency auction and network update**

The international Tutela Crowdsourcing Report assigned **best network quality in major German cities** to the $O_2$ network. For their report "DACH Cities - Mobile Experience" published in July, Tutela analysed the network quality of the 15 largest cities in Germany, Austria and Switzerland (DACH region) over a period of six months; for Germany, in the cities of Berlin, Hamburg, Munich, Frankfurt and Cologne. The $O_2$ network was ranked first in terms of network quality in four of these five German cities due to the excellent performance of LTE.

As part of the **5G German frequency auction**, which concluded on 12 June after 52 bidding days or 497 rounds, Telefónica Deutschland acquired a total of 90 MHz in spectrum at a total cost of EUR 1.425 billion. The acquired spectrum breaks down as follows:

- 2 paired blocks in the 2.1 GHz band
- 7 unpaired blocks in the 3.6 GHz band

Including the spectrum already owned, Telefónica Deutschland now has mobile spectrum of ~310 MHz (through to 2025) and thus a highly competitive frequency position overall, including 1/3 of the available 2.1 GHz licences. Data traffic is increasingly moving from 3G to 4G reflecting the customer demand for high-speed mobile broadband. Thus, we are aiming to switch off 3G network by the end of 2022 and thereafter have a reduced reliance on 2,100 MHz spectrum.

The Federal Network Agency will formally allocate the spectrum in line with the maturities of the respective blocks. All of the acquired spectrum will mature in 2040.

Due to its physical propagation characteristics, the newly acquired spectrum will be initially used to supply urban areas and industrial sites with 5G, delivering high data rates and low latency times. 5G technology also enables much more effective capacity management, so that network performance and overall capacity will increase as the standard becomes more widespread.

Consumers will benefit from 5G as the availability of related devices increases in the market. Until then, German mobile customers will also benefit from improved mobile broadband coverage through the ongoing intensive rollout of 4G.

Already in 2018, Telefónica Deutschland completed its network consolidation and connected an additional 6,700 LTE stations; LTE population coverage stands now at around 90%. We intend to continue with our intense rollout effort with another 10,000 additional LTE sites by year-end 2019 of which we already set up around 4,400 sites by the end of July.

In addition, we will continue to roll out fibre in the backhaul by means of a variety of co-operations. We confirm our target of reaching ~70% of fibre penetration in the backhaul by 2022.

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**Transformation update**

Our four-year (2019 – 2022) **transformation programme Digital4Growth** 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 goal of capturing an additional EUR 600 million of gross OIBDA between 2019 & 2022, including growth and efficiency gains. In 2019, we foresee an additional EUR 40 million gross gains at OIBDA level, with a significant ramp up throughout the year and in the outer years. Upfront transformation investments are expected to gradually fade out over the duration of the programme.

In the first half of 2019, transformation invest was mainly related to omni-channel initiatives and the further optimisation of our churn analytics capabilities. The implied annualised churn rate of -15.1% already goes beyond our 2 p.p. target for 2022 (vs. 18.0% in FY 2017). We delivered ~EUR 15 million of gross transformation benefits in H1 (~EUR 10 million in Q2), mainly from our successful initiatives in the market.

In addition to our operational activities, we are also pushing ahead with innovation. Telefónica Deutschland will establish the first 5G network for automobile production together with Mercedes-Benz Cars and Ericsson in the "Factory 56" in Sindelfingen near Stuttgart. Here, 5G mobile communication is implemented at a major production site for the first time. In future, all processes will be optimised and, if necessary, adapted at short notice to current market requirements. Furthermore, the 5G mobile communications standard connects production systems and machines in an intelligent manner, thereby supporting the efficiency and precision of the production process and harnessing the full potential of Industry 4.0.

**Commercial update**

Telefónica Deutschland delivered another quarter of postpaid growth in German mobile. Various portfolio innovations such as the **$O_2$ Cloud and $O_2$ TV** give further support to our ARPU-up and churn down strategy, which is visibly reflected in our financial performance. We are making solid progress towards our ambition to become Germany's "Mobile Customer & Digital Champion" by 2022. In Q2 we also introduced the following services for our customers:

- **$O_2$ DSL Service Suite** for laptop and PC and the **DSL Help App** will support customers in setting up their DSL connection and to solve problems via a comprehensive, self-directed service
- Our customers can now get in touch with the **customer service via WhatsApp** for all topics regarding their tariff and their invoice. First contact is managed by the **$O_2$ chatbot Lisa** who then involved an agent where necessary

We also received several relevant awards this quarter:

- The **$O_2$ brand won the connect shop test,** climbing from third place last year to the top. Above all, the test singled out the professionalism of our shop employees as exceptional
- Telefónica Deutschland is the **winner of this year's readers' choice in the $O_2$ partner shop test** of the German media channel **Telecom Handel**. We achieved highest ratings in the categories "competence and reachability", "support of end-customer marketing" and "support with test & demo devices"
- In the first **B2B network operator check** by German media channel **Telecom Handel**, Telefónica Deutschland was ranked number 1 both in the mobile and fixed broadband business. We were able to convince with highest marks in 12 out of 27 categories; including "excellent service" and the subcategories "project protection", "design of customer offers" and "processes for customer handling"
- In the **2019 connect fixed broadband test $O_2$ DSL** improved its result by one grade **to "very good"**, ranking first in the categories voice quality and web services

## Financial outlook 2019

Telefónica Deutschland results for the first half year of 2019 were in line with expectations. Thus, we re-iterate our full-year 2019 outlook, which remains unchanged as published in the 2018 Annual Financial Report.

