

Telefonica

Telefónica Deutschland

Operational & financial results Q3


4 November 2019

Markus Haas – Chief Executive Officer

Markus Rolle – Chief Financial Officer

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5 years post merger Telefónica Deutschland is stronger than ever


**GROWTH
&
PROFITABILITY**


~1m 
POSTPAID NA
9M 2019


+2.1% yoy
REVENUE ex. regs. **#2**
9M 2019

+0.8% yoy
OIBDA ex. regs.
9M 2019


**CUSTOMER EXPERIENCE
&
DIGITALISATION**


+3p.p. yoy 
POSTPAID LTE penetration
9M 2019


-15.7% 
(CMD target -2p.p. from 18.0% in 2017)
O₂ CHURN annualised
9M 2019

>27% 
(vs. 20% 2017)
O₂ App penetration
YTD 2019

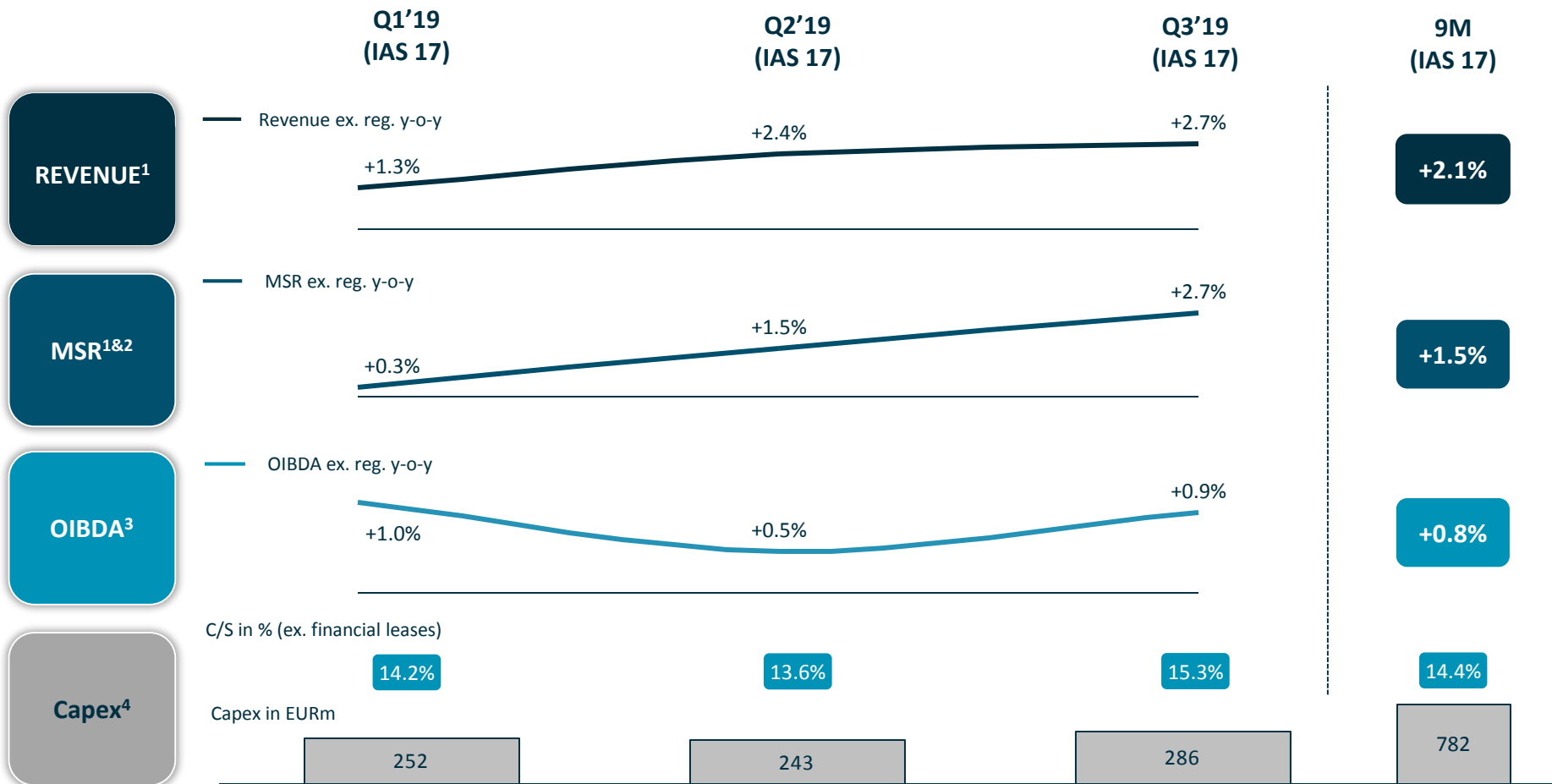
FOUNDATION

>96% 
3G & 4G combined coverage
YTD 2019

~7k 
(targeting 10k in FY19)
New LTE elements
YTD 2019

>25% 
(vs. 15% 2017)
Sales in self assisted channels
YTD 2019

Revenue acceleration continues, profitability stable; guidance re-iterated



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 1.8 million of restructuring expenses in the period June to September 2019 (EUR 8.4 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 10.3 million in the period June to September 2019

