

Telefónica

Deutschland

Investor presentation Telefónica Deutschland

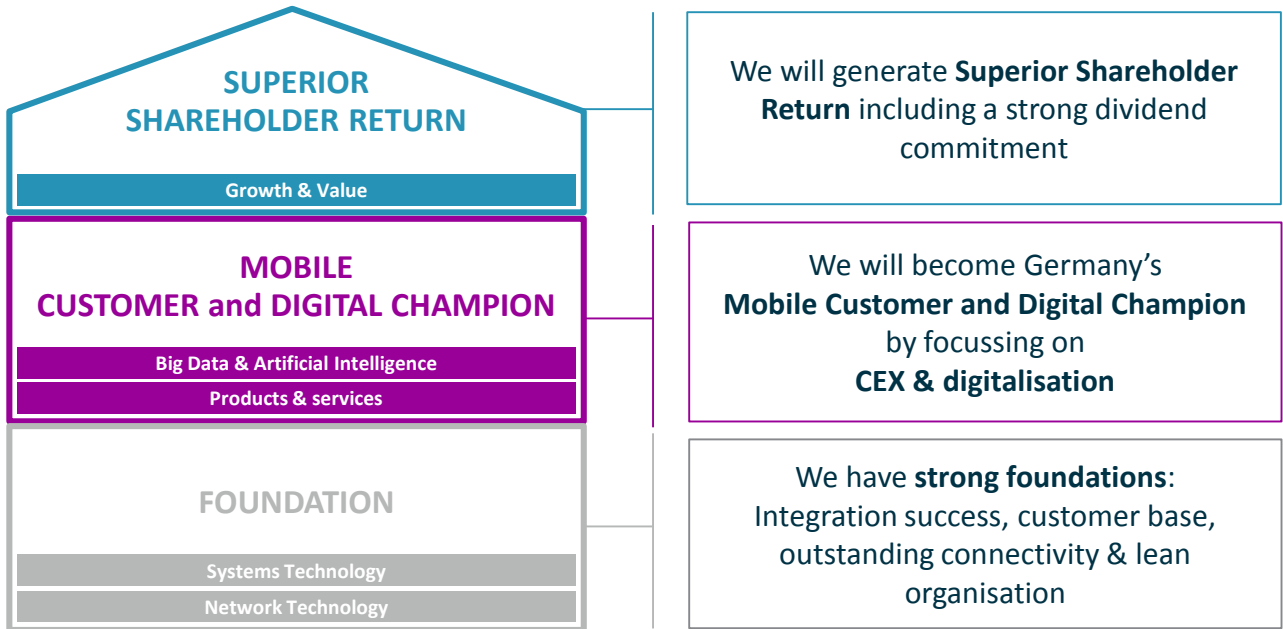


Telefónica Deutschland, Investor Relations
Q1 2018

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Becoming the Mobile Customer and Digital Champion



Largest and fastest mobile merger

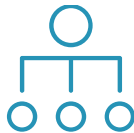
2 companies
3 years

>9,000 Employees



>25%

OIBDA growth
in 3 years



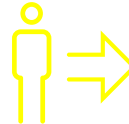
~1,600 FTE

Organisation
harmonised
in 3 years



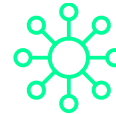
600

Shop reduction
in 3 years



>25m

Customers
migrated to one IT
stack in 2016



>14k

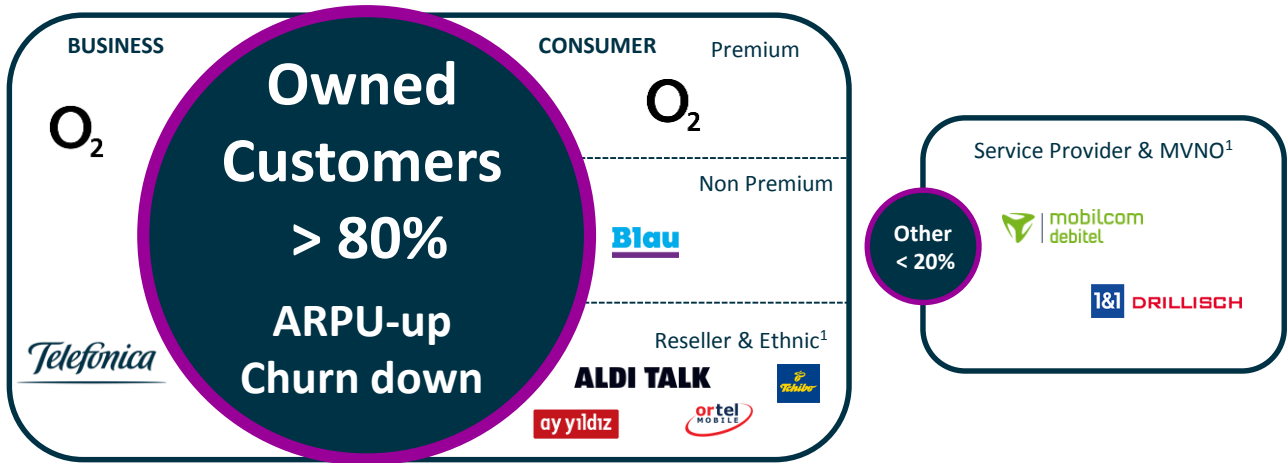
Network sites
to be consolidated
by 2019



O₂ Free

First 3G unlimited
First 4G big bucket
portfolio

Core asset: Largest owned customer base of ~35 million



¹ Not exhaustive

Our 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

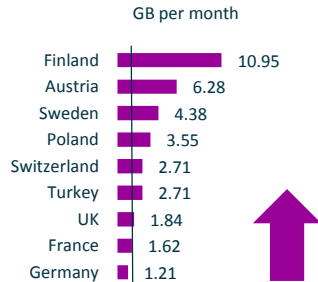


¹ FocusEconomics Consensus Forecast Euro Area (2017)

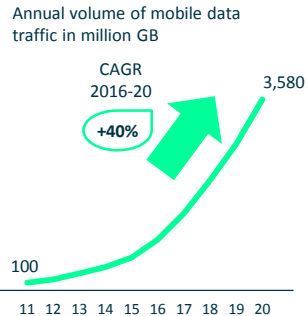
The data & device opportunity: Explosive growth

MARKET TRENDS – German market with significant further growth potential

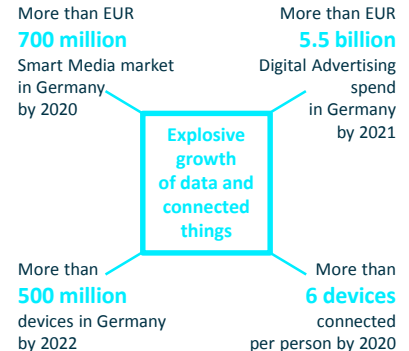
Mobile data usage in Europe¹



Mobile data traffic in Germany²



ADA and IoT growth opportunity³



¹ Forbes/OECD (2017): 'Mobile Data Subscriptions: Which Countries Use The Most Gigabytes?'

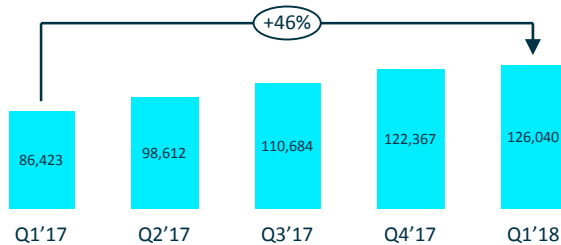
² Bundesnetzagentur (2017): 'Jahresbericht 2016'; Analysis Mason (2017): 'Western Europe telecoms market: interim forecast update 2016-2021'

³ Company Research / Simon-Kucher & Partners analysis (2017) / Cisco VNI Global forecast (2017) / Please note: Devices including cellular, wifi & bluetooth

Steady growth in traffic on Telefónica Deutschland network

Data growing steadily

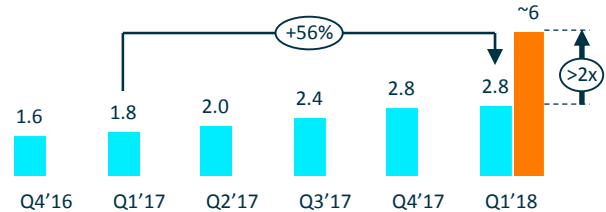
Traffic (TB/Q)



LTE usage trends with seasonal effects

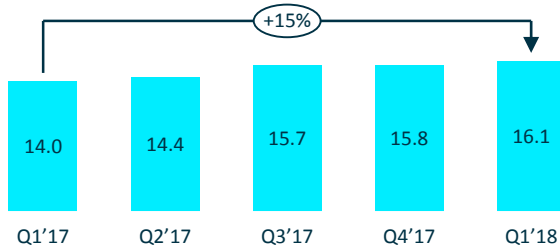
Average data usage for O₂ LTE customers (GB/month)

