MUNICH, July 30, 2014

Telefónica Deutschland releases first half 2014 results

- **Improved revenue performance driven by LTE and data monetization in a competitive environment**
- **Significant increase in trading momentum on the back of commercial initiatives in consumer and business segments**
- **Solid financial profile maintained after dividend payment**

"Our improved operating and financial performance throughout the first half of 2014 is the tangible result of a very consistent mobile data monetization strategy, leveraging a very focused team", said Rachel Empey (CFO).

With respect to the envisaged acquisition of E-Plus Group, Markus Haas (CSO) commented: "After the recent completion of the important European Commission conditional clearance milestone, we are confident on the closure of the transaction during the third quarter of the year. We have already taken the first steps to configure the organization that will transform Telefónica Deutschland into a leading digital telco."

Second quarter 2014 operational & financial highlights:

- **Net additions in the mobile postpaid segment** reached 152 thousand, a significant quarter-on-quarter uptake (x2) compared to the average of the last four quarters.
- **Smartphone penetration** further improved and stood at 33.1% at the end of June (72.1% in the O_2 consumer postpaid segment and 21.3% in the O_2 consumer prepaid segment) with a continued demand for LTE-enabled smartphones (86% of total smartphones sold).
- **Total revenues reached 1,162 million Euro,** improving the year-on-year performance to -4.4% (-8.8% year-on-year in the first quarter 2014).
- **Wireless service revenue decreased by 2.5% year-on-year**[1], an improved performance over previous quarters following the strong traction of the new commercial propositions in both the consumer and the business segment with a favorable mix in acquisition and retention, plus stabilization of the lower SMS service usage trend.
- **The wireline business** continued showing a decline of revenues (-7.6% year-on-year), as a result of a lower retail fixed broadband access base in a tougher competitive environment.

[1] Excluding the impact from mobile termination rate cuts

- **OIBDA margin showed a year-on-year decline of 2.5 percentage points** on the back of increased commercial spend to enhance trading performance, while OIBDA sustained its performance over the previous quarters (-14.5% year-on-year).
- **CapEx was lower year-on-year by 10.9%**, totaling 134 million Euro. The deployment of the LTE network remained the key focus, while generally investments showed a different year-on-year phasing ahead of the envisaged transaction with the E-Plus Group.
- **Free Cash Flow pre dividends (FCF)[2] in the first half of the year reached 397 million Euro** (from 345 million Euro in 2013), a strong conversion from operating cash flow which was mainly driven by higher deferred income which impacted positively the change in working capital over the period.
- **Consolidated net financial debt** at the end of June 2014 stood at 634 million Euro (compared to 468 million Euro as of December 31, 2013), reaching a leverage ratio[3] of 0.6x.

[2] Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities.
[3] Leverage is defined as Net Financial Debt divided by last twelve months OIBDA excluding non-recurring factors.

Telefónica Deutschland's operating performance

At the end of June 2014, Telefónica Deutschland **customer accesses totaled 25.1 million**, broadly stable year-on-year (-0.9%). The mobile access base also remained stable (+0.1% year-on-year) at 19.4 million, while fixed line accesses declined by 4.2% year-on-year to 5.7 million.

Main **commercial highlights** for the second quarter of 2014 include:

- Since April 8, 2014 the refreshed "O_2 Blue All-in" portfolio is available in the German market. Access to LTE is included in all tariffs and a new tariff for high usage customers has been introduced ("O_2 Blue All-in Premium").
- Launch of integrated roaming packages from May 20, 2014 for the "O_2 Blue All-in" portfolio with monthly data allowances for carefree surfing while being abroad in the EU.
- Enhancement of our digital approach with the further roll out of the "O_2 Guru" initiative, making the digital experience of using a smartphone easier for customers.
- On June 4, 2014, Telefónica Deutschland launched the new "O_2 Blue All-in DSL Professional" tariffs with professional all-round service, fast internet access with up to 50 Mbit/s and a voice flat rate for all German landline and mobile networks.
- Our core mobile network is now ready to support mobile voice over LTE (mVoLTE) calls on enabled SIMs cards within compatible devices in the cities of Munich, Hamburg, Berlin and Düsseldorf.

