Telefónica Deutschland Investor Presentation

March 2015
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Telefónica Deutschland management team

Markus Haas
COO

Thorsten Dirks
CEO

Rachel Empey
CFO & Strategy

Full senior management team on duty from 1 October 2014
Telefonica Deutschland is setting the pace to become the Leading Digital Telco

1. Well positioned to lead the most attractive European Telco market

2. Strong network & distribution assets to provide the best digital customer experience

3. Enhanced profitability and cash flow generation from a clear integration plan

4. Strong value proposition for Telefónica Deutschland shareholders
The Leading Digital Telco: our priorities and success factors

- Keep the Momentum
- Integrate quickly
- Transform the company

Offer Best high speed Access experience
Golden Grid for 2G/3G + LTE roll-out + access to best VDSL platform

Superior customer experience throughout their digital journey
Peace of Mind, Multi-channel & Digital first

Achieve Operational Excellence
Synergies & Lean operating model

Synergies

+ Optimise

Improve

Simplify

Operating model
Telefonica Deutschland is well positioned to lead the most attractive Telco market in Europe

Rational and balanced market structure

- Non-disruptive pricing for tiered mobile data portfolios
- Stable ~30% households with converged Fixed & Mobile

Infrastructure-based competition

- Further opportunities ahead from steady LTE adoption
- Mobile (3x) and Fixed (2x) platforms for Hi Speed access

Steady adoption of a Digital Lifestyle

- Trend to 1 Gb/month; free VoD as main usage driver
- Digital customers & households demand for Quality

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1 Market share of MSR based on reported financials by MNOs for FY 2014 & TEF D pro forma
2 Source: Analysys Mason Report; countries: UK, Netherlands, Sweden & Germany
3 Source: Internal representative market study
4 VoD: Video on Demand
Successful multi-brand & mobile data-centric strategy in a highly segmented mobile market

A clear multi-brand set up
Leveraging densest mobile network

O₂ postpaid customer base enabled for LTE
New O₂ Blue portfolio facilitates upselling

3G national roaming enabled for the whole customer base from mid-April ‘14

<table>
<thead>
<tr>
<th>Plan</th>
<th>Speed</th>
<th>Data</th>
<th>Price</th>
<th>Additional Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>S</td>
<td>21.1 Mbps</td>
<td>1 GB</td>
<td>€29.99</td>
<td>+ 1 SIM + EU roaming</td>
</tr>
<tr>
<td>M</td>
<td>21.1 Mbps</td>
<td>3 GB</td>
<td>€39.99</td>
<td>+ 2 SIMs + EU roaming</td>
</tr>
<tr>
<td>L</td>
<td>50 Mbps</td>
<td>5 GB</td>
<td>€49.99</td>
<td>+ 2 SIMs + EU roaming</td>
</tr>
<tr>
<td>XL</td>
<td>50 Mbps</td>
<td>10 GB</td>
<td>€79.99</td>
<td>+ 500 MB / 1 GB (für 5 € mtl.)</td>
</tr>
</tbody>
</table>

Premium

+ 100 MB (für 2 €)
+ 100 MB (für 2 €)
+ 100 MB (für 2 €)
+ 500 MB / 1 GB (für 5 € mtl.)

#YouCanDo
Unser Netz. Besser durch LTE.
LTE jetzt für O₂ Kunden automatisch – ohne Zusatzkosten
Steady progression in data monetisation metrics, maximising upsell opportunities within the base

**Smartphone Penetration**

- 2012: 62%
- 2013: 69%
- 2014: 76%

**Network quality drives demand for mobile data**

Avg. data consumption of non-LTE and LTE customers

- Non-LTE: >3x
- LTE: 13%

**Adapting customer propositions to actual demand**

Adoption of Data plans >1GB (% O₂ Postpaid consumer)

- Q1 ’14: 15%
- Q4 ’14: 25%

Value-based approach to handset sales

**Increasing opportunities for mobile data upselling**

Evolution of throttling events

- Share of throttled base over O₂ postpaid consumer
  - Q1 ’14: 32%
  - Q4 ’14: 34%

- LTE for all O₂ postpaid
- O₂ Blue data automatic

Notes:
1 in % of Customer Base in O₂ postpaid consumer
2 LTE customer = LTE device + LTE enabled Tariff; Non-LTE customer = non-LTE Smartphone
3 Consumer postpaid Gross Adds of O₂ Blue All-in L, XL, Premium
The right infrastructure model to compete and deliver the best high speed access experience

