Telefónica
Deutschland

Telefónica Deutschland Investor Presentation

June 2016

Telefónica Deutschland
Investor Relations

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Shaping the leading digital 'onlife' telco in Germany

1. Drive momentum in an attractive & dynamic telecoms market
2. Shaping the digital transformation for an exceptional customer experience
3. Lean & efficient operations to drive growth in profitability and FCF
4. Attractive shareholder return & financial flexibility on strong fundamentals

2016: Moving the focus from integration to transformation

Keep the Momentum	Integrate quickly	Transform the company
Best high speed access experience	Superior customer experience	Operational excellence

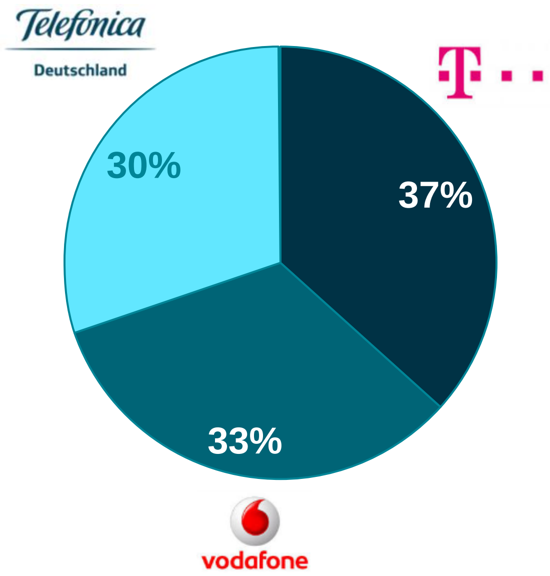
Golden grid for 2G/3G + LTE roll-out + access to best VDSL platform

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

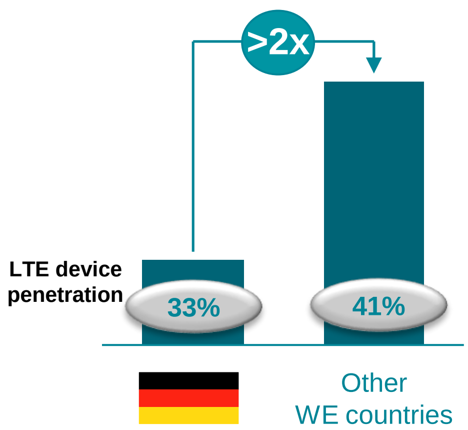
Rational and balanced market structure[1]



- Rational market following 4to3 consolidation
- Non-disruptive pricing for tiered mobile data portfolios

Data monetisation opportunity intact

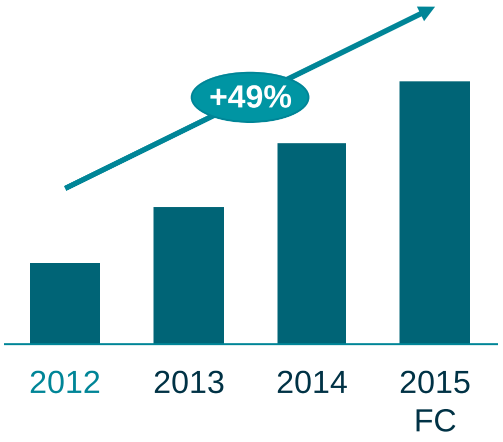
LTE device penetration in % vs. avg. 3G/4G data usage in MB in 2015 FC[2]



- Germany still a European laggard in terms of customer data usage
- Further opportunities from growing LTE adoption

Steady adoption of a digital lifestyle

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



- Around 2/3 of data traffic still in 3G
- Trend to >1Gb/month; music & video streaming usage drivers

[1] Market share of MSR based on reported financials by MNOs for Q4 2015
[2] Source: Analysys Mason Report; Western Europe LTE device penetration/data traffic per user: UK, Austria, Sweden Q3 2015
[3] Source: VATM, Dialog Consult

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

1

A clear multi-brand set up

Own brands

Premium

O_2

Non-Premium

Blau · BASE · simyo · FONIC · ay yıldız · netzclub sponsored mobile · ortel MOBILE

Partner brands

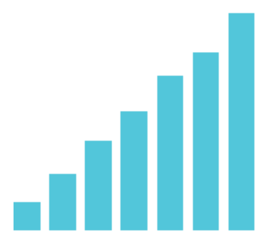
mobilcom debitel · DRILLISCH · NettoKOM · simfinity · TELE2 · SATURN SUPER SELECT · Media Markt Super Select · ALDI TALK · 1&1 · Tchibo mobil · unitymedia · NetCologne

Focused commercial approach

Promotion 2 May-30 June:
+1GB data for M/L/XL
EU roaming flat for all

LTE 4G

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



3x750 MB — For €5 ea. O_2 Blue All-in XL/Premium

3x250 MB — For €3 ea. O_2 Blue All-in M

3x100 MB — For €2 ea. O_2 Blue Basic/Smart/Blue All-in S

Included volume | Additional data volume

Data automatic

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* Promotional

Public – Nicht vertraulich

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Customer base focus drives momentum

1

O$_2$ brand development and new shop concept

Digital lifestyle

O$_2$ Blue One
Mobilfunk und DSL in einem

DSL

Cross & up-sell opportunities

Network integration

Telefónica Deutschland brands

Premium O$_2$

Non-Premium
Own brands and partner brands

Recognition for network & service quality

Stiftung Warentest test
Computer Bild
CHIP
connect
'Netzwetter'

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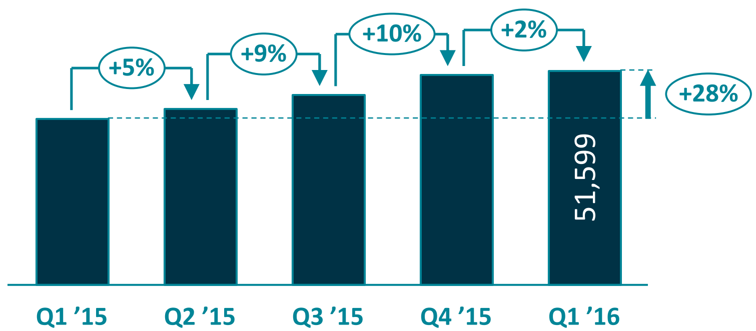
Telefónica Deutschland

LTE customer base development reflects successful data monetisation strategy

1

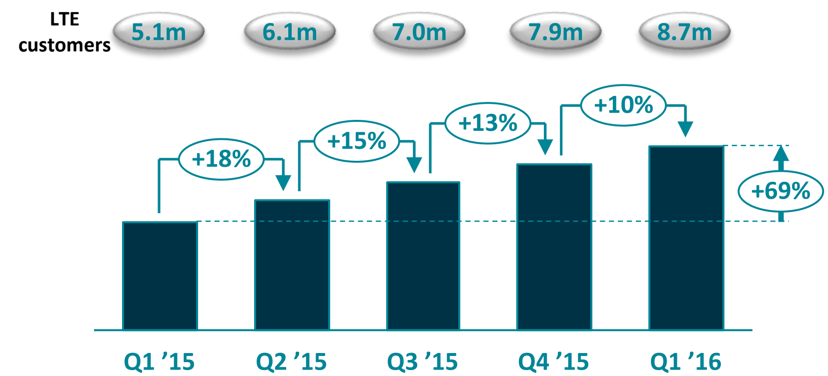
Data traffic continues to rise

Traffic (TB/quarter)



