



Telefónica Deutschland

Investor Presentation
September 2013

Telefónica

Deutschland

Telefónica Deutschland Holding AG,
Investor Relations

Public – Nicht vertraulich

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01

An attractive investment opportunity



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The right assets in place to deliver sustainable growth

Ongoing transformation into a Digital Telco

Innovative, challenger mindset

- Successful mobile data strategy
- Challenger mentality with a track record of innovations in the market
- Highly satisfied customer base



#3 integrated telecom player in Germany¹

- More than 25.3 million accesses²
- c.EUR 5.2 billion revenues and c.EUR 1.28 billion OIBDA in 2012



The right assets in place to deliver growth

- Multi-brand portfolio built around a strong O₂ core brand to address all market segments
- Competitive, lean network infrastructure and strong spectrum position
- Longstanding partnership with Deutsche Telekom & benefits from being part of Telefónica Group
- Motivated workforce - continuous top rating in "Great Place to Work"



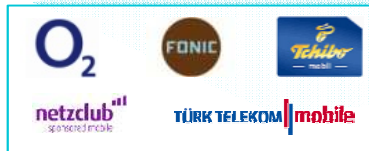
Note:
1 Based on 2012 reported revenues
2 As of 30 June 2013

A challenger strategy, focused on mobile data

We aim to outperform the mobile market and increase wireless service revenue market share while achieving further scale efficiencies

Today

3rd integrated telecoms network operator¹



Strategic priorities

- ✓ Capitalize on **multi-brand portfolio & superior customer satisfaction**
- ✓ **Monetise data opportunity** through innovative products, digital services and LTE
- ✓ Expand **convergence strategy**, increasing share of wallet and customer loyalty
- ✓ Seize the opportunity in the **SoHo/SME & wholesale markets**
- ✓ Maintain **competitive 3G & LTE networks**
- ✓ Drive profitable growth & efficiency resulting in **enhanced cash flow generation**

Tomorrow



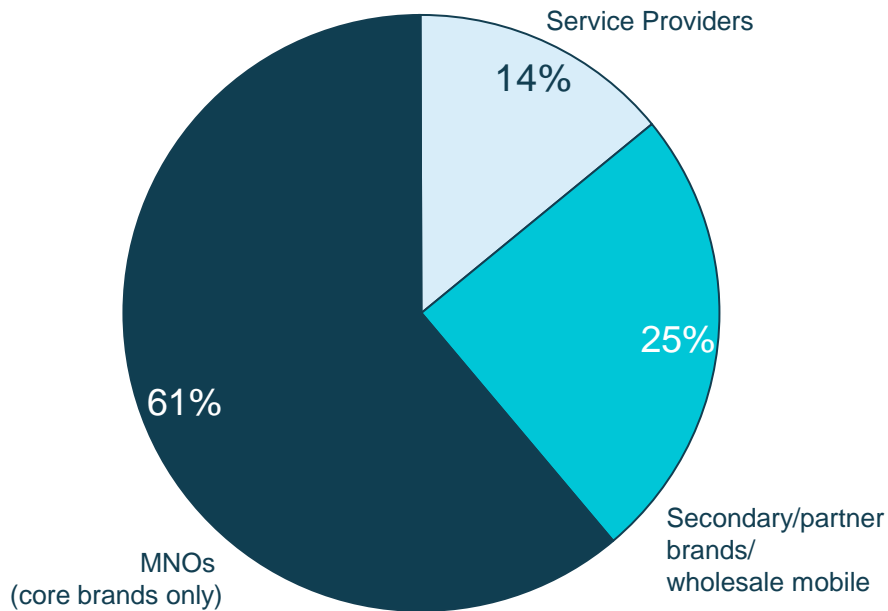
- We are here to make our **customers' lives easier**
- We want to be at the centre of their **digital life**
- We will get there by being **excellent in the basics...**
- ...and **surprisingly different** where it matters

¹Based on 2012 reported revenues

German mobile market: a unique competitive space

Secondary/partner brands, wholesale mobile and service providers account for a significant share of the German mobile market

Total SIMs German mobile market (m) ¹



¹ Sources:
 a) Yankee, EMEA mobile carrier monitor
 b) Pyramid, Western Europe mobile data forecast pack 2Q 2013

Service providers market share slightly decreasing

- Resellers hold a significant share in the German mobile market
- Freenet Group and Drillisch are the key remaining players
- “Protected” by regulator, i.e MNOs cannot acquire them



>100 brands in the German market

Wholesale mobile	 Unitymedia Kabel Deutschland	 TELE2	 	
Secondary/partner brands	 TÜRK TELEKOM mobile	 simyo yourfone.de		
MNOs				
Market share ²	15.5%	15.8%	34.7%	34.0%

² in % of Mobile Service Revenues as reported by MNOs for Q2/2013

Stable and predictable regulatory environment

Spectrum

- LTE-800 licenses already awarded in 2010
- GSM spectrum licenses due Dec-2016: ongoing consultation until 4th October'13
 - Ensure adequate broadband rollout (50 Mbps to 100% Germany in 2018), **not to maximise proceeds from an auction**
 - 900 MHz extension (5 MHz/MNO) is **to ensure adequate provision of basic GSM services**
 - Additional spectrum in 700 MHz band **only available after WRC¹ and consent from 16 Federal States** (current usage is Digital TV)
 - **No indications yet on timing, allocation procedure nor pricing**

MTR voice²

- German national regulator BNetzA recently confirmed preliminary decision on mobile termination rates (MTR)
 - Dec 1, 2012 – Nov 30, 2013: EUR 0.0185
 - Dec 1, 2013 – Nov 30, 2014: EUR 0.0179

Roaming

- EU regulation continues to lower roaming tariffs for voice, messaging and data
- Impact of regulation however mostly mitigated by innovative tariffs/product packages

¹ World Radio Conference

² Messaging not regulated

In summary ...

