

Telefonica

Deutschland

Creating
the
Leading
Digital
Telco



Telefónica Deutschland Q2 2015 preliminary results

29 July, 2015

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H1 2015: Integration synergies already benefitting from Q2

Total revenues

+2.1%
y-o-y

Driving momentum with a mobile data-centric strategy

Early integration benefits and focus on customer base leading to progressive improvement in profitability

OIBDA¹

+9.8%
y-o-y

Enhanced network perception from 3G national roaming and LTE expansion

Share of mobile data revenue over MSR

>51%

Strong spectrum portfolio post auction enables full realisation of best network experience vision

Financial outlook and expected synergy forecast for 2015 reiterated

¹ Excluding exceptional impacts during the January-June 2015 period

Driving momentum with a clear mobile data-centric strategy and a focus on customer base development

Driving a mobile data-centric ecosystem...

... while focusing on customer base potential

Streaming content: leading the market in pay-music

Data Automatic: leading mobile data monetisation trends

35% new O₂ Blue all-in customers take a >1Gb tariff¹

Value-based handset approach

Successful retention of high value customers

Improving Churn rate in O₂ consumer postpaid to **1.3%**



¹ In % of O₂ consumer postpaid

Enhanced network perception from 3G national roaming and LTE expansion

The best network experience in 3G and 4G ...

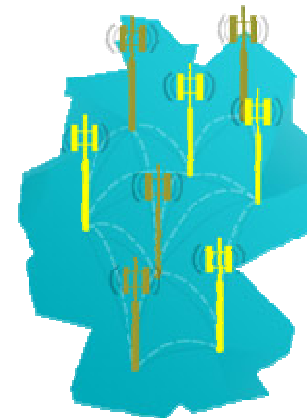
... with positive reviews from specialized media



- Best-in-class 3G network with national roaming
 - ✓ 90% 3G outdoor coverage
 - ✓ Up to 42 Mbps download speed (HSPA+)
 - ✓ Driving 5% to 10% increased data usage in new 3G covered areas
- Good progression to reach LTE coverage of 75%



- User-driven network test (June 2015)
- 3G national roaming key for improved ratings
- O₂ customers showing strongest satisfaction



Early integration benefits and focus on customer base leading to progressive improvement in profitability

Integration

- Leaver program on track: 750 FTEs
- Transfer of 301 shops to Drillisch incl. 300 FTEs + decommission plan for >100
- Agreement to transfer 7,700 sites to DT



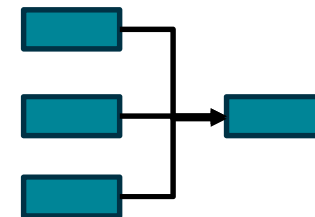
Transformation

- Harmonisation of shop branding under O₂ already started
- Increased retail presence of blau brand
- Successful start of Drillisch MBA MVNO



Simplification

- Ongoing simplification of legal corporate structure
- Inner-city consolidation of facilities and offices

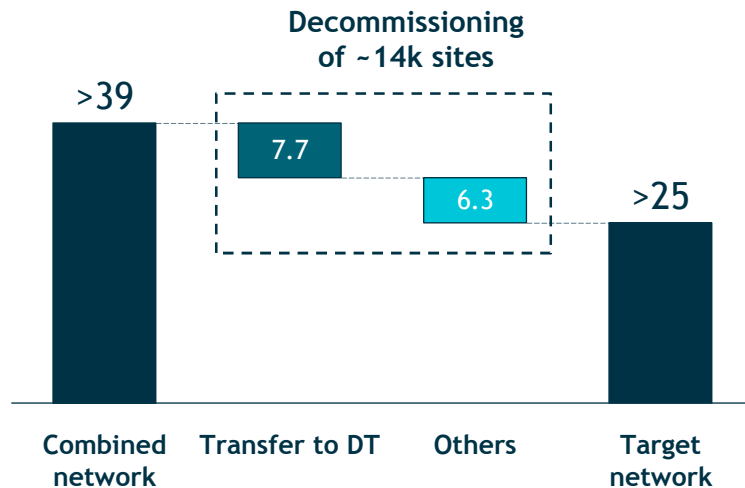


Leapfrog of synergies from network integration: agreement to transfer 7,700 redundant sites to DT

Securing >50% of planned consolidation ...