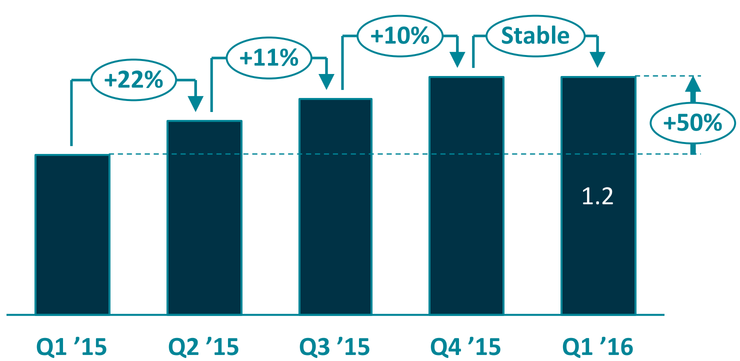
Significant growth in LTE customer base

LTE customers (million)



Network improvement supports usage

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



- LTE customer base up 10% qoq and almost 70% yoy to 8.7 million, as more customers rotate into high-end
- Data traffic up 2% qoq and 28% yoy driven by music and video streaming
- Average data usage for LTE customers up 50% yoy in Q1

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

The path to a leading network in Germany

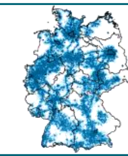
Telefónica Deutschland

Outstanding connectivity & high-speed access in urban & sub-urban areas

Targets 2016

TEF D to reach eye level with competition

Accelerated LTE 1,800 roll-out for high-speed



LTE 800 for coverage

3G National Roaming & mVoLTE launched

Achievements 2015
- Best-in-class 3G network
- Customer network perception improved
- LTE coverage reaches 75%

Progressing well with the future network set-up

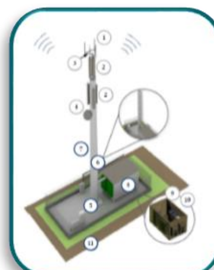
2

Network structure

- Passive infrastructure
  - >90% **rooftop sites**
  - Long-term **operating lease agreements** with landlords
- Active infrastructure
  - Strong **supplier relationships**
  - Implementation of **Single RAN** as part of **network roll-out**
  - **Carrier aggregation** in focus
- Backbone
  - **Dark fibre** and **wholesale agreements**

Network strategy

- **'Golden grid' 2G/3G:** Network consolidation progressing acc. to plan
- **One network** approach from H2-2016
- **Accelerated LTE roll-out** with LTE 800 for coverage and LTE 1,800 for high-speed



Tower sale to Telxius

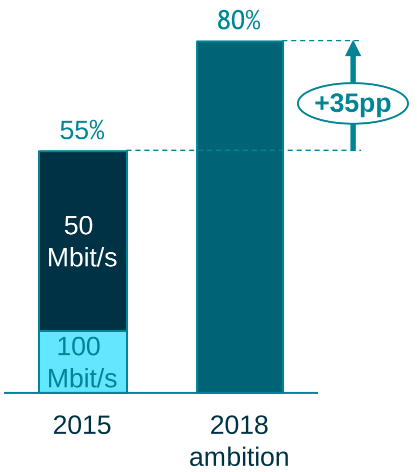
- Sale of **approx. 2,350 towers** to Telefónica SA's Telxius for **purchase price of EUR 587m**
- **Passive infrastructure only**
- Taking advantage of **favourable market conditions** to increase **financial flexibility**
- Maximising **shareholder value**

Right fixed infrastructure model to complement our mobile network for best high speed experience

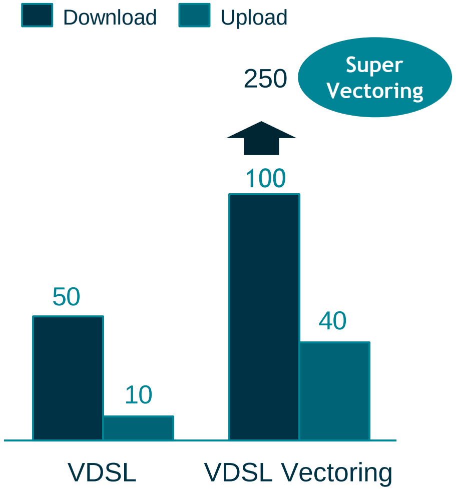
2

Access to best available fixed NGA[1] network

NGA coverage targets
(% of covered households, YE)



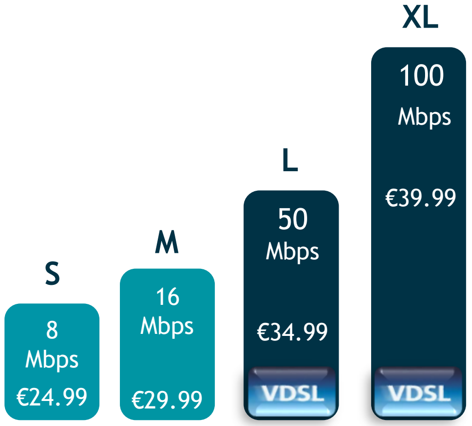
Maximum speed
(Up- & Download, Mbps.)



- Immediate & nationwide access to DT's NGA network
- In 2016 top 50 cities will be upgraded to VDSL vectoring and 100 Mbit/s

With a competitive bundled offer

O_2 DSL all-in
(Download speed, Mbps)



- O_2 Blue One offers flexible combination of fixed & mobile offers with progressive value-based discounts
- Active cross-selling of fixed & mobile propositions

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

Advanced Data Analytics & Internet of Things will complement our core business

2

Advanced Data Analytics

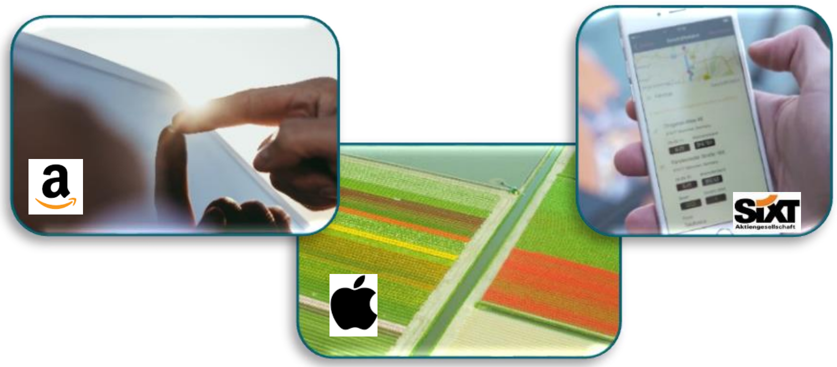
Demand and supply tool for network capex optimisation

Living trading maps

Digital command centre

- Customer data pool as a key resource
- Best in class analytics to help us build better customer relationships
- Data protection key: Our approach sets new standard in market

Internet of Things



Content solutions

- IoT trends are changing traditional business economics
- Building portfolio in the areas of connectivity and software solutions
- Opportunities include SME & *Industrie 4.0*

Development of ADA and IoT opportunities will shape our digital future

Clear focus on digitalisation initiatives as core element of innovation

'Digital first' as framework for transformation strategy

- Increasing relevance of own **online channels**
- **Operational excellence** in customer service
- **Innovation** through added-value services and future business areas: ADA and IoT

