Telefónica Deutschland

Q4 2017 preliminary results

Telefónica Deutschland, Investor Relations

21 February 2018

Public – Nicht vertraulich

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

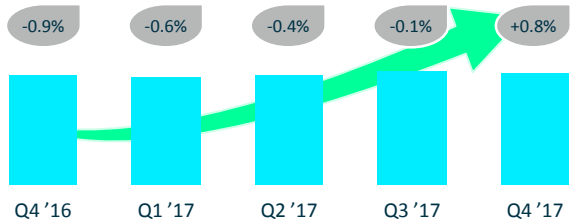
Flat MSR[1] **(excl. regulatory effects)**	• Successful new O_2 Free portfolio and strong partner performance • MSR back to growth in Q4 driven by operating momentum & incoming roaming
2.8 GB **average data usage[2]**	• 15.8 million LTE customers; +31% year-on-year • Traffic up 68% y-o-y; usage of 2.8 GB for O_2 consumer postpaid LTE customers
OIBDA[3] +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
Outlook[4] 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 O_2 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

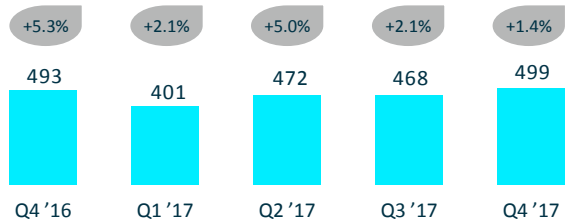
Underlying[1] MSR trends back to growth in Q4 '17

