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Telefónica Deutschland Q1 2015 preliminary results

5 May, 2015

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Q1 2015: On track to deliver on our full year commitments

Total revenues

+2.9% y-o-y¹

€1,901m

MSR

+1.5% y-o-y¹

€1,354m

OIBDA²

+5.7% y-o-y¹

€378m

Strong operational and financial performance driven by data monetisation
- Financial outlook confirmed -

Network enhancements and new propositions
- Provide tangible customer benefits -

Delivery on key integration milestones
- Synergy target confirmed -

¹ Indicative like-for-like year-on-year comparison based on approximate combined figures for 2014 resulting from the aggregation and consolidation of Telefonica Deutschland and E-Plus Group financials according to Telefonica Deutschland Group accounting policies.

² Excluding a EUR 17 million extraordinary effect from a capital gain related to the sale of yourfone GmbH in the first quarter of 2015

Driving data monetisation in a more profitable environment

Q1 product initiatives

- **New O₂ Blue tariff portfolio** including LTE and EU Roaming
- **Customer-friendly data automatic upselling**
- **LTE access** opened to the whole O₂ postpaid base
- **New video streaming offer** for O₂ customers



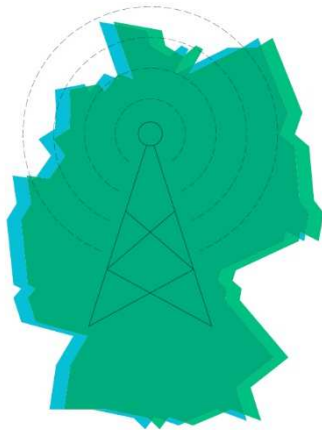
Enhanced go-to-market approach

- **Stronger commercial focus on customer base development**
- **Value-based approach to handset sales**
- **Expanding cross-selling of products** across existing distribution channels



Tangible benefits from National Roaming and further network enhancements

3G National Roaming started in April 2015



- Telefónica Deutschland to offer **best 3G network experience** in Germany by combining strengths of O₂ and E-Plus networks
- Improved coverage to **drive mobile data usage**



Network deployment plan on track

- Benefits from **investing in one LTE network**: 50% of 2015 synergy run-rate
- Accelerated **value-driven LTE network rollout** to approx. 75% of German population by end Dec. '15
- **Voice-over-LTE** since April '15
- **Golden Grid network consolidation** project on track
- Strong **spectrum portfolio and backhaul** to support network development



Delivering on key integration milestones

Staff reduction and yourfone sale

- Agreement with the Workers' Councils on master redundancy program (1,600 employees until 2018)
- Well-advanced in achieving **50% of staff reduction target** already in 2015 - tangible run-rate savings from H2'15
- Closing of **yourfone** sale



Consolidation of distribution network

- Drillisch planning to take 301 O₂/E-Plus shops in the second half of 2015. Negotiations on workforce transfer started
- Securing a **significant portion of planned shop footprint reduction** (1/3rd by 2018)
- OpEx run-rate savings from H2'15



On track to deliver on synergy target for FY 2015 (approx. €250m run rate)¹

¹ OIBDA-CapEx. Please see applicable notes on extended Q1'15 materials at www.telefonica.de

Agenda items for the next months

We are creating the
Leading Digital Telco
by offering our clients
**the best network,
product and service
experience at the
best value for money**

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Continue to leverage monetisation of
increasing data consumption

Push forward with LTE network roll-out and ensure
rapid integration of both networks

Successfully participate in upcoming
spectrum auction

Advance operational excellence and continue
simplification strategy

Deliver on commitments for FY2015

A good operational start for the year, confident to deliver the 2015 outlook

Mobile service revenue

Positive 1.5% y-o-y¹ on higher LTE-driven monetisation of mobile data growth

OIBDA²

Strong 5.7% y-o-y² on revenue flow-through plus focus on retention and value-based handset sales

Free cash flow & net debt

Positive Operating Cash Flow³ y-o-y evolution and strong liquidity ahead of near-term outflows

