

# Investor presentation

# Telefónica Deutschland

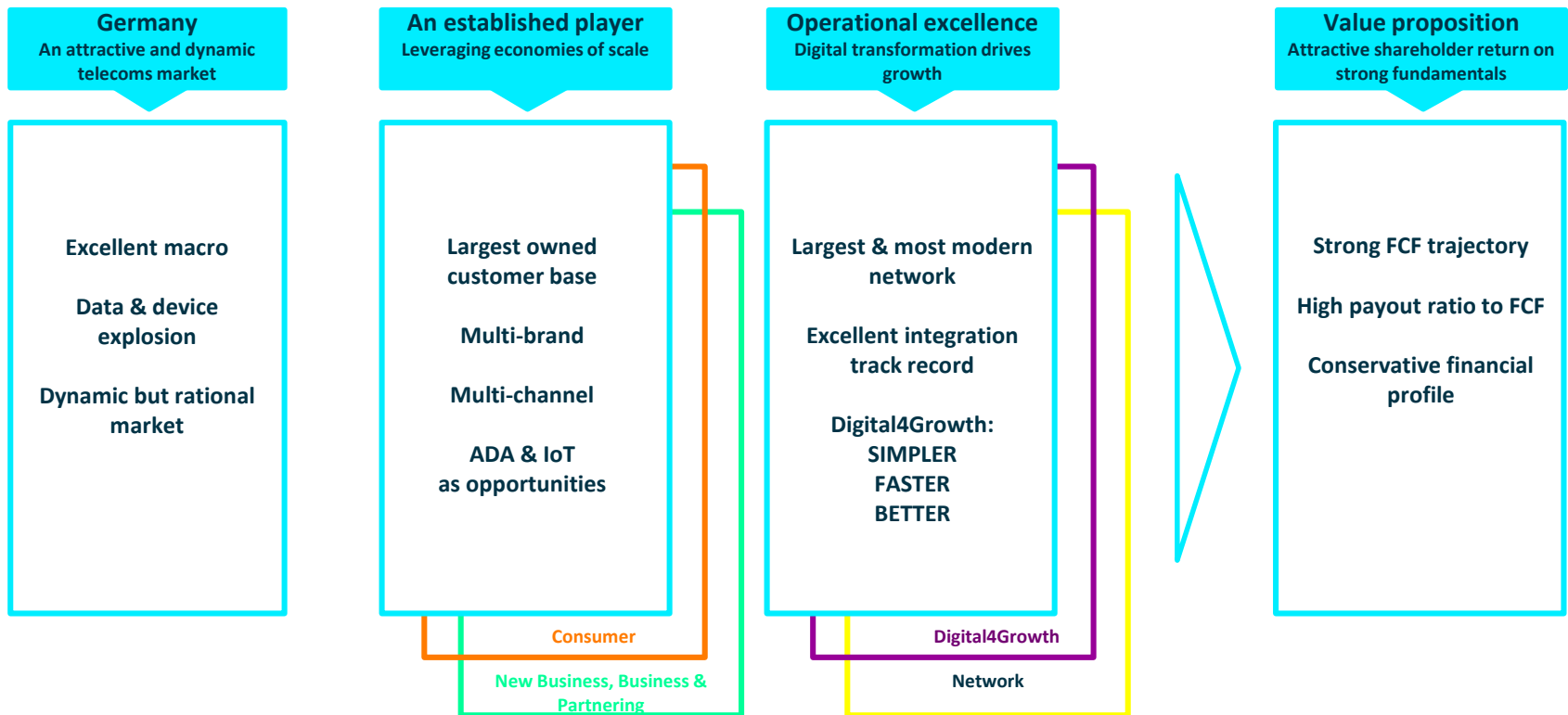


Investor Relations  
Q1 2019

# Disclaimer

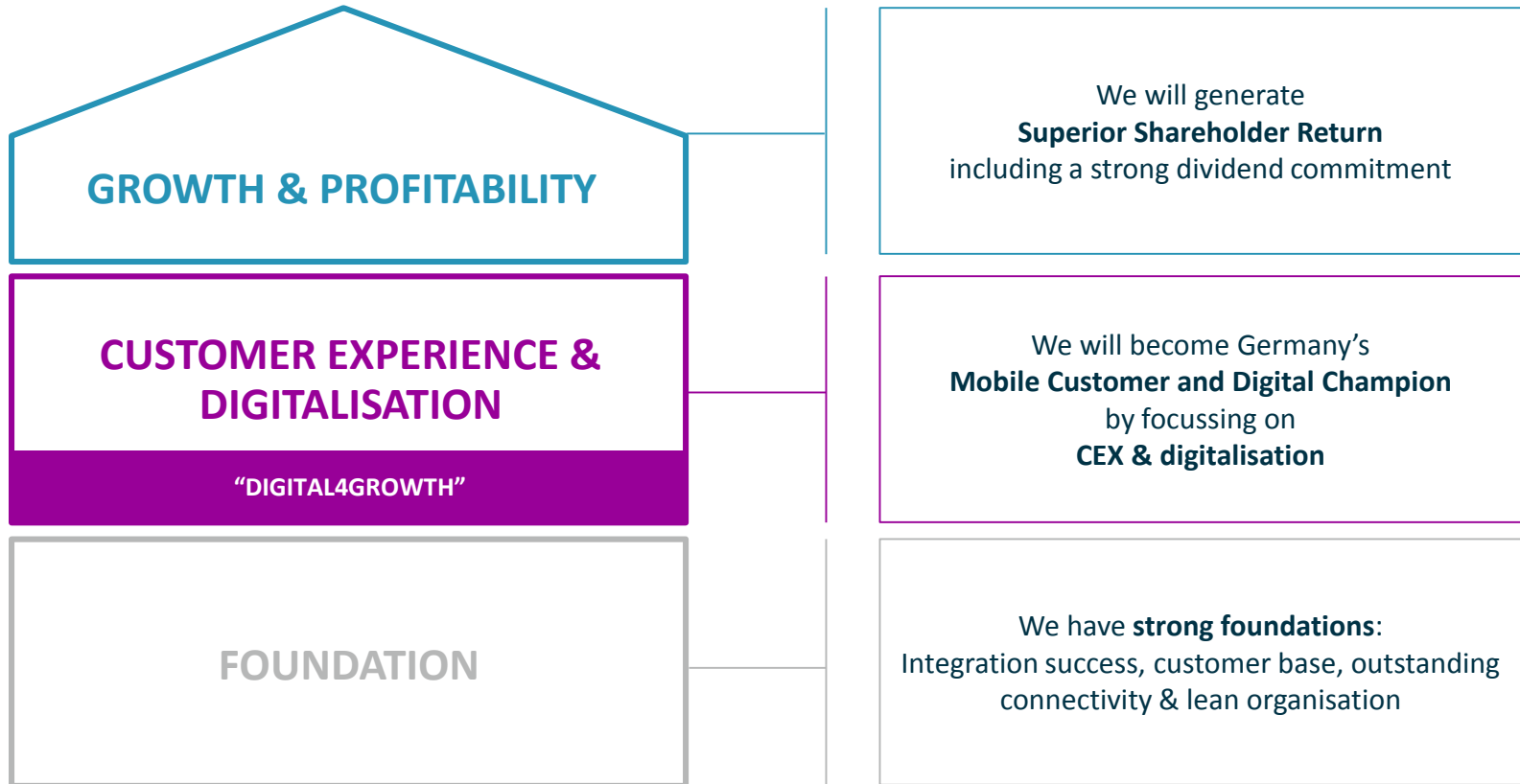
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# The Telefónica Deutschland Equity Story: Becoming the Mobile Customer & Digital Champion



<sup>1</sup> Excluding regulatory effects

# Strategic priorities of Telefónica Deutschland



# The German market thesis



## Environment

Largest 4 to 3 merger in Europe, rational and dynamic market; mobile data usage increase and IoT drive market opportunity with focus on retention and fair market share

## Data & sensors



Device & sensor opportunity: Consumer will mainly buy IoT from an existing relationship



## Convergence

Soft convergence: Limited consumer demand for quadruple play due to large FTA offering; wholesale access to incumbent broadband network

## New regulatory environment



Europe needs a common regulatory framework on spectrum, as well as deregulation and a consistent framework for OTT & net neutrality to encourage investments

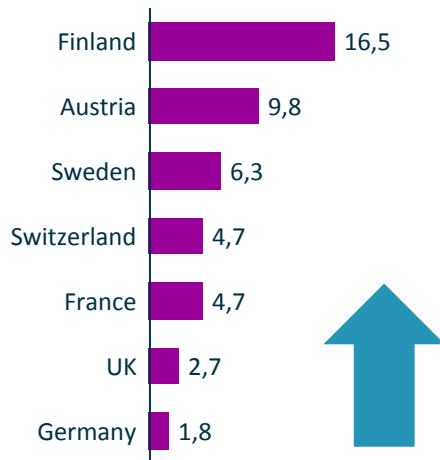
<sup>1</sup> Statistisches Bundesamt (2018)

<sup>2</sup> Arbeitsagentur (Apr 2018)

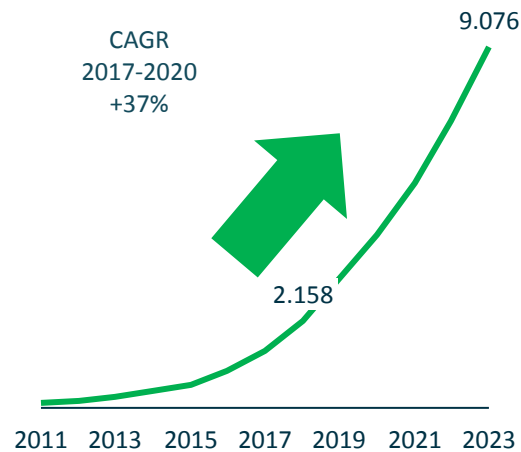
# The data & device opportunity: Expecting explosive growth

## MARKET TRENDS – German market with significant further growth potential

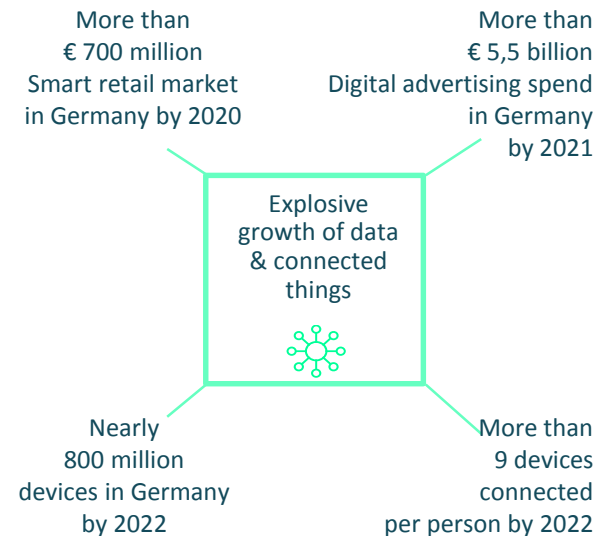
**Mobile data usage in Europe<sup>1</sup>**  
in GB/month per connection



**Mobile data traffic in Germany<sup>1</sup>**  
Annual volume of mobile data traffic  
in m GB



**ADA and IoT growth opportunity<sup>2</sup>**



- Germany still a European laggard in terms of customer data usage
- Further opportunities from growing LTE adoption

- Music & video streaming as usage drivers
- Trend to 3 GB/month for LTE customers

