Telefónica Deutschland
Q3 2015 preliminary results
5 November 2015
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9M 2015: On track to becoming the Leading Digital Telco

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

**MSR (9M’15)**

+0.4% y-o-y

**OIBDA**

+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

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

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Keep the Momentum

Integrate quickly

Transform the company
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: O₂ 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 O₂

- **Enabling digital lifestyle**
  - Building on IoT partnerships
  - Protection of privacy

Additional data volume
- Included volume
- Data automatic
- 33k Hours/day
- 60k Hours/day
Integration roadmap central to execution of our strategic business priorities

**2015: Success**
- Early capture of synergies
- Leaver programme
- 800 leavers (50% of target)
- 400 shops (2/3 of target)
- 7,700 sites to DT (14,000 target)
- Facilities: 15% reduction
- External staff optimisation
- Simplification/ Elimination of duplications
- ✓

**2016: Transition**
- Laying the ground
- Shop footprint optimisation
- ✓
- Facility consolidation
- ✓
- Brand/customer migration
- ✓
- Network integration
- ✓

**2017/8: Final Straight**
- Bringing home savings
- Customer service reorganisation & digitalisation
- ✓
- Simplification
- ✓
Strategic priorities: Looking ahead to 2016

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

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

Transform the company
- Develop our premium brand position
- Leverage competitive advantage in non-premium
- Manage complexity of 2016 integration
- Laying the ground for savings in 2017/2018

The Leading Digital Telco
Q3 2015: Operating & financial performance reflects early capture of synergies and increasing dynamics in German market

- **O₂ consumer PO churn**: 1.3%
- **MSR (Q3 ’15)**: -0.3% y-o-y
- **Synergies**: ~45% of Q3 2015 OIBDA y-o-y
- **FY2015 OIBDA² expectation**: +15-20% y-o-y

- Retention activities help develop premium base; partner business driven by MBA and market dynamics
- Mobile data monetisation continues to drive MSR; positive effects overshadowed by revenue mix-shift
- Bringing forward integration activities from 2016 into 2015; total synergy case unchanged
- Synergies & optimisation of commercial costs drive OIBDA outlook update; dividend continuity for 2015

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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 Q3-2015
Partner business continued its strong performance while customer base benefits from focus on premium positioning.

**Partner business driving gross adds**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>PO gross adds (abs) / Churn (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 '15</td>
<td>37%</td>
</tr>
<tr>
<td>Q2 '15</td>
<td>45%</td>
</tr>
<tr>
<td>Q3 '15</td>
<td>45%</td>
</tr>
</tbody>
</table>

- O₂ consumer PO churn
- GA partner brands
- GA retail brands

**Ongoing improvement of customer base mix**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>O₂ consumer postpaid base (in thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 '14</td>
<td>~70%</td>
</tr>
<tr>
<td>Q3 '15</td>
<td>~65%</td>
</tr>
</tbody>
</table>

**O₂ Blue share of O₂ postpaid base reaches 70%**

- Net adds (in thousand)
  - DSL wholesale
  - DSL retail
  - VDSL share of gross adds ~100%

**Strong fixed BB proposition bears fruit**

- Partner share of gross adds strong at 45%
- Retail DSL net add decline slows further to -12.6k in Q3
Monetisation of mobile data: Growth potential remains intact

Music & video streaming continues to grow

Traffic (TB/day)

- Music
- Video

Q2 ‘15 | Q3 ‘15
---|---
Music | +11%
Video |  

Continued progression of data automatic

O₂ Blue All-in portfolio (dynamics within opted-in base)

Automatic data allocation events (% of customers)

<table>
<thead>
<tr>
<th>CB opted-in</th>
<th>1 snack</th>
<th>2 snacks</th>
<th>3 snacks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>54%</td>
<td>66%</td>
<td>47%</td>
</tr>
</tbody>
</table>

National roaming and LTE driving usage

Average data usage for O₂ consumer LTE customers¹ (MB)

<table>
<thead>
<tr>
<th>LTE customers</th>
<th>Q1 ‘15</th>
<th>Q2 ‘15</th>
<th>Q3 ‘15</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1m</td>
<td>786</td>
<td>959</td>
<td>1,068</td>
</tr>
<tr>
<td>6.1m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>+11%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 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

¹ O₂ 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)

<table>
<thead>
<tr>
<th></th>
<th>YTD Sep ‘14</th>
<th>YTD Sep ‘15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware</td>
<td>864</td>
<td>778</td>
</tr>
<tr>
<td>MSR</td>
<td>768</td>
<td>887</td>
</tr>
<tr>
<td>Other</td>
<td>4,137</td>
<td>4,155</td>
</tr>
<tr>
<td>Fixed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Growing partner business

MSR from partner business\(^1\) (in EUR m)

