

Telefonica

Deutschland

Q4 2017 preliminary results



Telefónica Deutschland, Investor Relations

21 February 2018

Disclaimer

This document contains statements that constitute forward-looking statements and expectations about Telefónica Deutschland Holding AG (in the following “the Company” or “Telefónica Deutschland”) that reflect the current views and assumptions of Telefónica Deutschland's management with respect to future events, including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations which may refer, among others, to the intent, belief or current prospects of the customer base, estimates regarding, among others, future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. Forward-looking statements are based on current plans, estimates and projections. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions. Such forward-looking statements, by their nature, are not guarantees of future performance and are subject to risks and uncertainties, most of which are difficult to predict and generally beyond Telefónica Deutschland's control, and other important factors that could cause actual developments or results to materially differ from those expressed in or implied by the Company's forward-looking statements. These risks and uncertainties include those discussed or identified in fuller disclosure documents filed by Telefónica Deutschland with the relevant Securities Markets Regulators, and in particular, with the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin). The Company offers no assurance that its expectations or targets will be achieved. Analysts and investors, and any other person or entity that may need to take decisions, or prepare or release opinions about the shares / securities issued by the Company, are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this document. Past performance cannot be relied upon as a guide to future performance. Except as required by applicable law, Telefónica Deutschland undertakes no obligation to revise these forward-looking statements to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica Deutschland's business or strategy or to reflect the occurrence of unanticipated events. The financial information and opinions contained in this document are unaudited and are subject to change without notice. This document contains summarised information or information that has not been audited. In this sense, this information is subject to, and must be read in conjunction with, all other publicly available information, including if it is necessary, any fuller disclosure document published by Telefónica Deutschland. None of the Company, its subsidiaries or affiliates or by any of its officers, directors, employees, advisors, representatives or agents shall be liable whatsoever for any loss however arising, directly or indirectly, from any use of this document its content or otherwise arising in connection with this document. This document or any of the information contained herein do not constitute, form part of or shall be construed as an offer or invitation to purchase, subscribe, sale or exchange, nor a request for an offer of purchase, subscription, sale or exchange of shares / securities of the Company, or any advice or recommendation with respect to such shares / securities. This document or a part of it shall not form the basis of or relied upon in connection with any contract or commitment whatsoever. These written materials are especially not an offer of securities for sale or a solicitation of an offer to purchase securities in the United States, Canada, Australia, South Africa and Japan. Securities may not be offered or sold in the United States absent registration under the US Securities Act of 1933, as amended, or an exemption there from. No money, securities or other consideration from any person inside the United States is being solicited and, if sent in response to the information contained in these written materials, will not be accepted.

FY 2017 results fully in line with expectations; MSR excl. regulatory effects back to growth

Flat MSR¹ (excl. regulatory effects)

- Successful new O₂ Free portfolio and strong partner performance
- MSR back to growth in Q4 driven by operating momentum & incoming roaming

2.8 GB average data usage²

- 15.8 million LTE customers; +31% year-on-year
- Traffic up 68% y-o-y; usage of 2.8 GB for O₂ consumer postpaid LTE customers

OIBDA³ +2.6% y-o-y

- Integration activities on track; FTE restructuring and shop & facility optimisation finalised
- Synergy capture fully on track, ~EUR 160 million of additional in year-savings at OIBDA level
- OIBDA reflecting synergy capture, commercial investment and regulatory effects

Outlook⁴ 2018

- Revenue: Broadly stable year-on-year excluding regulatory impacts of EUR 30-50m
- OIBDA: Flat to slightly positive excluding regulatory effects of EUR 40-60m
- C/S ratio: Approx. 12-13%

¹ Excluding the negative impact from regulatory changes; for details please refer to additional materials of the Q4 2017 results release

² For O₂ consumer postpaid LTE customers

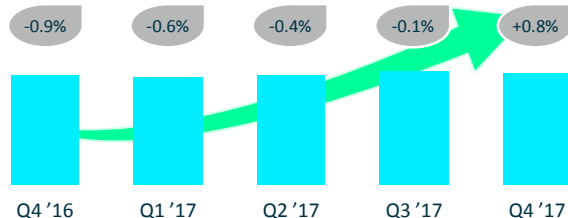
³ Excluding exceptional effects; for details please refer to additional materials of the Q4 2017 results release

⁴ The effects from the implementation of IFRS15 as of 1 January 2018 and IFRS16 as of 1 January 2019 are not reflected in the financial outlook. More information will be provided with the quarterly reporting during the period

