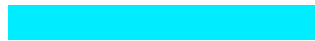


Telefónica

Deutschland

Investor presentation Telefónica Deutschland

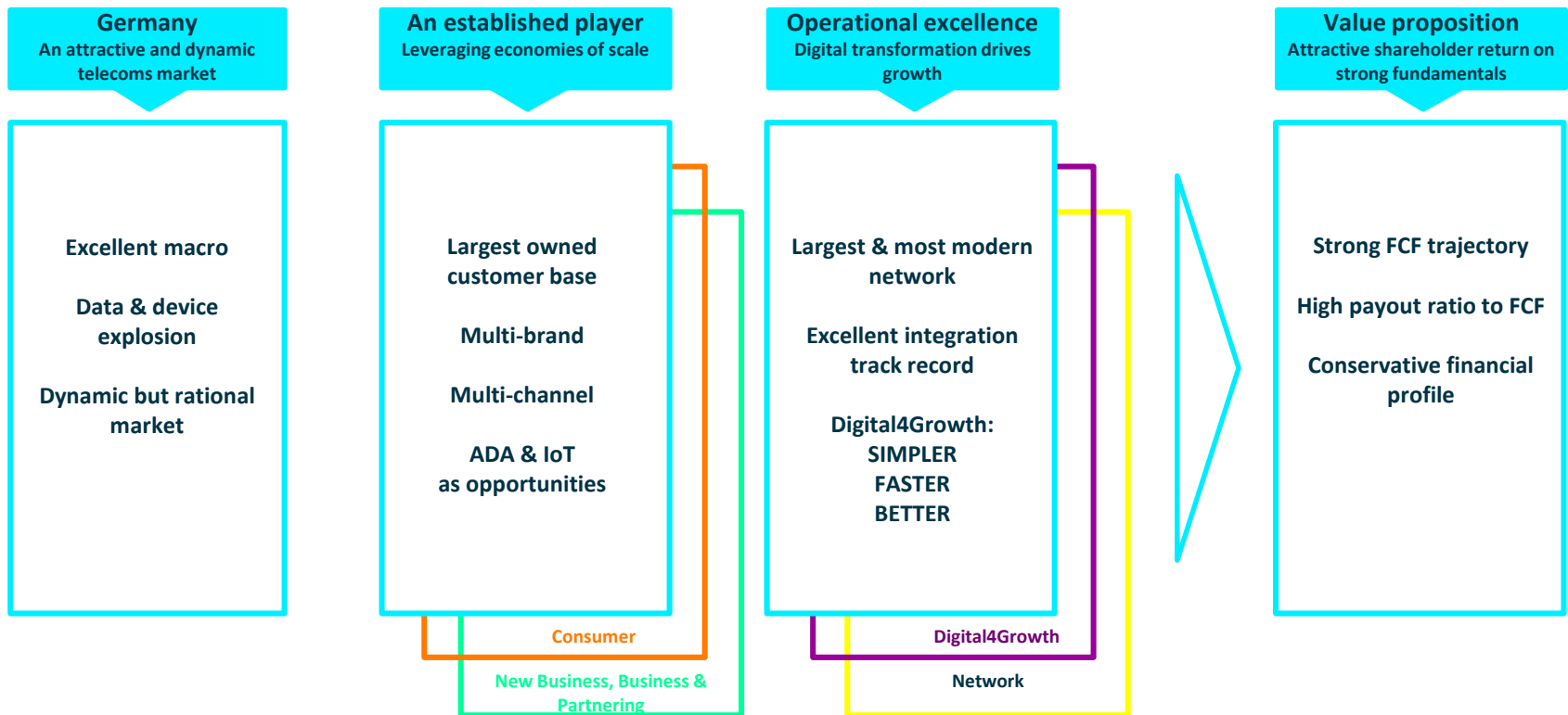


Telefónica Deutschland, Investor Relations
Q3 2018

Disclaimer

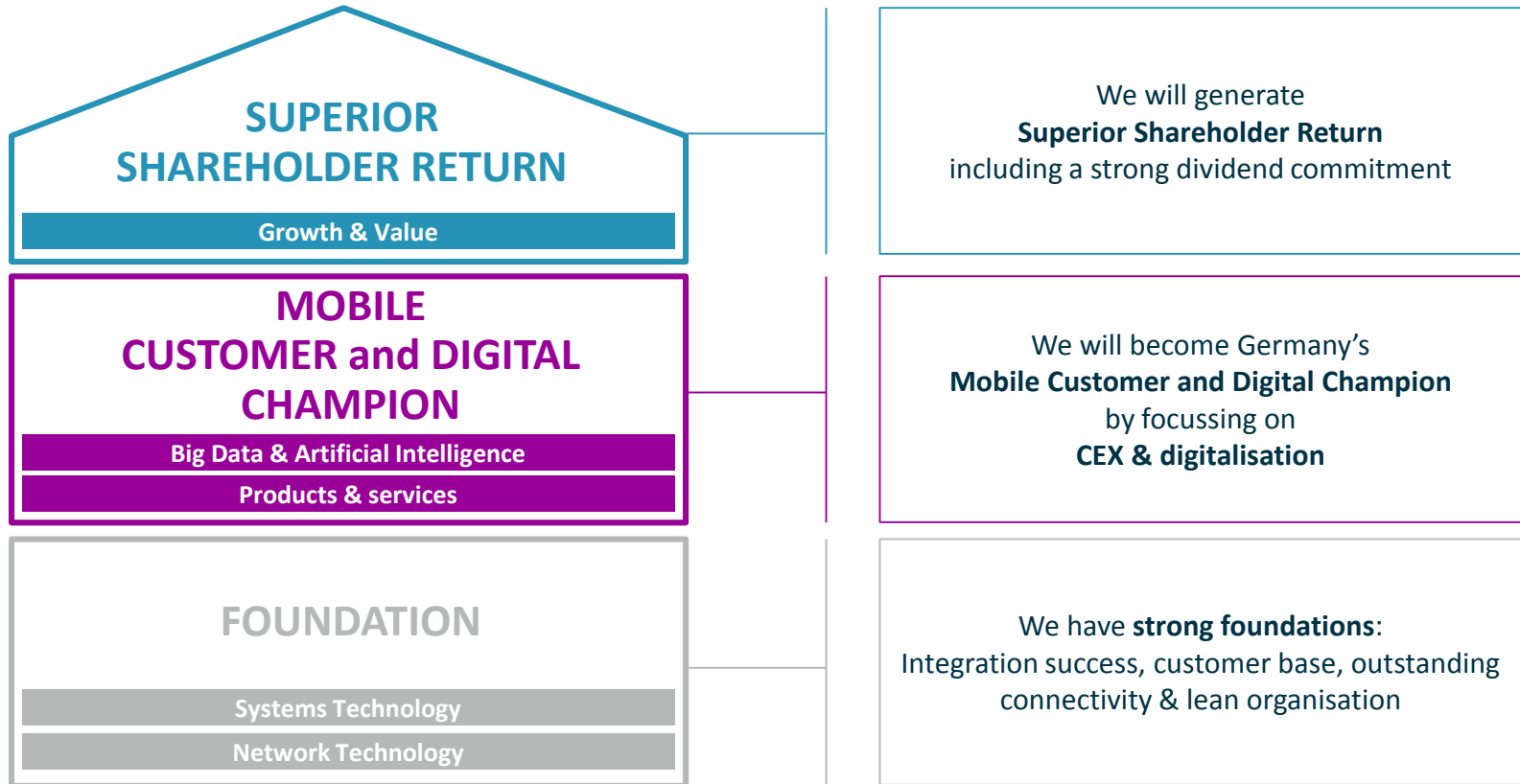
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The Telefónica Deutschland Equity Story: Becoming the Mobile Customer & Digital Champion



¹ Excluding regulatory effects

Strategic priorities of Telefónica Deutschland



The 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



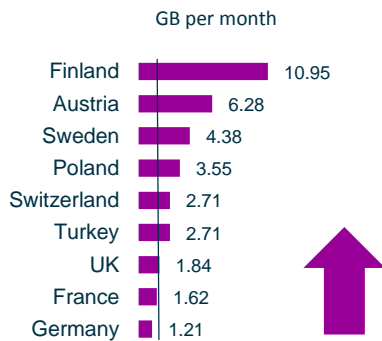
Europe needs a common regulatory framework on spectrum, as well as deregulation and a consistent framework for OTT & net neutrality to encourage investments

¹ FocusEconomics Consensus Forecast Euro Area (2017)

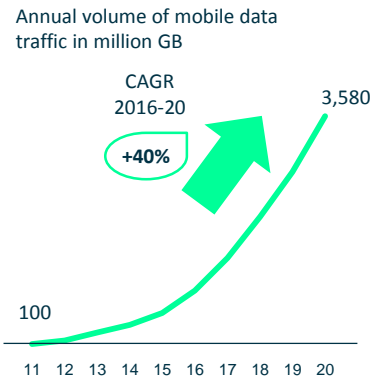
The data & device opportunity: Expecting explosive growth

MARKET TRENDS – German market with significant further growth potential

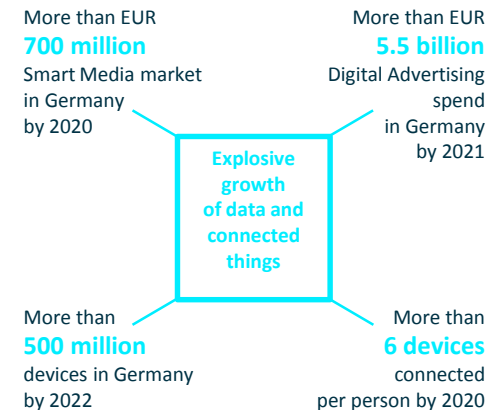
Mobile data usage in Europe¹



Mobile data traffic in Germany²



ADA and IoT growth opportunity³



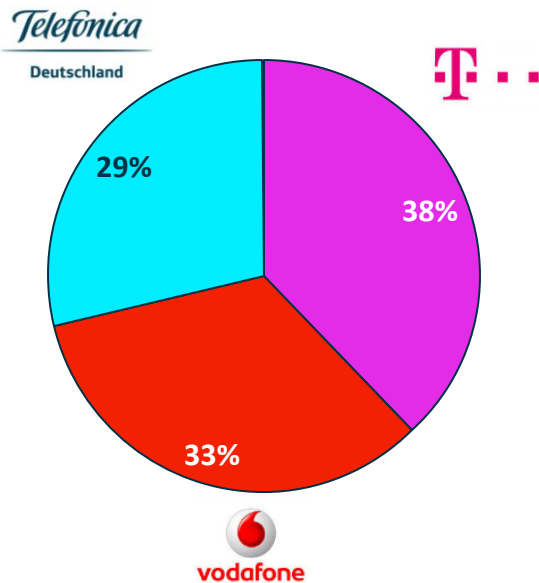
¹ Forbes/OECD (2017): 'Mobile Data Subscriptions: Which Countries Use The Most Gigabytes?'

