Telefónica Deutschland

Preliminary Q4 / FY 2019 results

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Recap: Telefónica Deutschland's 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

Strong set of results in 2019; making major progress towards our vision of becoming Germany's Mobile Customer & Digital Champion by 2022

FY 2019

GROWTH & PROFITABILITY	+1.9% REVENUE[1] yoy	+1.0% OIBDA[2] yoy	+14.1% CAPEX/SALES
CUSTOMER EXPERIENCE & DIGITALISATION	+1.5m Postpaid net adds	15.5% Annualised churn rate strongly improved	+0.9% Own brand postpaid ARPU yoy
FOUNDATION	transporting ~1bn gigabytes for our customers		

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

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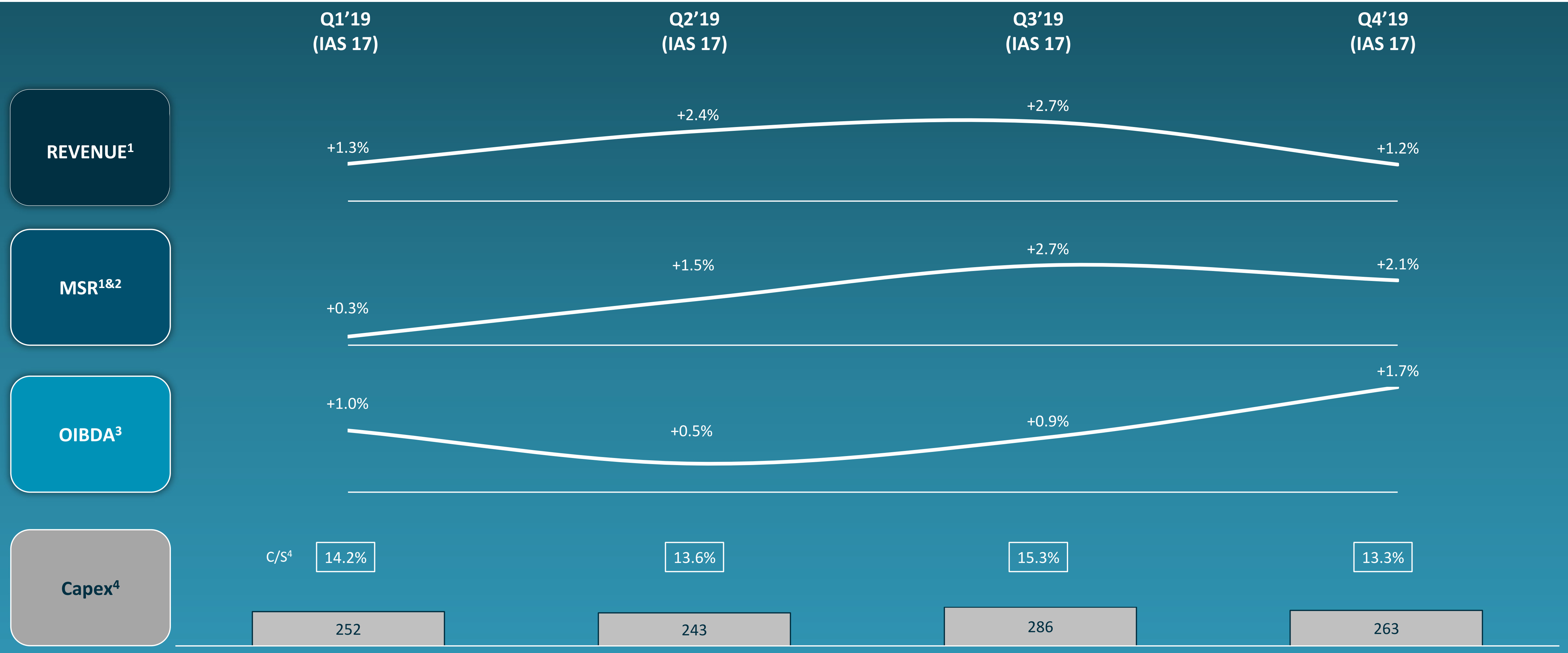
Revenue acceleration continues and profitability solid



