

MUNICH, 19 February 2020

Preliminary results¹ for January to December 2019

Telefónica Deutschland meets FY 2019 guidance across all metrics on sustained commercial momentum; aiming to accelerate growth profile

- Underlying² revenue grew +1.9% year-on-year in FY 2019 and +1.2% in Q4 driven by continued strong demand for the O₂ Free portfolio
- Underlying³ OIBDA (as per IAS 17) up +1.0% year-on-year in FY 2019 and +1.7% year-on-year in Q4; integration synergies fully delivered
- C/S ratio of 14.1% in 2019; focus on LTE roll-out and enhancing customer experience
- Breakthrough in network quality with 3x “good” ratings in major German network tests
- In 2020 and beyond, Telefónica Deutschland will continue to pursue the path of digital transformation and aims to further accelerate its growth trajectory in a 5G world leveraging a smart investment programme

Fourth quarter 2019 operational & financial highlights

- **Mobile postpaid** saw +456 thousand net additions in Q4 2019, driven by the O₂ Free portfolio and strong partner trading (60% share of gross additions in the fourth quarter). Total postpaid churn stood at -1.5% in the fourth quarter while **churn in the O₂ brand** remained on even lower levels of -1.2% leveraging the network quality improvements and the success of the O₂ Free portfolio
- **LTE customer base** stood at 24.6⁴ million at the end of December 2019, an increase of +33.5% year-on-year, bringing the **LTE penetration** to 58%, +13 percentage points year-on-year. The ongoing adoption of LTE and the O₂ Free portfolio with large data buckets continues to drive data growth with a CAGR of 50%. The average data usage by O₂ Free customers reached 6 GB per month.

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 EURc 0.90 per minute as of 1 Dec 2019) and the EU international call regulation from 15 May 2019 and remaining effects from the RLH regulation

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 Includes a technical database adjustment of 3.2 million customer in Q4-2019

- **Underlying⁵ revenue** grew **+1.2% year-on-year** and reached **EUR 1,990 million**, mainly driven by the good performance of the O₂ Free portfolio, while legacy base headwinds were further easing and somewhat offset ongoing regulatory impacts (e.g. RLAH, intra-EU calling, MTR cuts) as well as a slight decline in handset sales. Including negative regulatory effects of EUR -20 million, revenue was +0.2% year-on-year at EUR 1,970 million
- **Underlying⁴ mobile service revenue⁶ (MSR)** reflected the sustained traction of the own retail business and a solid partner performance and rose **+2.1% year-on-year** to **EUR 1,359 million**. In reported terms, MSR stood at EUR 1,341 million, up +0.8% year-on-year and was thus again in positive territory after the turnaround in Q2 2019
- **Handset revenue** declined **-2.9% year-on-year** mainly on tougher comps vs a very strong prior year quarter, but still posting a strong number of **EUR 432 million** in Q4 19 on continued demand for high value handsets
- **Fixed-line revenue** turned positive and grew by **+2.0% year-on-year** to reach **EUR 189 million** in Q4, supported by sustained operational traction. **Fixed retail revenue** maintained their upward trend and saw **+2.3% year-on-year** growth, reflecting the year-on-year higher customer base on strong demand for VDSL
- **OIBDA adjusted for exceptional and regulatory effects⁷ based on IAS 17** posted growth of **+1.7% year-on-year** reaching **EUR 520 million** in Q4 19, reflecting market and transformation investments. The outcome reflects both a gradual ramp-up in savings from the D4G programme (gross benefits of ~EUR 15 million in Q4 19 and ca. EUR 40 million YTD) and the delivery of the final integration synergies (ca. EUR 5 million in Q4 and ca. EUR 40 million YTD). **Under IFRS 16 accounting standards, underlying⁶ OIBDA** totalled EUR 632 million, up **+23.7% year-on-year** in the fourth quarter of 2019. The **OIBDA margin** adjusted for exceptional and regulatory effects⁶ was flat (+0.1 percentage points year-on-year) at 26.1% under IAS 17 and expanded by +5.8 percentage points year-on-year to **31.8% under IFRS 16**
- **CapEx⁸** stood at **EUR 263 million with a C/S ratio of 13.3%** mainly driven by LTE roll-out and the continued focus on enhancing customer experience in the network

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 EURc 0.90 per minute as of 1 Dec 2019) and the EU international call regulation from 15 May 2019 and remaining effects from the RLH regulation

⁶ Mobile service revenues include base fees and fees paid by our customers for the usage of voice, SMS and mobile data services. Also, access and interconnection fees as well as other charges levied on our partners for the use of our network are included