⁴ Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

German Mobile Customer & Digital Champion

Momentum in all key-areas



 <p>PC Magazin Mobilfunktarife-Test TESTSIEGER O₂ Free M www.pc-magazin.de 11/2019</p> <p>“winner” O₂ Free M</p>	 <p>connect SEHR GUT SERVICE-APPS DER NETZBETREIBER O₂ Heft 11/2019 www.connect.de</p> <p>“very good” O₂ app</p>	 <p>connect GUT HOTLINE-TEST BREITBANDANBIETER O₂ Heft 9/2019 www.connect.de</p> <p>“good” fixed hotline</p>	 <p>FiFT Fachinstitut für Technikthemen Privatwirtschaftliches Institut connect</p> <p>“good” mobile provider</p>
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 <p>POSTPAID</p> <p>~1m Net Adds</p> <p>23.3m customers</p>	<p>FIXED</p> <p>~114k Net Adds</p> <p>2.2m customers</p>
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 <p>Revenue & MSR on track</p>	<p>OIBDA on track</p>	<p>Capex on track</p>
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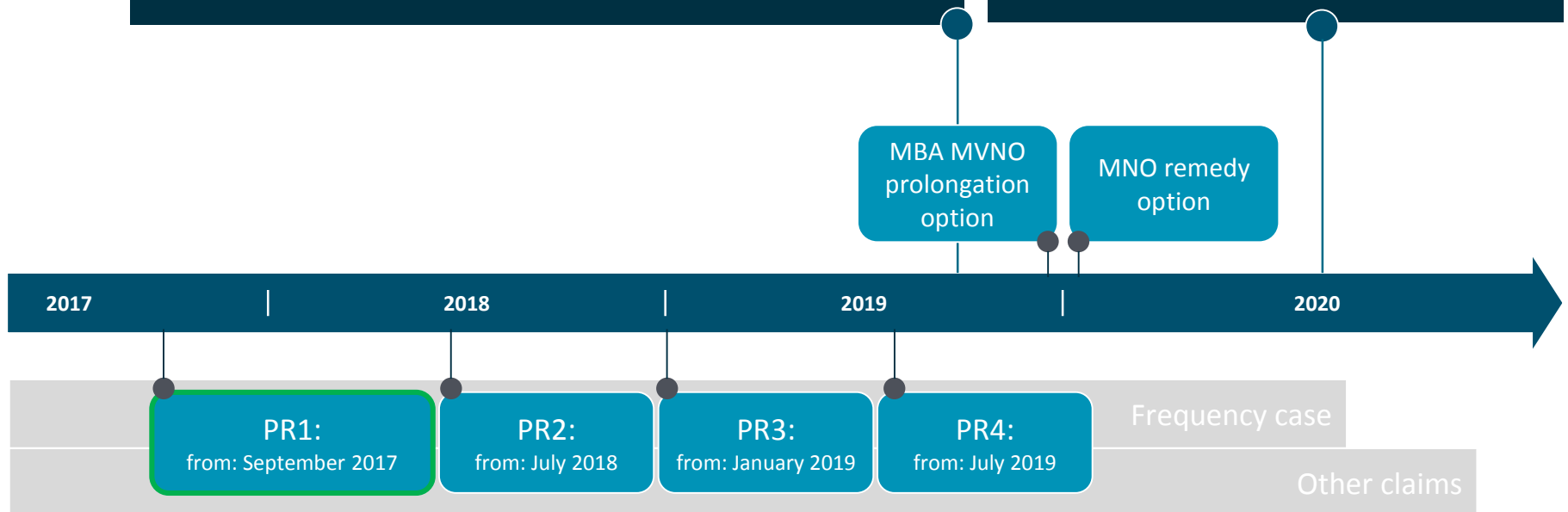
Transparency on partner relationships

