

*Telefonica*

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<sup>1</sup>

**+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



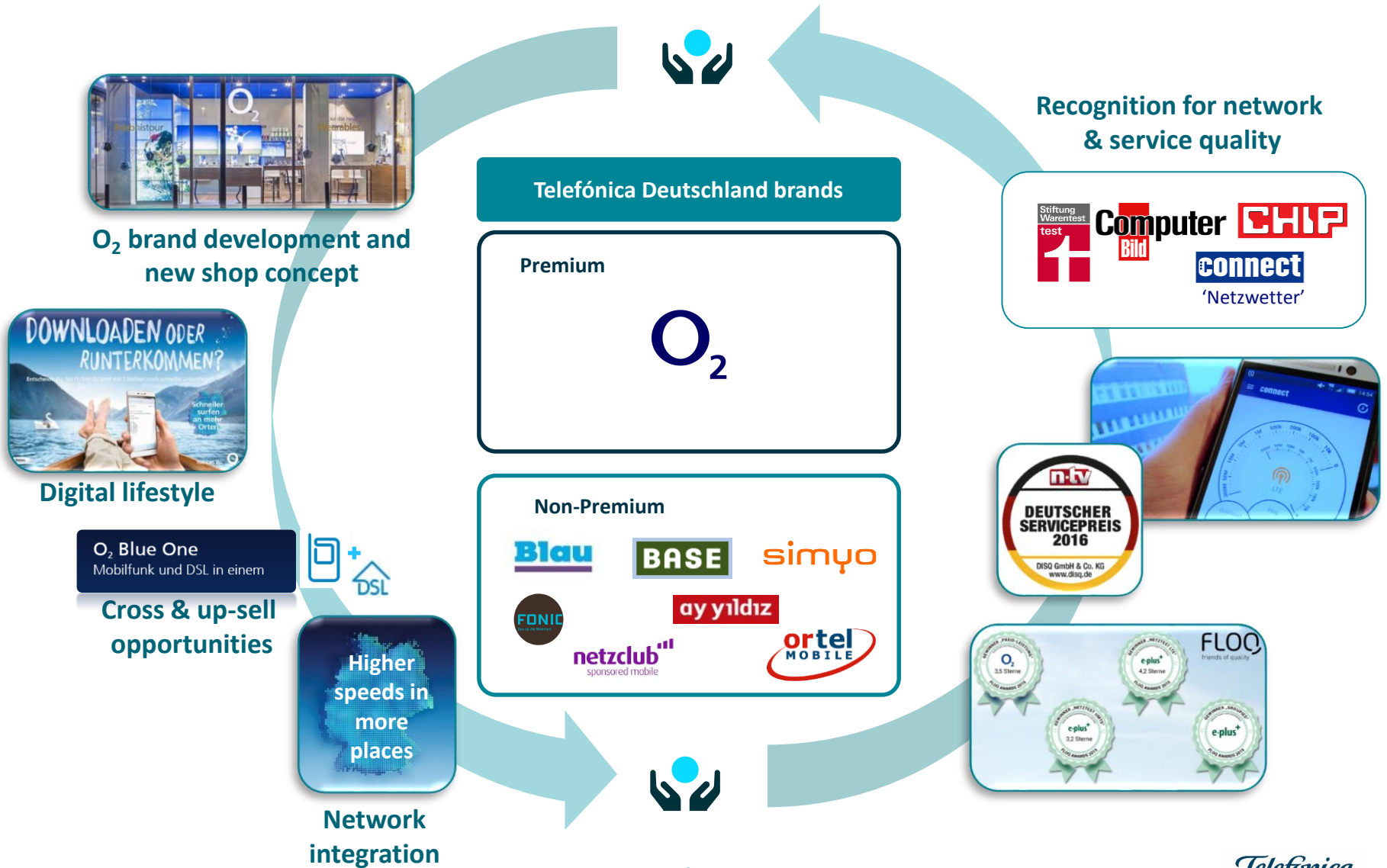
Integrate  
quickly



Transform  
the company

<sup>1</sup> 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



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# Progressing well with the future network set-up



