

Telefonica

Deutschland

Creating
the
Leading
Digital
Telco



Telefónica Deutschland Investor Presentation

March 2016

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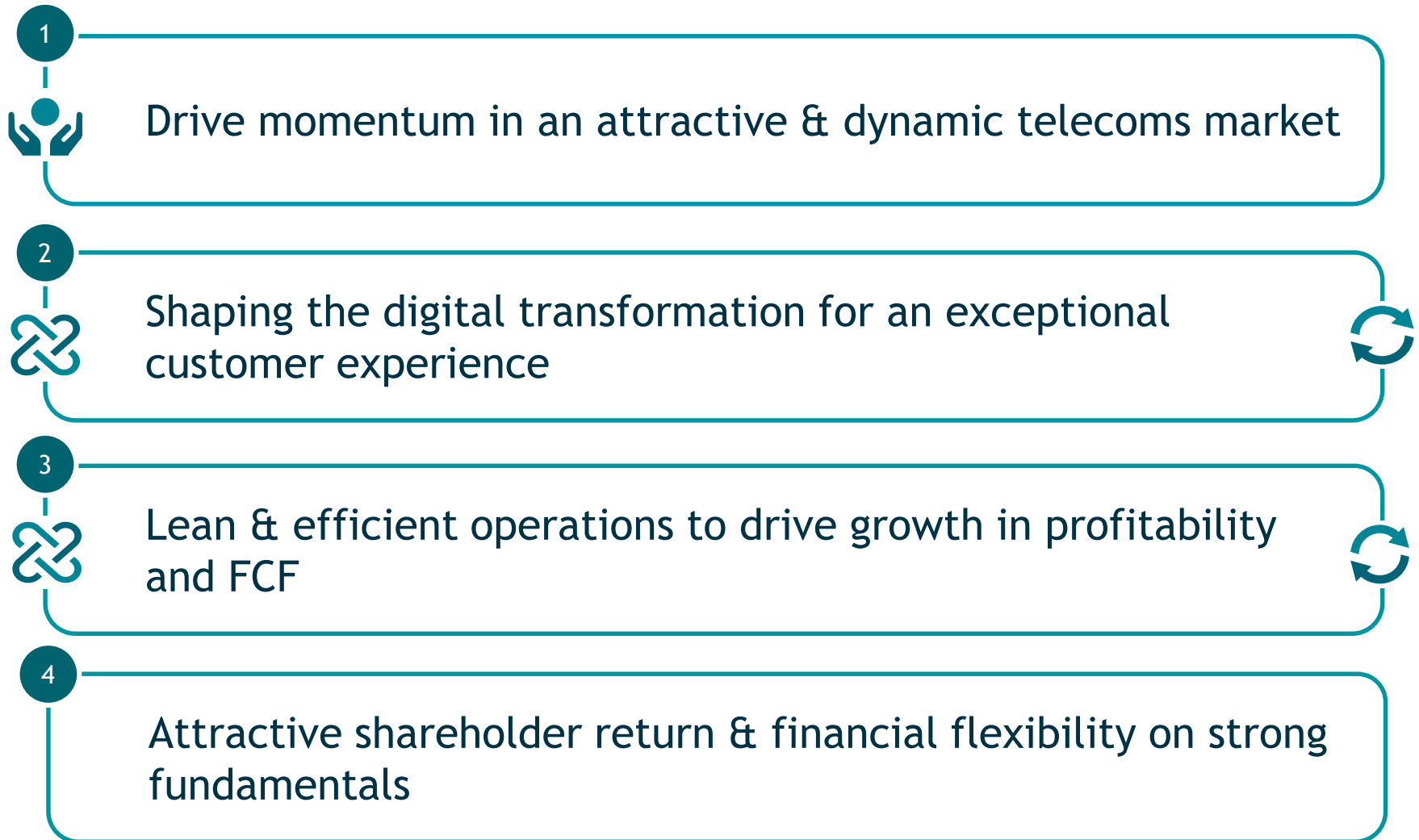
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Shaping the leading digital ‘onlife’ telco in Germany



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*



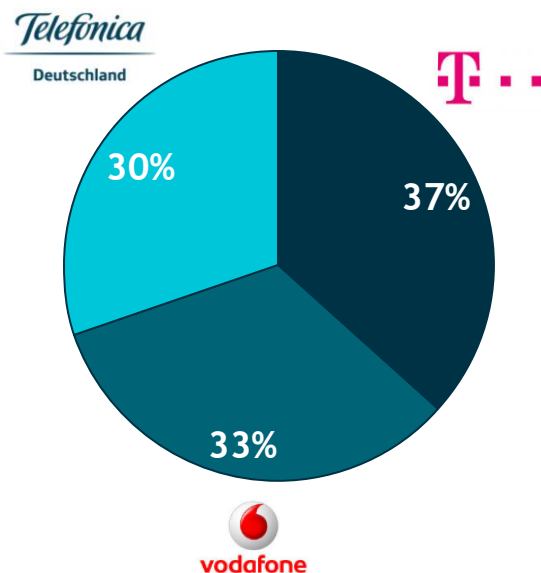
*Peace of mind, multi-channel &
digital first*



Synergies & lean operating model

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

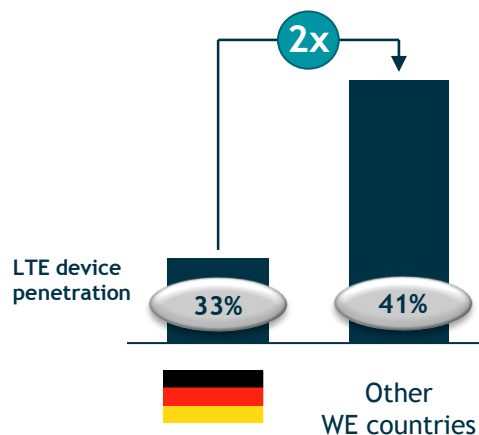
Rational and balanced market structure¹



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

Data monetisation opportunity intact

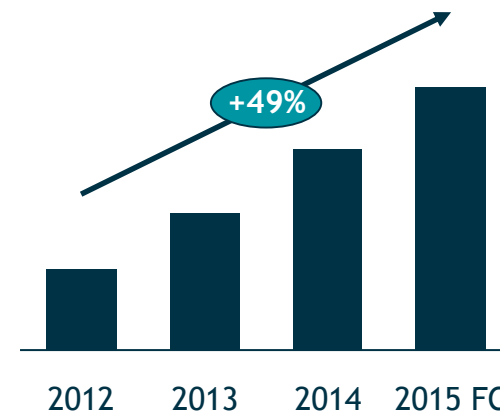
LTE device penetration in % vs. avg. 3G/4G data usage in MB in 2015 FC²



