Investor presentation Telefónica Deutschland

Telefónica Deutschland, Investor Relations

Q2 2018

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

Germany
An attractive and dynamic telecoms market

- Excellent macro
- Data & device explosion
- Dynamic but rational market

An established player
Leveraging economies of scale

- Largest owned customer base
- Multi-brand
- Multi-channel
- ADA & IoT as opportunities

Consumer

New Business, Business & Partnering

Operational excellence
Digital transformation drives growth

- Largest & most modern network
- Excellent integration track record
- Digital4Growth: SIMPLER FASTER BETTER

Digital4Growth

Network

Value proposition
Attractive shareholder return on strong fundamentals

- Strong FCF trajectory
- High payout ratio to FCF
- Conservative financial profile

[1] Excluding regulatory effects

Strategic priorities of Telefónica Deutschland

SUPERIOR SHAREHOLDER RETURN

Growth & Value

We will generate
Superior Shareholder Return
including a strong dividend commitment

MOBILE CUSTOMER and DIGITAL CHAMPION

Big Data & Artificial Intelligence

Products & services

We will become Germany's
Mobile Customer and Digital Champion
by focussing on
CEX & digitalisation

FOUNDATION

Systems Technology

Network Technology

We have **strong foundations**:
Integration success, customer base, outstanding connectivity & lean organisation

The German market thesis

+1.7% GDP[1]

83m Population[1]

6% Unemployment[1]

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

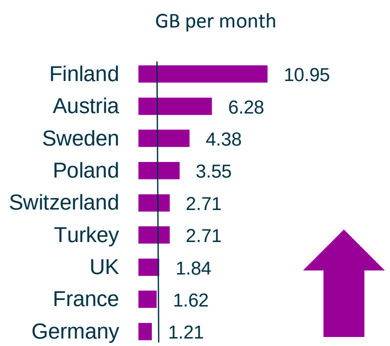
Europe needs a common regulatory framework on spectrum, as well as deregulation and a consistent framework for OTT & net neutrality to encourage investments

[1] FocusEconomics Consensus Forecast Euro Area (2017)

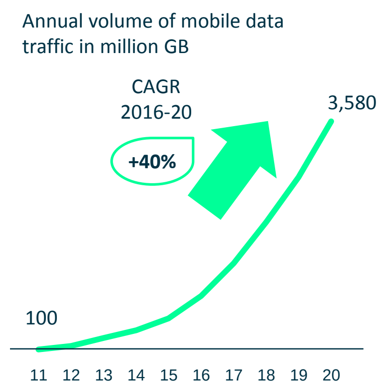
The data & device opportunity: Expecting explosive growth

MARKET TRENDS – German market with significant further growth potential

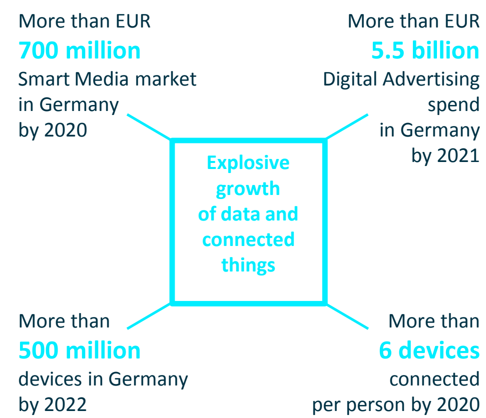
Mobile data usage in Europe[1]



Mobile data traffic in Germany[2]



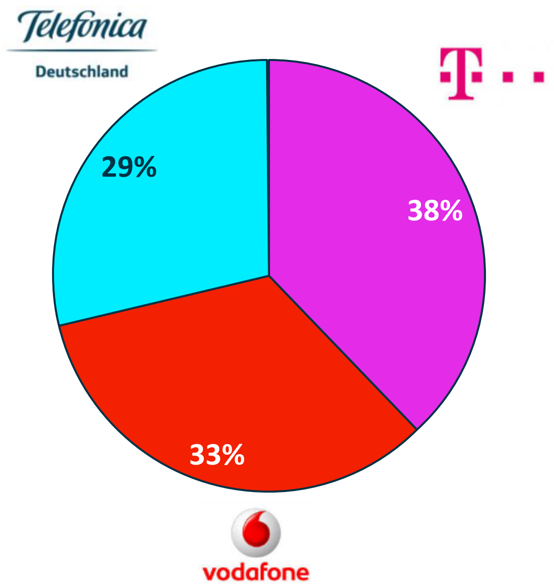
ADA and IoT growth opportunity[3]



[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

Competitive environment Germany

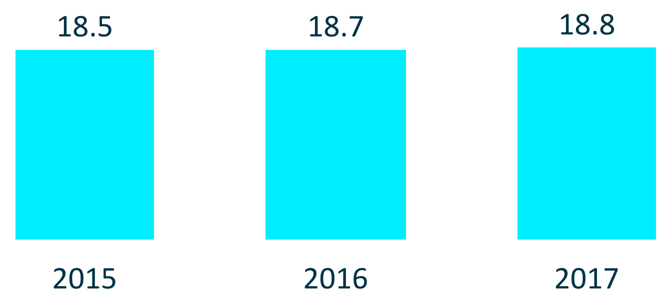
Rational and balanced market structure[1]



