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Shaping the leading digital ‘onlife’ telco in Germany

1. Drive momentum in an attractive & dynamic telecoms market
2. Shaping the digital transformation for an exceptional customer experience
3. Lean & efficient operations to drive growth in profitability and FCF
4. Attractive shareholder return & financial flexibility on strong fundamentals
Strategy 2016: Moving the focus from integration to transformation

- Keep the Momentum
- Integrate quickly
- Transform the company

Best high-speed access
Superior customer experience
Operational excellence

Golden grid & continued LTE roll-out
Synergies & lean operating model
Multi-channel & digital first
Telefonica Deutschland is well positioned to lead the most attractive telco market in Europe

### Rational and balanced market structure
- Rational market following 4to3 consolidation
- Tiered mobile data portfolios enabling data monetisation

### Data monetisation opportunity intact
- Average data usage in MB and LTE device penetration in %
  - **Germany**
    - 2015: 481 MB, LTE penetration 37%
    - 2017: 1,170 MB, LTE penetration 48%
    - Growth: +55%
  - **Western Europe**
    - 2016: 768 MB, LTE penetration 460 MB
    - 2017: 1,225 MB, LTE penetration 1,726 MB
    - Growth: +55%

### Steady adoption of a digital lifestyle
- **Data monetisation opportunity**
  - Germany still a European laggard in terms of customer data usage
  - Further opportunities from growing LTE adoption
- **Music & video streaming as usage drivers**
  - Trend to ~1.5 Gb/month for LTE customers

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1 Market share of MSR based on reported financials by MNOs for Q2 2016
2 Source: Analysys Mason Report; Telekom Market Matrix Q1 2016, Germany/Western Europe; 4G connections in % of smartphone connections
3 Source: Analysys Mason Report; Total cellular data traffic generated by 3G&4G handset connections in PB
Commercial update: Focus on data growth and strong partnerships

**Premium**

- T... 
- O₂ 
- Vodafone

**Non-premium: Own secondary brands**

- congstar 
- Blau 
- BASE 
- o.tel.o

**Non-premium: Partner brands**

- Mobilcom-Debitel
- Media Markt Super Select
- Lebara
- 1&1

**Premium: Establishing More4more**

- Focus on stimulating data growth with value-added content
- Expansion of O₂ TV & Video app

**Non-premium: Slight improvements**

- Slight improvement in promotional activity
- Presence via own brands and partners
- Continued multi-distribution channel approach

*WE CHOOSE IT ALL*
Market environment: Customer base focus drives momentum

Telefónica Deutschland brands

Premium

O₂ brand development and new shop concept

Non-Premium
Own brands and partner brands

Recognition for network & service quality

‘Netzwetter’

Digital lifestyle

O₂ Free

Driving data usage

O₂ Banking

Cross & up-sell opportunities

Higher speeds in more places

Higher speeds in more places

Network integration

Public – Nicht vertraulich

WE CHOOSE IT ALL
Premium segment: Successful launch of new O₂ Free portfolio

**O₂ Free portfolio (offline)**

- **S**
  - LTE Max
  - 2 GB
  - €34.99
  - EU roaming
  - 1 GB
  - €24.99
  - EU roaming

- **M**
  - LTE Max
  - 4 GB
  - €44.99
  - + 1 SIM
  - + EU roaming

- **L**
  - LTE Max
  - 8 GB
  - €54.99
  - + 2 SIMs
  - + EU roaming

- **XL**
  - LTE Max
  - 2 GB
  - €34.99
  - EU roaming
  - 1 GB
  - €24.99
  - EU roaming

- LTE Max
  - 8 GB
  - €54.99
  - + 2 SIMs
  - + EU roaming

- LTE Max
  - 4 GB
  - €44.99
  - + 1 SIM
  - + EU roaming

**Strategic objective**

**More4More**

- More content for higher price points
- Differentiate from competition
- Monetise data growth & network asset

**Stimulate demand**

- Removal of data ‘ceiling’
- Ubiquitous access via 1 Mbps throttle
- Portfolio structure & premium content provide upselling opportunity

**Customer feedback**

**Encouraging response from customers**

- Access and bandwidth options
- 3G flat as a differentiator
Continued growth in data traffic and LTE customer base

**Data traffic growth continues strong**

Traffic (TB/quarter)

Q3 ’15  Q4 ’15  Q1 ’16  Q2 ’16  Q3 ’16

+10% → +2% → +20% → +20%

74,361

**LTE usage driven by music and video streaming**

Average data usage for O₂ consumer LTE customers¹ (GB)

