Telefónica Deutschland Investor Presentation

May 2017

Telefónica Deutschland
Investor Relations

WE CHOOSE IT ALL_

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The leading digital 'onlife' telco in Germany

Reasons to invest in Telefónica Deutschland

Germany
An attractive and dynamic telecoms market

- 4-2-3 merger results in rational market
- Strong segmentation between premium and non-premium
- Dynamic wholesale segment
- Average data usage below European average
- Strong data growth

Data monetisation potential

An established player
Multi-brand offering for a unique customer experience

- Multi-brand and multi-channel distribution strategy
- Strong premium proposition O_2 Free
- Mobile-centric approach with broadband/converged products for X-selling
- Added-value products and services e.g. Sky coop & O_2 banking

Unique business model

Operational excellence
Synergies and digital transformation drive growth

- Synergy case of EUR 900m OpCF savings by 2019
- Building a future-proof network
- Now shifting focus to long-term strategic transformation
- New growth areas Advanced Data Analytics and the Internet of Things

Synergies and transformation drive profitability

Value proposition
Attractive shareholder return on strong fundamentals

- Strong FCF trajectory to support dividend policy
- Committed to high payout ratio in relation to FCF
- Concrete guidance of dividend growth over 3 years (2016-18)
- Low leverage and conservative financial profile for flexibility

Commitment to dividend policy

From MIT to M+T: Focus on Momentum and Transformation

Achievements 2015 & 2016

Keep the Momentum

Integrate quickly

Transform the company

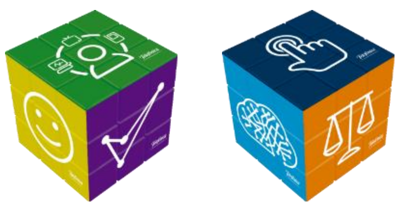
- Maintained **momentum**
- Relaunch of **major brands**
- Major **integration workstreams** completed, e.g. customer migration
- **Restructuring in line** with expectations
- **Synergy case upgrade**
- **Operational performance in line** with capital market guidance
- **Strong FCF trajectory**
- **Conservative balance sheet** and low leverage maintained
- **Commitment to mid-term dividend**

Focus 2017 and beyond

M + T

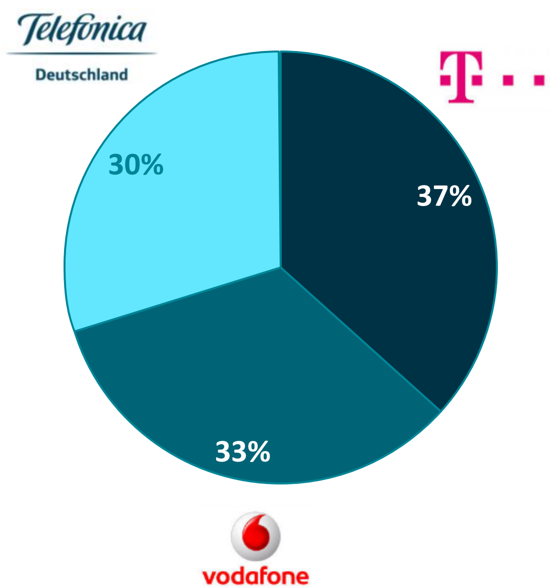
Keep the Momentum

Transform the company



Telefonica Deutschland is well positioned to lead the most attractive telco market in Europe

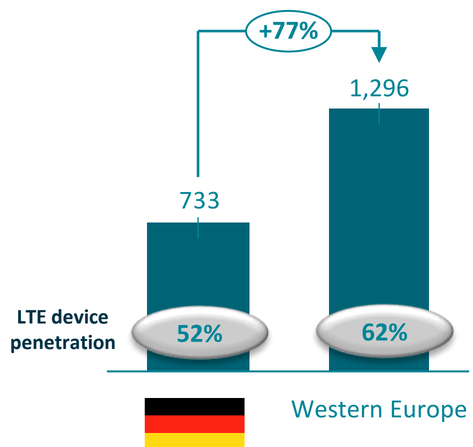
Rational and balanced market structure[1]



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

Data monetisation opportunity intact

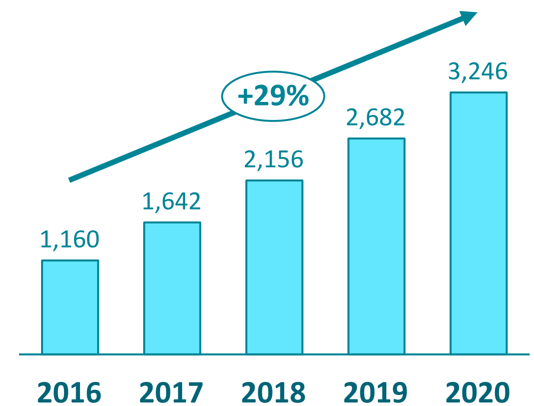
Average data usage in MB and LTE device penetration in %[2]



- Germany still a European laggard in terms of customer data usage
- Further opportunities from growing LTE adoption

Steady adoption of a digital lifestyle

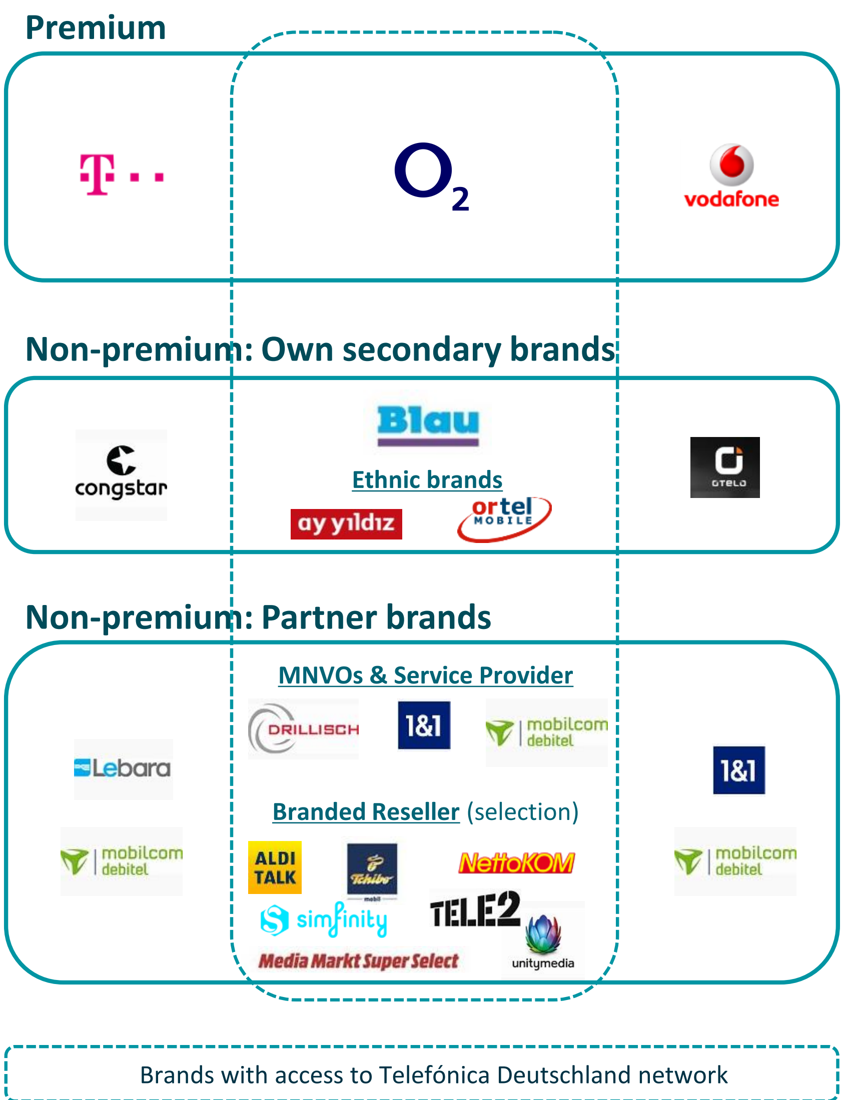
3G/4G total cellular traffic in Germany in MB/customer (CAGR)[3]