² Bundesnetzagentur (2017): 'Jahresbericht 2016'; Analysis Mason (2017): 'Western Europe telecoms market: interim forecast update 2016-2021'

³ Company Research / Simon-Kucher & Partners analysis (2017) / Cisco VNI Global forecast (2017) / Please note: Devices including cellular, wifi & bluetooth

Competitive environment Germany

Rational and balanced market structure¹

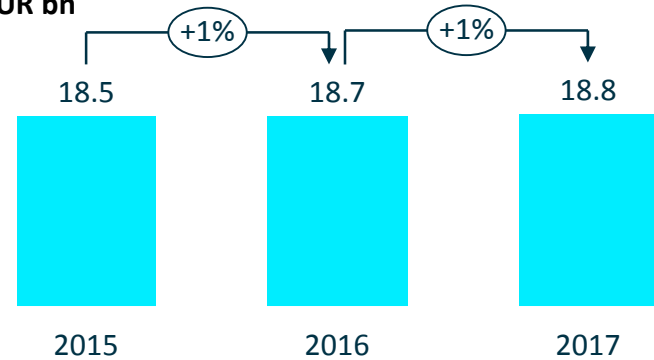


- Rational market following 4 to 3 consolidation
- Tiered mobile data portfolios enabling data monetisation

Market development in past years

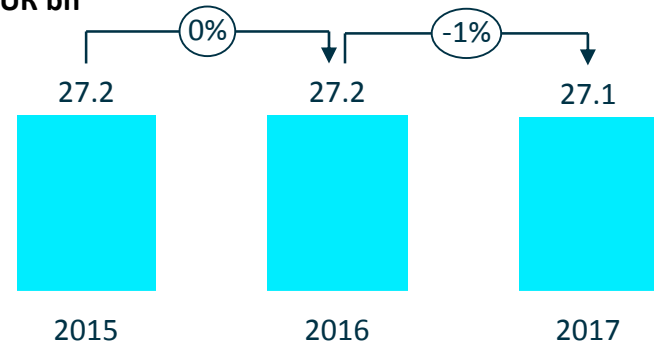
Mobile market: Service revenues²

EUR bn



Fixed market: Service revenues³

EUR bn



¹ Market share of MSR based on reported financials by MNOs for Q2 2018

² Mobile service revenues (external revenues) excl. hardware revenues; Source: Bundesnetzagentur (German national regulator) "Jahresbericht 2017" as of May 2018

³ Fixed service revenues (external revenues) in telecommunications and hybrid fixed coax (HFC) networks excl. hardware revenues; Source: Bundesnetzagentur (German national regulator) "Jahresbericht 2017" as of May 2018

The new Telefónica Deutschland: Largest and fastest mobile merger in the West

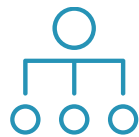
2 companies
3 years

>9,000 Employees



>25%

OIBDA growth
in 3 years



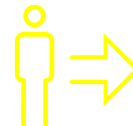
~1,600
FTE

Organisation
harmonised
in 3 years



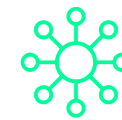
600

Shop reduction
in 3 years



>25
m

Customers
migrated to one
IT stack in 2016



>14k

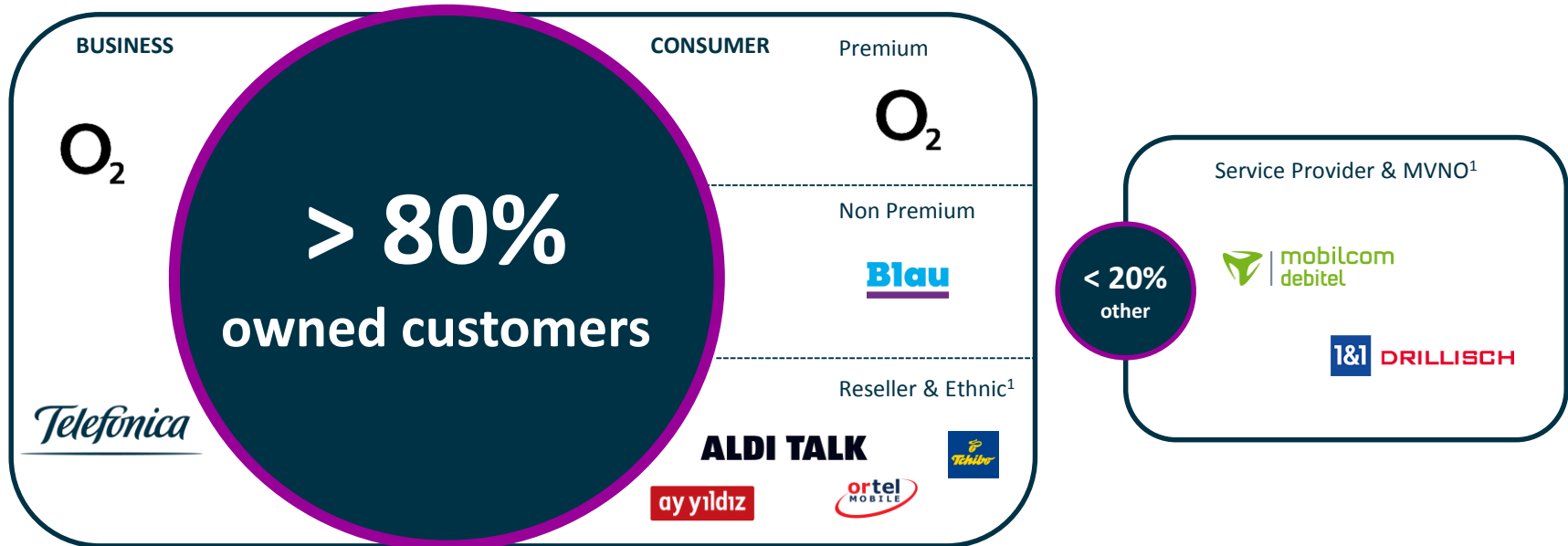
Network sites
to be
consolidated
by 2019



O₂
Free

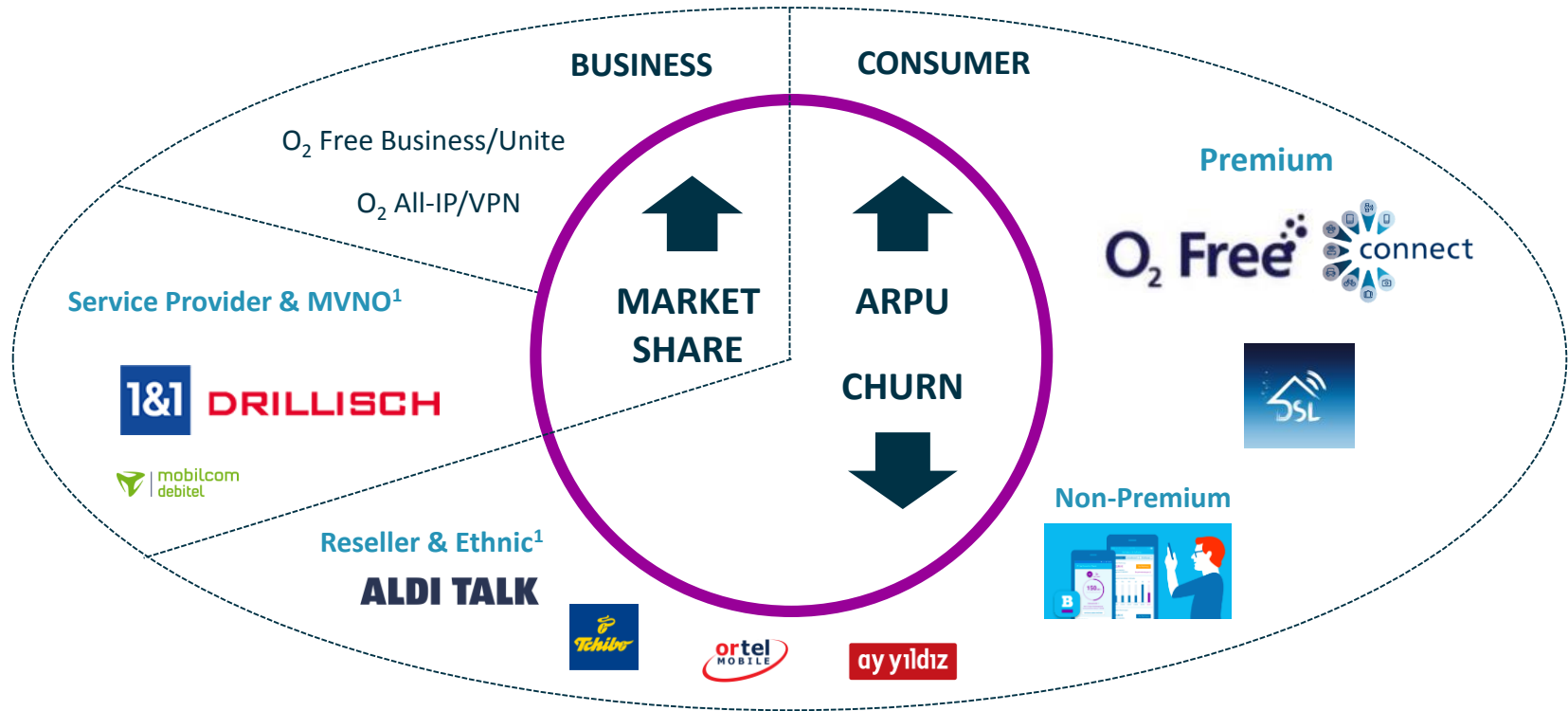
First 3G
unlimited
First 4G big
bucket portfolio