Q3 ’15  Q4 ’15  Q1 ’16  Q2 ’16  Q3 ’16

+10% → Stable → +16% → +15%

1.6

**Significant growth in LTE customer base**

LTE customers (million)

Q3 ’15  Q4 ’15  Q1 ’16  Q2 ’16  Q3 ’16

7.0m  7.9m  8.7m  9.4m  10.6m

+13% → +10% → +8% → +12%

• Data traffic up 20% q-o-q driven by music and video streaming
• Average data usage for LTE customers up 15% q-o-q to 1.6 GB
• LTE customer base grows to 10.6m, up 12% q-o-q and >50% y-o-y
Network update: Successful start of 4G consolidation

Network consolidation: Update

- Focus on consolidation & roll-out
- Phase 1 completed, now entering phase 2
- Steady network quality gains
- Consolidation will drive synergy generation in 2017/8

Status quo: 3 networks
- Legacy E+ network
- Legacy O₂ network
- Consolidated regions

- Region-by-region approach
- Initial focus on metropolitan areas
  - Consolidation of defined regions within a week
  - Conversion of sites within hours to limit disruption for customer

- Connect ‘Netzwetter’ test
  - Highest combined 3G/4G availability for LTE smartphone users
  - Best signal strength
  - Excellent drop call rate

Public – Nicht vertraulich
Right fixed infrastructure model to complement our mobile network for best high speed experience

Access to best available fixed NGA\(^1\) network

**NGA coverage targets**

<table>
<thead>
<tr>
<th>Year</th>
<th>50 Mbit/s</th>
<th>100 Mbit/s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 2016</td>
<td>c. 60%</td>
<td></td>
</tr>
<tr>
<td>2018 ambition</td>
<td>80%</td>
<td></td>
</tr>
</tbody>
</table>

- Nationwide access to DT’s NGA network
- DT is currently upgrading larger cities to VDSL vectoring and 100 Mbit/s

**Maximum speed**

<table>
<thead>
<tr>
<th>Speed</th>
<th>Download</th>
<th>Upload</th>
</tr>
</thead>
<tbody>
<tr>
<td>VDSL</td>
<td>50</td>
<td>10</td>
</tr>
<tr>
<td>VDSL Vectoring</td>
<td>250</td>
<td>100</td>
</tr>
</tbody>
</table>

- **Super Vectoring**

With a competitive bundled offer

**O\(_2\) DSL all-in**

<table>
<thead>
<tr>
<th>Speed</th>
<th>Download</th>
<th>Upload</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>S</td>
<td>8 Mbps</td>
<td></td>
<td>€24.99</td>
</tr>
<tr>
<td>M</td>
<td>16 Mbps</td>
<td></td>
<td>€29.99</td>
</tr>
<tr>
<td>L</td>
<td>50 Mbps</td>
<td></td>
<td>€34.99</td>
</tr>
<tr>
<td>XL</td>
<td>100 Mbps</td>
<td></td>
<td>€39.99</td>
</tr>
</tbody>
</table>

- O\(_2\) Blue One offers flexible combination of fixed & mobile offers with progressive value-based discounts
- Active cross-selling of fixed & mobile propositions

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\(^{1}\) NGA: Next Generation Access, including VDSL, Vectoring and future FTTX deployments

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Public – Nicht vertraulich
IoT and ADA - Business concepts & opportunities beyond connectivity

**Internet of Things (IoT)**

Digitalisation key to ecosystems of the future

- **Future Now**
  - Programme to drive digital transformation and innovation

- **Telefónica Digital Innovation Day**
  - SME forum for connectivity

- **IoT Platform**
  - Cloud-hosted platform for companies developing IoT solutions for their clients

- **SensorCloud**
  - Acceleration of product development
  - Reference case to trial sensor cloud applications: Alpha testing & proof of concept

**Advanced Data Analytics (ADA)**

Big data to drive business solutions of the future

- **Digital Collaboration Centre**: Real-time data to drive operational decision-making processes

- Data anonymisation platform certified by TÜV Saarland

- Smart data analytics to support traffic planning & pollution prevention
  - Cooperation with Fraunhofer Institute Stuttgart: Mobile data for traffic planning
  - Pilot project Nuremberg: Mobile data to prevent air pollution

Innovation and transformation as core principles for the leading digital onlife telco

**WE CHOOSE IT ALL**
Synergies: On track to achieve full-year outlook and total target, focus shift to transformation

**Integration**
- 2015: Success - Early capture of synergies
  - Leaver programme
- 2016: Transformation - Shifting the focus
  - Shop footprint optimisation
  - Facility consolidation
  - Brand/customer migration
  - Network integration
  - Customer service reorganisation & digitalisation
  - Simplification
- 2017/8: Final Straight - Bringing home savings