⁷ Exceptional effects were EUR 23 million of restructuring expenses in the period January to December 2019 (EUR 52 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 -38 million in the period January to December 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)

- **Consolidated net financial debt⁹ under IFRS 16** was EUR 3,860 million as of 31 December 2019 with a leverage ratio of $1.7x^{10}$ ($0.8x$ under IAS 17), benefitting from the deferral of spectrum payments. Thus, leverage was well below the self-defined target of at or below $2.5x$

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

Financial outlook 2020

In 2020, Telefónica Deutschland will continue to build on the achievements from the successful integration of Telefónica Deutschland and E-Plus, in particular economies of scale and the consolidated network as the basis for future growth. We will continue to pursue the path of digital transformation with our programme Digital4Growth, which we have launched in 2019 in order to make our business 'simpler, faster and better' and benefit from revenue and transformation gains.

Our multi-brand and multi-channel strategy will remain the backbone of our go-to-market strategy that has a clear focus on ARPU-up and churn down. We expect pricing in the premium and discount segments to remain stable in 2020 as per the current market environment. As before, postpaid will remain the strongest value-generator for our business driven mainly by own brand performance. Prepaid will also remain an important pillar of our operational and financial performance; however, we expect the current trend of pre- to postpaid migration on the back of regulation to continue.

In 2020, Telefónica Deutschland will be entering into the 5G era and we aim to further accelerate our growth trajectory in the world of 5G by capturing opportunities in the following three areas

- Growing mobile market share in rural areas and reinforcing our strong position in urban areas
- Smart bundling of fixed & mobile products and fixed-mobile-substitution to deliver technology-agnostic products for our customers
- Seizing the B2B market opportunity, particularly in the SME segment

These will form the basis for sustained mobile service revenue momentum. Handset revenue will continue to depend on market dynamics as well as the launch cycles and availability of new device generations. As in the past, handsets margins continue to be broadly neutral. In the fixed business, Telefónica Deutschland Group's technology-agnostic all-infrastructure positioning enables us to match individual customer needs with either VDSL, FTTx or cable.

We expect regulatory changes to remain a headwind for the financial performance in 2020. Revenue will be affected by the negative effects of the termination rate cut for mobile voice minutes from EURc 0.95 to EURc 0.90 as of 1 December 2019 and the new regulation for intra-EU calls/SMS with a cap at EUR 0.19 per minute/EUR 0.06 per SMS since 15 May 2019. In total, we expect the negative regulatory impact on total revenue to amount to approx. EUR 20-30 million in 2020. Similarly, OIBDA performance will continue to reflect the negative usage elasticity effects from the roam-like-home and the before-mentioned intra-EU calls/SMS regulation as well as to a lesser extent the effects from termination rate cuts. In total, we expect the negative regulatory impact on OIBDA to amount to less than EUR 10 million in 2020.

As a result, we expect total revenue in 2020 to be flat to slightly positive year-on-year.

Against this background, we expect OIBDA adjusted for exceptional effects in 2020 to be broadly stable to slightly positive year-on-year.

To capture these growth opportunities in revenue and OIBDA, Telefónica Deutschland has launched a two-year network-focused investment programme with a C/S peak in these years. It is centred on boosting rural coverage primarily with 4G and accelerating urban capacity primarily with 5G. Our investment profile foresees the re-farming of spectrum and efficient use of technologies including the envisaged switch-off of our 3G network by the end of 2022. For 2020, we expect C/S to be at 17-18%.

Our assumptions are based on the expectation of continuity with regards to the competitive environment, economic conditions and existing wholesale relationships.

Financial Outlook 2020

	Actual 2019	Outlook 2020
Revenue	EUR 7,399 million	flat to slightly positive year-on-year
OIBDA Adjusted for exceptional effects	EUR 2,316 million	broadly stable to slightly positive year-on-year
Capex to Sales Ratio	14.1%	17 – 18%

Telefónica Deutschland operating performance 2019

Operating performance in mobile

As of 31 December 2019 Telefónica Deutschland's **mobile customer accesses** grew by +2.4% year-on-year and reached 43.8 million¹¹ driven by the **mobile postpaid** business which posted a continued strong growth of +6.5% year-on-year and came to 23.7 million customers. At the end of December, mobile postpaid accounted for 54.1% of our total mobile base, a plus of +2.1 percentage points year-on-year. The **mobile prepaid** base stood at 20.1 million customers, a decline of only -2.2% year-on-year reflecting the prepaid to postpaid migration trend in the market post regulatory changes.

