

# Telefónica Deutschland

Quarterly Results  
January – March 2013

*Telefónica*

Deutschland

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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

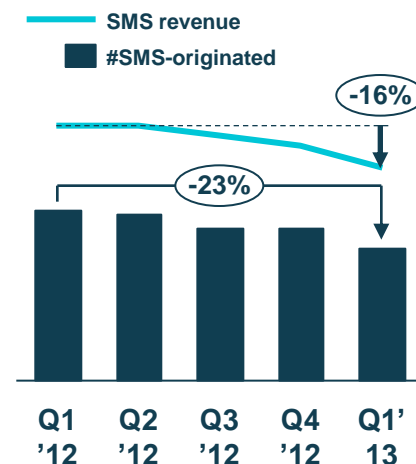
## Setting the stage for next generation, converged P&S

### 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



# Development on our Strategic Priorities

## Strengthening 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<sub>2</sub> Blue all-in tariff portfolio**
- Enhanced **customer experience and customer service**
  - **O<sub>2</sub> 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**

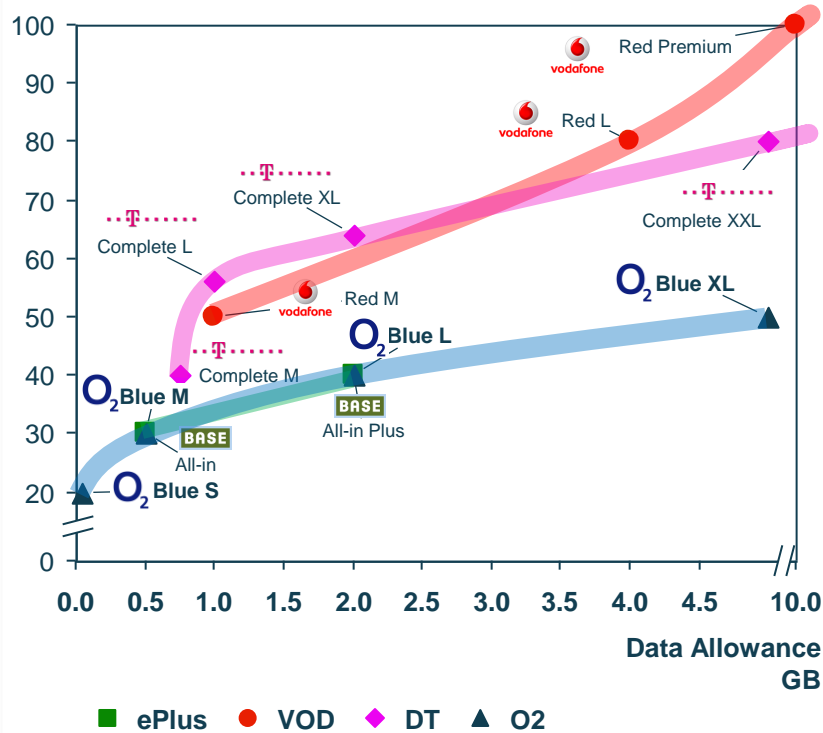


# Encouraging start from new O<sub>2</sub> Blue all-in portfolio

## Best value for money proposition in the market

### All-in tariffs comparison in the market

Price EUR/month



- **O<sub>2</sub> Blue M:** single most contracted tariff of new portfolio for new customers & renewals
- **O<sub>2</sub> Blue L/XL:** good progression – increased data demand & LTE availability
- **O<sub>2</sub> Blue S:** Best all-in start at €20
- **Better ARPU performance vs.** previous portfolio
- **Core market structure maintained** after recent tariff changes by competitors

# MoU with DT: transformation to future fixed NGA<sup>1</sup>

## 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<sup>2</sup> 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 flat rate for O<sub>2</sub> customers