... and announced network synergies

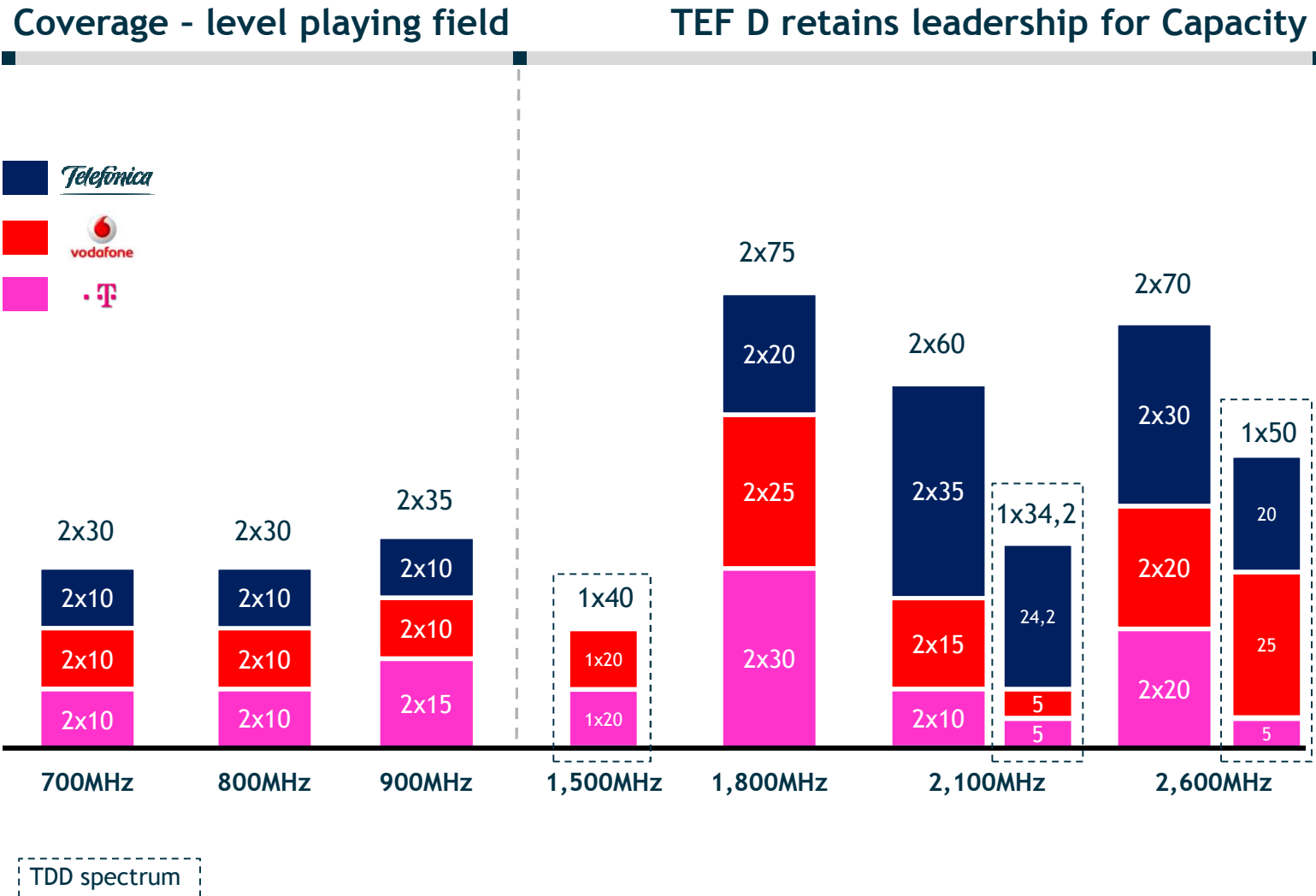
Consolidation target for the network
(#'000 mobile sites)



- Transfer of **7,700 rooftop sites**, including assets & related liabilities
- **Dismantling efforts** and termination of rooftop sites will be transferred to DT
- TEF D has the **right to use** the sites until their effective decommissioning
- Additional benefits from **elimination of double collocation fees** at DT-owned sites

This agreement allows TEF D to increase its focus on a faster rollout of LTE network & a more efficient consolidation process towards its planned „golden grid“

Strong spectrum portfolio post auction enables full realisation of our best network experience vision



Half-year 2015 management priority agenda



Continue to leverage monetization of increasing data consumption

Push forward with the further integration of both networks

Repositioning of brand portfolio

Development of future operating model towards the Leading Digital Telco

Deliver on commitments for FY 2015

Q2 2015 operating & financial performance: fully on track to deliver our full year outlook

O₂ consumer PO churn
1.3%

Driving momentum in a rational market environment

~34% share
auto top-ups

Strong progression with mobile data monetisation

Synergies >40%
of Q2 2015 OIBDA y-o-y¹

Already delivering on integration synergies

1.2X net leverage

Keeping financial flexibility after spectrum & dividend pay

	Baseline 2014* (€ m)	H1 2015* (y-o-y pct. growth)	Outlook 2015** (y-o-y pct. growth)
MSR	5,528	0.8%	Broadly stable
OIBDA	1,461	9.8%	>10%
CapEx	1,161	5.6%	High single digit pct. decline

~30%
of total target
synergy run-rate to
be achieved already
in 2015
(~€250m²)

* Combined figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica management and resulting in combined figures we believe are more meaningful as a comparable basis. H1 financials exclude exceptional items in OIBDA for EUR 14m.

