



Creating a Leading Digital Telco in Germany

23 July 2013

Telefonica

Deutschland

Telefónica Deutschland Holding AG,
Investor Relations

Public – Nicht vertraulich

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Creating a Leading Digital Telco in Germany



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Acquisition of E-Plus by Telefónica Deutschland

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Transaction summary

Key terms

Two step transaction structure

- 1 Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in the enlarged Telefónica Deutschland
 - €3.70bn of cash
 - 24.9% stake in enlarged Telefónica Deutschland (after capital increase)
 - 2 Telefónica subsequently to acquire a 7.3% stake from KPN for €1.30bn in order to maintain a 65% ownership in the enlarged Telefónica Deutschland
- Transaction to unlock significant value, with synergies of €5.0–5.5bn NPV
 - Total consideration of €5bn in cash and a 17.6% stake in the enlarged Telefónica Deutschland

Recommended transaction

- Recommended transaction approved by Telefónica's Board of Directors and Telefónica Deutschland's Supervisory Board
- Transaction has support from KPN's Board of Management, and from KPN's Supervisory Board

Key dates

- KPN shareholders' approval required at KPN's General Meeting in H2 2013
- Telefónica Deutschland shareholders' approval required at Telefónica Deutschland's General Meeting in H2 2013
- Transaction expected to close in mid 2014, following clearance from relevant authorities

Transaction structure

Transaction summary

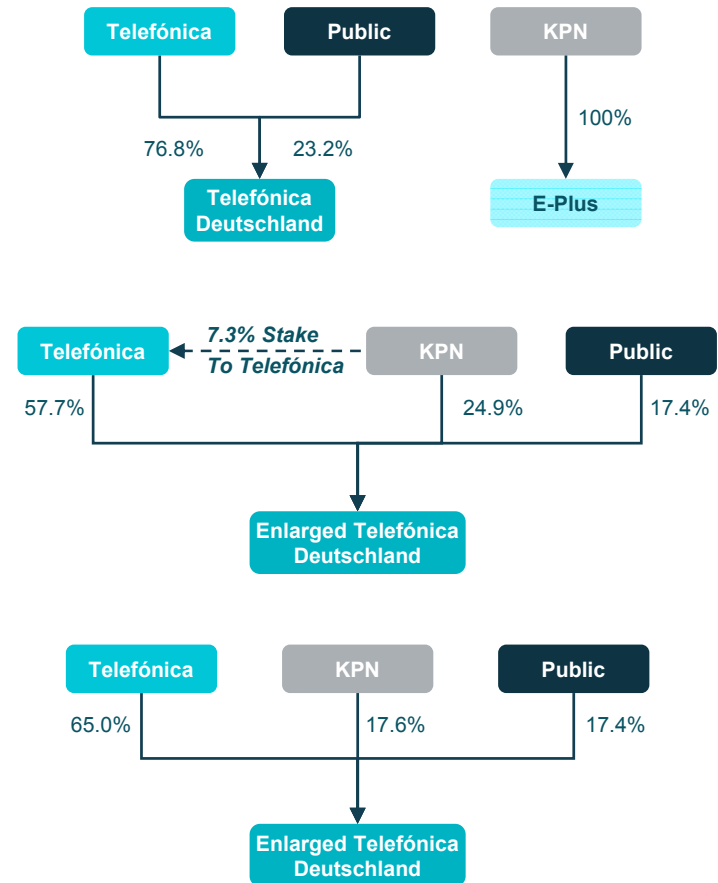
Two step structure

- 1 Acquisition of E-Plus by Telefónica Deutschland for a combination of cash and a stake in the enlarged Telefónica Deutschland
 - €3.70bn of cash, financed through a rights issue fully underwritten by Telefónica and a group of banks
 - 24.9% stake in enlarged Telefónica Deutschland (after capital increase)
- 2 Telefónica subsequently to acquire a 7.3% stake of the enlarged Telefónica Deutschland from KPN for €1.30bn, post-transaction, in order to maintain a 65% ownership in the enlarged Telefónica Deutschland
 - Total consideration of €5bn in cash and a 17.6% stake

Pre-transaction structure

Intermediate structure

Final ownership structure



Transaction rationale

1

Creation of a Leading Digital Telco

- A leading player with a combined customer base of 43m, 42% in postpaid
- Strong scale benefits with combined mobile revenue market share of 32%
- Driving mobile market growth in Germany since 2010:
 - +2.2pp in postpaid customer share
 - +5.8pp in prepaid customer share
- Strong capabilities for mobile data

2

Value crystallization through significant synergies

€5.0–5.5bn

- NPV of synergies of €5.0–5.5bn, net of integration costs
 - Net savings from year 2
 - Annual run-rate synergies of aprox. €800m; 75% of run-rate synergies by year 4
- Incremental value from additional revenues, financial and tax synergies
- Highly experienced management team with a proven track record of integration

3

Enhanced Profitability & FCF in Germany

- Improved profitability and enhanced cash flow generation
- Stronger competitive position from increased scale

Source: Company data, broker research

Transaction rationale (cont'd)

4

Creating a superior customer experience

- Customers to benefit from the best high speed mobile and fixed experience from a single LTE network and access to future-proof DT NGA network
- Strong multi-brand portfolio across segments
- Offering ICT / cloud solutions for business customers
- Best distribution channel and outstanding customer service
- Ready for convergence through cross-selling / up-selling opportunities
- Leveraging Telefónica's global capabilities: Digital innovation, scale,....

5

Value Creation for Telefónica Deutschland Shareholders

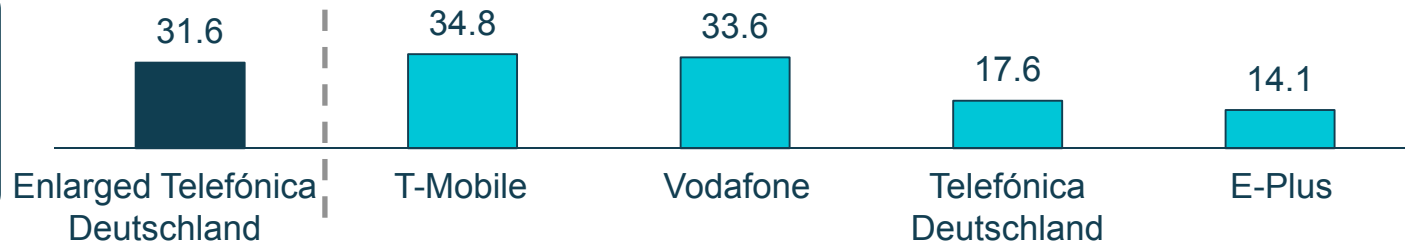
- Unlocks significant value for Telefónica Deutschland shareholders
- Increases financial flexibility (improving leverage) while maintaining an attractive shareholder remuneration
 - Conservative pro forma balance sheet
- EPS and FCF accretive from first year of full operation⁽¹⁾

