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Telefónica Deutschland releases Third Quarter 2012 Results

MUNICH. Telefónica Deutschland released a good set of results for the three months ending 30th September 2012 after its recent IPO, with continued trading momentum in the postpaid segment that translated into strong revenue growth and acceleration in the profitability of the business, including strong FCF generation.

"I am pleased with the performance of the business, which clearly reflects our strategy of mobile data monetization in the postpaid segment" says René Schuster, CEO of Telefónica Deutschland. "After our recent IPO, I am convinced that we are raising our profile further, and we will continue the successful growth story of Telefónica Deutschland in Germany in the long term."

Third quarter operational and financial highlights:

- **Solid increase of mobile postpaid base** (+10.3% year-on-year) to account for 51.7% of the base at the end of September leveraging trading momentum across segments and improved churn to 1.4%.
- **Stable year-on-year ARPU¹** performance as a result of the improved customer mix and successful data monetization.
- **Sound wireless service revenues** performance at 5.6% year-on-year, with mobile data revenues growing 14.2% to reach 43.7% of wireless service revenues.
- **Continued sequential OIBDA performance** at 12.5% year-on-year growth and margin progression to 25.7% (+1.9 percentage points year-on-year).
- **Increased investments in the network**, improving 3G data capacity and accelerating LTE network rollout, targeting 15%² of German population coverage by end of 2012.
- **Strong Operating Cash Flow generation** of 484 million euros up to September 2012 that translated into Free Cash Flow of 549 million euros and a net debt position of 1,058 million euros at the end of the period.



¹ Revenues from the "O₂ My Handy" model are not reported under wireless service revenues and are instead reported in hardware revenues, thus smartphone device sales are not reflected in ARPU.

² With an additional potential outdoor population coverage of c.7% with sites that are built but have not been connected yet.

Telefónica Deutschland operating performance

At the end of September 2012, Telefónica Deutschland had 25.3 million customer **accesses**, a year-on-year increase of 4.1%.

Main **commercial highlights** for the third quarter of 2012 in the mobile segment include:

- New “O₂ Loop” tariffs in the prepaid segment launched from 7th August.
- New “O₂ Blue” propositions from 14th September, including LTE enhanced speed option in the XL tariff.
- iPhone 5 launch from 21st September, with satisfactory pre-order figures and executed sales.

Mobile postpaid segment continued being the main contributor of customer growth across retail and partner channels, adding 171 thousand accesses in the third quarter of 2012 to reach 9.9 million on the back of strong gross additions and reduced churn at 1.4% (-0.2 percentage points, year-on-year). Continued demand for smartphones, mainly through “O₂ My Handy” model (more than 95% of total handset sales in the third quarter) and new commercial propositions under “O₂ Blue” portfolio for the consumer segment and “O₂ on” for the SME/Soho segment, were the main drivers for this performance. Smartphone penetration³ reached 24.3% at the end of September 2012, a significant improvement of 5.7 percentage points over the previous year.

The **mobile prepaid** segment added 109 thousand accesses in the third quarter of 2012, including O₂ core and partner brands, particularly after the launch of “O₂ Loop” tariffs in August.

Mobile **ARPU** evolution remained solid, with a 1.7% increase year-on-year in the first nine months of 2012 (+0.3% in the third quarter), on the back of the improved customer mix and successful data monetization, with mobile data ARPU performance outweighing voice ARPU.

Retail fixed broadband accesses declined by 61 thousand in the third quarter of 2012 in a slowing market.



³ Defined as number of active mobile data tariffs over total mobile customer base, excluding machine-to-machine and data only accesses.

Telefónica Deutschland financial performance

Telefónica Deutschland **revenues** reached 3,871 million euros in the first nine months of the year 2012, a 4.5% year-on-year growth (+4.1% in the third quarter).

