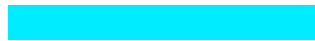


Telefonica

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Q2 2018 preliminary results



Telefónica Deutschland, Investor Relations

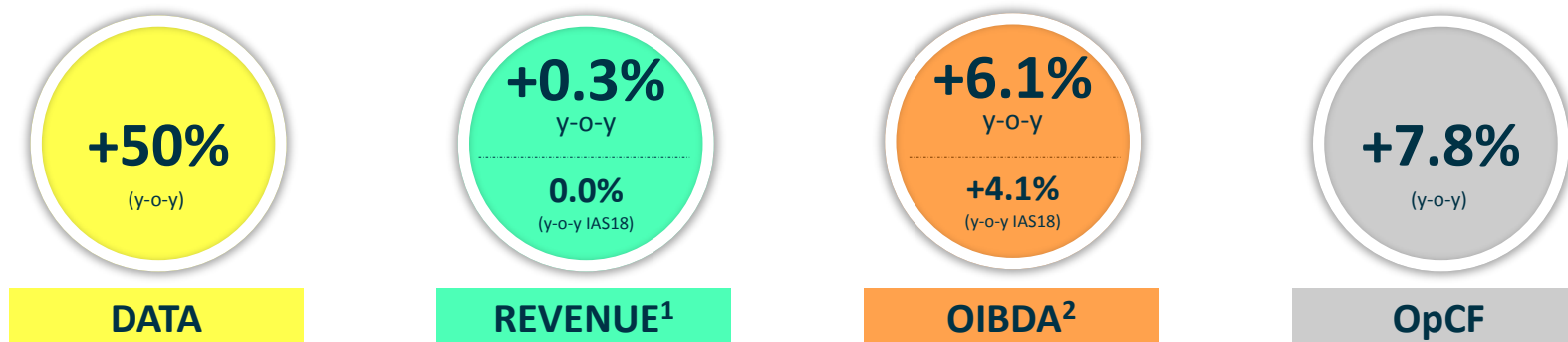
25 July 2018

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H1 2018 – Summary

Strong operational trends with strong OIBDA growth

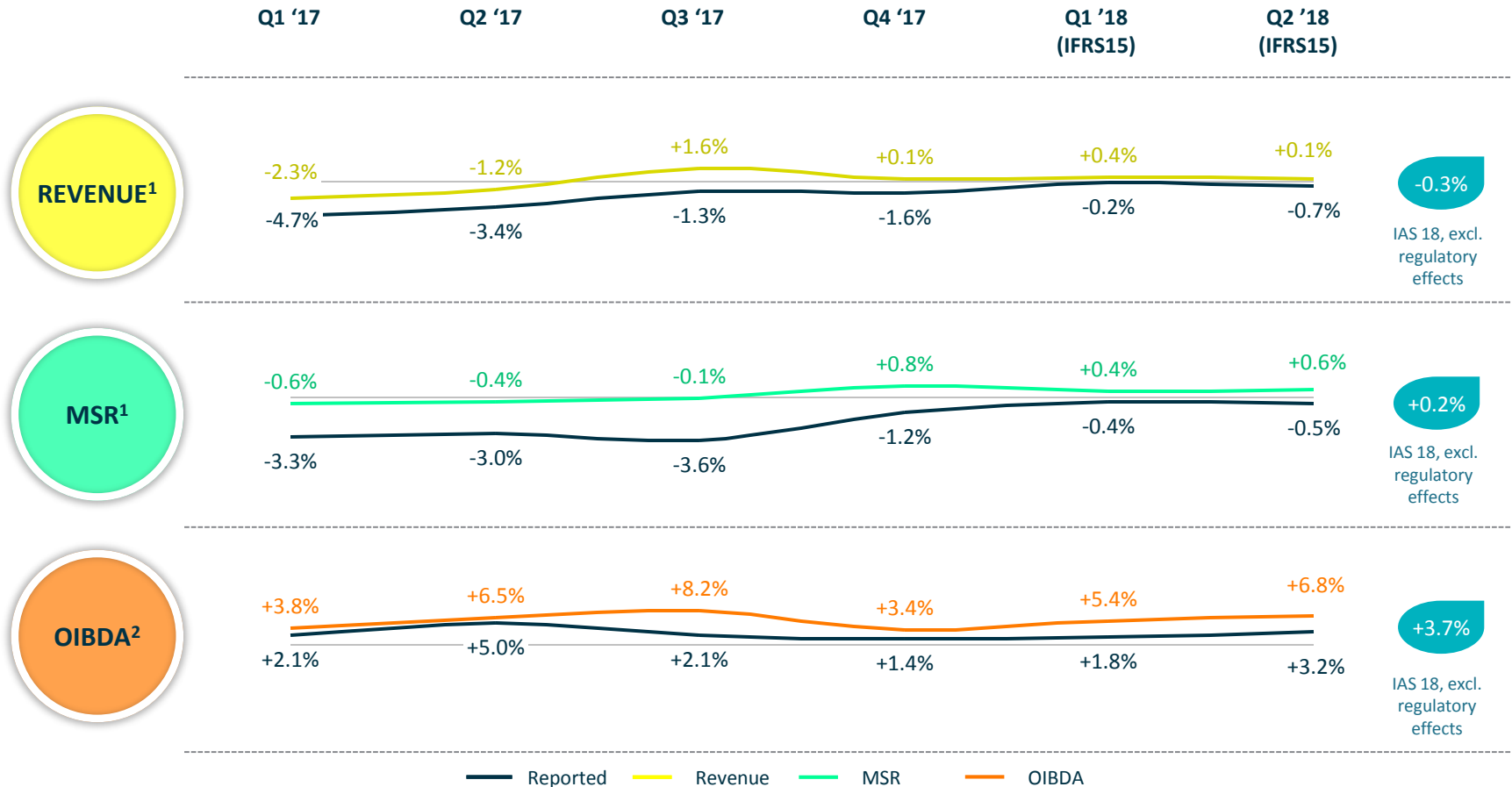


- Data traffic growth (+50% y-o-y) remains strong driven by the new O₂ Free portfolio; 16.6 million LTE customers (+15% y-o-y)
