

Telefonica

Deutschland

Creating
the
Leading
Digital
Telco



Telefónica Deutschland Investor Presentation

September 2015

Disclaimer

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 Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin). The Company offers 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. Past performance cannot be relied upon as a guide to future performance.

Except as required by applicable law, Telefónica Deutschland undertakes no obligation to revise these forward-looking statements to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica Deutschland’s business or strategy or to reflect the occurrence of unanticipated events.

The financial information and opinions contained in this document are unaudited and are subject to change without notice.

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.

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 or any of the information contained herein do not constitute, form part of or shall be construed as an offer or invitation to 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 or a solicitation of an offer to purchase securities 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 there from. 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.

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

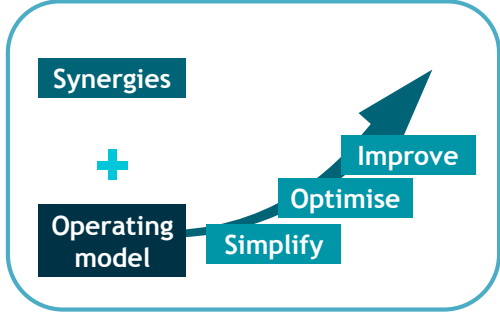
Achieve **Operational Excellence**



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



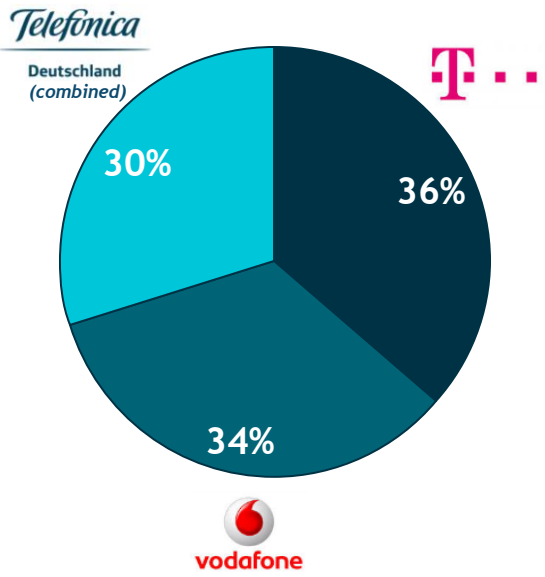
Peace of Mind, Multi-channel & Digital first



Synergies & Lean operating model

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

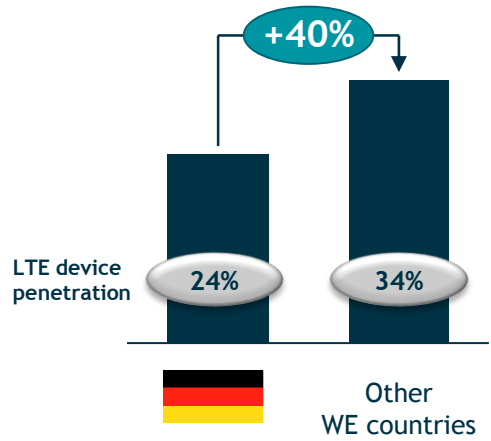
Rational and balanced market structure¹



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

Infrastructure-based competition

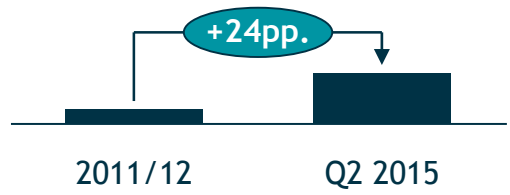
LTE device penetration in % vs. avg. 3G/4G data usage in MB in 2015 FC²



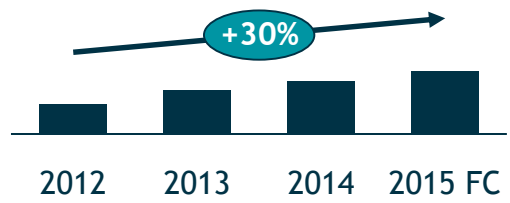
- Further opportunities ahead from steady LTE adoption
- Mobile (3x) and Fixed (2x) platforms for High Speed access

Steady adoption of a Digital Lifestyle

Mobile customers using smartphones for video streaming in %³



3G/4G avg. data usage in Germany²

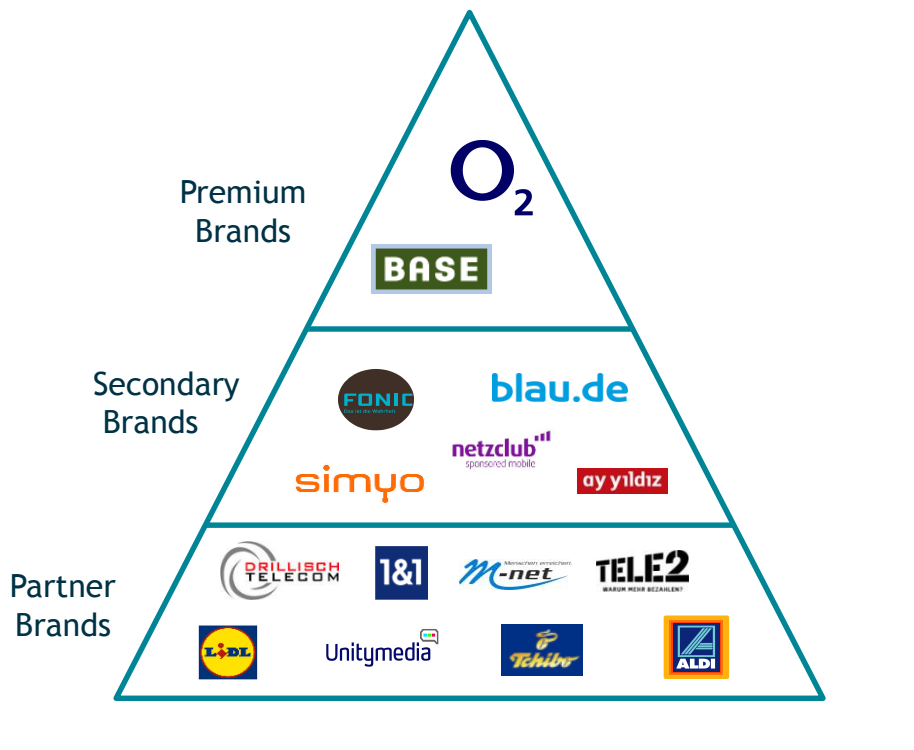


- Trend to 1 Gb/month; free VoD⁴ as main usage driver
- Digital customers & households demand for quality

¹ Market share of MSR based on reported financials by MNOs for FY 2014 & 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**



+ **3G national roaming enabled for the whole customer base from mid-April '15**

Focused commercial approach, leveraging upsell potential & value based handset model

	O ₂ Blue All-in S	O ₂ Blue All-in M	O ₂ Blue All-in L	O ₂ Blue All-in XL
	€0	€5	€10	€15
	Monthly discount ¹			

LTE4G

S	M	L	XL	Premium
21.1 Mbps 200 MB €19.99	21.1 Mbps 1GB €29.99	50 Mbps 3 GB €39.99 + 1 SIM + EU roaming	50 Mbps 5GB €49.99 + 2 SIMs + EU roaming	50 Mbps 10 GB €79.99 + 2 SIMs + EU roaming

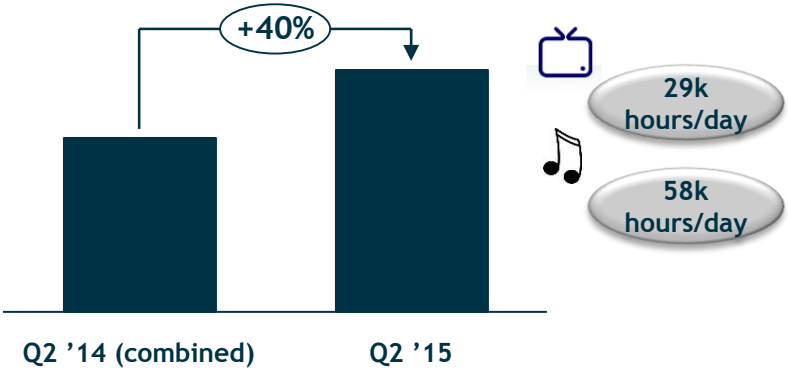
Tip

+100 MB (für 2 €) +100 MB (für 2 €) +100 MB (für 2 €) + 500 MB/1 GB (für 5€ mtl.)

