Telefónica Deutschland

Preliminary Results
January – September 2013

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Telefónica Deutschland Q3 2013 preliminary results presentation

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Market environment

Development of our Strategy

A continuing competitive and dynamic market

Monetisation of Data Services is our first priority

Commercial Propositions

- Attractive **smartphone & tariff bundles**
- Increasing focus on **entry and prepaid smartphone tariffs**
- **Speed & volume** as prime differentiator
- **Targeted promotions** to specific customer segments

Market Observations

- Mobile tariff portfolios and **market structure broadly unchanged**
- **Increased commercial investments** to reduce churn and increase data penetration
- **Access to LTE** is a strong marketing shout
- Continuous impact on SMS-usage from **change in customer communication habits**

Development on our strategic priorities

Strong focus on our core business & innovative product launches

Strategic priorities 2013

- ☑ Capitalise on **multi-brand portfolio & superior customer satisfaction**, driving additional efficiencies for the business.
- ☑ **Monetise data opportunity** in all segments through innovative products, digital services & LTE
- ☑ Maintain a **competitive 3G** network while delivering **LTE to urban areas.**

Developments in Q3 '13

- ❑ "Alles Drin": **all-included-bundles** selling smartphones with data tariffs including **promotion of LTE access**
- ❑ New **young people post-paid tariff** based on O_2 Blue All-in portfolio

- ❑ Launch of **Fonic Smart S,** further extending smartphone propositions to prepaid segment

- ❑ **O_2 Promotion Pad**, a new cloud based digital advertisement solution for medium-size retailers
- ❑ Selective 3G network upgrade to **HSPA+ dual cell technology** and further densification of LTE-800 areas

New “O_2 DSL All-in” portfolio from October 17

Built on customer insights, monetising speed

	O_2 DSL All-in S	O_2 DSL All-in M	O_2 DSL All-in L (VDSL)
Telephony	**Allnet Flat** Flatrate to German fixedline and mobile voice		
Download	Up to 8 MBit/s	Up to 16 MBit/s	Up to 50 MBit/s
Upload	Up to 1 MBit/s	Up to 1 MBit/s	Up to 10 MBit/s
Volume	After 100 GB up to 2 Mbit/s	Fair Flatrate	Fair Flatrate
Price	24,99 €	29,99 € Kombi-Vorteil	34,99 € Kombi-Vorteil

- **First all-net offer in the market:** unlimited calls to all German fixed and mobile networks
- **Speed as a differentiator,** different data volume consumption policies adding transparency and simplicity
- **Facilitating O_2 convergent strategy** by offering “Kombi-Vorteil” in the high range

On-going regulatory proceedings

Most relevant decisions to be taken in early 2014

Proceeding	Expected resolution
Spectrum Renewal (Project 2016) • Submissions to the Regulator made by Telefónica Deutschland (Oct, 4) ❑ Suspension of procedure until merger clearance Telefónica/E-Plus ❑ Spectrum reservation in the 1.8 GHz band, in addition to current proposal at 900 MHz	**During 2014**
MTR Regulation • Already set until November ’14: 1.79 €cent from Dec’13 (-3.25%) ❑ German regulator upholds preliminary decision – final decision not fully compliant with EC Recommendation ❑ Potential EC infringement proceeding still possible	**During 2014**
NGA co-operation with Deutsche Telekom • Ongoing consultations with relevant authorities ❑ Formal proceedings started by the Regulator ❑ Federal Cartel Office informed, no proceeding or investigation initiated ❑ Notification to EU to start after national decision	**End 2013** (national proceedings) **Q1/2014** (EU notification)

Acquisition of E-Plus

On track with expected time plan

October 2, 2013	October 31, 2013	Q1 2014	Q2 2014	Mid 2014
KPN EGM	Submission of Form CO to EC	TEF D EGM	Regulatory clearance	Rights Issue & Contribution in Kind

