Q3 2018
preliminary results

Telefónica Deutschland Investor Relations

30 October 2018

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9M 2018 – Summary

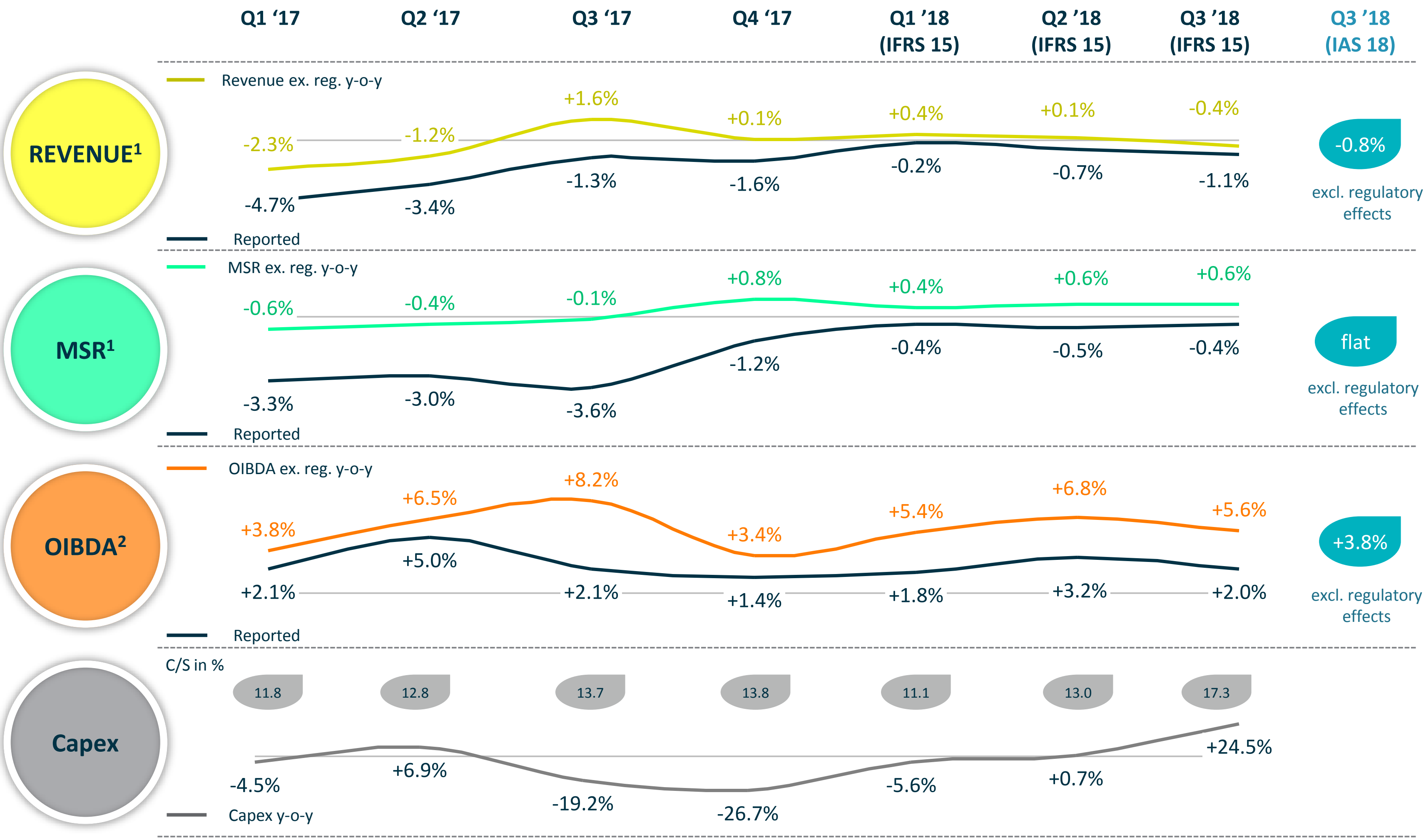
Strong OIBDA growth reflects synergy capture and operational momentum

DATA	REVENUE[1]	OIBDA[2]	OpFCF
+50% (y-o-y)	**FLAT** y-o-y **-0.3%** (y-o-y IAS18)	**+6.0%** y-o-y **+4.0%** (y-o-y IAS18)	**-2.7%** (y-o-y)

- Mobile data traffic with sustained growth rates of +50% y-o-y; strong demand for LTE (17.2 million LTE customers, +9% y-o-y)
- Stable underlying MSR[1] trends, +0.5% y-o-y growth (+0.2% IAS 18); O_2 Free portfolio supports APRU-up strategy
- OIBDA reflects synergy capture operational momentum with focus on profitable growth & fair market share; narrowing OIBDA guidance for FY 2018 to “slightly positive” on the back of bringing forward of ~EUR 20m synergies from 2019 to 2018
- OpFCF growth driven by strong OIBDA and efficient Capex
- Dividend proposal of EURc 27 per share for FY 2018 to AGM in May 2019

[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.

