

An aerial night view of a city, likely London, showing a dense grid of buildings and streets illuminated by warm yellow lights. The sky is dark, and the overall scene is a vibrant urban landscape.

Telefonica

Deutschland

Preliminary Results January – March 2014

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Telefónica Deutschland management team



Markus Haas
CSO



Rachel Empey
CFO

Joint leadership of the Management Board of
Telefónica Deutschland Holding AG

First Quarter 2014: Main Operating & Financial Highlights

- LTE has already emerged as the biggest driver for mobile data monetisation in a very **active competitive environment**
- Wireless service revenues **showed stabilisation of trends** while we continued increasing commercial investments to enhance trading momentum
- CapEx focused in **LTE-800 network deployment (close to 50% outdoor coverage¹)** while keeping a strong and flexible financial profile

Seizing opportunities in a very active mobile data market

O₂ position as best Value-for-Money LTE brand in Germany

Consumers:
More value in O₂ Blue All-in portfolio



- LTE included in all O₂ Blue All-in tariffs
- EU data roaming packs from "L" tariff
- New Premium tariff for high-end segment

SMEs/Corporates:
New disruptive O₂ UNITE concept



- Common pool of Voice/Data for employees
- Flexible & easy to manage online
- Pay-as-you use concept

Enhance trading performance in a focused & efficient way

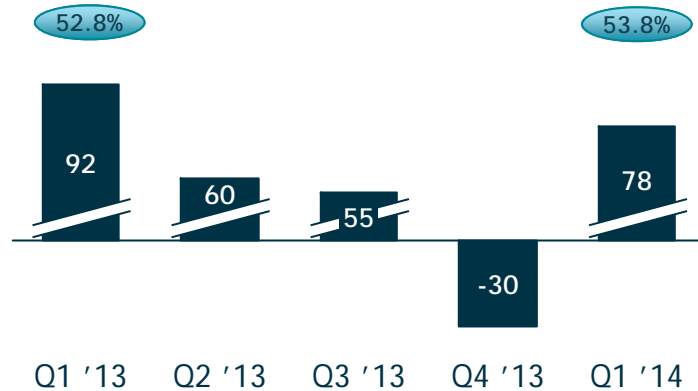
- Brand campaign: O₂ as motivator (#YouCanDo: inspiring customers to try new possibilities)
- Hero devices bundled with tariffs (e.g. Samsung S5, New HTC One)
- Targeted portfolios for Young People and Professionals (More Value, Cost Control)
- Capitalizing unique digital touch points experiences (O₂ Guru)

Increasing focus on data monetisation and LTE uptake

Evolution of postpaid Net Additions

In k

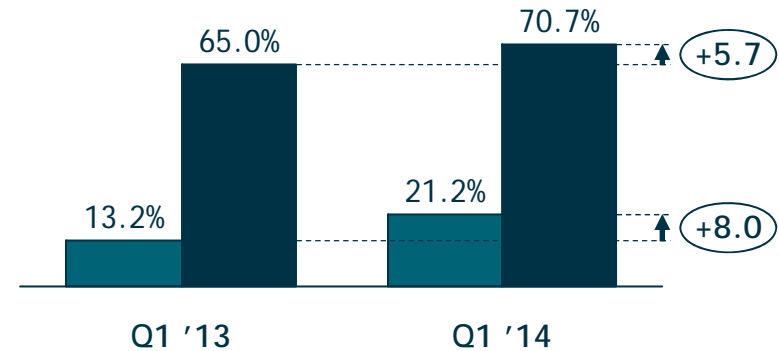
Postpaid share of mobile customer base (%)



Smartphone penetration

Within O₂ Consumer Customer Base (%)

