Telefónica Deutschland Investor Presentation

November 2015

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Telefonica Deutschland is setting the pace to become the Leading Digital Telco

Telefonica Deutschland

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

1

Keep the Momentum

Integrate quickly

Transform the company

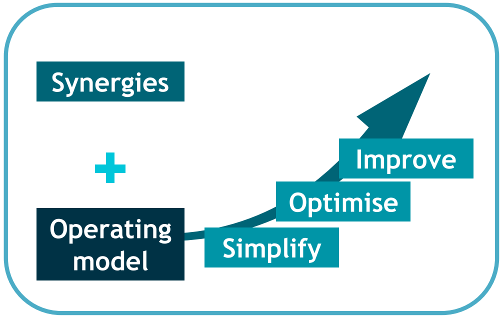
Offer **best high speed access experience**

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



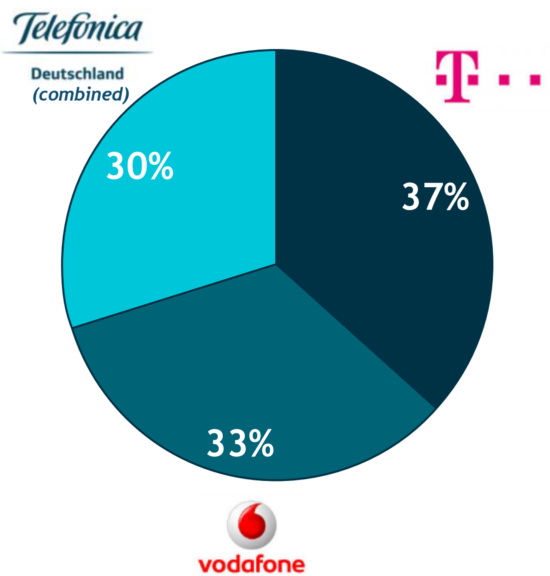
Synergies & lean operating model

Telefonica Deutschland

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

1

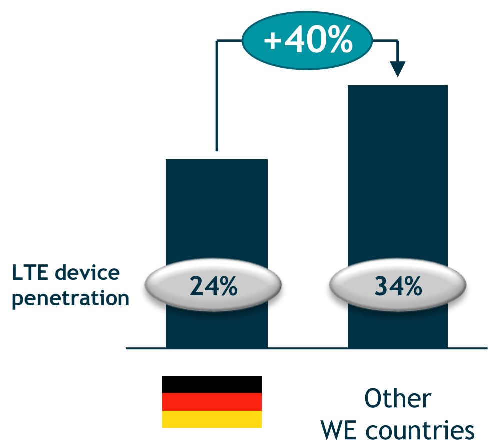
Rational and balanced market structure[1]



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

Infrastructure-based competition

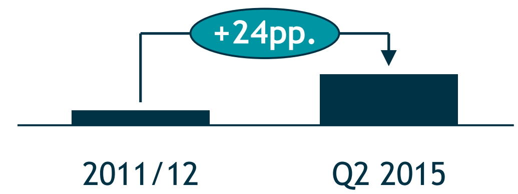
LTE device penetration in % vs. avg. 3G/4G data usage in MB in 2015 FC[2]



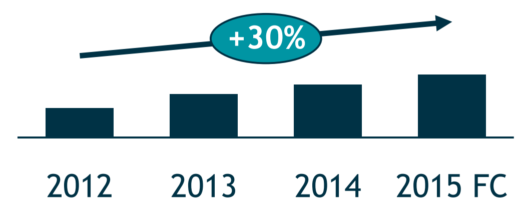
- **Further opportunities ahead** from steady LTE adoption
- **Mobile (3x) and fixed (2x)** platforms for high speed access

Steady adoption of a digital lifestyle

Mobile customers using smartphones for video streaming in %[3]



3G/4G avg. data usage in Germany[2]



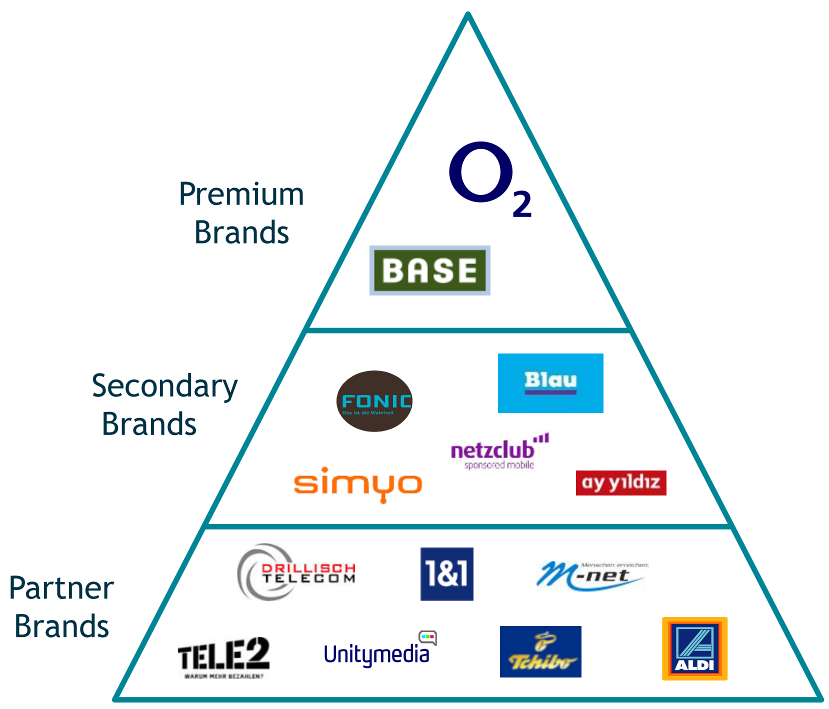
- Trend to 1 Gb/month; **free VoD[4] as main usage driver**
- Digital customers & households **demand for quality**

[1] Market share of MSR based on reported financials by MNOs for 1 HY 2015 & 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

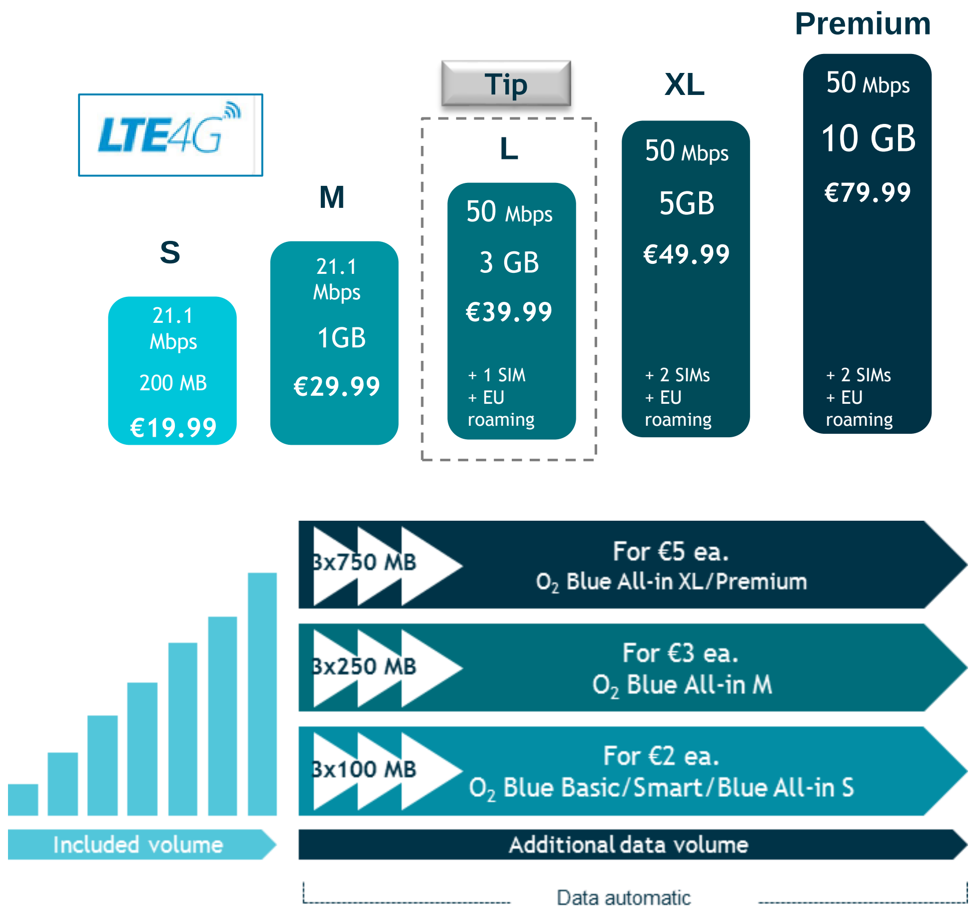
Successful multi-brand & mobile data-centric strategy in a highly segmented mobile market

