Telefónica Deutschland

Q1 2016 preliminary results

Telefónica Deutschland
Investor Relations
28 April 2016

Public – Nicht vertraulich

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On track with integration & keeping momentum

OIBDA[1]
+6.2%
y-o-y

- Solid OIBDA growth driven by successful synergy capture
- Rational market strategy: Continued focus on customer base development during migration processes

Opex & revenue synergies
~EUR 55m

- Roll-over effects from initiatives executed in 2015
- Core integration projects incl. IT transformation, customer migration and network integration progressing well

8.7 million
LTE customers

- Music and video streaming drivers of total data traffic growth
- LTE customer base grows +10.2% q-o-q

Keep the Momentum

Integrate quickly

Transform the company

[1] Excluding exceptional effects. As of 31 March 2016 these include restructuring expenses amounting to EUR 23 million while in the same period of 2015 a one-off gain from the sale of yourfone GmbH was registered.

Customer base focus drives momentum

O_2 brand development and new shop concept

Digital lifestyle

O_2 Blue One
Mobilfunk und DSL in einem

Cross & up-sell opportunities

Network integration

Telefónica Deutschland brands

Premium

O_2

Non-Premium

Blau, BASE, simyo, FONIC, ay yildiz, netzclub sponsored mobile, ortel MOBILE

Recognition for network & service quality

Stiftung Warentest test, Computer Bild, CHIP, connect 'Netzwetter'

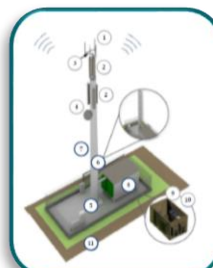
Progressing well with the future network set-up

Network structure

- Passive infrastructure
  - >90% **rooftop sites**
  - Long-term **operating lease agreements** with landlords
- Active infrastructure
  - Strong **supplier relationships**
  - Implementation of **Single RAN** as part of **network roll-out**
  - **Carrier aggregation** in focus
- Backbone
  - **Dark fibre** and **wholesale agreements**