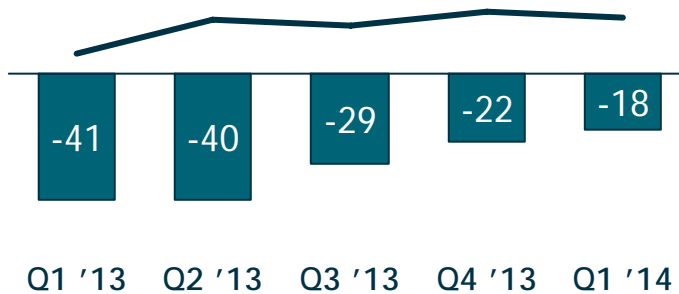
Prepaid Postpaid



Progression of Fixed BB

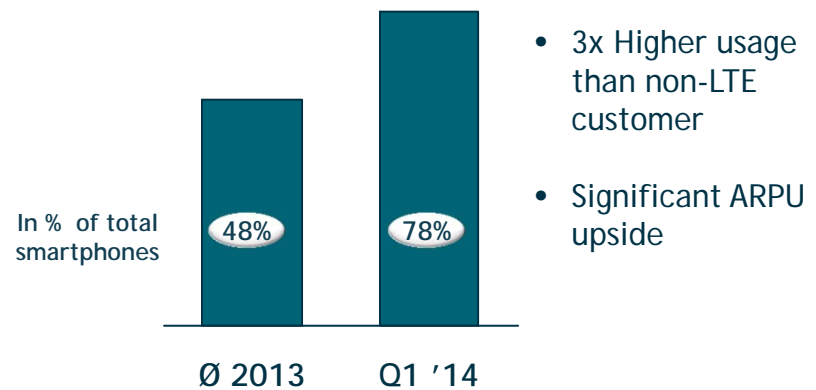
Retail DSL Net Adds in k

DSL retail VDSL



LTE handset adoption: >1 million sold up to April '14

Shipment of LTE enabled smartphones

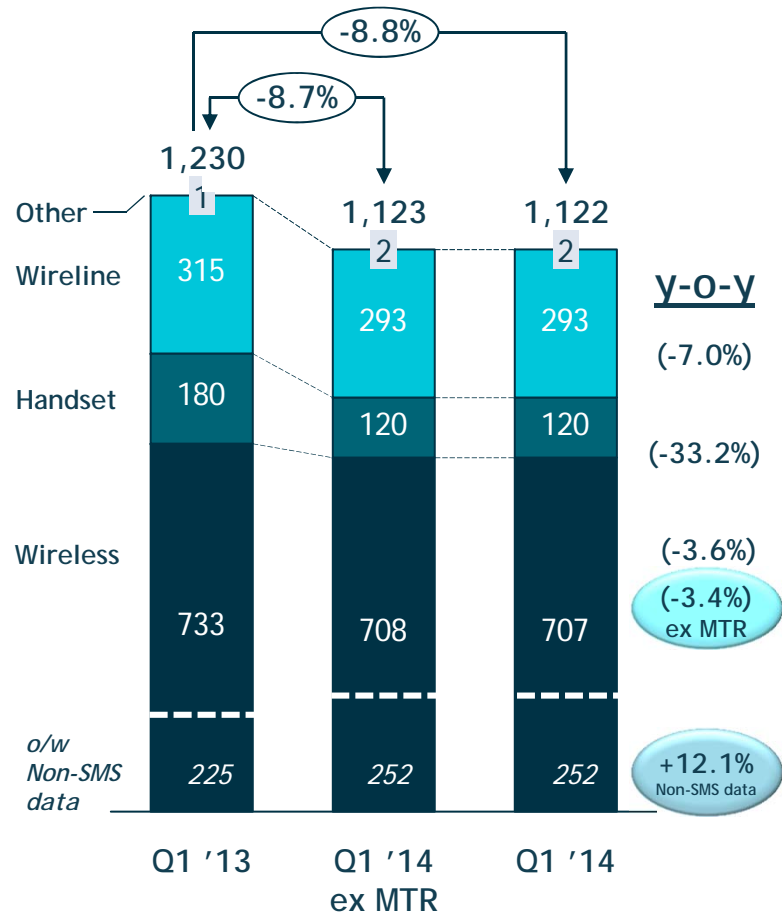