Operational and financial trends solid



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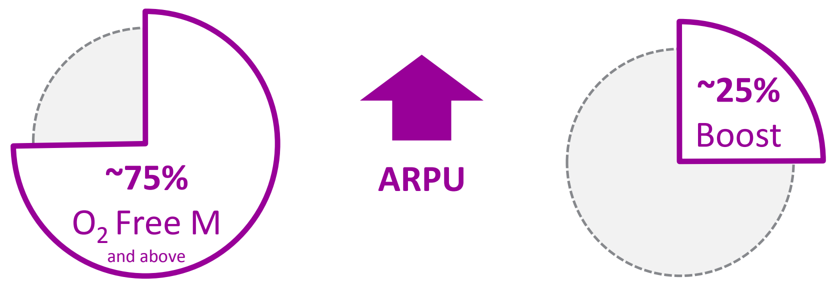
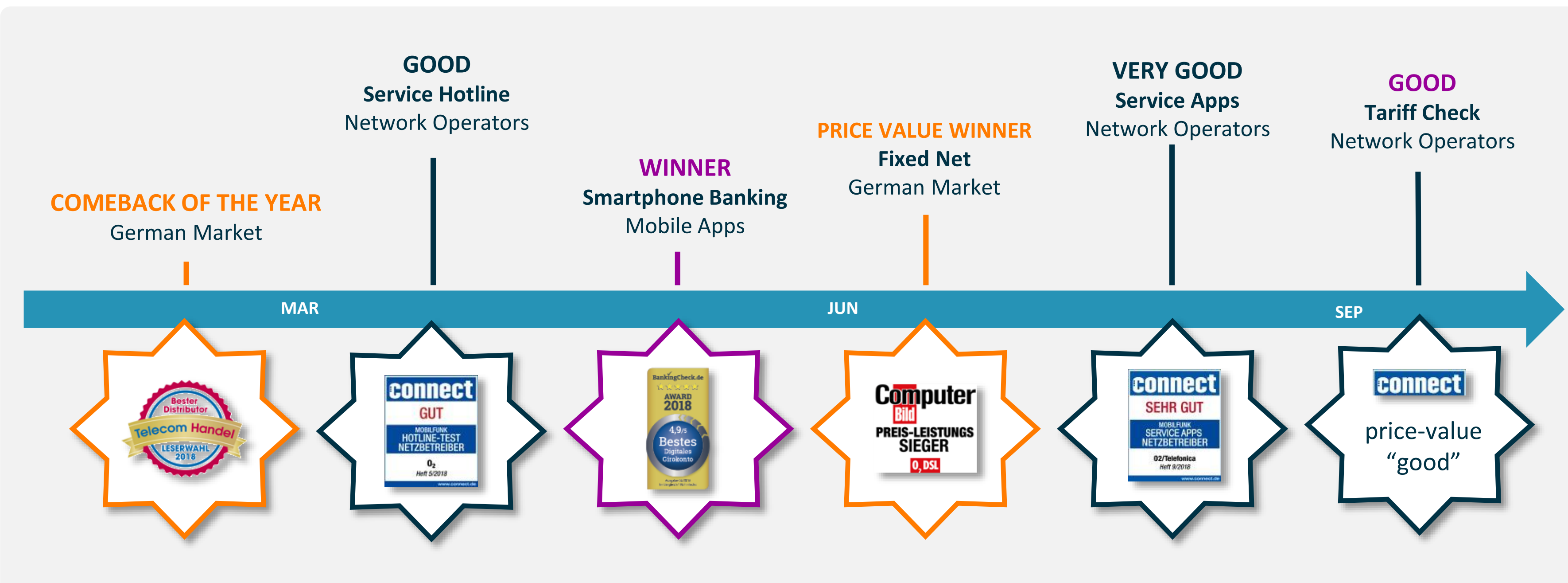
[2] Adjusted for exceptional effects, excl. the negative impact from regulatory changes and y-o-y comparison based on IAS18 accounting standards for 2017 and IFRS15 for 2018. For details please refer to additional materials of the Q3 2018 results release.

