

Telefonica

Deutschland

Telefónica Deutschland Capital Market Day

CMD

23 February 2018

Agenda

Time	Topic	Speaker	Duration
10:00-10:30	Meet & Greet / Coffee & Croissants	Board & IR	30 min
10:30-11:00	Welcome, Vision Tef D 2022	Markus Haas	30 min
11:00-11:30	Transformation: Simpler, faster, better	Markus Rolle	30 min
11:30-12:00	Q&A session	Markus Haas & Markus Rolle	30 min
12:00-13:00	Lunch	All	60 min
13:00-13:20	Network	Cayetano Carbajo Martin	20 min
13:20-13:40	New Business, Business & Partnering	Alfons Lösing	20 min
13:40-14:00	Consumer Business	Wolfgang Metze	20 min
14:00-14:30	Wrap-up and Q&A session	Markus Haas & Markus Rolle	30 min
14:30-15:00	Coffee & Small-talk opportunity	Board & IR	30 min

Disclaimer

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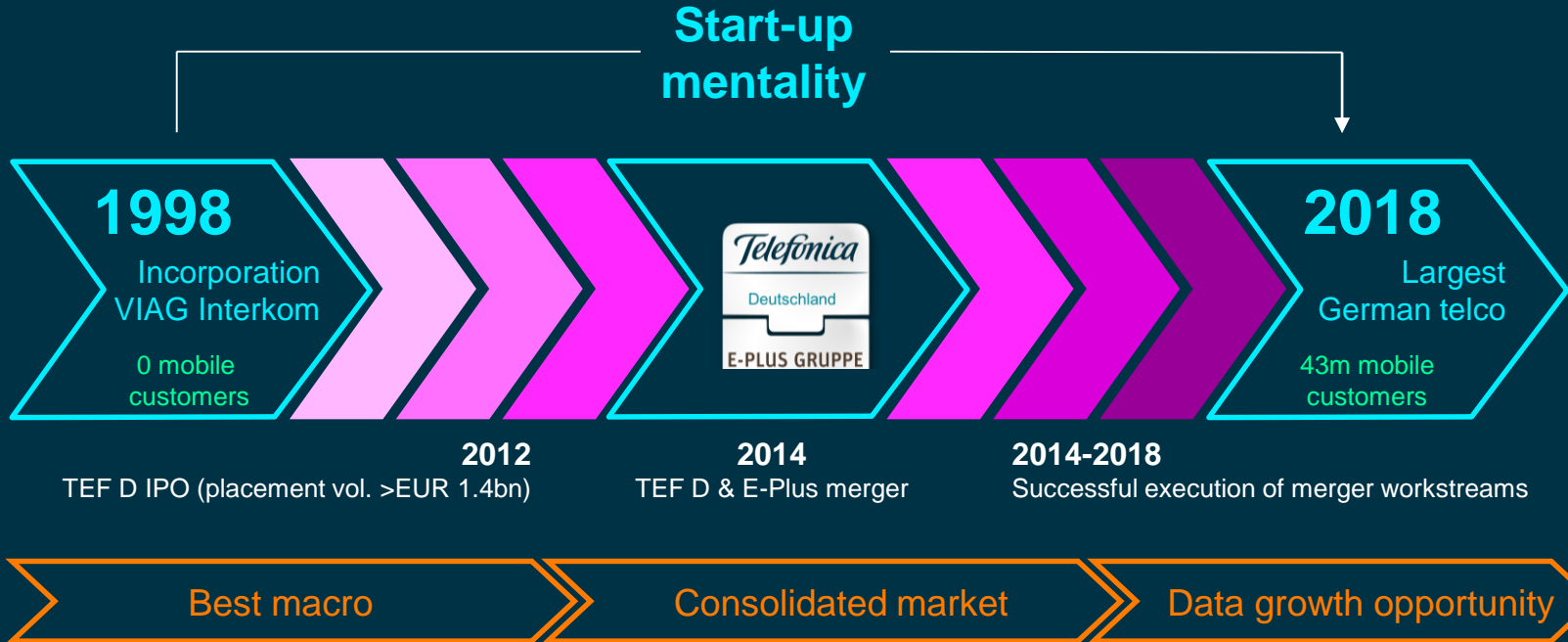
WELCOME

Capital Market Day



The next chapter - Vision 2022

Telefónica Deutschland is unique: Becoming the German mobile market leader



Introduce Telefónica Deutschland board members



Markus Haas
Chief Executive Officer



Markus Rolle
Chief Financial Officer



Wolfgang Metzke
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

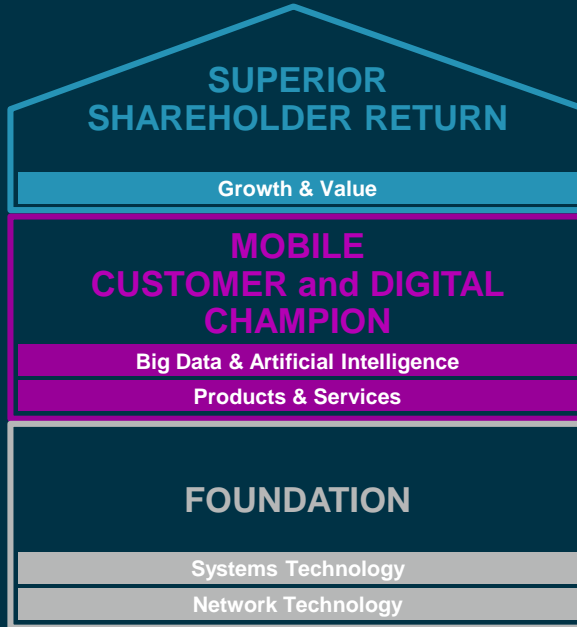


Nicole Gerhardt
Chief Human Resources Officer



Mobile Customer Champion
Digital Champion

MOBILE CUSTOMER & DIGITAL CHAMPION



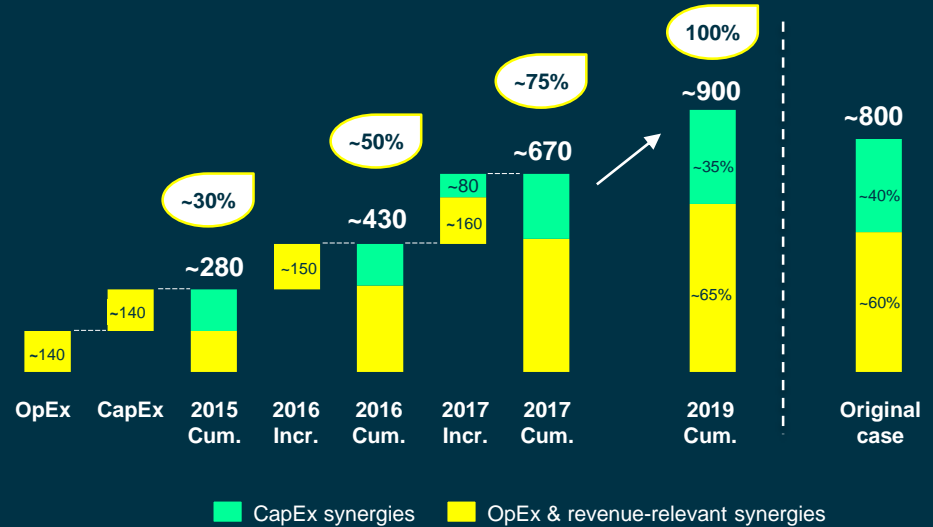
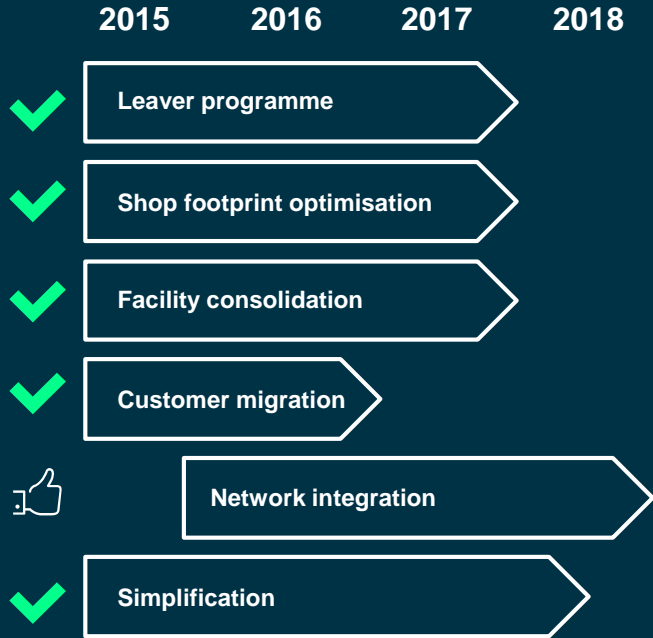
We will generate **Superior Shareholder Return** including a strong dividend commitment

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

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



Synergies: We delivered more than we promised



Largest and fastest mobile merger

2 companies
3 years

>9,000 Employees



>25%

OIBDA growth
in 3 years



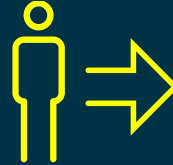
~1,600 FTE

Organisation
harmonised
in 3 years



600

Shop reduction
in 3 years



>25m

Customers
migrated to one IT
stack in 2016



>14k

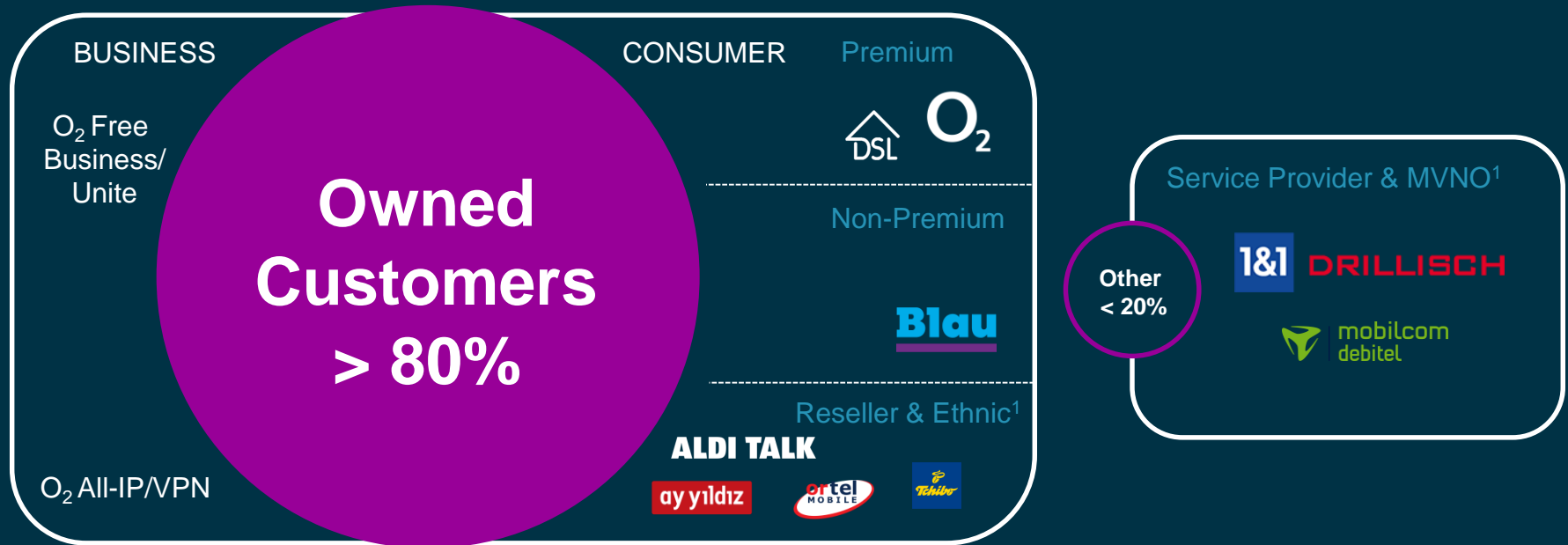
Network sites
to be consolidated
by 2019