■ O2 Free M tariff



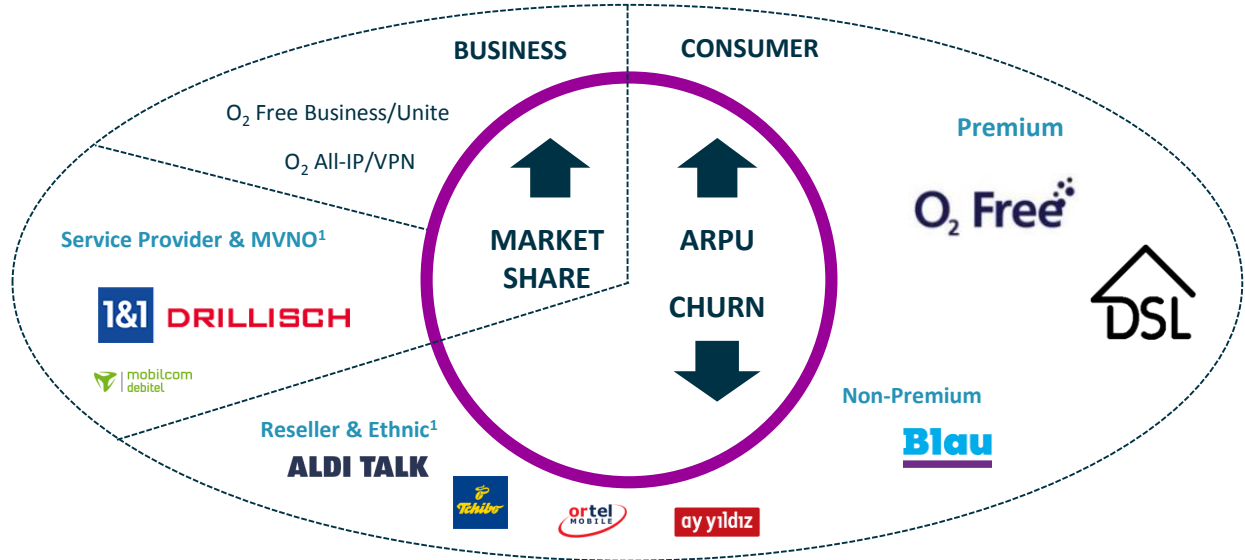
LTE customer base still increasing

LTE customers (in million)



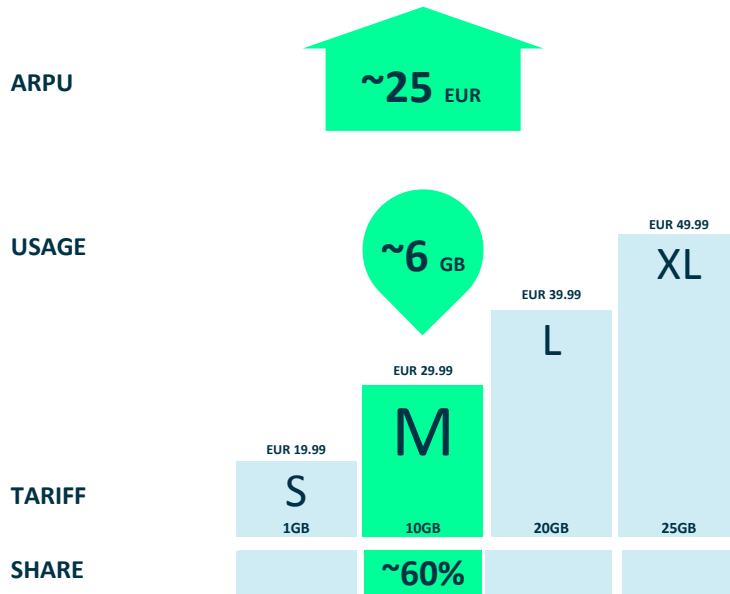
- Music & video streaming driving steady data growth of ~50% y-o-y
- Data growth for O₂ consumer LTE customers with seasonal effect as in 2017
- O₂ Free M tariff customers use ~6GB of data
- LTE customer base up 15% y-o-y to 16.1m

Future-proof portfolio for all segments



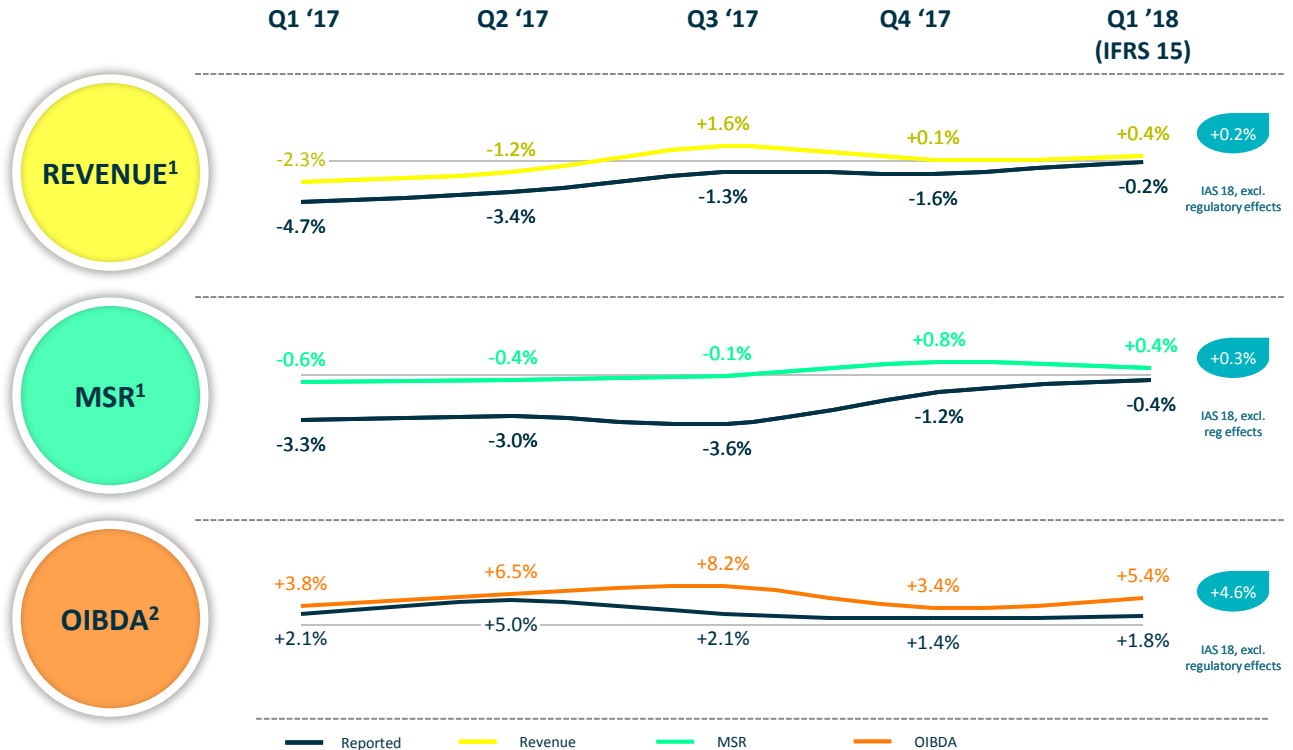
¹ Not exhaustive

Big data portfolio feeds mass market consumer demand



- Driving **ARPU-up** with O₂ Free portfolio
- **M tariff most popular** sell with ~60% share
- Usage of ~6GB and average ARPU of EUR ~25
- Competition now also with **focus on large data offers**
- Selective tariff and handset promotions to **drive momentum**

Positive underlying y-o-y performance across P&L



¹ Excluding the negative impact from regulatory changes and y-o-y comparison based on IAS18 accounting standards for 2017 and IFRS15 for 2018.

² Adjusted for exceptional effects, excl. the negative impact from regulatory changes and y-o-y comparison based on IAS18 accounting standards for 2017 and IFRS15 for 2018. For details please refer to additional materials of the Q1 2018 results release.

Becoming the Mobile Customer & Digital Champion

Fixing the basics and delivering execution proof points



No.2 in customer service ahead of incumbent in 2018 connect test



TechCity

Early 5G innovation cluster with NOKIA

NGN fibre coop

>9k

Sites switched off

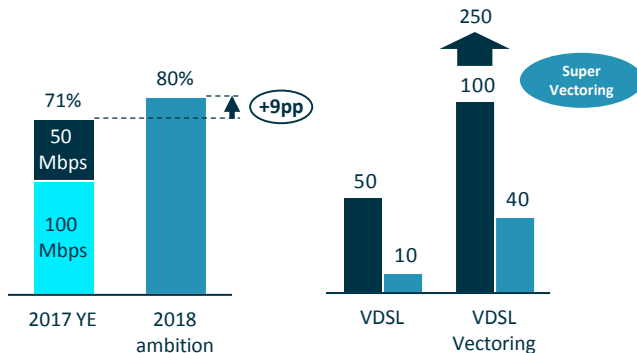


Fixed infrastructure model to complement our mobile network for best high-speed experience

Access to best available fixed NGA network¹

NGA coverage targets
(% of covered households)

Maximum speed
(Up- & Download, Mbps)
■ Download ■ Upload



- Nationwide access to DT NGA network
- DT is currently upgrading larger cities to VDSL vectoring and 100 Mbps
- In H2 2018, introduction of Super Vectoring with download speeds of up to 250 Mbps

¹ NGA: Next Generation Access including VDSL, Vectoring and future FTTH deployments

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Fixed

- Access to best available fixed NGA network¹
- Fixed: Access to >30 million VDSL households
- Full convergence capabilities

Mobile fibre backhaul

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

Transformation programme *Digital4Growth*

How to become the **MOBILE CUSTOMER** and **DIGITAL CHAMPION**?



