



Telefónica Deutschland

Investor presentation

May 2020

Investor Relations

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The Telefónica Deutschland Equity Story: Why should you invest?



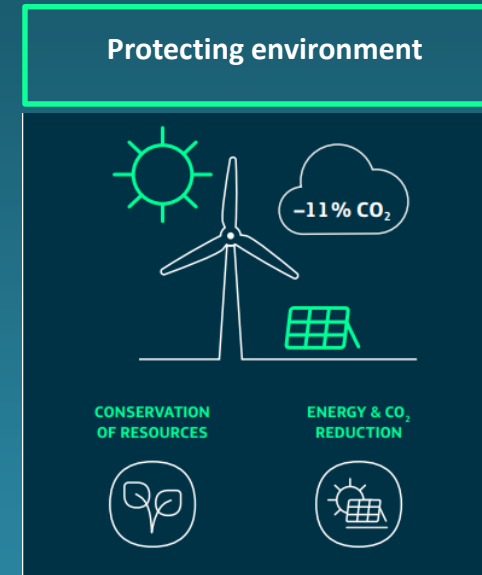
We steer our sustainability commitments with our Responsible Business Plan 2020



Consistently good to very good results and ratings by external assessments

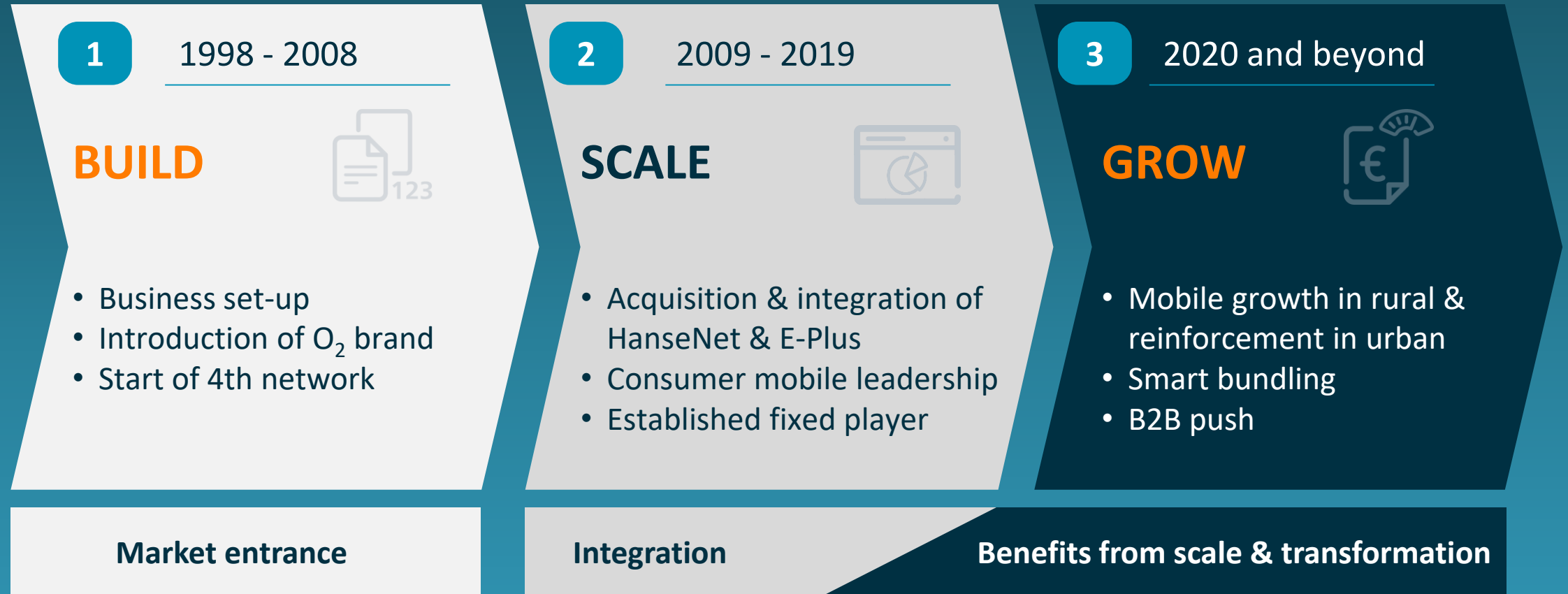


People are benefitting from our products in their digital lifestyle



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

Telefónica Deutschland's way forward



On track to deliver strategic plan - key priorities for the 'new 20s' with one common goal

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



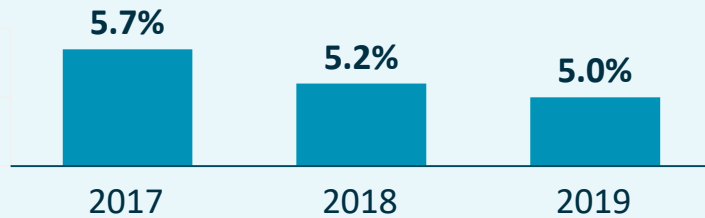
- Commitment to deliver attractive shareholder remuneration
- Virtual AGM called for 20 May with a proposal of EUR 0.17/share



Germany a safe harbour; 5G and exclusive cable access as game changers for Telefónica Deutschland

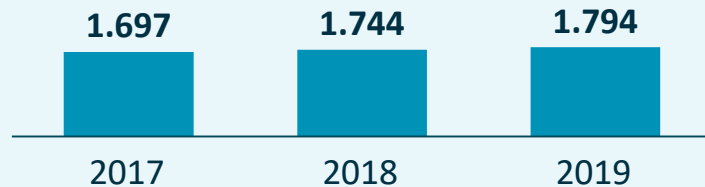
Stable macro-environment

Unemployment rate¹



Consumer spend²

in 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

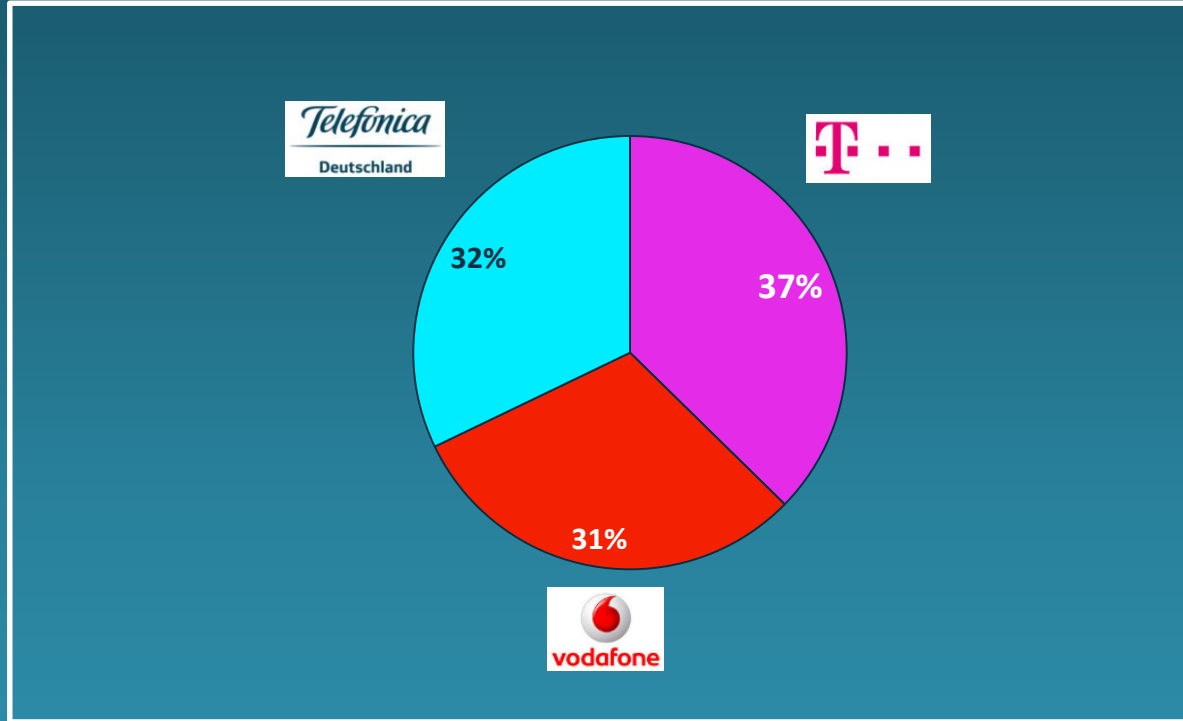
Fixed-Mobile-Substitution (FMS) becoming increasingly **relevant**

Potential 4th urban MNO

3 integrated (mobile + fixed) players

Competitive environment

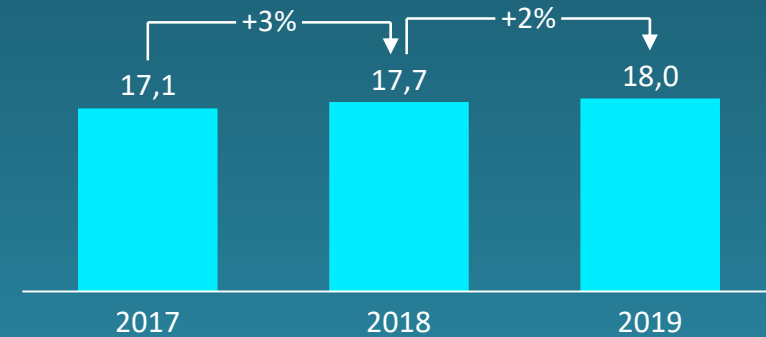
Rational and balanced market structure¹



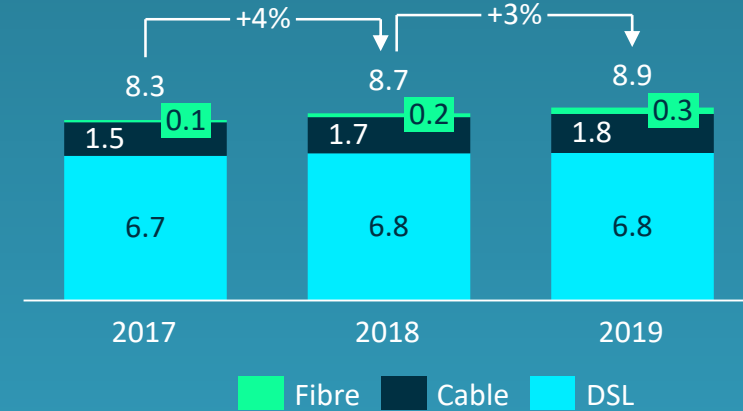
- Rational market following 4 to 3 consolidation
- Tiered mobile data portfolios enabling data monetisation

