Telefónica Deutschland

MUNICH, 29 July 2020

Preliminary results for January to June 2020

Business dynamics intact despite COVID-19 – supported by encouraging signs of recovery

- **Core business momentum intact in the first full quarter under COVID-19 with encouraging signs of recovery post easing of lockdown restrictions; continued to support employees, customers and the wider society through a variety of COVID-19 initiatives**
- **Revenue +0.3% y-o-y in Q2 20 on sustained handset & fixed revenue growth and with tougher comps for MSR; ~EUR -62m[1] of combined COVID-19 impacts and other non-recurrent special factors**
- **OIBDA[2] -5.1% y-o-y in Q2 20 reflecting revenue flow through incl. higher supply costs from handsets while impacted by ~EUR -43m[1] of combined COVID-19 impacts and other non-recurrent special factors**
- **C/S ratio of 13.1% in H1 20; making steady progress with LTE roll-out while facing some temporary COVID-19 related disruptions in the supply chain – on track to achieve FY20 coverage targets**
- **Gradual recovery of trading performance & prepaid dynamics following shop re-openings at end of April, roaming expected to recover with easing travel restrictions**
- **Confirming FY20 revenue and OIBDA guidance while continuously monitoring & analysing COVID-19 impacts**

Second quarter 2020 operational & financial highlights

- In a dynamic yet rational environment, **Telefónica Deutschland's core business momentum remained intact with encouraging signs of recovery post easing of lockdown restrictions** during the first full quarter under Covid-19. Nevertheless, the Company was not immune to COVID-19 impacts due to the government-imposed restrictions. In particular, the mandatory closure of O_2 shops between mid-March and the end of April resulted in weaker trading and the lockdown muted prepaid dynamics. In addition, the worldwide travel restrictions compromised roaming patterns.
- In the **COVID-19 driven environment,** Telefónica Deutschland continued to support employees, customers and the wider society through a variety of initiatives, such as providing mobility analysis to the Robert-Koch-Institute, promoting the Corona-Warn-App (>15m downloads), passing on to customers Germany's 6-month VAT-reduction of 3% and launching time limited complimentary offers (e.g. 3-month O_2TV).
- **The Company's network continued its resilient performance** coping well with the COVID-19-driven change in traffic patterns and ensured highly reliable connectivity for customers.

[1] Of which COVID-19 impacts accounted for ~EUR -38m at revenue level and ~EUR -19m at OIBDA level in Q2 20; the remainder is related to other non-recurrent special factors, respectively.

[2] Adjusted for exceptional effects. In Q2 20, exceptional effects amounted to EUR +3m (incl. EUR +4m of gains from the sale of spectrum assets and EUR -1m of restructuring expenses). In Q2 19, exceptional effects were restructuring expenses of EUR -12m.

- **Mobile postpaid**[3] registered +158k net additions (excl. +78k M2M) in Q2 20, mainly driven by the sustained demand for the well performing O_2 Free tariff portfolio and solid **partner trading**. **Total postpaid churn** remained at low levels of 1.4% in Q2 20 while **churn in the O_2 brand** continued to be at even lower levels of 1.1%, an improvement of 0.1 p.p. y-o-y. These positive churn trends are mainly driven by the Company's retention focus supported by sustained network quality improvements and some tailwinds from COVID-19 related lower churn entries in March/April.

- **LTE customer base** increased +25.6% y-o-y to 25.3[4]m at the end of June 2020 resulting in **LTE penetration** of 60%, up +12.1p.p. y-o-y. The ongoing adoption of LTE and the O_2 Free portfolio supported mobile data usage growth through larger data bundles. The average data usage of O_2 Free customers reached >7GB per month.

- **Revenue** totalled **EUR 1,790m,** up **+0.3% y-o-y in Q2 20** on sustained growth of handset & fixed revenues while MSR faced tougher y-o-y comps. **Operational revenue trends remained intact posting +3.8% y-o-y growth** in the quarter excluding ~EUR -62m[5] of combined COVID-19 impacts and other non-recurrent special factors.