Effects from the implementation of IFRS16 as of 1 January 2019 are not reflected in the financial outlook[12]

| | Baseline 2018 | Outlook 2019 | H1 2019 |
|---|---|---|---|
| **Revenue** | EUR 7,320 million | Broadly stable y-o-y<br>(excl. negative regulatory effects of EUR 60-70 million) | +1.8% y-o-y |
| **OIBDA**<br>Adjusted for exceptional effects[13] | EUR 1,884 million | Broadly stable to slightly positive y-o-y<br>(excl. negative regulatory effects of EUR 40-50 million) | +0.7% y-o-y<br>as per IAS 17 reporting<br>----<br>+25.2% y-o-y<br>as per IFRS 16 reporting |
| **Capex[14] to Sales Ratio** | 13.2% | Approx. 13-14% | 13.9% |
| **Dividend** | EUR 0.27/share<br>Proposal for FY 2018 to next AGM | High pay-out ratio over FCF | N/A |

Telefónica Deutschland remains committed to an attractive shareholder remuneration; we maintain high confidence in our FCF generation ability and our dividend policy is unchanged since the IPO.

12 For more information, please refer to the materials of the quarterly reporting during the period
13 Exceptional effects such as restructuring costs or the sale of assets are excluded
14 Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

## Telefónica Deutschland operating performance in the first half of 2019

As of 30 June 2019 Telefónica Deutschland's **customer accesses** reached 47.6 million (+0.8% year-on-year), thereof 43.2 million[15] mobile accesses (+0.6% year-on-year). **Mobile postpaid** grew by +5.1% year-on-year and reached 22.9 million customers. As per the end of June, mobile postpaid represented 52.9% of our total mobile base, up +2.3 percentage points year-on-year. The **mobile prepaid** base totalled 20.3 million customers, a decrease of -4.1% year-on-year, reflecting the lower demand as a result of changes in the regulatory environment. In fixed, the **DSL retail** customer base reached 2.2 million accesses, a year-on-year increase of +5.5% driven by strong demand for VDSL. The **VDSL** base grew +17.7% year-on-year to 1.6 million accesses and now represents 72% of our fixed retail base.

**Mobile postpaid** registered strong growth of +607 thousand net additions in the first half of the year compared to +490 thousand net additions in the same period of the previous year, thereof +301[16] thousand in Q2 (+333 thousand in Q2 2018). Customer demand for the $O_2$ Free portfolio remained high and was supported by focused market invest to position the $O_2$ brand after the completion of our network integration. In addition, the contribution from the partner brands remained strong and delivered 62% of gross additions in the first six months of the year driven by 4G-related migration effects and an expansion of partnerships with non-MBA partners.

**Mobile prepaid** saw -208 thousand net disconnections in the six month 2019, compared to -683 thousand in the same period of the previous year, still driven by reduced demand for prepaid offers, resulting from regulatory changes and a general market trend towards postpaid. In Q2 however, we saw early signs of improving churn and for the first time since the introduction of the regulatory changes in 2017 posted positive net adds of +3 thousand (-148 thousand in Q2 2018).

**Postpaid churn** reached -1.5% in the first six month and Q2 respectively, a slight improvement of -0.1 percentage points in the half year and stable year-on-year in the second quarter, resulting from a sustained retention focus. $O_2$ consumer postpaid churn saw a further year-on-year improvement to -1.3% in the January to June period and to -1.2% in the second quarter. The implied annualised churn rates of -15.1% for H1 and -14.3% in Q2 already go beyond our 2 p.p. target for 2022 (vs. 18.0% at FY 2017).

**Smartphone penetration**[17] was 67.9% at the end of June across brands and segments, +4.5 percentage points year-on-year.

The **LTE customer base** grew by +21.6% year-on-year to 20.2 million accesses as of 30 June 2019, driven by the sustained demand for high-speed mobile data services. LTE-penetration across the base reached 48.0%, up +8.3 percentage points year-on-year, while in postpaid LTE penetration is significantly higher already at ~65%.

[15] Based on 6 months inactivity accounting, mobile customer base stood at 45.3 million accesses and our total access base reached 49.6 million
[16] Excluding a revenue-neutral technical base correction in M2M, mobile postpaid saw +369 thousand net additions
[17] Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M and data-only accesses

**ARPU** trends continue to show the impact of the expected regulatory drag (see outlook 2019). Furthermore, visible ARPU accretive effects from the $O_2$ Free portfolio and new value added services are also still partially offset by legacy base effects. Nevertheless, the blended mobile ARPU reached EUR 9.9 in the first half of 2019 and EUR 10.0 in the April to June period, up +0.1% and +0.2% year-on-year respectively. **Postpaid ARPU** fell -3.5% year-on-year to EUR 14.3 in the first six month and -3.3% year-on-year (from -3.8% year-on-year in the previous quarter) to EUR 14.4 in the second quarter of 2019. **Prepaid ARPU** came to EUR 5.8 in the January to June period and to EUR 5.9 in the second quarter, a plus of +3.2% and +3.0% year-on-year respectively.

