Investor presentation Telefónica Deutschland

Telefónica Deutschland, Investor Relations
Q1 2018
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Becoming the Mobile Customer and Digital Champion

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

We will become Germany’s Mobile Customer and Digital Champion by focusing on CEX & digitalisation

We will generate Superior Shareholder Return including a strong dividend commitment

SUPERIOR SHAREHOLDER RETURN
Growth & Value

MOBILE CUSTOMER and DIGITAL CHAMPION
Big Data & Artificial Intelligence
Products & services

FOUNDATION
Systems Technology
Network Technology
Largest and fastest mobile merger

2 companies
3 years

>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

O_2_ Free
First 3G unlimited First 4G big bucket portfolio

>9,000 Employees

Public – Nicht vertraulich
Core asset: Largest owned customer base of ~35 million

Owned Customers > 80%
ARPU-up
Churn down

O₂

CONSUMER

Premium

Non Premium

O₂

Service Provider & MVNO¹

Other < 20%

¹ Not exhaustive
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

1 FocusEconomics Consensus Forecast Euro Area (2017)
The data & device opportunity: Explosive growth

MARKET TRENDS – German market with significant further growth potential

Mobile data usage in Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>GB per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>10.95</td>
</tr>
<tr>
<td>Austria</td>
<td>6.28</td>
</tr>
<tr>
<td>Sweden</td>
<td>4.38</td>
</tr>
<tr>
<td>Poland</td>
<td>3.55</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2.71</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.71</td>
</tr>
<tr>
<td>UK</td>
<td>1.84</td>
</tr>
<tr>
<td>France</td>
<td>1.62</td>
</tr>
<tr>
<td>Germany</td>
<td>1.21</td>
</tr>
</tbody>
</table>

Mobile data traffic in Germany

- Annual volume of mobile data traffic in million GB
- CAGR 2016-20: +40%
- 3,580

ADA and IoT growth opportunity

- More than EUR 700 million
  - Smart Media market in Germany by 2020
- More than EUR 5.5 billion
  - Digital Advertising spend in Germany by 2021
- More than 500 million devices in Germany by 2022
- More than 6 devices connected per person by 2020

Steady growth in traffic on Telefónica Deutschland network

Data growing steadily

Traffic (TB/Q)

Q1’17  Q2’17  Q3’17  Q4’17  Q1’18
86,423  98,612  110,684  122,367  126,040

+46%

LTE usage trends with seasonal effects

Average data usage for O2 LTE customers (GB/month)

O2 Free M tariff

Q4’16  Q1’17  Q2’17  Q3’17  Q4’17  Q1’18
1.6   1.8  2.0  2.4  2.8  2.8

+56%

>2x

~6

LTE customer base still increasing

LTE customers (in million)

Q1’17  Q2’17  Q3’17  Q4’17  Q1’18
14.0  14.4  15.7  15.8  16.1

+15%

• Music & video streaming driving steady data growth of ~50% y-o-y
• Data growth for O2 consumer LTE customers with seasonal effect as in 2017
• O2 Free M tariff customers use ~6GB of data
• LTE customer base up 15% y-o-y to 16.1m
Future-proof portfolio for all segments

- O₂ Free Business/Unite
- O₂ All-IP/VPN
- Service Provider & MVNO
- Reseller & Ethnic
  - ALDI TALK

MARKET SHARE

ARPU

CHURN

BUSINESS

CONSUMER

Prefer:

Premium

Non-Premium

Not exhaustive
Big data portfolio feeds mass market consumer demand

- Driving **ARPU-up** with O₂ Free portfolio
- **M tariff most popular** sell with ~60% share
- Usage of ~6GB and average ARPU of EUR ~25
- Competition now also with **focus on large data offers**
- Selective tariff and handset promotions to **drive momentum**
### Positive underlying y-o-y performance across P&L