O₂ Free

First 3G unlimited
First 4G big bucket
portfolio

Core asset: Largest owned customer base of ~35 million



Serving over half of German customers with One Network

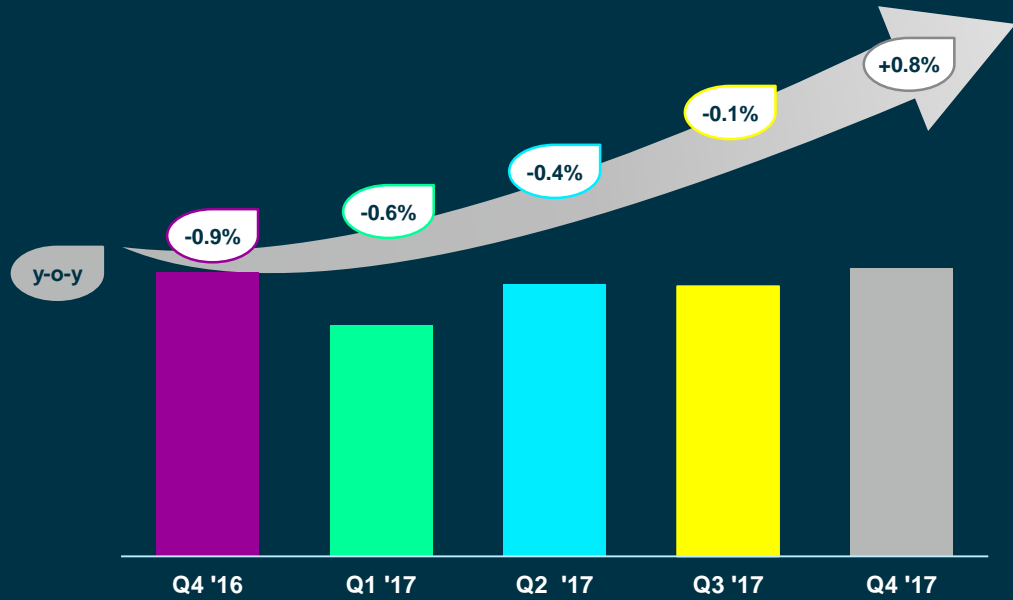
Ambition: Building the best network for customer experience by 2020

<p>May 15</p> <p>3G National Roaming</p>	<p>July 15</p> <p>Transfer 7,700 sites to DTE</p>	<p>April 16</p> <p>Sale of towers to Telxius</p>	<p>July 16</p> <p>Consolidation & roll-out 4G network</p>	<p>April 17</p> <p>Implementation of SON & SOC</p>	<p>May 17</p> <p>Implementation of CEM</p>	<p>August 17</p> <p>Nationwide 1 MNC</p>	<p>December 2017</p> <p>>50% Consolidated</p>
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Decommissioning of 14k sites Roll-out of 45k LTE cells Utilisation of new licenses Pilot network for 5G

MSR turnaround achieved in 2017

Underlying MSR¹ back to growth in Q4'17



¹ Excluding the impact from regulatory changes; for details please refer to the results release of Q4'17

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

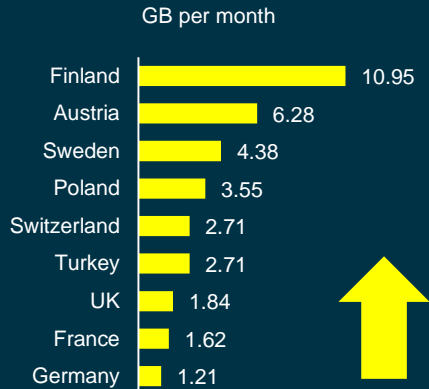
Europe needs a common regulatory framework on spectrum, as well as deregulation and a consistent framework for OTT & net neutrality to encourage investments



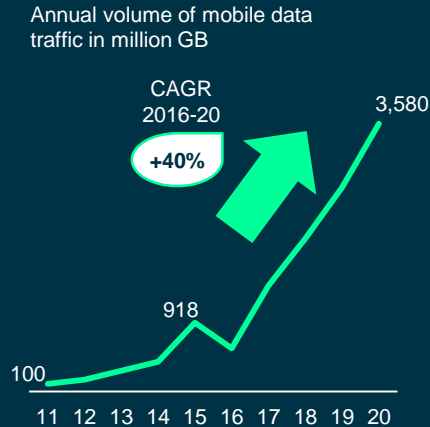
The data & device opportunity: expecting explosive growth

MARKET TRENDS – German market with significant further growth potential

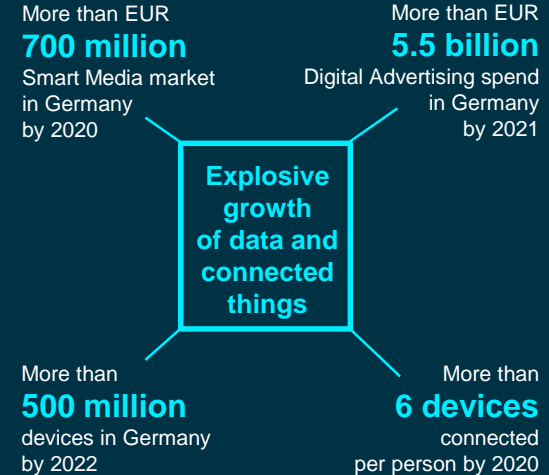
Mobile data usage in Europe¹



Mobile data traffic in Germany²



ADA and IoT growth opportunity³

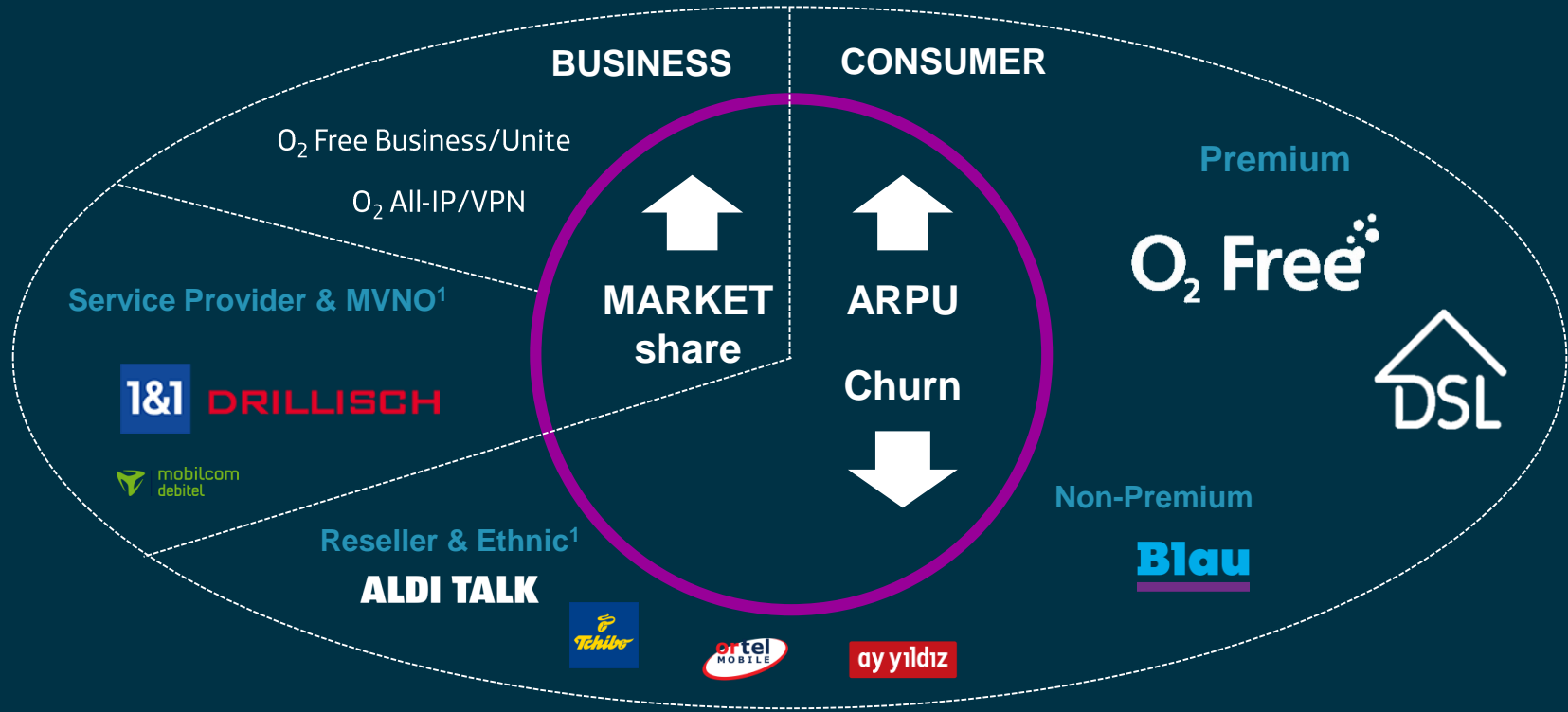


¹ Forbes/OECD (2017): 'Mobile Data Subscriptions: Which Countries Use The Most Gigabytes?'

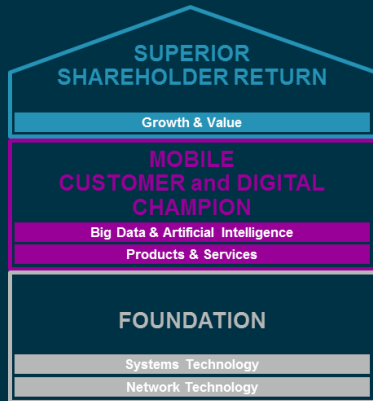
² Bundesnetzagentur (2017): 'Jahresbericht 2016'; Analysis Mason (2017): 'Western Europe telecoms market: interim forecast update 2016-2021'

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

We generate growth with a portfolio of future-proof products, services and solutions for all segments



Full steam ahead for our transformation programme Digital4Growth



How to become the MOBILE CUSTOMER and DIGITAL CHAMPION?

We want to be ...



SIMPLER



FASTER



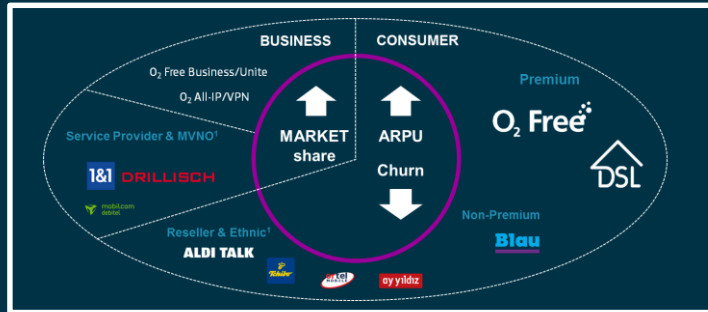
BETTER

Digital4 Growth

- Omnichannel
- Reduce complexity
- Refresh IT architecture
- Digital speed
- Digital processes
- Smart growth
- ADA/IoT
- Care of the future
- Shop strategy

... and transform our business

How do we measure the success of Digital4Growth?



