



Telefonica

Deutschland

Telefónica Deutschland Investor Presentation

Telefónica Deutschland Holding AG

Public – Nicht vertraulich

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An attractive investment opportunity

Leveraging the right assets for mobile data monetisation

Ongoing transformation into a Digital Telco

Innovative, challenger mindset

- Successful mobile data strategy
- Challenger mentality with a track record of innovations in the market
- Highly satisfied customer base



#3 integrated telecom player in Germany¹

- More than 25.4 million accesses²
- c.EUR 5.2 billion revenues and c.EUR 1.28 billion OIBDA in 2012



Leveraging the right assets for mobile data monetisation

- Multi-brand portfolio built around a strong O₂ core brand to address all market segments
- Competitive, lean network infrastructure and strong spectrum position
- Longstanding partnership with Deutsche Telekom & benefits from being part of Telefónica Group
- Motivated workforce - continuous top rating in “Great Place to Work”



Note:
1 Based on 2012 reported revenues
2 As of Sep 2013

A challenger strategy, focused on mobile data

We maintain a consistent focus on gaining service revenue market in our core wireless service business while achieving further scale efficiencies

Today

3rd integrated telecoms network operator¹



Strategic priorities

- ✓ 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**.

Tomorrow



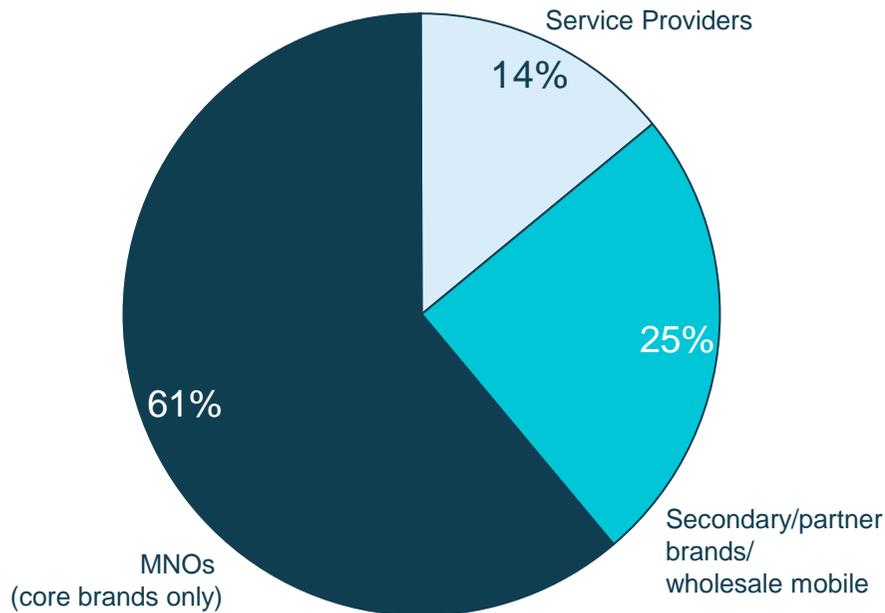
- We are here to make our **customers' lives easier**
- We want to be at the centre of their **digital life**
- We will get there by being **excellent in the basics...**
- ...and **surprisingly different** where it matters

¹ Based on 2012 reported revenues

German mobile market: a unique competitive space

Secondary/partner brands, wholesale mobile and service providers account for a significant share of the German mobile market

Total SIMs German mobile market (m) ¹



¹ Sources:

a) Yankee, EMEA mobile carrier monitor

b) Pyramid, Western Europe mobile data forecast pack 2Q 2013

Service providers market share slightly decreasing

- Resellers hold a significant share in the German mobile market
- Freenet Group and Drillisch are the key remaining players
- “Protected” by regulator, i.e MNOs cannot acquire them



>100 brands in the German market

Wholesale mobile	M-net Unitymedia LIDL Kabel Deutschland	ay yıldız ALDI TELE2	Lebara mobile TURKCELL	1&1 Bild
Secondary/partner brands	FDNIC Tchibo netzclub ^{II} sponsored mobile	blau.de simyo yourfone.de HIER FÜR DICH	congstar	o.tel.o
MNOs	O ₂	e-plus ⁺ BASE	T	vodafone
Market share ²	15.5%	15.8%	34.7%	34.0%

² in % of Mobile Service Revenues as reported by MNOs for Q2/2013

In summary ...