Mobile postpaid had the best year since the merger and posted +1.5 million net additions in 2019 (+1.0 million net additions in 2018), thereof +456 thousand in the fourth quarter (+279 thousand in Q4 2018). This was driven by sustained demand for the O₂ Free portfolio further supported by commercial invest to drive ARPU-up. Additionally, the contribution from partner brands remained strong and delivered 61% of gross additions in the full year period, supported by migrations to Telefónica Deutschland network.

Mobile prepaid registered -447 thousand net disconnections in 2019 versus -1.3 million in 2018 on continued weaker demand for prepaid offers following regulatory changes in 2017 and the general market trend towards postpaid. Q4 posted -236 thousand net disconnections (-509 thousand in Q4 2018), thus a similar seasonality as in prior year.

Postpaid churn was -1.5% in the full year and in Q4 respectively, an improvement of +0.1 percentage points year-on-year in 2019 and +0.3 percentage points year-on-year in the fourth quarter. O₂ consumer postpaid churn remained even lower and saw a +0.1 percentage points year-on-year improvement to -1.3% in the full year period and to -1.2% in Q4 2019 respectively. The implied annualised churn rates in 2019 stood at -15.5% vs. -17.3% in 2018, thus providing clear evidence of an excellent customer experience in the O₂ network, which was also acknowledged by 3 major network tests in Germany. Telefónica Deutschland achieved a breakthrough in network quality, scoring "good" for the first time in Chip, Computerbild and connect test.

The **LTE customer base** reached 24.6¹² million accesses at year end, an increase of +33.5% year-on-year, supported by sustained demand for high-speed mobile data services. LTE-penetration was up +13.4 percentage points year-on-year across the base and reached 57.7%, while in postpaid LTE penetration continues to be significantly higher at 73.0%.

¹¹ Based on 6 months inactivity accounting, mobile customer base stood at 46.0 million accesses and our total access base reached 50.4 million

¹² Includes a technical database adjustment of 3.2 million customer in Q4-2019

ARPU trends continued to show the expected impact of regulation and legacy base effects, which was partly offset by visible ARPU accretive effects from the O₂ Free portfolio and new value-added services. **Postpaid ARPU** declined by -4.0% year-on-year to reach EUR 14.3 in 2019 and -5.4% year-on-year to EUR 14.0 in the October to December period with lower inbound roaming in the final quarter of the year. **Prepaid ARPU** stood at EUR 6.0 in the 2019 and reached EUR 6.1 in Q4, a plus of +3.2% and +2.9% year-on-year respectively. The **blended mobile ARPU** reached EUR 10.0 in 2019 and Q4 respectively, a decline of -0.2% in 2019 and -1.4% in Q4.

Our successful ARPU-up strategy is reflected in own brand postpaid ARPU, which grew +0.9% year-on-year in 2019 despite continued regulatory headwinds. ARPU-dynamics will be further enhanced by the new speed-tiered O₂ Free unlimited tariffs launched on 4 February 2020.

Operating performance in fixed

The **fixed broadband customer base** totalled 2.2 million accesses at the end of December 2019, (up +6.1% year-on-year), with the **VDSL base** climbing + 14.6% year-on-year to 1.7 million to 75% of our fixed retail base. Fixed retail registered +127 thousand net additions in 2019, thereof +13 thousand in the last quarter on the back of continued strong demand for VDSL with +211 thousand net additions from January to December and +33 thousand in the fourth quarter.

Thus, **fixed churn** was -1.0% both in 2019 and the fourth quarter of the year, an improvement of +0.3 percentage points and +0.1% percentage points respectively.

The **fixed retail ARPU** reached EUR 23.3 in the full year and EUR 23.1 in Q4 (-5.0% year-on-year in 2019 and -4.0% in Q4) and reflects the year-on-year higher customer base as well as a higher share of bundles in the customer base.

Telefónica Deutschland financial performance 2019

Revenue totalled EUR 7,399 million in 2019, up +1.1% year-on-year (EUR 1,970 million in the fourth quarter, +0.2% year-on-year) mainly driven by the turnaround in mobile service revenue since Q2 2019 which in combination with easing legacy base headwinds helped to offset ongoing regulatory impacts. At the same time, handset sales remained strong. Fixed revenue also crossed the zero-line in Q4 2019. **Excluding negative regulatory effects** of EUR -59 million (mainly MTR)¹³, revenue was up **+1.9% year-on-year in the full year and reached EUR 7,458 million and +1.2% year-on-year in Q4 to EUR 1,990 million.**

Mobile service revenue¹⁴ (MSR) reflected the sustained traction of the own retail business as well as a solid partner performance and reached EUR 5,301 million (+0.6% year-on-year) in 2019 and EUR 1,341 million (+0.8% year-on-year) in the final quarter of the year on tougher comps and with lower inbound roaming. Excluding negative regulatory effects of EUR -54 million in 2019 (EUR -20 million in Q4), **MSR grew by +1.7% year-on-year in the full year period and +2.1% year-on-year in Q4 2019 to EUR 5,355 million and EUR 1,359 million respectively.**

Handset revenue rose +5.8% year-on-year to EUR 1,346 million in the January to December period and declined -2.9% year-on-year in Q4 2019 vs a particularly strong prior year quarter; still post a strong number of EUR 432 million on continued demand for high value handsets.

