Telefónica
Deutschland

DIGITAL CROSS ROADS

INTERIM GROUP MANAGEMENT REPORT

for the period 1 January to 30 June 2019

CONTENTS

Interim Group Management Report
p. 04–18

The figures in the following have been rounded in accordance with established commercial practice. Therefore, recalculations may slightly differ from the totals shown in the tables.

T 01

FINANCIAL OVERVIEW

1 January to 30 June

(EUR million)	2019	2018	% change
Revenues	**3,564**	**3,525**	**1.1**
Revenues (excl. regulatory effects 2019)	**3,589**	**3,525**	**1.8**
Mobile service revenues	2,599	2,598	0.1
Mobile service revenues (excl. regulatory effects 2019)	2,622	2,598	0.9
Operating income before depreciation and amortisation (OIBDA) according to IAS 17, adjusted for exceptional effects[1] (excl. regulatory effects 2019)	**902**	**895**	**0.7**
OIBDA margin according to IAS 17, adjusted for exceptional effects (excl. regulatory effects 2019)	*25.1%*	*25.4%*	*(0.3%-p.)*
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects[1] (excl. regulatory effects 2019)	**1,121**	**895**	**25.2**
OIBDA, adjusted for exceptional effects (excl. regulatory effects 2019)	*31.2%*	*25.4%*	*5.8%-p.*
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects[1]	**1,106**	**895**	**23.6**
OIBDA margin, adjusted for exceptional effects	*31.0%*	*25.4%*	*5.6%-p.*
Operating income before depreciation and amortisation (OIBDA)	**1,084**	**863**	**25.6**
OIBDA margin	*30.4%*	*24.5%*	*5.9%-p.*
Operating income	**(131)**	**(74)**	**76.1**
Profit/(loss) for the period	**(156)**	**(93)**	**67.6**
Basic earnings per share (in EUR)[2]	**(0.05)**	**(0.03)**	**67.6**
Total CapEx	**(496)**	**(424)**	**16.9**
thereof CapEx	(496)	(420)	18.0
thereof additions from capitalised finance leases	–	(4)	(> 100)
Additions from capitalised right-of-use assets	**(147)**	**–**	**(> 100)**
Investment ratio (CapEx/sales-ratio)	**13.9**	**12.0**	**15.6**
Operating cash flow (OIBDA-CapEx)	**588**	**439**	**34.0**
Free cash flow pre dividends and payments for spectrum[3]	**322**	**84**	**> 100**
Total accesses as of 30 June (in thousands)	**47,556**	**47,180**	**0.8**
Mobile accesses (in thousands)	43,218	42,962	0.6
thereof M2M accesses (in thousands)	1,154	1,103	4.6
Mobile accesses (in thousands) according to calculation customary to the market[4]	45,292	45,201	0.2
Net adds in mobile prepaid business (in thousands)	(208)	(683)	(69.6)
Net adds in mobile postpaid business (in thousands)	607	490	23.8
Postpaid share (%)	**52.9%**	**50.7%**	**2.3%-p.**
Total ARPU (in EUR)	**9.91**	**9.90**	**0.11**
Postpaid churn excl. M2M (%)	**1.5%**	**1.6%**	**(0.1%-p.)**
Non-SMS data over total data revenues (%)	**90.4%**	**84.6%**	**5.9%-p.**

	As of 30 June 2019	As of 31 December 2018	% change
Net financial debt according to IAS 17[5]	**1,917**	**1,129**	**69.8**
Debt ratio[6]	1.0x	0.6x	72.8
Net financial debt[7]	**4,464**	**1,129**	**> 100**
Number of employees	**8,643**	**8,868**	**(2.5)**

(1) In the first half of 2019, exceptional effects according to IFRS 16 included restructuring expenses of EUR 22 million (according to IAS 17: EUR 40 million; first half of 2018: EUR 32 million).

(2) Basic earnings per share are calculated by dividing profit / (loss) after taxes for the period by the weighted average number of ordinary shares of 2,975 million for the years 2019 and 2018.

(3) 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 made for investments in spectrum and excluding related interest payments.

(4) Starting in the 2017 financial year, the Telefónica Deutschland Group introduced an additional method of counting the number of mobile accesses, which takes connections into account that have been inactive for a maximum period of 6 months.

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

(6) The debt ratio is defined as net financial debt according to IAS 17 divided by OIBDA according to IAS 17, adjusted for exceptional effects for the last twelve months.

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

ECONOMIC REPORT OF THE GROUP

Regulatory Influences on the Telefónica Deutschland Group

Below is a presentation of the most important additions and new decisions to the disclosures made in the section “Regulatory Influences on the Telefónica Deutschland Group” in the Combined Management Report for the financial year ending 31 December 2018.

Frequencies
Auction to provide new frequencies for the further development of digital infrastructures
The auction to acquire the frequencies at 2.0 GHz expiring at the end of 2020 and the end of 2025 and the frequencies from 3.4 to 3.7 GHz commenced on 19 March 2019. Vodafone GmbH, Telekom Deutschland GmbH and Drillisch Netz AG (belonging to the 1&1 Drillisch Group) were admitted to the auction in addition to the Telefónica Deutschland Group. The auction finished on 12 June 2019. The Telefónica Deutschland Group successfully bid for two paired blocks of 5 MHz at 2 GHz, one to run from 2021 and the other from 2026, together with seven unpaired blocks of 10 MHz each at 3.6 GHz. The acquisition costs the Telefónica Deutschland Group a total of EUR 1.4 billion. The spectrum obtained through auction runs to the end of 2040.

The action brought by the Telefónica Deutschland Group against the decisions issued on 14 May 2018 by the Presidential Chamber of the BNetzA about the structure and choice of procedure governing the award of frequencies in the 2 GHz and 3.6 GHz ranges for wireless network access was rejected by the Cologne Administrative Court on 18 February 2019. The appeal filed with the Federal Administrative Court is still pending.

A petition filed in summary proceedings with the Cologne Administrative Court on 4 February 2019 against the decisions issued on 26 November 2018 by the Presidential Chamber of the BNetzA about the rules governing the award and the auction of frequencies in the 2 GHz and 3.6 GHz ranges requesting recognition of the suspensory effect of the action brought on 21 December 2018 was rejected (without possible legal recourse) on 14 March 2019. The main proceedings are still pending.

Merger between the Telefónica Deutschland Group and E-Plus
On 22 February 2019, the EU Commission opened formal proceedings against the Telefónica Deutschland Group by submitting its grounds for objection arising from the implementation of the pledge to grant 4G advances as a result of the merger between Telefónica Deutschland Group/E-Plus. Telefónica Deutschland responded to the complaints on 26 April 2019.

Merger between Vodafone and Unitymedia in Germany
On 19 October 2018, Vodafone requested permission from the EU Commission to acquire Unitymedia in Germany, together with other small cable network operators in other European countries from Liberty Global. At the end of March 2019, the EU Commission issued a list of objections against the merger and cited numerous concerns about competition in various markets. One of the actions taken by Vodafone to alleviate the concerns was to enter into an agreement with Telefónica Deutschland governing advance access to the cable network operated by Vodafone and Unitymedia, which it submitted to the EU Commission as its response to the order to eliminate the latter’s competition concerns. The EU Commission reached its final decision about approving the merger and, accordingly, about the implementation of the required advance contract, in July 2019. Details of the decision can be found in Note 9 (> SUBSEQUENT EVENTS)

Results of Operations

T 02

CONSOLIDATED INCOME STATEMENT

1 January to 30 June

(EUR million)	**2019**	2018	Change	% change
Revenues	**3,564**	**3,525**	**40**	**1.1**
Other income	78	68	10	14.1
Operating expenses	(2,559)	(2,730)	171	(6.3)
Supplies	(1,094)	(1,125)	31	(2.7)
Personnel expenses	(303)	(303)	1	(0.2)
Impairment losses in accordance with IFRS 9	(37)	(39)	2	(6.3)
Other expenses	(1,125)	(1,262)	137	(10.9)
Operating income before depreciation and amortisation (OIBDA)	**1,084**	**863**	**221**	**25.6**
OIBDA margin	**30.4%**	**24.5%**	-	*5.9%-p.*
Depreciation and amortisation	(1,215)	(937)	(277)	29.6
Operating income	**(131)**	**(74)**	**(57)**	**76.1**
Financial result	(26)	(19)	(7)	35.9
Profit/(loss) before tax	**(157)**	**(93)**	**(63)**	**67.9**
Income tax	0	(0)	0	(> 100)
Profit/(loss) for the period	**(156)**	**(93)**	**(63)**	**67.6**

T 03

REVENUE BREAKDOWN

1 January to 30 June

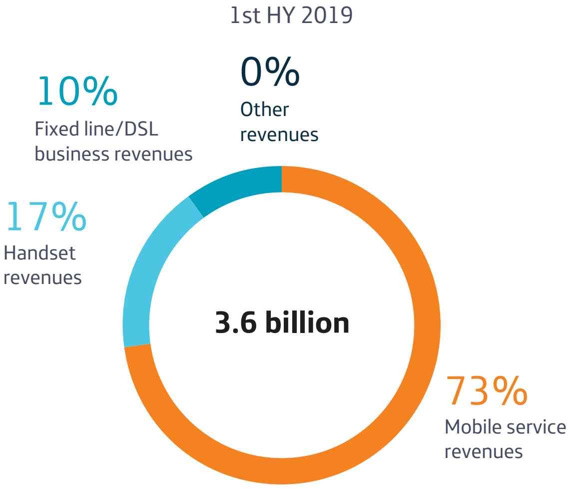
(EUR million)	**2019**	2018	Change	% change
Mobile business	**3,195**	**3,127**	**69**	**2.2**
Mobile service revenues	2,599	2,598	1	0.1
Handset revenues	596	529	67	12.8
Fixed line/DSL business revenues	**367**	**391**	**(24)**	**(6.1)**
Other revenues	**2**	**7**	**(5)**	**(74.1)**
Revenues	**3,564**	**3,525**	**40**	**1.1**

