Telefónica Deutschland Q4 2014 preliminary results and outlook

24 February 2015

Public – Nicht vertraulich

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Telefónica Deutschland management team

Markus Haas
COO

Thorsten Dirks
CEO

Rachel Empey
CFO & Strategy

Full senior management team on duty from 1 October 2014

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 solid start in Q4 2014**
4. **Strong value proposition for Telefónica Deutschland shareholders**

The Leading Digital Telco: our priorities and success factors

1

Keep the Momentum

Integrate quickly

Transform the company

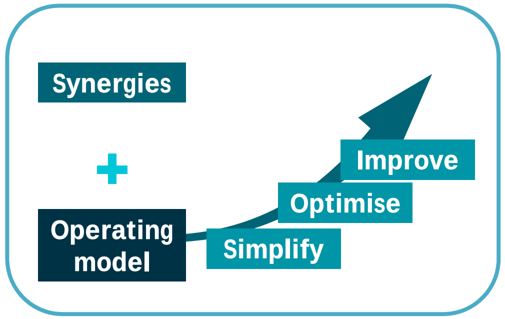
Offer **Best high speed Access experience**

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*



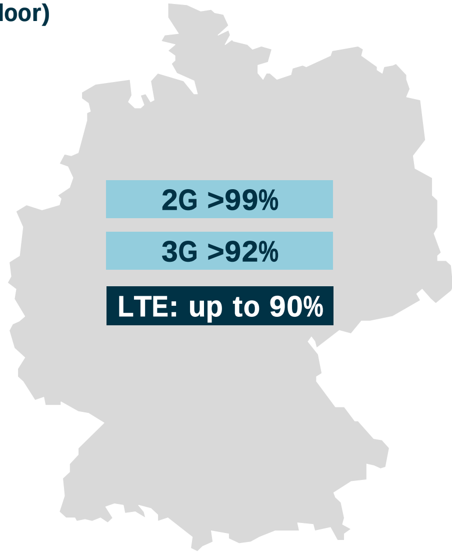
Synergies & Lean operating model

The right infrastructure model to compete and deliver the best high speed access experience

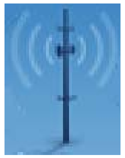
2

Ownership of strong set of spectrum & mobile access infrastructure

2016 coverage targets
(% Pop outdoor)



National Roaming

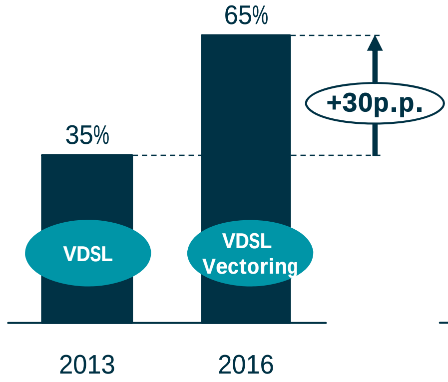


- **“Golden Grid”** combined network
- Network quality perception boost via **National Roaming**
- **Accelerated, value-driven LTE rollout**; high speed overlay in cities

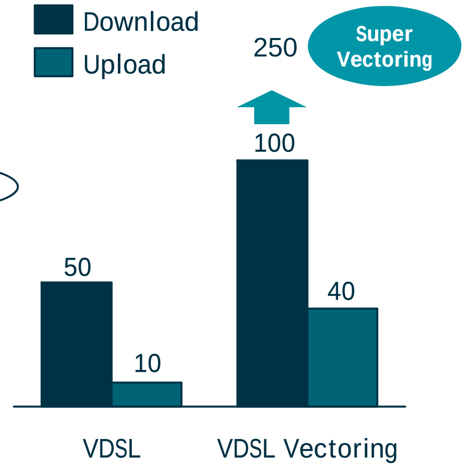
+

Access to best available fixed NGA[1] network – scalable & future-proof

NGA coverage targets
(% of covered households, YE)



Maximum Speed
(Up- & Download, Mbps.)