**Strategic transformation**

**Simplification & Automatisation**
- Standardisation of CRM & HR systems
- Future-proof back office structure
- Cross-departmental efficiencies

**Digitalisation**
- E2E digitalisation of customer journey
- Insight-driven, real-time decision-making
- Focus on cloud and all-IP for infrastructure

**New business areas**
- Opportunities beyond connectivity
- IoT: Sensor cloud – Proof-of-concept phase
- ADA: Mobility insights – DA capabilities

**Postpaid customer migration** now completed
**Second wave of leaver programme** finalised
**Progress on infrastructure optimisation**
**Incremental synergies** in H2 2016

**Total 5-year target:**
**EUR 800m OpCF savings**

**WE CHOOSE IT ALL**
Comfortable liquidity position per 30.9.2016 and conservative financing policy

Smooth maturity profile and diversified financing mix

Average cost of debt: <2.0%

Financing and interest mix

- Bonds
- SSD/NSV
- SynLoan

Extension options

Comfortable liquidity position

Average cost of debt: <2.0%

Financing and interest mix

- Bonds
- SSD/NSV
- SynLoan

Bilateral RCFs EUR 710m
Syndicated loan facility EUR 750m
Other short term Overdraft EUR 65m
Private placement EUR 300m
EIB EUR 450m

Variable; 47%
Fixed; 53%

Leverage ratio at 0.7x

Net debt 12/31/2015
FCF pre Dividends and Spectrum payments
Dividends
Spectrum
Other
Net debt 09/30/2016

1 As measured by net financial debt/OIBDA (last 12 months)

WE CHOOSE IT ALL
We will maintain an attractive shareholder remuneration policy

Shareholder remuneration policy – Main guidelines

- 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; target will be continually reviewed
- Annual dividend growth over 3 years, starting with of EUR 0.25 per share 2016

1 Refer to the Telefónica Deutschland website for full dividend policy (www.telefonica.de)
2 Proposal to AGM 2017
# Main takeaways

1. **Drive momentum in an attractive and dynamic telecoms market**
   - Attractive and dynamic telco market
   - Significant data monetisation opportunity
   - Excellent competitive position

2. **Shaping the digital transformation for an exceptional customer experience**
   - Multi-brand, multi-channel go-to-market strategy
   - Successful up- and cross-selling mechanisms
   - Digitalisation of customer relationships: Offering choice and value

3. **Lean & efficient operations to drive growth in profitability and FCF**
   - Simplified and lean operating model
   - 4G network integration in full swing
   - Ambitious synergy target: EUR 800m OpCF savings in year 5

4. **Attractive shareholder return & financial flexibility on strong fundamentals**
   - Commitment to attractive dividend policy
   - Conservative financing policy
   - High financial flexibility
Back-up
Strong spectrum post auction enables realisation of best network experience

Coverage – Level playing field

TEF D retains spectrum leadership for capacity

TDD spectrum

WE CHOOSE IT ALL
### O₂ Free portfolio – available since 5 October 2016

<table>
<thead>
<tr>
<th></th>
<th>S</th>
<th>M</th>
<th>L</th>
<th>XL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highspeed-Datenvolumen nach Wahl</td>
<td>1 GB Turbo (LTE Max.)*</td>
<td>2 GB Turbo (LTE Max.)*</td>
<td>4 GB Turbo (LTE Max.)*</td>
<td>8 GB Turbo (LTE Max.)*</td>
</tr>
<tr>
<td>Unendlich surfen mit bis zu 1 MBit/s</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Minuten in alle dt. Netze¹</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>SMS in alle dt. Netze</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Extra-Festnetznummer⁴</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>EU Roaming Flat⁴</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Multicard⁶</td>
<td>+ 4,99 mtl.</td>
<td>+ 4,99 mtl.</td>
<td>1 Multicard inklusive</td>
<td>2 Multicards inklusive</td>
</tr>
<tr>
<td>Mtl. Grundgebühr (bei 24 Monaten Mindestvertragslaufzeit)</td>
<td><strong>24,99</strong></td>
<td><strong>34,99</strong></td>
<td><strong>44,99</strong></td>
<td><strong>54,99</strong></td>
</tr>
</tbody>
</table>

Einmaliger Anschlusspreis beträgt 29,99 €.

