



Deutschland

Telefónica Deutschland Investor Presentation

September 2016

Telefónica Deutschland
Investor Relations

Public – Nicht vertraulich



WE CHOOSE IT ALL_

Disclaimer

This document contains statements that constitute forward-looking statements and expectations about Telefónica Deutschland Holding AG (in the following “the Company” or “Telefónica Deutschland”) that reflect the current views and assumptions of Telefónica Deutschland's management with respect to future events, including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations which may refer, among others, to the intent, belief or current prospects of the customer base, estimates regarding, among others, future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. Forward-looking statements are based on current plans, estimates and projections. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions. Such forward-looking statements, by their nature, are not guarantees of future performance and are subject to risks and uncertainties, most of which are difficult to predict and generally beyond Telefónica Deutschland's control, and other important factors that could cause actual developments or results to materially differ from those expressed in or implied by the Company's forward-looking statements. These risks and uncertainties include those discussed or identified in fuller disclosure documents filed by Telefónica Deutschland with the relevant Securities Markets Regulators, and in particular, with the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin). The Company offers no assurance that its expectations or targets will be achieved. Analysts and investors, and any other person or entity that may need to take decisions, or prepare or release opinions about the shares / securities issued by the Company, are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this document. Past performance cannot be relied upon as a guide to future performance.

Except as required by applicable law, Telefónica Deutschland undertakes no obligation to revise these forward-looking statements to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica Deutschland's business or strategy or to reflect the occurrence of unanticipated events.

The financial information and opinions contained in this document are unaudited and are subject to change without notice.

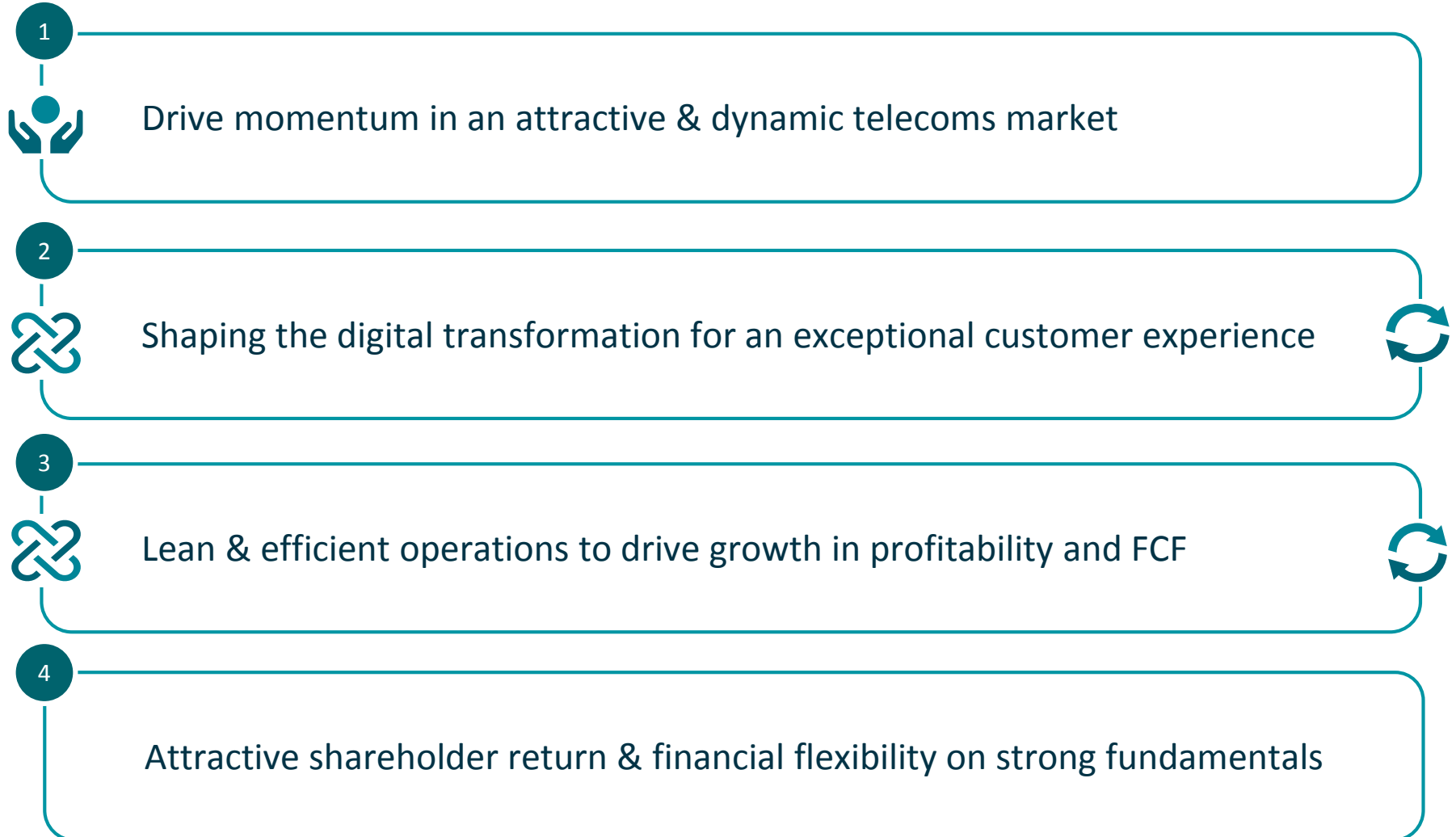
This document contains summarised information or information that has not been audited. In this sense, this information is subject to, and must be read in conjunction with, all other publicly available information, including if it is necessary, any fuller disclosure document published by Telefónica Deutschland.

None of the Company, its subsidiaries or affiliates or by any of its officers, directors, employees, advisors, representatives or agents shall be liable whatsoever for any loss however arising, directly or indirectly, from any use of this document its content or otherwise arising in connection with this document.

This document or any of the information contained herein do not constitute, form part of or shall be construed as an offer or invitation to purchase, subscribe, sale or exchange, nor a request for an offer of purchase, subscription, sale or exchange of shares / securities of the Company, or any advice or recommendation with respect to such shares / securities. This document or a part of it shall not form the basis of or relied upon in connection with any contract or commitment whatsoever.

These written materials are especially not an offer of securities for sale or a solicitation of an offer to purchase securities in the United States, Canada, Australia, South Africa and Japan. Securities may not be offered or sold in the United States absent registration under the US Securities Act of 1933, as amended, or an exemption there from. No money, securities or other consideration from any person inside the United States is being solicited and, if sent in response to the information contained in these written materials, will not be accepted.

Shaping the leading digital 'onlife' telco in Germany



2016: Moving the focus from integration to transformation

1



**Keep the
Momentum**



**Integrate
quickly**



**Transform the
company**

Best high-speed access

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

WE CHOOSE IT ALL_

4

Public – Nicht vertraulich

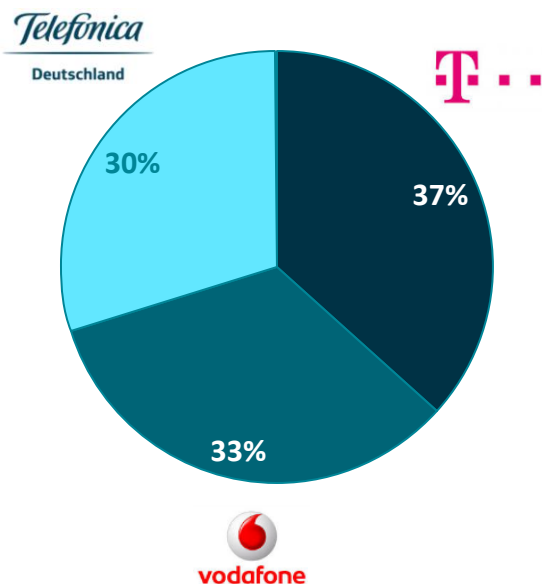
Telefonica
Deutschland

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

Rational and balanced market structure^{1jd}

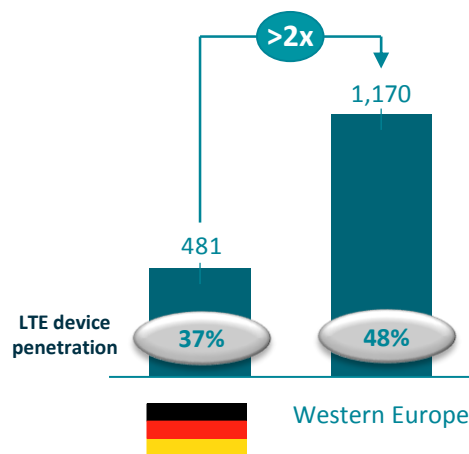
Data monetisation opportunity intact

Steady adoption of a digital lifestyle



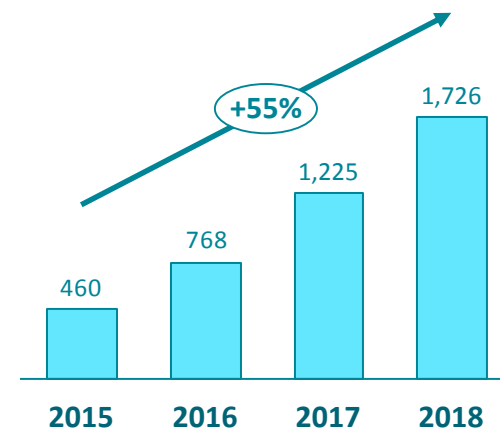
- Rational market following 4to3 consolidation
- Tiered mobile data portfolios enabling data monetisation

Avg. data usage in MB and LTE device penetration in % in Q1 2016²



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

3G/4G total cellular traffic in Germany in PB³ (CAGR)



- Music & video streaming as usage drivers
- Trend to ~1.5 Gb/month for LTE customers

¹ Market share of MSR based on reported financials by MNOs for Q2 2016

² Source: Analysys Mason Report; Telekom Market Matrix Q1 2016, Germany /Western Europe; 4G connections in % of smartphone connections

³ Source: Analysys Mason Report; Total cellular data traffic generated by 3G&4G handset connections in PB