Ownership of strong set of spectrum & mobile access infrastructure

2016 coverage targets (% Pop outdoor)

- 2G >99%
- 3G >92%
- LTE: up to 90%

NGA coverage targets (% of covered households, YE)

- 2G >99%
- 3G >92%
- LTE: up to 90%

Access to best available fixed NGA network - scalable & future-proof

- Immediate & nationwide access to DT’s NGA rollout
- Regulated access/pricing terms
- Coordinated NGA planning and decommission of own DSL-ULL

Notes:
1. NGA: Next Generation Access, including VDSL, Vectoring and future FTTX deployments
2. from mid April, 2015
Best sales & service experience through extensive multi-channel retail and digital approach

Multi-channel to maximize efficiency

“Digital first” for every customer interaction

- **Web/mobile portals**
  - Mein O₂ App
  - Data check app

- **Apps**

- **Chats/Forums**
  - Base Service chat
  - O₂ Forum

- **Social media**

- **Direct**
  - Own branded shops
  - Premium partners

- **Indirect**
  - Online & telesales
  - Social media
  - Large indirect/SP

- **Social media**
  - Apps
  - O₂ Forum
  - Data check app

- **Large indirect/SP**

- **Other & e-retailers**

- **Indirect**
  - Other & e-retailers

- **Indirect**
  - Other & e-retailers

- **Indirect**
  - Other & e-retailers

- **Indirect**
  - Other & e-retailers

**Key Actions**

- **Largest physical distribution** reach in the market
- **Our priority is to reach operational excellence in customer service**
- **Shop footprint reduction** (own branded & partner shops) by 1/3rd
- **Increasing relevance of own online channels**
- **O₂ portfolio distributed in BASE branded shops**
Facilitating our customers’ digital journey

Our flexible approach to a Digital Lifestyle with a smartphone-centric proposition

Digital enhancement @ Home

- Strong focus on enhancing our customers’ digital experience
- Chromecast experience as a facilitator to big screen

Flexible access

Access choice
Leveraging LTE & VDSL + Kombi

Flexible offering through Partners

- Zattoo
- Watchever
- Music
- 7TV
Successful start of integration & transformation activities

Start of integration

- Phase I
  - D1 + 7 months

Commercial transition

- Phase II
  - D1+7 months onwards

Target state

- Phase III
  - Year 5 onwards

**Notes:**
1. OIBDA minus CapEx

**Activities:**
- **Phase I (D1 + 7 months):**
  - Keep operational focus
  - Boost customer experience
  - Preparation for integration
  - Quick wins synergies
  - New operating model / organization

- **Phase II (D1+7 months onwards):**
  - Brand transition & shop rationalization
  - Network consolidation and joint roll-out
  - Digitalization of structure / processes
  - Organizational transformation & legal integration

- **Phase III (Year 5 onwards):**
  - Leading digital Telco in Germany
  - €800m run rate OpCF$^1$ synergies

**TARGET STATE:**
- Leading digital Telco
- Digitalized structure / processes
- Organizational transformation & legal integration
- Brand transition & shop rationalization
- Network consolidation and joint roll-out
Expected synergies to exceed €5bn (NPV\(^1\))
Run-rate of Operating Cash Flow synergies of ca. €800m in year 5

- **Distribution & Customer Service**
  - Leverage and scale effects of broad distribution network and customer service organizations
  - Optimization of retail footprint resulting in reduction of rent and overhead
  - Focus on digital customer touch points for sales and service initiatives

- **Network**
  - Improved quality & capacity in 4G with reduced CapEx requirement
  - Consolidation of 2G/3G access networks, backbone and backhaul
  - Reduction of ~14,000 sites to reach “golden grid”
  - Leverage scalable cooperation with Deutsche Telekom regarding fixed line services
  - Overall improved network perception

- **SG&A**
  - Elimination of duplicities in organisation
  - Transformation towards lean and digital
  - Focused advertising & marketing spend

- **Revenue and other**
  - Additional cross- and upsell opportunities in consumer and SME
  - Cross selling opportunity for fixed BB
  - Upside potential from strong wholesale component

