7th November 2013

Telefónica Deutschland releases third quarter 2013 preliminary results and announces a proposal for the financial year 2013 dividend

MUNICH. The operating and financial performance of Telefónica Deutschland in the third quarter of 2013 reflects the continued execution of its strategy to monetise mobile data amidst a more dynamic competitive environment. The quarter saw a higher number of commercial activities to increase the value of its customer base through customer insight-led promotions.

The conversion of operating results to Free Cash Flow remained strong with a stable year-on-year-performance up to September 2013. As such, the management of Telefónica Deutschland resolves the intention to propose to the Annual General Meeting in 2014 a cash dividend for the current financial year of approximately 525 million Euro.

"We are progressing well with the execution of our strategy in a particularly dynamic environment", said René Schuster (CEO), and Rachel Empey (CFO) added "We are already seeing increasing opportunities to drive growth from the steady adoption of smartphones and related data services from our customers and we are taking the appropriate investment decisions in the market. At the same time, we stay committed to maintain an attractive shareholder remuneration".

Third quarter operational and financial highlights:

- **Net additions in mobile postpaid** at 55 thousand (vs. 60 thousand in the previous quarter), reflecting continued market focus on retention and increased quality of new and existing customers taking one of the new "O_2 Blue All-in" tariffs. As a result, churn rate continued its positive progression at 1.3% (-0.1 percentage points year-on-year) and smartphone penetration increased 12.8 percentage points year-on-year to 69.8% in its core O_2 consumer brand.
- **Mobile prepaid** had a very strong performance relative to previous quarters, with positive net additions of 110 thousand (vs. 27 thousand in the previous quarter), mainly driven by Fonic and other secondary brands, with an accelerated growth rate of the smartphone penetration in the base (+11.5 percentage points year-on year to 18.3% in the Fonic brand).

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- **Improvement of trends in the fixed broadband business,** with 29 thousand retail ADSL net disconnections (vs. 40 thousand in the previous quarter), leveraging increasing demand for “Speed option”, based on VDSL technology (45% share of orders with speed option[1]).
- **Wireless service revenues declined 1.8% year-on-year**[2] (-1.3% in the previous quarter) as the combination of trading momentum, pricing and changes in customer behaviour around SMS substitution continued in the quarter, with trends stabilising on a quarterly basis. Mobile data continued to be the main growth lever (+20.2% year-on-year in non-SMS data) for the business, leveraging more favourable tariff mix adoption within the “O_2 Blue All-in” portfolio. Total revenues declined 7.0% year-on-year, with a significant impact from mobile termination rate cuts.
- **Increased commercial investments** were focused on mobile customer base retention activities and specific promotions on devices attached to high value tariffs in order to improve the mix of customer spend. This added to the negative flow-through effect from revenues to results with a year-on-year decline of 14.0% in OIBDA and a 1.9 percentage points margin reduction to 23.8%.
- **CapEx increase of 3.4% year-on-year** in the nine months to September, with a strong focus on the deployment of the LTE-based mobile network (doubling investments relative to the previous year).
- **Free Cash Flow[3] pre dividends amounted** to 543 million Euro in the January-September period, resulting in a net financial debt position at the end of September 2013 of 745 million Euro (leverage ratio[4] of 0,6x).

[1] In the areas where VDSL technology is available
[2] Excluding the impact from mobile voice termination rate cuts from December, 1st 2012
[3] Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments minus taxes minus other changes.
[4] Leverage defined as Net Financial Debt divided by LTM OIBDA excluding non-recurring factors.

O_2

Telefónica Deutschland

<u>Outlook and shareholder remuneration update</u>:

The company expects the German telecommunication market to remain active and competitive in the medium term, with significant impacts from mobile termination rate cuts, changing customers' communication behaviours, and the variability of device launches and replacement cycles. As a challenger in the market, Telefónica Deutschland is impacted by the variability of these diverging trends. Thus, as a standalone business the goal for long term success is to maintain a consistent focus on gaining service revenue market share in the core wireless business and achieve further efficiencies of scale.

The planned acquisition of KPN's German mobile business E-Plus (closing scheduled for mid-2014) will likely change the scope of operations and financial expectations.

The company has observed an increasing pressure on revenues throughout the year 2013 from competition, changing customer behaviour and regulation. It's strategy remains focused on the mobile market, driven by an innovative multi-brand, data-centric approach.