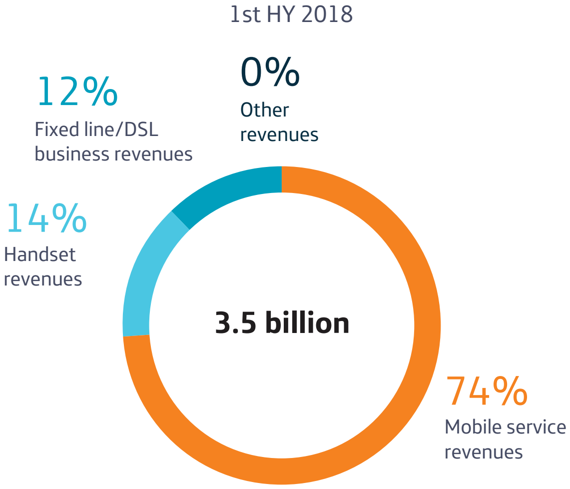
Increase in revenue

In the first half of 2019, revenues increased as a result of strong growth in hardware revenues, and a slight rise in mobile service revenues despite the regulatory effects related to the reduction in mobile termination rates (MTRs) (>ANNUAL REPORT 2018, REGULATORY INFLUENCES). This more than offset the decline in revenues from fixed line/DSL business due to promotional campaigns, a higher share of bundled tariffs in the DSL retail customer base, and the decommissioning of the ULL infrastructure of the wholesale business. Excluding the regulatory effects of EUR 25 million, revenues were EUR 65 million higher than prior-year level.

G 01

REVENUES
(% AND EUR BILLION)





Slight increase in mobile service revenues

Mobile service revenues increased slightly in a still challenging and intensely competitive German market influenced by regulatory effects, effects from the continuing OTT trends, and the ongoing legacy base rotation. Excluding the regulatory effects mainly from the reduction in mobile termination rates, mobile service revenues were 0.9% higher than the prior-year level. The Telefónica Deutschland Group still operates in a dynamic competitive environment in which the above-mentioned revenue effects had an opposite effect of successfully marketing the O_2 Free portfolio to new and existing customers. The good development of our partner brands also contributes to the steady growth of our customer base. The more widespread availability of 4G products in this market segment is a key factor in this development. Accordingly our postpaid mobile customer base increased in the first half of fiscal 2019 by 607 thousand net additions to 22.9 million (increase in the first half of 2018: 490 thousand), which led to an increase of the postpaid share of total mobile customers of 2.3 percentage points to 52.9% year on year. Despite a low price level in our partner business and the influence of regulatory effects, the average revenue per user (ARPU) remained stable year on year at EUR 9.9 (first half of 2018: EUR 9.9). Moreover, the increase in LTE network coverage is progressing continuously. Demand for data services (e.g. mobile internet, service applications and other data content) remained on the rise, boosted by the growing number of LTE-enabled mobile phones combined with the increased usage of mobile audio and video applications. We achieved monetisation of the mobile data business with our O_2 Free portfolio and our focus on larger data packages in the market. The percentage share of data revenues attributable to non-SMS data revenues rose by 5.9 percentage points year on year to 90.4%.

Increase in handset revenues

Handset revenues are generally subject to general fluctuation, as they depend on the launch of new mobile devices. Due to continued strong demand for handsets in the first half of 2019, sales figures for devices – including to mobile service partners – significantly increased year on year.

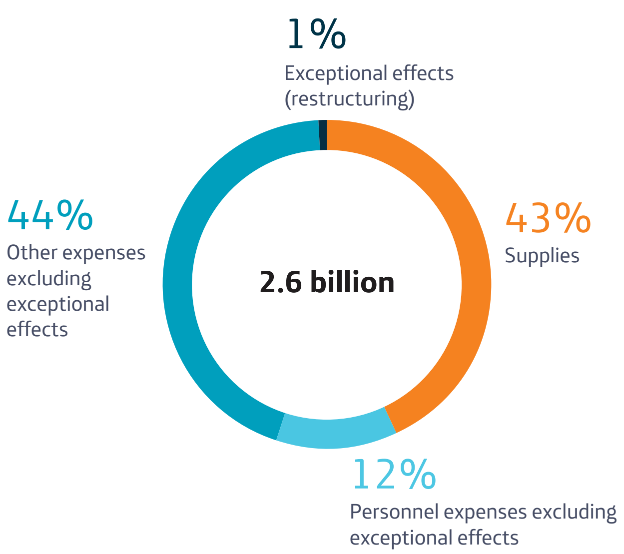
Decline in fixed line/DSL business revenues
Revenues from fixed line business declined in the first half of 2019, mainly due to the decommissioning of the obsolete ULL infrastructure at the end of fiscal 2018. VDSL demand remained steady, whereas the declining trend in fixed line revenues from retail customers weakened slightly – despite the positive trend in DSL retail customer growth – due to promotional campaigns and a larger share of bundled tariffs within our customer base.

Lower operating expenses
Operating expenses decreased mainly in the first half of 2019 compared to the prior-year period as a result of application of the IFRS 16 accounting standard starting on 1 January 2019, whereby lease expenses are no longer reported under operating expenses. Hardware cost of sales and selling expenses were higher, which had the opposite effect. Operating expenses include exceptional effects of EUR 22 million, which are mainly attributable to follow-up costs relating to the consolidation of the network.

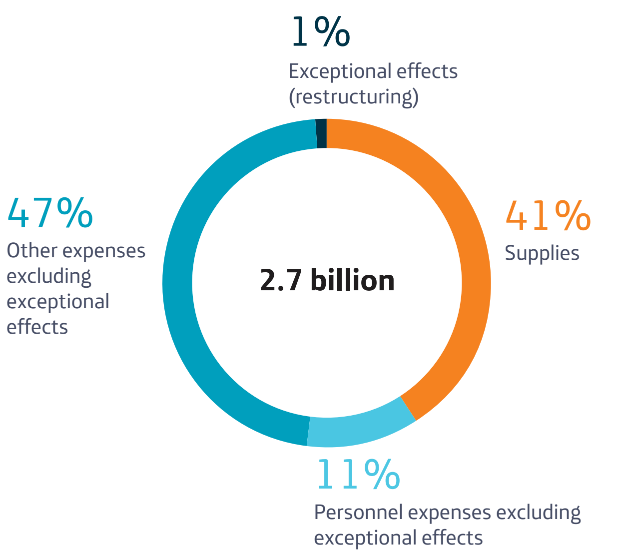
G 02

OPERATING EXPENSES
(% AND EUR BILLION)

1st HY 2019



1st HY 2018



Decrease in supplies
In the first half of 2019, supplies were lower year on year, mainly as a result of applying the IFRS 16 accounting standard starting as of 1 January 2019, which resulted in much lower network lease expenses. Hardware cost of sales increased due to strong demand for devices and had a countervailing effect, as did the slight increase in connectivity cost of sales.

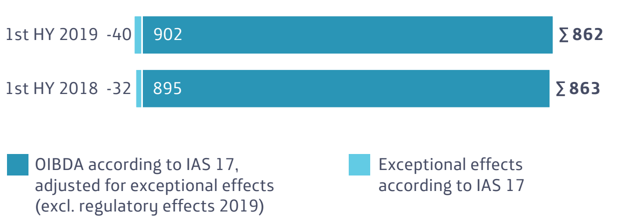
Personnel expenses stable year on year
Personnel expenses in the first half of 2019 remained stable to the prior-year level. Associated restructuring expenses amounted to EUR 6 million (first half of 2018: EUR 1 million).

Strong decrease in other expenses
In the first half of 2019, other operating expenses decreased significantly year on year, mainly as a result of applying the IFRS 16 accounting standard to lease contracts starting on 1 January 2019. The development of selling expenses had an opposite effect. In the first half of 2019, other expenses included restructuring costs of EUR 16 million compared to EUR 31 million in the comparable prior-year period).

Increase in OIBDA adjusted for exceptional and regulatory effects
OIBDA according to IAS 17 adjusted for exceptional effects (excl. regulatory effects) increased year on year by 0.7% in the first half of 2019. The exceptional effects (EUR 22 million according to IFRS 16 and EUR 40 million according to IAS 17) relate substantially to network consolidation follow-up costs. Negative regulatory effects amounted to EUR 15 million mainly as a result of changes in European roaming legislation.

G 03

OIBDA
(EUR BILLION)



Increase in depreciation and amortisation
The increase was mainly caused by additional depreciation of the capitalised right-of-use assets following application of IFRS 16 starting on 1 January 2019.

Decrease in operating income
The decrease in operating income – despite higher revenues – was mainly due to higher sales commissions and maintenance costs.

Financial result influenced by IFRS 16
The financial result decreased in the reporting period from EUR -19 million to EUR -26 million, primarily as a result of the additional interest expense arising from application of the IFRS 16 accounting standard starting on 1 January 2019.

Financial Position

Financial analysis

Net financial debt influenced by IFRS 16
Table 4 shows the composition of net financial debt – i.e. the net amount of interest-bearing financial liabilities less any cash and cash equivalents and interest-bearing financial assets and receivables.

