

Telefonica

Deutschland

Creating
the
Leading
Digital
Telco



Telefónica Deutschland Investor Presentation

November 2015

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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

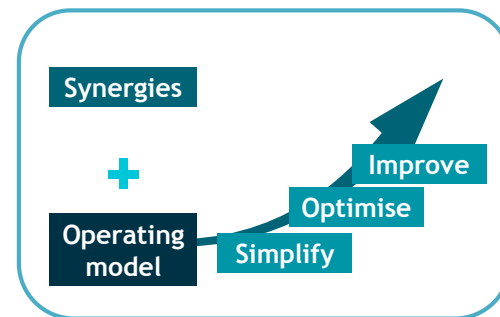
Achieve **operational
excellence**



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



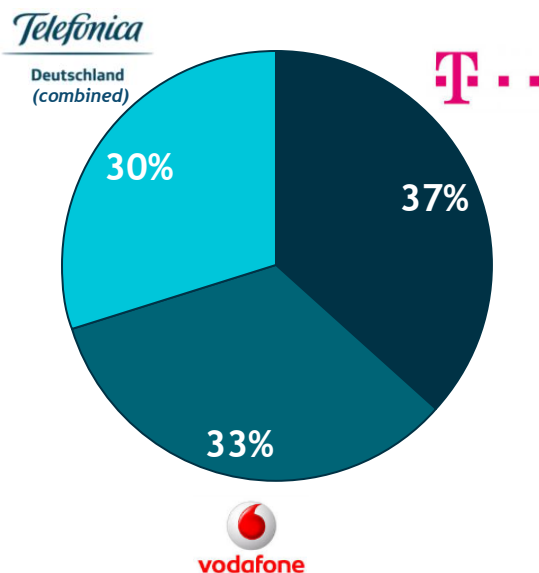
*Peace of mind, multi-channel &
digital first*



Synergies & lean operating model

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

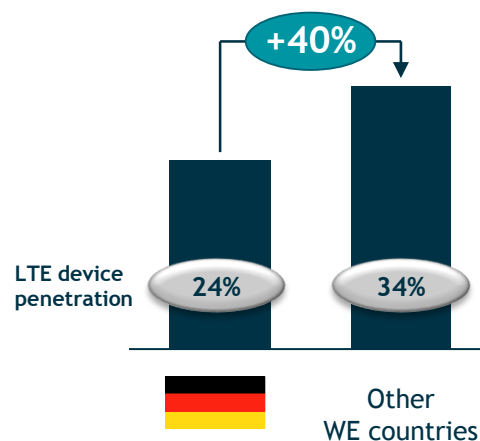
Rational and balanced market structure¹



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

Infrastructure-based competition

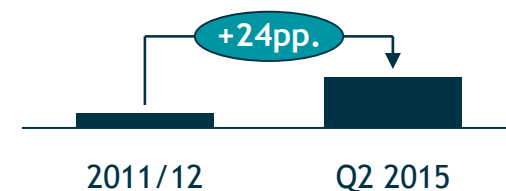
LTE device penetration in % vs. avg. 3G/4G data usage in MB in 2015 FC²



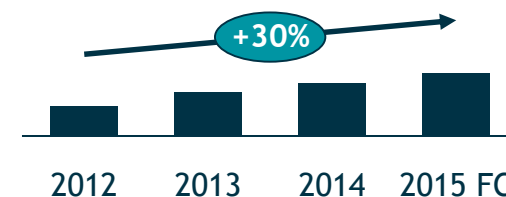
- Further opportunities ahead from steady LTE adoption
- Mobile (3x) and fixed (2x) platforms for high speed access

Steady adoption of a digital lifestyle

Mobile customers using smartphones 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 1 HY 2015 & TEF D pro forma

² Source: Analysys Mason Report; countries: UK, Netherlands, Sweden & Germany

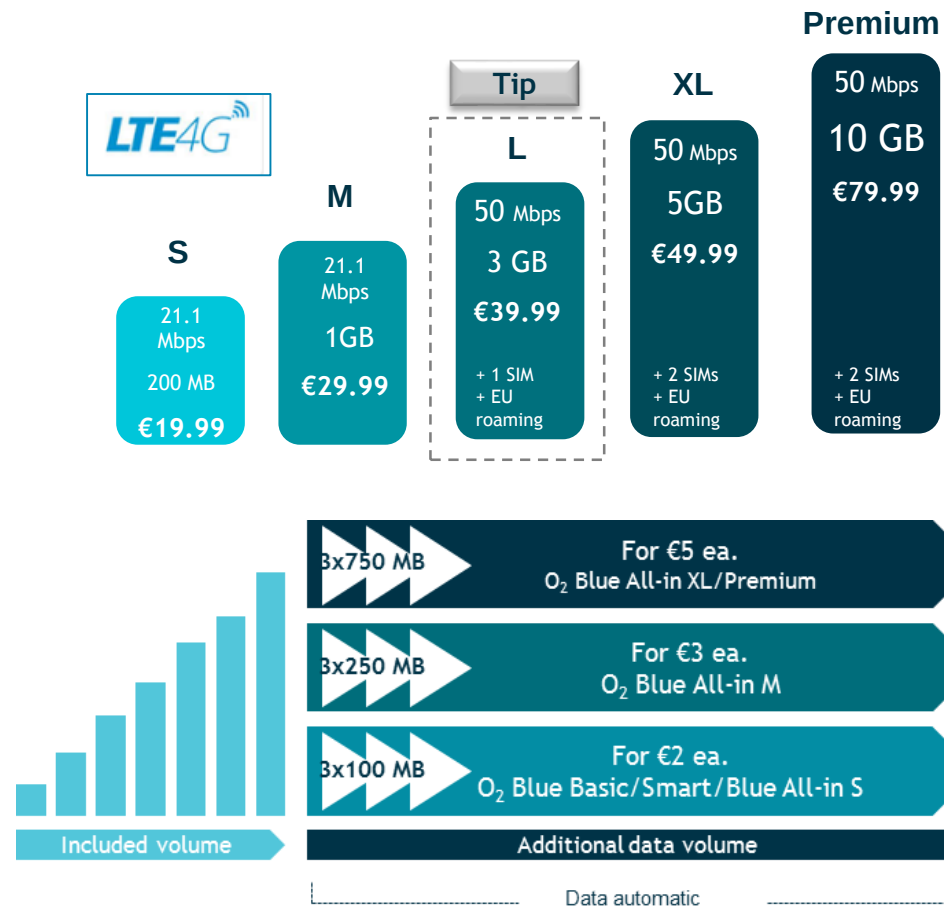
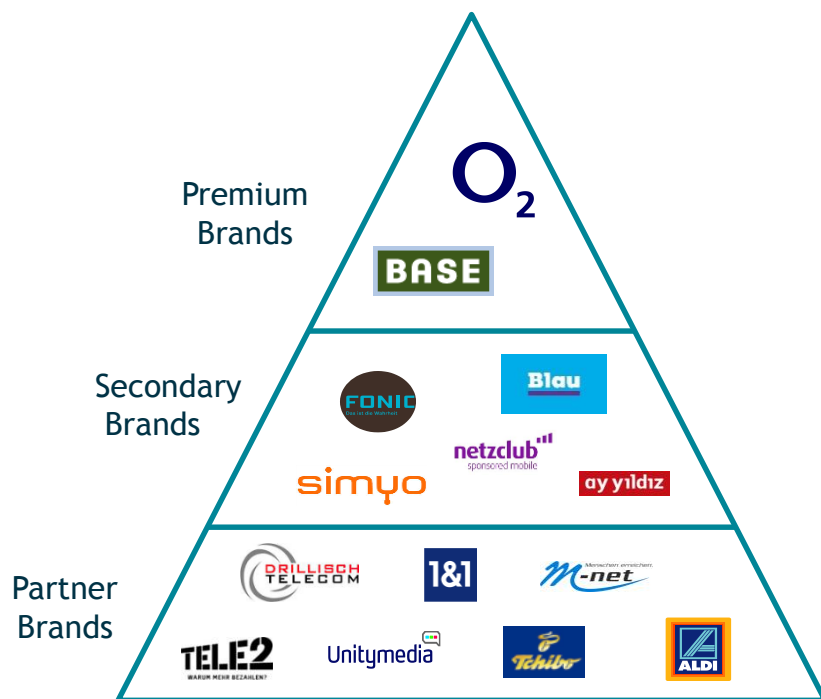
³ Source: Internal representative market study

