Q1 2018 preliminary results

Telefónica Deutschland, Investor Relations

25 April 2018

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Q1 2018 – Summary

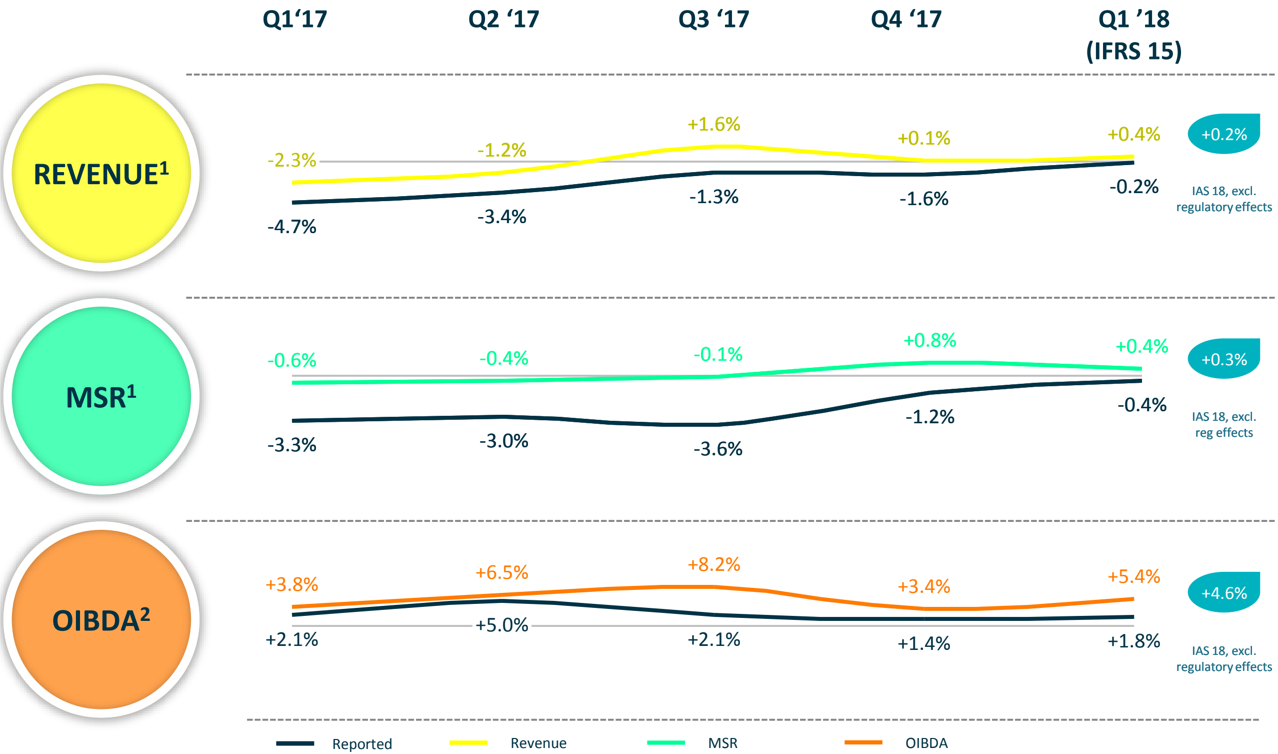
Solid operational trends with strong OIBDA growth

DATA	REVENUE[1]	OIBDA[2]	OpCF
+46% (y-o-y)	+0.4% (y-o-y)	+5.4% (y-o-y)	+8.7% (y-o-y)

- Sustained strong data traffic growth (+50% y-o-y) leveraging new O_2 Free portfolio; 16.1 million LTE customers (+15% y-o-y)
- MSR[1] +0.4% y-o-y; ARPU of new O_2 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.