Market development in past years²

Mobile market: Service revenues
EUR bn

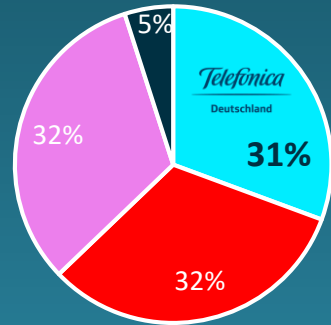


Fixed broadband retail revenues
EUR bn



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

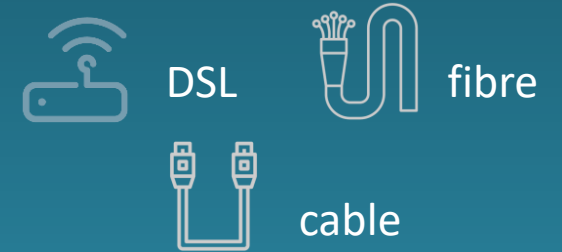
Competitive spectrum position



>300MHz

Largest infrastructure footprint with exclusive cable wholesale access

>90% with >30
German households Mbit/s



Telefónica

Deutschland

3x 'GOOD'
in all network tests



Significantly improved network performance
for ~44m mobile accesses

Customer experience



WINNER
Stores
National store operators



WINNER
Partner-Stores
Franchise operators



VERY GOOD
Fixed Net
Fixed Net big players



VERY GOOD
Fixed Net
Fixed Net offers



VERY GOOD
Service App
Telcos



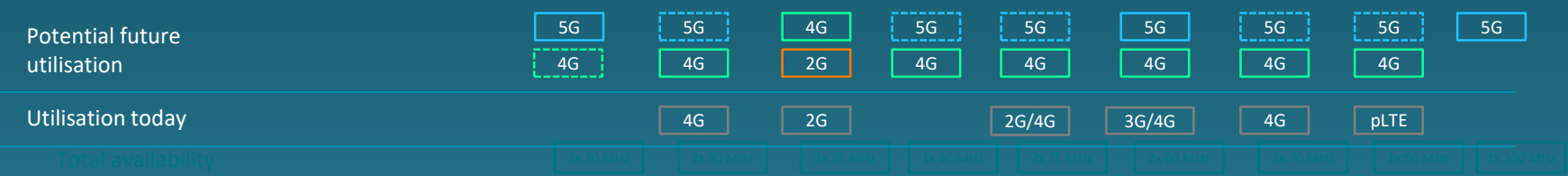
4.5/5
O₂ TV
Computer Bild User Test



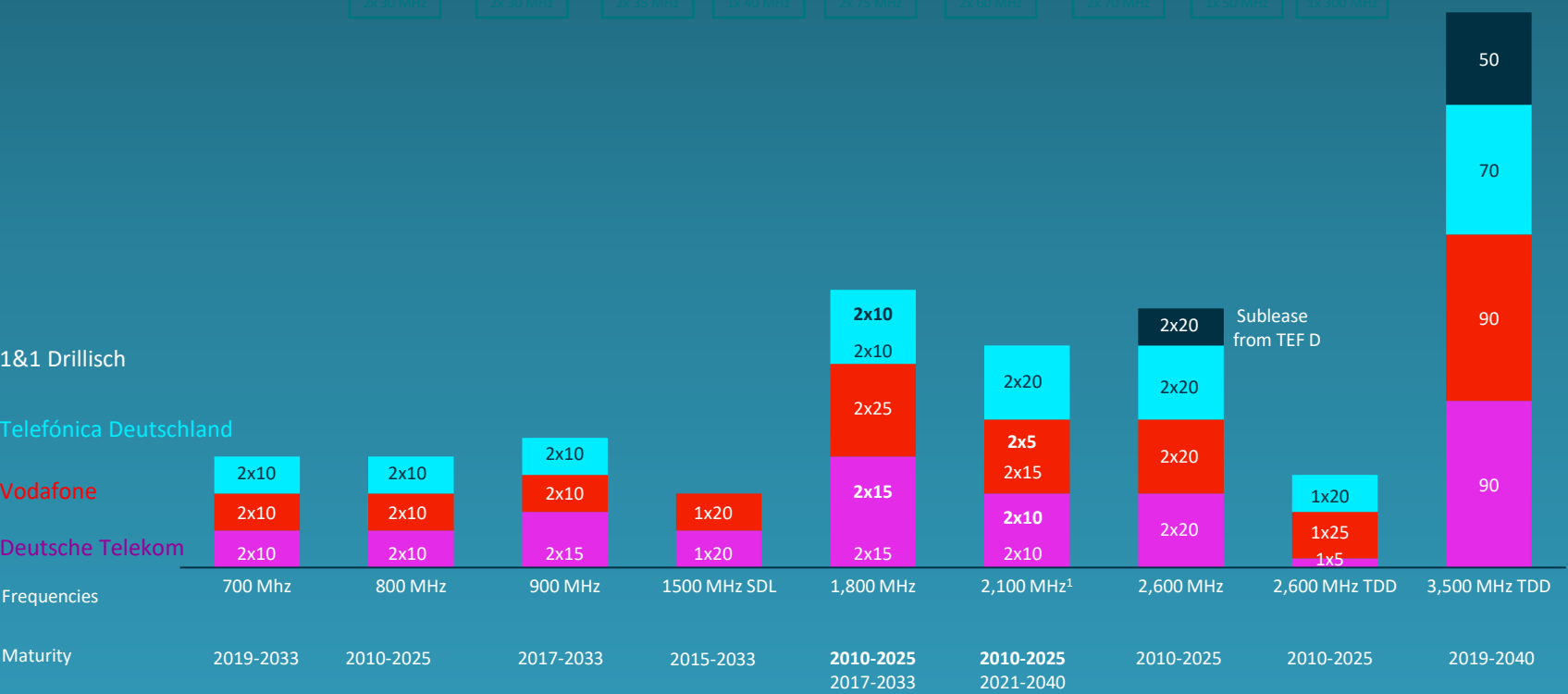
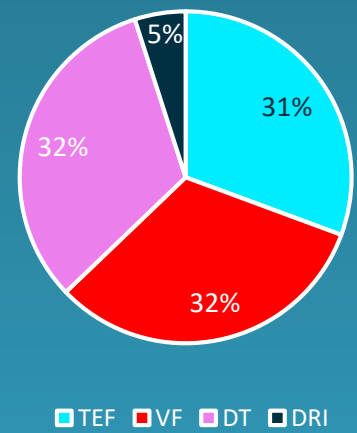
Premium customer service & access to
all sales channels

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

Balanced position in coverage and capacity spectrum until 2025



Total Spectrum holding

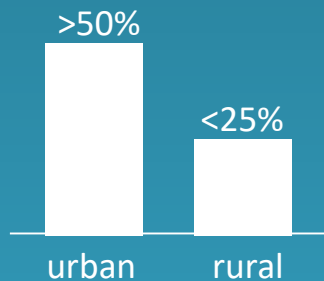


Telefonica Deutschland

¹ In addition: 24.2 MHz @ 2.1 GHz TDD, ab 2021 19.2 mHz
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

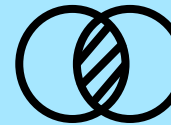


Accelerate urban capacity via 5G

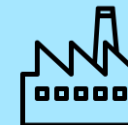
Boost revenues to outperform market



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



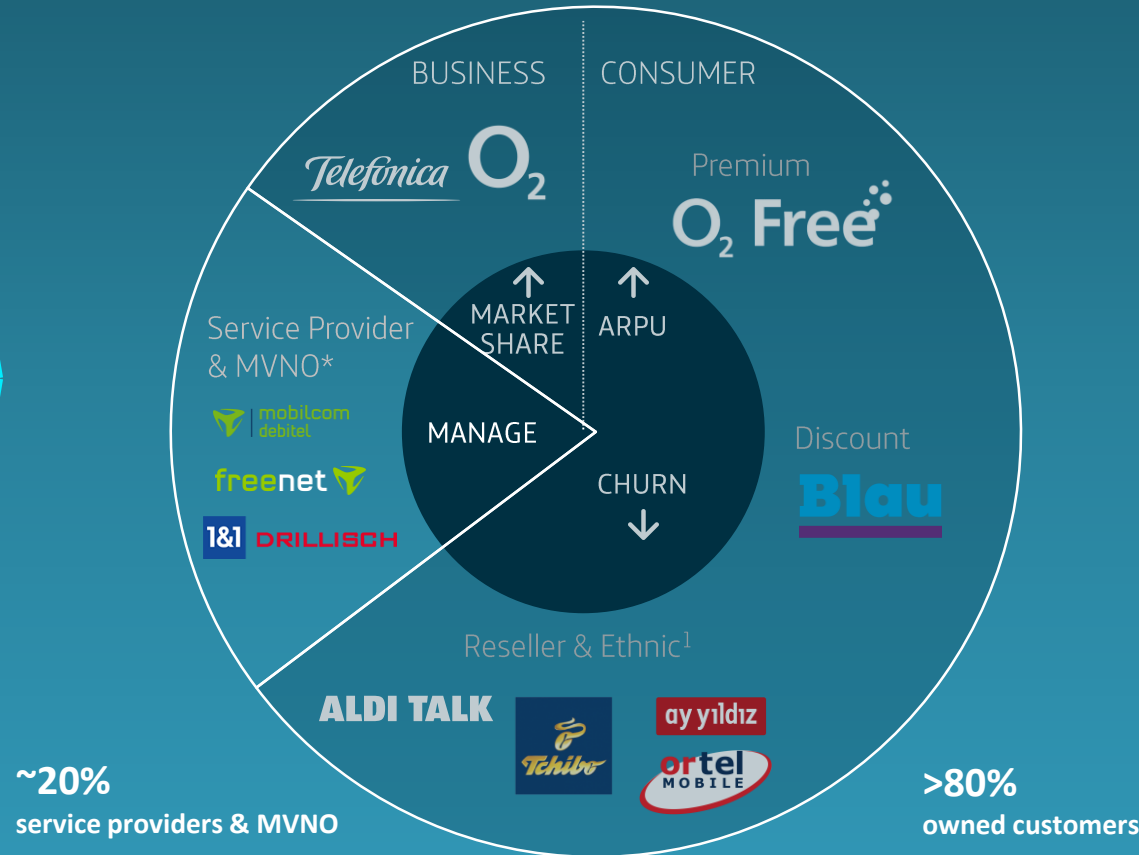
>50%

<25%

urban

rural

Sustained focus on owned customer base

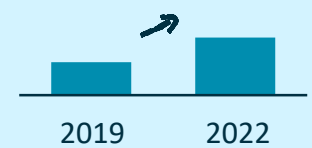


MSR



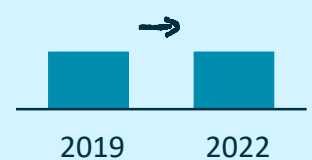
Rural market share

Fair share

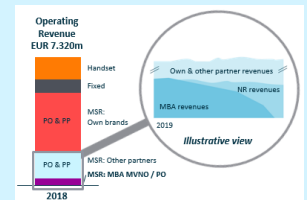


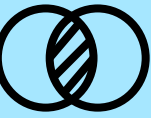
Urban market share

Maintain share



Gradual transition of wholesale revenue streams





MOBILE INFRASTRUCTURE



Fixed-
Mobile-
Substitution
(FMS)



FIXED NET INFRASTRUCTURE



FttX incl. VDSL



Cable

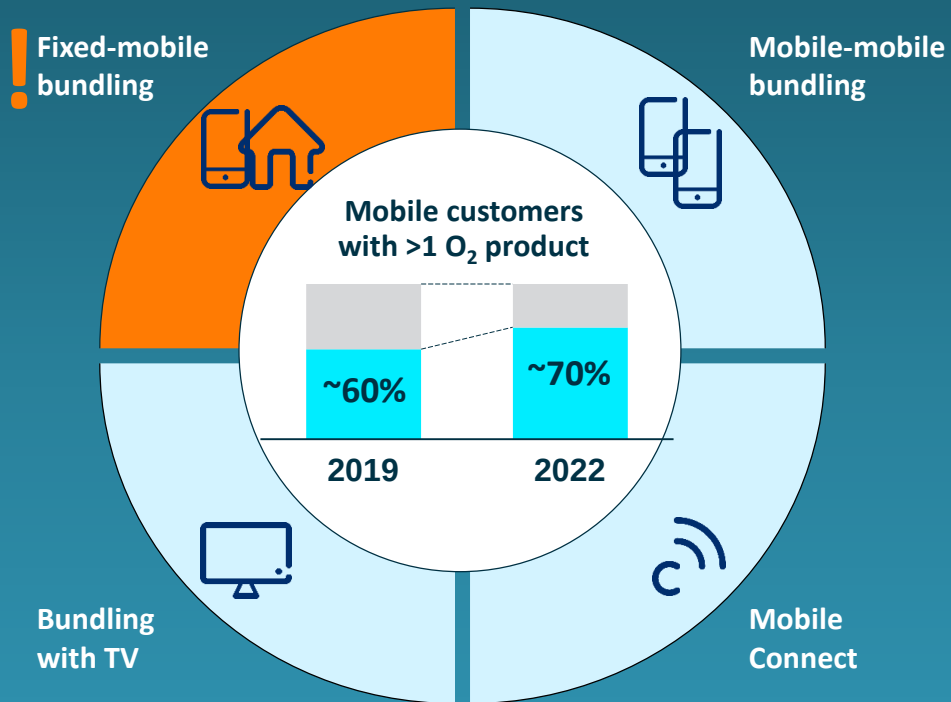
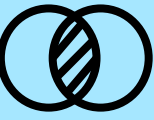


Smart bundling to capture value and reduce churn

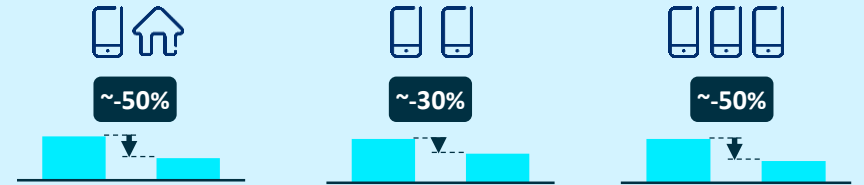
Technology-agnostic Internet@Home solutions with focus on customer experience