- MSR¹ trend with further improvement to +0.5% y-o-y growth (+0.3% IAS 18)
- OIBDA reflects strong operational momentum and successful synergy capture; focus on profitable growth & fair market share
- Strong OpCF growth driven by strong OIBDA and efficient Capex

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 Q2 2018 results release.

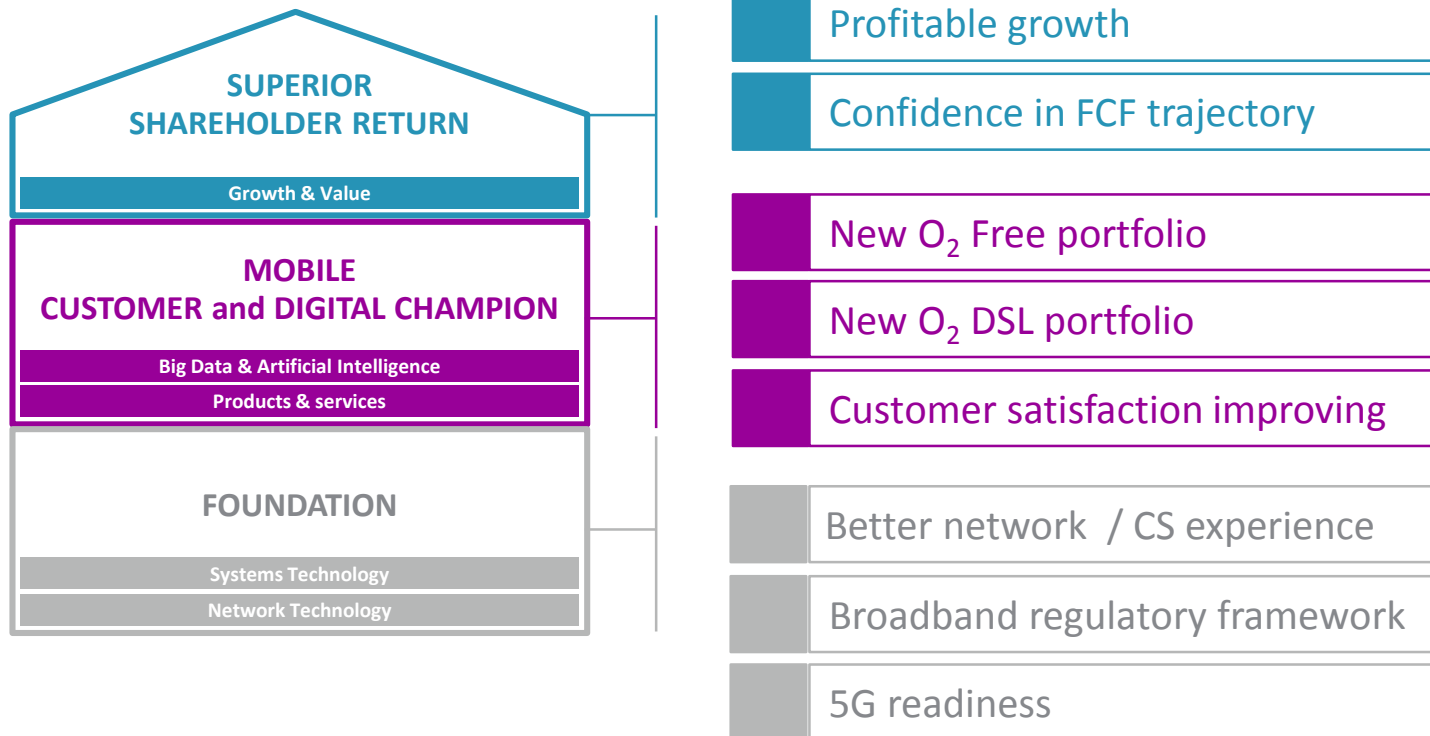
On track to achieve FY 2018 outlook; all trends intact



