



Deutschland

Q3 2016 preliminary results

Telefónica Deutschland
Investor Relations
26 October 2016

Public – Nicht vertraulich



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9M-2016: O₂ Free launch to support operational momentum, solid OIBDA growth

MSR
-1.2% y-o-y
(excl. regulation)

- MSR incl. MTR & roaming effects -1.6% y-o-y, reiterating full-year outlook
- Completion of postpaid customer migration; successful launch of O₂ Free portfolio
- Non-premium segment still dynamic with slight improvement in promotional activity

10.6m
LTE customers

- Continued strong data growth driven by music & video streaming
- LTE customer base up 12.4% q-o-q to 10.6m customers; average monthly usage of 1.6 GB for O₂ consumer postpaid LTE customers
- O₂ Free to support operational momentum & further stimulate data usage

OIBDA¹
+3.3%
y-o-y

- Solid OIBDA growth driven by roll-over and incremental synergies of EUR 125m
- On track to achieve full-year outlook for OIBDA & synergies
- Strong FCF generation



**Keep the
Momentum**



**Integrate
quickly**

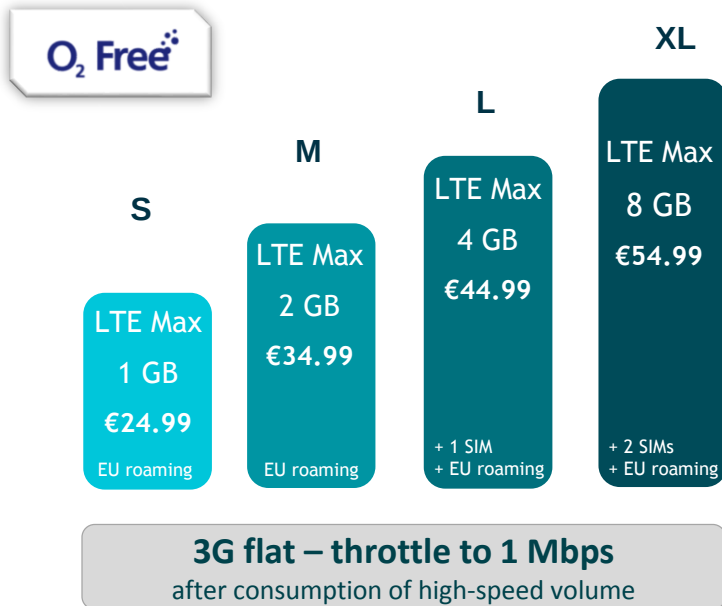


**Transform
the company**

¹ Excluding exceptional and special effects. Please see release text for further details

Successful launch of new O₂ Free portfolio

O₂ Free portfolio (offline)



Strategic objective



More4More

- More content for higher price points
- Differentiate from competition
- Monetise data growth & network asset



Stimulate demand

- Removal of data 'ceiling'
- Ubiquitous access via 1 Mbps throttle
- Portfolio structure & premium content provide upselling opportunity

Customer feedback

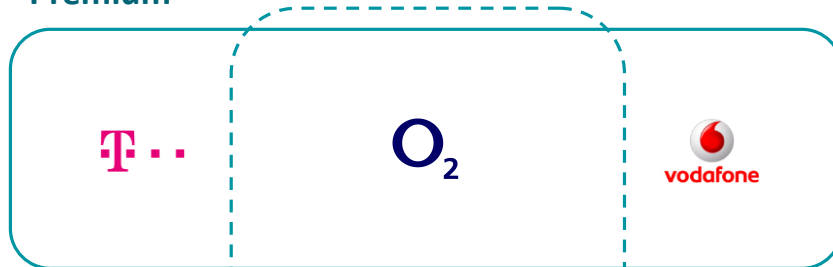


Encouraging response from customers

- Access and bandwidth options
- 3G flat as a differentiator

Commercial update: Focus on data growth and strong partnerships

Premium



Non-premium: Own secondary brands



Non-premium: Partner brands



Premium: Establishing More4more

- Focus on stimulating data growth with value-added content
- Expansion of O₂ TV & Video app
- Update of Whatsapp SIM portfolio



Non-premium: Slight improvements

- Slight improvement in promotional activity
- Presence via own brands and partners
- Continued multi-distribution channel approach

Network update: Successful start of 4G consolidation

Network consolidation: Update



Status quo: 3 networks

- Legacy E+ network
- Legacy O₂ network
- Consolidated regions



• Connect 'Netzwetter' test

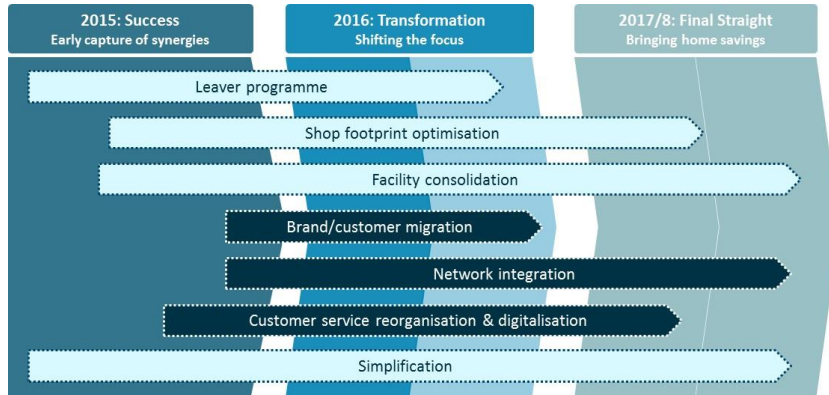
- Highest combined 3G/4G availability for LTE smartphone users
- Best signal strength
- Excellent drop call rate

- Focus on **consolidation & roll-out**
- Phase 1 completed, now entering **phase 2**
- Steady **network quality gains**
- Consolidation will drive **synergy generation** in 2017/8

- **Region-by-region** approach
- Initial focus on **metropolitan areas**
 - Consolidation of defined regions within a week
 - Conversion of sites within hours to limit disruption for customer

Synergies: On track to achieve full-year outlook and total target, focus shift to transformation

Integration



- Postpaid **customer migration** now completed
- Second wave of **leaver programme** finalised
- Progress on **infrastructure optimisation**
- **Incremental synergies** in H2 2016