- Music & video streaming as usage drivers
- Trend to 2 Gb/month for LTE customers

[1] Market share of MSR based on reported financials by MNOs for Q4 2016
[2] Source: Analasys Mason; Western Europe telecoms market: Interim forecast update 2016–2021; 4G connections in % of smartphone connections
[3] Source: Analysys Mason; Total cellular data traffic generated by 3G&4G handset connections, Dec 2016

Commercial update: Focus on stimulating data growth in a dynamic market



Premium: O_2 celebrates 15-y anniversary

- Continued **successful upselling of O_2 Free** into base and to new customers
- **Leveraging cross-selling opportunities** via fixed products and value-added services such as Sky
- Upcoming initiatives around **15-year anniversary** to support **brand appeal**
- New **DSL portfolio** with more speed

Non-premium: More4more penetration

- **More4more** strategies taking hold with further pricing adjustments by discount operators
- **Roaming economics** drive market strategies
- We continue to leverage our **multi-brand approach**

15-years of O_2: A leading consumer brand with a track record of innovative customer solutions

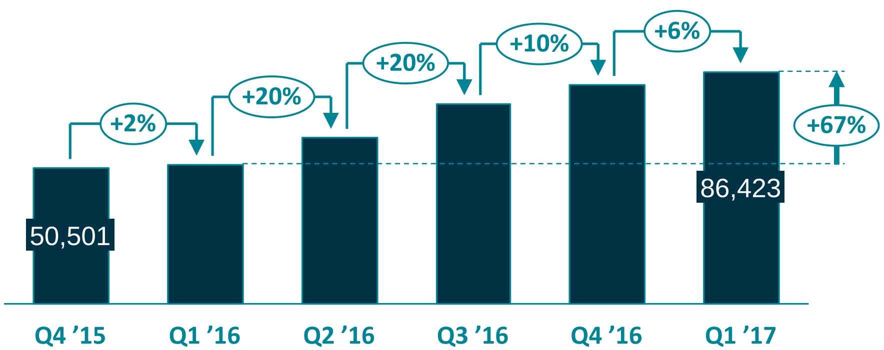
Celebrating O_2 15-year anniversary

- Event-driven, targeted initiatives for **new & existing customers**
- Attractive offers and added-value products **encourage use of mobile device**
- **Sharpening O_2 Free focus** on developing our premium customer base and **stimulating usage**
- O_2 Free enables **freedom of choice and mobility**

Strong growth in LTE customer base continues

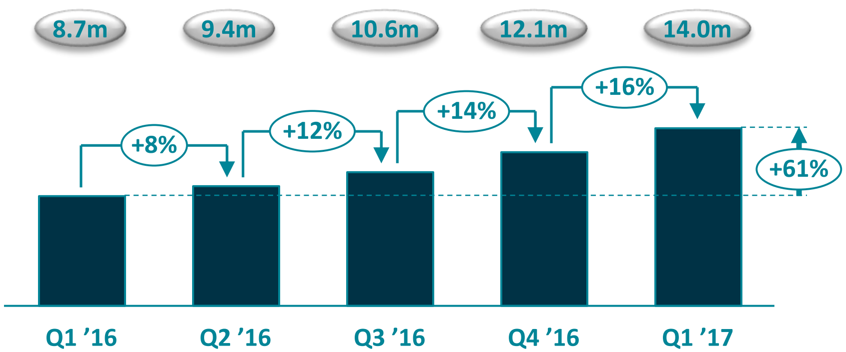
Data traffic growth continues strong

Traffic (TB/quarter)



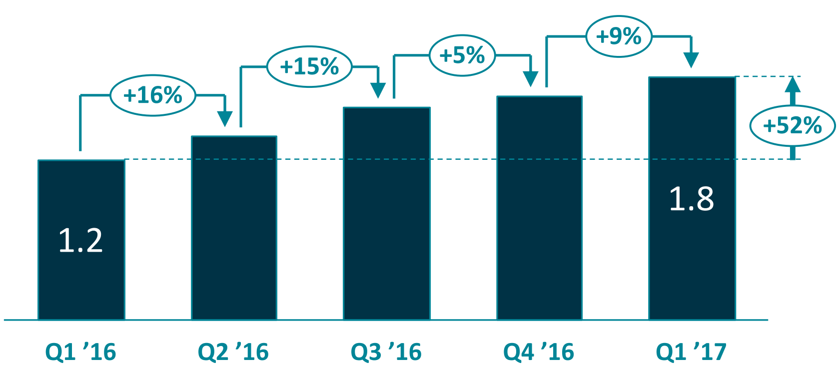
Significant growth in LTE customer base

LTE customers (million)



LTE usage driven by music and video streaming

Average data usage for O_2 consumer LTE customers (GB)



- LTE customer base now at 14.0 million, up 61% y-o-y
- Music & video streaming key drivers of data traffic growth; up >67% y-o-y
- Average monthly data usage for O_2 consumer LTE customers up >50% y-o-y to almost 1.8GB

Network update: Steady quality gains on back of consolidation and roll-out

Network integration timeline 2016 - 2019

3G National Roaming for all customers
April/May 15

Deal to **transfer 7,700 sites** to DTE
July 15

Sale of towers to Telxius
April 16

Consolidation & roll-out **4G network**
July 16

Implementation of **SON** & **SOC**
April 17

- Decommissioning of **14k sites**
- Roll-out of **30k LTE elements**
- Utilisation of **new licenses**
- Pilot network for **5G**

Top speeds of 1.65 Gbps in trials

SON – Self-Organising Network

- Software enabling automatic, flexible network capacity management
- Focus on real-time capabilities
- Testing SON in UMTS pilots since 2014

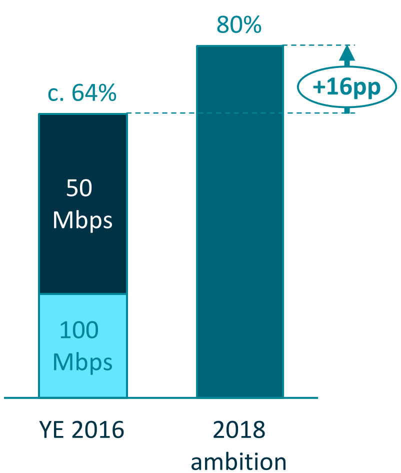
SOC – Service Operations Centre

- Real-time network data analytics to react to customer demand fluctuations
- Cooperation with Huawei
- Customer service in focus