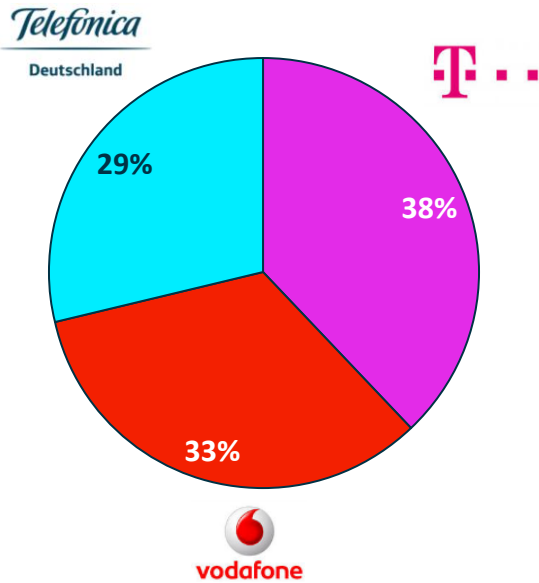
- Device & sensor opportunity: Consumer will mainly buy IoT from an existing relationship

Source: <sup>1</sup> Analysys Mason "Western Europe telecoms market trends and forecasts 2018–2023", 05.03.2019

<sup>2</sup> Company Research / Simon-Kucher & Partners analysis (2017) / Cisco VNI Global forecast (2019) / Please note: Devices including cellular, wifi & Bluetooth

# Competitive environment Germany

## Rational and balanced market structure<sup>1</sup>

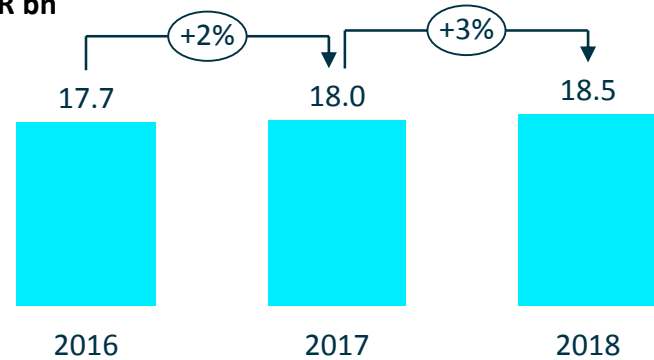


- Rational market following 4 to 3 consolidation
- Tiered mobile data portfolios enabling data monetisation

## Market development in past years<sup>2</sup>

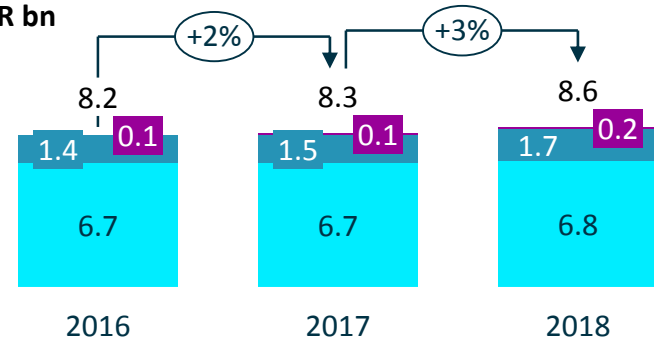
### Mobile market: Service revenues

EUR bn



### Fixed broadband retail revenues

EUR bn



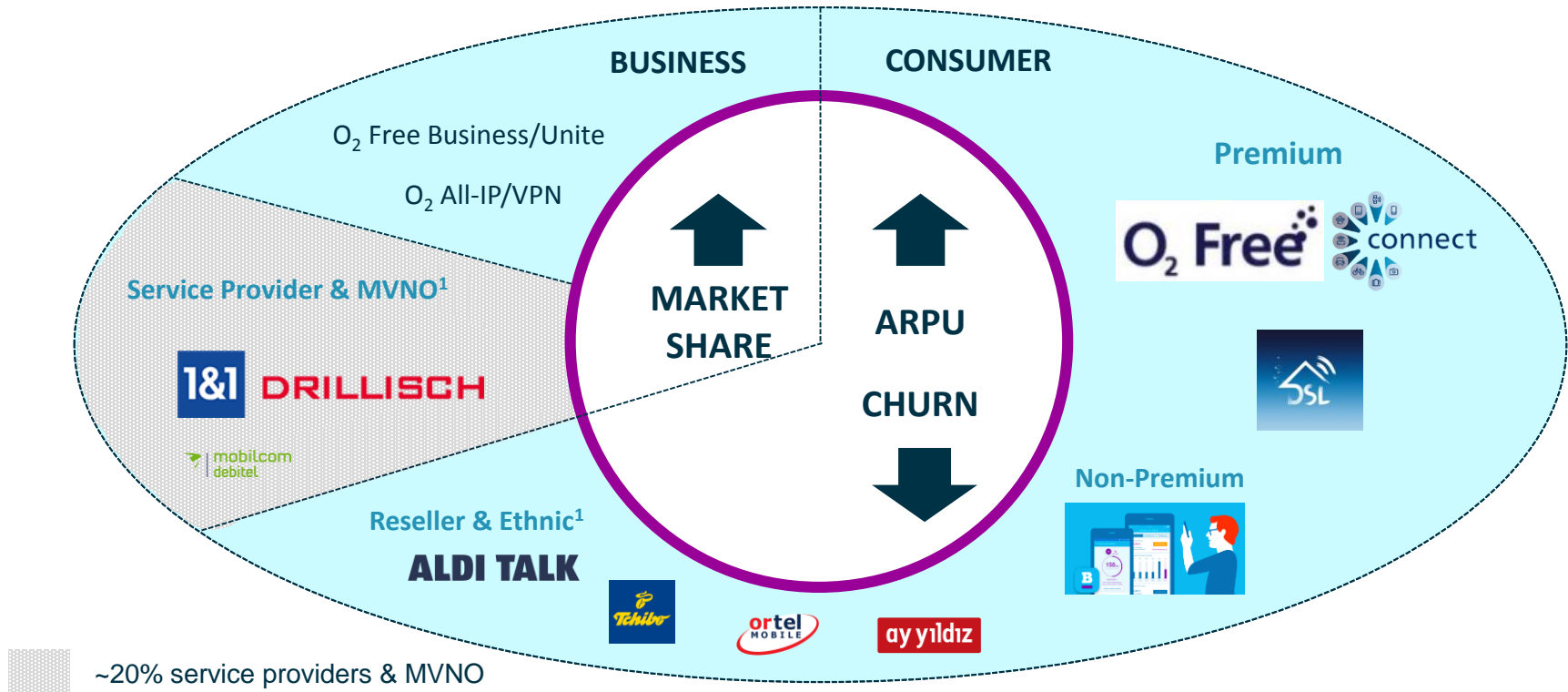
■ Fibre ■ Cable ■ DSL

<sup>1</sup> Market share of MSR based on reported financials by MNOs for Q4 2018

<sup>2</sup> Source: Analysys Mason "Western Europe telecoms market trends and forecasts 2018–2023", 05.03.2019

# Largest owned customer base of ~35 million

 >80% owned customers

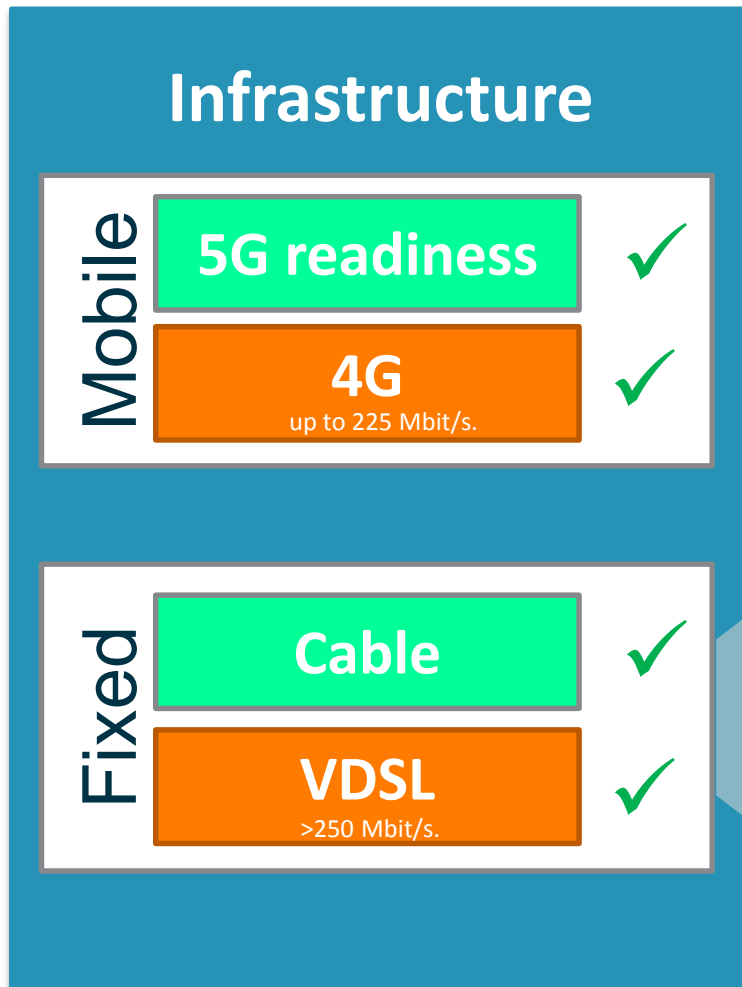


<sup>1</sup> Not exhaustive



# Mobile Customer & Digital Champion

## All-round infrastructure player



### Diversified fixed-network

- Cable wholesale access with Vodafone<sup>1</sup>
  - Expanding nationwide fixed-network
  - High-speed internet via cable
- Long-term VDSL partnership with Deutsche Telekom