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





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

urban

rural

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

Need for balanced economic framework conditions

BNetzA draft auction conditions

final on 26 NOV

Reserve price (all blocks)
EUR 1.1bn

No
National Roaming

No
Service provider obligation

98%
HH covered w/ 100Mbps by 2022e

Railways and main highways covered w/ **50Mbps** 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

We remain committed to an attractive shareholder remuneration on the back of strong fundamentals

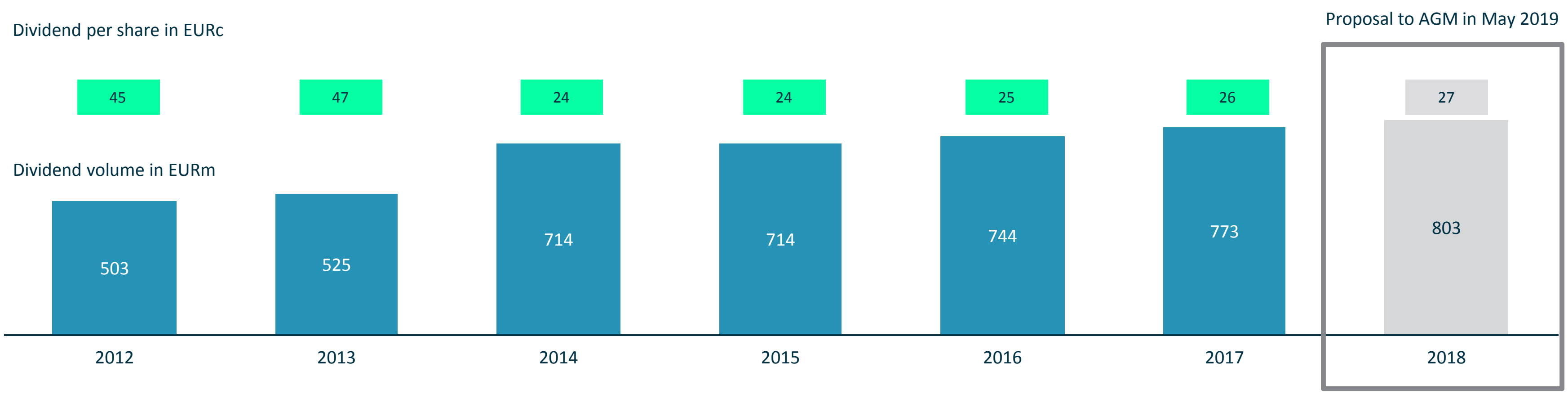
We have a clear value proposition for our shareholders

High pay-out ratio in relation to FCF

Strong FCF trajectory;
YTD September +12.3% y-o-y

Conservative financial profile & strong B/S

- Meeting guidance for dividend growth in 3 consecutive years (2015-2018)
- Dividend proposal of
  EURc 27 per share (+3% y-o-y) for the FY 2018 to the AGM in May 2019



Telefónica Deutschland

Q3 2018: Summary
Solid results, on track for updated outlook 2018

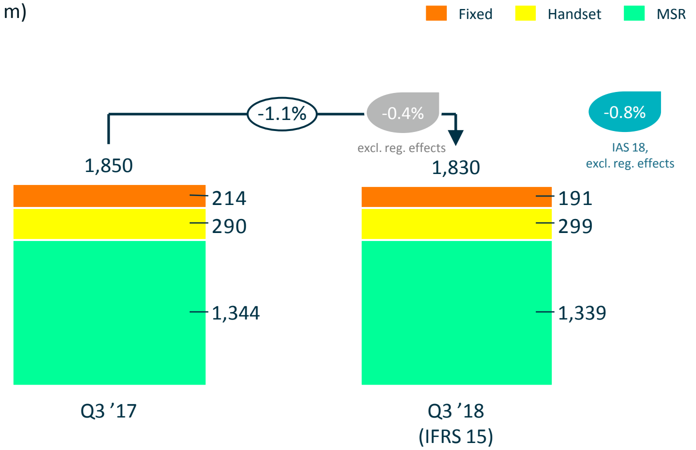
Net adds **+233k PO** **+59k VDSL**	• O_2 Free portfolio with O_2 Boost & O_2 Connect well received from new and existing customers • Partner trading remains solid with focus on 4G offers in a dynamic, yet rational market environment • Demand for VDSL reflects customer migration trends in light of planned legacy platform shutdown in 2019
Revenue[1] **-0.4% y-o-y** **(-0.8% y-o-y IAS18)**	• MSR[1] trends intact (ex reg effects of EUR 13 million) with O_2 Free tailwinds: +0.6% y-o-y (0.0% y-o-y based on IAS18) • Demand for smartphones remains strong with handset revenues[1] +2.8% y-o-y (+2.9% y-o-y based on IAS18) • Fixed revenue[1] reflects finalisation of wholesale migration; promos and higher share of bundle benefits in the retail base
OIBDA[2] **+5.6% y-o-y** **(+3.8% y-o-y IAS18)**	• OIBDA[2] benefits from further synergy capture; narrowing 2018 FY outlook range to "slightly positive" y-o-y • Incremental synergies of approx. EUR 25 million (EUR 90 million YTD) from leaver programme, network & shops • Margin enhancement of +1.5 percentage points y-o-y to 26.8% in the third quarter
Dividend proposal of **EURc 27 / share**	• Maintaining financial flexibility; leverage remains in line with target at 0.9x • FCF of EUR 301 million YTD (+12.3% y-o-y) supports dividend proposal of EURc 27 per share to AGM in May 2019

[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.

