Telefónica Deutschland

Full year results
January - December 2012

Telefónica
Deutschland

Telefónica Deutschland Holding AG
27th February 2013

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Telefónica Deutschland 2012 results presentation

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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 O_2 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

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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[1]

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

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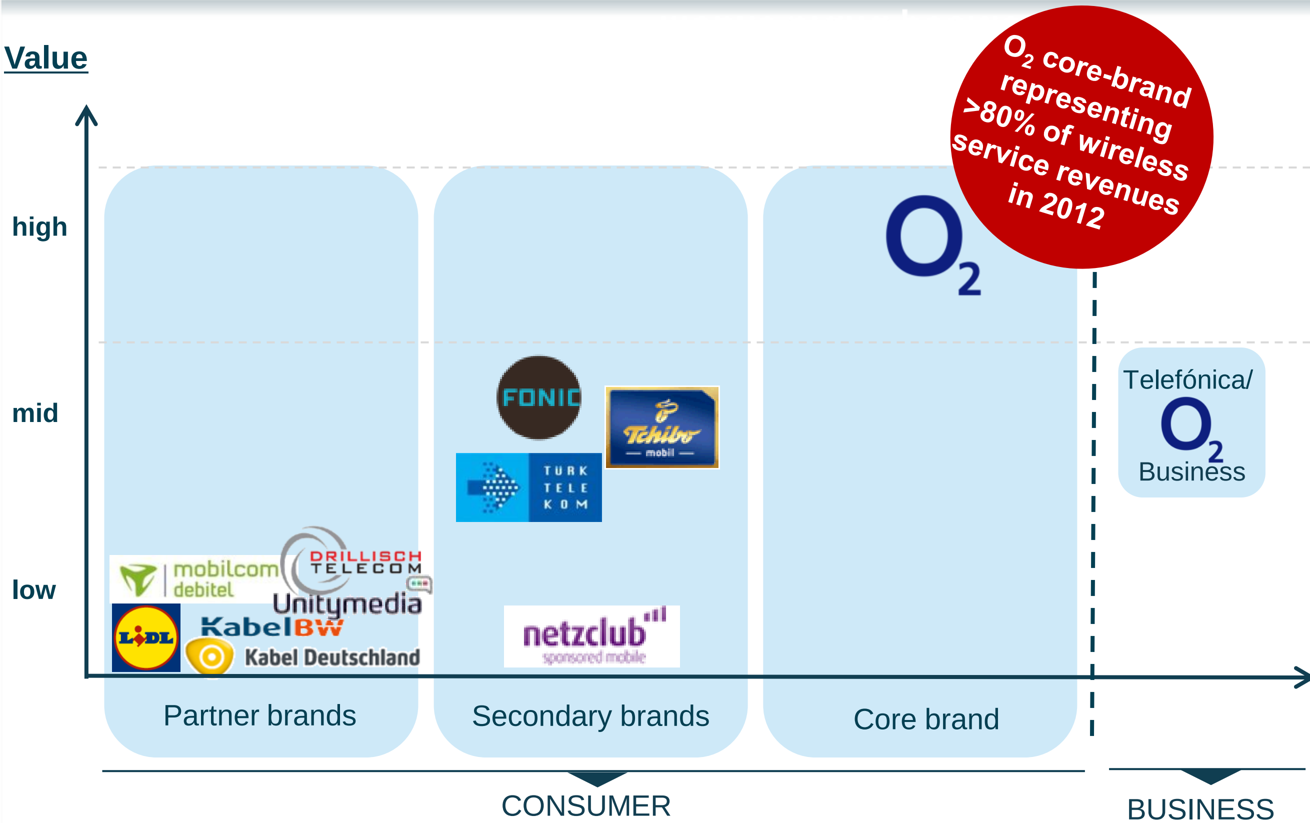
Strong multi-brand portfolio

High market reach & superior customer satisfaction

Mobile brand positioning



✓ **O_2 core-brand**
- Premium value for money positioning
- Superior products (speed, QoS, innovations)

✓ **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

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Monetize data opportunity: New O_2 Blue offer

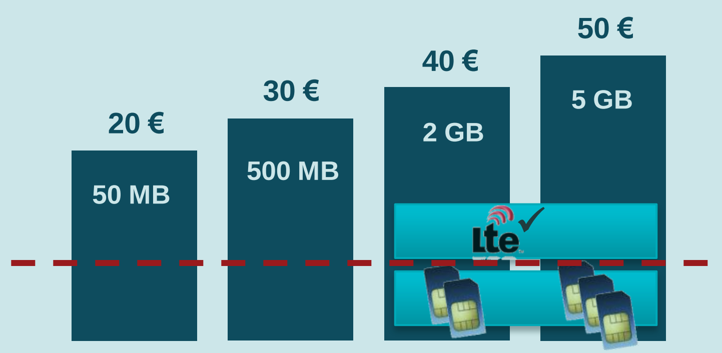
First German MNO with a true data-centric portfolio