Additional levers, such as the introduction of LTE and convergent fixed-mobile data services will be key for medium-term profitability as a standalone business, with the recently announced acquisition of E-Plus amplifying this opportunity in the medium term, when finally approved by shareholders and regulatory authorities.

The Company continues monitoring the mobile market place in the second half of 2013 and still sees a significant level of competition around smartphone 3G tariffs and device bundles. With a short-term focus on value maximisation in a transition year to the next technology cycle, the Company already anticipates the need to keep flexibility in the market through targeted investments and allocation of resources. As a result, 2013 OIBDA margin is expected to be at or below prior year's level.

In terms of investments, 2013 and 2014 are considered as being key years for the LTE network roll-out of Telefónica Deutschland. For 2013 it is not expected that capital expenditures exceed the levels reached in 2010 (680 million Euro) when the company was rolling out 3G capacity. Thereafter, the planned acquisition of E-Plus will likely change the investment strategy.

Operating results conversion to Free Cash Flow (FCF[3]) remains strong, with a stable year-on-year FCF performance up to September already supporting the current shareholder remuneration policy.

The management of Telefónica Deutschland intends to propose to the General Shareholders' Meeting a cash dividend for the year ending December 31, 2013 of approximately 525 million Euro, payable in 2014.

Telefónica Deutschland's operating performance:

At the end of September 2013, Telefónica Deutschland had **25.4 million customer accesses**, a year-on-year increase of 0.5%. Mobile accesses continued showing growth at 2.4% year-on-year to 19.6 million.

Main **commercial highlights** for the third quarter of 2013 include:

- Launching of attractive device & tariff bundles, covering a wide spectrum of customer demand for the most attractive smartphones in the market while improving tariff mix uptake.
- LTE-driven marketing campaign ("Alles Drin"), e.g. 12 month test of the new 4G network with the "O_2 All-in M" package and selected smartphones.
- Promotions targeted to specific segments, such as young people, with the "O_2 Blue M" including an enlarged data allowance (1 Gb) and access to 4G for 12 months at 24.99 Euro/month.
- Continued innovation in the digital space, with the launch of mobile advertising propositions, such as "O2 More Local" and "netzclub Local", and a new solution for digital advertising for small and medium sized retailers ("Promotion Pad of O2").

In the third quarter of 2013, the German mobile market showed a high level of commercial activity level around bundles of smartphone and related tariffs across segments. Retention activities in the high end segment and a very dynamic discount/no-frills segment continued in the quarter. The access to LTE is also beginning to get traction as a purchasing decision factor for customers. Telefónica Deutschland continued focusing in the mid-range of the consumer market with its "O_2 Blue All-in" tariff portfolio, improving quality from new and existing customers.

As a result, **postpaid mobile** net additions in the quarter were 55 thousand (60 thousand in the previous quarter), and total postpaid base reached 10.3 million customers (+4.3% year-on-year). Postpaid customer base penetration over total mobile base increased 1.0 percentage points, year-on-year, to 52.7%.

The **mobile prepaid** segment registered 110 thousand net additions in the third quarter of 2013 (27 thousand net additions in the previous quarter), following continued success of secondary brands (Fonic, Tchibo, netzclub, Türk Telekom) and increased adoption of prepaid smartphone tariffs. Prepaid customer base reached 9.3 million at the end of September 2013 (+0.4% year-on-year).

Blended **churn** in the third quarter remained flat over the previous year at 2.1%, with continued good performance of postpaid churn at 1.3% (-0.1 percentage points, year-on-year), which is a reflection of the successful management of the high value customer base, including retention and focused tariff migration activities.

Smartphone penetration reached 29.8%[5] at the end of September 2013, an improvement of 5.5 percentage points over the previous year. In the specific segment of O_2 consumer postpaid, smartphone penetration reached 69.8%; +12.8 percentage points year-on-year. The prepaid segment is rapidly contributing to it, with penetration improving to 17.3% in O_2 consumer and 18.3% in Fonic (+7.1 and +11.5 percentage points year-on-year increases, respectively). The adoption rate of LTE-enabled handsets from new and existing customers is improving (approximately 55% of total sales in the third quarter vs. 40% in the previous quarter), which is an encouraging trend for further data monetisation.

Mobile ARPU, excluding the impact from mobile termination rate cut from December 2012, declined 4.4% year-on-year to reach 13.4 Euro in the third quarter of 2013 (-8.2% year-on-year to 12.9 Euro in reported terms), an improvement over previous quarter (-8.4% year-on-year reported) in both contract and prepaid segments.

