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Telefónica Deutschland – Interim statement for January to March 2022

Strong start to FY22 – ongoing profitable growth momentum building on network parity and ESG-leadership

- **Growth momentum continues with net additions up 30% y-o-y equal to +287k driven by O_2 Free**
- **Ongoing strong revenue growth, +5.2% y-o-y fuelled by sustained MSR momentum**
- **+7.2% y-o-y OIBDA[1] growth on improved operational leverage and further efficiency gains**
- **C/S of 13.6% – executing 'investment for growth' programme according to plan in its final year**
- **Driving ESG roadmap – 'Reduce-Repair-Recycle' important building block for Circular Economy**
- **Reiterating FY22 outlook and proposing FY21 dividend of EURc 18 per share to AGM**

Operating performance

In a dynamic yet rational telco market, Telefónica Deutschland had a **strong start to the year**, delivering sustained operational and financial momentum in Q1 22. The ongoing core business strength and high customer demand for the O_2 Free portfolio is **building on network parity and ESG leadership**.

Telefónica Deutschland's **rapid expansion of its 5G network reached an important milestone:** More than 10k 5G antennas are now on air, half of them on the powerful 3.6 GHz spectrum. With its focus on real 5G, the company already achieved 5G pop coverage of 40% at the end of April, well on track for its target of 50% by YE 2022.

O_2 confirmed its 'good'-rating in the connect magazine's hotline test with significantly improved accessibility and waiting time. Overall, the O_2 service team established itself as the firm No. 2 in the German market by further increasing its lead over the third-placed operator.

Telefónica Deutschland takes responsibility for the climate and the environment. The company's programme **'Reduce-Repair-Recycle' is an important building block for applying the principles of the Circular Economy**. Conserving resources means above all reducing the consumption of natural resources, keeping resources in use for as long as possible and, finally, recycling them responsibly to reuse valuable raw materials.

For example, Telefónica Deutschland saved over 17 tons of plastic by delivering around 8.6 million SIM cards in half-SIM card format last year. For shipped devices, Telefónica Deutschland is minimising waste by individually adapting recycled packaging for each product or, if possible, completely dispenses additional outer packaging. This will further reduce the use of packaging material and plastic. **By no later than 2025, Telefónica Deutschland plans to eliminate completely the use of non-recycled plastic in its own logistics.**

[1] Adjusted for exceptional effects. In Q1 22, exceptional effects amounted to EUR -1m of restructuring costs (EUR -15m in Q1 21).

Mobile business

Mobile postpaid delivered strong growth with +287k net additions in Q1 22, up +30.5% y-o-y, driven by the well-received O_2 Free portfolio and a solid contribution from partner brands. The commercial traction of the O_2 brand compensated for some anticipated temporarily higher churn on the back of the EECC introduction.

M2M reported +34k net additions in Q1 22 versus +42k in Q1 21.

Mobile prepaid registered -100k net disconnections in Q1 22 (-109k in Q1 21) mainly reflecting the steady market trend of prepaid to postpaid migration and some seasonal dynamics.

Churn in the O_2 brand was +0.2 p.p. y-o-y at 1.2% in Q1 22 mainly due to the before mentioned temporary impacts from the EECC.

Telefónica Deutschland's **mobile customer accesses** grew to 45.9m (+3.3% y-o-y) as of 31 Mar-22, driven by strong +6.7% y-o-y growth of the **mobile postpaid base ex M2M** which reached 25.4m accesses equal to 55.3% of total mobile base. **M2M accesses** reached 1.6m, posting high +13.4% y-o-y growth while the **mobile prepaid base** declined -1.6% y-o-y to 18.9m.

O_2 postpaid ARPU was -0.5% y-o-y in Q1 22 on the back of a combination of the accelerated MTR glidepath and some enhanced focus on customer loyalty including retention and bundle benefits, i.e. for 2nd SIM cards. Underlying[2] O_2 postpaid ARPU was +0.3% y-o-y. **Prepaid ARPU** was +5.6% y-o-y and stood at EUR 6.3 in Q1 22.

Fixed business

Fixed broadband customer base was close to flat y-o-y at 2.3m accesses as of 31 March 2022. **VDSL base** reached 1.8m accesses, up +1.2% y-o-y to 81% of fixed BB customer base. In Q1 22, fixed BB registered -10k net disconnections mainly driven by legacy ADSL and some anticipated temporarily higher churn on the back of the EECC introduction. Telefónica Deutschland's technology agnostic O_2 my Home products remained popular with cable and fibre gaining traction as well as sustained demand for fixed-mobile substitution (FMS). Including FMS, net additions were positive in the quarter.

Fixed churn at 1.4% in Q1 22 was slightly higher by +0.5 p.p. y-o-y mainly as a result of the EECC implementation.

Fixed broadband ARPU maintained its growth path with an increasing share of high value customers in the base, reaching EUR 24.6 in Q1 22 up +2.8% y-o-y.

[2] Excluding MTR effects. MTR glidepath: EURc 0.78/min effective 1 Dec-20 / EURc 0.70/min effective 1 Jul-21 / EURc 0.55 effective 1 Jan-22.

Financial performance

Revenues continued to post strong growth of +5.2% y-o-y to EUR 1,946m in Q1 22 on sustained mobile service revenue growth and high handset revenues.

Mobile service revenues[3] increased +3.3% y-o-y in Q1 22 **to EUR 1,351m.** This positive trend is reflecting continued good commercial traction of the O_2 brand as well as some support from the recovery of international roaming while the accelerated MTR glidepath[4] was a drag of -1.7 p.p. y-o-y.

Handset revenues were supported by good availability of devices at Telefónica Deutschland and posted **+13.2% y-o-y growth to EUR 392m** in Q1 22.