Key KPIs Ambition 2022

IoT revenue upside:
~EUR 200-300m cumulative

Postpaid churn
-2% pts

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

Total IT spend/subscriber: -15%
NT virtualisation: 100%

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

Gross adds market share
in SME: ~30%

Financial expectations



FY 2018 outlook

- 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)

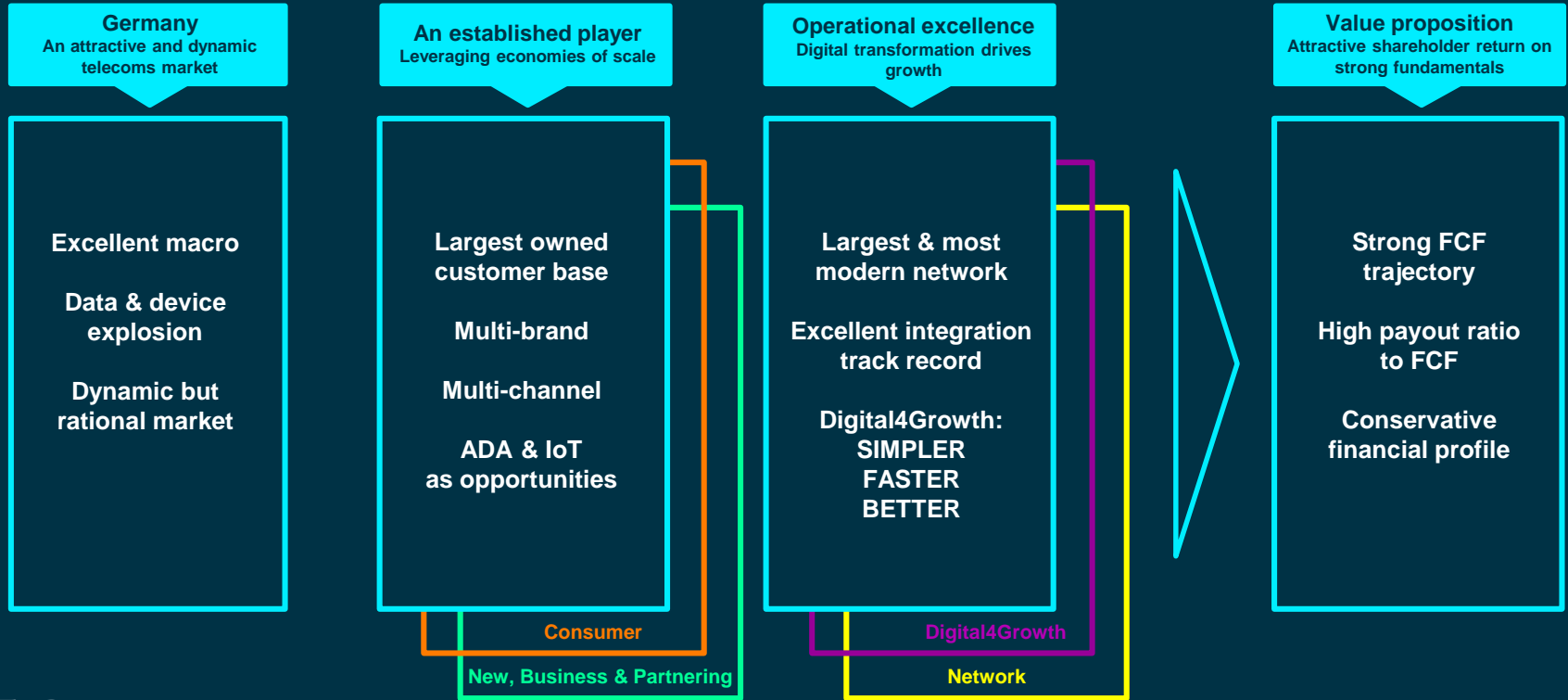
Transformation case

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

Mid-term expectations

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

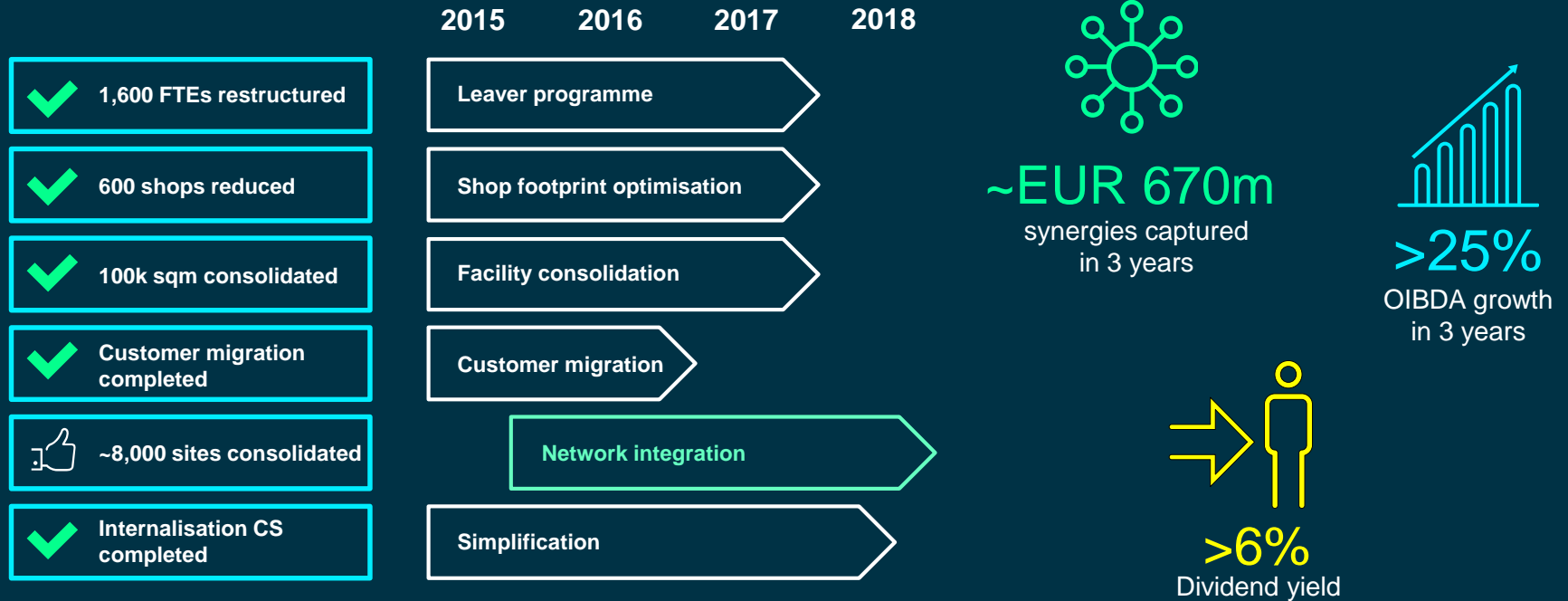
Evolution of equity story: Becoming the Mobile Customer & Digital Champion



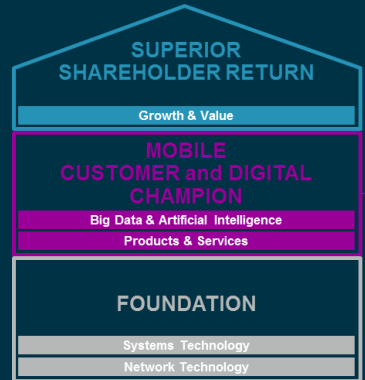
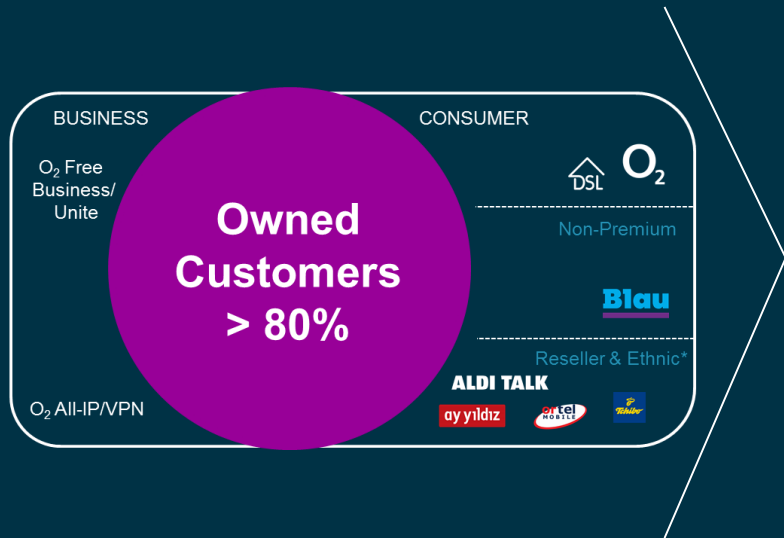


Digital4Growth

Integration success has made us leaner & more agile



Introducing our transformation ambition: We are going Digital4Growth



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

How to become a Digital Champion?



SIMPLER

Making **customer interaction** simpler and more intuitive



FASTER

Fulfilling **customer requests** in real-time



BETTER

Offering excellent **customer experience** across each touchpoint

Digital4Growth: Gross OIBDA benefit of ~EUR 600m



SIMPLER




FASTER



BETTER

Total case: OIBDA benefit by 2022		~EUR 600m
Omnichannel	Reduced complexity	~25%
	Refreshed IT architecture	
Digital speed & processes	Smart growth	~35%
ADA & IoT	Care of the future	~40%
	Shop strategy	

Growth-centric case:
>60% gross margin gains



Building on the efficiency gains of the integration



SIMPLER – Outstanding customer experience



Our ambition

We will have the simplest & most intuitive customer interactions in the market

Key KPIs
Ambition 2022

What it means

Omnichannel



- Build consistent interfaces for all interactions
- Allow customer to manage tariffs and devices in any given channel



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

Reduced complexity



- Offer customer a tailored & comprehensible p/f
- Reduce complexity drivers such as number of products and offerings



Tariff detox: ~40%

Refreshed IT architecture



- Increase productivity by consolidating the IT landscape further and improving the agility layer



Total IT spend/
subscriber: -15%



FASTER – Real-time customer experience



Our ambition

We will interact with the customer in real-time and can quickly react to changing markets

Key KPIs
Ambition 2022

What it means

Digital speed



- Accelerate product and feature time-to-market
- High configuration functionality
- Real-time access to customer information



Lead time product changes:
Within hours

Digital processes



- Automate processes and reduce process variances to a minimum
- Targeting real-time customer interactions



Manual back-office interventions:
-80%

Smart growth



- Leverage big data to optimise ROI
- Dynamically allocate resources



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



BETTER – Personalised customer experience

Our ambition

We will offer excellent customer experience across each touchpoint

Key KPIs
Ambition 2022

What it means

ADA & IoT 

- Commercialise advanced data analytics
- Offer customer-friendly IoT devices
- Leverage mass-market IoT ecosystem



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

Care of the future 

- Tailored communication to improve customer experience & increase conversion



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

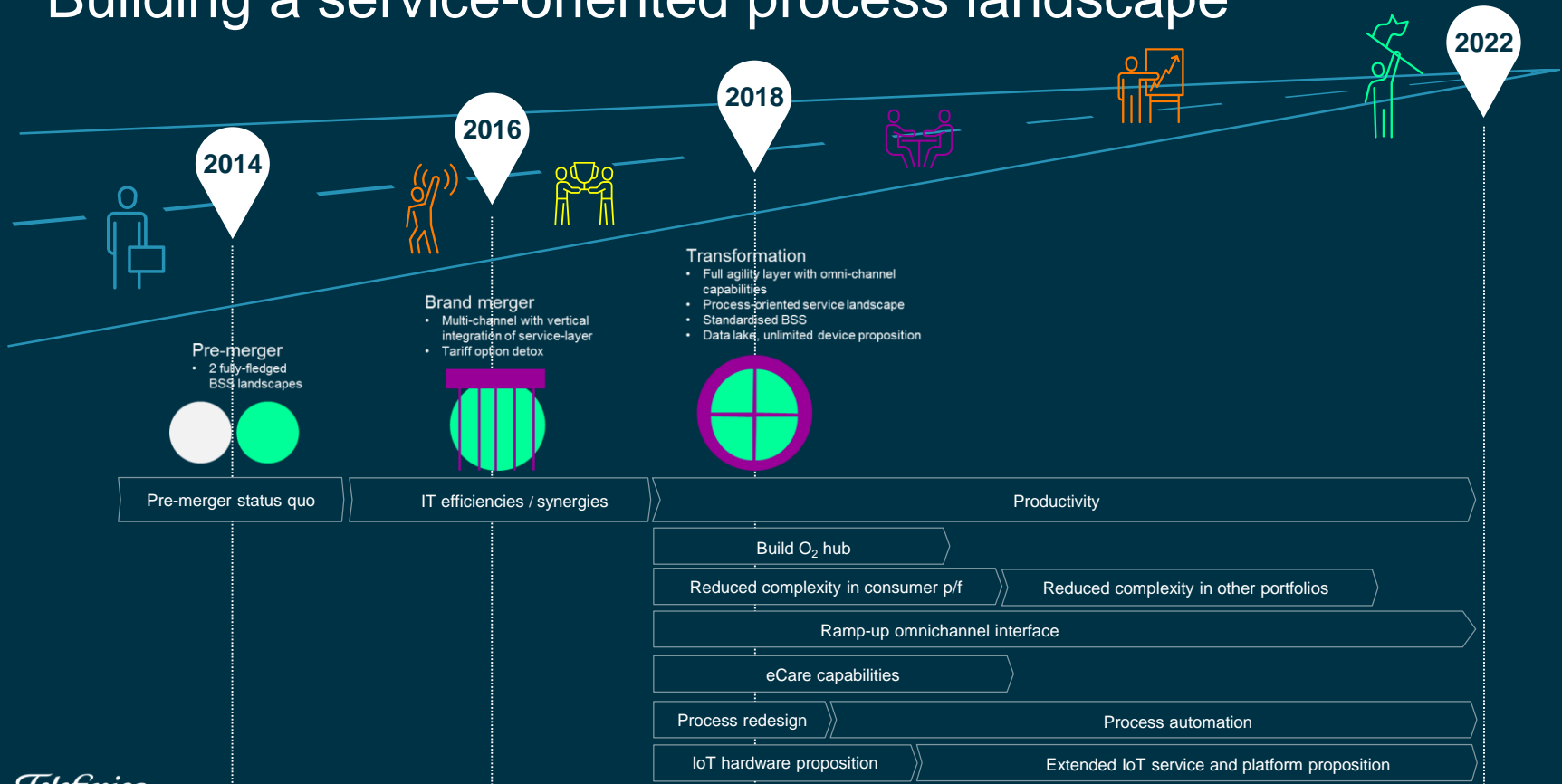
Shop strategy 

- Push digital channels to meet demand
- Optimise physical footprint to increase operational efficiency