<sup>1</sup>Subject to merger approval by the EU

# Mobile Customer & Digital Champion

## Building Germany's biggest and most modern network



### Accelerating LTE rollout

new sites  
**>2k**  
in Q1 2019

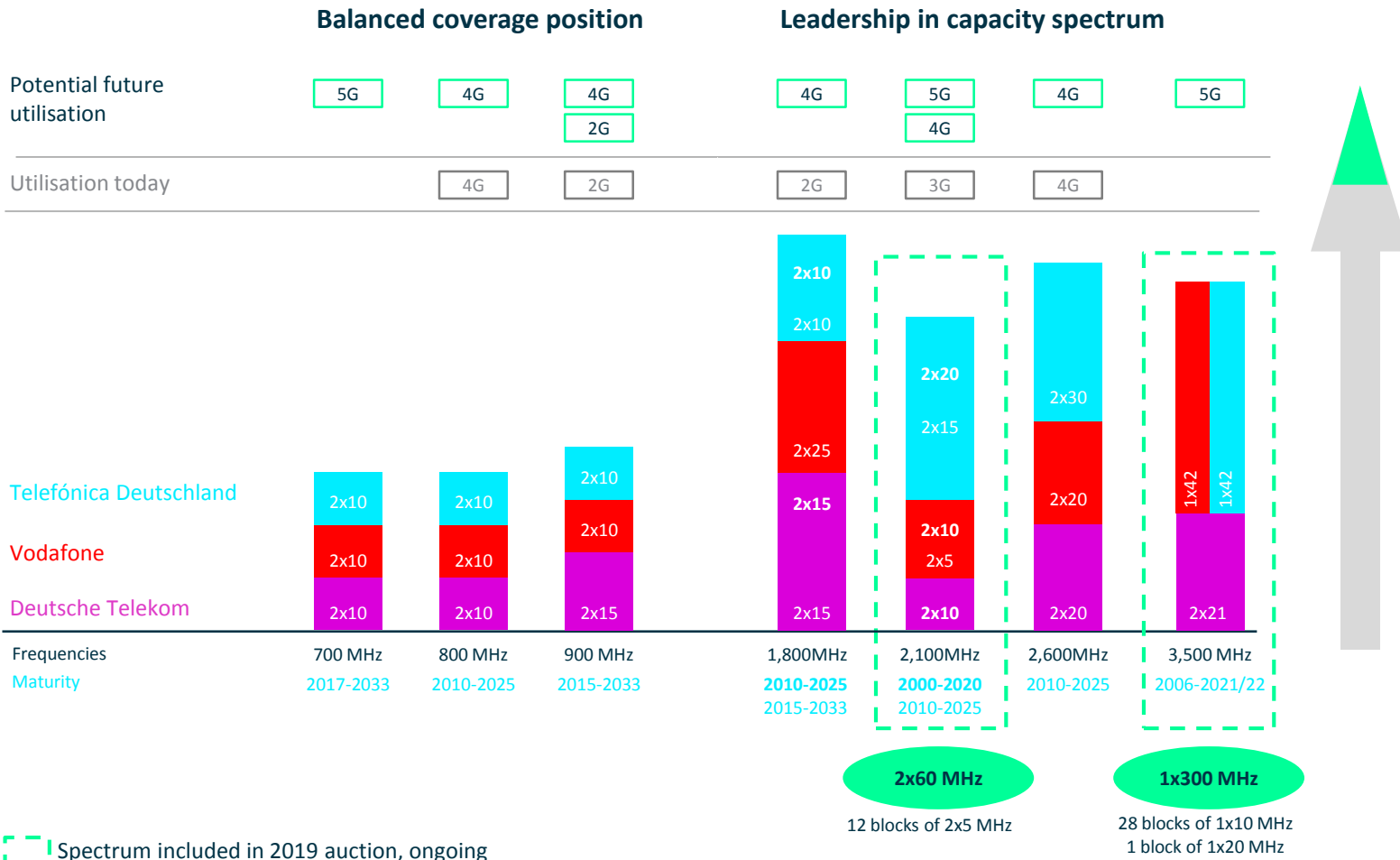
LTE  
**~90%**  
pop coverage

broadband coverage  
**~95%**  
3G & 4G combined

**~25%**  
fiberised sites  
in backhaul

Mobile data  
**193,007** TB  
on our mobile network

# Future-proof spectrum setup to enable best customer experience



Spectrum included in 2019 auction, ongoing

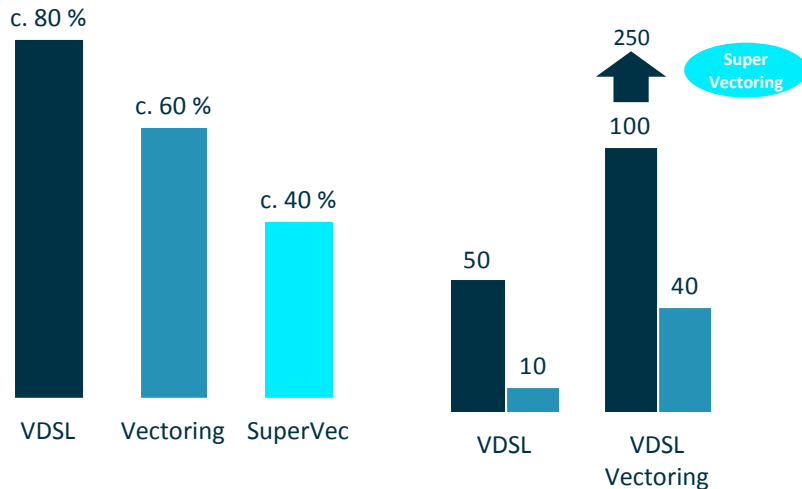
# Fixed infrastructure model to complement our mobile network for best high-speed experience

## Access to best available fixed NGA<sup>1</sup> networks and multi-sourcing

NGA coverage  
(% of covered households)

Maximum speed  
(Up- & Download, Mbps)

■ Download ■ Upload



- Nationwide access to DT NGA network – DT is currently focussed on upgrading VDSL to Vectoring and SuperVectoring
- Cooperation with vitroconnect started in Q4 to access footprints of alternative carriers – 1<sup>st</sup> partner is EWE TEL

<sup>1</sup> NGA: Next Generation Access including VDSL, Vectoring and future FTTH deployments

## Fixed

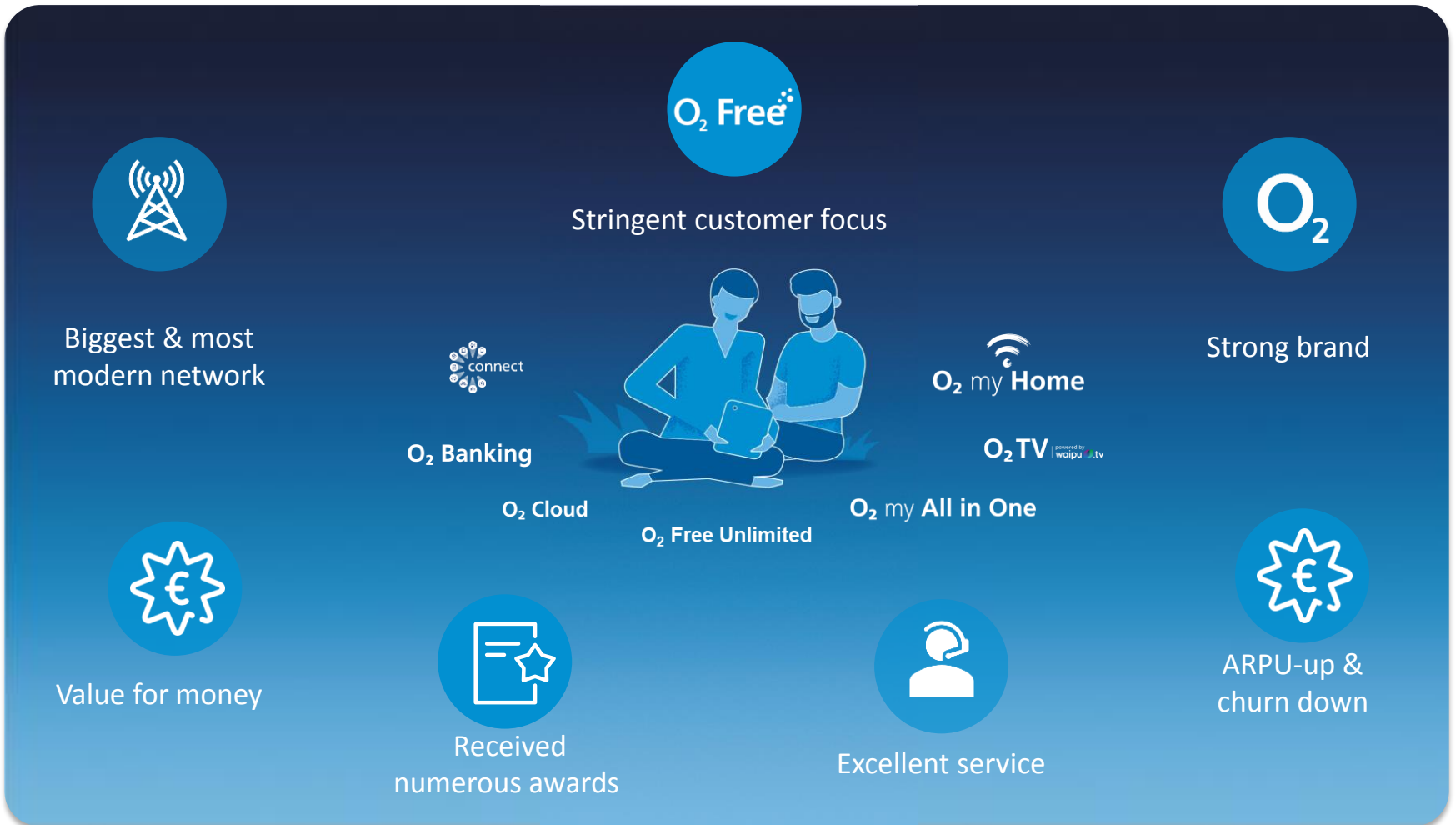
- Access to best available **fixed NGA network<sup>1</sup>** with access to >34 million VDSL households
- Access to up to 24 million **cable** households via Vodafone network in Germany, contingent upon acquisition of Unity Media by Vodafone
- Full **convergence** capabilities

## Mobile fibre backhaul

- **Fibre backhaul** plan as a key enabler for 5G
- Target: >90% fibre in sub-/urban areas
- Target: >25% fibre in rural areas
- Differentiated sourcing model

# Mobile Customer & Digital Champion

## Well-positioned with O<sub>2</sub> Free



# O<sub>2</sub> Free, my All in One & DSL portfolio


## 2019 O<sub>2</sub> Free connect + boost

O <sub>2</sub> Free Unlimited <b>unbegrenzt</b>	O <sub>2</sub> Free L <b>30 GB</b>	Preis-Leistungs-Tipp O <sub>2</sub> Free M <b>10 GB</b>	O <sub>2</sub> Free S <b>1 GB</b>
<ul style="list-style-type: none"> <li>✓ Unbegrenzte Highspeed-Daten mit LTE Max.</li> <li>✓ Allnet-Flat in alle dt. Netze</li> </ul>	<ul style="list-style-type: none"> <li>✓ 30 GB Highspeed-Daten mit LTE Max.</li> <li>✓ Allnet-Flat in alle dt. Netze</li> </ul>	<ul style="list-style-type: none"> <li>✓ 10 GB Highspeed-Daten mit LTE Max.</li> <li>✓ Allnet-Flat in alle dt. Netze</li> </ul>	<ul style="list-style-type: none"> <li>✓ 1 GB Highspeed-Daten mit LTE Max.</li> <li>✓ Allnet-Flat in alle dt. Netze</li> </ul>
	<p><b>Für nur 3 € mit mehr</b></p> <p>60 GB mit Connect-Option: <input type="checkbox"/> Datenvolumen auf mehreren mobilen Geräten nutzen</p>	<p><b>Für nur 3 € mit mehr</b></p> <p>20 GB mit Connect-Option: <input type="checkbox"/> Datenvolumen auf mehreren mobilen Geräten nutzen</p>	<p><b>Für nur 3 € mit mehr</b></p> <p>2 GB mit Connect-Option: <input type="checkbox"/> Datenvolumen auf mehreren mobilen Geräten nutzen</p>
<p>Tarifdetails &gt;</p> <p>Produktinformationsblatt &gt;</p> <p>monatlich <b>59,99</b> + Anschlusspreis 29,99 €</p>	<p>Tarifdetails &gt;</p> <p>Produktinformationsblatt &gt;</p> <p>monatlich <b>39,99</b> + Anschlusspreis 29,99 €</p>	<p>Tarifdetails &gt;</p> <p>Produktinformationsblatt &gt;</p> <p>monatlich <b>29,99</b> + Anschlusspreis 29,99 €</p>	<p>Tarifdetails &gt;</p> <p>Produktinformationsblatt &gt;</p> <p>monatlich <b>19,99</b> + Anschlusspreis 29,99 €</p>

Double data and  feature for additional EUR 5 for O<sub>2</sub> Free S, M and L

## 2019 O<sub>2</sub> my All in One

O <sub>2</sub> my All in One Unlimited <b>unbegrenzt LTE</b> und 50 MBit/s DSL	Preis-Leistungs-Tipp O <sub>2</sub> my All in One XL <b>60 GB LTE</b> und 50 MBit/s DSL
<ul style="list-style-type: none"> <li>✓ Unbegrenzte Highspeed-Daten mit LTE Max.</li> <li>✓ Unbegrenzt DSL mit bis zu 50 MBit/s und Telefon-Flat vom Festnetz in alle dt. Netze</li> <li>✓ Allnet-Flat in alle dt. Netze</li> <li>✓ Allnet-Flat ins EU-Ausland</li> </ul>	<ul style="list-style-type: none"> <li>✓ 60 GB Highspeed-Daten mit LTE Max.</li> <li>✓ Unbegrenzt DSL mit bis zu 50 MBit/s und Telefon-Flat vom Festnetz in alle dt. Netze</li> <li>✓ Allnet-Flat in alle dt. Netze</li> </ul>
<p><b>Für nur 20 € mit mehr</b></p> <p>Connect-Option: <input type="checkbox"/> Datenvolumen auf mehreren mobilen Geräten nutzen</p>	
<p>Tarifdetails &gt;</p> <p>Produktinformationsblatt &gt;</p> <p>monatlich <b>79,99</b> + Anschlusspreis 29,99 €</p>	<p>Tarifdetails &gt;</p> <p>Produktinformationsblatt &gt;</p> <p>monatlich <b>59,99</b> + Anschlusspreis 29,99 €</p>

 feature with up to 9 Sim cards can be activated for an additional EUR 20 for unlimited