[1] Excluding the negative impact from regulatory changes (mainly driven by the mobile termination rate cut to EURc 0.95 per minute as of 1 Dec 2018)
[2] Mobile service revenue include base fees and fees paid by our customers for the usage of voice, sms and mobile data services. Also, access and interconnection fees as well as other charges levied on our partners for the use of our network are included
[3] Exceptional effects were EUR 23 million of restructuring expenses in the period January to December 2019 (EUR 52 million based on IAS 17). The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16. Regulatory effects amounted to EUR -38 million in the period January to December 2019
[4] CapEx excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

FY 2019 guidance met across all metrics on sustained commercial momentum; aiming to accelerate growth profile leveraging a smart investment profile

	Outlook FY'19 (IAS17)	FY'19[1] (IAS17)	Outlook FY'20 (IFRS16)
Revenue	**Broadly stable** (excl. reg. impacts of ~EUR 60-70m)	+1.9% FY'18: 7,320 FY'19: 7,458 ✓	**Flat to slightly positive** (incl. reg. impacts of ~EUR 20-30m)
OIBDA[1]	**Broadly stable to slightly positive** (excl. reg. impacts of ~EUR 40-50m)	+1.0% FY'18: 1,884 FY'19: 1,903 ✓	**Broadly stable to slightly positive** (incl. reg. impacts of less than ~EUR 10m)
C/S[2]	**Approx. 13-14%**	13.2% → 14.1% ✓	**17 - 18%**

[1] Revenue excluding regulatory effects / OIBDA adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects
[2] Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

First speed-tiered O_2 Free unlimited portfolio driving ARPU-up strategy

Evolution of O_2 Free

2016
- 3G — Keep-surfing guarantee
  3G flat throttled to 1 Mbps
- Allnet-Flat
- EU-Roaming (pre-regulated)

2017

Introduced EUR 30 hero-price-point

- 4G high-speed
- BIG data buckets
- Allnet-Flat
- EU-Roaming

2018/2019

Introduced EUR 5 deals

- Unlimited tariff
  4G flat throttled to 1Mbps
- x2 BOOST (doubling data)
- CONNECT- Feature (up to 10 devices)
- Flexible contract duration

2020

Speed-tiered O_2 Free unlimited
All customer needs met

- Unlimited usage
- Best-fit speed-tiering
- 5G-readiness

Network lays the 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

Latest developments

- Breakthrough in network quality with **3x 'good'** in major German network tests
- Temporary investment programme to **boost rural coverage & accelerate urban capacity**
  - Fulfilling **4G coverage obligations** by the end of 2020
  - **5G roll-out into top 5 cities** starting in 2020
- Realising the **potential from infrastructure sharing**