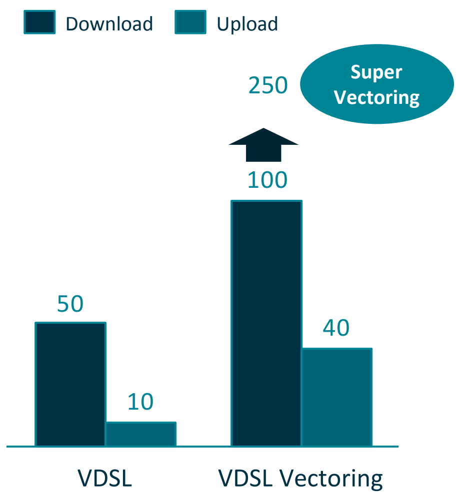
Fixed infrastructure model to complement our mobile network for best high-speed experience

Access to best available fixed NGA network[1]

NGA coverage targets
(% of covered households)



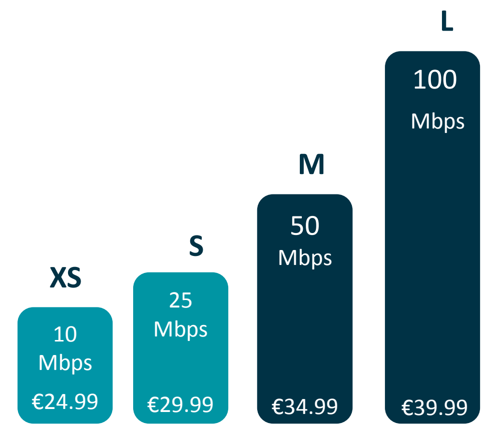
Maximum speed
(Up- & Download, Mbps)



- Nationwide access to DT NGA network
- DT is currently upgrading larger cities to VDSL vectoring and 100 Mbps

With a competitive bundled offer

O_2 DSL all-in
(Download speed, Mbps)



- O_2 Blue One offers flexible combination of fixed & mobile offers with progressive value-based discounts
- Active cross-selling of fixed & mobile propositions

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

Our vision of the 'OnLife' telco: Concept and customer centricity

Concept	Business model of the future

Integration

Today

Transformation

Growth

NEXT

Customer

Efficiency

Investment

Customer at the heart of our transformation agenda

Connect devices

My O_2 data

My content

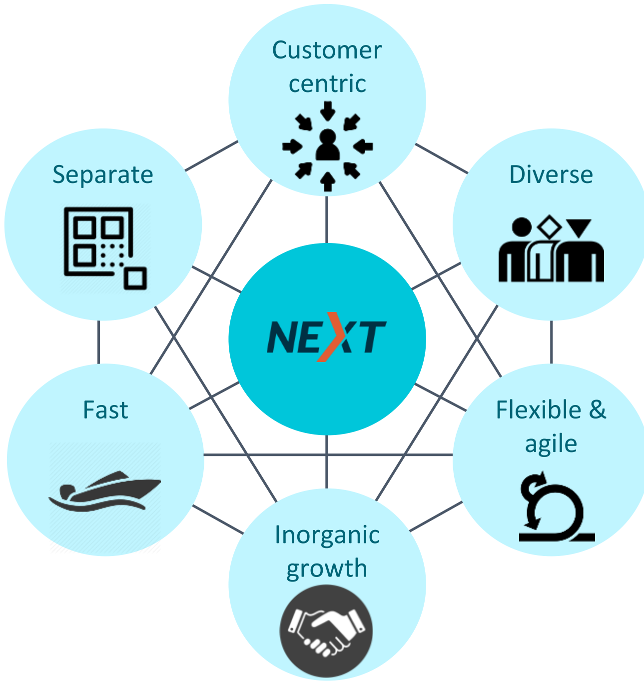
Manage digital live

Excellent O_2 service

Explore O_2 digital world

Transformation: Deep-dive Telefónica NEXT

The concept of Telefónica NEXT



NEXT

ADA – Acquisition of Minodes

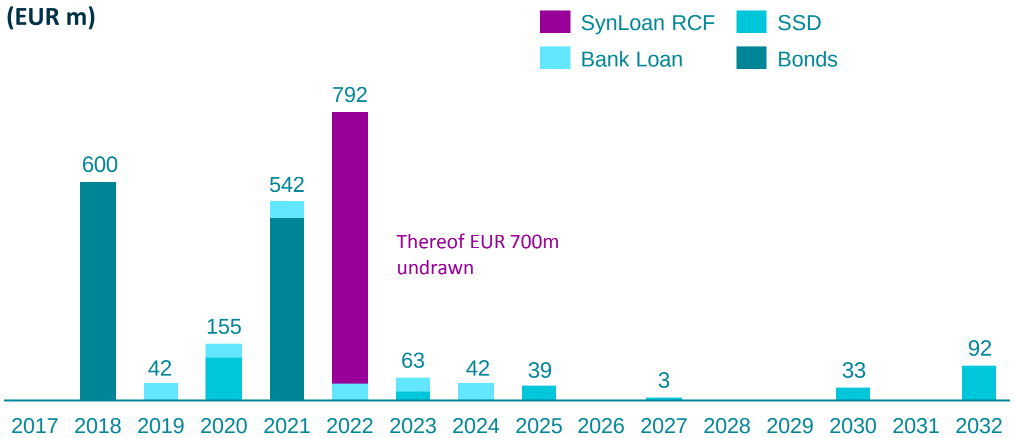
- Business model: Intelligent data analysis for offline retail via e.g. capturing of WiFi
- > 60 clients in 18 countries
  - e.g. Adidas, Audi, Escada and Marks & Spencer
- > 40 employees

MINODES

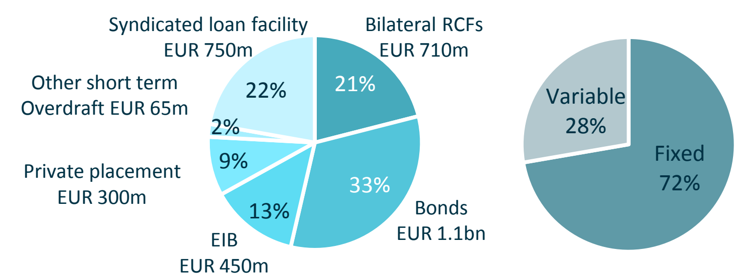
Comfortable liquidity position per 31.03.2017 and conservative financing policy

Smooth maturity profile and diversified financing mix

(EUR m)



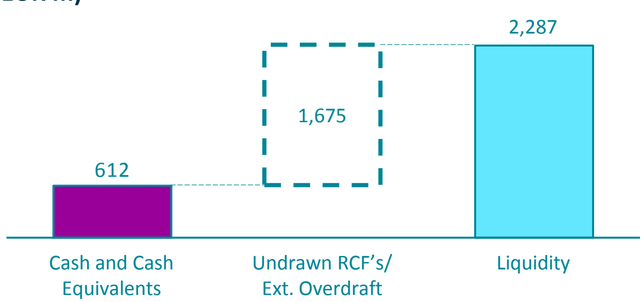
Financing and interest mix



* Based on drawings
* Includes derivative hedging

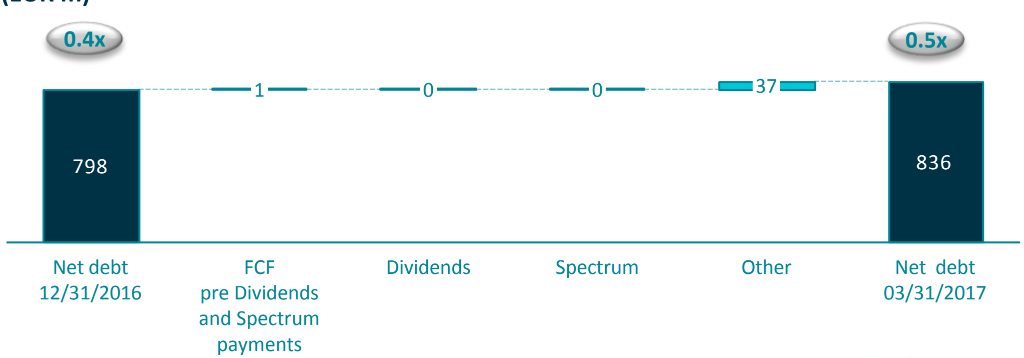
Comfortable liquidity position

(EUR m)



