

*Telefonica*

Deutschland

Creating  
the  
Leading  
Digital  
Telco



# Telefónica Deutschland Q3 2015 preliminary results

5 November 2015

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# 9M 2015: On track to becoming the Leading Digital Telco

**MSR (9M'15)**  
**+0.4%**  
y-o-y

- Heading for broadly stable 2015 MSR
- Strong operational dynamics in partner business
- Maintaining momentum with mobile data monetisation

**OIBDA<sup>1</sup>**  
**+16.1%**  
y-o-y

- OIBDA outlook for the year 2015 updated to +15-20 % y-o-y
- Benefits from bringing forward synergies from 2016 into 2015 & commercial cost optimisation

**Dividend proposal**  
**€0.24**  
per share

- Continuity reflected in a stable dividend proposal for 2015
- Strong FCF generation
- Returned to target leverage with 0.9x net debt/OIBDA



**Keep the Momentum**



**Integrate quickly**



**Transform the company**

<sup>1</sup> Excluding exceptional effects. For details please refer to additional public material for Q3-2015

# Addressing current dynamics in the German mobile market

## Strong focus on value-generation and customer base management in premium-end

### Premium



- Customer base: Retention and churn management
- Golden grid: Network quality & perception
- Smart bundling & best deals for existing customers
- Q3 initiatives: O<sub>2</sub> portfolio update, WiFi calling, customer service innovation

## Well positioned in non-premium with own brands and partners

### Non-Premium



- MVNOs gaining traction after start of MBA MVNO
- Scale and competitive advantage
- Strong distribution channels via own brands & partners
- ‘Blau’ - Revamped portfolio and brand in Q3, simplicity in focus

# Leveraging excellent basis for monetisation of mobile data growth

## Best network experience

- Successful consolidation pilots started
- LTE deployment at 73% coverage



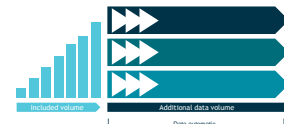
## Encourage usage of data

- 3G national roaming and LTE roll-out
- Video & OTT stimulating demand



## Industrialisation of data monetisation

- More efficient automatic top-ups
- Take-up of >1GB tariffs: 37% at O<sub>2</sub>