Strong progression with mobile data monetisation

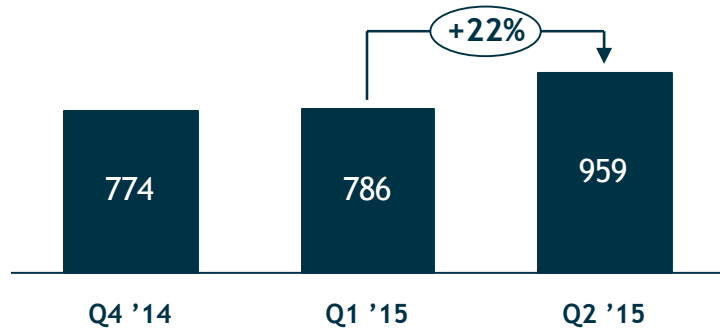
Enabling our customers' digital life

Total increase in content streaming traffic



National Roaming and LTE driving usage

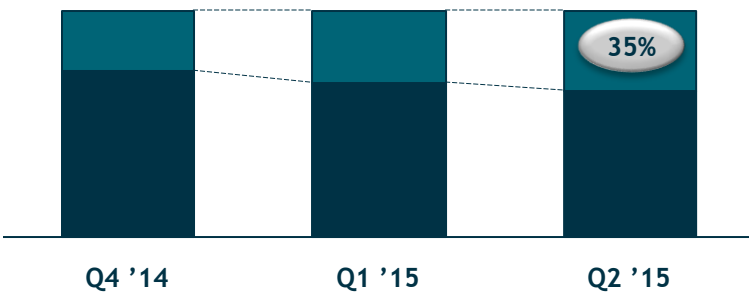
Average data usage for O₂ consumer LTE customers¹ (MB)



Ongoing improvement of tariff adoption mix

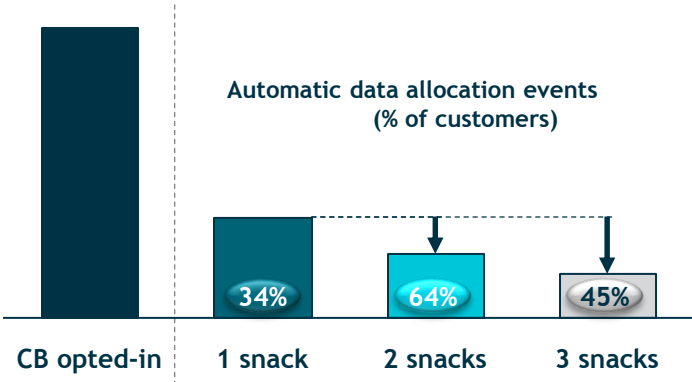
Share of Gross Adds in O₂ Consumer postpaid

■ >1 GB ■ <1 GB



Encouraging progression of Data Automatic

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



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 ...

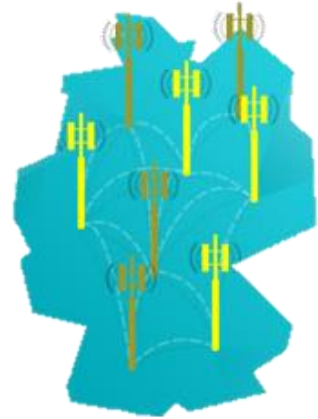
... with positive reviews from specialised media



- **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

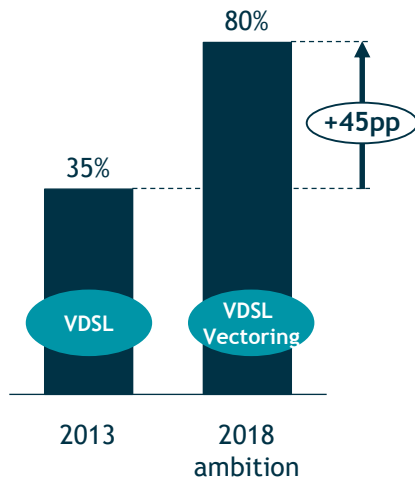
- User-driven network test (June 2015)
- 3G national roaming key for improved ratings
- O₂ customers showing strongest satisfaction



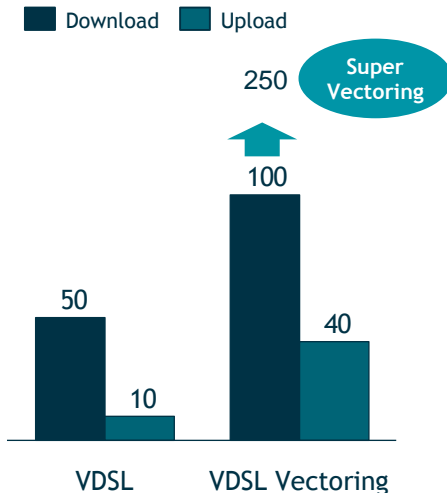
The right fixed infrastructure model to complement our mobile network for the best high speed access experience

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

NGA coverage targets
(% of covered households, YE)



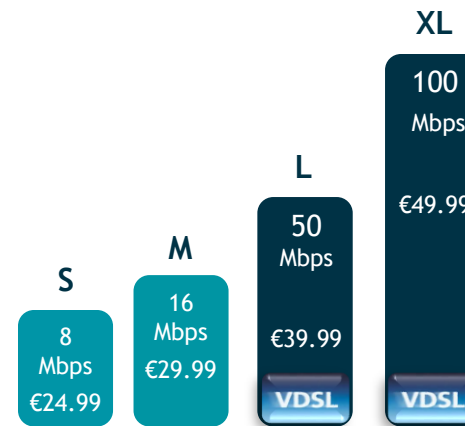
Maximum Speed
(Up- & Download, Mbps.)



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

With a very competitive bundled offer "Kombi - Vorteil"

O₂ DSL all-in
(Download speed, Mbps.)



