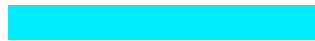


Q1 2019 interim statement



Telefónica Deutschland Investor Relations

9 May 2019

Disclaimer

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Q1'19 – Key achievements

Strong trading start into the year, transformation focus



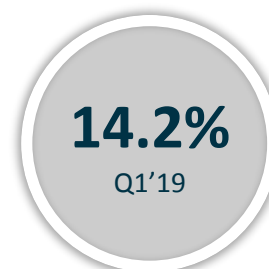
Trading



REVENUE¹



OIBDA²



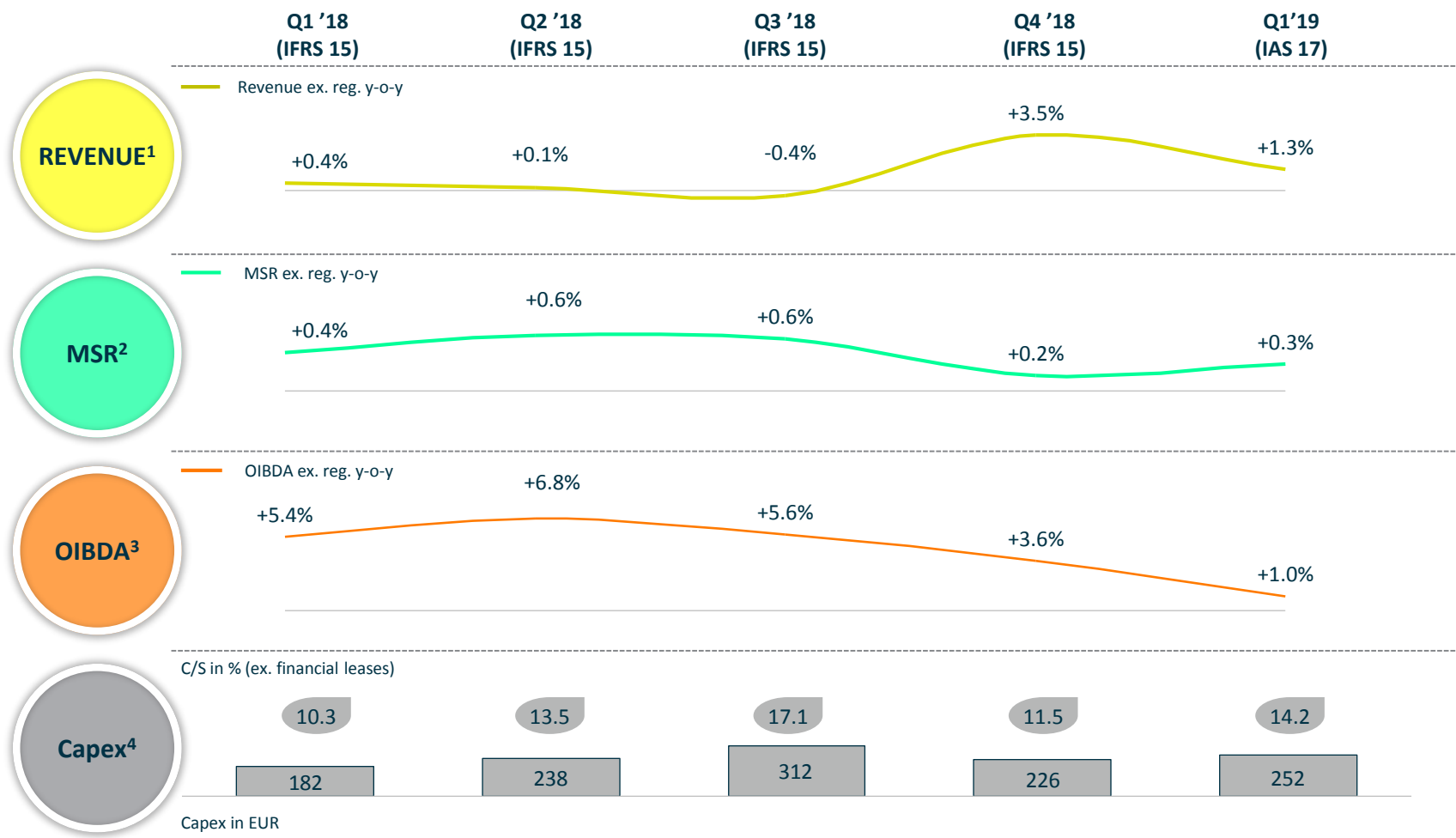
C/S

- LTE base up +19.6% y-o-y to 19.3 million; LTE penetration of 46.2%
- Sustained demand for O₂ Free drives usage growth of over +46% y-o-y; contribution from partners remains high
- Underlying¹ revenue trends supported by strong demand for handsets
- Underlying¹ MSR trends improving to +0.3% y-o-y: Tailwind from accretive effects of O₂ Free portfolio; headwinds from legacy base rotation and retention efforts
- OIBDA reflects upfront transformation and market invest
- Capex phasing supports pace of LTE rollout; mid-term expectations unchanged at approx. EUR 1 bn
- Re-iterating dividend commitment with a high pay-out ratio over FCF

