

An aerial night view of a city, likely London, showing a dense grid of buildings and streets illuminated by warm yellow lights. The sky is dark, and the overall scene is a vibrant urban landscape.

Telefonica

Deutschland

Results January – June 2014

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Telefónica Deutschland management team



Markus Haas
CSO



Rachel Empey
CFO

Joint leadership of the Management Board of
Telefónica Deutschland Holding AG

Second Quarter 2014: Main Operating & Financial Highlights

- **Strong traction of new commercial propositions** “O₂ Blue All-in” and “O₂ Unite” and lower churn driving operational performance
- LTE consolidated as the main driver for **mobile data monetisation** in a very **competitive market**
- **Wireless service revenue** y-o-y performance showing improvement with a stabilization of OIBDA trends
- Capex focused on **LTE-800 network deployment** with different year-on-year phasing of investments
- **Strong FCF generation** and **sound financial profile** after dividend payment

Bringing our commercial strategy to the center of customers' lives, opening all possibilities of technology to everyone

Brand motivator campaign
#YouCanDo



"LTE always included"
Value-for-money LTE player



"Use your smartphone abroad
like you were at home"
Roaming included proposition



Attractive device shouts
Bundles with latest devices, e.g.
Samsung Galaxy S5 & HTC one



Focus on data monetization
Individualized offers plus digital
services to enhance customer
experience



Significant upside in O₂
postpaid net additions with
improved tariff mix

Material improvement of all
brand KPIs in the second
quarter of 2014

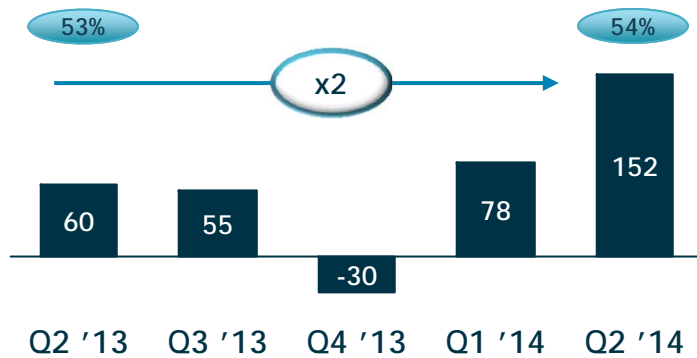
Strong position as the LTE
value-for-money player in the
German market

Commercial momentum driving mobile data monetization further

Evolution of postpaid Net Additions

In k

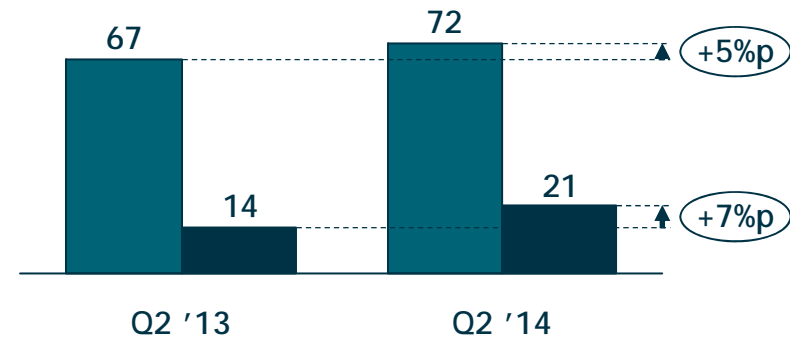
Postpaid share of mobile customer base (%)



Smartphone penetration

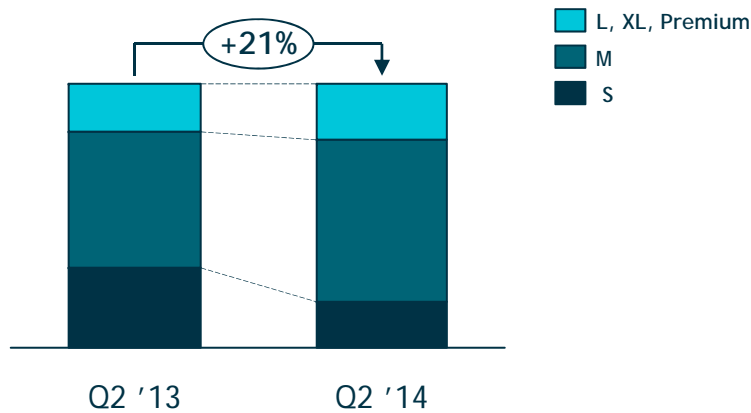
Within O₂ Consumer Customer Base (%)

