Telefónica Deutschland
Q3 2015 preliminary results

5 November 2015

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9M 2015: On track to becoming the Leading Digital Telco

MSR (9M'15)
+0.4%
y-o-y

- Heading for broadly stable 2015 MSR
- Strong operational dynamics in partner business
- Maintaining momentum with mobile data monetisation

OIBDA[1]
+16.1%
y-o-y

- OIBDA outlook for the year 2015 updated to +15-20 % y-o-y
- Benefits from bringing forward synergies from 2016 into 2015 & commercial cost optimisation

Dividend proposal
€0.24
per share

- Continuity reflected in a stable dividend proposal for 2015
- Strong FCF generation
- Returned to target leverage with 0.9x net debt/OIBDA

Keep the Momentum

Integrate quickly

Transform the company

[1] Excluding exceptional effects. For details please refer to additional public material for Q3-2015

Addressing current dynamics in the German mobile market

Strong focus on value-generation and customer base management in premium-end

Premium

- Customer base: Retention and churn management
- Golden grid: Network quality & perception
- Smart bundling & best deals for existing customers
- Q3 initiatives: O_2 portfolio update, WiFi calling, customer service innovation

Well positioned in non-premium with own brands and partners

Non-Premium

Blau
DRILLISCH TELECOM
1&1
ALDI

- MVNOs gaining traction after start of MBA MVNO
- Scale and competitive advantage
- Strong distribution channels via own brands & partners
- ‘Blau’ – Revamped portfolio and brand in Q3, simplicity in focus

Leveraging excellent basis for monetisation of mobile data growth

Best network experience

- Successful consolidation pilots started
- LTE deployment at 73% coverage

Encourage usage of data

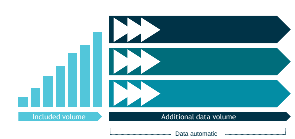
- 3G national roaming and LTE roll-out
- Video & OTT stimulating demand

33k Hours/day

60k Hours/day

Industrialisation of data monetisation

- More efficient automatic top-ups
- Take-up of >1GB tariffs: 37% at O_2



Enabling digital lifestyle

- Building on IoT partnerships
- Protection of privacy

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Integration roadmap central to execution of our strategic business priorities

2015: Success	2016: Transition	2017/8: Final Straight
Early capture of synergies	*Laying the ground*	*Bringing home savings*

- Leaver programme
- Shop footprint optimisation
- Facility consolidation
- Brand/customer migration
- Network integration
- Customer service reorganisation & digitalisation
- Simplification

2015 achievements:

- 800 leavers (50% of target) ✓
- 400 shops (2/3 of target) ✓
- 7,700 sites to DT (14,000 target) ✓
- Facilities: 15% reduction ✓
- External staff optimisation ✓
- Simplification/ Elimination of duplications ✓

Strategic priorities: Looking ahead to 2016

Keep the Momentum

Integrate quickly

Transform the company

- Data & retention to drive MSR in a dynamic market
- Growing non-premium impacts revenue development

- Lock-in synergies achieved in 2015
- Build on achievements for 2016

- Develop our premium brand position
- Leverage competitive advantage in non-premium

- Manage complexity of 2016 integration
- Laying the ground for savings in 2017/2018

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The Leading Digital Telco

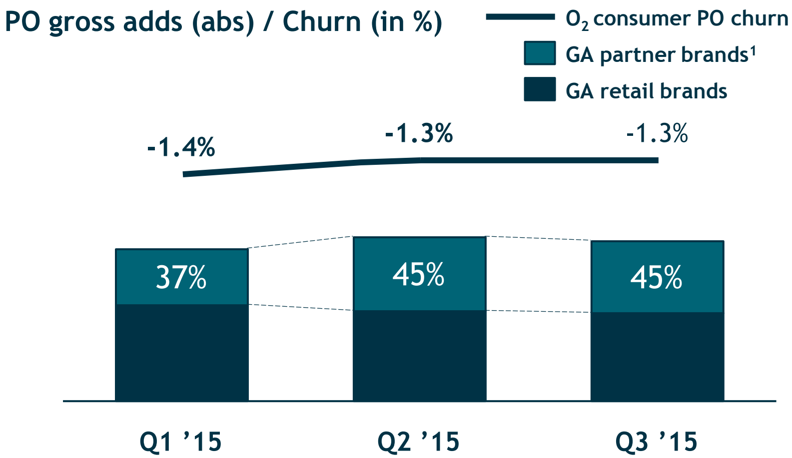
Q3 2015: Operating & financial performance reflects early capture of synergies and increasing dynamics in German market