WE CHOOSE IT ALL

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

A clear multi-brand set up

Premium



Non-premium: Own secondary brands



Non-premium: Partner brands



Focused commercial approach

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



S

21.1 Mbps
200 MB
€19.99

M

21.1 Mbps
1GB
€29.99
EU roaming

L

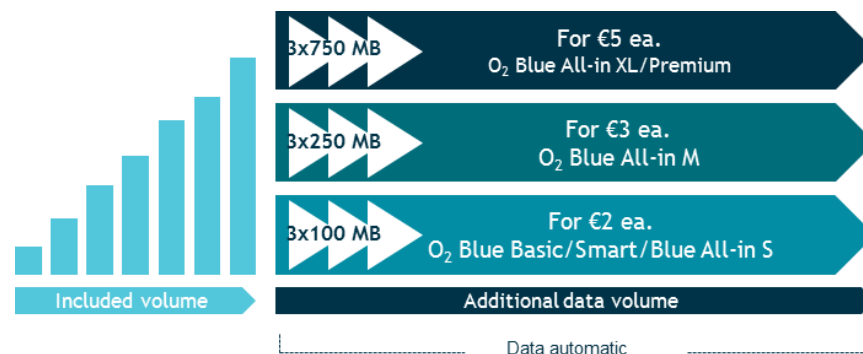
50 Mbps
3 GB
€39.99
+ 1 SIM
+ EU roaming

XL

50 Mbps
5GB
€49.99
+ 2 SIMs
+ EU roaming

Premium

50 Mbps
10 GB
€79.99
+ 2 SIMs
+ EU roaming



WE CHOOSE IT ALL_

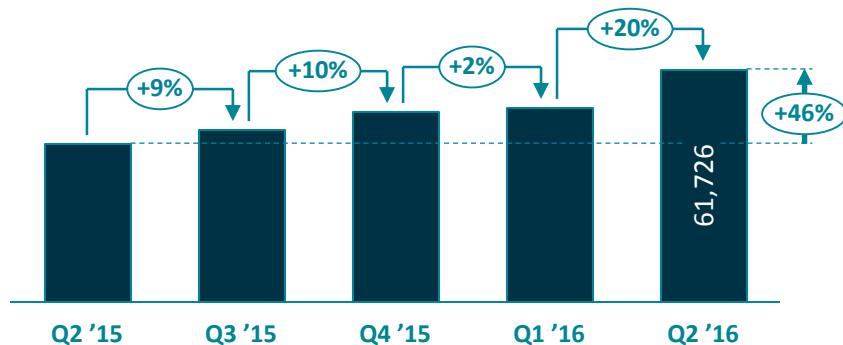
* Promotional

Strong increase in data traffic drives LTE customer base development

1

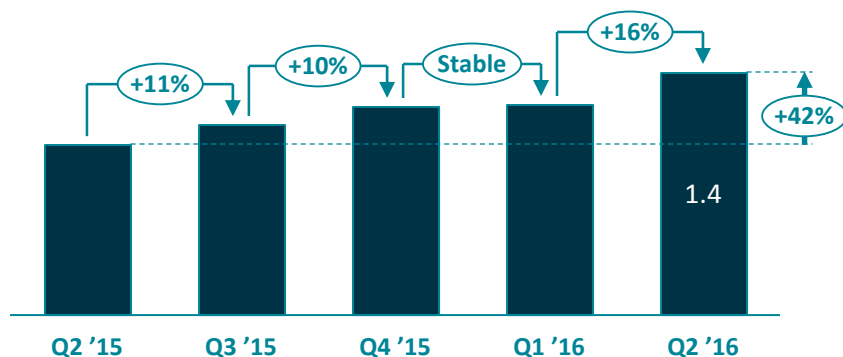
Data traffic picking up again

Traffic (TB/quarter)



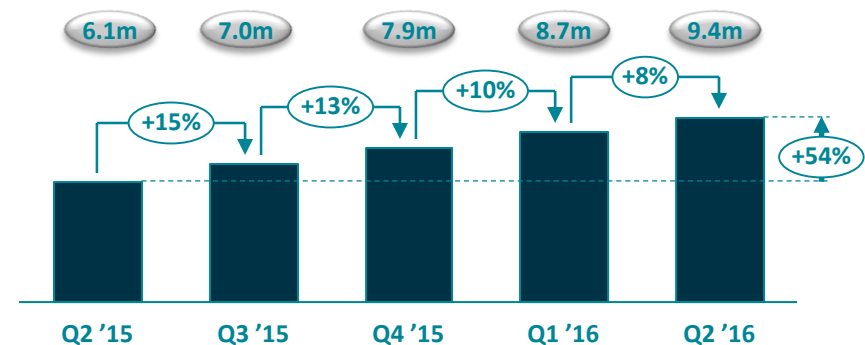
Strong usage among LTE customers

Average data usage for O₂ consumer LTE customers¹ (GB)



Significant growth in LTE customer base

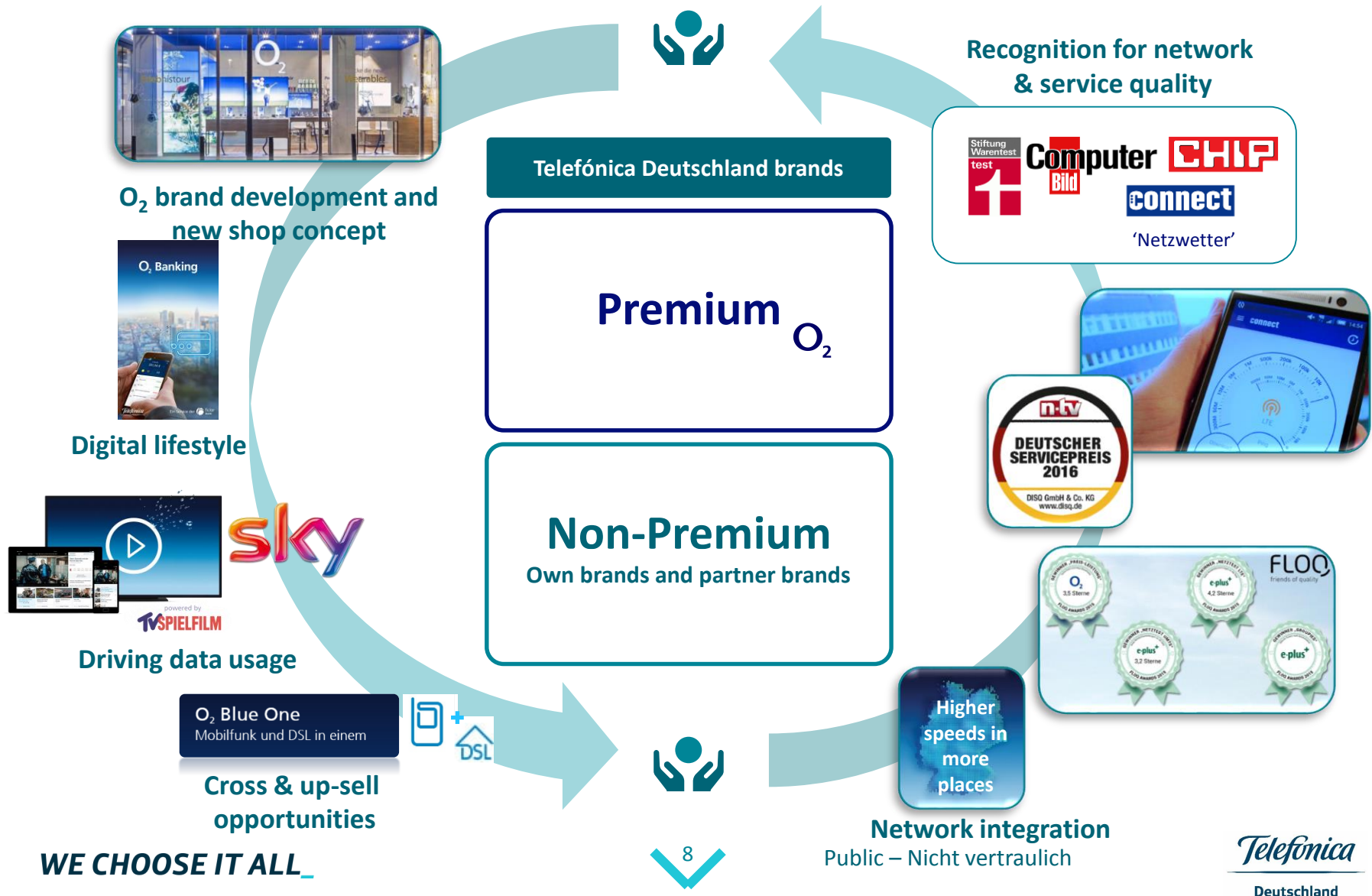
LTE customers (million)



- Data traffic up 20% q-o-q driven by music and video streaming
- Average data usage for LTE customers up 16% q-o-q to 1.4 GB
- LTE customer base grows to 9.4m, up 8% q-o-q and >50% y-o-y

Customer base focus drives momentum

2

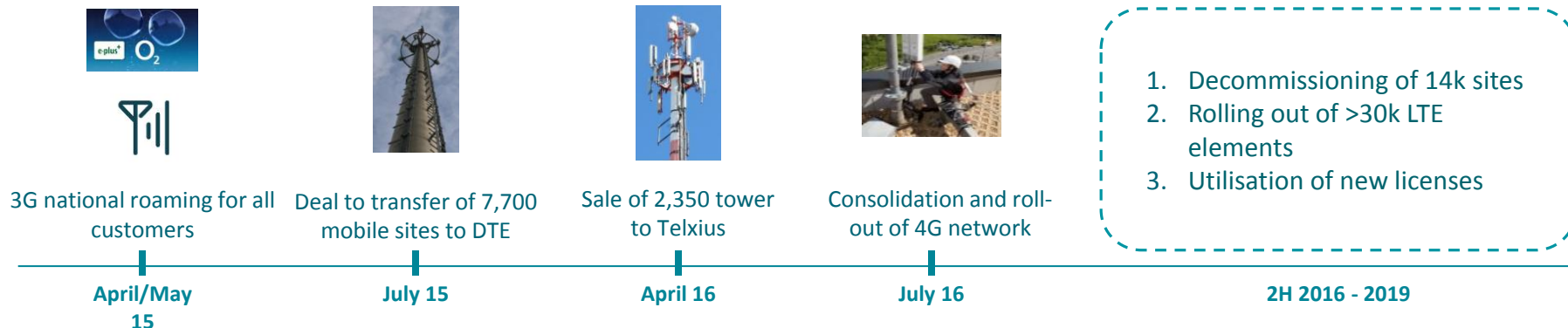


Building the future: The roadmap to 4G integration

2

Network integration timeline

Next steps: Workstreams



TELXIUS Update tower sale

- Cash purchase price of EUR 587 million
- Net capital gain of EUR 352 million
- Proceeds support financial flexibility and reinvestment into business