<table>
<thead>
<tr>
<th>In €bn</th>
<th>% of Operating Synergies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution &amp; Customer Service</td>
<td>1.1</td>
</tr>
<tr>
<td>Network</td>
<td>1.7</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>0.8</td>
</tr>
<tr>
<td>OpEx</td>
<td>3.6</td>
</tr>
<tr>
<td>CapEx</td>
<td>1.9</td>
</tr>
<tr>
<td>Integration Costs</td>
<td>0.9</td>
</tr>
<tr>
<td>NPV of oper. Synergies</td>
<td>4.6</td>
</tr>
<tr>
<td>Revenue &amp; Other</td>
<td></td>
</tr>
<tr>
<td>NPV of revenue &amp; Oper. synergies</td>
<td>&gt;€5bn</td>
</tr>
</tbody>
</table>

Notes:
1. Calculated as the sum of the present values of forecasted future cash flows including the so-called “terminal value” (NPV of expected future cash flows beyond the explicit forecast horizon) after tax.
2. Run-rate of opCF synergies is pre-tax.
Around 30% of total target synergy run-rate to be achieved already in the first year of integration

- 2015 synergies at ~30% of €800m run rate in year 5 of integration (~80% in year 4)
- Distribution & Customer service to represent ~60% of OpEx synergies in 2015
- CapEx synergies mainly driven by a single LTE-network rollout
- A significant proportion of expected OpEx restructuring costs already booked in 2014

Headcount restructuring of 1,600 FTEs by 2018 (~50% in ‘15 from Q2’15)

Shop reduction planned by 1/3rd by year 5

Decommission of 14,000 mobile sites planned by year 5

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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
4 Final internal approval expected in Q1’15
We expect a gradual progression in OIBDA for 2015 driven by synergies & operational excellence

<table>
<thead>
<tr>
<th>2014(^1) in €m</th>
<th>Outlook 2015(^2) (y-o-y pct. growth)</th>
<th>Main Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSR</td>
<td>Broadly stable</td>
<td>• Stronger focus on development of own customer base; with value-for-money approach to customers</td>
</tr>
<tr>
<td>OIBDA</td>
<td>&gt;10%</td>
<td>• Drive data monetisation, leveraging higher demand for data services &amp; LTE</td>
</tr>
<tr>
<td>CapEx</td>
<td>High single digit pct. decline</td>
<td>• Lean &amp; digital organisation with a simplified operating model &amp; optimised processes</td>
</tr>
</tbody>
</table>

\(^1\) Combined figures for 2013 and 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. The combined figures are further adjusted by material extraordinary 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. Financials also exclude material one-offs, such as capital gains or restructuring costs (€414m in 2014).

\(^2\) All 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 Outlook and CapEx excludes investments in spectrum.
Improved liquidity and conservative financing policy

**Extended maturity profile and further diversified financing mix**

**Strong liquidity position (in €m)**

- **E-Plus Opening B/S liquidity**: €396m 01.10.2014
- **Cash and cash equivalents**: 1,702
- **Undrawn RCFs**: 710
- **Total liquidity as of Dec-2014**: 2,412

**Net Financial Debt\(^2\) evolution (in €m)**

- **Telefónica Deutschland Standalone (01.01.2014)**: 468
- **Leverage\(^3\)**: 0.4x
- **Telefónica Deutschland Consolidated (31.12.2014)**: 3

**Notes:**
1. Revolving credit facilities; 100m€ RCF volume maturing in 2016, 610m€ maturing in 2017
2. For definition of Net financial debt please refer to the published FY 2014 materials ([www.telefonica.de](http://www.telefonica.de))
3. As measured by Net Financial Debt/OIBDA (Last 12 months)
We aim to maintain an attractive shareholder remuneration policy

Shareholder remuneration policy - main guidelines

1. Maintain high payout in relation to FCF
2. Consider expected future synergy generation in dividend proposals
3. Keep leverage ratio at or below 1.0x over the medium term
4. Current intention to suggest to the general shareholders’ meeting a cash dividend of at least €700 million, payable in May 2015

Notes:
1 Refer to the Telefónica Deutschland website for full dividend policy (www.telefonica.de)
## Main Takeaways