Postpaid Prepaid



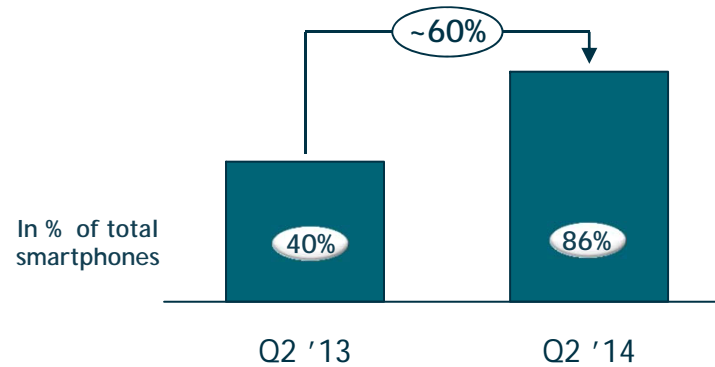
Tariff mix adoption

Value split of O₂ Blue All-in Gross Adds in k



LTE handset adoption

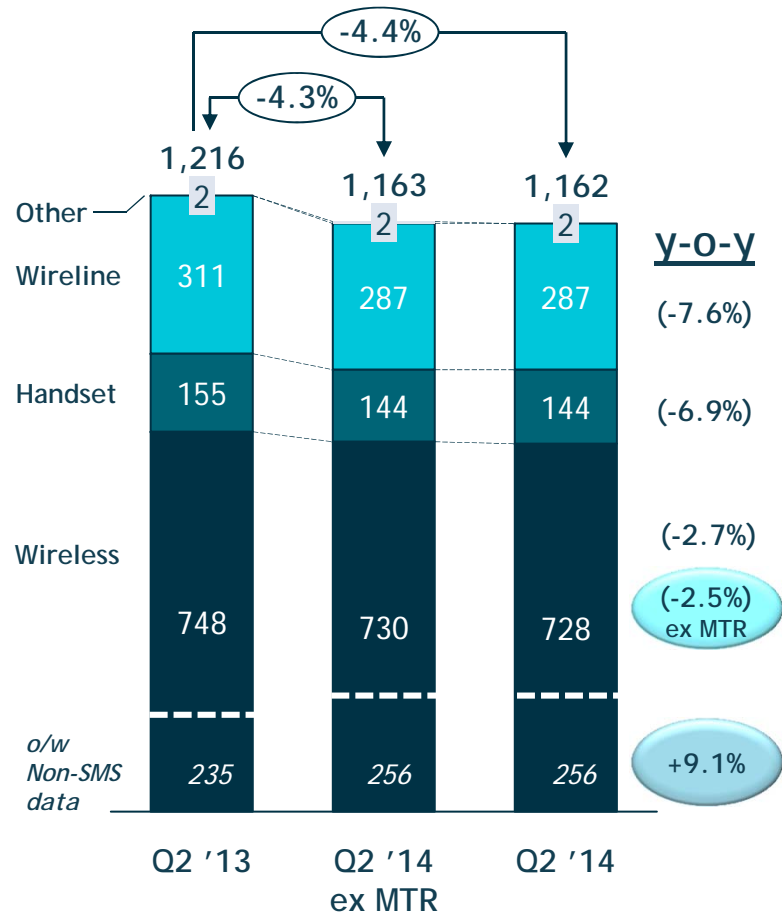
Sale of LTE-enabled smartphones



Revenue performance in the second quarter of 2014 further influenced by higher proportion of bundles