Transformation programme *Digital4Growth*

Digital4Growth



SIMPLER




FASTER



BETTER

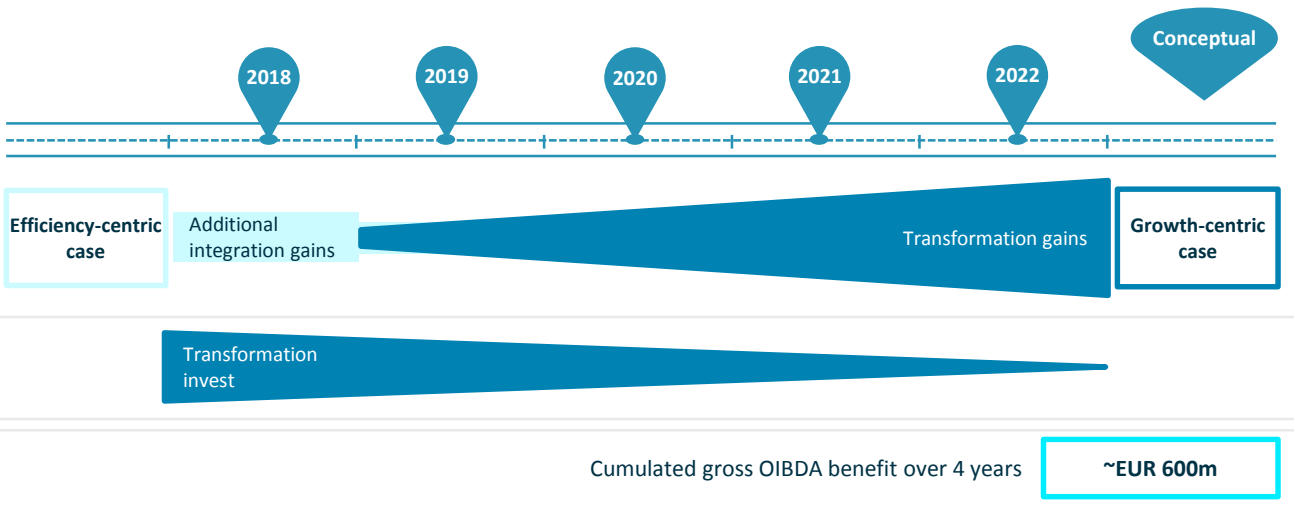
Total case: OIBDA benefit by 2022		~EUR 600m
Omnichannel	Reduced complexity	~25%
Refreshed IT architecture		
Digital speed & processes	Smart growth	
ADA & IoT	Care of the future	
Shop strategy		~40%

Growth-centric case:
>60% gross margin gains

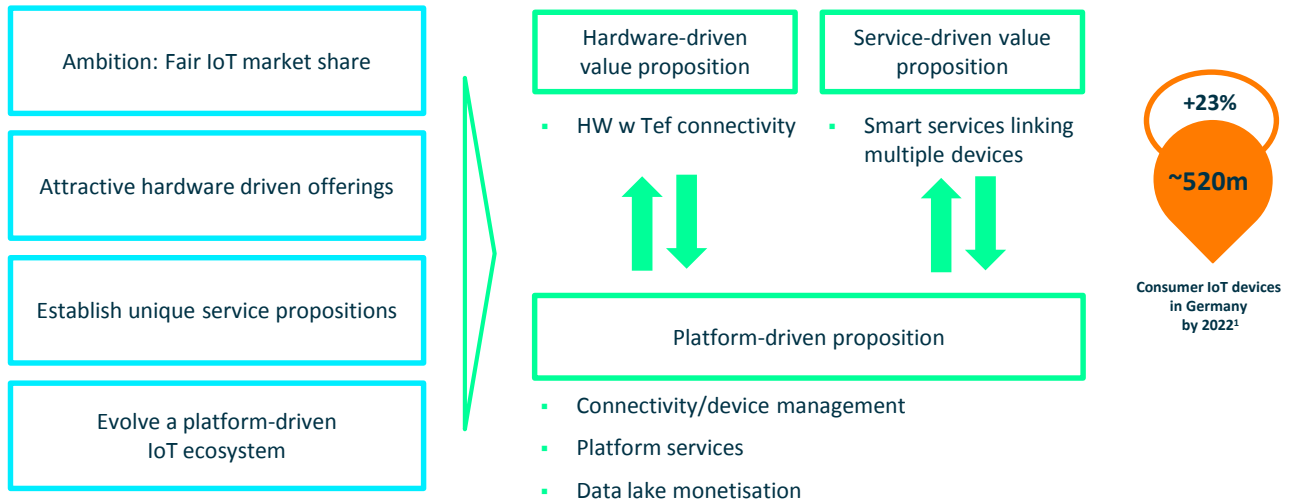


Building on the efficiency gains of the integration

Upfront transformation invest balanced by integration gains

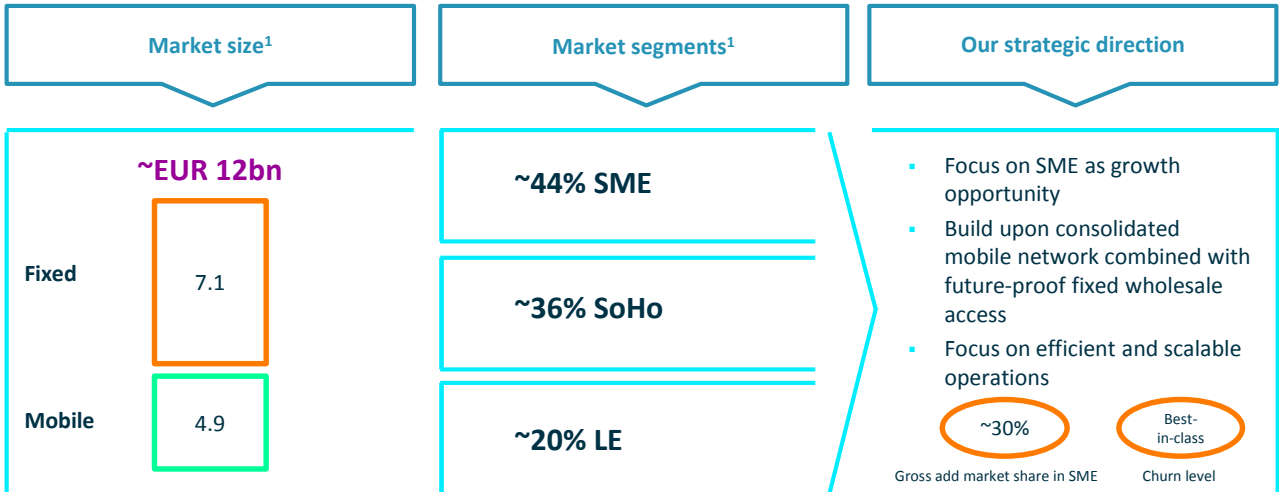


Monetising explosive IoT device growth



¹ Company Research: Simon-Kucher & Partners analysis (2017) / Cisco VNI Global forecast (2017) / Please note: Devices including cellular, wifi & bluetooth

Business market potential: Significant growth opportunity not yet captured



¹ Sources: IDC (2017): European Telco Database / mm customer strategy: 'Business Insights 2016/17' & 'Strategic Insights 2016/17'

Leverage large customer base in the reseller & ethnic segment

Benefits for partnering for TEF D

Channels

Reseller & Ethnic¹

ALDI TALK



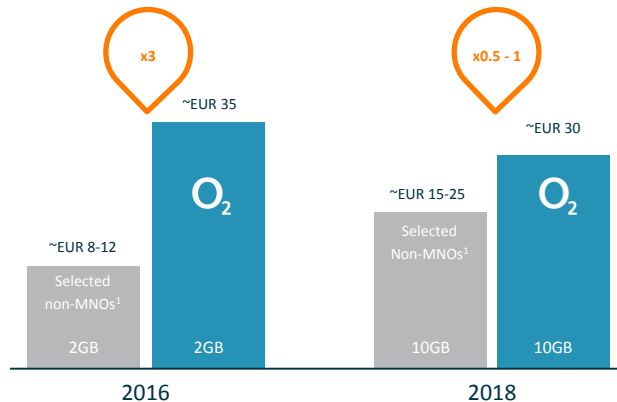
ay yıldız

- Data adoption driving growth
- Leveraging large distribution channels
- Up- and cross-selling opportunities
- Process automation driving faster go-to-market cycles