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>Creation of the Leading Digital Telco in the German market</td>
</tr>
<tr>
<td></td>
<td>• Market leader (48m accesses)</td>
</tr>
<tr>
<td></td>
<td>• Enhanced Value-for-Money competitive position</td>
</tr>
<tr>
<td></td>
<td>• Significant data monetization opportunity</td>
</tr>
<tr>
<td></td>
<td>• Simplification &amp; Digitalisation at the core</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>Superior digital customer experience on strong foundations</td>
</tr>
<tr>
<td></td>
<td>• Right infrastructure model for best high speed experience</td>
</tr>
<tr>
<td></td>
<td>• Multi-brand strategy to enhance data monetization</td>
</tr>
<tr>
<td></td>
<td>• Multi-channel retail and “digital first” approach</td>
</tr>
<tr>
<td></td>
<td>• Facilitating customer’s digital journey - flexible approach</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>Enhanced profitability and cash flow generation from integration synergies and focused strategy</td>
</tr>
<tr>
<td></td>
<td>• Gradual capture of synergies: €800m OpCF run rate</td>
</tr>
<tr>
<td></td>
<td>• Scale benefits from a mobile data-centric approach</td>
</tr>
<tr>
<td></td>
<td>• Simplified and lean operational model</td>
</tr>
<tr>
<td></td>
<td>• Focused investments on single LTE network rollout</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>Strong value creation for Telefónica Deutschland shareholders</td>
</tr>
<tr>
<td></td>
<td>• Conservative financing policy</td>
</tr>
<tr>
<td></td>
<td>• Commitment to maintain a high FCF dividend payout ratio</td>
</tr>
<tr>
<td></td>
<td>• Consider future upside from synergies in dividend proposals</td>
</tr>
<tr>
<td></td>
<td>• High financial flexibility with leverage ratio at or below 1.0x</td>
</tr>
</tbody>
</table>
Back-up
Current spectrum landscape in Germany

- **Telefónica**
- **E-PLUS GRUPPE**
- **Vodafone**
- **T-Mobile**

### Expiring in 2016

- **700 MHz**: 30 MHz
- **800 MHz**: 30 MHz
- **900 MHz**: 35 MHz
- **1.5 GHz unpaired**: 40 MHz
- **1.8 GHz**: 75 MHz
- **2.1 GHz unpaired**: 60 MHz
- **2.6 GHz**: 70 MHz

#### New spectrum which will be made available

- **2.1 GHz unpaired**: 34 MHz
- **2.6 GHz unpaired**: 50 MHz

**BNetzA spectrum auction expected to take place in Q2-2015**
<table>
<thead>
<tr>
<th>O₂ Blue All-in</th>
<th>S⁴</th>
<th>M'</th>
<th>L'</th>
<th>XL'</th>
<th>Premium'</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minuten in alle dt. Netze und ins dt. Festnetz</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
</tr>
<tr>
<td>SMS in alle dt. Mobilfunknetze</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
</tr>
<tr>
<td>Surfen im Inland (Inklusiv-Volumen)</td>
<td>200 MB</td>
<td>1 GB</td>
<td>3 GB</td>
<td>5 GB</td>
<td>10 GB</td>
</tr>
<tr>
<td>Datamaßnahme (automatisch nach Datenverbrauch)</td>
<td>bis zu 3 x 100 MB für je 2 € zusätzlich</td>
<td>bis zu 3 x 100 MB für je 2 € zusätzlich</td>
<td>bis zu 3 x 100 MB für je 2 € zusätzlich</td>
<td>bis zu 3 x 100 MB für je 2 € zusätzlich</td>
<td>bis zu 3 x 100 MB für je 2 € zusätzlich</td>
</tr>
<tr>
<td>Maximale Geschwindigkeit</td>
<td>bis zu 21,1 MBit/s LTE⁴</td>
<td>bis zu 21,1 MBit/s LTE⁴</td>
<td>bis zu 50 MBit/s LTE⁴</td>
<td>bis zu 50 MBit/s LTE⁴</td>
<td>bis zu 50 MBit/s LTE⁴</td>
</tr>
<tr>
<td>Extra-Festnetznummer</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>EU Roaming Flat (Surfen und Telefonieren im EU-Ausland)⁷</td>
<td>+ 4,99 mtl.</td>
<td>+ 4,99 mtl.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Minuten/SMS ins EU-Ausland mtl. inkl.</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>je 200</td>
</tr>
<tr>
<td>Multicard⁴</td>
<td>+ 4,99 mtl.</td>
<td>+ 4,99 mtl.</td>
<td>1 Multicard inklusive</td>
<td>2 Multicards inklusive</td>
<td>2 Multicards inklusive</td>
</tr>
<tr>
<td>O₂ more Premium Status⁰</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>✓</td>
</tr>
</tbody>
</table>

Einmaliger Anschlusspreis beträgt 29,99 €.