1

A clear multi-brand set up leveraging densest mobile network



Focused commercial approach, leveraging upsell potential



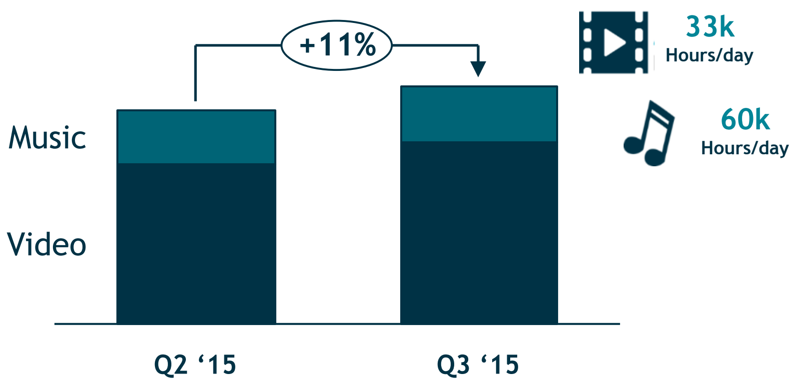
Telefonica Deutschland

Monetisation of mobile data: Growth potential remains intact

1

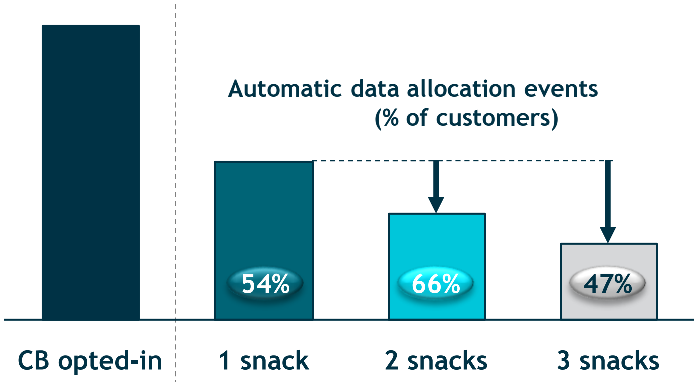
Music & video streaming continues to grow

Traffic (TB/day)



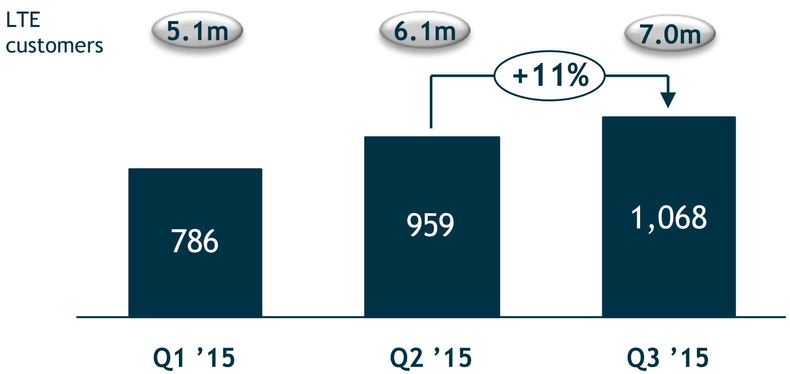
Continued progression of data automatic

O_2 Blue All-in portfolio (dynamics within opted-in base)



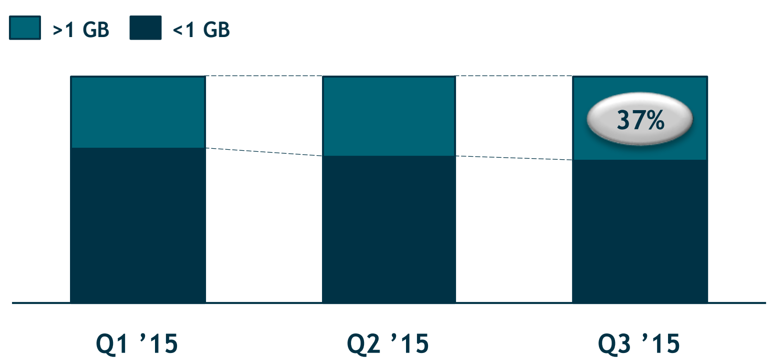
National roaming and LTE driving usage

Average data usage for O_2 consumer LTE customers[1] (MB)



Ongoing improvement of tariff adoption mix

Share of Gross Adds in O_2 Consumer postpaid



[1] O_2 consumer base with LTE enabled smartphone (all tariffs)

Enhanced network perception from 3G national roaming and LTE expansion

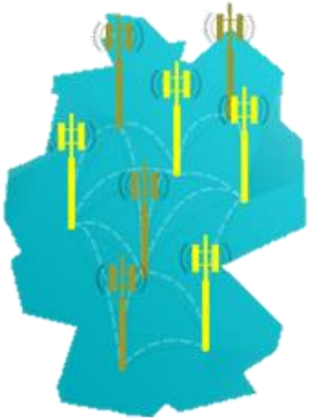
Best network experience in 3G and 4G …

- **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

… with positive reviews from specialised media

CHIP Unabhängige Tests seit 1978 Computer Bild

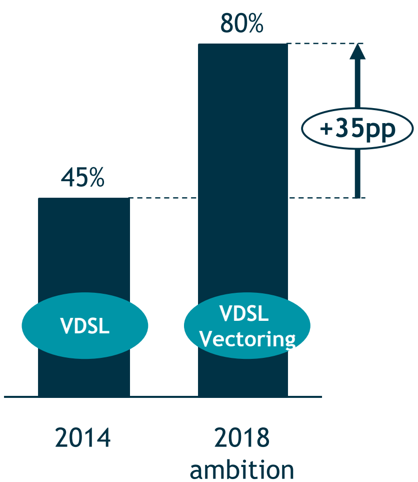
- **User-driven** network test (June 2015)
- **3G national roaming key** for improved ratings
- **O_2 customers** showing strongest satisfaction