Network strategy

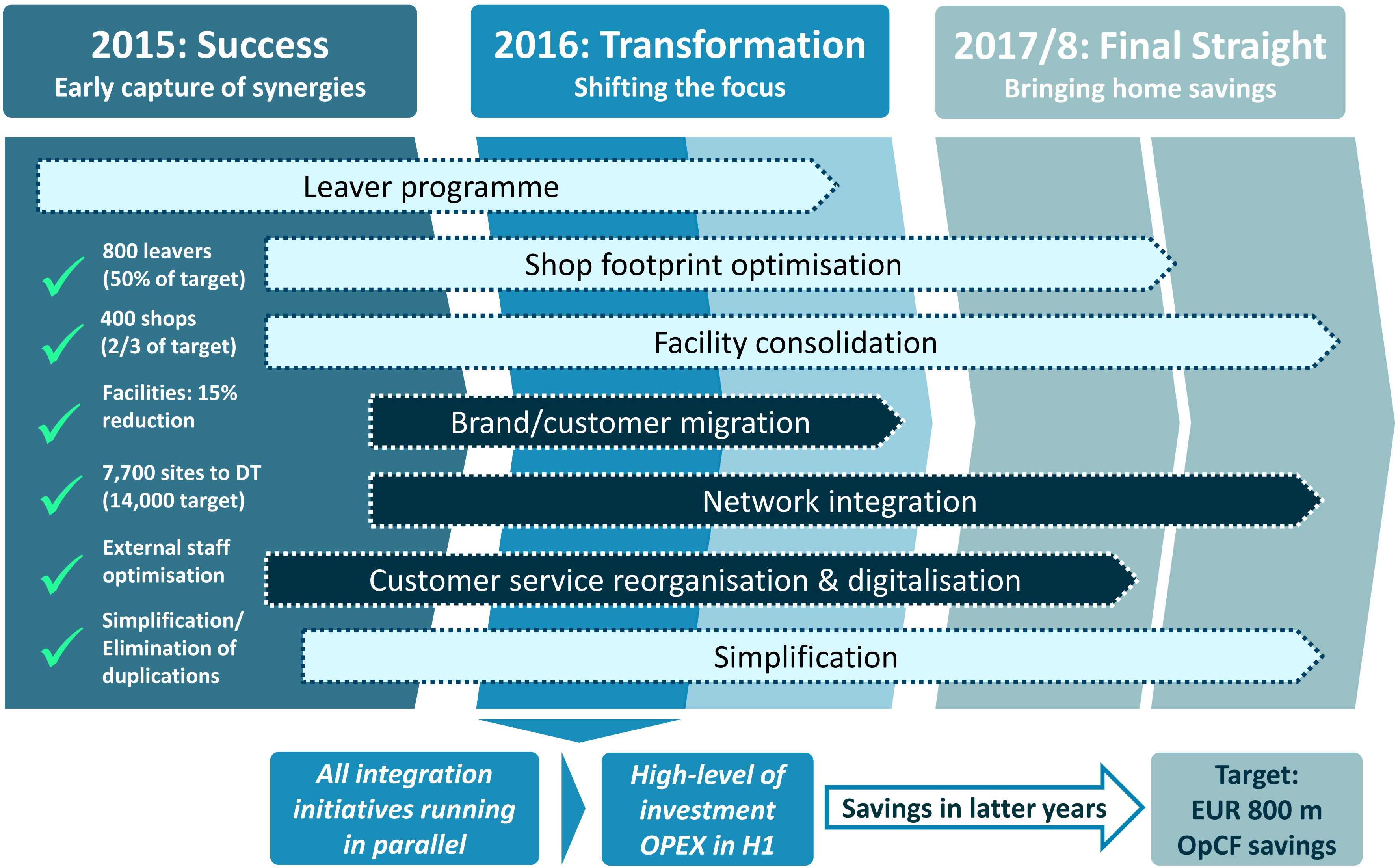
- **'Golden grid' 2G/3G:** Network consolidation progressing acc. to plan
- **One network** approach from H2-2016
- **Accelerated LTE roll-out** with LTE 800 for coverage and LTE 1,800 for high-speed



Tower sale to Telxius

- Sale of **approx. 2,350 towers** to Telefónica SA's Telxius for **purchase price of EUR 587m**
- **Passive infrastructure only**
- Taking advantage of **favourable market conditions** to increase **financial flexibility**
- Maximising **shareholder value**

Shifting the focus to transformation in 2016



Clear focus on digitalisation initiatives as core element of innovation

'Digital first' as framework for transformation strategy

- Increasing relevance of own **online channels**
- **Operational excellence** in customer service
- **Innovation** through added-value services and future business areas: ADA and IoT

Web/mobile portals

Apps

Mein O_2 | Data Check | Msge + Call

Chats/Forums

Base service chat | O_2 Forum

Social media

Your smartphone is your future bank

- **O_2 Banking – Germany's first mobile-only bank account**
  - Easy & convenient **24/7 mobile banking**
  - **Best-in-class** customer experience
  - **Physical debit card**
  - Variety of **credit products**
- **Attractive banking services** to lock-in customers and **reduce churn**
- Cooperation with **FIDOR Bank**, a German direct bank

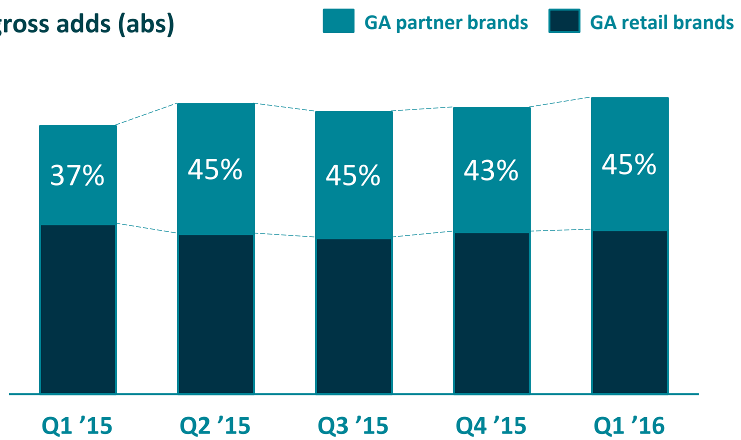
Executing according to plan in a dynamic yet rational environment