Synergies & Outlook'15

On track to reach 2015 targets with a accelerated impact from synergies in profitability from H2'15

Notes:

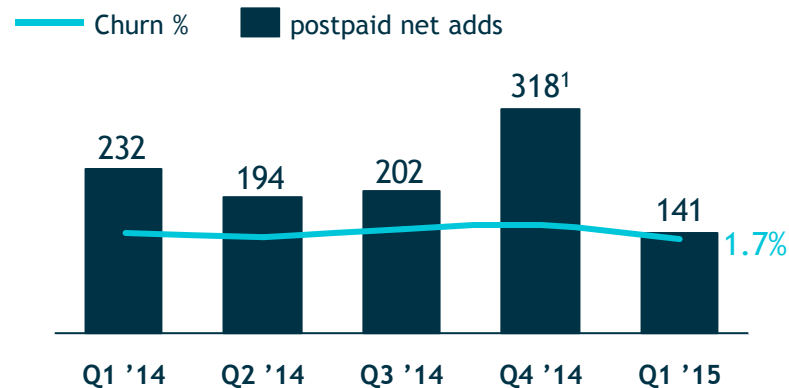
¹ Indicative like-for-like year-on-year comparison based on approximate combined figures of 2014 resulting from the aggregation and consolidation of Telefonica Deutschland and E-Plus Group financials according to Telefonica Deutschland Group accounting policies.

² Excluding the extraordinary effect from a €17m capital gain related with the sale of yourfone GmbH

³ OIBDA-CapEx

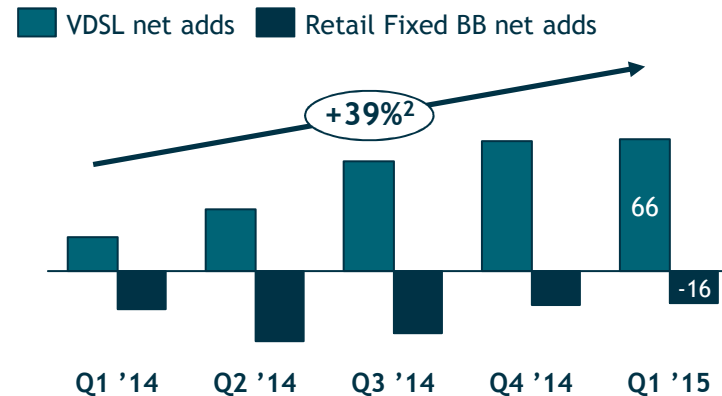
Tangible results from our approach to customer base development and value-based handset sales model

Evolution of postpaid mobile net adds & Churn



¹ Excluding the impact from postpaid customer base adjustment in the former E-Plus Group (428 thousand) driven by the finalisation of harmonisation of criteria and the disconnection of a partner

VDSL uptake improving retail fixed base



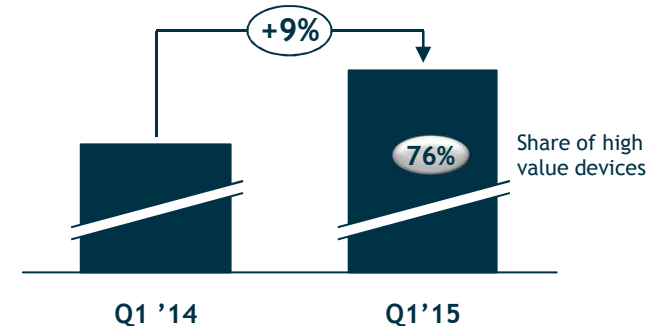
² CAGR

Value-based handset sales model leading to improved mix

	O ₂ Blue All-in S	O ₂ Blue All-in M	O ₂ Blue All-in L	O ₂ Blue All-in XL
	€0	€5	€10	€15
		Monthly discount ³		

