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 focussing on CEX & digitalisation

We will generate Superior Shareholder Return including a strong dividend commitment

MOBILE CUSTOMER and DIGITAL CHAMPION

FOUNDATION

SUPERIOR SHAREHOLDER RETURN

Growth & Value

Big Data & Artificial Intelligence

Products & services

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

Telefonica
Deutschland
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

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1 FocusEconomics Consensus Forecast Euro Area (2017)
**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**
- **3.580**
- **100**

### 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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Steady growth in traffic on Telefónica Deutschland network

Data growing steadily

Traffic (TB/Q)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1'17</th>
<th>Q2'17</th>
<th>Q3'17</th>
<th>Q4'17</th>
<th>Q1'18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>86,423</td>
<td>98,612</td>
<td>110,684</td>
<td>122,367</td>
<td>126,040</td>
</tr>
</tbody>
</table>

+46%

LTE usage trends with seasonal effects

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

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1'17</th>
<th>Q2'17</th>
<th>Q3'17</th>
<th>Q4'17</th>
<th>Q1'18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1.6</td>
<td>1.8</td>
<td>2.0</td>
<td>2.4</td>
<td>2.8</td>
</tr>
</tbody>
</table>

+56%

LTE customer base still increasing

LTE customers (in million)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1'17</th>
<th>Q2'17</th>
<th>Q3'17</th>
<th>Q4'17</th>
<th>Q1'18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>14.0</td>
<td>14.4</td>
<td>15.7</td>
<td>15.8</td>
<td>16.1</td>
</tr>
</tbody>
</table>

+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

MARKET SHARE

BUSINESS

CONSUMER

O₂ Free Business/Unite

O₂ All-IP/VPN

Service Provider & MVNO¹

Reseller & Ethnic¹

ALDI TALK

PUBLIC

Premium

Non-Premium

¹Not 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

ARPU

~25 EUR

USAGE

~6 GB

TARIFF

S
1GB

M
10GB

L
20GB

XL
25GB

SHARE

~60%
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>-4.7%</td>
<td>-3.4%</td>
<td>-1.3%</td>
<td>-1.6%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>-3.3%</td>
<td>-3.0%</td>
<td>-3.6%</td>
<td>-1.2%</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

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

>9k

Public – Nicht vertraulich
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**

- **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
- Digital speed & processes
- Smart growth
- ADA & IoT
- Care of the future
- Shop strategy

**~EUR 600m**
- ~25%
- ~35%
- ~40%

### Growth-centric case: >60% gross margin gains
- Building on the efficiency gains of the integration

**BETTER**

**SIMPLER**

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

Efficiency-centric case

Additional integration gains

Transformation invest

Transformation gains

Growth-centric case

2018 2019 2020 2021 2022

Conceptual

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

Consumer IoT devices in Germany by 2022

+23%

~520m

Business market potential: Significant growth opportunity not yet captured

Market size

~EUR 12bn

Fixed
7.1

Mobile
4.9

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

Gross add market share in SME
Best-in-class

Churn level

~30%

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
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

- Commitment utilised capacity
  - 30%
  - 20%

2015 - 2020

- DATA
- VOICE
- SMS

>130% Data traffic since FY2015

- 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

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

Telefonica Deutschland

Public – Nicht vertraulich
Comfortable liquidity position as per 03/2018

Smooth maturity profile and diversified financing mix (in EURm)

Comfortable liquidity position (in EURm)
- Cash and Cash Equivalents: 840
- Undrawn RCF's/Ext. Overdraft: 2,854
- Liquidity: 2,014

Leverage ratio at 0.6x
- Net debt 31.12.2017: 0.6x
- Net debt 31.03.2018: 0.6x

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

1 For definition of net debt & leverage ratio please refer to Q1 2018 earnings release
2 FCF pre dividend & spectrum payments & pre 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

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)
- MSR¹ +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.
### REVENUE impact of IFRS15

<table>
<thead>
<tr>
<th>(in EUR m)</th>
<th>Q1’18 (IAS 18)</th>
<th>Q1’18 (IFRS 15)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1,764</strong></td>
<td><strong>1,767</strong></td>
<td></td>
</tr>
<tr>
<td><strong>1,285</strong></td>
<td><strong>1,287</strong></td>
<td></td>
</tr>
<tr>
<td><strong>279</strong></td>
<td><strong>280</strong></td>
<td></td>
</tr>
<tr>
<td><strong>195</strong></td>
<td><strong>199</strong></td>
<td></td>
</tr>
<tr>
<td><strong>4</strong></td>
<td><strong>2</strong></td>
<td></td>
</tr>
</tbody>
</table>