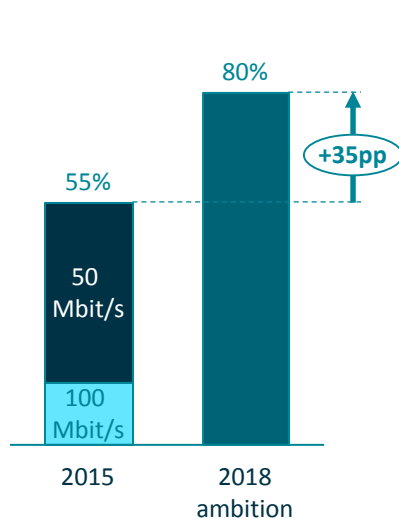
4.5G trial

- 4.5 G carrier aggregation trial in Munich
 - Partnering with Huawei
 - Up to 1.2 Gbps in testlab
 - Up to 400 Mbps real life

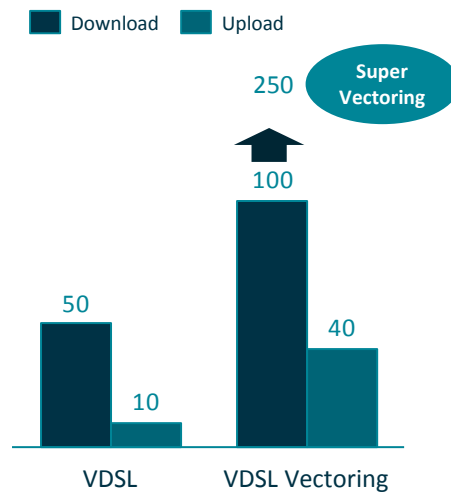
Right fixed infrastructure model to complement our mobile network for best high speed experience 2

Access to best available fixed NGA1 network

NGA coverage targets
(% of covered households, YE)



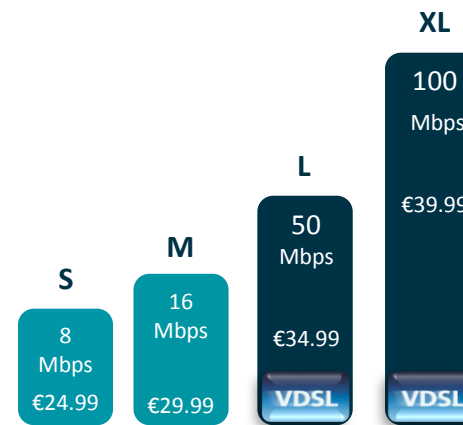
Maximum speed
(Up- & Download, Mbps.)



- 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

O₂ DSL all-in
(Download speed, Mbps)



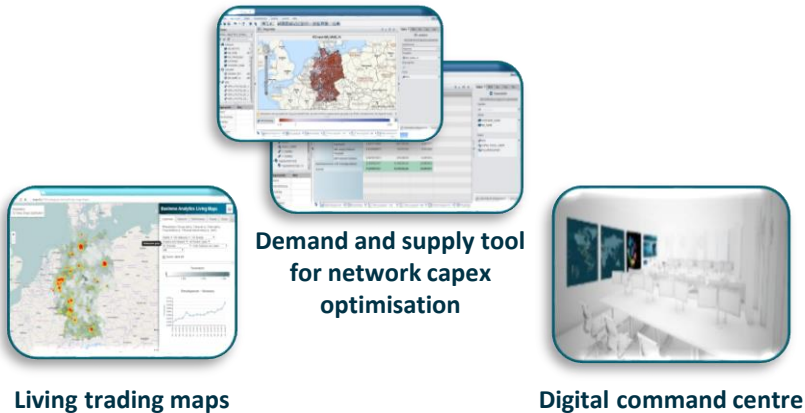
- O₂ Blue One offers flexible combination of fixed & mobile offers with progressive value-based discounts
- Active cross-selling of fixed & mobile propositions

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



- 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

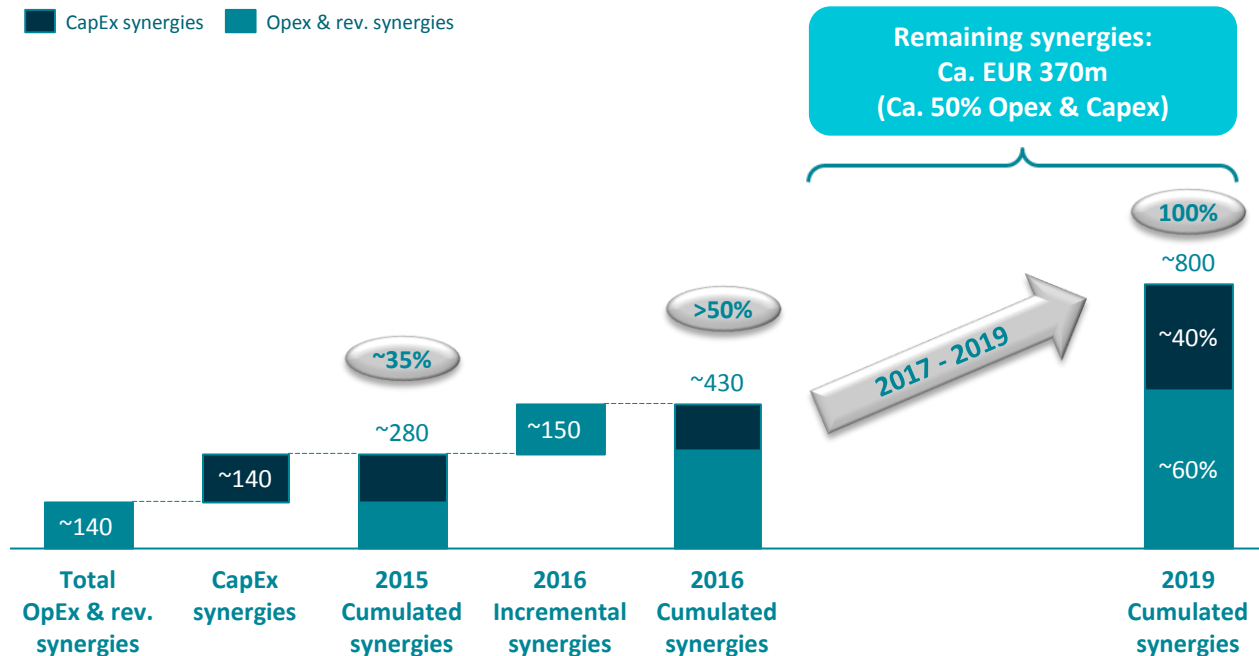


- IoT trends are changing traditional business economics
- Building portfolio in the areas of connectivity and software solutions
- Opportunities include SME & Industrie 4.0

Development of ADA and IoT opportunities will shape our digital future

Continued successful execution on synergies: Postpaid customer migration almost completed

Synergy case 2015 - 2019 (EUR m)



Larger initiatives in 2016

Network integration

Brand & customer
migration
IT transformation

Ongoing workstreams from 2015

Leaver programme
Total target ~1,600 FTEs

Shop footprint
Total target ~600 shops (-30%)

Facilities consolidation
Total target ~100k sqm (-50%)

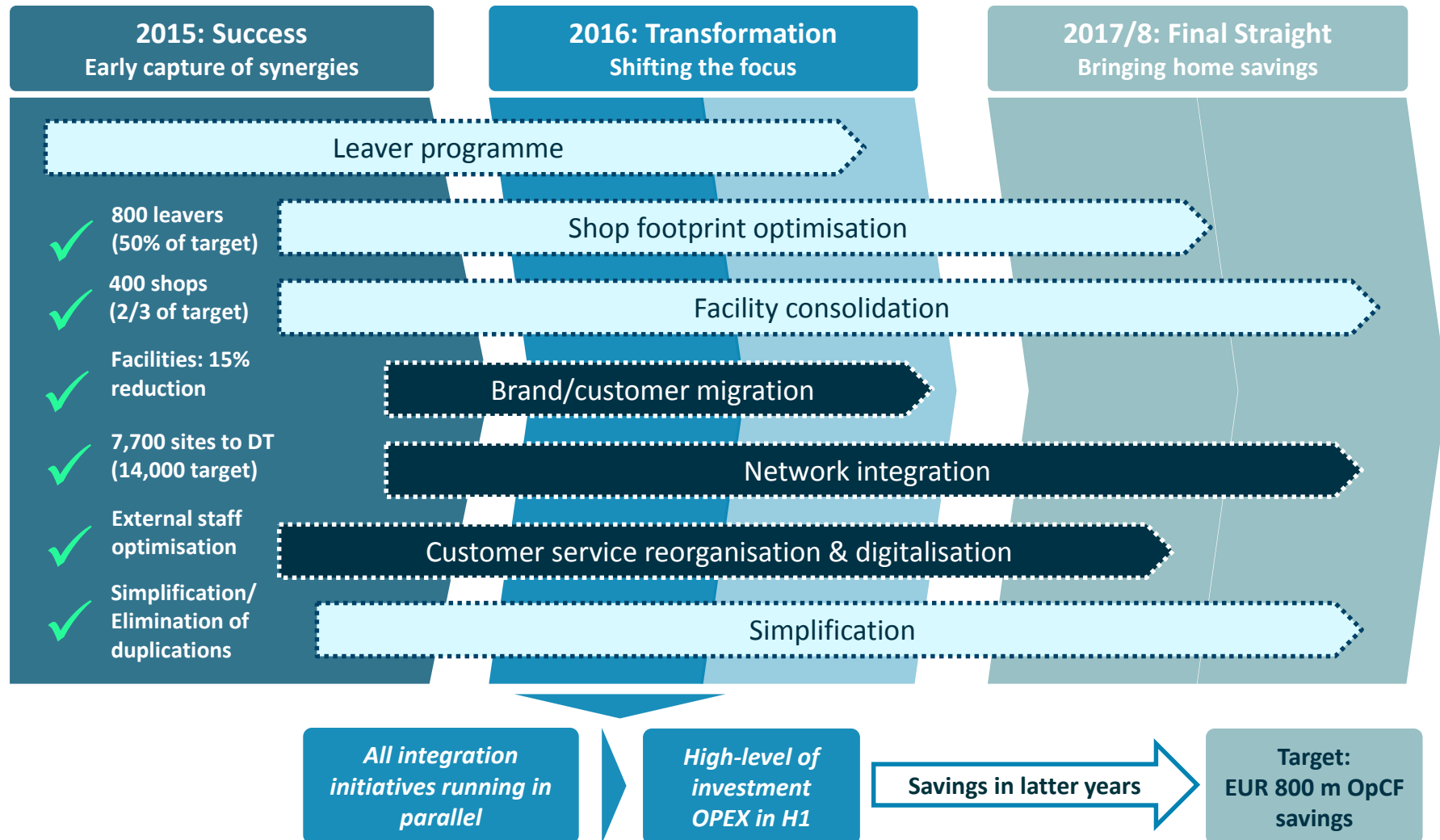
Customer Service
reorganisation &
digitalisation