<table>
<thead>
<tr>
<th></th>
<th>Q1 ‘17</th>
<th>Q2 ‘17</th>
<th>Q3 ‘17</th>
<th>Q4 ‘17</th>
<th>Q1 ’18 (IFRS 15)</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUE</td>
<td>-2.3%</td>
<td>-1.2%</td>
<td>+1.6%</td>
<td>+0.1%</td>
<td>+0.4%</td>
</tr>
<tr>
<td>MSR</td>
<td>-0.6%</td>
<td>-0.4%</td>
<td>-0.1%</td>
<td>+0.8%</td>
<td>+0.4%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>+3.8%</td>
<td>+6.5%</td>
<td>+8.2%</td>
<td>+3.4%</td>
<td>+5.4%</td>
</tr>
</tbody>
</table>

**Notes:**

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 Q1 2018 results release.
Becoming the Mobile Customer & Digital Champion
Fixing the basics and delivering execution proof points

Customer Service turnaround

No.2 in customer service ahead of incumbent in 2018 connect test

TechCity
Early 5G innovation cluster with NOKIA
NGN fibre coop

Sites switched off

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

**Access to best available fixed NGA network**

- 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

**Fixed**

- Access to best available fixed NGA network
- Fixed: Access to >30 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

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1 NGA: Next Generation Access including VDSL, Vectoring and future FTTX deployments
Transformation programme *Digital4Growth*

**How to become the MOBILE CUSTOMER and DIGITAL CHAMPION?**

*Digital4Growth*

We want to be ...

- **SIMPLER**
- **FASTER**
- **BETTER**

... and transform our business

- Omnichannel
- Reduce complexity
- Refresh IT architecture
- Digital speed
- Digital processes
- Smart growth
- ADA/IoT
- Care of the future
- Shop strategy
Transformation programme *Digital4Growth*

**Total case:**
OIBDA benefit by 2022

- Omnichannel
- Reduced complexity
- Refreshed IT architecture

**~EUR 600m**

- ~25%
- ~35%
- ~40%

**Growth-centric case:**
>60% gross margin gains

Building on the efficiency gains of the integration

**SIMPLER**

- Digital speed & processes
- Smart growth

**FASTER**

- ADA & IoT
- Care of the future
- Shop strategy

**BETTER**
Upfront transformation invest balanced by integration gains

Cumulated gross OIBDA benefit over 4 years ~EUR 600m
Monetising explosive IoT device growth

Ambition: Fair IoT market share

Attractive hardware driven offerings

Establish unique service propositions

Evolve a platform-driven IoT ecosystem

Hardware-driven value proposition
- HW w Tef connectivity

Service-driven value proposition
- Smart services linking multiple devices

Platform-driven proposition
- Connectivity/device management
- Platform services
- Data lake monetisation

~520m
+23%

Consumer IoT devices in Germany by 2022

Business market potential: Significant growth opportunity not yet captured

**Market size**

- **Fixed**
  - 7.1
- **Mobile**
  - 4.9
- ~EUR 12bn

**Market segments**

- ~44% SME
- ~36% SoHo
- ~20% LE

**Our strategic direction**

- Focus on SME as growth opportunity
- Build upon consolidated mobile network combined with future-proof fixed wholesale access
- Focus on efficient and scalable operations

**Sources:**

Leverage large customer base in the reseller & ethnic segment

Benefits for partnering for TEF D

- Data adoption driving growth
- Leveraging large distribution channels
- Up- and cross-selling opportunities
- Process automation driving faster go-to-market cycles

Channels

~20k PoS

Reseller & Ethnic

ALDI TALK

Own/Indirect Channel

Mobil Network
Customer Care
Marketing & Sales
Branded Sales Partner

Mobil Network
Customer Care
Marketing & Sales
Sales Partner

Customer Care
Marketing & Sales
Own/Indirect Channel

Sales Channel

Branded Sales Partner

Sales Partner
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

1 Selected non-MNOs = Postpaid Service Provider & MVNO; company research
MBA MVNO contract economics: Four levers for revenue growth

EU-approved capacity glide path

- **Exponential data growth**
- **Capacity** upgrade up to 30%
- Price tiering based on **speed**
- Price tiering based on **technology**

1 Telefónica Deutschland mobile network traffic
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

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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.
## Digital4Growth targets

| SIMPLER           | 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 |
Evolution of 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

- Operational excellence: Digital transformation drives growth
  - Largest & most modern network
  - Excellent integration track record
  - Digital4Growth: SIMPLER FASTER BETTER

- Value proposition: Attractive shareholder return on strong fundamentals
  - Strong FCF trajectory
  - High payout ratio to FCF
  - Conservative financial profile

