Creating a Leading Digital Telco in Germany

23 July 2013

Telefónica Deutschland

Telefónica Deutschland Holding AG,
Investor Relations

Disclaimer

The financial information contained in this document (in general prepared under International Financial Reporting Standards (IFRS)) contains in respect of the results for the January-June 2013 period only preliminary numbers. The financial information and opinions contained in this document are unaudited and are subject to change without notice.

None of the company, its subsidiaries or affiliates or by any of its officers, directors, employees, advisors, representatives or agents shall be liable whatsoever for any loss however arising, directly or indirectly, from any use of this document its content or otherwise arising in connection with this document.

This document contains statements that constitute forward-looking statements and expectations about Telefónica Deutschland Holding AG (in the following “the Company” or “Telefónica Deutschland”) that reflect the current views and assumptions of Telefónica Deutschland's management with respect to future events, including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations which may refer, among others, to the intent, belief or current prospects of the customer base, estimates regarding, among others, future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. Forward-looking statements are based on current plans, estimates and projections. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions. Such forward-looking statements, by their nature, are not guarantees of future performance and are subject to risks and uncertainties, most of which are difficult to predict and generally beyond Telefónica Deutschland's control, and other important factors that could cause actual developments or results to materially differ from those expressed in or implied by the Company's forward-looking statements. These risks and uncertainties include those discussed or identified in fuller disclosure documents filed by Telefónica Deutschland with the relevant Securities Markets Regulators, and in particular, with the German Market Regulator (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin). The Company can offer no assurance that its expectations or targets will be achieved.

Analysts and investors, and any other person or entity that may need to take decisions, or prepare or release opinions about the shares / securities issued by the Company, are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this document, and shall take into account that the numbers published are only preliminary. Past performance cannot be relied upon as a guide to future performance.

Except as required by applicable law, Telefónica Deutschland undertakes no obligation to release publicly the results of any revisions to these forward-looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica Deutschland’s business or acquisition strategy or to reflect the occurrence of unanticipated events.

This document contains summarized information or information that has not been audited. In this sense, this information is subject to, and must be read in conjunction with, all other publicly available information, including if it is necessary, any fuller disclosure document published by Telefónica Deutschland.

Finally, it is stated that neither this presentation nor any of the information contained herein constitutes an offer of purchase, subscribe, sale or exchange, nor a request for an offer of purchase, subscription, sale or exchange of shares / securities of the Company, or any advice or recommendation with respect to such shares / securities. This document or a part of it shall not form the basis of or relied upon in connection with any contract or commitment whatsoever.

These written materials are especially not an offer of securities for sale in the United States, Canada, Australia, South Africa and Japan. Securities may not be offered or sold in the United States absent registration under the US Securities Act of 1933, as amended, or an exemption therefrom. The issuer or selling security holder has not and does not intend to register any securities under the US Securities Act of 1933, as amended, and does not intend to offer any securities in the United States. No money, securities or other consideration from any person inside the United States is being solicited and, if sent in response to the information contained in these written materials, will not be accepted.

Creating a Leading Digital Telco in Germany

René Schuster

CEO
Telefónica Deutschland
Holding AG

Rachel Empey

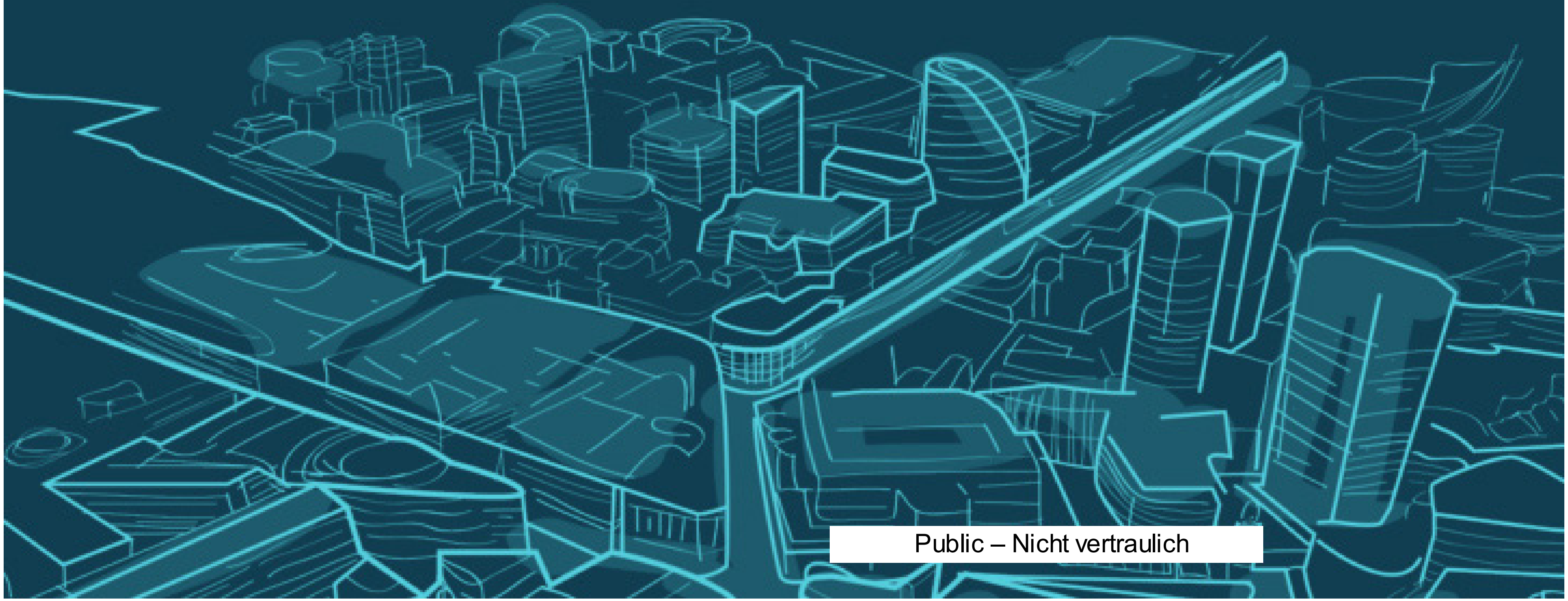
CFO
Telefónica Deutschland
Holding AG

Markus Haas

CSO
Telefónica Deutschland
Holding AG

01

Acquisition of E-Plus by Telefónica Deutschland



Transaction summary

Key terms	**Two step transaction structure** 1 Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in the enlarged Telefónica Deutschland ▪ €3.70bn of cash ▪ 24.9% stake in enlarged Telefónica Deutschland (after capital increase) 2 Telefónica subsequently to acquire a 7.3% stake from KPN for €1.30bn in order to maintain a 65% ownership in the enlarged Telefónica Deutschland ▪ Transaction to unlock significant value, with synergies of €5.0–5.5bn NPV ▪ Total consideration of €5bn in cash and a 17.6% stake in the enlarged Telefónica Deutschland
Recommended transaction	▪ Recommended transaction approved by Telefónica's Board of Directors and Telefónica Deutschland’s Supervisory Board ▪ Transaction has support from KPN’s Board of Management, and from KPN’s Supervisory Board
Key dates	▪ KPN shareholders’ approval required at KPN's General Meeting in H2 2013 ▪ Telefónica Deutschland shareholders’ approval required at Telefónica Deutschland’s General Meeting in H2 2013 ▪ Transaction expected to close in mid 2014, following clearance from relevant authorities