Simplification

- Successfully executing on all initiatives: PO customer migration almost completed
- Total target of EUR 800m OpCF synergies by 2019 unchanged
- Expecting to reach >50% of total target or ~EUR 430m by year-end 2016

Shifting the focus to transformation in 2016

3



Reiterating MSR and OIBDA, but lowering Capex outlook 3

	Baseline 2014 ¹ (EUR m)	Actual 2015 ² (EUR m / y-o-y pct. growth)	Outlook 2016 NEW ² (y-o-y pct. growth)	
MSR	5,528	5,532 / +0.1%	Slightly negative	Reiterating outlook
OIBDA	1,461	1,760 / +20.5%	Low to mid single-digit % growth	Reiterating outlook
CapEx	1,161	1,032 / -11.1%	Mid to high single-digit % growth	Updating outlook

- Reiterating MSR outlook but narrowing range from 'slightly negative to broadly stable' to 'slightly negative'
- Reiterating OIBDA outlook
- Adjusting Capex from '% growth in the low tens' to 'mid to high single-digit % growth' on more efficient Capex spend and LTE roll-out phasing
- Improving OpCF; strong FCF growth potential

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

Annual dividend growth over next 3 years, starting with proposal of EUR 0.25 in 2016

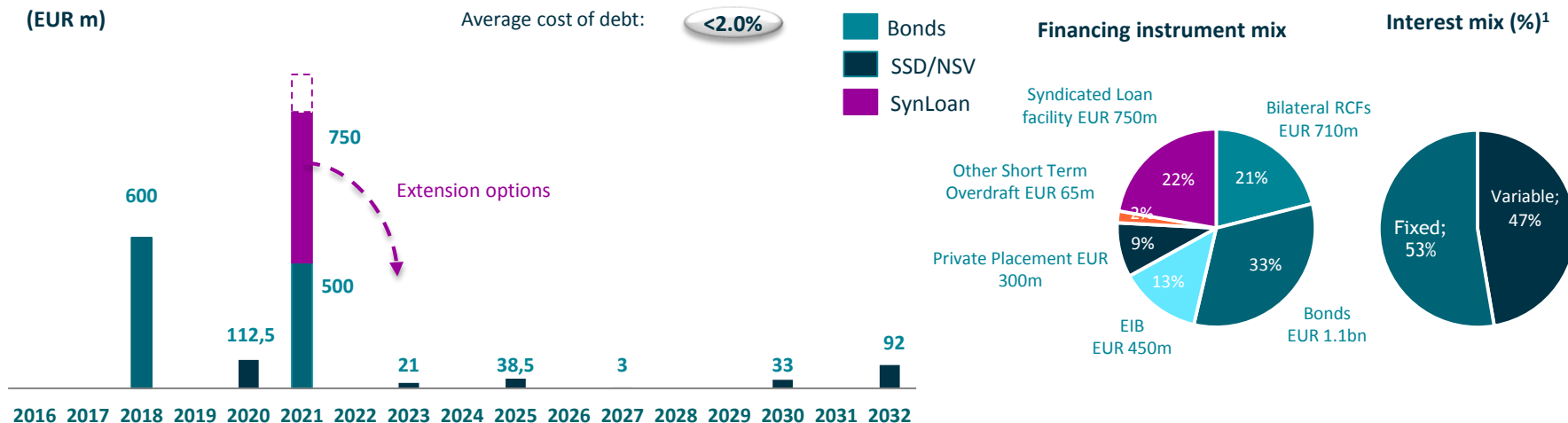
¹ Baseline figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. Figures are further adjusted by exceptional effects, such as capital gains or restructuring 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>

² 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.

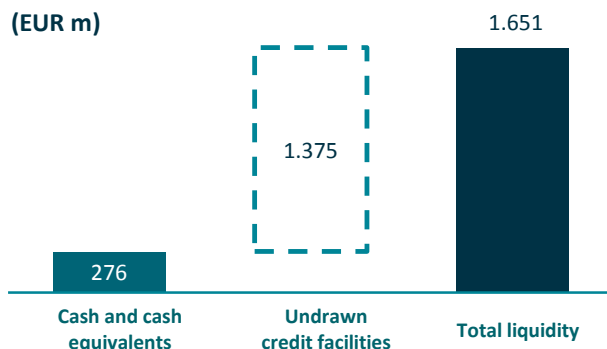
Comfortable liquidity position per 30.6.2016 and conservative financing policy

4

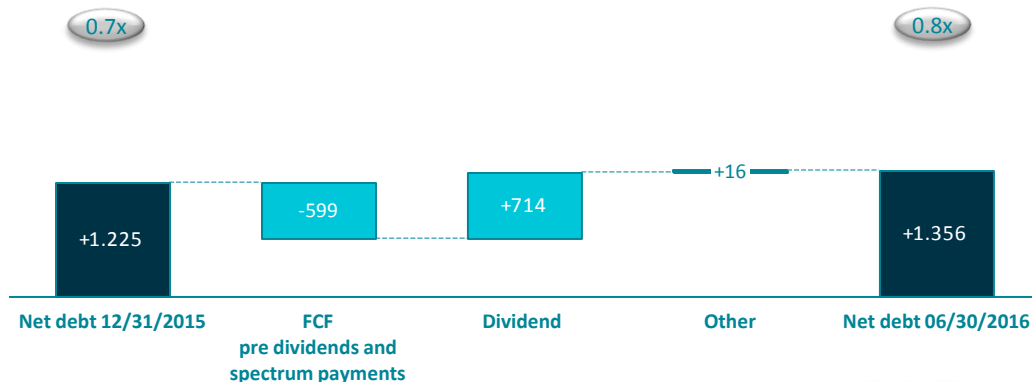
Smooth, extended maturity profile and diversified financing mix



Comfortable liquidity position



Leverage₂ ratio at 0.8x



¹ Based on utilisation 30.06.2016

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

WE CHOOSE IT ALL

We will maintain an attractive shareholder remuneration policy

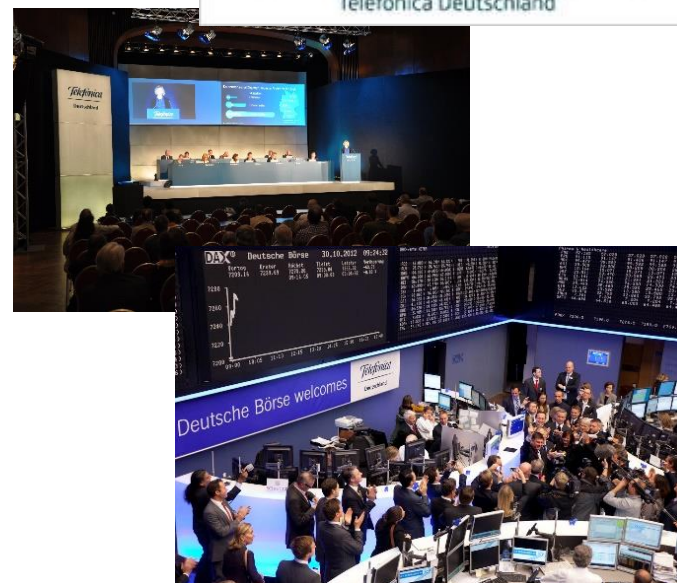
Shareholder remuneration policy – Main guidelines¹

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

Annual dividend growth over 3 years, starting with of EUR 0.25 per share 2016²



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

² Proposal to AGM 2017

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
- 4G network integration in full swing
- 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

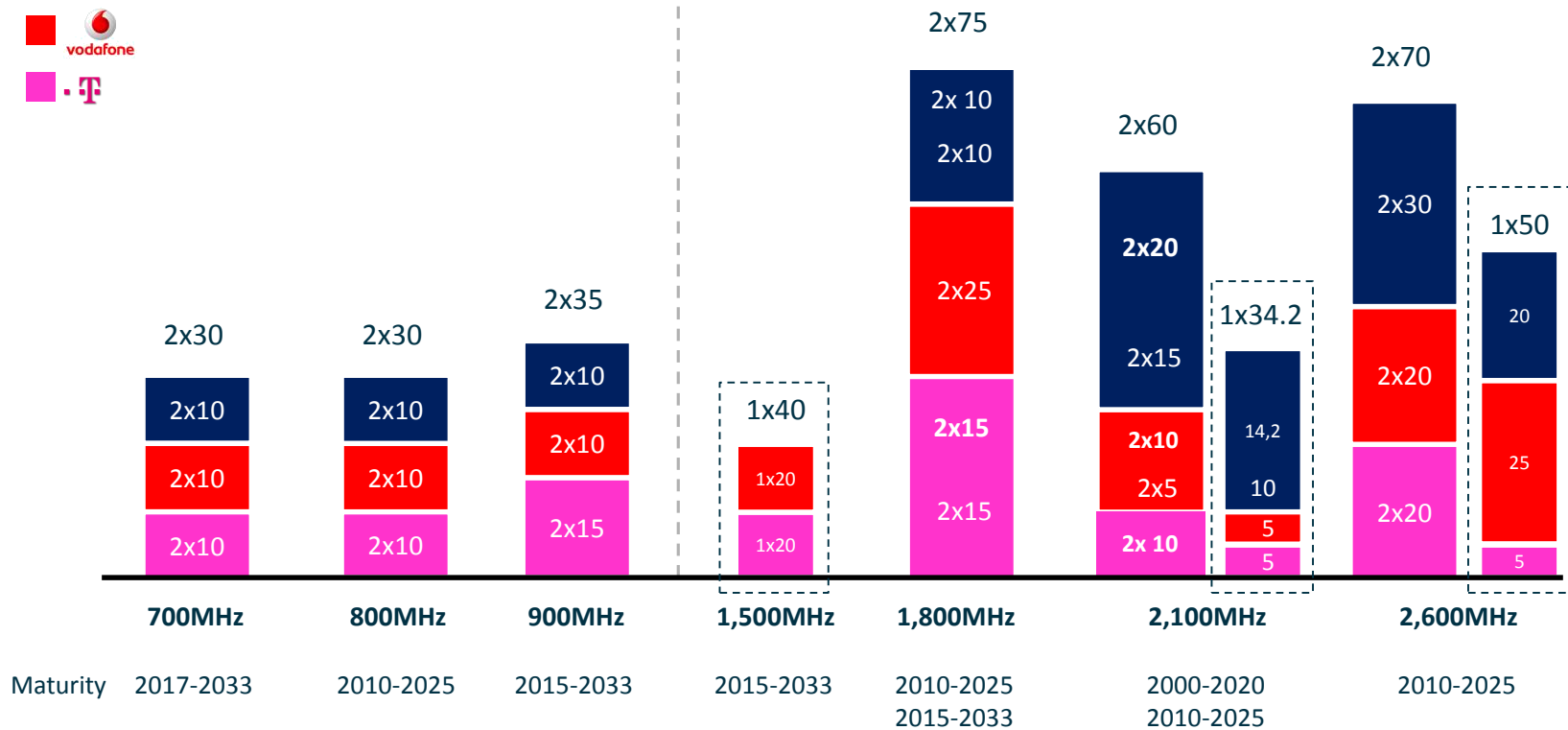
Back-up

Strong spectrum post auction enables realisation of best network experience

Coverage – Level playing field



TEF D retains spectrum leadership for capacity



TDD spectrum

O₂ 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			✓	✓	✓	✓	✓
Voice Fixnet	50	100					
SMS Allnet	200	✓	✓	✓	✓	✓	✓
Domestic Data MB	200 MB	500 MB	200 MB	1 GB	3 GB	5 GB	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 €	+4,99 €	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 €
Data Automatic	-2,50 €	-5,00 €	-5,00 €	-5,00 €	-10,00 €	-10,00 €	-10,00 €
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	-	-	-	-	-	-	-