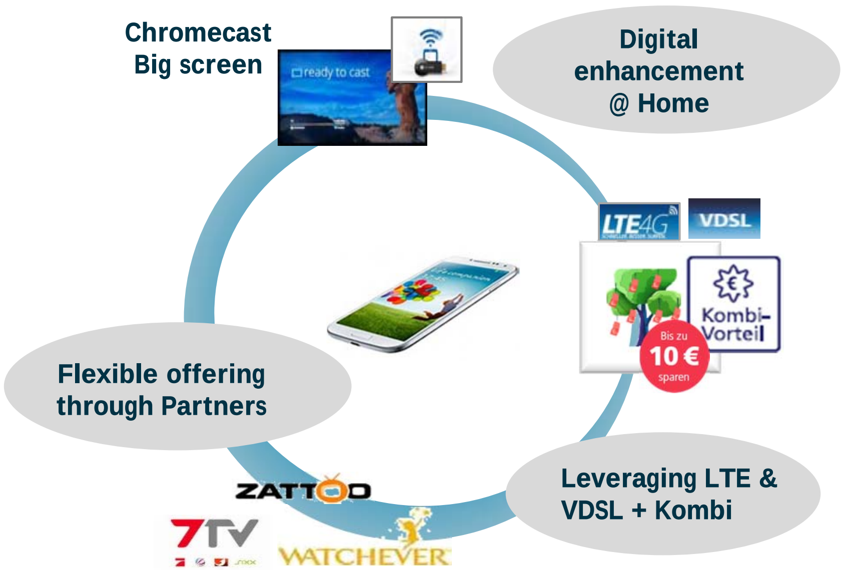


- **Immediate & nationwide access to DT’s NGA** rollout
- **Regulated access/pricing terms**
- Coordinated **NGA planning and decommission of own DSL-ULL**

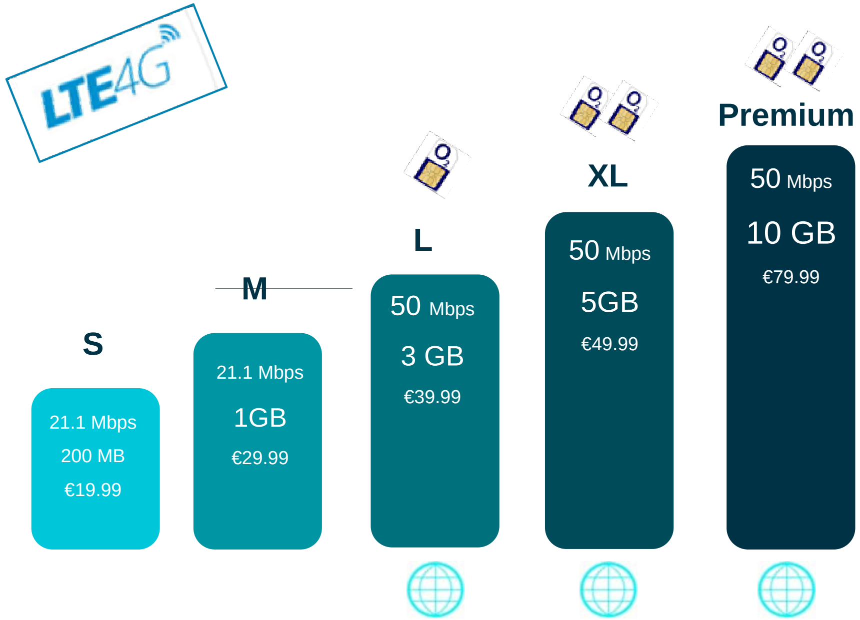
Notes:
1 NGA: Next Generation Access, including VDSL, Vectoring and future FTTX deployments

Facilitating our customers' digital journey with a smartphone-centric and flexible approach

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



New O_2 Blue portfolio leading our multi-brand approach

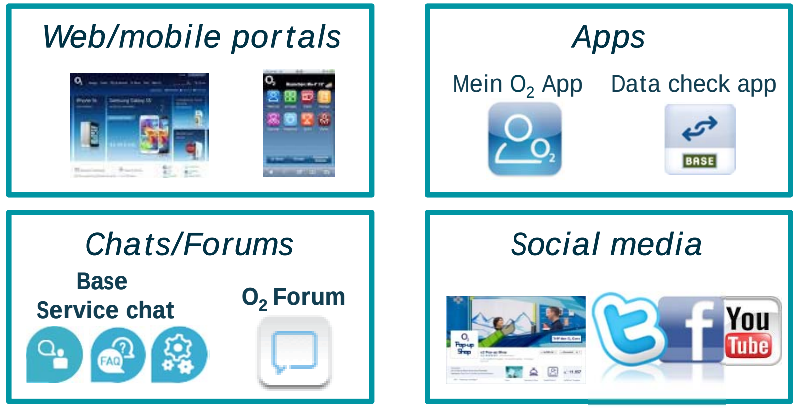


Best sales & service experience through extensive multi-channel retail and digital approach