O_2 consumer PO churn 1.3%	▪ Retention activities help develop premium base; partner business driven by MBA and market dynamics
MSR (Q3 ’15) -0.3% y-o-y	▪ Mobile data monetisation continues to drive MSR; positive effects overshadowed by revenue mix-shift
Synergies ~45% of Q3 2015 OIBDA y-o-y[1]	▪ Bringing forward integration activities from 2016 into 2015; total synergy case unchanged
FY2015 OIBDA[2] expectation +15-20% y-o-y	▪ Synergies & optimisation of commercial costs drive OIBDA outlook update; dividend continuity for 2015

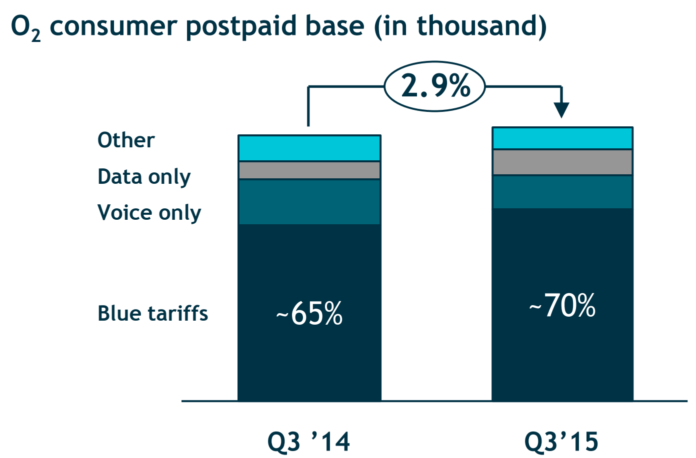
[1] Share on y-o-y OIBDA evolution (EUR m) over 2014 combined results excluding exceptional effects
[2] Excluding exceptional effects. For details please refer to additional public material for Q3-2015

Partner business continued its strong performance while customer base benefits from focus on premium positioning

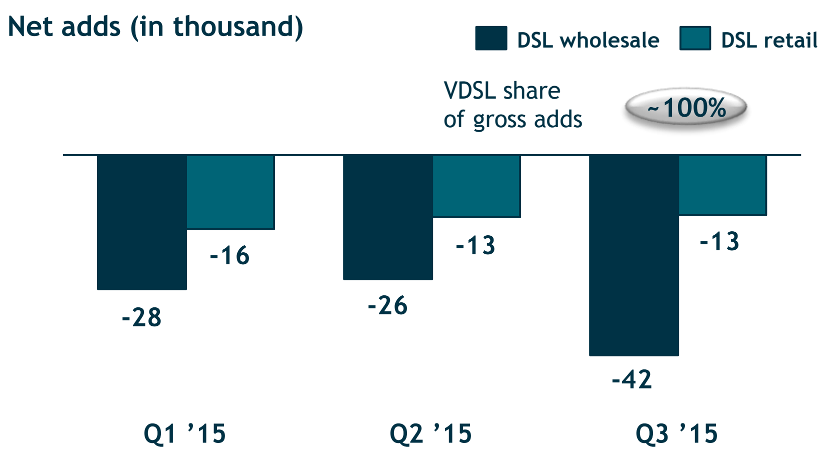
Partner business driving gross adds



Ongoing improvement of customer base mix



Strong fixed BB proposition bears fruit



- Partner share of gross adds strong at 45%
- O_2 Blue share of O_2 postpaid base reaches 70%
- Retail DSL net add decline slows further to -12.6k in Q3

