

Telefonica

Deutschland

Q2 2017 preliminary results

Telefónica Deutschland
Investor Relations
26 July 2017

Public – Nicht vertraulich



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H1 2017: Results in line with full-year guidance; market shifting to stimulating data growth

MSR¹
-0.5% y-o-y
(excl. regulatory effects)

- MSR trends excl. regulatory effects continue to improve in a dynamic environment
- Market consensus to stimulate data usage across segments; investment focus to stimulate MSR momentum

2.0 GB
average data usage²

- LTE adoption and O₂ Free portfolio as drivers of sustained data growth
- 14.4 million LTE customers; +53% year-on-year
- Traffic up 48% y-o-y; usage of 2.0 GB for O₂ consumer postpaid LTE customers

OIBDA³
+3.6% y-o-y

- Benefitting from incremental synergy savings of ca. EUR 75 million in H1
- OIBDA growth in line with outlook, reflecting synergy capture and investments in O₂ Free
- Re-iterating full-year 2017 outlook

**Operating
Cash Flow**

- OpCF generation remains strong, leveraging synergies
- Reiterating ambition to grow dividend in 2017 and 2018

¹ Excluding the impact from regulatory changes. For details please refer to additional materials of the Q1'17 results release

² For O₂ consumer postpaid LTE customers

³ Excluding exceptional effects. For details please refer to additional materials of the Q2'17 results release



MOMENTUM

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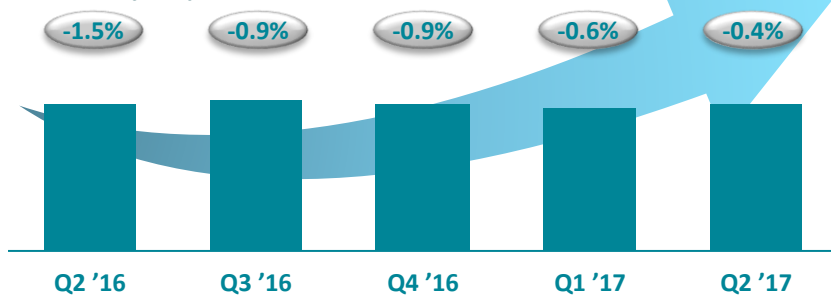
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Reiterating full-year 2017 outlook; positive trends intact

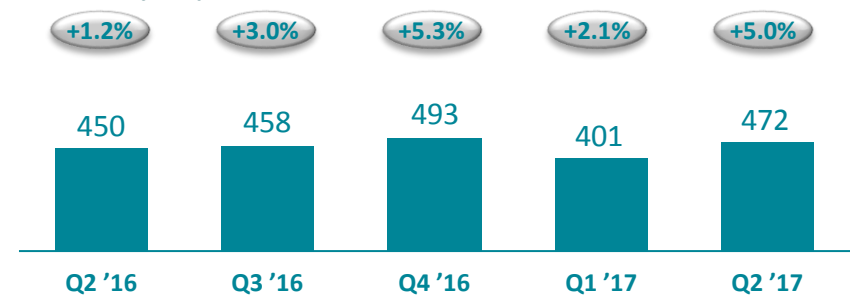
Underlying¹ MSR trends continue to improve

Year-on-year performance in %



OIBDA² in line with guidance

Year-on-year performance in %



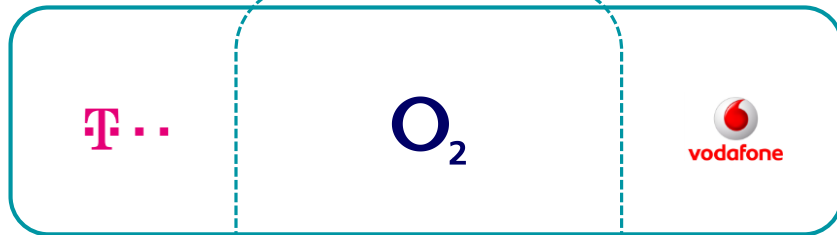
	Baseline 2016 (EUR m)	Outlook 2017 (y-o-y pct. change)	Actual H1 2017 (EUR m / y-o-y pct. change)
MSR	5,437	Slightly negative to flat¹ Excluding the impact from regulatory effects	2,681 / -0.5% (excl. regulatory effects of EUR 70 million) ✓
OIBDA	1,793 ²	Flat to mid single-digit % growth²	873 / +3.6% ✓
CapEx	1,102	Around EUR 1 billion	434 / +1.1% ✓
Dividend		Dividend growth over 3 years (2016-2018)	EUR 0.25 per share for FY 2016 (Payout May 2017)

¹ Excluding the impact from regulatory changes; for details please refer to further materials of Q2 2017

² Excluding exceptional effects; for details please refer to further materials of Q2 2017 results release. We have calculated a comparable for 2016; for details please refer to materials of the full year 2016 results release

Focus on stimulating data growth in a dynamic market; new European roaming legislation in place

Premium



Non-premium: Own secondary brands



Non-premium: Partner brands



Brands with access to Telefónica Deutschland network



Premium: Tangible benefits from bigger data buckets

- Successfully **upselling O₂ Free** to new and existing customers
- Celebrating **15 year anniversary** of O₂ brand with **O₂ Free 15**
 - Bigger buckets driving data usage
- New **DSL portfolio** with higher speeds



Non-premium: Shifting to higher price points

- **DRI/UTDI deal** approved at EGM
- **Larger data allowances** supporting shift to **higher price points**
- **Multi-brand approach** supports customer reach

O₂ Free 15: Bigger data buckets clearly stimulate data growth

Commercial momentum benefitting from anniversary promotions

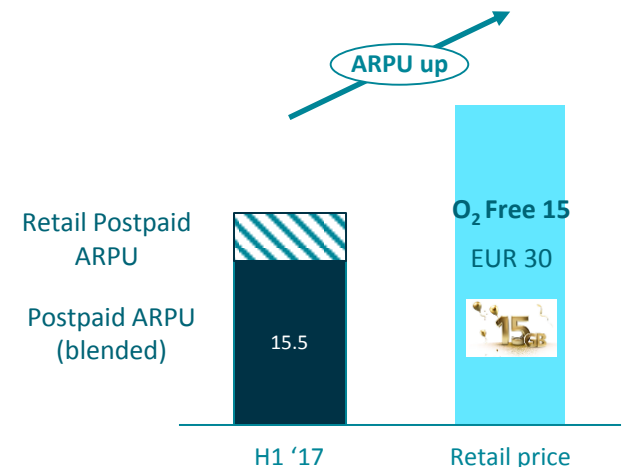
- O₂ Free 15 well received from new and existing customers
 - Clearly **ARPU-accretive**
- Bigger data buckets clearly **stimulate data growth**
 - Early stats show >3.0 GB data usage for O₂ Free 15
- Learnings to drive **portfolio review**



