Telefónica Deutschland

Quarterly Results
January – March 2013

Telefónica Deutschland Holding AG
May, 3rd 2013

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Telefónica Deutschland Q1 2013 results presentation

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01 Development of our Strategy

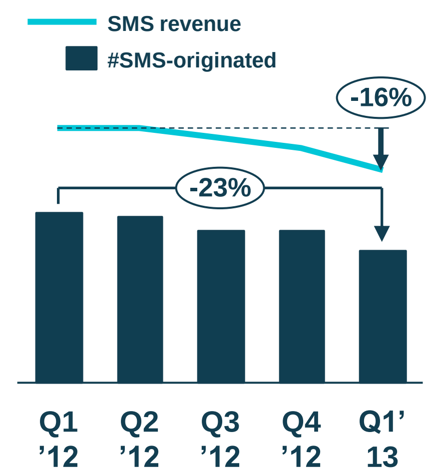
Germany remains a rational, competitive market
Setting the stage for next generation, converged P&S

German market and competition

- Continued focus on increasing **smartphone penetration** & **data monetization** – high promotional activity
- Clear **brand segmentation**
- Acceleration of **SMS-MoIP substitution**

Main topics in regulation

- **ULL & Vectoring** framework set
- **Mobile termination rates for 2013-2014** under review
- **GSM spectrum license** renewal, ongoing process



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Development on our Strategic Priorities
Strenghtening our core capabilities

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.**

Developments in Q1 2013

- Successfully launch of the **O_2 Blue all-in tariff portfolio**
- Enhanced **customer experience and customer service**
  - **O_2 Guru program** extended across all service & sales channels
  - **LiveCheck** app to test network quality
- **LTE expansion** into additional high speed areas
- **MoU** signed with DT for long-term **cooperation in development of fixed NGA network**

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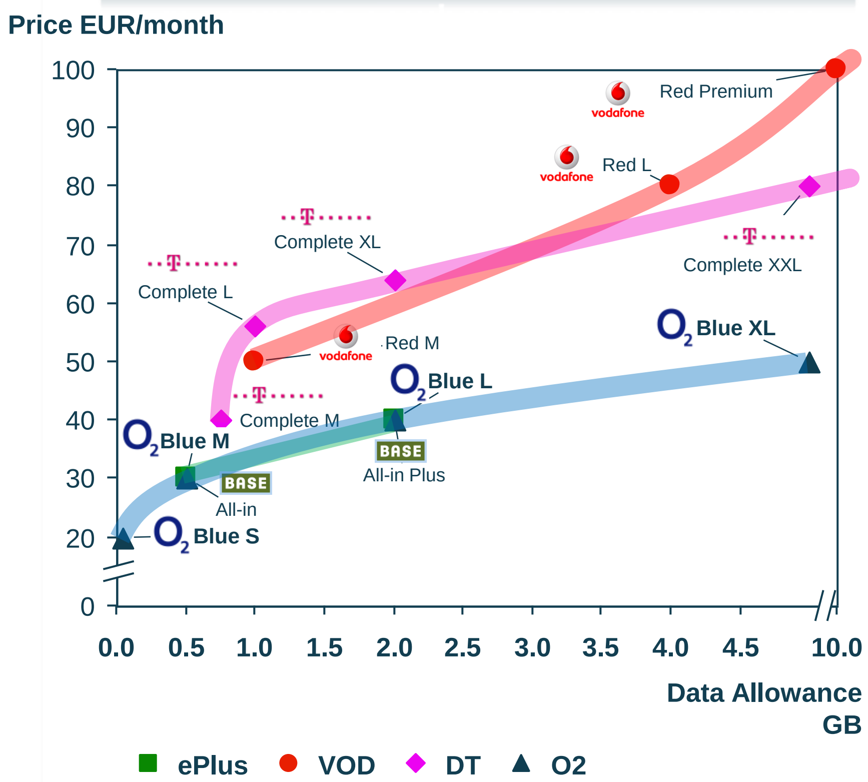
Encouraging start from new O_2 Blue all-in portfolio

