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 O₂ Blue All-in portfolio

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

- O₂ 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 “O₂ DSL All-in” portfolio from October 17

Built on customer insights, monetising speed

<table>
<thead>
<tr>
<th></th>
<th>O₂ DSL All-in S</th>
<th>O₂ DSL All-in M</th>
<th>O₂ DSL All-in L (VDSL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephony</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allnet Flat</td>
<td>Flatrate to German fixedline and mobile voice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Download</td>
<td>Up to 8 MBit/s</td>
<td>Up to 16 MBit/s</td>
<td>Up to 50 MBit/s</td>
</tr>
<tr>
<td>Upload</td>
<td>Up to 1 MBit/s</td>
<td>Up to 1 MBit/s</td>
<td>Up to 10 MBit/s</td>
</tr>
<tr>
<td>Volume</td>
<td>After 100 GB up to 2 Mbit/s</td>
<td>Fair Flatrate</td>
<td>Fair Flatrate</td>
</tr>
<tr>
<td>Price</td>
<td>24,99 €</td>
<td>29,99 €</td>
<td>34,99 €</td>
</tr>
</tbody>
</table>

- **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 O₂ convergent strategy** by offering “Kombi-Vorteil” in the high range
On-going regulatory proceedings

Most relevant decisions to be taken in early 2014

**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

**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

**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

**Expected resolution**
- **During 2014**
  - 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

**End 2013**
- (national proceedings)
  - **Q1/2014**
    - (EU notification)
Acquisition of E-Plus

On track with expected time plan

- 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
Trading performance in Q3 2013

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

- Performance of postpaid net additions (55k) driven by focus on customer base management
  - Steady adoption of “O₂ 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

### Total access base

<table>
<thead>
<tr>
<th></th>
<th>Q3 ’12</th>
<th>Q3 ’13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postpaid</td>
<td>9,889</td>
<td>10,316</td>
</tr>
<tr>
<td>Prepaid</td>
<td>9,225</td>
<td>9,261</td>
</tr>
<tr>
<td>Fixed, Broadband &amp; IPTV</td>
<td>6,206</td>
<td>5,860</td>
</tr>
<tr>
<td><strong>25,320</strong></td>
<td><strong>25,437</strong></td>
<td></td>
</tr>
</tbody>
</table>

+0.5% y-o-y

### Postpaid churn rate

<table>
<thead>
<tr>
<th></th>
<th>Q3 ’12</th>
<th>Q4 ’12</th>
<th>Q1 ’13</th>
<th>Q2 ’13</th>
<th>Q3 ’13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>-1.4</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>-1.3</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Focusing on key levers for data monetisation

Continuing to deliver on data monetisation strategy

**Smartphone penetration**

<table>
<thead>
<tr>
<th></th>
<th>Q3 ’12</th>
<th>Q4 ’12</th>
<th>Q1 ’13</th>
<th>Q2 ’13</th>
<th>Q3 ’13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid</td>
<td>17.3%</td>
<td></td>
<td></td>
<td></td>
<td>69.8%</td>
</tr>
<tr>
<td>Postpaid</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

+12.8% p y-o-y
+7.1% p y-o-y

**Data Upselling & foster LTE adoption**

Monthly average data usage

Software non-LTE

LTE smartphone + LTE tariff

3x

**Fit demand to All-in portfolio**

Weighted ARPU in €

- Gross Adds
- Renewals

o2 Blue 2.0

+5% +4%

o2 Blue ALL-In

**Smartphone shipments in k**

- Q2 ’13
  - thereof LTE enabled: 40%
  - +51%

- Q3 ’13
  - 55%

1 On Telefónica Deutschland network

1 On Telefónica Deutschland network

Telefónica Deutschland Holding AG

Public – Nicht vertraulich
Overview of Key Financials

Strong conversion from Operating Cash Flow to FCF

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

<table>
<thead>
<tr>
<th>January 1 to September 30</th>
<th>July 1 to September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td>Revenues</td>
<td>3,671</td>
</tr>
<tr>
<td>Operating income before depreciation and amortization (OIBDA)</td>
<td>864</td>
</tr>
<tr>
<td>OIBDA margin</td>
<td>23.5%</td>
</tr>
<tr>
<td>Group fees</td>
<td>(54)</td>
</tr>
<tr>
<td>OIBDA before group fees</td>
<td>918</td>
</tr>
<tr>
<td>OIBDA before group fees margin</td>
<td>25.0%</td>
</tr>
<tr>
<td>CapEx</td>
<td>(468)</td>
</tr>
<tr>
<td>Free cash flows pre dividends from continuing operations (1)</td>
<td>543</td>
</tr>
</tbody>
</table>

