

Telefonica

Deutschland

Creating
the
Leading
Digital
Telco



Telefónica Deutschland Q4 2015 preliminary results & outlook

25 February 2016

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FY 2015: Maintained momentum while delivering integration & financial targets

MSR

+0.1%
y-o-y

- MSR broadly stable year-on-year
- Strong partner business performance and continued focus on customer base development
- Maintaining momentum with mobile data monetisation

OIBDA¹

+20.5%
y-o-y

- Strong year-on-year OIBDA growth
- Acceleration of synergies & commercial cost optimisation
- Margin reaches 22.3%

Outlook 2016

- Play leading role within the competitive framework of the German mobile market
- MSR trends continue: Slightly negative to broadly stable
- OIBDA growth 2016 primarily driven by synergies



Keep the
Momentum




Integrate
quickly






Transform
the company


2016: Moving the focus from integration to transformation

Shaping the leading digital 'onlife' telco in Germany

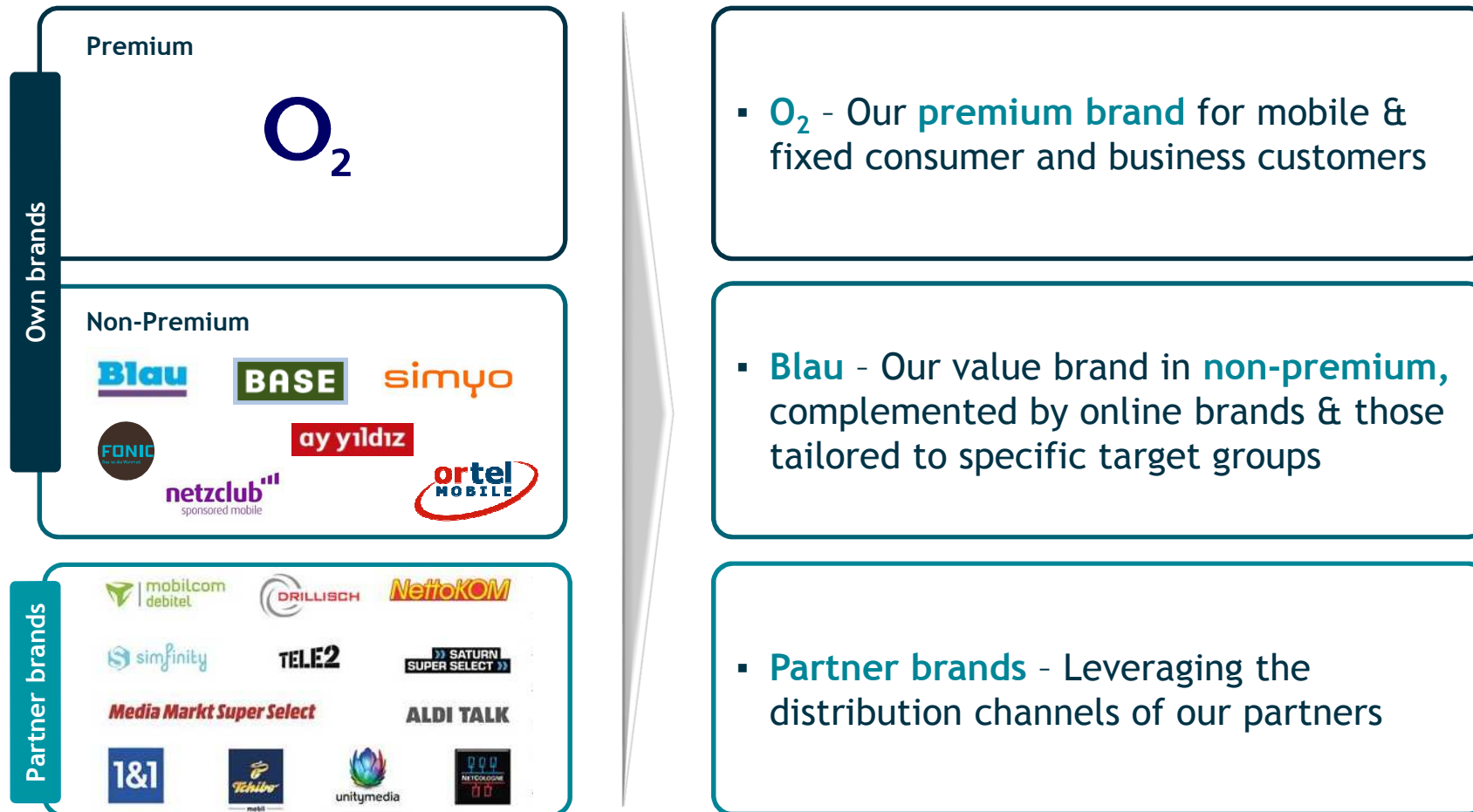
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1 Drive momentum in an attractive and dynamic telecoms market
- 