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

Financial update

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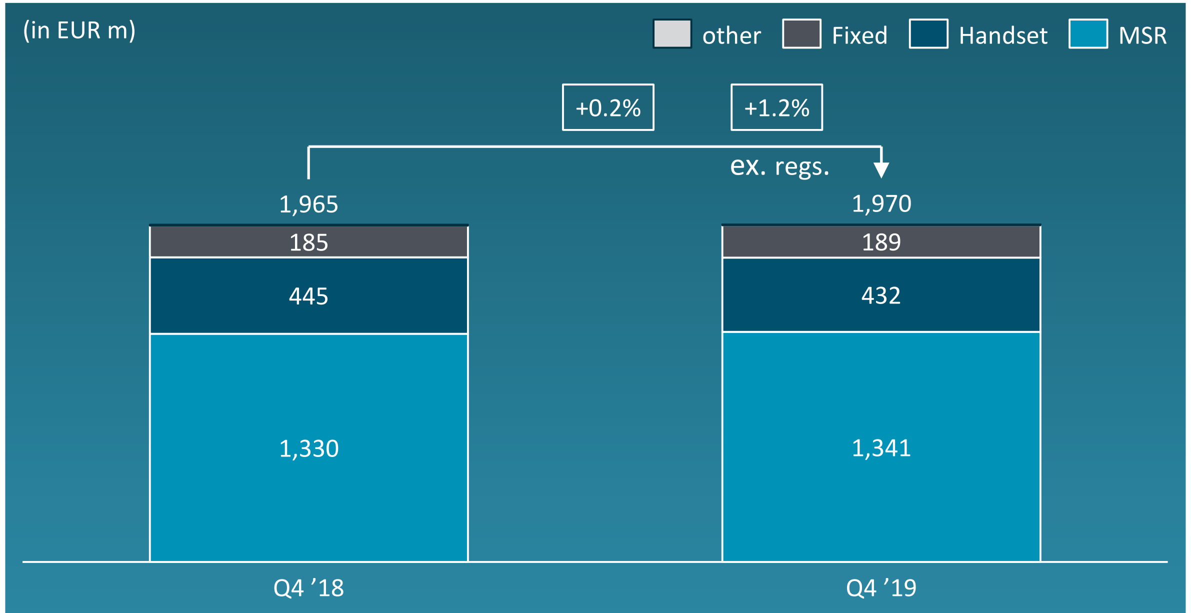
CFO

Markus Rolle

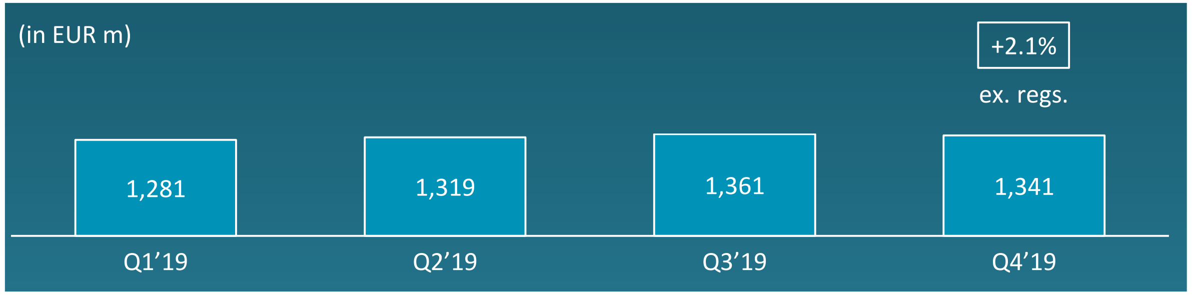
Revenue trends driven by strong MSR performance

MSR performance driving Q4 revenue

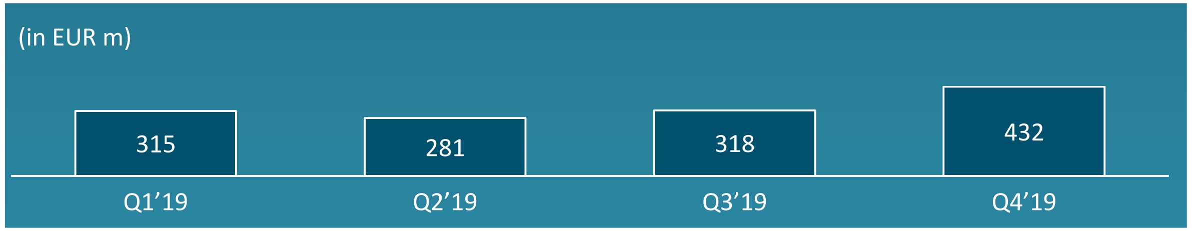


- MSR further improving on visible effects from O_2 Free APRU-up as headwinds from legacy base rotation and retention focus in renewal cycles are further easing
- Handset revenue driven by continued solid demand for high-value devices on tougher comps
- Fixed revenue with strong VDSL trading

