Telefónica Deutschland

MUNICH, 09 May 2019

Interim statement[1] for January to March 2019

Telefónica Deutschland first quarter results show strong operating momentum and transformation focus

- **Q1 2019 underlying[2] revenue +1.3% year-on-year with strong consumer demand for handsets; underlying[2] MSR trend solid at +0.3% year-on-year**
- **Underlying OIBDA[3] (as per IAS 17) +1.0% year-on-year, reflects transformation & market invest post network consolidation**
- **Front-loaded Capex phasing as we are pushing ahead with LTE rollout; clear focus on improving customer experience**
- **Access to Vodafone's cable networks further enhances infrastructure portfolio**

First quarter 2019 operational & financial highlights

- **Mobile postpaid** with +306 thousand net additions in the first quarter of 2019 as a result of sustained customer demand for the O_2 Free portfolio and strong contribution from partner business (60% of gross additions in Q1). Churn in the O_2 brand improved by -0.2 percentage points, reflecting the sustained retention focus. Total postpaid churn was -1.6% in the first quarter
- **LTE penetration** up 8 p.p. y-o-y to 46%**;** LTE customer base at 19.3 million at the end of March 2019, +19.6% year-on-year. Data usage continues to grow with a CAGR of ~50% fuelled by the adoption of LTE and larger data packages. Data usage was up +4.2% quarter-on-quarter and +52% year-on-year to 4.2 GB per month overall and 7.4 GB in the O_2 Free M tariff
- **Underlying[2] revenue** was up **+1.3% year-on-year** amounting to **EUR 1,789 million** due to strong consumer trading and demand for handsets. Including negative regulatory effects of EUR -11 million, revenue reached EUR 1,779 million, an increase of +0.7% year-on-year
- **Underlying[2] mobile service revenue[4]** was solid at **+0.3% year-on year** and came to **EUR 1,291 million**. O_2 Free ARPU continues to be accretive with leftover drag from legacy base effects and from renewal cycles of customers affected by customer service or network issues during the integration period. Reported mobile service revenue was EUR 1,281 million (-0.5% year-on-year)

[1] Unless indicated otherwise, all financial KPIs and year-on-year comparisons published in this document are prepared in accordance with IFRS accounting standards as adopted by the European Union. Financial KPIs for 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)

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

[4] 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

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- **Handset revenue** grew strongly at **+12.6%** year-on-year and totalled **EUR 315 million**, as promotional activities supported customer demand for high-end smartphones across segments
- **Fixed-line revenue** fell by -8.6% year-on-year to EUR 182 million, mainly reflecting the planned dismantling of legacy infrastructure and a higher share of bundles in the retail base. As such, **fixed retail revenue** fell -3.9% year-on-year
- **OIBDA adjusted for exceptional and regulatory effects[5] based on IAS 17** came to **EUR 412 million, up +1.0% y-o-y**, reflecting market and transformation invest as well as roll-over synergies and early transformation benefits. Underlying OIBDA under IFRS 16 accounting standards saw an increase of +29.4% year-on-year to EUR 528 million in Q1. IFRS 16 improves comparability to other operators in the sector. The **OIBDA margin** adjusted for exceptional and regulatory effects[5] was stable at 23.0% under IAS 17 and up +6.4 percentage points year-on-year at **29.5% under IFRS 16**
- **CapEx[6]** was front-loaded at **EUR 252 million with a C/S ratio of 14.2%** (EUR 182[6] million with a C/S ratio of 10.3% in prior year), reflecting the ongoing LTE rollout
- **Consolidated net financial debt[7]** was EUR 3,659 million as of 31 March 2019; with balance sheet items within net financial debt affected by IFRS 16 still subject to change within a bandwidth of +/- 5%. Under IAS 17, consolidated net financial debt amounted to EUR 1,094 million with a leverage of 0.6x. The latter thus remained well below the current self-defined target of up to or at 1.0x. 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

[5] Exceptional effects were EUR 10 million of restructuring expenses in the period January to March 2019 (EUR 23 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 -4 million in the period January to March 2019

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

[7] 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

Network update

We are pushing ahead with the rollout of our LTE network with a clear focus on improving customer experience by adding additional coverage and capacity on a daily basis.