Core asset: Largest owned customer base of ~35 million



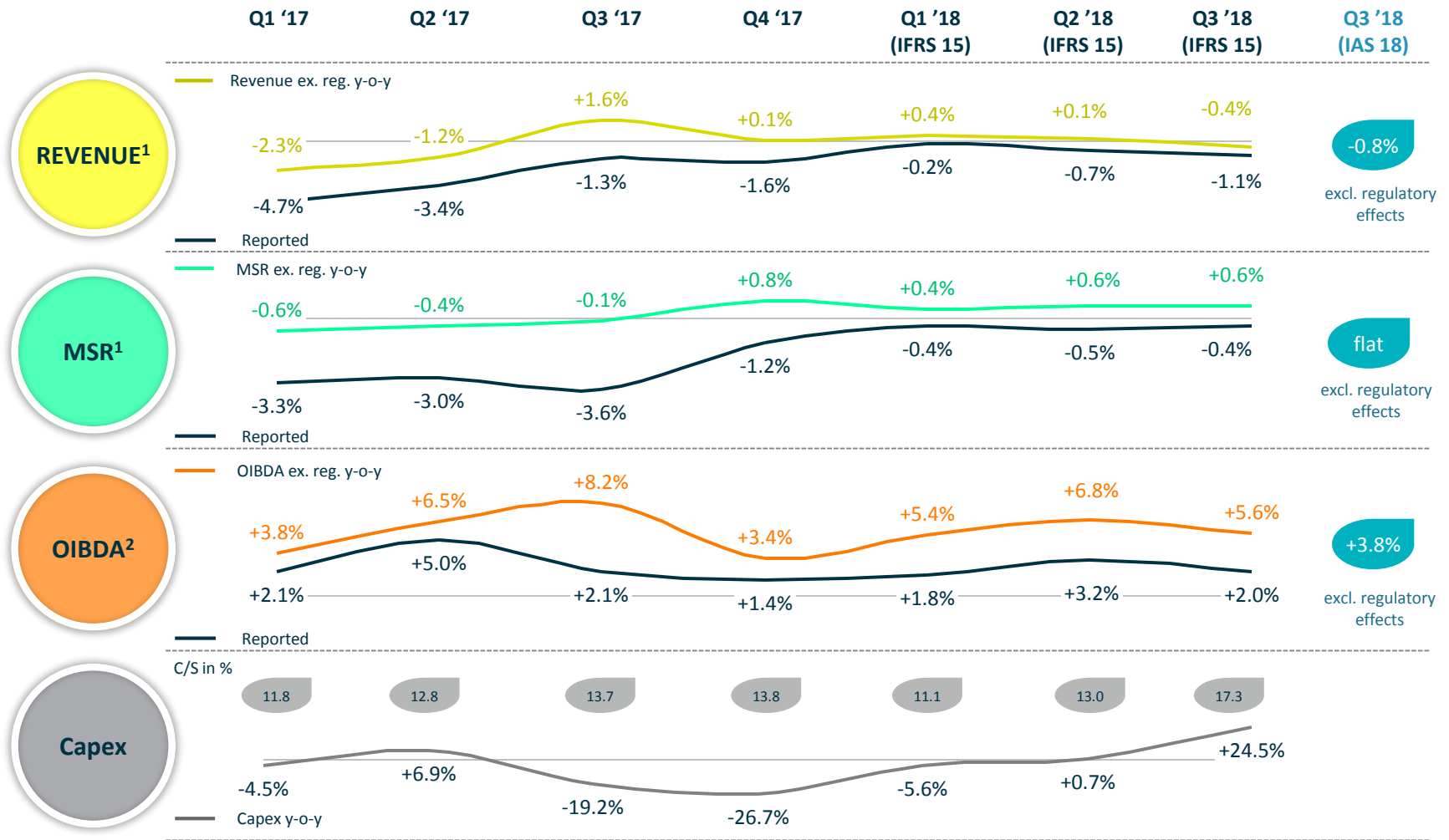
¹ Not exhaustive

Future-proof portfolios across all segments



¹ Not exhaustive

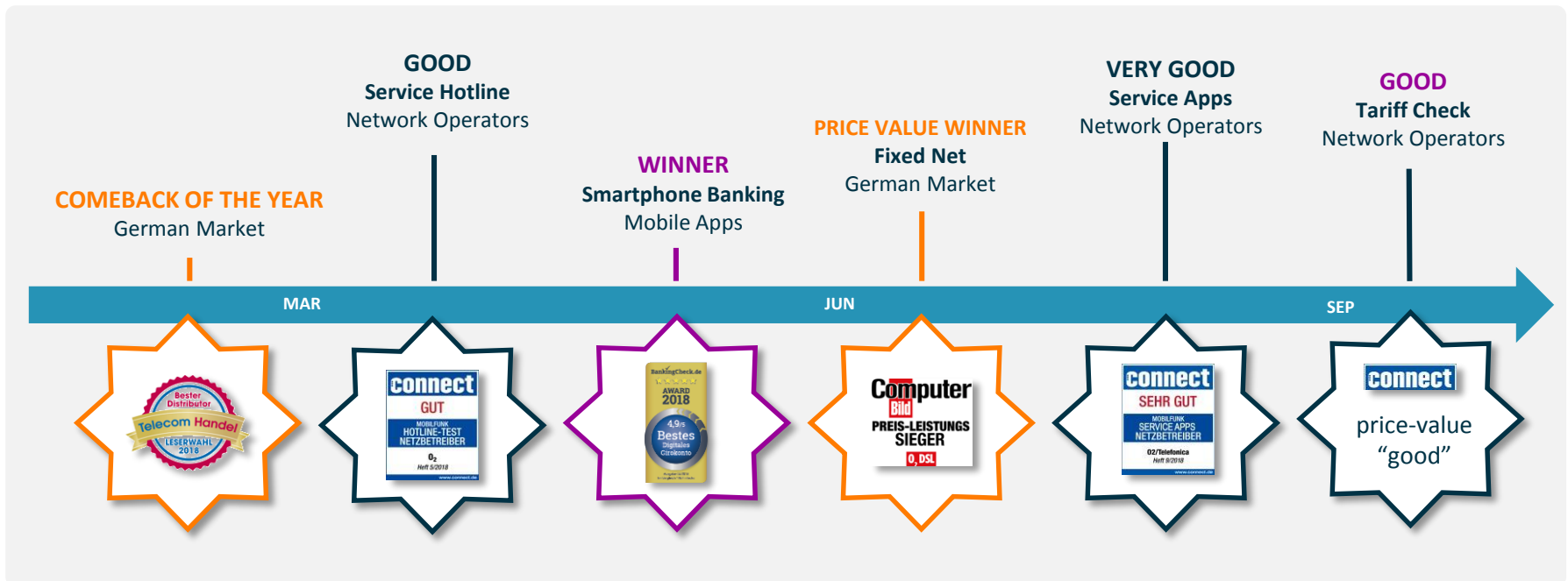
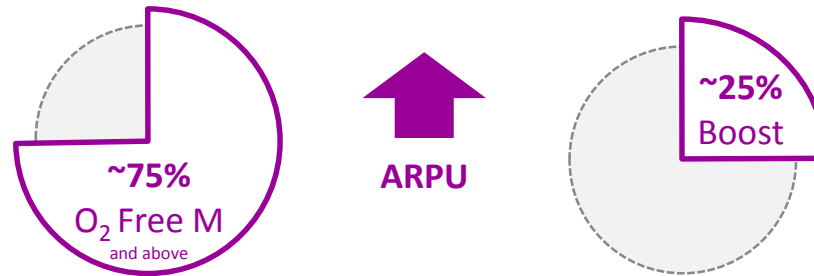
Operational and financial trends solid



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 Q3 2018 results release.

Building the Mobile Customer & Digital Champion; focus on customer experience



O₂ Free, my All in One & DSL portfolio

2018 O₂ Free

O₂ Free Unlimited unbegrenzt <ul style="list-style-type: none"> Unbegrenzte Highspeed-Daten mit LTE Max. Sorgenfrei surfen, so viel du willst, erste mobile Flatrate ohne Limit Albert Flat Telefon- & SMS-Flat in alle dt. Netze <p>59,99 + Hochgeschw. 23,99 €</p>	O₂ Free L 30 GB <ul style="list-style-type: none"> 30 GB Highspeed Daten mit LTE Max. Weiterauf-Garantie nach Verbrauch der Daten mit 1000 KB/s ver surfen Albert Flat Telefon- & SMS-Flat in alle dt. Netze Connect-Funktion Datenvolumen mit mehreren SIM-Karten auf deinen mobilen Geräten nutzen <p>29,99 + Hochgeschw. 23,99 €</p>	Preis-Leistungs-Tipp O₂ Free M 10 GB <ul style="list-style-type: none"> 10 GB Highspeed Daten mit LTE Max. Weiterauf-Garantie nach Verbrauch der Daten mit 1000 KB/s ver surfen Albert Flat Telefon- & SMS-Flat in alle dt. Netze Connect-Funktion Datenvolumen mit mehreren SIM-Karten auf deinen mobilen Geräten nutzen <p>19,99 + Hochgeschw. 23,99 €</p>	O₂ Free S 1 GB <ul style="list-style-type: none"> 1 GB Highspeed Daten mit LTE Max. Weiterauf-Garantie nach Verbrauch der Daten mit 1000 KB/s ver surfen Albert Flat Telefon- & SMS-Flat in alle dt. Netze Connect-Funktion Datenvolumen mit mehreren SIM-Karten auf deinen mobilen Geräten nutzen <p>19,99 + Hochgeschw. 23,99 €</p>
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2018 O₂ Free connect + boost