A unique combination of a pure German telco, strong assets and cash flow generation

- 1 Single country operator with exposure to Europe's economic powerhouse
- 2 #3 integrated operator in one of Europe's largest and most attractive telco markets
- 3 Winning customer proposition centred around powerful brands and data services
- 4 Competitive network infrastructure and strong spectrum position
- 5 Benefits from Telefónica's global scale and expertise and long-term partnership with Deutsche Telekom
- 6 Strong track record of growth and cash flow generation supporting attractive shareholder returns
- 7 Highly accretive acquisition of E-Plus expected to be closed by mid-2014

Market environment Development of our Strategy in Q3

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

	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 € 	34,99 € 



- ❑ **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

During 2014

End 2013
(national proceedings)

Q1/2014
(EU notification)

Acquisition of E-Plus

On track with expected time plan



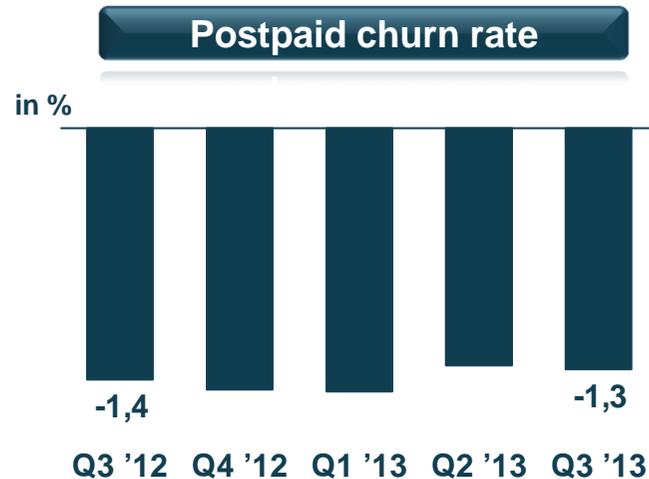
- Creating a **leading Digital Telco**: scale benefits and enhanced data monetisation capability
- Increasing **Infrastructure-based competition** in the German market
- Delivering **superior customer experience**: multibrand approach, higher quality network, better distribution and customer service
- 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



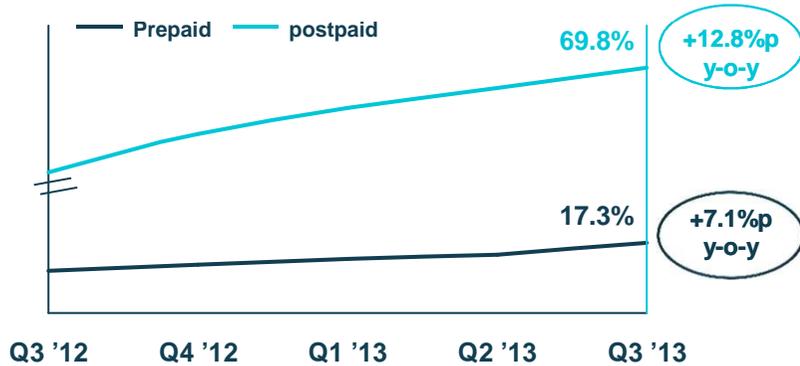
- Performance of postpaid net additions (55k) driven by focus on customer base management**
 - Steady adoption of “O₂ Blue All-in” from new and existing customers
 - Churn rate improved by 0.1 p.p. y-o-y to 1.3%
- Strong performance of mobile prepaid (110k net additions)**
 - Trading mainly driven by 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

Focusing on key levers for data monetisation

Continuing to deliver on data monetisation strategy

Smartphone penetration

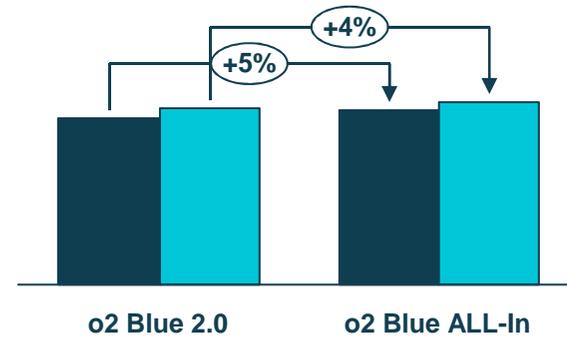
in % of O₂ Postpaid & Prepaid Customer Base