Total 5-year target:
EUR 800m
OpCF savings

Strategic transformation



Simplification & Automatisisation

- Standardisation of CRM & HR systems
- Future-proof back office structure
- Cross-departmental efficiencies

Digitalisation

- E2E digitalisation of customer journey
- Insight-driven, real-time decision-making
- Focus on cloud and all-IP for infrastructure

New business areas

- Opportunities beyond connectivity
- IoT: Sensor cloud – Proof-of-concept phase
- ADA: Mobility insights – DA capabilities

IoT and ADA - Business concepts & opportunities beyond connectivity

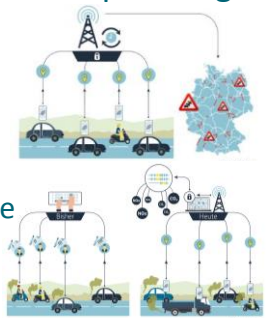
Internet of Things (IoT)

Digitalisation key to ecosystems of the future

- *Future Now*
 - Programme to drive digital transformation and innovation
- *Telefónica Digital Innovation Day*
 - SME forum for connectivity
- IoT Platform
 - Cloud-hosted platform for companies developing IoT solutions for their clients
- SensorCloud
 - Acceleration of product development
 - Reference case to trial sensor cloud applications: Alpha testing & proof of concept

Advanced Data Analytics (ADA)

Big data to drive business solutions of the future

- *Digital Collaboration Centre*: Real-time data to drive operational decision-making processes
- Data anonymisation platform certified by TÜV Saarland
- Smart data analytics to support traffic planning & pollution prevention
 - Cooperation with Fraunhofer Institute Stuttgart: Mobile data for traffic planning
 - Pilot project Nuremberg: Mobile data to prevent air pollution

Innovation and transformation as core principles for the leading digital onlife telco

Q3-2016: Strong operating momentum & synergy capture; reiterating full-year outlook

**MSR -0.9% y-o-y
(ex reg effects)**

- MSR -1.8% year-on-year, underlying trends improving versus prior quarter
- Regulatory impact from MTR and roaming
- Continued headwinds from strong partner contribution

**Net adds
+426k postpaid¹
+63k VDSL**

- Strong quarter for postpaid on back of partner trading and low churn in O₂ consumer
- +231k prepaid¹ net adds reflecting summer seasonality
- Fixed retail customers broadly stable year-on-year; VDSL with continued strong demand

**OIBDA²
+3.0%
y-o-y**

- Solid OIBDA growth and OIBDA margin improvement (+2.0 pp) on the back of incremental synergies
- Ca. EUR 30 million of synergies, primarily from FTE restructuring and site decommissioning
- Shifting from integration to long-term strategic transformation activities

Outlook

- Reiterating full-year 2016 outlook for MSR, OIBDA and CapEx
- Confidence in mid-term dividend guidance on strong cash flow
- Leverage (0.7x) remains well below stated target

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

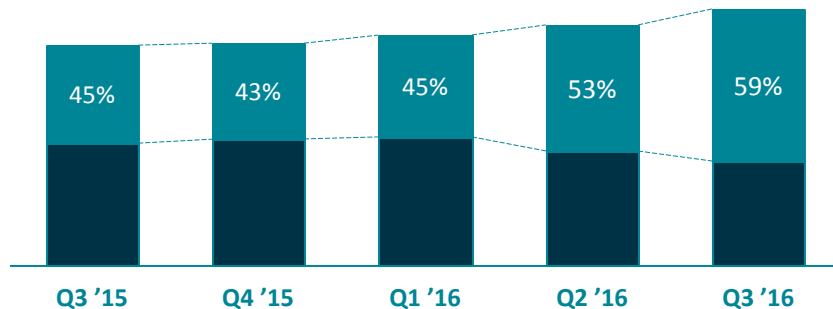
² Excluding exceptional and special effects. Please see release text for further details

Postpaid customer migration completed; partner trading accelerates on competitive dynamics

Partner trading accelerating

PO gross adds (abs)

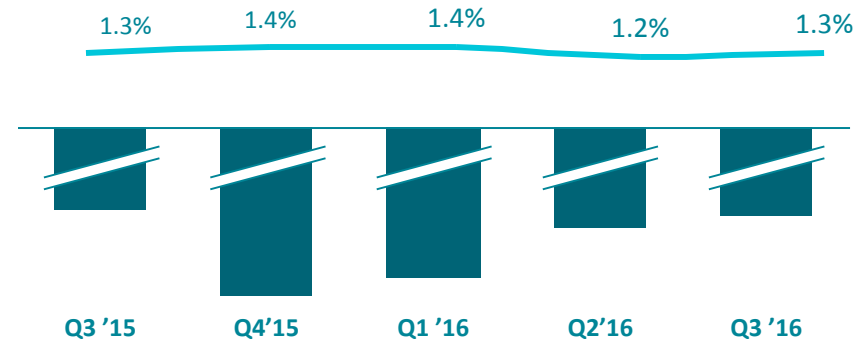
GA partner brands GA retail brands



Successful retention focus

PO churn

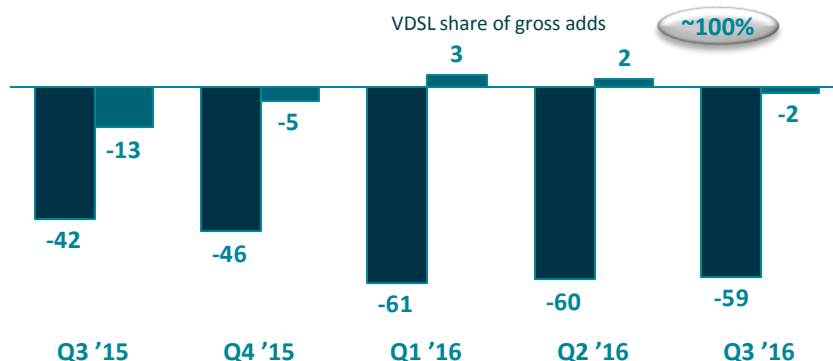
Churn retail brands O₂ PO churn (%)



VDSL drives fixed trading

Net adds (in thousand)