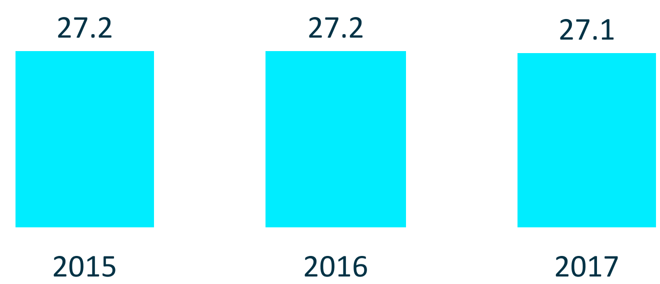
- Rational market following 4 to 3 consolidation
- Tiered mobile data portfolios enabling data monetisation

Market development in past years

Mobile market: Service revenues[2]
EUR bn



Fixed market: Service revenues[3]
EUR bn



[1] Market share of MSR based on reported financials by MNOs for Q2 2017

[2] Mobile service revenues (external revenues) excl. hardware revenues; Source: Bundesnetzagentur (German national regulator) "Jahresbericht 2017"

[3] Fixed service revenues (external revenues) in telecommunications and hybrid fixed coax (HFC) networks excl. hardware revenues; Source: Bundesnetzagentur (German national regulator) "Jahresbericht 2017"

The new Telefónica Deutschland: Largest and fastest mobile merger in the West

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

>25 m
Customers migrated to one IT stack in 2016

>14k
Network sites to be consolidated by 2019

O_2 Free
First 3G unlimited
First 4G big bucket portfolio

Core asset: Largest owned customer base of ~35 million

BUSINESS

CONSUMER

Premium

Non Premium

Reseller & Ethnic[1]

> 80%

owned customers

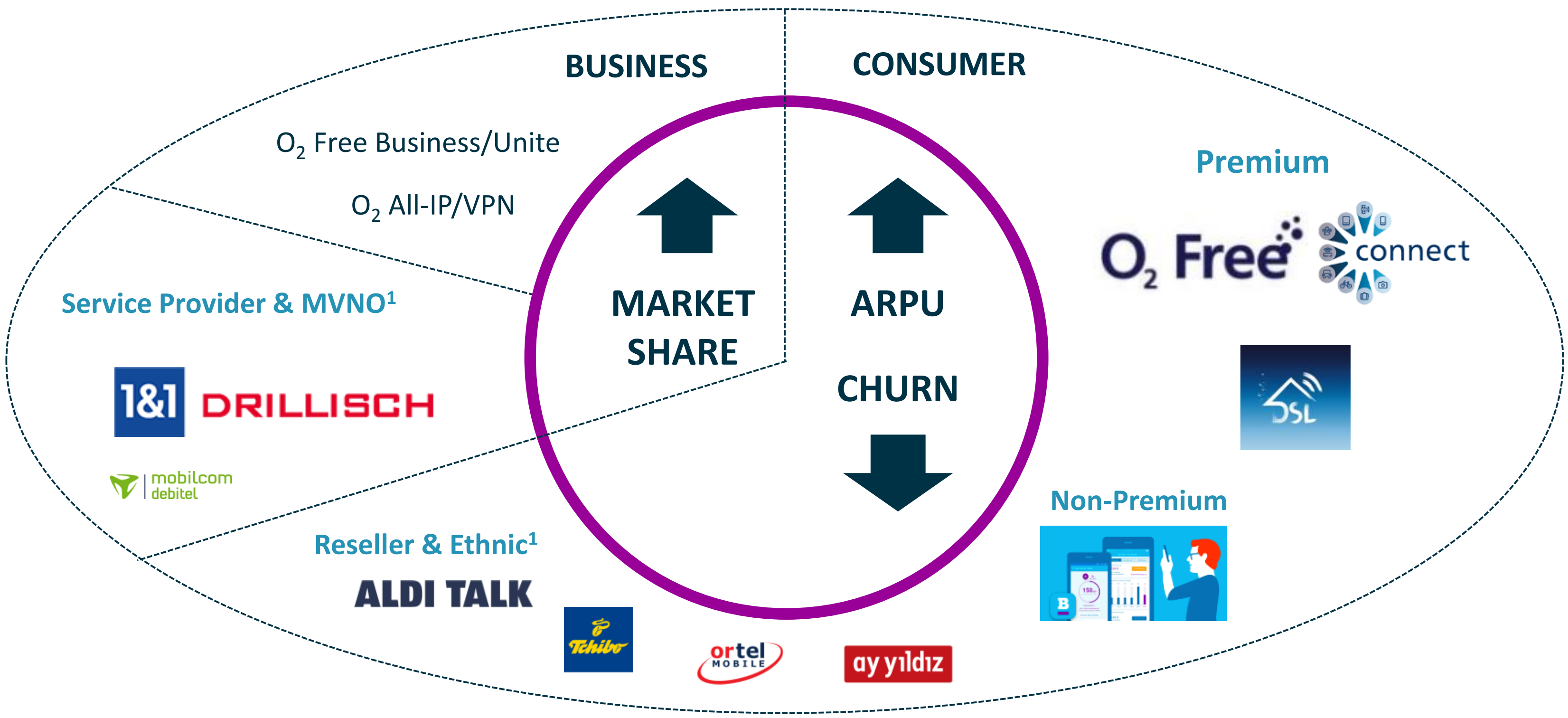
< 20%

other

Service Provider & MVNO[1]