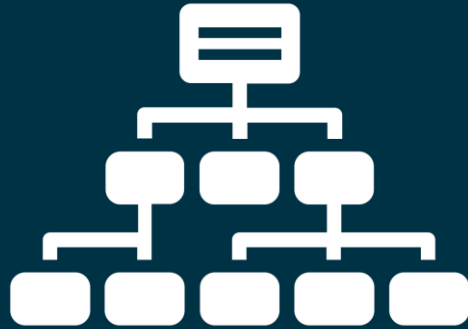


Shop reduction: >10%

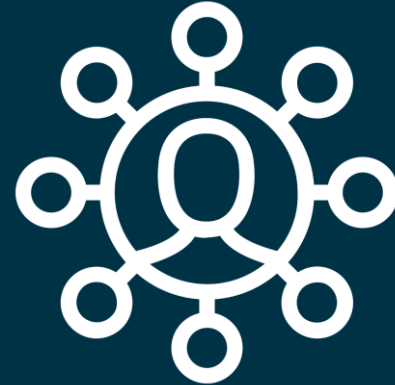
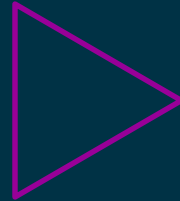
Building a service-oriented process landscape



Organised with a focus on customer experience

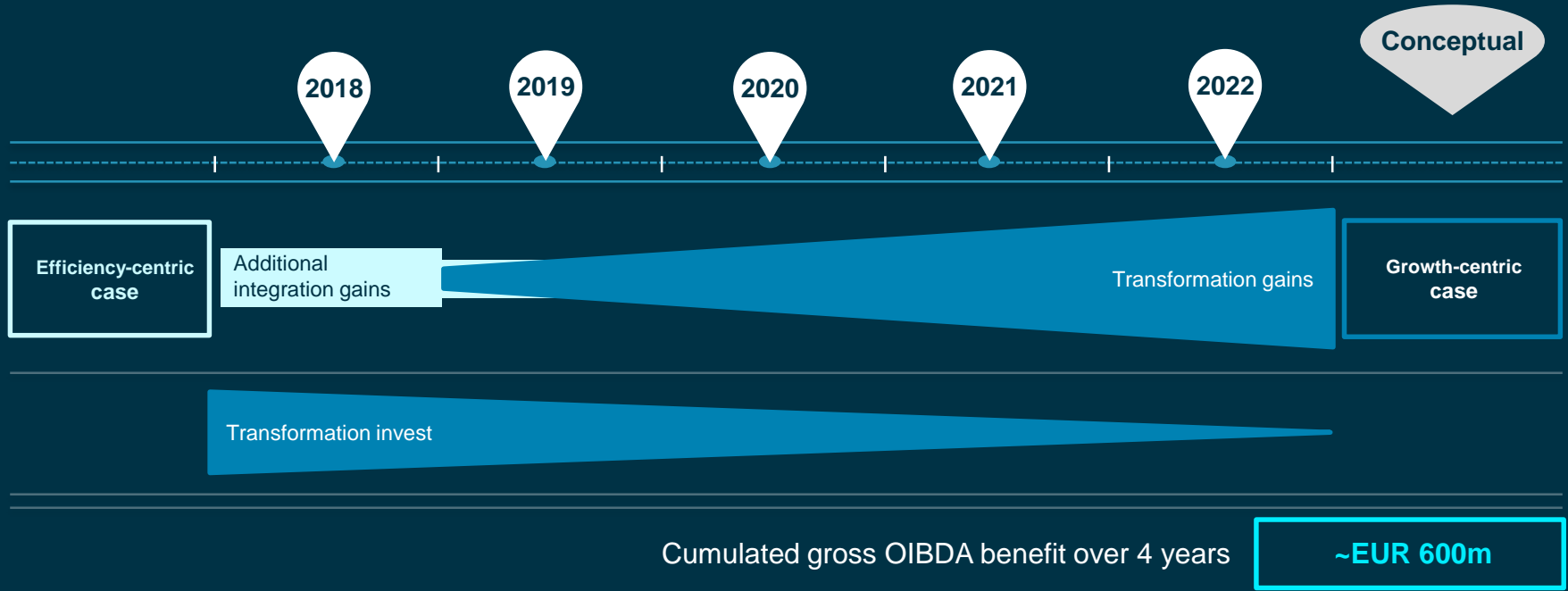


Past: Teams organised in classical hierarchies



Future: Organised with a focus on customer experience

Upfront transformation invest balanced by integration gains



Solid FCF growth driven by transformation gains and stable Capex



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

Sustained FCF growth¹

FCF driven by transformation gains & stable Capex

Conservative financing policy with high financial flexibility; keeping leverage at or below 1.0x medium term

Commitment to attractive shareholder remuneration

Going Digital4Growth: Our transformation is key to our future business success



**~EUR 600m gross
OIBDA benefit by 2022**

- Sustained OIBDA growth supports solid FCF trajectory and dividend
- Cumulated ~EUR 600m gross benefit by 2022, growth-centric case

**Holistic company
transformation**

- Process, infrastructure and organisation redesign
- Implementation of standardised, digital end-to-end processes
- Fast, agile way of working

**Solid FCF trajectory
supports dividend**

- Commitment to superior shareholder return
- Targetting high pay-out ration in relation to FCF



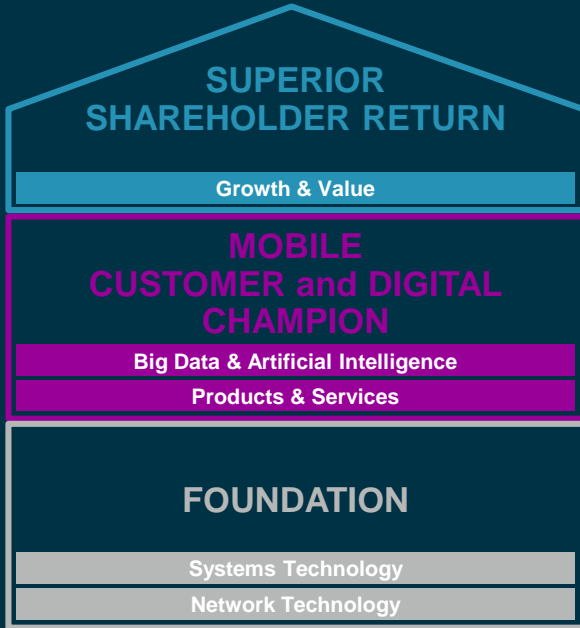
Q&A & Lunch



A complex network diagram is displayed on a dark blue background. The network consists of numerous nodes, represented by small white dots, and a dense web of edges, represented by thin, colorful lines. The lines are primarily cyan, orange, and purple, with some yellow lines visible in the lower right quadrant. The overall structure is highly interconnected and somewhat chaotic, with many overlapping lines and clusters of nodes. The word "Network" is written in a large, white, sans-serif font, centered horizontally and slightly below the vertical center of the image.

Network

Building the largest and most modern network

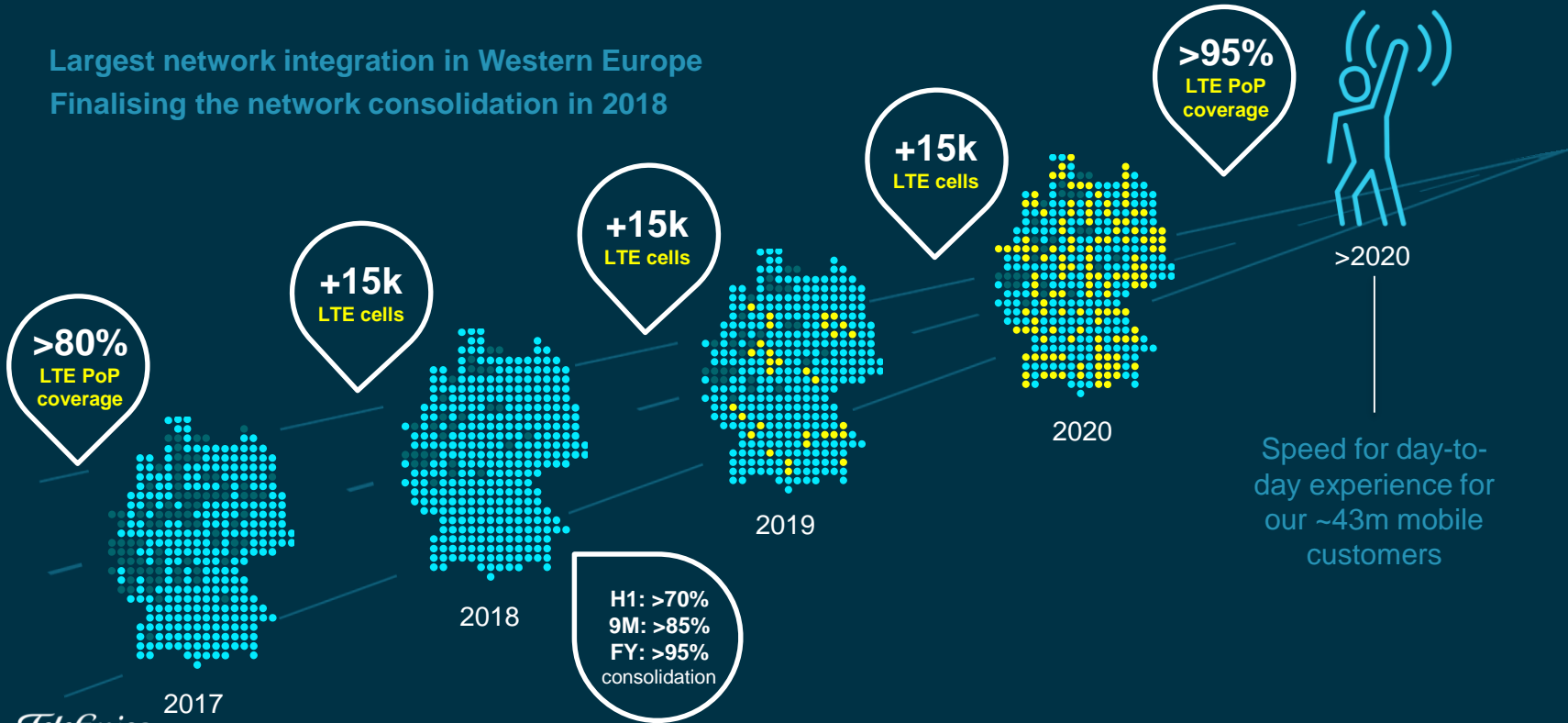


Foundation: Network

- Consolidation already >50% completed
- Most dense network in cities
- 3G coverage close to 90%, LTE coverage >80%
- Access to Germany's most advanced broadband network