- Creating a **leading Digital Telco**: scale benefits and enhanced data monetisation capability
- Increasing **Infrastructure-based competition** in the German market
- Delivering **superior customer experience**: multibrand approach, higher quality network, better distribution and customer service
- Unlocking **significant synergies** with a NPV of €5.0-5.5 bn, net of taxes and integration costs
- **Strong Value Creation for TEF D. shareholders on enhanced profitability & FCF.** Net savings after integration costs from full 2nd year of operations

January – September 2013

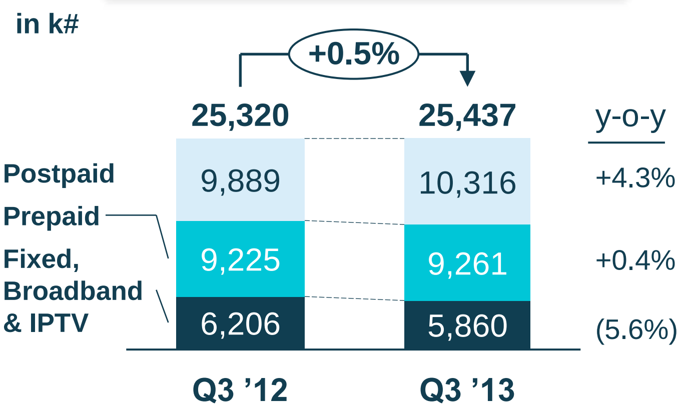
Operating & Financial performance

Telefónica

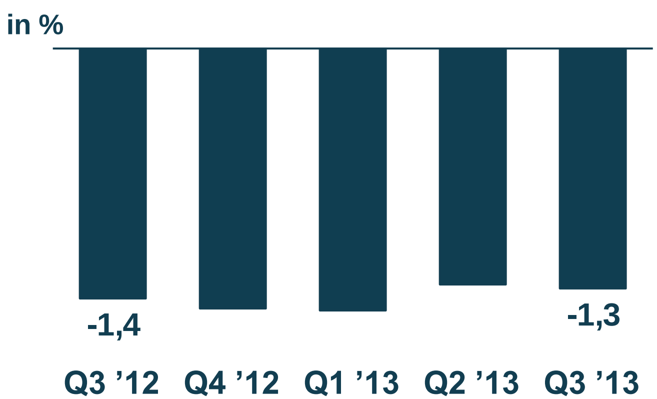
Trading performance in Q3 2013

A reflection of a consistent execution of our multibrand, data centric strategy

Total access base



Postpaid churn rate



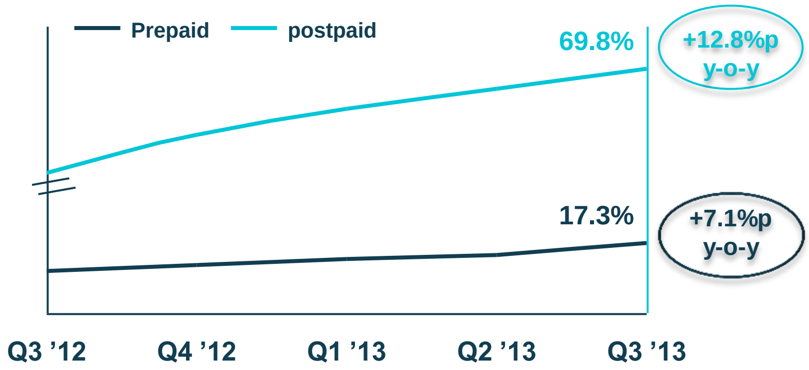
- **Performance of postpaid net additions (55k) driven by focus on customer base management**
  - Steady adoption of “O_2 Blue All-in” from new and existing customers
  - Churn rate improved by 0.1 p.p. y-o-y to 1.3%
- **Strong performance of mobile prepaid (110k net additions)**
  - Trading mainly driven by secondary brands
  - Increasing penetration of smartphones
- **Better q-o-q trading in retail DSL (-29k net adds vs. -40K in Q2 13)**
  - Increasing demand of VDSL “Speed option” at ~45% of orders where available
  - Convergent „Kombi Vorteil“ proposition already getting traction

