Investor presentation Telefónica Deutschland

Telefónica Deutschland, Investor Relations
Q4 2017
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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 focussing on CEX & digitalisation

We will generate Superior Shareholder Return including a strong dividend commitment

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 in 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

Owned Customers > 80%
ARPU-up
Churn down

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
- 2019: 100
- 2020: 112
- 2014: 50

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

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Strong growth in traffic on Telefónica Deutschland network

**Sustained data traffic growth**

<table>
<thead>
<tr>
<th>Traffic (TB/Q)</th>
<th>Q1 ’16</th>
<th>Q2 ’16</th>
<th>Q3 ’16</th>
<th>Q4 ’16</th>
<th>Q1 ’17</th>
<th>Q2 ’17</th>
<th>Q3 ’17</th>
<th>Q4 ’17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>51,599</td>
<td>61,726</td>
<td>74,361</td>
<td>81,641</td>
<td>86,423</td>
<td>98,612</td>
<td>110,684</td>
<td>122,367</td>
</tr>
</tbody>
</table>

+50%

**LTE adoption slowing**

<table>
<thead>
<tr>
<th>LTE customers (million)</th>
<th>Q1 ’16</th>
<th>Q2 ’16</th>
<th>Q3 ’16</th>
<th>Q4 ’16</th>
<th>Q1 ’17</th>
<th>Q2 ’17</th>
<th>Q3 ’17</th>
<th>Q4 ’17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8.7</td>
<td>9.4</td>
<td>10.6</td>
<td>12.1</td>
<td>14.0</td>
<td>14.4</td>
<td>15.7</td>
<td>15.8</td>
</tr>
</tbody>
</table>

+31%

**Average usage creeping up to almost 3GB**

<table>
<thead>
<tr>
<th>Average data usage for O₂ LTE customers (GB/m)</th>
<th>Q1 ’16</th>
<th>Q2 ’16</th>
<th>Q3 ’16</th>
<th>Q4 ’16</th>
<th>Q1 ’17</th>
<th>Q2 ’17</th>
<th>Q3 ’17</th>
<th>Q3 ’17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.2</td>
<td>1.4</td>
<td>1.6</td>
<td>1.6</td>
<td>1.8</td>
<td>2.0</td>
<td>2.4</td>
<td>2.8</td>
</tr>
</tbody>
</table>

+16% +15% +5% +9% +12% +17%

+68%

- Music & video streaming key drivers of data traffic growth of ~50% y-o-y
- Data usage for O₂ consumer LTE customers up ~70% y-o-y to almost 3 GB driven by larger data bundles; O₂ Free customers >7GB
- LTE customer base at almost 16 million, +31% y-o-y
Future-proof portfolio for all segments

1 Not exhaustive
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

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

ARPU ▲ UP
CHURN ▼ DOWN

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

EXISTING CUSTOMERS

NEW CUSTOMERS

Telefónica Deutschland

Public – Nicht vertraulich
2017 as a turning point

**ARPU-up**
>20%

**O₂ Free**
>7GB usage

**DSL net adds** in Q4'17
flat

**CLV**
+50%

Excellent mass market positioning with premium and non-premium brands

**Customer service**
market standard

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1 2017 O₂ PO new customer
2 2017 O₂ PO new customer CLV/GA
3 2017 O₂ Free portfolio new
**Strong set of results in 2017**

### Underlying¹ MSR trends back to growth in Q4 ’17

<table>
<thead>
<tr>
<th>Year-on-year performance in %</th>
<th>Q4 ’16</th>
<th>Q1 ’17</th>
<th>Q2 ’17</th>
<th>Q3 ’17</th>
<th>Q4 ’17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-0.9%</td>
<td>-0.6%</td>
<td>-0.4%</td>
<td>-0.1%</td>
<td>+0.8%</td>
</tr>
</tbody>
</table>