### Preise in Einkl. MwSt.

1) Für O₂ Free kann nach Verbrauch des Highspeed-Datenvolumens im O₂ 2G/GSM- und 3G/UMTS-Netz mit bis zu 1,000 KBit/s (im Durchschnitt 99 KBit/s) weitergezogen werden (HD Video-Streaming und Internetanwendungen mit ähnlich hohen oder höheren Bandbreitenanforderungen nicht uningeschränkt möglich. Upload bis zu 1,000 KBit/s, im Durchschnitt 94 KBit/s). 2) Bis zu 2,25 MBit/s (im Durchschnitt 1,30 MBit/s). 3) Upload bis zu 50 MBit/s, im Durchschnitt 8,6 MBit/s im dt. und „O₂“ Mobilfunknetz. 4) Gilt für alle Gespräche, die innerhalb der 28 EU Mitgliedstaaten sowie Island, Norwegen, Schweiz, Liechtenstein, Andorra, Ile of Man, Gibraltar, San Marino, Vatikanstadt, Jersey, Französisch-Guiana, Guernsey, Guadeloupe, La Réunion, Martinique (insgesamt „Teilnehmerländer“) geführt u. angenommen werden, sowie alle abgehenden Gespräche aus den Teilnehmerländern nach Deutschland u. alle Gespräche innerhalb eines Teilnehmerlandes ausgenommen jeweils Sonderakquise. 5) Für O₂ Free können nach Verbrauch des Highspeed-Datenvolumens im O₂ 2G/GSM- und 3G/UMTS-Netz mit bis zu 1,000 KBit/s (im Durchschnitt 94 KBit/s) weiterzugezogen werden. 6) Gilt für den jeweiligen O₂ Free-Tarif mit bis zu 3 SIM-Karten („Multicards“) gleichzeitig nutzen. Du zahlst für die 2. und 3. SIM-Karte jeweils einmalig 29,99 € und jeweils monatlich 4,99 €. Kunden in den Tarifen O₂ Free L und XL erhalten eine (gilt für O₂ Free L) bzw. zwei (gilt für O₂ Free XL) zusätzliche SIM-Karten (Multicards) kostenlos, die monatliche Gebühr für die Multicard entfällt dann nicht. Das im Tarif enthaltene Highspeed-Datenvolumen erhöht sich durch die zusätzlichen SIM-Karten nicht. Nach Verbrauch des Highspeed-Datenvolumens kann unverzüglich im O₂ 2G/GSM- und 3G/UMTS-Netz mit bis zu 1,000 KBit/s (im Durchschnitt 94 KBit/s) weiterzugezogen werden (HD Video-Streaming und Internetanwendungen mit ähnlich hohen oder höheren Bandbreitenanforderungen nicht uningeschränkt möglich. Upload bis zu 1,000 KBit/s, im Durchschnitt 94 KBit/s). 7) Kunden von O₂ erhalten bei Kombination von mindestens zwei am Kombi-Vorteil teilnehmenden Telekommunikationsdienstleistungen für die Dauer des gleichzeitigen Bestehens der Verträge einen Rabatt von bis zu 10 € auf die mtl. Grundgebühr des jeweils hinzugekommenen Tarifs (bei kombiniertem DSL-Tarif einen Rabatt auf dessen Grundgebühr, max. 4 x Mobilfunk / x DSL). Kombinierbare Tarife u. Rabatte einzusehen unter www.o2.de/tarifkombinationen.
## O₂ DSL All-in portfolio

<table>
<thead>
<tr>
<th>O₂ DSL</th>
<th>All-in M&lt;sup&gt;17&lt;/sup&gt;</th>
<th>Young&lt;sup&gt;17&lt;/sup&gt;</th>
<th>All-in L&lt;sup&gt;17&lt;/sup&gt;</th>
<th>All-in XL&lt;sup&gt;17,**&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Allnet-Flat:</strong></td>
<td></td>
<td>FLATRATE</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
</tr>
<tr>
<td>Minuten ins dt. Festnetz&lt;sup&gt;18&lt;/sup&gt;</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
<td>FLATRATE</td>
</tr>
<tr>
<td>Minuten in alle dt. Mobilfunknetze&lt;sup&gt;18&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unbegrenzt surfen (mit bis zu 2 MiB/s)</td>
<td>√</td>
<td>✔</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Maximale Surf-Geschwindigkeit&lt;sup&gt;14&lt;/sup&gt;</td>
<td>bis zu 16 MBit/s (Upload: bis zu 2.4 MBit/s)</td>
<td>300 GB&lt;sup&gt;14&lt;/sup&gt;</td>
<td>300 GB&lt;sup&gt;14&lt;/sup&gt;</td>
<td>500 GB&lt;sup&gt;14&lt;/sup&gt;</td>
</tr>
<tr>
<td>Maximale Surf-Geschwindigkeit bis&lt;sup&gt;14&lt;/sup&gt; (inklusive-Volumen)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair-Use-Mechanik&lt;sup&gt;19&lt;/sup&gt;</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>HomeBox 2/AVM FRITZ!Box 7490&lt;sup&gt;20&lt;/sup&gt;</td>
<td>0,00 / 29,00</td>
<td>0,00 / 29,00</td>
<td>0,00 / 29,00</td>
<td>0,00 / 29,00</td>
</tr>
<tr>
<td>Anschlusspreis</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>