Focusing on key levers for data monetisation

Continuing to deliver on data monetisation strategy

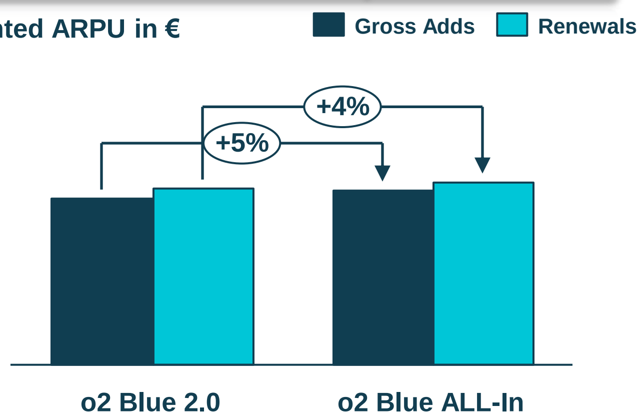
Smartphone penetration

in % of O_2 Postpaid & Prepaid Customer Base



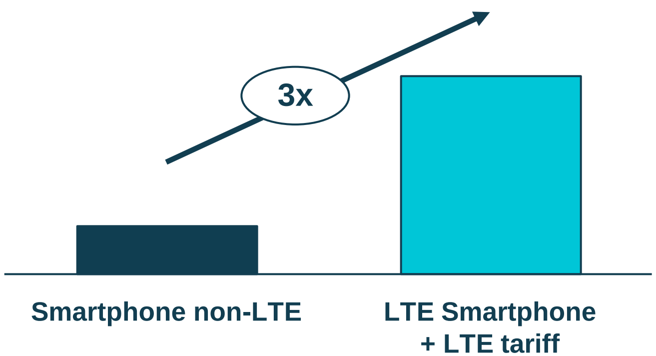
Fit demand to All-in portfolio

Weighted ARPU in €

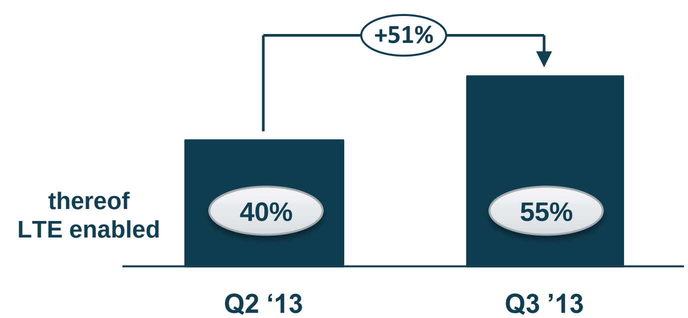


Data Upselling & foster LTE adoption

Monthly average data usage [1]



Smartphone shipments in k



[1] On Telefónica Deutschland network

Overview of Key Financials

Strong conversion from Operating Cash Flow to FCF

TELEFÓNICA DEUTSCHLAND GROUP
SELECTED CONSOLIDATED FINANCIAL DATA
Unaudited (Euros in millions)