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 Q2 2018 results release.

We continue to deliver in line with our strategy as outlined at our CMD in February



Building the Mobile Customer & Digital Champion: Focus on product & service innovation in Q2



- Launch new O₂ Free boost & connect
- Evolution to unique proposition “app-based device management” in the market
- Boost upsell
- Managing all SIMs (max 10) via my O₂ app
- Relaunch Blau postpaid & prepaid



- Launch new O₂ Free DSL portfolio
- Connect test for fixed product: “good”
- Connect fixed hotline test: “good”

Network consolidation on track: ~75% finalised with major quality improvements

Released cities: Potsdam, Braunschweig, Stuttgart, Münster, Munich and more



>3000 new LTE sites

>10k

Sites
switched off



Improved LTE speed
(Download up to 225 Mbps
and Upload up to 75 Mbps)



Improved customer experience

Refarmed LTE-Bands
800, 1.800 & 2.600 MHz



Improved voice quality
(VoLTE/ HD Voice)

The future of our network: Highly competitive and well prepared for future customer demand

H2 priorities: Focus on network, product pipeline & rolling out transformation projects



SIMPLER

- Omni-channel
- Reduce complexity
- Refresh IT architecture



FASTER

- Digital speed
- Digital processes
- Smart growth



BETTER

- ADA/IoT
- Care of the future
- Shop strategy

- Top priority: Finalise **network** consolidation
- **Product** pipeline: More to come for O₂ Free
- **Transformation**: Initial focus on IT architecture & omni-channel capabilities

Q2 2018: Summary

Re-iterating full-year outlook 2018

Net adds

+333k PO

+86k VDSL

- New O₂ Free portfolio with O₂ Boost & O₂ Connect supports operating momentum
- Partner trading solid, rational market environment
- Demand for VDSL strong

Revenue¹

+0.1% y-o-y

(-0.3% y-o-y IAS18)

- MSR¹ (excluding regulatory effects of EUR 15 million) trend continues to improve with tailwinds from O₂ Free: +0.6% y-o-y (+0.2% y-o-y based on IAS18)
- Continued good demand for smartphones with handset revenues¹ +8.5% y-o-y (+7.5% y-o-y based on IAS18)
- Shutdown of legacy infrastructure in 2019 still weighing on fixed revenues¹

OIBDA²

+6.8% y-o-y

(+3.7% y-o-y IAS18)

- OIBDA benefits from commercial momentum and further synergy capture
- Approx. EUR 30 million (EUR 65 million YTD) of synergies from leaver programme, network & shops
- Margin enhancement of +1.8 percentage points y-o-y to 28.4% in the second quarter

OpCF

+7.1% y-o-y

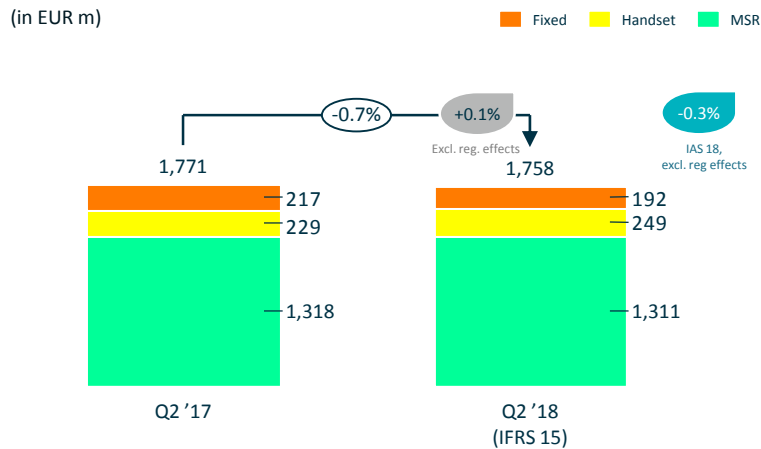
- OpCF supported by additional approx. EUR 10 million Capex synergies
- Leverage at 1.0x, remains in line with target after dividend payment; strong FCF of EUR 85 million
- Re-iterating dividend growth for 3 consecutive years (2016-2018); maintaining high pay-out ratio over FCF thereafter

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 Q2 2018 results release.