Innovative portfolio development based on customer insights

2013 O_2 Blue **The NEW O_2 Blue:** 1st true data centric portfolio

Data & speed as a differentiator

Strong LTE monetization



Unlimited all-net calls & SMS in all tariff options

Monetization of multi-device and flexible contracts

2010-2012 O_2 Blue

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

2009 O_2 o & O_2 My Handy

- Voice centric tariff
- Cost airbag

- 1st to separate hardware from tariff
- Transparency & choice

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Competitive 3G network plus LTE in urban areas

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

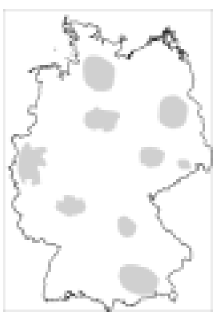
LTE as growth opportunity

✓ **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

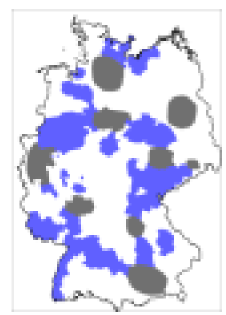
✓ **Network roll-out status and plans**

2012



✓ 15% population coverage 2012

2013



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

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Convergence & fixed strategy

VDSL as a competitive speed product

Integrated offers to increase value

- ✓ Full-speed VDSL access at affordable pricing for existing O_2 customers

€25 to €30[1)]

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) O_2 DSL S/M + Speed Option. Kombivorteil benefit applied only to O_2 DSL M, also subject to contracting O_2 Blue M mobile tariff or higher.
Monthly pricing based on full price after promotions (VAT incl.)

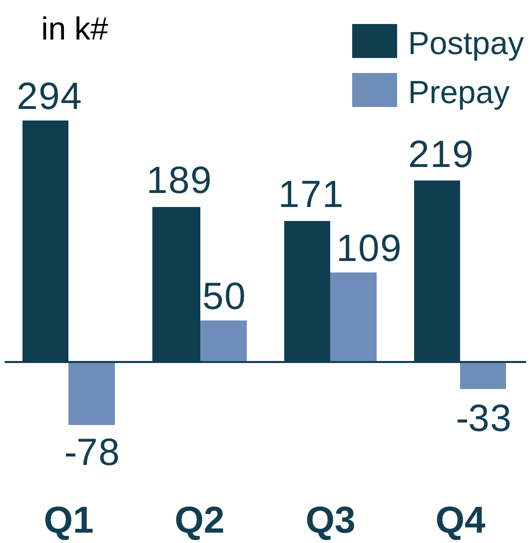
02

January – December 2012 Financial Performance

Solid, value driven customer growth

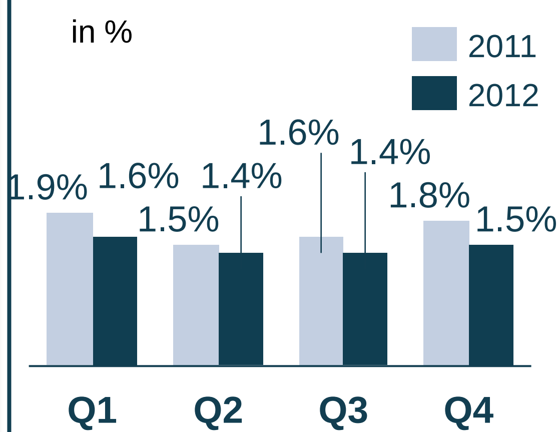
Reaching 10m Postpaid customers

Mobile net adds



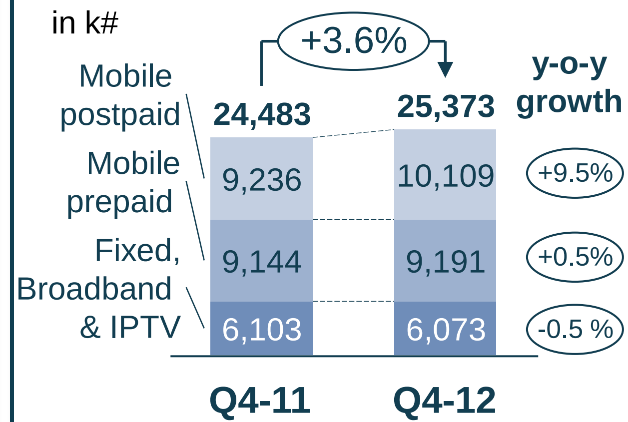
- Strong 219k Postpaid net adds – successful Multi-brand approach and O_2 Blue tariff
- Prepay net adds impacted by seasonal trends and competition