Strong set of results in 2017

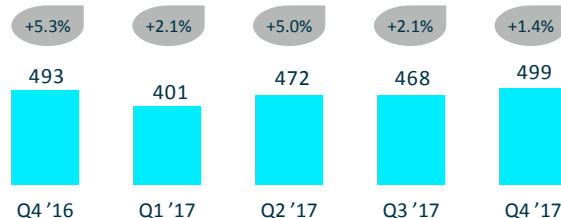
Underlying¹ MSR trends back to growth in Q4 '17

Year-on-year performance in %



13 quarters of year-on-year OIBDA² growth

Year-on-year performance in %



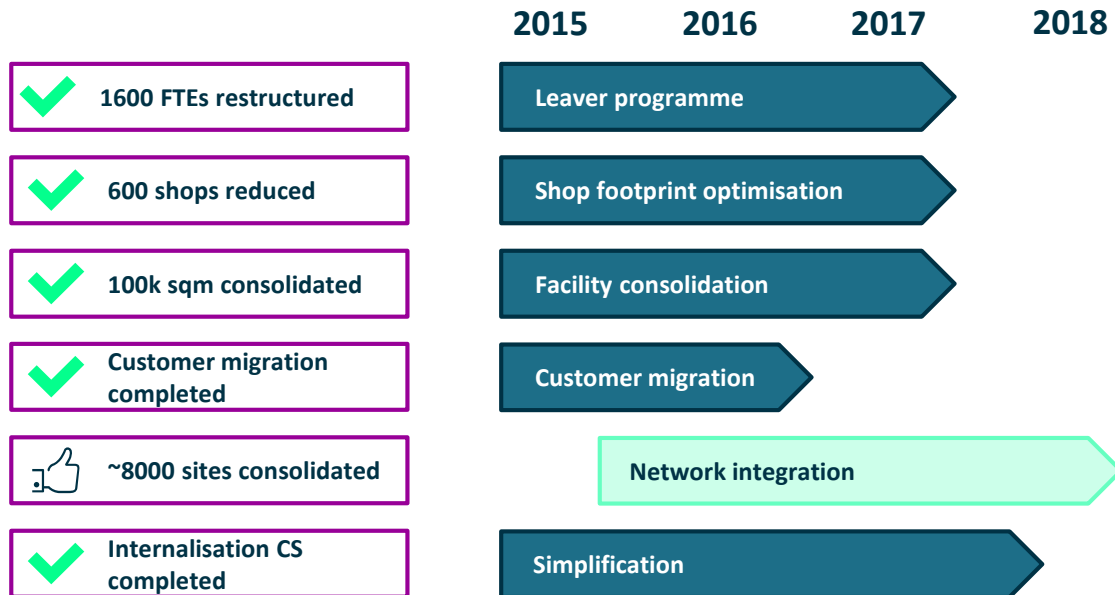
		Baseline 2016 (EUR m)	Outlook 2017 (y-o-y pct. change)	FY 2017 actual (EUR m / y-o-y pct. change)
MSR	✓	5,437	Slightly negative to flat¹ Excl. the impact from regulatory effects (3-4%)	5,433 / -0.1% (Excl. regulatory effects of EUR 146 million)
OIBDA	✓	1,793 ²	Flat to low single-digit % growth²	1,840 / +2.6%
CapEx	✓	1,102	Around EUR 1 billion	950 / -13.7%
Dividend	✓	EUR 0.25	Dividend growth over 3 years (2016-2018)	EUR 0.26 per share for FY 2017 (Payout May 2018)

¹ Excluding the impact from regulatory changes; for details please refer to further materials of Q4 2017

² Excluding exceptional effects; for details please refer to further materials of Q4 2017 results release. We have calculated a comparable for 2016; for details please refer to materials of the full year 2016 results release

Integration mostly completed - Full focus on building Germany's largest and most modern network

Integration workstreams



Network update: Over half of network consolidation completed, significant quality improvements