MSR reflects traction of O_2 Free portfolio



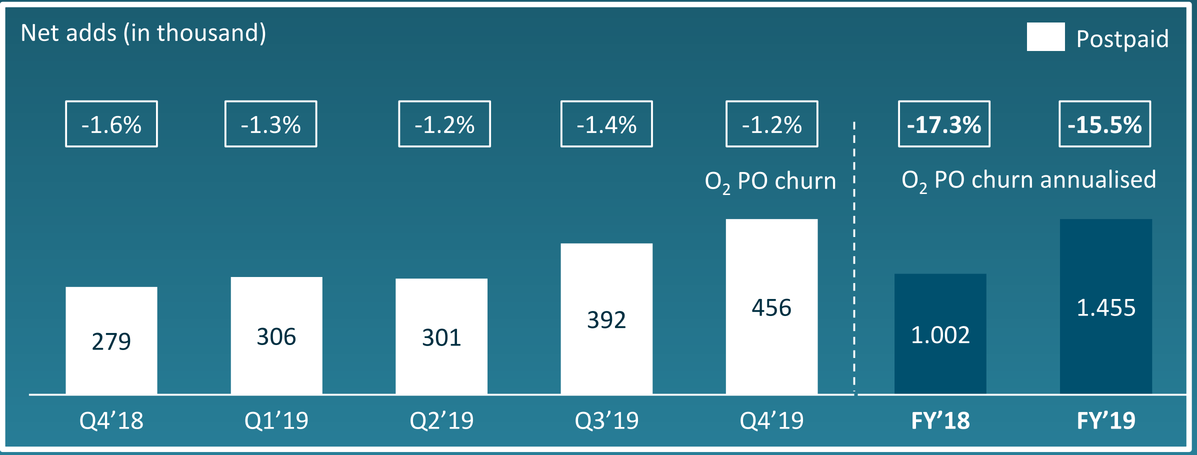
Continued demand for high-value devices



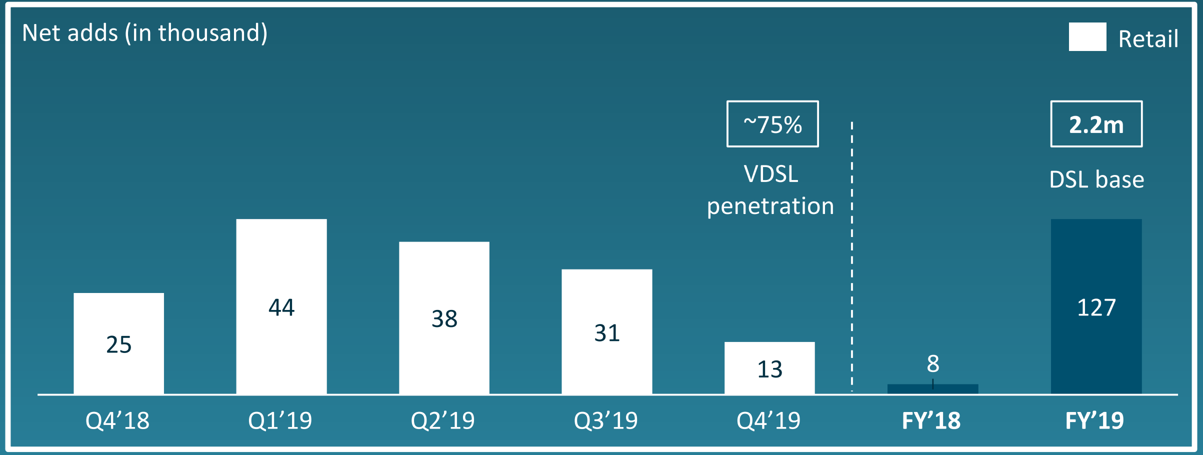
Fixed revenue with improving retail DSL trend

