

MUNICH, 28 July 2021

Preliminary results for January to June 2021

Strong operational and financial momentum drives profitable growth – updating FY21 outlook to ‘slightly positive’ y-o-y growth

- Excellent trading momentum – Q2 21 postpaid net additions of +374k more than doubled y-o-y
- Revenue growth accelerated to +5.7% y-o-y in Q2 21 driven by sustained MSR and fixed revenue momentum as well as non-recurrent special factors (underlying +3.5% y-o-y)
- Strong OIBDA¹ growth of +10.8% y-o-y in Q2 21 as a result of improved revenue quality, effective cost management and non-recurrent special factors (underlying +3.6% y-o-y)
- C/S ratio of 14.8% in Q2 21 – executing ‘investment for growth’ programme according to plan with back-end loaded annual phasing
- Updating FY21 revenue and OIBDA¹ outlook to ‘slightly positive’ y-o-y growth

Second quarter 2021 operational & financial highlights

In a continued yet rational market, Telefónica Deutschland delivered excellent trading momentum in the second quarter of the year with the continued traction of the O₂ Free portfolio. C-19 impacts have mostly annualized with pandemic related measures being gradually lifted over the course of the quarter driven by declining C-19 case numbers and increasing vaccination levels. All O₂ shops are open again since the beginning of June and travel restrictions limiting roaming activities experienced a gradual easing towards the start of the German school holiday season.

The reopening of the German economy reinforced Telefónica Deutschland’s good operational and financial performance. The company posted further progress in underlying trends reflecting the continued focus on profitable growth accompanied by marketing campaigns promoting the achieved network quality equalisation on the back of the company’s strong network enhancements. The O₂ 5G network is now live in 80 cities with ~2k antennas mainly on 3.6 GHz spectrum and contributed to strong overall results in the latest Opensignal network test and the Speedcheck report for available 5G speeds. After having been awarded a ‘very good’ rating in the connect magazine’s mobile network test, Telefónica Deutschland also achieved a ‘very good’ rating in the connect magazine’s fixed network test.

Telefónica Deutschland and 1&1 have put their long-term partnership and future cooperation on a new contractual basis with the signing of a National Roaming Agreement (NRA) in May 2021. Telefónica Deutschland has secured valuable long-term revenue streams as the NRA has an initial contract period of 5 years, retroactively starting 1 July 2020, and can be extended twice; until mid-2029 and up to mid-2034 respectively. As part of the agreement, all remaining ongoing price reviews initiated by 1&1 will no longer be pursued.

¹ Adjusted for exceptional effects. In Q2 21, exceptional effects amounted to EUR -2m of restructuring costs. In Q2 20, exceptional effects were gains from the sale of assets EUR +4m and EUR -1m restructuring costs.

In May 2021, Telefónica Deutschland also published its Corporate Responsibility Report 2020 'Enabling sustainable digitalisation', focusing on the company's progress in aligning growth with the achievement of climate targets and social responsibility as well as the digital inclusion of people. Telefónica Deutschland's 'Responsible Business Plan 2025' is setting the course and the steering-KPIs for underpinning the company's ambition of achieving net zero carbon emissions by no later than 2025.

Operating performance

Mobile business

Mobile postpaid more than doubled y-o-y to +374k net additions in Q2 21 (+158k in Q2 20; +594k in H1 21 vs. +347k in H1 20) on both, sustained traction of the O₂ Free portfolio reinforced by the gradual re-opening of O₂ shops and a solid contribution from partner brands.

M2M ramped-up q-o-q to +82k net additions in Q2 21 (+78k in Q2 20; +124k in H1 21 vs. +116k in H1 20).

Mobile prepaid posted +91k net additions in Q2 21 (-366k net disconnections in Q2 20; -18k in H1 21 vs. -773k in H1 20) supported by some revenue neutral SIM card reactivations while the market trend of prepaid to postpaid migration continued.

Postpaid churn improved further on enhanced network quality driving customer experience. As a result, postpaid churn improved by +0.4 p.p. and +0.3 p.p. y-o-y to record lows of 1.0% in Q2 21 and 1.2% in H1 21, respectively. **Churn in the O₂ brand** was even lower and came down to historic lows of 0.8% in Q2 21 and 0.9% in H1 21 (both improved by +0.3 p.p. y-o-y). The implied annualised churn rate of the O₂ brand improved by +3.7 p.p. y-o-y to 10.6% in H1 21, providing a clear proof point for the excellent customer experience on the O₂ network.