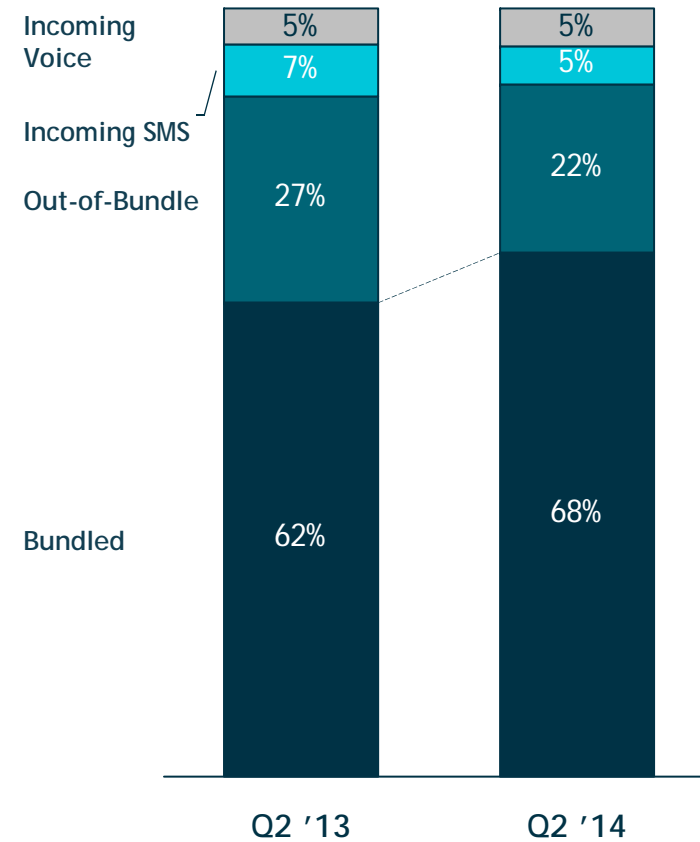
Total Revenue

Year-on-Year in million Euro



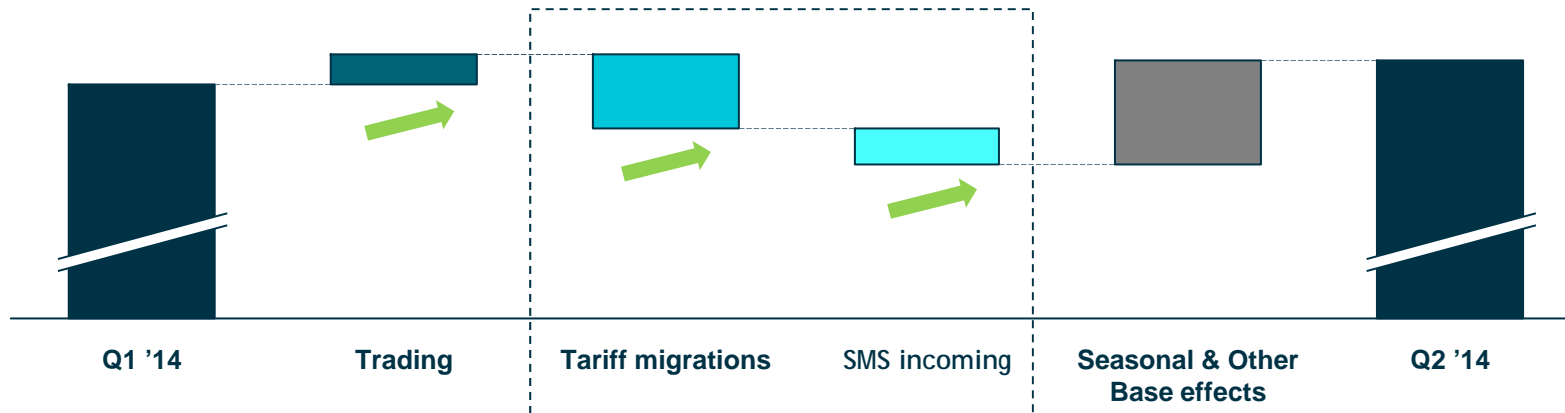
Structure of O₂ Consumer Postpaid WSR

Quarterly evolution in %

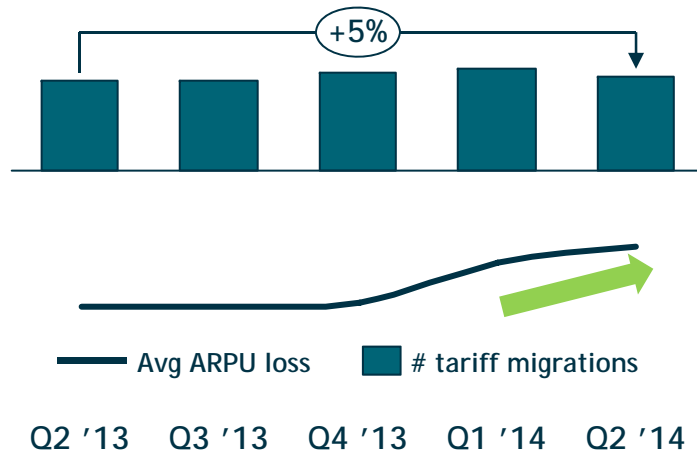


Quarter-on-Quarter improvement of wireless service revenue drivers

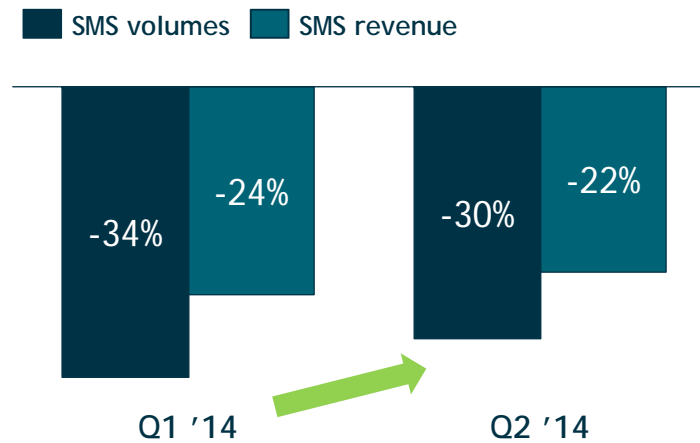