MSR **-1.0% y-o-y** **ex regulatory effects**	▪ Trends in line with full-year guidance ▪ Strong development of the partner business ▪ Legacy base, SMS/OTT and regulatory effects (-0.3pp y-o-y)
181k postpaid **76k VDSL** **net additions**	▪ Postpaid churn broadly stable year-on-year; 1.4% for O_2 consumer ▪ Share of partner gross adds at ~45% ▪ Retail net additions positive at 3 thousand driven by VDSL demand ▪ Launch of O_2 Blue One to cross and upsell to the customer base
Ca. EUR 55 m **Opex & revenue synergies y-o-y**	▪ Rollover effects from initiatives executed in 2015 drive solid OIBDA growth ▪ Focus in 2016 on cost-intensive core projects; savings in latter year periods
Outlook	▪ 2016 financial outlook remains unchanged ▪ Exceptional and special effects with the sale of passive tower infrastructure excluded from guidance

Continued momentum in mobile while VDSL drives positive retail net adds in fixed-line

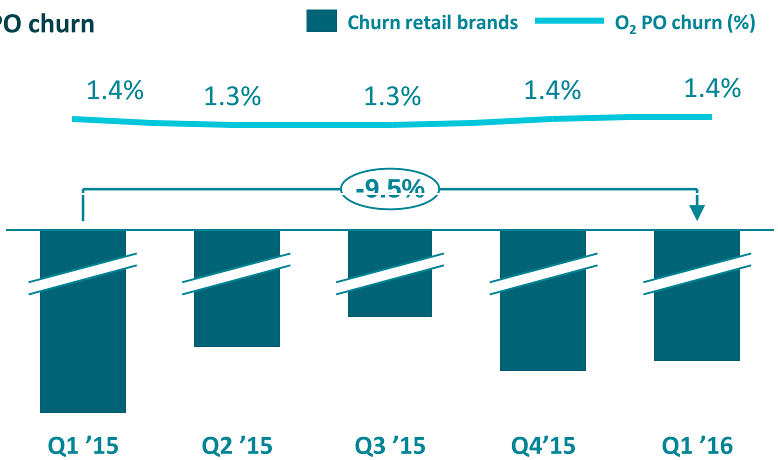
Partner trading still strong

PO gross adds (abs)



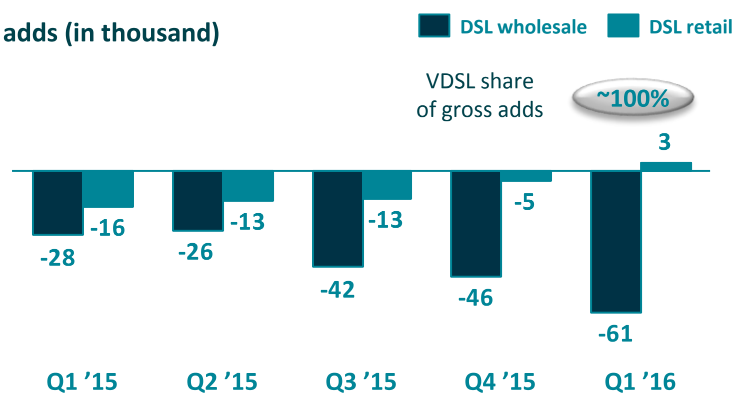
Continued focus on retention

PO churn



VDSL drives fixed trading

Net adds (in thousand)