Strong operating momentum as net adds are accelerating; ARPU growing

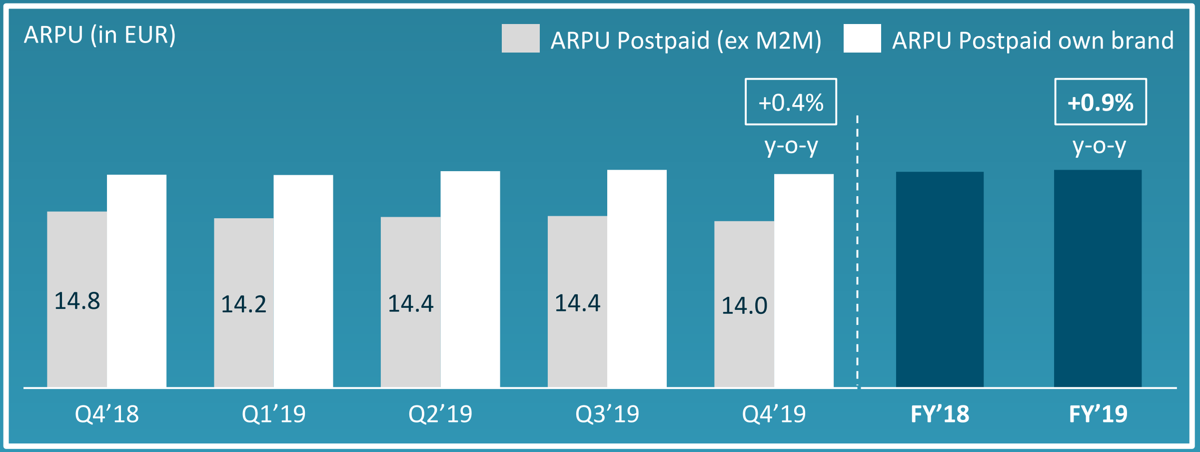
Focus in mobile on profitable growth



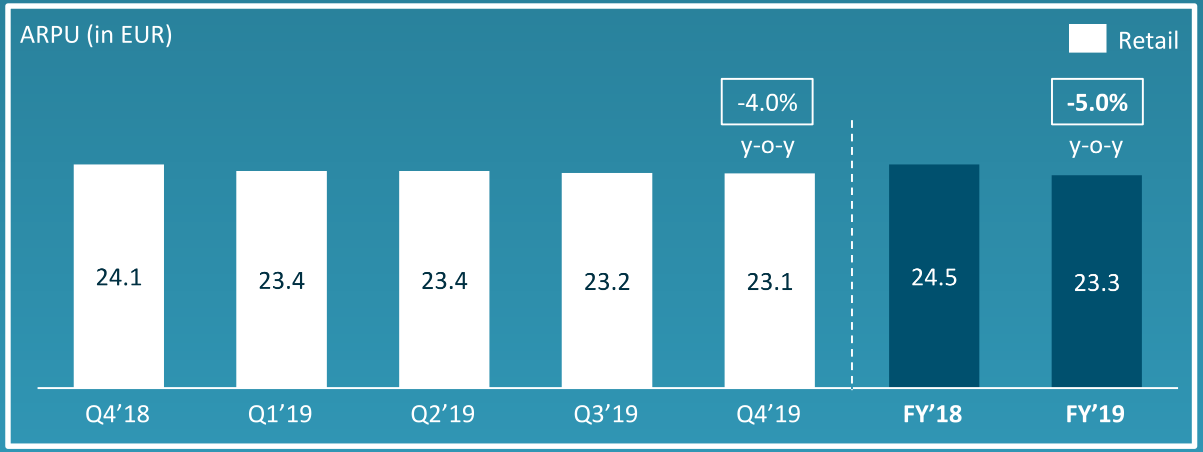
Sustained demand for VDSL drives growth



O_2 Free drives own brand ARPU