## Enabling digital lifestyle

- Building on IoT partnerships
- Protection of privacy



# Integration roadmap central to execution of our strategic business priorities

## 2015: Success

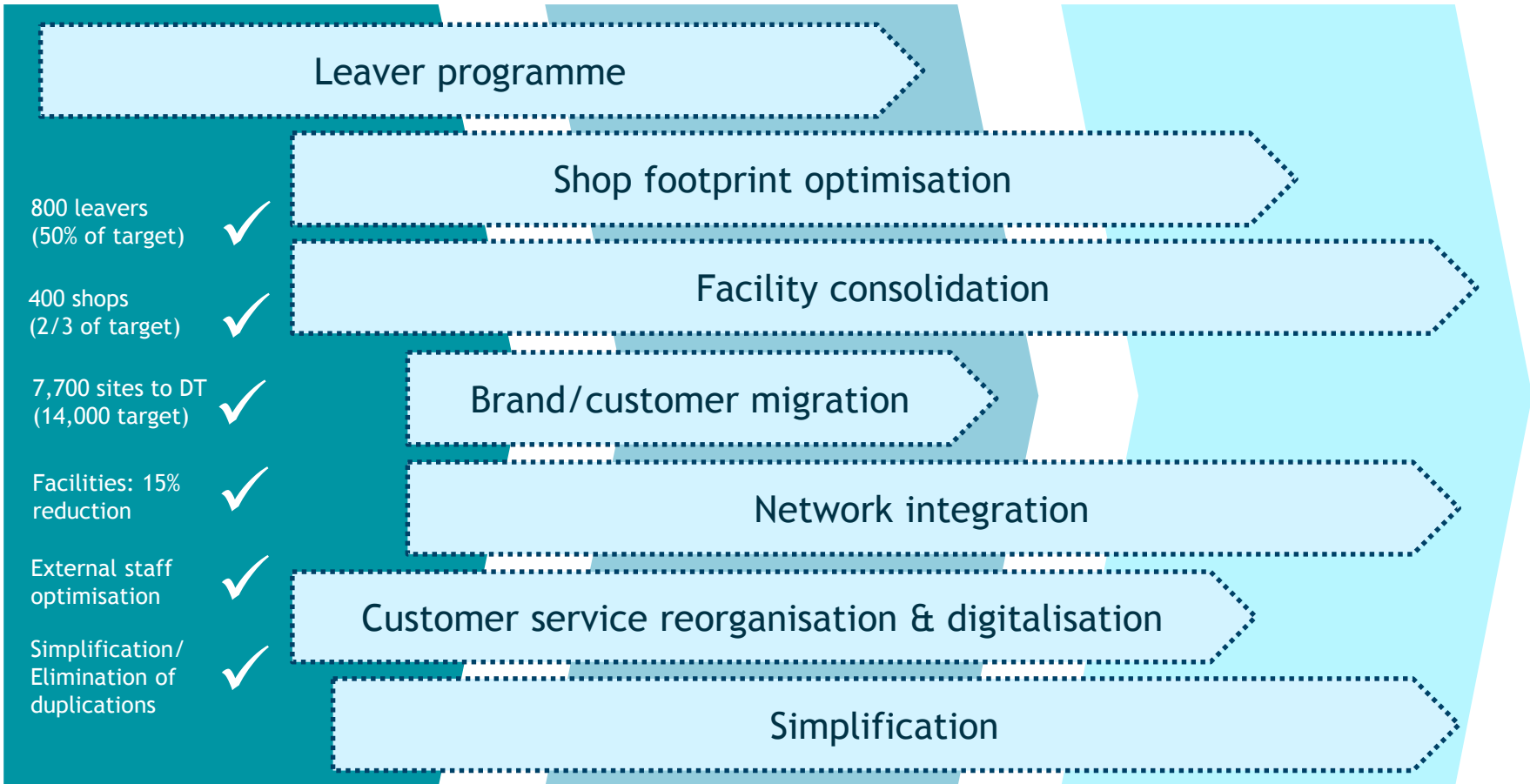
## 2016: Transition

## 2017/8: Final Straight

*Early capture of synergies*

*Laying the ground*

*Bringing home savings*



# Strategic priorities: Looking ahead to 2016



**Keep the Momentum**



**Integrate quickly**



**Transform the company**

- Data & retention to drive MSR in a dynamic market
- Growing non-premium impacts revenue development

- Lock-in synergies achieved in 2015
- Build on achievements for 2016

- Develop our premium brand position
- Leverage competitive advantage in non-premium

- Manage complexity of 2016 integration
- Laying the ground for savings in 2017/2018

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# Q3 2015: Operating & financial performance reflects early capture of synergies and increasing dynamics in German market

O<sub>2</sub> consumer PO churn  
**1.3%**

- Retention activities help develop premium base; partner business driven by MBA and market dynamics

MSR (Q3 '15)  
**-0.3% y-o-y**

- Mobile data monetisation continues to drive MSR; positive effects overshadowed by revenue mix-shift

Synergies ~**45%**  
of Q3 2015 OIBDA y-o-y<sup>1</sup>

- Bringing forward integration activities from 2016 into 2015; total synergy case unchanged

FY2015  
OIBDA<sup>2</sup> expectation  
**+15-20% y-o-y**

- Synergies & optimisation of commercial costs drive OIBDA outlook update; dividend continuity for 2015

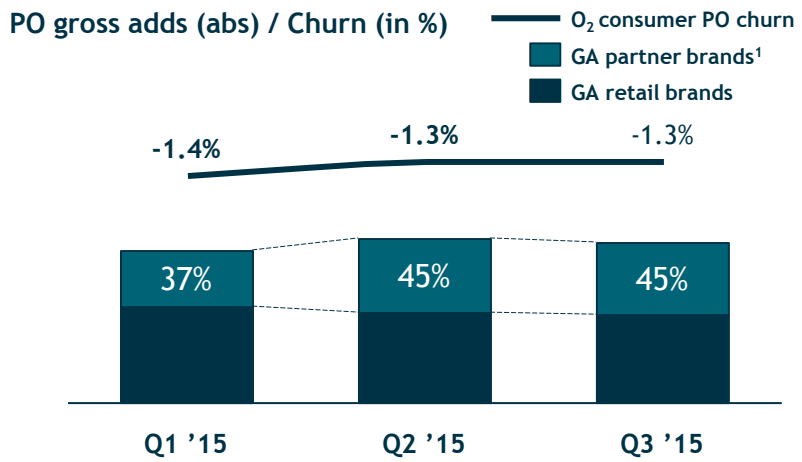
<sup>1</sup> Share on y-o-y OIBDA evolution (EUR m) over 2014 combined results excluding exceptional effects