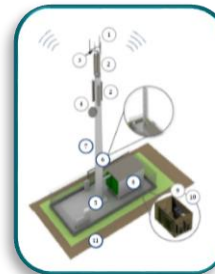
## Network structure

- 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

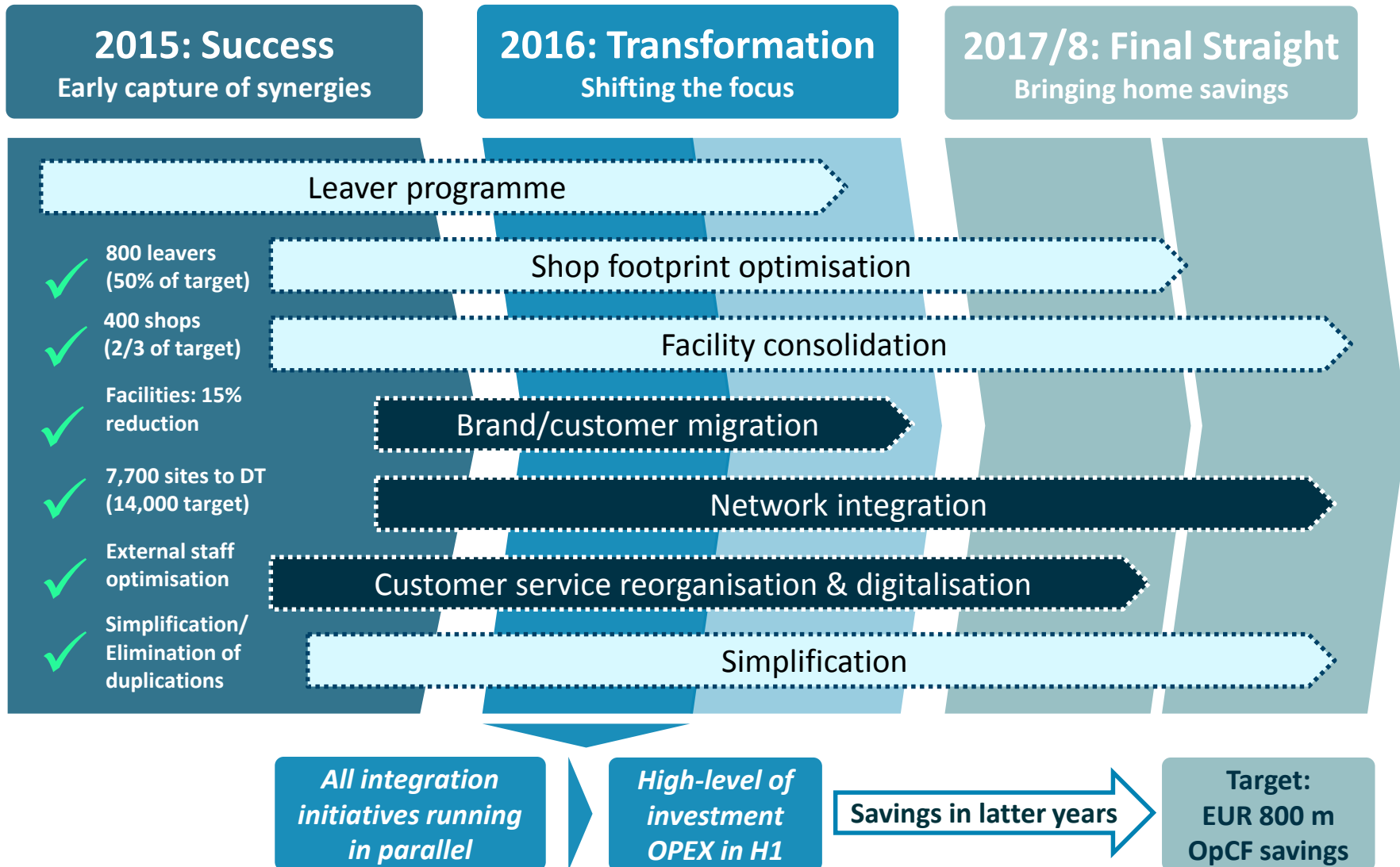
Higher speeds in more places



## 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



### Chats/Forums



### Social media



## Your smartphone is your future bank



- **O<sub>2</sub> 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<sub>2</sub> consumer
- Share of partner gross adds at ~45%
- Retail net additions positive at 3 thousand driven by VDSL demand
- Launch of O<sub>2</sub> 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

