Telefónica Deutschland Investor Presentation

May 2015

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Telefonica Deutschland is setting the pace to become the Leading Digital Telco

Telefonica Deutschland

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

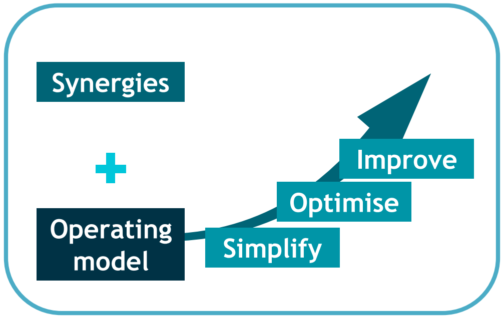
Offer **Best high speed Access experience**

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



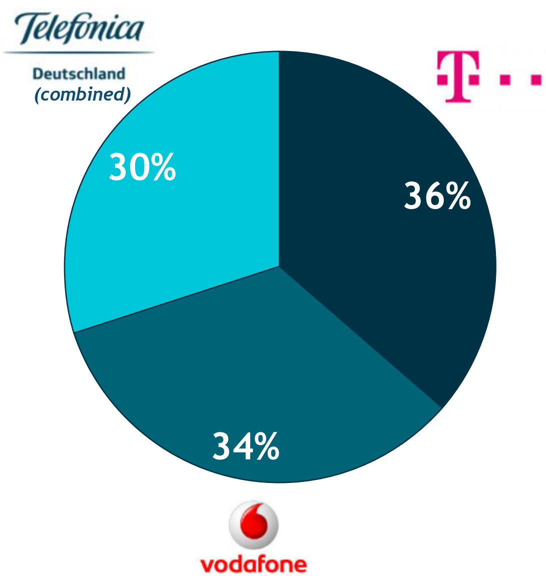
Synergies & Lean operating model

Telefónica Deutschland

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

1

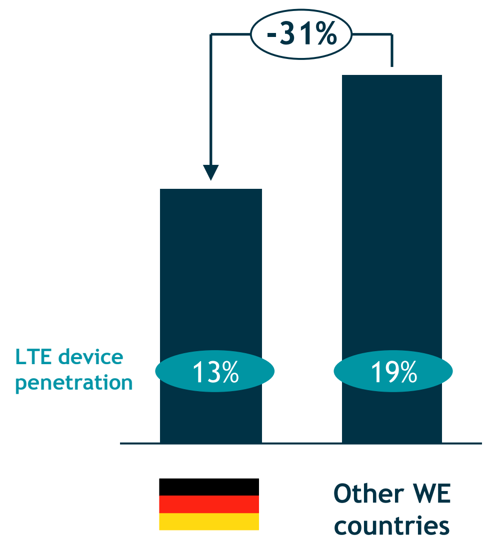
Rational and balanced market structure[1]



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

Infrastructure-based competition

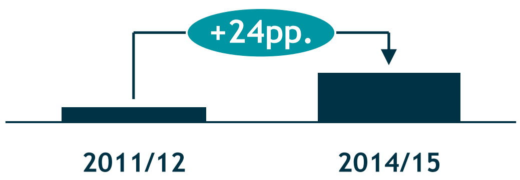
Avg. 3G/4G data usage in 2014[2] (in MB)



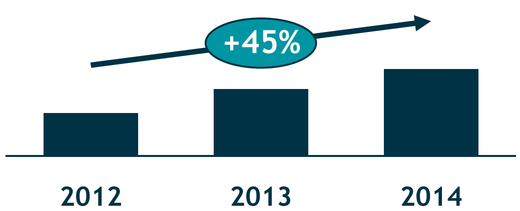
- **Further opportunities ahead** from steady LTE adoption
- **Mobile (3x) and Fixed (2x)** platforms for Hi Speed access

Steady adoption of a Digital Lifestyle

Mobile customers using smartphone for video streaming in %[3]



3G/4G avg. data usage in Germany[2]



- Trend to 1 Gb/month; **free VoD[4] 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

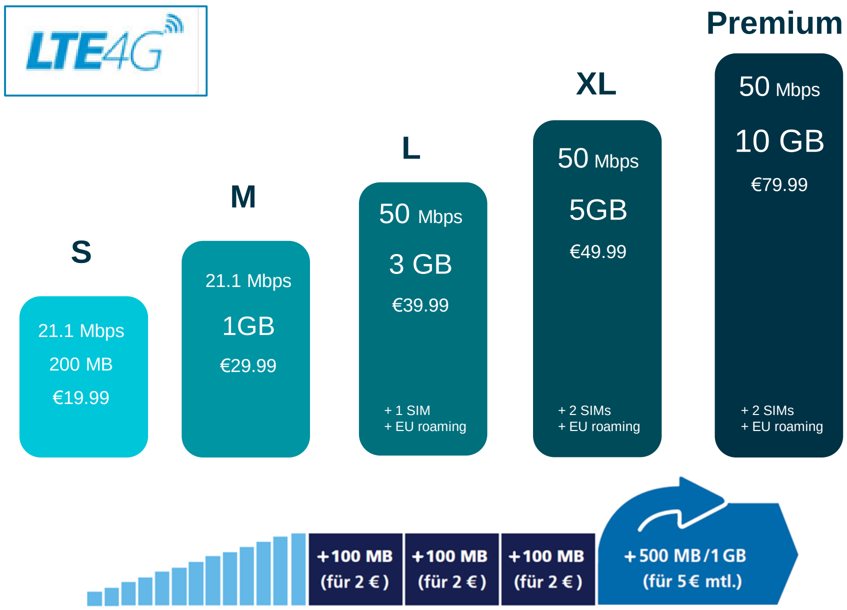
Successful multi-brand & mobile data-centric strategy in a highly segmented mobile market

