Telefónica Deutschland

Full year results
January - December 2012
Disclaimer

The financial information contained in this document (in general prepared under International Financial Reporting Standards (IFRS)) contains in respect of the results for the financial year 2012 only preliminary numbers. The financial information and opinions contained in this document are unaudited and are subject to change without notice.

None of the company, its subsidiaries or affiliates or by any of its officers, directors, employees, advisors, representatives or agents shall be liable whatsoever for any loss however arising, directly or indirectly, from any use of this document its content or otherwise arising in connection with this document.

This document contains statements that constitute forward-looking statements and expectations about Telefónica Deutschland Holding AG (in the following “the Company” or “Telefónica Deutschland”) that reflect the current views and assumptions of Telefónica Deutschland’s management with respect to future events, including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations which may refer, among others, to the intent, belief or current prospects of the customer base, estimates regarding, among others, future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. Forward-looking statements are based on current plans, estimates and projections. The forward-looking statements in this document can be identified, in some instances, by the use of words such as “expects”, “anticipates”, “intends”, “believes”, and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions. Such forward-looking statements, by their nature, are not guarantees of future performance and are subject to risks and uncertainties, most of which are difficult to predict and generally beyond Telefónica Deutschland’s control, and other important factors that could cause actual developments or results to materially differ from those expressed in or implied by the Company’s forward-looking statements. These risks and uncertainties include those discussed or identified in fuller disclosure documents filed by Telefónica Deutschland with the relevant Securities Markets Regulators, and in particular, with the German Market Regulator (Bundesananstalt für Finanzdienstleistungsaufsicht – BaFin). The Company can offer no assurance that its expectations or targets will be achieved.

Analysts and investors, and any other person or entity that may need to take decisions, or prepare or release opinions about the shares / securities issued by the Company, are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this document, and shall take into account that the numbers published are only preliminary. Past performance cannot be relied upon as a guide to future performance.

Except as required by applicable law, Telefónica Deutschland undertakes no obligation to release publicly the results of any revisions to these forward-looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica Deutschland’s business or acquisition strategy or to reflect the occurrence of unanticipated events.

This document contains summarized information or information that has not been audited. In this sense, this information is subject to, and must be read in conjunction with, all other publicly available information, including if it is necessary, any fuller disclosure document published by Telefónica Deutschland.

Finally, it is stated that neither this presentation nor any of the information contained herein constitutes an offer of purchase, subscribe, sale or exchange, nor a request for an offer of purchase, subscription, sale or exchange of shares / securities of the Company, or any advice or recommendation with respect to such shares / securities. This document or a part of it shall not form the basis of or relied upon in connection with any contract or commitment whatsoever.

These written materials are especially not an offer of securities for sale in the United States, Canada, Australia, South Africa and Japan. Securities may not be offered or sold in the United States absent registration under the US Securities Act of 1933, as amended, or an exemption therefrom. The issuer or selling security holder has not and does not intend to register any securities under the US Securities Act of 1933, as amended, and does not intend to offer any securities in the United States. No money, securities or other consideration from any person inside the United States is being solicited and, if sent in response to the information contained in these written materials, will not be accepted.
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

**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 operator

---

- **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

Value

- high
- mid
- low

Partner brands • Secondary brands • Core brand

O₂ core-brand
- Premium value for money positioning
- Superior products (speed, QoS, innovations)

O₂ Business

Telefónica/

Secondary Brands
- Enlarge market reach of own portfolio
- Strong growth
- Protect core brand

Partner Brands
- Attractive wholesale business based on value creation
- Exploit highly segmented market

O₂ core-brand representing >80% of wireless service revenues in 2012
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 0

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

2013

- **Data & speed as a differentiator**
- **Strong LTE monetization**

<table>
<thead>
<tr>
<th>Tariff Option</th>
<th>Data Limit</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 €</td>
<td>50 MB</td>
<td></td>
</tr>
<tr>
<td>30 €</td>
<td>500 MB</td>
<td></td>
</tr>
<tr>
<td>40 €</td>
<td>2 GB</td>
<td></td>
</tr>
<tr>
<td>50 €</td>
<td>5 GB</td>
<td></td>
</tr>
</tbody>
</table>

- 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
VDSSL as a competitive speed product

---

**Integrated offers to increase value**

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

**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.)
January – December 2012
Financial Performance
Solid, value driven customer growth
Reaching 10m Postpaid customers

**Mobile net adds**
in k#

<table>
<thead>
<tr>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>294</td>
<td>189</td>
<td>171</td>
<td>219</td>
</tr>
<tr>
<td>-78</td>
<td>50</td>
<td>109</td>
<td>-33</td>
</tr>
</tbody>
</table>

- 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**
in %

<table>
<thead>
<tr>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.9%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>1.8%</td>
</tr>
<tr>
<td>1.5%</td>
<td>1.5%</td>
<td>1.8%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

- Effective Base management and focus on service quality

**Total access base**
in k#

<table>
<thead>
<tr>
<th>Mobile postpaid</th>
<th>Mobile prepaid</th>
<th>Fixed, Broadband &amp; IPTV</th>
</tr>
</thead>
<tbody>
<tr>
<td>24,483</td>
<td>9,236</td>
<td>6,103</td>
</tr>
<tr>
<td>25,373</td>
<td>10,109</td>
<td>6,073</td>
</tr>
</tbody>
</table>

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

---

Q4-11  | Q4-12
---|---
+3.6% | y-o-y growth
+9.5% | +0.5% | -0.5%
Stable ARPU development over the last quarters
Increasing contribution from non-SMS data

**Blended mobile ARPU**
2012, in EUR/month

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4 (ex MTR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>13.5</td>
<td>13.9</td>
<td>14.0</td>
<td>13.6</td>
</tr>
</tbody>
</table>