Sustained revenue trends driven by good commercial momentum

Revenue stable y-o-y

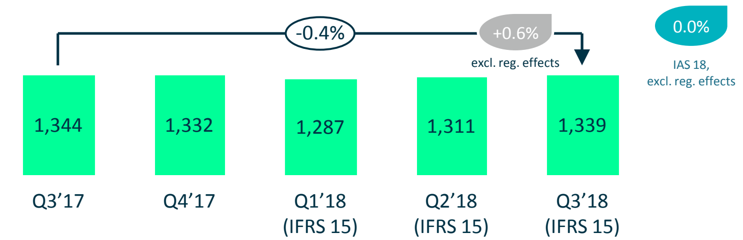
(in EUR m)



- Underlying MSR trends benefit from successful ARPU-up strategy but still seeing headwinds from visitor roaming and ongoing legacy base rotation; EUR 13 m reg. effects
- Handset demand remains strong and in line with market despite tough comps with one-off from stock clearance activities in Q3’17
- Fixed revenue reflects finalisation of wholesale migration; promos and higher share of bundle benefits in the retail base

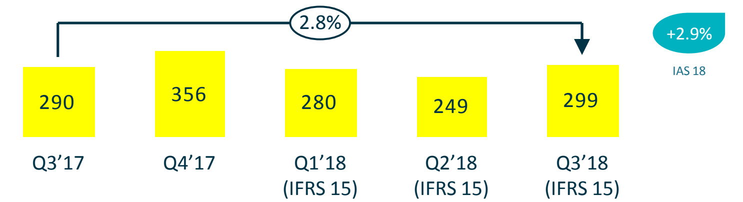
Underlying MSR continues to grow y-o-y

(in EUR m)



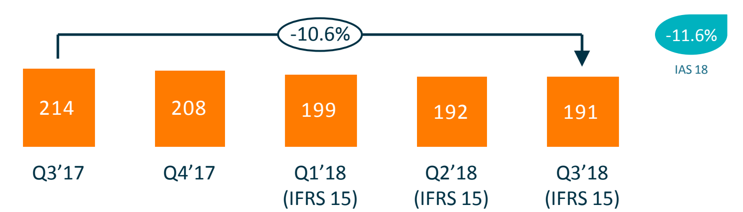
Smartphone demand still driving handset revenue

(in EUR m)



Wholesale migration drives fixed revenue decline

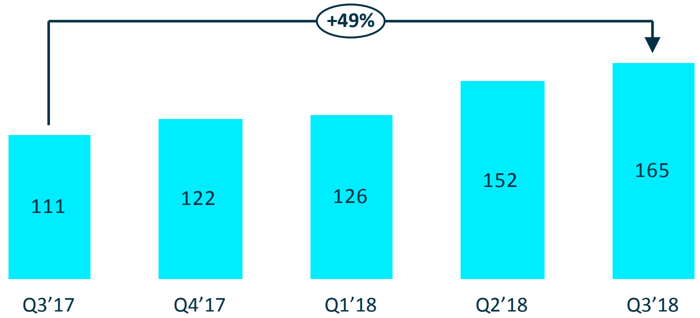
(in EUR m)



Data KPIs remain strong; fuelled by large data buckets in the updated O_2 Free portfolio

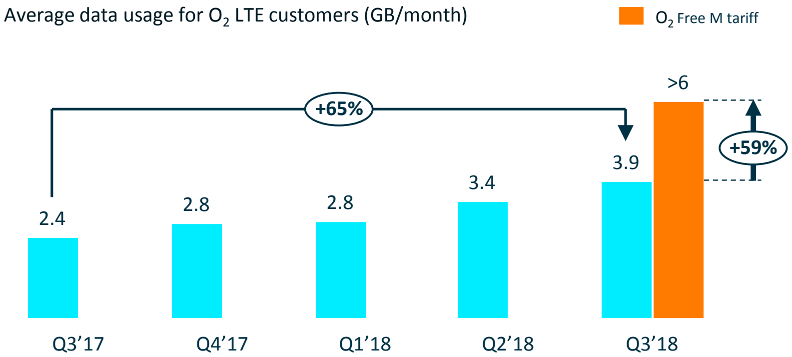
Data growing steadily

Traffic (TB/Q)



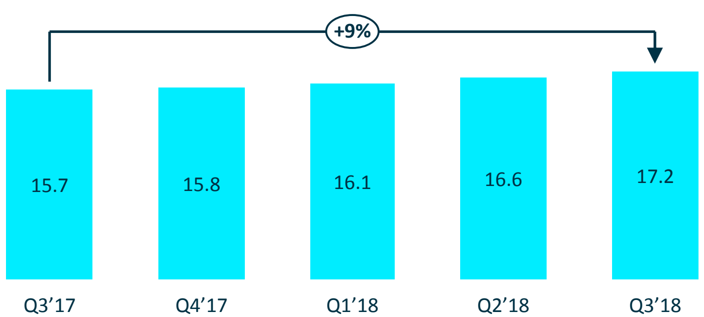
Large data buckets fuelling usage growth

