

MUNICH, 3 November 2021

**Interim statement for January to September 2021**

**Upgrading FY21 outlook on sustained operational and financial momentum**

- **Strong traction of O<sub>2</sub> Free portfolio drives Q3 21 postpaid net additions to +415k – up +59% y-o-y**
- **Q3 21 revenue growth of +5.1% y-o-y mainly driven by accelerating MSR growth of +4.4% y-o-y reflecting ongoing commercial momentum**
- **OIBDA<sup>1</sup> with continued growth of +3.0% y-o-y in Q3 21 reflecting top-line growth, achieved efficiencies and effective cost management**
- **C/S ratio of 14.2% in 9M 21– executing ‘investment for growth’ programme according to plan with back-end loaded annual phasing and focus an efficient Capex spend**
- **Upgrading FY21 outlook: OIBDA<sup>1</sup> to ‘low mid-single digit % growth’ and C/S to ‘<17-18%’**

**Operating performance**

In a rational German telco market, Telefónica Deutschland delivered ongoing trading momentum driven by strong traction of the O<sub>2</sub> Free portfolio, with all channels contributing.

Telefónica Deutschland’s sustained operational and financial performance reflects the company’s continued focus on profitable growth supported by the successful ‘Willkommen im sehr guten Netz von O<sub>2</sub>’ marketing campaign promoting equalised mobile network quality on the back of strong network coverage and capacity enhancements as well as the temporary ‘One-month test SIM’ offer.

Telefónica Deutschland is expanding its wholesale partnerships with Lebara as a prominent new addition. The international mobile provider Lebara has been present in the German market since 2010 as an established provider of mobile voice and data services for ‘global citizens’.

The company is executing its ‘investment for growth’ programme according to plan with back-end loaded annual phasing to boost rural coverage and enhance capacity accordingly. The modern and energy efficient 5G network is now live in ~115 cities with c.3.3k antennas on 3.6 GHz spectrum. The network achieved the highest 5G download speeds of all German networks in the latest Opensignal test. Also, the O<sub>2</sub> network was ranked second in the recent SMARTPHONE magazine test with a “very good” rating on back of its strong performance in cities and last year’s massive network expansion offensive in rural areas.

One year after its announcement of targeting net zero carbon emissions by 2025, Telefónica Deutschland is constantly driving forward its ESG strategy as part of the company’s Responsible Business Plan 2025 which supports the United Nations Sustainable Development Goals 2025 and includes specific targets across all business areas allowing management to track progress of its sustainability strategy. Telefónica Deutschland is building a greener future by reducing its own and customers’ CO<sub>2</sub> footprint through digital innovations. The company is helping society to thrive by developing new ways of working and developing future skills for society and its own employees.

<sup>1</sup> Adjusted for exceptional effects. In Q3 21, exceptional effects mainly include a capital gain related to the spin-off and sale of the operations of the final tranche of ~4k mobile sites passive infrastructure to Telxius in the amount of EUR +262m as well as EUR +2m of restructuring costs and other exceptional items. In Q3 20, exceptional effects included the capital gain related with the transfer of the first tranche of ~6k mobile sites passive infrastructure to Telxius in the amount of EUR +407m and EUR -26m restructuring costs.

## Mobile business

**Mobile postpaid** net additions increased by +59% y-o-y to +415k in Q3 21 (+261k in Q3 20; +1m in 9M 21 vs. +608k in 9M 20) driven by sustained traction of the O<sub>2</sub> Free portfolio and a solid contribution from partner brands.

**M2M** posted +40k net additions in Q3 21 (+47k in Q3 20; and +164k both in 9M 21 and 9M 20).

**Mobile prepaid recorded** -104k net disconnections in Q3 21 (+208k net additions in Q3 20; -122k in 9M 21 vs. -566k in 9M 20) due to the continued trend of prepaid to postpaid migration in combination with the anticipated reversal of last quarter's revenue neutral SIM card reactivations.

**Churn in the O<sub>2</sub> brand** continued to stay at low levels with 1.0% in Q3 21 (flat y-o-y) and 0.9% in 9M 21 (improved by 0.2 p.p. y-o-y).

Telefónica Deutschland's **mobile customer accesses** reached 45.3m (+2.9% y-o-y), **mobile postpaid base ex M2M** with growing contribution of 24.6m accesses (up +6.2% y-o-y to 54.3% of total mobile base), **M2M accesses** were 1.6m and **mobile prepaid base** came to 19.2m.

