



Telefónica Deutschland

Strategy Update

19 January 2021

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Today's Agenda

Strategy

Markus Haas CEO



Consumer Business

Wolfgang Metze CCO



Technology

Mallik Rao CTIO



Financials

Markus Rolle CFO



Strategy

Consumer Business

Technology

Financials



Strategy Update

Markus Haas

CEO

Telefónica Deutschland with a **successful start into growth era**

Build 1998 - 2008



Business Set-up

Introduction of O₂ brand
Start of 4th mobile network

Scale 2009 – 2019



Acquisition & Integration HanseNet & E-Plus

Established Integrated Player

Grow 2020 & beyond



Mobile Growth

gaining rural share & reinforcement in urban

Smart Bundling (incl. FMS)
capturing value & reducing churn

Attack in B2B
targeting fair SME share

Market entrance



Integration

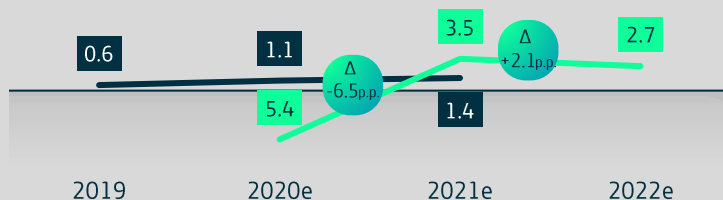


**Benefitting from
scale & transformation**

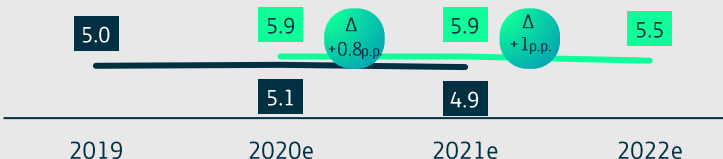
2021 economic recovery expected in Germany

Hard lockdown while positive vaccination outlook

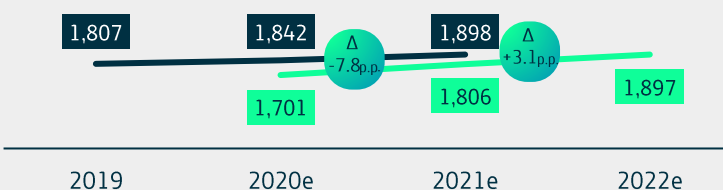
GDP Growth¹ [%]



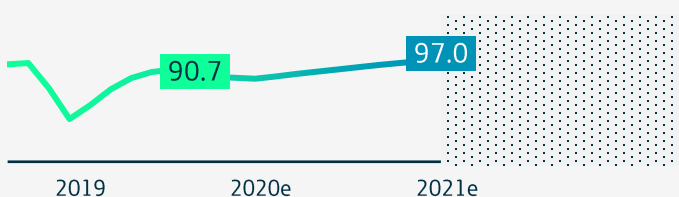
Unemployment Rate¹ [%]



Consumer Spend¹ [EUR bn]



Business Climate Index² [2015 = 100, seasonally adj.]



● Before Covid-19 ● After Covid-19

Resilient business model

operational trends intact

Revenue YoY

+1.5%
+2.7%⁴
9M 20

OIBDA³ YoY

-1.0% **+0.8%**
+1.8%⁴ +4.8%⁴
9M 20 Q3 20

Capex/Sales

13.2%
9M 20

Hard lockdown: shop closures & reduced customer mobility

- Business model is proving resilient
- Mitigating trading impact through optimisation of channel-mix/shifts mainly leveraging online
- Restricted customer mobility likely to result in fewer prepaid top-ups
- Decreasing customers' willingness to switch
- Expecting swift recovery of KPIs with easing of hard lockdown restrictions,
- Limited intl'l roaming revenues likely to continue to drag while easier comps starting with Q2



ESG strategy fully integrated in business strategy

Investment programme also supports accelerated carbon neutral target



Renewable Energy

100% green electricity



5G Energy-efficiency

5G is using 90% less energy per byte compared to 4G



Data Centres

Improved power efficiency



Smart Meters

Optimized energy consumption with help of digital meters



Workplace

Workplace sharing and virtual work to improve energy efficiency and reduce CO² emissions

Ambitious ESG targets

1.5°C aligned climate target

according to Science-Based-Target initiative for scope 1-3

Carbon neutral by 2025

including our scope-1&2 and travel emissions

Reduction of unavoidable emissions by more than 90% by 2030

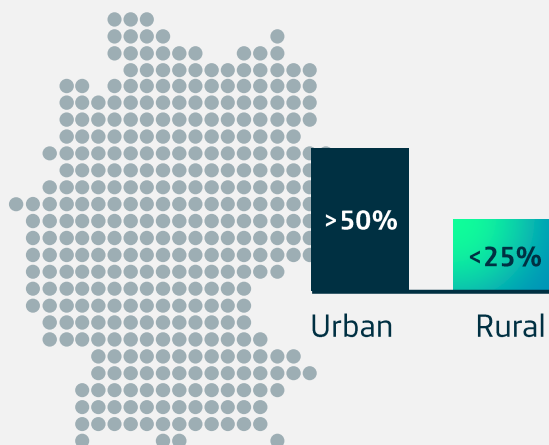
emitted from our network, facilities and vehicle fleet,
relative to 2019



Successfully equalised network quality

Key enabler to capture growth opportunities

Opportunity Mobile customer distribution



5G
4G

Accelerated 4G/5G Roll-out Equalised network quality

Completed 4G coverage

99% population coverage

Launched 5G in Top 15 cities

targeting 5G coverage of >30% by 2021,
~50% by 2022 & full coverage by 2025

Boost Revenues Outperform the market



Mobile Growth

gaining rural share & reinforcement in urban



Smart Bundling (incl. FMS)

capturing value & reducing churn



Attack in B2B

targeting fair SME share

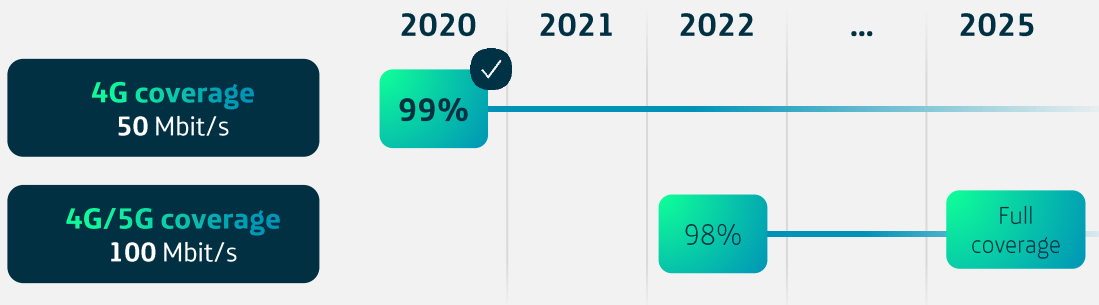
We democratise access to the **sustainable digital future to create a better everyday life**



