



Deutschland

Q4 2016 preliminary results

Telefónica Deutschland
Investor Relations
22 February 2017

Public – Nicht vertraulich



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FY 2016 results in line with outlook; upgrade of synergy case

MSR
-1.1% y-o-y
(excl. regulatory effects)

- MSR incl. MTR & roaming effects -1.7% y-o-y, in line with full-year outlook
- Customer migration & brand restructuring completed; O₂ Free well received
- Market remains dynamic yet rational; further signs of easing price pressure in non-premium

12.1 m
LTE customers

- O₂ Free further enhances operational momentum & pushes data usage growth
- LTE customer base up 14.2% q-o-q to 12.1m customers; average monthly usage of 1.7 GB for O₂ consumer postpaid LTE customers

OIBDA¹
+3.8%
y-o-y

- Solid OIBDA growth on the back of successful synergy capture; EUR 150m in-year savings
- Main synergy drivers FTE restructuring and network consolidation
- Strong FCF generation; reiterating dividend guidance for 3-year dividend growth

Synergy case upgrade
to EUR 900m

- Synergy case upgrade from approx. EUR 800m to approx. EUR 900m OpCF savings in 2019
- Underlying² MSR 'slightly negative to flat' year-on-year
- OIBDA 'flat to mid single digit % growth', driven by integration synergies
- Capex at around EUR 1 billion due to efficient roll-out of one LTE network

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

² Excluding the impact from regulatory changes. For details please refer to additional materials of the FY2016 results release



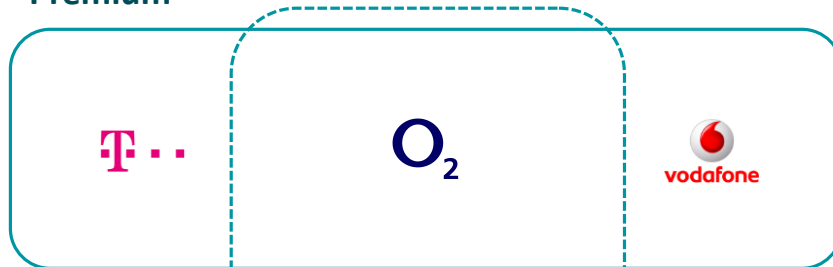
MOMENTUM



TRANSFORMATION

Commercial update: Focus on products, data growth and final brand portfolio

Premium



Non-premium: Own secondary brands



Non-premium: Partner brands



Premium: Enhanced services

- **O₂ Free** extremely well received, early indications positive
 - **Data traffic 1.5x** vs. O₂ Blue All-in portfolio
- **Successful cross- and upselling** into base
- **Cooperation with Sky** to access sport, movies and popular series via mobile



Non-premium: Brand portfolio finalised

- Further **easing of competitive pressure**
- Continued presence via **own brands and partners**
- Pricing moving to bundles which include **European roaming**
- Own brands: Blau / Base **price increase**, active marketing of simyo discontinued

O₂ Free and Sky Deutschland: Exclusive partnership for O₂ customers



O₂ Free – Offline portfolio

XL			
L			
M			
S			
LTE Max	LTE Max	LTE Max	LTE Max
1 GB	2 GB	4 GB	8 GB
€24.99	€34.99	€44.99	€54.99
+ EU roaming	+ EU roaming	+ 1 SIM + EU roaming	+ 2 SIMs + EU roaming

3G flat – throttle to 1 Mbps
after consumption of high-speed volume

Sky proposition - Details



- **Exclusive partnership** with Sky for O₂ customers
- EUR 4.99 **Supersport day tickets** includes Bundesliga, UEFA Champions League and Premier League games
- **Flexible choice** between day/week/month tickets for Supersport, Cinema or Entertainment
- **Attractive hardware bundles**

Network update: Significant progress with decommissioning and consolidation

Network integration timeline

2016-2019



3G national roaming for all customers

April/May 15



Deal to transfer of 7,700 mobile sites to DTE

July 15



Sale of towers to Telxius

April 16



Consolidation and roll-out of 4G network

July 16

- Decommissioning of 14k sites
- Roll-out of 30k LTE elements
- Utilisation of new licenses



- Steady network quality gains, **targeting 'one network' by year-end**
- German **3G/4G network availability leader** as per connect 'Netzwetter'
- Already **approx. 5,000 sites decommissioned** as per year-end 2016
- **LTE coverage at almost 80%**, >90% in cities above 200,000 inhabitants
- Consolidation will drive **synergy generation** in 2017/8

From MIT to M+T: Focus on Momentum and Transformation

Achievements 2015 & 2016



Keep the
Momentum



Integrate
quickly



Transform the
company

- Maintained **momentum**
- Relaunch of **major brands**
- Major **integration workstreams** completed, e.g. customer migration
- **Restructuring in line** with expectations
- **Synergy case upgrade**
- **Operational performance in line** with capital market guidance
- **Strong FCF trajectory**
- **Conservative balance sheet** and low leverage maintained
- **Commitment to mid-term dividend**

Focus 2017 and beyond



Keep the
Momentum



Transform the
company



Opportunities in data and connectivity

Innovative solutions for a connected, digital world



B2B: Key focus areas ADA and IoT

Target groups

Smart Media



Target communication to your customers: Place your offers at the right time, at the right place

Advertisers, media agencies

Smart Moves



Understand your customers' movement patterns and make data-driven business decisions

Transport companies, municipalities

Smart Retail



Understand and accompany your customer along his journey

Retailers, outlet networks

Smart Sensors



Develop smart products for consumers fast, simple and cost-efficiently with our **GE3NY platform & ecosystem**

Providers of consumer goods

Q4 2016: Strong operating momentum & synergy capture; meeting full-year outlook

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

- MSR -2.1% year-on-year, underlying trends stable versus prior quarter
- Significant impact from MTR cuts and roaming legislation
- Continued headwinds from retail to wholesale shift

**Net adds
+336k postpaid
+74k VDSL**

- Strong quarter for postpaid, continues to benefit from partner trading
- -89k prepaid net adds reflecting seasonality
- Continued strong demand for VDSL; wholesale migration effects visible

**OIBDA¹
+5.3% y-o-y**

- OIBDA growth solid with further margin improvement driven by incremental synergies
- Approx. EUR 25 million of synergies from FTE restructuring and network consolidation
- Increasing focus on long-term strategic transformation activities

Outlook 2017

- Strategy, integration plan & dividend policy remain unchanged
- Confidence in mid-term dividend guidance on strong free cash flow generation
- Leverage target remains unchanged at 1.0x (2016 well below at 0.4x)

