MUNICH, November 10, 2014

Telefónica Deutschland releases preliminary results for January to September 2014

- **Trading kept positive momentum, with O_2 brand further enhancing relevance in the market thanks to demand for LTE and availability of new devices**
- **Continued improvement in revenue performance with sustained underlying[1] OIBDA trends**
- **Financial profile remained solid with strong conversion from operating to free cash flow**
- **Acquisition of E-Plus Group now in execution phase: synergies of more than 5bn Euro confirmed while maintaining strong shareholder remuneration**

"The integration of the two companies provides us with the unique opportunity to drive the digital transformation of our business and create real added value for our customers and shareholders. Our clear goal is to build the leading digital telecommunications company in Germany" said Thorsten Dirks, CEO of Telefónica Deutschland. Rachel Empey, CFO, added "Our financial and operational performance in the third quarter demonstrates an improved momentum based on the consistent execution of our mobile data monetization strategy, leveraging the uptake of LTE."

Third quarter 2014 operational & financial highlights:

- **Net additions in the mobile postpaid segment** totaled 143 thousand, almost tripling the number of the same period in 2013 as a result of the continued investments in the market and the strong performance in both the consumer and the business segments, following the commercial propositions launched in recent quarters, and also leveraging the steady increase in demand from customers for LTE and new devices.
- **Smartphone penetration[2]** in the O_2 consumer postpaid segment further improved by 4.2 percentage points year-on-year to reach 74.1% at the end of September. 88.0% of new smartphones sold to customers in the third quarter were LTE-enabled.
- **Total revenues reached 1,219 million Euro,** almost stable year-on-year at -0.5%, and a further improvement of the year-on-year performance vs. prior quarters (-4.4% in the second quarter and -8.8% in the first quarter, respectively) with a remarkable 22.1% year-on-year increase of handset sales in the quarter.

[1] Excluding the impact from initial restructuring costs related with the acquisition of the E-Plus Group
[2] Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M data only accesses.

- **Mobile service revenue totaled 754 million Euro** and confirmed the improving year-on-year trend from previous quarters (-1.3%[3] compared to -2.5% in the second quarter and -3.4% in the first quarter). This is the result of the strong traction of the new commercial propositions launched in recent quarters, a favorable mix both in customer acquisition and retention, plus a further stabilization of the lower SMS usage trend.
- **Fixed revenues reached 283 million Euro,** a decline of 9.0% year-on-year as a result of a lower retail fixed broadband access base in a competitive environment.
- **Underlying[4] year-on-year OIBDA sustained the trend seen in previous quarters (-15.1%),** as the better performance of the mobile data business did not compensate the increased commercial spend to enhance trading momentum and additional expenses related to the E-Plus Group acquisition.
- **CapEx was lower year-on-year by 15.6%**, totaling 145 million Euro with a clear focus on the deployment of the LTE network while generally investments showed a different year-on-year phasing ahead of the integration with the E-Plus Group.
- **Free Cash Flow pre dividends (FCF)[5] in the January to September period reached 529 million Euro**, a moderate decline from the 543 million Euro registered in 2013 due to lower OIBDA, partially offset by a positive working capital development from higher non-current deferred income from other advanced payments.
- **Adjusted[6] consolidated net financial debt** at the end of September 2014 stood at 539 million Euro (compared to 468 million Euro as of December 31, 2013), reaching an adjusted leverage ratio[7] of 0.5x.

[3] Excluding the impact from mobile termination rate (MTR) cuts
[4] Excluding the impact from initial restructuring costs related with the acquisition of the E-Plus Group (8 million Euro)
[5] Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities.
[6] Adjusted by the cash component of the consideration to be paid to KPN for the acquisition of E-Plus included within cash and cash equivalents of 3,636 million Euro, which is restricted cash on an escrow account.
[7] Adjusted Leverage is defined as Adjusted Net Financial Debt divided by last twelve months OIBDA excluding non-recurring factors.

Telefónica Deutschland's operating performance

At the end of September 2014, Telefónica Deutschland **customer accesses reached 25.3 million**, almost stable year-on-year at -0.7% with the mobile access base standing at 19.6 million accesses (+0.4% year-on-year), whereas fixed accesses declined by 4.4% year-on-year to 5.6 million.