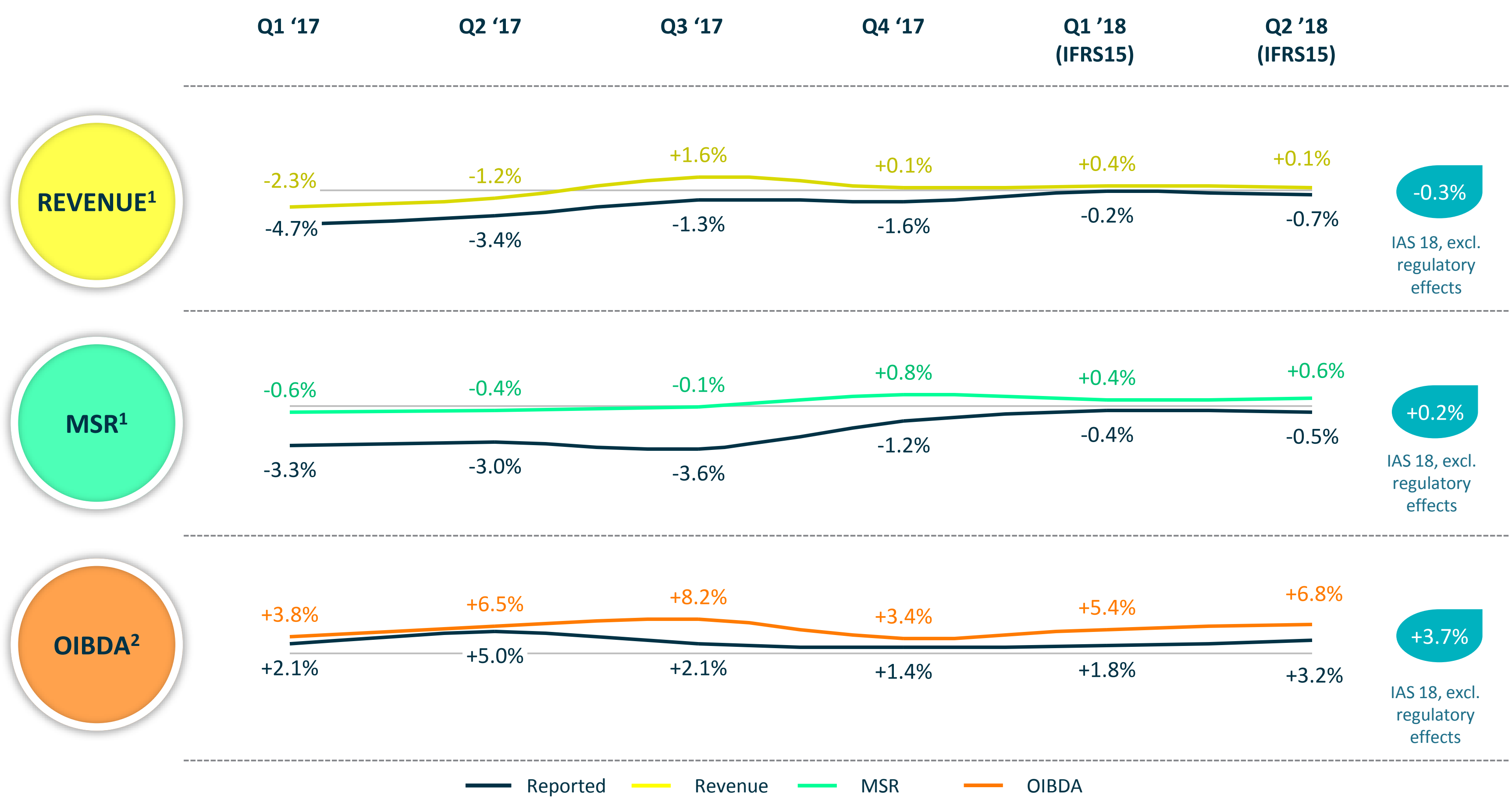
[1] Not exhaustive

Future-proof portfolios across all segments



[1] Not exhaustive

On track to achieve FY 2018 outlook with solid trends



[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 Q2 2018 results release.

