Telefónica Deutschland

Strategy Update

11 December 2019

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Telefónica Deutschland's mid-term strategy will be presented by

Markus Rolle, CFO Markus Haas, CEO Mallik Rao, CTIO

Today's agenda

- **Strategy Update** Markus Haas, CEO
- **Technology Update** Mallik Rao, CTIO
- **Financial Update** Markus Rolle, CFO

1. Telefónica Deutschland's **growth** trajectory
2. Telefónica Deutschland's **5G** investment strategy
3. Telefónica Deutschland's **convergence** positioning
4. Telefónica Deutschland's **B2B** strategy
5. Telefónica Deutschland's **shareholder** remuneration

Strategy update

Markus Haas

CEO

Markus Haas

Telefónica Deutschland's history and way forward

1 1998 - 2008

BUILD

- Business set-up
- Introduction of O_2 brand
- Start of 4th network

2 2009 - 2019

SCALE

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

3 2020 and beyond

GROW

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

Market entrance

Integration

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

Major progress towards our vision of becoming Germany's Mobile Customer & Digital Champion by 2022

9M-2019

GROWTH & PROFITABILITY	+2.1% REVENUE[1] yoy	32% MSR market share #2	31.5% OIBDA[2] margin
CUSTOMER EXPERIENCE & DIGITALISATION	+1m Postpaid net adds	15.4% Annualised churn rate strongly improved	+1.0% Own brand postpaid ARPU yoy
FOUNDATION	>96% 3G & 4G combined coverage	>7k New LTE elements	'GOOD' In all three network tests

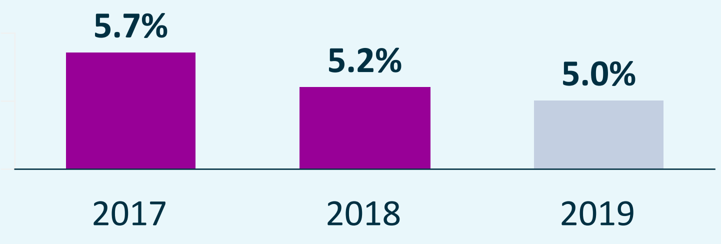
[1] Excluding regulatory effects
[2] Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects

Telefonica Deutschland

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

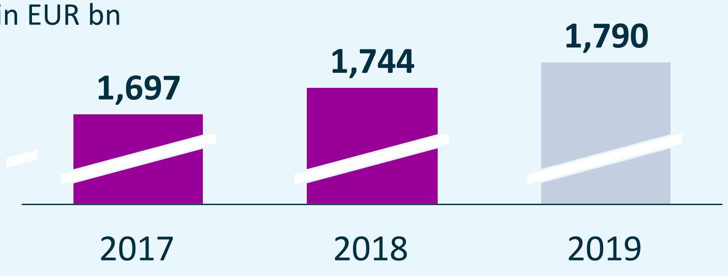
Stable macro-environment

Unemployment rate[1]



Consumer spend[2]

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

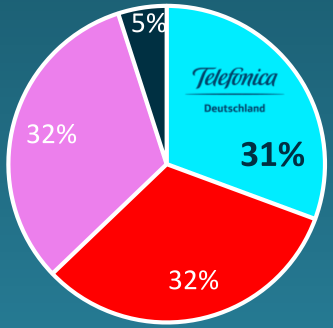
3 integrated (mobile + fixed) players

[1] Source: Federal Employment Agency
[2] Source: Destatis, 2019 estimate by Ifo Institute for Economic Resarch Sept. 2019
Please note: 2019 based on internal estimates

Telefonica Deutschland

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

DSL

fibre

cable

Telefónica

Deutschland

3x ‘GOOD’ in all network tests

Significantly improved network performance for ~44m mobile accesses

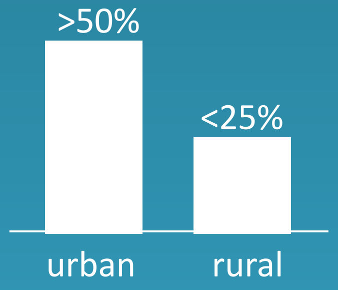
Customer experience

WINNER	WINNER	VERY GOOD	VERY GOOD	VERY GOOD	4.5/5
Stores	Partner-Stores	Fixed Net	Fixed Net	Service App	O_2 TV
National store operators	Franchise operators	Fixed Net big players	Fixed Net offers	Telcos	Computer Bild User Test

Premium customer service & access to all sales channels

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

Telefónica Deutschland

Smart investment profile to further push network quality adding 4G coverage & 5G capacity; 3G network switch-off by the end of 2022

Network roll-out strategy

	2020	2021	2022
Boost rural coverage	Nationwide 4G coverage		
Accelerate urban capacity	Metropolitan 5G coverage		