1. Based on run-rate synergies before integration costs

1 Creation of a Leading Digital Telco

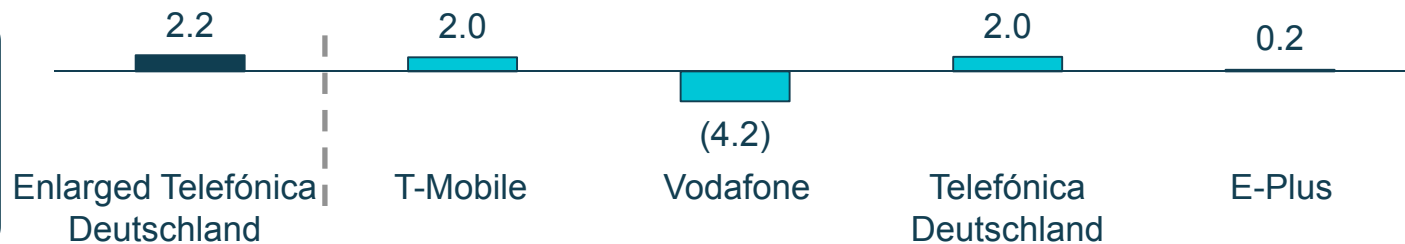
Creation of a leading mobile operator in Germany

Q1 2013 mobile revenue market share (%)



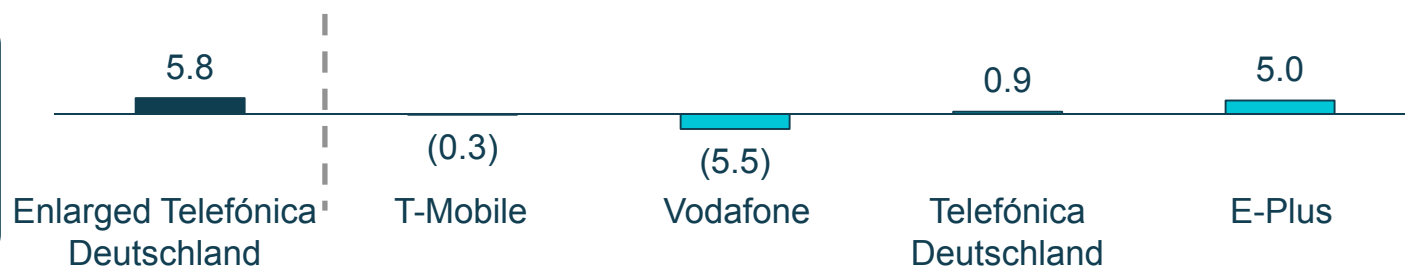
Leading postpaid subscriber growth

2010 – 2012 Postpaid mobile market share growth (pp)



Leading prepaid subscriber growth

2010 – 2012 Prepaid mobile market share growth (pp)



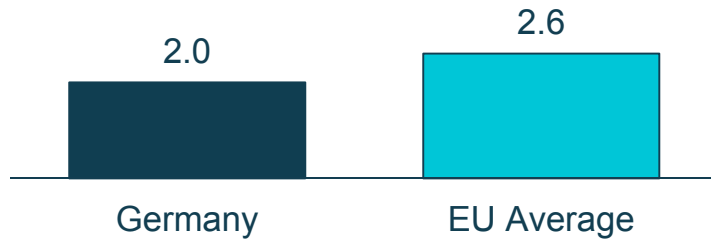
- Combining Telefónica Deutschland's and E-Plus's track records of growth with Telefónica Deutschland's capacity for MBB

Source: Company data, broker research

1 Highly attractive mobile market

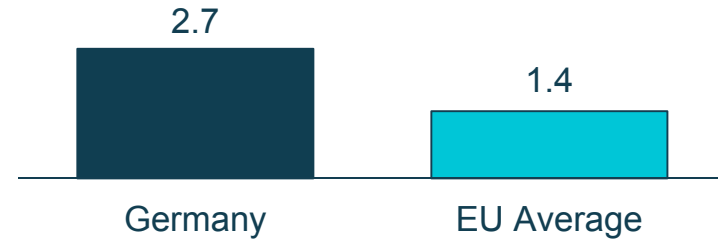
Relatively low churn

Monthly Churn, 2012 (%)



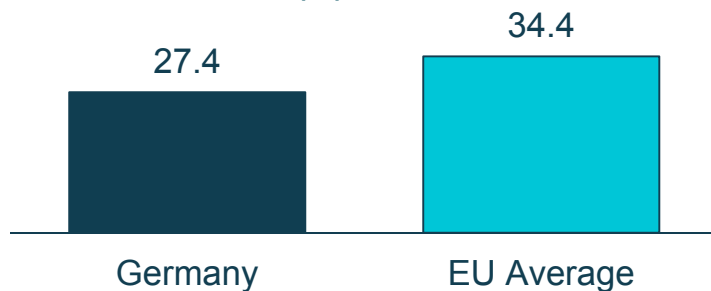
Strong subscriber base growth

2013E YoY Growth (%)



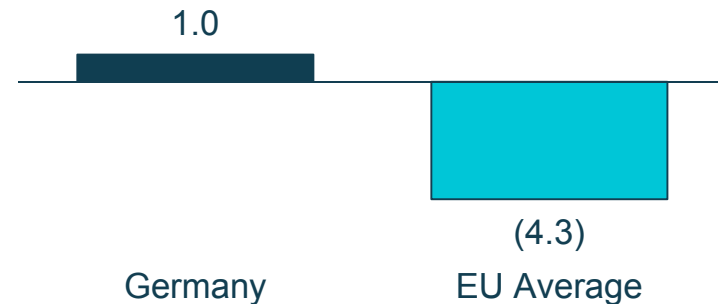
Smartphone penetration upside

Smartphone connections as % of mobile connections, 2012 (%)