New, Business & Partnering

Network

Consumer

Digital4Growth

Telefónica Deutschland
Comfortable liquidity position as per 03/2018

Smooth maturity profile and diversified financing mix (in EURm)

Financing and interest mix

Comfortable liquidity position (in EURm)

Leverage ratio at 0.6x

1 For definition of net debt & leverage ratio please refer to Q1 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 & cash flow from M&A
We will maintain an attractive shareholder remuneration policy

Shareholder remuneration policy – Main guidelines

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)
Appendix
Recap: Clear synergy trajectory

- Major integration projects mostly finalised by year end 2017; ~75% of increased OpCF target already delivered
- 2018: Expect incremental savings of EUR 80 million at OIBDA level (mainly from network) and EUR 50 million at CapEx level
- 2018 phasing of Opex and revenue synergies front-loaded due to rollover effects, mainly from FTE restructuring in 2017
- Network integration remaining core project; expecting to mostly finalise by 2018
Q1 2018 – Summary
Solid operational trends with strong OIBDA growth

• Sustained strong data traffic growth (+50% y-o-y) leveraging new O₂ Free portfolio; 16.1 million LTE customers (+15% y-o-y)
• MSR\(^1\) +0.4% y-o-y; ARPU of new O₂ Free portfolio accretive
• Revenue benefitting from stronger demand for handsets and improving mobile trends despite continued headwinds from legacy base rotation; fixed trends unchanged
• OIBDA reflecting synergy capture and efficient marketing approach with focus on value over volume; strong OpCF growth driven by solid OIBDA and expedient use of Capex
• Reiterating 3 consecutive years (2016-2018) of dividend growth with a proposal of EUR 0.26 per share to AGM on 17 May 2018; maintaining a high pay-out ratio over FCF thereafter

\(^1\) 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 Q1 2018 results release.
IFRS15 accounting:
Only minor impact on Telefónica Deutschland P&L

REVENUE impact of IFRS15
(in EUR m)

Q1’18 (IAS 18)

1,764

4
195
279
1,285

Q1’18 (IFRS 15)

1,767

2
199
280
1,287

Fixed

MSR

Other

Handset

Other

Fixed

Handset

MSR

OIBDA impact of IFRS15
(in EUR m)

Q1’18 (IAS 18)

419

Q1’18 (IFRS 15)

422

+3m

total impact

-2.5m
+3.6m
+0.7m
+1.7m

+3m

total impact

+3m
Underlying revenue with positive overall trend; fully on track to achieve full-year 2018 guidance

- Underlying revenue returning to y-o-y growth on the back of sustained MSR trends
- EUR 11 million of reg. impacts, mainly RLH
- Handset trends in line with German market
- Fixed revenue reflects wholesale migration & planned dismantling of legacy infrastructure
Trading trends steady with focus on value in Q1; O₂ churn with further improvement

**Value over volume focus**

<table>
<thead>
<tr>
<th></th>
<th>Net adds (in thousand)</th>
<th>Postpaid</th>
<th>Prepaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1’17</td>
<td>172</td>
<td>197</td>
<td>183</td>
</tr>
<tr>
<td>Q2’17</td>
<td>183</td>
<td>322</td>
<td>-535</td>
</tr>
<tr>
<td>Q3’17</td>
<td>183</td>
<td>-535</td>
<td>-643</td>
</tr>
<tr>
<td>Q4’17</td>
<td>186</td>
<td>-643</td>
<td>-535</td>
</tr>
<tr>
<td>Q1’18</td>
<td>157</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ARPU impacted by regulatory headwinds**

<table>
<thead>
<tr>
<th></th>
<th>ARPU (in EUR)</th>
<th>ARPU postpaid (ex M2M)</th>
<th>ARPU Prepaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1’17</td>
<td>15.5</td>
<td>15.5</td>
<td>14.8</td>
</tr>
<tr>
<td>Q2’17</td>
<td>15.5</td>
<td>15.7</td>
<td>15.2</td>
</tr>
<tr>
<td>Q3’17</td>
<td>15.7</td>
<td>15.2</td>
<td></td>
</tr>
<tr>
<td>Q4’17</td>
<td>15.2</td>
<td>15.2</td>
<td></td>
</tr>
<tr>
<td>Q1’18 (IFRS 15)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Maintaining retention focus**