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

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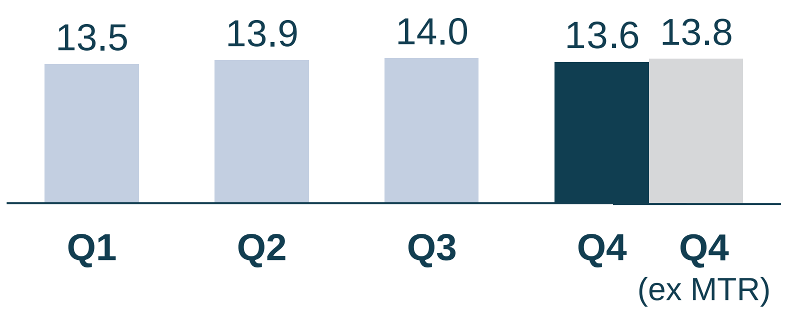
Stable ARPU development over the last quarters

Increasing contribution from non-SMS data

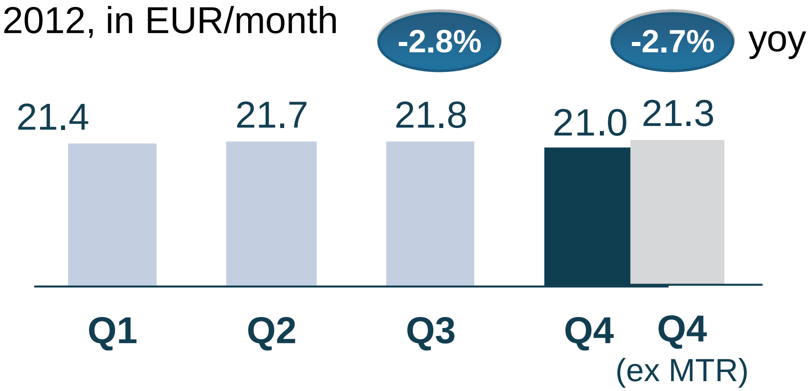
Blended mobile ARPU

2012, in EUR/month



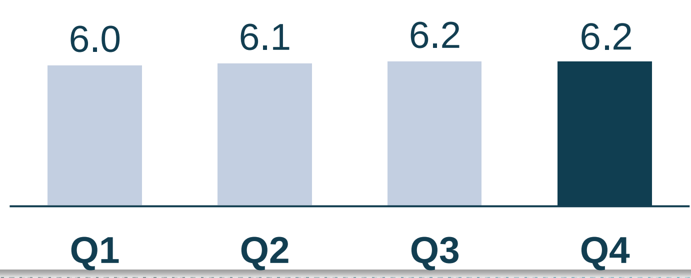
Mobile Postpaid ARPU

2012, in EUR/month



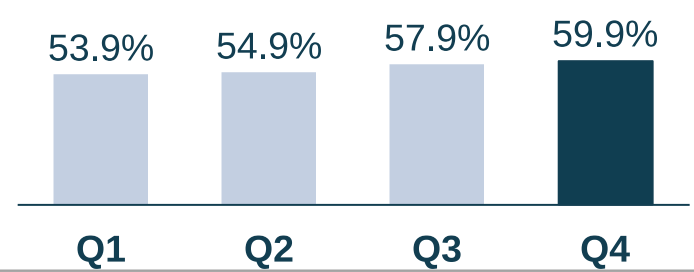
Data ARPU

2012, in EUR/month



% non-SMS over data revenues

2012, in %



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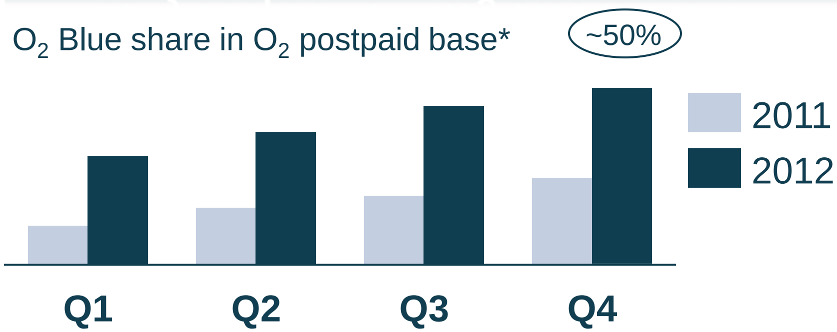
Consistent O_2 postpaid ARPU dynamics