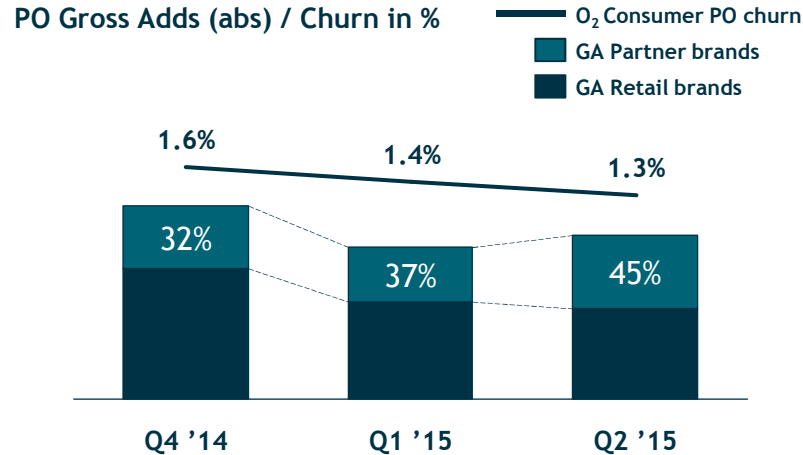
** Expected regulatory effects (e.g. MTR cuts) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA Outlook and CapEx excludes investments in spectrum.

¹ Share on y-o-y OIBDA evolution (€m) over 2014 combined results excluding exceptional effects

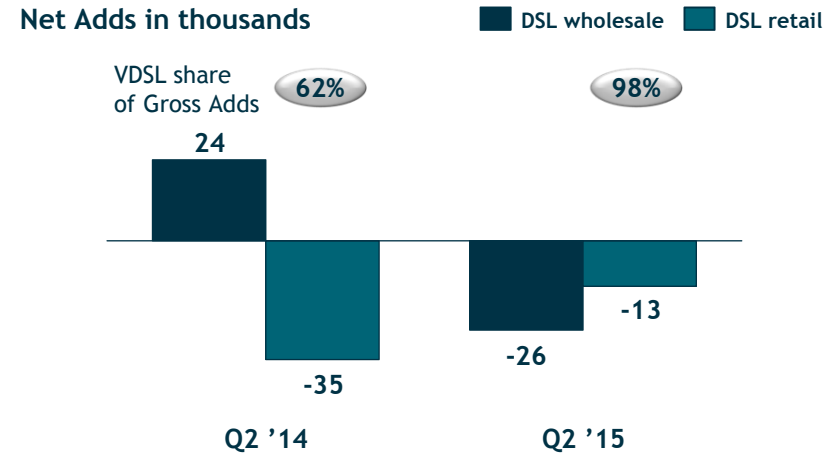
² Please see additional details in appendix

Driving momentum in a rational environment with a continued focus on base management and partner trading