2 Shaping the digital transformation for an exceptional customer experience 
- 

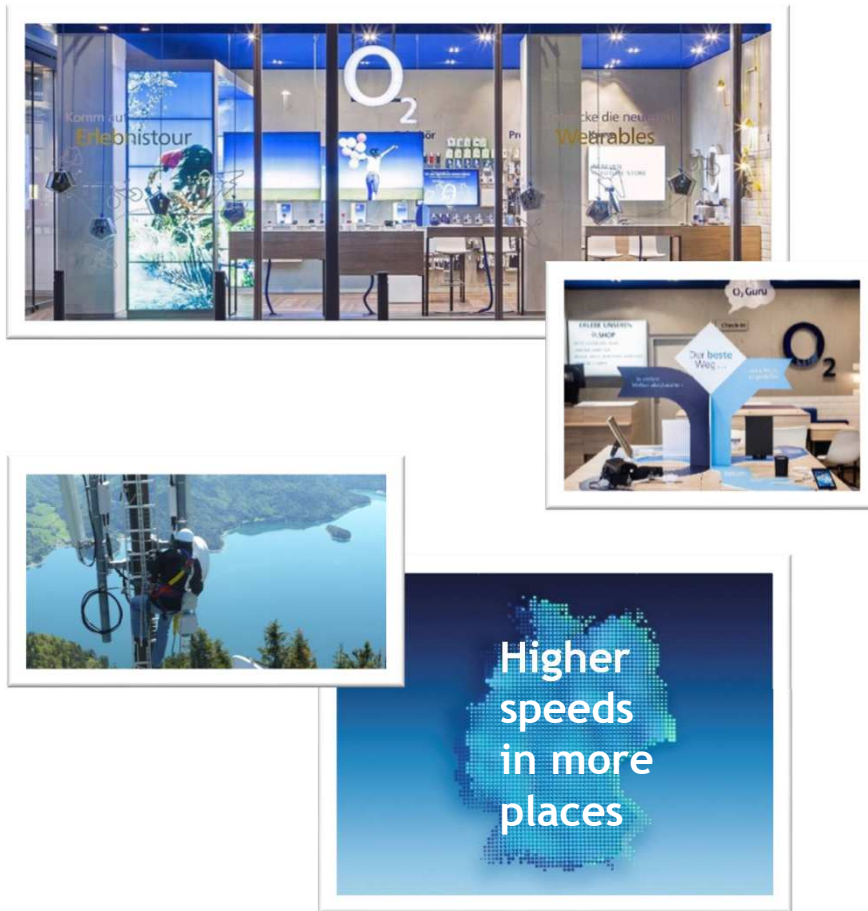
3 Lean & efficient operations to drive growth in profitability & FCF 
- 4 Attractive shareholder return & financial flexibility on strong fundamentals

Well positioned across all segments & channels in a rational but dynamic market



Focused multi-brand & multi-channel strategy

O₂ our premium brand for mobile & fixed consumer and business customers



- **Digital customer journey**
 - Excellence in customer service with O₂ guru concept
 - New digital shop concept
- **Network experience**
 - Network integration by mid-16
 - At eye level with competition by year-end 2016
- **You can do!**
 - Freedom of choice for our customers
 - O₂ brand core of leading digital 'onlife' telco

O₂ offers customers digital appeal, network excellence, choice and value

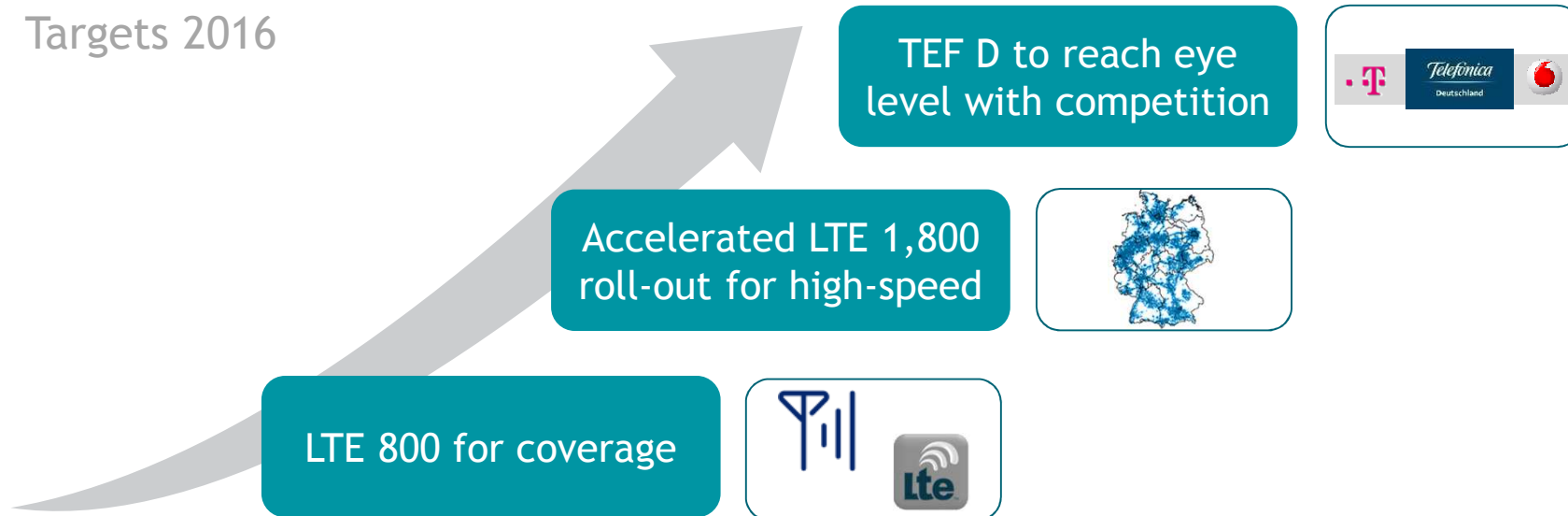
The path to a leading network in Germany