Preise in € inkl. MwSt.

* Weitere Informationen auf Seite 4 und siehe Hinweistext 1.
Datenautomatik
Für bequemes Surfen, Streamen und mehr in allen O₂ Blue Tarifen

- Immer genug Datenvolumen für schnelles Surfen
- Nach Verbrauch Ihres monatlichen Inklusiv-Volumens erhalten Sie automatisch bis zu 3 x pro Monat 100 MB zusätzliches Datenvolumen für jeweils nur 2 €\(^5\)
- Automatische SMS-Benachrichtigung bei jeder Erweiterung

Nach Verbrauch des Inklusiv-Volumens werden bis zu 3 x/Monat 100 MB Datenpakete zur Verfügung gestellt.

Werden in 3 aufeinanderfolgenden Monaten die mtl. zur Verfügung stehenden 3 Datenpakete genutzt, erfolgt mit Verbrauch des letzten Datenpakets ein automatisches Daten-Upgrade (Datenvolumen abhängig vom Tarif).\(^5\)
## O₂ DSL All-in portfolio

### TIPP

<table>
<thead>
<tr>
<th><strong>O₂ DSL All-in</strong></th>
<th><strong>S</strong>&lt;sup&gt;13&lt;/sup&gt;</th>
<th><strong>M</strong>&lt;sup&gt;13&lt;/sup&gt;</th>
<th><strong>L</strong>&lt;sup&gt;13&lt;/sup&gt;</th>
<th><strong>XL</strong>&lt;sup&gt;12,**&lt;/sup&gt;</th>
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<tbody>
<tr>
<td><strong>Allnet-Flat:</strong></td>
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<tr>
<td>Flarate ins dt. Festnetz</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Flarate in alle dt. Mobilfunknetze</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Unbegrenzt surfen (mit bis zu 2.000 KBit/s)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Maximale Surf-Geschwindigkeit</strong></td>
<td>bis zu 8.000 KBit/s (Upload: bis zu 1.000 KBit/s)</td>
<td>bis zu 16.000 KBit/s (Upload: bis zu 1.000 KBit/s)</td>
<td>bis zu 50.000 KBit/s (Upload: bis zu 10.000 KBit/s)</td>
<td>bis zu 100.000 KBit/s (Upload: bis zu 40.000 KBit/s)&lt;sup&gt;14&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Maximale Surf-Geschwindigkeit bis</strong>* (Inklusiv-Volumen)</td>
<td>100 GB&lt;sup&gt;15&lt;/sup&gt;</td>
<td>300 GB&lt;sup&gt;15&lt;/sup&gt;</td>
<td>300 GB&lt;sup&gt;15&lt;/sup&gt;</td>
<td>500 GB&lt;sup&gt;15&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Fair-Use-Mechanik</strong>**</td>
<td>–</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>WLAN-Router/HomeBox 2/AVM FRITZ!Box 7490</strong>&lt;sup&gt;16&lt;/sup&gt;</td>
<td>0,00/19,99/49,99</td>
<td>0,00/19,99/49,99</td>
<td>0,00/19,99/49,99</td>
<td>–/19,99/49,99</td>
</tr>
<tr>
<td><strong>Anschlusspreis</strong>&lt;sup&gt;13&lt;/sup&gt;</td>
<td>0,00 (anstatt 49,99)</td>
<td>0,00 (anstatt 49,99)</td>
<td>0,00 (anstatt 49,99)</td>
<td>0,00 (anstatt 49,99)</td>
</tr>
</tbody>
</table>

**Preise in € inkl. MwSt.**

* Weitere Informationen auf Seite 4 und siehe Hinweistext 1.
** In vielen regionalen Gebieten verfügbar.
Stronger quarter-on-quarter OIBDA performance in Q4 2014

Composition of OIBDA (in €m)

Revenue Q4 '14: 2,019
Other income: 38
Supplies: -762
Personnel expenses: -185
Other expenses: -756
Underlying OIBDA: 354
Restructuring costs: -401
OIBDA Q4 '14: -46

Supplies - Split in %
- Connectivity Cost of Sale: 42%
- Hardware Cost of Sale: 52%
- Other: 6%