Year-on-year performance in %



13 quarters of year-on-year OIBDA[2] growth

Year-on-year performance in %

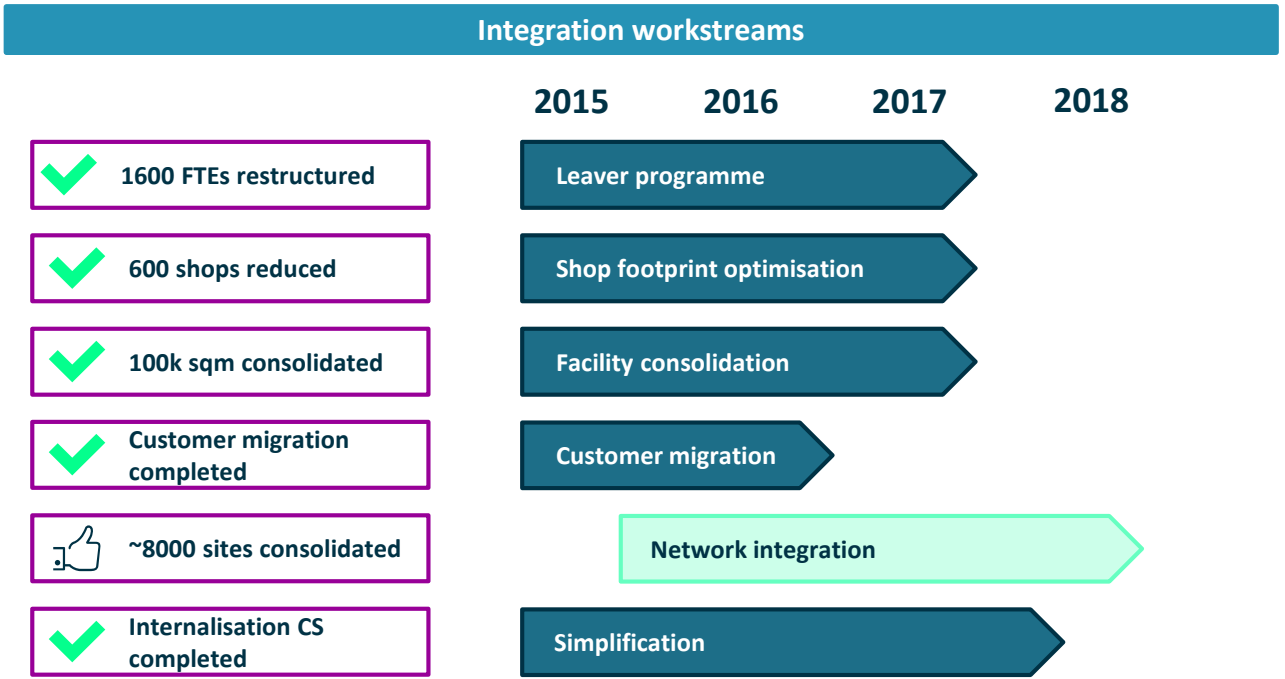


	Baseline 2016 (EUR m)	Outlook 2017 (y-o-y pct. change)	FY 2017 actual (EUR m / y-o-y pct. change)
MSR ✓	5,437	**Slightly negative to flat**[1] **Excl. the impact from regulatory effects (3-4%)**	**5,433** / -0.1% **(Excl. regulatory effects of EUR 146 million)**
OIBDA ✓	1,793[2]	**Flat to low single-digit % growth**[2]	**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



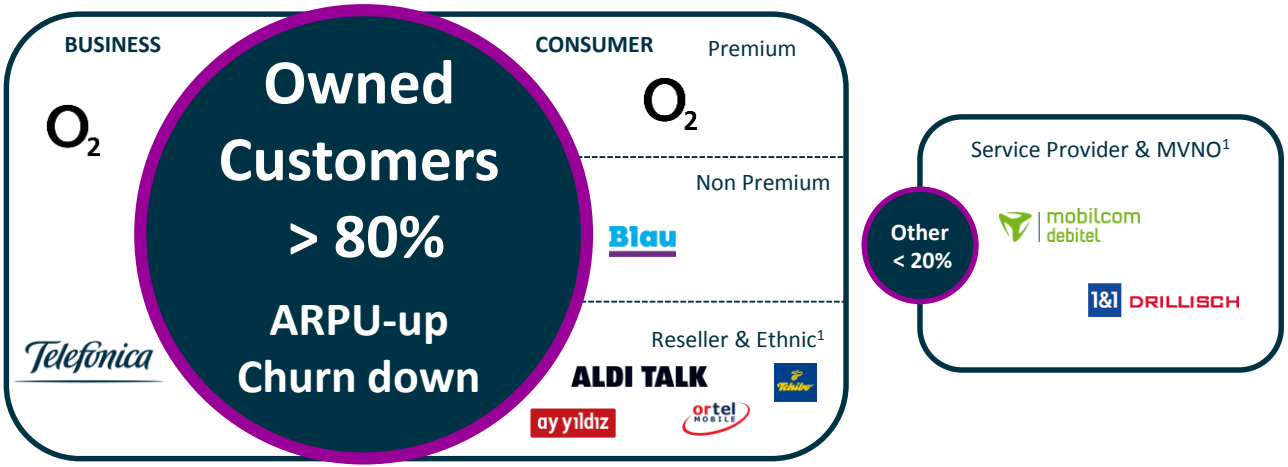
Network update: Over half of network consolidation completed, significant quality improvements

Ambition: Building the best network for customer experience until 2020

April/May 15	July 15	April 16	July 16	April 17	May 17	August 17	December 17
					Excellence Award 2017		
3G National Roaming for all customers	Deal to **transfer 7,700 sites** to DTE	**Tower sale** to Telxius	Consolidation & roll-out **4G network**	Implementation of **SON** & **SOC**	Implementation of **CEM**	**1 MNC** nationwide	**~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

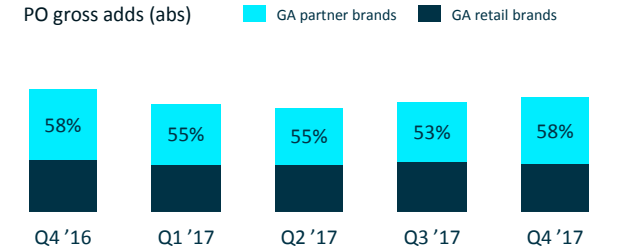
Q4 2017: MSR turning to growth

MSR +0.8% y-o-y **(excl. regulatory effects)**	• MSR incl. regulatory effects -1.2% year-on-year; further sequential trend improvement • O_2 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 O_2 Free • Strong partner trading in a more benign pricing environment • Continued strong demand for VDSL
OIBDA[1] **+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