4G high-speed volume
+ 3G flat throttled to 1 Mbps

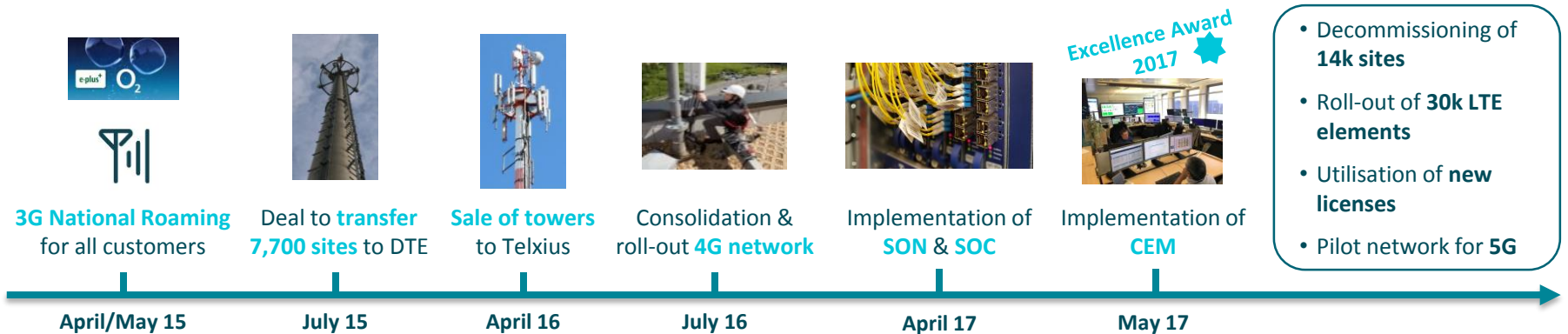
Market shifting to bigger buckets

- Germany converging with other European markets
- Bigger data buckets a lever for significant revenue opportunities
- Markets investments needed to partake in this revenue opportunity
- Continued commercial investments in a rational environment:
 - Brand campaigns
 - Retail channels
 - Selected subsidies
 - Customer service



Network integration on track; award for service-oriented monitoring of quality

Network integration timeline 2016 - 2019



- Network consolidation entering ultimate phase; first cities completed
- Focus on customer experience: Customer Experience Management (CEM)-tool for real-time monitoring of service quality and remedies
- Steady quality gains again confirmed by latest independent network test

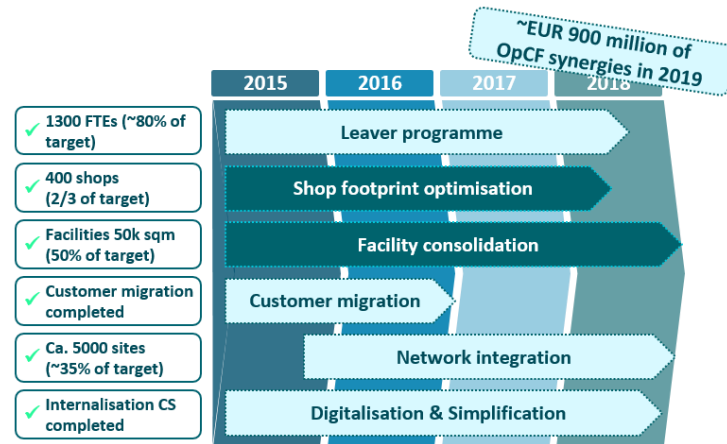


Our vision of the Onlife Telco: We believe in the benefits of transformation

Integration

Today

Transformation



Integration nearing completion

- Finalisation of integration workstreams by year-end 2018
 - FTE restructuring
 - Network integration
- On track to achieve 75% of total OpCF savings target of EUR 900 million by year-end 2017

Business model of the future

- Process of aggregating transformation initiatives into overall programme
- Telefónica NEXT successfully driving ADA and IoT initiatives
- Tangible transformation benefits for revenue and profitability

Q2 2017: Operating momentum & synergy capture on track

MSR -0.4% y-o-y
(excl. regulatory effects)

- MSR incl. regulatory effects -3.0% year-on-year; trends improving sequentially
- Tailwinds from O₂ Free, headwinds regulation & legacy base effect
- Recovery in discount pricing supports stable postpaid churn

Net adds
+197k postpaid
+88k VDSL

- Solid operational momentum in the quarter driven by O₂ Free & birthday promotions
- Share of postpaid wholesale trading stabilising on back of tariff adjustments
- Continued strong demand for VDSL; wholesale migration effects visible

OIBDA¹
+5.0% y-o-y

- OIBDA benefitting from successful synergy capture; further margin improvement
- Approx. EUR 40 million of synergies, stemming from roll-over effects & additional savings
- Margin enhancement of 2.1 percentage points year-on-year to 26.7% in the second quarter

OpCF²
Stable y-o-y

- OpCF benefits from additional EUR 10 million Capex synergies
- Cash flow trajectory supports dividend commitment
- Leverage at 0.9x, in line with target

¹ Excluding exceptional effects. For details please refer to further materials of the 2017 results release

² Excluding the extraordinary gain related with the sale of passive tower infrastructure to Telxius in Q2-2016



