MUNICH, 21 February 2024

Telefónica Deutschland – Preliminary Results for January to December 2023

Confident FY24 outlook based on good business momentum and 'Accelerated Growth & Efficiency Plan'

- **Successfully over-achieved FY23 outlook driven by robust commercial traction, more than 1.3m postpaid net additions on back of 'value-over-volume' focus and low churn**
- **Revenue growth of +4.7% y-o-y driven by sustained MSR momentum and record handset sales**
- **OIBDA[1] growth of +3.1% y-o-y reflecting commercial success and stringent cost management**
- **Steady progress of 5G roll-out with C/S of 13.2% - ~95% of 5G pop coverage**
- **Continuous ESG commitment - making a substantial contribution to a sustainable digital future**
- **Confident FY24 outlook based on good business momentum and 'Accelerated Growth & Efficiency Plan' as fundament for a more resilient business model**
- **Dividend proposal of EURc 18/share to AGM – in-line with minimum commitment for 2021-23**

Operating performance

Telefónica Deutschland consistently delivered growth throughout FY23 with robust commercial traction also in the final quarter of the year which marked the 25th birthday of the Company's O_2 network. Trading momentum is again underpinned by the Company's 'value-over-volume' strategy including the market success of the 'O_2 Mobile' portfolio in combination with its successful return to low churn levels.

Telefónica Deutschland continued to make good progress with 5G roll-out and network densification. Three years after the 5G launch pop coverage already reached ~95% at year-end 2023. Hence, the Company is well on track for nationwide 5G coverage latest by year-end 2025. Continuous investments into network quality are paying off not only in low churn rates but are also consistently reflected in high network test ratings. The renowned connect magazine awarded Telefónica Deutschland's O_2 network with a 'very good' rating for the fourth time in a row despite tougher test criteria each year.

In parallel, Telefónica Deutschland is continuously pursuing its ESG commitments to make a substantial contribution to a sustainable digital future. The Company was not only recognised as a finalist of the '16th German Sustainability Award' ('Deutscher Nachhaltigkeitspreis'), Telefónica Deutschland also further improved its low 'Sustainalytics ESG Risk Score', now being ranked #1 telco globally by Systainalytics. As part of its ESG agenda, Telefónica Deutschland strives to reduce its Scope 1 & 2 emissions by 95% and ultimately to neutralise any remaining emissions no later than 2025. Also, the Company is taking concrete actions to be net CO_2 neutral along its entire value chain (Scope 3) by 2040.

[1] Adjusted for exceptional effects. In FY23 exceptional effects amounted to EUR -16m (EUR -16m in FY 22).

Mobile business

Mobile postpaid recorded +284k net adds in Q4 23 vs. +264k in Q4 22 (+1,350k in FY23, up +9.9% y-o-y) with commercial success driven by the continued O_2 brand momentum and a solid contribution of partner brands. **O_2 postpaid churn** confirmed a low rate of 1.1% in Q4 23 (1.2% in Q4 22) respective 1.0% in FY23. Hence, the implied annual churn rate improved to 11.6% in FY23 (vs. 13.1% in FY22) on the back of the O_2 brand appeal in combination with enhanced network and service quality as well the companies continued retention focus.

M2M Posted +10k net additions in Q4 23 vs. -20k in Q4 22 (+164k in FY23, almost doubling y-o-y).

Mobile prepaid net disconnections were -242k in Q4 23 vs. -2,911k in Q4 22 which included a revenue-neutral technical base adjustment[2] (-748k in FY23 vs. -2,698k in FY22). This development is mainly due to the unchanged German market trend of prepaid to postpaid migration.

As a result, Telefónica Deutschland's **mobile customer accesses** grew +1.7% yoy to 45.1m as of 31 Dec-23. This growth was mainly driven by a strong +5.1% y-o-y growth of the **mobile postpaid base** (ex M2M) to 27.7m accesses (61.4% of total mobile access base, up +2.0 p.p. y-o-y) on own-brand momentum in combination with low churn and a solid contribution from partners. **M2M accesses** grew even stronger at +9.7% yoy to 1.9m whereas the **mobile prepaid base** came down -4.6% y-o-y to 15.5m.