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



LTE customer base still increasing

LTE customers (in million)

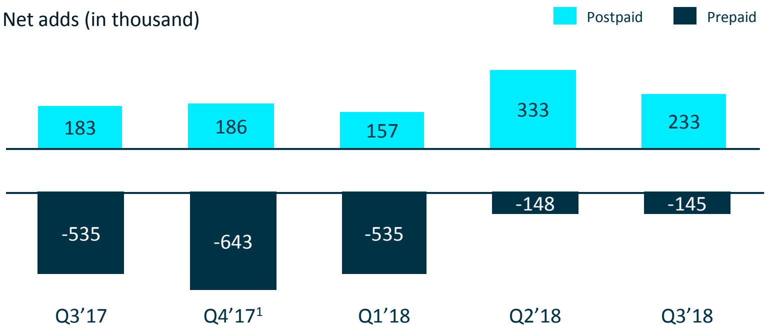


- Music & video streaming driving steady data growth of almost 50% y-o-y
- Continued demand for LTE; access base up 9% y-o-y to 17.2 million LTE customers
- Average usage of O_2 LTE customers grows >15% q-o-q
- O_2 Free customers use more than 6GB of data

Retention focus and recent portfolio updates reflected in strong trading; churn remains low

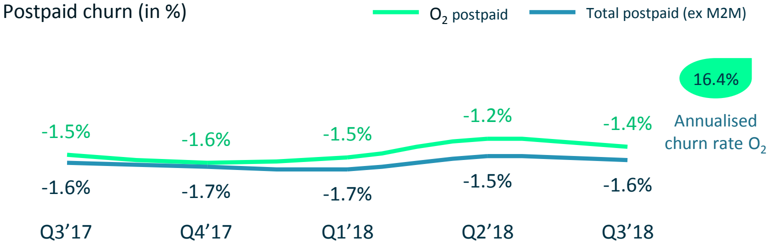
Focus on profitable growth

Net adds (in thousand)



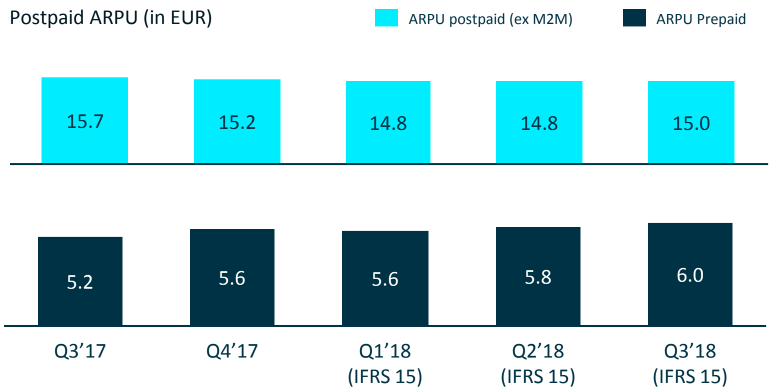
Maintaining retention focus

Postpaid churn (in %)



ARPU impacted by regulatory headwinds

Postpaid ARPU (in EUR)

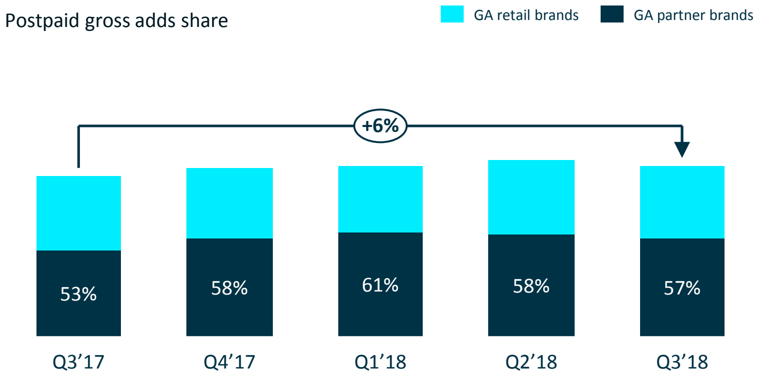


- Strong postpaid net add momentum on back of recent portfolio initiatives in all segments
- Prepaid trends stabilising with continued impact from regulatory changes
- Churn trends in O_2 consumer remain stable
- Postpaid ARPU trends stabilising despite regulatory headwinds

