Telefónica Deutschland

Interim statement Q1 2020

6 May 2020

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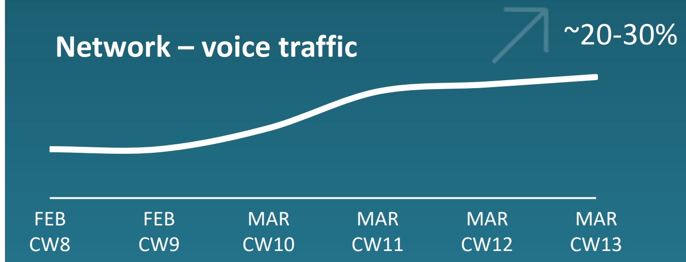
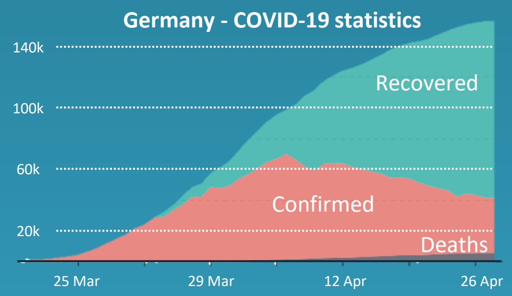
COVID-19 pandemic – focus on supporting our people, customers & wider society

Q1: Limited COVID-19 impact – closely monitoring developments



- Ensuring critical customer connectivity: Network resilient - coping well with step-up in voice and data volumes
- O_2 shops closed in mid-March and gradually re-opened nationwide from late April
- Lower gross add volumes and reduced churn entries during lockdown



Source: sueddeutsche.de

Key COVID-19 initiatives

Providing RKI with mobility analysis for COVID-19 monitoring

Crises management team of BRK temporarily headquartered in O_2 Tower

#WeStayConnected - removal of speed limitations until 31 May

#StayOn - free access to live concerts

O_2 TV - 3 mth free access

Q1 20 - robust start to the year while closely monitoring COVID-19 impacts

Q1 20

GROWTH & PROFITABILITY

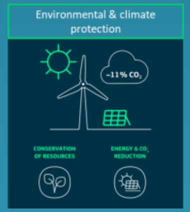
+3.8%	+1.6%	12.1%
REVENUE y-o-y	OIBDA[1] y-o-y	CAPEX/SALES

CUSTOMER EXPERIENCE & DIGITALISATION

+188k	15.7%	+0.4%
Postpaid net adds (ex 39k M2M)	Own brand annualised churn rate stable	Own brand postpaid ARPU y-o-y

FOUNDATION

- Ensuring crucial connectivity for our customers
- Network resilient coping well with COVID-19 driven traffic increase
- Steady progress with LTE rollout while preparing for 5G deployment



[1] Adjusted for exceptional effects. As of 31 March 2020, exceptional effects amounted to EUR -8 million including EUR -9 million of losses from sale of assets related with the sale of spectrum assets in line with the agreed merger remedies as well as EUR 1 million of restructuring income. Exceptional effects as of 31 March 2019, include restructuring expenses amounting to EUR -10 million

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Innovative O_2 Free portfolio extension driving ARPU-up strategy

Strengthening life in the digital world

O_2 *Free* - all customer needs covered

O_2 *Free - speed-tiered unlimited*	O_2 *Free - classic volume-based*
Unlimited usage	3 / 20 / 60 GB Maximum speed
Best-fit speed-tiering	Boost option - doubling data
5G-ready in high value tariffs	5G-ready in high value tariffs

O_2 *Free - high adoption rate*

+0.4% Own brand ARPU increase y-o-y

~15% Early adopters moving into speed-tiered unlimited tariffs - majority taking max. speed

~85% Volume based continue be well received – 20GB most popular and increasing share in large volume bundles

7 GB Continued increase in average O_2 Free data usage

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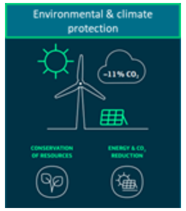
Resilient network – foundation for future growth



Network roll-out strategy

2020 | 2021 | 2022

Boost rural coverage

4G coverage 50 Mbit/s

99%

4G/5G coverage 100 Mbit/s

98%

Accelerate urban capacity

4G capacity

Re-farm 2.1 GHz to 4G

5G roll-out in cities

Top 5 cities | **Top 30** cities

Recent developments

- **Boost rural coverage & accelerate urban capacity**
  - Steady progress with LTE roll-out on track to fulfil **4G coverage obligations** by YE20
  - **5G roll-out into top 5 cities in 2020**
- **Resilient network** with ~63% y-o-y increase in mobile network traffic
- **Opening of 5G campus** in BASECAMP, Berlin
- Realising the **potential from infrastructure sharing**

