

Telefonica

Deutschland

Creating
the
Leading
Digital
Telco



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**

**Superior customer
experience** throughout
their digital journey

Achieve **Operational
Excellence**



*Golden Grid for 2G/3G + LTE roll-out +
access to best VDSL platform*



*Peace of Mind, Multi-channel &
Digital first*

Synergies



**Operating
model**

Simplify

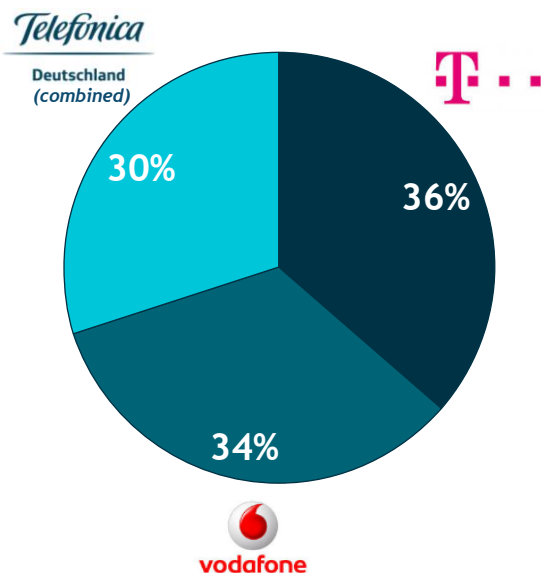
Optimise

Improve

Synergies & Lean operating model

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

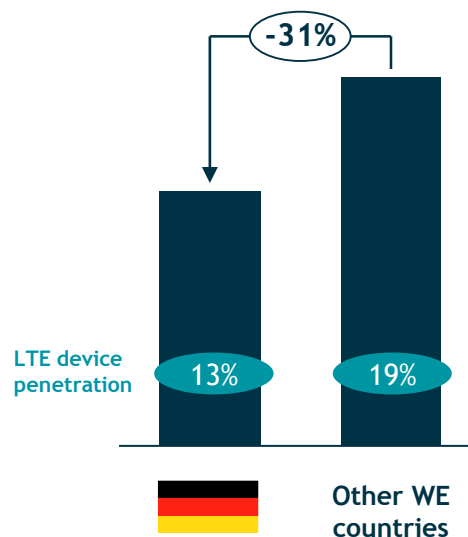
Rational and balanced market structure¹



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

Infrastructure-based competition

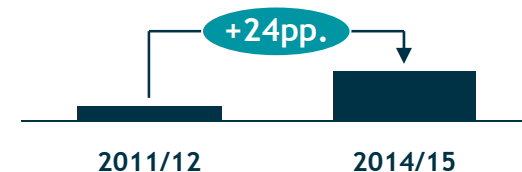
Avg. 3G/4G data usage in 2014² (in MB)



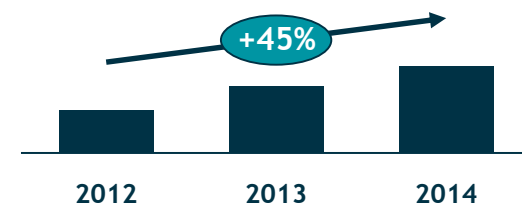
- **Further opportunities** ahead from steady LTE adoption
- **Mobile (3x) and Fixed (2x)** platforms for Hi Speed access

Steady adoption of a Digital Lifestyle

Mobile customers using smartphone for video streaming in %³



3G/4G avg. data usage in Germany²



- Trend to 1 Gb/month; **free VoD⁴** as main usage driver
- Digital customers & households demand for **Quality**

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

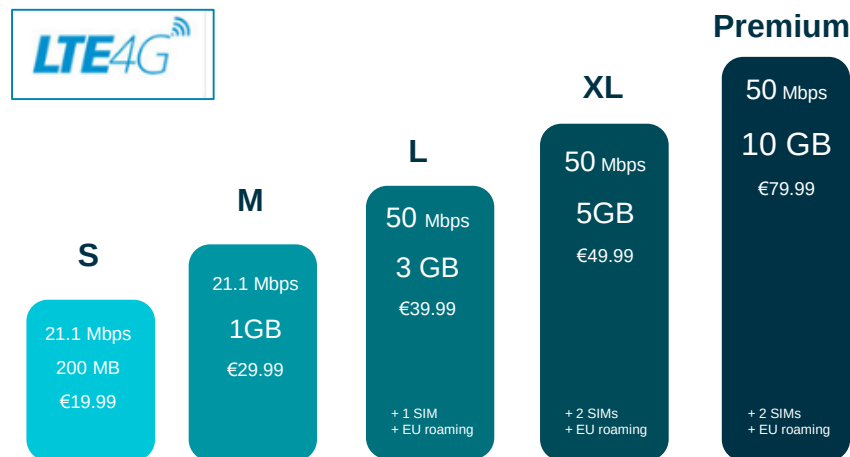
Successful multi-brand & mobile data-centric strategy in a highly segmented mobile market

A clear multi-brand set up
Leveraging densest mobile network



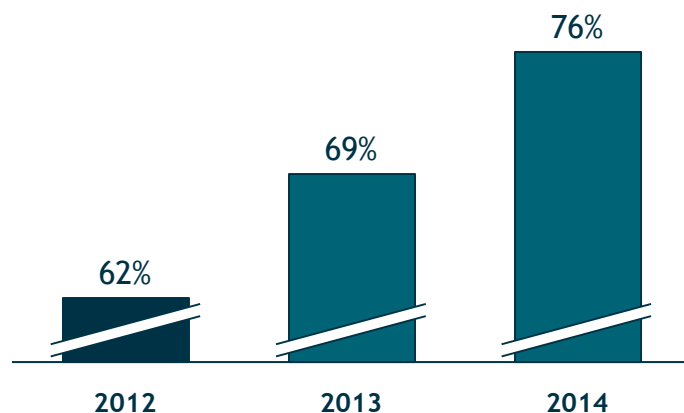
3G national roaming enabled for the whole customer base from mid-April '14

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



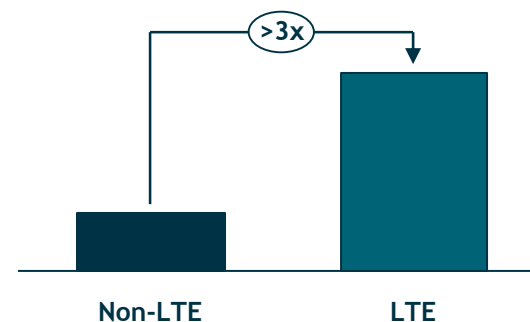
Steady progression in data monetisation metrics, maximising upsell opportunities within the base