1

A clear multi-brand set up
Leveraging densest mobile network

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

O_2 postpaid customer base enabled for LTE
New O_2 Blue portfolio facilitates upselling



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

1

Value-based handset sales model

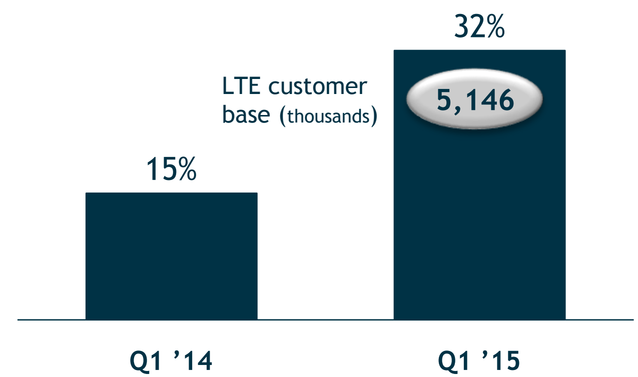
	O_2 Blue All-in S	O_2 Blue All-in M	O_2 Blue All-in L	O_2 Blue All-in XL
Monthly discount[1]	€0	€5	€10	€15

Share of high-end handsets sold in Q1'15 **76%**

[1] As of 21. April 2015

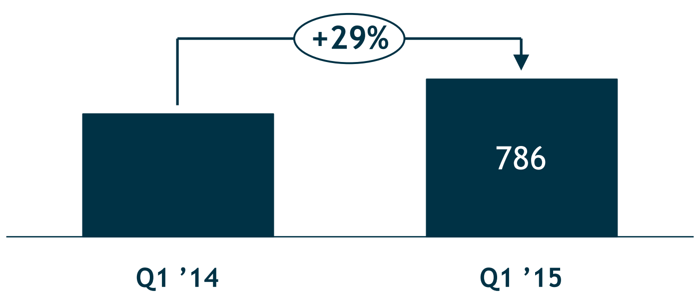
LTE-driven improvement of customer base

Share of Gross Adds with >1GB O_2 consumer PO



Portfolio design adapted to increased demand

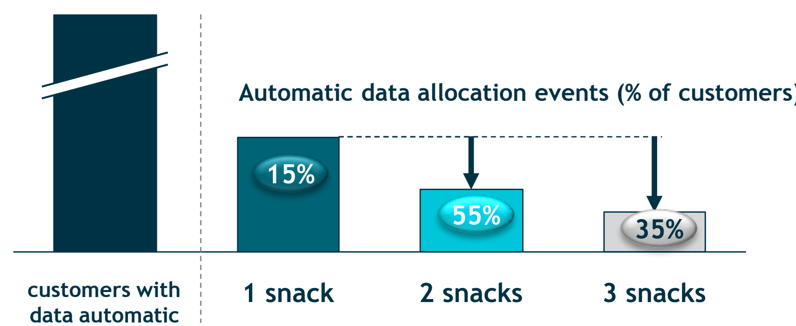
Average data usage[2] (MB)



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

Encouraging results from Data Automatic feature

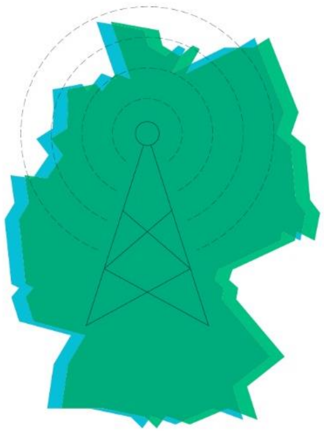
O_2 Blue All-in portfolio (Feb.& March 2015)



Telefonica Deutschland

Tangible benefits from 3G National Roaming and further mobile network enhancements

3G National Roaming started in April 2015



- Telefónica Deutschland to offer **best 3G network experience** in Germany by combining strengths of O_2 and E-Plus networks
- Improved coverage to **drive mobile data usage**

Network deployment plan on track

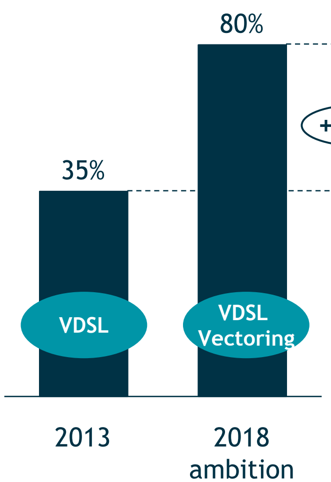
- Benefits from **investing in one LTE network:** 50% of 2015 synergy run-rate
- Accelerated **value-driven LTE network rollout** to approx. **75%** of German population by end Dec. 2015
- **Voice-over-LTE** since April 2015
- **Golden Grid network consolidation** project on track
- Strong **spectrum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

The right fixed infrastructure model to complement our mobile network for the best high speed access experience