Pricing review 1

- Confirmation of MBA MVNO pricing for TEF D
- Pricing mechanism accepted
- Conditional upon outcome of spectrum contribution case
- Pending pricing reviews focussed on the competitive environment at the reference date

Subject to separate proceeding

- Pricing reviews (PR2-PR4)
- Further claims from wholesale partners (low triple-digit million)
 - Spectrum contribution from 2015 auction (EUR 12m pa)
 - Other claims under NDA



Strategy Update

- **Mid-term business update**
- **5G strategy**
- **Dividend outlook**

Date: 11 December 2019

Time: 10-12 am

Location: The Mayfair Hotel,
London



Q3 2019: Summary

Financial performance reflects focus on revenue momentum

Net adds +392k PO +31k fixed BB	<ul style="list-style-type: none">• O₂ Free portfolio drives strong retail performance in a dynamic environment; O₂ Free M hero tariff• Partner trading continues as expected• Sustained traction of VDSL as customers demand high-speed fixed services
Revenue¹ +2.7% y-o-y	<ul style="list-style-type: none">• MSR trend further improving to +1.6% y-o-y in Q3'19; underlying MSR¹ improving to +2.7% y-o-y• Handset revenue remains solid driven by demand for high-value devices, +6.4% y-o-y• Fixed revenue still reflects lower margin carrier business: -3.2% y-o-y while retail DSL +0.3% y-o-y
OIBDA² (IAS 17) +0.9% y-o-y	<ul style="list-style-type: none">• Commercial and transformation invest to drive future MSR growth• OIBDA² incl. IFRS 16 effects up +25.8% y-o-y• Incremental network synergies of ~EUR 5 million (roll-over effects) & ~EUR 10 million transformation benefits• OIBDA² margin of 25.6% and 32.0% incl. IFRS 16 effects in the third quarter respectively
Leverage (IAS 17) 0.9x	<ul style="list-style-type: none">• Capex of EUR 286 million reflects LTE-rollout and incremental synergies of ~EUR 10m; C/S ratio of 15.3%• Leverage (IAS 17) in line with target after dividend payment; leverage ratio increases to 1.8x under IFRS 16• High confidence in FCF generation ability; committed to attractive shareholder remuneration

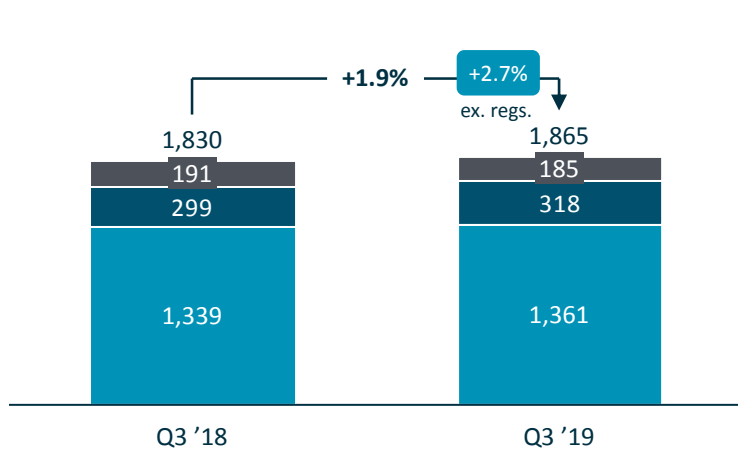
¹ Excluding the negative impact from regulatory changes; on revenue EUR 15 million and MSR EUR 14m in Q3 2019