### 13 quarters of year-on-year OIBDA² growth

<table>
<thead>
<tr>
<th>Year-on-year performance in %</th>
<th>Q4 ’16</th>
<th>Q1 ’17</th>
<th>Q2 ’17</th>
<th>Q3 ’17</th>
<th>Q4 ’17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>493</td>
<td>401</td>
<td>472</td>
<td>468</td>
<td>499</td>
</tr>
</tbody>
</table>

### Baseline 2016 (EUR m)

| MSR | 5,437 |
| OIBDA | 1,793² |
| CapEx | 1,102 |
| Dividend | EUR 0.25 |

### Outlook 2017 (y-o-y pct. change)

| MSR | Slightly negative to flat¹ Excl. the impact from regulatory effects (3-4%) |
| OIBDA | Flat to low single-digit % growth² |
| CapEx | Around EUR 1 billion |

### FY 2017 actual (EUR m / y-o-y pct. change)

| MSR | 5,433 / -0.1% Excl. regulatory effects of EUR 146 million |
| OIBDA | 1,840 / +2.6% |
| CapEx | 950 / -13.7% |

### Dividend growth over 3 years (2016-2018)

| Dividend | EUR 0.26 per share for FY 2017 (Payout May 2018) |

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¹ Excluding the impact from regulatory changes; for details please refer to further materials of Q4 2017.

² Excluding exceptional effects; for details please refer to further materials of Q4 2017 results release. We have calculated a comparable for 2016; for details please refer to materials of the full year 2016 results release.
Over half of network consolidation completed, significant quality improvements

Ambition: Building the best network for customer experience until 2020

- April/May 15: 3G National Roaming for all customers
- July 15: Deal to transfer 7,700 sites to DTE
- April 16: Tower sale to Telxius
- July 16: Consolidation & roll-out 4G network
- April 17: Implementation of SON & SOC
- May 17: Implementation of CEM
- August 17: 1 MNC nationwide
- December 17: ~8,000 sites consolidated

Decommissioning of 14k sites  Roll-out of 45k LTE cells  Utilisation of new licenses  Pilot network for 5G
Best network for mobile customer experience

Largest network integration in Western Europe - finish consolidation in 2018

- >80% LTE PoP coverage
- +15k LTE cells
- H1: >70%
- 9M: >85%
- FY: >95% consolidation
- >95% LTE PoP coverage
- +15k LTE cells
- >2020
- Speed for day-to-day experience for our ~43m mobile customers
Fixed infrastructure model to complement our mobile network for best high-speed experience

Access to best available fixed NGA network

NGA coverage targets (% of covered households)

- 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 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

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: ~25%
- Reduced complexity: ~25%
- Refreshed IT architecture: ~35%
- Digital speed & processes: ~35%
- Smart growth: ~40%
- ADA & IoT: ~40%
- Care of the future: ~60% gross margin gains
- Shop strategy:

Growth-centric case:>
Building on the efficiency gains of the integration
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


+23%

~520m

Consumer IoT devices in Germany by 2022

Public – Nicht vertraulich
Business market potential: Significant growth opportunity not yet captured

<table>
<thead>
<tr>
<th>Market size$^1$</th>
<th>Market segments$^1$</th>
<th>Our strategic direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>~EUR 12bn</td>
<td>~44% SME</td>
<td>• Focus on SME as growth opportunity</td>
</tr>
<tr>
<td></td>
<td>~36% SoHo</td>
<td>• Build upon consolidated mobile network combined with future-proof fixed wholesale access</td>
</tr>
<tr>
<td>Fixed</td>
<td>~20% LE</td>
<td>• Focus on efficient and scalable operations</td>
</tr>
<tr>
<td>7.1</td>
<td></td>
<td>~30% Gross add market share in SME</td>
</tr>
<tr>
<td>Mobile</td>
<td></td>
<td>Best-in-class, Churn level</td>
</tr>
</tbody>
</table>
| 4.9                     |                             |}