- Flexible aggregation of fixed & mobile lines with progressive discounts based on value (up to €30)
- Active cross-selling of fixed propositions to former E-Plus customer base

¹ NGA: Next Generation Access, including VDSL, Vectoring and future FTTH 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



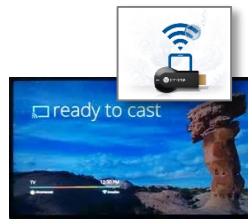
- Largest physical distribution reach in the market
- Our priority is to reach operational excellence in customer service
- Shop footprint reduction (own branded & partner shops) by 1/3rd
- Increasing relevance of own online channels
- O₂ portfolio distributed in BASE branded shops

Facilitating our customers' digital journey

Our flexible approach to a Digital Lifestyle with a smartphone-centric proposition

Digital enhancement @ Home

- Strong focus on enhancing our customers' digital experience
- Chromecast experience as a facilitator to big screen



Flexible Access



Sie zu
10 €
sparen

- Access choice; leveraging LTE & VDSL + Kombi



Flexible offering through Partners

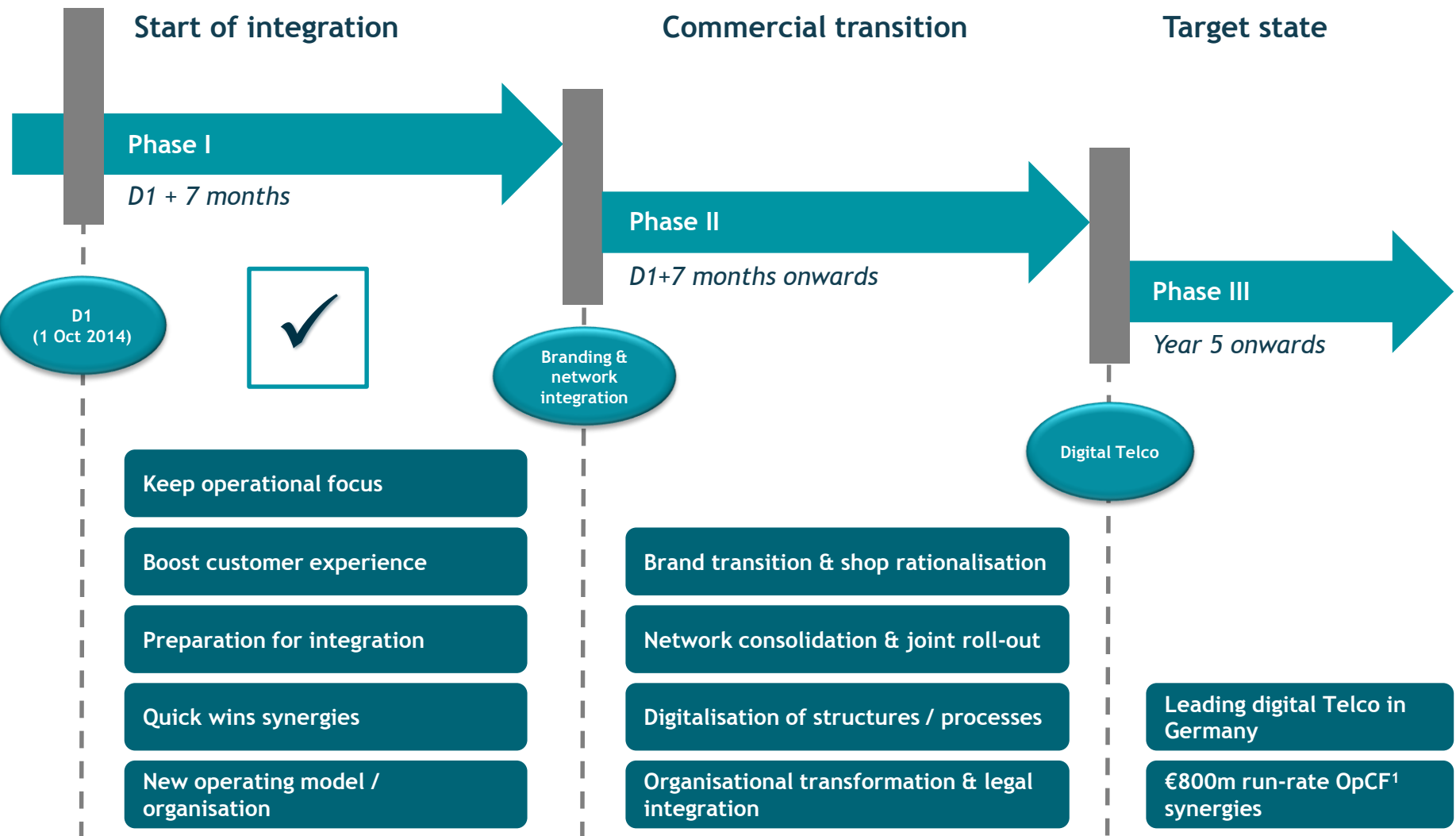
ZATTOO

WATCHEVER



7TV

Successful start of integration & transformation activities



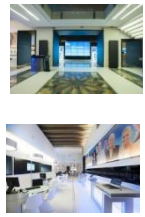
Notes:
1 OIBDA minus CapEx

Expected synergies to exceed €5bn (NPV¹)

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

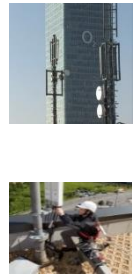
Distribution & Customer Service

- Leverage and scale effects of broad distribution network and customer service organizations
- Optimization 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