Already in 2018, Telefónica Deutschland completed its network consolidation and connected an additional 6,700 LTE stations. We intend to continue with our intense rollout effort with another 10,000 additional LTE sites by year-end 2019. In the first quarter of 2019, we have already implemented 2,200 additional sites with LTE and LTE population coverage stands now at around 90%. At the same time, we continue to roll out fibre in the backhaul by means of a variety of co-operations; with the target of reaching ~70% of fibre penetration in the backhaul by 2022. Consequently, customers on the O_2 network benefit from constant improvements in LTE capacity, faster speeds and an ever better network performance. Thus, we are making further progress towards our vision of becoming Germany's "Mobile Customer & Digital Champion".

On the fixed side, we have now enhanced our infrastructure portfolio with the addition of cable wholesale access through a long-term cooperation with Vodafone. The agreement is complementary to our existing infrastructure co-operations in the fixed network arena and subject to the planned acquisition of Unitymedia by Vodafone, which is currently under review by the EU Commission. Herewith, Telefónica Deutschland is significantly expanding its nationwide fixed-network offering with attractive products beyond the currently available VDSL super vectoring products with up to 250 mbps. In the future, we will be able to supply up to 24 million cable households in Germany with attractive O_2 fixed network products at higher even higher speeds.

Thus, our fixed and mobile infrastructure is now ready for the future and we have made significant progress towards our vision to become Germany's "Mobile Customer & Digital Champion".

Digital transformation

2019 marks the first year of Telefónica Deutschland's four-year **transformation programme Digital4Growth**, which we launched at our Capital Markets Day in February 2018. It has a clear focus on customer experience in the digital age. We are striving for continued profitable growth by capturing additional revenue growth opportunities in our core business, while also pushing into new business areas such as those arising from e-SIM capabilities, Advanced Data Analytics (ADA) or the Internet-of-Things (IoT). We also target efficiency gains from the further automation and digitalisation of processes, thus becoming **'simpler, faster and better'**.

We reiterate our transformation plan of capturing an additional EUR 600 million of gross OIBDA between 2019 & 2022, including growth and efficiency gains. In 2019, we foresee an additional EUR 40 million gross gains at OIBDA level, with a significant gradual ramp up across the year and in the outer years. Upfront transformation investments are expected to gradually ramp down over the duration of the programme.

As such, in the first quarter of 2019 transformation invest was mainly related to omnichannel initiatives and the further optimisation of our churn analytics capabilities. The latter has already resulted in a visible reduction (-0.7 percentage points year-on-year) of annualised postpaid churn in O_2 consumer in 2018. In the first quarter of 2019, we saw another improvement of -0.2 percentage points year-on-year to -1.3%.

In Q1 2019, we delivered ~EUR 5 million of gross transformation benefits, mainly from successful market initiatives. Please see next section for a breakdown of our product updates.

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Commercial update

In a dynamic market environment, Telefónica Germany showed strong postpaid trading in the first quarter of 2019 and introduced a number of portfolio innovations to support the ARPU-up and churn-down strategy:

- **O_2 TV and O_2 Free keep-surfing guarantee:** On 2 May 2019, we launched O_2 TV, an IPTV product powered by waipu.tv. O_2 TV customers can watch live TV at anytime and anywhere. O_2 TV is available from 4.99 Euro/month, without contractual obligation and set-top box, but with more than 100 TV channels - mostly in HD quality. Just in time for the O_2 TV market launch, we have extended the O_2 Free keep-surfing guarantee for all existing and new customers to the LTE network
- **O_2 Cloud:** On April 8th, we introduced the O_2 Cloud with unlimited storage for 4.99 Euro per month. This allows O_2 customers to access their data from anywhere and from any device
- **New super vectoring tariffs** have been added to our O_2 DSL portfolio on 7 March 2019:
    - The **O_2 my Home XL** tariff is particularly suitable for families and flat-sharing communities, as all members can surf simultaneously at speeds of up to 250 Mbps and without any loss in performance. With a minimum term of 24 months, the tariff is available in the first year for EUR 34.99, from the 13th contract month for EUR 44.99 per month
    - The **O_2 my Office XL** tariff for business customers with a surfing speed of up to 250 Mbps is available for a minimum term of 24 months in the first year for EUR 39.99, then for EUR 49.99 per month thereafter. In addition, customers benefit from a business-class service, including a 24/7 business customer hotline
- Various awards in the first quarter of 2019 confirm our continued progress towards becoming the "Mobile Customer & Digital Champion" by 2022:
    - **Focus Money award as "Digital Champion" in Telecommunications (February 2019):** We were praised in particular for our successful omnichannel sales approach, which ensures a consistent customer experience across all customer contact channels
    - **The Forrester Wave™ (March 2019)**, an analysis of the market research company Forrester Research, honoured Telefónica Germany as a leader in the area of Specialised Insights Services
    - **Double German Stevie Award for O_2 customer service (March 2019):**
        - On behalf of the entire O_2 Customer Service & Sales team, our customer service director received the Golden German Stevie Award as "Manager of the Year". A key element of the award was the consistent implementation of a strategy programme to optimise service processes and quality
        - The team was awarded with the Silver German Stevie Award as "Team of the Year" in the customer service category for the development of digital self-services

Financial outlook 2019

Telefónica Deutschland Q1 2019 results 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[8]

	Baseline 2018	Outlook 2019	Q1 2019
Revenue	EUR 7,320 million	Broadly stable y-o-y (excl. negative regulatory effects of EUR 60-70 million)	+1.3% y-o-y
OIBDA Adjusted for exceptional effects[9]	EUR 1,884 million	Broadly stable to slightly positive y-o-y (excl. negative regulatory effects of EUR 40-50 million)	+1.0% y-o-y as per IAS 17 reporting ---- +29.4% y-o-y as per IFRS 16 reporting
Capex[10] to Sales Ratio	13.2%	Approx. 13-14%	14.2%
Dividend	EUR 0.27/share Proposal for FY 2018 to next AGM	High pay-out ratio over FCF	N/A

Telefónica Deutschland is re-iterating its dividend commitment with a high pay-out ratio over FCF and will give further details as per usual in the second half of the year.

[8] For more information, please refer to the materials of the quarterly reporting during the period
[9] Exceptional effects such as restructuring costs or the sale of assets are excluded
[10] 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

Telefónica Deutschland operating performance in the first quarter of 2019

As of 31 March 2019 Telefónica Deutschland's **customer accesses** came to 47.2 million (+0.3% year-on-year), of which there were 42.9 million[11] mobile accesses (+0.3% y-o-y). Mobile postpaid saw an increase of +5.4% year-on-year with 22.6 million customers. Our mobile postpaid base represented 52.6% of our total mobile base as of end of March, a growth of +2.5 percentage points year-on-year. Our mobile prepaid base stood at 20.3 million customers, a year-on-year decrease of -4.8% on the back of lower demand driven by regulatory changes. In fixed, the DSL retail customer base grew +3.1% year-on-year to 2.1 million accesses, whereby the demand for VDSL (+65k net additions in the first quarter of the year) continued to be solid.

Mobile postpaid posted a strong first quarter +306 thousand net additions in the first quarter vs +157 thousand net additions in Q1 last year. We continue to see sustained customer demand for the O_2 Free portfolio helped by focused market invest to position the O_2 brand. Also, contributions from the partner business remained strong (60% of gross additions in Q1) driven by 4G offers and customer migration.

Mobile prepaid registered -211 thousand net disconnections in the first quarter, compared to -535 thousand in Q1 last year. Prepaid remains a significant contributor for our business. However, there is continuous lower demand for prepaid in the market, mainly resulting from the regulatory changes in 2017 as well as a general market trend towards postpaid offers.

Postpaid churn stood at -1.6% in the first quarter, a slight improvement of -0.2 percentage points year-on-year, due to a sustained retention focus. O_2 consumer postpaid churn maintained a positive trend and improved by -0.2 percentage points to -1.3% in Q1 2019.