Best value for money proposition in the market

All-in tariffs comparison in the market



- **O_2 Blue M:** single most contracted tariff of new portfolio for new customers & renewals
- **O_2 Blue L/XL:** good progression – increased data demand & LTE availability
- **O_2 Blue S:** Best all-in start at €20
- **Better ARPU performance** vs. previous portfolio
- **Core market structure maintained** after recent tariff changes by competitors

- Tariff comparison based on SIM-only all-net flat offers from German MNOs on the basis of data allowances without promotions. Speed allowances may differ between tariffs
- Source: Companies websites (April 2013)

MoU with DT: transformation to future fixed NGA[1]

Smooth technology cycle transition from ADSL

Rationale

- TEF D. sees **fixed business as key lever** to develop its **convergence strategy**
  - More attractive high-speed bundled offers (LTE & VDSL/Vectoring)
  - **VDSL/Vectoring** is TEF D.'s **best choice** for future-proof access to fixed NGA
- **Risk sharing** concept, building a **win-win situation**:
  - Enables TEF D. to realize a **smooth transition** from its ADSL infrastructure platform to future proof high speed products to the **benefit of its customers**
  - Enables DT to faster network expansion
  - Transition from ULL to BSA[2] with secured access to **best coverage & service quality**
  - **Low transition impact** – IT & network interfaces already in place
- **Unbinding MoU signed** for final agreement based on mutual benefits

Next steps

- **Cooperation subject to final and binding agreement by end 2013**
  - Cooperation agreement will be submitted to the competent authorities
- **Step-by-step transition to NGA within 5 years expected to start in 2014**

1) NGA: Next Generation Access
2) BSA: Bit Stream Access

Steady development of our Digital capabilities

Focus on Financial and M2M services

- First MNO to offer **Mobile-to-mobile money transfers** in real-time for iOS and Android smartphones

- **First games flate rate** for O_2 customers

- First MNO to launch a **Digital wallet** for contactless NFC-based payments at POS

- **Driving outside-in innovation / business development** for TEF D.

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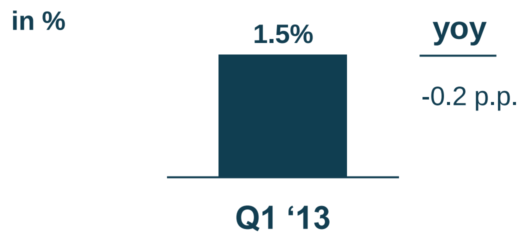
02

