

Telefónica Deutschland

Full year results
January - December 2012

Telefónica

Deutschland

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Telefónica Deutschland 2012 results presentation



René Schuster

CEO
Telefónica Deutschland
Holding AG



Rachel Empey

CFO
Telefónica Deutschland
Holding AG

01

Highlights 2012
Priorities 2013



Strong performance throughout 2012

The right assets in place to deliver our strategy

Powerful product portfolio and tariffs

- ✓ Strong, well established brands
- ✓ Data centric mobile tariffs
- ✓ Top smartphone portfolio and O₂ my Handy

O₂ Blue



Winning customer proposition

- ✓ 25.4 million customers as of 2012
- ✓ Honoured for customer satisfaction



Competitive mobile network

- ✓ Quality & capacity increase for 3G
- ✓ LTE network roll-out on track



Innovative digital products

- ✓ Innovation and Services as a differentiator
- ✓ Focus on financial services and M2M



Entering into a more challenging environment in 2013

Opportunities in a digital-centric mobile market

Customer communication behaviors are changing ...

- ✓ Increasing demand for smartphones in all customer segments
- ✓ Network quality as an important decision factor besides price
- ✓ Increasing usage of digital services in mobility
- ✓ Right tariff structure (value for money, always online, fit-to-demand data speed)

No step change expected from competition ...

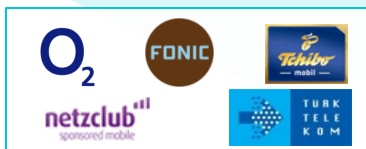
- ✓ Market to remain active and competitive around all-net flat integrated data tariffs
- ✓ LTE marketing shout: monetization through speed-based tariffs (high-end)
- ✓ Rational market: No disruptive new entrants expected
- ✓ Focus from MNOs on network quality and LTE roll-out

Strategic priorities 2013

Leverage existing assets to capture market share

Today

3rd integrated telecoms network operator¹



Strategic priorities 2013

- ✓ Capitalize on **multi-brand portfolio & superior customer satisfaction**, driving additional efficiencies for the business.
- ✓ **Monetize data opportunity** in all segments through innovative products, digital services & LTE
- ✓ Maintain a **competitive 3G** network while delivering **LTE to urban areas**.

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...



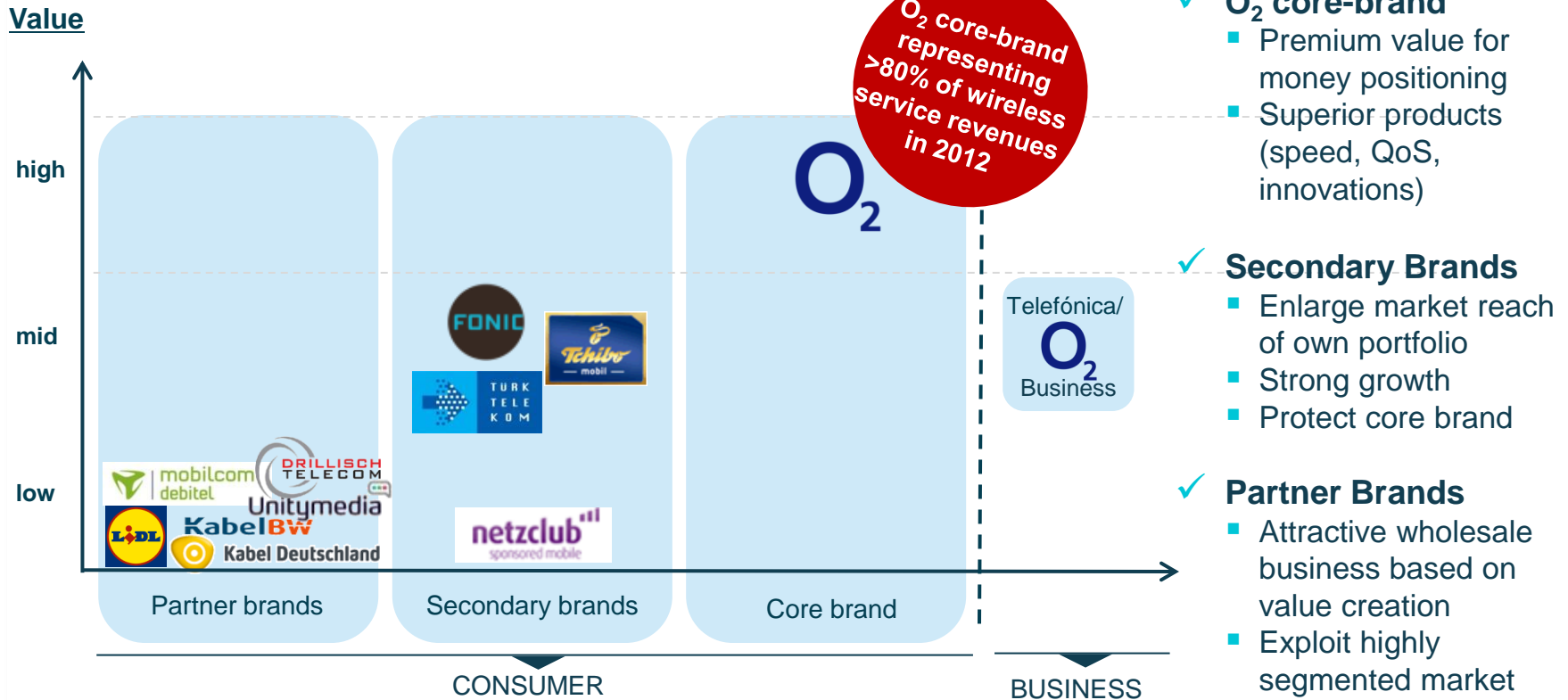
...and surprisingly different where it matters