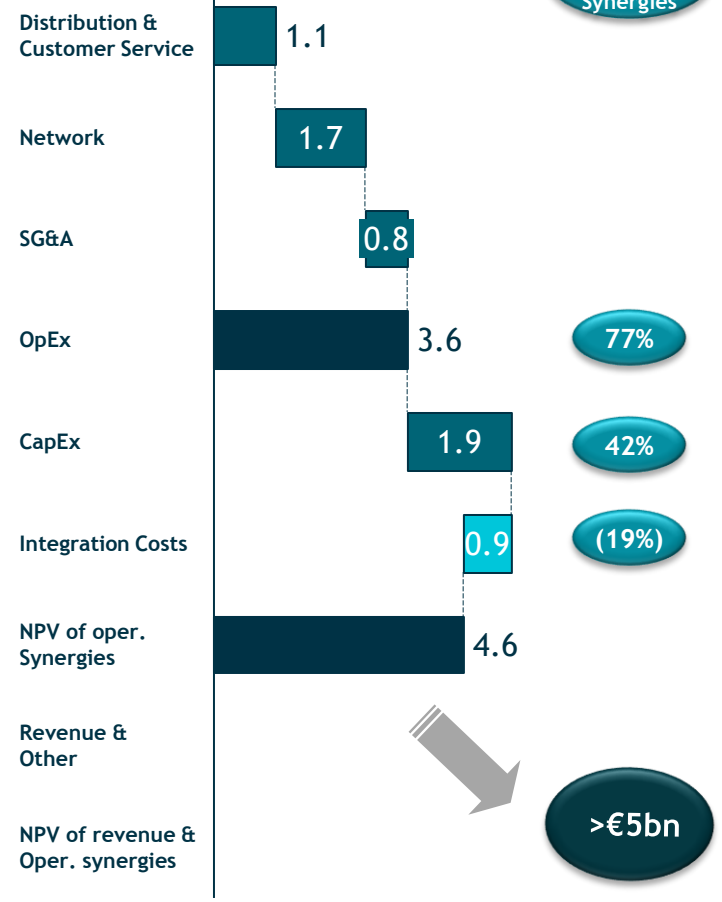


Revenue and other

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

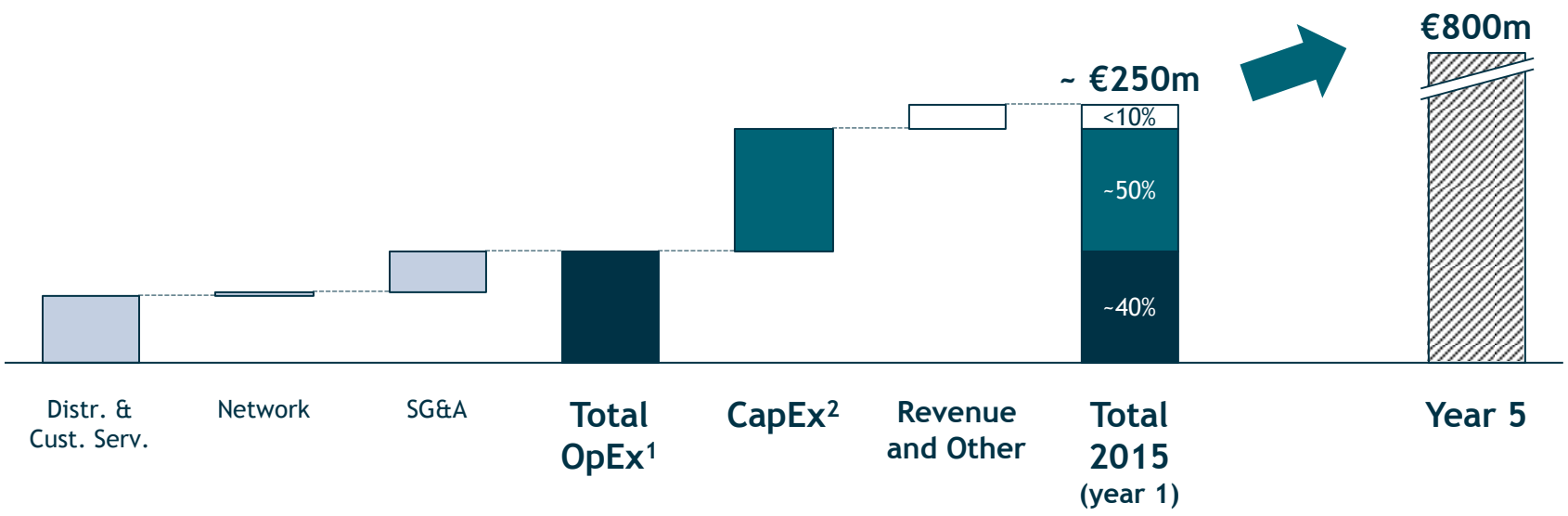


In €bn



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

Around 30% of total target synergy run-rate to be achieved already in the first year of integration



- 2015 synergies at ~30% of €800m run rate in year 5 of integration (~80% in year 4)
- **Distribution & Customer service** to represent ~60% of OpEx synergies in 2015
- **CapEx synergies** mainly driven by a single LTE-network rollout
- A significant proportion of **expected OpEx restructuring costs** already booked in 2014

Headcount restructuring³
 of 1,600 FTEs by 2018
 (~50% in '15 from Q2'15)

Shop reduction³
 planned by 1/3rd by year 5

Decommission³ of
 ~14,000 **mobile sites**
 planned by year 5

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

Early integration benefits and focus on customer base leading to progressive improvement in profitability

Integration

- Leaver program on track: 750 FTEs
- Transfer of 301 shops to Drillisch incl. 300 FTEs + decommission plan for >100
- Agreement to transfer 7,700 sites to DT



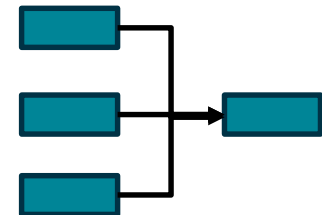
Transformation

- Harmonisation of shop branding under O₂ already started
- Increased retail presence of blau brand
- Successful start of Drillisch MBA MVNO



Simplification

- Ongoing simplification of legal corporate structure
- Inner-city consolidation of facilities and offices



We expect a gradual progression in OIBDA for 2015 driven by synergies & operational excellence

	Baseline 2014* (€ m)	H1 2015* (y-o-y pct. growth)	Outlook 2015** (y-o-y pct. growth)
MSR	5,528	0.8%	Broadly stable
OIBDA	1,461	9.8%	>10%
CapEx	1,161	5.6%	High single digit pct. decline

~30%
of total target synergy
run-rate to be achieved
already in 2015
(~€250m²)

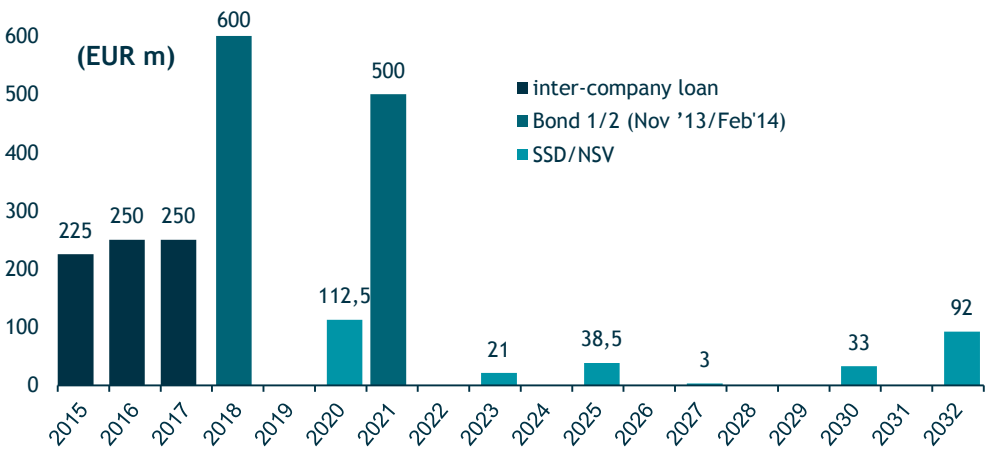
- Stronger focus on development of own customer base; with value-for-money approach to customers
- Drive data monetisation, leveraging higher demand for data services & LTE
- Lean & digital organisation with a simplified operating model & optimised processes
- Economies of scale in relation to network, administration, IT, rent, procurement etc.
- Synergies: ~30% of €800m Operating Cash Flow synergy run-rate already in year 1
- New investment cycle with focus on LTE and combination of the two networks; synergies outweighing additional CapEx for accelerated LTE rollout

¹ Combined figures for 2013 and 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. The combined figures are further adjusted by material 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. Financials also exclude material one-offs, such as capital gains or restructuring costs (€414m in 2014).

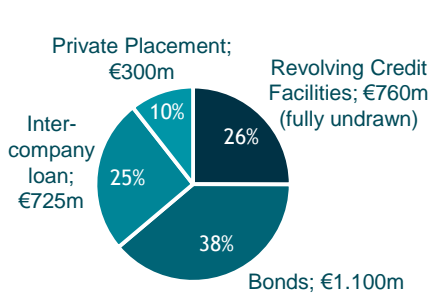
² All expected regulatory effects (e.g. MTR cuts) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA Outlook and CapEx excludes investments in spectrum

Comfortable liquidity and conservative financing policy

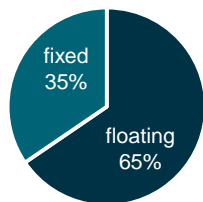
Smooth, extended maturity profile and further diversified financing mix



Financing instrument mix (%)

