



Telefónica Deutschland

Investor presentation

October 2020

Investor Relations

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The Telefónica Deutschland Equity Story: Why should you invest?

GERMAN MARKET

An attractive & dynamic telco market

- Excellent macro
- Rational market
- Data growth
- Soft convergent environment
- 3 integrated players

ESTABLISHED PLAYER

Leveraging economies of scale

- Largest owned customer base
- Multi-brand
- Multi-channel
- Customer-centric convergence play
- Fixed-mobile-substitution

OPERATIONAL EXCELLENCE

Digital transformation drives growth

- All-infrastructure set-up
- Successful integration track record
- Transformation with Digital4Growth:
SIMPLER
FASTER
BETTER

VALUE PROPOSITION

Attractive shareholder return on strong fundamentals

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

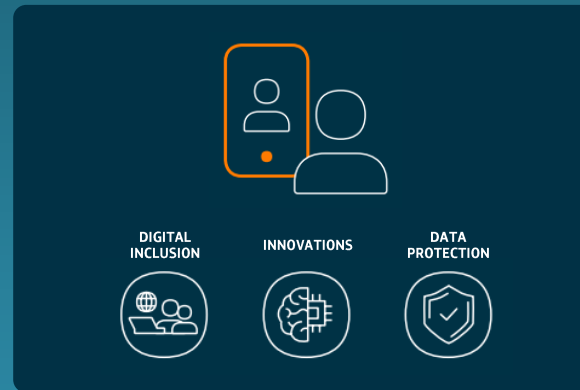
We steer our sustainability commitments with our Responsible Business Plan 2020

MANAGING RESPONSIBLY



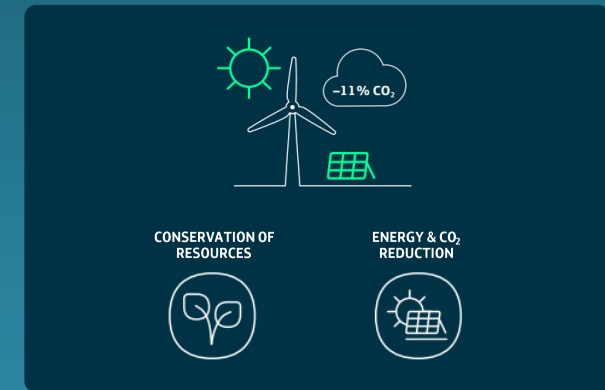
Consistently **good** to **very good** results and ratings by external assessments

STRENGTHENING DIGITAL LIFE



People are benefitting from our products in their **digital lifestyle**

PROTECTING ENVIRONMENT



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

Telefónica Deutschland's way forward

BUILD 1998-2008

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

BUILD

SCALE 2009-2019

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

SCALE

GROW 2020 & beyond

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

GROW

MARKET ENTRANCE

INTEGRATION

BENEFITS FROM SCALE &
TRANSFORMATION

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

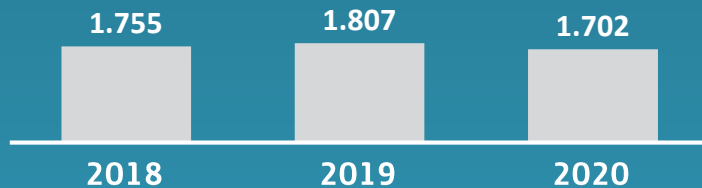
STABLE MACRO-ENVIRONMENT

UNEMPLOYMENT RATE¹



CONSUMER SPEND²

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

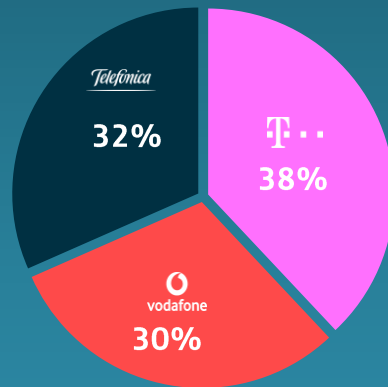
Fixed-Mobile-Substitution (FMS)
becoming increasingly **relevant**

Potential 4th urban MNO

3 integrated (mobile + fixed) players

Competitive environment

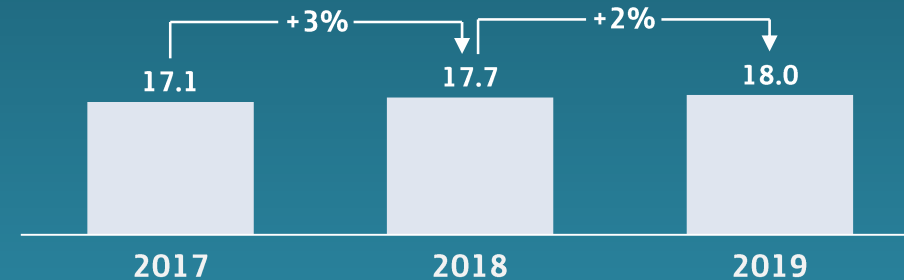
RATIONAL & BALANCED MARKET¹



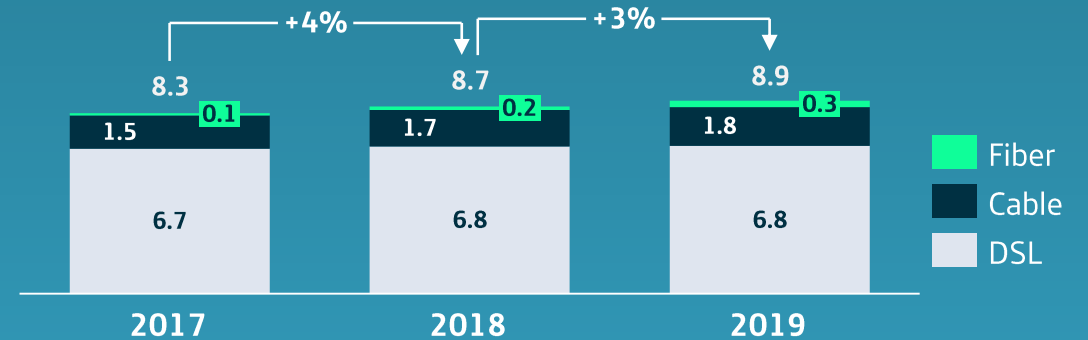
- **Rational market** following 4 to 3 consolidation
- **Tiered mobile data portfolios** enabling data monetisation

MARKET DEVELOPMENT²

Mobile service revenues
EUR bn

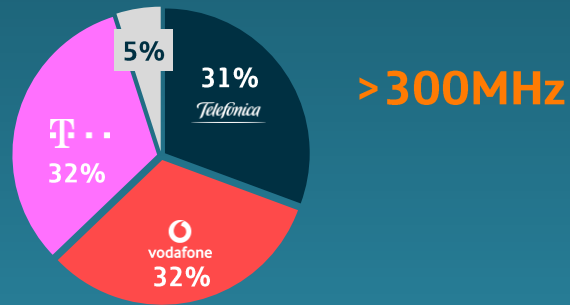


Fixed broadband retail revenues
EUR bn



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

COMPETITIVE SPECTRUM POSITION



LARGEST INFRASTRUCTURE FOOTPRINT WITH EXCLUSIVE CABLE WHOLESALE ACCESS



>90% with >30
German households Mbit/s

3x 'GOOD' IN ALL NETWORK TESTS



Significantly improved network performance for ~44m customers

CUSTOMER EXPERIENCE



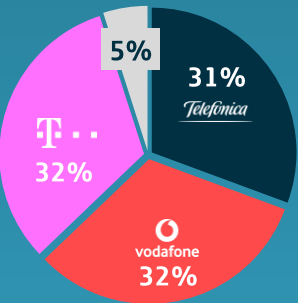
Premium customer service & access to all sales channels

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

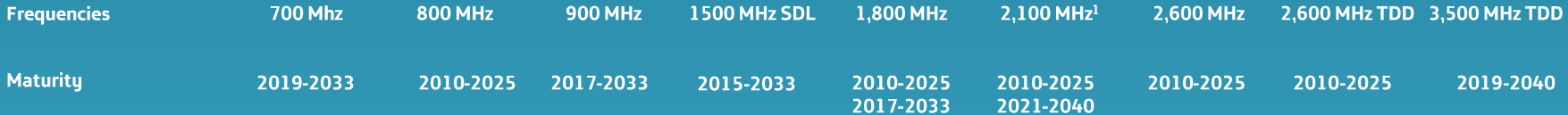
BALANCED POSITION IN COVERAGE AND CAPACITY SPECTRUM UNTIL 2025

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



¹ In addition: 24.2 MHz @2.1 GHz TDD, ab 2021 19.2mHz
As of 1 January 2026: DRI: 2x10 MHz; TEF D: 2x10 MHz; Vod: 2x20 MHz; DT: 2x20 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



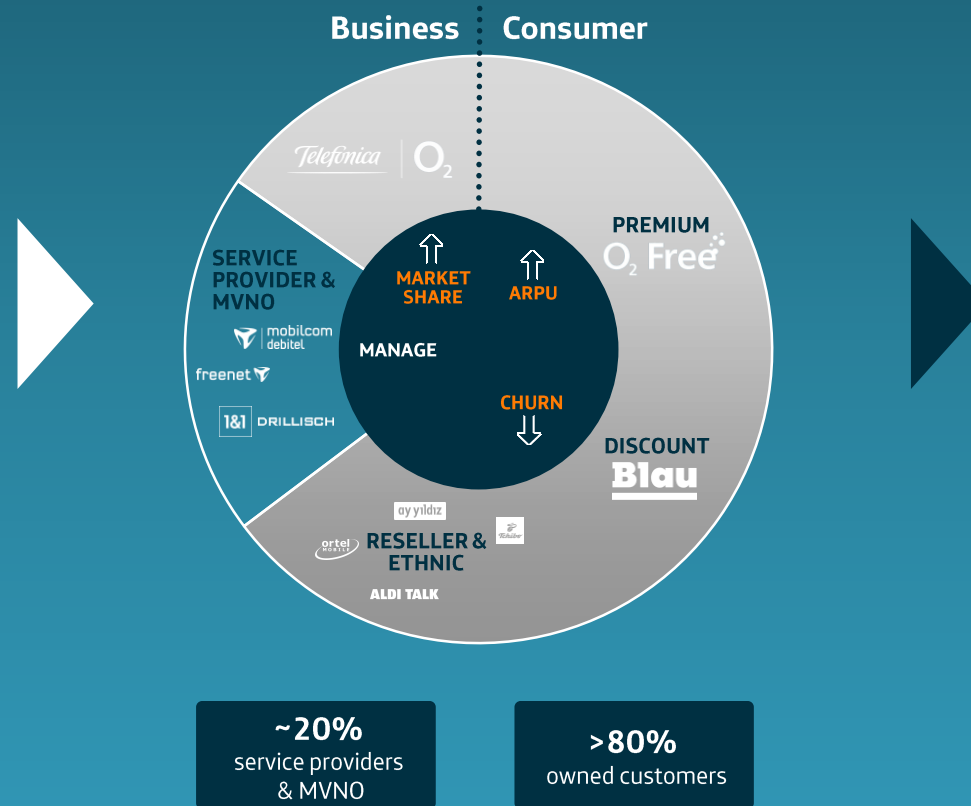
Revenue growth driven by a step-up in 4G network quality and 5G boost