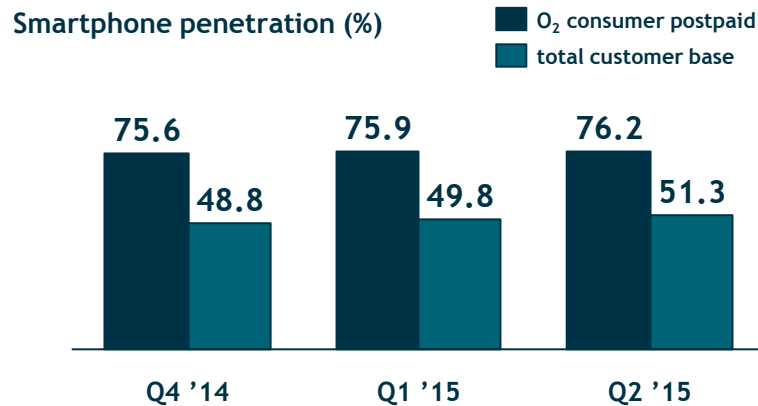
Balancing value with growth in mobile



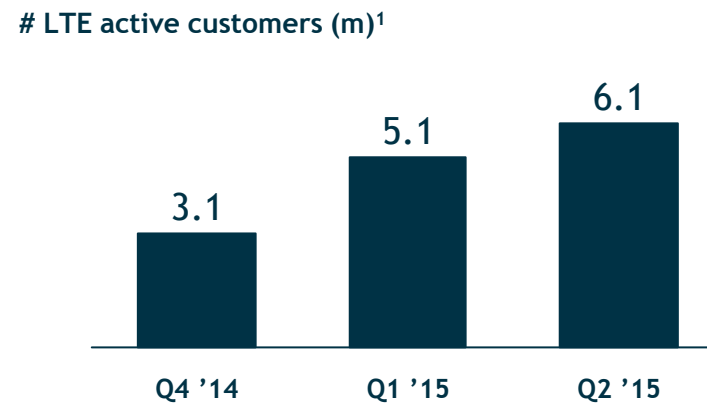
Exploiting a strong fixed BB proposition



Driving further smartphone adoption



Increasing our active LTE base

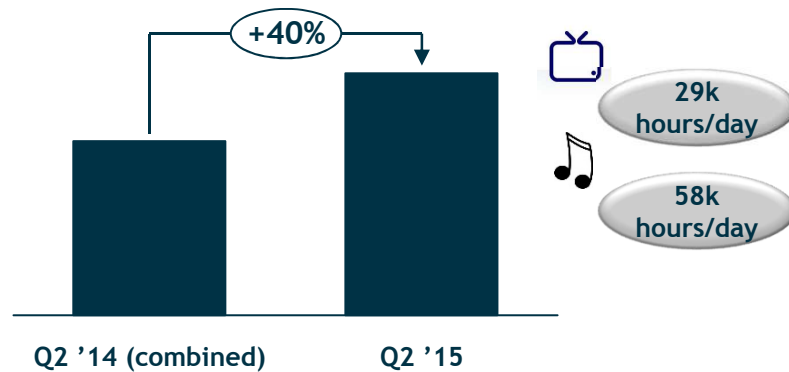


¹ defined as customer with LTE enabled handset & LTE tariff

Strong progression with mobile data monetisation

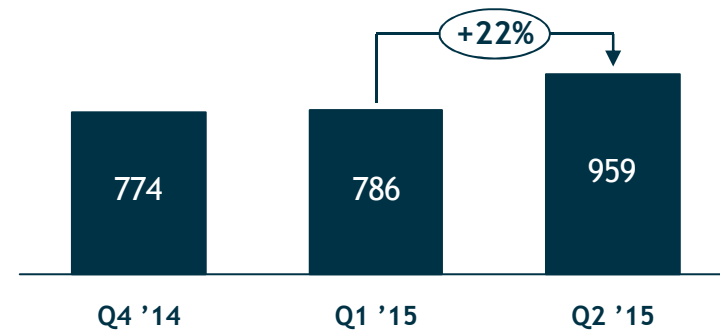
Enabling our customers' digital life

Total increase in content streaming traffic



National Roaming and LTE driving usage

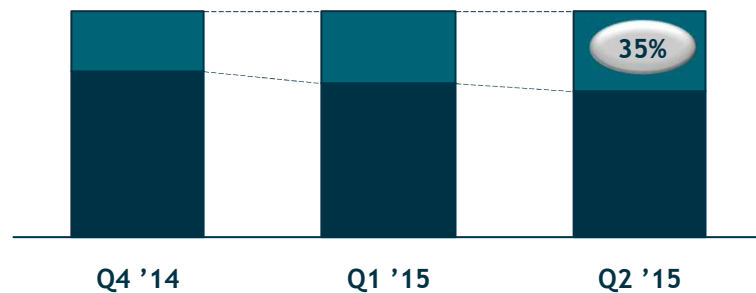
Average data usage for O₂ consumer LTE customers¹ (MB)



Ongoing improvement of tariff adoption mix

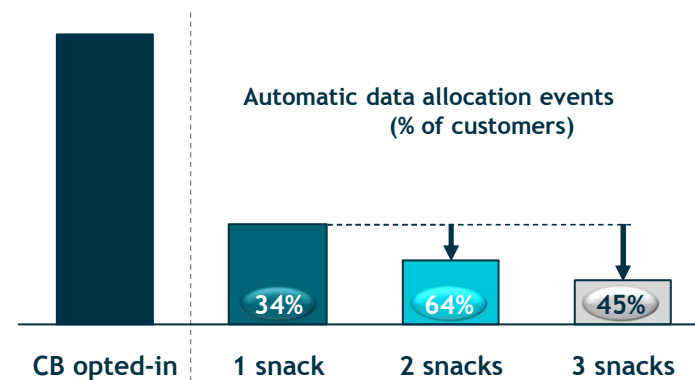
Share of Gross Adds in O₂ Consumer postpaid