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



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



# 02

January – March 2013

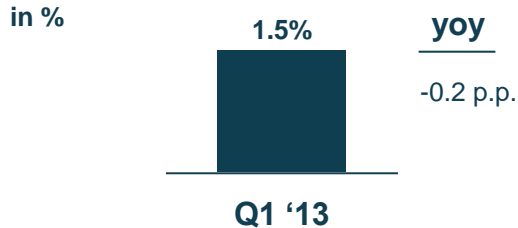
Operating & Financial Performance



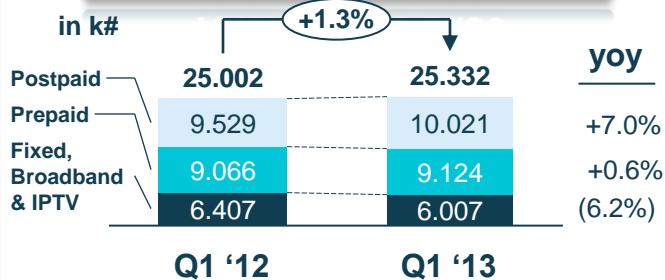
# Trading Performance

## Retaining high value smartphone customers

### Postpaid churn rate

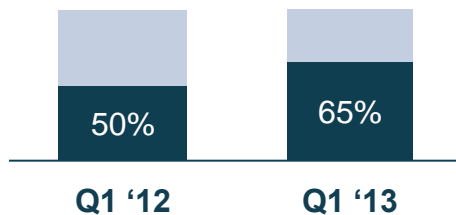


### Total access base



### Smartphone share

in % of O<sub>2</sub> Postpaid Customer Base



#### ▪ 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<sub>2</sub> prepaid penetration at 13.2% (+5.6 p.p. yoy)

#### ▪ Improved trend of retail fixed BB net adds (-41k)

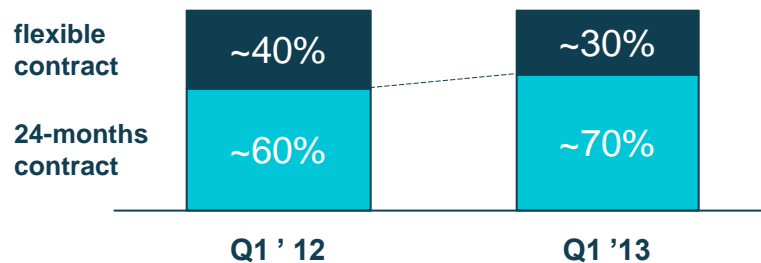
- Encouraging VDSL contribution at >10% retail gross additions

# Mobile data monetization opportunity

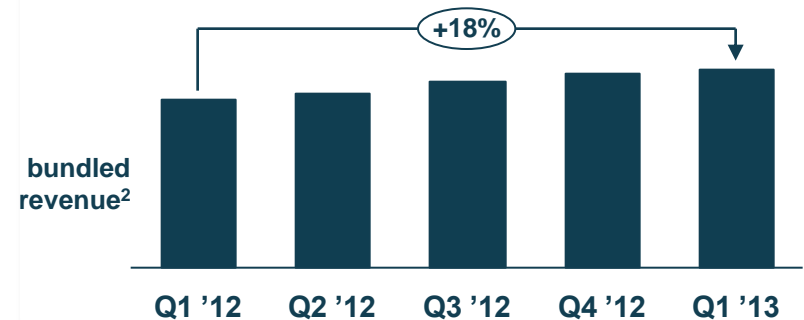
## The virtuous cycle of increasing demand and speed

### Balancing value with volume: data-centric customer base transformation

#### Long-term contracts in the base <sup>1)</sup>

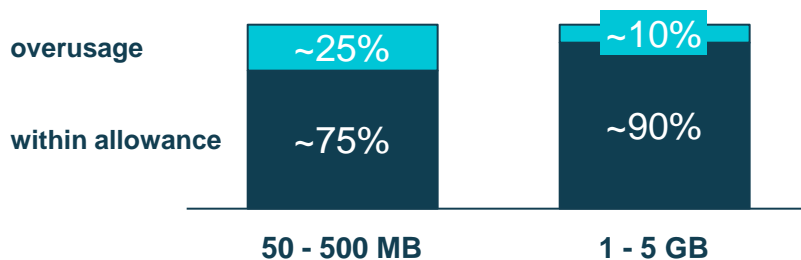


#### Towards a more data-centric customer base structure <sup>1)</sup>



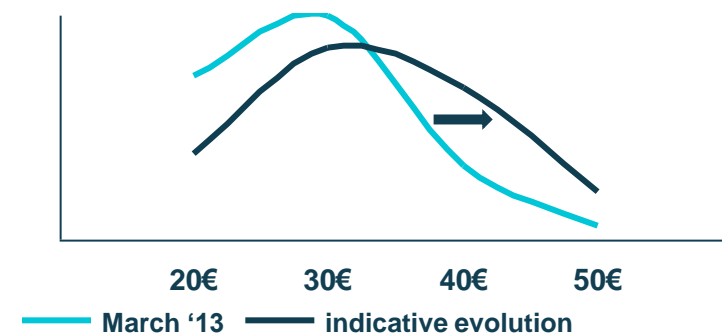
### O<sub>2</sub> Blue all-in design allows for further data monetization: Multi SIM + LTE at €40+

