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Telefonica Deutschland is setting the pace to become the Leading Digital Telco

1. Well positioned to lead the most attractive European telco market

2. Strong network & distribution assets to provide the best digital customer experience

3. Enhanced profitability and cash flow generation from a clear integration plan

4. Strong value proposition for Telefónica Deutschland shareholders
The Leading Digital Telco: Our priorities and success factors

Keep the Momentum

Integrate quickly

Transform the company

Offer best high speed access experience

Superior customer experience throughout their digital journey

Achieve 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

Synergies

Improve

Optimise

Simplify

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

Rational and balanced market structure

- Rational market following merger from 4 to 3
- Non-disruptive pricing for tiered mobile data portfolios
- Data monetisation opportunity: Germany still a European laggard in terms of customer data usage

Strong focus on value-generation and customer base management in premium segment

- Customer base: Retention and churn management
- Golden grid: Network quality & perception
- Smart bundling & best deals for existing customers
- Q3 initiatives: O₂ portfolio update, WiFi calling, customer service innovation

Well positioned in non-premium segment with own brands and partners

- MVNOs gaining traction after start of MBA MVNO
- Scale and competitive advantage
- Strong distribution channels via own brands & partners
- ‘Blau’ - Revamped portfolio and brand in Q3, simplicity in focus
Excellent basis for monetisation of mobile data growth

- Best network experience
  - Successful consolidation pilots started
  - LTE deployment at 73% coverage

- Encourage usage of data
  - 3G national roaming and LTE roll-out
  - Video & OTT stimulating demand

- Industrialisation of data monetisation
  - More efficient automatic top-ups
  - Take-up of >1GB tariffs: 37% at O₂

- Enabling digital lifestyle
  - Building on IoT partnerships
  - Protection of privacy

Additional data volume

- Included volume
- Data automatic
The path to a leading network in Germany

Key network transformation milestones

TEL
dica

TEF DE aims to deliver outstanding connectivity and fulfil network leader ambition in urban & sub-urban

Network virtualisation

TEF DE to catch up with competition

- Tef D to reach eye level with competition by year-end 2016

Accelerated L1.800 roll-out for high-speed

- Cost-efficient and fast L1.800 roll-out
- Significant coverage growth in 2016 in both urban and sub-urban areas

L800 roll-out in place to increase 4G coverage

- L800 roll-out strongly pushed to facilitate coverage
- Target of 75% by year-end 2015

3G National Roaming & mVoLTE launched

- TEF DE with best-in-class 3G network
- Positive customer feedback about network improvements

Public – Nicht vertraulich
Expected synergies to exceed EUR 5bn NPV with OpCF savings of EUR 800m by year 5: 35% already achieved in year 1

Integration Initiatives 2015

- **OpEx savings** driven by *bringing forward* initiatives such as shop restructuring and optimisation of external staff
- **CapEx synergies** primarily driven by a single LTE-network rollout
- 2016 focus on *longer lead-time projects* such as network integration & brand migration
- **Total synergy case unchanged**

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1. OpEx savings are referred 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
## Telefónica Deutschland updated outlook in Q3’15

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- OIBDA driven by bringing forward integration activities into 2015 and optimisation of commercial costs
- Higher CapEx reduction due to synergy effects in H2 which outweigh network consolidation and LTE investment
- Continuity reflected in stable dividend proposal: EUR 0.24 per share

~35% of total target synergy run-rate to be already achieved in 2015 (~€280m)

* 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](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.
Strategic priorities: Looking ahead to 2016

- **Keep the Momentum**
  - Data & retention to drive MSR in a dynamic market
  - Growing non-premium impacts revenue development

- **Integrate quickly**
  - Lock-in synergies achieved in 2015
  - Build on achievements for 2016

- **Transform the company**
  - Develop our premium brand position
  - Leverage competitive advantage in non-premium
  - Manage complexity of 2016 integration
  - Laying the ground for savings in 2017/2018

**Telefónica Deutschland**

The Leading Digital Telco
We aim to maintain an attractive shareholder remuneration policy

Shareholder remuneration policy - main guidelines

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

Dividend proposal of EUR 0.24 for financial year 2015 to be approved by AGM 2016

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