Fixed-mobile-substitution increases profitability

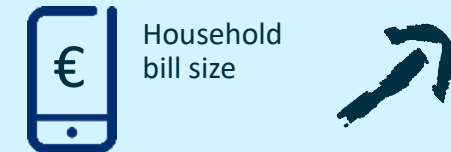
Improve loyalty and convergence positioning by pushing smart bundling approach



Impact on churn reduction



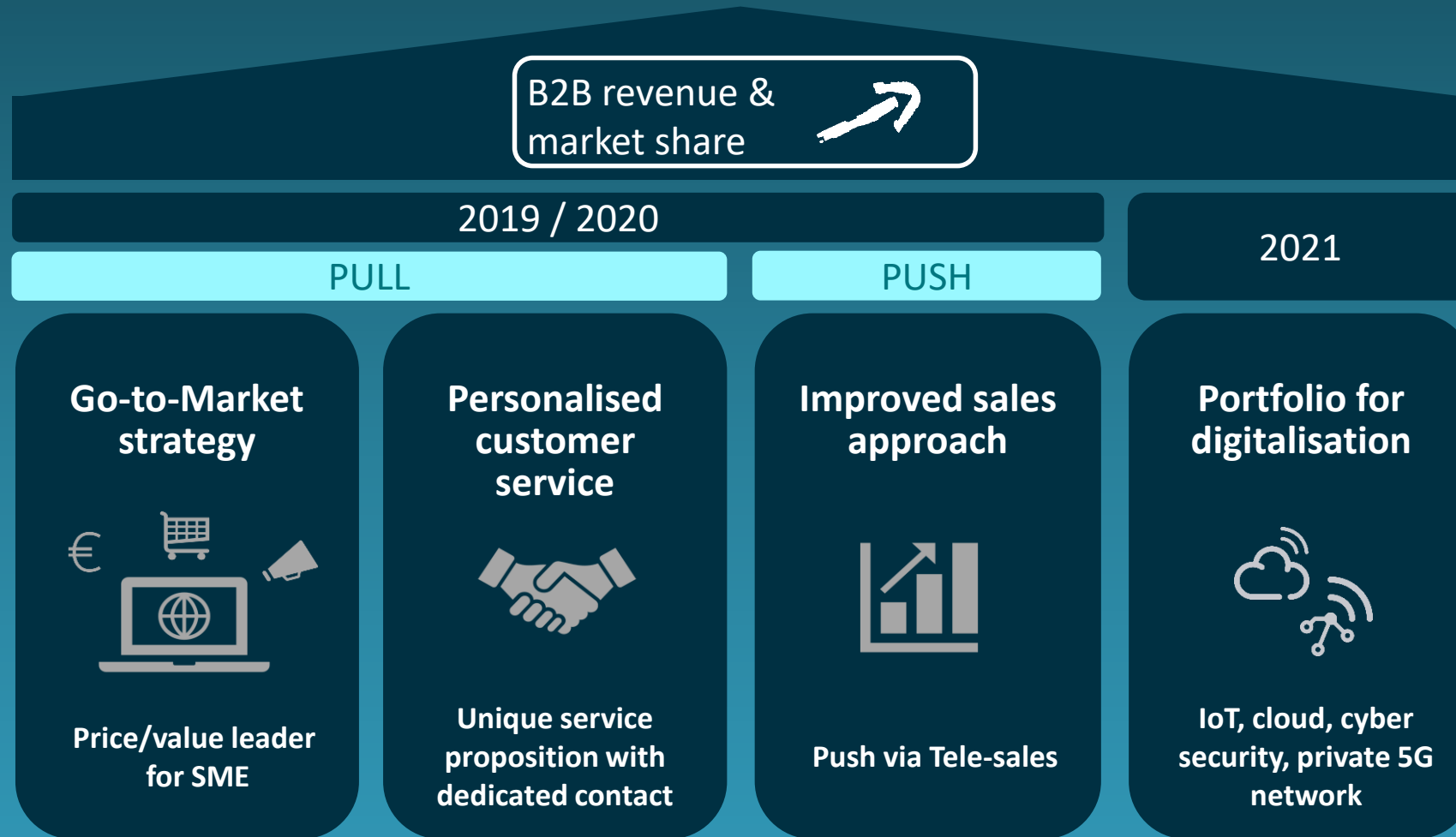
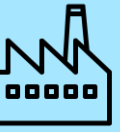
Share of wallet increase



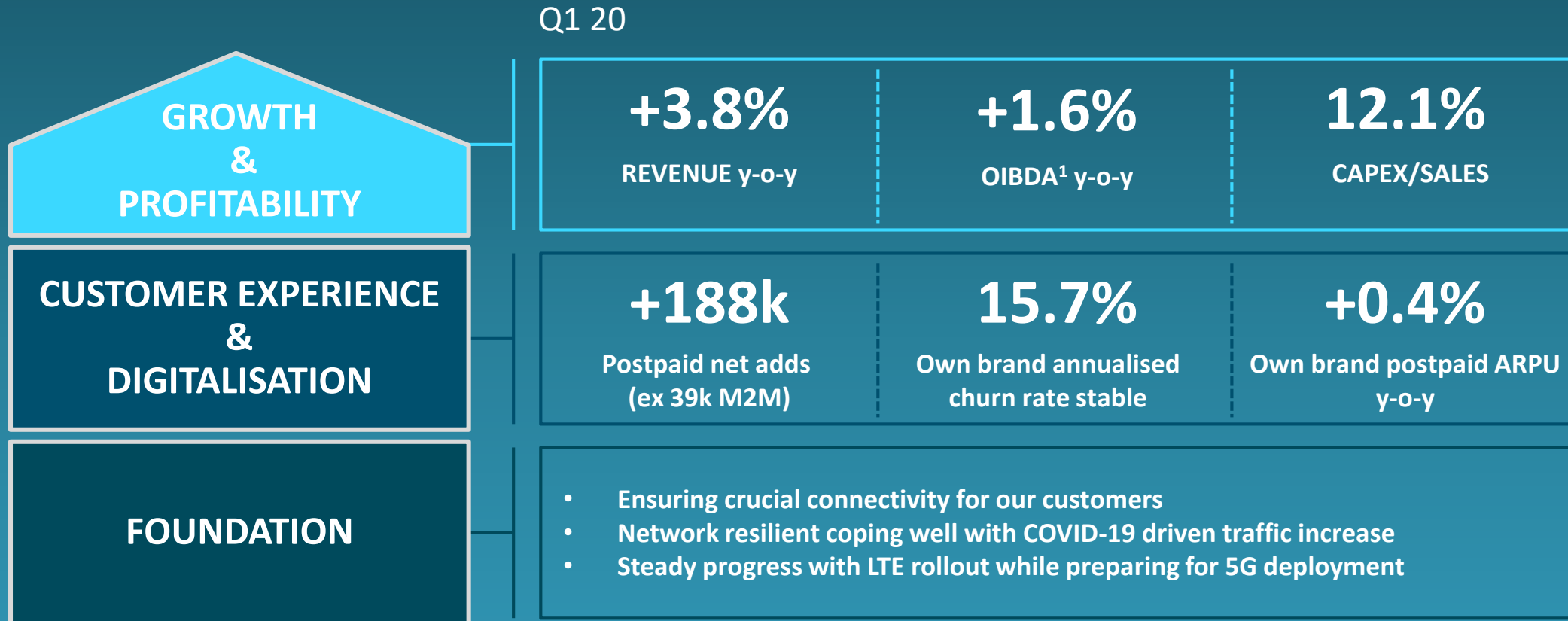
Household penetration higher



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



Q1 20 - robust start to the year while closely monitoring COVID-19 impacts; on track of becoming Germany's Mobile Customer & Digital Champion by 2022



COVID-19 pandemic – focus on supporting our people, customers & wider society

Q1: Limited COVID-19 impact – closely monitoring developments

Network – voice traffic

~20-30%

FEB CW8 FEB CW9 MAR CW10 MAR CW11 MAR CW12 MAR CW13



O₂ Gross adds

>1/3

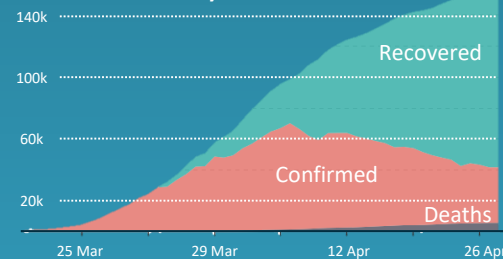
FEB CW8 FEB CW9 MAR CW10 MAR CW11 MAR CW12 MAR CW13

O₂ Churn entries

~1/3

- Ensuring critical customer connectivity: Network resilient - coping well with step-up in voice and data volumes
- O₂ shops closed in mid-March and gradually re-opened nationwide from late April
- Lower gross add volumes and reduced churn entries during lockdown

