



Telefónica Deutschland

Investor presentation

March 2020

Investor Relations

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The Telefónica Deutschland Equity Story: Why should you invest?



Telefónica Deutschland's way forward

1

1998 - 2008

BUILD



- Business set-up
- Introduction of O₂ brand
- Start of 4th network

Market entrance

2

2009 - 2019

SCALE



- Acquisition & integration of HanseNet & E-Plus
- Consumer mobile leadership
- Established fixed player

Integration

3

2020 and beyond

GROW



- Mobile growth in rural & reinforcement in urban
- Smart bundling
- B2B push

Benefits from scale & transformation

Key priorities for Telefónica Deutschland in the next decade

Accelerating growth trajectory



Boost rural coverage, accelerate urban capacity



Smart bundling to improve loyalty



Technology-agnostic internet solutions; fixed-mobile substitution to improve profitability



Leverage B2B strategy to gain fair market share in SME



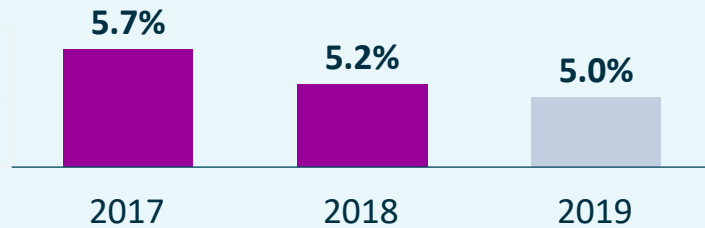
Commitment to deliver attractive shareholder remuneration



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

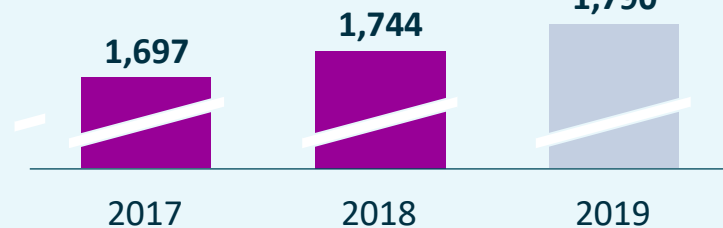
Stable macro-environment

Unemployment rate¹



Consumer spend²

in EUR bn



Current trends

Dynamic yet rational mobile market

Data growth maintains CAGR of ~50%

Soft convergent market environment

3 strong mobile networks

Future trends

5G use cases & demand to accelerate

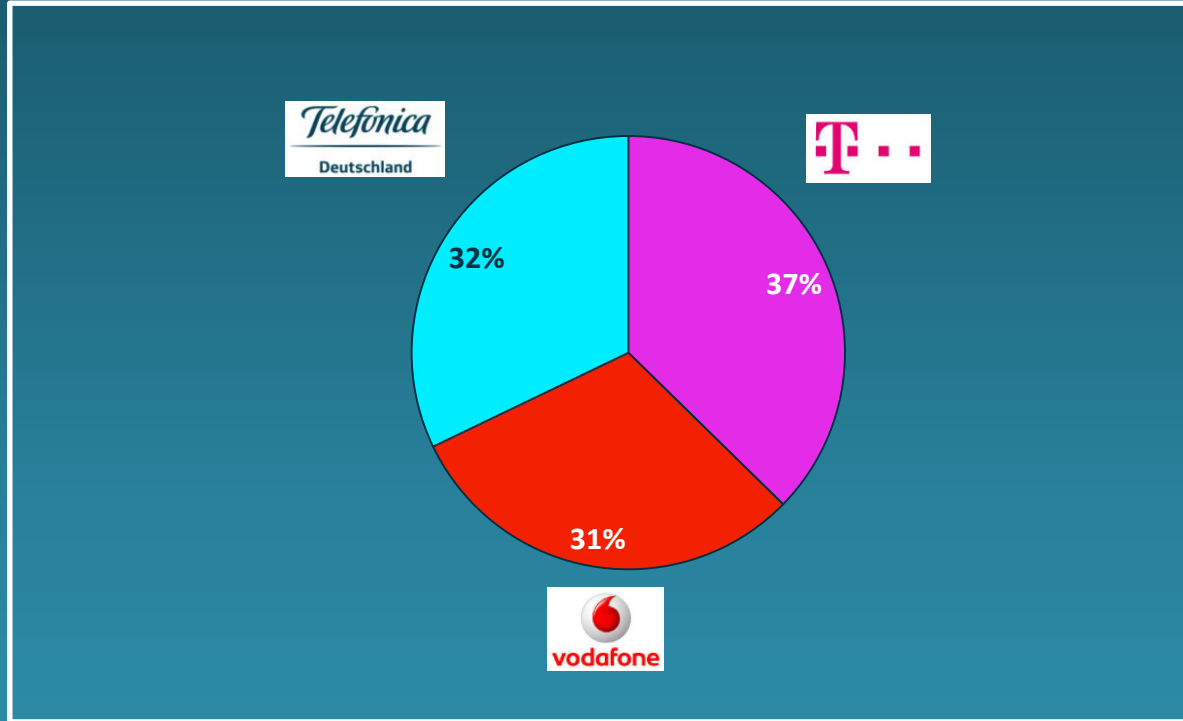
Fixed-Mobile-Substitution (FMS) becoming increasingly relevant

Potential 4th urban MNO

3 integrated (mobile + fixed) players

Competitive environment

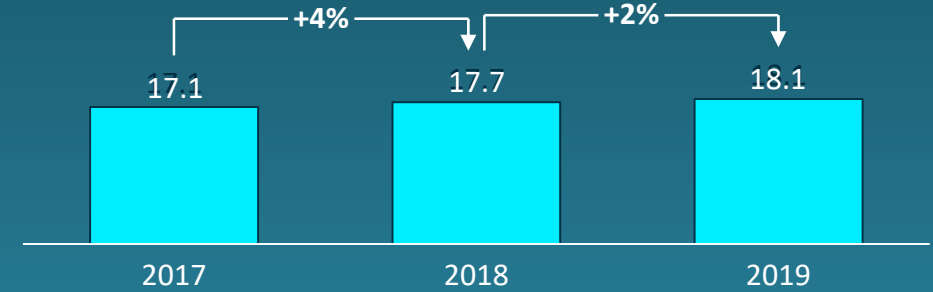
Rational and balanced market structure¹



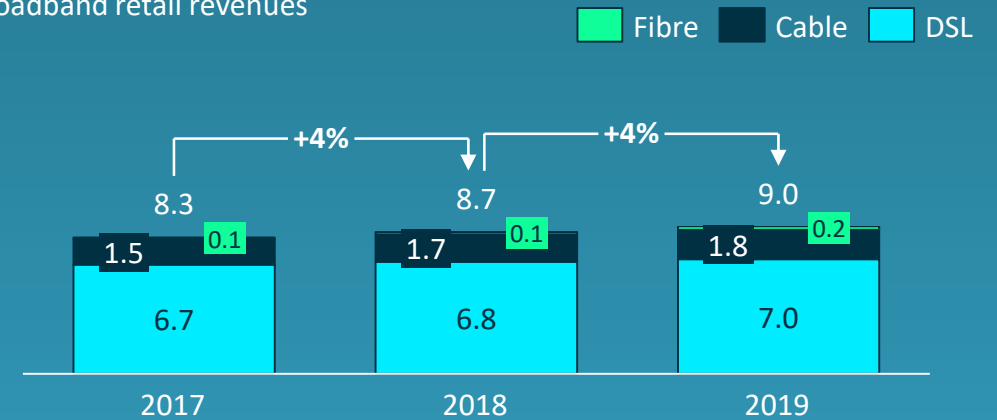
- Rational market following 4 to 3 consolidation
- Tiered mobile data portfolios enabling data monetisation

Market development in past years²

Mobile market: Service revenues
EUR bn

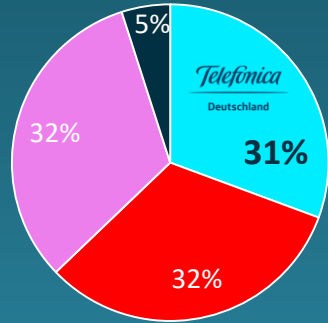


Fixed broadband retail revenues
EUR bn



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

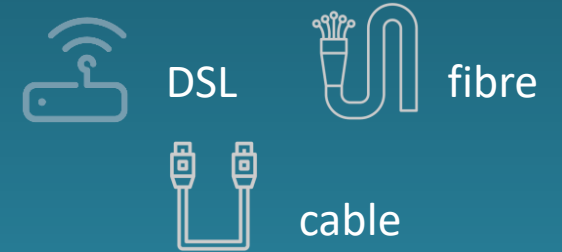
Competitive spectrum position



>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

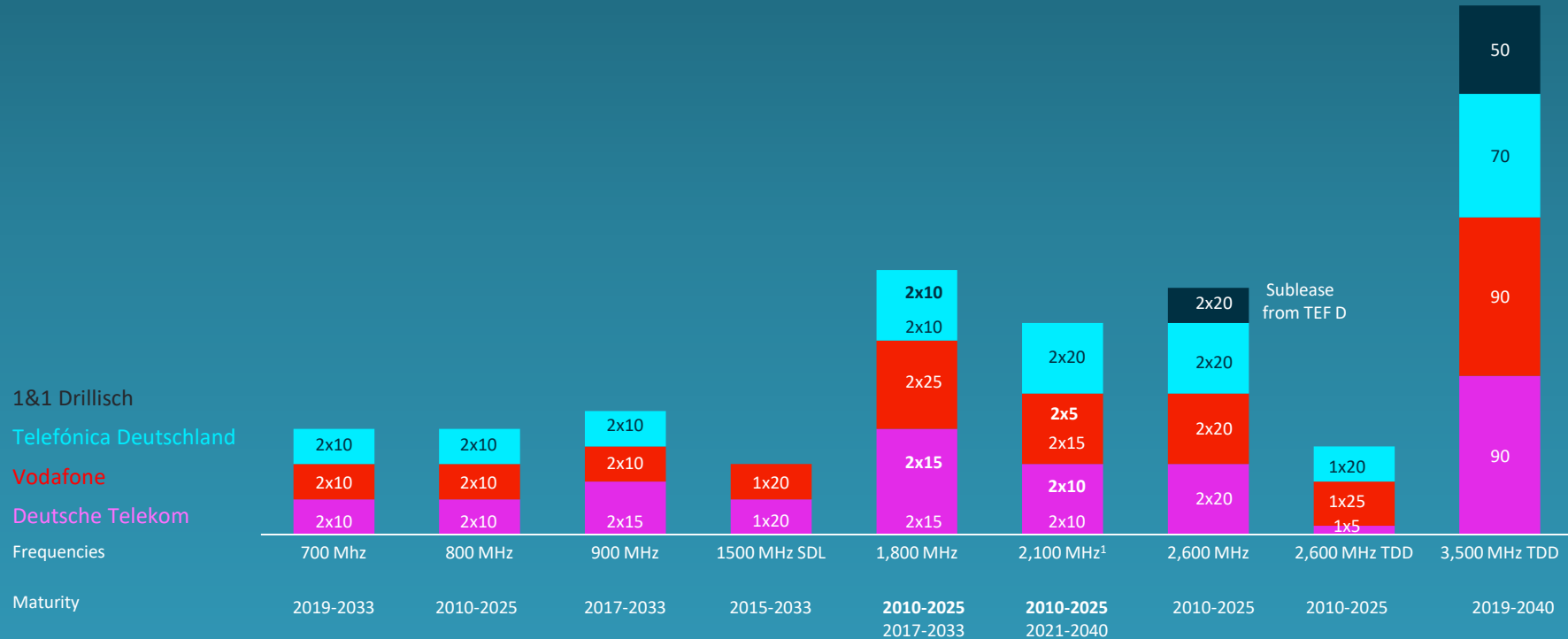


Premium customer service & access to all sales channels

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

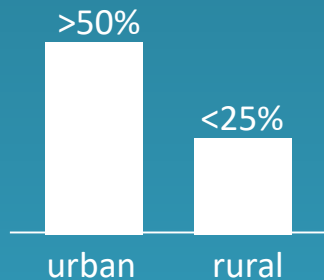
Balanced position in coverage and capacity spectrum until 2025

