Telefónica Deutschland

Telefónica Deutschland Investor Presentation

November 2017

Telefónica Deutschland
Investor Relations

Public – Nicht vertraulich

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 market shifting to bigger buckets
- Data usage below European average, growing rapidly

Data monetisation potential

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

- Multi-brand and multi-channel distribution strategy
- Strong proposition O_2 Free offering mobile freedom
- 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); Proposal of EUR 0.26 per share for2017
- 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

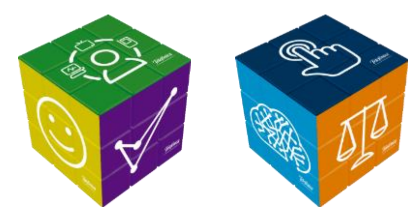
- Maintained **momentum**
- Relaunch of **major brands**
- Major **integration workstreams** completed, e.g. customer migration
- **Restructuring in line** with expectations
- **Synergy case upgrade**
- **Operational performance in line** with capital market guidance
- **Strong FCF trajectory**
- **Conservative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

Focus 2017 and beyond

M + T

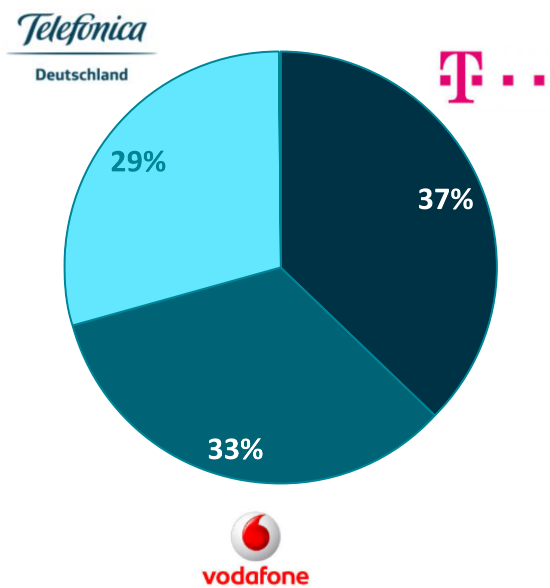
Keep the Momentum

Transform the company



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

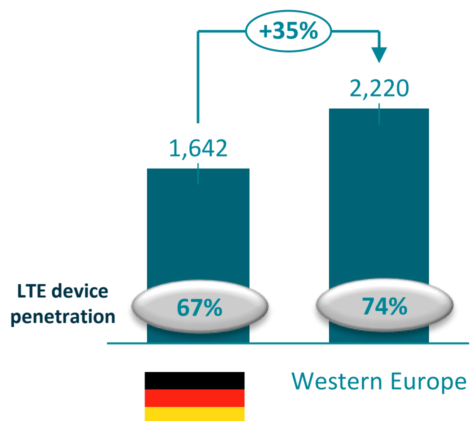
Rational and balanced market structure[1]



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

Data monetisation opportunity intact

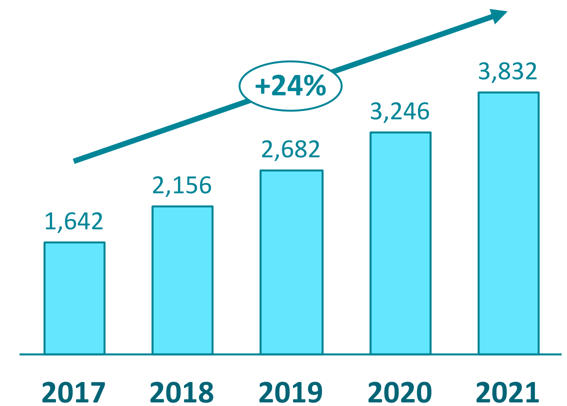
Average data usage in MB and LTE device penetration in %[2]



- 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 Q2 2017
[2] Source: Analysys 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

Competitive environment remains dynamic with focus on profitable growth

Premium

Non-premium: Own secondary brands

Ethnic brands

Non-premium: Partner brands

MNVOs & Service Provider

Branded Reseller (selection)

Brands with access to Telefónica Deutschland network

Premium: Bigger data buckets fuel data growth

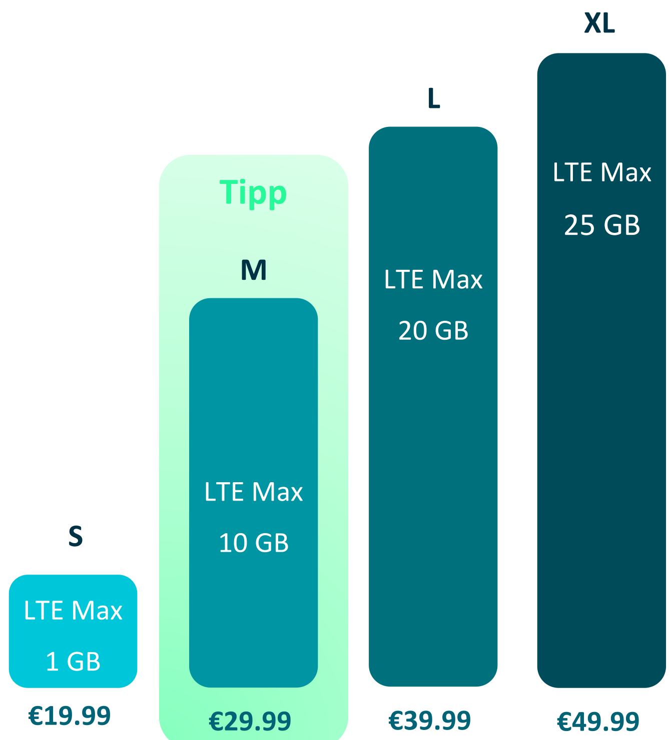
- O_2 Free 15 promo and new **O_2 Free** portfolio well received by new and existing customers
  - Usage of **> 5GB** per month
  - **ARPU accretive**
- **High-speed DSL portfolio** complements offer in a soft converged market environment

Non-premium: More benign pricing environment

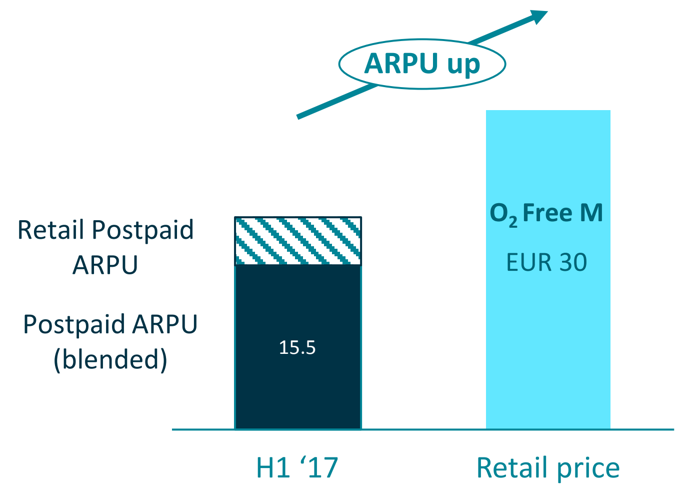
- **Multi-brand & multi-channel strategy** supports broad customer reach across segments, leveraging distribution power of partners
- **MNVOs** shifting to higher price points and larger data allowances