~20k PoS



Non-MNO postpaid market pricing recovered in 2017 driven by roam-like-home and big bundles

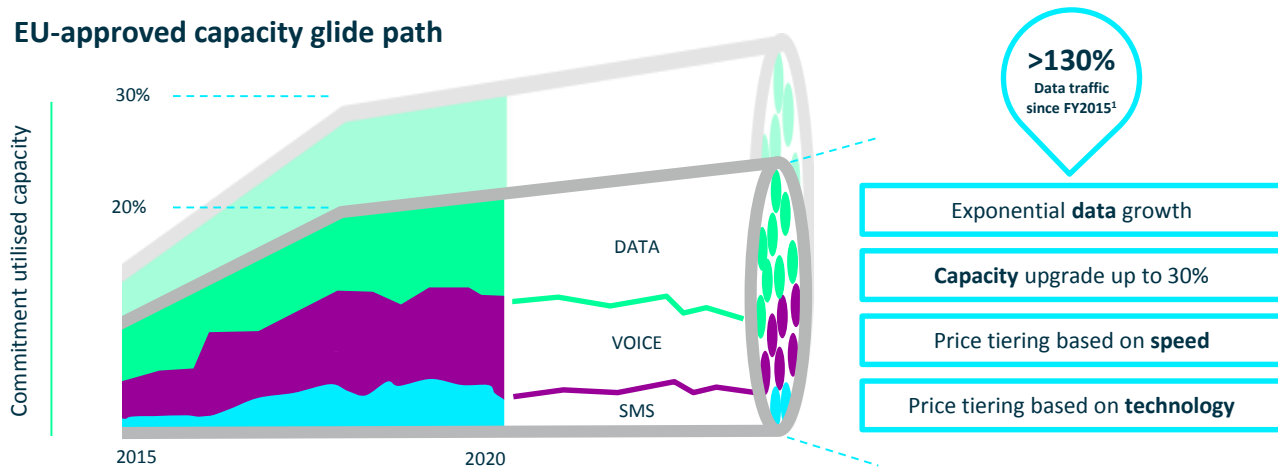


- Postpaid pricing recovered after low in summer 2016 driven by roam-like-home and big buckets
- Larger data bundles and full 4G offers support marketing between EUR 15 and EUR 30
- Migration patterns reflect market shares

¹ Selected non-MNOs = Postpaid Service Provider & MVNO; company research

MBA MVNO contract economics: Four levers for revenue growth

EU-approved capacity glide path



¹ Telefónica Deutschland mobile network traffic

Financial expectations



FY 2018 outlook¹

- Revenue: Broadly stable yoy excluding a regulatory drag of EUR 30-50m
- OIBDA: Flat to slightly positive yoy excluding a regulatory drag of EUR 40-60m
- Capex/Sales: Approx. 12-13%
- Dividend: Growth over 3 years (2016-2018)

Transformation case

- ~EUR 600m positive gross OIBDA effect by 2022
- Growth-centric case

Mid-term expectations¹

- Revenue growing in line with German market, capturing market share in IoT
- Ongoing margin improvement
- Keeping Capex stable
- Dividend: High payout ratio to FCF

¹ Telefónica 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

Digital4Growth targets



SIMPLER

O₂ app penetration:
>80% (vs. 20% 2017)

Tariff detox:
~40%

Total IT spend/
subscriber: **-15%**

Postpaid churn:
-2% pts



FASTER

Lead time product
changes:
Within hours

Manual back-office
interventions:
-80%

Sales in self-assisted
channels:
>25% (vs. 15% 2017)

Gross adds market
share in SME:
~30%



BETTER

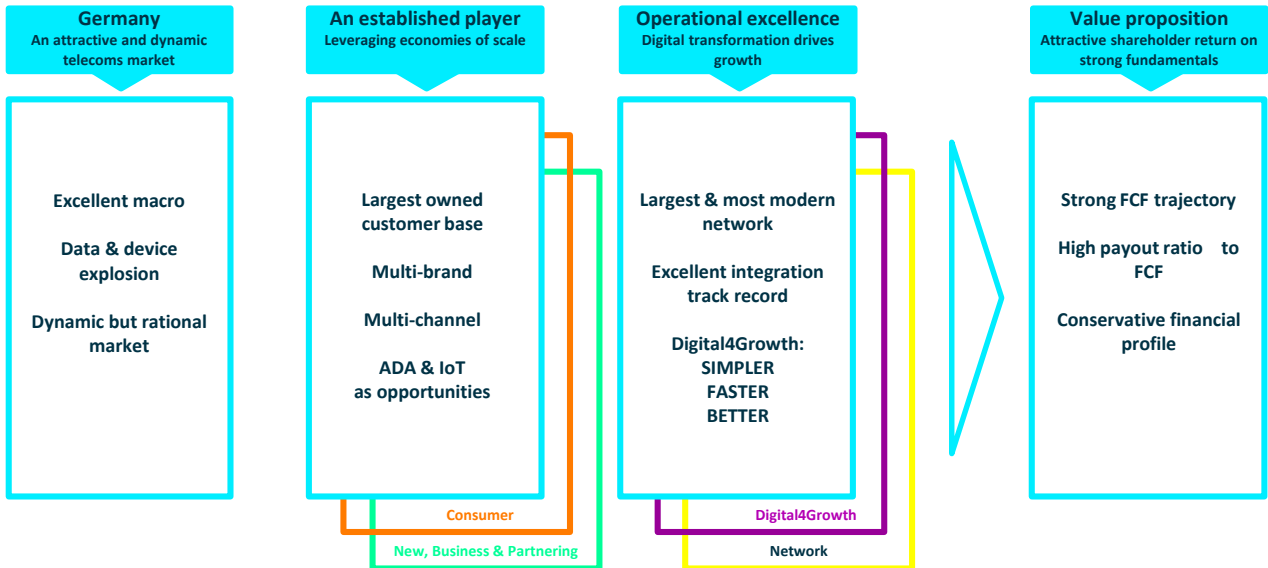
Connected devices/
customer:
#4 (vs. #1.5 2017)

Share of eCare events:
~80% (vs. 65% 2017)

Shop reduction:
>10%

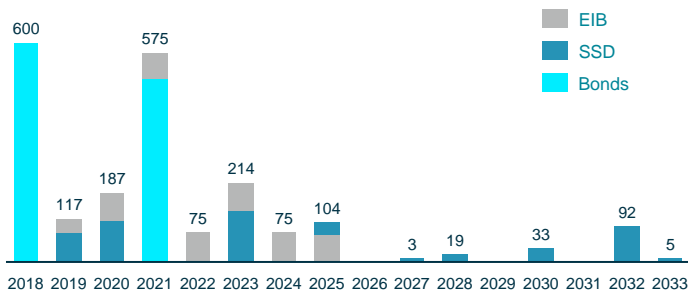
IoT revenue upside:
~EUR 200-300m
cumulative

Evolution of equity story: Becoming the Mobile Customer & Digital Champion

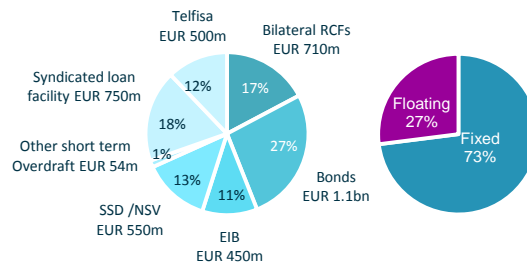


Comfortable liquidity position as per 03/2018

Smooth maturity profile and diversified financing mix (in EURm)

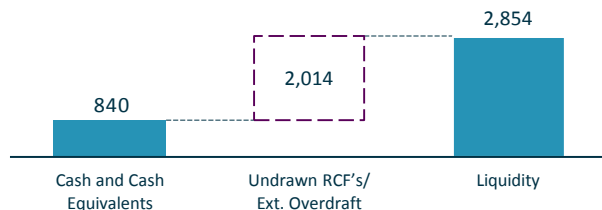


Financing and interest mix



Comfortable liquidity position

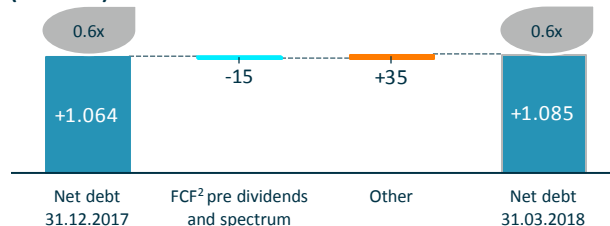
(in EURm)



Leverage ratio at 0.6x¹

(in EURm)

Leverage ratio¹



¹ For definition of net debt & leverage ratio please refer to Q1 2018 earnings release