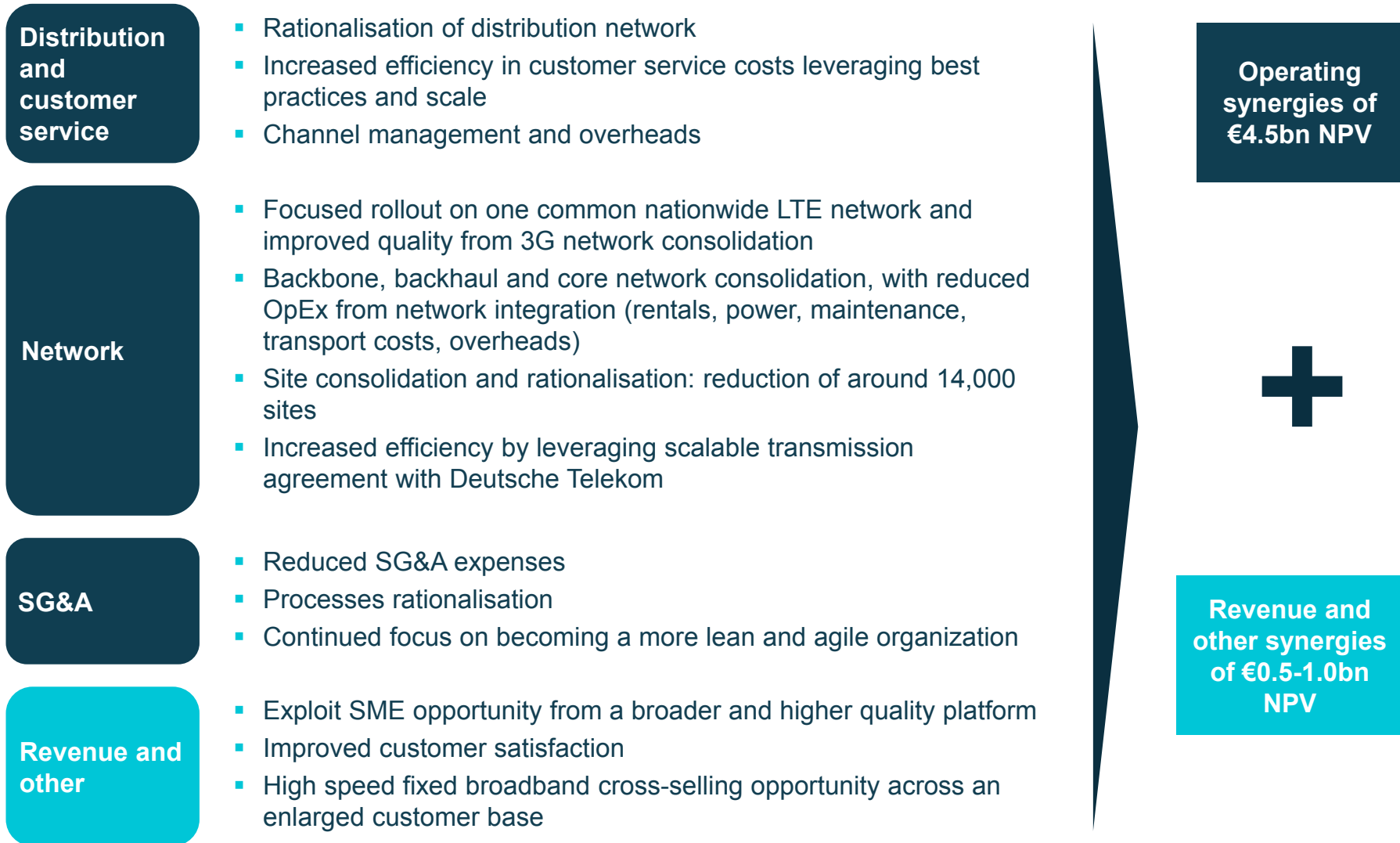
EBITDA growth

2009 – 2013E CAGR (%)



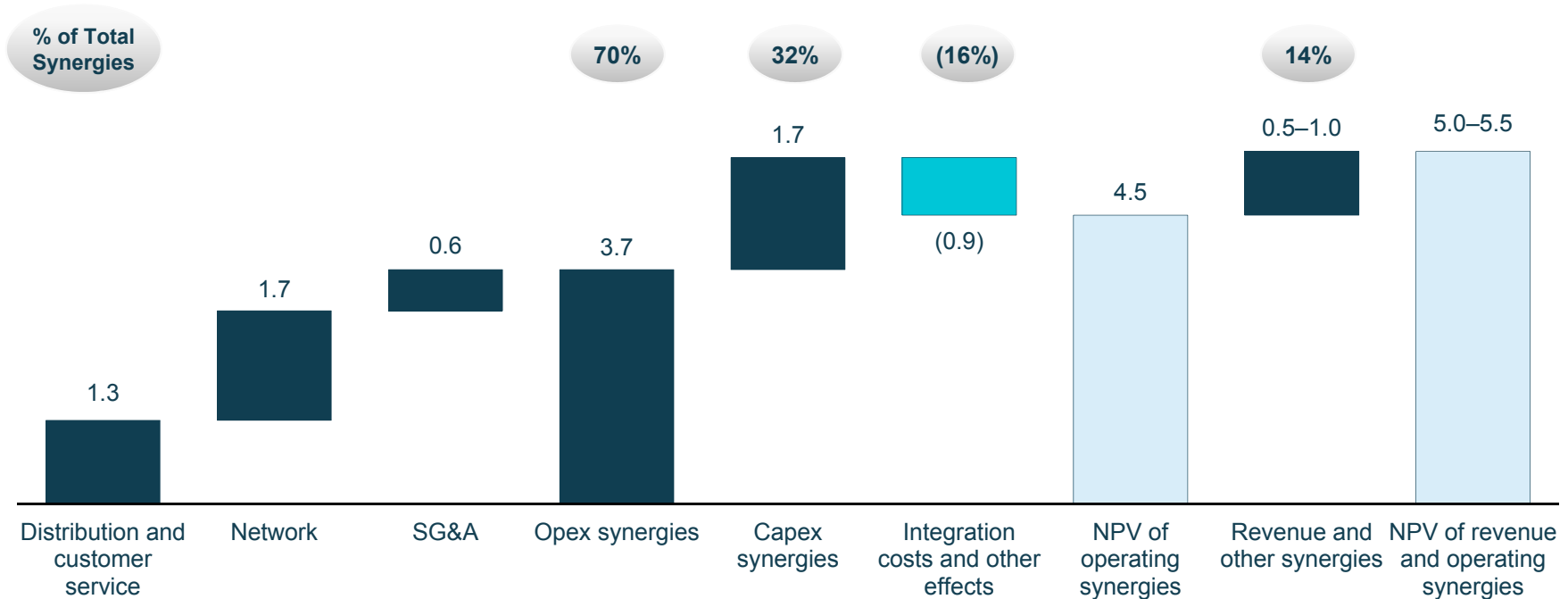
Source: WCIS, broker research

2 Identified and realisable synergies of €5.0 – 5.5bn NPV



2 Synergies value of €5.0 – 5.5bn NPV

in EUR billion

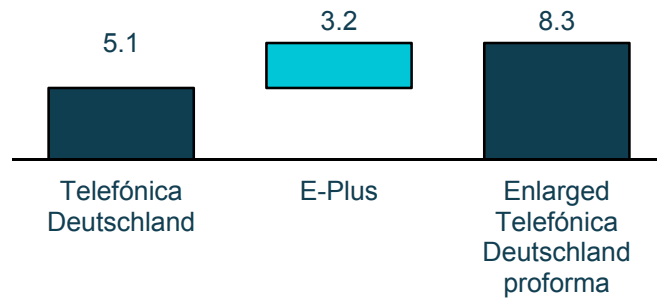


- NPV of €5.0-5.5bn
 - Net savings from year 2
 - Run-rate synergies approx. €800m from year 5; 75% of run-rate synergies by year 4
- Incremental value from additional revenues, financial and tax synergies