Fit demand to All-in portfolio

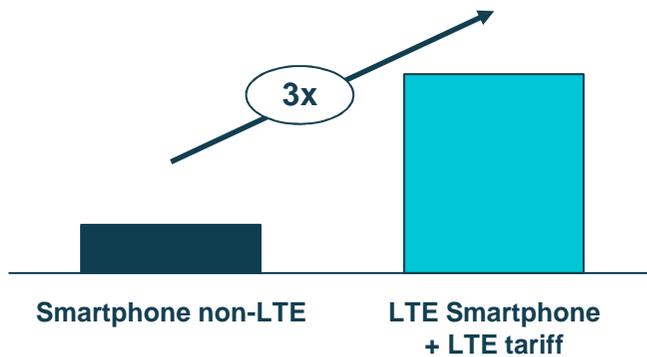
Weighted ARPU in €

■ Gross Adds ■ Renewals

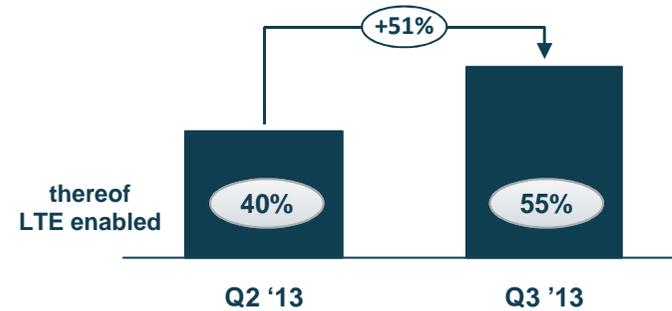


Data Upselling & foster LTE adoption

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

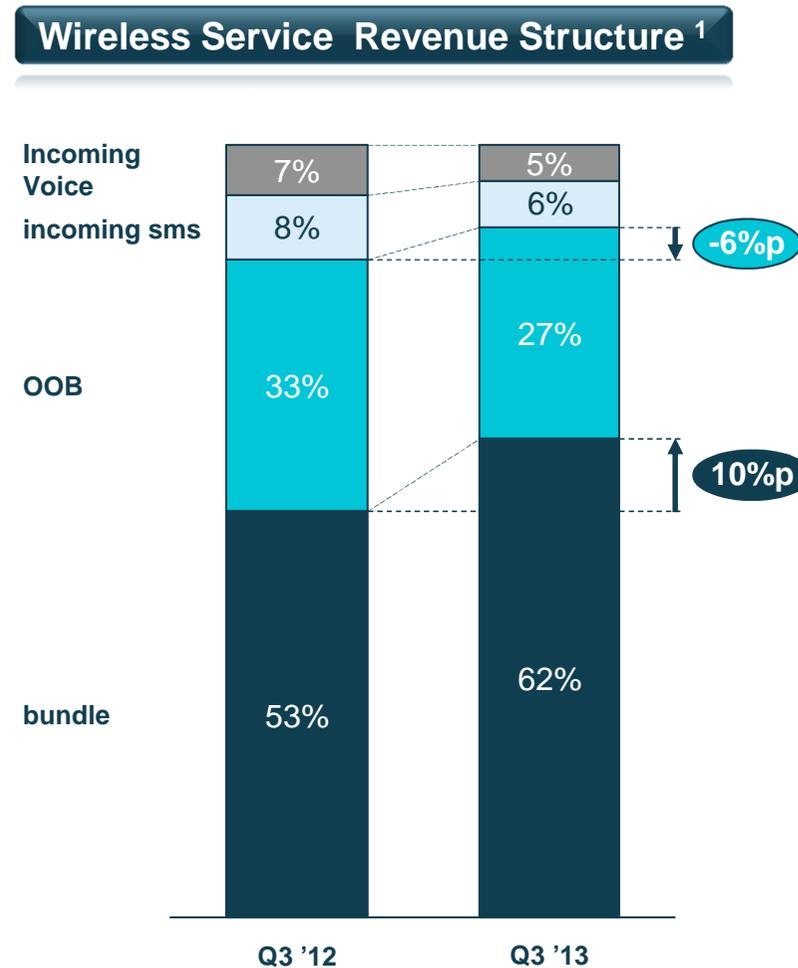
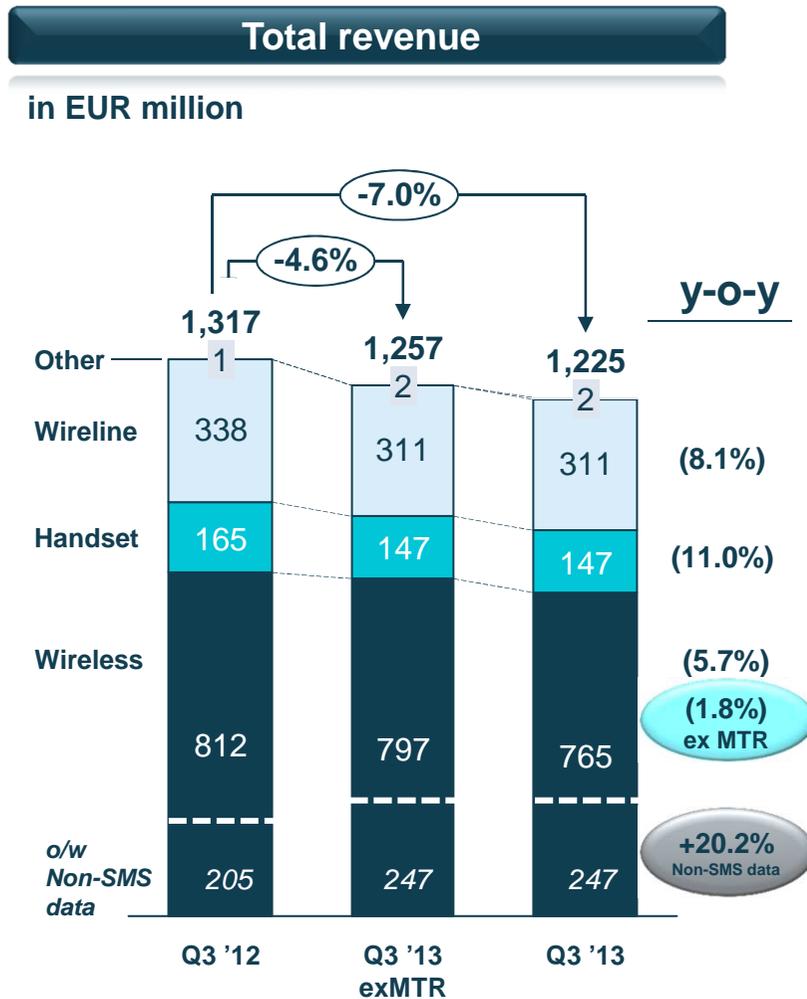
Unaudited (Euros in millions)