Potential future utilisation	5G 4G	5G 4G	4G 2G	5G 4G	5G 4G	5G 4G	5G 4G	5G 4G	5G
Utilisation today		4G	2G		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



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

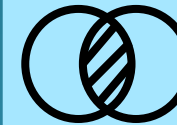


Accelerate urban capacity via 5G

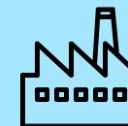
Boost revenues to outperform market



Mobile growth in rural – reinforcement in urban



Smart bundling
to capture value and reduce churn

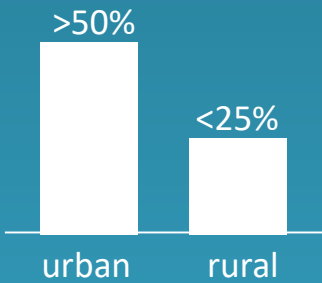


Attack in B2B
to reach fair market share in SME

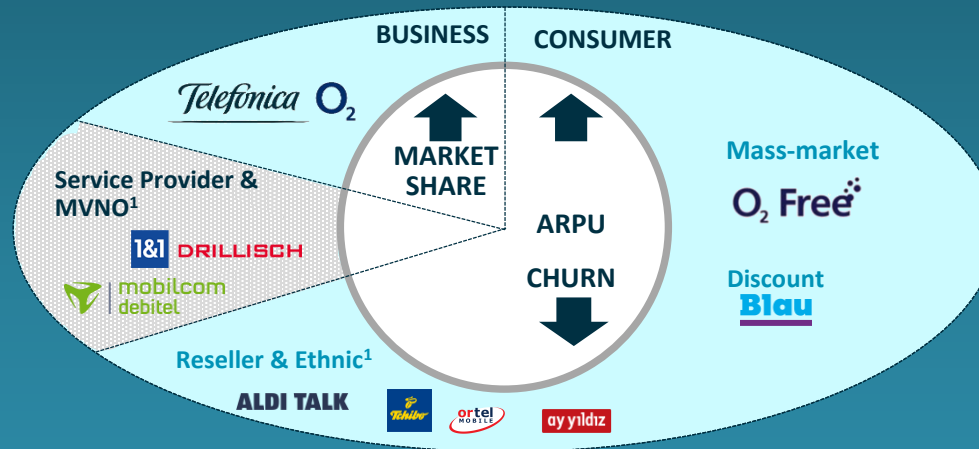
Revenue growth driven by a step-up in 4G network quality and 5G boost



Mobile customer share

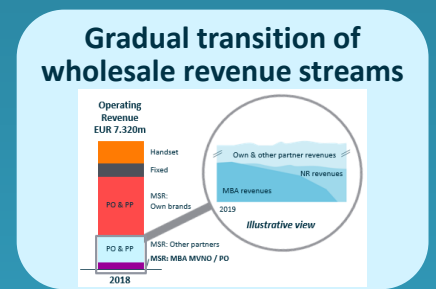
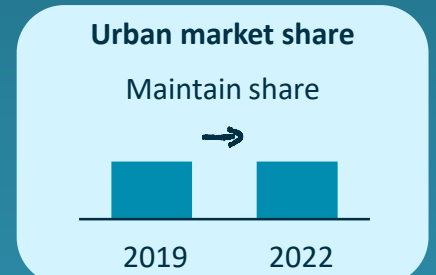
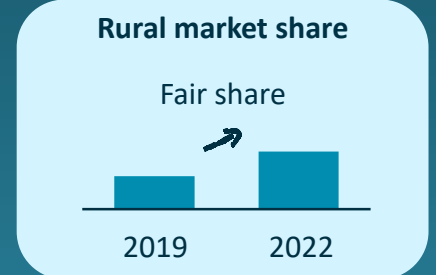


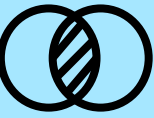
Sustained focus on owned customer base



>80% owned customers
 ~20% service providers & MVNO

MSR





MOBILE INFRASTRUCTURE



Fixed-
Mobile-
Substitution
(FMS)



FIXED NET INFRASTRUCTURE



FttX incl. VDSL



Cable

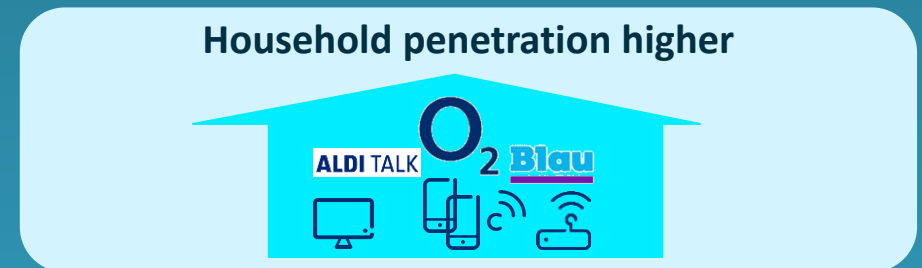
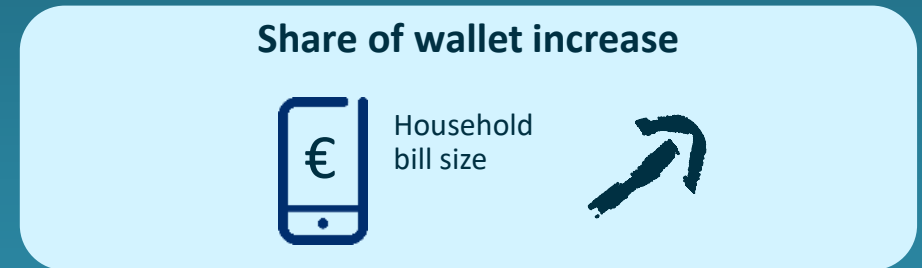
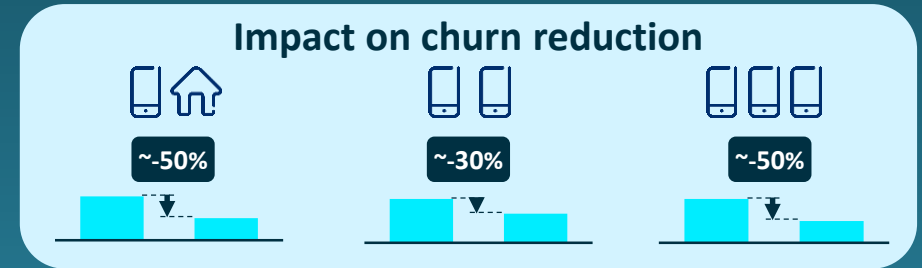
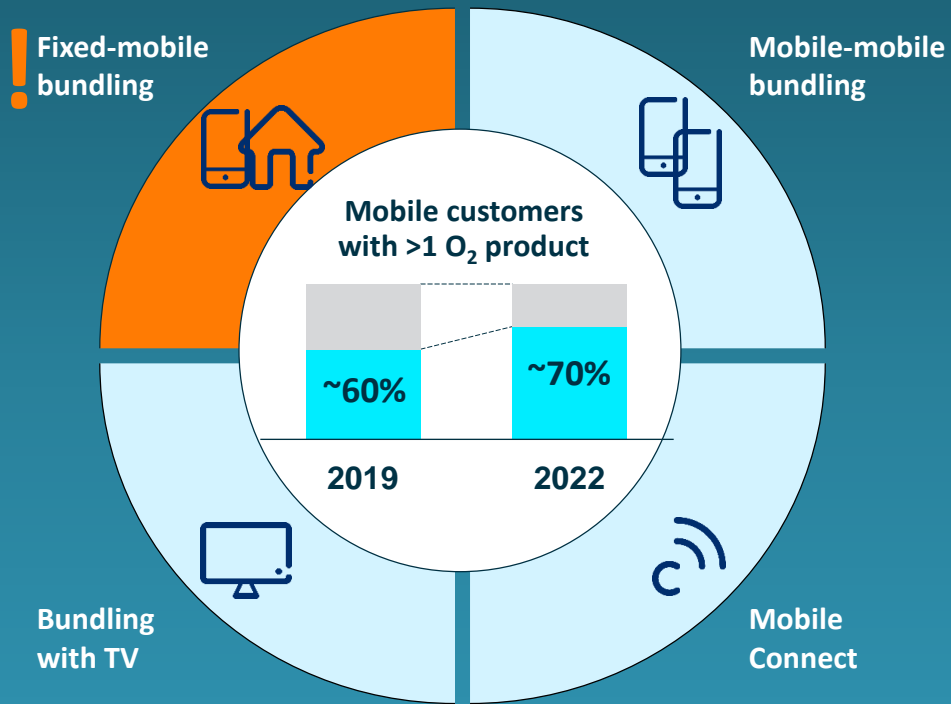
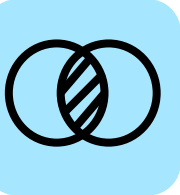


Smart bundling to capture value and reduce churn

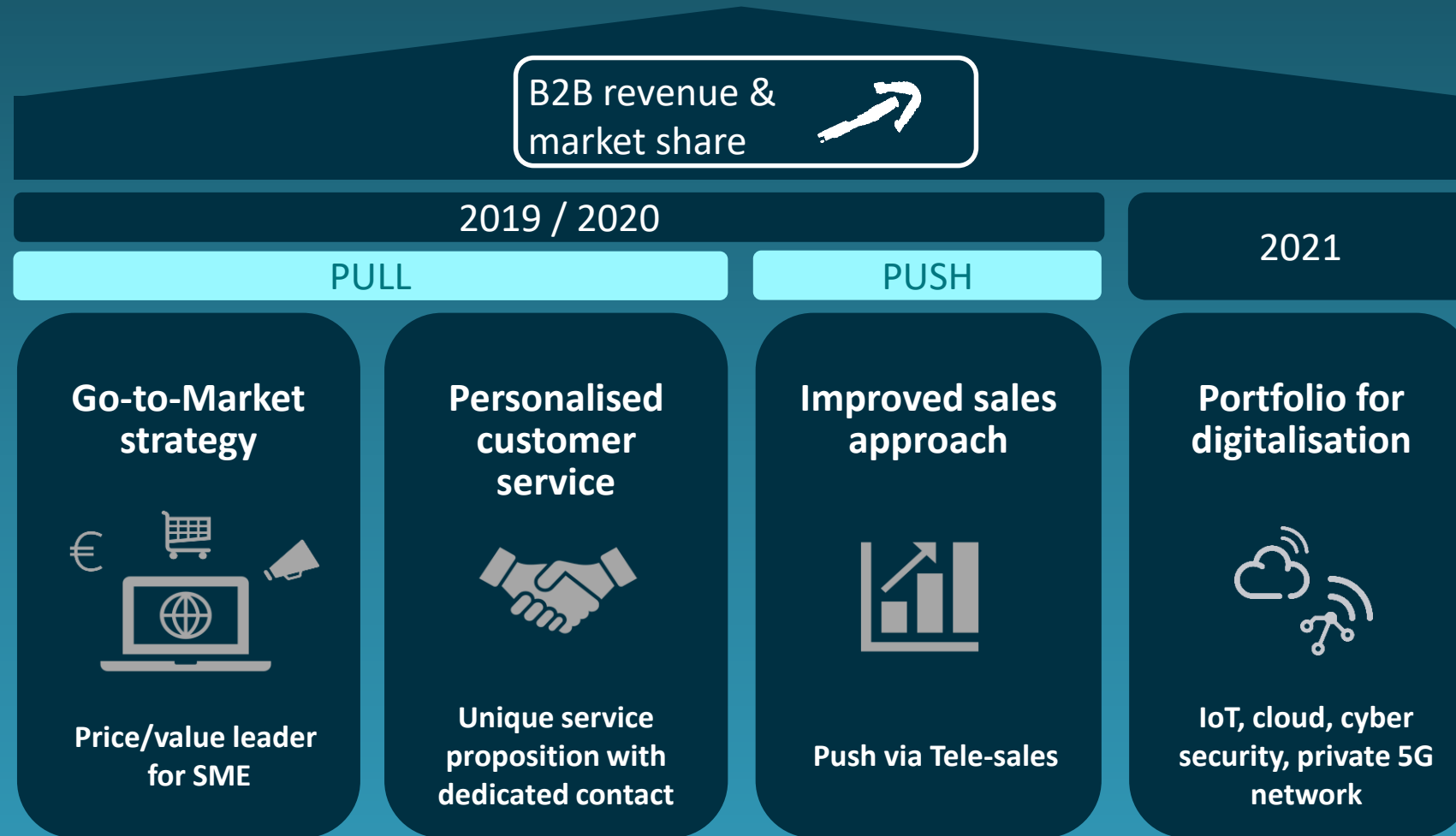
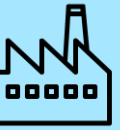
Technology-agnostic Internet@Home solutions with focus on customer experience