Telefónica Deutschland's **mobile customer accesses** grew to 45.0m (+3.4% y-o-y) as of 30 June 2021 driven by strong +5.6% y-o-y growth of the **mobile postpaid base ex M2M** which reached 24.2m accesses (53.8% of the company's total mobile access base, up +1.2 p.p. y-o-y) at the end of the first investment of the year. **M2M accesses** were 1.5m as of 30 June 2021, posting strong +17.2% y-o-y growth while the **mobile prepaid base** totalled 19.3m, down -0.3% y-o-y.

The **LTE customer base** jumped to 30.8m accesses as of 30 June 2021, up +21.4% y-o-y, fuelled by the sustained demand for high-speed mobile data services and the start of the 3G switch-off. Consequently, LTE-penetration across the base increased +10.8 p.p. y-o-y to 70.8%. LTE penetration in postpaid climbed up to a significantly higher level of ~81%.

ARPU performance y-o-y registered a change in direction leveraging the annualisation of the C-19 impacts in Q2 21 and the gradual re-opening of the German and the global economy. **Blended mobile ARPU** was up +1.5% y-o-y to EUR 9.9 in H1 21. **Prepaid ARPU** stood at EUR 6.1, up +4.1% y-o-y in H1 21 mainly because of fewer inactive SIM-cards. **Postpaid ARPU** in H1 21 mainly reflects first quarter C-19 impacts and was lower -0.8% y-o-y to EUR 13.4 while the successful O₂ Free portfolio further fuelled data growth (average usage of ~10GB per month in O₂ postpaid) and drove the company's 'ARPU-up' strategy. **O₂ postpaid ARPU** reversed its trend in Q2 21 and posted +0.6% y-o-y growth (-1.4% y-o-y and -0.4% y-o-y in Q1 and H1 21, respectively).

Fixed business

The **fixed broadband customer base** was up +0.4% y-o-y to 2.3m accesses at the end of H1 21 with the **VDSL base** posting strong growth of +5.1% y-o-y to 1.8m accesses (equal to 81% of fixed broadband customer base). In a market focused on high-speed fixed connectivity during lockdown and robust demand for fixed-mobile substitution (FMS) products, Telefónica Deutschland registered -1k net disconnections of fixed BB accesses in Q2 21 (-8k in H1 21) with net additions returning to y-o-y growth with the reopening of the O₂ shops in June. VDSL demand remained solid with +10k net additions in Q2 21 (+19k net additions in H1 21).

Fixed churn remained at low levels of 0.9% (-0.1 p.p. y-o-y in H1 21).

Fixed broadband ARPU continued its growth path reflecting the increasing share of VDSL customers and stood at EUR 24.2 in Q2 21, posting +1.6% y-o-y growth (+1.2% to EUR 24.0 in H1 21).

Financial performance

Revenue growth accelerating to +5.7% y-o-y to EUR 1,893m in Q2 21 (+2.9% y-o-y to EUR 3,743m in H1 21) reflecting sustained MSR and fixed revenues momentum as well as non-recurrent special factors² (underlying³ growth +3.5% y-o-y in Q2 21 and + 1.9% y-o-y in H1 21).

Mobile service revenues⁴ (MSR) posted +7.4% y-o-y growth to EUR 1,370m in Q2 21 (EUR 2,678m in H1 21, +3.5% y-o-y) driven by strong own brand performance with O₂ postpaid ARPU returning to growth in Q2 and a solid partner performance as well as non-recurrent special factors² (underlying³ growth +4.3% y-o-y in Q2 21 and +2.0% y-o-y in H1 21).

Handset revenues declined **-1.2% y-o-y to EUR 318m** in Q2 21 (+0.6% y-o-y to EUR 665m in H1 21) on somewhat more muted customer demand after a strong Q1 21 while high value handsets remained popular.

Fixed revenues continued their growth path registering **+3.5% y-o-y growth to EUR 200m in Q2 21** (+3.7% to EUR 400m in H1 21), mainly driven by VDSL customer base growth.

Other income totalled EUR 28m in Q2 21 and EUR 57m in H1 21 (EUR 31m in Q2 20 and EUR 56m in H1 20).

Operating expenses included EUR -1m of restructuring expenses and were up **+3.5% y-o-y to EUR 1,311m in Q2 21** (+1.2% y-o-y to EUR 2,644m in H1 21).