O_2 postpaid ARPU growth of +1.9% y-o-y in Q4 23 (+1.4% y-o-y in FY23) was similar to prior quarter, reflecting sustained customer demand for high value tariffs somewhat offset by the reduction of MTRs as of 1 Jan-23. Underlying[3] ARPU growth was even stronger at +2.5% y-o-y (+2.0% y-o-y in FY23).

Fixed business

Fixed broadband recorded +13k net additions in Q4 23 vs. +18k in Q4 22 (+90k net additions in FY23, almost tripling y-o-y) on strong customer demand for highspeed accesses within the technology agnostic O_2 Home portfolio. Churn confirmed low levels of 0.8% both, in Q4 23 and FY23, improving 0.2 p.p. and 0.3 p.p. respectively.

Fixed broadband customer base grew +3.9% y-o-y to 2.4m accesses as of 31 Dec-23, thereof 77.8% VDSL accesses, -1.9 p.p. y-o-y as cable and fibre are gaining further traction.

Fixed broadband ARPU[4] showed consistent growth reflecting the steady increase of the higher value customer share in the base, +2.2% y-o-y to EUR 25.9 in Q4 23 (+1.9% to EUR 25.6 in FY23).

[2] Introduction of a stricter active SIM-card definition in Q4 22 post some revenue neutral reactivations of SIM-cards over the course of FY22.

[3] Excluding MTR-cut from EURc 0.55 to EURc 0.40 as of 1 Jan-23.

[4] Definition adjustment of fixed BB (FBB) ARPU calculation as of 1 January 2023 to fully reflect all fixed revenue streams; for comparability reasons including adjustment of previous year's values.

Financial performance

Revenues posted strong growth of **+4.6% y-o-y to EUR 2,291m** in Q4 23 (+4.7% y-o-y to EUR 8,614m in FY23) on sustained mobile service revenue momentum and another record quarter for hardware sales.

Mobile service revenues[5] were **-1.0% y-o-y to EUR 1,501m** in Q4 23 (+2.7% y-o-y to EUR 5,895m in FY23) mainly as a result of a challenging y-o-y comparison due to a non-recurrent special factor of EUR +26m in Q4 22. On an underlying base, MSR more than offset the negative impact from the MTR glidepath[6], posting +0.7% y-o-y growth driven by own-brand momentum while still facing tough comps due to a data driven MSR-boost related with the football world championship in Q4 22.

Handset sales recorded another quarter with a record growth rate **+24.3% y-o-y to EUR 574m** in Q4 23 (+13.3% y-o-y to EUR 1,872m in FY23) mainly building on the combination of continued customer demand for high value devices supported by the 'O_2 myHandy' model and increased customer demand for accessories.

Fixed revenues growth accelerated to **+3.7% y-o-y to EUR 211m** in Q4 23 (+2.7% y-o-y to EUR 827m in FY23) with **fixed BB service revenues** continuously reporting even stronger growth of **+6.2% y-o-y** in Q4 23 (+5.3% in FY23).

Other income was EUR 45m in Q4 23 (EUR 160m in FY23, +4.7% y-o-y).

Operating expenses[7] were up **+5.2% y-o-y to EUR 1,655m** in Q4 23 (+5.4% y-o-y to EUR 6,173m in FY23) mainly reflecting the anticipated inflationary impacts.

- **Supplies** rose +13.9% y-o-y to EUR 746m in Q4 23 (up +6.1% y-o-y to EUR 2,677m in FY23) with volume related higher hardware cost of sales more than offsetting the positive effects from the MTR-cuts[6]. In Q4 23, connectivity-related cost of sales and hardware cost of sales accounted for 29% and 70% of supplies, respectively.
- **Personnel expenses** were up +2.9% y-o-y to EUR 176m in Q4 23 and +7.6% y-o-y to EUR 669m in FY23 mainly reflecting higher base salaries on back of the general pay rise in combination with a slightly higher FTE-base y-o-y driven by insourcing of key capabilities to support transformation and growth ambitions.
- **Other operating expenses** (other Opex) were slightly down -2.3% y-o-y to EUR 705m in Q4 23 and up +4.2% y-o-y to EUR 2,725m in FY23 mainly reflecting commercial activity including the launch of the new 'O_2 Mobile' portfolio in April and technology transformation costs. Commercial and non-commercial costs accounted for 63% and 31% of other Opex in Q4 23, respectively. Group fees were EUR 11m in Q4 23 (FY23 EUR 39m vs EUR 35m in FY22).