Leverage ratio at 0.5x[1]

(EUR m)



[1] Financial debt/OIBDA (last 12 months)

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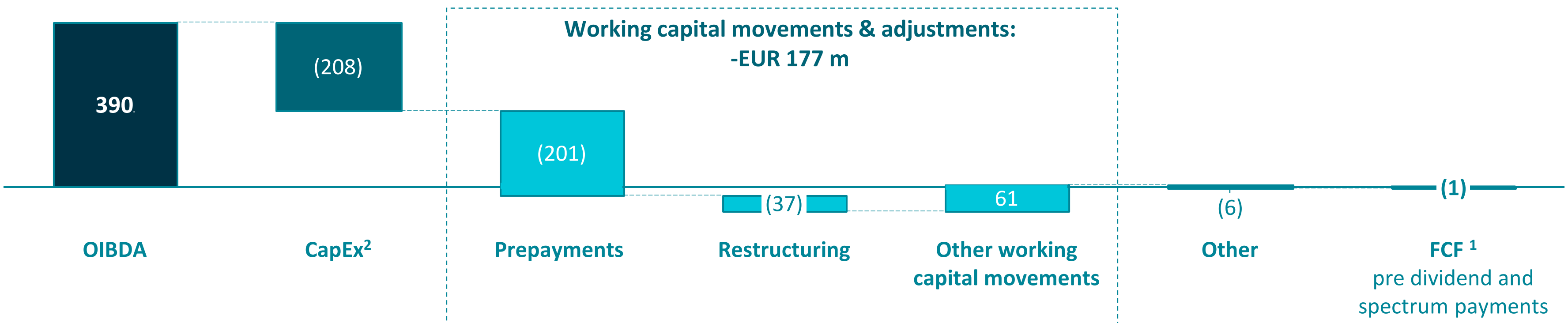
FCF affected by seasonality of rental payments

Evolution of Free Cash Flow (FCF)[1] YTD March 2017 (in EUR m)



[1] Free cash flow pre dividend and spectrum payment is defined as the sum of cash flow from operating activities and cash flow from investing activities
[2] Excluding capitalised costs on borrowed capital for investments in spectrum in June 2015

Evolution of Net Debt[3] (y-o-y in EUR m) – Leverage ratio[3] remains at a stable level

[3] For definition of net debt & leverage ratio please refer to further materials of the 2017 results release

We will maintain an 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

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

Main takeaways

1

Drive momentum in an attractive and dynamic telecoms market

- Attractive and dynamic telco market
- Significant data monetisation opportunity
- Excellent competitive position

2

Shaping the digital transformation for an exceptional customer experience

- Multi-brand, multi-channel go-to-market strategy
- Successful up- and cross-selling mechanisms
- Digitalisation of customer relationships: Offering choice and value

3

Lean & efficient operations to drive growth in profitability and FCF

- Simplified and lean operating model
- 4G network integration in full swing
- Ambitious synergy target: EUR 900m OpCF savings in year 5

4

Attractive shareholder return & financial flexibility on strong fundamentals

- Commitment to attractive dividend policy
- Conservative financing policy
- High financial flexibility

Back-up

Q1 2017: Solid operating momentum & synergy capture

MSR -0.6% y-o-y
(excl. regulatory effects)

- MSR -3.3% year-on-year, underlying trends improving versus prior quarter
- Tailwinds from O_2 Free, headwinds mix-shift and legacy base effect
- Recovery in discount pricing supports stable postpaid churn

Net adds
+172k postpaid
+67k VDSL

- Solid operational momentum in the quarter
- Postpaid wholesale trading rebalancing on back of tariff adjustments
- Continued strong demand for VDSL; wholesale migration effects visible

OIBDA[1]
+2.1% y-o-y

- OIBDA growth solid with further margin improvement driven by incremental synergies
- Approx. EUR 35 million of synergies, partly roll-over and partly additional savings
- Focus on long-term strategic transformation activities

OpCF
+12.9% y-o-y

- OpCF benefits from EUR 10 million of Capex synergies
- Strong cash flow trajectory supports dividend proposal of EUR 0.25/share to AGM on 9 May
- Leverage at 0.5x, in line with target

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

MOMENTUM TRANSFORMATION

Outlook 2017

	Actual 2015 (EUR m)	Outlook 2016 (year-on-year)	Actual 2016 (EUR m / y-o-y pct. change)		Outlook 2017 (y-o-y pct. change)
MSR	5,532	Slightly negative	**5,437** / -1.7%	✓	**Slightly negative to flat**[3] **Excluding the impact from regulatory effects**
OIBDA	1,760	Low to mid single-digit % growth	**1,828**[1] / +3.8% 'Pro forma': **1,793**[2]	✓	**Flat to mid single-digit % growth**[4]
CapEx	1,032	Mid to high single-digit % growth	**1,102** / +6,7%	✓	**Around EUR 1 billion**
Dividend		EUR 0.25 per share[5]			**Dividend growth over 3 years (2016-2018)**

- **Underlying[3] MSR expectation based on a continued rational yet dynamic competitive environment**
  - Tailwinds from O_2 Free and improved market conditions
  - Headwinds e.g. from retail to wholesale shift, continued legacy base effects, OTT trends and prepaid legislation
  - *Excludes regulatory impact from termination and roaming: Approx. 3-4%*
- **OIBDA growth primarily stemming from synergies**
  - Expectations based on continued rational market structure and rational consumer response to roaming legislation
  - Incremental Opex & revenue savings of ~EUR 160m (rollover & additional savings, driven by restructuring & network)
  - *Includes regulatory impact from termination and roaming based on rational consume response: Approx. 4-5%*
- **Capex reduction driven by incremental savings of ~EUR 80m** due to network integration and focus on one LTE network