2

Multi-channel to maximize efficiency

"Digital first" for every customer interaction



- **Largest physical distribution** reach in the market
- Our priority is to reach **operational excellence in customer service**
- **Branded & partner shop footprint planned reduction by 1/3rd**
- **Increasing relevance of own online** channels
- **O_2 portfolio distributed in BASE branded** shops

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A solid start for the new Telefonica Deutschland

3

Mobile service revenue	**MSR confirmed a solid turnaround, flat year-on-year[1] in Q4 2014 leveraging premium brands**
OIBDA[2]	**OIBDA[2] met q-o-q given outlook: mobile data partially offset integration + commercial push**
Free cash flow & net debt	**Strong OIBDA to €719m FCF[2] conversion in 2014 & E-Plus integration leading to improved liquidity**
Synergies & Outlook'15	**~30% of target run rate Op CF synergies in 2015 while expanding LTE: >10% OIBDA[3] y-o-y expected**

Notes:
[1] Indicative like-for-like year-on-year comparisons are based on approximate combined figures of 2013 and 2014 resulting from the aggregation and consolidation of Telefonica Deutschland and E-Plus Group financials according to Telefonica Deutschland Group accounting policies.
[2] FCF defined as the sum of cash flows from operating activities and cash flow from investing activities. In 2014 excluding capital measures and payments related to the acquisition of E-Plus Group.
[3] Excluding €401m restructuring costs in the fourth quarter of 2014 and €414m from combined full year 2014

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Mobile data monetisation leveraging revenue performance

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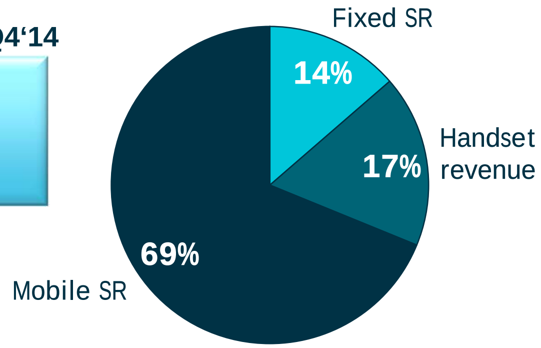
Stable year-on-year evolution of Q4 revenue[1]

Outlook Q4'14

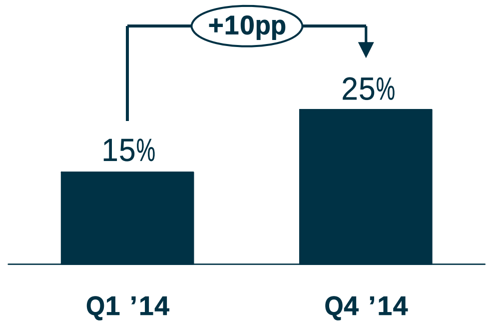
✓



Revenue Q4'14: €2,019m

LTE adoption driving data usage/customer

Adoption of Data plans >1GB[2] (% O_2 Postpaid consumer)



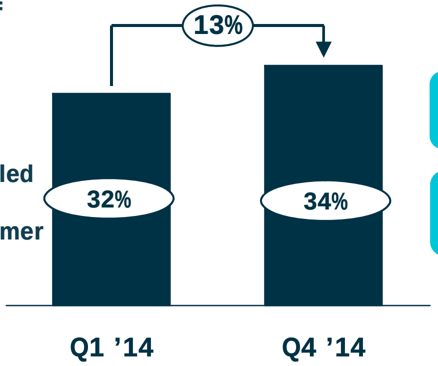
Smartphone Penetration, premium brands 76%

Value-based approach to handset sales

Increasing opportunities for mobile data upselling

Evolution of throttling events

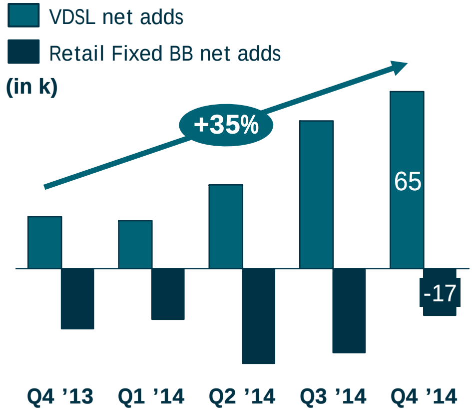
Share of throttled base over O_2 postpaid consumer