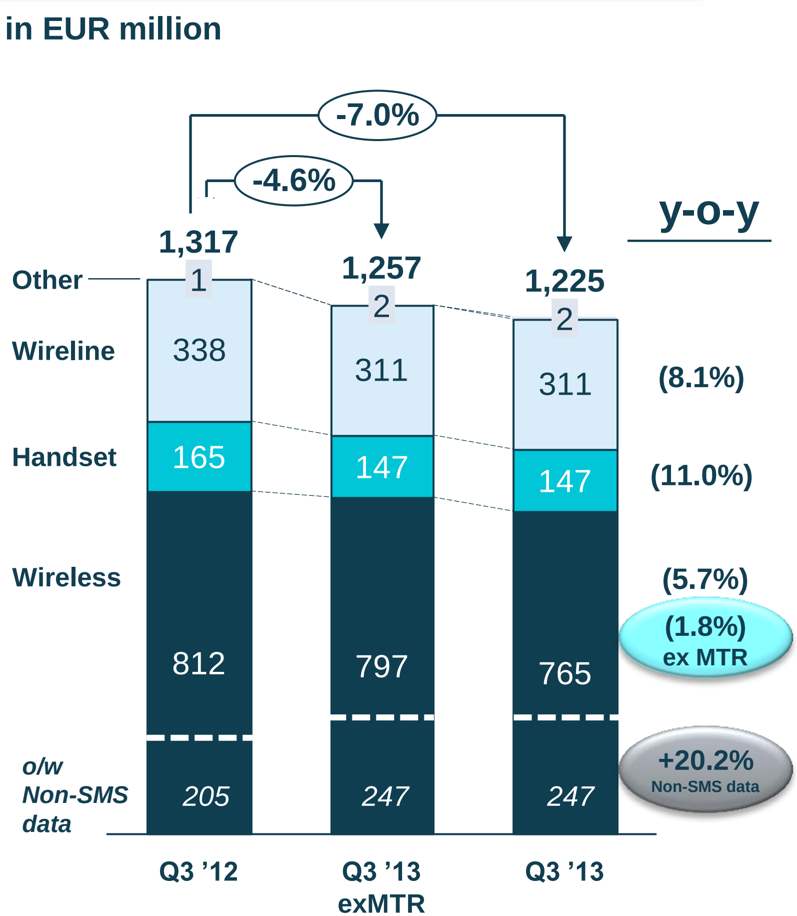
	January 1 to September 30			July 1 to September 30		
	2013	2012	% Chg	2013	2012	% Chg
Revenues	3,671	3,871	(5.2)	1,225	1,317	(7.0)
Operating income before depreciation and amortization (OIBDA)	864	936	(7.7)	292	339	(14.0)
OIBDA margin	*23.5%*	*24.2%*	*(0.6%-p.)*	*23.8%*	*25.7%*	*(1.9%-p.)*
Group fees	(54)	(50)	8.0	(23)	(19)	24.1
OIBDA before group fees	918	986	(6.9)	315	358	(12.0)
OIBDA before group fees margin	*25.0%*	*25.5%*	*(0.5%-p.)*	*25.7%*	*27.2%*	*(1.5%-p.)*
CapEx	(468)	(452)	3.4	(171)	(181)	(5.5)
Free cash flows pre dividends from continuing operations (1)	543	553	(1.8)	198	401	(50.7)

(1) Free cash flow pre dividends from continuing operations are defined as operating cash flow minus working capital minus interest payments and tax expenses minus other changes. Adjustment of a rounding inaccuracy (EUR 4m) was made after release of preliminary results leading to a slightly higher free cash flow pre dividends from continuing operations in 2012.