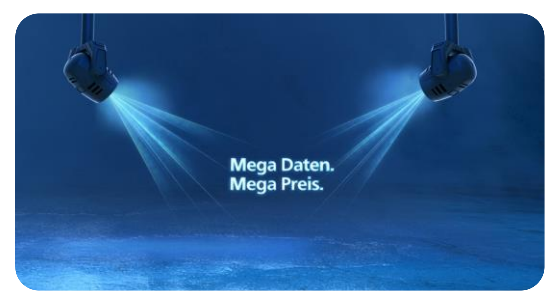
New O_2 Free portfolio sets new standard for mobile freedom with ARPU-up potential

O_2 Free (from 6 Sept 2017)



3G flat – throttle to 1 Mbps
after consumption of high-speed volume

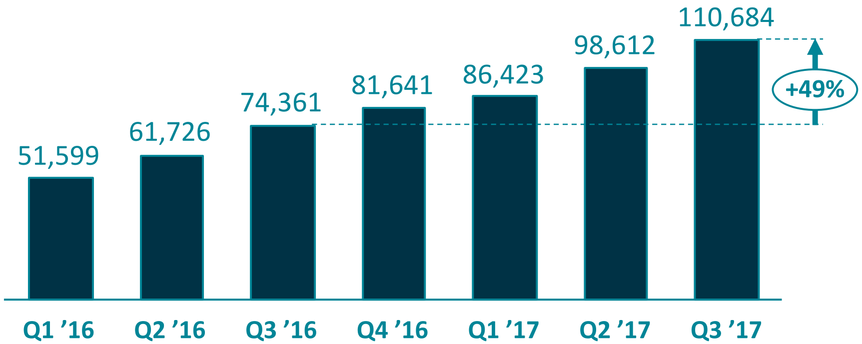




Adoption bigger data buckets & LTE drive sustained data growth

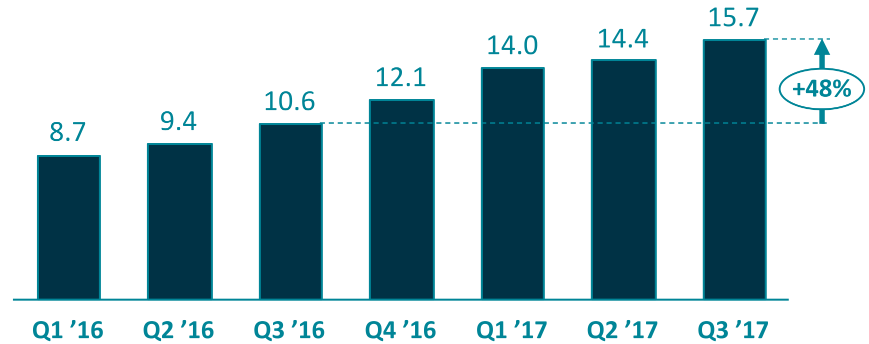
Sustained data traffic growth

Traffic (TB/quarter)



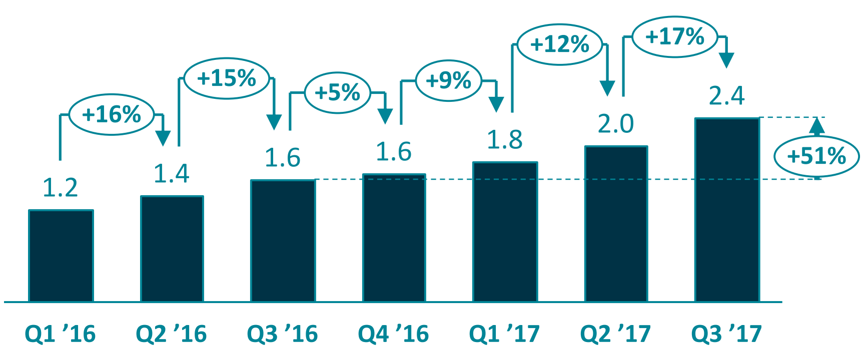
LTE adoption continues to grow

LTE customers (million)



Music & video streaming drivers of data growth

Average data usage for O_2 consumer LTE customers (GB)



- LTE customer base up 48% y-o-y to 15.7 million; increasing LTE penetration in prepaid
- Music & video streaming key drivers of data traffic growth; up ~50% y-o-y
- Average monthly data usage for O_2 consumer LTE customers up ~51% y-o-y to 2.4 GB, bigger bundles drive data usage

Network consolidation progressing according to plan

Network integration timeline 2016 - 2019

April/May 15

3G National Roaming for all customers

July 15

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

April 16

Sale of towers to Telxius

July 16

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

April 17

Implementation of **SON** & **SOC**

May 17

Excellence Award 2017

Implementation of **CEM**

August 17

1 MNC nationwide

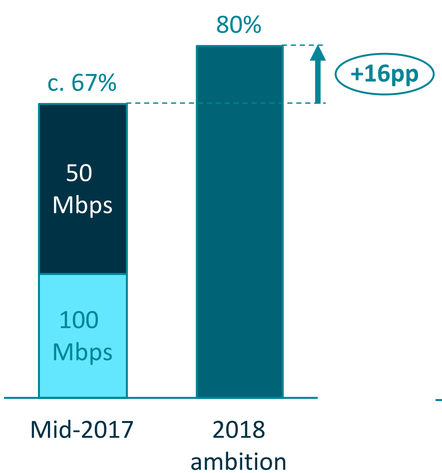
- Decommissioning of **14k sites**
- Roll-out of **30k LTE elements**
- Utilisation of **new licenses**
- Pilot network for **5G**

- Conversion to **one nationwide mobile network code (MNC)** – even in non-consolidated areas
- **HD Voice** now available for calls from the O_2 network into the Deutsche Telekom network and vice versa
- **Test drives** by a independent service provider **confirm** the **improvements in network quality** in consolidated regions