Core asset: Building the best network for mobile customer experience

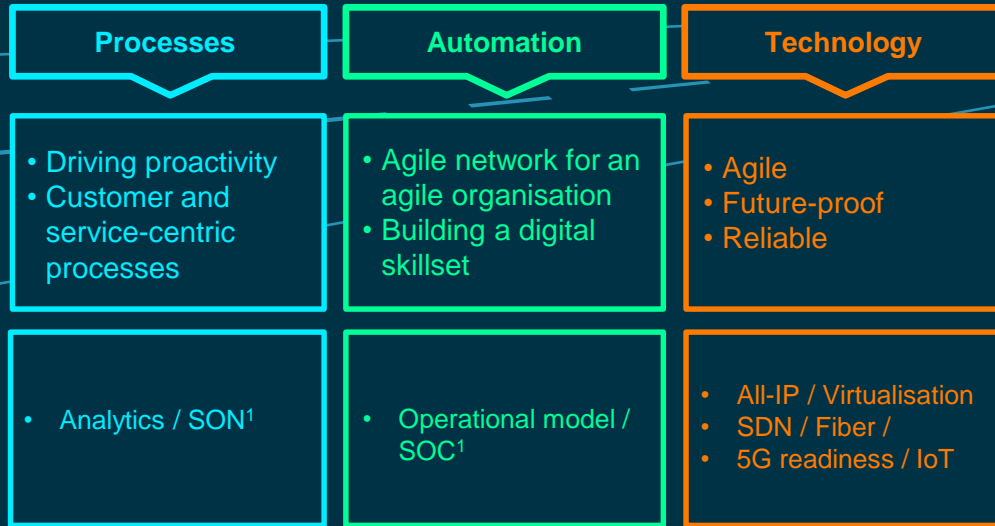
Largest network integration in Western Europe
 Finalising the network consolidation in 2018



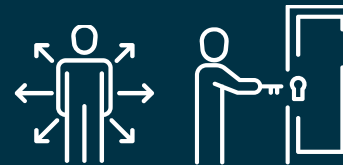
Speed for day-to-day experience for our ~43m mobile customers

From integration to transformation

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



A future-proof network which provides a competitive customer experience



Customer-centric way of working

Simple and efficient

Concrete projects to transform the network

Service Operations Centre (SOC)



Processes

- Customer-oriented operations in addition to operating technology
- Increased customer insights through Customer Experience Management tool (CEM-tool)
- Next step in the transformation of the operational model with focus on customer centricity

<10%
Incidents detected by customers first by 2022



Enhance customer and service-oriented analysis in SOC, real-time monitoring



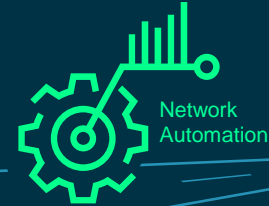
Detect and solve problems/service degradations before customers notice



Clear focus on E2E quality of service

Concrete projects to transform the network

Self Organising Network (SON)



Automation

- Automation of network optimisation as part of the agile network planning strategy
- Self Organising Network (SON) as a proof point for agility in the network

<1%
Cells with wrong
neighbours
in 2022



SON serves to prevent 'blind spots' in the customer connectivity experience



Shorter time to react to quality problems and deliver best customer experience especially in mobility



Features for real-time capacity and coverage changes and load balancing based on customer needs

Concrete projects to transform the network

Virtualisation



Technology

- First Virtual Network Function (VNF) in 2018; consistent strategy to introduce new functionalities/systems based on UNICA
- Increase reliability (zero-downtime operations) and speed/time-to-market
- Scalability by cloud computing to reduce constraints of network management

100%
virtualisation of new
core services



Simpler allocation of resources to react of capacity needs



Faster time-to-market



Better stability to secure best service experience for our customers

Smart Capex: Keeping network CAPEX stable as part of a compelling investment strategy



Efforts to maximise customer experience

- Implementing additional capabilities in the network areas where the benefit of investments is maximised
- Providing capacity with our spectrum assets, reframing spectrum from legacy to LTE and potentially 5G



Highly focused investment approach to areas and segments with highest customer value



Customer demand prioritisation of rollout and smart, targeted rollout concept

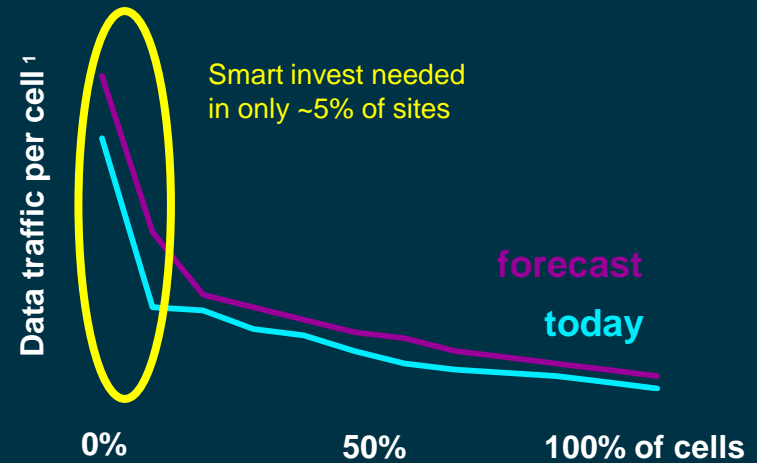
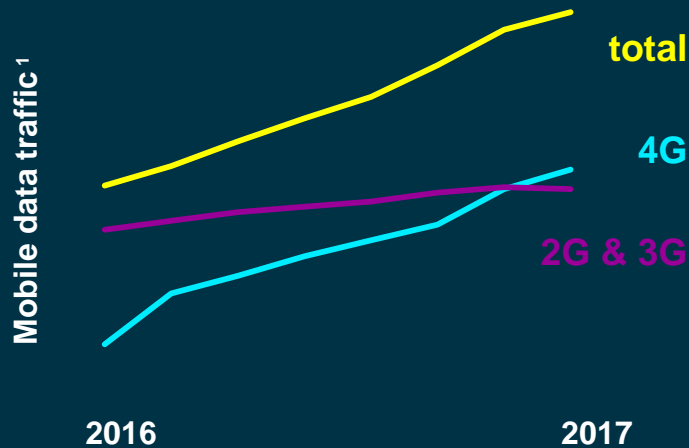


Targeted capacity enhancements where there is customer demand in addition to solid overall broadband coverage

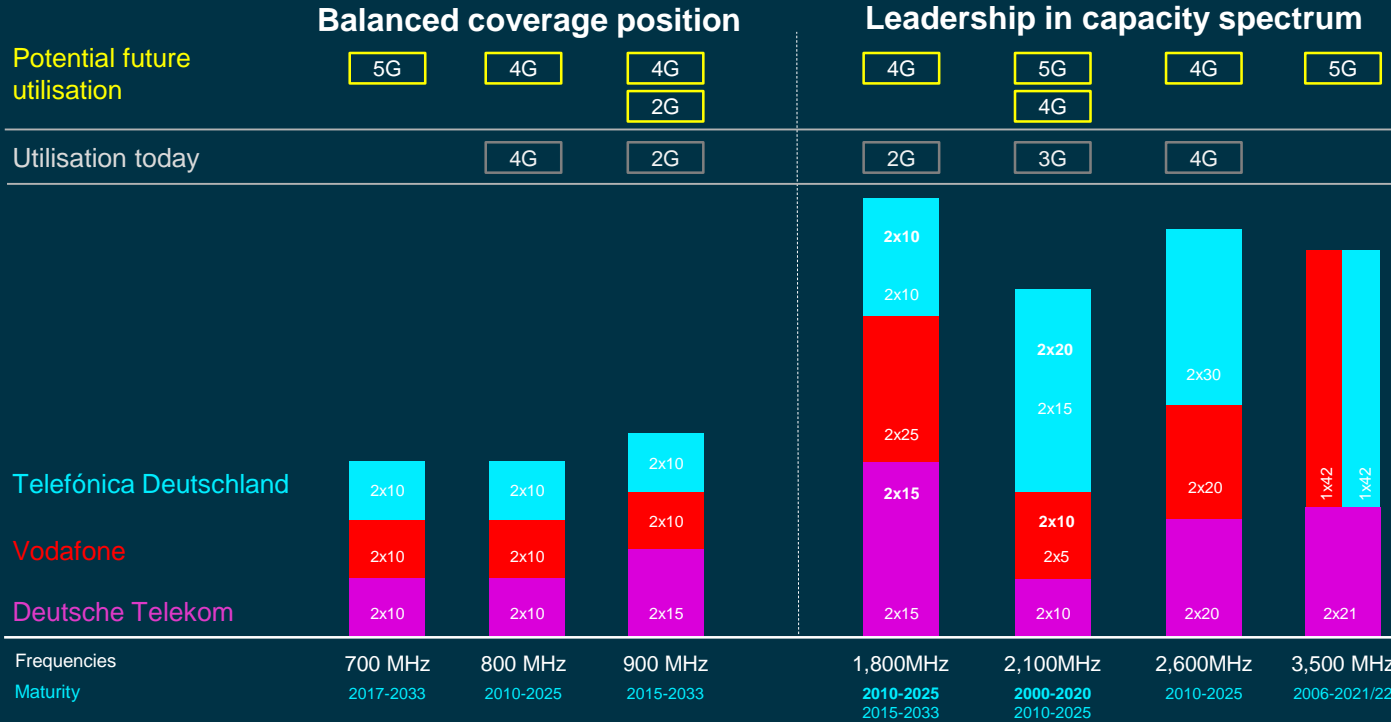
Ready for accelerating capacity demand

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



Future-proof spectrum setup, to enable best customer experience



Future-proof network set-up, solid fixed and fibre backhaul planning



Fixed



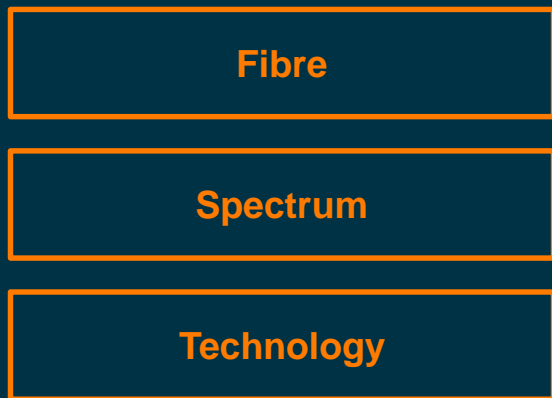
- Access to best available fixed NGA network¹
- Fixed network: Access to 25 million households
- Full convergence capabilities

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

Future-proof network set-up, 5G readiness for future customer demands



5G ready

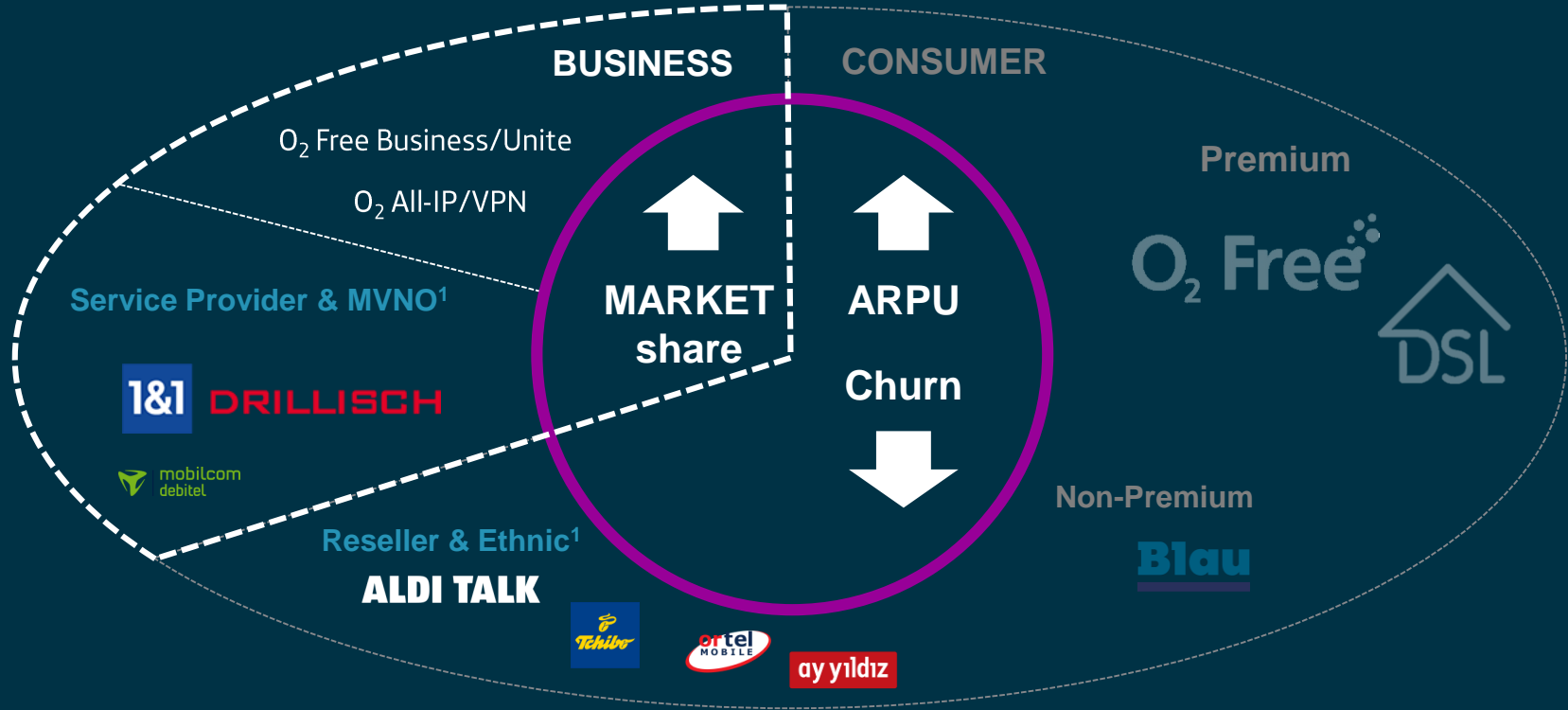


- Prepare technologies for securing network capacity, e.g. 4x4 Multiple-Input Multiple-Output (MIMO) & carrier aggregation
- 5G readiness through technological trials, commercial negotiations & backhaul build-up