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

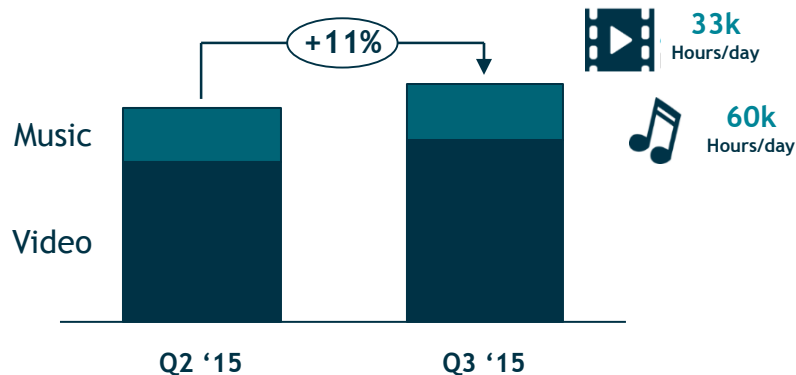
Focused commercial approach, leveraging
upsell potential



Monetisation of mobile data: Growth potential remains intact

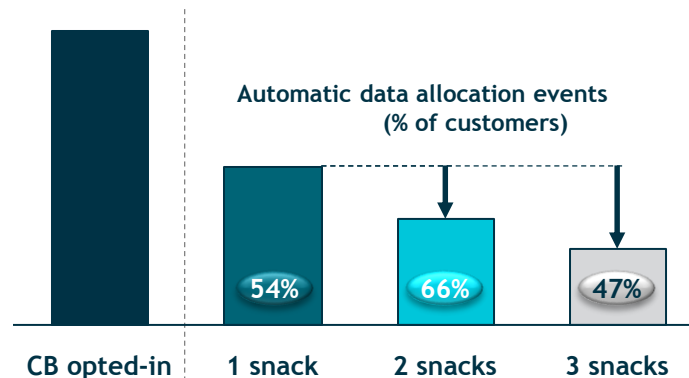
Music & video streaming continues to grow

Traffic (TB/day)



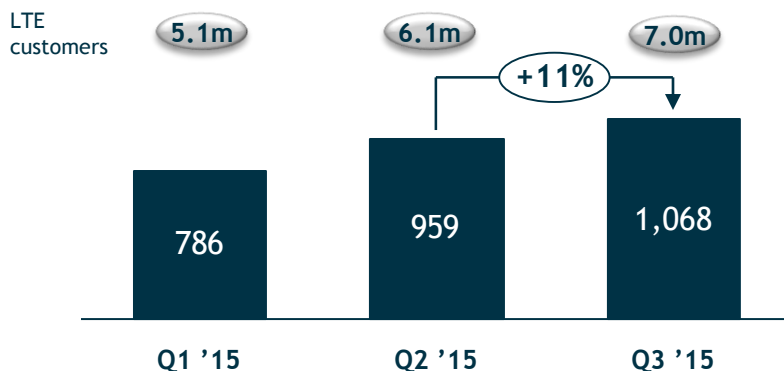
Continued progression of data automatic

O₂ Blue All-in portfolio (dynamics within opted-in base)



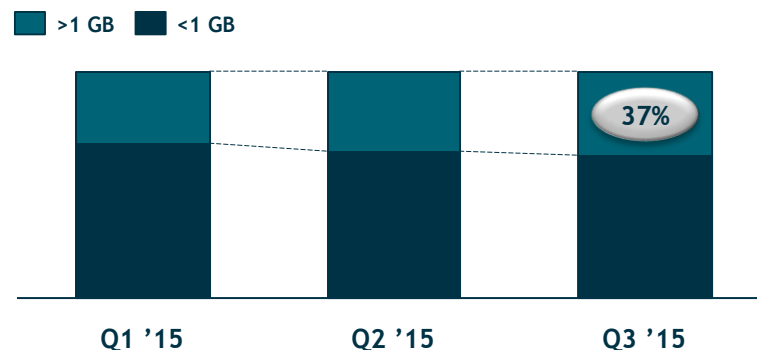
National roaming and LTE driving usage

Average data usage for O₂ consumer LTE customers¹ (MB)



Ongoing improvement of tariff adoption mix

Share of Gross Adds in O₂ Consumer postpaid



¹ O₂ consumer base with LTE enabled smartphone (all tariffs)

Enhanced network perception from 3G national roaming and LTE expansion

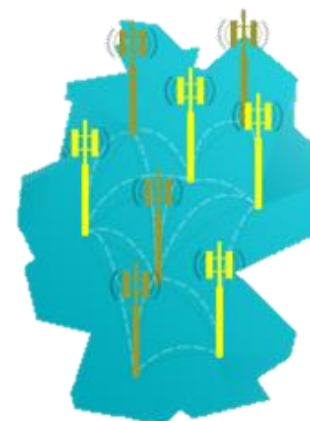
Best network experience in 3G and 4G ...