[1] Wholesale & partner business

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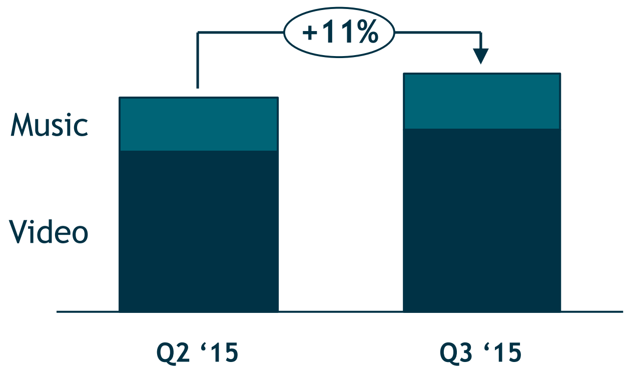
Monetisation of mobile data: Growth potential remains intact

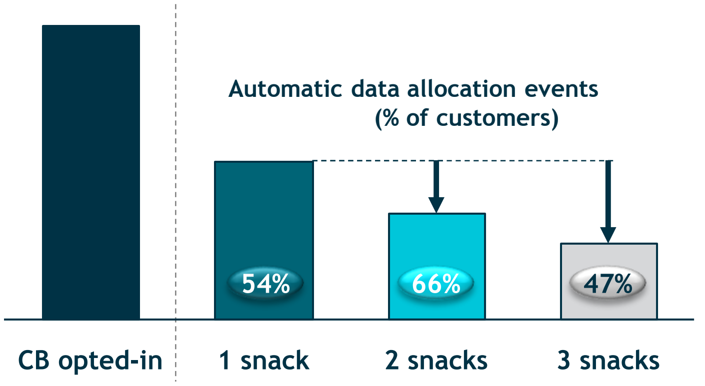
Music & video streaming continues to grow

Traffic (TB/day)



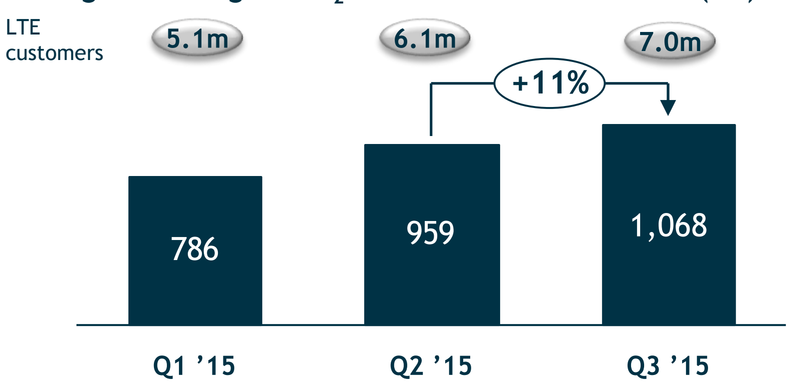
Continued progression of data automatic

O_2 Blue All-in portfolio (dynamics within opted-in base)



National roaming and LTE driving usage

Average data usage for O_2 consumer LTE customers[1] (MB)

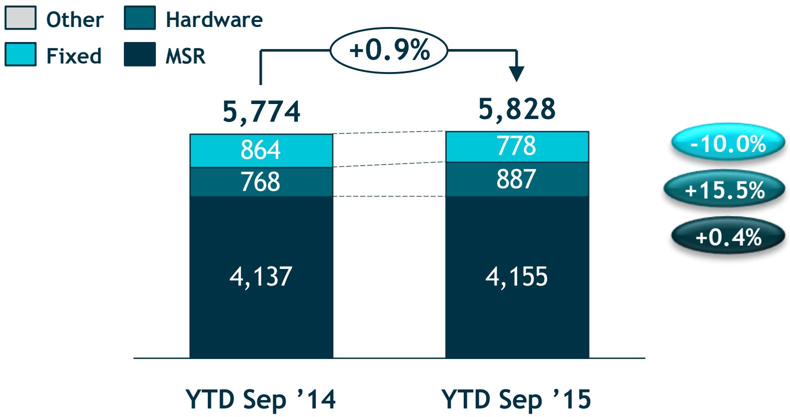


- Data usage of LTE customers up 11% q-o-q driven by video & music streaming
- Data automatic revamp: Take-up +20 p.p. and opted-in base +40% q-o-q
- Mobile data continues to drive MSR, but near-term offset by non-premium growth