Smartphone Penetration¹



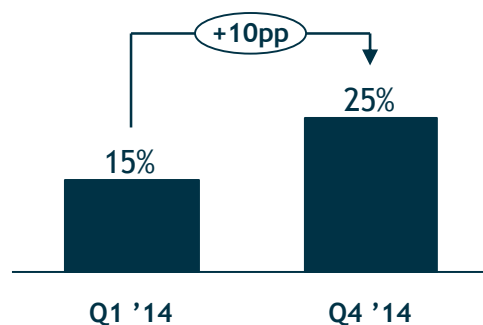
Network quality drives demand for mobile data

Avg. data consumption of non-LTE and LTE customers²



Adapting customer propositions to actual demand

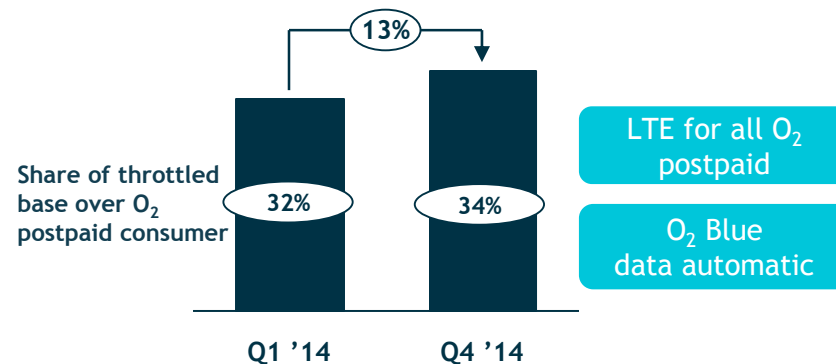
Adoption of Data plans >1GB³ (% O₂ Postpaid consumer)



Value-based approach to handset sales

Increasing opportunities for mobile data upselling

Evolution of throttling events



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

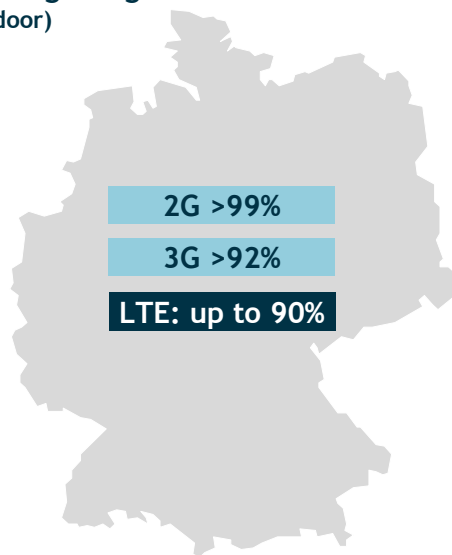
The right infrastructure model to compete and deliver the best high speed access experience

Ownership of strong set of spectrum & mobile access infrastructure

+

Access to best available fixed NGA¹ network - scalable & future-proof

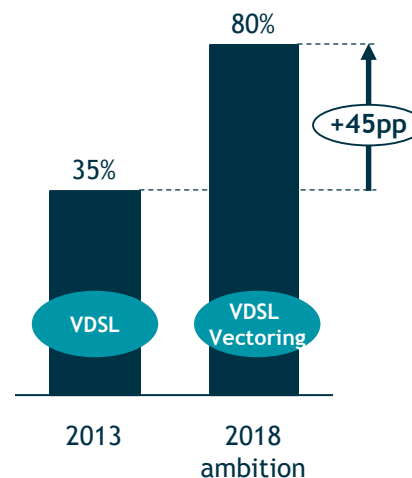
2016 coverage targets
(% Pop outdoor)



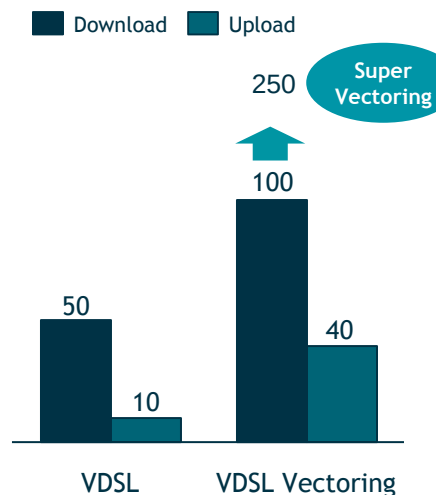
UMTS
National
Roaming²



NGA coverage targets
(% of covered households, YE)



Maximum Speed
(Up- & Download, Mbps.)



- “Golden Grid” combined network
- Network quality perception boost via **National Roaming**
- Accelerated, value-driven LTE rollout; high speed overlay in cities

- 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



Apps

Mein O₂ App Data check app



Chats/Forums



O₂ Forum



Social media



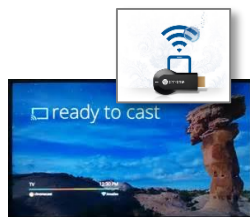
- Largest physical distribution reach in the market
- Our priority is to reach **operational excellence** in customer service
- **Shop footprint reduction** (own branded & partner shops) by 1/3rd
- Increasing relevance of own online channels
- O₂ portfolio distributed in **BASE** branded shops