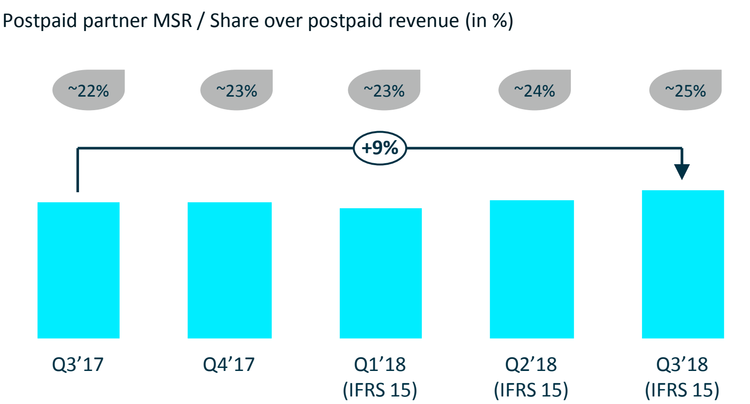
[1] Excluding the impact from the final customer base adjustment.

Market dynamic yet rational across segments; solid partner trading

Partner gross add share reflects improving retail trends



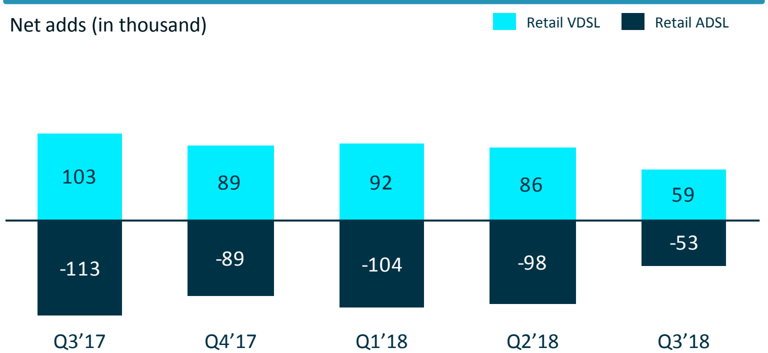
Partner revenue growth in line with expectations



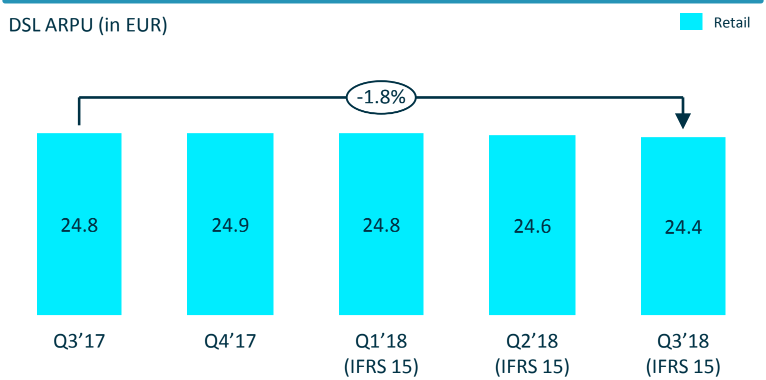
- Market segmentation remains intact with dynamic yet rational competitive environment also in discount segment; maintaining our focus on fair market share
- Partner momentum solid; partner gross add share reflects focus on 4G offer and strong retail momentum in Q3
- Continue to see partner revenue growing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

Wholesale migration finished; fixed retail dynamics reflect effects of increasing bundle share