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*WE CHOOSE IT ALL_
Trading: Partner trading accelerates on competitive dynamics

### Partner trading accelerating

<table>
<thead>
<tr>
<th>Quarter</th>
<th>PO gross adds (abs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 '15</td>
<td>45% GA partner brands, 43% GA retail brands</td>
</tr>
<tr>
<td>Q4 '15</td>
<td>45% GA partner brands, 43% GA retail brands</td>
</tr>
<tr>
<td>Q1 '16</td>
<td>45% GA partner brands, 43% GA retail brands</td>
</tr>
<tr>
<td>Q2 '16</td>
<td>53% GA partner brands, 47% GA retail brands</td>
</tr>
<tr>
<td>Q3 '16</td>
<td>59% GA partner brands, 49% GA retail brands</td>
</tr>
</tbody>
</table>

### Successful retention focus

<table>
<thead>
<tr>
<th>Quarter</th>
<th>PO churn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 '15</td>
<td>1.3% Churn retail brands, 1.4% O₂ PO churn (%)</td>
</tr>
<tr>
<td>Q4 '15</td>
<td>1.4% Churn retail brands, 1.4% O₂ PO churn (%)</td>
</tr>
<tr>
<td>Q1 '16</td>
<td>1.4% Churn retail brands, 1.2% O₂ PO churn (%)</td>
</tr>
<tr>
<td>Q2 '16</td>
<td>1.3% Churn retail brands, 1.3% O₂ PO churn (%)</td>
</tr>
<tr>
<td>Q3 '16</td>
<td>1.3% Churn retail brands, 1.3% O₂ PO churn (%)</td>
</tr>
</tbody>
</table>

### VDSL drives fixed trading

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net adds (in thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 '15</td>
<td>-42 DSL retail, -13 DSL wholesale</td>
</tr>
<tr>
<td>Q4 '15</td>
<td>-46 DSL retail, -5 DSL wholesale</td>
</tr>
<tr>
<td>Q1 '16</td>
<td>-61 DSL retail, -13 DSL wholesale</td>
</tr>
<tr>
<td>Q2 '16</td>
<td>-60 DSL retail, -6 DSL wholesale</td>
</tr>
<tr>
<td>Q3 '16</td>
<td>-59 DSL retail, -7 DSL wholesale</td>
</tr>
</tbody>
</table>

- Continued competition in non-premium drives partner gross add share to 59%
- Premium retail churn continues to fall due to successful retention efforts
- Retail broadband stable on continued good traction of VDSL
Revenue development: Underlying MSR performance improving vs prior quarter

Revenue structure (in EUR m)

<table>
<thead>
<tr>
<th></th>
<th>Q3 '15</th>
<th>Q3 '16</th>
</tr>
</thead>
<tbody>
<tr>
<td>other</td>
<td>1,419</td>
<td>1,394</td>
</tr>
<tr>
<td>Fixed</td>
<td>256</td>
<td>245</td>
</tr>
<tr>
<td>Hardware</td>
<td>301</td>
<td>227</td>
</tr>
<tr>
<td>MSR</td>
<td>1,979</td>
<td>1,876</td>
</tr>
</tbody>
</table>

Revenue structure (in EUR m) Change:
-5.2%

Partner share of postpaid MSR only slightly higher

MSR from partner business (in EUR m)

<table>
<thead>
<tr>
<th></th>
<th>Q3 '15</th>
<th>Q4 '15</th>
<th>Q1 '16</th>
<th>Q2 '16</th>
<th>Q3 '16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of postpaid revenue</td>
<td>~16%</td>
<td>~17%</td>
<td>~17%</td>
<td>~18%</td>
<td>~19%</td>
</tr>
</tbody>
</table>

Fixed revenue y-o-y (in %)

<table>
<thead>
<tr>
<th></th>
<th>Q3 '15</th>
<th>Q4 '15</th>
<th>Q1 '16</th>
<th>Q2 '16</th>
<th>Q3 '16</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSL retail</td>
<td>-3.6</td>
<td>-3.1</td>
<td>-3.9</td>
<td>-7.5</td>
<td>-8.0</td>
</tr>
<tr>
<td>Other fixed</td>
<td>-5.8</td>
<td>-0.1</td>
<td>0.7</td>
<td>1.6</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Growth (y-o-y)
-9.5%  -3.2%  -3.1%  -5.9%  -4.3%