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

Mobil Network

Customer Care

Marketing & Sales

Own / Indirect Channel

Mobil Network

Customer Care

Marketing & Sales

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

Selected non-MNOs = Postpaid Service Provider & MVNO; company research

1
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

<table>
<thead>
<tr>
<th>SIMPLER</th>
<th>FASTER</th>
<th>BETTER</th>
</tr>
</thead>
<tbody>
<tr>
<td>O₂ app penetration: &gt;80% (vs. 20% 2017)</td>
<td>Lead time product changes: <strong>Within hours</strong></td>
<td>Connected devices/customer: #4 (vs. #1.5 2017)</td>
</tr>
<tr>
<td>Tariff detox: ~40%</td>
<td>Manual back-office interventions: -80%</td>
<td>Share of eCare events: ~80% (vs. 65% 2017)</td>
</tr>
<tr>
<td>Total IT spend/subscriber: -15%</td>
<td>Sales in self-assisted channels: &gt;25% (vs. 15% 2017)</td>
<td>Shop reduction: &gt;10%</td>
</tr>
<tr>
<td>Postpaid churn: -2% pts</td>
<td>Gross adds market share in SME: ~30%</td>
<td>IoT revenue upside: ~EUR 200-300m cumulative</td>
</tr>
</tbody>
</table>

**Telefonica Deutschland**
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

Network
New, Business & Partnering

Strong FCF trajectory
High payout ratio to FCF
Conservative financial profile

Telefonica Deutschland

Public – Nicht vertraulich
Comfortable liquidity position as per 12/2017

Smooth maturity profile and diversified financing mix (in EURm)

Financing and interest mix

- **Bonds**
  - EIB EUR 450m
  - EIB EUR 500m
  - Bonds EUR 1.1bn
  - Floating 25%
  - Fixed 75%

- **Other short term Overdraft EUR 55m**
- **Bilateral RCFs EUR 710m**

- **Syndicated loan facility EUR 750m**
- **SSD /NSV EUR 300m**

Leverage ratio at 0.6x

- **Net debt 31.12.2016**
  - 0.4x
- **Net debt 31.12.2017**
  - 0.6x

<table>
<thead>
<tr>
<th>(in EURm)</th>
<th>Cash and Cash Equivalents</th>
<th>Undrawn RCF’s/ Ext. Overdraft</th>
<th>Liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>587</td>
<td>2,015</td>
<td>2,602</td>
</tr>
<tr>
<td>2019</td>
<td>42</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>187</td>
<td>96</td>
<td>2032</td>
</tr>
<tr>
<td>2021</td>
<td>600</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>575</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td>96</td>
<td>72</td>
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<tr>
<td>2024</td>
<td>75</td>
<td>72</td>
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</tr>
<tr>
<td>2025</td>
<td>3</td>
<td>3</td>
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<tr>
<td>2026</td>
<td>33</td>
<td>92</td>
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<td>2027</td>
<td>42</td>
<td>72</td>
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<td>2028</td>
<td>187</td>
<td>75</td>
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<td>2029</td>
<td>600</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>2030</td>
<td>575</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>2031</td>
<td>96</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>2032</td>
<td>75</td>
<td>72</td>
<td></td>
</tr>
</tbody>
</table>

1. Financial debt/OIBDA (last 12 months) after management fees, before exceptionals.
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
Synergies: We delivered more than we promised

Successful completion of integration workstreams

- Leaver programme
- Shop footprint optimisation
- Facility consolidation
- Customer migration
- Network integration
- Simplification

Synergy case 2015-2019 (in EURm)

<table>
<thead>
<tr>
<th>Year</th>
<th>Synergy Case (EURm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>~150</td>
</tr>
<tr>
<td>2016</td>
<td>~280</td>
</tr>
<tr>
<td>2017</td>
<td>~430</td>
</tr>
<tr>
<td>2018</td>
<td>~670</td>
</tr>
<tr>
<td>2019</td>
<td>~900</td>
</tr>
</tbody>
</table>

- OpEx & rev. synergies
- CapEx synergies

Successful completion of integration workstreams

- Leaver programme
- Shop footprint optimisation
- Facility consolidation
- Customer migration
- Network integration
- Simplification
FY 2017 results fully in line with expectations; MSR excl. regulatory effects back to growth