Main drivers for evolution of Wireless Service Revenues in O₂ Consumer Postpaid Segment Quarter-on-quarter absolute performance ex-MTRs



Base Management: Tariff Renewals In # O₂ Consumer Postpaid



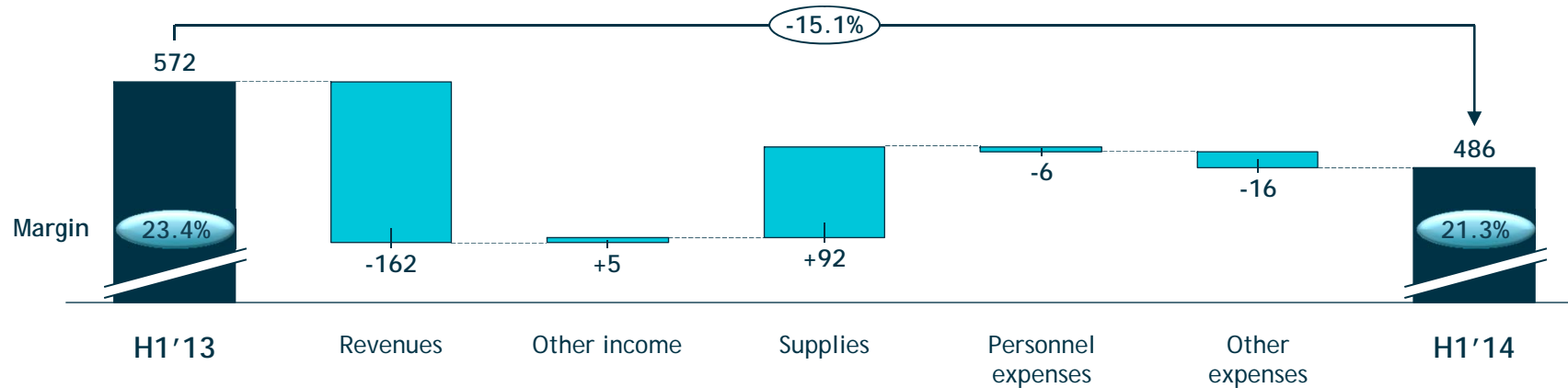
Evolutions SMS Year-on-year in %



Moderate OIBDA y-o-y margin decline in H1 14 on increased commercial spend to drive momentum