Positive underlying y-o-y performance across P&L



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Big data portfolio feeds mass market consumer demand

- Driving **ARPU-up** with O_2 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**

Becoming the Mobile Customer & Digital Champion

Fixing the basics and delivering execution proof points

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

TechCity

Early **5G innovation cluster** with NOKIA

NGN **fibre coop**

>9k

Sites switched **off**

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Digital4Growth: Preparation in 2018

Driving app penetration, CS automation and launch of O_2 hub

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

Q1 2018 with focus on value; strong OIBDA trends

Net adds
+157k PO
+92k VDSL

- Solid operational momentum in the quarter driven by O_2 Free with focus on value
- Strong partner trading in a more benign pricing environment
- Continued strong demand for VDSL

Revenue[1]
+0.4% y-o-y

- MSR[1] +0.4% y-o-y: Tailwinds from O_2 Free and continued headwinds legacy base rotation
- Handset revenues[1] reflecting uptick in customer demand for high-end devices with +10.8% y-o-y
- Shutdown of legacy infrastructure in 2019 still weighing on fixed revenues[1]

OIBDA[2]
+5.4% y-o-y

- OIBDA benefitting from successful synergy capture
- Approx. EUR 35 million of synergies from leaver programme, network & shops
- Margin enhancement of +1.1 percentage points y-o-y to 23.8% in the first quarter

Dividend
EUR 0.26/share

- OpCF benefits from additional approx. EUR 15 million Capex synergies
- Leverage at 0.6x, in line with target; strong FCF of EUR 15 million
- AGM: 17 May 2018, proposal of EUR 0.26 dividend per share for FY 2017

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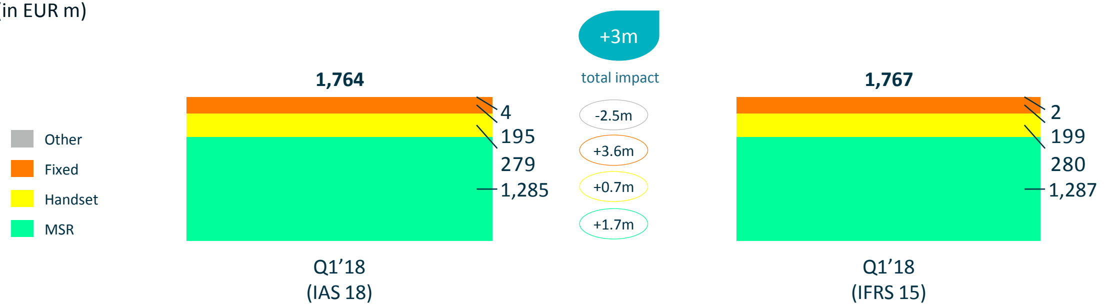
IFRS15 accounting:
Only minor impact on Telefónica Deutschland P&L

REVENUE impact of IFRS15

(in EUR m)



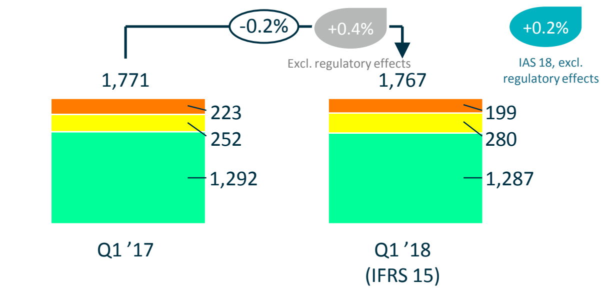
OIBDA impact of IFRS15

(in EUR m)

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

Revenue trends further improving

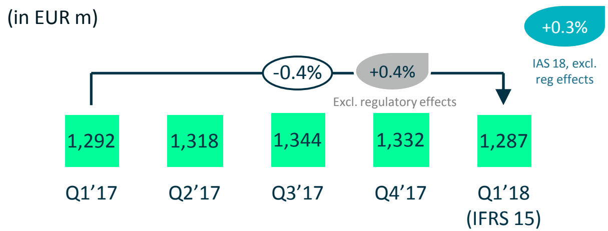
(in EUR m)