¹ Excluding exceptional and special effects. For details please refer to further materials of the 2016 results release



MOMENTUM



TRANSFORMATION

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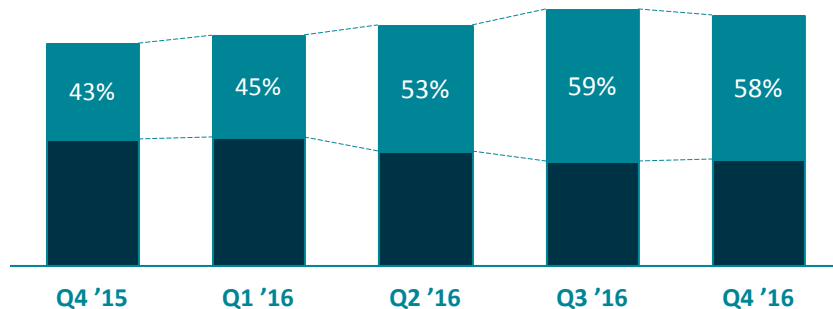
Telefonica
Deutschland

Customer migration completed & brand portfolio finalised; strong partner trading

Partner trading remains strong

PO gross adds (abs)

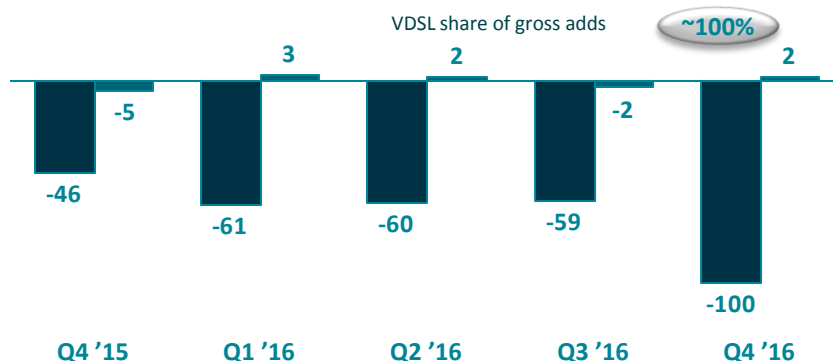
GA partner brands GA retail brands



VDSL drives fixed trading

Net adds (in thousand)

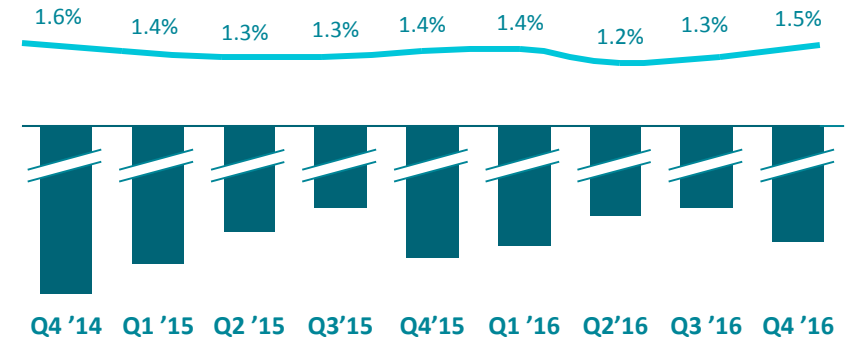
DSL wholesale DSL retail



Maintaining retention focus

PO churn

Churn retail brands O₂ PO churn (%)

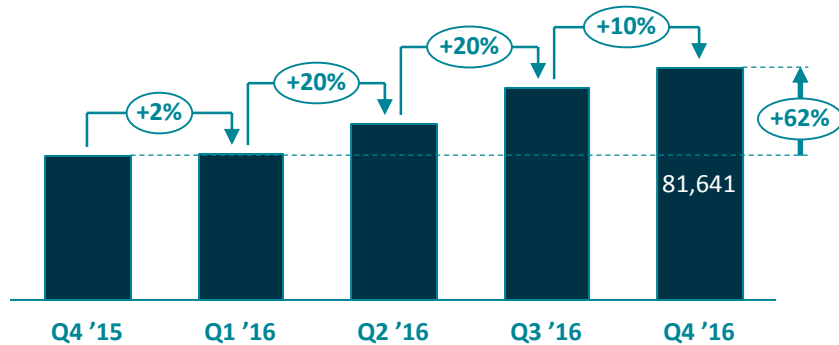


- Signs of easing price pressure in non-premium, partner trading remains strong
- Seasonal uptick in churn in Q4, remains relatively low post migration
- VDSL drives customer base growth in retail fixed; wholesale migration accelerating as expected

Continued growth in data traffic and LTE customer base support momentum

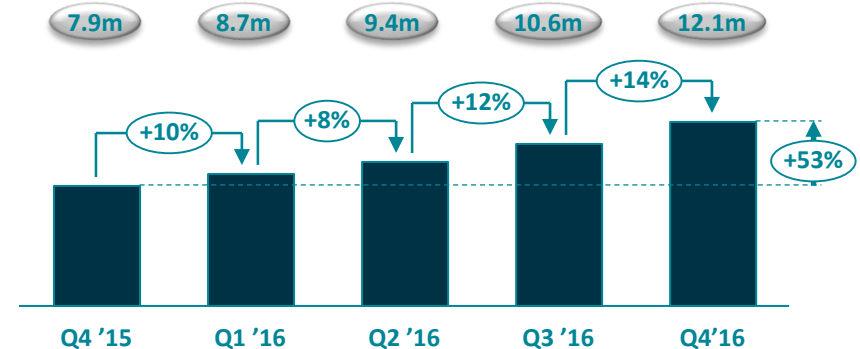
Data traffic growth continues strong

Traffic (TB/quarter)



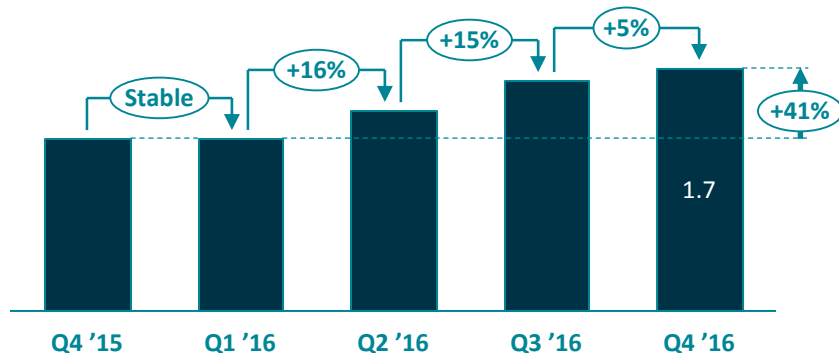
Significant growth in LTE customer base

LTE customers (million)