Postpaid ARPU, excluding mobile termination rate cuts, declined 6.6% year-on-year to reach 20.4 Euro in the third quarter, an improvement over the 6.9% decline seen in the previous quarter. The performance in reported terms was -10.1% year-on-year to 19.6 Euro. This performance reflects the evolution of three main factors: a) improved tariff mix within "O_2 Blue All-in" portfolio, b) the lower dilution achieved throughout the ongoing process of long-term contract renewals within the customer base, and c) the less negative impact from the substitution of SMS by IP-messaging applications in the market, mostly impacting incoming ARPU.

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

After the launch of the new “O_2 Blue All-in” tariff portfolio at the beginning of March 2013, the mix of adoption from new customers and tariff renewals continued its positive progression relative to the previous portfolio, with the “O_2 Blue All-in M” (€29.99/month incl. VAT) being the most popular tariff and “O_2 Blue All-in L” (€39.99/month incl. VAT) gaining traction amongst first adopters of LTE.

The increasing adoption of smartphone tariffs in the prepaid segment is also having a favourable impact in prepaid ARPU (-0.6% year-on-year in the third quarter, compared with -2.3% in the previous quarter, excluding the impact from mobile termination rates).

Retail fixed broadband accesses declined by 29 thousand in the third quarter of 2013, a continued improvement over the previous quarters (-40 and -41 thousand in the second and first quarter, respectively), which shows the increased traction of demand for speed amongst customers. In regions where VDSL is available, close to 45% of new additions were taking the “Speed” option, which is a significant improvement over the previous quarter. On the other hand, wholesale broadband accesses registered positive net additions of 3 thousand in the third quarter.

From mid-October 2013, the Company launched a new retail fixed portfolio (“O_2 DSL All-in S/M/L”):

- It constitutes the first all-net offer in the market (including fixed and mobile networks), with speed as differentiator[6] and different data volume consumption policies[7], adding transparency and simplicity to the current proposition.
- Facilitates O_2 convergent strategy, allowing for “Kombi-Vorteil” combinations in the “O_2 DSL All-in M and L” options.

[6] Nominal download/upload speeds from 8/1 Mbps to 50/10 Mbps, with a price range from €24.99/month to €34.99/month

[7] Download speed set to 2 Mbps for the remainder of the billing cycle if the volume condition is met: 100 Gb/month over each billing cycle in the “All-in S” tariff and a “Fair Flatrate” policy in the “All-in M and L” tariffs from July 2014 (300 Gb/month; only triggered if this limit is reached in the previous three billing cycles).

Telefónica Deutschland's financial performance:

Telefónica Deutschland's **revenues** reached 3,671 million Euro in the first nine months of 2013, a 5.2% year-on-year decline (-2.8% excluding mobile termination rate cuts from December 2012). Revenues in the third quarter were 1,225 million Euro, a decline of 7.0% over the same period of last year (-4.6% excluding mobile termination rate cuts).

Wireless service revenues amounted to 2,246 million Euro in the first nine months of 2013 (-4.8% year-on-year; -0.9% excluding mobile termination rate cuts), while in the third quarter they amounted to 765 million Euro (-5.7% year-on-year; -1.8% excluding the impact from mobile termination rate cuts), with trends stabilising on a sequential basis.

The year-on-year performance in the third quarter continued to be driven by the postpaid segment, where improving ARPU trends were not compensating a lower year-on-year trading activity (net additions) and a higher number of tariff renewals in the base (365 thousand in the quarter for the O_2 consumer segment, +13% year-on-year). The share of bundled revenues over total wireless service revenues was higher by 9 percentage points over the previous year reaching 62%.

Mobile data continued to be the main driver for revenue performance, reaching 1,079 million Euro in the first nine months of 2013 and 365 million Euro in the third quarter (+4.3% and +3.0% year-on-year, respectively). Non-SMS data revenues registered growth of 22.9% year-on-year in the January-September period (+20.2% in the third quarter), resulting in a ratio of non-SMS data over total data revenues of 67.6% in the third quarter, 9.7 percentage points above the same period of last year.

Handset revenues, mainly through "O_2 My Handy" distribution model, reached 482 million Euro in the first nine months of 2013, an increase of 2.1% year-on-year. In the third quarter, handset sales were 11.0% lower than in the same period of last year, reflecting different timings of device launches over the previous year and promotions on selected smartphones bundled with high value mobile data tariffs.