WE CHOOSE IT ALL




Public – Nicht vertraulich

Telefonica
Deutschland

* Promotional changes since 2 May 2016 until 30 September

O₂ DSL All-in portfolio

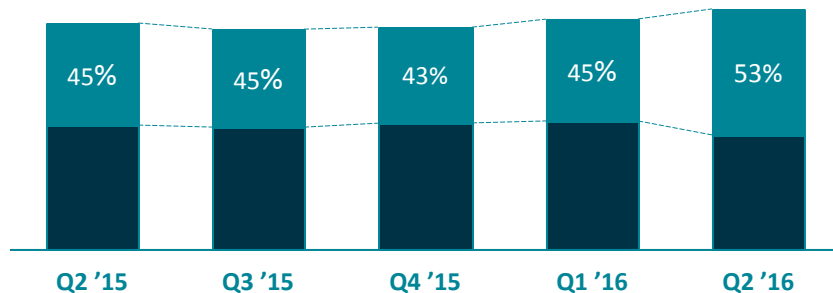
O ₂ DSL		All-in M ¹⁷	Young ¹⁷	TIPP All-in L ¹⁷	All-in XL ^{17, **}
Allnet-Flat:	Minuten ins dt. Festnetz ¹⁸	FLATRATE	22 ct/Min.	FLATRATE	FLATRATE
	Minuten in alle dt. Mobilfunknetze ¹⁸	FLATRATE	22 ct/Min.	FLATRATE	FLATRATE
	Unbegrenzt surfen (mit bis zu 2 Mbit/s)	✓	✓	✓	✓
	Maximale Surf-Geschwindigkeit ¹⁴	bis zu 16 MBit/s (Upload: bis zu 2.4 MBit/s)	VDSL bis zu 50 MBit/s (Upload: bis zu 10 MBit/s)	VDSL bis zu 50 MBit/s (Upload: bis zu 10 MBit/s)	VDSL bis zu 100 MBit/s (Upload: bis zu 40 MBit/s)
	Maximale Surf-Geschwindigkeit bis ¹⁴ (Inklusiv-Volumen)	300 GB ¹⁴	300 GB ¹⁴	300 GB ¹⁴	500 GB ¹⁴
	Fair-Use-Mechanik ¹⁹	✓	✓	✓	✓
	HomeBox 2/AVM FRITZ!Box 7490 ²⁰	0,00/29,00	0,00/29,00	0,00/29,00	0,00/29,00
	Anschlusspreis	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 7. Monat ab 19,99)	ab 4,99 (ab 7. Monat ab 19,99)	ab 4,99 (ab 7. Monat ab 24,99)	ab 4,99 (ab 7. Monat ab 29,99)
	Mtl. Grundgebühr (bei 24 Monaten Mindestvertragslaufzeit)	14,99 (ab 7. Monat 29,99)	14,99 (ab 7. Monat 29,99)	14,99 (ab 7. Monat 34,99)	14,99 (ab 7. Monat 39,99)

Partner trading accelerates on back of more aggressive pricing in non-premium

Partner trading accelerating

PO gross adds (abs)

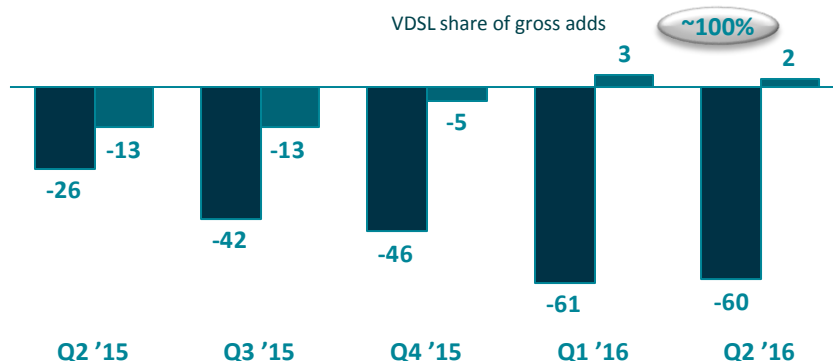
GA partner brands GA retail brands



VDSL drives fixed trading

Net adds (in thousand)

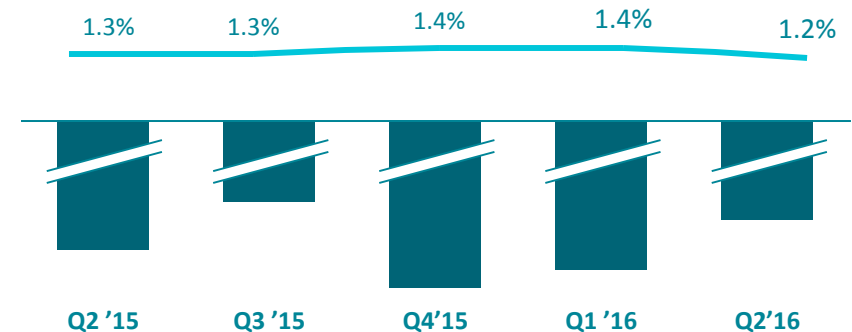
DSL wholesale DSL retail



Successful retention focus

PO churn

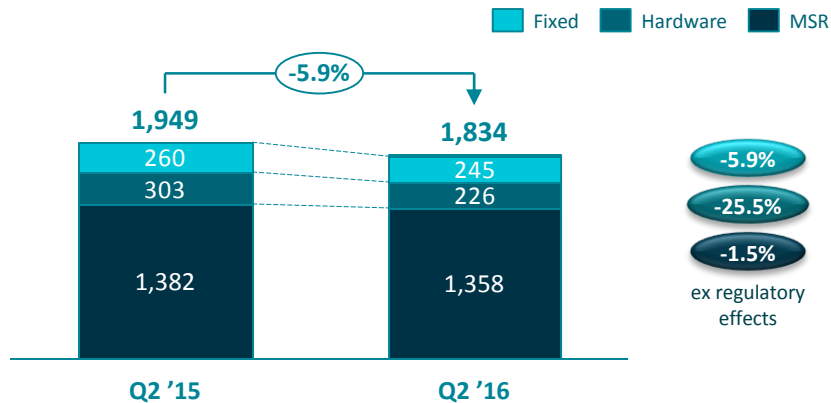
Churn retail brands O₂ PO churn (%)



- Partner trading accelerating to 53% of gross adds as a result of more aggressive pricing in non-premium
- Premium retail churn continues to fall due to successful retention efforts
- 2k retail net adds show good traction in broadband driven by VDSL

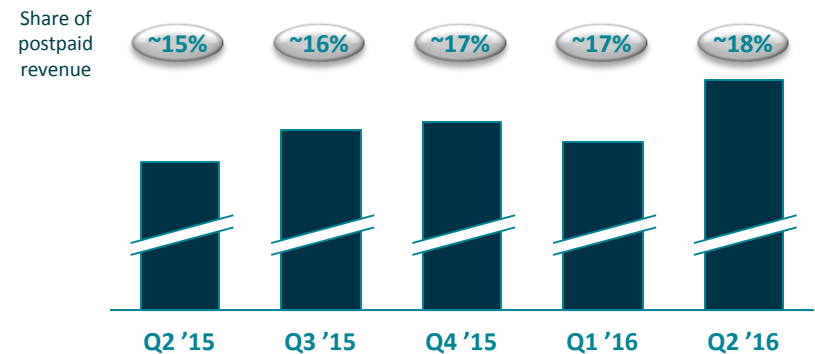
Competitive dynamics impact MSR; hardware replacement cycles lengthening

Revenue structure (in EUR m)

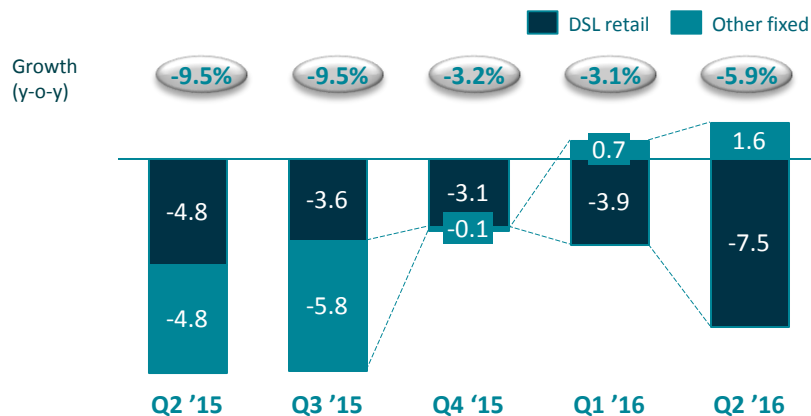


Partner share of postpaid MSR growing

MSR from partner business (in EUR m)