Fixed-mobile-substitution increases profitability

Improve loyalty and convergence positioning by pushing smart bundling approach

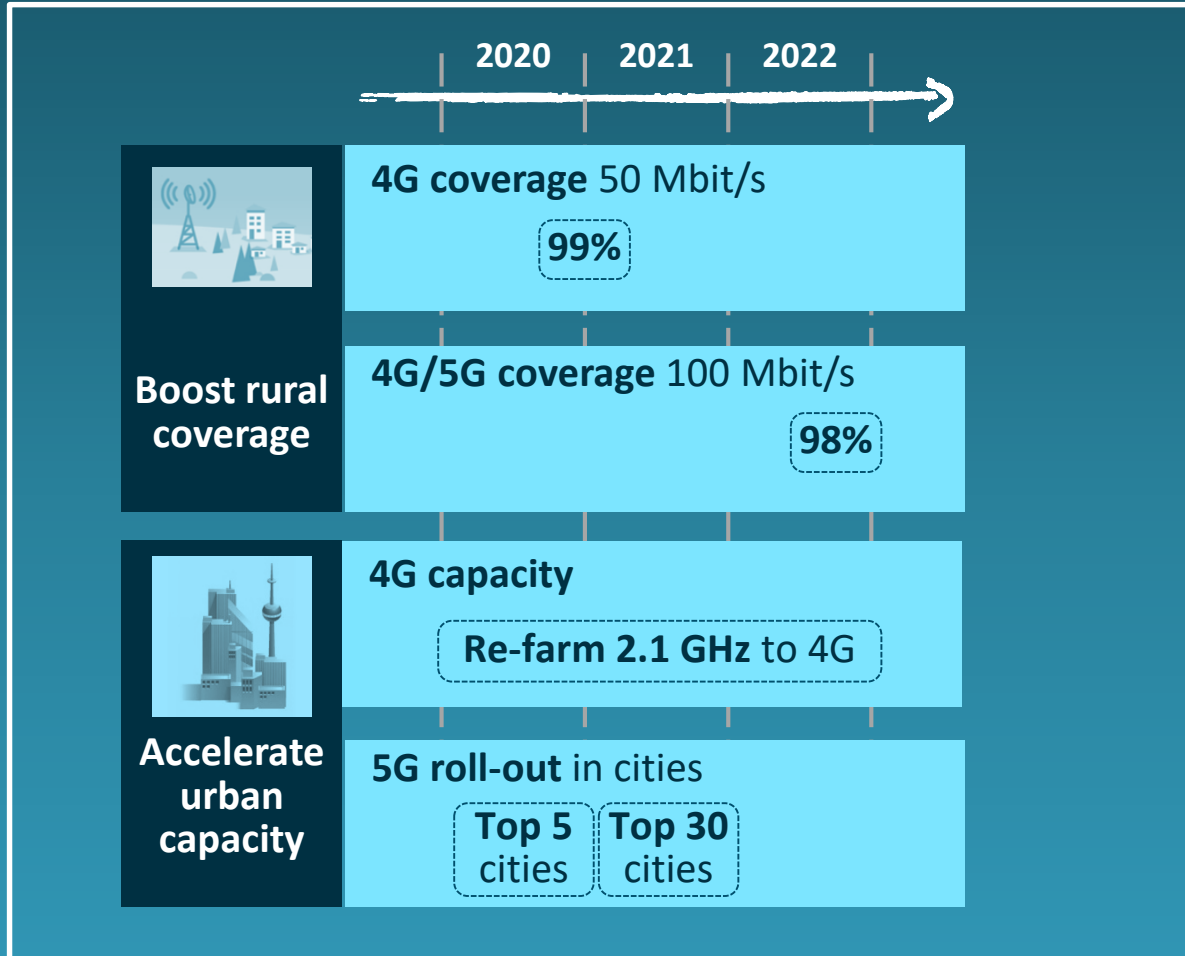


B2B strategy drives growth by positioning Telefónica Deutschland as price/value leader for SMEs



Network lays the foundation for future growth

Network roll-out strategy

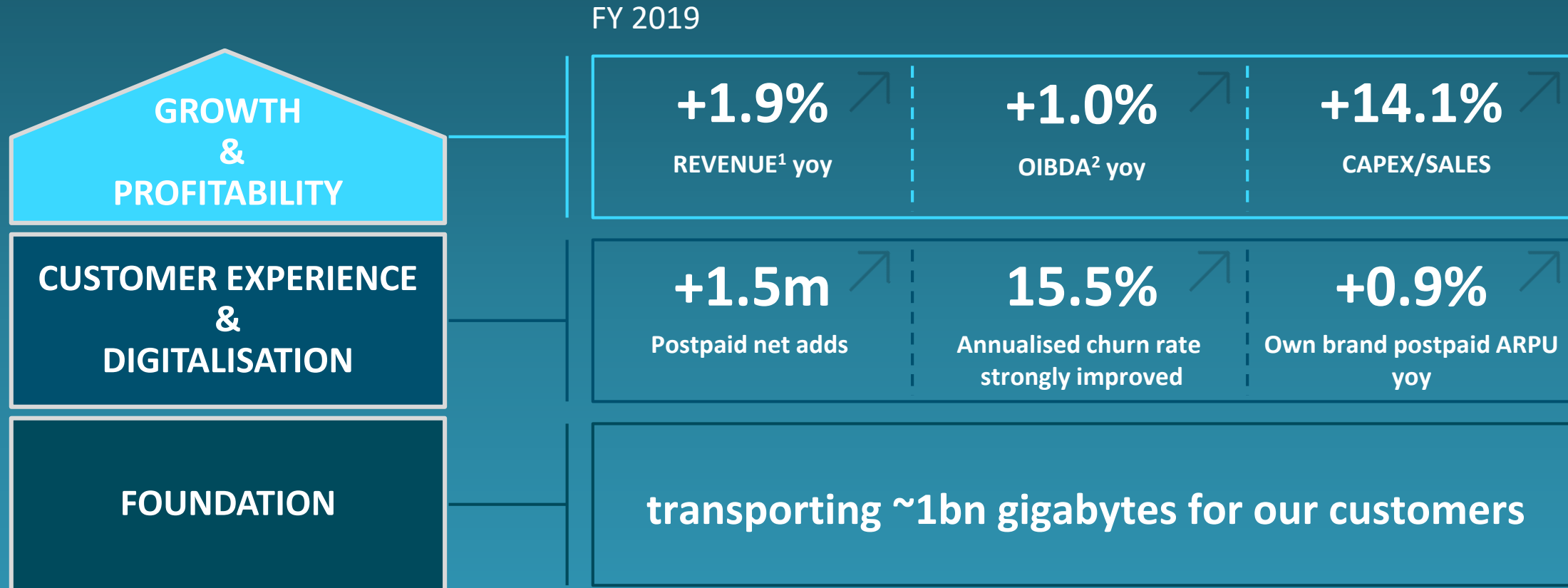


Latest developments

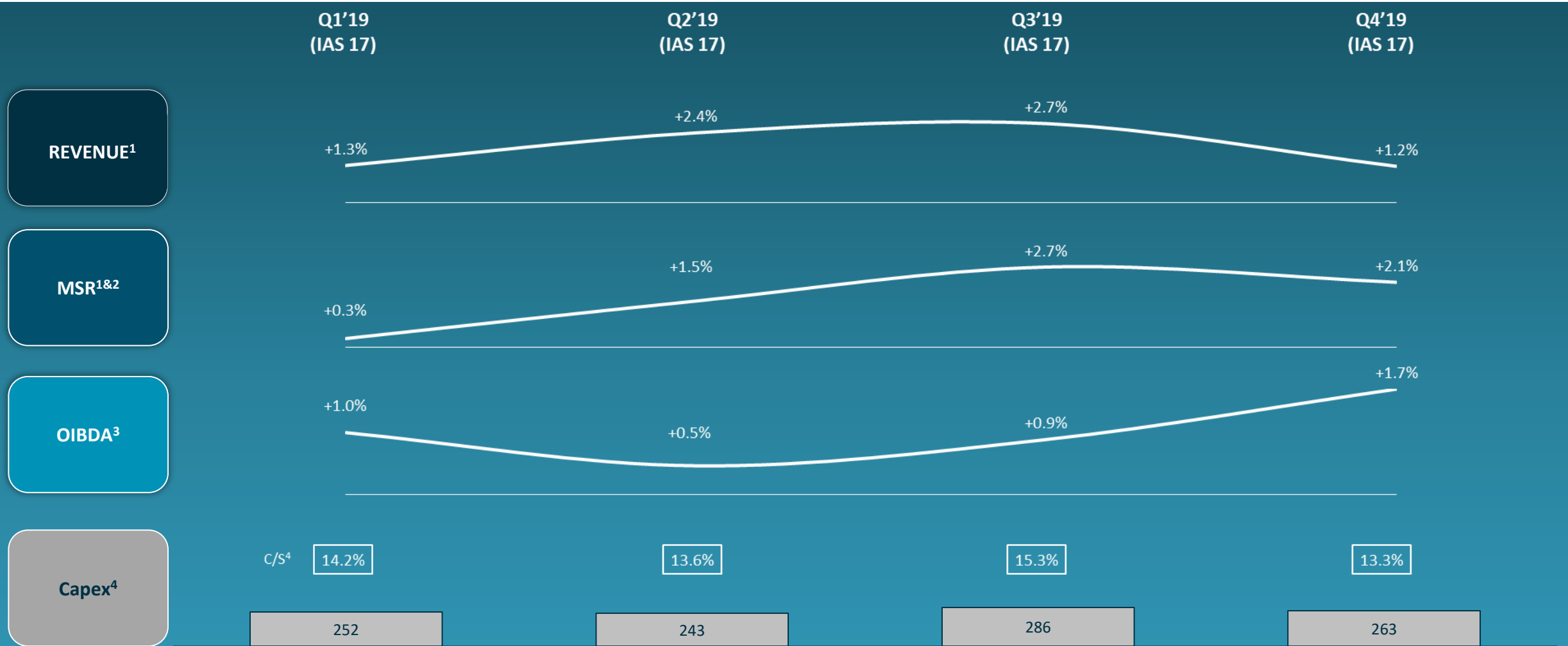
- Breakthrough in network quality with **3x 'good'** in major German network tests
- Temporary investment programme to **boost rural coverage & accelerate urban capacity**
 - Fulfilling **4G coverage obligations** by the end of 2020
 - **5G roll-out into top 5 cities** starting in 2020
- Realising the **potential from infrastructure sharing**



Strong set of results in 2019; making major progress towards our vision of becoming Germany's Mobile Customer & Digital Champion by 2022



Revenue acceleration continues and profitability solid



¹ Excluding the negative impact from regulatory changes (mainly driven by the mobile termination rate cut to EURc 0.95 per minute as of 1 Dec 2018)