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

- Computer Bild award: O_2 with the best value-for-money for high-speed tariffs – as voted for by the readers of specialist magazine Computer Bild. This confirms our strategy of expanding our high-speed mobile network in a tailored to demand. And the LTE rollout is rapidly progressing: At the end of September O_2 LTE already reached an outdoor pop coverage of almost 60%.
- Teltarif.de for the fifth time in a row confirmed O_2 Blue all-in L as the best tariff for professionals.
- O_2 now offers even greater flexibility to prepaid customers: new smartphone tariffs meeting the needs of all customers, from beginners to frequent users, have been in place since August 7. One special feature offered by O_2 only is that unused data volume can be simply rolled over to the next month, allowing customers to surf easily without a contract while staying in full control of their costs.
- Since August, the new DSL package enables customers to benefit from the fastest download speeds of up to 100Mbit/s and state-of-the-art high-speed wireline connections. The new O_2 DSL All-in XL provides not only rapid surfing speeds of up to 100Mbit/s, but also offers upload speeds of up to 40Mbit/s – four times faster than conventional VDSL.
- Telefónica Deutschland introduced an entirely new service for drivers: With O_2 Car Connection drivers can connect their car with their smartphone to receive important diagnostic information directly to their phone. Error codes, problem reports or reminders to visit the service station are conveyed in no time and in an uncomplicated manner, helping to improve safety on the road. By drawing on information about the condition of the engine or the voltage of the battery, the driver can evaluate possible damage – and thus prevent unpleasant surprises when the car is taken for its service.

Postpaid mobile net additions in the first nine months of 2014 reached 374 thousand (compared to 207 thousand in the same period of 2013) with the third quarter (143 thousand net additions) almost tripling prior year's number. This is explained by a further positive trend of gross additions in the consumer and business (SME) segments on the back of continued commercial investments, with a favorable mix for both customer acquisitions and renewals plus a broadly stable churn performance. Total postpaid base increased by 3.3% year-on-year to stand at 10.7 million accesses and, further improving its share over the total mobile base to 54.3% (+1.6 percentage year-on-year) at the end of September.

Mobile prepaid contributed 70 thousand net additions in the third quarter (126 thousand net disconnections from January to September) driven by a strong performance of secondary brands and the usual increase of prepaid activity in summer. At the end of September, the total prepaid customer base stood at 9.0 million (-2.9% year-on-year).

Blended churn both in the third quarter and for the nine months period was broadly stable year-on-year, reaching 1.9% and 2.1% respectively. Postpaid churn[8] in the third quarter and the reported period was 1.5% (0.1 percentage points higher year-on-year), owing to a more dynamic competitive environment.

Smartphone penetration[9] in the O_2 consumer postpaid segment improved by 4.2 percentage points year-on-year to reach 74.1% at the end of September. Also the prepaid segment registered a further growth of smartphone penetration, reaching 22.2% in O_2 consumer segment (+4.9 percentage points year-on-year) and 32.5% in the secondary brand Fonic (+14.2 percentage points year-on-year).

As a result of the increasing demand for LTE from new and existing customers, the share of LTE-enabled handsets continued to grow, making up for 85.4% of total smartphones sold in the nine months period and 88.0% in the third quarter.

Mobile ARPU continued its improving year-on-year trend, reaching 12.7 Euro in the third quarter, a year-on-year decline of 1.4% and 1,2% excluding mobile termination rate cuts (-1.9% and -3.1% in the second and first quarter, respectively). In the first nine months of 2014, mobile ARPU was 12.4 Euro; a decline of 2.2% year-on-year (-2.0% excluding mobile termination rate cuts).

Postpaid ARPU[10] declined 4.1% year-on-year excluding the impact from mobile termination rate cuts (-4.2% in reported terms) to reach 18.8 Euro in the first nine months of 2014. In the third quarter, postpaid ARPU showed an improvement over previous periods and reached 19.1 Euro; -3.3% year-on-year and -3.1% excluding the impact from mobile termination rate cuts (-4.3% in the second quarter). This better performance was mainly driven by a favorable mix in both customer 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 the continuous headwinds from the lower usage of SMS and customers renewing their long-term contracts to current lower price points.

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

Prepaid ARPU in the nine months period reached 5.2 Euro, a 0.8% year-on-year increase excluding the impact from mobile termination rate cuts (+0.5% in reported terms), following the higher smartphone penetration and related adoption of data tariffs within this segment together with the stabilization of SMS usage trends. In the third quarter, prepaid ARPU declined 0.9% year-on-year (0.7% excluding the impact from mobile termination rate cuts) to 5.3 Euro.

Retail fixed broadband accesses at the end of September stood at 2.2 million (-4.7% year-on-year). In the January to September 2014 period, 83 thousand net disconnections were registered, with a better trend in the third quarter (-31 thousand) compared to the previous one (35 thousand net disconnections in the second quarter).

In the fixed wholesale broadband access segment, 13 thousand net additions were registered in the first nine months of 2014, with a net loss of 14 thousand in the third quarter.

Telefónica Deutschland's financial performance

Revenues totaled 3,503 million Euro (-4.6% year-on-year) in the January to September 2014 period, further consolidating its improving year-on-year performance in the third quarter (1,219 million Euro) to -0.5% vs. -4.4% and -8.8% reported in the two preceding quarters.