The **fixed retail ARPU** reached EUR 23.4 in the first half of the year and Q2 respectively (-5.3% year-on-year in H1 and -4.9% in the second quarter) and reflects promotional activities as well as a higher share of bundles in the customer base.

The **fixed retail broadband customer base** totalled approx. 2.2 million accesses, an increase of +5.5% year-on-year. In the first half year of 2019 we saw +82 thousand net additions, thereof +38 thousand in the second quarter driven by the strong traction of the VDSL portfolio. VDSL posted +124 thousand net additions from January to June and +59 thousand in Q2.

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**Telefónica Deutschland financial performance in the first half of 2019**

**Revenue** came in at EUR 3,564 million in the first half of 2019, an increase of +1.1% year-on-year (EUR 1,785 million in the second quarter, +1.6% year-on-year) helped by continued strong demand for handsets and the turnaround in mobile service revenue in the second quarter of 2019. **Excluding negative regulatory effects** of EUR -25 million (mainly MTR)[18], revenue was up **+1.8% year-on-year in the first six month to 3,589 million and +2.4% higher year-on-year in Q2 reaching EUR 1,799million.**

**Mobile service revenue**[19] reversed prior quarters' trends and broke the zero line in Q2 2019, totalling EUR 2,599 million (+0.1% year-on-year) in January to June period and EUR 1,319 million (+0.6% year-on-year) in Q2. We are seeing positive effects from $O_2$ Free new connector ARPU, while headwinds from legacy base rotation and retention activities are gradually easing. Excluding negative regulatory effects of EUR -22 million in the half year (EUR -13 million in Q2), **underlying mobile service revenue accelerated to +0.9% year-on-year in the first half of the year and +1.5% year-on-year in the second quarter.** Underlying mobile service revenue totalled **EUR 2,622 million in the January to June period and EUR 1,331 million in the second quarter**.

**Mobile data revenue** grew +3.8% year-on-year to EUR 1,480 million in the first six months of 2019 and +3.6% year-on-year to EUR 751 million in the April to June period, a reflection of the unabated customer demand for larger data bundles. As a percentage of data revenues, non-SMS data revenues increased +5.9 percentage points year-on-year to 90.4% in the first half year.

**Handset revenue** was up +12.8% higher year-on-year to EUR 596 million in the first half of the year, and +12.9% higher year-on-year at EUR 281 million in the second quarter of the year with a steady demand for high value smartphones, that was further helped by promotional activities.

**Fixed revenue** reached EUR 367 million (-6.1% year-on-year) in the January to June period and showed a slowing decline in the second quarter of 2019, reaching EUR 185 million (-3.5% year-on-year). **Fixed retail revenue** fell only -0.9% in Q2 (compared to -3.9% in Q1) on sustained demand for VDSL services and despite a higher bundle share in the customer base.

**Other income** came to EUR 78 million in the first six months of 2019 (+14.1% year-on-year) and EUR 47 million (+41% year-on-year) in Q2 and is mainly generated by the capitalisation of network related rollout costs.

[18] Mobile termination rates were lowered to EURc 0.95 per minute from EURc 1.07 per minute as of 1 Dec 2018

[19] 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** fell -6.3% year-on-year in the half year and -4.5% year-on-year in the second quarter under IFRS 16 accounting standards, reaching EUR 2,559 million and EUR 1,263 million respectively. The implementation of IFRS 16 accounting standards and the resulting impact on operating lease expenses is the major driver of this development and adds to lower supplies and integration related savings. Operating expenses include exceptional[20] costs of EUR 22 million in the half year (EUR 12 million in Q2), mainly related to remaining rental obligations in the mobile and the legacy fixed network. According to IAS 17, restructuring charges[21] were EUR 40 million in the half year and EUR 17 million in Q2.

- **Supplies** were -2.7% lower year-on-year in H1 and totalled EUR 1,094 million vs -2.2% year-on-year and EUR 527 million in Q2. Hardware cost of sales (54% of supplies in the January to June period) were higher year-on-year in line with the strong demand for handsets, while connectivity-related cost of sales (43% of supplies in first half of 2019) came in lower year-on-year, as higher wholesale costs for outbound roaming and international calls within the EU were more than compensated by lower costs for voice termination
- **Personnel expenses** adjusted for restructuring costs of EUR 6 million declined -1.8% year-on-year in the first half of 2019 to EUR 296 million (-2.6% year-on-year to EUR 146 million in Q2) as inflation-related salary adjustments in 2018 were more than offset by integration-related savings
- **Other operating expenses[22]** included exceptional[23] effects of EUR -16 million and reached EUR 1,162 million in the six months period (EUR -6 million and EUR 584 million respectively in Q2). The significant decrease of -10.8% year-on-year in the half-year (-7.7% in the second quarter) is due to the implementation of IFRS16 accounting standards and the resulting impacts on operating lease expenses. Commercial costs and non-commercial costs made up 66% and 32% respectively in the January to June period