<sup>2</sup> Excluding exceptional effects. For details please refer to additional public material for Q3-2015



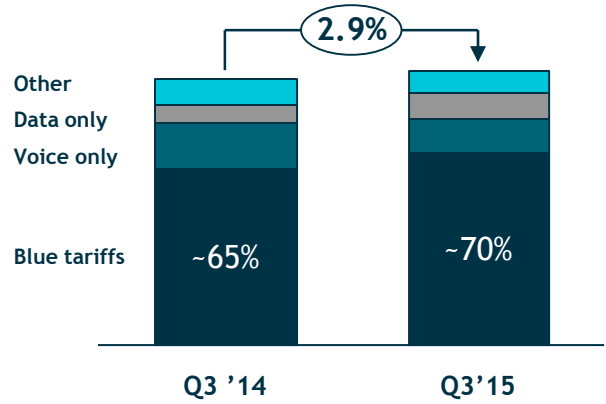
# Partner business continued its strong performance while customer base benefits from focus on premium positioning

## Partner business driving gross adds

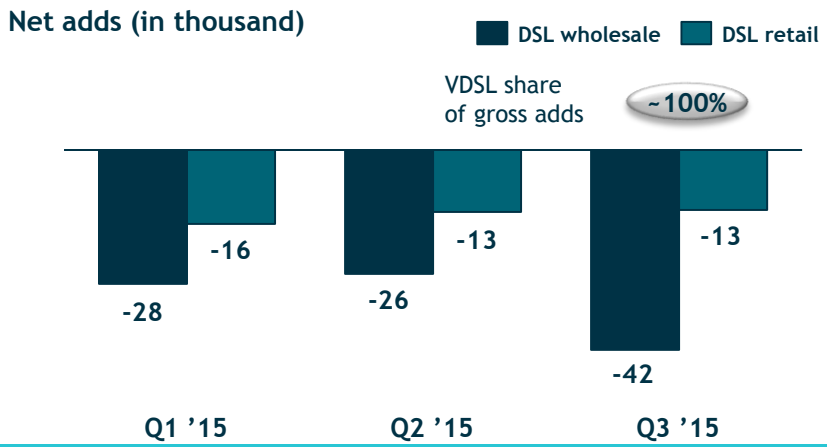


## Ongoing improvement of customer base mix

O<sub>2</sub> consumer postpaid base (in thousand)



## Strong fixed BB proposition bears fruit



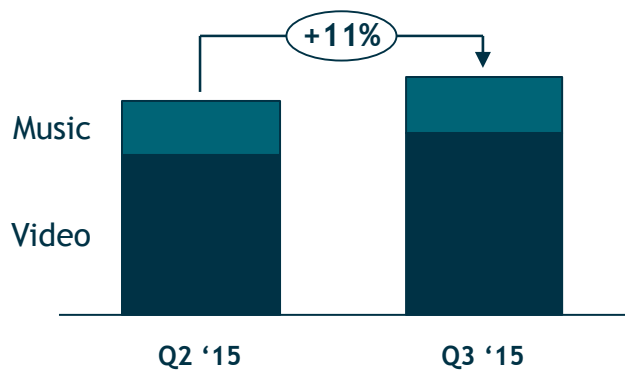
- Partner share of gross adds strong at 45%
- O<sub>2</sub> Blue share of O<sub>2</sub> postpaid base reaches 70%
- Retail DSL net add decline slows further to -12.6k in Q3