- MSR stabilising year-on-year with continued headwinds plus roaming impact
- Partner share of postpaid MSR only slightly higher at ~19%
- Hardware revenues impacted by longer handset renewal cycles
- Phasing of promotional effects affecting DSL retail revenue
OIBDA driven by successful synergy capture; incremental synergies in third quarter

Structure of OIBDA for January to September 2016 (in EUR m)

- OIBDA growth YTD driven by synergy savings
- Margin improvement to 23.8% (+1.8 pp year-on-year)
- Offsetting other Opex impact lessening after completion of postpaid migration
- Tower effects: EUR 352m net capital gain with EUR 15m Opex effect (May to Sep)
Expected synergies to exceed EUR 5bn (NPV\textsuperscript{1})
OpCash Flow synergies of ca. EUR 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 duplications in organisation
  - Transformation towards lean and digital
  - Focused advertising & marketing spend

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

\textit{WE CHOOSE IT ALL}_

\textsuperscript{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

\textsuperscript{2} Run-rate of OpCF synergies is pre-tax

Public – Nicht vertraulich
Update synergy case: Postpaid customer migration completed

- Successfully executing on all initiatives: PO customer migration now completed
- Total target of EUR 800m OpCF synergies by 2019 unchanged
- Expecting to reach >50% of total target or ~EUR 430m by year-end 2016

Synergy case 2015 - 2019 (EUR m)

- Remaining synergies: Ca. EUR 370m (Ca. 50% Opex & Capex)

Larger initiatives in 2016
- Network integration
- Brand & customer migration
- IT transformation

Ongoing workstreams from 2015
- Leaver programme
  - Total target ~1,600 FTEs
- Shop footprint
  - Total target ~600 shops (-30%)
- Facilities consolidation
  - Total target ~100k sqm (-50%)
- Customer Service reorganisation & digitalisation
- Simplification

WE CHOOSE IT ALL
## Guidance update in second quarter 2016

### Baseline 2014¹ (EUR m) | Actual 2015² (EUR m / y-o-y pct. growth) | Outlook 2016 NEW² (y-o-y pct. growth)
--- | --- | ---
**MSR** | 5,528 | 5,532 / +0.1% (Slightly negative)
**OIBDA** | 1,461 | 1,760 / +20.5% (Low to mid single-digit % growth)
**CapEx** | 1,161 | 1,032 / -11.1% (Mid to high single-digit % growth)

- Reiterating MSR outlook but narrowing range from ‘slightly negative to broadly stable’ to ‘slightly negative’
- Reiterating OIBDA outlook
- Adjusting Capex from ‘% growth in the low tens’ to ‘mid to high single-digit % growth’ on more efficient Capex spend and LTE roll-out phasing
- Improving OpCF; strong FCF growth potential

>50% of total target of EUR 800m to be achieved in 2016:
~EUR 430m²

---

1 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](https://www.telefonica.de/investor-relations-en.html)

2 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.
FCF driven by tower sale cash

**Evolution of Free Cash Flow YTD September 2016 (in EUR m)***

<table>
<thead>
<tr>
<th>OIBDA</th>
<th>Tower sale (P&amp;L effect)</th>
<th>CapEx2</th>
<th>Prepayments</th>
<th>Restructuring</th>
<th>Other working capital movements</th>
<th>Tower sale (Cash-in)</th>
<th>Other</th>
<th>FCF pre dividends and spectrum payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,606</td>
<td>(352)</td>
<td>(743)</td>
<td>(55)</td>
<td>(62)</td>
<td>(8)</td>
<td>587</td>
<td>(22)</td>
<td>951</td>
</tr>
</tbody>
</table>

**Working capital movements & adjustments:**
- EUR -125 m

**Evolution of Net Debt (y-o-y in EUR m) – Leverage ratio remains stable**

<table>
<thead>
<tr>
<th>Net debt 12/31/2015</th>
<th>FCF pre dividends and spectrum payments</th>
<th>Dividend</th>
<th>Spectrum and Other</th>
<th>Net debt 09/30/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>+1.225</td>
<td></td>
<td>-951</td>
<td>+207</td>
<td>+1.195</td>
</tr>
</tbody>
</table>

---

1 Free cash flow pre dividend and spectrum payment is defined as the sum of cash flow from operating activities and cash flow from investing activities
2 Excluding capitalised costs on borrowed capital in the first nine months of 2016 for investments in spectrum in June 2015
3 For definition of net debt & leverage ratio please refer to Q3 2016 earnings release
Share price development until 30.09.2016

