Telefónica Deutschland

MUNICH, 10 May 2023

Telefónica Deutschland – interim statement for January to March 2023

Robust start to the year confirming FY23 outlook with ongoing commercial momentum driving sustained operational & financial performance

- **Continued commercial momentum on back of own brand strength and return to low churn levels, +368k mobile postpaid and +25k fixed BB net adds**
- **Strong revenue growth of +8.0% y-o-y driven by sustained MSR momentum & another record quarter of handset sales**
- **Solid OIBDA[1] growth of +1.7% % y-o-y supported by enhanced MSR quality**
- **Excellent 5G roll-out progress within normalised C/S envelope - well on track to deliver 5G pop coverage of ~90% by YE23**
- **ESG leadership extended & well on track to deliver a sustainable digital future**
- **Confirming FY23 outlook & proposing dividend of EURc 18/share to AGM on 17 May-23**

Operating performance

Telefónica Deutschland had a robust start to the year and seamlessly continued its growth path, delivering another quarter of good commercial traction with healthy own brand performance as well as strong revenue and solid OIBDA growth.

At the same time, the company consistently implemented its 'more-for-more' strategy across all brands and portfolios, most importantly with the launch of the new 'O_2 Mobile' portfolio at the beginning of April. The new tariffs include higher data volumes and/or higher speeds while being on average priced at ~10% higher price points. The 'more-for-more' strategy reflects Telefónica Deutschland's widely acknowledged improvements of product, service & network quality as well as ESG leadership.

Telefónica Deutschland's highly committed customer service team achieved a 'very good' rating in the recent connect magazine's hotline test and widened the gap vs the third placed German MNO.

In parallel, the company made good progress with the roll-out of its green 5G network. The focus lies on network densification both, in cities and rural areas, to further improve the 5G customer experience. In Q1 23, ~1k of additional 5G sites went live, taking Telefónica Deutschland's 5G pop coverage to >82%, well on track to deliver ~90% of 5G pop coverage by YE23 and nationwide 5G pop coverage by YE25.

Telefónica Deutschland also extended its ESG leadership by executing its ambitious ESG agenda. The company consistently achieves top rankings in leading sustainability ratings by further improving its scores: Top 3-ranked within the global telecommunications sector by Sustainalytics and top 12% within the sector in S&P Global's rating. S&P Global highlights top scores for Telefónica Deutschland in the categories 'Social and Environmental Reporting', highlighting the company's transparent reporting on targets, measures and KPIs.

Telefónica Deutschland helps society to strive. The company joined the 'Safer Internet Day 2023' initiative to raise political awareness by distributing smartphones and an internet guide for kids including best practice for digital skills. Also, Telefónica Deutschland helped people to stay connected post the severe earthquake in Turkey/Syria by making calls and SMS as well as roaming free of charge for some weeks.

Moreover, Telefónica Deutschland remains committed to its climate protection goals. The Company strives to reduce its Scope 1 & 2 emissions by 95% and ultimately neutralising them 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. Both, in Q1 23 and in Q1 22, exceptional effects amounted to EUR -1m of restructuring costs.

Mobile business

Mobile postpaid maintained momentum and recorded +368k net adds (+28.2% y-o-y), with the continued high O_2 brand appeal driving gross add momentum while O_2's churn rates returned to low levels achieved prior to the EECC-implementation in the German market. Also, the contribution of partner brands remained solid.

M2M posted +41k net additions (+34k in Q1 22).

Mobile prepaid reported -353k net disconnections (-100k in Q1 22) driven by the usual seasonality in combination with the ongoing German market trend of prepaid to postpaid migration.

Churn rates for **O_2 postpaid** returned to the low levels achieved prior to the EECC-implementation in the German market. O_2 postpaid churn improved 0.2p.p. y-o-y to 1.0% in Q1 23 reflecting the commercial success based on network and service quality in combination with strong brand appeal.