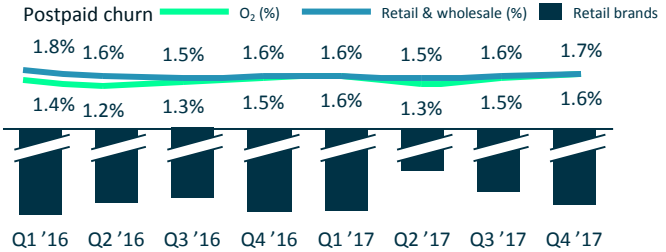
[1] Excluding exceptional effects; for details please refer to further materials of the 2017 results release

Strong partner momentum, retail on track – Effective churn management

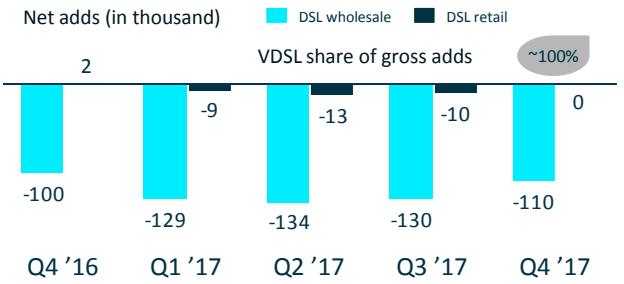
Visible effect from price increases



Maintaining retention focus



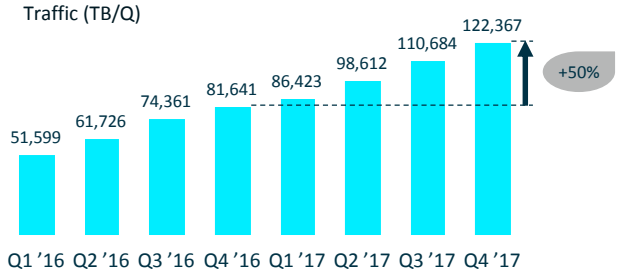
VDSL drives fixed trading



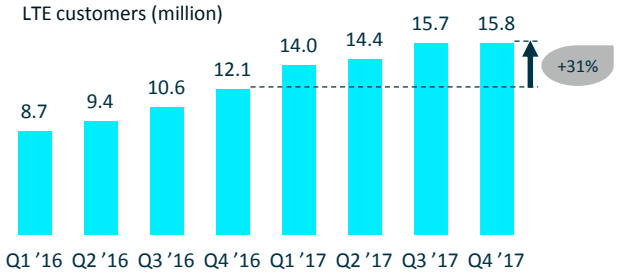
- Strong partner trading despite more benign pricing environment, focus on 4G
- Churn in O_2 consumer remains stable, with seasonal uptick in Q4
- VDSL with solid net adds of 89 thousand; wholesale migration in line with expectations

