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An attractive investment opportunity
The right assets in place to deliver sustainable growth

Ongoing transformation into a Digital Telco

- Successful mobile data strategy
- Challenger mentality with a track record of innovations in the market
- Highly satisfied customer base
- More than 25.3 million accesses\(^2\)
- c.EUR 5.2 billion revenues and c.EUR 1.28 billion OIBDA in 2012
- Multi-brand portfolio built around a strong O\(_2\) core brand to address all market segments
- Competitive, lean network infrastructure and strong spectrum position
- Longstanding partnership with Deutsche Telekom & benefits from being part of Telefónica Group
- Motivated workforce - continuous top rating in “Great Place to Work”

Note:
1 Based on 2012 reported revenues
2 As of 30 June 2013
A challenger strategy, focused on mobile data

We aim to outperform the mobile market and increase wireless service revenue market share while achieving further scale efficiencies.

Today

3rd integrated telecoms network operator\(^1\)

![Telefónica Logo]  ![O2 Logo]

Tomorrow

- We are here to make our customers' lives easier
- We want to be at the centre of their digital life
- We will get there by being excellent in the basics...
- ...and surprisingly different where it matters

Strategic priorities

- Capitalize on **multi-brand portfolio & superior customer satisfaction**
- **Monetise data opportunity** through innovative products, digital services and LTE
- Expand **convergence strategy**, increasing share of wallet and customer loyalty
- Seize the opportunity in the **SoHo/SME & wholesale markets**
- Maintain **competitive 3G & LTE networks**
- Drive profitable growth & efficiency resulting in **enhanced cash flow generation**

\(^1\) Based on 2012 reported revenues
German mobile market: a unique competitive space

Secondary/partner brands, wholesale mobile and service providers account for a significant share of the German mobile market.

**Total SIMs German mobile market (m)**

- MNOs (core brands only): 61%
- Secondary/partner brands/wholesale mobile: 25%
- Service Providers: 14%

**Service providers market share slightly decreasing**

- Resellers hold a significant share in the German mobile market.
- Freenet Group and Drillisch are the key remaining players.
- “Protected” by regulator, i.e., MNOs cannot acquire them.

**>100 brands in the German market**

- Wholesale mobile
- Secondary/partner brands
- MNOs

**Market share**

- O₂: 15.5%
- e-plus: 15.8%
- T-Mobile: 34.7%
- Vodafone: 34.0%

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1 Sources:
   a) Yankee, EMEA mobile carrier monitor
   b) Pyramid, Western Europe mobile data forecast pack 2Q 2013

2 In % of Mobile Service Revenues as reported by MNOs for Q2/2013
Stable and predictable regulatory environment

- LTE-800 licenses already awarded in 2010
- GSM spectrum licenses due Dec-2016: ongoing consultation until 4th October’13
  - Ensure adequate broadband rollout (50 Mbps to 100% Germany in 2018), **not to maximise proceeds from an auction**
  - 900 MHz extension (5 MHz/MNO) is **to ensure adequate provision of basic GSM services**
  - Additional spectrum in 700 MHz band **only available after WRC** and consent from 16 Federal States (current usage is Digital TV)
  - **No indications yet on timing, allocation procedure nor pricing**

- MTR voice
  - German national regulator BNNetzA recently confirmed preliminary decision on mobile termination rates (MTR)
    - Dec 1, 2012 – Nov 30, 2013: EUR 0.0185
    - Dec 1, 2013 – Nov 30, 2014: EUR 0.0179

- Roaming
  - EU regulation continues to lower roaming tariffs for voice, messaging and data
  - Impact of regulation however mostly mitigated by innovative tariffs/product packages

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1. World Radio Conference
2. Messaging not regulated
In summary …

A unique combination of a pure German telco, strong assets and cash flow generation

1. Single country operator with exposure to Europe’s economic powerhouse
2. #3 integrated operator in one of Europe’s largest and most attractive telco markets
3. Winning customer proposition centred around powerful brands and data services
4. Competitive network infrastructure and strong spectrum position
5. Benefits from Telefónica’s global scale and expertise and long-term partnership with Deutsche Telekom
6. Strong track record of growth and cash flow generation supporting attractive shareholder returns
7. Highly accretive acquisition of E-Plus expected to be closed by mid-2014
02
Monetising data opportunity in all segments
Strong track record of monetising mobile data
Focus on execution based on a clear set of priorities