Revenue performance in the first quarter of 2014

Stability of WSR performance

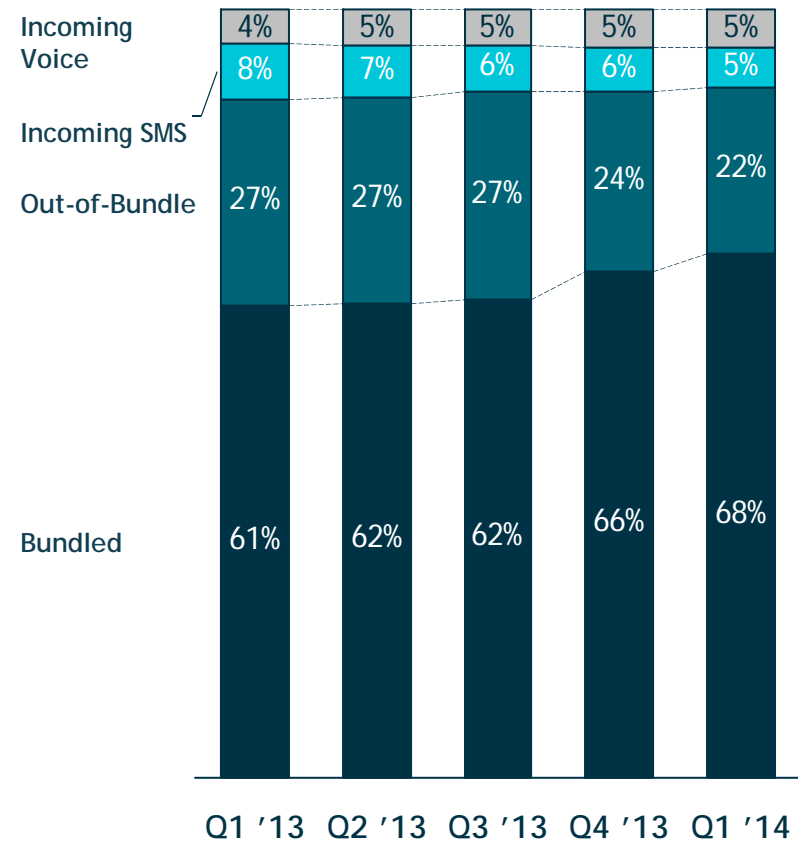
Total Revenue

Year-on-Year in million Euro



Structure of O₂ Consumer Postpaid WSR

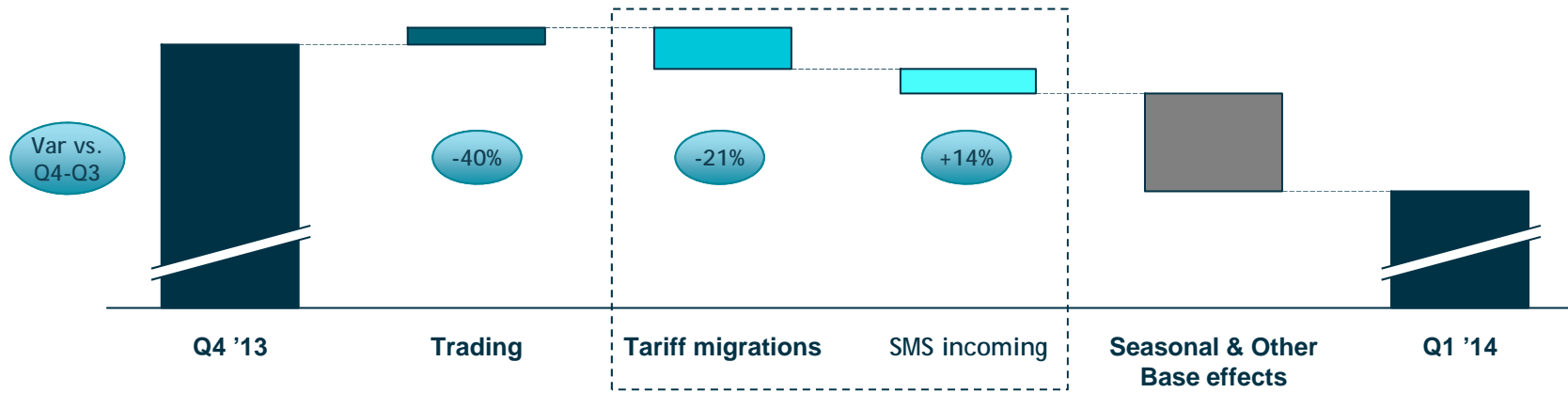
Quarterly evolution in %



