



Telefónica Deutschland

Investor presentation

September 2020

Investor Relations

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The Telefónica Deutschland Equity Story: Why should you invest?



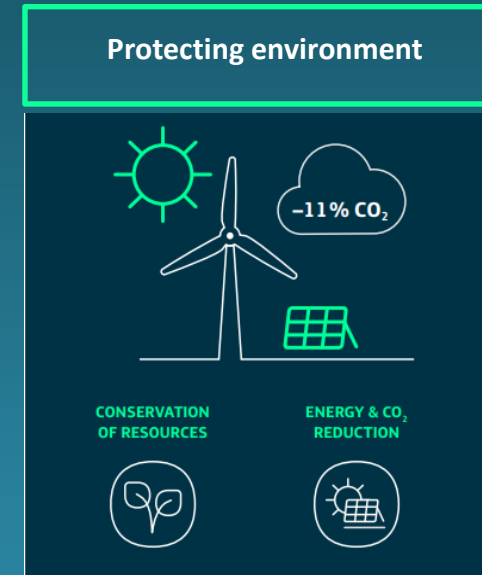
We steer our sustainability commitments with our Responsible Business Plan 2020



Consistently good to very good results and ratings by external assessments

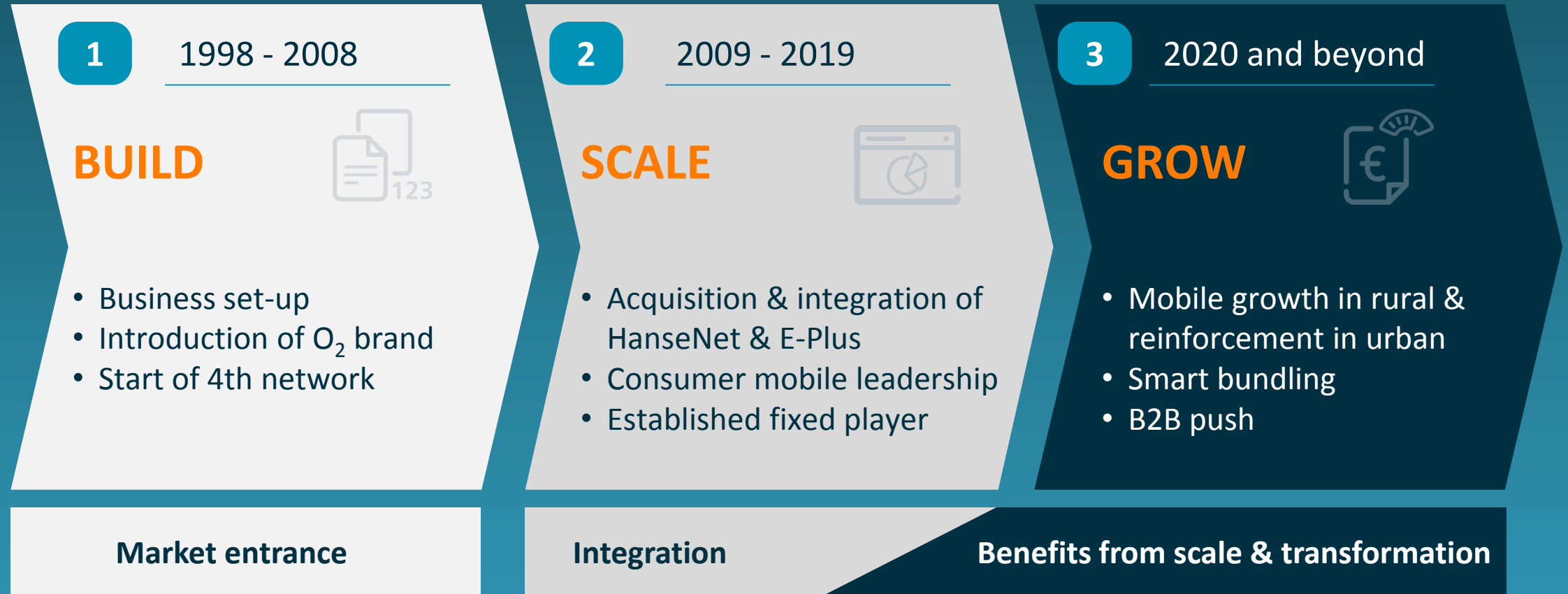


People are benefitting from our products in their digital lifestyle



Ambition to reduce direct & indirect CO₂ emissions by -11% vs 2017

Telefónica Deutschland's way forward



Reiterating key priorities of strategic plan for the 'new 20s'

Accelerating growth trajectory



Boost rural coverage, accelerate urban capacity



Smart bundling to improve loyalty



Technology-agnostic internet solutions;
FMS to improve profitability



Leverage B2B strategy to gain fair market share
in SME

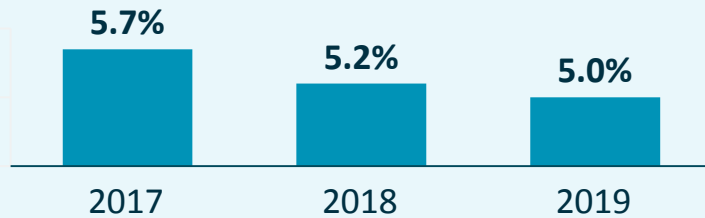


**Commitment to deliver attractive
shareholder remuneration**

Germany a safe harbour; 5G and exclusive cable access as game changers for Telefónica Deutschland

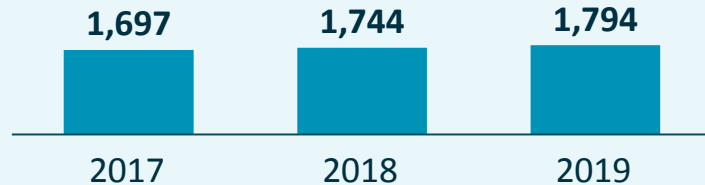
Stable macro-environment

Unemployment rate¹



Consumer spend²

in EUR bn



Current trends

Dynamic yet rational mobile market

Data growth continued CAGR of >50%

Soft convergent market environment

3 strong mobile networks

Future trends

5G use cases & demand to accelerate

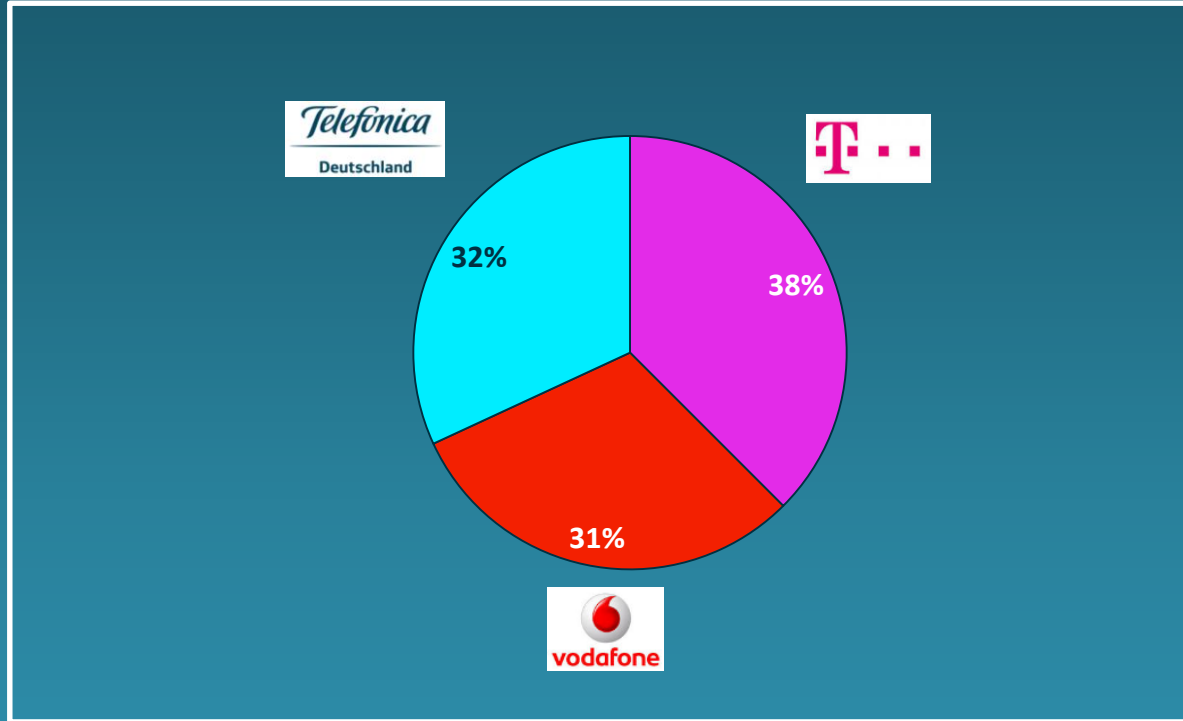
Fixed-Mobile-Substitution (FMS) becoming increasingly **relevant**

Potential 4th urban MNO

3 integrated (mobile + fixed) players

Competitive environment

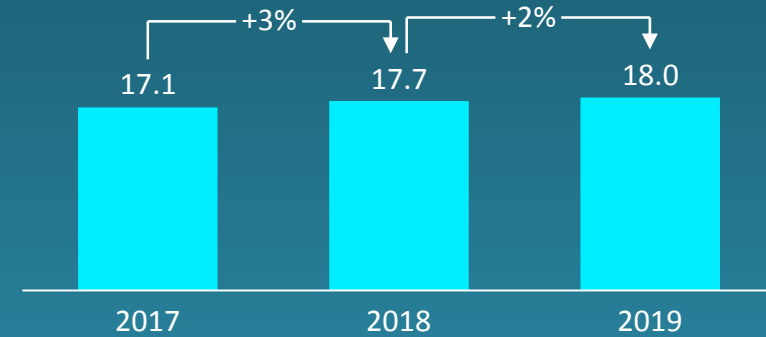
Rational and balanced market structure¹



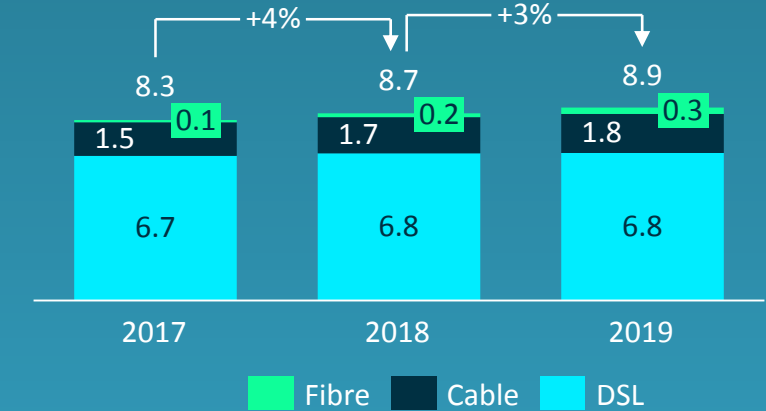
- Rational market following 4 to 3 consolidation
- Tiered mobile data portfolios enabling data monetisation

Market development in past years²

Mobile market: Service revenues
EUR bn

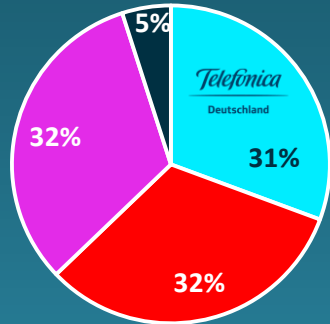


Fixed broadband retail revenues
EUR bn



The right time to invest to accelerate future growth for Telefónica Deutschland

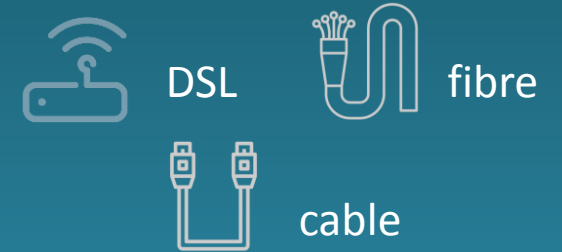
Competitive spectrum position



>300MHz

Largest infrastructure footprint with exclusive cable wholesale access

>90% with German households >30 Mbit/s



Telefónica

Deutschland

3x 'GOOD' in all network tests



Significantly improved network performance for ~44m mobile accesses

Customer experience



WINNER Stores National store operators



WINNER Partner-Stores Franchise operators



VERY GOOD Fixed Net Fixed Net big players



VERY GOOD Fixed Net Fixed Net offers



VERY GOOD Service App Telcos



4.5/5 O2 TV Computer Bild User Test



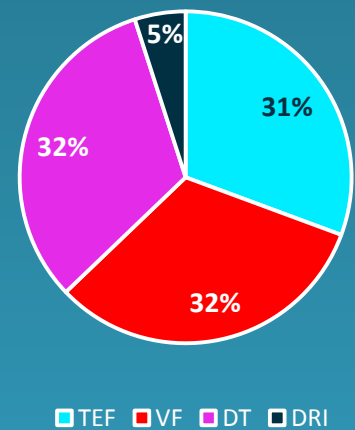
Premium customer service & access to all sales channels