Overall, Telefónica Deutschland's **mobile customer accesses** was broadly stable q-o-q (+0.1% q-o-q[2]) at 44.4m as of 31 Mar-23. The **mobile postpaid base** (ex M2M) continued its strong upwards trend, climbing +5.2% y-o-y to 26.7m accesses (60.2% of total mobile access base, up +4.9 p.p y-o-y) on the back of strong own-brand gross add momentum in combination with the anticipated return to low churn levels. **M2M accesses** were also up +5.5% yoy to 1.7m while the **mobile prepaid base** declined -15.6% y-o-y to 15.9m mainly as a result of the revenue neutral technical[3] base adjustment as of year-end 2022.

O_2 postpaid ARPU posted +0.5% y-o-y growth in Q1 23, reflecting the popularity of high value tariffs while partly offset by the further reduction of MTRs as of 1 Jan-23; underlying[4] ARPU growth was even stronger at +1.1% y-o-y.

Fixed business

Fixed broadband net additions were +25k in Q1 23 (-10 k in Q1 22) reflecting the unabated success of Telefonica Deutschland's technology agnostic 'O_2 myHome' tariff portfolio.

Fixed churn improved 0.5 p.p. y-o-y to 0.9% in Q1 23, also returning to the low levels reported prior to the EECC-implementation in the German market.

As a result, the **fixed broadband customer base** grew +3.0% y-o-y to 2.3m accesses as of 31 Mar-23, thereof 80% VDSL accesses (-1.6 p.p. y-o-y) as cable and fibre are gaining further momentum in customer demand.

Fixed broadband ARPU continued its growth path, up +5.5% y-o-y to EUR 25.9 in Q1 23, reflecting the increasing share of higher value customers in the base.

[2] -3.4% y-o-y mainly on a revenue-neutral technical base adjustment in prepaid in Q4 22.
[3] Introduction of a stricter active SIM-card definition.
[4] Excluding MTR-cut from EURc 0.55 to EURc 0.40 as of 1 Jan-23

Financial performance

Revenues posted strong growth of **+8.0% y-o-y to EUR 2,101m** in Q1 23 reflecting sustained mobile service revenue momentum and another record quarter for handset sales.

Mobile service revenues[5] grew **+4.2% y-o-y to EUR 1,408m** in Q1 23 fuelled by the unabated commercial success of the O_2 tariff portfolio and a solid contribution from partners; more than compensating for the negative impact from the MTR glidepath[6].

Handset sales climbed **+23.6% y-o-y to EUR 485m** in Q1 23 driven by ongoing customer demand for 5G enabled devices and good availability of high value handsets at Telefónica Deutschland. This is the strongest handset quarter in the company's history with an ongoing trend towards longer-term 'O_2 myHandy' contracts.

Fixed revenues were up **+2.9% y-o-y to EUR 203m** in Q1 23 with **fixed retail BB revenues** posting even stronger growth of **+4.3% y-o-y** in Q1 23.

Other income was EUR 33m in Q1 23.

Operating expenses[7] were up **+10.6% y-o-y to EUR 1,523m** (including EUR -1m of restructuring expenses) in Q1 23 mainly driven by an increase in supply costs as well as some anticipated inflationary impacts.

- **Supplies** increased +13.4% y-o-y to EUR 671m in Q1 23 with the positive effects from the MTR-cuts[6] more than off-set by volume related higher hardware cost of sales. Connectivity-related cost of sales and hardware cost of sales accounted for 31% and 66% of Q1 23 supplies, respectively.
- **Personnel expenses** were up +5.6% y-o-y to EUR 162m in Q1 23 reflecting the general salary increases as of Sep-22 and the introduction of statutory minimum wages mainly in customer service as of Oct-22 in combination with a slightly higher FTE-base.
- **Other operating expenses** (other Opex) increased +8.6% y-o-y to EUR 663m in Q1 23 reflecting commercial activity in the quarter, technology transformation as well as tough comps for energy as Q1 22 still benefitted from energy supplies secured at favourable FY21 pricing. Commercial and non-commercial costs accounted for 65% and 32% of other Opex in Q1 23, respectively. Group fees came to EUR 9m both, in Q1 23 and Q1 22.