New Business, Business & Partnering

Multi-brand and multi-channel business opportunities



New business *ADA & IoT*



Leverage superior data analytics for enhanced go-to-market

Turn insights into value for our customers

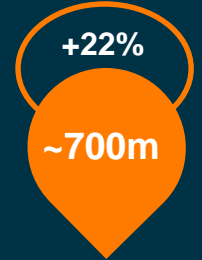
Expected device explosion as growth opportunity

Contribute to a mass-market IoT ecosystem

Advanced data analytics to monetise big data

ADA

Transport analytics	Develop insights into human journeys to support customer decision-making (e.g. for traffic optimisation)	Transport companies, cities, out-of-home media
Retail solutions	Better understand consumer behaviour in store and out of store to improve customer journeys	Dealers, operators of branch networks
Data anonymisation	Help B2B clients make their own data-driven businesses compliant with strict legal regulations	Service providers, data economy
Smart media	Address consumers at the right place, at the right time	Advertisers, media agencies

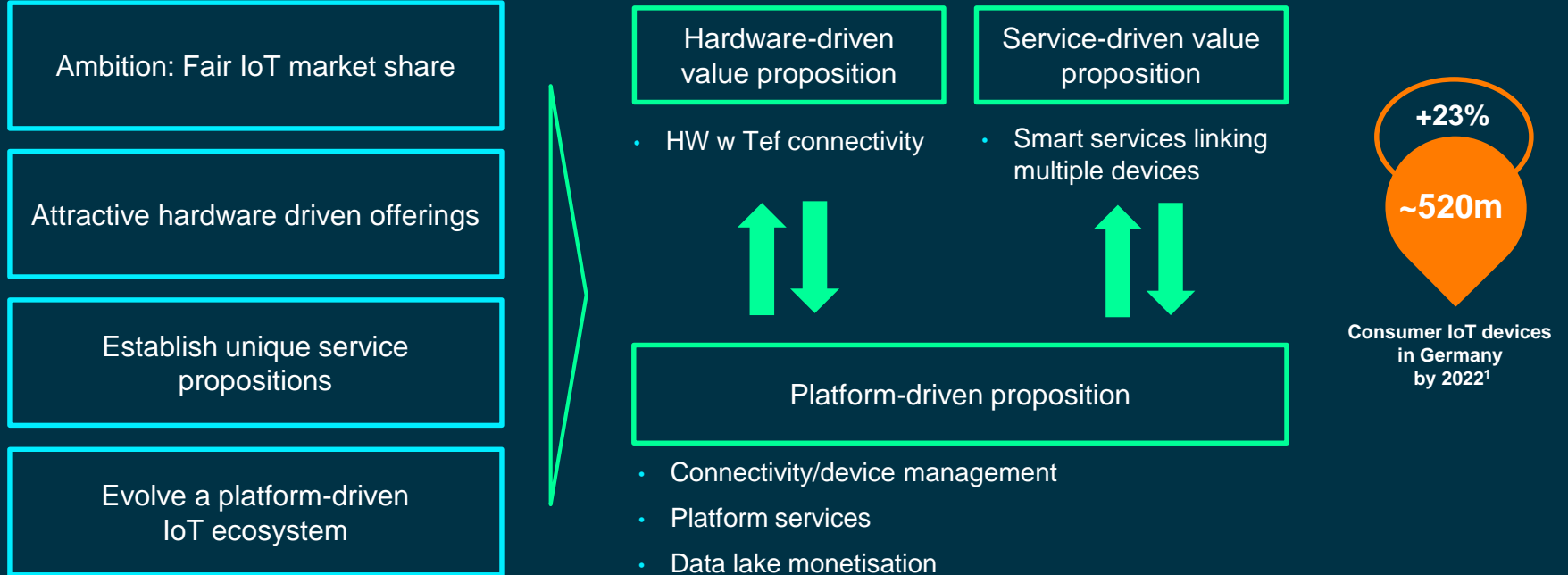


Smart Retail market Germany by 2020¹



Digital Advertising market Germany by 2021¹

Monetising explosive IoT device growth



Business:

Capture market share through mobile & fixed connectivity and digital services

Enhance sales channels & provide excellent customer care

Focus on connectivity & customer-centric offer design

Enhance go-to-market based on superior market intelligence

Business market potential: Significant growth opportunity not yet captured



Customer-centric offer design

O₂ Free
Business

O₂
Unite

XDSL

Leased Lines

Fibre

All-IP

Cloud

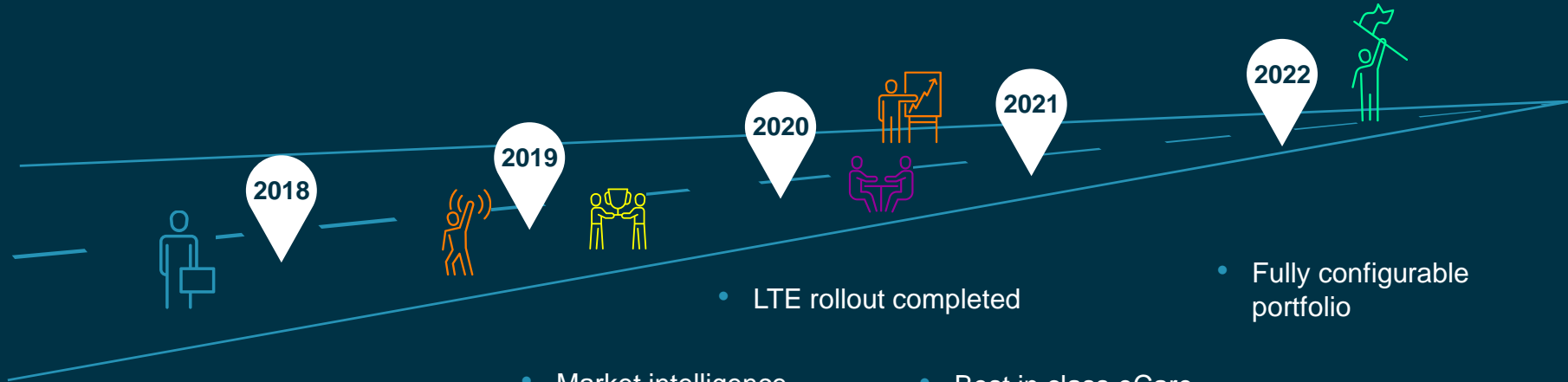
VPN

Security



- Fully converged offer through access to German premier fixed infrastructure
- Differentiator: Lean & agile – modular offers to fulfil specific customer needs for SME customers
- Digital services: Evolve Value-Added-Services (VAS) e.g. security and Cloud solutions
- Opportunity in IoT: Smart energy, smart mobility & other verticals

Business roadmap: Major milestones



- Farming & hunting approach in direct sales
- Attractive sales partner programme
- Enhanced market intelligence capabilities
- All-IP migration

- Market intelligence evolution
- Extend technology portfolio (e.g. eSIM)
- Expand digital & IoT portfolio

- Best in class eCare capabilities for Business and Partnering
- End-to-end automation of customer interactions

Partnering:
Reseller & Ethnic
Service provider & MVNO



Data usage driving growth with resellers & ethnic brands

ARPU-up and churn-down opportunities

Growing through market share opportunity within remedies

4 levers for growth in MBA MVNO

Leverage large customer base in the reseller & ethnic segment



Benefits of partnering for TEF D

Channels

Reseller & Ethnic¹

ALDI TALK



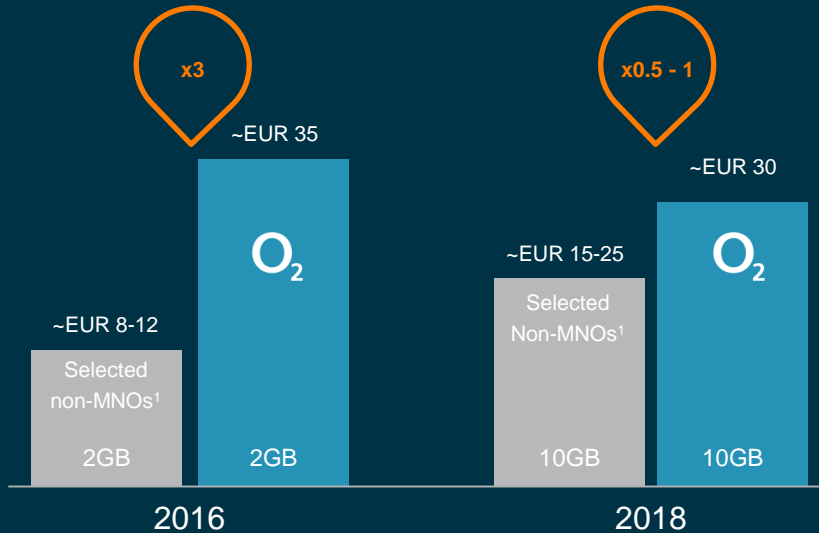
ay yıldız

- 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

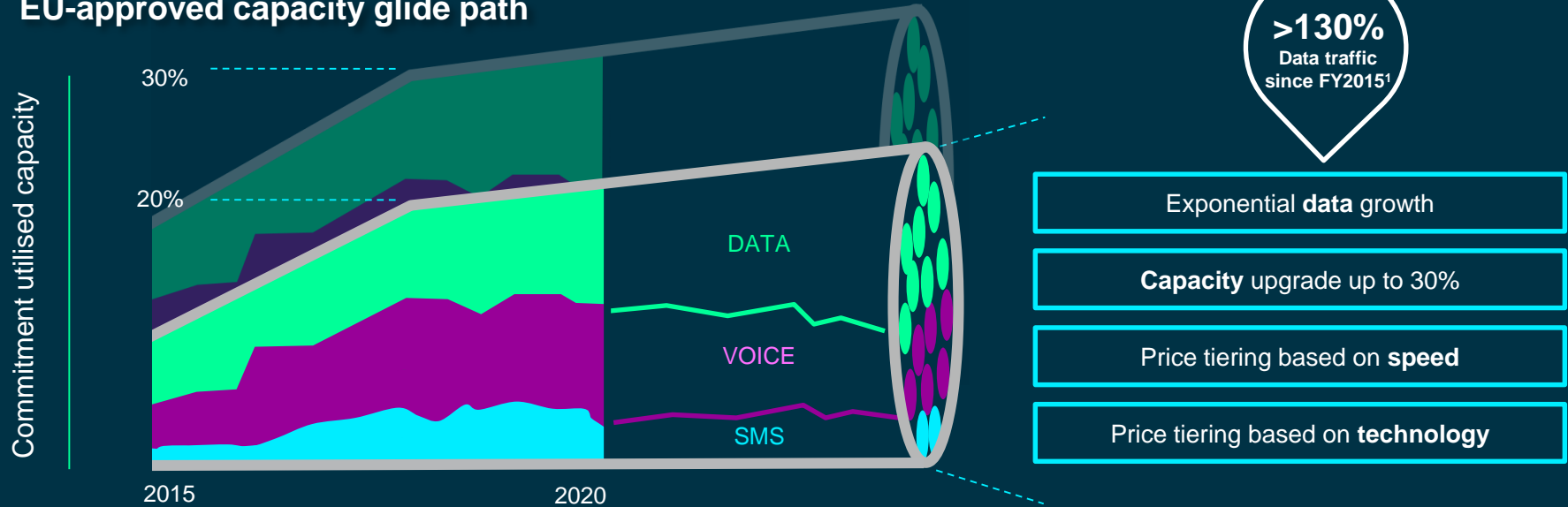


- Postpaid pricing recovered after low in summer 2016 driven by roam-like-home and big buckets
- Larger data bundles and full 4G offers support marketing between EUR 15 and EUR 30
- Migration patterns reflect market shares