Smartphone penetration[12] across segments was up +4.6 percentage points year-on-year, reaching 66.6% at the end of March 2019.

The **LTE customer base** grew by +19.6% year-on-year and totalled 19.3 million accesses as of 31 March 2019, benefitting from the continuously increasing demand for high-speed mobile data services. LTE-penetration of the base increased by +7.6 percentage points year-on-year to 46.2%.

ARPU-accretive effects in the first quarter of the year from the new O_2 portfolio were partially offset by legacy base effects including the ongoing effects from renewal cycles of customers affected by customer service or network issues during integration period. The blended mobile ARPU came to EUR 9.8 in the first quarter, up +0.1% year-on-year. **Postpaid ARPU** fell -3.8% year-on-year to EUR 14.2 for January to March versus -2.3% year-on-year in Q4 2018; with the weakening being the result of the reduction of the mobile termination rates. **Prepaid ARPU** reached EUR 5.7 in the first quarter, a plus of +3.3% year-on-year.

[11] Based on 6 months inactivity accounting, mobile customer base stood at 45.1 million accesses and our total access base reached 49.4 million
[12] Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M and data-only accesses

The **fixed retail ARPU** stood at EUR 23.4 in the first quarter (-5.8% year-on-year), resulting from promotional activities and the higher share of bundles in the customer base.

The **fixed retail broadband customer base** grew +3.1% year-on-year to approx. 2.1 million accesses. In the first quarter of 2019 we saw +44 thousand net additions, whereby demand for VDSL (+65 thousand in the first quarter) continued to be solid.

Telefónica Deutschland financial performance in the first quarter 2019

Revenue came in at EUR 1,779 million in the first quarter of the year (+0.7% year-on-year). **Excluding negative regulatory effects** of EUR -11 million, mainly driven by the mobile termination rate cut to EURc 0.95 per minute as of 1 Dec 2018, revenue increased **+1.3% year-on-year** in the first quarter **to 1,789 million**. This was helped by another quarter of strong consumer demand for handsets.

Mobile service revenue[13] reached EUR 1,281 million (-0.5% year-on-year) in the first quarter of 2019. Excluding the regulatory drag of EUR -10 million in Q1, **underlying mobile service revenue** trends were solid with **+0.3% year-on-year** reaching **EUR 1,291 million** in Q1. ARPU-accretive effects from the new O_2 portfolio were partially offset by legacy base effects, including the ongoing effects from renewal cycles of customers affected by customer service or network issues during integration period.

Mobile data revenue was +4.1% higher year-on-year, reaching EUR 730 million in the first quarter, reflecting customer demand for higher data bundles. As a percentage of data revenues, non-SMS data revenues increased +5.4 percentage points year-on-year to 90.4% in Q1 2019.

Handset revenue grew +12.6% to EUR 315 million in the first quarter of the year, as customer demand for high-end smartphones remained strong in Q1 helped by promotional activities.

Fixed revenue saw a further decline and came to EUR 182 million (-8.6% year-on-year) in the first quarter. Trends remain similar which as before, mainly reflecting the planned dismantling of legacy infrastructure.

Other income was EUR 31 million in Q1 2019, a decrease of -11.9% year-on-year.

Operating expenses showed a decrease of -8.0% year-on-year in the first quarter under IFRS 16 accounting standards, reaching EUR 1,296 million. The underlying improvement was mainly due to lower supply costs vs Q1 2018 as well as integration activities. Operating expenses include exceptional[14] costs of EUR 10 million in the first quarter, mainly related with remaining rental obligations in the mobile and the legacy fixed network. According to IAS 17, restructuring charges were EUR 23 million.[15]

- **Supplies** were -3.3% lower year-on-year and totalled EUR 568 million in Q1 2019. Hardware cost of sales (56% of supplies in the first quarter) were higher year-on-year in line with the strong demand for handsets, while connectivity-related cost of sales (40% of supplies in the first quarter) were slightly higher year-on-year, as lower costs for voice termination compensated higher wholesale costs for outbound roaming