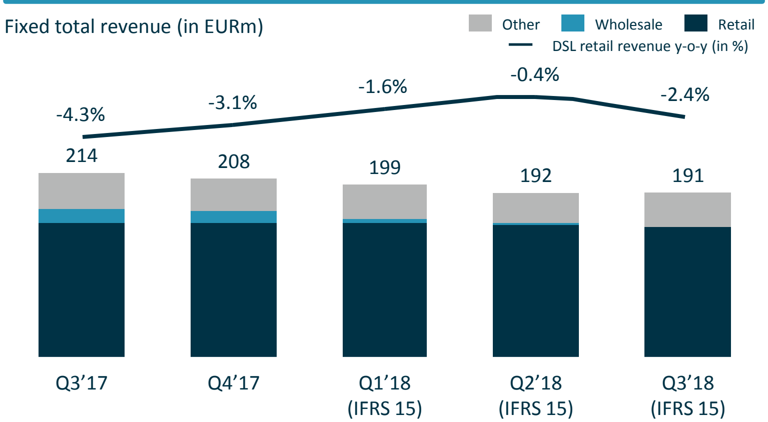
VDSL drives fixed retail trading



ARPU with higher bundle share



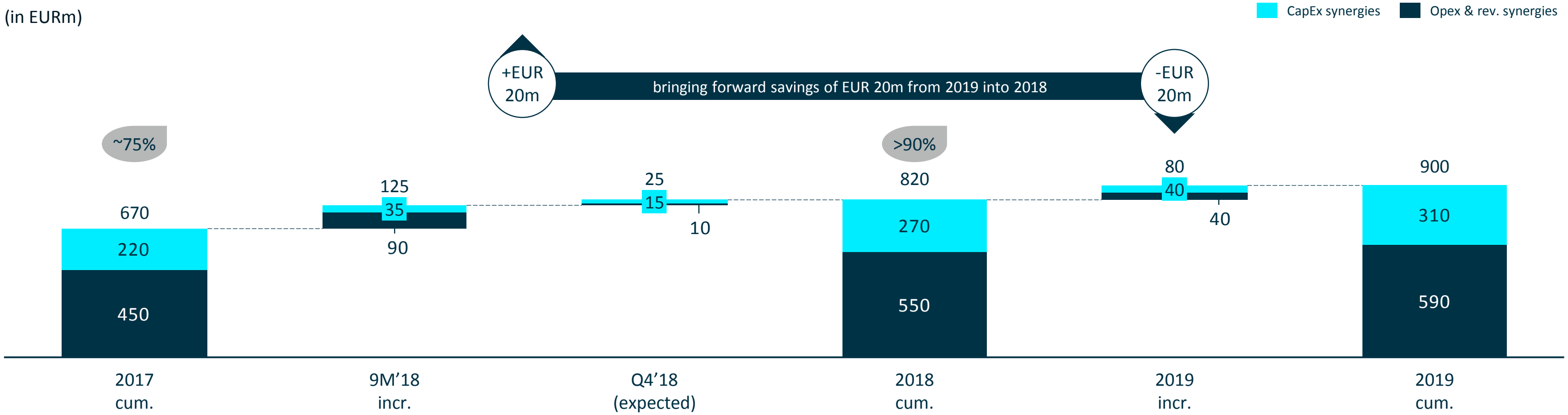
Fixed wholesale phasing out



- Fixed retail net adds reflect slowing migration pattern in light of planned legacy platform shutdown in 2019
- VDSL customer base at 1.4 million; +31% y-o-y
- Retail DSL ARPUs & revenue trends reflect promotional activities and higher bundle share
- Fixed wholesale customer migration completed

Synergy case: Bringing forward EUR 20m into 2018; fully on track to deliver >90% of total target by 2018e

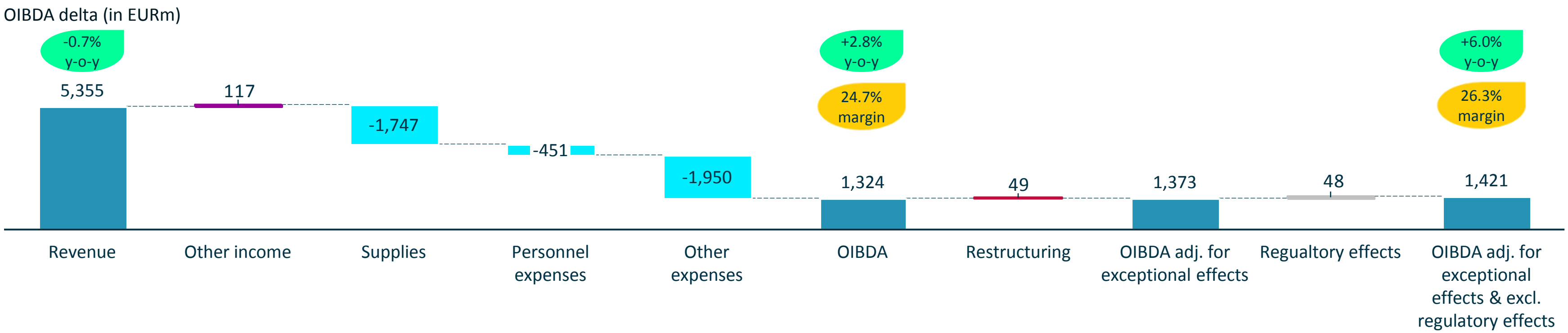
Synergy case 2017 -2019



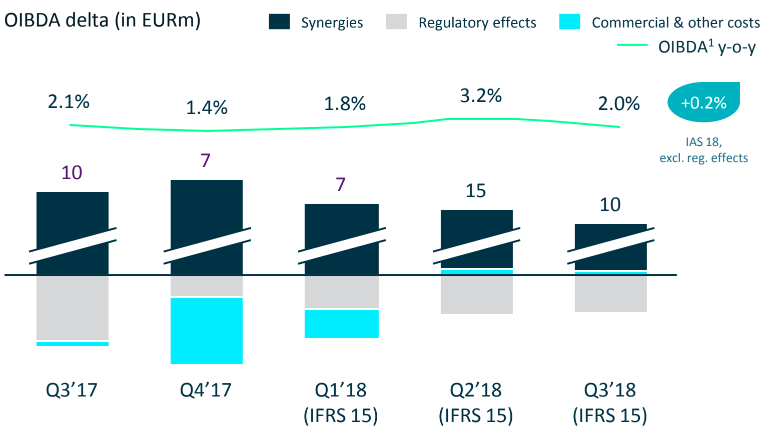
- Q3: Delivery of EUR 25 million incremental OIBDA and EUR 15 million Capex synergies
- 2018 YTD EUR 90 million of saving at OIBDA level; bringing forward EUR 20m savings from 2019 into 2018 due to good progress with network consolidation; EUR 35 million of incremental Capex synergies
- Updating 2018 total synergy target to EUR 820 million, reaching >90% of total synergy target; total target of EUR 900m unchanged
- EUR 80 million OIBDA & Capex-relevant synergies expected for 2019