Postpaid mobile net additions for the first six months of 2014 reached 230 thousand, with second quarter's figure (152 thousand) more than doubling the average registered over the last four quarters. The positive trend of gross additions was maintained on the back of continued commercial investments, with a favorable customer mix for both new acquisitions and renewals, further supported by churn performance. Total postpaid base increased to 10.5 million customers (+2.5% year-on-year) improving its share over the total mobile base by 1.2 percentage points to 54.1% at the end of June.

The **mobile prepaid** segment registered 9 thousand net additions in the quarter (195 thousand net disconnections in the January to June period) driven by a strong performance of secondary brands. Total prepaid customer base stood at 8.9 million at the end of June (-2.5% year-on-year).

Blended churn in both the first half of 2014 and the second quarter slightly improved year-on-year, reaching 2.1% and 1.9% respectively. Postpaid churn was stable year-on-year at 1.4% (1.3% for the second quarter, an improvement of 0.3 percentage points quarter-on-quarter), a reflection of the ongoing customer retention activities.

Smartphone penetration reached 33.1%[4] at the end of June 2014, further improving by 4.3 percentage points over the previous year. In the specific segment of O_2 consumer postpaid, smartphone penetration improved to 72.1% (+4.8 percentage points year-on-year). Also in the prepaid segment, smartphone penetration continued to show growth, reaching 21.3% in O_2 consumer segment (+6.9 percentage points year-on-year) and a remarkable 32.3% in the secondary brand Fonic (+16.4 percentage points year-on-year).

The share of LTE-enabled handsets as a percentage of total smartphones sold further increased to reach 82% in the period from January to June (86% in the second quarter) driven by the increasing demand for LTE from new and existing customers.

Mobile ARPU in the first half of 2014 was 12.3 Euro (12.5 Euro in the second quarter), a decline of 2.6% year-on-year (-2.5% ex MTR cuts) showing an improving year-on-year trend in the second quarter vs. the previous one.

Postpaid ARPU[5] declined 4.5% year-on-year ex MTR cuts (-4.7% in reported terms) to reach 18.7 Euro in the first half of the year. In the second quarter, postpaid ARPU was 18.8 Euro, -4.2% year-on-year ex MTR cuts and -4.4% in reported terms. The improvement seen vs. prior quarter's performance was mainly driven by a favorable customer mix in both acquisition and renewals plus the stabilization of the declining SMS trend.

The adoption of LTE services from new and existing customers continued to be an important driver for ARPU, while not yet completely offsetting headwinds coming from the lower usage of SMS and the repositioning of the customer base to lower pricing when renewing their long-term contracts.

Prepaid ARPU reached 5.1 Euro in the first six months of 2014, an improvement of 1.6% year-on-year ex MTR cuts (+1.3% in reported terms), driven by the higher adoption of data tariffs within this segment and the stabilization of SMS usage trends.

Retail fixed broadband accesses stood at 2.2 million at the end of June (-4.5% year-on-year) after a net loss of 53 thousand in the first half of the year (-35 thousand in the second quarter) amidst a significantly tougher competitive environment.

Wholesale broadband accesses registered 27 thousand net additions in the first six months of 2014 (24 thousand in the second quarter).

[4] Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M and data-only accesses.
[5] Starting January 1, 2014, M2M SIM-cards are excluded from calculation for postpaid churn and ARPU

Telefónica Deutschland's financial performance

Revenues for the first half of 2014 period totaled 2,284 million Euro (1,162 million Euro in the second quarter), a year-on-year performance of -6.5% ex MTR cuts (-6.6% in reported terms). In the second quarter, the revenue performance was -4.3% year-on-year ex MTR cuts (-4.4% in reported terms), a significant improvement compared to the previous quarter (-8.7% year-on-year ex MTR cuts; -8.8% in reported terms).

Wireless service revenues amounted to 1,435 million Euro in the first half of the year, a decline of 3.0% year-on-year ex MTR cuts (-3.1% in reported terms). In the second quarter, wireless service revenues reached 728 million Euro and showed an improved performance over previous quarters (-2.5% year-on-year ex MTR cuts and -2.7% in reported terms). The O_2 consumer segment continued to be the main driver of revenue performance, with increased trading and favorable mix in acquisition and renewals as a result of a continued commercial investment, besides the stabilization of trends seen for SMS usage. In this specific segment, the share of bundled revenues as a percentage of total wireless service revenues continued to grow by 6.7 percentage points year-on-year to reach 68.2% in the first half of 2014.

