

*Telefonica*

Deutschland

Creating  
the  
Leading  
Digital  
Telco



# Preliminary Results January - September 2014

November 10, 2014

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# Telefónica Deutschland management team



**Markus Haas**  
COO



**Thorsten Dirks**  
CEO



**Rachel Empey**  
CFO

# Successful start for the new Telefonica Deutschland



# Building the Leading Digital Telco in Germany

Offer **Best network experience**



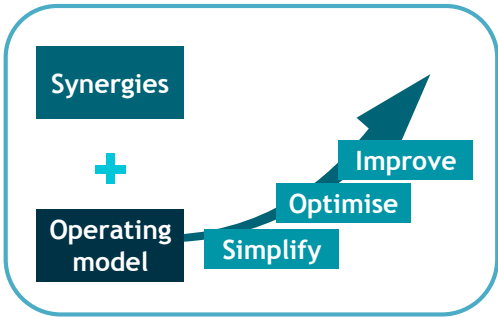
*Golden Grid for 2G/3G + LTE roll-out*

Offer **Superior customer experience**



*Multi-channel & Digital first*

Achieve **Cost Leadership**



*Synergies & Lean operating model*



**Keep the Momentum**



**Integrate quickly**



**Transform the company**



Leadership in **Consumer mobile**



Capture additional  
opportunities in the  
**SME segment**



Upsell/cross sell  
**Convergent** solutions



*High-speed surfing  
with up to 100 Mbit/s*

Full alignment of Commercial Strategy across segments from Day One

# Rapid execution of integration activities



## In execution from Day One

- Network Golden Grid defined (~14K redundant BTS)
- Headcount restructuring plan defined (-1.6K FTEs<sup>1</sup> by 2018)
- Full alignment of Procurement processes
- Cross & upsell O<sub>2</sub> Unite & O<sub>2</sub> DSL into enlarged customer base



## Synergy plan (NPV in €bn)

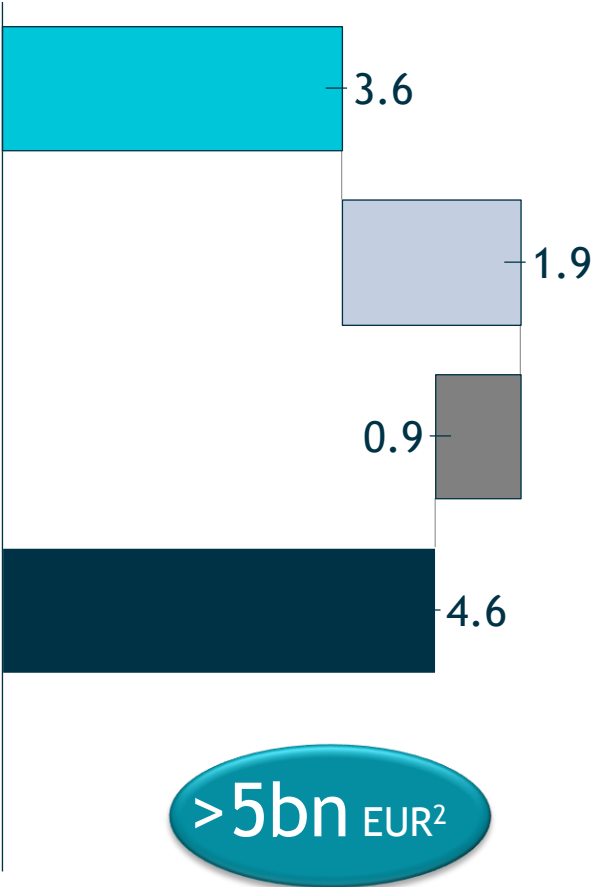
OpEx

CapEx

Integration Costs

Operating synergies

Total including revenues



<sup>1</sup> FTEs: Full time employees. Starting base is 9,100  
<sup>2</sup> Calculated as the sum of net present values of forecasted future free cash flows including the so-called “terminal value” after tax