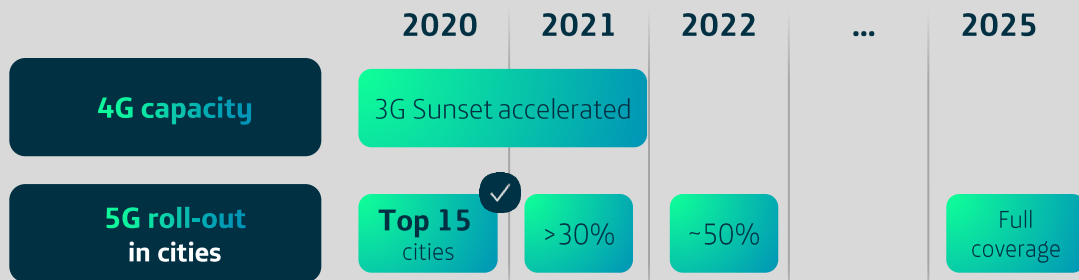
Achieved on par mobile network quality

Accelerated 4G/5G roll-out

Boost Rural Coverage

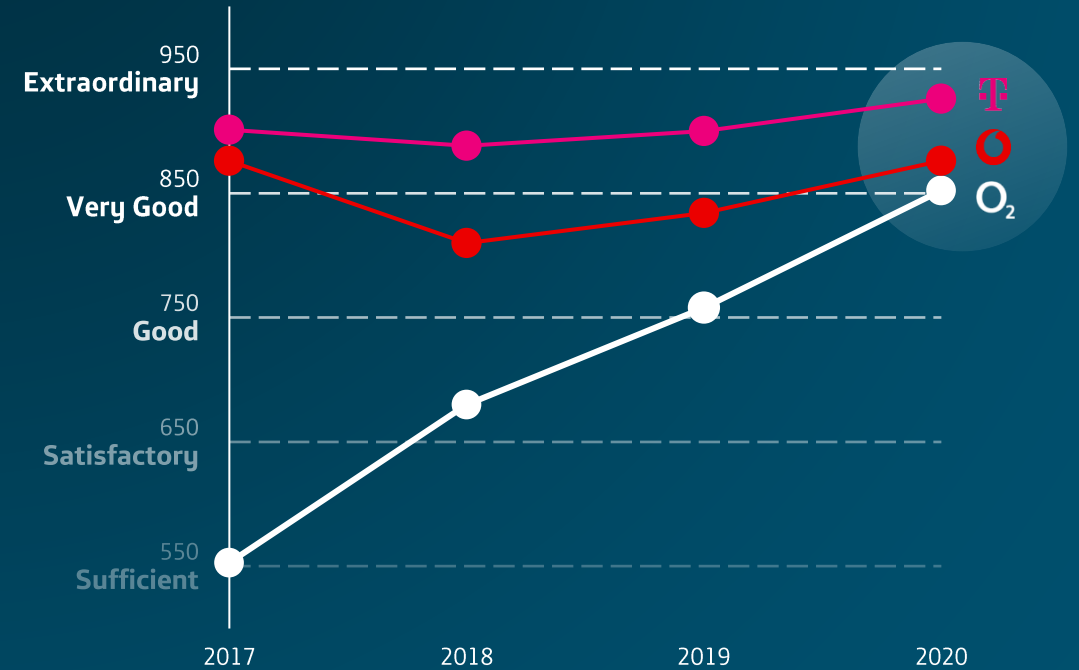


Accelerate Urban Capacity



Equalisation of Network Quality

Evolution of Connect Test results

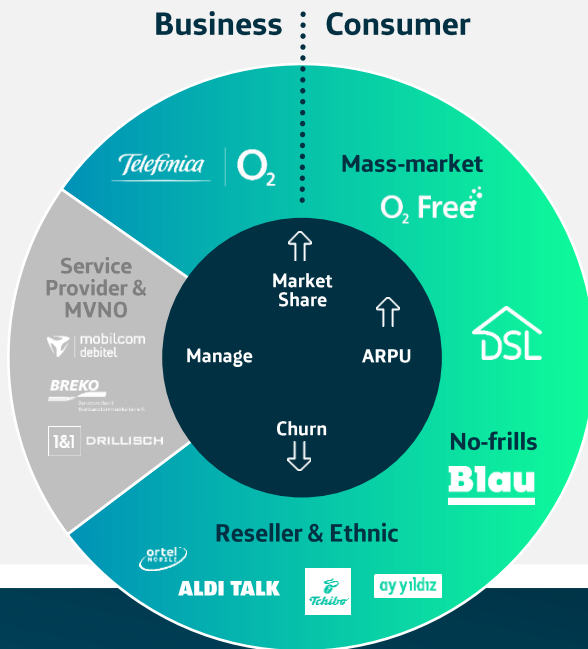




Mobile Growth

Targeted customer focus drives growth momentum

Sustained focus on own customers base



Own customer base
~80%

9M 20



Strong trading momentum

608k post-paid net adds¹



Churn at historic lows

Own brand post-paid churn 13.5%



Improved customer perception

>20p.p. NPS score improved over last 3yrs



Clear growth trajectory

Revenue +1.5% YoY



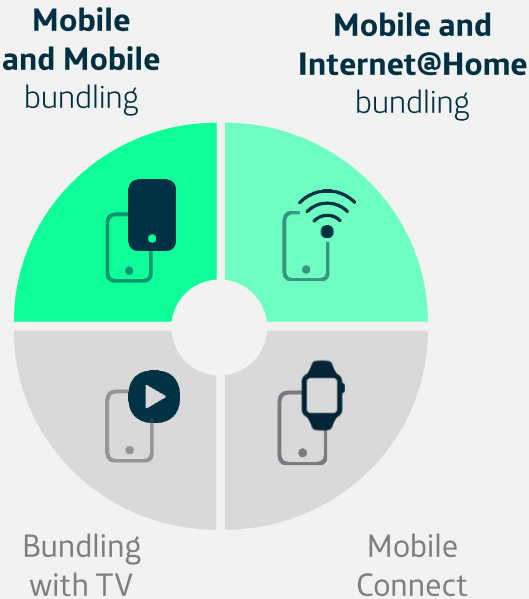
Improved customer mix drives fixed growth

Revenue +5.6% YoY

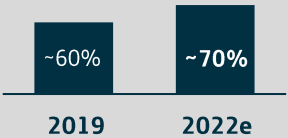


Smart Bundling

Enhanced smart bundling with most extensive Internet@Home footprint



Mobile customers
>1 O₂ product



Internet@Home portfolio covering all technologies



Enhancing profitability
FMS



Extended wholesale contract
FTTH & VDSL



Signed contract with UGG
FTTH



Enriched TAA Portfolio
CABLE



Attack in B2B

Targeting fair SME share & leveraging recent successes

B2B Revenue & Market Share

Go-2-Market Strategy



Enhanced **brand awareness**



Award-winning **customer service**



Profitable **customer growth**

Radical Commercial Shift



Agile hunting approach



Step-change in **customer loyalty**



Direct **online offer**

Core Portfolio Focus



Streamlined tariff portfolio
incl. unlimited 5G



SD WAN and p5G



Personalised service

Digitalisation Opportunity leveraging TEF Tech

German Market in 2022e

German Market
CAGR 2019-22e

Cloud¹
EUR 12.7bn

+14%

IoT²
EUR 1.8bn

+30%

Security³
EUR 6.5bn

+9%

Strong Business Momentum

Mobile

- Amazon Deutschland (M2M)
- Prosegur
- Tchibo

SD WAN

- ALDI - largest SD WAN project in Europe with >8k PoS in 14 countries

p5G

- Daimler - Factory 56 with state-of-the-art network solutions

Re-investing & returning ~15% of net proceeds from infra deal

Recap infra deal

Perimeter

~10k rooftop sites; up to 80 tower sites

Transfer progress

~60% of locations transferred Sept-20,
~40% in summer-21

Proceeds



BTS programme

2.4k built-to-suit sites over 4 years

Shareholder remuneration

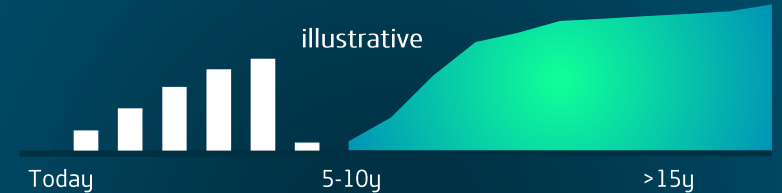
Dividend of EURc 18/share for FY20

and as a floor during 2021-23

EUR 100m FibreCo investment

Capital contribution

Dividends



Phased investments and attractive long-term
financial returns

Carrier neutral wholesale operator
benefitting from TEF Group FTTH expertise

Attractive FTTH market opportunity
for TEF D as investor and client

EC approval received & construction starting in 2021

Short- to mid-term

Long-term



Summary – focusing on key strategic priorities to **accelerate growth trajectory**