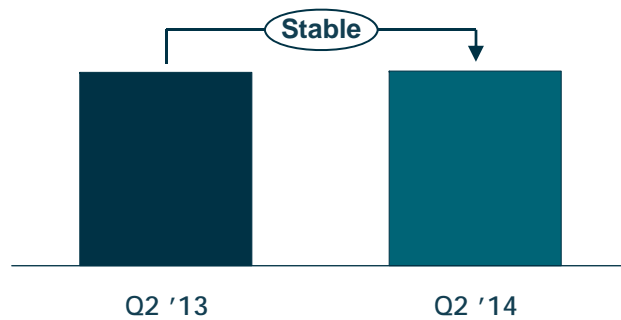
OIBDA evolution

Year-on-year in million Euro



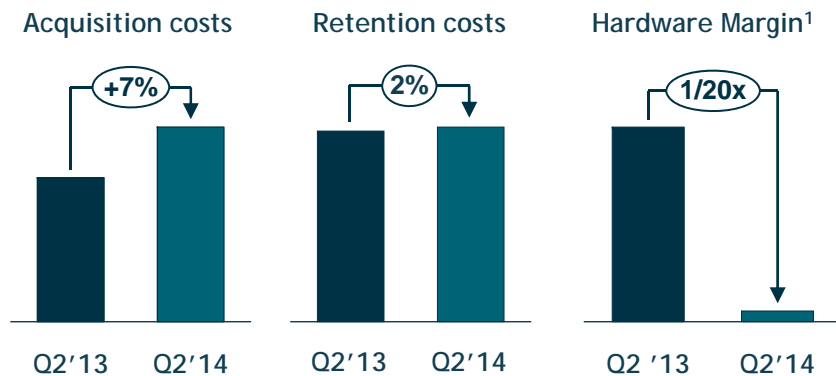
Evolution on non-commercial costs

Year-on-year in %



Evolution of main commercial costs

Year-on-year in %

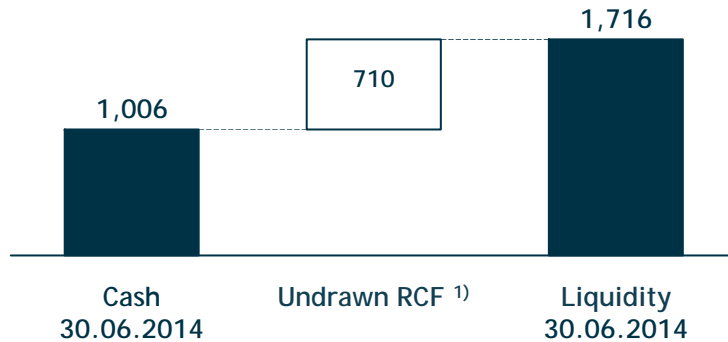


¹ Handset revenues less cost of sales

Solid financial profile maintained after dividend payment

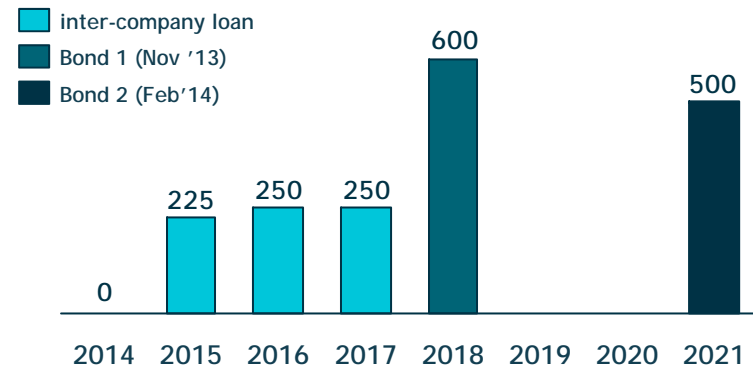
Strong liquidity position