[20] Exceptional effects were EUR 22 million of restructuring expenses in the period January to June 2019 (EUR 40 million based on IAS 17)
[21] The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16
[22] Includes other expenses and impairment losses in accordance with IFRS 9
[23] Exceptional effects were EUR 22million of restructuring expenses in the period January to June 2019 (EUR 40 million based on IAS 17). The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16

**Operating Income before Depreciation and Amortisation (OIBDA) adjusted for exceptional[24] and regulatory effects[25] reached EUR 902 million based on IAS 17, +0.7% year-on year in the first half of 2019 (EUR 489 million, +0.5% year-on-year in Q2).** As per IFRS 16 accounting standards underlying OIBDA increased +25.2% year-on-year to EUR 1,121 million in the January to June period (+21.7% year-on-year to EUR 593 million in Q2).

**Please be aware that public consensus figures tend to mix IAS 17 and IFRS 16 estimates for our company this year; you will find regular updates of the full-year, company-gathered consensus under both accounting standards on our website: https://www.telefonica.de/investor-relations-en/share/analyst-recommendation.html**.

Exceptional effects[24] consists of restructuring costs mainly related to remaining network rental agreements and provisions for severance payments. Regulatory effects came to EUR -15 million in the first six months (EUR -10 million in Q2), consisting mainly of usage elasticity effects from the European roaming and international calls regulation, with the latter coming into effect as of 15 May 2019. Including those exceptional and regulatory effects, OIBDA based on IFRS 16 came in at EUR 1,084 million, +25.6% year-on-year in the first six months of 2019 (EUR 570 million; +21.5% year-on-year in Q2). Telefónica Deutschland continued to invest in transformation and into the market to generate future revenue growth. We saw early **transformation savings of ~EUR 15 million in the first half of 2019 (~EUR 10 million in Q2)**, as well as **remaining roll-over effects from integration synergies of ~EUR 30 million (~EUR 10 million in Q2)**.

The underlying OIBDA margin[24, 25] expanded by +5.8 percentage points year-on-year to 31.2% in H1 2019 under IFRS 16.

**Group fees** amounted to EUR 17 million in the first half year and to EUR 8 million in the second quarter of 2019.

**Depreciation & Amortisation** totalled EUR 1,215 million in the January to June period, an increase of +29.6% year-on-year, driven by the implementation of IFRS 16 as a bulk of the operating lease expenses become Right-of-Use assets on the balance sheet. As per IAS 17, Depreciation & Amortisation amounted to EUR 976 million, -4.1% y-o-y, mainly due to the shortened useful life of network equipment as a result of the network integration.

The **operating loss** for the first six month of 2019 was EUR -131 million versus an operating loss of EUR -74 million in the same period of 2018.

**The net financial expenses** for the half year amounted to EUR -26 million compared to EUR -19 million in the prior year.

The Company reported no material **income tax expenses** in the first half year of 2019.

**The net loss** in the first six month of 2019 came in at EUR -156 million, compared to a net loss of EUR -93 million in the same period of the prior year.

[24] Exceptional effects were EUR 22 million of restructuring expenses in the period January to June 2019 (EUR 40 million based on IAS 17). The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16

[25] Regulatory effects amounted to EUR -15 million in the period January to June 2019

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**CapEx**[26] reached EUR 496 million reflecting the continued LTE roll-out effort, including synergies of EUR ~25 million in the first six month with a **C/S ratio of 13.9%**, there of EUR 243 million in Q2 with a C/S ratio of 13.6%.

**Operating cash flow** (OIBDA minus CapEx[26]) for the January to June period was EUR 588 million (+34.0% year-on-year), as a result of the in-year phasing of Capex[26] and the positive IFRS 16 impacts on OIBDA.

**Free cash flow (FCF)**[27] **including the dividend payment** of EUR 803 million for the financial year 2018 came to EUR -481 million for the first six month 2019 under IFRS 16 compared to EUR -689 million in the prior year under IAS 17, showing the typical seasonal phasing. Lease payments, primarily for leased lines and antenna sites, which are capitalised under IFRS 16, amounted to EUR 323[28] million. As a result normalised FCF under IAS 17 stood at EUR -1 million in the first half year of 2019. We maintain strong confidence in our ability to generate future FCF growth.

**Working capital** movements and adjustments were negative in the amount of EUR -228 million. This developments was mainly driven by prepayments for incidental lease costs and short-term leases in connection with leased line and mobile site rental and other prepayments (EUR -20 million), a decrease in Capex payables (EUR -9 million), a reduction in restructuring provisions (EUR -6 million) as well as other working capital movements in the amount of EUR -192 million. The latter include silent factoring transactions for handset receivables in the gross amount of EUR 315 million, which were outweighed by other working capital movements, including a reduction in trade and other payables and inventories.