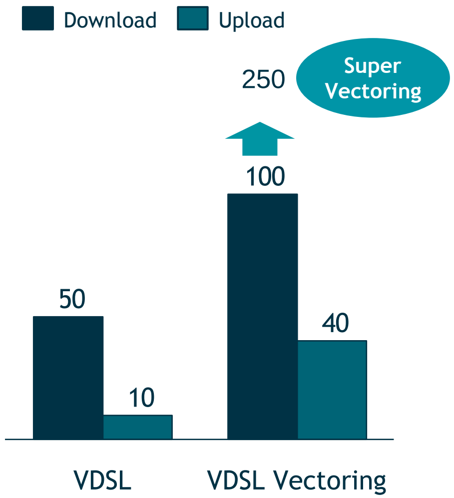
2

Access to best available fixed NGA[1] network – scalable & future-proof

NGA coverage targets
(% of covered households, YE)



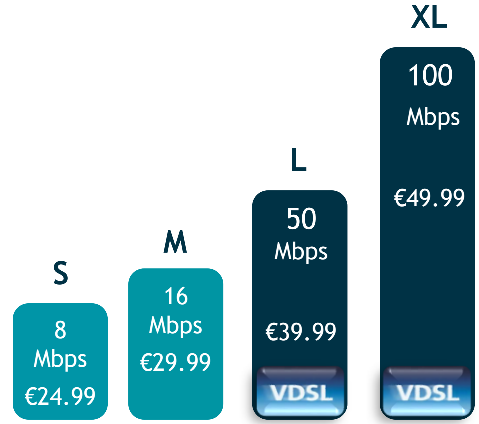
Maximum Speed
(Up- & Download, Mbps.)



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

With a very competitive bundled offer "Kombi – Vorteil"

O_2 DSL all-in
(Download speed, Mbps.)



- **Flexible aggregation of fixed & mobile** lines with progressive discounts based on value (up tp €30)
- **Active cross-selling of fixed propositions** to former E-Plus customer base

[1] NGA: Next Generation Access, including VDSL, Vectoring and future FTTX deployments

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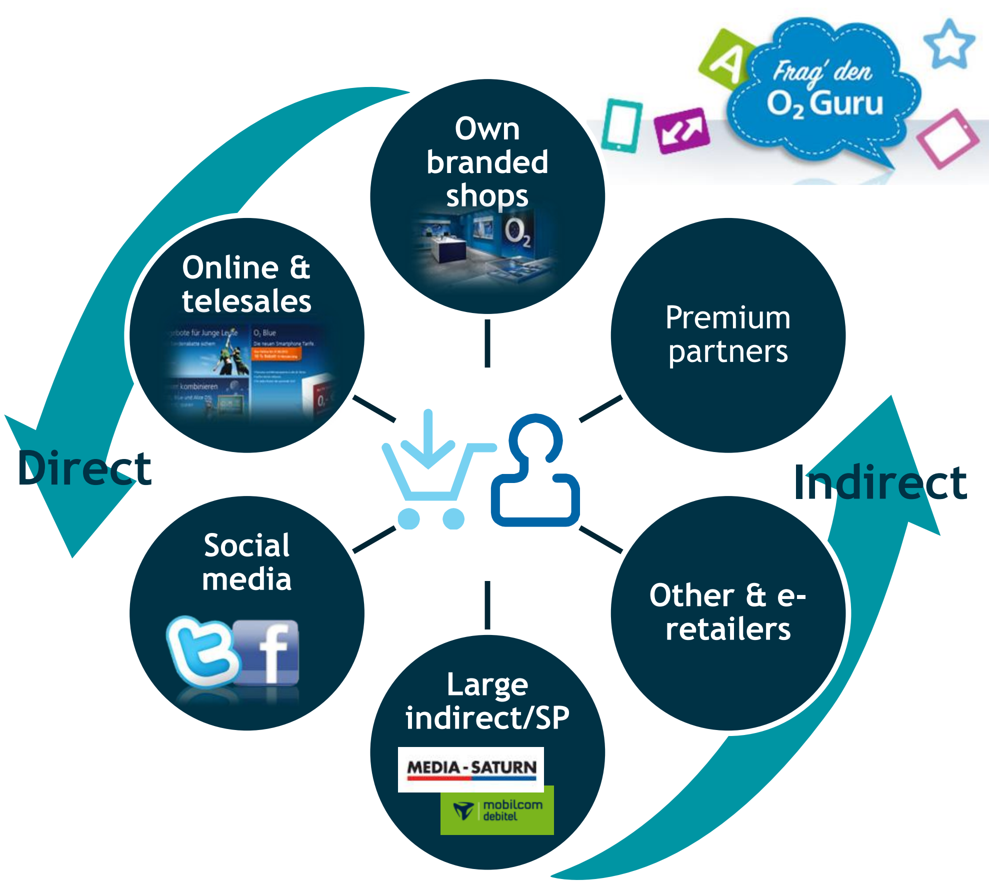
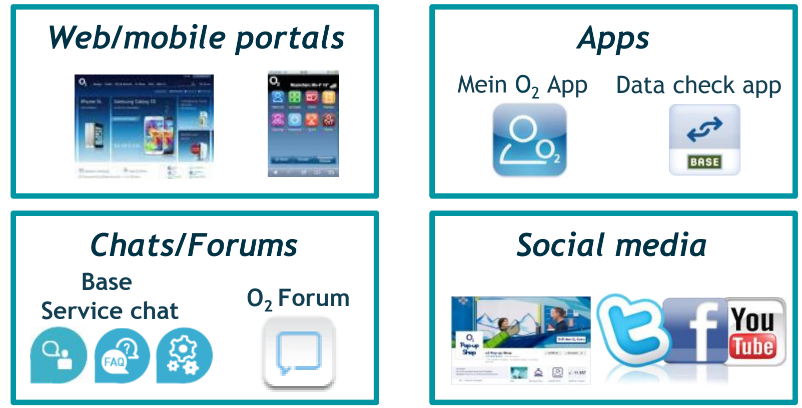
Best sales & service experience through extensive multi-channel retail and digital approach