In million Euro



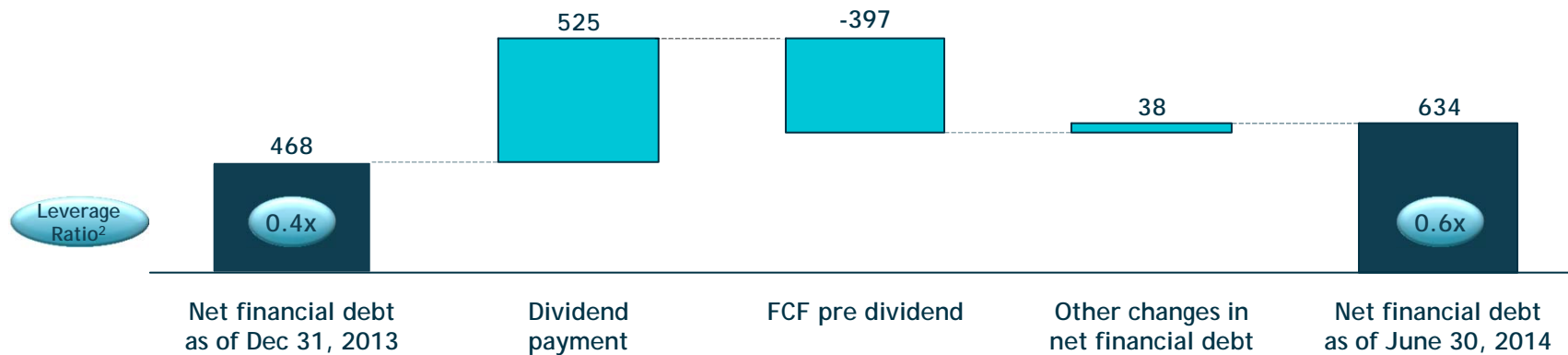
Extended maturity profile

In million Euro



Evolution of Net Debt²

In million Euro



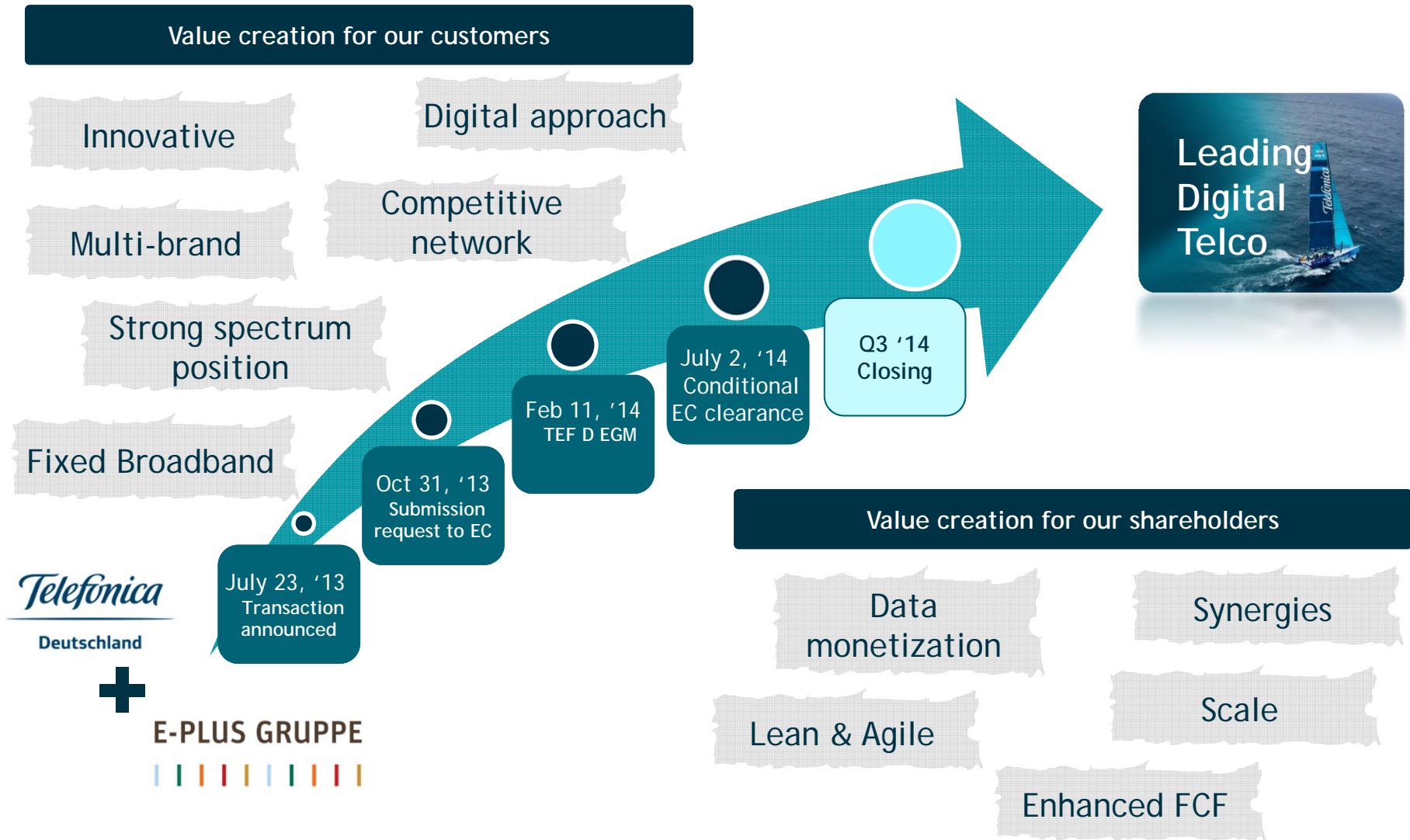
1) Expiry of undrawn credit lines:
 €100m in Q3 2015, €250m in Q2 2016, €250m in Q3 2016 and €110m in Q3 2017

2) For definition of Net Debt and Leverage Ratio please refer to additional materials of Q2 14 results

Main take-aways (Operational & Financial performance)