Outstanding connectivity & high-speed access in urban & sub-urban areas



Targets 2016



3G National Roaming & mVoLTE launched



Achievements 2015

- Best-in-class 3G network
- Customer network perception improved
- LTE coverage reaches 75%



Advanced Data Analytics & Internet of Things will complement our core business



Advanced Data Analytics



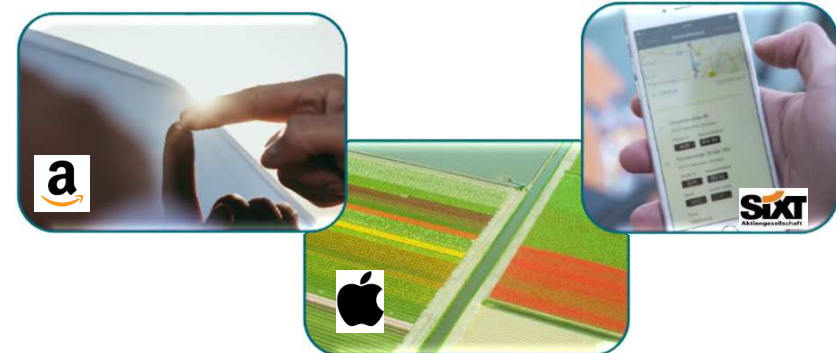
Demand and supply tool for network capex optimisation

Living trading maps

Digital command centre

- Customer data pool as a key resource
- Best in class analytics to help us build better customer relationships
- Data protection key: Our approach sets new standard in market

Internet of Things



Content solutions

- IoT trends are changing traditional business economics
- Building portfolio in the areas of connectivity and software solutions
- Opportunities include SME & *Industrie 4.0*

Development of ADA and IoT opportunities will shape our digital future

Q4 2015: Continuing trends in MSR; outstanding OIBDA growth on back of synergies & cost optimisation

MSR (Q4 '15)
-1.0% y-o-y

- Rational but dynamic market environment; partner growth and base mix continues to weigh on MSR
- FY 2015 guidance met

~8m LTE customers

- Continued focus on retention activities to develop premium customer base
- LTE drives data usage; data monetisation opportunity intact

Synergies >50%
of Q4 2015 OIBDA y-o-y¹

- Synergy targets for 2015 met; significant roll-over effects for 2016
- Moving focus from integration to transformation in 2016

OIBDA² (Q4 '15)
+34.1% y-o-y

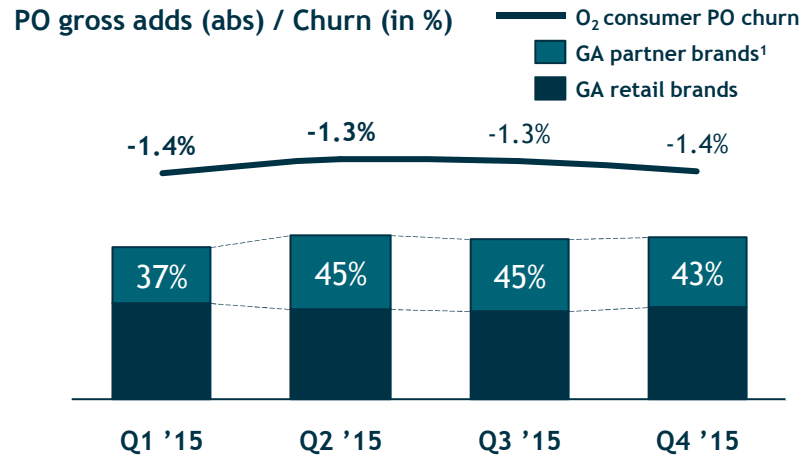
- Synergies & commercial cost optimisation drive OIBDA growth almost equally in 2015