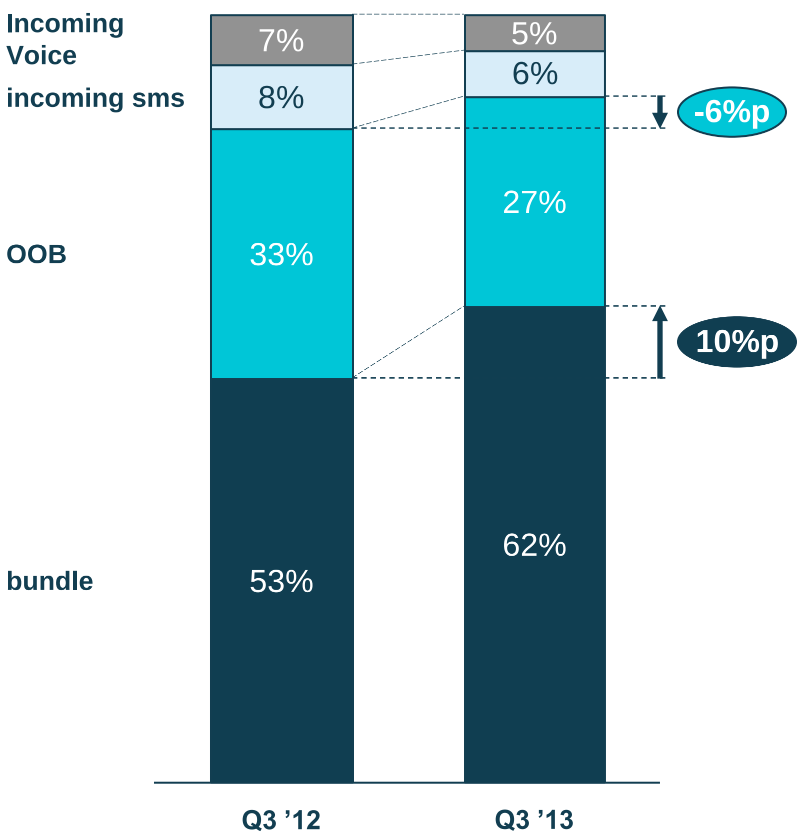
Revenue performance

Mobile data revenues continuing to be main driver

Total revenue



Wireless Service Revenue Structure [1]



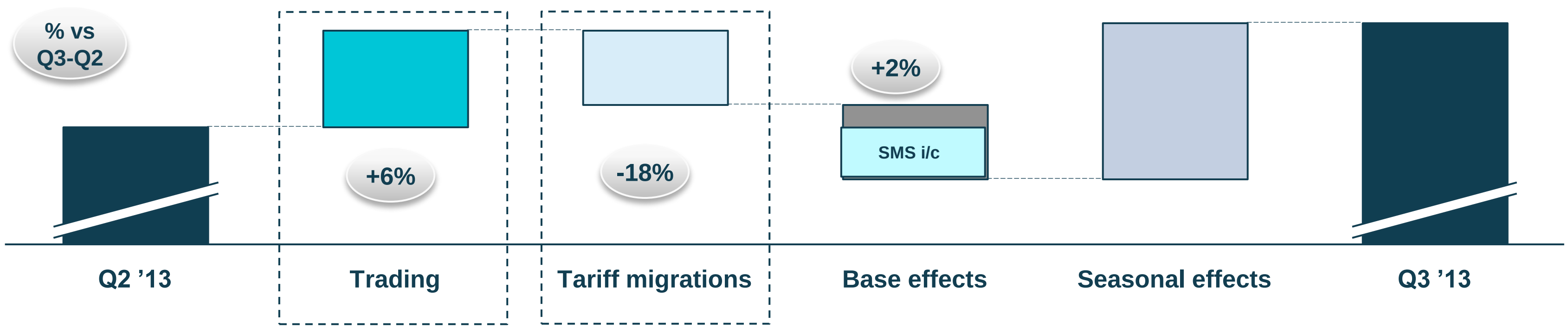
[1] In % of O_2 corebrand postpaid WSR

Continued dynamics in O_2 consumer postpaid

Trends stabilising on a quarter-on-quarter basis

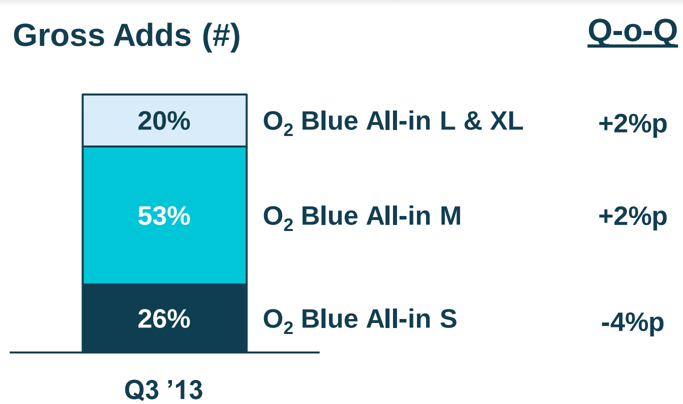
Main drivers for wireless service revenues

Q-o-Q absolute performance ex MTRs



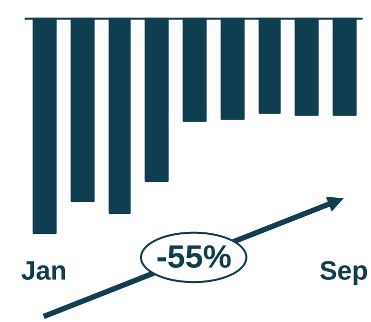
Value split of O_2 Blue All-in

Gross Adds (#)