January – March 2013
Operating & Financial Performance

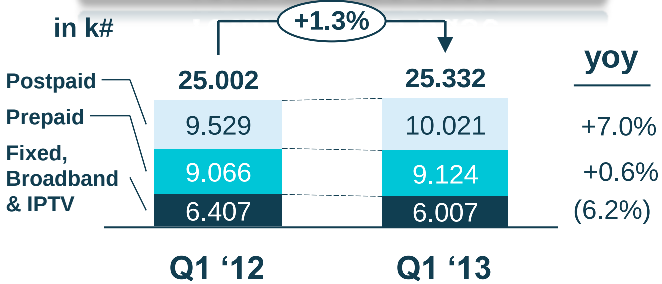
Trading Performance

Retaining high value smartphone customers

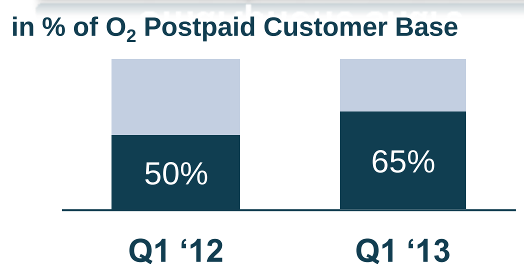
Postpaid churn rate



Total access base



Smartphone share



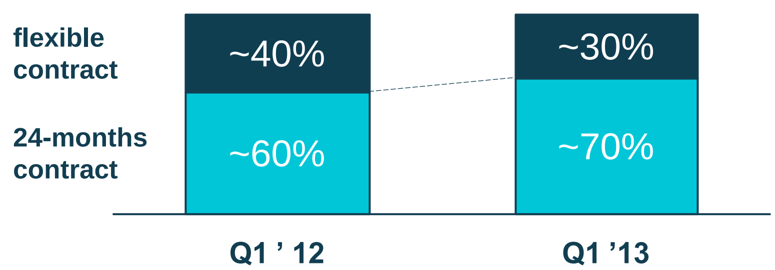
- **92k postpaid net additions**
  - Lower gross adds on higher market retention activities in target segments
  - Churn rate sustained at 1.5%
  - Different yoy commercial actions and activity from wholesale/partners channels
- **Smartphone penetration** at 27.9% (+6.8 p.p. yoy)
  - Improved mix of smartphones sold
  - O_2 prepaid penetration at 13.2% (+5.6 p.p. yoy)
- **Improved trend of retail fixed BB net adds (-41k)**
  - Encouraging VDSL contribution at >10% retail gross additions

Mobile data monetization opportunity

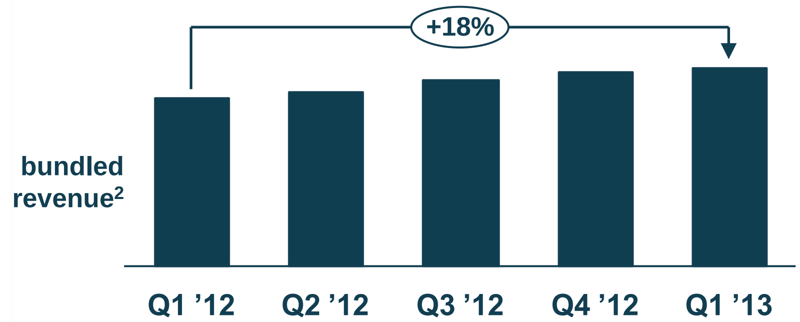
The virtuous cycle of increasing demand and speed

Balancing value with volume: data-centric customer base transformation

Long-term contracts in the base 1)

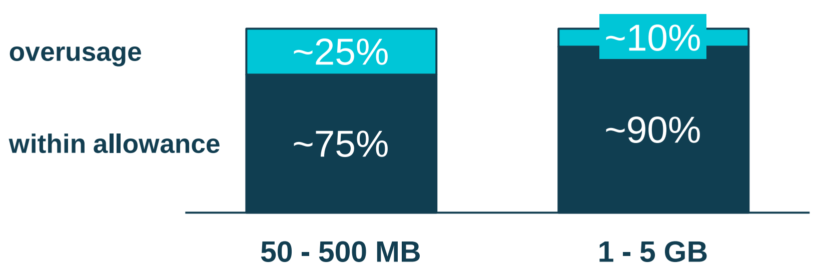


Towards a more data-centric customer base structure 1)



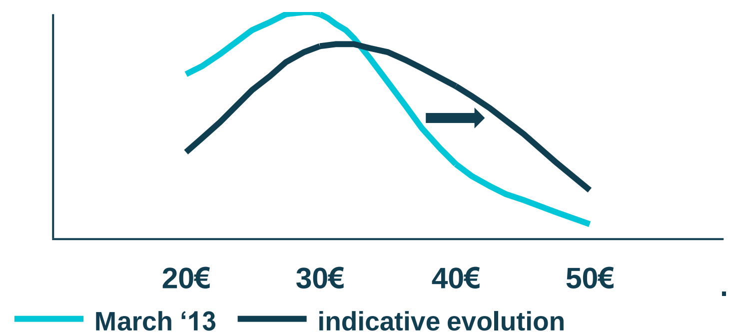
O_2 Blue all-in design allows for further data monetization: Multi SIM + LTE at €40+

Upsell opportunities prior to LTE being mass market 1)



Data from internal survey, September 2012

O_2 Blue All-in tariff distribution of GA / renewals 1)



1) Based on O_2 branded Consumer postpaid
2) Excludes incoming voice&SMS revenues

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Overview of key financials

Top line pressures mitigated at OIBDA level

In EUR million	January – March		
	Q1 2013	**Q1 2012**	**% y-o-y Δ**
Revenues	1,230	1,258	(2.3)
OIBDA	278	280	(0.7)
OIBDA margin	*22.6%*	*22.3%*	*0.4 %-p.*
Group fees	(15)	(14)	(6.2)
OIBDA before group fees	294	295	(0.3)
OIBDA before group fees margin	*23.9%*	*23.4%*	*0.5 %-p.*
Capex	146	133	9.4
Free Cash Flow[1] pre dividends from continuing operations	105	88	19.7

+0.0%
ex MTR

[1] Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes.
In 2013 no discontinued operations did exist.