3 Stronger competitive position from increased scale in Germany Based on consensus forecasts

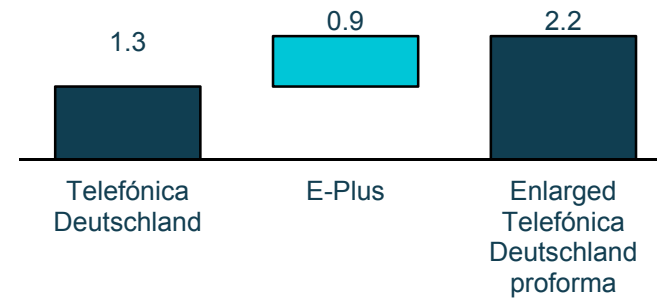
2013 Revenue

In EUR billion



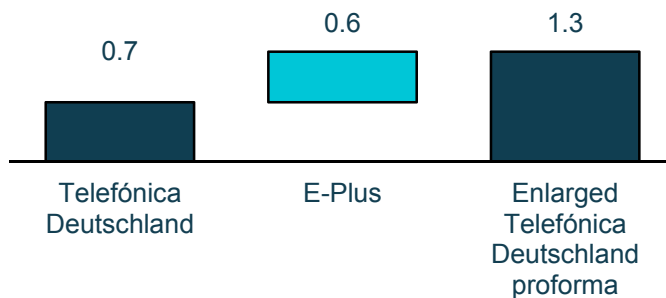
2013 OIBDA

In EUR billion



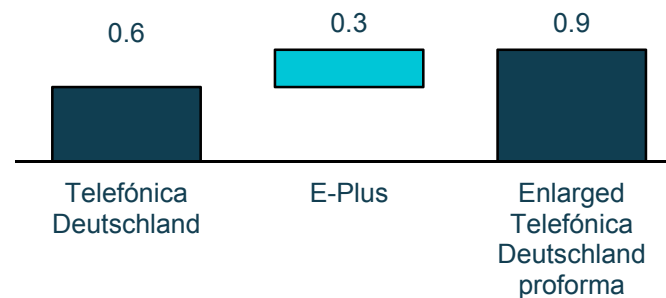
2013 Capex

In EUR billion



2013 OpFCF¹

In EUR billion

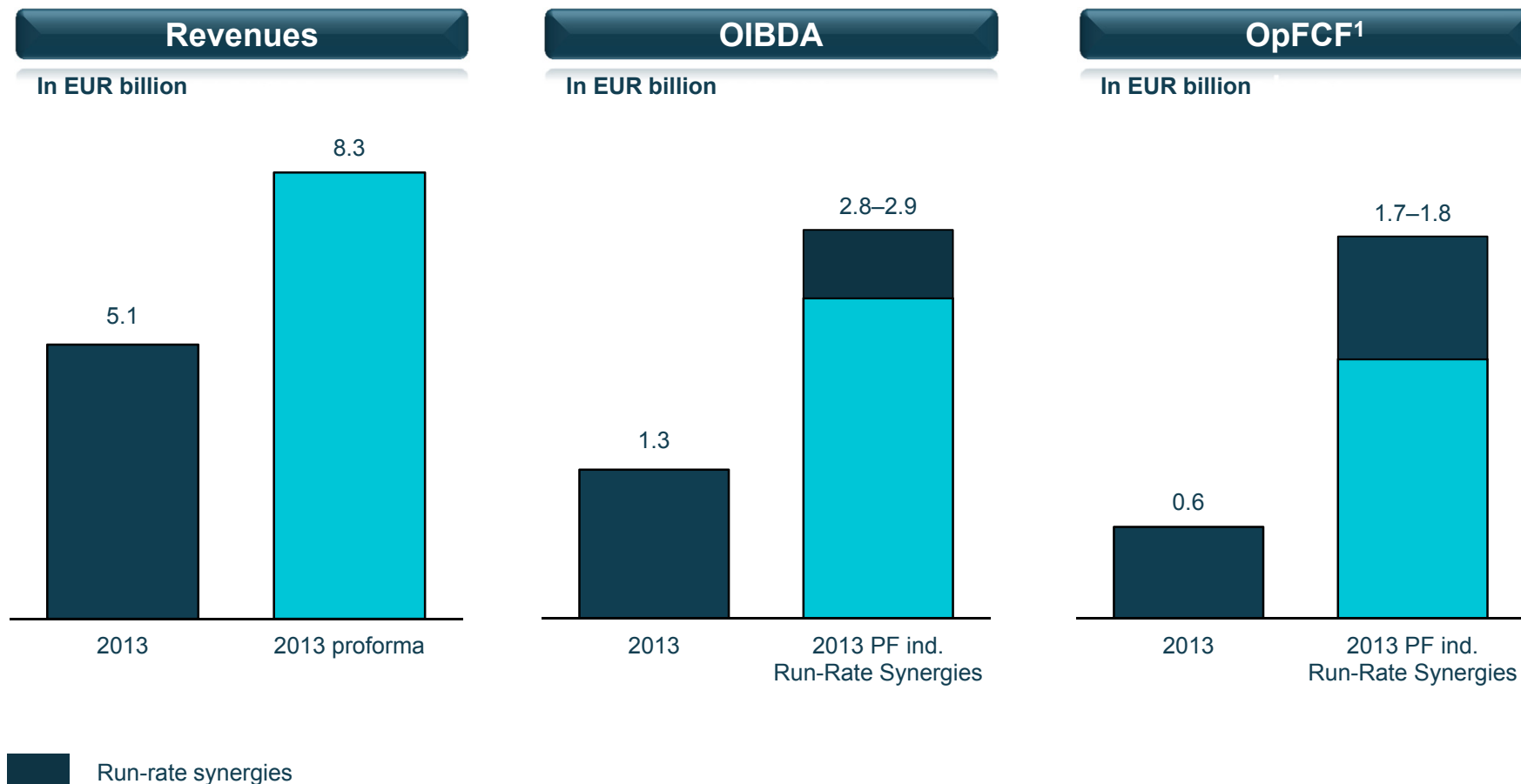


Source: Broker consensus. Not adjusted for accounting differences, pre-synergies

¹ Defined as OIBDA-Capex

3 Enhanced profitability and cash flow generation in Germany

Pro forma financial impact on Telefónica Deutschland, based on consensus forecasts