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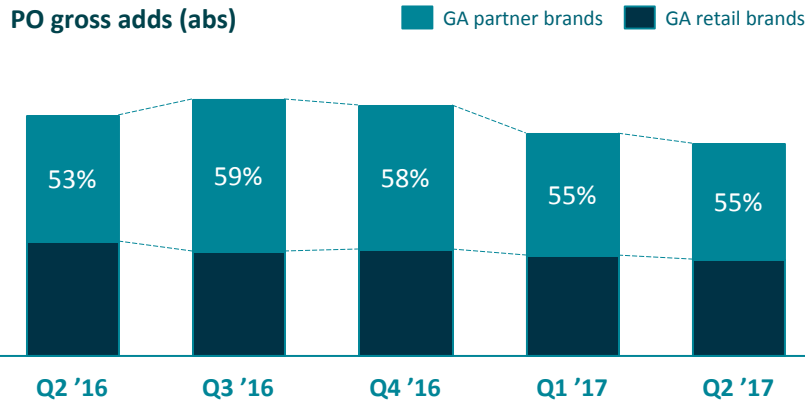
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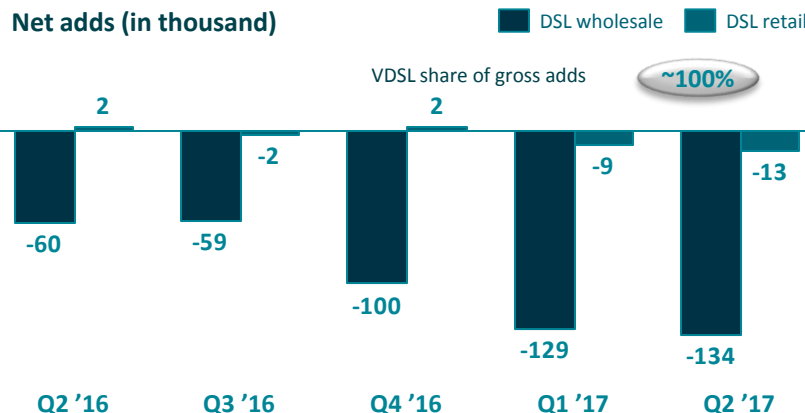
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Retail vs. wholesale trends stabilising; solid churn trends

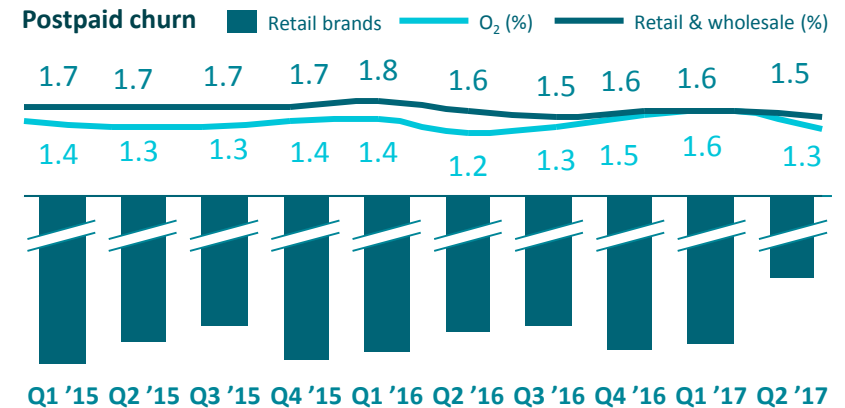
Visible effect from price increases



VDSL drives fixed trading



Maintaining retention focus

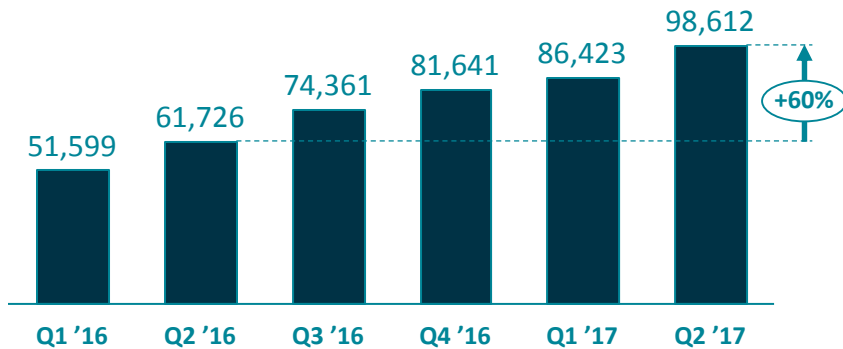


- Partner trading stabilising at prior quarter levels; reflecting changes in pricing
- Churn in O₂ consumer remains low, seasonal improvements in line with prior years
- Strong demand for VDSL with +88 thousand net adds, migration of wholesale customers continues as expected

Data growth benefitting from LTE and bigger data buckets

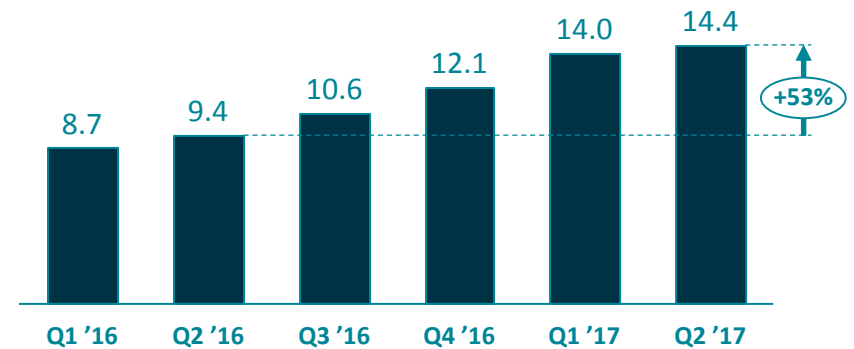
Data traffic continues to grow

Traffic (TB/quarter)



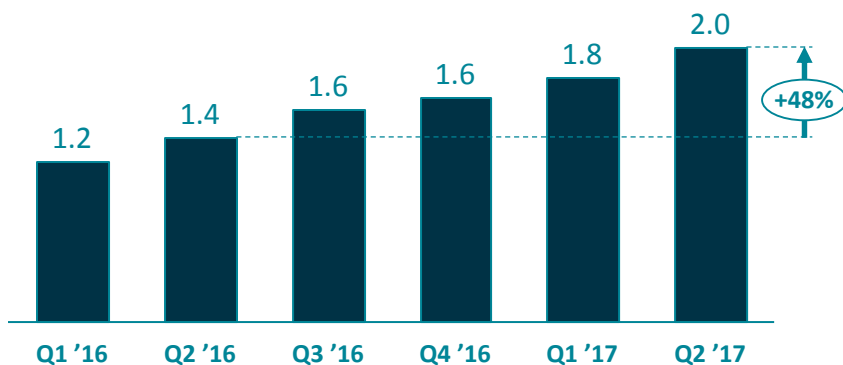
Sustained demand for LTE

LTE customers (million)