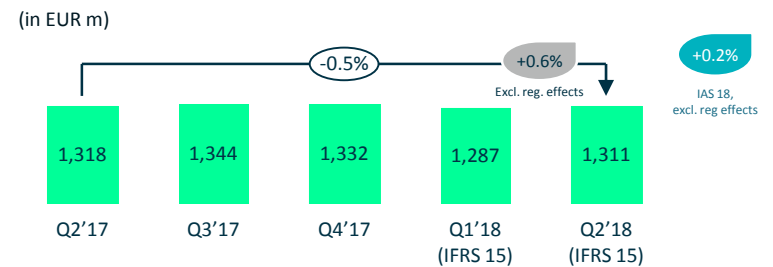
Sustained revenue trends driven by good commercial momentum

Revenue stable y-o-y

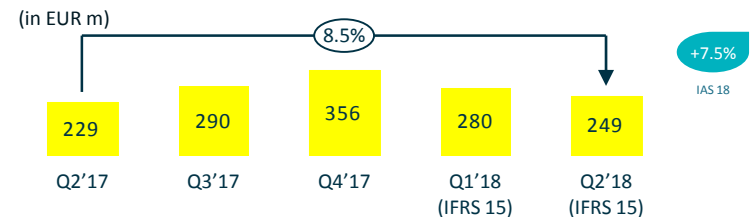


- Underlying MSR trends benefit from ARPU-up strategy while handset demand reflects seasonality
- EUR 15 million of reg. impacts, mainly RLH
- Wholesale migration & planned dismantling of legacy infrastructure drives expected further reduction in fixed revenues - fixed retail performance further improves

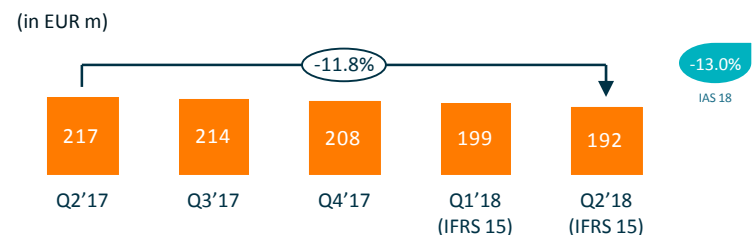
Underlying MSR continues to grow y-o-y



Smartphone demand still driving handset revenue



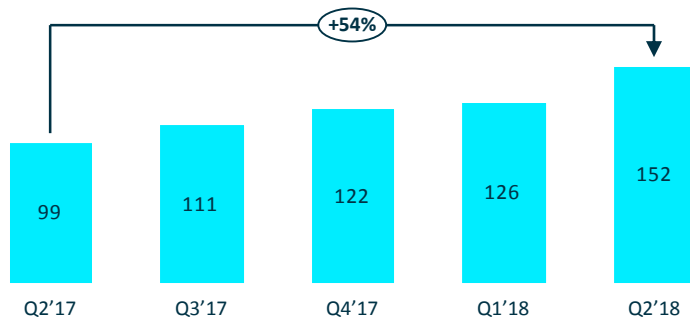
Wholesale migration drives fixed revenue decline



New O₂ Free portfolio driving average usage

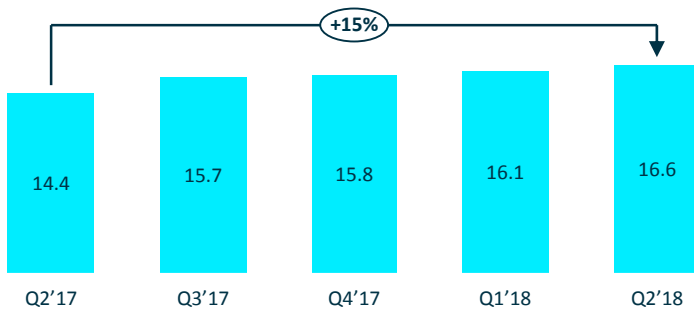
Data growing steadily

Traffic (TB/Q)