A unique combination of a pure German telco, strong assets and cash flow generation

- 1 Single country operator with exposure to Europe's economic powerhouse
- 2 #3 integrated operator in one of Europe's largest and most attractive telco markets
- 3 Winning customer proposition centred around powerful brands and data services
- 4 Competitive network infrastructure and strong spectrum position
- 5 Benefits from Telefónica's global scale and expertise and long-term partnership with Deutsche Telekom
- 6 Strong track record of growth and cash flow generation supporting attractive shareholder returns
- 7 Highly accretive acquisition of E-Plus expected to be closed by mid-2014

02

Monetising data opportunity in all segments



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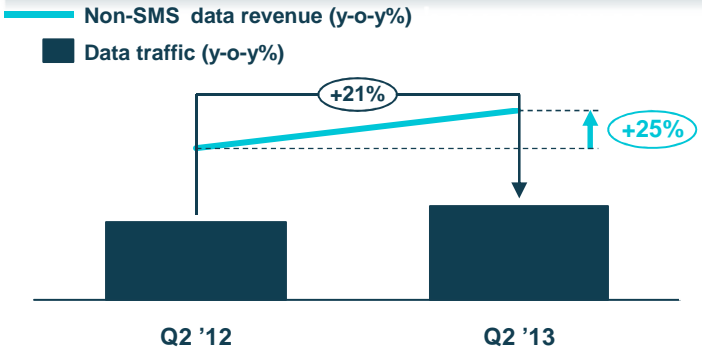
Strong track record of monetising mobile data

Focus on execution based on a clear set of priorities

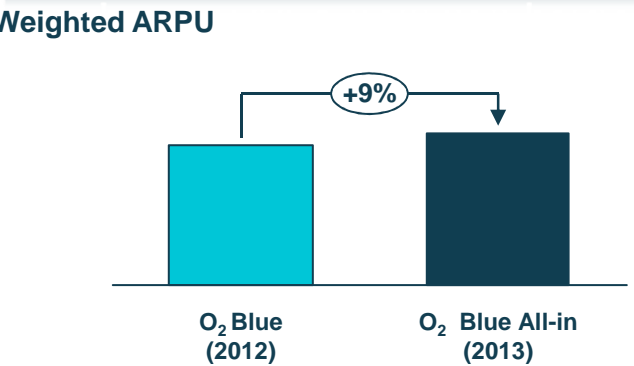
Key levers for data monetisation

- 1 Drive data & smartphone penetration for new & existing customers
- 2 Fit demand of customer base to volume & speed portfolio
- 3 Data upselling / foster LTE adoption