(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

in EUR million

Wireless Service Revenue Structure

<table>
<thead>
<tr>
<th></th>
<th>Q3 '12</th>
<th>Q3 '13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wireless</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Handset</td>
<td>1,65</td>
<td>1,47</td>
</tr>
<tr>
<td>Wireline</td>
<td>812</td>
<td>797</td>
</tr>
<tr>
<td>Other</td>
<td>205</td>
<td>247</td>
</tr>
<tr>
<td><strong>Non-SMS data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>o/w</td>
<td>797</td>
<td>765</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>1,317</td>
<td>1,257</td>
</tr>
</tbody>
</table>

y-o-y

-7.0%

Wireless

OOB

-6% p

10% p

Incoming Voice incoming sms

<table>
<thead>
<tr>
<th></th>
<th>Q3 '12</th>
<th>Q3 '13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handset</td>
<td>33%</td>
<td>27%</td>
</tr>
<tr>
<td>Wireline</td>
<td>53%</td>
<td>62%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>86%</td>
<td>90%</td>
</tr>
</tbody>
</table>

1 In % of O₂ corebrand postpaid WSR
Continued dynamics in O₂ consumer postpaid
Trends stabilising on a quarter-on-quarter basis

Main drivers for wireless service revenues

Q-o-Q absolute performance ex MTRs

% vs Q3-Q2

Q2 '13 Trading Tariff migrations Base effects Seasonal effects Q3 '13

+6% +2% SMS i/c

Q3 '13

Value split of O₂ Blue All-in

Gross Adds (#)

<table>
<thead>
<tr>
<th></th>
<th>Q3 '13</th>
</tr>
</thead>
<tbody>
<tr>
<td>O₂ Blue All-in L &amp; XL</td>
<td>20%</td>
</tr>
<tr>
<td>O₂ Blue All-in M</td>
<td>53%</td>
</tr>
<tr>
<td>O₂ Blue All-in S</td>
<td>26%</td>
</tr>
</tbody>
</table>

Q-o-Q

+2%p -4%p

Customer base management

Migration ARPU dilution (€)

Jan -55% Sep

Q-o-Q Tariff renewals¹ (#)

High Mid Low

Q2 '13 Q3 '13

+10.0%

¹) Based on O₂ Consumer Postpaid tariff contribution to margin

Public – Nicht vertraulich

Telefonica Deutschland Holding AG
**OIBDA performance**

Increasing commercial investments to improve customer base

**OIBDA margin**

<table>
<thead>
<tr>
<th></th>
<th>Jan-Sep ’12</th>
<th>Jan-Sep ’13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Fees as % of Revenue</td>
<td>1.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td>OIBDA margin in %</td>
<td>24.2</td>
<td>23.5</td>
</tr>
</tbody>
</table>

**Evolution of main commercial costs**

<table>
<thead>
<tr>
<th></th>
<th>Q3’12</th>
<th>Q3’13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retention costs y-o-y in %</td>
<td>+42%</td>
<td></td>
</tr>
<tr>
<td>Hardware Margin y-o-y in %</td>
<td></td>
<td>-51%</td>
</tr>
</tbody>
</table>

**OIBDA y-o-y evolution**

<table>
<thead>
<tr>
<th></th>
<th>Q3’12</th>
<th>Revenues</th>
<th>Other Income</th>
<th>Supplies</th>
<th>Personnel expenses</th>
<th>Other expenses</th>
<th>OIBDA Q3’13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Margin in %</td>
<td></td>
<td>-91.7</td>
<td>+10.3</td>
<td>+66.0</td>
<td>-4.2</td>
<td>-27.9</td>
<td>+291.6</td>
</tr>
<tr>
<td>OIBDA</td>
<td>+339.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

Strong conversion of operating results into FCF\(^1\) supports dividend policy

Free cash flow y-o-y evolution

YTD in EUR million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>553</td>
<td>88</td>
<td>111</td>
<td>32</td>
<td>543</td>
</tr>
</tbody>
</table>

\(-1.8\%\)

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
Q&A
Q&A

Telefónica Deutschland Q3 2013 results conference call