³ As of 21. April 2015

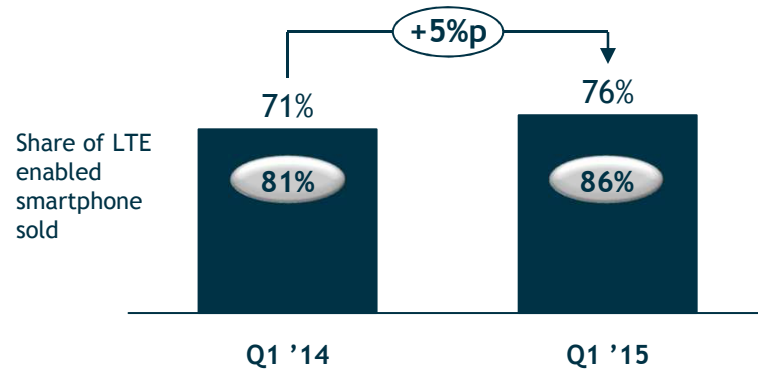
smartphones sold in O₂ consumer postpaid



Further monetizing improved customer mix and mobile data usage with data automatic bolt-ons

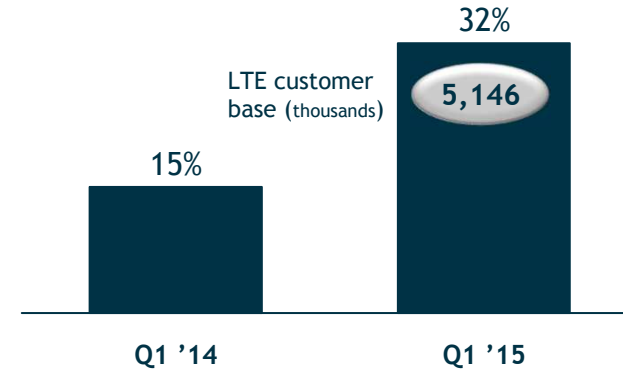
Steady increase of smartphone penetration

In % of O₂ consumer customer base



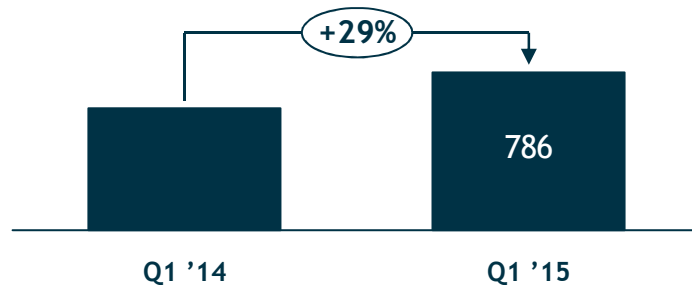
LTE-driven improvement of customer base

Share of Gross Adds with >1GB O₂ consumer PO



Portfolio design adapted to increased demand

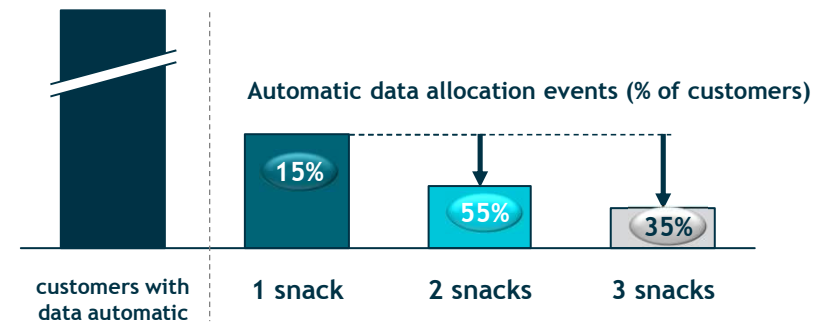
Average data usage¹ (MB)