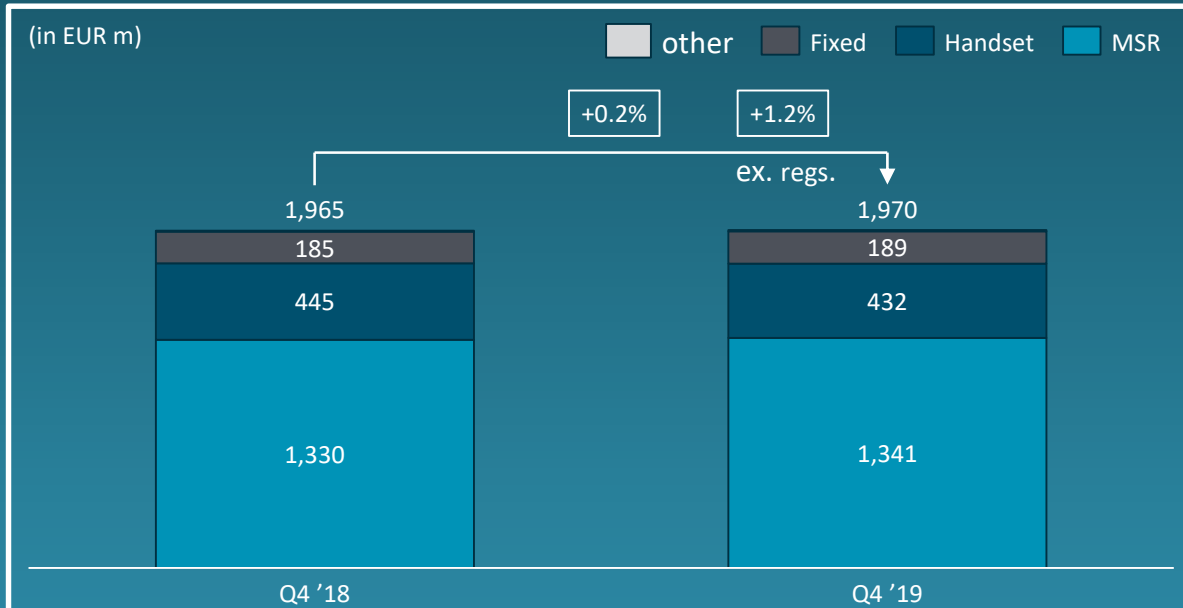
² Mobile service revenue include base fees and fees paid by our customers for the usage of voice, sms and mobile data services. Also, access and interconnection fees as well as other charges levied on our partners for the use of our network are included

³ Exceptional effects were EUR 23 million of restructuring expenses in the period January to December 2019 (EUR 52 million based on IAS 17). The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16. Regulatory effects amounted to EUR -38 million in the period January to December 2019

⁴ CapEx excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

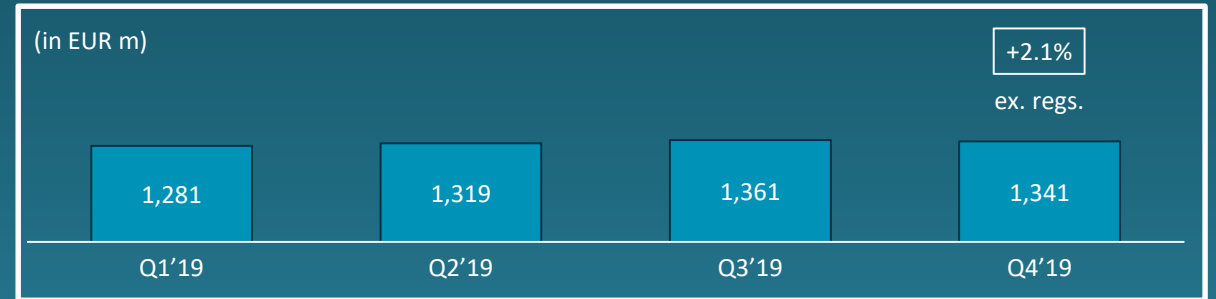
Revenue trends driven by strong MSR performance

MSR performance driving Q4 revenue

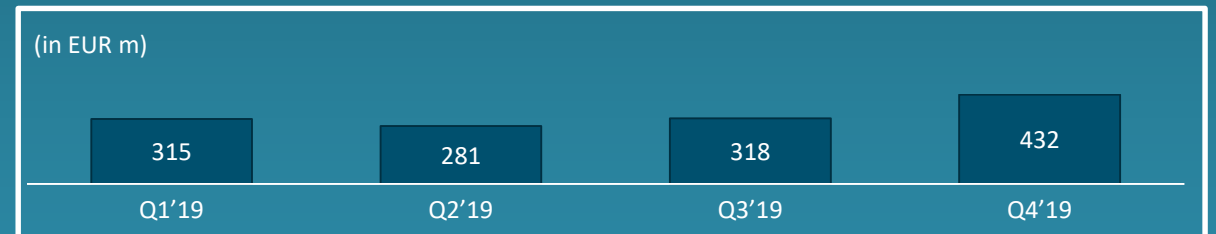


- MSR further improving on visible effects from O₂ Free APRU-up as headwinds from legacy base rotation and retention focus in renewal cycles are further easing
- Handset revenue driven by continued solid demand for high-value devices on tougher comps
- Fixed revenue with strong VDSL trading

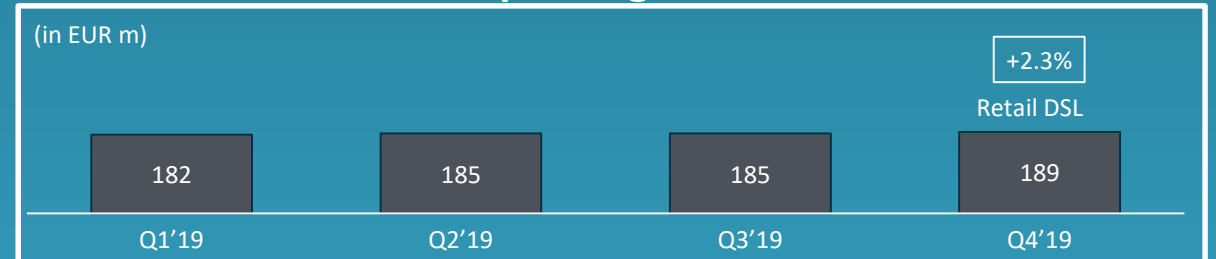
MSR reflects traction of O₂ Free portfolio