... with positive reviews from specialised media



- **Best-in-class 3G network with national roaming**
 - ✓ 90% 3G outdoor coverage
 - ✓ Up to 42 Mbps download speed (HSPA+)
 - ✓ Driving 5% to 10% increased data usage in newly covered 3G areas
- **Accelerated value-driven LTE network rollout**
 - ✓ Good progression to reach 2015 coverage target of 75%
 - ✓ Voice-over-LTE since April 2015

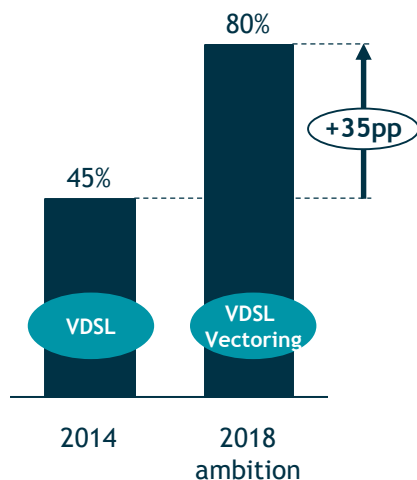
- User-driven network test (June 2015)
- 3G national roaming key for improved ratings
- O₂ customers showing strongest satisfaction



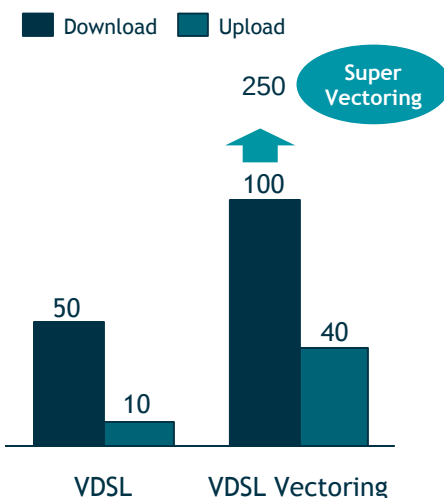
The right fixed infrastructure model to complement our mobile network for the best high speed access experience

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

NGA coverage targets
(% of covered households, YE)

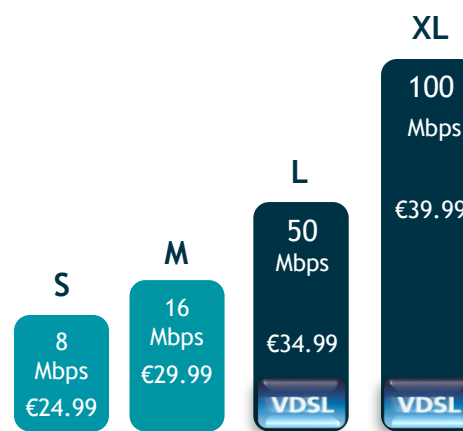


Maximum speed
(Up- & Download, Mbps.)



With a very competitive bundled offer “Kombi - Vorteil”

O₂ DSL all-in
(Download speed, Mbps.)



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

- Flexible aggregation of fixed & mobile lines with progressive discounts based on value (up to EUR 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

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

Multi-channel to maximise efficiency



"Digital first" for every customer interaction

Web/mobile portals



Apps

Mein O2 App Data check app



Chats/Forums



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

Expected synergies to exceed €5bn (NPV¹)

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

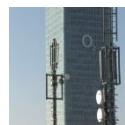
Distribution & customer service

- Leverage and scale effects of broad distribution network and customer service organisations
- Optimisation 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%)

>EUR 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

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)