<table>
<thead>
<tr>
<th></th>
<th>Postpaid churn (in %)</th>
<th>O₂ PO</th>
<th>Total PO</th>
<th>Retail (abs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4’16</td>
<td>-1.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1’17</td>
<td>-1.6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2’17</td>
<td>-1.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3’17</td>
<td>-1.6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4’17</td>
<td>-1.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1’18</td>
<td>-1.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Solid market momentum with O₂ Free and strong partner performance; focus on value over volume
- Lower demand for prepaid driven by regulatory changes
- Churn in O₂ consumer remains low
- Regulation still a headwind in ARPU

1 Excluding the impact from the final customer base adjustment
Segment stats reflect MBA MVNO dynamics and focus on value

<table>
<thead>
<tr>
<th>Partner effected by migrations</th>
</tr>
</thead>
<tbody>
<tr>
<td>PO gross adds share</td>
</tr>
<tr>
<td>Q1’17</td>
</tr>
<tr>
<td>55%</td>
</tr>
<tr>
<td>Q2’17</td>
</tr>
<tr>
<td>55%</td>
</tr>
<tr>
<td>Q3’17</td>
</tr>
<tr>
<td>53%</td>
</tr>
<tr>
<td>Q4’17¹</td>
</tr>
<tr>
<td>58%</td>
</tr>
<tr>
<td>Q1’18</td>
</tr>
<tr>
<td>61%</td>
</tr>
</tbody>
</table>

Partner revenue reflects focus on value

<table>
<thead>
<tr>
<th>PO partner MSR / Share over PO revenue (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1’17</td>
</tr>
<tr>
<td>~21%</td>
</tr>
<tr>
<td>Q2’17</td>
</tr>
<tr>
<td>+4.5%</td>
</tr>
<tr>
<td>Q3’17</td>
</tr>
<tr>
<td>+2.8%</td>
</tr>
<tr>
<td>Q4’17</td>
</tr>
<tr>
<td>~0.1%</td>
</tr>
<tr>
<td>Q1’18 (IFRS 15)</td>
</tr>
<tr>
<td>~3.0%</td>
</tr>
</tbody>
</table>

- Partner trading benefits from focus on 4G offers, resulting in higher gross add share
- More benign competitive environment and clear focus on profitable growth
- Partner revenue reflects MBA MVNO contract dynamics after merger and focus on value

¹ including migration effects
Fixed business driven by wholesale migration and strong VDSL net adds

VDSL drives fixed retail trading...

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net adds (in thousand)</th>
<th>Retail VDSL</th>
<th>Retail ADSL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1'17</td>
<td>67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2'17</td>
<td>88</td>
<td>-75</td>
<td>-101</td>
</tr>
<tr>
<td>Q3'17</td>
<td>103</td>
<td>-113</td>
<td>-89</td>
</tr>
<tr>
<td>Q4'17</td>
<td>89</td>
<td>-89</td>
<td>-104</td>
</tr>
<tr>
<td>Q1'18</td>
<td>92</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

... and ARPU performance

<table>
<thead>
<tr>
<th>Quarter</th>
<th>DSL ARPU (in EUR)</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1'17</td>
<td>25.0</td>
<td></td>
</tr>
<tr>
<td>Q2'17</td>
<td>24.5</td>
<td></td>
</tr>
<tr>
<td>Q3'17</td>
<td>24.9</td>
<td></td>
</tr>
<tr>
<td>Q4'17</td>
<td>24.8</td>
<td></td>
</tr>
<tr>
<td>Q1'18 (IFRS 15)</td>
<td>24.8</td>
<td></td>
</tr>
</tbody>
</table>

Fixed revenue reflects wholesale migration

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Fixed revenue share</th>
<th>Retail</th>
<th>Wholesale</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1'17</td>
<td>-11.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2'17</td>
<td>-11.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3'17</td>
<td>-12.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4'17</td>
<td>-12.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1'18 (IFRS 15)</td>
<td>-10.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Solid net add momentum in VDSL
- Retail DSL ARPUs & revenue trends reflect contribution of VDSL, customer base up 43% y-o-y to 1.2m
- Fixed wholesale customer migration mostly completed; 63k customers remaining
OIBDA reflects successful synergy capture, RLH-regulation and investment activities