² FCF pre dividend & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

We will maintain an attractive shareholder remuneration policy

Shareholder remuneration policy – Main guidelines¹

Maintain high payout in relation to FCF

Consider expected future synergy generation in dividend proposals

Keep leverage ratio at or below 1.0x over the medium term; target will be continually reviewed

Annual dividend growth over 3 years, starting with of EUR 0.25 per share 2016; Proposal of EUR 0.26 for the financial year 2017 at next AGM

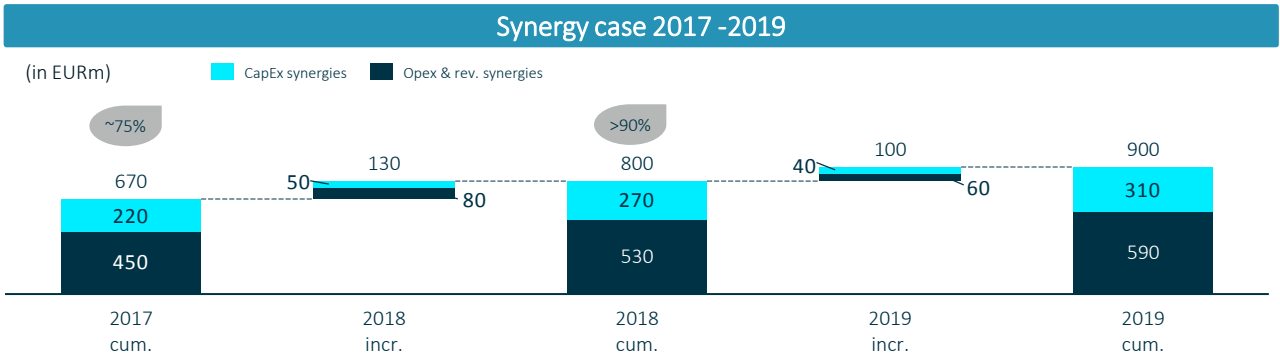


¹ Refer to the Telefónica Deutschland website for full dividend policy (www.telefonica.de)

Appendix



Recap: Clear synergy trajectory



- Major integration projects mostly finalised by year end 2017; ~75% of increased OpCF target already delivered
- 2018: Expect incremental savings of EUR 80 million at OIBDA level (mainly from network) and EUR 50 million at CapEx level
- 2018 phasing of Opex and revenue synergies front-loaded due to rollover effects, mainly from FTE restructuring in 2017
- Network integration remaining core project; expecting to mostly finalise by 2018

Q1 2018 – Summary

Solid operational trends with strong OIBDA growth

+46%

(y-o-y)

DATA

+0.4%

(y-o-y)

REVENUE¹

+5.4%

(y-o-y)

OIBDA²

+8.7%

(y-o-y)

OpCF

- Sustained strong data traffic growth (+50% y-o-y) leveraging new O₂ Free portfolio; 16.1 million LTE customers (+15% y-o-y)
- MSR¹ +0.4% y-o-y; ARPU of new O₂ Free portfolio accretive
- Revenue benefitting from stronger demand for handsets and improving mobile trends despite continued headwinds from legacy base rotation; fixed trends unchanged
- OIBDA reflecting synergy capture and efficient marketing approach with focus on value over volume; strong OpCF growth driven by solid OIBDA and expedient use of Capex
- Reiterating 3 consecutive years (2016-2018) of dividend growth with a proposal of EUR 0.26 per share to AGM on 17 May 2018; maintaining a high pay-out ratio over FCF thereafter

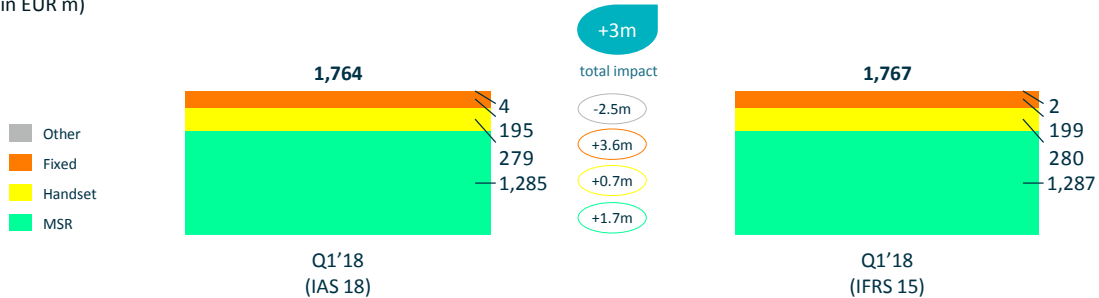
¹ Excluding the negative impact from regulatory changes and y-o-y comparison based on IAS18 accounting standards for 2017 and IFRS15 for 2018.

² Adjusted for exceptional effects, excl. the negative impact from regulatory changes and y-o-y comparison based on IAS18 accounting standards for 2017 and IFRS15 for 2018.
For details please refer to additional materials of the Q1 2018 results release.

IFRS15 accounting: Only minor impact on Telefónica Deutschland P&L

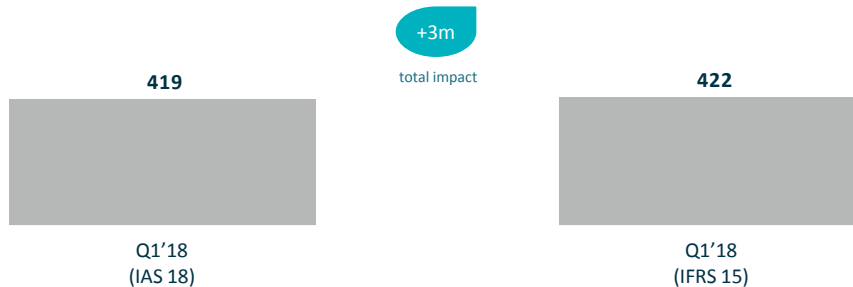
REVENUE impact of IFRS15

(in EUR m)



OIBDA impact of IFRS15

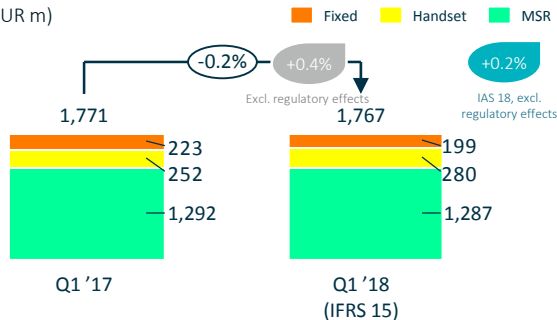
(in EUR m)



Underlying revenue with positive overall trend; fully on track to achieve full-year 2018 guidance

Revenue trends further improving

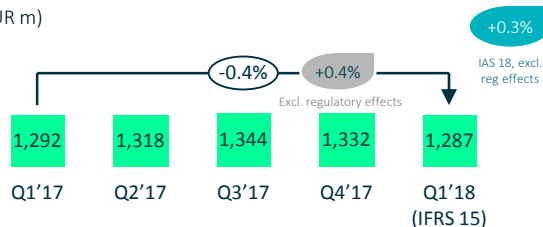
(in EUR m)



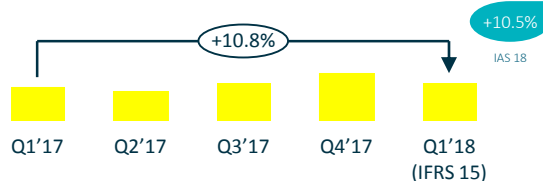
- Underlying revenue returning to y-o-y growth on the back of sustained MSR trends
- EUR 11 million of reg. impacts, mainly RLH
- Handset trends in line with German market
- Fixed revenue reflects wholesale migration & planned dismantling of legacy infrastructure

Underlying MSR continues to grow y-o-y

(in EUR m)

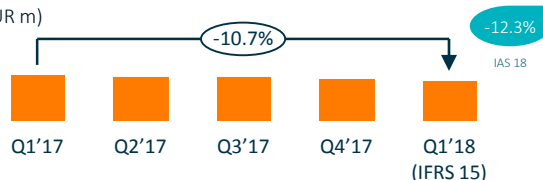


Stronger demand for handsets



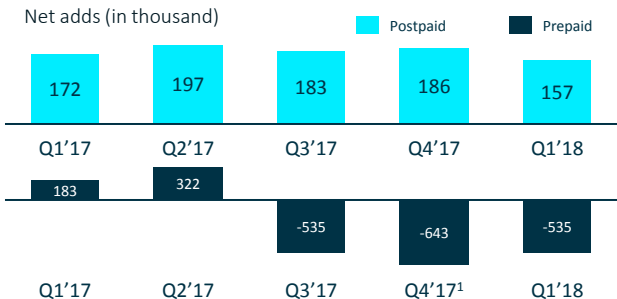
Unchanged trends in fixed revenues

(in EUR m)