Mobile Growth

gaining rural share & reinforcement in urban



Smart Bundling (incl. FMS)

capturing value & reducing churn



Attack in B2B

Targeting fair SME share

Mid-term Guidance

2020 - 2022



Cumulated revenue growth $\geq 5\%$



Ongoing margin improvement¹



Investment programme

C/S of <17-18% in 2020,
peaking b/w 17-18% in 2021,
normalising towards YE 2022



Climate neutral by 2025

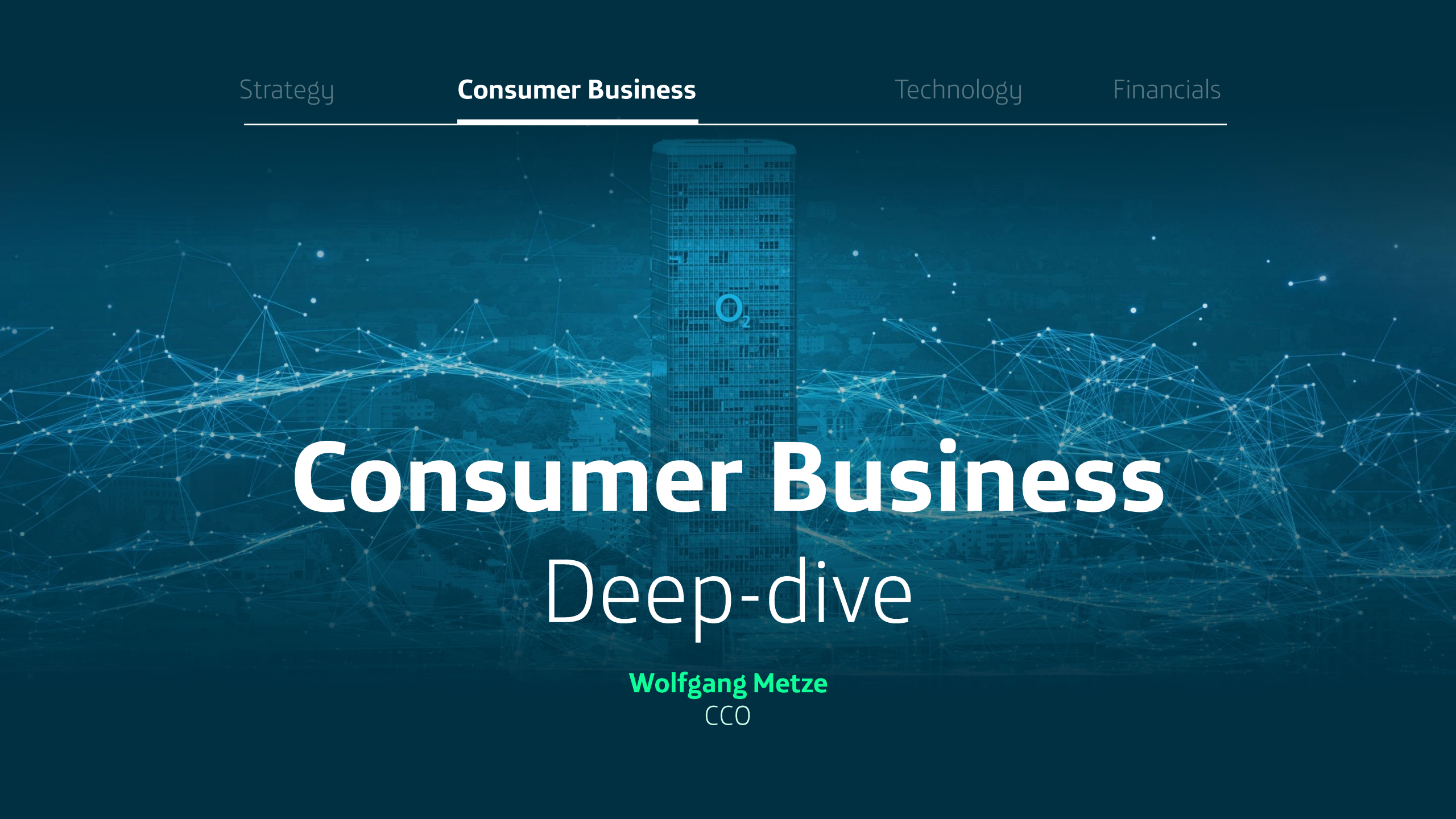
Commitment to deliver attractive shareholder remuneration

Strategy

Consumer Business

Technology

Financials



Consumer Business

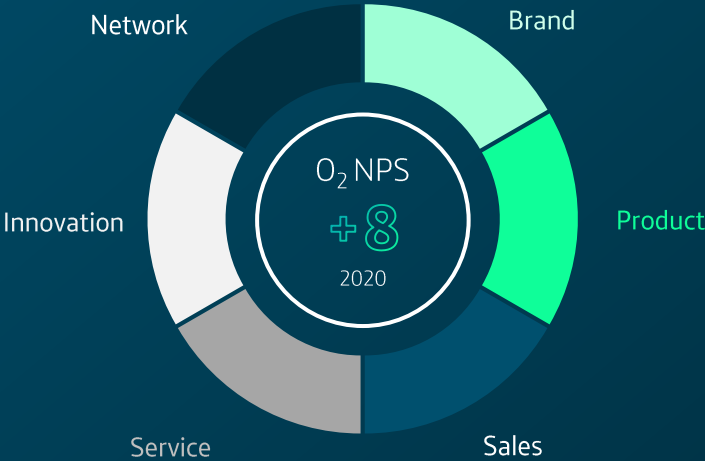
Deep-dive

Wolfgang Metze
CCO

Customer fundamental for financial success and steering of aligned consumer business

Net Promotor Score¹

customer's satisfaction
core of our actions



Digital Transformation



Sustainably grow business, **digitalise & transform across the whole company** with the customer in mind

Employees²

Employees building foundation of successful consumer business

2x

since 2018

eNPS

Revenue Growth

Leveraging existing customer base and broader society
shift to sustainable digitalisation



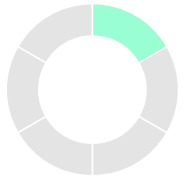
Increased customer satisfaction
higher retention rates & reduction of churn



Increase willingness to pay
through increased household focus



Improve tariff mix
higher ARPU inflow due to increase of mid-tier tariffs



Brand

Increased important brand KPIs with high efficiency

Structure Customised and made-to-measure



New agile agency model

With less sub-contractors and reduced agency count towards holistic full-funnel approach



Made-to-measure

Customised operating model allows maximising differentiation, meaningful and salient communication that is made-to-measure