Multi-channel to maximize efficiency



"Digital first" for every customer interaction



- **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
- **O_2 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

Successful start of integration & transformation activities

3

Start of integration

Phase I

D1 + 7 months

D1
(1 Oct 2014)

- Keep operational focus
- Boost customer experience
- Preparation for integration
- Quick wins synergies
- New operating model / organization

Commercial transition

Phase II

D1+7 months onwards

Branding & network integration

- Brand transition & shop rationalization
- Network consolidation and joint roll-out
- Digitalization of structure / processes
- Organizational transformation & legal integration

Target state

Phase III

Year 5 onwards

Digital Telco

- Leading digital Telco in Germany
- €800m run rate OpCF[1] synergies

Notes:
1 OIBDA minus CapEx

Telefónica Deutschland

Expected synergies to exceed €5bn (NPV[1])
Run-rate of Operating Cash Flow synergies of ca. €800m in year 5

3

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

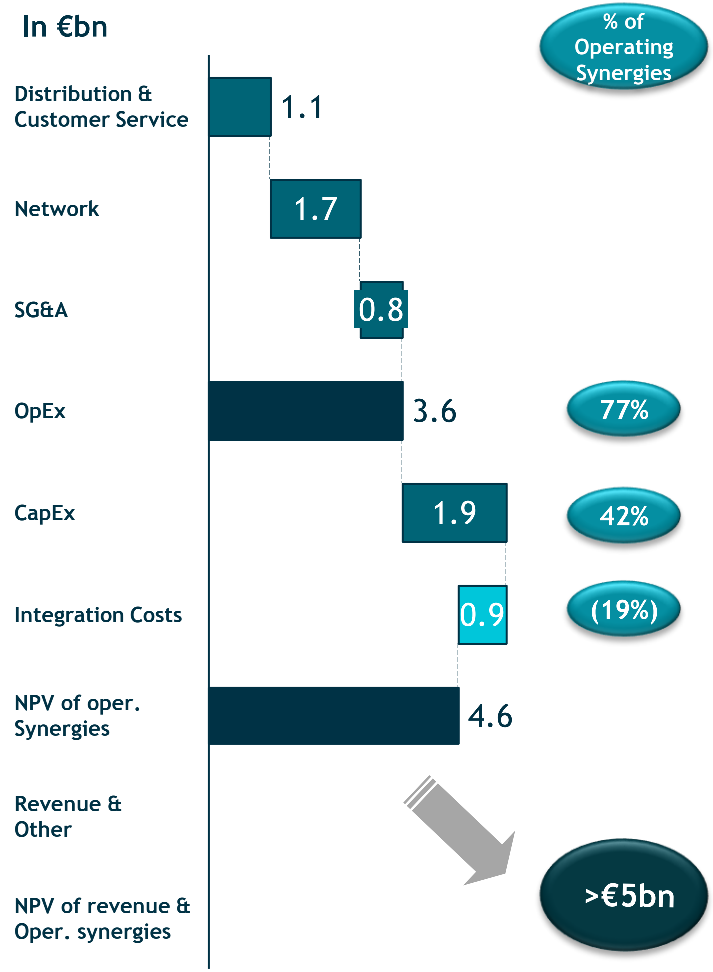
- Improved quality & capacity in 4G with reduced CapEx requirement
- Consolidation of 2G/3G access networks, backbone and backhaul
- Reduction of ~14,000 sites to reach "golden grid"
- Leverage scalable cooperation with Deutsche Telekom regarding fixed line services
- Overall improved network perception