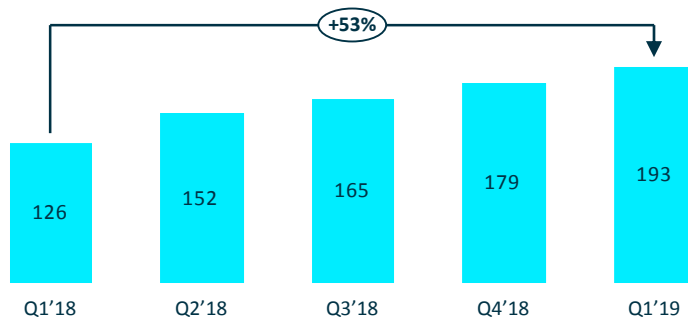
## 2018 O<sub>2</sub> DSL

O <sub>2</sub> my Home L <sup>1</sup> <b>100 MBit/s DSL</b>	Unsere Empfehlung O <sub>2</sub> my Home M <sup>2</sup> <b>50 MBit/s DSL</b>	O <sub>2</sub> my Home S <sup>3</sup> <b>10 MBit/s DSL</b>
<ul style="list-style-type: none"> <li>✓ Super-Highspeed DSL: Download bis zu 100 MBit/s Upload bis zu 40 MBit/s</li> <li>✓ Telefon-Flat: kostenlos in alle dt. Netze</li> <li>✓ B. € Anschlussgebühr</li> <li>✓ B. € Bereitstellungsgebühr bei Router-Auswahl</li> </ul>	<ul style="list-style-type: none"> <li>✓ Highspeed DSL: Download bis zu 50 MBit/s Upload bis zu 10 MBit/s</li> <li>✓ Telefon-Flat: kostenlos in alle dt. Netze</li> <li>✓ B. € Anschlussgebühr</li> <li>✓ B. € Bereitstellungsgebühr bei Router-Auswahl</li> </ul>	<ul style="list-style-type: none"> <li>✓ DSL: Download bis zu 10 MBit/s Upload bis zu 2,4 MBit/s</li> <li>✓ Telefon-Flat: kostenlos in alle dt. Netze</li> <li>✓ B. € Anschlussgebühr</li> <li>✓ B. € Bereitstellungsgebühr bei Router-Auswahl</li> </ul>
<p>Effektivpreis pro Monat: nur 29,99 € (1)</p> <p>monatlich <b>24,99</b> 40 dtm 15. Monat 24,99 €</p>	<p>Effektivpreis pro Monat: nur 22,07 € (1)</p> <p>monatlich <b>19,99</b> 40 dtm 15. Monat 24,99 €</p>	<p>Effektivpreis pro Monat: nur 22,07 € (1)</p> <p>monatlich <b>14,99</b> 40 dtm 15. Monat 24,99 €</p>

# Data usage continues to grow with a CAGR of ~50%

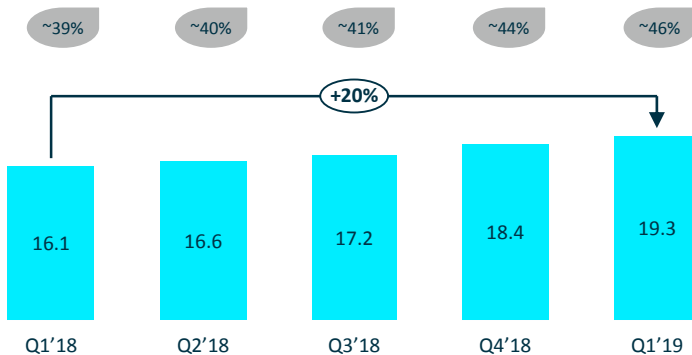
## Mobile data with sustainable growth rates

Traffic (TB/Q)



## LTE customer base further increasing

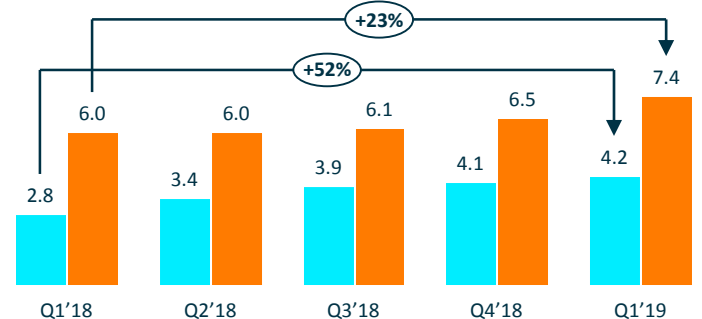
LTE customers (in million) / LTE penetration (in %)



## O<sub>2</sub> Free tariffs driving data growth

Average data usage for O<sub>2</sub> LTE customers (GB/month)

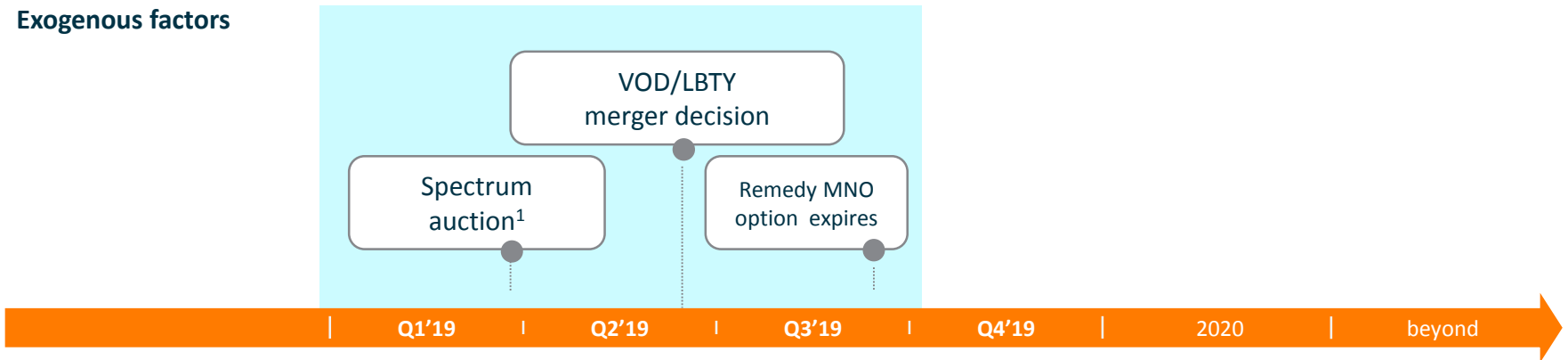
■ O<sub>2</sub> Free M tariff



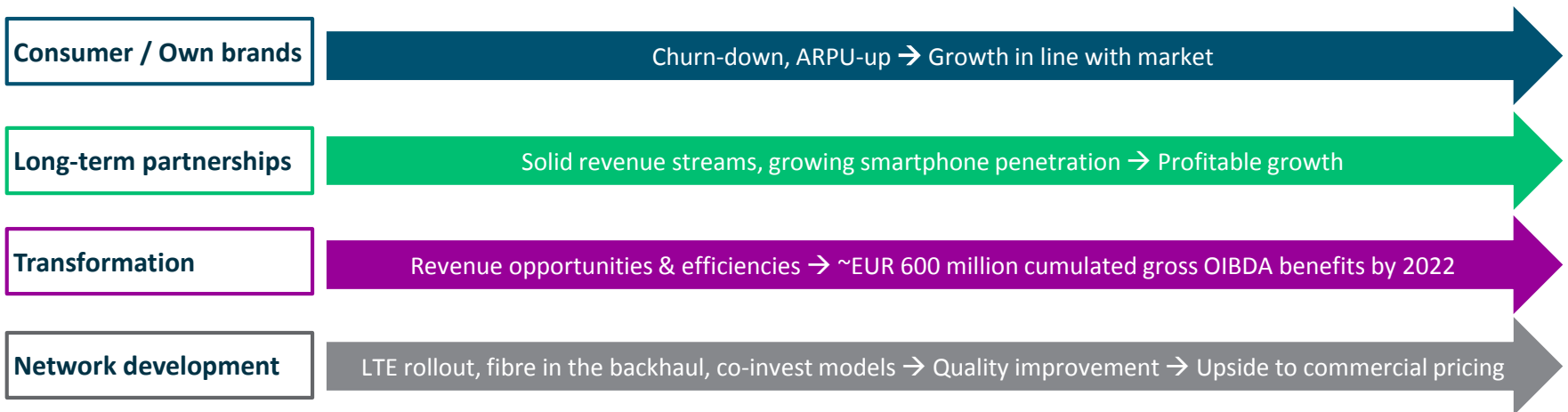
- Data continues to grow with a CAGR of ~50% driven by large data buckets and continuous LTE adoption; streaming services as the major driver
- Average data usage of O<sub>2</sub> LTE customers >4GB per month, O<sub>2</sub> Free customers consume >7GB per month in the most popular M tariff
- LTE customer base up +19.6% y-o-y to 19.3 million
- LTE penetration up 8 p.p. y-o-y, already ca. 60% LTE penetration in postpaid

# Underlying business solid; key drivers for 2019 with challenges and opportunities

## Exogenous factors



## Org. business development



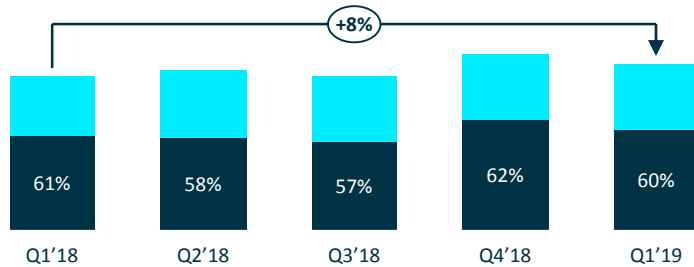


# Partner performance in line with expectations

## Partner trading reflecting seasonality

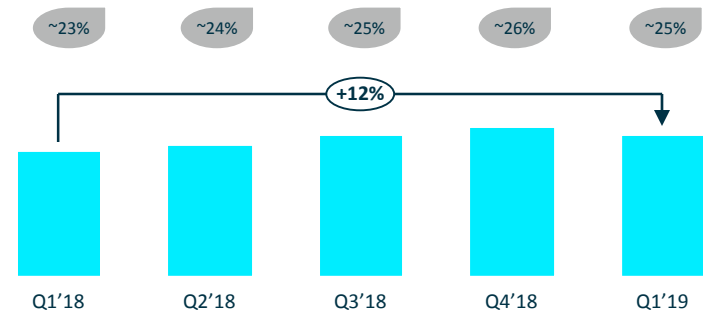
Postpaid gross adds share

GA retail brands GA partner brands



## Partner revenue growth in line with expectations

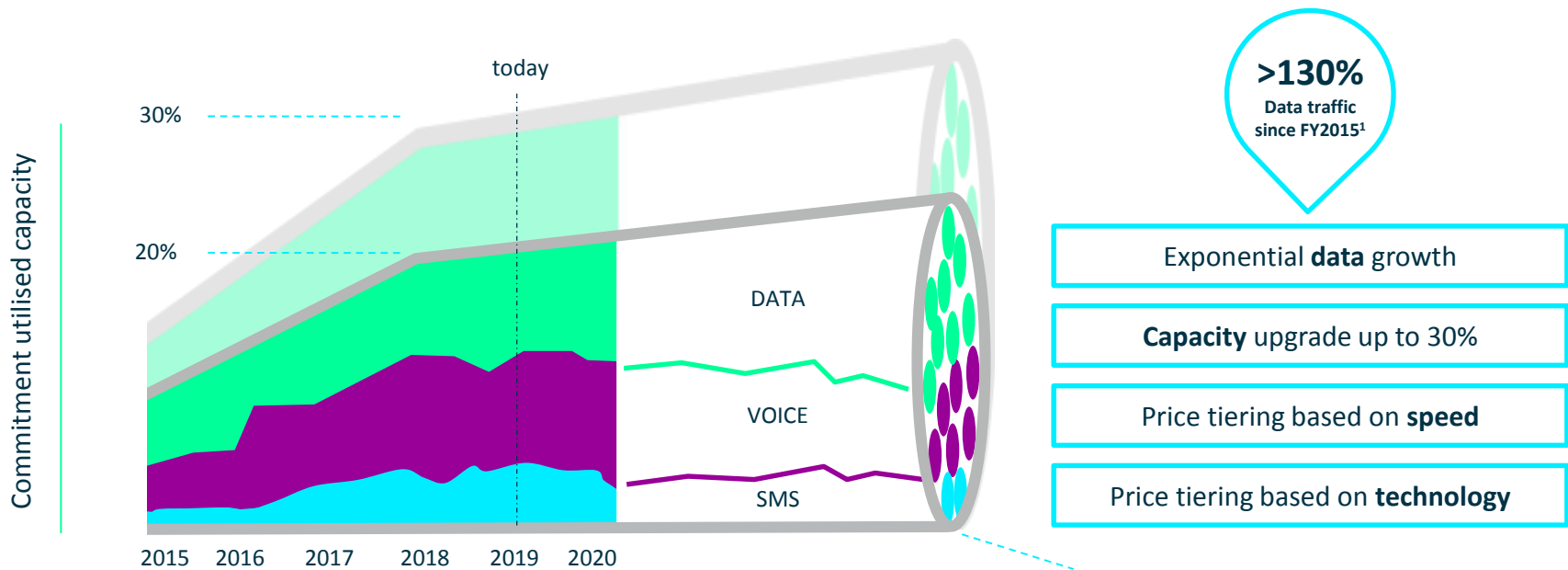
Postpaid partner MSR / Share over postpaid MSR (in %)