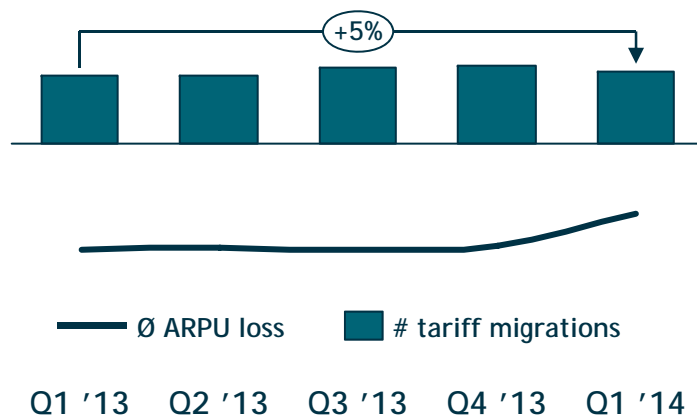
Drivers of Wireless Service Revenues

Better sequential performance from Tariff migrations

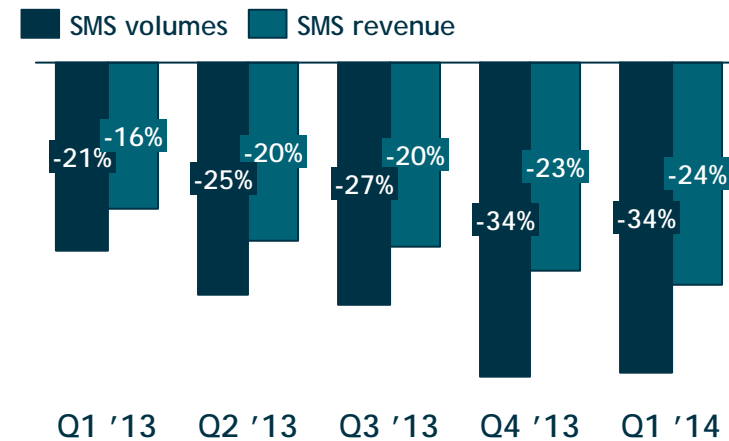
Main drivers for evolution of Wireless Service Revenues in O₂ Consumer Postpaid Segment
 Quarter-on-quarter absolute performance exMTRs



