

Munich, 23 February 2018

Telefónica Deutschland launches transformation programme *DIGITAL4Growth* at Capital Market Day

- Launching transformation programme *Digital4Growth* with focus on customer benefits and experience with ~EUR 600m gross OIBDA¹ gains by 2022, making us simpler, faster and better
- Growth-centric case, with over 60% gains coming from gross margin flow-through
- Vision 2022: Becoming Germany's Mobile Customer and Digital Champion
- Solid foundation after successful integration of Telefónica Deutschland and E-Plus
- Strong FCF trajectory supports dividend; targeting high pay-out ratio in relation to FCF

With today's Capital Market Day, Telefónica Deutschland will start the company's digital transformation into Germany's Mobile Customer and Digital Champion. The transformation programme *Digital4Growth* has a clear focus on customer experience in the digital age. We expect to deliver gross OIBDA¹ gains of ~EUR 600 million between 2019 and 2022, capturing additional revenue growth opportunities as well as efficiency gains through digitalising processes and services and becoming 'simpler, faster and better'. Telefónica Deutschland is thus driving continued profitable growth. As a result, we see a strong Free Cash Flow trajectory and remain committed to distributing above-average returns to our shareholders by maintaining a high pay-out ratio in relation to Free Cash Flow.

'Simpler, Faster, Better' as focus areas with clear parameters for measuring success

Since the integration with E-Plus in 2014, Telefónica Deutschland has successfully executed its leaver programme of 1600 full-time employees, migrated over 25 million customers to a shared IT platform, harmonised the shop & facility footprint and optimised company structures. The network consolidation will be mostly completed by the year-end 2018. We confirm our synergy target of ~EUR 900 million in Operating Cash Flow savings by year-end 2019.

We are now executing a seamless transition from integration to transformation with the launch of our transformation programme *Digital4Growth*, making our operations 'Simpler, Faster, Better'.

- 'Simpler': We want to make interactions with our customers simpler and more intuitive. In order to achieve this, we will build omnichannel capabilities, i.e. consistent interfaces for all transactions, reduce complexity in the number of products available and increase productivity by refreshing our IT architecture. We have set ourselves the following key targets to track our progress: We will reduce postpaid churn by at least 2% pts, increase the O₂ app penetration to over 80%, reduce the number of active tariffs by 40% and reduce the IT-spend per subscriber by 15% by 2022.
- 'Faster': We want to fulfil customer requests in real time and respond quickly to changing market requirements by accelerating the time to market through superior market intelligence based on Advanced Data Analysis. We will achieve this by improving our configuration functionality and automating processes, e.g. to give customers real-time access to their information. As a result, we expect to be able to change products within hours, reduce manual back-office interventions by ~80% and increase the sales in self-assisted channels to over 25% by 2022.
- 'Better': We further aim to offer excellent customer experience across all touchpoints. We want to offer tailored communication and customer-friendly IoT devices to personalise customer experience. We expect to see at least an additional EUR 200-300m cumulated revenues from IoT by 2022. In addition, we will refocus our shop strategy to push digital service channels in line with customer demand. As a result, we expect the number of connected devices per customer to increase to #4 by 2022. We expect to increase the share of eCare service events to ~80% and further reduce the number of shops by over 10%.

¹ Adjusted for exceptional effects and before the implementation of IFRS9, IFRS15 and IFRS16

Digital4Growth will further support our ambition to deliver superior shareholder remuneration. Our strong confidence in our Free Cash Flow generation ability is further underpinned by the targeted ~EUR 600 million in gross OI-BDA² benefits by 2022. We reiterate our dividend outlook of 3 consecutive years of annual growth (2016-2018) and will maintain a high pay-out ratio in relation to Free Cash Flow beyond. For the financial year 2017, we intend to propose a cash dividend of EUR 0.26 per share to our next Annual General Meeting on 17 May 2018.

Mid-term expectations

In 2017 Telefónica Deutschland has again proven its execution ability. The company is now looking towards the next chapter: The digital transformation into **Germany's Mobile Customer and Digital Champion** with a clear focus on improving customer experience and making our operations **simpler, faster and better** for our customers through our transformation programme **Digital4Growth**. By 2019 we are building Germany's **largest and most modern mobile network**, with a focus on access and reliability for the majority of German customers. We will continue to drive data usage in an economically stable environment and a dynamic yet rational telco market with significant further data and device growth potential. In this environment, we expect to grow **our revenues with the market in the mid-term, capturing market share in IoT**. Our own customers are our biggest asset and we are looking to reward and develop them, while serving many more customers based on our successful multi-channel, multi-brand approach. We aim to innovate with a fast and flexible go-to-market approach as well as future-proof products, services and solutions across our different business segments. At the same time, we will continue to focus on operational efficiency. We expect the digital transformation to enable us to **continue to grow our margins**, while **keeping Capex stable in the mid-term**. Finally, we will **maintain an attractive shareholder return** on the back of a conservative financing profile supported by a solid Free Cash Flow trajectory.

Please see our website for additional information; <https://www.telefonica.de/investor-relations-en/publications/capital-market-day.html>

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² Adjusted for exceptional effects and before the implementation of IFRS9, IFRS15 and IFRS16