Successful data monetisation through integrated tariff adoption

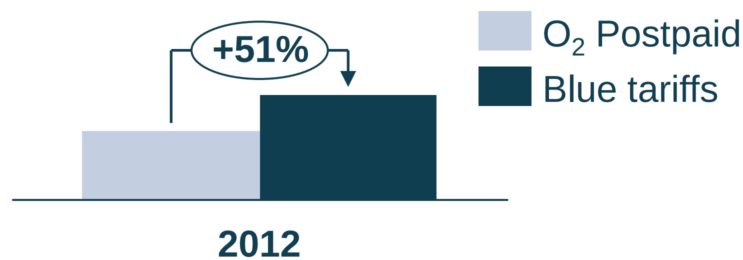
Early adoption of integrated tariffs …

O_2 Blue share in O_2 postpaid base*



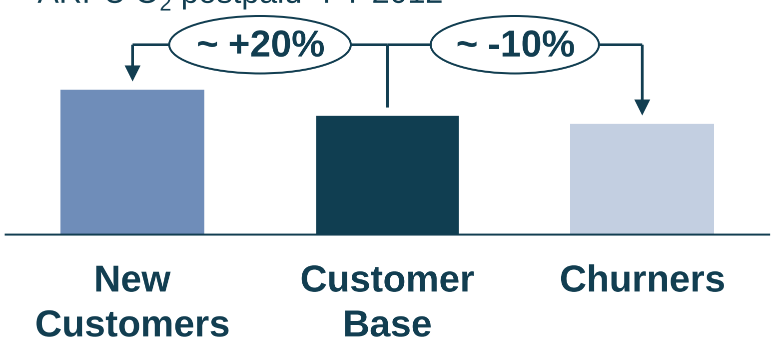
…driving higher value

Integrated tariff ARPU vs postpaid ARPU*



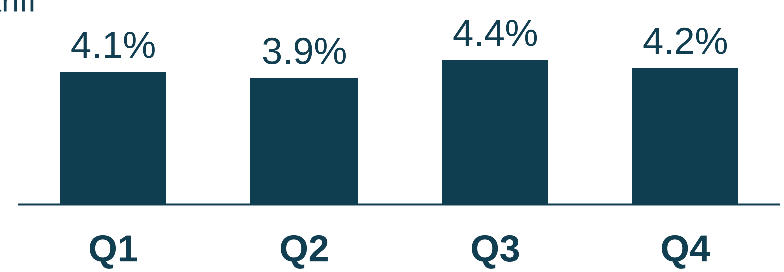
Steering the value of our base

ARPU O_2 postpaid* FY 2012



Stable impact from Customer migrations

2012, share of O_2 postpaid * customers renewing their tariff



* O_2 Consumer Postpaid

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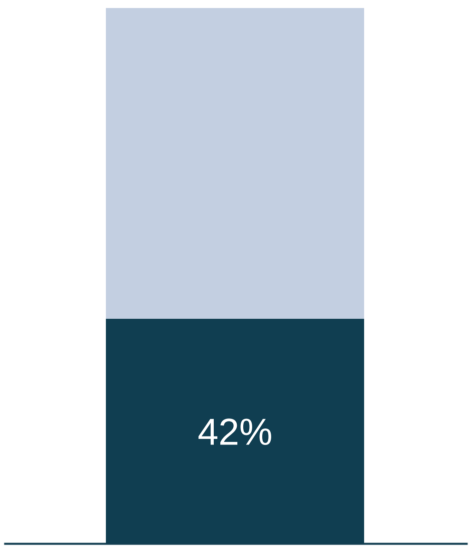
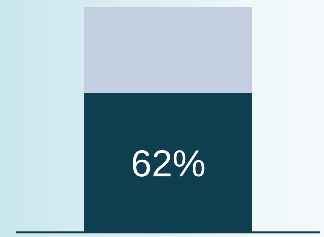
Customer base still offers potential

Data potential in prepaid not fully leveraged yet

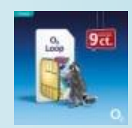
Smartphone penetration
2012 in total O_2 Core brand Customer Base