■ >1 GB ■ <1 GB



Encouraging progression of Data Automatic

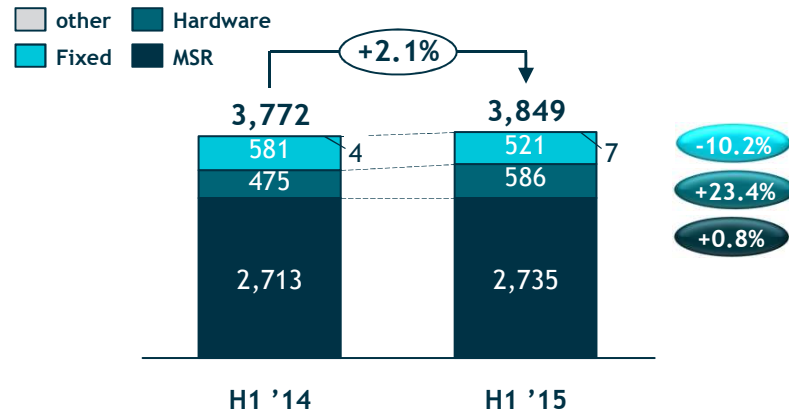
O₂ Blue All-in portfolio (dynamics within opted-in base)



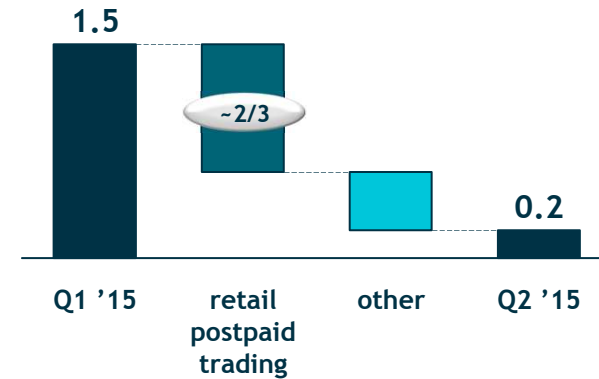
¹ O₂ consumer base with LTE enabled smartphone (all tariffs)

Our mobile-centric strategy driving top line performance

Revenue Structure (in €m)

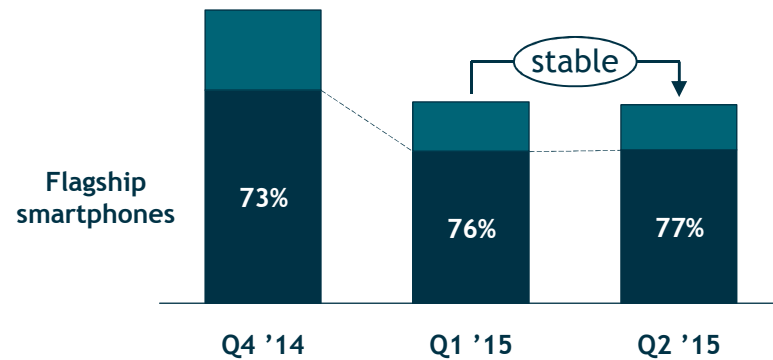


Mobile Service Revenue y-o-y (in %)



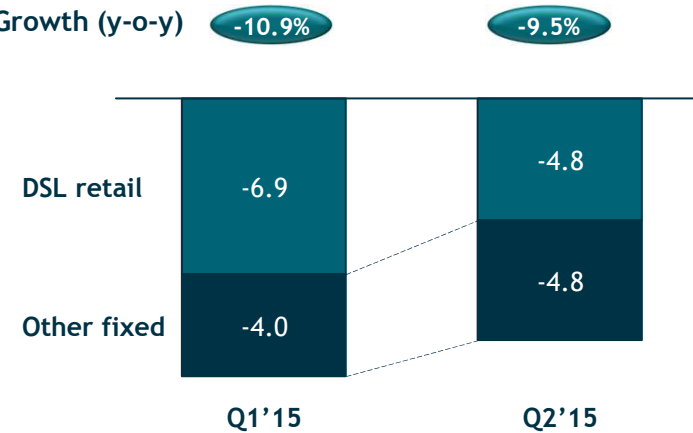
Increased flagship HW sales driving revenue

Handsets sold (volume)