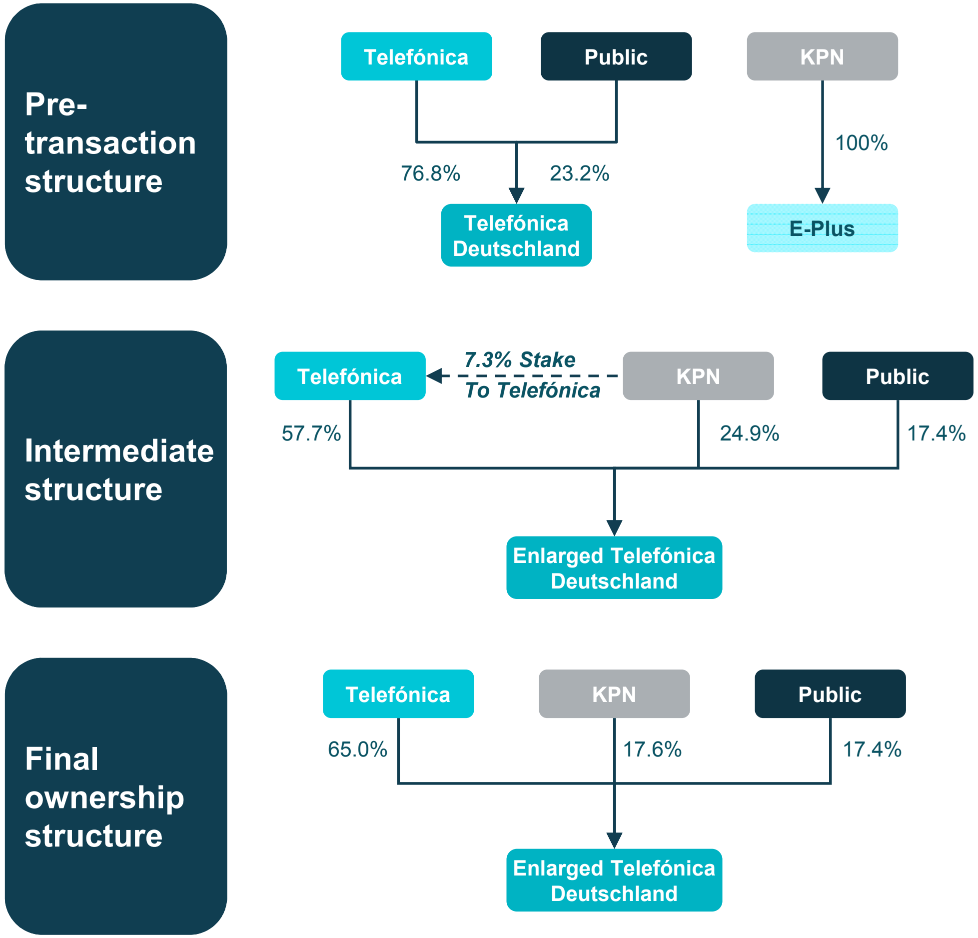
Transaction structure

Transaction summary

Two step structure

1. Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in the enlarged Telefónica Deutschland
   - €3.70bn of cash, financed through a rights issue fully underwritten by Telefónica and a group of banks
   - 24.9% stake in enlarged Telefónica Deutschland (after capital increase)
2. Telefónica subsequently to acquire a 7.3% stake of the enlarged Telefónica Deutschland from KPN for €1.30bn, post-transaction, in order to maintain a 65% ownership in the enlarged Telefónica Deutschland

- Total consideration of €5bn in cash and a 17.6% stake



Transaction rationale

1 Creation of a Leading Digital Telco

- A leading player with a combined customer base of 43m, 42% in postpaid
- Strong scale benefits with combined mobile revenue market share of 32%
- Driving mobile market growth in Germany since 2010:
  - +2.2pp in postpaid customer share
  - +5.8pp in prepaid customer share
- Strong capabilities for mobile data

2 Value crystallization through significant synergies

€5.0–5.5bn

- NPV of synergies of €5.0–5.5bn, net of integration costs
  - Net savings from year 2
  - Annual run-rate synergies of aprox. €800m; 75% of run-rate synergies by year 4
- Incremental value from additional revenues, financial and tax synergies
- Highly experienced management team with a proven track record of integration

3 Enhanced Profitability & FCF in Germany

- Improved profitability and enhanced cash flow generation
- Stronger competitive position from increased scale

Source: Company data, broker research

Transaction rationale (cont'd)

4

Creating a superior customer experience

- Customers to benefit from the best high speed mobile and fixed experience from a single LTE network and access to future-proof DT NGA network
- Strong multi-brand portfolio across segments
- Offering ICT / cloud solutions for business customers
- Best distribution channel and outstanding customer service
- Ready for convergence through cross-selling / up-selling opportunities
- Leveraging Telefónica’s global capabilities: Digital innovation, scale,....