<sup>1</sup> Wholesale & partner business

# Monetisation of mobile data: Growth potential remains intact

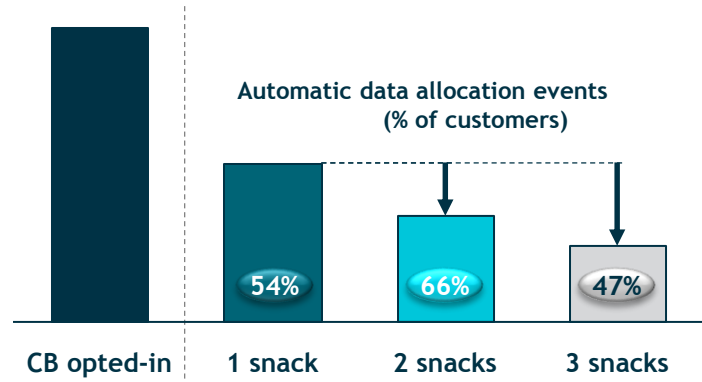
## Music & video streaming continues to grow

Traffic (TB/day)



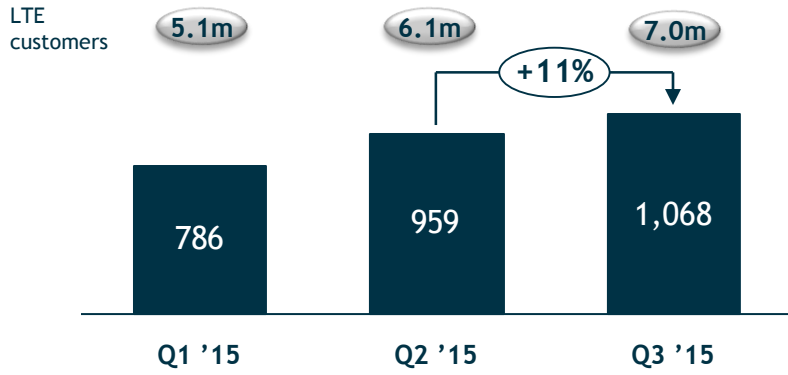
## Continued progression of data automatic

O<sub>2</sub> Blue All-in portfolio (dynamics within opted-in base)



## National roaming and LTE driving usage

Average data usage for O<sub>2</sub> consumer LTE customers<sup>1</sup> (MB)

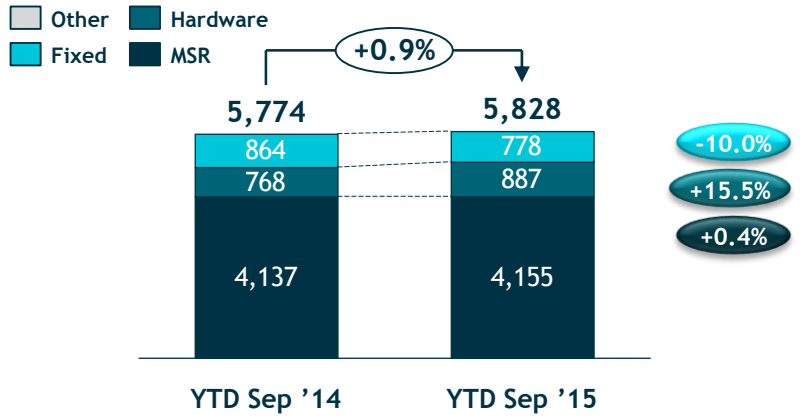


- Data usage of LTE customers up 11% q-o-q driven by video & music streaming
- Data automatic revamp: Take-up +20 p.p. and opted-in base +40% q-o-q
- Mobile data continues to drive MSR, but near-term offset by non-premium growth

<sup>1</sup> O<sub>2</sub> consumer base with LTE enabled smartphone (all tariffs)

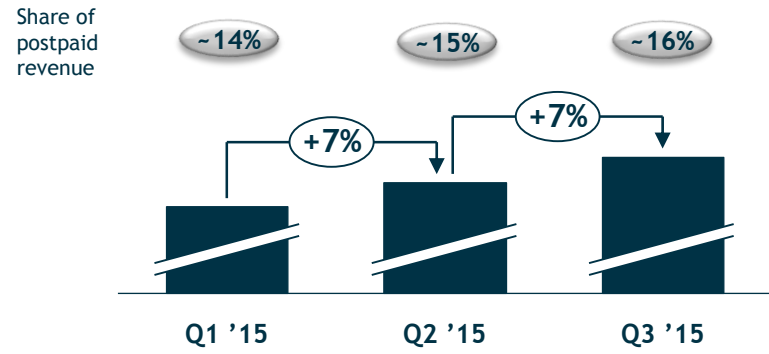
# MSR development tempered by growing share of partners and dynamics in value segment