LTE usage driven by music and video streaming

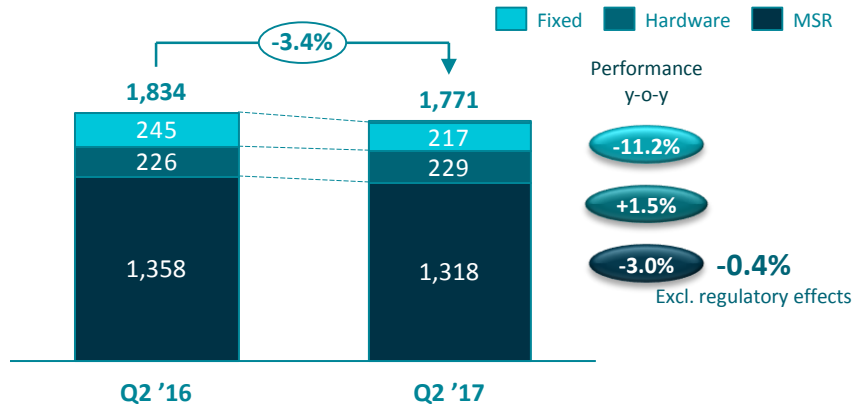
Average data usage for O₂ consumer LTE customers (GB)



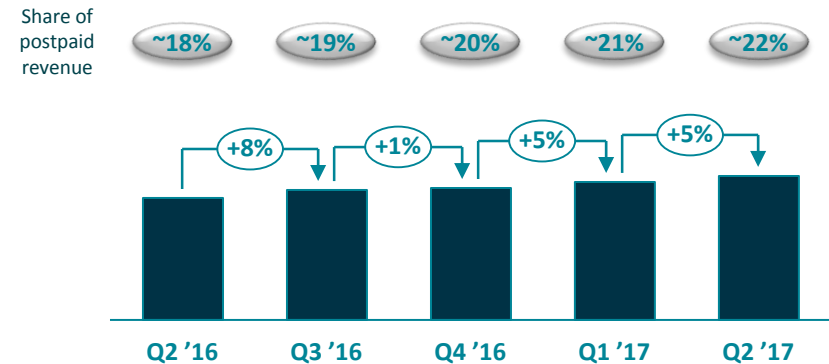
- LTE customer base up 53% y-o-y to 14.4 million in maturing market
- Music & video streaming key drivers of data traffic growth; up ~60% y-o-y
- Average monthly data usage for O₂ consumer LTE customers up ~48% y-o-y to 2.0 GB

MSR trends further improving, handset business stabilising

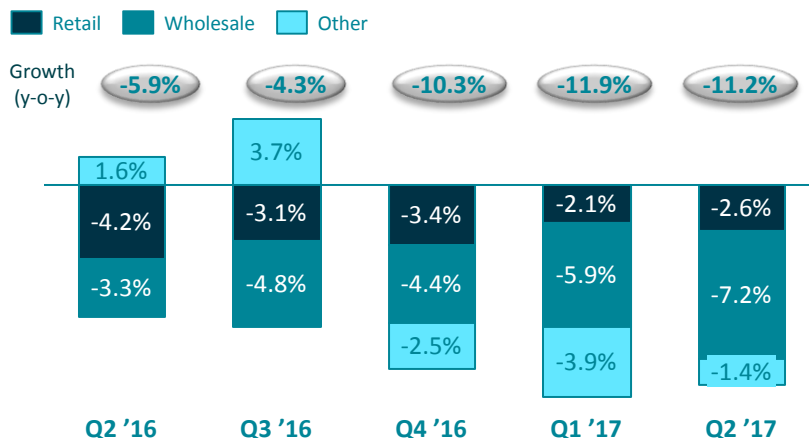
Revenue structure (in EUR m)



MSR from partner business (in EUR m)



Contribution to fixed revenue y-o-y¹ performance

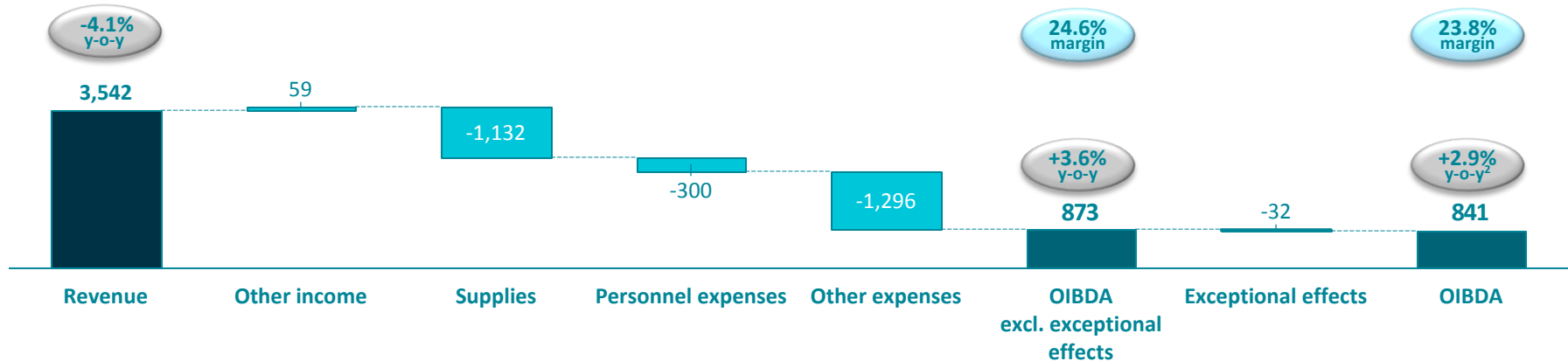


- MSR trends sequentially improving, both in reported terms and excl. regulatory effects
- Stable trend for partner share of postpaid MSR
- Handset revenue stabilising in a saturated market with continued longer replacement cycles from customers

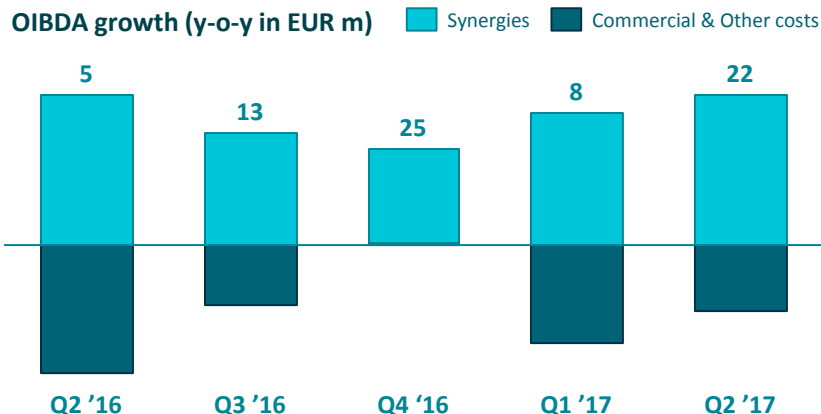
¹ Please note a change in the definition of the fixed retail/wholesale split, which better reflects revenue allocation across segments