- **Personnel expenses** adjusted for restructuring costs fell -1.1% year-on-year in the first quarter to EUR 150 million as inflation-related salary adjustments in 2018 were more than compensated by integration savings from the employee restructuring programme

[13] 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

[14] Exceptional effects were EUR 10 million of restructuring expenses in the period January to March 2019 (EUR 23 million based on IAS 17)

[15] 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

Telefónica Deutschland

- **Other operating expenses**[16] decreased -13.7% year-on-year as of end of March 2019 driven by the IFRS16 impacts on operating leases and reached EUR 578 million, including exceptional[17] effects of EUR 10 million. Commercial costs and non-commercial costs made up 65% and 33% respectively

Operating Income before Depreciation and Amortisation (OIBDA) adjusted for exceptional[17] and regulatory effects[18] totalled to EUR 412 million based on IAS 17, +1.0% year-on year in the first quarter of 2019; while under IFRS 16 accounting standards underlying OIBDA grew +29.4% year-on-year to EUR 528 million. Including the before mentioned effects, OIBDA based on IFRS 16 came in at EUR 514 million, +30.5% year-on-year in the first quarter of 2019. Telefónica Deutschland invested into the market to participate from future revenue growth opportunities. At the same time, transformation invest is front-loaded in H1 2019. We also already saw upfront transformation savings of EUR 5 million in the first quarter of 2019, as well as roll-over synergies ~EUR 20 million. Exceptional effects[17] were restructuring costs mainly related to remaining network rental agreements. Regulatory effects of EUR -4 million in the first quarter period were mainly driven by usage elasticity effects related to the European roaming legislation. The OIBDA margin grew +6.4 percentage points year-on-year to 29.5% in Q1 2019 under IFRS 16.

Group fees amounted to EUR 8 million in the first quarter of 2019.

Depreciation & Amortisation totalled EUR 607 million at the end of March 2019, an increase of +30.1% year-on-year, driven by the implementation of IFRS 16. As per IAS 17, D&A was EUR 490 million; +5.1% y-o-y, mainly due to the shortened useful life of network equipment as a result of the network integration.

The **operating loss** in the January to March period 2019 was EUR -94 million compared to an operating loss of EUR -73 million in Q1 2018.

The net financial expenses in Q1 2019 was EUR -14 million versus EUR -9 million in the prior year.

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

The net loss in Q1 2019 was EUR -107 million, compared to a net loss of EUR -82 million in the prior year.

CapEx[19] saw a strong increase to EUR 252 million, including synergies of EUR ~15 million, in the first quarter (C/S ratio 14.2%) vs EUR 182 million in prior year (C/S ratio 10.3%), as we maintained a strong pace in the LTE rollout.

Operating cash flow (OIBDA minus CapEx[19]) came in at EUR 262 million (+32.6% year-on-year) in the first quarter of 2019, reflecting in year phasing of Capex[19] and the positive IFRS 16 impacts on OIBDA.

[16] Includes other expenses and impairment losses in accordance with IFRS 9

[17] Exceptional effects were EUR 10 million of restructuring expenses in the period January to March 2019 (EUR 23 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

[18] Regulatory effects amounted to EUR -4 million in the period January to March 2019

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

Free cash flow (FCF)[20] amounted to EUR 247 million for the January to March period 2019 compared to EUR 15 million in the prior year under IAS 17. Advance lease prepayments for leased lines and rental contracts for mobile sites, which are capitalised under IFRS 16, amounted to EUR 257 million. As a result normalised FCF under IAS 17 stood at EUR -9 million in the first quarter of 2019 and shows the typical seasonal phasing across the year. We remain our strong confidence in the ability to generate FCF growth.

Working capital movements in the first quarter are reflecting seasonal prepayments at the beginning of each year and were positive in the amount of EUR 20 million. Working capital was driven by prepayments for incidental lease costs, low value and short term leases and other prepayments (EUR -35 million), a decrease in Capex payables (EUR -1 million), a reduction in restructuring provisions (EUR -5 million) as well as other working capital movements in the amount of EUR 61 million. The latter include silent factoring transactions for handset receivables in the gross amount of EUR 159 million, which were outweighed by other working capital movements, including a reduction in trade and other payables and inventories.