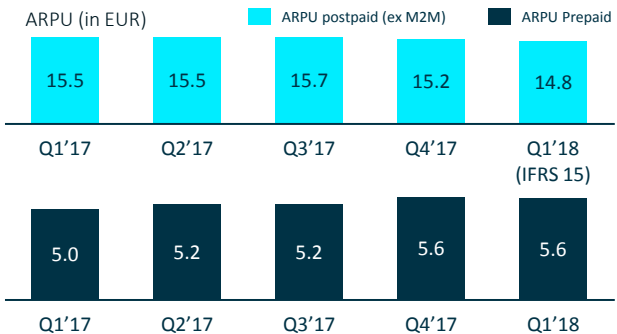


Trading trends steady with focus on value in Q1; O₂ churn with further improvement

Value over volume focus



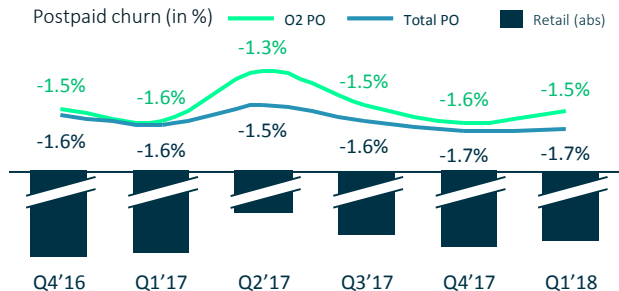
ARPU impacted by regulatory headwinds



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Maintaining retention focus



- Solid market momentum with O₂ Free and strong partner performance; focus on value over volume
- Lower demand for prepaid driven by regulatory changes
- Churn in O₂ consumer remains low
- Regulation still a headwind in ARPU

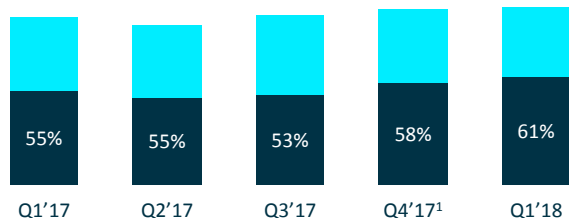
¹Excluding the impact from the final customer base adjustment

Segment stats reflect MBA MVNO dynamics and focus on value

Partner effected by migrations

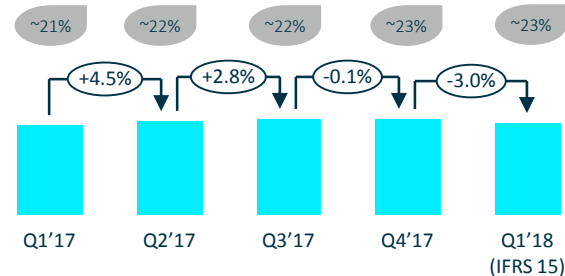
PO gross adds share

GA retail brands GA partner brands



Partner revenue reflects focus on value

PO partner MSR / Share over PO revenue (in %)



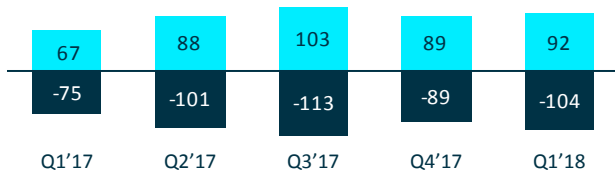
- Partner trading benefits from focus on 4G offers, resulting in higher gross add share
- More benign competitive environment and clear focus on profitable growth
- Partner revenue reflects MBA MVNO contract dynamics after merger and focus on value

Fixed business driven by wholesale migration and strong VDSL net adds

VDSL drives fixed retail trading...

Net adds (in thousand)

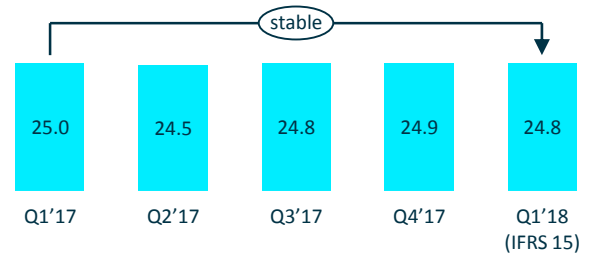
■ Retail VDSL ■ Retail ADSL



... and ARPU performance

DSL ARPU (in EUR)

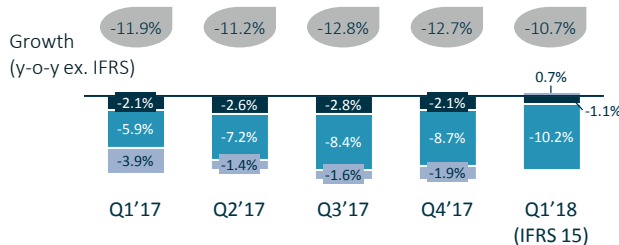
■ Retail



Fixed revenue reflects wholesale migration

Fixed revenue share

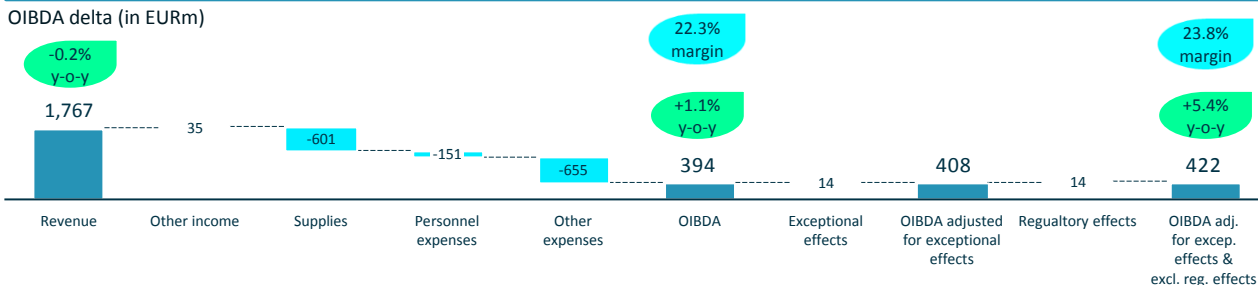
■ Retail ■ Wholesale ■ Other



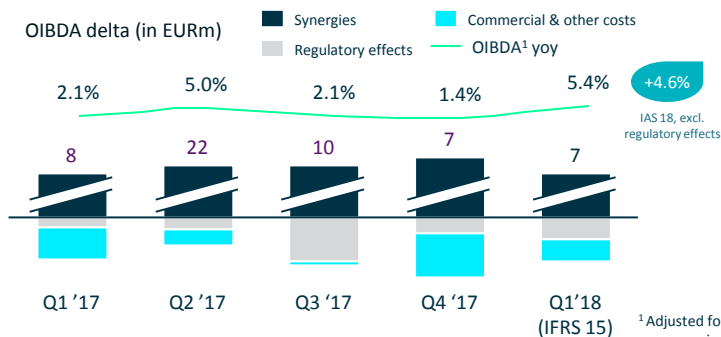
- Solid net add momentum in VDSL
- Retail DSL ARPUs & revenue trends reflect contribution of VDSL, customer base up 43% y-o-y to 1.2m
- Fixed wholesale customer migration mostly completed; 63k customers remaining

OIBDA reflects successful synergy capture, RLH-regulation and investment activities

Structure of OIBDA for January to March 2018



OIBDA¹ growth on the back of synergy delivery

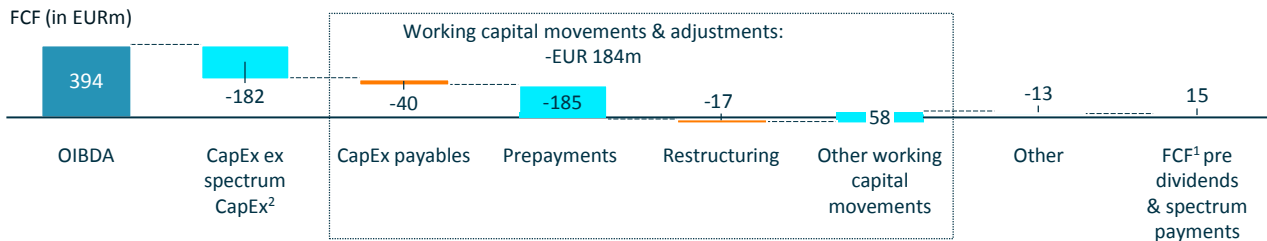


- OIBDA with continued margin expansion
- Regulatory effects of EUR 14 million & restructuring costs of EUR 14 million
- Incremental synergies of ~EUR 35 million at OIBDA level driven roll-over effects and incremental NT synergies

¹ Adjusted for exceptional effects, excl. the negative impact from regulatory changes and y-o-y comparison based on IAS18 accounting standards for 2017 and IFRS15 for 2018. For details please refer to additional materials of the Q1 2018 results release.