Wireline revenues stood at 938 million Euro in the first nine months of the year (-9.5% year-on-year; -8.1% in the third quarter), mainly leveraged on a lower retail DSL base (mitigated by an increasing uptake of VDSL) and a stable evolution of the retail DSL ARPU. This revenue line was also impacted by a further reduction of revenues from the low margin voice transit business.

Operating expenses in the January-September 2013 period amounted to 2,870 million Euro, a year-on-year decrease of 3.7% (-3.4% in the third quarter to 959 million Euro).

Main drivers for expenses evolution were:

- Decline in **supplies** of 7.6% year-on-year to 1,451 million Euro (-12.2% in the third quarter), driven by a reduction in mobile voice and SMS interconnection expenses (voice rates were cut in December, 2012), lower costs associated with the fixed business and a lower volume of handsets sold in the period.
- **Personnel expenses** increased by 1.8% year-on-year to 312 million Euro (+4.2% in the third quarter) as a result of a general increase in salaries from July, 2013 (around 3%).
- **Other expenses** increased by 0.4% year-on-year to 1,107 million Euro (+8.0% in the third quarter), with efficiencies in overheads, advertising spend and lower bad debts not compensating a significant increase in commercial expenses, mainly related to customer retention and promotions made in the third quarter.

Operating Income before Depreciation and Amortisation (OIBDA) reached 864 million Euro in the first nine months of 2013 and 292 million Euro in the third quarter (-7.7% and -14.0% year-on-year, respectively). OIBDA margin was down 0.6 percentage points year-on-year in the January-September 2013 period to 23.5% (-1.9 percentage points to 23.8% in the third quarter).

OIBDA excluding group fees totalled 918 million Euro in the January to September 2013 period (-6.9% year-on-year; -12.0% in the third quarter). OIBDA margin excluding group fees was down 0.5 percentage points year-on-year in the year to September 2013 to reach 25.0% (-1.5 percentage points to 25.7% in the third quarter).

The year-on-year OIBDA performance was mainly due to an increase in commercial investments focused on mobile customer base retention activities and specific promotions on devices attached to high value tariffs. This added to the negative flow-through effect from revenues to results.

Depreciation & Amortisation in the first nine months of 2013 amounted to 842 million Euro, a year-on-year increase of 1.2%. This increase was due to increased investments in the rollout of 4G network and increase in capacity of the 3G network throughout the year. In the third quarter, depreciation and amortization amounted to 276 million Euro, a year-on-year decrease of -3.0%. This was the result of some assets that have been fully depreciated in the period.

Operating income amounted to 22 million Euro in the January-September 2013 period (104 million Euro in the previous year), while in the third quarter it was 16 million Euro (55 million Euro in the previous year).

Net financial expenses in the first nine months of 2013 were -23 million Euro (-6 million Euro in the third quarter), from a positive income of 3 million Euro in the previous year (-2 million Euro in the third quarter of 2012). This was the result of the new capital structure of the Company from September 2012 onwards.

As a result of the above and nil **tax expense** in the period, **net profit from continuing operations** in the first nine months of 2013 was negative by 1 million Euro (+9 million Euro in the third quarter), which compares with a positive figure of 108 million Euro in the same period of the previous year (+53 million Euro in the third quarter of 2012).

CapEx in the first nine months of 2013 amounted to 468 million Euro, an increase of 3.4% year-on-year, supporting future growth with accelerated investments in the development of the LTE network, which more than doubled compared to the LTE investments in the same period of 2012. CapEx in the third quarter declined by 5.5% year-on-year due to different investment schedules.

Operating Cash Flow (OIBDA-CapEx) reached 396 million Euro in the first nine months of 2013, a year-on-year decline of 18.1% (-23.7% year-on-year in the third quarter), and this translated into **Free Cash Flow** pre dividends from continuing operations (FCF)[8] of 543 million Euro (from 553 million Euro in 2012). This strong conversion from Operating Cash Flow to FCF was the result of a year-on-year positive working capital contribution of 111 million Euro, with different silent factoring transactions executed in both years having a major role. In the third quarter of 2013 FCF amounted to 199 million Euro (401 million Euro in the same period of 2012).

[8] Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments minus taxes minus other changes. Adjustment of a rounding inaccuracy (EUR 4m) was made after release of preliminary results leading to a slightly higher Free Cash Flow pre dividends from continuing operations in 2012.