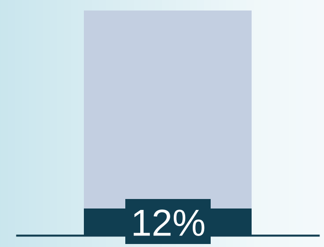


O_2 Postpaid[1]
2012, Smartphone penetration



Prepaid[2]
2012, Smartphone penetration



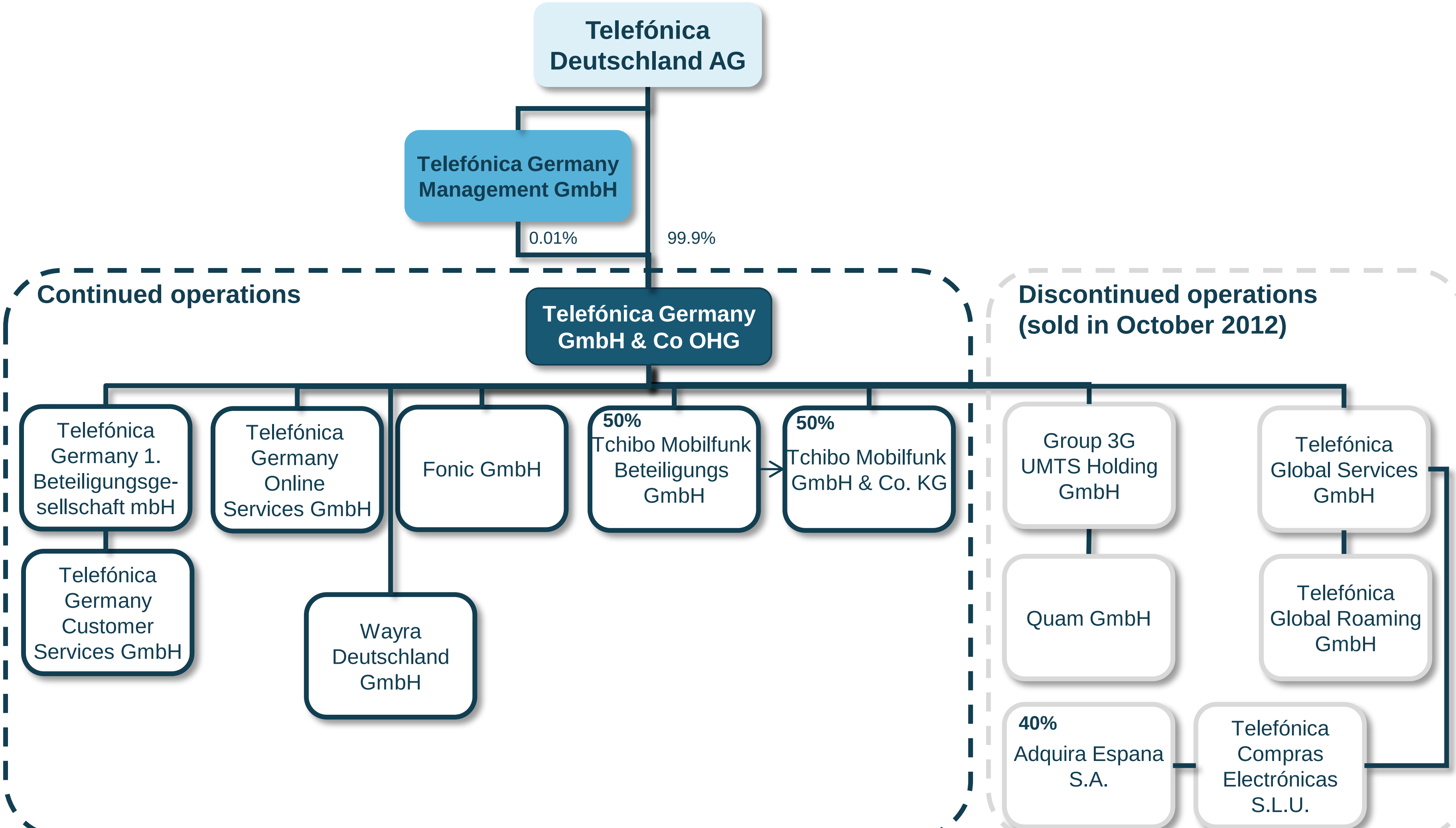


Total penetration on CB: 26.4% (+6.3%p)

[1] O_2 core brand postpaid only
[2] O_2 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

In EUR million	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
OIBDA margin	*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
OIBDA before group fees margin	*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 Flow[1)] 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.

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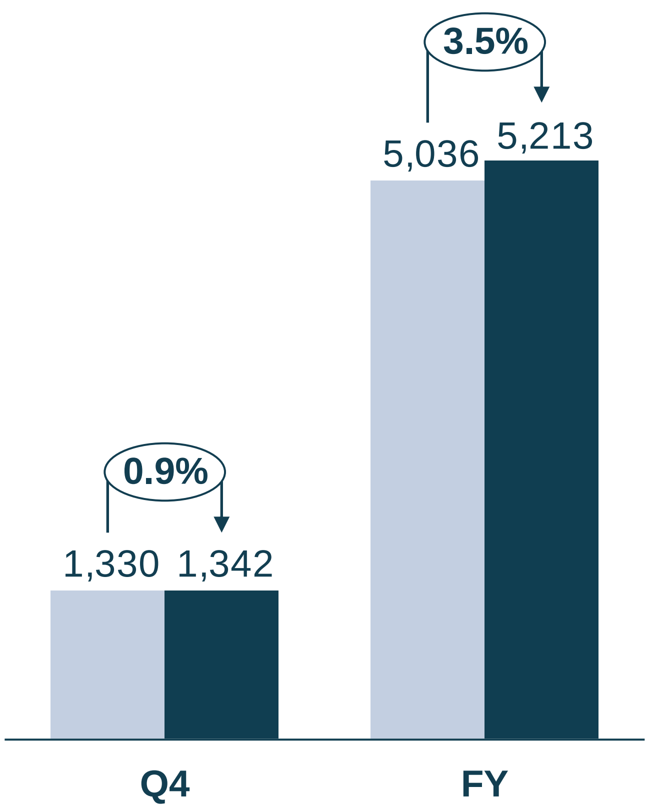
Total revenue up by 3.5%