Efficiency Media Purchasing



"Compared to other cross-industry advertisers with the same gross media volume, quality and choice of publisher, **for the last few years O₂ has been spending 15% less for the same output.**"

EBIQUITY

One of the world's leading expert consultancy

Effectivity Brand KPIs¹ △ 2017 vs. 2020

+9.9%

Relevant Set

+20.5%

1st Choice

+48.5%

Unique Brand



**Winner
effie Award
2020**



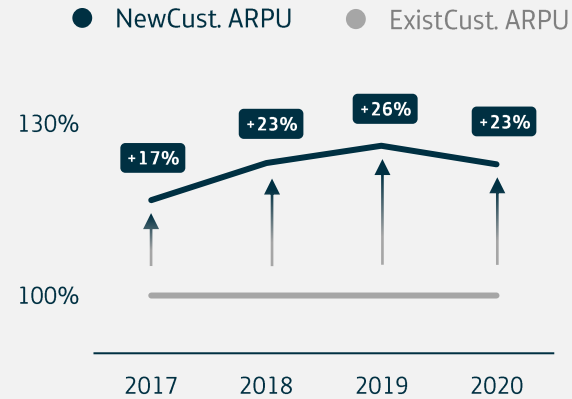
Product

Drive consumer business with clear **revenue-up strategy**



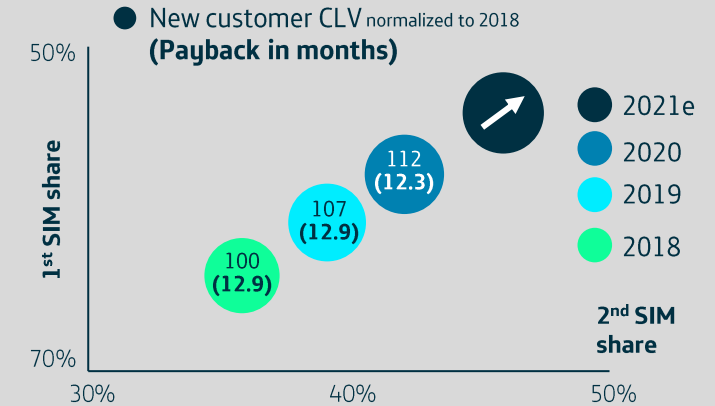
O₂ post-paid new customer ARPU surplus over existing customers

Portfolio logic to maintain higher new customer ARPU >20% compared to existing customers



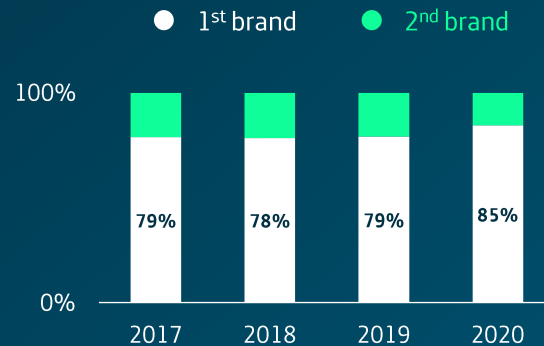
1st and 2nd SIM bundling in %

While **increasing 2nd SIM bundling share** we improve overall O₂ PO CLV at stable ARPU levels



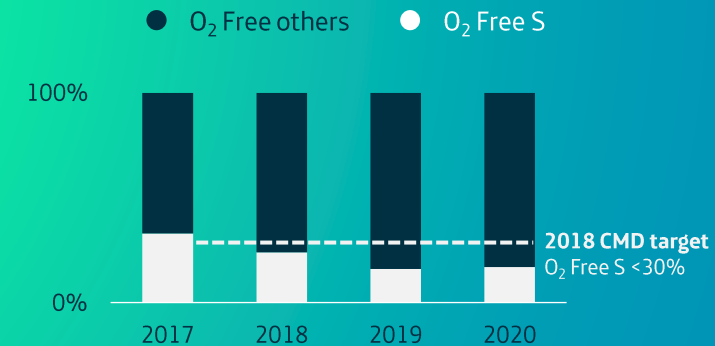
1st brand share² post-paid in % vs. 2nd brand

Multibrand strategy with focus on 1st brand regarding higher value (x- & upsell), leveraging speed and 5G network capabilities



Share of S-tariffs within O₂ Free portfolio² in % of all O₂ Free tariffs

Portfolio strategy manages to keep O₂ Free S share far below 30%



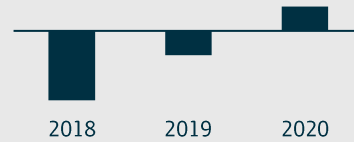


Sales

O₂ performance follows clear upwards trend driven by improved churn

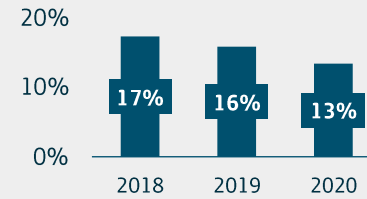


Net Adds



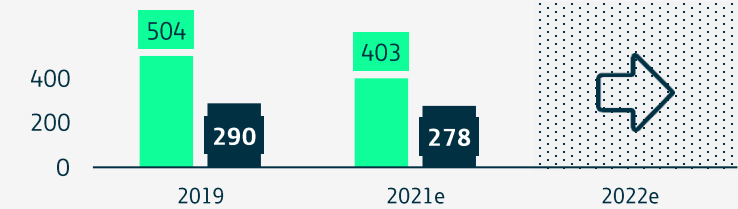
Churn rate

in % of total customer base



Retail footprint¹ in

● Market leader ● O₂



Strategic focus 2021



Increase
Net Adds



Leverage
retention



Increase
Online share

Measures



Online & App

Improved usability to drive app penetration, while completely re-inventing o2online.de to increase online sales, with offline as a benchmark



Cross- / Upselling

Leverage footfall/traffic



Omnichannel with focus on Direct Share incl. franchise

Clearly differentiated multi brand portfolios delivered via omni-channel approach



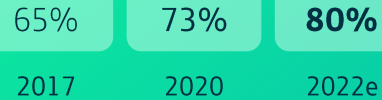
Service

Maintain **high quality service while increasing productivity**

Drive Digitalisation



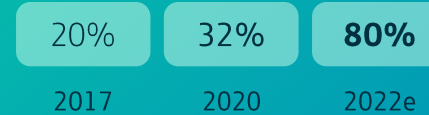
eCare share



Robots in use



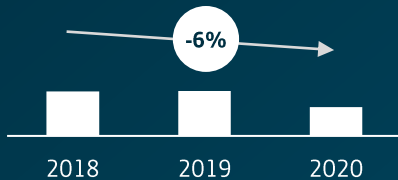
O₂ App Penetration



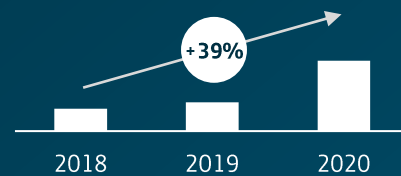
Increase Productivity

Client Management Cost

Normalised



Sales in Service



We turned a cost centre into a profit centre
without sacrificing customer satisfaction

Maintain High Quality



Always the best solution for our customers

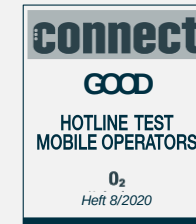
Freedom of choice between personal & digital



Further increase FSI¹

FIT Satisfactory Index (Scale 1-10)

7.3 2018 | **8.3** 2020 | ↗ 2022e





Innovation

Innovations deliver **best-in-class CEX** & **enhance smart bundling**

Customer insights

“Not having **to worry about my mobile data** usage is important”