¹) Based on 2012 revenues

Strong multi-brand portfolio

High market reach & superior customer satisfaction

Mobile brand positioning



Monetize data opportunity: New O₂ Blue offer

First German MNO with a true data-centric portfolio

Innovative portfolio development based on customer insights

2013

O₂ Blue

The NEW O₂ Blue: 1st true data centric portfolio

2010-2012

O₂ Blue

- **Blue 1.0:** 1st integrated tariff in German market
- **Blue 2.0:** data-monetization through differentiation in terms of speed & data

2009

O₂ o &



O, My Handy

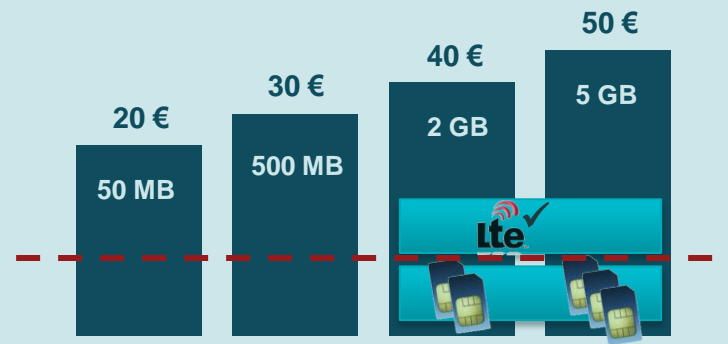
- Voice centric tariff
- Cost airbag
- 1st to separate hardware from tariff
- Transparency & choice



Data & speed as a differentiator



Strong LTE monetization



Unlimited all-net calls & SMS in all tariff options



Monetization of multi-device and flexible contracts

Competitive 3G network plus LTE in urban areas

Ensure stability and quality of existing network and roll-out of LTE alongside with customer demand

LTE as growth opportunity

✓ Differentiation & customer experience, anticipating increasing demand in 2013

- LTE as strong differentiator against non-LTE players and lever for data-monetization through innovative tariff-design
- LTE roll-out creates opportunity for TEF DE to be on par with market leaders in terms of network quality perception while maintaining 3G competitiveness
- Push for attractive LTE-devices with pricing at same level of 3G-devices

✓ Network roll-out status and plans

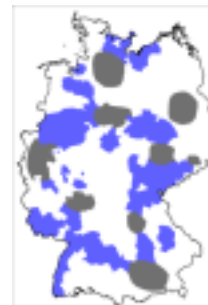


2012



- ✓ 15% population coverage 2012

2013



- ✓ Top German cities covered by mid 2013 based on customer demand

Convergence & fixed strategy

VDSL as a competitive speed product

Integrated offers to increase value

- ✓ Full-speed VDSL access at affordable pricing for existing O₂ customers

€25 to €30¹⁾



Speed Option

&



Kombivorteil

VDSL Contingent Model

Competitive speed product:

- ✓ TEF DE gets access to more than 11 million households with VDSL-offer
- ✓ Competitive downlink speed up to 50 Mbit/s
- ✓ Uplink speed up to 10 Mbit/s

Acquisition of customers with attractive mobile offers



Increase share of customers with fixed broadband propositions



Increased share of wallet of households, reduced churn rates, lower SAC

1) O₂ DSL S/M + Speed Option. Kombivorteil benefit applied only to O₂ DSL M, also subject to contracting O₂ Blue M mobile tariff or higher. Monthly pricing based on full price after promotions (VAT incl.)

02

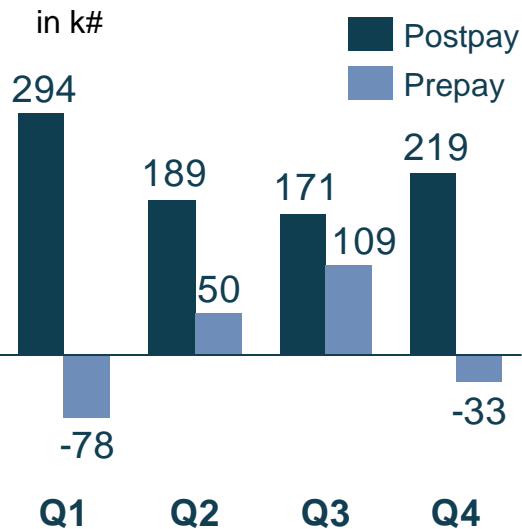
January – December 2012 Financial Performance