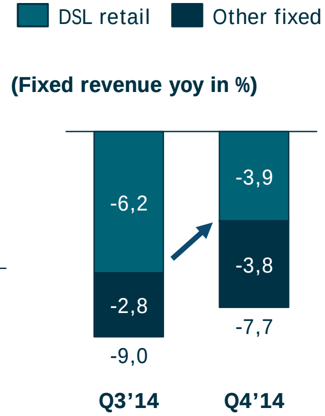


LTE for all O_2 postpaid

O_2 Blue data automatic

VDSL uptake driving fixed revenue y-o-y evolution



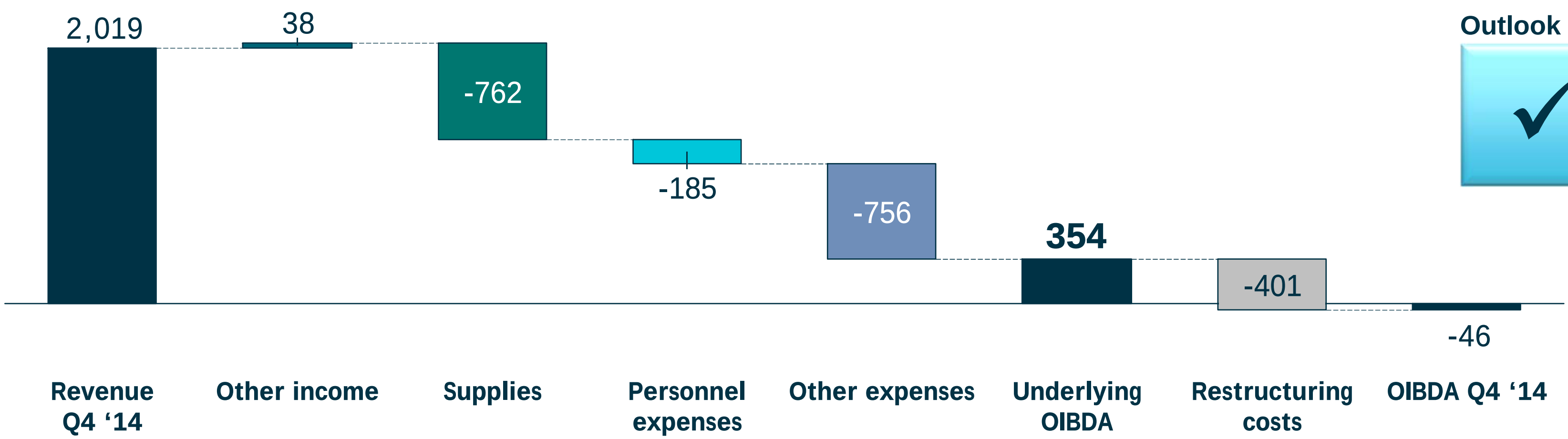


Notes:
[1] Combined figures of 2013 and 2014 resulting from the aggregation and then consolidation of Telefonica Deutschland and E-Plus Group financials according to Telefonica Deutschland Group accounting policies.
[2] Consumer postpaid Gross Adds of O_2 Blue All-in L, XL, Premium

Stronger quarter-on-quarter OIBDA performance in Q4 2014

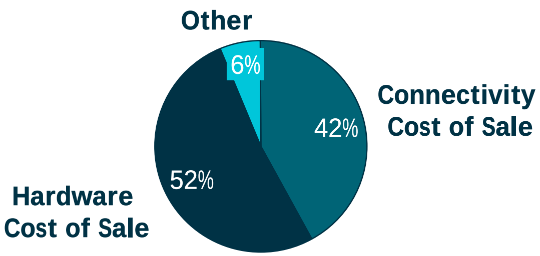
3

Composition of OIBDA (in €m)

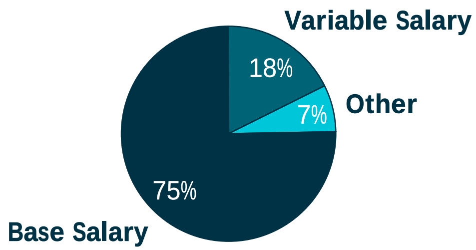


Outlook Q4'14

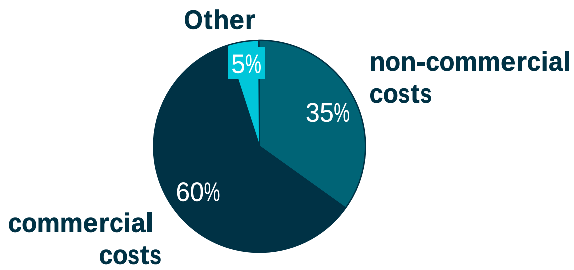
Supplies - Split in %



Personnel expenses - Split in %



Other expenses - Split in %



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Incorporation of E-Plus assets after PPA and start of a new investment cycle from Q4 2014