5

Value Creation for Telefónica Deutschland Shareholders

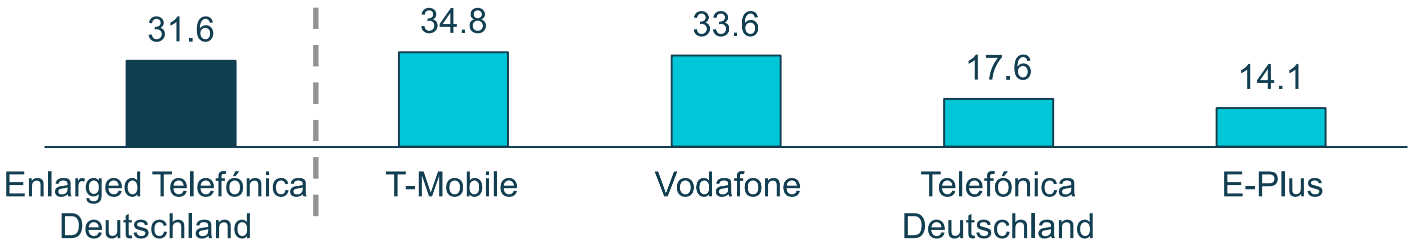
- Unlocks significant value for Telefónica Deutschland shareholders
- Increases financial flexibility (improving leverage) while maintaining an attractive shareholder remuneration
  - Conservative pro forma balance sheet
- EPS and FCF accretive from first year of full operation(1)

1. Based on run-rate synergies before integration costs

1 Creation of a Leading Digital Telco

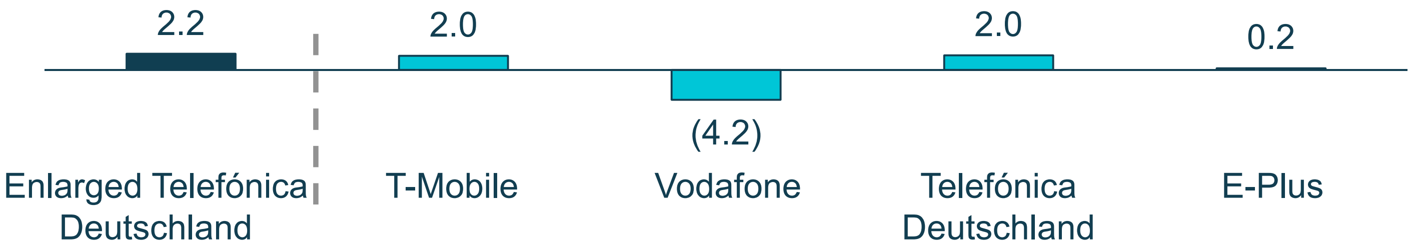
Creation of a leading mobile operator in Germany

Q1 2013 mobile revenue market share (%)



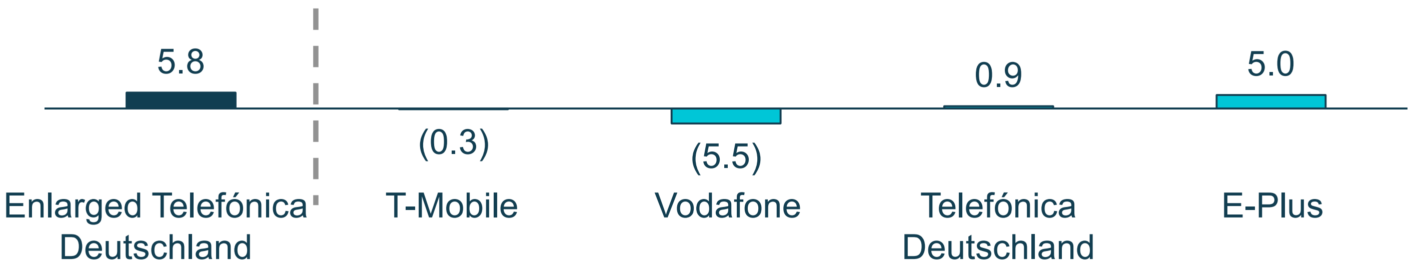
Leading postpaid subscriber growth

2010 – 2012 Postpaid mobile market share growth (pp)



Leading prepaid subscriber growth

2010 – 2012 Prepaid mobile market share growth (pp)



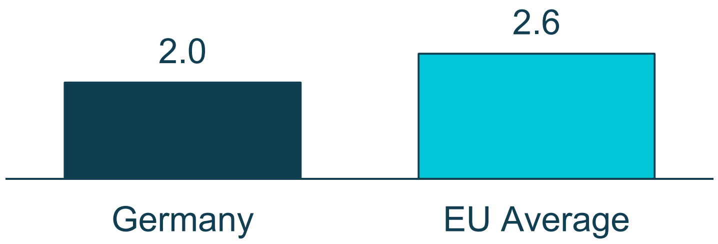
- Combining Telefónica Deutschland's and E-Plus's track records of growth with Telefónica Deutschland's capacity for MBB

Source: Company data, broker research

1 Highly attractive mobile market

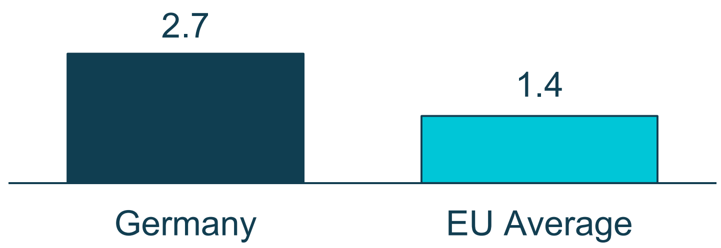
Relatively low churn

Monthly Churn, 2012 (%)



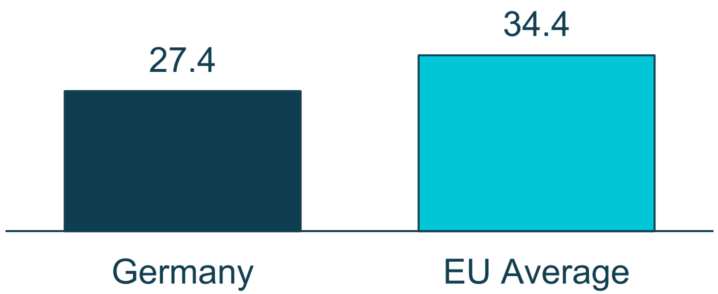
Strong subscriber base growth

2013E YoY Growth (%)



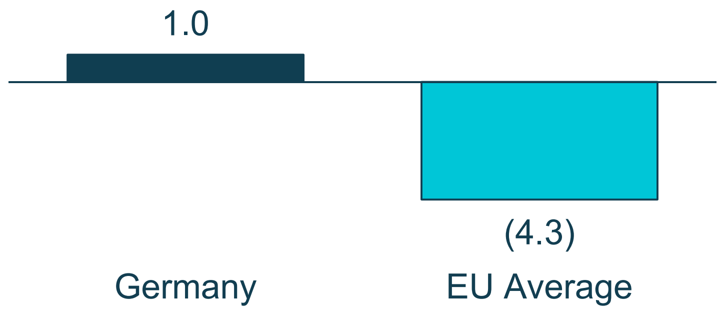
Smartphone penetration upside

Smartphone connections as % of mobile connections, 2012 (%)



EBITDA growth

2009 – 2013E CAGR (%)



Source: WCIS, broker research

2 Identified and realisable synergies of €5.0 – 5.5bn NPV

Distribution and customer service

- Rationalisation of distribution network
- Increased efficiency in customer service costs leveraging best practices and scale
- Channel management and overheads