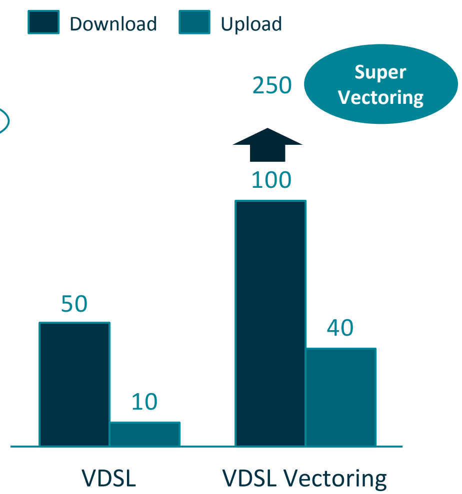
Fixed infrastructure model to complement our mobile network for best high-speed experience

Access to best available fixed NGA network[1]

NGA coverage targets
(% of covered households)



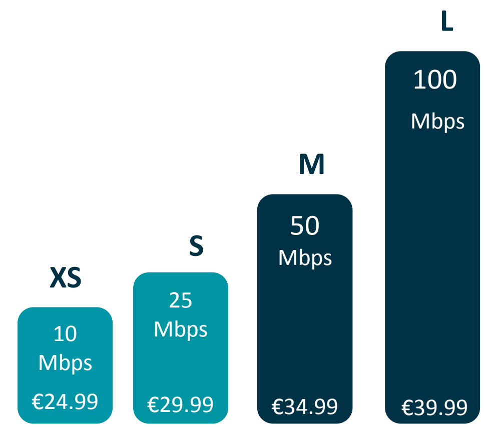
Maximum speed
(Up- & Download, Mbps)



- 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 speeds of up to 250 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

Transformation agenda to be presented at Capital Markets Day in early 2018

Integration

Transformation

Today

Concept

Growth e.g. ADA / IoT

Customer

Efficiency e.g. E2E, real-time

Investment Capex / Opex / Restructuring

Customer at the heart of our transformation agenda

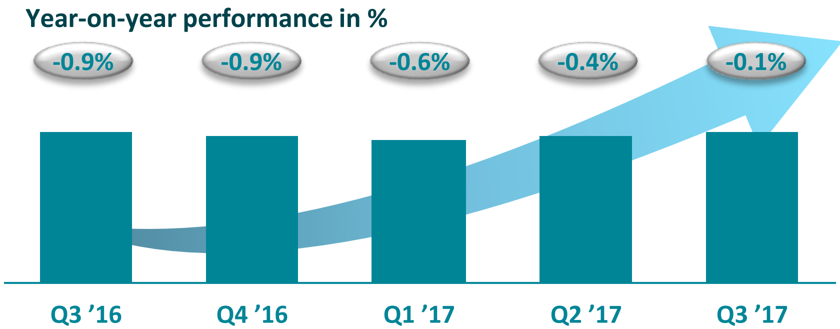
Capital Markets Day

TEF D will hold a **CMD in context of Q4 2017 results** to give an update on:

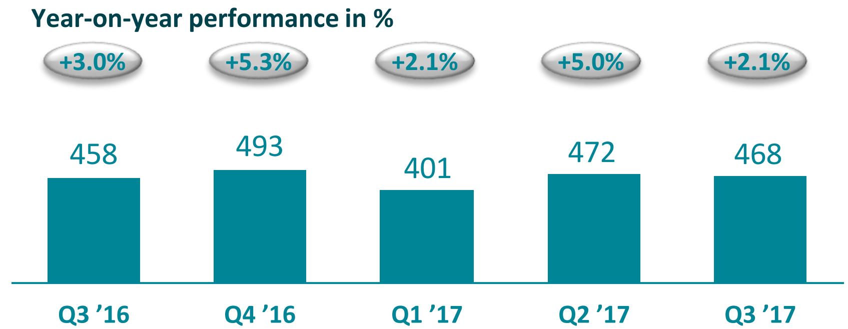
- **Integration process**
  - Integration milestones achieved, status of projects
  - Synergy capture and phasing
- **Transformation agenda**
  - Vision & strategy
  - Details on main workstreams
  - Investment needs and benefits

Confirming and refining full-year 2017 outlook

Underlying[1] MSR trends continue to improve



OIBDA[2] with sustained year-on-year growth



	Baseline 2016 (EUR m)	Outlook 2017 (y-o-y pct. change)	Actual 9 months 2017 (EUR m / y-o-y pct. change)
MSR	5,437	**Slightly negative to flat[1]** Excluding the impact from regulatory effects	**4,072** / -0.4% (excl. regulatory effects of EUR 118 million) ✓
OIBDA	1,793[2]	**Flat to mid single-digit % growth[2]**	**1,341** / +3.1% ✓
CapEx	1,102	**Around EUR 1 billion**	**688** / -7.5% ✓
Dividend	EUR 0.25/share (Payout May 2017)	**Dividend growth over 3 years** (2016-2018)	

Refining OIBDA outlook to:

Flat to low single-digit % growth[2]

Dividend proposal to AGM 2018 of:

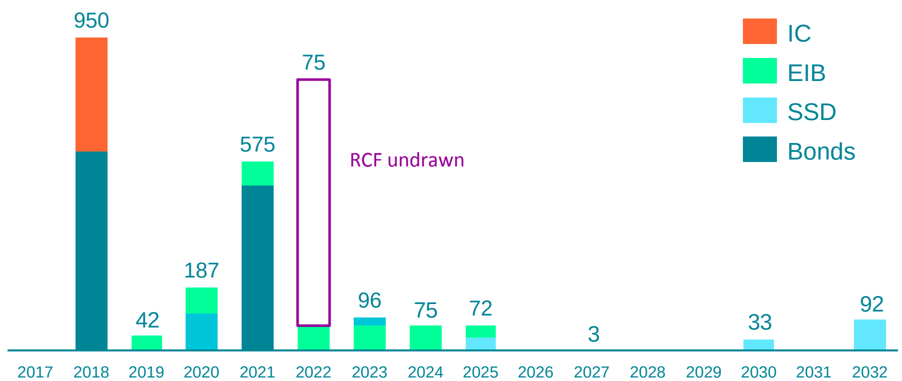
EUR 0.26/ share

[1] Excluding the impact from regulatory changes; for details please refer to further materials of Q3 2017

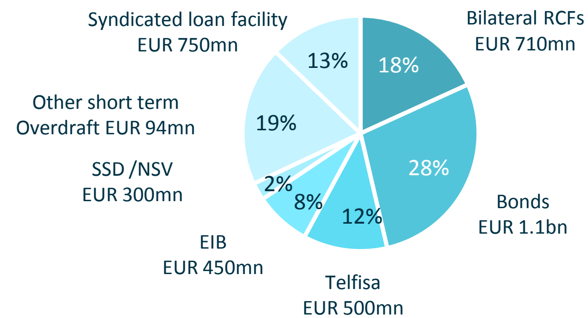
[2] Excluding exceptional effects; for details please refer to further materials of Q3 2017 results release. We have calculated a comparable for 2016; for details please refer to materials of the full year 2016 results release