Continued demand for high-value devices

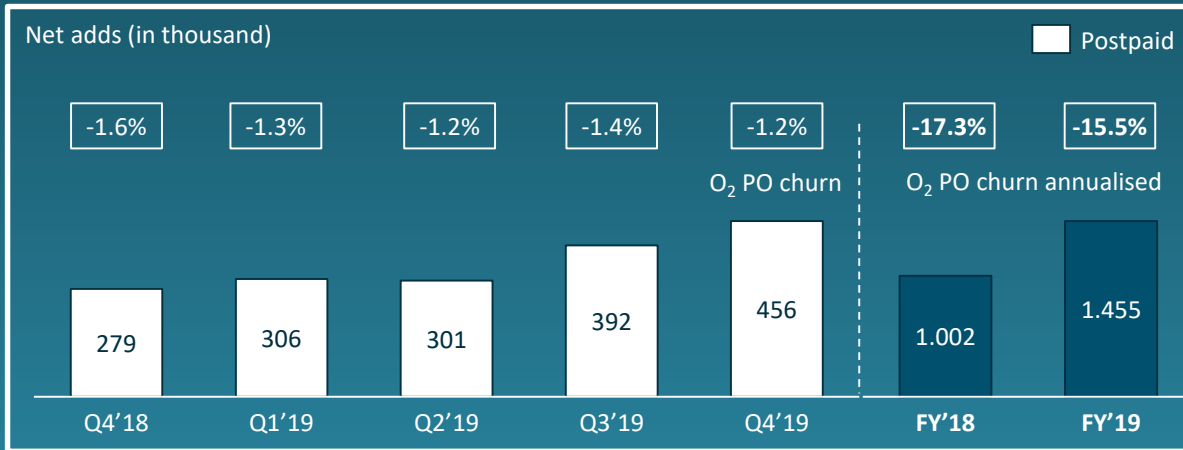


Fixed revenue with improving retail DSL trend

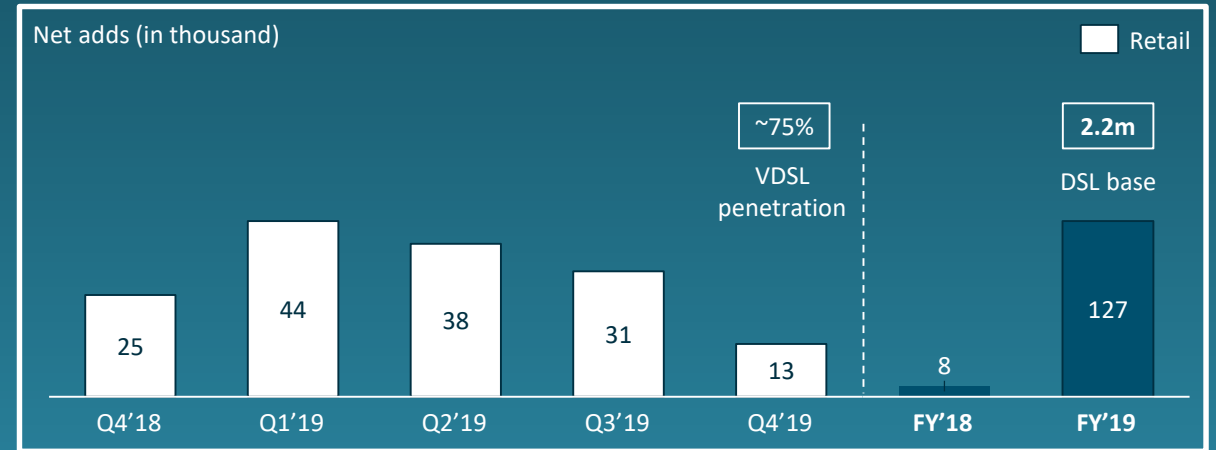


Strong operating momentum as net adds are accelerating; ARPU growing

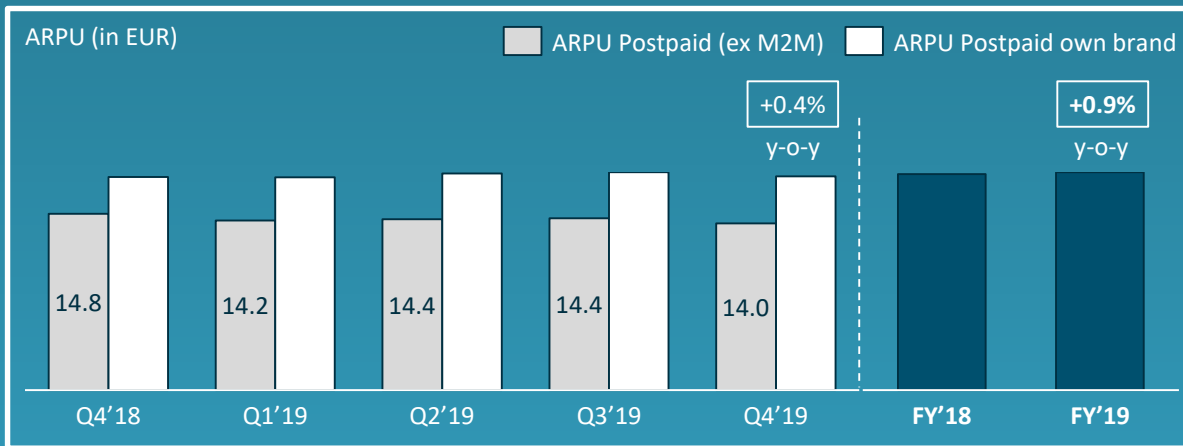
Focus in mobile on profitable growth



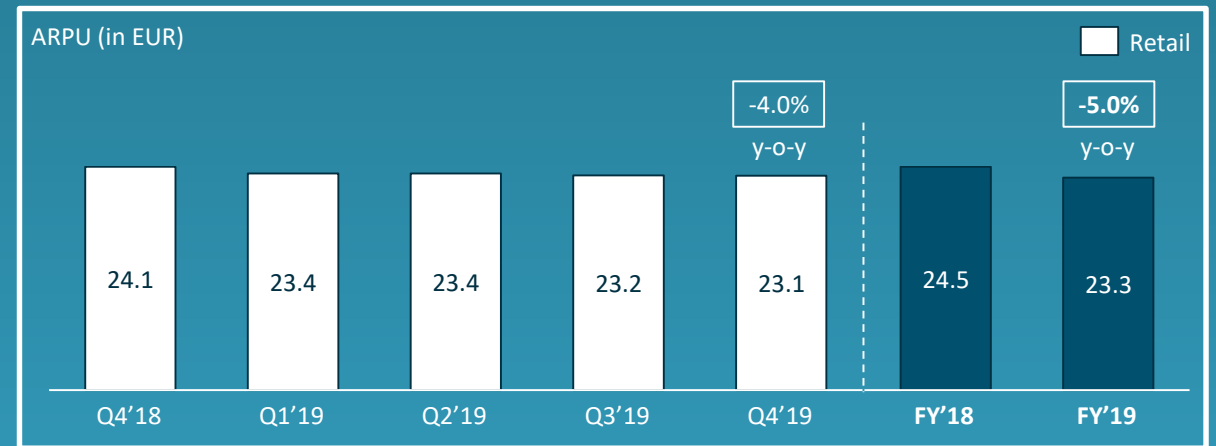
Sustained demand for VDSL drives growth



O₂ Free drives own brand ARPU

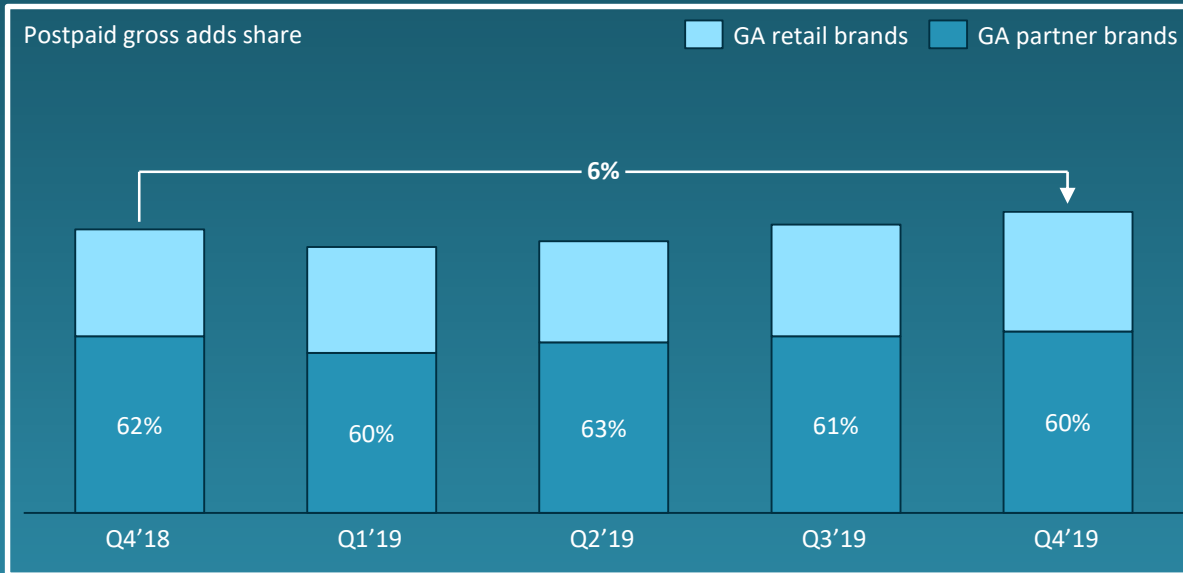


Fixed ARPU reflects higher bundle share in the base

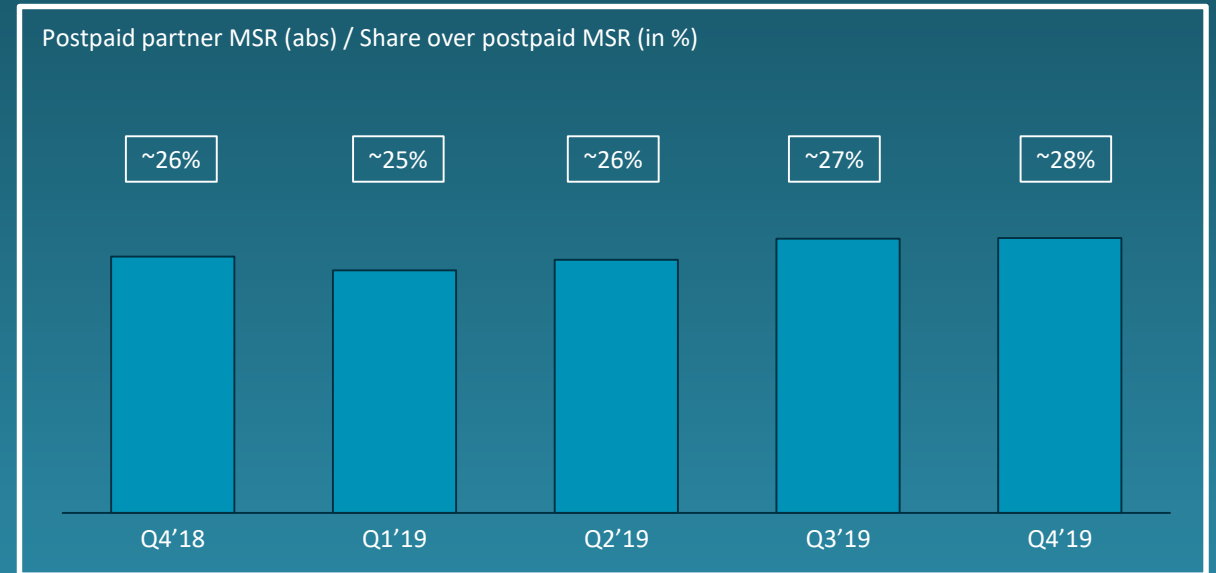


Partner segment with stable growth trajectory

Partner trading driven MBA MVNO dynamics



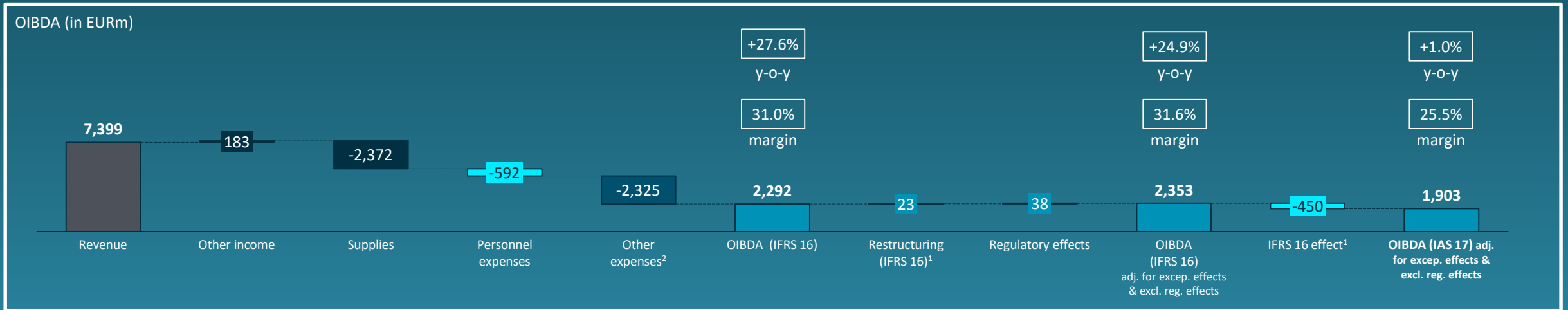
Partner revenue growth reflects data growth



- Partner performance remains in line with expectation
- Trading performance driven by MBA MVNO including migration effects to our network plus expanding partnerships
- Partner revenue growth reflecting the data growth driven dynamics of the MBA MVNO

OIBDA reflects continued market & transformation invest in growth

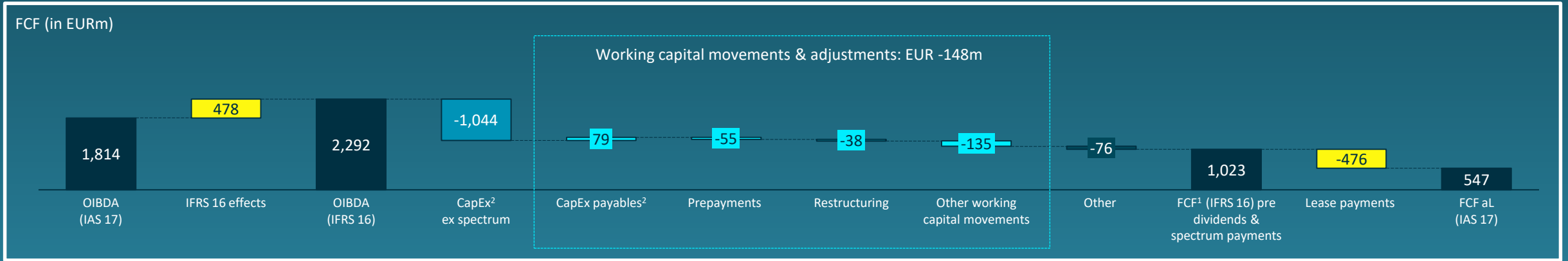
Structure of OIBDA FY 2019



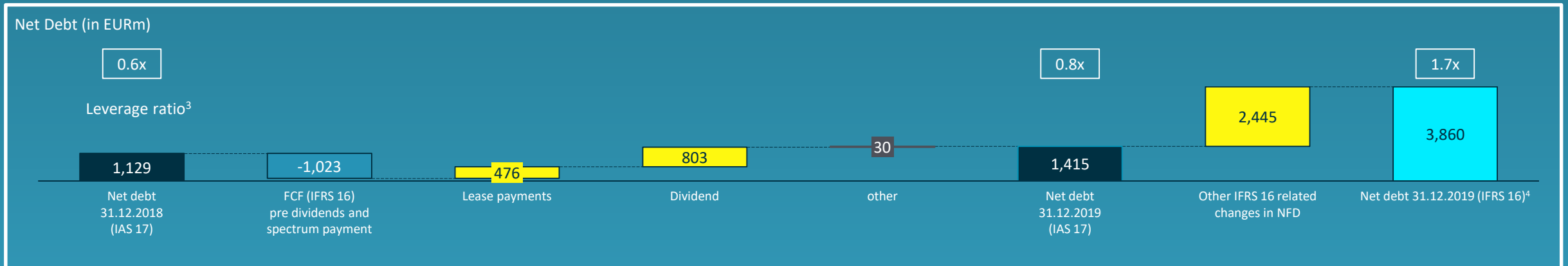
- Underlying OIBDA (IAS 17) +1.0% y-o-y in FY'19 driven by
 - Total synergy target of EUR 900 million OpCF delivered, rollover effects of ~EUR 40 million from network
 - Transformation benefits of ~EUR 40 million; mainly O₂ consumer and IT cost savings
- Regulatory effects of EUR 38 million driven by usage elasticity effects from the RLH regime & intra EU calls (since 15 May '19)
- Restructuring¹ costs of EUR 23 million under IFRS 16
- Underlying OIBDA margin expands to 31.6% under IFRS 16 vs. 25.5% under IAS 17

FCF dynamics reflect implementation of IFRS 16 and a higher investment profile

Evolution of Free Cash Flow (FCF)¹ FY 2019



Evolution of Net Debt³ – Leverage³ in line with target



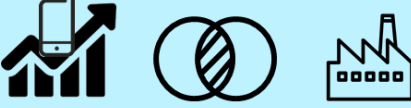
¹ FCF pre dividend & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

² Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and investments in spectrum

³ For definition of net debt & leverage ratio please refer to Q3 2019 earnings release

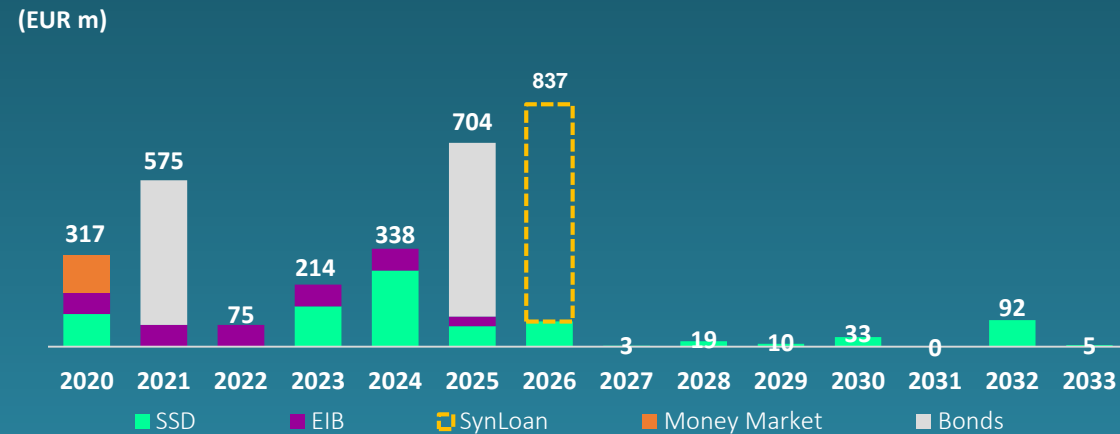
⁴ Leverage is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects.

Outlook 2020 & updated mid-term guidance 2020/22

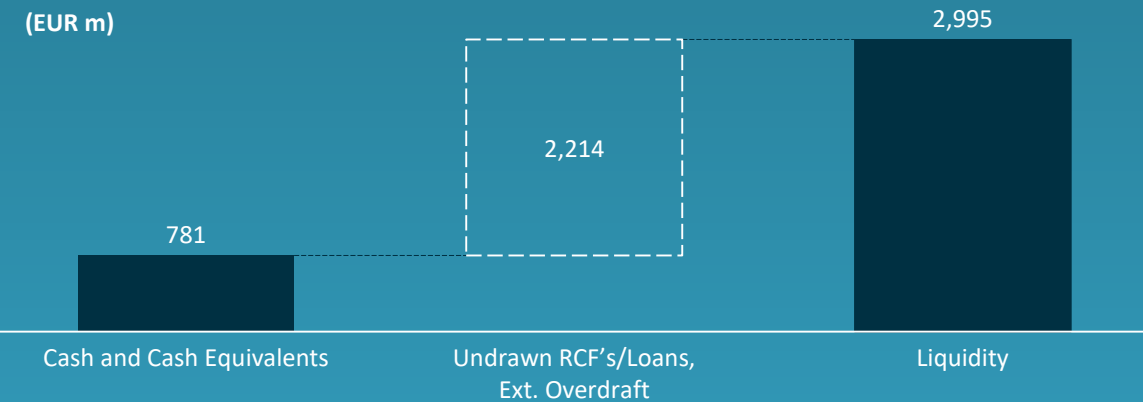
	Actuals FY'19		Updated mid-term guidance 2020/22	Outlook FY'20 (IFRS16)
Revenue	IAS17 7,458 FY'19	IFRS16 7,458 FY'19	 <p>TEF D with cumulated growth of min. 5%</p>	Flat to slightly positive (incl. reg. impacts of ~EUR 20-30m)
OIBDA¹	1,903 FY'19	2,353 FY'19	Ongoing margin improvement	Broadly stable to slightly positive (incl. reg. impacts of less than ~EUR 10m)
C/S²	14.1%		2-year investment programme to generate Growth C/S incl. 5G RAN peaking in 2020/21 between 17-18%; normalising already in 2022	17 - 18%

Smooth maturity profile and diversified financing mix per 31 December 2019

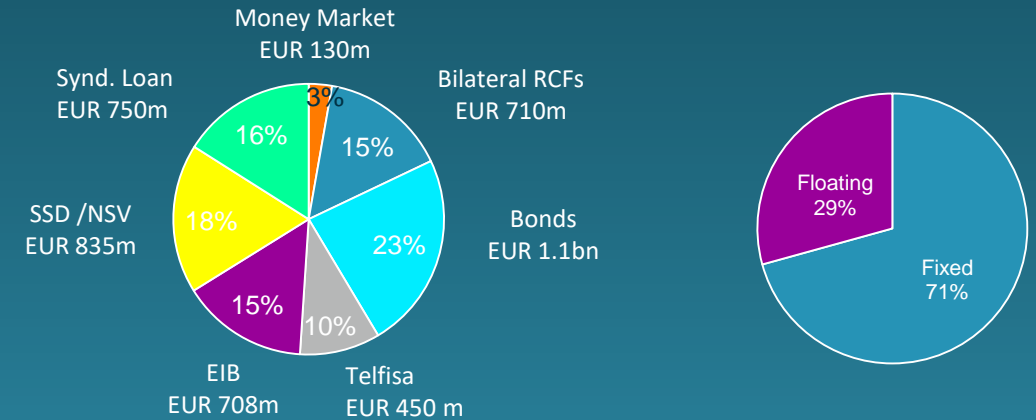
Maturity profile¹



Liquidity position



Financing and interest mix²



Comments

- Well balanced and diversified maturity profile
- EUR 3.0bn liquidity position ensures financial flexibility and includes new EUR300m undrawn EIB Loan
- Low exposure to rate hikes due to a high percentage of debt at fixed rates
- EUR 130m Money Market Facilities outstanding

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



FCF

- **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 at 0.8x (IAS 17) resp. 1.7x (IFRS 16) as of 31.12.2019
- **IFRS 16 leverage target: At or below 2.5x; solid headroom under current rating**
- Deferred spectrum payments lead to increased **financial flexibility**



Dividend proposal
FY 2019 &
guidance

- **Proposal of EUR 0.17 for FY 2019, which will be a floor during our investment programme**
- **~6% dividend yield based on closing price as of 10 December 2019**

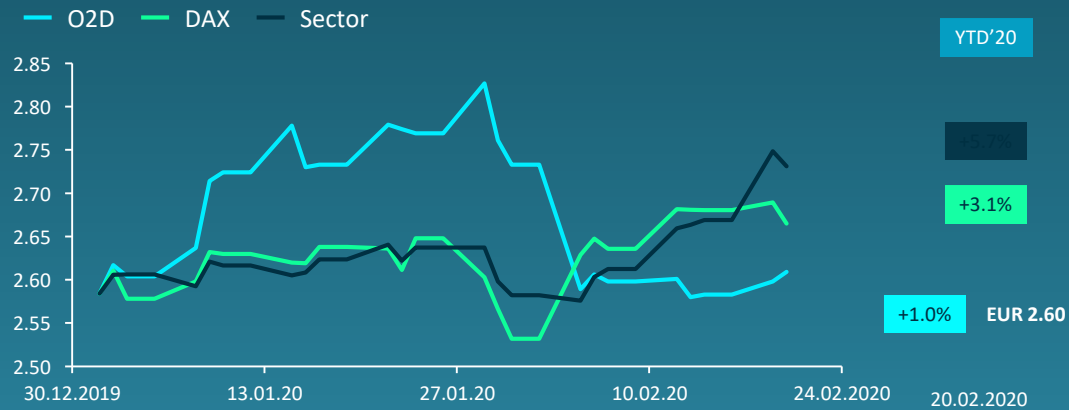


Dividend policy

- **Continuity since the IPO**
- **High pay-out ratio to FCF adjusted for leases (aL)¹**

O2D factsheet

Share price development as of 31 December 2019

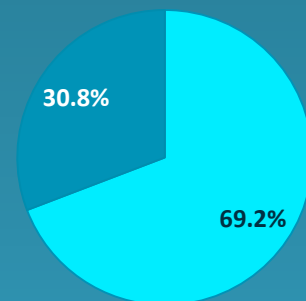


Telefónica Deutschland at a glance

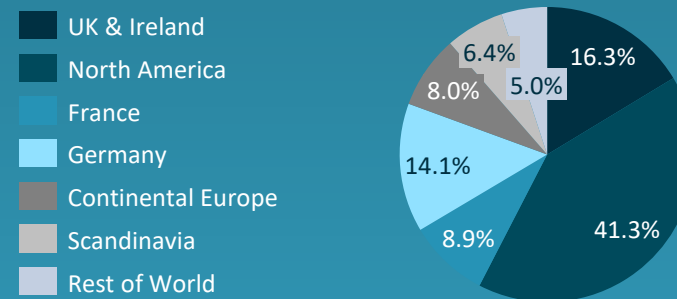
Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap (as of 20.02.2020)	EUR 7,760.7 m
Share price (as of 20.02.2020)	EUR 2.609

Shareholder structure¹

- Telefónica Germany Holdings Ltd²
- Freefloat



Regional split of shareholder structure



¹ Status: 31 December 2019

² Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A.

³ Source: NASDAQ; Shareholder ID as of January 2020

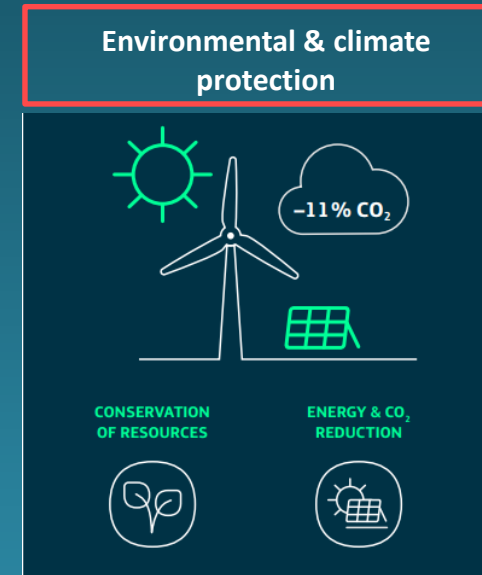
We steer our sustainability commitments with our Responsible Business Plan 2020



Consistently good to very good results in relevant external assessments & stakeholder surveys









On an annual base, >50m¹ people are benefitting from our products



By 2020, ambition to reduce direct & indirect CO₂ emissions by 11% vs 2017; -9.6% achieved by 2018

Sustainability ratings and indices¹

Analyst	Indexes
Sustainalytics 	Global Sustainability Leaders Index (UN Global Compact 100)
Financial Times Stock Exchange (FTSE) 	FTSE4Good
Morgan Stanley Capital International (MSCI) 	MSCI Europe ESG Index
oekom research AG 	Oekom Industry Report
vigeoEIRIS 	Euronext Vigeo Index: Eurozone 120; Ethibel Sustainability Index (ESI) Excellence Europe
Bloomberg 	Gender-Equality Index (GEI)

¹ Annually, Telefónica S.A. is successfully listed in, among others, the Dow Jones Sustainability Index (DJSI from RobecoSAM), the Carbon Disclosure Leadership Index (CDLI) and the Carbon Performance Leadership Index (CPLI) from the rating agency Carbon Disclosure Project (CDP).

Get in touch with the Investor Relations team!