O₂ Free L Boost 60 GB <ul style="list-style-type: none"> Nur bis 02.09.2018: S, - € Anschlusspreis Code: vollkomabonus 60 GB Highspeed-Daten mit LTE Max Weiterauf-Garantie nach Verbrauch der Daten mit 1000 KB/s ver surfen Albert Flat Telefon- & SMS-Flat in alle dt. Netze Connect-Funktion Datenvolumen mit mehreren SIM-Karten auf deinen mobilen Geräten nutzen <p>44,99 + Hochgeschw. 23,99 €</p>	Preis-Leistungs-Tipp O₂ Free M Boost 20 GB <ul style="list-style-type: none"> Nur bis 02.09.2018: S, - € Anschlusspreis Code: vollkomabonus 20 GB Highspeed-Daten mit LTE Max Weiterauf-Garantie nach Verbrauch der Daten mit 1000 KB/s ver surfen Albert Flat Telefon- & SMS-Flat in alle dt. Netze Connect-Funktion Datenvolumen mit mehreren SIM-Karten auf deinen mobilen Geräten nutzen <p>34,99 + Hochgeschw. 23,99 €</p>	O₂ Free S Boost 2 GB <ul style="list-style-type: none"> Nur bis 02.09.2018: S, - € Anschlusspreis Code: vollkomabonus 2 GB Highspeed-Daten mit LTE Max Weiterauf-Garantie nach Verbrauch der Daten mit 1000 KB/s ver surfen Albert Flat Telefon- & SMS-Flat in alle dt. Netze Connect-Funktion Datenvolumen mit mehreren SIM-Karten auf deinen mobilen Geräten nutzen <p>24,99 + Hochgeschw. 23,99 €</p>
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2018 O₂ my All in One

O₂ my All in One unbegrenzt für unterwegs und zuhause <ul style="list-style-type: none"> Unbegrenzte Highspeed-Daten mit LTE Max. Albert Flat Telefon- & SMS-Flat in alle dt. Netze Albert Flat Telefon- & SMS-Flat ins EU Ausland Nur für kurze Zeit inkl. Connect-Option: Datenvolumen mit mehreren SIM-Karten auf deinen mobilen Geräten nutzen <p>79,99 + Hochgeschw. 23,99 €</p>	O₂ Free Unlimited unbegrenzt für unterwegs <ul style="list-style-type: none"> Unbegrenzte Highspeed-Daten mit LTE Max. Albert Flat Telefon- & SMS-Flat in alle dt. Netze <p>59,99 + Hochgeschw. 23,99 €</p>	O₂ my Home M 50 MBit/s für zuhause <ul style="list-style-type: none"> Unbegrenzte Highspeed-Daten Download bis zu 50 MBit/s Upload bis zu 10 MBit/s Telefon-Flat vom Festnetz in alle dt. Netze Anschlussgebühr gratis <p>19,99 40.000 S. Monat 24,99 €</p>
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2018 O₂ DSL

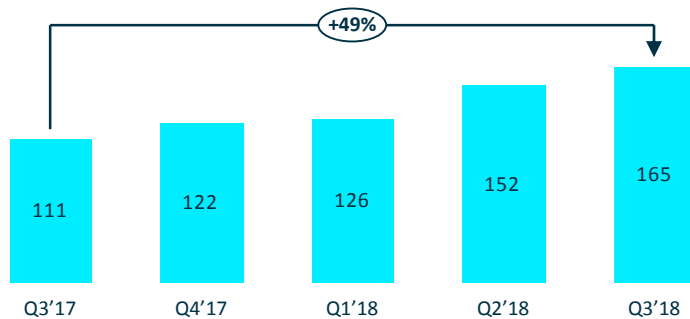
O₂ my Home L¹ 100 MBit/s DSL <ul style="list-style-type: none"> Super-Highspeed DSL Download bis zu 100 MBit/s Upload bis zu 40 MBit/s Telefon-Flat kostenlos in alle dt. Netze 49,99 € Anschlussgebühr 4 € Bereitstellungsgebühr bei Router-Ausgabe <p>Effektivpreis pro Monat: nur 24,99 €</p> <p>24,99 40.000 S. Monat 24,99 €</p>	Unsere Empfehlung O₂ my Home M¹ 50 MBit/s DSL <ul style="list-style-type: none"> Highspeed DSL Download bis zu 50 MBit/s Upload bis zu 10 MBit/s Telefon-Flat kostenlos in alle dt. Netze 49,99 € Anschlussgebühr 4 € Bereitstellungsgebühr bei Router-Ausgabe <p>Effektivpreis pro Monat: nur 24,99 €</p> <p>19,99 40.000 S. Monat 24,99 €</p>	O₂ my Home S¹ 10 MBit/s DSL <ul style="list-style-type: none"> DSL Download bis zu 10 MBit/s Upload bis zu 2 MBit/s Telefon-Flat kostenlos in alle dt. Netze 49,99 € Anschlussgebühr 4 € Bereitstellungsgebühr bei Router-Ausgabe <p>Effektivpreis pro Monat: nur 22,07 €</p> <p>14,99 40.000 S. Monat 24,99 €</p>
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- ✓ S/M/L tariffs with  connect feature
- ✓ Including up to 9 SIMs for devices

Data KPIs remain strong; fuelled by large data buckets in the updated O₂ Free portfolio

Data growing steadily

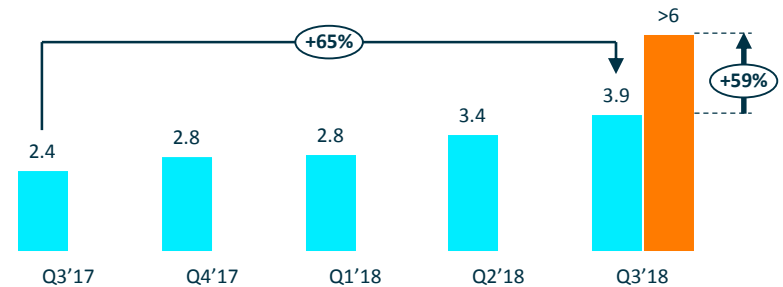
Traffic (TB/Q)



Large data buckets fuelling usage growth

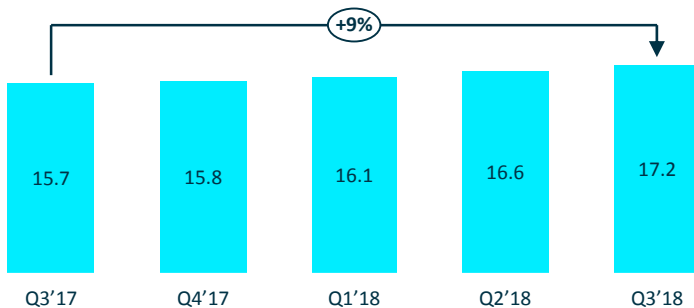
Average data usage for O₂ LTE customers (GB/month)

■ O₂ Free M tariff



LTE customer base still increasing

LTE customers (in million)



- Music & video streaming driving steady data growth of almost 50% y-o-y
- Continued demand for LTE; access base up 9% y-o-y to 17.2 million LTE customers
- Average usage of O₂ LTE customers grows >15% q-o-q
- O₂ Free customers use more than 6GB of data

We are pushing ahead with the final phase of network consolidation ...

~85%

consolidated

~12k

sites dismantled

20 years
network anniversary



~94%

combined mobile broadband coverage

~85%

LTE coverage

~5k/~15k

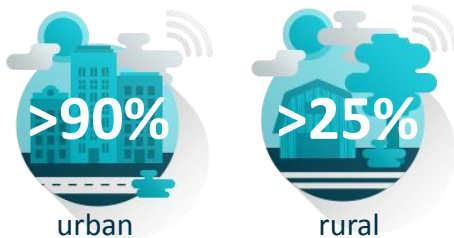
additional LTE
sites/elements
on air YTD

... and ensuring 5G readiness for the future

MBH fibre cooperations

Partnering with
Deutsche Telekom
Vodafone
NGN
others

to meet our 2022 targets



Fixed Wireless Access

Piloting end-to-end solution for
Fixed-Wireless-Access with
Samsung in Hamburg



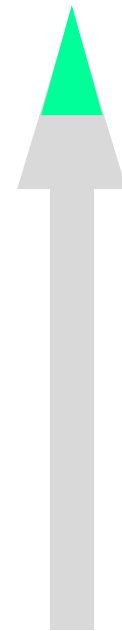
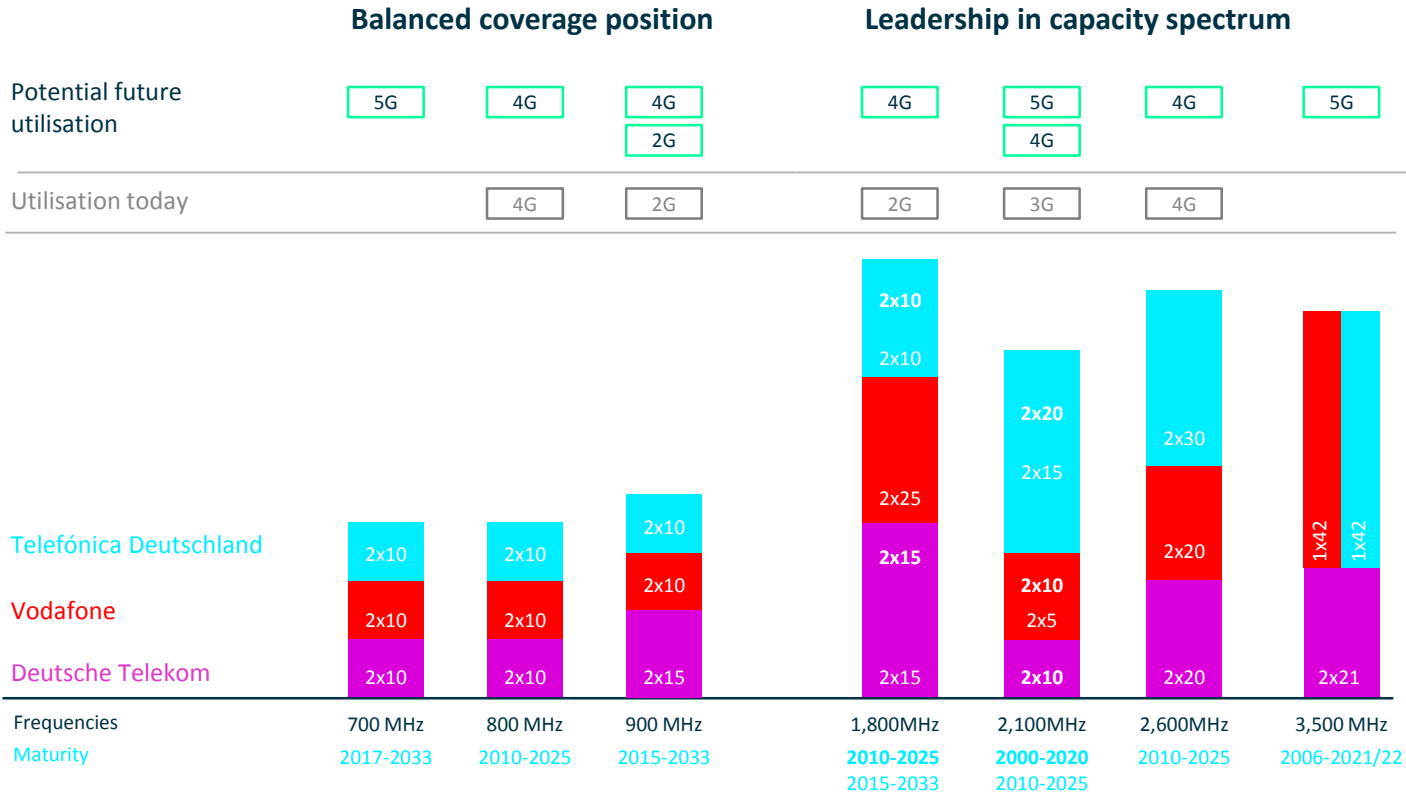
Preliminary results of ~3Gbps
show promising utilisation of
26GHz & 28GHz bands