The Company did not pay income taxes neither in the first nine months of 2013 nor in the same period of 2012, and registered a net interest payment of 15 million Euro (3 million Euro income in the same period of 2012) and a contribution to a term deposit in the amount of 15 million Euro which will be released over time.

Consolidated **net financial debt** stood at 745 million Euro at the end of September 2013, resulting in a leverage ratio[9] of 0.6x.

[9] Leverage defined as Net Financial Debt divided by LTM OIBDA excluding non-recurring factors.

Telefónica Deutschland

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP
SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited (Euros in millions)

	January 1 to September 30			July 1 to September 30		
	2013	2012	% Chg	2013	2012	% Chg
Revenues	3,671	3,871	(5.2)	1,225	1,317	(7.0)
Operating income before depreciation and amortization (OIBDA)	864	936	(7.7)	292	339	(14.0)
OIBDA margin	*23.5%*	*24.2%*	*(0.6%-p.)*	*23.8%*	*25.7%*	*(1.9%-p.)*
Group fees	(54)	(50)	8.0	(23)	(19)	24.1
Operating income before depreciation and amortization (OIBDA) and before group fees	918	986	(6.9)	315	358	(12.0)
OIBDA before group fees margin	*25.0%*	*25.5%*	*(0.5%-p.)*	*25.7%*	*27.2%*	*(1.5%-p.)*
Operating income	22	104	(79.1)	16	55	(71.2)
Profit (loss) after taxes for the period from continuing operations	(1)	108	n.m.	9	53	(82.4)
Profit (loss) for the period	(1)	643	n.m.	9	344	(97.3)
Basic earnings per share from continuing operations (in euros) (1)	0.00	0.10	n.m.	0.01	0.05	(82.4)
CapEx	(468)	(452)	3.4	(171)	(181)	(5.5)
Operating cash flow (OIBDA-CapEx)	396	484	(18.1)	120	158	(23.7)
Free cash flows pre dividends from continuing operations (2)	543	553	(1.8)	198	401	(50.7)

(1) Basic earnings per share from continuing operations are calculated by dividing profit (loss) after taxes for the period from continuing operations through weighted average amount of outstanding ordinary shares of 1,117 Mio.

(2) Free cash flow pre dividends from continuing operations are defined as operating cash flow minus working capital minus interest payments and tax expenses minus other changes. Adjustment of a rounding inaccuracy (EUR 4m) was made after release of preliminary results leading to a slightly higher free cash flow pre dividends from continuing operations in 2012.

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

TELEFÓNICA DEUTSCHLAND GROUP
ACCESSES

Unaudited (in thousands)

	2012				2013			% Chg (YoY)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3'13 vs Q3'12
Final clients accesses	23,943	24,070	24,215	24,285	24,219	24,216	24,306	0.4
Fixed telephony accesses	2,403	2,353	2,296	2,249	2,213	2,176	2,145	(6.6)
Internet and data accesses	2,866	2,811	2,740	2,679	2,630	2,583	2,543	(7.2)
Narrowband	319	320	310	303	295	288	277	(10.6)
Broadband	2,547	2,491	2,430	2,376	2,336	2,295	2,266	(6.8)
Mobile accesses	18,595	18,834	19,114	19,300	19,325	19,411	19,576	2.4
Prepaid	9,066	9,116	9,225	9,191	9,124	9,151	9,261	0.4
Postpaid	9,529	9,718	9,889	10,109	10,201	10,261	10,316	4.3
Postpaid (%)	51.2%	51.6%	51.7%	52.4%	52.8%	52.9%	52.7%	*1.0%-p.*
Smartphone penetration (%) (1)	21.1%	22.7%	24.3%	26.4%	27.9%	28.8%	29.8%	*5.5%-p.*
Pay TV	79	73	65	57	51	46	42	(35.9)
Wholesale accesses (2)	1,059	1,089	1,105	1,088	1,113	1,127	1,130	2.3
Total accesses	**25,002**	**25,159**	**25,320**	**25,373**	**25,332**	**25,343**	**25,437**	**0.5**

(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.

