

Telefonica

Deutschland

Creating
the
Leading
Digital
Telco



Telefónica Deutschland Investor Presentation

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January 2016

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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

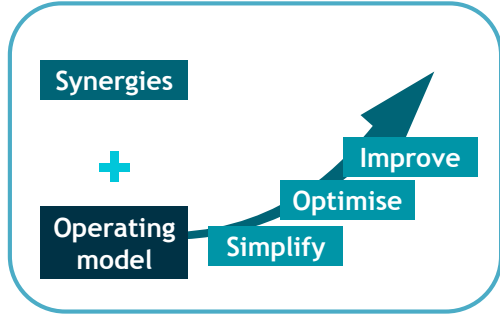
Achieve **operational excellence**



Golden grid for 2G/3G + LTE roll-out + access to best VDSL platform



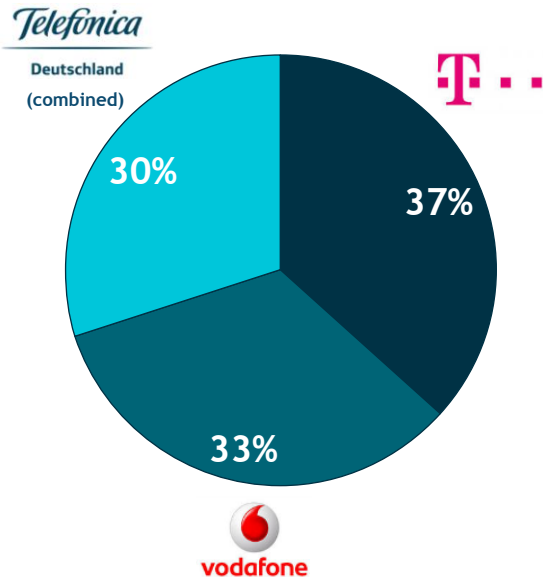
Peace of mind, multi-channel & digital first



Synergies & lean operating model

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

Rational and balanced market structure¹



- 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



The path to a leading network in Germany

Key network transformation milestones



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



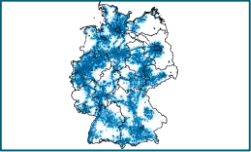
Network virtualisation

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



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

Leaver programme
800 FTEs in 2015 (50% of total target of 1,600 FTEs)

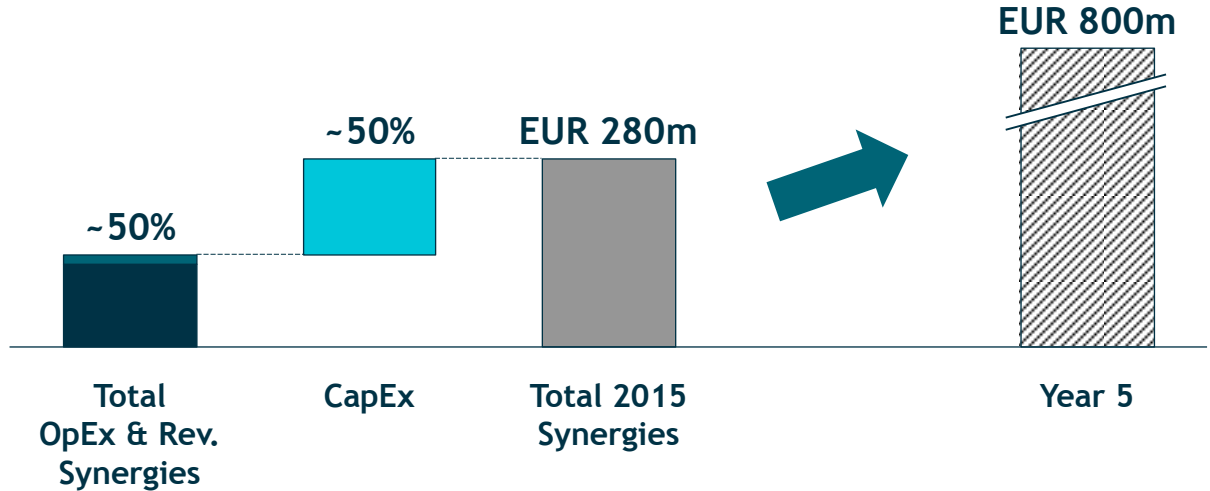
Shop footprint
400 shops by year-end

Network
Transfer of 7,700 sites via deal with DTE

Facilities
In-city consolidation (15% of total sqm)

Reduction of external staff

Simplification / Eliminate duplications



- **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**

¹OpEx savings are referred to 2014 combined financials excluding restructuring costs
²CapEx synergies net of restructuring activities and exclude investment in spectrum
³2014 combined KPIs: 9.1K FTEs. 1.8K shops, >39K mobile sites

Telefónica Deutschland updated outlook in Q3'15

	Baseline 2014* (EUR m)	9M 2015* (y-o-y pct. growth)	Old Outlook 2015** (y-o-y pct. growth)	New Outlook 2015** (y-o-y pct. growth)
MSR	5,528	+0.4%	Broadly stable	Broadly stable
OIBDA	1,461	+16.1%	>10%	+15-20%
CapEx	1,161	-2.8%	High single-digit pct. decline	Low double-digit pct. decline
Div	EUR 0.24/share	---	---	EUR 0.24/share

- 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>

** 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



Integrate quickly



Transform the company

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

- Lock-in synergies achieved in 2015
- Build on achievements for 2016

- Develop our premium brand position
- Leverage competitive advantage in non-premium

- Manage complexity of 2016 integration
- Laying the ground for savings in 2017/2018

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The Leading Digital Telco

We aim to maintain an attractive shareholder remuneration policy

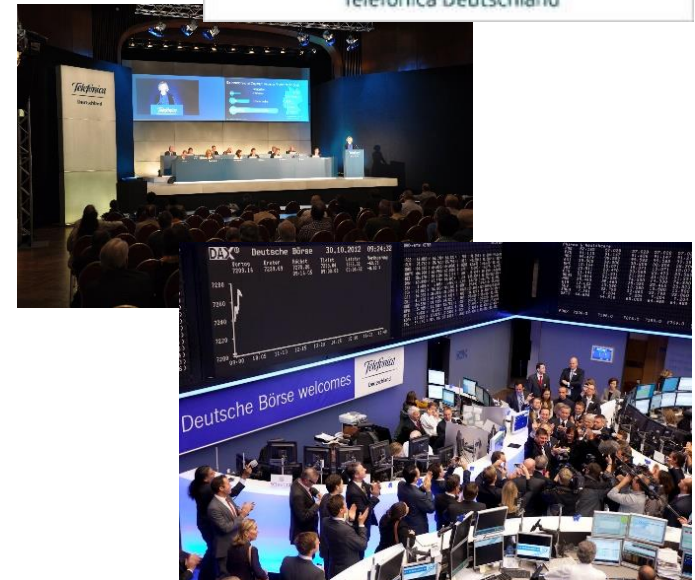
Shareholder remuneration policy - main guidelines¹

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

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



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