² Adjusted for exceptional effects and excl. the negative impact from regulatory changes EUR 10m

Revenue trends driven by strong MSR performance

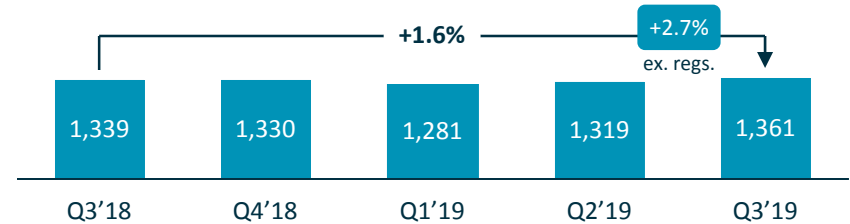
MSR performance driving Q3 revenue

(in EUR m) other Fixed Handset MSR



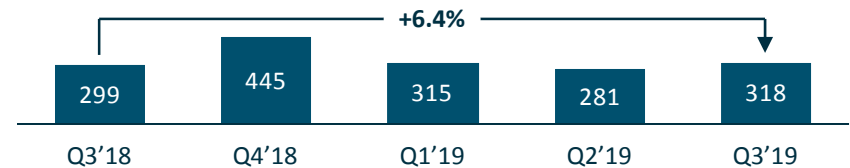
MSR reflects traction of O₂ Free portfolio

(in EUR m)



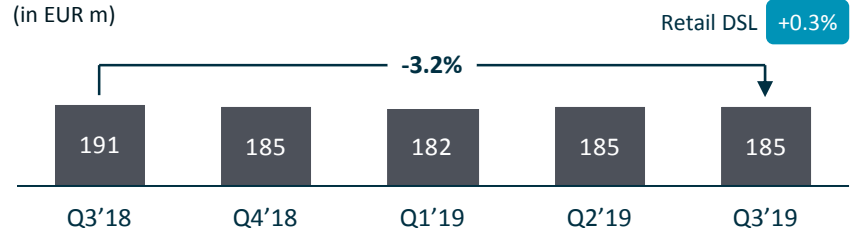
Continued demand for high value devices

(in EUR m)



Fixed revenue with improving retail DSL trend

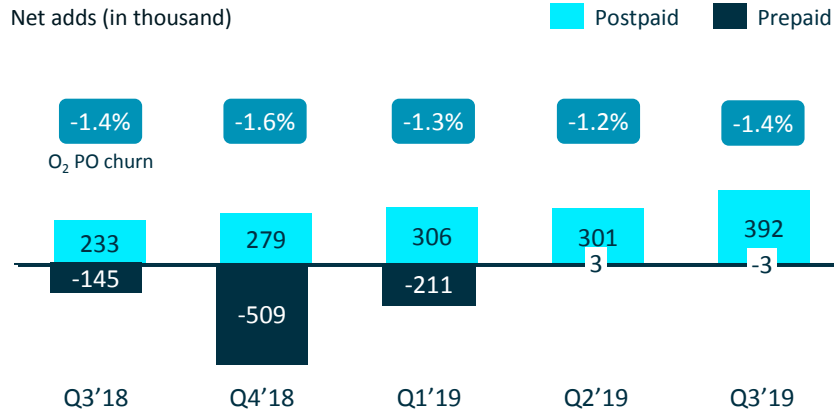
(in EUR m)