„Regardless of technology, **fast and reliable Internet @ Home** is key”

„Freedom of choice regarding **content and digital services** is critical”

Innovative O₂ offers



Unlimited data with speed tiering



Technology agnostic Internet@Home



Freedom of choice among digital offers

Commercial and strategic benefits

Higher ARPU

for Unlimited vs. volume based tariffs

3x higher O₂ TV attach rate
for Unlimited customers

Higher CEX

via best technology fit

Improved profitability
via FMS

Increased household ARPU
via smart bundling

Profitable from day one
via partner based approach



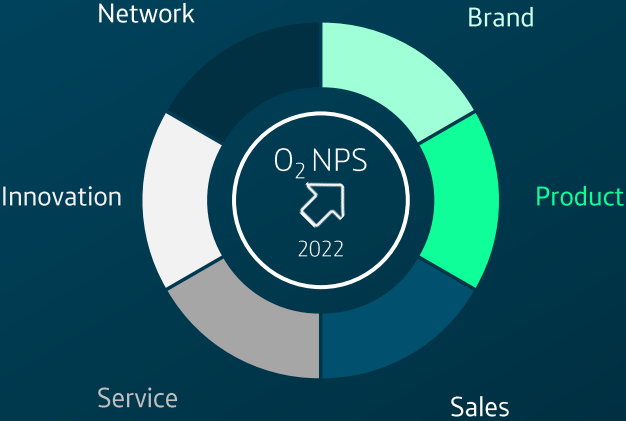
Improved CEX



Higher bundling share –
increasing loyalty and household ARPU

Summary – drive consumer business growth with freedom of choice & CEX

We continue implement customer feedback and improve our products and services along the NPS drivers, while already reaping the first results of our work

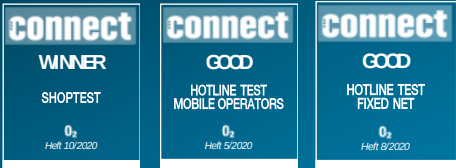


Brand



We continue to increase important brand KPIs with highest efficiency

Sales & Service



We maintain our high quality of service, while increasing digitalization across both Sales and Service

Product



We continue our portfolio strategy to drive ARPU-up (i.e. by increasing M-tariff share across our O₂ Free footprint)

Innovation



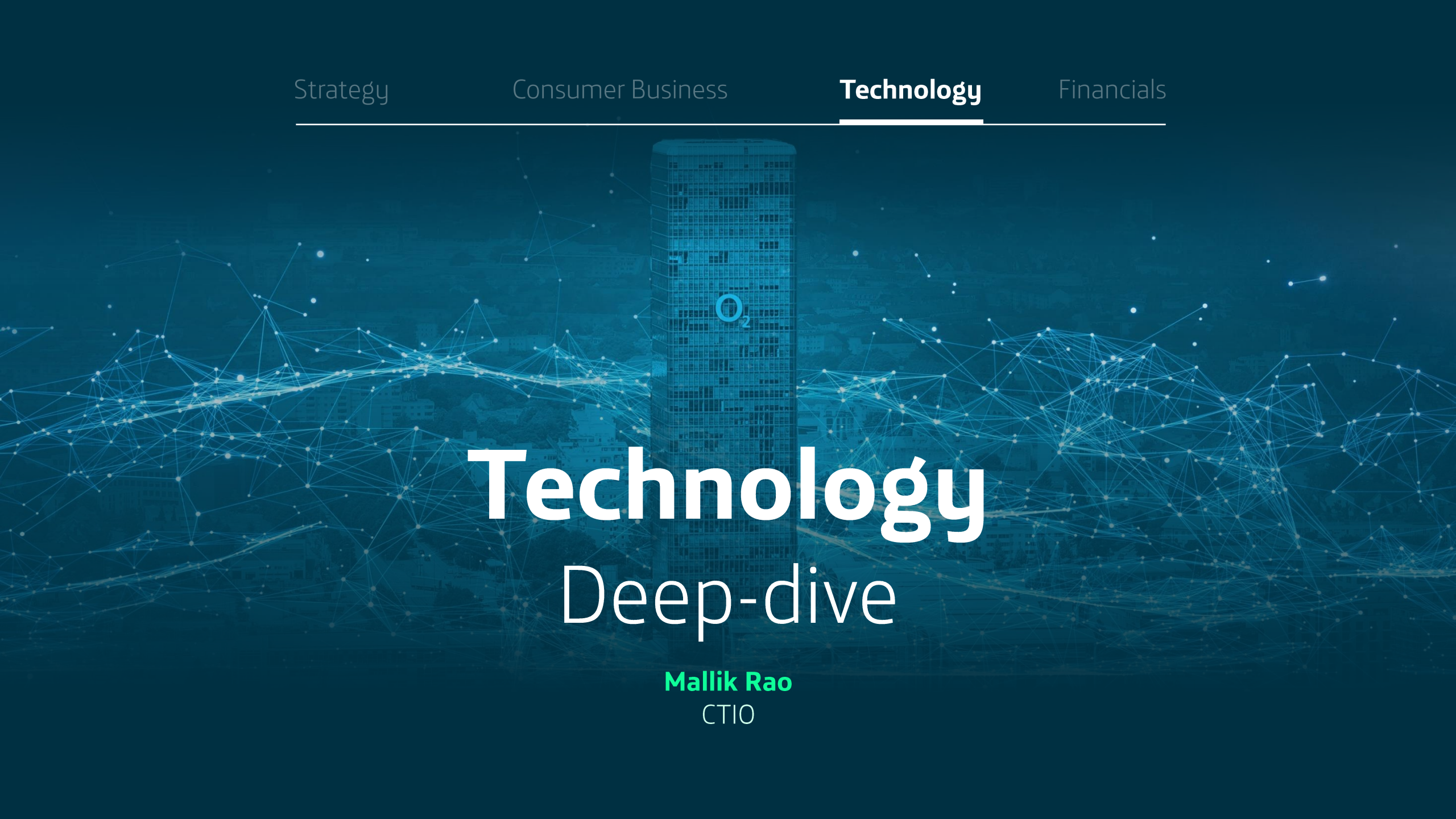
We continue to deliver best-in-class customer experience