LTE usage driven by music and video streaming

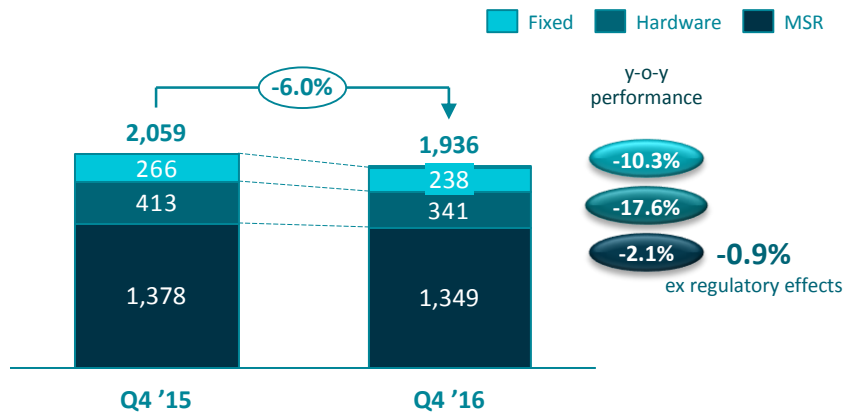
Average data usage for O2 consumer LTE customers¹ (GB)



- Music & video streaming key drivers of data traffic growth; up >60% y-o-y
- LTE customer base now at 12.1 million, up 53% y-o-y
- Average monthly data usage for O₂ consumer LTE customers up >40% y-o-y to almost 1.7GB

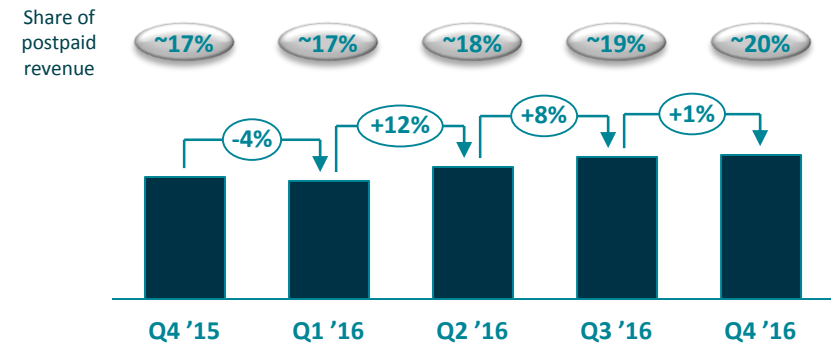
Underlying MSR trajectory stable sequentially

Revenue structure (in EUR m)

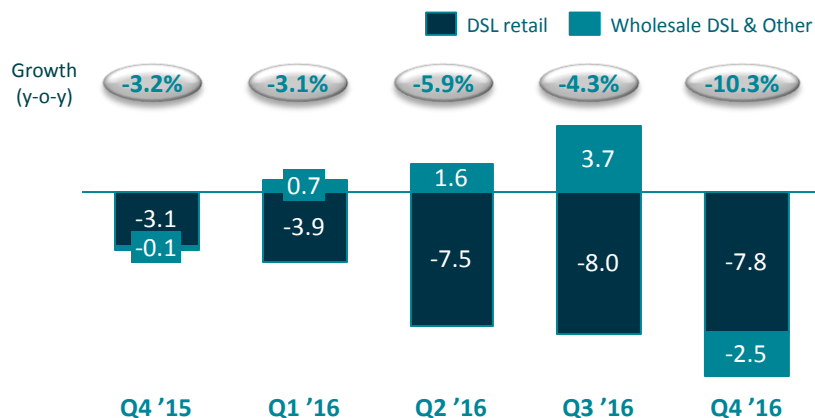


Partner share of postpaid MSR with stable trend

MSR from partner business (in EUR m)



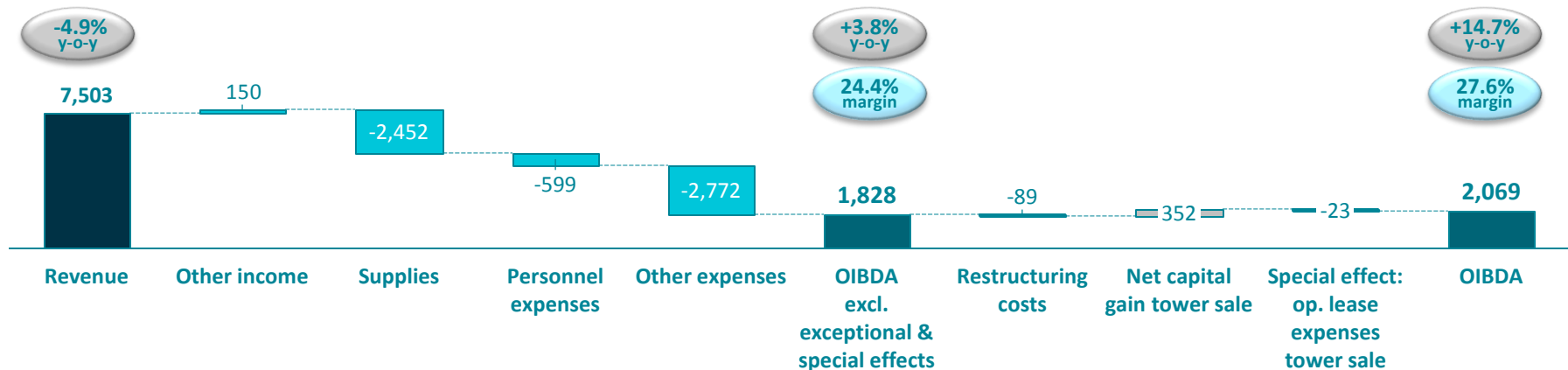
Fixed revenue y-o-y (in %)



- MSR trajectory stable sequentially excl. regulatory effects; headwinds from retail to wholesale shift & legacy base effects
- Partner share of postpaid MSR still only ~20%
- Retail DSL affected by phasing of promotional effects; Wholesale DSL reflects planned dismantling of legacy infrastructure