- 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 Germany³



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

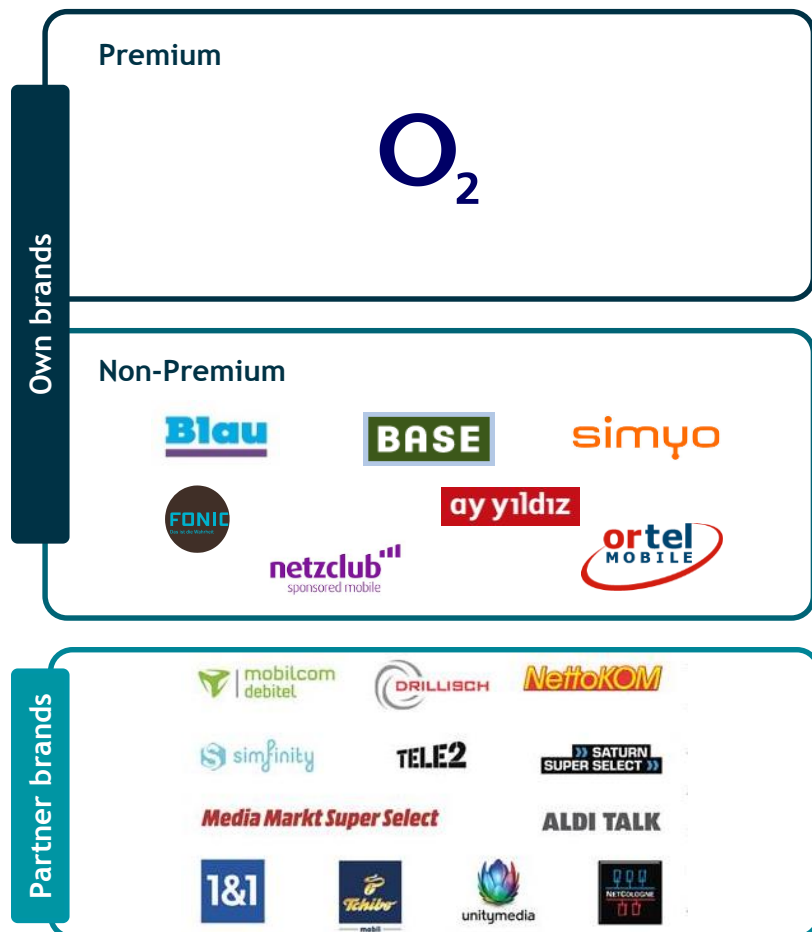
¹ Market share of MSR based on reported financials by MNOs for Q4 2015

² Source: Analysys Mason Report; Western Europe LTE device penetration/data traffic per user: UK, Austria, Sweden Q3 2015

