

*Telefonica*

Deutschland

# Q1 2017 preliminary results

Telefónica Deutschland  
Investor Relations  
5 May 2017

Public – Nicht vertraulich



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# Q1 2017 results in line with FY outlook

**MSR**  
**-0.6% y-o-y**  
(excl. regulatory effects)

- Continued sequential improvement of MSR trends excl. regulatory effects
- MNO focus on stimulating usage & promotional activities in non-premium segment easing

**14 million**  
**LTE customers**

- Data growth remains strong, leveraging LTE adoption and O<sub>2</sub> Free portfolio
- Traffic up 67% y-o-y; average monthly usage of 1.8 GB for O<sub>2</sub> consumer postpaid LTE customers

**OIBDA<sup>1</sup>**  
**+2.1% y-o-y**

- OIBDA growth in line with outlook, reflecting synergy capture and investments in O<sub>2</sub> Free
- Incremental synergy savings of EUR 35 million, mainly flow through of FTE and network

**Operating**  
**Cash Flow**

- Strong OpCF generation on the back of synergies and transformation
- Reiterating dividend proposal of EUR 0.25 per share for FY 2016 to AGM

<sup>1</sup> Excluding exceptional. For details please refer to additional materials of the Q1'17 results release

<sup>2</sup> Excluding the impact from regulatory changes. For details please refer to additional materials of the Q1'17 results release



MOMENTUM

TRANSFORMATION

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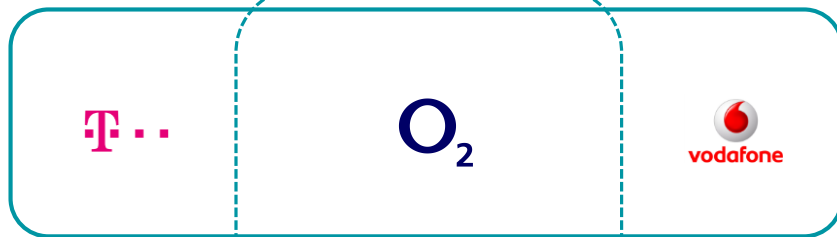


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# Commercial update: Focus on stimulating data growth in a dynamic market

## Premium



## Non-premium: Own secondary brands



## Non-premium: Partner brands



Brands with access to Telefónica Deutschland network



## Premium: O<sub>2</sub> celebrates 15-y anniversary

- Continued **successful upselling of O<sub>2</sub> Free** into base and to new customers
- **Leveraging cross-selling opportunities** via fixed products and value-added services such as Sky
- Upcoming initiatives around **15-year anniversary** to support **brand appeal**
- New **DSL portfolio** with more speed



## Non-premium: More4more penetration

- **More4more** strategies taking hold with further pricing adjustments by discount operators
- **Roaming economics** drive market strategies
- We continue to leverage our **multi-brand approach**

# 15-years of O<sub>2</sub>: A leading consumer brand with a track record of innovative customer solutions



## Celebrating O<sub>2</sub> 15-year anniversary

- Event-driven, targeted initiatives for **new & existing customers**
- Attractive offers and added-value products **encourage use of mobile device**
- **Sharpening O<sub>2</sub> Free focus** on developing our premium customer base and **stimulating usage**
- O<sub>2</sub> Free enables **freedom of choice and mobility**



# Network update: Steady quality gains on back of consolidation and roll-out

## Network integration timeline 2016 - 2019



### SON – Self-Organising Network

- Software enabling automatic, flexible network capacity management
- Focus on real-time capabilities
- Testing SON in UMTS pilots since 2014

### SOC – Service Operations Centre

- Real-time network data analytics to react to customer demand fluctuations
- Cooperation with Huawei
- Customer service in focus

Top speeds of 1.65 Gbps in trials



# Our vision of the Onlife Telco: Concept and customer centricity

Concept

Business model of the future

Integration

Today

Transformation



Customer at the heart of our transformation agenda



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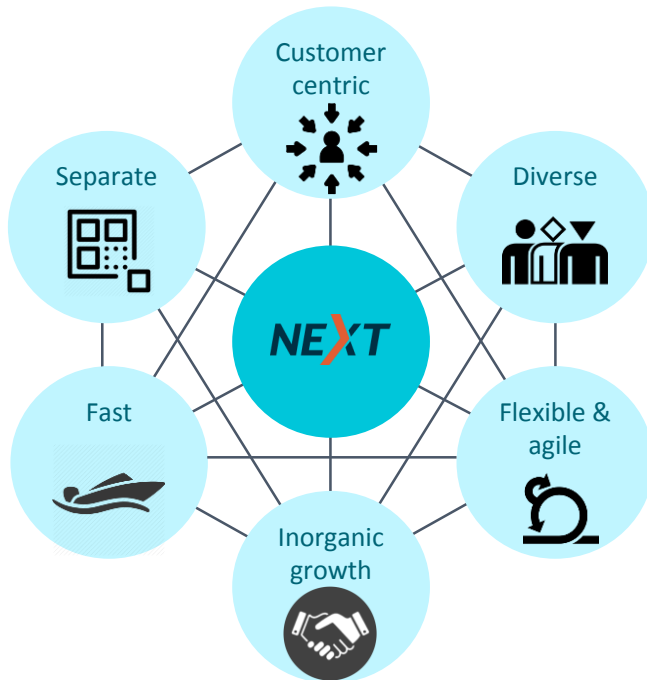


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# Transformation: Deep-dive Telefónica **NEXT**

## The concept of Telefónica NEXT



## ADA – Acquisition of Minodes

- Business model: Intelligent data analysis for offline retail via e.g. capturing of WiFi
- > 60 clients in 18 countries
  - e.g. Adidas, Audi, Escada and Marks & Spencer
- > 40 employees