Fixed ARPU reflects higher bundle share in the base



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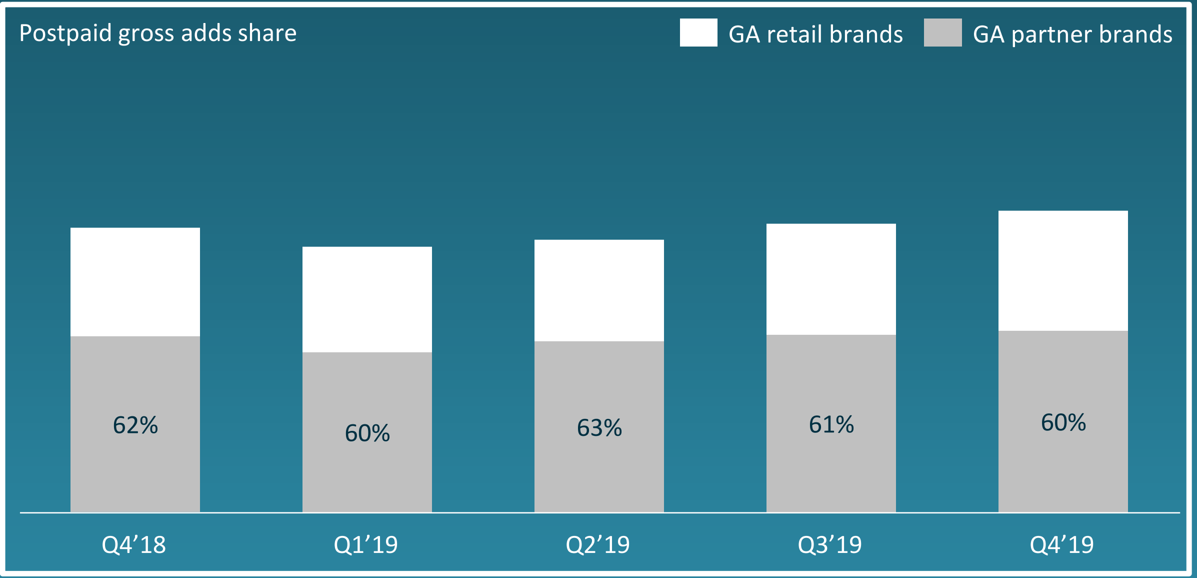
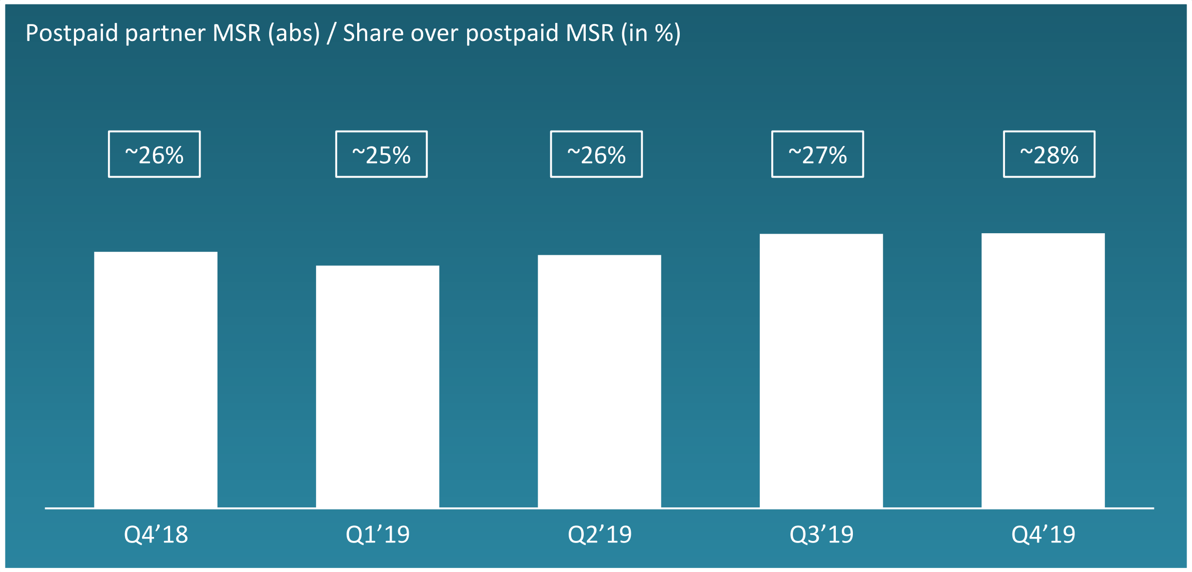
Partner segment with stable growth trajectory