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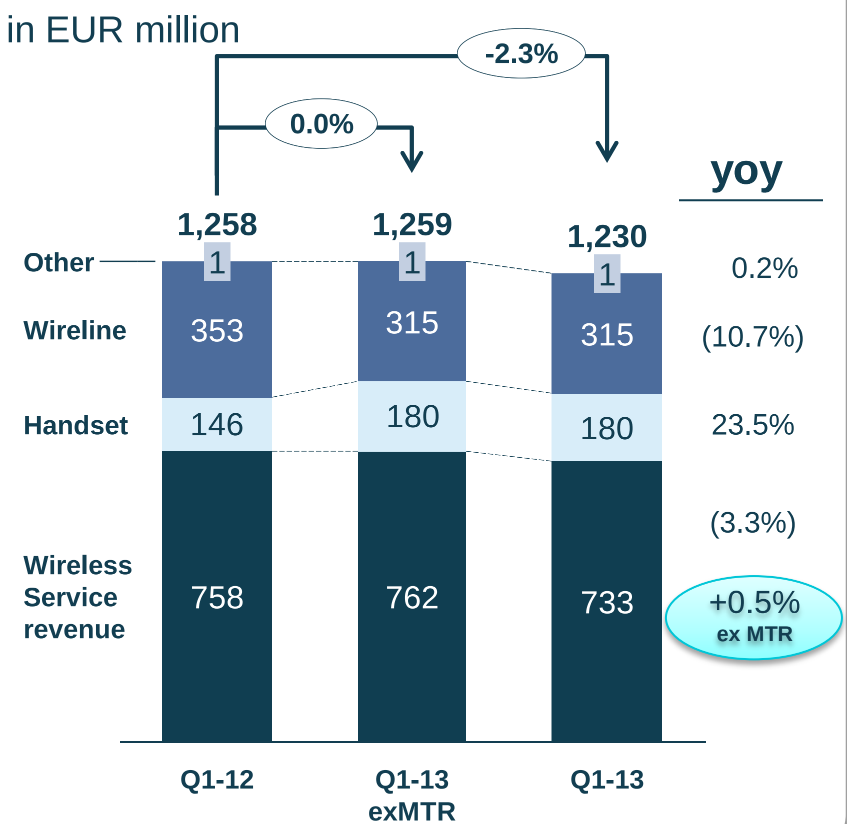
Revenue performance

Non-SMS mobile data is the main driver

Total revenue



- **Wireless service revenue** growth driven by Non-SMS data (+24.1% yoy)
- **Handset revenues** benefitting from increased share of high value smartphones sold
- **Wireline revenue** decline driven by retail DSL customer base (-8.3% yoy) and declining fixed voice transit business

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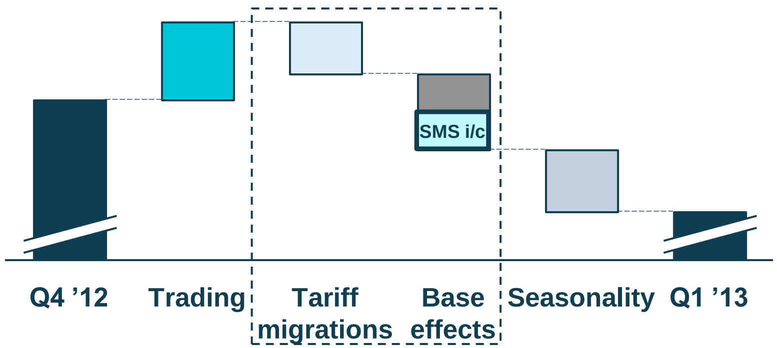
Continued dynamics in the postpaid segment