Fixed revenue reached EUR 741 million (-3.4% year-on-year) for FY 2019 and returned to growth in the final quarter of 2019, up +2.0% year-on-year to EUR 189 million driven by the higher retail customer base and strong VDSL demand. Thus, **fixed retail revenue** confirmed the turnaround achieved in Q3 2019 and posted -0.6% year-on-year for the 12 months period and growth of +2.3% year-on-year in the final quarter of the year.

Other income stood at EUR 183 million in 2019 (+3.6% year-on-year) and EUR 63 million (+5.6% year-on-year) in the fourth quarter and is mainly related to the capitalisation of network rollout costs.

¹³ Mobile termination rates were lowered to EURc 0.95 per minute (from EURc 1.07 per minute) as of 1 Dec 2018 and to EURc 0.90 per minute as of 1 December 2019

¹⁴ 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 totalled EUR 5,290 million in 2019 and EUR 1,413 million in Q4 and include exceptional¹⁵ effects of EUR 23 million and EUR 1 million respectively mainly related to remaining rental obligations in the mobile and the legacy fixed network. The year-on-year decline of -7.2% in the full year and -8.9% year-on-year in the October to December period is mainly driven by the implementation of IFRS 16 accounting standards and its impact on operating lease expenses further helped by lower supplies as well as integration and transformation benefits. According to IAS 17, exceptional effects¹⁶ reached EUR 52 million in 2019 and EUR 3 million in Q4.

- **Supplies** stood at EUR 2,372 million, -3.5% lower year-on-year in the financial year 2019, and EUR at 694 million in Q4, -2.7% lower year-on-year; with benefits from the implementation of IFRS 16. Also, connectivity-related cost of sales (41% of supplies in 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. Hardware cost of sales (56% of supplies in the January to December period) were higher year-on-year in line with the solid demand for handsets.
- **Personnel expenses** adjusted for restructuring costs of EUR -5 million (EUR -19 million in 2018) were -0.6% lower year-on-year in 2019 at EUR 587 million, primarily on the back of a lower FTE base versus prior year. Personnel expenses in Q4 2019 were slightly higher year-on-year (+1.5% in year-on-year) at EUR 145 million with no material restructuring costs (compared to EUR -16 million in the previous year) mainly on the back of inflation-related pay rises in the quarter.
- **Other operating expenses**¹⁷ totalled EUR 2,308 million in the financial year including exceptional^{16, 17} effects of EUR -17 million (EUR +2 million restructuring costs and EUR 576 million respectively in Q4). The significant decline of -10.0% year-on-year in 2019 (-12.7% in Q4) is due to the implementation of IFRS16 accounting standards and the resulting impact on operating lease expenses, excluding the before mentioned exceptional effects. Commercial costs and non-commercial costs made up 70% and 26% respectively in the January to December period.

¹⁵ Exceptional effects were EUR 22 million of restructuring expenses in the period January to December 2019 (EUR 50 million based on IAS 17)

¹⁶ 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

¹⁷ Includes other expenses and impairment losses in accordance with IFRS 9

Operating Income before Depreciation and Amortisation (OIBDA) adjusted for exceptional¹⁸ and regulatory effects¹⁹ came to EUR 1,903 million based on IAS 17, +1.0% year-on-year in 2019 (EUR 520 million, +1.7% year-on-year in the fourth quarter). As per IFRS 16 accounting standards underlying^{19,20} OIBDA increased by +24.9% year-on-year to EUR 2,353 million in the January to December period (+23.7% year-on-year to EUR 632 million in Q4).

Exceptional effects¹⁹ are mainly restructuring costs related to remaining network rental agreements and provisions for severance payments. Regulatory effects were EUR -38 million in 2019 (EUR -13 million in Q4), mainly related to usage elasticity effects from the EU 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 reached EUR 2,292 million, +27.6% year-on-year the full year period (EUR 620 million; +31.1% year-on-year in Q4).