    - **Mobile service revenue**[6] (MSR) fell **-3.3% y-o-y** to **EUR 1,275m** including the vast majority of the above mentioned combined special factors, mainly due to lockdown-related impacts such as weaker trading momentum, lower demand for prepaid services and a meaningful drop in roaming. A gradual recovery of trading performance and prepaid dynamics started with the phased removal of lockdown measures (i.e. shop re-openings at the end of April) while roaming is expected to recover gradually with easing travel restrictions. Excluding combined special factors, **operational MSR trends improved by +1.3% y-o-y** in Q2 20 on tougher y-o-y comps (note: MSR turnaround in Q2 19).

    - **Handset revenue** growth accelerated to **+14.4% y-o-y** and totalled **EUR 322m** on continued strong demand for high value handsets supported by online channels during the lockdown.

    - **Fixed-line revenue** continued its growth path, posting **+4.3% y-o-y** growth to **EUR 193m** supported by retail customer base growth on the back of strong VDSL demand. **Fixed retail revenue** maintained its upward trend and registered **+6.6% y-o-y** growth, reflecting the y-o-y higher customer base driven by strong VDSL demand.

- **OIBDA**[7] was EUR 552m, down **-5.1% y-o-y** in Q2 20, reflecting revenue flow-through including the strong growth of lower margin handset revenues and related higher supply costs as well as ~EUR -43m[5] of combined COVID-19 impacts and other non-recurrent special factors. As a result, **OIBDA**[7] **margin** stood at 30.9% in Q2 20, lower -1.8 p.p. y-o-y. Excluding combined special factors, **operational OIBDA trends remained intact posting +2.3% y-o-y growth** in the quarter with an operational OIBDA margin of 32.2%.

[3] As of 1 January 2020, M2M is separately reported from postpaid; for comparability this change has also been applied to 2019, retrospectively.
[4] Includes a technical database adjustment of +3.2m customers in Q4 19.
[5] Of which COVID-19 impacts accounted for ~EUR -38m at revenue level and ~EUR -19m at OIBDA level in Q2 20; the remainder is related to other non-recurrent special factors, respectively.
[6] Mobile service revenue includes base fees and fees paid by the company's customers for the usage of voice, SMS and mobile data services; it also includes access and interconnection fees as well as other charges levied on partners for the use of the company's network.
[7] Adjusted for exceptional effects. In Q2 20, exceptional effects amounted to EUR +3m (incl. EUR +4m of gains from the sale of spectrum assets and EUR -1m of restructuring expenses). In Q2 19, exceptional effects were restructuring expenses of EUR -12m.

- **CapEx**[8] totalled **EUR 251m with a C/S ratio of 14.0% reflecting more back-end loaded annual deployment** also due to COVID-19 while being **on track to achieve FY20 coverage targets**. Despite some temporary headwinds in the COVID-19 environment (i.e. some supply chain disruptions for LTE elements) the 4G rollout made steady progress while preparing for a ramp-up of 5G. The network proved resilient with major changes in traffic volumes since the beginning of the lockdown; mainly a strong increase in fixed & mobile voice volumes and higher fixed data traffic while mobile data traffic trends remained broadly unchanged.

- **Consolidated net financial debt**[9] of EUR 4,438m as of 30 June 2020 imply a leverage ratio of 1.9x[10] also reflecting the FY19 dividend payment of EUR 506m in May. Leverage remained well below the company's self-defined target ratio of at or below 2.5x.

8 Excluding additions from capitalised right-of-use assets.

9 Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents while excluding payables for spectrum. Net financial debt also includes EUR 184 million in lease liabilities, which were recognised as "Liabilities held for sale" and relate to the contractually agreed sale of roof sites to Telxius.

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

Financial outlook 2020

Telefónica Deutschland achieved the expected robust business development in H1 20 despite the ongoing COVID-19 pandemic. At the same time, the Company continued to support employees, customers as well as the wider society through a large number of COVID-19 initiatives.