Network

- Focused rollout on one common nationwide LTE network and improved quality from 3G network consolidation
- Backbone, backhaul and core network consolidation, with reduced OpEx from network integration (rentals, power, maintenance, transport costs, overheads)
- Site consolidation and rationalisation: reduction of around 14,000 sites
- Increased efficiency by leveraging scalable transmission agreement with Deutsche Telekom

SG&A

- Reduced SG&A expenses
- Processes rationalisation
- Continued focus on becoming a more lean and agile organization

Revenue and other

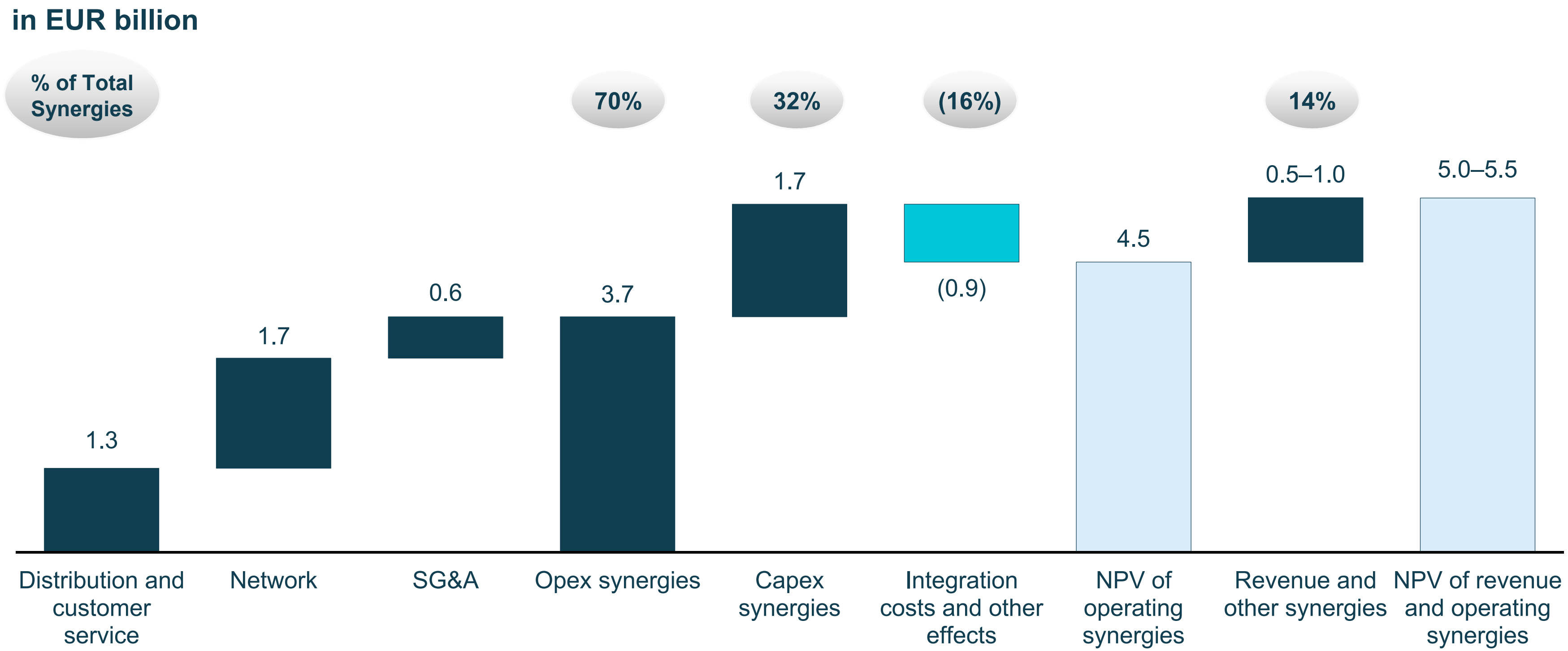
- Exploit SME opportunity from a broader and higher quality platform
- Improved customer satisfaction
- High speed fixed broadband cross-selling opportunity across an enlarged customer base

Operating synergies of €4.5bn NPV

+

Revenue and other synergies of €0.5-1.0bn NPV

2 Synergies value of €5.0 – 5.5bn NPV



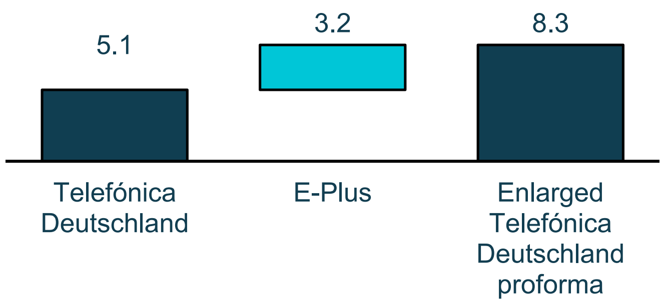
- NPV of €5.0-5.5bn
    - Net savings from year 2
    - Run-rate synergies approx. €800m from year 5; 75% of run-rate synergies by year 4
- Incremental value from additional revenues, financial and tax synergies