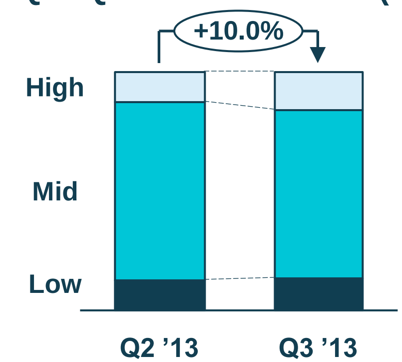


Customer base management

Migration ARPU dilution (€)



Q-o-Q Tariff renewals[1] (#)

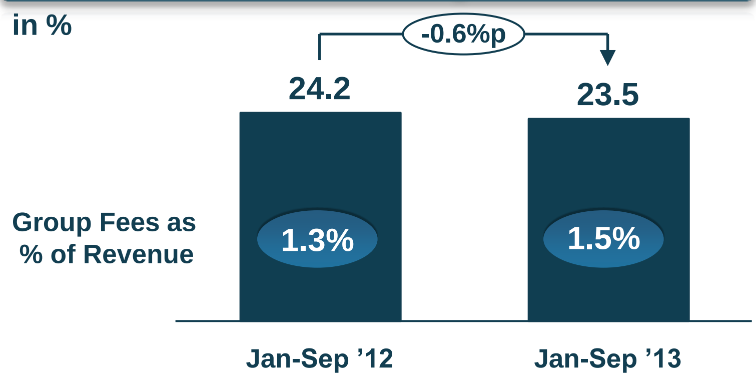


[1] Based on O_2 Consumer Postpaid tariff contribution to margin

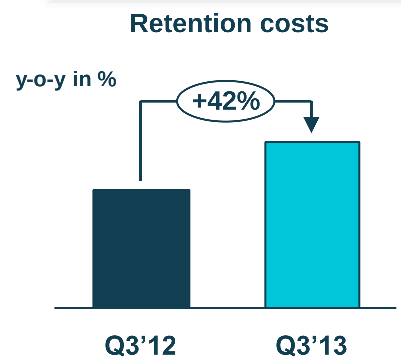
OIBDA performance

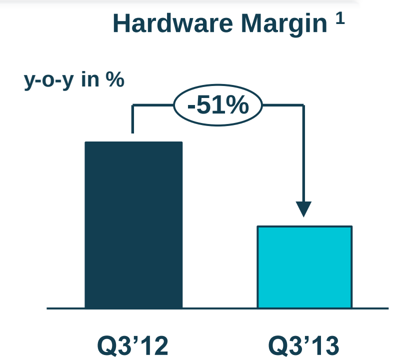
Increasing commercial investments to improve customer base