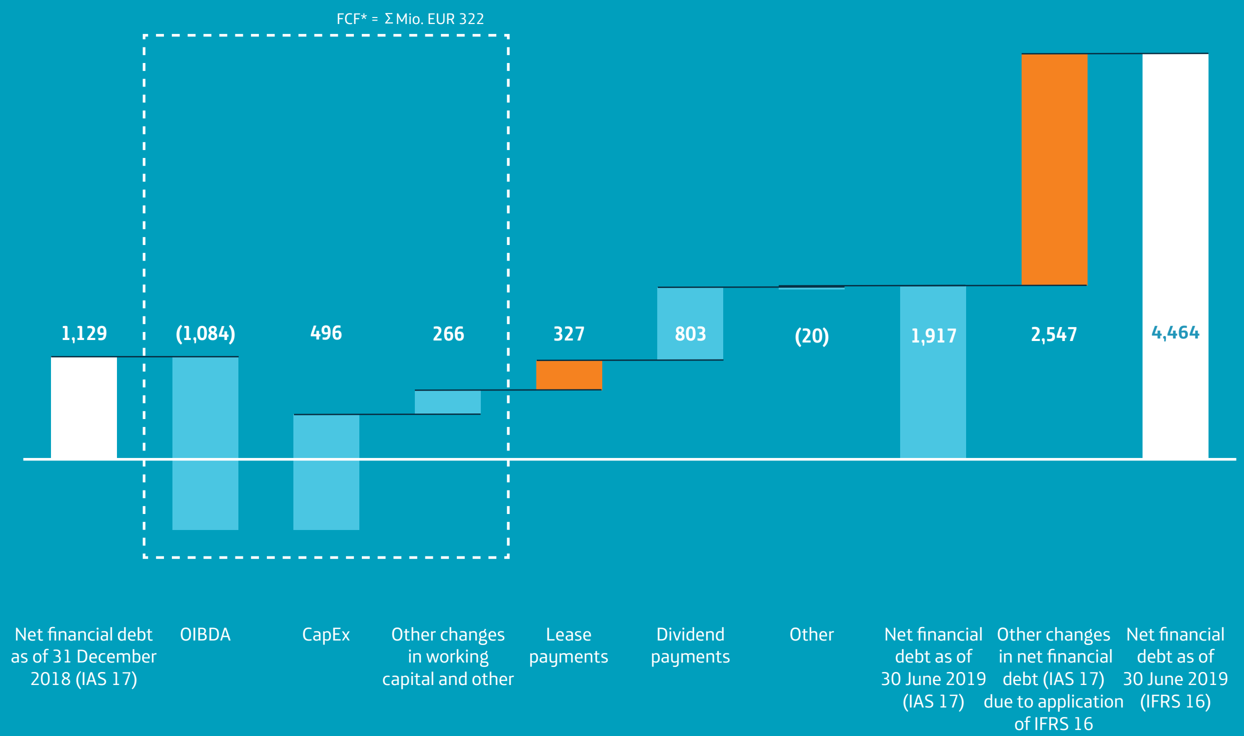
As of 30 June 2019, net financial debt increased by EUR 3,335 million compared to 31 December 2018 to EUR 4,464 million. This increase was mainly attributable to the first-time recognition of a lease liability of EUR 2,810 million following mandatory first-time application of IFRS 16 starting on 1 January 2019. The increase was also attributable to the dividend payout of EUR 803 million for financial year 2018. Free cash flow pre dividends and payments for spectrum had an opposite effect of EUR 322 million.

Net financial debt according to IAS 17 amounted EUR 1,917 million, equivalent to a net debt ratio[1] of 1.0x, which is still in line with our target leverage. As discussed in our Annual Report 2018 (>OUTLOOK 2019) we will be reviewing our self-imposed debt ratio over the course of this period, firstly, to reflect the technical changes resulting from the introduction of IFRS 16. 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.

[1] The debt ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects (30 June 2019: EUR 1,874 million; 31 December 2018: EUR 1,884 million).

G 04

DEVELOPMENT OF NET FINANCIAL DEBT
(EUR MILLION)



* Free cash flow pre dividends and payments for spectrum

T 04

COMPOSITION OF NET FINANCIAL DEBT

(EUR million)	**As of 30 June 2019**	As of 31 December 2018	Change	% change
A Liquidity	470	751	(281)	(37.5)
B Current financial assets[1]	193	182	11	5.9
C Current financial debt[2]	904	145	759	> 100
D=C-A-B Current net financial debt	241	(788)	1,029	(> 100)
E Non-current financial assets[1]	99	87	12	13.3
F Non-current financial debt[2]	4,321	2,004	2,317	> 100
G=F-E Non-current net financial debt	4,222	1,917	2,305	> 100
H=D+G Net financial debt[3]	4,464	1,129	3,335	> 100

(1) Current and non-current financial assets include handset receivables not yet due, net investment (from 1 January 2019), the positive performance of the fair value hedge for fixed interest financial debt and loans issued to third parties.

(2) Current and non-current financial debt includes lease liabilities (according to IFRS 16 from 1 January 2019) respectively lease obligations (according to IAS 17 until 31 December 2018), issued bonds, promissory notes and registered bonds, and other loans.

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

Notes:
Handset receivables are shown under trade receivables in the Consolidated Statement of Financial Position.

As of 30 June 2019

(EUR million)	IFRS 16	IFRS 16 effects	IAS 17
Net financial debt	**4,464**	**(2,547)**	**1,917**

Liquidity analysis

T 05

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 30 June

(EUR million)	**2019**	2018
Cash and cash equivalents at the beginning of the period	**751**	**587**
Cash flow from operating activities	839	588
Cash flow from investing activities	(517)	(504)
Cash flow from financing activities	(603)	(350)
Net increase (decrease) in cash and cash equivalents	**(281)**	**(266)**
Cash and cash equivalents at the end of the period	**470**	**321**

Consolidated Statement of Cash Flows
The following is an analysis of the cash flow development of the Telefónica Deutschland Group in the first six months of the financial years 2019 and 2018.

Change in cash flow from operating activities above the previous year
Cash flow from operating activities amounted to EUR 839 million in the first half of 2019, EUR 250 million or 42.6% above the prior-year figure (first half of 2018: EUR 588 million). This development was substantially caused by the improvement in OIBDA, mainly as a result of lower rental expenses due to application of IFRS 16 starting on 1 January 2019.

Cash flow from investing activities on a par with prior-year level
Cash flow from investing activities amounted to EUR -517 million in the first half of 2019 (first half of 2018: EUR -504 million). Cash outflows of EUR 517 million were EUR 7 million above those of the previous year. Cash inflows remained almost at the previous year's level.

Change in cash flow from financing activities influenced particularly by first-time application of new accounting standards
Cash flow from financing activities amounted to EUR -603 million in the first half of 2019 (first half of 2018: EUR -350 million).

Cash outflows decreased by EUR 588 million to EUR 1,343 million and mainly comprise the dividend payment of EUR 803 million, payments of EUR 327 million to redeem lease liabilities, and repayment of the EUR 150 million loan to Telfisa Global B.V. and of the EUR 75 million promissory note. By comparison, in the first half of 2018, EUR 1,130 million in loans were repaid to Telfisa Global B.V., outflows of EUR 19 million were attributable to finance lease agreements, and a dividend of EUR 773 million was paid.

Cash inflows from interest-bearing borrowings decreased by EUR 841 million to EUR 739 million compared with the previous year and stemmed from a new promissory note for EUR 360 million, the short-term utilisation of the loan facility with Telfisa Global B.V. in the amount of EUR 250 million and a further short-term credit facility of EUR 130 million. By comparison, in the first half of 2018, EUR 1,330 million in loans were drawn down from Telfisa Global B.V. and EUR 250 million from the promissory notes.

Decrease in cash and cash equivalents
Following the aforementioned cash inflows/(outflows), cash and cash equivalents decreased by EUR 281 million compared to the prior-year reporting date and amounted to EUR 470 million as of 30 June 2019 (31 December 2018: EUR 751 million).

T 06

CALCULATION OF CASH FLOW AND OIBDA MINUS CAPEX

1 January to 30 June

(EUR million)	2019	2018	Change	% change
OIBDA	**1,084**	**863**	**221**	**25.6**
- CapEx	(496)	(420)	(76)	18.0
= Operating cash flow (OIBDA-CapEx)	**588**	**443**	**145**	**32.7**
Change in working capital	**(228)**	**(343)**	**115**	**(33.7)**
+/- Gains/(losses) from the disposal of assets	(0)	(0)	(0)	12.4
+/- Payments from sale of property, plant and equipment, and other effects	1	0	0	39.8
+ Net interest payment	(26)	(19)	(7)	39.4
+/- Proceeds from/payments for financial assets	(12)	3	(16)	(> 100)
+ Acquisition of companies, net of cash acquired	(0)	(0)	0	(83.6)
= Free cash flow pre dividends and payments for spectrum[1]	**322**	**84**	**238**	**> 100**
- Dividends paid	(803)	(773)	(30)	3.8
= Free cash flow after dividends and spectrum payments	**(481)**	**(689)**	**208**	**(30.2)**

(1) 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 made for investments in spectrum and excluding related interest payments.

Net Assets

In the following analysis of the asset and capital structure, the assets and liabilities existing as of 30 June 2019 are compared with the values as of 31 December 2018.

T 07

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR million)	**As of 30 June 2019**	As of 31 December 2018	Change	% change
Goodwill and other intangible assets	6,314	6,687	(373)	(5.6)
Property, plant and equipment	3,701	3,793	(92)	(2.4)
Right-of-use assets	2,729	–	2,729	–
Trade and other receivables	1,267	1,371	(104)	(7.6)
Deferred tax assets	204	204	–	–
Other financial assets	140	111	29	26.3
Other non-financial assets	607	619	(12)	(1.9)
Inventories	182	261	(79)	(30.4)
Cash and cash equivalents	470	751	(281)	(37.5)
Total assets = Total equity and liabilities	**15,613**	**13,796**	**1,816**	**13.2**
Interest-bearing debt	2,630	2,149	481	22.4
Provisions	760	714	46	6.5
Lease liabilities	2,594	–	2,594	–
Trade and other payables	2,161	2,438	(277)	(11.4)
Other non-financial liabilities	99	39	60	> 100
Deferred income	609	712	(102)	(14.4)
Deferred tax liabilities	184	177	8	4.4
Equity	**6,575**	**7,569**	**(994)**	**(13.1)**

Decrease in intangible assets due to amortisation

The year-on-year decline was mainly due to the planned amortisation of other intangible assets amounting to EUR 502 million in the first six months of the financial year 2019. This was partially offset by the additions to intangible assets of EUR 129 million, which related primarily to investments in software.

Decrease in property, plant and equipment particularly due to depreciation

The decrease in property, plant and equipment is mainly due to the planned depreciation of EUR 442 million, which was partially offset by additions of EUR 366 million in the first six months of fiscal 2019 relating primarily to network investments.