Web/mobile portals

Apps

Mein O_2 | Data Check | Msge + Call

Chats/Forums

Base service chat | O_2 Forum

Social media

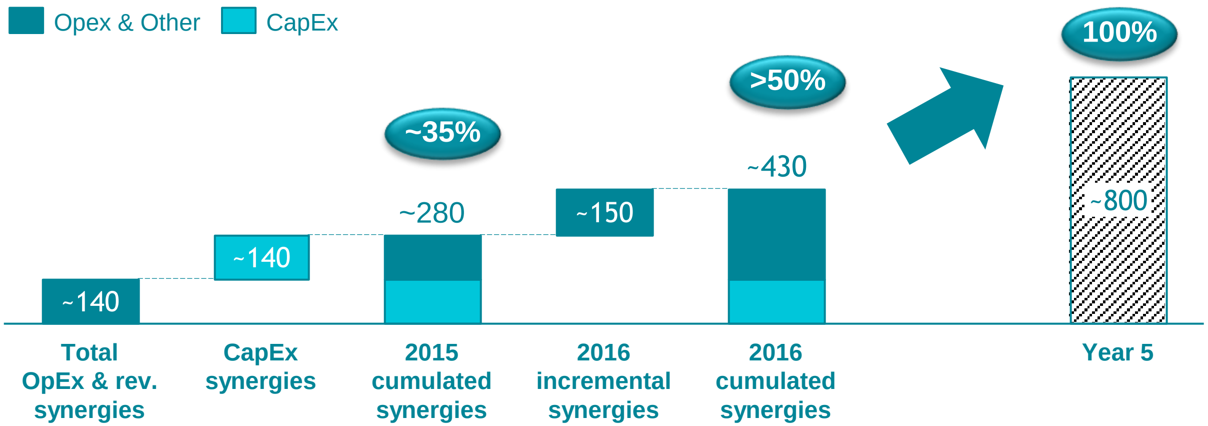
Your smartphone is your future bank

- **O_2 Banking – Germany's first mobile-only bank account**
  - Easy & convenient **24/7 mobile banking**
  - **Best-in-class** customer experience
  - **Physical debit card**
  - Variety of **credit products**
- **Attractive banking services** to lock-in customers and **reduce churn**
- Cooperation with **FIDOR Bank**, a German direct bank

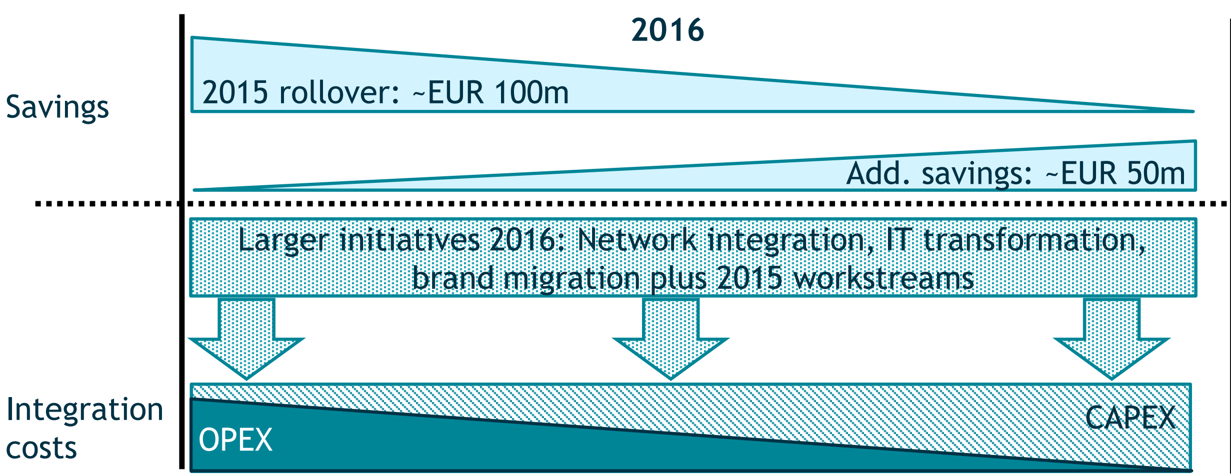
Cumulated synergies expected to reach >50% of total savings target by year-end 2016

3

Synergy case 2015-2019 (EUR m)



Synergy phasing 2016: Integration to transformation



Large initiatives in 2016

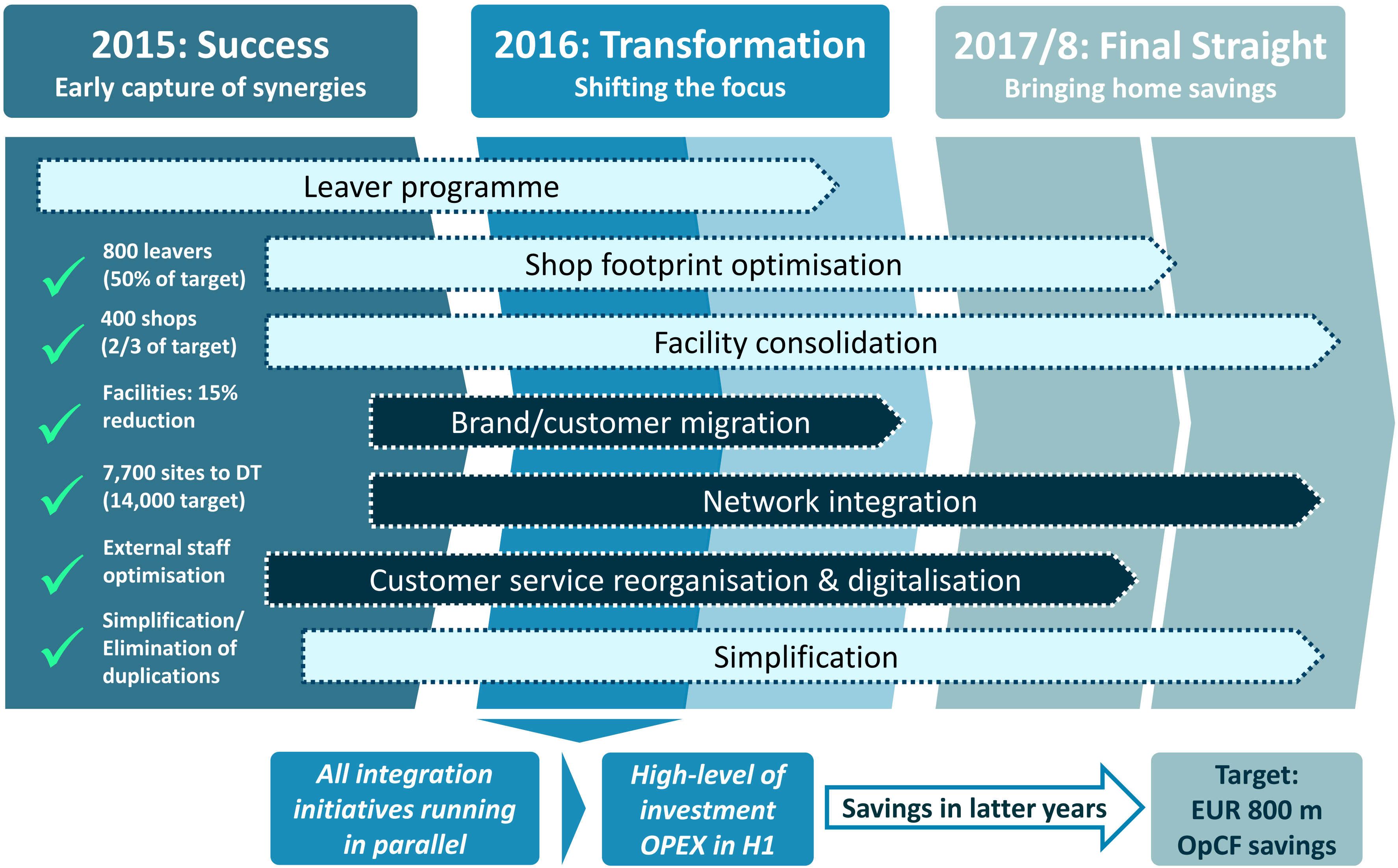
- Network integration
- Brand migration / IT transformation