DSL wholesale DSL retail

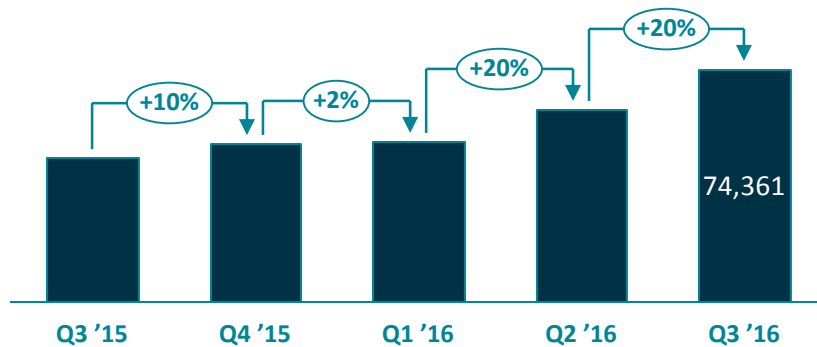


- Continued competition in non-premium drives partner gross add share to 59%
- Premium retail churn continues to fall due to successful retention efforts
- Retail broadband stable on continued good traction of VDSL

Continued growth in data traffic and LTE customer base

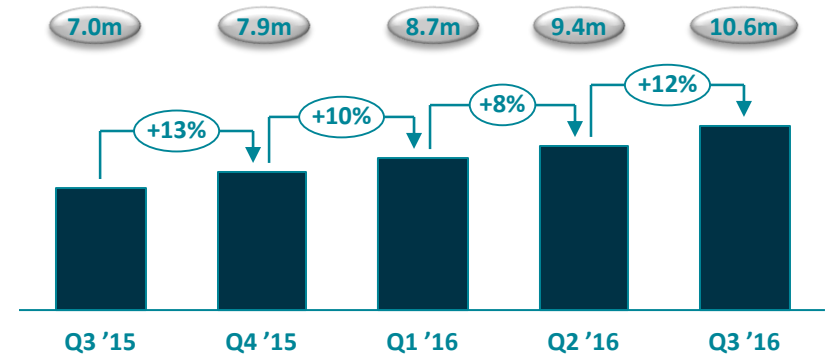
Data traffic growth continues strong

Traffic (TB/quarter)



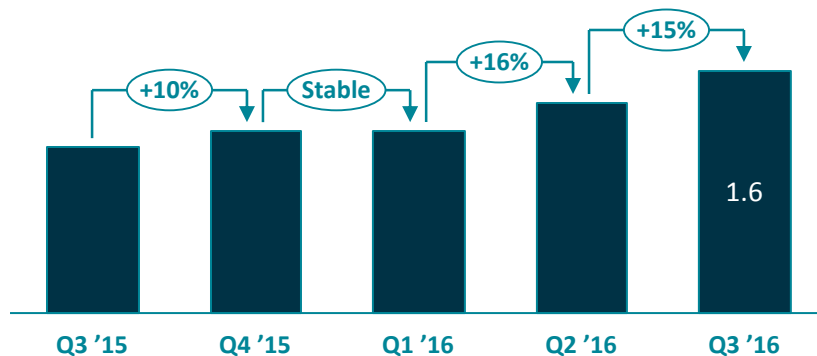
Significant growth in LTE customer base

LTE customers (million)



LTE usage driven by music and video streaming

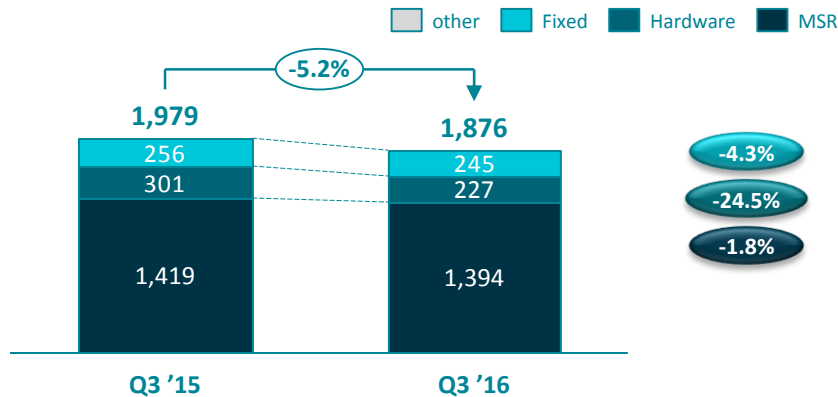
Average data usage for O₂ consumer LTE customers¹ (GB)



- Data traffic up 20% q-o-q driven by music and video streaming
- Average data usage for LTE customers up 15% q-o-q to 1.6 GB
- LTE customer base grows to 10.6m, up 12% q-o-q and >50% y-o-y

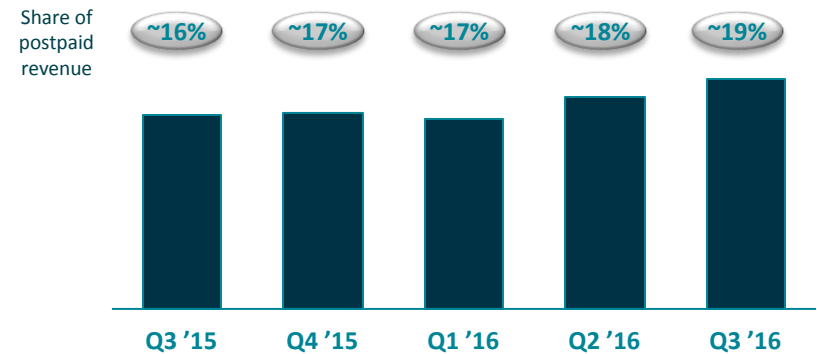
Underlying MSR performance improving versus prior quarter

Revenue structure (in EUR m)