Right-of-use assets according to IFRS 16

Right-of-use assets are recognised in the reporting period following application of IFRS 16 starting on 1 January 2019.

Increased investment ratio (CapEx/Sales ratio)

Investments (CapEx) increased to EUR 496 million in the first half of 2019 compared to EUR 420 million in the comparative period 2018. As a result, the investment ratio also increased during the reporting period to 13.9% (first half of 2018: 12.0%).

Trade and other receivables decreased

The decline was mainly due to an increase in factoring transactions in the first half of 2019.

Other financial assets
The increase in other financial assets was partly due to a higher silent factoring deposit and to the recognition of net investments in subleases of the Telefonica Deutschland Group as a result of applying IFRS 16 starting on 1 January 2019 (> Note 4 Accounting Policies).

Inventories of mobile devices decrease
The decrease was due to higher sales of mobile devices in regular course of business.

Decrease in cash and cash equivalents
The decrease of EUR -281 million or -37.5% was attributable to several effects that are discussed in more detail in the Section >Financial Position.

Interest-bearing debt up on previous year
The increase was primarily due to a new promissory note for EUR 360 million, a short-term loan of EUR 130 million, and partial utilisation of EUR 100 million of the revolving credit facility with Telfisa Global B.V.

Provisions up year on year
The increase in provisions was mainly caused by a reduction in the interest rate applicable to pension obligations, which resulted in an increase of EUR 51 million. Other provisions also increased in the reporting period, by EUR 19 million. The increase was partially offset by restructuring obligations, which declined by EUR 31 million in the reporting period.

Lease liabilities
Lease liabilities are recognised in the reporting period following application of IFRS 16 starting on 1 January 2019.

Decrease in trade and other payables
This development is mainly due to a EUR 320 million decrease in operating liabilities, which was partially offset by an increase of EUR 47 million in our continuing silent factoring.

Other non-financial liabilities
The increase is primarily due to sales tax liabilities accrued following inclusion of Telefónica Germany GmbH & Co. OHG as a company controlled by Telefónica Deutschland Holding AG as a result of changes in the relevant law effective 1 January 2019.

Decrease in deferred income
Of the decrease, EUR 49 million was attributable to declining voucher sales in prepaid business, along with various regular reversals.

Equity declines
The changes to equity mainly result from the dividend payment of EUR 803 million on 24 May 2019 and the result for the period of EUR -156 million. Of the decrease, a further EUR 51 million was attributable to an interest rate effects recognised in equity in connection with pension obligations. The decline was partially offset by the effects recognised in equity in the amount of EUR 17 million following first-time application of IFRS 16 starting on 1 January 2019.

REPORT ON RISKS AND OPPORTUNITIES

In the combined Management Report for the 2018 financial year, we have presented certain risks that could have significant adverse effects on our business, net assets, financial position, results of operations and reputation. In addition, we describe our most important opportunities and the structure of our risk management system.

Risk Management

During the reporting period, we identified potential negative influences arising from geopolitical conflicts as a new risk. In addition, one risk was re-assessed compared to financial year 2018. The changes are discussed in more detail below.

Otherwise, we have not identified any other significant risks and opportunities beyond those described in the combined Management Report for the 2018 financial year.

Geopolitical risks
Political conflict can influence our international trade relations and directly or indirectly impact both our supply chain and the economic environment. The current political tension between the US and China could also impact our relations with suppliers as a result of existing or future trade barriers.

If certain network technologies or hardware were no longer to be available, the resulting follow-on costs could be enormous. Equally, the sale of devices could suffer and result in less turnover.

Until now, these influences were included as part of the “Supply chain disruptions” risk. From now on, it will be treated as a risk in its own right to enable better consideration of the different nature of the causes. Due to a high potential economic impact of the damage and a possible likelihood of occurrence, we classify this risk as significant.

Licences and frequencies
The 5G auction has closed and we were able to secure the frequencies we need for our business model. The risk of not obtaining certain rights of frequency use or only obtaining them at disadvantageous financial conditions has now abated for the time being.

We now anticipate a lesser potential economic impact of the damage albeit with the same likelihood of occurrence, and now classify the risk as moderate rather than significant.

Opportunity Management

The opportunities for ensuring the success of our fixed line business improved in the first half of 2019. Since 2013, Telefónica Deutschland has been relying on its nationwide strategic partnership with Telekom Deutschland GmbH to enable it to act as a provider of integrated telecommunication services and offer fixed line services in addition to its comprehensive mobile services.

A new cooperation agreement now perfectly complements our former standing in the fixed line market: Telefónica Deutschland and Vodafone have entered into an agreement giving us future access to the cable network of Vodafone and Unitymedia in Germany. Access to this cable network will allow Telefónica Deutschland to supply as many as 24 million cable households in Germany with attractive O_2 fixed line products with higher speeds than VDSL. The agreement will enable us to considerably expand our high-speed fixed line internet offerings throughout Germany. It is subject to the planned acquisition of Unitymedia by Vodafone. The EU Commission reached its final decision about approving the acquisition in July 2019, see Note 9 Subsequent Events. If the anticipated increase in demand for our fixed line products is greater than expected, the resulting effect on our revenues could be positive.

A further opportunity has arisen: In the 90 MHz mobile frequency auction just ended, Telefónica secured a spectrum it can use throughout Germany until 2040. This valuable package of frequencies is the perfect addition to our existing spectrum. We have managed to secure the right spectrum to consistently expand our network for our customers and for our business success. It is now more likely that our efforts to build a 5G network in the coming years will positively impact our revenue and operating income.

OUTLOOK 2019

There is currently no indication that the forecasts published in the Combined Management Report 2018(>ANNUAL REPORT 2018, REPORT ON EXPECTED DEVELOPMENTS) have changed significantly. The financial outlook for 2019 is confirmed, including OpEx and sales synergies of approximately EUR 40 million and a further EUR 40 million in CapEx synergies.

The following table summarises the financial outlook for 2019:

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FINANCIAL OUTLOOK 2019[2]

	Actual 2018 (EUR million)	Outlook 2019 (Developments y-o-y)	H1 / 2019 (Developments y-o-y)
Revenues	7,320	Broadly unchanged y-o-y (adjusted for regulatory effects of approx. EUR 60-70 million)	+1.8%
Operating income before depreciation and amortisation (OIBDA), adjusted for exceptional effects	1,884	Broadly stable to slightly positive y-o-y (adjusted for regulatory effects of EUR 40-50 million)	+0.7%
Investment ratio	13.2%	approx. 13-14%	+13.9%

[2] The effects of applying IFRS 16 as of 1 January 2019 are not reflected in the financial outlook.

Munich, 6 August 2019

Telefónica Deutschland Holding AG

Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the period 1 January to 30 June 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets (EUR million)	Notes	**As of 30 June 2019**	As of 31 December 2018
A) Non-current assets		**13,315**	**11,061**
Goodwill		1,960	1,960
Other intangible assets	[5a]	4,354	4,727
Property, plant and equipment	[5b]	3,701	3,793
Right-of-use assets	[5c]	2,729	–
Trade and other receivables	[5d]	69	70
Other financial assets		128	101
Other non-financial assets	[5e]	172	206
Deferred tax assets		204	204
B) Current assets		**2,297**	**2,736**
Inventories		182	261
Trade and other receivables	[5d]	1,198	1,301
Other financial assets		12	9
Other non-financial assets	[5e]	435	413
Cash and cash equivalents		470	751
Total assets (A+B)		**15,613**	**13,796**

Equity and Liabilities (EUR million)	Notes	**As of 30 June 2019**	As of 31 December 2018
A) Equity		**6,575**	**7,569**
Subscribed capital		2,975	2,975
Additional paid-in capital		4,800	4,800
Retained earnings		(1,199)	(205)
Total equity attributable to owners of the parent		6,575	7,569
B) Non-current liabilities		**5,295**	**2,901**
Interest-bearing debt	[5f]	2,195	2,004
Lease liabilities	[5g]	2,126	–
Trade and other payables	[5h]	17	19
Provisions	[5i]	619	526
Deferred income	[5h]	154	176
Deferred tax liabilities		184	177
C) Current liabilities		**3,742**	**3,326**
Interest-bearing debt	[5f]	435	145
Lease liabilities	[5g]	468	–
Trade and other payables	[5h]	2,144	2,419
Provisions	[5i]	140	188
Other non-financial liabilities		99	39
Deferred income	[5h]	456	535
Total equity and liabilities (A+B+C)		**15,613**	**13,796**

The new accounting standard IFRS 16 “Leases” has been applied since 1 January 2019. Prior-year figures have not been adjusted. Please refer to Note 4, Accounting Policies, for more information.

CONSOLIDATED INCOME STATEMENT

1 January to 30 June

(EUR million)	Notes	2019	2018
Revenues	[6a]	3,564	3,525
Other income		78	68
Supplies		(1,094)	(1,125)
Personnel expenses		(303)	(303)
Impairment losses in accordance with IFRS 9		(37)	(39)
Other expenses	[6b]	(1,125)	(1,262)
Operating income before depreciation and amortisation (OIBDA)		**1,084**	**863**
Depreciation and amortisation	[6c]	(1,215)	(937)
Operating income		**(131)**	**(74)**
Finance income		1	1
Exchange gains		0	0
Finance costs (*)		(27)	(20)
Exchange losses		(0)	(1)
Financial result		**(26)**	**(19)**
Profit/(loss) before tax		**(157)**	**(93)**
Income tax		0	(0)
Profit/(loss) for the period		**(156)**	**(93)**
Profit/(loss) for the period attributable to owners of the parent		**(156)**	**(93)**
Profit/(loss) for the period		**(156)**	**(93)**
Earnings per share			
Basic earnings per share in EUR		**(0.05)**	**(0.03)**
Diluted earnings per share in EUR		**(0.05)**	**(0.03)**

The new accounting standard IFRS 16 “Leases” has been applied since 1 January 2019. Prior-year figures have not been adjusted. Please refer to Note 4, Accounting Policies, for more information.