**MINODES**





# Q1 2017: Solid operating momentum & synergy capture

**MSR -0.6% y-o-y**  
(excl. regulatory effects)

- MSR -3.3% year-on-year, underlying trends improving versus prior quarter
- Tailwinds from O<sub>2</sub> Free, headwinds mix-shift and legacy base effect
- Recovery in discount pricing supports stable postpaid churn

**Net adds**  
**+172k postpaid**  
**+67k VDSL**

- Solid operational momentum in the quarter
- Postpaid wholesale trading rebalancing on back of tariff adjustments
- Continued strong demand for VDSL; wholesale migration effects visible

**OIBDA<sup>1</sup>**  
**+2.1% y-o-y**

- OIBDA growth solid with further margin improvement driven by incremental synergies
- Approx. EUR 35 million of synergies, partly roll-over and partly additional savings
- Focus on long-term strategic transformation activities

**OpCF**  
**+12.9% y-o-y**

- OpCF benefits from EUR 10 million of Capex synergies
- Strong cash flow trajectory supports dividend proposal of EUR 0.25/share to AGM on 9 May
- Leverage at 0.5x, in line with target

<sup>1</sup> Excluding exceptional effects. For details please refer to further materials of the 2017 results release



MOMENTUM



TRANSFORMATION

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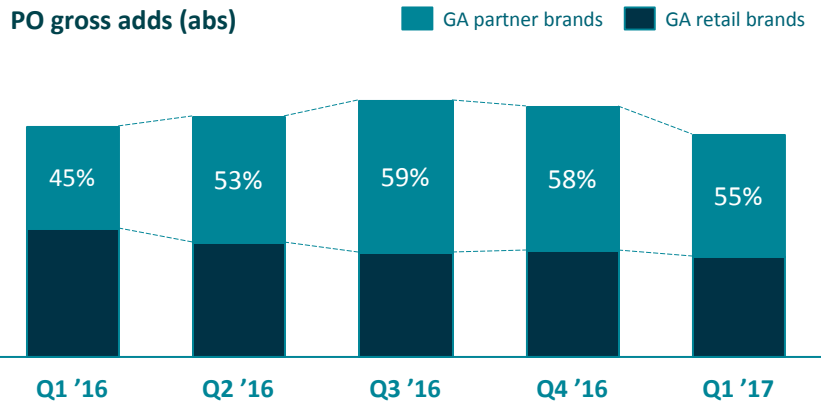


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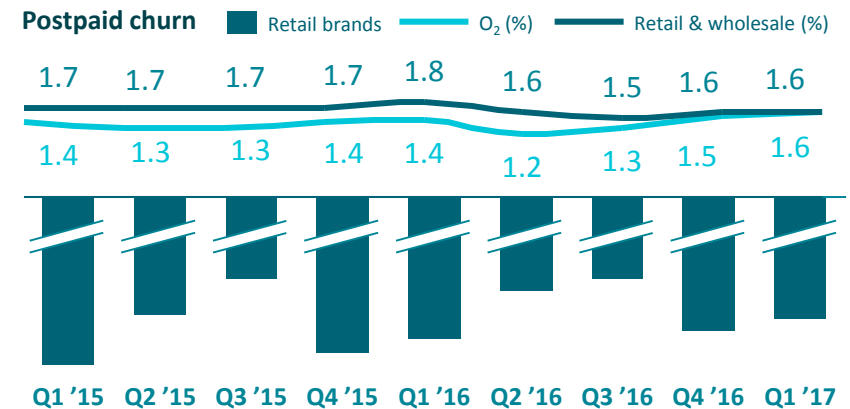
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# Retail versus wholesale trading rebalancing post price increases; churn in line

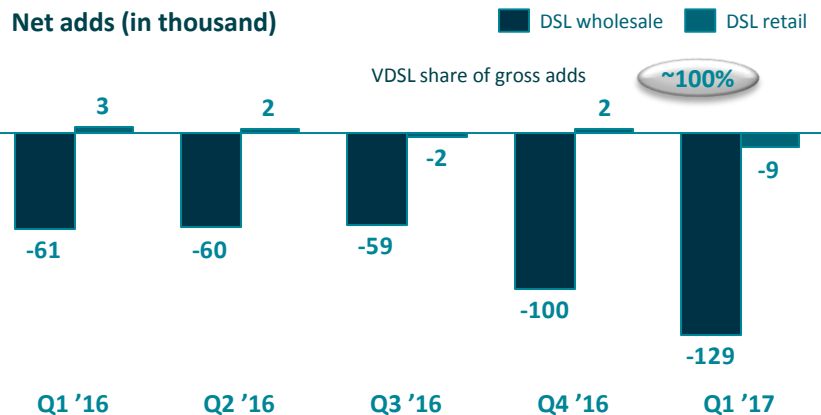
## Visible effect from price increases



## Maintaining retention focus



## VDSL drives fixed trading

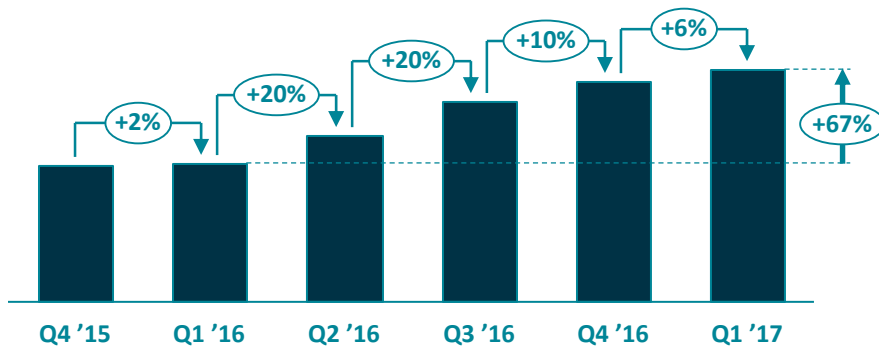


- Partner trading slowing sequentially after price increases in discount segment on the back of roaming
- Churn in line with expectations
- Continued strong demand for VDSL (+67k net additions), migration of wholesale customers accelerating