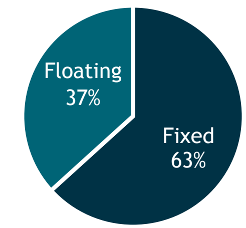
Comfortable liquidity position per 30.09.2017 and conservative financing policy

Smooth maturity profile and diversified financing mix



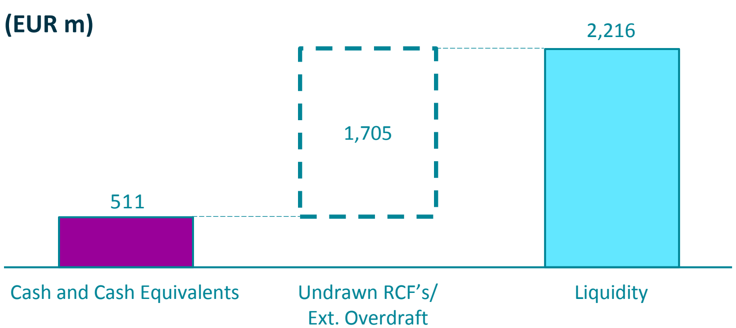
Financing and interest mix



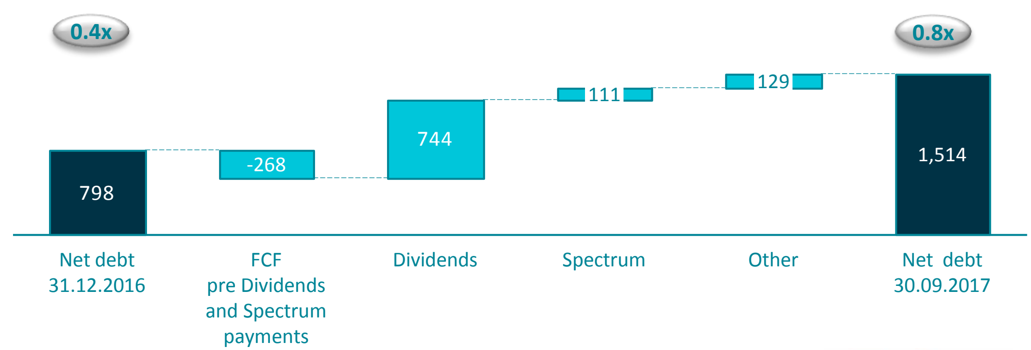


* Based on drawings
* Includes derivative hedging

Comfortable liquidity position



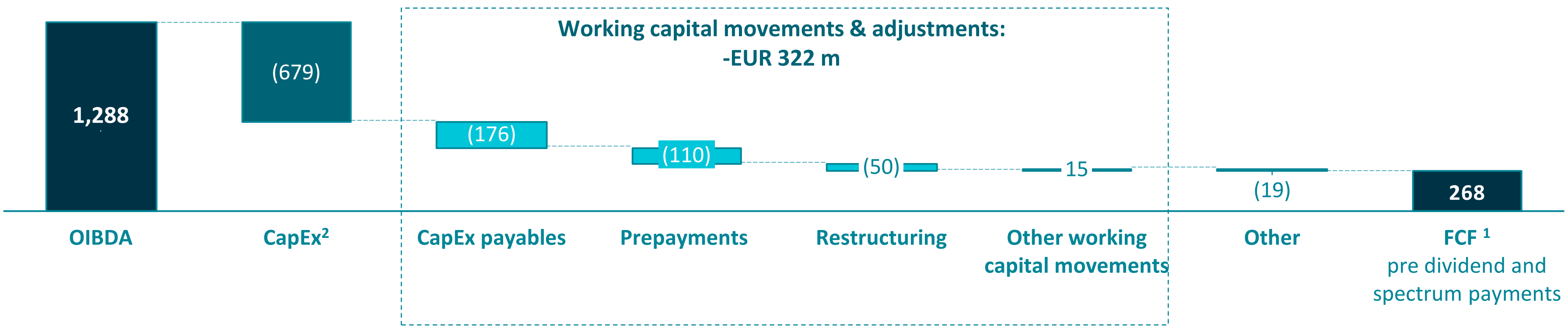
Leverage ratio at 0.8x[1]



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

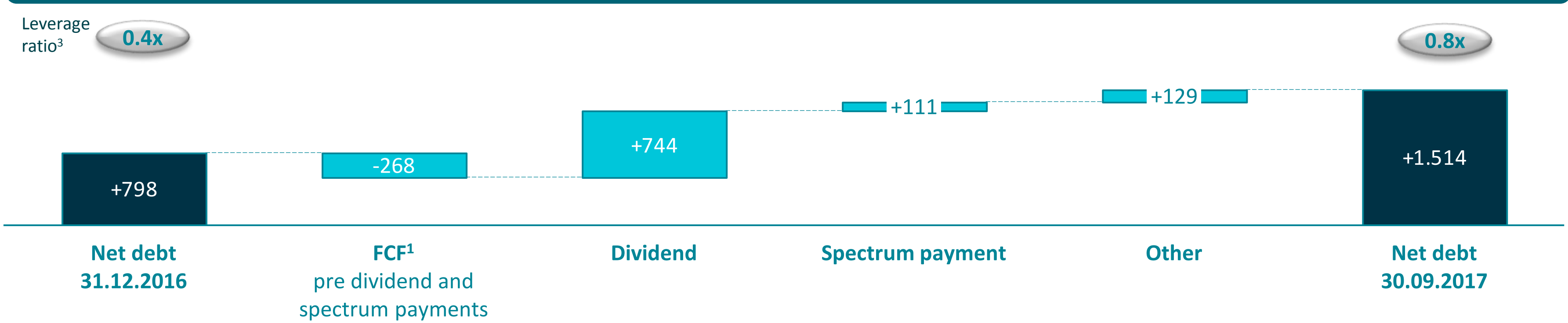
Financial leverage in line with target

Evolution of Free Cash Flow (FCF)[1] YTD September 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 additions from captalised finance leases and capitalised costs on borrowed capital for investments in spectrum.