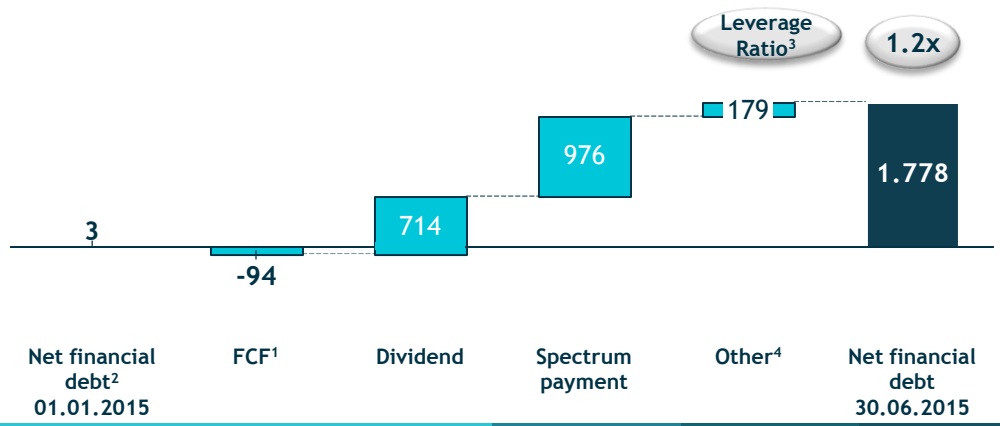
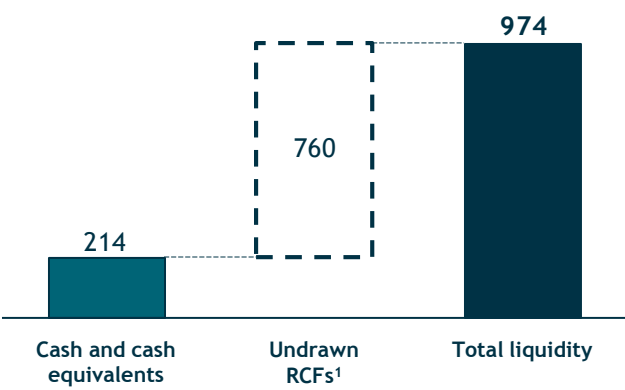


Interest payment mix (%)



Comfortable liquidity position

Leverage³ ratio at 1.2x after one-off payments in Q2'15



¹ Revolving credit facilities; €50m RCF volume maturing in 2015, €510m in 2017 and €200m in 2018
² For definition of Net financial debt please refer to the published Q1 2015 materials (www.telefonica.de)
³ As measured by Net Financial Debt/OIBDA (Last 12 months)
⁴ 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 of more than €714m on 2014 results approved by AGM and paid in May 2015



Notes:
1 Refer to the Telefónica Deutschland website for full dividend policy (www.telefonica.de)

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: €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

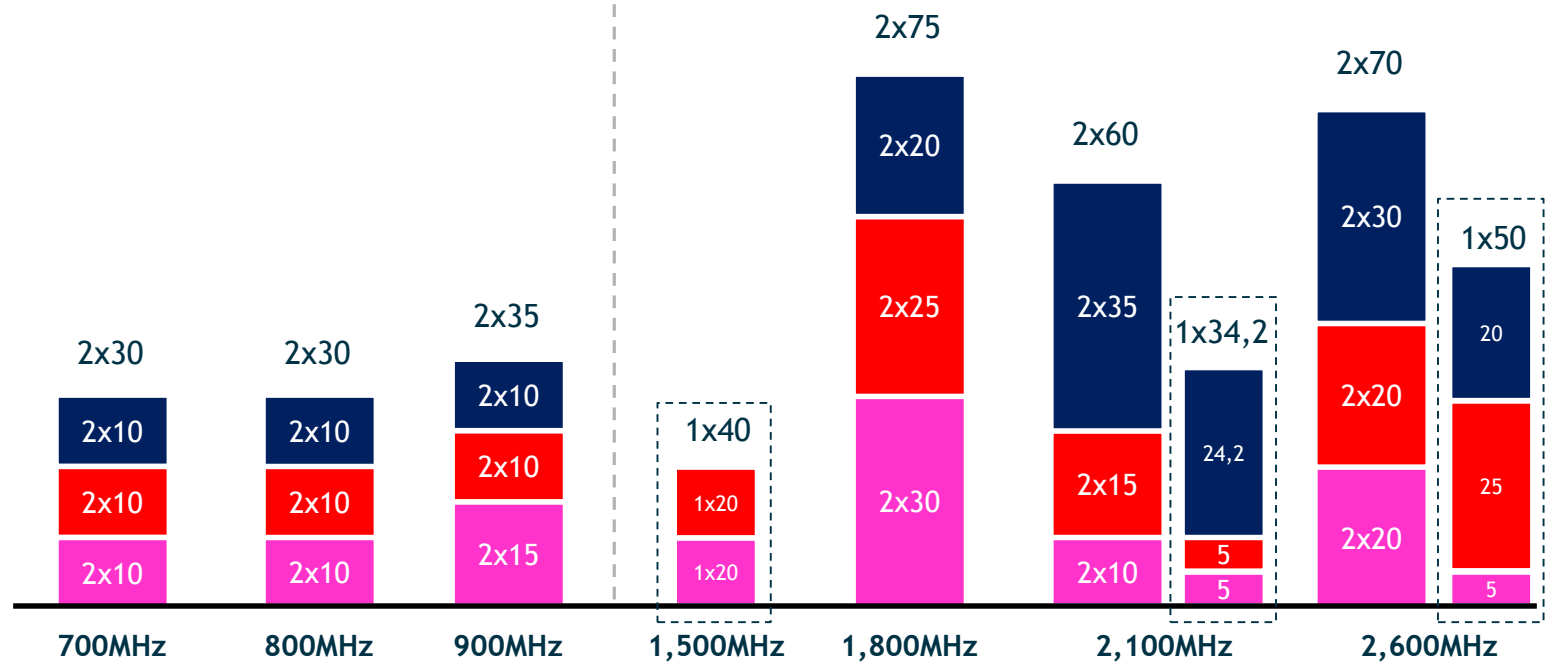
- Conservative financing policy
- Commitment to maintain a high FCF dividend pay-out ratio
- Consider future upside from synergies in dividend proposals
- High financial flexibility with leverage ratio at or below 1.0x

Back-up

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 L ⁴	XL ⁴	Premium ⁴
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 (Inklusiv-Volumen)	200 MB	1 GB	3 GB	5 GB	10 GB
Datenautomatik ⁵ (automatisch nach Datenverbrauch)	bis zu 3 x 100 MB für je 2 € zusätzlich	bis zu 3 x 100 MB für je 2 € zusätzlich	bis zu 3 x 100 MB für je 2 € zusätzlich	bis zu 3 x 100 MB für je 2 € zusätzlich	bis zu 3 x 100 MB für je 2 € zusätzlich
Maximale Geschwindigkeit	bis zu 21,1 MBit/s LTE ⁶	bis zu 21,1 MBit/s LTE ⁶	bis zu 50 MBit/s LTE ⁶	bis zu 50 MBit/s LTE ⁶	bis zu 50 MBit/s LTE ⁶
Extra-Festnetznummer	✓	✓	✓	✓	✓
EU Roaming Flat (Surfen und Telefonieren im EU-Ausland) ⁷	+ 4,99 mtl.	+ 4,99 mtl.	✓	✓	✓
Minuten/SMS ins EU-Ausland mtl. inkl.	–	–	–	–	je 200
Multicard ⁸	+ 4,99 mtl.	+ 4,99 mtl.	1 Multicard inklusive	2 Multicards inklusive	2 Multicards inklusive
O ₂ Protect Complete ⁹ (12 Monate Laufzeit)	+ 3,99 mtl.	+ 3,99 mtl.	+ 3,99 mtl.	+ 3,99 mtl.	✓
O ₂ more Premium Status ¹⁰	–	–	–	–	✓
 Mtl. Grundgebühr reduziert für O ₂ Kunden*	14,99	24,99	29,99	39,99	69,99
Monatliche Grundgebühr (bei 24 Monaten Mindestvertragslaufzeit)	19,99	29,99	39,99	49,99	79,99

Einmaliger Anschlusspreis beträgt 29,99 €.