Telefónica Deutschland continued to invest into the market and in transformation to keep the momentum up and to generate sustainable revenue growth. We registered **transformation gains of ~EUR 40 million in 2019 (~EUR 15 million in Q4)**, as well as the **final roll-over effects from integration synergies of ~EUR 40 million (~EUR 5 million in Q4)**, thus meeting our target of a combined EUR 80 million in 2019. Thus, in combination with the below mentioned CapEx synergies we have also finally successfully delivered the updated synergy case with integration related savings of ~EUR 900 million in Operating Cash Flow.

The underlying OIBDA margin^{19,20} came to 31.6% in the full year period, up +5.8 percentage points year-on-year to under IFRS 16.

Group fees reached EUR 34 million in 2019 and EUR 9 million in the October to December period.

Depreciation & Amortisation increased +21.6% year-on-year to EUR 2,416 million in the January to December period, 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 1,924 million, -3.2% y-o-y, mainly due individual assets in PPE and intangibles reaching the end of their useful life.

The **operating loss** came to EUR -124 million in 2019 versus an operating loss of EUR -190 million in the same period of 2018.

The net financial expenses for 2019 was to EUR -55 million compared to EUR -42 million in the prior year.

The Company reported **income tax expenses** of EUR -33 million in financial year 2019 (EUR 3 million in 2018)

The net loss in 2019 amounted to EUR -212 million, compared to a net loss of EUR -230 million in the same period of the prior year.

¹⁸ Exceptional effects were EUR 22 million of restructuring expenses in the period January to December 2019 (EUR 50 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

¹⁹ Regulatory effects amounted to EUR -38 million in the period January to December 2019

CapEx²⁰ was EUR 1,044 million in 2019 (including final synergies of EUR ~40 million), a reflection of our continued focus on customer experience as the LTE roll-out is in full swing. Thus, **C/S ratio** came to **14.1%** in the twelve months period and 13.3% in the fourth quarter (EUR 263 million).

Operating cash flow (OIBDA minus CapEx²³) reached EUR 1,248 million in 2019 (+50.2% year-on-year), mainly as a result of the positive IFRS 16 impacts on OIBDA.

Free cash flow (FCF)²¹ pre the dividend payment of EUR 803 million for the financial year 2018 and payments for spectrum (first tranche of EUR 87 million from the 2019 spectrum auction) came to EUR 1,023 million for FY 2019 under IFRS 16. Lease payments, primarily for leased lines and antenna sites, amounted to EUR -476²² million. As a result, FCF aL (IAS 17) stood at EUR 547 million for the reporting period compared to EUR 733 million in the prior year.

Working capital movements and adjustments were negative in the amount of EUR -148 million. This development was mainly driven by prepayments for incidental lease costs, low value and short term leases in connection with leased line and mobile site rental and other prepayments (EUR -55 million), a reduction in restructuring provisions (EUR -38 million) as well as other working capital movements in the amount of EUR -135 million. The latter include silent factoring transactions for handset receivables in the gross amount of EUR 677 million, which were outweighed by other working capital movements, including a reduction in trade and other payables. These were outweighed by other working capital movements, including a reduction in trade and other payables. In addition, 2019 working capital dynamics were effected by usual prepayment for wholesale contracts and a reduction of inventories.

Consolidated net financial debt²³ under IFRS 16 was EUR 3,860 million as of 31 December 2019 with a leverage ratio of 1.7x²⁴ (0.8x under IAS 17), benefitting from the deferral of spectrum payments. Thus, leverage was well below the self-defined target of at or below 2.5x which leaves solid headroom with regards to our BBB-rating by Fitch.

²⁰ Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

²¹ Free cash flow pre dividends and payments for spectrum (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum as well as related interest payments

²² Financial lease payments under IFRS16 amounted to EUR -484 million and to EUR 8 million under IAS 17

²³ 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

²⁴ Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects.

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP

ACCESSES

Unaudited

(in thousands)	2019				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Mobile accesses	42,913	43,218	43,607	43,827	42,777	42,962	43,049	42,819
Prepaid	20,332	20,335	20,332	20,096	21,346	21,198	21,052	20,543
Postpaid	22,581	22,883	23,275	23,731	21,431	21,764	21,997	22,276
thereof M2M ⁽¹⁾	1,210	1,154	1,179	1,192	1,067	1,103	1,135	1,188
Postpaid (%)	52.6%	52.9%	53.4%	54.1%	50.1%	50.7%	51.1%	52.0%
Smartphone penetration (%) ⁽²⁾	66.6%	67.9%	69.3%	69.7%	62.0%	63.5%	64.9%	66.0%
LTE customers ^{(3) (4)}	19,254	20,175	20,905	24,606	16,094	16,596	17,157	18,434
Fixed telephony accesses	2,041	2,078	2,114	2,129	1,969	1,959	1,966	1,996
Internet and data accesses	2,248	2,260	2,290	2,302	2,266	2,251	2,253	2,275
Narrowband	124	98	96	95	206	203	198	195
Broadband	2,124	2,162	2,193	2,207	2,060	2,048	2,054	2,080
thereof VDSL	1,507	1,566	1,619	1,652	1,243	1,330	1,389	1,441

(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 customer is defined as customer with LTE enabled handset & LTE tariff.