3 Stronger competitive position from increased scale in Germany

Based on consensus forecasts

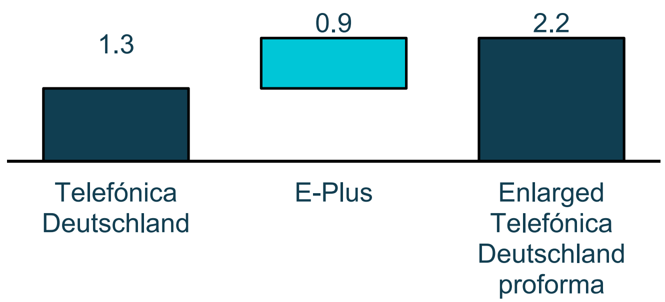
2013 Revenue

In EUR billion



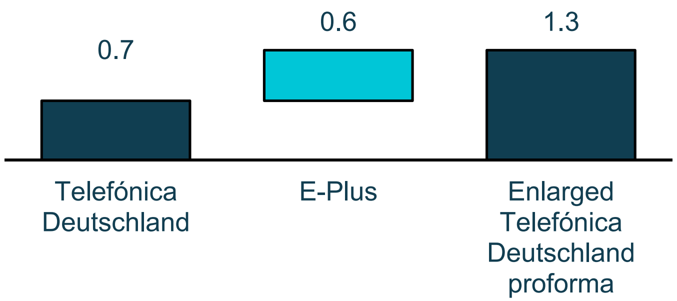
2013 OIBDA

In EUR billion



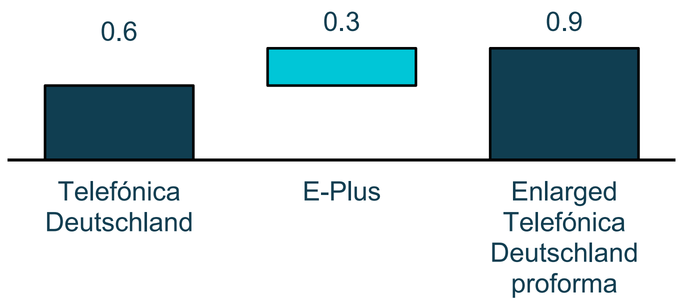
2013 Capex

In EUR billion



2013 OpFCF[1]

In EUR billion



Source: Broker consensus. Not adjusted for accounting differences, pre-synergies

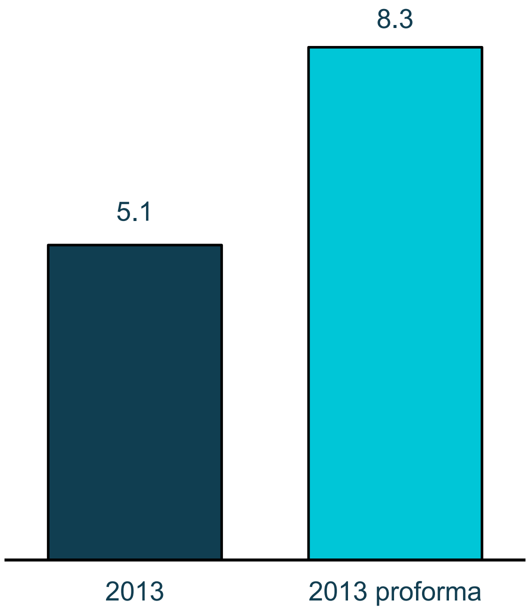
[1] Defined as OIBDA-Capex

3 Enhanced profitability and cash flow generation in Germany

Pro forma financial impact on Telefónica Deutschland, based on consensus forcasts

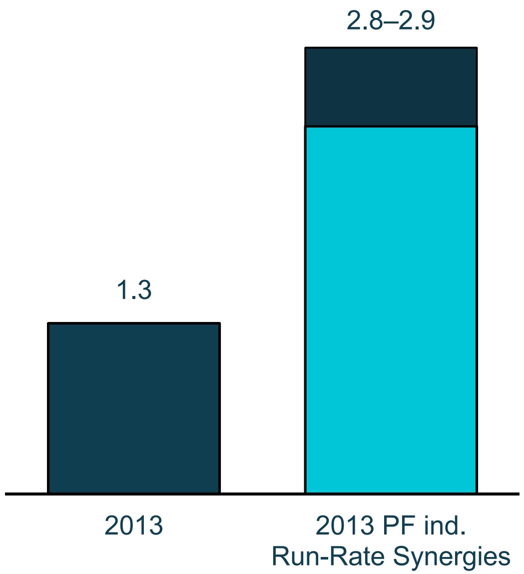
Revenues

In EUR billion



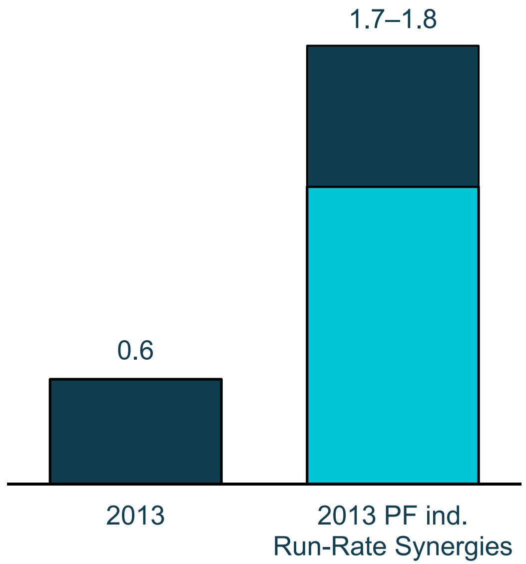
OIBDA

In EUR billion



OpFCF[1]

In EUR billion



Run-rate synergies

EPS and FCF accretive from first year of full operation[(2)]

Source: Broker consensus, not adjusted for differences in accounting policies

1 Defined as OIBDA-Capex

2 Based on run-rate synergies before integration costs

4 Creating superior customer experience

Single LTE network to deliver the best mobile broadband experience	▪ Strong commitment to invest in the German market ▪ Spectrum and network capacity to cope with growing data volumes ▪ Access to fibre backhaul ▪ Environmental benefits through reduction of sites ▪ Improved situation in the business sector ▪ Improved network quality for E-Plus subscribers through access to Telefónica Deutschland's state-of-the-art network
Best distribution channel	▪ Over 1,800 points of sale to serve our customers directly ▪ Outstanding customer service to provide the best digital experience
Multi-brand & innovative commercial offer	▪ Combination of the most creative players in the market ▪ Tariff innovation, voice & mobile data bundling ▪ Multi-brand strategy to better serve different customer needs ▪ Innovative propositions to offer ICT / cloud solutions for business customers
Additional opportunity from convergence strategy	▪ Increased up-selling and cross -selling potential extended to E-Plus customer base ▪ Significant tangible benefits such as churn reduction
Leveraging Telefónica's global capabilities	▪ Benefits from leveraging Telefónica's best practices ▪ Innovation through Telefónica Digital ▪ Global capacity: Data centers, scale benefits and shared services

Expected transaction timetable

Telefónica Deutschland & KPN EGM

Key milestones

23 July 2013
Signing of Agreement

July/Aug 2013
Submission for regulatory clearance

September 2013
KPN convocation of EGM

Mid 2014
Completion of merger

Key approvals

H2 2013
KPN EGM

H2 2013
Telefónica Deutschland EGM

Mid 2014
Regulatory approvals expected and other conditions cleared

Results announcements

23 July 2013
Telefónica Deutschland H1 results

23 July 2013
KPN H1 results

25 July 2013
Telefónica H1 results

Regulatory approval of acquisition

Closing remarks

- A natural strategic move for Telefónica Deutschland to create a Leading Digital Telco with focus on mobile data and LTE enhancement
- Significant value creation through €5.0 – 5.5bn NPV synergies crystallization
- Germany is the largest mobile market in Europe and is the most advanced in data monetisation
- Substantial value creation for Telefónica and Telefónica Deutschland shareholders
  - Investing in future growth while improving financial flexibility
  - Enhancing cash flow generation profile
  - Accretive for Telefónica and Telefónica Deutschland EPS and FCF from year 1