Telefónica Deutschland at a glance

- Market segment: Prime Standard
- Industry: Telecommunications
- Shares outstanding: 2,974,554,993 shares
- Share capital: EUR 2,974.6 m
- Market cap (as of 30.09.): EUR 10,651.7 m
- Share price (as of 30.09.): EUR 3.581

Regional split of shareholder structure

1 According to shareholders register as of 30 September 2016
2 Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A.
Quarterly detail of relevant financial and operating data for Telefónica Deutschland

<table>
<thead>
<tr>
<th>(Euros in millions)</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>FY</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>1,901</td>
<td>1,949</td>
<td>1,979</td>
<td>2,059</td>
<td>7,888</td>
<td>1,858</td>
<td>1,834</td>
<td>1,876</td>
</tr>
<tr>
<td>Mobile service revenues</td>
<td>1,354</td>
<td>1,382</td>
<td>1,419</td>
<td>1,378</td>
<td>5,532</td>
<td>1,336</td>
<td>1,358</td>
<td>1,394</td>
</tr>
<tr>
<td>OIBDA post Group fees, pre exceptionals and special effects</td>
<td>378</td>
<td>453</td>
<td>454</td>
<td>476</td>
<td>1,760</td>
<td>401</td>
<td>459</td>
<td>467</td>
</tr>
<tr>
<td>CapEx</td>
<td>221</td>
<td>242</td>
<td>241</td>
<td>328</td>
<td>1,032</td>
<td>218</td>
<td>212</td>
<td>314</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accesses (EoP in k)</th>
<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Accesses</td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td></td>
<td>47,658</td>
<td>48,041</td>
</tr>
<tr>
<td>o/w Mobile</td>
<td>42,179</td>
<td>42,617</td>
</tr>
<tr>
<td>Prepay</td>
<td>23,264</td>
<td>23,501</td>
</tr>
<tr>
<td>Postpay</td>
<td>18,915</td>
<td>19,116</td>
</tr>
</tbody>
</table>

1 Exceptional & special effects are excluded from our full-year guidance and thus also excluded from this OIBDA consensus. Exceptional & special effects in the third quarter of 2016 include potential restructuring expenses as well as the impact from higher operating lease expenses related with the sale of passive tower infrastructure in Q2 2016.
Key Performance Indicators
Mobile KPIs

Postpay net adds (‘000)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1 2015</th>
<th>Q2 2015</th>
<th>Q3 2015</th>
<th>Q4 2016</th>
<th>Q1 2016</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>141</td>
<td>201</td>
<td>169</td>
<td>198</td>
<td>181</td>
<td>339</td>
<td>426</td>
</tr>
</tbody>
</table>

Mobile customer base (‘000)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1 2015</th>
<th>Q2 2015</th>
<th>Q3 2015</th>
<th>Q4 2016</th>
<th>Q1 2016</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>42,179</td>
<td>42,617</td>
<td>43,289</td>
<td>43,063</td>
<td>43,008</td>
<td>43,417</td>
<td>44,074</td>
</tr>
</tbody>
</table>

+1.8%

LTE customer base (‘000)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1 2015</th>
<th>Q2 2015</th>
<th>Q3 2015</th>
<th>Q4 2016</th>
<th>Q1 2016</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>5,146</td>
<td>6,093</td>
<td>7,002</td>
<td>7,883</td>
<td>8,691</td>
<td>9,400</td>
<td>10,566</td>
</tr>
</tbody>
</table>

+50.9%

Prepay net adds (‘000)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>-87</td>
<td>237</td>
<td>503</td>
<td>-24</td>
<td>-236</td>
<td>71</td>
<td>231</td>
</tr>
</tbody>
</table>

Excluding an impact from a business customer base harmonisation at the E-Plus Group respective negative 202 thousand in reported terms.

Excluding reclassification of 172k customers from prepaid to postpaid as part of the customer migration activities.
Mobile KPIs

### Postpay ARPU (EUR)

- Q1 2015: 17.2 EUR
- Q2 2015: 17.2 EUR
- Q3 2015: 17.4 EUR
- Q4 2015: 16.9 EUR
- Q1 2016: 16.6 EUR
- Q2 2016: 16.6 EUR
- Q3 2016: 16.6 EUR

Change: -4.7%

### Prepay ARPU (EUR)

- Q1 2015: 5.6 EUR
- Q2 2015: 5.9 EUR
- Q3 2015: 6.0 EUR
- Q4 2015: 5.8 EUR
- Q1 2016: 5.7 EUR
- Q2 2016: 5.7 EUR
- Q3 2016: 5.9 EUR