OIBDA reflects successful synergy capture and investment activities

Structure of OIBDA for January to June 2017 (in EUR m)



Synergies driving OIBDA growth



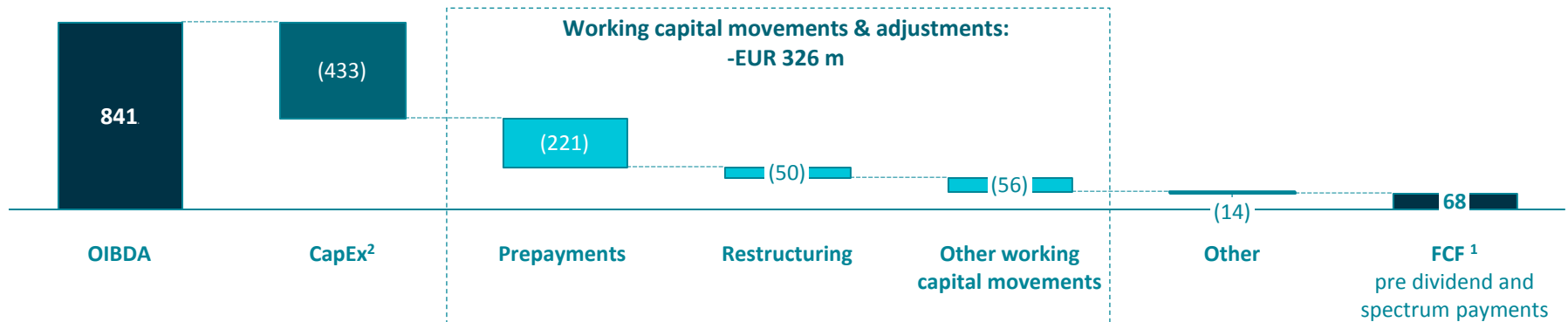
¹ Excluding the extraordinary gain related with the sales of tower assets to Telxius in Q2 2016

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- Successful synergy capture with incremental savings of approx. EUR 40 million in Q2 from FTE restructuring and network consolidation
- Market focus on promotional activities with larger data buckets drives commercial costs; continued investments into O₂ Free
- OIBDA margin at 24.6%, up 1.8 pp y-o-y

FCF affected by seasonality of rental payments

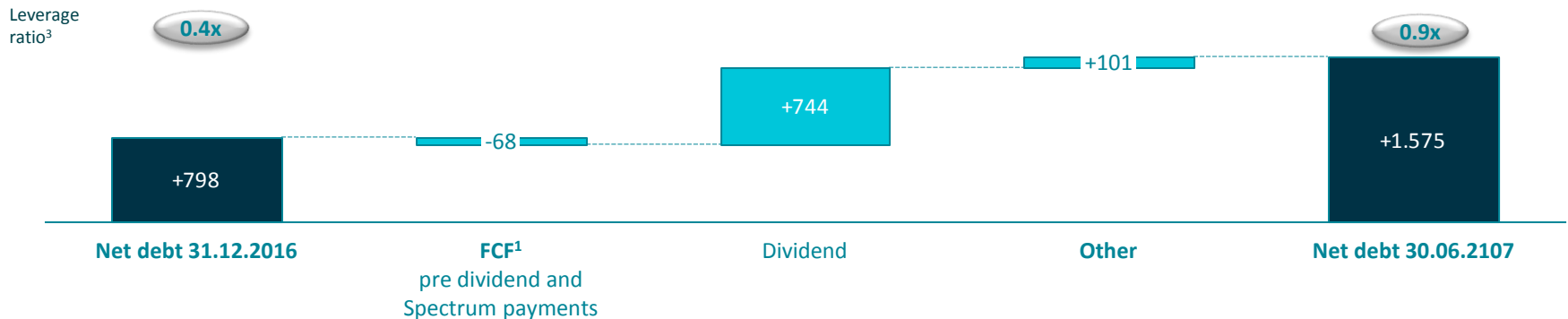
Evolution of Free Cash Flow (FCF)¹ YTD June 2017 (in EUR m)



¹ Free cash flow pre dividend and spectrum payment is defined as the sum of cash flow from operating activities and cash flow from investing activities

² Excluding additions from capitalised finance leases and capitalised costs on borrowed capital for investments in spectrum

Evolution of Net Debt³ (y-o-y in EUR m) – Leverage ratio³ increases due to dividend payment



³ For definition of net debt & leverage ratio please refer to Q2 2017 earnings release

Main takeaways

- Q2/H1 results in line with outlook; **reiterating full year outlook**
- Market shifting to **stimulating data growth** and increase speed uptake
- Focus on O₂ Free and **15-year anniversary activities**
- **Commercial investment focus** to stimulate **MSR momentum** and partake in **data revenue opportunity**
- OIBDA reflects incremental **synergy savings and investments** in our premium positioning
- **Cash flow momentum** supports mid-term dividend; **reiterating commitment to grow dividend** for 2017/18

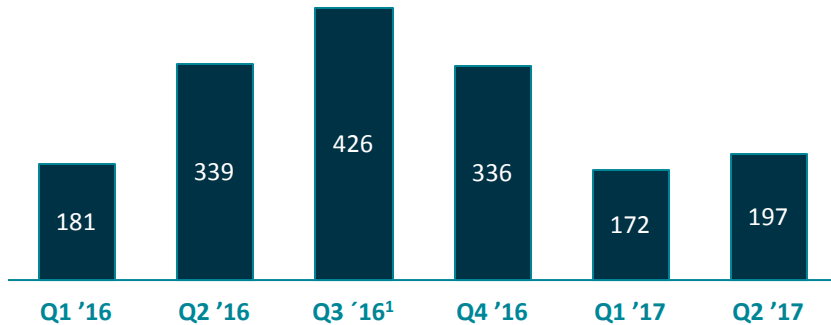
Telefónica Deutschland Q2 2017 preliminary results – Q&A session