[1] O_2 consumer base with LTE enabled smartphone (all tariffs)

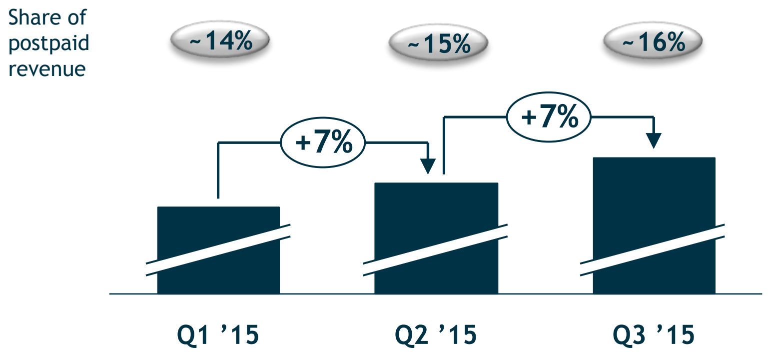
MSR development tempered by growing share of partners and dynamics in value segment

Revenue structure (in EUR m)

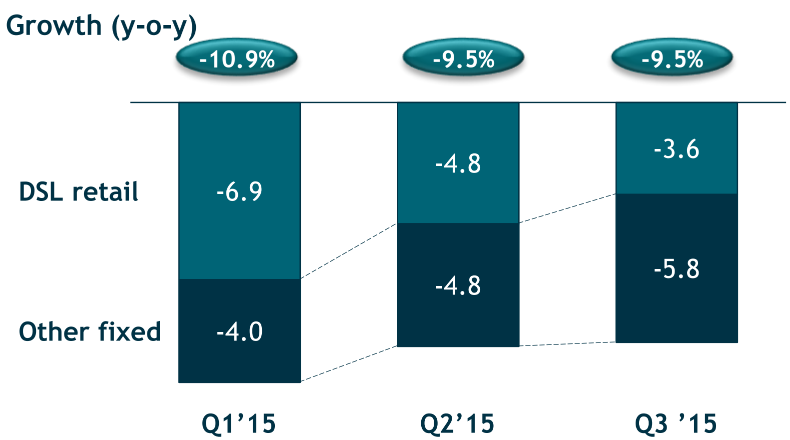


Growing partner business

MSR from partner business[1] (in EUR m)



Fixed revenue y-o-y (in %)



- Mix-shift phenomenon: Share of partner business rising driven by market dynamics
- Decline in DSL retail slowing on the back of VDSL gross adds