- Share of postpaid revenue:
  - Q1 ‘15: -14%
  - Q2 ‘15: -15%
  - Q3 ‘15: -16%

- +7% growth in Q2 ‘15 and Q3 ‘15

Fixed revenue y-o-y (in %)

<table>
<thead>
<tr>
<th>Growth (y-o-y)</th>
<th>Q1’15</th>
<th>Q2’15</th>
<th>Q3 ’15</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSL retail</td>
<td>-6.9</td>
<td>-4.8</td>
<td>-3.6</td>
</tr>
<tr>
<td>Other fixed</td>
<td>-4.0</td>
<td>-4.8</td>
<td>-5.8</td>
</tr>
</tbody>
</table>

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

\(^1\) 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)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Other income</th>
<th>Supplies</th>
<th>Personnel expenses</th>
<th>Other expenses</th>
<th>OIBDA</th>
<th>Restructuring costs</th>
<th>Sale of yourfone</th>
<th>OIBDA before extraordinary effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,828</td>
<td>119</td>
<td>-1,965</td>
<td>-500</td>
<td>-2,248</td>
<td>1,234</td>
<td>66</td>
<td>-15</td>
<td>1,285</td>
</tr>
</tbody>
</table>

Synergies a significant driver of growth

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

1 Y-o-y comparisons based on 2014 combined figures
2 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

- **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**

**Previous outlook:** Run-rate of ~EUR 250m

**Total 2015 Synergies**

- **CapEx savings**: ~50%
- **OpEx & Rev. Synergies**: ~50%
- **Total 2015 Synergies**: EUR 280m

**Year 5**

- **EUR 800m**

**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 savings** primarily driven by a single LTE-network rollout
- **Total synergy case unchanged**

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1. OpEx savings are referred to 2014 combined financials excluding restructuring costs
2. CapEx synergies net of restructuring activities and exclude investment in spectrum
3. 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)\(^1\) YTD September 2015 (in EUR m)

<table>
<thead>
<tr>
<th>OIBDA</th>
<th>CapEx ex. Spectrum</th>
<th>Working capital movements: EUR -201m</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,234</td>
<td>704</td>
<td>252</td>
</tr>
<tr>
<td></td>
<td></td>
<td>76</td>
</tr>
<tr>
<td></td>
<td></td>
<td>150</td>
</tr>
<tr>
<td></td>
<td></td>
<td>23</td>
</tr>
<tr>
<td></td>
<td></td>
<td>21</td>
</tr>
<tr>
<td></td>
<td></td>
<td>350</td>
</tr>
</tbody>
</table>

Evolution of Net Debt\(^2\) (y-o-y in EUR m) - Leverage ratio\(^2\) returns to 0.9x after payments in Q2’15

<table>
<thead>
<tr>
<th>Net financial debt as of 01.01.2015</th>
<th>FCF(^1)</th>
<th>Dividend</th>
<th>Spectrum payment</th>
<th>Other(^3)</th>
<th>Net financial debt as of 30.09.2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>350</td>
<td>714</td>
<td>977</td>
<td>56</td>
<td>1.415</td>
</tr>
</tbody>
</table>

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.

2 For definition of Net Debt & Leverage Ratio please refer to additional materials of Q3 15 results

3 Mainly consists of movement of O2 My Handy receivables and handset model receivables
## Updated outlook for 2015

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MSR</strong></td>
<td>5,528</td>
<td>+0.4%</td>
<td>Broadly stable</td>
<td>Broadly stable</td>
</tr>
<tr>
<td><strong>OIBDA</strong></td>
<td>1,461</td>
<td>+16.1%</td>
<td>&gt;10%</td>
<td>+15-20%</td>
</tr>
<tr>
<td><strong>CapEx</strong></td>
<td>1,161</td>
<td>-2.8%</td>
<td>High single digit pct. decline</td>
<td>Low double-digit pct. decline</td>
</tr>
<tr>
<td><strong>Div</strong></td>
<td>EUR 0.24/share</td>
<td>---</td>
<td>---</td>
<td>EUR 0.24/share</td>
</tr>
</tbody>
</table>

- 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](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

<table>
<thead>
<tr>
<th>Financials</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>Revenues</td>
<td>2.022</td>
<td>1.847</td>
</tr>
<tr>
<td>Mobile service revenues</td>
<td>1.391</td>
<td>1.333</td>
</tr>
<tr>
<td>OIBDA post Group fees</td>
<td>462</td>
<td>357</td>
</tr>
<tr>
<td>CapEx</td>
<td>471</td>
<td>215</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accesses (EoP)</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>Total Accesses</td>
<td>46.899</td>
<td>46.897</td>
</tr>
<tr>
<td>o/w mobile</td>
<td>41.133</td>
<td>41.168</td>
</tr>
<tr>
<td>Prepay</td>
<td>22.876</td>
<td>22.680</td>
</tr>
<tr>
<td>Postpay</td>
<td>18.257</td>
<td>18.489</td>
</tr>
</tbody>
</table>

- 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.