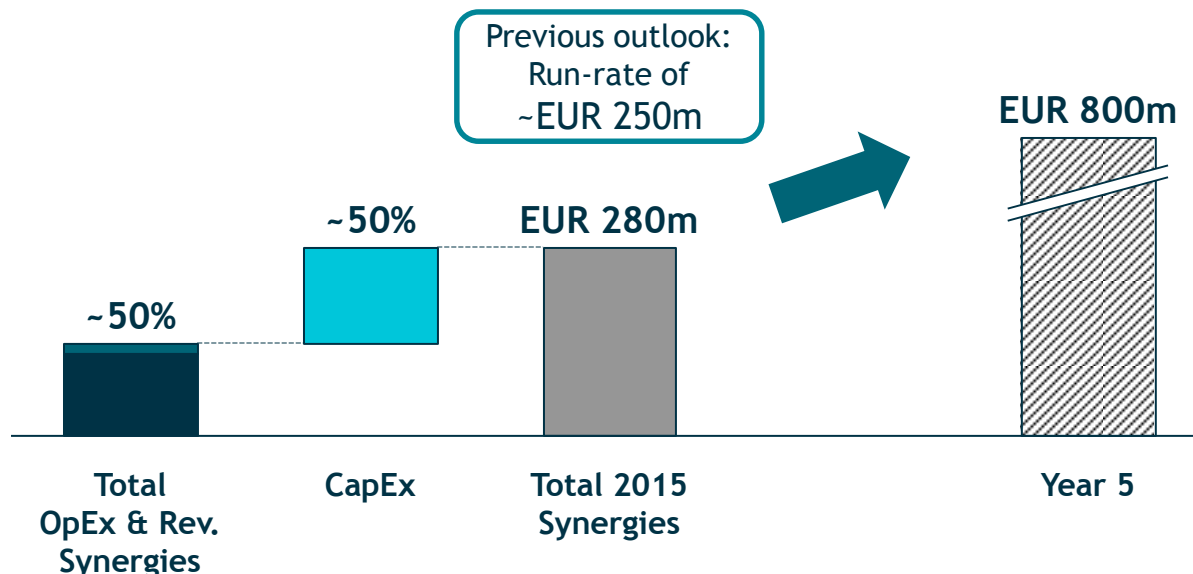
Shop footprint
400 shops by year-end

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



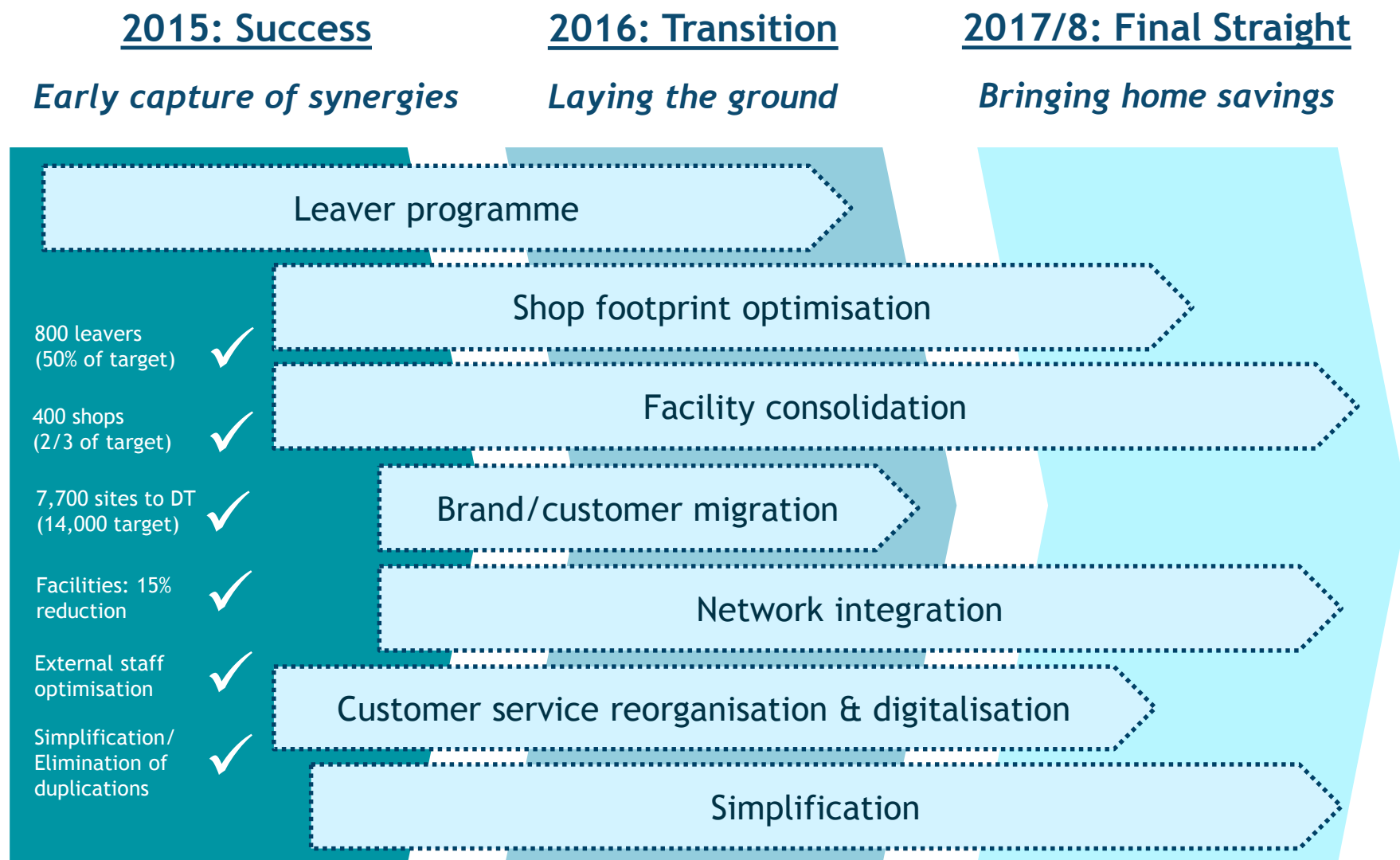
- 2015 synergies at **~35% of EUR 800m run rate** in year 5 of integration
- **OpEx savings** driven by **bringing forward** initiatives such as shop restructuring and optimisation of external staff
- **CapEx synergies** primarily driven by a single LTE-network rollout
- **Total synergy case unchanged**

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

Integration roadmap central to execution of our strategic business priorities



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

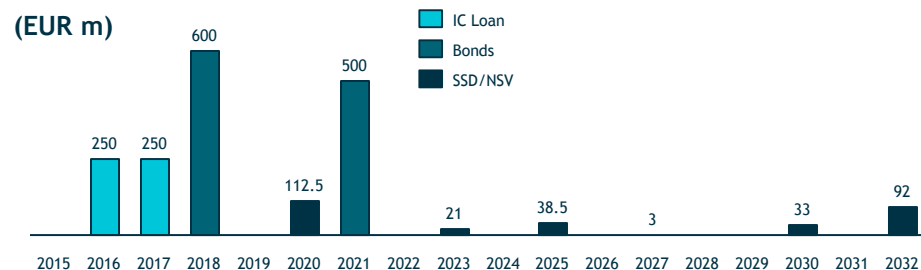
~35%
of total target
synergy run-rate to
be already achieved
in 2015
(~€280m)

* 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.

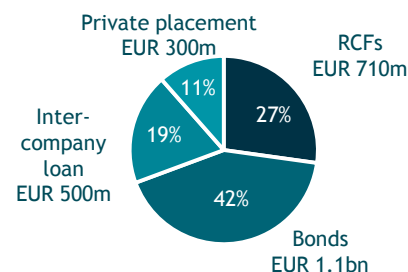
Comfortable liquidity and conservative financing policy

Smooth, extended maturity profile and further diversified financing mix

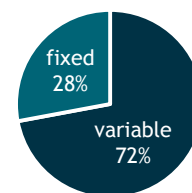


Issue date	Currency	Volume	Tenor	Coupon	Instrument rating	Listing
22.11.2013	EUR	600,000,000	5 years	1.875%	BBB, stable outlook	Regulated market of the Luxembourg Stock Exchange
10.02.2014	EUR	500,000,000	7 years	2.375%	BBB, stable outlook	Regulated market of the Luxembourg Stock Exchange

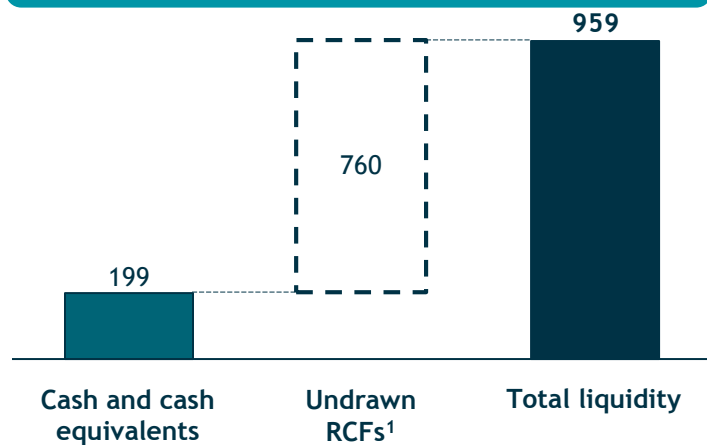
Financing instrument mix (%)



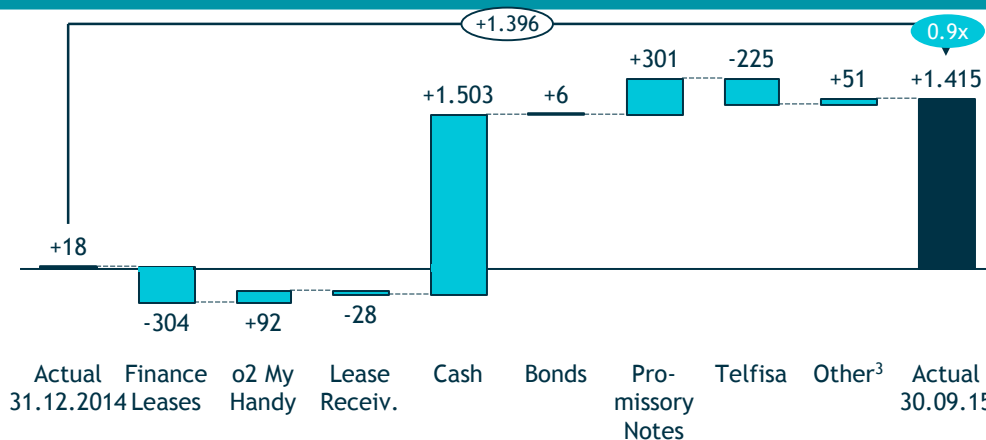
Interest payment mix (%)