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TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

Unaudited

	2012				2013			%Chg (YoY)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3'12 vs Q3'13
ARPU (euros)	13.5	13.9	14.0	13.6	12.5	12.7	12.9	(8.2)
Prepaid	5.3	5.5	5.7	5.5	5.0	5.1	5.4	(6.1)
Postpaid	21.4	21.7	21.8	21.0	19.3	19.5	19.6	(10.1)
Data ARPU (euros)	6.0	6.1	6.2	6.2	6.1	6.2	6.2	0.2
% non-SMS over data revenues	53.9%	54.9%	57.9%	59.9%	63.4%	65.4%	67.6%	*9.7%-p.*
Voice Traffic (m min)	7,365	7,399	7,228	7,528	7,444	7,691	7,497	3.7
Churn (%)	2.4%	2.0%	2.1%	2.5%	2.4%	2.1%	2.1%	*0.0%-p.*
Postpaid churn (%)	1.6%	1.4%	1.4%	1.5%	1.5%	1.3%	1.3%	*(0.1%-p.)*

	2012				2013			%Chg (YoY)
	Jan - Mar	Jan - June	Jan - Sep	Jan - Dec	Jan - Mar	Jan - June	Jan - Sep	Jan - Sep
ARPU (euros)	13.5	13.7	13.8	13.8	12.5	12.6	12.7	(7.9)
Prepaid	5.3	5.4	5.5	5.5	5.0	5.0	5.2	(6.7)
Postpaid	21.4	21.6	21.7	21.5	19.3	19.4	19.5	(10.0)
Data ARPU (euros)	6.0	6.1	6.1	6.2	6.1	6.2	6.2	0.8
% non-SMS over data revenues	53.9%	54.6%	55.6%	56.7%	63.4%	64.4%	65.5%	*9.9%-p.*
Voice Traffic (m min)	7,365	14,763	21,991	29,519	7,444	15,135	22,632	2.9
Churn (%)	2.4%	2.2%	2.2%	2.2%	2.4%	2.2%	2.2%	*0.1%-p.*
Postpaid churn (%)	1.6%	1.5%	1.5%	1.5%	1.5%	1.4%	1.4%	*(0.1%-p.)*

Notes:

- ARPU is calculated as monthly average of the quarter.

- % non-SMS over data revenues in relation to the total data revenues.

- 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 GROUP
CONSOLIDATED INCOME STATEMENT

Unaudited (Euros in millions)

	January 1 to September 30			July 1 to September 30		
	2013	2012	% Chg	2013	2012	% Chg
Revenues	3,671	3,871	(5.2)	1,225	1,317	(7.0)
Other income	64	45	40.3	25	15	69.0
Operating expenses	(2,870)	(2,980)	(3.7)	(959)	(993)	(3.4)
Supplies	(1,451)	(1,571)	(7.6)	(477)	(543)	(12.2)
Personnel expenses (1)	(312)	(307)	1.8	(105)	(100)	4.2
Other expenses (1)	(1,107)	(1,102)	0.4	(378)	(350)	8.0
Operating income before depreciation and amortization (OIBDA)	864	936	(7.7)	292	339	(14.0)
OIBDA margin	*23.5%*	*24.2%*	*(0.6%-p.)*	*23.8%*	*25.7%*	*(1.9%-p.)*
Depreciation and amortization	(842)	(832)	1.2	(276)	(284)	(3.0)
Operating income	22	104	(79.1)	16	55	(71.2)
Net financial income (expense)	(23)	3	n.m.	(6)	(2)	n.m.
Profit (loss) before tax from continuing operations	(1)	107	n.m.	9	53	(82.3)
Income tax	0	1	(98.7)	0	0	(99.6)
Profit (loss) after taxes for the period from continuing operations	(1)	108	n.m.	9	53	(82.4)
Profit (loss) after taxes for the period from discontinued operations (2)	0	535	(100.0)	0	291	(100.0)
Profit (loss) for the period	(1)	643	n.m.	9	344	(97.3)
Number of shares in millions (3)	1,117	1,117	-	1,117	1,117	-
Basic earnings per share from continuing operations (in euros)	0.00	0.10	n.m.	0.01	0.05	(82.4)

(1) Reclassification of external personnel expenses into other expenses in 2013 and 2012. Refer to Interim Consolidated Financial Statements as of September 30, 2013 for further details.

(2) No discontinued operations in 2013.

(3) Basic earnings per share from continuing operations are calculated by dividing profit (loss) after taxes for the period from continuing operations through weighted average amount of outstanding ordinary shares of 1,117 Mio.