**O<sub>2</sub> postpaid ARPU** further improved and posted +0.9% y-o-y growth in Q3 21 and +0.1% y-o-y in 9M 21. **Prepaid ARPU** improved to EUR 6.6 in Q3 21, up +3.2% y-o-y.

## Fixed business

**Fixed broadband customer base** reached 2.3m accesses at the end of 9M 21 (+0.2% y-o-y) with the **VDSL base** posting sustained growth of +3.5% y-o-y to 1.8m accesses (maintaining 81% share of fixed broadband customer base).

**Fixed net additions** returned to growth with the re-opening of O<sub>2</sub> shops in June and posted +2k net additions in Q3 21 (-6k net disconnections in 9M 21), showing sequential improvement through 2021 in a market focused on high-speed fixed connectivity including ongoing robust customer demand for fixed-mobile substitution (FMS) products. VDSL demand remained solid with +7k net additions in Q3 21 (+26k net additions in 9M 21).

**Fixed churn** remained flat y-o-y at low levels of 0.9% in both, Q3 21 and 9M 21.

**Fixed broadband ARPU** continued to grow reflecting the increasing share of VDSL customers and stood at EUR 24.3 in Q3 21, posting growth of +2.5% y-o-y (+1.6% to EUR 24.1 in 9M 21).

## Financial performance

**Revenues grew +5.1% y-o-y to EUR 1,967m in Q3 21** (+3.7% y-o-y to EUR 5,711m in 9M 21; underlying<sup>2</sup> +2.9% y-o-y) mainly driven by accelerating mobile service revenue growth reflecting ongoing commercial momentum.

**Mobile service revenues<sup>3</sup> (MSR) posted +4.4% y-o-y growth to EUR 1,421m in Q3 21** (9M 21 EUR 4,098m, +3.8% y-o-y; underlying<sup>2</sup> +2.8% y-o-y) driven by strong own brand performance with O<sub>2</sub> postpaid ARPU continuing to grow in Q3 21 and a solid partner performance. **Handset revenues grew +9.0% y-o-y to EUR 339m** in Q3 21 (+3.3% y-o-y to EUR 1,004m in 9M 21) as high value handsets remained popular supported by launch cycles.

**Fixed revenues** continued their growth path registering **+2.8% y-o-y growth to EUR 203m in Q3 21** (+3.4% to EUR 603m in 9M 21), mainly driven by VDSL customer base growth.

**Other income** totalled EUR 294m in Q3 21 and EUR 352m in 9M 21 supported by a capital gain in the amount of EUR +262m related to the spin-off and sale of the operations of the final tranche of ~4k mobile sites passive infrastructure to Telxius (EUR 439m in Q3 20<sup>4</sup> and EUR 496m in 9M 20).

**Operating expenses** included EUR +2m of restructuring expenses and other exceptional items (EUR -26m in Q3 20) and were up **+3.7% y-o-y to EUR 1,385m in Q3 21** (+2.0% y-o-y to EUR 4,029m in 9M 21).

- **Supplies** amounted to EUR 619m in Q3 21, up +4.6% y-o-y (+0.2% y-o-y to EUR 1,765m in 9M 21) with the positive effects from the MTR cut (from EURc 0.78 to EURc 0.70 as of 1 Jul-21) only partly compensating higher hardware cost of sales and usage related higher costs for data roaming within the EU. Hardware cost of sales and connectivity-related cost of sales accounted for 54% and 43% of supplies in 9M 21, respectively.
- **Personnel expenses** were lower -13.6% y-o-y at EUR 145m in Q3 21 mainly on back of y-o-y lower restructuring expenses (EUR -1m in Q3 21 vs EUR -24m in Q3 20). In 9M 21 personnel expenses decreased -6.5% y-o-y to EUR 430m with inflation-based salary increases as of 1 Dec-20 compensated by the lower FTE base and the before mentioned development of restructuring costs (EUR -4m in 9M 21 vs EUR -25m in 9M 20).
- **Other operating expenses<sup>5</sup>** expanded +7.7% y-o-y to EUR 621m in Q3 21 while being higher +6.2% y-o-y at EUR 1,834m in 9M 21 (including restructuring expenses and other exceptional items of EUR +2m and -12m in Q3 21 and 9M 21 respectively compared to EUR -2m and EUR -1m in prior year periods). Q3 21 y-o-y performance reflects continued efficiency gains offset by commercial activity, planned phasing back of marketing spend as well as some inflationary cost pressures. In the January to September period, commercial costs (67% of other Opex in Q3 21) were broadly stable y-o-y reflecting the mix of the before mentioned effects. Non-commercial costs accounted for 31% of Q3 21 other Opex. Group fees account for EUR 9m in Q3 21 and EUR 24m in 9M 21.