	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)
<i>OIBDA margin</i>	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)
<i>OIBDA before group fees margin</i>	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.

Revenue performance

Mobile data revenues continuing to be main driver



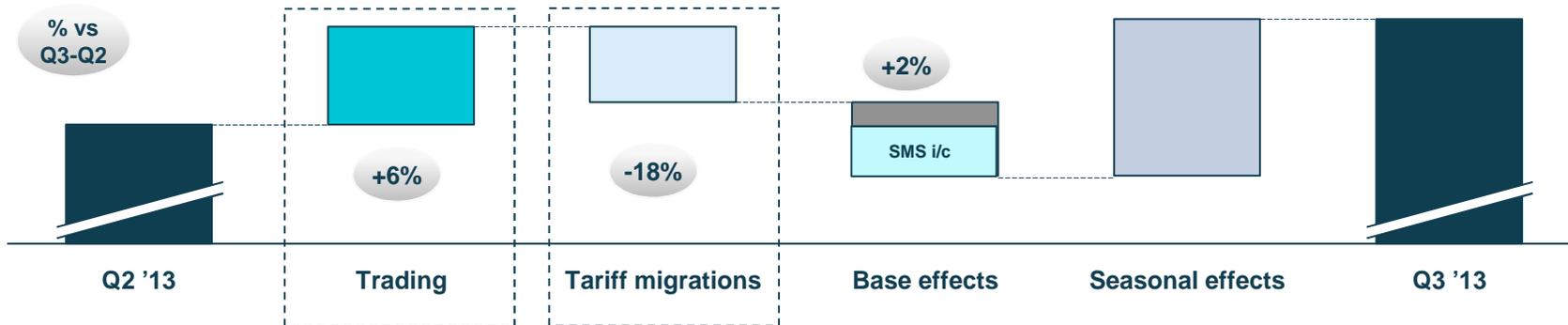
¹ In % of O₂ corebrand postpaid WSR

Continued dynamics in O₂ consumer postpaid

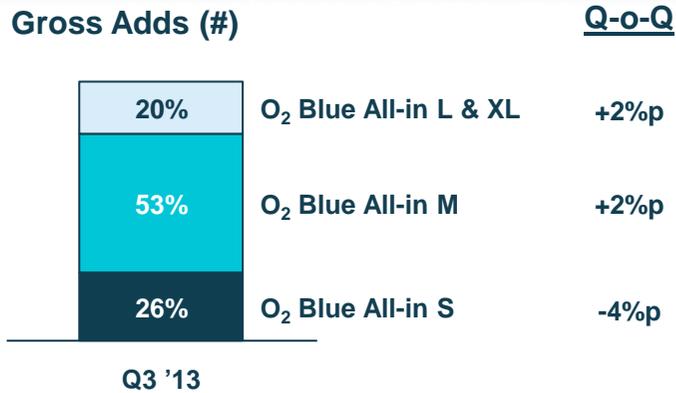
Trends stabilising on a quarter-on-quarter basis