Ambition: Building the best network for customer experience until 2020

April/May 15



3G National Roaming for all customers

July 15



Deal to transfer **7,700 sites** to DTE

April 16



Tower sale to Telxius

July 16



Consolidation & roll-out **4G network**

April 17



Implementation of **SON & SOC**

May 17



Implementation of **CEM**

Excellence Award 2017

August 17



1 MNC nationwide

December 17



~8,000 sites consolidated

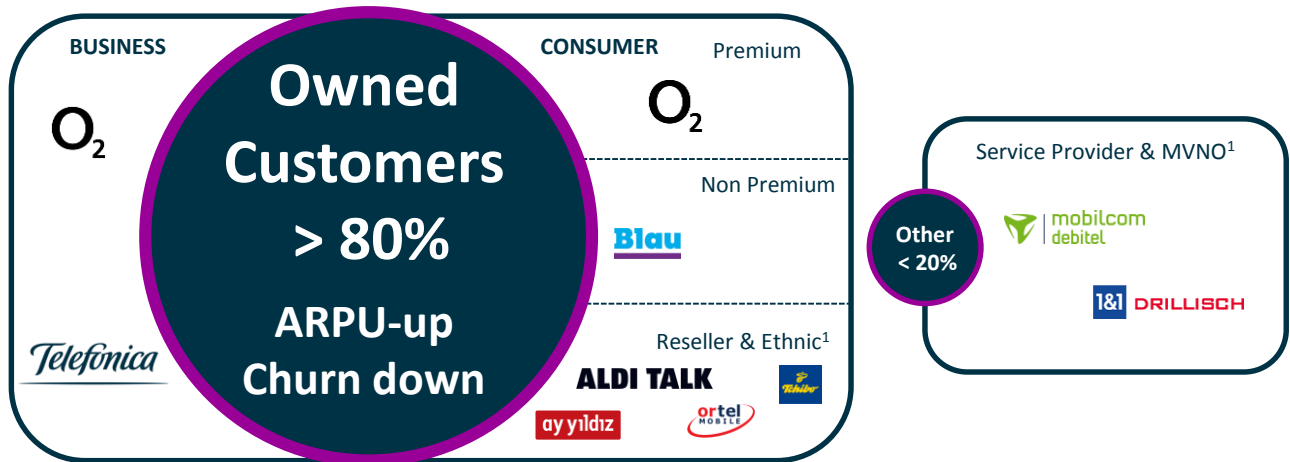
Decommissioning of 14k sites

Roll-out of 45k LTE cells

Utilisation of new licenses

Pilot network for 5G

Entering a new chapter in our history: We will become Germany's Mobile Customer & Digital Champion



¹ Not exhaustive

Digital transformation: Details to be given at our first Capital Markets Day on 23 February 2018



SIMPLER

Making **customer interaction** simpler and more intuitive



FASTER

Fulfilling **customer requests** in real-time



BETTER

Offering the best **customer experience** across each touchpoint

Q4 2017: MSR turning to growth

MSR +0.8% y-o-y
(excl. regulatory effects)

- MSR incl. regulatory effects -1.2% year-on-year; further sequential trend improvement
- O₂ Free ARPU accretive; continued headwinds from regulation & legacy base effects
- Data usage at almost 3GB for LTE customers

Net adds
+186k postpaid
+89k VDSL

- Solid operational momentum in the quarter driven by adoption of O₂ Free
- Strong partner trading in a more benign pricing environment
- Continued strong demand for VDSL

OIBDA¹
+1.4% y-o-y

- OIBDA benefitting from successful synergy capture; further margin improvement
- Approx. EUR 45 million of synergies from leaver programme, network & shops
- Margin enhancement of +0.8 percentage points year-on-year to 26.2% in the fourth quarter

OPCF
+125% y-o-y

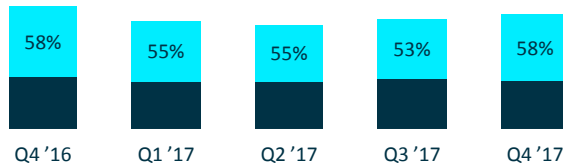
- OpCF benefits from additional approx. EUR 30 million Capex synergies
- Cash flow trajectory supports dividend commitment
- Leverage at 0.6x, in line with target

¹ Excluding exceptional effects; for details please refer to further materials of the 2017 results release