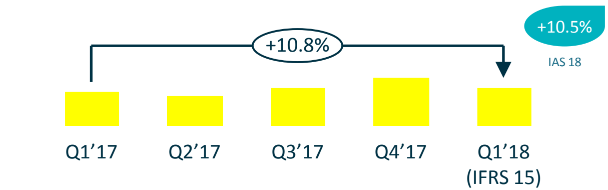
- Underlying revenue returning to y-o-y growth on the back of sustained MSR trends
- EUR 11 million of reg. impacts, mainly RLH
- Handset trends in line with German market
- Fixed revenue reflects wholesale migration & planned dismantling of legacy infrastructure

Underlying MSR continues to grow y-o-y

(in EUR m)

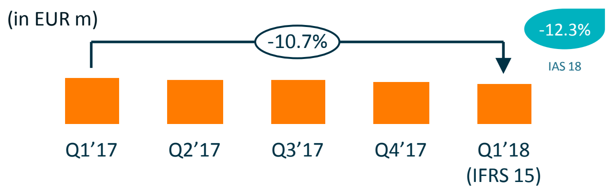


Stronger demand for handsets



Unchanged trends in fixed revenues

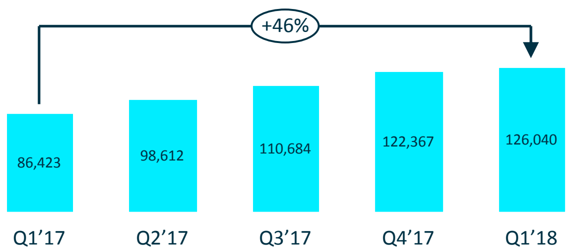
(in EUR m)



Data uptake with seasonal effects in Q1, showing steady growth

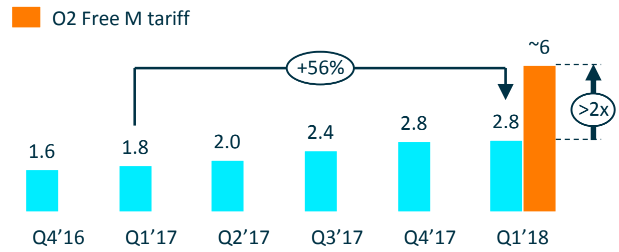
Data growing steadily

Traffic (TB/Q)



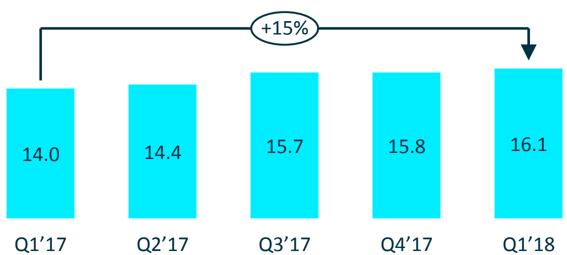
LTE usage trends with seasonal effects

Average data usage for O_2 LTE customers (GB/month)



LTE customer base still increasing

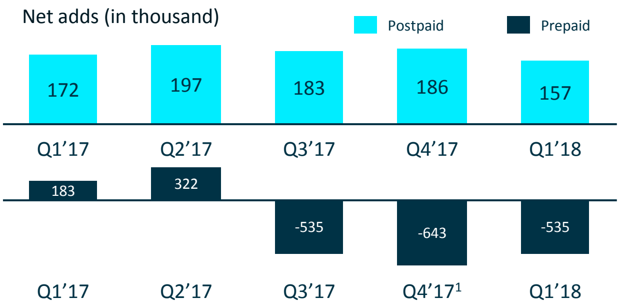
LTE customers (in million)



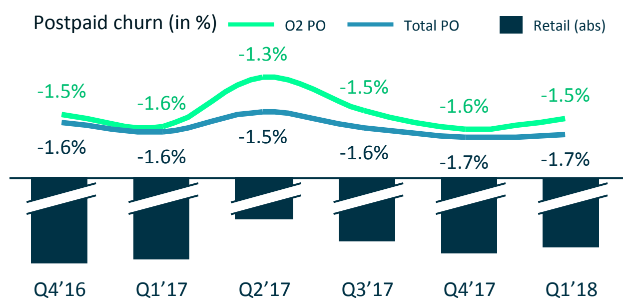
- Music & video streaming driving steady data growth of ~50% y-o-y
- Data growth for O_2 consumer LTE customers with seasonal effect as in 2017
- O_2 Free M tariff customers use ~6GB of data
- LTE customer base up 15% y-o-y to 16.1m