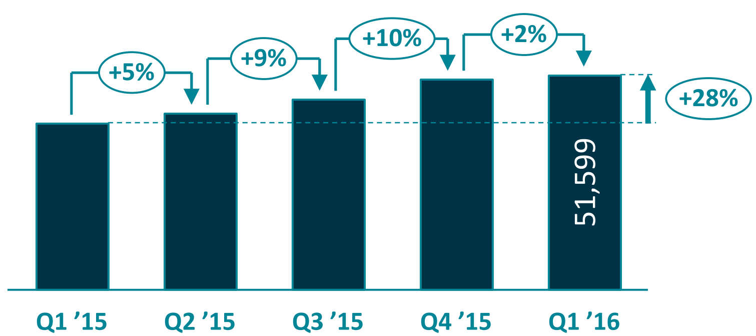


- Partner share of PO gross adds stable over 4 quarters at around 45%
- Migration progressing well
- Retention activities support consumer churn
- Positive DSL retail net adds for first time in 5 years

LTE customer base development reflects successful data monetisation strategy

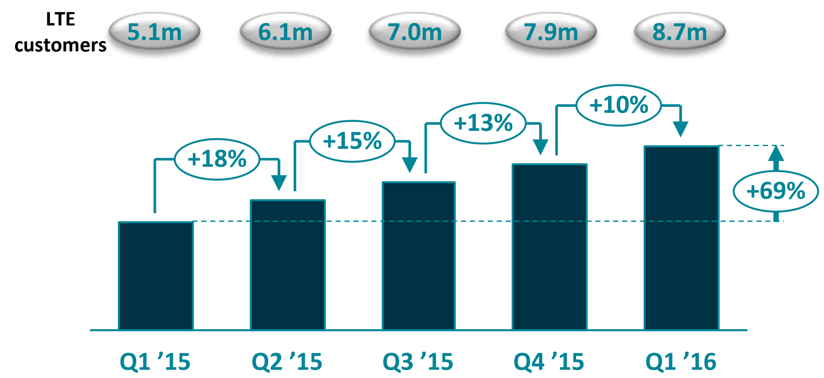
Data traffic continues to rise

Traffic (TB/quarter)



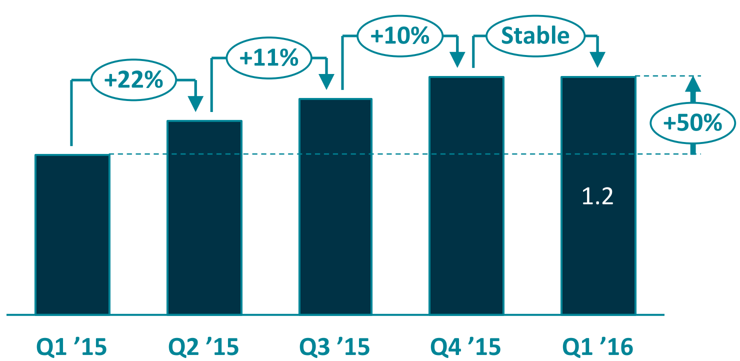
Significant growth in LTE customer base

LTE customers (million)



Network improvement supports usage

Average data usage for O_2 consumer LTE customers[1] (GB)