Solid, value driven customer growth

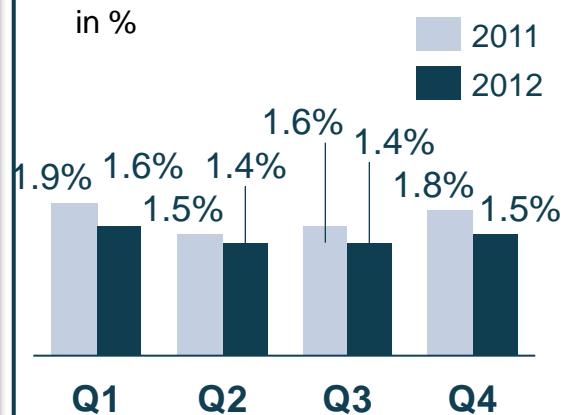
Reaching 10m Postpaid customers

Mobile net adds



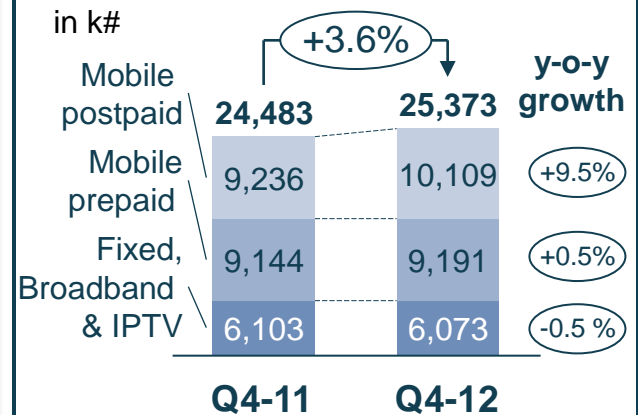
- Strong 219k Postpaid net adds – successful Multi-brand approach and O₂ Blue tariff
- Prepay net adds impacted by seasonal trends and competition

Postpaid churn rate



- Effective Base management and focus on service quality

Total access base



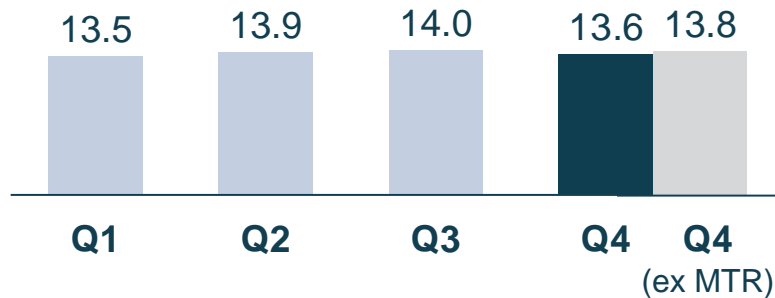
- Postpaid mobile accesses reaching 52% of mobile base
- Stable total fixed customer base