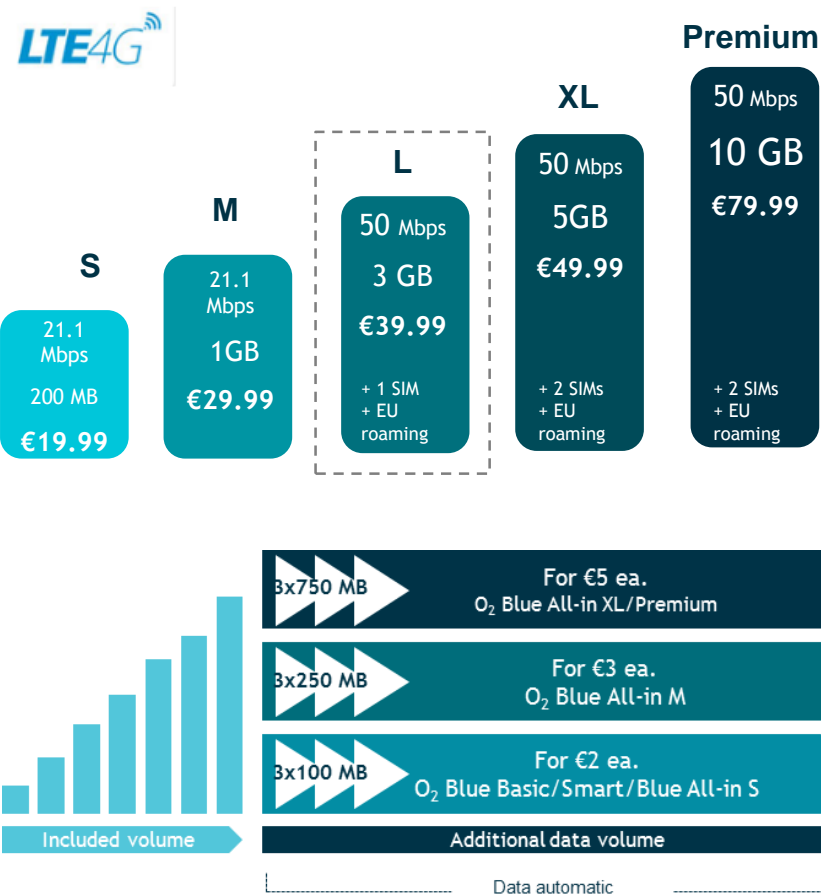
³ Source: VATM, Dialog Consult

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

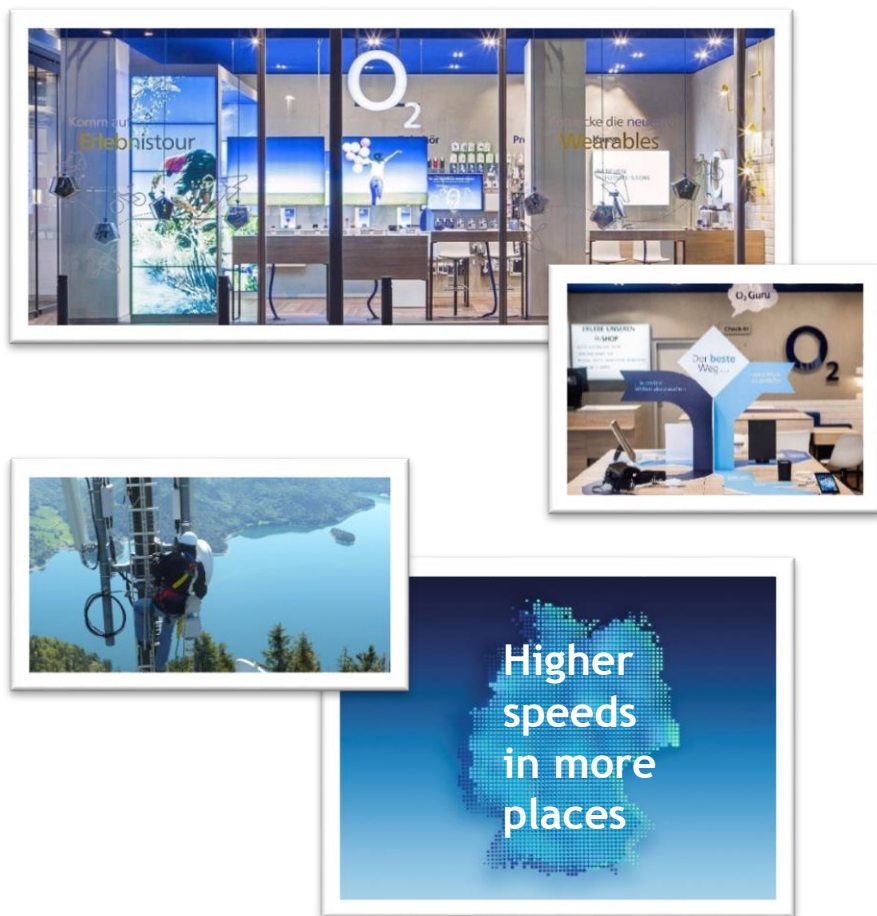
A clear multi-brand set up



Focused commercial approach



O₂ as premium brand for mobile & fixed consumer and business customers



▪ Digital customer journey

- Excellence in customer service with O₂ guru concept
- New digital shop concept

▪ Network experience

- Network integration by mid-16
- At eye level with competition by year-end 2016

▪ You can do!

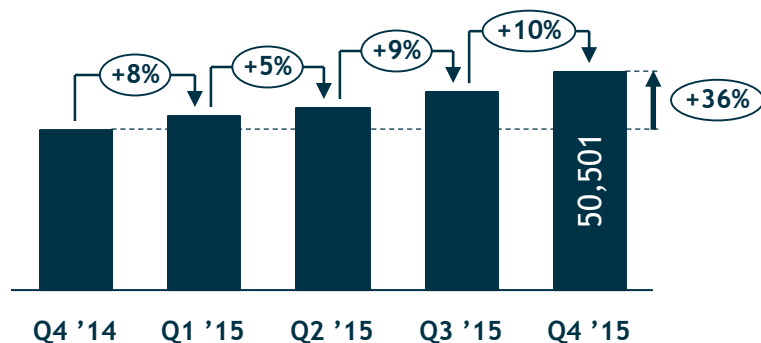
- Freedom of choice for our customers
- O₂ brand core of leading digital 'onlife' telco

O₂ offers customers digital appeal, network excellence, choice and value

Monetisation of mobile data: Growth potential remains intact

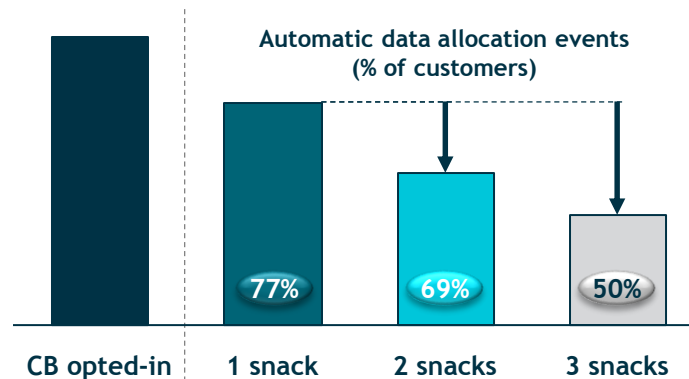
Data traffic rising continuously

Traffic (TB/quarter)



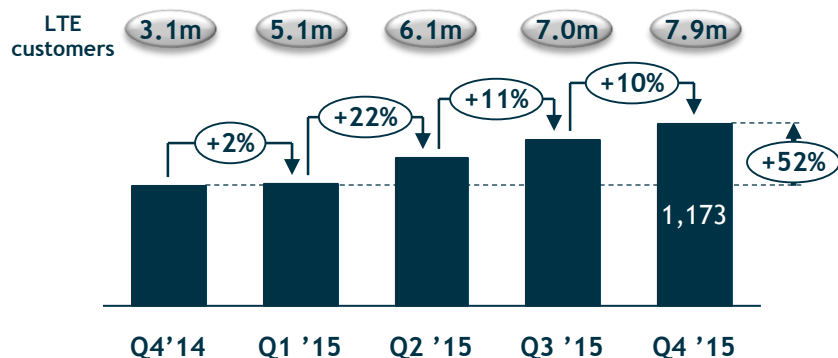
Continued success of data automatic

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



Network improvement supports usage

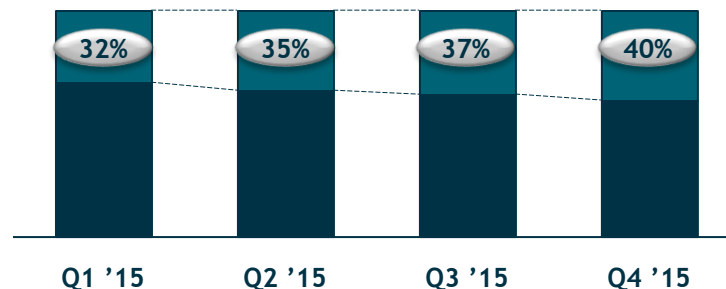
Average data usage for O₂ consumer LTE customers¹ (MB)



Ongoing improvement of tariff adoption mix

Share of gross adds in O₂ consumer postpaid

■ >1 GB ■ <1 GB



¹ O₂ consumer base with LTE enabled smartphone (all tariffs)

The path to a leading network in Germany

Telefonica

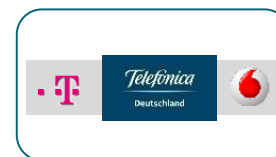
Deutschland

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

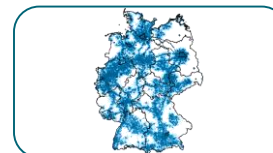


Targets 2016

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

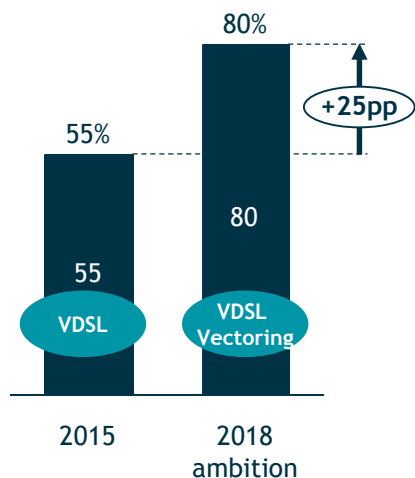
- Best-in-class 3G network
- Customer network perception improved
- LTE coverage reaches 75%



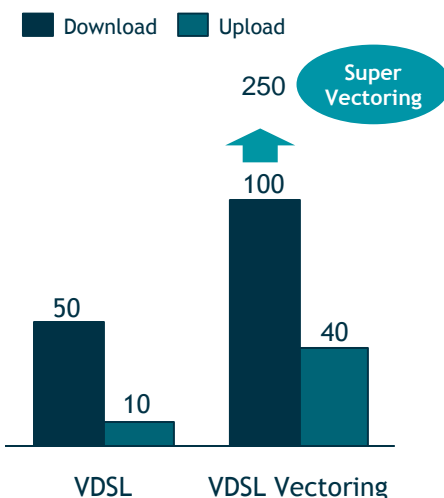
The right fixed infrastructure model to complement our mobile network for the best high speed access experience