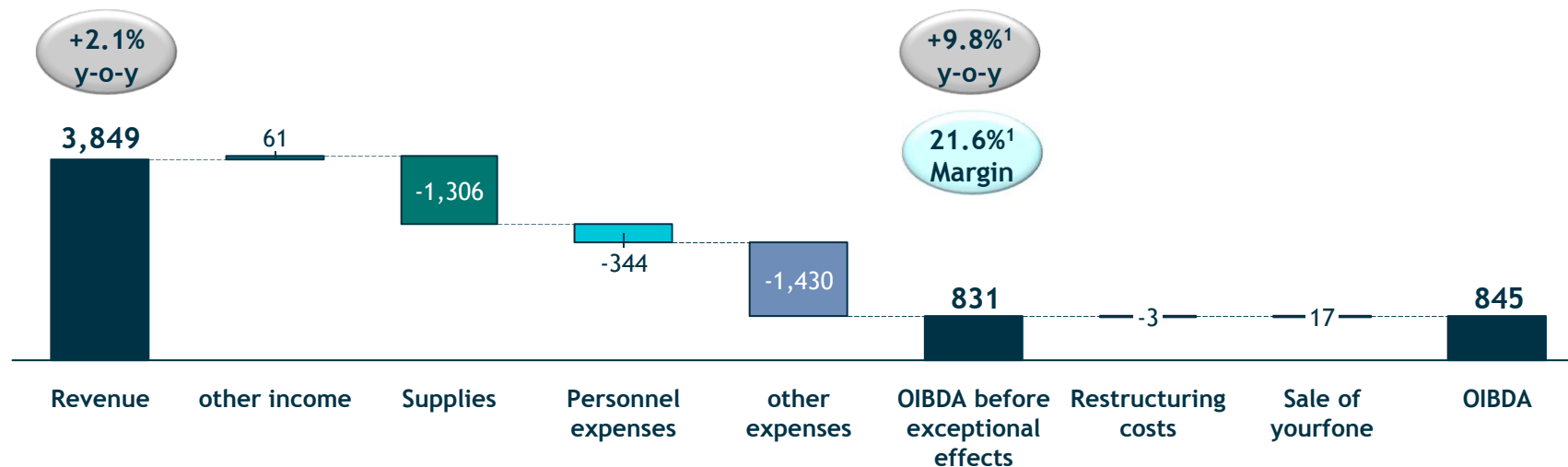
Fixed Revenue y-o-y (in %)

Growth (y-o-y)



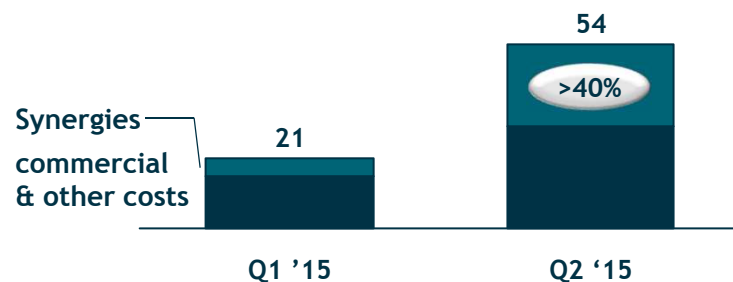
OIBDA already reflecting the benefit from integration savings

Structure of H1 '15 OIBDA (in €m)



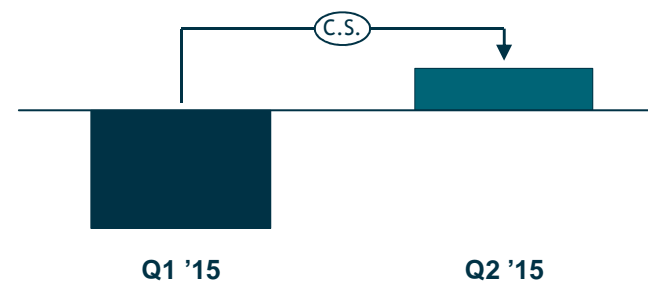
Synergies already a significant driver in Q2 '15