Strong partner momentum, retail on track – Effective churn management

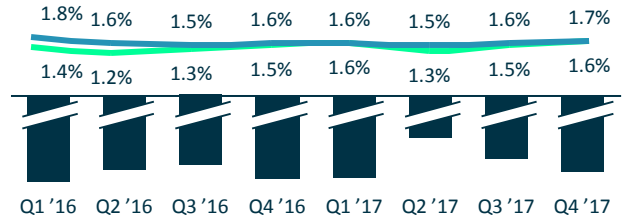
Visible effect from price increases

PO gross adds (abs) GA partner brands GA retail brands



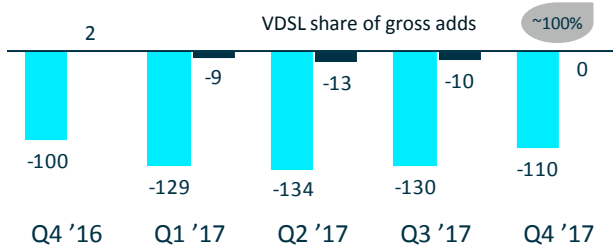
Maintaining retention focus

Postpaid churn O₂ (%) Retail & wholesale (%) Retail brands



VDSL drives fixed trading

Net adds (in thousand) DSL wholesale DSL retail

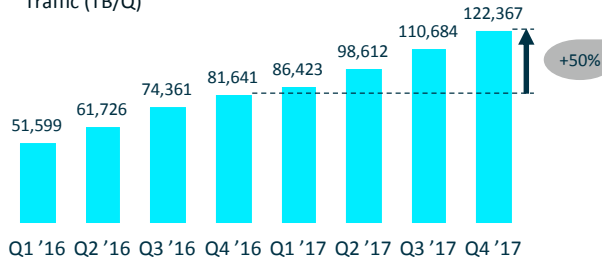


- Strong partner trading despite more benign pricing environment, focus on 4G
- Churn in O₂ consumer remains stable, with seasonal uptick in Q4
- VDSL with solid net adds of 89 thousand; wholesale migration in line with expectations

Strong growth in traffic continues leveraging larger data buckets

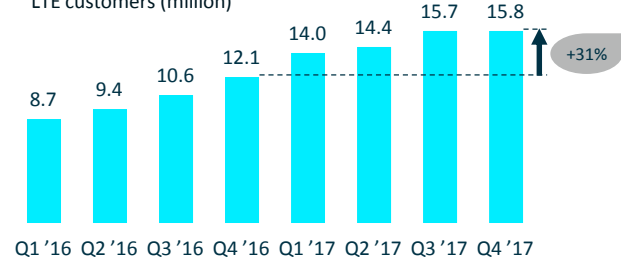
Sustained data traffic growth

Traffic (TB/Q)



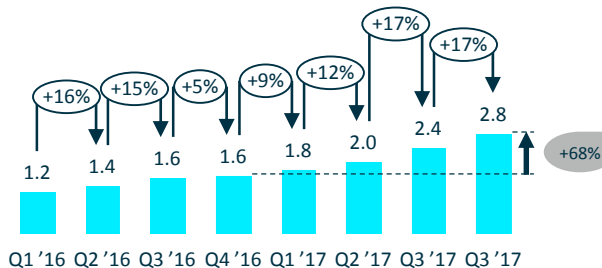
LTE adoption slowing

LTE customers (million)



Average usage creeping up to almost 3GB

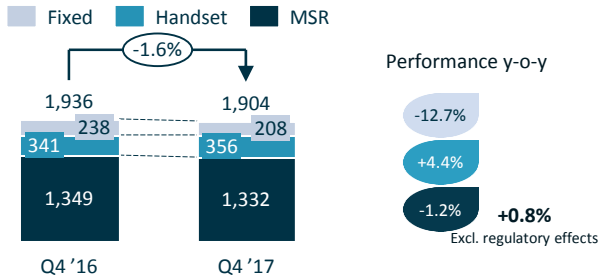
Average data usage for O₂ LTE customers (GB/m)



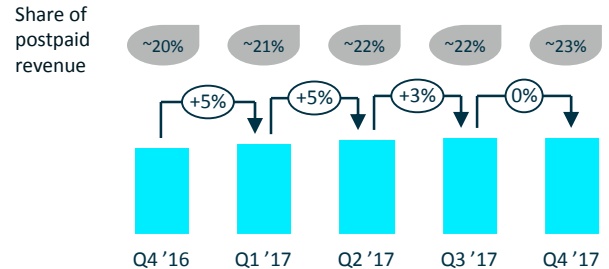
- LTE customer base at almost 16 million, +31% y-o-y
- Music & video streaming key drivers of data traffic growth of ~50% y-o-y
- Data usage for O₂ consumer LTE customers up ~70% y-o-y to almost 3 GB driven by larger data bundles; O₂ Free customers >7GB

Underlying MSR trends back to growth

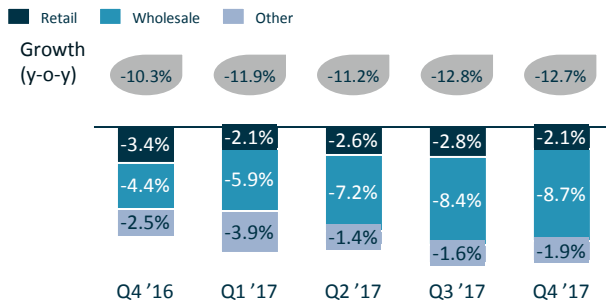
Revenue structure (in EUR m)



MSR from partner business (in EUR m)