# A clear roadmap to transform the business into a truly digital operating model



Transform  
the company

## Customer Journey

Digital relevance

*Digital reach and content*



Digital sales

*Digital portals*



Digital Care

*Self-care apps  
Users help users*

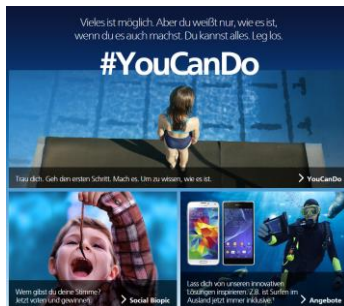


Radically simplified backend & partnerships



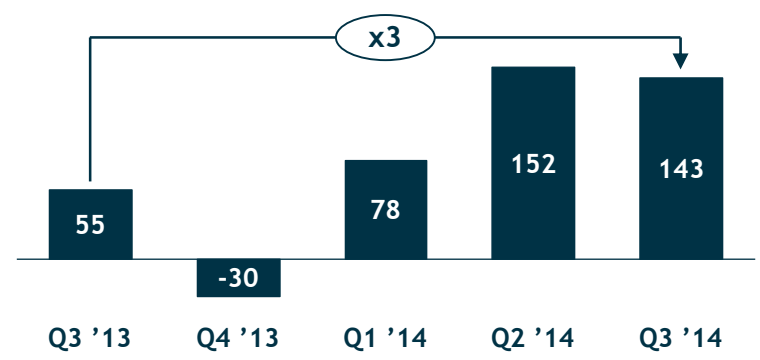
# Improved momentum & LTE driving performance

- O<sub>2</sub> brand gaining relevance as premium brand thanks to LTE and attractive bundles with new devices
- Focus on data monetization with individualized offers plus digital services to enhance customer experience
- Continued improvement in revenue performance with sustained underlying\* OIBDA trends driven by focused commercial strategy

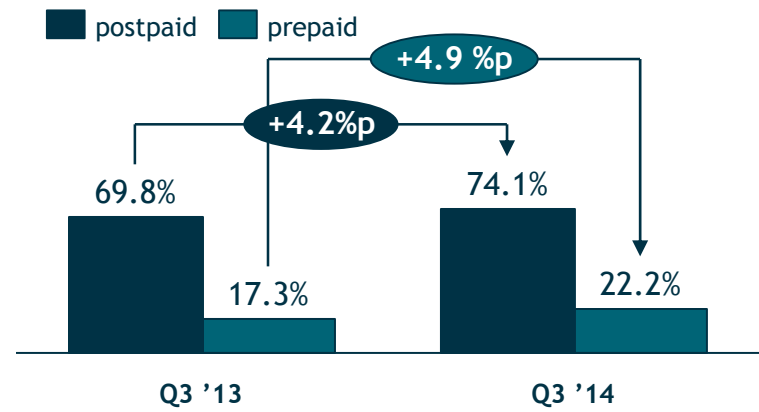


# Commercial momentum driving mobile data monetization further

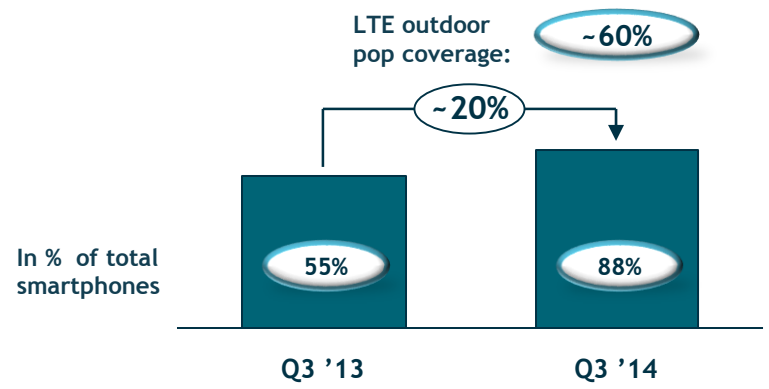
Mobile postpaid: Evolution of Net Additions  
In k