Wireless service revenues stood at 2,359 million euros, showing a sound performance over the previous year (+8.1% up to September 2012; +5.6% in the third quarter). The slowdown in wireless service revenues growth from the first half of the year is on the back of an exceptionally strong third quarter of 2011 (+9.1% year-on-year, excluding the impact of mobile termination rate cuts). In 2012, in the postpaid segment, we have seen lower trading volumes than in 2011 and postpaid ARPU, despite being stable quarter-on-quarter, is below outstanding levels of the third quarter of 2011.

The main driver for revenue growth was mobile data (+18.0% year-on-year; +14.2% in the third quarter), thanks to the increased penetration of integrated tariffs in the base (mainly "O₂ Blue" portfolio). The Company continued monetizing the data opportunity, with non-SMS data revenues growing by 31.7% year-on-year up to September 2012 (+28.3% year-on-year in the third quarter). Non-SMS data revenues as a percentage of total data revenues were 57.9% in the third quarter, 6.4 percentage points above the same period of last year.

Handset revenues reached 472 million euros, an increase of 4.6% year-on-year (+13.7% in the third quarter), which is a reflection of the continued success of the "O₂ My Handy" model.

Wireline revenues stood at 1,036 million euros (-3.1% year-on-year; -3.4% in the third quarter), a stable performance quarter-on-quarter in a competitive market.

Operating expenses amounted to 2,980 million euros, a year-on-year increase of 2.1% (+1.6% in the third quarter), lower than revenue growth. Main drivers for the January-to-September 2012 period were:

- **Supplies** growing 6.2% year-on-year (+8.4% in the third quarter), due to strong demand of smartphones and increased mobile interconnection expenses on higher usage of voice services.
- **Personnel expenses** increase of 2.7% year-on-year to 337 million euros. The increase in the third quarter was +6.9%, due to general increase in salaries from July 1st and the change in the mix of our employee base towards the commercial areas.
- **Other expenses** decrease of 3.5% year-on-year (-9.1% in the third quarter) to 1,074 million euros, with savings in commercial activity compensating higher infrastructure operating expenses and Group management fees.

As a result, **Operating Income before Depreciation and Amortization (OIBDA)** reached 936 million euros in the first nine months of the year 2012 (+12.4% year-on-year; +12.5% in the third quarter). OIBDA margin for the first nine months of the year was 24.2% (25.7% in the third quarter), a year-on-year increase of 1.7 and 1.9 percentage points, respectively.

OIBDA excluding management fees totaled 986 million euros in the nine months to September 2012 (+13.2% year-on-year); accelerating to 14.1% in the third quarter. OIBDA margin continued its sequential positive performance, growing 2.0 percentage points year-on-year to 25.5% in the first nine months of the year 2012 (+2.4 percentage points in the third quarter to 27.2%). This strong performance was mainly the result of mobile data revenue growth benefitting from scale, as well as further efficiencies in the commercial area offsetting higher growth-related costs in infrastructure.

Depreciation&amortization amounted to 832 million euros in the first nine months of the year 2012, a year-on-year increase of 4.3% (-1.4% in the third quarter), mainly driven by the amortization of LTE spectrum licenses that were acquired in 2010, but activated for commercial service from 1st July 2011 and past investments made on the network.

Operating income amounted to 104 million euros in the January-September 2012 period (55 million euros in the third quarter), which is a significant improvement over previous year's period at 35 million euros (13 million euros in the third quarter).

Net financial income for the January-September 2012 period was 2.8 million euros, while in the third quarter it turned to an expense of 1.7 million euros due to the different pre-IPO activities during the quarter that resulted into a net debt position at the end of September.

Income Tax was positive in 1.5 million euros in the first nine months of the year 2012 as compared to the negative figure of 1.8 million euros accrued in the same period of 2011, attributable to a change in determination of recoverability of deferred taxes.

As a result, **net profit** for the January-September 2012 period amounted to 108 million euros, a significant improvement over the previous year at 37 million euros.