Traffic vs Revenue performance



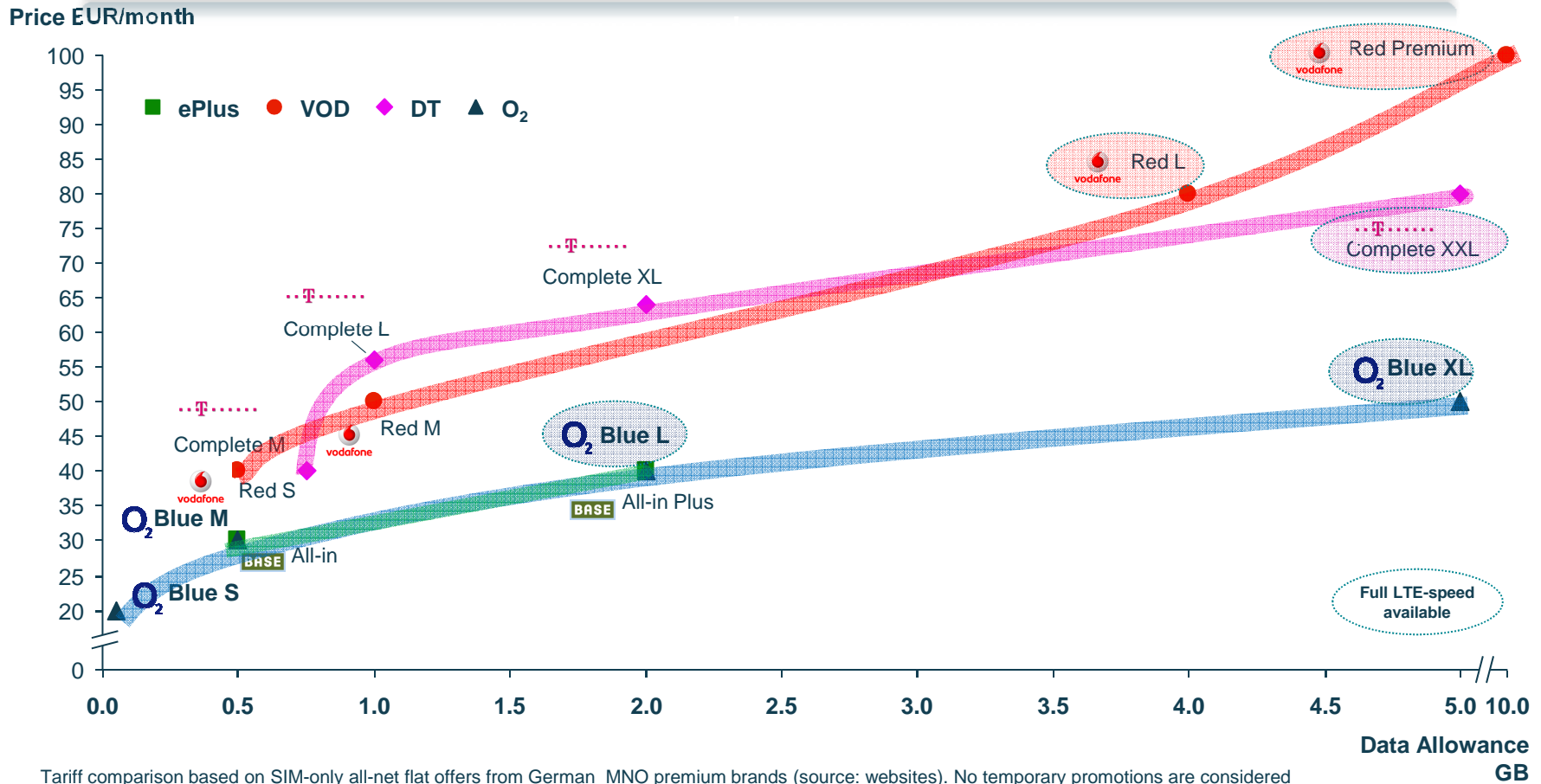
Improved ARPU from new portfolio



Best value for money proposition in postpaid

Dual volume/speed monetisation for smartphone-centric tariffs

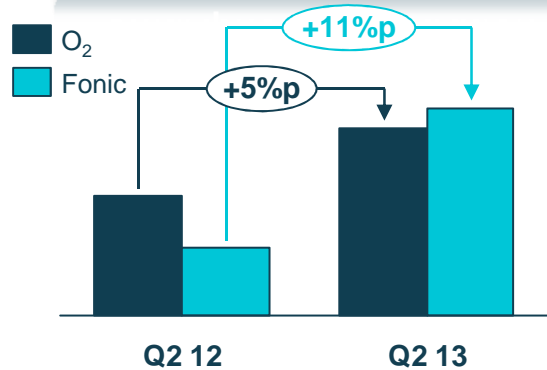
All-in tariffs comparison in the market



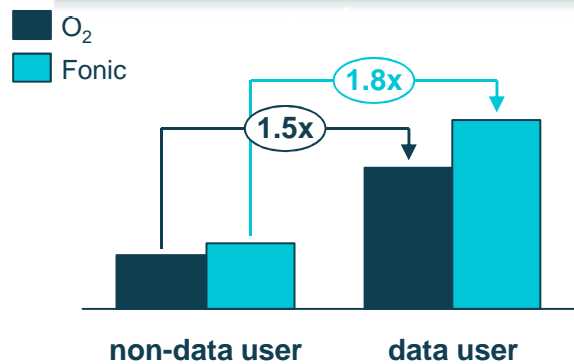
Driving mobile data monetisation in prepaid

Multi-brand approach to a growing data affine prepaid base

Smartphone penetration



ARPU upside



Specific approach to prepaid

- Flexible relationship & allnet flat data bundles
- Increasing availability of mid-tier smartphones
- Upsell opportunity from rising demand for data through bolt-ons

O₂

FONICE

FONICE All-Net Flat
Ein Preis - wirklich alles drin

NEU!
✓ Telefon-Flatrate
✓ Internet-Flatrate
✓ inkl. SMS-Flatrate bei Bestellung bis 14.07.2013
1995€ / Monat

TÜRKTELEKOM mobile
ALLNET FLAT+TR
Eine FLAT für alles - auch für die Türkei!
20,00 €/monat
Der neue super Prepaid-Tarif

netzclub
sponsored mobile
Die perfekte Kombination:
Smartphone + Gratis Internet-Flat

We are ready for the next mobile data growth cycle

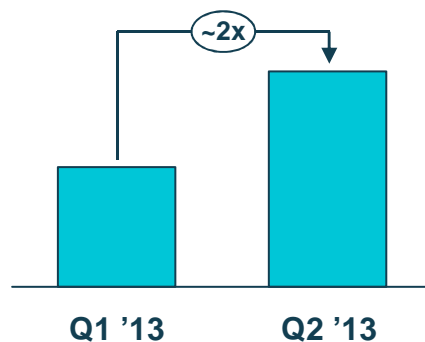
Key drivers: premium positioning of LTE services & new smartphones

O₂ is just in time for the LTE take-off in Germany ...