Mobile data revenues in the first half of 2014 totaled 704 million Euro (-1.4% year-on-year), representing 49% of wireless service revenues (+0.9 percentage points year-on-year). In the second quarter, mobile data revenues registered a 1.5% year-on-year decline to 354 million Euro.

Non-SMS data revenues continued being the main driver for revenue growth, reaching 508 million Euro in the first half of 2014 (256 million Euro in the second quarter), with a year-on-year increase of 10.6% and 9.1% respectively. The share of non-SMS data revenues over total data revenues further increased to 72.3% for the first half year, 7.8 percentage points higher than in the same period of 2013, which is the result of the successful execution of the Company's data monetization strategy.

SMS revenues continued to show a stabilization in their rate of decline (-21.6% year-on-year in the second quarter vs. -24.6% in the first quarter).

Handset revenues in the January to June 2014 period declined by 21.1% year-on-year and reached 264 million Euro, with almost all handset sales made under the "O_2 My Handy" distribution model. The second quarter registered handset revenues of 144 million Euro (-6.9% year-on-year), showing a better performance than in the previous quarter (-33.2% year-on-year) due to the launching of new devices and selective bundle offers with tariffs from the new "O_2 Blue All-in" portfolio, further supported by the "#YouCanDo" brand campaign in the second quarter.

Wireline revenues reached 581 million Euro in the first half of 2014 (288 million Euro in the second quarter) which represents a year-on-year decline of 7.3% and 7.6% respectively, mainly driven by a declining DSL retail customer base and a tougher market environment in the second quarter.

Operating expenses amounted to 1,841 million Euro in the first half of 2014, a year-on-year decline of 3.7%. For the second quarter, they totaled 932 million Euro, 1.2% lower year-on-year. This performance was mainly driven by:

- Decline in **supplies** of 9.4% year-on-year to 883 million Euro for the six months period and -3.7% year-on-year in the second quarter to 455 million Euro as a result of lower termination costs for outgoing SMS and a reduction in year-on-year handset sales (with a significant change in the second vs. the first quarter).
- **Personnel expenses** increased by 2.7% year-on-year to reach 213 million Euro in the January to June period and 105 million Euro in the second quarter, following the general increases in salaries from July 2013 onwards.
- **Other expenses** increased by 2.2% year-on-year to amount to 745 million Euro for the first half of the year (+0.9% year-on-year to 372 million Euro in the second quarter) mainly driven by the continued commercial investments to enhance trading momentum.

Operating Income before Depreciation and Amortization (OIBDA) totaled 486 million Euro in the first half of 2014, a year-on-year decline of 15.1%. For the second quarter, OIBDA amounted to 252 million Euro (-14.5% year-on-year), sustaining the performance seen in previous quarters. The resulting OIBDA margin was down 2.1 percentage points year-on-year to 21.3% for January to June 2014 period and down 2.5 percentage point to 21.7% for the second quarter.

OIBDA excluding group fees reached 515 million Euro for the first half of the year (-14.6% year-on-year) and 265 million Euro in the second quarter (-14.5% year-on-year) with an OIBDA margin of 22.6% and 22.8% respectively (a decline of 2.1 percentage points for the first half and 2.7 percentage points for the second quarter).

The year-on-year OIBDA performance was mainly driven by the negative flow-through from service revenues performance and the continued commercial investments to gain trading momentum in the market.

Depreciation & Amortization in the first half of 2014 totaled 534 million Euro, a decrease of 5.7% year-on-year, primarily attributable to already fully written off assets, especially in the software category.

Operating income totaled -48 million Euro for January to June 2014, compared to 6 million Euro in the same period of 2013.

Net financial result as of June 30, 2014 was -16 million Euro, broadly stable year-on-year.

The Company did not report material **income tax expenses** in the six months period ending June 30, 2014 nor in the same period of 2013.

Profit for the period in the six months period of 2014 was -64 million Euro, compared to -10 million Euro for January to June 2013.

CapEx amounted to 266 million Euro for the first half year of 2014, lower 10.1% year-on-year. For the second quarter CapEx totaled 134 million Euro, -10.9% year-on-year. This is reflecting the focused investments into LTE network deployment and a different year-on-year phasing of investments.