+

Infrastructure sharing strategy

1. Tri-lateral sharing opportunities ✓

+

2. Potential for passive infrastructure sale

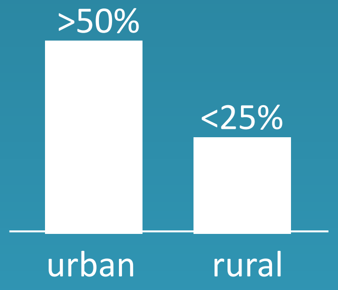
+

3. Bi-lateral sharing opportunities

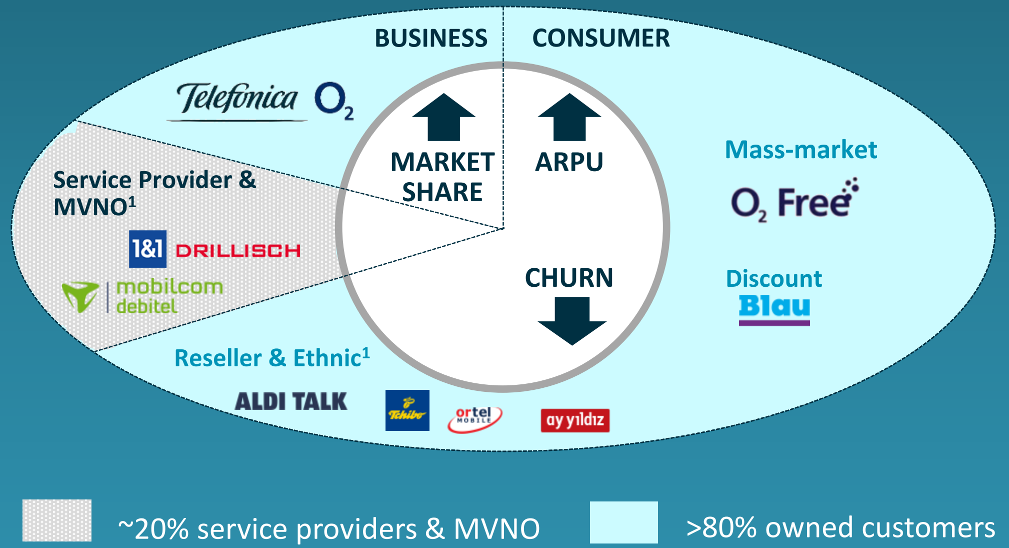
Telefónica Deutschland

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

Mobile customer share



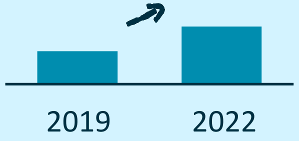
Sustained focus on owned customer base



MSR

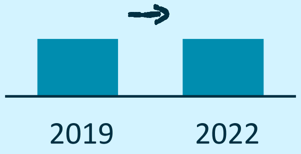
Rural market share

Fair share

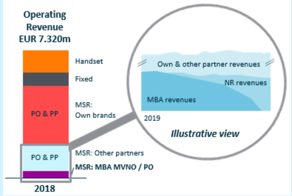


Urban market share

Maintain share



Gradual transition of wholesale revenue streams



1 Not exhaustive

Slide updated 16 June 2020

All-infrastructure play as unique positioning

MOBILE INFRASTRUCTURE

Fixed-Mobile-Substitution (FMS) ✓

FIXED NET INFRASTRUCTURE

FttX incl. VDSL ✓

Cable ✓

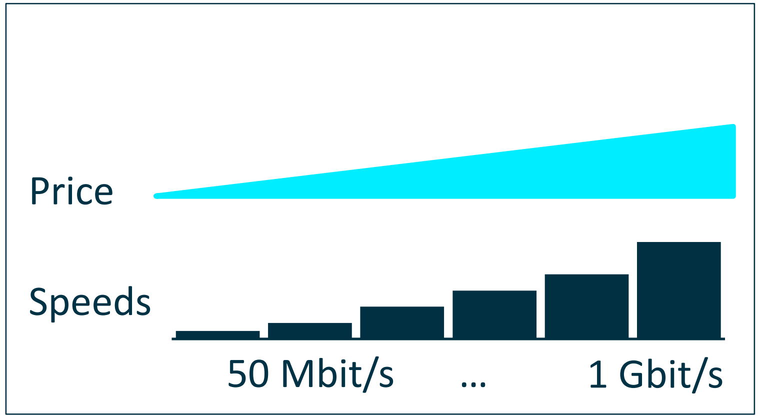
Smart bundling to capture value and reduce churn

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

Fixed-mobile-substitution increases profitability

Offering technology-agnostic internet solutions matching individual customer needs

Internet@Home



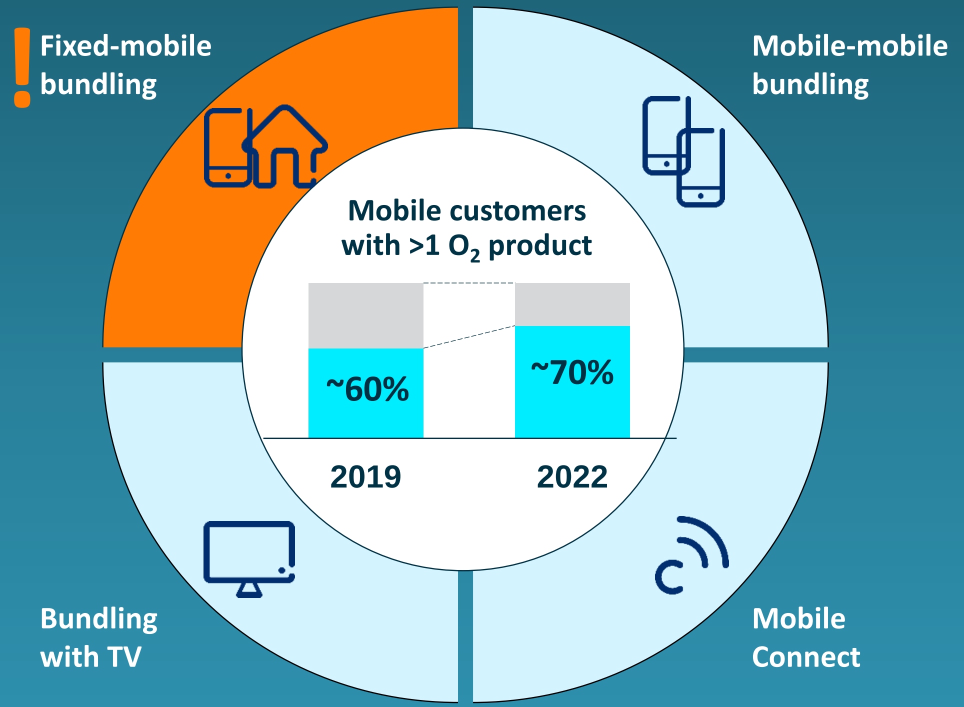
Customer can choose speed class and price