Change: -1.8%

### Smartphone penetration (%)\(^1\)

- Q1 2015: 49.8%
- Q2 2015: 51.3%
- Q3 2015: 52.9%
- Q4 2015: 54.2%
- Q1 2016: 55.4%
- Q2 2016: 56.2%
- Q3 2016: 59.2%

### Smartphone penetration O₂ consumer (%)

- Q1 2015: 75.9%
- Q2 2015: 76.2%
- Q3 2015: 76.8%
- Q4 2015: 77.7%
- Q1 2016: 77.8%
- Q2 2016: 74.3%
- Q3 2016: 77.7%

\(^1\) Smartphone penetration is based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base less M2M, less customers with a bigscreen tariff.
Fixed-line KPIs

Retail broadband net adds (’000)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>DSL</th>
<th>VDSL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>-81</td>
<td>66</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>-71</td>
<td>58</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>-77</td>
<td>64</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>-5</td>
<td>73</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>-73</td>
<td>76</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>-74</td>
<td>76</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>-65</td>
<td>63</td>
</tr>
</tbody>
</table>

Fixed accesses (’000)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>DSL</th>
<th>VDSL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>2,128</td>
<td>322</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>2,115</td>
<td>380</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>2,103</td>
<td>444</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>2,098</td>
<td>517</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>2,101</td>
<td>593</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>2,104</td>
<td>669</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>2,102</td>
<td>732</td>
</tr>
</tbody>
</table>

Wholesale net adds (’000)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>-28</th>
<th>-26</th>
<th>-42</th>
<th>-46</th>
<th>-61</th>
<th>-60</th>
<th>-59</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Wholesale accesses (’000)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>1,085</th>
<th>1,059</th>
<th>1,018</th>
<th>972</th>
<th>911</th>
<th>850</th>
<th>791</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access.
### Revenue structure (EUR m)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Fixed</th>
<th>Handset</th>
<th>MSR</th>
<th>Other revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>1,901</td>
<td>261</td>
<td>1,354</td>
<td>1,876</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>1,949</td>
<td>260</td>
<td>1,382</td>
<td>1,843</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>1,979</td>
<td>256</td>
<td>1,419</td>
<td>1,834</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>2,059</td>
<td>253</td>
<td>1,378</td>
<td>1,834</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>1,858</td>
<td>266</td>
<td>1,336</td>
<td>2,245</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>1,854</td>
<td>413</td>
<td>1,358</td>
<td>2,226</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>1,876</td>
<td>227</td>
<td>1,394</td>
<td>2,276</td>
</tr>
</tbody>
</table>

### OIBDA (post GF, pre except / EUR m)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>OIBDA (EUR m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>378</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>453</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>454</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>476</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>401</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>459</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>467</td>
</tr>
</tbody>
</table>

### OpEx-Split (EUR m)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Personnel expenses</th>
<th>Supplies</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>1,552</td>
<td>212</td>
<td>1,442</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>1,532</td>
<td>218</td>
<td>1,428</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>1,564</td>
<td>328</td>
<td>1,442</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>1,628</td>
<td>242</td>
<td>1,428</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>1,487</td>
<td>241</td>
<td>1,442</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>1,428</td>
<td>328</td>
<td>1,442</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>1,442</td>
<td>328</td>
<td>1,442</td>
</tr>
</tbody>
</table>

### CapEx (EUR m)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>CapEx (EUR m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>221</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>242</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>241</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>328</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>218</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>212</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>314</td>
</tr>
</tbody>
</table>

1 For the period January to September 2016 exceptional effects include restructuring expenses amounting to EUR 59 million (EUR 66 million in the same period of 2015) and the net capital gain from the sale of passive tower infrastructure to Telxius amounting to EUR 352 million, while in the same period of 2015 a one-off gain from the sale of yourfone GmbH was registered. For the period January to September 2016 special effects consist of the impact of the Telxius deal on OIBDA (EUR -15 million in the first nine months of 2016) resulting primarily from higher operating lease expenses starting in May 2016.

2 Opex-split before exceptional and special effects.
Financials

Net debt and leverage

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net Debt (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>1,225</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>1,778</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>1,415</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>1,225</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>1,266</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>1,356</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>1,195</td>
</tr>
</tbody>
</table>

Leverage ratio
0.7x
1.2x
0.9x
0.7x
0.7x
0.8x
0.7x

Free cash flow (YTD)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Free cash flow (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>105</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>125</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>372</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>832</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>599</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>951</td>
</tr>
<tr>
<td>Q3 2016</td>
<td></td>
</tr>
</tbody>
</table>

Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum in June 2015 as well as related interest payments.

1
Telefónica Deutschland

WE CHOOSE IT ALL