LTE customer base still increasing

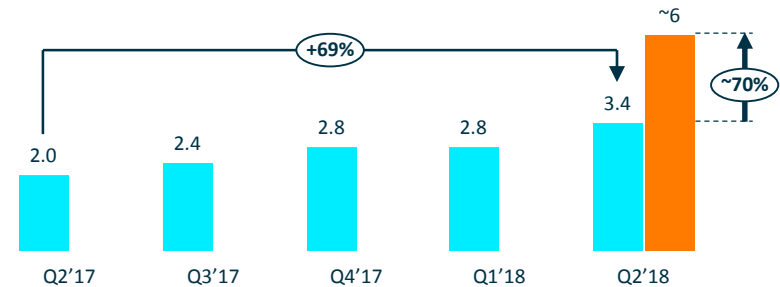
LTE customers (in million)



Large data buckets fuelling usage growth

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

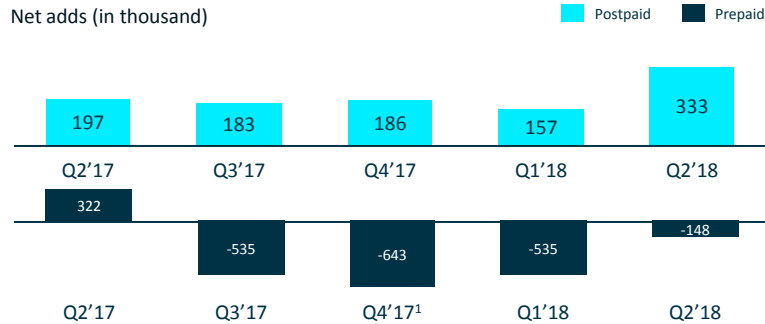
■ O₂ Free M tariff



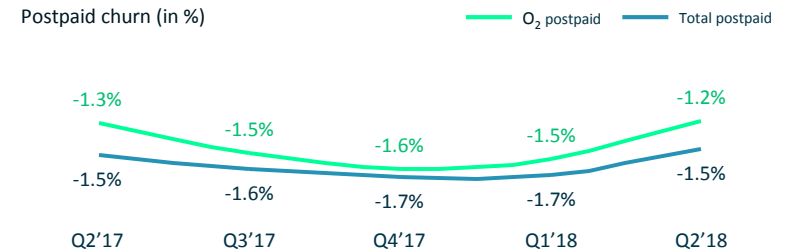
- Music & video streaming driving steady data growth of >50% y-o-y
- LTE customer base up 15% y-o-y to 16.6 million
- Average usage of O₂ LTE customers up >20% q-o-q
- O₂ Free M tariff customers use almost 6GB of data

Strong retail trading on back of concentrated product initiatives in Q2; churn improves further

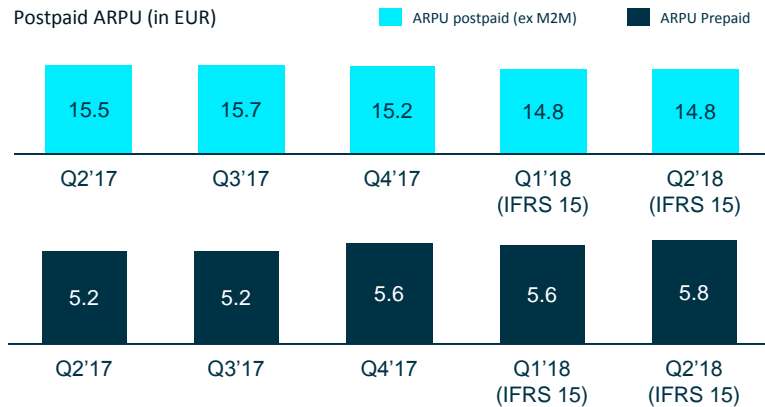
Focus on profitable growth



Maintaining retention focus



ARPU impacted by regulatory headwinds



- Strong postpaid net add momentum on back of portfolio initiatives
- Prepaid trends still impacted by regulatory changes
- Churn trends in O₂ consumer further improve at low levels
- Postpaid ARPU trends stabilising despite regulatory headwinds

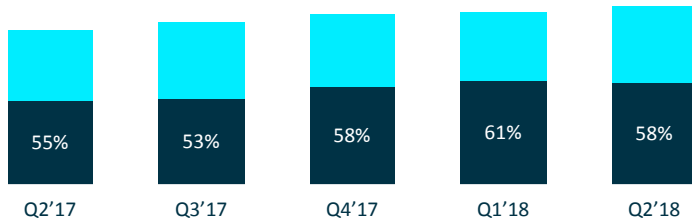
¹ Excluding the impact from the final customer base adjustment.