On track to deliver strategic plan - key priorities for the ‘new 20s’ with one common goal

- 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**
- **Virtual AGM called for 20 May with a proposal of EUR 0.17/share**

Financial update

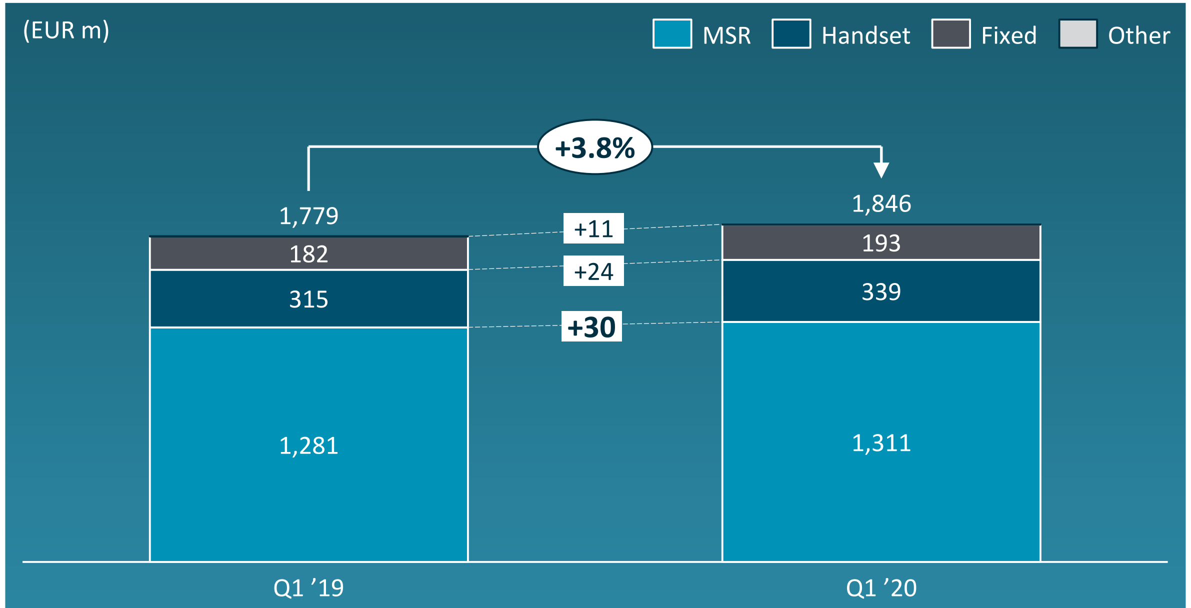
Markus Rolle

CFO

Markus Rolle

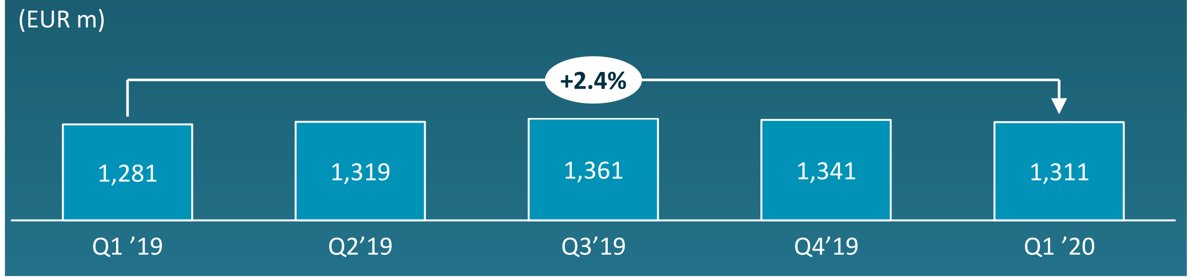
Revenue trends driven by strong MSR performance

MSR performance driving Q1 revenue growth

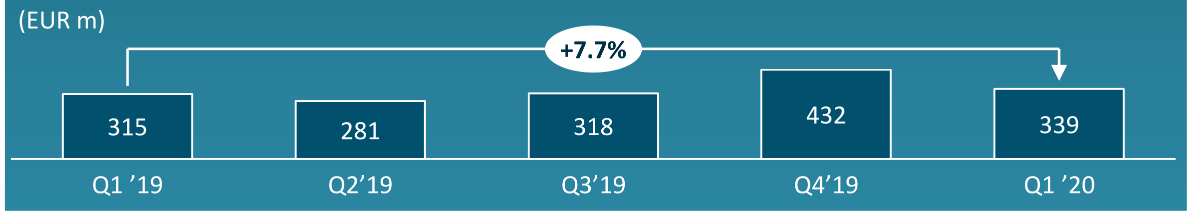


- MSR with continued positive performance of own retail business and further easing of legacy base headwinds while partner business trends remained solid also as a result of the MBA MVNO dynamics
- Handset revenues registered continued strong demand
- Fixed revenues built on its positive trend supported by retail customer base growth on the back of strong VDSL demand