Case upgrade: EUR +100m

New total target of

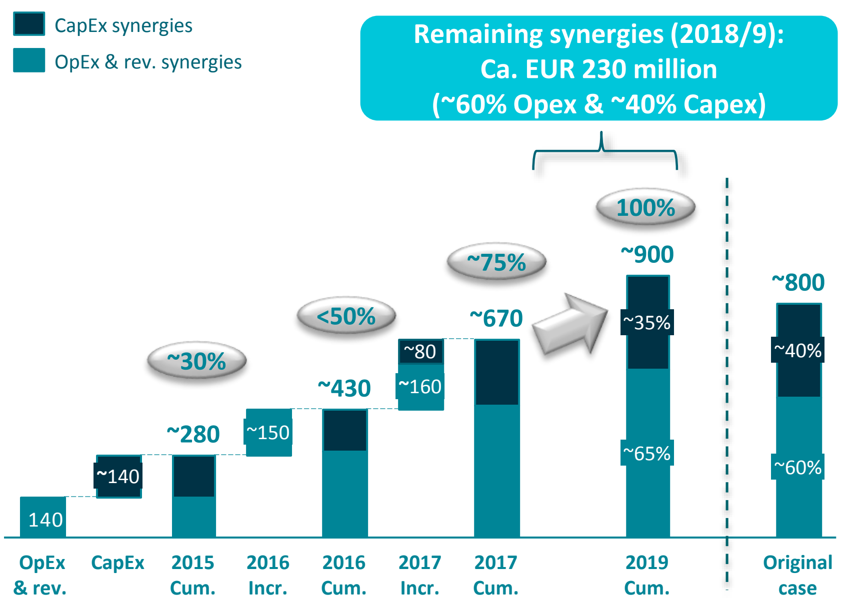
EUR 900m

OpCF synergies in 2019

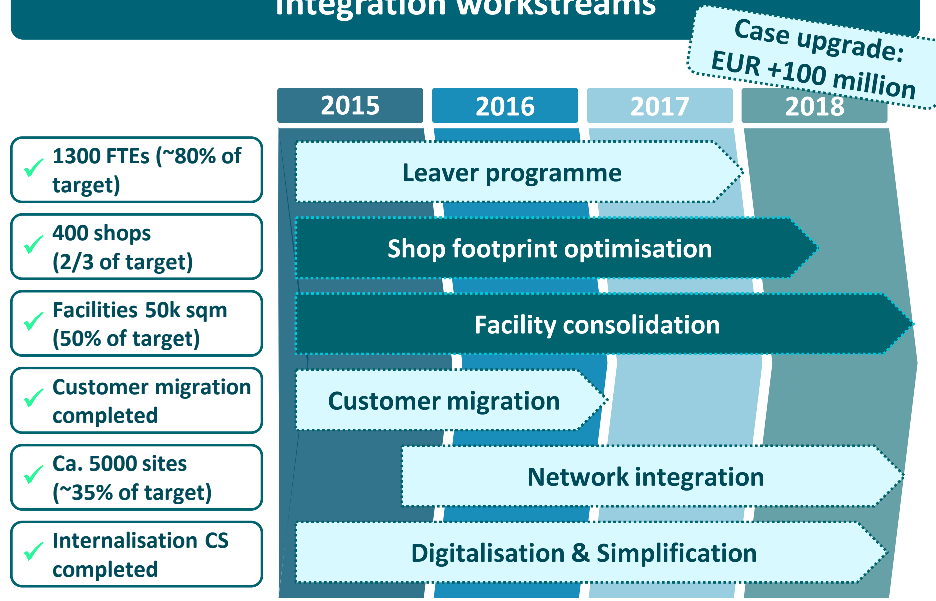
[1] Excluding exceptional and special effects; for details please refer to further materials of the 2016 results release
[2] We have calculated a comparable for 2016; for details please refer to further materials of the 2016 results release
[3] Excluding the impact from regulatory changes; for details please refer to further materials of the 2016 results release
[4] Excluding exceptional effects; for details please refer to further materials of the 2016 results release
[5] Proposal to the Annual General Meeting 2017

Synergy case of EUR 900 million in 2019

Synergy case 2015 - 2019 (EUR m)



Integration workstreams

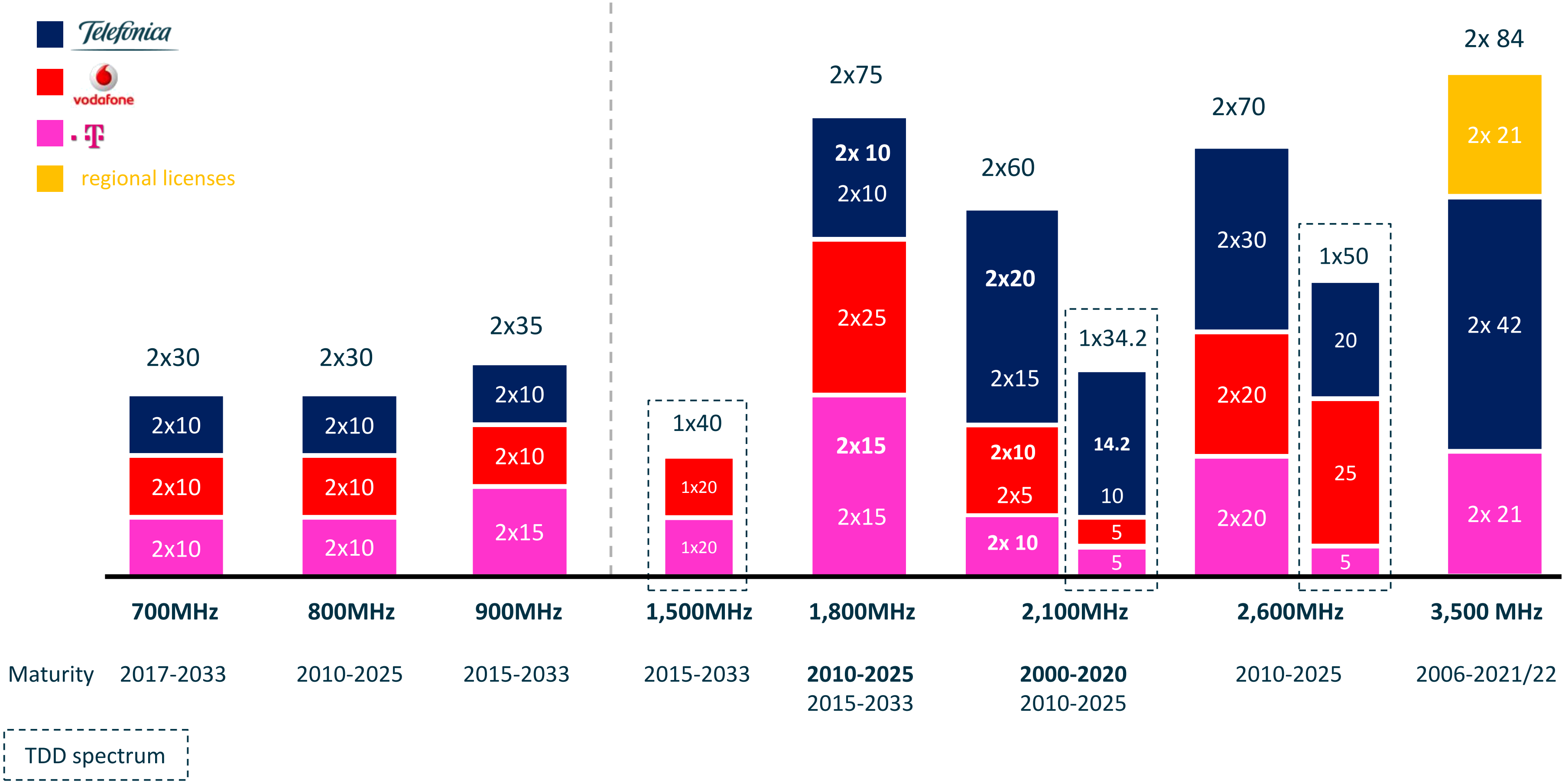


- New **total case of ~EUR 900 million OpCF synergies in 2019**, driven by improved visibility and the realisation of further synergy opportunities during the integration process, e.g. **additional OpEx savings from FTE restructuring and network** as well as simplification efforts
- **CapEx** synergies primarily driven by **rollout of a single LTE network**
- Expecting to reach **~EUR 670 million (~75% of new total target) by year-end 2017**, with OIBDA relevant synergies of ~EUR 160 million (mainly network and FTE restructuring) and Capex synergies of ~EUR 80 million