Strong growth in traffic continues leveraging larger data buckets

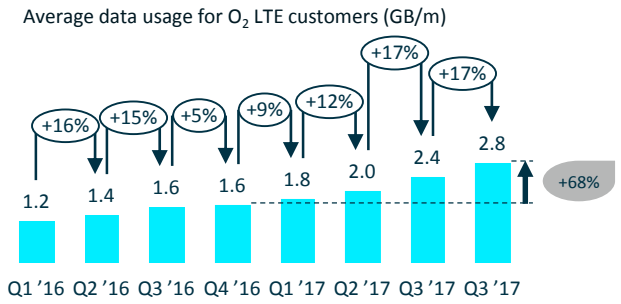
Sustained data traffic growth



LTE adoption slowing



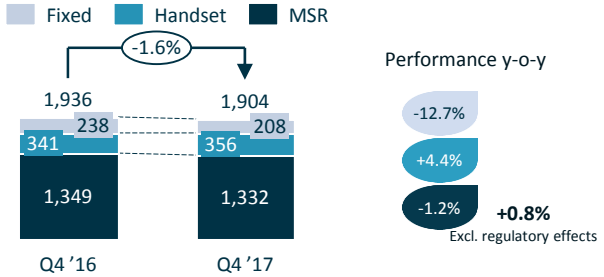
Average usage creeping up to almost 3GB



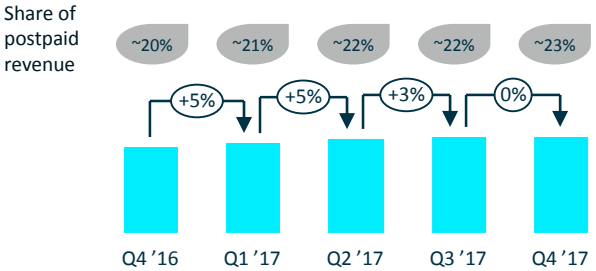
- LTE customer base at almost 16 million, +31% y-o-y
- Music & video streaming key drivers of data traffic growth of ~50% y-o-y
- Data usage for O_2 consumer LTE customers up ~70% y-o-y to almost 3 GB driven by larger data bundles; O_2 Free customers >7GB

Underlying MSR trends back to growth

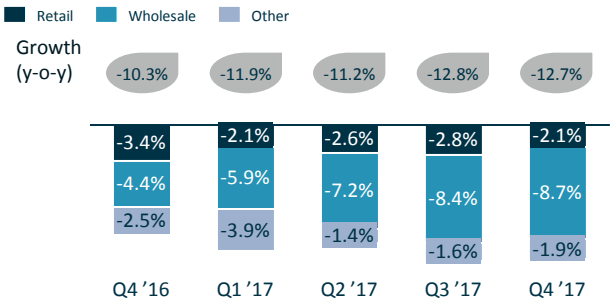
Revenue structure (in EUR m)



MSR from partner business (in EUR m)



Contribution to fixed revenue y-o-y[1] performance

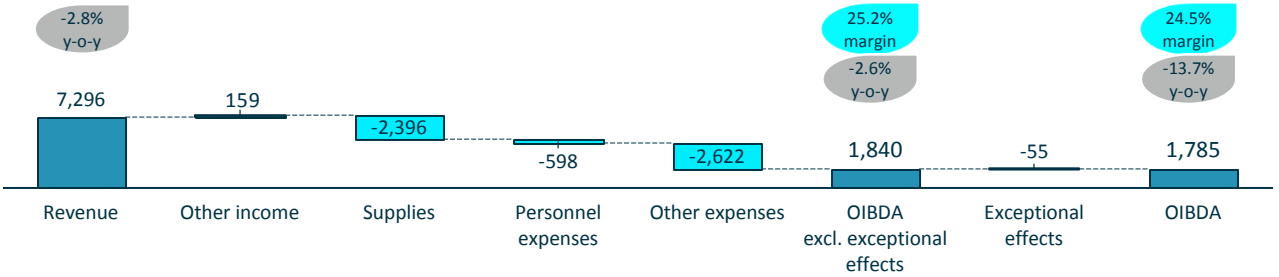


- Underlying MSR back to growth, supported by visitor roaming
- Negative regulatory effects more benign due to slow uptake of RLH
- Stable trend of partner revenue share
- Handset revenue continues to improve
- Fixed revenue reflects wholesale migration