Building the Mobile Customer & Digital Champion: Focus on product & service innovation

- Launch of **O_2 Free Unlimited**
- Launch new **O_2 Free boost** & **connect**
- Evolution to unique proposition "**app-based device management**" in the market
- Boost upsell
- Managing all SIMs (max 10) via my **O_2 app**
- Relaunch Blau postpaid & prepaid

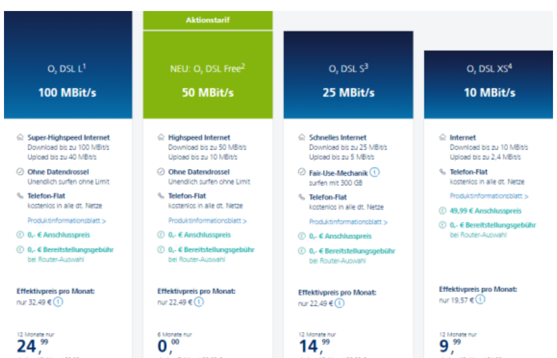
- Launch **O_2 my All in One**
- Connect test for fixed product: "**good**"
- Connect fixed hotline test: "**good**"

O_2 Free & DSL portfolio

2018 O_2 Free

2018 O_2 Free connect + boost

2017 O_2 DSL



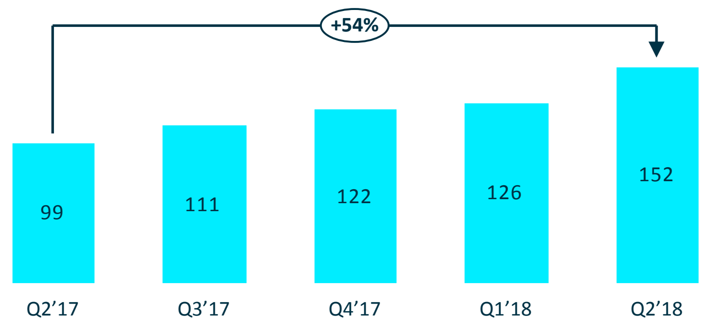
✓ S/M/L tariffs with  connect feature

✓ Including up to 9 SIMs for devices

New O_2 Free portfolio driving average usage

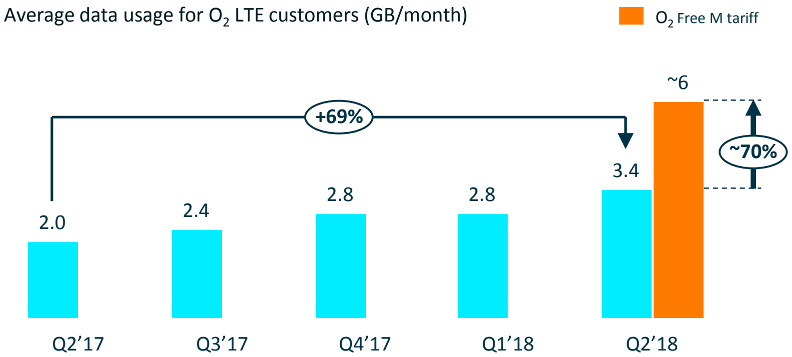
Data growing steadily

Traffic (TB/Q)



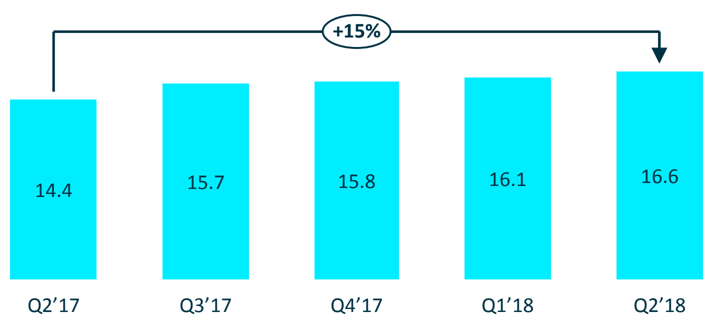
Large data buckets fuelling usage growth

Average data usage for O_2 LTE customers (GB/month)



LTE customer base still increasing

LTE customers (in million)

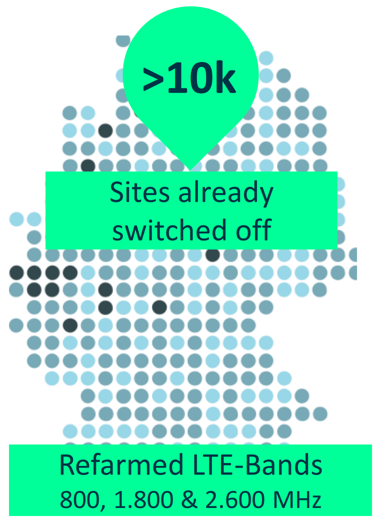


- Music & video streaming driving steady data growth of >50% y-o-y
- LTE customer base up 15% y-o-y to 16.6 million
- Average usage of O_2 LTE customers up >20% q-o-q
- O_2 Free M tariff customers use almost 6GB of data