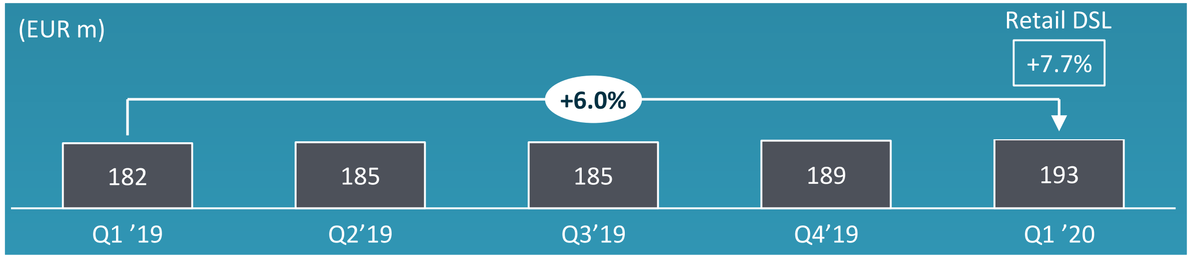
MSR reflects traction of O_2 Free portfolio



Continued demand for high-value devices

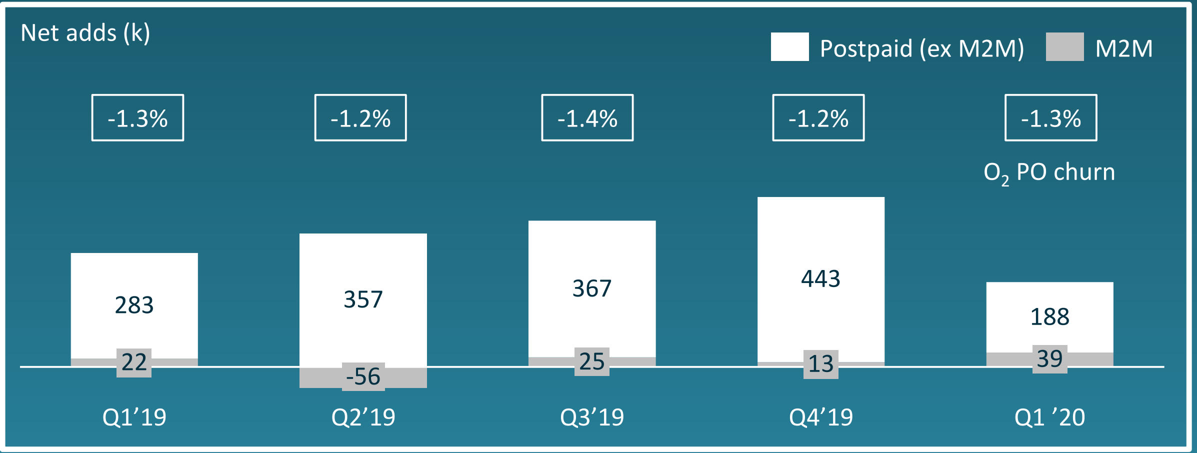


Fixed revenue growth driven by improved retail DSL

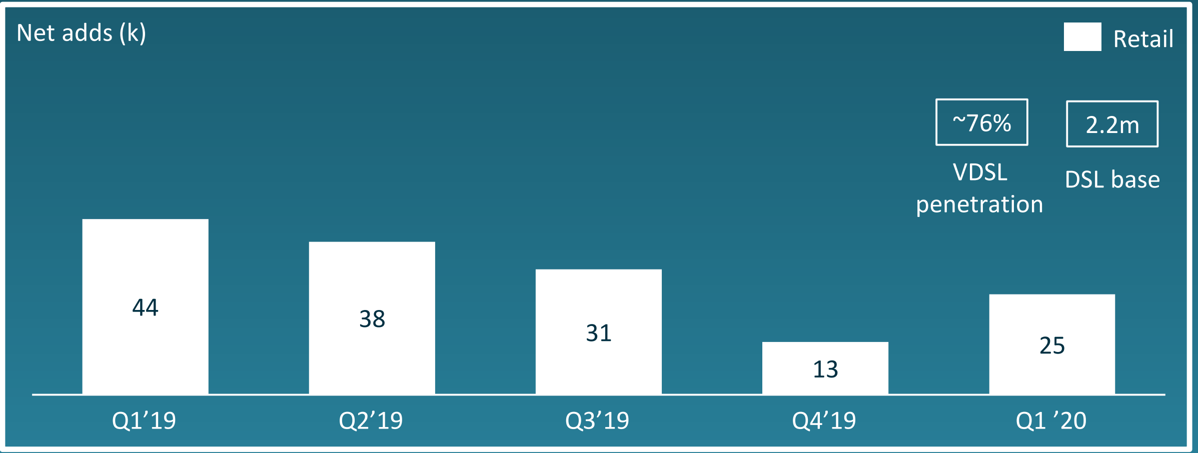


Softer trading due to government imposed COVID-19 lockdown - ARPU continued growth path