Base Management: Tariff Renewals
 In # O₂ Consumer Postpaid



Evolutions SMS
 Year-on-year in %

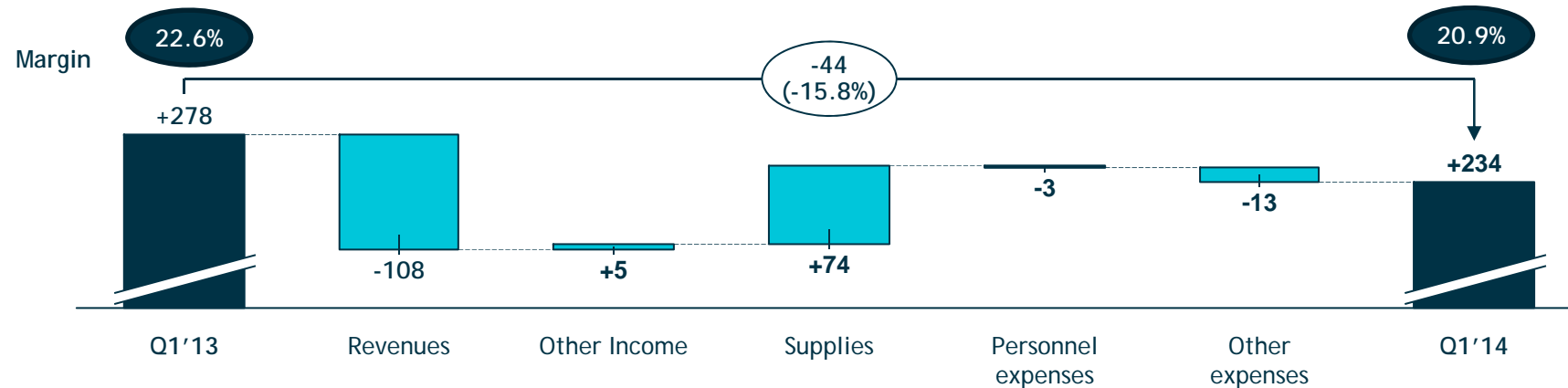


OIBDA margin y-o-y evolution in line with previous quarters

Driven by revenue performance and commercial costs

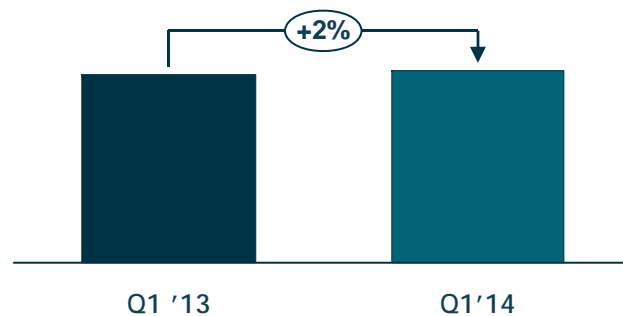
OIBDA evolution

Year-on-year in million Euro



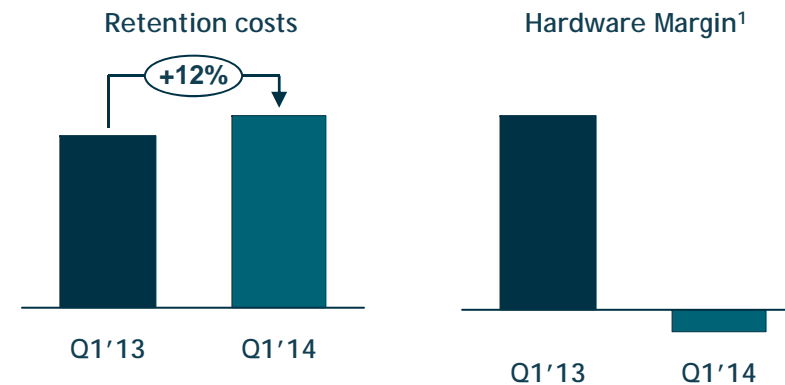
Evolution on non-commercial costs