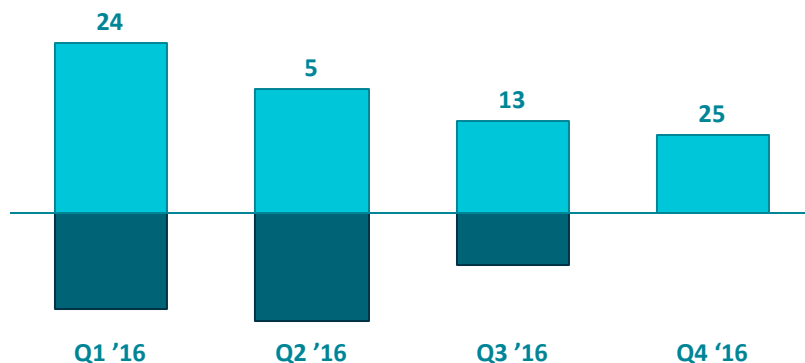
OIBDA driven by successful synergy capture; incremental savings in fourth quarter

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



Synergies driving OIBDA growth

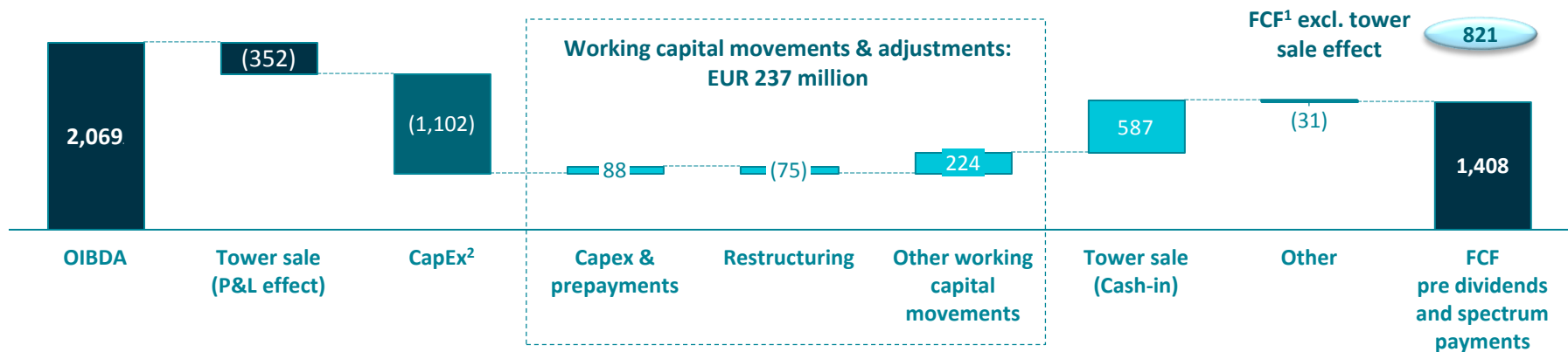
OIBDA growth (y-o-y in EUR m) ■ Synergies ■ Commercial & other costs



- Successful synergy capture with approx. EUR 150 million of incremental savings in 2016 and OIBDA in line with guidance
- OIBDA margin at 24.4% for FY, up 2.0 pp y-o-y
- Incremental synergy savings from restructuring and network consolidation of approx. EUR 25 million in Q4

FCF driven by tower sale cash

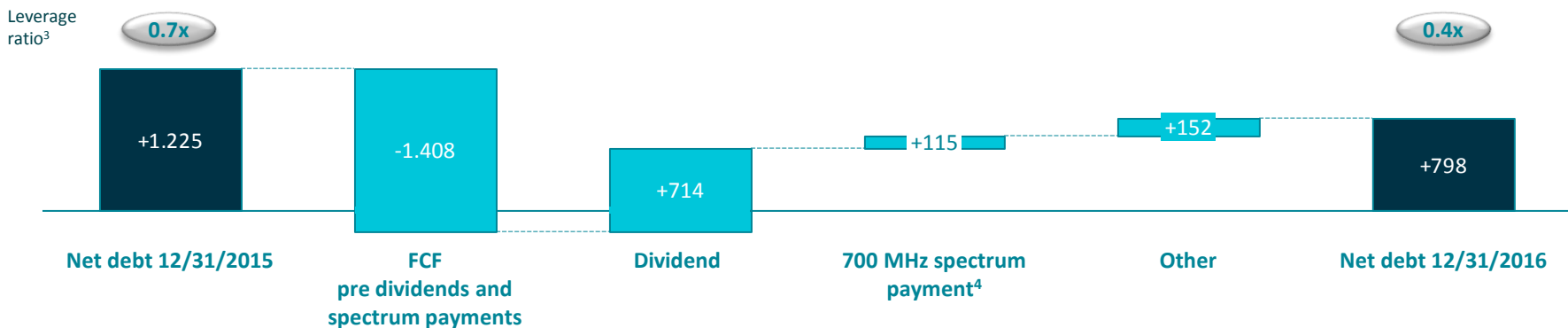
Evolution of Free Cash Flow¹ YTD as of December 2016 (in EUR m)



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 for investments in spectrum in June 2015

Evolution of Net Debt (in EUR m) – Leverage ratio³ improves



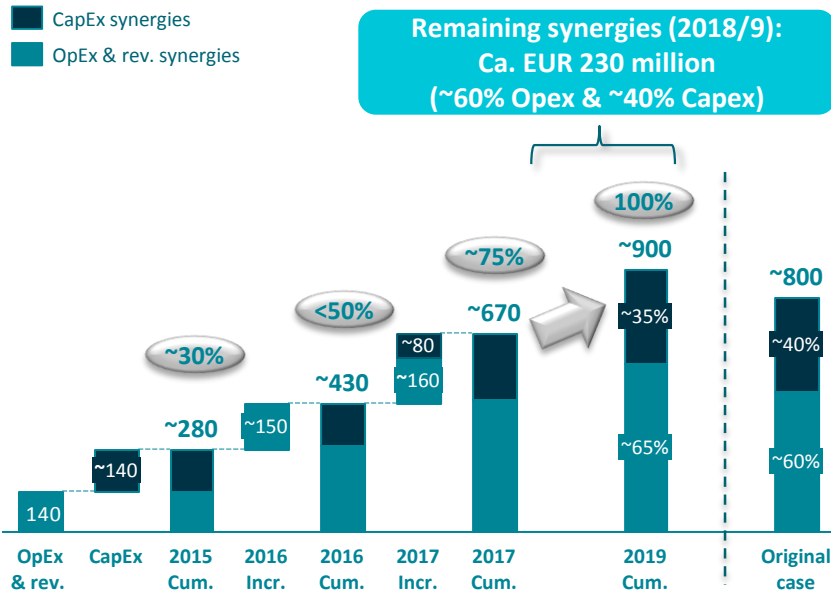
³ For definition of net debt & leverage ratio please refer to Q4 2016 earnings release