TELEFÓNICA DEUTSCHLAND GROUP
REVENUE BREAKDOWN

Unaudited (Euros in millions)

	January 1 to September 30			July 1 to September 30		
	2013	2012	% Chg	2013	2012	% Chg
Revenues	3,671	3,871	(5.2)	1,225	1,317	(7.0)
Wireless business	2,729	2,832	(3.6)	912	977	(6.6)
Wireless service revenues	2,246	2,359	(4.8)	765	812	(5.7)
Handset revenues	482	472	2.1	147	165	(11.0)
Wireline business	938	1,036	(9.5)	311	338	(8.1)
Other revenues	4	3	27.6	2	1	19.0

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited (Euros in millions)

	As of September 30, 2013	As of December 31, 2012	%Chg
Non-current assets	**7,255**	**7,652**	**(5.2)**
Goodwill	706	706	-
Intangible assets	2,974	3,277	(9.3)
Property, plant and equipment	2,897	2,973	(2.6)
Other non-current financial assets	98	115	(14.7)
Deferred tax assets	581	581	-
Current assets	**1,123**	**1,417**	**(20.8)**
Inventories	78	85	(8.4)
Trade and other receivables	925	1,009	(8.3)
Other current financial assets	0	0	n.m.
Cash and cash equivalents	108	324	(66.8)
Assets held for sale	13	0	>100,0
Total assets = Total equity and liabilities	**8,378**	**9,070**	**(7.6)**
Equity	**5,916**	**6,429**	**(8.0)**
Common stock	1,117	1,117	-
Retained earnings & addtional paid-in capital	4,798	5,310	(9.7)
Other components of equity	1	1	-
Equity attributable to owners of the parent	5,916	6,429	(8.0)
Non-current liabilities	**860**	**1,092**	**(21.2)**
Non-current interest-bearing debt	750	1,000	(25.0)
Other payables	11	9	18.0
Non-current provisions	99	82	20.7
Current liabilities	**1,602**	**1,549**	**3.4**
Current interest-bearing debt	251	251	-
Trade payables	1,028	918	12.0
Other payables	155	219	(29.4)
Current provisions	4	7	(41.1)
Deferred Income	162	154	5.4
Liabiltiies held for sale	2	0	>100,0
Financial Data			
Net financial debt (1)	745	842	(11.5)
Leverage (2)	0.6x	0.7x	(8.2)

(1) *Net financial debt includes all current and non-current interest-bearing financial assets and liabilities which are immediately available for the group without any restrictions. Net financial debt is calculated as follows: non-current interest-bearing debt + non-current finance lease payables (EUR 7,192k in 2013 and EUR 4,985k in 2012) + current interest-bearing debt + current finance lease payables (EUR 2,561k in 2013 and EUR 3,964k in 2012) - the non-current "O_2 My Handy" receivables (EUR 61,461k in 2013 and EUR 93,770k in 2012) and since June 2013 the current portion of "O_2 My Handy" receivables (EUR 96,263k in 2013 and EUR 0k in 2012) - other current financial assets (EUR 442k in 2013 and EUR 101k in 2012) - cash and cash equivalents.*
Note: The current portion of "O_2 My Handy" receivables is shown under trade and other receivables in the Consolidated Statement of Financial Position and the non-current portion of "O_2 My Handy" receivables is shown under other non-current financial assets in the Consolidated Statement of Financial

(2) *Leverage is defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1,207m in 2013; EUR 1,279m in 2012) excluding non-recurring factors.*

TELEFÓNICA DEUTSCHLAND GROUP
RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX
Unaudited (Euros in millions)

	2013			2012			
	Jan - Mar	Jan - June	Jan - Sept	Jan - Mar	Jan - June	Jan - Sep	Jan - Dec
OIBDA	278	572	864	280	597	936	1,279
- CapEx	(146)	(296)	(468)	(133)	(271)	(452)	(609)
= Operating cash flow (OpCF)	133	276	396	147	326	484	670
+ Silent factoring (1)	129	214	266	74	61	199	302
-/+ Other working capital movements	(146)	(123)	(89)	(136)	(237)	(133)	(284)
Change in working capital	(17)	91	177	(61)	(176)	66	19
+/- Gains (losses) from sale of fixed assets and other effects	0	0	0	(1)	(1)	(1)	1
+ Net interest payments	(4)	(10)	(15)	3	3	3	1
+ Payment on financial investments	(7)	(12)	(15)	0	0	0	(15)
= Free cash flows pre dividends from continuing operations (7)	105	345	543	88	152	553	676
-/+ Equity movements (3)	0	(503)	(503)	0	0	(4,300)	(4,300)
= Free cash flows post dividends from continuing operations	105	(158)	40	88	152	(3,747)	(3,624)
+ Free cash flows post dividends from discontinued operations (2,4)	0	0	0	93	192	907	907
= Total free cash flows post dividends	105	(158)	40	181	344	(2,840)	(2,717)
Net financial debt at beginning of period	842	842	842	(4,316)	(4,316)	(4,316)	(4,316)
+ Other change in net financial debt	25	(60)	(64)	3	(15)	2,894	2,886
+ Decrease of net financial debt due to deconsolidation (5)	0	0	0	0	0	0	(445)
+ Decrease of net financial debt due to discontinued operations (5)	0	0	0	0	0	(445)	0
+ Increase of net financial debt due to held for sale (6)	0	0	7	0	0	0	0
= Net financial debt at end of period	762	940	745	(4,493)	(4,675)	973	842