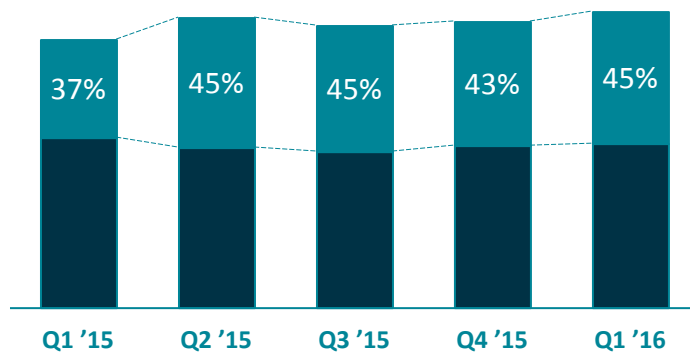
- 2016 financial outlook remains unchanged
- Exceptional and special effects with the sale of passive tower infrastructure excluded from guidance



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

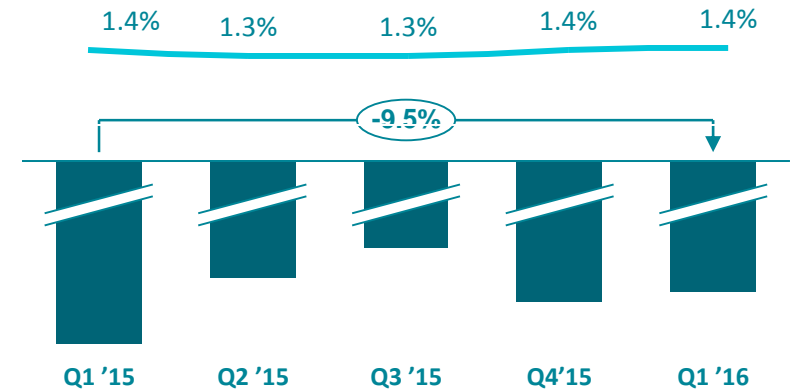
## Partner trading still strong

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



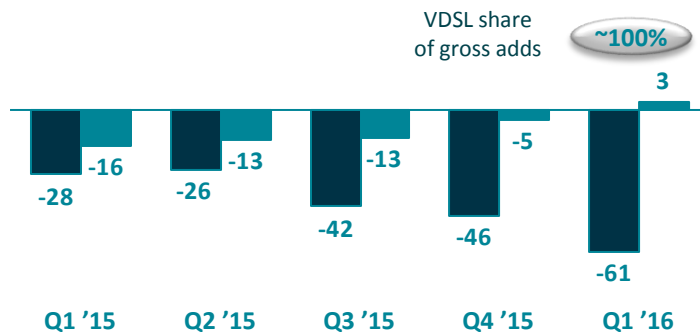
## Continued focus on retention

PO churn ■ Churn retail brands — O<sub>2</sub> PO churn (%)



## VDSL drives fixed trading

Net adds (in thousand) ■ DSL wholesale ■ DSL retail

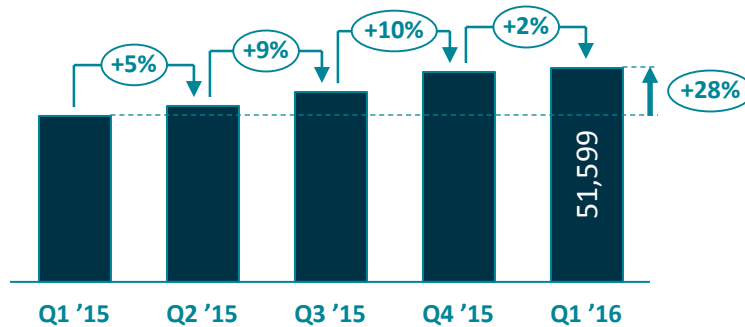


- Partner share of PO gross adds stable over 4 quarters at around 45%
- Migration progressing well
- Retention activities support consumer churn
- Positive DSL retail net adds for first time in 5 years