The operational core business of Telefónica Deutschland is intact with encouraging signs of recovery post easing of lockdown restrictions. Nevertheless, the Company was not immune to COVID-19 impacts due to restrictions imposed by the German government. In particular, the nationwide closure of O_2 shops between mid-March and the end of April resulted in weaker trading and muted prepaid dynamics mainly due to Wifi-offloading during lockdown. In addition, the worldwide travel restrictions led to reduced roaming revenues.

Lockdown restrictions also impacted the 4G roll-out in H1 20 (i.e. access to sites and logistics centres as well as temporary disruptions in the supply chain for key LTE elements). These topics have been largely resolved by now and the Company successfully achieved the first milestone of the FY20 coverage obligations within the granted grace period (end of Jul-20). H1 C/S reflects the back-end loaded annual network roll-out. However, the COIVD-19 environment is expected to have an impact on the overall FY20 Capex deployment. Telefónica Deutschland is on track to achieve its FY20 coverage obligations. At the same time, the Company is preparing 5G network roll-out in Germany's top 5 cities.

Since the beginning of the pandemic, the management team has continuously been monitoring and analysing the development of the COVID-19 related restrictions and their impact on the company. In this context, Telefónica Deutschland confirms its financial outlook for FY20 for revenue and OIBDA while anticipating C/S to be below the initially envisaged 17-18%.

	Baseline 2019	**Outlook 2020**	**H1 20**
Revenue	EUR 7,399m	flat to slightly positive y-o-y	+2.0% y-o-y[11]
OIBDA Adjusted for exceptional effects	EUR 2,316m	broadly stable to slightly positive y-o-y	-1.9% y-o-y[11]
Capex to Sales Ratio	14.1%	< 17–18%	13.1%

[11] Including combined COVID-19 impacts and other non-recurrent special factors.

Telefónica Deutschland

Telefónica Deutschland operating performance in H1 20

Operating performance in mobile

As of 30 June 2020, Telefónica Deutschland's **mobile customer accesses** reached 43.5m (+0.7% y-o-y) driven by strong +5.3% y-o-y growth of the **mobile postpaid ex M2M base** which increased to 22.9m accesses. Thus, mobile postpaid accounted for 52.6% of the company's total mobile base, a plus of +2.3 p.p. y-o-y. **M2M accesses** came to 1.3m at the end of June; +13.4% y-o-y. The **mobile prepaid base** declined -5.0% y-o-y reflecting ongoing prepaid to contract migration trends in the market as well as inactive SIM-card disconnections.

Mobile postpaid[12] registered +347k net additions in H1 20 (+158k in Q2 20) compared to +641k in H1 19 (+357k in Q2 19) reflecting a gradual recovery of trading momentum post lockdown with sustained customer demand for the well-performing O_2 Free portfolio while performance of partner brands remained solid.

M2M saw +116k net additions in H1 20 (+78k in Q2 20) versus -34k net disconnections a year ago of which -56k applied to Q2 19.

Mobile prepaid posted -773k net disconnections in the first half-year (-366k in Q2 20) compared to -208k in prior year period (+3k in Q2 19) reflecting the continued weaker demand for prepaid offers due to ongoing prepaid to postpaid migration trends in the market as well as some seasonality.

Postpaid[10] **churn** remained stable y-o-y at low levels of 1.5% in H1 20, while **churn in the O_2 brand** continued to be at even lower levels of 1.2% in H1 20, an improvement of 0.1 p.p. y-o-y. These positive churn trends are mainly driven by the Company's retention focus supported by sustained network quality improvements and some tailwinds from COVID-19 lower churn entries towards the end of the period. The implied annualised churn rate in H1 20 improved to 14.3% vs. 15.1% in H1 19, thus providing a clear proof point for sustained quality improvements and excellent customer experience on the O_2 network.