Rational environment in partner business, solid growth with performance reflecting retail momentum

Partner gross add share reflects improving retail trends

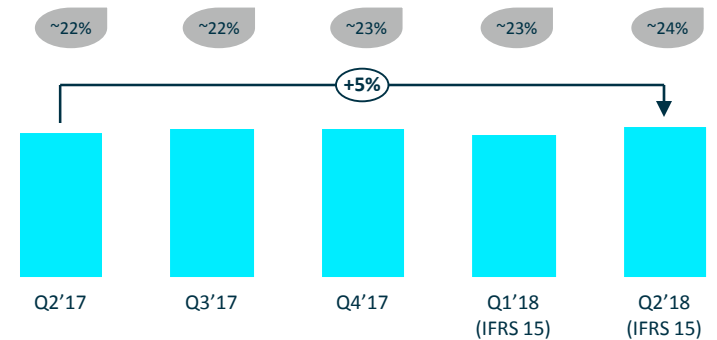
Postpaid gross adds share

GA retail brands GA partner brands



Partner revenue growth in line with expectations

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



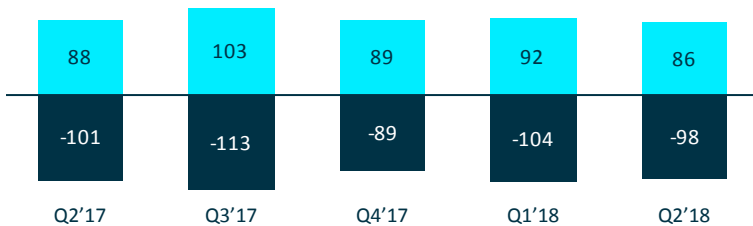
- Rational competitive environment in discount segment; focus on fair market share
- Partner momentum solid; partner gross add share reflects strong retail momentum in Q2
- Partner revenue growing q-o-q and y-o-y in line with expectations

VDSL drives improvement in fixed retail revenue while wholesale migration is mostly finished

VDSL drives fixed retail trading

Net adds (in thousand)

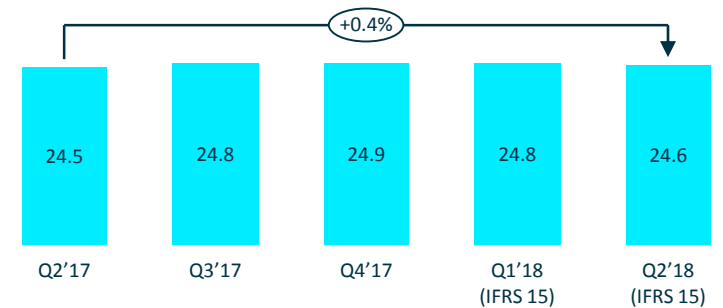
■ Retail VDSL ■ Retail ADSL



ARPU stable

DSL ARPU (in EUR)

■ Retail

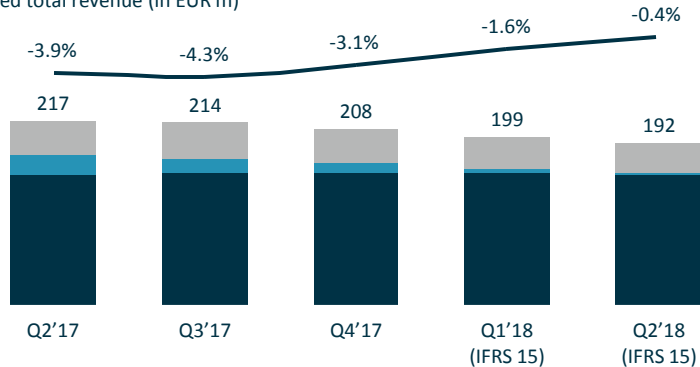


Fixed retail trends improving

DSL retail revenues y-o-y (in %)

Fixed total revenue (in EUR m)