**total impact**

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

**total impact**

+3m

### OIBDA impact of IFRS15

<table>
<thead>
<tr>
<th>(in EUR m)</th>
<th>Q1’18 (IAS 18)</th>
<th>Q1’18 (IFRS 15)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>419</strong></td>
<td><strong>422</strong></td>
<td></td>
</tr>
</tbody>
</table>

**total impact**

+3m

**IFRS15 accounting:**

Only minor impact on Telefónica Deutschland P&L
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

Revenue trends further improving

<table>
<thead>
<tr>
<th>(in EUR m)</th>
<th>Fixed</th>
<th>Handset</th>
<th>MSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 ’17</td>
<td>1,771</td>
<td>223</td>
<td>1,292</td>
</tr>
<tr>
<td>Q1 ’18</td>
<td>1,767</td>
<td>199</td>
<td>1,287</td>
</tr>
</tbody>
</table>

Underlying MSR continues to grow y-o-y

<table>
<thead>
<tr>
<th>(in EUR m)</th>
<th>Fixed</th>
<th>Handset</th>
<th>MSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1’17</td>
<td>1,292</td>
<td>1,318</td>
<td>1,344</td>
</tr>
<tr>
<td>Q2’17</td>
<td>1,318</td>
<td>1,344</td>
<td>1,332</td>
</tr>
<tr>
<td>Q3’17</td>
<td>1,344</td>
<td>1,332</td>
<td>1,287</td>
</tr>
<tr>
<td>Q4’17</td>
<td>1,332</td>
<td>1,287</td>
<td></td>
</tr>
<tr>
<td>Q1’18 (IFRS 15)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Stronger demand for handsets

<table>
<thead>
<tr>
<th>IAS 18, excl. reg. effects</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>+10.5%</td>
<td>+10.8%</td>
<td>+0.4%</td>
<td>+0.4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Unchanged trends in fixed revenues

<table>
<thead>
<tr>
<th>IAS 18</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>-12.3%</td>
<td>-10.7%</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
Trading trends steady with focus on value in Q1; O₂ churn with further improvement

### Value over volume focus

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

### Maintaining retention focus

<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>Postpaid churn (in %)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>O₂ PO</td>
<td>-1.5%</td>
<td>-1.6%</td>
<td>-1.6%</td>
<td>-1.5%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Total PO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail (abs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### ARPU impacted by regulatory headwinds

<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>ARPU (in EUR)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postpaid (ex M2M)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARPU</td>
<td>15.5</td>
<td>15.5</td>
<td>15.7</td>
<td>15.2</td>
<td>14.8</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

- 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>Period</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></td>
</tr>
<tr>
<td>Q3'17</td>
<td>103</td>
<td>-101</td>
<td></td>
</tr>
<tr>
<td>Q4'17</td>
<td>89</td>
<td>-113</td>
<td></td>
</tr>
<tr>
<td>Q1'18</td>
<td>92</td>
<td>-89</td>
<td>-104</td>
</tr>
</tbody>
</table>

... and ARPU performance

<table>
<thead>
<tr>
<th>Period</th>
<th>DSL ARPU (in EUR)</th>
<th>Stable</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>24.8</td>
<td></td>
</tr>
<tr>
<td>Q4'17</td>
<td>24.9</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>Period</th>
<th>Fixed revenue share</th>
<th>Retail</th>
<th>Wholesale</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<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>Description</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>8</td>
<td>22</td>
<td>10</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Other income</td>
<td>5.0%</td>
<td>2.1%</td>
<td>1.4%</td>
<td>5.4%</td>
<td>IAS 18, excl. regulatory effects</td>
</tr>
<tr>
<td>Supplies</td>
<td>2.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OIBDA</td>
<td>8</td>
<td>22</td>
<td>10</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Exceptional effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OIBDA adjusted for exceptional effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OIBDA adj. for excep. effects &amp; excl. reg. effects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 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