CapEx in the first nine months of the year 2012 amounted to 452 million euros, an increase of 21.3% year-on-year (+40.2% in the third quarter), supporting future growth with accelerated investment in the development of the LTE network and increase of capacity in the 3G network, in line with Company's expectations, and with a different phasing of investments than in 2011.

Operating Cash Flow (OIBDA-CapEx) increased 5.1% year-on-year to reach 484 million euros, and this translated into **Free Cash Flow** of 549 million euros in the January-September 2012 period, with a positive working capital contribution of 62 million euros. The different silent factoring agreements of "O₂ My Handy"-related customer receivables had a net positive impact of 199 million euros in the January-September 2012 period.

The **net financial debt** stood at 1,058 million euros at the end of September, 2012, with a leverage ratio⁴ of 0.85x.

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND HOLDING AG SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - September			July - September		
	2012	2011	% Chg	2012	2011	% Chg
Revenues	3,871	3,705	4.5	1,317	1,266	4.1
Operating income before Depreciation and Amortization (OIBDA)	936	833	12.4	339	301	12.5
<i>OIBDA Margin</i>	24.2%	22.5%	1.7%-p.	25.7%	23.8%	1.9%-p.
Group Fees	(50)	(38)	31.6	(19)	(12)	55.6
Operating income before Depreciation and Amortization (OIBDA) and before Group Fees	986	871	13.2	358	313	14.1
<i>OIBDA before Group Fees Margin</i>	25.5%	23.5%	2.0%-p.	27.2%	24.8%	2.4%-p.
Operating income (OI)	104	35	n.m.	55	13	n.m.
Profit for the year	108	37	n.m.	53	14	n.m.
Basic earnings per share (EUR) (1)	0.10	0.03	n.m.	0.05	0.01	n.m.
CapEx	452	373	21.3	181	129	40.2
OpCF (OIBDA-CapEx)	484	461	5.1	158	172	(8.3)
Free Cash Flow pre dividends (2)	549	170	n.m.	152	(20)	n.m.

(1) For better comparability with future financial information, the current number of shares in the Company of 1,116,945,400 has been used.

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

Note:

- OIBDA margin and OIBDA before Group Fees margin are calculated as percentage of total Revenues, respectively



⁴ Leverage ratio defined as Net financial debt over LTM OIBDA excluding non-recurring factors.

TELEFÓNICA DEUTSCHLAND HOLDING AG
ACCESSES
Unaudited figures (in thousand)

	2011		2012			% Chg (YoY)
	Q3'2011	FY 2011	Q1'2012	Q2'2012	Q3'2012	Q3'11 vs Q3'12
Final Clients Accesses	23,220	23,441	23,943	24,070	24,215	4.3
Fixed telephony accesses	2,042	2,055	2,403	2,353	2,296	12.4
Internet and data accesses	2,949	2,922	2,866	2,811	2,740	(7.1)
Narrowband	347	335	319	320	310	(10.5)
Broadband	2,603	2,588	2,547	2,491	2,430	(6.6)
Mobile accesses	18,146	18,380	18,595	18,834	19,114	5.3
Prepay	9,181	9,144	9,066	9,116	9,225	0.5
Postpaid	8,965	9,236	9,529	9,718	9,889	10.3
Postpaid (%)	49.4%	50.2%	51.2%	51.6%	51.7%	2.3%-p.
Smartphone penetration (%) (1)	18.5%	20.1%	21.1%	22.7%	24.3%	5.7%-p.
Pay TV	83	83	79	73	65	(21.8)
Wholesale Accesses (2)	1,112	1,042	1,059	1,089	1,105	(0.7)
Total Accesses	24,332	24,483	25,002	25,159	25,320	4.1

(1) Smartphone penetration is calculated based on the number of customers with a smallscreen tariff (e.g., for smartphones) divided by the total mobile customer base, less M2M and customers with a bigscreen tariff (e.g., for Surfsticks, Dongles, Tablets).