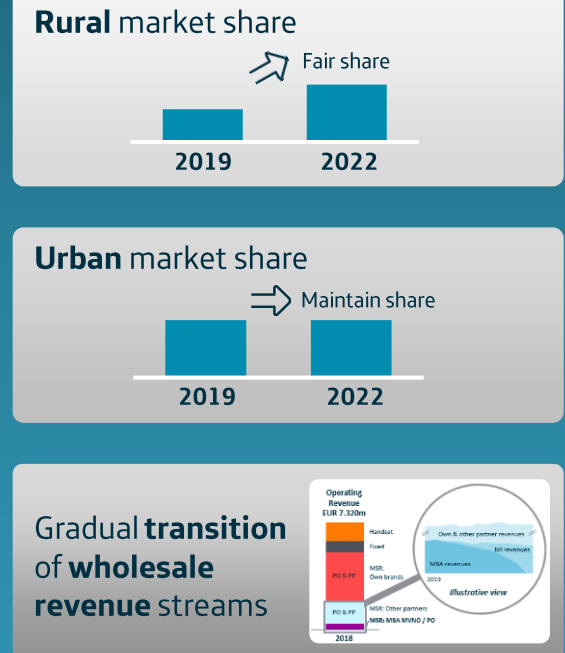
MOBILE CUSTOMER SHARE



Sustained focus on OWNED CUSTOMER BASE



MOBILE SERVICE REVENUE UP





MOBILE INFRASTRUCTURE



Fixed-Mobile-
Substitution (FMS)

FIXED NET INFRASTRUCTURE



FTTx / VDSL

CABLE

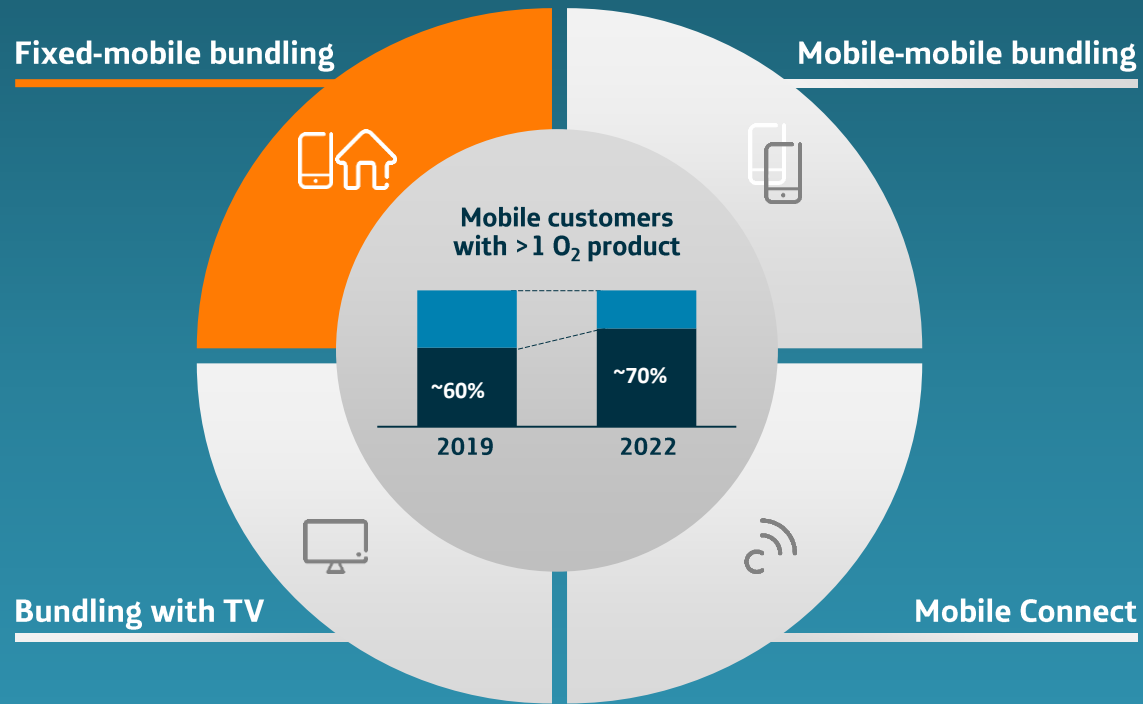


Smart bundling to capture value and reduce churn

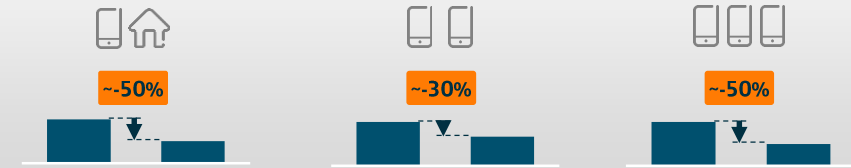
Technology-agnostic Internet@Home solutions with focus on customer experience