## Revenue structure (in EUR m)

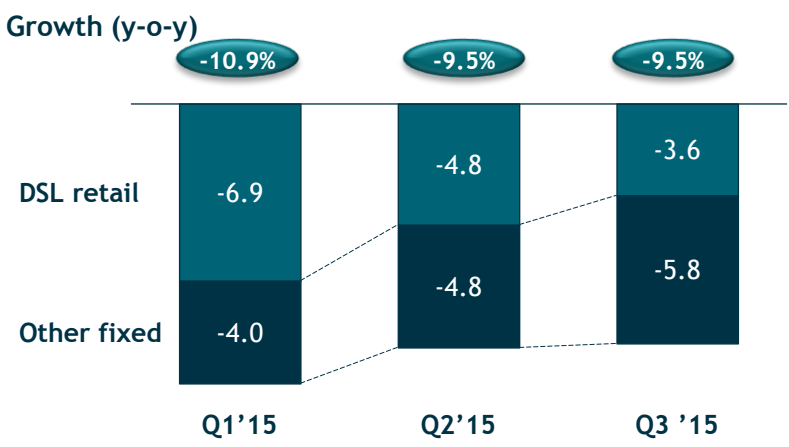


## Growing partner business

### MSR from partner business<sup>1</sup> (in EUR m)



## Fixed revenue y-o-y (in %)

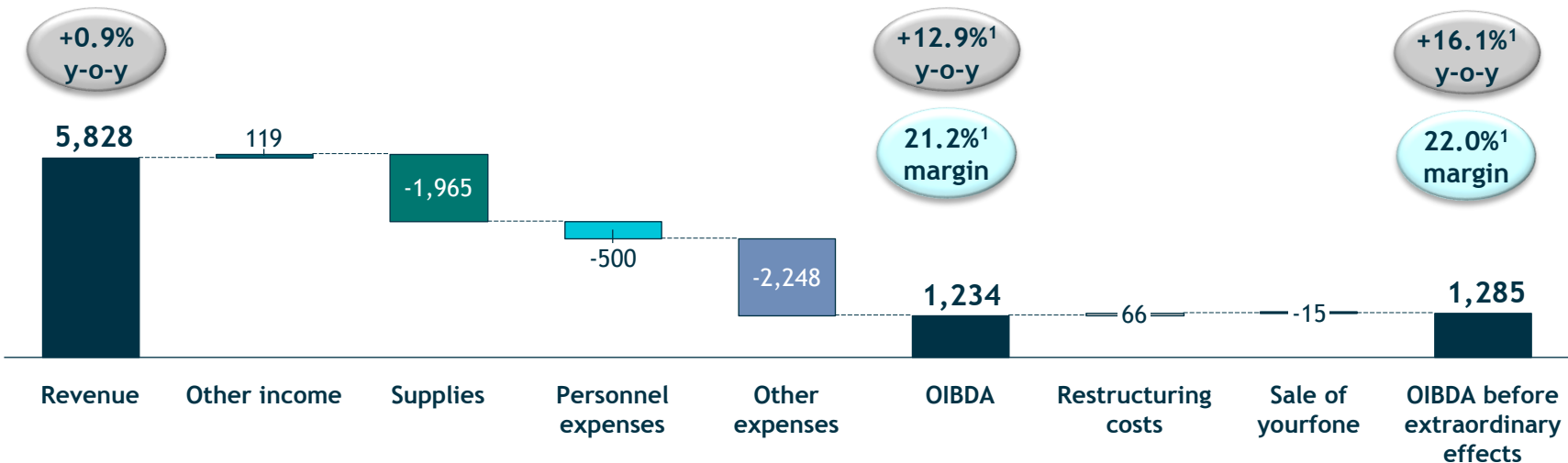


- Mix-shift phenomenon: Share of partner business rising driven by market dynamics
- Decline in DSL retail slowing on the back of VDSL gross adds