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

² Excluding exceptional effects. For details please refer to additional public material for Q4-2015

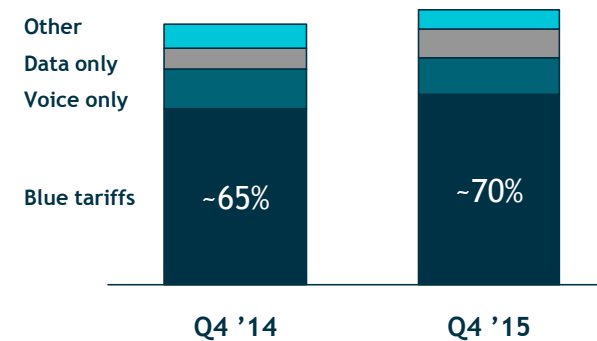
Partner business showing steady growth amidst continued focus on customer base development; DSL retail strong

Partners with stable contribution

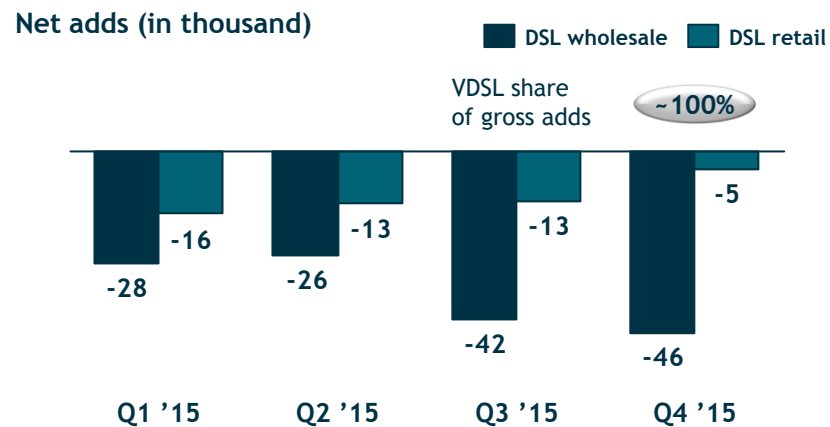


Clear focus on developing customer base

O₂ consumer postpaid base (in thousand)



Strong fixed BB proposition bears fruit



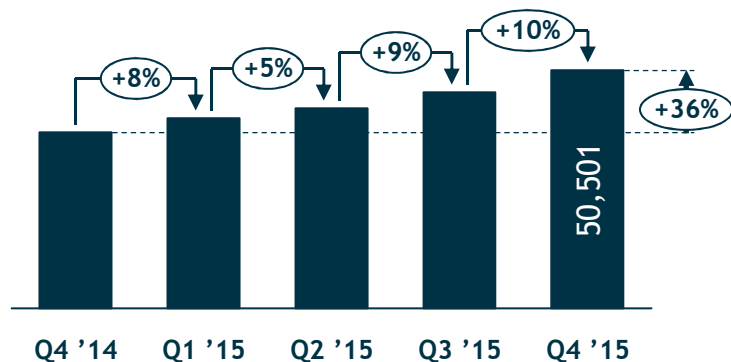
- Postpaid partner growth steady but stable as % of postpaid gross adds
- O₂ postpaid churn continues at very low levels
- Strong VDSL net adds of 73k drive further improvement in DSL net add development

¹ Wholesale & partner business

Data monetisation opportunity to drive growth

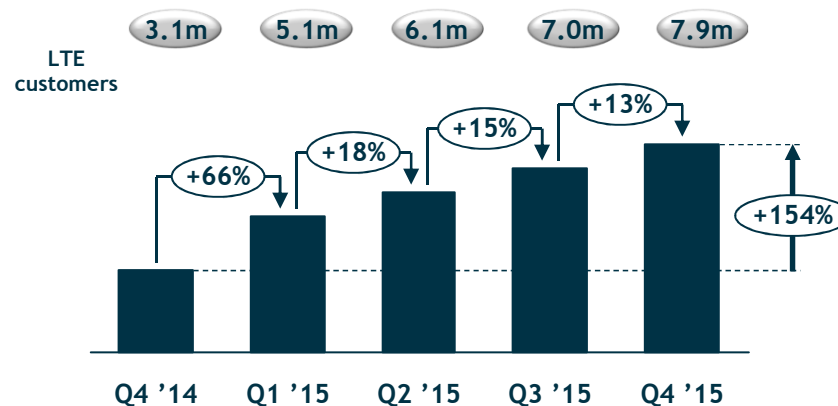
Data traffic rising continuously

Traffic (TB/quarter)