# LTE customer base development reflects successful data monetisation strategy

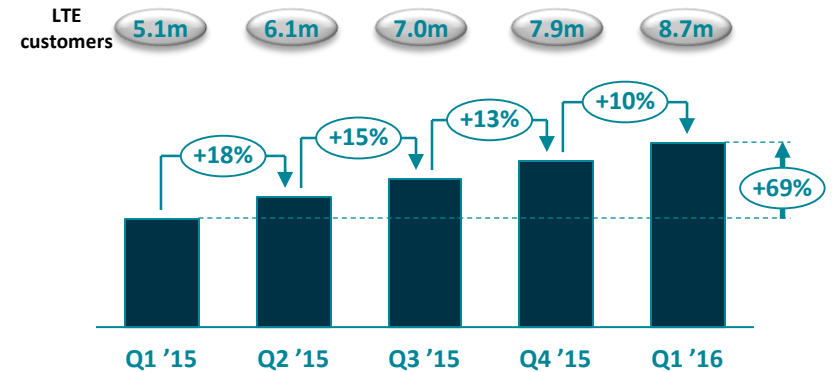
## Data traffic continues to rise

Traffic (TB/quarter)



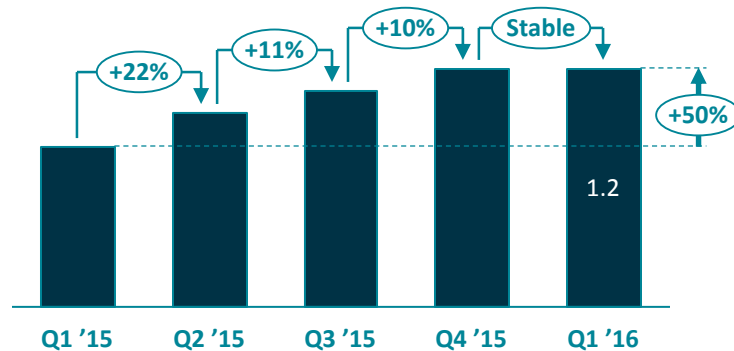
## Significant growth in LTE customer base

LTE customers (million)



## Network improvement supports usage

Average data usage for O<sub>2</sub> consumer LTE customers<sup>1</sup> (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

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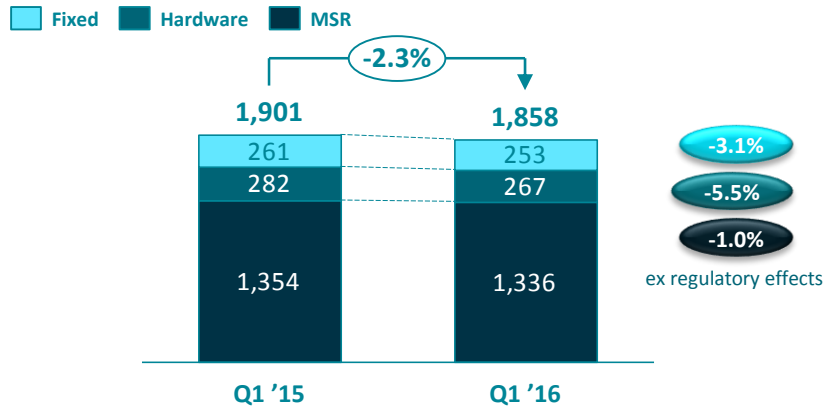
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<sup>1</sup> O<sub>2</sub> consumer base with LTE enabled smartphone (all tariffs)

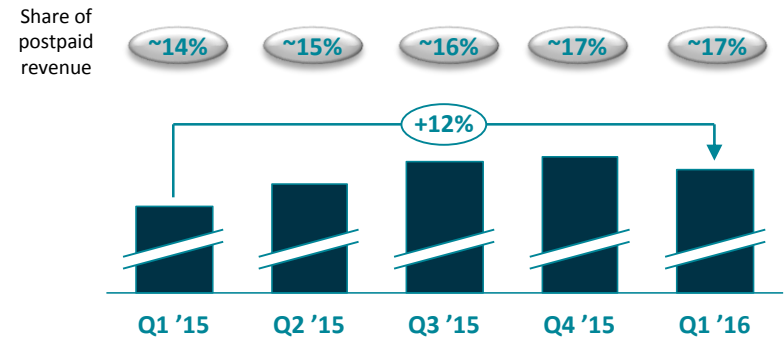
# Share of partner business over MSR stabilising; fixed revenue trajectory improving