EPS and FCF accretive from first year of full operation⁽²⁾

Source: Broker consensus, not adjusted for differences in accounting policies

¹ Defined as OIBDA-Capex

² Based on run-rate synergies before integration costs

4

Creating superior customer experience

Single LTE network to deliver the best mobile broadband experience

- Strong commitment to invest in the German market
- Spectrum and network capacity to cope with growing data volumes
- Access to fibre backhaul
- Environmental benefits through reduction of sites
- Improved situation in the business sector
- Improved network quality for E-Plus subscribers through access to Telefónica Deutschland's state-of-the-art network

Best distribution channel

- Over 1,800 points of sale to serve our customers directly
- Outstanding customer service to provide the best digital experience

Multi-brand & innovative commercial offer

- Combination of the most creative players in the market
- Tariff innovation, voice & mobile data bundling
- Multi-brand strategy to better serve different customer needs
- Innovative propositions to offer ICT / cloud solutions for business customers

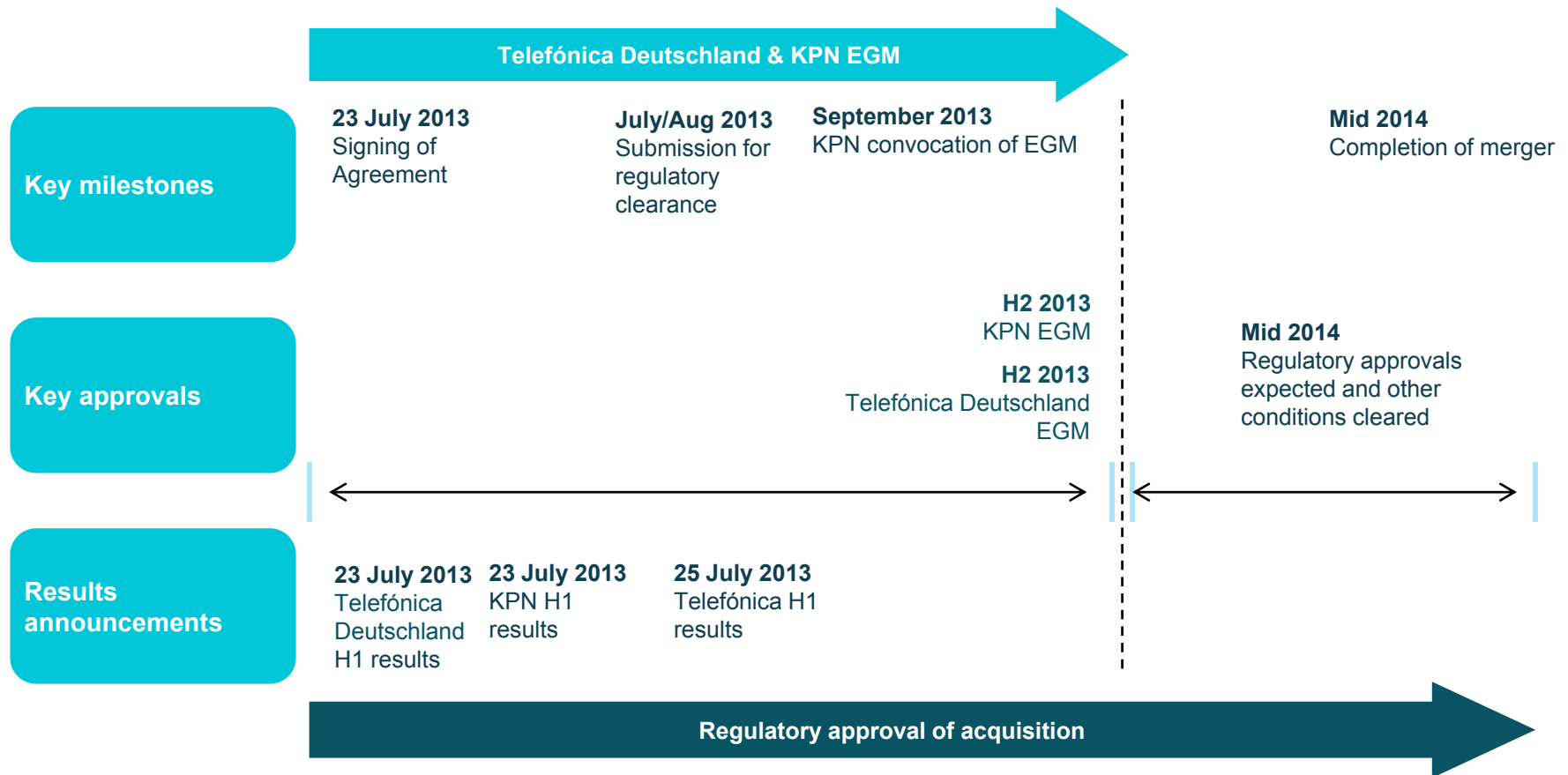
Additional opportunity from convergence strategy

- Increased up-selling and cross-selling potential extended to E-Plus customer base
- Significant tangible benefits such as churn reduction

Leveraging Telefónica's global capabilities

- Benefits from leveraging Telefónica's best practices
- Innovation through Telefónica Digital
- Global capacity: Data centers, scale benefits and shared services

Expected transaction timetable



Closing remarks

- A natural strategic move for Telefónica Deutschland to create a Leading Digital Telco with focus on mobile data and LTE enhancement
- Significant value creation through €5.0 – 5.5bn NPV synergies crystallization
- Germany is the largest mobile market in Europe and is the most advanced in data monetisation
- Substantial value creation for Telefónica and Telefónica Deutschland shareholders
 - Investing in future growth while improving financial flexibility
 - Enhancing cash flow generation profile
 - Accretive for Telefónica and Telefónica Deutschland EPS and FCF from year 1