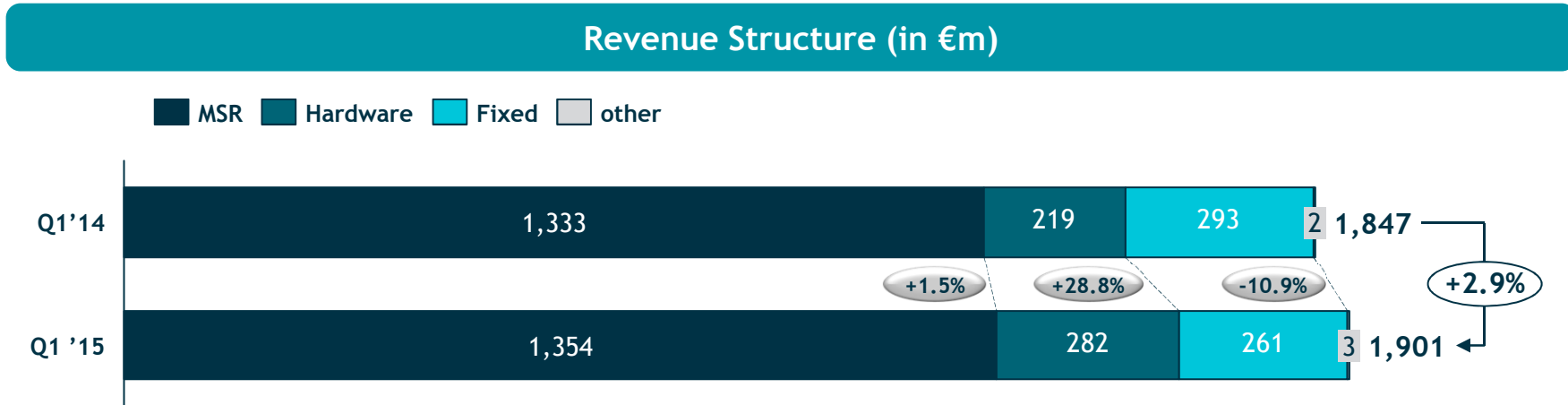
¹ O₂ consumer base with LTE enabled smartphone (all tariffs)

Encouraging results from Data Automatic feature

O₂ Blue All-in portfolio (Feb.& March 2015)



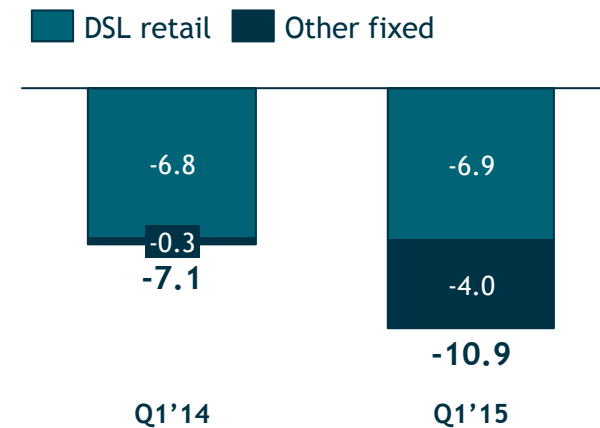
Mobile-centric strategy driving top line performance



Broadly stable MSR¹ expected in 2015

- ➔ Better tariff renewal profile within Premium postpaid brands
- ➔ Churn management
- ➔ SMS volume decline stabilization
- ➔ Focus on customer base retention, mainly in premium brands