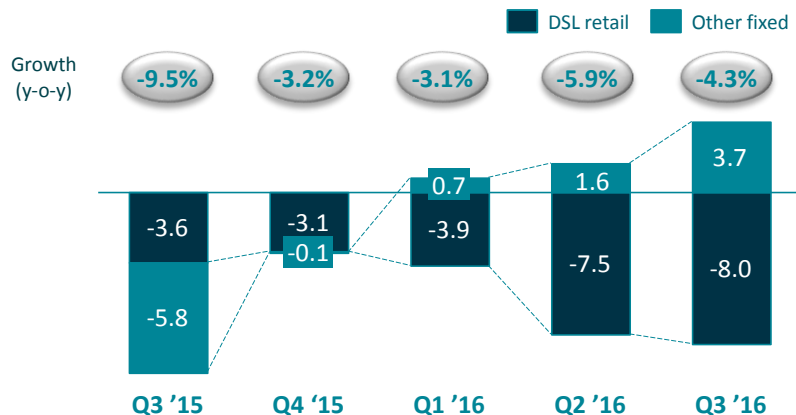


Partner share of postpaid MSR only slightly higher

MSR from partner business (in EUR m)



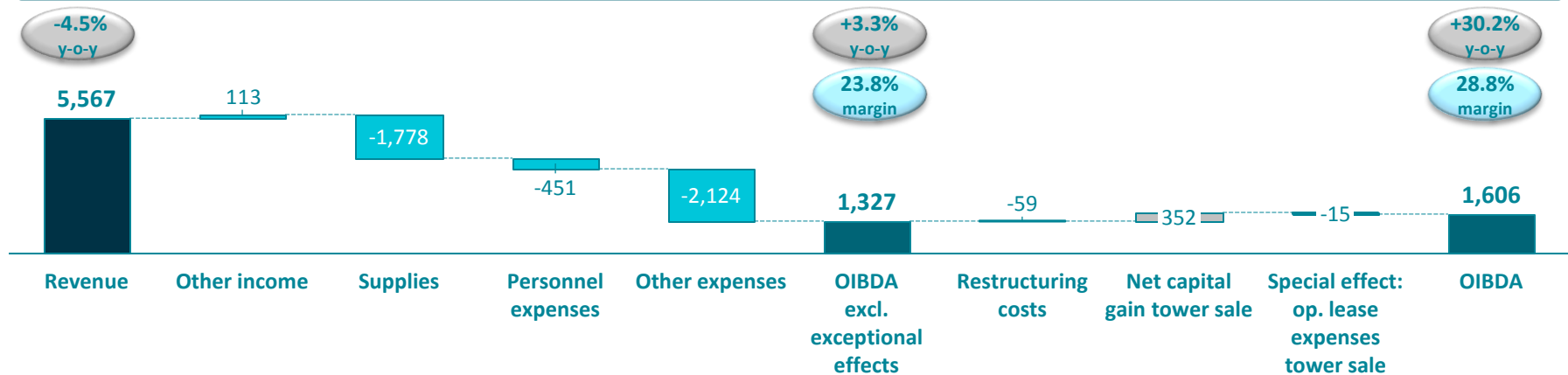
Fixed revenue y-o-y (in %)



- MSR stabilising year-on-year with continued headwinds plus roaming impact
- Partner share of postpaid MSR only slightly higher at ~19%
- Hardware revenues impacted by longer handset renewal cycles
- Phasing of promotional effects affecting DSL retail revenue

OIBDA driven by successful synergy capture; incremental synergies in third quarter

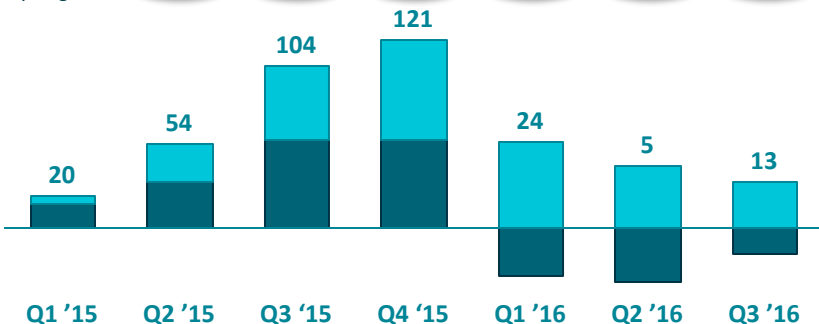
Structure of OIBDA for January to September 2016 (in EUR m)



Synergies driving OIBDA growth

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

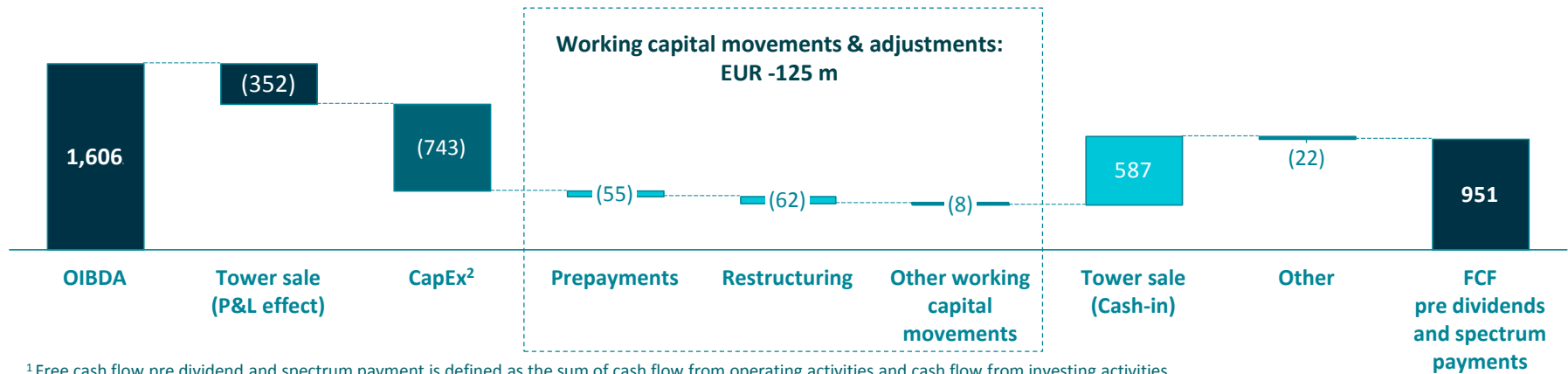
Share of synergies: >40%, ~45%, >50%, >100%, >100%, >100%