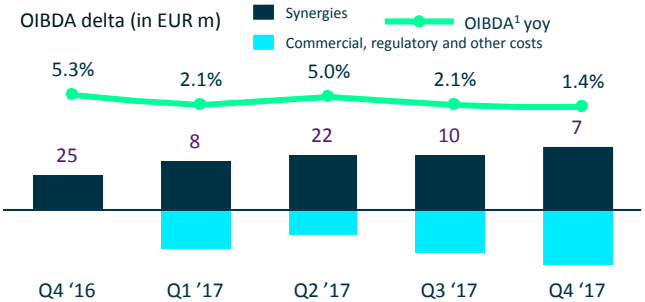
[1] Please note a change in the definition of the fixed retail/wholesale split, which better reflects revenue allocation across segments

OIBDA reflects successful synergy capture, 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)
- OIBDA[1] 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

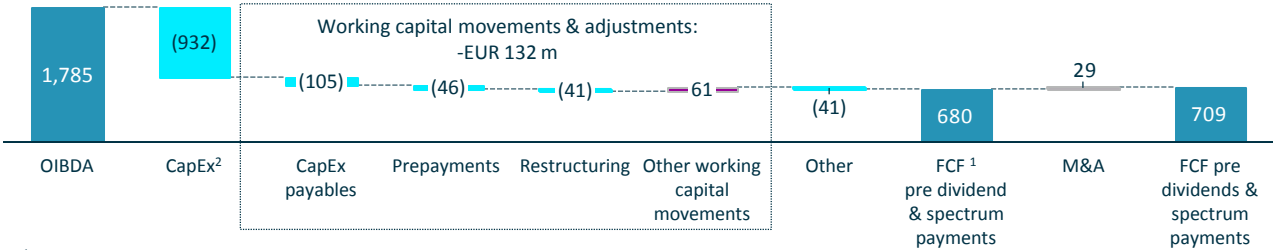
Outlook 2018: Entering a new chapter and changing KPIs

	Baseline 2016 (EUR m)	Outlook 2017 (y-o-y pct. change)	Actual 2017 (EUR m / y-o-y pct. change)	Outlook[3] 2018 (y-o-y pct. change)
Revenue	7,503	– – – – –	**7,296** / -2.8%	**Broadly stable** Excluding negative regulatory effects of EUR 30-50 million
MSR	5,437	Slightly negative to flat Excl. negative regulatory effects of 3-4% y-o-y	**5,433** / -0.1% Excl. regulatory effects of EUR 146m	– – – – –
OIBDA	1,793[1]	Flat to low single-digit % growth	**1,840**[1] / +2.6%	**Flat to slightly positive** Excluding negative regulatory effects of EUR 40-60 million
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

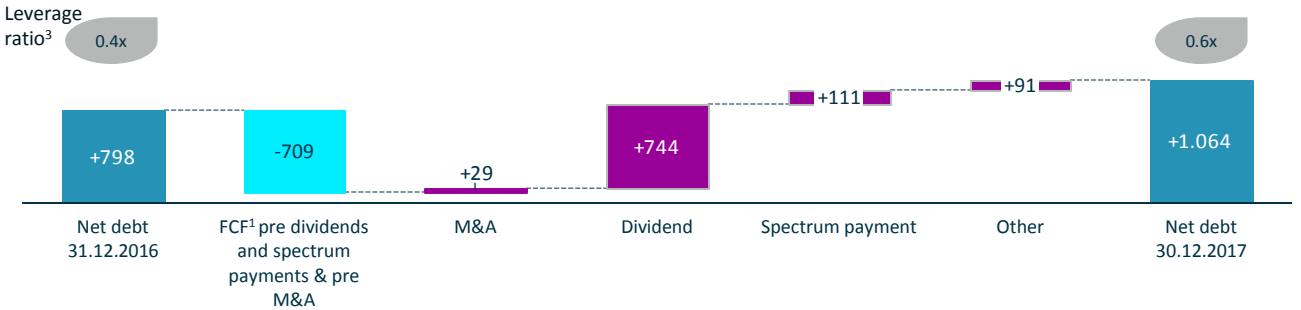
Financial leverage in line with target

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 Debt[3] (y-o-y in EUR m) – Leverage[3] 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 O_2 Free