**Flat MSR**
1 (excl. regulatory effects)
- Successful new O₂ Free portfolio and strong partner performance
- MSR back to growth in Q4 driven by operating momentum & incoming roaming

**2.8 GB**
average data usage
- 15.8 million LTE customers; +31% year-on-year
- Traffic up 68% y-o-y; usage of 2.8 GB for O₂ consumer postpaid LTE customers

**OIBDA**
+2.6% y-o-y
- Integration activities on track; FTE restructuring and shop & facility optimisation finalised
- Synergy capture fully on track, ~EUR 160 million of additional in-year savings at OIBDA level
- OIBDA reflecting synergy capture, commercial investment and regulatory effects

**Outlook 2018**
- Revenue: Broadly stable year-on-year excluding regulatory impacts of EUR 30-50m
- OIBDA: Flat to slightly positive excluding regulatory effects of EUR 40-60m
- C/S ratio: Approx. 12-13%

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1 Excluding the negative impact from regulatory changes; for details please refer to additional materials of the Q4 2017 results release
2 For O₂ consumer postpaid LTE customers
3 Excluding exceptional effects; for details please refer to additional materials of the Q4 2017 results release
4 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

Public – Nicht vertraulich
Strong partner momentum, retail on track – Effective churn management

Visible effect from price increases

- PO gross adds (abs)
  - GA partner brands
  - GA retail brands

<table>
<thead>
<tr>
<th>Quarter</th>
<th>GA Partner Brands</th>
<th>GA Retail Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 '16</td>
<td>58%</td>
<td>58%</td>
</tr>
<tr>
<td>Q1 '17</td>
<td>55%</td>
<td>55%</td>
</tr>
<tr>
<td>Q2 '17</td>
<td>55%</td>
<td>55%</td>
</tr>
<tr>
<td>Q3 '17</td>
<td>53%</td>
<td>53%</td>
</tr>
<tr>
<td>Q4 '17</td>
<td>58%</td>
<td>58%</td>
</tr>
</tbody>
</table>

Maintaining retention focus

- Postpaid churn
  - O2 (%)
  - Retail & wholesale (%)
  - Retail brands

<table>
<thead>
<tr>
<th>Quarter</th>
<th>O2 (%)</th>
<th>Retail &amp; wholesale (%)</th>
<th>Retail brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 '16</td>
<td>1.4%</td>
<td>1.2%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Q2 '16</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Q3 '16</td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Q4 '16</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Q1 '17</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Q2 '17</td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Q3 '17</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Q4 '17</td>
<td>1.7%</td>
<td>1.6%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

VDSL drives fixed trading

- Net adds (in thousand)
  - DSL wholesale
  - DSL retail

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net Adds (in thousand)</th>
<th>VDSL Share of Gross Adds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 '16</td>
<td>-100</td>
<td>~100%</td>
</tr>
<tr>
<td>Q1 '17</td>
<td>-129</td>
<td>-13</td>
</tr>
<tr>
<td>Q2 '17</td>
<td>-134</td>
<td>-130</td>
</tr>
<tr>
<td>Q3 '17</td>
<td>-130</td>
<td>-110</td>
</tr>
<tr>
<td>Q4 '17</td>
<td>0</td>
<td>~100%</td>
</tr>
</tbody>
</table>

- Strong partner trading despite more benign pricing environment, focus on 4G
- Churn in O2 consumer remains stable, with seasonal uptick in Q4
- VDSL with solid net adds of 89 thousand; wholesale migration in line with expectations
Underlying MSR trends back to growth

**Revenue structure (in EUR m)**

<table>
<thead>
<tr>
<th></th>
<th>Fixed</th>
<th>Handset</th>
<th>MSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 '16</td>
<td>1,936</td>
<td>238</td>
<td>341</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4 '17</td>
<td>1,904</td>
<td>208</td>
<td>356</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Performance y-o-y**