Strong spectrum post auction enables realisation of best network experience

Coverage – Level playing field

TEF D retains spectrum leadership for capacity



O_2 Free portfolio

O_2 Free	S	M	L (TIPP)	XL
Highspeed-Datenvolumen nach Wahl	1 GB Turbo (LTE Max.)[2]	2 GB Turbo (LTE Max.)[2]	4 GB Turbo (LTE Max.)[2]	8 GB Turbo (LTE Max.)[2]
INKLUSIVE: Unendlich surfen mit bis zu 1 MBit/s	✓	✓	✓	✓
INKLUSIVE: Minuten in alle dt. Netze[3]	✓	✓	✓	✓
INKLUSIVE: SMS in alle dt. Netze	✓	✓	✓	✓
INKLUSIVE: Extra-Festnetznummer[4]	✓	✓	✓	✓
INKLUSIVE: EU Roaming Flat[5]	✓	✓	✓	✓
Multicard[6]	+ 4,99 mtl.	+ 4,99 mtl.	1 Multicard inklusive	2 Multicards inklusive
Kombi-Vorteil: Mtl. Grundgebühr reduziert für O_2 Kunden[7]	19,99	29,99	34,99	44,99
Mtl. Grundgebühr (bei 24 Monaten Mindestvertragslaufzeit)	24,99	34,99	44,99	54,99

Einmaliger Anschlusspreis beträgt 29,99 €.

Preise in € inkl. MwSt.

1 Mit o2 Free kann nach Verbrauch des Highspeed-Datenvolumens im o2 2G/GSM- und 3G/UMTS-Netz mit bis zu 1.000 KBit/s (im Durchschnitt 994 KBit/s) weitergesurft werden (HD-Video-Streaming und Internetanwendungen mit ähnlich hohen oder höheren Bandbreitenanforderungen nicht uneingeschränkt möglich; Upload bis zu 1.000 KBit/s, im Durchschnitt 945 KBit/s). 2 Bis zu 225 MBit/s (im Durchschnitt 13,0 MBit/s; Upload bis zu 50 MBit/s, im Durchschnitt 8,6 MBit/s) im dt. o2 Mobilfunknetz. 3 Gilt nur im Inland. Ausgenommen sind Verbindungen zu Sonderrufnummern und Rufumleitungen, Taktung 60/60. 4 Festnetznummer für eingehende Gespräche aus Deutschland zu Festnetzkonditionen. 5 EU Roaming Flat: 24 Mon. Mindestvertragslaufzeit. Enthalten sind Gespräche, die innerhalb der 28 EU Mitgliedstaaten sowie Island, Monaco, Norwegen, Schweiz, Liechtenstein, Andorra, Isle of Man, Gibraltar, San Marino, Vatikanstadt, Jersey, Französisch-Guayana, Guernsey, Guadeloupe, La Réunion, Martinique (insgesamt „Teilnehmerländer") geführt u. angenommen werden, sowie alle abgehenden Gespräche aus den Teilnehmerländern nach Deutschland u. alle Gespräche innerhalb eines Teilnehmerlandes (ausgenommen jeweils Sonderrufnummern, Gespräche auf See oder aus bzw. zu Satellitennetzen). Bis zu 1 GB des im Basistarif oder Surf-Upgrade enthaltenen Datenvolumens kann mit einer Surf- u. Upload-Geschwindigkeit von bis zu 21,6 MBit/s auch in den Teilnehmerländern genutzt werden. 6 Du kannst deinen jeweiligen o2 Free-Tarif mit bis zu 3 SIM-Karten („Multicards") gleichzeitig nutzen. Du zahlst für die 2. und 3. SIM-Karte jeweils einmalig 29,99 € und jeweils monatlich 4,99 €. Kunden in den Tarifen o2 Free L und XL, erhalten eine (gilt für o2 Free L) bzw. zwei (gilt für o2 Free XL) zusätzliche SIM-Karten (Multicards) kostenlos, die monatliche Gebühr für die Multicard entfällt demnach. Das im Tarif enthaltene Highspeed-Datenvolumen erhöht sich durch die zusätzlichen SIM-Karten nicht. Nach Verbrauch des Highspeed-Datenvolumens kann unendlich im o2 2G/GSM- und 3G/UMTS-Netz mit bis zu 1.000 KBit/s (im Durchschnitt 994 KBit/s) weitergesurft werden (HD-Video-Streaming und Internetanwendungen mit ähnlich hohen oder höheren Bandbreitenanforderungen nicht uneingeschränkt möglich; Upload bis zu 1.000 KBit/s, im Durchschnitt 945 KBit/s). 7 Kunden von o2 erhalten bei Kombination von mindestens zwei am Kombi-Vorteil teilnehmender Telekommunikationstarife für die Dauer des gleichzeitigen Bestehens der Verträge einen Rabatt von bis zu 10 € auf die mtl. Grundgebühr des jeweils hinzugebuchten Tarifs (bei kombiniertem DSL-Tarif einen Rabatt auf dessen Grundgebühr, max. 4 x Mobilfunk/1x DSL). Kombinierbare Tarife u. Rabatte einsehbar unter www.o2.de/tarifkombinationen.

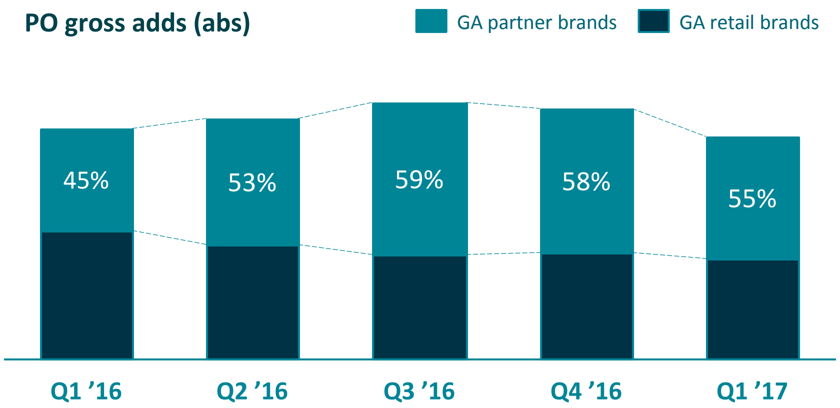
O_2 DSL All-in portfolio

O_2 DSL	XS	S	M (Tipp)	L
Flatrate ins dt. Festnetz und in alle dt. Mobilfunknetze	✓	✓	✓	✓
Unbegrenzt DSL-Surfen (mit bis zu 2.000 KBit/s)	✓	✓	✓	✓
Maximale Surf-Geschwindigkeit	bis zu 10 MBit/s (Upload: bis zu 2,4 MBit/s)	bis zu 25 MBit/s (Upload: bis zu 5 MBit/s)	bis zu 50 MBit/s (Upload: bis zu 10 MBit/s)	bis zu 100 MBit/s (Upload: bis zu 40 MBit/s)
Maximale Surf-Geschwindigkeit bis* (Inklusiv-Volumen)	100 GB	300 GB (mit Fair-Use-Mechanik**)	300 GB (mit Fair-Use-Mechanik**)	500 GB (mit Fair-Use-Mechanik**)
HomeBox 2	0,00 mtl.	0,00 mtl.	0,00 mtl.	0,00 mtl.
AVM FRITZ!Box 7490	2,99 mtl.	2,99 mtl.	2,99 mtl.	2,99 mtl.
Bereitstellungspreis DSL-Router	0,00 (statt 49,99)	0,00 (statt 49,99)	0,00 (statt 49,99)	0,00 (statt 49,99)
Anschlusspreis	49,99	0,00 (statt 49,99)	0,00 (statt 49,99)	0,00 (statt 49,99)
Mtl. Grundgebühr für Neukunden	9,99 ab 13. Monat 24,99 (ohne Laufzeit ab 7. Monat 24,99)	14,99 ab 13. Monat 29,99 (ohne Laufzeit ab 7. Monat 29,99)	19,99 ab 13. Monat 34,99 (ohne Laufzeit ab 7. Monat 34,99)	24,99 ab 13. Monat 39,99 (ohne Laufzeit ab 7. Monat 39,99)
Kombi-Vorteil: Rabatt auf mtl. Grundgebühr für O_2 Kunden	–	bis zu 10,00	bis zu 10,00	bis zu 10,00
Rabatt auf mtl. Grundgebühr für Junge Leute*** (Promocode 65000970)	–	5,00 (in den ersten 3 Monaten)	5,00 (in den ersten 3 Monaten)	5,00 (in den ersten 3 Monaten)