Operating Cash Flow (OIBDA minus CapEx) decreased by 20.5%, amounting to 219 million Euro for the January to June 2014 period.

Free Cash Flow pre dividends (FCF)[6] reached 397 million Euro for the first half of 2014, compared to 345 million Euro in 2013. The strong conversion of operating cash flow into free cash flow was the result of a positive change in working capital from 91 million Euro in 2013 to 191 million Euro in 2014. The majority of this increase is explained by a higher deferred income registered in the period, primarily driven by advanced payments.

Consolidated net financial debt at the end of June 2014 reached 634 million Euro, compared to 468 million Euro as of December 31, 2013, with the dividend payment of 525 million Euro in May having a principal role. As a result, the leverage ratio[7] increased to 0.6x.

[6] Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities

[7] Leverage defined as Net Financial Debt divided by last twelve months OIBDA excluding non-recurring factors.

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP
SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

	April 1 to June 30			January 1 to June 30		
(Euros in millions)	2014	2013	% Chg	2014	2013	% Chg
Revenues	1,162	1,216	(4.4)	2,284	2,445	(6.6)
Operating income before depreciation and amortization (OIBDA)	252	294	(14.5)	486	572	(15.1)
OIBDA margin	21.7%	24.2%	(2.5%-p.)	21.3%	23.4%	(2.1%-p.)
Group fees	13	16	(16.1)	30	31	(4.4)
Operating income before depreciation and amortization (OIBDA) and before group fees	265	310	(14.5)	515	603	(14.6)
OIBDA before group fees margin	22.8%	25.5%	(2.7%-p.)	22.6%	24.7%	(2.1%-p.)
Operating income	(15)	8	> (100,0)	(48)	6	> (100,0)
Total profit (loss) for the period	(24)	3	> (100,0)	(64)	(10)	> 100,0
Basic earnings per share (in euros) (1)	(0.02)	0.00	> (100,0)	(0.06)	(0.01)	> 100,0
CapEx	(134)	(151)	(10.9)	(266)	(296)	(10.1)
Operating cash flow (OIBDA-CapEx)	117	143	(18.2)	219	276	(20.5)
Free cash flow pre dividends (2)	289	239	21.0	397	345	15.1

(1) Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 1.116.945k.

(2) Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities.

Note: OIBDA margin and OIBDA before group fees margin are calculated as percentage of total revenues, respectively.

TELEFÓNICA DEUTSCHLAND GROUP
ACCESSES

Unaudited

	2014		2013				Change (YoY)	% Change (YoY)
(In thousands)	Q1	Q2	Q1	Q2	Q3	Q4	Q2'14 vs. Q2'13	Q2'14 vs. Q2'13
Final clients accesses	23,876	23,964	24,219	24,216	24,306	24,042	(252)	(1.0)
Fixed telephony accesses	2,109	2,078	2,213	2,176	2,145	2,125	(98)	(4.5)
Internet and data accesses	2,492	2,450	2,630	2,583	2,543	2,516	(133)	(5.1)
Narrowband	266	259	295	288	277	272	(29)	(10.1)
Broadband	2,226	2,191	2,336	2,295	2,266	2,244	(104)	(4.5)
Mobile accesses	19,275	19,436	19,325	19,411	19,576	19,401	25	0.1
Prepaid	8,911	8,920	9,124	9,151	9,261	9,115	(231)	(2.5)
Postpaid	10,364	10,516	10,201	10,261	10,316	10,286	256	2.5
thereof M2M	*95*	*98*	*83*	*85*	*90*	*91*	*13*	*15.1*
Postpaid (%)	53.8%	54.1%	52.8%	52.9%	52.7%	53.0%		1.2%-p.
Smartphone penetration (%) (1)	32.8%	33.1%	27.9%	28.8%	29.8%	31.4%		4.3%-p.
Pay TV	–	–	51	46	42	–	(46)	(100.0)
Wholesale accesses (2)	1,128	1,152	1,113	1,127	1,130	1,125	25	2.2
Total accesses	**25,004**	**25,116**	**25,332**	**25,343**	**25,437**	**25,167**	**(227)**	**(0.9)**

(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 wirelines telephony and high-speed internet access.