OIBDA[8] growth improved to **+4.2% y-o-y at EUR 695m** in Q4 23 (+3.1% y-o-y to EUR 2,617m in FY23) reflecting commercial success and stringent cost management to counter some inflationary pressures. **OIBDA**[8] **margin** was broadly stable y-o-y at 30.3% in Q4 23 (-0.1 p.p. y-o-y) while contracting -0.5 p.p. y-o-y to 30.4% in FY23 mainly due to the strong growth of broadly margin-neutral hardware revenues in both, Q4 23 and the 12M period.

[5] Mobile service revenue includes base fees and fees paid by the Company's customers for the usage of voice, SMS and mobile data services; it also includes access and interconnection fees as well as other charges levied on partners for the use of the Company's network.

[6] MTR-cut from EURc 0.55 to EURc 0.40 as of 1 Jan-23.

[7] Operating expenses include impairment losses in accordance with IFRS 9 in the amount of EUR 29m in Q4 23 and EUR 101m in FY23 (EUR 26m in Q4 22 and EUR 92m in FY22).

[8] Adjusted for exceptional effects. In Q4 23 exceptional effects amounted to EUR -14m (EUR -9m of restructuring costs and EUR -5m expenses related to non-operating transactions) and EUR -16m in FY23. In FY22, exceptional effects were restructuring costs and amounted to EUR -11m in Q4 22 respective of EUR -16m in FY22.

Depreciation & Amortisation was slightly higher y-o-y (+1.2%) at EUR 2,310m in FY23 mainly as a result of useful life reduction of PPE driven by IT-transformation.

Operating income was EUR +291m (+21.4% y-o-y) in FY23.

Net financial expenses accounted for EUR -90m in FY23 compared to EUR -36m in FY22 mainly as a result of the general interest rate environment on factoring of handset receivables and right-of-use assets for leases.

Income tax was positive at EUR +82m in FY23 after netting of current tax expenses in the amount of EUR -6m with a tax profit of EUR +87m from deferred taxes.

As a result, **total profit for the period** improved to EUR +273m in FY23, up +17.8% y-o-y.

CapEx[9] was higher +3.2% y-o-y at EUR 317m in Q4 23 (-6.3% y-o-y to EUR 1,133m in FY23) with a **CapEx/Sales ratio** of **13.8%** (13.2% in FY23 vs 14.7% in FY22)**.** Telefónica Deutschland continued to make excellent progress with network densification and further 5G roll-out, achieving ~95% of 5G pop coverage already at YE23. Hence, the Company is well on track for nationwide 5G coverage latest by YE25.

Operating cash flow (OIBDA minus CapEx[9]) rose by +11.7% y-o-y to EUR 1,468m in FY23 as a result of both, strong operating and financial performance as well as Capex normalisation post the successful completion of the Company's 'Investment-for-Growth' programme.

Free cash flow (FCF)[10] amounted to EUR 1,304m in FY23 (EUR 1,093m in FY22). Lease payments for antenna sites and leased lines were EUR 747m in FY23 (EUR 640m in FY22) including some prepayments for FY24 while also reflecting a combination of network densification including new BTS sites to cover white spots and some anticipated y-o-y increases. As a result, **FCFaL** improved +23.0% y-o-y to EUR +557m in FY23 (EUR 453m in FY22). FCFaL adjusted for payments for investments in associated companies[11] amounted to EUR 572m, up +23.5% y-o-y.

Working capital movements were EUR -55m in FY23 vs. EUR -141m in FY22. The development in FY23 was mainly driven by a decrease in capex payables (EUR -43m) as well as by higher pre-payments (EUR -40m) partially offset by other working capital movements of EUR +27m.