Access to best available fixed NGA¹ network

NGA coverage targets
(% of covered households, YE)

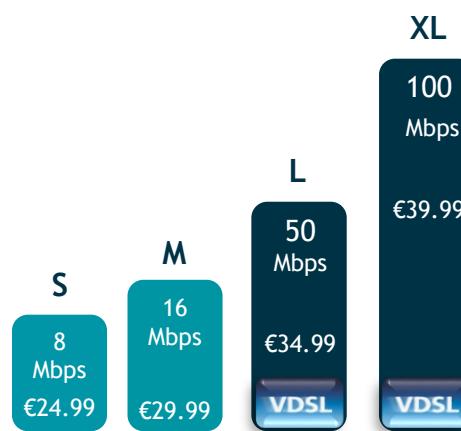


Maximum speed
(Up- & Download, Mbps)



With a competitive bundled offer

O₂ DSL all-in
(Download speed, Mbps)



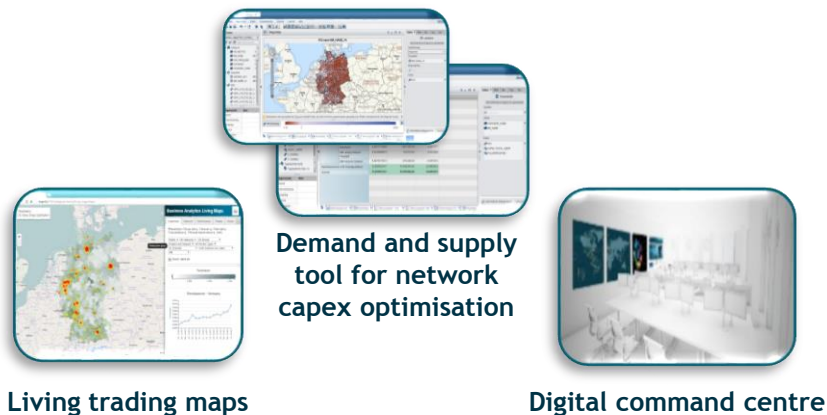
- Immediate & nationwide access to DT's NGA network
- Regulated access/pricing terms
- Decommissioning of own DSL ULL infrastructure by 2019

- O₂ Blue One as a 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

Advanced Data Analytics



- 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



- 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

Expected synergies to exceed EUR 5bn (NPV¹)

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

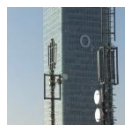
Distribution & customer service

- 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



In €bn

Distribution & Customer Service

1.1

Network

1.7

SG&A

0.8

OpEx

3.6

CapEx

1.9

Integration Costs

0.9

NPV of oper. Synergies

4.6

Revenue & Other

NPV of revenue & Oper. synergies

% of operating synergies

77%

42%

(19%)

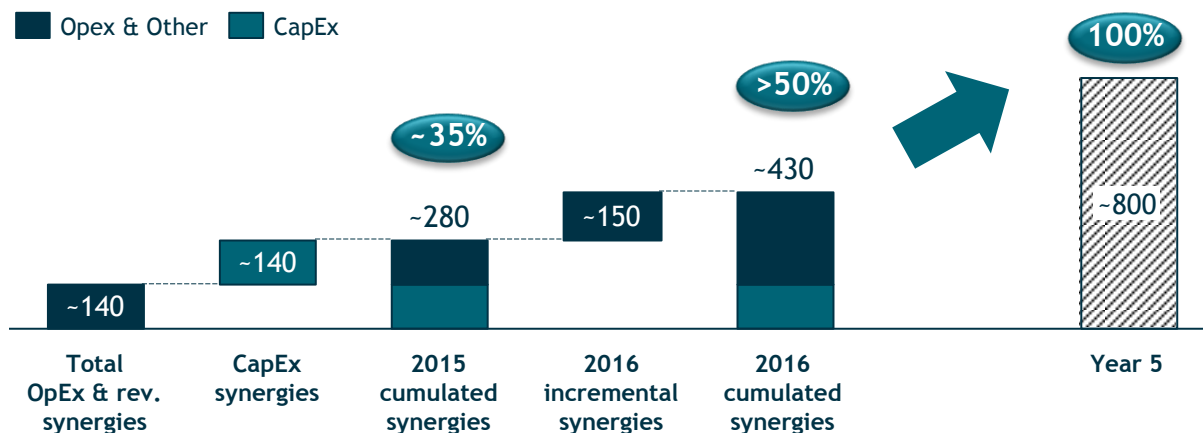
>EUR 5bn

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

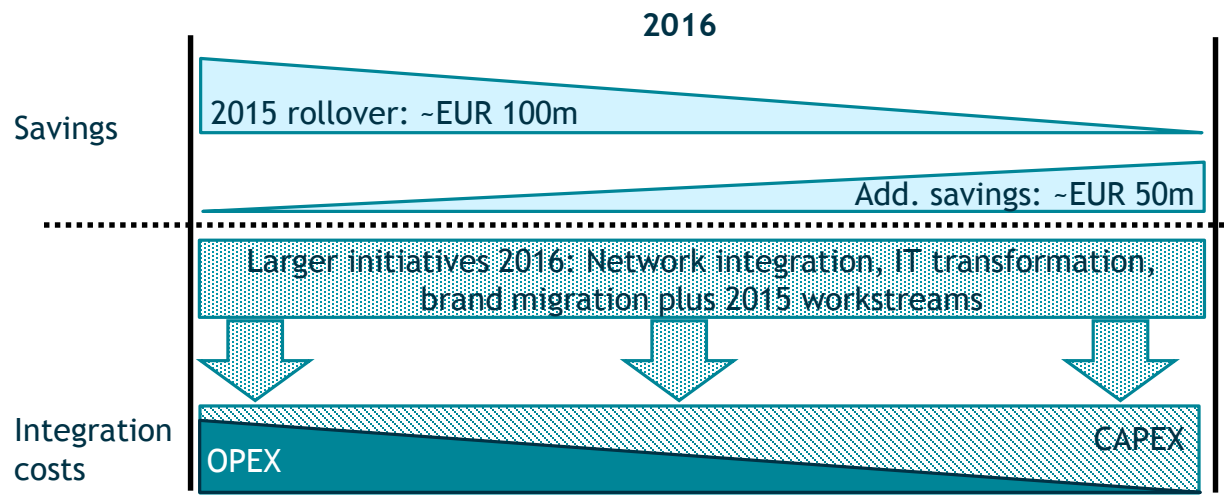
² Run-rate of OpCF synergies is pre-tax

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

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
Total target -1,600 FTEs

Shop footprint
Total target -600 shops

Facilities consolidation
Total target -100k sqm

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

2015 outlook met; 2016 outlook reflects shift in focus from integration to transformation