(1) Full impact (YTD) of silent factoring in the nine month period in 2013 of EUR 266m and EUR 199m in 2012 (transactions have been executed in March, June and September 2013 respectively in March and September of the year 2012).

(2) No discontinued operations in 2013.

(3) Pre-IPO dividend in 2012 of EUR 4.3bn. Dividend payment of EUR 503m in May 2013.

(4) Free cash flows post dividends from discontinued operations in 2012 consists of EUR 349m plus net cash flows from the sale of discontinued operations of EUR 703m minus cash and cash equivalents of EUR 145m.

(5) Loan liabilities of EUR 445m of Group 3G UMTS Holding GmbH, Quam GmbH and Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Telefónica Compras Electronicas, S.L. Deconsolidation was completed in the fourth quarter of 2012.

(6) Assets and Liabilities of Telefonica Online Services GmbH are classified as held for sale as of September 30, 2013.

(7) Free cash flow pre dividends from continuing operations are defined as operating cash flow minus working capital minus interest payments and tax expenses minus other changes. Adjustment of a rounding inaccuracy (EUR 4m) was made after release of preliminary results leading to a slightly higher free cash flow pre dividends from continuing operations in 2012.

	2013			2012			
	Jan - Mar	Jan - June	Jan - Sept	Jan - Mar	Jan - June	Jan - Sep	Jan - Dec
= Free cash flows pre dividends from continuing operations	105	345	543	88	152	553	676
Number of shares (millions)	1,117	1,117	1,117	1,117	1,117	1,117	1,117
= Free cash flows per share (in euros) (1)	0.09	0.31	0.49	0.08	0.14	0.50	0.61

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited (Euros in millions)

	As of September 30	As of December 31		
	2013	2012	Amount	% Chg
Cash and cash equivalents	108	324	(216)	(66.6)
A Liquidity	**108**	**324**	**(216)**	**(66.6)**
B Current financial assets (2)	**97**	**-**	**97**	**n.m.**
Current interest-bearing debt	251	251	0	0.1
Other current liabilities	3	4	(1)	(35.4)
C Current financial debt	**254**	**255**	**(1)**	**(0.4)**
D=C-A-B Current net financial debt	**49**	**(69)**	**118**	**n.m.**
E Non-current financial assets	**61**	**94**	**(33)**	**(34.9)**
Non-current interest-bearing debt	750	1,000	(250)	(25.0)
Other non-current payables	7	5	2	44.3
F Non-current financial debt	**757**	**1,005**	**(248)**	**(24.7)**
G=F-E Non-current net financial debt	**696**	**911**	**(215)**	**(23.6)**
H=D+G Net financial debt (1) (3)	**745**	**842**	**(97)**	**(11.5)**

(1) Net financial debt includes all current and non-current interest-bearing financial assets and liabilities which are immediately available for the group without any restrictions. Net financial debt is calculated as follows: non-current interest-bearing debt + non-current finance lease payables (EUR 7,192k in 2013 and EUR 4,985k in 2012) + current interest-bearing debt + current finance lease payables (EUR 2,561k in 2013 and EUR 3,964k in 2012) - the non-current "O2 My Handy" receivables (EUR 61,461k in 2013 and EUR 93,770k in 2012) and since June 2013 the current portion of "O2 My Handy" receivables (EUR 96,263k in 2013 and EUR 0k in 2012) - other current financial assets (EUR 442k in 2013 and EUR 101k in 2012) - cash and cash equivalents.
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) Current portion of "O2 My Handy" receivables in the amount of EUR 196,830k in 2012 has not been considered in the calculation of the net financial debt in the year 2012.

(3) Assets and liabilities classified as held for sale have not been considered in the calculation of net financial debt as of September 30, 2013.

Further information

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