Appendix – KPIs

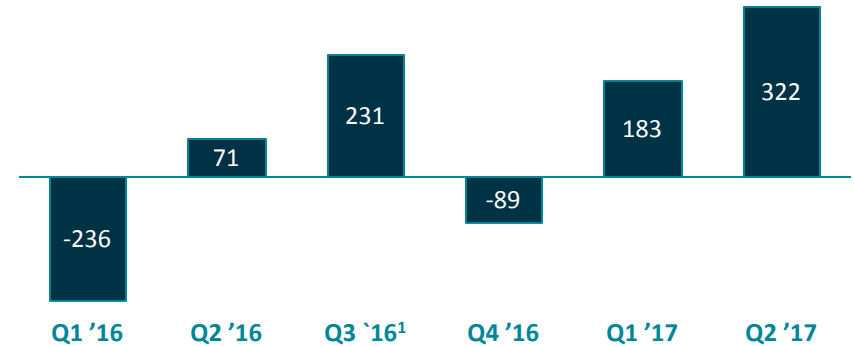
Mobile KPIs

Postpay net adds ('000)



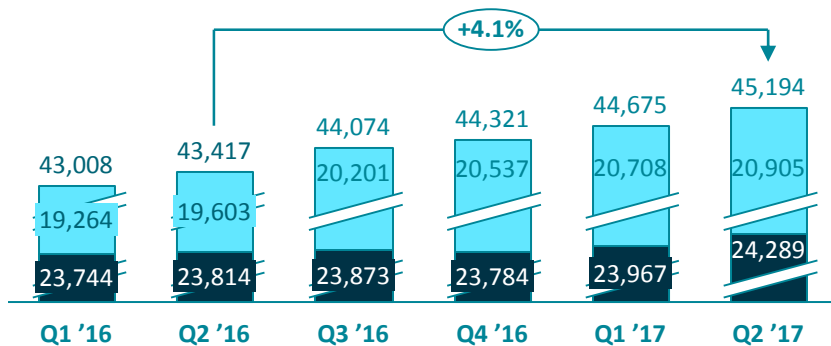
¹ Excluding reclassification of 172k customers from prepaid to postpaid as part of the customer migration activities

Prepay net adds ('000)

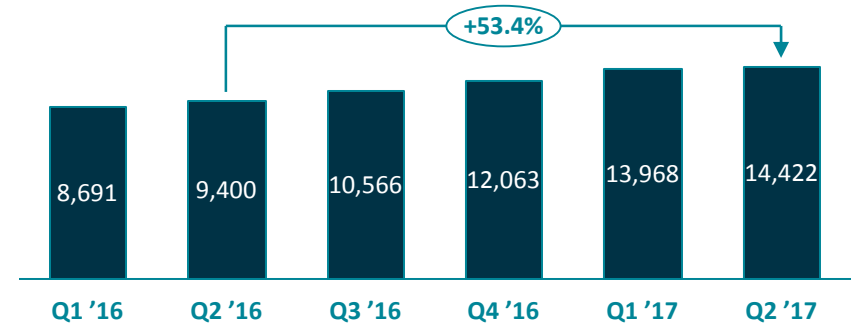


Mobile customer base ('000)

Postpay Prepay



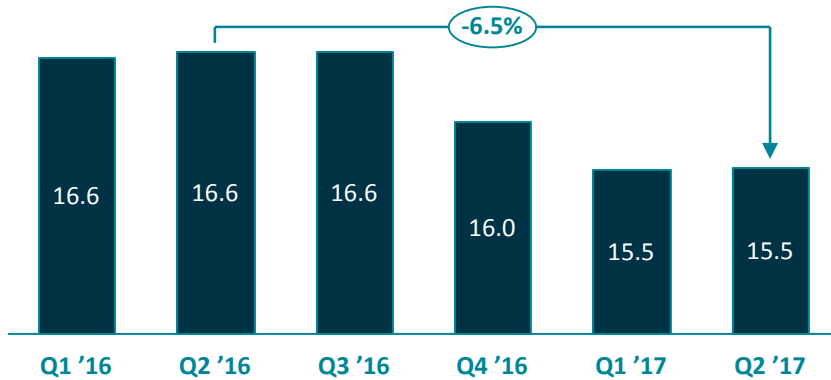
LTE customer base ('000)



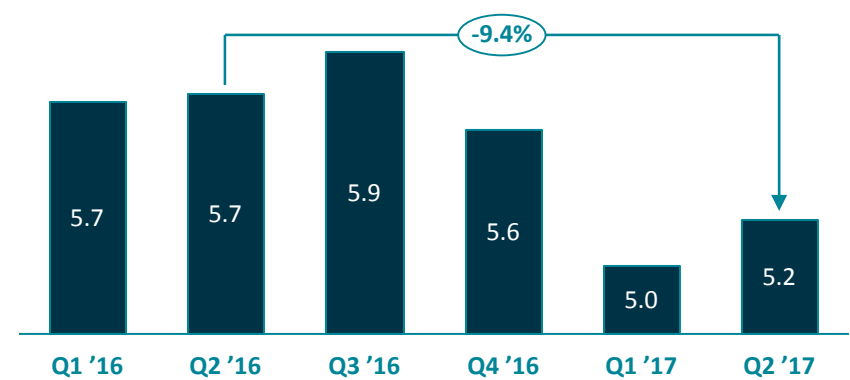
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Mobile KPIs

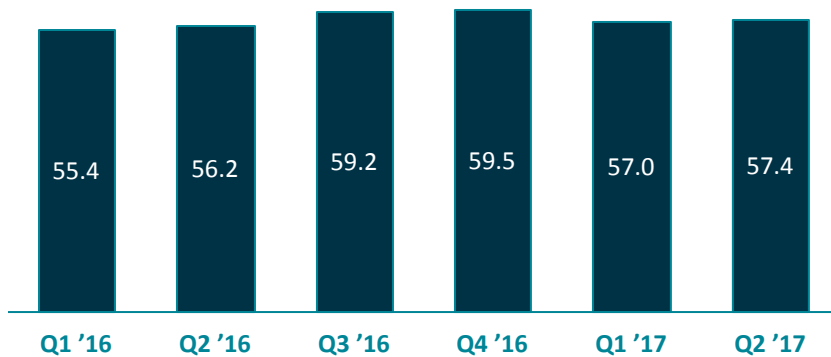
Postpay ARPU (EUR)



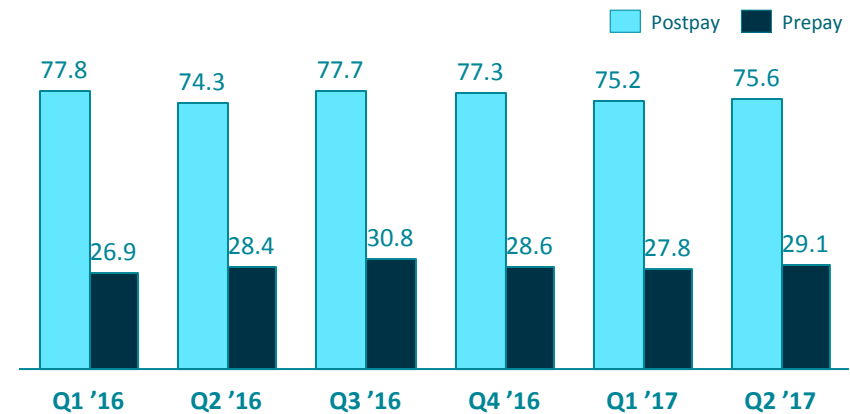
Prepay ARPU (EUR)