- Our **data monetization strategy is already paying off**: improvement in revenue performance with stabilization of OIBDA trends
- **O₂ is firmly positioned as the value-for-money LTE** brand in the German mobile telco market, leveraging differential infrastructure assets
- We continue showing a **solid financial profile and strong conversion from operating to free cash flow**
- **Limited visibility on the outlook of the business** until the closure of the acquisition of E-Plus Group

We are in the final phase of the E-Plus Group acquisition process



Conditional Clearance given by EC subject to upfront MBA agreement

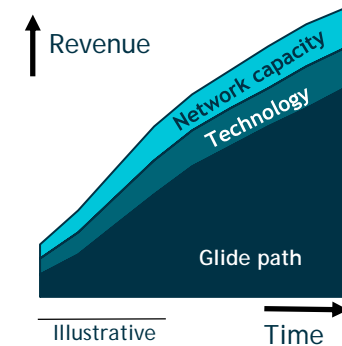
1

**Upfront
MBA¹ MVNO - capacity
access (20% + opt. +10%)**



■ MBA¹ MVNO reflects a continued focus on mobile data monetization

- Scale benefits
- Capacity glide path: throughput, data volume and voice/SMS
- Usage clauses to ensure network quality
- Allows for technological investments and price differential
- Earliest launch Jan 1, 2015



2

1 potential new MNO entrant

■ No spectrum-related commitments under 2 GHz

- LTE-800 MHz spectrum holding unaffected
- Alignment with "spectrum 2016" project

3

**Non-MNO: extend existing
contracts**

■ Non-MNOs to continue their current business model

- 4G access with 1 year delay after launch of MBA MVNO

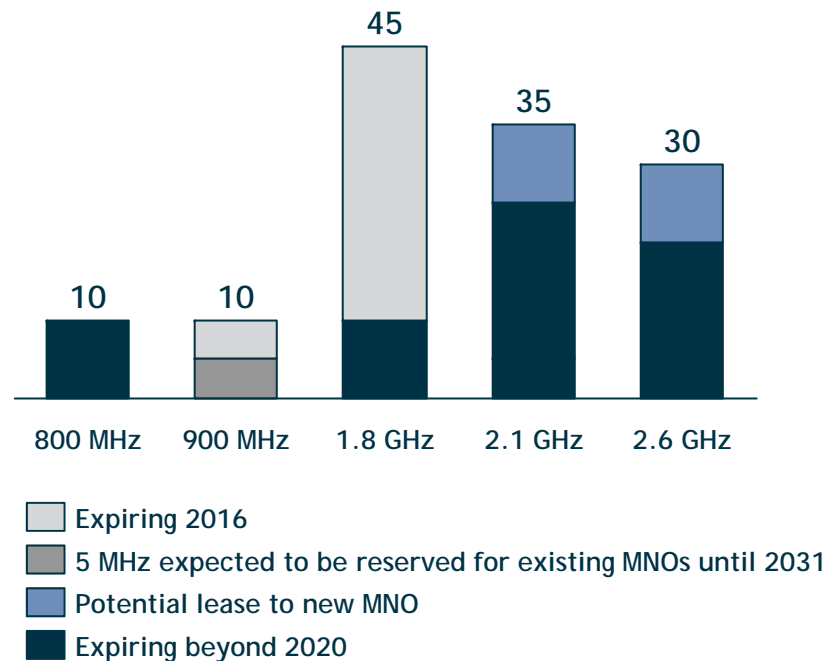
- Most representative 4:3 mobile network consolidation in Europe
- Wholesale price agreements negotiated on a pure commercial basis