¹ Excluding the negative impact from regulatory changes

² Adjusted for exceptional effects, excl. the negative impact from regulatory changes and y-o-y comparison based on IAS17 accounting standards for 2018 and for 2019. For details please refer to additional materials of the Q1 2019 results release

Operational and financial trends solid



¹ Excluding the negative impact from regulatory changes (mainly driven by the MTR regulation; mobile termination rate cut to EURc 0.95 per minute as of 1 Dec 2018)

² Mobile service revenues include base fees and fees paid by our customers for the usage of voice, sms and mobile data services. Also, access and interconnection fees as well as other charges levied on our partners for the use of our network are included

³ Exceptional effects were EUR 10 million of restructuring expenses in the period January to March 2019 (EUR 23 million based on IAS 17). The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16. Regulatory effects amounted to EUR -4 million in the period January to March 2019.

⁴ Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

Mobile Customer & Digital Champion

All-round infrastructure player

Infrastructure

Mobile

5G readiness



4G

up to 225 Mbit/s.



Fixed

Cable



VDSL

>250 Mbit/s.



Diversified fixed-network

- Long-term VDSL partnership with Deutsche Telekom
- Cable wholesale access with Vodafone¹
 - Expanding nationwide fixed-network
 - High-speed internet via cable

¹ Subject to merger approval by the EU

Mobile Customer & Digital Champion

Building Germany's biggest and most modern network



Accelerating LTE rollout

new sites

>2k

in Q1 2019

LTE

~90%

pop coverage

broadband coverage

~95%

3G & 4G combined

~25%

fiberised sites
in backhaul

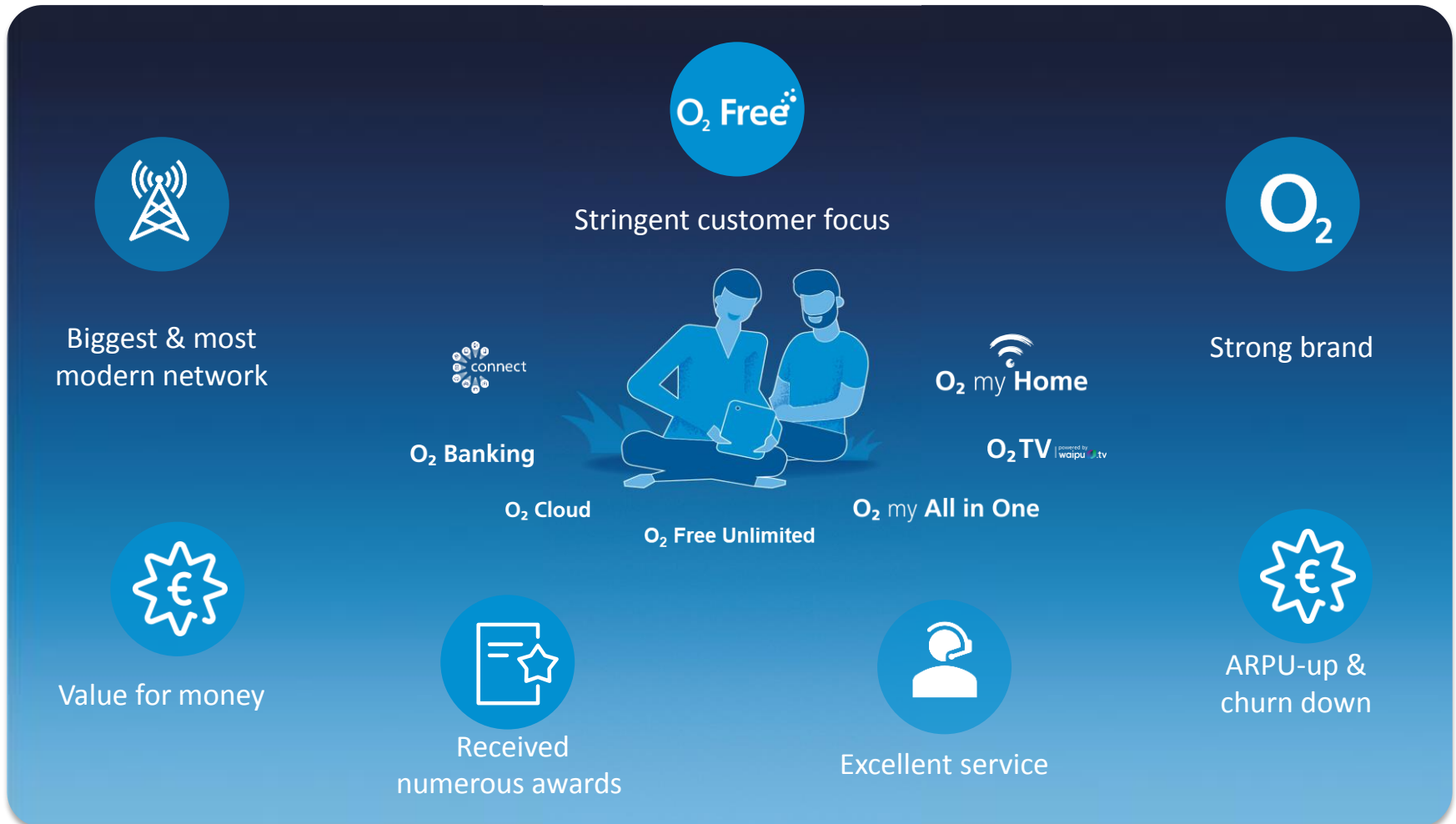
Mobile data

193,007 TB

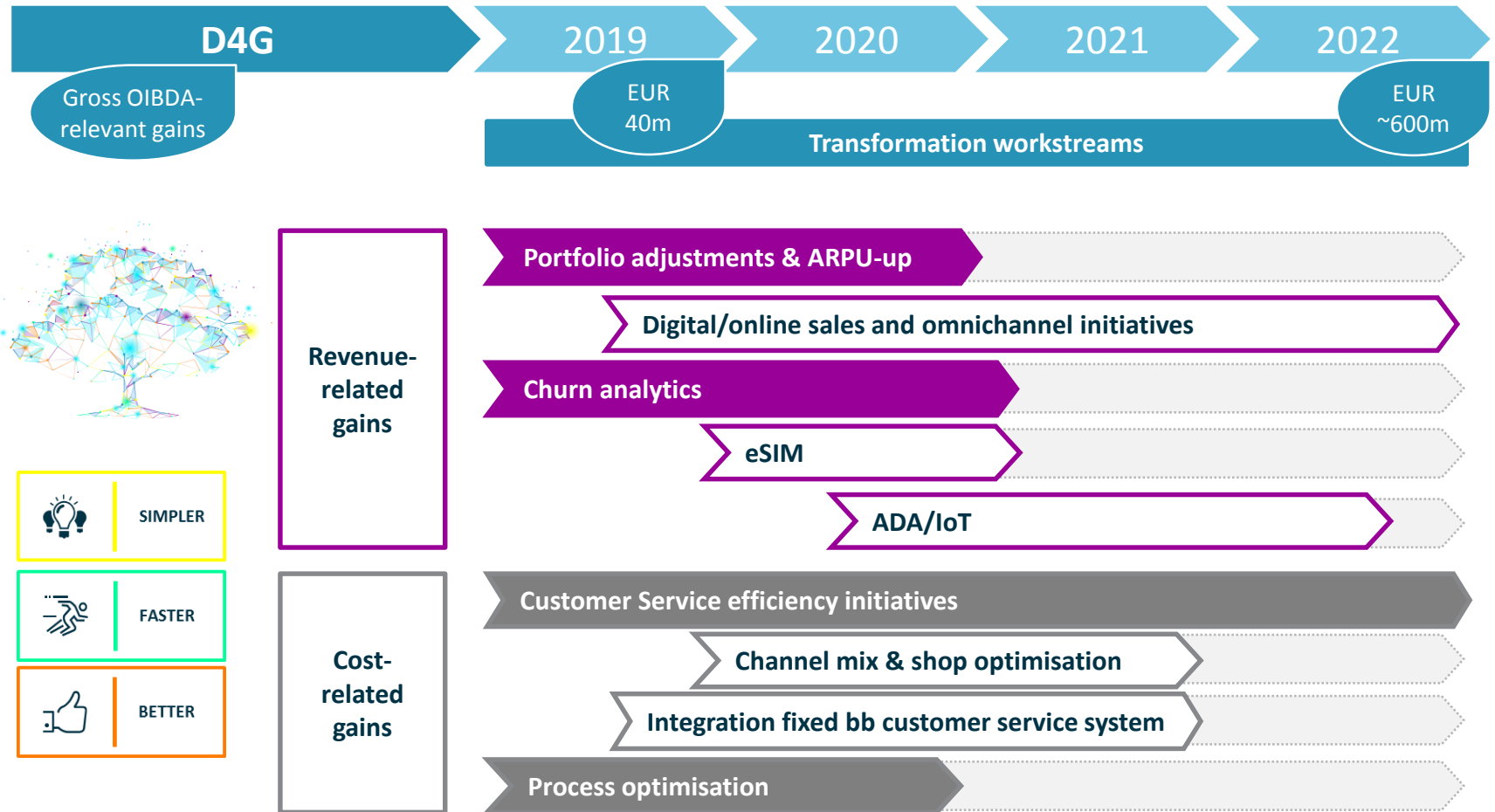
on our mobile network

Mobile Customer & Digital Champion

Well positioned with O₂ Free



Digital4Growth – Key Transformation drivers in 2019



Q1 2019: Summary

Strong trading start to the year; transformation focus

Net adds +306k PO +44k fixed BB

- Sustained demand for O₂ Free & Blau portfolios in a dynamic environment
- 4G focus drives partner migration
- Strong demand for VDSL; wholesale migration completed, ADSL migration progressing well