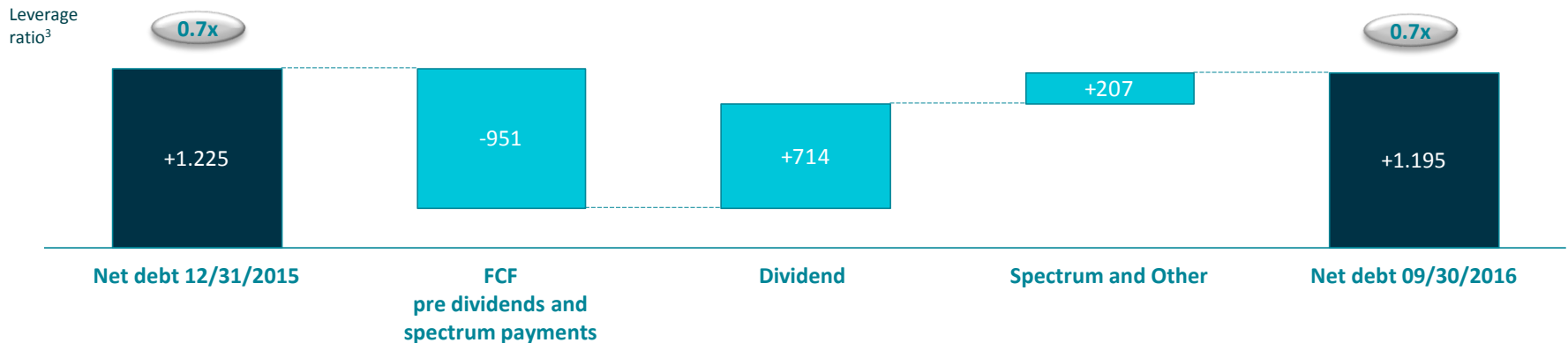
- OIBDA growth YTD driven by synergy savings
- Margin improvement to 23.8% (+1.8 pp year-on year)
- Offsetting other Opex impact lessening after completion of postpaid migration
- Tower effects: EUR 352m net capital gain with EUR 15m Opex effect (May to Sep)

FCF driven by tower sale cash

Evolution of Free Cash Flow YTD September 2016 (in EUR m) ¹



Evolution of Net Debt³ (y-o-y in EUR m) – Leverage ratio³ remains stable



² Excluding capitalised costs on borrowed capital in the first nine months of 2016 for investments in spectrum in June 2015

³ For definition of net debt & leverage ratio please refer to Q3 2016 earnings release

Main takeaways

- Strong operating momentum with underlying MSR improving vs prior quarter
- Reiterating full-year 2016 outlook for MSR, OIBDA and Capex
- Successful launch of O₂ Free tariff portfolio with focus on More4more and stimulating data usage
- Solid OIBDA trajectory from synergy capture
- Confidence in mid-term dividend growth on the back of FCF momentum

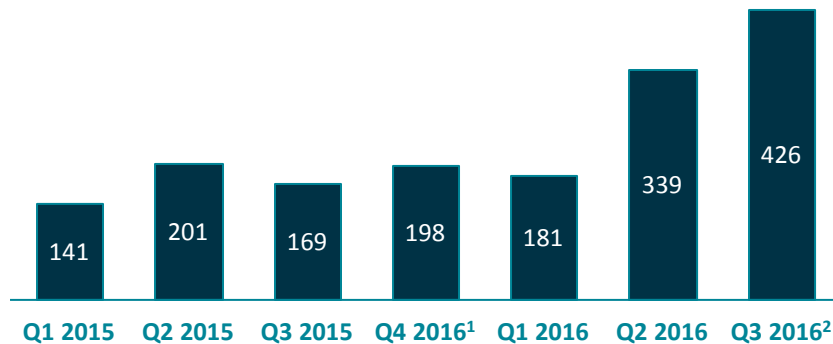
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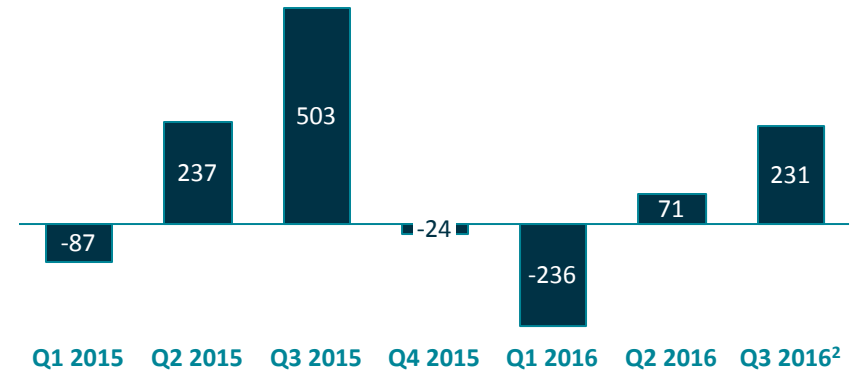
Appendix – KPIs

Mobile KPIs

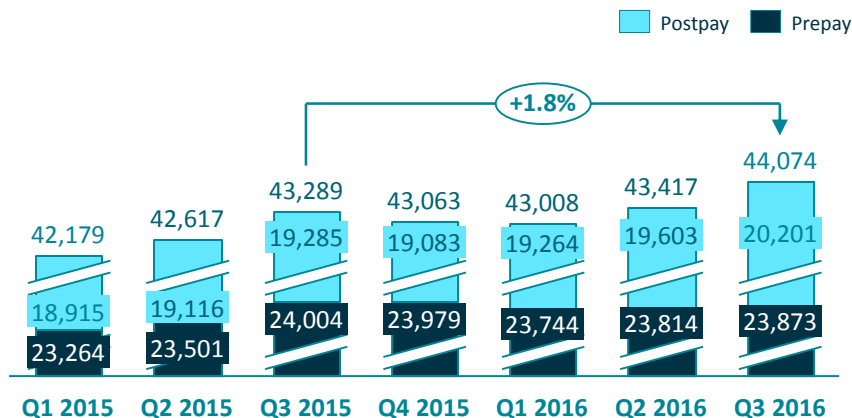
Postpay net adds ('000)