OIBDA growth (y-o-y in €m)¹



Value-based handset approach

HW margin (absolute figures)²

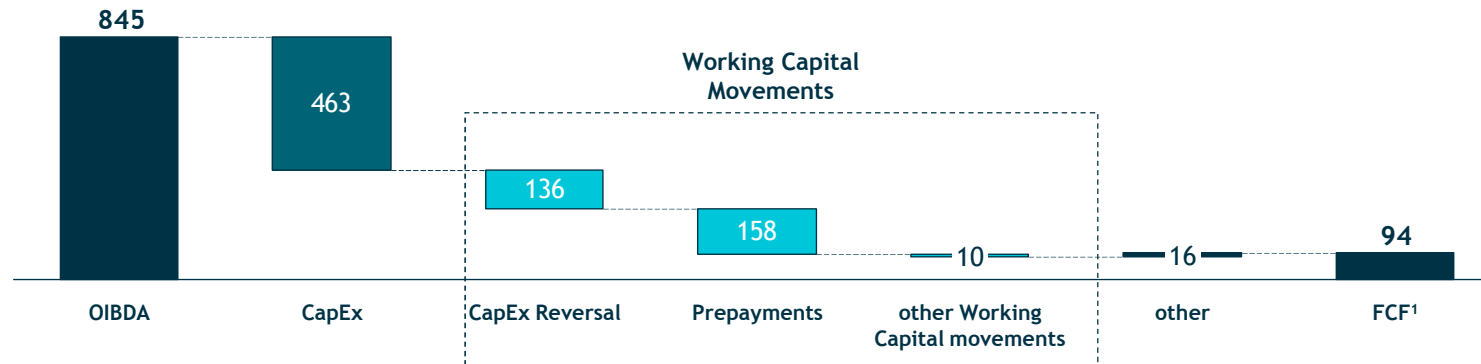


¹ y-o-y comparisons based on 2014 combined figures and excluding exceptional effects

² Hardware margin defined as handset revenues less cost of sales

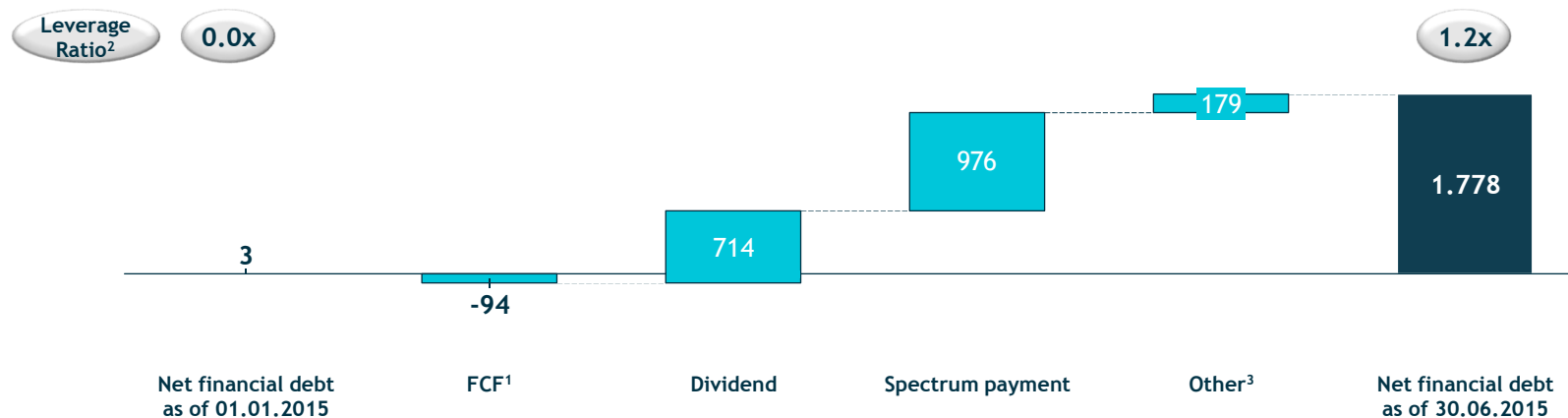
Keeping financial flexibility after significant one-off investments in Q2 2015

Evolution of Free Cash Flow (FCF)¹ (in €m)



¹ Free cash flow pre dividend, spectrum payment and pre acquisition of E-Plus is defined as the sum of cash flow from operating activities and cash flow from investing activities.

Evolution of Net Debt² (y-o-y in €m) - leverage² ratio at 1.2x after one-off payments in Q2'15



² For definition of Net Debt and Leverage Ratio please refer to additional materials of H1 15 results

³ Mainly consists of movement of O2 My Handy receivables and Handset model receivables