### Structure of OIBDA for January to March 2018

<table>
<thead>
<tr>
<th>OIBDA delta (in EURm)</th>
<th>Revenue</th>
<th>Other income</th>
<th>Supplies</th>
<th>Personnel expenses</th>
<th>Other expenses</th>
<th>OIBDA</th>
<th>Exceptional effects</th>
<th>OIBDA adjusted for exceptional effects</th>
<th>Regulatory effects</th>
<th>OIBDA adj. for excep. effects &amp; excl. reg. effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,767</td>
<td>35</td>
<td>-601</td>
<td>-151</td>
<td>-655</td>
<td>394</td>
<td>14</td>
<td>408</td>
<td>14</td>
<td>422</td>
</tr>
</tbody>
</table>

### OIBDA growth on the back of synergy delivery

<table>
<thead>
<tr>
<th>OIBDA delta (in EURm)</th>
<th>Synergies</th>
<th>Regulatory effects</th>
<th>Commercial &amp; other costs</th>
<th>OIBDA¹ yoy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 '17</td>
<td>8</td>
<td>2.1%</td>
<td></td>
<td>2.1%</td>
</tr>
<tr>
<td>Q2 '17</td>
<td>22</td>
<td>5.0%</td>
<td></td>
<td>1.4%</td>
</tr>
<tr>
<td>Q3 '17</td>
<td>10</td>
<td>2.1%</td>
<td></td>
<td>5.4%</td>
</tr>
<tr>
<td>Q4 '17</td>
<td>7</td>
<td>1.4%</td>
<td></td>
<td>5.4%</td>
</tr>
<tr>
<td>Q1'18 (IFRS 15)</td>
<td>7</td>
<td></td>
<td></td>
<td>+4.6%</td>
</tr>
</tbody>
</table>

1. 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 Q1 2018 results release.

- OIBDA with continued margin expansion
- Regulatory effects of EUR 14 million & restructuring costs of EUR 14 million
- Incremental synergies of ~EUR 35 million at OIBDA level driven roll-over effects and incremental NT synergies
FCF with normal seasonal annual distribution

**Evolution of Free Cash Flow (FCF)^1 YTD March 2018**

<table>
<thead>
<tr>
<th>FCF (in EURm)</th>
<th>OIBDA</th>
<th>CapEx ex spectrum</th>
<th>CapEx^2</th>
<th>Working capital movements &amp; adjustments:</th>
<th>Prepayments</th>
<th>Restructuring</th>
<th>Other working capital movements</th>
<th>Other</th>
<th>FCF^1 pre dividends &amp; spectrum payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>394</td>
<td></td>
<td></td>
<td></td>
<td>-40</td>
<td>-185</td>
<td>-17</td>
<td>58</td>
<td>-13</td>
<td>15</td>
</tr>
</tbody>
</table>

^1 FCF pre dividend & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

^2 Excluding additions from capitalised finance leases and capitalised costs on borrowed capital for investments in spectrum.

**Evolution of Net Debt^3 – Leverage^3 in line with target**

<table>
<thead>
<tr>
<th>Net Debt (in EURm)</th>
<th>Leverage ratio^3</th>
<th>FCF^1 pre dividends and spectrum payments &amp; pre M&amp;A</th>
<th>Other</th>
<th>Net debt 31.03.2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.12.2017</td>
<td>0.6x</td>
<td>-15</td>
<td>+35</td>
<td>+1.085</td>
</tr>
<tr>
<td>31.03.2018</td>
<td>0.6x</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

^3 For definition of net debt & leverage ratio please refer to Q1 2018 earnings release
Reiterating full-year 2018 outlook