Consolidated net financial debt[12] as of 31 Dec-23 was EUR 3,177m, declining -1.1% y-o-y. Leverage ratio of 1.2x[13] remained well below the Company's self-defined upper limit of 2.5x; leaving comfortable leverage headroom with regards to the Company's BBB-rating with stable outlook by Fitch which has been confirmed on 19 Oct-23.

[9] CapEx includes additions to property, plant and equipment and other intangible assets while investments for spectrum licenses and additions from capitalised right-of-use assets are not included.

[10] Free cash flow pre dividends and payments for spectrum (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum as well as related interest payments.

[11] +/- Proceeds/payments for investments in associated companies amounted to EUR -15m in FY 23 and EUR -10m in FY 22.

[12] 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.

[13] Leverage ratio is defined as net financial debt divided by OIBDA of the last twelve months adjusted for exceptional effects.

FY23 overview

Telefónica Deutschland consistently delivered growth throughout FY23 with robust commercial traction and sustained healthy financial performance. Hence, the company successfully over-achieved FY23 outlook.

In-line with its minimum commitment for 2021-23, Telefónica Deutschland intends to propose a dividend of EURc 18 per share to the AGM.

	ACTUAL 2022 (1)	OUTLOOK 2023 (2)	ACTUAL 2023
Revenues	EUR 8,224m	Upper-range of low single-digit percentage y-o-y growth	EUR 8,614m, +4.7% y-o-y
OIBDA Adj. for except. effects	EUR 2,539m	Upper-range of low single-digit percentage y-o-y growth	EUR 2,617m, +3.1% y-o-y
CapEx to Sales Ratio	14.7%	Around 14 %	13.2%

(1) Revenues and OIBDA include non-recurrent special factors in the amount of EUR +26m million in Q4 22.
(2) As updated in Jul-23 and unchanged incl. regulatory headwinds of ca. EUR -50m to -60m at revenue level and ca. EUR -10m to -15m at OIBDA level in FY23.

Financial Outlook FY24

In financial year 2024, Telefónica Deutschland aims to further pursue its sustained growth path. Building on recent years good momentum and its 3-year 'Accelerated Growth & Efficiency Plan' (2024-26), the Company is focusing on building a more resilient business model.

The Company continues to leverage its multiple 'very good' awards winning O_2 network as well as its multi-brand and multi-channel strategy as the backbone of the go-to-market strategy.

Postpaid remains Telefónica Deutschland's strongest value generator with the high appeal of the O_2 brand as a growth driver. In prepaid, the market trend of prepaid to postpaid migration continues. Within the technology-agnostic O_2 Home portfolio, high-speed cable and fibre accesses are increasingly gaining traction.

Telefónica Deutschland expects the market to remain dynamic yet rational in financial year 2024, with a robust pricing environment in both, the premium and the discount segment.

Furthermore, Telefónica Deutschland expects regulatory changes to remain a headwind to its financial performance in financial year 2024. Revenues, and to a lesser extent EBITDA, will be impacted primarily by the reduction of the mobile termination rate from EUR 0.40c per minute to EUR 0.20c per minute effective 1 January 2024.

Sustained mobile service revenue growth remains the key driver of Telefónica Deutschland's revenue and profitability trends, mainly reflecting the O_2 brand's commercial success. In contrast, hardware revenues are expected to remain volatile and in particular dependent on market dynamics as well as launch cycles and availability of new smartphones. As before, hardware margins are largely EBITDA-neutral.

Fixed broadband offers are complementing Telefónica Deutschland's tariff portfolio, promoting customer retention and loyalty. Hence, the Company can optimally meet customer needs through its technology-agnostic approach and expects continued growth in financial year 2024.

Telefónica Deutschland will continue to pursue its path of digital transformation to generate revenue and efficiency gains. In doing so, the Company is emphasising sustainable growth and is pushing the execution of its ESG strategy. Digitalisation is playing a key role in tackling climate change and achieving CO_2 neutrality targets.

In summary, Telefónica Deutschland expects for financial year 2024:

- Slightly positive year-on-year revenue growth, including regulatory headwinds of ca. EUR -70m to -80m.
- Low to low-mid single-digit percentage year-on-year EBITDA-growth, including regulatory headwinds of ca. EUR -20m to -25m.
- A Capex-to-Sales ratio (C/S) of Option 13% - 14%.