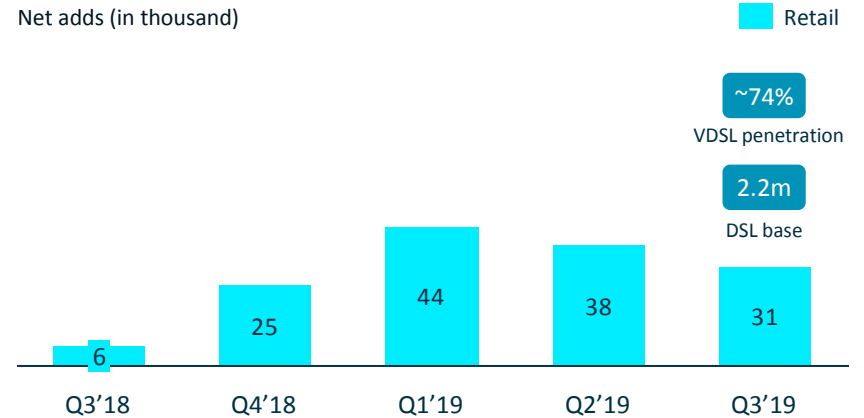
- MSR further improving on visible effects from O₂ Free APRU-up as headwinds from legacy base rotation and retention focus in renewal cycles are further easing
- Handset revenue driven by continued solid demand for high-value devices on tougher comps
- Fixed revenue with a decline in low margin carrier business while in retail the strong VDSL trading offsets a higher share of bundle benefits in the base

Strong operating momentum as net adds are accelerating; ARPU stabilising

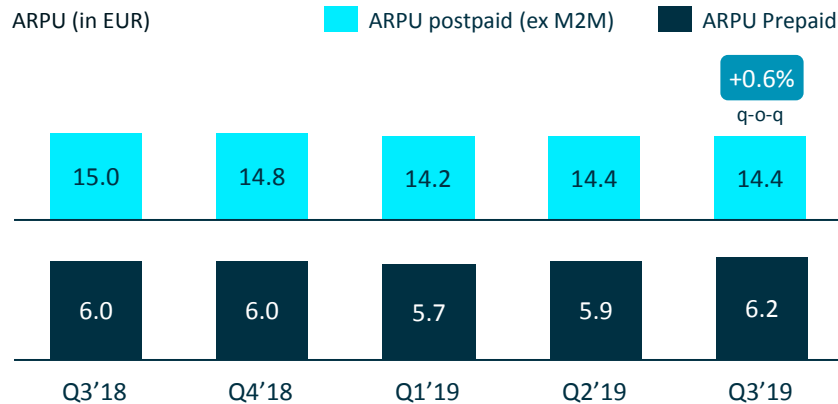
Focus in mobile remains on profitable growth



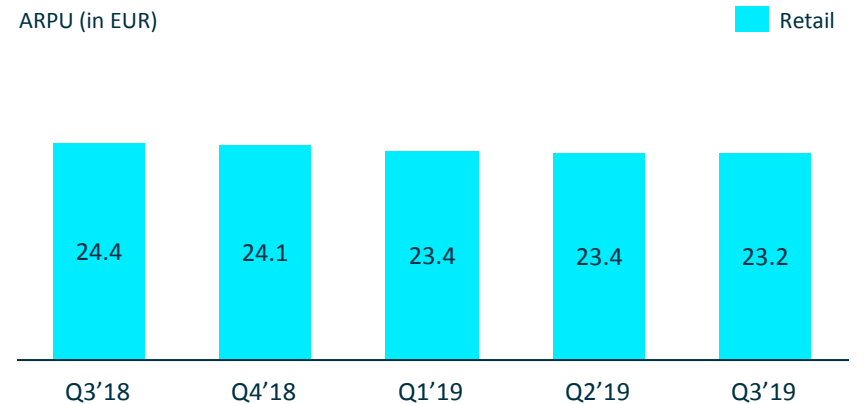
Sustained demand for VDSL drives growth



O₂ Free drives postpaid ARPU



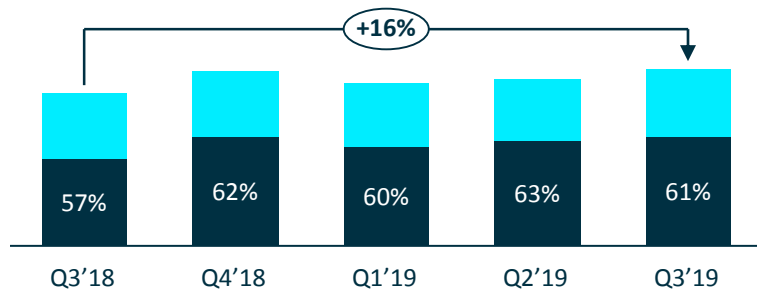
Fixed ARPU reflects higher bundle share in the base