<sup>1</sup> Wholesale & partner business

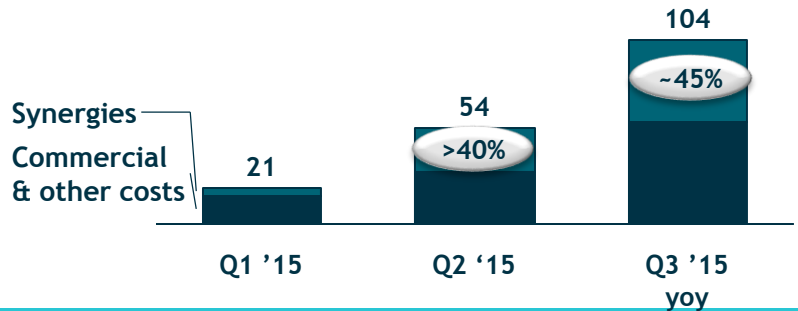
# OIBDA reflecting benefits of early capture of synergies and optimisation of commercial costs

## Structure of OIBDA for Jan-Sep 2015 (in EUR m)



## Synergies a significant driver of growth

OIBDA growth (y-o-y in EURm)<sup>1</sup>



- Synergies drive ca. 45% of y-o-y OIBDA<sup>2</sup> growth in Q3
- Add. Opex savings: Commercial cost optimisation improves profitability
- Restructuring costs mainly network-related

<sup>1</sup> Y-o-y comparisons based on 2014 combined figures

<sup>2</sup> Excluding exceptional effects. For details please refer to additional public material for Q3-2015

# Updating synergy outlook 2015: EUR 280m of OpCF savings due to capture of early synergies; total case unchanged

## Integration Initiatives 2015

**Leaver programme**  
800 FTEs in 2015 (50% of total target of 1,600 FTEs)

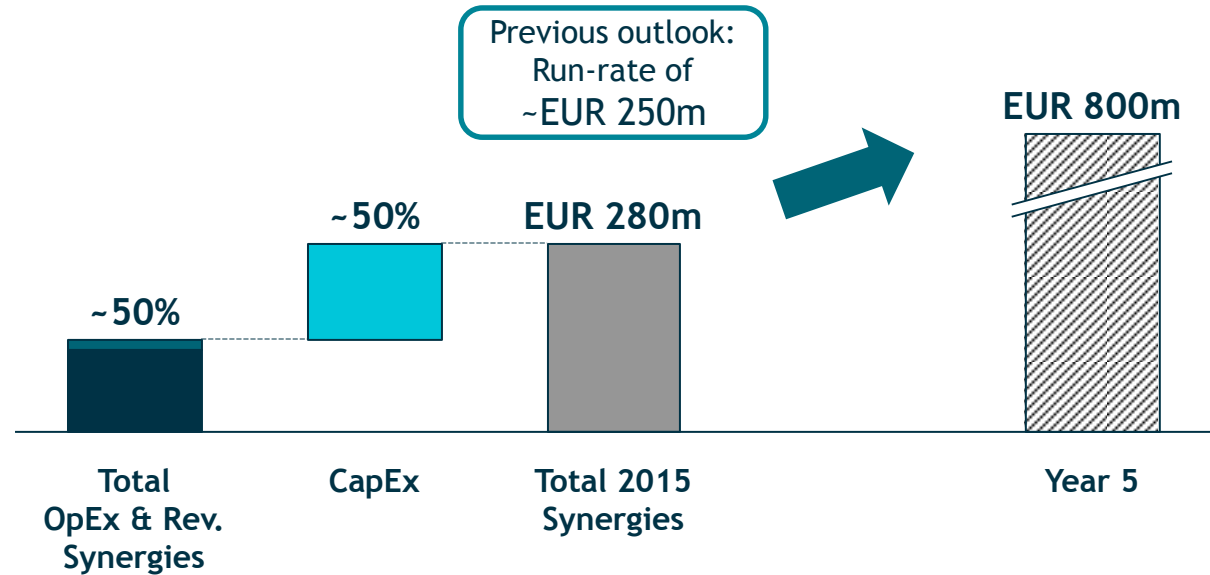
**Shop footprint**  
400 shops by year-end

**Network**  
Transfer of 7,700 sites via deal with DTE

**Facilities**  
In-city consolidation (15% of total sqm)

**Reduction of external staff**

**Simplification / Eliminate duplications**



- 2015 synergies at **~35% of EUR 800m run rate** in year 5 of integration
- **OpEx savings** driven by **bringing forward** initiatives such as shop restructuring and optimisation of external staff
- **CapEx synergies** primarily driven by a single LTE-network rollout
- **Total synergy case unchanged**