Revenue¹ +1.3% y-o-y

- MSR¹ trend stable (excluding regulatory effects of EUR 10 million): +0.3% y-o-y
- Handset revenues driven by strong handset demand: +12.6% y-o-y
- Fixed revenue reflects higher bundle share: -8.6% y-o-y

OIBDA² +1.0%³ y-o-y

- OIBDA reflects upfront transformation and market invest; underlying OIBDA² incl. IFRS 16 effects up +29.4% y-o-y
- Incremental synergies of ~EUR 20 million mainly roll-over effects and ~EUR 5 million transformation benefits
- Stable OIBDA² margin of 23.0% in the first quarter; underlying OIBDA margin at 29.5% incl. IFRS 16 effects

Leverage 0.6x

- Upfront Capex⁴ phasing; EUR 252 million with a C/S ratio of 14.2%; Capex synergies of ~EUR 15 million in Q1
- Leverage (IAS 17) well in line with target; under IFRS 16 leverage ratio expected to increase by 1.0x – 1.1x⁵
- Maintaining a high pay-out-ratio of FCF; dividend proposal of EURc 27 per share for FY 2018 to AGM in May 2019

¹ Excluding the negative impact from regulatory changes

² Adjusted for exceptional effects, excl. the negative impact from regulatory changes

³ Under IAS 17 accounting standards

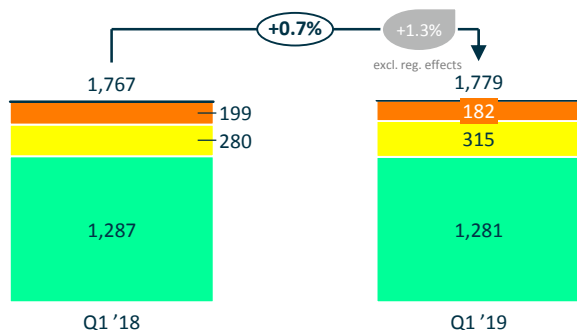
⁴ Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

⁵ Balance sheet items within net financial debt affected by IFRS 16 can still change within a bandwidth of +/- 5%

Revenue trends driven by handset and solid MSR

Demand for handsets driving Q1 total revenue

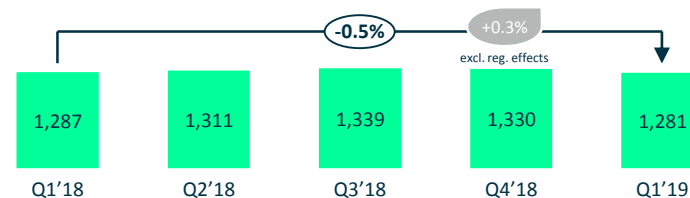
(in EUR m) other Fixed Hardware MSR



- MSR trends solid with visible effects from O₂ Free new connector ARPU partly offset by legacy base rotation and retention focus in renewal cycles; EUR 10m reg. effects
- Handset revenue driven by continued strong demand
- Fixed revenue reflects planned dismantling of legacy infrastructure & higher share of bundle benefits in retail

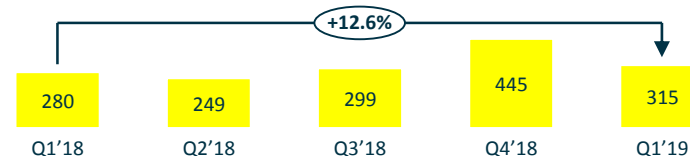
Underlying MSR trends solid

(in EUR m)



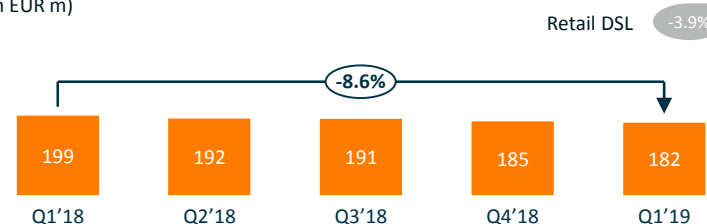
Continued strong demand for handsets

(in EUR m)



Higher bundles share reflected in fixed-line trend

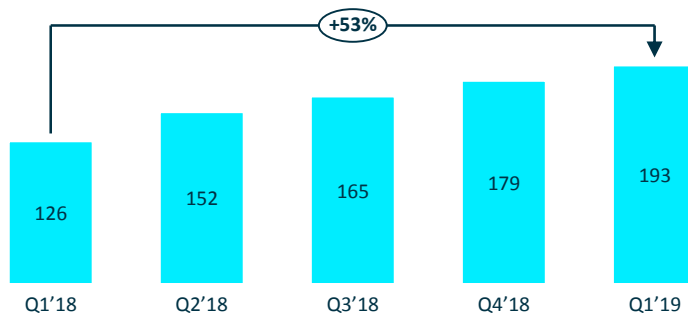
(in EUR m)