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

Solid outlook for 2018 with broadly stable revenue[1] and flat to slightly positive OIBDA[1]

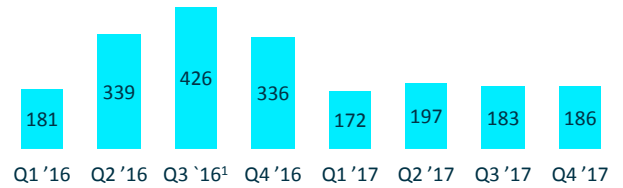
Solid FCF, commitment to dividend

[1] Excluding regulatory effecs

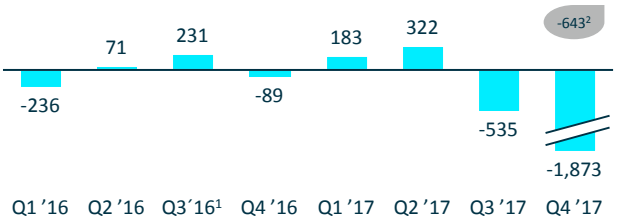
Appendix - KPIs

Mobile KPIs

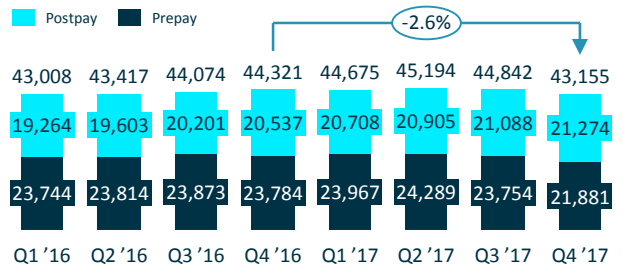
Postpay net adds (‘000)



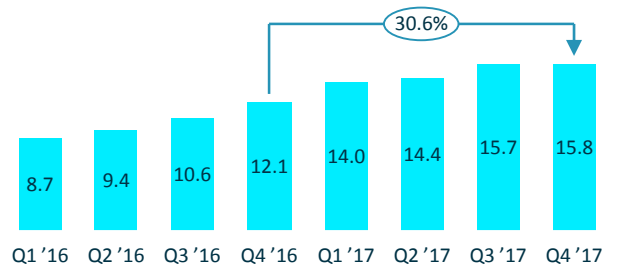
Prepay net adds (‘000)



Mobile customer base (‘000)



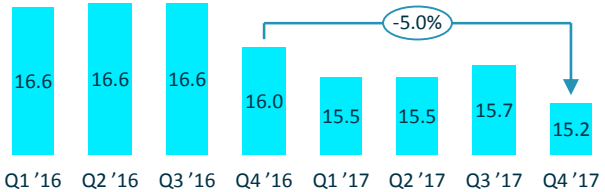
LTE customer base (in m)



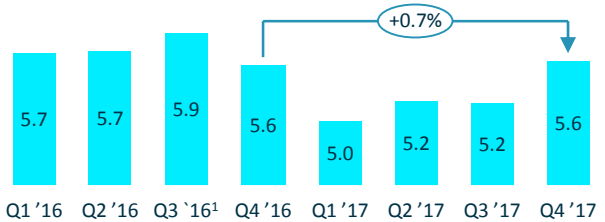
[1] Excluding reclassification of 172k customers from prepaid to postpaid as part of the customer migration activities
[2] Underlying mobile prepaid net adds: technical customer base adjustment driven by IT-harmonisation post prepay customer migration of -1.230k

Mobile KPIs

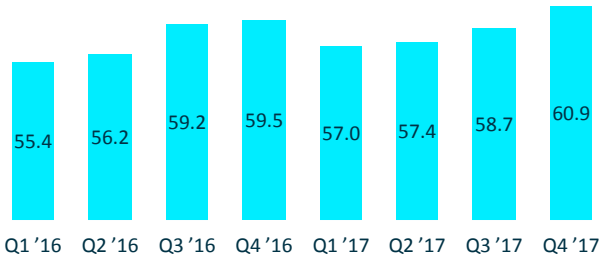
Postpay ARPU (EUR)