02

January – June 2013 Operating & Financial performance

Overview of key financials

Top line pressures compensated by more efficient usage of resources

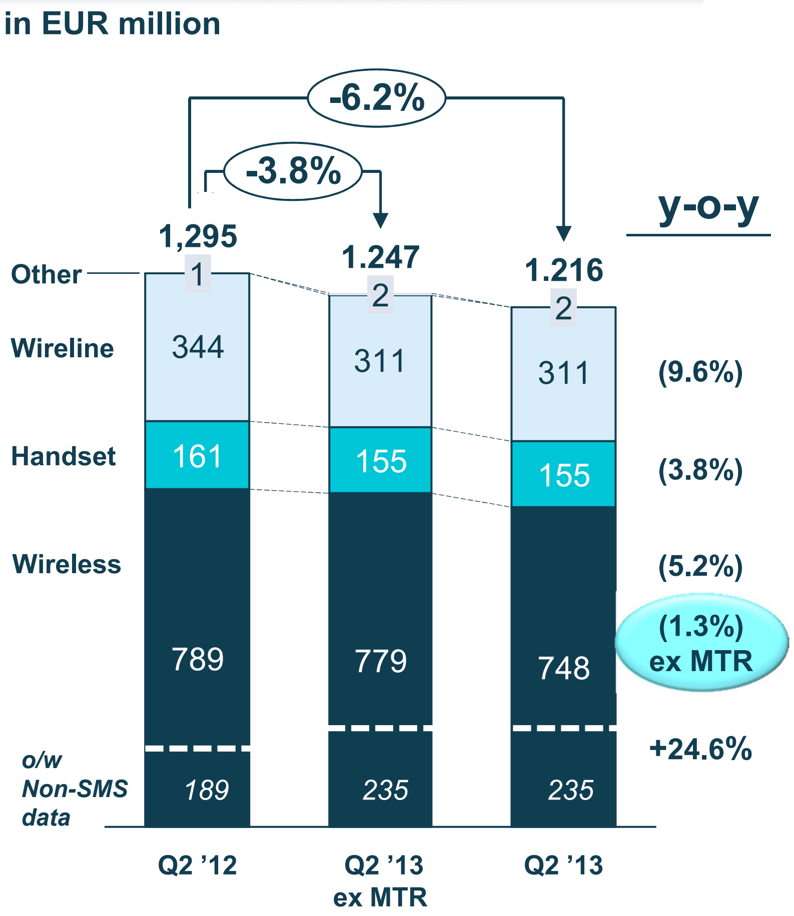
In EUR million	January - June			April - June		
	2013	2012	% y-o-y Δ	2013	2012	% y-o-y Δ
Revenues	2,445	2,554	(4.2)	1,216	1,295	(6.2)
OIBDA	572	597	(4.1)	294	317	(7.2)
OIBDA margin	*23.4%*	*23.4%*	*0.0 p.p.*	*24.2%*	*24.5%*	*(0.3 p.p.)*
Group fees	(31)	(32)	(1.5)	(16)	(17)	(8.0)
OIBDA before group fees	603	629	(4.0)	310	334	(7.2)
OIBDA before group fees margin	*24.7%*	*24.6%*	*0.1 p.p.*	*25.5%*	*25.8%*	*(0.3 p.p.)*
Capex	296	271	9.4	151	138	9.5
Free Cash Flow[1)] pre dividends from continuing operations	345	152	n.m.	239	64	n.m.

[1)] Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes. In 2013 no discontinued operations did exist.

Revenue performance

Ongoing trends from the transition to a data-centric environment

Total revenue

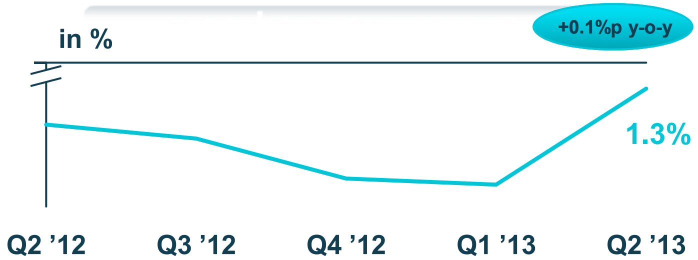


- **Wireless service revenue** driven by postpaid dynamics
  - Non-SMS data revenue acceleration
  - Lower y-o-y trading performance
  - Higher y-o-y tariff renewals in the base
- **Handset sales** reflecting y-o-y phasing in device launches
  - Encouraging trends from LTE-enabled devices
- **Wireline revenues** sustaining recent trends
  - Lower retail DSL customer base
  - Declining voice transit business

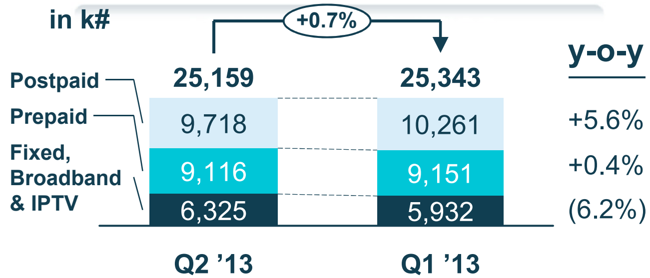
Trading performance in Q2 2013

Consistent approach to a complex market, driving smartphone penetration

Postpaid churn rate

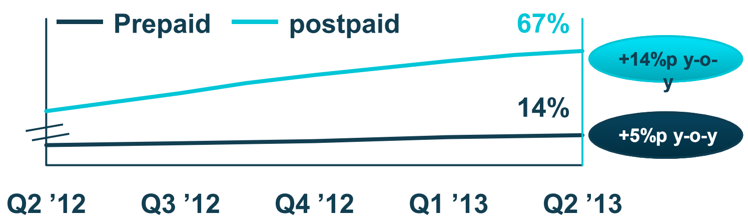


Total access base



Smartphone penetration

in % of O_2 Postpaid & Prepaid Customer Base



- **60k postpaid net additions**
  - Market focus on retention and customer base
  - Better customer mix from O_2 Blue All-in push
  - Successful management of tariff migrations
- **27k prepaid net additions**
  - Strong performance from secondary brands
  - Adoption of new prepaid smartphone tariffs
- **Improved smartphone penetration**
  - More affordable handsets & digital behaviour
  - Prepaid opportunity driven by new tariff offers
- **Stable retail DSL net disconnections** (-40k)
  - Continuous uptake of VDSL gross additions (28% of gross adds in VDSL available regions take speed option)