Data usage continues to grow with a CAGR of ~50%

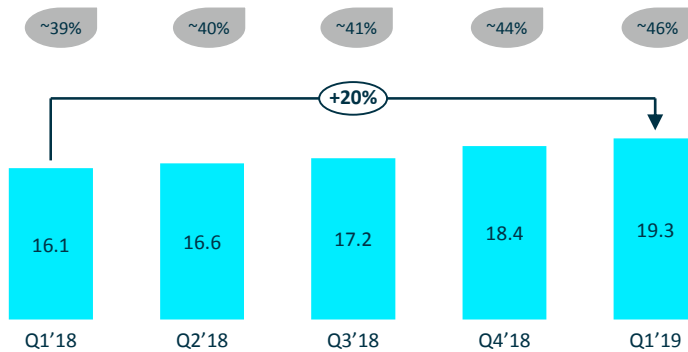
Mobile data with sustainable growth rates

Traffic (TB/Q)



LTE customer base further increasing

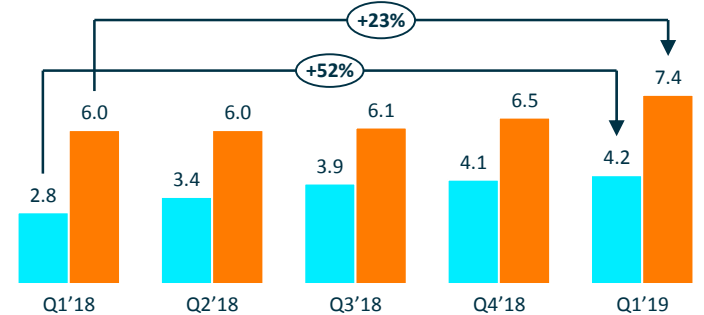
LTE customers (in million) / LTE penetration (in %)



O₂ Free tariffs driving data growth

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

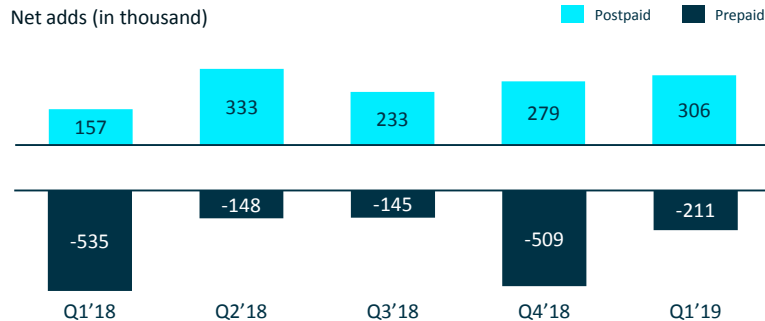
O₂ Free M tariff



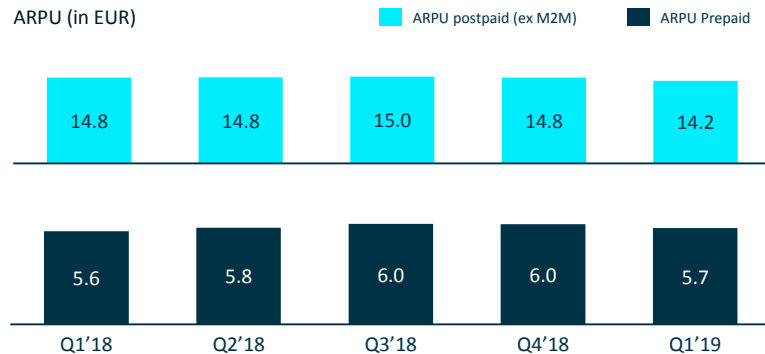
- Data continues to grow with a CAGR of ~50% driven by large data buckets and continuous LTE adoption; streaming services as the major driver
- Average data usage of O₂ LTE customers >4GB per month, O₂ Free customers consume >7GB per month in the most popular M tariff
- LTE customer base up +19.6% y-o-y to 19.3 million
- LTE penetration up 8 p.p. y-o-y, already ca. 60% LTE penetration in postpaid

Strong trading metrics on the back of portfolio initiatives and retention focus

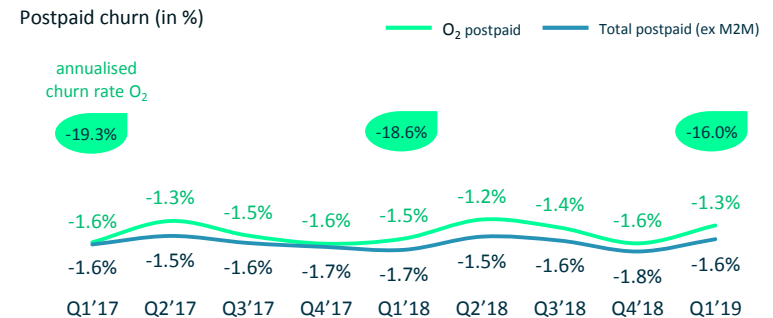
Focus on profitable growth across segments