Partner segment with stable growth trajectory

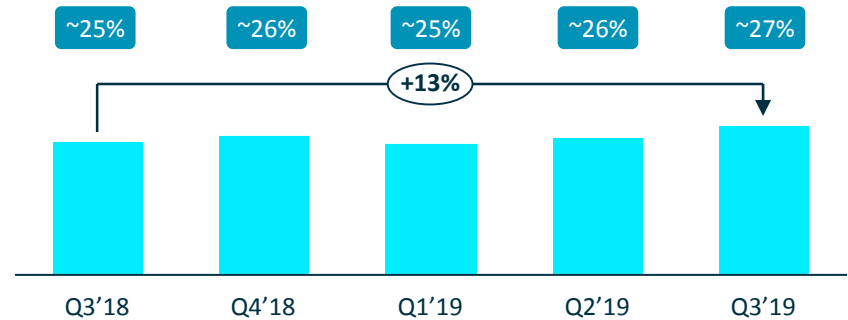
Partner trading driven by migration effects

Postpaid gross adds share ■ GA retail brands ■ GA partner brands



Partner revenue growth reflects data growth

Postpaid partner MSR (abs) / Share over postpaid MSR (in %)

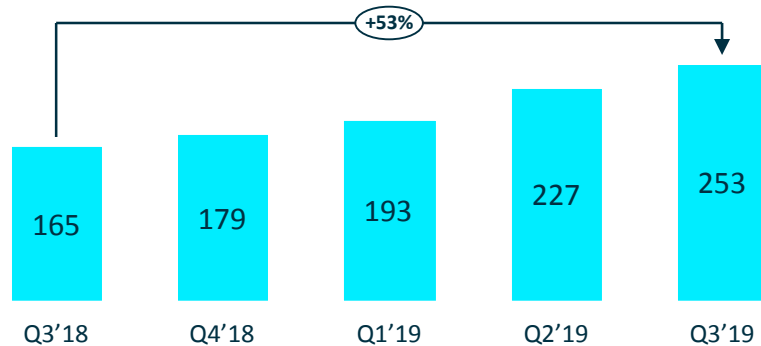


- Partner performance remains in line with expectation
- Trading performance in Q3 resulting from 4G-related migration effects as well as expanding partnerships
- Partner revenue growth reflecting the data growth driven dynamics of the MBA MVNO

Mobile data traffic with continued strong growth; CAGR of >50%

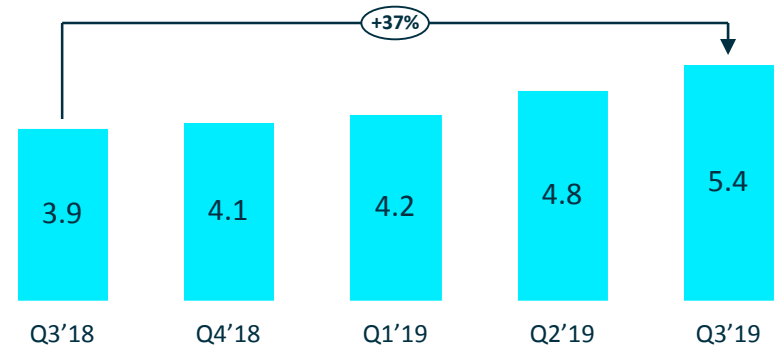
Mobile data traffic continues to grow >50% y-o-y

Traffic (TB/Q)



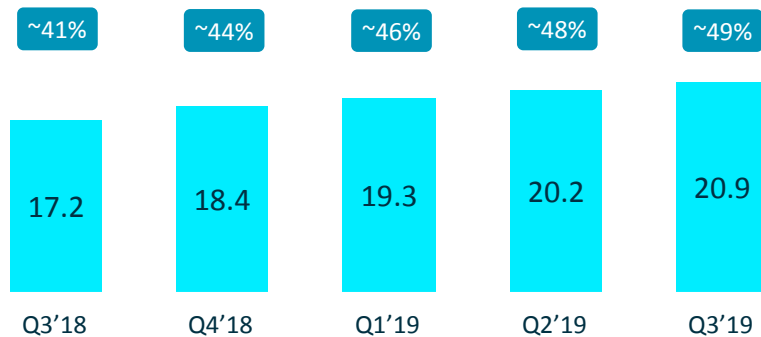
O₂ Free tariffs driving data growth

Average data usage for O₂ LTE customers (GB/month)