- 4G focus drives partner trading (60% of GA in Q1) including related migration trends
- Partner revenue growth in line with expectations driven by the dynamics of the MBA MVNO; visible effects from the reduction of termination rates
- Data growth now is the predominant driver of revenue trajectory, as opposed to previously data & glide path growth

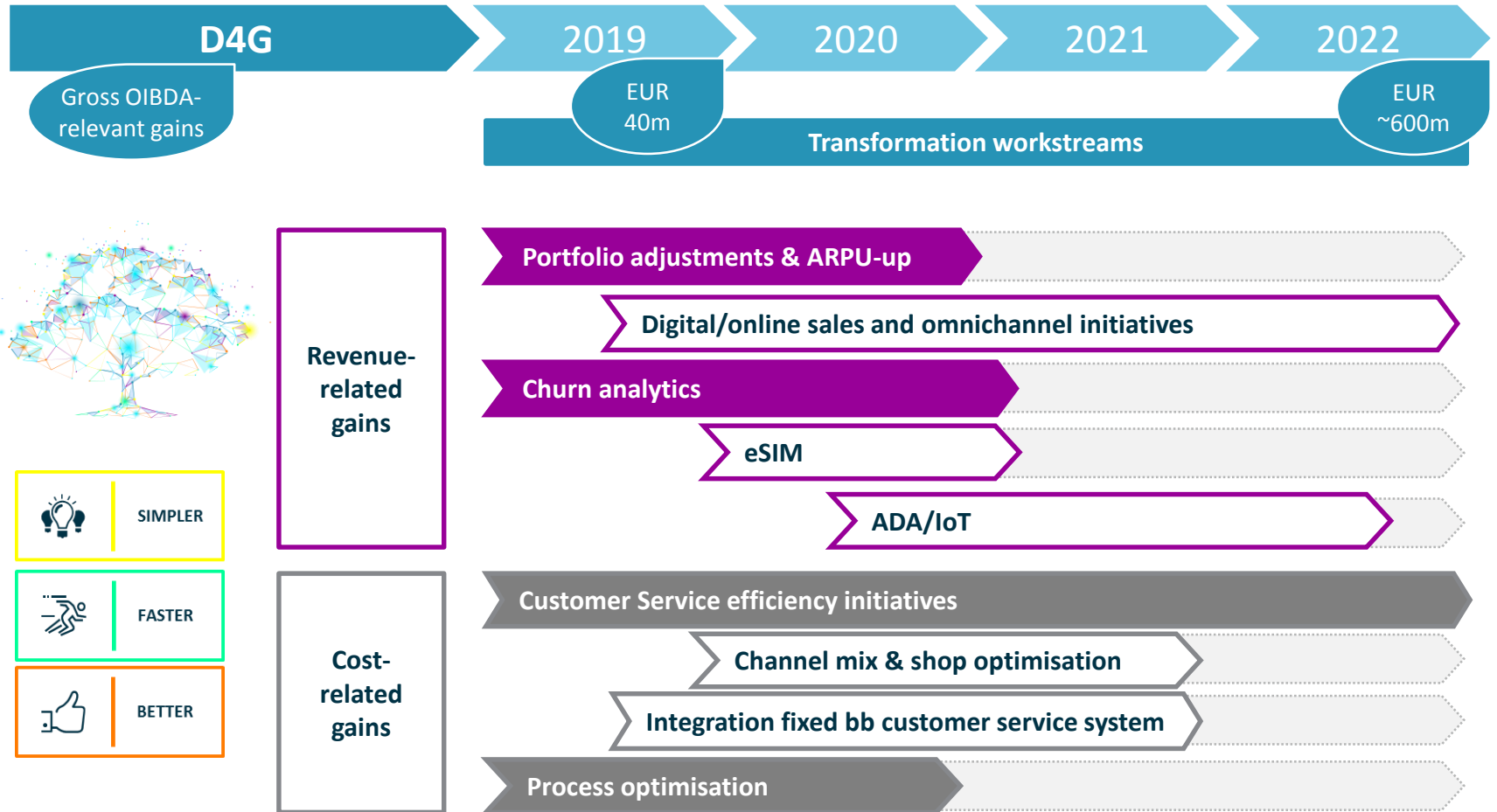
# MBA MVNO contract economics: Four levers for revenue growth

## EU-approved capacity glide path

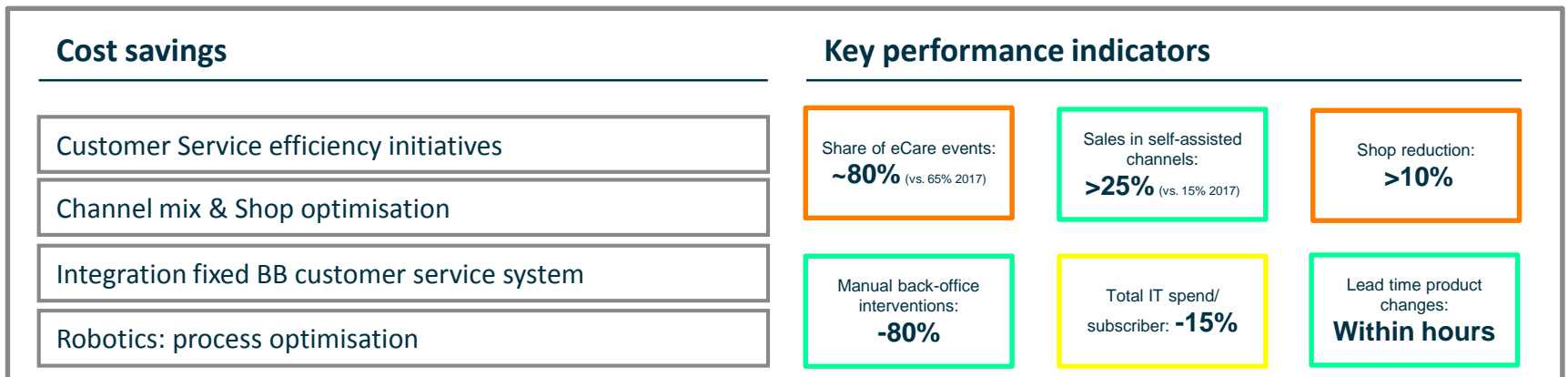
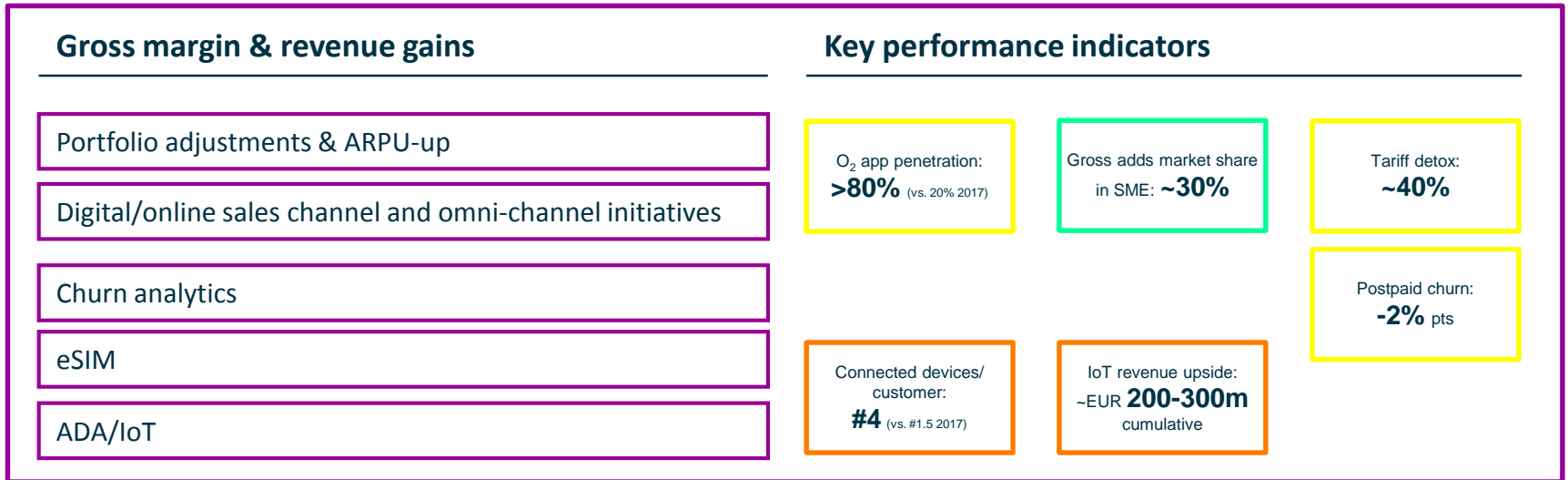