Strategy

Consumer Business

Technology

Financials



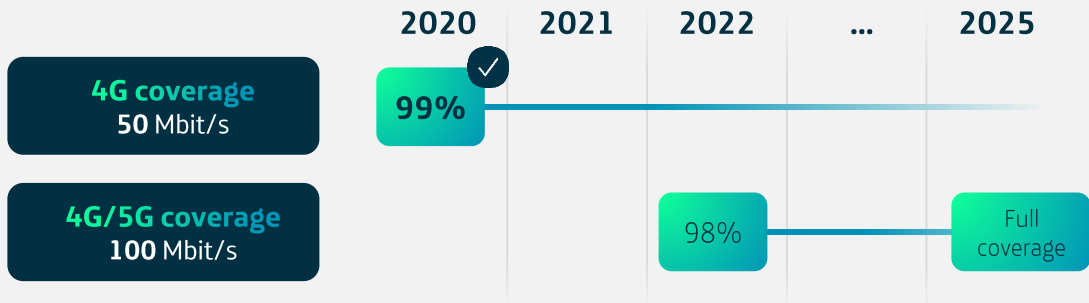
Technology

Deep-dive

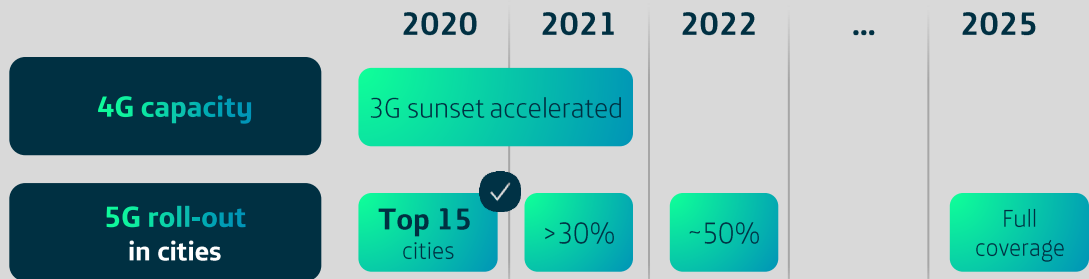
Mallik Rao
CTIO

Delivered on 2020 targets – equalised network quality

Boost Rural Coverage



Accelerate Urban Capacity



Strong progress in 2020

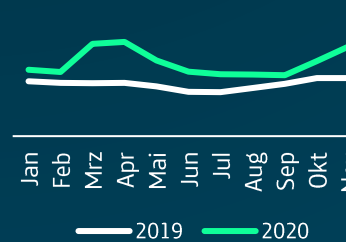
Deployment
>10k 4G sites
(coverage & capacity)

7m additional customers
reached with 4G

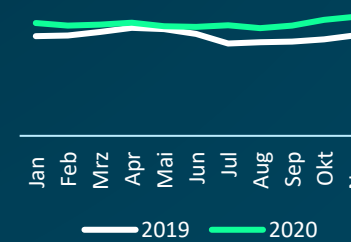
High network quality
for excellent CEX



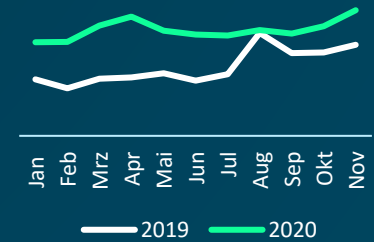
Mobile Voice Experience (Minutes per drop)



Video Performance (YouTube in HD)



Broadband Share (Data throughput)



Technology acceleration with 5G & multi-access overlay network

More customer use cases and future business growth

5G New Radio (NR) & 5G Stand Alone (SA)
as a platform

Dynamic Spectrum Sharing (DSS)
complimentary

Enable Multi-Access Overlay Services
e.g. SD WAN

4G Capacity
spectrum re-farming

Accelerating growth through strong B2B customer use cases

5G | SD WAN

Factory 56



ALDI



**~90% of network capex & opex spend on
future proof technologies**

Additional network sharing creates further cost optimisation opportunities

White-spot sharing

Trilateral sharing agreement

TEF D – Deutsche Telekom – Vodafone

Passive sharing (~6,000 sites)

incl. transport on reciprocal basis

TEF D's share of sites to be built by Telxius

as part of the BTS agreement

Target: Fulfil industry obligation due 2022 and 2024

covering 500 white spots due 2022

Potential inclusion of active sharing

creates additional savings for all MNOs



Grey-spot sharing

Bilateral sharing agreement

TEF D – Deutsche Telekom / TEF D – Vodafone

Active sharing (several hundred sites each)

based on Multi-Operator-Core-Network (MOCN)

800 Mhz, 4G, w/o spectrum pooling

incl. transport on reciprocal basis

Target: Closing coverage gaps

focusing on rural areas

Open for further co-operations

creates additional savings for MNOs

Self-funded transformation increasing flexibility & enabling tech-agnostic CEX



Customers will switch from purchasing individual SIM cards or plain broadband to **digital service packs for the household**

- **Self-funded transformation** achieving **20-30% run-rate savings** on IT costs
- **T2M is improved by >50%** average
- **Revenue growth** by faster **3rd party products integration**

- **Consolidation & simplification** of current stacks
- **Cloud native, microservices** architecture & API-fication
- **Modernised application landscape** with market leading SaaS solutions
- **Business simplification** and **standardisation**

➔ **Enabling technology agnostic digital services to customers**



Cloudification and oRAN critical elements of future network structure

Leverage Public Cloud

to go beyond connectivity, entering partnership eco system

Global strategic partnership

with AWS, Azure & Google Cloud

5G SA Core is already live

in partnership with Ericsson & AWS on Outpost for enterprise use case

Defined 3-year roadmap

to move core of Telecom application to cloud,
in compliance to data privacy & sovereignty

Cloud technology will enable

Significant time to market acceleration | Access to innovations with application developer community | Disruptive cost structures with on demand consumption



Open RAN based architecture

for simplification and supply chain diversity

2020: Pilot in Landsberg carrying commercial traffic

Opportunity & learnings

Decoupling hardware and software, cost transparency & significant operational efficiency

Multiband radios not yet mature, however outlook is promising

New skills needed in managing eco-system of tech providers & system integrators

Fibre backhaul

Future plans

Small cell test case planned in Munich

Solve the challenges & scale deployment in 2021+



Summary – focus on **future network evolution**

Equalized network quality



**'Very Good' rating
on par with
competitors**

proving high quality
network with excellent CEX

Accelerate 5G roll-out &
enterprise use cases



**Sharing opportunities
to crystallise savings potential**

Driving value enhancing initiatives



IT transformation

for an enhanced customer experience



oRAN

offers simplification & supply chain diversity



Cloud

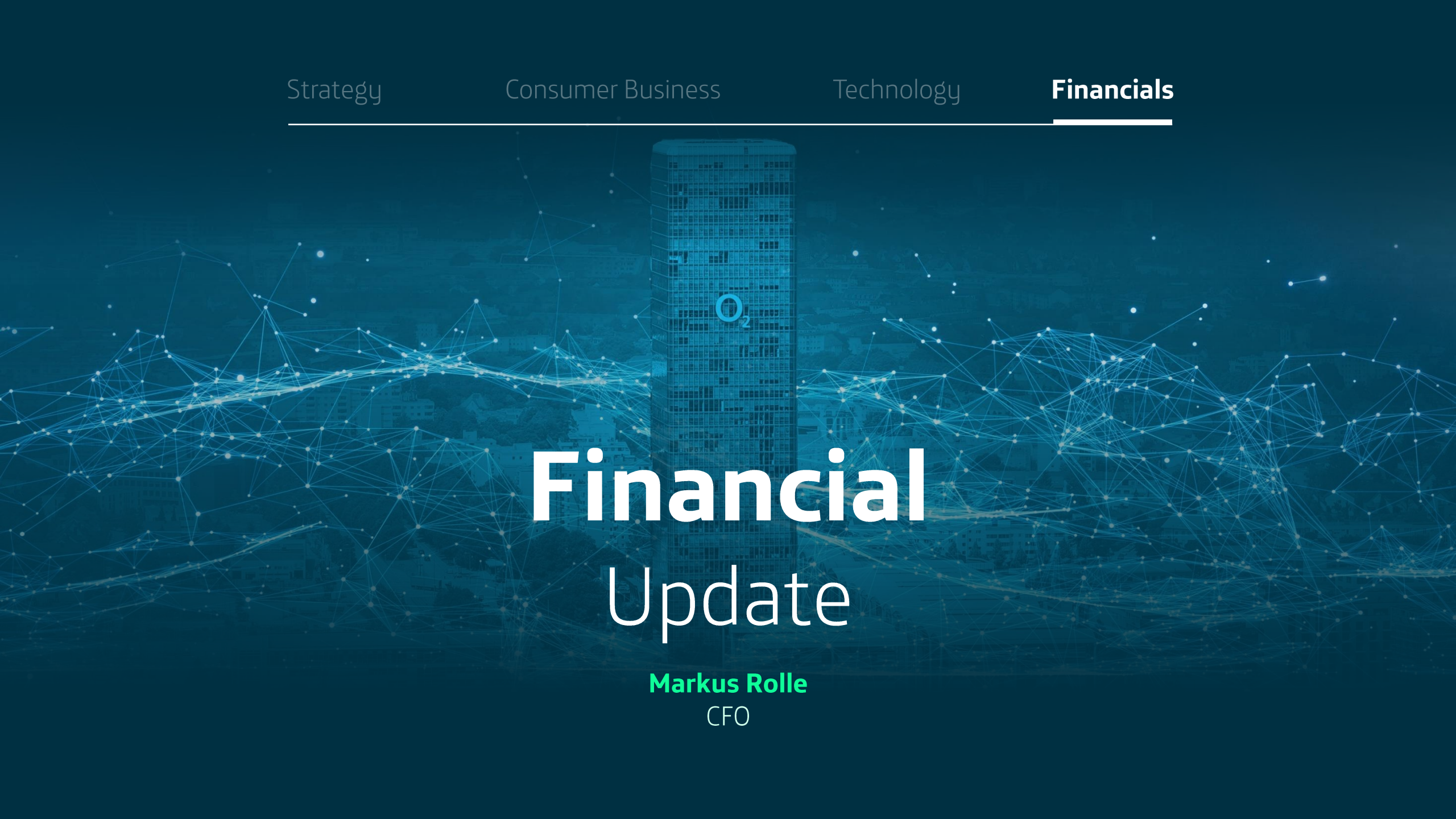
central factor in virtualisation of O₂ Network

