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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
First Quarter 2014: Main Operating & Financial Highlights

- LTE has already emerged as the biggest driver for mobile data monetisation in a very active competitive environment.

- Wireless service revenues showed stabilisation of trends while we continued increasing commercial investments to enhance trading momentum.

- CapEx focused in LTE-800 network deployment (close to 50% outdoor coverage\(^1\)) while keeping a strong and flexible financial profile.

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\(^1\) End of April 2014
Seizing opportunities in a very active mobile data market
O₂ position as best Value-for-Money LTE brand in Germany

Consumers:
More value in O₂ Blue All-in portfolio
- LTE included in all O₂ Blue All-in tariffs
- EU data roaming packs from “L” tariff
- New Premium tariff for high-end segment

SMEs/Corporates:
New disruptive O₂ UNITE concept
- Common pool of Voice/Data for employees
- Flexible & easy to manage online
- Pay-as-you use concept

Enhance trading performance in a focused & efficient way
- Brand campaign: O₂ as motivator (#YouCanDo: inspiring customers to try new possibilities)
- Hero devices bundled with tariffs (e.g. Samsung S5, New HTC One)
- Targeted portfolios for Young People and Professionals (More Value, Cost Control)
- Capitalizing unique digital touch points experiences (O₂ Guru)
Increasing focus on data monetisation and LTE uptake

**Evolution of postpaid Net Additions**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Postpaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 '13</td>
<td>92</td>
</tr>
<tr>
<td>Q2 '13</td>
<td>60</td>
</tr>
<tr>
<td>Q3 '13</td>
<td>55</td>
</tr>
<tr>
<td>Q4 '13</td>
<td>-30</td>
</tr>
<tr>
<td>Q1 '14</td>
<td>78</td>
</tr>
</tbody>
</table>

Postpaid share of mobile customer base (%)

- Prepaid: 52.8%
- Postpaid: 53.8%

**Smartphone penetration**

Within O2 Consumer Customer Base (%)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Prepaid</th>
<th>Postpaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 '13</td>
<td>13.2%</td>
<td>65.0%</td>
</tr>
<tr>
<td>Q1 '14</td>
<td>21.2%</td>
<td>70.7%</td>
</tr>
</tbody>
</table>

Increase: +5.7%

**Progression of Fixed BB**

Retail DSL Net Adds in k

- Prepaid: 52.8%
- Postpaid: 53.8%

**LTE handset adoption: >1 million sold up to April '14**

Shipment of LTE enabled smartphones

- 3x Higher usage than non-LTE customer
- Significant ARPU upside

In % of total smartphones

- Q1 '14: 78%
- Ø 2013: 48%
Revenue performance in the first quarter of 2014
Stability of WSR performance

<table>
<thead>
<tr>
<th>Total Revenue</th>
<th>Year-on-Year in million Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1 '13</td>
</tr>
<tr>
<td>Other</td>
<td>1,230</td>
</tr>
<tr>
<td>Wireline</td>
<td>315</td>
</tr>
<tr>
<td>Handset</td>
<td>180</td>
</tr>
<tr>
<td>Wireless</td>
<td>733</td>
</tr>
<tr>
<td>o/w Non-SMS data</td>
<td>225</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure of O₂ Consumer Postpaid WSR</th>
<th>Quarterly evolution in %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1 '13</td>
</tr>
<tr>
<td>Incoming Voice</td>
<td>4%</td>
</tr>
<tr>
<td>Incoming SMS</td>
<td>8%</td>
</tr>
<tr>
<td>Out-of-Bundle</td>
<td>27%</td>
</tr>
<tr>
<td>Bundled</td>
<td>61%</td>
</tr>
</tbody>
</table>

y-o-y: 
-8.8% (-33.2%) (-7.0%) (-3.6%) (-3.4%)

Non-SMS data: +12.1% Non-SMS data
Drivers of Wireless Service Revenues
Better sequential performance from Tariff migrations

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

- Var vs. Q4-Q3
- Trading: -40%
- Tariff migrations: -21%
- SMS incoming: +14%
- Seasonal & Other Base effects
- Q1 '14

Base Management: Tariff Renewals
In # O2 Consumer Postpaid

- Var vs. Q4-Q3
- # tariff migrations
- Ø ARPU loss

Evolutions SMS
Year-on-year in %

- SMS volumes
- SMS revenue

Q1 '13 Q2 '13 Q3 '13 Q4 '13 Q1 '14

Var vs. Q4-Q3
- Q4 '13: -21%
- Q3 '13: -25%
- Q2 '13: -27%
- Q1 '13: -34%
- Q1 '14: -24%
OIBDA margin y-o-y evolution in line with previous quarters
Driven by revenue performance and commercial costs

OIBDA evolution
Year-on-year in million Euro

<table>
<thead>
<tr>
<th>Component</th>
<th>Q1’13</th>
<th>Q1’14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Margin</td>
<td>22.6%</td>
<td>20.9%</td>
</tr>
<tr>
<td>Revenues</td>
<td>+278</td>
<td>-108</td>
</tr>
<tr>
<td>Other Income</td>
<td></td>
<td>+5</td>
</tr>
<tr>
<td>Supplies</td>
<td>-44</td>
<td>+74</td>
</tr>
<tr>
<td>Personnel</td>
<td>-3</td>
<td>-13</td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Evolution on non-commercial costs
Year-on-year in %

-2% Q1’13 to Q1’14

Evolution of main commercial costs
Year-on-year in %

2% Retention costs

12% Hardware Margin

Handset revenues less cost of sales
Free Cash Flow growth in the first quarter of 2014
Driven by positive impact from Working Capital management

**Evolution of Free Cash Flow**

*Year-on-year in million Euro*

<table>
<thead>
<tr>
<th></th>
<th>FCF pre dividends Q1 '13</th>
<th>OIBDA-CapEx</th>
<th>Working Capital</th>
<th>Others</th>
<th>FCF pre dividends Q1 '14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 '13</td>
<td>+105</td>
<td>-31</td>
<td>34</td>
<td>-1</td>
<td>+107</td>
</tr>
</tbody>
</table>

1) Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities.