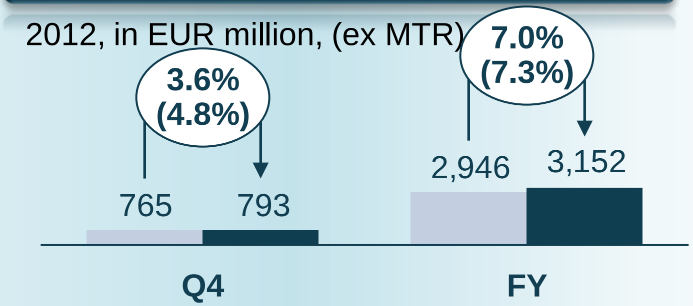
Data driven performance

Total revenue

2012, in EUR million

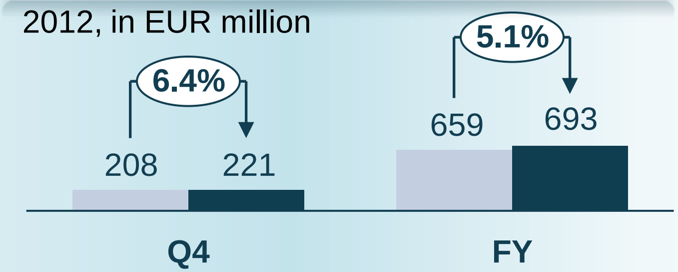


Wireless service revenue



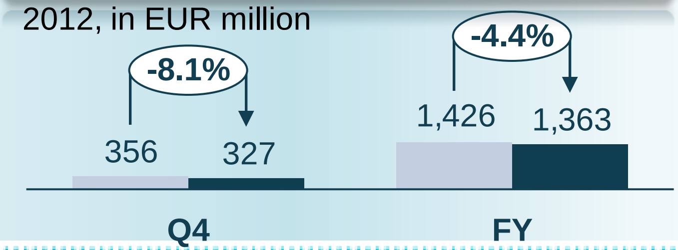
Handset revenue

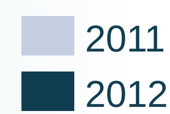
2012, in EUR million



Wireline revenue

2012, in EUR million



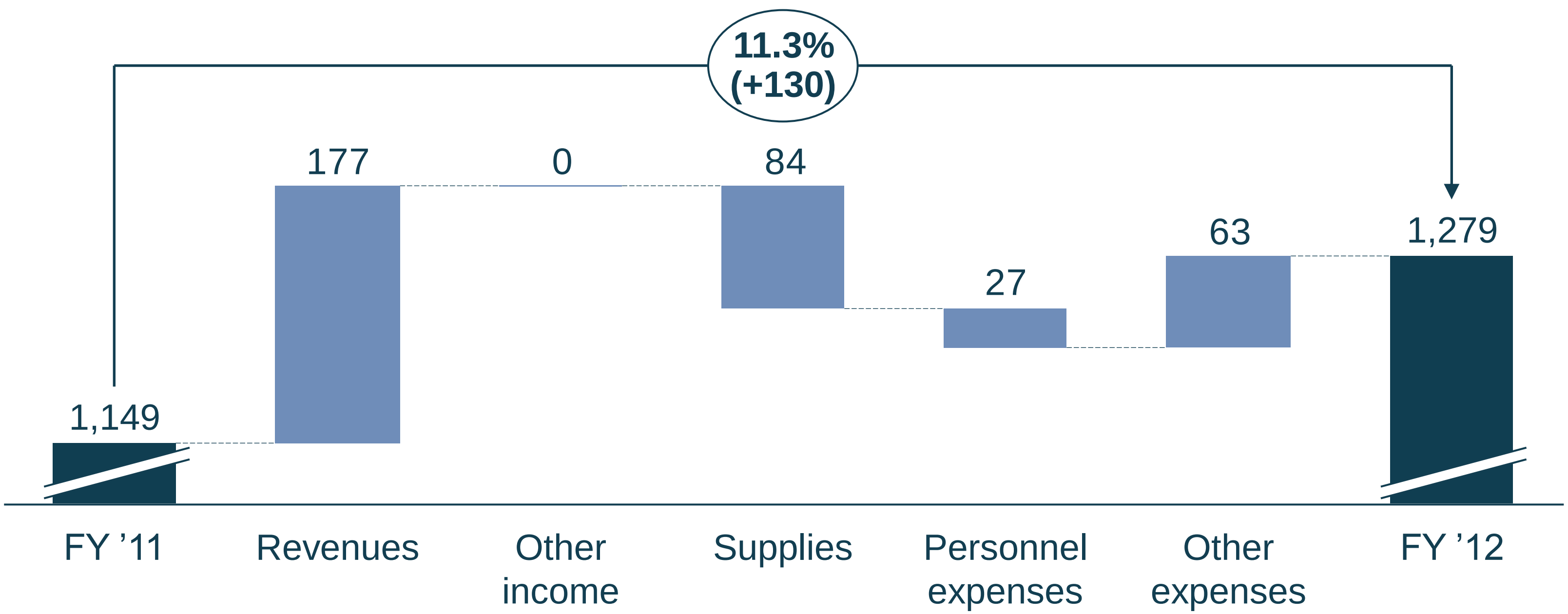


Strong OIBDA increase by 11.3%

Uptake driven by revenue growth and efficiency gains

OIBDA (post group fees)