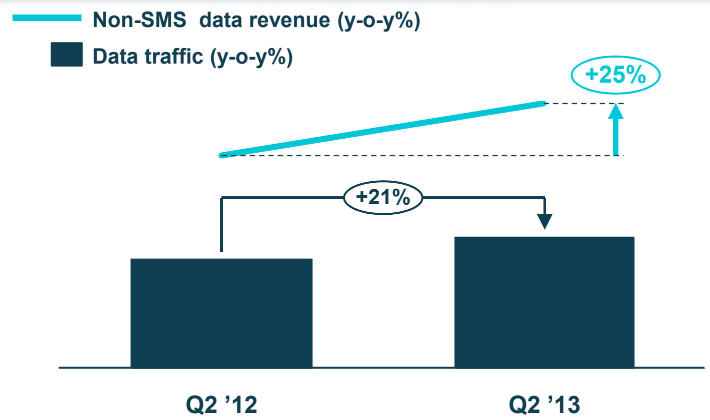
Continuous improvement of mobile data monetisation

Focus on execution based on a clear set of priorities

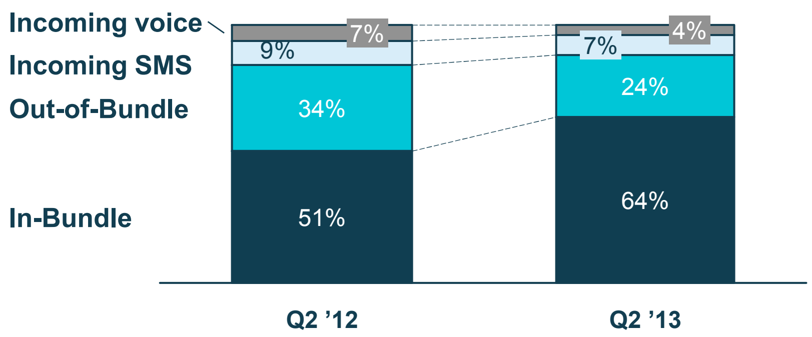
Key levers for data monetisation

1. Drive data & smartphone penetration for new & existing customers
2. Fit demand of customer base to volume & speed portfolio
3. Data upselling / foster LTE adoption

Traffic vs Revenues



Revenue structure of WSR [1]



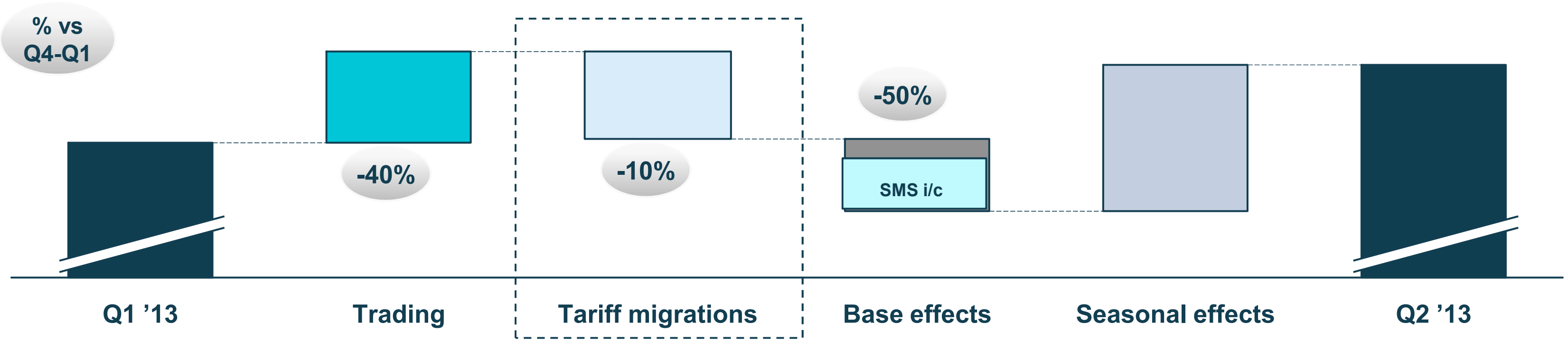
[1] Within O_2 corebrand postpaid segment

Continued dynamics in O_2 massmarket postpaid

Tangible results from base management leveraging O_2 Blue All-in

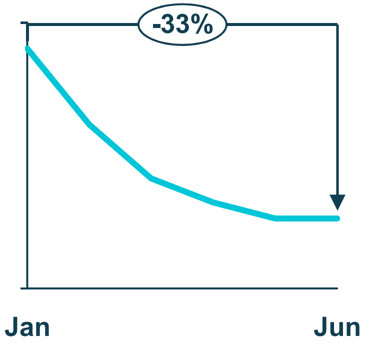
Main drivers for wireless service revenues

Q-o-Q absolute performance ex MTRs

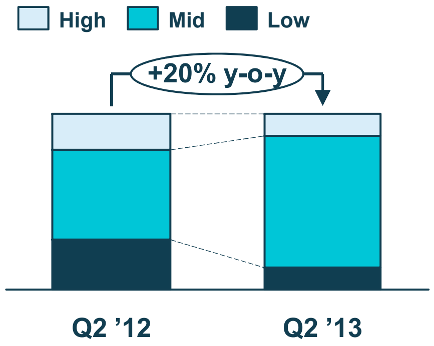


Customer base management

ARPU dilution (€)

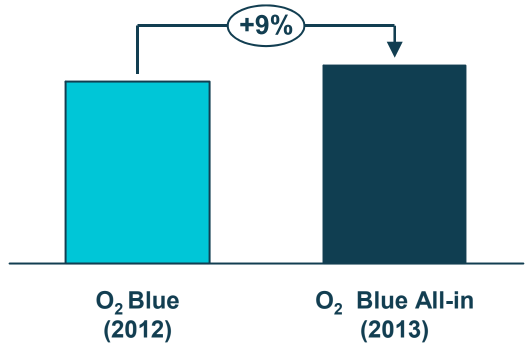


Tariff renewals (#)