Network consolidation on track: ~75% finalised with major quality improvements

Released cities: Potsdam, Braunschweig, Stuttgart, Münster, Munich and many more

>3000 new LTE sites



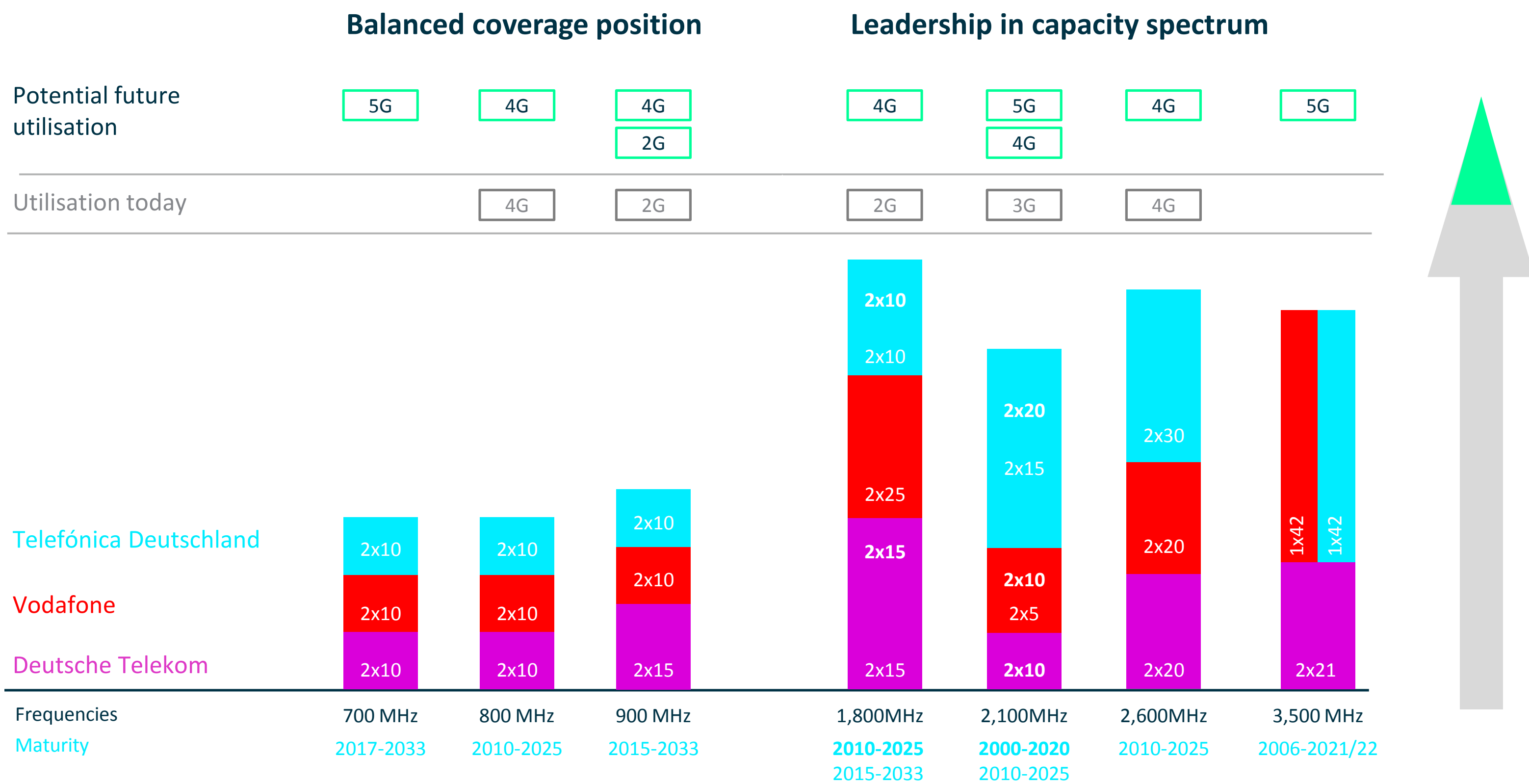
Improved LTE speed
(Download up to 225 Mbps and Upload up to 75 Mbps)

Improved customer experience

Improved voice quality
(VoLTE/ Full HD voice)

The future of our network: Highly competitive and well prepared for future customer demand

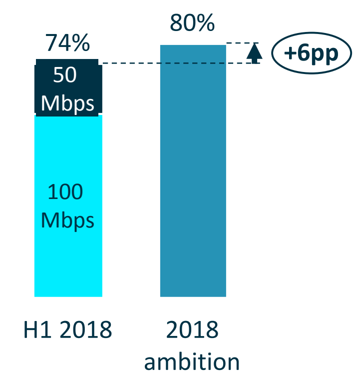
Future-proof spectrum setup to enable best customer experience



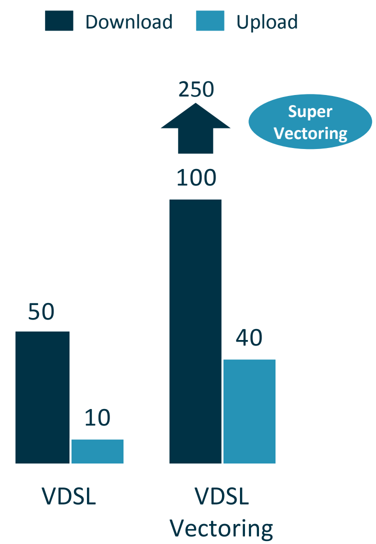
Fixed infrastructure model to complement our mobile network for best high-speed experience

Access to best available fixed NGA network[1]

NGA coverage targets
(% of covered households)



Maximum speed
(Up- & Download, Mbps)



- 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 speed of up to 250 Mbps. Available in >30% of households until 2018 YE