Following the dividend payment for the financial year 2018 of EUR 803 million in May, **consolidated net financial debt**[29] under IFRS 16 stood at EUR 4,464 million as of 30 June 2019 with a leverage ratio of 1.9x[30]. Under IAS 17, leverage ratio was 1.0x and thus in line with the self-defined target. The implied leverage ratio including both the annualised IFRS 16 effects and the effects of the upcoming payment[29] for 5G spectrum would be 2.5x[30] as of 30 June 2019.

As reflected in the outlook 2019, 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. 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.

Fitch has confirmed our BBB Rating on 26 June 2019, envisaging that Telefónica Deutschland's FFO adjusted net leverage increases to 2.7x in 2019 (from 2.2x in 2018) driven by spectrum payments.

[26] Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

[27] 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

[28] Includes EUR 327 million of lease payments under IFRS 16 and –EUR 4 million of former IAS 17 finance lease payments

[29] 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

[30] Non-audited. Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects. Thus, leverage under IFRS 16 is calculated based on an extrapolated rolling 12-month OIBDA. It will only be possible to report a leverage ratio based on actuals under IFRS 16 with the publication of the financial statements for 2019

Telefónica Deutschland

## APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP

ACCESSES

*Unaudited*

| | 2019 | | 2018 | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Q1 | Q2 | Q1 | Q2 | Q3 | Q4 |
| Final clients accesses | 47,202 | 47,556 | 47,011 | 47,172 | 47,268 | 47,089 |
| Fixed telephony accesses | 2,041 | 2,078 | 1,969 | 1,959 | 1,966 | 1,996 |
| Internet and data accesses | 2,248 | 2,260 | 2,266 | 2,251 | 2,253 | 2,275 |
| Narrowband | 124 | 98 | 206 | 203 | 198 | 195 |
| Broadband | 2,124 | 2,162 | 2,060 | 2,048 | 2,054 | 2,080 |
| *thereof VDSL* | *1,507* | *1,566* | *1,243* | *1,330* | *1,389* | *1,441* |
| Mobile accesses | 42,913 | 43,218 | 42,777 | 42,962 | 43,049 | 42,819 |
| Prepaid | 20,332 | 20,335 | 21,346 | 21,198 | 21,052 | 20,543 |
| Postpaid | 22,581 | 22,883 | 21,431 | 21,764 | 21,997 | 22,276 |
| *thereof M2M (1)* | *1,210* | *1,154* | *1,067* | *1,103* | *1,135* | *1,188* |
| Postpaid (%) | 52.6% | 52.9% | 50.1% | 50.7% | 51.1% | 52.0% |
| Smartphone penetration (%) (2) | 66.6% | 67.9% | 62.0% | 63.5% | 64.9% | 66.0% |
| LTE customers (3) | 19,254 | 20,175 | 16,094 | 16,596 | 17,157 | 18,434 |
| Wholesale accesses (4) | – | – | 63 | 8 | 0 | – |
| **Total accesses** | **47,202** | **47,556** | **47,075** | **47,180** | **47,268** | **47,089** |

(1) Includes a revenue-neutral technical base correction in Q2 2019.

(2) 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).

(3) LTE customers are defined as customers with LTE enabled handsets & LTE tariffs.

(4) Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access.

| | 2019 | | 2018 | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Q1 | Q2 | Q1 | Q2 | Q3 | Q4 |
| Mobile accesses; alternative calculation base (5) | 45,123 | 45,292 | 45,285 | 45,201 | 45,383 | 45,256 |
| Prepaid | 22,192 | 22,070 | 23,508 | 23,122 | 23,039 | 22,627 |
| Postpaid | 22,931 | 23,222 | 21,777 | 22,079 | 22,344 | 22,629 |
| Mobile accesses; alternative calculation base (5) without M2M | 43,913 | 44,138 | 44,218 | 44,097 | 44,248 | 44,068 |

(5) At the beginning of 2017 Telefónica Deutschland introduced an additional methodology for counting mobile accesses. It takes into account an alternative definition of the time window for counting inactive prepaid customers (six months).

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

*Unaudited*

| | 2019 | | 2018 | | | |
|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q1 | Q2 | Q3 | Q4 |
| ARPU (in Euros) (1) | 9.8 | 10.0 | 9.8 | 10.0 | 10.2 | 10.1 |
| Prepaid | 5.7 | 5.9 | 5.6 | 5.8 | 6.0 | 6.0 |
| Postpaid excl. M2M | 14.2 | 14.4 | 14.8 | 14.8 | 15.0 | 14.8 |
| Data ARPU (in Euros) | 5.7 | 5.8 | 5.4 | 5.6 | 5.8 | 5.8 |
| % non-SMS over data revenues (2) | 90.4% | 90.4% | 85.0% | 84.1% | 85.9% | 86.3% |
| Voice Traffic (m min) (3) | 26,017 | 26,747 | 23,341 | 24,554 | 23,899 | 25,616 |
| Data Traffic (TB) (4) | 193,007 | 226,753 | 126,040 | 151,620 | 165,440 | 179,250 |
| Churn (%) | 1.9% | 1.8% | 2.2% | 1.8% | 2.0% | 2.3% |
| Postpaid churn (%) excl. M2M | 1.6% | 1.5% | 1.7% | 1.5% | 1.6% | 1.8% |

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 on the company’s network, both outbound and inbound. Promotional traffic and 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 is not rounded.