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



Bis zu
10 €
sparen

Access choice
Leveraging LTE & VDSL + Kombi

Flexible offering through Partners

ZATTOO

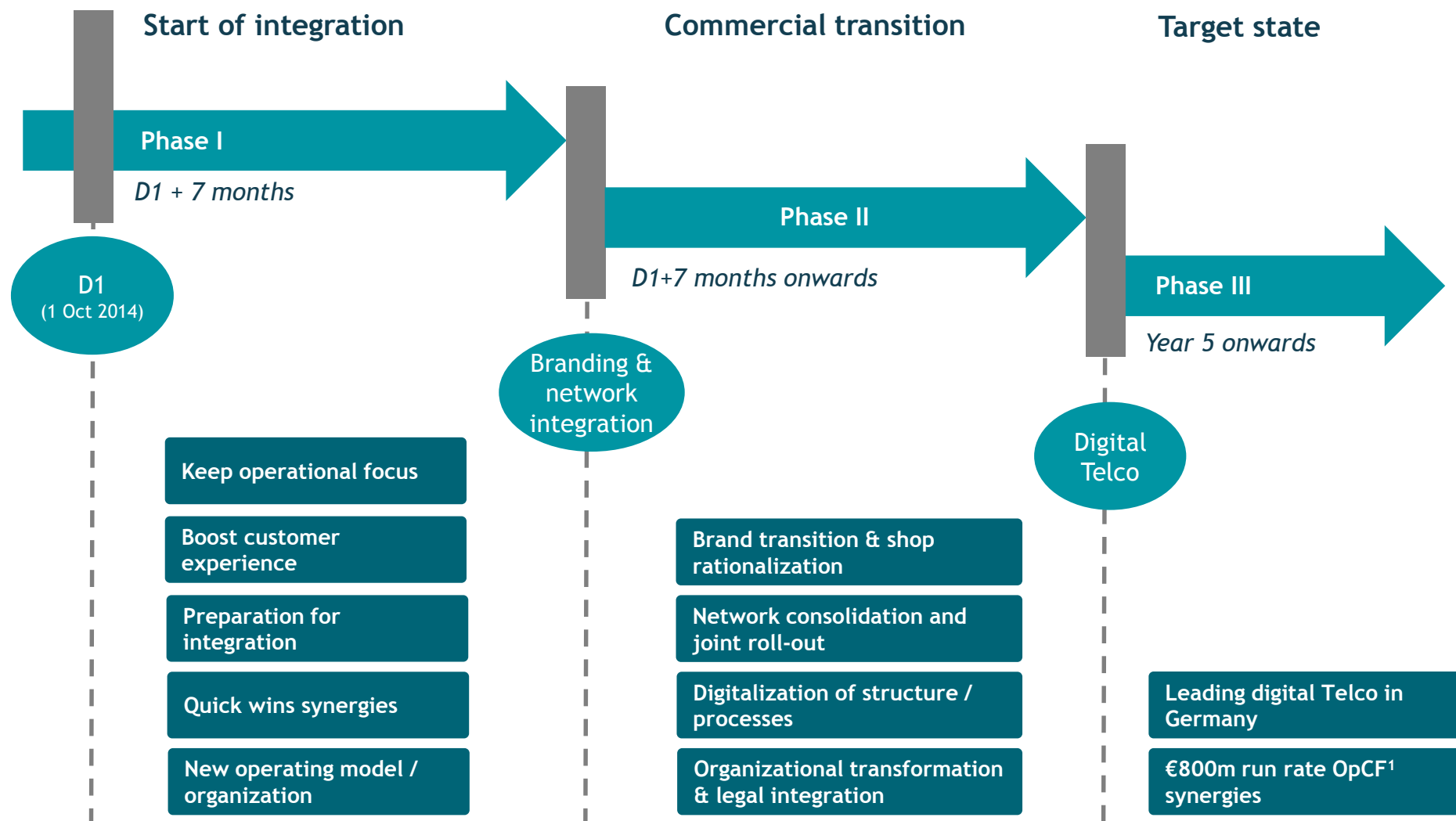
WATCHEVER



7TV



Successful start of integration & transformation activities



Expected synergies to exceed €5bn (NPV¹)

Run-rate of Operating Cash Flow synergies of ca. €800m in year 5

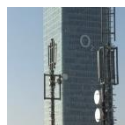
Distribution & Customer Service

- 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



In €bn

Distribution & Customer Service

1.1

Network

1.7

SG&A

0.8

OpEx

3.6

CapEx

1.9

Integration Costs

0.9

NPV of oper. Synergies

4.6

Revenue & Other

NPV of revenue & Oper. synergies

% of Operating Synergies

77%

42%

(19%)

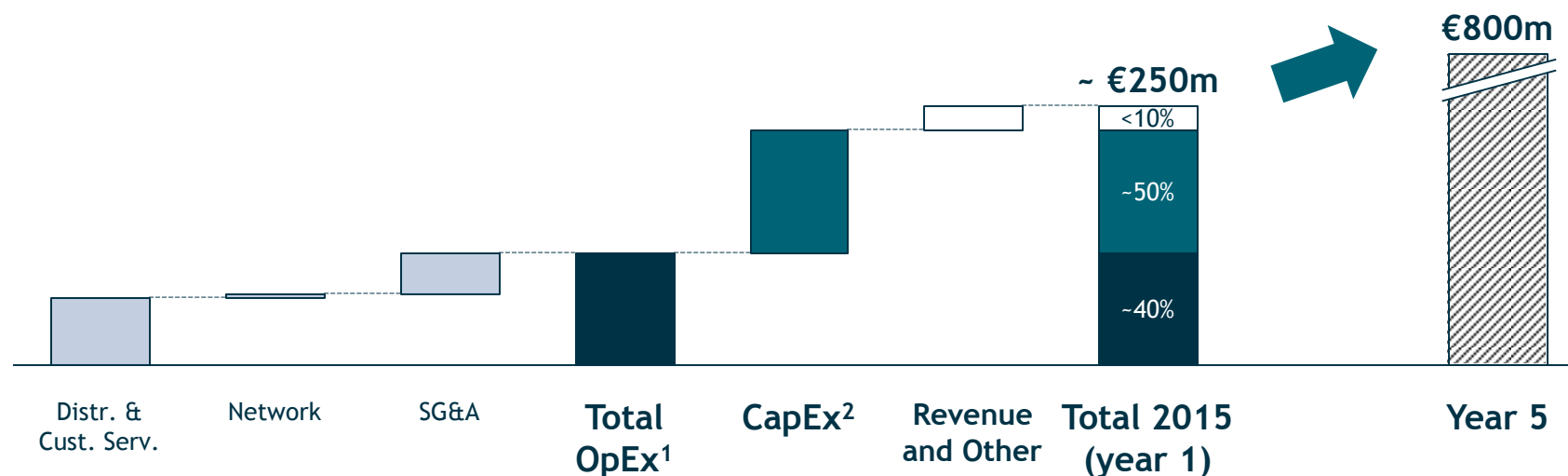
>€5bn

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 restructuring³
of 1,600 FTEs by 2018
(~50% in '15 from Q2'15)

Shop reduction^{3,4}
planned by 1/3rd by year 5

Decommission^{3,4} of
14,000 **mobile sites**
planned by year 5

¹OpEx savings are referred to 2014 combined financials excluding restructuring costs