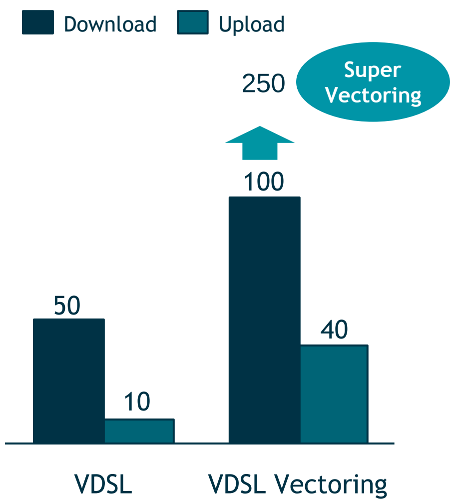
The right fixed infrastructure model to complement our mobile network for the best high speed access experience

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

NGA coverage targets
(% of covered households, YE)



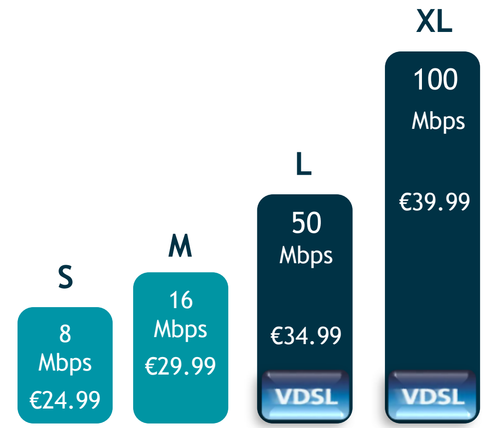
Maximum speed
(Up- & Download, Mbps.)



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

With a very competitive bundled offer "Kombi - Vorteil"

O_2 DSL all-in
(Download speed, Mbps.)



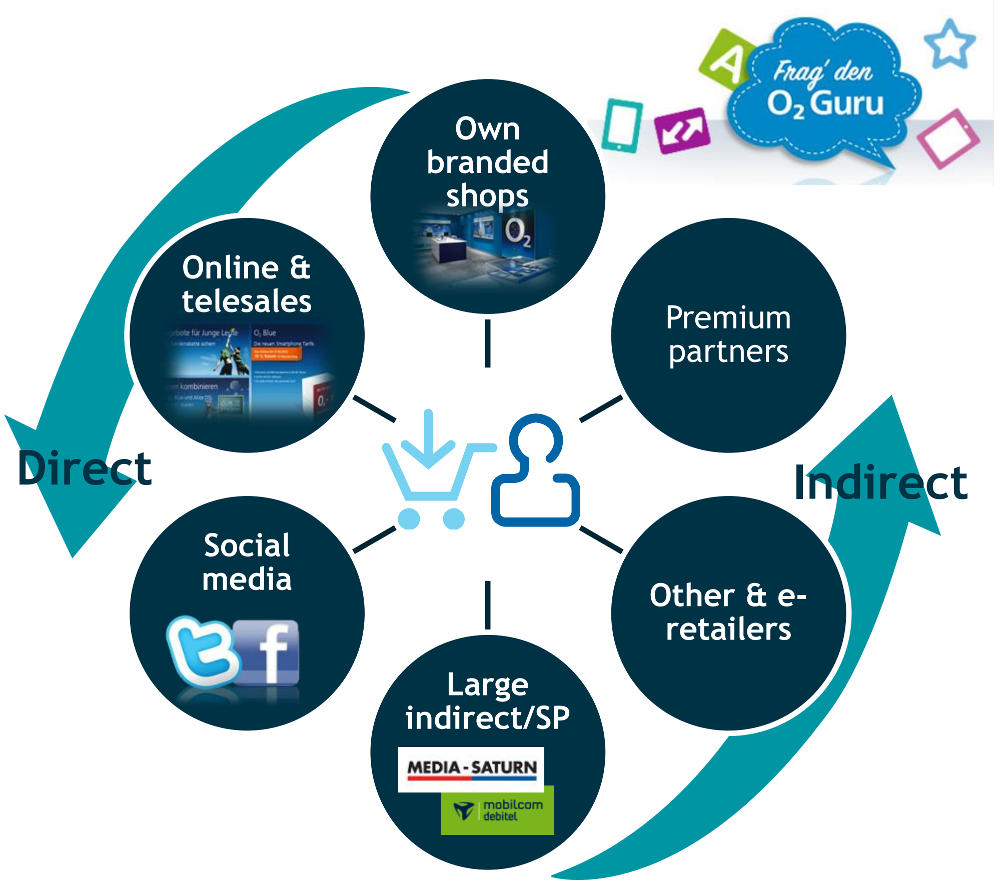
Kombi-Vorteil

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

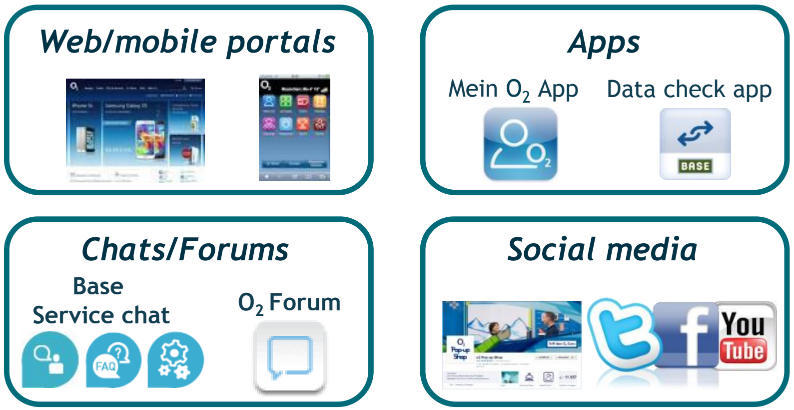
[1] NGA: Next Generation Access, including VDSL, Vectoring and future FTTX deployments

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

Multi-channel to maximise efficiency



"Digital first" for every customer interaction



- **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
- **O_2 portfolio distributed in BASE branded** shops

Expected synergies to exceed €5bn (NPV[1])
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 organisations
- Optimisation of retail footprint resulting in reduction of rent and overhead
- Focus on digital customer touch points for sales and service initiatives

Network

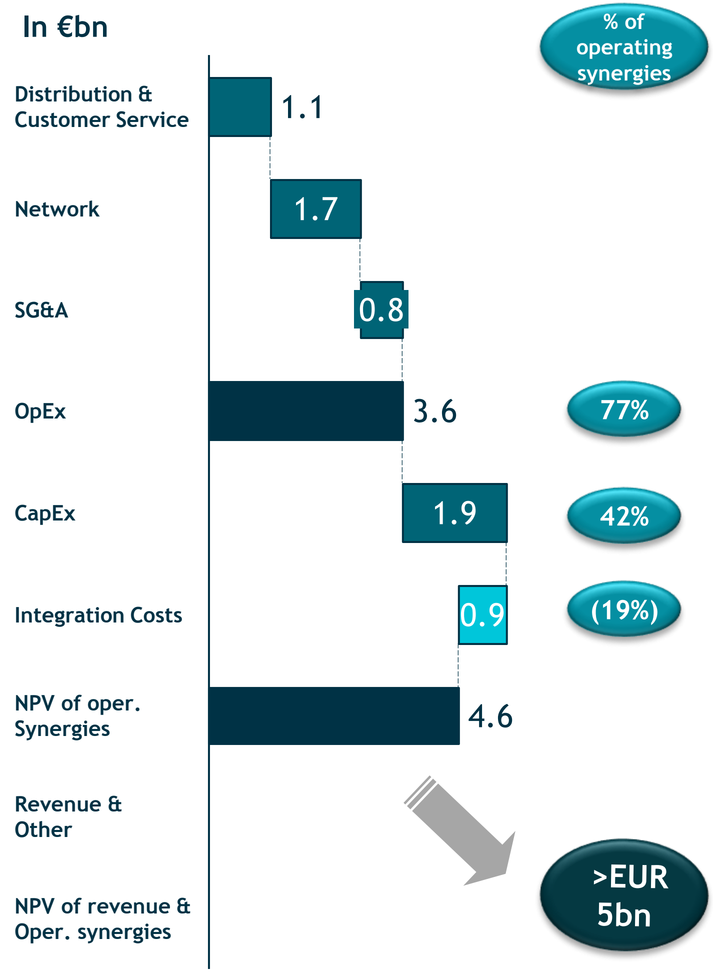
- Improved quality & capacity in 4G with reduced CapEx requirement
- Consolidation of 2G/3G access networks, backbone and backhaul
- Reduction of ~14,000 sites to reach “golden grid”
- Leverage scalable cooperation with Deutsche Telekom regarding fixed line services
- Overall improved network perception