Stable ARPU development over the last quarters

Increasing contribution from non-SMS data

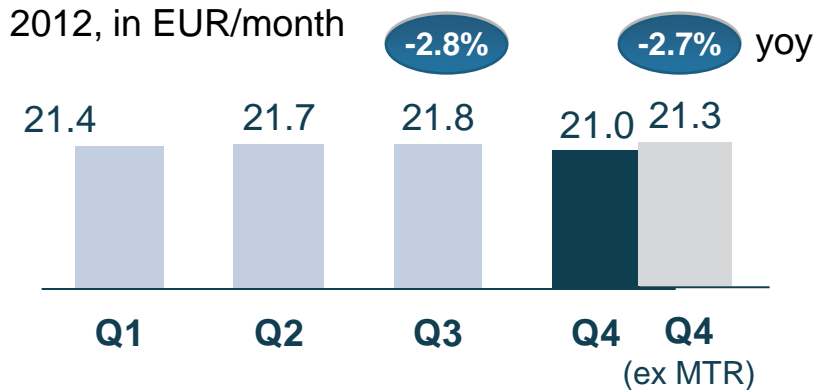
Blended mobile ARPU

2012, in EUR/month



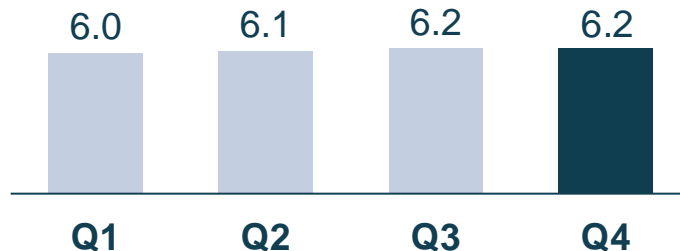
Mobile Postpaid ARPU

2012, in EUR/month



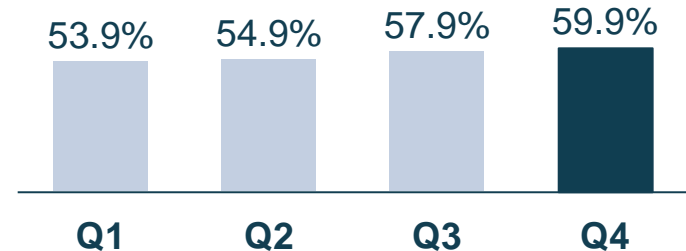
Data ARPU

2012, in EUR/month



% non-SMS over data revenues

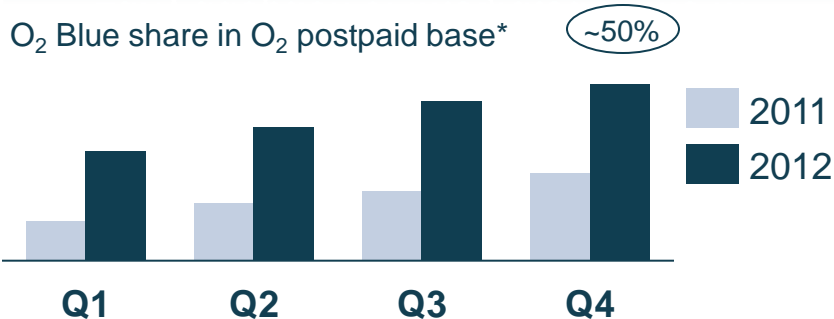
2012, in %



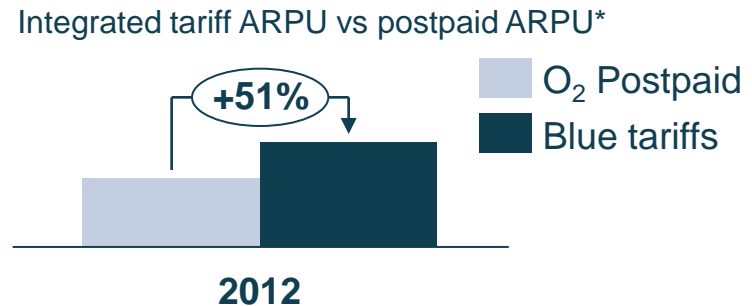
Consistent O₂ postpaid ARPU dynamics

Successful data monetisation through integrated tariff adoption

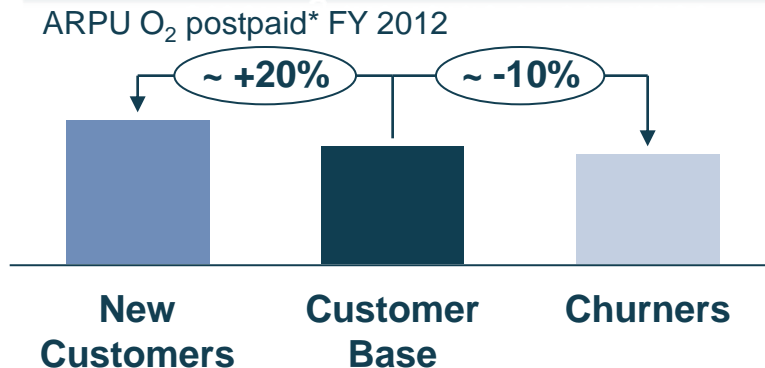
Early adoption of integrated tariffs ...



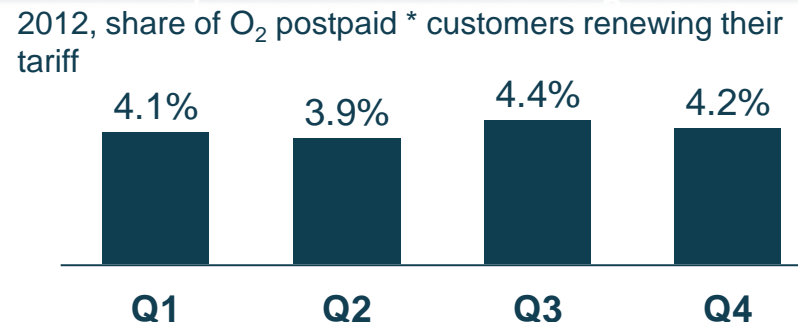
...driving higher value



Steering the value of our base



Stable impact from Customer migrations



* O₂ Consumer Postpaid

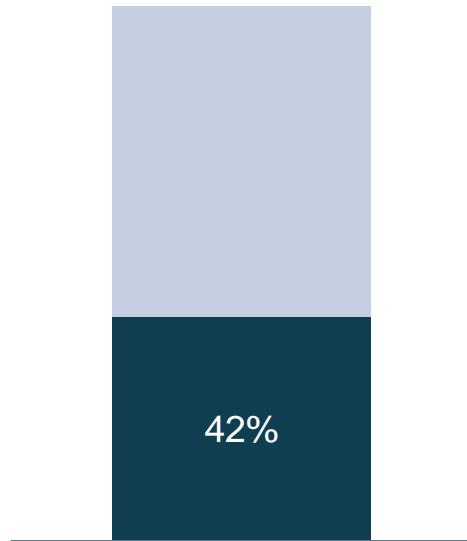
Customer base still offers potential

Data potential in prepaid not fully leveraged yet

Total penetration on CB: 26.4% (+6.3%p)

Smartphone penetration

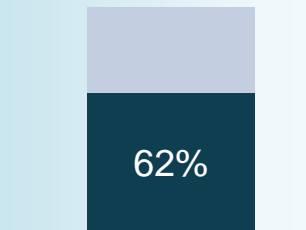
2012 in total O₂ Core brand Customer Base