²CapEx synergies net of restructuring activities and exclude investment in spectrum

³2014 combined KPIs: 9.1K FTEs, 1.8K shops, 39K mobile sites

⁴Final internal approval expected in Q1'15

We expect a gradual progression in OIBDA for 2015 driven by synergies & operational excellence

	2014 ¹ in €m	Outlook 2015 ² (y-o-y pct. growth)
MSR	5,528	Broadly stable
OIBDA	1,461	>10%
CapEx	1,161	High single digit pct. decline

Main Drivers

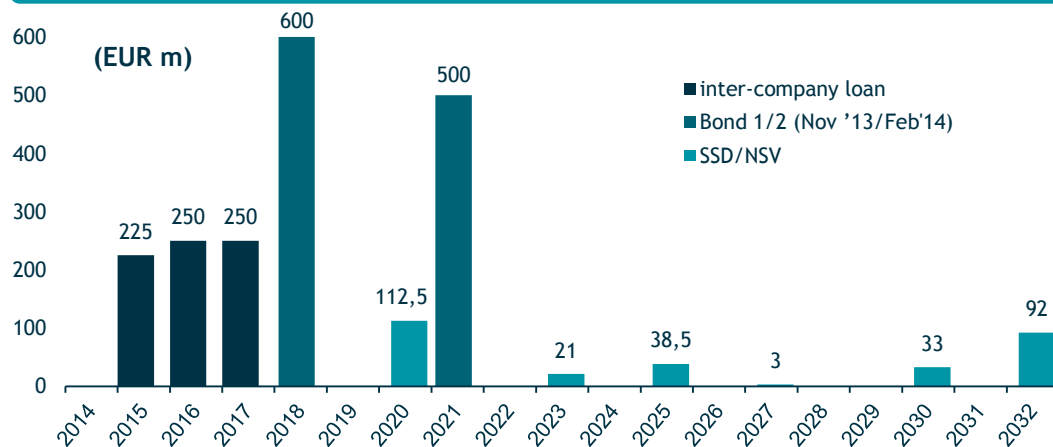
- Stronger focus on development of own customer base; with value-for-money approach to customers
- Drive data monetisation, leveraging higher demand for data services & LTE
- Lean & digital organisation with a simplified operating model & optimised processes
- Economies of scale in relation to network, administration, IT, rent, procurement etc.
- Synergies: ~30% of €800m Operating Cash Flow synergy run-rate already in year 1
- New investment cycle with focus on LTE and combination of the two networks; synergies outweighing additional CapEx for accelerated LTE rollout

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).

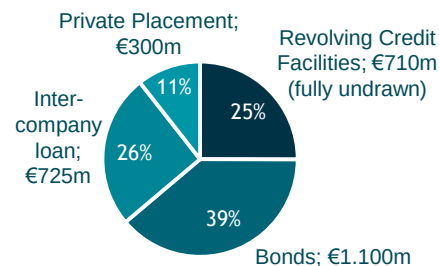
² All expected regulatory effects (e.g. MTR cuts) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA Outlook and CapEx excludes investments in spectrum

Improved liquidity and conservative financing policy

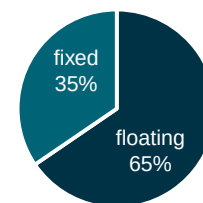
Extended maturity profile and further diversified financing mix



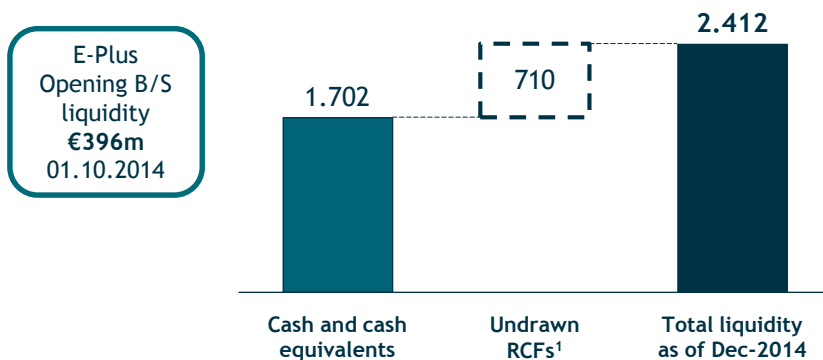
Financing instrument mix (%)



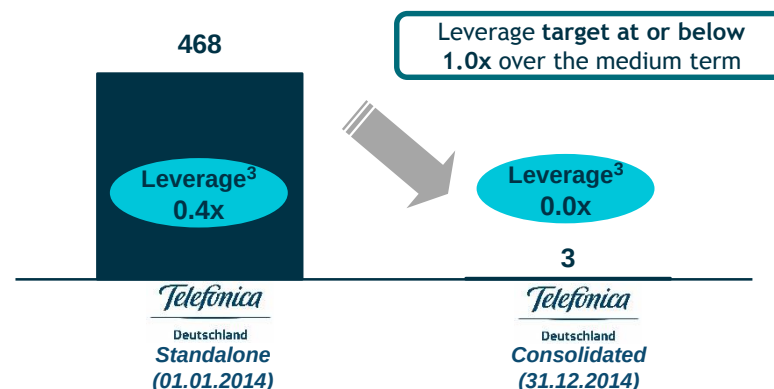
Interest payment mix (%)



Strong liquidity position (in €m)



Net Financial Debt² evolution (in €m)



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)
- 3 As measured by Net Financial Debt/OIBDA (Last 12 months)

We aim to maintain an attractive shareholder remuneration policy

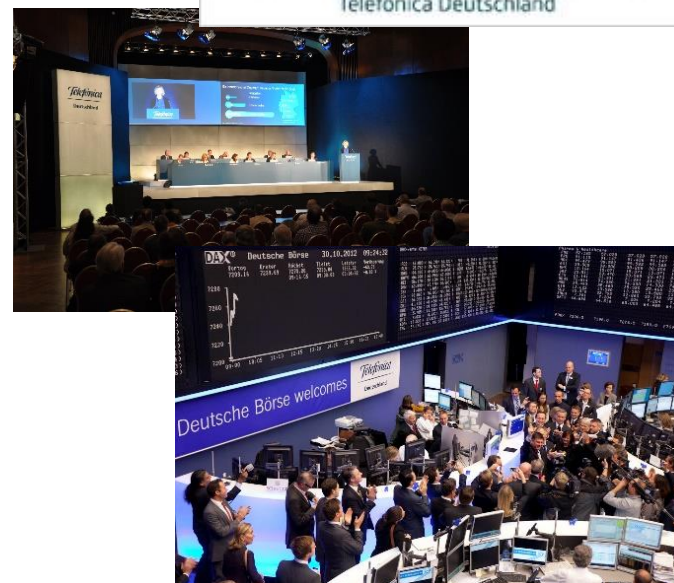
Shareholder remuneration policy - main guidelines¹