Future-proof spectrum set-up to enable best customer experience

Balanced position in coverage and capacity spectrum until 2025

Potential future utilisation	5G 4G	5G 4G	4G 2G	5G 4G	5G 4G	5G 4G	5G 4G	5G 4G	5G
Utilisation today	4G	4G	2G/4G		2G/4G	3G/4G	4G	pLTE	
Total availability	2x 30 MHz	2x 30 MHz	2x 35 MHz	1x 40 MHz	2x 75 MHz	2x 60 MHz	2x 70 MHz	1x 50 MHz	1x 300 MHz

Total Spectrum holding



1&1 Drillisch

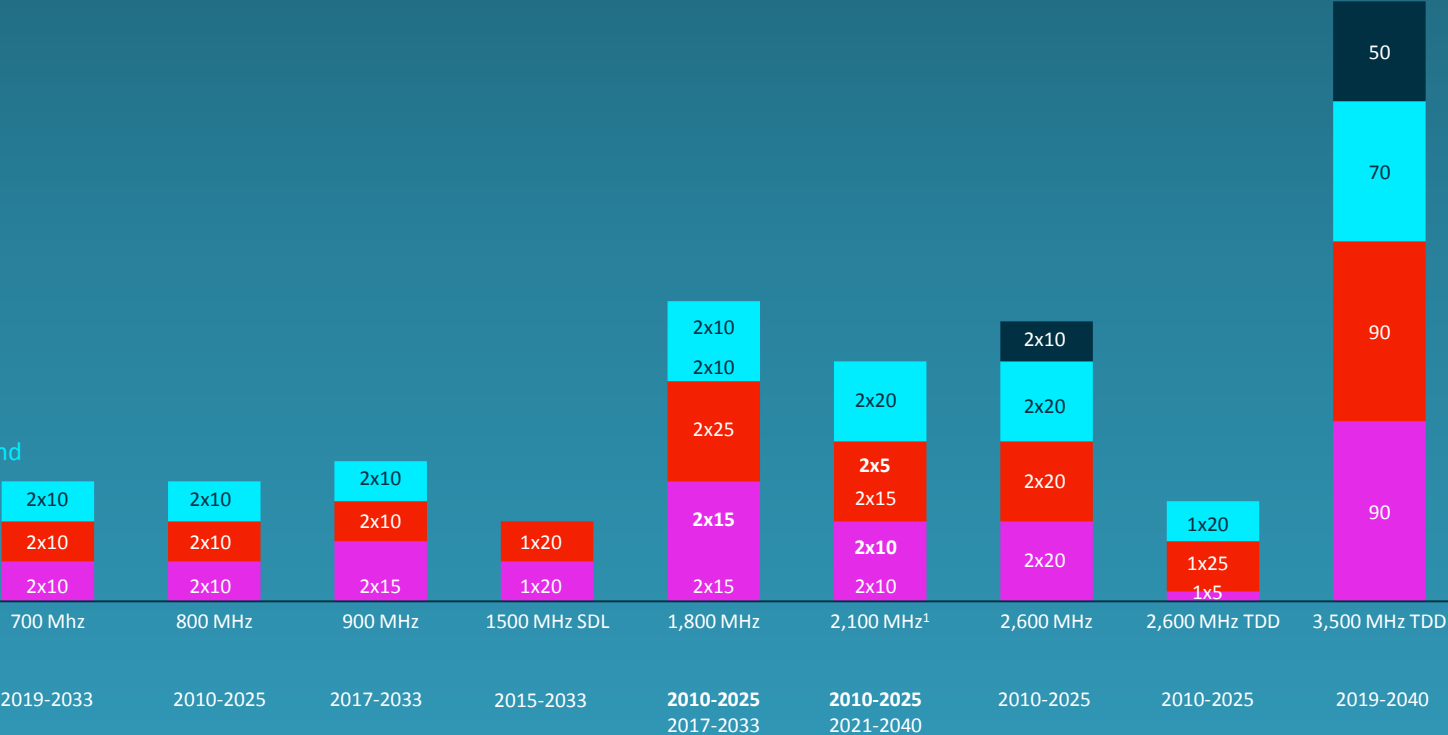
Telefónica Deutschland

Vodafone

Deutsche Telekom

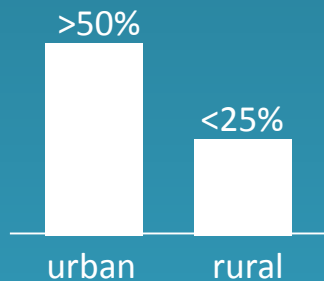
Frequencies

Maturity



The expansion of our mobile network allows Telefónica Deutschland to accelerate our growth trajectory

Opportunity: Mobile customer distribution



Step change in network quality from accelerated 4G/5G roll-out



Boost rural coverage via 4G

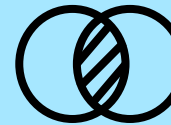


Accelerate urban capacity via 5G

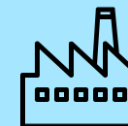
Boost revenues to outperform market



Mobile growth in rural – reinforcement in urban



Smart bundling
to capture value and reduce churn



Attack in B2B
to reach fair market share in SME

Revenue growth driven by a step-up in 4G network quality and 5G boost



Mobile customer share



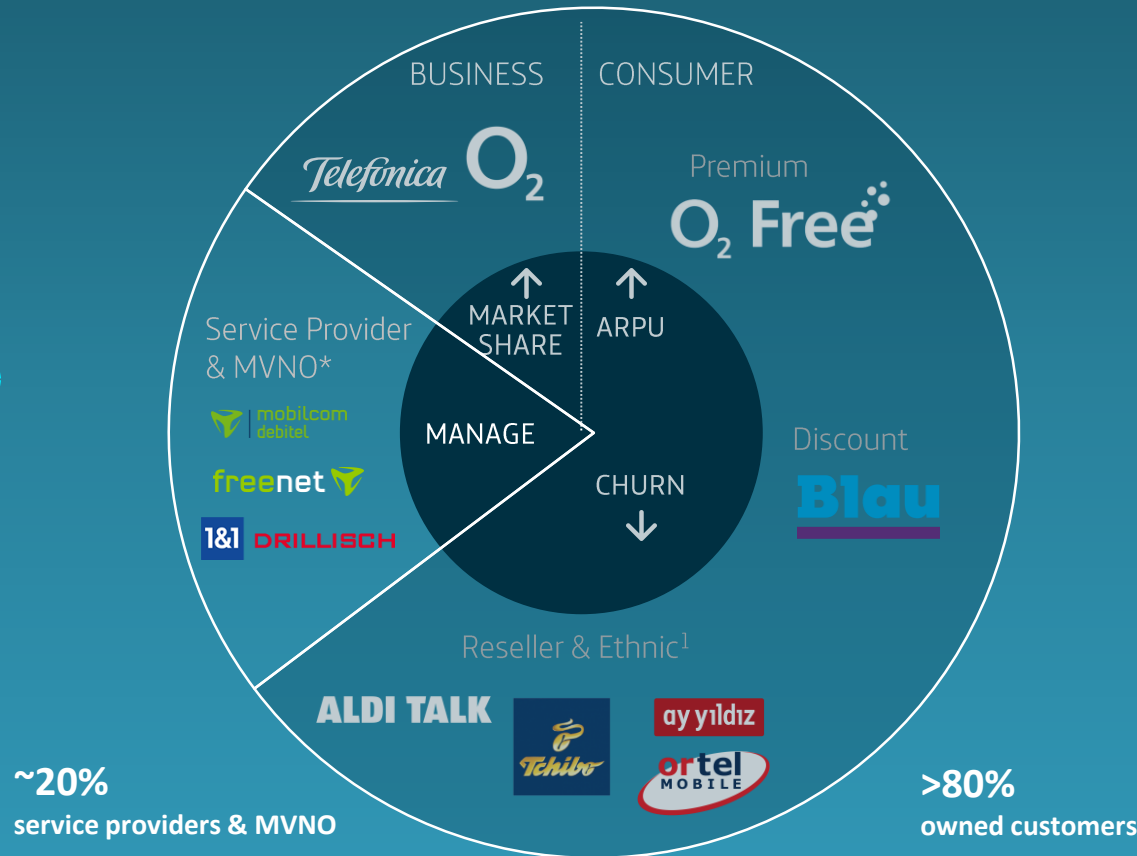
>50%

<25%

urban

rural

Sustained focus on owned customer base

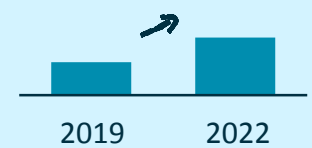


MSR



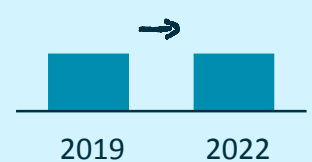
Rural market share

Fair share

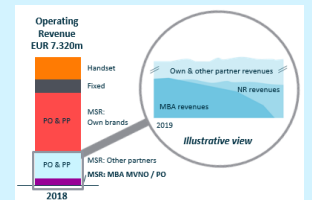


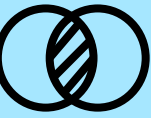
Urban market share

Maintain share



Gradual transition of wholesale revenue streams





MOBILE INFRASTRUCTURE



Fixed-
Mobile-
Substitution
(FMS)



FIXED NET INFRASTRUCTURE



FttX incl. VDSL



Cable

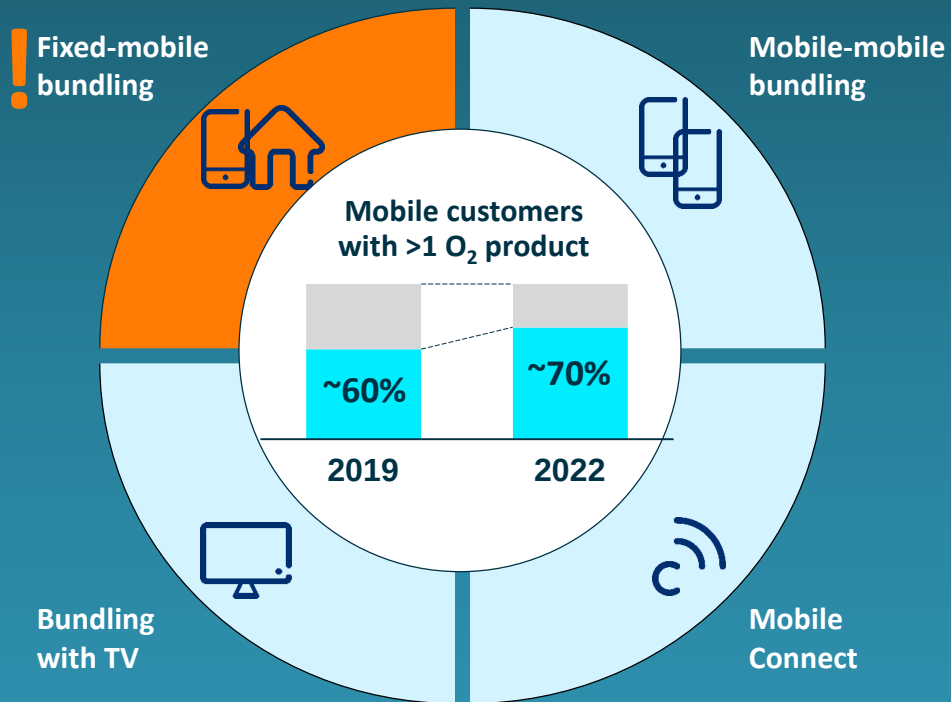
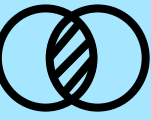


Smart bundling to capture value and reduce churn

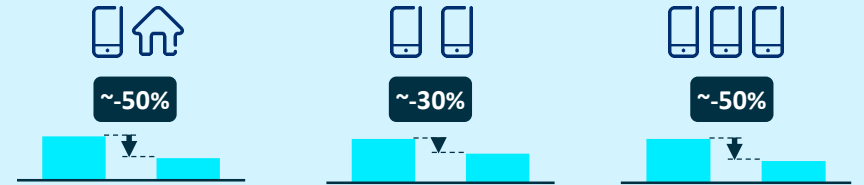
Technology-agnostic Internet@Home solutions with focus on customer experience