Year-on-year in %



Evolution of main commercial costs

Year-on-year in %



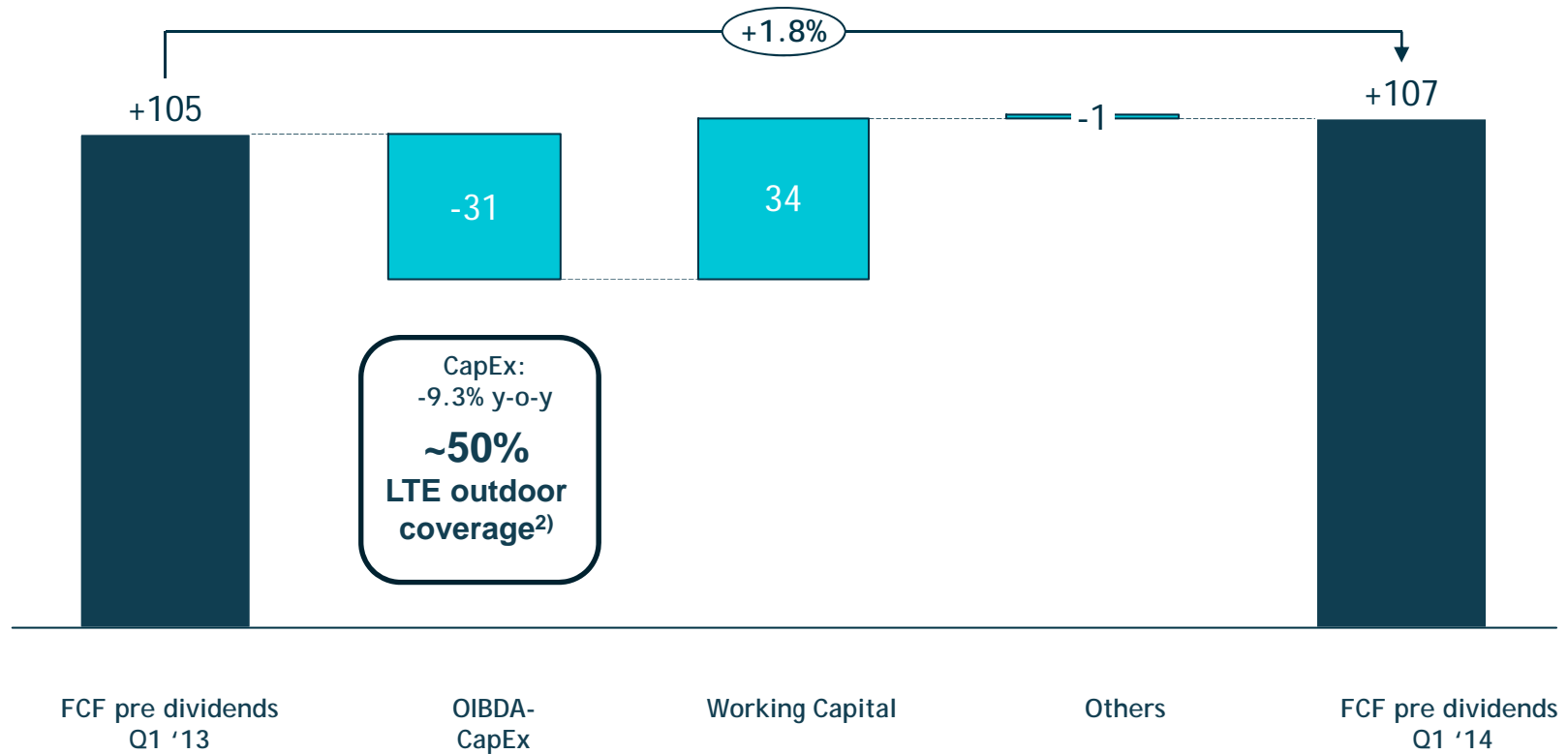
¹ Handset revenues less cost of sales

Free Cash Flow growth in the first quarter of 2014

Driven by positive impact from Working Capital management

Evolution of Free Cash Flow¹⁾

Year-on-year in million Euro



¹⁾ Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities.