Strategy

Consumer Business

Technology

Financials



Financial Update

Markus Rolle

CFO

On track to deliver FY20 outlook and mid-term guidance



Rational for use of infra proceeds – improved & extended dividend commitment



Strong balance sheet

- **Enhanced financial flexibility** to cope with Covid-19 uncertainties
- **Smooth maturity profile** with diversified finance mix
- **EUR 500m bond redemption 2021**



Business investments

- **Investing in network and technology**
- **Deferred payments from 2019 spectrum auction**
- **Incremental leases**
- **Upcoming spectrum renewals**



UGG – Fibre Co

- **Strong shareholder line-up** with EUR 1.5bn equity commitment
- **FTTH market opportunity** with attractive long-term returns
- **Pure wholesale operation targeting >2m HH**
- **Leveraging FTTH expertise of TEF Group**

Shareholder Remuneration

Dividend EURc 17/share

floor during investment programme 2020-21



Dividend of EURc 18/share for FY20

and as a floor during 2021-23

Ongoing cost optimisation contributing to margin improvement

Ongoing cost
improvements

+

Covid-19
Headwinds &
Some savings potential

Driven by digitalisation and transformation efficiencies

Channel mix
improvement

**Commercial &
non commercial costs**
kept on lowest level

Zero Based Budget
planning approach

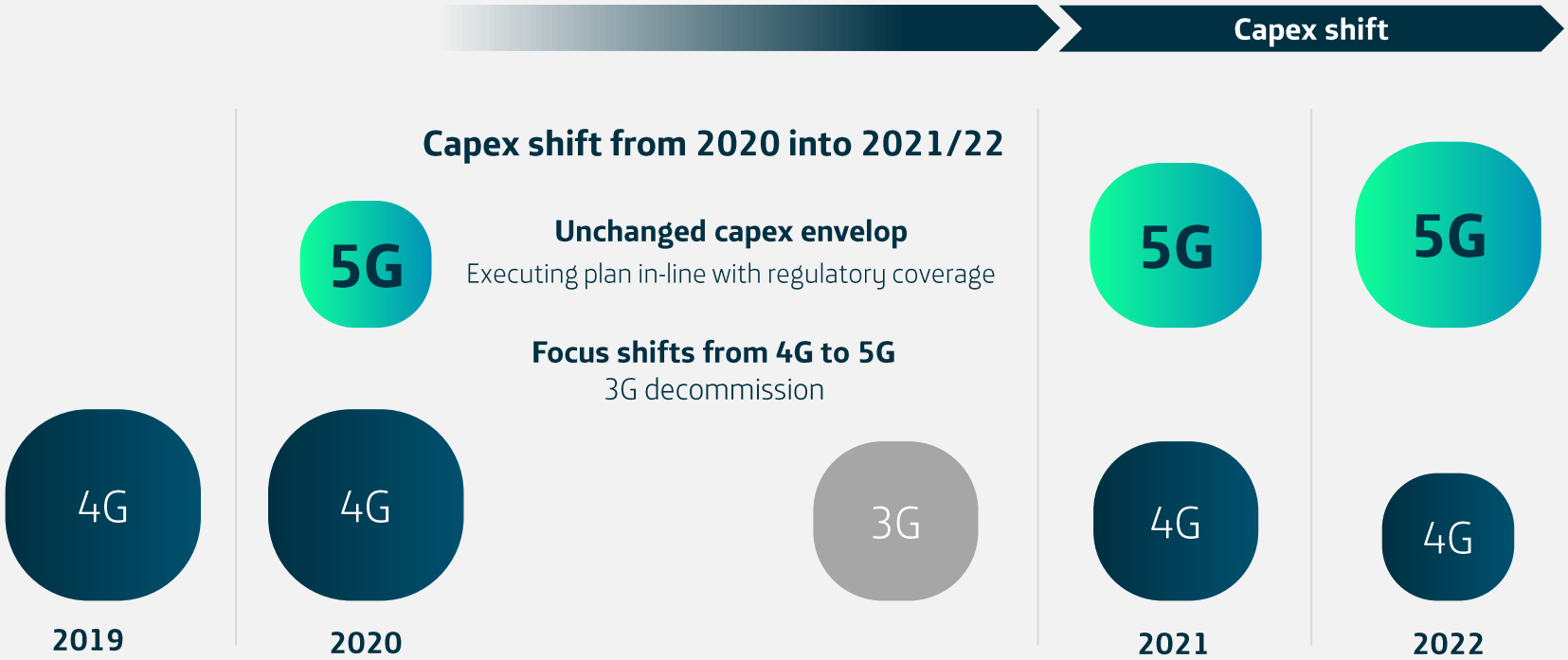
Technology transformation
efficiencies

Promoting digital work environment (5 Bold Moves)
Less office space requirements & travel