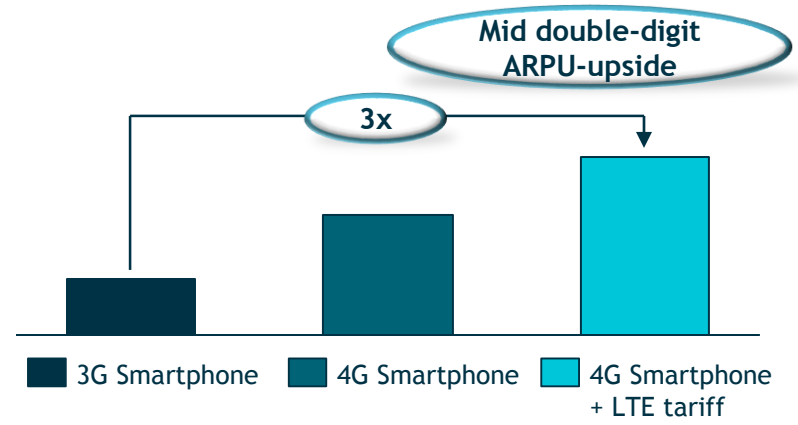
Smartphone penetration<sup>1</sup>  
In % of O<sub>2</sub> Consumer customer base



LTE handset adoption  
Sale of LTE-enabled smartphones



LTE as a major driver for increase data usage  
Average usage per month

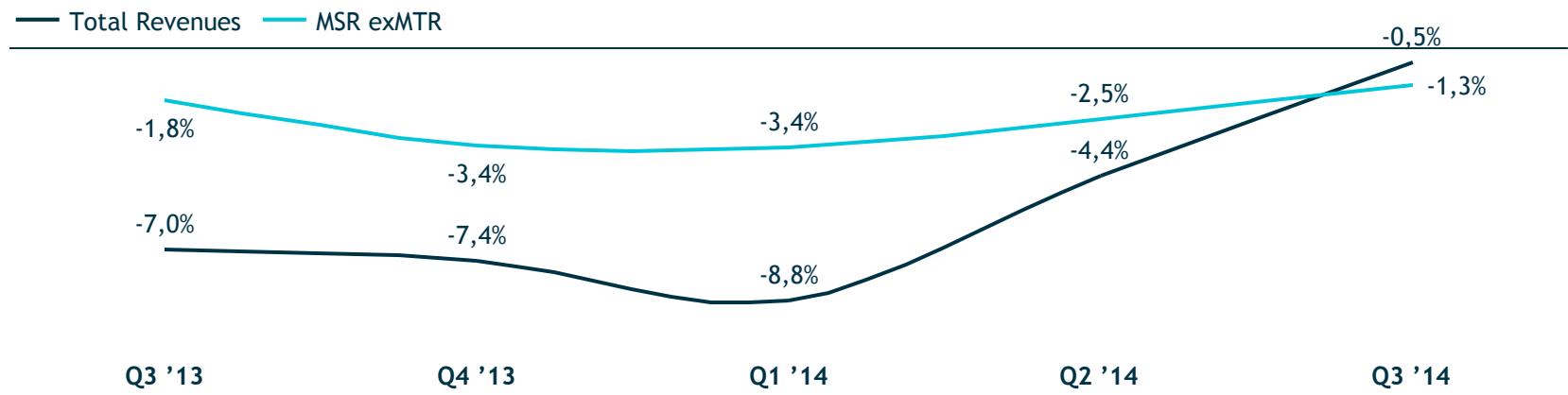


<sup>1</sup> Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M and data-only accesses.