Germany - COVID-19 statistics



Source: sueddeutsche.de

Key COVID-19 initiatives



Providing RKI with mobility analysis for COVID-19 monitoring



Crises management team of BRK temporarily headquartered in O₂ Tower



#WeStayConnected - removal of speed limitations until 31 May



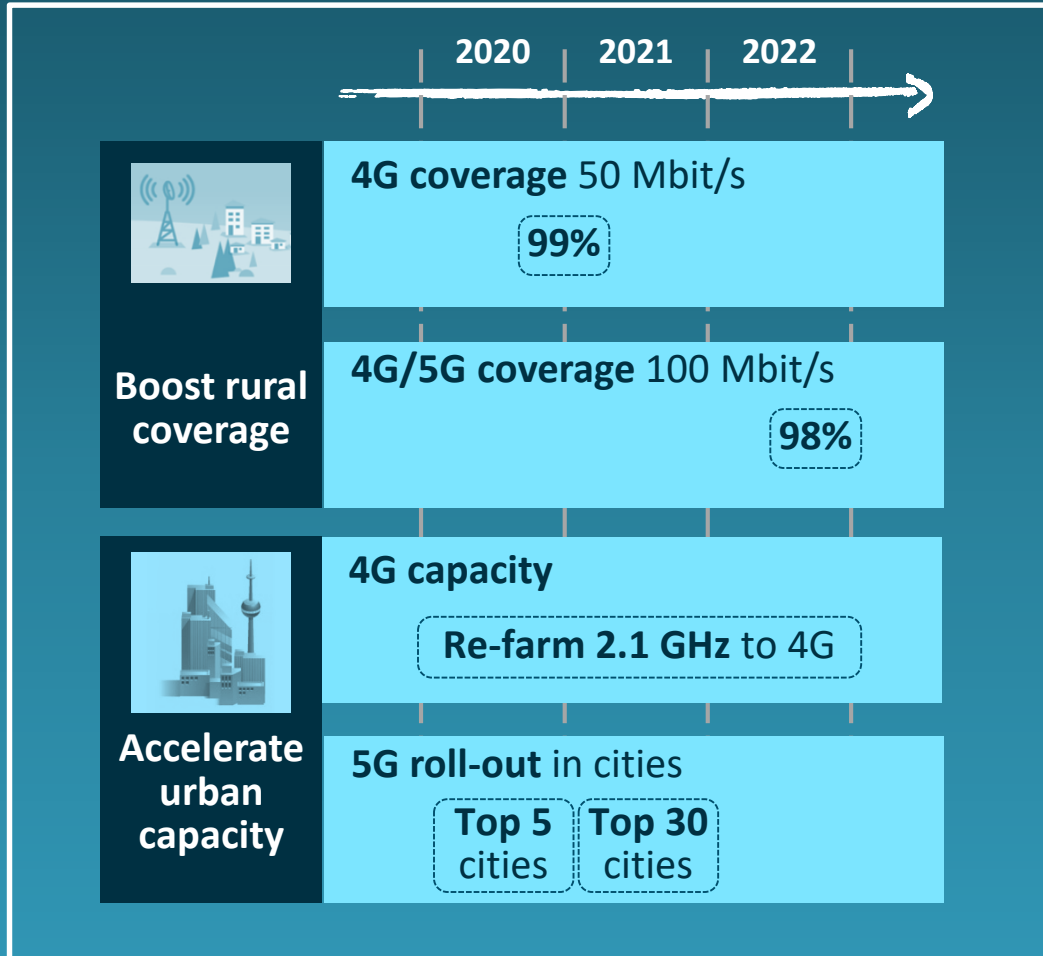
#StayOn - free access to live concerts



O₂ TV - 3 mth free access

Resilient network – foundation for future growth

Network roll-out strategy



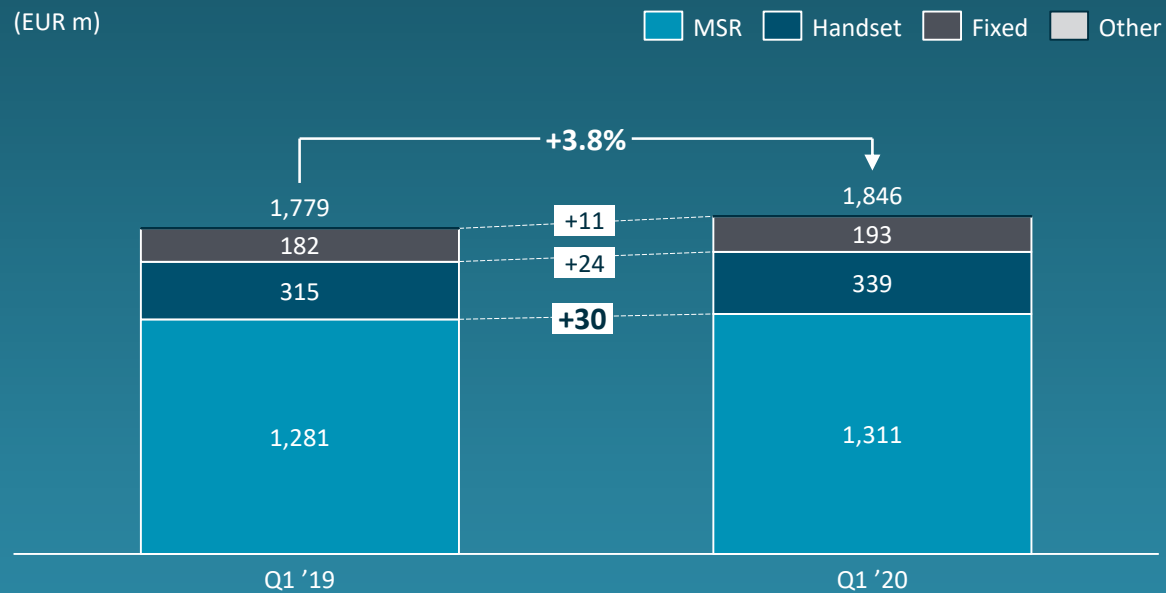
Recent developments

- **Boost rural coverage & accelerate urban capacity**
 - Steady progress with LTE roll-out on track to fulfil **4G coverage obligations** by YE20
 - **5G roll-out into top 5 cities in 2020**
- **Resilient network** with ~63% y-o-y increase in mobile network traffic
- **Opening of 5G campus** in BASECAMP, Berlin
- Realising the **potential from infrastructure sharing**



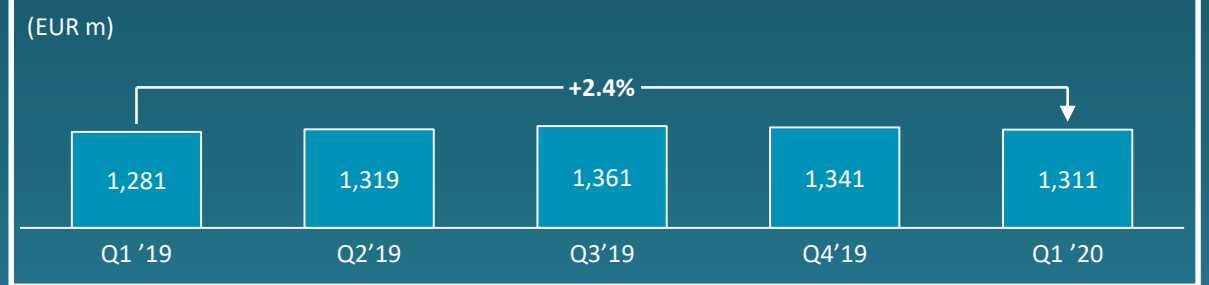
Revenue trends driven by strong MSR performance

MSR performance driving Q1 revenue growth

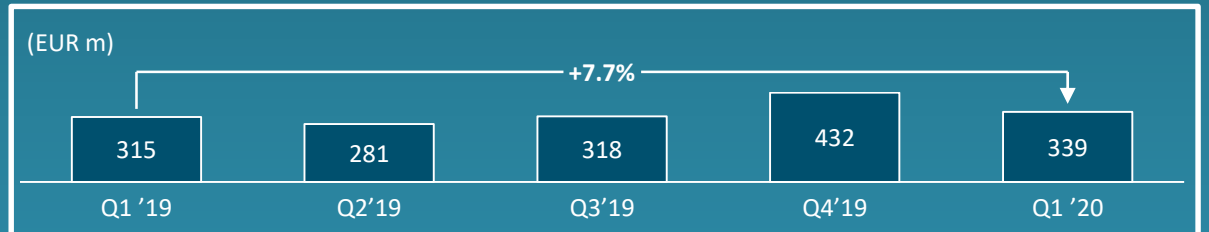


- MSR with continued positive performance of own retail business and further easing of legacy base headwinds while partner business trends remained solid also as a result of the MBA MVNO dynamics
- Handset revenues registered continued strong demand
- Fixed revenues built on its positive trend supported by retail customer base growth on the back of strong VDSL demand

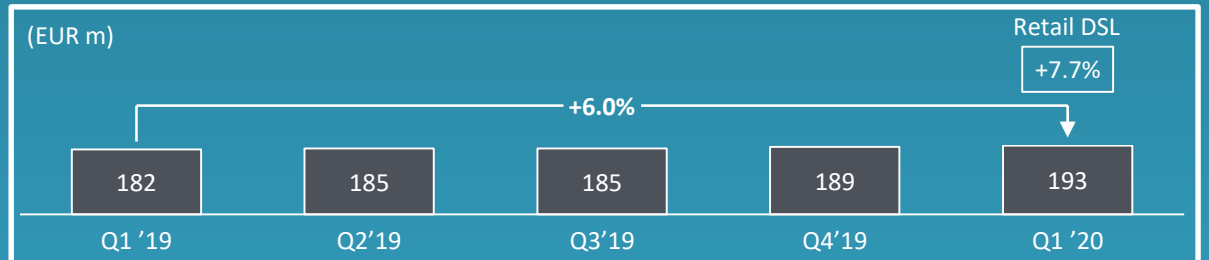
MSR reflects traction of O₂ Free portfolio



Continued demand for high-value devices

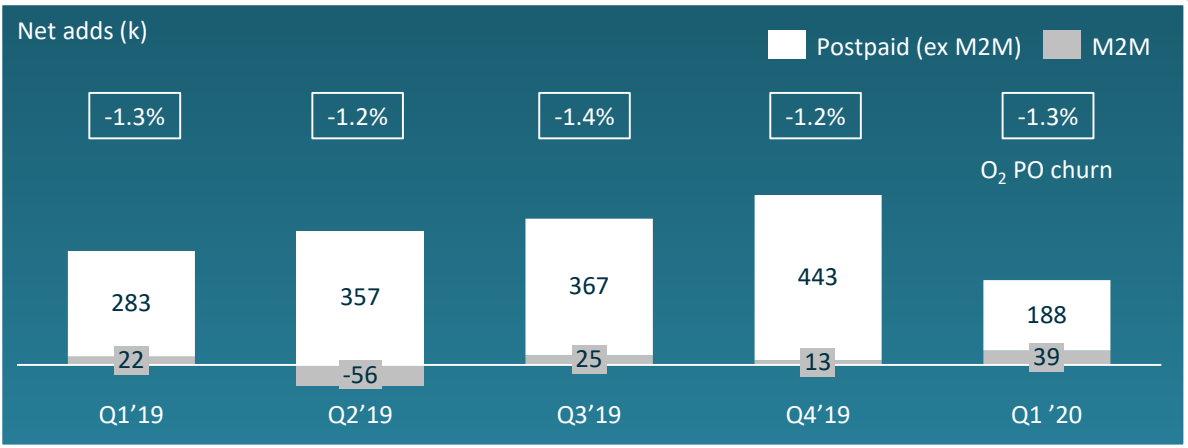


Fixed revenue growth driven by improved retail DSL

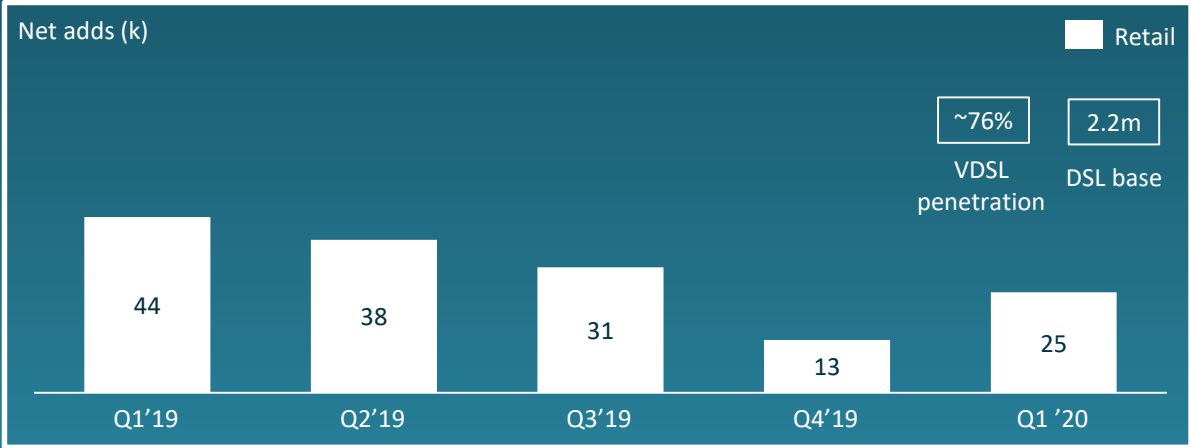


Softer trading due to government imposed COVID-19 lockdown - ARPU continued growth path