O₂ Postpaid¹

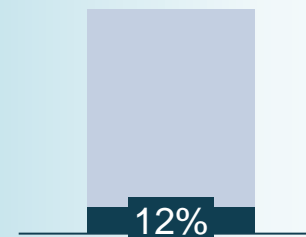
2012, Smartphone penetration

O₂



Prepaid²

2012, Smartphone penetration

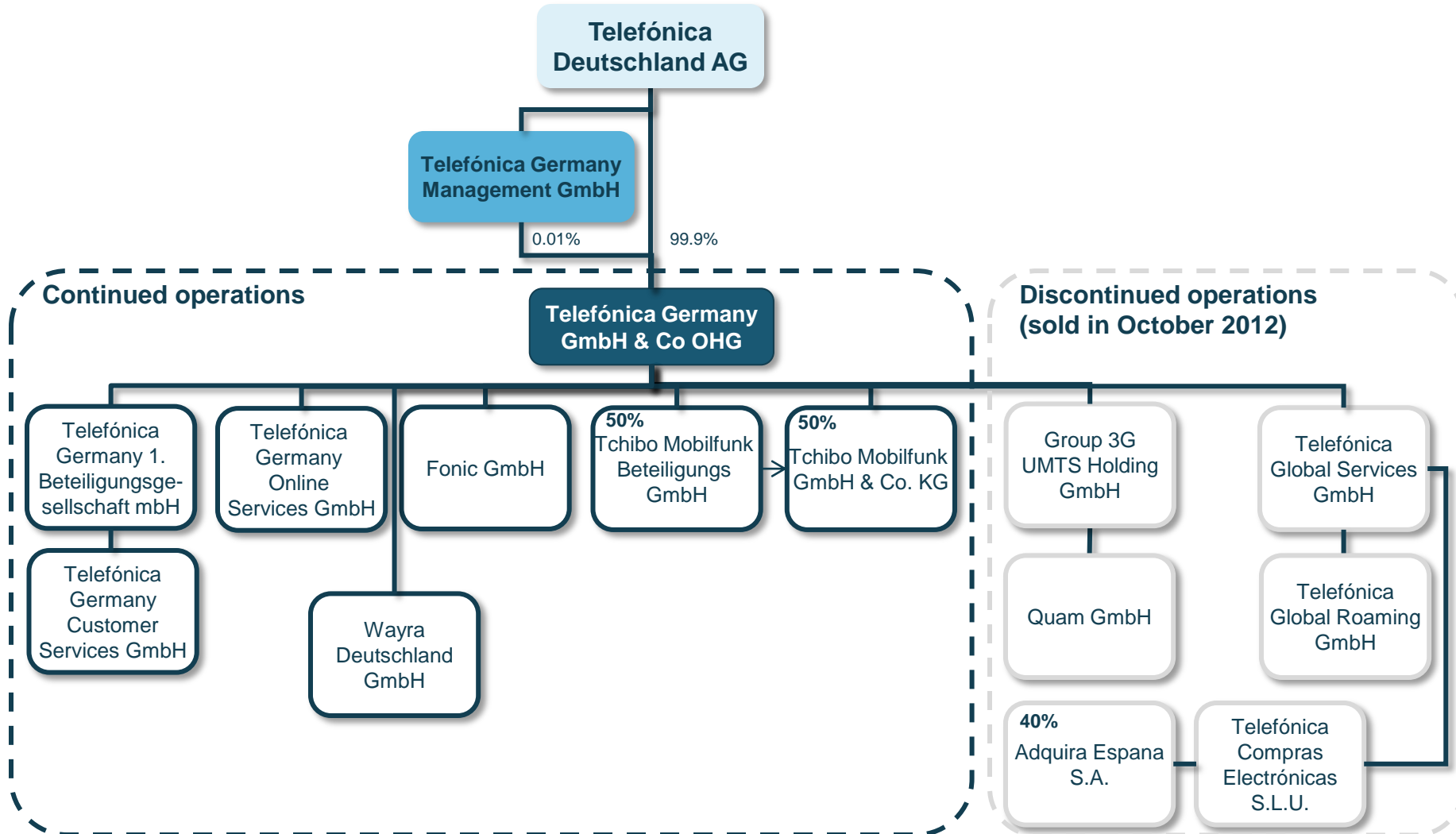


¹ O₂ core brand postpaid only

² O₂ core brand prepaid only

Financial perimeter

Carved-out assets not considered in today's presentation



Key financials overview

Customer growth translating into revenue and OIBDA growth

<i>In EUR million</i>	October- December			January – December		
	Q4 2012	Q4 2011	% y-o-y Δ	FY'12	FY'11	% y-o-y Δ
Revenues	1,342	1,330	0.9	5,213	5,036	3.5
OIBDA	343	316	8.5	1,279	1,149	11.3
<i>OIBDA margin</i>	25.5%	23.8%	1.8 p.p.	24.5%	22.8%	1.7 p.p.
Group fees	(22)	(33)	(32.6)	(72)	(70)	3.0
OIBDA before group fees	365	349	4.6	1,351	1,219	10.8
<i>OIBDA before group fees margin</i>	27.2%	26.2%	1.0 p.p.	25.9%	24.2%	1.7 p.p.
Capex	157	185	(15.4)	609	558	9.2
Free Cash Flow¹⁾ pre dividends from continuing operations	128	524	(76.0)	676	697	(3.0)

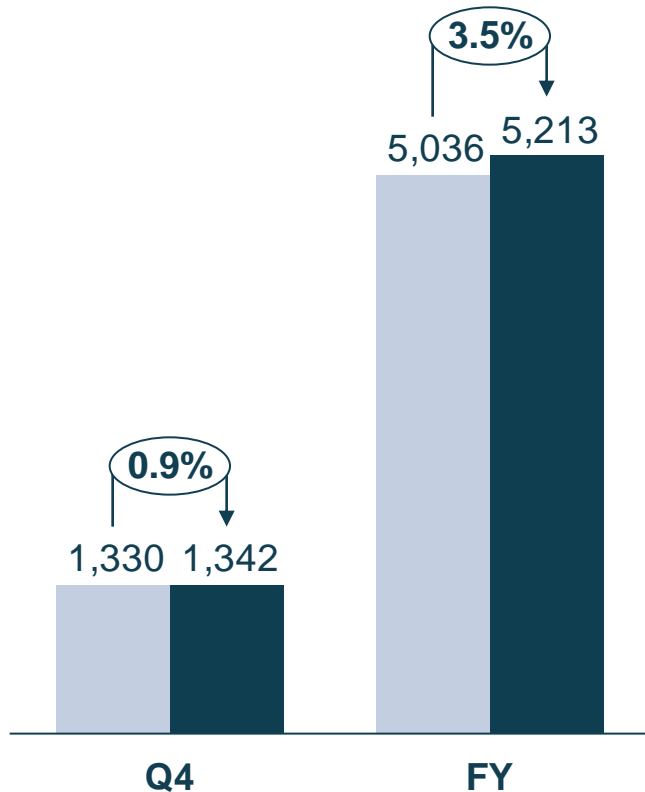
¹⁾ Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes. Adjustment of a rounding inaccuracy (EUR 1.8m) was made after release of preliminary results leading to a slightly higher Free Cash Flow pre dividends from continuing operations.