Telefónica Deutschland's assumptions are based on current economic conditions and current competitive dynamics as well as existing wholesale relationships including the launch of the fourth mobile network In Germany and the related changes to the business model. At the same time, management is continuously monitoring and analysing business impacts of further macro-economic and geo-political developments.

	ACTUAL 2023	**OUTLOOK 2024 (2)**
Revenues	EUR 8,614m	Slightly positive year-on-year
EBITDA (1) Adj. for except. effects	EUR 2,617m	Low to low-mid single-digit % year-on-year growth
CapEx to Sales Ratio	13.2%	13% - 14%

(1) In line with market standards and to improve comparability, Telefónica Deutschland is adapting its reporting to general market standards by renaming 'OIBDA' to 'EBITDA' with effect of 1 Jan-24. By definition, this is operating income minus D&A.
(2) FY24 outlook includes regulatory headwinds of ca. EUR -70m to -80m at revenue level and ca. EUR -20m to -25m at EBITDA level.

Link to detailed Data Tables

Further information

Telefónica Deutschland Holding AG
Investor Relations
Georg-Brauchle-Ring 50
80992 München

Christian Kern, Director Investor Relations; (m) +49 179 9000 208

Marion Polzer, CIRO, Head of Investor Relations; (m) +49 176 7290 1221

Eugen Albrecht, CIRO, Senior Investor Relations Officer; (m) +49 176 3147 5260

(t) +49 89 2442 1010

ir-deutschland@telefonica.com

www.telefonica.de/investor-relations

Disclaimer:

This document contains statements that constitute forward-looking statements and expectations about Telefónica Deutschland Holding AG (in the following “the Company” or “Telefónica Deutschland”) that reflect the current views and assumptions of Telefónica Deutschland's management with respect to future events, including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations which may refer, among others, to the intent, belief or current prospects of the customer base, estimates regarding, among others, future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. Forward-looking statements are based on current plans, estimates and projections. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions. Such forward-looking statements, by their nature, are not guarantees of future performance and are subject to risks and uncertainties, most of which are difficult to predict and generally beyond Telefónica Deutschland's control and other important factors that could cause actual developments or results to materially differ from those expressed in or implied by the Company's forward-looking statements. These risks and uncertainties include those discussed or identified in fuller disclosure documents filed by Telefónica Deutschland with the relevant Securities Markets Regulators, and in particular, with the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin). The Company offers no assurance that its expectations or targets will be achieved.

Analysts and investors, and any other person or entity that may need to take decisions, or prepare or release opinions about the shares / securities issued by the Company, are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this document. Past performance cannot be relied upon as a guide to future performance.

Except as required by applicable law, Telefónica Deutschland undertakes no obligation to revise these forward-looking statements to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica Deutschland’s business or strategy or to reflect the occurrence of unanticipated events.

The financial information and opinions contained in this document are unaudited and are subject to change without notice.

This document contains summarised information or information that has not been audited. In this sense, this information is subject to, and must be read in conjunction with, all other publicly available information, including if it is necessary, any fuller disclosure document published by Telefónica Deutschland.

None of the Company, its subsidiaries or affiliates or by any of its officers, directors, employees, advisors, representatives or agents shall be liable whatsoever for any loss however arising, directly or indirectly, from any use of this document its content or otherwise arising in connection with this document.

This document or any of the information contained herein do not constitute, form part of or shall be construed as an offer or invitation to purchase, subscribe, sale or exchange, nor a request for an offer of purchase, subscription, sale or exchange of shares / securities of the Company, or any advice or recommendation with respect to such shares / securities. This document or a part of it shall not form the basis of or relied upon in connection with any contract or commitment whatsoever.

These written materials are especially not an offer of securities for sale or a solicitation of an offer to purchase securities in the United States, Canada, Australia, South Africa and Japan. Securities may not be offered or sold in the United States absent registration under the US Securities Act of 1933, as amended, or an exemption there from. No money, securities or other consideration from any person inside the United States is being solicited and, if sent in response to the information contained in these written materials, will not be accepted.