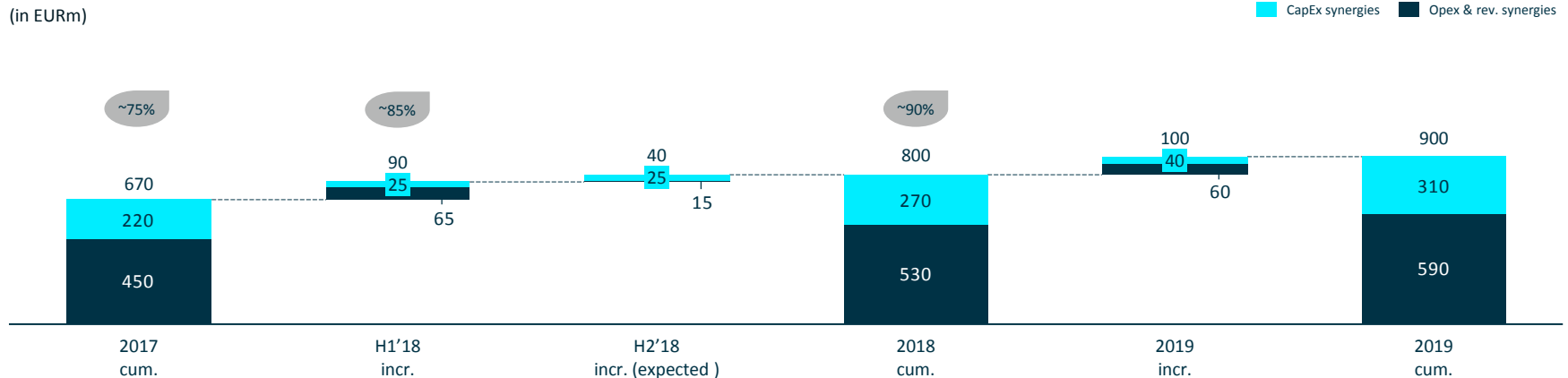
■ Other ■ Wholesale ■ Retail



- Demand for VDSL remains strong
- Retail DSL ARPUs & revenue trends reflect contribution of VDSL, customer base at 1.3 million; +39% y-o-y
- Fixed wholesale customer migration mostly completed; 8k customers remaining => retail trends improving

Recap: Clear synergy trajectory

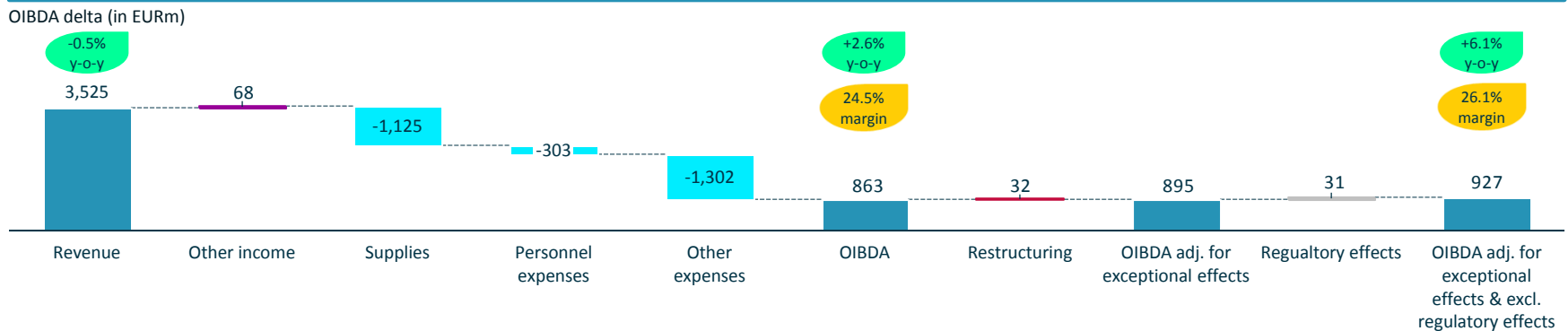
Synergy case 2017 -2019



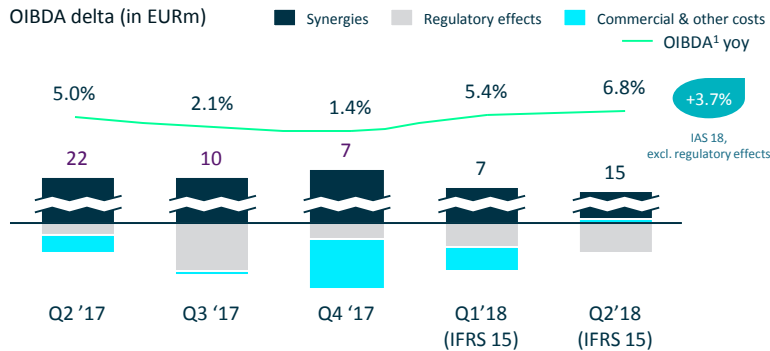
- H1: Delivery of EUR 65 million OIBDA synergies and 25 million Capex synergies
- 2018: Target of EUR 80 million synergies at OIBDA level (mainly from network) and EUR 50 million at CapEx level, reaching almost 90% of total synergy target of EUR 900 million by 2019
- Remaining core project network integration with steady progress, expecting completion by year-end 2018; mainly roll-over synergies in 2019
- EUR 100 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 June 2018