Total revenue up by 3.5%

Data driven performance

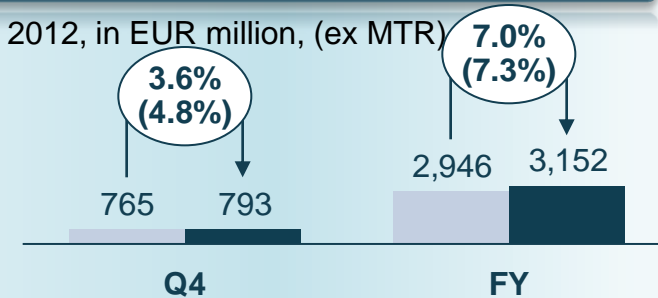
Total revenue

2012, in EUR million



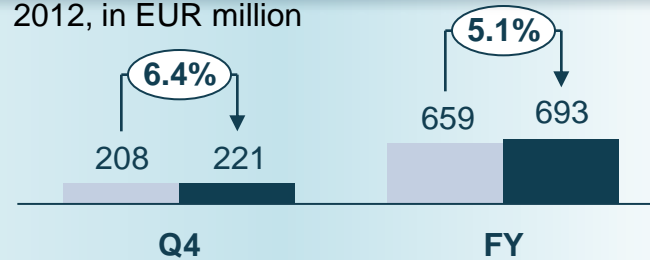
Wireless service revenue

2012, in EUR million, (ex MTR)



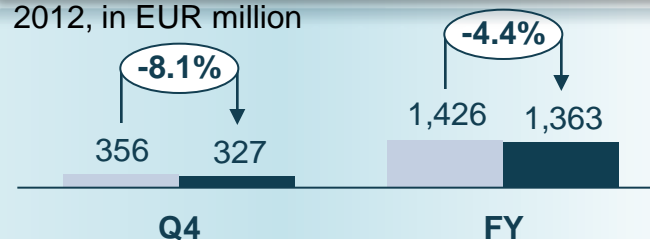
Handset revenue

2012, in EUR million



Wireline revenue

2012, in EUR million



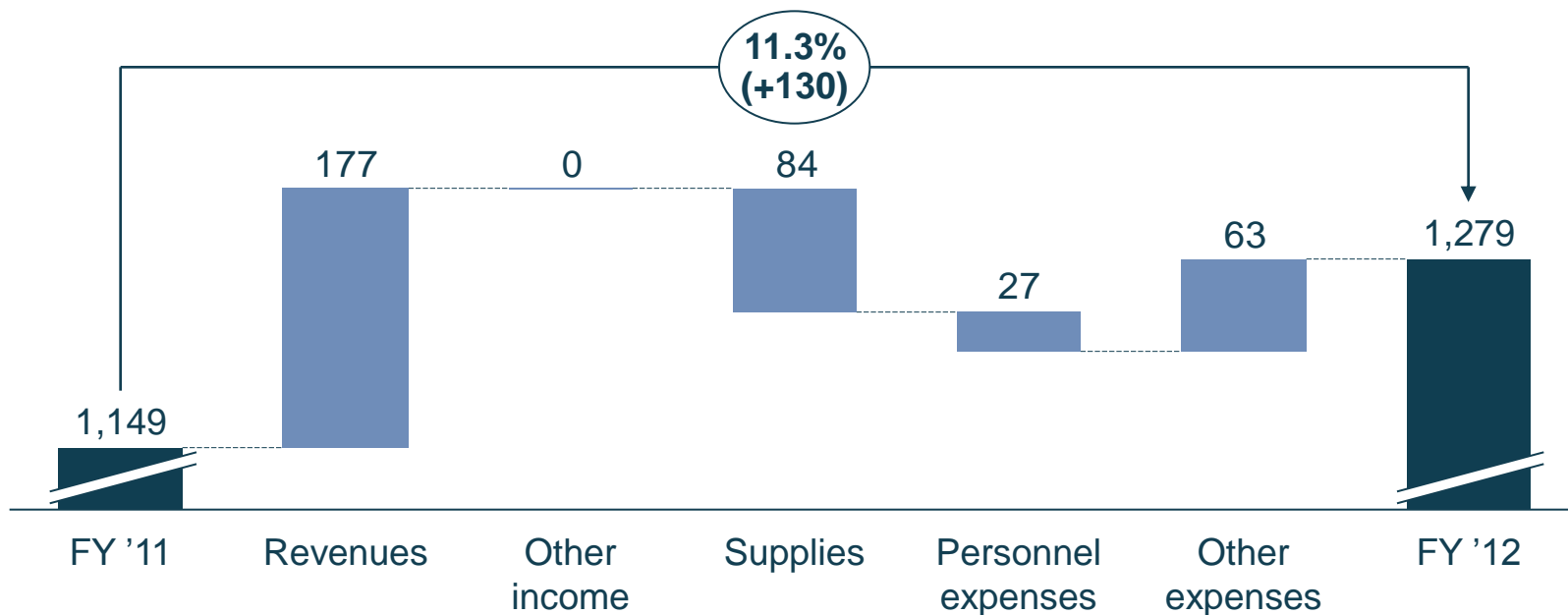
2011
2012

Strong OIBDA increase by 11.3%

Uptake driven by revenue growth and efficiency gains

OIBDA (post group fees)