Mobile Pact: Declaration of Intent

Investment-friendly cooperation
drives nationwide coverage



Future-proof spectrum setup to enable best customer experience



Need for balanced economic framework conditions

BNetzA auction conditions

final as of 26 NOV

Reserve price (all blocks)
EUR 100 million

No
National Roaming

No
Service provider obligation

98%
HH covered w/ 100Mbps by
2022e

Railways, main highways and federal
roads covered w/ 100Mbps
by 2022e



Our demands

Auction design
low entry bids and
low bid increments

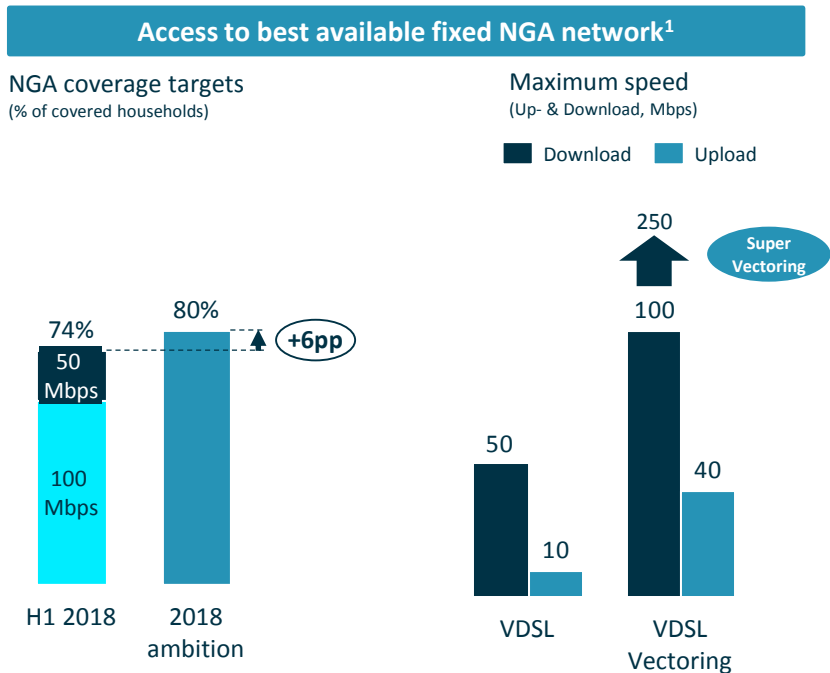
No access obligation
to enable economically
viable investments

Fair payment conditions
in line with spectrum
availability

Feasible obligations
long wave for coverage &
short wave for capacity

No regional spectrum
risk of fragmented 5G
networks

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



- 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 speed of up to 250 Mbps. Available in >30% of households until 2018 YE

¹ NGA: Next Generation Access including VDSL, Vectoring and future FTTH deployments

Fixed

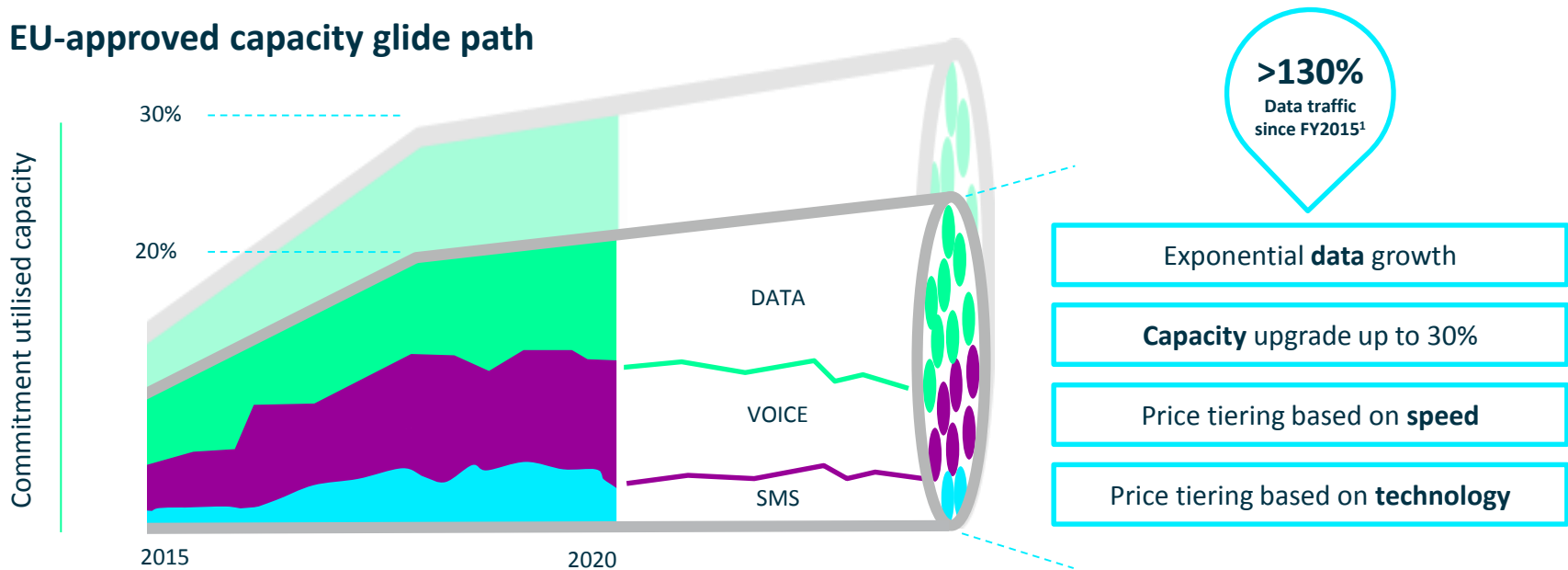
- Access to best available fixed NGA network¹
- Fixed: Access to >31 million VDSL households
- Full convergence capabilities

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

MBA MVNO contract economics: Four levers for revenue growth

EU-approved capacity glide path



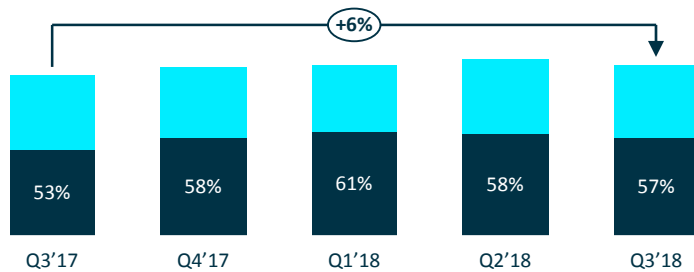
¹ Telefónica Deutschland mobile network traffic

Market dynamic yet rational across segments; solid partner trading

Partner gross add share reflects improving retail trends

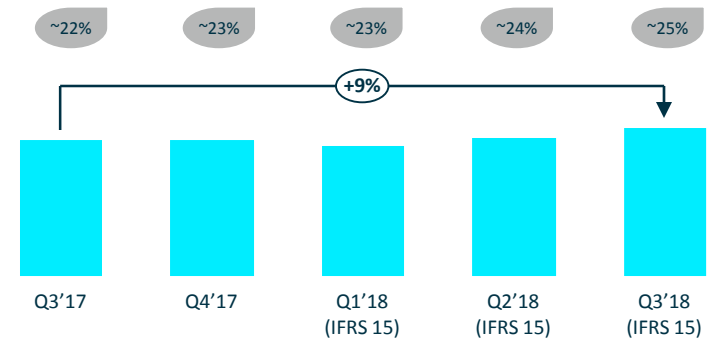
Postpaid gross adds share

GA retail brands GA partner brands



Partner revenue growth in line with expectations

Postpaid partner MSR / Share over postpaid revenue (in %)



- Market segmentation remains intact with dynamic yet rational competitive environment also in discount segment; maintaining our focus on fair market share
- Partner momentum solid; partner gross add share reflects focus on 4G offer and strong retail momentum in Q3
- Continue to see partner revenue growing q-o-q and y-o-y on the back of data growth; in line with expectations