<sup>1</sup> Telefónica Deutschland mobile network traffic

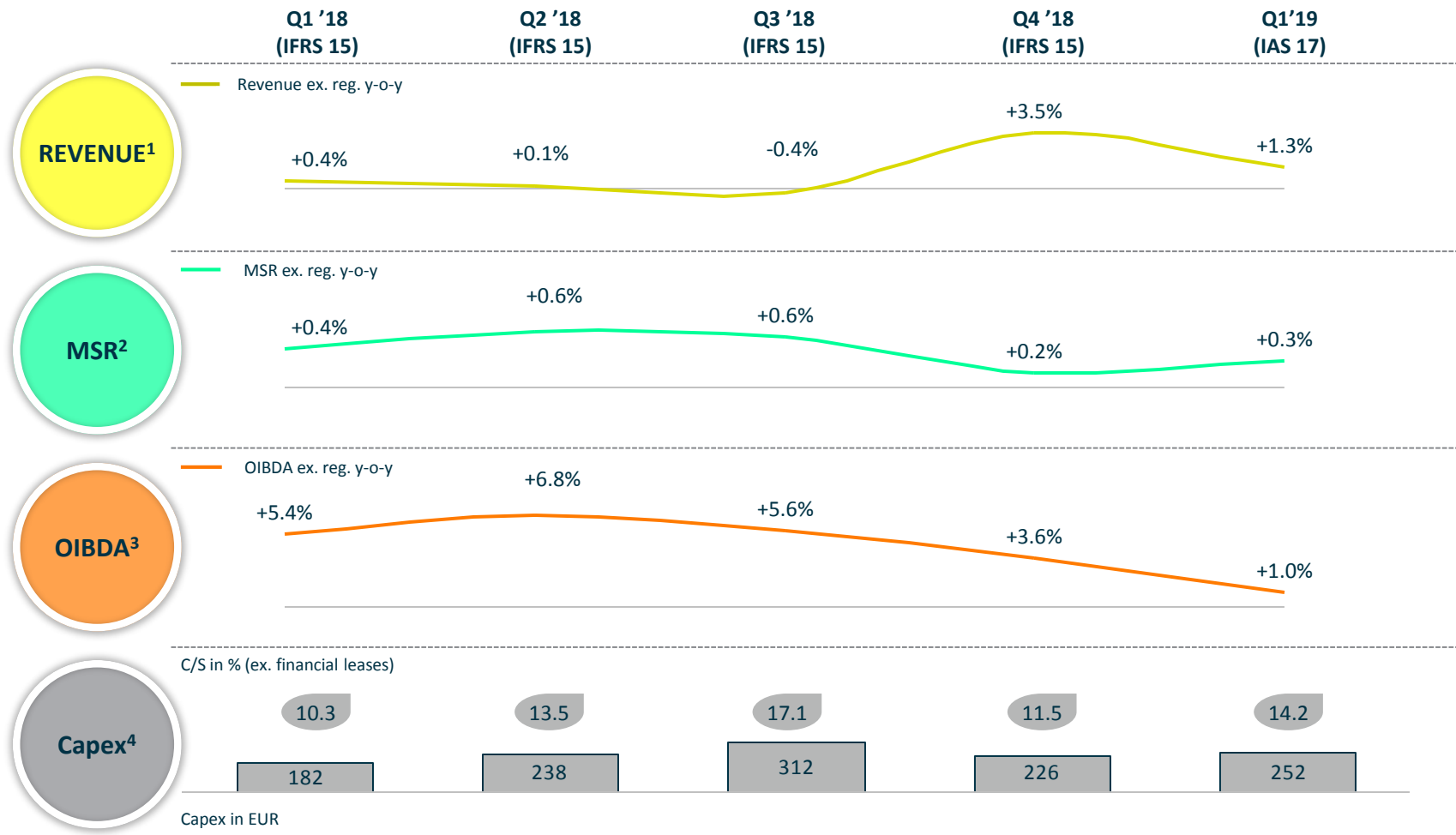
# Digital4Growth – Key Transformation drivers in 2019



# Digital4Growth – Key transformation areas



# Operational and financial trends solid in first quarter



<sup>1</sup> Excluding the negative impact from regulatory changes (mainly driven by the MTR regulation; mobile termination rate cut to EURc 0.95 per minute as of 1 Dec 2018)

<sup>2</sup> Mobile service revenues include base fees and fees paid by our customers for the usage of voice, sms and mobile data services. Also, access and interconnection fees as well as other charges levied on our partners for the use of our network are included

<sup>3</sup> Exceptional effects were EUR 10 million of restructuring expenses in the period January to March 2019 (EUR 23 million based on IAS 17). The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16. Regulatory effects amounted to EUR -4 million in the period January to March 2019.

<sup>4</sup> Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

# Q1 2019 results broadly in line with guidance

	Baseline 2018	Outlook 2019	Q1 2019	
<b>Revenue</b>	EUR 7,320 m	<b>Broadly stable</b> (excl. regulatory effects of EUR 60-70m)	+1.3% y-o-y	✓
<b>OIBDA<sup>1</sup></b>	EUR 1,884 m	<b>Broadly stable to slightly positive</b> (excl. regulatory effects of EUR 40-50m)	+1.0% y-o-y As per IAS 17 reporting	✓
<b>C/S<sup>2</sup></b>	13.2%	<b>Approx. 13-14%</b>	+29.4% y-o-y As per IFRS 16 reporting	✓

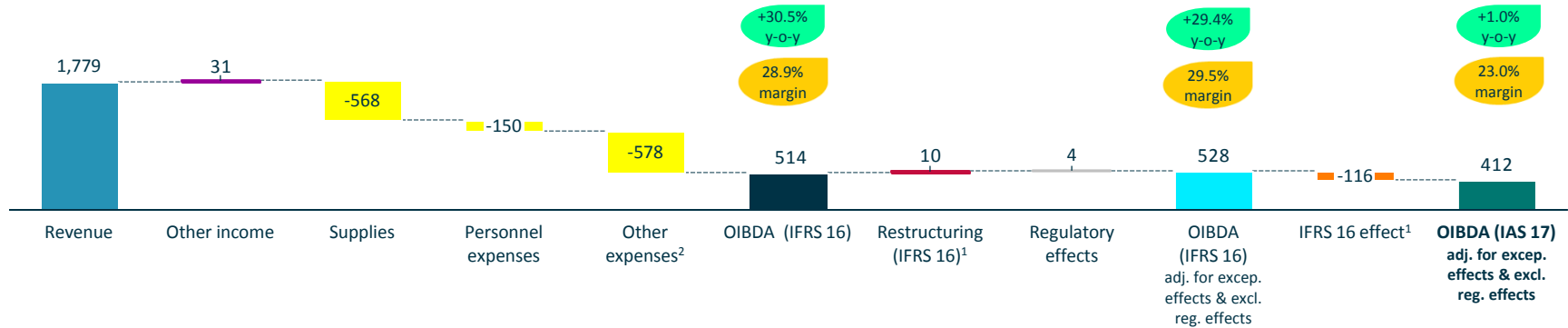
<sup>1</sup> Exceptional effects such as restructuring costs or the sale of assets are excluded

<sup>2</sup> Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

# OIBDA reflects transformation & market investment

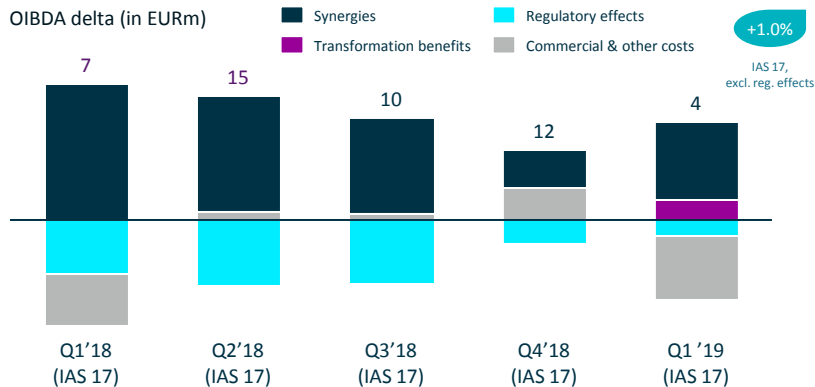
## Structure of OIBDA for January to March 2019

OIBDA (in EURm)



## OIBDA<sup>1</sup> reflects synergies & transformation

OIBDA delta (in EURm)



- Underlying OIBDA (IAS 17) +1.0% y-o-y driven by
  - Network synergies of ~EUR 20 million
  - Transformation benefits of ~EUR 5 million driven by O<sub>2</sub> consumer and IT cost savings
- Regulatory effects of EUR 4 million driven by usage elasticity effects from RLH
- Restructuring<sup>1</sup> costs of EUR 10 million under IFRS 16
- Underlying OIBDA margin expands to 29.5% under IFRS 16 vs. 23.0% under IAS 17

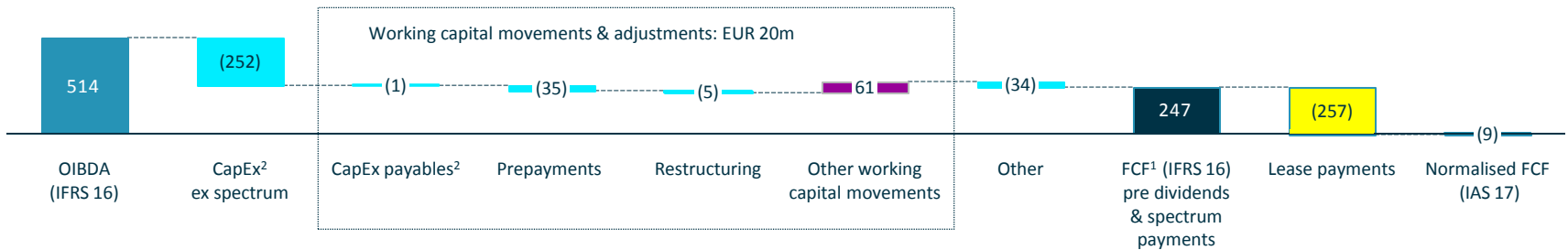
<sup>1</sup> According to IAS 17, restructuring costs were EUR 23 million and the total resulting IFRS 16 effect at reported OIBDA level comes to EUR 129 million. The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16

<sup>2</sup> Includes other expenses and impairment losses in accordance with IFRS 9

# FCF dynamics reflect implementation of IFRS 16

## Evolution of Free Cash Flow (FCF)<sup>1</sup> YTD March 2019

FCF (in EURm)

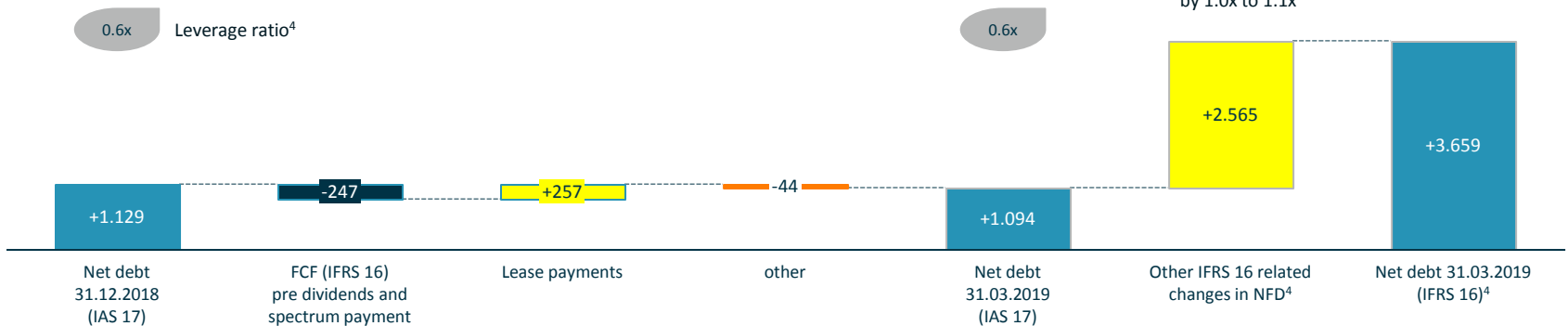


<sup>1</sup> FCF pre dividend & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

<sup>2</sup> Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from borrowed capital for investments in spectrum

## Evolution of Net Debt<sup>3</sup> – Leverage<sup>3</sup> in line with target

Net Debt (in EURm)



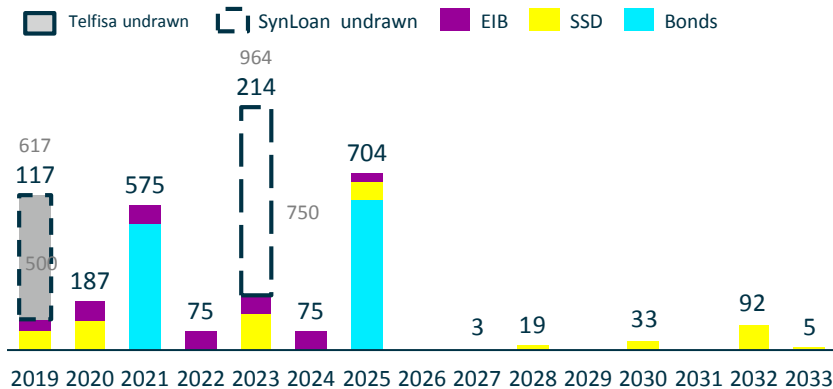
<sup>3</sup> For definition of net debt & leverage ratio please refer to Q1 2019 earnings release