	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

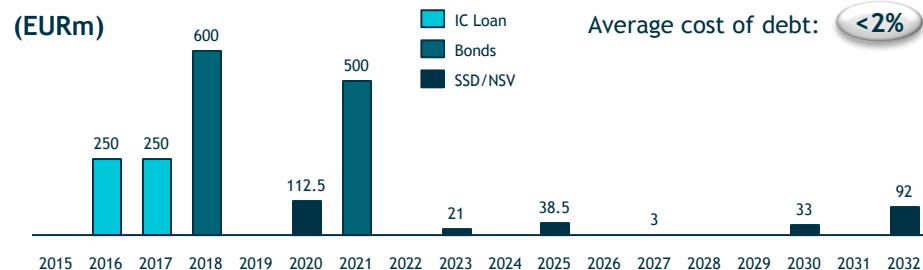
>50%
of total target of
EUR 800m to be
achieved in 2016
(~EUR 430m²)

* 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>

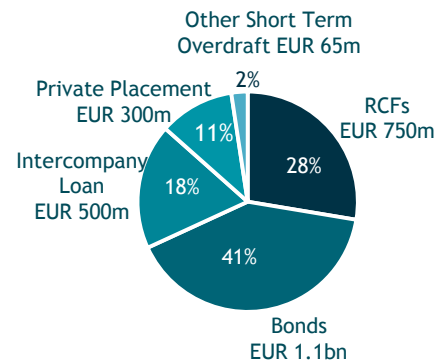
** Expected regulatory effects (e.g. MTR cuts) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA and CapEx excludes investments in spectrum.

Comfortable liquidity and conservative financing policy

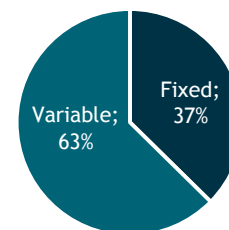
Smooth, extended maturity profile and further diversified financing mix



Financing instrument mix (%)

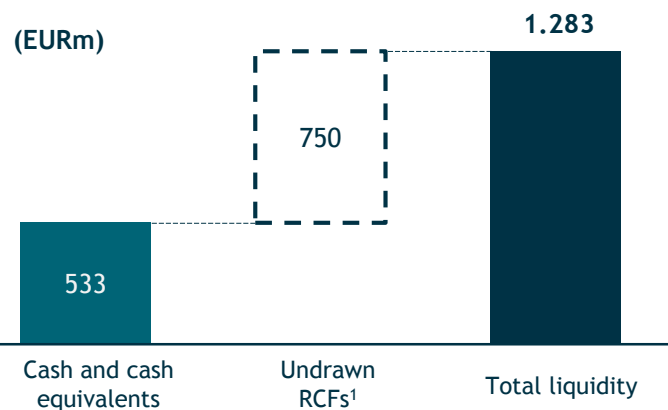


Interest mix (%)

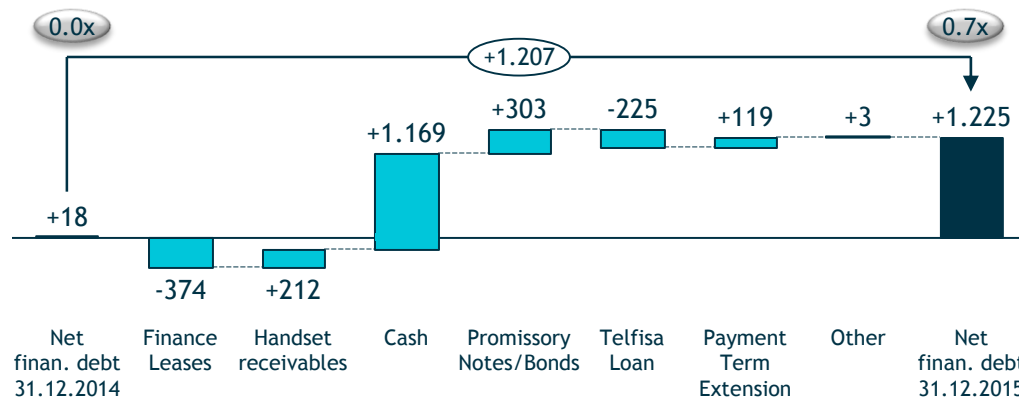


Issue date	Currency	Volume	Tenor	Coupon	Instrument rating	Listing
22.11.2013	EUR	600,000,000	5 years	1.875%	BBB, stable outlook	Regulated market of the Luxembourg Stock Exchange
10.02.2014	EUR	500,000,000	7 years	2.375%	BBB, stable outlook	Regulated market of the Luxembourg Stock Exchange

Comfortable liquidity position



Leverage² ratio at 0.7x



¹ Revolving credit facilities; EUR 40m in 2016, EUR 160m in 2017 and EUR 550m in 2018

² As measured by Net Financial Debt/OIBDA (Last 12 months)

³ Mainly consists of movement of O₂ My Handy receivables and Handset model receivables

We will maintain an attractive shareholder remuneration policy

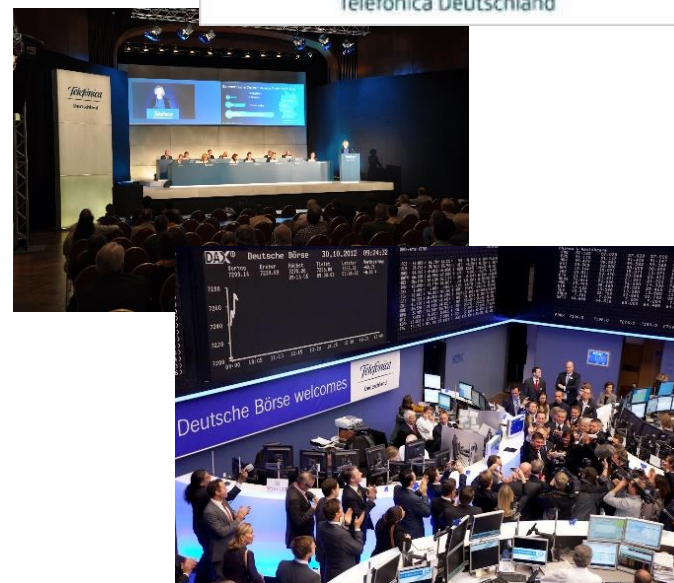
Shareholder remuneration policy - Main guidelines¹

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; 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