⁴ Including costs on borrowed capital

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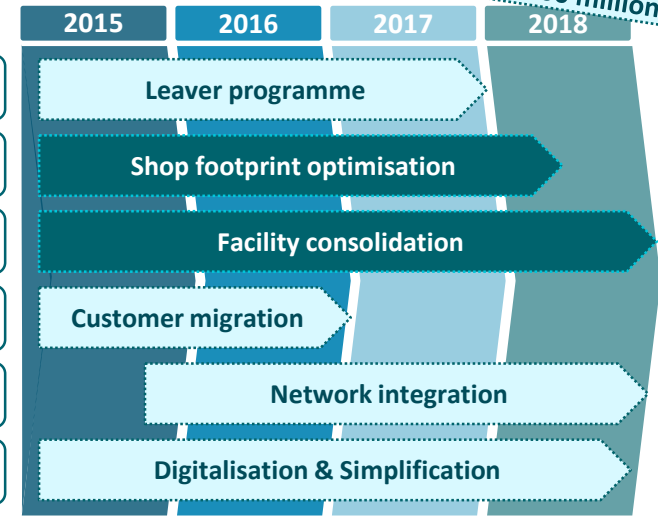
Updating synergy case to EUR 900 million in 2019

Synergy case 2015 - 2019 (EUR m)



Integration workstreams

- ✓ 1300 FTEs (~80% of target)
- ✓ 400 shops (2/3 of target)
- ✓ Facilities 50k sqm (50% of target)
- ✓ Customer migration completed
- ✓ Ca. 5000 sites (~35% of target)
- ✓ Internalisation CS completed



- **Successfully executing** on all initiatives
- New **total case of ~EUR 900 million OpCF synergies in 2019**, driven by improved visibility and the realisation of further synergy opportunities during the integration process, e.g. **additional OpEx savings from FTE restructuring and network** as well as simplification efforts
- **CapEx synergies** primarily driven by **rollout of a single LTE network**
- Expecting to reach **~EUR 670 million (~75% of new total target) by year-end 2017**, with OIBDA relevant synergies of ~EUR 160 million (mainly network and FTE restructuring) and Capex synergies of ~EUR 80 million

Outlook 2017

	Actual 2015 (EUR m)	Outlook 2016 (year-on-year)	Actual 2016 (EUR m / y-o-y pct. change)		Outlook 2017 (y-o-y pct. change)
MSR	5,532	Slightly negative	5,437 / -1.7%	✓	Slightly negative to flat³ Excluding the impact from regulatory effects
OIBDA	1,760	Low to mid single-digit % growth	1,828 ¹ / +3.8% 'Pro forma': 1,793 ²	✓	Flat to mid single-digit % growth⁴
CapEx	1,032	Mid to high single-digit % growth	1,102 / +6,7%	✓	Around EUR 1 billion
Dividend		EUR 0.25 per share ⁵			Dividend growth over 3 years (2016-2018)

- **Underlying³ MSR expectation based on a continued rational yet dynamic competitive environment**
 - Tailwinds from O₂ Free and improved market conditions
 - Headwinds e.g. from retail to wholesale shift, continued legacy base effects, OTT trends and prepaid legislation
 - Excludes regulatory impact from termination and roaming: Approx. 3-4%
- **OIBDA growth primarily stemming from synergies**
 - Expectations based on continued rational market structure and rational consumer response to roaming legislation
 - Incremental Opex & revenue savings of ~EUR 160m (rollover & additional savings, driven by restructuring & network)
 - Includes regulatory impact from termination and roaming based on rational consume response: Approx. 4-5%
- **Capex reduction driven by incremental savings of ~EUR 80m** due to network integration and focus on one LTE network

Case upgrade:
EUR +100m

New total target
of
EUR 900m
OpCF synergies
in 2019

¹ Excluding exceptional and special effects; for details please refer to further materials of the 2016 results release

² We have calculated a comparable for 2016; for details please refer to further materials of the 2016 results release

³ Excluding the impact from regulatory changes; for details please refer to further materials of the 2016 results release

⁴ Excluding exceptional effects; for details please refer to further materials of the 2016 results release

⁵ Proposal to the Annual General Meeting 2017

Main takeaways

- Q4/FY results in line with outlook 2016
- Strong operating momentum with underlying MSR trajectory stable vs prior quarter
- Successful launch of O₂ Free tariff portfolio with focus on more4more and stimulating data usage
- Completion of customer migration and brand restructuring
- Solid OIBDA performance on the back of synergy capture of EUR 150m as expected
- Outlook projecting a continuation of trends in underlying MSR and solid OIBDA growth
- Confidence in mid-term dividend growth on the back of FCF momentum

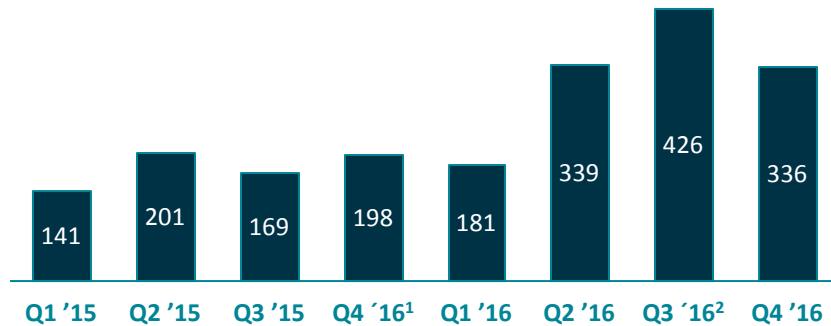
Telefónica Deutschland Q4 2016 preliminary results – Q&A session



Appendix – KPIs

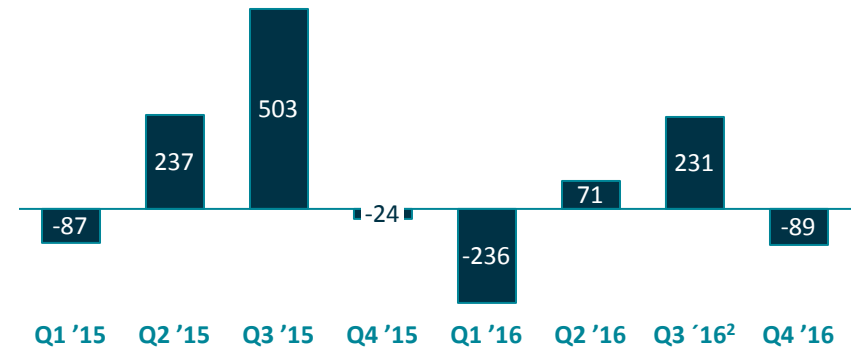
Mobile KPIs

Postpay net adds ('000)