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



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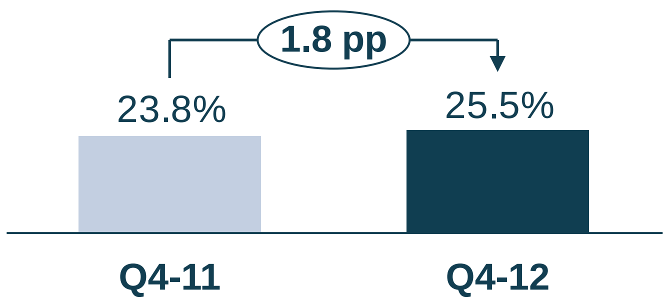
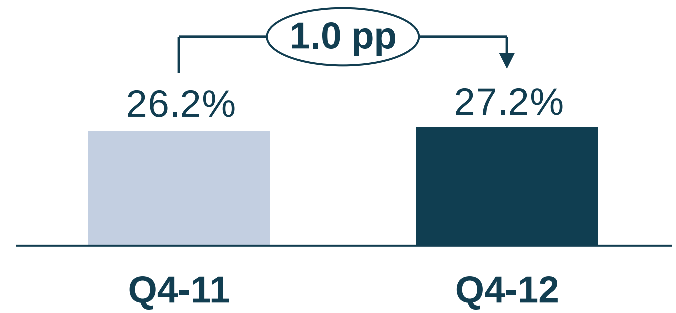
Group fees and margin development

Strong margin improvement

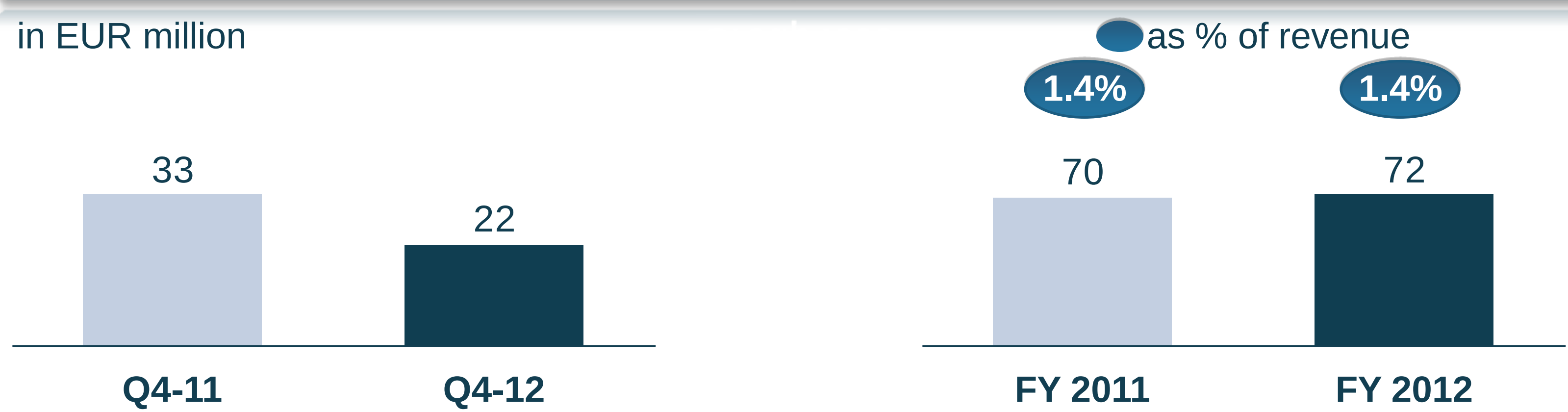
OIBDA margin



OIBDA before group fees margin



Group fees



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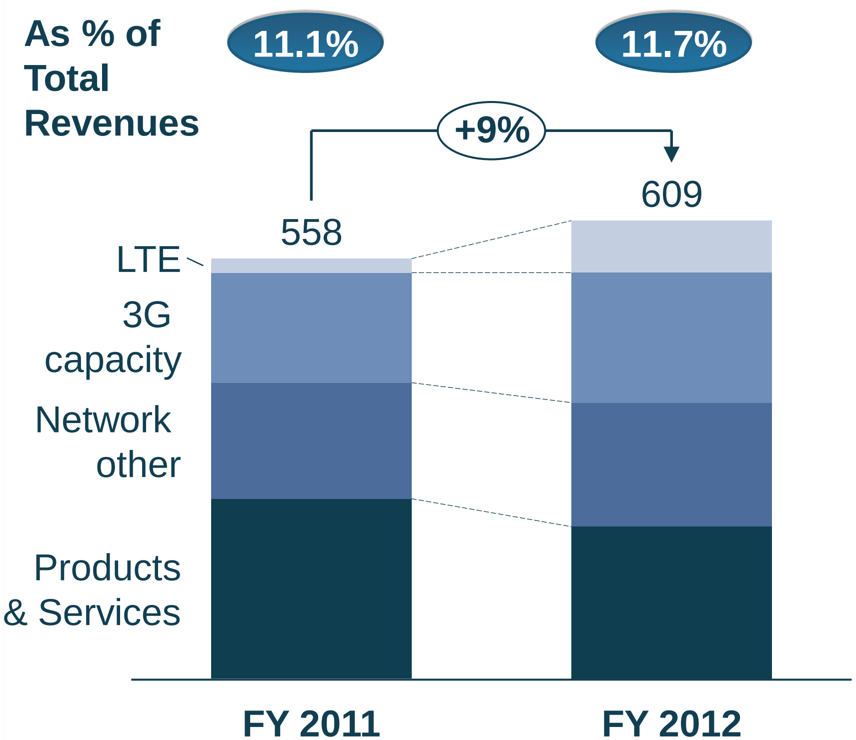
Balancing 3G and LTE investments