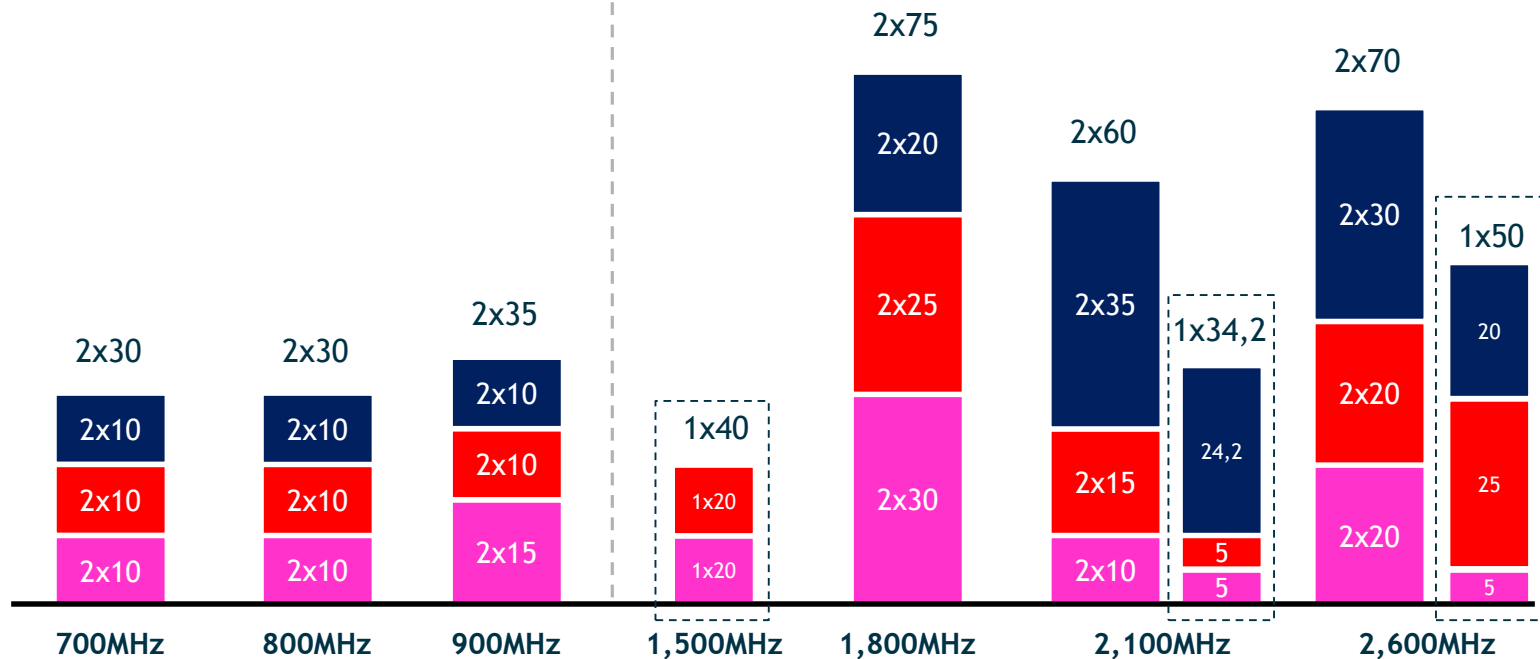
Attractive shareholder return & financial flexibility on strong fundamentals

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

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'	M'	TIPP L'	XL'	Premium'
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 (inklusive 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	bis zu 21,1 MBit/s LTE	bis zu 50 MBit/s LTE	bis zu 50 MBit/s LTE	bis zu 50 MBit/s LTE
Extra-Festnetznummer	✓	✓	✓	✓	✓
EU Roaming Flat ⁵ (Surfen und Telefonieren im EU-Ausland)	+ 4,99 mtl.	+ 4,99 mtl.	✓	✓	✓
Minuten/SMS ins EU-Ausland mtl. inkl.	–	–	–	–	je 200
Multicard ⁶	1 Multicard inklusive	1 Multicard inklusive	1 Multicard inklusive	2 Multicards inklusive	2 Multicards inklusive
O ₂ Protect Complete ⁷ (12 Monate Laufzeit)	+ 3,99 mtl.	+ 3,99 mtl.	+ 3,99 mtl.	+ 3,99 mtl.	✓
O ₂ More Status ⁸	Indigo-Status	Indigo-Status	Indigo-Status	Silber-Status	Premium-Status
 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 Hinweisfeld 1.

O₂ DSL All-in portfolio

O ₂ DSL All-in		M ¹⁷	Young ¹⁷	TIPP L ¹⁷	XL ^{17,**}
			VDSL	VDSL	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*** (inklusive 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
 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 Hinweis text 1. ** In immer mehr Gebieten verfügbar.

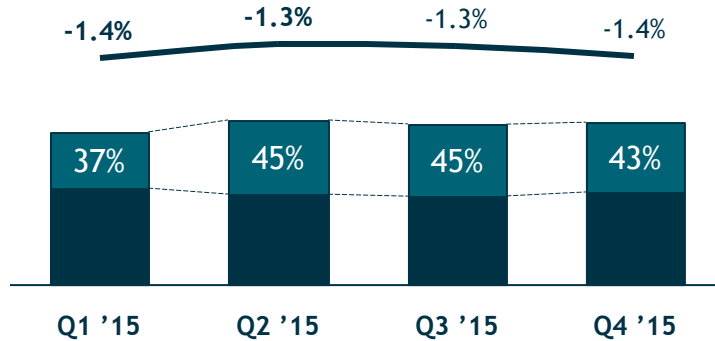
Partner business showing steady growth amidst continued focus on customer base development; DSL retail strong

Partners with stable contribution

PO gross adds (abs) / Churn (in %) — O₂ consumer PO churn

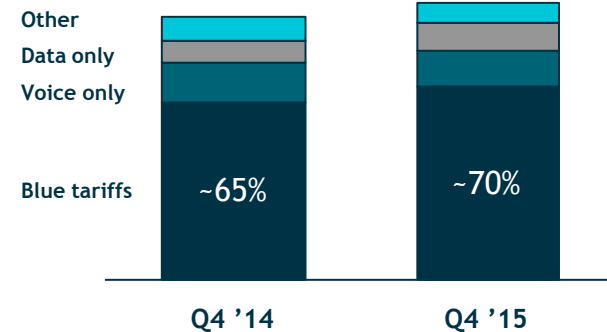
GA partner brands¹

GA retail brands



Clear focus on developing customer base

O₂ consumer postpaid base (in thousand)



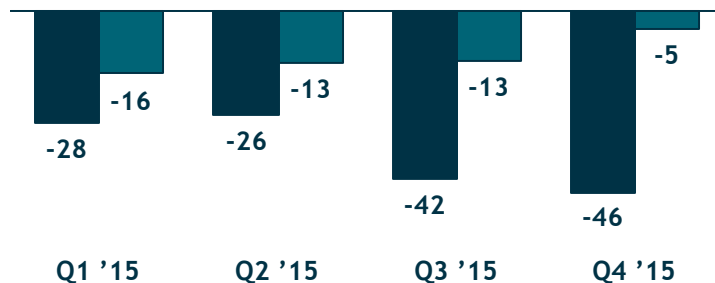
Strong fixed BB proposition bears fruit

Net adds (in thousand)