Ongoing workstreams from 2015

- Leaver programme
- Shop footprint
- Facilities consolidation
- CS reorg/digitalisation
- Simplification

[1] OpEx savings are referring 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

Shifting the focus to transformation in 2016



2016 outlook confirmed with Q1 preliminary results

	Baseline 2014* (EUR m)	Outlook 2015** (y-o-y pct. growth)	Actual 2015** (EUR m / y-o-y pct. growth)	Outlook 2016** (y-o-y pct. growth)
MSR	5,528	Broadly stable	5,532 / +0.1% ✓	Slightly negative to broadly stable
OIBDA	1,461	+15-20%	1,760 / +20.5% ✓	Low to mid single-digit % growth
CapEx	1,161	Low double-digit pct. decline	1,032 / -11.1% ✓	% growth in the low tens

- 2016 MSR expected to be slightly negative to broadly stable as result of customer acquisition trends and base mix effect
- 2016 OIBDA growth driven primarily by synergies; transformation projects require upfront cost-phasing
- Majority of 2016 synergies stem from 2015 roll-over effects; additional in-year savings from leaver programme and site restructuring
- Capex growth as a result of investment in LTE roll-out & IT consolidation; no further Capex synergies in 2016

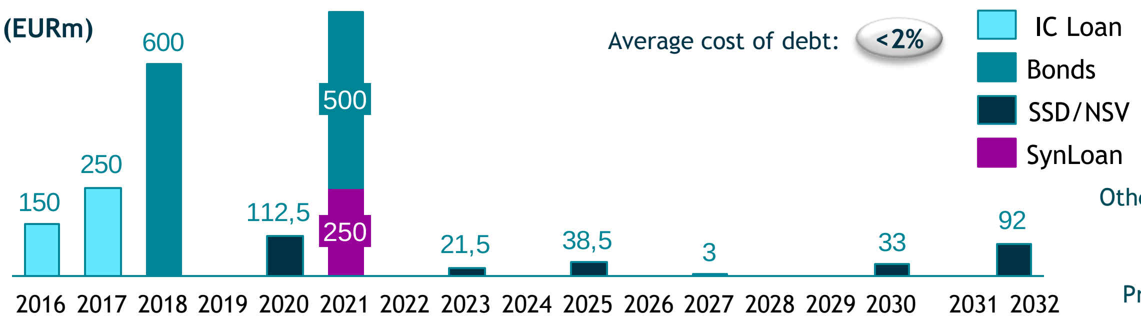
>50%
of total target of EUR 800m to be achieved in 2016 (~EUR 430m[2])

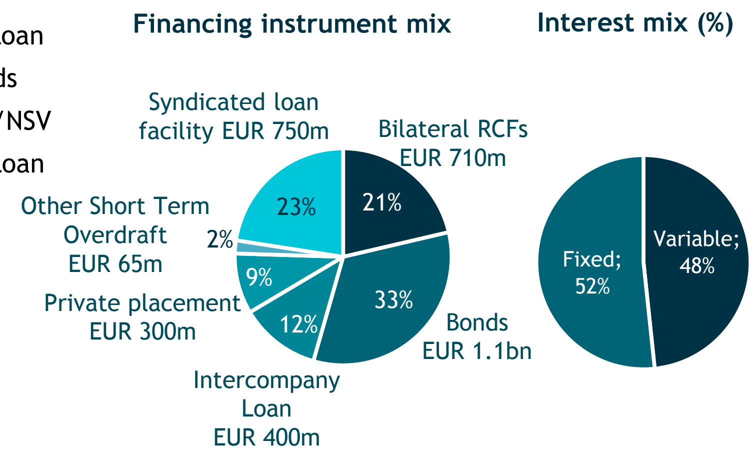
* Baseline figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. Figures are further adjusted by exceptional effects, such as capital gains or restructuring 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 position and conservative financing policy

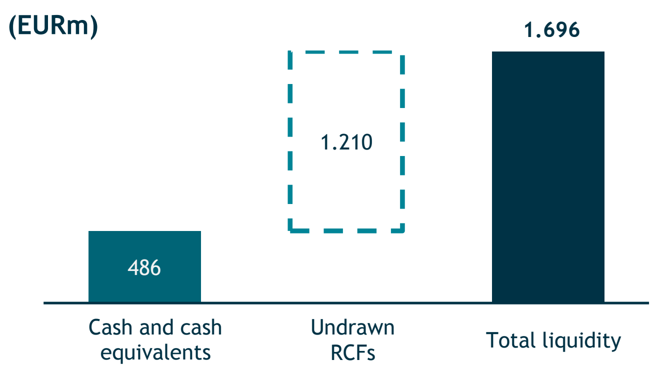
Smooth, extended maturity profile and further diversified financing mix



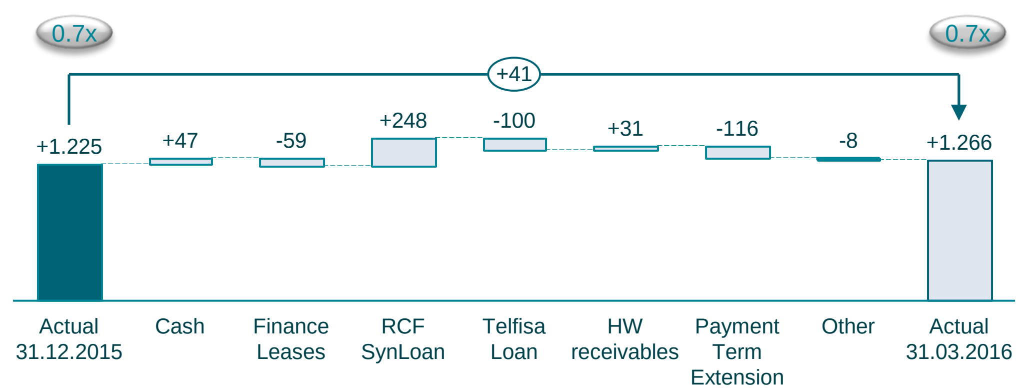


Issue date	Currency	Volume	Tenor	Coupon	Instrument rating	Listing
22.11.2013	EUR	600,000,000	5 years	1.875%	BBB, stable outlook	Regulated market of the Luxemburg Stock Exchange
10.02.2014	EUR	500,000,000	7 years	2.375%	BBB, stable outlook	Regulated market of the Luxemburg Stock Exchange

Comfortable liquidity position



Leverage[1] ratio at 0.7x



[1] As measured by Net Financial Debt/OIBDA (Last 12 months)

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We will 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; target will be continually reviewed
- Dividend proposal of EUR 0.24 for financial year 2015 to be approved by AGM 2016

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

Main takeaways

1 Drive momentum in an attractive and dynamic telecoms market

- Attractive and dynamic telco market
- Significant data monetisation opportunity
- Excellent competitive position

2 Shaping the digital transformation for an exceptional customer experience

- Multi-brand, multi-channel go-to-market strategy
- Successful up- and cross-selling mechanisms
- Digitalisation of customer relationships: Offering choice and value