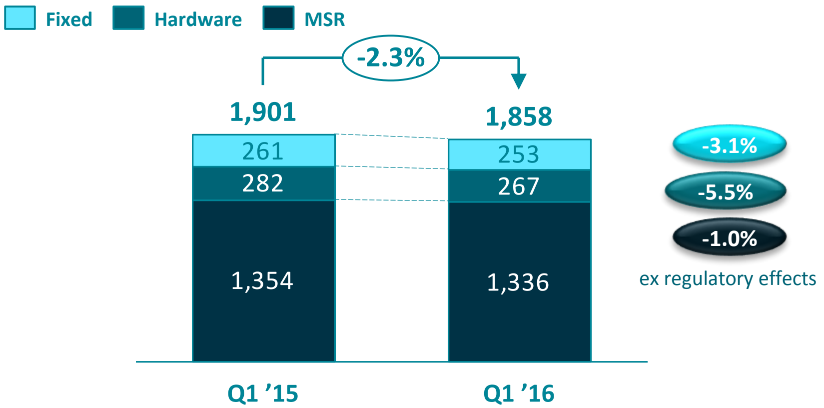


- LTE customer base up 10% qoq and almost 70% yoy to 8.7 million, as more customers rotate into high-end
- Data traffic up 2% qoq and 28% yoy driven by music and video streaming
- Average data usage for LTE customers up 50% yoy in Q1

[1] O_2 consumer base with LTE enabled smartphone (all tariffs)

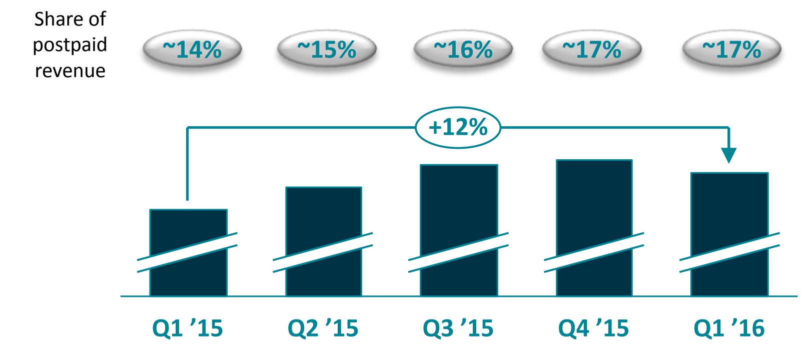
Share of partner business over MSR stabilising; fixed revenue trajectory improving

Revenue structure (in EUR m)

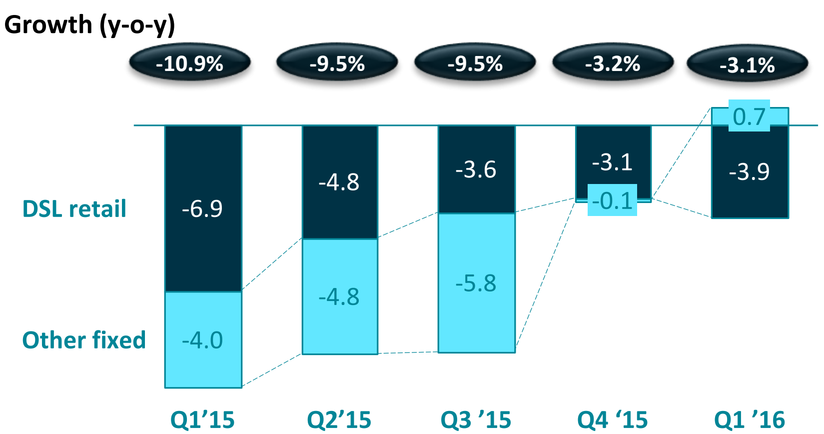


Partner share of postpaid MSR stabilising

MSR from partner business[1] (in EUR m)



Fixed revenue y-o-y (in %)