Personnel expenses - Split in %
- Base Salary: 75%
- Variable Salary: 18%
- Other: 7%

Other expenses - Split in %
- Other: 5%
- commercial costs: 60%
- non-commercial costs: 35%
Incorporation of E-Plus assets after PPA and start of a new investment cycle from Q4 2014

CapEx FY’14 (combined)\(^1\) & Q4’14
€1.2bn
Starting of a new investment cycle

Other
3
46% Tangible
54% Intangible

FY’14 (Annualised Q4)\(^2\)

Outlook Q4’14

Network

Integration Products & Services

CapEx FY’14 (combined)\(^1\)

Q4’14

€438m

FY ’14 (Combined)\(^1\)

9M

62%

38%

Q4

€1.2bn

GM

Network

FY ’14 (Reported)

7.2

Customer Base

Brands

Spectrum

-1.3

0.8

0.2

13.4

TEF D standalone
31.12.2013

opening B/S E-Plus
01.10.2014

CapEx FY’14 (Reported)

D&A FY’14 (Reported)

Other\(^3\)

new TEF D standalone
31.12.2014

Notes:

\(^1\) Combined figures for 2013 and 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. The combined figures are further adjusted by material extraordinary effects, such as capital gains or restructuring costs based on estimates made by Telefónica management.

\(^2\) Gross up of the yearly D&A on avg. residual book value (01.01.2014) incl. E-Plus opening B/S CapEx

\(^3\) Other: Assets held for sale & re-valuation of asset retirement obligations
Strong conversion to FCF leading to improved liquidity

Evolution of Free Cash Flow¹ (reported, yoy in €m)

<table>
<thead>
<tr>
<th></th>
<th>FCF pre dividend Jan - Dec 2013</th>
<th>Change in OIBDA-CapEx</th>
<th>Change in Working Capital</th>
<th>Change in others</th>
<th>FCF pre dividend Jan - Dec 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>699</td>
<td>-332</td>
<td>379</td>
<td>27</td>
<td>719</td>
</tr>
</tbody>
</table>

¹ Free cash flow is defined as the sum of cash flow from operating activities and cash flow from investing activities, excluding capital measures and payments related to the acquisition of E-Plus Group. OIBDA and Working Capital evolution is adjusted for restructuring costs in 2014.

Strong liquidity position (in €m)

- Cash and cash equivalents: 1.702
- Undrawn RCFs²: 710
- Total liquidity: 2.412

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

Evolution of Net Debt⁴ (yoy in €m) - leverage⁴ ratio below 1.0x over the medium term

<table>
<thead>
<tr>
<th></th>
<th>Leverage Ratio⁴</th>
<th>0.4x</th>
<th>E-Plus Opening B/S 01.10.2014</th>
<th>-184</th>
<th>FCF pre dividend Jan - Dec 2014</th>
<th>-719</th>
<th>Dividend</th>
<th>+525</th>
<th>Other⁵</th>
<th>Net financial debt as of 31.12.2014</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net financial debt as of 1.01.2014</td>
<td>468</td>
<td>-184</td>
<td>-719</td>
<td>+525</td>
<td>-87</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

⁴ For definition of Net Debt and Leverage Ratio please refer to additional materials of Q4 14 results
⁵ Includes the net cash effect from capital increase net of payments for E-Plus offset by changes in handset receivables and other non-cash effects
Quarterly detail of relevant combined financial and operating data for Telefonica Deutschland from Q4 2013

<table>
<thead>
<tr>
<th>Financials (Euros in millions)</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>Revenues</td>
<td>2.022</td>
<td>1.847</td>
</tr>
<tr>
<td>Mobile service revenues</td>
<td>1.391</td>
<td>1.333</td>
</tr>
<tr>
<td>OIBDA post Group fees</td>
<td>462</td>
<td>357</td>
</tr>
<tr>
<td>CapEx</td>
<td>471</td>
<td>215</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accesses (EoP) (in k)</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>Total Accesses</td>
<td>46.899</td>
<td>46.897</td>
</tr>
<tr>
<td>o/w mobile</td>
<td>41.133</td>
<td>41.168</td>
</tr>
<tr>
<td>Prepay</td>
<td>22.876</td>
<td>22.680</td>
</tr>
<tr>
<td>Postpay</td>
<td>18.257</td>
<td>18.489</td>
</tr>
</tbody>
</table>

- 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.