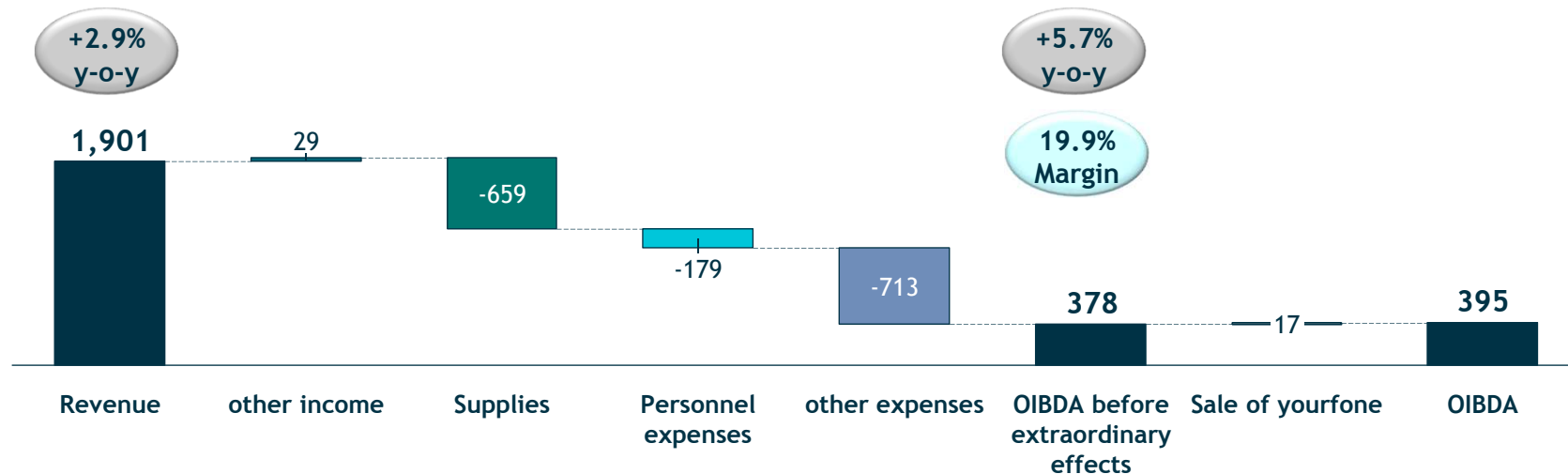
Fixed Revenue y-o-y (in%)



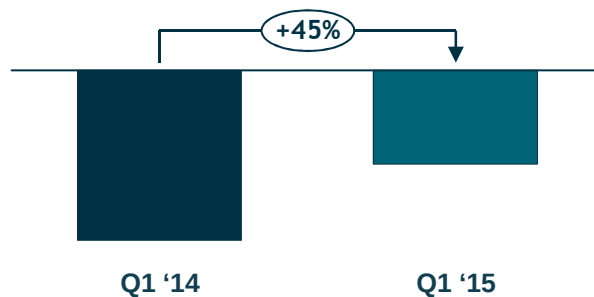
Notes:
¹ From a 2014 baseline of €5,528m

OIBDA in Q1 '15 driven by revenue flow-through and a focused commercial approach

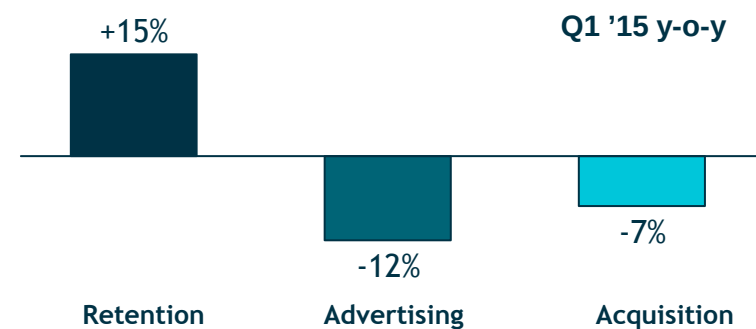
Structure of Q1 '15 OIBDA (in €m)