02

January – June 2013

Operating & Financial performance

Overview of key financials

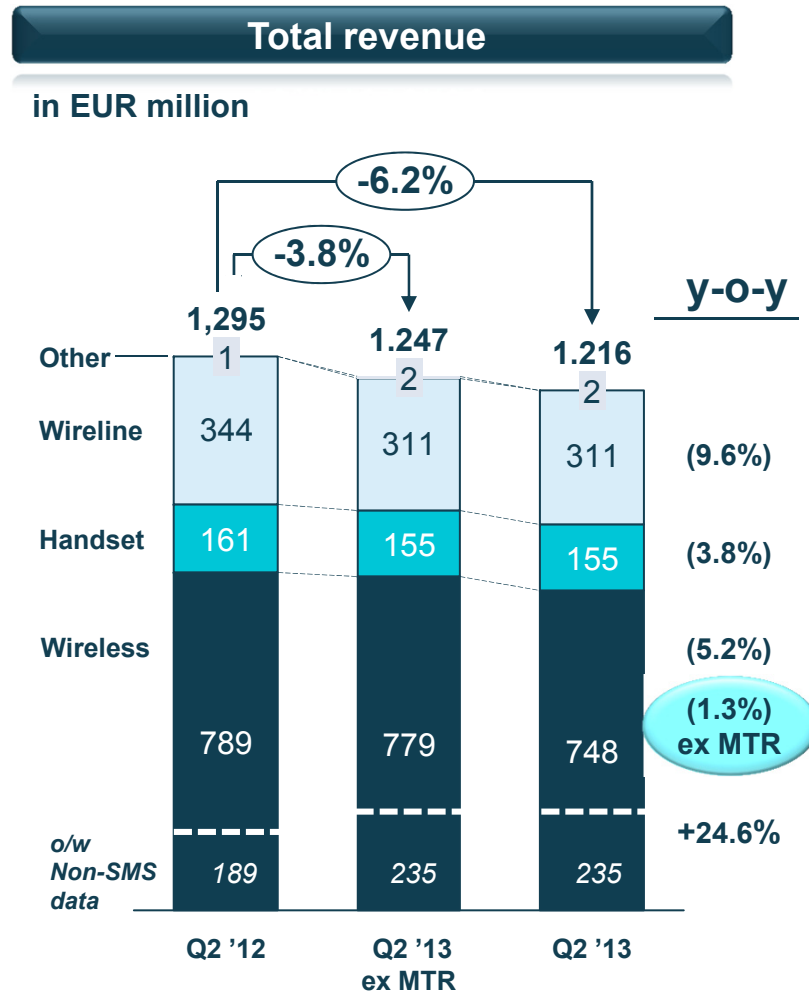
Top line pressures compensated by more efficient usage of resources

In EUR million	January - June			April - June		
	2013	2012	% y-o-y Δ	2013	2012	% y-o-y Δ
Revenues	2,445	2,554	(4.2)	1,216	1,295	(6.2)
OIBDA	572	597	(4.1)	294	317	(7.2)
OIBDA margin	23.4%	23.4%	0.0 p.p.	24.2%	24.5%	(0.3 p.p.)
Group fees	(31)	(32)	(1.5)	(16)	(17)	(8.0)
OIBDA before group fees	603	629	(4.0)	310	334	(7.2)
OIBDA before group fees margin	24.7%	24.6%	0.1 p.p.	25.5%	25.8%	(0.3 p.p.)
Capex	296	271	9.4	151	138	9.5
Free Cash Flow¹⁾ pre dividends from continuing operations	345	152	n.m.	239	64	n.m.

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.

Revenue performance

Ongoing trends from the transition to a data-centric environment



- **Wireless service revenue** driven by postpaid dynamics
 - Non-SMS data revenue acceleration
 - Lower y-o-y trading performance
 - Higher y-o-y tariff renewals in the base

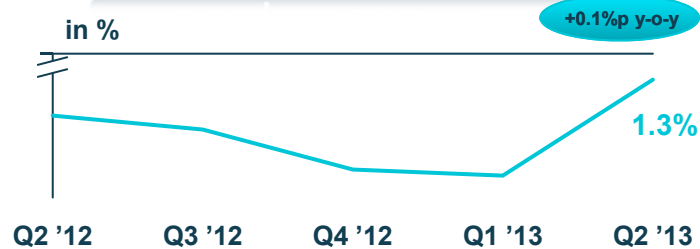
- **Handset sales** reflecting y-o-y phasing in device launches
 - Encouraging trends from LTE-enabled devices

- **Wireline revenues** sustaining recent trends
 - Lower retail DSL customer base
 - Declining voice transit business

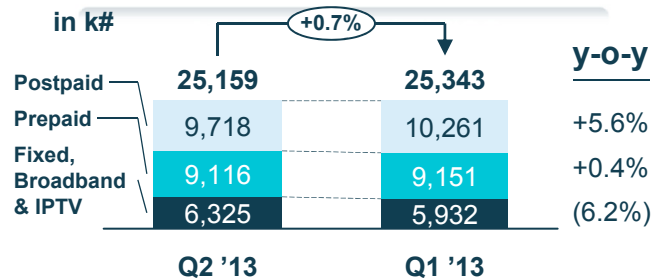
Trading performance in Q2 2013

Consistent approach to a complex market, driving smartphone penetration

Postpaid churn rate

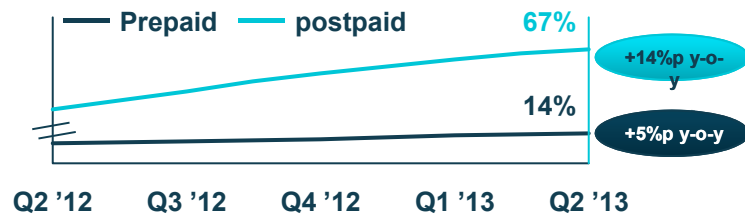


Total access base



Smartphone penetration

in % of O₂ Postpaid & Prepaid Customer Base



60k postpaid net additions

- Market focus on retention and customer base
- Better customer mix from O₂ Blue All-in push
- Successful management of tariff migrations

27k prepaid net additions

- Strong performance from secondary brands
- Adoption of new prepaid smartphone tariffs

Improved smartphone penetration

- More affordable handsets & digital behaviour
- Prepaid opportunity driven by new tariff offers

Stable retail DSL net disconnections (-40k)

- Continuous uptake of VDSL gross additions (28% of gross adds in VDSL available regions take speed option)

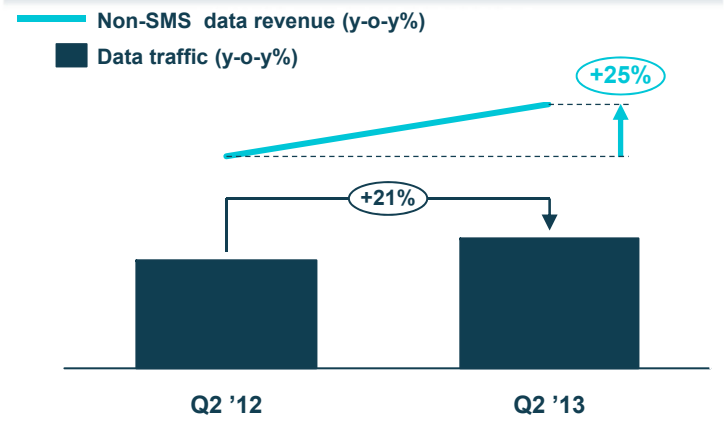
Continuous improvement of mobile data monetisation