<table>
<thead>
<tr>
<th></th>
<th>Actual 2017</th>
<th>Outlook 2018</th>
<th>Q1 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>EUR 7,296 million</td>
<td><strong>Broadly stable y-o-y</strong></td>
<td>+0.2% y-o-y as per IAS 18 reporting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(excl. negative regulatory effects of EUR 30-50 million)</td>
<td>+0.4% y-o-y</td>
</tr>
<tr>
<td><strong>OIBDA(^2)</strong></td>
<td>EUR 1,840 million</td>
<td><strong>Flat to slightly positive y-o-y</strong></td>
<td>+4.6% y-o-y as per IAS 18 reporting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(excl. negative regulatory effects of EUR 40-60 million)</td>
<td>+5.4% y-o-y</td>
</tr>
<tr>
<td><strong>C/S</strong></td>
<td>13%</td>
<td><strong>Approx. 12-13%</strong></td>
<td>11.1%</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td>EUR 0.26 per share</td>
<td><strong>Annual dividend growth for 3 consecutive years</strong></td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Proposal for FY 2017 to the AGM on 17 May 2018</td>
<td>(2016-2018)</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) 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.
O₂ Free & DSL portfolio

2018 O₂ Free connect

- O₂ Free L
  - 30 GB
  - Highspeed surfen bis LTE Max.
  - Allnet Flat in alle dt. Netze
  - EU-Roaming inklusive
  - O₂ Vorteilsprogramme, Gratis Kinetik 4G

- O₂ Free M
  - 10 GB
  - Highspeed surfen bis LTE Max.
  - Allnet Flat in alle dt. Netze
  - EU-Roaming inklusive
  - O₂ Vorteilsprogramme, Gratis Kinetik 4G

- O₂ Free S
  - 1 GB
  - Highspeed surfen bis LTE Max.
  - Allnet Flat in alle dt. Netze
  - EU-Roaming inklusive
  - O₂ Vorteilsprogramme, Gratis Kinetik 4G

2018 O₂ Free connect + boost

- O₂ Free L Boost
  - 60 GB
  - Highspeed surfen bis LTE Max.
  - Allnet Flat in alle dt. Netze
  - EU-Roaming inklusive
  - O₂ Vorteilsprogramme, Gratis Kinetik 4G

- O₂ Free M Boost
  - 20 GB
  - Highspeed surfen bis LTE Max.
  - Allnet Flat in alle dt. Netze
  - EU-Roaming inklusive
  - O₂ Vorteilsprogramme, Gratis Kinetik 4G

- O₂ Free S Boost
  - 2 GB
  - Highspeed surfen bis LTE Max.
  - Allnet Flat in alle dt. Netze
  - EU-Roaming inklusive
  - O₂ Vorteilsprogramme, Gratis Kinetik 4G

- All tariffs with connect feature
- Including up to 9 SIMs for devices
- O₂ Free XL eliminated
- O₂ Free L increased to 30 GB (20GB)
O₂ Free connect is a unique “app based connectivity management” in the market.
Product and service extension associated with additional willingness to pay

- 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

~5m customers new services in 2022

Revenue growth new services in 2022

- Voice
- SMS
- Data
- Near & non-telco

2008 to 2022:
- Music & video: sky TICKET
- Financial services: O₂ BANKING
- Fitness: GYMONDO
- Gaming
- Security & Cloud: O₂ PROTECT
- Consumer IoT

Voice and Data services from 2008 to 2022.
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

Willingness to pay
- Data growth as monetisation opportunity
- Near & non-telco as value drivers
- Strong position in consumer IoT

Enhance customer experience & digitalisation
- Omnichannel experience
- Digital transformation of touchpoints
- AI to increase automation & reduce cost

-2% pts
PO Churn by 2022

~60%
new O₂ Free customers pay ≥EUR 30 today

Connected devices per customer:
#4 by 2022

~80%
Share of eCare events by 2022

>80%
O₂ app penetration by 2022
From integration to transformation

Targeting ‘Simpler, Faster, Better’ in three dimensions:

Processes
- Driving proactivity
- Customer and service-centric processes
- Analytics / SON¹

Automation
- Agile network for an agile organisation
- Building a digital skillset
- Operational model / SOC¹

Technology
- Agile
- Future-proof
- Reliable
- All-IP / Virtualisation
- SDN / Fiber /
- 5G readiness / IoT

A future-proof network which provides a competitive customer experience

Customer-centric way of working

Simple and efficient

¹ Service Operations Centre (SOC), Self Organising Network (SON)
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