(*) The finance costs from 1 January to 30 June 2019 include interest expenses of EUR 6 million relating to Lease liabilities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 January to 30 June

(EUR million)	**2019**	2018
Profit/(loss) for the period	**(156)**	**(93)**
Items that will not be reclassified to profit/(loss)		
Remeasurement of benefits after termination of employment	(51)	2
Other comprehensive income/(loss)	**(51)**	**2**
Total comprehensive income/(loss)	**(208)**	**(91)**
Total comprehensive income/(loss) attributable to owners of the parent	(208)	(91)
Total comprehensive income/(loss)	**(208)**	**(91)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR million)	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity attributable to owners of the parent	Equity
Financial position as of 1 January 2018	**2,975**	**4,800**	**523**	**8,297**	**8,297**
Adjustment due to first-time application of IFRS 9 and IFRS 15 (after taxes)	–	–	274	274	274
Financial position as of 1 January 2018, adjusted	**2,975**	**4,800**	**797**	**8,571**	**8,571**
Profit/(loss) for the period	–	–	(93)	(93)	(93)
Other comprehensive income/(loss)	–	–	2	2	2
Total comprehensive income/(loss)	**–**	**–**	**(91)**	**(91)**	**(91)**
Dividends	–	–	(773)	(773)	(773)
Other movements	–	–	0	0	0
Financial position as of 30 June 2018	**2,975**	**4,800**	**(67)**	**7,707**	**7,707**
Financial position as of 1 January 2019	**2,975**	**4,800**	**(205)**	**7,569**	**7,569**
Adjustment due to first-time application of IFRS 16 (after taxes)	–	–	17	17	17
Financial position as of 1 January 2019, adjusted	**2,975**	**4,800**	**(189)**	**7,586**	**7,586**
Profit/(loss) for the period	–	–	(156)	(156)	(156)
Other comprehensive income/(loss)	–	–	(51)	(51)	(51)
Total comprehensive income/(loss)	**–**	**–**	**(208)**	**(208)**	**(208)**
Dividends	–	–	(803)	(803)	(803)
Financial position as of 30 June 2019	**2,975**	**4,800**	**(1,199)**	**6,575**	**6,575**

The new accounting standard IFRS 16 “Leases” has been applied since 1 January 2019. Prior-year figures have not been adjusted. Please refer to Note 4, Accounting Policies, for more information.

CONSOLIDATED STATEMENT OF CASH FLOWS

1 January to 30 June

(EUR million)	Notes	2019	2018
Cash flow from operating activities			
Profit/(loss) for the period		**(156)**	**(93)**
Adjustments to profit/(loss)			
Financial result		26	19
Gains/(losses) from the disposal of assets		(0)	(0)
Income taxes		(0)	0
Depreciation and amortisation	[6c]	1,215	937
Change in working capital and others			
Other non-current assets	[5d], [5e]	(12)	16
Other current assets	[5d], [5e]	168	29
Other non-current liabilities and provisions	[5h], [5i]	(32)	(71)
Other current liabilities and provisions	[5h], [5i]	(343)	(230)
Others			
Interest received		3	3
Interest paid		(29)	(22)
Cash flow from operating activities		**839**	**588**
Cash flow from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		1	0
Payments on investments in property, plant and equipment and intangible assets	[5a], [5b]	(505)	(507)
Acquisition of companies, net of cash acquired		(0)	(0)
Proceeds from financial assets		0	5
Payments for financial assets		(12)	(2)
Cash flow from investing activities		**(517)**	**(504)**

1 January to 30 June

(EUR million)	Notes	2019	2018
Cash flow from financing activities			
Payments made for the repayment of lease liabilities (*)	[5g]	(327)	–
Proceeds from interest-bearing debt	[5f]	739	1,580
Payments made for the repayment of interest-bearing debt (*)	[5f]	(225)	(1,149)
Dividends paid		(803)	(773)
Other proceeds/(payments) relating to financing activities		12	(8)
Cash flow from financing activities		**(603)**	**(350)**
Net increase/(decrease) in cash and cash equivalents		**(281)**	**(266)**
Cash and cash equivalents at the beginning of the period		**751**	**587**
Cash and cash equivalents at the end of the period		**470**	**321**

The new accounting standard IFRS 16 "Leases" has been applied since 1 January 2019. Prior-year figures have not been adjusted. Please refer to Note 4, Accounting Policies, for more information.

(*) As of 30 June 2018, payments made for the repayment of Lease liabilities of EUR 19 million were reported under "Payments made for the repayment of interest-bearing debt".

CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the period 1 January to 30 June 2019

1. Reporting Entity

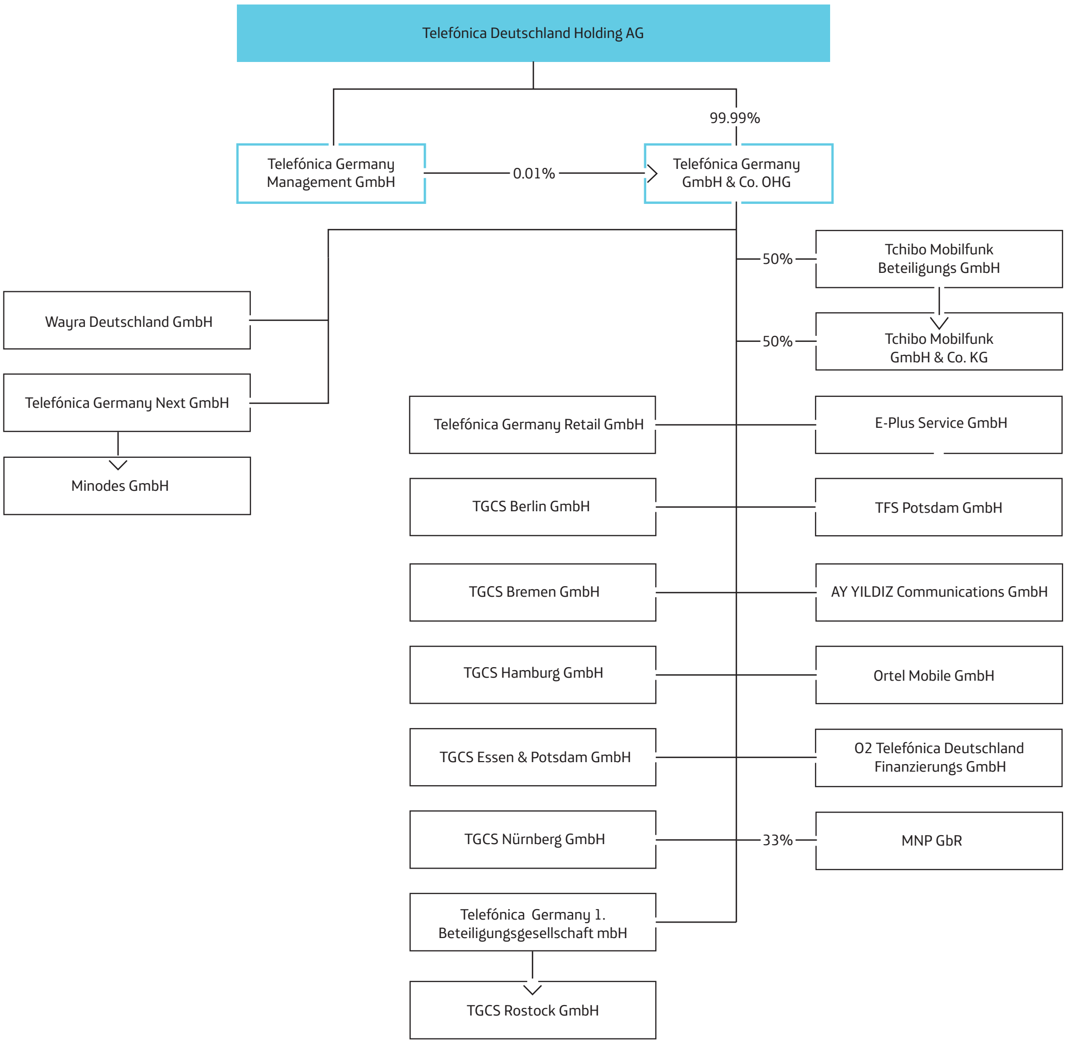
The Interim Condensed Consolidated Financial Statements (hereinafter “Interim Consolidated Financial Statements”) of Telefónica Deutschland Holding AG have been prepared for the period from 1 January to 30 June 2019 and comprise Telefónica Deutschland Holding AG (also referred to as “Telefónica Deutschland”) and its subsidiaries as well as joint operations (together referred to as the “Telefónica Deutschland Group” or the “Group”).

Telefónica Deutschland Holding AG is a stock corporation (AG) under German law.

The company is listed on the regulated market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX, the International Securities Identification Number (ISIN) is DE000A1J5RX9.

As of 30 June 2019, 30.8 % of the shares were in free float. 69.2% were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). According to a press release for Koninklijke KPN N.V. dated 13 June 2019, all shares held by Koninklijke KPN N.V. in Telefónica Deutschland Holding AG have been sold.

As of 30 June 2019, the companies included in the Interim Consolidated Financial Statements of the Telefónica Deutschland Group were organised as shown in the following organisation chart:



Unless stated otherwise, the ownership interests amount to 100%.

2. Significant Events and Transactions during the Reporting Period

Promissory notes
On 25 April 2019, Telefónica Germany GmbH & Co. OHG placed a promissory note of EUR 360 million. For further information, see Note 5 f) Interest-bearing debt.

General Meeting and Dividends
The Annual General Meeting for the 2018 financial year was held on 21 May 2019. In addition to the presentation of the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland, a dividend payment of EUR 0.27 per entitled share, totalling EUR 803,129,848.11, was approved. The dividend for the financial year 2018 was paid to shareholders on 24 May 2019.