Fixed-mobile-substitution increases profitability

Improve loyalty and convergence positioning by pushing smart bundling approach



Impact on churn reduction



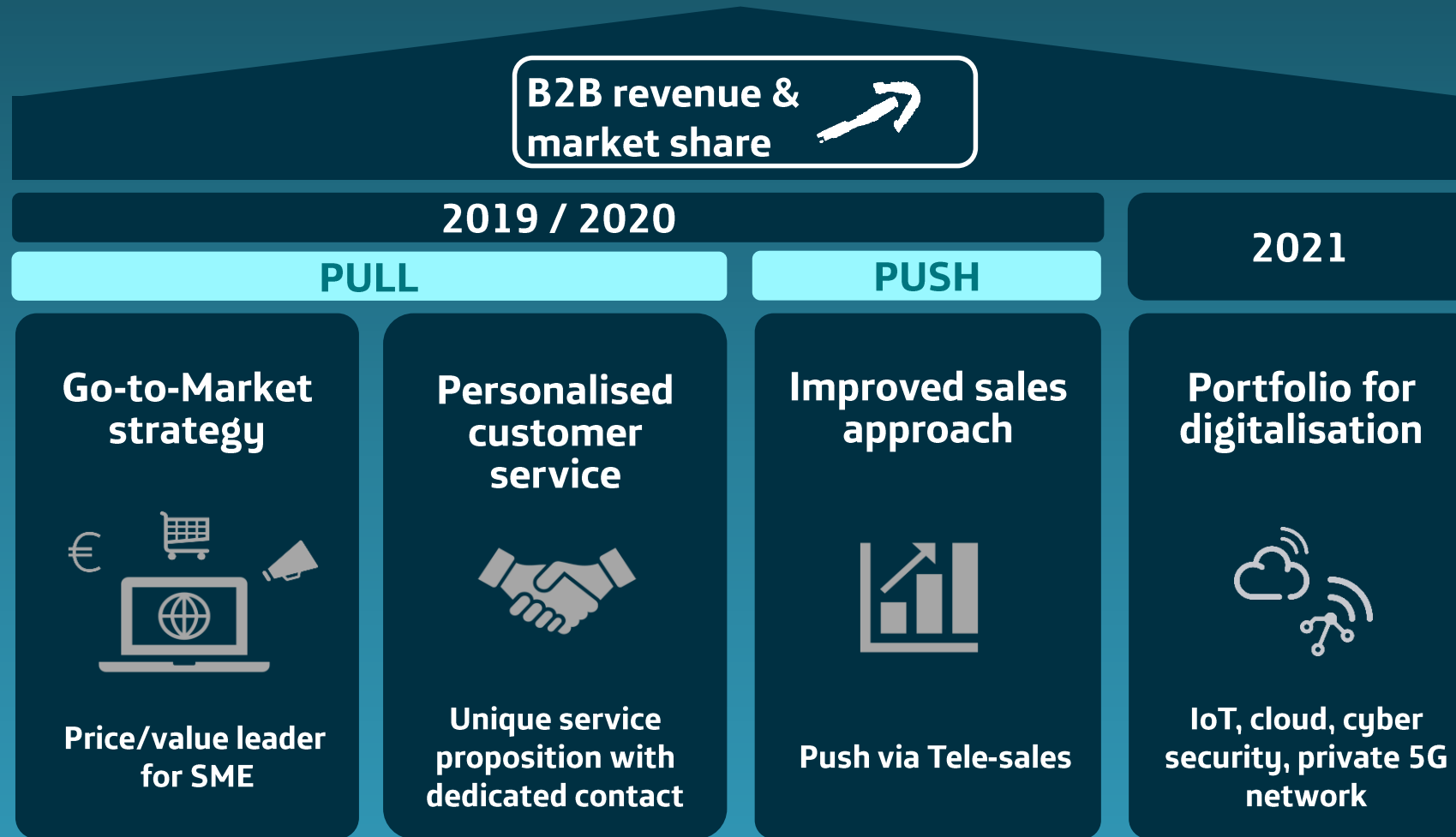
Share of wallet increase



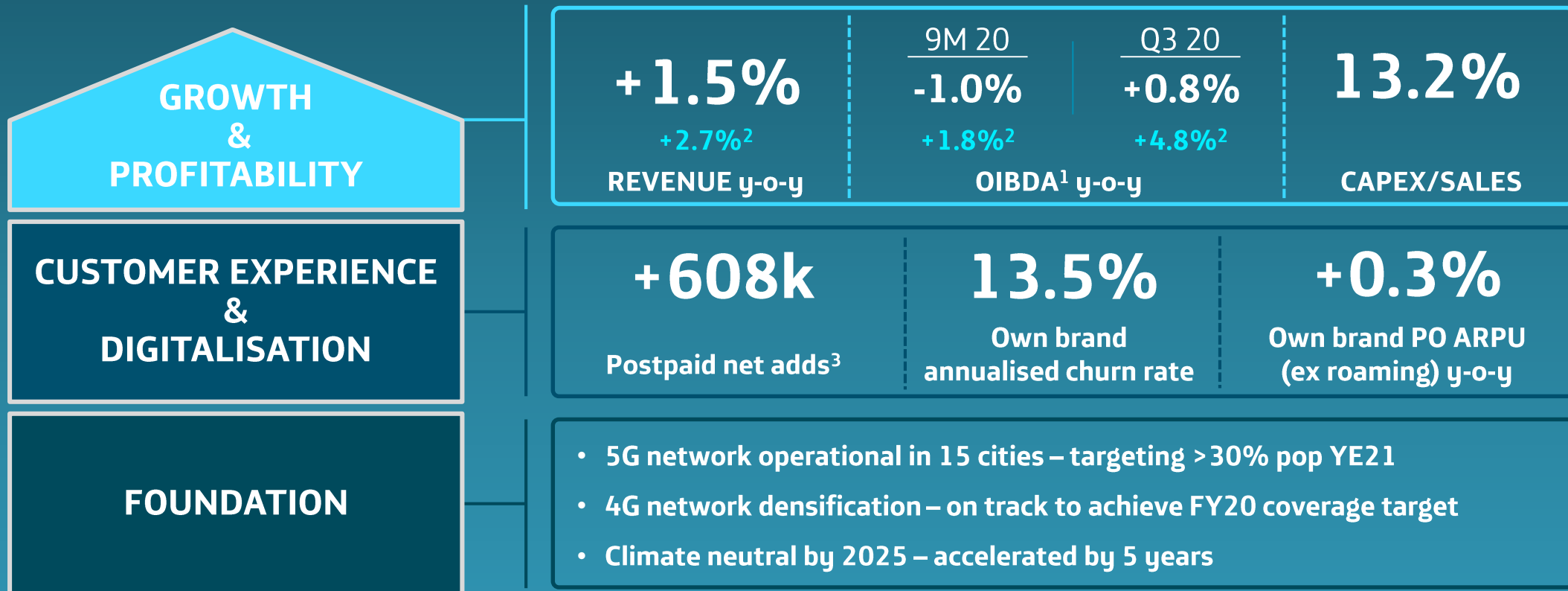
Household penetration higher



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

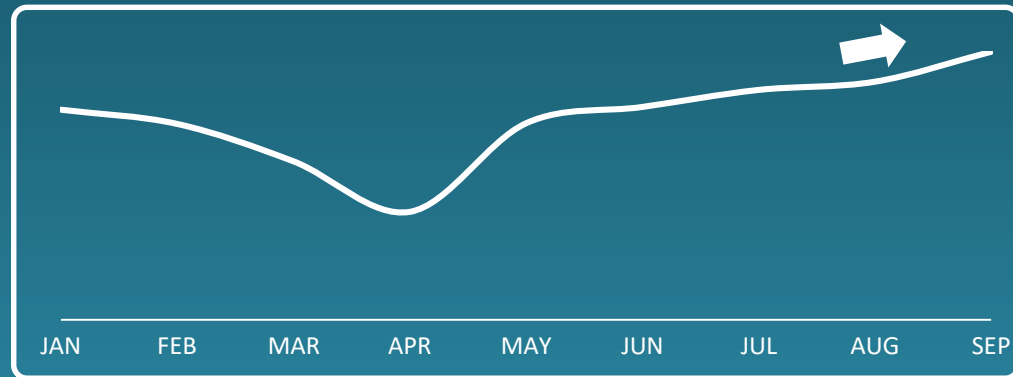


Improved business dynamics – 9M 20 fully absorbing COVID-19 impacts

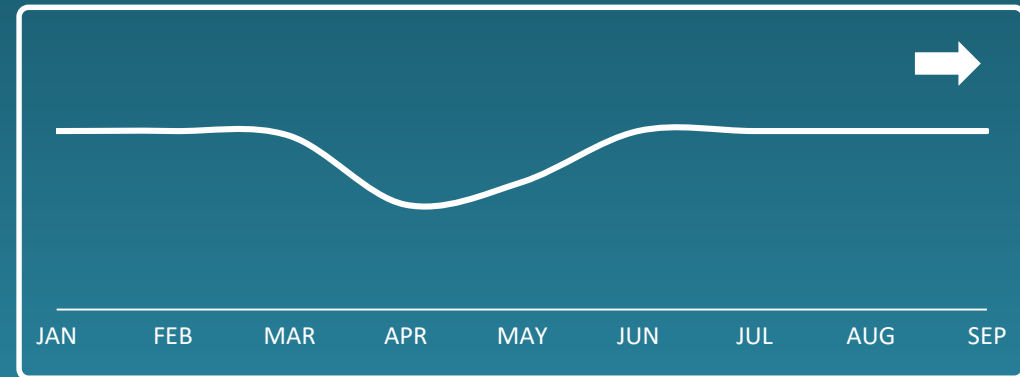


Operational trends intact – COVID-19 travel restrictions limit int'l roaming revenue

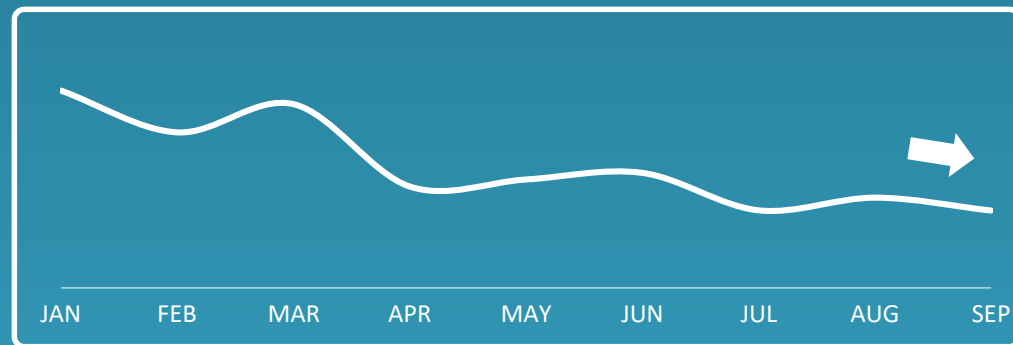
**O₂ GROSS ADDS
AT PRE COVID-19 LEVELS**



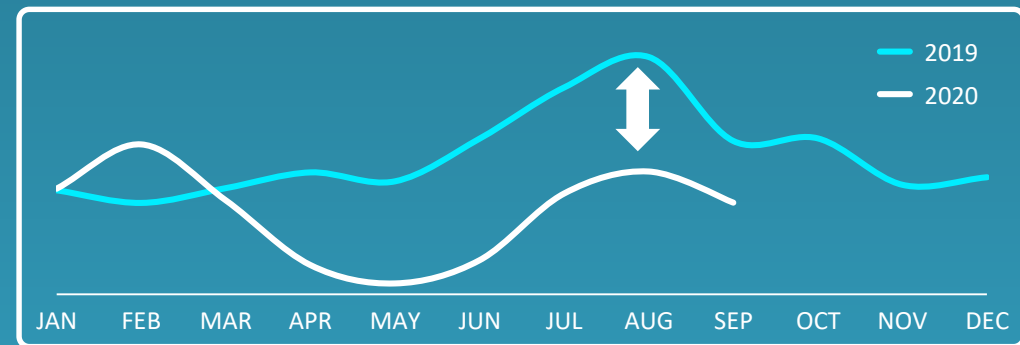
**PREPAID TOP UP BOOKINGS
AT PRE COVID-19 LEVELS**