Main takeaways

Execution of Integration already delivering benefits from Q2 2015

Strong progression with our mobile-data monetisation strategy

Financial flexibility kept after securing valuable spectrum portfolio

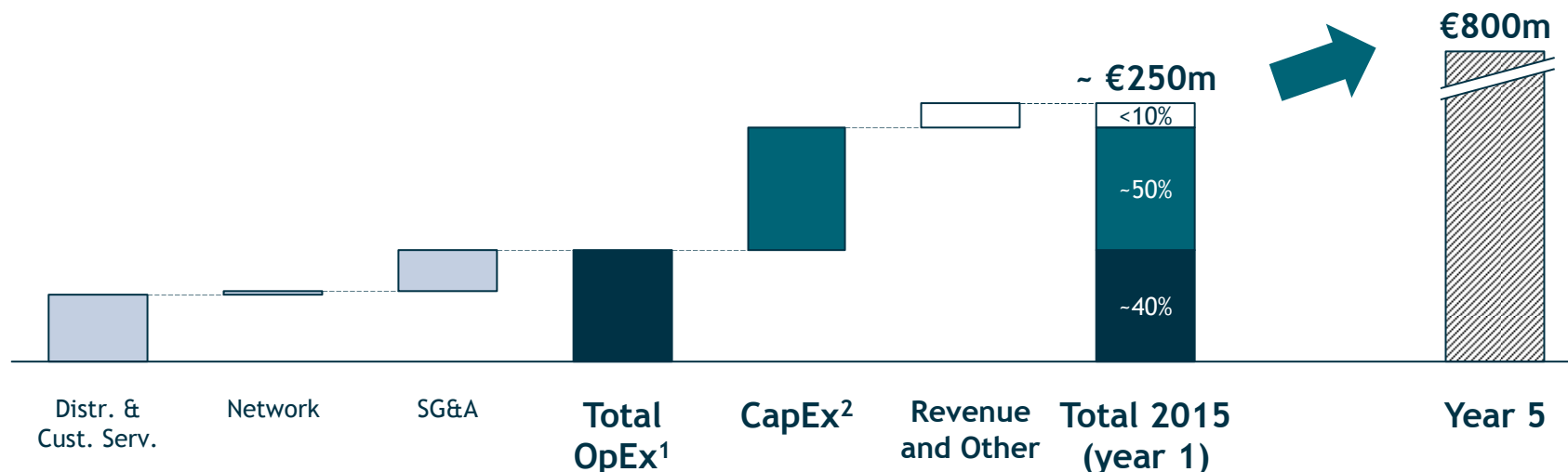
Outlook for the full year 2015 confirmed

Telefónica Deutschland Q2 2015 preliminary results Q&A session



Appendix

Around 30% of total target synergy run-rate to be achieved already in the first year of integration



- 2015 synergies at **~30% of €800m run rate** in year 5 of integration (~80% in year 4)
- **Distribution & Customer service** to represent **~60% of OpEx synergies** in 2015
- **CapEx synergies** mainly driven by a single LTE-network rollout
- A significant proportion of **expected OpEx restructuring costs** already booked in 2014

Headcount restructuring³
of 1,600 FTEs by 2018
(~50% in '15 from Q2'15)

Shop reduction³
planned by 1/3rd by year 5

Decommission³ of
~14,000 mobile sites
planned by year 5

¹OpEx savings are referred to 2014 combined financials excluding restructuring costs

²CapEx synergies net of restructuring activities and exclude investment in spectrum

³2014 combined KPIs: 9.1K FTEs. 1.8K shops, >39K mobile sites

Quarterly detail of relevant combined financial and operating data for Telefonica Deutschland from Q4 2013

Financials (Euros in millions)	2013		2014			
	Q4	Q1	Q2	Q3	Q4	FY
Revenues	2.022	1.847	1.925	2.002	2.019	7.793
Mobile service revenues	1.391	1.333	1.380	1.424	1.391	5.528
OIBDA post Group fees (1)	462	357	399	350	354	1.461
CapEx	471	215	224	286	438	1.161

Accesses (EoP) (in k)	2013		2014			
	Q4	Q1	Q2	Q3	Q4	FY
Total Accesses	46.899.093	46.897.309	47.302.730	47.802.754	47.661.550	47.661.550
o/w mobile	41.133.167	41.168.484	41.622.532	42.200.853	42.124.881	42.124.881
Prepay	22.876.496	22.679.943	22.939.856	23.316.089	23.350.747	23.350.747
Postpay	18.256.671	18.488.541	18.682.676	18.884.764	18.774.134	18.774.134

- Combined figures for 2014 and 2013 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies.
- (1) The combined figures are further adjusted by exceptional effects if any, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management and resulting in combined figures we believe are more meaningful as a comparable basis
- The combined financials are not necessarily indicative of results that would have occurred if the business had been a separate standalone entity during the year presented or of future results of the business. The presentation of the combined consolidated financial information is based on certain assumptions and is intended for illustrative purposes only. The combined information describes a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual results of operations. The assumed acquisition date had been the beginning of the annual period.

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