FCF with normal seasonal annual distribution

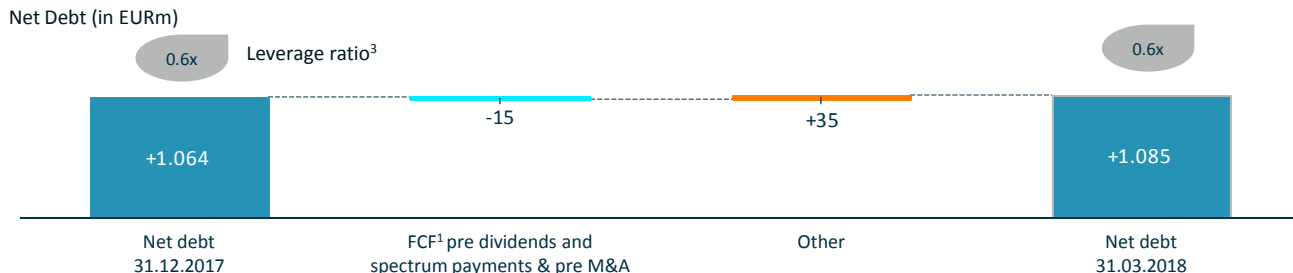
Evolution of Free Cash Flow (FCF)¹ YTD March 2018



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 Debt³ – Leverage³ in line with target



³ For definition of net debt & leverage ratio please refer to Q1 2018 earnings release

Reiterating full-year 2018 outlook¹

	Actual 2017	Outlook 2018	Q1 2018
Revenue	EUR 7,296 million	Broadly stable y-o-y (excl. negative regulatory effects of EUR 30-50 million)	+0.2% y-o-y as per IAS 18 reporting +0.4% y-o-y
OIBDA²	EUR 1,840 million	Flat to slightly positive y-o-y (excl. negative regulatory effects of EUR 40-60 million)	+4.6% y-o-y as per IAS 18 reporting +5.4% y-o-y
C/S	13%	Approx. 12-13%	11.1%
Dividend	EUR 0.26 per share Proposal for FY 2017 to the AGM on 17 May 2018	Annual dividend growth for 3 consecutive years (2016-2018)	N/A

¹ 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. For more information, please refer to the materials of the quarterly reporting during the period

² Exceptional effects such as restructuring costs or the sale of assets are excluded

O₂ Free portfolio and O₂ DSL portfolio

O₂ Free
Jetzt mit noch mehr Highspeed-Datenvolumen¹

In den neuen O₂ Free-Smartphone-Tarifen gibt es jetzt dauerhaft noch mehr Highspeed-Datenvolumen.¹ Immer inklusive: die O₂ Free Weitersurf-Garantie zum Endlos-Weitersurfen mit 1 MBit/s, auch wenn dein Highspeed-Datenvolumen verbraucht ist.²

Neu:
mehr Daten-
volumen

EINE **Telefonica** MARKE

O₂ DSL
Für Privatkunden und Junge Leute

Neu
ab 29,1.18
Unbegrenzt
Highspeed-Surfen bei
O₂ DSL M und L
für O₂ Postpaid
Kunden

	O ₂ Free XL 25 GB	O ₂ Free L 20 GB	Preis-Leistungs-Tipp O ₂ Free M 10 GB	O ₂ Free S 1 GB
Highspeed-Surfen (LTE Max.) ³	✓	✓	✓	✓
Endlos weitersurfen mit 1 MBit/s ²	✓	✓	✓	✓
Flatrate für Minuten/SMS in alle dt. Netze ⁴	✓	✓	✓	✓
Extra-Festnetznummer ⁵	✓	✓	✓	✓
EU Roaming ⁶	✓	✓	✓	✓
Mtl. Grundgebühr reduziert für O ₂ Kunden ^{7,8}	44,99	34,99	24,99	14,99
Mtl. Grundgebühr (bei 24 Monaten Laufzeit) ⁹	49,99	39,99	29,99	19,99

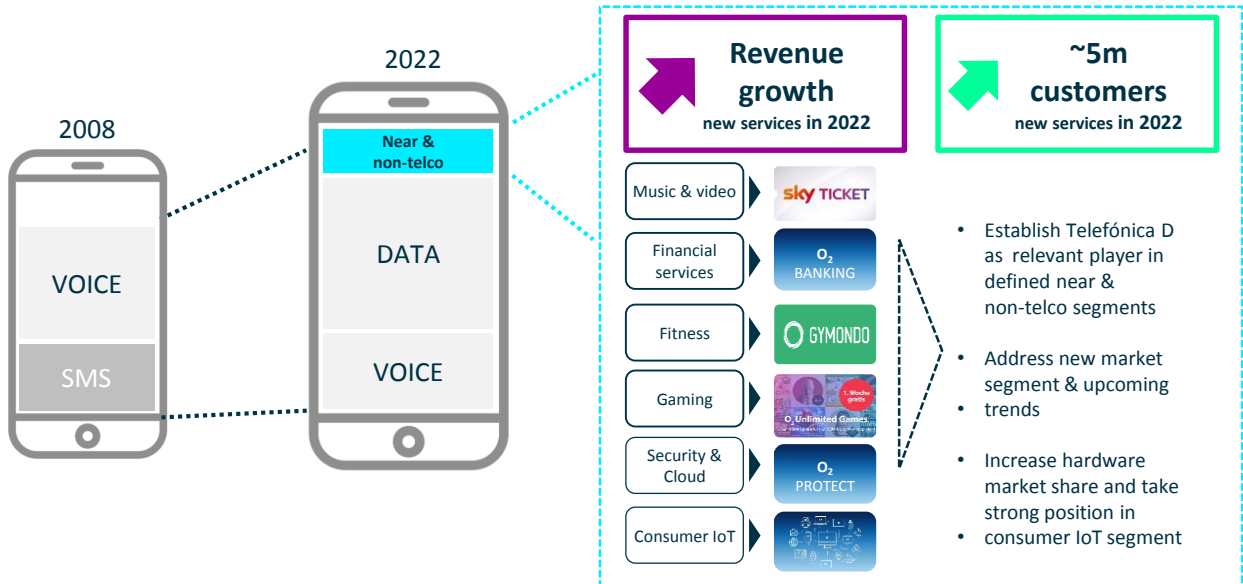
Preis in € incl. MwSt.

⇒ **Flexibel bleiben:** O₂ Free ist auch ohne feste Laufzeit verfügbar.⁹

	O ₂ DSL L 100 MBit/s	Unser Tipp O ₂ DSL M 50 MBit/s	O ₂ DSL S 25 MBit/s	O ₂ DSL XS 10 MBit/s
Flatrate ins dt. Festnetz und in alle dt. Mobilfunknetze	✓	✓	✓	✓
Unbegrenzt DSL-Surfen (mit bis zu 2.000 KB/s) ¹	✓	✓	✓	✓
Maximale Surf-Geschwindigkeit ²	bis zu 100 MBit/s (Upload: bis zu 40 MBit/s)	bis zu 50 MBit/s (Upload: bis zu 10 MBit/s)	bis zu 25 MBit/s (Upload: bis zu 5 MBit/s)	bis zu 10 MBit/s (Upload: bis zu 2,4 MBit/s)
Maximale Surf-Geschwindigkeit bis (inklusive Volumen)	500 GB (mit Fair-Use-Mechanik**) NEU unbegrenzt für O ₂ Kunden	300 GB (mit Fair-Use-Mechanik**) NEU unbegrenzt für O ₂ Kunden	300 GB (mit Fair-Use-Mechanik**)	bis zu 100 GB
Homebox 2/ AVM FRITZ!Box 7490	1,99 mtl./3,99 mtl.	1,99 mtl./3,99 mtl.	1,99 mtl./3,99 mtl.	1,99 mtl./3,99 mtl.
Anschlussgebühr	0,- (statt: 49,99)	0,- (statt: 49,99)	0,- (statt: 49,99)	49,99
Bereitstellungspreis DSL-Router	0,- (ohne Laufzeit: 49,99)	0,- (ohne Laufzeit: 49,99)	0,- (ohne Laufzeit: 49,99)	0,- (ohne Laufzeit: 49,99)
Mtl. Grundgebühr für Neukunden	24,99 ab 13. Monat: 39,99 (ohne Laufzeit ab 7. Monat: 39,99)	14,99 ab 13. Monat: 34,99 (ohne Laufzeit ab 7. Monat: 34,99)	14,99 ab 13. Monat: 29,99 (ohne Laufzeit ab 7. Monat: 29,99)	9,99 ab 13. Monat: 24,99 (ohne Laufzeit ab 7. Monat: 24,99)
Rabatt auf mtl. Grundgebühr für O ₂ Kunden	bis zu 10,-	bis zu 10,-	bis zu 10,-	-
Gesamtenpreis mit Laufzeit	280,-	340,-	250,-	230,-
Gesamtenpreis ohne Laufzeit	140,-	170,-	110,-	90,-

Preis in € incl. MwSt.