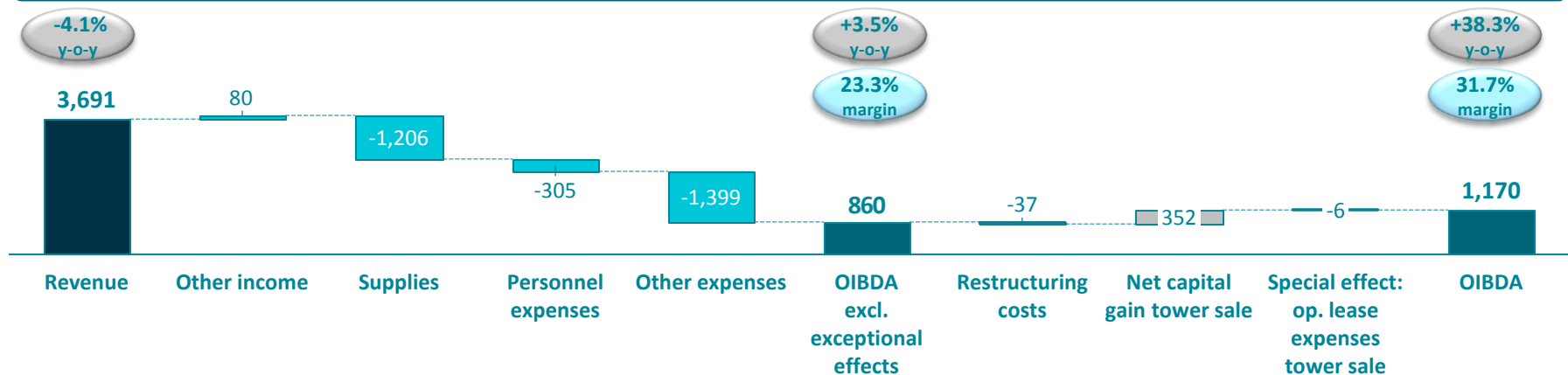
Fixed revenue y-o-y (in %)



- Hardware revenues continue to fall as a result of lengthening handset replacement cycles
- Partner share of postpaid MSR gradually increasing to ~18%
- DSL retail revenue driven by phasing of promotional effects

OIBDA driven by synergy capture and transformation OPEX effects

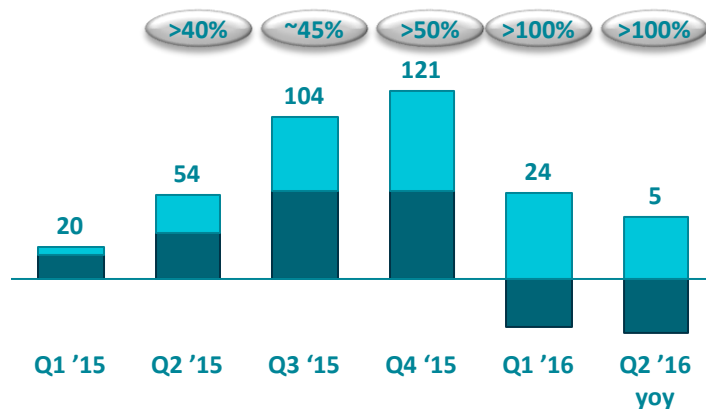
Structure of OIBDA for January to June 2016 (in EUR m)



Synergies driving OIBDA growth

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

Share of synergies



- OIBDA driven by roll-over synergy effects; incremental savings expected in H2
- Transformation OPEX effects peaking in Q2
- Tower effects: EUR 352m net capital gain and EUR 6m Opex (May / June)

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 EUR 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

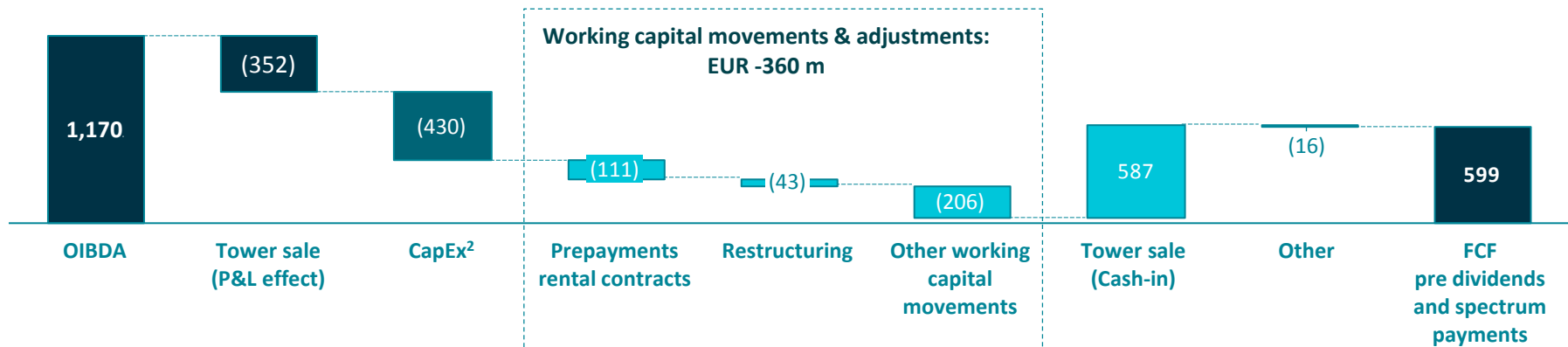
² Run-rate of OpCF synergies is pre-tax

Public – Nicht vertraulich

WE CHOOSE IT ALL

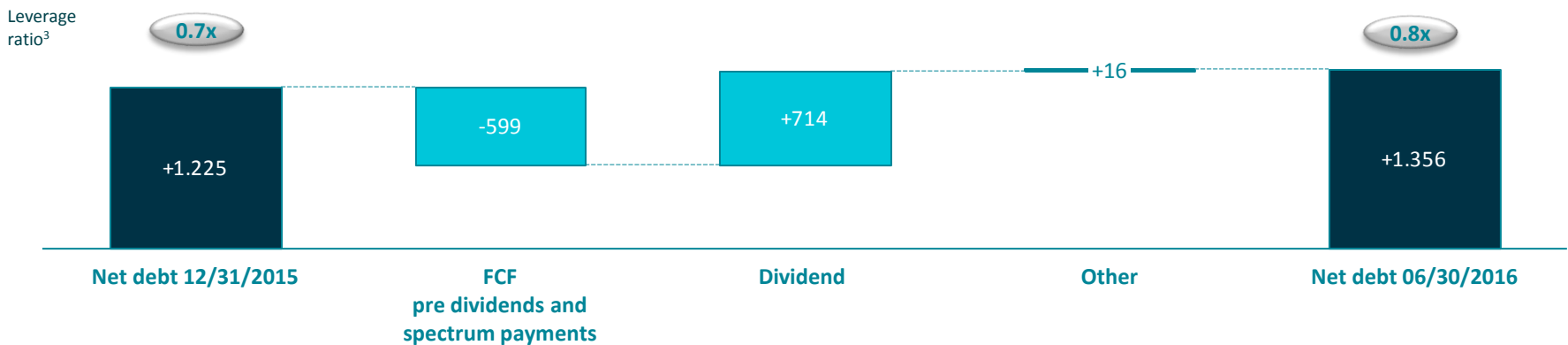
FCF driven by tower sale cash

Evolution of Free Cash Flow (FCF)¹ YTD June 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

Evolution of Net Debt² (y-o-y in EUR m) – Leverage ratio³ remains stable



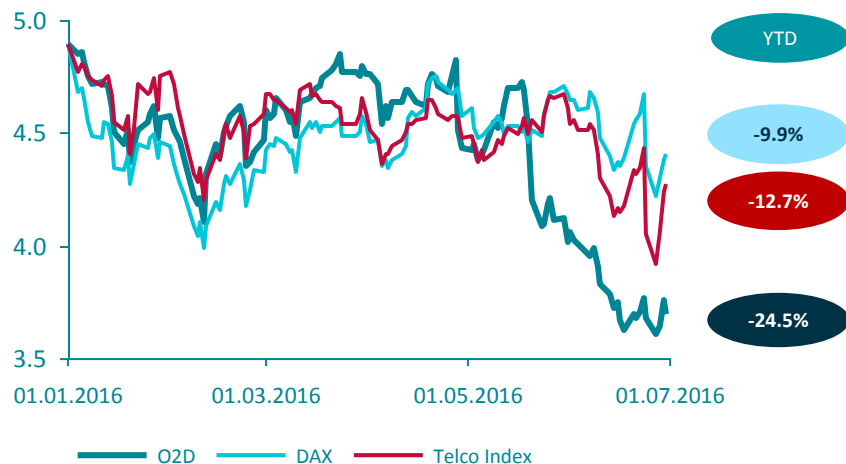
² Excluding capitalised costs on borrowed capital in the first six months of 2016 for investments in spectrum in June 2015

³ For definition of net debt & leverage ratio please refer to Q2 2016 earnings release

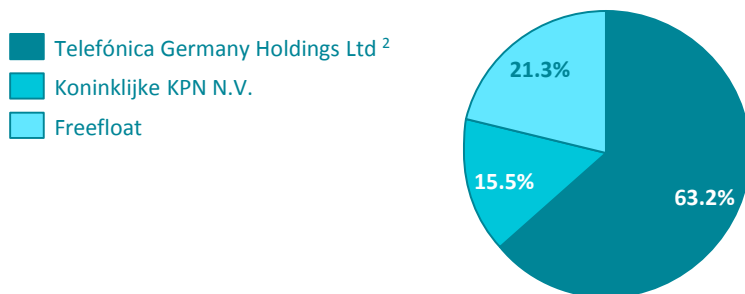
WE CHOOSE IT ALL

O2D - Factsheet

Share price development until 30.06.2016



Shareholder structure as of 30.06.2016¹



¹ According to shareholders register as of 30 June 2016

² Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A

WE CHOOSE IT ALL

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 2,974.6 m
Market cap (as of 30.06.)	EUR 10,098.5 m
Share price (as of 30.06.)	EUR 3.693

Quarterly detail of relevant financial and operating data for Telefónica Deutschland

Financials (Euros in millions)	2015					2016	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Revenues	1,901	1,949	1,979	2,059	7,888	1,858	1,834
Mobile service revenues	1,354	1,382	1,419	1,378	5,532	1,336	1,358
OIBDA post Group fees, pre exceptionals and special effects ¹	378	453	454	476	1,760	401	459
CapEx	221	242	241	328	1,032	218	212

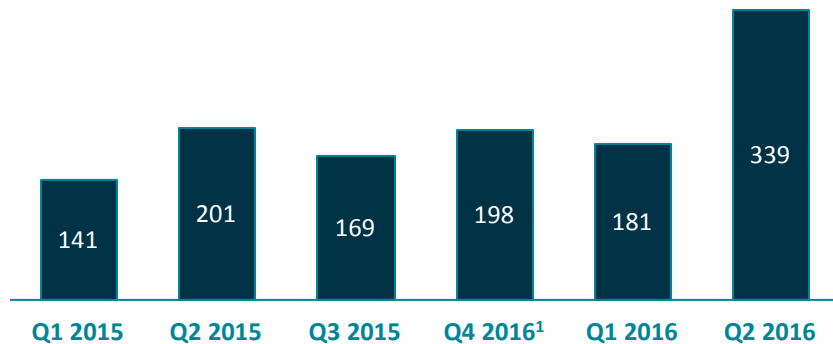
Accesses (EoP in k)	2014					2016	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Total Accesses	47,658	48,041	48,645	48,363	48,363	48,252	48,605
o/w Mobile	42,179	42,617	43,289	43,063	43,063	43,008	43,417
Prepay	23,264	23,501	24,004	23,979	23,979	23,744	23,814
Postpay	18,915	19,116	19,285	19,083	19,083	19,264	19,603