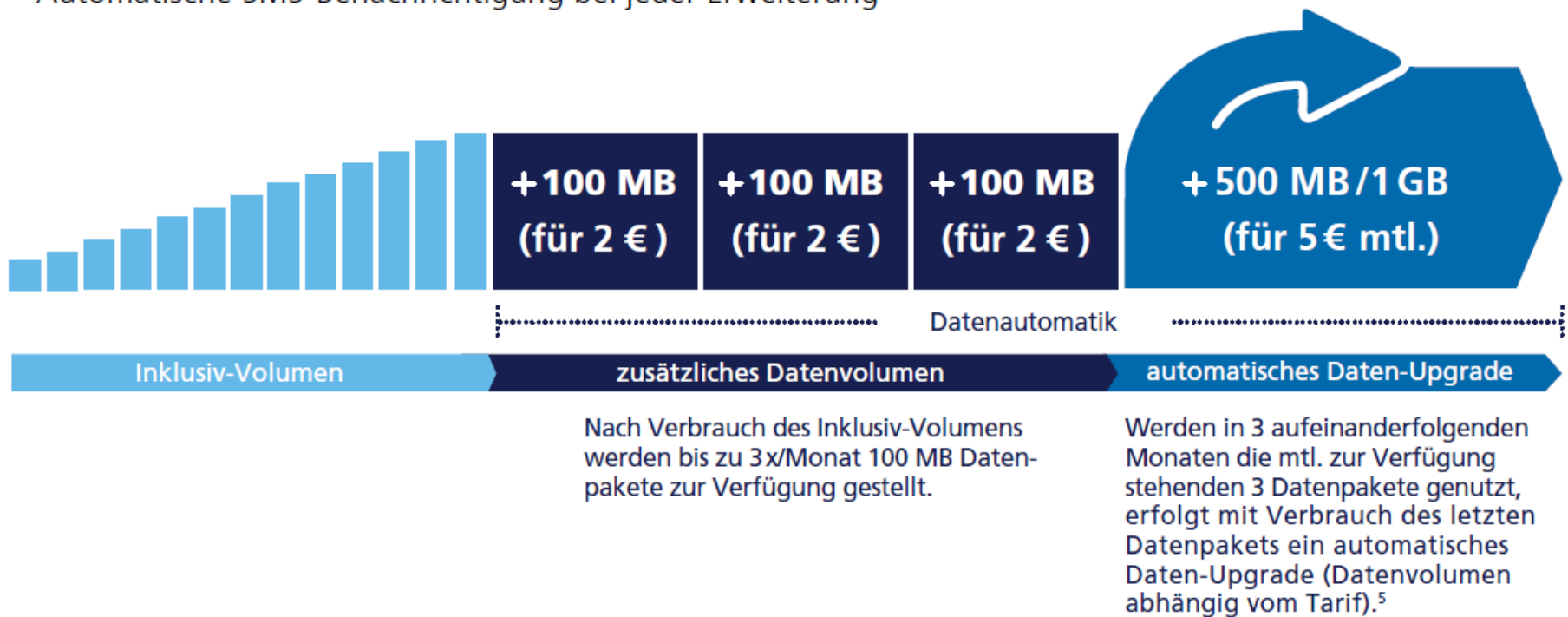
Preise in € inkl. MwSt.

* Weitere Informationen auf Seite 4 und siehe Hinweistext 1.


Datenautomatik

Für bequemes Surfen, Streamen und mehr in allen O₂ Blue Tarifen

- Immer genug Datenvolumen für schnelles Surfen
- Nach Verbrauch Ihres monatlichen Inklusiv-Volumens erhalten Sie automatisch bis zu 3 x pro Monat 100 MB zusätzliches Datenvolumen für jeweils nur 2 €⁵
- Automatische SMS-Benachrichtigung bei jeder Erweiterung



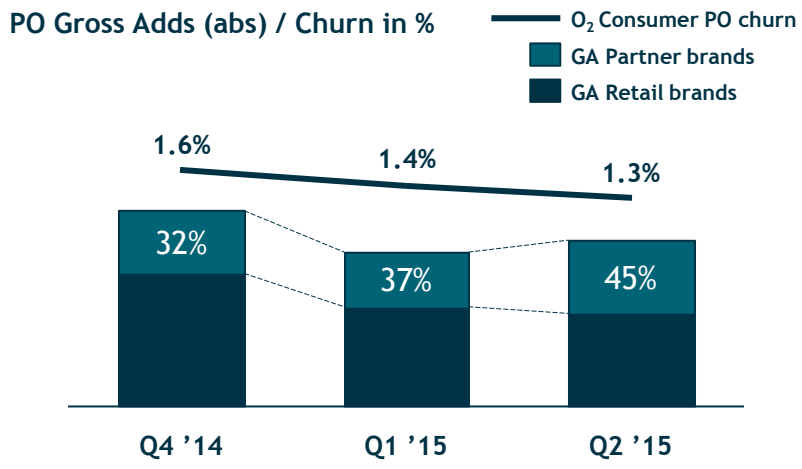
O₂ DSL All-in portfolio

O ₂ DSL All-in		S ¹³	M ¹³	TIPP L ¹³ VDSL	XL ^{13,**} 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)	bis zu 16.000 KBit/s (Upload: bis zu 1.000 KBit/s)	bis zu 50.000 KBit/s (Upload: bis zu 10.000 KBit/s)	bis zu 100.000 KBit/s (Upload: bis zu 40.000 KBit/s) ¹⁴	
Maximale Surf-Geschwindigkeit bis*** (Inklusiv-Volumen)	100 GB ¹⁵	300 GB ¹⁵	300 GB ¹⁵	500 GB ¹⁵	
Fair-Use-Mechanik****	-	✓	✓	✓	
WLAN-Router/HomeBox 2/AVM FRITZ!Box 7490 ¹⁶	0,00/19,99/49,99	0,00/19,99/49,99	0,00/19,99/49,99	-/19,99/49,99	
Anschlusspreis ¹³	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)	

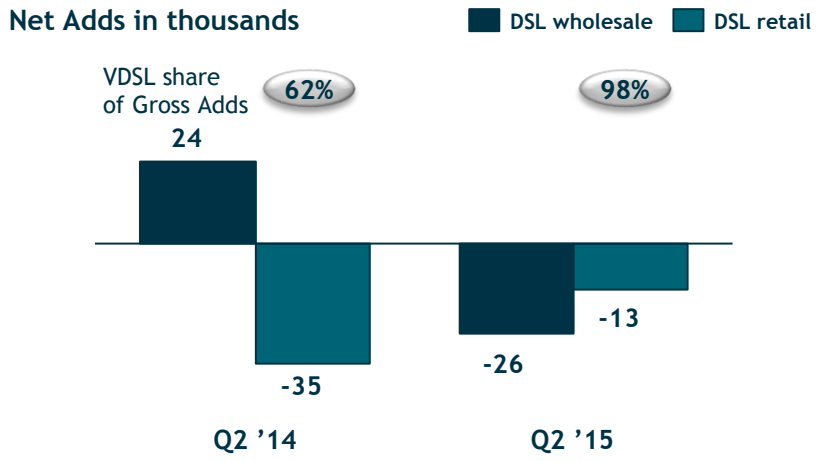
Preise in € inkl. MwSt.
 * Weitere Informationen auf Seite 4 und siehe Hinweistext 1.
 ** In vielen regionalen Gebieten verfügbar.