OIBDA¹ growth on the back of synergy delivery



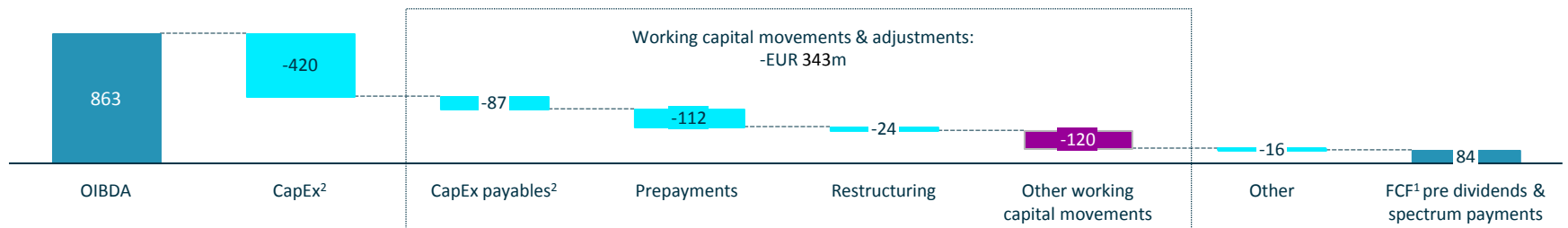
- Solid OIBDA growth driven by incremental synergies of ~EUR 65 million in H1 driven roll-over effects and incremental NT synergies
- Continued expansion of OIBDA margin
- Regulatory effects of EUR 31 million; mainly RLH
- Restructuring costs of EUR 32 million

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 Q2 2018 results release.

FCF with seasonality effects, leverage in line with target after dividend payment

Evolution of Free Cash Flow (FCF)¹ YTD June 2018

FCF (in EURm)

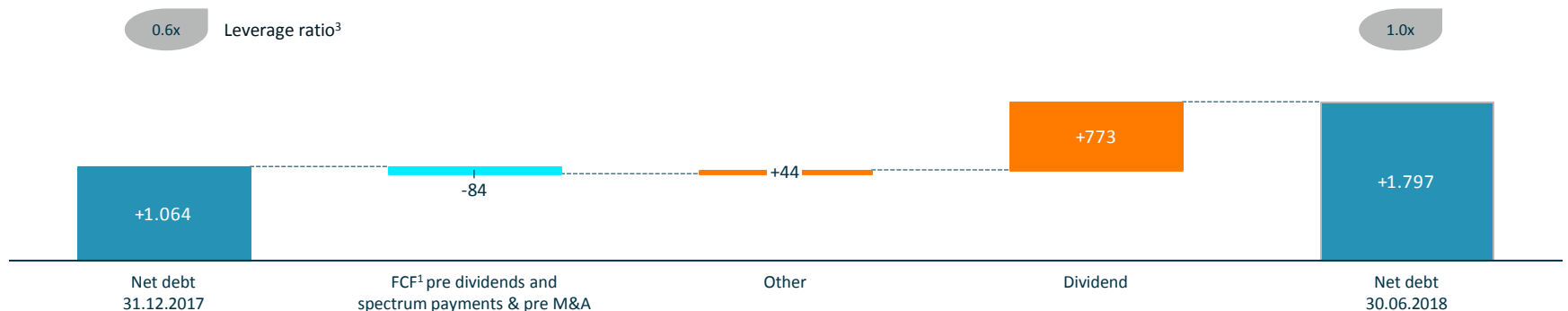


¹ FCF pre dividend & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

² Excluding additions from capitalised finance leases and capitalised costs on borrowed capital for investments in spectrum

Evolution of Net Debt³ – Leverage³ in line with target

Net Debt (in EURm)



³ For definition of net debt & leverage ratio please refer to Q2 2018 earnings release.

Summary

Strong trading performance driven by portfolio initiatives and 4G offers from partners;
focus on profitable growth

Underlying revenue¹ trends benefit from successful ARPU-up strategy and remaining headwinds
from OTT-trends and legacy base rotation

Strong OIBDA¹ supported by commercial momentum and synergies

Operational momentum and Capex efficiency driving FCF

¹ Excluding regulatory effects.

Q2 2018 preliminary results - Q&A session

Get in touch with us for any follow-up questions

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