LTE customer base climbed to 25.3m[13] accesses as of 30 June 2020, up +25.6% y-o-y, fuelled by the sustained demand for high-speed mobile data services. LTE-penetration across the base reached 60.1%, up +12.1p.p. y-o-y while LTE penetration in postpaid continues to be significantly higher (~75%).

ARPU trends in the first half of 2020 are reflecting the lockdown related headwinds on roaming, trading and demand for prepaid packages due to Wifi-offloading as well as further regulatory effects. In combination, these are an offsetting factor for the ARPU accretive effects from the O_2 Free portfolio and value-added services. **Blended mobile ARPU** was EUR 9.7 in the first six months of 2020, down -1.9% y-o-y. **Prepaid ARPU** of EUR 5.9 was up +0.8% y-o-y in H1 20 mainly on the back of fewer inactive SIM-cards. **Postpaid**[10] **ARPU** stood at EUR 13.5 in H1 20 a decline of -5.5% y-o-y on the back of the before mentioned factors. **Own brand postpaid ARPU** was down -1.0% y-o-y in H1 20. Excluding the COVID-19 related loss of roaming revenues, own brand ARPU resumed its growth path in June, up +0.7% y-o-y.

[12] As of 1 January 2020, M2M is separately reported from postpaid; for comparability this change has also been applied to 2019, retrospectively.
[13] Includes a technical database adjustment of +3.2m customers in Q4 19.

Operating performance in fixed

The **fixed broadband customer base** stood at 2.2m accesses at the end of June 2020, up +3.8% y-o-y, driven by a +10.4% y-o-y step-up of the **VDSL base** to 1.7m; now representing 77% of the fixed broadband base. Fixed broadband registered +39k net additions H1 20 (+13k in Q2 20), driven by continued strong demand for VDSL (+77k net additions in H1 20 and +41k in the second quarter).

Fixed churn remained at low levels of 0.8% in H1 20, an improvement of +0.2p.p y-o-y.

The **fixed broadband ARPU** continued its growth path and posted +1.6% y-o-y growth to EUR 23.7 in H1 20 (EUR 23.8 in Q2 20, + 1.7% y-o-y) reflecting the steadily growing share of VDSL customers.

Telefónica Deutschland financial performance in H1 20

Revenue totalled **EUR 3,636m in the first six month 2020, posting +2.0% y-o-y growth** (+0.3% y-o-y in Q2 20 at EUR 1,790m) with a slowing trend in the second quarter reflecting ~EUR -63m[14] of combined COVID-19 impacts and other non-recurrent special factors mainly on MSR while handset and fixed business momentum remained strong. Excluding combined special factors, **operational revenue trends are intact and posted +3.8% y-o-y growth** in H1 20 and Q2, respectively.

Mobile service revenue[15] (MSR) registered a **-0.5% y-o-y decline and amounted to EUR 2,587m** in H1 20 (-3.3% y-o-y in Q2 to EUR 1,275m), facing tougher y-o-y comps after MSR turnaround in Q2 19 and as a result of the vast majority of the before mentioned combined special factors. Excluding combined special factors, **operational MSR trends are intact and registered +1.8% y-o-y growth** in H1 20 and +1.3% in Q2, reflecting the sustained performance of the own retail business and solid trends in the partner business.

Handset revenue continued to be strong on continued demand for high value devices and supported by the online channels during the lockdown related temporary closure of the O_2 shops. Handset revenue reached **EUR 661m (+10.9% y-o-y)** in H1 20 and EUR 322m (+14.4% y-o-y) in Q2.

Fixed revenue maintained their upward trend and posted **+5.1% y-o-y growth at EUR 386m** in H1 20 (+4.3% y-o-y at EUR 193m in Q2) on the back of sustained retail customer base growth driven by strong VDSL demand. Thus, **fixed retail revenue** posted even stronger y-o-y growth of +7.2% and +6.6% in H1 and Q2, respectively.

Other income totalled EUR 56m in H1 20 (-27.7% y-o-y) and is mainly related to the capitalisation of network rollout costs.