Trading trends steady with focus on value in Q1; O_2 churn with further improvement

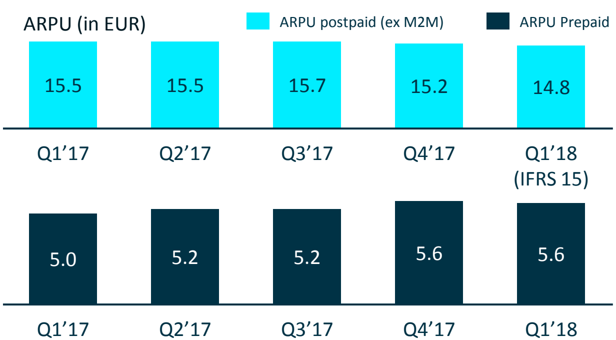
Value over volume focus



Maintaining retention focus



ARPU impacted by regulatory headwinds



- Solid market momentum with O_2 Free and strong partner performance; focus on value over volume
- Lower demand for prepaid driven by regulatory changes
- Churn in O_2 consumer remains low
- Regulation still a headwind in ARPU

[1] Excluding the impact from the final customer base adjustment

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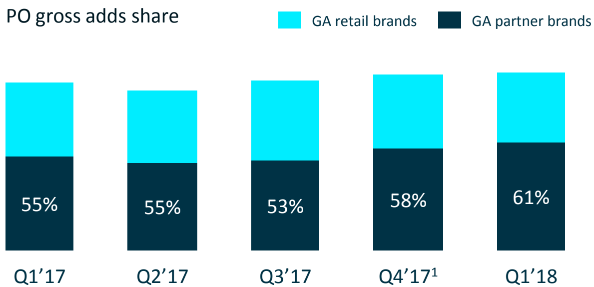
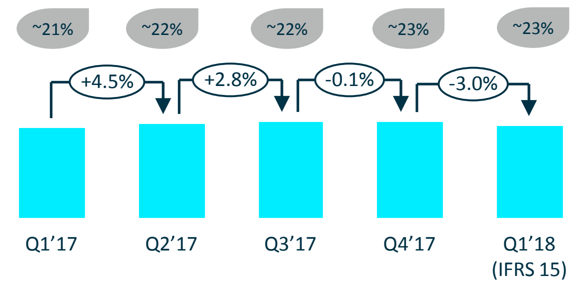
Segment stats reflect MBA MVNO dynamics and focus on value

Partner effected by migrations



Partner revenue reflects focus on value

PO partner MSR / Share over PO revenue (in %)

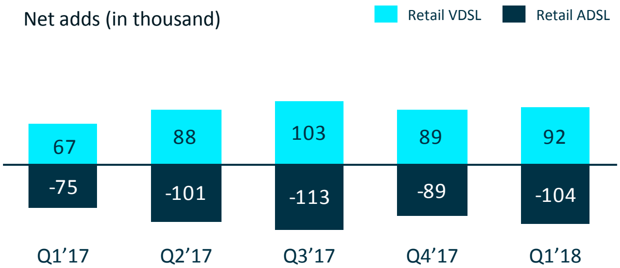


- Partner trading benefits from focus on 4G offers, resulting in higher gross add share
- More benign competitive environment and clear focus on profitable growth
- Partner revenue reflects MBA MVNO contract dynamics after merger and focus on value