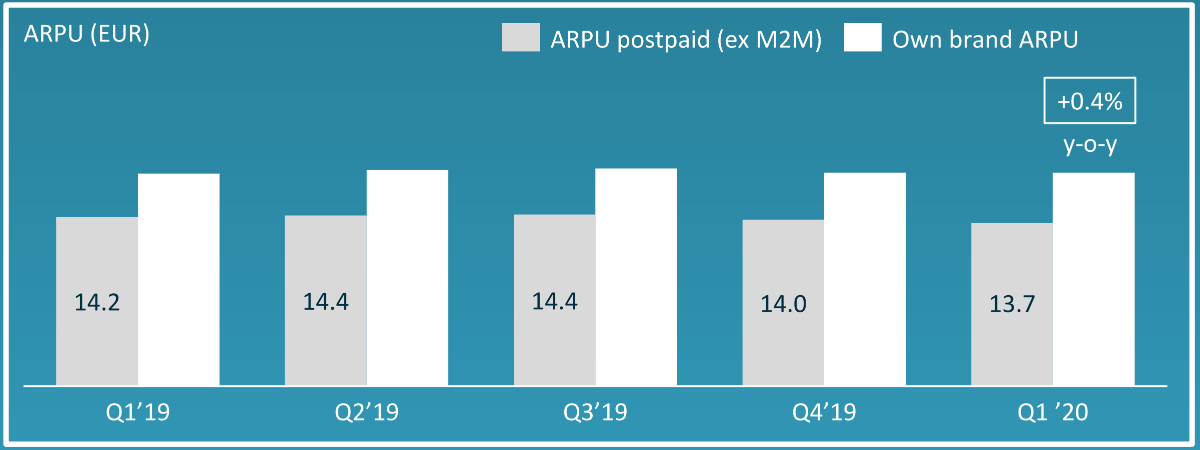
Focus in mobile on profitable growth



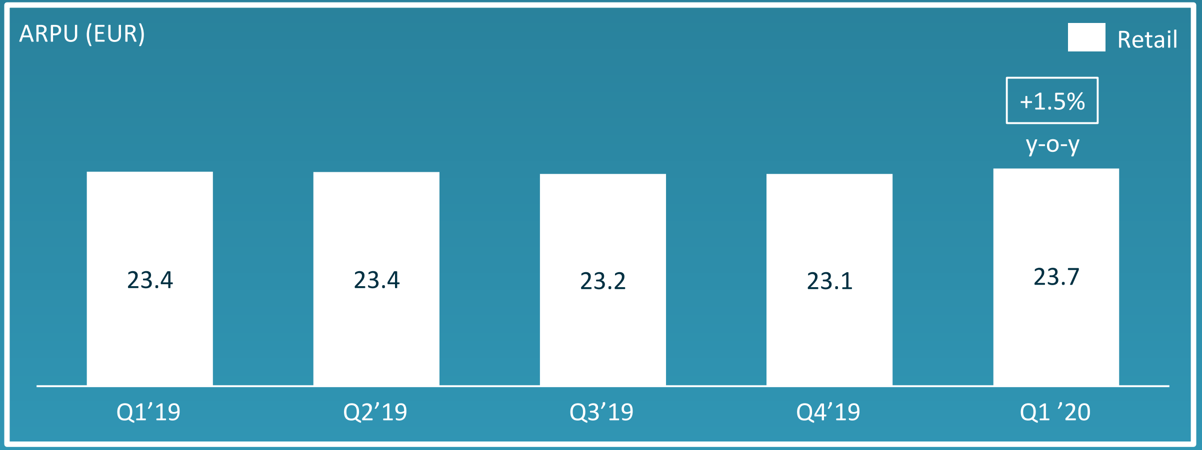
Sustained demand for VDSL drives growth



O_2 Free drives own brand ARPU