Product and service extension associated with additional willingness to pay



Value generation drives our success

Develop existing customers & Attract high-value new customers

- Focus on ARPU-up & churn-down
- Driving data usage via mobile freedom
- Up- and cross-selling

-2% pts
PO Churn
by 2022

~60%
new O₂ Free customers pay
≥EUR 30 today

Willingness to pay

- Data growth as monetisation opportunity
- Near & non-telco as value drivers
- Strong position in consumer IoT

Connected devices
per customer:
#4 by 2022

Enhance customer experience & digitalisation

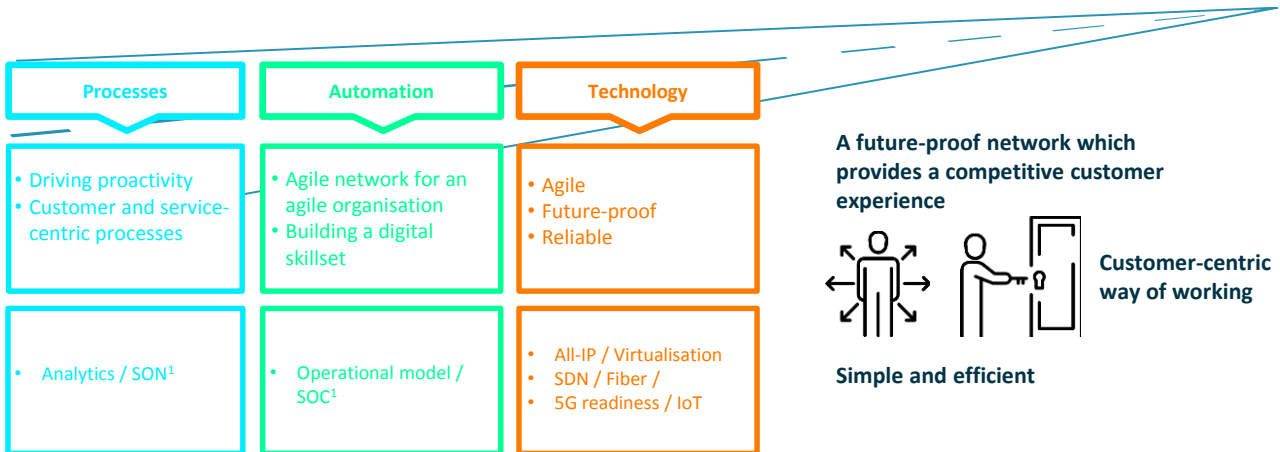
- Omnichannel experience
- Digital transformation of touchpoints
- AI to increase automation & reduce cost

~80%
Share of eCare events
by 2022

>80%
O₂ app
penetration
by 2022

From integration to transformation

Targeting 'Simpler, Faster, Better' in three dimensions:

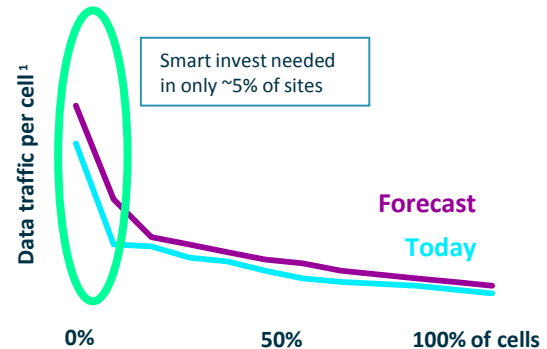
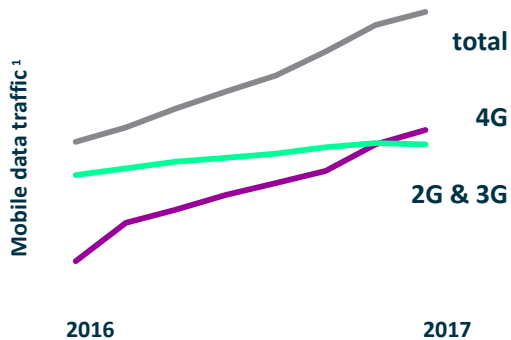


¹ Service Operations Centre (SOC), Self Organising Network (SON)

Ready for accelerating capacity demand

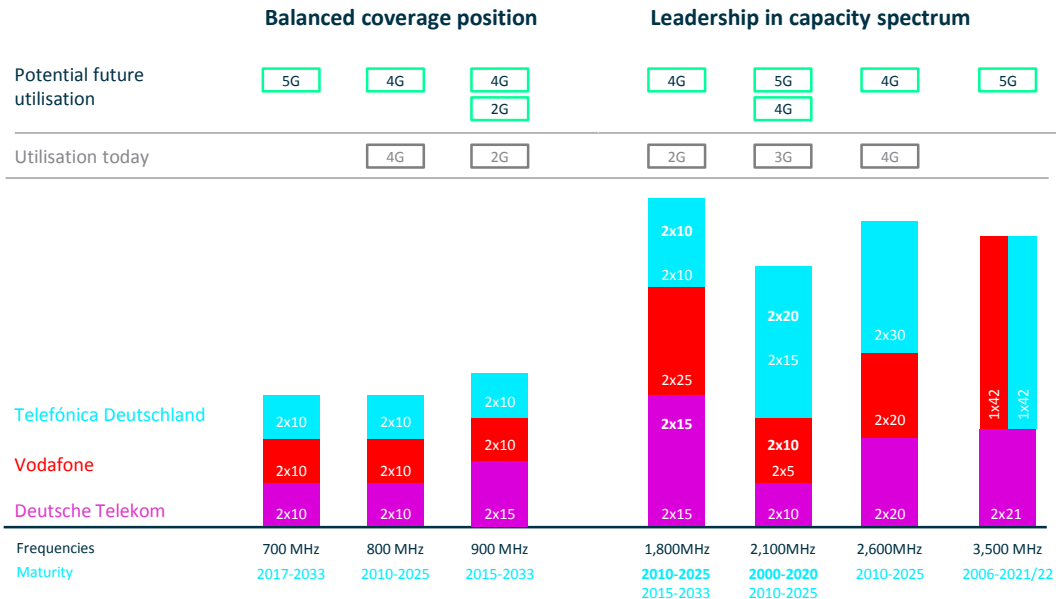
Increasing data volumes,
driven by 4G big bucket propositions

~95% of network capacity is capable of carrying even
more traffic volumes, ~5% require capacity upgrades



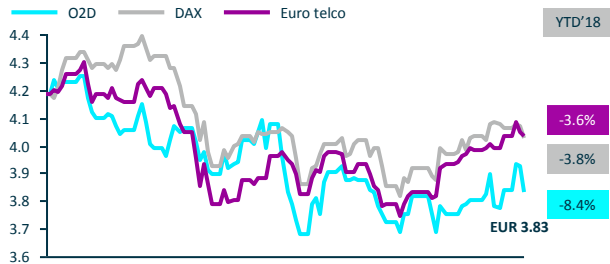
¹ Company research: Network Analysis (2016-2017)

Future-proof spectrum setup, to enable best customer experience



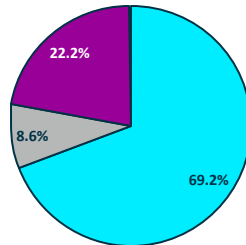
O2D - Factsheet

Share price development until 25.04.2018



Shareholder structure as of 31.03.2018¹

- Telefónica Germany Holdings Ltd ²
- Koninklijke KPN N.V. ³
- Freefloat

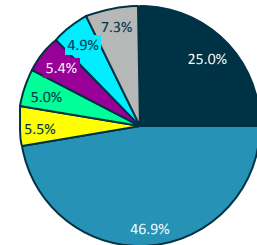


Telefónica Deutschland at a glance

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap (as of 31.12.2017)	EUR 11,350.9 m
Share price (as of 31.12.2017)	EUR 3.82

Regional split of shareholder structure⁴

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



¹ According to shareholders register as of 31 December 2017

² Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A

³ According to press release of KPN as of 31.01.2018

⁴ Source: NASDAQ; Shareholder ID as of October 2017

Quarterly detail of relevant financial and operating data for Telefónica Deutschland

Financials	2017					2018
	Q1	Q2	Q3	Q4	FY	Q1
Revenue (excl. regulatory effects)	1,771	1,771	1,850	1,904	7,296	1,778
Mobile service revenues (excl. regulatory effects)	1,292	1,318	1,344	1,332	5,287	1,298
Revenue	1,771	1,771	1,850	1,904	7,296	1,767
OIBDA (post Group fees) adjusted for exceptional & regulatory effects	401	472	468	499	1,840	422
OIBDA (post Group fees) adjusted for exceptional effects	401	472	468	499	1,840	408
CapEx excl. investments in spectrum	208	226	254	262	950	197
C/S Ratio (based on Revenue)	11.8%	12.8%	13.7%	13.8%	13.0%	11.1%
Revenue and Opex related Synergies	~35	~40	~40	~45	~160	~35

Accesses	2017					2018
	Q1	Q2	Q3	Q4	FY	Q1
Total Accesses	49,550	49,907	49,403	47,604	47,604	47,075
o/w Mobile	44,675	45,194	44,842	43,155	43,155	42,777
Prepay	23,967	24,289	23,754	21,881	21,881	21,346
Postpay	20,708	20,905	21,088	21,274	21,274	21,431

Telefonica