Fixed

- Access to best available fixed NGA network[1]
- Fixed: Access to >31 million VDSL households
- Full convergence capabilities

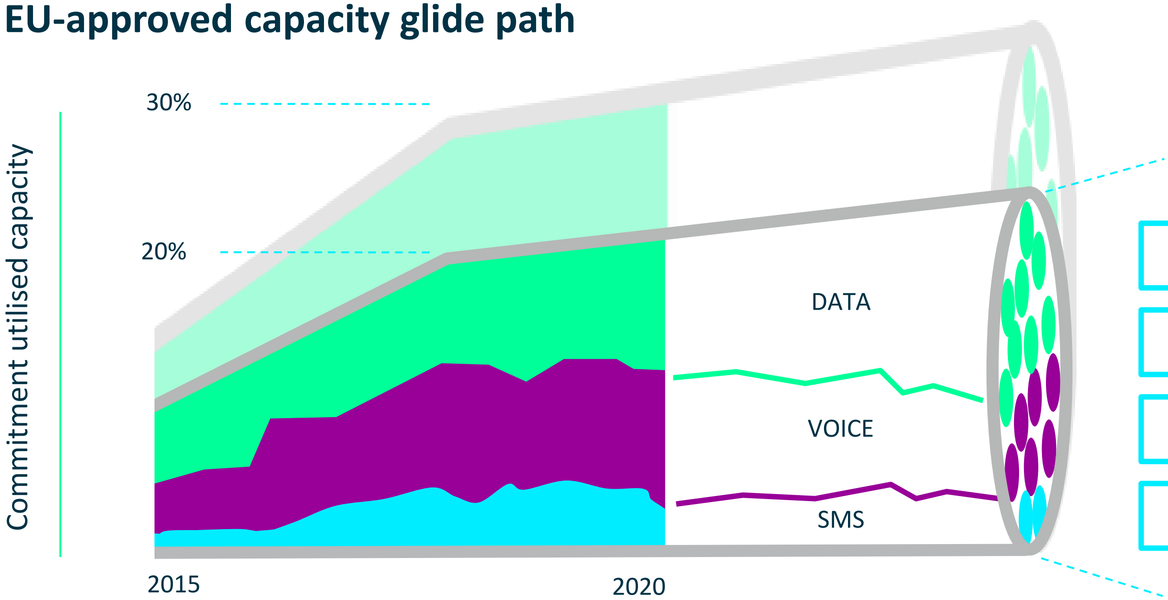
Mobile fibre backhaul

- 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

[1] NGA: Next Generation Access including VDSL, Vectoring and future FTTX deployments

MBA MVNO contract economics:
Four levers for revenue growth

EU-approved capacity glide path



>130%
Data traffic since FY2015[1]

Exponential **data** growth

Capacity upgrade up to 30%

Price tiering based on **speed**

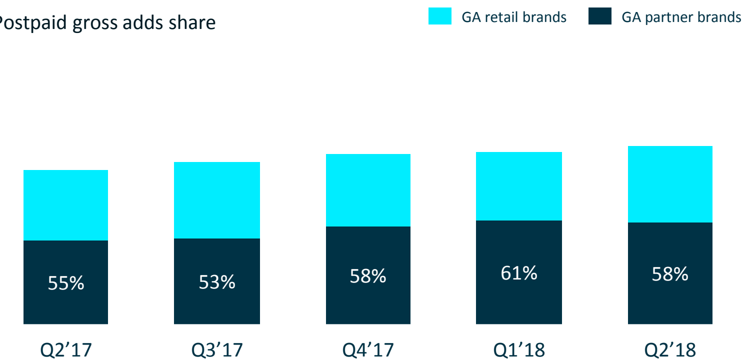
Price tiering based on **technology**

[1] Telefónica Deutschland mobile network traffic

Rational environment in partner business, solid growth with performance reflecting retail momentum

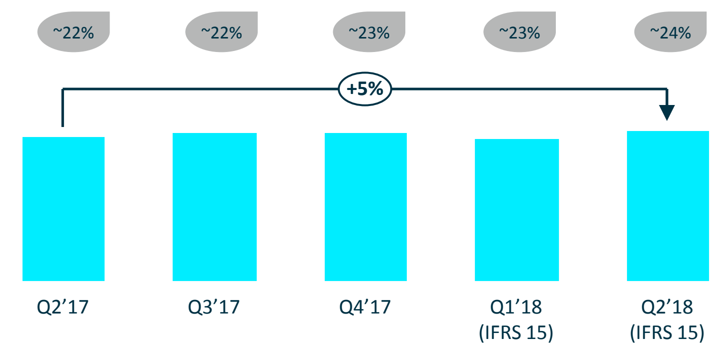
Partner gross add share reflects improving retail trends

Postpaid gross adds share



Partner revenue growth in line with expectations

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



- Rational competitive environment in discount segment; focus on fair market share
- Partner momentum solid; partner gross add share reflects strong retail momentum in Q2
- Partner revenue growing q-o-q and y-o-y in line with expectations