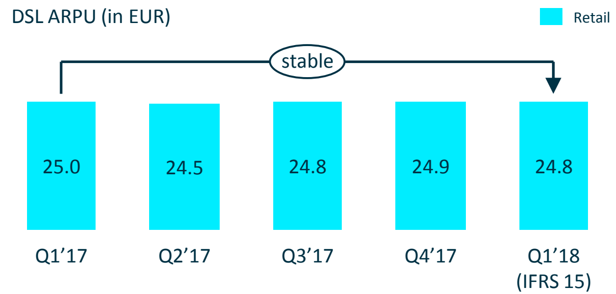
[1] including migration effects

Fixed business driven by wholesale migration and strong VDSL net adds

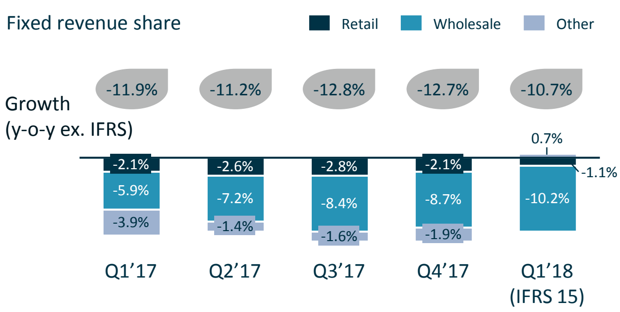
VDSL drives fixed retail trading…



… and ARPU performance



Fixed revenue reflects wholesale migration



- 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

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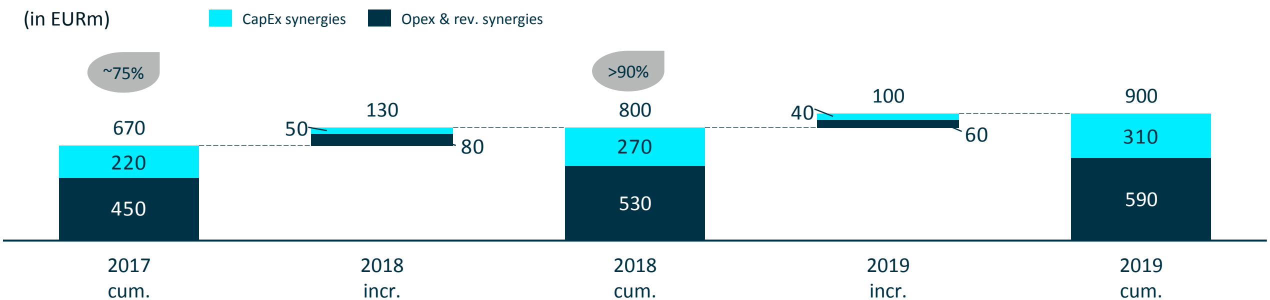
Recap: Clear synergy trajectory