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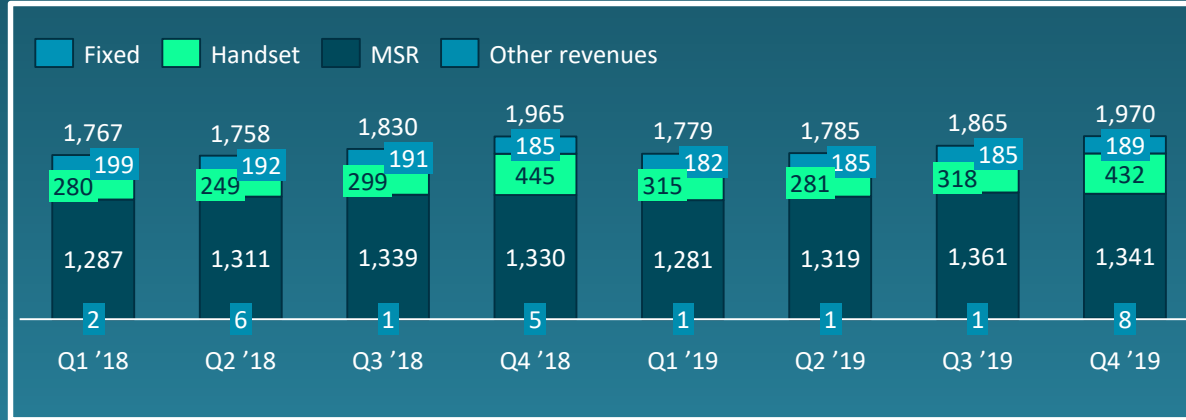
Eugen Albrecht.
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+49 176 3147 5260
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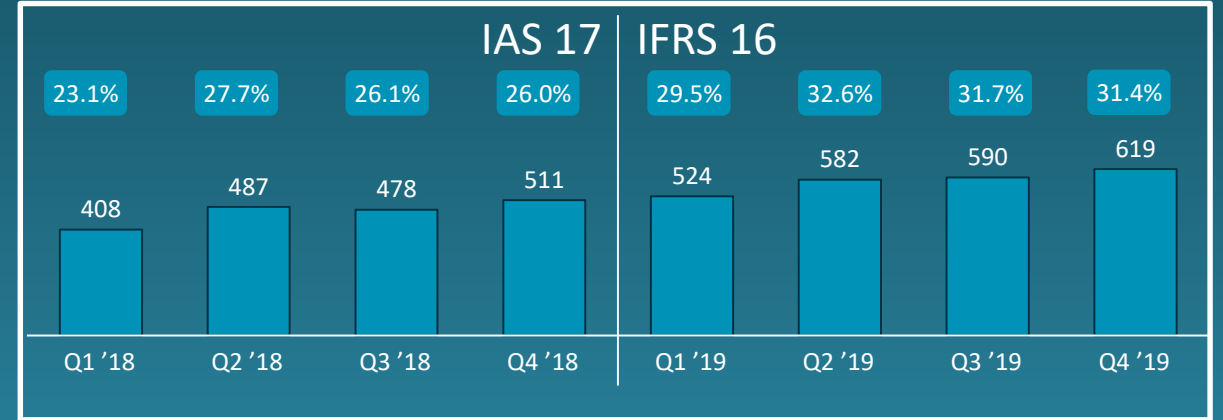
Appendix



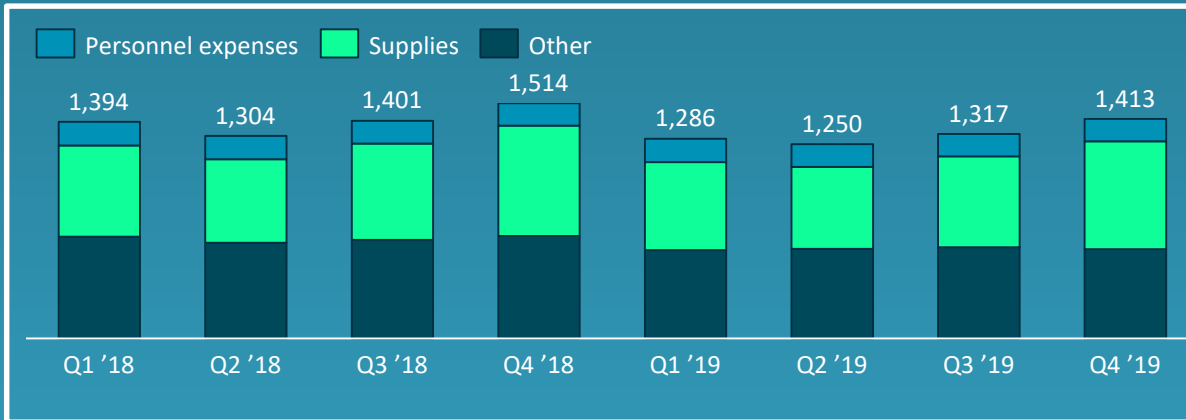
Revenue structure (EUR m)



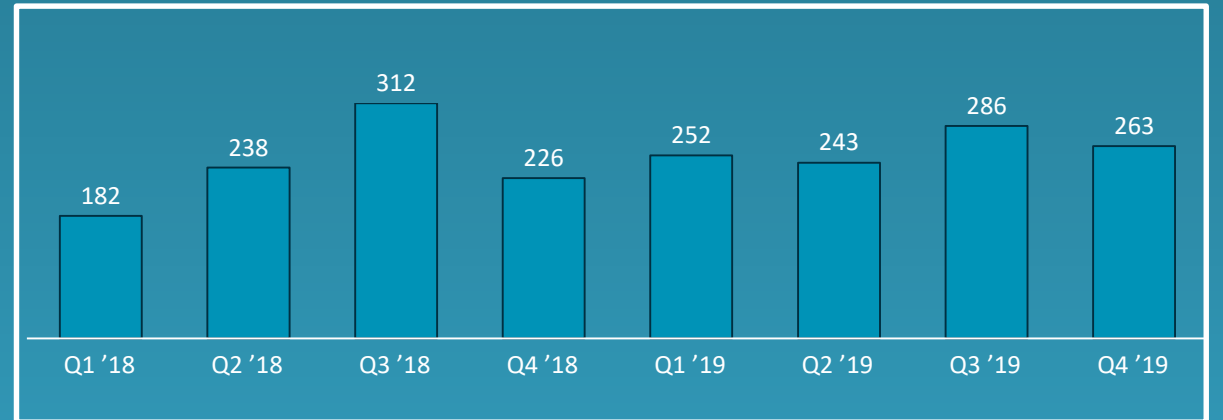
OIBDA¹ (EUR m)



OpEx split² (EUR m)



CapEx³ (EUR m)



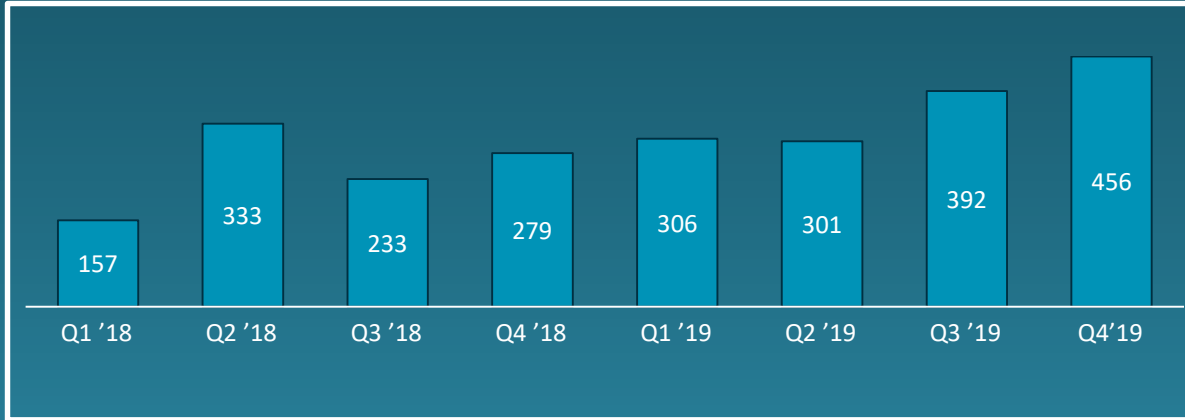
¹ Adjusted for exceptional effects, y-o-y comparison based on IAS17 accounting standards for 2018 and IFRS16 for 2019.

² Opex-split before exceptional effects changes and y-o-y comparison based on IAS17 accounting standards for 2018 and IFRS16 for 2019.

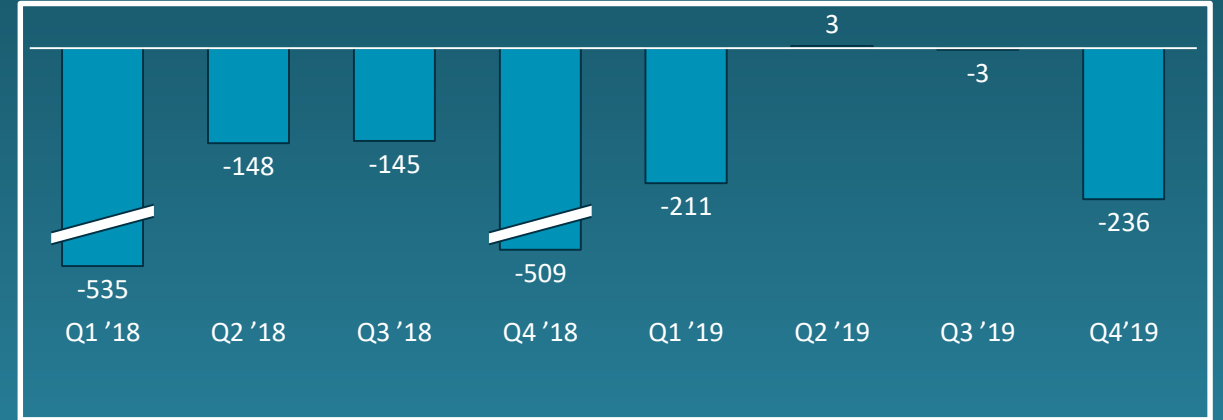
³ Excluding additions from capitalised right-of-use assets (as of 1 January 2019) respective excluding additions from capitalised finance leases (till 31 December 2018)

Mobile KPIs

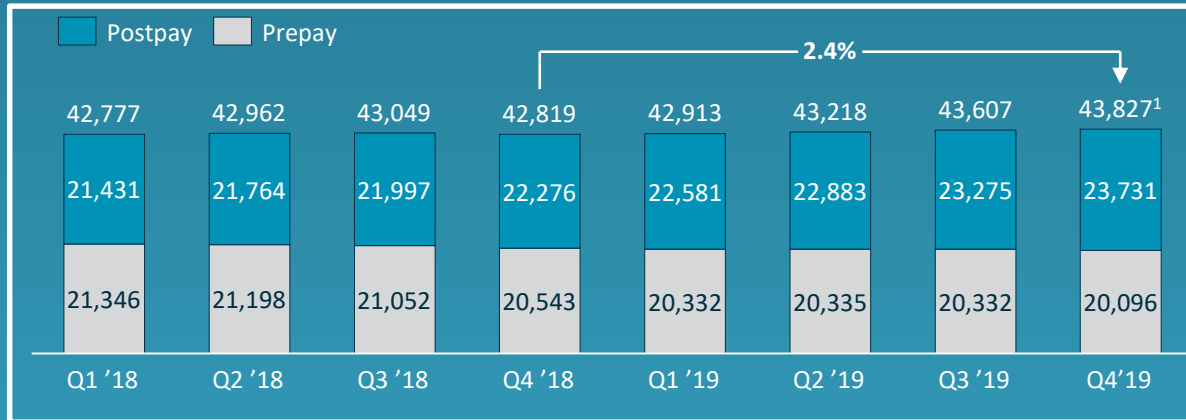
Postpay net adds (in k)