Focus on execution based on a clear set of priorities

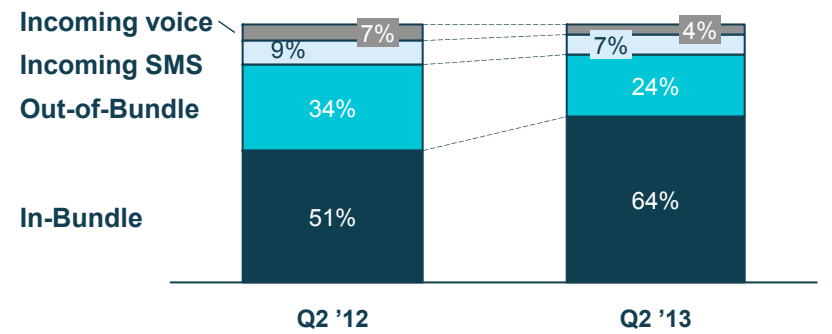
Key levers for data monetisation

- 1 Drive data & smartphone penetration for new & existing customers
- 2 Fit demand of customer base to volume & speed portfolio
- 3 Data upselling / foster LTE adoption

Traffic vs Revenues



Revenue structure of WSR ¹



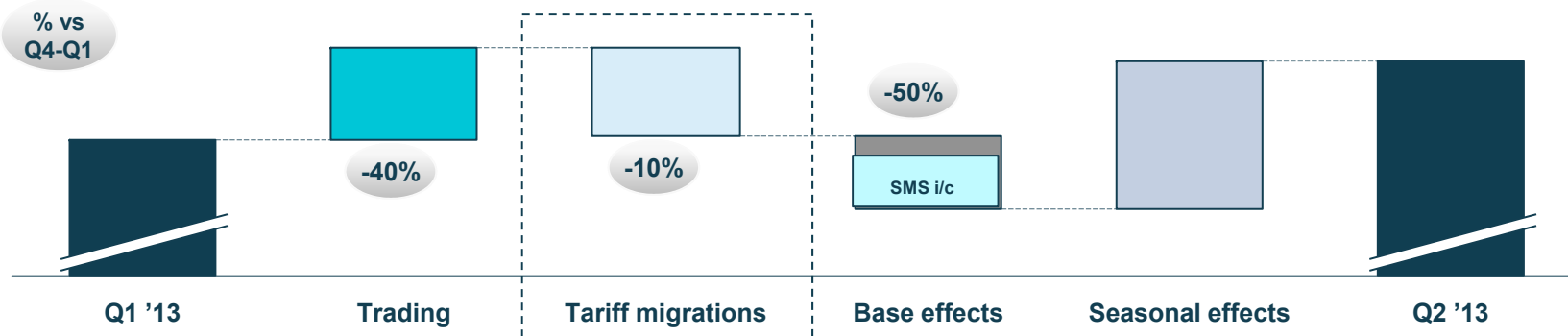
¹ Within O₂ corebrand postpaid segment

Continued dynamics in O₂ massmarket postpaid

Tangible results from base management leveraging O₂ Blue All-in

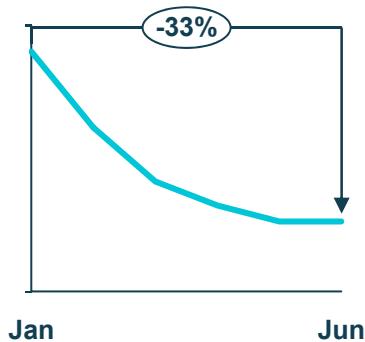
Main drivers for wireless service revenues

Q-o-Q absolute performance ex MTRs

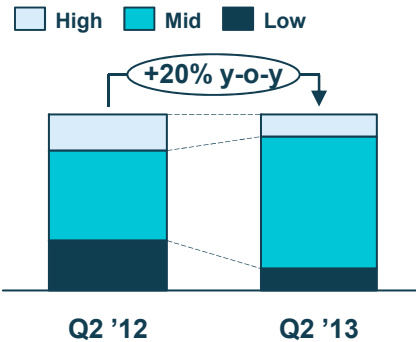


Customer base management

ARPU dilution (€)

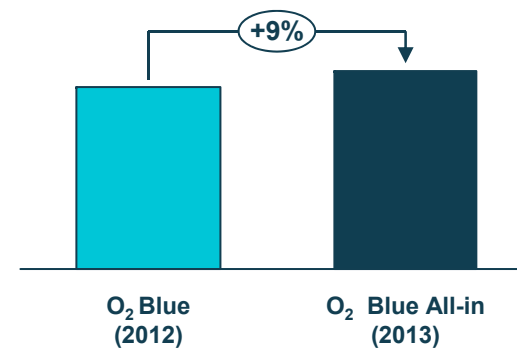


Tariff renewals (#)