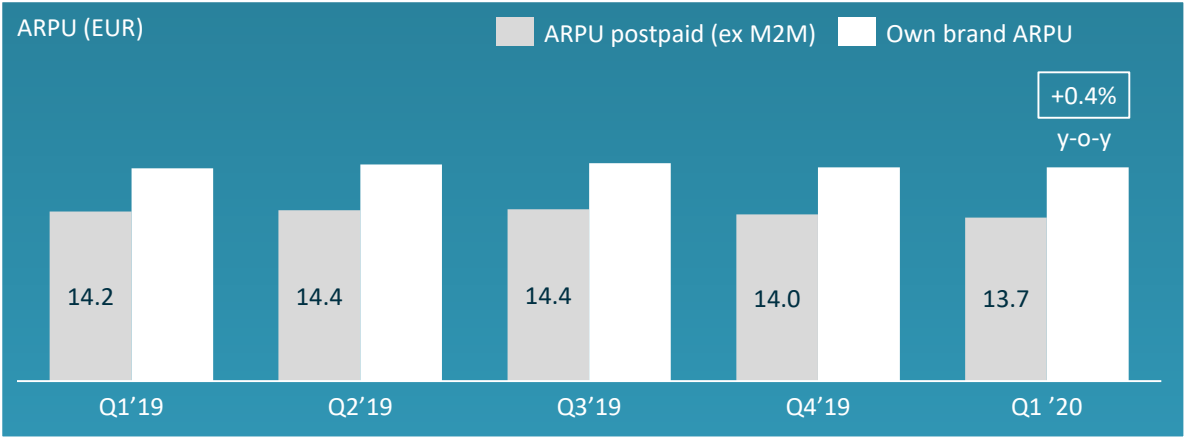
Focus in mobile on profitable growth



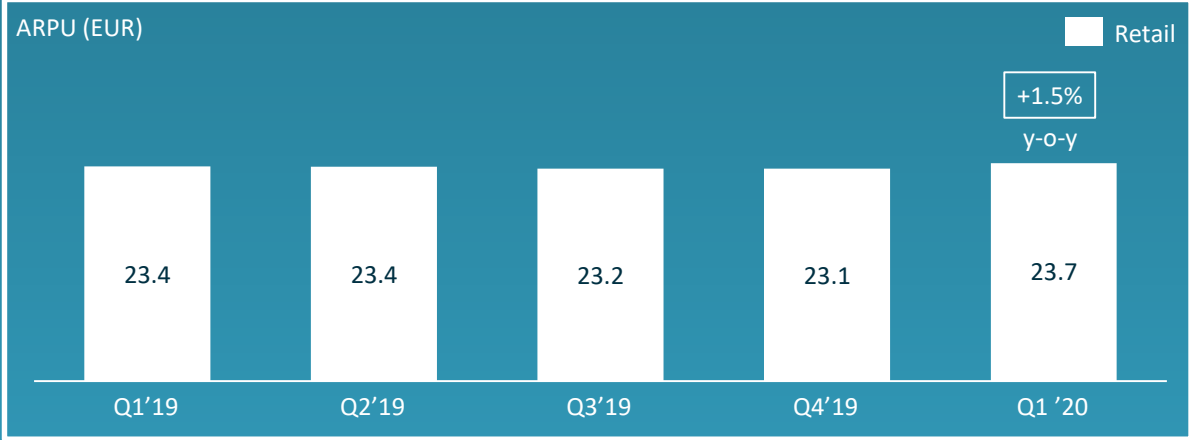
Sustained demand for VDSL drives growth



O₂ Free drives own brand ARPU

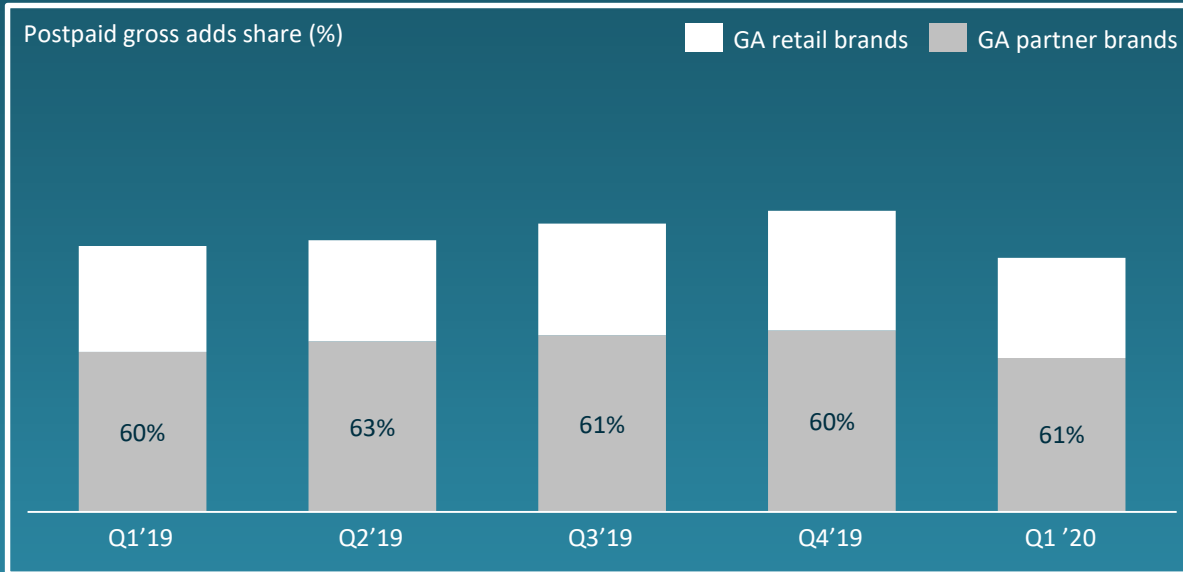


Fixed ARPU reflects higher VDSL share

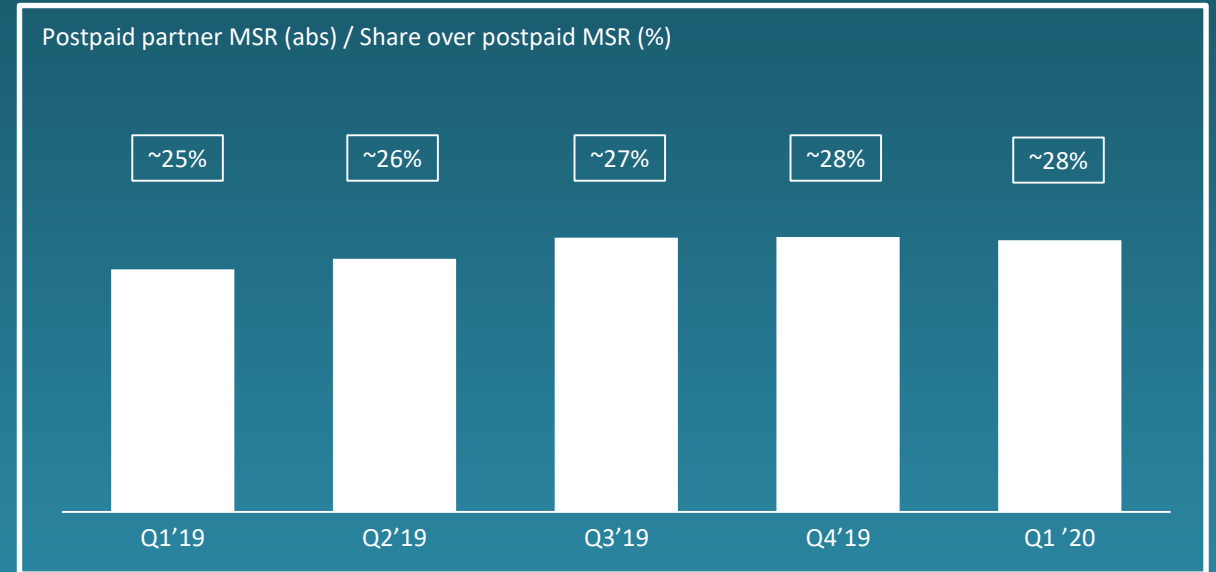


Partner performance in line with expectations

Solid partner trading



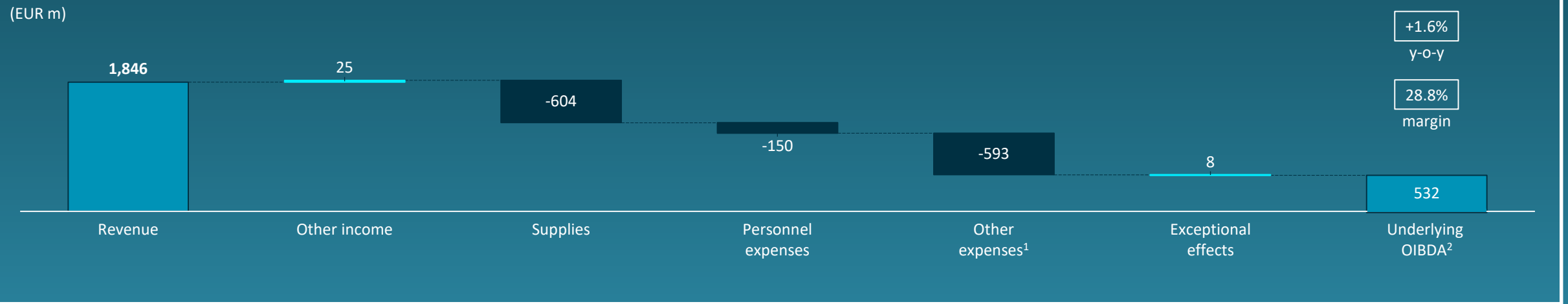
Stable partner MSR contribution



- Partner business remained solid with softer trading in Q1
- Solid trading performance by partners with 61% of GAs mainly driven by MBA MVNO dynamics
- Postpaid partner MSR contribution stable at ~28%

OIBDA reflects revenue flow-through and investment in growth

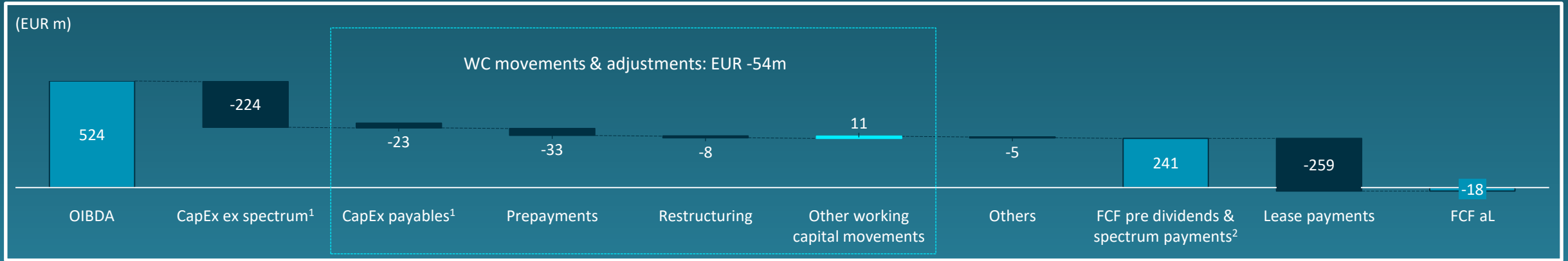
Evolution of Q1 20 OIBDA



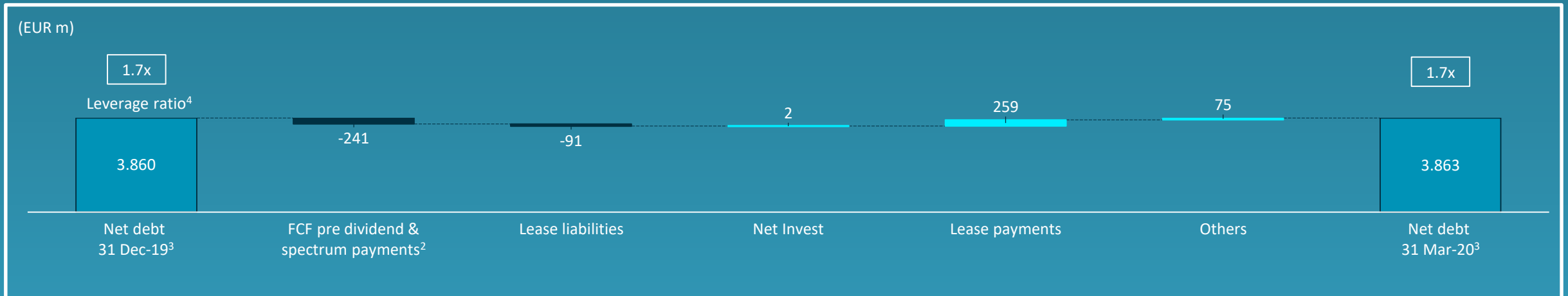
- Underlying² OIBDA +1.6% y-o-y in Q1 20 driven by
 - Flow-through from mobile service and fixed revenues
 - Partly offset by higher costs, mainly in supplies
- Underlying² OIBDA margin of 28.8%
 - Mainly reflecting strong growth of lower margin handset revenue

Free Cash Flow dynamics reflect usual seasonal trends

Evolution of Q1 20 FCF



Stable net debt³ – leverage well in-line with target



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

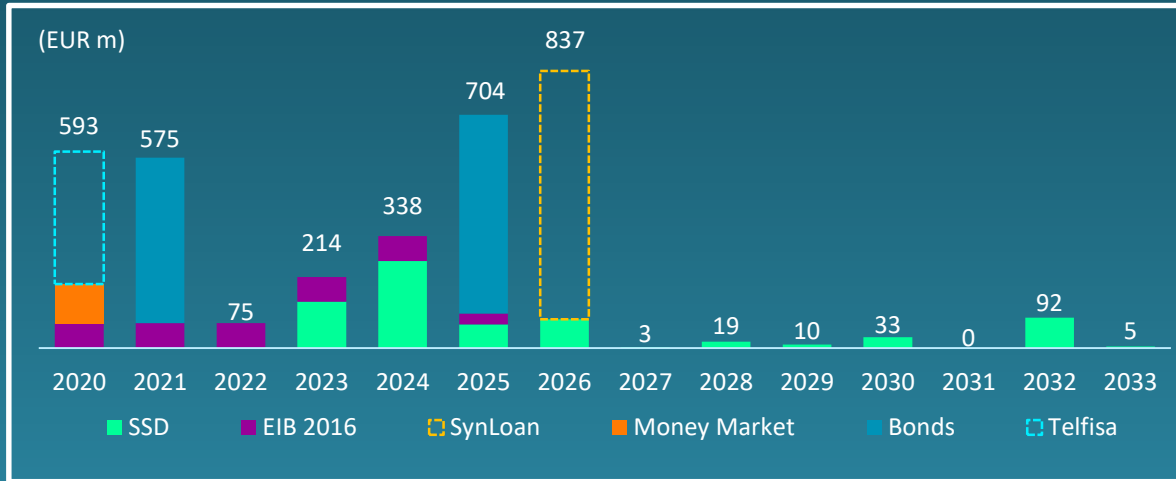
² FCF pre dividends & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