Maintain high payout in relation to FCF

Consider expected future synergy generation in dividend proposals

Keep leverage ratio at or below 1.0x over the medium term

Current intention to suggest to the general shareholders' meeting a cash dividend of at least €700 million, payable in May 2015



Main Takeaways

1

Creation of the Leading Digital Telco in the German market

- Market leader (48m accesses)
- Enhanced Value-for-Money competitive position
- Significant data monetization opportunity
- Simplification & Digitalisation at the core

2

Superior digital customer experience on strong foundations

- Right infrastructure model for best high speed experience
- Multi-brand strategy to enhance data monetization
- Multi-channel retail and “digital first” approach
- Facilitating customer’s digital journey - flexible approach

3

Enhanced profitability and cash flow generation from integration synergies and focused strategy

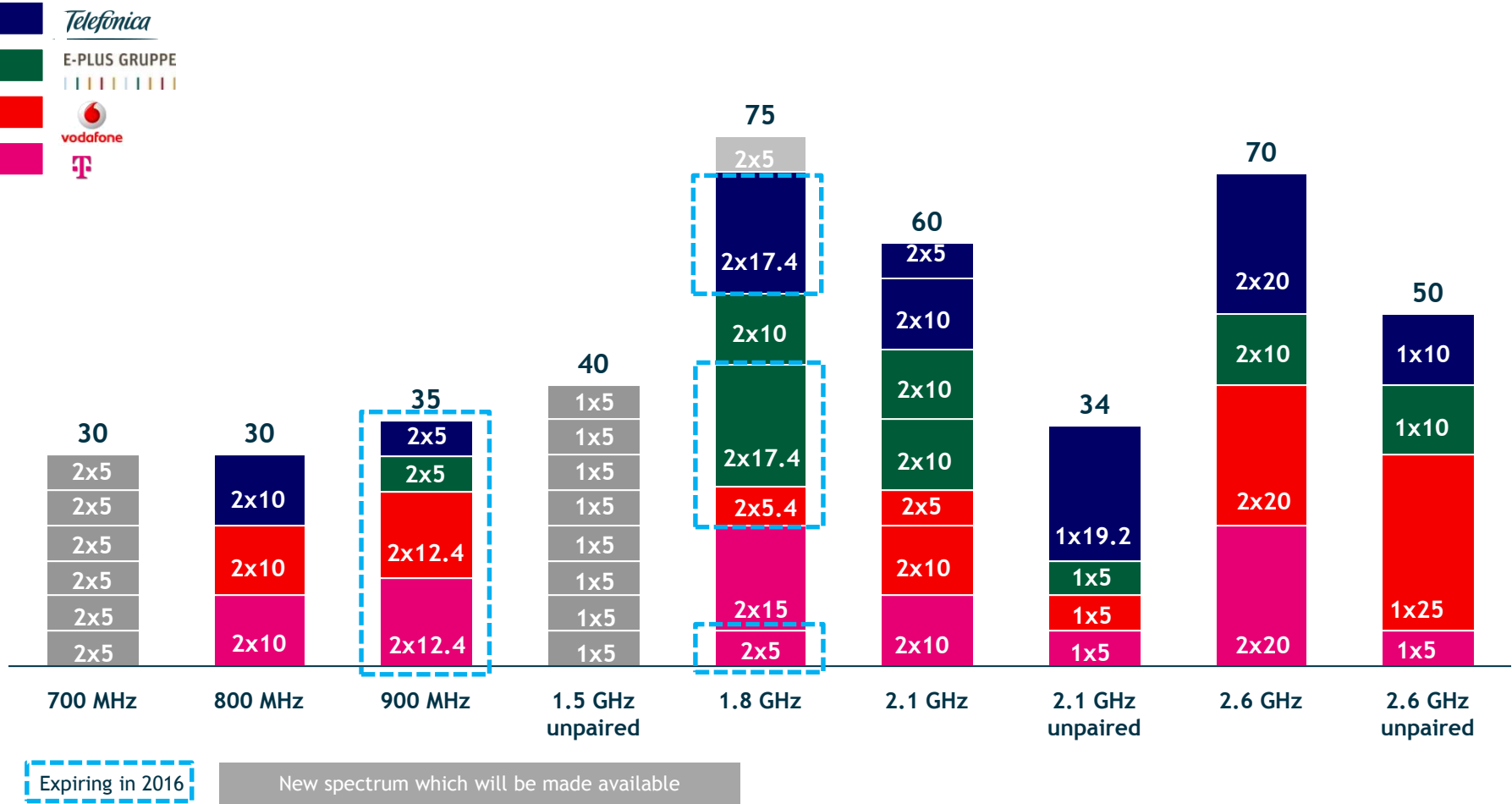
- Gradual capture of synergies: €800m OpCF run rate
- Scale benefits from a mobile data-centric approach
- Simplified and lean operational model
- Focused investments on single LTE network rollout

4

Strong value creation for Telefónica Deutschland shareholders

- Conservative financing policy
- Commitment to maintain a high FCF dividend payout ratio
- Consider future upside from synergies in dividend proposals
- High financial flexibility with leverage ratio at or below 1.0x