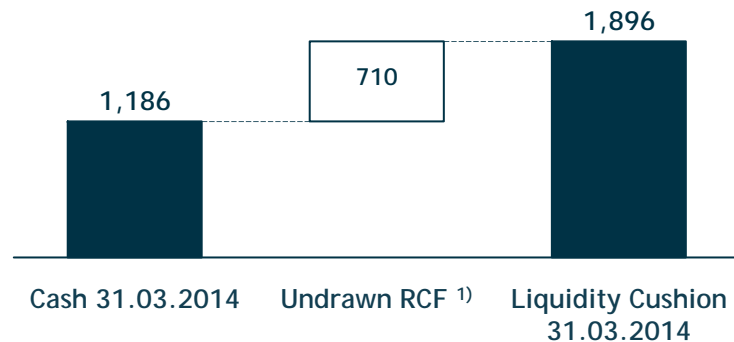
²⁾ End of April 2014

Solid financial profile

Successfully positioned in the debt capital markets

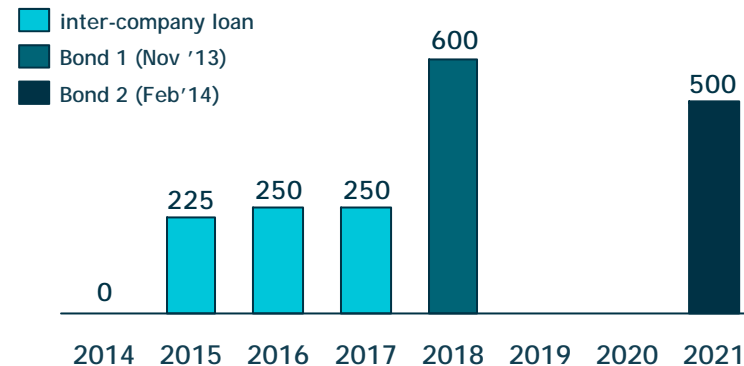
Strong liquidity position

In million Euro



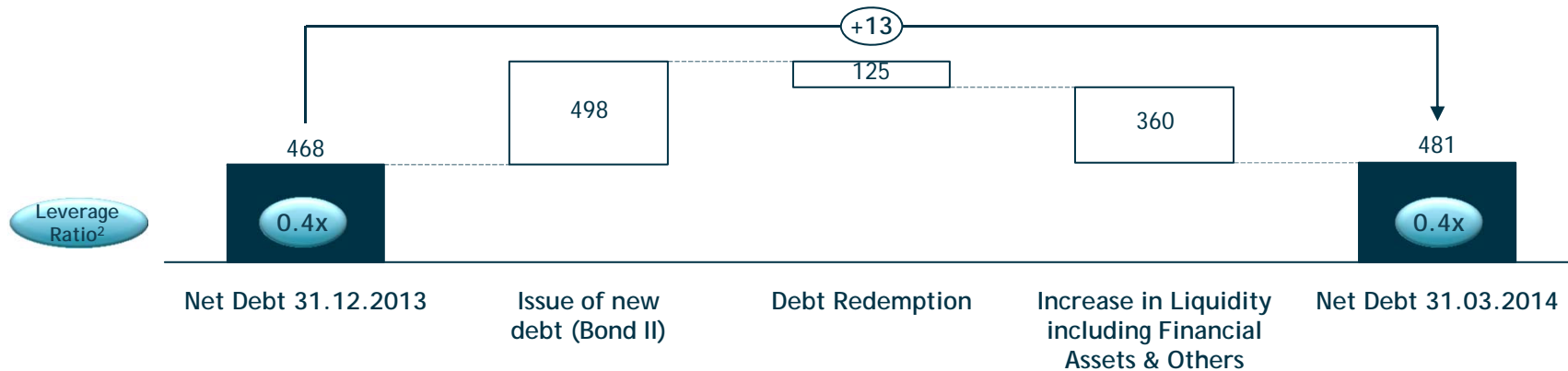
Extended maturity profile

In million Euro



Evolution of Net Debt²

Year-on-year in million Euro



1) Expiry of undrawn credit lines:
 €100m in Q3 2015, €250m in Q2 2016, €250m in Q3 2016 and €110m in Q3 2017

For definition of Net Debt and Leverage Ratio please refer to additional materials of Q1 14 preliminary results

Main take-aways and near term expectations

- Telefónica Deutschland operating & financial performance is a reflection of a **consistent execution of our mobile-data centric strategy**
- We are increasing **investments in the market to seize additional opportunities around LTE** in both in the Consumer and SME/Corporate segments
- We are maintaining a **solid financial profile and sustainable FCF** generation
- We intend to propose a **cash dividend of approx. 525 million Euro for 2013** to our Annual General Meeting on May 20th, 2014