LTE customer base continues to grow

LTE customers (in million) / LTE penetration (in %)

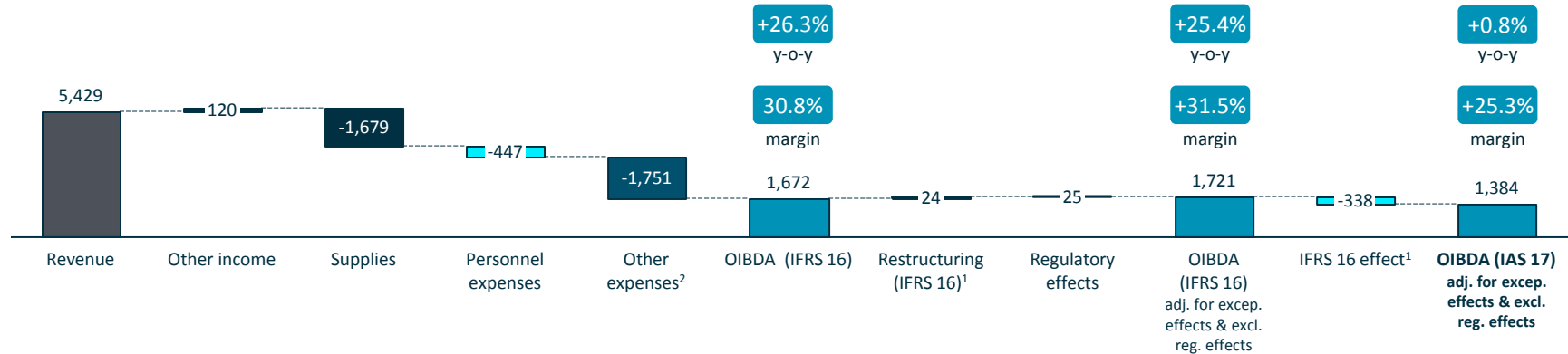


- Large data buckets & LTE adoption continue to drive data growth; CAGR of >50% maintained on the back of demand for streaming services
- Average data usage of O₂ LTE customers reaches 5.4GB/m
- LTE customer base up +21.8% y-o-y to 20.9 million
- LTE penetration up +8.3 p.p. y-o-y, while postpaid LTE penetration already at approx. 66%

OIBDA reflects continued market & transformation invest in growth

Structure of OIBDA for January to September 2019

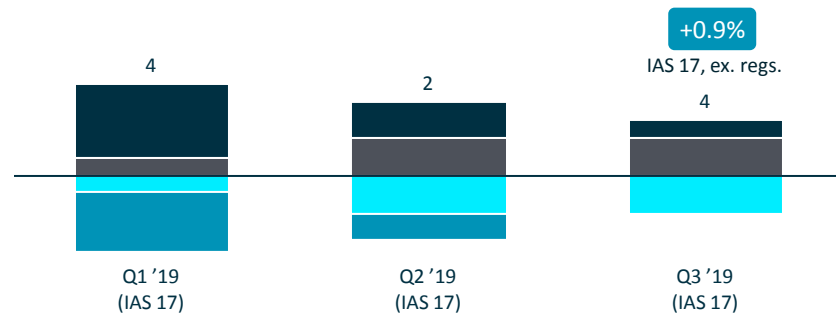
OIBDA (in EURm)



OIBDA¹ reflects synergies & transformation

OIBDA delta (in EURm)

■ Synergies
■ Transformation benefits
■ Regulatory effects
■ Commercial & other costs



- Underlying OIBDA (IAS 17) +0.8% y-o-y in 9M'19 driven by
 - Rollover synergies of ~EUR 35 million; mainly network
 - Transformation benefits of ~EUR 25 million; mainly O₂ consumer and IT cost savings
- Regulatory effects of EUR 25 million driven by usage elasticity effects from the RLH regime & intra EU calls (since 15 May '19)
- Restructuring¹ costs of EUR 24 million under IFRS 16
- Underlying OIBDA margin expands to 31.5% under IFRS 16 vs. 25.3% under IAS 17