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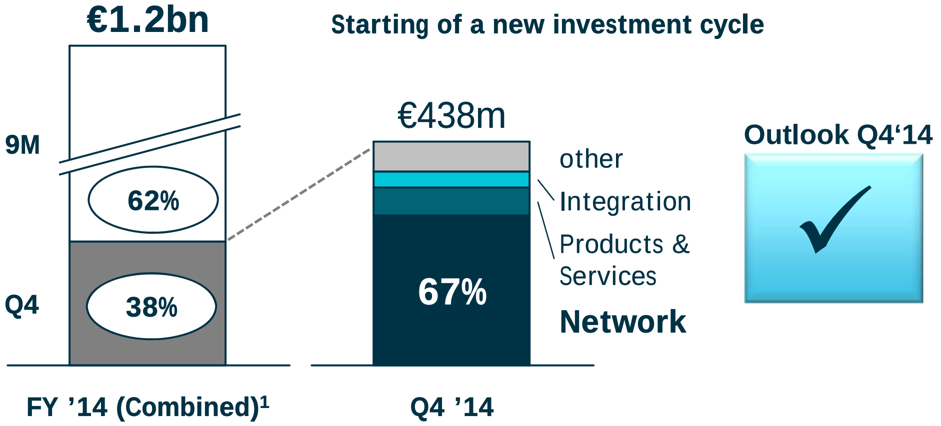
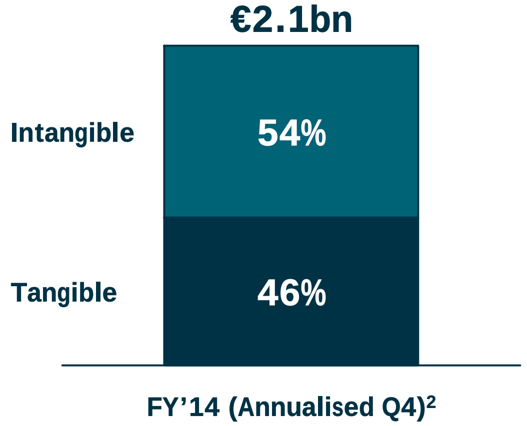
CapEx FY'14 (combined) [1] & Q4'14

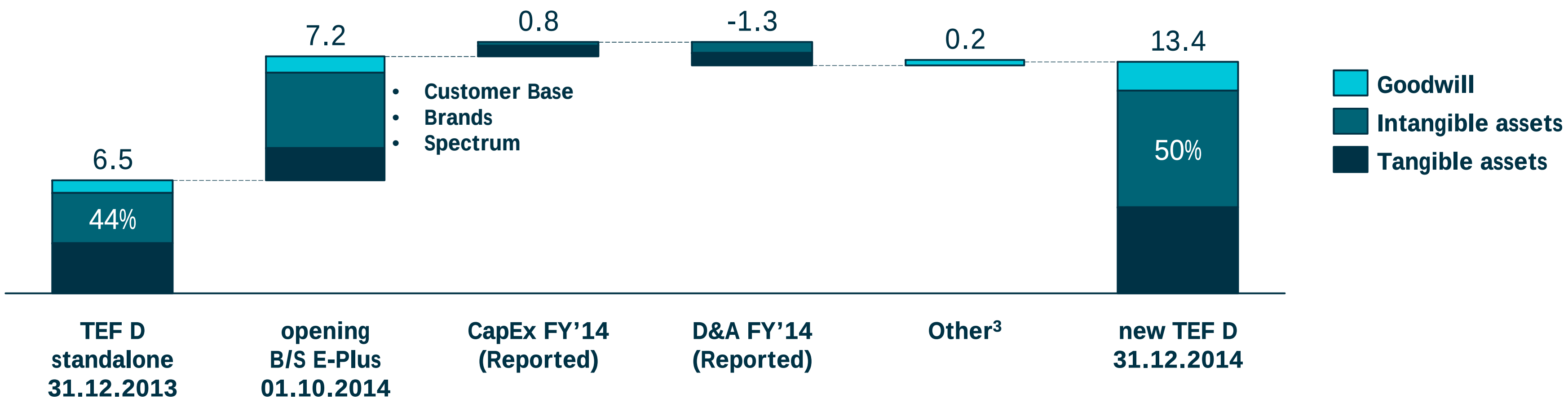


Annualised D&A in 2014 (Q4'14 basis)



[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 extraordinary effects, such as capital gains or restructuring costs based on estimates made by Telefónica management.