Consolidated net financial debt[21] was EUR 3,659 million as of 31 March 2019; with balance sheet items within net financial debt affected by IFRS 16 still subject to change within a bandwidth of +/- 5%. Based on this range and a rolling 12-month OIBDA extrapolated under IFRS 16, the leverage ratio would be approximately 1.0x–1.1x above the comparable figure under IAS17.

Under IAS 17 leverage consolidated net financial debt amounted to EUR 1,094 million with a leverage of 0.6x. The latter thus remained well below the current self-defined target of up to or at 1.0x. As reflected in the outlook 2019, over the course of the financial year 2019 we will review 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.

[20] 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

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

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP

ACCESSES

Unaudited

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

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

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

	2019	2018			
(in thousands)	Q1	Q1	Q2	Q3	Q4
Mobile accesses; alternative calculation base (4)	45,123	45,285	45,201	45,383	45,256
Prepaid	22,192	23,508	23,122	23,039	22,627
Postpaid	22,931	21,777	22,079	22,344	22,629
Mobile accesses; alternative calculation base (4) without M2M	43,913	44,218	44,097	44,248	44,068

(4) 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

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

Unaudited

	2019	2018			
	Q1	Q1	Q2	Q3	Q4
ARPU (in Euros) (1)	9.8	9.8	10.0	10.2	10.1
Prepaid	5.7	5.6	5.8	6.0	6.0
Postpaid excl. M2M	14.2	14.8	14.8	15.0	14.8
Data ARPU (in Euros)	5.7	5.4	5.6	5.8	5.8
% non-SMS over data revenues (2)	90.4%	85.0%	84.1%	85.9%	86.3%
Voice Traffic (m min) (3)	26,017	23,341	24,554	23,899	25,616
Data Traffic (TB) (4)	193,007	126,040	151,620	165,440	179,250
Churn (%)	1.9%	2.2%	1.8%	2.0%	2.3%
Postpaid churn (%) excl. M2M	1.6%	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 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 customers for both 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 is not rounded.

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED INCOME STATEMENT & SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

	1 January to 31 March			
(Euros in millions)	2019 (1)	2018	Change	% Chg
Revenues	**1,779**	**1,767**	**12**	**0.7**
Revenues (excl. regulatory effects 2019)	**1,789**	**1,767**	**22**	**1.3**
Mobile business	**1,596**	**1,566**	**29**	**1.9**
Mobile service revenues	1,281	1,287	(6)	(0.5)
Mobile service revenues (excl. regulatory effects 2019)	1,291	1,287	4	0.3
Handset revenues	315	280	35	12.6
Fixed business	**182**	**199**	**(17)**	**(8.6)**
Other revenues	**1**	**2**	**(0)**	**(27.9)**
Other income	**31**	**35**	**(4)**	**(11.9)**
Operating expenses	**(1,296)**	**(1,408)**	**112**	**(8.0)**
Supplies	(568)	(587)	19	(3.3)
Personnel expenses	(150)	(152)	2	(1.2)
Impairment losses in accordance with IFRS 9	(18)	(21)	3	(13.5)
Other expenses	(560)	(648)	89	(13.7)
thereof Group fees	(8)	(9)	1	(10.3)
Operating income before depreciation and amortization (OIBDA)	**514**	**394**	**120**	**30.5**
OIBDA margin	28.9%	22.3%		6.6%-p.
Exceptional effects (2)	(10)	(14)	4	(29.9)
OIBDA adjusted for exceptional effects (2)	**524**	**408**	**116**	**28.3**
OIBDA margin adjusted for exceptional effects	29.5%	23.1%		6.4%-p.
OIBDA adjusted for exceptional effects (2) (excl. regulatory effects 2019)	**528**	**408**	**120**	**29.4**
OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2019)	29.5%	23.1%		6.4%-p.
Depreciation and amortization	(607)	(467)	(141)	30.1
Operating income	**(94)**	**(73)**	**(21)**	**28.5**
Net financial income (expense)	**(14)**	**(9)**	**(5)**	**61.5**
Profit (loss) before tax for the period	**(107)**	**(81)**	**(26)**	**32.0**
Income tax	0	(0)	0	(>100,0)
Total profit for the period	**(107)**	**(82)**	**(26)**	**31.8**
Number of shares in millions as of end of period date	2,975	2,975	–	–
Basic earnings per share (in euros) (3)	(0.04)	(0.03)	(0)	31.8
CapEx total (4)	(356)	(197)	(159)	81.1
thereof CapEx (5)	(252)	(182)	(70)	38.5
thereof additions from capitalised right-of use assets (6)	(104)	(15)	(89)	>100,0
CapEx/Sales ratio (7)	14.2%	11.1%		3.1%-p.
Operating cash flow (OIBDA-CapEx) (8)	262	197	64	32.6
Free cash flow pre dividends and payments for spectrum (9)	247	15	233	>100,0