Fixed ARPU reflects higher VDSL share



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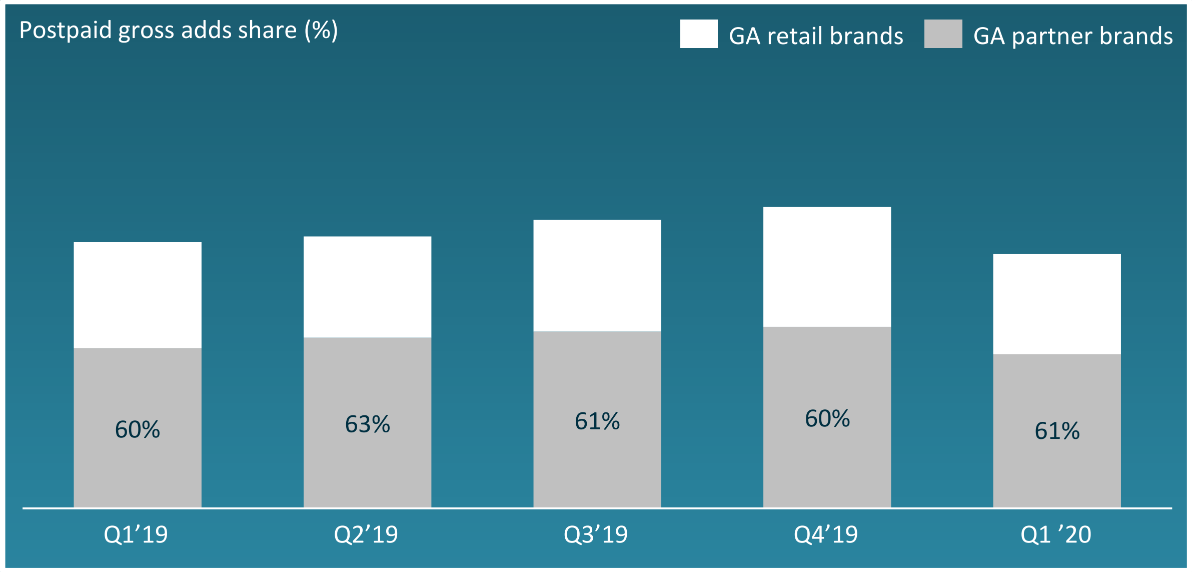
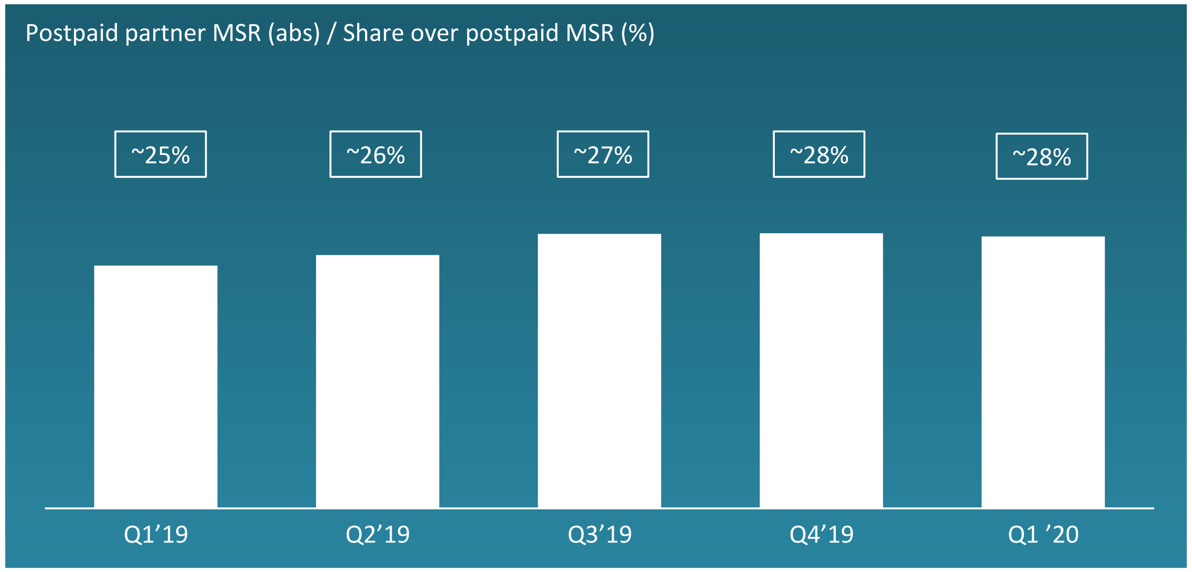
Partner performance in line with expectations