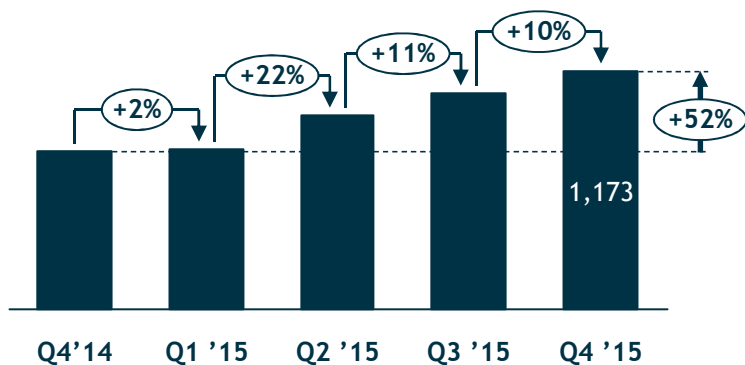
Network improvement supports usage

LTE customers (million)



Network improvement supports usage

Average data usage for O₂ consumer LTE customers¹ (MB)

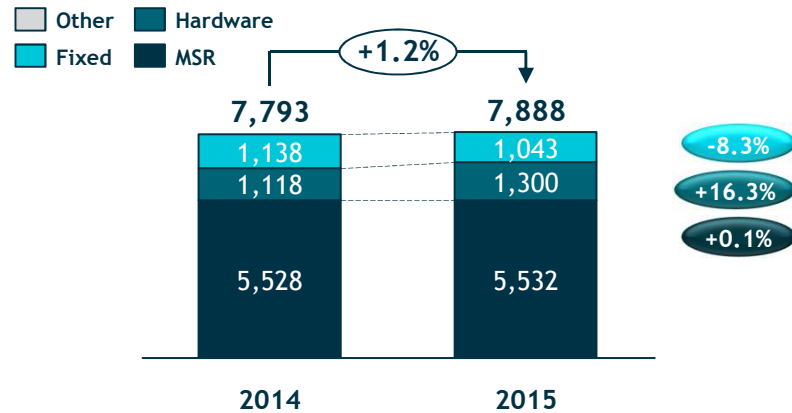


- Music & video streaming drive growth in total data traffic to +36% in 2015
- Average LTE data usage up 52% in 2015; ~8 million LTE customers as of year-end
- Data automatic uptake reaches 77% (1 snack) amongst opted-in customer base

¹ O₂ consumer base with LTE enabled smartphone (all tariffs)

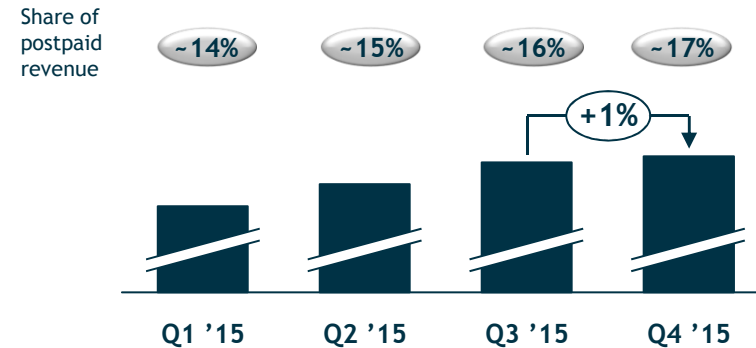
MSR development in line with expectation

Revenue structure (in EUR m)

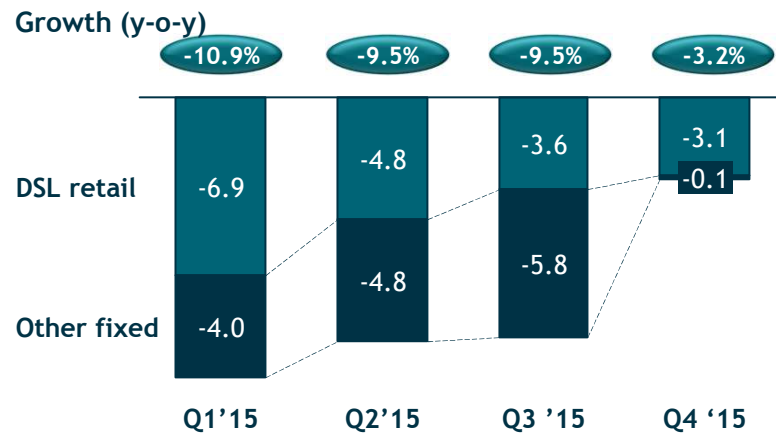


Partner share of postpaid MSR increasing

MSR from partner business¹ (in EUR m)



Fixed revenue y-o-y (in %)