1 Company research: Network Analysis (2016-2017)
Future-proof spectrum setup, to enable best customer experience

<table>
<thead>
<tr>
<th>Frequencies</th>
<th>Maturity</th>
<th>Telefónica Deutschland</th>
<th>Vodafone</th>
<th>Deutsche Telekom</th>
</tr>
</thead>
<tbody>
<tr>
<td>700 MHz</td>
<td>2017-2033</td>
<td>2x10</td>
<td>2x10</td>
<td>2x10</td>
</tr>
<tr>
<td>800 MHz</td>
<td>2010-2025</td>
<td>2x10</td>
<td>2x10</td>
<td>2x15</td>
</tr>
<tr>
<td>900 MHz</td>
<td>2015-2033</td>
<td>2x10</td>
<td>2x10</td>
<td>2x15</td>
</tr>
<tr>
<td>1,800 MHz</td>
<td>2010-2025</td>
<td>2x10</td>
<td>2x15</td>
<td>2x25</td>
</tr>
<tr>
<td>2,100 MHz</td>
<td>2015-2033</td>
<td>2x15</td>
<td>2x10</td>
<td>2x20</td>
</tr>
<tr>
<td>2,600 MHz</td>
<td>2010-2025</td>
<td>2x20</td>
<td>2x10</td>
<td>2x30</td>
</tr>
<tr>
<td>3,500 MHz</td>
<td>2006-2021/22</td>
<td>2x21</td>
<td>2x42</td>
<td>3x42</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Balanced coverage position</th>
<th>Leadership in capacity spectrum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential future utilisation</td>
<td>Utilisation today</td>
</tr>
<tr>
<td>5G</td>
<td>4G</td>
</tr>
<tr>
<td>2G</td>
<td></td>
</tr>
<tr>
<td>4G</td>
<td></td>
</tr>
<tr>
<td>2G</td>
<td>3G</td>
</tr>
</tbody>
</table>
O2D - Factsheet

Share price development until 25.04.2018

Telefónica Deutschland at a glance

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market segment</td>
<td>Prime Standard</td>
</tr>
<tr>
<td>Industry</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>Shares outstanding</td>
<td>2,974,554,993 shares</td>
</tr>
<tr>
<td>Share capital</td>
<td>EUR 2,974.6 m</td>
</tr>
<tr>
<td>Market cap (as of 31.12.2017)</td>
<td>EUR 11,350.9 m</td>
</tr>
<tr>
<td>Share price (as of 31.12.2017)</td>
<td>EUR 3.82</td>
</tr>
</tbody>
</table>

Shareholder structure as of 31.03.2018

Regional split of shareholder structure

1 According to shareholders register as of 31 March 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 26.04.2018
4 Source: NASDAQ; Shareholder ID as of October 2017
Quarterly detail of relevant financial and operating data for Telefónica Deutschland

<table>
<thead>
<tr>
<th>Financials</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>Revenue (excl. regulatory effects)</td>
<td>1,771</td>
<td>1,771</td>
</tr>
<tr>
<td>Mobile service revenues (excl. regulatory effects)</td>
<td>1,292</td>
<td>1,318</td>
</tr>
<tr>
<td>Revenue</td>
<td>1,771</td>
<td>1,771</td>
</tr>
<tr>
<td>OIBDA (post Group fees) adjusted for exceptional &amp; regulatory effects</td>
<td>401</td>
<td>472</td>
</tr>
<tr>
<td>OIBDA (post Group fees) adjusted for exceptional effects</td>
<td>401</td>
<td>472</td>
</tr>
<tr>
<td>CapEx excl. investments in spectrum</td>
<td>208</td>
<td>226</td>
</tr>
<tr>
<td>C/S Ratio (based on Revenue)</td>
<td>11.8%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Revenue and Opex related Synergies</td>
<td>~35</td>
<td>~40</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accesses</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>Total Accesses</td>
<td>49,550</td>
<td>49,907</td>
</tr>
<tr>
<td>o/w Mobile</td>
<td>44,675</td>
<td>45,194</td>
</tr>
<tr>
<td>Prepay</td>
<td>23,967</td>
<td>24,289</td>
</tr>
<tr>
<td>Postpay</td>
<td>20,708</td>
<td>20,905</td>
</tr>
</tbody>
</table>