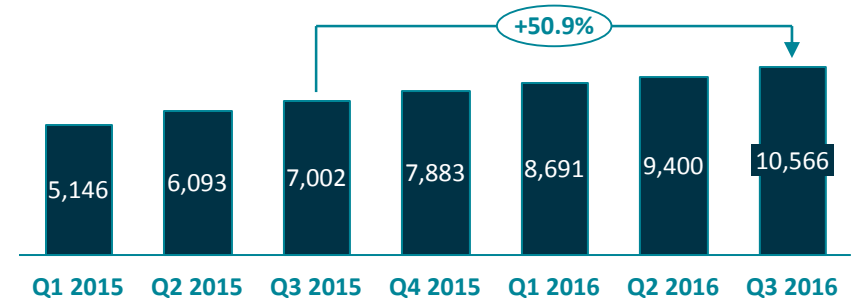
Prepay net adds ('000)



Mobile customer base ('000)



LTE customer base ('000)



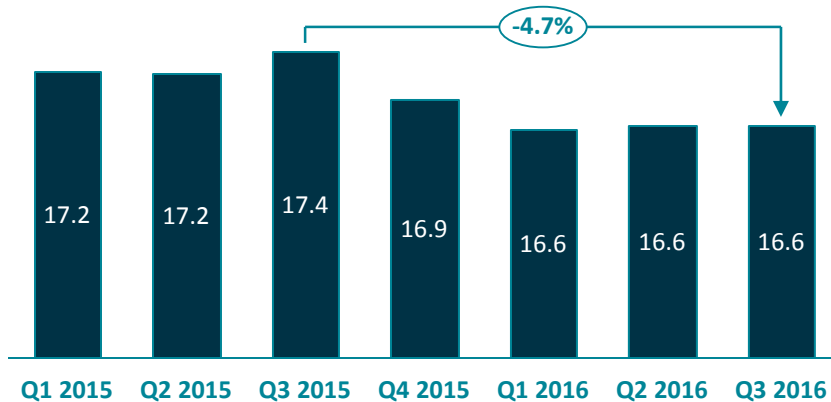
¹ Excluding an impact from a business customer base harmonisation at the E-Plus Group respective negative 202 thousand in reported terms

² Excluding reclassification of 172k customers from prepaid to postpaid as part of the customer migration activities

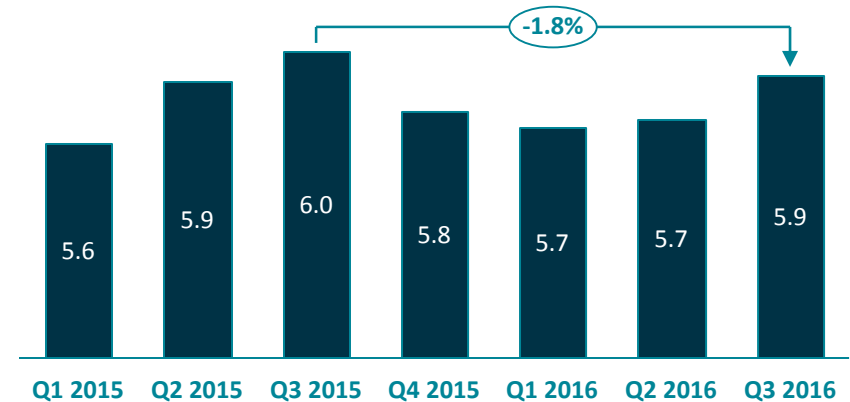
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Mobile KPIs

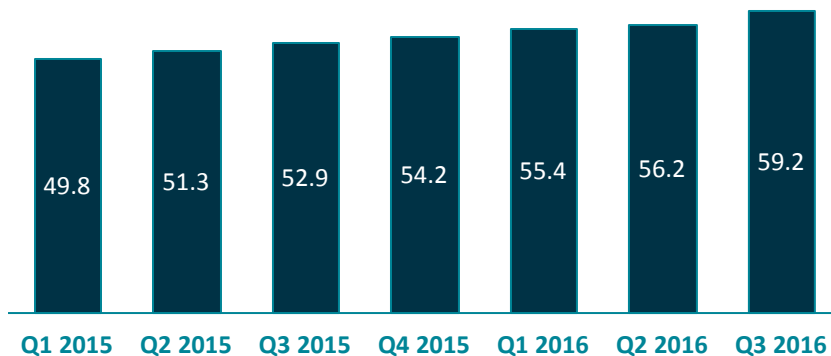
Postpay ARPU (EUR)



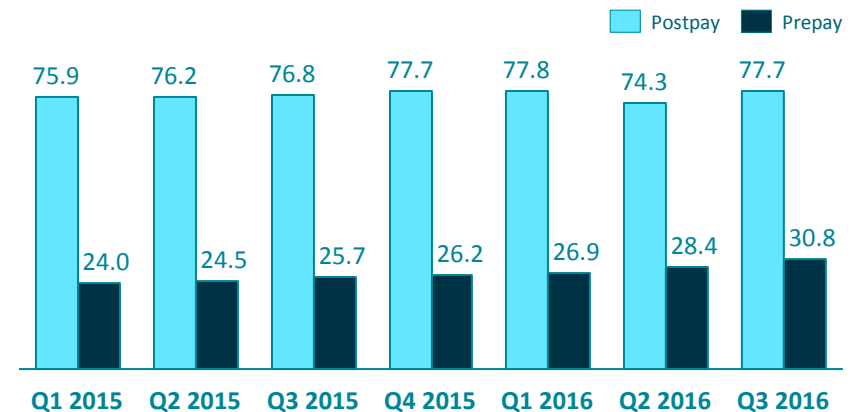
Prepay ARPU (EUR)



Smartphone penetration (%)¹



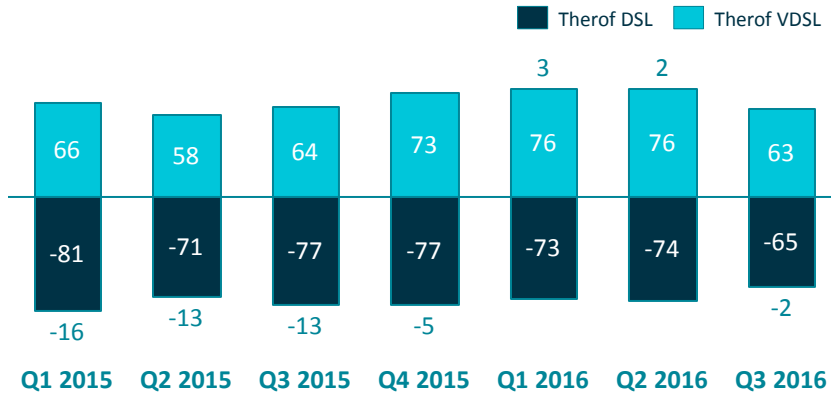
Smartphone penetration O₂ consumer (%)