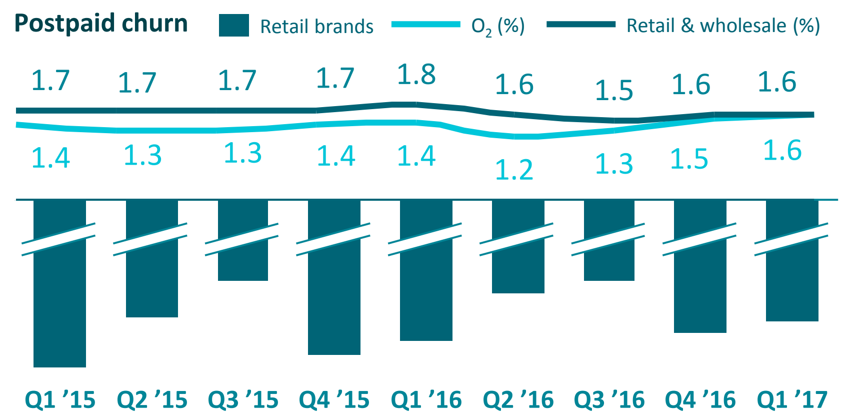
Preise in € inkl. MwSt.

Retail versus wholesale trading rebalancing post price increases; churn in line

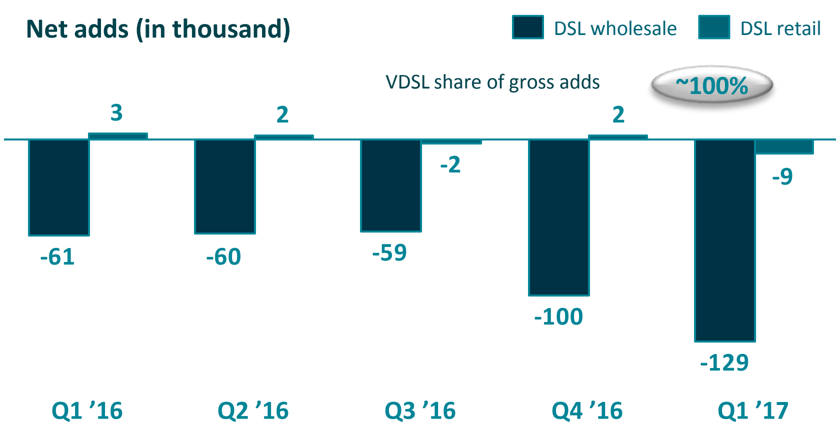
Visible effect from price increases



Maintaining retention focus



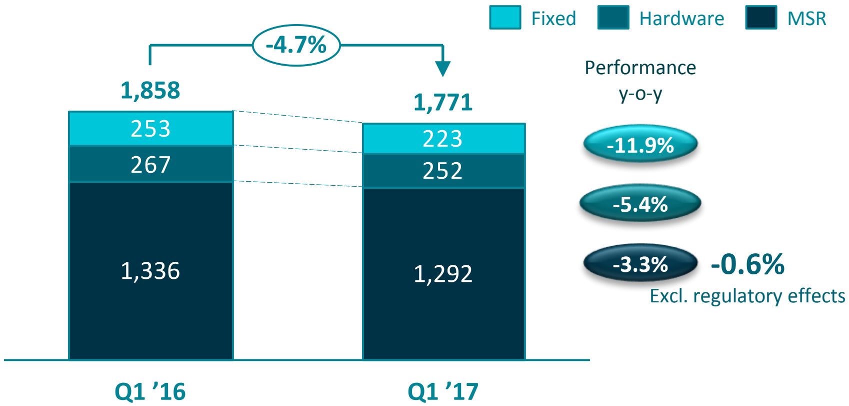
VDSL drives fixed trading



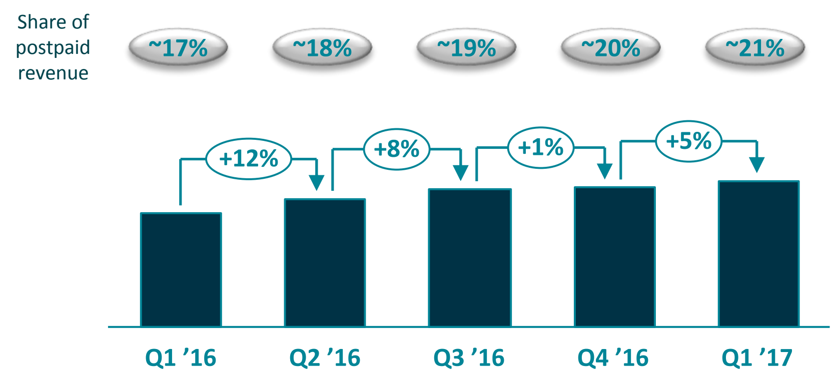
- Partner trading slowing sequentially after price increases in discount segment on the back of roaming
- Churn in line with expectations
- Continued strong demand for VDSL (+67k net additions), migration of wholesale customers accelerating

Underlying MSR trajectory improving sequentially

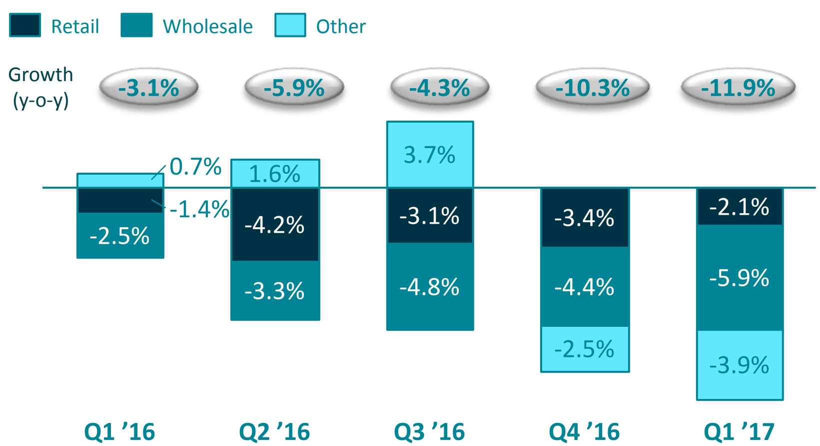
Revenue structure (in EUR m)



MSR from partner business (in EUR m)



Fixed revenue y-o-y[1] (in %)