Base management & customer behaviour

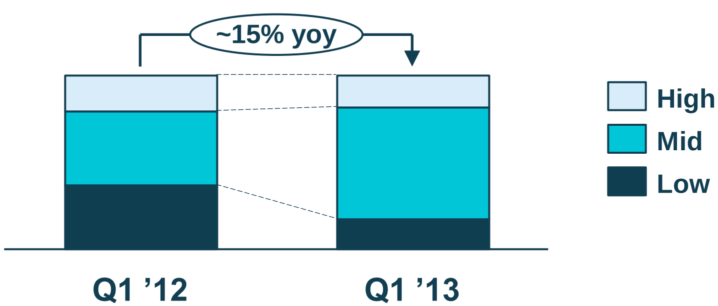
Main drivers for wireless service revs. [1]

QoQ abs. performance ex MTRs



Tariff migrations [1]

Breakdown by value[2] of tariffs within base



- **Wireless service revenue continuation of trends from Q4'12 driven by postpaid**
  - Tariff migrations to lower pricing levels
    - Sustained trend over recent Qs.
  - Usage decline of SMS (i/c[3] revs.)
    - Strong negative delta from Q4'12
- **New tariff portfolio and churn management driving positive dynamics in the future**

1. O2 postpaid consumer only, indicative data
2. Tariff value based on internal assessment
3. Interconnection revenues from SMS terminated in O_2 network

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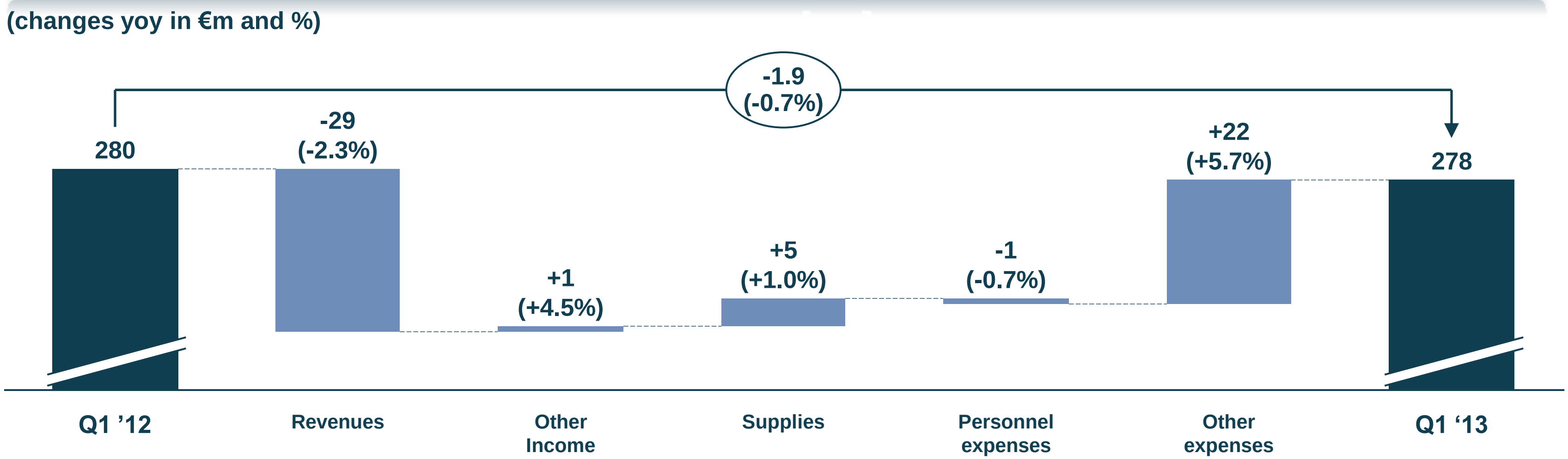
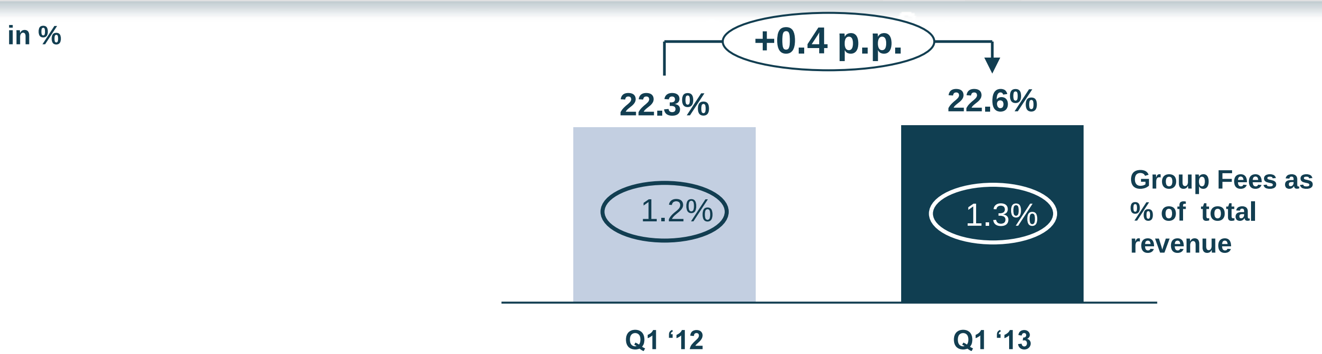
Stable yoy OIBDA performance