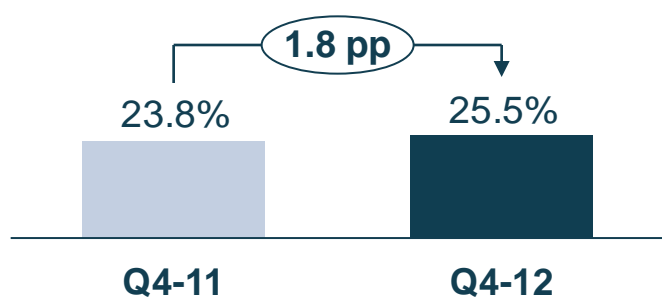
in EUR million, (% changes y-o-y)



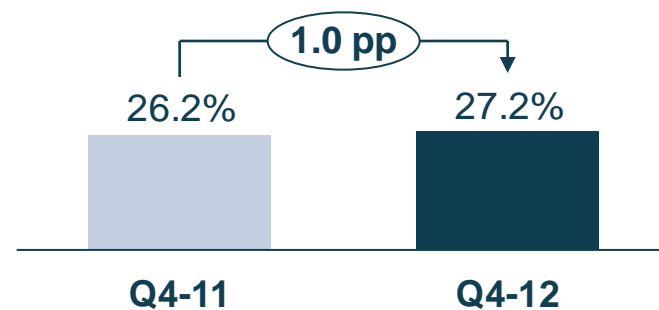
Group fees and margin development

Strong margin improvement

OIBDA margin

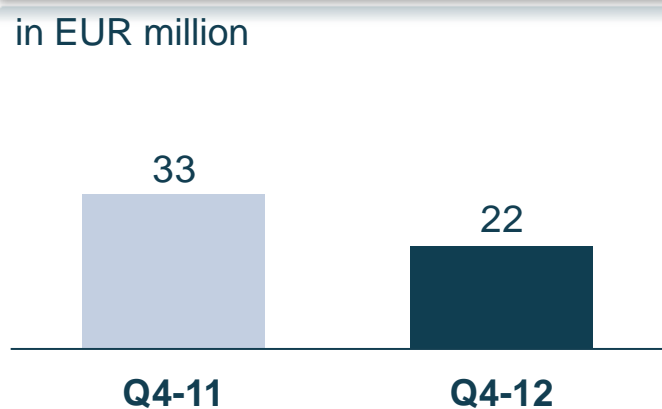


OIBDA before group fees margin

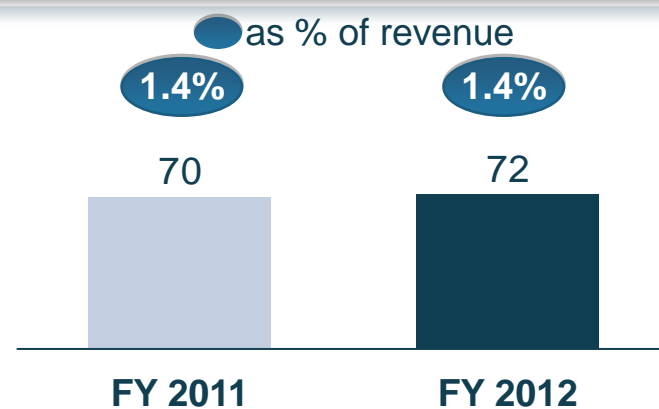


Group fees

in EUR million

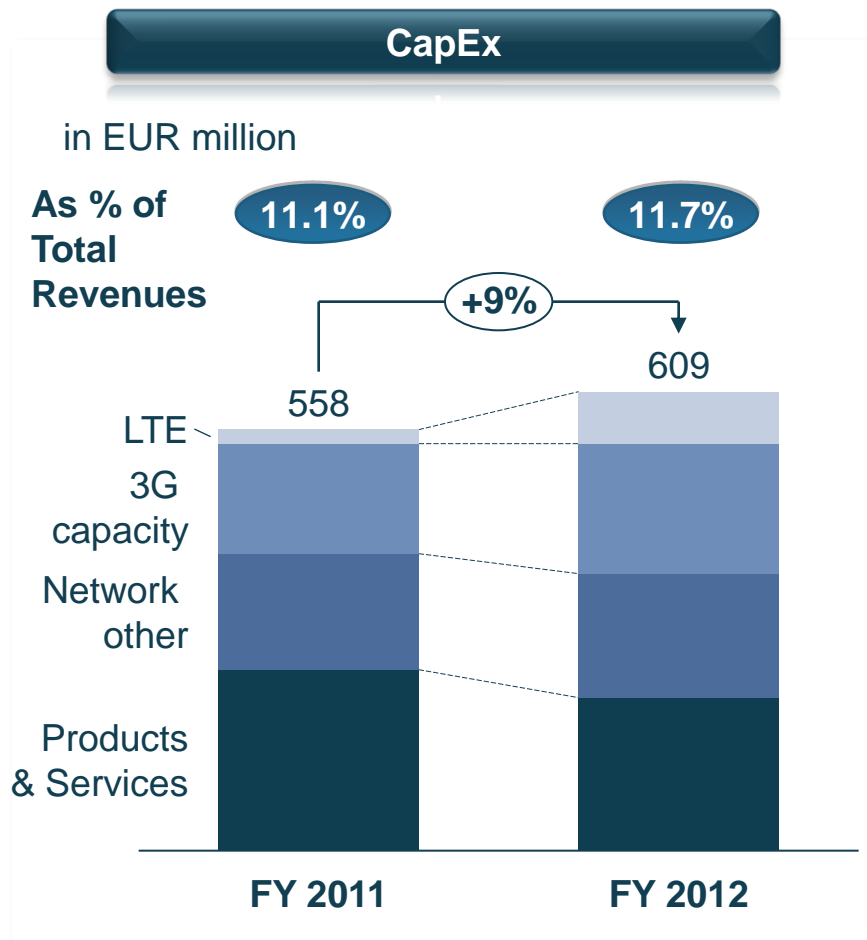


as % of revenue



Balancing 3G and LTE investments

Successful management of network quality



- Accelerated deployment of LTE network and increased capacity of 3G network

- Increased network quality yoy



- #2 in Voice
- #3 Overall

- CapEx spends in Q4 €157m - decline of 15.4% due to different phasing of investments