Transformation programme *Digital4Growth*, 2019-22

Digital4Growth



SIMPLER



FASTER



BETTER

Total case:
OIBDA benefit by 2022

~EUR 600m

Omnichannel	~25%
Reduced complexity	
Refreshed IT architecture	

Digital speed & processes	~35%
Smart growth	




ADA & IoT	~40%
Care of the future	
Shop strategy	

Growth-centric case:
>60% gross margin
gains

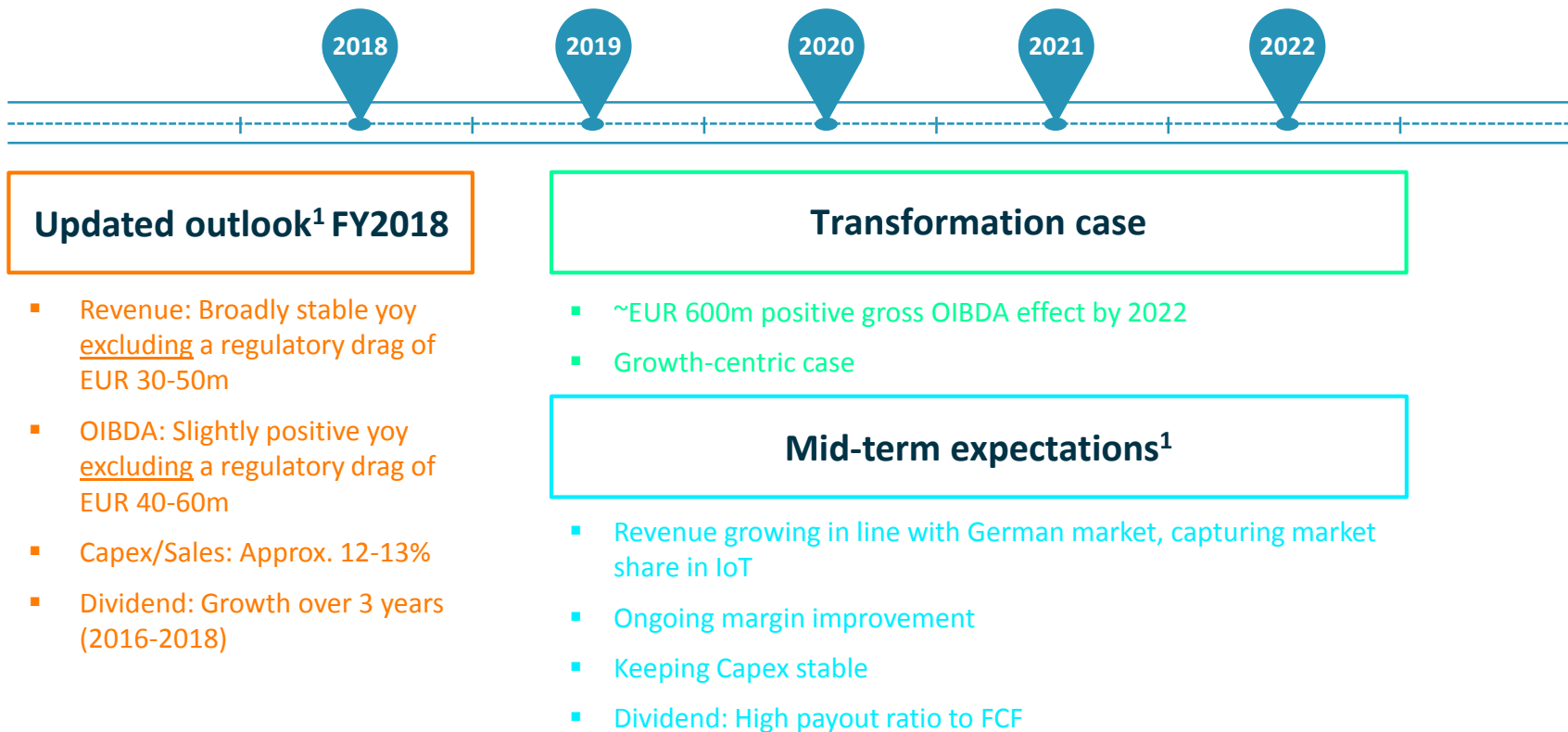


Building on the
efficiency gains of the
integration

Digital4Growth targets

 SIMPLER	O ₂ app penetration: >80% (vs. 20% 2017)	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

Financial expectations



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

Full-year 2018 outlook¹

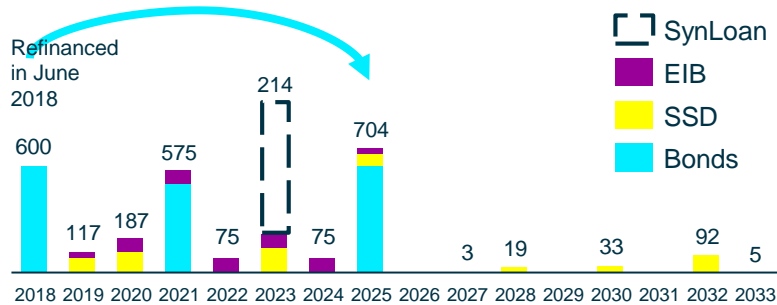
	Actual 2017	Outlook 2018	9M 2018	Updated Outlook 2018
Revenue	EUR 7,296 million	Broadly stable y-o-y (excl. negative regulatory effects of EUR 30-50 million)	EUR 5,376 / -0.3% y-o-y Based on IAS 18 <hr/> EUR 5,393 / flat y-o-y Based on implementation of IFRS 15 as 1 January 2018	Broadly stable y-o-y (excl. negative regulatory effects of EUR 30-50 million)
OIBDA³	EUR 1,840 million	Flat to slightly positive y-o-y (excl. negative regulatory effects of EUR 40-60 million)	EUR 1,394 / +4.0% y-o-y Based on IAS 18 <hr/> EUR 1,421 / +6.0% Based on implementation of IFRS 15 as 1 January 2018	Slightly positive y-o-y (excl. negative regulatory effects of EUR 40-60 million)
C/S	13%	Approx. 12-13%	13.8%	Approx. 12-13%
Dividend	EUR 0.26 per share Proposal for FY 2017 to the AGM on 17 May 2018	Annual dividend growth for 3 consecutive years (2016-2018)	Dividend proposal of EUR 0.27/share to AGM in May 2019	Annual dividend growth for 3 consecutive years (2016-2018)

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

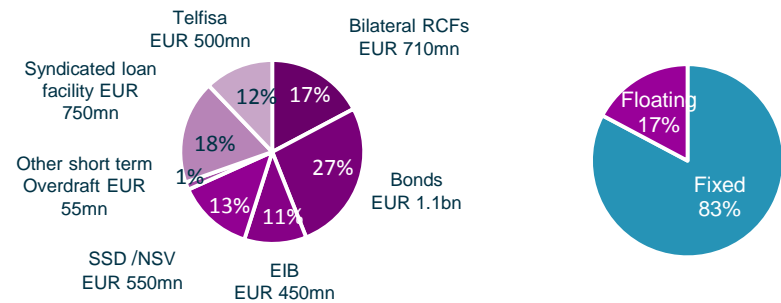
² Exceptional effects such as restructuring costs or the sale of assets are excluded

Comfortable liquidity position as per 09/2018

Smooth maturity profile and diversified financing mix (in EURm)



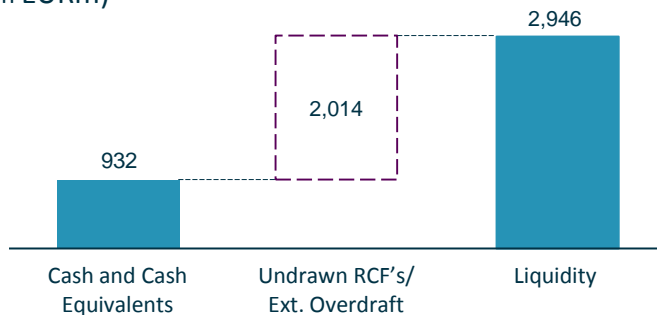
Financing and interest mix*



*excluding the matured bond Nov. 2018

Comfortable liquidity position

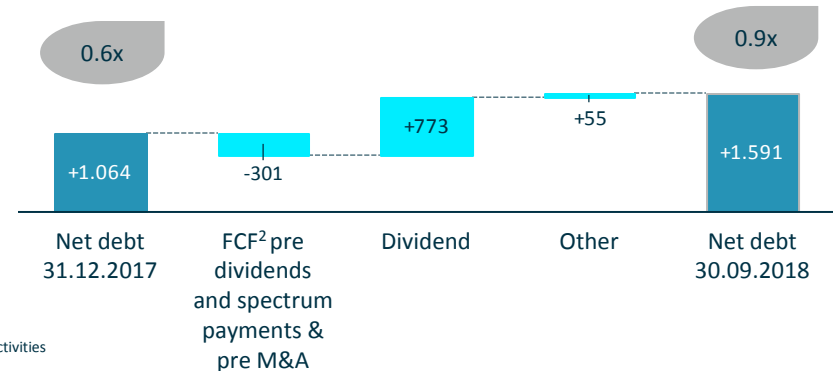
(in EURm)



Leverage ratio at 0.9x¹

(in EURm)

Leverage ratio¹



¹ For definition of net debt & leverage ratio please refer to Q3 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

Attractive shareholder remuneration policy

Shareholder remuneration policy – Main guidelines¹

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

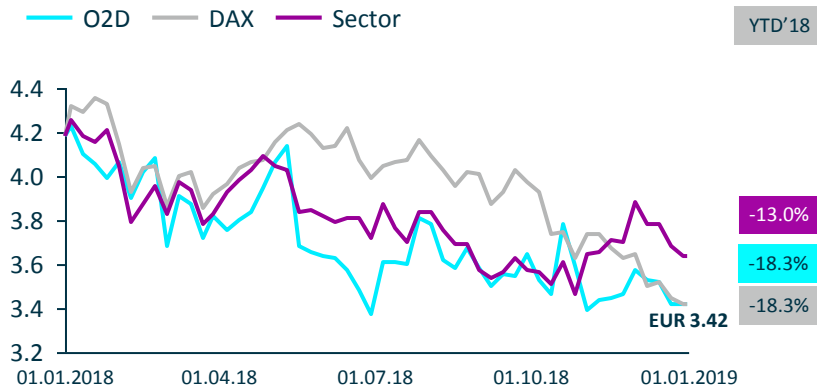
Annual dividend growth over 3 years: EUR 0.25/share for 2016, EUR 0.26/share for 2017; proposal of EUR 0.27/share for 2018 to AGM