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



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

Updating synergy outlook 2015: EUR 280m of OpCF savings due to capture of early synergies; total case unchanged

Integration Initiatives 2015

Leaver programme
800 FTEs in 2015 (50% of total target of 1,600 FTEs)

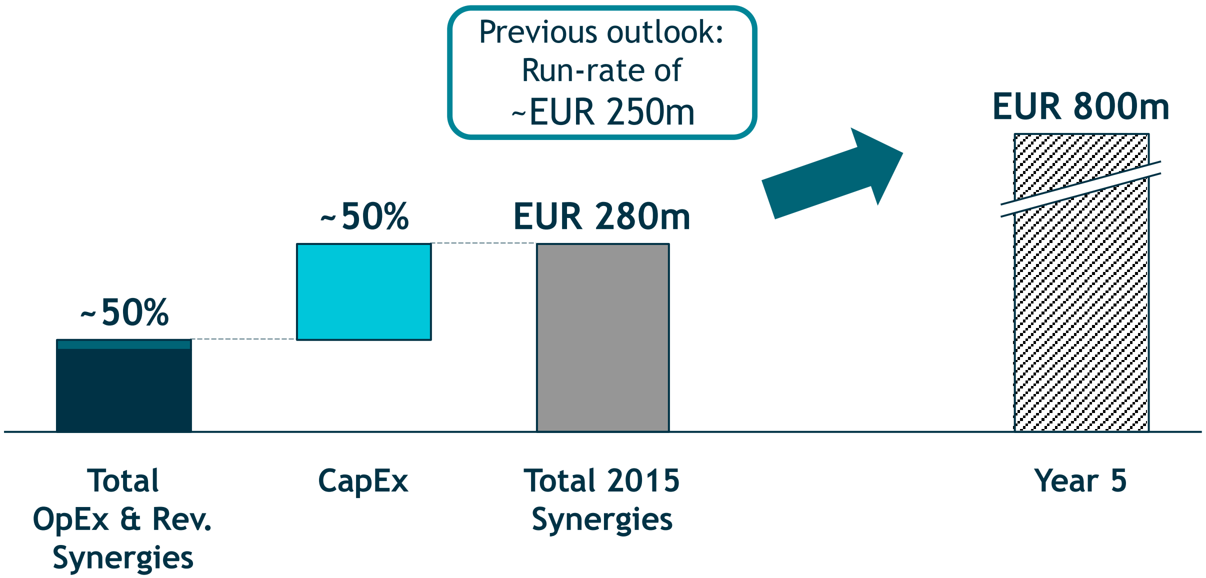
Shop footprint
400 shops by year-end

Network
Transfer of 7,700 sites via deal with DTE

Facilities
In-city consolidation (15% of total sqm)

Reduction of external staff

Simplification / Eliminate duplications



- 2015 synergies at **~35% of EUR 800m run rate** in year 5 of integration
- **OpEx savings** driven by **bringing forward i**nitiatives such as shop restructuring and optimisation of external staff
- **CapEx synergies** primarily driven by a single LTE-network rollout
- **Total synergy case unchanged**

[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

Integration roadmap central to execution of our strategic business priorities

2015: Success	2016: Transition	2017/8: Final Straight
Early capture of synergies	*Laying the ground*	*Bringing home savings*

- 800 leavers (50% of target) ✓
- 400 shops (2/3 of target) ✓
- 7,700 sites to DT (14,000 target) ✓
- Facilities: 15% reduction ✓
- External staff optimisation ✓
- Simplification/ Elimination of duplications ✓

Leaver programme

Shop footprint optimisation

Facility consolidation

Brand/customer migration

Network integration

Customer service reorganisation & digitalisation

Simplification

Updated outlook for 2015

	Baseline 2014* (EUR m)	9M 2015* (y-o-y pct. growth)	Old Outlook 2015** (y-o-y pct. growth)	New Outlook 2015** (y-o-y pct. growth)
MSR	5,528	+0.4%	Broadly stable	Broadly stable
OIBDA	1,461	+16.1%	>10%	+15-20%
CapEx	1,161	-2.8%	High single-digit pct. decline	Low double-digit pct. decline
Div	EUR 0.24/share	---	---	EUR 0.24/share

- OIBDA driven by bringing forward integration activities into 2015 and optimisation of commercial costs
- Higher CapEx reduction due to synergy effects in H2 which outweigh network consolidation and LTE investment
- Continuity reflected in stable dividend proposal: EUR 0.24 per share

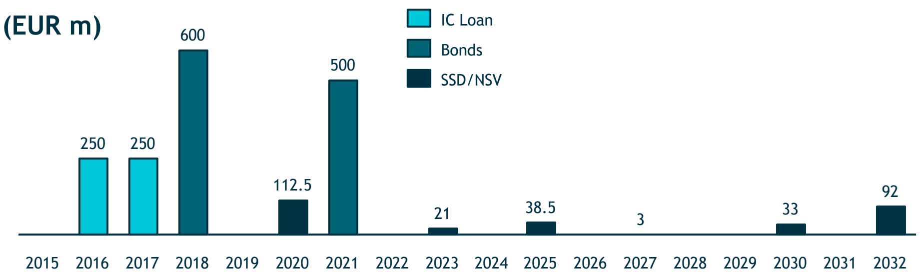
~35%
of total target synergy run-rate to be already achieved in 2015
(~€280m)

* Baseline figures for 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. Figures are further adjusted by 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. For details refer to additional materials published on our website https://www.telefonica.de/investor-relations-en.html

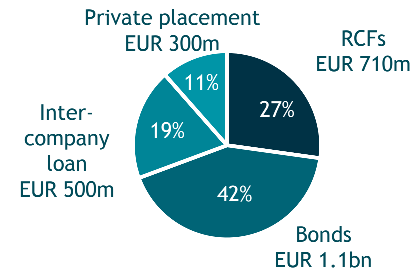
** Expected regulatory effects (e.g. MTR cuts) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA, and CapEx excludes investments in spectrum.