Main drivers for wireless service revenues

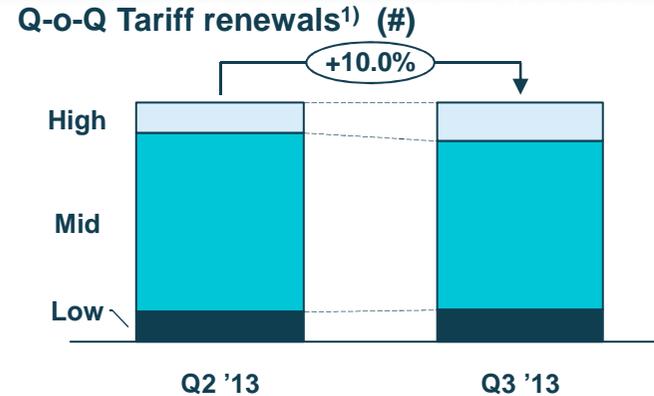
Q-o-Q absolute performance ex MTRs



Value split of O₂ Blue All-in

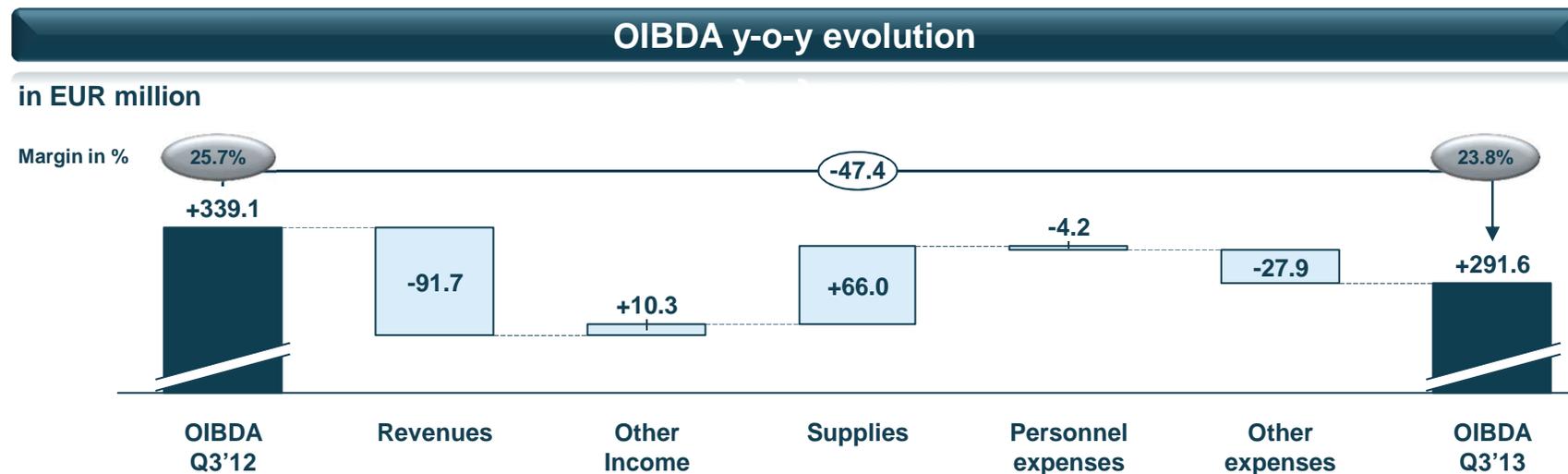
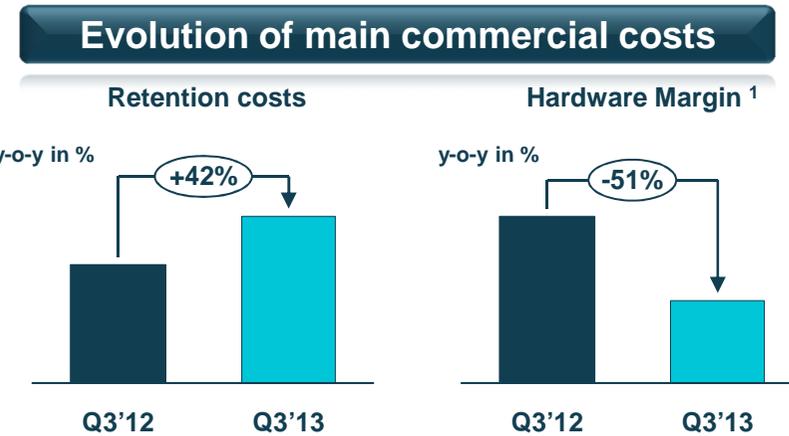
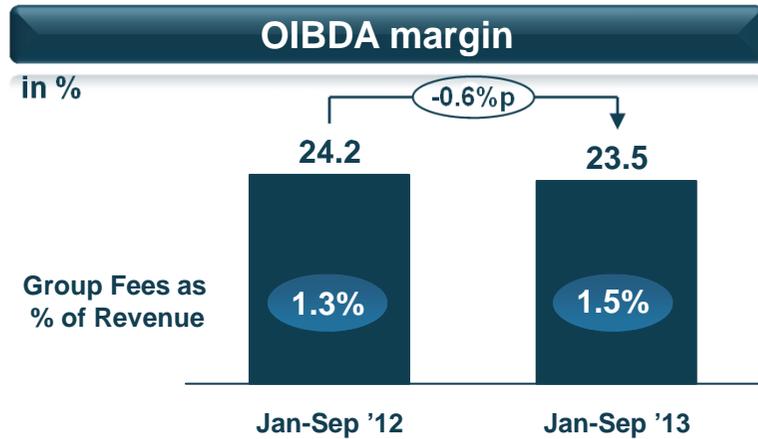