(2) Wholesale accesses incorporate unbundled lines offered to 3rd party operators, including fixed-line telephony and high-speed Internet access.

TELEFÓNICA DEUTSCHLAND HOLDING AG SELECTED OPERATIONAL DATA

Unaudited figures

	2011		2012			% Chg (QoQ)
	Q3'2011	Q4'2011	Q1'2012	Q2'2012	Q3'2012	Q3'11 vs Q3'12
ARPU (EUR)	14.0	13.8	13.5	13.9	14.0	0.3
Prepay	5.8	5.8	5.3	5.5	5.7	(1.4)
Postpaid	22.5	21.8	21.4	21.7	21.8	(2.8)
Data ARPU (EUR)	5.8	5.9	6.0	6.1	6.2	8.1
% non-SMS over data revenues	51.6%	52.0%	53.9%	54.9%	57.9%	6.4%-p.
Voice Traffic (m min)	6,907	7,208	7,365	7,399	7,228	4.6
Churn (%)	-2.1%	-2.5%	-2.4%	-2.0%	-2.1%	0.0%-p.
Postpaid churn (%)	-1.6%	-1.8%	-1.6%	-1.4%	-1.4%	0.2%-p.

	2011		2012			% Chg (YoY)
	Jan - Sep	Jan - Dec	Jan - Mar	Jan - June	Jan - Sep	Jan - Sep
ARPU (EUR)	13.6	13.6	13.5	13.7	13.8	1.7
Prepay	5.7	5.7	5.3	5.4	5.5	(2.5)
Postpaid	21.9	21.9	21.4	21.6	21.7	(0.9)
Data ARPU (EUR)	5.5	5.6	6.0	6.1	6.1	10.6
% non-SMS over data revenues	49.8%	50.4%	53.9%	54.4%	55.6%	5.8%-p.
Voice Traffic (m min)	20,785	27,993	7,365	14,763	21,991	5.8
Churn (%)	-2.2%	-2.2%	-2.4%	-2.2%	-2.2%	0.0%-p.
Postpaid churn (%)	-1.7%	-1.7%	-1.6%	-1.5%	-1.5%	0.2%-p.

Notes:

- ARPU calculated as monthly quarterly average.

- Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

**TELEFÓNICA DEUTSCHLAND HOLDING AG
COMBINED INCOME STATEMENT**
Unaudited figures (Euros in millions)

	January - September			July - September		
	2012	2011	% Chg	2012	2011	% Chg
Revenues	3,871	3,705	4.5	1,317	1,266	4.1
Other income	45	45	-	15	13	12.6
Operating expenses	(2,980)	(2,917)	2.1	(993)	(978)	1.6
Supplies	(1,569)	(1,477)	6.2	(543)	(501)	8.4
Personnel expenses	(337)	(328)	2.7	(111)	(104)	6.9
Other expenses	(1,074)	(1,112)	(3.5)	(339)	(373)	(9.1)
Operating income before Depreciation and Amortization (OIBDA)	936	833	12.4	339	301	12.5
OIBDA Margin	24.2%	22.5%	1.7%-p.	25.7%	23.8%	1.9%-p.
Depreciation and amortization	(832)	(798)	4.3	(284)	(289)	(1.4)
Operating income (OI)	104	35	n.m.	55	13	n.m.
Net financial income (expense)	3	4	(20.0)	(2)	1	n.m.
Income before taxes	107	38	n.m.	53	14	n.m.
Income taxes	2	(2)	n.m.	0	0	n.m.
Profit for the year	108	37	n.m.	53	14	n.m.
Assumed number of shares (millions) ¹⁾	1,117	1,117	-	1,117	1,117	-
Basic earnings per share (euros)	0.10	0.03	n.m.	0.05	0.01	n.m.

Notes:

1) For better comparability with future financial information, the current number of shares in the Company of 1,116,945,400 has been used.