Comfortable liquidity position



Leverage² ratio at 0.9x after one-off payments in Q3'15



¹ Revolving credit facilities; EUR 50m RCF volume maturing in 2015, EUR 260m in 2017 and EUR 450m in 2018

² As measured by Net Financial Debt/OIBDA (Last 12 months)

³ Mainly consists of movement of O₂ My Handy receivables and Handset model receivables

We aim to maintain an attractive shareholder remuneration policy

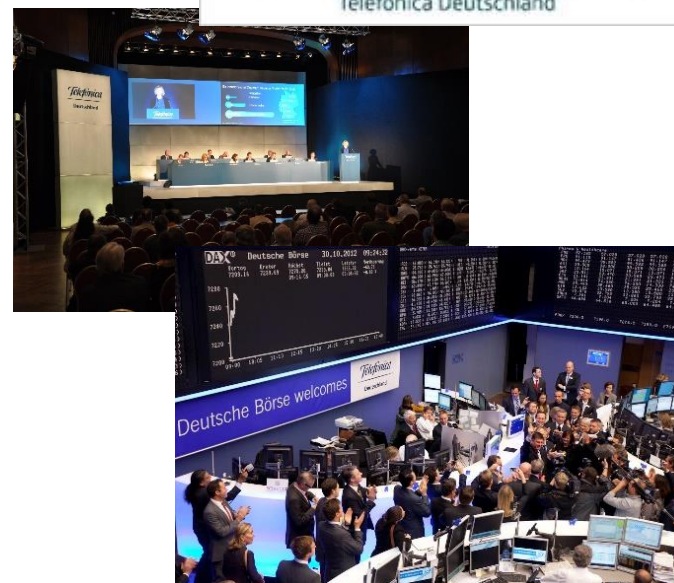
Shareholder remuneration policy - main guidelines¹

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

Dividend proposal of EUR 0.24 for financial year 2015 to be approved by AGM 2016



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 monetisation 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 monetisation
- 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: EUR 800m OpCF run-rate in year 5
- Scale benefits from a mobile data-centric approach
- Simplified and lean operational model
- Focused investments on single LTE network rollout

4

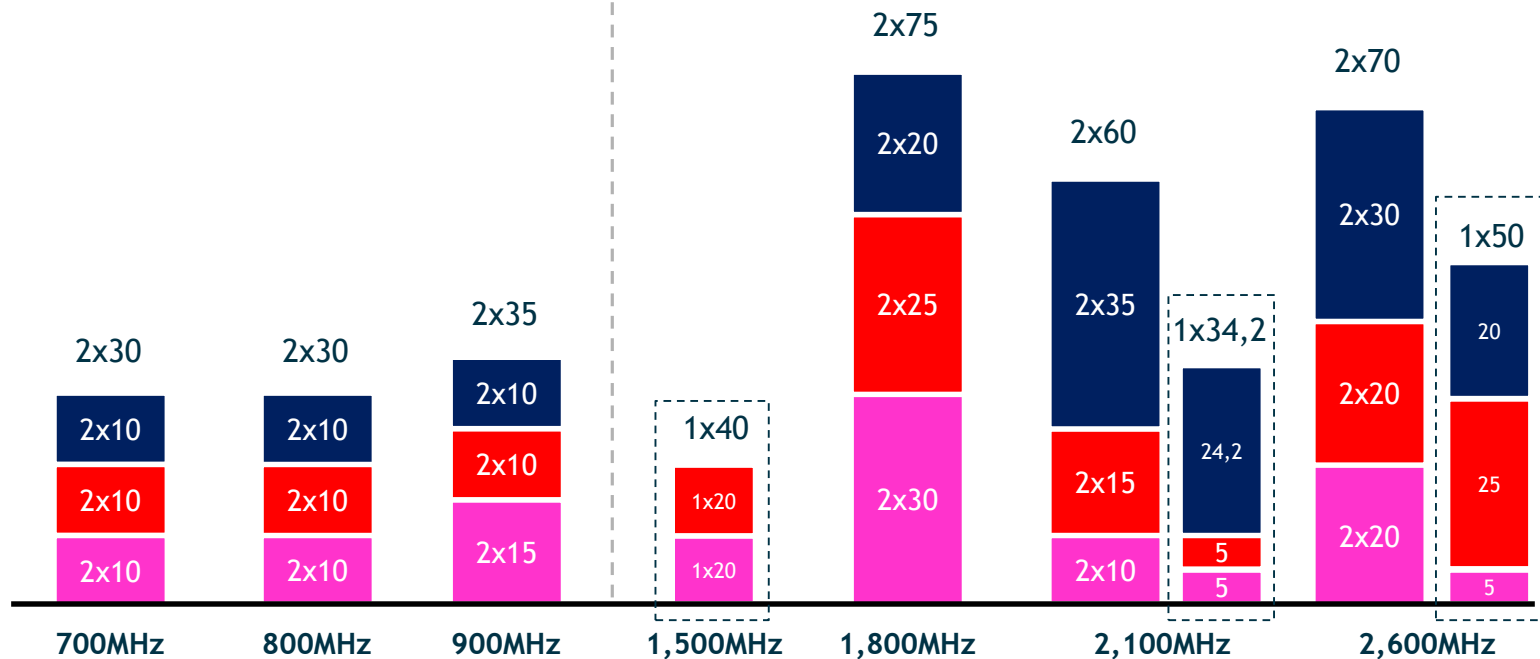
Strong value creation for Telefónica Deutschland shareholders

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

Strong spectrum portfolio post auction enables full realisation of our best network experience vision