**O₂ CHURN
AT HISTORIC LOWS**

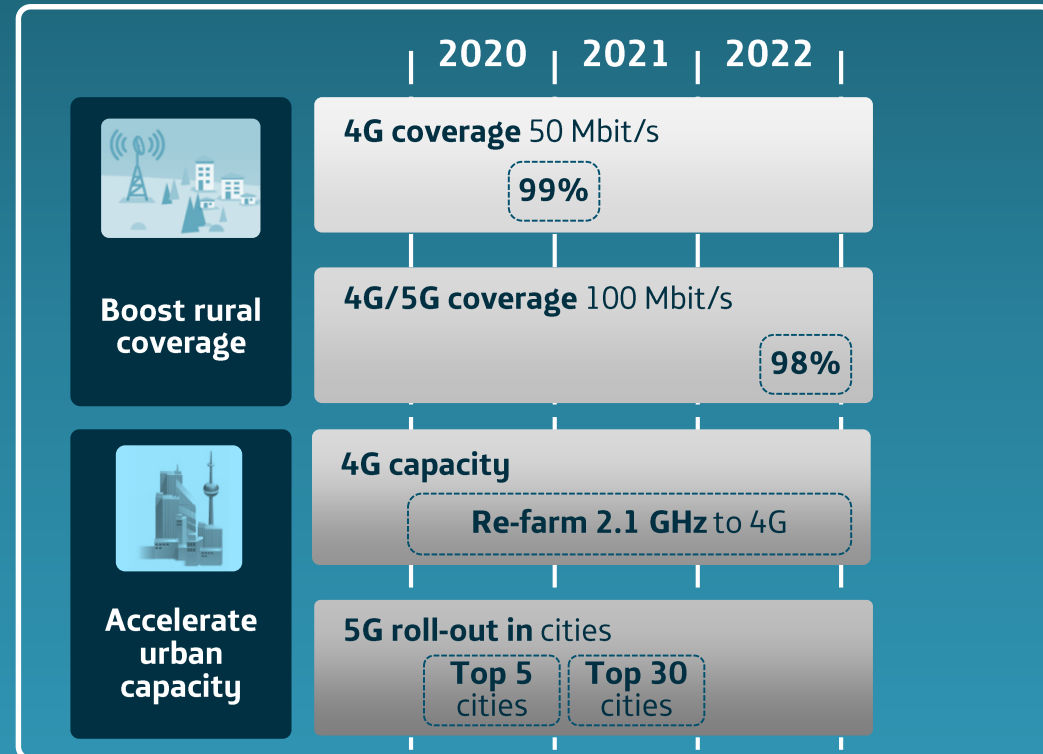


**INT'L ROAMING REVENUE (OUTBOUND)
AS EXPECTED BELOW PRIOR YEAR**



5G launched while enhancing 4G network quality and coverage

NETWORK ROLL-OUT STRATEGY



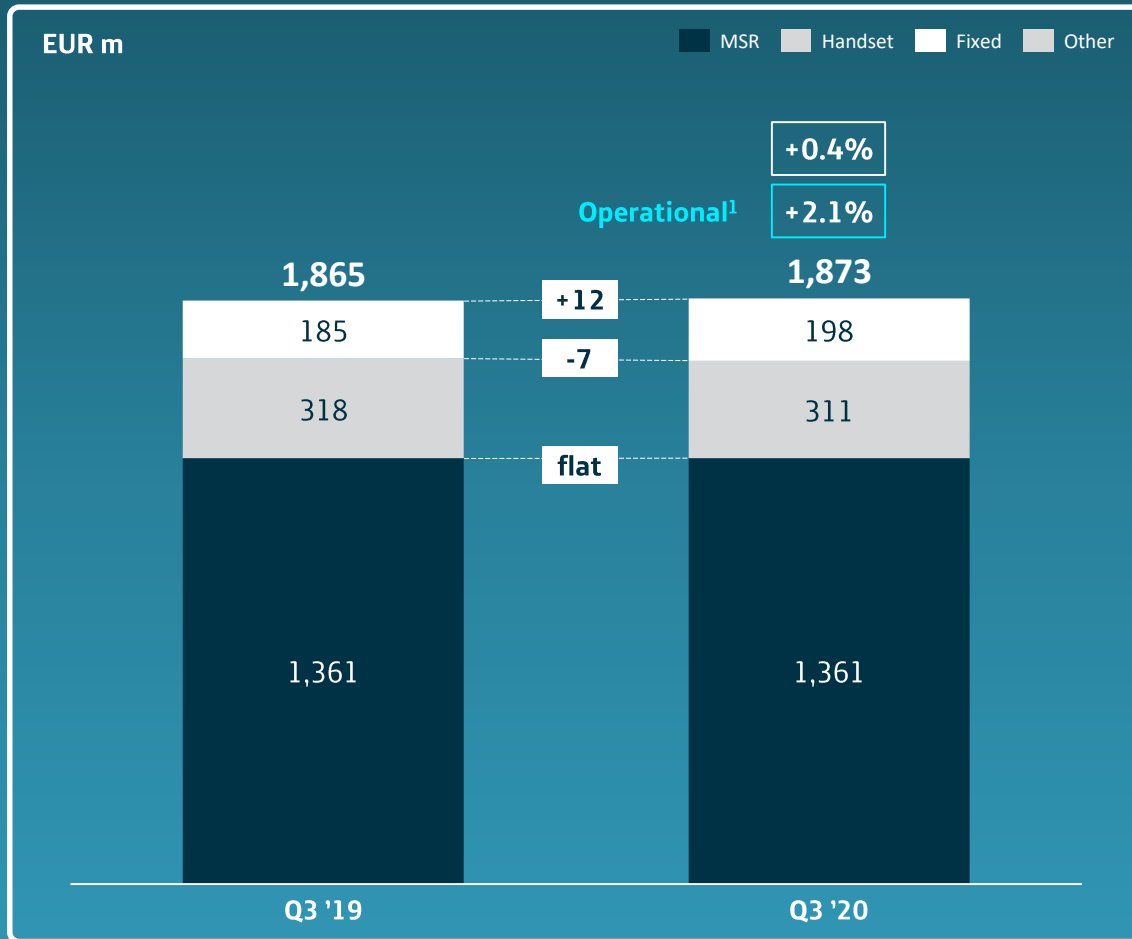
STEADY PROGRESS WITH NETWORK ROLL-OUT STRATEGY

- **4G - on track for FY20 target of +7.6k sites**
 - ~95% pop coverage
 - 100% household coverage in Berlin, Hamburg, Bremen
 - 97% household coverage in NRW
 - ~75% of FY20 LTE target achieved, YTD covering 7m people (4G)
- **5G network launched in 15 German cities**
 - Ericson to build 5G core network
 - 5G deployment using high performance 3.6 GHz spectrum
 - Optimised utilization of spectrum assets (DSS)
 - Aiming for >30% pop coverage by the end of 2021, ~50% by 2022 and full coverage 2025

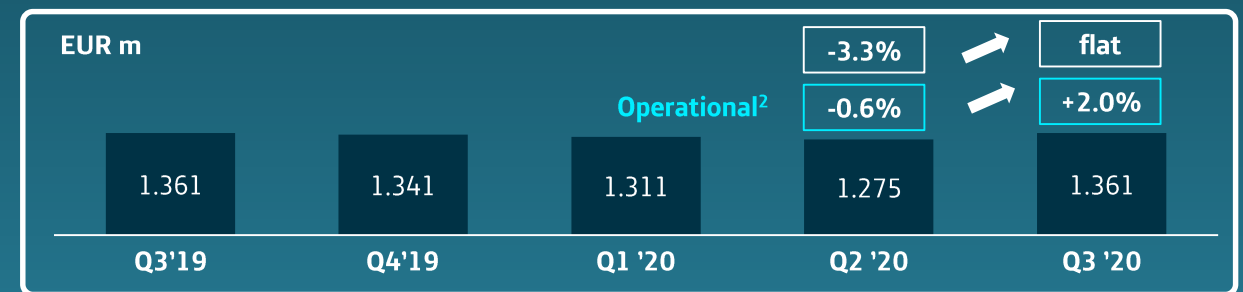


Revenue growth – operational trends intact

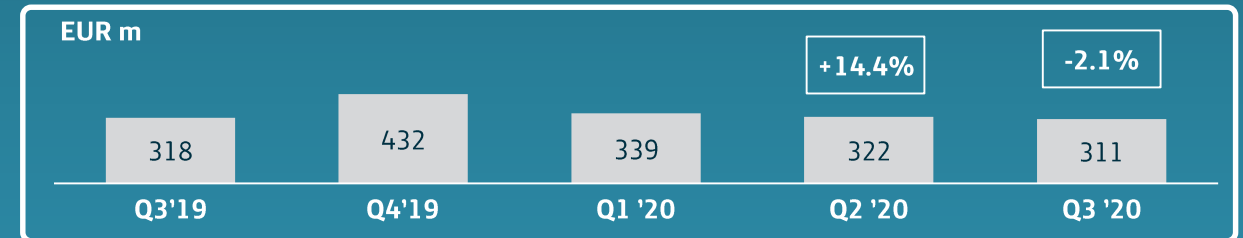
Revenue growth despite C-19 int'l roaming drag



Operational MSR growth



Sustained demand for high-value devices



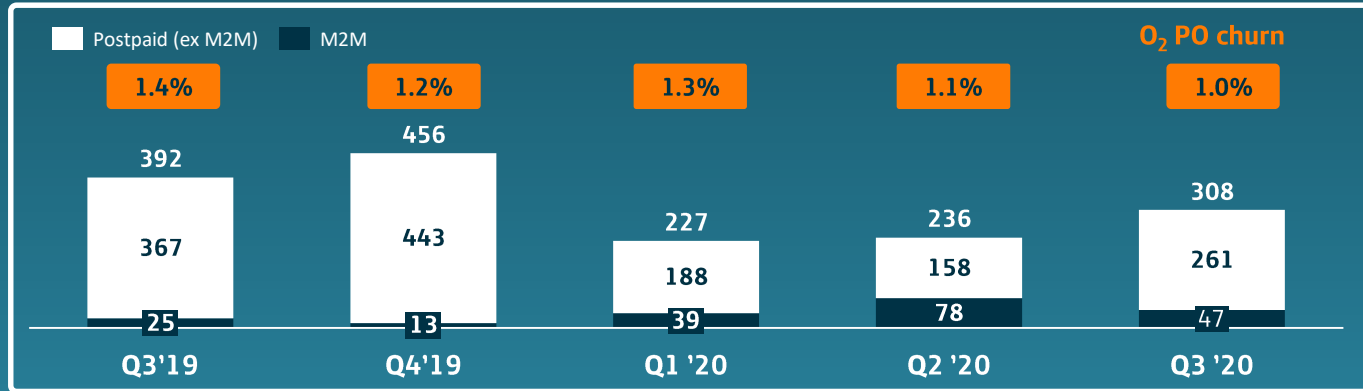
Improved customer mix drives fixed revenue growth



Positive trading momentum & continued ARPU recovery

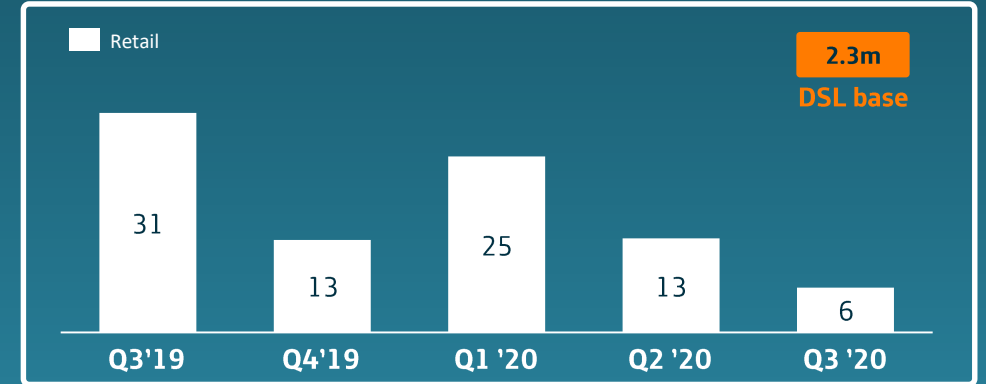
Historic low churn supports profitable growth in mobile

Net Adds (k)



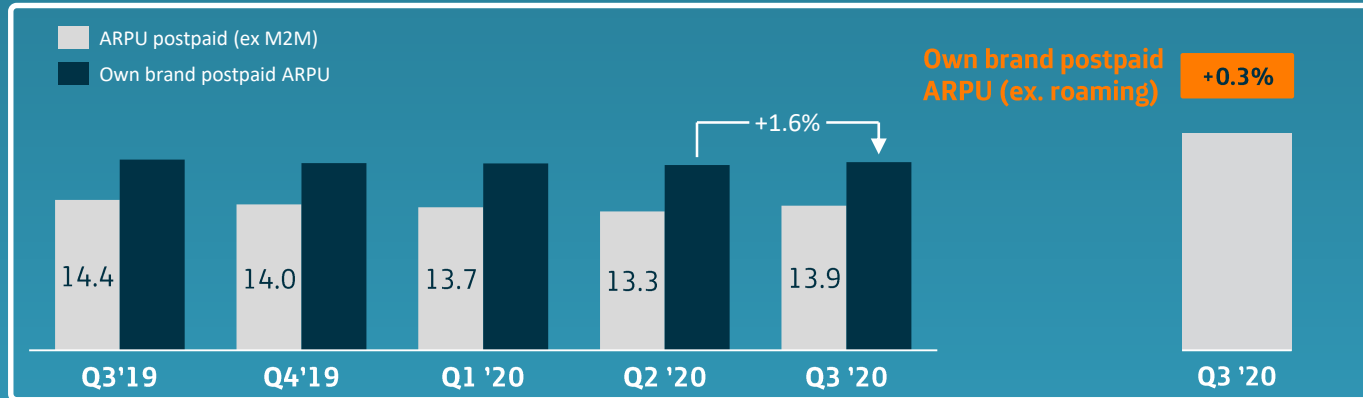
Reduced willingness to churn in fixed

Net Adds (k)



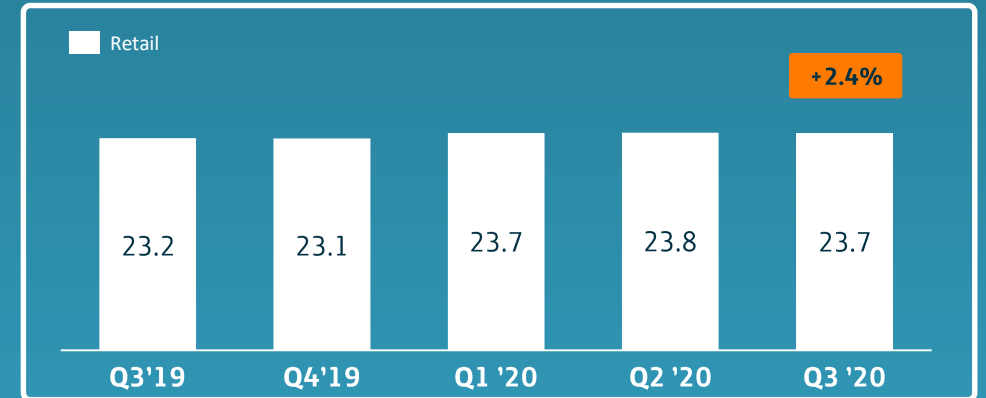
O₂ Free continues to underpin ARPU growth