Smartphone penetration (%)¹



Smartphone penetration O₂ consumer (%)



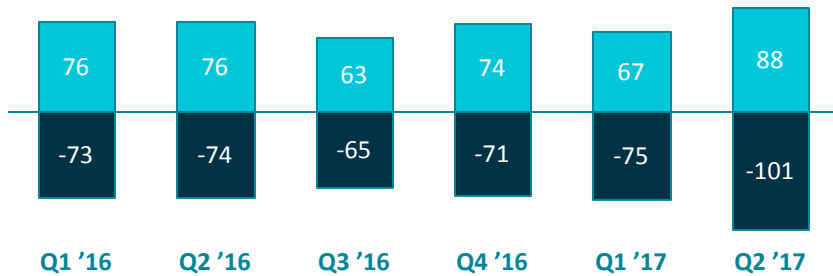
¹ Smartphone penetration is based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base less M2M, less customers with a big screen tariff

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Fixed-line KPIs

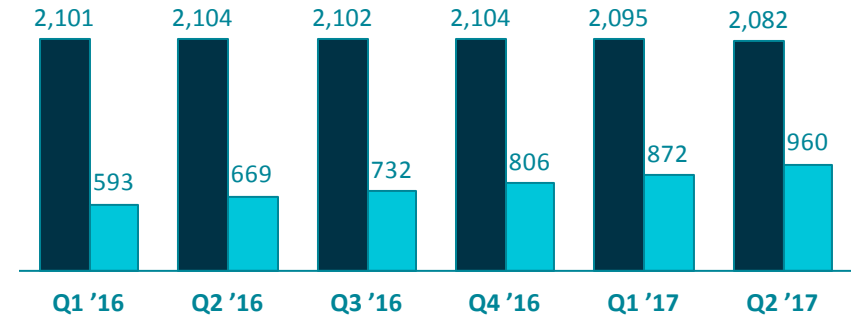
Retail broadband net adds ('000)

Therof DSL Therof VDSL

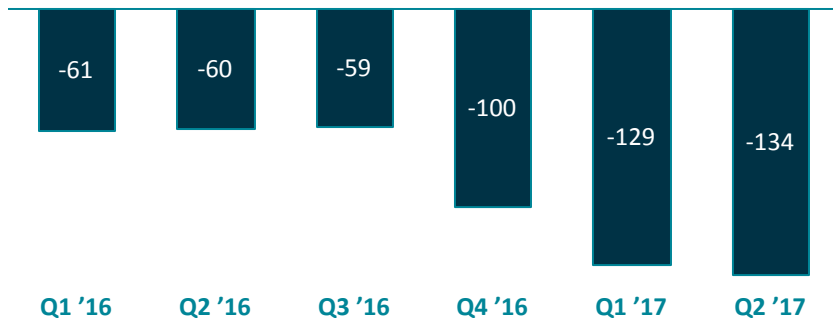


Fixed accesses ('000)

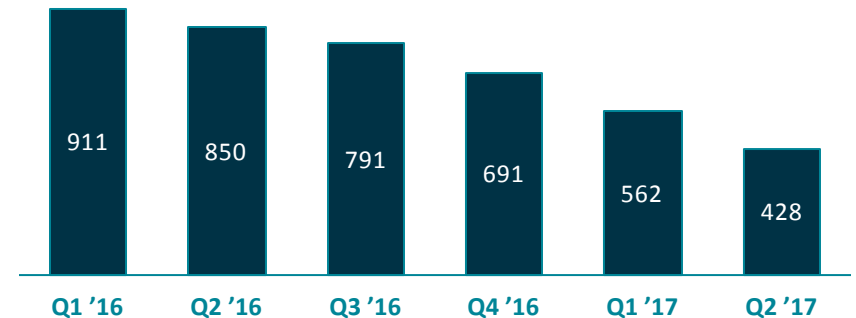
Retail DSL thereof VDSL



Wholesale net adds ('000)