Hardware margin¹



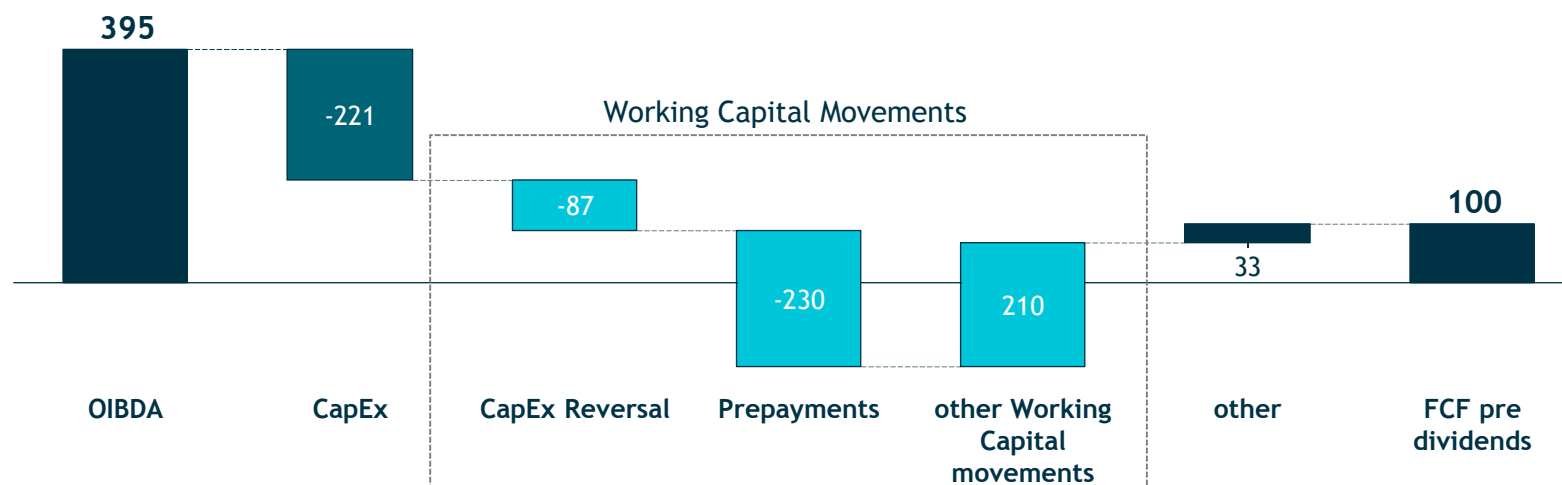
Focus on development of customer base



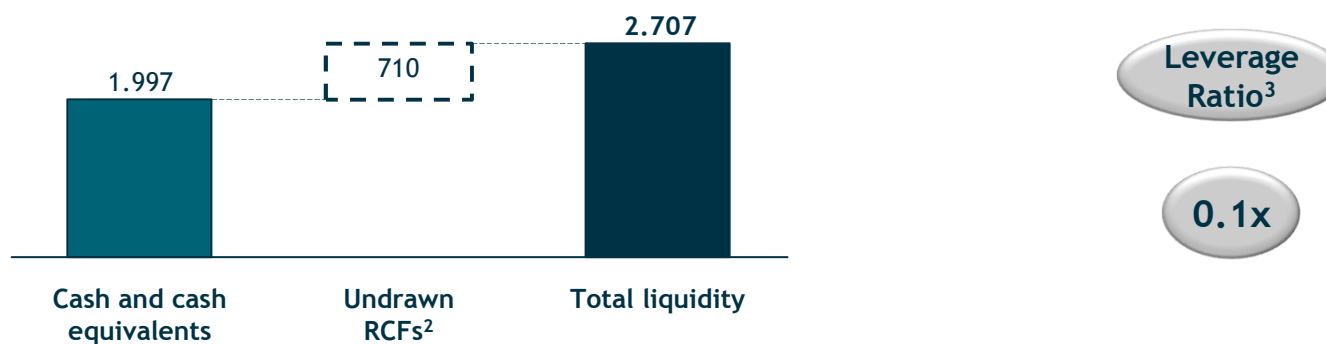
¹ Hardware margin defined as handset revenues less cost of sales

Keeping financial flexibility ahead of significant expected cash outflows in the year

Reconciliation of Free Cash Flow¹ (in €m)



Strong liquidity position (in €m) & leverage ratio³ below 1.0x over the medium term



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

² Revolving credit facilities: €100m RCF volume maturing in 2016, €610m maturing in 2017