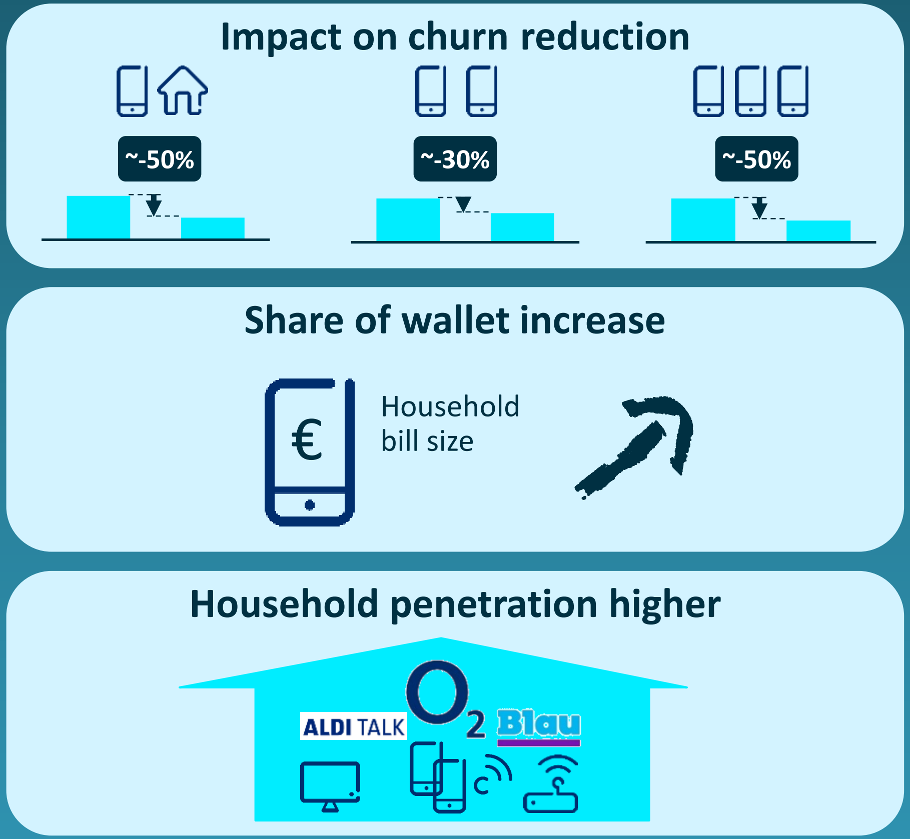
Best customer experience as first priority of Internet@Home

Telefónica Deutschland uniquely positioned with **largest broadband coverage**

Smart go-to-market approach with **stronger regionalisation**

Improve loyalty and convergence positioning by pushing smart bundling approach





Fixed-mobile-substitution leverages mobile network and improves profitability

Market readiness for Fixed-mobile-substitution (FMS)