**TELEFÓNICA DEUTSCHLAND HOLDING AG
REVENUE BREAKDOWN**
Unaudited figures (Euros in millions)

	January - September			July - September		
	2012	2011	% Chg	2012	2011	% Chg
Revenues	3,871	3,705	4.5	1,317	1,266	4.1
Wireless Business	2,832	2,633	7.5	977	914	6.9
Wireless Service Revenues	2,359	2,182	8.1	812	769	5.6
Handset Revenues	472	452	4.6	165	145	13.7
Wireline Business	1,036	1,069	(3.1)	338	350	(3.4)
Other	3	3	22.7	1	1	59.2

TELEFÓNICA DEUTSCHLAND HOLDING AG
COMBINED STATEMENT OF FINANCIAL POSITION
Unaudited figures (Euros in millions)

	September 2012	December 2011	% Chg
Non-current assets	7,522	7,900	(4.8)
Goodwill	706	706	-
Other intangible assets	3,373	3,658	(7.8)
Property, plant and equipment	3,024	3,119	(3.0)
Other non-current financial assets	6	6	-
Deferred tax assets	414	412	0.4
Current assets	2,099	5,115	(59.0)
Inventories	52	70	(25.9)
Trade and other receivables	1,142	1,010	13.0
Other current financial assets (1)	0	2,886	n.m.
Cash and cash equivalents	905	1,149	(21.2)
Total Assets = Total Equity and Liabilities	9,621	13,015	(26.1)
Equity	5,533	11,756	(52.9)
Net assets attributable to Telefonica Germany Group	5,532	11,755	(52.9)
Other components of equity	1	1	-
Total equity attributable to Telefonica Germany Group	5,533	11,756	(52.9)
Non-current liabilities	1,086	75	n.m.
Non-current interest-bearing debt (2)	1,000	0	n.m.
Other payables	6	6	(11.5)
Non-current provisions	81	69	16.8
Current liabilities	3,002	1,184	n.m.
Current interest-bearing debt (2)	953	0	n.m.
Trade payables	984	786	25.3
Other payables (3)	893	187	n.m.
Current provisions	20	42	(52.5)
Deferred income	152	170	(10.8)
Financial Data			
Net Financial Debt (4)	1,058	(4,023)	n.m.
Leverage (5)	0.85x	-3.5x	n.m.

(1) In 2012 as part of the pre-IPO dividend payment claim of €7.2bn an existing capital promise in the amount of €2.9bn has been set-off.

(2) Pre-IPO dividend payment in 2012 has been funded through a withdrawal of capital reserves of Telefonica Germany GmbH & Co. OHG ("OHG"). To this end, OHG, inter alia, used available cash and intra-group loans granted and paid out by TGB.V., an entity of the Telefonica Group, in the amount of €1.25 billion and €703 million, respectively.

(3) 2012 figure consists of a prepayment in the amount of €703m due to the sale of Telefonica Global Activities Holdings B.V. which was received prior to the effective date.

(4) Includes: Non-current interest-bearing debt + non-current other payables + current interest-bearing debt + other current payables (€4,698k in 2012 and €5,444k in 2011) - other current financial assets - cash and cash equivalents.

(5) Leverage defined as Net Financial Debt divided by LTM OIBDA excluding non-recurring factors.

**TELEFÓNICA DEUTSCHLAND HOLDING AG
RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX**
Unaudited figures (Euros in millions)

	2012	2011	2012	2011
	Jan - Sep	Jan - Sep	Jul - Sep	Jul - Sep
OIBDA	936	833	339	301
- CapEx	(452)	(373)	(181)	(129)
= Cash Contribution (OpCF)	484	461	158	172
+ Silent factoring (1)	199	0	138	0
-/+ Other working capital movements	(137)	(300)	100	16
Change in Working Capital	62	(300)	238	16
+/- Gains/losses from sale of fixed assets and other effects	(1)	3	0	0
- Taxes paid	0	0	0	0
+ Net interest payments	3	6	0	2
= Free Cash Flow pre dividends	549	170	397	190
-/+ Equity movements (2)	(3,446)	(1)	(3,446)	(1)
= Free Cash Flow post dividends	(2,897)	169	(3,049)	190

(1) Full impact of silent factoring of €199m (€48m from silent factoring deal in March 2012 and €151m from silent factoring deal in September).