DSL wholesale DSL retail

VDSL share of gross adds

~100%

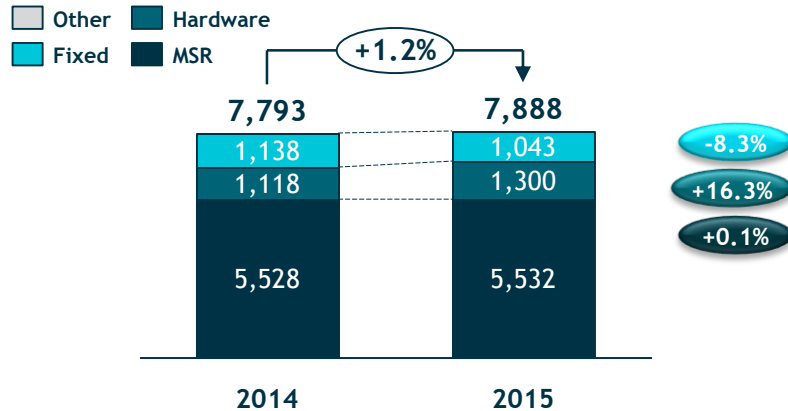


- Postpaid partner growth steady but stable as % of postpaid gross adds
- O₂ postpaid churn continues at very low levels
- Strong VDSL net adds of 73k drive further improvement in DSL net add development

¹ Wholesale & partner business

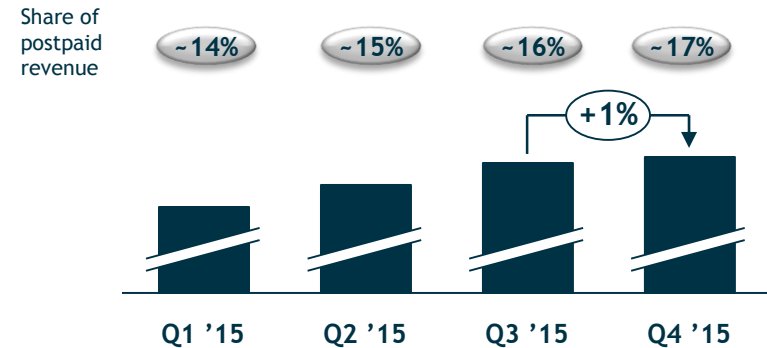
MSR development in line with expectation

Revenue structure (in EUR m)

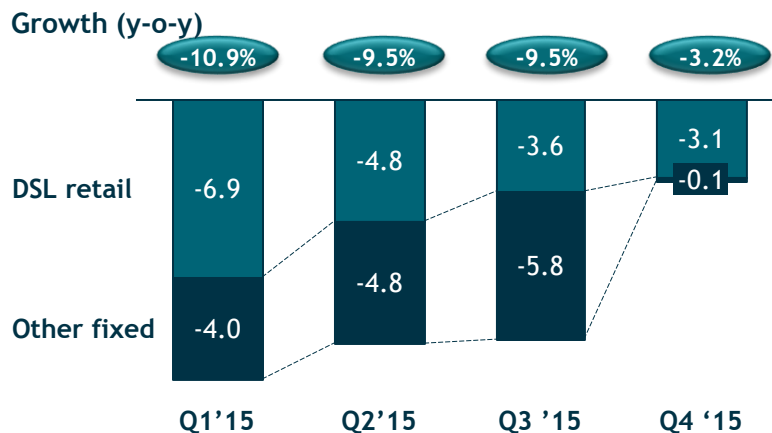


Partner share of postpaid MSR increasing

MSR from partner business¹ (in EUR m)



Fixed revenue y-o-y (in %)

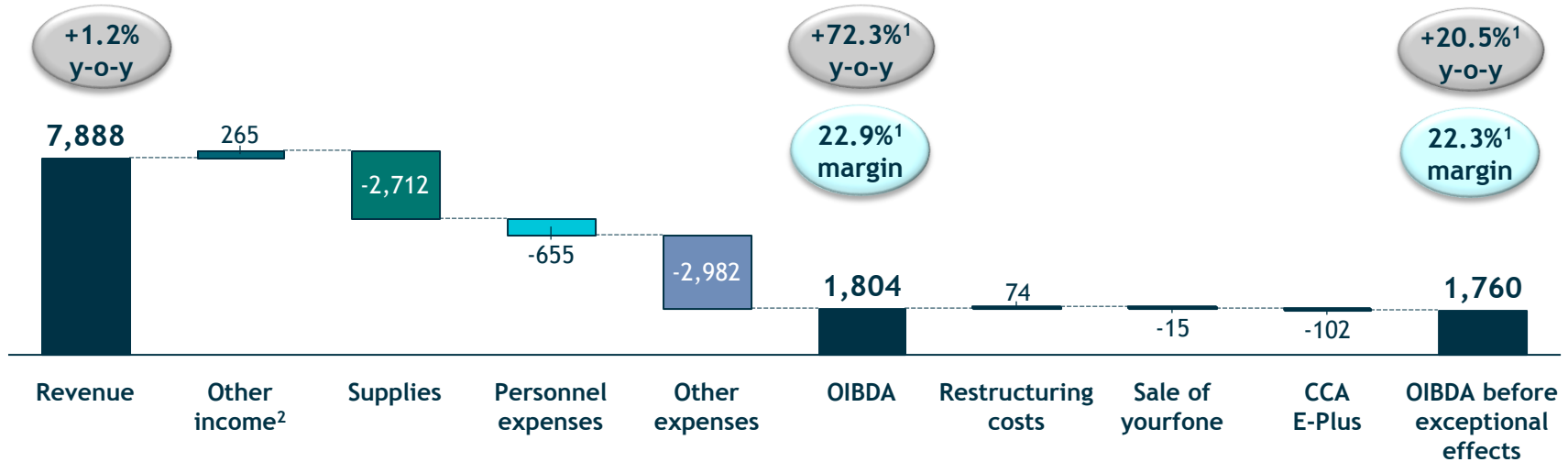


- Total revenue growth supported by hardware as result of strong flagship device sales
- MSR still impacted by partner business growth and legacy customer base mix
- Fixed improving on the back of VDSL and spot-market trading in carrier voice

¹ Wholesale & partner business

Strong year-on-year OIBDA growth on the back of synergies and commercial cost optimisation

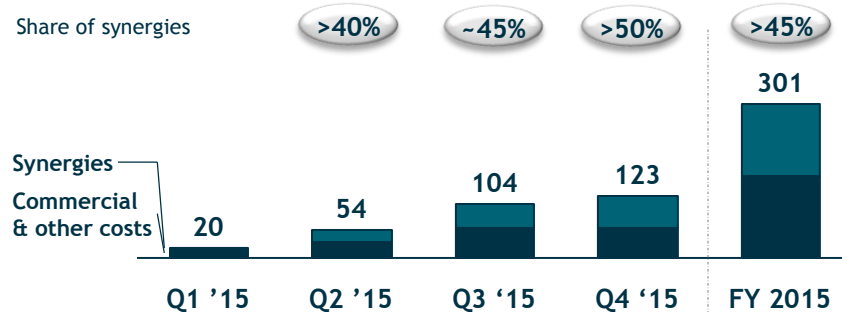
Structure of OIBDA for Jan-Dec 2015 (in EUR m)