Driven by revenue and higher yoy efficiencies

OIBDA [m€]



OIBDA margin



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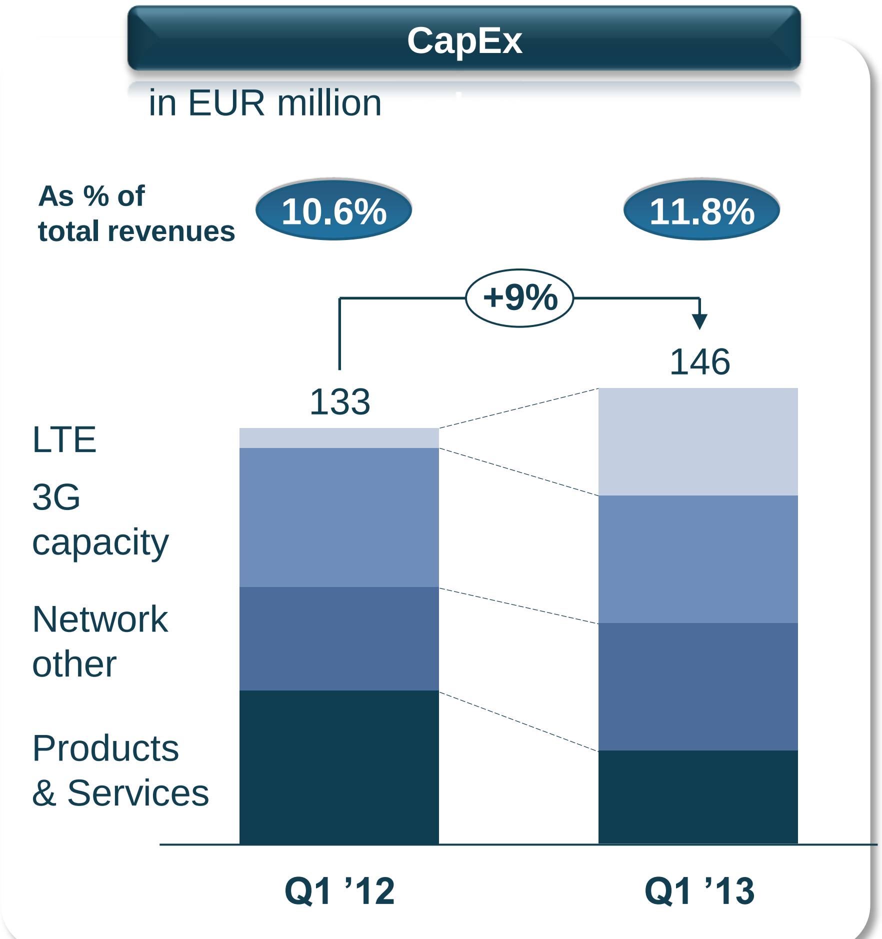
CapEx development