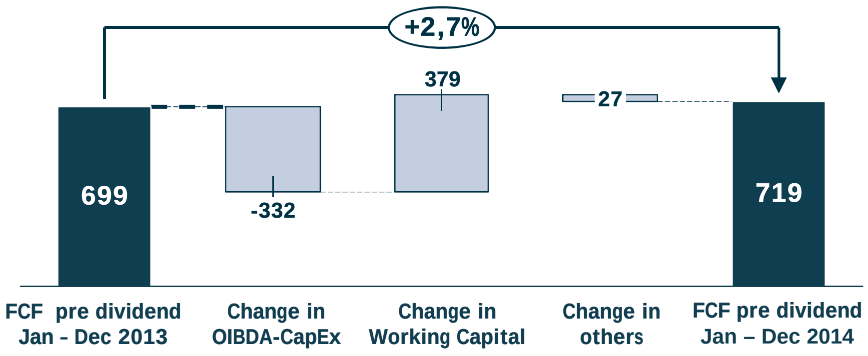
Evolution of depreciable assets + goodwill in 2014 (€bn)



Notes:
[2] Gross up of the yearly D&A on avg. residual book value (01.01.2014) incl. E-Plus opening B/S CapEx
[3] Other: Assets held for sale & re-valuation of asset retirement obligations

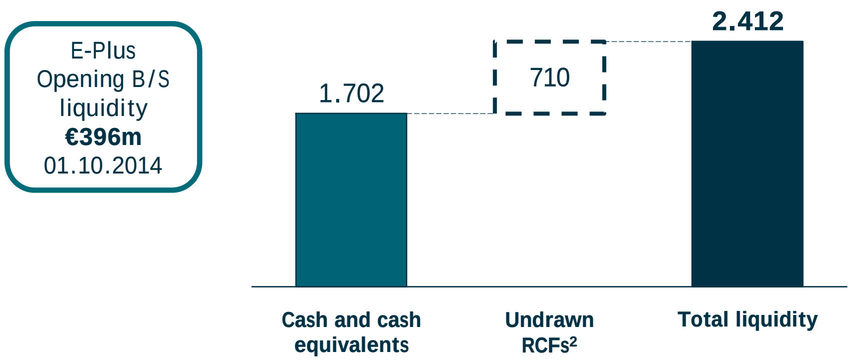
Strong conversion to FCF leading to improved liquidity

Evolution of Free Cash Flow[1] (reported, yoy in €m)



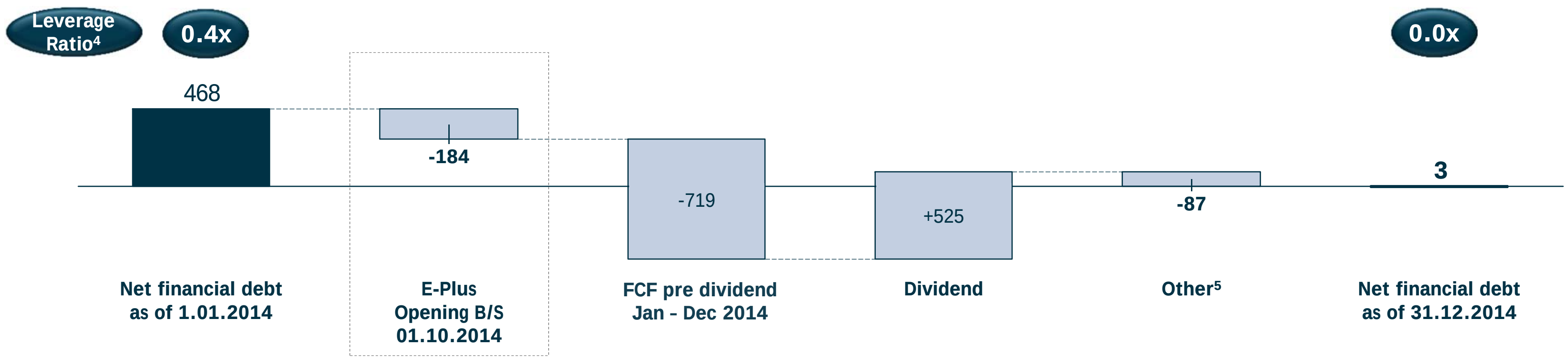
[1] Free cash flow is defined as the sum of cash flow from operating activities and cash flow from investing activities, excluding capital measures and payments related to the acquisition of E-Plus Group. OIBDA and Working Capital evolution is adjusted for restructuring costs in 2014.