Customer base management



OIBDA performance

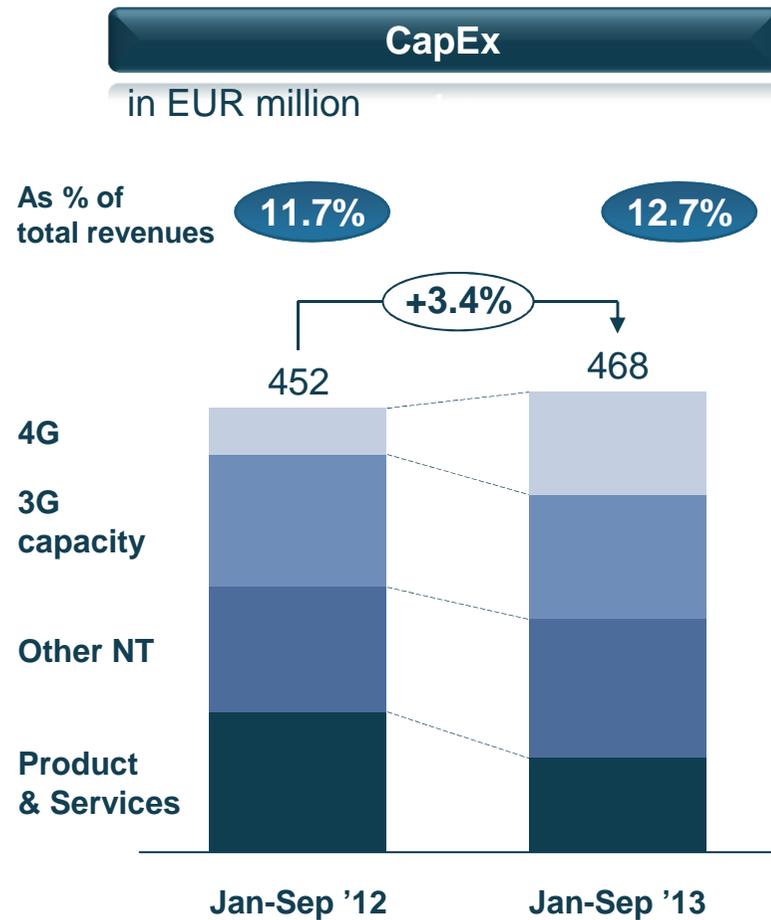
Increasing commercial investments to improve customer base