Evolution of Net Debt[3] (y-o-y in EUR m) – Leverage ratio[3] increases due to dividend payment



[3] For definition of net debt & leverage ratio please refer to Q3 2017 earnings 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
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)

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

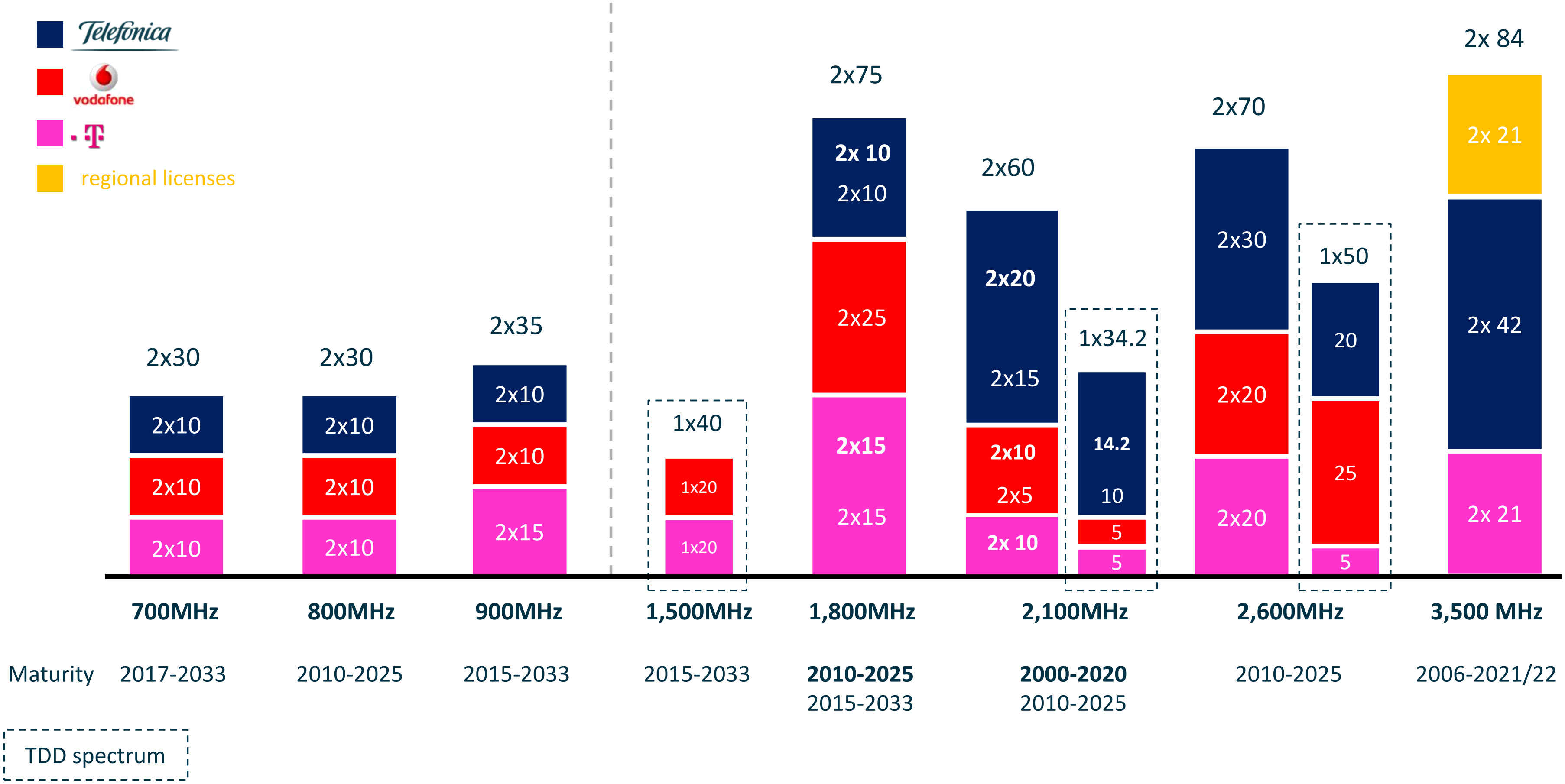
- Commitment to attractive dividend policy
- Conservative financing policy
- High financial flexibility

Back-up

Strong spectrum post auction enables realisation of best network experience

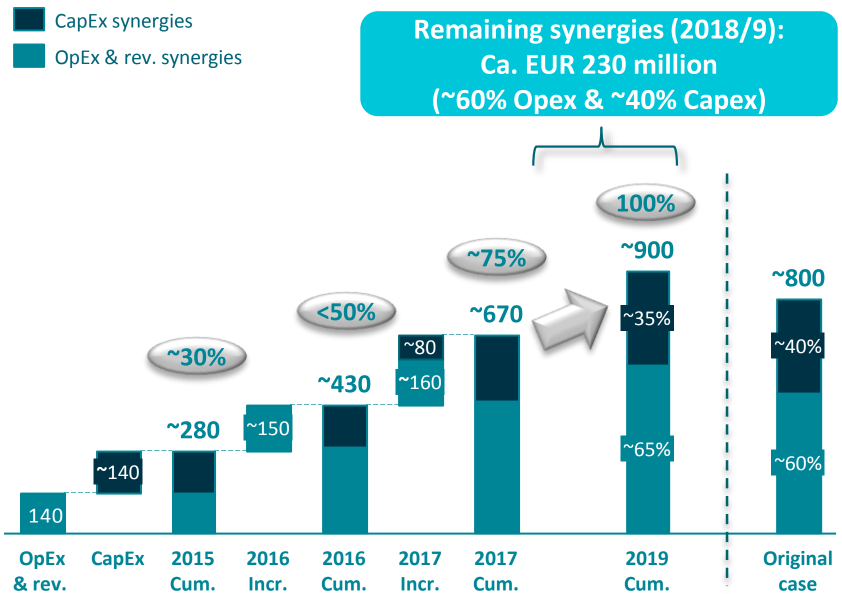
Coverage – Level playing field

TEF D retains spectrum leadership for capacity

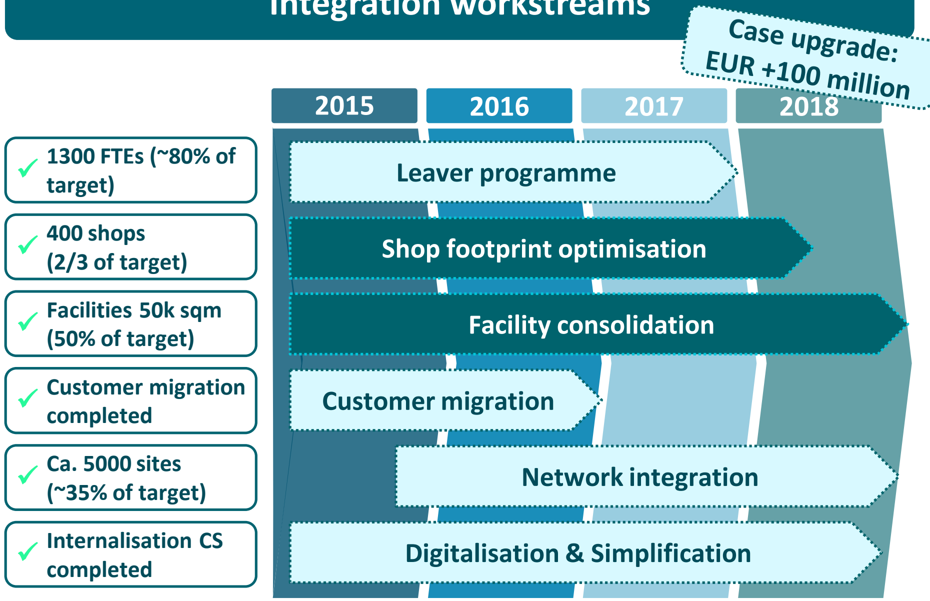


Synergy case of EUR 900 million in 2019

Synergy case 2015 - 2019 (EUR m)