- All German cities across **main metropolitan areas turned into high speed areas**
- Data-centric portfolios in all brands with **premium LTE only available in O₂ core brand** from €40/month
- New O₂ Blue All-in portfolio launch came with **selected high-end LTE-enabled smartphones**



Shipment of LTE-enabled devices



... and we already see some early indicators

- **LTE-enabled devices** were ca. 40% of total sales in Q2 '13
 - ✓ Mid-range portfolio coming in H2 '13
- **Encouraging market insights** on LTE
- **Evidences of increased data usage** by 60-70% after migration to LTE

03

Operating and financial performance



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Rational competitive behaviour in an increasingly complex market place around 3G mobile data

Increased activity in the channels ...

- Media shout around SIM only €20 all-in flats in the low-end of the market
- Selective and regional campaigns with strong investments/commissions
- Handset-centric offers & new online indirect channels

... while protecting future data growth levers

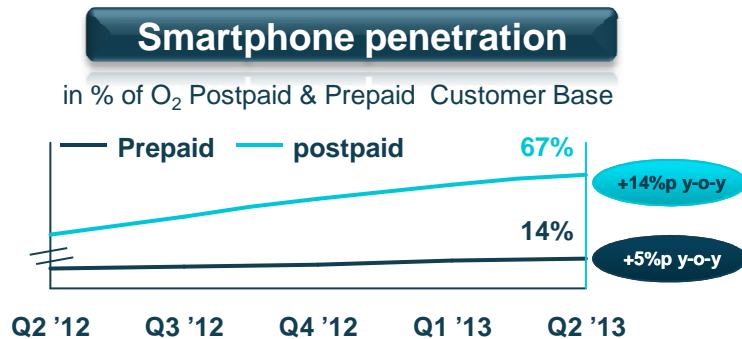
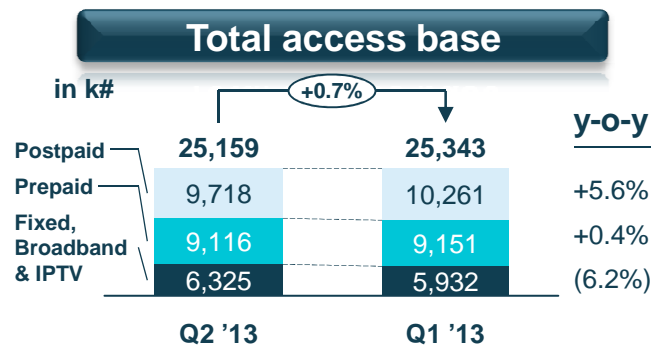
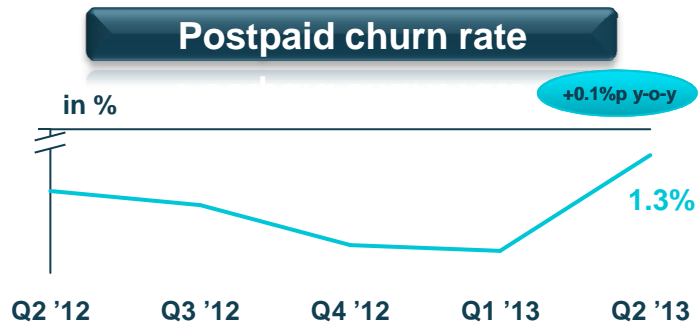
- Retention excellence / upselling mindset
- Improved devices and full-speed LTE retained by MNOs at premium price
- Two dimensional tariff structure: volume & speed



Source: Companies' websites

Trading performance in Q2 2013

Consistent approach to a complex market, driving smartphone penetration



- **60k postpaid net additions**
 - Market focus on retention and customer base
 - Better customer mix from O₂ Blue All-in push
 - Successful management of tariff migrations

- **27k prepaid net additions**
 - Strong performance from secondary brands
 - Adoption of new prepaid smartphone tariffs

- **Improved smartphone penetration**
 - More affordable handsets & digital behaviour
 - Prepaid opportunity driven by new tariff offers

- **Stable retail DSL net disconnections (-40k)**
 - Continuous uptake of VDSL gross additions (28% of gross adds in VDSL available regions take speed option)

Overview of key financials

Top line pressures compensated by more efficient usage of resources

<i>In EUR million</i>	January - June			April - June		
	2013	2012	% y-o-y Δ	2013	2012	% y-o-y Δ
Revenues	2,445	2,554	(4.2)	1,216	1,295	(6.2)
OIBDA	572	597	(4.1)	294	317	(7.2)
<i>OIBDA margin</i>	23.4%	23.4%	0.0 p.p.	24.2%	24.5%	(0.3 p.p.)
Group fees	(31)	(32)	(1.5)	(16)	(17)	(8.0)
OIBDA before group fees	603	629	(4.0)	310	334	(7.2)
<i>OIBDA before group fees margin</i>	24.7%	24.6%	0.1 p.p.	25.5%	25.8%	(0.3 p.p.)
Capex	296	271	9.4	151	138	9.5
Free Cash Flow¹⁾ pre dividends from continuing operations	345	152	n.m.	239	64	n.m.