Operating expenses totalled **EUR 2,614m** (including exceptional effects[16] of EUR -6m) in H1 20, an increase of **+ 2.1% y-o-y** (EUR 1,266min Q2, +0.3% y-o-y), mainly driven by higher supply costs.

- **Supplies** reached EUR 1,171m in H1 20, +7.0% higher y-o-y (EUR 567m in Q2, + 7.7% y-o-y) mainly reflecting strong handset demand and related hardware cost of sale (54% of supplies in Q2). Also, connectivity-related cost of sales (41% of supplies in Q2) were slightly higher y-o-y reflecting the COVID-19 driven increase of mobile and fixed voice volumes as well as higher fixed data traffic on the network.
- **Personnel expenses** declined by -3.3% y-o-y in H1 20 to EUR 292m and -6.7% y-o-y in Q2 to EUR 142m, supported by y-o-y lower restructuring costs (EUR -1m in H1 20 vs. EUR -6m in prior year) and a lower FTE base versus prior year as an offsetting factor for the inflation-related pay rises as of 1 December 2019.
- **Other operating expenses[17]** were EUR 1,150m in H1 20 (EUR 557m in Q2) including exceptional effects of EUR -5m in the first six months (EUR -16m in H1 19) mainly related with the sale of spectrum assets. These costs were lower by -1.0% y-o-y in H1 (-4.6% y-o-y in Q2) predominantly as a reflection of commercial activities. Commercial costs and non-commercial costs made up 67% and 29%,

[14] Of which COVID-19 impacts accounted for ~EUR -38m at revenue level and ~EUR -23m at OIBDA level in H1 20; the remainder is related to other non-recurrent factors, respectively.

[15] Mobile service revenue includes base fees and fees paid by the company's customers for the usage of voice, SMS and mobile data services; it also includes access and interconnection fees as well as other charges levied on partners for the use of the company's network.

[16] Adjusted for exceptional effects. As of 30 June 2020, exceptional effects amounted to EUR -6m (incl. EUR -5m of losses from the sale of spectrum assets - Q1 20: EUR-9m; Q2 20: EUR +4m - and EUR -0.2m restructuring expenses). As of 30 June 2019, exceptional effects were restructuring expenses of EUR -22m.

[17] Includes other expenses and impairment losses in accordance with IFRS 9 in the amount of EUR 40m in H1 20 (EUR 37m in H1 19).

respectively, in the January to June period. Group fees totalled EUR 16m in in the six months period (EUR 8m in Q2), lower by -6.5% y-o-y.

OIBDA[18] amounted to EUR 1,085m in H1 20, down -1.9% y-o-y (EUR 552m in Q2, -5.1% y-o-y) as revenue flow-through was offset by higher supply volumes as well as ~EUR -48m[19]. of combined COVID-19 impacts and other non-recurrent special factors OIBDA margin[18] stood at 29.8% in H1 (-1.2p.p. y-o-y) and 30.9% in Q2 (-1.8p.p. y-o-y) reflecting the before mentioned effects including the strong growth of the lower margin handset business. Excluding combined special factors, the **operational OIBDA momentum of the business is intact and posted +2.4% and +2.3% y-o-y growth** in H1 and Q2, respectively.

Depreciation & Amortisation totalled EUR 1,110m in the six months period to June, a y-o-y decline of **-8.6%,** mainly due to individual assets in PPE reaching the end of their useful life.

The **operating loss** for the first six month of the year improved to EUR -30m versus an operating loss of EUR -131m in the prior year.

The net financial expenses accounted for EUR -32m in H1 20 compared to EUR -26m in the same period 2019.

The Company reported no material **income tax expenses** in the first six month of 2020.

The net loss stood at EUR -62m in the January to June 2020 period, compared to a net loss of EUR -157m in the same period of the prior year.