(4) Data traffic is defined as Terabytes used by the company's customers for uploads and downloads (1TByte = 10^12 bytes). Promotional traffic is included. Traffic not associated with the company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume has not been rounded.

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED INCOME STATEMENT & SELECTED CONSOLIDATED FINANCIAL DATA

*Unaudited*

| | April 1 to June 30 | | | | January 1 to June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| (Euros in millions) | 2019 | 2018 | Change | % Change | 2019 | 2018 | Change | % Change |
| **Revenues** | **1,785** | **1,758** | **28** | **1.6** | **3,564** | **3,525** | **40** | **1.1** |
| **Revenues (excl. regulatory effects 2019)** | **1,799** | **1,758** | **42** | **2.4** | **3,589** | **3,525** | **64** | **1.8** |
| **Mobile business** | **1,600** | **1,560** | **40** | **2.5** | **3,195** | **3,127** | **69** | **2.2** |
| Mobile service revenues | 1,319 | 1,311 | 7 | 0.6 | 2,599 | 2,598 | 1 | 0.1 |
| Mobile service revenues (excl. regulatory effects 2019) | 1,331 | 1,311 | 20 | 1.5 | 2,622 | 2,598 | 24 | 0.9 |
| Handset revenues | 281 | 249 | 32 | 12.9 | 596 | 529 | 67 | 12.8 |
| **Fixed business** | **185** | **192** | **(7)** | **(3.5)** | **367** | **391** | **(24)** | **(6.1)** |
| **Other revenues** | **1** | **6** | **(5)** | **(86.8)** | **2** | **7** | **(5)** | **(74.1)** |
| **Other income** | **47** | **34** | **14** | **41.0** | **78** | **68** | **10** | **14.1** |
| **Operating expenses** | **(1,263)** | **(1,322)** | **59** | **(4.5)** | **(2,559)** | **(2,730)** | **171** | **(6.3)** |
| Supplies | (527) | (538) | 12 | (2.2) | (1,094) | (1,125) | 31 | (2.7) |
| Personnel expenses | (153) | (151) | (1) | 0.8 | (303) | (303) | 1 | (0.2) |
| Impairment losses in accordance with IFRS 9 | (19) | (18) | (0) | 2.1 | (37) | (39) | 2 | (6.3) |
| Other expenses | (565) | (614) | 49 | (8.0) | (1,125) | (1,262) | 137 | (10.9) |
| thereof Group fees | (8) | (9) | 1 | (9.7) | (17) | (19) | 2 | (10.0) |
| **Operating income before depreciation and amortization (OIBDA)** | **570** | **469** | **101** | **21.5** | **1,084** | **863** | **221** | **25.6** |
| *OIBDA margin* | 31.9% | 26.7% | | 5.2%-p. | 30.4% | 24.5% | | 5.9%-p. |
| Exceptional effects (1) | (12) | (18) | 5 | (30.4) | (22) | (32) | 10 | (30.2) |
| **OIBDA adjusted for exceptional effects (1)** | **582** | **487** | **95** | **19.6** | **1,106** | **895** | **211** | **23.6** |
| *OIBDA margin adjusted for exceptional effects* | 32.6% | 27.7% | | 4.9%-p. | 31.0% | 25.4% | | 5.6%-p. |
| **OIBDA adjusted for exceptional effects (1) (excl. regulatory effects 2019)** | **593** | **487** | **106** | **21.7** | **1,121** | **895** | **225** | **25.2** |
| *OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2019)* | 32.9% | 27.7% | | 5.2%-p. | 31.2% | 25.4% | | 5.8%-p. |
| Depreciation and amortization | (607) | (471) | (136) | 29.0 | (1,215) | (937) | (277) | 29.6 |
| **Operating income** | **(37)** | **(1)** | **(36)** | **>100,0** | **(131)** | **(74)** | **(57)** | **76.1** |
| **Net financial income (expense)** | **(12)** | **(10)** | **(2)** | **14.7** | **(26)** | **(19)** | **(7)** | **35.9** |
| **Profit (loss) before tax for the period** | **(49)** | **(12)** | **(37)** | **>100,0** | **(157)** | **(93)** | **(63)** | **67.9** |
| Income tax | 0 | (0) | 0 | (>100,0) | 0 | (0) | 0 | (>100,0) |
| **Total profit for the period** | **(49)** | **(12)** | **(37)** | **>100,0** | **(156)** | **(93)** | **(63)** | **67.6** |
| 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) (2) | (0.02) | (0.00) | (0) | >100,0 | (0.05) | (0.03) | (0) | 67.6 |
| CapEx total (3) | (243) | (228) | (16) | 7.0 | (496) | (424) | (72) | 16.9 |
| thereof CapEx (4) | (243) | (238) | (6) | 2.4 | (496) | (420) | (76) | 18.0 |
| thereof additions from capitalised finance leases | – | 10 | (10) | (100.0) | – | (4) | 4 | (100.0) |
| Additions from capitalised right-of use assets | (43) | – | (43) | (>100,0) | (147) | – | (147) | (>100,0) |
| CapEx/Sales ratio (5) | 13.6% | 12.9% | | 0.7%-p. | 13.9% | 12.0% | | 1.9%-p. |
| Operating cash flow (OIBDA-CapEx) (6) | 326 | 242 | 85 | 35.1 | 588 | 439 | 149 | 34.0 |
| Free cash flow pre dividends and payments for spectrum (7) | 75 | 70 | 5 | 7.3 | 322 | 84 | 238 | >100,0 |