Comfortable liquidity and conservative financing policy

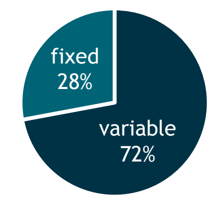
Smooth, extended maturity profile and further diversified financing mix



Financing instrument mix (%)

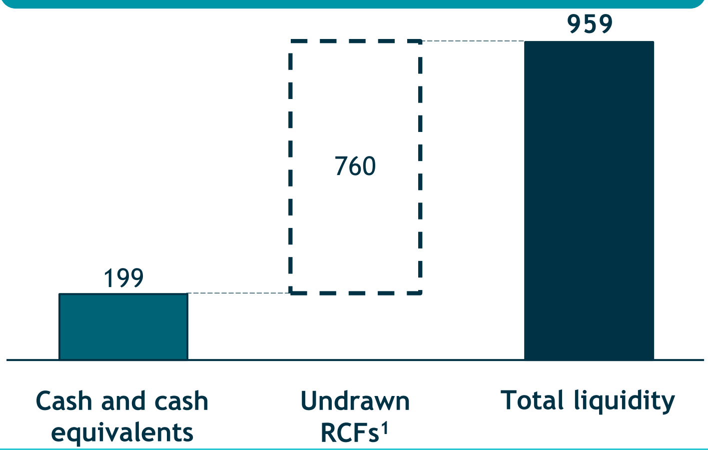


Interest payment mix (%)

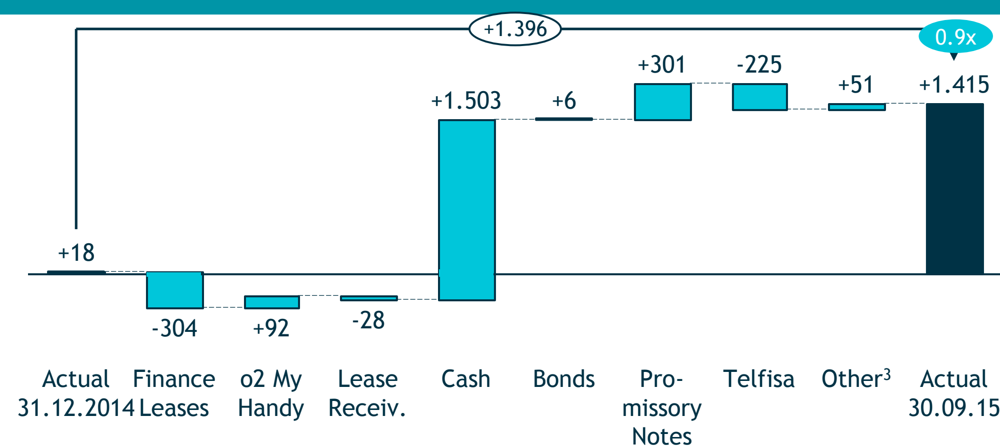


Issue date	Currency	Volume	Tenor	Coupon	Instrument rating	Listing
22.11.2013	EUR	600,000,000	5 years	1.875%	BBB, stable outlook	Regulated market of the Luxemburg Stock Exchange
10.02.2014	EUR	500,000,000	7 years	2.375%	BBB, stable outlook	Regulated market of the Luxemburg Stock Exchange

Comfortable liquidity position



Leverage[2] ratio at 0.9x after one-off payments in Q3'15



[1] Revolving credit facilities; EUR 50m RCF volume maturing in 2015, EUR 260m in 2017 and EUR 450m in 2018
[2] As measured by Net Financial Debt/OIBDA (Last 12 months)
[3] Mainly consists of movement of O_2 My Handy receivables and Handset model receivables

Telefónica Deutschland

We aim to maintain an attractive shareholder remuneration policy

Shareholder remuneration policy - main guidelines[1]

- **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 proposal of EUR 0.24 for financial year 2015 to be approved by AGM 2016**

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: EUR 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