Free cash flow development

Stable cash flow yoy

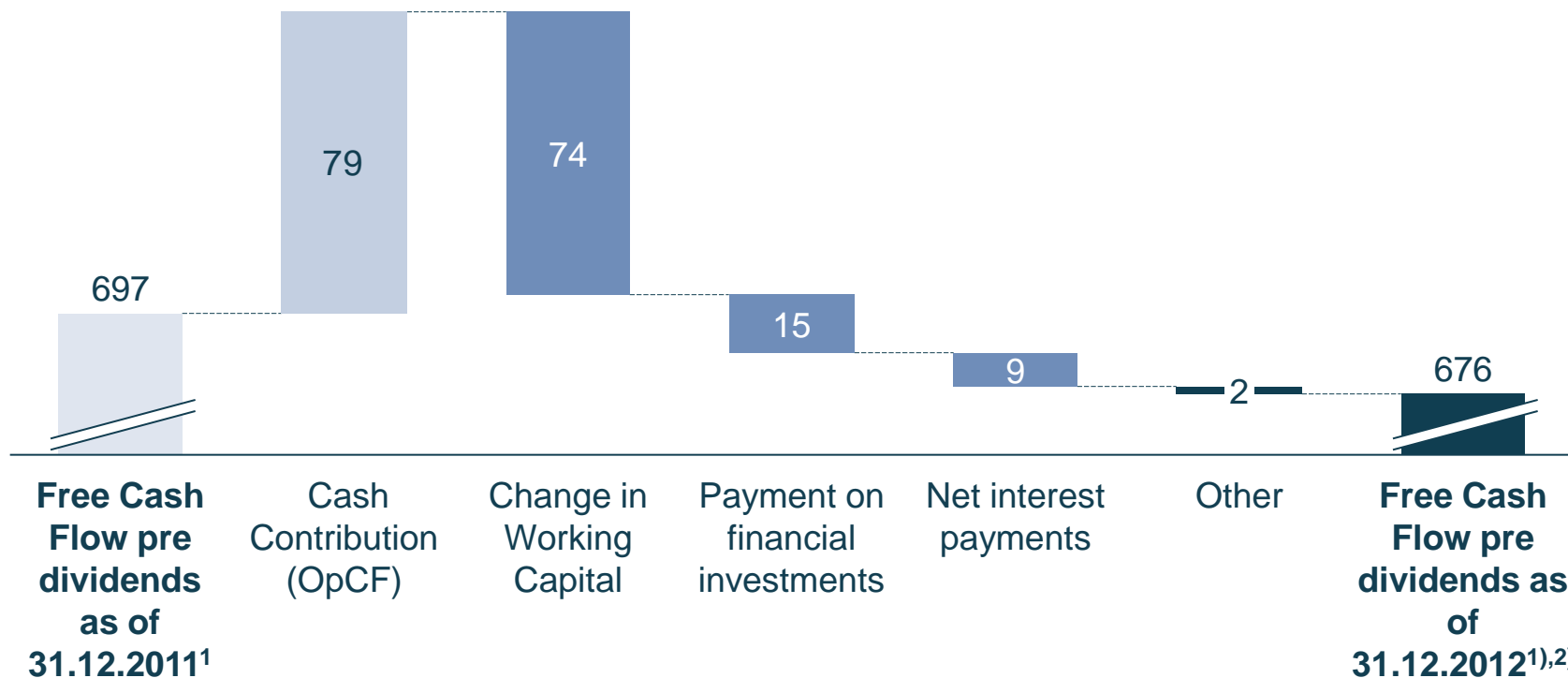
Free cash flow

in EUR million

FitchRatings **BBB**

Leverage **-3.6x**

0.7x



²⁾ Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes. Adjustment of a rounding inaccuracy (EUR 1.8m) was made after release of preliminary results leading to a slightly higher Free Cash Flow pre dividends from continuing operations.

¹⁾ from continuing operations

Outlook 2013

**Wireless
Service
Revenue**

We aim to outperform the German wireless market and increase wireless service revenue market share.

**OIBDA
margin**

We aim to sustain past improvements on the back of scale effects and efficiencies.

CapEx

Key year for LTE network roll-out. We expect total CapEx to stay below €680m.

**Target
Leverage**

Below 1.0x¹ in the medium term

**Dividend
policy**

Proposal for 2012 (payable in 2013): Cash dividend of ca. €500m. The Company intends to increase dividends in future years²

¹ Leverage ratio defined as Net Financial Debt divided by last twelve month OIBDA excluding non-recurring factors.

² The Company will refrain from paying dividends, distributing capital or capital reserves in cash or buying back shares, if the ratio of Net Financial Debt/OIBDA materially and consistently exceeds the Target Leverage (1.0x) and will restrict the use of new debt to pay dividends, allowing it only if the ratio of Net Financial Debt/OIBDA complies with the Target Leverage.

03

Q&A



Q&A

Telefónica Deutschland Q4 results conference call



For further questions please contact IR department

Investor Relations



Víctor Garcia-Aranda

Email: ir-deutschland@telefonica.com

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