(1) Exceptional effects as of 30 June 2019 include restructuring expenses amounting to EUR 22 million. Exceptional effects as of 30 June 2018 include restructuring expenses amounting to EUR 32 million.

(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 2019 and 2018.

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

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

(5) The calculation is based on CapEx total.

(6) The calculation is based on CapEx.

(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

KEY PERFORMANCE INDICATORS - IAS 17 RECONCILIATION

*Unaudited*

| | 1 April to 30 June 2019 | | | 1 January to 30 June 2019 | | |
|---|---|---|---|---|---|---|
| (Euros in millions) | IFRS 16 | Adjustments | IAS 17 | IFRS 16 | Adjustments | IAS 17 |
| **Revenues (excl. regulatory effects 2019)** | **1,799** | **–** | **1,799** | **3,589** | **–** | **3,589** |
| **OIBDA adjusted for exceptional effects (excl. regulatory effects 2019)** | **593** | **(103)** | **489** | **1,121** | **(219)** | **902** |
| *OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2019)* | 32.9% | | 27.2% | 31.2% | | 25.1% |
| CapEx/Sales ratio (1) | **13.6%** | **–** | **13.6%** | **13.9%** | **–** | **13.9%** |
| | | | | | | |
| **Net financial debt (2)** | | | | **4,464** | **(2,547)** | **1,917** |
| Leverage ratio (3) | | | | 1.9x | | 1.0x |

(1) The calculation is based on CapEx excluding additions from business combinations, from captalised right-of-use assets and capitalised costs on borrowed capital for investments in spectrum.

(2) Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.

(3) Unaudited. Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects. Thus, leverage ratio under IFRS 16 is calculated based on an extrapolated rolling 12-month OIBDA. It will only be possible to report a leverage ratio based on actuals under IFRS 16 with the publication of the financial statements for 2019.

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*Unaudited*

| (Euros in millions) | As of 30 June 2019 | As of 31 December 2018 | Change | % Change |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | **13,315** | **11,061** | **2,255** | **20.4** |
| Goodwill | 1,960 | 1,960 | – | – |
| Other intangible assets | 4,354 | 4,727 | (373) | (7.9) |
| Property, plant and equipment | 3,701 | 3,793 | (92) | (2.4) |
| Right-of-use assets | 2,729 | – | 2,729 | (>100,0) |
| Trade and other receivables | 69 | 70 | (1) | (1.5) |
| Other financial assets | 128 | 101 | 26 | 26.1 |
| Other non-financial assets | 172 | 206 | (34) | (16.7) |
| Deferred tax assets | 204 | 204 | – | – |
| **CURRENT ASSETS** | **2,297** | **2,736** | **(439)** | **(16.0)** |
| Inventories | 182 | 261 | (79) | (30.4) |
| Trade and other receivables | 1,198 | 1,301 | (103) | (7.9) |
| Other financial assets | 12 | 9 | 3 | 28.5 |
| Other non-financial assets | 435 | 413 | 22 | 5.4 |
| Cash and cash equivalents | 470 | 751 | (281) | (37.5) |
| **Total assets = Total equity and liabilities** | **15,613** | **13,796** | **1,816** | **13.2** |
| **EQUITY** | **6,575** | **7,569** | **(994)** | **(13.1)** |
| Common Stock | 2,975 | 2,975 | – | – |
| Additional paid-in capital & retained earnings | 3,600 | 4,594 | (994) | (21.6) |
| Equity attributable to owners of the company | 6,575 | 7,569 | (994) | (13.1) |
| **NON-CURRENT LIABILITIES** | **5,295** | **2,901** | **2,394** | **82.5** |
| Interest-bearing debt | 2,195 | 2,004 | 191 | 9.5 |
| Non-current lease liabilites | 2,126 | – | 2,126 | (>100,0) |
| Trade and other payables | 17 | 19 | (2) | (8.1) |
| Provisions | 619 | 526 | 93 | 17.8 |
| Deferred income | 154 | 176 | (23) | (12.9) |
| Deferred tax liabilities | 184 | 177 | 8 | 4.4 |
| **CURRENT LIABILITIES** | **3,742** | **3,326** | **416** | **12.5** |
| Interest-bearing debt | 435 | 145 | 290 | >100,0 |
| Current lease liabilites | 468 | – | 468 | (>100,0) |
| Trade and other payables | 2,144 | 2,419 | (276) | (11.4) |
| Provisions | 140 | 188 | (47) | (25.2) |
| Other non-financial liabilities | 99 | 39 | 60 | 154.4 |
| Deferred income | 456 | 535 | (79) | (14.8) |

| **Financial Data** | | | | |
|---|---|---|---|---|
| Net financial debt (1) | 4,464 | 1,129 | 3,335 | >100,0 |
| Leverage (2) | 1.9x | 0.6x | 1.3x | >100,0 |

(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.