<sup>2</sup> Excluding non-recurrent special factors. Non-recurrent special factors amounted to EUR +14m in Q2 21 and EUR -25m in Q2 20.

<sup>3</sup> 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.

<sup>4</sup> Including the capital gain related to the spin-off and sale of the operations of the first tranche of ~6k mobile sites passive infrastructure to Telxius in the amount of EUR +407m.

<sup>5</sup> Other expenses include impairment losses in accordance with IFRS 9 in the amount of EUR 19m in Q3 21 and EUR 52m in 9M 21 (compared to EUR 20m and EUR 59m in the respective periods of 2020).

**OIBDA<sup>6</sup> grew +3.0% y-o-y to EUR 613m in Q3 21** (9M 21 +6.3% to EUR 1,786m, underlying<sup>7</sup> growth +3.3% y-o-y) reflecting revenue mix with accelerating MSR-growth incl. higher inflow-ARPUs and continued efficiency measures, i.e. constant review of channel-mix and optimising & digitalising customer service. These were partly offset by the planned phasing back of lower marketing spend from Q1 21, the EU/ non-EU roaming mix and some inflationary cost pressures. OIBDA<sup>6</sup> margin stood at 31.2% in Q3 21 (31.3% in 9M 21), down -0.6 p.p. y-o-y in Q3 21 and improved by +0.8 p.p. y-o-y in 9M 21, reflecting the before mentioned effects.

**Depreciation & Amortisation totalled EUR 1,777m in 9M 21, up +4.5% y-o-y.** The increase in D&A is due to a combination of the earlier 3G switch off by YE21, further network modernisation and higher RoU asset amortisation while somewhat offset by the UMTS licenses having reached their end of useful life at YE20.

**Operating income** stood at EUR +256m in 9M 21 supported by EUR +262m capital gain related with the spin-off and sale of the operations of the final tranche of ~4k mobile sites passive infrastructure to Telxius (EUR +354m in 9M 20 including EUR +401m capital gains related to the sale of assets).

**Net financial expenses** accounted for EUR -48m in 9M 21 versus EUR -49m in 9M 20.

**Income tax** was EUR -62m in 9M 21 (EUR +22m in 9M 20).

**Total profit for the period** stood at EUR +143m in 9M 21 compared to EUR +328m in 9M 20.

**CapEx<sup>8</sup>** increased +20.4% y-o-y amounting EUR 303m in Q3 21 (+11.6% y-o-y to EUR 810m in 9M 21) with a C/S ratio of 15.4% (14.2% in 9M 21). The CapEx<sup>8</sup> deployment comes with backend-loaded annual phasing and focus an efficient Capex spend. Telefónica Deutschland is executing its 'investment for growth' programme according to plan to capture valuable revenue and OIBDA growth opportunities.

**Operating cash flow** (OIBDA minus CapEx<sup>8</sup>) decreased -8.0% y-o-y and reached EUR 1,223m after the first 9 months of 2021. Excluding exceptional effects, operating cash flow amounted to EUR 976m in 9M 21, up +2.3% y-o-y.

**Free cash flow (FCF)<sup>9</sup>** amounted to EUR 1,180m in the first 9M 21 (EUR 695m in 9M 20) and included EUR 536m proceeds mainly from the before mentioned sale of assets to Telxius. Lease payments, primarily for leased lines and antenna sites, amounted to EUR -474m in 9M 21 (EUR -429m in 9M 20). As a result, FCFaL increased to EUR +706m in 9M 21 including the before mentioned effects compared to EUR +266m in 9M 20.