-1.6% +0.8%

Excl. regulatory effects

**Contribution to fixed revenue y-o-y**

<table>
<thead>
<tr>
<th></th>
<th>Retail</th>
<th>Wholesale</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth (y-o-y)</td>
<td>-10.3%</td>
<td>-11.9%</td>
<td>-11.2%</td>
</tr>
<tr>
<td></td>
<td>-12.8%</td>
<td>-12.7%</td>
<td></td>
</tr>
<tr>
<td>Q4 '16</td>
<td>-3.4%</td>
<td>-2.1%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Q1 '17</td>
<td>-4.4%</td>
<td>-5.9%</td>
<td>-7.2%</td>
</tr>
<tr>
<td>Q2 '17</td>
<td>-2.5%</td>
<td>-3.9%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Q3 '17</td>
<td>-1.6%</td>
<td>-1.9%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Q4 '17</td>
<td>-2.1%</td>
<td>-2.1%</td>
<td>-2.1%</td>
</tr>
</tbody>
</table>

**MSR from partner business (in EUR m)**

<table>
<thead>
<tr>
<th></th>
<th>Q4 '16</th>
<th>Q1 '17</th>
<th>Q2 '17</th>
<th>Q3 '17</th>
<th>Q4 '17</th>
</tr>
</thead>
<tbody>
<tr>
<td>~20%</td>
<td>~21%</td>
<td>~22%</td>
<td>~22%</td>
<td>~23%</td>
<td></td>
</tr>
</tbody>
</table>

+5% +5% +3% 0%

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

- Underlying MSR back to growth, supported by visitor roaming
- Negative regulatory effects more benign due to slow uptake of RLH
- Stable trend of partner revenue share
- Handset revenue continues to improve
- Fixed revenue reflects wholesale migration
OIBDA reflects successful synergy capture, RLH-regulation and investment activities

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

```
<table>
<thead>
<tr>
<th></th>
<th>Q2 '17</th>
<th>Q3 '17</th>
<th>Q4 '17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>7,296</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>159</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>-2,396</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>-598</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td>-2,622</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OIBDA excl. exceptional effects</td>
<td>1,840</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exceptional effects</td>
<td>-55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OIBDA</td>
<td>1,785</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
```

**OIBDA growth on the back of synergy delivery**

- **OIBDA delta (in EUR m)**
  - Synergies: 5.3%, 2.1%, 5.0%, 2.1%, 1.4%
  - Commercial, regulatory and other costs: 8, 22, 10, 7

- **OIBDA growth**
  - Successful synergy capture with incremental savings of ~EUR 45 million in Q4 due to leaver programme, network consolidation & shop optimisation
  - OIBDA in line with expectations; regulatory effects of EUR 51m (~3% OIBDA y-o-y)
  - OIBDA\(^1\) margin at 25.2%, up 1.3 pp y-o-y

\(^1\)Excluding exceptional effects; for details please refer to additional materials of the Q4 2017 results release
Financial leverage in line with target

Evolution of Free Cash Flow (FCF) YTD December 2017 (in EUR m)

<table>
<thead>
<tr>
<th>OIBDA</th>
<th>CapEx</th>
<th>CapEx payables</th>
<th>Prepayments</th>
<th>Restructuring</th>
<th>Other working capital movements</th>
<th>Other</th>
<th>FCF pre dividend &amp; spectrum payments</th>
<th>M&amp;A</th>
<th>FCF pre dividends &amp; spectrum payments &amp; pre M&amp;A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,785</td>
<td>(932)</td>
<td>(105)</td>
<td>(46)</td>
<td>(41)</td>
<td>61</td>
<td>(41)</td>
<td>680</td>
<td>29</td>
<td>709</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 (y-o-y in EUR m) – Leverage in line with target

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>+798</td>
<td>-709</td>
<td>+29</td>
<td>+744</td>
<td>+111</td>
<td>+91</td>
<td>+1,064</td>
</tr>
</tbody>
</table>

3 For definition of net debt & leverage ratio please refer to Q4 2017 earnings release
# Outlook 2018: Entering a new chapter and changing KPIs