Resolutions were also adopted to elect María García-Legaz Ponce and Pablo de Carvajal González as shareholder representatives to the company's Supervisory Board, to cancel the Conditional Capital 2014/I and to create new Conditional Capital 2019/I. As a result, the share capital of Telefónica Deutschland Holding AG remains conditionally increased by up to EUR 558,472,700 by issuing up to 558,472,700 new non-par value registered shares.

Changes in the Supervisory Board of Telefónica Deutschland
Jürgen Thierfelder and Sandra Hofmann resigned as members of the Supervisory Board with effect as of the end of 31 December 2018 and 18 February 2019, respectively.

Cansever Heil and Christoph Heil were appointed to the Supervisory Board by court resolution dated 29 March 2019, effective 3 April 2019.

Appointments to the Management Board
In its meeting on 18 February 2019, the Supervisory Board resolved upon the further appointment of Markus Haas as Chief Executive Officer until the end of 31 December 2022 and agreed with him to extend his Management Board contract accordingly.

Frequency auction 2019 - 5G frequencies
The auction to acquire the 2.0 GHz frequencies and the frequencies from 3.4 to 3.7 GHz commenced on 19 March 2019. Vodafone GmbH, Telekom Deutschland GmbH and Drillisch Netz AG (belonging to the 1&1 Drillisch Group) were admitted to the auction in addition to the Telefónica Deutschland Group. The auction finished on 12 June 2019. The blocks will cost the Telefónica Deutschland Group a total of EUR 1,425 million.

The Federal Network Agency's auction of frequencies in the 2 GHz and 3.6 GHz blocks ended on 12 June 2019. Telefónica was successful in bidding for frequencies in both blocks but has brought legal action against decisions made by the Presidential Chamber on which the auction was based. One initial decision relates partly to the structure and choice of procedure governing the award of frequencies (shortage of frequencies, auction). A subsequent second decision relates to the rules governing the award and auction of frequencies (including expansion obligations). Further actions have been filed against these decisions by other mobile communications and service providers. The success of one or more of these actions could nullify the legal basis on which the auction took place and result in the award decisions being revoked and – following allocation of the awarded frequencies – even in the frequencies being transferred back to the BNetzA and the award procedure having to be repeated.

3. Basis of Preparation

The Interim Consolidated Financial Statements of Telefónica Deutschland Holding AG were prepared in accordance with the IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU. Accordingly, the Interim Consolidated Financial Statements do not include all the information and disclosures required in complete consolidated financial statements and should therefore be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2018 (see Note 2, Basis of Preparation).

These Interim Consolidated Financial Statements as of 30 June 2019 have not been audited.

Functional currency and presentation currency
These Interim Consolidated Financial Statements are presented in euros, which is the functional currency of Telefónica Deutschland Holding AG and its subsidiaries.

Unless stated otherwise, the figures in these Interim Consolidated Financial Statements are presented in millions of euros (EUR million) and rounded according to established commercial principles. Therefore, recalculations may slightly differ from the totals shown in the tables.

Other
The preparation of the Interim Consolidated Financial Statements requires the Management Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. A significant change in the facts and circumstances on which these evaluations, estimates and assumptions are based could have a material impact on the Telefónica Deutschland Group's net assets, financial position and results of operations.

For further information, please refer to the Consolidated Financial Statements for the financial year ended 31 December 2018 (see Note 3, Accounting Policies).

Comparative information

The Consolidated Statement of Financial Position presented in these Interim Consolidated Financial Statements relates to information as of 30 June 2019, which is compared with information as of 31 December 2018.

The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income compare the completed six-month periods as of 30 June 2019 and 30 June 2018. The Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity compare the completed six-month periods 2019 and 2018.

Seasonal business

The earnings performance to date shows no indication that business activity is subject to significant fluctuations due to seasonal influences.

4. Accounting Policies

The significant estimates, assumptions and judgements made by the management in preparing the Interim Consolidated Financial Statements of the Telefónica Deutschland Group do not in principle differ in terms of potential estimation uncertainty from the assumptions included in the Consolidated Financial Statements for the financial year ended 31 December 2018 (see Note 3, Accounting Policies).

At the time of publication of the Interim Consolidated Financial Statements, the following standards and interpretations were published, but their application was not yet mandatory.

Standards, interpretations and amendments		Mandatory application for financial years beginning on or after
Various	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020[1]
Amendments to IFRS 3	Definition of business	1 January 2020[1]
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020[1]
IFRS 17	Insurance Contracts	1 January 2021[1]

[1]Endorsement by EU still outstanding, information for first-time application under IASB.

For a comprehensive description of the new standards, amendments to standards and interpretations relevant to the Group, please refer to the disclosures in the Consolidated Financial Statements for the year ended 31 December 2018 (see Note 3, Accounting Policies). An assessment is made there of the expected effects on the net assets, financial position and results of operations of the Group, which will continue to apply to the Interim Consolidated Financial Statements as of 30 June 2019.

IFRS 16 Leases – Effects of first-time application

On 13 January 2016, the IASB issued IFRS 16 – Leases, which replaced IAS 17 and other existing interpretations. The standard was adopted into European law on 9 November 2017. Application of the standard is mandatory for financial years beginning on or after 1 January 2019.

Under IFRS 16, the lessee must account for all contracts identified as leases such that the associated right of use is recognised as an asset. The previous distinction between finance leases and operating leases in accordance with IAS 17 no longer applies to the lessee. Using the interest rate implicit in the lease, the present value of the lease payments that are not paid is to be recognised as a lease liability. If that cannot be readily determined, the incremental borrowing rate is applied.

The right-of-use asset acquired in this context is to be recognised as an asset. The lease liability and the right-of-use asset are reduced by lease payments made or depreciation over the lease term. Liabilities are measured using the effective interest method. As a rule, this method and the resulting interest effects lead to higher expenses at inception of the lease contract.

Recognition exemptions from the aforementioned method are possible for leases for which the underlying assets are of low-value or short-term leases (lease term of twelve months or less).

The assessment of the term of the lease in which the Telefónica Deutschland Group acts as lessee or lessor is generally based on the non-cancellable period of a lease. If a lease contains extension options or termination options for the lessee or lessor, these are taken into account if their execution is assessed as reasonably certain on the reporting date. All relevant facts and circumstances (e.g. technology, regulation, competition, business model) are taken into account.

In addition to the aforementioned systematic change, IFRS 16 includes further amendments and new requirements such as the definition of leases, accounting for sale and leaseback transactions and subleases, disclosure in the Statement of Financial Position and the scope of disclosures required in the notes.

IFRS 16 requirements for lessors are similar to the previous standard IAS 17.

In the event of subleasing by the Telefónica Deutschland Group, which is classified as a finance lease in accordance with IFRS 16.61 et seqq., the net investment is initially measured by discounting the lease payments not yet received. The lessor's allocation of contractual payments to non-leasing components is explicitly regulated by reference to IFRS 15.

The conversion to IFRS 16 does not have any significant effects on the subleasing activities of the Telefónica Deutschland Group as lessor. There is one exception for subleases of shop space. These were previously accounted for as operating leases. According to IFRS 16, the majority of these sublease agreements are classified as finance leases and recognised in the balance sheet item Other financial assets.

The Telefónica Deutschland Group will make use of the option not to recognise a right-of-use asset for leases for which the underlying assets are of low-value or short-term leases (lease term of twelve months or less).

The changeover to IFRS 16 for accounting as lessee is based on the modified retrospective approach, according to which the cumulative effect of first-time application is recognised as an adjustment to the opening balance of retained earnings in the 2019 reporting period. The Telefónica Deutschland Group has not adjusted the comparative figures for the prior-year period.

For the opening balance as of 1 January 2019, the practical expedient of IFRS 16.C3 was applied with regard to the classification of leases. This means that at the time of first-time application, contracts were not reassessed with regard to whether they constituted or contained a lease. Instead, IFRS 16 was applied to contracts previously classified as leases under IAS 17 and IFRIC 4. IFRS 16 was not applied to contracts not previously classified as containing a lease according to IAS 17 and IFRIC 4. In addition, Telefónica Deutschland Group has made use of the option to account for leases ending on 31 December 2019 at the latest as short-term leases.

IFRS 16.C8 provides an option for recognition of right-of-use assets as of 1 January 2019 for leases previously classified as an operating lease, which can be exercised on a lease-by-lease basis. The Telefónica Deutschland Group has applied the alternative IFRS 16.C8 (b) (ii) for the majority of its contracts, so that the right-of-use assets are measured in the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. In the transition phase, valuation excludes the initial direct costs. As of 1 January 2019 existing finance leases for which the Telefónica Deutschland Group is the lessee are recognised at the carrying amount determined as of 31 December 2018.

The Telefónica Deutschland Group has not provided any material residual value guarantees as lessee.

Lease liabilities are discounted as of 1 January 2019 using the incremental borrowing rate. The weighted average interest rate was 0.5%.

The interest rate of the head lease is used for discounting lease payments from subleases that have not yet been received.

The following effects resulted from first-time application of IFRS 16:

— Payments for the principal portion of the lease liability are shown within cash flow from financing activities with a corresponding increase in cash flow from operating activities.

— The calculated depreciation of right-of-use assets and interest expenses on liabilities replace lease expenses in the Income Statement. This had a positive effect on the operating income before depreciation and amortisation (OIBDA) in the first half of 2019. By contrast, the effect on operating income and the financial result was only slightly negative in the first half of 2019.

— As of 1 January 2019, release of provisions for onerous operating lease contracts originally recognised applying IAS 17 for which a right-of-use asset is recognised under IFRS 16, was recognised directly in equity.