(2) Unaudited. Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects. Thus, leverage ratio under IFRS 16 is calculated based on an extrapolated rolling 12-month OIBDA. It will only be possible to report a leverage ratio based on actuals under IFRS 16 with the publication of the financial statements for 2019.

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TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET DEBT

*Unaudited*

| | 2019 | | 2018 | | | |
|---|---|---|---|---|---|---|
| (Euros in millions) | Jan - Mar | Jan - June | Jan - Mar | Jan - June | Jan - Sept | Jan - Dec |
| **OIBDA** | **514** | **1,084** | **394** | **863** | **1,324** | **1,797** |
| - CapEX (1) | (252) | (496) | (182) | (420) | (732) | (958) |
| **= Operating Cashflow (OIBDA-CapEx) (1)** | **262** | **588** | **212** | **443** | **592** | **839** |
| +/- Other non-cash income / expenses | – | – | – | – | (15) | (15) |
| **+/- Change in working capital** | **20** | **(228)** | **(184)** | **(343)** | **(253)** | **(79)** |
| +/- (Gains) losses from sale of assets | (0) | (0) | (0) | (0) | (0) | (0) |
| +/- Proceeds from sale of companies | – | – | – | – | – | 21 |
| +/- Proceeds from sale of fixed assets and other effects | 0 | 1 | 0 | 0 | 0 | 0 |
| + Net interest payments | (21) | (26) | (16) | (19) | (22) | (33) |
| + Taxes paid | – | – | – | – | – | – |
| +/- Proceeds / Payments on financial assets | (13) | (12) | 4 | 3 | 0 | 1 |
| + Acquisition of companies net of cash acquired | (0) | (0) | (0) | (0) | (1) | (1) |
| **= Free cash flow pre dividends and payments for spectrum (2)** | **247** | **322** | **15** | **84** | **301** | **733** |
| - Payments for spectrum | – | – | – | – | – | – |
| - Dividends | – | (803) | – | (773) | (773) | (773) |
| **= Free cash flow post dividends and payments for spectrum** | **247** | **(481)** | **15** | **(689)** | **(472)** | **(40)** |
| Net financial debt at the beginning of the period | 1,129 | 1,129 | 1,064 | 1,064 | 1,064 | 1,064 |
| + Other changes in net financial debt (3) | 2,778 | 2,854 | 35 | 44 | 55 | 25 |
| **= Net financial debt at the end of the period (incl. Restricted cash)** | **3,659** | **4,464** | **1,085** | **1,797** | **1,591** | **1,129** |

(1) Excluding additions from business combinations, from captalised right-of-use assets (as of 1 January 2019) respectively from captalised finance leases (till 31 December 2018) and capitalised costs on borrowed capital for investments in spectrum.

(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.

(3) Due to IFRS 16 lease liabilities.

| | 2019 | | 2018 | | | |
|---|---|---|---|---|---|---|
| | Jan - Mar | Jan - June | Jan - Mar | Jan - June | Jan - Sept | Jan - Dec |
| = Free cash flow pre dividends and payments for spectrum (Euros in millions) | 247 | 322 | 15 | 84 | 301 | 733 |
| Number of shares (in millions) | 2,975 | 2,975 | 2,975 | 2,975 | 2,975 | 2,975 |
| = Free cash flow per share (in Euros) | 0.08 | 0.11 | 0.00 | 0.03 | 0.10 | 0.25 |

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TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

*Unaudited*

| (Euros in millions) | As of 30 June 2019 | As of 31 December 2018 | % Change |
|---|---|---|---|
| **A Liquidity** | **470** | **751** | **(37.5)** |
| **B Current financial assets (1)** | **193** | **182** | **5.9** |
| **C Current financial debt (2)** | **904** | **145** | **>100,0** |
| **D=C-A-B Current net financial debt** | **241** | **(788)** | **(>100,0)** |
| **E Non-current financial assets (1)** | **99** | **87** | **13.3** |
| **F Non-current financial debt (2)** | **4,321** | **2,004** | **>100,0** |
| **G=F-E Non-current net financial debt** | **4,222** | **1,917** | **>100,0** |
| **H=D+G Net financial debt (3)** | **4,464** | **1,129** | **>100,0** |

(1) Current and non-current financial assets include handset receivables not yet due, net investments in the lease (as of 1 January 2019), 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 lease liabilities (as of 1 January 2019) respectively finance leases (till 31 December 2018), bonds, promissory notes and registered bonds issued as well as other loans.

(3) Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.

Note:
Handset receivables are presented in trade and other receivables on the Consolidated Statement of Financial Position.

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