OIBDA margin

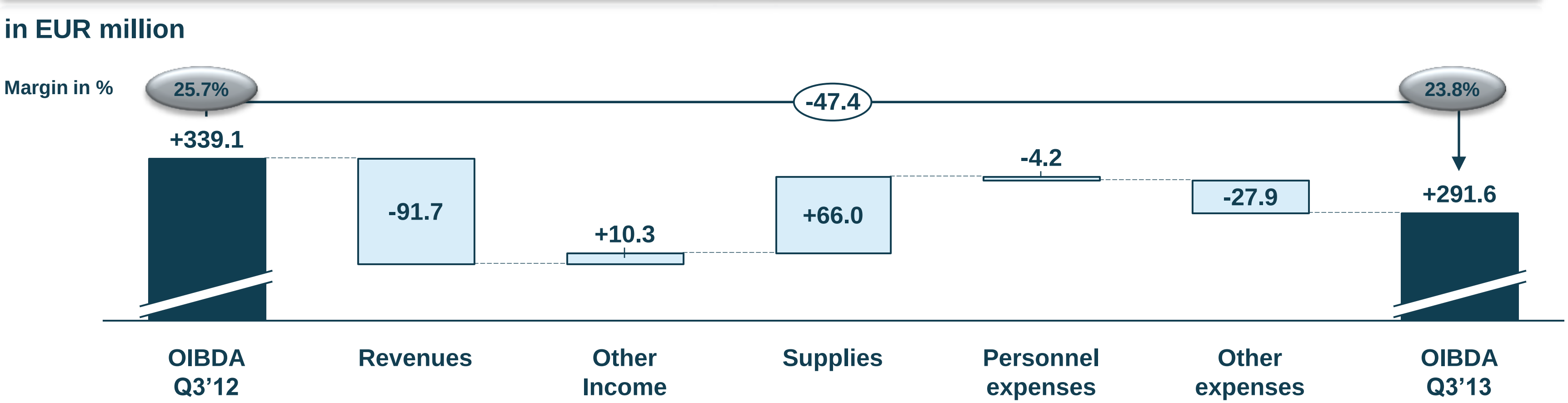


Evolution of main commercial costs





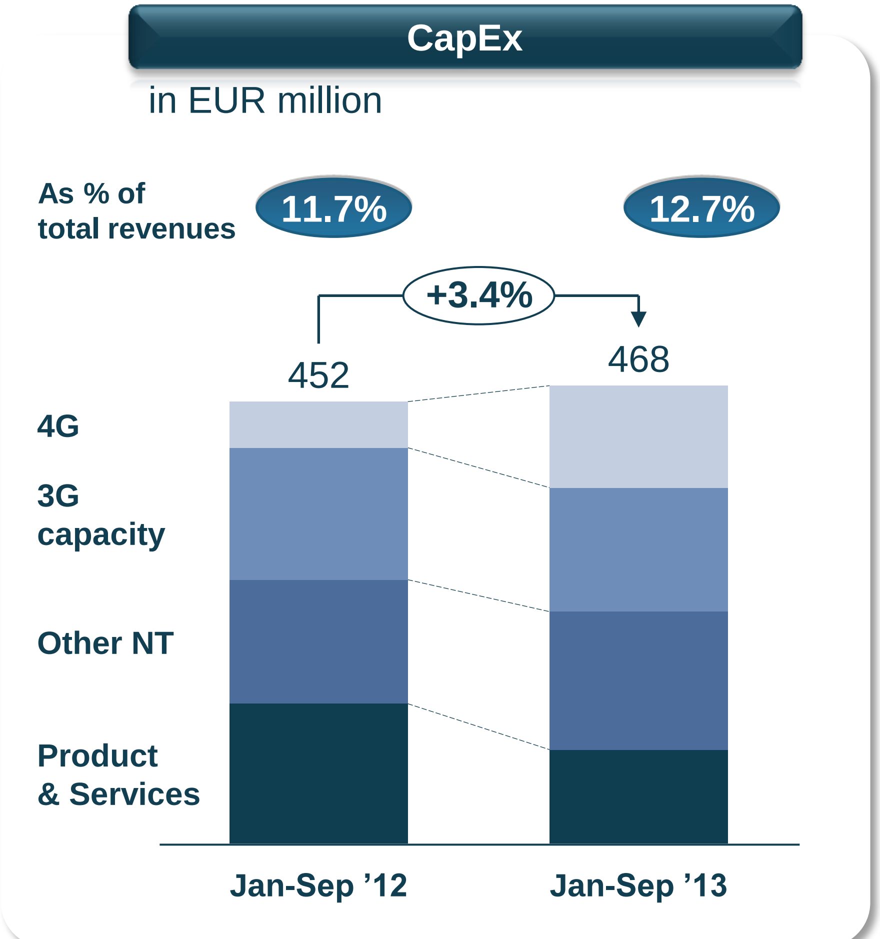
OIBDA y-o-y evolution



[1] Handset revenues less cost of sales

CAPEX development

Balancing investments for LTE expansion and 3G network quality



- **Accelerating LTE roll-out** driving CAPEX increase yoy
  - Main metropolitan areas are covered with LTE
  - Further densification into rural areas
  - Investments into LTE network doubled y-o-y
- Ongoing invests in **3G capacity** to cope with increasing data demand from growing smartphone base