Partner trading driven MBA MVNO dynamics



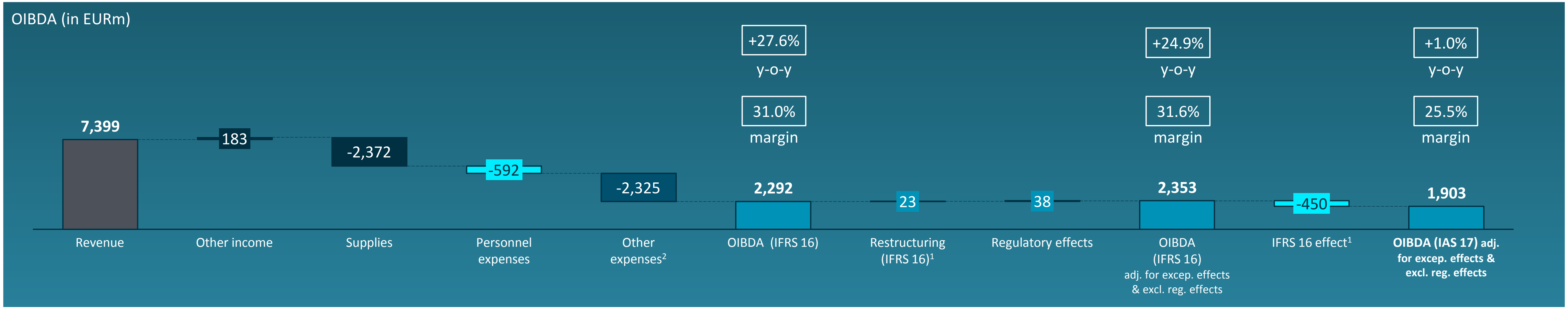
Partner revenue growth reflects data growth



- Partner performance remains in line with expectation
- Trading performance driven by MBA MVNO including migration effects to our network plus expanding partnerships
- Partner revenue growth reflecting the data growth driven dynamics of the MBA MVNO

OIBDA reflects continued market & transformation invest in growth

Structure of OIBDA FY 2019



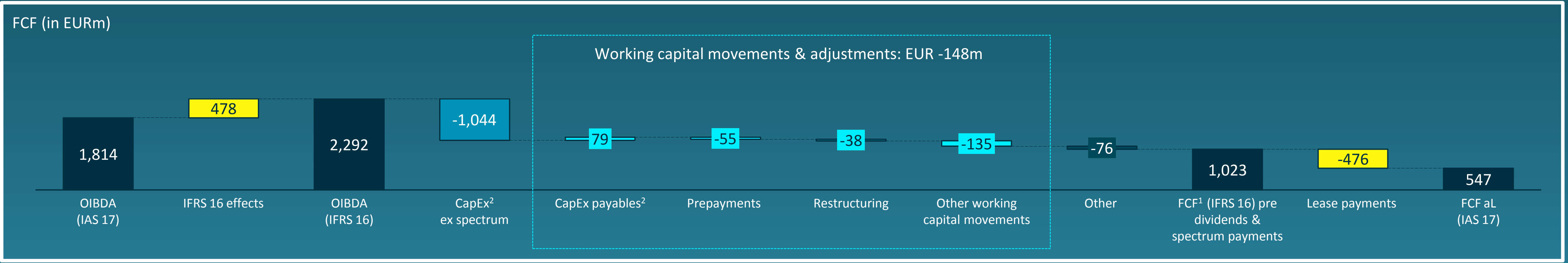
- Underlying OIBDA (IAS 17) +1.0% y-o-y in FY'19 driven by
  - Total synergy target of EUR 900 million OpCF delivered, rollover effects of ~EUR 40 million from network
  - Transformation benefits of ~EUR 40 million; mainly O_2 consumer and IT cost savings
- Regulatory effects of EUR 38 million driven by usage elasticity effects from the RLH regime & intra EU calls (since 15 May '19)
- Restructuring[1] costs of EUR 23 million under IFRS 16
- Underlying OIBDA margin expands to 31.6% under IFRS 16 vs. 25.5% under IAS 17