SG&A

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

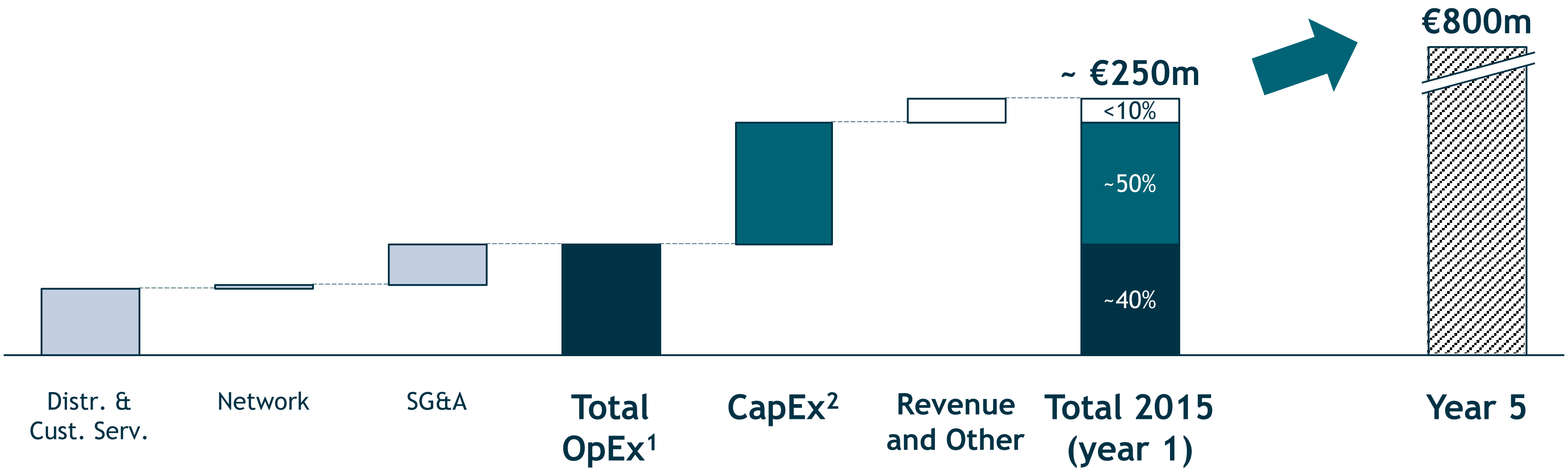
Revenue and other

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



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 OpE**x 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[3]
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

[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

	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

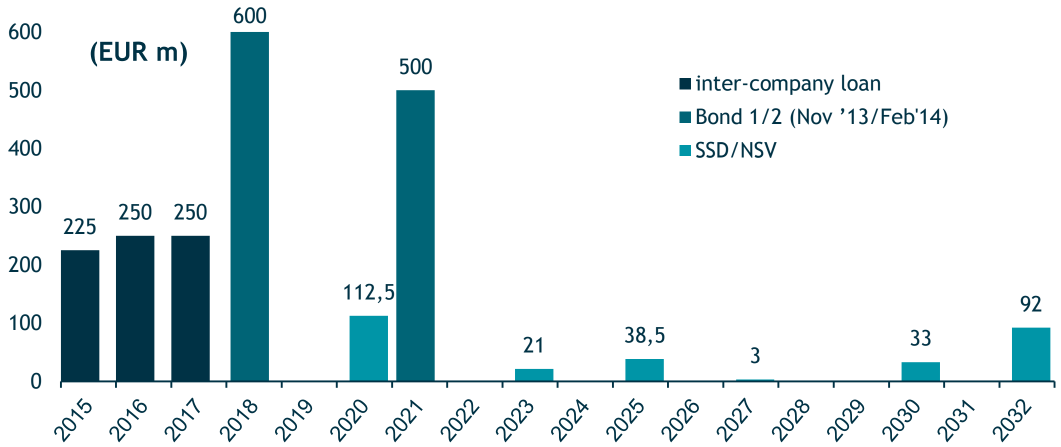
- Stronger **focus on** development of **own customer base;** with value-for-money approach to customers
- Drive data monetisation, leveraging **higher demand for data services & LTE**
- **Lean & digital organisation** with a simplified operating model & optimised processes
- **Economies of scale** in 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

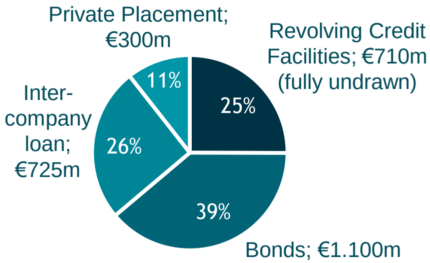
Improved liquidity and conservative financing policy

4

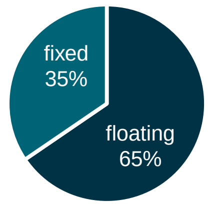
Extended maturity profile and further diversified financing mix



Financing instrument mix (%)

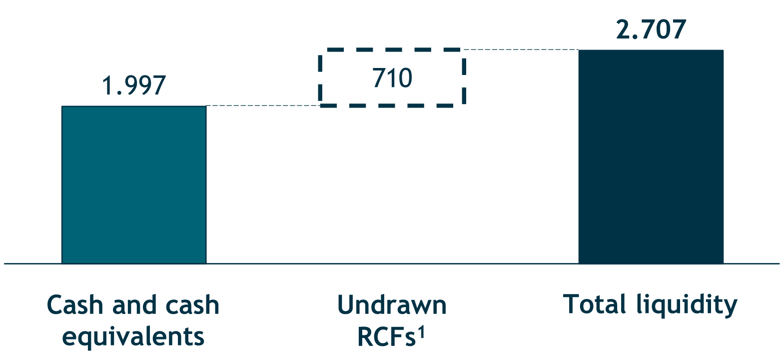


Interest payment mix (%)



Strong liquidity position (in €m) & leverage ratio[2] below 1.0x over the medium term

Status as of March' 2015



Leverage Ratio[3]

0.1x

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 Q1 2015 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 guidelines[1]