<table>
<thead>
<tr>
<th></th>
<th>Baseline 2016 (EUR m)</th>
<th>Outlook 2017 (y-o-y pct. change)</th>
<th>Actual 2017 (EUR m / y-o-y pct. change)</th>
<th>Outlook(^3) 2018 (y-o-y pct. change)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>7,503</td>
<td></td>
<td>7,296 / -2.8%</td>
<td>Broadly stable</td>
</tr>
<tr>
<td><strong>MSR</strong></td>
<td>5,437</td>
<td>Slightly negative to flat</td>
<td>5,433 / -0.1%</td>
<td></td>
</tr>
<tr>
<td><strong>OIBDA</strong></td>
<td>1,793(^1)</td>
<td>Flat to low single-digit % growth</td>
<td>1,840(^1) / +2.6%</td>
<td>Flat to slightly positive</td>
</tr>
<tr>
<td><strong>CapEx</strong></td>
<td>1,102</td>
<td>Around EUR 1 billion</td>
<td>950 / -13.7%</td>
<td></td>
</tr>
<tr>
<td><strong>C/S</strong></td>
<td>14.7%</td>
<td></td>
<td>13.0%</td>
<td>Approx. 12-13%</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td>EUR 0.25 per share</td>
<td>EUR 0.26 per share(^2)</td>
<td>EUR 0.26 per share(^2)</td>
<td>Annual Dividend growth over 3 years (2016-2018)</td>
</tr>
</tbody>
</table>

---

1 Excluding exceptional effects. We have calculated a comparable for 2016 as if the sale of tower asset to Telxius SA had happened as of 1 January 2016

2 Proposal. Subject to AGM resolution

3 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.
## O₂ Free portfolio and O₂ DSL portfolio

**O₂ Free**
Jetzt mit noch mehr Highspeed-Datenvolumen!

In den neuen O₂ Free-Smartphone-Tarifen gibt es jetzt dauerhaft noch mehr Highspeed-Datenvolumen. Immer inklusive: die O₂ Free-Weitersurf-Garantie zum Endlos-Weitersurfen mit 1 MBit/s, auch wenn dein Highspeed-Datenvolumen verbraucht ist.

<table>
<thead>
<tr>
<th>O₂ Free XL</th>
<th>O₂ free L</th>
<th>O₂ Free S</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 GB</td>
<td>20 GB</td>
<td>10 GB</td>
</tr>
<tr>
<td>Highspeed-Surfen (0,15 MBit/L)</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Endlos-Weitersurfen mit 1 MBit/s</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Flatrate für Minuten/SMS in alle dt. Netze</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Extra-Festnetznummer</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>EU Roaming*</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Mittl. Grundgebühr reduziert für O₂ Kunden*</td>
<td>44,99</td>
<td>34,99</td>
</tr>
</tbody>
</table>

**O₂ DSL**
Für Privatkunden und Junge Leute

<table>
<thead>
<tr>
<th>O₂ DSL L</th>
<th>O₂ DSL M</th>
<th>O₂ DSL S</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 MBit/s</td>
<td>50 MBit/s</td>
<td>25 MBit/s</td>
</tr>
<tr>
<td><strong>Unser Tipp</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>bis zu 100 MBit/s</td>
<td>bis zu 50 MBit/s</td>
<td>bis zu 25 MBit/s</td>
</tr>
<tr>
<td>bis zu 21 MBit/s</td>
<td>bis zu 10 MBit/s</td>
<td>bis zu 5 MBit/s</td>
</tr>
<tr>
<td>bis zu 11,99 MBit / 1,99 MBit</td>
<td>bis zu 1,99 MBit</td>
<td>bis zu 0,99 MBit</td>
</tr>
<tr>
<td><strong>Berechnung</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mittl. Grundgebühr</strong> (für Neukunden)</td>
<td>24,99</td>
<td>14,99</td>
</tr>
<tr>
<td>inkl. MwSt.</td>
<td>28,65</td>
<td>16,85</td>
</tr>
</tbody>
</table>

**Telefónica Marke**

Neu ab 29.1.18
Unbegrenztes Highspeed-Surfen bei O₂ DSL M und L für O₂ Postpaid Kunden

---

*Preis inkl. MwSt.