Coverage - level playing field

TEF D retains spectrum leadership for capacity



TDD spectrum

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 (inklusive Volumen)	200 MB	1 GB	3 GB	5 GB	10 GB
Datenautomatik ² (automatisch nach Datenverbrauch)	bis zu 3 x 100 MB für je 2 € zusätzlich	bis zu 3 x 250 MB für je 3 € zusätzlich	bis zu 3 x 250 MB für je 3 € zusätzlich	bis zu 3 x 750 MB für je 5 € zusätzlich	bis zu 3 x 750 MB für je 5 € zusätzlich
Maximale Geschwindigkeit	bis zu 21,1 MBit/s LTE ⁵	bis zu 21,1 MBit/s LTE ⁵	bis zu 50 MBit/s LTE ⁵	bis zu 50 MBit/s LTE ⁵	bis zu 50 MBit/s LTE ⁵
Extra-Festnetznummer	✓	✓	✓	✓	✓
EU Roaming Flat ⁶ (Surfen und Telefonieren im EU-Ausland)	+ 4,99 mtl.	+ 4,99 mtl.	✓	✓	✓
Minuten/SMS ins EU-Ausland mtl. inkl.	–	–	–	–	je 200
Multicard ⁷	+ 4,99 mtl.	+ 4,99 mtl.	1 Multicard inklusive	2 Multicards inklusive	2 Multicards inklusive
O ₂ Protect Complete ⁸ (12 Monate Laufzeit)	+ 3,99 mtl.	+ 3,99 mtl.	+ 3,99 mtl.	+ 3,99 mtl.	✓
O ₂ More Status ⁹	Indigo-Status	Indigo-Status	Indigo-Status	Silber-Status	Premium-Status
 Mtl. Grundgebühr reduziert für O ₂ Kunden*	14,99	24,99	29,99	39,99	69,99
Mtl. 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 Hinweisfeld 1.

O₂ DSL All-in portfolio

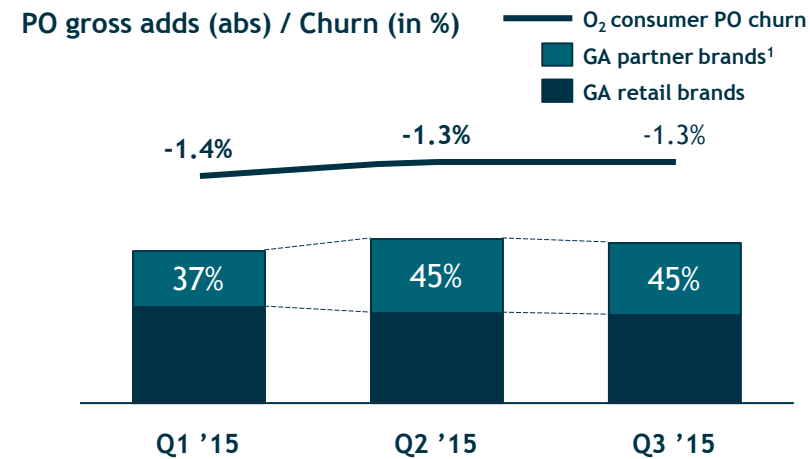
O ₂ DSL All-in		S ¹⁶	M ¹⁶	TIPP L ¹⁶ VDSL	XL ^{16,**} VDSL
Allnet-Flat:	Flatrate ins dt. Festnetz	✓	✓	✓	✓
	Flatrate in alle dt. Mobilfunknetze	✓	✓	✓	✓
	Unbegrenzt surfen (mit bis zu 2.000 KBit/s)	✓	✓	✓	✓
Maximale Surf-Geschwindigkeit		bis zu 8.000 KBit/s (Upload: bis zu 1.000 KBit/s) ¹⁸	bis zu 16.000 KBit/s (Upload: bis zu 1.000 KBit/s) ¹⁸	bis zu 50.000 KBit/s (Upload: bis zu 10.000 KBit/s) ¹⁸	bis zu 100.000 KBit/s (Upload: bis zu 40.000 KBit/s) ¹⁸
Maximale Surf-Geschwindigkeit bis*** (Inklusiv-Volumen)		100 GB ¹⁹	300 GB ¹⁹	300 GB ¹⁹	500 GB ¹⁹
Fair-Use-Mechanik****		–	✓	✓	✓
HomeBox 2/AVM FRITZ!Box 7490 ²⁰		49,99/99,99	49,99/99,99	49,99/99,99	49,99/99,99
Anschlusspreis ¹⁶		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.

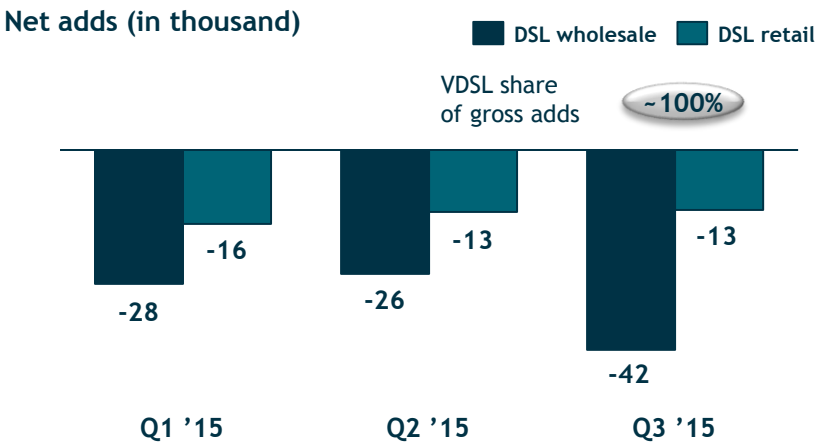
* Weitere Informationen auf Seite 4 und siehe Hinweis text 1. ** In immer mehr Gebieten verfügbar.

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

Partner business driving gross adds

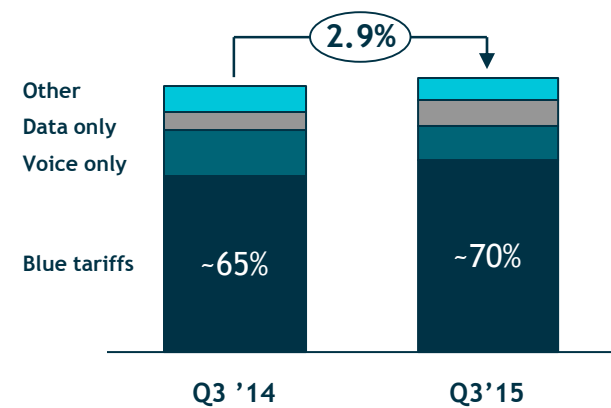


Strong fixed BB proposition bears fruit



Ongoing improvement of customer base mix

O₂ consumer postpaid base (in thousand)

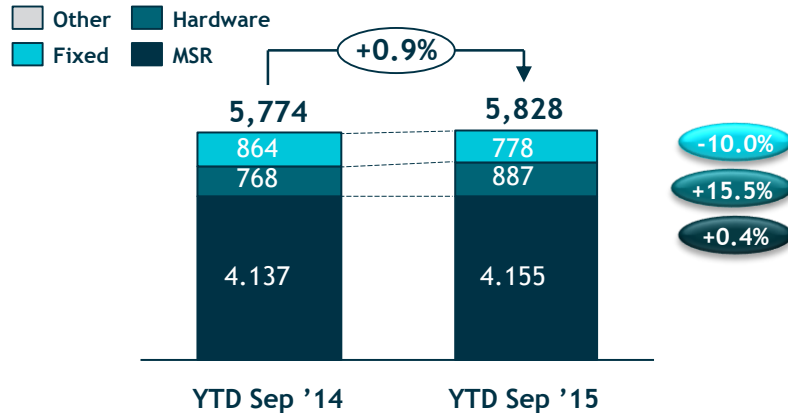


- Partner share of gross adds strong at 45%
- O₂ Blue share of O₂ postpaid base reaches 70%
- Retail DSL net add decline slows further to -12.6k in Q3