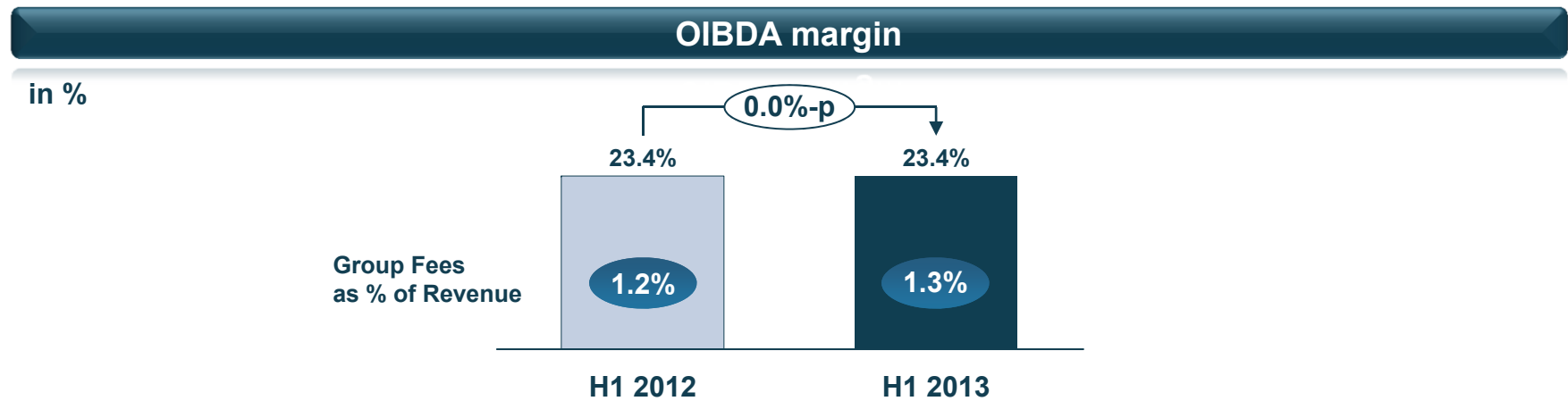
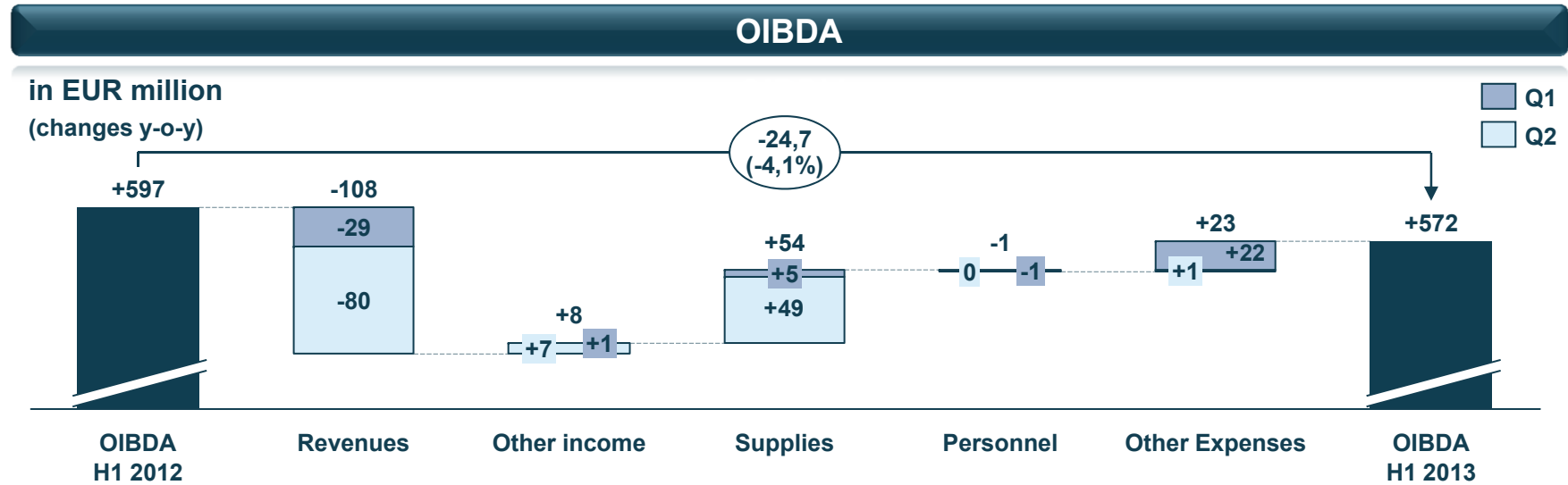
Up-selling opportunities

Weighted ARPU from portfolio mix



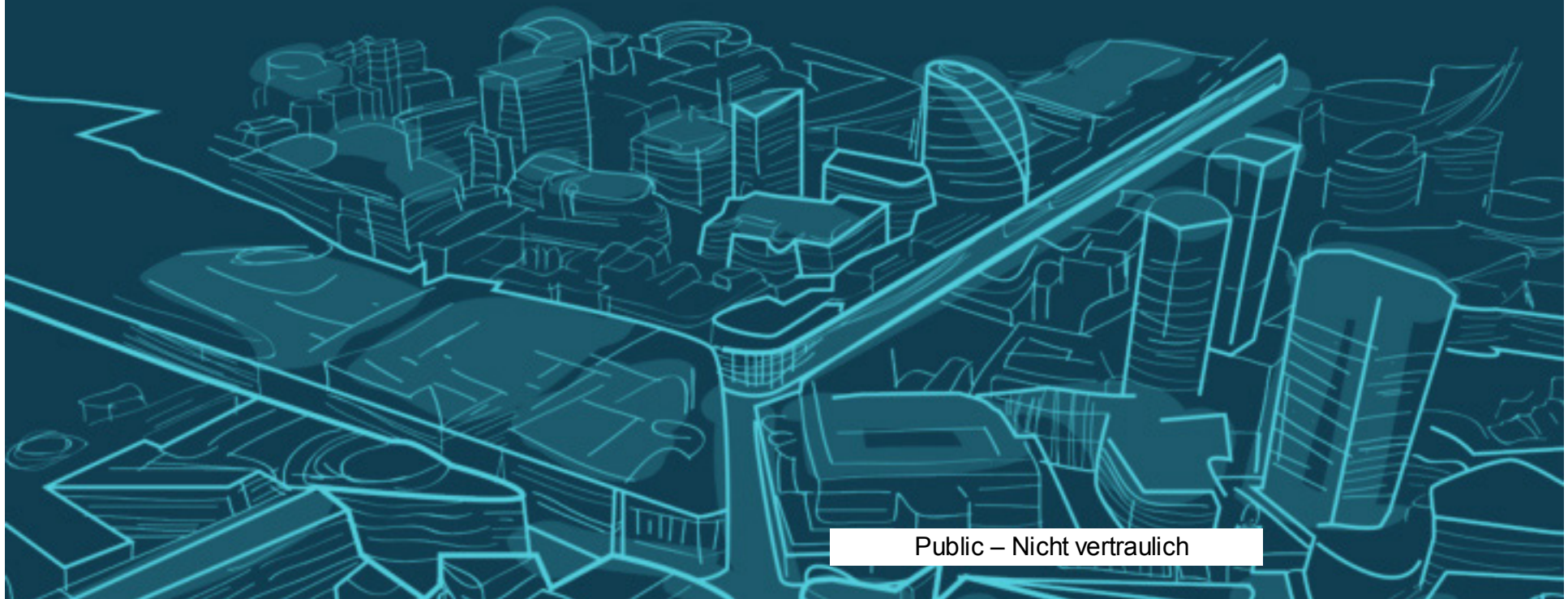
Stable y-o-y OIBDA performance

Revenues downside partly offset by cost savings



03

Q&A



Public – Nicht vertraulich

Q&A

Telefónica Deutschland Q2 2013 results conference call



For further questions please contact IR department

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