MBA MVNO contract economics: Four levers for revenue growth



EU-approved capacity glide path



Executive summary



New business: Advanced Data Analytics and Consumer IoT as additional future growth opportunities

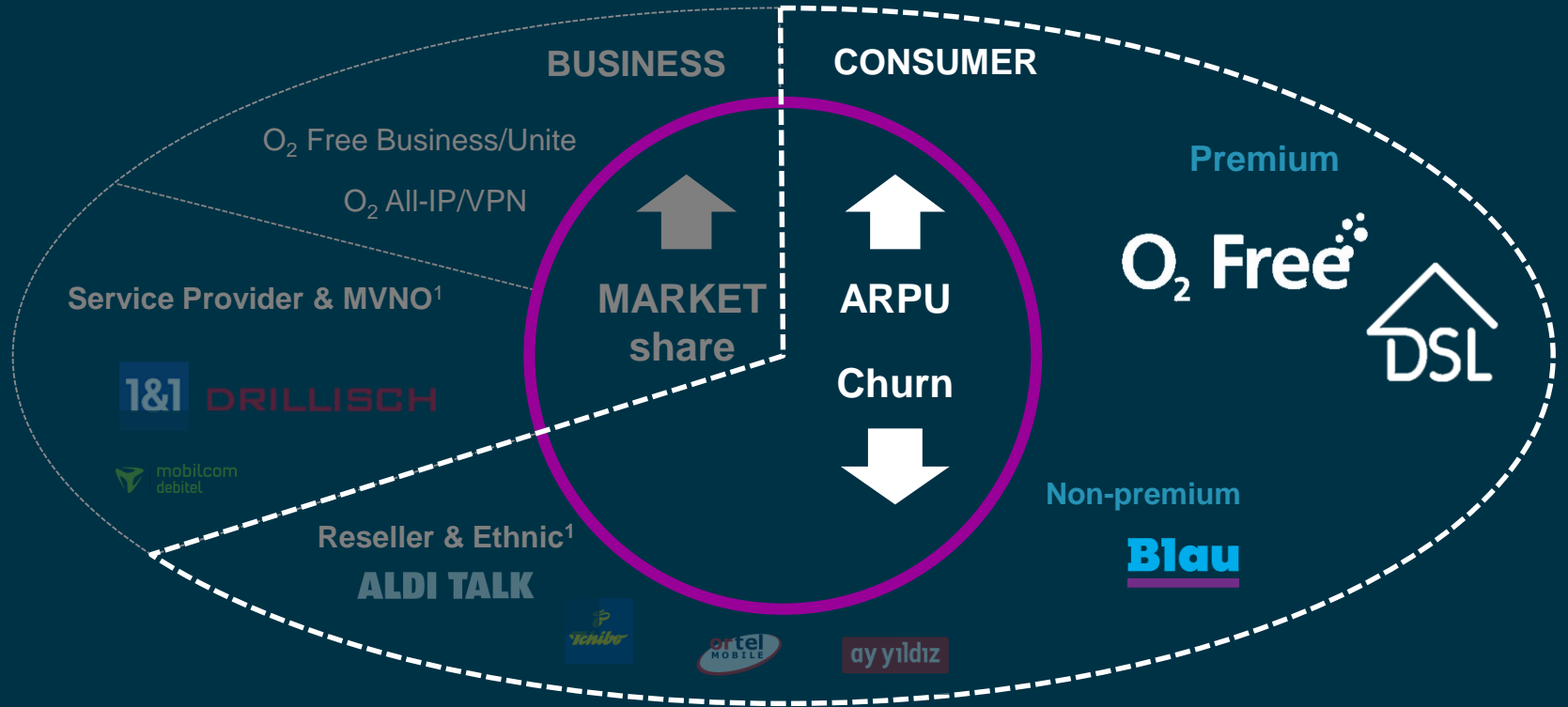
Business: Growth from customer-centric approach with converged lean offers

Partnering: ARPU-up and churn-down opportunity in reseller & market share in service provider/MVNO



Consumer Business

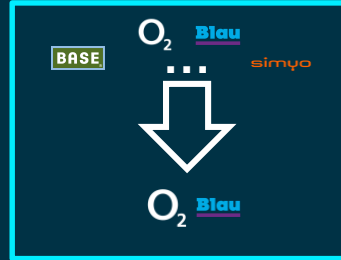
Our consumer business as key value driver



Integration success as foundation for the new consumer business



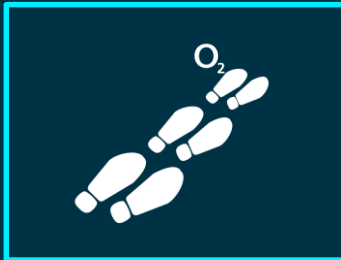
Largest mobile customer base



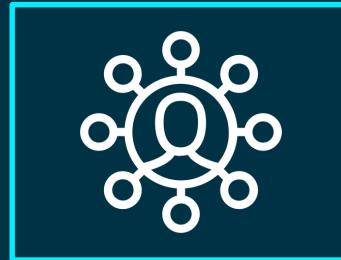
Brand consolidation



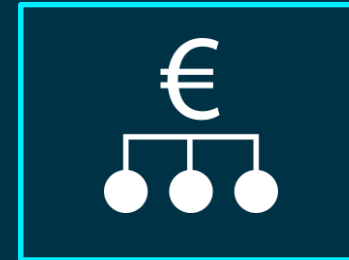
Customer service reorganisation



Footprint optimisation



Lean organisation



Tariff option detox

2017 as a turning point



Three key elements of our consumer strategy

Develop existing & attract high-value new customers

Customers want attractive
price-value
propositions

Customers want
big data buckets

Willingness to pay

Customers want
peace of mind
and **freedom**

Customers want
very much more and
more than telco

Enhance customer experience & digitalisation

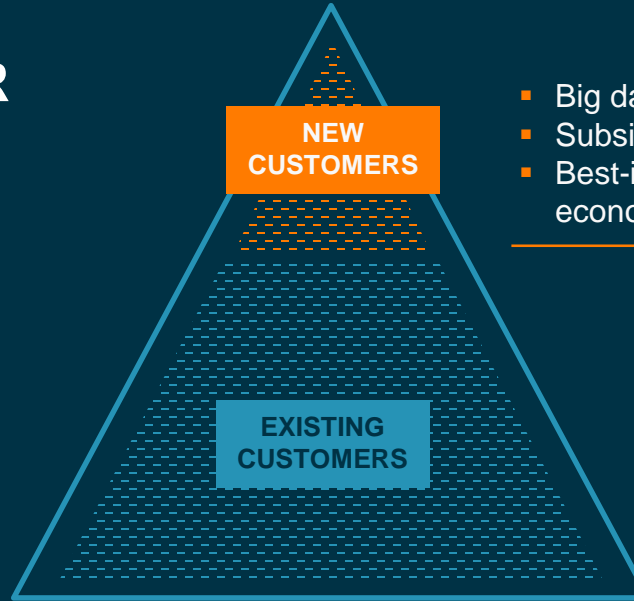
Customers want
ease of access through
different channels

Customers want
integrated user
experience
for their digital lives

Customer first and focus on optimal price-value mix

PRICE VALUE LEADER

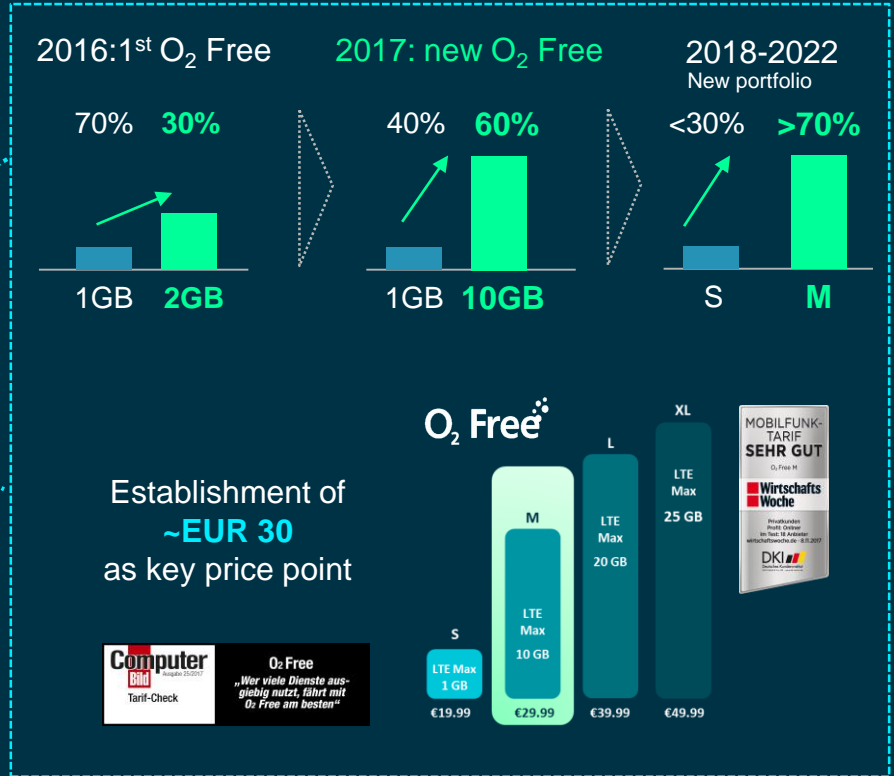
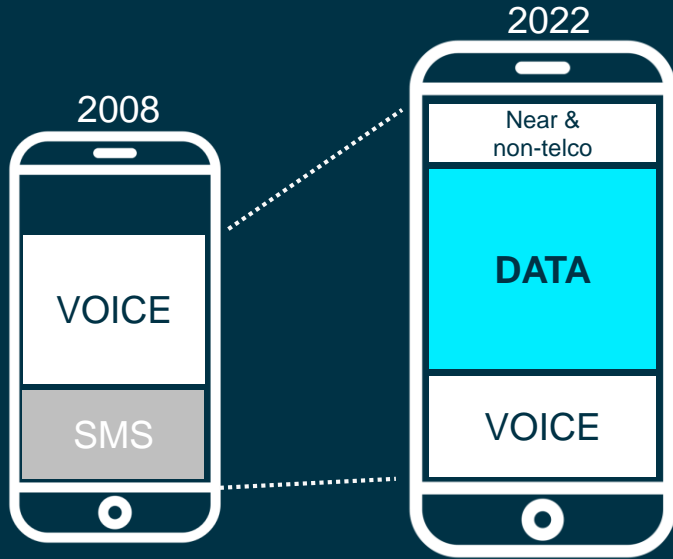
Provide best price-value propositions & remain a challenger for our competitors