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

O2D Factsheet

Share price development until 31.12.2018

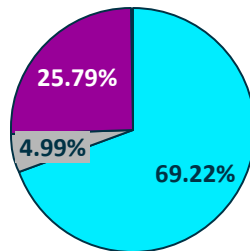


Telefónica Deutschland at a glance

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap (as of 31.12.2018)	EUR 10,167.0 m
Share price (as of 31.12.2018)	EUR 3.42

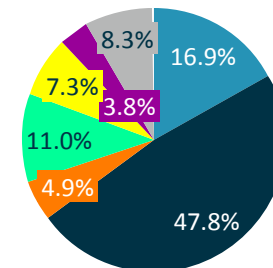
Shareholder structure as of 01.11.2018¹

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



Regional split of shareholder structure⁴

- UK & Ireland
- North America
- France
- Germany
- Continental Europe
- Scandinavia
- Rest of World



¹ Status: 1 November 2018

² Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A.; Status: According to shareholder register as of 1 November 2018

³ According to notification of voting rights by KPN as of 1 November 2018

⁴ Source: NASDAQ; Shareholder ID as of October 2018

The team: Telefónica Deutschland board members



Markus Haas
Chief Executive Officer



Markus Rolle
Chief Financial Officer



Wolfgang Metzke
Chief Consumer Officer



Alfons Lösing
Chief Partner & Business Officer



Cayetano Carbajo Martín
Chief Technology Officer



Guido Eidmann
Chief Information Officer



Valentina Daiber
Chief Officer Legal & Corporate Affairs



Nicole Gerhardt
Chief Human Resources Officer

Quarterly detail of relevant financial and operating data for Telefónica Deutschland

Financials	2017					2018		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
Revenue (excl. regulatory effects)	1,771	1,771	1,850	1,904	7,296	1,778	1,773	1,843
Mobile service revenues (excl. regulatory effects)	1,292	1,318	1,344	1,332	5,287	1,298	1,326	1,351
Revenue	1,771	1,771	1,850	1,904	7,296	1,767	1,758	1,830
OIBDA (post Group fees) adjusted for exceptional & regulatory effects	401	472	468	499	1,840	422	504	494
OIBDA (post Group fees) adjusted for exceptional effects	401	472	468	499	1,840	408	487	478
CapEx excl. investments in spectrum	208	226	254	262	950	197	228	316
C/S Ratio (based on Revenue)	11.8%	12.8%	13.7%	13.8%	13.0%	11.1%	12.9%	17.2%
Revenue and Opex related Synergies	~35	~40	~40	~45	~160	~35	~30	~25

Accesses	2017					2018		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
Total Accesses	49,550	49,907	49,403	47,604	47,604	47,075	47,180	47,268
o/w Mobile	44,675	45,194	44,842	43,155	43,155	42,777	42,962	43,049
Prepay	23,967	24,289	23,754	21,881	21,881	21,346	21,198	21,052
Postpay	20,708	20,905	21,088	21,274	21,274	21,431	21,764	21,997

Investor Relations contact details



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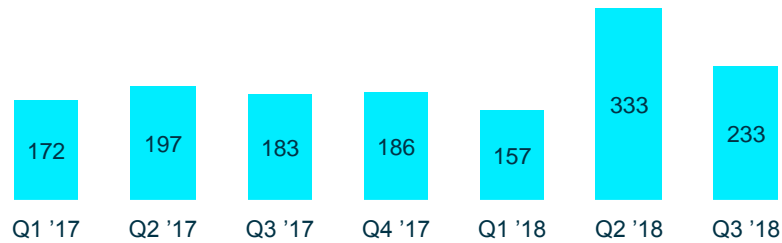


Appendix - KPIs

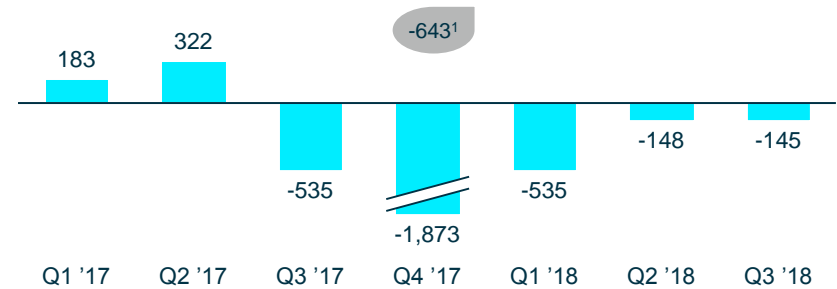


Mobile KPIs

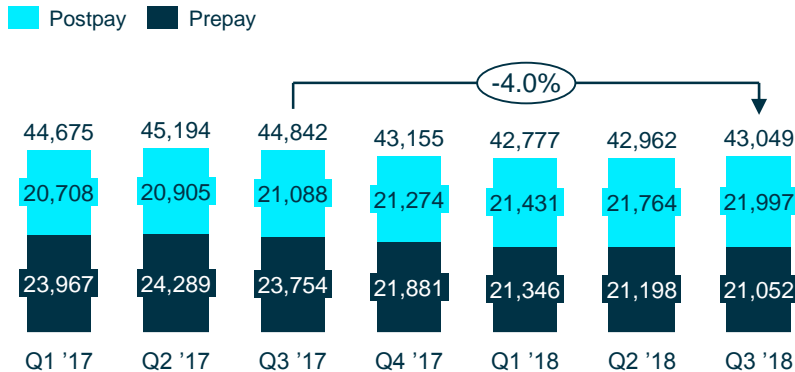
Postpay net adds ('000)



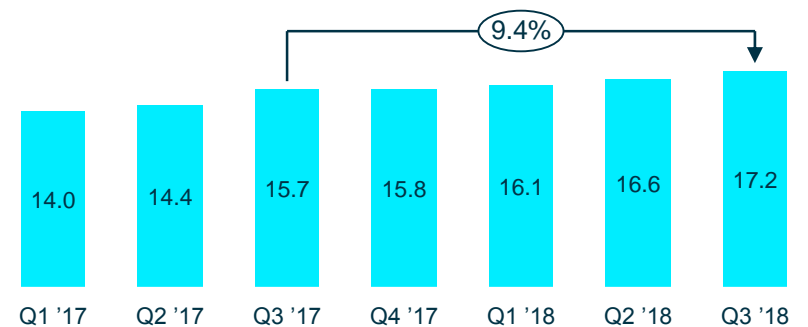
Prepay net adds ('000)



Mobile customer base ('000)



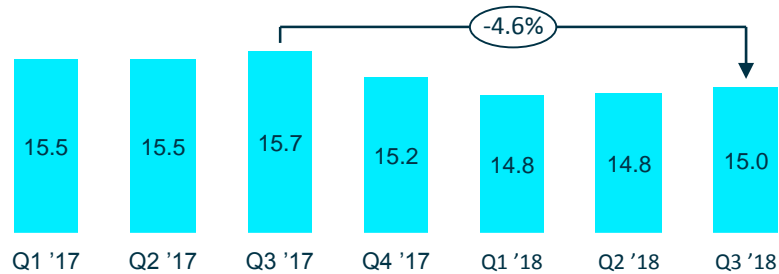
LTE customer base (in m)



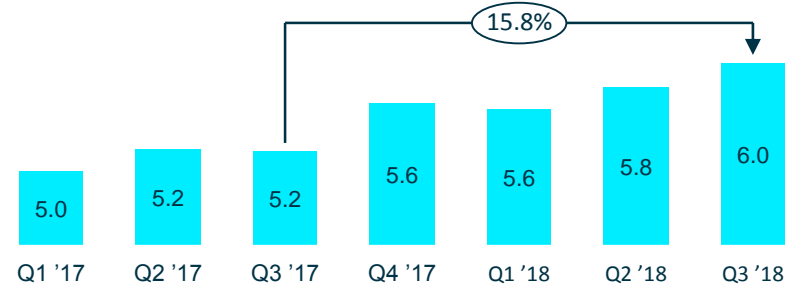
¹ Underlying mobile prepaid net adds: technical customer base adjustment driven by IT-harmonisation post prepay customer migration of -1.230k

Mobile KPIs

Postpay ARPU (EUR)



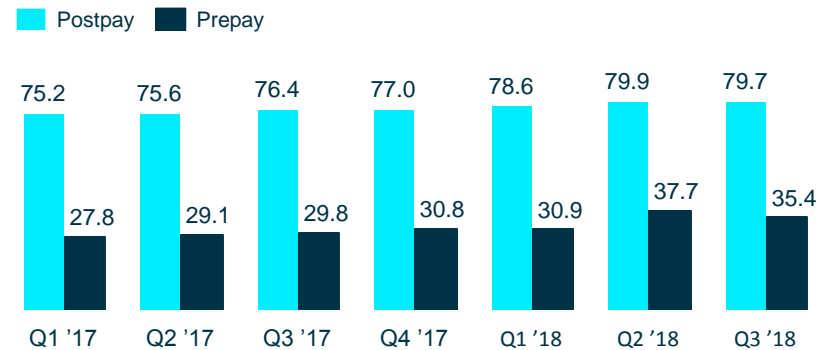
Prepay ARPU (EUR)



Smartphone penetration (%)¹



Smartphone penetration O₂ consumer (%)

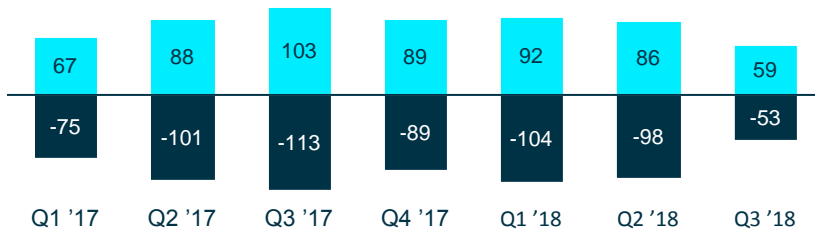


¹ Smartphone penetration is based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base less M2M, less customers with a big screen tariff