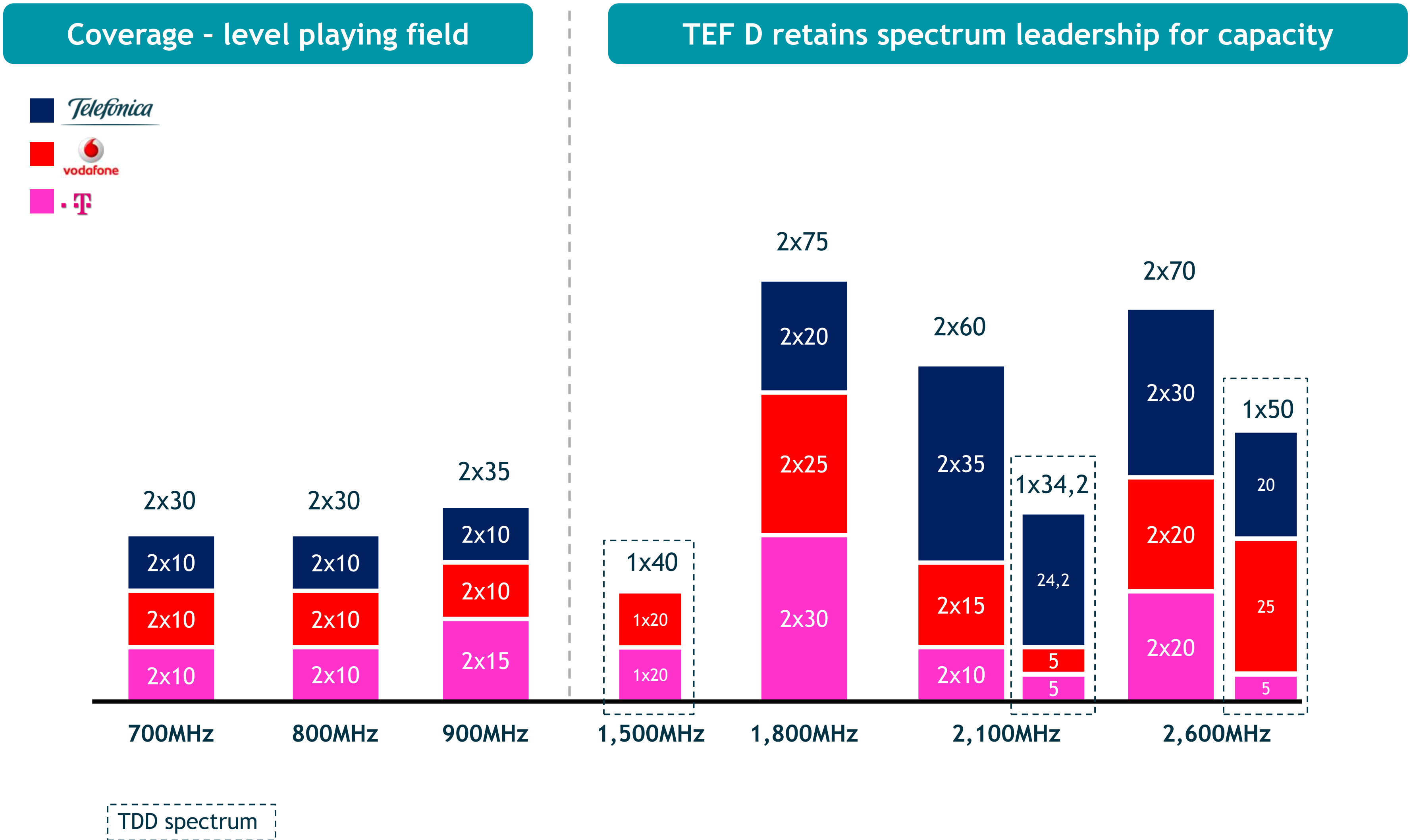
4

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



O_2 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[2] (automatisch nach Datenverbrauch)	bis zu 3 x 100 MB für je 2 € zusätzlich	bis zu 3 x 250 MB für je 3 € zusätzlich	bis zu 3 x 250 MB für je 3 € zusätzlich	bis zu 3 x 750 MB für je 5 € zusätzlich	bis zu 3 x 750 MB für je 5 € zusätzlich
Maximale Geschwindigkeit	bis zu 21,1 MBit/s **LTE**[5]	bis zu 21,1 MBit/s **LTE**[5]	bis zu 50 MBit/s **LTE**[5]	bis zu 50 MBit/s **LTE**[5]	bis zu 50 MBit/s **LTE**[5]
Extra-Festnetznummer	✓	✓	✓	✓	✓
EU Roaming Flat[6] (Surfen und Telefonieren im EU-Ausland)	+ 4,99 mtl.	+ 4,99 mtl.	✓	✓	✓
Minuten/SMS ins EU-Ausland mtl. inkl.	–	–	–	–	je 200
Multicard[7]	+ 4,99 mtl.	+ 4,99 mtl.	1 Multicard inklusive	2 Multicards inklusive	2 Multicards inklusive
O_2 Protect Complete[8] (12 Monate Laufzeit)	+ 3,99 mtl.	+ 3,99 mtl.	+ 3,99 mtl.	+ 3,99 mtl.	✓
O_2 More Status[9]	Indigo-Status	Indigo-Status	Indigo-Status	Silber-Status	Premium-Status
Kombi-Vorteil Mtl. Grundgebühr reduziert für O_2 Kunden*	14,99	24,99	29,99	39,99	69,99
Mtl. 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.

O_2 DSL All-in portfolio

O_2 DSL All-in	S[16]	M[16]	TIPP L[16] VDSL	XL[16,**] VDSL
Allnet-Flat: Flatrate ins dt. Festnetz	✓	✓	✓	✓
Allnet-Flat: 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)[18]	bis zu 16.000 KBit/s (Upload: bis zu 1.000 KBit/s)[18]	bis zu 50.000 KBit/s (Upload: bis zu 10.000 KBit/s)[18]	bis zu 100.000 KBit/s (Upload: bis zu 40.000 KBit/s)[18]
Maximale Surf-Geschwindigkeit bis*** (Inklusiv-Volumen)	100 GB[19]	300 GB[19]	300 GB[19]	500 GB[19]
Fair-Use-Mechanik****	–	✓	✓	✓
HomeBox 2/AVM FRITZ!Box 7490[20]	49,99/99,99	49,99/99,99	49,99/99,99	49,99/99,99
Anschlusspreis[16]	0,00 (anstatt 49,99)	0,00 (anstatt 49,99)	0,00 (anstatt 49,99)	0,00 (anstatt 49,99)
Kombi-Vorteil: 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)

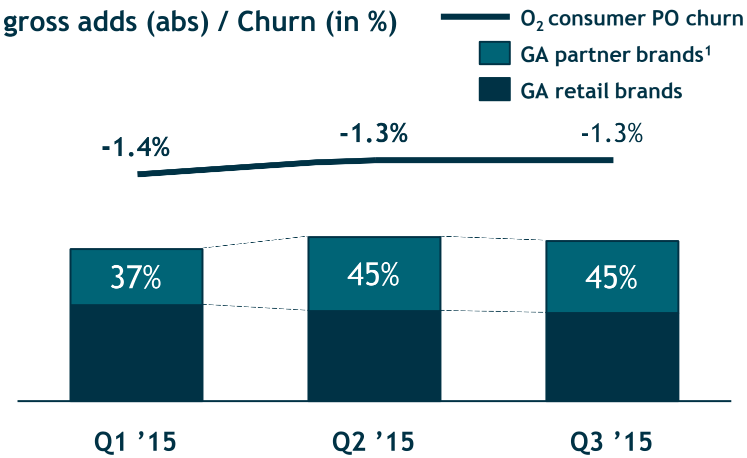
Preise in € inkl. MwSt.

*Weitere Informationen auf Seite 4 und siehe Hinweistext 1. **In immer mehr Gebieten verfügbar.

Partner business continued its strong performance while customer base benefits from focus on premium positioning

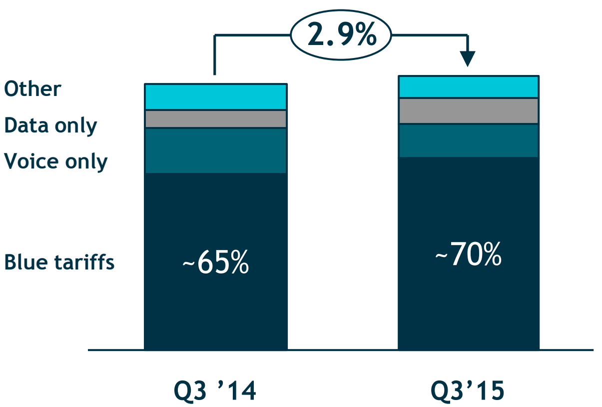
Partner business driving gross adds

PO gross adds (abs) / Churn (in %)



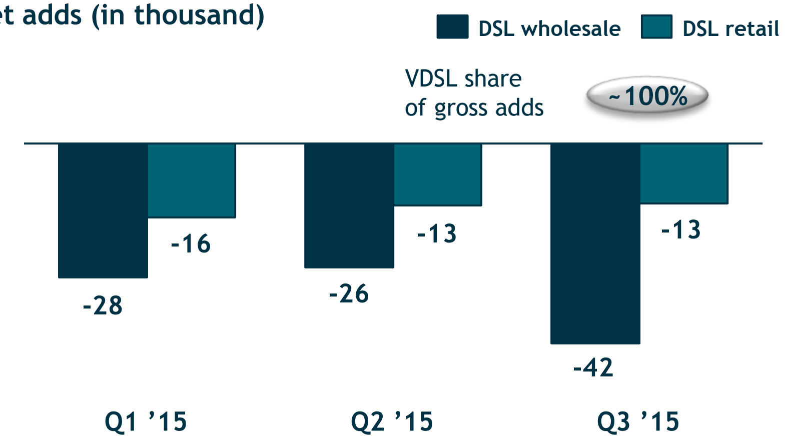
Ongoing improvement of customer base mix

O_2 consumer postpaid base (in thousand)



Strong fixed BB proposition bears fruit

Net adds (in thousand)



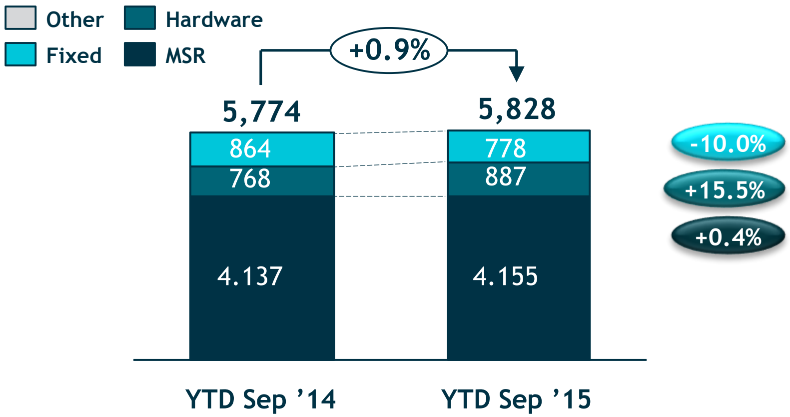
- Partner share of gross adds strong at 45%
- O_2 Blue share of O_2 postpaid base reaches 70%
- Retail DSL net add decline slows further to -12.6k in Q3