# Continued improvement in revenue performance

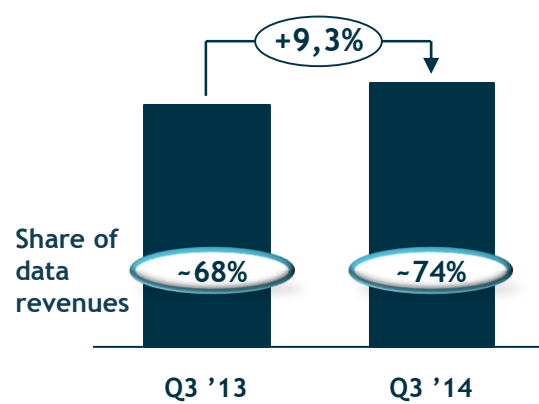
## Evolution of Revenues

Year-on-year in %



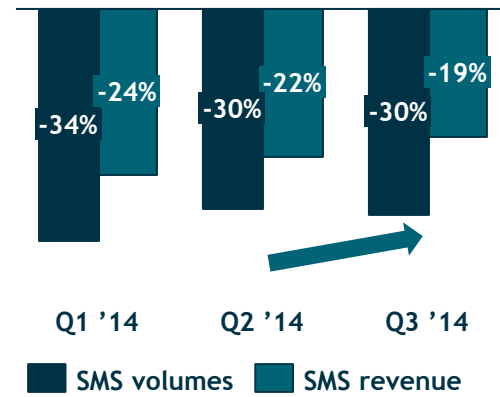
## Non-SMS data revenues

Year-on-year



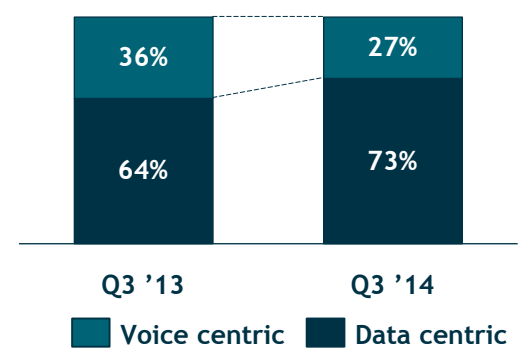
## Evolution of SMS

Year-on-year in %



## Base Management

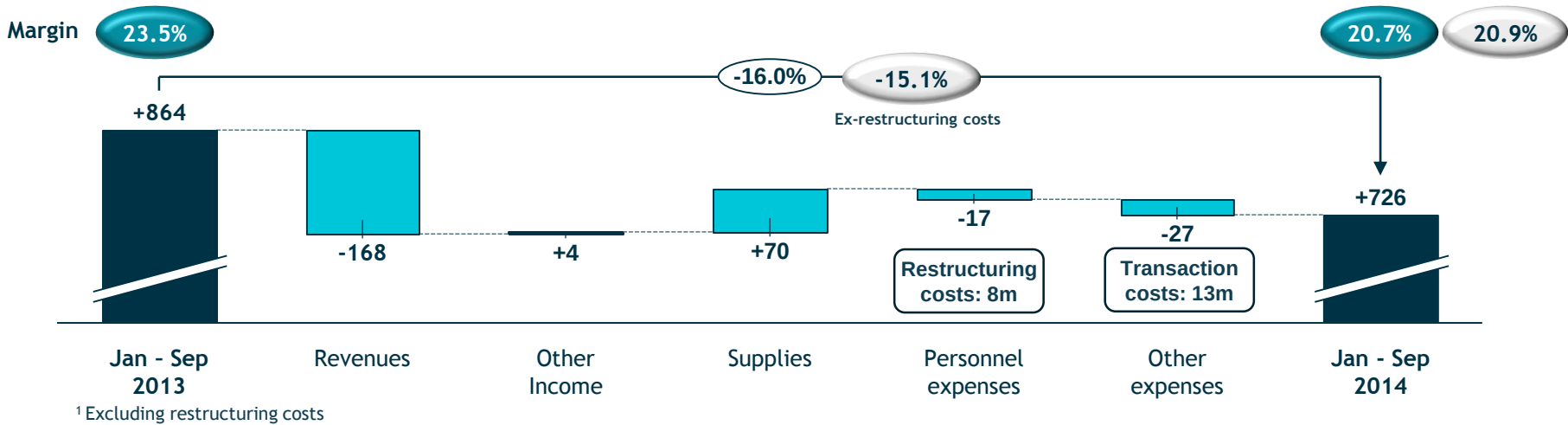
In % of o<sub>2</sub> Consumer Postpaid



# OIBDA y-o-y margin declining on increased commercial spend

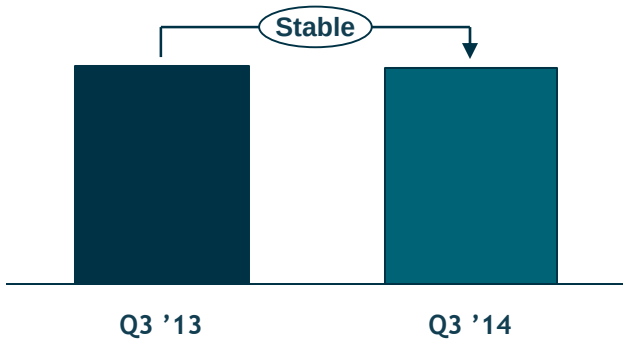
OIBDA evolution

Year-on-year in EUR million



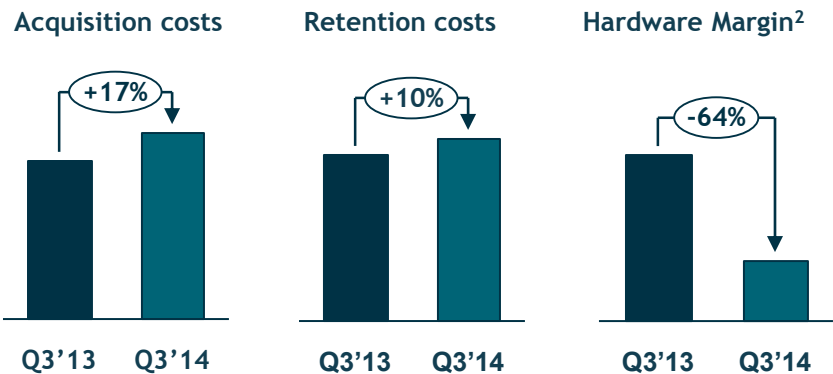
Evolution on non-commercial costs

Year-on-year



Evolution of main commercial costs

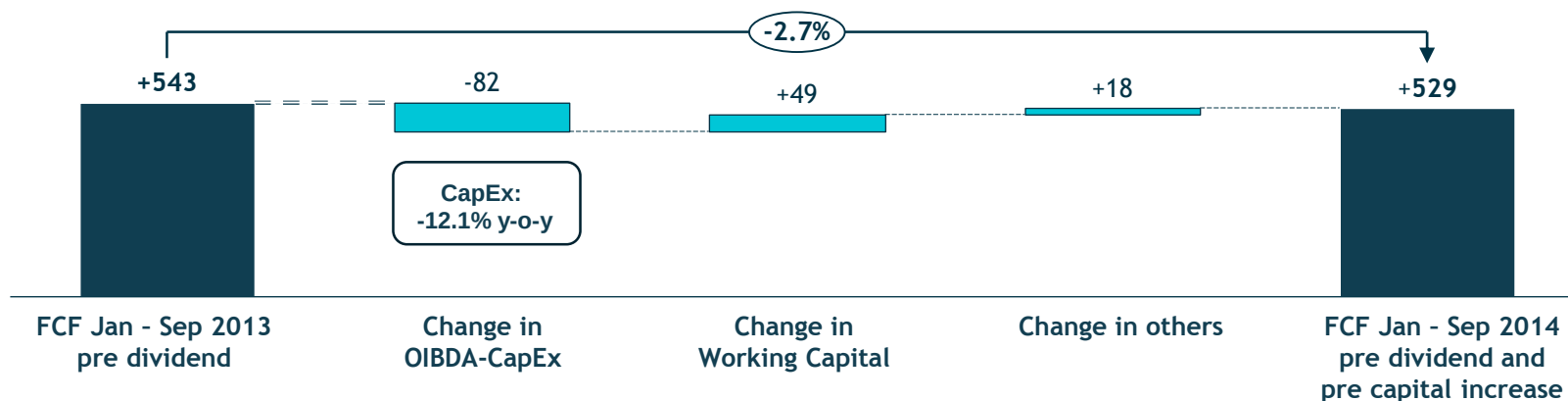
Year-on-year



# Solid financial profile maintained

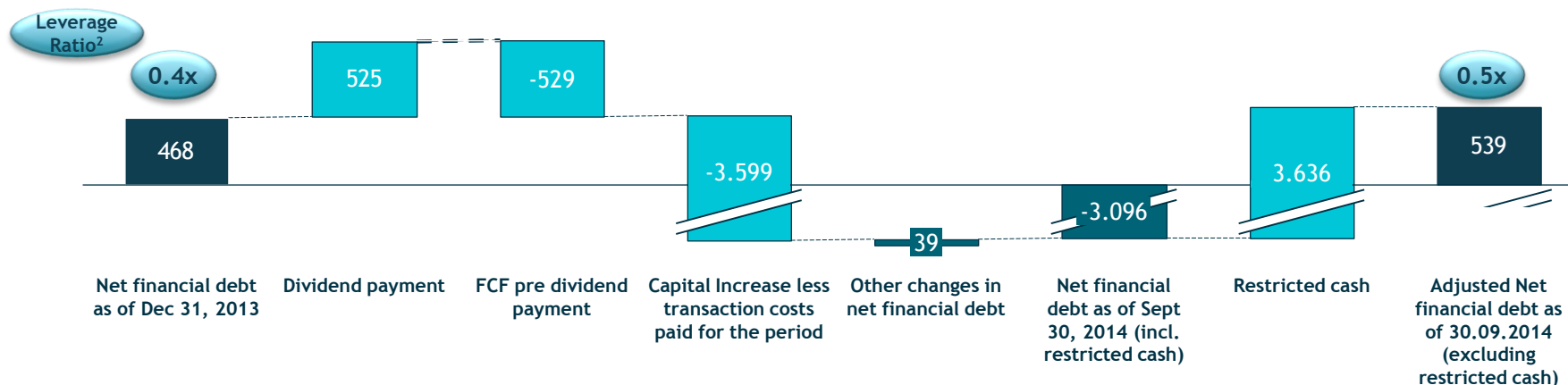
## Evolution of Free Cash Flow <sup>1</sup>

Year-on-year in EUR million



## Evolution of Net Debt <sup>2</sup>

In EUR million



<sup>1</sup> Free cash flow pre dividends from continuing operations is defined as the sum of cash flow from operating activities from continuing operations and cash flow from investing activities from continuing operations.

<sup>2</sup> For definition of Net Debt and Leverage Ratio please refer to additional materials of Q3 14 results