- **Supplies** amounted to EUR 557m in Q2 21, down -1.8% y-o-y (-2.1% y-o-y to EUR 1,147m in H1 21) reflecting the MTR cut from EURc 0.9 to EURc 0.78 as of 1 Dec-20 as well as lower hardware cost of sales because of a different handset mix. Hardware cost of sales and connectivity-related cost of sales accounted for 53% and 43% of supplies, respectively in H1 21.
- **Personnel expenses** increased +1.7% y-o-y and totalled EUR 145m (including EUR -1m of restructuring expenses) in Q2 21 (-2.4% y-o-y to EUR 285m in H1 21) reflecting inflation-based salary increases as of 1 Dec-20 partly compensated by received social security payments for employees of temporarily closed own shops at the beginning of the quarter whose salaries the company topped up to 100%.
- **Other operating expenses⁵** increased +9.4% y-o-y to EUR 609m in Q2 21 (+5.4% y-o-y to EUR 1,212m in H1 21) including restructuring expenses of EUR -1m in Q2 21 and -14m in H1 21 (EUR +0m in Q2 20 and EUR +1m in H1 20). The y-o-y performance reflects commercial activity, from Q1 phased marketing spend as well as 5G rollout costs partly compensated by continued efficiency gains. In the January to June period, commercial costs (66% of other Opex) were broadly stable y-o-y reflecting the mix of the before mentioned effects. Non-commercial costs accounted for 30% of other Opex. Group fees were EUR 6m in Q2 21 and EUR 15m in H1 21 (EUR 8m in Q2 20 and EUR 16m in H1 20).

OIBDA⁶ grew +10.8% y-o-y to EUR 612m in Q2 21 (+8.2% y-o-y to EUR 1,173m in H1 21) reflecting improved revenue quality, operating efficiencies and effective C-19 cost management as well as non-recurrent special factors⁷ and received social security payments in Q2 21 and Q2 20 (underlying⁸ growth +3.6% y-o-y in Q2 21 and +3.5% y-o-y in H1 21). OIBDA⁶ margin stood at 32.3% in Q2 21 (31.3% in H1 21), up +1.5 p.p. y-o-y in Q2 21 as well as in H1 21, reflecting the before mentioned effects.

² Non-recurrent special factors amounted to EUR +14m in Q2 21 and EUR -25m in Q2 20.

³ Excluding non-recurrent special factors.

⁴ 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.

⁵ Includes other expenses and impairment losses in accordance with IFRS 9 in the amount of EUR 12m in Q2 21 and EUR 33m in H1 21 (compared to EUR 21m and EUR 40m in the respective periods of 2020).

⁶ Adjusted for exceptional effects. In Q2 21, exceptional effects amounted to EUR -2m of restructuring costs (EUR -17m in H1 21). In Q2 20, exceptional effects were gains from the sale of assets of EUR +4m and EUR -1m restructuring costs (EUR -5m losses from the sale of assets and EUR -0m restructuring costs in H1 20).

⁷ Non-recurrent special factors amounted to EUR +12m in Q2 21 and EUR -25m in Q2 20

⁸ Excluding non-recurrent special factors and received social security payments.

Depreciation & Amortisation totalled EUR 1,186m in H1 21, up +6.9% y-o-y. The increase in D&A is due to a combination of the earlier 3G switch off by YE21 and higher RoU asset amortisation while somewhat offset by the UMTS licenses having reached their end of useful life at YE20.

Operating income for the first 6M of 2021 stood at EUR -29m compared to EUR -30m in the prior year.

Net financial expenses accounted for EUR -33m in H1 21 versus EUR -32m in H1 20.

Income tax was EUR -21m in the first 6M of 2021 (EUR 0m in H1 20)

Total profit for the period stood at EUR -84m in the first half-year of 2021 compared to EUR -62m in H1 20.

CapEx⁹ increased +11.5% y-o-y amounting EUR 280m in Q2 21 (+6.9% y-o-y to EUR 508m in H1 21) with a C/S ratio of 14.8% (13.6% in H1 21). The CapEx⁹ deployment comes with backend-loaded annual phasing as Telefónica Deutschland is executing its 'investment for growth' programme according to plan to capture valuable revenue and OIBDA growth opportunities.

Operating cash flow (OIBDA¹⁰ minus CapEx⁹) increased +7.4% y-o-y and reached EUR 649m after the first 6 months of 2021. Excluding exceptional effects, operating cash flow amounted to EUR 666m in H1 21, up +9.1% y-o-y.