Contribution to fixed revenue y-o-y¹ performance

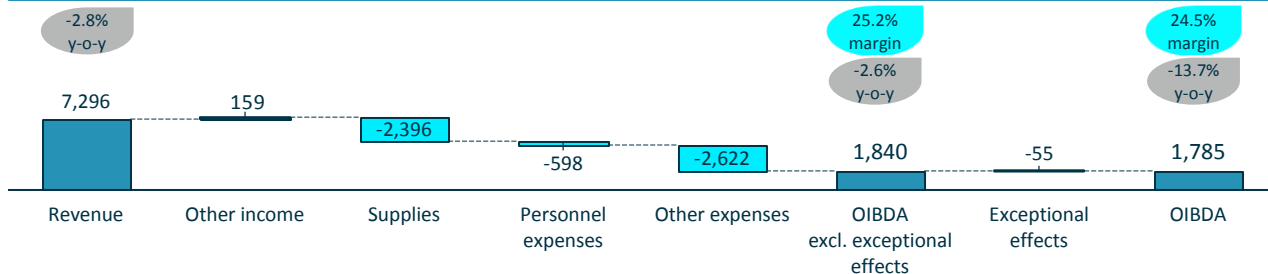


- Underlying MSR back to growth, supported by visitor roaming
- Negative regulatory effects more benign due to slow uptake of RLH
- Stable trend of partner revenue share
- Handset revenue continues to improve
- Fixed revenue reflects wholesale migration

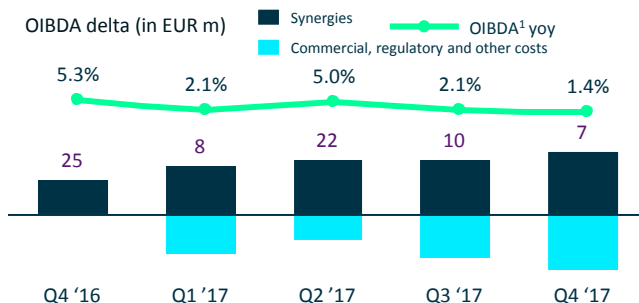
¹Please note a change in the definition of the fixed retail/wholesale split, which better reflects revenue allocation across segments

OIBDA reflects successful synergy capture, RLH-regulation and investment activities

Structure of OIBDA for January to December 2017 (in EUR m)



OIBDA growth on the back of synergy delivery



- Successful synergy capture with incremental savings of ~EUR 45 million in Q4 due to leaver programme, network consolidation & shop optimisation
- OIBDA in line with expectations; regulatory effects of EUR 51m (~3% OIBDA y-o-y)
- OIBDA¹ margin at 25.2%, up 1.3 pp y-o-y

¹ Excluding exceptional effects; for details please refer to additional materials of the Q4 2017 results release

Outlook 2018: Entering a new chapter and changing KPIs

	Baseline 2016 (EUR m)	Outlook 2017 (y-o-y pct. change)	Actual 2017 (EUR m / y-o-y pct. change)	Outlook³ 2018 (y-o-y pct. change)
Revenue	7,503	-----	7,296 / -2.8%	Broadly stable <small>Excluding negative regulatory effects of EUR 30-50 million</small>
MSR	5,437	Slightly negative to flat <small>Excl. negative regulatory effects of 3-4% y-o-y</small>	5,433 / -0.1% <small>Excl. regulatory effects of EUR 146m</small>	-----
OIBDA	1,793 ¹	Flat to low single-digit % growth	1,840¹ / +2.6%	Flat to slightly positive <small>Excluding negative regulatory effects of EUR 40-60 million</small>
CapEx	1,102	Around EUR 1 billion	950 / -13.7%	-----
C/S	14.7%	-----	13.0%	Approx. 12-13%
Dividend	EUR 0.25 per share	EUR 0.26 per share ²	EUR 0.26 per share ²	Annual Dividend growth over 3 years (2016-2018)

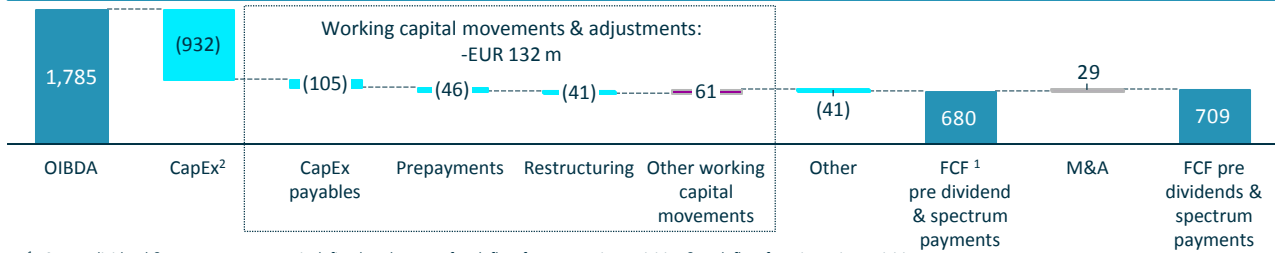
¹ Excluding exceptional effects. We have calculated a comparable for 2016 as if the sale of tower asset to Telxius SA had happened as of 1 January 2016