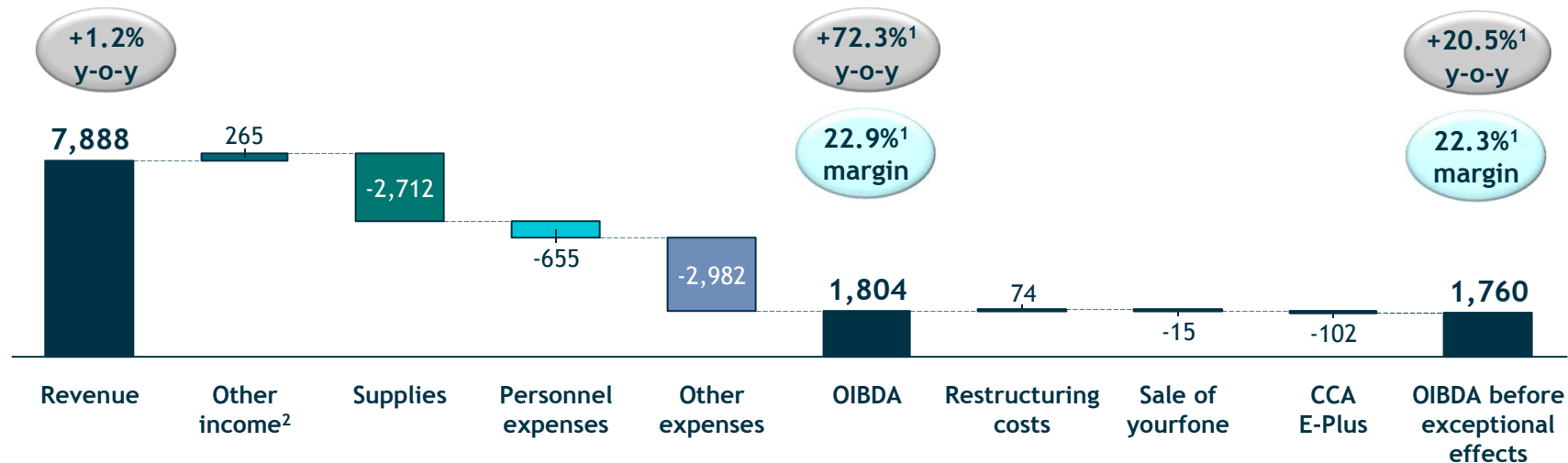


- Total revenue growth supported by hardware as result of strong flagship device sales
- MSR still impacted by partner business growth and legacy customer base mix
- Fixed improving on the back of VDSL and spot-market trading in carrier voice

¹ Wholesale & partner business

Strong year-on-year OIBDA growth on the back of synergies and commercial cost optimisation

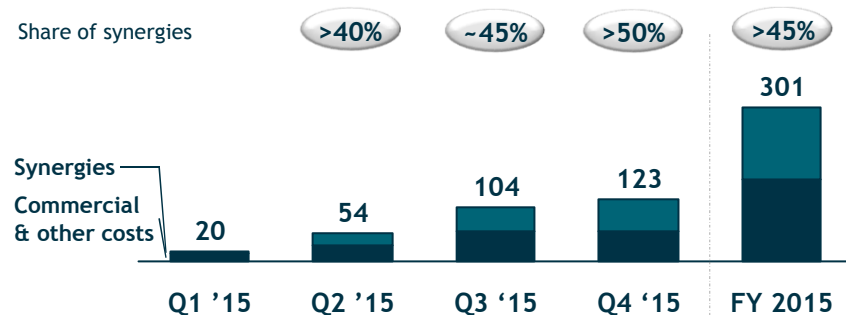
Structure of OIBDA for Jan-Dec 2015 (in EUR m)



Synergies & cost optimisation drive growth

OIBDA³ growth (y-o-y in EUR m)¹

Share of synergies



- Synergies represent >50% of Q4 y-o-y OIBDA² growth
- Synergies and commercial & other cost drive full-year results almost equally
- Restructuring provisioned in 2015 mainly network-related