¹ Exceptional effects include the net capital gain from the sale of Telefónica Deutschland's passive tower infrastructure in Q2 2016. The OIBDA impact resulting primarily from higher operating lease expenses between May and December 2016 will also be treated as a special effect for 2016

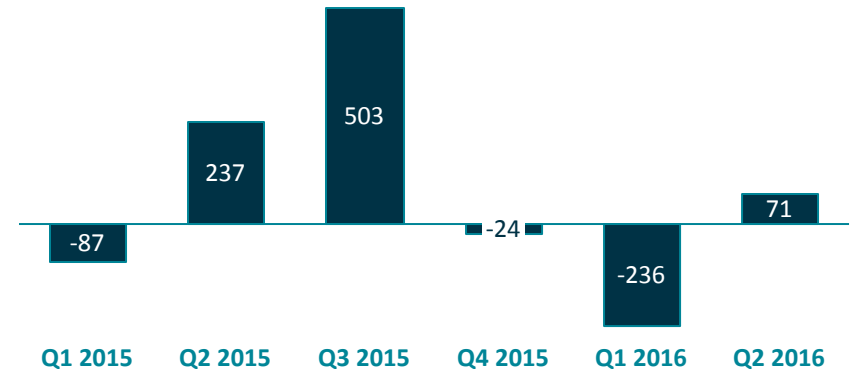
Appendix – Key Performance Indicators

Mobile KPIs

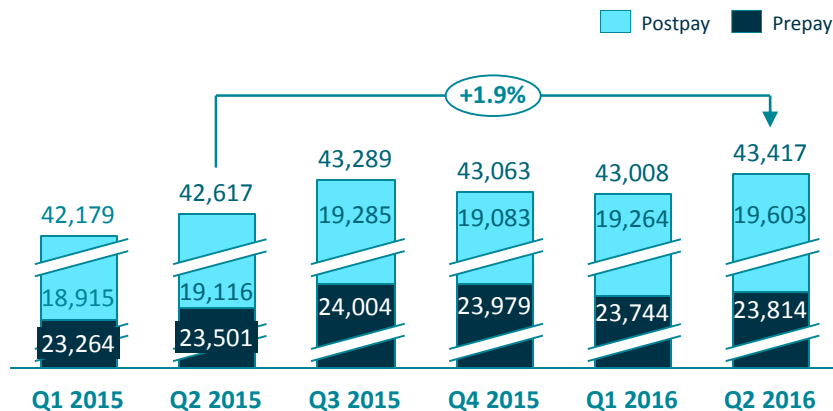
Postpay net adds ('000)



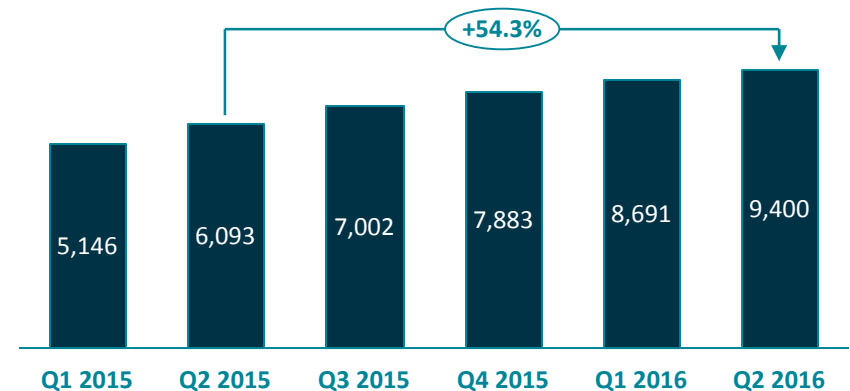
Prepay net adds ('000)



Mobile customer base ('000)



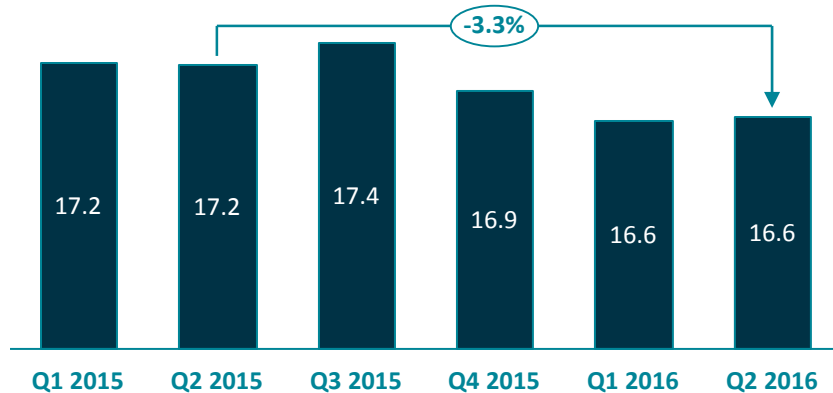
LTE customer base ('000)



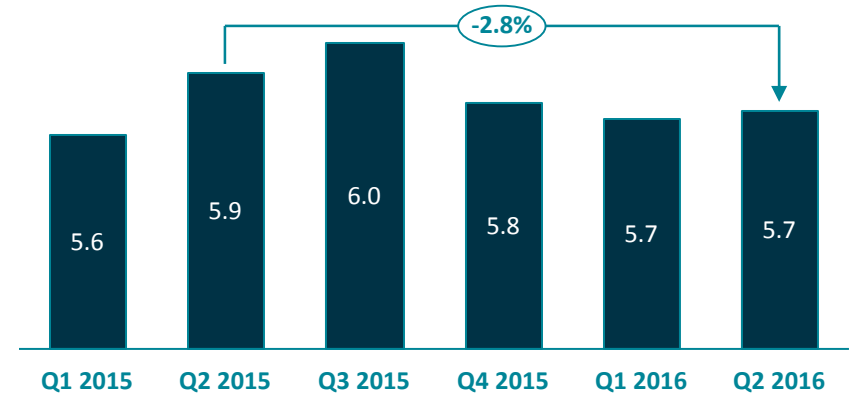
¹ Excluding an impact from a business customer base harmonisation at the E-Plus Group respective negative 202 thousand in reported terms

Mobile KPIs

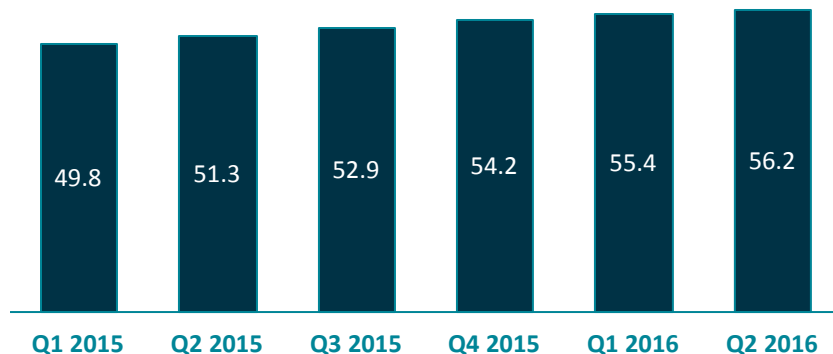
Postpay ARPU (EUR)



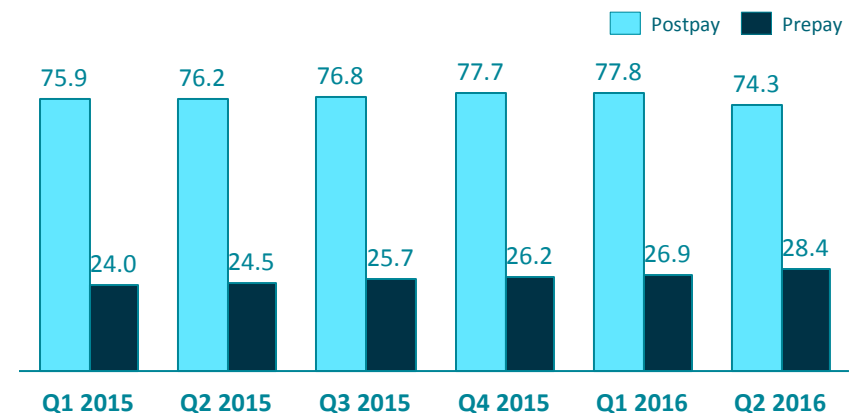
Prepay ARPU (EUR)



Smartphone penetration (%)¹



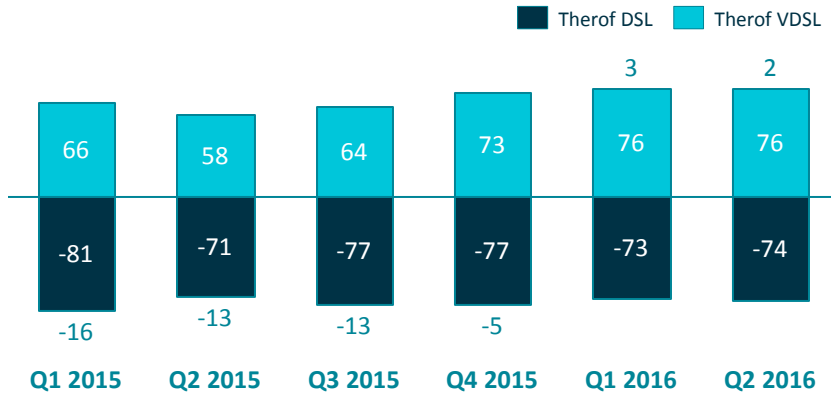
Smartphone penetration O₂ consumer (%)



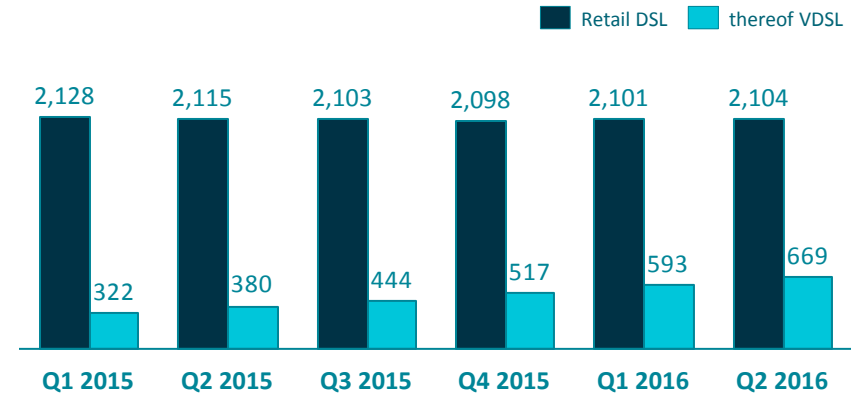
¹ Smartphone penetration is based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base less M2M, less customers with a bigscreen tariff