ARPU EUR



Higher VDSL share drives fixed ARPU

ARPU EUR



Q3 20 OIBDA¹ back to growth on improved margin

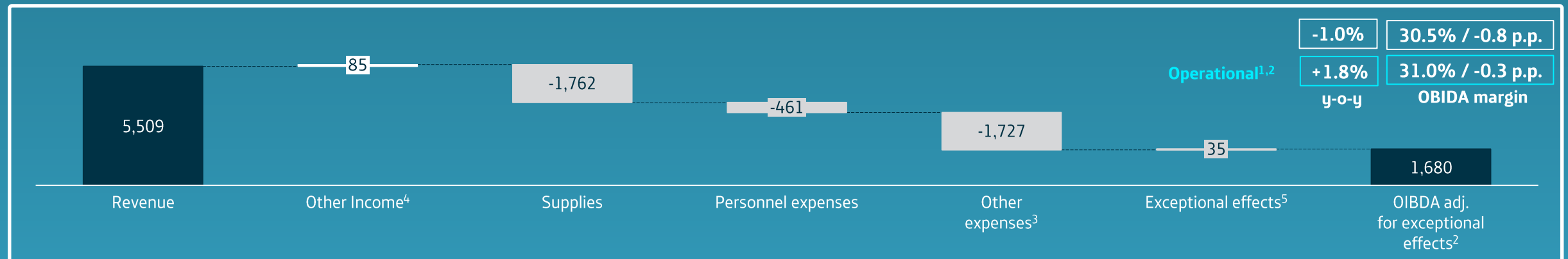
Q3 20 OIBDA¹ reflecting revenue mix and cost efficiencies

EUR m



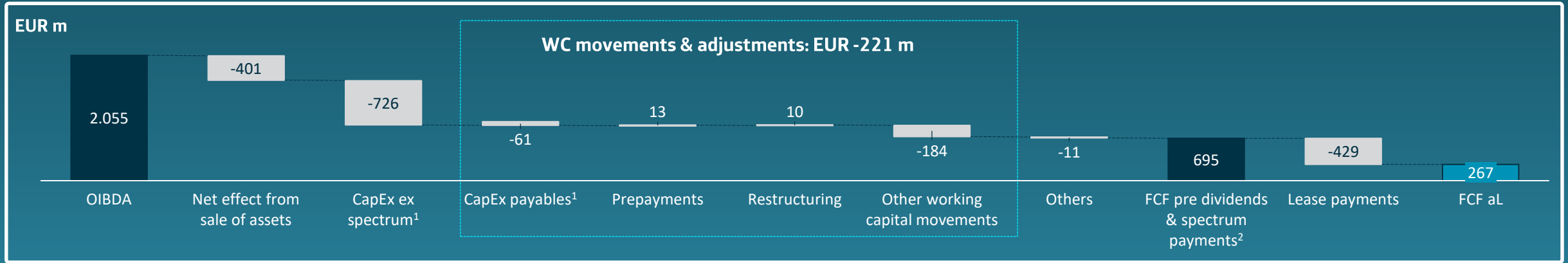
9M 20 OIBDA¹ absorbing full COVID-19 impacts

EUR m

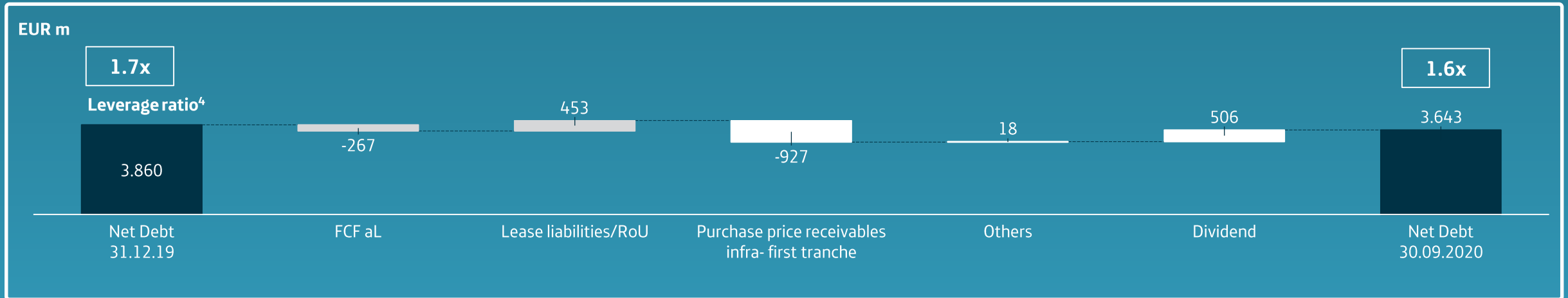


Free Cash Flow dynamics reflect usual seasonal movements

Evolution of 9M 20 FCF



Net debt³ – leverage well in-line with target



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

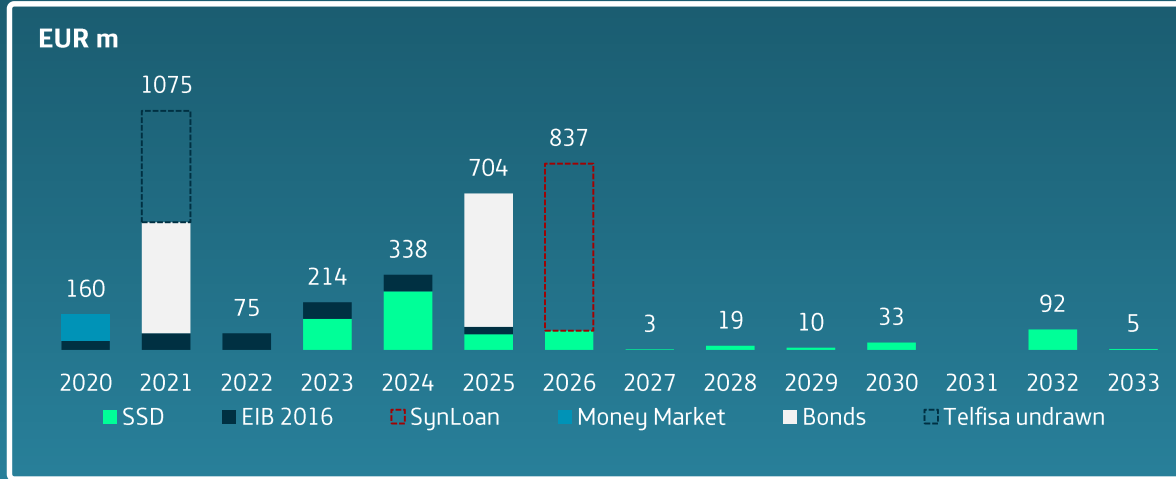
² FCF pre dividends & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

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

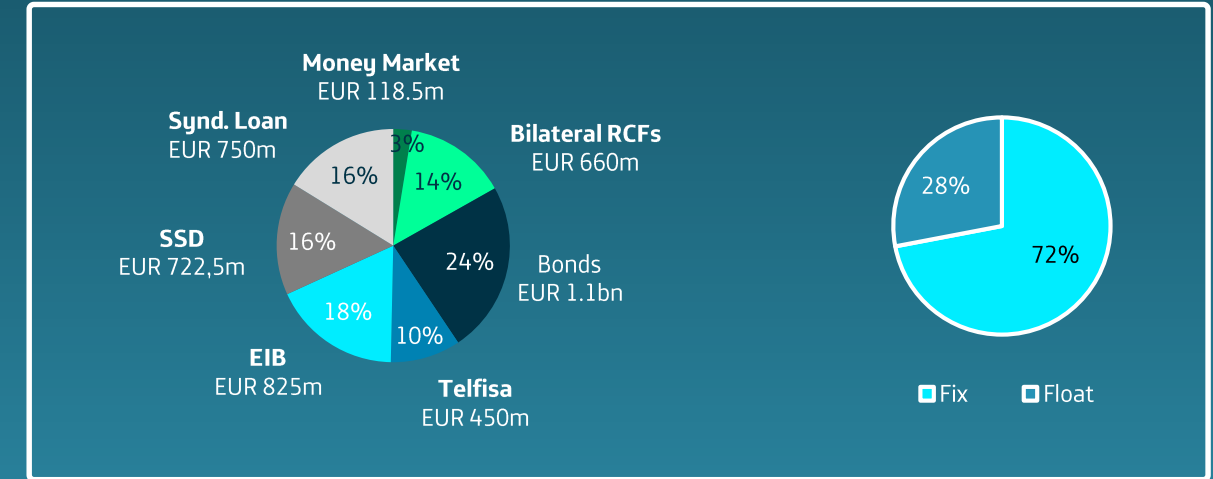
⁴ Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects

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

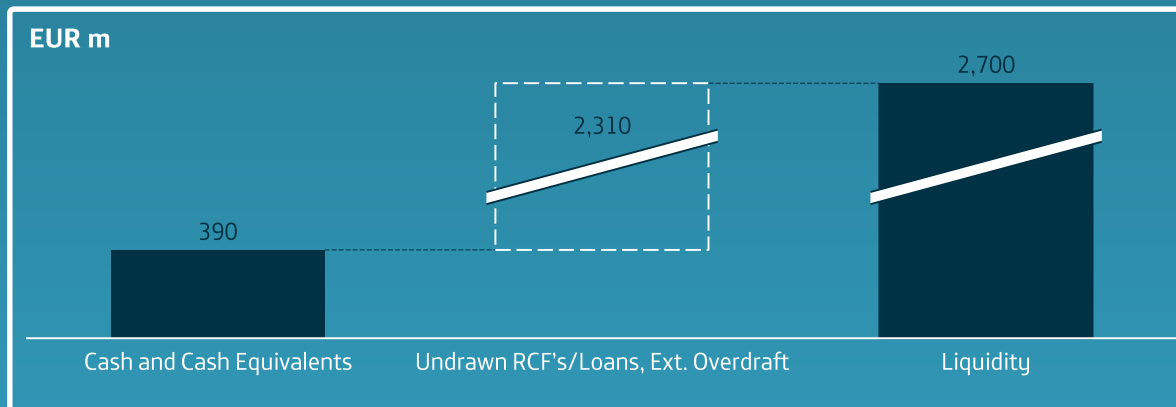
Maturity profile¹



Financing and interest mix²



Liquidity position



Comments

- Ample liquidity of c. EUR 2.7bn provides significant financial stamina, including EUR 450m undrawn EIB Loan
- Well balanced and diversified maturity profile
- Low exposure to interest rates changes, high percentage of debt at fixed rates