# Strong growth in LTE customer base continues

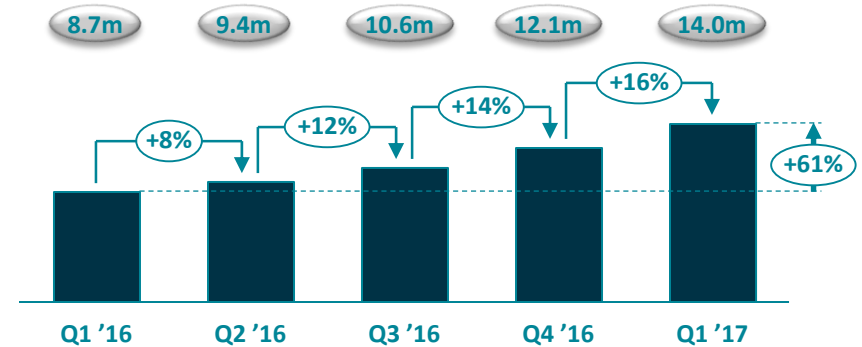
## Data traffic growth continues strong

Traffic (TB/quarter)



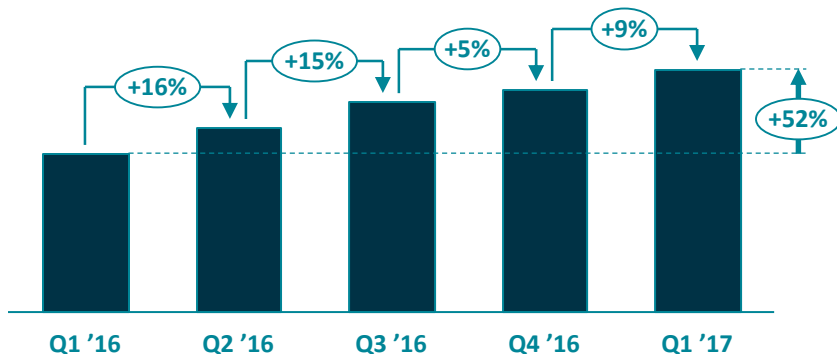
## Significant growth in LTE customer base

LTE customers (million)



## LTE usage driven by music and video streaming

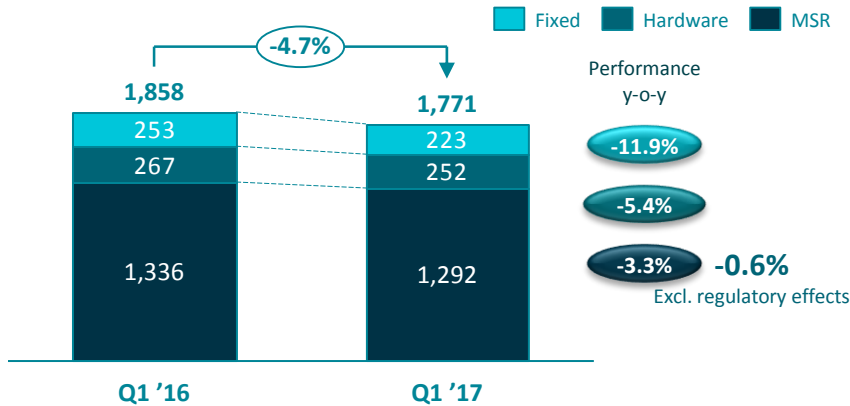
Average data usage for O<sub>2</sub> consumer LTE customers (GB)



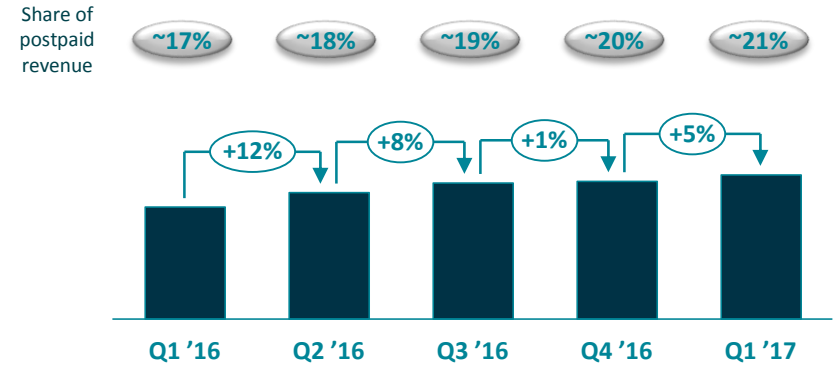
- LTE customer base now at 14.0 million, up 61% y-o-y
- Music & video streaming key drivers of data traffic growth; up >67% y-o-y
- Average monthly data usage for O<sub>2</sub> consumer LTE customers up >50% y-o-y to almost 1.8GB

# Underlying MSR trajectory improving sequentially

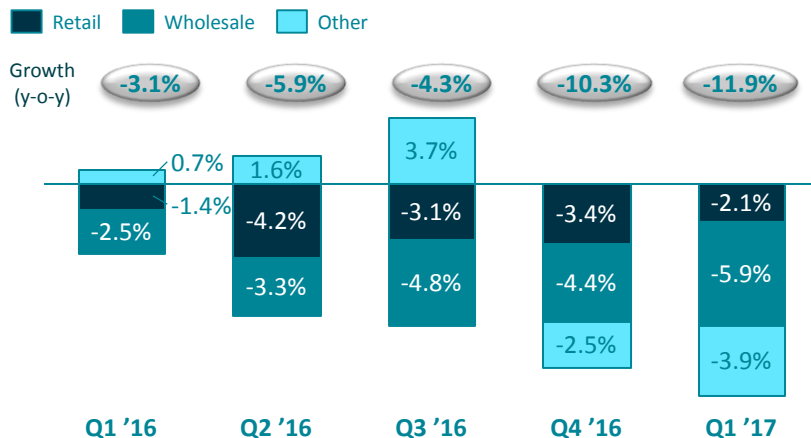
## Revenue structure (in EUR m)