Solid partner trading



Stable partner MSR contribution



- Partner business remained solid with softer trading in Q1
- Solid trading performance by partners with 61% of GAs mainly driven by MBA MVNO dynamics
- Postpaid partner MSR contribution stable at ~28%

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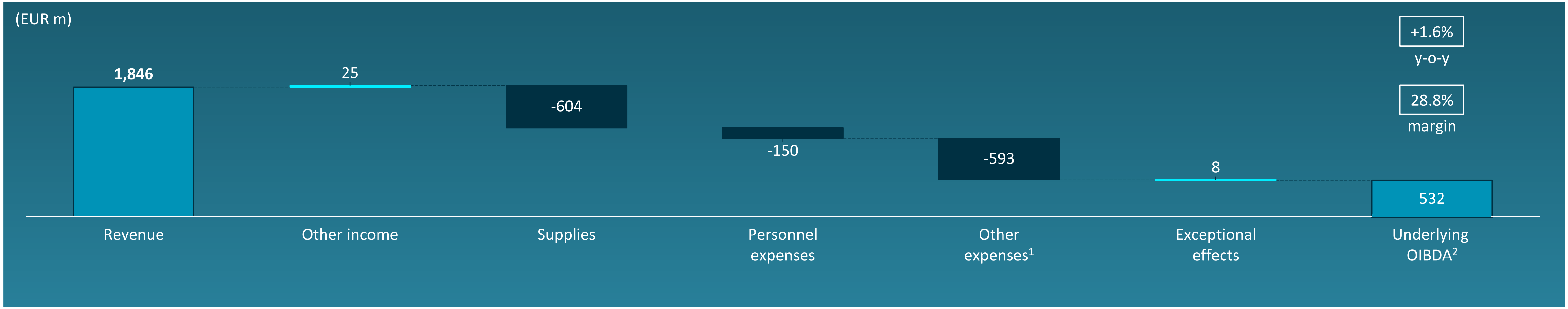
OIBDA reflects revenue flow-through and investment in growth

Evolution of Q1 20 OIBDA



- Underlying[2] OIBDA +1.6% y-o-y in Q1 20 driven by
  - Flow-through from mobile service and fixed revenues
  - Partly offset by higher costs, mainly in supplies

- Underlying[2] OIBDA margin of 28.8%
  - Mainly reflecting strong growth of lower margin handset revenue

[1] Includes exceptional effects, Group fees and impairment losses in accordance with IFRS 9
[2] Adjusted for exceptional effects. As of 31 March 2020, exceptional effects amounted to EUR -8m including EUR -9m of losses from sale of assets related with the sale of spectrum assets in line with the agreed merger remedies as well as EUR 1m of restructuring income

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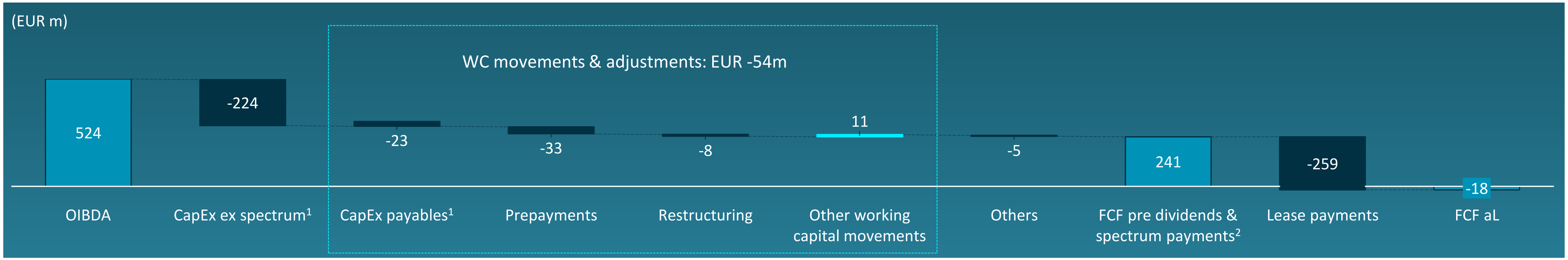
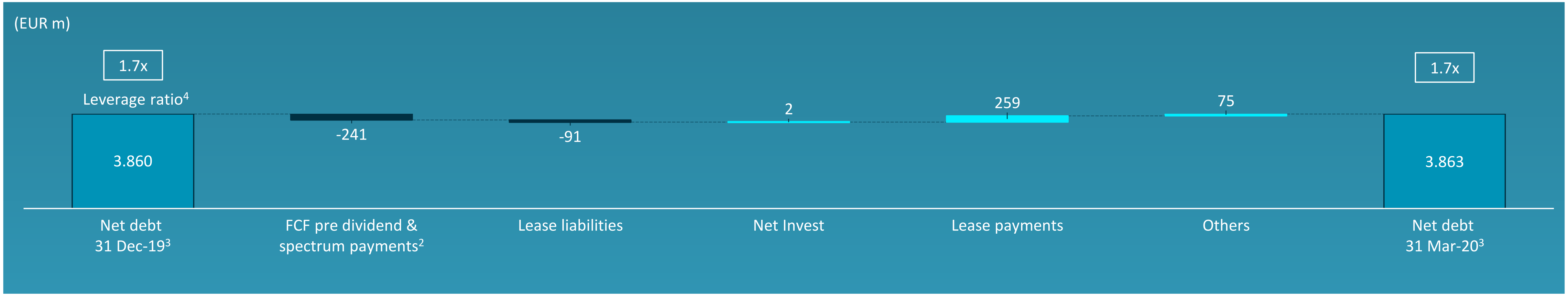
Free Cash Flow dynamics reflect usual seasonal trends