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

Unaudited

	2014		2013				% Change (YoY)
	Q1	Q2	Q1	Q2	Q3	Q4	Q2'14 vs. Q2'13
ARPU (in euros)	12.1	12.5	12.5	12.7	12.9	12.5	(2.1)
Prepaid	5.0	5.2	5.0	5.1	5.4	5.1	2.6
Postpaid excl. M2M	18.5	18.8	19.5	19.6	19.8	19.3	(4.4)
Data ARPU (in euros)	6.0	6.1	6.1	6.2	6.2	6.2	(1.6)
% non-SMS over data revenues	72.0%	72.5%	63.4%	65.4%	67.6%	69.6%	7.1%-p.
Voice Traffic (m min)	7,572	7,775	7,444	7,691	7,497	7,520	1.1
Churn (%)	2.4%	1.9%	2.4%	2.1%	2.1%	2.8%	(0.2%-p.)
Postpaid churn (%) excl. M2M	1.6%	1.3%	1.5%	1.3%	1.4%	2.1%	0.0%-p.

Unaudited

	2014		2013				% Change (YoY)
	Jan - Mar	Jan - Jun	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec	Jan - Jun
ARPU (in euros)	12.1	12.3	12.5	12.6	12.7	12.7	(2.6)
Prepaid	5.0	5.1	5.0	5.0	5.2	5.1	1.3
Postpaid excl. M2M	18.5	18.6	19.5	19.6	19.6	19.5	(4.7)
Data ARPU (in euros)	6.0	6.1	6.1	6.2	6.2	6.2	(1.4)
% non-SMS over data revenues	72.0%	72.3%	63.4%	64.4%	65.5%	66.5%	7.8%-p.
Voice Traffic (m min)	7,572	15,347	7,444	15,135	22,632	30,152	1.4
Churn (%)	2.4%	2.1%	2.4%	2.2%	2.2%	2.4%	(0.1%-p.)
Postpaid churn (%) excl. M2M	1.6%	1.4%	1.5%	1.4%	1.4%	1.6%	0.0%-p.

Notes:

- ARPU (average revenue per user) is calculated as monthly average of the quarter.
- % non-SMS over data revenues in relation to the total data revenues.
- Voice Traffic is defined as minutes used by the company customers, both outbound and inbound. Only outbound on-net traffic is included, inclusive of promotional traffic. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume is non rounded.

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED INCOME STATEMENT

Unaudited

	April 1 to June 30				January 1 to June 30			
(Euros in millions)	2014	2013	Change	% Chg	2014	2013	Change	% Chg
Revenues	1,162	1,216	(54)	(4.4)	2,284	2,445	(162)	(6.6)
Other income	22	23	–	(0.9)	43	38	5	12.6
Operating expenses	(932)	(944)	12	(1.2)	(1,841)	(1,911)	70	(3.7)
Supplies	(455)	(473)	18	(3.7)	(883)	(974)	92	(9.4)
Personnel expenses	(105)	(103)	(3)	2.7	(213)	(208)	(6)	2.7
Other expenses	(372)	(369)	(3)	0.9	(745)	(729)	(16)	2.2
Operating income before depreciation and amortization (OIBDA)	**252**	**294**	**(43)**	**(14.5)**	**486**	**572**	**(87)**	**(15.1)**
OIBDA margin	21.7%	24.2%		*(2.5%-p.)*	21.3%	23.4%		*(2.1%-p.)*
Depreciation and amortization	(267)	(286)	19	(6.7)	(534)	(566)	32	(5.7)
Operating income	**(15)**	**8**	**(23)**	**> (100,0)**	**(48)**	**6**	**(54)**	**> (100,0)**
Net financial income (expense)	**(8)**	**(5)**	**(3)**	**62.3**	**(16)**	**(16)**	**–**	**(1.3)**
Profit (loss) before tax for the period	**(24)**	**3**	**(27)**	**> (100,0)**	**(64)**	**(10)**	**(54)**	**> 100,0**
Income tax	–	–	–	(64.1)	–	–	–	(20.4)
Total profit for the period	**(24)**	**3**	**(27)**	**> (100,0)**	**(64)**	**(10)**	**(54)**	**> 100,0**
Number of shares in millions	**1,117**	**1,117**	**–**	**–**	**1,117**	**1,117**	**–**	**–**
Basic earnings per share (in euros) (1)	**(0.02)**	**–**	**(0.02)**	**> (100,0)**	**(0.06)**	**(0.01)**	**(0.05)**	**> 100,0**

(1) Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 1.116.945k.