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 bn for corporate income tax and EUR 14.3 bn for trade tax)



Leverage¹

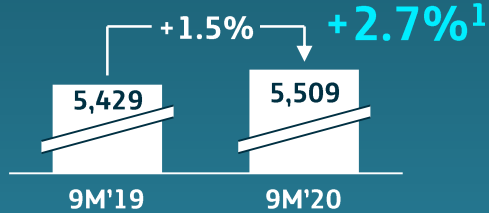
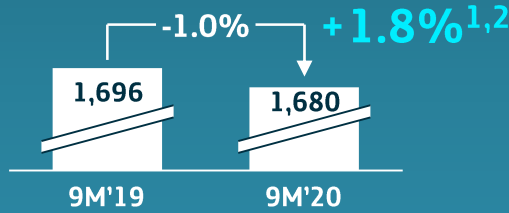
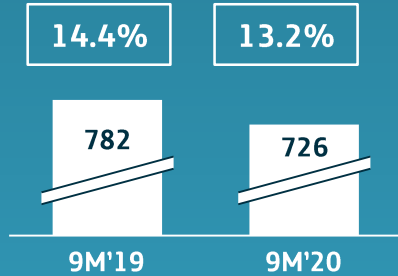
- Maintaining Fitch BBB investment grade rating
- Strong B/S with low indebtedness; leverage a 1.9x (IFRS 16) as of 30.06.2020
- IFRS 16 leverage target: At or below 2.5x; solid headroom under current rating
- Deferred spectrum payments lead to increased financial flexibility



Dividend
policy

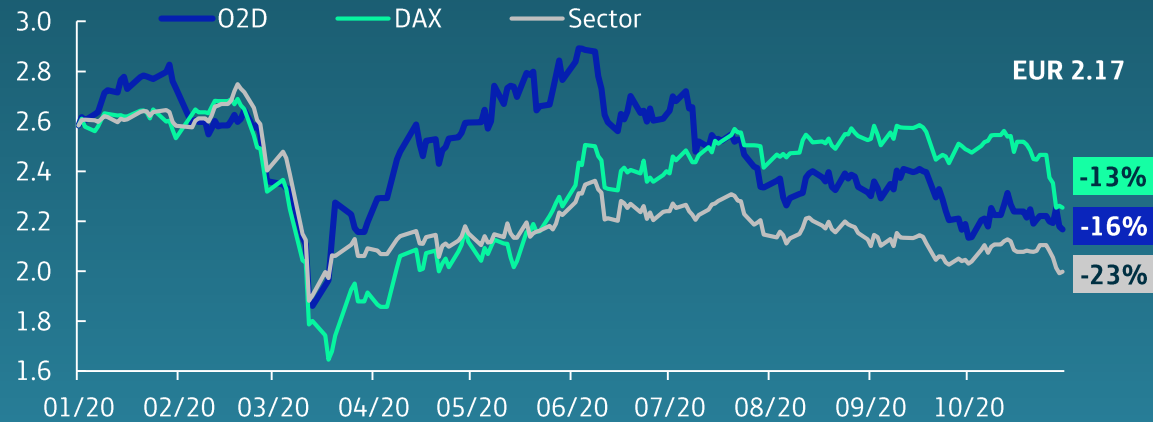
- Continuity since the IPO
- High pay-out ratio to FCF aL
- Dividend of EUR 0.17/share, which will be a floor during our investment programme in 2020/21

Confirming FY20 guidance while continuously monitoring COVID-19 developments

	Outlook FY20	9M 20
Revenue	Flat to slightly positive (incl. reg. impacts of ~EUR 20-30m)	 5,429 5,509 9M'19 9M'20 +1.5% +2.7%¹
OIBDA ²	Broadly stable to slightly positive (incl. reg. impacts of less than ~EUR 10m)	 1,696 1,680 9M'19 9M'20 -1.0% +1.8%^{1,2}
C/S	< 17-18%	 14.4% 13.2% 782 726 9M'19 9M'20

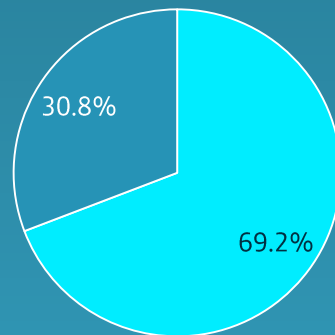
O2D factsheet

Share price development as of 30 October 2020



Shareholder structure¹

- Telefónica Germany Holdings Ltd²
- Freefloat

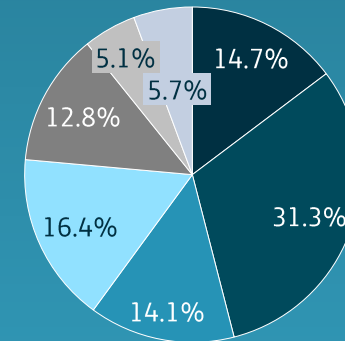


Telefónica Deutschland at a glance¹

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap	EUR 6,445.9 m
Share price	EUR 2.167

Regional split of shareholder structure³

- UK & Ireland
- North America
- France
- Germany
- Continental Europe
- Scandinavia
- Rest of World



Any further questions? Please reach out to us!



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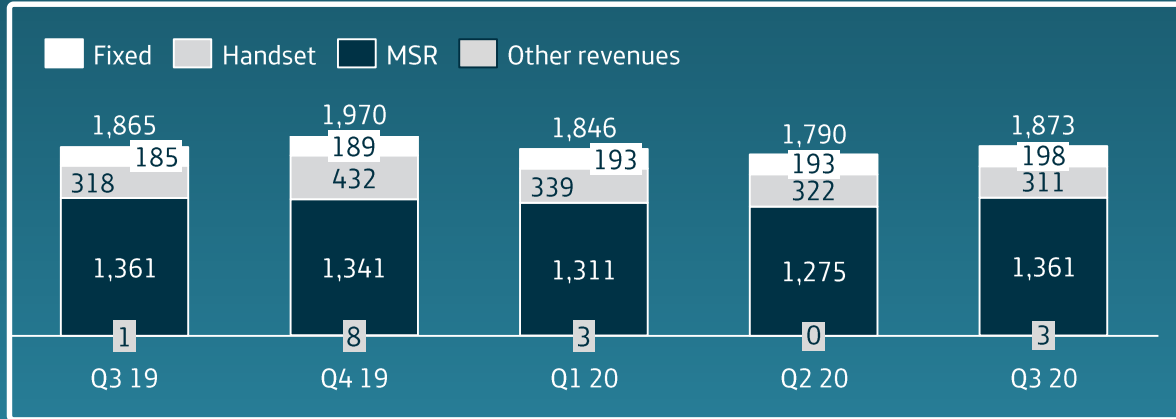
IR-Deutschland@telefonica.com