**Working capital** movements were negative in the amount of EUR -258m in 9M 21. This development was mainly driven by a decrease in capex payables (EUR -154m), increased pre-payments (EUR -34m), net restructuring impacts (EUR +5m) as well as other working capital movements of EUR -75m. The latter include the development of net receivables of EUR +21m (for example, factoring), which was outweighed by other working capital movements, especially a decrease in trade and other payables (EUR -66m).

<sup>6</sup> Adjusted for exceptional effects. In Q3 21, exceptional effects amounted to EUR +264m (EUR+247m in 9M 21), thereof an EUR +262m capital gain related to the spin-off and sale of the operations of the final tranche of ~4k mobile sites passive infrastructure to Telxius and EUR +2m of restructuring costs and other exceptional items (EUR -15m in 9M 21). In Q3 20, exceptional effects included the capital gain related with the transfer of the first tranche of ~6k mobile sites passive infrastructure to Telxius in the amount of EUR +407m and EUR -26m restructuring costs (EUR +401m gains from the sale of assets and EUR -26m restructuring costs in 9M 20).

<sup>7</sup> Excluding non-recurrent special factors and excluding received social security payments. Non-recurrent special factors amounted to EUR +12m in Q2 21 and EUR -25m in Q2 20.

<sup>8</sup> Excluding additions from capitalised right-of-use assets.

<sup>9</sup> 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.

**Consolidated net financial debt**<sup>10</sup> amounted to EUR 3,380m as of 30 September 2021, and included the FY20 dividend payment of EUR 535m in May as well as a net increase in lease liabilities of EUR 479m reflecting IFRS 16 accounting for the before mentioned transfer of ~4k mobile sites passive infrastructure to Telxius as well as for regular contract renewals. The resulting leverage ratio of 1.4x<sup>11</sup> 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.

### **Financial outlook 2021**

Telefónica Deutschland delivered sustained operational and financial momentum in a rational market environment in 9M 2021, supported by the focused execution of the company's 'investment for growth' programme which is bearing fruit. The company's successful marketing campaign 'Willkommen im sehr guten Netz von O<sub>2</sub>' is promoting the equalised mobile network quality. The temporary 'One-month test SIM' offer is further enhancing the strong traction of the O<sub>2</sub> Free portfolio after the gradual reopening of the German economy towards the end of H1 2021. Churn rates in the O<sub>2</sub> brand remained on historic lows and performance of partner brands was solid.

As a result of Telefónica Deutschland's continued focus on profitable growth, the company also posted good financial performance with MSR growth accelerating despite some remaining travel restrictions still limiting roaming and some headwinds from the MTR-cut effective since 1 Jul-21.

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 emphasises 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 upgrading its FY2021 outlook for OIBDA adjusted for exceptional effects to 'low mid-single digit percentage growth' year-over-year.

The company's CapEx deployment comes with backend-loaded annual phasing in 2021 as Telefónica Deutschland is executing its network-focused 'investment for growth' programme. One year after its start, the O<sub>2</sub> 5G network is live in ~115 cities and Telefónica Deutschland is well on track to achieve its target of 30% population coverage in Germany by year end 2021 and nationwide coverage by 2025. As a result of more efficient Capex spend, the expected Capex to Sales ratio is reduced to <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.

<sup>10</sup> 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.

<sup>11</sup> Leverage ratio is defined as net financial debt divided by OIBDA of the last twelve months adjusted for exceptional effects.

	Baseline 2020	Previous Outlook 2021	Actual 9M 2021	Upgraded Outlook 2021
<b>Revenue</b>	EUR 7,532m	Slightly positive y-o-y	EUR 5,711m (+3.7% y-o-y) <sup>12</sup>	Slightly positive y-o-y
<b>OIBDA</b> Adjusted for exceptional effects	EUR 2,319m	Slightly positive y-o-y	EUR 1,786m (+6.3% y-o-y) <sup>13</sup>	<b>low mid-single digit % growth y-o-y</b>
<b>Capex to Sales Ratio</b>	14.5%	17-18%	14.2%	<b>&lt;17-18%</b>

[Link to detailed Data Tables](#)

**Further information**

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<sup>12</sup> Includes tailwinds from non-recurrent special factors in the amount of EUR -25m and EUR +14m in 9M 20 and 9M 21, respectively.

<sup>13</sup> Includes tailwinds from non-recurrent special factors in the amount of EUR -25m and EUR +12m in 9M 20 and 9M 21, respectively; as well as received social security payments.

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