Conditional Regulatory Clearance of the acquisition of E-Plus

July 2014
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Management Board Designate
A powerful team to form Germany‘s leading digital telco

Markus Haas
COO

Thorsten Dirks
CEO

Rachel Empey
CFO

Management Board designate of Telefónica Deutschland Holding AG after closing of acquisition of E-Plus
After completion of today’s milestone, we expect Value Creation from the Transaction to remain intact.

### Telefónica Deutschland Customers
- A leading Digital Telco
- Superior network quality through accelerated LTE rollout and a denser 2G/3G grid
- Strong multi-brand portfolio across segments
- Outstanding customer service

### Telefónica Deutschland Shareholders
- NPV of synergies of more than 5 bn Euro
- Improved profitability on strong scale benefits
- Enhanced Free Cash Flow generation
- Increased financial flexibility
- Ability to maintain an attractive shareholder remuneration
Competitive concerns addressed: final clearance only subject to EC’s verification of MBA contract

1 Upfront MBA\(^1\) MVNO - capacity access

- Up to 3 MBA contracts on commercial terms for final EC approval
  - Commitment to buy 20% Network Capacity
  - All commercial terms subject to negotiations - not regulated
  - Option to purchase up to 10% additional Network Capacity
- MBA agreement signed already with Drillisch (25.06.14)

2 MNO

- One potential MNO entrant
  - Exclusive to MBA for 5 yr. if no new entrant signs until Dec’14
- Ability to build own urban network + rural roaming
  - Spectrum lease in 2.1 GHz (2x10 MHz) and/or 2.6 GHz (2x10 MHz) bands.
  - New MNO commits to comply with coverage/frequency obligations
  - National Roaming and Passive Network Share
  - Sale of Shops (until mid 2015) and Mobile Sites (until end 2016)

3 Non-MNO

- Extend existing MVNO/SP contracts until 2025
- Incremental to current MVNO/SP agreements with TEF D/E-Plus
- Facilitate seamless switching of customers to other host networks
- Access to 4G only 12 months after the launch of upfront MBA MVNO

\(^1\) MBA – Mobile Bitstream Access
MNO consolidation is possible in Europe, while all data monetization opportunities remain open

1. **MBA reflects a continued focus on mobile data monetization**
   - Scale benefits given to new & existing players to develop mobile data propositions
   - Capacity offer variable and structured around throughput, data volume and voice/SMS
   - Specific clauses for excessive data usage to ensure network quality
   - MBA MVNO earliest launch 01.01.2015
   - Allows for technological investments and price differential (4G vs. 3G and future)

2. **No spectrum-related commitments below 2 GHz**
   - LTE-800 MHz spectrum holding is not under discussion
   - Alignment between “spectrum 2016” project and potential MNO entry schedule

3. **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
Expected time plan for the execution of commitments to EC

1. **Upfront MBA MVNO**
   - MBA-MVNO Contract
   - Technical Launch Date MBA-MVNO
   - 5yr. Contract term + optional extension
   - Glide path to total network usage of 20% (+10% optional)

2. **MNO**
   - Potential candidate to MNO
   - MNO from MBA-MVNOs - National Roaming
   - 2x10 2100 MHz - Lease
   - 2x10 2600 MHz - Lease
   - 900/1800 MHz spectrum allocation

3. **Non-MNO**
   - New contract clauses
   - Contract term for existing MVNOs/SPs extended until 2025
   - 1 year after MBA MVNO technical launch
   - Access to 4G

Integration & Synergy capture

Conditional EC Clearance | Final EC Clearance | 1.01.15 | 1.07.15 | 2020 | 2025

Note: Time scale and milestones shown in the graph are indicative
Strong spectrum holding for Infrastructure-based competition

- **800 MHz spectrum holding unaffected**

- **2015 spectrum allocation**
  - Early return of 900/1,800 MHz spectrum expiring in 2016 (End-2015)
  - Reservation of 2 x 5 MHz of 900 MHz spectrum by FNA
  - Frequency allocation assessment after allocation procedure

- **MNO spectrum remedy only affecting spectrum >2.0 GHz**
  - Offer of 2 x 10 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

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1 Federal Network Agency (Bundesnetzagentur)
2 Based on draft decision of FNA (June 13, 2014)
Transaction closure and next steps

**Closing transaction + Integration**
- **Phase I**
  - Year 1
  - Final Clearance
  - Execution of transaction-related financial measures
    - TEF
    - KPN
    - Free Float
    - 62.1%
    - 20.5%
    - 17.4%
  - Enlarged Telefónica Deutschland
  - Keep operational focus
  - Preparation for integration
  - Quick wins synergies
  - New operating model / organization

**Commercial transition**
- **Phase II**
  - Year 2 of integration
  - Branding & network integration
  - Brand transition & shop rationalization
  - Network consolidation and joint roll-out
  - Digitalization of structure / processes
  - Organizational transformation & legal integration

**Target state**
- **Phase III**
  - Year 5 onwards
  - Finalization
  - Leading digital Telco in Germany
  - ca. €800m run rate opCF synergies

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1 Call option for up to 2.9% within 1 year
Main take-aways

- **MNO consolidation is possible in Europe**
- **Data Monetization Opportunity to remain intact**
- **Best positioned for Infrastructure-based competition**
- **Upfront MBA MNO contract already signed with Drillisch**
- **Value creation of >€5bn NPV from synergies confirmed**
- **Equity financing measures to follow & final closing in Q3’14**
Telefonica Deutschland