Driving momentum in a rational environment with a continued focus on base management and partner trading

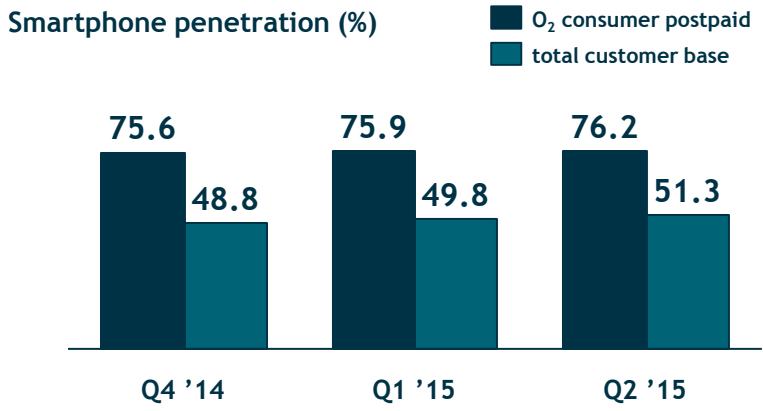
Balancing value with growth in mobile



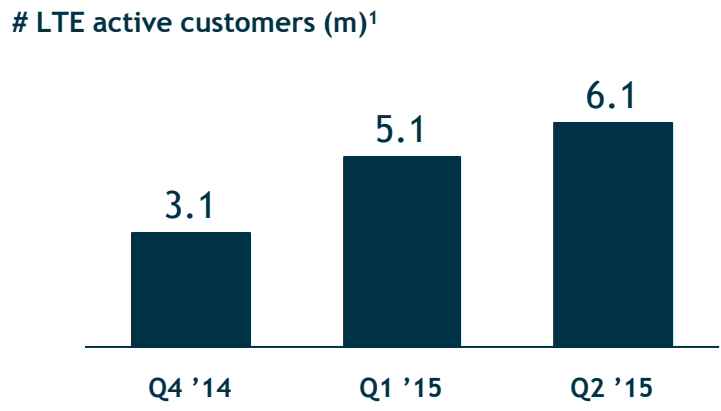
Exploiting a strong fixed BB proposition



Driving further smartphone adoption



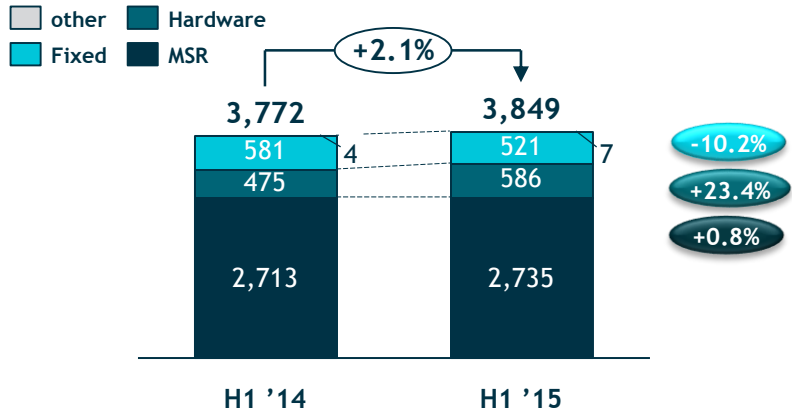
Increasing our active LTE base



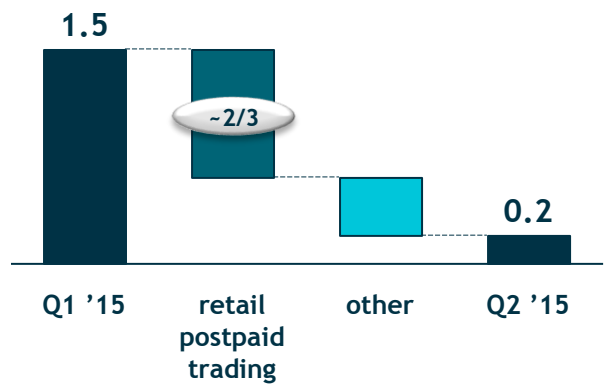
¹ defined as customer with LTE enabled handset & LTE tariff

Our mobile-centric strategy driving top line performance

Revenue Structure (in €m)

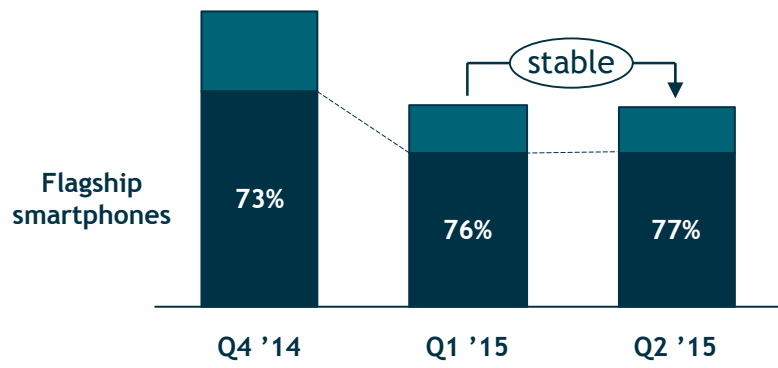


Mobile Service Revenue y-o-y (in %)



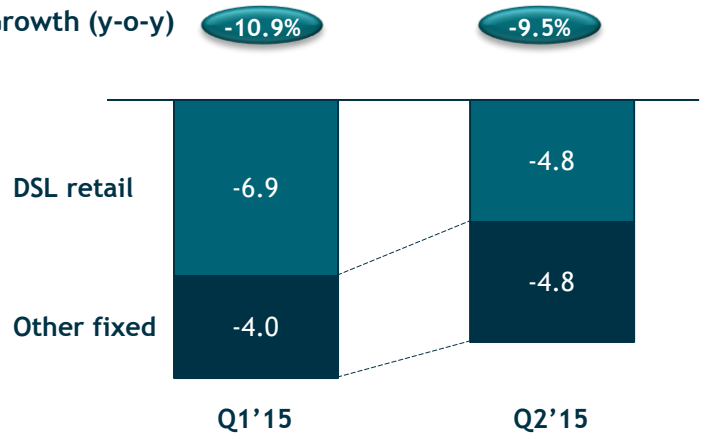
Increased flagship HW sales driving revenue

Handsets sold (volume)



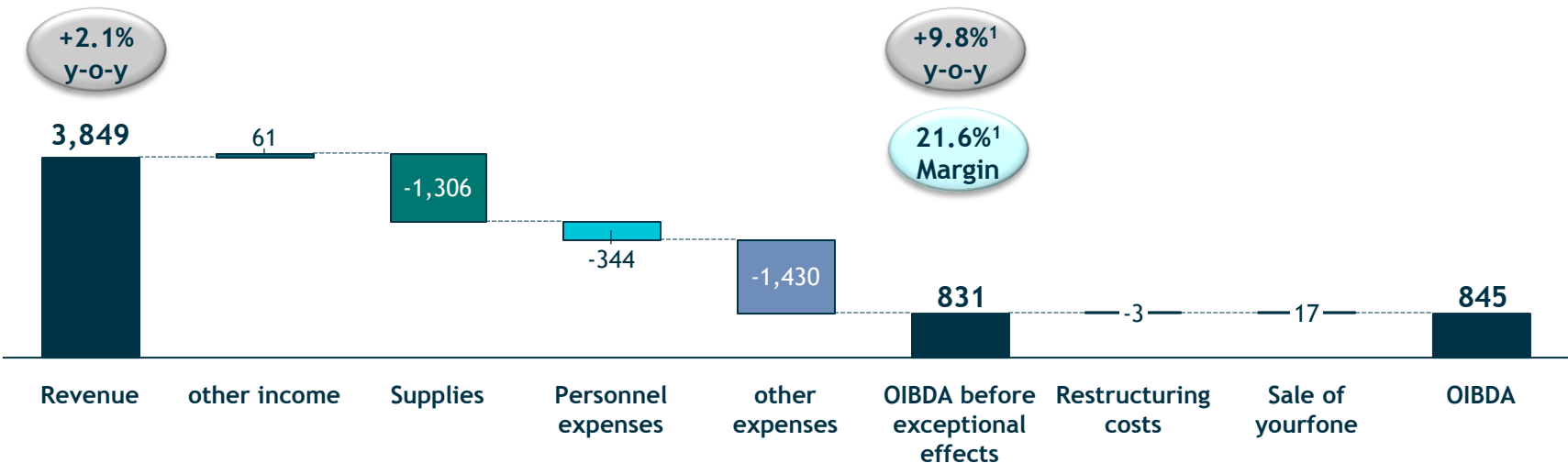
Fixed Revenue y-o-y (in %)