Regulatory headwinds main driver of ARPU



Customer retention remains a key focus



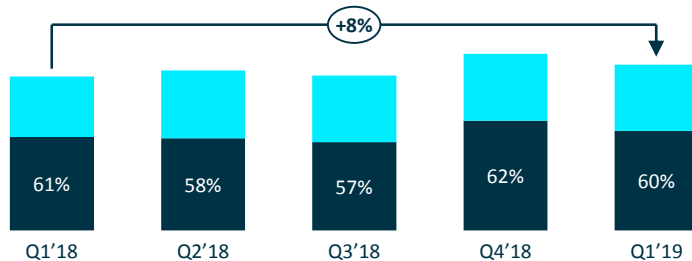
- Sustained demand for O₂ Free & Blau portfolios as well as partner brands drives strong postpaid net adds
- Churn trends in O₂ consumer postpaid show further improvement; seasonality in line with renewal cycles
- Postpaid ARPU trends reflecting regulatory effects, mainly termination rate cut as of 1 Dec 2018
- Unchanged prepaid trends in line with market

Partner performance in line with expectations

Partner trading reflecting seasonality

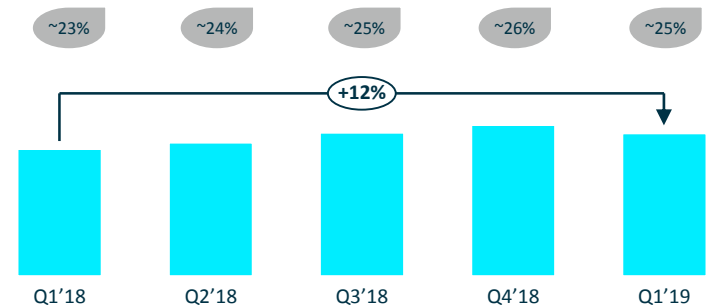
Postpaid gross adds share

GA retail brands GA partner brands



Partner revenue growth in line with expectations

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



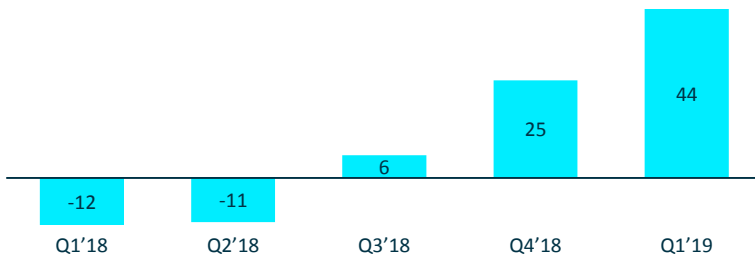
- 4G focus drives partner trading (60% of GA in Q1) including related migration trends
- Partner revenue growth in line with expectations driven by the dynamics of the MBA MVNO; visible effects from the reduction of termination rates
- Data growth now is the predominant driver of revenue trajectory, as opposed to previously data & glide path growth

Fixed retail dynamics reflect effects of increasing bundle share

Fixed retail trading further improving

Fixed BB net adds (in thousand)

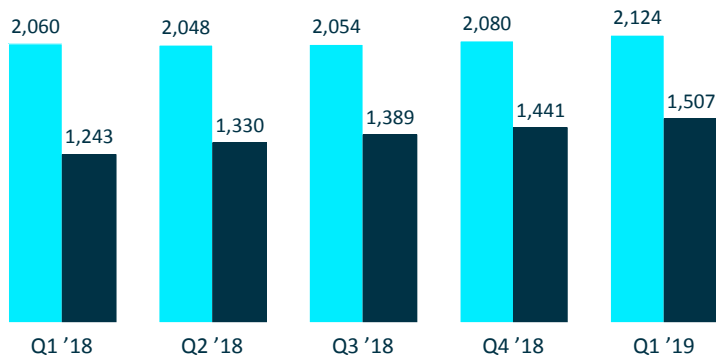
■ Retail



VDSL penetration continues to grow

Fixed BB customer base (in thousand)

■ Retail DSL ■ thereof VDSL



ARPU reflects higher bundle share

DSL ARPU (in EUR)