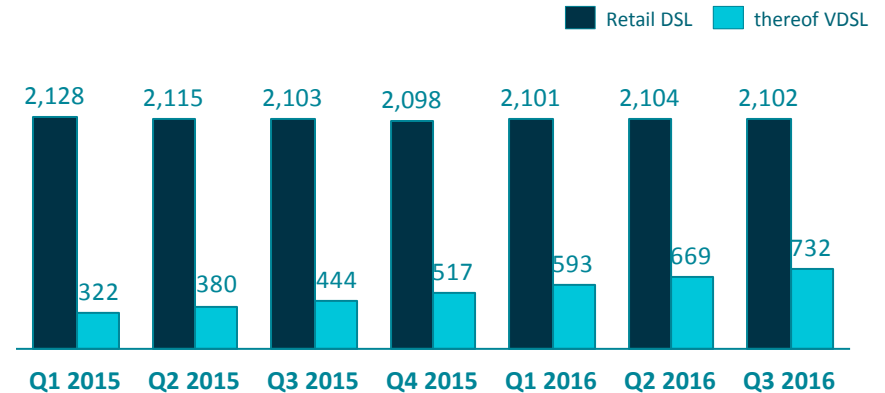
¹ Smartphone penetration is based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base less M2M, less customers with a bigscreen tariff

Fixed-line KPIs

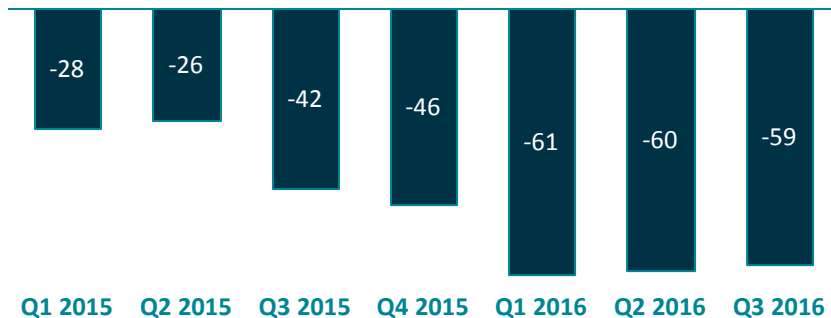
Retail broadband net adds ('000)



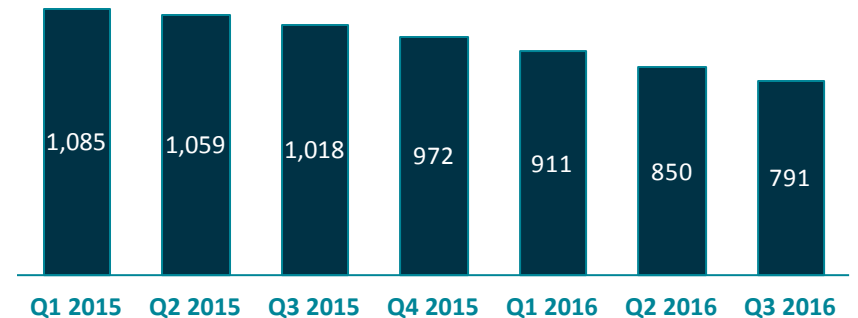
Fixed accesses ('000)



Wholesale net adds ('000)

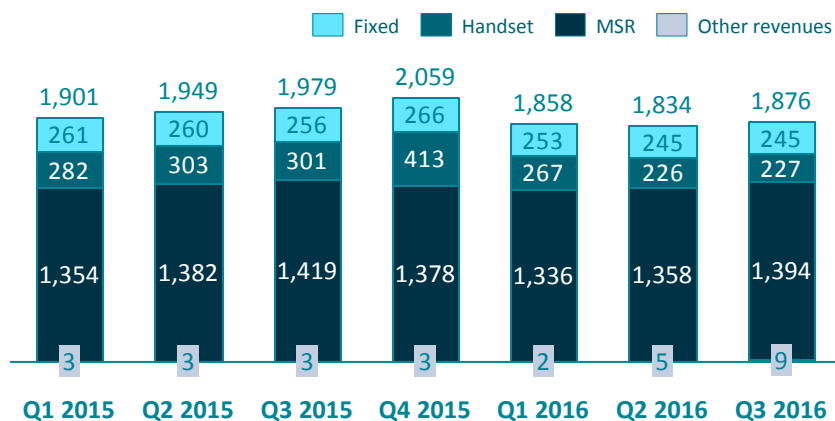


Wholesale accesses ('000)¹

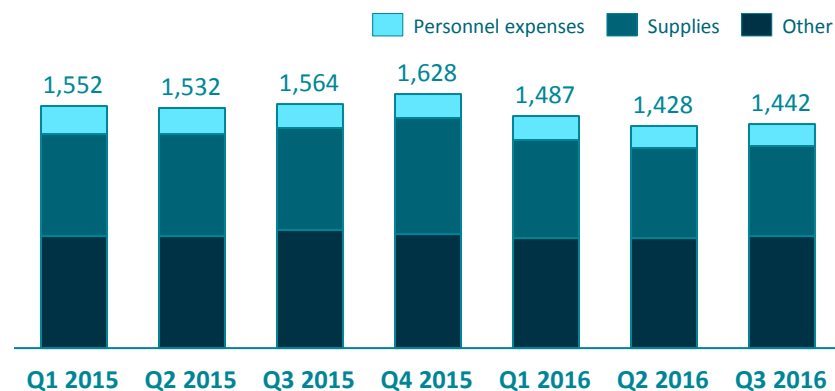


¹ Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access

Revenue structure (EUR m)



OpEx-Split² (EUR m)