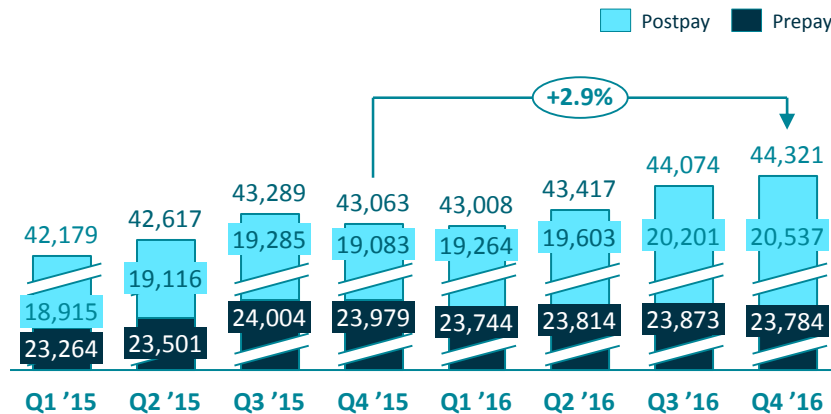
¹ Excluding an impact from a business customer base harmonisation at the E-Plus Group of negative 202 thousand in reported terms

Prepay net adds ('000)

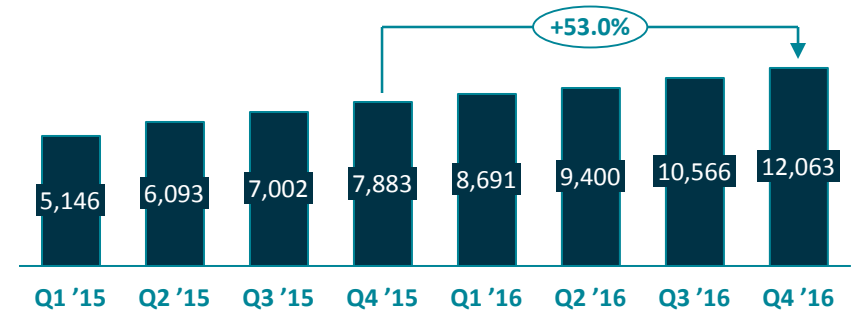


² Excluding reclassification of 172k customers from prepaid to postpaid as part of the customer migration activities

Mobile customer base ('000)

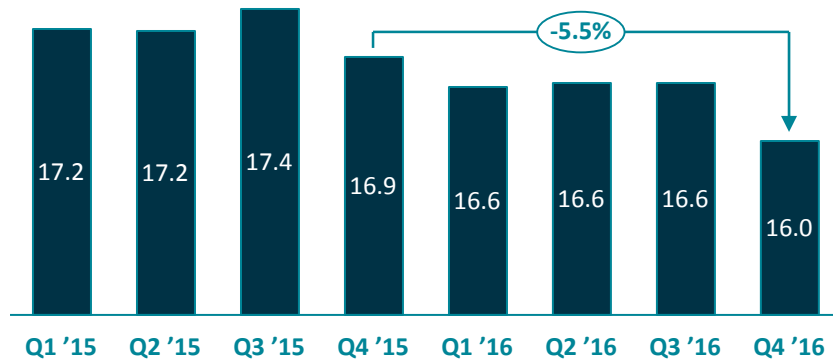


LTE customer base ('000)

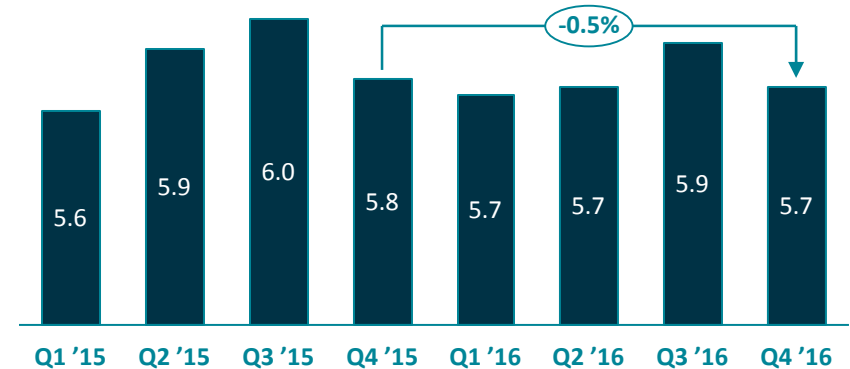


Mobile KPIs

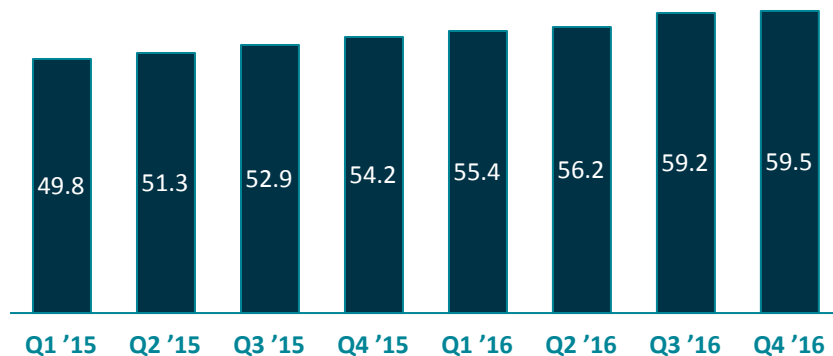
Postpay ARPU (EUR)



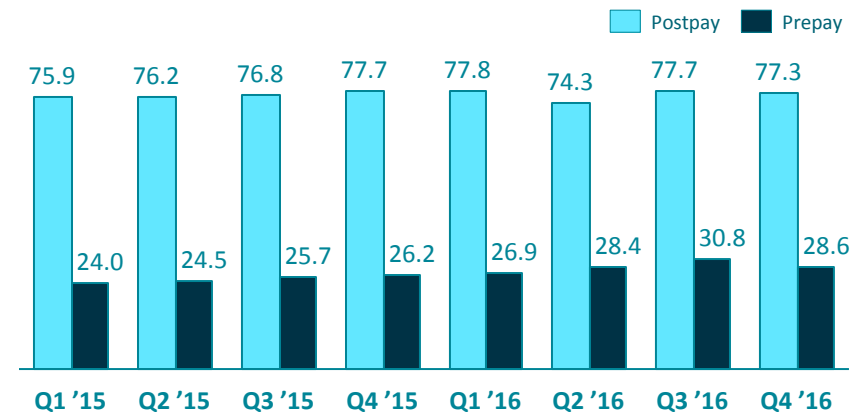
Prepay ARPU (EUR)