2) End of April 2014
Solid financial profile
Successfully positioned in the debt capital markets

**Strong liquidity position**

<table>
<thead>
<tr>
<th>In million Euro</th>
<th>1,186</th>
<th>710</th>
<th>1,896</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash 31.03.2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undrawn RCF 1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity Cushion 31.03.2014</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Extended maturity profile**

<table>
<thead>
<tr>
<th>In million Euro</th>
<th>0</th>
<th>225</th>
<th>250</th>
<th>250</th>
<th>600</th>
<th>500</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>500</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
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<tr>
<td>2017</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>2019</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>2020</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>2021</td>
<td></td>
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</tr>
</tbody>
</table>

**Evolution of Net Debt**

<table>
<thead>
<tr>
<th>Year-on-year in million Euro</th>
<th>498</th>
<th>125</th>
<th>360</th>
<th>481</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Debt 31.12.2013</td>
<td>468</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue of new debt (Bond II)</td>
<td></td>
<td>125</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Redemption</td>
<td></td>
<td></td>
<td>360</td>
<td></td>
</tr>
<tr>
<td>Increase in Liquidity</td>
<td></td>
<td></td>
<td></td>
<td>481</td>
</tr>
</tbody>
</table>

**Leverage Ratio**

<table>
<thead>
<tr>
<th>0.4x</th>
<th>0.4x</th>
</tr>
</thead>
</table>

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

For definition of Net Debt and Leverage Ratio please refer to additional materials of Q1 14 preliminary results.
Main take-aways and near term expectations

- Telefónica Deutschland operating & financial performance is a reflection of a **consistent execution of our mobile-data centric strategy**

- We are increasing **investments in the market to seize additional opportunities around LTE** in both in the Consumer and SME/Corporate segments

- We are maintaining a **solid financial profile and sustainable FCF generation**

- We intend to propose a **cash dividend of approx. 525 million Euro for 2013** to our Annual General Meeting on May 20\textsuperscript{th}, 2014
Regulatory topics and E-Plus transaction process update

- **NGA cooperation agreement with DT** approved by German Regulator; ongoing **spectrum allocation consultation**

- **E-Plus transaction approval by EC proceeding** with submission and market test of remedy package

- **Preparation of equity financing** measures for mid-2014

- Main **strategic priorities for the business to be reinforced** after closing of E-Plus transaction
Latest regulatory topics of interest
NGA cooperation agreement with DT & Spectrum consultation

Regulatory approval
NGA cooperation Agreement with DT (End March’14)

- The German Federal Network Agency confirmed compliance with the German Telco. Act and finalised the proceeding after further acknowledgment from EC
  - FCO to give final assessment by end June’14
- We are able now to realize the transformation from a fixed access infrastructure provider to becoming a high-speed internet provider in the German fixed-net market based on DT’s NGA platform with VDSL- and vectoring products

Spectrum Consultation (Ongoing)

- “Project 2016” consultation paper (June’13, pre-Transaction)
  - Reservation/prolongation of GSM spectrum possible
  - Joint auction of GSM (900/1800) + additional bands
- Position paper on spectrum reallocation in preparation of a decision on the planned acquisition of E-Plus (End March’14)
  - Expecting a final decision in the second half of 2014
  - Action needed after clearance to facilitate access to spectrum in a non-discriminatory way
E-Plus transaction approval proceeding in Q2‘14
Preparing for capital increase after closing by mid‘14

- Rights Issue terms & conditions
- Synergies from the transaction
- New Company vision & strategy
- Cash capital incr. for up to 3,700m shares with subscription rights
- Authorized capital for capital incr. by contribution in kind by up to 475m shares (additional to existing 558m)
- Ongoing discussions with EC on a final Remedy Package
- Uniqueness of German market Structure - Transaction to foster competition

Post-Closing Activities

Regulatory Clearance

Rights Issue (Cash Capital Increase) + Capital increase against Contribution in Kind

Required EGM resolutions in place

Legal Documentation (e.g. Prospectus)
Strengthening Telefonica Deutschland core priorities
Becoming a Leading Digital Telco

2014 Priorities for Telefonica Deutschland

- Capitalise on multi-brand portfolio & high level of customer satisfaction
- Monetise mobile data & fixed broadband convergence opportunities across all segments
- Differentiate O₂ as the best Value-for-Money LTE brand in the German market
- Seize opportunities in the Business Segment and for Digital Services

Early identified strengths from the integration with E-Plus

- Digital Consumer-focused with a challenger mindset in the attractive German telco market
- Proven innovation skills; untapped mobile-only base
- Ability to accelerate LTE network deployment, leveraging a strong set of assets
- Scale, improved service and end-to-end digital set-up: reliable B2B and B2C partner

NPV of synergies of more than €5bn, mainly derived from Network, Distribution & Customer Services