**EINE TELEFÓNICA MARKE**

---

Telefónica Deutschland

Public – Nicht vertraulich
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

Voice & data services growth new services in 2022

- Music & video
- Financial services
- Fitness
- Gaming
- Security & Cloud
- Consumer IoT

~5m customers new services in 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

**Key Metrics by 2022**

- **-2% pts**
  - PO Churn
  - by 2022

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

- **~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

**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

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

### Balanced coverage position

<table>
<thead>
<tr>
<th>Frequency</th>
<th>700 MHz</th>
<th>800 MHz</th>
<th>900 MHz</th>
<th>1,800 MHz</th>
<th>2,100 MHz</th>
<th>2,600 MHz</th>
<th>3,500 MHz</th>
</tr>
</thead>
</table>

### Leadership in capacity spectrum

<table>
<thead>
<tr>
<th>Frequency</th>
<th>5G</th>
<th>4G</th>
<th>4G</th>
<th>4G</th>
<th>4G</th>
<th>5G</th>
<th>4G</th>
<th>5G</th>
</tr>
</thead>
</table>

**Telefónica Deutschland**

- 700 MHz: 2x10
- 800 MHz: 2x10
- 900 MHz: 2x10
- 1,800 MHz: 2x15
- 2,100 MHz: 2x10
- 2,600 MHz: 2x20
- 3,500 MHz: 3x21

**Vodafone**

- 700 MHz: 2x10
- 800 MHz: 2x10
- 900 MHz: 2x10
- 1,800 MHz: 2x15
- 2,100 MHz: 2x10
- 2,600 MHz: 2x20
- 3,500 MHz: 3x42

**Deutsche Telekom**

- 700 MHz: 2x10
- 800 MHz: 2x10
- 900 MHz: 2x15
- 1,800 MHz: 2x15
- 2,100 MHz: 2x10
- 2,600 MHz: 2x20
- 3,500 MHz: 3x42
O2D - Factsheet

Share price development until 27.02.2018

Telefónica Deutschland at a glance

<table>
<thead>
<tr>
<th></th>
<th>Prime Standard</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 12,451.5 m</td>
</tr>
<tr>
<td>Share price (as of 31.12.2017)</td>
<td>EUR 4.186</td>
</tr>
</tbody>
</table>

Regional split of shareholder structure

- UK & Ireland: 25.0%
- North America: 4.9%
- France: 5.4%
- Germany: 5.0%
- Continental Europe: 5.5%
- Scandinavia: 46.9%
- Rest of World: 7.3%

Shareholder structure as of 31.12.2017

- Telefónica Germany Holdings Ltd: 69.2%
- Koninklijke KPN N.V.: 8.6%
- Freefloat: 22.2%

1 According to shareholders register as of 31 December 2017
2 Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A.
3 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>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>Revenues</td>
<td>1.858</td>
<td>1.834</td>
</tr>
<tr>
<td>Mobile service revenues</td>
<td>1.336</td>
<td>1.358</td>
</tr>
<tr>
<td>Mobile service revenues (ex regulatory effects)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>OIBDA post Group fees, pre exceptions⁴</td>
<td>392</td>
<td>450</td>
</tr>
<tr>
<td>CapEx</td>
<td>218</td>
<td>212</td>
</tr>
<tr>
<td>Revenue and Opex related Synergies</td>
<td>~55</td>
<td>~40</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accesses</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>Total Accesss</td>
<td>48,252</td>
<td>48,605</td>
</tr>
<tr>
<td>o/w Mobile</td>
<td>43,008</td>
<td>43,417</td>
</tr>
<tr>
<td>Prepay</td>
<td>23,744</td>
<td>23,814</td>
</tr>
<tr>
<td>Postpay</td>
<td>19,264</td>
<td>19,603</td>
</tr>
</tbody>
</table>

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.