## MSR from partner business (in EUR m)



## Fixed revenue y-o-y<sup>1</sup> (in %)

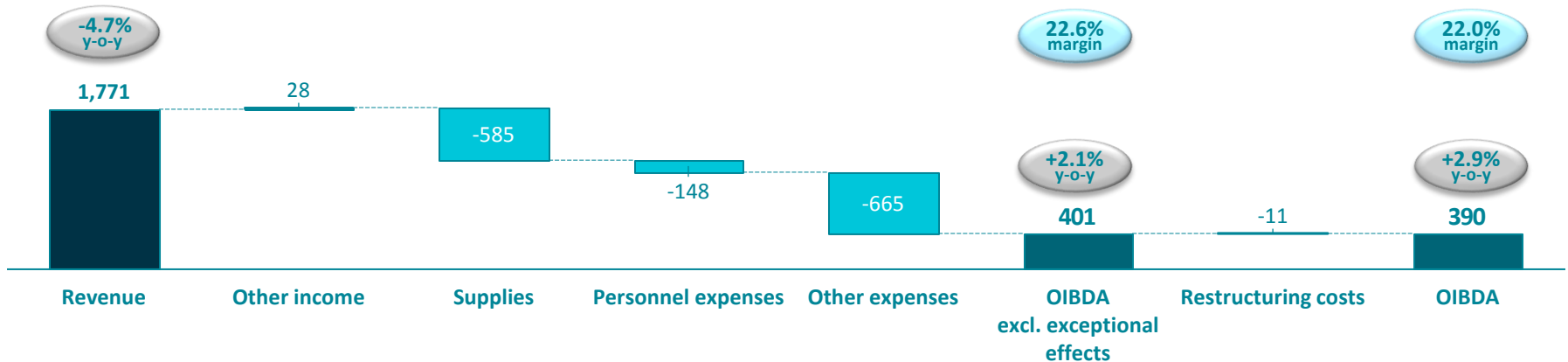


- MSR excl. regulatory effects sequentially improving; hardware revenue reduction slowing
- Partner share of postpaid MSR with stable trend
- Retail fixed improving; wholesale fixed revenue decline driven by dismantling of legacy infrastructure

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

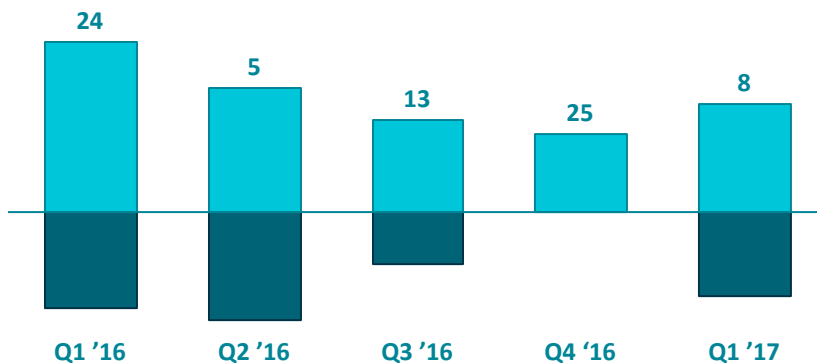
# OIBDA reflects successful synergy capture and investment activities

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



## Synergies driving OIBDA growth

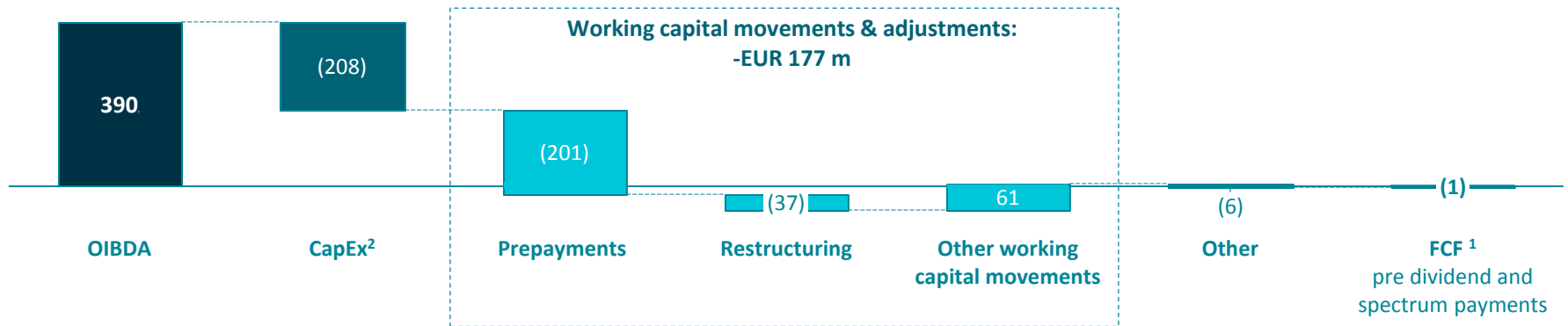
OIBDA growth (y-o-y in EUR m) ■ Synergies ■ Commercial & Other costs



- Successful synergy capture with approx. EUR 35 million of incremental savings from FTE restructuring and network consolidation
- Headwinds in commercial costs: Positioning of O<sub>2</sub> Free and customer service quality initiative
- OIBDA margin at 22.6%, up 1.5 pp y-o-y