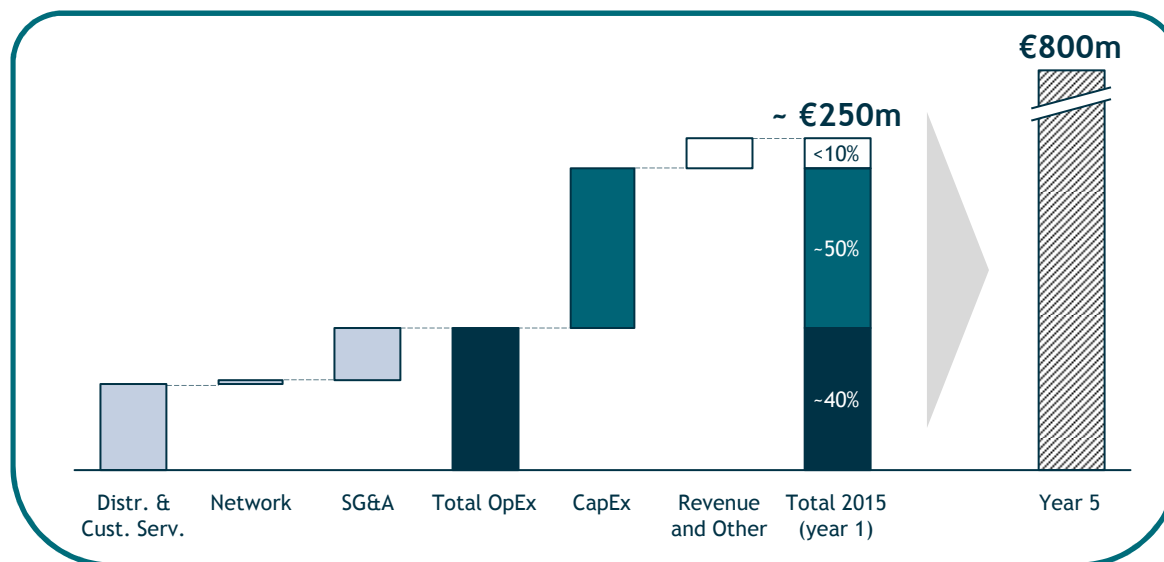
³ For definition of Leverage Ratio please refer to additional materials of Q1'15 results

Key milestones already achieved in Q1'15 to deliver 30% of total target synergy runrate in 2015¹

Headcount restructuring
of 1,600 FTEs by 2018
(~50% in 2015 from Q2) ✓

Shop reduction
planned by 1/3rd by year 5 ✓

Decommissioning of
14,000 **mobile sites**
planned by year 5 ✓



MSR

OIBDA

CapEx

Baseline 2014
(€ m)

5,528

1,461

1,161

Outlook 2015
(y-o-y pct. growth)