<sup>4</sup> Balance sheet items within net financial debt affected by IFRS 16 are still subject to change within a bandwidth of +/- 5%

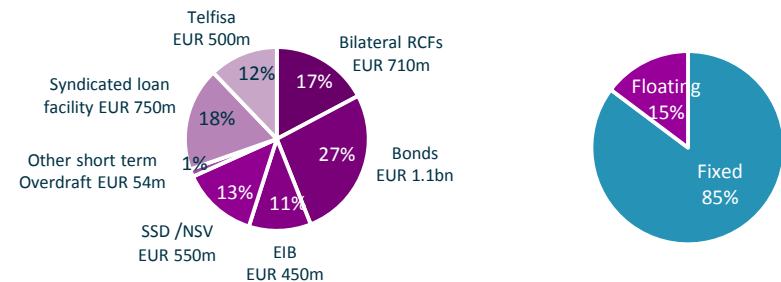


# Smooth maturity profile and diversified financing mix per 31 March 2019

## Maturity profile<sup>1</sup>

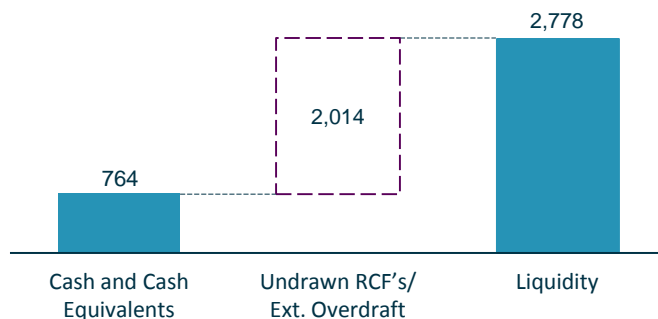


## Financing and interest mix<sup>2</sup>



## Liquidity position

(in EURm)



- Well balanced and diversified maturity profile
- EUR 2.8 billion liquidity position ensures financial flexibility
- Low exposure to rate hikes due to a high percentage of debt at fixed rates
- EUR 360 million promissory note loan with maturities of 5, 7 and 10 years placed in April 2019; not yet included in maturity profile

# Attractive shareholder remuneration policy

## Shareholder remuneration policy – Main guidelines<sup>1</sup>

Maintain high pay-out in relation to FCF

Consider expected future cash flows in dividend proposals

Review of the self-defined leverage ratio of at or below 1.0x to in 2019 in order to reflect the implementation of IFRS 16 as of 1 Jan 2019

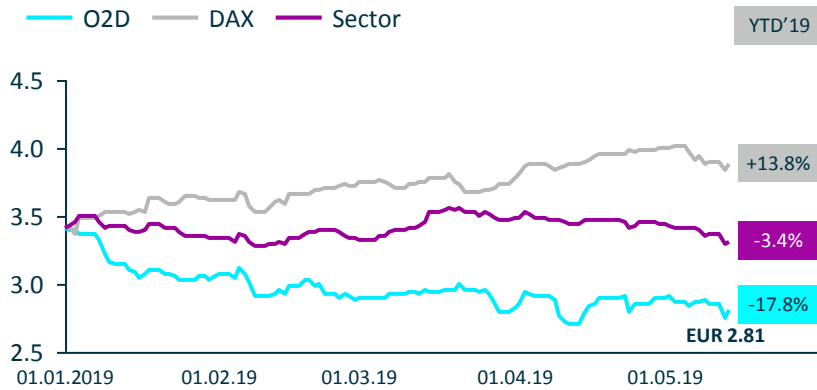
Annual dividend growth over 3 years: EUR 0.25/share for 2016, EUR 0.26/share for 2017; proposal of EUR 0.27/share for FY 2018 to AGM



<sup>1</sup> Refer to the Telefónica Deutschland website for full dividend policy ([www.telefonica.de](http://www.telefonica.de))

# O2D Factsheet

## Share price development until 14.05.2019

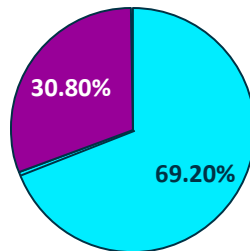


## Telefónica Deutschland at a glance

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap (as of 31.03.2019)	EUR 8,325.8 m
Share price (as of 31.03.2019)	EUR 2.799

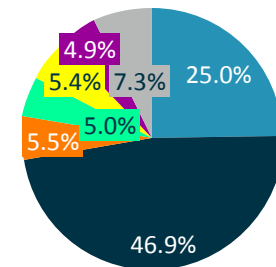
## Shareholder structure as of 14.05.2019<sup>1</sup>

- Telefónica Germany Holdings Ltd <sup>2</sup>
- Freefloat



## Regional split of shareholder structure<sup>3</sup>

- UK & Ireland
- North America
- France
- Germany
- Continental Europe
- Scandinavia
- Rest of World



<sup>1</sup> Status: 14 May 2019

<sup>2</sup> Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A.; Status: According to shareholder register as of 31 March 2019

<sup>3</sup> Source: NASDAQ; Shareholder ID as of April 2019

# The team: Telefónica Deutschland board members



Markus Haas  
Chief Executive Officer



Markus Rolle  
Chief Financial Officer



Wolfgang Metz  
Chief Consumer Officer



Alfons Lösing  
Chief Partner & Business Officer



Cayetano Carbajo Martín  
Chief Technology Officer



Guido Eidmann  
Chief Information Officer



Valentina Daiber  
Chief Officer Legal & Corporate Affairs



Nicole Gerhardt  
Chief Human Resources Officer

# Investor Relations contact details



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+49 89 2442 1010  
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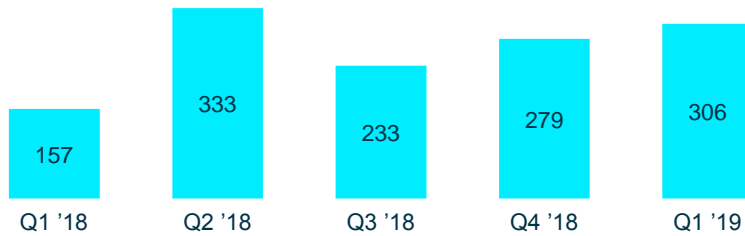


# Appendix - KPIs

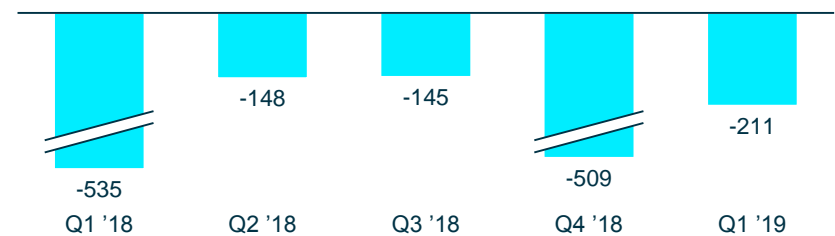


# Mobile KPIs

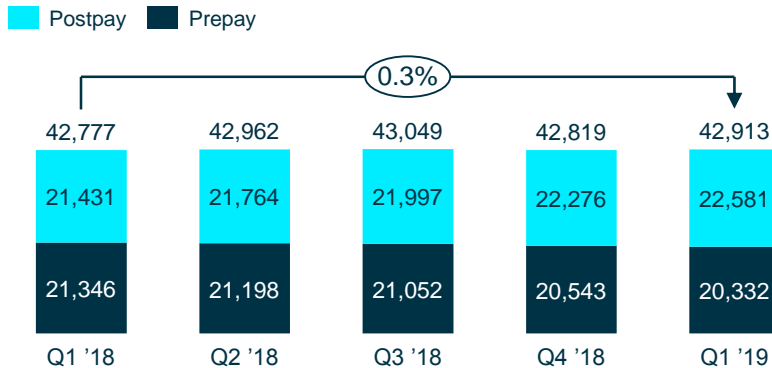
Postpay net adds ('000)



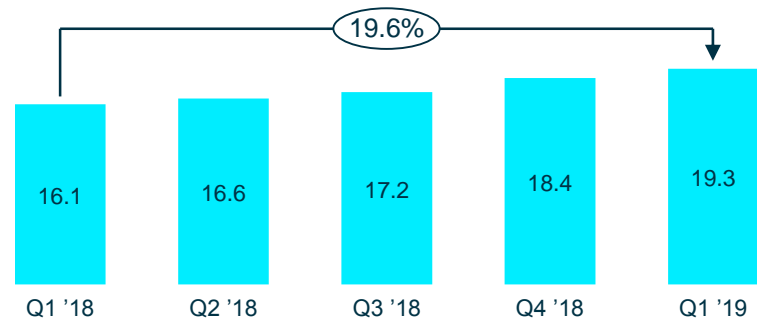
Prepay net adds ('000)



Mobile customer base ('000)

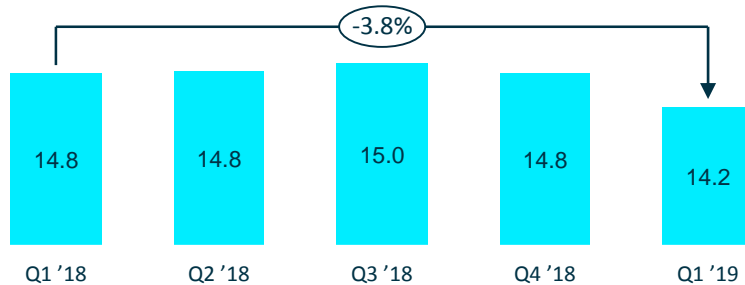


LTE customer base (in m)

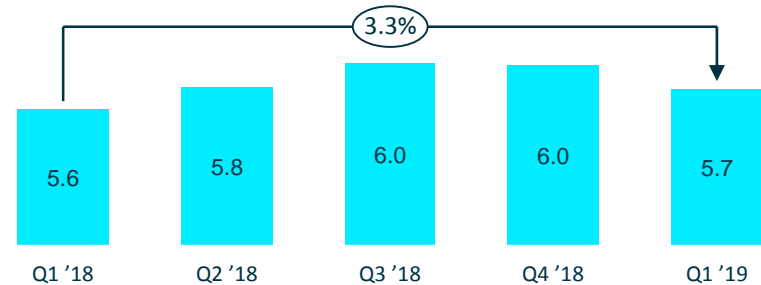


# Mobile KPIs

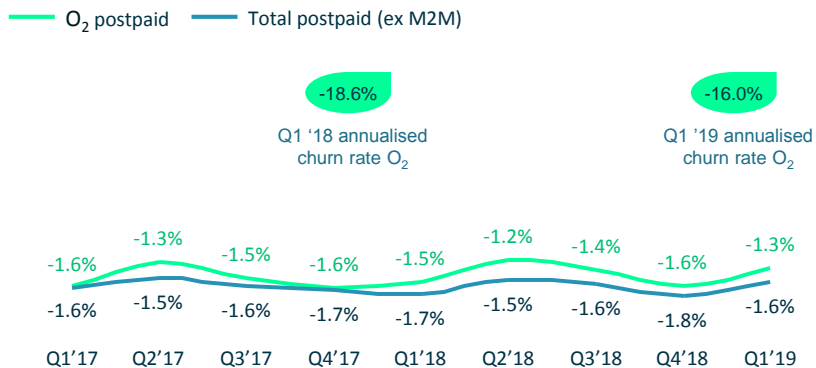
## Postpay ARPU (EUR)



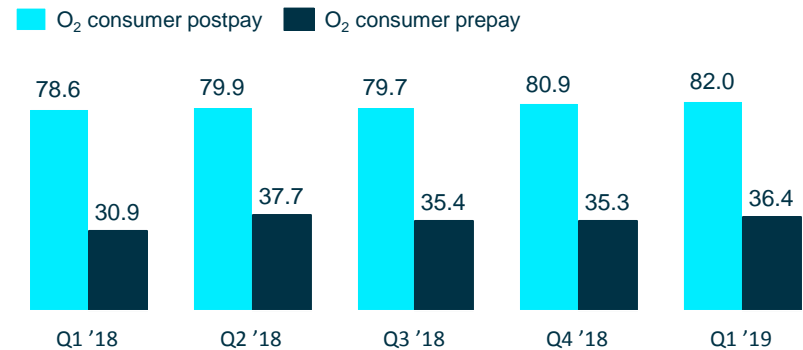
## Prepay ARPU (EUR)