Appendix



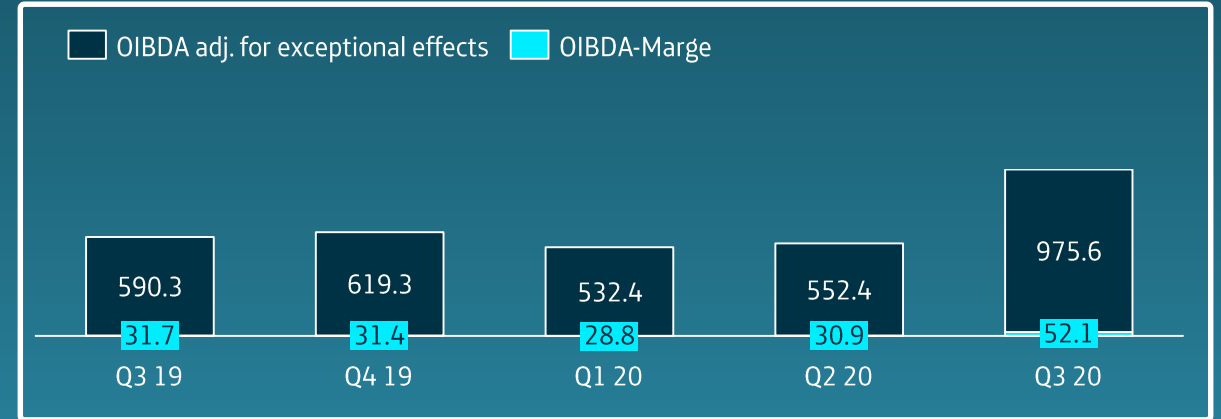
Revenue structure

EUR m



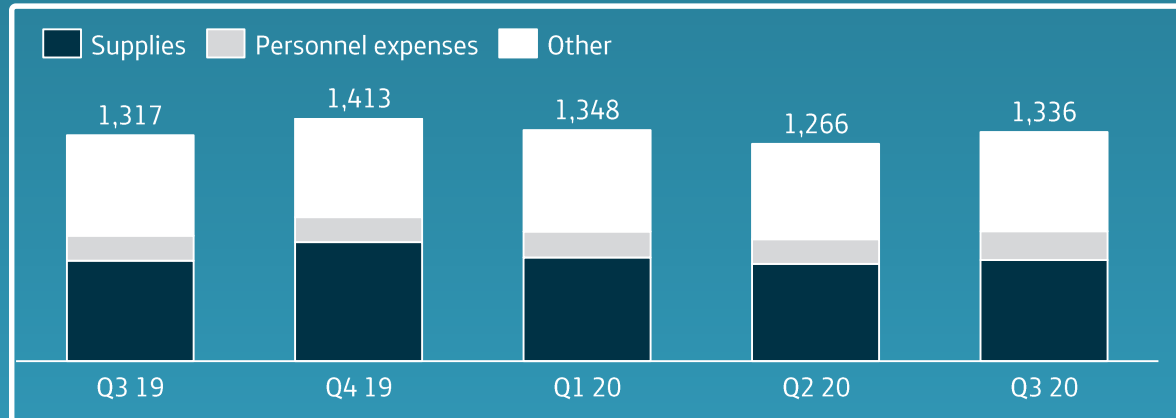
Underlying OIBDA¹

EUR m



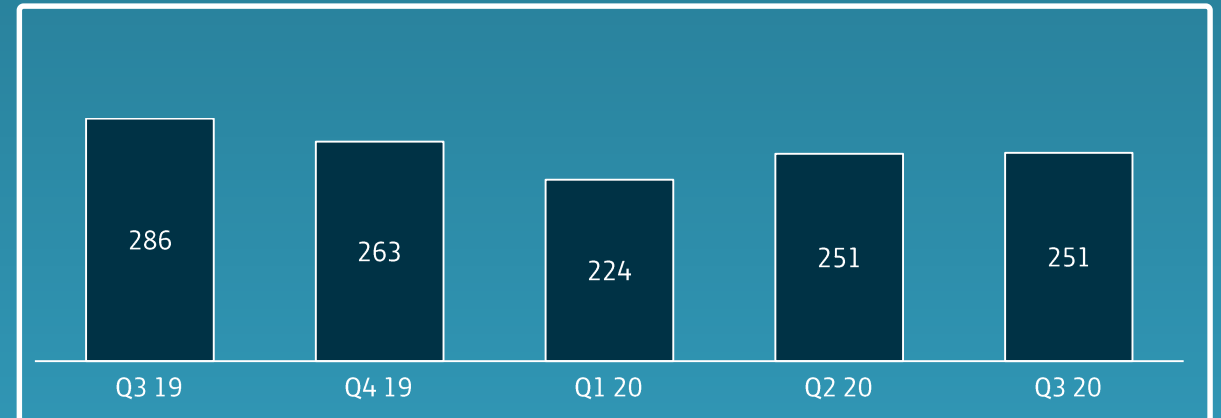
OpEx split²

EUR m



CapEx³

EUR m



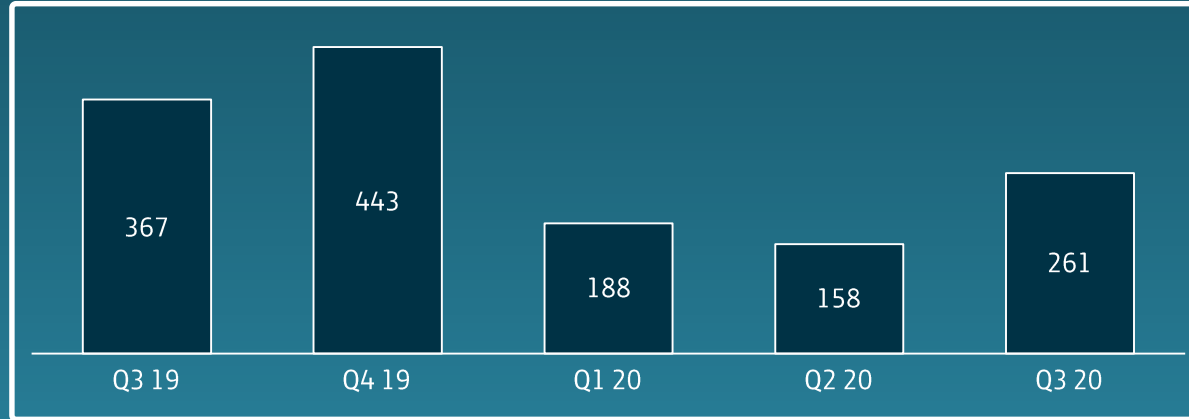
¹ Adjusted for exceptional effects

² Includes impairment losses in accordance with IFRS 9

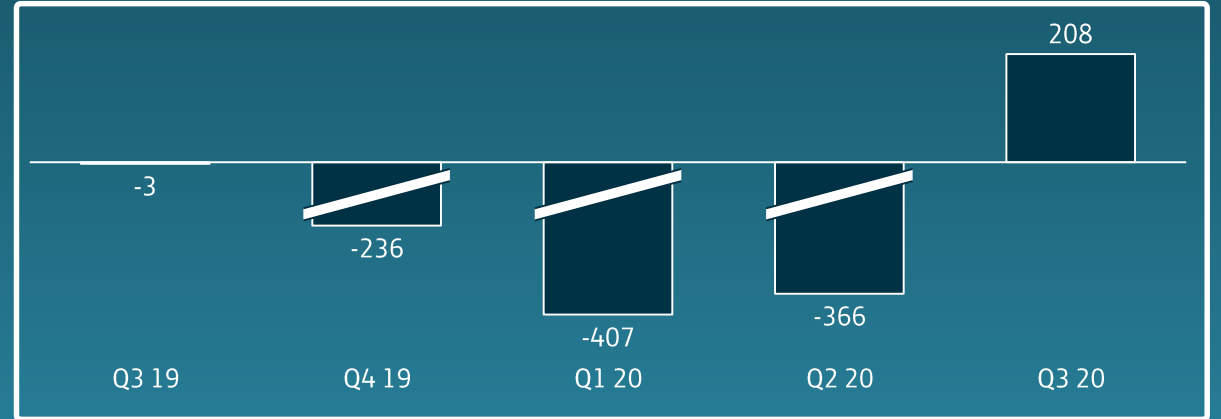
³ Excluding additions from capitalised right-of-use assets

Mobile KPIs

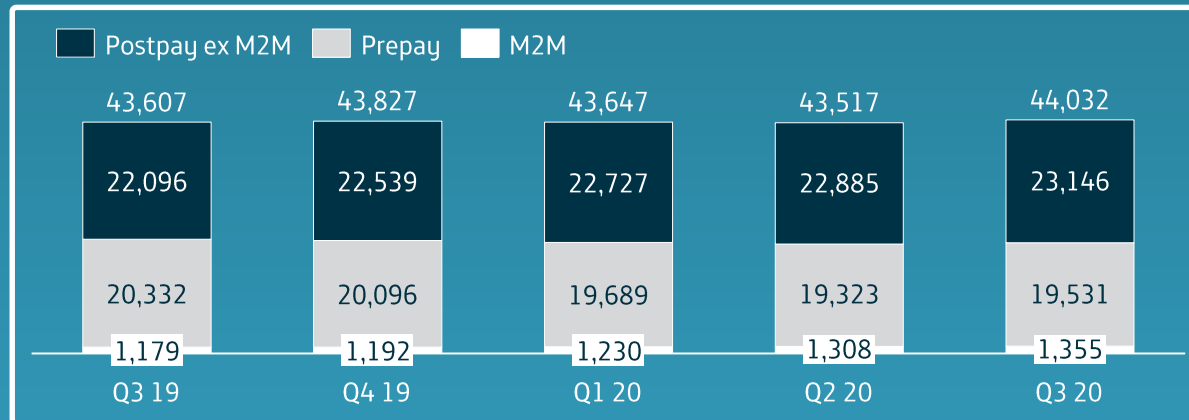
Postpay net adds¹ [k]



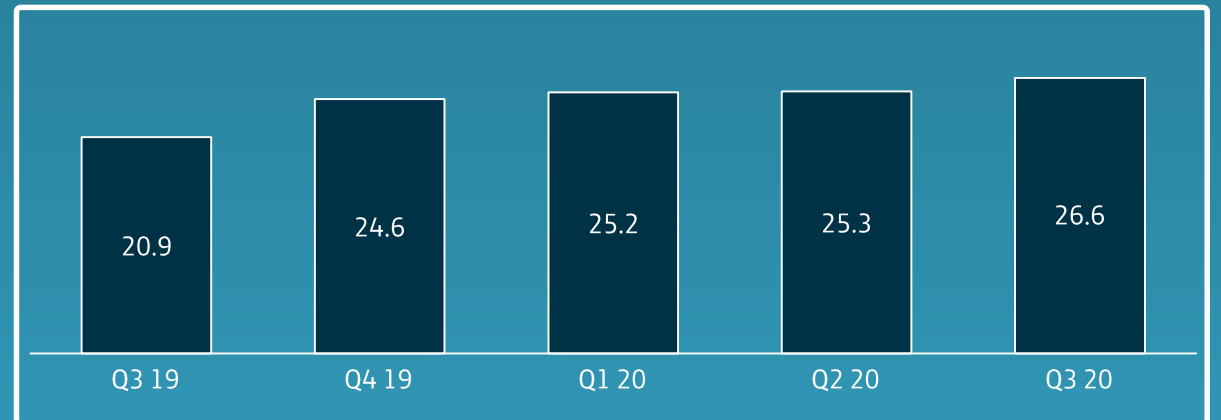
Prepay net adds [k]



Mobile customer base [k]

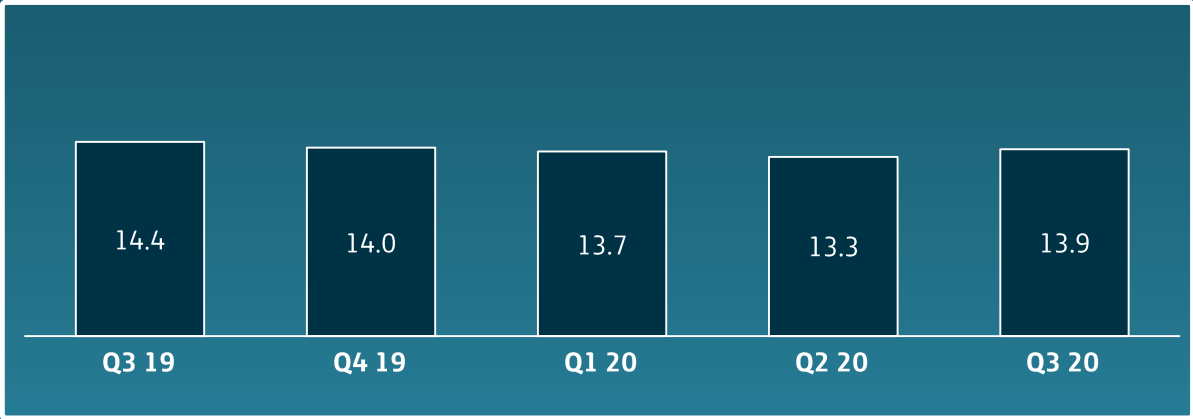


LTE customer base [m]