Key levers for data monetisation

1. Drive data & smartphone penetration for new & existing customers

2. Fit demand of customer base to volume & speed portfolio

3. Data upselling / foster LTE adoption

Traffic vs Revenue performance

Q2 ’12
Q2 ’13

Traffic vs Revenue performance

Non-SMS data revenue (y-o-y%)
Data traffic (y-o-y%)

+21%
+25%

Improved ARPU from new portfolio

Weighted ARPU

O₂ Blue (2012)
O₂ Blue All-in (2013)

+9%
Best value for money proposition in postpaid
Dual volume/speed monetisation for smartphone-centric tariffs

All-in tariffs comparison in the market

Tariff comparison based on SIM-only all-net flat offers from German MNO premium brands (source: websites). No temporary promotions are considered.
Driving mobile data monetisation in prepaid
Multi-brand approach to a growing data affine prepaid base

Smartphone penetration

<table>
<thead>
<tr>
<th></th>
<th>Q2 12</th>
<th>Q2 13</th>
</tr>
</thead>
<tbody>
<tr>
<td>O₂</td>
<td>-</td>
<td>+11%p</td>
</tr>
<tr>
<td>Fonic</td>
<td>+5%p</td>
<td></td>
</tr>
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</table>

ARPU upside

<table>
<thead>
<tr>
<th></th>
<th>non-data user</th>
<th>data user</th>
</tr>
</thead>
<tbody>
<tr>
<td>O₂</td>
<td>1.5x</td>
<td>1.8x</td>
</tr>
<tr>
<td>Fonic</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Specific approach to prepaid

- Flexible relationship & allnet flat data bundles
- Increasing availability of mid-tier smartphones
- Upsell opportunity from rising demand for data through bolt-ons

Telefónica Deutschland Holding AG

Public – Nicht vertraulich
We are ready for the next mobile data growth cycle

Key drivers: premium positioning of LTE services & new smartphones

- All German cities across main metropolitan areas turned into high speed areas
- Data-centric portfolios in all brands with premium LTE only available in O₂ core brand from €40/month
- New O₂ Blue All-in portfolio launch came with selected high-end LTE-enabled smartphones

Shipment of LTE-enabled devices

- LTE-enabled devices were ca. 40% of total sales in Q2 ‘13
  - Mid-range portfolio coming in H2 ‘13
- Encouraging market insights on LTE
- Evidences of increased data usage by 60-70% after migration to LTE
03
Operating and financial performance
Rational competitive behaviour in an increasingly complex market place around 3G mobile data

- Media shout around SIM only €20 all-in flats in the low-end of the market
- Selective and regional campaigns with strong investments/commissions
- Handset-centric offers & new online indirect channels

... while protecting future data growth levers

- Retention excellence / upselling mindset
- Improved devices and full-speed LTE retained by MNOs at premium price
- Two dimensional tariff structure: volume & speed

Source: Companies’ websites
Trading performance in Q2 2013
Consistent approach to a complex market, driving smartphone penetration

- **60k postpaid net additions**
  - Market focus on retention and customer base
  - Better customer mix from O₂ Blue All-in push
  - Successful management of tariff migrations

- **27k prepaid net additions**
  - Strong performance from secondary brands
  - Adoption of new prepaid smartphone tariffs

- **Improved smartphone penetration**
  - More affordable handsets & digital behaviour
  - Prepaid opportunity driven by new tariff offers

- **Stable retail DSL net disconnections** (-40k)
  - Continuous uptake of VDSL gross additions
    (28% of gross adds in VDSL available regions take speed option)
### Overview of key financials

Top line pressures compensated by more efficient usage of resources

<table>
<thead>
<tr>
<th>In EUR million</th>
<th>January - June</th>
<th>April - June</th>
<th>% y-o-y ∆</th>
<th>January - June</th>
<th>April - June</th>
<th>% y-o-y ∆</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2012</td>
<td>% y-o-y</td>
<td>2013</td>
<td>2012</td>
<td>% y-o-y</td>
</tr>
<tr>
<td>Revenues</td>
<td>2,445</td>
<td>2,554</td>
<td>(4.2)</td>
<td>1,216</td>
<td>1,295</td>
<td>(6.2)</td>
</tr>
<tr>
<td>OIBDA</td>
<td>572</td>
<td>597</td>
<td>(4.1)</td>
<td>294</td>
<td>317</td>
<td>(7.2)</td>
</tr>
<tr>
<td>OIBDA margin</td>
<td>23.4%</td>
<td>23.4%</td>
<td>0.0 p.p.</td>
<td>24.2%</td>
<td>24.5%</td>
<td>(0.3 p.p.)</td>
</tr>
<tr>
<td>Group fees</td>
<td>(31)</td>
<td>(32)</td>
<td>(1.5)</td>
<td>(16)</td>
<td>(17)</td>
<td>(8.0)</td>
</tr>
<tr>
<td>OIBDA before group fees</td>
<td>603</td>
<td>629</td>
<td>(4.0)</td>
<td>310</td>
<td>334</td>
<td>(7.2)</td>
</tr>
<tr>
<td>OIBDA before group fees margin</td>
<td>24.7%</td>
<td>24.6%</td>
<td>0.1 p.p.</td>
<td>25.5%</td>
<td>25.8%</td>
<td>(0.3 p.p.)</td>
</tr>
<tr>
<td>Capex</td>
<td>296</td>
<td>271</td>
<td>9.4</td>
<td>151</td>
<td>138</td>
<td>9.5</td>
</tr>
<tr>
<td>Free Cash Flow(^1) pre dividends from continuing operations</td>
<td>345</td>
<td>152</td>
<td>n.m.</td>
<td>239</td>
<td>64</td>
<td>n.m.</td>
</tr>
</tbody>
</table>