Synergies & cost optimisation drive growth

OIBDA³ growth (y-o-y in EUR m)¹

Share of synergies



- Synergies represent >50% of Q4 y-o-y OIBDA² growth
- Synergies and commercial & other cost drive full-year results almost equally
- Restructuring provisioned in 2015 mainly network-related

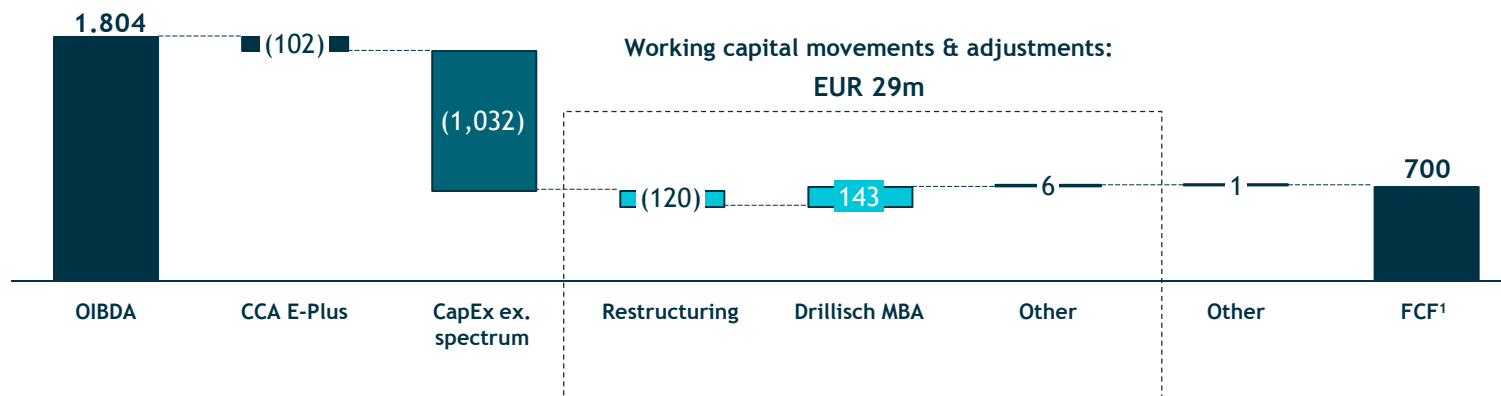
¹ y-o-y comparisons based on 2014 combined figures

² Including EUR 102 million resulting from the agreement with KPN on the final purchase price of E-Plus (CCA)

³ Excluding exceptional effects. For details please refer to additional public material for Q4-2015

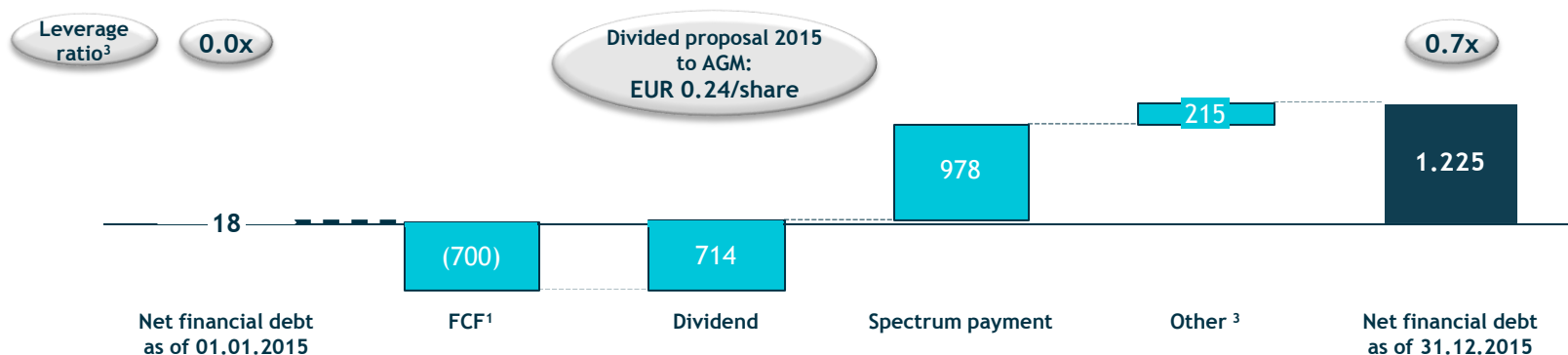
Financial leverage returned to target while keeping financial flexibility

Evolution of Free Cash Flow (FCF)¹ YTD December 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 Debt² (y-o-y in EUR m) - Leverage ratio² returns to 0.7x



² For definition of Net Debt & Leverage Ratio please refer to additional materials of Q4 15 results.

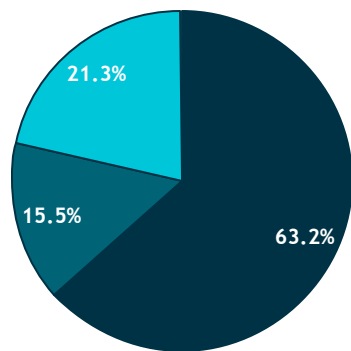
³ Including EUR 102 million resulting from the agreement with KPN on the final purchase price of E-Plus (CCA)

O2D - Factsheet

Share price development until 31.12.2015



Shareholder structure as of 31.12.2015¹



■ Telefónica Germany Holdings Ltd2 ■ Koninklijke KPN N.V. ■ Freefloat

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 14,548.5 m
Share price (as of 31.12.)	EUR 4.891

¹ According to shareholders register as of 31 December 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					2015				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Revenues	1,847	1,925	2,002	2,019	7,793	1,901	1,949	1,979	2,059	7,888
Mobile service revenues	1,333	1,380	1,424	1,391	5,528	1,354	1,382	1,419	1,378	5,532
OIBDA post Group fees	357	399	350	354	1,461	378	453	454	476	1,760
CapEx	215	224	286	438	1,161	221	242	241	328	1,032

Accesses (EoP) (in k)	2014					2014				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Total Accesses	46,897	47,303	47,803	47,662	47,662	47,658	48,041	48,645	48,363	48,363
o/w mobile	41,168	41,623	42,201	42,125	42,125	42,179	42,617	43,289	43,063	43,063
Prepay	22,680	22,940	23,316	23,351	23,351	23,264	23,501	24,004	19,083	19,083
Postpay	18,489	18,683	18,885	18,774	18,774	18,915	19,116	19,285	23,979	23,979

- 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