[1] Wholesale & partner business

Telefonica Deutschland

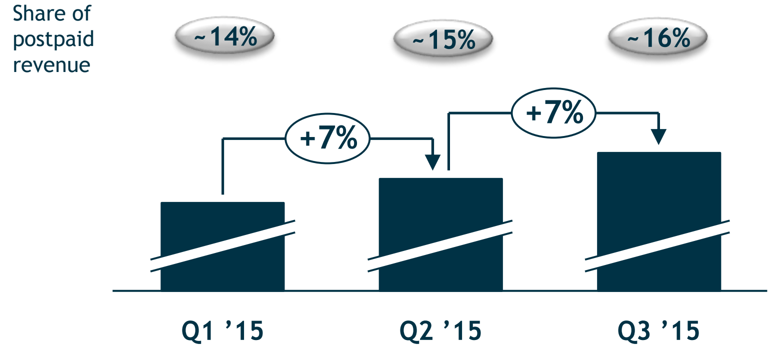
MSR development tempered by growing share of partners and dynamics in value segment

Revenue structure (in EUR m)

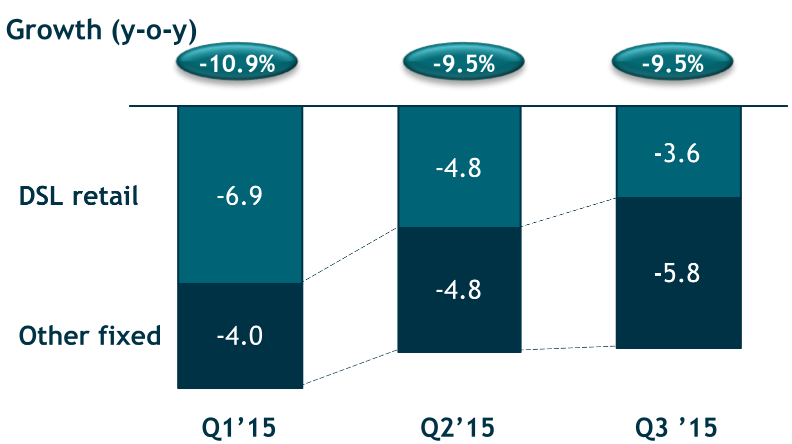


Growing partner business

MSR from partner business[1] (in EUR m)



Fixed revenue y-o-y (in %)

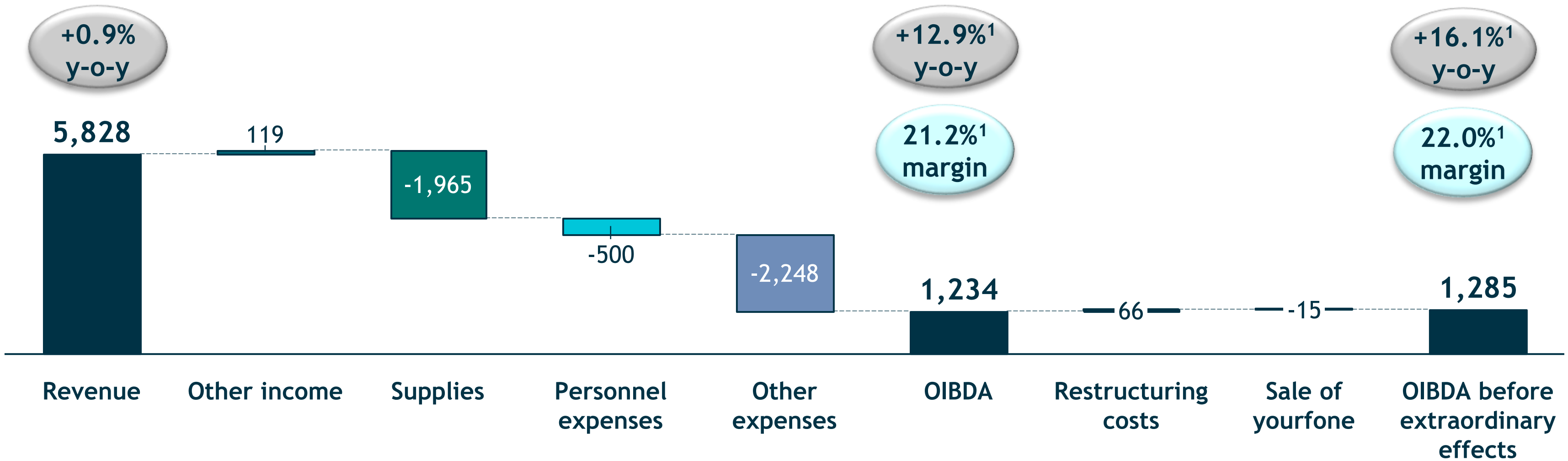


- Mix-shift phenomenon: Share of partner business rising driven by market dynamics
- Decline in DSL retail slowing on the back of VDSL gross adds

[1] Wholesale & partner business

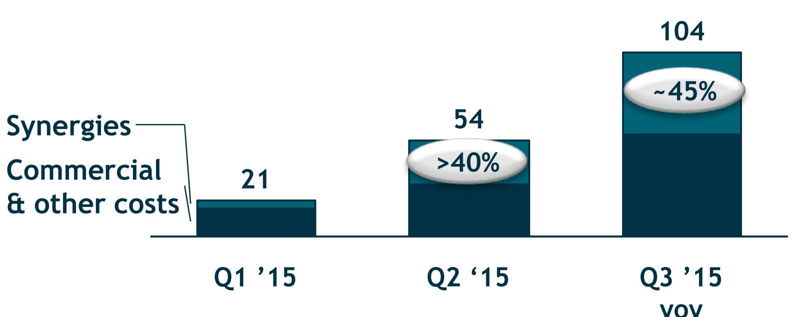
OIBDA reflecting benefits of early capture of synergies and optimisation of commercial costs

Structure of OIBDA for Jan-Sep 2015 (in EUR m)



Synergies a significant driver of growth

OIBDA growth (y-o-y in EURm)[1]

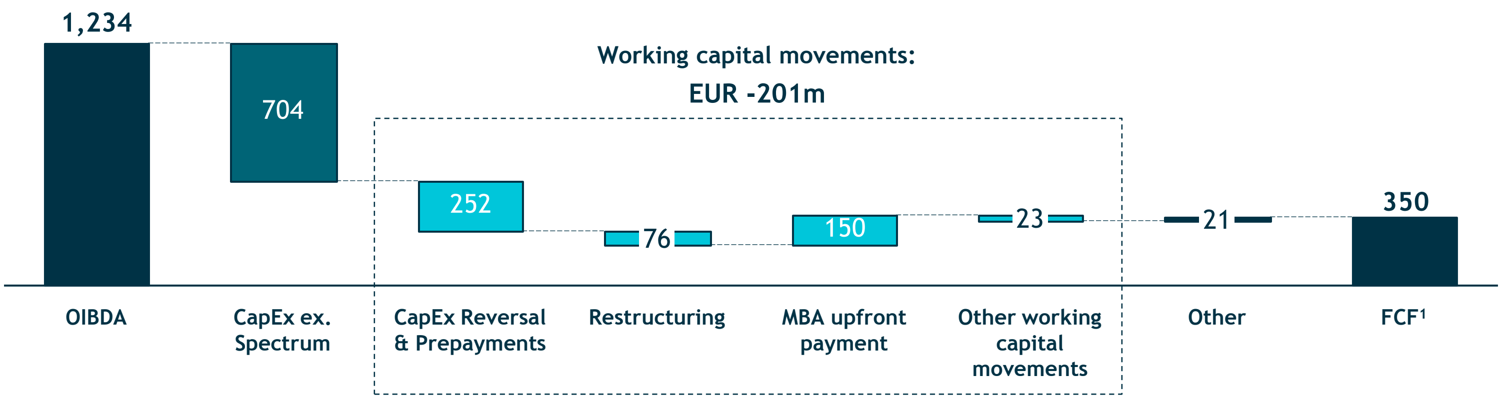


- Synergies drive ca. 45% of y-o-y OIBDA[2] growth in Q3
- Add. Opex savings: Commercial cost optimisation improves profitability
- Restructuring costs mainly network-related