Strong spectrum holding for infrastructure-based competition

Combined spectrum holding in MHz

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+ E-PLUS GRUPPE



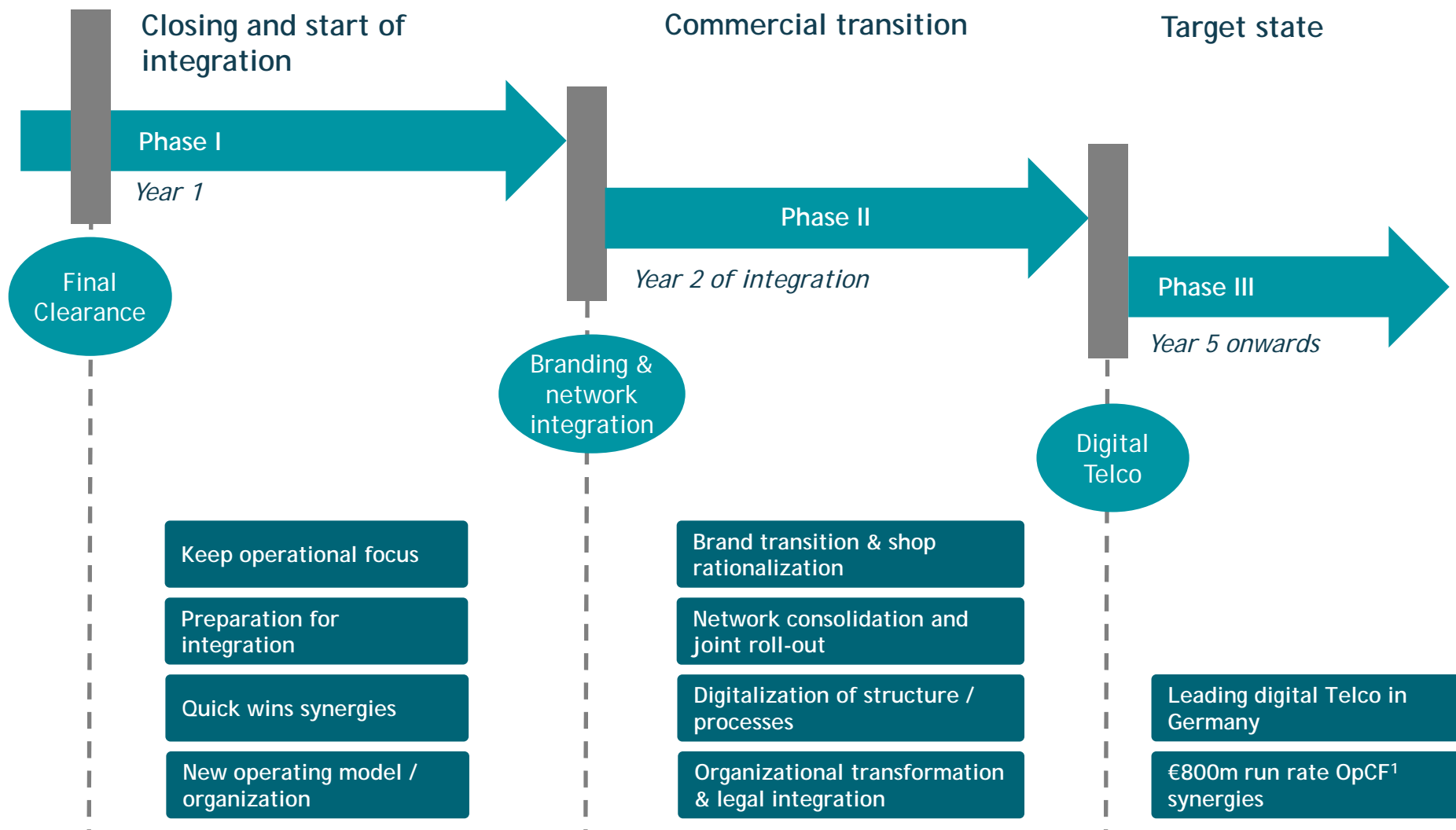
Note:

1 Federal Network Agency (Bundesnetzagentur)

2 Based on FNA decision of July 4, 2014

- 800 MHz spectrum holding unaffected
- 2015 spectrum allocation²
 - Early return of 900/1,800 MHz spectrum expiring in 2016 (by end of-2015)
 - Allocation of 2 x 5 MHz of 900 MHz spectrum to existing MNOs by FNA¹
 - Assessment of remaining spectrum holding after 900/1,800 MHz allocation
- MNO spectrum remedy only affecting spectrum >2.0 GHz
 - Offer of 2x10 MHz 2.1 GHz spectrum for new MNO entrant from July 2016
 - Offer of 2x10 MHz 2.6 GHz spectrum for new entrant upon request

Integration execution timeline



Notes:
1 OIBDA minus CapEx

Main take-aways (E-Plus Group acquisition)

- Final stage of the process with the EC. We expect the **closure of the transaction** in the third quarter of 2014
- Remedy package allows for **ongoing mobile data monetization**, **>€5bn NPV Synergies is confirmed**
- **Spectrum allocation process ongoing** – FNA¹ to set rules by year-end
- Designated **management team already set** – Execution of equity financing measures to be announced soon



Telefónica Deutschland Q2 2014 results Q&A session



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