¹ Handset revenues less cost of sales

CAPEX development

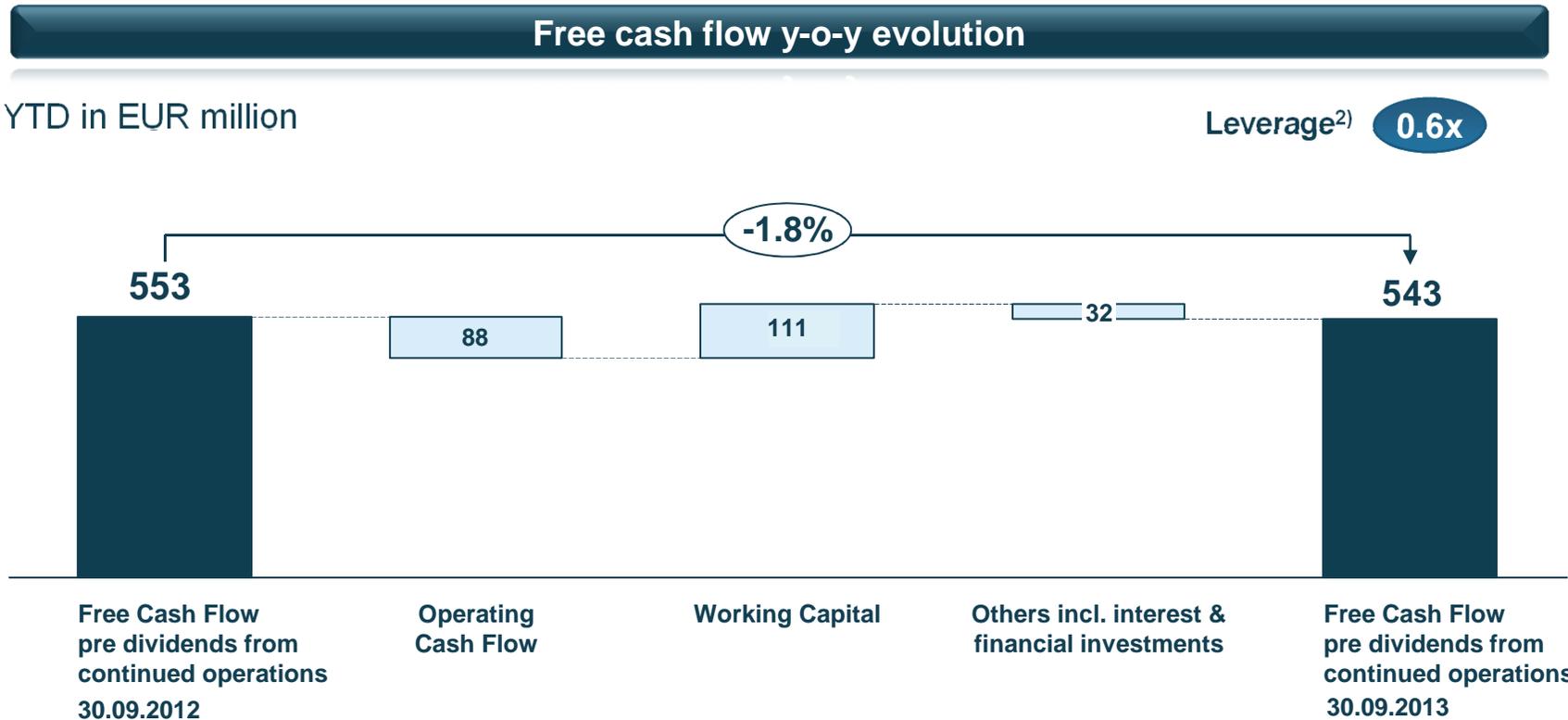
Balancing investments for LTE expansion and 3G network quality



- **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 FCF¹ supports dividend policy



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.

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



Back-up

Acquisition of E-Plus by Telefónica Deutschland

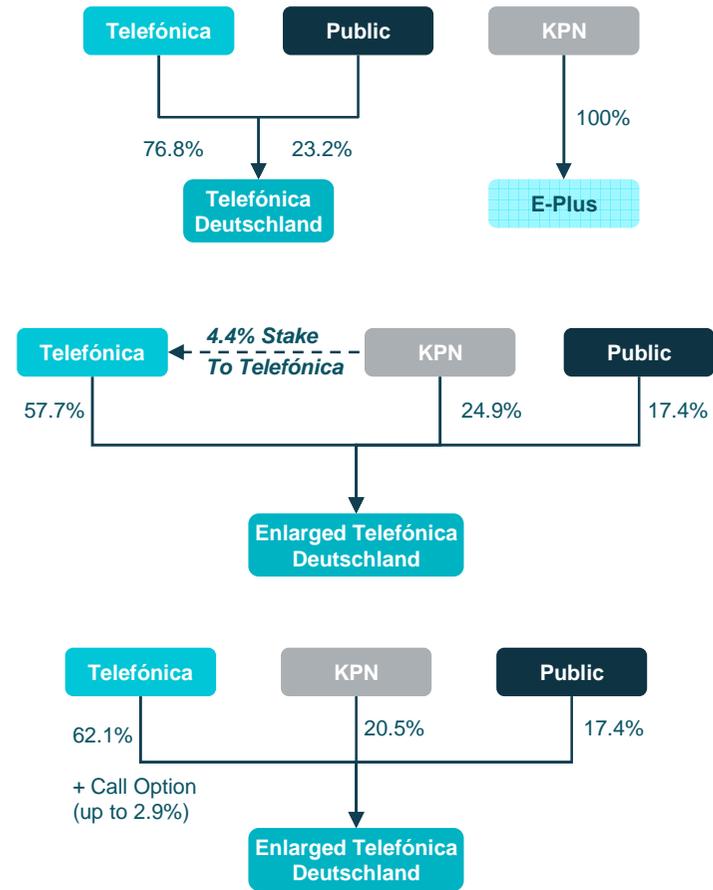
Transaction structure

Recommended and approved by Boards of Directors and Supervisory Boards of Telefónica, Telefónica Deutschland and KPN

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
 - €3.7 bn 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 will pay to KPN €1.3bn for:
 - 4.4% stake in the enlarged Telefónica Deutschland
 - Call option, exercisable in one year, for up to a further 2.9% stake from KPN. Telefónica may exercise its call option for up to €510m plus interest, or buy shares in the market.