Regulatory topics and E-Plus transaction process update

- **NGA cooperation agreement with DT** approved by German Regulator; ongoing **spectrum allocation consultation**
- **E-Plus transaction approval by EC proceeding** with submission and market test of remedy package
- **Preparation of equity financing** measures for mid-2014
- Main **strategic priorities for the business to be reinforced** after closing of E-Plus transaction

Latest regulatory topics of interest

NGA cooperation agreement with DT & Spectrum consultation

Regulatory approval NGA cooperation Agreement with DT (End March'14)

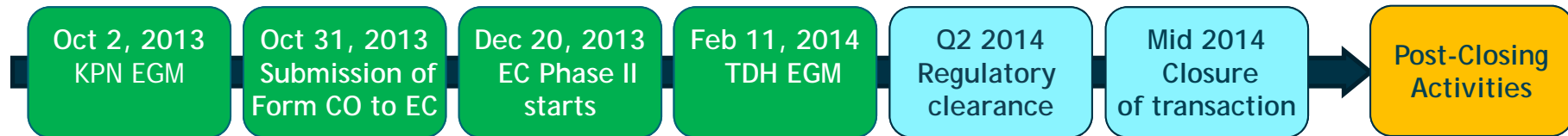
- ▶ The German Federal Network Agency confirmed compliance with the German Telco. Act and finalised the proceeding after further acknowledgment from EC
 - ▶ FCO to give final assessment by end June'14
- ▶ We are able now to realize the transformation from a fixed access infrastructure provider to becoming a high-speed internet provider in the German fixed-net market based on DT's NGA platform with VDSL- and vectoring products

Spectrum Consultation (Ongoing)

- ▶ "Project 2016" consultation paper (June'13, pre-Transaction)
 - ▶ Reservation/prolongation of GSM spectrum possible
 - ▶ Joint auction of GSM (900/1800) + additional bands
- ▶ Position paper on spectrum reallocation in preparation of a decision on the planned acquisition of E-Plus (End March'14)
 - ▶ Expecting a final decision in the second half of 2014
 - ▶ Action needed after clearance to facilitate access to spectrum in a non-discriminatory way

E-Plus transaction approval proceeding in Q2'14

Preparing for capital increase after closing by mid'14



Regulatory Clearance

- ▶ Ongoing discussions with EC on a final Remedy Package
- ▶ Uniqueness of German market Structure - Transaction to foster competition

Rights Issue (Cash Capital Increase) + Capital increase against Contribution in Kind

Required EGM
resolutions in
place

- ▶ Cash capital incr. for up to 3,700m shares with subscription rights
- ▶ Authorized capital for capital incr. by contribution in kind by up to 475m shares (additional to existing 558m)

Legal
Documentation
(e.g. Prospectus)

- ▶ Rights Issue terms & conditions
- ▶ Synergies from the transaction
- ▶ New Company vision & strategy

Strengthening Telefonica Deutschland core priorities Becoming a Leading Digital Telco

2014 Priorities for Telefonica Deutschland

Capitalise on **multi-brand portfolio & high level of customer satisfaction**

Monetise mobile data & fixed broadband convergence opportunities across all segments

Differentiate **O₂ as the best Value-for-Money LTE brand** in the German market

Seize opportunities in the **Business Segment and for Digital Services**

Early identified strengths from the integration with E-Plus

Digital Consumer-focused with a challenger mindset in the attractive German telco market

Proven **innovation skills; untapped mobile-only base**

Ability to **accelerate LTE network deployment**, leveraging a strong set of assets

Scale, improved service and end-to-end digital set-up: **reliable B2B and B2C partner**

NPV of synergies of more than €5bn, mainly derived from Network, Distribution & Customer Services

Telefónica Deutschland Q1 2014 preliminary results Q&A session



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