Smartphone penetration (%)¹



Smartphone penetration O₂ consumer (%)

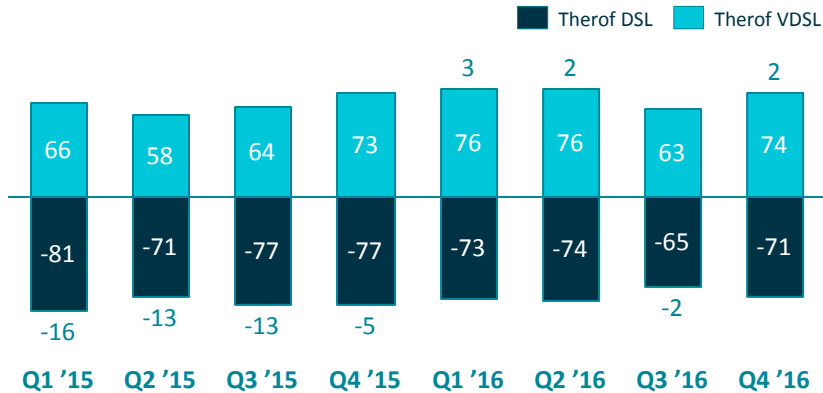


¹ Smartphone penetration is based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base less M2M, less customers with a bigscreen tariff

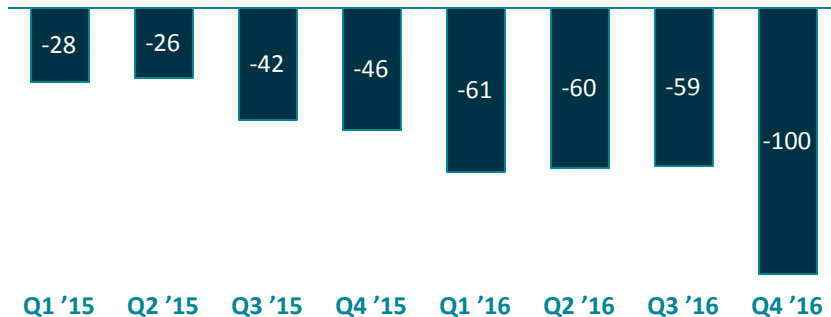
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Fixed-line KPIs

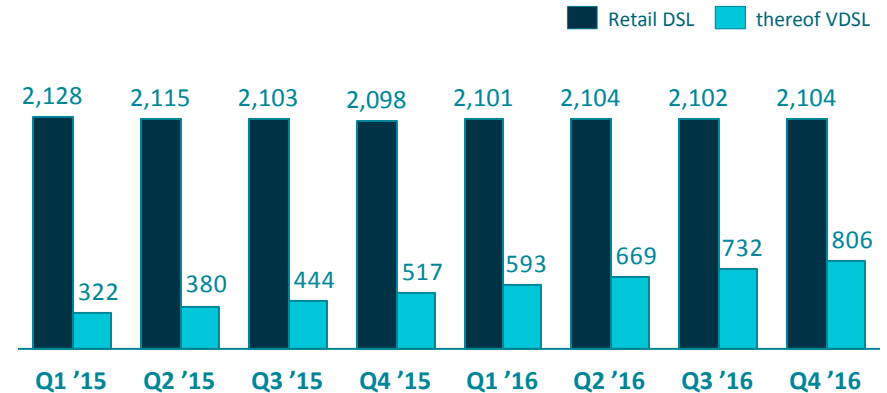
Retail broadband net adds ('000)



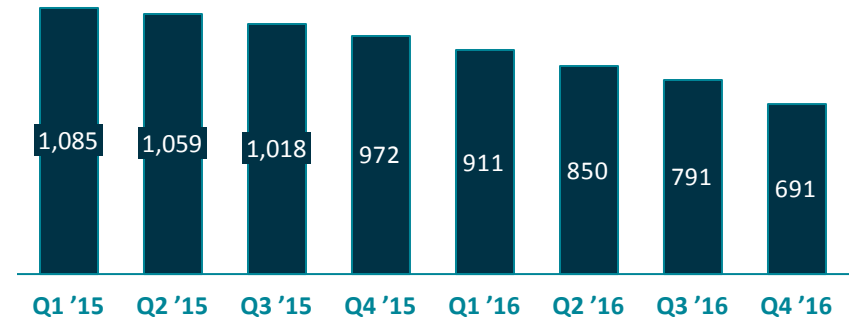
Wholesale net adds ('000)



Fixed accesses ('000)