Strong liquidity position (in €m)



[2] Revolving credit facilities: 100m€ RCF volume maturing in 2016, 610m€ maturing in 2017

Evolution of Net Debt[4] (yoy in €m) – leverage[4] ratio below 1.0x over the medium term



[4] For definition of Net Debt and Leverage Ratio please refer to additional materials of Q4 14 results
[5] Includes the net cash effect from capital increase net of payments for E-Plus offset by changes in handset receivables and other non-cash effects

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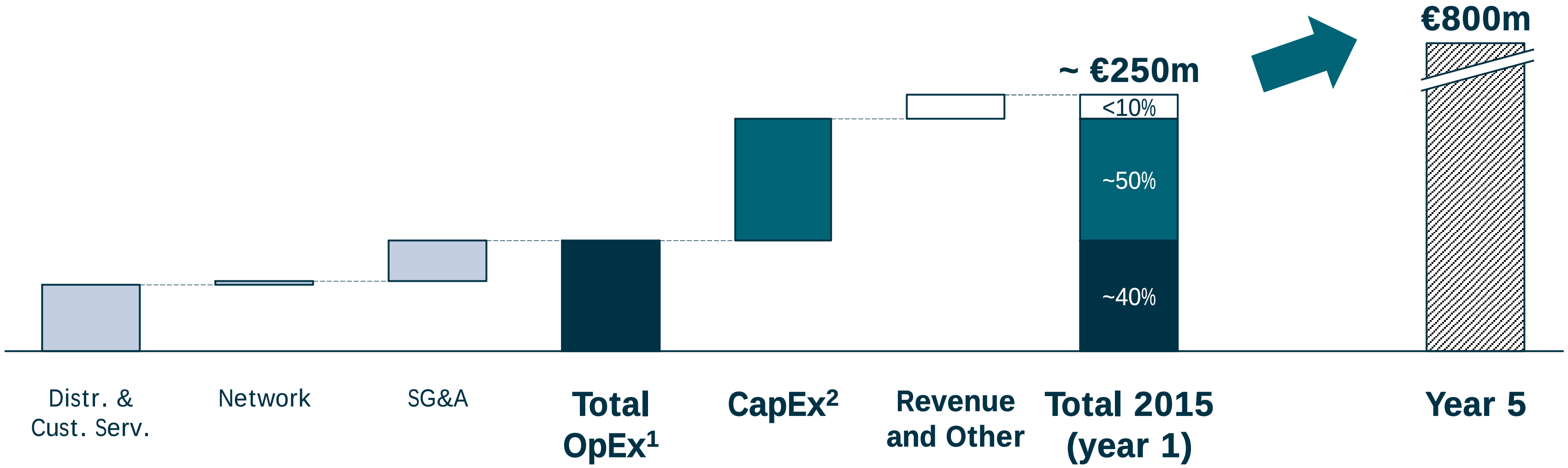
Around 30% of total target synergy run-rate to be achieved already in the first year of integration



- 2015 synergies at **~30% of €800m run rate** in year 5 of integration (~80% in year 4)
- **Distribution & Customer service** to represent **~60% of OpE**x 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 restructuring[3]
of 1,600 FTEs by 2018
(~50% in '15 from Q2'15)

Shop reduction[3,4]
planned by 1/3rd by year 5

Decommission[3,4] of
14,000 **mobile sites**
planned by year 5

[1]OpEx savings are referred to 2014 combined financials excluding restructuring costs
[2] CapEx synergies net of restructuring activities and exclude investment in spectrum
[3] 2014 combined KPIs: 9.1K FTEs. 1.8K shops, 39K mobile sites
[4] Final internal approval expected in Q1'15

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

3

in €m	2014[1]	Outlook 2015[2] (y-o-y pct. growth)
MSR	5,528	Broadly stable
OIBDA	1,461	>10%
CapEx	1,161	High single digit pct. decline

Shareholder remuneration policy confirmed - main guidelines[3]:

- Maintain high pay-out in relation to FCF while leverage ratio <1.0x
- Consider expected future synergy generation in dividend proposals
- Intention to suggest a cash dividend **of at least €700 million**, payable in May 2015

[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 extraordinary 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
[3] Refer to the appropriate section of our IR website in www.telefonica.de for full shareholder remuneration policy description