Fixed-mobile-substitution increases profitability

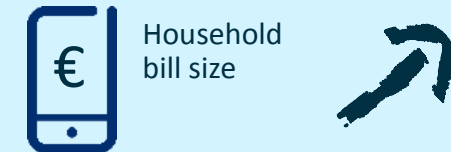
Improve loyalty and convergence positioning by pushing smart bundling approach



Impact on churn reduction



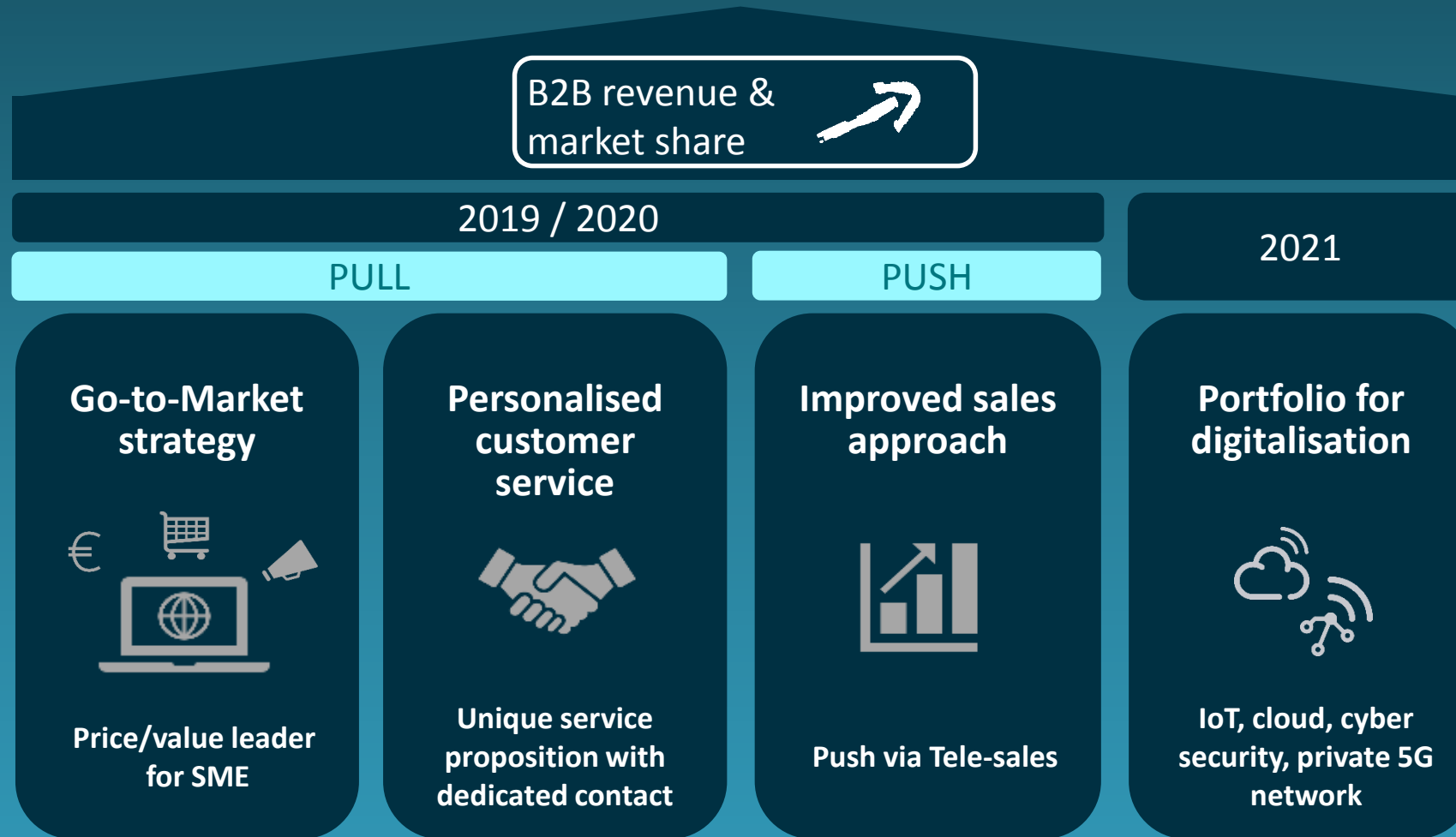
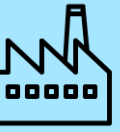
Share of wallet increase



Household penetration higher



B2B strategy drives growth by positioning Telefónica Deutschland as price/value leader for SMEs



Driving intact business dynamics despite COVID-19

H1 20

GROWTH
&
PROFITABILITY

+2.0% **+3.8%¹**
REVENUE y-o-y

-1.9% **+2.4%^{1,2}**
OIBDA² y-o-y

13.1%
CAPEX/SALES

CUSTOMER EXPERIENCE
&
DIGITALISATION

+347k

Postpaid net adds
(ex 116k M2M)

14.3%

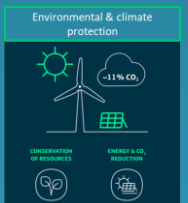
Own brand annualised churn
rate at historic low

Stable

Own brand postpaid ARPU
(ex roaming) y-o-y

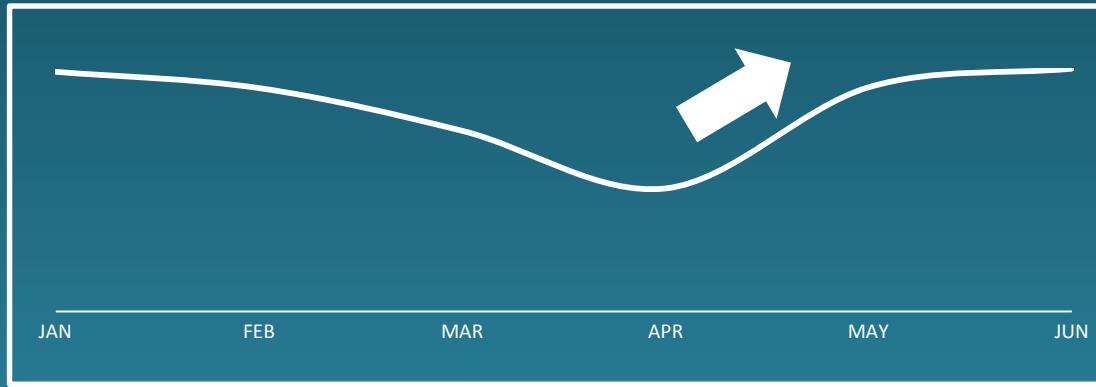
FOUNDATION

- Resilient network coping well with COVID-19 driven traffic increase
- Steady progress with LTE rollout – on track to achieve FY20 coverage target
- ESG – accelerated ambition to be 'climate neutral' latest by 2030

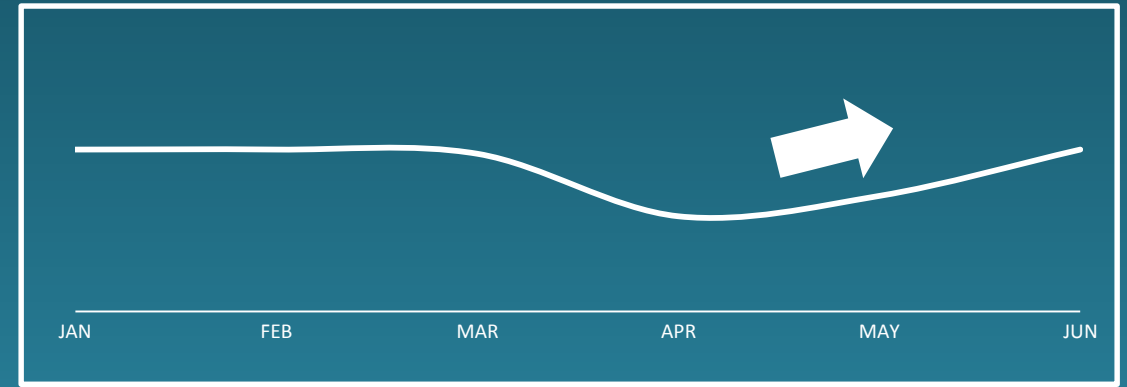


Seeing encouraging signs of operational recovery with phased easing of COVID-19 restrictions

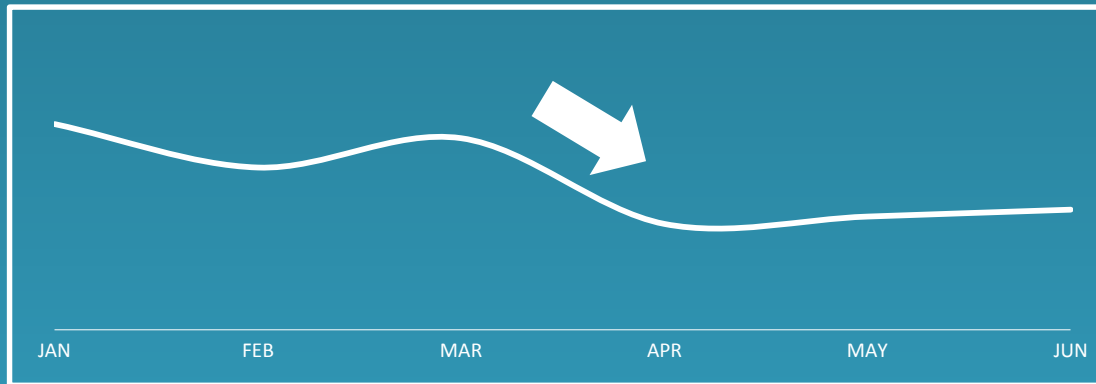
O₂ gross adds – recovery to pre COVID-19 level



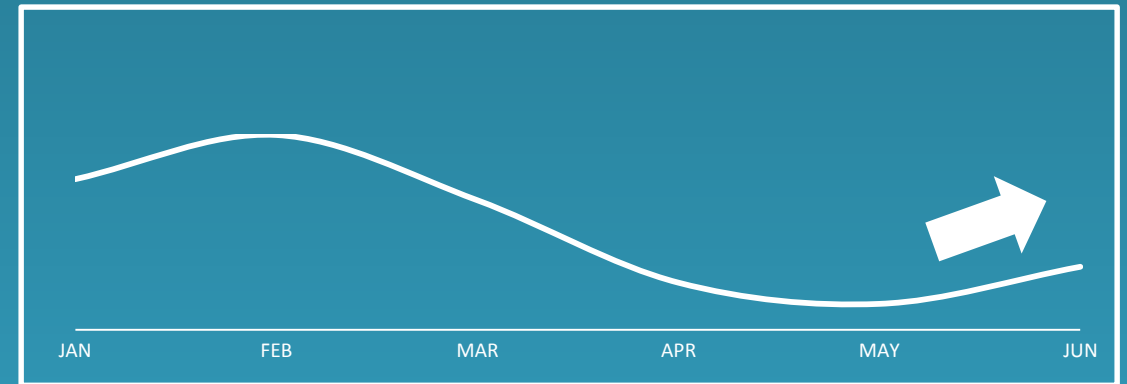
Prepaid top up bookings – fully recovered