3 Lean & efficient operations to drive growth in profitability and FCF

- Simplified and lean operating model
- Best 3G network & ongoing LTE roll-out
- Ambitious synergy target: EUR 800m OpCF savings in year 5

4 Attractive shareholder return & financial flexibility on strong fundamentals

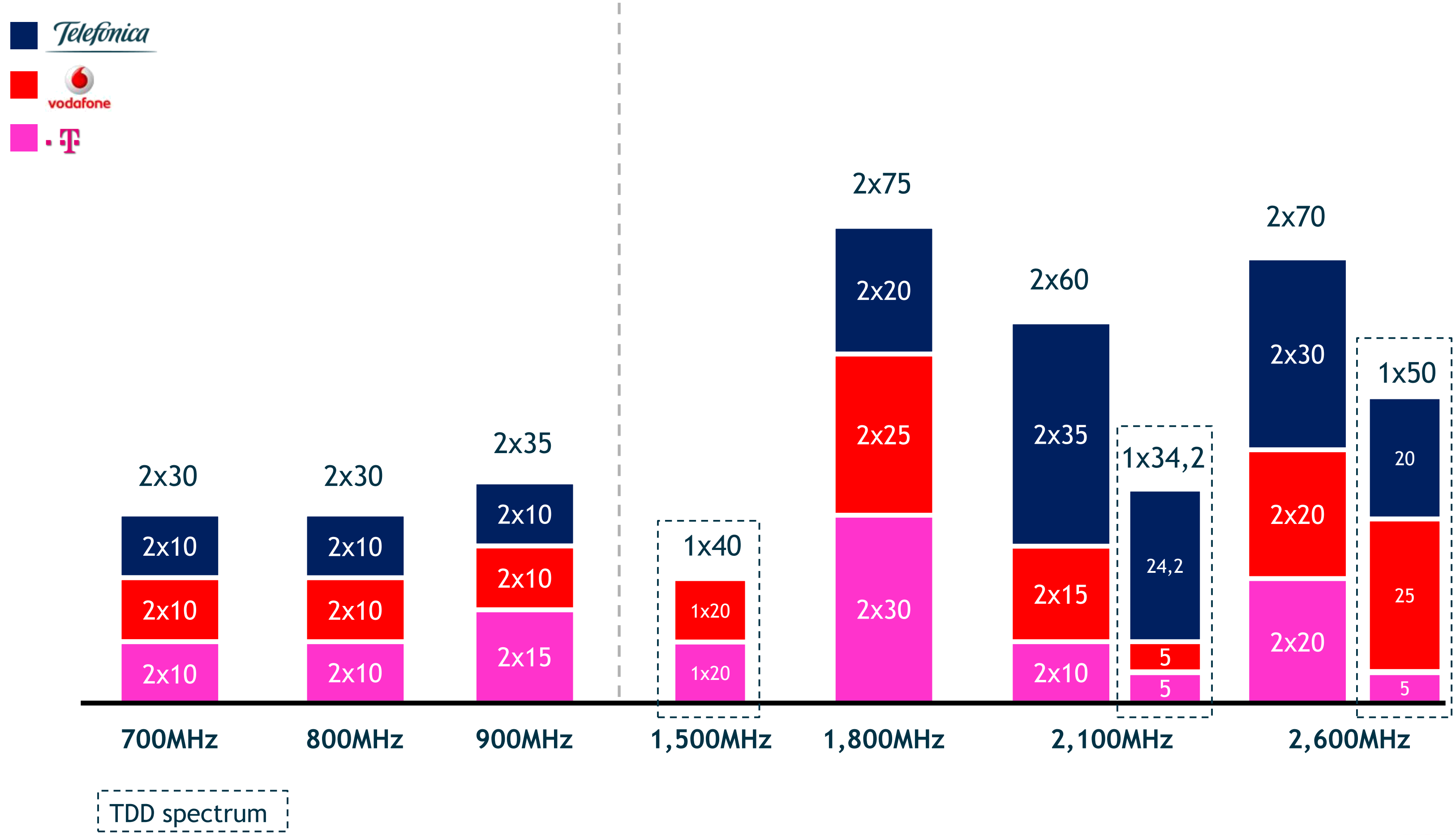
- Commitment to attractive dividend policy
- Conservative financing policy
- High financial flexibility

Back-up

Strong spectrum post auction enables realisation of best network experience

Coverage - Level playing field

TEF D retains spectrum leadership for capacity



O_2 Blue All-in portfolio

	Flank Tariffs		All-in Portfolio				
Tariffs	O_2 Blue Basic	O_2 Blue Smart	O_2 Blue All-in S	O_2 Blue All-in M	O_2 Blue All-in L	O_2 Blue All-in XL	O_2 Blue All-in Premium
Price	9,99 €	19,99 €	19,99 €	29,99 €	39,99 €	49,99 €	79,99 €
Voice Onnet (O2 + E-Plus)	✓	✓	✓	✓	✓	✓	✓
Voice Offnet	50	100	✓	✓	✓	✓	✓
Voice Fixnet							
SMS Allnet	200	✓	✓	✓	✓	✓	✓
Domestic Data MB	200 MB	500 MB	200 MB	1 GB 2GB*	3 GB 4GB*	5 GB 6GB*	10 GB
Data Speed	3,6 Mbit/s	21,1 Mbit/s	21,1 Mbit/s	21,1 Mbit/s	50 Mbit/s	50 Mbit/s	50 Mbit/s
Network	4G	4G	4G	4G	4G	4G	4G
Fixnet Number	-	✓	✓	✓	✓	✓	✓
EU-Roaming Flat	-	-	+4,99 € 0€*	+4,99 € 0€*	incl.	incl.	incl.
Multicard Option	+4,99 €	+4,99 €	+4,99 €	+4,99 €	1 incl.	2 incl.	2 incl.
Flex Option	+4,99 €	+4,99 €	+4,99 €	+4,99 €	+4,99 €	+4,99 €	+4,99 €
Combi DSL/2nd SIM	-2,50 €	-5,00 €	-5,00 €	-5,00 €	-10,00 €	-10,00 €	-10,00 €
Data Automatic							
Additional Domestic Data Monthly	3 x 100MB	3 x 100MB	3 x 100MB	3 x 250MB	3 x 250MB	3 x 750MB	3 x 750MB
Price	3 x 2 €	3 x 2 €	3 x 2 €	3 x 3 €	3 x 3 €	3 x 5 €	3 x 5 €
Auto Upsell	-	-	-	-	-	-	-