First-time application of IFRS 16 has had the following quantitative effects on the Consolidated Statements of Financial Position as of 31 December 2018 and 1 January 2019, respectively:

(EUR million)	31 December 2018	Adjustment due to IFRS 16	**1 January 2019**
Non-current assets			
Property, plant and equipment	3,793	(76)	3,717
Right-of-use assets		2,889	2,889
Other financial assets	101	13	115
Other non-financial assets	206	(19)	187
Current assets			
Other financial assets	9	4	14
Other non-financial assets	413	(34)	379
Equity			
Retained earnings	(205)	17	(189)
Non-current liabilities			
Interest-bearing debt	2,004	(22)	1,981
Lease liabilities	–	2,258	2,258
Provisions	526	(11)	514
Deferred income	176	(0)	176
Deferred tax liabilities	177	8	185
Current liabilities			
Interest-bearing debt	145	(8)	137
Lease liabilities	–	551	551
Provisions	188	(14)	174

The reconciliation of lease obligations according to IAS 17 as of 31 December 2018 was performed on 1 January 2019 as follows:

(EUR million)	
Obligations arising from operating leases recognised as of 31 December 2018	**2,579**
(Less): short-term leases	(22)
(Less): low value leases	(4)
Add: Leases without termination option	86
Add: Differences arising from inclusion of extension options (and/or non-exercised termination options)	247
Add: Onerous operating leases	29
(Less) Obligations for which the contract term has not yet commenced	(58)
(Less): Other	(15)
Brutto lease liabilities as of 1 January 2019	**2,841**
(Less): Discounting	(62)
Discounted using incremental borrowing rate of at the date of initial application of IFRS 16	**2,779**
Add: Finance lease liabilities recognised as of 31 December 2018	30
Lease liabilities recognised as of 1 January 2019	**2,810**

5. Selected Notes to the Consolidated Statement of Financial Position

For an explanation of the changes in the following items, please refer to Net Assets in the Management Report.

a) Other intangible assets

Other intangible assets are comprised of the following:

(EUR million)	Service concession arrangements and licenses	Customer bases	Software	Brand names	Others	Construction in progress/ prepayments on intangible assets	**Other intangible assets**
Net book value							
As of 31 December 2018	2,283	1,557	493	45	4	344	**4,727**
As of 30 June 2019	**2,077**	**1,393**	**497**	**44**	**1**	**341**	**4,354**

b) Property, plant and equipment

Property, plant and equipment are comprised of the following:

(EUR million)	Land and buildings	Plant and machinery	Furniture, office equipment, tools and other items	PP&E in progress	**Property, plant and equipment**
Net book value					
As of 31 December 2018	78	3,502	101	112	**3,793**
As of 30 June 2019	**55**	**3,489**	**66**	**91**	**3,701**

c) Right-of-use assets

Right-of-use assets comprise of the following:

(EUR million)	Land and buildings	Plant and machinery	Other	**Right-of-use assets**
Net book value				
As of 31 December 2018	–	–	–	**–**
As of 30 June 2019	**940**	**1,646**	**143**	**2,729**

Please refer to Note 4, Accounting Policies, for more details about the first-time application of IFRS 16.

d) Trade and other receivables

The breakdown of this item included in the Consolidated Statement of Financial Position is as follows:

	As of 30 June 2019		As of 31 December 2018	
(EUR million)	**Non-current**	**Current**	Non-current	Current
Trade receivables	69	1,182	70	1,268
Receivables from related parties	–	31	–	40
Other receivables	–	52	–	62
Loss allowance	–	(68)	–	(68)
Trade and other receivables	**69**	**1,198**	**70**	**1,301**

e) Other non-financial assets

The breakdown of this item included in the Consolidated Statement of Financial Position is as follows:

	As of 30 June 2019		As of 31 December 2018	
(EUR million)	**Non-current**	**Current**	Non-current	Current
Prepayments	58	73	99	68
Prepayments to related parties	–	2	–	0
Capitalised costs of obtaining contracts	110	338	103	326
Contract asset	4	22	4	19
Other tax receivables	–	0	–	0
Other non-financial assets	**172**	**435**	**206**	**413**

Other non-financial assets primarily relate to prepayments of incidental rental costs for antenna sites, service and IT support agreements, and the capitalised costs of contract acquisition.

f) Interest-bearing debt

The breakdown of this item included in the Consolidated Statement of Financial Position is as follows:

	As of 30 June 2019		As of 31 December 2018	
(EUR million)	**Non-current**	**Current**	Non-current	Current
Bonds	1,099	15	1,099	16
Promissory notes and registered bonds	721	115	474	79
Loans	375	305	408	42
Finance leases (*)	–	–	22	8
Interest-bearing debt	**2,195**	**435**	**2,004**	**145**

(*) Please refer to Note 4, Accounting Policies, for details of the effects due to initial application of IFRS 16.

Promissory notes/registered bonds

On 25 April 2019, the Telefónica Deutschland Group placed promissory notes in various tranches with a total volume of EUR 360 million via Telefónica Germany GmbH & Co. OHG. These promissory notes have tranches with terms of five and seven years with floating and fixed interest rates, respectively, and a 10-year fixed-interest tranche. The interest rates for the fixed tranches with five, seven and 10 years are 0.893%, 1.293% and 1.786% p.a., respectively. The interest on the floating tranches is based on Euribor money market conditions plus an agreed margin. All tranches were issued at par.

Loans

On 31 July 2017, the Telefónica Deutschland Group concluded a bilateral revolving credit facility agreement with Telfisa Global B.V. for an amount of EUR 500 million. The facility serves general business purposes. In 2018, its term was extended by one year to 31 July 2019. As of 30 June 2019, EUR 100 million of the credit facility had been drawn down.

In addition, the Telefónica Deutschland Group had drawn on a short-term bank loan of EUR 130 million as of 30 June 2019.

g) Lease liabilities

Following mandatory first-time application of IFRS 16 on 1 January 2019, lease liabilities totalling EUR 2,779 million were recognised. The former liabilities relating to finance leases were also included under Lease liabilities starting on 1 January 2019.

The carrying amount as of 30 June 2019 is EUR 2,594 million, of which current Lease liabilities account for EUR 468 million.

Please refer to Note 4, Accounting Policies, for more details about the application of the new accounting standard.

h) Trade and other payables and deferred income

Trade and other payables and deferred income consist of the following:

	As of 30 June 2019		As of 31 December 2018	
(EUR million)	**Non-current**	**Current**	Non-current	Current
Trade payables to third parties	–	613	–	1,102
Accruals	15	833	17	697
Payables to related parties	–	377	–	362
Trade payables	**15**	**1,823**	**17**	**2,160**
Other non-trade payables	1	198	1	158
Other payables to related parties	2	50	1	45
Miscellaneous payables	–	73	–	56
Other payables	**2**	**321**	**1**	**260**
Trade and other payables	**17**	**2,144**	**19**	**2,419**
Deferred income	**154**	**456**	**176**	**535**

Accruals relate mainly to outstanding invoices for goods and services and for non-current assets.

Other non-trade payables mainly consist of liabilities due to personnel and payables from silent factoring.

Miscellaneous payables mainly comprise debtors with credit balances.

Deferred income primarily contains contract liabilities from customer payments already made on prepaid credits and other advance payments received for future services. It also includes the contractual obligation arising from the payment received from MS Mobile Service GmbH (Drillisch) in connection with the Mobile Bitstream Access Mobile Virtual Network Operator (MBA MVNO) contract.

Contract liabilities are broken down by maturity according to their expected utilisation. Contract liabilities arising from advance payments received for prepaid credits are classified exclusively as current.

i) Provisions

Provisions consist of the following:

	As of 30 June 2019		As of 31 December 2018	
(EUR million)	**Non-current**	**Current**	Non-current	Current
Net defined benefit liability	215	–	157	–
Restructuring	11	48	23	67
Ned defined benefit liability	339	82	310	111
Other provisions	55	11	36	10
Provisions	**619**	**140**	**526**	**188**

6. Selected Explanatory Notes to the Consolidated Income Statement

For an explanation of the changes in the following items, please refer to Results of Operations in the Management Report.

a) Revenues

Revenues are comprised of the following:

1 January to 30 June

(EUR million)	**2019**	2018
Rendering of services	2,966	2,989
Other revenues	598	536
Revenues	**3,564**	**3,525**

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed line/DSL business. Other revenues include handset revenues and miscellaneous other revenues.

None of the Telefónica Deutschland Group's customers accounts for more than 10% of total revenues.

The breakdown of revenues according to mobile business and fixed line/DSL business is shown in the following table:

1 January to 30 June

(EUR million)	**2019**	2018
Mobile business	3,195	3,127
Mobile service revenues	2,599	2,598
Handset revenues	596	529
Fixed line/DSL business revenues	367	391
Other revenues	2	7
Revenues	**3,564**	**3,525**

b) Other expenses

1 January to 30 June

(EUR million)	**2019**	2018
Other third-party services	949	1,087
Other operating expenses	48	49
Allowance for current assets	3	3
Advertising	124	123
Other expenses	**1,125**	**1,262**

c) Depreciation and amortisation

Depreciation and amortisation are as follows:

1 January to 30 June

(EUR million)	**2019**	2018
Property, plant and equipment	442	433
Intangible assets	502	505
Right-of-use assets	270	–
Depreciation and amortisation	**1,215**	**937**

7. Measurement Categories of Financial Assets and Financial Liabilities

In the following tables, the fair values of all financial assets and financial liabilities of the Telefónica Deutschland Group are disclosed in accordance with the measurement categories as determined by IFRS 9 with regard to the requirements of IFRS 13.

For further information, please refer to the Consolidated Financial Statements for the financial year ended 31 December 2018 (see Note 9, Further information on financial assets and financial liabilities).

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. The review is performed successively from level to level. The first stage is given priority and the subsequent stages are only used for evaluation if the requirements for the input factors of the first stage could not be fulfilled. For this purpose, three levels or measurement hierarchies are defined:

— **Level 1:** Input factors at this level are quoted (unadjusted) prices for identical assets or liabilities in active markets accessible to the entity at the measurement date.

— **Level 2:** Second level input factors are market prices other than those quoted at level one that are observable either directly or indirectly for the asset or liability.

— **Level 3:** Input factors that are not observable for the asset or liability.