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

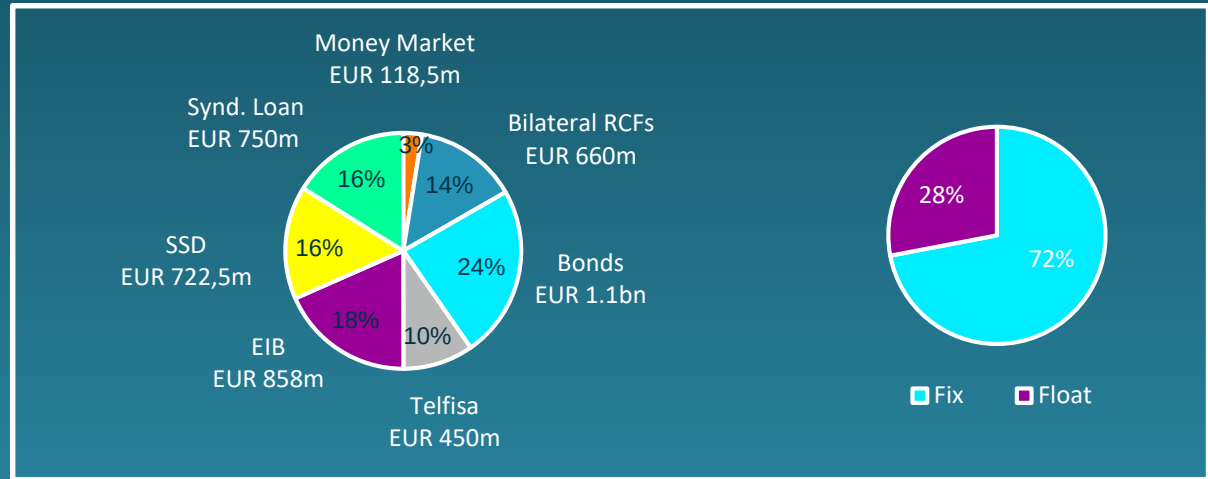
⁴ Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects

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

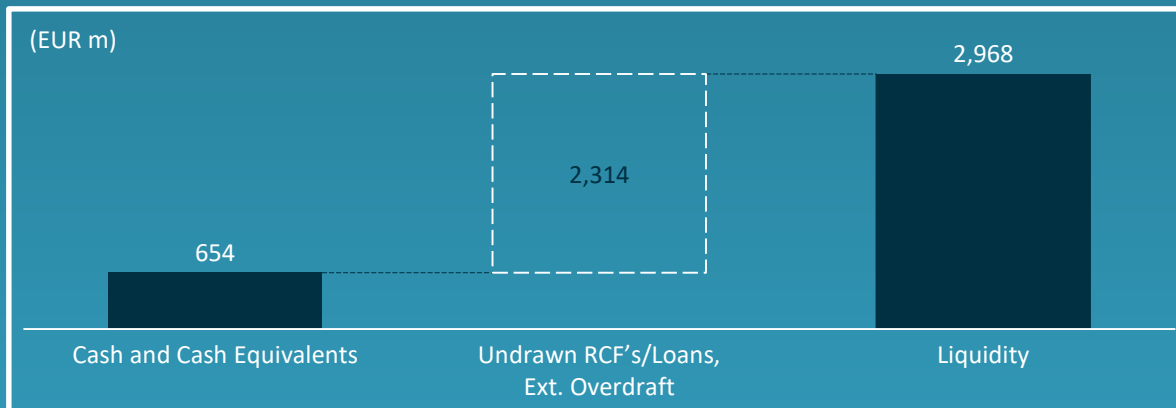
Maturity profile¹



Financing and interest mix²



Liquidity position



Comments

- Ample liquidity of c. EUR 3.0bn provides significant financial stamina. This includes a new EUR450m undrawn EIB Loan
- Well balanced and diversified maturity profile
- Low exposure to changes in interest rates due to a high percentage of debt at fixed rates
- EUR 118.5m Money Market Facilities outstanding

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



Leverage¹

- Maintaining **Fitch BBB investment grade rating**
- **Strong B/S with low indebtedness**; leverage a 1.7x (IFRS 16) as of 31.03.2020
- **IFRS 16 leverage target: At or below 2.5x; solid headroom under current rating**
- Deferred spectrum payments lead to increased **financial flexibility**



Dividend
proposal
FY 19

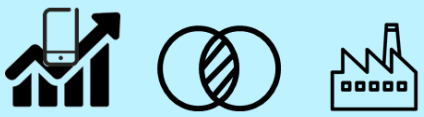
- **Virtual AGM called for 20 May with a proposal of EUR 0.17/share,**
- **Dividend of EUR 0.17/share, which will be a floor during our investment programme in 2020/21**



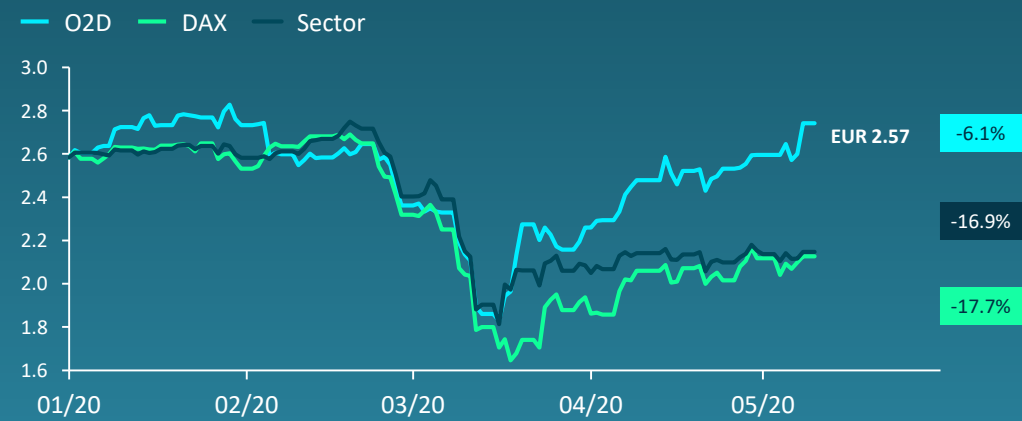
Dividend
policy

- **Continuity since the IPO**
- **High pay-out ratio to FCF aL**

Confirming FY20 outlook & midterm guidance while closely monitoring COVID-19 impacts

	Outlook FY 20	Mid-term guidance 2020/22	Q1 20
Revenue	Flat to slightly positive (incl. reg. impacts of ~EUR 20-30m)	 TEF D with cumulated growth of min. 5%	+3.8% 1,779 Q1'19 1,846 Q1'20 ✓
OIBDA ¹	Broadly stable to slightly positive (incl. reg. impacts of less than ~EUR 10m)	Ongoing margin improvement	+1.6% 524 Q1'19 532 Q1'20 ✓
C/S	17 - 18%	2-year investment programme to generate growth with C/S incl. 5G RAN peaking in 2020/21 between 17-18%; normalising already in 2022	14.2% 252 Q1'19 224 Q1'20 Phasing

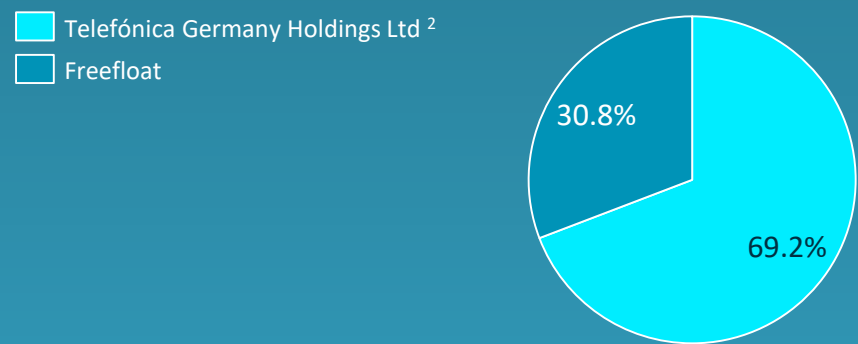
Share price development as of 8 May 2020



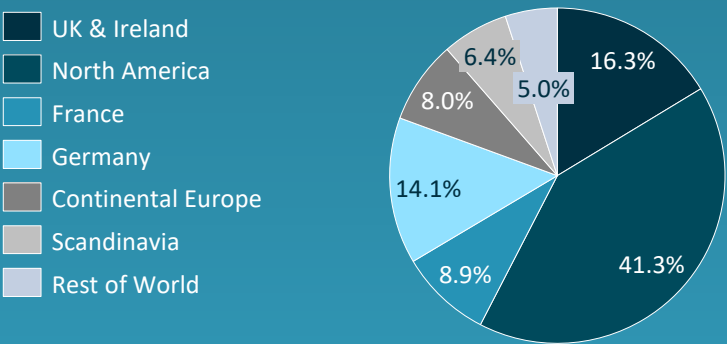
Telefónica Deutschland at a glance¹

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap	EUR 8,156.2 m
Share price	EUR 2.742

Shareholder structure¹



Regional split of shareholder structure³

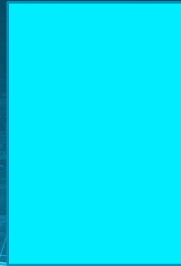


Any further questions? Please reach out to us!