² Proposal. Subject to AGM resolution

³ The effects from the implementation of IFRS15 as of 1 January 2018 and IFRS16 as of 1 January 2019 are not reflected in the financial outlook. More information will be provided with the quarterly reporting during the period

Financial leverage in line with target

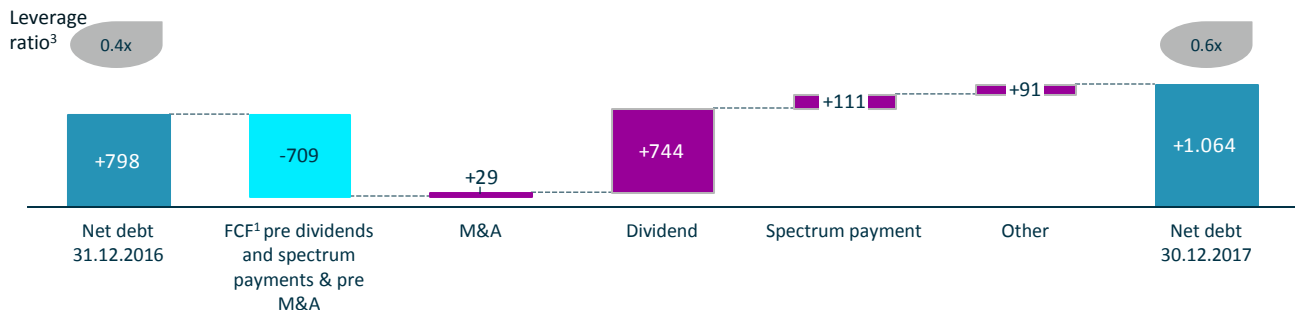
Evolution of Free Cash Flow (FCF)¹ YTD December 2017 (in EUR m)



¹ FCF pre dividend & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

² Excluding additions from capitalised finance leases and capitalised costs on borrowed capital for investments in spectrum.

Evolution of Net Debt³ (y-o-y in EUR m) – Leverage³ in line with target



³ For definition of net debt & leverage ratio please refer to Q4 2017 earnings release

Summary

Strong set of results, MSR turning to growth

Postpaid momentum strong, stimulating usage with O₂ Free

Continued OIBDA & OpFCF growth, driven by synergies & efficient
Capex

Solid outlook for 2018 with broadly stable revenue¹ and flat to slightly
positive OIBDA¹

Solid FCF, commitment to dividend

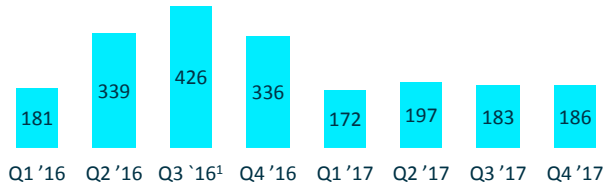
¹ Excluding regulatory effects

Appendix - KPIs

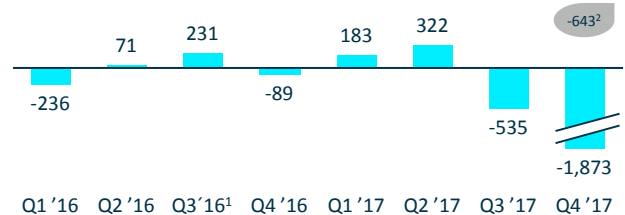


Mobile KPIs

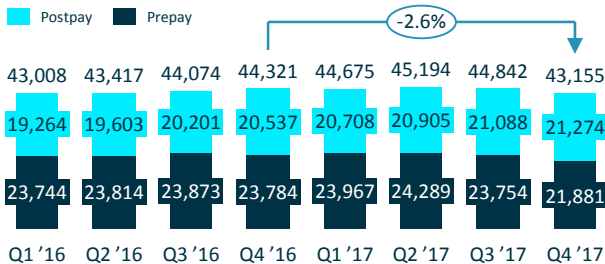
Postpay net adds ('000)



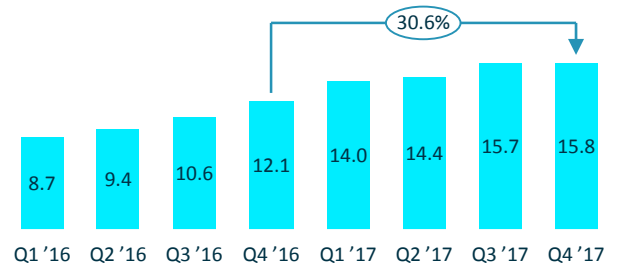
Prepay net adds ('000)