CapEx[20] came to EUR 475m in H1 20 with a **C/S ratio of 13.1%** (EUR 251m in Q2, C/S ratio of 14.0%) reflecting more back-end loaded annual deployment also due to COVID-19 while being **on track to achieve FY20 coverage targets.** Despite some temporary headwinds in the tough COVID-19 environment (i.e. supply chain disruptions for LTE elements) the 4G rollout made steady progress while preparing for a ramp-up of 5G. The network proved resilient with major changes in traffic volumes since the beginning of the lockdown; mainly a strong increase in fixed & mobile voice volumes and higher fixed data traffic while mobile data traffic trends remained broadly unchanged.

Operating cash flow (OIBDA minus CapEx[20] amounted to EUR 604m in H1 20, up +2.8% y-o-y despite the challenging COVID-19 environment and other non-recurrent special factors.

Free cash flow (FCF)[21] was EUR 316m in H1 20. Lease payments, primarily for leased lines and antenna sites, amounted to EUR -336m. As a result, FCFaL stood at EUR -21m for the reporting period compared to EUR -5m in the prior year.

[18] Adjusted for exceptional effects. As of 30 June 2020, exceptional effects amounted to EUR -6m (incl. EUR -5m of losses from the sale of spectrum assets - Q1 20: EUR-9m; Q2 20: EUR +4m - and EUR -0.2m restructuring expenses). As of 30 June 2019, exceptional effects were restructuring expenses of EUR -22m.

[19] Of which COVID-19 impacts accounted for ~EUR -38m at revenue level and ~EUR -23m at OIBDA level in H1 20; the remainder is related to other non-recurrent factors, respectively.

[20] Excluding additions from capitalised right-of-use assets.

[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.

Working capital movements and adjustments were negative in the amount of EUR -264m in the Jan to Jun 2020 period (EUR -228m in the prior year). 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 -10m), a reduction in capex payables (EUR -73m), a decrease in restructuring provisions (EUR -11m) as well as other working capital movements in the amount of EUR -170m. The latter include silent factoring transactions for handset receivables in the gross amount of EUR 393m, which were outweighed by other working capital movements, including a reduction in trade and other payables and deferred income (primarily prepaid voucher) as well as an increase in inventory.

Consolidated net financial debt[22] amounted to EUR 4,438m as of 30 June 2020 with a leverage ratio of 1.9x[23], also reflecting the FY19 dividend payment of EUR 506m in May. Leverage remained well below the company's self-defined target ratio of at or below 2.5x. This leaves comfortable leverage headroom with regards to the company's BBB-rating by Fitch.

22 Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes payables for spectrum. Net financial debt also includes EUR 184 million in lease liabilities, which were recognised as "Liabilities held for sale" and relate to the contractually agreed sale of roof sites to Telxius,

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

Telefónica Deutschland

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP

ACCESSES

Unaudited

	2020		2019			
(in thousands)	Q1	Q2	Q1	Q2	Q3	Q4
Mobile accesses	**43.647**	**43.517**	**42.913**	**43.218**	**43.607**	**43.827**
Prepaid	19.689	19.323	20.332	20.335	20.332	20.096
Postpaid	22.727	22.885	21.371	21.729	22.096	22.539
Postpaid (%)	*52,1%*	*52,6%*	*49,8%*	*50,3%*	*50,7%*	*51,4%*
M2M [1]	1.230	1.308	1.210	1.154	1.179	1.192
Internet and data accesses	**2.325**	**2.338**	**2.248**	**2.260**	**2.290**	**2.302**
Broadband	2.232	2.245	2.124	2.162	2.193	2.207
thereof VDSL	*1.688*	*1.729*	*1.507*	*1.566*	*1.619*	*1.652*

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

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

Unaudited

	2020		2019			
	Q1	Q2	Q1	Q2	Q3	Q4
Mobile ARPU (in Euros) [1]	**9,8**	**9,6**	**9,8**	**10,0**	**10,2**	**10,0**
Prepaid	5,9	5,8	5,7	5,9	6,2	6,1
Postpaid	13,7	13,3	14,2	14,4	14,4	14,0
Fixed BB ARPU (in Euros) [1]	**23,7**	**23,8**	**23,4**	**23,4**	**23,2**	**23,1**
Mobile voice traffic (million minutes) [2]	31.138	33.085	26.017	26.747	26.460	27.801
Mobile data traffic (TB) [3]	313.949	348.397	193.007	226.753	252.522	283.266
Mobile churn (%)	**2,0%**	**1,9%**	**1,9%**	**1,8%**	**1,9%**	**2,0%**
Postpaid churn (%)	1,5%	1,4%	1,6%	1,5%	1,5%	1,5%

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

(2) Mobile 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.