[1] Y-o-y comparisons based on 2014 combined figures
[2] Excluding exceptional effects - For details please refer to additional public material for Q3-2015

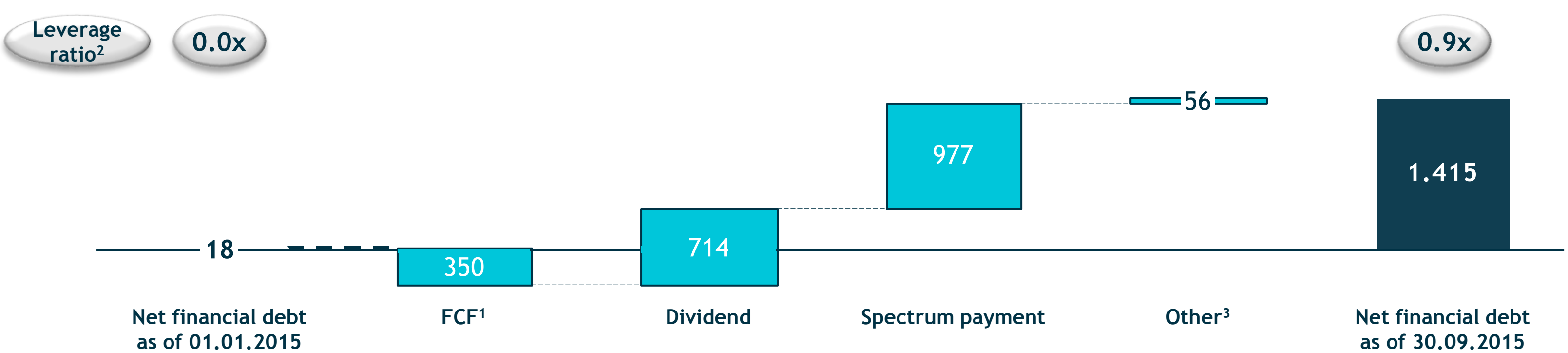
Financial leverage returned to target while keeping financial flexibility

Evolution of Free Cash Flow (FCF)[1] YTD September 2015 (in EUR 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 Debt[2] (y-o-y in EUR m) - Leverage ratio[2] returns to 0.9x after payments in Q2'15

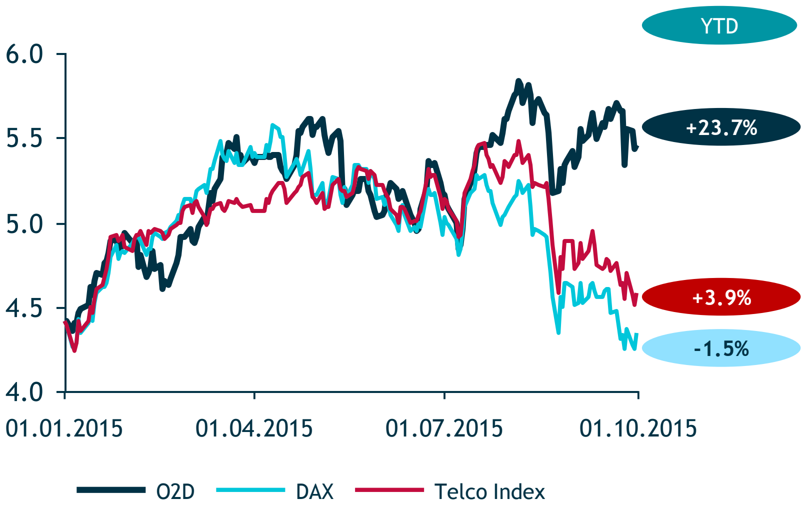


[2] For definition of net debt & leverage ratio please refer to additional materials of Q3 15 results
[3] Mainly consists of movement of O2 My Handy receivables and handset model receivables

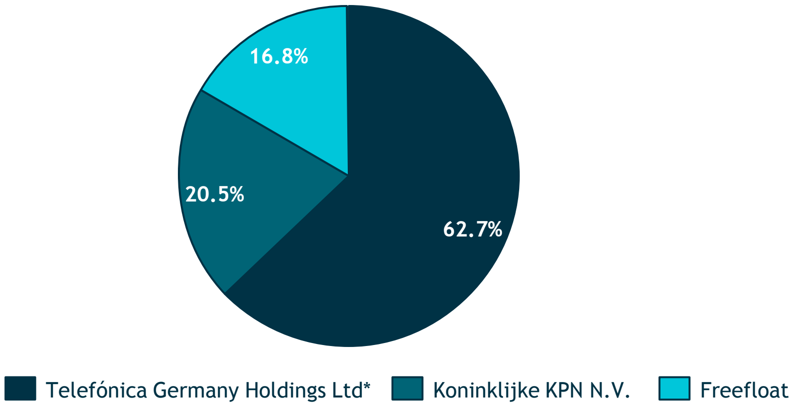
Telefonica Deutschland

O2D - Factsheet

Share price development until 30.9.15



Shareholder structure as of 30.09.15[1]



Telefónica Deutschland at a glance

WKN	A1J5RX
ISIN	DE000A1J5RX9
Ticker	O2D
Bloomberg	O2D GY
Reuters	O2DN.DE
Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6m
Market cap (as of 30.9.)	EUR 16,244.0 m
Share price (as of 30.9.)	EUR 5.46

[1] According to shareholders register as of 30 September 2015
* Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica, S.A.

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

Financials (Euros in millions)	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 FY	2015 Q1	2015 Q2	2015 Q3	2015 YTD Sep
Revenues	**1,847**	**1,925**	**2,002**	**2,019**	**7,793**	**1,901**	**1,949**	**1,979**	**5,828**
Mobile service revenues	**1,333**	**1,380**	**1,424**	**1,391**	**5,528**	**1,354**	**1,382**	**1,419**	**4,155**
OIBDA post Group fees	**357**	**399**	**350**	**354**	**1,461**	**378**	**453**	**454**	**1,285**
CapEx	**215**	**224**	**286**	**438**	**1,161**	**221**	**242**	**241**	**704**

Accesses (EoP) (in k)	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 FY	2014 Q1	2014 Q2	2014 Q3	2014 Sep
Total Accesses	**46,897**	**47,303**	**47,803**	**47,662**	**47,662**	**47,658**	**48,041**	**48,645**	**48,645**
o/w mobile	**41,168**	**41,623**	**42,201**	**42,125**	**42,125**	**42,179**	**42,617**	**43,289**	**43,289**
Prepay	22,680	22,940	23,316	23,351	**23,351**	23,264	23,501	24,004	**24,004**
Postpay	18,489	18,683	18,885	18,774	18,774	18,915	19,116	19,285	19,285

- 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 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.

Telefónica

Deutschland