## Revenue structure (in EUR m)

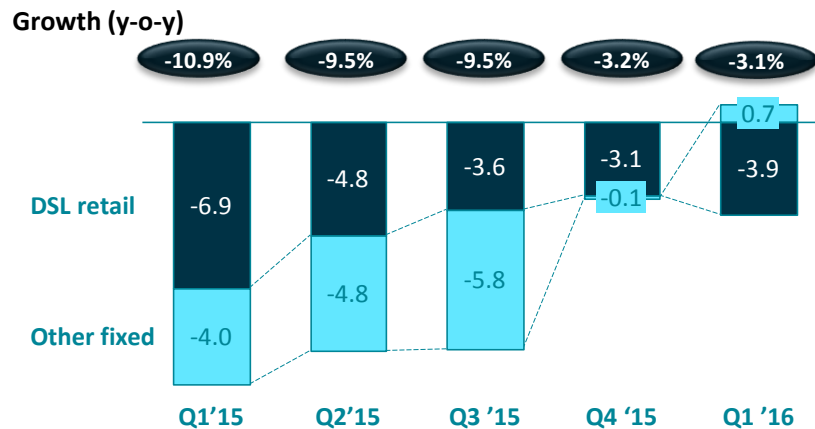


## Partner share of postpaid MSR stabilising

### MSR from partner business<sup>1</sup> (in EUR m)



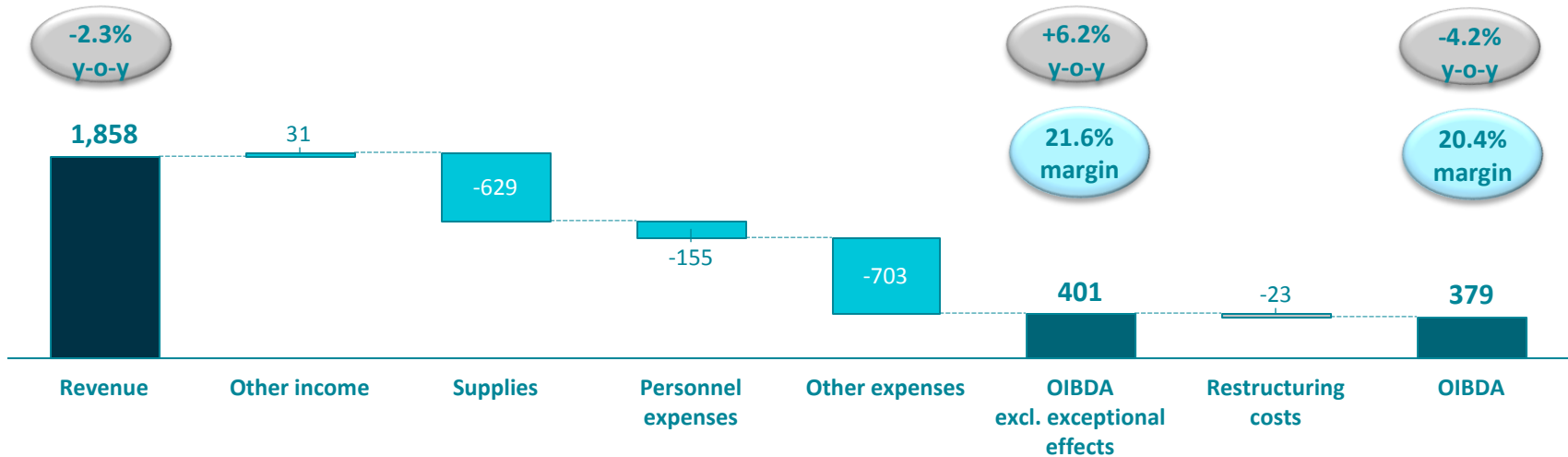
## Fixed revenue y-o-y (in %)



- 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

# Solid OIBDA growth driven by synergy execution

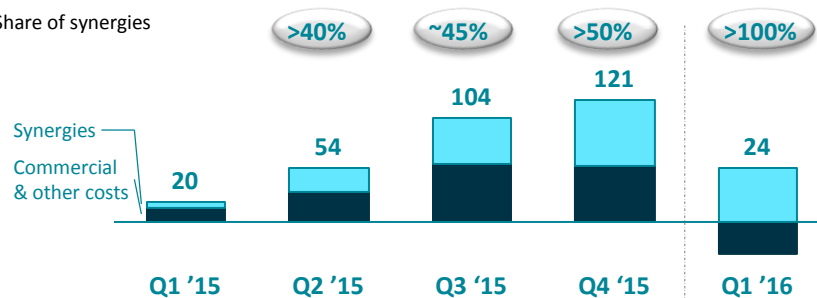
## Structure of OIBDA for January to March 2016 (in EUR m)