Evolution of Q1 20 FCF



Stable net debt[3] – leverage well in-line with target



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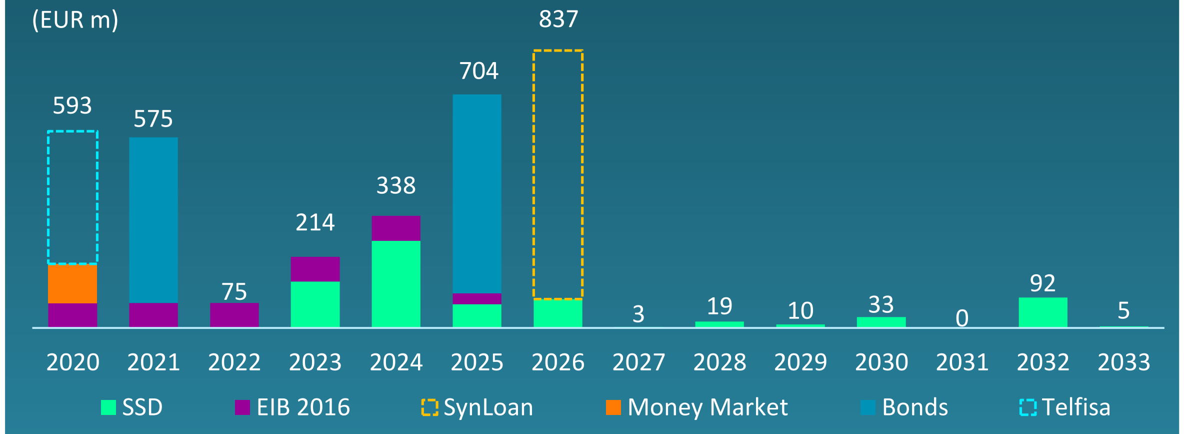
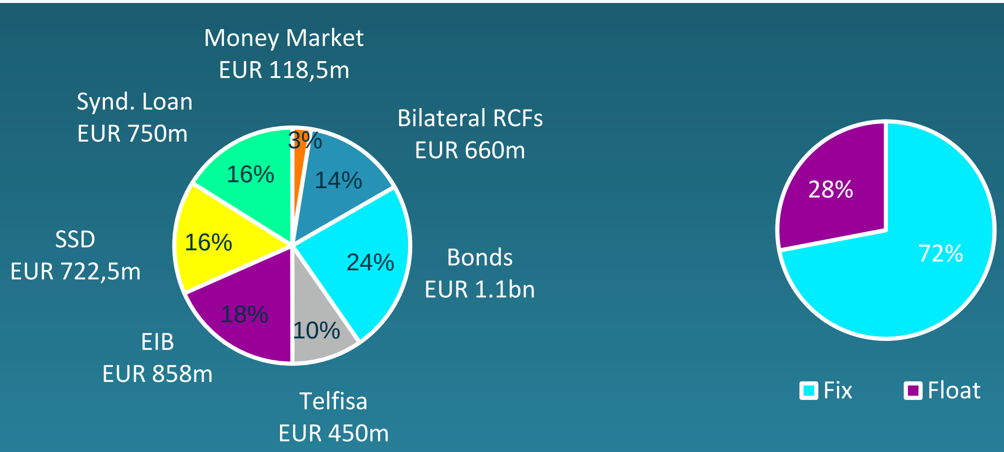
[1] Excluding additions from capitalised right-of-use assets and investments in spectrum
[2] FCF pre dividends & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities
[3] Net financial debt includes current and non-current interest-bearing 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