Transaction rationale

1

Creation of a Leading Digital Telco¹

- A leading player with a combined mobile customer base of 43m, 42% postpaid
- Strong scale benefits with combined mobile revenue market share of 32%
- Driving mobile market growth in Germany since 2010 with complementary strategies
- Strong capabilities for mobile data monetisation

2

Unlocking significant synergies

- NPV of synergies of €5.0–5.5bn, net of taxes and integration costs
- Incremental value from additional revenues, financial and tax synergies
- Highly experienced management team with a proven track record of integration

3

Enhanced profitability & FCF

- Net savings after integration costs from 2nd year - 75% of run-rate synergies by 4th year
- Free Cash Flow generation benefitting from increased scale

4

Creating a superior customer experience

- Customers to benefit from high speed access platforms in mobile and fixed
- Strong multi-brand portfolio across segments
- Best distribution channel and outstanding customer service
- Offering broader range of solutions to business customers
- Convergence opportunity through cross-selling / up-selling opportunities
- Leveraging Telefónica's global capabilities: Digital innovation, scale,....

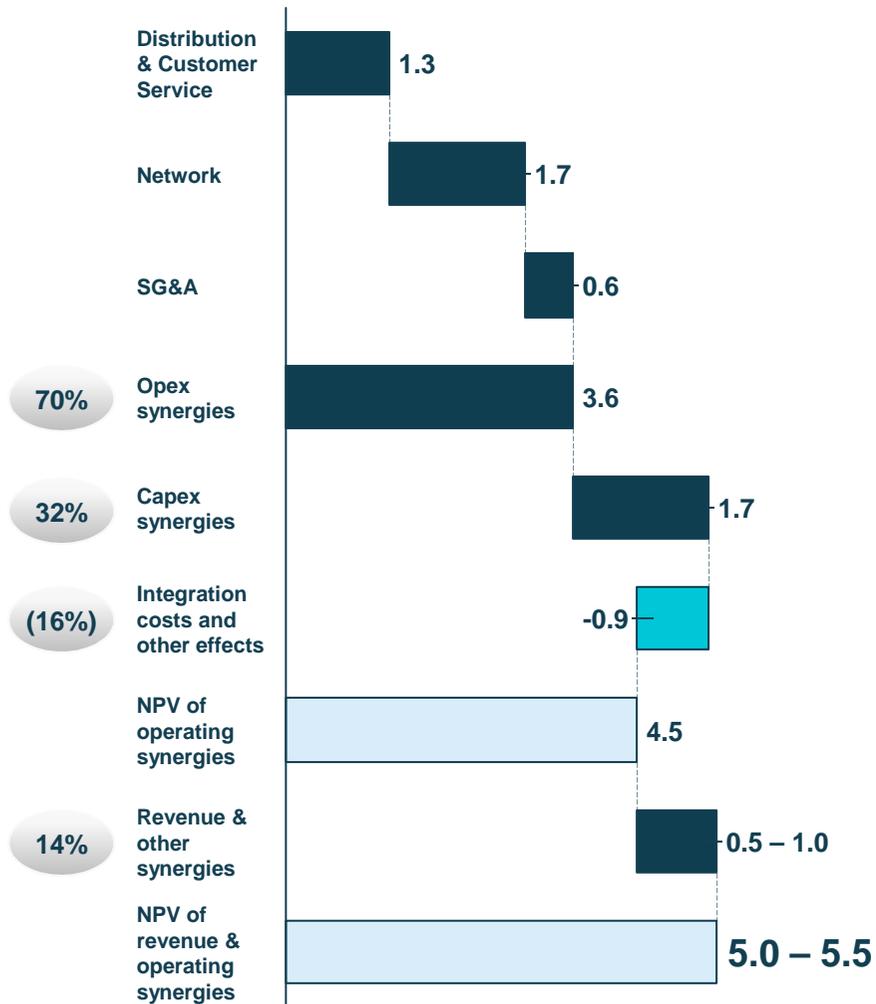
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Value Creation for Telefónica Deutschland shareholders

- Unlocks significant value for Telefónica Deutschland shareholders
- Increases financial flexibility (improving leverage) while maintaining an attractive shareholder remuneration
- EPS and FCF accretive from first year of full operation²

Bottom-up approach to derive Synergies

In EUR bn



▪ Distribution & 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 & 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

Questions

For further information, please contact the
Telefónica Deutschland 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

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