## Synergies driving OIBDA growth

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

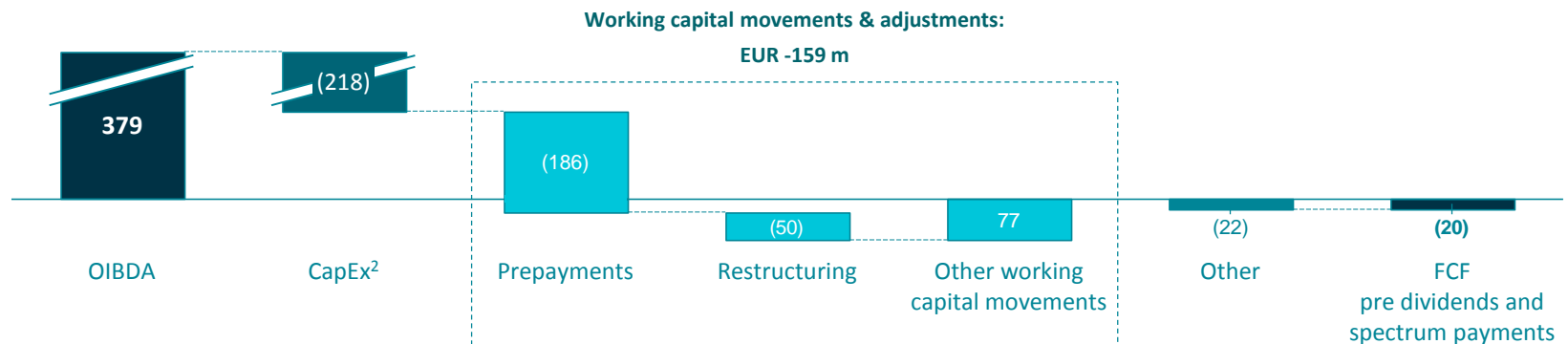
Share of synergies



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

# FCF affected by seasonality of rental payments

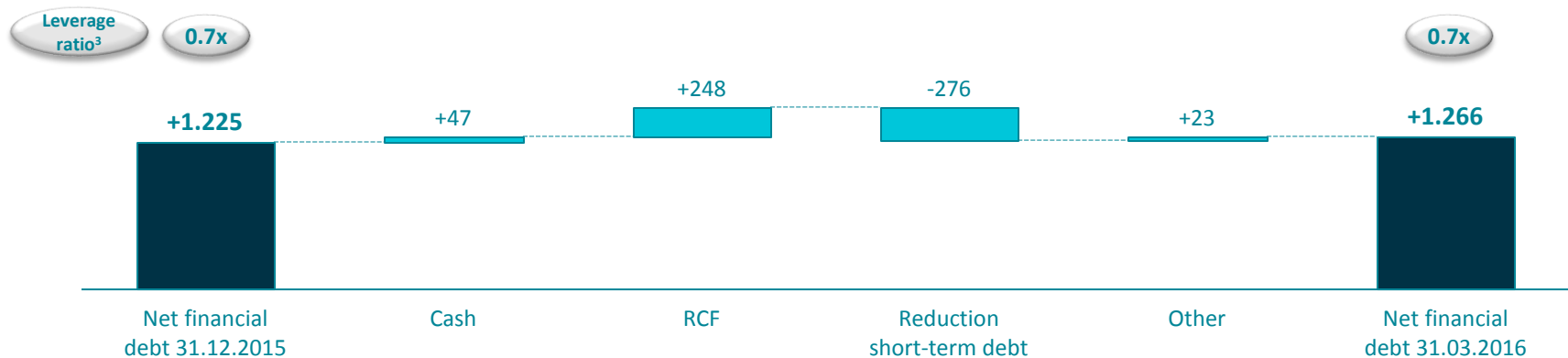
## Evolution of Free Cash Flow (FCF)<sup>1</sup> YTD March 2016 (in EUR m)



<sup>1</sup> 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.

<sup>2</sup> Excluding capitalised costs on borrowed capital in the first three months of 2016 for investments in spectrum in June 2015

## Evolution of Net Debt<sup>2</sup> (y-o-y in EUR m) – Leverage ratio<sup>3</sup> remains at 0.7x



<sup>3</sup> 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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