(4) Includes a technical base adjustment of 3.2 million customers in Q4 2019.

(in thousands)	2019				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Mobile accesses; alternative calculati	45,123	45,292	45,696	46,019	45,285	45,201	45,383	45,256
Prepaid	22,192	22,070	22,066	21,927	23,508	23,122	23,039	22,627
Postpaid	22,931	23,222	23,630	24,092	21,777	22,079	22,344	22,629
Mobile accesses; alternative calculation base ⁽⁵⁾ without M2M	43,913	44,138	44,517	44,827	44,218	44,097	44,248	44,068

(5) At the beginning of 2017 Telefonica 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	Q3	Q4	Q1	Q2	Q3	Q4
ARPU (in euros) ⁽¹⁾	9.8	10.0	10.2	10.0	9.8	10.0	10.2	10.1
Prepaid	5.7	5.9	6.2	6.1	5.6	5.8	6.0	6.0
Postpaid excl. M2M	14.2	14.4	14.4	14.0	14.8	14.8	15.0	14.8
Data ARPU (in euros)	5.7	5.8	6.1	5.9	5.4	5.6	5.8	5.8
% non-SMS over data revenues ⁽²⁾	90.4%	90.4%	91.1%	91.0%	85.0%	84.1%	85.9%	86.3%
Voice Traffic (m min) ⁽³⁾	26,017	26,747	26,460	27,801	23,341	24,554	23,899	25,616
Data Traffic (TB) ⁽⁴⁾	193,007	226,753	252,522	283,266	126,040	151,620	165,440	179,250
Churn (%)	1.9%	1.8%	1.9%	2.0%	2.2%	1.8%	2.0%	2.3%
Postpaid churn (%) excl. M2M	1.6%	1.5%	1.5%	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 by the company customers, both outbound and inbound. Only outbound on-net traffic is included, inclusive of promotional traffic. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume is non rounded.

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

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED INCOME STATEMENT & SELECTED CONSOLIDATED FINANCIAL DATA
Unaudited