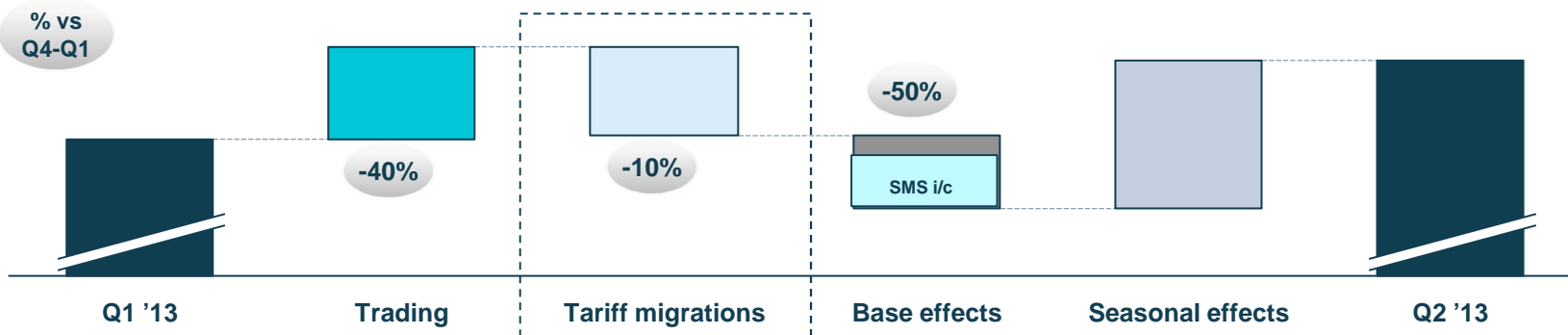
¹⁾ Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes. In 2013 no discontinued operations did exist.

Continued dynamics in O₂ massmarket postpaid

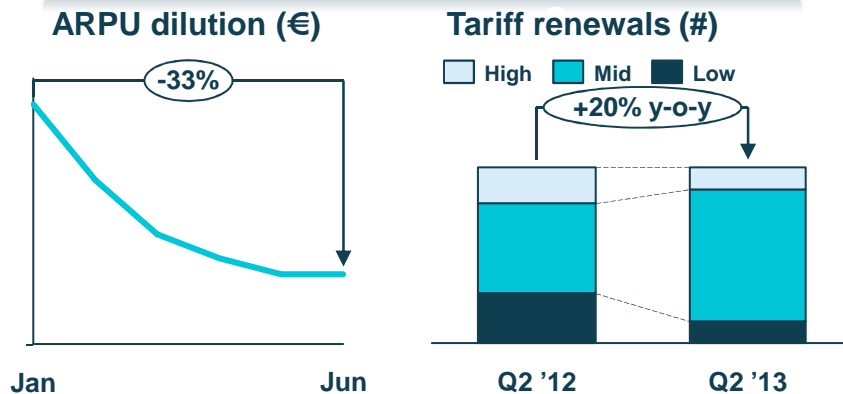
Tangible results from base management leveraging O₂ Blue All-in