■ Retail

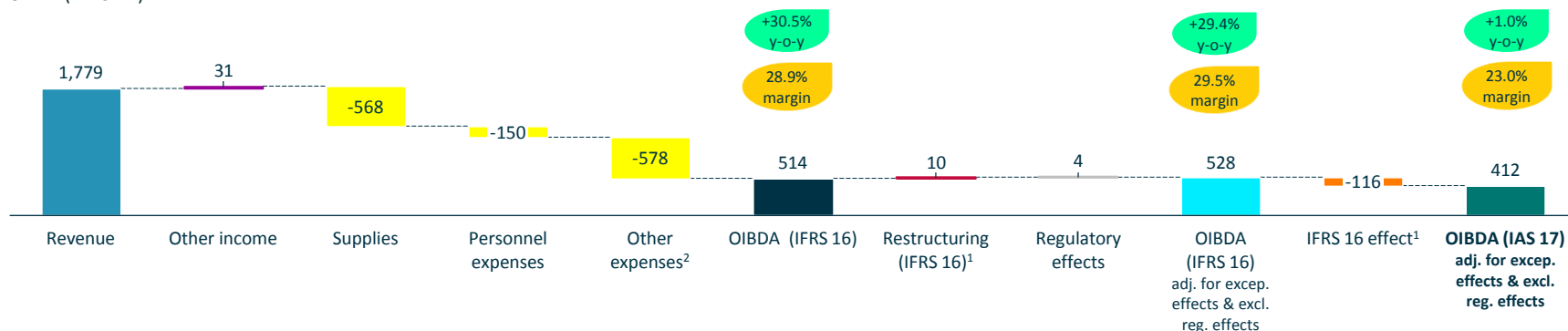


- Fixed retail trading further improving driven by sustained demand for VDSL
- >70% of retail fixed BB customer base already on VDSL; up +21% y-o-y to 1.5 million
- Higher bundle share in fixed retail BB base offsetting positive contribution from VDSL in ARPU & revenue

OIBDA reflects transformation & market investment

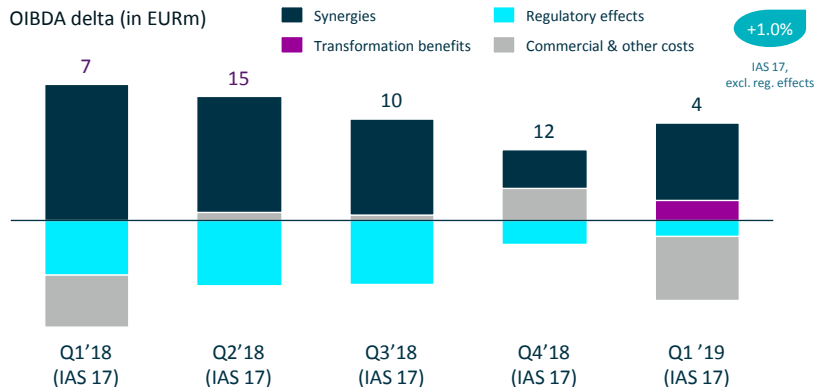
Structure of OIBDA for January to March 2019

OIBDA (in EURm)



OIBDA¹ reflects synergies & transformation

OIBDA delta (in EURm)



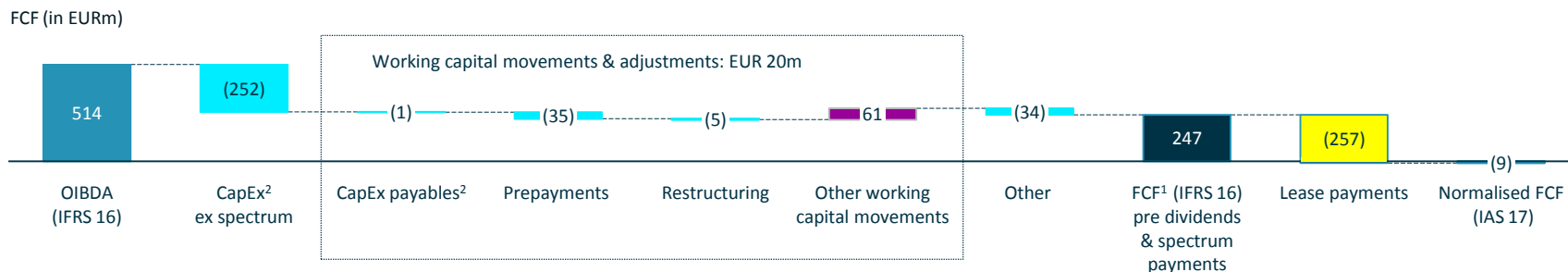
- Underlying OIBDA (IAS 17) +1.0% y-o-y driven by
 - Network synergies of ~EUR 20 million
 - Transformation benefits of ~EUR 5 million driven by O₂ consumer and IT cost savings
- Regulatory effects of EUR 4 million driven by usage elasticity effects from RLH
- Restructuring¹ costs of EUR 10 million under IFRS 16
- Underlying OIBDA margin expands to 29.5% under IFRS 16 vs. 23.0% under IAS 17

¹ According to IAS 17, restructuring costs were EUR 23 million and the total resulting IFRS 16 effect at reported OIBDA level comes to EUR 129 million. The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16