OIBDA[8] posted solid growth, **+1.7% y-o-y to EUR 612m** in Q1 23. Improved operational leverage mainly in mobile on continued own brand momentum was partly offset by the anticipated and before mentioned Opex increase. **OIBDA**[8] **margin** contracted -1.8 p.p. y-o-y to **29.1%** in Q1 23 mainly due to the particular strong growth of broadly margin-neutral hardware revenues.

Depreciation & Amortisation broadly stable y-o-y (+0.5%) at EUR 563m in Q1 23.

Operating income was EUR +49m (+17.4% y-o-y) in Q1 23.

Net financial expenses accounted for EUR -12m in Q1 23.

Income tax was at EUR -4m in Q1 23.

As a result, **total profit for the period** improved to EUR +30m in Q1 23.

[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 26m in Q1 23 (EUR 20m in Q1 22).
[8] Adjusted for exceptional effects. Both, in Q1 23 and in Q1 22, exceptional effects amounted to EUR -1m of restructuring costs.

CapEx[9] was lower -7.2% y-o-y at EUR 246m in Q1 23 with a **CapEx/Sales ratio** of **11.7%.** Telefónica Deutschland continued to make excellent progress in network modernisation and 5G roll-out. Until Mar-23, ~1k of additional 5G sites went live, taking Telefónica Deutschland's 5G pop coverage to >82%; well on track for the targeted ~90% of 5G pop coverage by year-end 2023 and nationwide coverage latest in 2025.

Operating cash flow (OIBDA minus CapEx[9]) improved +8.7% y-o-y to EUR 366m in Q1 23 reflecting both, strong operating and financial performance as well as y-o-y lower Capex post successful completion of the Company's 'Investment-for-Growth' programme.

Free cash flow (FCF)[10] amounted to EUR 160m in Q1 23 vs. EUR 222m in Q1 22. Lease payments mainly driven by annual prepayments for antenna sites and leased lines amounted to EUR 296m in Q1 23 (EUR 275m in Q1 22). This reflects a combination of network densification including new BTS sites in white spots and some anticipated y-o-y increases. As a result, FCFaL stood at EUR -136m for the reporting period (EUR -52m in prior year) with the usual backend loaded profile.

Working capital movements were EUR -202m in Q1 23 vs. EUR -86m in Q1 22. The development in Q1 23 was mainly driven by a decrease in capex payables (EUR -130m) following last year's capex peak already in Q3, as well as other working capital movements of EUR -71m, mainly driven by an increase in inventories facilitating record handset sales.

Consolidated net financial debt[11] amounted to EUR 3,272m as of 31 Mar-23. Leverage ratio of 1.3x[12] remained well below the company's self-defined upper limit of 2.5x and leaves comfortable leverage headroom with regards to the company's BBB-rating with stable outlook by Fitch.

Financial Outlook FY23

Telefónica Deutschland had a robust start to FY23 delivering ongoing commercial momentum and sustained operational and financial performance in the first quarter of the year. The company is confirming its FY23 outlook as presented on 22 Feb-23.

	ACTUAL 2022 (1)	OUTLOOK 2023 (2)	ACTUAL Q1 23
Revenues	EUR 8,224m	Low single-digit percentage year-on-year growth	EUR 2,101m, + 8.0% y-o-y
OIBDA Adj. for except. effects	EUR 2,539m	Low single-digit percentage year-on-year growth	EUR 612m, + 1.7% y-o-y
CapEx to Sales Ratio	14.7%	Around 14 %	11.7%

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

The Company has invited to its annual general meeting on 17 May 2023 to resolve upon the dividend proposal of EUR 0.18 per share for the financial year 2022. This dividend proposal is in-line with the dividend floor for

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

the financial years 2021-23 announced at the company's Strategy Update on 19 January 2021. Hereby, Telefónica Deutschland confirms its strong commitment to attractive shareholder remuneration while financial flexibility remains the company's foremost priority during unprecedented times.

Link to detailed Data Tables

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