Main drivers for wireless service revenues

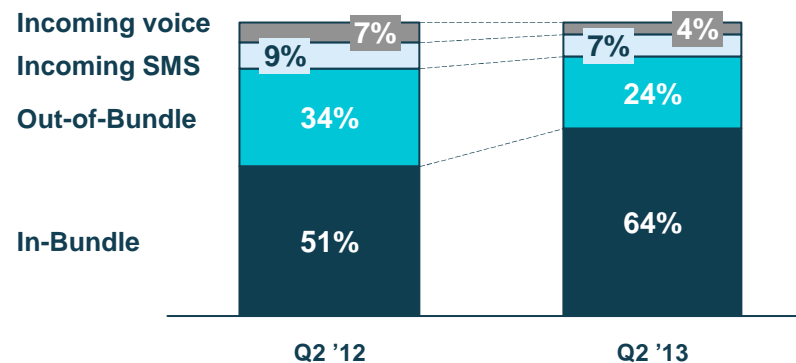
Q-o-Q absolute performance ex MTRs



Customer base management

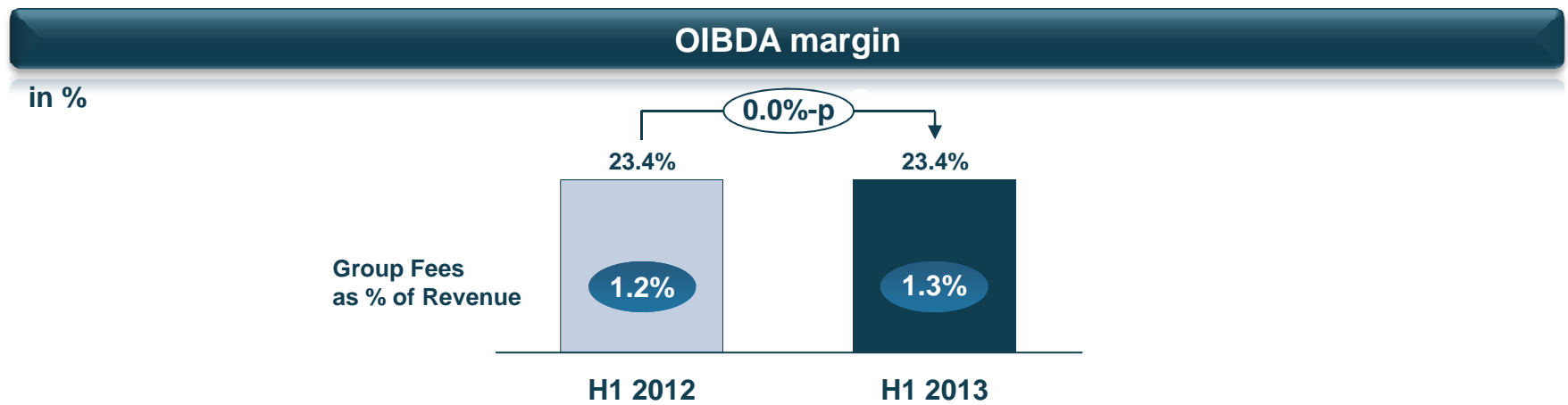
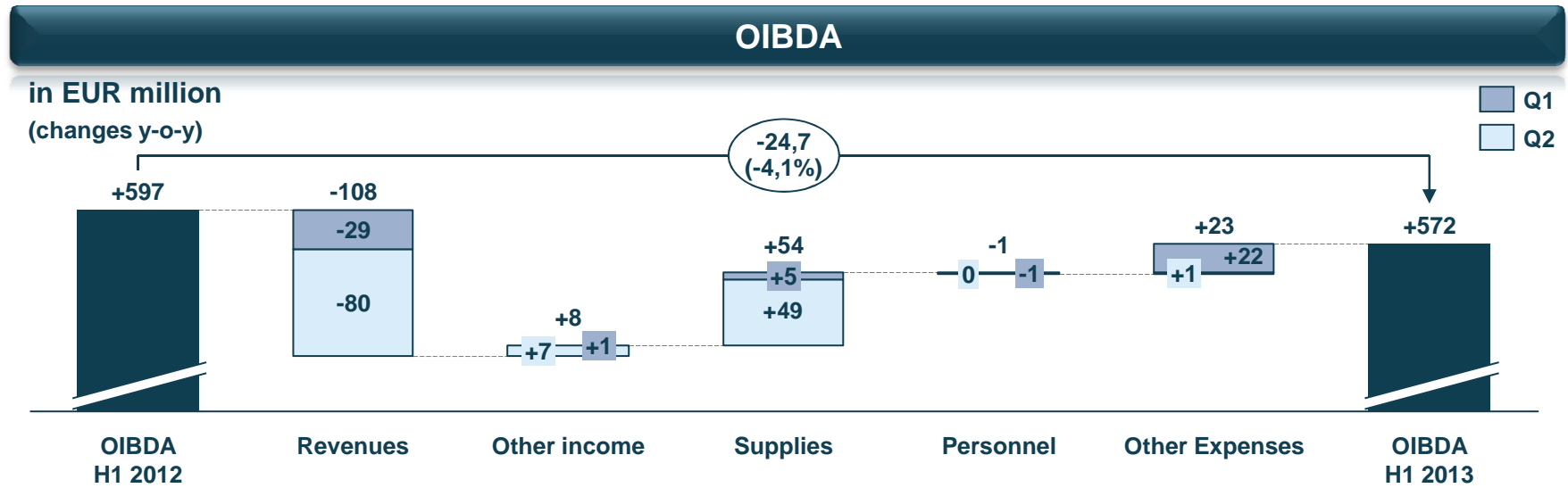


WSR Revenue structure



Stable y-o-y OIBDA performance

Revenues downside partly offset by cost savings



04

Acquisition of E-Plus by Telefónica Deutschland

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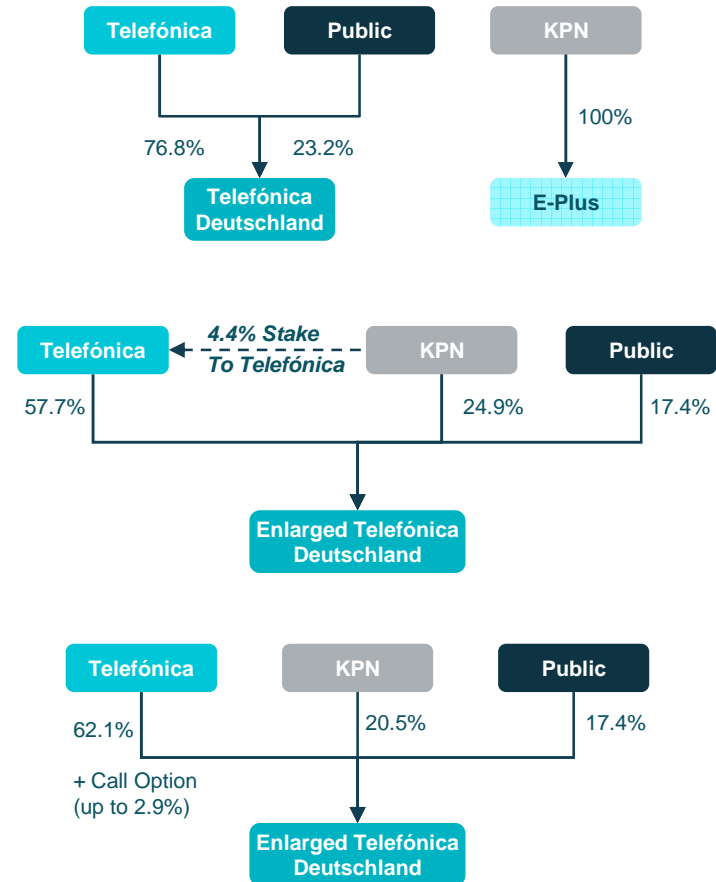
Transaction structure

Recommended and approved by Boards of Directors and Supervisory Boards of Telefónica, Telefónica Deutschland and KPN

Transaction summary

Two step structure

- 1 Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in the enlarged Telefónica Deutschland
 - €3.7 bn of cash, financed through a rights issue, fully underwritten by Telefónica and a group of banks
 - 24.9% stake in enlarged Telefónica Deutschland (after capital increase)
- 2 Telefónica subsequently will pay to KPN €1.3bn for:
 - 4.4% stake in the enlarged Telefónica Deutschland
 - Call option, exercisable in one year, for up to a further 2.9% stake from KPN. Telefónica may exercise its call option for up to €510m plus interest, or buy shares in the market.