(2) Net payment as of September 2012 consists of a pre-IPO dividend of €4.3bn, net proceeds from prepayments of €854.5m in connection with the termination of the profit and loss transfer agreements with the carve-out entities G3G, Quam, TGS and TGR.

	2012	2011	2012	2011
	Jan - Sep	Jan - Sep	Jul - Sep	Jul - Sep
= Free Cash Flow pre dividends	549	170	397	190
Assumed number of shares (millions) ¹⁾	1,117	1,117	1,117	1,117
= Free Cash Flow per share (EUR)	0.49	0.15	0.36	0.17

Notes:

1) For better comparability with future financial information, the current number of shares in the Company of 1,116,945,400 has been used.

TELEFÓNICA DEUTSCHLAND HOLDING AG
NET FINANCIAL DEBT EVOLUTION

Unaudited figures (Euros in millions)

	January - June 2012					Net Financial Debt (1)
	Cash & Cash Equivalents	Capital Promise	Intercompany Loans	Finance Lease Liabilities		
Net financial debt as of Jan 1, 2012		1,148.6	2,885.9	0.0	11.8	-4,022.7
OIBDA	597.1					
- CapEx	-270.9					
= Cash Contribution (OpCF)	326.3					
+ Silent factoring	48.3					
-/+ Other working capital movements	-224.4					
Change Working Capital	-176.1					
+/- Gains/losses from sale of fixed assets and other effects	-0.8					
+ Net interest proceeds	2.8					
= Free Cash Flow pre dividends	152.2	152.2				-152.2
Financing Measures						
-/+ Net payment depending equity movements	0.4					-0.4
-/+ Change in finance lease liabilities	-2.0			0.6		2.6
Financing measures	-1.6	0.0	0.0	0.6		2.2
Net financial debt as of June 30, 2012	1,299.1	2,885.9	0.0	12.3		-4,172.6
	July - September 2012					
	Cash & Cash Equivalents	Capital Promise	Intercompany Loans	Finance Lease Liabilities		Net Financial Debt (1)
Net financial debt as of July 1, 2012	1,299.1	2,885.9	0.0	12.3		-4,172.6
OIBDA	339.1					
- CapEx	-181.2					
= Cash Contribution (OpCF)	157.8					
+ Silent factoring (2)	138.2					
-/+ Other working capital movements	100.3					
Change Working Capital	238.5					
+/- Gains/losses from sale of fixed assets and other effects	0.1					
+ Net interest proceeds	0.4					
= Free Cash Flow pre dividends	396.8	396.8				-396.8
Financing Measures						
- Withdrawal of capital promise		-2,885.9				2,885.9
- Pre-IPO dividend payment	-4,300.0					4,300.0
+ Shareholder loan 1 (long-term)	1,000.0		1,000.0			0.0
+ Shareholder loan 1 (short-term)	250.0		250.0			0.0
+ Shareholder loan 2 (short-term)	703.0		703.0			0.0
+ Shareholder contribution (Sale of company)	703.0					-703.0
+ Shareholder contribution (existing profit and loss transfer agreements)	854.0					-854.0
-/+ Change in finance lease liabilities	-0.9			-2.0		-1.1
Financing measures	-791.0	-2,885.9	1,953.0	-2.0		5,627.8
Net financial debt as of September 30, 2012	904.9	0.0	1,953.0	10.3		1,058.4

(1) Net financial debt defined as Intercompany loans plus financial lease liabilities minus cash & cash equivalents minus capital promise.

(2) Full impact of silent factoring of €199m (€48m from silent factoring deal in March 2012 and €151m from silent factoring deal in September).

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