Telefónica Deutschland
Kepler Chevreux
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Major progress towards our vision of becoming Germany’s Mobile Customer & Digital Champion by 2022

**GROWTH & PROFITABILITY**

- **9M-2019**
  - **+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

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\(^1\) Excluding regulatory effects

\(^2\) Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects
Germany a safe harbour; 5G and exclusive cable access as game changers for Telefónica Deutschland

### Stable macro-environment

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>5.7%</td>
</tr>
<tr>
<td>2018</td>
<td>5.2%</td>
</tr>
<tr>
<td>2019</td>
<td>5.0%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumer Spend (in EUR bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,697</td>
</tr>
<tr>
<td>2018</td>
<td>1,744</td>
</tr>
<tr>
<td>2019</td>
<td>1,790</td>
</tr>
</tbody>
</table>

### 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**

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1. Source: Federal Employment Agency
2. Source: Destatis, 2019 estimate by Ifo Institute for Economic Research Sept. 2019

Please note: 2019 based on internal estimates
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 >30 German households Mbit/s

Customer experience

- Premium customer service & access to all sales channels
- 3x ‘GOOD’ in all network tests
- Significantly improved network performance for ~44m mobile accesses
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

Opportunity: Mobile customer distribution

>50% urban
<25% rural
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

- Boost rural coverage
- Accelerate urban capacity

Infrastructure sharing strategy

1. Tri-lateral sharing opportunities
2. Potential for passive infrastructure sale
3. Bi-lateral sharing opportunities

Network roll-out strategy timeline:
- 2020
- 2021
- 2022

- Nationwide 4G coverage
- Metropolitan 5G coverage

Boost rural coverage
Accelerate urban capacity
Mid-term outlook

**Mid-term guidance (CMD 2018)**

- Revenue
  - Growth in line with the German market
- OIBDA
  - Ongoing margin improvement
- C/S
  - Stable Capex envelope

**Updated midterm guidance 2020/22**

- TEF D with cumulated growth of min. 5%
- Ongoing margin improvement

2-year investment programme to generate growth C/S incl. 5G RAN peaking in 2020/21 between 17-18%; normalising already in 2022

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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

- **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**
  - 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

- **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
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)<sup>1</sup>

<sup>1</sup> Free Cash Flow is defined as net financial Free cash flow adjusted for leases, spectrum payments and exceptional items
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

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\(^2\) 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
Q&A
Get in touch with the Investor Relations team!

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