- High customer demand
- Real wireline substitute (4G, 5G)
- Proof of concept

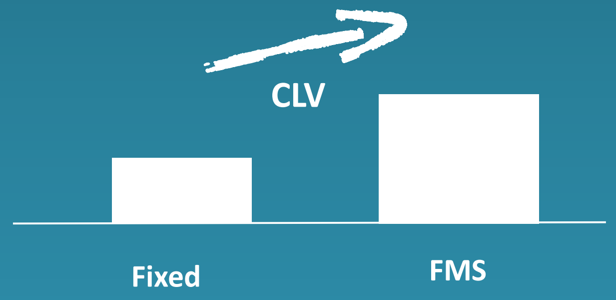
Leveraging TEF D network

Spare capacity from

- Early 5G boost into urban areas
- 4G rollout in rural

Improving profitability

Smart technology mix

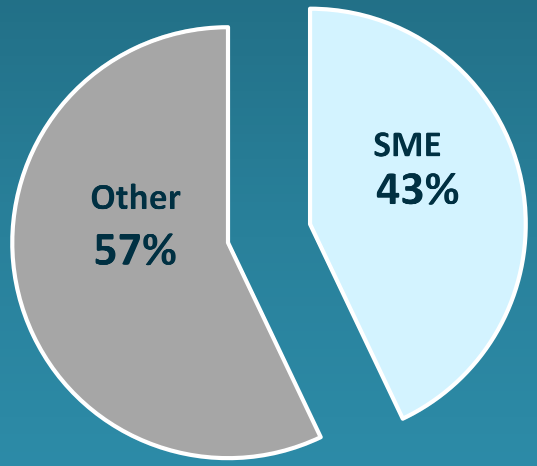


Leverage the SME segment and industrial 5G opportunities to grow MSR

German B2B mobile market

B2B Mobile Voice/Data retail revenue in 2018

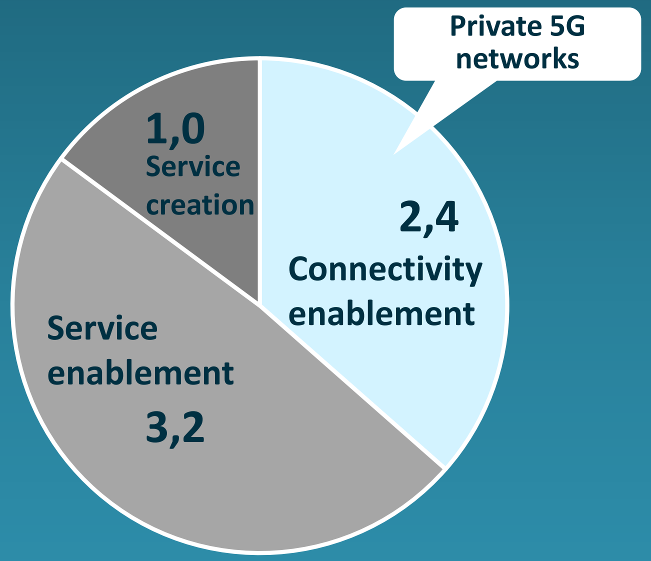
Total: EUR 4.5 bn

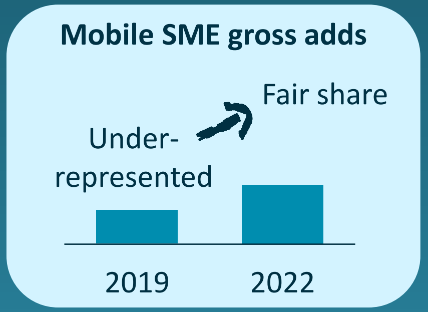


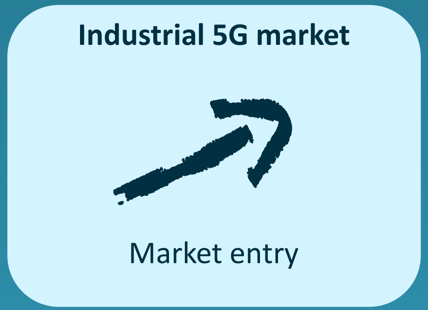
Industrial 5G opportunity

Revenues addressable by German Telcos in 2026

Total: EUR 6.6 bn







Source: IDC (2018) – B2B mobile revenues excl. M2M, Business Insights 2018, Deep Dive 5G Business Potential in Real-Time Automation & Autonomous Robotics (Ericsson 01/2019)
Note: Industrial 5G corresponds to Real-time automation & Robotics

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

B2B revenue & market share ↗

2019 / 2020			2021
PULL		PUSH	
Go-to-Market strategy	**Personalised customer service**	**Improved sales approach**	**Portfolio for digitalisation**
Price/value leader for SME	Unique service proposition with dedicated contact	Push via Tele-sales	IoT, cloud, cyber security, private 5G network

Summary / Key priorities

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

Revenue[1] with a cumulated growth of min. 5% between 2020/22

OIBDA[2]: Ongoing margin improvement

Capex[3]: 2-year investment programme to generate growth with C/S peaking at 17-18% in 2020/21 and normalising already in 2022

Dividend proposal of EUR 0.17 for FY 2019, which will be a floor during our investment programme

[1] Excluding regulatory effects
[2] Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects
[3] Not considering the impact from potential network sharing opportunities

Technology update

Mallik Rao
CTIO
Mallikarjuna Rao

Telefónica Deutschland network achieves a breakthrough in network quality with ‘good’ rating in 3 major German network tests

Extensive network expansion programme with thousands of additional LTE sites implemented in 2019

Targeted optimisation measures post network consolidation

Focus on customer experience by adding coverage & capacity

Major quality improvements; i.e. voice quality & average down- & upload speed

3x **‘GOOD’**

In all German network tests

Smart investment to accelerate the Telefónica Deutschland mobile network roll-out: 4G coverage & 5G capacity while aiming to switch off 3G by the end of 2022

Network roll-out strategy

2020 | 2021 | 2022

Boost rural coverage
(Obligations)

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

Boost rural coverage & accelerate urban capacity

Coverage & capacity boost in 4G: Rollout of ~10k LTE elements into the network in 2020 to further push network quality

Smart investment: Spectrum re-farming to efficient use of technologies and simplification of architecture will be the key

5G with main stream rollout, using 3.6 GHz, 700 MHz and any upcoming FDD frequencies with special spectrum sharing features

Aiming to **switch off 3G by 2022e** as data traffic is increasingly moving to 4G on customer demand for high speed mobile BB

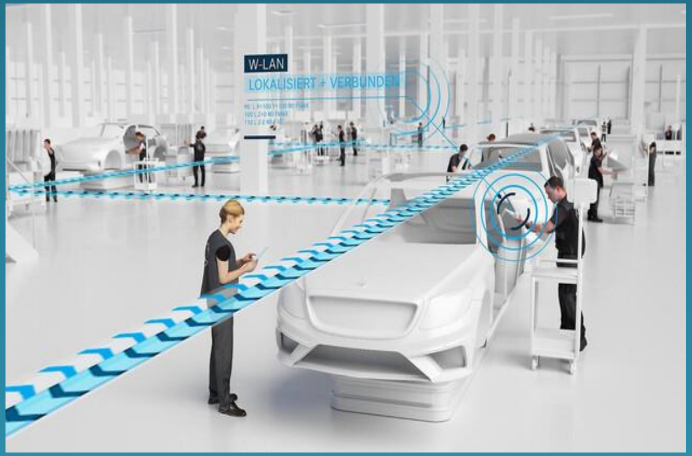
Private campus networks: One of the first business opportunities for 5G in Germany