O₂ churners – reduced to lower levels

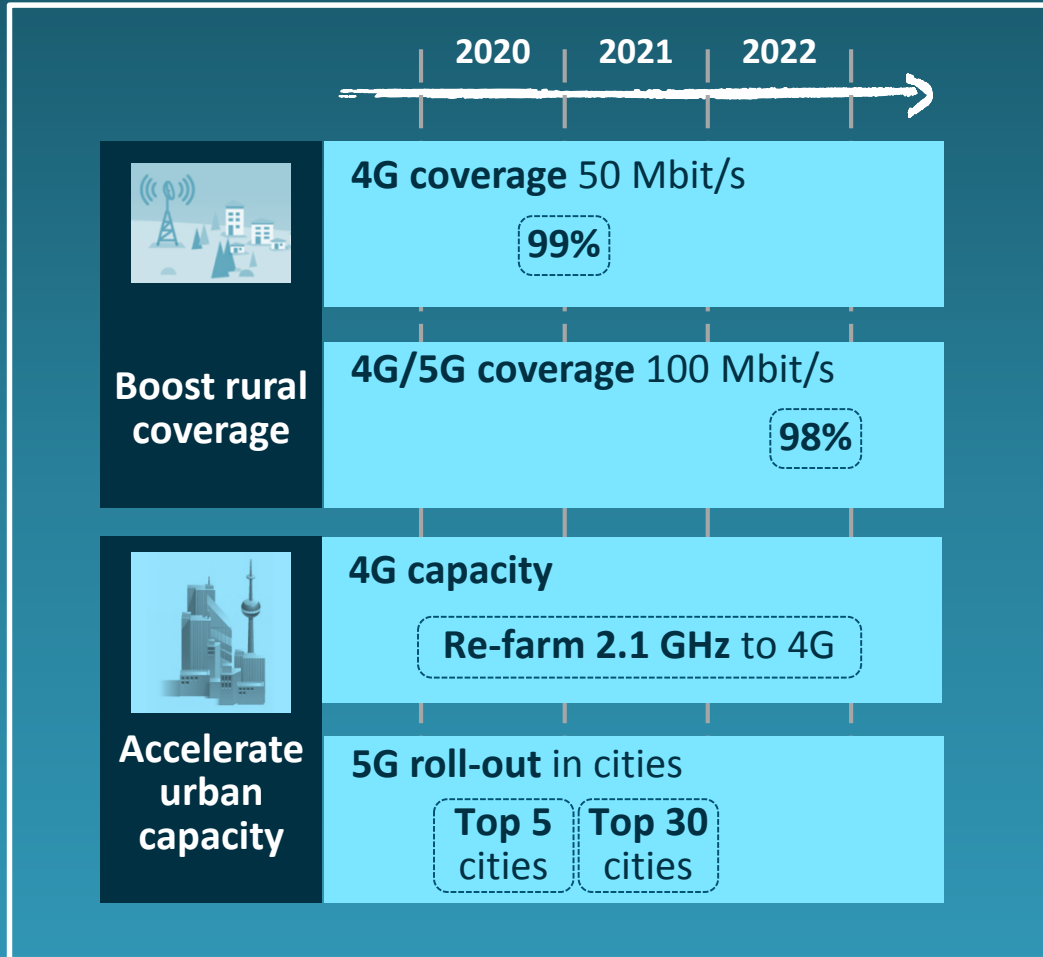


Roaming revenue – initial signs of gradual recovery



Resilient network – foundation for future growth

Network roll-out strategy



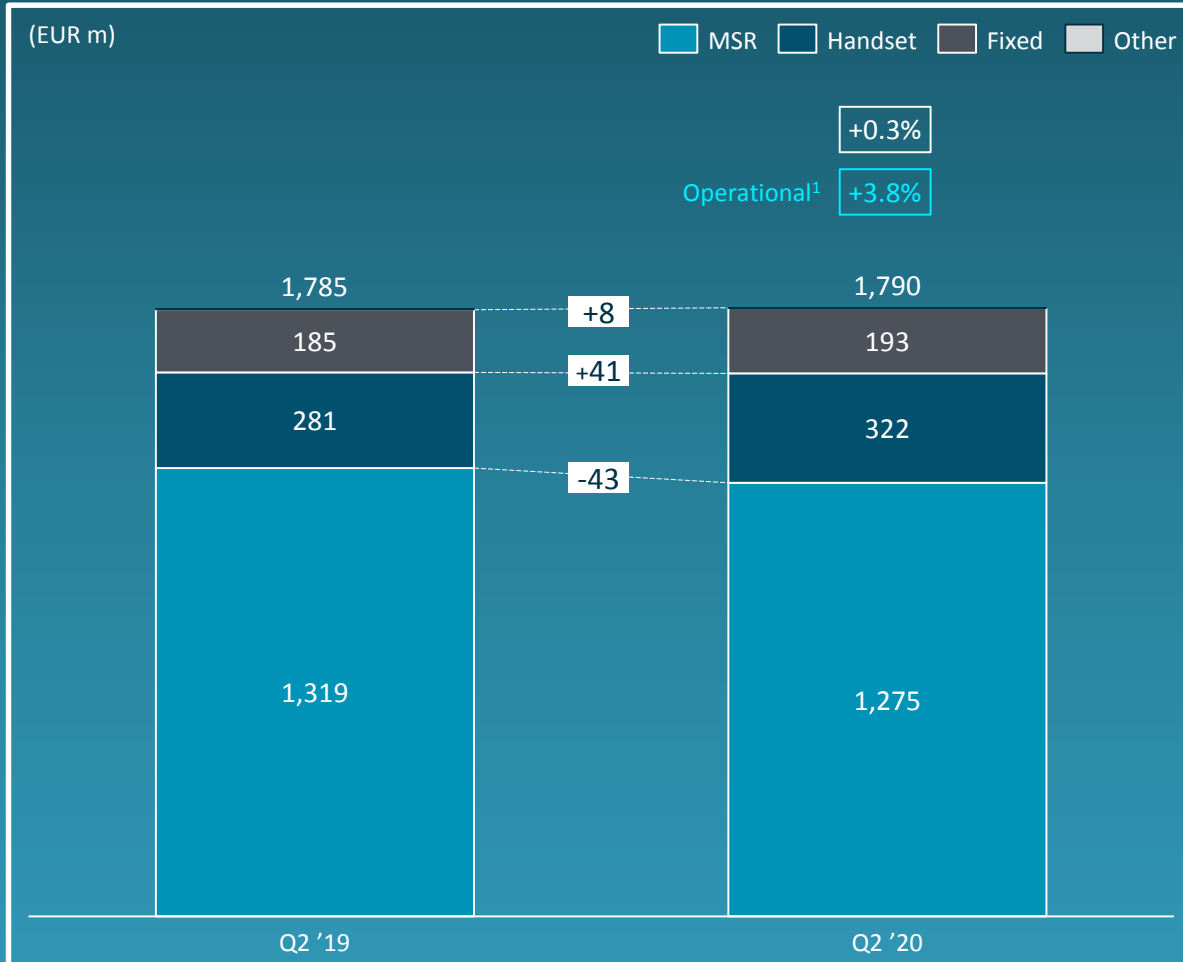
Steady progress with network roll-out strategy

- On track to achieve FY20 coverage target of 7.6k LTE sites
 - >90% pop coverage
 - 100% household coverage in Berlin, Hamburg, Bremen
 - 97% household coverage in NRW
 - 40% of FY20 LTE target achieved
- Ericson to build 5G core network
- Ramp up of 5G rollout into top 5 German cities

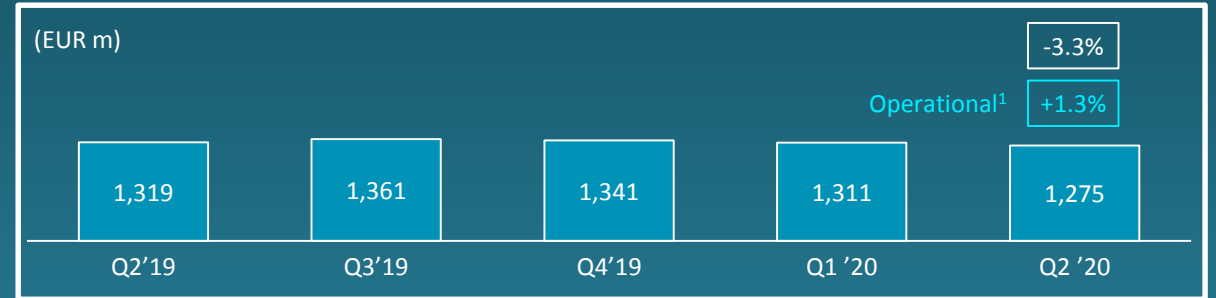


Revenue – operational trends intact

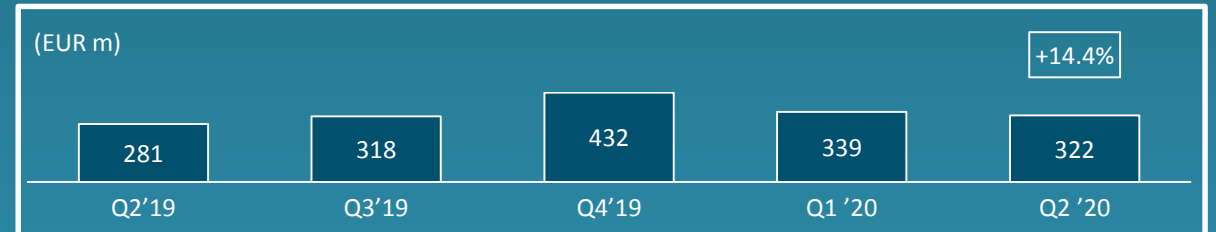
Revenue slightly up despite reduced roaming contribution



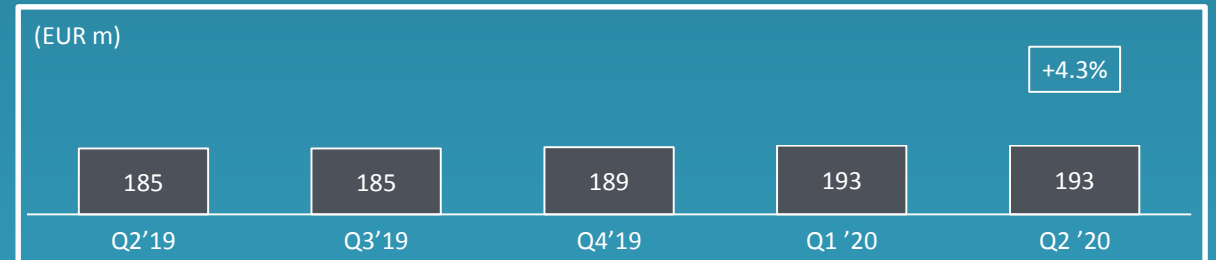
Operational MSR trend intact despite tougher comps