(1) Please note that any IFRS 16 relevant positions are still subject to change.

(2) Exceptional effects as of 31 March 2019 include restructuring expenses amounting to EUR 10 million. Exceptional effects as of 31 March 2018 include restructuring expenses amounting to EUR 14 million.

(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 2019 and 2018.

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

(5) CapEx total excluding additions from captalised right-of-use assets (as of 1 January 2019) respectively excluding additions from captalised finance leases (till 31 December 2018).

(6) As of 1 January 2019. Till 31 December 2018: additions from captalised finance leases

(7) The calculation is based on CapEx (as of 1 January 2019) respectively CapEx total (till 31 December 2018).

(8) The calculation is based on CapEx.

(9) 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 January to 31 March 2019		
(Euros in millions)	IFRS 16	Adjustments	IAS 17
Revenues (excl. regulatory effects 2019)	**1,789**	**–**	**1,789**
OIBDA adjusted for exceptional effects (excl. regulatory effects 2019)	**528**	**(116)**	**412**
OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2019)	29.5%		23.0%
CapEx/Sales ratio (1)	**14.2%**	**–**	**14.2%**
Net financial debt (2)	**3,659**	**(2,565)**	**1,094**
Leverage (3)			0.6x

The balance sheet items within net financial debt affected by IFRS 16 are still subject to change within a bandwidth of +/- 5%.	
Net financial debt with +5% change in IFRS 16 positions	3,789
Net financial debt with -5% change in IFRS 16 positions	3,529

(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) Leverage is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects.

The introduction of IFRS16 as per 1 January 2019 has a significant impact on OIBDA, balance sheet and leverage; balance sheet items within net financial debt affected by IFRS 16 are still subject to change within a bandwidth of +/- 5%. Considering this range of additional net financial debt and a rolling 12-month OIBDA extrapolated under IFRS 16, the leverage ratio would be approximately 1.0x-1.1x above the comparable figure under IAS 17. Under IAS 17, the leverage ratio as of 31 March 2019 is 0.6x. 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 31 March 2019 (1)	As of 31 December 2018	Change	% Change
NON-CURRENT ASSETS	**13,591**	**11,061**	**2,530**	**22.9**
Goodwill	1,960	1,960	–	–
Other intangible assets	4,542	4,727	(185)	(3.9)
Property, plant and equipment	3,709	3,793	(84)	(2.2)
Right-of-use assets	2,817	0	2,817	–
Trade and other receivables	73	70	3	4.2
Other financial assets	126	101	25	24.6
Other non-financial assets	160	206	(46)	(22.3)
Deferred tax assets	204	204	–	–
CURRENT ASSETS	**2,531**	**2,736**	**(205)**	**(7.5)**
Inventories	183	261	(79)	(30.1)
Trade and other receivables	1,115	1,301	(186)	(14.3)
Other financial assets	12	9	3	27.4
Other non-financial assets	457	413	44	10.7
Cash and cash equivalents	764	751	13	1.7
Total assets = Total equity and liabilities	**16,121**	**13,796**	**2,325**	**16.9**
EQUITY	**7,437**	**7,569**	**(132)**	**(1.7)**
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	4,462	4,594	(132)	(2.9)
Equity attributable to owners of the company	7,437	7,569	(132)	(1.7)
NON-CURRENT LIABILITIES	**5,081**	**2,901**	**2,180**	**75.1**
Non-current interest-bearing debt	1,981	2,004	(22)	(1.1)
Non-current lease liabilites	2,157	0	2,157	–
Trade payables and other payables	19	19	0	0.0
Non-current provisions	577	526	51	9.7
Deferred income	165	176	(11)	(6.2)
Deferred tax liabilities	181	177	5	2.7
CURRENT LIABILITIES	**3,603**	**3,326**	**278**	**8.3**
Current interest-bearing debt	127	145	(18)	(12.4)
Current lease liabilites	455	0	455	–
Trade payables and other payables	2,266	2,419	(153)	(6.3)
Current provisions	175	188	(12)	(6.6)
Other current non-financial liabilities	111	39	72	>100,0
Deferred income	469	535	(66)	(12.4)