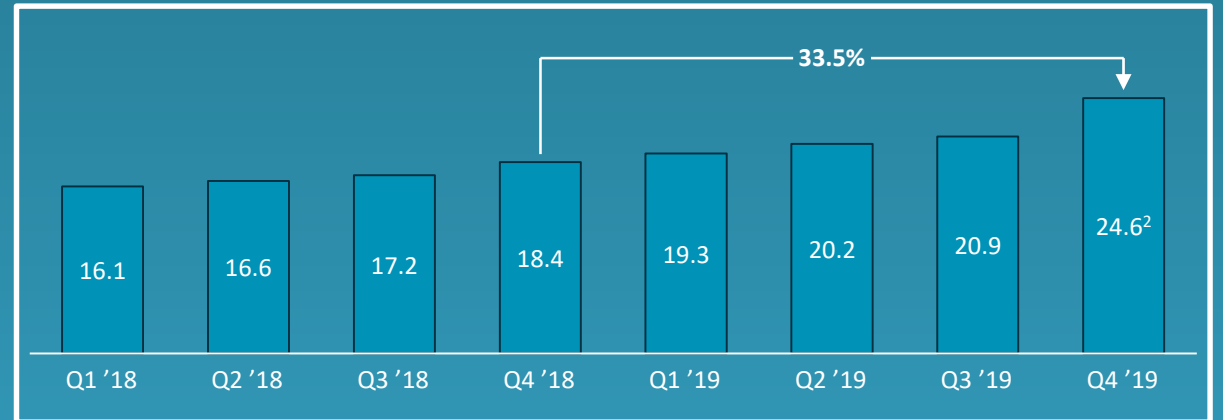
Prepay net adds (in k)



Mobile customer base (in k)



LTE customer base (in m)

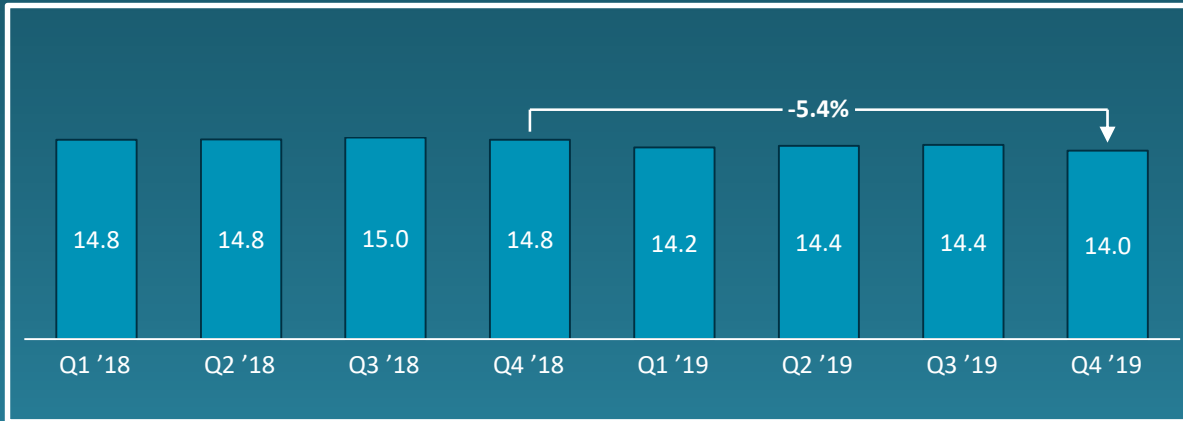


¹ Based on 6 months inactivity accounting, mobile customer base stood at 46.0 million accesses and our total access base reached 50.4 million

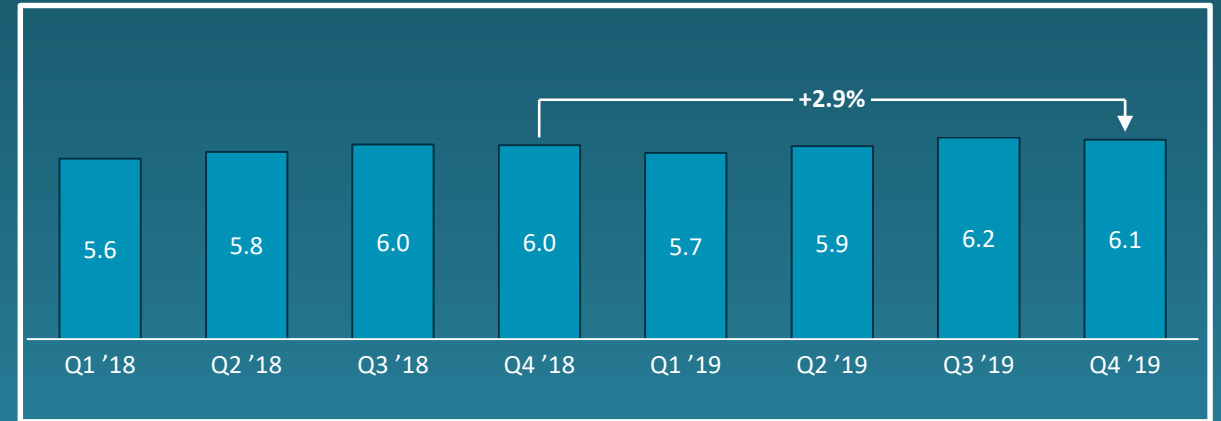
² Includes a technical database adjustment of 3.2 million customer in Q4-2019

Mobile KPIs

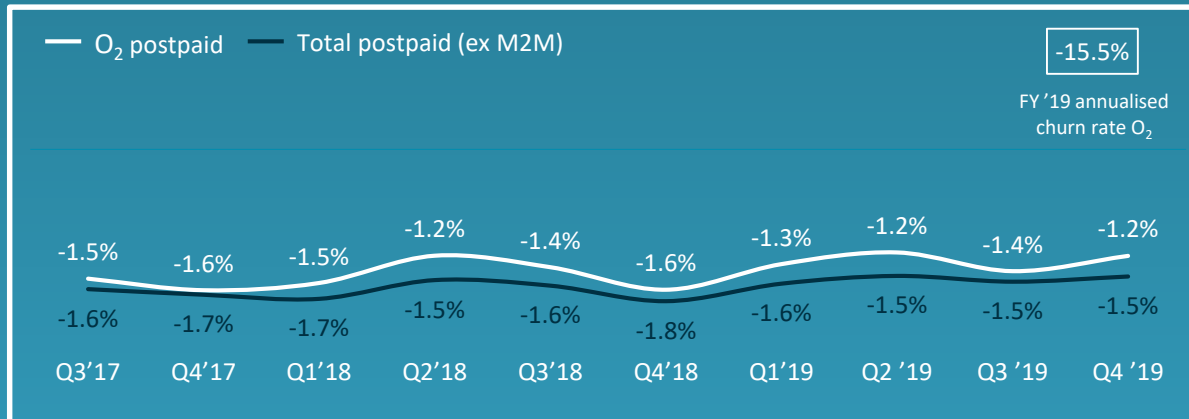
Postpay ARPU (EUR)



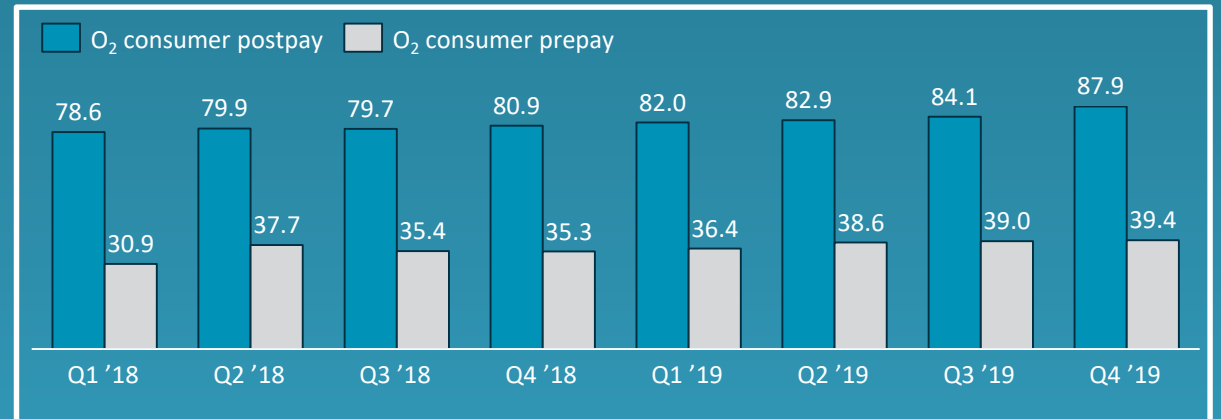
Prepay ARPU (EUR)



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.

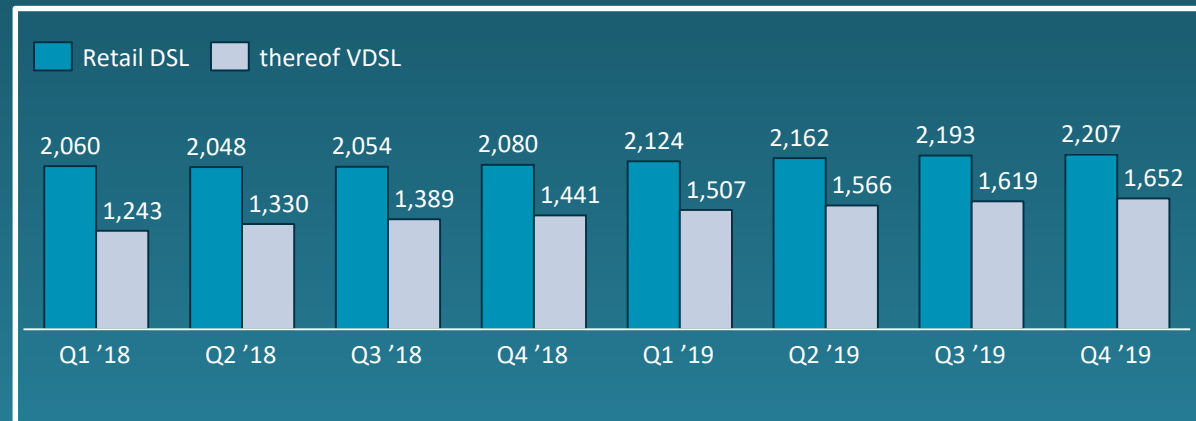
-  **BOOST mit CONNECT** Doppeltes Datenvolumen für bis zu 10 Geräte
-  Bereit für 5G
-  **Voll flexibel:** Auf Wunsch ohne Laufzeit
-  Von 10 auf 20 GB für 29,99 Euro

Fixed KPIs

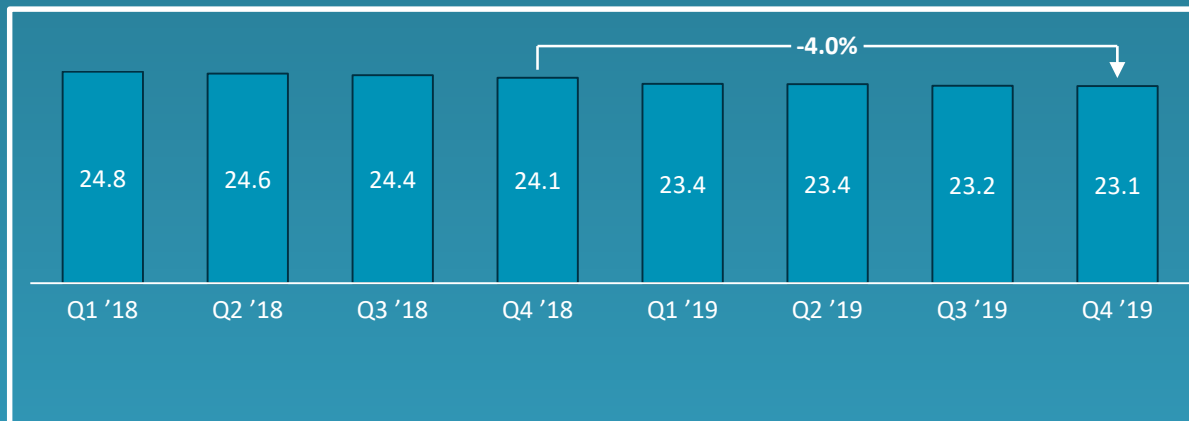
Retail broadband net adds ('000)



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

Telefonica

Deutschland