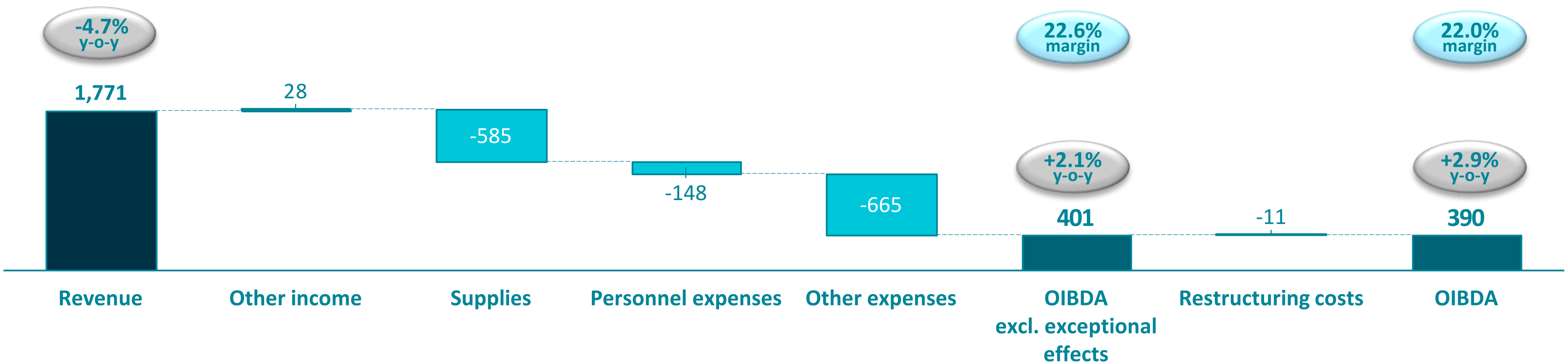


[1] Please note a change in the definition of the fixed retail/wholesale split, which better reflects revenue allocation across segments

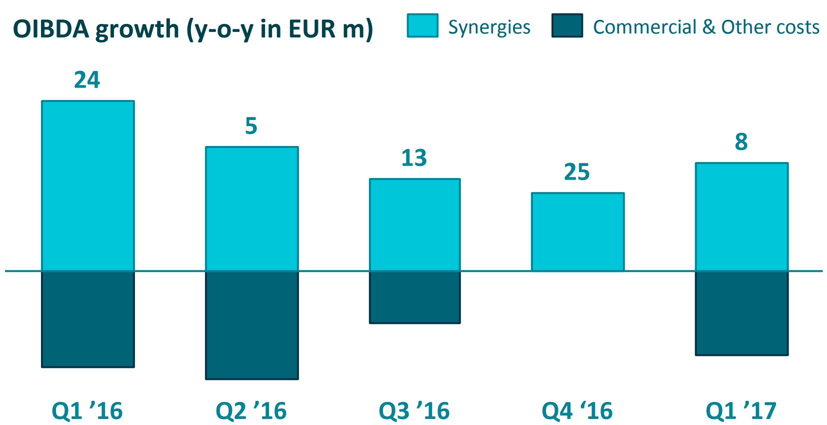
- MSR excl. regulatory effects sequentially improving; hardware revenue reduction slowing
- Partner share of postpaid MSR with stable trend
- Retail fixed improving; wholesale fixed revenue decline driven by dismantling of legacy infrastructure

OIBDA reflects successful synergy capture and investment activities

Structure of OIBDA for January to March 2017 (in EUR m)



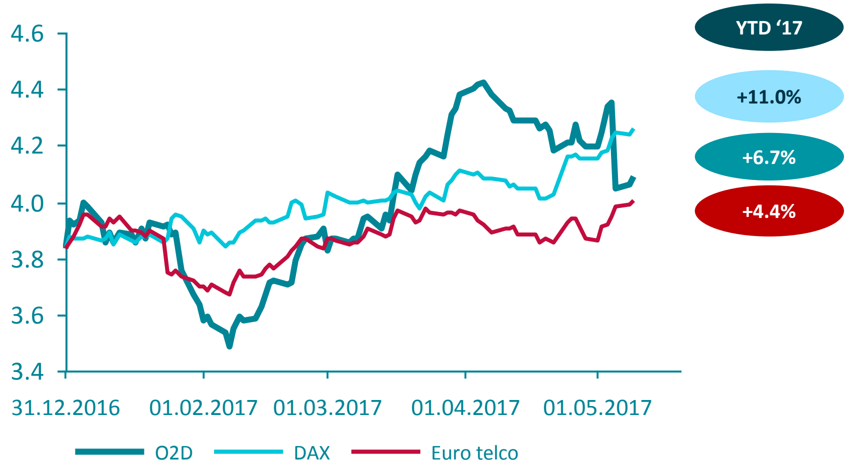
Synergies driving OIBDA growth



- Successful synergy capture with approx. EUR 35 million of incremental savings from FTE restructuring and network consolidation
- Headwinds in commercial costs: Posititioning of O_2 Free and customer service quality initiative
- OIBDA margin at 22.6%, up 1.5 pp y-o-y

O2D - Factsheet

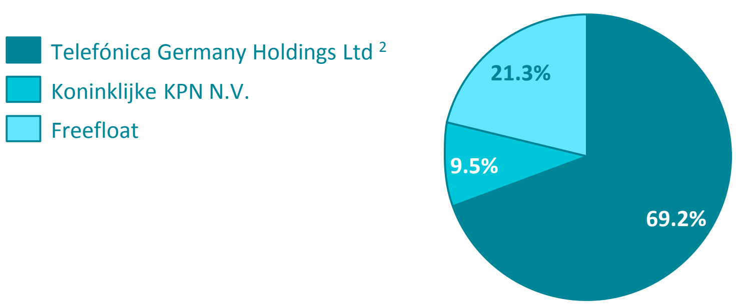
Share price development until 09.05.2017



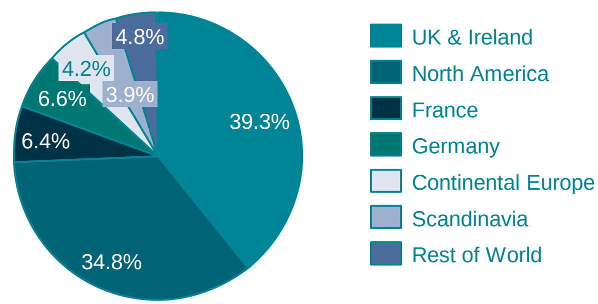
Telefónica Deutschland at a glance

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap (as of 31.03.)	EUR 13,031.5 m
Share price (as of 31.03.)	EUR 4.381

Shareholder structure as of 31.03.2017[1]



Regional split of shareholder structure[3]



[1] According to shareholders register as of 31 March 2017
[2] Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A
[3] Source: Ipreo; Shareholder ID as of April 2017

Quarterly detail of relevant financial and operating data for Telefónica Deutschland

Financials (Euros in millions)	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 FY	2017 Q1
Revenues	**1,858**	**1,834**	**1,876**	**1,936**	**7,503**	**1,771**
Mobile service revenues	**1,336**	**1,358**	**1,394**	**1,349**	**5,437**	**1,292**
OIBDA post Group fees, pre exceptionals[1]	**392**	**450**	**458**	**493**	**1,793**	**401**
CapEx	**218**	**212**	**314**	**358**	**1,102**	**208**

Accesses (EoP in k)	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 FY	2017 Q1
Total Accesses	**48,252**	**48,605**	**49,196**	**49,346**	**49,346**	**49,550**
o/w Mobile	**43,008**	**43,417**	**44,074**	**44,321**	**44,321**	**44,675**
Prepay	23,744	23,814	23,873	23,784	**23,784**	23,967
Postpay	19,264	19,603	20,201	20,537	**20,537**	20,708

[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

Telefonica

Deutschland

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