Integration workstreams



- **Successfully executing** on all initiatives
- 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

O_2 Free portfolio

O_2 Free

Jetzt mit noch mehr Highspeed-Datenvolumen[1]

Neu: mehr Datenvolumen[1]

In den neuen O_2 Free-Smartphone-Tarifen gibt es jetzt dauerhaft noch mehr Highspeed-Datenvolumen.[1] Immer inklusive: die O_2 Free Weitersurf-Garantie zum Endlos-Weitersurfen mit 1 MBit/s, auch wenn dein Highspeed-Datenvolumen verbraucht ist.[2]

	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)[8]	49,99	39,99	29,99	19,99

Preis in € inkl. MwSt.

⇨ **Flexibel bleiben:** O_2 Free ist auch ohne feste Laufzeit verfügbar.[9]

O_2 DSL All-in portfolio

O_2 DSL	XS	S	Tipp M	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.

Q3 2017: Solid operating momentum & benefits from synergy execution

MSR -0.1% y-o-y
(excl. regulatory effects)

- MSR incl. regulatory effects -3.6% year-on-year; trends improving sequentially
- Tailwinds from O_2 Free, headwinds regulation & legacy base effect
- Recovery in discount pricing supports stable postpaid churn

Net adds
+183k postpaid
+103k VDSL

- Solid operational momentum in the quarter driven by O_2 Free & birthday promotions
- Share of postpaid wholesale trading stabilising on back of tariff adjustments
- Continued strong demand for VDSL; wholesale migration effects visible

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

- OIBDA benefitting from successful synergy capture; further margin improvement
- Approx. EUR 40 million of synergies, stemming from roll-over effects & additional savings
- Margin enhancement of +0.9 percentage points year-on-year to 25.3% in the third quarter

OpCF
+58% y-o-y

- OpCF benefits from additional approx. EUR 30 million Capex synergies
- Cash flow trajectory supports dividend commitment
- Leverage at 0.8x, in line with target

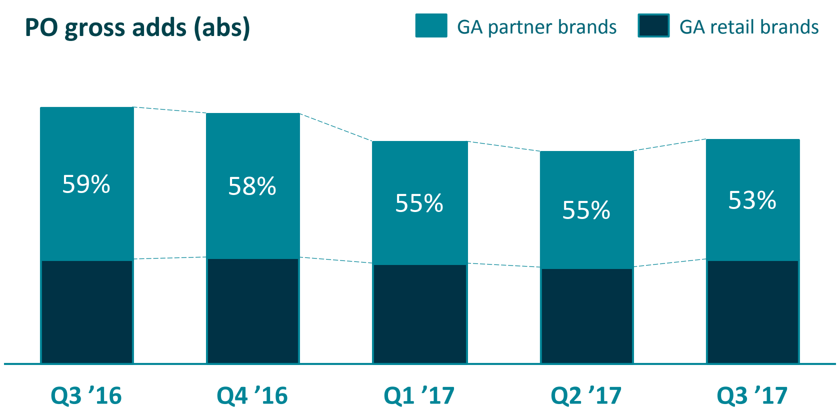
[1] Excluding exceptional effects. For details please please refer to further materials of the Q3 2017 results release

MOMENTUM + TRANSFORMATION

Retail vs. wholesale trends further improving; churn trends remain solid

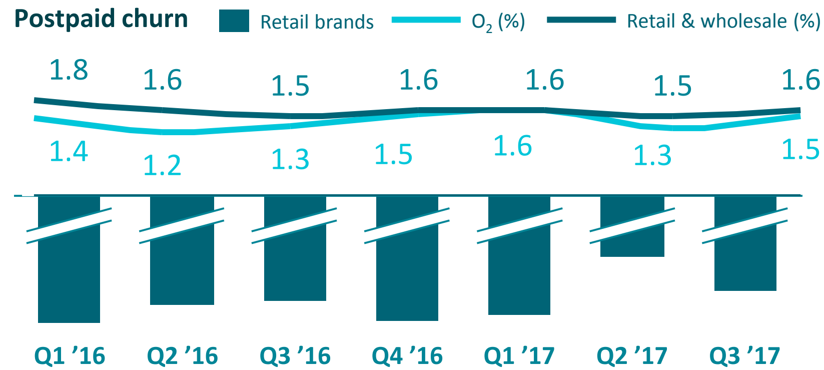
Visible effect from price increases

PO gross adds (abs)



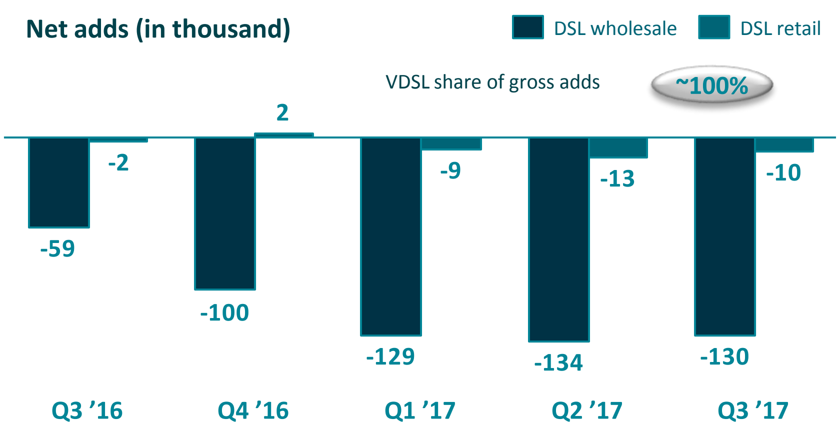
Maintaining retention focus

Postpaid churn



VDSL drives fixed trading

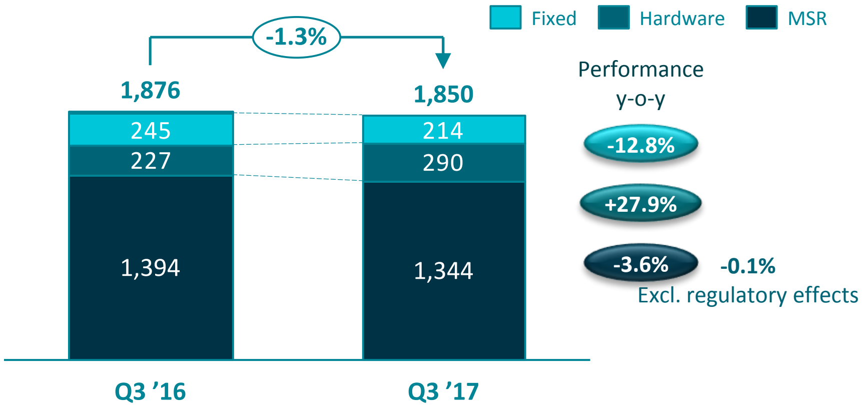
Net adds (in thousand)