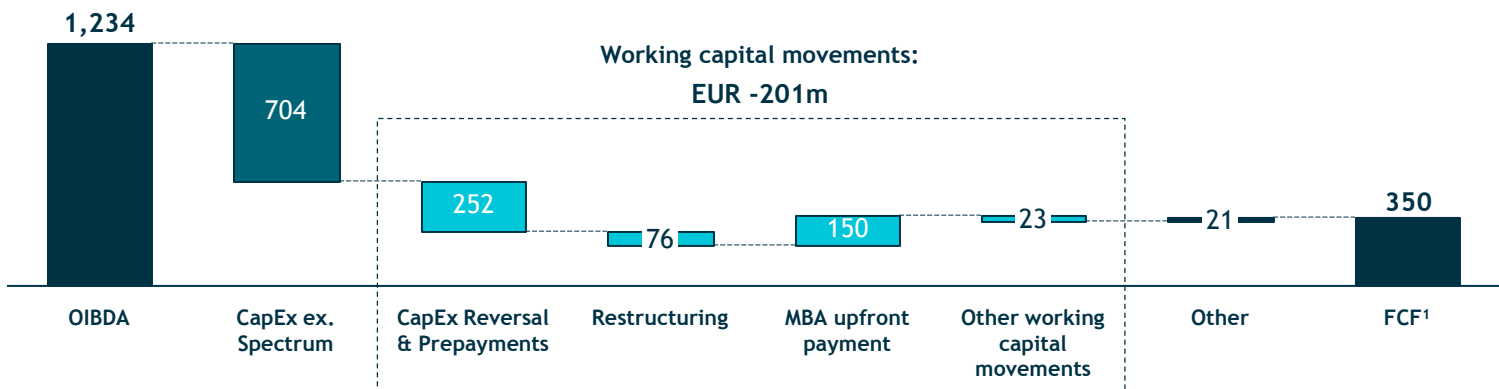
<sup>1</sup>OpEx savings are referred to 2014 combined financials excluding restructuring costs

<sup>2</sup>CapEx synergies net of restructuring activities and exclude investment in spectrum

<sup>3</sup>2014 combined KPIs: 9.1K FTEs. 1.8K shops, >39K mobile sites

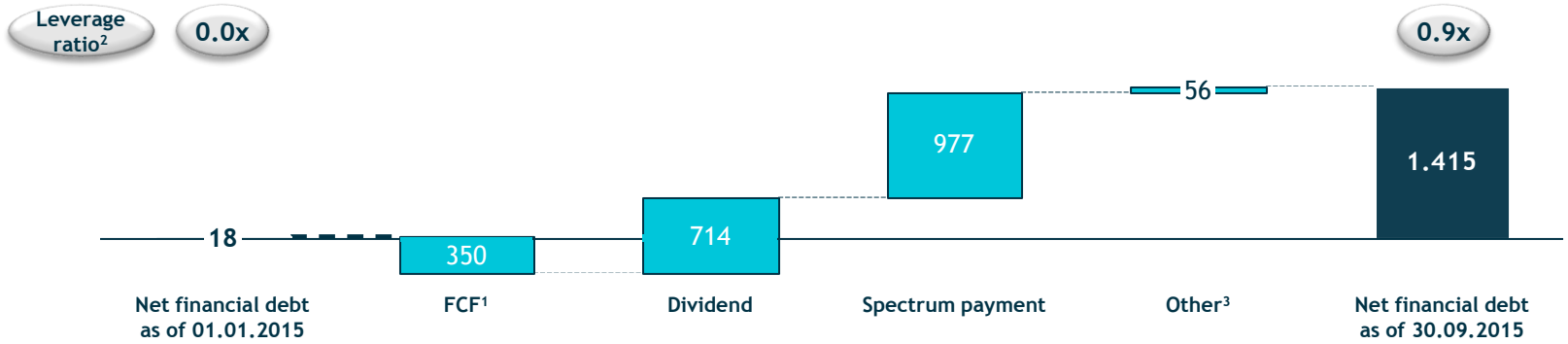
# Financial leverage returned to target while keeping financial flexibility

## Evolution of Free Cash Flow (FCF)<sup>1</sup> YTD September 2015 (in EUR m)



<sup>1</sup> Free cash flow pre dividend, spectrum payment and pre acquisition of E-Plus is defined as the sum of cash flow from operating activities and cash flow from investing activities.