(Euros in millions)	1 October to 31 December				1 January to 31 December			
	2019	2018	Change	Change %	2019	2018	Change	Change %
Revenues	1,970	1,965	5	0.2	7,399	7,320	79	1.1
Revenues (excl. regulatory effects 2019)	1,990	1,965	24	1.2	7,458	7,320	138	1.9
Mobile business	1,773	1,775	(2)	(0.1)	6,647	6,539	108	1.6
Mobile service revenues	1,341	1,330	11	0.8	5,301	5,267	34	0.6
Mobile service revenues (excl. regulatory effects 2019)	1,359	1,330	29	2.1	5,355	5,267	88	1.7
Handset revenues	432	445	(13)	(2.9)	1,346	1,272	74	5.8
Fixed business	189	185	4	2.0	741	767	(26)	(3.4)
Other revenues	8	5	3	67.4	11	13	(2)	(18.0)
Other income	63	59	3	5.6	183	177	6	3.6
Operating expenses	(1,413)	(1,551)	139	(8.9)	(5,290)	(5,700)	410	(7.2)
Supplies	(694)	(712)	19	(2.7)	(2,372)	(2,459)	87	(3.5)
Personnel expenses	(145)	(159)	14	(8.6)	(592)	(610)	17	(2.9)
Impairment losses in accordance with IFRS 9	(21)	(25)	4	(15.7)	(77)	(79)	2	(2.4)
Other expenses	(553)	(655)	102	(15.6)	(2,249)	(2,552)	303	(11.9)
thereof Group fees	(9)	(9)	–	(4.1)	(34)	(37)	3	(7.8)
Operating income before depreciation and amortization (OIBDA)	620	473	147	31.1	2,292	1,797	495	27.6
OIBDA margin	31.5%	24.1%		7.4%-p.	31.0%	24.6%		6.4%-p.
Exceptional effects ⁽¹⁾	1	(38)	39	(>100,0)	(23)	(87)	63	(72.9)
OIBDA adjusted for exceptional effects ⁽¹⁾	619	511	108	21.2	2,316	1,884	432	22.9
OIBDA margin adjusted for exceptional effects	31.4%	26.0%		5.4%-p.	31.3%	25.7%		5.6%-p.
OIBDA adjusted for exceptional effects (excl. regulatory effects 2019)	632	511	121	23.7	2,353	1,884	470	24.9
OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2019)	31.8%	26.0%		5.8%-p.	31.6%	25.7%		5.8%-p.
Depreciation and amortization	(603)	(571)	(31)	5.5	(2,416)	(1,987)	(429)	21.6
Operating income	17	(98)	116	(>100,0)	(124)	(190)	67	(35.0)
Net financial income (expense)	(16)	(11)	(5)	39.3	(55)	(42)	(13)	30.6
Profit (loss) before tax for the period	2	(109)	111	(>100,0)	(179)	(233)	54	(23.1)
Income tax	(33)	2	(36)	(>100,0)	(33)	3	(36)	(>100,0)
Total profit for the period	(32)	(107)	75	(70.3)	(212)	(230)	18	(7.9)
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⁾	(0.01)	(0.04)	–	(70.3)	(0.07)	(0.08)	–	(7.9)
CapEx total ⁽³⁾	(263)	(226)	(36)	16.1	(1,044)	(966)	(78)	8.1
thereof CapEx ⁽⁴⁾	(263)	(226)	(37)	16.4	(1,044)	(958)	(86)	9.0
thereof additions from capitalised finance leases	–	(1)	1	(100.0)	–	(8)	8	(100.0)
Additions from capitalised right-of use assets	(46)	–	(46)	n.a.	(230)	–	(230)	n.a.
CapEx/Sales ratio ⁽⁵⁾	13.3%	11.5%		1.8%-p.	14.1%	13.2%		0.9%-p.
Operating cash flow (OIBDA-CapEx) ⁽⁶⁾	357	247	110	44.4	1,248	839	409	48.7
Free cash flow	390	432	(42)	(9.7)	1,023	733	290	39.5

(1) Exceptional effects as of 31 December 2019 include restructuring expenses amounting to EUR 22 million and acquisition related consultancy costs amounting to EUR 1 million. Exceptional effects as of 31 December 2018 include restructuring expenses amounting to EUR 84 million and acquisition related consultancy costs amounting to EUR 2 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 capitalised finance leases.

(5) The calculation is based on CapEx total.

(6) The calculation is based on CapEx.

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TELEFÓNICA DEUTSCHLAND GROUP
KEY PERFORMANCE INDICATORS - IAS 17 RECONCILIATION
Unaudited

(Euros in millions)	1 October to 31 December 2019			1 January to 31 December 2019		
	IFRS 16	Adjustments	IAS 17	IFRS 16	Adjustments	IAS 17
Revenues	1,990	–	1,990	7,458	–	7,458
OIBDA adjusted for exceptional effects (excl. regulatory effects 2019)	632	(112)	520	2,353	(450)	1,903
OIBDA margin adjusted for exceptional effects (excl. regulatory effects 2019)	31.8%		26.1%	31.6%		25.5%
CapEx/Sales ratio ⁽¹⁾	13.3%	–	13.3%	14.1%	–	14.1%
Net financial debt ⁽²⁾	3,860	(2,445)	1,415	3,860	(2,445)	1,415
Leverage ratio ⁽³⁾	1.7x	(0.9x)	0.8x	1.7x	(0.9x)	0.8x

(1) The calculation is based on CapEx excluding additions from business combinations, from capitalised 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 ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects.