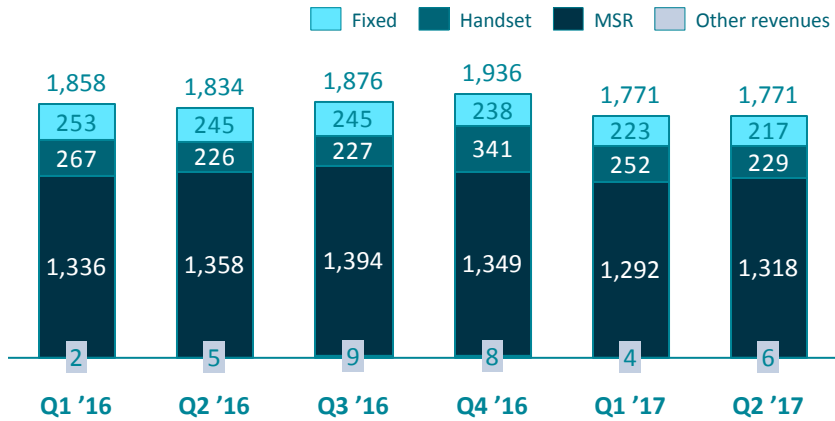


Wholesale accesses ('000)¹

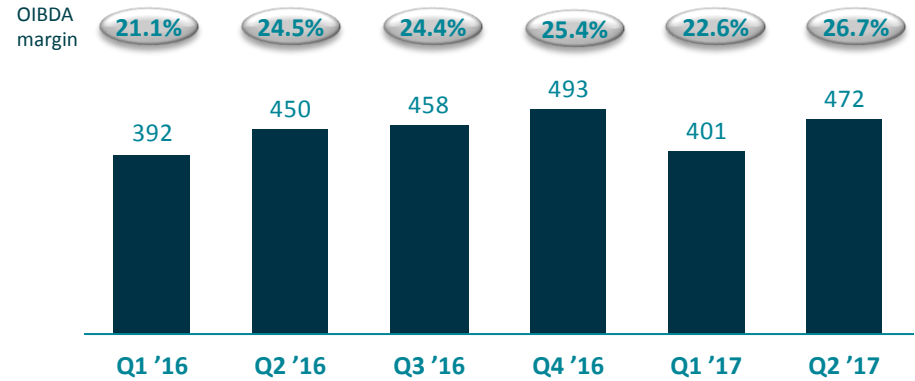


¹ Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access

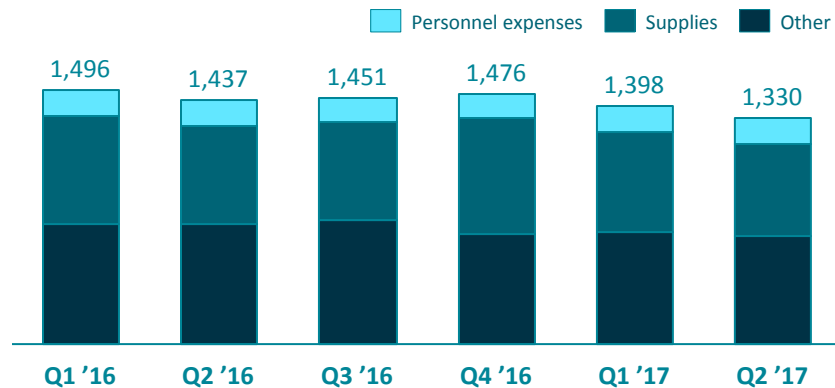
Revenue structure (EUR m)



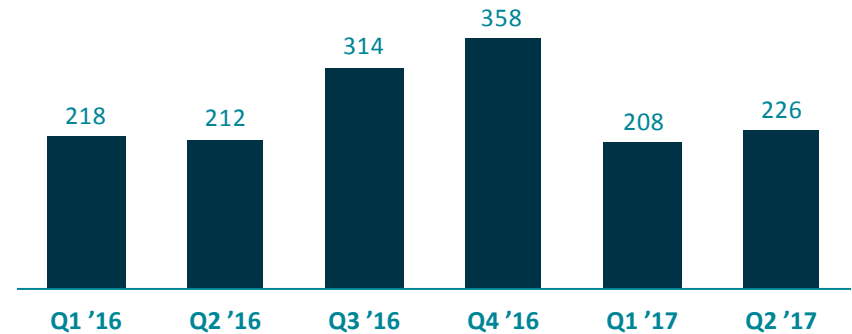
OIBDA (post GF, pre exceptional effects / EUR m)¹



OpEx-Split² (EUR m)



CapEx (EUR m)

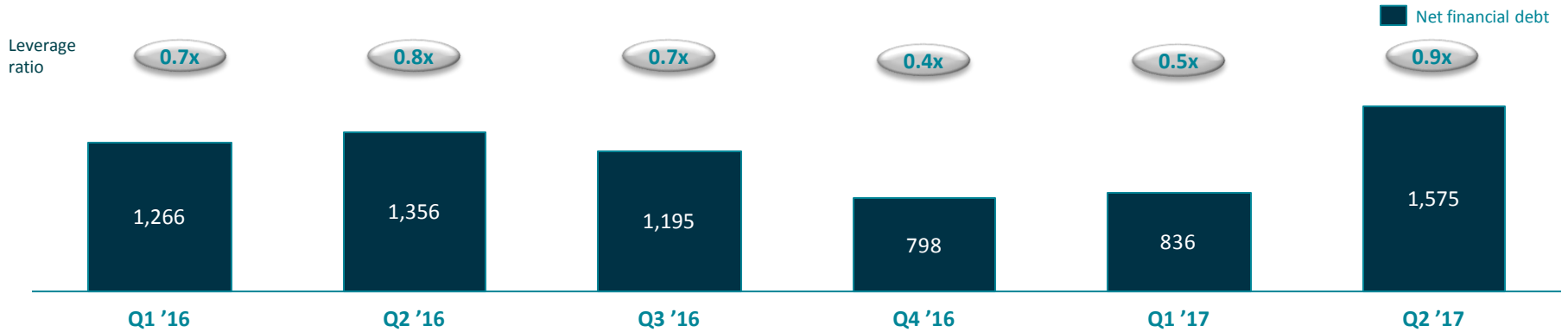


¹ Exceptional effects include restructuring costs as well as the net capital gain from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016. We have calculated a pro-forma OIBDA of EUR 1,793m for 2016, which includes the operating lease-related effects from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016, as if it had occurred on 1 January 2016

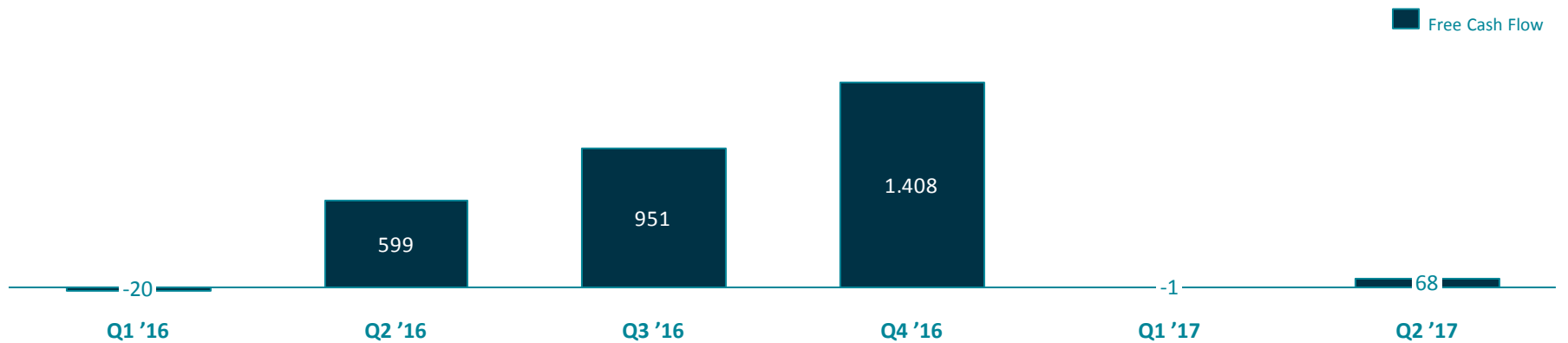
² Opex-split before exceptional effects

Financials

Net debt and leverage



Free cash flow¹ (YTD)



¹ Free cash flow pre dividends and payments for spectrum 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 in June 2015 as well as related interest payments



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