Continued demand for high-value devices

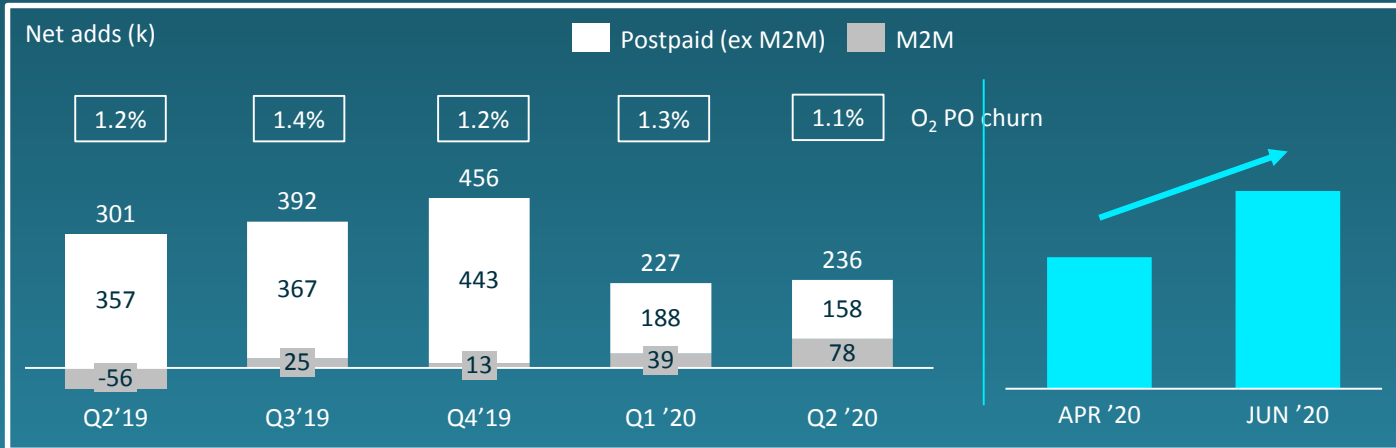


Fixed revenue growth driven by improved customer mix

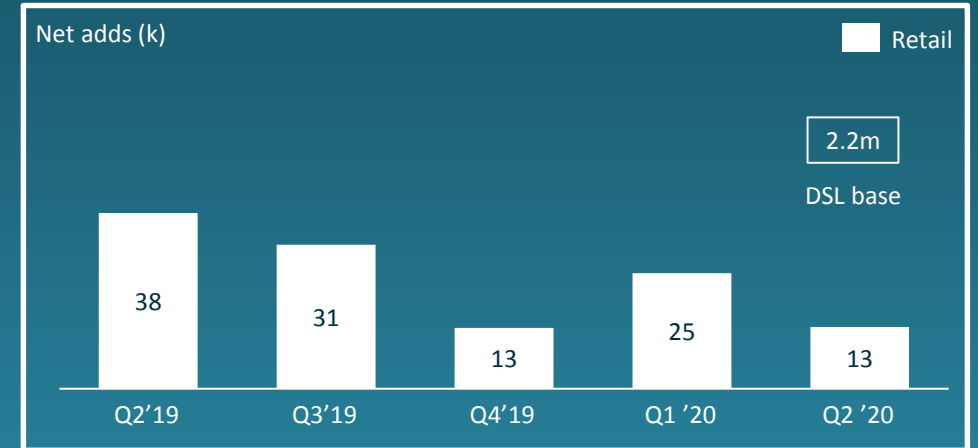


Gradual trading recovery & early signs of ARPU rebound post lockdown

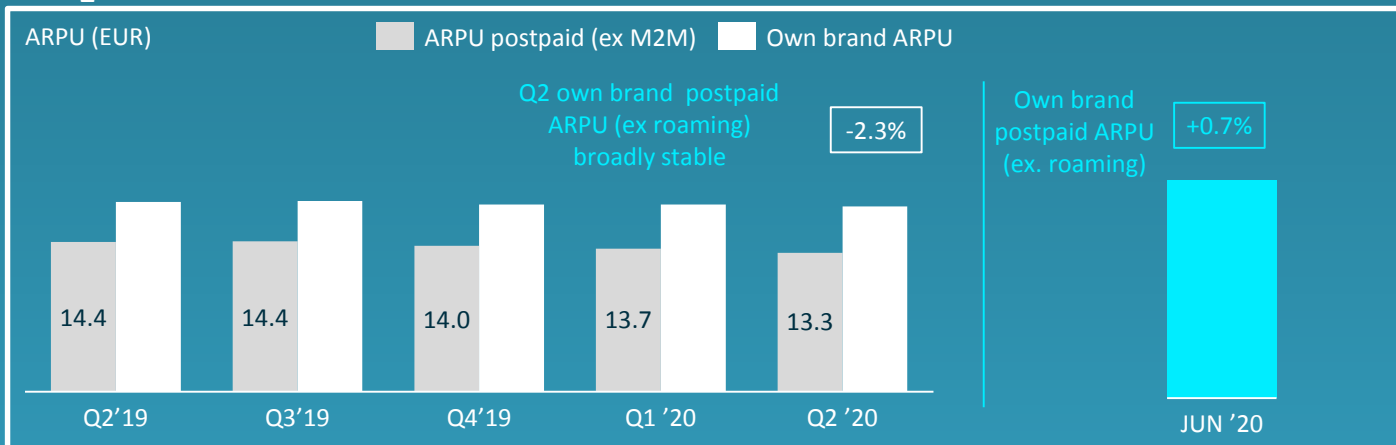
Focus in mobile on profitable growth



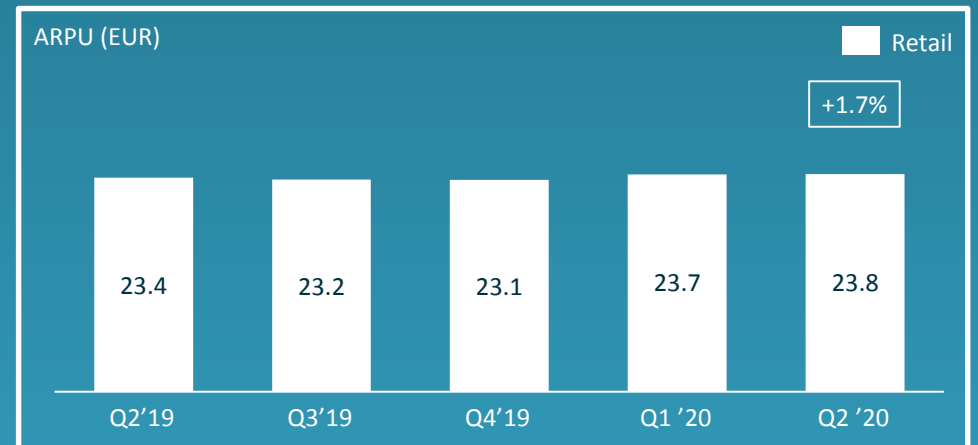
Sustained demand for VDSL drives growth



O₂ Free partly offsets reduced roaming contribution to ARPU

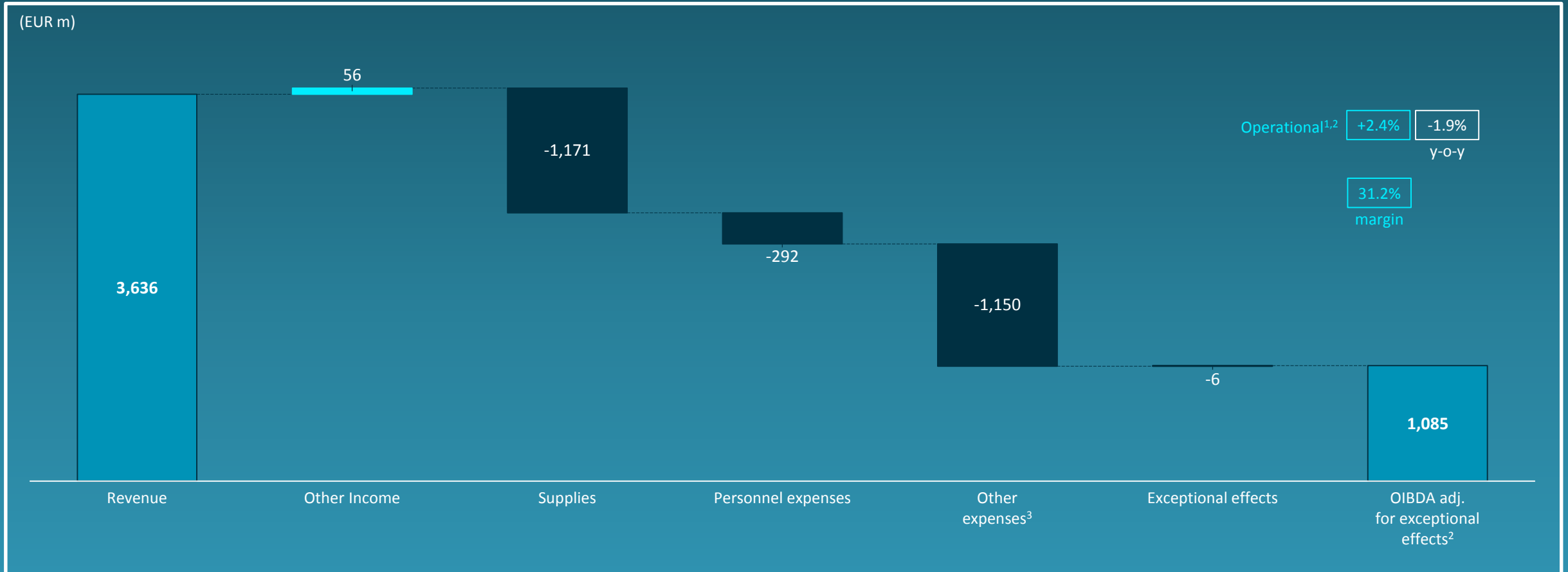


Fixed ARPU reflects higher VDSL share



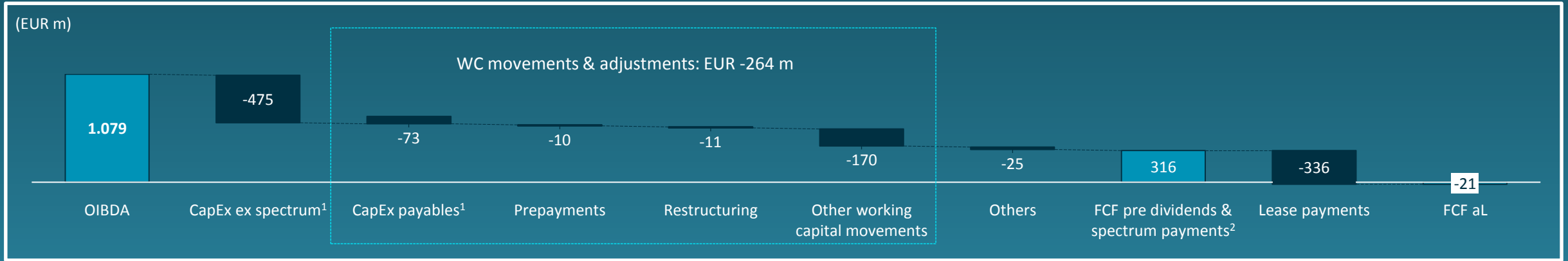
Operational OIBDA^{1,2} continues to grow in H1 20

H1 20 revenue impacted by special factors with flow-through to OIBDA

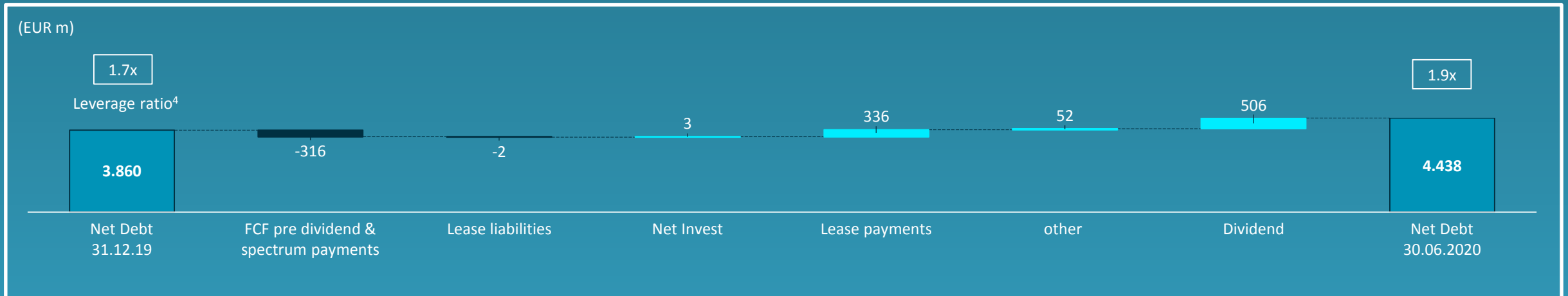


Free Cash Flow dynamics reflect usual seasonal movements

Evolution of H1 20 FCF



Net debt³ – leverage well in-line with target



¹ Excluding additions from capitalised right-of-use assets and investments in spectrum

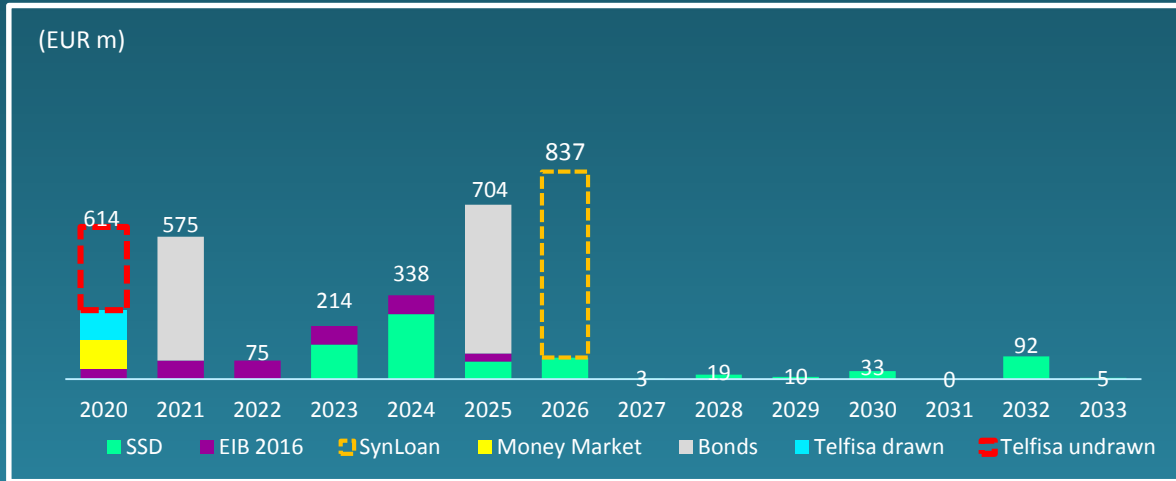
² FCF pre dividends & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

³ 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

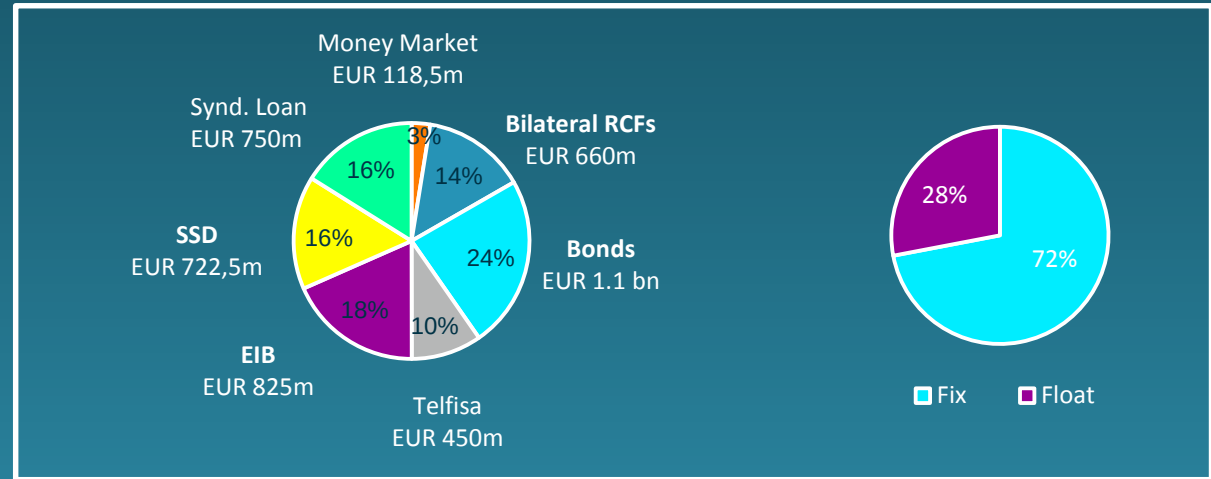
⁴ Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects

Strong liquidity position - smooth debt maturity profile and well diversified financing mix

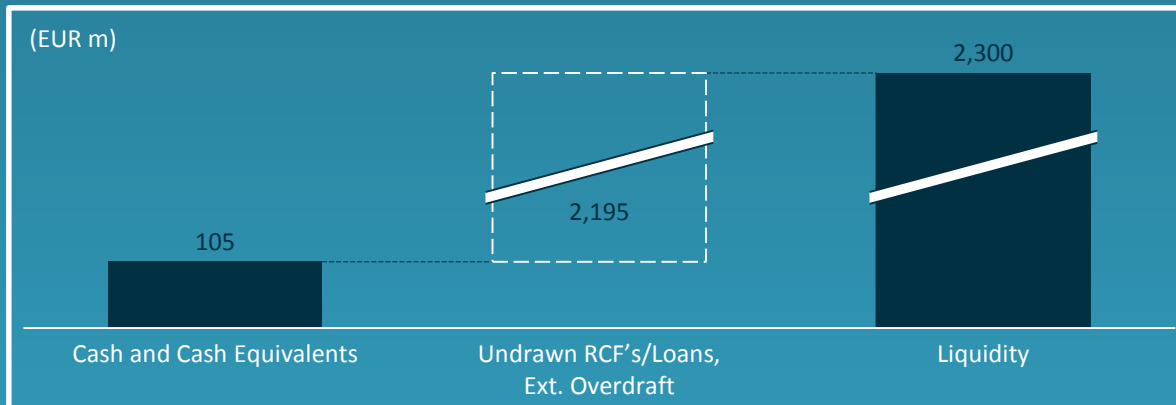
Maturity profile¹



Financing and interest mix²



Liquidity position



Comments

- Ample liquidity of c. EUR 2.3bn provides significant financial stamina. This includes a EUR450m undrawn EIB Loan
- Well balanced and diversified maturity profile
- Low exposure to changes in interest rates due to a high percentage of debt at fixed rates
- EUR 118.5m Money Market Facilities outstanding

Strong confidence in mid-term FCF generation ability and remain committed to attractive shareholder remuneration



- **Temporary investment programme** to drive future growth & profitability
- **Strong confidence in mid-term FCF generation ability**
- **No material cash tax** during investment period; minimum taxation of 12-13% thereafter (due to tax losses carried forward of EUR 14.7 billion for corporate income tax and EUR 14.3 billion for trade tax)



Leverage¹

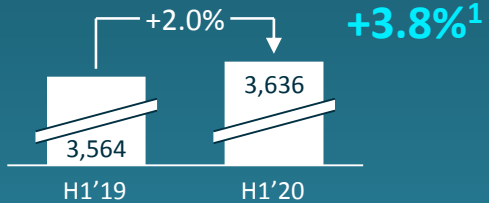
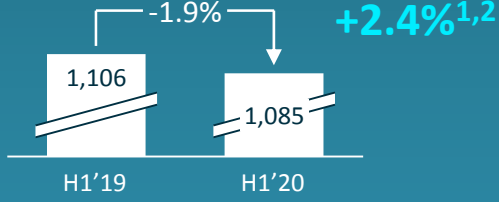
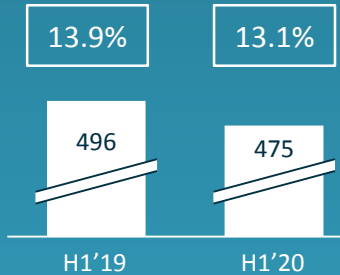
- Maintaining **Fitch BBB investment grade rating**
- **Strong B/S with low indebtedness**; leverage a 1.9x (IFRS 16) as of 30.06.2020
- **IFRS 16 leverage target: At or below 2.5x; solid headroom under current rating**
- Deferred spectrum payments lead to increased **financial flexibility**



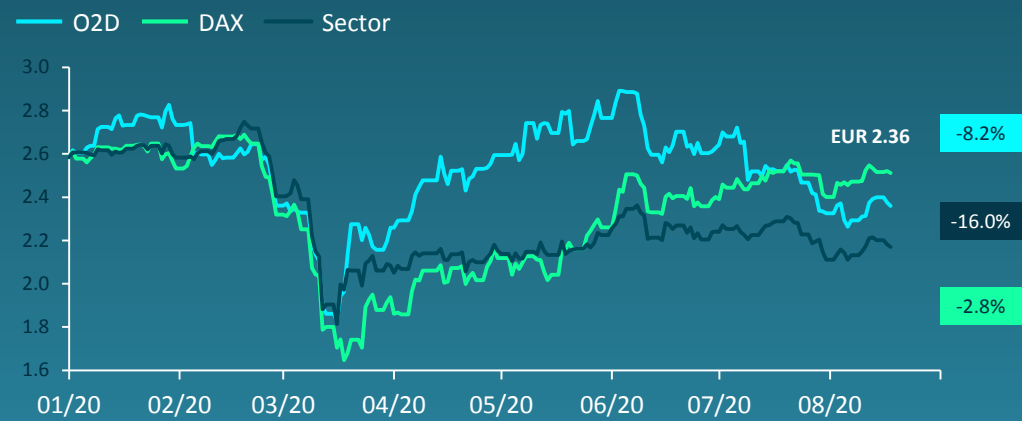
Dividend policy

- **Continuity since the IPO**
- **High pay-out ratio to FCF aL**
- **Dividend of EUR 0.17/share, which will be a floor during our investment programme in 2020/21**

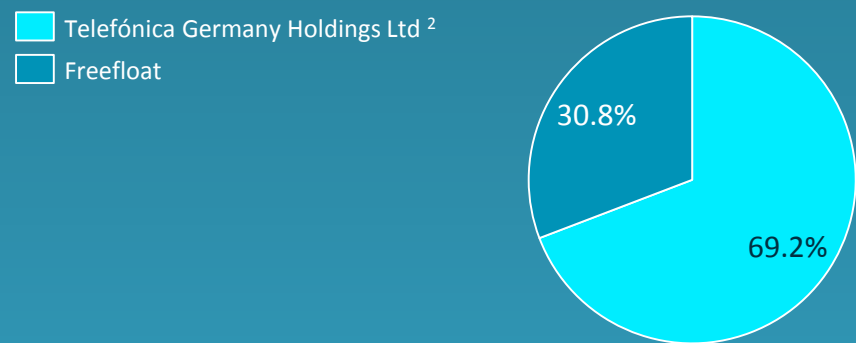
Confirming FY20 revenue & OIBDA outlook while anticipating C/S below 17-18%; continuously monitoring COVID-19 developments

	Outlook FY20	Mid-term guidance 2020/22	H1 20
Revenue	Flat to slightly positive (incl. reg. impacts of ~EUR 20-30m)	 TEF D with cumulated growth of min. 5%	 H1'19 H1'20
OIBDA ²	Broadly stable to slightly positive (incl. reg. impacts of less than ~EUR 10m)	Ongoing margin improvement	 H1'19 H1'20
C/S	< 17-18%	2-year investment programme to generate growth with C/S (incl. 5G RAN) of < 17-18% in 2020, peaking b/w 17-18% in 2021 & normalising in 2022	 H1'19 H1'20

Share price development as of 18 August 2020



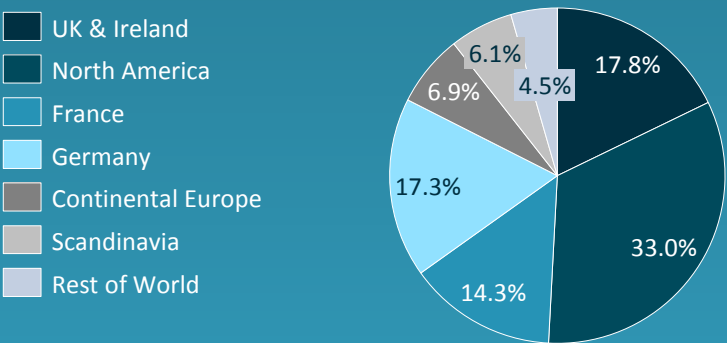
Shareholder structure¹



Telefónica Deutschland at a glance¹

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap	EUR 8,156.2 m
Share price	EUR 2.742

Regional split of shareholder structure³



Any further questions? Please reach out to us!



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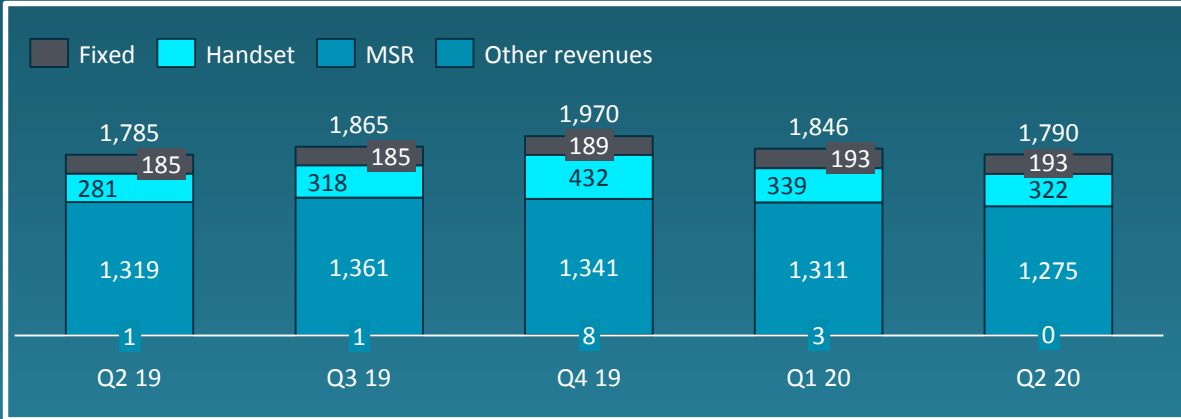


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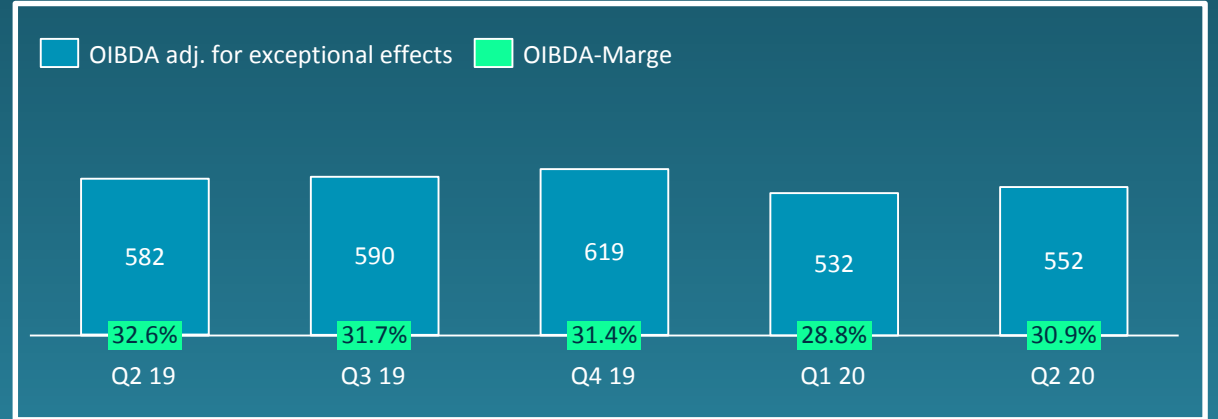
Appendix