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.
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>CapEx²</th>
<th>Prepayments</th>
<th>Restructuring</th>
<th>Other working capital movements</th>
<th>Other</th>
<th>FCF¹ pre dividends &amp; spectrum payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>394</td>
<td></td>
<td></td>
<td></td>
<td>-182</td>
<td>-40</td>
<td>-17</td>
<td>58</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 Debt³ – Leverage³ in line with target

<table>
<thead>
<tr>
<th>Net Debt (in EURm)</th>
<th>Leverage ratio³</th>
<th>FCF¹ 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>
</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>Broadly stable y-o-y</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>Flat to slightly positive y-o-y</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>Approx. 12-13%</td>
<td>11.1%</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td></td>
<td>Annual dividend growth for 3 consecutive years (2016-2018)</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>EUR 0.26 per share</td>
<td>Proposal for FY 2017 to the AGM on 17 May 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 portfolio and O₂ DSL portfolio**

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

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

### Neu: mehr Datenvolumen

### O₂ DSL
Für Privatkunden und Junge Leute

Neu ab 29.1.18

<table>
<thead>
<tr>
<th>O₂ DSL L</th>
<th>O₂ DSL M</th>
<th>O₂ DSL S</th>
<th>O₂ DSL XS</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 MBit/s</td>
<td>50 MBit/s</td>
<td>25 MBit/s</td>
<td>10 MBit/s</td>
</tr>
</tbody>
</table>

#### O₂ DSL L
- **100 MBit/s**
  - Bis zu 100 MBit/s / (Upload: 5 bis 40 MBit/s)
  - Max. Netz-Geschwindigkeit: bis 100 MBit/s
  - Anschlussgebühr
  - **24,99**

#### O₂ DSL M
- **50 MBit/s**
  - bis zu 50 MBit/s / (Upload: 5 bis 25 MBit/s)
  - Max. Netz-Geschwindigkeit: bis 50 MBit/s
  - Anschlussgebühr
  - **14,99**

#### O₂ DSL S
- **25 MBit/s**
  - bis zu 25 MBit/s / (Upload: 5 bis 25 MBit/s)
  - Max. Netz-Geschwindigkeit: bis 25 MBit/s
  - Anschlussgebühr
  - **14,99**

#### O₂ DSL XS
- **10 MBit/s**
  - bis zu 10 MBit/s / (Upload: 5 bis 5 MBit/s)
  - Max. Netz-Geschwindigkeit: bis 10 MBit/s
  - Anschlussgebühr
  - **9,99**

### Preise und Daten (ohne MwSt.)

<table>
<thead>
<tr>
<th>O₂ Free Xl</th>
<th>O₂ Free L</th>
<th>O₂ Free M</th>
<th>O₂ Free S</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 GB</td>
<td>20 GB</td>
<td>10 GB</td>
<td>1 GB</td>
</tr>
<tr>
<td><strong>49,99</strong></td>
<td><strong>39,99</strong></td>
<td><strong>29,99</strong></td>
<td><strong>19,99</strong></td>
</tr>
</tbody>
</table>

*flexibel bleiben: O₂ Free ist auch ohne feste Laufzeit verfügbar.*
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

Revenue growth
new services in 2022

~5m customers
new services in 2022

VOICE
SMS
DATA

Near & non-telco

2008
2022

VOICE
DATA

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

sky TICKET
O₂ BANKING
GYMNOO
O₂ PROTECT

VOICE
SMS

Near & non-telco

2008
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

~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

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>Potential future utilisation</th>
<th>Balanced coverage position</th>
<th>Leadership in capacity spectrum</th>
</tr>
</thead>
<tbody>
<tr>
<td>5G</td>
<td>4G</td>
<td>4G</td>
</tr>
<tr>
<td>4G</td>
<td></td>
<td>5G</td>
</tr>
<tr>
<td>2G</td>
<td></td>
<td>4G</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Utilisation today</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4G</td>
<td></td>
<td>2G</td>
</tr>
<tr>
<td>2G</td>
<td></td>
<td>3G</td>
</tr>
<tr>
<td>4G</td>
<td></td>
<td>5G</td>
</tr>
</tbody>
</table>