Successful management of network quality

CapEx

in EUR million



- **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**

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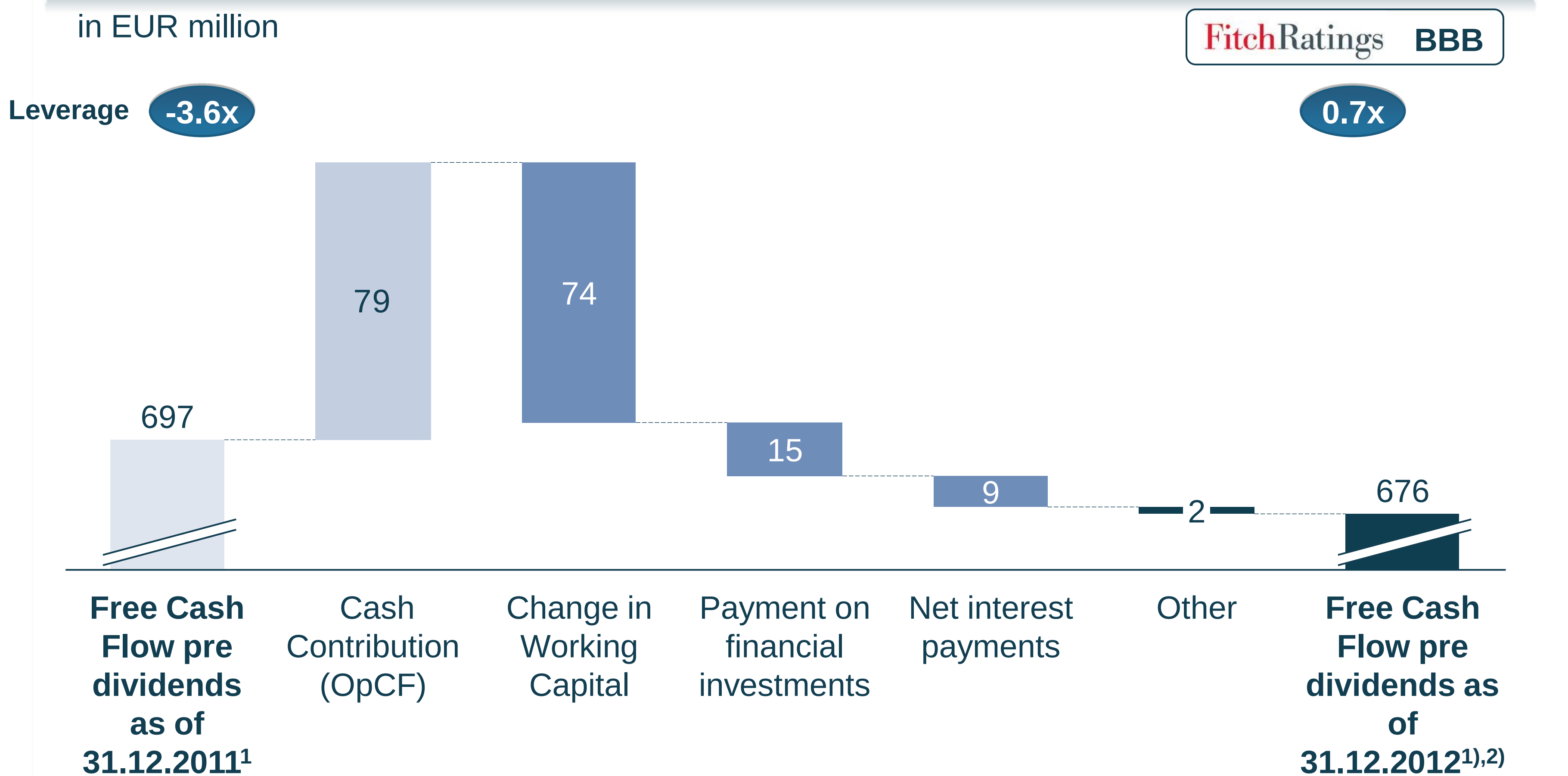
Free cash flow development

Stable cash flow yoy

Free cash flow

in EUR million



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[1)] from continuing operations

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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 1.0x[1] 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 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.

03

Q&A

Q&A

Telefónica Deutschland Q4 results conference call

For further questions please contact IR department

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