# FCF affected by seasonality of rental payments

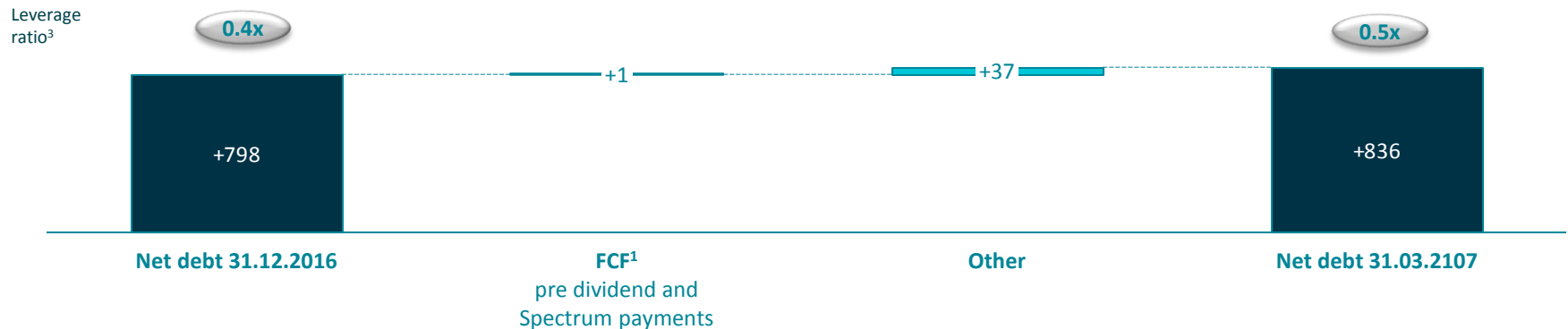
## Evolution of Free Cash Flow (FCF)<sup>1</sup> YTD March 2017 (in EUR m)



<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 for investments in spectrum in June 2015

## Evolution of Net Debt<sup>3</sup> (y-o-y in EUR m) – Leverage ratio<sup>3</sup> remains at a stable level



<sup>3</sup> For definition of net debt & leverage ratio please refer to further materials of the 2017 results release

# Main takeaways

- Q1 results in line with outlook; **reiterating full year outlook**
- Further signs of easing competitive pressure, increasing focus on **stimulating data growth**
- **Solid operating momentum**, focus on O<sub>2</sub> Free and stimulating data usage with **15-year anniversary activities**
- OIBDA reflects incremental **synergy savings and investments** in our premium positioning
- Focusing on innovation and new business models with the **acquisition of Minodes**
- Leveraging **cash flow momentum** and **reiterating dividend proposal** of EUR 0.25/share to AGM on 9 May 2017



# Telefónica Deutschland Q1 2017 preliminary results – Q&A session

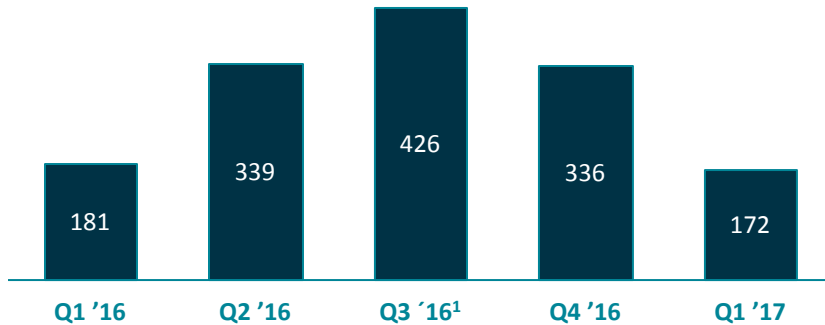




# Appendix – KPIs

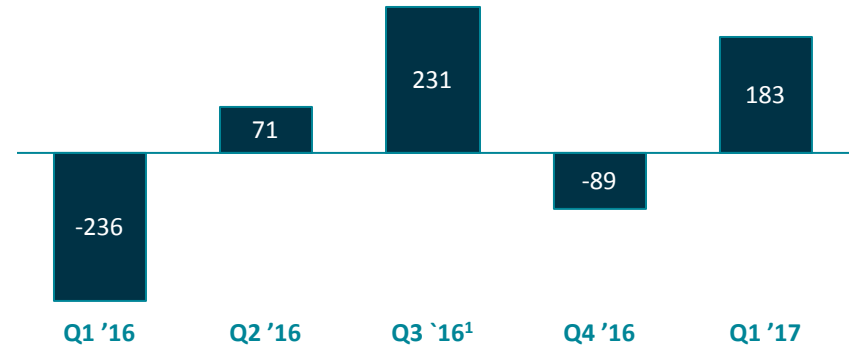
# Mobile KPIs

## Postpay net adds ('000)



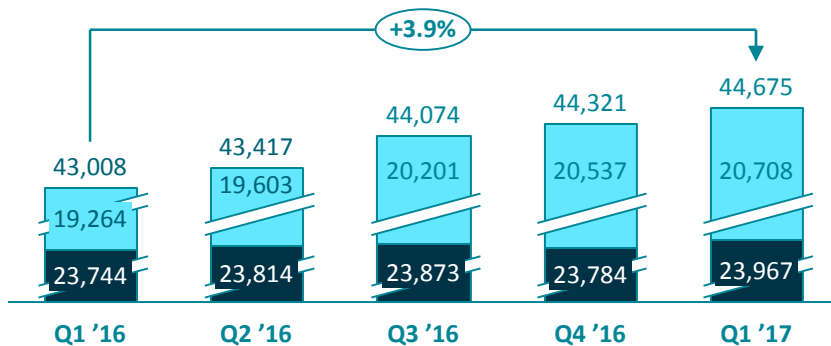
<sup>1</sup> Excluding reclassification of 172k customers from prepaid to postpaid as part of the customer migration activities