*promotional changes since since 2 May 2016

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O_2 DSL All-in portfolio

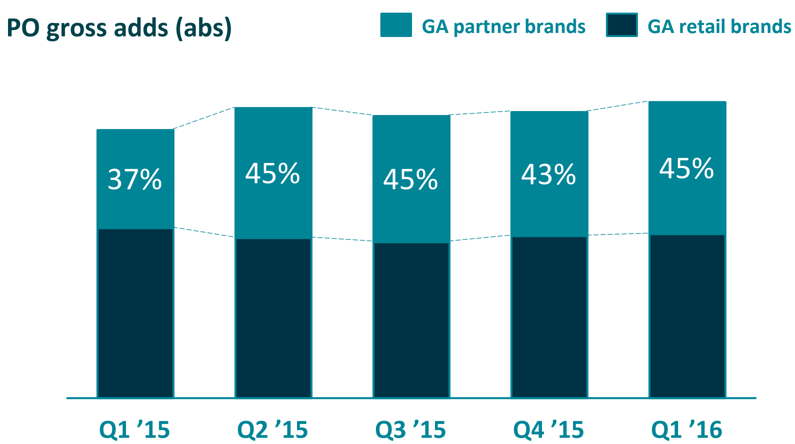
TIPP

O_2 DSL All-in		M[17]	Young[17] VDSL	L[17] VDSL	XL[17,**] 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 16.000 KBit/s (Upload: bis zu 1.000 KBit/s)[19]	bis zu 50.000 KBit/s (Upload: bis zu 10.000 KBit/s)[19]	bis zu 50.000 KBit/s (Upload: bis zu 10.000 KBit/s)[19]	bis zu 100.000 KBit/s (Upload: bis zu 40.000 KBit/s)[19]
	Maximale Surf-Geschwindigkeit bis*** (Inklusiv-Volumen)	300 GB[20]	300 GB[20]	300 GB[20]	500 GB[20]
	Fair-Use-Mechanik****	✓	✓	✓	✓
	HomeBox 2/AVM FRITZ!Box 7490[21]	49,99/79,99	49,99/79,99	49,99/79,99	49,99 / 79,99
	Anschlusspreis[17]	0,00 (anstatt 49,99)	0,00 (anstatt 49,99)	0,00 (anstatt 49,99)	0,00 (anstatt 49,99)
	Willkommensbonus	100,00	50,00	100,00	100,00
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 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 29,99)	14,99 (ab 4. Monat 29,99)	14,99 (ab 4. Monat 34,99)	14,99 (ab 4. Monat 39,99)

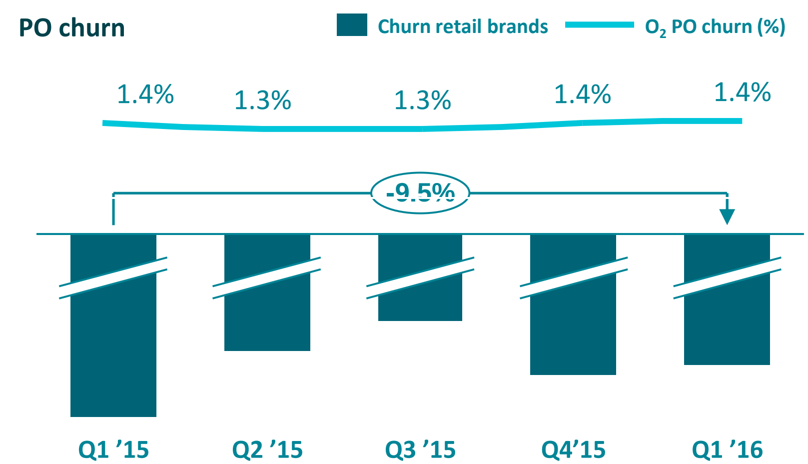
Preise in € inkl. MwSt.
* Weitere Informationen auf Seite 4 und siehe Hinweistext 1. ** In immer mehr Gebieten verfügbar.

Continued momentum in mobile while VDSL drives positive retail net adds in fixed-line

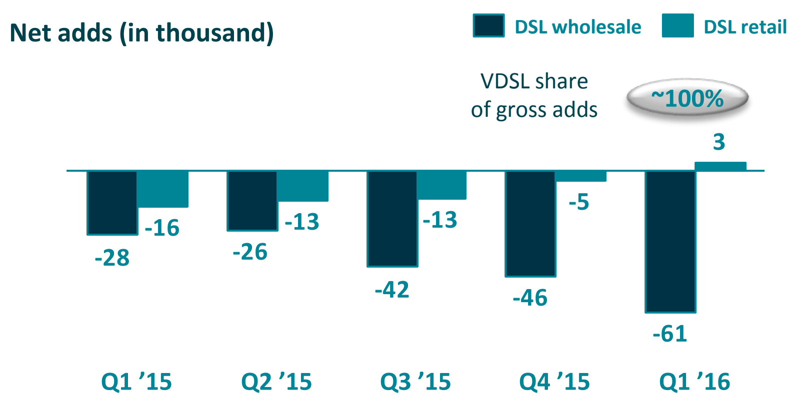
Partner trading still strong



Continued focus on retention



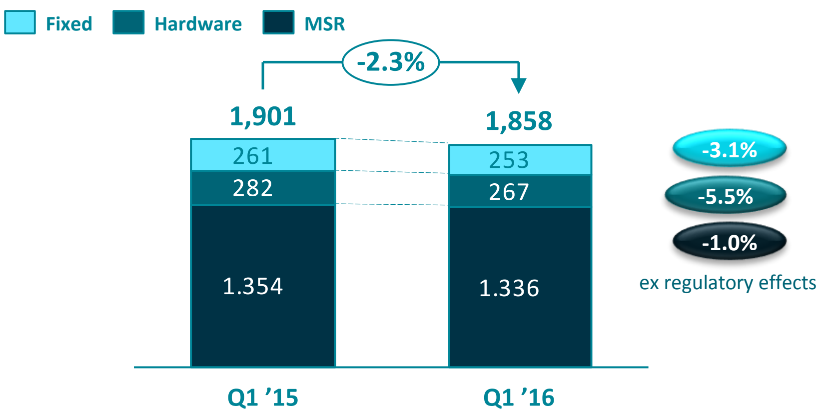
VDSL drives fixed trading



- Partner share of PO gross adds stable over 4 quarters at around 45%
- Migration progressing well
- Retention activities support consumer churn
- Positive DSL retail net adds for first time in 5 years

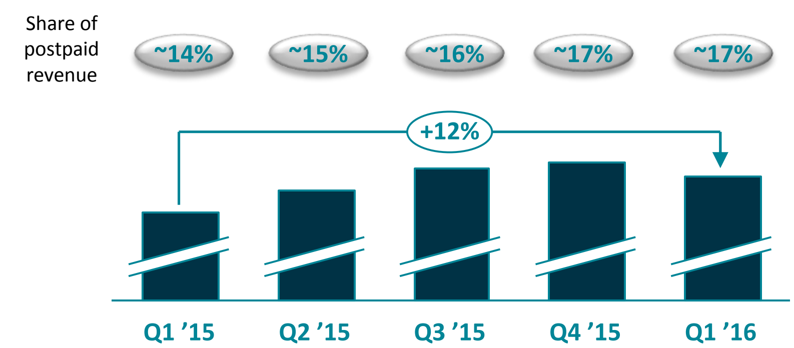
Share of partner business over MSR stabilising; fixed revenue trajectory improving

Revenue structure (in EUR m)



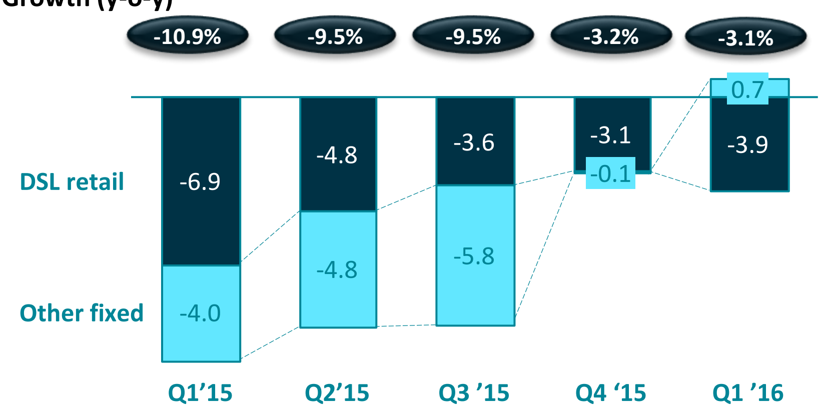
Partner share of postpaid MSR stabilising