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

Dividend of more than €714m on 2014 results approved by AGM and paid in May 2015

Stark an der Börse
Telefónica Deutschland

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

Telefónica Deutschland

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

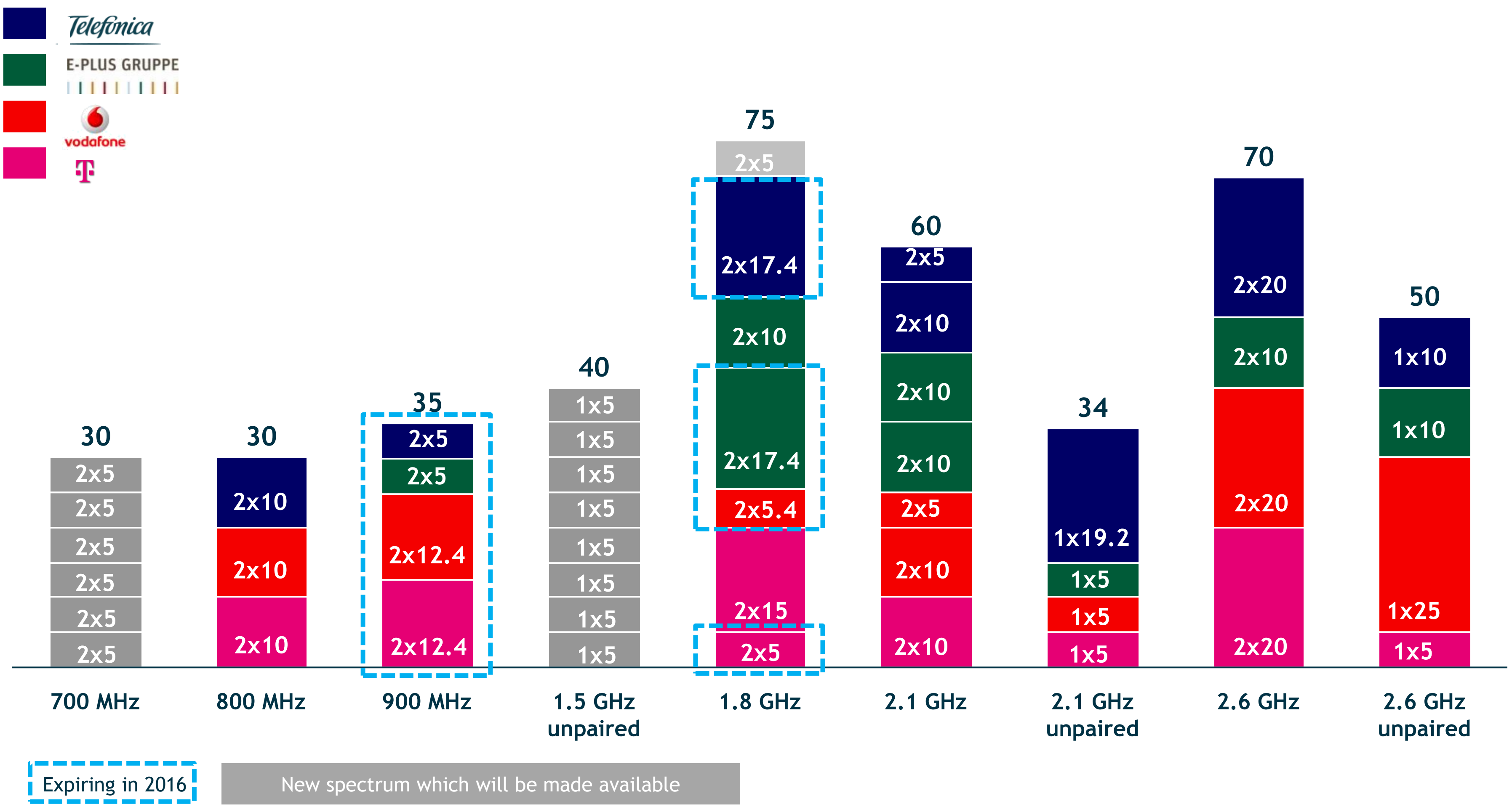
- Gradual capture of synergies: €800m OpCF run rate
- Scale benefits from a mobile data-centric approach
- Simplified and lean operational model
- Focused investments on single LTE network rollout

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

Back-up

Current spectrum landscape in Germany



BNetzA spectrum auction to take place from 27.05.2015

O_2 Blue All-in portfolio

O_2 Blue All-in	S[4]	M[4]	TIPP L[4]	XL[4]	Premium[4]
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 **LTE**[6]	bis zu 21,1 MBit/s **LTE**[6]	bis zu 50 MBit/s **LTE**[6]	bis zu 50 MBit/s **LTE**[6]	bis zu 50 MBit/s **LTE**[6]
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]	–	–	–	–	✓
Kombi-Vorteil Mtl. Grundgebühr reduziert für O_2 Kunden*	14,99	24,99	29,99	39,99	69,99
Monatliche Grundgebühr (bei 24 Monaten Mindest-vertragslaufzeit)	**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 O_2 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 3x/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]