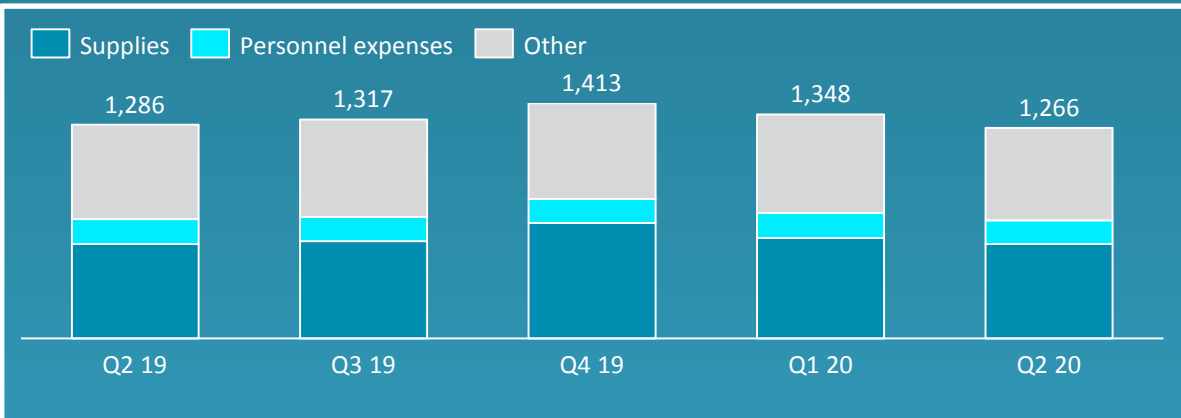
Revenue structure (EUR m)



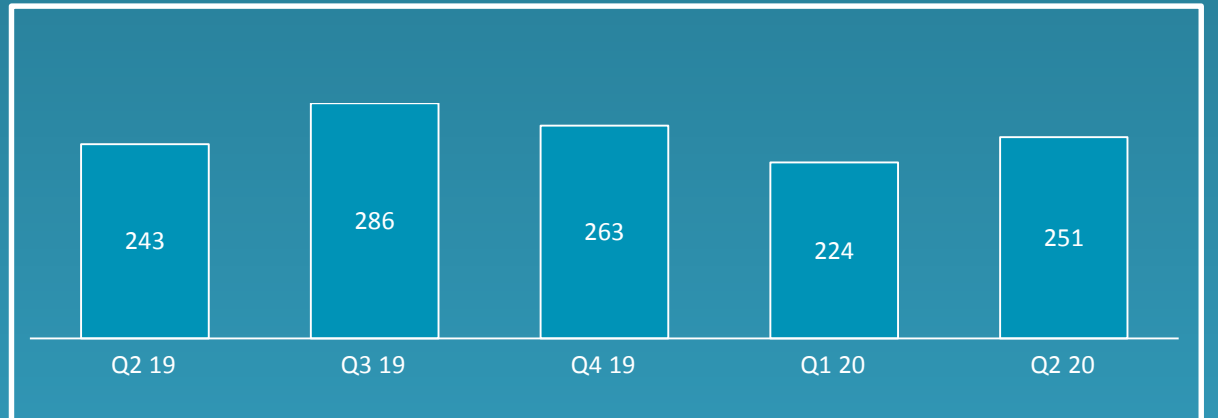
Underlying OIBDA¹ (EUR m)



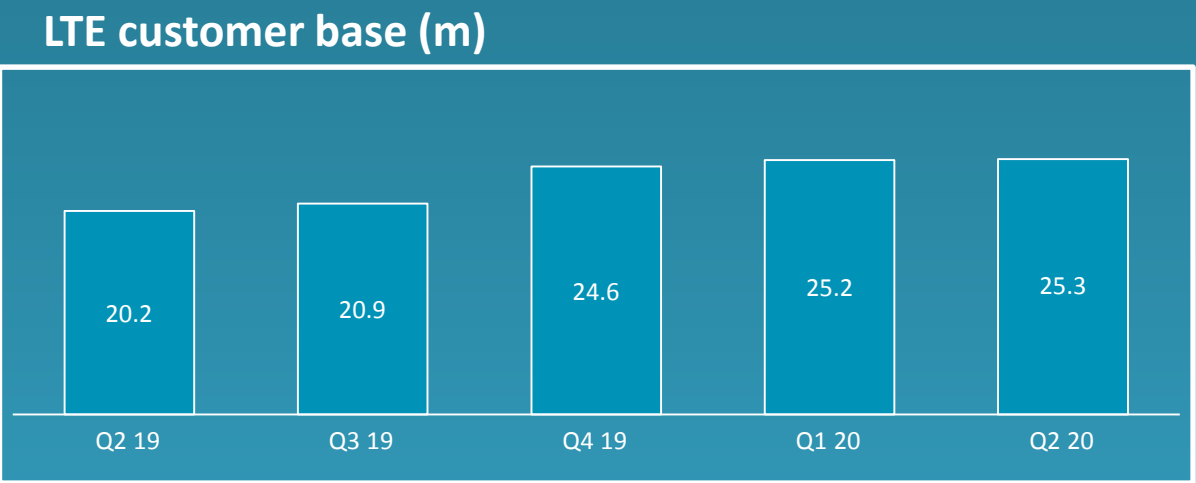
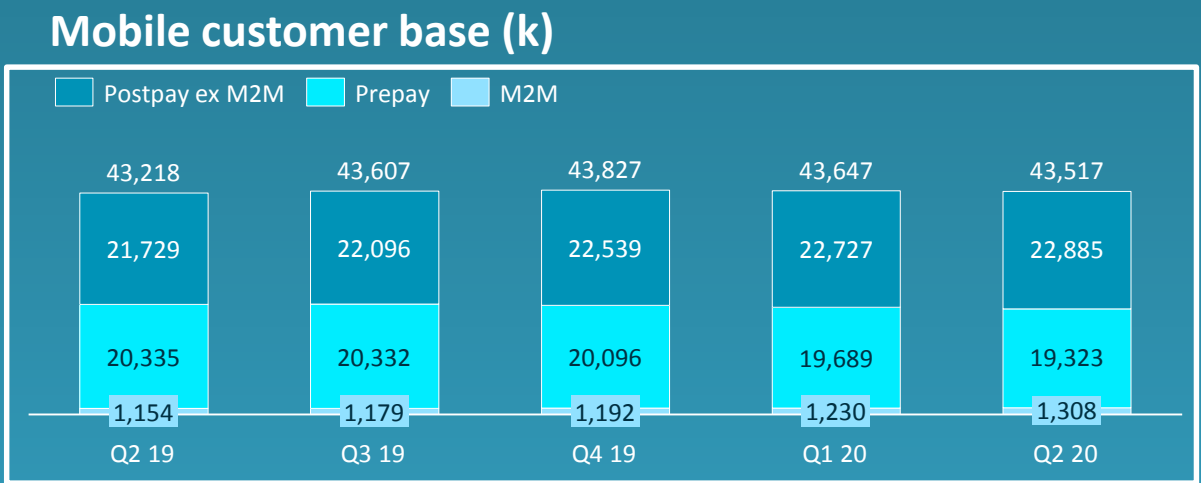
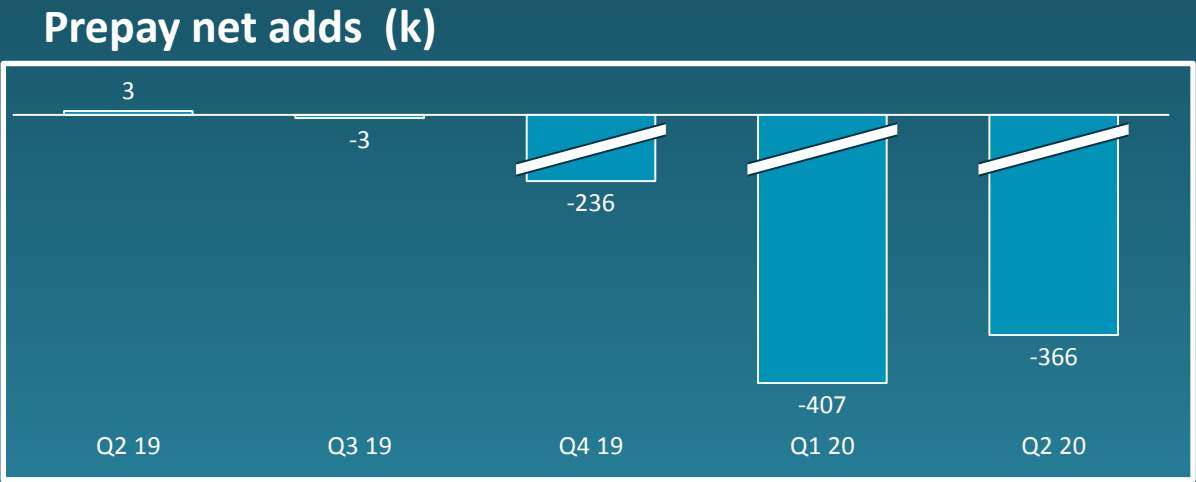
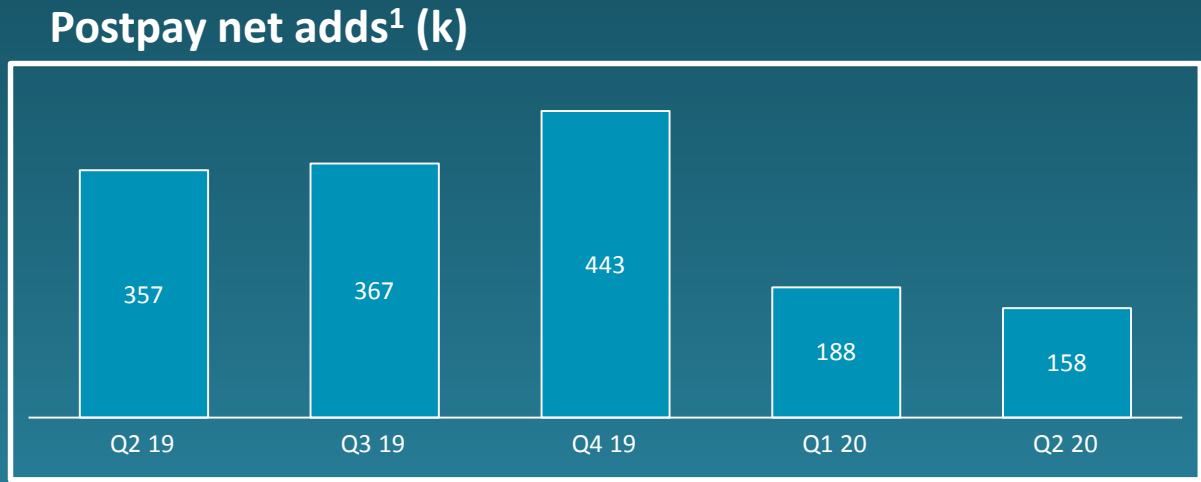
OpEx split² (EUR m)



CapEx³ (EUR m)