(3) Mobile 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 GROUP

CONSOLIDATED INCOME STATEMENT & SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

	April 1 to June 30				January 1 to June 30			
(Euros in millions)	2020	2019	Change	% Change	2020	2019	Change	% Change
Revenues [1]	**1.790**	**1.785**	**5**	**0,3**	**3.636**	**3.564**	**72**	**2,0**
Mobile business [1]	**1.597**	**1.600**	**(3)**	**(0,2)**	**3.248**	**3.195**	**52**	**1,6**
Mobile service revenues [1]	1.275	1.319	(43)	(3,3)	2.587	2.599	(13)	(0,5)
Handset revenues	322	281	41	14,4	661	596	65	10,9
Fixed business	**193**	**185**	**8**	**4,3**	**386**	**367**	**19**	**5,1**
Other revenues	**0**	**1**	**(1)**	**(86,1)**	**3**	**2**	**1**	**68,5**
Other income	**31**	**47**	**(16)**	**(34,3)**	**56**	**78**	**(22)**	**(27,7)**
Operating expenses	**(1.266)**	**(1.263)**	**(3)**	**0,3**	**(2.614)**	**(2.559)**	**(55)**	**2,1**
Supplies	(567)	(527)	(40)	7,7	(1.171)	(1.094)	(77)	7,0
Personnel expenses	(142)	(153)	10	(6,7)	(292)	(303)	10	(3,3)
Impairment losses in accordance with IFRS 9	(21)	(19)	(2)	12,7	(40)	(37)	(3)	7,7
Other expenses	(536)	(565)	29	(5,2)	(1.110)	(1.125)	15	(1,3)
thereof Group fees	(8)	(8)	1	(7,9)	(16)	(17)	1	(6,5)
Operating income before depreciation and amortization (OIBDA) [1]	**555**	**570**	**(15)**	**(2,6)**	**1.079**	**1.084**	**(4)**	**(0,4)**
OIBDA margin	31,0%	31,9%		(0,9%-p.)	29,7%	30,4%		(0,7%-p.)
Exceptional effects [2]	3	(12)	15	(>100,0)	(6)	(22)	17	(75,2)
OIBDA adjusted for exceptional effects [1] [2]	**552**	**582**	**(30)**	**(5,1)**	**1.085**	**1.106**	**(21)**	**(1,9)**
OIBDA margin adjusted for exceptional effects	30,9%	32,6%		(1,8%-p.)	29,8%	31,0%		(1,2%-p.)
Depreciation and amortization	(557)	(607)	51	(8,3)	(1.110)	(1.215)	105	(8,6)
Operating income	**(1)**	**(37)**	**36**	**(96,0)**	**(30)**	**(131)**	**100**	**(76,8)**
Net financial income (expense)	**(17)**	**(12)**	**(5)**	**42,7**	**(32)**	**(26)**	**(6)**	**24,1**
Profit (loss) before tax for the period	**(18)**	**(49)**	**31**	**(62,5)**	**(62)**	**(157)**	**94**	**(60,2)**
Income tax	(0)	0	(0)	(>100,0)	(0)	0	(0)	(>100,0)
Total profit for the period	**(18)**	**(49)**	**31**	**(62,4)**	**(62)**	**(156)**	**94**	**(60,2)**
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) [3]	(0,01)	(0,02)	0	(62,4)	(0,02)	(0,05)	0	(60,2)
CapEx [4]	**(251)**	**(243)**	**(7)**	**2,9**	**(475)**	**(496)**	**21**	**(4,2)**
CapEx/Sales ratio	**14,0%**	**13,6%**		**0,4%-p.**	**13,1%**	**13,9%**		**(0,8%-p.)**
Operating cash flow (OIBDA-CapEx)	305	326	(22)	(6,7)	604	588	16	2,8
Free cash flow	**74**	**75**	**(0)**	**(0,6)**	**316**	**322**	**(6)**	**(2,0)**