Mobile customer base ('000)



LTE customer base (in m)

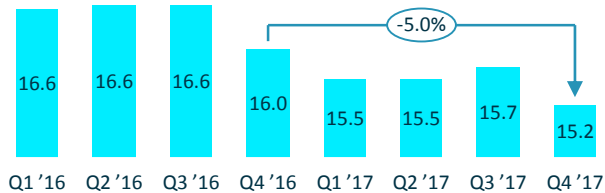


¹ Excluding reclassification of 172k customers from prepaid to postpaid as part of the customer migration activities

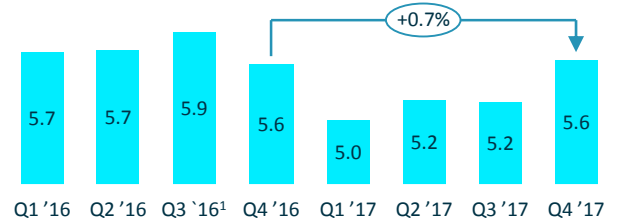
² Underlying mobile prepaid net adds: technical customer base adjustment driven by IT-harmonisation post prepaid customer migration of -1.230k

Mobile KPIs

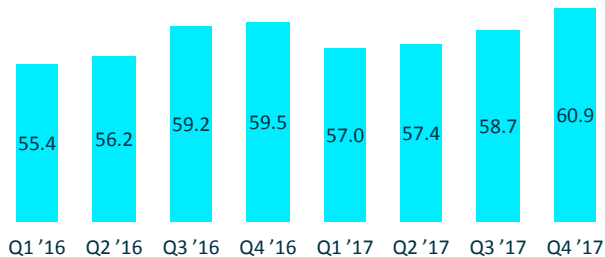
Postpay ARPU (EUR)



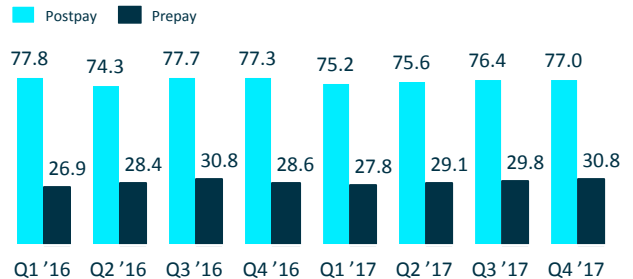
Prepay ARPU (EUR)



Smartphone penetration (%)¹



Smartphone penetration O₂ consumer (%)

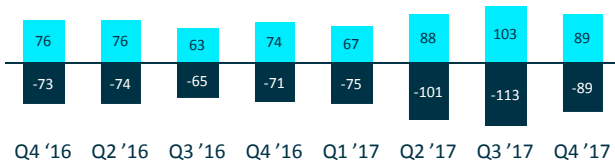


¹ Smartphone penetration is based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base less M2M, less customers with a big screen tariff

Fixed-line KPIs

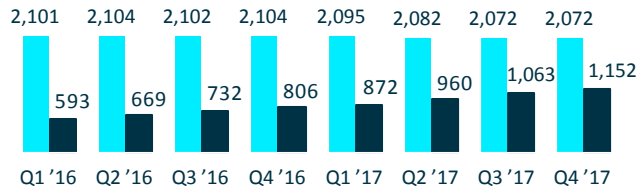
Retail broadband net adds ('000)

■ Therof DSL ■ Therof VDSL

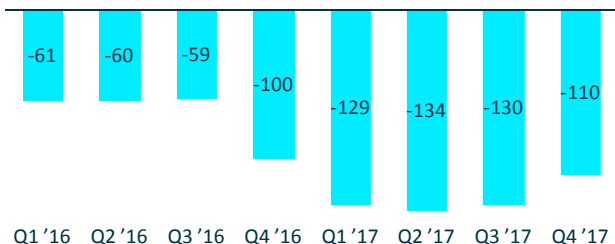


Fixed accesses ('000)

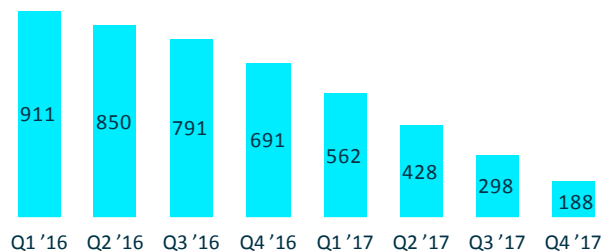
■ Retail DSL ■ thereof VDSL



Wholesale net adds ('000)