[1] Wholesale & partner business

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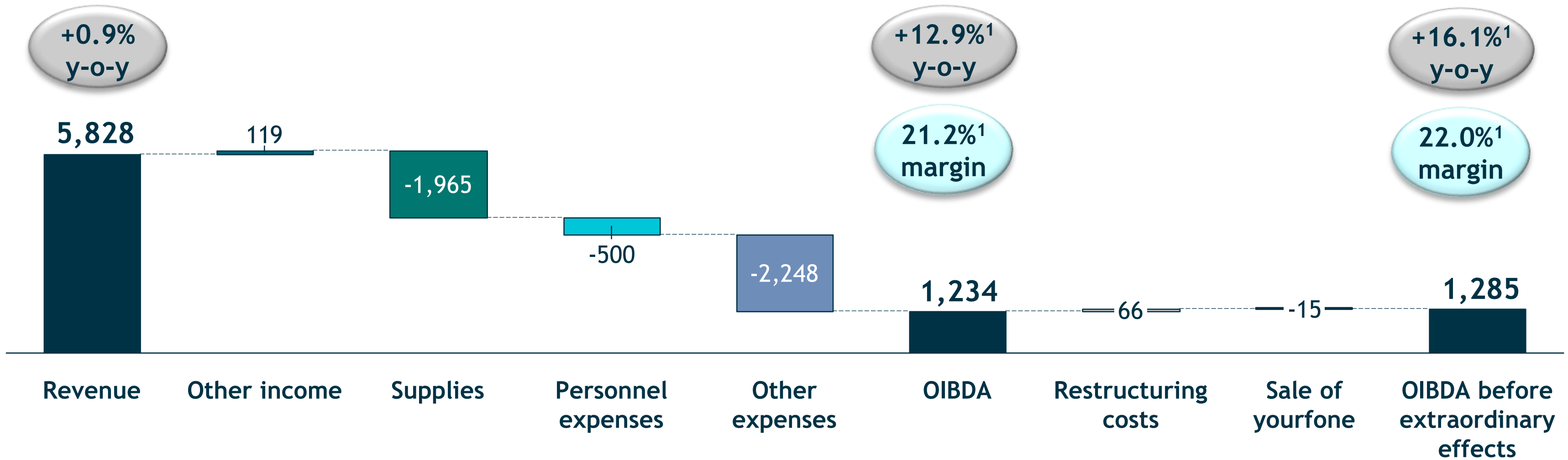
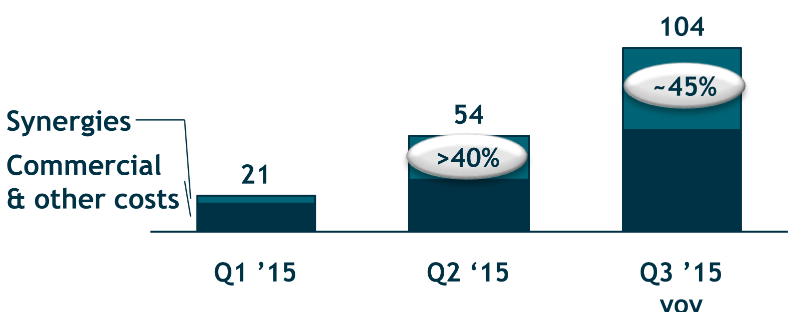
OIBDA reflecting benefits of early capture of synergies and optimisation of commercial costs

Structure of OIBDA for Jan-Sep 2015 (in EUR m)



Synergies a significant driver of growth

OIBDA growth (y-o-y in EURm)[1]



- Synergies drive ca. 45% of y-o-y OIBDA[2] growth in Q3
- Add. Opex savings: Commercial cost optimisation improves profitability
- Restructuring costs mainly network-related

[1] Y-o-y comparisons based on 2014 combined figures
[2] Excluding exceptional effects. For details please refer to additional public material for Q3-2015

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Updating synergy outlook 2015: EUR 280m of OpCF savings due to capture of early synergies; total case unchanged

Integration Initiatives 2015

Leaver programme
800 FTEs in 2015 (50% of total target of 1,600 FTEs)