O_2 DSL All-in portfolio

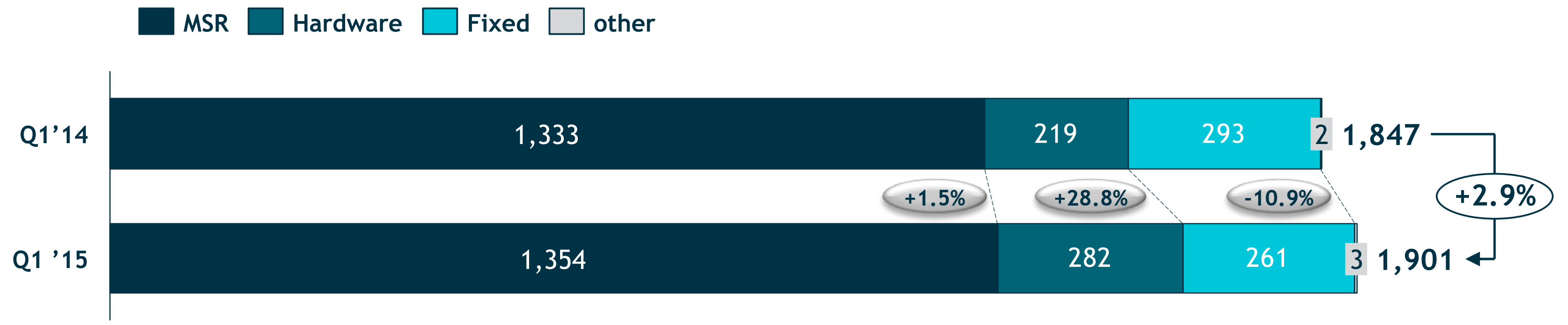
O_2 DSL All-in		S[13]	M[13]	TIPP L[13] VDSL	XL[13,**] VDSL
Allnet-Flat:	Flatrate ins dt. Festnetz	✓	✓	✓	✓
	Flatrate in alle dt. Mobilfunknetze	✓	✓	✓	✓
	Unbegrenzt surfen (mit bis zu 2.000 KBit/s)	✓	✓	✓	✓
	Maximale Surf-Geschwindigkeit	bis zu 8.000 KBit/s (Upload: bis zu 1.000 KBit/s)	bis zu 16.000 KBit/s (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)
Kombi-Vorteil	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.

Q1’15: Mobile-centric strategy driving top line performance

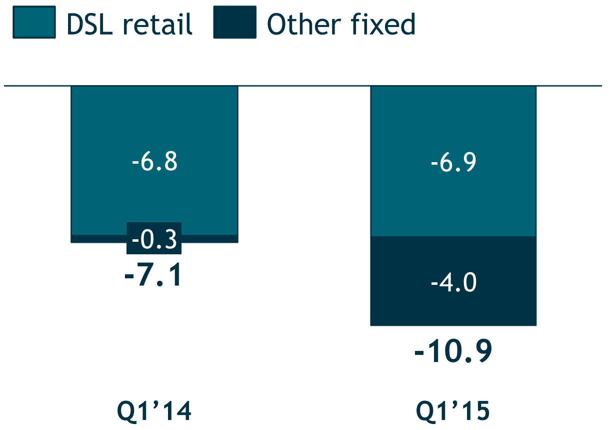
Revenue Structure (in €m)



Broadly stable MSR[1] 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%)



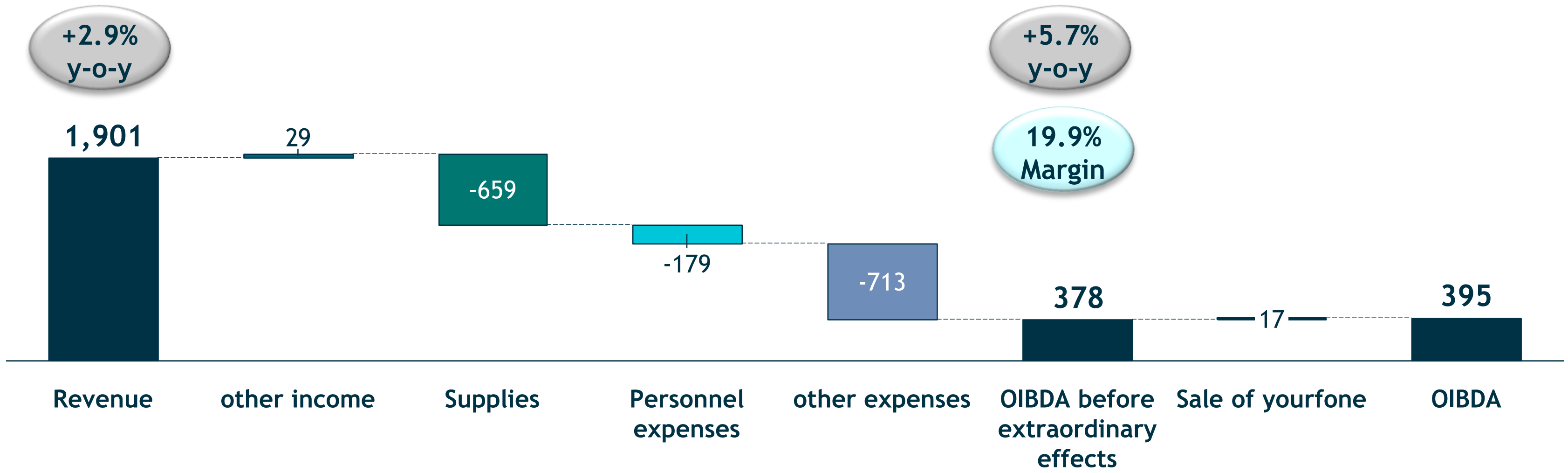
Notes:
[1] From a 2014 baseline of €5,528m