¹ Wholesale & partner business

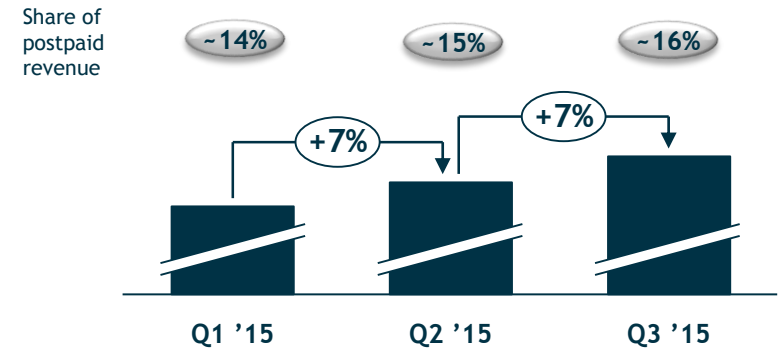
MSR development tempered by growing share of partners and dynamics in value segment

Revenue structure (in EUR m)

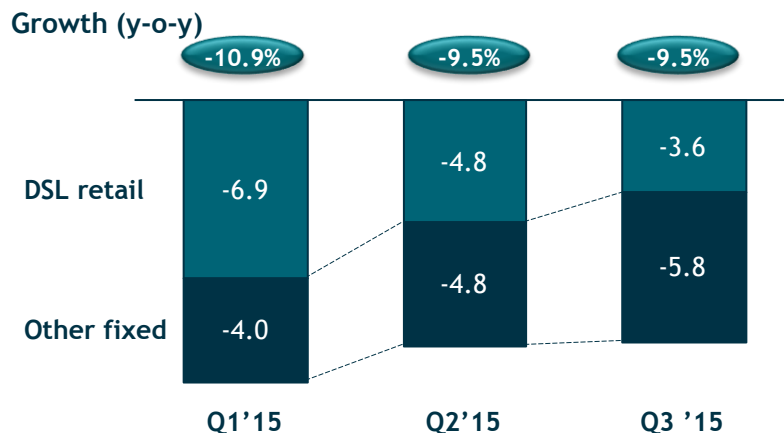


Growing partner business

MSR from partner business¹ (in EUR m)



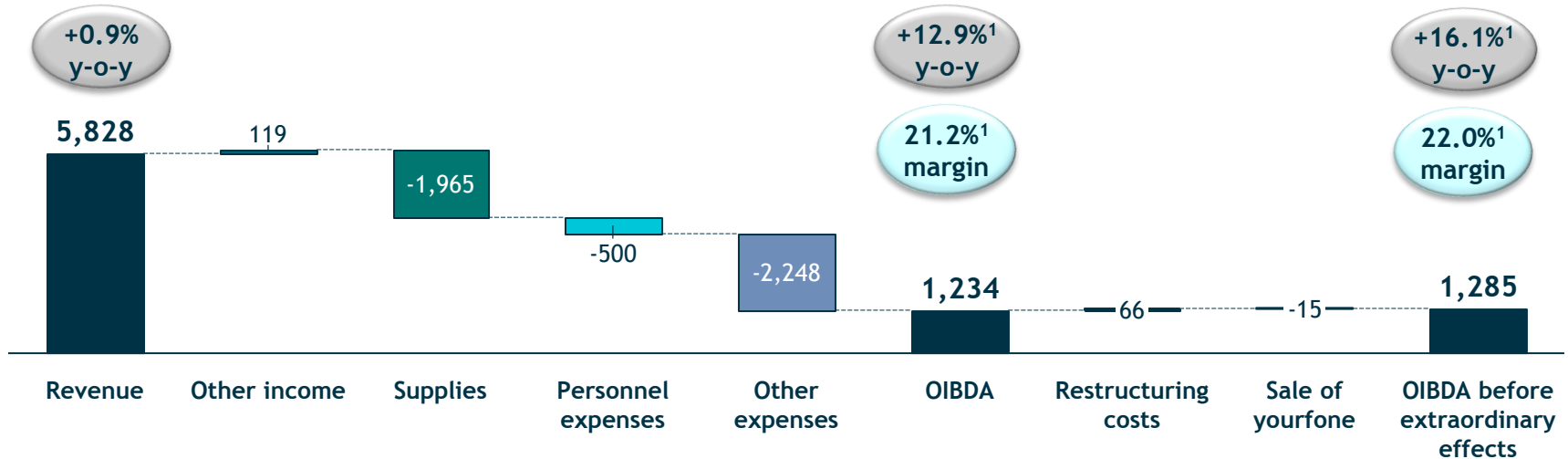
Fixed revenue y-o-y (in %)



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

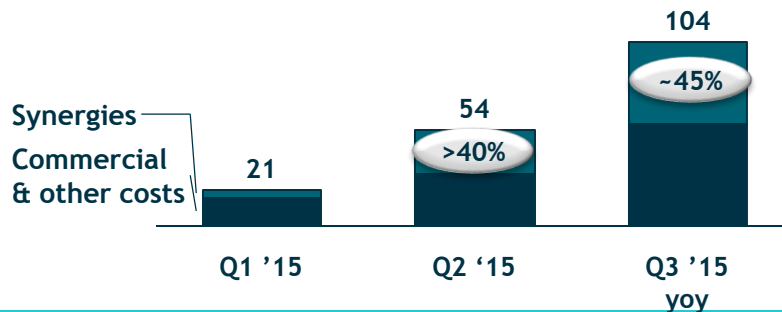
OIBDA reflecting benefits of early capture of synergies and optimisation of commercial costs