Free cash flow development

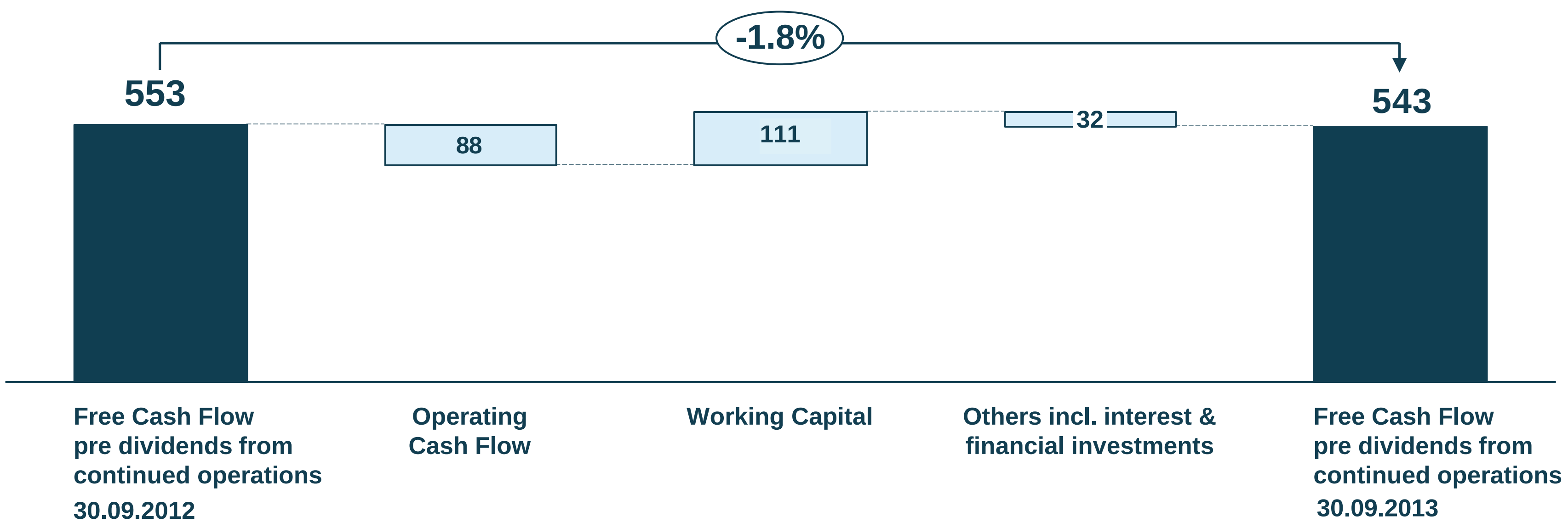
FitchRatings BBB

Strong conversion of operating results into FCF[1] supports dividend policy

Free cash flow y-o-y evolution

YTD in EUR million

Leverage[2)] 0.6x



The management of Telefónica Deutschland intends to propose to the Annual General Meeting in 2014 a cash dividend for the financial year 2013 of approximately 525 million Euro

1) Free Cash flow defined as OpCF minus working capital minus interest payments minus taxes minus other changes. In 2013 no discontinued operations did exist. Adjustment of a rounding inaccuracy (EUR 4m) was made after release of preliminary results leading to a slightly higher free cash flow pre dividends from continuing operations in 2012

2) Leverage defined as Net financial Debt divided by LTM OIBDA excluding non-recurring factors.

Key take-aways

Strong focus on our mobile data strategy execution, delivering stable FCF and improved shareholder remuneration

- Very **dynamic German mobile market**, focused on mobile data monetisation
- **Top line trends stabilising Q-o-Q** while LTE is becoming a purchase driver
- **Increased commercial investments** to support development of our customer base, expecting FY 2013 OIBDA margin to be at or below prior year's level
- **Strong OpCF conversion into FCF,** supporting attractive shareholder remuneration proposal for 2013 of approx. €525 million
- **E-Plus acquisition process time plan on track**, ongoing regulatory analysis

e·plus

Q&A

Q&A

Telefónica Deutschland Q3 2013 results conference call