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of December 31		Change	% Change
	2019	2018		
NON-CURRENT ASSETS	14,367	11,061	3,307	29.9
Goodwill	1,964	1,960	4	0.2
Other intangible assets	5,384	4,727	657	13.9
Property, plant and equipment	3,750	3,793	(43)	(1.1)
Right-of-use assets	2,499	–	2,499	n.a.
Trade and other receivables	104	70	34	48.9
Other financial assets	133	101	32	31.2
Other non-financial assets	220	206	14	6.7
Deferred tax assets	314	204	110	54.3
CURRENT ASSETS	2,783	2,736	47	1.7
Inventories	165	261	(96)	(36.9)
Trade and other receivables	1,366	1,301	64	5.0
Other financial assets	17	9	8	81.7
Other non-financial assets	455	413	42	10.1
Cash and cash equivalents	781	751	30	4.0
Total assets = Total equity and liabilities	17,151	13,796	3,354	24.3
EQUITY	6,534	7,569	(1,035)	(13.7)
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	3,560	4,594	(1,035)	(22.5)
Equity attributable to owners of the company	6,534	7,569	(1,035)	(13.7)
NON-CURRENT LIABILITIES	6,532	2,901	3,631	>100.0
Interest-bearing debt	2,153	2,004	149	7.4
lease liabilities	2,027	–	2,027	n.a.
Trade and other payables	15	19	(4)	(19.2)
Payables - spectrum	1,186	–	1,186	n.a.
Provisions	624	526	98	18.7
Deferred income	213	176	37	20.7
Deferred tax liabilities	314	177	137	77.8
CURRENT LIABILITIES	4,084	3,326	758	22.8
Interest-bearing debt	339	145	194	>100.0
lease liabilities	462	–	462	n.a.
Trade and other payables	2,493	2,419	74	3.0
Payables - spectrum	86	–	86	n.a.
Provisions	104	188	(84)	(44.5)
Other non-financial liabilities	103	39	64	>100.0
Deferred income	497	535	(39)	(7.2)
Financial Data				
Net financial debt (1)	3,860	1,129	2,731	>100.0
Leverage (2)	1.7x	0.6x	1.0x	>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) Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects.

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TELEFÓNICA DEUTSCHLAND GROUP
RECONCILIATION OF FREE CASH FLOW AND RECONCILIATION TO NET DEBT

Unaudited	2019				2018			
	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
(Euros in million)								
OIBDA	514	1,084	1,672	2,292	394	863	1,324	1,797
- CapEX ⁽¹⁾	(252)	(496)	(782)	(1,044)	(182)	(420)	(732)	(958)
= Operating Cashflow (OIBDA-CapEx) ⁽¹⁾	262	588	890	1,248	212	443	592	839
+/- Other non-cash income / expenses	-	-	-	-	-	-	(15)	(15)
+/- Change in working capital	20	(228)	(210)	(148)	(184)	(343)	(253)	(79)
+/- (Gains) losses from sale of assets	-	-	-	(1)	-	-	-	-
+/- Proceeds from sale of companies	-	-	-	-	-	-	-	21
+/- Proceeds from sale of fixed assets and other effects	-	1	-	3	-	-	-	-
+ Net interest payments	(21)	(26)	(42)	(49)	(16)	(19)	(22)	(33)
+ Taxes paid	-	-	-	-	-	-	-	-
+/- Proceeds / Payments on financial assets	(13)	(12)	(5)	(21)	4	3	-	1
+ Acquisition of companies net of cash acquired	-	-	-	(9)	-	-	(1)	(1)
= Free cash flow	247	322	633	1,023	15	84	301	733
- Payments for spectrum	-	-	-	(87)	-	-	-	-
- Dividends	-	(803)	(803)	(803)	-	(773)	(773)	(773)
= Free cash flow post dividends and payments for spectrum	247	(481)	(170)	133	15	(689)	(472)	(40)
Net financial debt at the beginning of the period	1,129	1,129	1,129	1,129	1,064	1,064	1,064	1,064
+ Other changes in net financial debt ⁽²⁾	2,778	2,854	2,907	2,864	35	44	55	25
= Net financial debt at the end of the period (incl. Restricted cash)	3,659	4,464	4,206	3,860	1,085	1,797	1,591	1,129

(1) Excluding additions from business combinations, capitalised finance leases and capitalised costs on borrowed capital for investments in spectrum. From Q2 2018 on the definition of finance lease additions was updated leading to a cumulated reduction amounting to EUR 11m.

(2) Due to IFRS 16 lease liabilities.

	2019				2018			
	Jan - Mar	Jan - Jun	Jan - Sept	Jan - Dec	Jan - Mar	Jan - Jun	Jan - Sept	Jan - Dec
Free cash flow (Euros in millions)	247	322	633	1,023	15	84	301	733
Number of shares (in millions)	2,975	2,975	2,975	2,975	2,975	2,975	2,975	2,975
Free cash flow per share (in Euros)	0.08	0.11	0.21	0.34	-	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 December		Change %
	2019	2018	
A Liquidity	781	751	4.0
B Current financial assets ⁽¹⁾	211	182	15.9
C Current financial debt ⁽²⁾	801	145	>100,0
D=C-A-B Current net financial debt	(191)	(788)	(75.7)
E Non-current financial assets ⁽¹⁾	129	87	48.1
F Non-current financial debt ⁽²⁾	4,180	2,004	>100,0
G=F-E Non-current net financial debt	4,051	1,917	>100,0
H=D+G Net financial debt ⁽³⁾	3,860	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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