Free cash flow (FCF)¹¹ amounted to EUR 382m in H1 21 compared to EUR 316m in the first 6M of 2020. Lease payments, primarily for leased lines and antenna sites, amounted to EUR -368m in the first 6 months of 2021 (EUR -336m in H1 20). As a result, FCFaL is already positive with EUR +14m in H1 21 compared to EUR -20m in H1 20.

Working capital movements were negative in the amount of EUR -253m in H1 21. This development was mainly driven by a decrease in capex payables (EUR -158m), increased pre-payments (EUR -45m), net restructuring impacts (EUR +9m) as well as other working capital movements of EUR -59m. The latter include the development of net receivables of EUR +71m (including factoring), which was outweighed by other working capital movements, especially a decrease in trade and other payables (EUR -142m).

Consolidated net financial debt¹² amounted to EUR 3,888m as of 30 June 2021, and included the FY20 dividend payment of EUR 535m in May as well as an increase in lease liabilities of EUR 131m due regular contract renewals. The resulting leverage ratio of 1.6x¹³ remained well below the company's self-defined target ratio of at or below 2.5x and leaves comfortable leverage headroom with regards to the company's BBB-rating with stable outlook by Fitch.

⁹ Excluding additions from capitalised right-of-use assets.

¹⁰ Adjusted for exceptional effects. In Q2 21, exceptional effects amounted to EUR -2m of restructuring costs (EUR -17m in H1 21). In Q2 20, exceptional effects were gains from the sale of assets of EUR +4m and EUR -1m restructuring costs (EUR -5m losses from the sale of assets and EUR -0m restructuring costs in H1 20).

¹¹ 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.

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.

Financial outlook 2021

Telefónica Deutschland delivered strong operational and financial momentum in a rational market environment in H1 2021. The focused execution of the company's growth-oriented investment programme is bearing fruit while C-19 related restrictions weighed on commercial activities and international roaming revenues particularly in the first four months of the year. Telefónica Deutschland registered strong trading momentum especially the second quarter of the year with continued traction of the O₂ Free portfolio leveraging online channels and historic low churn rates. The dynamic was reinforced by the gradual reopening of the O₂ shops and the accompanying network marketing campaign. Also, performance of partner brands was solid.

Consequently, Telefónica Deutschland posted good operational and financial performance with progress in underlying trends as the company continued to focus on profitable growth. C-19 related impacts have mostly annualized with pandemic related measures being gradually lifted over the course of the second quarter. All O₂ shops are open again since the beginning of June. Travel restrictions limiting roaming activities saw a gradually easing towards the start of the German school holiday season.

At the same time, Telefónica Deutschland continues to pursue its path of digital transformation to make its business model 'simpler, faster and better' and to benefit from revenue growth as well as efficiency gains. Telefónica Deutschland emphasizes sustainable growth and, as part of its ESG targets, is committed to achieve net zero carbon emissions by no later than 2025.

Against this background, Telefónica Deutschland is updating its FY 2021 outlook as below:

Financial year 2021 total revenues and OIBDA adjusted for exceptional effects are both expected to be 'slightly positive' year-over-year, respectively.

The company's CapEx deployment comes with backend-loaded phasing in 2021 as Telefónica Deutschland is executing its network-focused 'investment for growth' programme to capture available revenue and OIBDA growth opportunities. The expected Capex to Sales ratio remains unchanged at 17% – 18% in FY2021.

Telefónica Deutschland's assumptions are based on broadly unchanged overall economic conditions, current competitive dynamics, and existing wholesale relationships. At the same time, management is continuously monitoring and analysing the further C-19 developments.

	Baseline 2020	Outlook 2021	Actuals H1 2021	Updated Outlook 2021
Revenue	EUR 7,532m	Flat to slightly positive y-o-y	EUR 3,743m (+2.9% y-o-y) ¹⁴	Slightly positive y-o-y
OIBDA Adjusted for exceptional effects	EUR 2,319m	Broadly stable to slightly positive y-o-y	EUR 1,174m (+8.2% y-o-y) ¹⁵	Slightly positive y-o-y
Capex to Sales Ratio	14.5%	17–18%	13.6%	17–18%

¹⁴ Includes tailwinds from non-recurrent special factors in the amount of EUR -25m and EUR +14m in Q2 2020 and Q2 2021, respectively.

¹⁵ Includes tailwinds from non-recurrent special factors in the amount of EUR -25m and EUR +12m in Q2 2020 and Q2 2021, respectively; as well as received social security payments.

[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.