High **industry demand** for Telefónica Deutschland's **5G** assets & expertise

More than **8** **successful trials** and **proof of concepts** implemented

Accelerating growth with more than **5** **trusted** business **partners**

Factory 56 – Telefónica Deutschland builds first **5G indoor network** in digital car production factory



Source: Daimler AG

Our partners for **Factory 56**

IT platforms play a major role in enabling 5G portfolios and for becoming 'SIMPLER, FASTER & BETTER'

Today's IT systems already support

- **Fixed/mobile convergence** for consumer postpaid including one single customer account and bill
- **Technology-agnostic household offering** for VDSL, FTTX and cable

Future IT systems as a key enabler

5G tariff & product portfolios

FMS & exclusive cable wholesale access support **technology-agnostic customer offers**

High technological flexibility ensures **fast time-to-market**

Summary / Key priorities

Breakthrough in network quality with **‘good’ ratings in 3 major German network tests**

Smart investment to accelerate mobile network rollout as a basis for growth, including leveraging opportunities from 5G campus solutions

IT platforms are enabling 5G portfolios & allow us to become ‘simpler, faster & better’

Untapped potential from **additional network sharing opportunities**

Financial update

Markus Rolle

CFO

Markus Rolle

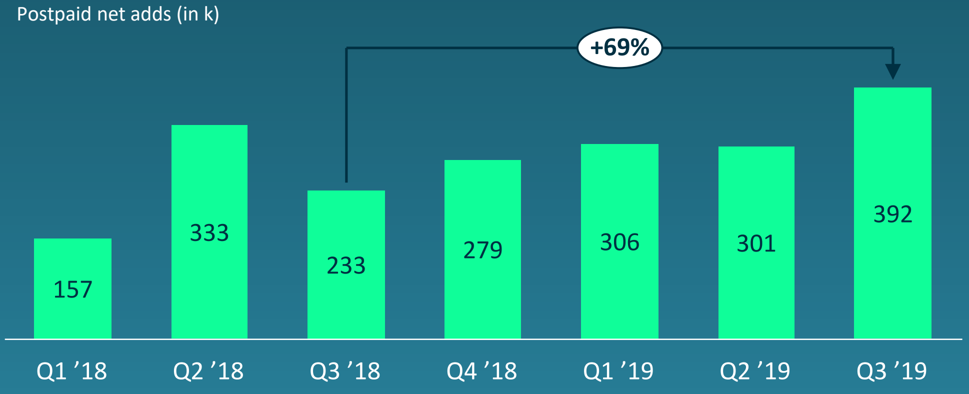
5 years post merger Telefónica Deutschland is stronger than ever; revenue acceleration and stable profitability in 9M 2019

	Actuals FY 2014[4] (IAS 18)		Actuals FY 2018 (IFRS 15)	Outlook[5] FY 2019 (IFRS 15)	Actuals 9M 2019
Revenue[1]	7,793 FY 2014	Regulation (>50%) ↓ Market dynamics (2015-17) ↓ Operating dynamics ↑ Synergies ↑	7,320 FY 2018	**Broadly stable** (excl. regulatory impacts of ~ EUR 60-70 m)	**+2.1% yoy**
OIBDA[2]	1,461 FY 2014		1,884 FY 2018	**Broadly stable to slightly positive** (excl. regulatory impacts of ~ EUR 40-50 m)	**0.8% yoy** As per IAS 17 reporting
C/S[3]	14.9%		13.2%	**Approx. 13-14%** (incl. 4G back- & fronthaul & 5G backhaul)	**14.4%**

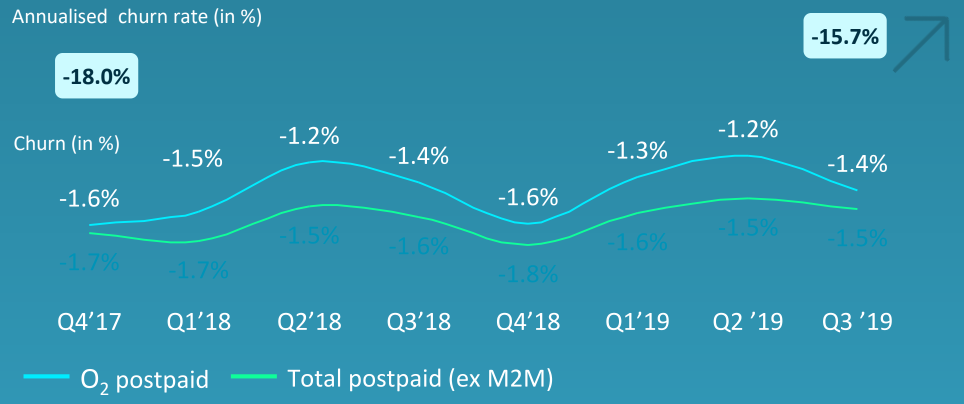
[1] Excluding regulatory effects
[2] Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects
[3] Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)
[4] Combined figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies
[5] The effects from the implementation of IFRS 16 as of 1 January 2016 are not reflected in the financial outlook 2019