Broadly stable

>10%

High single digit pct. decline

¹ Please see applicable notes on extended Q1'15 materials at www.telefonica.de

Main takeaways

Solid start into 2015: on track to achieve full year guidance

Key integration milestones already achieved in Q1 '15

Monetisation of increased data usage through quality and innovation

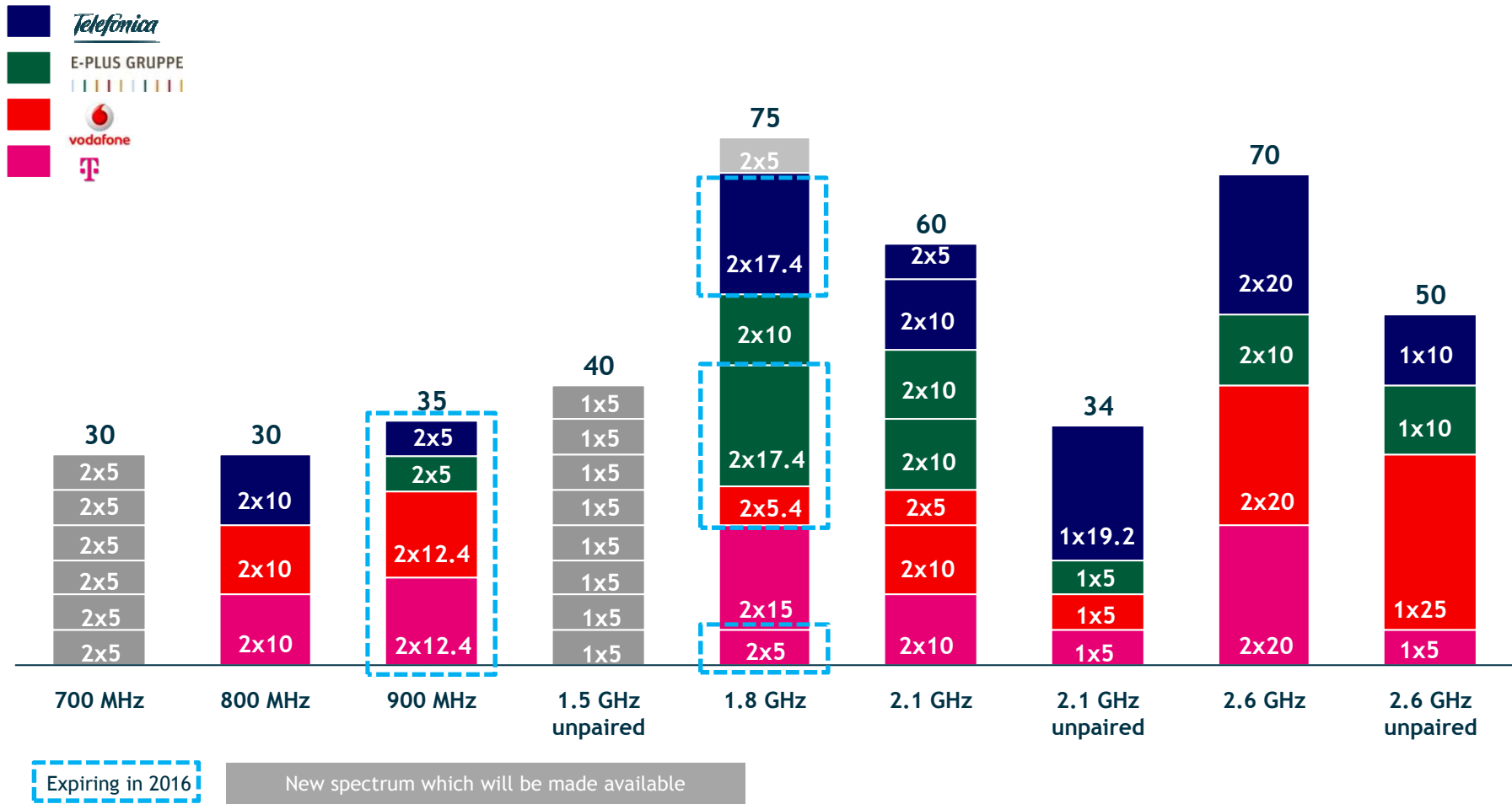
Financial flexibility ahead of expected near term cash outflows

Telefónica Deutschland Q1 2015 preliminary results Q&A session



Appendix

Current spectrum landscape in Germany



Start of BNetzA spectrum auction scheduled for 27 May 2015

Quarterly detail of relevant combined financial and operating data for Telefonica Deutschland from Q4 2013

Financials (Euros in millions)	2013	2014				FY
	Q4	Q1	Q2	Q3	Q4	
Revenues	2.022	1.847	1.925	2.002	2.019	7.793
Mobile service revenues	1.391	1.333	1.380	1.424	1.391	5.528
OIBDA post Group fees (1)	462	357	399	350	354	1.461
CapEx	471	215	224	286	438	1.161

Accesses (EoP) (in k)	2013	2014				FY
	Q4	Q1	Q2	Q3	Q4	
Total Accesses	46.899.093	46.897.309	47.302.730	47.802.754	47.661.550	47.661.550
o/w mobile	41.133.167	41.168.484	41.622.532	42.200.853	42.124.881	42.124.881
Prepay	22.876.496	22.679.943	22.939.856	23.316.089	23.350.747	23.350.747
Postpay	18.256.671	18.488.541	18.682.676	18.884.764	18.774.134	18.774.134

- Combined figures for 2014 and 2013 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material extraordinary effects if any, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management and resulting in combined figures we believe are more meaningful as a comparable basis.

- The combined financials are not necessarily indicative of results that would have occurred if the business had been a separate standalone entity during the year presented or of future results of the business. The presentation of the combined consolidated financial information is based on certain assumptions and is intended for illustrative purposes only. The combined information describes a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual results of operations. The assumed acquisition date had been the beginning of the annual period.

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