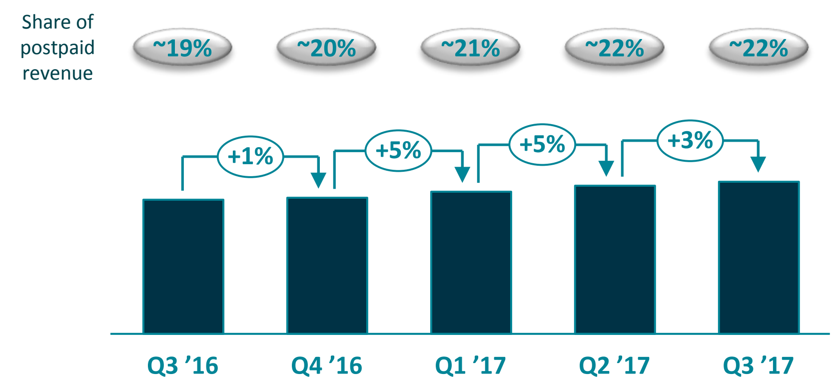
- Solid trading momentum in retail on the back of O_2 Free 15 and new O_2 Free portfolio
- Partner trading reflects changes in pricing
- Churn in O_2 consumer remains low, slight seasonal uptake in line with prior years
- VDSL with record net adds of 103 thousand; customer migration in wholesale continues in line with expectations

Underlying MSR trends further improving; stable partner share of postpaid MSR

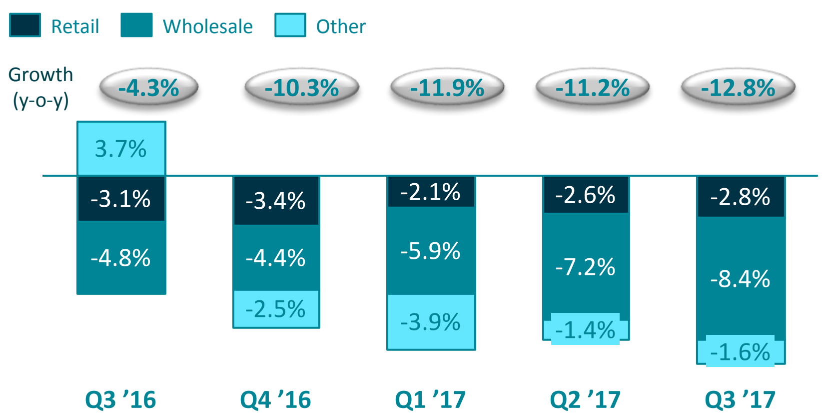
Revenue structure (in EUR m)



MSR from partner business (in EUR m)



Contribution to fixed revenue y-o-y[1] performance

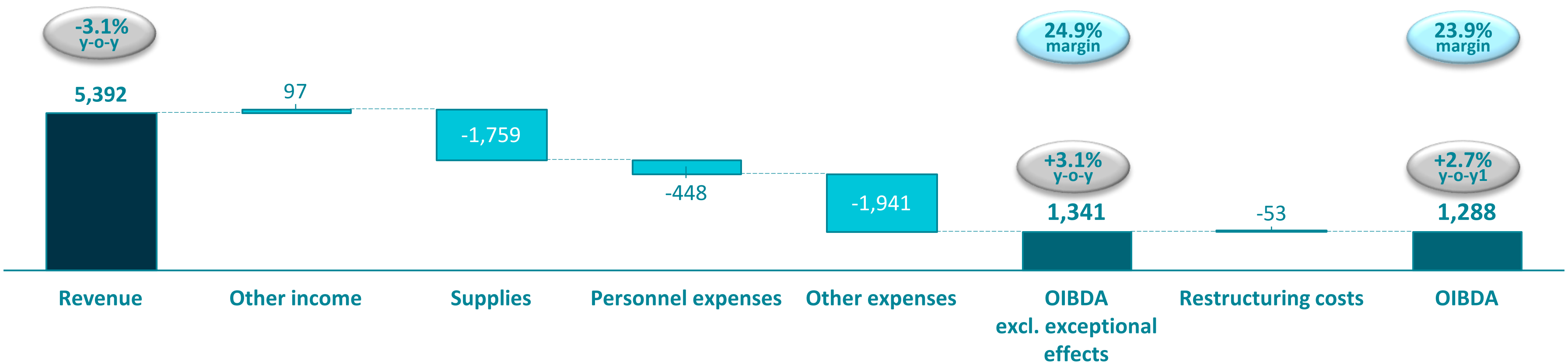


- Further sequential improvement of underlying MSR trends while regulatory effects weigh in reported terms
- Partner share of postpaid MSR remains stable
- Underlying trends for handsets slightly improving; Q3 benefited from stock clearance
- Lower y-o-y customer base both in retail and wholesale drives dynamics in fixed

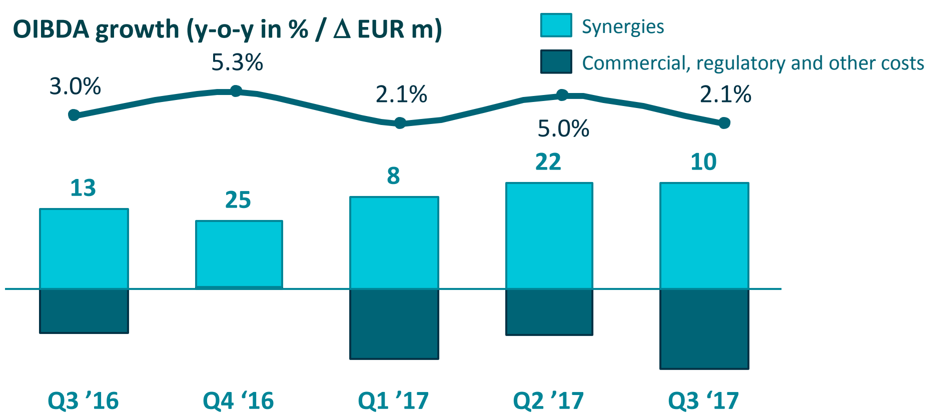
[1] Please note a change in the definition of the fixed retail/wholesale split, which better reflects revenue allocation across segments