Main takeaways

The new Telefonica Deutschland is well positioned to become the Leading Digital Telco

Leading data monetisation in the German mobile market

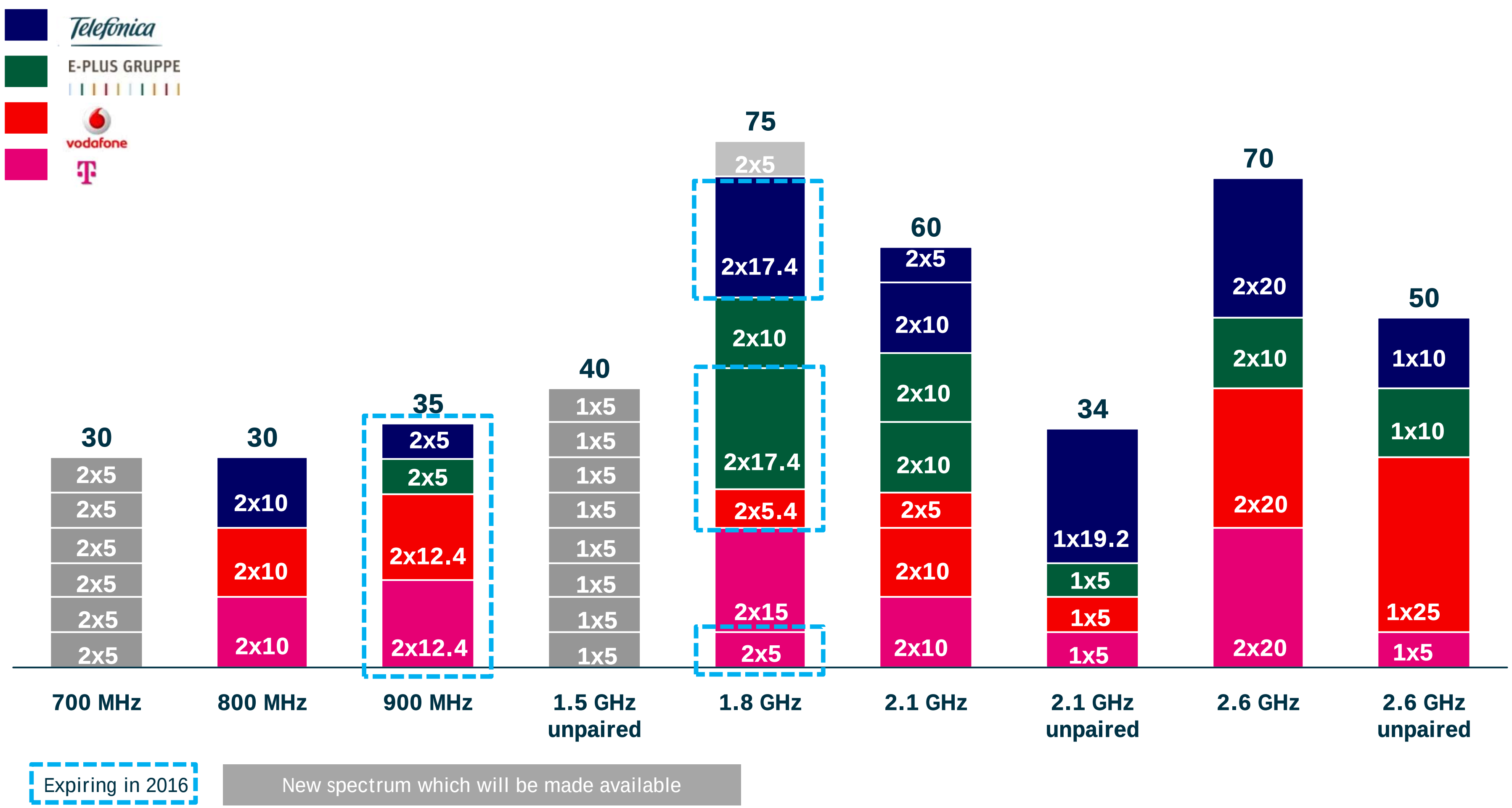
Progressive increase in profitability expected on the back of a realistic synergy execution plan

Commitment to sustain a strong value proposition for our shareholders in the future while keeping our financial flexibility

Telefónica Deutschland Q4 2014 preliminary results and outlook. Q&A session

Appendix

Current spectrum landscape in Germany



BNetzA spectrum auction expected to take place in Q2-2015

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

Financials (Euros in millions)	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 FY
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 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 FY
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**

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- 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.

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