Strong operational momentum with ~1 million postpaid net adds in 9M 2019; ARPU trends continue to improve

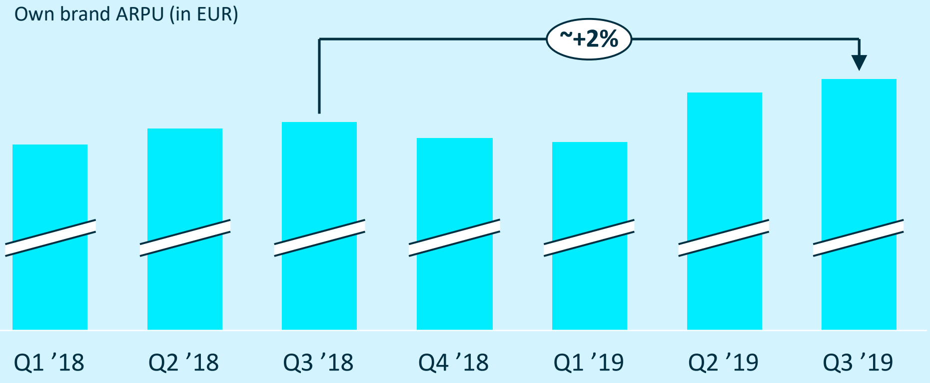
Strong PO momentum driven by own brand & partners



Churn remains on low level supported by network quality



O_2 Free portfolio drives visible ARPU-up effects in own brand ARPU



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Strong execution progress of our transformation programme D4G

Well on track for 8 out of 12 CMD targets in initial year

SIMPLER	**80%** O2 App penetration	**40%** Tariff detox	**-15%** Total IT spend/subscriber	**-2% pts** Postpaid Churn
FASTER	**<1 hour** Lead time product changes	**-80%** Manual back-office interventions	**25%** Sales in self-assisted channels	**30%** Gross adds market share in SME
BETTER	**4** Connected devices/ customer	**~80%** Share of eCare events	**-10%** Shop reduction	**EUR 200-300m** IoT revenue

Target over-achieved, further improvement — On track — Acceleration to come

Transformation activities with focus on the customer; 2 out of many examples

SIMPLER	Customer interaction
FASTER	Customer requests
BETTER	Customer experience

1 Enhance CX & digitalisation

Mobile Customer & Digital Champion

2 State-of-the-art eCommerce

- Scalability & fast adaptation
- Continuous optimisation
- Mobile first frontend
- Cross-functional team

Results:

- Higher willingness to pay
- ARPU
- Customer experience
- NPS

Telefónica Deutschland

Growth profile driven by additional revenue streams to support ARPU-up & churn-down

Mobile growth in rural – reinforcement in urban

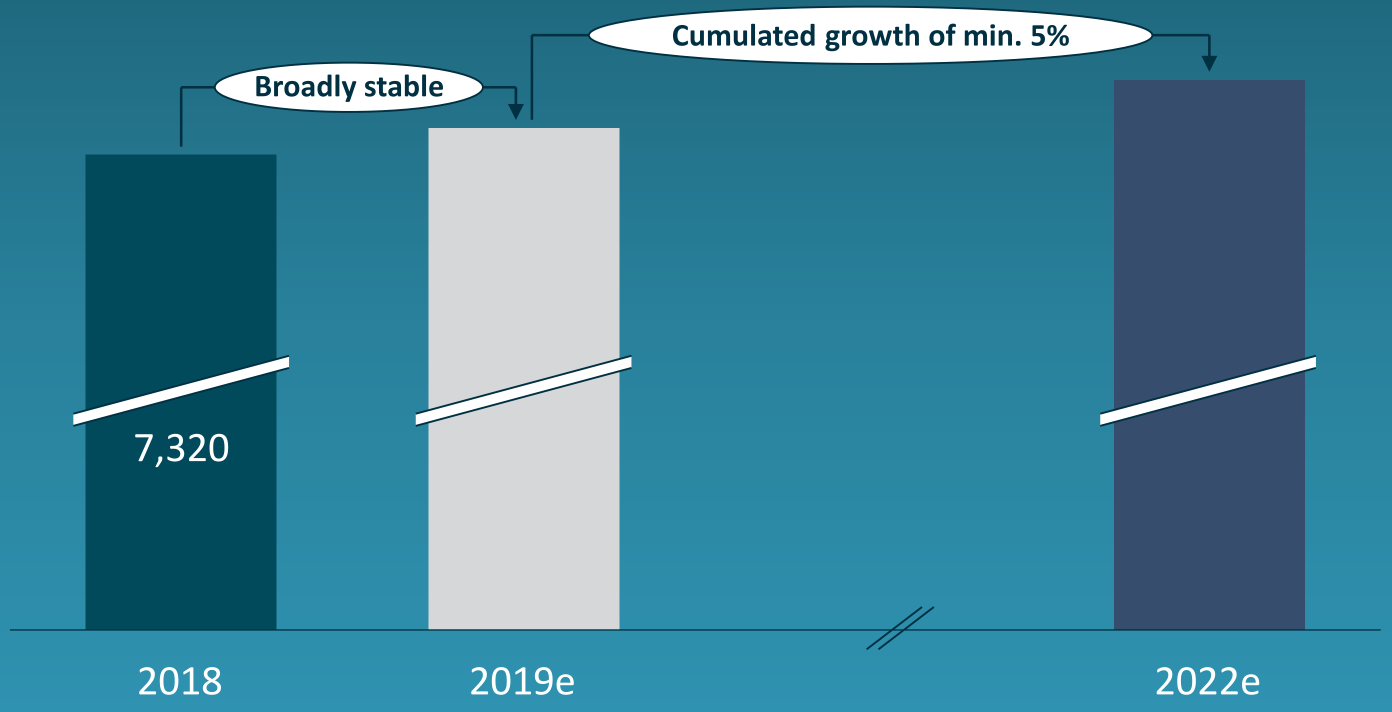
Smart bundling to capture value

Attack in B2B to reach fair market share in SME

D4G transformation programme
Simpler – Faster – Better

Revenue[1]