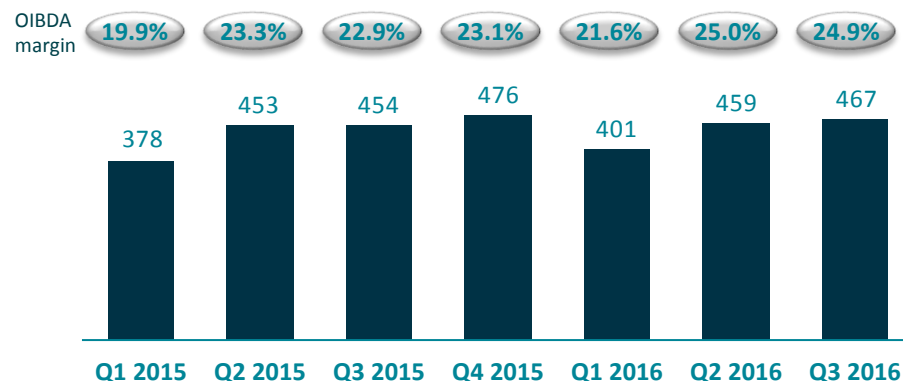


¹ For the period January to September 2016 exceptional effects include restructuring expenses amounting to EUR 59 million (EUR 66 million in the same period of 2015) and the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352 million, while in the same period of 2015 a one-off gain from the sale of yourfone GmbH was registered. For the period January to September 2016 special effects consist of the impact of the Telxius deal on OIBDA (EUR -15 million in the first nine months of 2016) resulting primarily from higher operating lease expenses starting in May 2016.

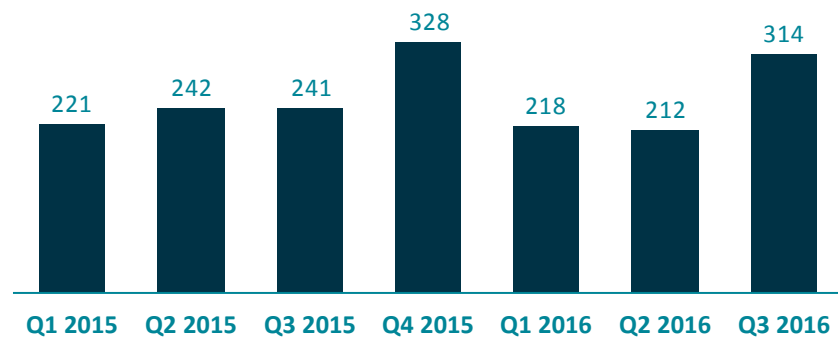
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² Opex-split before exceptional and special effects

OIBDA (post GF, pre except / EUR m)¹



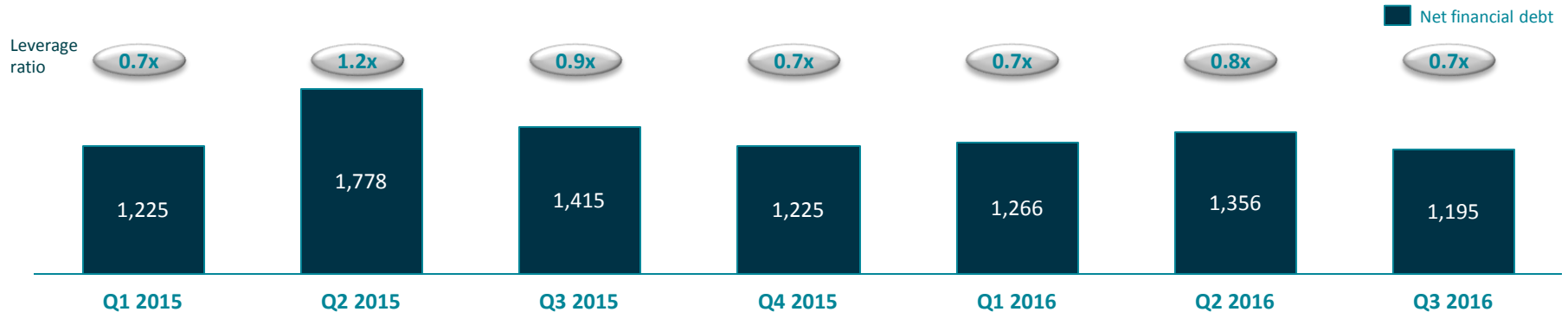
CapEx (EUR m)



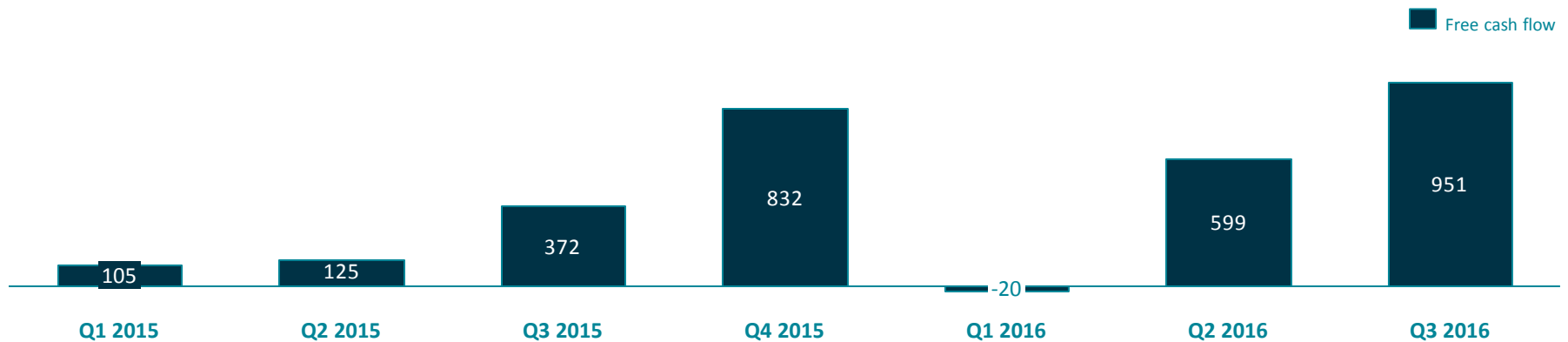
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Financials

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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