#### Upsell opportunities prior to LTE being mass market <sup>1)</sup>



Data from internal survey, September 2012

#### O<sub>2</sub> Blue All-in tariff distribution of GA / renewals <sup>1)</sup>



1) Based on O<sub>2</sub> branded Consumer postpaid  
 2) Excludes incoming voice&SMS revenues

# Overview of key financials

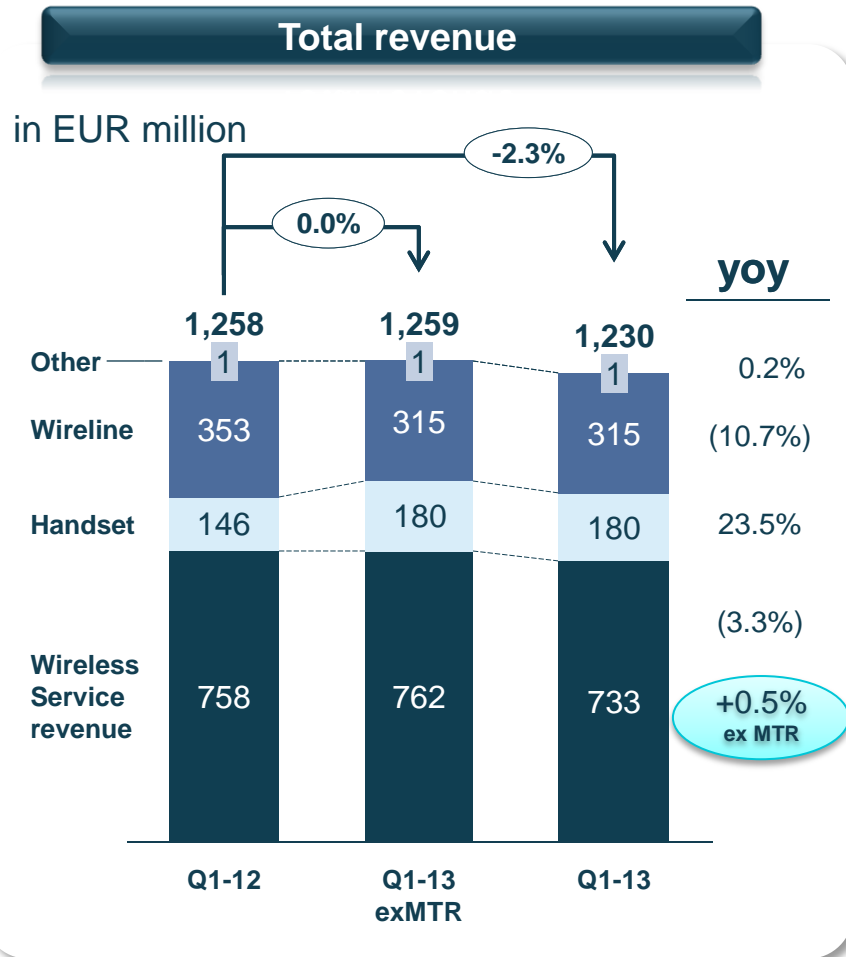
## Top line pressures mitigated at OIBDA level

<i>In EUR million</i>	January – March		
	Q1 2013	Q1 2012	% y-o-y $\Delta$
<b>Revenues</b>	1,230	1,258	(2.3) <span style="border: 1px solid blue; border-radius: 50%; padding: 2px;">+0.0% ex MTR</span>
<b>OIBDA</b>	278	280	(0.7)
<b>OIBDA margin</b>	22.6%	22.3%	<span style="border: 1px solid red; border-radius: 50%; padding: 2px;">0.4 %-p.</span>
<b>Group fees</b>	(15)	(14)	(6.2)
<b>OIBDA before group fees</b>	294	295	(0.3)
<b>OIBDA before group fees margin</b>	23.9%	23.4%	0.5 %-p.
<b>Capex</b>	146	133	9.4
<b>Free Cash Flow<sup>1)</sup> pre dividends from continuing operations</b>	105	88	<span style="border: 1px solid red; border-radius: 50%; padding: 2px;">19.7</span>

<sup>1)</sup> 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.