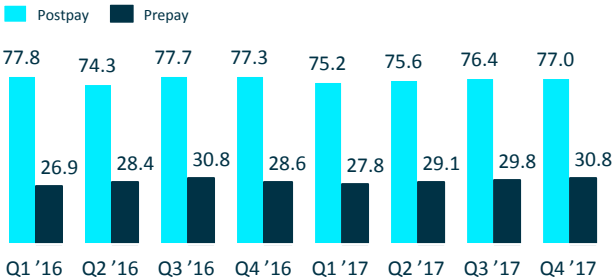
Prepay ARPU (EUR)



Smartphone penetration (%)[1]



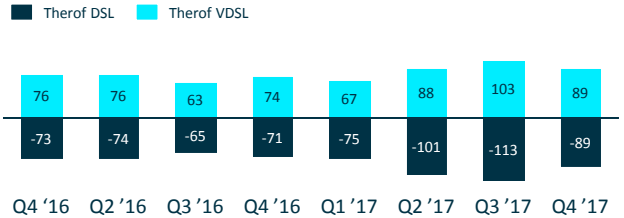
Smartphone penetration O_2 consumer (%)



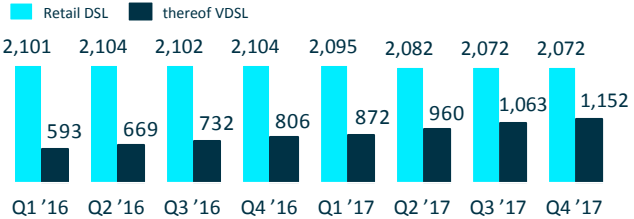
[1] Smartphone penetration is based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base less M2M, less customers with a big screen tariff

Fixed-line KPIs

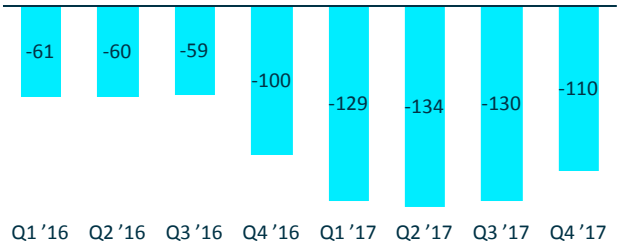
Retail broadband net adds (‘000)



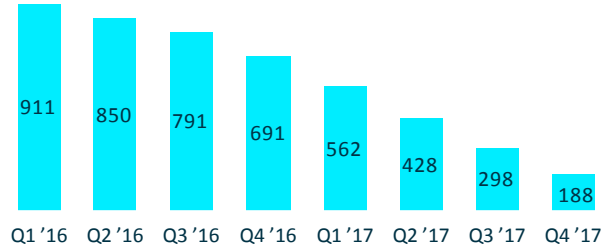
Fixed accesses (‘000)



Wholesale net adds (‘000)



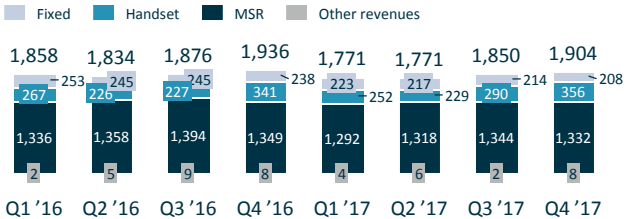
Wholesale accesses (‘000)[1]



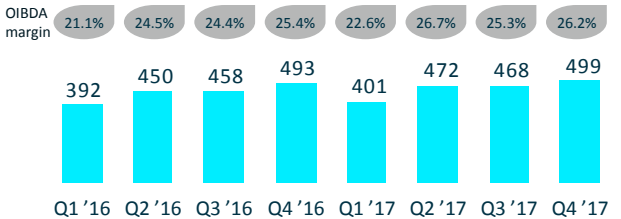
[1] Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access