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

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



Synergies driving OIBDA growth



- Successful synergy capture: Incremental savings of ~EUR 40 million in Q3 (~EUR 115 million YTD) mainly from FTE restructuring and network consolidation
- Continued investment focus to drive midterm MSR growth
- Data growth under the RLH-regime weighs on wholesale costs
- OIBDA margin at 24.9%, up 1.5 pp y-o-y

[1] Excluding the extraordinary gain related with the sales of tower assets to Telxius in Q2 2016

Confirming and refining full-year 2017 outlook

Outlook 2017

	Baseline 2016 (EUR m)	Outlook 2017 (y-o-y pct. change)	Actual 9 months 2017 (EUR m / y-o-y pct. change)
MSR	5,437	**Slightly negative to flat**[1] Excluding the impact from regulatory effects	**4,072** / -0.4% (excl. regulatory effects of EUR 118 million) ✓
OIBDA	1,793[2]	**Flat to mid single-digit % growth**[2]	**1,341** / +3.1% ✓
CapEx	1,102	**Around EUR 1 billion**	**688** / -7.4% ✓
Dividend	EUR 0.25/share (Payout May 2017)	**Dividend growth over 3 years** (2016-2018)	

Refining OIBDA outlook to:

Flat to low single-digit % growth[2]

Dividend proposal to AGM 2018 of:

EUR 0.26/ share

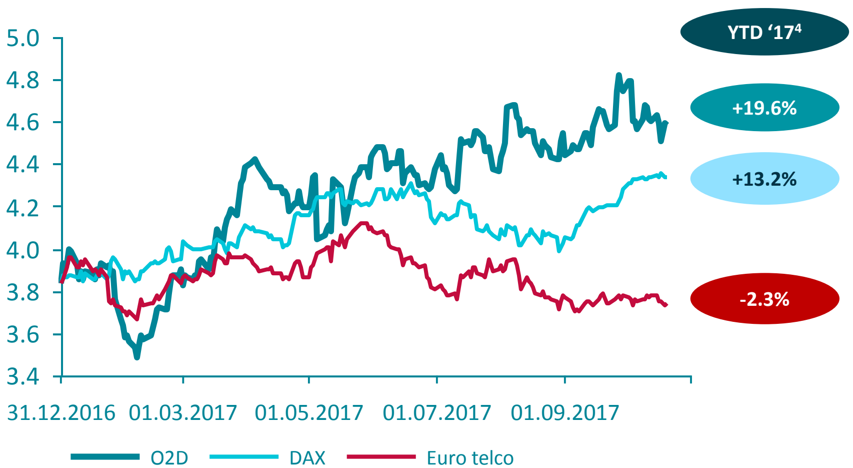
- **Synergy execution in line with expectations**, fully on track to achieve EUR 670 million operating CF savings by year end 2017 (~75% of total target in 2019)
- OIBDA expectation reflects **effects from regulatory changes** as well as **our investment focus**
  - Significant uptick in data usage from customers under the new roam-like-home regime => elasticity effects weighing on connectivity-related wholesale costs with unchanged expectation of no less than 4-5% year-on-year
  - Ongoing market investment needs in a dynamic competitive environment to partake in the revenue opportunity from accelerating data usage

[1] Excluding the impact from regulatory changes; for details please refer to further materials of Q3 2017

[2] Excluding exceptional effects; for details please refer to further materials of Q3 2017 results release. We have calculated a comparable for 2016; for details please refer to materials of the full year 2016 results release

O2D - Factsheet

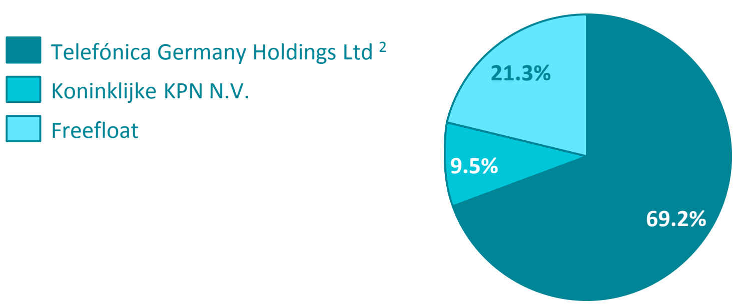
Share price development until 20.10.2017



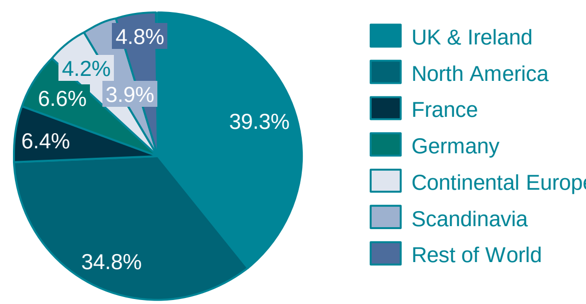
Telefónica Deutschland at a glance

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap (as of 30.09.)	EUR 14,122.9 m
Share price (as of 30.09.)	EUR 4.748

Shareholder structure as of 30.09.2017[1]



Regional split of shareholder structure[3]



[1] According to shareholders register as of 30 September 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
[4] O2D share price adjusted for dividend pay-out

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	2017 Q2	2017 Q3
Revenues	**1,858**	**1,834**	**1,876**	**1,936**	**7,503**	**1,771**	**1,771**	**1,850**
Mobile service revenues	**1,336**	**1,358**	**1,394**	**1,349**	**5,437**	**1,292**	**1,318**	**1,344**
Mobile service revenues (ex regulatory effects)	-	-	-	-	-	**1,328**	**1,353**	**1,392**
OIBDA post Group fees, pre exceptionals[1]	**392**	**450**	**458**	**493**	**1,793**	**401**	**472**	**468**
CapEx	**218**	**212**	**314**	**358**	**1,102**	**208**	**226**	**254**
Revenue and Opex related Synergies	**~55**	**~40**	**~30**	**~25**	**~150**	**~35**	**~40**	**~40**

Accesses (EoP in k)	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 FY	2017 Q1	2017 Q2	2017 Q3
Total Accesses	**48,252**	**48,605**	**49,196**	**49,346**	**49,346**	**49,550**	**49,907**	**49,403**
o/w Mobile	**43,008**	**43,417**	**44,074**	**44,321**	**44,321**	**44,675**	**45,194**	**44,842**
Prepay	23,744	23,814	23,873	23,784	**23,784**	23,967	24,289	23,754
Postpay	19,264	19,603	20,201	20,537	**20,537**	20,708	20,905	21,088

[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 related with the before mentioned sale of assets as if it had occurred on 1 January 2016

Telefonica

Deutschland

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