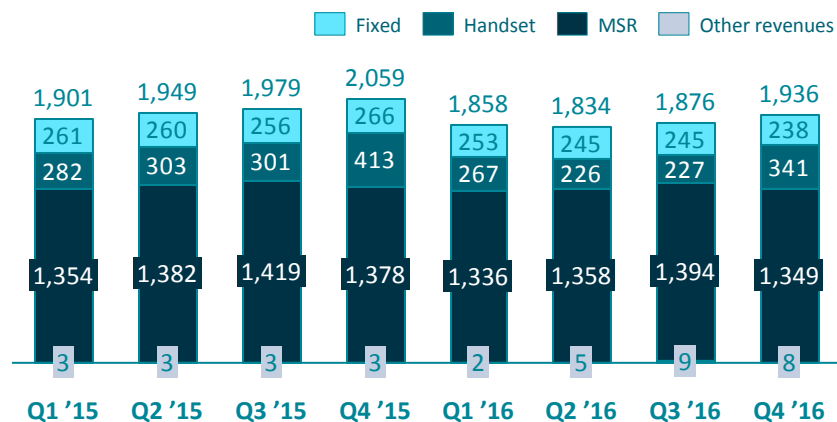


Wholesale accesses ('000)¹

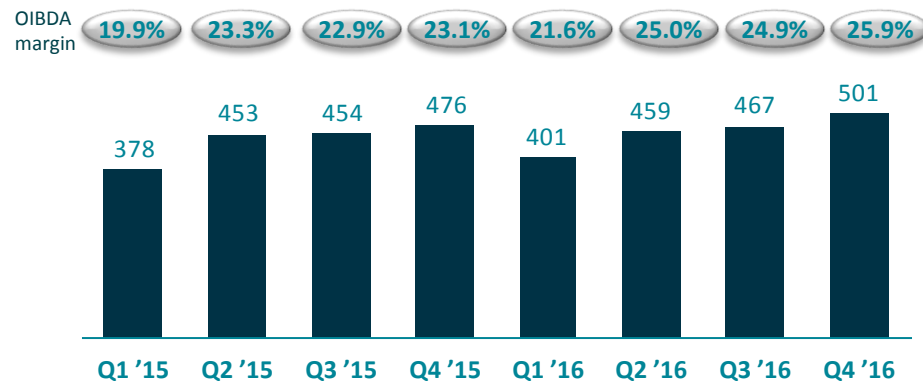


¹ Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access

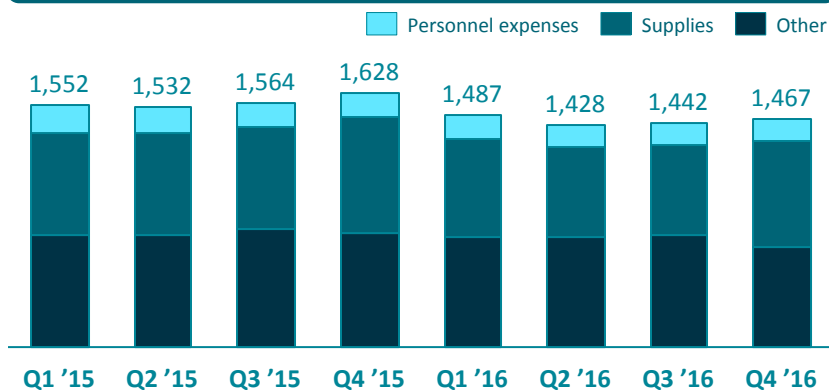
Revenue structure (EUR m)



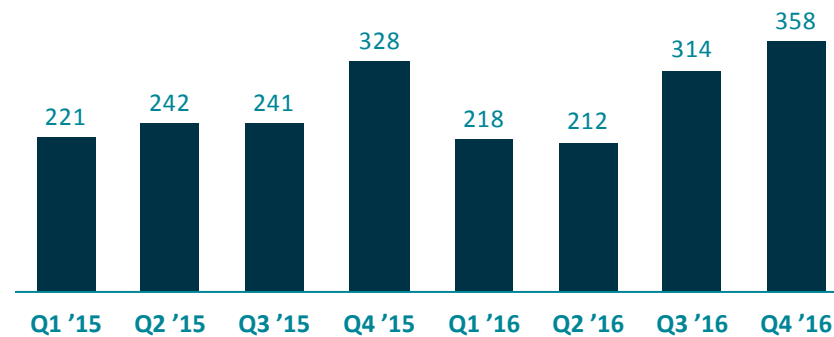
OIBDA (post GF, pre except / EUR m)¹



OpEx-Split² (EUR m)



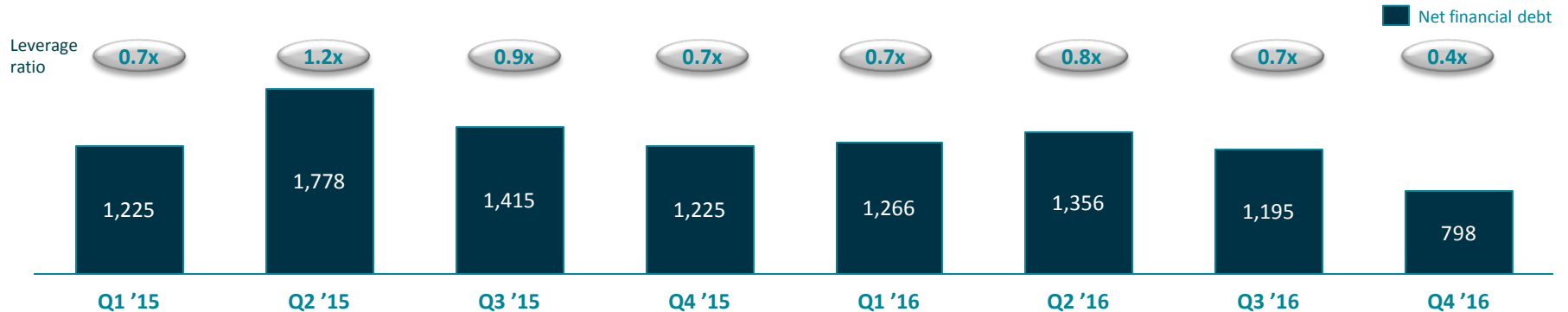
CapEx (EUR m)



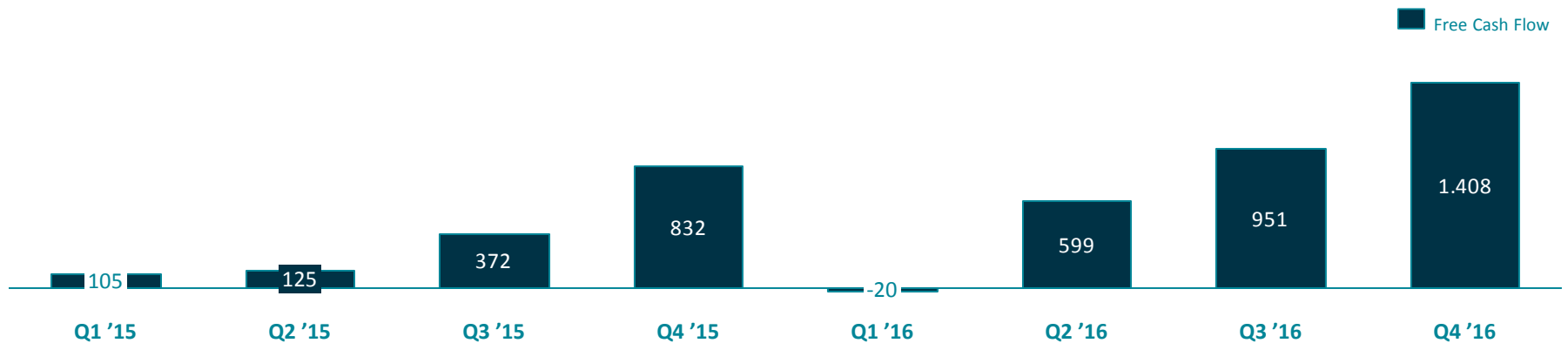
¹ For the period January to December 2016 exceptional effects include restructuring expenses amounting to EUR 89 million (EUR 74 million in the same period of 2015) and the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352 million, while in the same period of 2015 a one-off gain from the sale of yourfone GmbH was registered. For the period January to December 2016 special effects consist of the impact of the Telxius deal on OIBDA (EUR -23 million in 2016) resulting primarily from higher operating lease expenses starting in May 2016

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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