Public – Nicht vertraulich

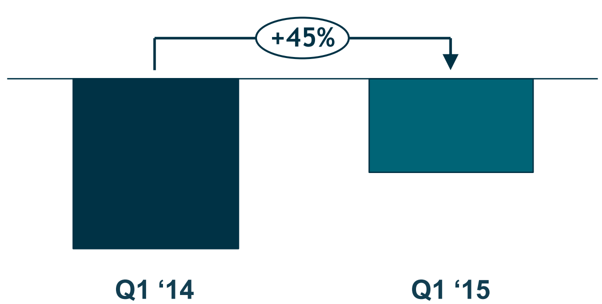
Telefonica Deutschland

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

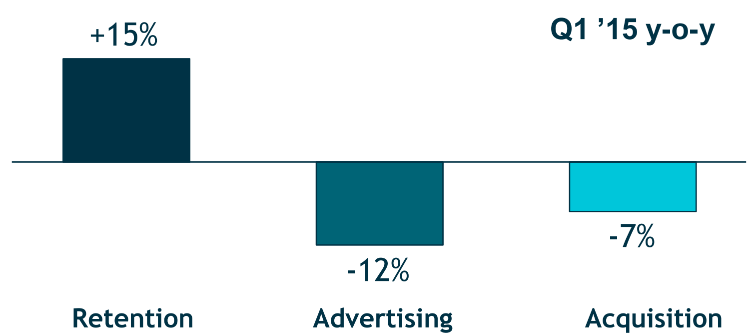
Structure of Q1 ’15 OIBDA (in €m)



Hardware margin[1]



Focus on development of customer base

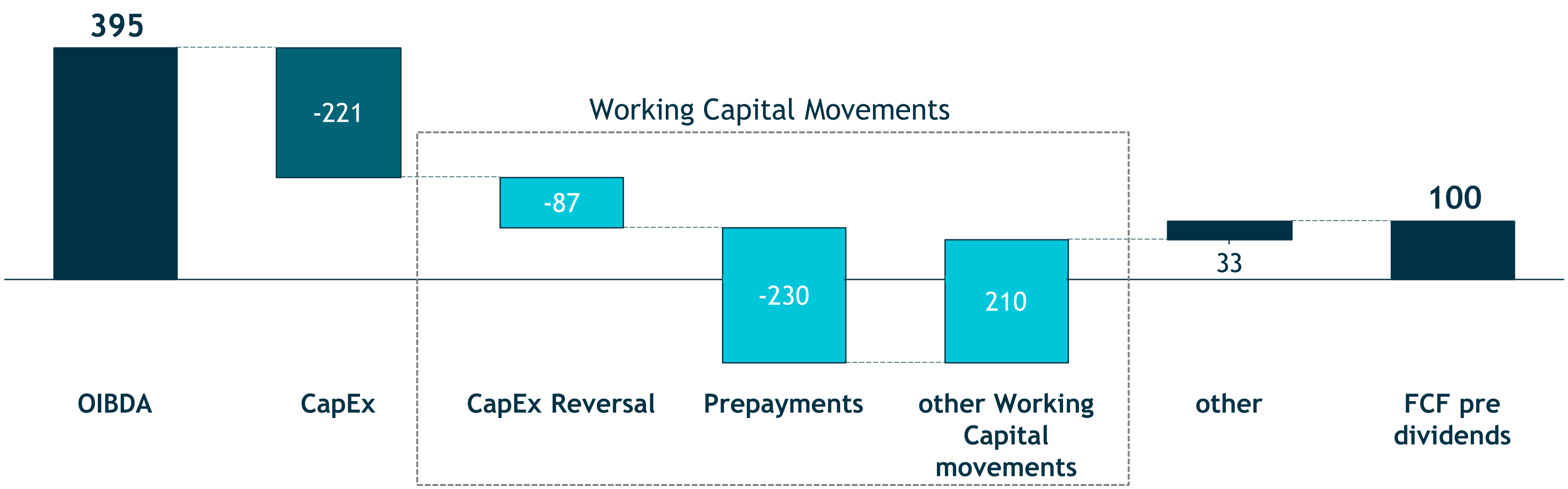


[1] Hardware margin defined as handset revenues less cost of sales

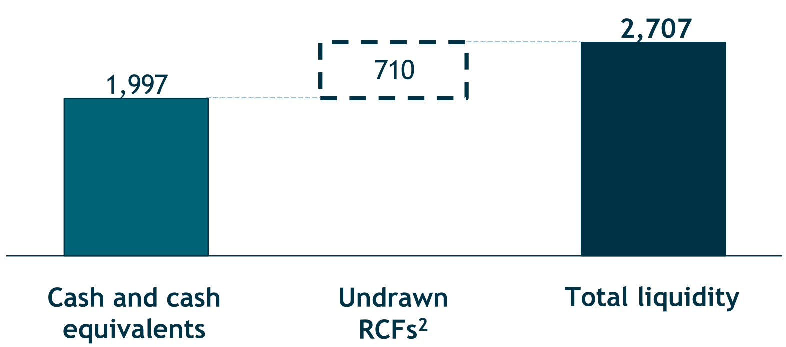
Telefónica Deutschland

Q1'15: Keeping financial flexibility ahead of significant expected cash outflows in the year

Reconciliation of Free Cash Flow[1] (in €m)



Strong liquidity position (in €m) & leverage ratio[3] below 1.0x over the medium term



Leverage Ratio[3]

0.1x

[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

Telefonica Deutschland

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 (1)	**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	**46.899.093**	**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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Deutschland