**Mobile Postpaid ARPU**
2012, in EUR/month

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4 (ex MTR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>21.4</td>
<td>21.7</td>
<td>21.8</td>
<td>21.0</td>
</tr>
</tbody>
</table>

**Data ARPU**
2012, in EUR/month

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>6.0</td>
<td>6.1</td>
<td>6.2</td>
<td>6.2</td>
</tr>
</tbody>
</table>

**% non-SMS over data revenues**
2012, in %

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>53.9%</td>
<td>54.9%</td>
<td>57.9%</td>
<td>59.9%</td>
</tr>
</tbody>
</table>
Consistent O₂ postpaid ARPU dynamics

Successful data monetisation through integrated tariff adoption

Early adoption of integrated tariffs …

O₂ Blue share in O₂ postpaid base* ~50%

Q1  Q2  Q3  Q4

Q1  Q2  Q3  Q4

…driving higher value

Integrated tariff ARPU vs postpaid ARPU*

O₂ Postpaid
Blue tariffs

~ +51%

2012

2011

2012

2011

Steering the value of our base

ARPU O₂ postpaid* FY 2012

~ +20%

~ -10%

New Customers  Customer Base  Churners

Stable impact from Customer migrations

2012, share of O₂ postpaid * customers renewing their tariff

Q1  Q2  Q3  Q4

4.1%  3.9%  4.4%  4.2%

O₂ Consumer Postpaid

* O₂ Consumer Postpaid
Customer base still offers potential

Data potential in prepaid not fully leveraged yet

**Smartphone penetration**
2012 in total O₂ Core brand Customer Base

- **O₂ Postpaid¹**
  2012, Smartphone penetration
  - O₂: 62%

- **Prepaid²**
  2012, Smartphone penetration
  - 12%

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

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

<table>
<thead>
<tr>
<th>In EUR million</th>
<th>October- December</th>
<th>January – December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q4 2012</td>
<td>Q4 2011</td>
</tr>
<tr>
<td>Revenues</td>
<td>1,342</td>
<td>1,330</td>
</tr>
<tr>
<td>OIBDA</td>
<td>343</td>
<td>316</td>
</tr>
<tr>
<td>OIBDA margin</td>
<td>25.5%</td>
<td>23.8%</td>
</tr>
<tr>
<td>Group fees</td>
<td>(22)</td>
<td>(33)</td>
</tr>
<tr>
<td>OIBDA before group fees</td>
<td>365</td>
<td>349</td>
</tr>
<tr>
<td>OIBDA before group fees margin</td>
<td>27.2%</td>
<td>26.2%</td>
</tr>
<tr>
<td>Capex</td>
<td>157</td>
<td>185</td>
</tr>
<tr>
<td>Free Cash Flow\textsuperscript{1)}</td>
<td>128</td>
<td>524</td>
</tr>
</tbody>
</table>

\textsuperscript{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

<table>
<thead>
<tr>
<th></th>
<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>5,036</td>
<td>5,213</td>
</tr>
<tr>
<td>2011</td>
<td>1,330</td>
<td>1,342</td>
</tr>
</tbody>
</table>

**Wireless service revenue**

2012, in EUR million, (ex MTR)

<table>
<thead>
<tr>
<th></th>
<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>765</td>
<td>2,946</td>
</tr>
<tr>
<td>2011</td>
<td>793</td>
<td>3,152</td>
</tr>
</tbody>
</table>

FY 2012 Q4: 3.6% (4.8%)
FY 2012: 7.0% (7.3%)

**Handset revenue**

2012, in EUR million

<table>
<thead>
<tr>
<th></th>
<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>208</td>
<td>659</td>
</tr>
<tr>
<td>2011</td>
<td>221</td>
<td>693</td>
</tr>
</tbody>
</table>

FY 2012 Q4: 6.4%
FY 2012: 5.1%

**Wireline revenue**

2012, in EUR million

<table>
<thead>
<tr>
<th></th>
<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>356</td>
<td>1,426</td>
</tr>
<tr>
<td>2011</td>
<td>327</td>
<td>1,363</td>
</tr>
</tbody>
</table>

FY 2012 Q4: -8.1%
FY 2012: -4.4%
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)

- **FY '11**
  - Revenues: 177
  - Other income: 0
  - Supplies: 84

- **FY '12**
  - Personnel expenses: 27
  - Other expenses: 63
  - Total: 1,279

Revenues FY '11: 1,149
Revenues FY '12: 1,279

Increase: 11.3% (+130 million)
Group fees and margin development

Strong margin improvement

OIBDA margin

- Q4-11: 23.8%
- Q4-12: 25.5%
  - Change: 1.8 pp

OIBDA before group fees margin

- Q4-11: 26.2%
- Q4-12: 27.2%
  - Change: 1.0 pp

Group fees

- Q4-11: 33 EUR million
- Q4-12: 22 EUR million
  - As % of revenue: 1.4%

- FY 2011: 70 EUR million
- FY 2012: 72 EUR million
  - As % of revenue: 1.4%

FY 2012
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

Leverage  
-3.6x  0.7x

Free Cash Flow pre dividends as of 31.12.2011¹

Cash Contribution (OpCF)  79
Change in Working Capital  74
Payment on financial investments  15
Net interest payments  9
Other  2

Free Cash Flow pre dividends as of 31.12.2012¹,²

697  74  15  9  2  676

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

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

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

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

Below 1.0x\(^1\) in the medium term

Proposal for 2012 (payable in 2013): Cash dividend of ca. €500m. The Company intends to increase dividends in future years\(^2\)

---

\(^1\) 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.
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

www.telefonica.de/investor-relations