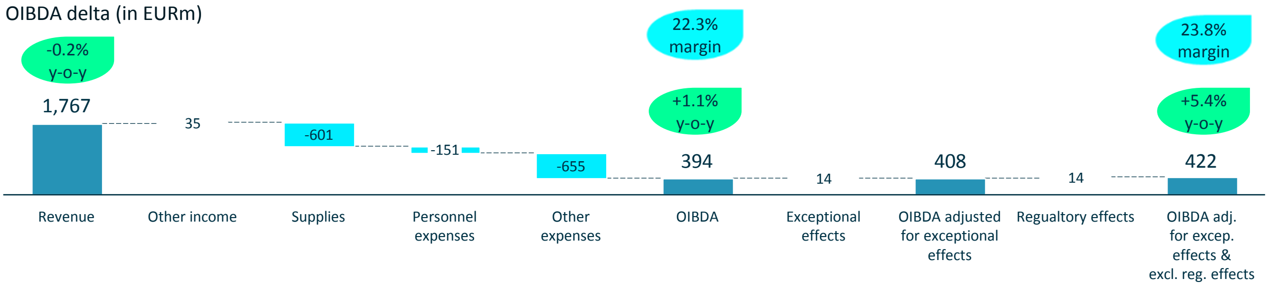
Synergy case 2017 -2019



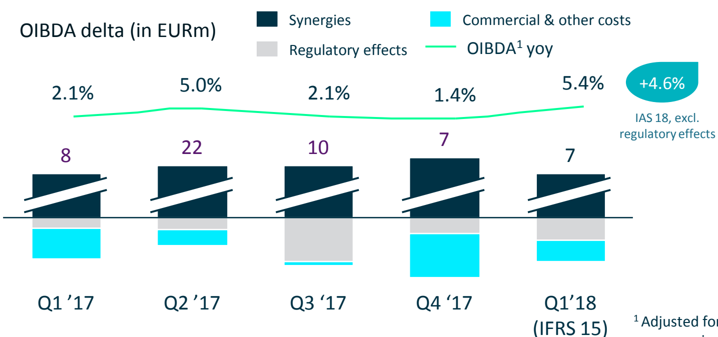
- Major integration projects mostly finalised by year end 2017; ~75% of increased OpCF target already delivered
- 2018: Expect incremental savings of EUR 80 million at OIBDA level (mainly from network) and EUR 50 million at CapEx level
- 2018 phasing of Opex and revenue synergies front-loaded due to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

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

Structure of OIBDA for January to March 2018



OIBDA[1] growth on the back of synergy delivery



- 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

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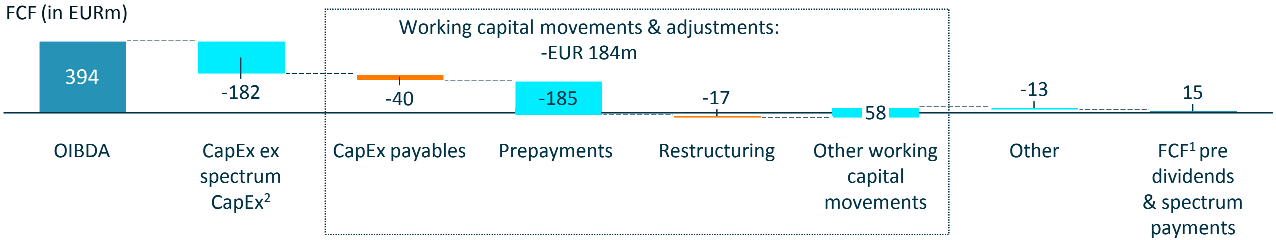
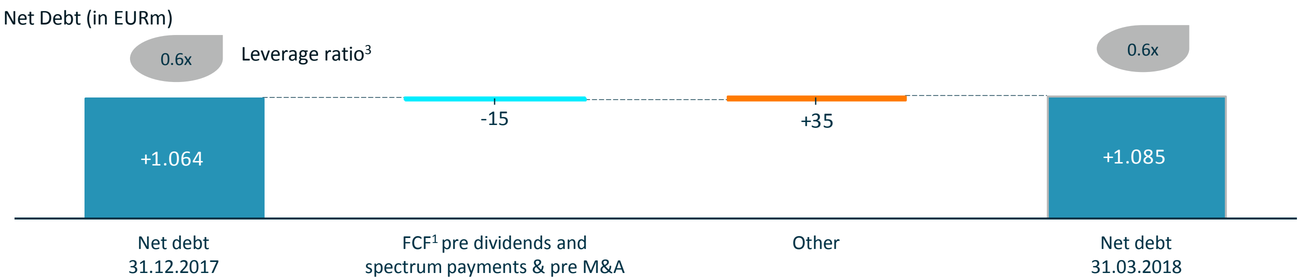
FCF with normal seasonal annual distribution

Evolution of Free Cash Flow (FCF)[1] YTD March 2018



[1] FCF pre dividend & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities
[2] Excluding additions from capitalised finance leases and capitalised costs on borrowed capital for investments in spectrum.

Evolution of Net Debt[3] – Leverage[3] in line with target



[3] For definition of net debt & leverage ratio please refer to Q1 2018 earnings release

Summary

Solid revenue[1] trend with positive trajectory

Trading with focus on value in Q1

Strong OIBDA[1] supported by cost discipline and synergies

Operational momentum and Capex efficiency driving FCF momentum

[1] Excluding regulatory effects

Telefónica Deutschland Q1 2018 preliminary results – Q&A session

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