## Prepay net adds ('000)

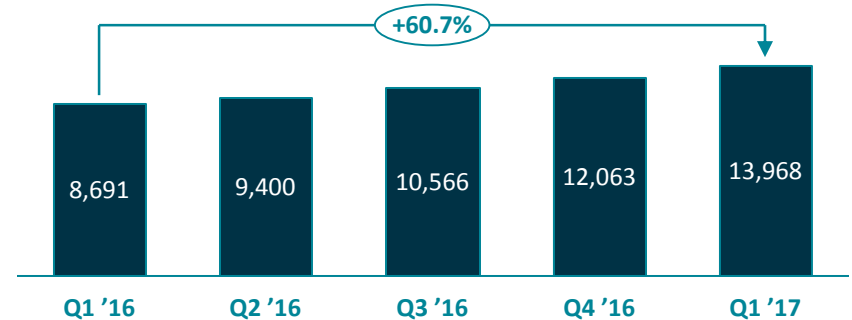


## Mobile customer base ('000)

Postpay Prepay



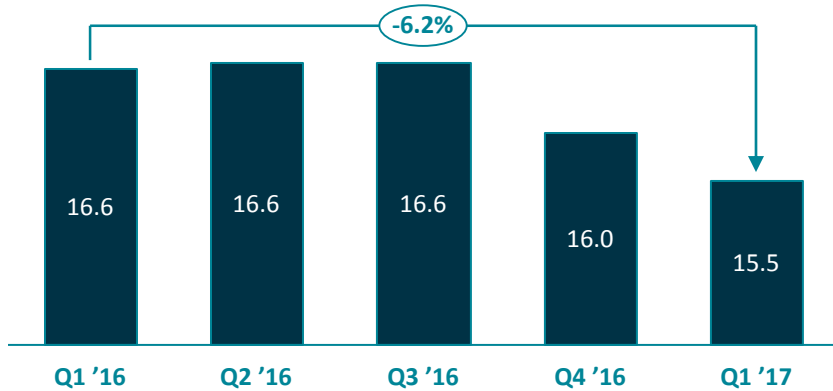
## LTE customer base ('000)



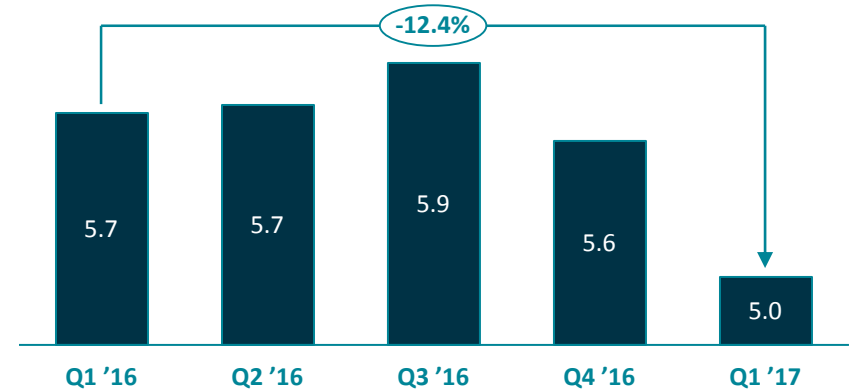
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# Mobile KPIs

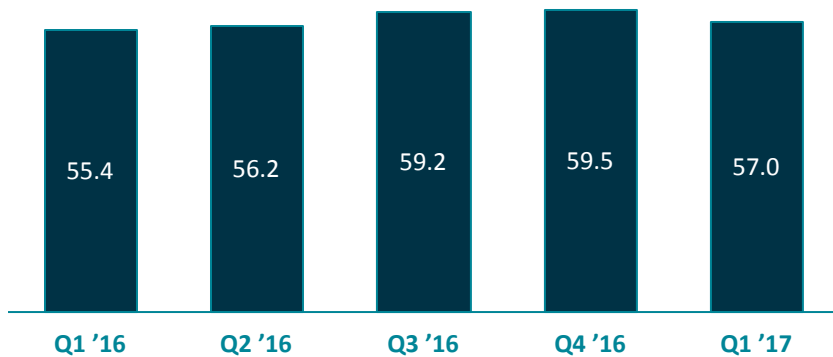
Postpay ARPU (EUR)



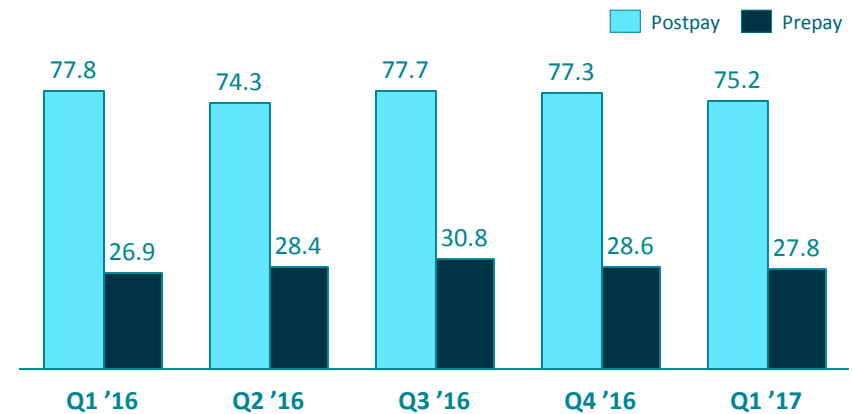
Prepay ARPU (EUR)



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



Smartphone penetration O<sub>2</sub> consumer (%)