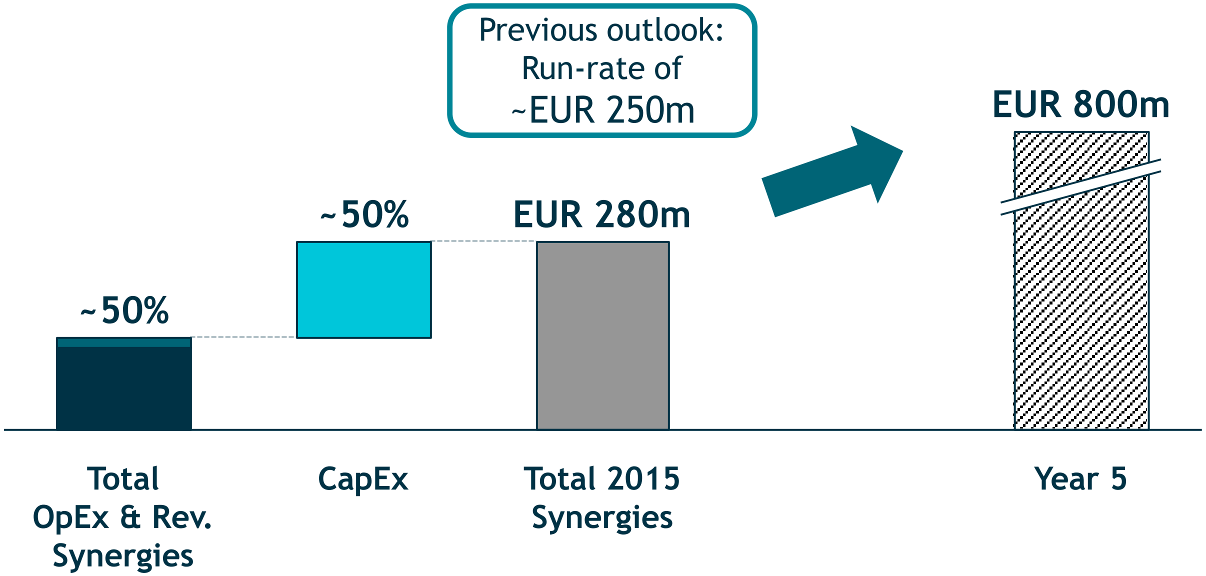
Shop footprint
400 shops by year-end

Network
Transfer of 7,700 sites via deal with DTE

Facilities
In-city consolidation (15% of total sqm)

Reduction of external staff

Simplification / Eliminate duplications

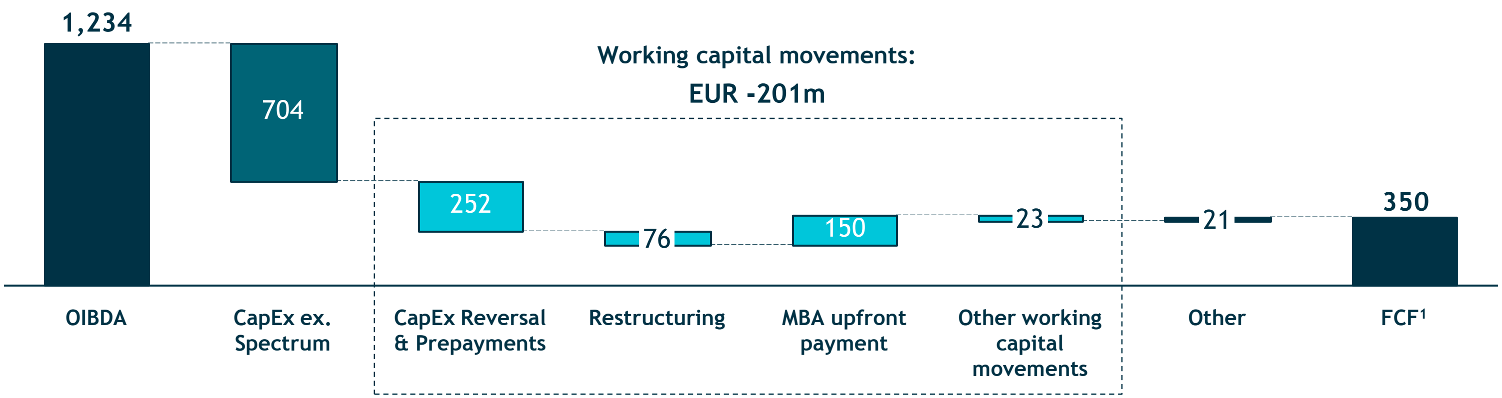


- 2015 synergies at **~35% of EUR 800m run rate** in year 5 of integration
- **OpEx savings** driven by **bringing forward i**nitiatives such as shop restructuring and optimisation of external staff
- **CapEx synergies** primarily driven by a single LTE-network rollout
- **Total synergy case unchanged**

[1]OpEx savings are referred to 2014 combined financials excluding restructuring costs
[2] CapEx synergies net of restructuring activities and exclude investment in spectrum
[3] 2014 combined KPIs: 9.1K FTEs. 1.8K shops, >39K mobile sites