Transaction rationale

1

Creation of a Leading Digital Telco¹

- A leading player with a combined mobile customer base of 43m, 42% postpaid
- Strong scale benefits with combined mobile revenue market share of 32%
- Driving mobile market growth in Germany since 2010 with complementary strategies
- Strong capabilities for mobile data monetisation

2

Unlocking significant synergies

- NPV of synergies of €5.0–5.5bn, net of taxes and integration costs
- Incremental value from additional revenues, financial and tax synergies
- Highly experienced management team with a proven track record of integration

3

Enhanced profitability & FCF

- Net savings after integration costs from 2nd year - 75% of run-rate synergies by 4th year
- Free Cash Flow generation benefitting from increased scale

4

Creating a superior customer experience

- Customers to benefit from high speed access platforms in mobile and fixed
- Strong multi-brand portfolio across segments
- Best distribution channel and outstanding customer service
- Offering broader range of solutions to business customers
- Convergence opportunity through cross-selling / up-selling opportunities
- Leveraging Telefónica's global capabilities: Digital innovation, scale,....

5

Value Creation for Telefónica Deutschland shareholders

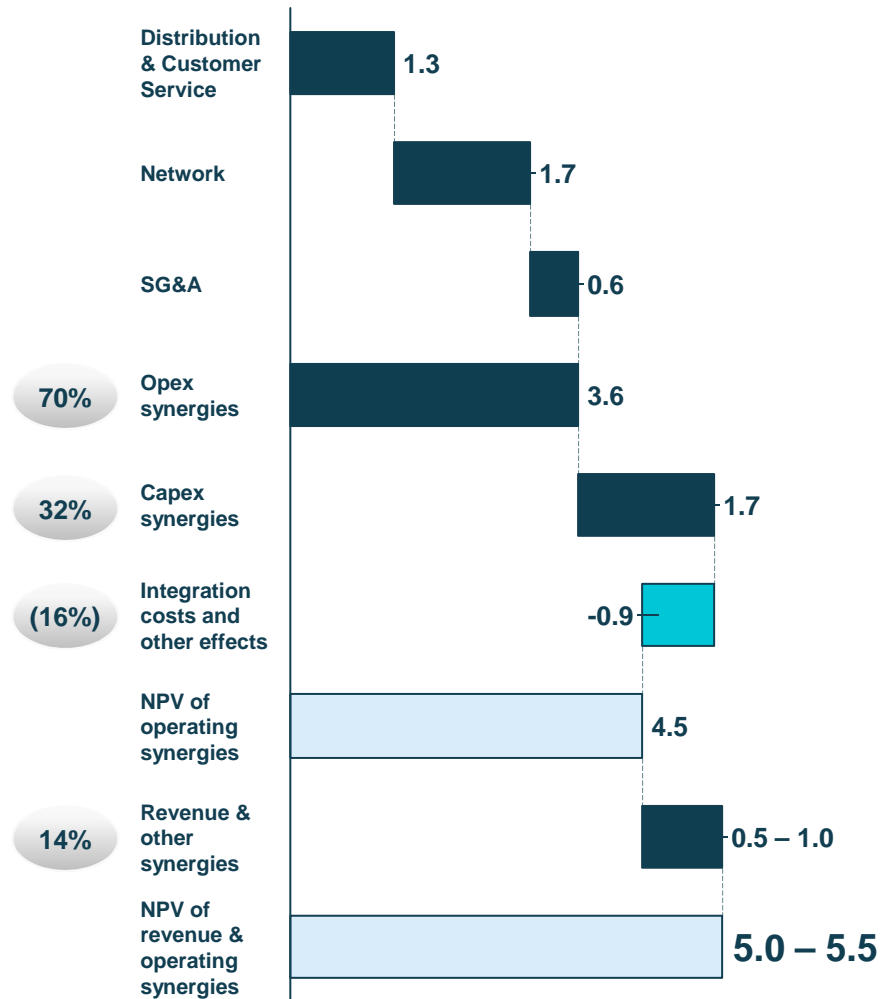
- Unlocks significant value for Telefónica Deutschland shareholders
- Increases financial flexibility (improving leverage) while maintaining an attractive shareholder remuneration
- EPS and FCF accretive from first year of full operation²

¹ Numbers based on 2012 reported results

² Based on run-rate synergies before integration costs

Bottom-up approach to derive Synergies

In EUR bn



▪ Distribution & Customer Service

- Rationalisation of distribution network
- Increased efficiency in customer service costs leveraging best practices and scale
- Channel management and overheads