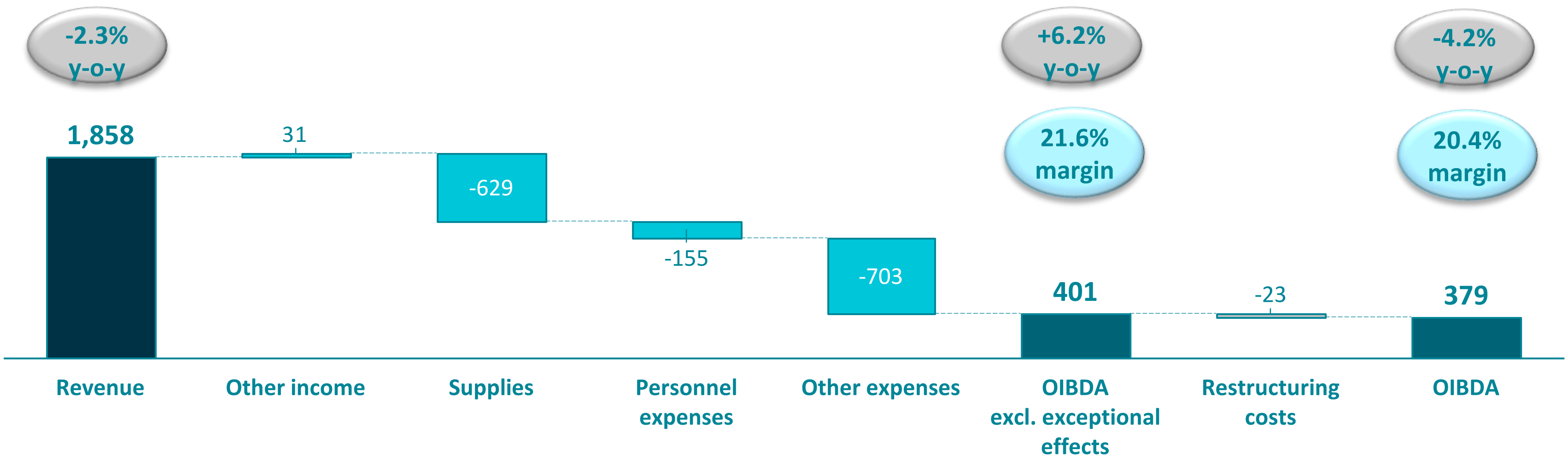


- MSR partner share stable at around 17% qoq
- Fixed revenue trajectory improving driven by successful VDSL net additions of 76k and spot trading opportunities in voice
- Handset revenue decline reflects seasonality as well as lower handset growth in the market

[1] Wholesale & partner business

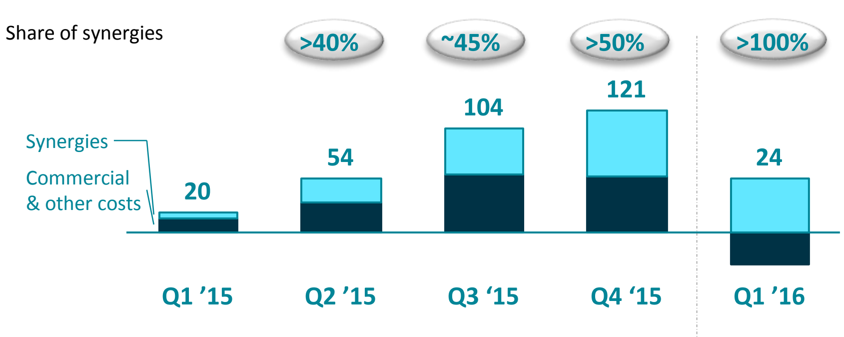
Solid OIBDA growth driven by synergy execution

Structure of OIBDA for January to March 2016 (in EUR m)