Fixed line KPIs

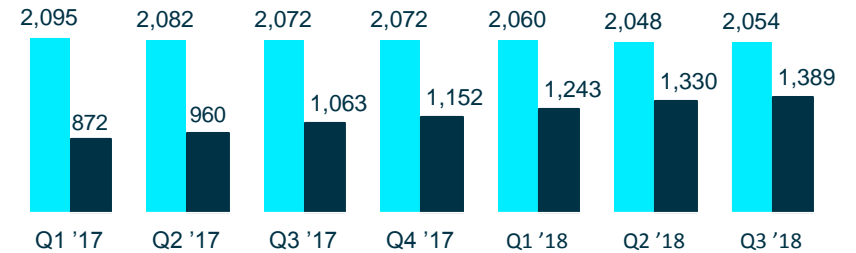
Retail broadband net adds ('000)

Therof DSL Therof VDSL

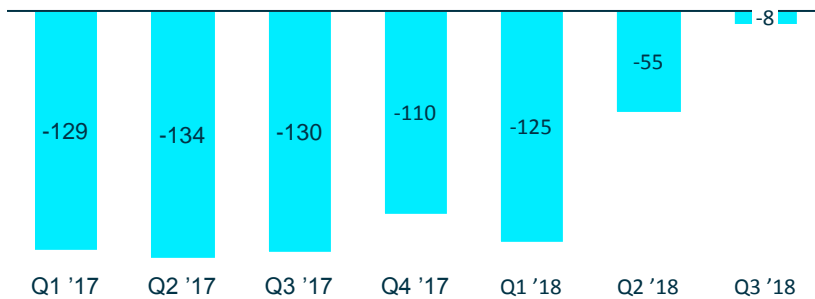


Fixed accesses ('000)

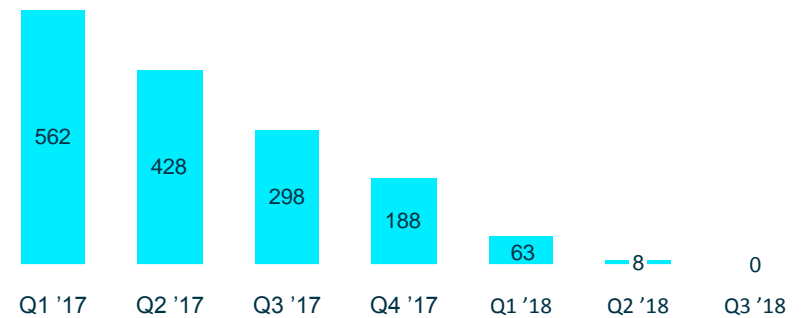
Retail DSL thereof VDSL



Wholesale net adds ('000)



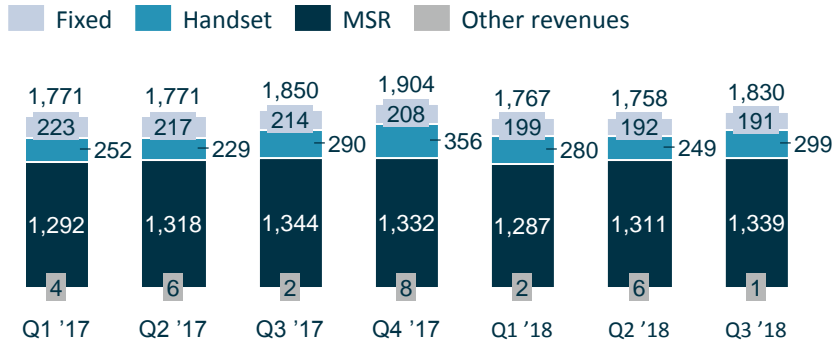
Wholesale accesses ('000)¹



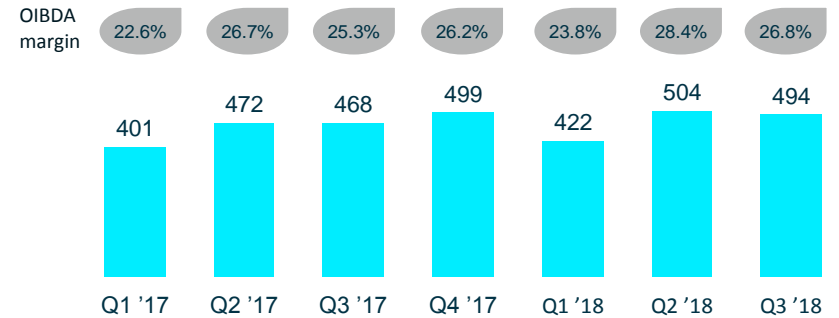
¹ Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access

P&L

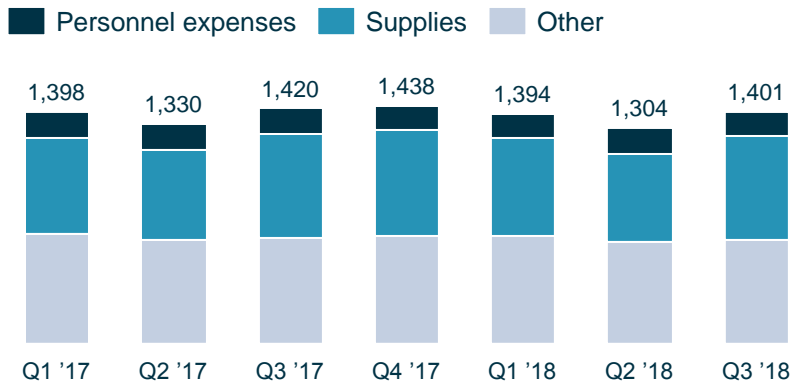
Revenue structure (EUR m)



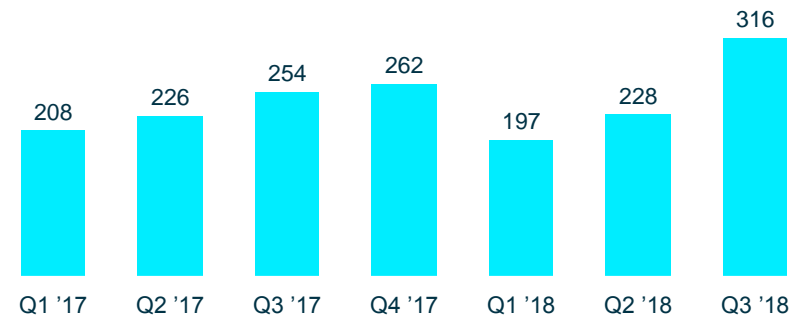
OIBDA (post GF, pre exceptional effects / EUR m)¹



OpEx split² (EUR m)



CapEx (EUR m)



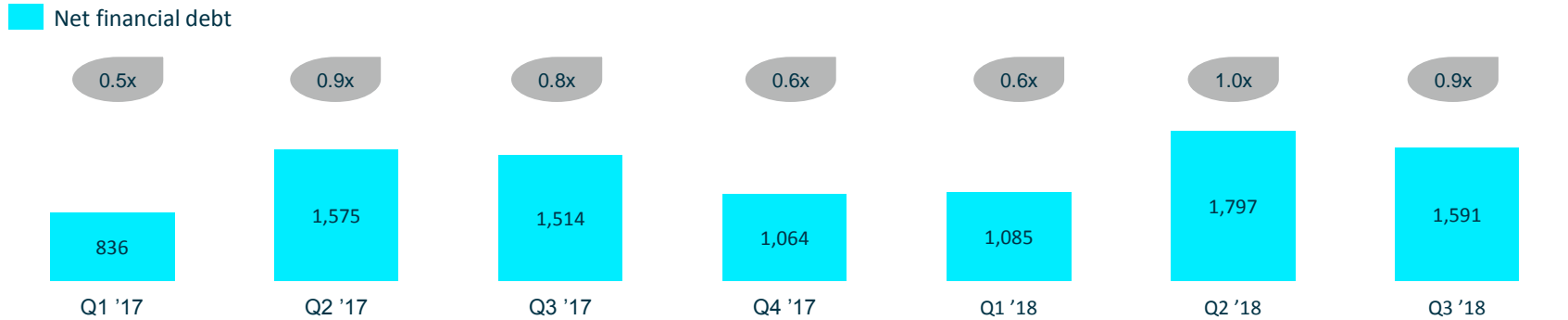
¹ Excluding the negative impact from regulatory changes and y-o-y comparison based on IAS18 accounting standards for 2017 and IFRS15 for 2018

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 Q3 2018 results release

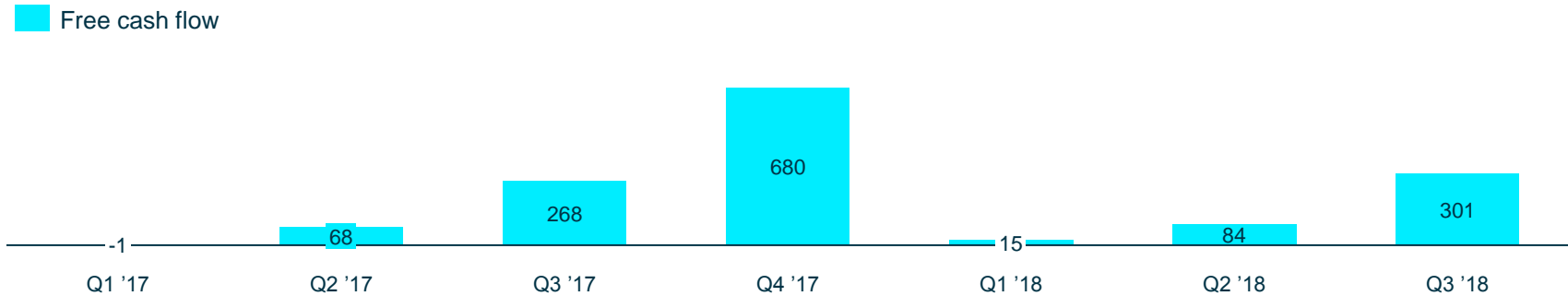
³ Opex-split before exceptional effects

Financials

Net debt and leverage



Free cash flow¹ (YTD)



¹ Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum in June 2015 as well as related interest payments

Telefónica