## Churn rate (%)



## Smartphone penetration (%)<sup>1</sup>



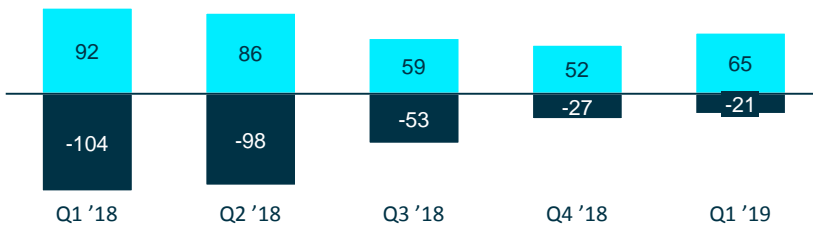
<sup>1</sup> Smartphone penetration is based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base less M2M, less customers with a big screen tariff



# Fixed-line KPIs

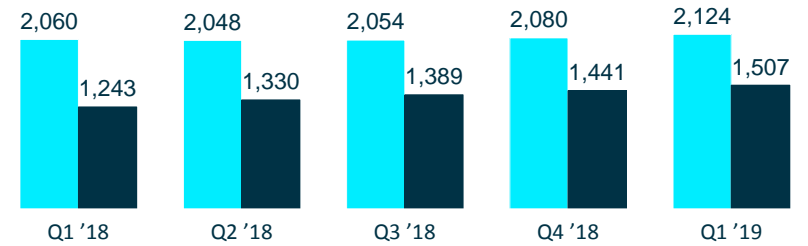
## Retail broadband net adds ('000)

■ Therof DSL ■ Therof VDSL

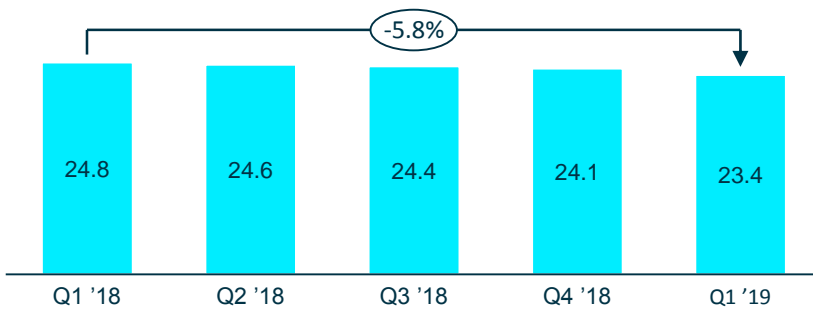


## Fixed accesses ('000)

■ Retail DSL ■ thereof VDSL

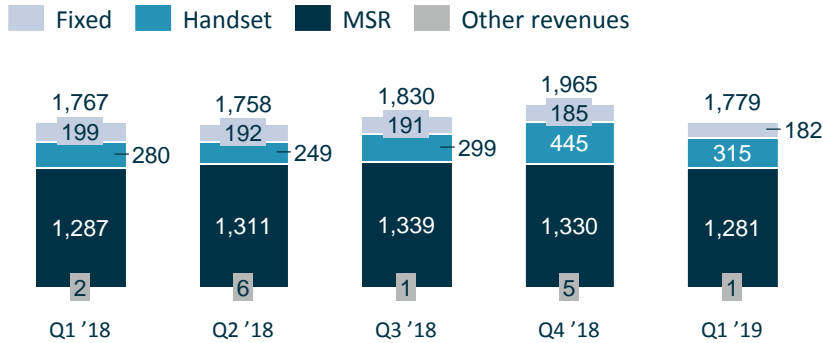


## Fixed retail ARPU (EUR)

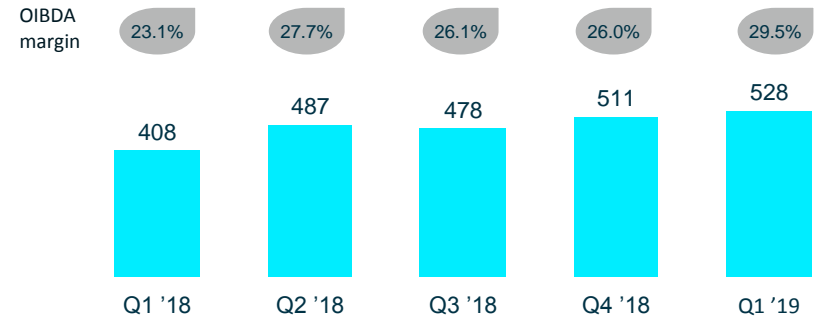


# P&L

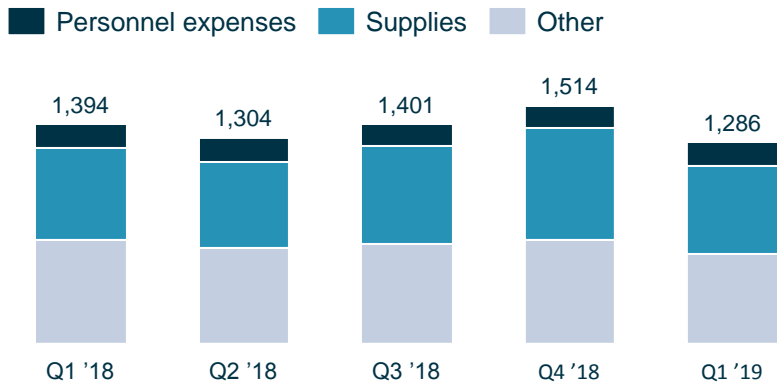
## Revenue structure (EUR m)



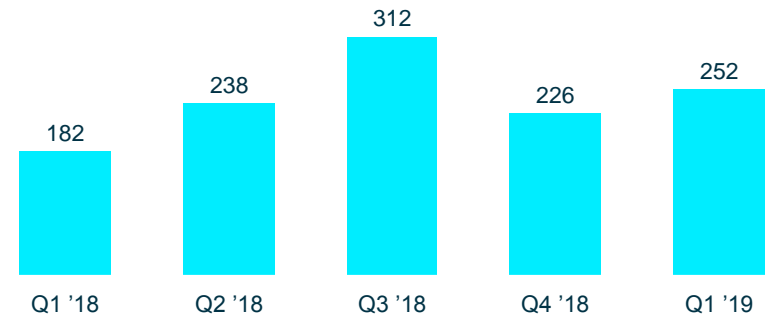
## OIBDA (post GF, pre exceptional effects / EUR m)<sup>1</sup>



## OpEx split<sup>2</sup> (EUR m)



## CapEx<sup>3</sup> (EUR m)



<sup>1</sup> Adjusted for exceptional effects, excl. the negative impact from regulatory changes and y-o-y comparison based on IAS17 accounting standards for 2018 and IFRS16 for 2018. For details please refer to additional materials of the Q1 2019 results release

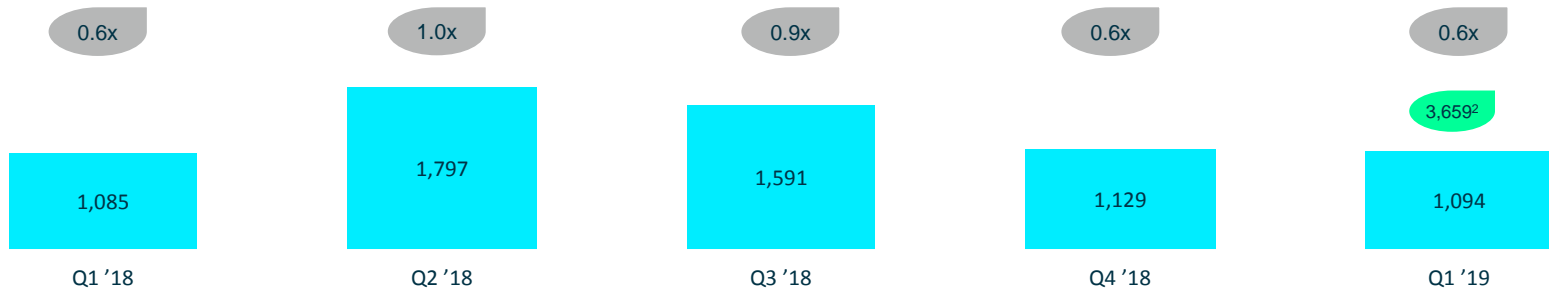
<sup>2</sup> Opex-split before exceptional effects changes and y-o-y comparison based on IAS17 accounting standards for 2018 and IFRS16 for 2018. For details please refer to additional materials of the Q1 2019 results release

<sup>3</sup> Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

# Financials

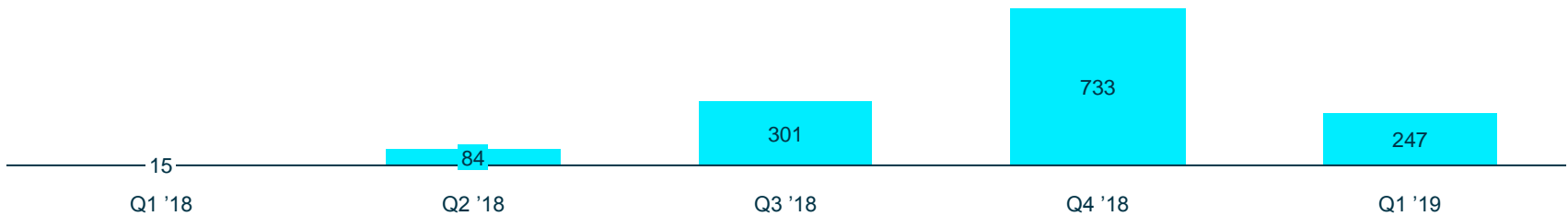
## Net debt and leverage<sup>1</sup>

Net financial debt



## Free cash flow<sup>2</sup> (YTD)

Free cash flow



<sup>1</sup> Under IAS 17 accounting standard

<sup>2</sup> Under IFRS 16; with balance sheet items within net financial debt affected by IFRS 16 still subject to change within a bandwidth of +/- 5%

<sup>3</sup> 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

# Quarterly detail of relevant financial and operating data

Financials	2018					2019
	Q1	Q2	Q3	Q4	FY	Q1
Revenue (excl. regulatory effects)	1,767	1,758	1,830	1,965	7,320	1,789
Mobile service revenues (excl. regulatory effects)	1,287	1,311	1,339	1,330	5,267	1,291
Revenue	1,767	1,758	1,830	1,965	7,320	1,779
OIBDA (post Group fees) adjusted for exceptional & regulatory effects <sup>1</sup>	408	487	478	511	1,884	528
OIBDA (post Group fees) adjusted for exceptional effects	408	487	478	511	1,884	524
CapEx <sup>2</sup> excl. investments in spectrum	182	238	312	226	958	252
C/S Ratio <sup>2</sup> (based on Revenue)	10.3%	13.5%	17.1%	11.5%	13.1%	14.2%
Revenue and Opex related Synergies	~35	~30	~25	~10	~100	~20

Accesses	2018					2019
	Q1	Q2	Q3	Q4	FY	Q1
Total Accesses	47,075	47,180	47,268	47,089	47,089	47,202
o/w Mobile	42,777	42,962	43,049	42,819	42,819	42,913
Prepay	21,346	21,198	21,052	20,543	20,543	20,332
Postpay	21,431	21,764	21,997	22,276	22,276	22,581

<sup>1</sup> Adjusted for exceptional effects, excl. the negative impact from regulatory changes and y-o-y comparison based on IAS17 accounting standards for 2018 and IFRS16 for 2018. For details please refer to additional materials of the Q1 2019 results release

<sup>2</sup> Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

*Telefónica*

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