Fixed revenues were -**1.6% y-o-y to EUR 197m** in Q1 22 mainly as a result of the decline of the low margin international carrier voice business mainly due to lower European termination rates. **Retail fixed broadband revenues** continued their growth path, **+1.8% y-o-y** reflecting the increasing share of high value customers in the base.

Other income reached EUR 32m in Q1 22 (EUR 30m in Q1 21).

Operating expenses[5] included restructuring expenses in the amount of EUR -1m and increased **+3.3% y-o-y to EUR 1,377m** in Q1 22.

- **Supplies** were +0.4% y-o-y at EUR 592m in Q1 22 as the positive effects from the MTR-cut[4] were more than off-set by volume driven higher hardware cost of sales. Connectivity-related cost of sales and hardware cost of sales accounted for 37% and 60% of Q1 22 supplies, respectively.
- Underlying, **personnel expenses** were flattish y-o-y (+0.9%) at EUR 153m in Q1 22 with a lower FTE base partly compensating for the general pay-rise of 1.75% as of 1 Dec-21. In reported terms, personnel expenses were up +8.8% y-o-y mainly due to received social security payments in Q1 21 for employees of temporary closed O_2 shops during the government enforced lockdown.
- **Other operating expenses** (other Opex) were higher by +4.9% y-o-y to EUR 611m in Q1 22 reflecting technology transformation, commercial activity including an enhanced retention focus and more normalised marketing spend vs a lockdown quarter in the prior year. Commercial and non-commercial costs accounted for 65% and 32% of other Opex in Q1 22, respectively. Group fees accounted to EUR 9m in Q1 22 (EUR 10m in Q1 21).

OIBDA[6] posted strong growth of +7.2% y-o-y to EUR 602m in Q1 22 as a result of further improved operational leverage in both, fixed and mobile. This reflects own brand momentum, further efficiency gains as well as some international roaming tailwinds and the effects from the MTR glidepath[4]. Consequently, **OIBDA[6] margin improved to 30.9%** in Q1 22, up +0.6 p.p. y-o-y.

Depreciation & Amortisation was lower -2.5% y-o-y reaching EUR 560m in Q1 22 mainly as a result of the 3G sunset at YE 2021 which was partly offset by higher RoU asset amortisation and licenses added in the context of network modernisation.

Operating income stood at EUR +42m in Q1 22 compared to EUR -27m in Q1 21.

Net financial expenses accounted for EUR -4m in Q1 22 versus EUR -10m in Q1 21.

Income tax was EUR -8m in Q1 22 compared to EUR -2m in Q1 21.

As a result, **total profit for the period** was EUR +27m in Q1 22 versus EUR -40m in Q1 21.

[3] 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.
[4] MTR glidepath: EURc 0.78/min effective 1 Dec-20 / EURc 0.70/min effective 1 Jul-21 / EURc 0.55 effective 1 Jan-22.
[5] Operating expenses include impairment losses in accordance with IFRS 9 in the amount of EUR 20m in Q1 22 (EUR 20m in Q1 21).
[6] Adjusted for exceptional effects. In Q1 22, exceptional effects amounted to EUR -1m of restructuring costs (EUR -15m in Q1 21).

Telefónica Deutschland

CapEx[7] was up +16.1% y-o-y in Q1 22 reaching EUR 265m with a CapEx/Sales ratio of 13.6% as Telefónica Deutschland continued to execute its 'investment for growth' programme according to plan in its final year. The Company's 3-year programme passed its CapEx peak in FY 21 and Telefónica Deutschland is well on track to achieve normalized C/S levels towards YE 2022.

Operating cash flow (OIBDA minus CapEx[7]) grew +5.6% y-o-y and reached EUR 336m in Q1 22. Excluding exceptional effects, operating cash flow amounted to EUR 337m in Q1 22, up +1.2% y-o-y.

Free cash flow (FCF)[8] amounted to EUR 222m in Q1 22 compared to EUR 248m in Q1 21. Lease payments, primarily for antenna sites and leased lines, amounted to EUR -275m in Q1 22 (EUR -266m in Q1 21). As a result, FCFaL stood at EUR -52m for the reporting period compared to EUR -18m in Q1 21.

Working capital movements were on similar levels as in prior year, EUR -86m in Q1 22 vs EUR -73m in Q1 21. The development in Q1 22 was mainly driven by a decrease in capex payables (EUR -78m), increased pre-payments (EUR -44m), net restructuring impacts (EUR -3m) as well as other working capital movements of EUR 39m. The latter include the development of trade and other payables (EUR -194m), which was outweighed especially by trade and other receivables (EUR 278m) primarily driven by silent factoring.

Consolidated net financial debt[9] amounted to EUR 3,213m as of 31 March 2022. The leverage ratio of 1.3x[10] 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 2022

Telefónica Deutschland reiterates it FY22 outlook as published on 23 February 2022.

	Baseline 2021	Outlook 2022[11]	Q1 22
Revenue	EUR 7,765m	low single digit percentage year-on-year growth	+5.2% y-o-y
OIBDA Adjusted for exceptional effects	EUR 2,411m	low single digit percentage year-on-year growth, further margin expansion	+7.2% y-o-y
Capex to Sales Ratio	16.5%	14-15%	13.6%

[7] 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.

[8] 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.

[9] 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.

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

[11] Including regulatory headwinds of ca. EUR -70 to -80 million at revenues level and ca. EUR -15 to -20 million at OIBDA level.

The Company has invited to its virtual annual general meeting on 19 May 2022 to resolve upon the dividend proposal of EUR 0.18 per share for the financial year 2021. This dividend proposal is in-line with the dividend floor for 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

Further information

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