Growth (y-o-y)



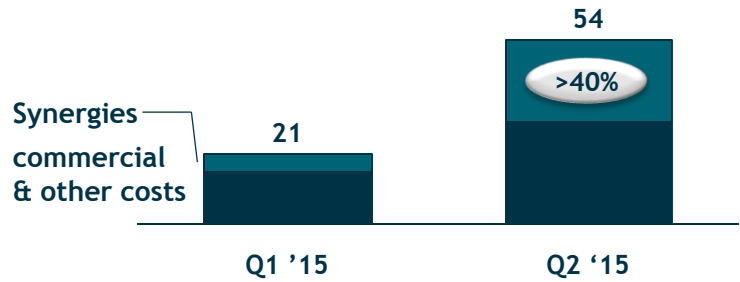
OIBDA already reflecting the benefit from integration savings

Structure of H1 '15 OIBDA (in €m)



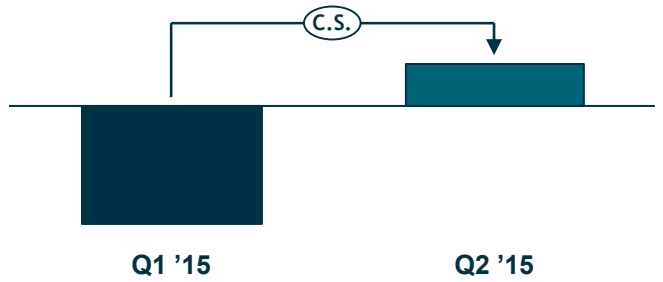
Synergies already a significant driver in Q2 '15

OIBDA growth (y-o-y in €m)¹



Value-based handset approach

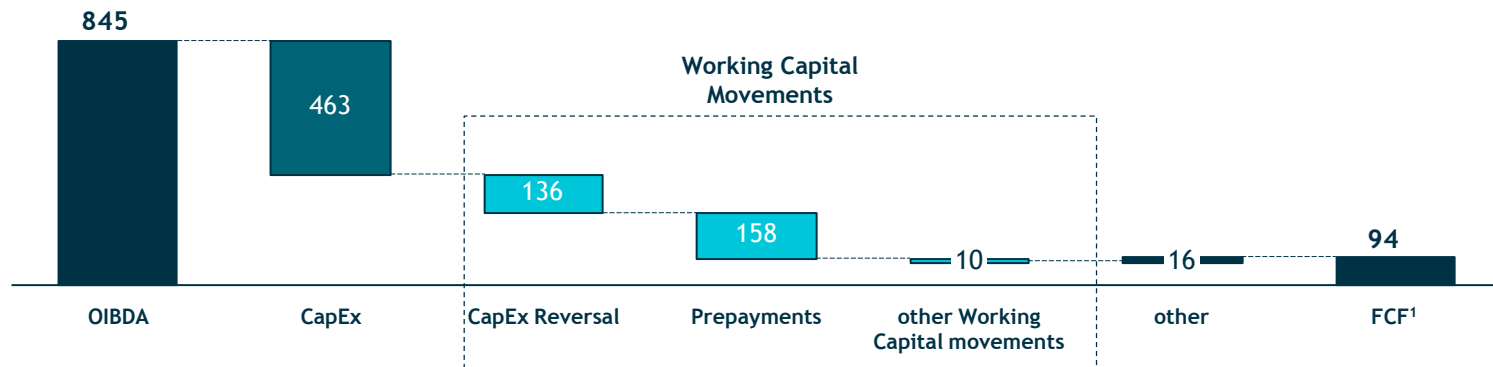
HW margin (absolute figures)²



¹ y-o-y comparisons based on 2014 combined figures and excluding exceptional effects
² Hardware margin defined as handset revenues less cost of sales

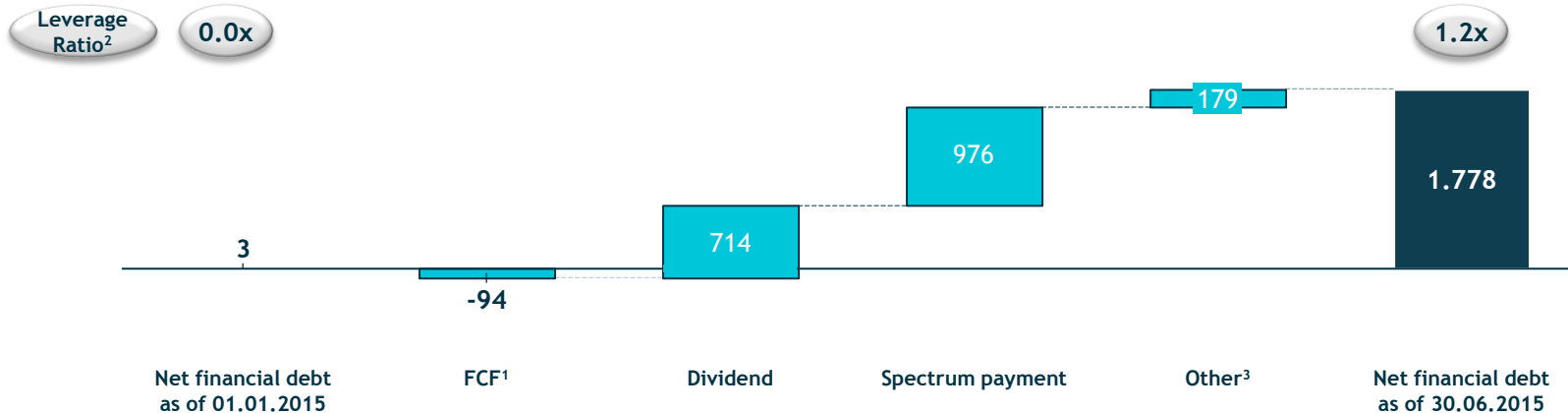
Keeping financial flexibility after significant one-off investments in Q2 2015

Evolution of Free Cash Flow (FCF)¹ (in €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 €m) - leverage² ratio at 1.2x after one-off payments in Q2'15



² For definition of Net Debt and Leverage Ratio please refer to additional materials of H1 15 results
³ Mainly consists of movement of O2 My Handy receivables and Handset model receivables

Quarterly detail of relevant combined financial and operating data for Telefonica Deutschland from Q4 2013

Financials (Euros in millions)	2013	2014				FY
	Q4	Q1	Q2	Q3	Q4	
Revenues	2.022	1.847	1.925	2.002	2.019	7.793
Mobile service revenues	1.391	1.333	1.380	1.424	1.391	5.528
OIBDA post Group fees	462	357	399	350	354	1.461
CapEx	471	215	224	286	438	1.161

Accesses (EoP) (in k)	2013	2014				FY
	Q4	Q1	Q2	Q3	Q4	
Total Accesses	46.899	46.897	47.303	47.803	47.662	47.662
o/w mobile	41.133	41.168	41.623	42.201	42.125	42.125
Prepay	22.876	22.680	22.940	23.316	23.351	23.351
Postpay	18.257	18.489	18.683	18.885	18.774	18.774

- 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 material 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.

Telefonica

Deutschland