(1) Including combined COVID-19 impacts and other non-recurrent special factors of ~EUR -62 million at revenue level and of ~EUR -43 million at OIBDA level in Q2'20 (~EUR -63 million and EUR -48 million in H1'20, respectively), of which COVID-19 impacts accounted for ~EUR -38 million at revenue level and ~EUR -19 million at OIBDA level in Q2'20 (~EUR -38 million and EUR -23 million in H1'20, respectively). The remainder is related to other non-recurrent factors, respectively.

(2) Exceptional effects as of 30 June 2020 include losses from sale of assets related with the sale of spectrum assets in line with the agreed merger remedies amounting to EUR 5 million. Exceptional effects as of 30 June 2019 include restructuring expenses amounting to EUR 22 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 2020 and 2019.

(4) Excluding additions from business combinations and from captalised finance leases.

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF FREE CASH FLOW

Unaudited

	2020		2019			
(Euros in millions)	Jan - Mar	Jan - June	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
OIBDA	**524**	**1.079**	**514**	**1.084**	**1.672**	**2.292**
- CapEX [1]	(224)	(475)	(252)	(496)	(782)	(1.044)
= Operating Cashflow (OIBDA-CapEx) [1]	**300**	**604**	**262**	**588**	**890**	**1.248**
+/- Change in working capital	**(54)**	**(264)**	**20**	**(228)**	**(210)**	**(148)**
+/- (Gains) losses from sale of assets	9	5	(0)	(0)	–	(1)
+/- Proceeds from sale of companies	5	–	–	–	–	–
+/- Proceeds from sale of fixed assets and other effects	0	5	0	1	0	3
+ Net interest payments	(19)	(28)	(21)	(26)	(42)	(49)
+/- Proceeds / Payments on financial assets	1	(7)	(13)	(12)	(5)	(21)
+ Acquisition of companies net of cash acquired	(1)	(1)	(0)	(0)	(0)	(9)
= Free cash flow	**241**	**316**	**247**	**322**	**633**	**1.023**

(1) Excluding additions from business combinations and from captalised finance leases.

	2020		2019			
	Jan - Mar	Jan - June	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
Free cash flow (Euros in millions)	241	316	247	322	633	1.023
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	0,08	0,11	0,21	0,34

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DIVIDEND POLICY

Unaudited

	2020		2019			
(Euros in millions)	Jan - Mar	Jan - June	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
Free cash flow	**241**	**316**	**247**	**322**	**633**	**1.023**
- Lease payments	(259)	(336)	(259)	(327)	(406)	(484)
= Free cash flow after lease payments	**(18)**	**(21)**	**(11)**	**(5)**	**227**	**539**

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

	As of 30 June	As of 31 December	
(Euros in millions)	2020	2019	% Change
A Liquidity	**224**	**781**	**(71,4)**
B Current financial assets [1]	**180**	**211**	**(14,8)**
C Current financial debt [2]	**1.407**	**801**	**75,7**
D=C-A-B Current net financial debt	**1.004**	**(191)**	**(>100,0)**
E Non-current financial assets [1]	**94**	**129**	**(27,2)**
F Non-current financial debt [2]	**3.528**	**4.180**	**(15,6)**
G=F-E Non-current net financial debt	**3.434**	**4.051**	**(15,2)**
H=D+G Net financial debt [3]	**4.438**	**3.860**	**15,0**

(1) Current and non-current financial assets include handset receivables not yet due, net investments in the lease, 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 lease liabilities.

(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.

Further information

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