OIBDA reflects successful synergy capture, solid operational momentum and RLH-regulation impacts

Structure of OIBDA for January to September 2018 (IFRS 15)



OIBDA[1] growth on the back of synergy delivery



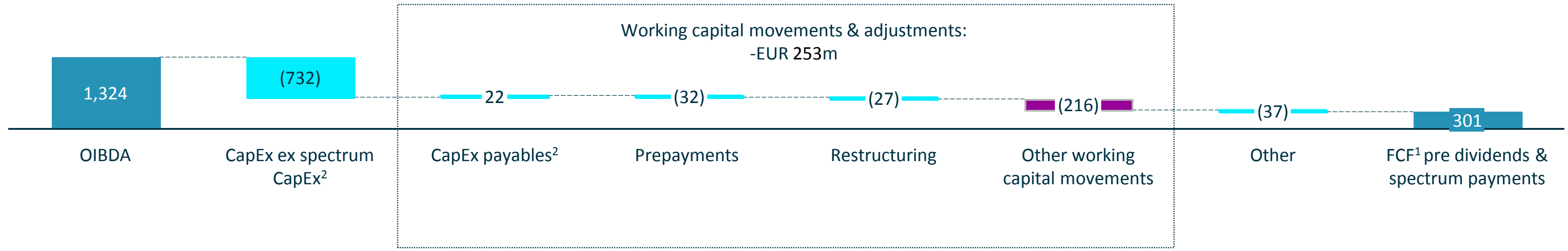
[1] Adjusted for exceptional effects

- Sustained OIBDA growth driven by incremental synergies of ~EUR 90 million by September, mainly roll-over effects and incremental NT synergies
- OIBDA margin continues to expand
- Regulatory effects of EUR 48 million; mainly RLH
- Restructuring costs of EUR 49 million

Strong y-o-y growth of FCF; leverage remains in line with target

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

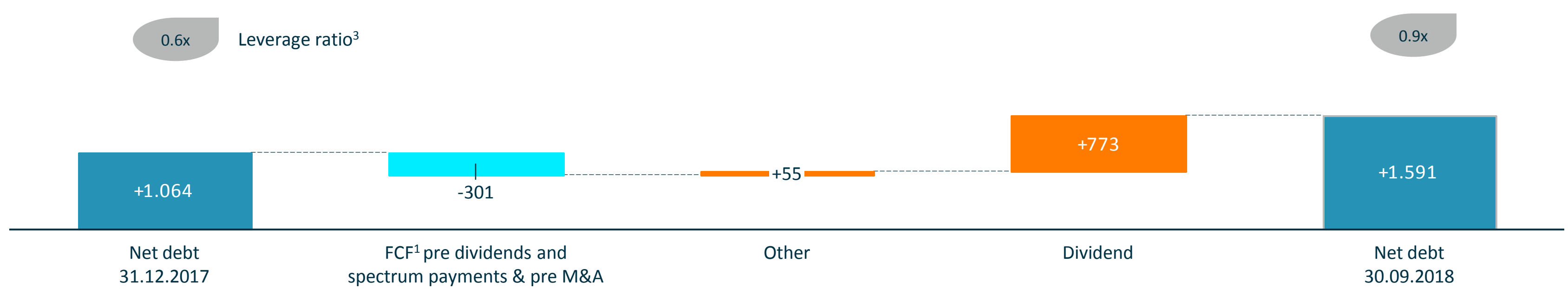
FCF (in EURm)



[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

Net Debt (in EURm)



[3] For definition of net debt & leverage ratio please refer to Q3 2018 earnings release.

Summary

Solid commercial momentum across segments after recent portfolio updates
Sustained focus on profitable growth

Revenue supported by retention focus and successful ARPU-up strategy with headwinds from lower visitor roaming & ongoing legacy base rotation

Strong OIBDA[1] momentum supported by operating momentum and synergies

Operational momentum and Capex efficiency driving FCF, support dividend proposal for FY 2018

Q3 2018 preliminary results - Q&A session

Reach out to us for any follow-up questions

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