Financial Data				
Net financial debt (2)	3,659	1,129	2,530	>100,0
Leverage (3)		0.6x		

The balance sheet items within net financial debt affected by IFRS 16 are still subject to change within a bandwidth of +/- 5%.				
Net financial debt with +5% change in IFRS 16 positions	3,789	1,129	2,660	235.7
Net financial debt with -5% change in IFRS 16 positions	3,529	1,129	2,400	212.7

(1) Please note that any IFRS 16 relevant positions are still subject to change.

(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) Leverage is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects.

The introduction of IFRS16 as per 1 January 2019 has a significant impact on OIBDA, balance sheet and leverage; balance sheet items within net financial debt affected by IFRS 16 are still subject to change within a bandwidth of +/- 5%. Considering this range of additional net financial debt and a rolling 12-month OIBDA extrapolated under IFRS 16, the leverage ratio would be approximately 1.0x-1.1x above the comparable figure under IAS 17. Under IAS 17, the leverage ratio as of 31 March 2019 is 0.6x. 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.

Unless indicated otherwise all financial KPIs and year-on-year comparisons published in this document are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Therefore the financial KPIs for 2019 include effects of the IFRS 16 implementation as of 1 January 2019.

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET FINANCIAL DEBT

Unaudited

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

The balance sheet items within net financial debt affected by IFRS 16 are still subject to change within a bandwidth of +/- 5%.	
Net financial debt with +5% change in IFRS 16 positions	3,789
Net financial debt with -5% change in IFRS 16 positions	3,529

(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 - Mar	Jan - June	Jan - Sept	Jan - Dec
= Free cash flow pre dividends and payments for spectrum (Euros in millior	247	15	84	301	733
Number of shares (in millions)	2,975	2,975	2,975	2,975	2,975
= Free cash flow per share (in Euros)	0.08	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 31 March 2019	As of 31 December 2018	Change %
A Liquidity	**764**	**751**	**1.7**
B Current financial assets (1)	**196**	**182**	**7.9**
C Current financial debt (2)	**582**	**145**	**>100,0**
D=C-A-B Current net financial debt	**(379)**	**(788)**	**(52.0)**
E Non-current financial assets (1)	**101**	**87**	**15.8**
F Non-current financial debt (2)	**4,138**	**2,004**	**>100,0**
G=F-E Non-current net financial debt	**4,038**	**1,917**	**>100,0**
H=D+G Net financial debt (3)	**3,659**	**1,129**	**>100,0**

The balance sheet items within net financial debt affected by IFRS 16 are still subject to change within a bandwidth of +/- 5%.			
Net financial debt with +5% change in IFRS 16 positions	3,789	1,129	>100,0
Net financial debt with -5% change in IFRS 16 positions	3,529	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 bonds, promissory notes and registered bonds issued, other loans, as well as finance leases (till 31 December 2018) respectively lease liabilities (as of 1 January 2019).

(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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