TELEFÓNICA DEUTSCHLAND GROUP
REVENUE BREAKDOWN

Unaudited

(Euros in millions)	April 1 to June 30				January 1 to June 30			
	2014	2013	Change	% Change	2014	2013	Change	% Change
Revenues	**1,162**	**1,216**	**(54)**	**(4.4)**	**2,284**	**2,445**	**(162)**	**(6.6)**
Wireless business	**872**	**903**	**(31)**	**(3.4)**	**1,699**	**1,816**	**(117)**	**(6.4)**
Wireless service revenues	728	748	(20)	(2.7)	1,435	1,481	(46)	(3.1)
Handset revenues	144	155	(11)	(6.9)	264	335	(71)	(21.1)
Wireline business	**287**	**311**	**(24)**	**(7.6)**	**581**	**626**	**(46)**	**(7.3)**
Other revenues	**2**	**2**	**-**	**18.3**	**4**	**3**	**1**	**36.5**

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of June 30 2014	As of December 31 2013	Change	% Change
NON-CURRENT ASSETS	**6,935**	**7,168**	**(232)**	**(3.2)**
Goodwill	706	706	–	–
Intangible assets	2,717	2,884	(167)	(5.8)
Property, plant and equipment	2,818	2,896	(77)	(2.7)
Other non-current financial assets	111	99	12	12.1
Deferred tax assets	584	584	–	–
CURRENT ASSETS	**2,313**	**1,854**	**459**	**24.8**
Inventories	110	89	21	23.8
Trade and other receivables	1,172	1,035	137	13.2
Other current financial assets	25	21	4	19.1
Cash and cash equivalents	1,006	709	298	42.0
Total assets = Total equity and liabilities	**9,249**	**9,021**	**227**	**2.5**
EQUITY	**5,399**	**5,999**	**(600)**	**(10.0)**
Common Stock	1,117	1,117	–	–
Additional paid-in capital & retained earnings	4,280	4,880	(600)	(12.3)
Other components of equity	2	2	–	–
Equity attributable to owners of the parent	5,399	5,999	(600)	(10.0)
NON-CURRENT LIABILITIES	**2,263**	**1,452**	**811**	**55.9**
Non-current interest-bearing debt	1,813	1,343	470	35.0
Other payables	47	5	42	> 100,0
Non-current provisions	139	104	34	33.0
Deferred income	264	0	264	> (100,0)
CURRENT LIABILITIES	**1,587**	**1,571**	**16**	**1.0**
Current interest-bearing debt	13	102	(89)	(87.6)
Trade payables	1,099	1,074	25	2.3
Other payables	289	222	68	30.5
Current provisions	3	4	–	(10.2)
Deferred income	183	170	13	7.9

Financial Data				
Net financial debt (1)	634	468	167	35.7
Leverage (2)	0.6x	0.4x		45.9

(1) Net financial debt includes all current and non-current interest-bearing financial assets and interest-bearing financial liabilities. Net financial debt is calculated as follows: non-current interest-bearing debt (EUR 1.812.596k in 2014 and EUR 1.342.584k in 2013) + non-current finance lease payables (EUR 43.913k in 2014 and EUR 1.340k in 2013) + current interest-bearing debt (EUR 12.687k in 2014 and EUR 102.059k in 2013) + current finance lease payables (EUR 15.254k in 2014 and EUR 1.649k in 2013) minus the non-current "O2 My Handy" receivables (EUR 92.234k in 2014 and EUR 83.209k in 2013) and since June 2013 the current portion of "O2 My Handy" receivables (EUR 151.233k in 2014 and EUR 188.013k in 2013) minus loans to third parties included in other current financial assets (EUR 464k in 2014 and EUR 458k in 2013) and minus cash and cash equivalents (EUR 1.006.275k in 2014 and EUR 708.545k in 2013).

Note: The current portion of "O2 My Handy" receivables is shown under trade and other receivables in the Consolidated Statement of Financial Position and the non-current portion of "O2 My Handy" receivables is shown under other non-current financial assets in the Consolidated Statement of Financial Position.

(2) Leverage is defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1.150m in 2014; EUR 1.237m in 2013) excluding non-recurring factors.