# Revenue performance

## Non-SMS mobile data is the main driver



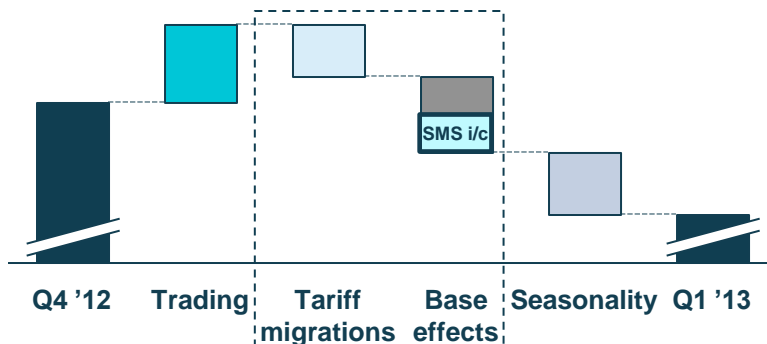
- **Wireless service revenue** growth driven by Non-SMS data (+24.1% yoy)
- **Handset revenues** benefitting from increased share of high value smartphones sold
- **Wireline revenue** decline driven by retail DSL customer base (-8.3% yoy) and declining fixed voice transit business

# Continued dynamics in the postpaid segment

## Base management & customer behaviour

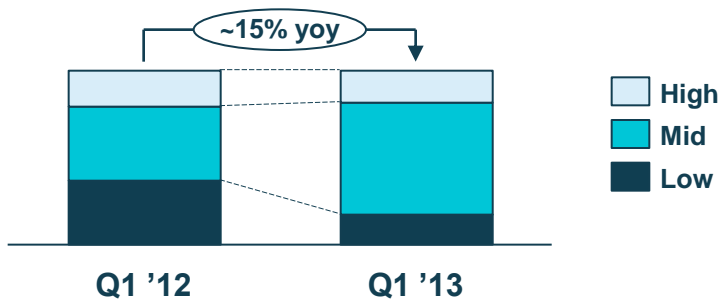
### Main drivers for wireless service revs. <sup>1</sup>

QoQ abs. performance ex MTRs



### Tariff migrations <sup>1</sup>

Breakdown by value<sup>2</sup> 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<sup>3</sup> revs.)
    - Strong negative delta from Q4'12
  
- **New tariff portfolio and churn management driving positive dynamics in the future**

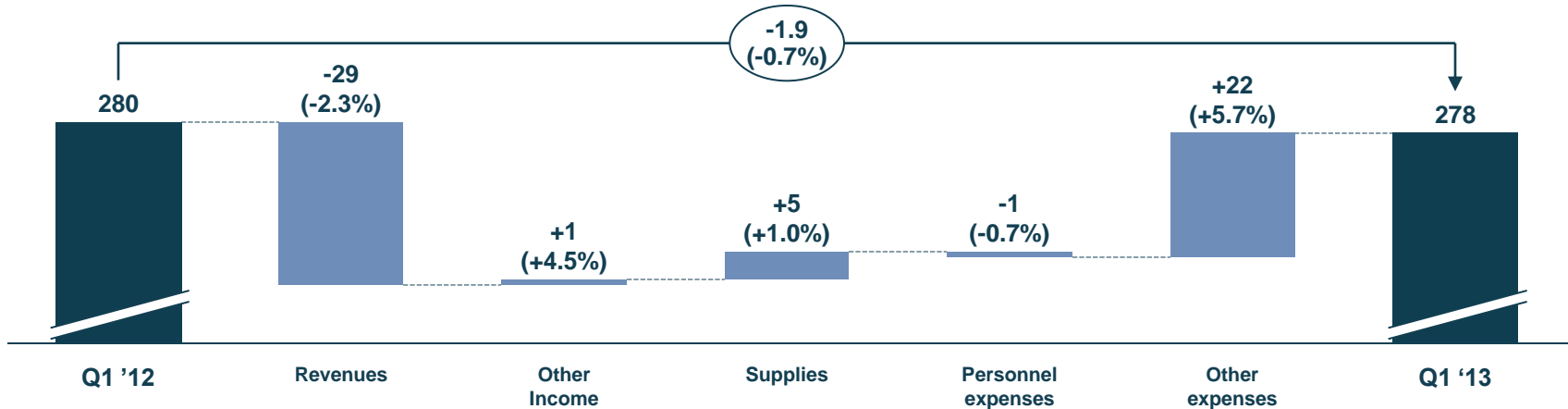
1. O2 postpaid consumer only, indicative data  
 2. Tariff value based on internal assessment  
 3. Interconnection revenues from SMS terminated in O<sub>2</sub> network