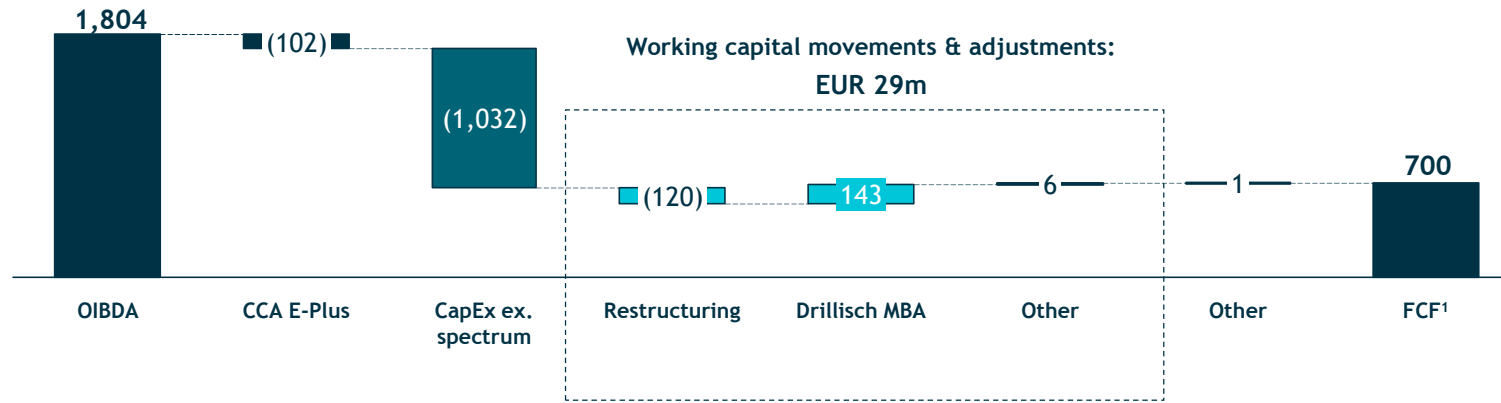
¹ y-o-y comparisons based on 2014 combined figures

² Including EUR 102 million resulting from the agreement with KPN on the final purchase price of E-Plus (CCA)

³ Excluding exceptional effects. For details please refer to additional public material for Q4-2015

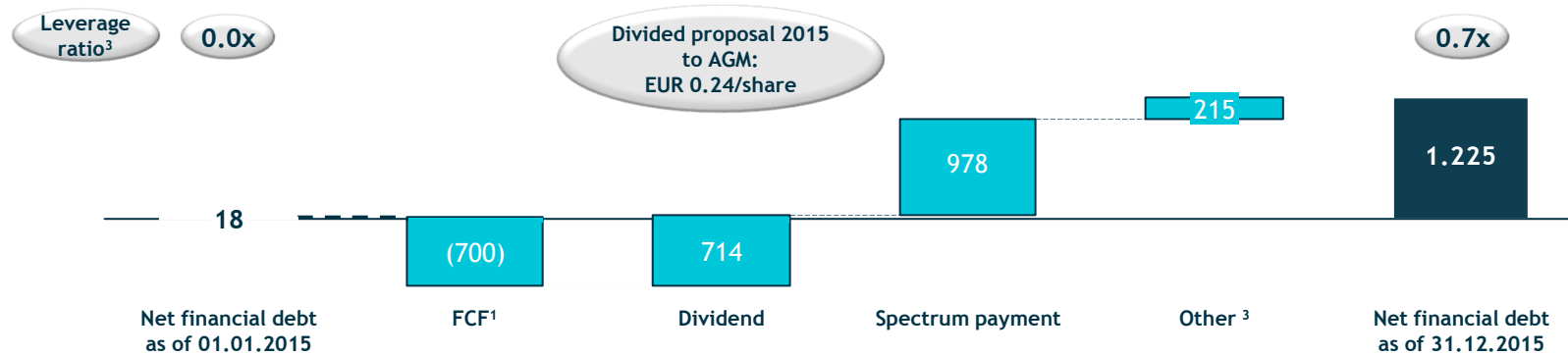
Financial leverage returned to target while keeping financial flexibility

Evolution of Free Cash Flow (FCF)¹ YTD December 2015 (in EUR m)



¹ 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 Debt² (y-o-y in EUR m) - Leverage ratio² returns to 0.7x

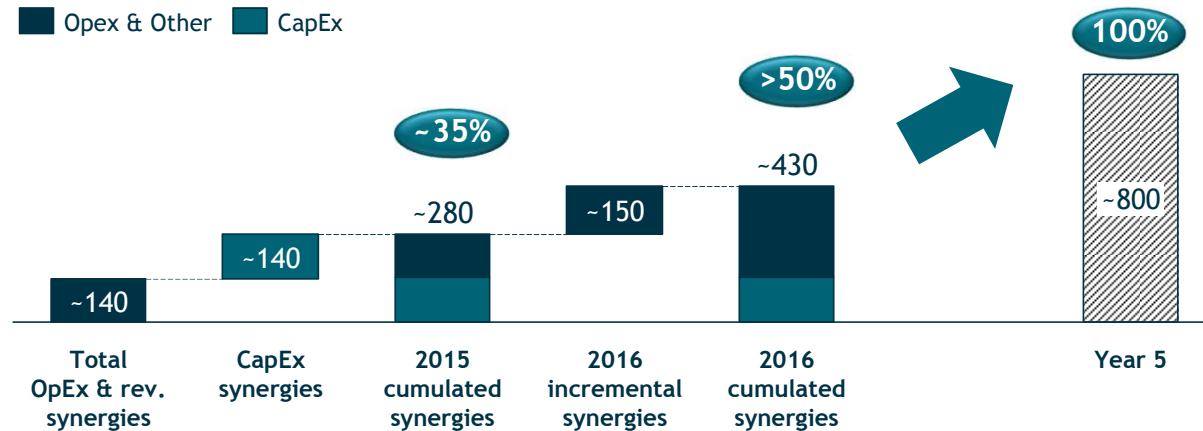


² For definition of Net Debt & Leverage Ratio please refer to additional materials of Q4 15 results.