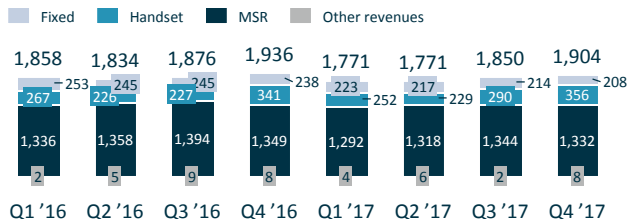


Wholesale accesses ('000)¹

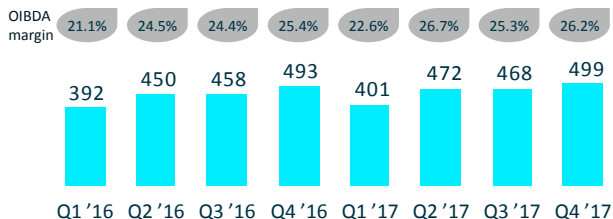


¹ Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access

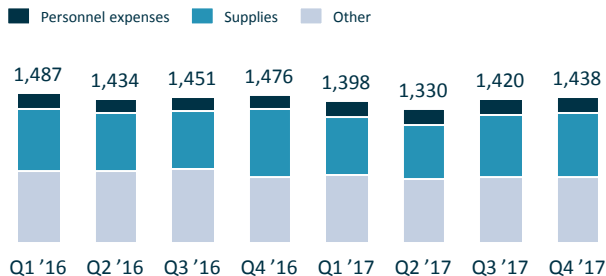
Revenue structure (EUR m)



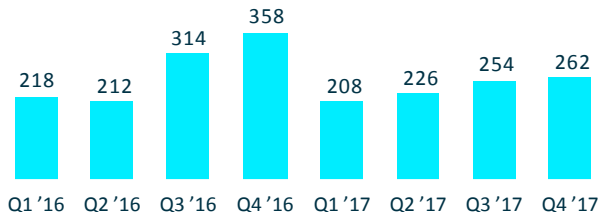
OIBDA (post GF, pre exceptional effects / EUR m)¹



OpEx split² (EUR m)



CapEx (EUR m)



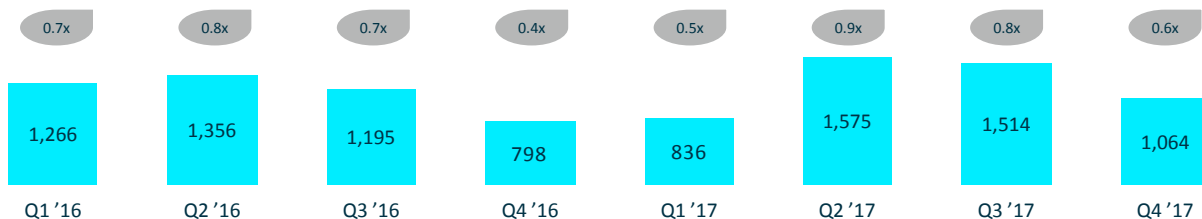
¹ Exceptional effects include restructuring costs as well as the net capital gain from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016. We have calculated a pro-forma OIBDA of EUR 1,793m for 2016, which includes the operating lease-related effects from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016, as if it had occurred on 1 January 2016

² Opex-split before exceptional effects

Financials

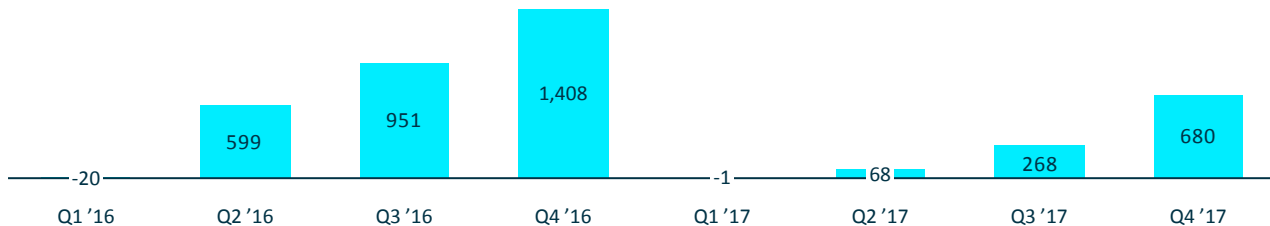
Net debt and leverage

Net financial debt



Free cash flow¹ (YTD)

Free cash flow



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

Telefonica