Current spectrum landscape in Germany



BNetzA spectrum auction expected to take place in Q2-2015

O₂ Blue All-in portfolio

O ₂ Blue All-in	S ⁴	M ⁴	TIPP L⁴	XL⁴	Premium⁴
Minuten in alle dt. Netze und ins dt. Festnetz	FLATRATE	FLATRATE	FLATRATE	FLATRATE	FLATRATE
SMS in alle dt. Mobilfunknetze	FLATRATE	FLATRATE	FLATRATE	FLATRATE	FLATRATE
Surfen im Inland (Inklusiv-Volumen)	200 MB	1 GB	3 GB	5 GB	10 GB
Datenautomatik ⁵ (automatisch nach Datenverbrauch)	bis zu 3 x 100 MB für je 2 € zusätzlich	bis zu 3 x 100 MB für je 2 € zusätzlich	bis zu 3 x 100 MB für je 2 € zusätzlich	bis zu 3 x 100 MB für je 2 € zusätzlich	bis zu 3 x 100 MB für je 2 € zusätzlich
Maximale Geschwindigkeit	bis zu 21,1 MBit/s LTE⁶	bis zu 21,1 MBit/s LTE⁶	bis zu 50 MBit/s LTE⁶	bis zu 50 MBit/s LTE⁶	bis zu 50 MBit/s LTE⁶
Extra-Festnetznummer	✓	✓	✓	✓	✓
EU Roaming Flat (Surfen und Telefonieren im EU-Ausland) ⁷	+ 4,99 mtl.	+ 4,99 mtl.	✓	✓	✓
Minuten/SMS ins EU-Ausland mtl. inkl.	–	–	–	–	je 200
Multicard ⁸	+ 4,99 mtl.	+ 4,99 mtl.	1 Multicard inklusive	2 Multicards inklusive	2 Multicards inklusive
O ₂ Protect Complete ⁹ (12 Monate Laufzeit)	+ 3,99 mtl.	+ 3,99 mtl.	+ 3,99 mtl.	+ 3,99 mtl.	✓
O ₂ more Premium Status ¹⁰	–	–	–	–	✓
 Mtl. Grundgebühr reduziert für O ₂ Kunden*	14,99	24,99	29,99	39,99	69,99
Monatliche Grundgebühr (bei 24 Monaten Mindestvertragslaufzeit)	19,99	29,99	39,99	49,99	79,99

Einmaliger Anschlusspreis beträgt 29,99 €.

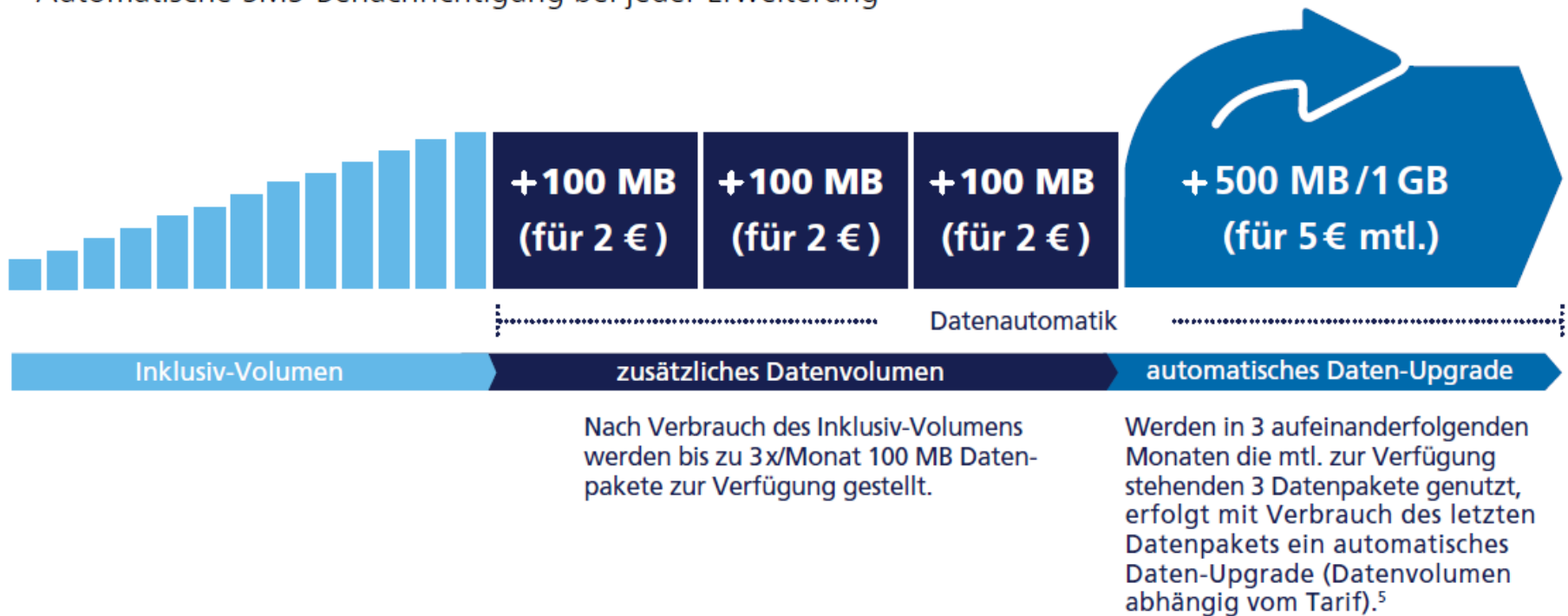
Preise in € inkl. MwSt.

* 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



O₂ DSL All-in portfolio

O ₂ DSL All-in		S ¹³	M ¹³	TIPP L ¹³ VDSL	XL ^{13,**} VDSL
Allnet-Flat:	Flatrate ins dt. Festnetz	✓	✓	✓	✓
	Flatrate in alle dt. Mobilfunknetze	✓	✓	✓	✓
	Unbegrenzt surfen (mit bis zu 2.000 KBit/s)	✓	✓	✓	✓
Maximale Surf-Geschwindigkeit		bis zu 8.000 KBit/s (Upload: bis zu 1.000 KBit/s)	bis zu 16.000 KBit/s (Upload: bis zu 1.000 KBit/s)	bis zu 50.000 KBit/s (Upload: bis zu 10.000 KBit/s)	bis zu 100.000 KBit/s (Upload: bis zu 40.000 KBit/s) ¹⁴
Maximale Surf-Geschwindigkeit bis*** (Inklusiv-Volumen)		100 GB ¹⁵	300 GB ¹⁵	300 GB ¹⁵	500 GB ¹⁵
Fair-Use-Mechanik****		–	✓	✓	✓
WLAN-Router/HomeBox 2/ AVM FRITZ!Box 7490 ¹⁶		0,00/19,99/49,99	0,00/19,99/49,99	0,00/19,99/49,99	– /19,99/49,99
Anschlusspreis ¹³		0,00 (anstatt 49,99)	0,00 (anstatt 49,99)	0,00 (anstatt 49,99)	0,00 (anstatt 49,99)
	Mtl. Grundgebühr reduziert für O ₂ Kunden*	–	ab 4,99 (ab 4. Monat ab 19,99)	ab 4,99 (ab 4. Monat ab 24,99)	ab 4,99 (ab 4. Monat ab 29,99)
Mtl. Grundgebühr für Neukunden		14,99 (ab 4. Monat 24,99)	14,99 (ab 4. Monat 29,99)	14,99 (ab 4. Monat 34,99)	14,99 (ab 4. Monat 39,99)