Synergies driving OIBDA growth

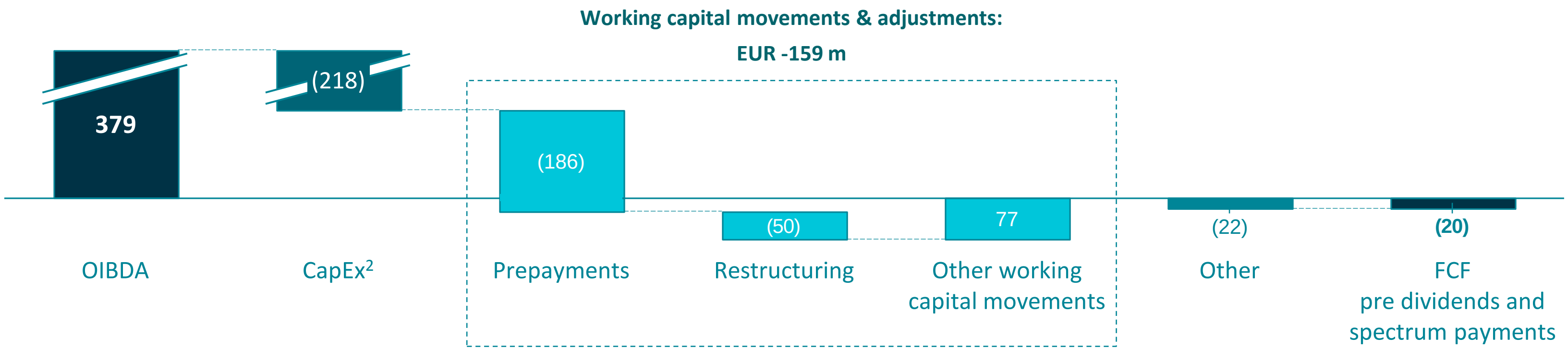
OIBDA growth (y-o-y in EUR m)



- OIBDA growth entirely driven by roll-over and locking in of synergies from 2015
- Opex effects from transformation activities
- Restructuring costs mainly related to leaver programme

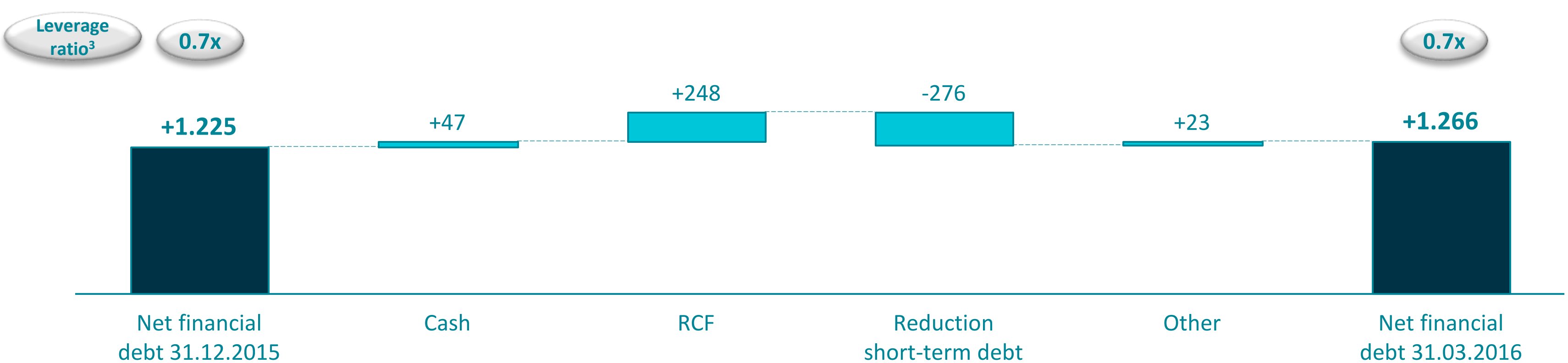
FCF affected by seasonality of rental payments

Evolution of Free Cash Flow (FCF)[1] YTD March 2016 (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 capitalised costs on borrowed capital in the first three months of 2016 for investments in spectrum in June 2015

Evolution of Net Debt[2] (y-o-y in EUR m) – Leverage ratio[3] remains at 0.7x



[3] For definition of Net debt & leverage ratio please refer to additional materials of Q1 16 results.

Main takeaways

Partner growth and regulatory effects still weighing on MSR; growing LTE customer base reflects successful data monetisation strategy

Successful customer migration and network integration in Q1 as all transformation work streams running in parallel

Solid OIBDA growth driven by synergy execution; transformation cost effects visible in Opex in H1 2016 (Capex back-end loaded)

Net debt and leverage stable; tower deal will improve financial flexibility

Telefónica Deutschland Q1 2016 preliminary results – Q&A session

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