P&L

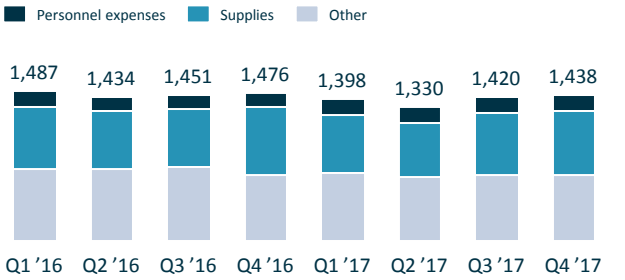
Revenue structure (EUR m)



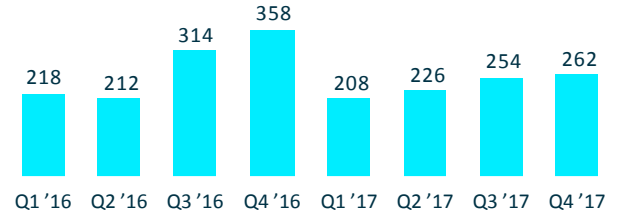
OIBDA (post GF, pre exceptional effects / EUR m)[1]



OpEx split[2] (EUR m)



CapEx (EUR m)

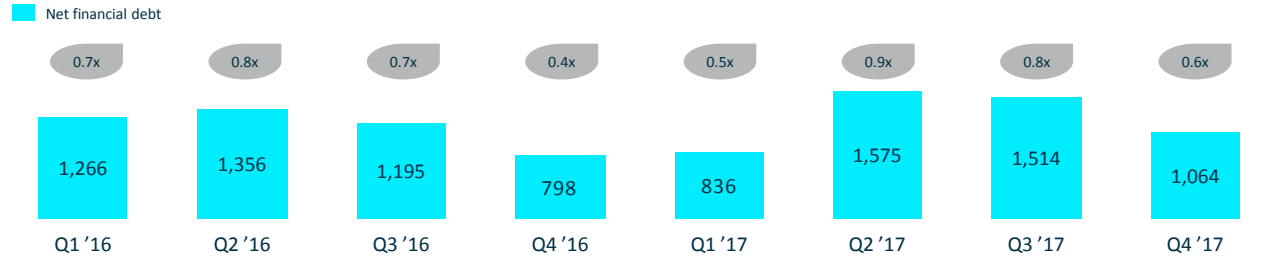


[1] Exceptional effects include restructuring costs as well as the net capital gain from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016. We have calculated a pro-forma OIBDA of EUR 1,793m for 2016, which includes the operating lease-related effects from the sale of Telefónica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

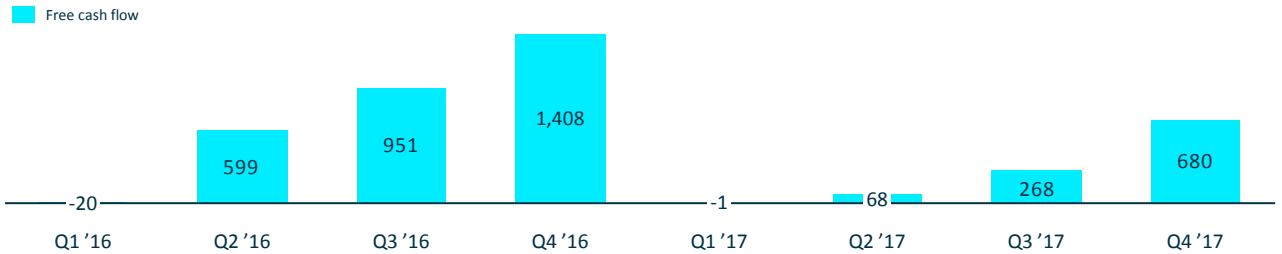
[2] Opex-split before exceptional effects

Financials

Net debt and leverage



Free cash flow[1] (YTD)



[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

Telefónica