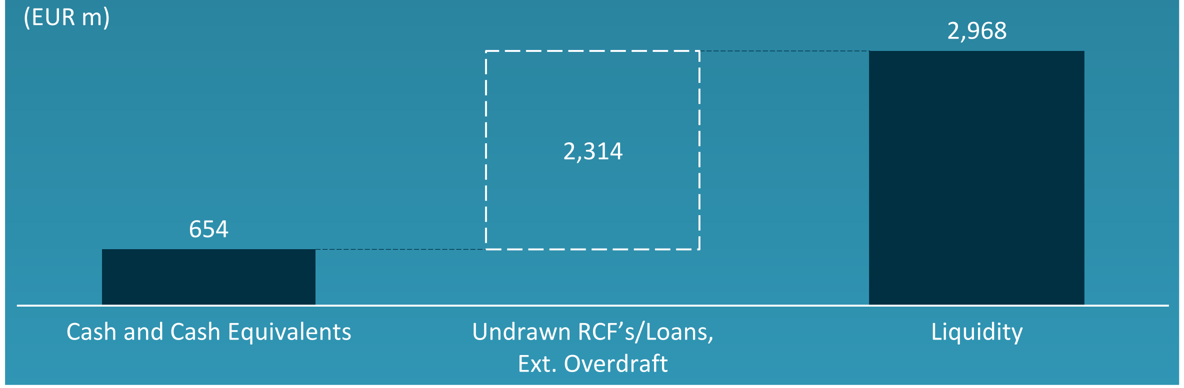
Maturity profile[1]



Financing and interest mix[2]



Liquidity position



Comments

- Ample liquidity of c. EUR 3.0bn provides significant financial stamina. This includes a new 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

[1] Maturity profile excludes bilateral facilities and undrawn EIB loan of EUR 450m
[2] Interest mix excludes undrawn facilities

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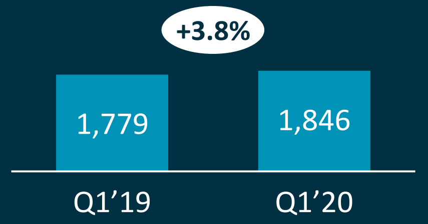
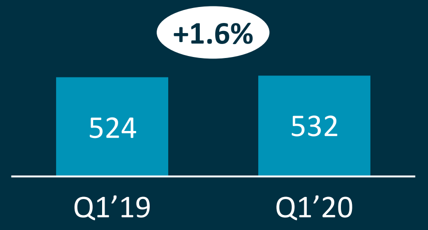
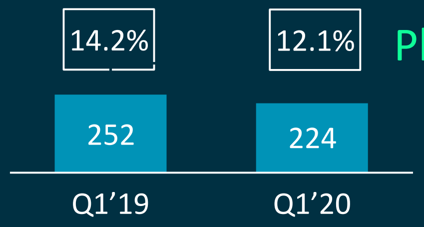
Confirming FY20 outlook & midterm guidance while closely monitoring COVID-19 impacts

	Outlook FY 20	Mid-term guidance 2020/22	Q1 20
Revenue	**Flat to slightly positive** (incl. reg. impacts of ~EUR 20-30m)	**TEF D with cumulated growth of min. 5%**	 ✓
OIBDA[1]	**Broadly stable to slightly positive** (incl. reg. impacts of less than ~EUR 10m)	**Ongoing margin improvement**	 ✓
C/S	**17 - 18%**	**2-year investment programme to generate growth with C/S incl. 5G RAN peaking in 2020/21 between 17-18%; normalising already in 2022**	 Phasing

[1] Adjusted for exceptional effects

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Key take-aways

Robust start to FY20 - confirming FY20 outlook and mid-term guidance while closely monitoring COVID-19 impacts

Revenue with strong MSR performance driven by own retail business generating continued postpaid ARPU growth

OIBDA growth reflects revenue flow-through as well as investment in MSR growth

FCF aL dynamics with usual seasonality; stable **net debt** with **leverage** well in-line with target

Solid **B/S**, strong **liquidity** position and ability to generate **FCF** growth to support **total shareholder returns**

Management Q&A

Any further questions? Please reach out to us!

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