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited

	2014		2013			
(Euros in million)	Jan - Mar	Jan - June	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
OIBDA	**234**	**486**	**278**	**572**	**864**	**1,237**
- CapEX	(132)	(266)	(146)	(296)	(468)	(666)
= Operating Cash Flow (OpCF)	**102**	**219**	**133**	**276**	**396**	**571**
+ Silent Factoring (1)	178	153	129	214	266	219
-/+ Other working capital movements	(161)	39	(146)	(123)	(89)	(87)
Change in working capital	17	**191**	(17)	91	177	**132**
+/- (Gains) losses from sale of companies, fixed assets and other effects	–	–	–	–	–	(76)
+/- Proceeds from sale of companies, fixed assets and other effects	1	1	–	–	–	107
+ Net interest payments	(4)	(7)	(4)	(10)	(15)	(21)
+ Payment on financial investments	(8)	(7)	(7)	(12)	(15)	(14)
= Free cash flow pre dividends (4)	**107**	**397**	**105**	**345**	**543**	**699**
-/+ Equity movements (2)	–	(525)	–	(503)	(503)	(503)
= Free cash flow post dividends	**107**	**(128)**	**105**	**(158)**	**40**	**196**
Net financial debt at the beginning of the period	468	468	842	842	842	842
+ Other change in net financial debt	120	38	25	(60)	(64)	(178)
+ Increase of net financial debt due to held for sale (3)	–	–	–	–	7	–
= Net financial debt at the end of the period	**481**	**634**	**762**	**940**	**745**	**468**

(1) Full impact (YTD) of silent factoring in the six month period in 2014 of EUR 153m and EUR 214m in the six month period in 2013 (transactions have been executed in January and March 2014 respectively in March, June and September 2013).

(2) Dividend payment of EUR 525m in May 2014. Dividend payment of EUR 503m in May 2013.

(3) Assets and Liabilities of Telefonica Online Services GmbH were classified as held for sale as of September 30, 2013.The sale was completed on October 31, 2013.

(4) Free cash flow pre dividends is defined as the sum of cash flow from operating acitivities and cash flow from investing activities.

	2014		2013			
	Jan - Mar	Jan - June	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
= Free cash flow pre dividends (millions)	107	397	105	345	543	699
Number of shares (millions)	1,117	1,117	1,117	1,117	1,117	1,117
= Free cash flow per share (in euros)	0.10	0.36	0.09	0.31	0.49	0.63

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

	As of June 30	As of December 31	
(Euros in millions)	2014	2013	% Change
Cash and cash equivalents	1,006	709	42.0
A Liquidity	**1,006**	**709**	**42.0**
B Current financial assets	**152**	**188**	**(19.5)**
Current interest-bearing debt	13	102	(87.6)
Other current liabilities	15	2	> 100,0
C Current financial debt	**28**	**104**	**(73.1)**
D=C-A-B Current net financial debt	**(1,130)**	**(793)**	**42.4**
E Non-current financial assets	**92**	**83**	**10.8**
Non-current interest-bearing debt	1,813	1,343	35.0
Other non-current payables	44	1	> 100,0
F Non-current financial debt	**1,857**	**1,344**	**38.1**
G=F-E Non-current net financial debt	**1,764**	**1,261**	**39.9**
H=D+G Net financial debt (1)	**634**	**468**	**35.7**

1) Net financial debt includes all current and non-current interest-bearing financial assets and interest-bearing financial liabilities. Net financial debt is calculated as follows: non-current interest-bearing debt (EUR 1.812.596k in 2014 and EUR 1.342.584k in 2013) + non-current finance lease payables (EUR 43.913k in 2014 and EUR 1.340k in 2013) + current interest-bearing debt (EUR 12.687k in 2014 and EUR 102.059k in 2013) + current finance lease payables (EUR 15.254k in 2014 and EUR 1.649k in 2013) minus the non-current "O2 My Handy" receivables (EUR 92.234k in 2014 and EUR 83.209k in 2013) and since June 2013 the current portion of "O2 My Handy" receivables (EUR 151.233k in 2014 and EUR 188.013k in 2013) minus loans to third parties included in other current financial assets (EUR 464k in 2014 and EUR 458k in 2013) and minus cash and cash equivalents (EUR 1.006.275k in 2014 and EUR 708.545k in 2013) .

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