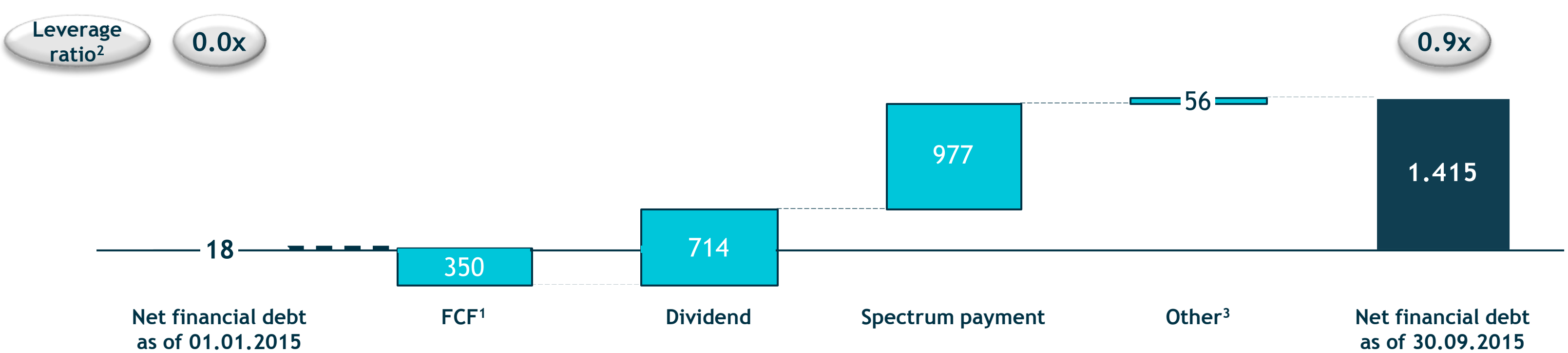
Financial leverage returned to target while keeping financial flexibility

Evolution of Free Cash Flow (FCF)[1] YTD September 2015 (in EUR m)



[1] Free cash flow pre dividend, spectrum payment and pre acquisition of E-Plus is defined as the sum of cash flow from operating activities and cash flow from investing activities.

Evolution of Net Debt[2] (y-o-y in EUR m) - Leverage ratio[2] returns to 0.9x after payments in Q2'15



[2] For definition of Net Debt & Leverage Ratio please refer to additional materials of Q3 15 results
[3] Mainly consists of movement of O2 My Handy receivables and handset model receivables

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Updated outlook for 2015

	Baseline 2014* (EUR m)	9M 2015* (y-o-y pct. growth)	Old Outlook 2015** (y-o-y pct. growth)	New Outlook 2015** (y-o-y pct. growth)
MSR	5,528	+0.4%	Broadly stable	Broadly stable
OIBDA	1,461	+16.1%	>10%	+15-20%
CapEx	1,161	-2.8%	High single digit pct. decline	Low double-digit pct. decline
Div	EUR 0.24/share	---	---	EUR 0.24/share

- OIBDA driven by bringing forward integration activities into 2015 and optimisation of commercial costs
- Higher CapEx reduction due to synergy effects in H2 which outweigh network consolidation and LTE investment
- Continuity reflected in stable dividend proposal: EUR 0.24 per share

~35%
of total target synergy run-rate to be already achieved in 2015
(~€280m)

* Baseline figures for 2014 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. Figures are further adjusted by exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica management and resulting in combined figures we believe are more meaningful as a comparable basis. For details refer to additional materials published on our website https://www.telefonica.de/investor-relations-en.html

** Expected regulatory effects (e.g. MTR cuts) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA and CapEx excludes investments in spectrum.

Main takeaways

Mobile data continues to drive MSR growth, near-term effects relating to mix-shift and dynamics in non-premium

Successful execution of significant integration activities in 2015; laying the grounds for future synergy generation

Updated OIBDA and CapEx outlook for 2015 reflects success of commercial cost optimisation and early capture of synergies

Continuity reflected in stable dividend proposal of EUR 0.24/share while keeping financial flexibility

Telefónica Deutschland Q3 2015 preliminary results Q&A session

Appendix

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

Financials (Euros in millions)	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 FY
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	**462**	**357**	**399**	**350**	**354**	**1.461**
CapEx	**471**	**215**	**224**	**286**	**438**	**1.161**

Accesses (EoP) (in k)	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 FY
Total Accesses	**46.899**	**46.897**	**47.303**	**47.803**	**47.662**	**47.662**
o/w mobile	**41.133**	**41.168**	**41.623**	**42.201**	**42.125**	**42.125**
Prepay	22.876	22.680	22.940	23.316	23.351	**23.351**
Postpay	18.257	18.489	18.683	18.885	18.774	18.774

- 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 exceptional 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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