# Stable yoy OIBDA performance

## Driven by revenue and higher yoy efficiencies

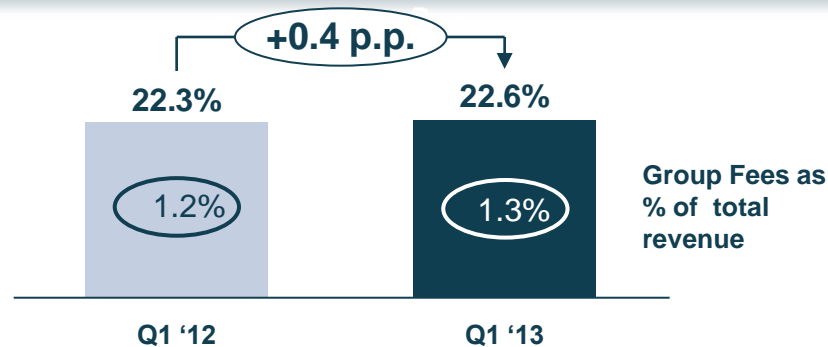
### OIBDA [m€]

(changes yoy in €m and %)



### OIBDA margin

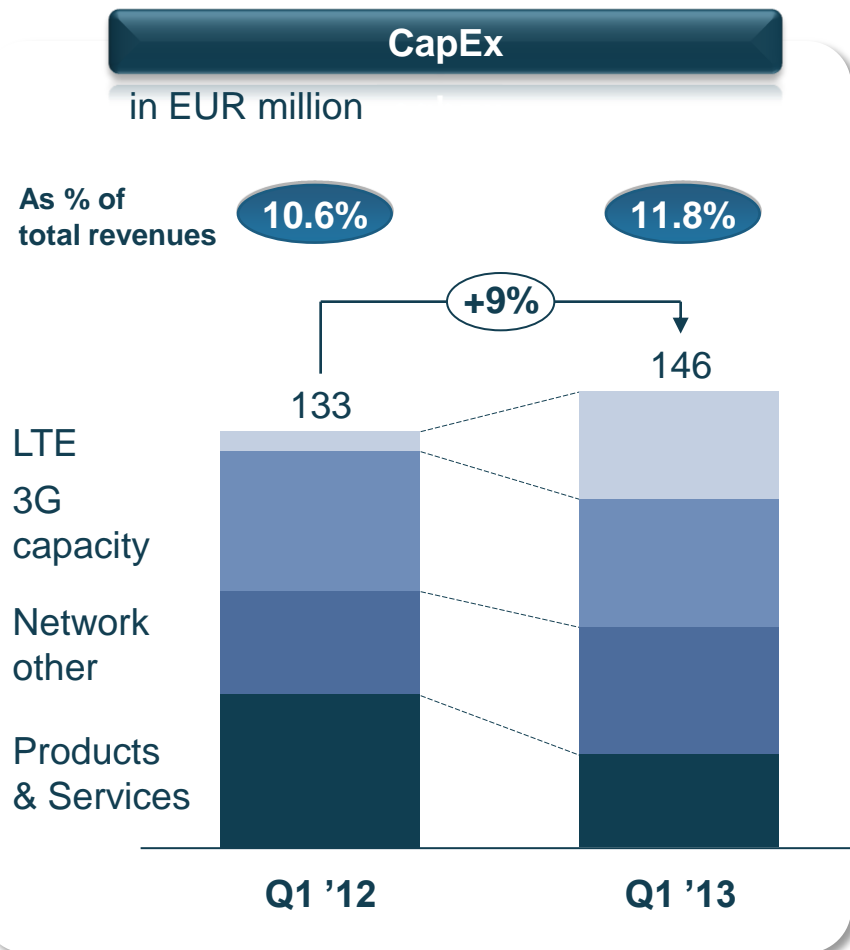
in %





# 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

# Free cash flow development

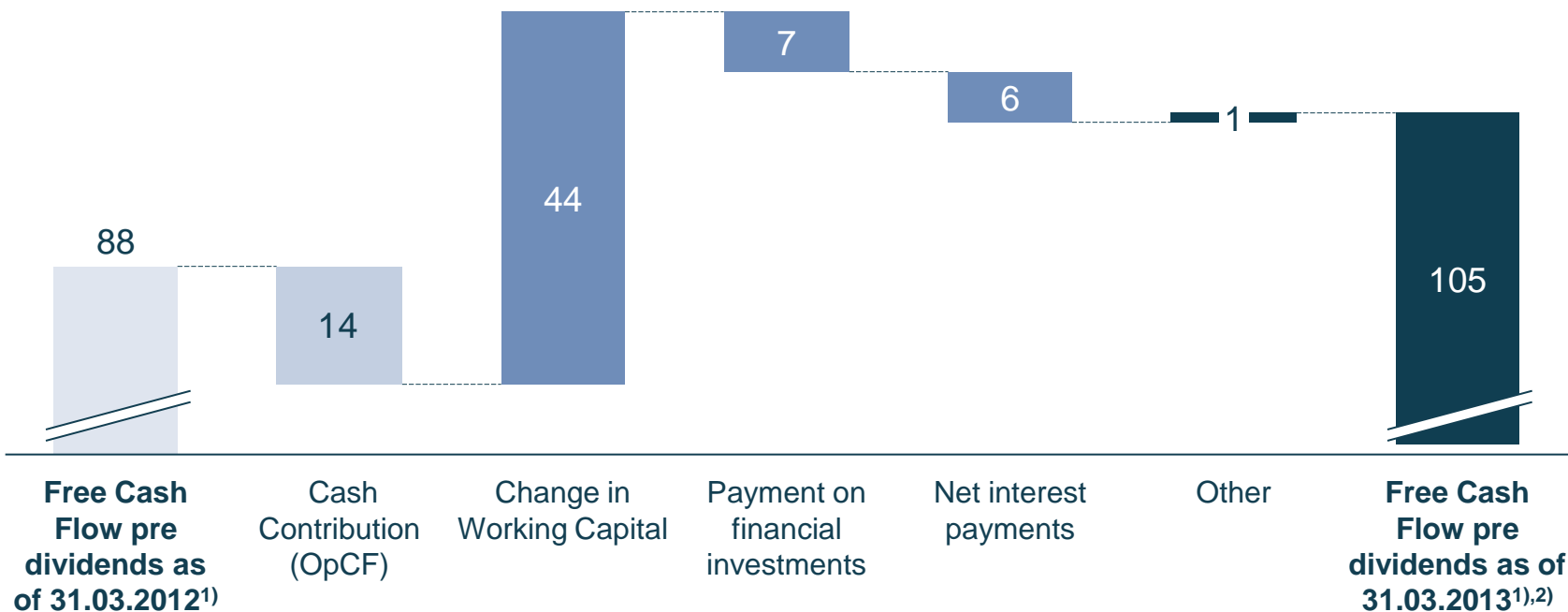
## Positive Working Capital driving FCF

### Free cash flow yoy evolution

in EUR million

FitchRatings **BBB**

Leverage<sup>3)</sup> **0.6x**



<sup>1)</sup> from continuing operations

<sup>2)</sup> Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes.

<sup>3)</sup> Leverage defined as Net Financial Debt divided by LTM OIBDA excluding non-recurring factors.

# Conclusions

## Delivering our strategy in a more active and competitive environment

- Market remains rational and focused on data monetisation
- Encouraging start of new O<sub>2</sub> 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



For further questions please contact IR department

## Investor Relations

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