Transformation programme *Digital4Growth, 2019-22*

Digital4Growth

SIMPLER	Omnichannel Reduced complexity Refreshed IT architecture	~25%	
FASTER	Digital speed & processes Smart growth	~35%	
BETTER	ADA & IoT Care of the future Shop strategy	~40%	

Total case:
OIBDA benefit by 2022

~EUR 600m

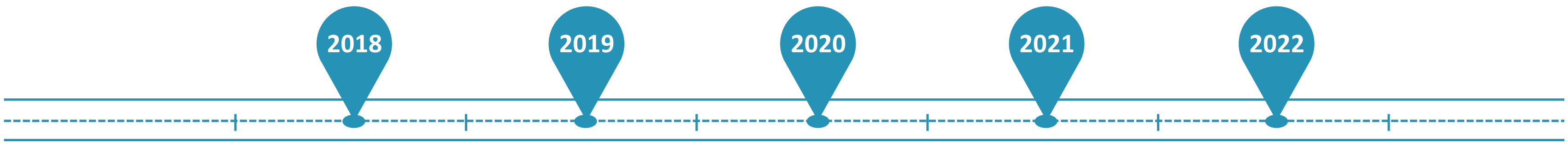
Growth-centric case: >60% gross margin gains

Building on the efficiency gains of the integration

Digital4Growth targets

SIMPLER	O_2 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

Financial expectations



FY 2018 outlook[1]

- 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 expectations[1]

- 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

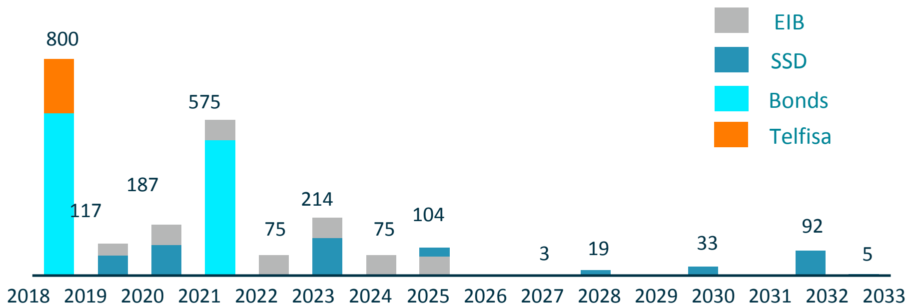
Full-year 2018 outlook[1]

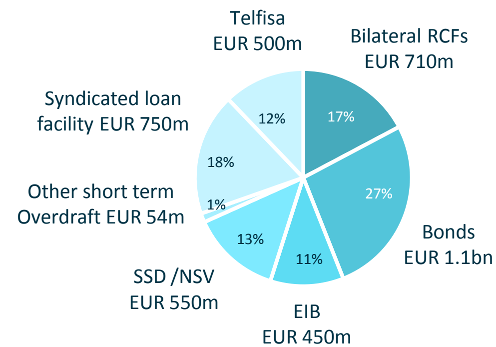
	Actual 2017	Outlook 2018	H1 2018
Revenue	EUR 7,296 million	**Broadly stable y-o-y** (excl. negative regulatory effects of EUR 30-50 million)	**EUR 3,540** / -0.0% Excl. regulatory effects of EUR 26m and ex impact of IFRS15 **EUR 3,551** / +0.3% Based on implementation of IFRS 15 as 1 January 2018
OIBDA[2]	EUR 1,840 million	**Flat to slightly positive y-o-y** (excl. negative regulatory effects of EUR 40-60 million	**EUR 909** / +4.1% Excl. regulatory effects of EUR 31m and ex impact of IFRS15 **EUR 927** / +6.1% Based on implementation of IFRS 15 as 1 January 2018
C/S	13%	**Approx. 12-13%**	**12.0%**
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

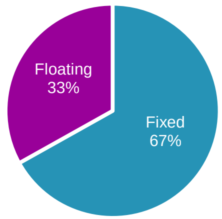
[1] The effects from the implementation of IFRS15 as of 1 January 2018 and IFRS16 as of 1 January 2019 are not reflected in the financial outlook. For more information, please refer to the materials of the quarterly reporting during the period
[2] Exceptional effects such as restructuring costs or the sale of assets are excluded

Comfortable liquidity position as per 06/2018

Smooth maturity profile and diversified financing mix (in EURm)