**Telefónica Deutschland**
- 700 MHz: 2x10 (2017-2033)
- 800 MHz: 2x10 (2010-2025)
- 900 MHz: 2x10 (2015-2033)

**Vodafone**
- 700 MHz: 2x10 (2017-2033)
- 800 MHz: 2x10 (2010-2025)
- 900 MHz: 2x10 (2015-2033)

**Deutsche Telekom**
- 700 MHz: 2x10 (2017-2033)
- 800 MHz: 2x10 (2010-2025)
- 900 MHz: 2x15 (2015-2033)

**Frequencies Maturity**
- 700 MHz: 2017-2033
- 800 MHz: 2010-2025
- 900 MHz: 2015-2033
- 1,800 MHz: 2010-2025
- 2,100 MHz: 2000-2020
- 2,600 MHz: 2010-2025
- 3,500 MHz: 2006-2021/22

**Utilisation today**
- 4G
- 2G
- 3G
- 4G
- 5G
O2D - Factsheet

Share price development until 25.04.2018

Telefónica Deutschland at a glance

Market segment
Prime Standard

Industry
Telecommunications

Shares outstanding
2,974,554,993 shares

Share capital
EUR 2,974.6 m

Market cap (as of 31.12.2017)
EUR 11,350.9 m

Share price (as of 31.12.2017)
EUR 3.82

Regional split of shareholder structure

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 According to press release of KPN as of 31.01.2018
4 Source: NASDAQ; Shareholder ID as of October 2017

1 Telefónica Germany Holdings Ltd
2 Koninklijke KPN N.V.
3 Freefloat

Shareholder structure as of 31.03.2018

UK & Ireland
25.0%

North America
46.9%

France
7.3%

Germany
5.5%

Continental Europe
5.4%

Scandinavia
4.9%

Rest of World
5.0%

O2D at a glance

3.6% 4.4% 4.2% 4.1% 4.0% 3.9% 3.8% 3.7% 3.6%
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>Revenue (excl. regulatory effects)</td>
<td>Q1 1,771, Q2 1,771, Q3 1,850, Q4 1,904, FY 7,296</td>
<td>Q1 1,778</td>
</tr>
<tr>
<td>Mobile service revenues (excl. regulatory effects)</td>
<td>Q1 1,292, Q2 1,318, Q3 1,344, Q4 1,332, FY 5,287</td>
<td>Q1 1,298</td>
</tr>
<tr>
<td>Revenue</td>
<td>Q1 1,771, Q2 1,771, Q3 1,850, Q4 1,904, FY 7,296</td>
<td>Q1 1,767</td>
</tr>
<tr>
<td>OIBDA (post Group fees) adjusted for exceptional &amp; regulatory effects</td>
<td>Q1 401, Q2 472, Q3 468, Q4 499, FY 1,840</td>
<td>Q1 422</td>
</tr>
<tr>
<td>OIBDA (post Group fees) adjusted for exceptional effects</td>
<td>Q1 401, Q2 472, Q3 468, Q4 499, FY 1,840</td>
<td>Q1 408</td>
</tr>
<tr>
<td>CapEx excl. investments in spectrum</td>
<td>Q1 208, Q2 226, Q3 254, Q4 262, FY 950</td>
<td>Q1 197</td>
</tr>
<tr>
<td>C/S Ratio (based on Revenue)</td>
<td>Q1 11.8%, Q2 12.8%, Q3 13.7%, Q4 13.8%, FY 13.0%</td>
<td>Q1 11.1%</td>
</tr>
<tr>
<td>Revenue and Opex related Synergies</td>
<td>~35, ~40, ~40, ~45, ~160</td>
<td>~35</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accesses</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Accesses</td>
<td>Q1 49,550, Q2 49,907, Q3 49,403, Q4 47,604, FY 47,604</td>
<td>Q1 47,075</td>
</tr>
<tr>
<td>o/w Mobile</td>
<td>Q1 44,675, Q2 45,194, Q3 44,842, Q4 43,155, FY 43,155</td>
<td>Q1 42,777</td>
</tr>
<tr>
<td>Prepay</td>
<td>Q1 23,967, Q2 24,289, Q3 23,754, Q4 21,881, FY 21,881</td>
<td>Q1 21,346</td>
</tr>
<tr>
<td>Postpay</td>
<td>Q1 20,708, Q2 20,905, Q3 21,088, Q4 21,274, FY 21,274</td>
<td>Q1 21,431</td>
</tr>
</tbody>
</table>