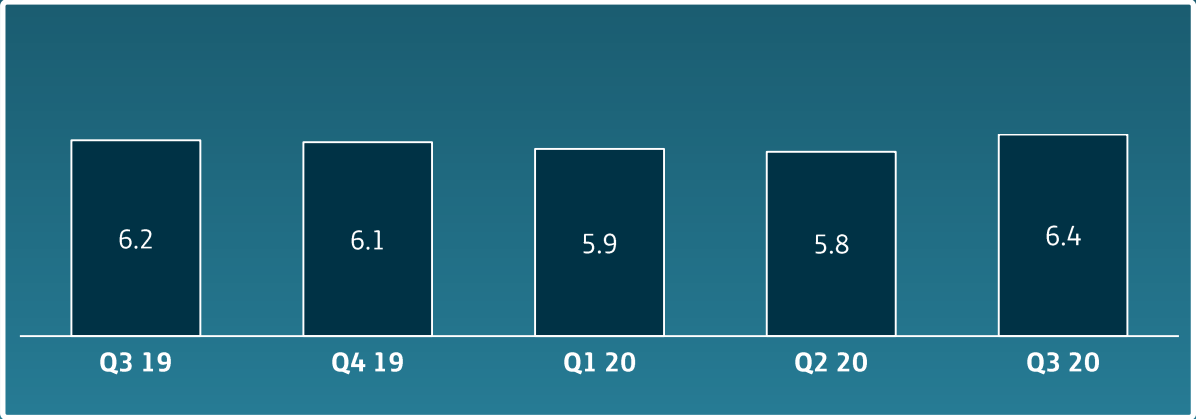


Mobile KPIs

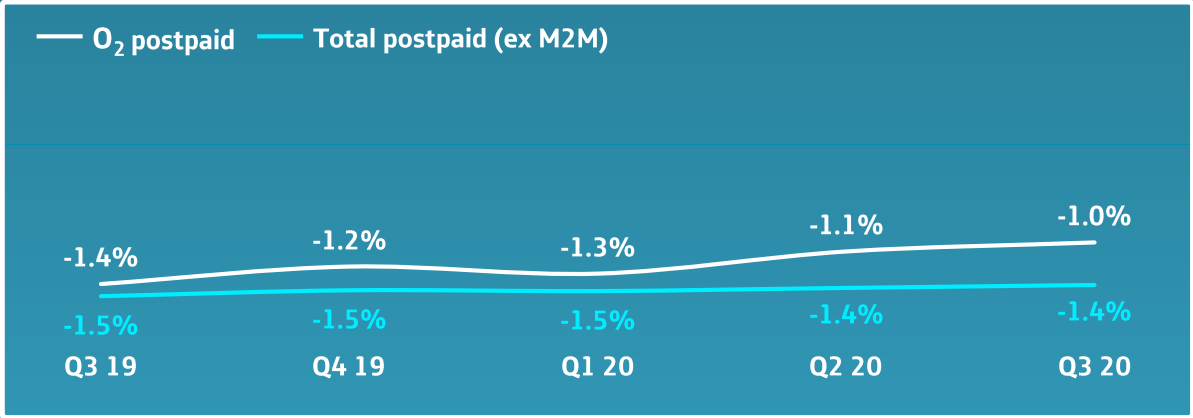
Postpay ARPU [EUR]



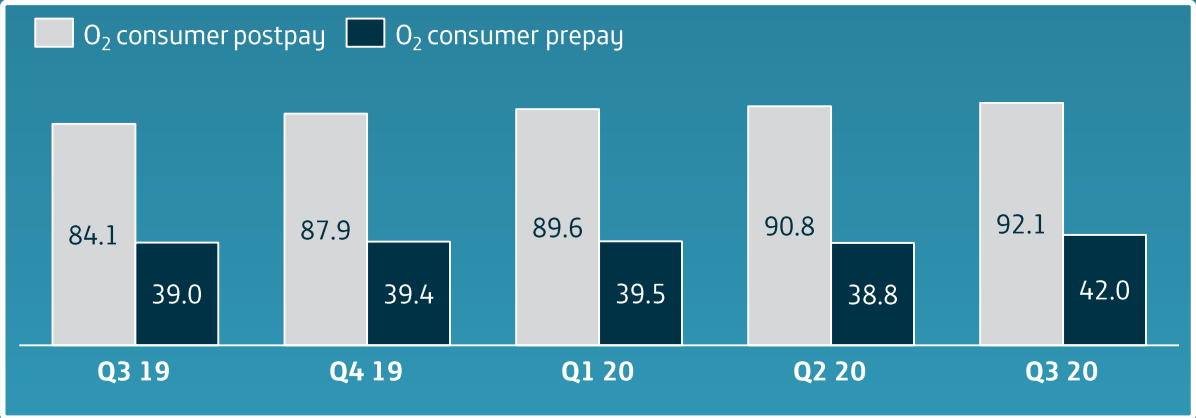
Prepay ARPU [EUR]



Churn rate [%]



Smartphone penetration [%]¹



O₂ Free Unlimited portfolio

	O ₂ Free Unlimited Basic	O ₂ Free Unlimited Smart	O ₂ Free Unlimited Max
Max. Speed	2 MBit/s	10 MBit/s	225 Mbit/s
Network	4G LTE	4G LTE  5G READY	4G LTE  5G READY
VOICE/SMS flat	✓	✓	✓
EU Roaming	✓	✓	✓
Monthly fee 24/m contract	29. ⁹⁹	39. ⁹⁹	49. ⁹⁹



Unlimited usage



Flexible contract duration:
monthly contract termination



Best-fit by **speed-classes**



Future ready by **5G-READY**

O₂ Free Volume based portfolio with Boost-option

	O ₂ Free S	O ₂ Free M	O ₂ Free L
		Price – Value Tip	
Data volume	3 GB	20 GB	60 GB
Max. Speed	225 Mbit/s	225 Mbit/s	225 Mbit/s
Network	4G LTE	4G LTE	4G LTE  5G ^{READY}
VOICE/SMS flat	✓	✓	✓
EU Roaming	✓	✓	✓
Monthly fee 24/m contract	19.⁹⁹	29.⁹⁹	39.⁹⁹



BOOST:
Doubling data



Flexible contract duration:
monthly contract
termination



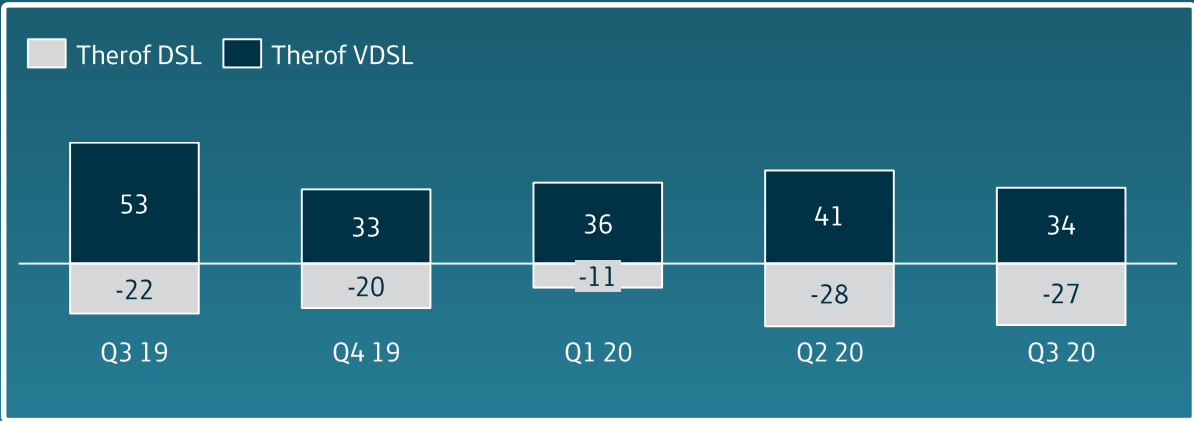
All customer needs supported
by **max speed**



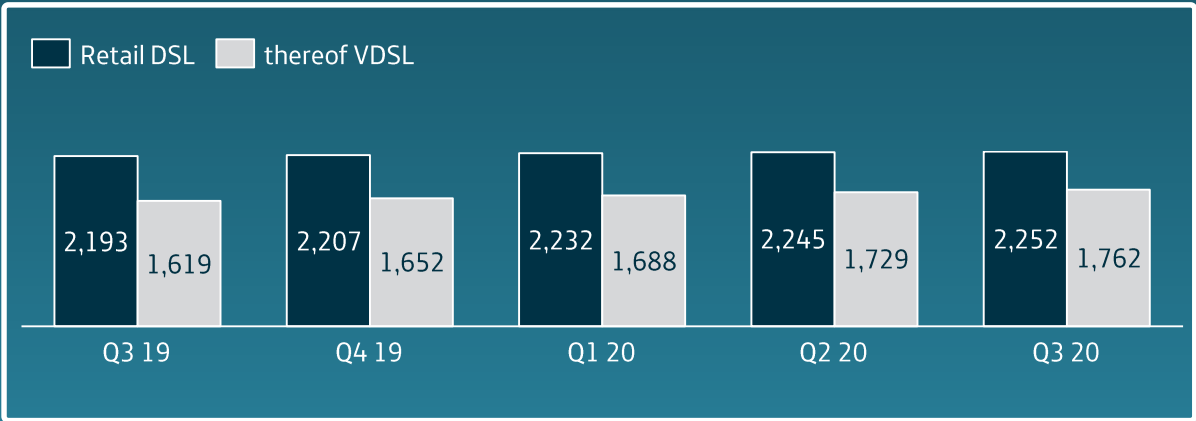
Future ready by **5G-READY**

Fixed KPIs

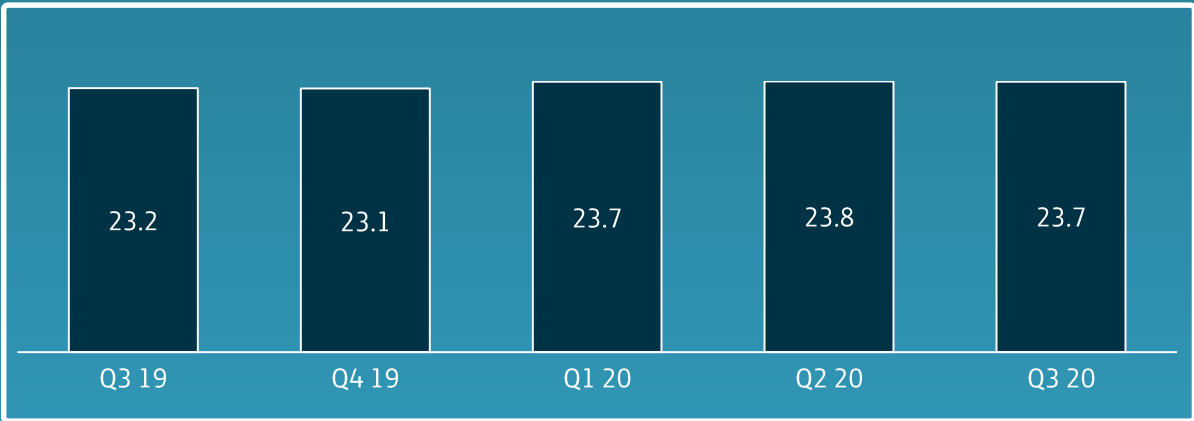
Retail broadband net adds ['000]



Fixed accesses ['000]



Fixed retail ARPU [EUR]



O₂ Free myHome technology agnostic (TAA) portfolio (from 3 Nov-20)

	O ₂ my Home S	O ₂ my Home M	O ₂ my Home L	O ₂ my Home XL	O ₂ my Home XXL
Max. Speed	10 MBit/s Upload 2 MBits/s	50 MBit/s Upload 10 MBits/s	100 MBit/s Upload 40 MBits/s	250 MBit/s Upload 40 MBits/s	1 GBit/s Upload 200 MBits/s
Technology	VDSL or LTE / 5G	VDSL, Cable or LTE / 5G	VDSL, Cable or LTE / 5G	VDSL or Cable	Fibre
Voice flat to German mobile & fixed networks	✓	✓	✓	✓	✓
Optional Router	From 2.99/m	From 2.99/m	From 2.99/m	From 5.99/m	From 5.99/m
Monthly fee 24m contract	24.⁹⁹	29.⁹⁹	34.⁹⁹	44.⁹⁹	59.⁹⁹

Telefónica

Deutschland