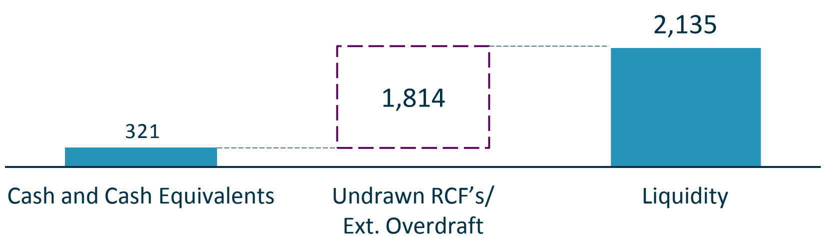






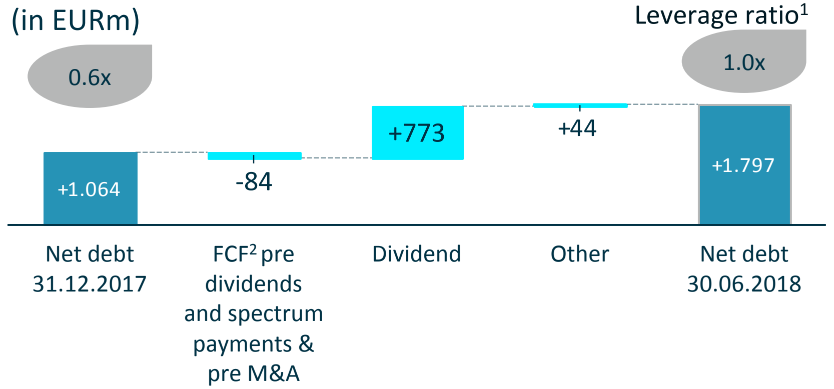
Comfortable liquidity position

(in EURm)



Leverage ratio at 1.0x[1]

(in EURm)



[1] For definition of net debt & leverage ratio please refer to Q2 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

Attractive shareholder remuneration policy

Shareholder remuneration policy – Main guidelines[1]

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

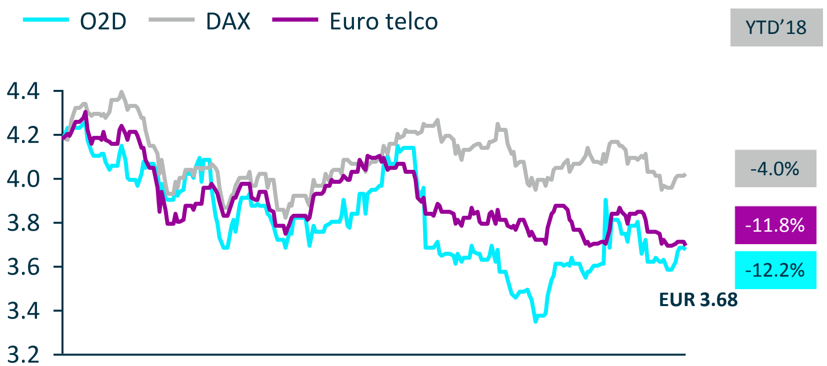
Annual dividend growth over 3 years, starting with of EUR 0.25 per share 2016; payout of EUR 0.26 for the financial year 2017

Stark an der Börse
Telefónica Deutschland

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

O2D Factsheet

Share price development until 24.08.2018

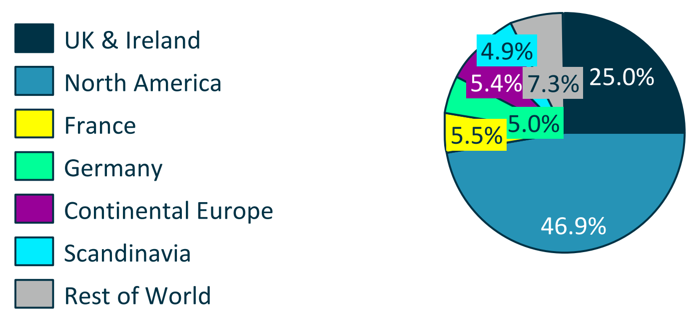


Telefónica Deutschland at a glance

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap (as of 30.06.2018)	EUR 10,042.1 m
Share price (as of 30.06.2018)	EUR 3.38

Shareholder structure as of 30.06.2018[1]

Regional split of shareholder structure[4]



[1] According to shareholders register as of 30 June 2018
[2] Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A
[3] According to press release of KPN as of 26.07.2018
[4] Source: NASDAQ; Shareholder ID as of October2017

The team: Telefónica Deutschland board members


Markus Haas
Chief Executive Officer


Markus Rolle
Chief Financial Officer


Wolfgang Metze
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

Quarterly detail of relevant financial and operating data for Telefónica Deutschland

Financials	2017					2018	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Revenue (excl. regulatory effects)	1,771	1,771	1,850	1,904	7,296	1,778	1,773
Mobile service revenues (excl. regulatory effects)	1,292	1,318	1,344	1,332	5,287	1,298	1,326
Revenue	1,771	1,771	1,850	1,904	7,296	1,767	1,758
OIBDA (post Group fees) **adjusted for exceptional & regulatory effects**	401	472	468	499	1,840	422	504
OIBDA (post Group fees) **adjusted for exceptional effects**	401	472	468	499	1,840	408	487
CapEx excl. investments in spectrum	208	226	254	262	950	197	228
C/S Ratio (based on Revenue)	11.8%	12.8%	13.7%	13.8%	13.0%	11.1%	12.9%
Revenue and Opex related Synergies	~35	~40	~40	~45	~160	~35	~30

Accesses	2017					2018	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Total Accesses	49,550	49,907	49,403	47,604	47,604	47,075	47,180
o/w Mobile	44,675	45,194	44,842	43,155	43,155	42,777	42,962
Prepay	23,967	24,289	23,754	21,881	**21,881**	**21,346**	21,198
Postpay	20,708	20,905	21,088	21,274	**21,274**	**21,431**	21,764

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