Unchanged capex envelop while phasing



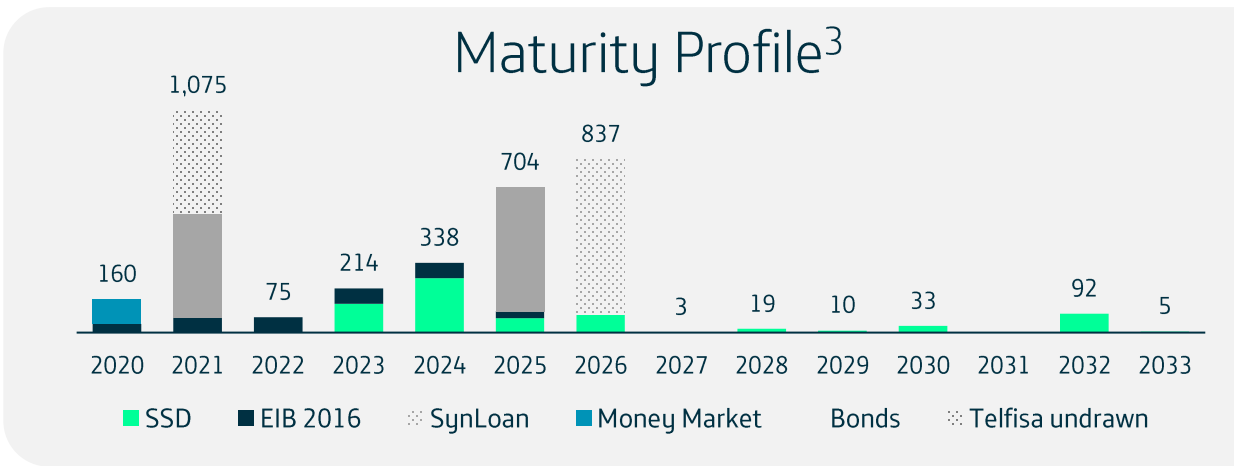
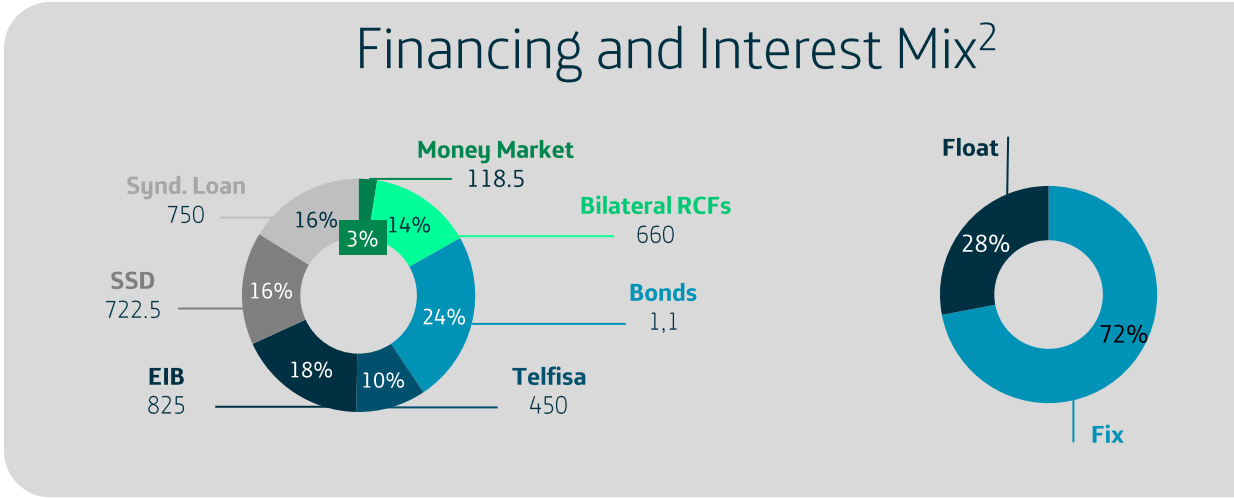
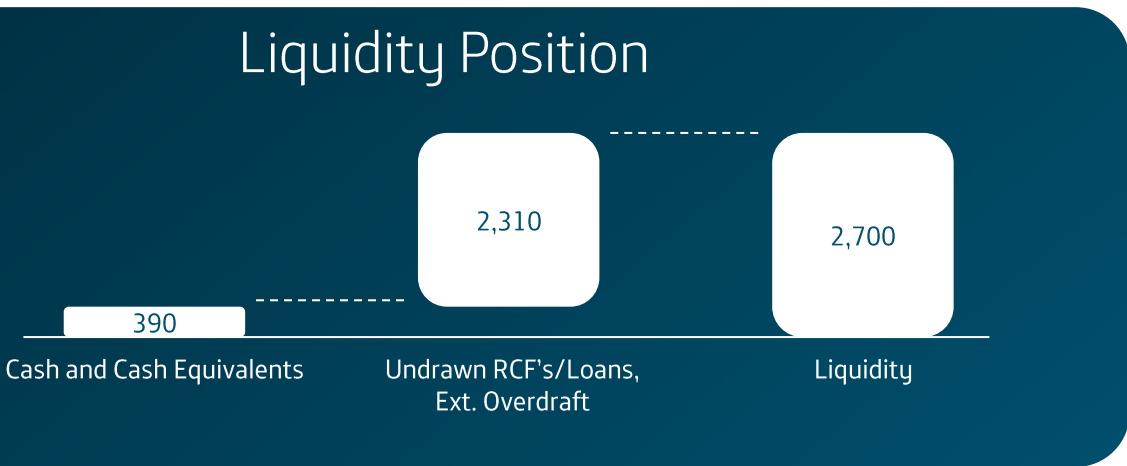
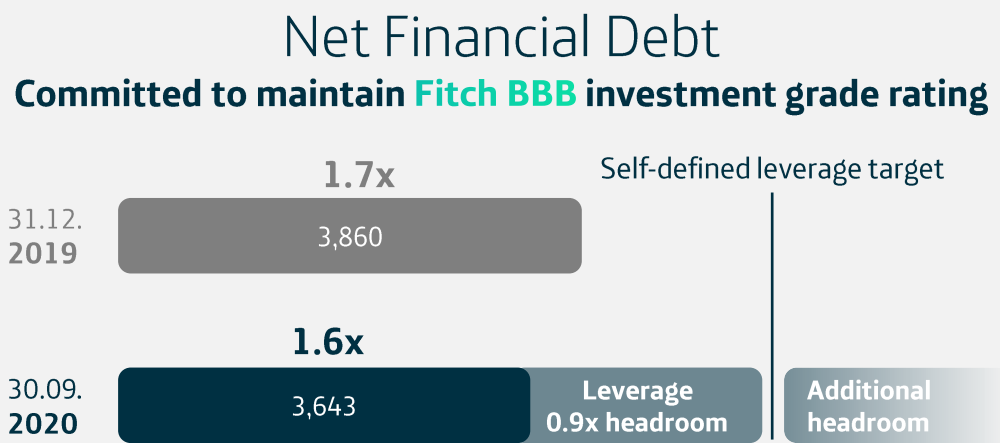
Illustrative



Normalised levels

- 5G
Focus on densification
 - 4G
Capacity investment with combination of spectrum re-farming
- Network efficiencies**
DSS | Sharing | oRAN

Benefitting from **strong financial position**



Summary – highly confident in **strong FCF generation**

Business dynamics intact

Confirming FY20 outlook

Revenue growth¹

Good core business momentum

OIBDA back to growth¹

OIBDA margin improved as a result of revenue mix and enhanced cost efficiencies

FCFaL dynamics with usual seasonality; net debt well in-line with target

leverage with comfortable headroom to BBB-rating

Solid B/S, strong liquidity position and ability to generate FCF growth

to support attractive total shareholder returns



Key reasons to invest

Germany
Attractive and dynamic
telecoms market

Excellent macro
Rational market
Data growth
Soft convergence
3 integrated player

Established Player
Leveraging
economies of scale

Largest
owned customer base
Multi-brand & -channel
Customer-centric
convergence play
FMS

Operational Excellence
Digital transformation
drives growth

All-infrastructure
set-up
Successful integration
track record
Digital transformation

Value Proposition
Attractive shareholder returns
on strong fundamentals

Clear growth path
Strong FCF trajectory
High pay-out ratio to
FCFaL
Strong financial profile



Telefónica Deutschland

Management Q&A

Any questions?

We look forward to hearing from you!



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