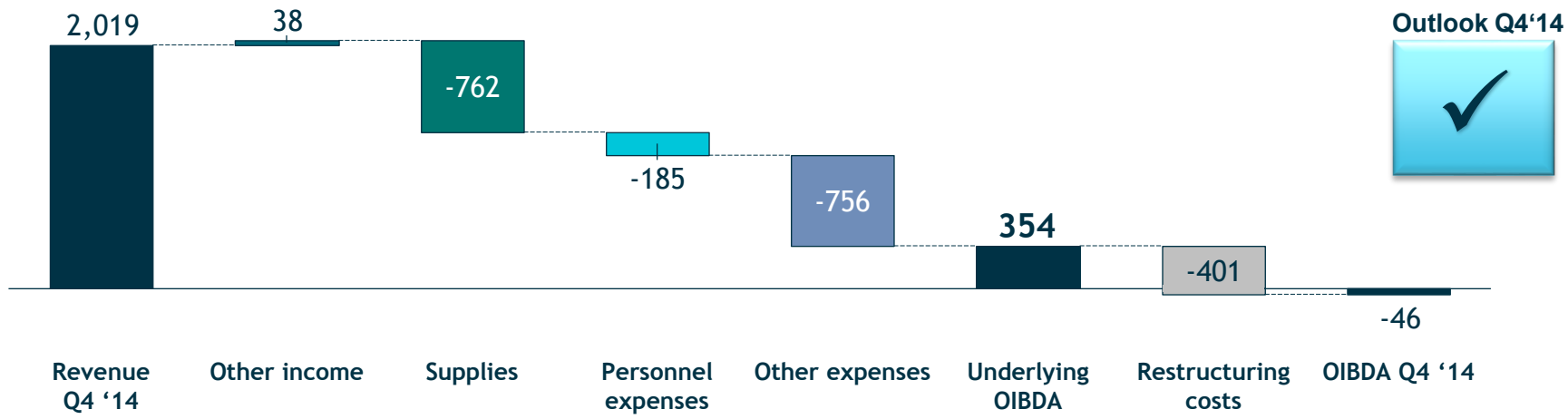
Preise in € inkl. MwSt.

* Weitere Informationen auf Seite 4 und siehe Hinweistext 1.

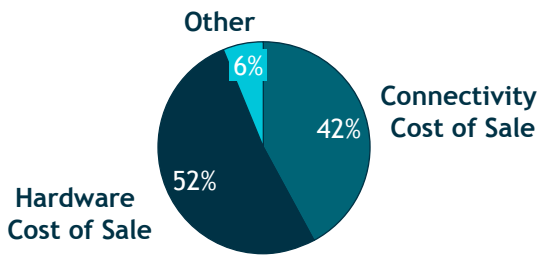
** In vielen regionalen Gebieten verfügbar.

Stronger quarter-on-quarter OIBDA performance in Q4 2014

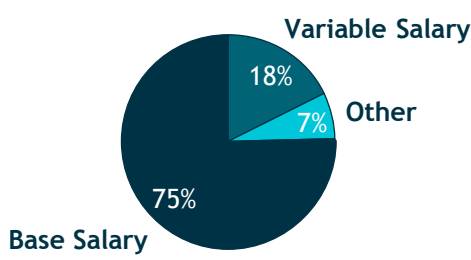
Composition of OIBDA (in €m)



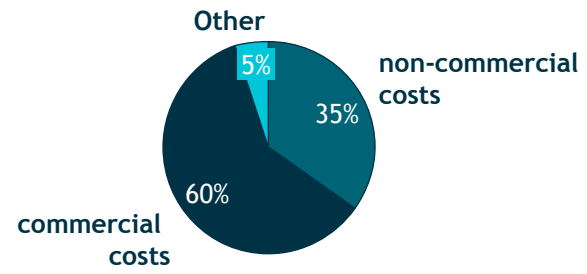
Supplies - Split in %



Personnel expenses - Split in %

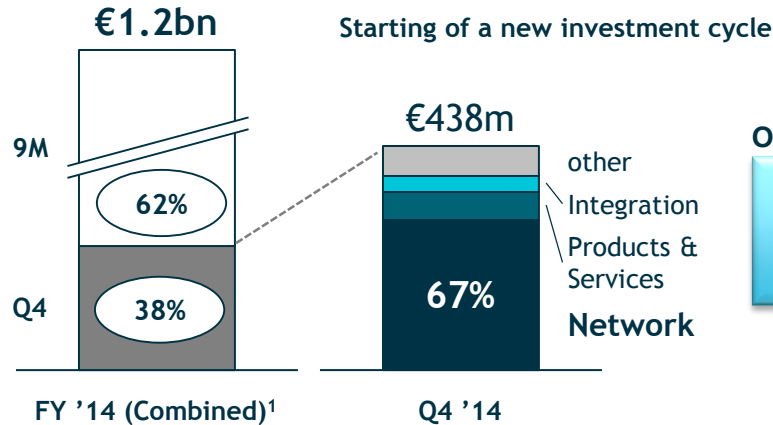


Other expenses - Split in %



Incorporation of E-Plus assets after PPA and start of a new investment cycle from Q4 2014