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



Synergies a significant driver of growth

OIBDA growth (y-o-y in EURm)¹



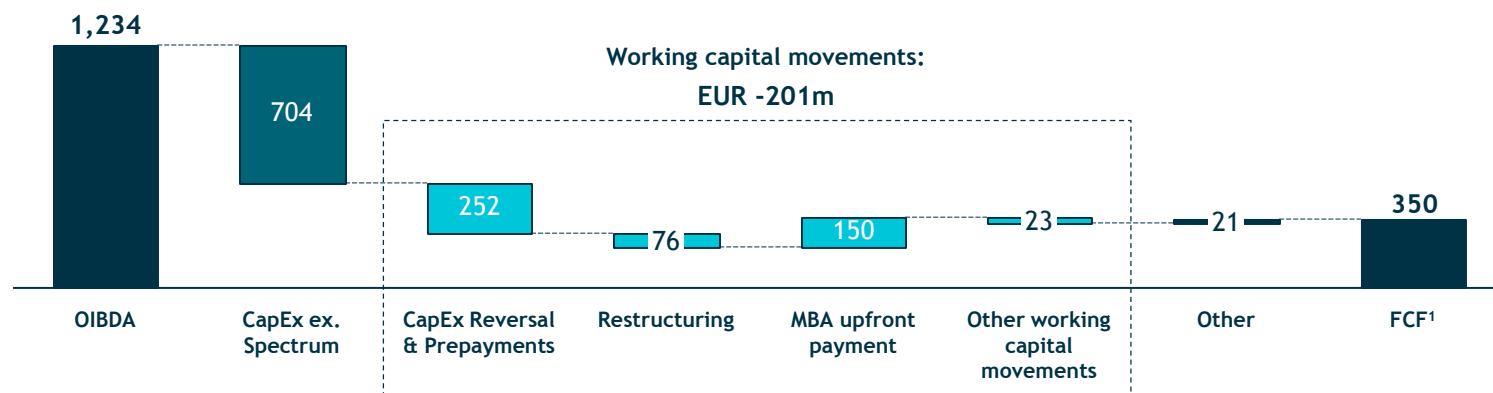
- Synergies drive ca. 45% of y-o-y OIBDA² growth in Q3
- Add. Opex savings: Commercial cost optimisation improves profitability
- Restructuring costs mainly network-related

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

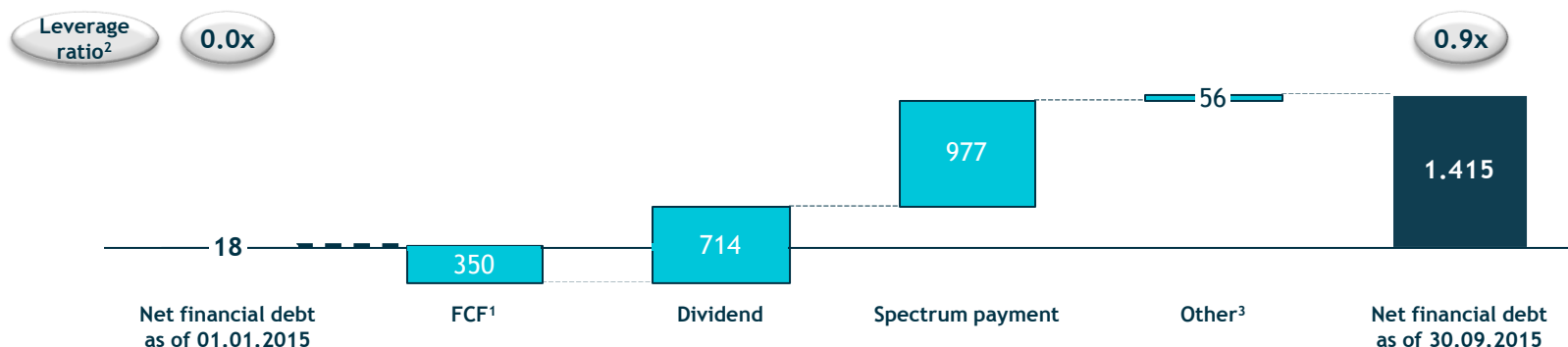
Financial leverage returned to target while keeping financial flexibility

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.

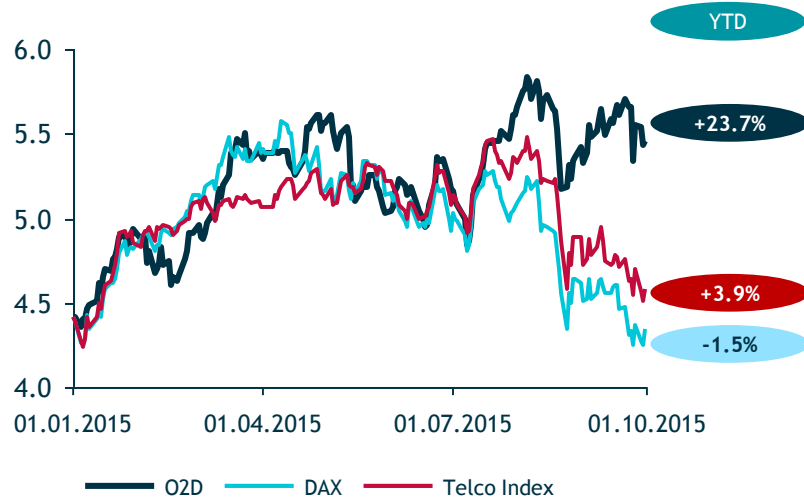
Evolution of Net Debt² (y-o-y in EUR m) - Leverage ratio² returns to 0.9x after payments in Q2'15



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

O2D - Factsheet

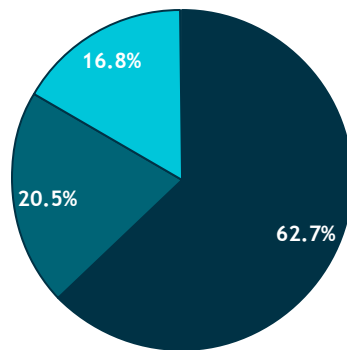
Share price development until 30.9.15



Telefónica Deutschland at a glance

WKN	A1J5RX
ISIN	DE000A1J5RX9
Ticker	O2D
Bloomberg	O2D GY
Reuters	O2DN.DE
Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6m
Market cap (as of 30.9.)	EUR 16,244.0 m
Share price (as of 30.9.)	EUR 5.46

Shareholder structure as of 30.09.15¹



■ Telefónica Germany Holdings Ltd* ■ Koninklijke KPN N.V. ■ Freefloat

¹ According to shareholders register as of 30 September 2015

* Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica, S.A.

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

Financials (Euros in millions)	2014					2015			
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	YTD Sep
Revenues	1,847	1,925	2,002	2,019	7,793	1,901	1,949	1,979	5,828
Mobile service revenues	1,333	1,380	1,424	1,391	5,528	1,354	1,382	1,419	4,155
OIBDA post Group fees	357	399	350	354	1,461	378	453	454	1,285
CapEx	215	224	286	438	1,161	221	242	241	704

Accesses (EoP) (in k)	2014					2014			
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Sep
Total Accesses	46,897	47,303	47,803	47,662	47,662	47,658	48,041	48,645	48,645
o/w mobile	41,168	41,623	42,201	42,125	42,125	42,179	42,617	43,289	43,289
Prepay	22,680	22,940	23,316	23,351	23,351	23,264	23,501	24,004	24,004
Postpay	18,489	18,683	18,885	18,774	18,774	18,915	19,116	19,285	19,285

- 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.

Telefónica

Deutschland