Christian Kern
Director Investor Relations

+44 7517 999 208
christian.kern@telefonica.com



Marion Polzer, CIRO
Head of Investor Relations

+49 176 7290 1221
marion.polzer@telefonica.com



Eugen Albrecht.
Senior Investor Relations Officer

+49 176 3147 5260
eugen.albrecht@telefonica.com



+49 89 2442 1010

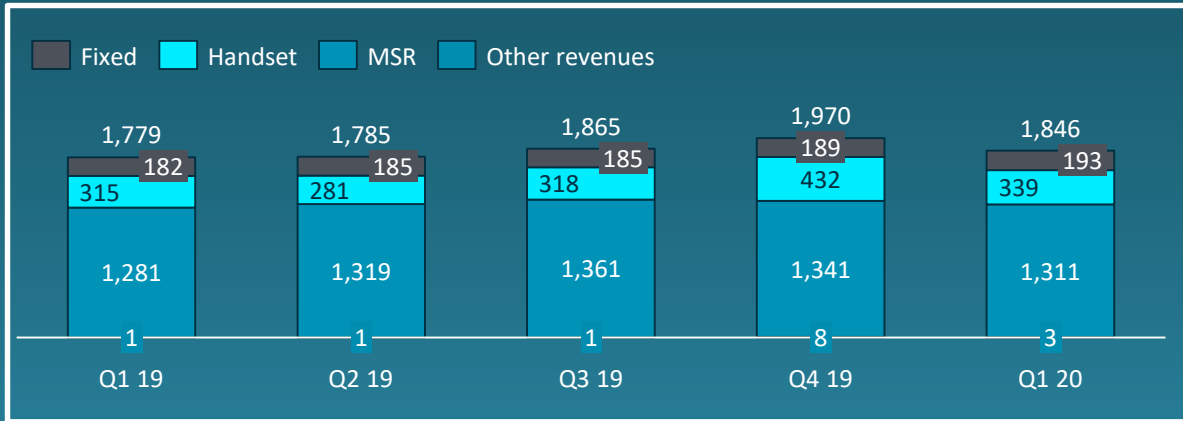


IR-Deutschland@telefonica.com

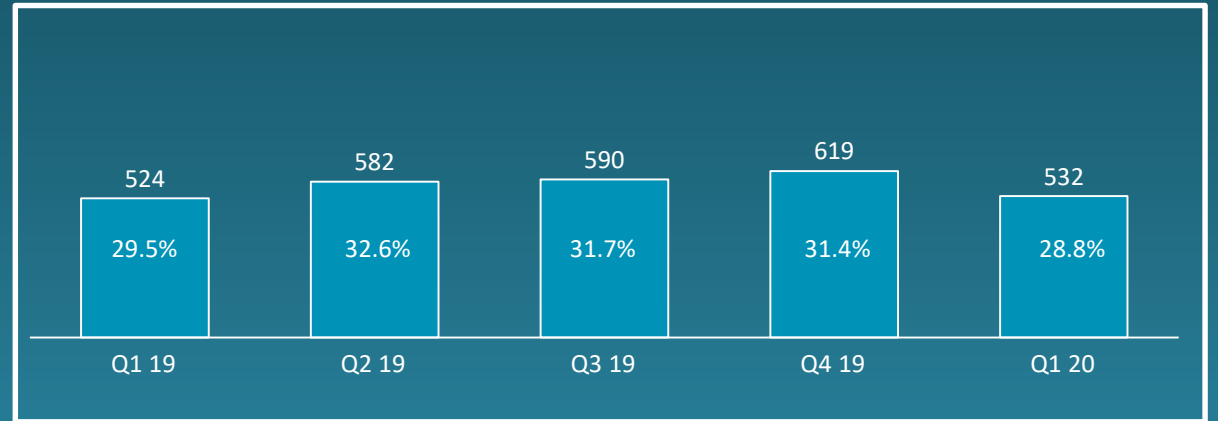
Appendix



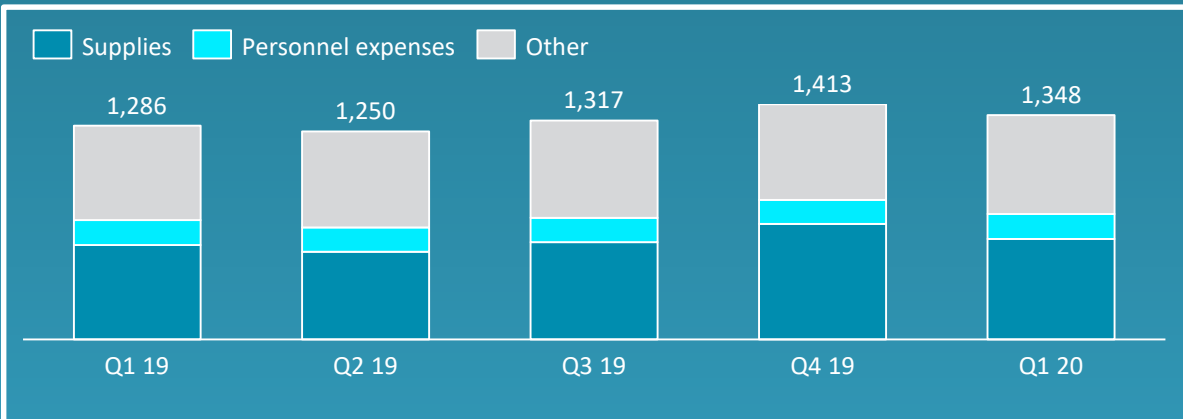
Revenue structure (EUR m)



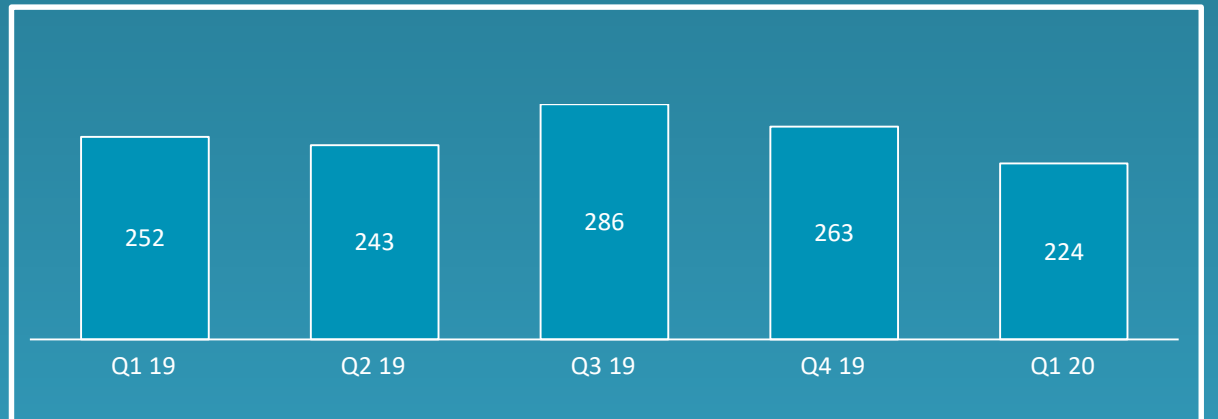
Underlying OIBDA¹ (EUR m)



OpEx split² (EUR m)

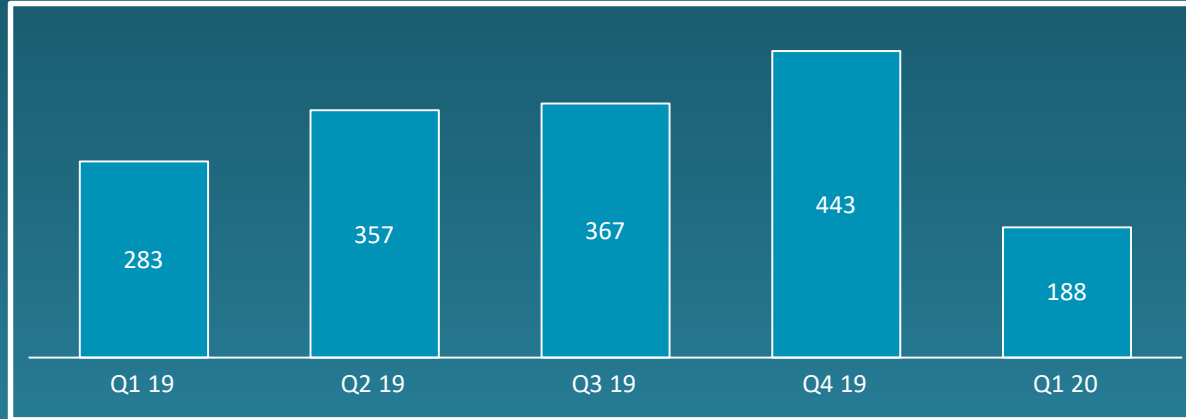


CapEx³ (EUR m)

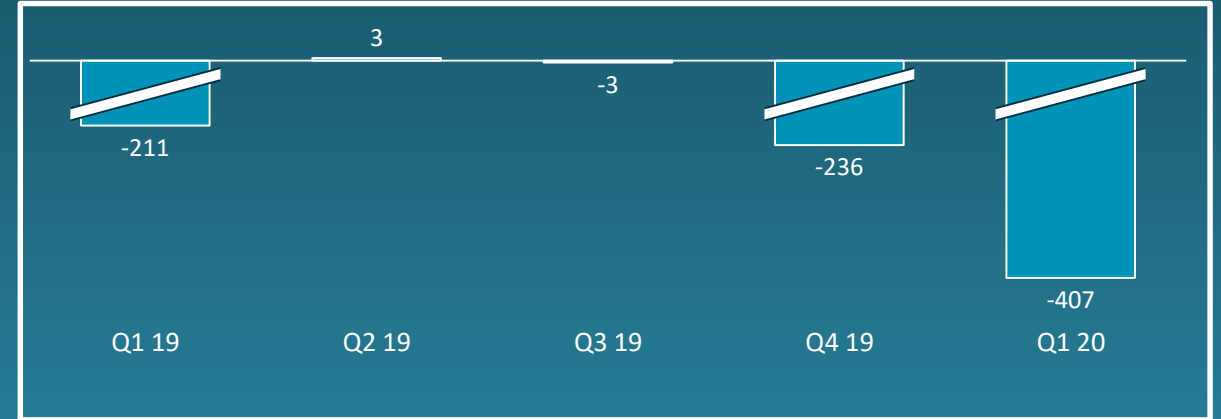


Mobile KPIs

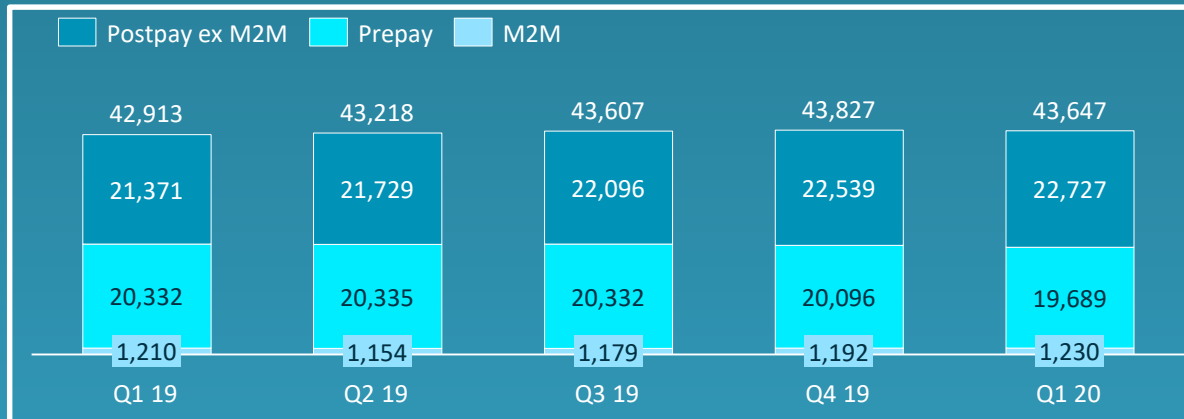
Postpay net adds¹ (k)



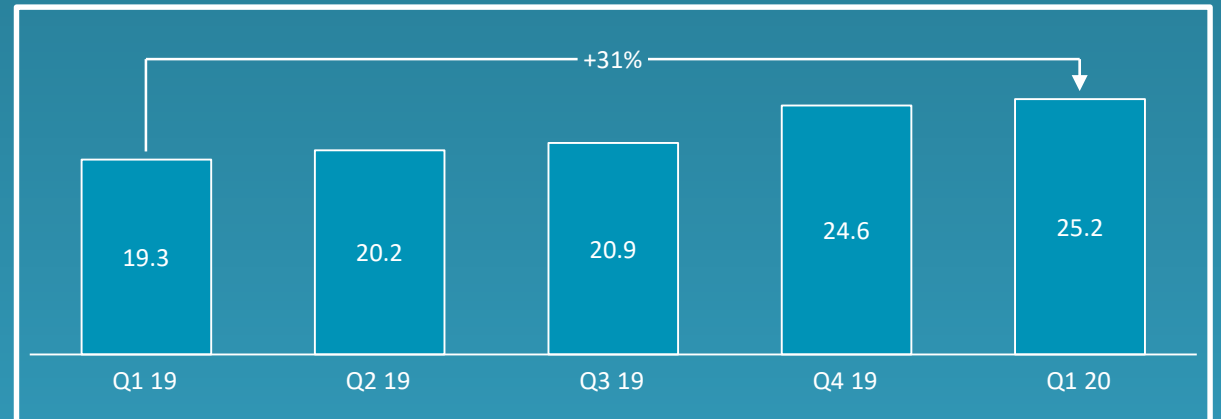
Prepay net adds (k)



Mobile customer base (k)



LTE customer base (m)

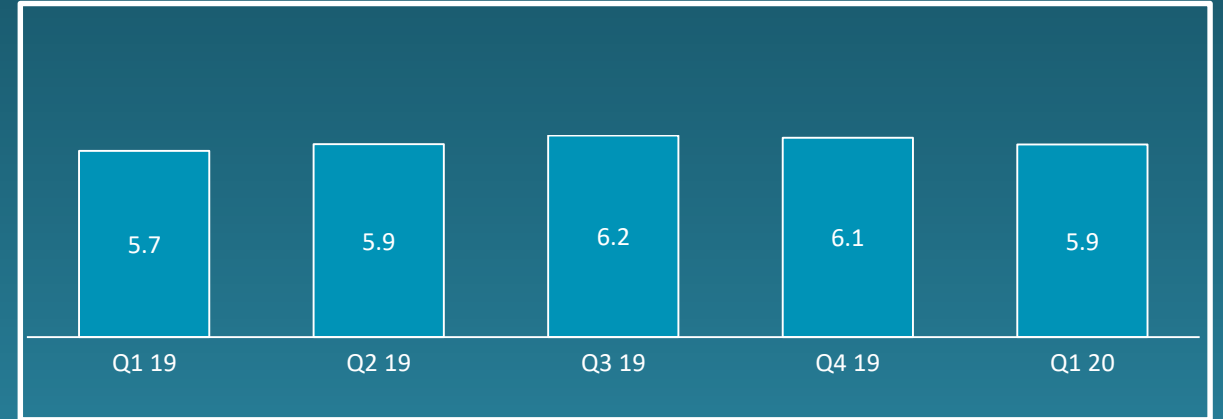


Mobile KPIs

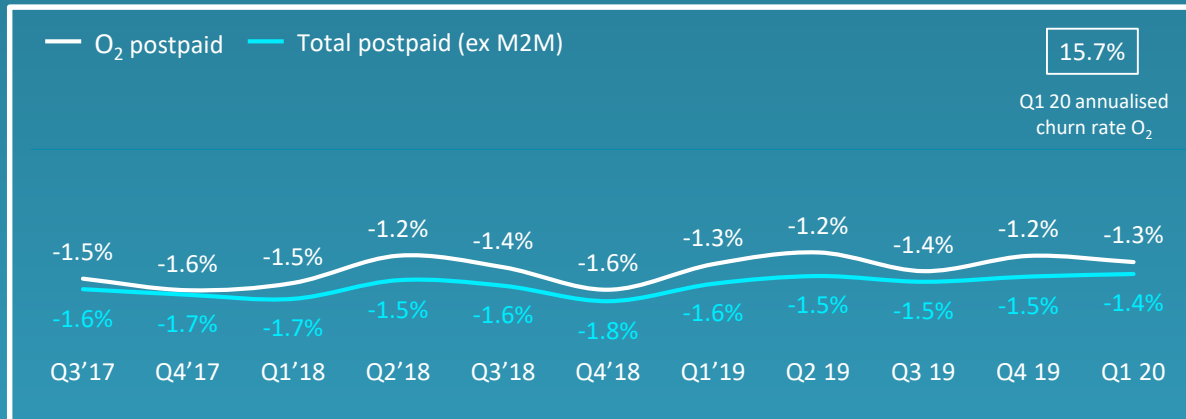
Postpay ARPU (EUR)