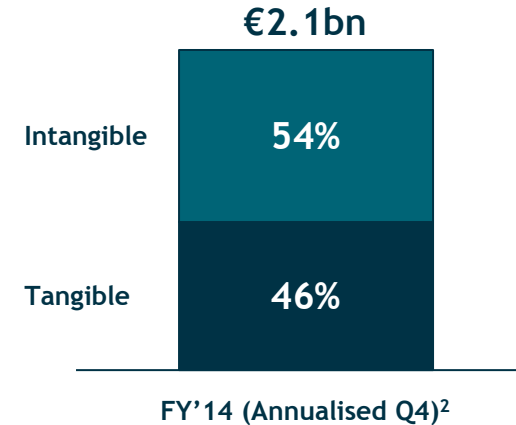
CapEx FY'14 (combined)¹ & Q4'14



Outlook Q4'14

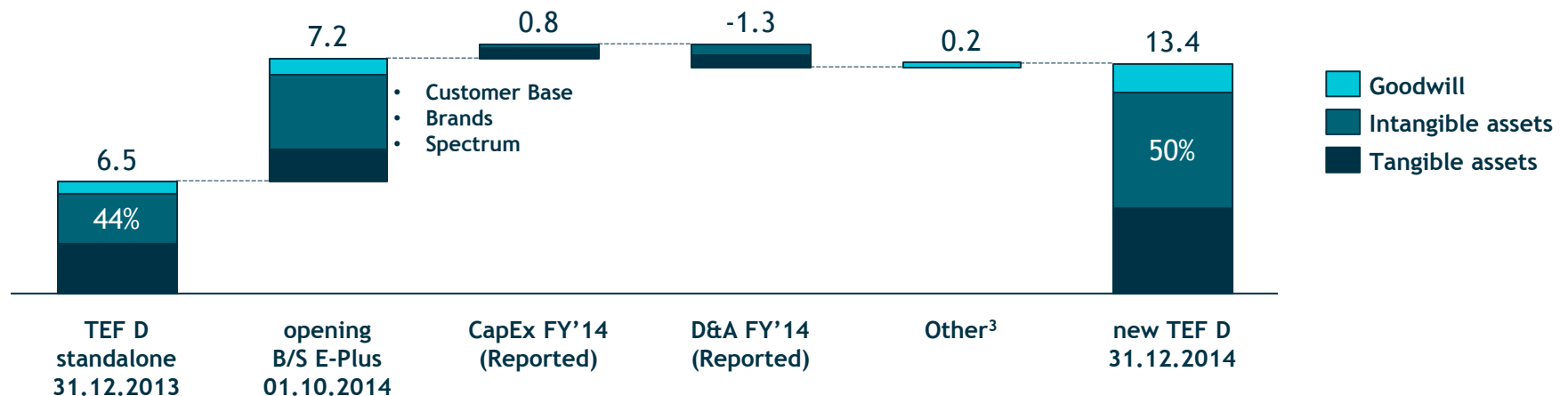


Annualised D&A in 2014 (Q4'14 basis)



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.

Evolution of depreciable assets + goodwill in 2014 (€bn)



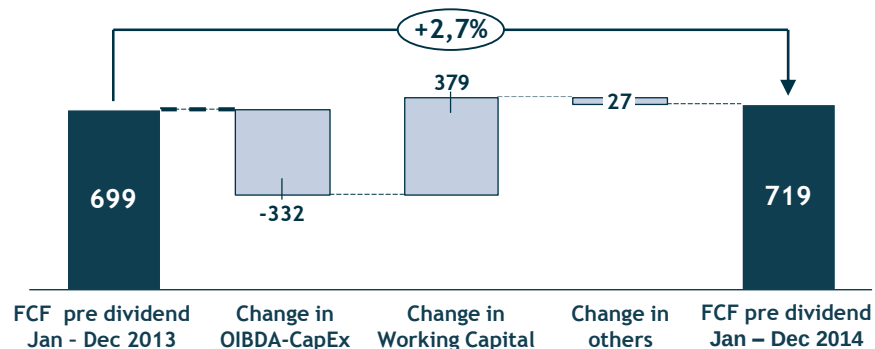
Notes:

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

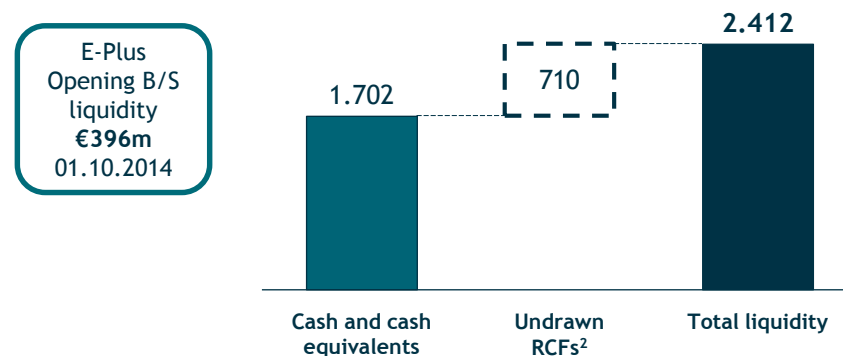
Strong conversion to FCF leading to improved liquidity

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



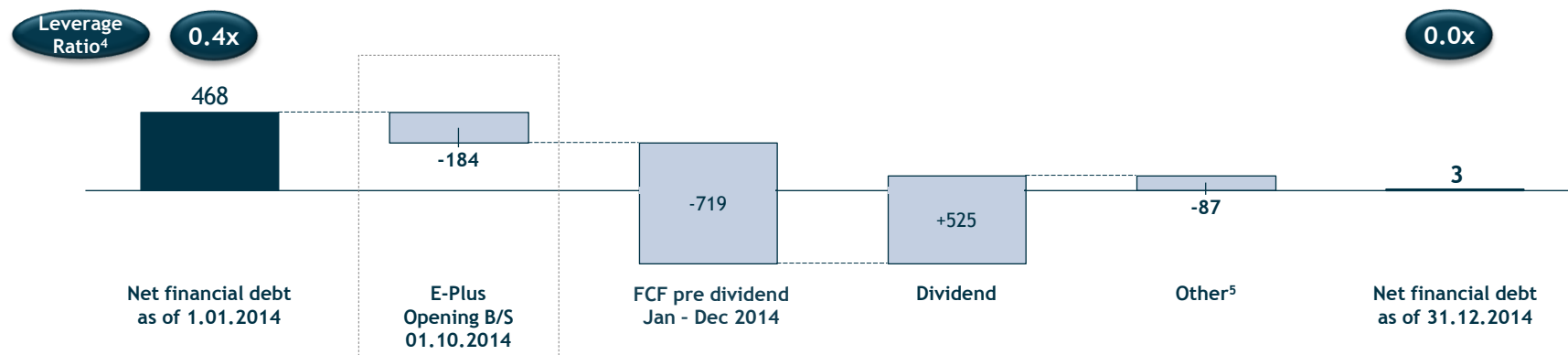
¹ Free cash flow is defined as the sum of cash flow from operating activities and cash flow from investing activities, excluding capital measures and payments related to the acquisition of E-Plus Group. OIBDA and Working Capital evolution is adjusted for restructuring costs in 2014.

Strong liquidity position (in €m)



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



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

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	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	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 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.

Telefonica

Deutschland