\(^1\) Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes. In 2013 no discontinued operations did exist.
Continued dynamics in O₂ massmarket postpaid
Tangible results from base management leveraging O₂ Blue All-in

Main drivers for wireless service revenues

Q-o-Q absolute performance ex MTRs

% vs Q4-Q1

-40%

-10%

Q1 ’13

Trading

Tariff migrations

Base effects

Seasonal effects

Q2 ’13

Customer base management

ARPU dilution (€)

-33%

Jan

Jun

Q2 ’12

Q2 ’13

Tariff renewals (#)

High

Mid

Low

+20% y-o-y

Out-of-Bundle

In-Bundle

Incoming voice

Incoming SMS

Out-of-Bundle

In-Bundle

WSR Revenue structure

Telefónica Deutschland Holding AG

Public – Nicht vertraulich
Stable y-o-y OIBDA performance
Revenues downside partly offset by cost savings

OIBDA

in EUR million (changes y-o-y)

<table>
<thead>
<tr>
<th>Category</th>
<th>H1 2012</th>
<th>Q1 2013</th>
<th>Q2 2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIBDA H1 2012</td>
<td>+597</td>
<td></td>
<td></td>
<td>+597</td>
</tr>
<tr>
<td>Revenues</td>
<td>-108</td>
<td></td>
<td></td>
<td>-108</td>
</tr>
<tr>
<td>Other income</td>
<td>-29</td>
<td>+8</td>
<td>+1</td>
<td>+54</td>
</tr>
<tr>
<td>Supplies</td>
<td>-80</td>
<td>-1</td>
<td></td>
<td>-81</td>
</tr>
<tr>
<td>Personnel</td>
<td>+54</td>
<td>0</td>
<td>-1</td>
<td>+53</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>+5</td>
<td>+1</td>
<td>+23</td>
<td>+29</td>
</tr>
<tr>
<td>OIBDA H1 2013</td>
<td></td>
<td></td>
<td></td>
<td>+572</td>
</tr>
</tbody>
</table>

OIBDA margin

in %

<table>
<thead>
<tr>
<th>Category</th>
<th>H1 2012</th>
<th>H1 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIBDA margin</td>
<td>23.4%</td>
<td>23.4%</td>
</tr>
<tr>
<td>Group Fees as % of Revenue</td>
<td>1.2%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>
Acquisition of E-Plus by Telefónica Deutschland
**Transaction structure**

Recommended and approved by Boards of Directors and Supervisory Boards of Telefónica, Telefónica Deutschland and KPN

**Transaction summary**

**Two step structure**

1. **Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in the enlarged Telefónica Deutschland**
   - €3.7 bn of cash, financed through a rights issue, fully underwritten by Telefónica and a group of banks
   - 24.9% stake in enlarged Telefónica Deutschland (after capital increase)

2. **Telefónica subsequently will pay to KPN €1.3bn for:**
   - 4.4% stake in the enlarged Telefónica Deutschland
   - Call option, exercisable in one year, for up to a further 2.9% stake from KPN. Telefónica may exercise its call option for up to €510m plus interest, or buy shares in the market.