Fixed-line KPIs

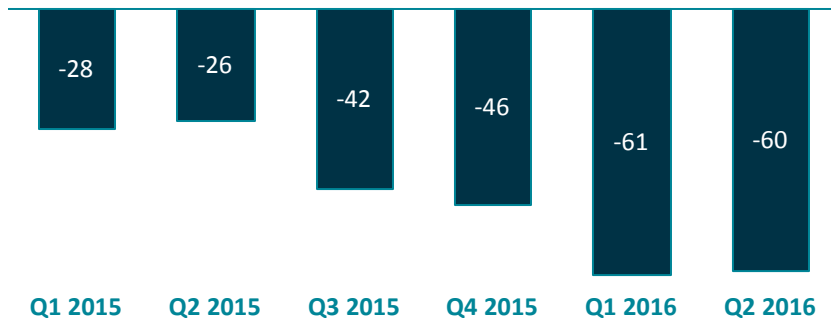
Retail broadband net adds ('000)



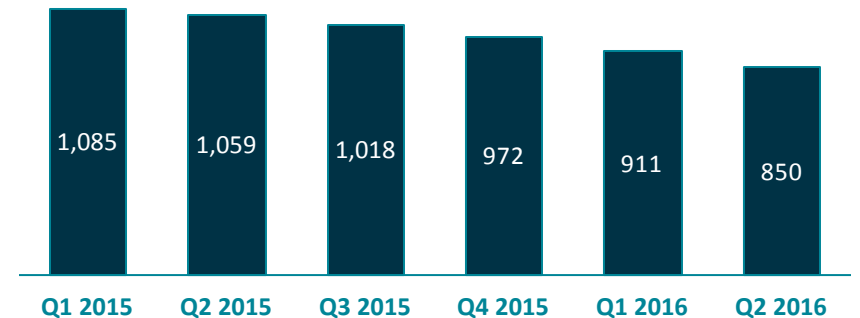
Fixed accesses ('000)



Wholesale net adds ('000)

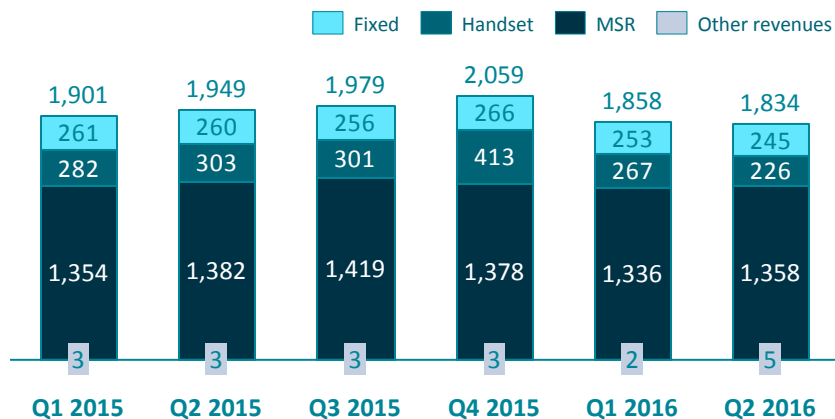


Wholesale accesses ('000)¹

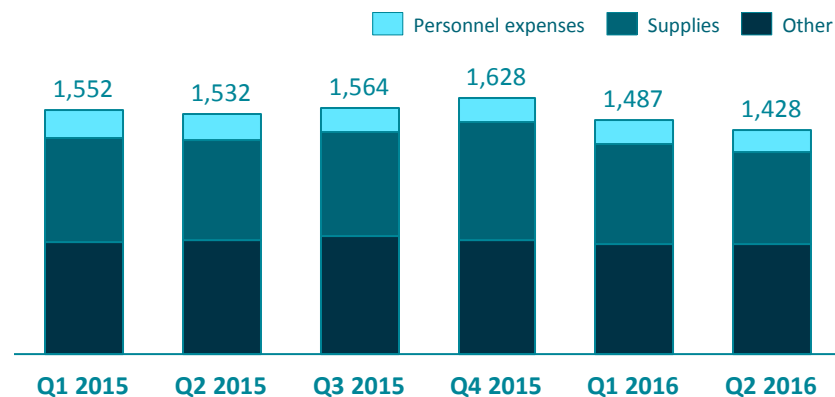


¹ Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including wirelines telephony and high-speed Internet access

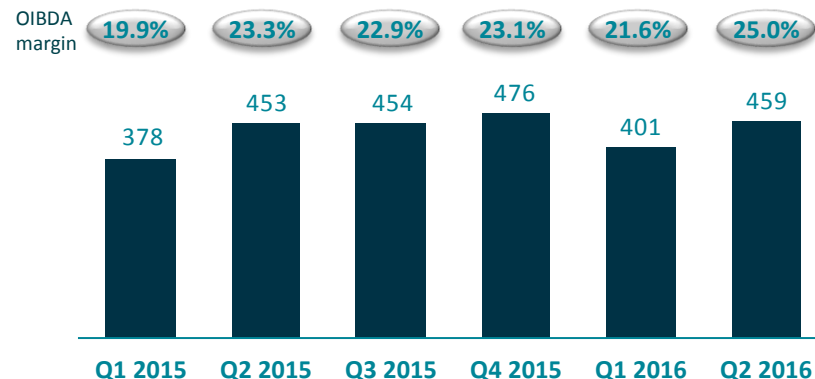
Revenue structure (EUR m)



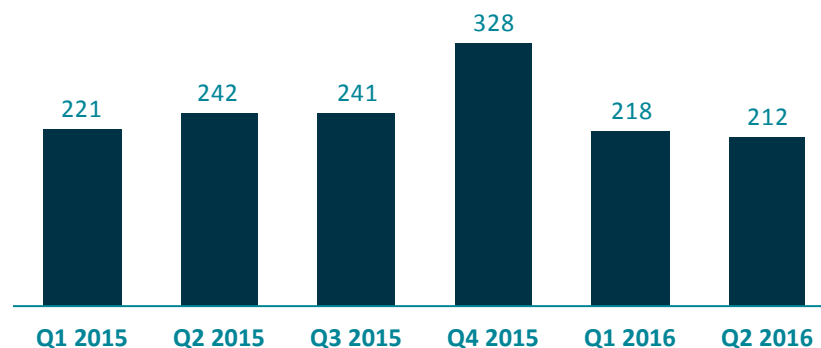
OpEx-Split² (EUR m)



OIBDA (post GF, pre except / EUR m)¹



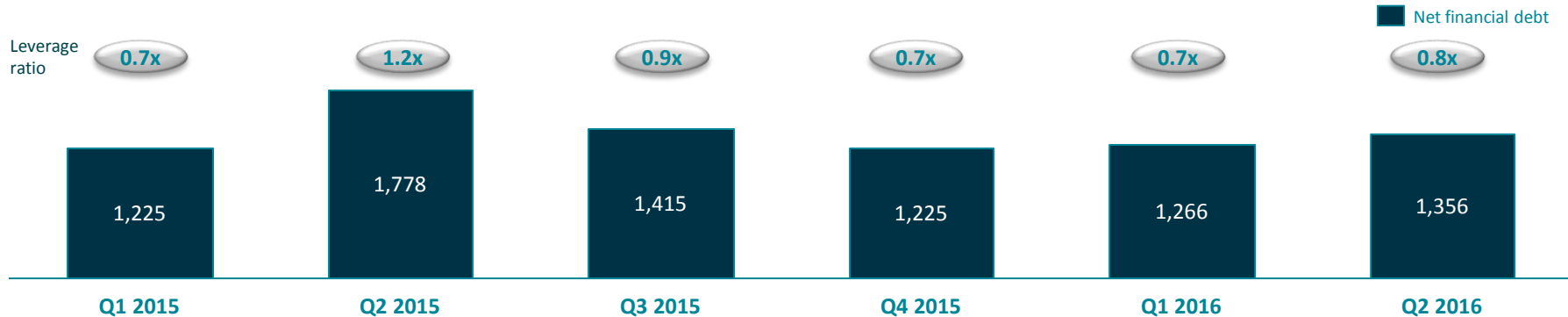
CapEx (EUR m)



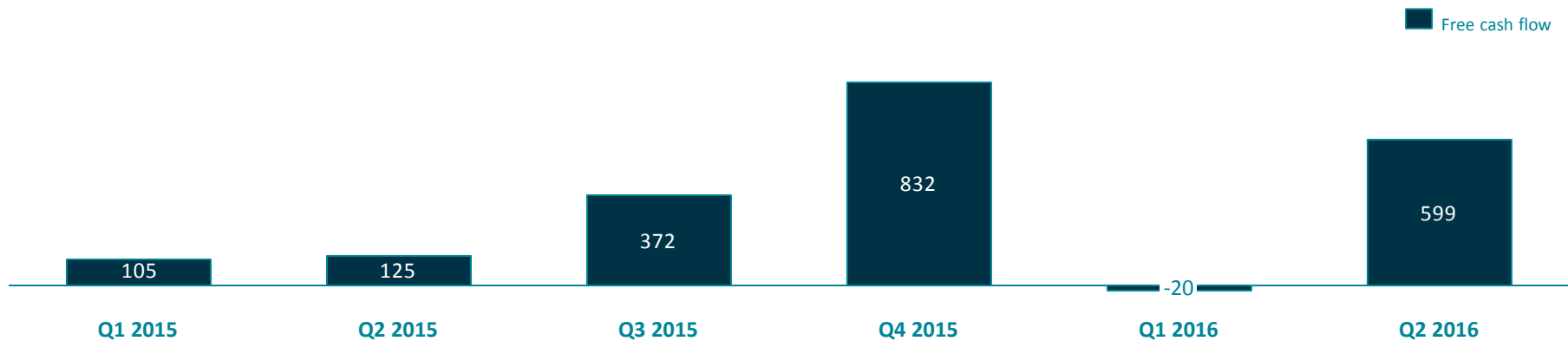
¹ Excluding exceptional & special effects. As of 31 June 2016 these include restructuring expenses of EUR 37 million, a net capital gain from the sale of tower assets to Telxius of EUR 352 million and EUR 6 million of higher operating lease expenses related with the sales of towers while in the same period of 2015 a one-off gain from the sale of yourfone GmbH as well restructuring costs of EUR 3 million were registered

Financials

Net debt and leverage



Free cash flow¹ (cumulative)



¹ Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum in June 2015 as well as related interest payments.

Telefonica

Deutschland



WE CHOOSE IT ALL_