<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

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# Fixed-line KPIs

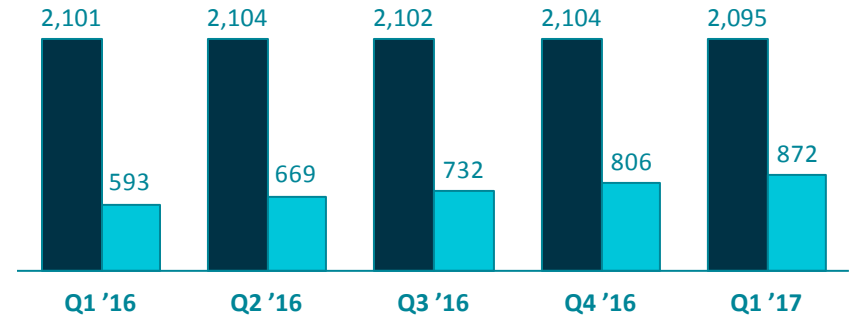
## Retail broadband net adds ('000)

Therof DSL Therof VDSL

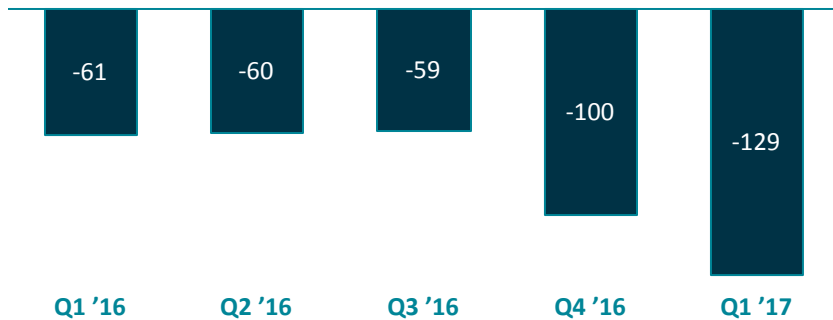


## Fixed accesses ('000)

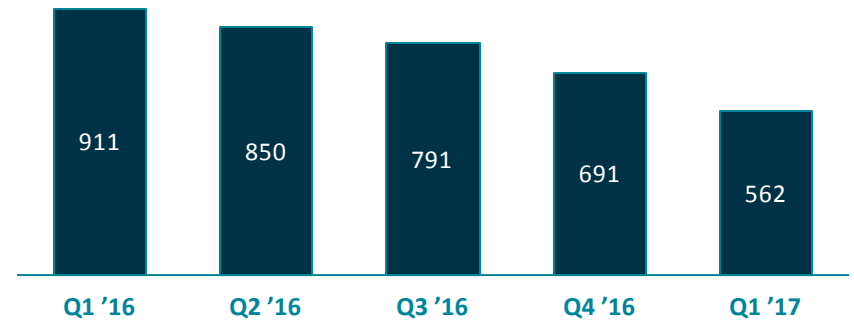
Retail DSL thereof VDSL



## Wholesale net adds ('000)

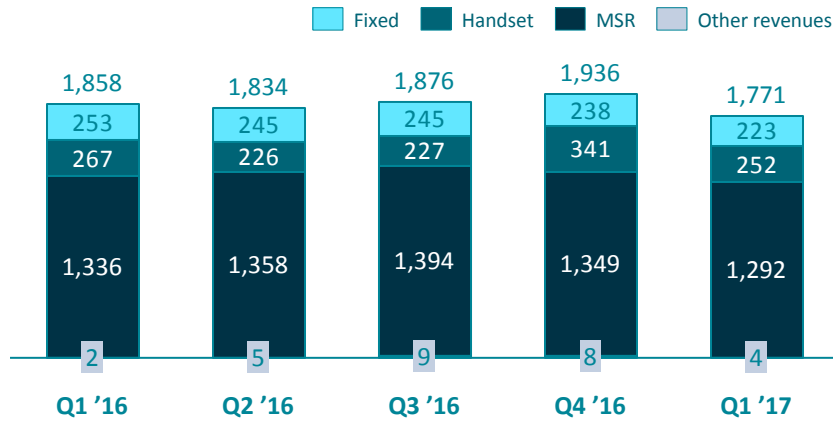


## Wholesale accesses ('000)<sup>1</sup>

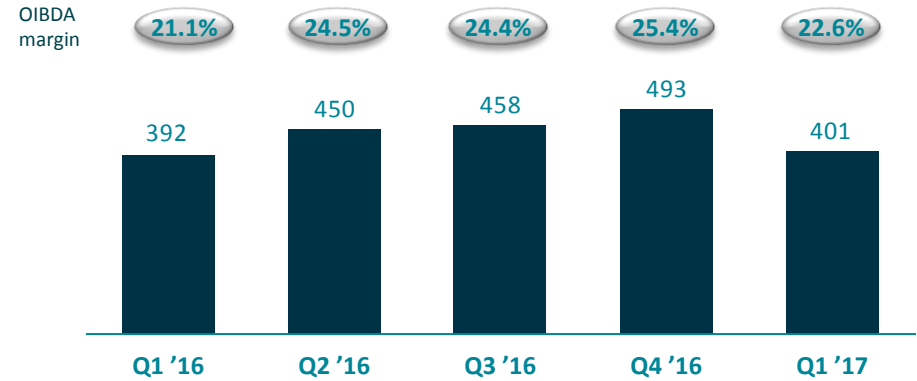


<sup>1</sup> Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access

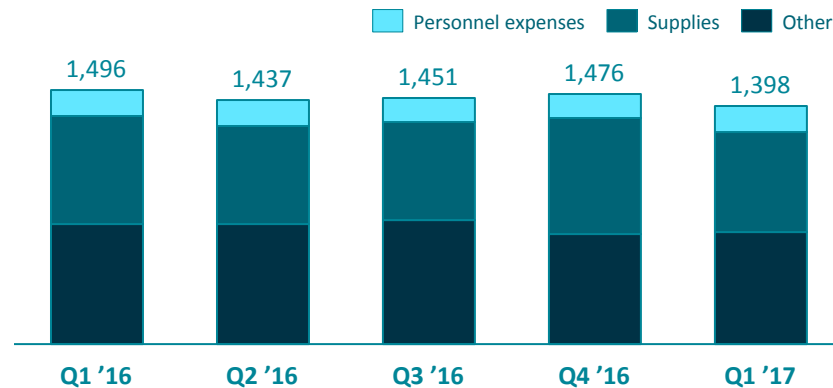
## Revenue structure (EUR m)