**Pre-transaction structure**

**Intermediate structure**

**Final ownership structure**
Transaction rationale

1. Creation of a Leading Digital Telco
   - A leading player with a combined mobile customer base of 43m, 42% postpaid
   - Strong scale benefits with combined mobile revenue market share of 32%
   - Driving mobile market growth in Germany since 2010 with complementary strategies
   - Strong capabilities for mobile data monetisation

2. Unlocking significant synergies
   - NPV of synergies of €5.0–5.5bn, net of taxes and integration costs
   - Incremental value from additional revenues, financial and tax synergies
   - Highly experienced management team with a proven track record of integration

3. Enhanced profitability & FCF
   - Net savings after integration costs from 2nd year - 75% of run-rate synergies by 4th year
   - Free Cash Flow generation benefitting from increased scale

4. Creating a superior customer experience
   - Customers to benefit from high speed access platforms in mobile and fixed
   - Strong multi-brand portfolio across segments
   - Best distribution channel and outstanding customer service
   - Offering broader range of solutions to business customers
   - Convergence opportunity through cross-selling / up-selling opportunities
   - Leveraging Telefónica’s global capabilities: Digital innovation, scale,....

5. Value Creation for Telefónica Deutschland shareholders
   - Unlocks significant value for Telefónica Deutschland shareholders
   - Increases financial flexibility (improving leverage) while maintaining an attractive shareholder remuneration
   - EPS and FCF accretive from first year of full operation

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1 Numbers based on 2012 reported results
2 Based on run-rate synergies before integration costs
Bottom-up approach to derive Synergies

<table>
<thead>
<tr>
<th>Synergy Area</th>
<th>In EUR bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution &amp; Customer Service</td>
<td>1.3</td>
</tr>
<tr>
<td>Network</td>
<td>-1.7</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>-0.6</td>
</tr>
<tr>
<td>Opex synergies</td>
<td>3.6</td>
</tr>
<tr>
<td>Network</td>
<td>-0.9</td>
</tr>
<tr>
<td>Capex synergies</td>
<td>-0.9</td>
</tr>
<tr>
<td>Integration costs and other effects</td>
<td>-0.9</td>
</tr>
<tr>
<td>NPV of operating synergies</td>
<td>4.5</td>
</tr>
<tr>
<td>Revenue &amp; other synergies</td>
<td>0.5 – 1.0</td>
</tr>
<tr>
<td>NPV of revenue &amp; operating synergies</td>
<td>5.0 – 5.5</td>
</tr>
</tbody>
</table>

**Distribution & Customer Service**
- Rationalisation of distribution network
- Increased efficiency in customer service costs leveraging best practices and scale
- Channel management and overheads

**Network**
- Focused rollout on one common nationwide LTE network and improved quality from 3G network consolidation
- Backbone, backhaul and core network consolidation, with reduced OpEx from network integration (rentals, power, maintenance, transport costs, overheads)
- Site consolidation and rationalisation: reduction of around 14,000 sites
- Increased efficiency by leveraging scalable transmission agreement with Deutsche Telekom

**SG&A**
- Reduced SG&A expenses
- Processes rationalisation
- Continued focus on becoming a more lean and agile organization

**Revenue & Other**
- Exploit SME opportunity from a broader and higher quality platform
- Improved customer satisfaction
- High speed fixed broadband cross-selling opportunity across an enlarged customer base
Expected transaction timetable

**Key milestones**
- 23 July 2013: Signing of Agreement
- July/Aug 2013: Submission for regulatory clearance
- 21 Aug 2013: KPN convocation of EGM
- 26 Aug 2013: Irrevocable commitment from AMX to support transaction
- 2 Oct 2013: KPN EGM
- H1 2014: Telefónica Deutschland EGM
- Q2 2014: Regulatory approvals expected and other conditions cleared

**Regulatory approval of acquisition**

**Mid 2014 Completion of merger**
A natural strategic move for Telefónica Deutschland to create a Leading Digital Telco with focus on mobile data and LTE enhancement

Germany is the largest mobile market in Europe and is the most advanced in data monetisation

Significant value creation through €5.0 – 5.5bn NPV synergies crystallization

Customers benefitting from improved quality of service

Substantial value creation for Telefónica Deutschland shareholders
  - Investing in future growth while improving financial flexibility
  - Enhancing cash flow generation profile
  - Accretive for Telefónica Deutschland EPS and FCF from year 1\(^{(1)}\)

Increased execution certainty after unanimous KPN board approval and irrevocable commitment from AMX to vote in favour in KPN’s EGM

\(^{(1)}\) Based on run-rate synergies before integration costs
For further questions please contact IR department

Investor Relations

Victor Garcia-Aranda, Head of Investor Relations

Marion Polzer, Investor Relations Manager

Pia Hildebrand, Investor Relations Office Coordinator

Email: ir-deutschland@telefonica.com
Telephone: +49 89 2442-1010
www.telefonica.de/investor-relations