(in million EUR)



[1] Excluding regulatory effects

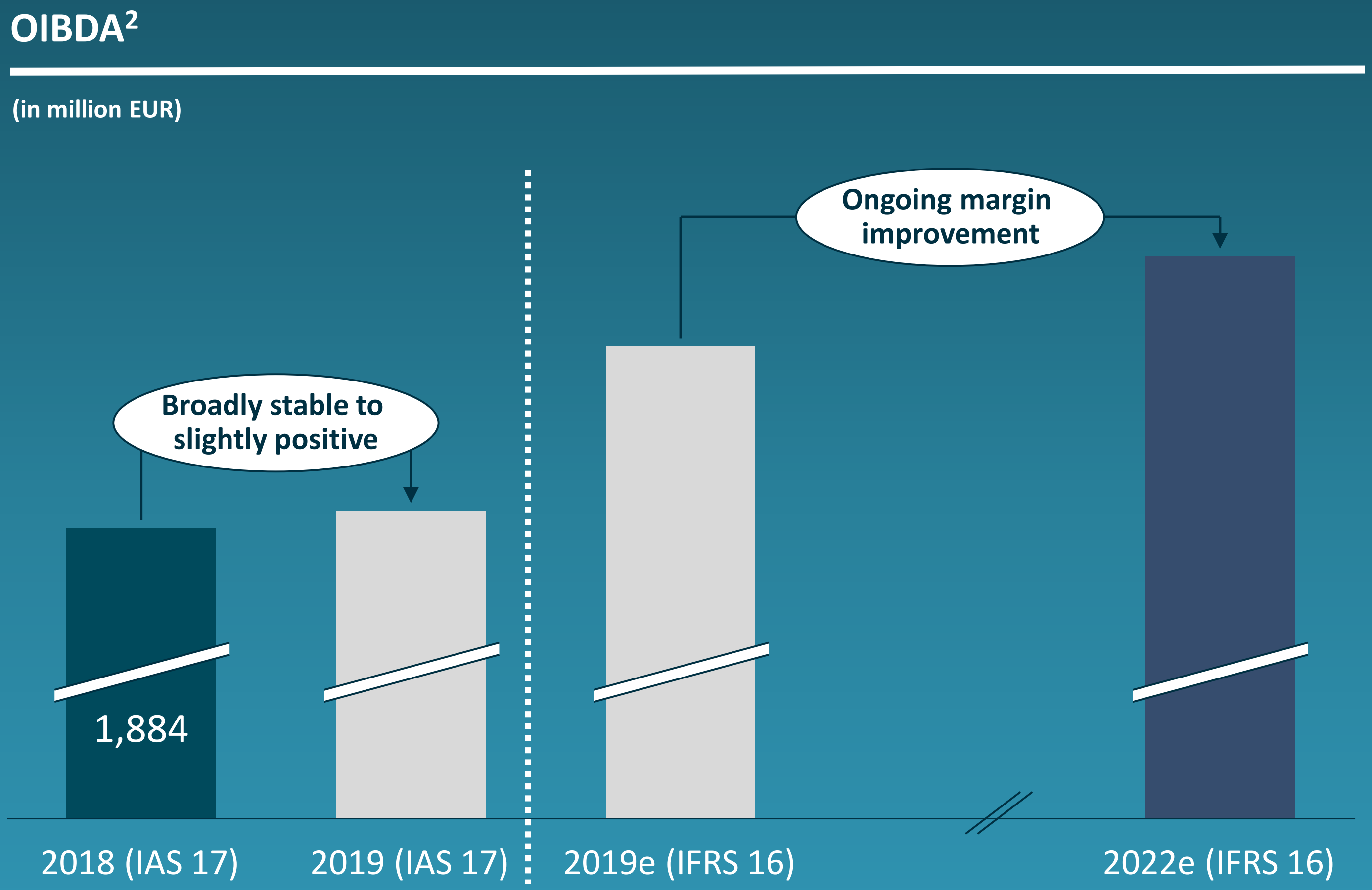
Deliver ongoing margin improvement

Mobile growth in rural – reinforcement in urban

Smart bundling
to capture value

Attack in B2B
to reach fair market share
In SME

D4G transformation programme
Simpler – Faster – Better



[1] Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects. The effects from the implementation of IFRS 16 as of 1 January 2019 are not reflected in the financial outlook 2019