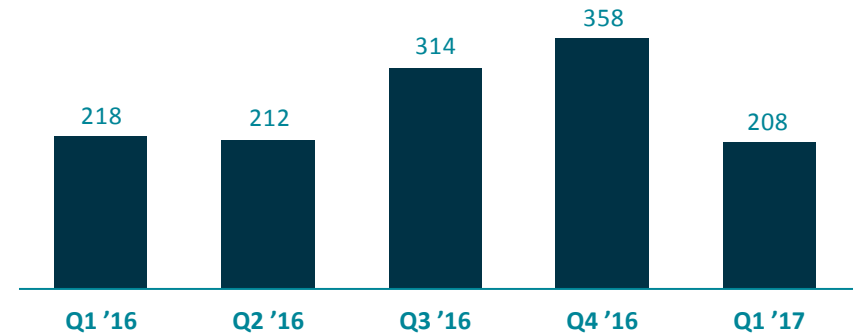
## OIBDA (post GF, pre exceptional effects / EUR m)<sup>1</sup>



## OpEx-Split<sup>2</sup> (EUR m)



## CapEx (EUR m)

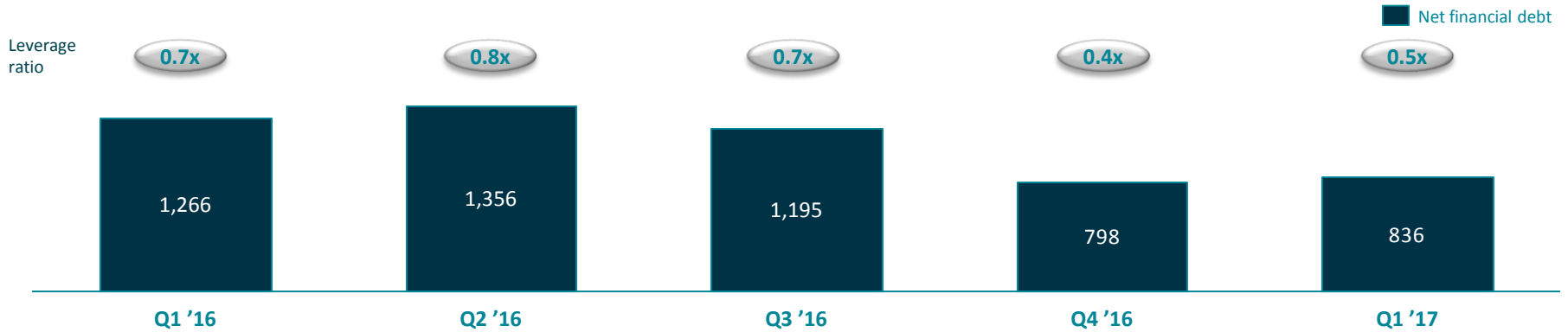


<sup>1</sup> Exceptional effects include restructuring costs as well as the net capital gain from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016. We have calculated a pro-forma OIBDA of EUR 1,793m for 2016, which includes the operating lease-related effects from the sale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

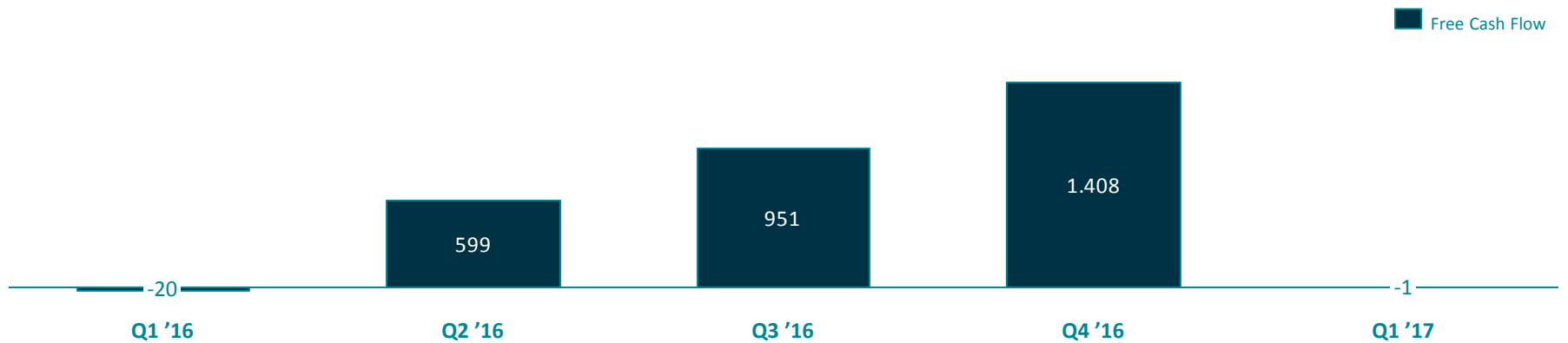
<sup>2</sup> Opex-split before exceptional effects

# Financials

## Net debt and leverage



## Free cash flow<sup>1</sup> (YTD)



<sup>1</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 in June 2015 as well as related interest payments



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