LTE network roll-out acceleration



- **LTE network roll-out in additional high-speed areas**
  - End-March: Munich and Berlin
  - End-April: Dusseldorf
- **Ongoing investments in 3G capacity**
  - Increased high-end smartphone penetration
- **Other network expenses** dominated by expenses in core converged platforms and service platforms

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Free cash flow development

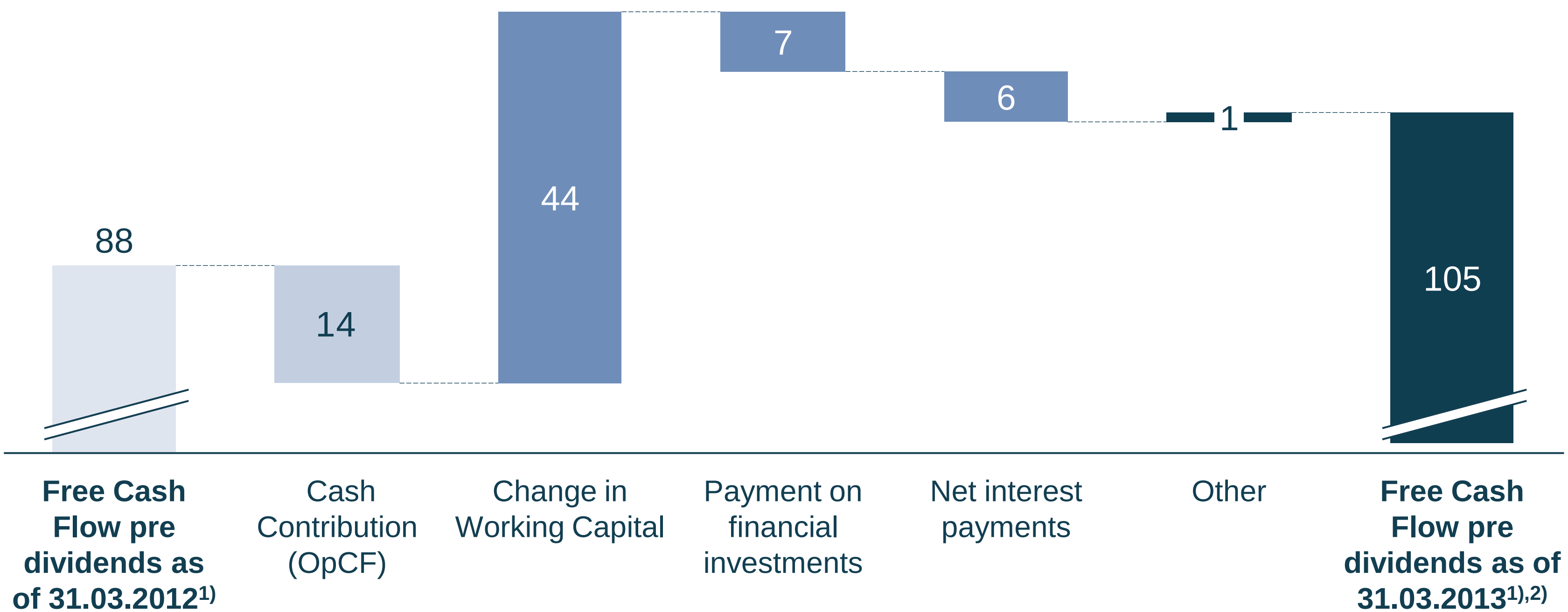
Positive Working Capital driving FCF

Free cash flow yoy evolution

in EUR million

FitchRatings **BBB**

Leverage[3)] **0.6x**



[1)] from continuing operations

[2)] Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes.
[3)] Leverage defined as Net Financial Debt divided by LTM OIBDA excluding non-recurring factors.

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Conclusions

Delivering our strategy in a more active and competitive environment

- Market remains rational and focused on data monetisation
- Encouraging start of new O_2 Blue all-in portfolio
- Convergent strategy reinforced with unbinding MoU with DT
- Efficiency opportunities from increased digital interactions
- Outlook maintained

03

Q&A

Q&A

Telefónica Deutschland Q1 2013 results conference call

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For further questions please contact IR department

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