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



Fixed revenue y-o-y (in %)

Growth (y-o-y)

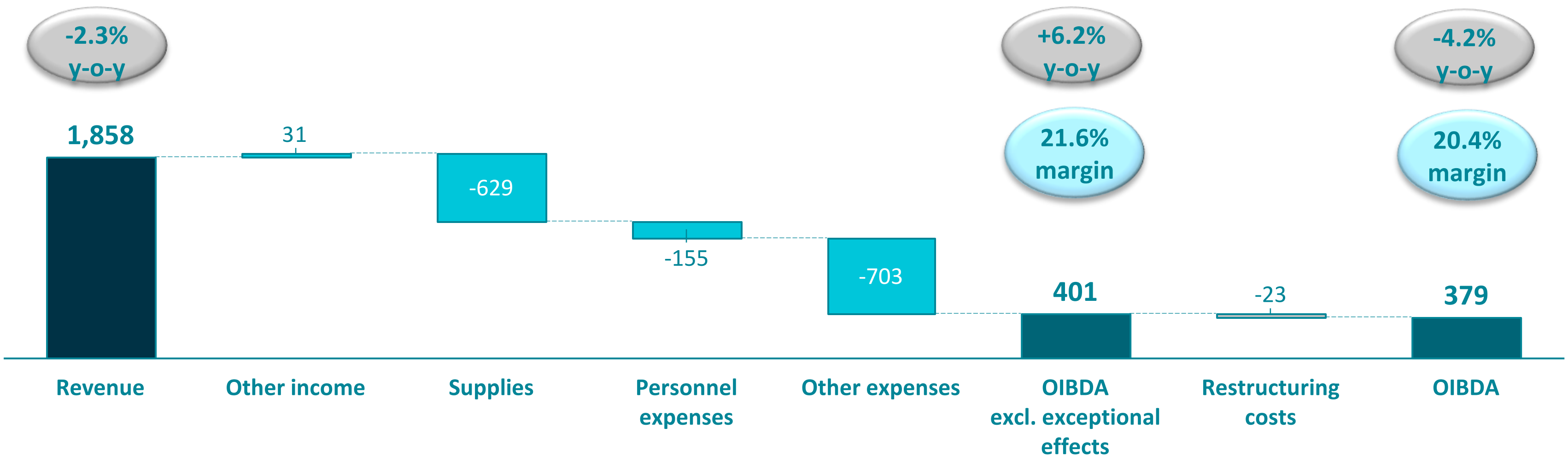


- MSR partner share stable at around 17% qoq
- Fixed revenue trajectory improving driven by successful VDSL net additions of 76k and spot trading opportunities in voice
- Handset revenue decline reflects seasonality as well as lower handset growth in the market

[1] Wholesale & partner business

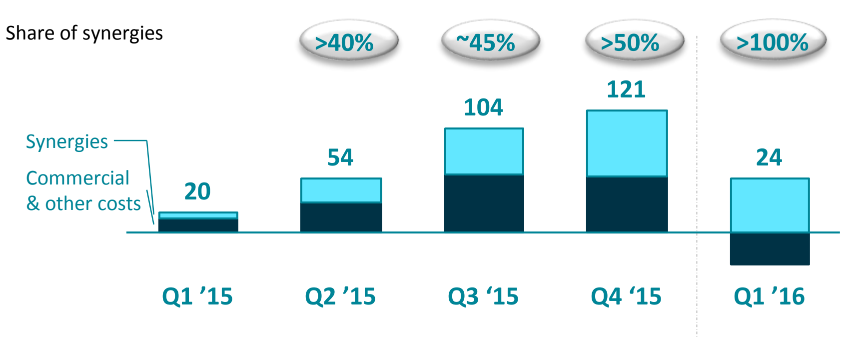
Solid OIBDA growth driven by synergy execution

Structure of OIBDA for January to March 2016 (in EUR m)



Synergies driving OIBDA growth

OIBDA growth (y-o-y in EUR m)



- OIBDA growth entirely driven by roll-over and locking in of synergies from 2015
- Opex effects from transformation activities
- Restructuring costs mainly related to leaver programme

Expected synergies to exceed EUR 5bn (NPV[1])

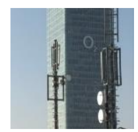
OpCash Flow synergies of ca. EUR 800m in year 5

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

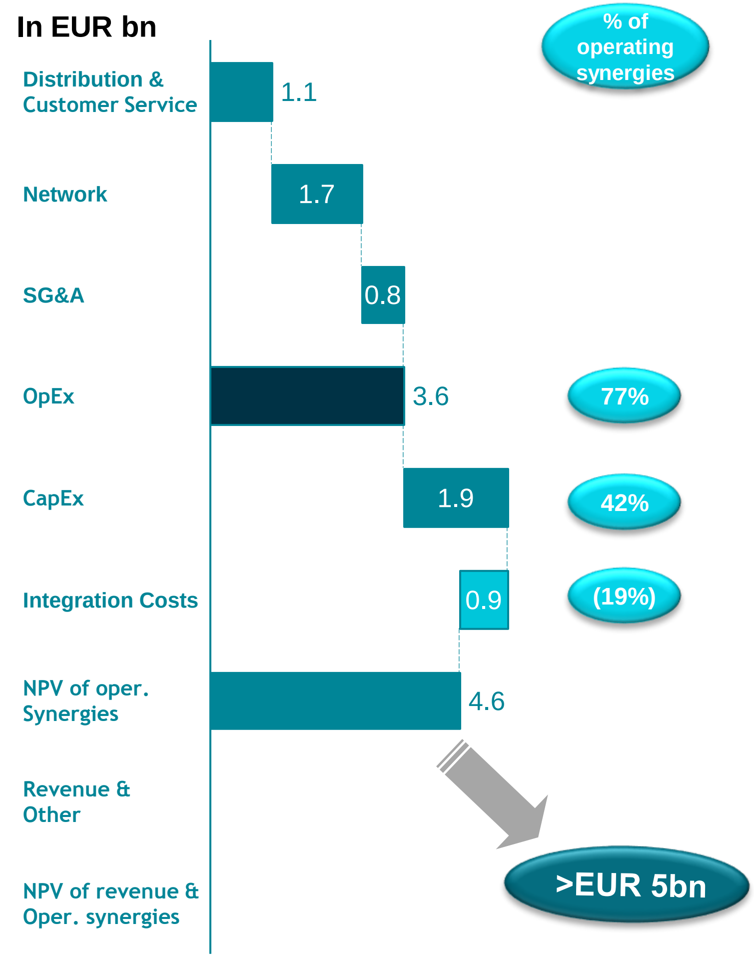


SG&A

- Elimination of duplications in organisation
- Transformation towards lean and digital
- Focused advertising & marketing spend