## Evolution of Net Debt<sup>2</sup> (y-o-y in EUR m) - Leverage ratio<sup>2</sup> returns to 0.9x after payments in Q2'15



<sup>2</sup> For definition of Net Debt & Leverage Ratio please refer to additional materials of Q3 15 results  
<sup>3</sup> Mainly consists of movement of O2 My Handy receivables and handset model receivables

# Updated outlook for 2015

	Baseline 2014* (EUR m)	9M 2015* (y-o-y pct. growth)	Old Outlook 2015** (y-o-y pct. growth)	New Outlook 2015** (y-o-y pct. growth)
<b>MSR</b>	5,528	+0.4%	Broadly stable	Broadly stable
<b>OIBDA</b>	1,461	+16.1%	>10%	+15-20%
<b>CapEx</b>	1,161	-2.8%	High single digit pct. decline	Low double-digit pct. decline
<b>Div</b>	EUR 0.24/share	---	---	EUR 0.24/share

- OIBDA driven by bringing forward integration activities into 2015 and optimisation of commercial costs
- Higher CapEx reduction due to synergy effects in H2 which outweigh network consolidation and LTE investment
- Continuity reflected in stable dividend proposal: EUR 0.24 per share

~35%  
of total target  
synergy run-rate to  
be already achieved  
in 2015  
(~€280m)

\* Baseline figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. Figures are further adjusted by exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica management and resulting in combined figures we believe are more meaningful as a comparable basis. For details refer to additional materials published on our website <https://www.telefonica.de/investor-relations-en.html>

\*\* Expected regulatory effects (e.g. MTR cuts) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA and CapEx excludes investments in spectrum.

# Main takeaways

Mobile data continues to drive MSR growth, near-term effects relating to mix-shift and dynamics in non-premium

Successful execution of significant integration activities in 2015; laying the grounds for future synergy generation

Updated OIBDA and CapEx outlook for 2015 reflects success of commercial cost optimisation and early capture of synergies

Continuity reflected in stable dividend proposal of EUR 0.24/share while keeping financial flexibility



# Telefónica Deutschland Q3 2015 preliminary results

## Q&A session





# Quarterly detail of relevant combined financial and operating data for Telefonica Deutschland from Q4 2013

Financials (Euros in millions)	2013	2014				FY
	Q4	Q1	Q2	Q3	Q4	
<b>Revenues</b>	<b>2.022</b>	<b>1.847</b>	<b>1.925</b>	<b>2.002</b>	<b>2.019</b>	<b>7.793</b>
<b>Mobile service revenues</b>	<b>1.391</b>	<b>1.333</b>	<b>1.380</b>	<b>1.424</b>	<b>1.391</b>	<b>5.528</b>
<b>OIBDA post Group fees</b>	<b>462</b>	<b>357</b>	<b>399</b>	<b>350</b>	<b>354</b>	<b>1.461</b>
<b>CapEx</b>	<b>471</b>	<b>215</b>	<b>224</b>	<b>286</b>	<b>438</b>	<b>1.161</b>

Accesses (EoP) (in k)	2013	2014				FY
	Q4	Q1	Q2	Q3	Q4	
<b>Total Accesses</b>	<b>46.899</b>	<b>46.897</b>	<b>47.303</b>	<b>47.803</b>	<b>47.662</b>	<b>47.662</b>
<b>o/w mobile</b>	<b>41.133</b>	<b>41.168</b>	<b>41.623</b>	<b>42.201</b>	<b>42.125</b>	<b>42.125</b>
Prepay	22.876	22.680	22.940	23.316	23.351	<b>23.351</b>
Postpay	18.257	18.489	18.683	18.885	18.774	18.774

- Combined figures for 2014 and 2013 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies.
- The combined figures are further adjusted by exceptional effects if any, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management and resulting in combined figures we believe are more meaningful as a comparable basis
- The combined financials are not necessarily indicative of results that would have occurred if the business had been a separate standalone entity during the year presented or of future results of the business. The presentation of the combined consolidated financial information is based on certain assumptions and is intended for illustrative purposes only. The combined information describes a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual results of operations. The assumed acquisition date had been the beginning of the annual period.

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