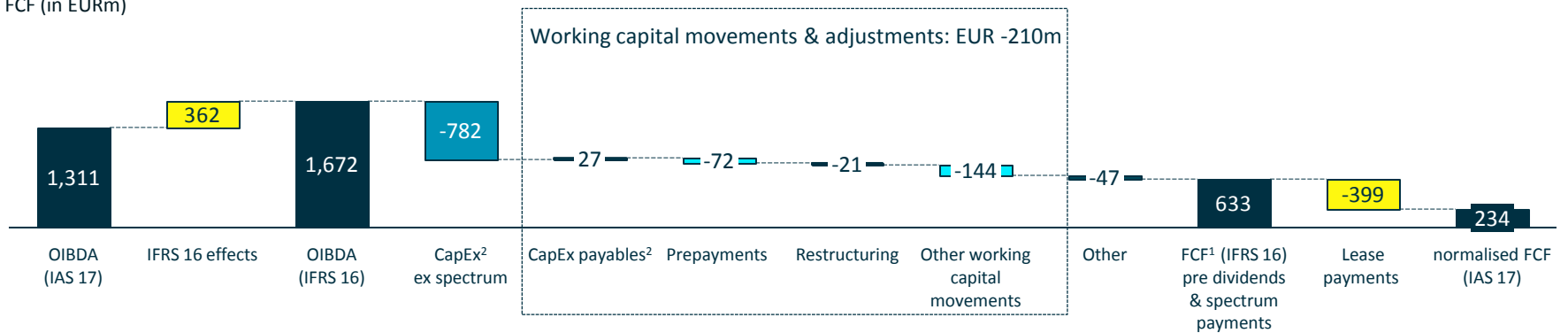
¹According to IAS 17, restructuring costs were EUR 48 million. The total resulting IFRS 16 effect at reported OIBDA level comes to EUR 338 million. The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16

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

FCF dynamics reflect implementation of IFRS 16 and usual seasonality

Evolution of Free Cash Flow (FCF)¹ YTD September 2019

FCF (in EURm)

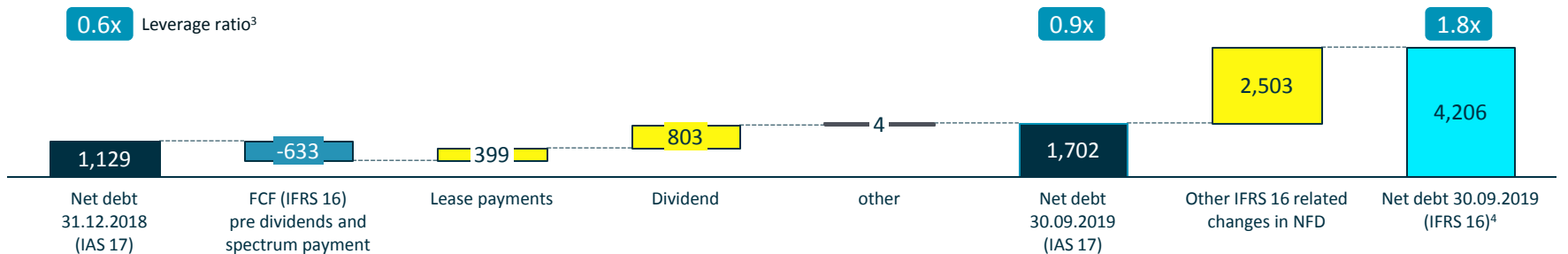


¹ FCF pre dividend & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

² Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from borrowed capital for investments in spectrum

Evolution of Net Debt³ – Leverage³ in line with target

Net Debt (in EURm)



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. 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

Summary

Strong **trading** performance driven by sustained demand for O₂ Free portfolio and solid partner business



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



OIBDA reflects market & transformation invest to drive future MSR growth



Normalised FCF dynamics with usual seasonality; **leverage** remains in line with target



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



Management Q&A

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