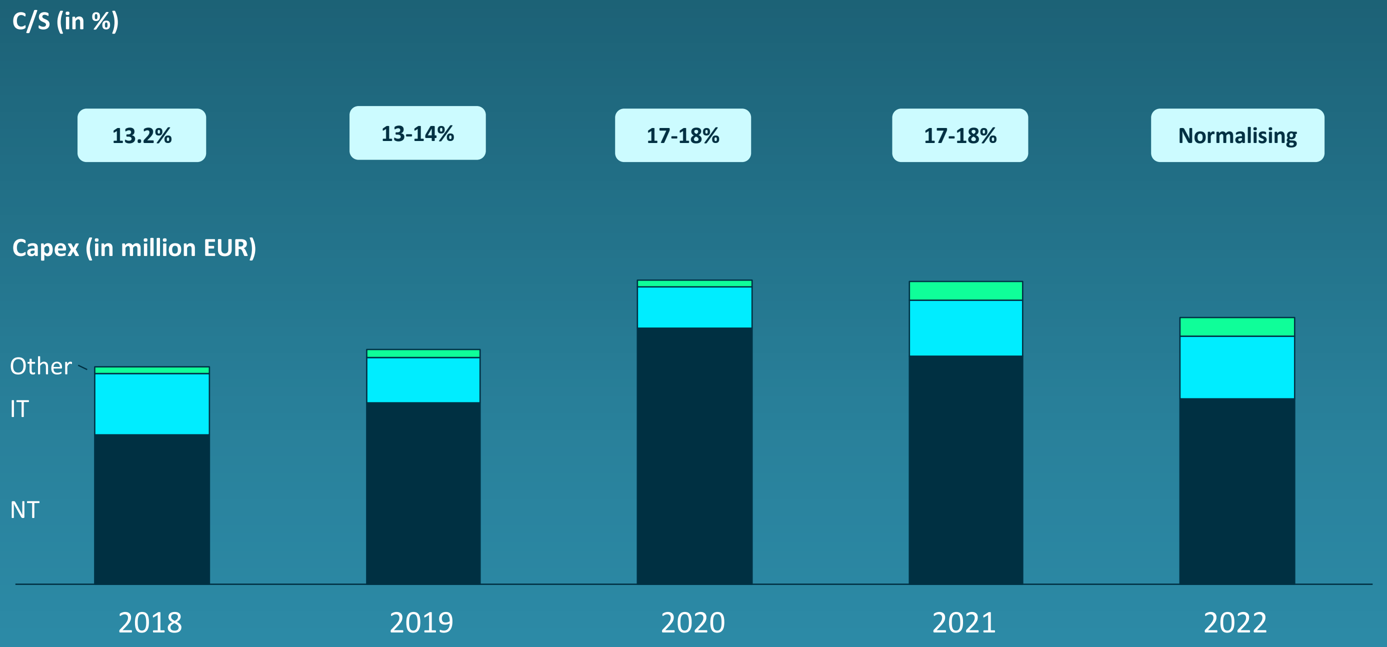
Telefónica Deutschland

Investing into network expansion is the key enabler for growth ambitions

Boost rural coverage via 4G

Accelerate urban capacity via 5G

Capex[1] and C/S



Capex split for illustrative purposes

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

Mid-term outlook

	Mid-term guidance (CMD 2018)	Updated midterm guidance 2020/22
Revenue[1]	Growth in line with the German market	TEF D with cumulated growth of min. 5%
OIBDA[2]	Ongoing margin improvement	Ongoing margin improvement
C/S[3]	Stable[4] Capex envelope	2-year investment programme to generate growth C/S incl. 5G RAN peaking in 2020/21 between 17-18%; normalising already in 2022

[1] Excluding regulatory effects
[2] Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects
[3] Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)
[4] Includes front- and backhaul for 4G but 5G backhaul only

Strong confidence in mid-term FCF generation ability

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)

Leverage[1]

- Maintaining **Fitch BBB investment grade rating**
- **Strong B/S with low indebtedness;** leverage at 0.9x (IAS 17) resp. 1.8x (IFRS 16) as of 30.09.2019
- **IFRS 16 leverage target: At or below 2.5x; solid headroom under current rating**
- Deferred spectrum payments lead to increased **financial flexibility**

https://www.telefonica.de/investor-relations-en/share/dividend.html

[1] Leverage is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects. Leverage under IFRS 16 is calculated based on an extrapolated rolling 12-month OIBDA. It will only be possible to report a leverage ratio based on actuals under IFRS 16 with the publication of the financial statements for 2019

Remain committed to attractive shareholder remuneration

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]

[1] Free Cash Flow is defined as net financial Free cash flow adjusted for leases, spectrum payments and exceptional items

Telefonica Deutschland

Summary / Key priorities

- Accelerating growth trajectory
- 2-year investment programme to push network
- Strong mid-term FCF trajectory
- Dividend proposal of EUR 0.17 for FY 2019 (floor for investment phase) = ~6% yield
- Maintaining BBB investment grade

Wrap-up:
Telefónica Deutschland’s investment case

The Telefónica Deutschland Equity Story: Why should you invest?

Germany An attractive and dynamic telecoms market	An established player Leveraging economies of scale	Operational excellence Digital transformation drives growth	Value proposition Attractive shareholder return on strong fundamentals
Excellent macro **Rational market** **Data growth** **Soft convergent environment** **3 integrated players**	**Largest owned customer base** **Multi-brand** **Multi-channel** **Customer-centric convergence play** **Fixed-mobile-substitution**	**All-infrastructure set-up** **Successful integration track record** **Transformation with Digital4Growth: SIMPLER FASTER BETTER**	**Clear growth path** **Strong FCF trajectory** **High pay-out ratio to FCF after leases (aL)[1]** **Conservative financial profile**

[1] FCF after lease and excluding dividend & spectrum payments

Telefónica
Deutschland

Management Q&A

Telefónica
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Get in touch with the Investor Relations team!

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