² Includes other expenses and impairment losses in accordance with IFRS 9

FCF dynamics reflect implementation of IFRS 16

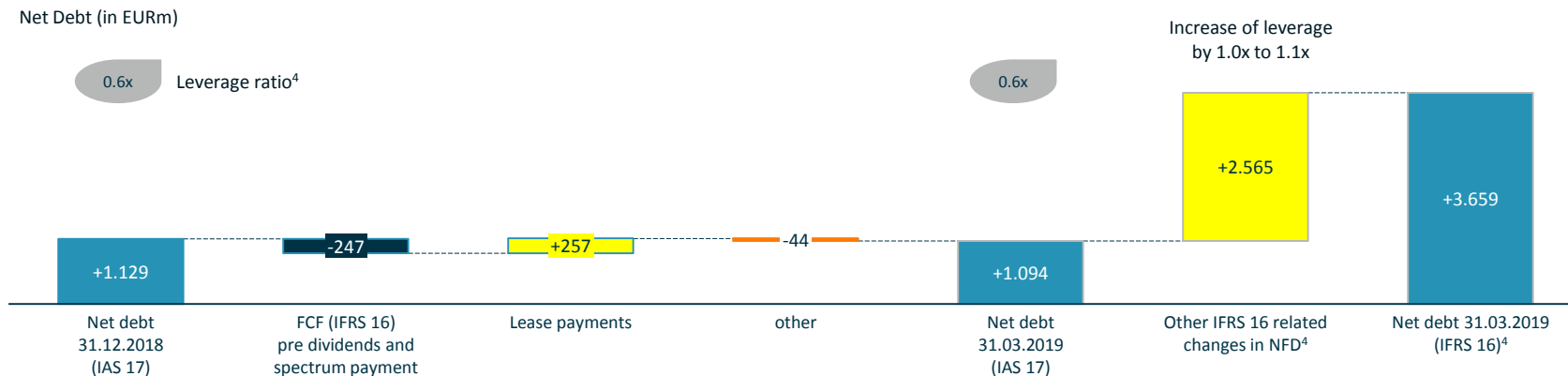
Evolution of Free Cash Flow (FCF)¹ YTD March 2019



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 right-of-use assets (as of 1 January 2019) and excluding additions from borrowed capital for investments in spectrum

Evolution of Net Debt³ – Leverage³ in line with target

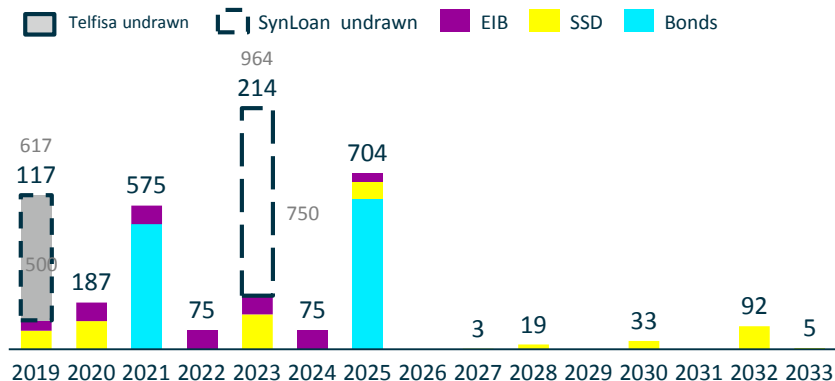


³ For definition of net debt & leverage ratio please refer to Q1 2019 earnings release

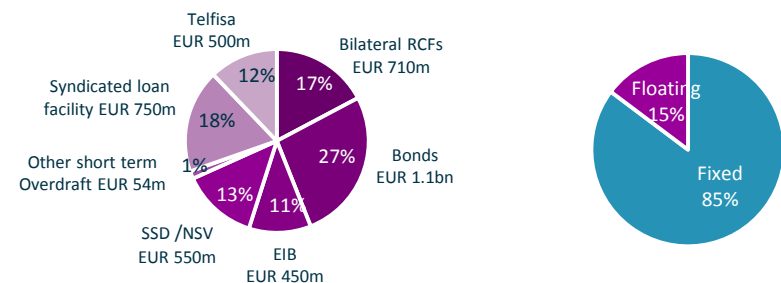
⁴ Balance sheet items within net financial debt affected by IFRS 16 are still subject to change within a bandwidth of +/- 5%

Smooth maturity profile and diversified financing mix per 31 March 2019

Maturity profile¹

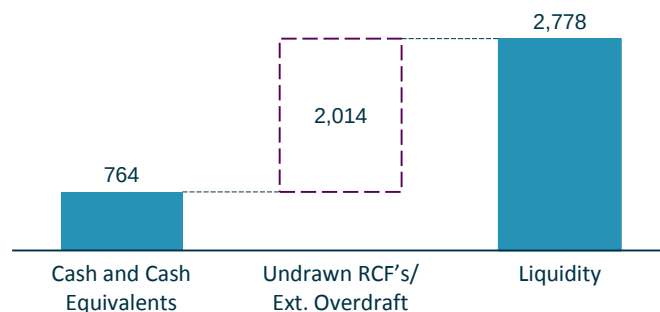


Financing and interest mix²



Liquidity position

(in EURm)



- Well balanced and diversified maturity profile
- EUR 2.8 billion liquidity position ensures financial flexibility
- Low exposure to rate hikes due to a high percentage of debt at fixed rates
- EUR 360 million promissory note loan with maturities of 5, 7 and 10 years placed in April 2019; not yet included in maturity profile

Summary

Strong trading start to the year; transformation focus

Revenue trends driven by handset & solid MSR; Data usage continues to grow with ~50% CAGR

OIBDA reflects transformation & market investment

FCF dynamics with usual seasonality; leverage remains low

Solid B/S, liquidity position and FCF generation ability support dividend commitment

Q1 2019 results - Q&A session

Reach out to us for any follow-up questions

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