Revenue and other

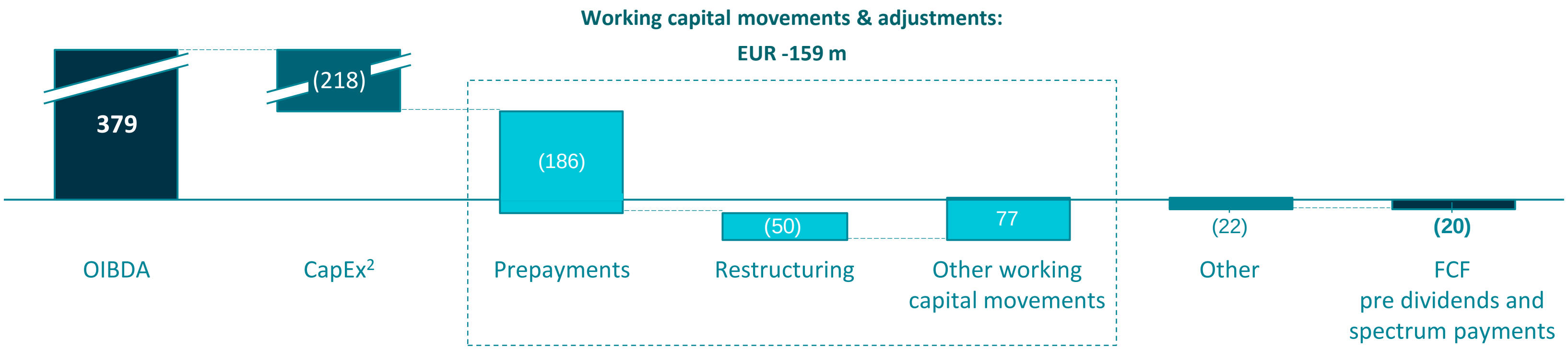
- Additional cross and upselling opportunities in consumer and SME
- Cross-selling opportunity for fixed BB
- Upside potential from strong wholesale component



[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

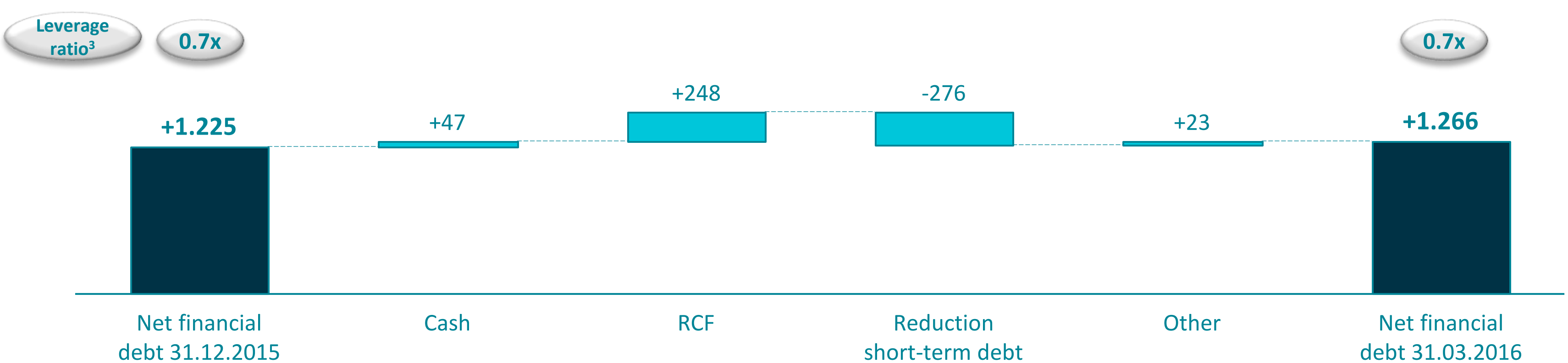
FCF affected by seasonality of rental payments

Evolution of Free Cash Flow (FCF)[1] YTD March 2016 (in EUR m)



[1] Free cash flow pre dividend and spectrum payment is defined as the sum of cash flow from operating activities and cash flow from investing activities.
[2] Excluding capitalised costs on borrowed capital in the first three months of 2016 for investments in spectrum in June 2015

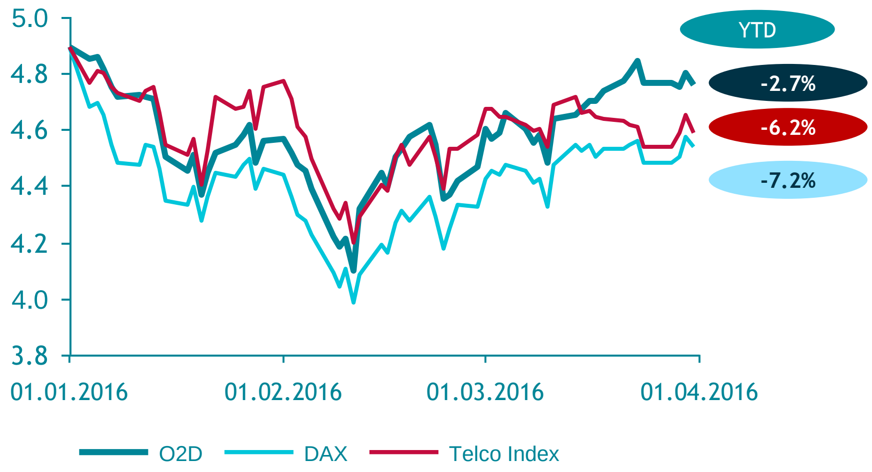
Evolution of Net Debt[2] (y-o-y in EUR m) – Leverage ratio[3] remains at 0.7x



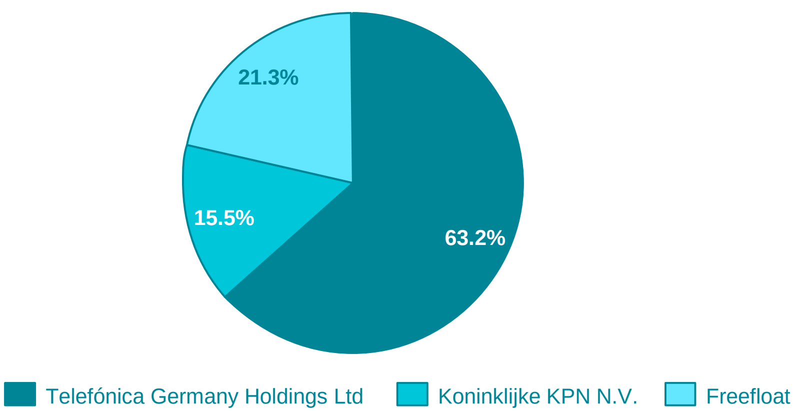
[3] For definition of Net debt & leverage ratio please refer to additional materials of Q1 16 results.

O2D - Factsheet

Share price development until 31.03.2016



Shareholder structure as of 31.03.2016



According to shareholders register as of 31 March 2016
Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A.

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 31.03.)	EUR 14,161.9 m
Share price (as of 31.03.)	EUR 4.761

Quarterly detail of relevant financial and operating data for Telefónica Deutschland

Financials (Euros in millions)	2014 FY	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015 FY	2016 Q1
Revenues	**7,793**	**1,901**	**1,949**	**1,979**	**2,059**	**7,888**	**1,858**
Mobile service revenues	**5,528**	**1,354**	**1,382**	**1,419**	**1,378**	**5,532**	**1,336**
OIBDA post Group fees, pre exceptionals	**1,461**	**378**	**453**	**454**	**476**	**1,760**	**401**
CapEx	**1,161**	**221**	**242**	**241**	**328**	**1,032**	**218**

Accesses (EoP) (in k)	2014 FY	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 FY	2016 Q1
Total Accesses	**47,662**	**47,658**	**48,041**	**48,645**	**48,363**	**48,363**	**48,252**
o/w mobile	**42,125**	**42,179**	**42,617**	**43,289**	**43,063**	**43,063**	**43,008**
Prepay	**23,351**	23,264	23,501	24,004	23,979	**23,979**	23,744
Postpay	18,774	18,915	19,116	19,285	19,083	**19,083**	19,264

- Combined 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.
- 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.

Telefonica

Deutschland

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