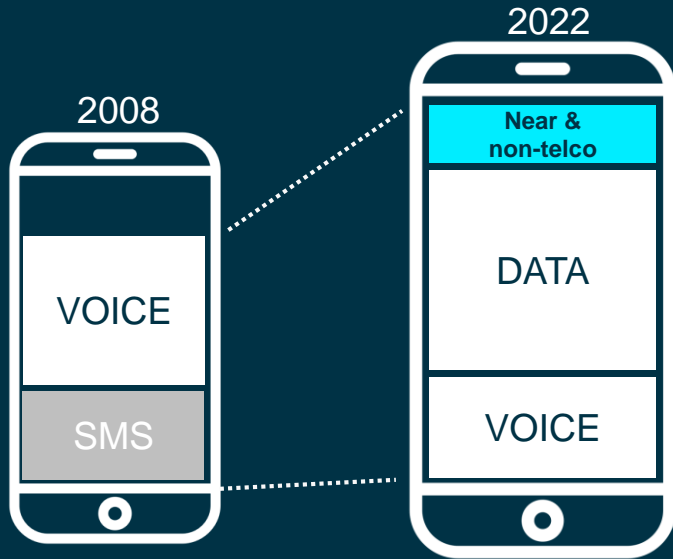
- Big data buckets to improve mix
- Subsidies in line with market
- Best-in-class application of behavioural economics

- Individual pricing
- Re-invest in customer benefits
- Improved # SIMs via U/X-Selling

Freedom and peace of mind associated with additional willingness to pay



Product and service extension associated with additional willingness to pay



Revenue growth
new services in 2022

~5m customers
new services in 2022

- Music & video → sky TICKET
- Financial services → O₂ BANKING
- Fitness → GYMONDO
- Gaming → O₂ Unlimited Games
- Security & Cloud → O₂ PROTECT
- Consumer IoT → [IoT icons]

- Establish Telefónica D as relevant player in defined near & non-telco segments
- Address new market segment & upcoming trends
- Increase hardware market share and take strong position in consumer IoT segment

New customer behaviour requires comprehensive digitalisation of touchpoints

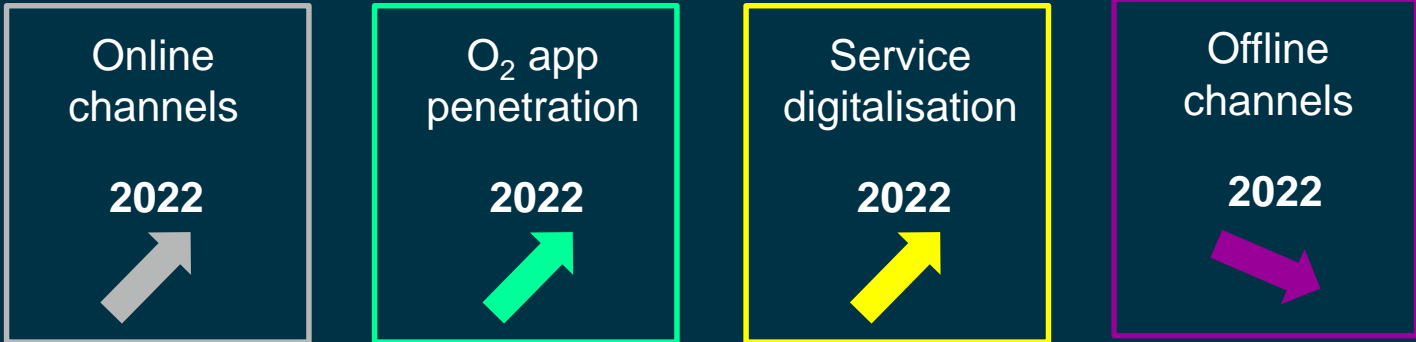


O₂ app penetration in 2022:

>80% (vs. 20% 2017)

Sales in self-assisted channels

>25% (vs. 15% 2017)



Share of eCare events

~80% in 2022 (vs. 65% in 2017)

Transform touchpoints to drive growth and profitability



Integrated sales
organisation established

Efficient retail footprint

Consistent value steering and
increased customer satisfaction

Development of app integration

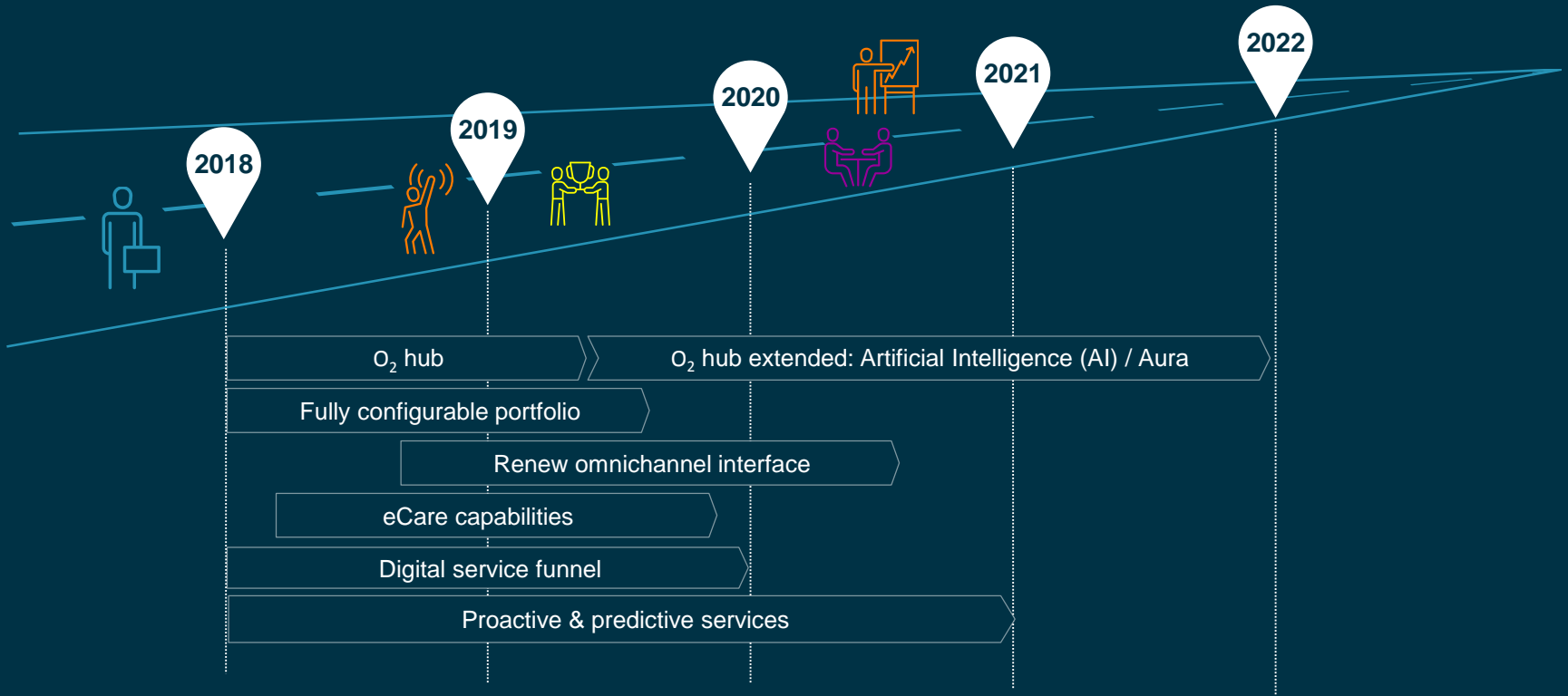


>10% PoS
optimisation

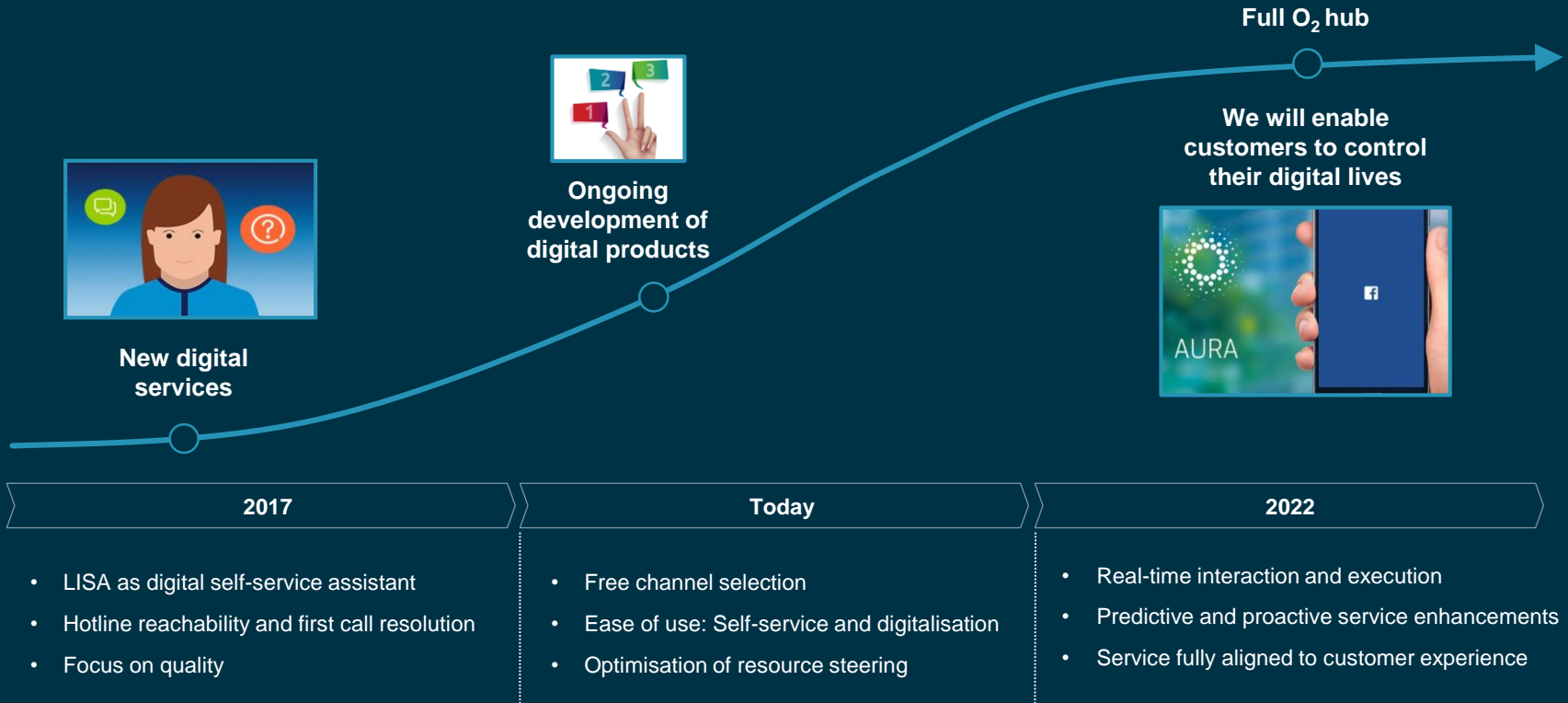
100% offers
omnichannel

+20% O₂ app
active users/m

Building a service-based process landscape with our omnichannel roadmap



Digitalisation and Artificial Intelligence will increase customer benefits and reduce costs



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

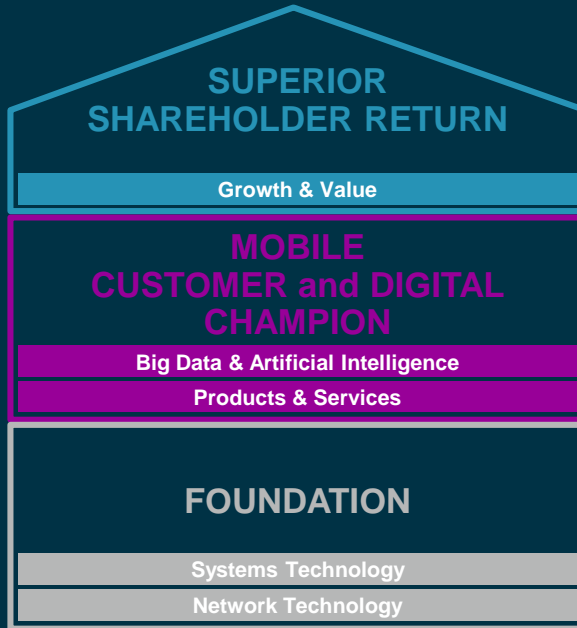
~80%
Share of eCare events
by 2022

>80%
O₂ app
penetration
by 2022



Mobile Customer Champion
Digital Champion

MOBILE CUSTOMER & DIGITAL CHAMPION



We will generate **Superior Shareholder Return** including a strong dividend commitment

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

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



Q&A