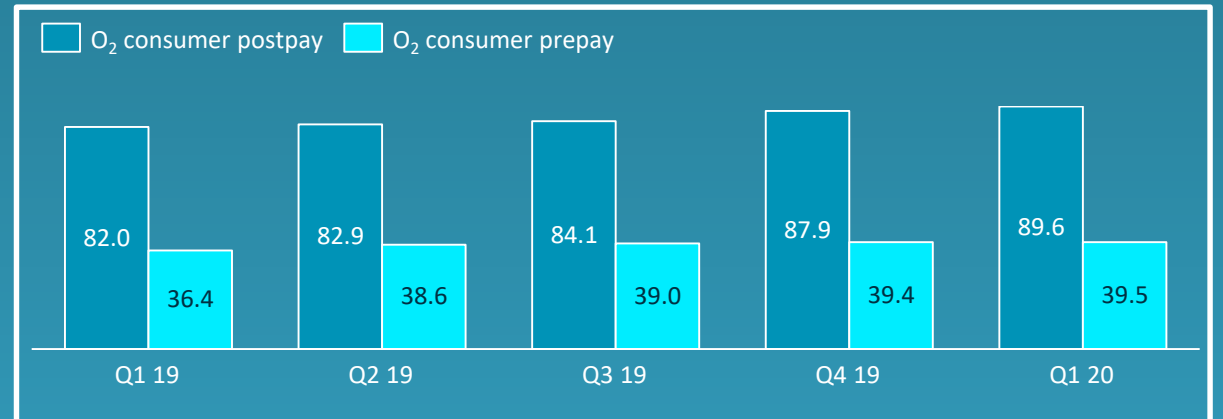
Prepay ARPU (EUR)



Churn rate (%)



Smartphone penetration (%)¹



Innovative O₂ Free portfolio extension driving ARPU-up strategy

O₂ Free - all customer needs covered

O₂ Free - speed-tiered unlimited



Unlimited usage



Best-fit speed-tiering



5G-ready in high value tariffs

O₂ Free - classic volume-based



Maximum speed



Boost option - doubling data



5G-ready in high value tariffs

O₂ Free - high adoption rate



Own brand ARPU increase y-o-y



Early adopters moving into speed-tiered unlimited tariffs - majority taking max. speed



Volume based continue be well received – 20GB most popular and increasing share in large volume bundles



Continued increase in average O₂ Free data usage

O₂ Free mobile portfolio

	O ₂ Free Unlimited Basic	O ₂ Free Unlimited Smart	O ₂ Free Unlimited Max
Datenvolumen	Unlimited GB	Unlimited GB	Unlimited GB
Max Surfgeschwindigkeit	2 MBit/s	10 MBit/s	Max. MBit/s
Netztechnologie	4G LTE	4G LTE 5G Ready	4G LTE 5G Ready
Flatrate für Minuten/SMS	✓	✓	✓
EU Roaming	✓	✓	✓
Mtl. Grundgebühr bei 24 Monaten Mindestlaufzeit	29 ^{,99€}	39 ^{,99€}	49 ^{,99€}

Preis in € inkl. Mwst.



Unbegrenztes Datenvolumen



Mit der passenden Surf-Geschwindigkeit



Bereit für 5G



Voll flexibel:
Auf Wunsch ohne Laufzeit



Ab 29,99 Euro im Monat

	O ₂ Free S	O ₂ Free M	O ₂ Free L
Datenvolumen	3 GB	20 GB	60 GB
Max Surfgeschwindigkeit	Max. Mbit/s	Max. Mbit/s	Max. Mbit/s
Netztechnologie	4G LTE	4G LTE	4G LTE 5G Ready
Flatrate für Minuten/SMS	✓	✓	✓
EU Roaming	✓	✓	✓
Mtl. Grundgebühr bei 24 Monaten Mindestlaufzeit	19 ^{,99€}	29 ^{,99€}	39 ^{,99€}

Preis in € inkl. Mwst.



BOOST mit CONNECT
Doppeltes Datenvolumen für bis zu 10 Geräte



Bereit für 5G



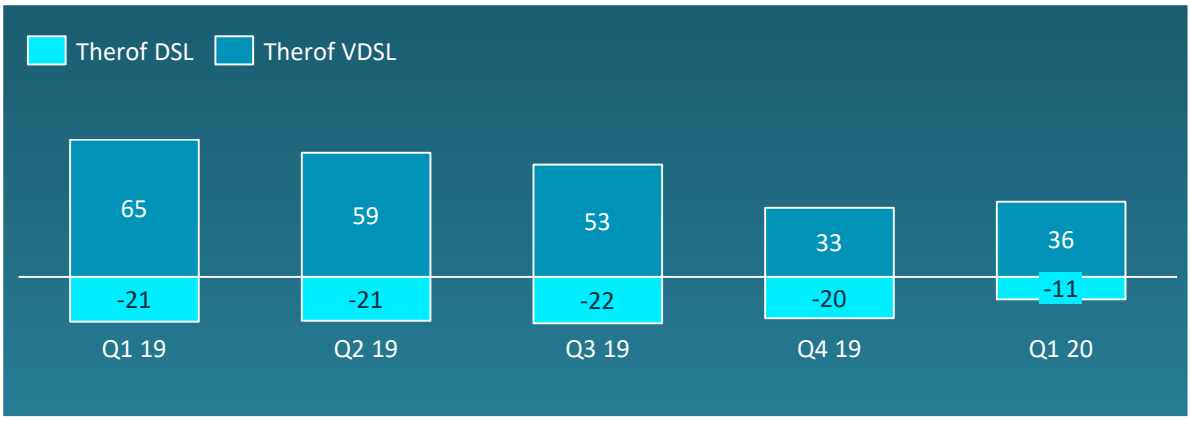
Voll flexibel:
Auf Wunsch ohne Laufzeit



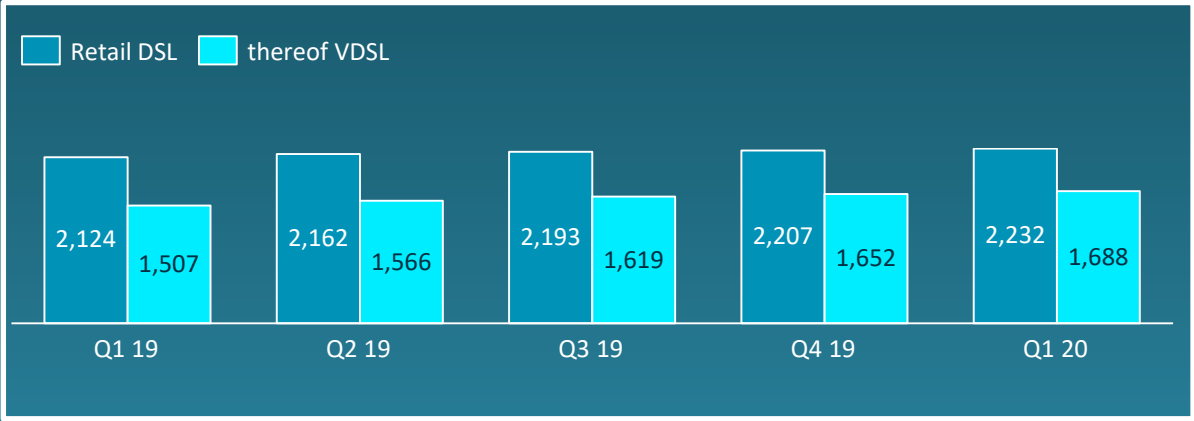
Von 10 auf 20 GB für 29,99 Euro

Fixed KPIs

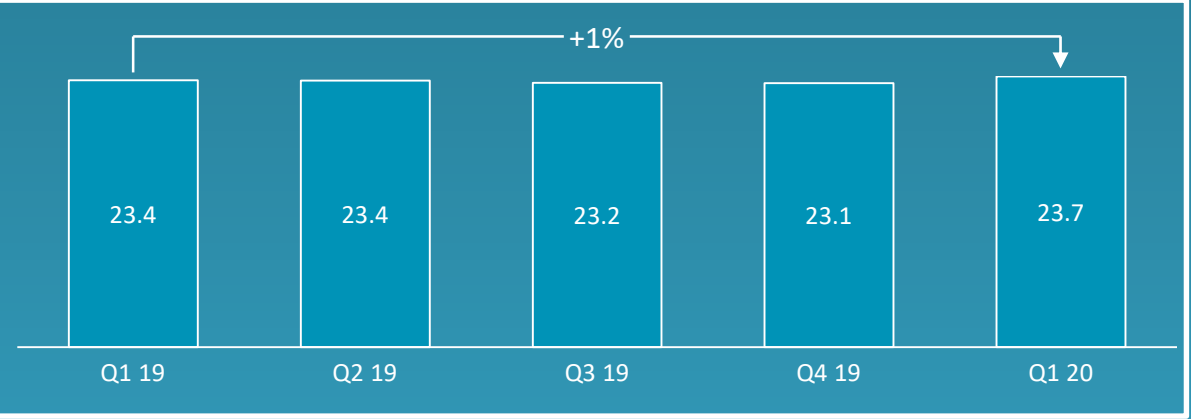
Retail broadband net adds ('000)



Fixed accesses ('000)



Fixed retail ARPU (EUR)



O₂ Free fixed portfolio

	O ₂ my Home XL*	O ₂ my Home L	O ₂ my Home M	O ₂ my Home S
Maximale Surf-Geschwindigkeit ¹	VDSL 250 MBit/s (Upload: 40 MBit/s) ⁴	VDSL 100 MBit/s (Upload: 40 MBit/s) ⁴	50 MBit/s (Upload: 10 MBit/s)	10 MBit/s (Upload: 2,4 MBit/s) ⁵
Flatrate-Telefonieren ins dt. Festnetz und in alle dt. Mobilfunknetze ³	✓	✓	✓	✓
Optional buchbar: HomeBox 2 AVM FRITZ!Box 7490 AVM FRITZ!Box 7590 ⁶	– – 5,99 mtl.	1,99 mtl. 3,99 mtl. 5,99 mtl.	1,99 mtl. 3,99 mtl. 5,99 mtl.	1,99 mtl. 3,99 mtl. 5,99 mtl.
Anschlussgebühr einmalig ²	0,– (anstatt 49,99)	0,– (anstatt 49,99)	0,– (anstatt 49,99)	49,99
Rabattaktion ²	1 Jahr 10,– mtl. sparen	1 Jahr 10,– mtl. sparen	1 Jahr 10,– mtl. sparen	1 Jahr 10,– mtl. sparen
Mtl. Grundgebühr reduziert für O ₂ Kunden ⁷	ab 24,99 (ab 13. Monat ab 34,99)	ab 14,99 (ab 13. Monat ab 24,99)	ab 9,99 (ab 13. Monat ab 19,99)	–
Mtl. Grundgebühr (bei 24 Monaten Laufzeit)	34,99 ab 13. Monat 44,99	24,99 ab 13. Monat 34,99	19,99 ab 13. Monat 29,99	14,99 ab 13. Monat 24,99

Telefónica

Deutschland