# Q4 2014 outlook for new Telefónica Deutschland (Q3 2014 basis)

|                                         | Combined <sup>1</sup><br>Q3 2014 (€m) | Q4 2014 outlook - consolidated<br>(On the basis of Q3'14 combined results)                                                                                                      |
|-----------------------------------------|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Total Revenue                           | 2,002                                 | <ul style="list-style-type: none"> <li>Similar revenue as in the previous quarter</li> </ul>                                                                                    |
| Mobile Service Revenue                  | 1,424                                 | <ul style="list-style-type: none"> <li>Good mobile trading momentum sustained</li> <li>Moderate quarter-on-quarter decline due to usual phasing of usage of services</li> </ul> |
| OIBDA (underlying <sup>2</sup> )        | 350                                   | <ul style="list-style-type: none"> <li>Slightly lower quarter-on-quarter due to ongoing commercial investments and initial integration</li> </ul>                               |
| OIBDA Margin (underlying <sup>2</sup> ) | 17.5%                                 | <ul style="list-style-type: none"> <li>Similar margin as in the previous quarter</li> </ul>                                                                                     |
| CapEx                                   | 286                                   | <ul style="list-style-type: none"> <li>Start of a new investment cycle into the new business</li> <li>1.5 times higher than in the third quarter</li> </ul>                     |

<sup>1</sup> Combined means aggregated and consolidated figures from Telefonica Deutschland and E-Plus Gruppe according to Telefonica Deutschland Group accounting policies.

<sup>2</sup> Underlying criteria: Excluding one-offs. The base of calculation in the third quarter of 2014 excludes restructuring costs of 14 million Euro.

# Main take-aways

- Sustained **positive momentum in O<sub>2</sub> postpaid mobile** following a clear commercial focus on brand, LTE & devices
- **Data monetization driving better top line performance** while sustaining underlying\* OIBDA evolution
- **Stable free cash flow** sustaining our financial flexibility; intention to propose **at least €700m dividend on 2014**
- Successful **start of combined operations** from October 1<sup>st</sup> 2014



# Telefónica Deutschland Q3 2014 results

## Q&A session





*Telefónica*

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**Deutschland**