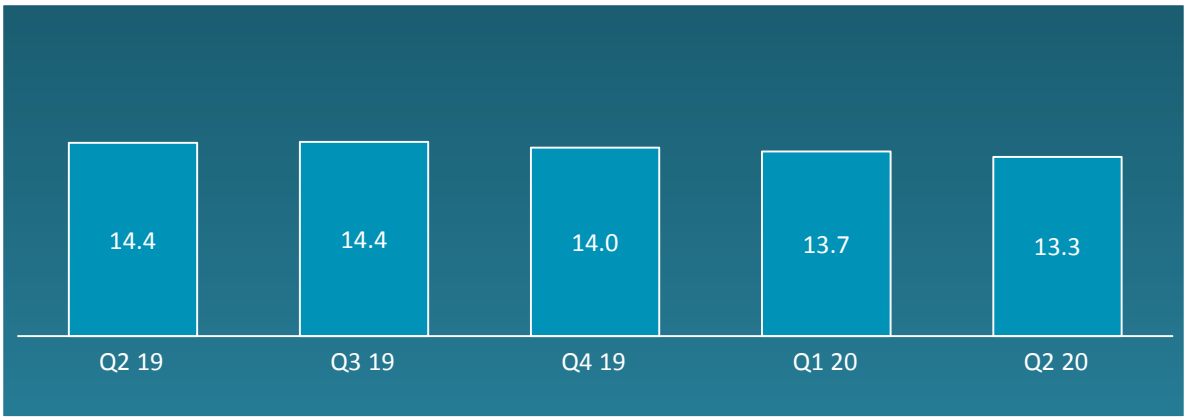
Mobile KPIs



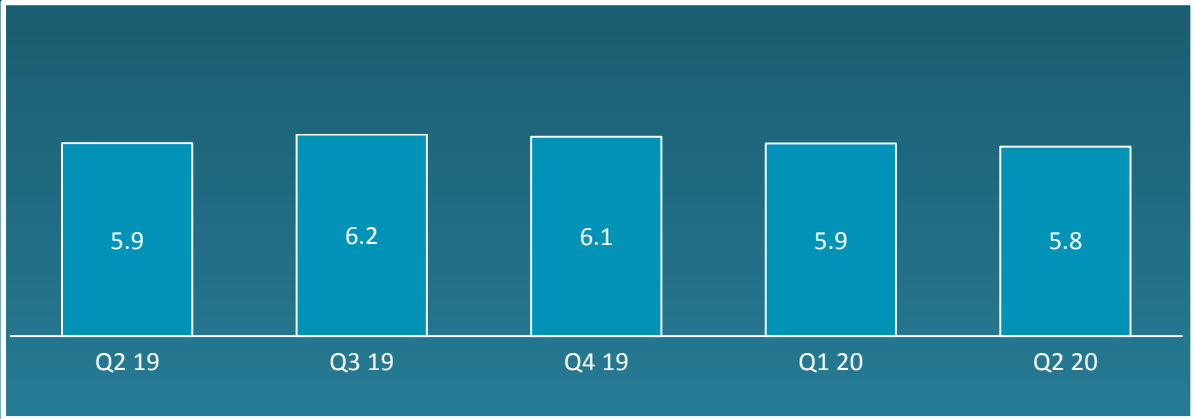
¹ excluding M2M

Mobile KPIs

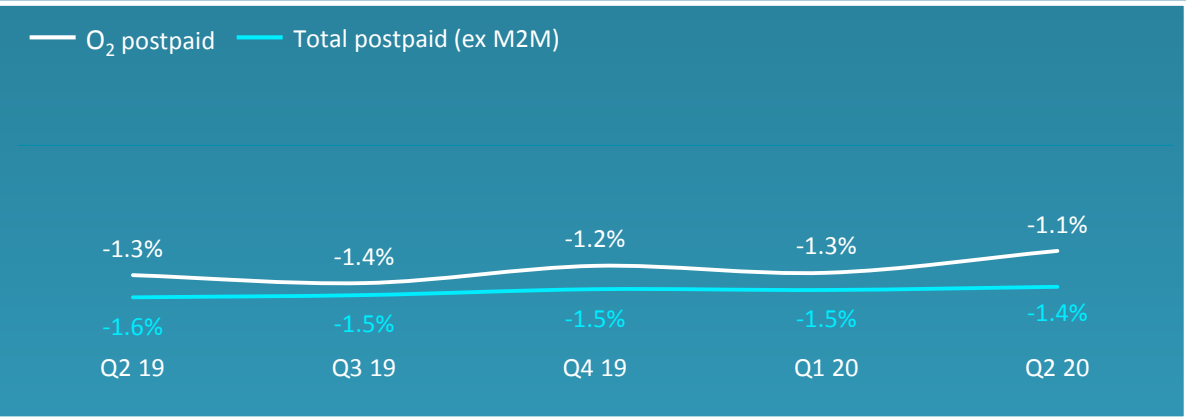
Postpay ARPU (EUR)



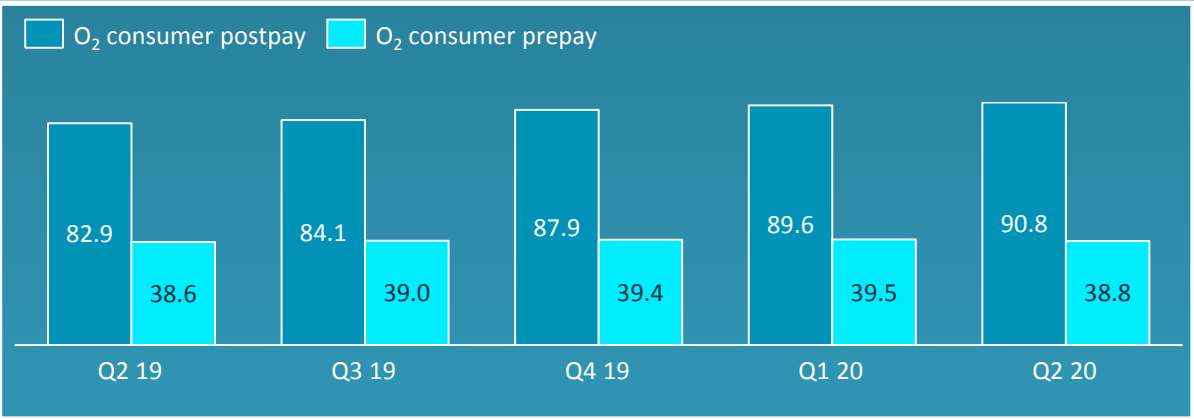
Prepay ARPU (EUR)



Churn rate (%)



Smartphone penetration (%)¹



O₂ Free mobile portfolio

	O ₂ Free Unlimited Basic	O ₂ Free Unlimited Smart	O ₂ Free Unlimited Max
Datenvolumen	Unlimited GB	Unlimited GB	Unlimited GB
Max Surfgeschwindigkeit	2 MBit/s	10 MBit/s	Max. MBit/s
Netztechnologie	4G LTE	4G LTE 5G Ready	4G LTE 5G Ready
Flatrate für Minuten/SMS	✓	✓	✓
EU Roaming	✓	✓	✓
Mtl. Grundgebühr bei 24 Monaten Mindestlaufzeit	29 ^{,99€}	39 ^{,99€}	49 ^{,99€}

Preis in € inkl. Mwst.



Unbegrenztes Datenvolumen



Mit der passenden Surf-Geschwindigkeit



Bereit für 5G



Voll flexibel: Auf Wunsch ohne Laufzeit



Ab 29,99 Euro im Monat

	O ₂ Free S	O ₂ Free M	O ₂ Free L
Datenvolumen	3 GB	20 GB	60 GB
Max Surfgeschwindigkeit	Max. Mbit/s	Max. Mbit/s	Max. Mbit/s
Netztechnologie	4G LTE	4G LTE	4G LTE 5G Ready
Flatrate für Minuten/SMS	✓	✓	✓
EU Roaming	✓	✓	✓
Mtl. Grundgebühr bei 24 Monaten Mindestlaufzeit	19 ^{,99€}	29 ^{,99€}	39 ^{,99€}

Preis in € inkl. Mwst.



BOOST mit CONNECT
Doppeltes Datenvolumen für bis zu 10 Geräte



Bereit für 5G



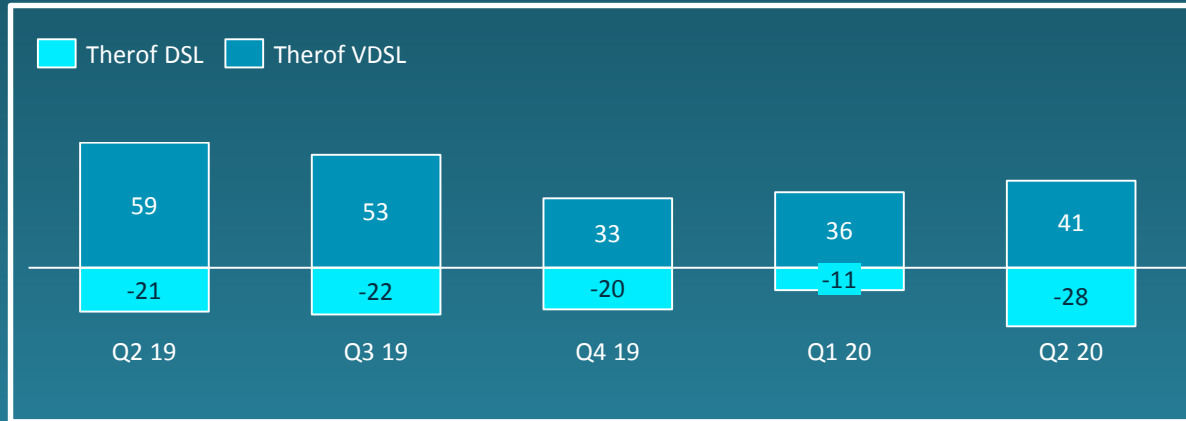
Voll flexibel: Auf Wunsch ohne Laufzeit



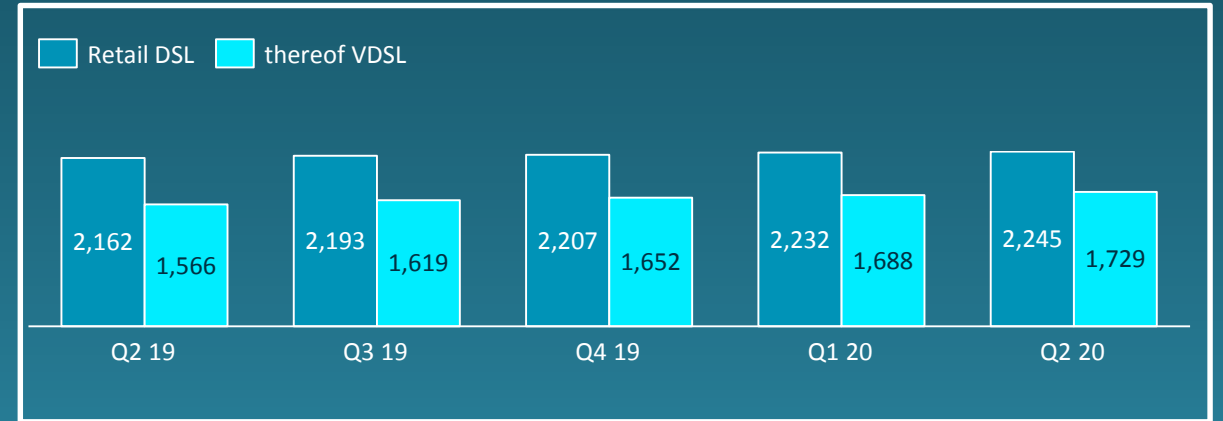
Von 10 auf 20 GB für 29,99 Euro

Fixed KPIs

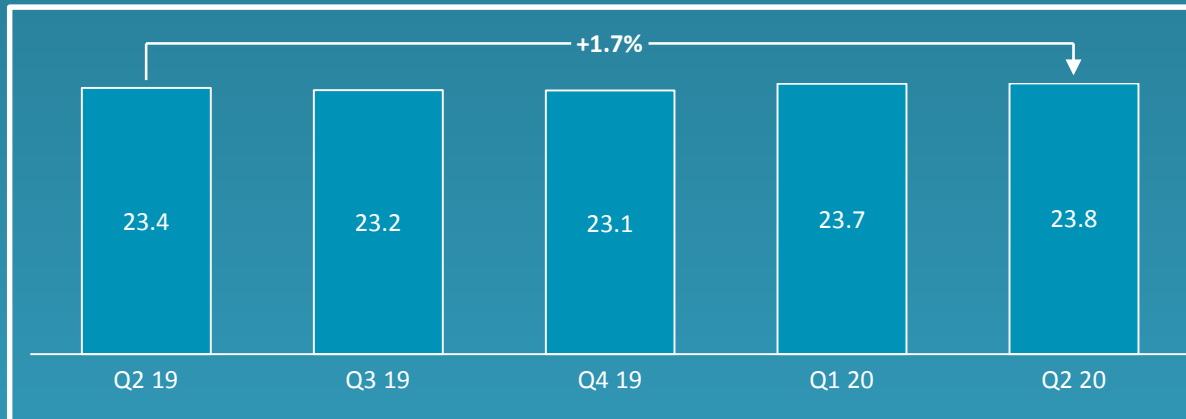
Retail broadband net adds ('000)



Fixed accesses ('000)



Fixed retail ARPU (EUR)



O₂ Free fixed portfolio

	O ₂ my Home XL*	O ₂ my Home L	O ₂ my Home M	O ₂ my Home S
Maximale Surf-Geschwindigkeit ¹	VDSL 250 MBit/s (Upload: 40 MBit/s) ⁴	VDSL 100 MBit/s (Upload: 40 MBit/s) ⁴	50 MBit/s (Upload: 10 MBit/s)	10 MBit/s (Upload: 2,4 MBit/s) ⁵
Flatrate-Telefonieren ins dt. Festnetz und in alle dt. Mobilfunknetze ³	✓	✓	✓	✓
Optional buchbar: HomeBox 2 AVM FRITZ!Box 7490 AVM FRITZ!Box 7590 ⁶	– – 5,99 mtl.	1,99 mtl. 3,99 mtl. 5,99 mtl.	1,99 mtl. 3,99 mtl. 5,99 mtl.	1,99 mtl. 3,99 mtl. 5,99 mtl.
Anschlussgebühr einmalig ²	0,– (anstatt 49,99)	0,– (anstatt 49,99)	0,– (anstatt 49,99)	49,99
Rabattaktion ²	1 Jahr 10,– mtl. sparen	1 Jahr 10,– mtl. sparen	1 Jahr 10,– mtl. sparen	1 Jahr 10,– mtl. sparen
Mtl. Grundgebühr reduziert für O ₂ Kunden ⁷	ab 24,99 (ab 13. Monat ab 34,99)	ab 14,99 (ab 13. Monat ab 24,99)	ab 9,99 (ab 13. Monat ab 19,99)	–
Mtl. Grundgebühr (bei 24 Monaten Laufzeit)	34,99 ab 13. Monat 44,99	24,99 ab 13. Monat 34,99	19,99 ab 13. Monat 29,99	14,99 ab 13. Monat 24,99

Telefónica

Deutschland