▪ Network

- Focused rollout on one common nationwide LTE network and improved quality from 3G network consolidation
- Backbone, backhaul and core network consolidation, with reduced OpEx from network integration (rentals, power, maintenance, transport costs, overheads)
- Site consolidation and rationalisation: reduction of around 14,000 sites
- Increased efficiency by leveraging scalable transmission agreement with Deutsche Telekom

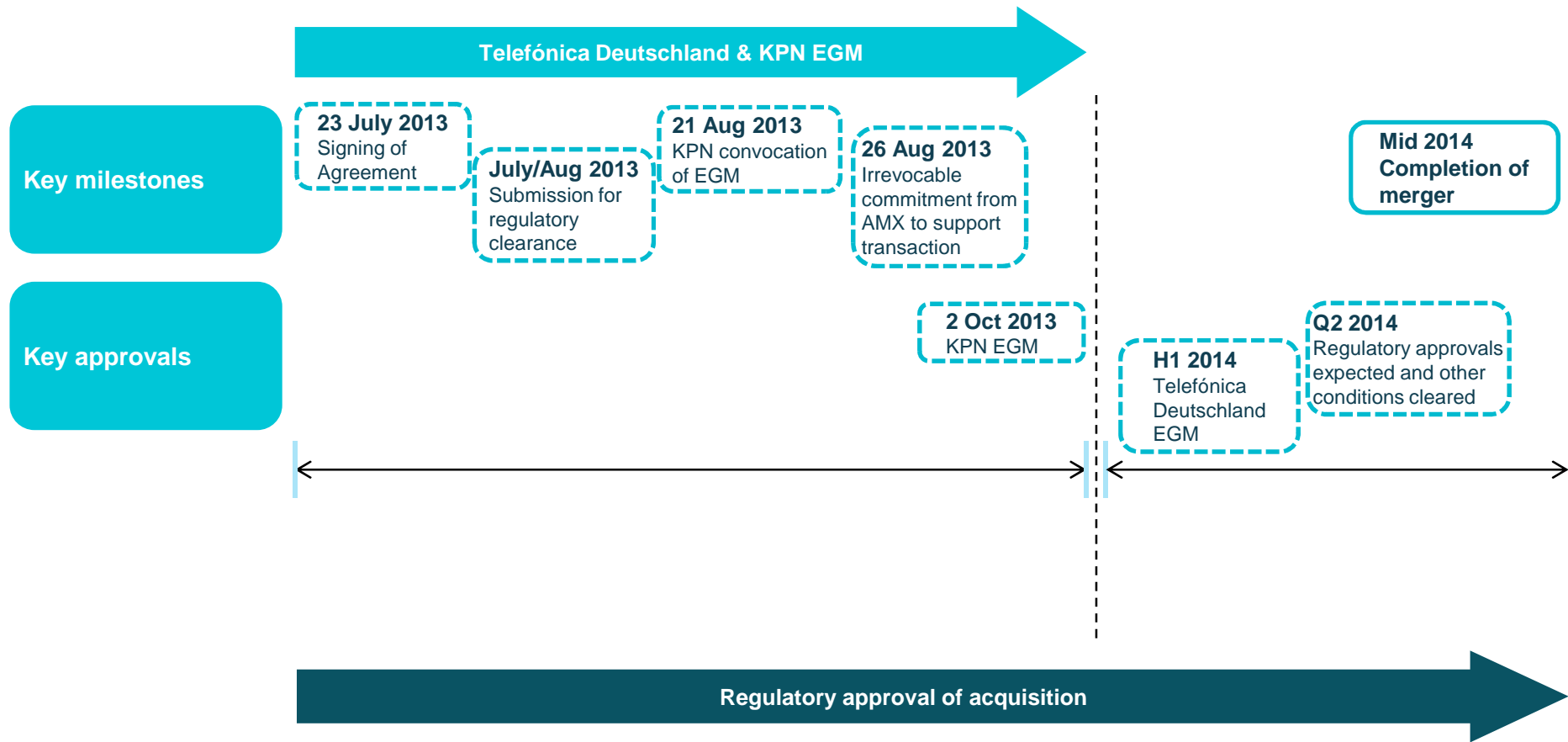
▪ SG&A

- Reduced SG&A expenses
- Processes rationalisation
- Continued focus on becoming a more lean and agile organization

▪ Revenue & Other

- Exploit SME opportunity from a broader and higher quality platform
- Improved customer satisfaction
- High speed fixed broadband cross-selling opportunity across an enlarged customer base

Expected transaction timetable



Transaction Summary

- A natural strategic move for Telefónica Deutschland to create a Leading Digital Telco with focus on mobile data and LTE enhancement
- Germany is the largest mobile market in Europe and is the most advanced in data monetisation
- Significant value creation through €5.0 – 5.5bn NPV synergies crystallization
- Customers benefitting from improved quality of service
- Substantial value creation for Telefónica Deutschland shareholders
 - Investing in future growth while improving financial flexibility
 - Enhancing cash flow generation profile
 - Accretive for Telefónica Deutschland EPS and FCF from year 1⁽¹⁾
- Increased execution certainty after unanimous KPN board approval and irrevocable commitment from AMX to vote in favour in KPN's EGM

For further questions please contact IR department

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