As of 30 June 2019
Financial assets

(EUR million)	Hedging accounting relationships (no measurement category according to the meaning of IFRS 9)	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Not in the scope of IFRS 7	Total carrying amount	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Significant other observable input parameters)	Measurement hierarchy: Level 3 (Significant unobservable input parameters)	Total fair value
Non-current trade and other receivables (Note 5 d)	–	–	69	–	–	69	–	69	–	69
Other non-current financial assets	4	1	–	52	71	128	–	56	1	57
thereof: derivatives	*4*	–	–	–	–	*4*	–	*4*	–	*4*
thereof: investments in start-ups	–	*1*	–	–	–	*1*	–	–	*1*	*1*
thereof: other	–	–	–	*52*	*71*	*123*	–	*52*	–	*52*
Current trade and other receivables (Note 5 d)	–	–	494	703	1	1,198	–	1,197	–	1,197
Other current financial assets	1	–	–	11	–	12	–	12	–	12
thereof: derivatives	*1*	–	–	–	–	*1*	–	*1*	–	*1*
thereof: other	–	–	–	*11*	–	*11*	–	*11*	–	*11*
Cash and cash equivalents	–	–	–	470	–	470	–	470	–	470
Total	**5**	**1**	**563**	**1,236**	**72**	**1,876**	**–**	**1,803**	**1**	**1,804**

As of 31 December 2018
Financial assets

(EUR million)	Hedging accounting relationships (no measurement category according to the meaning of IFRS 9)	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Not in the scope of IFRS 7	Total carrying amount	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Significant other observable input parameters)	Measurement hierarchy: Level 3 (Significant unobservable input parameters)	Total fair value
Non-current trade and other receivables (Note 5 d)	–	–	70	–	–	70	–	70	–	70
Other non-current financial assets	5	1	–	26	70	101	–	31	1	31
thereof: derivatives	*5*	–	–	–	–	*5*	–	*5*	–	*5*
thereof: investments in start-ups	–	*1*	–	–	–	*1*	–	–	*1*	*1*
thereof: other	–	–	–	*26*	*70*	*96*	–	*26*	–	*26*
Current trade and other receivables (Note 5 d)	–	–	682	618	1	1,301	–	1,300	–	1,300
Other current financial assets	2	–	–	8	–	9	–	9	–	9
thereof: derivatives	*2*	–	–	–	–	*2*	–	*2*	–	*2*
thereof: other	–	–	–	*8*	–	*8*	–	*8*	–	*8*
Cash and cash equivalents	–	–	–	751	–	751	–	751	–	751
Total	**6**	**1**	**752**	**1,402**	**72**	**2,233**	**–**	**2,160**	**1**	**2,161**

As of 30 June 2019, EUR 4 million of other non-current financial assets and EUR 1 million of other current financial assets were designated to a hedge relationship. They relate to the swaps entered into in connection with the bond issuance.

The fair value of other non-current financial assets is determined by discounting future cash flows using current market interest rates.

In addition, EUR 1 million of other non-current financial assets are classified as financial assets measured at fair value through profit or loss. These relate primarily to investments in start-ups. These assets were measured according to Level 3. The measurement at fair value is based on existing business plans with numerous unpredictable premises.

Trade receivables were partly classified as financial assets measured at fair value through other comprehensive income. These are receivables that can be sold as part of factoring transactions.

All other financial assets as of 30 June 2019 were categorised as financial assets measured at amortised cost.

As of 30 June 2019
Financial liabilities

(EUR million)	**Financial liabilities measured at amortised cost**	**Not in the scope of IFRS 7**	**Total carrying amount**	**Measurement hierarchy** Level 1 (Quoted prices)	**Level 2 (Significant other observable input parameters)**	**Level 3 (Significant unobservable input parameters)**	**Total fair value**
Non-current interest-bearing debt (Note 5 f)	2,195	–	2,195	1,152	1,131	–	2,283
Non-current lease liabilities (Note 5 g)	2,126	–	2,126	–	2,126	–	2,126
Non-current trade and other payables (Note 5 h)	17	1	17	–	17	–	17
Current interest-bearing debt (Note 5 f)	435	–	435	–	435	–	435
Current lease liabilities (Note 5 g)	468	–	468	–	468	–	468
Current trade and other payables (Note 5 h)	2,107	36	2,144	–	2,107	–	2,107
Total	**7,348**	**37**	**7,385**	**1,152**	**6,284**	**–**	**7,436**

As of 31 December 2018
Financial liabilities*

(EUR million)	Financial liabilities measured at amortised cost	Not in the scope of IFRS 7	Total carrying amount	Measurement hierarchy Level 1 (Quoted prices)	Level 2 (Significant other observable input parameters)	Level 3 (Significant unobservable input parameters)	Total fair value
Non-current interest-bearing debt (Note 5 f)	1,981	–	1,981	1,130	884	–	2,014
Finance leases	22	–	22	–	22	–	22
Non-current trade and other payables (Note 5 f)	17	1	18	–	17	–	17
Current interest-bearing debt (Note 5 f)	137	–	137	–	137	–	137
Finance leases	8	–	8	–	8	–	8
Current trade and other payables (Note 5 f)	2,376	43	2,419	–	2,376	–	2,376
Total	**4,542**	**44**	**4,586**	**1,130**	**3,445**	**–**	**4,575**

* The prior year's presentation was amended to improve ease of reading.

As of 30 June 2019, EUR 154 million of non-current interest-bearing debt was designated to a hedging relationship. It relates to a portion of the bonds, which are each accounted for with an interest rate swap as a fair value hedge.

The fair value of the bonds (non-current and current interest-bearing debt) is determined based on primary market values (unadjusted quoted prices in active markets, Level 1). The fair value of the other non-current interest-bearing debt is determined by discounting the future cash flows using current market interest rates.

In addition to the bonds, the non-current and current interest-bearing debt as of 30 June 2019 contained promissory notes and registered bonds with a nominal value of around EUR 835 million, a loan of EUR 450 million from the European Investment Bank (EIB) and short-term utilisations of credit facilities amounting to EUR 230 million.

8. Contingent Assets and Liabilities

The Telefónica Deutschland Group faces claims or other proceedings arising in the ordinary course of business. The possible effects are of minor significance for the Group's net assets, financial position and results of operations.

For further information, please refer to the Consolidated Financial Statements as of 31 December 2018 (see Note 17, Contingent Assets and Liabilities).

9. Subsequent Events

New credit facility with Telfin Ireland DAC
On 31 July 2019, the Telefónica Deutschland Group entered into an agreement governing a bilateral revolving credit facility of EUR 700 million with Telfin Ireland DAC, a financing company belonging to Telefónica S.A.Group which will take effect on 12 September 2019. It will be used to pay the spectrum purchased at auction and has a term of three years.

Changes in the Management Board of Telefónica Deutschland
On 24 July 2019, Telefónica Deutschland announced that Mallik Rao (Yelamate Mallikarjuna Rao) was appointed to succeed Cayetano Carbajo Martín as Chief Technology Officer (CTO) in mid-October 2019.

Advance access to the cable network operated by Vodafone and Unitymedia
In a decision taken on 18 July 2019, the EU Commission approved Vodafone's planned acquisition of the business activities of Liberty Global in Germany, the Czech Republic, Hungary and Romania. The acquisition includes, in particular, the operation of Liberty Global's cable networks in these countries. In light of the competition concerns voiced by the EU Commission – especially with regard to Germany – the approval is conditional upon complete implementation of a package of binding commitments proposed by Vodafone. One of these binding commitments is the agreement between Telefónica Deutschland and Vodafone governing wholesale access to the cable network operated by Vodafone and Unitymedia in Germany. By approving the acquisition, the EU Commission has also approved this agreement which has therefore come into effect.

No other events subject to disclosure requirements occurred after the end of the reporting period.

Munich, 6 August 2019

Telefónica Deutschland Holding AG

Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze

TELEFÓNICA DEUTSCHLAND HOLDING AG

Declaration of the Statutory Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting and with generally accepted accounting principles, the Interim Condensed Consolidated Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Interim Condensed Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Munich, 6 August 2019

Telefónica Deutschland Holding AG

Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze

Review Report

To Telefónica Deutschland Holding AG, Munich

We have reviewed the condensed consolidated interim financial statements comprising the balance sheet, the income statement, the statement of income and expense recognized in equity, the cash flow statement, the statement of changes in equity and selected explanatory notes — and the interim group management report of Telefónica Deutschland Holding AG for the period from January 1, 2019 to June 30, 2019 which are part of the half-year financial report pursuant to § (Article) 115 WpHG („Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Munich, August 6, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Stefano Mulas	ppa. Gabor Krüpl
Wirtschaftsprüfer	Wirtschaftsprüfer

GLOSSARY

The glossary also contains abbreviations as used in the Group Management Report.

ARPU	Average Revenue per User
BNetzA	Bundesnetzagentur
CapEx	Capital Expenditure: investments in property, plant and equipment and intangible assets excluding investments in mobile frequency licenses, business combinations and finance leases
CapEx/Sales ratio	Investment ratio - investments as a percentage share of revenues
Churn	Loss of customers
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
EIB	European Investment Bank
EU	European Union
Euribor	Euro Interbank Offered Rate
GHz	Gigahertz
Handset	Mobile phone
IAS	International Accounting Standards,
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ISIN	International Securities Identification Number
IT	Information Technology
KPI	Key Performance Indicator
KPN	Koninklijke KPN N.V., The Hague, Netherlands
LTE	Long Term Evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication: automatic exchange of information between machines
MBA	Mobile Bitstream Access
MHz	Megahertz
MSR	Mobile service revenue
MTR	Mobile termination rates
MVNO	Mobile Virtual Network Operator: Virtual network operator
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
OIBDA	Operating Income before Depreciation and Amortisation
OTT	Over-the-top – IP-based and platform-independent services and application (WhatsApp, Facebook, etc.)
Prepaid/Postpaid	Unlike postpaid contracts, prepaid contracts purchase the credit balance in advance without a fixed contractual commitment
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
Spectrum	Frequency rights of use / Mobile communications licences
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich, Germany
Telefónica, S.A.	Telefónica S.A., Madrid, Spain
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
ULL	Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the “last mile”
VDSL	Very High Data Rate Digital Subscriber Line (see DSL)
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

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