Up-selling opportunities

Weighted ARPU from portfolio mix

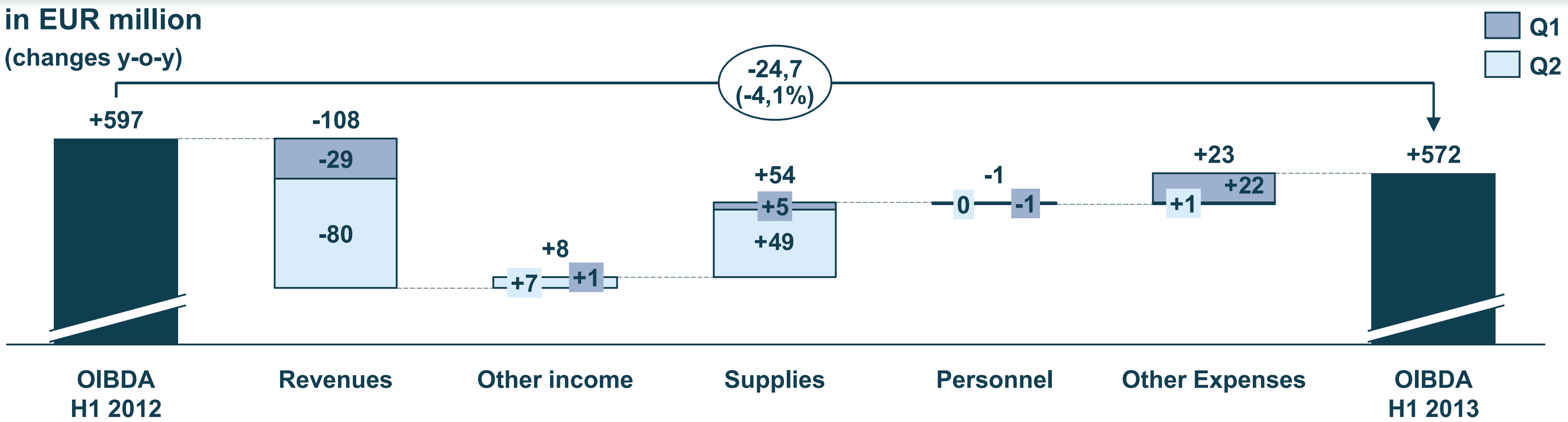


Telefónica Deutschland

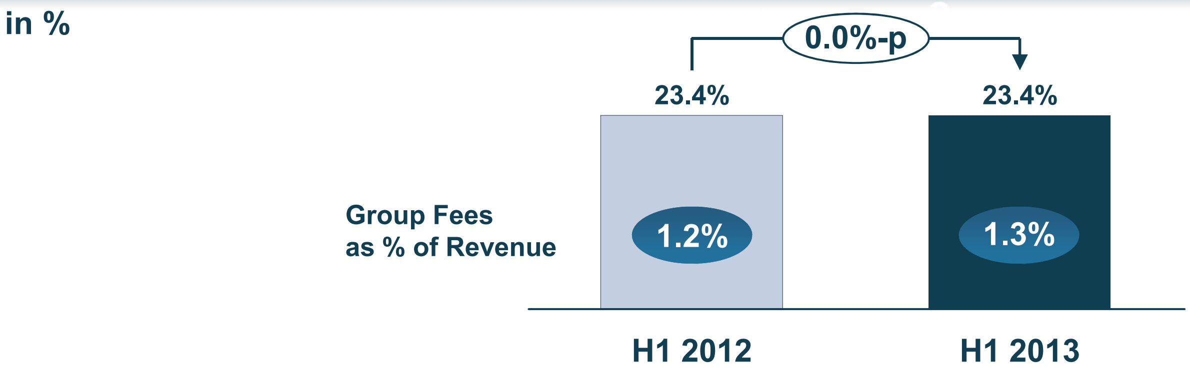
Stable y-o-y OIBDA performance

Revenues downside partly offset by cost savings

OIBDA

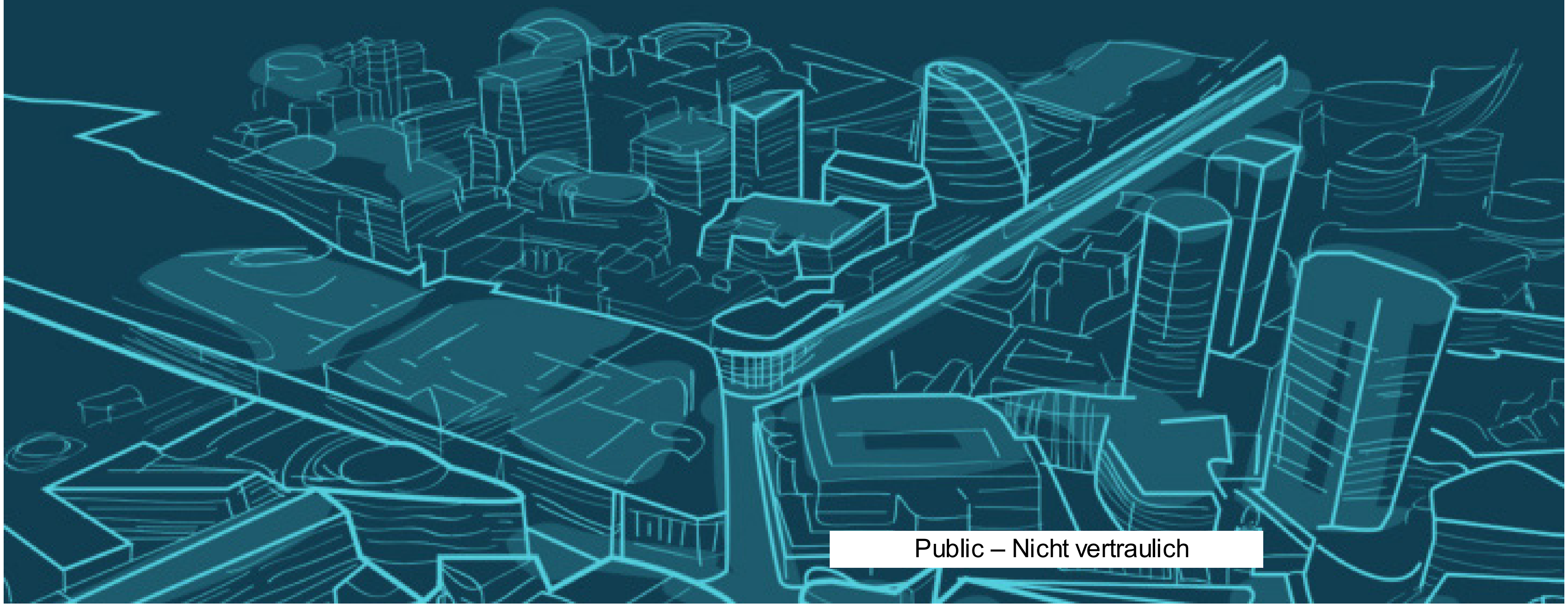


OIBDA margin



03

Q&A



Q&A

Telefónica Deutschland Q2 2013 results conference call

For further questions please contact IR department

Investor Relations

Victor Garcia-Aranda, Head of Investor Relations

Marion Polzer, Investor Relations Manager

Pia Hildebrand, Investor Relations Office Coordinator

Email: ir-deutschland@telefonica.com

Telephone: +49 89 2442-1010

www.telefonica.de/investor-relations

Telefónica

Deutschland