[1] Exceptional effects were EUR 23 million of restructuring expenses in the period January to December 2019 (EUR 52 million based on IAS 17). The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16. Regulatory effects amounted to EUR -38 million in the period January to December 2019

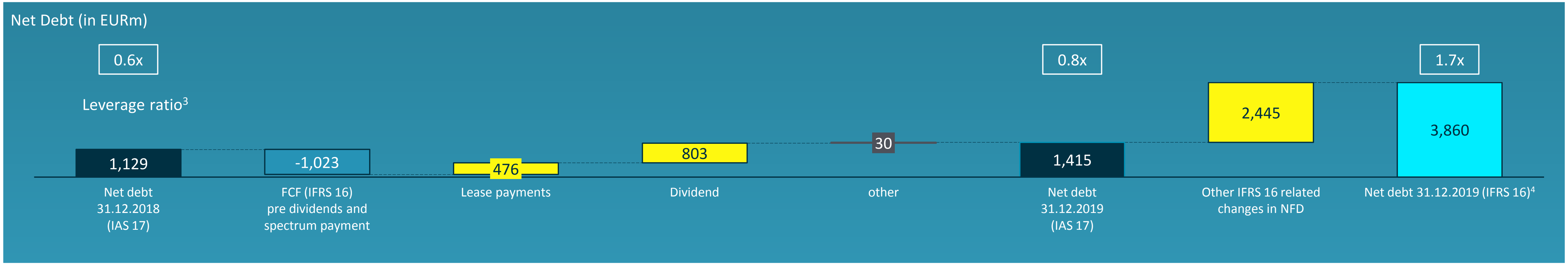
[2] Includes other expenses and impairment losses in accordance with IFRS 9

FCF dynamics reflect implementation of IFRS 16 and a higher investment profile

Evolution of Free Cash Flow (FCF)[1] FY 2019



Evolution of Net Debt[3] – Leverage[3] in line with target



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[1] FCF pre dividend & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities
[2] Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and investments in spectrum
[3] For definition of net debt & leverage ratio please refer to Q3 2019 earnings release
[4] Leverage is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects.

Outlook 2020 & updated mid-term guidance 2020/22

	Actuals FY'19		Updated mid-term guidance 2020/22	Outlook FY'20 (IFRS16)
	IAS17	IFRS16		
Revenue	7,458 (FY'19) ✓	7,458 (FY'19)	TEF D with cumulated growth of min. 5%	Flat to slightly positive (incl. reg. impacts of ~EUR 20-30m)
OIBDA[1]	1,903 (FY'19) ✓	2,353 (FY'19)	Ongoing margin improvement	Broadly stable to slightly positive (incl. reg. impacts of less than ~EUR 10m)
C/S[2]	14.1% ✓		2-year investment programme to generate Growth C/S incl. 5G RAN peaking in 2020/21 between 17-18%; normalising already in 2022	17 - 18%

[1] Adjusted for exceptional effects such as restructuring costs or the sale of assets
[2] Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

Summary

Strong **trading** performance driven by sustained demand for O_2 Free portfolio and solid partner business

Revenue trends reflecting improving MSR performance on the back of strengths in own retail business

OIBDA reflects market invest to drive future MSR growth

FCF aL dynamics reflect network investments; **leverage** remains in line with target

Solid **B/S**, **liquidity** position and **FCF** generation ability support **total shareholder return**

Management Q&A

Get in touch with the Investor Relations team!

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