³ Including EUR 102 million resulting from the agreement with KPN on the final purchase price of E-Plus (CCA)

Cumulated synergies expected to reach >50% of total savings target by year-end 2016

Synergy case 2015-2019 (EUR m)



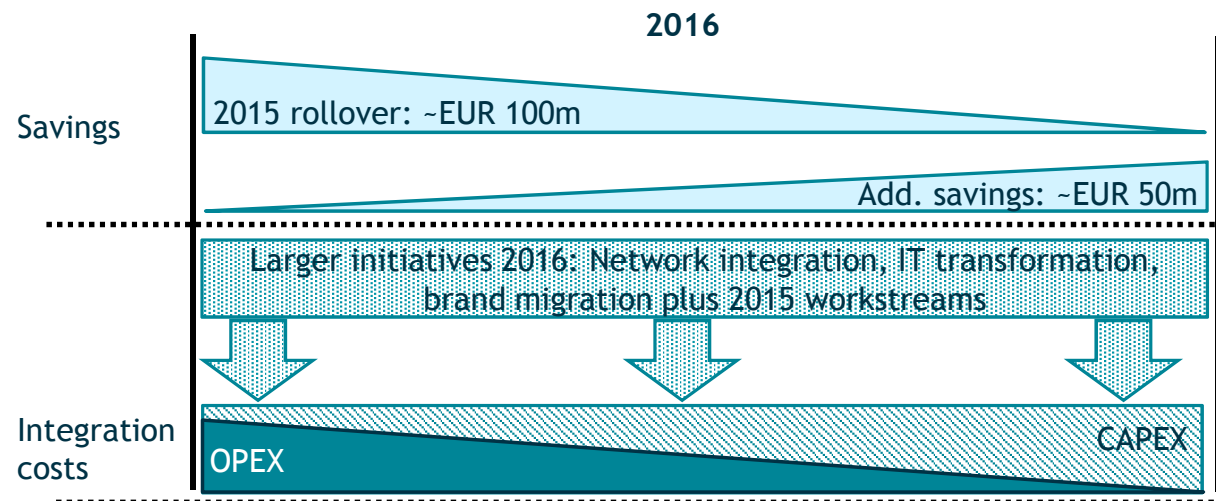
Large initiatives in 2016

- Network integration
- Brand migration / IT transformation

Ongoing workstreams from 2015

- Leaver programme
Total target -1,600 FTEs
- Shop footprint
Total target -600 shops
- Facilities consolidation
Total target -100k sqm
- CS reorg/digitalisation
- Simplification

Synergy phasing 2016: Integration to transformation



¹OpEx savings are referred to 2014 combined financials excluding restructuring costs
²CapEx synergies net of restructuring activities and exclude investment in spectrum
³2014 combined KPIs: 9.1K FTEs. 1.8K shops, >39K mobile sites

2015 outlook met; 2016 outlook reflects shift in focus from integration to transformation

	Baseline 2014* (EUR m)	Outlook 2015** (y-o-y pct. growth)	Actual 2015** (EUR m / y-o-y pct. growth)	Outlook 2016** (y-o-y pct. growth)
MSR	5,528	Broadly stable	5,532 / +0.1% ✓	Slightly negative to broadly stable
OIBDA	1,461	+15-20%	1,760 / +20.5% ✓	Low to mid single-digit % growth
CapEx	1,161	Low double-digit pct. decline	1,032 / -11.1% ✓	% growth in the low tens

- 2016 MSR expected to be slightly negative to broadly stable as result of customer acquisition trends and base mix effect
- 2016 OIBDA growth driven primarily by synergies; transformation projects require upfront cost-phasing
- Majority of 2016 synergies stem from 2015 roll-over effects; additional in-year savings from leaver programme and site restructuring
- Capex growth as a result of investment in LTE roll-out & IT consolidation; no further Capex synergies in 2016

>50%
of total target of
EUR 800m to be
achieved in 2016
(~EUR 430m²)

* 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 opportunity intact; near-term headwinds as a result of dynamics in non-premium and legacy base mix

Successful execution of significant integration activities in 2015; moving focus from integration to transformation with a range of larger projects to follow in 2016

OIBDA will continue to benefit from synergy initiatives executed in 2015; **cumulated synergy level >50% of total target by year-end 2016**

Stable dividend proposal of EUR 0.24/share reflects continuity while keeping financial flexibility during transformation phase

Telefónica Deutschland Q4 2015 preliminary results Q&A session



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