Mobile service revenues for the nine months period reached to 2,189 million Euro, declining 2.4% year-on-year excluding the impacts from mobile termination rate cuts (-2.6% in reported terms). In the third quarter, mobile service revenues reached 754 million Euro; 1.5% lower year-on-year, or -1.3% excluding the impacts from mobile termination rate cuts (-2.5% and -3.4% in the second and the first quarter, respectively). Non-SMS mobile data revenue remains the main driver for mobile service revenue, while trends in ARPU erosion per tariff renewal and SMS volume decline continued in the third quarter.

Mobile data revenues totaled 1,070 million Euro in the first nine months of 2014, 0.9% lower year-on-year, with a positive development in the third quarter (366 million Euro; +0.2% year-on-year) after a decline of 1.5% and 1.3% in the second and first quarter, respectively. Mobile data share of total mobile service revenues in the January to September 2014 period reached 48.9% (+0.8 percentage points year-on-year).

Non-SMS data revenues amounted to 778 million Euro in the first nine months of 2014 (270 million in the third quarter); a year-on-year growth of 10.1% (+9.3% in the third quarter). As a result of the successful execution of its data monetization strategy, the Company further grew the share of non-SMS data revenues over total data revenues to 73.8% (+6.1 percentage points year-on-year) in the third quarter and 72.8% (+7.3 percentage points) for the nine months period on the back of improving trading performance and a favorable mix in acquisition and renewals both in the consumer and business (SME) segments.

The declining trend for SMS revenues further stabilized in the third quarter to -18.8% year-on-year (-21.6% in the second and -24.6% in the first quarter, respectively).

Handset revenues in the first nine months of 2014 declined by 7.9% year-on-year to reach 444 million Euro, with almost all handset sales made under the "O_2 My Handy" distribution model. The third quarter saw a significant increase of handset revenues (+22.1% year-on-year to 180 million Euro) following the launch of new devices and the Company's strategy to offer attractive bundles with smartphone tariffs.

Fixed revenues for the first nine months of 2014 reached 864 million Euro (283 million Euro in the third quarter), a year-on-year decline of 7.9% (-9.0% in the third quarter), mainly as a result of the declining DSL retail customer base.

Operating expenses declined by 0.9% year-on-year in the first nine months of 2014 to amount 2,844 million Euro, while in the third quarter it increased 4.7% year-on-year to reach 1,004 million Euro driven by higher personnel expenses and supplies.

- **Supplies** reached 1,382 million Euro in the nine month period (-4.8% year-on-year) and 499 million Euro in the third quarter (+4.7% year-on-year). The overall evolution is mainly driven by lower termination costs for outgoing SMS whereas the increased costs in the third quarter are particularly related with the positive evolution of handset sales.
- **Personnel expenses** increased by 5.5% year-on-year, totaling 329 million Euro in the nine month period and by 11.0% in the third quarter to reach 116 million Euro. The evolution in the third quarter is impacted by the general increases in salaries from July 2014 onwards plus initial restructuring costs (8 million Euro) related with the acquisition of the E-Plus Group. Excluding this impact, personnel expenses grew 3.5% in the third quarter (and +3.0% in the nine-month period).
- **Other expenses** amounted to 1,134 million Euro for the nine months period (+2.4% year-on-year) and 389 million Euro in the third quarter (+2.9% year-on-year) mainly driven by the continued commercial investments to enhance trading momentum and additional costs related with the acquisition of the E-Plus Group (13 million Euro including advisory fees, of which 6 million Euro were expensed in the third quarter).

Operating Income before Depreciation and Amortization (OIBDA) reached 726 million Euro in the first nine months of the year (a decline of 16.0% year-on-year) and 240 million Euro in the third quarter (-17.8% year-on-year). OIBDA margin in reported terms was down 2.8 percentage points year-on-year to stand at 20.7% for the nine months period and down 4.1 percentage points to 19.7% in the third quarter. Excluding the impact from the initial restructuring costs related with the acquisition of the E-Plus Group, the underlying[11] OIBDA performance in the third quarter (-15.1%) sustained the trends seen in prior quarters, with the OIBDA margin at 20.3% down 3.5 percentage points year-on-year. This is mainly influenced by the flow-through from revenues together with the increasing commercial investment to gain trading momentum in the market.

OIBDA excluding group fees reached 770 million Euro in the nine months period (-16.1% year-on-year) and 255 million Euro in the third quarter (-19.0% year-on-year) with an OIBDA margin of 22.0% and 20.9% respectively (a decline of 3.0 percentage points until September and 4.8 percentage points for the third quarter).

Depreciation & Amortization in the first nine months totaled 779 million Euro, a decrease of 7.5% year-on-year, primarily due to fully written-off assets not being in use anymore, especially in the software category.

[11] Excluding the impact from initial restructuring costs related with the acquisition of the E-Plus Group (8 million Euro)

Operating income totaled -53 million Euro for the nine months period, compared to 22 million Euro in the same period of prior year.

Net financial result as of September 30, 2014 was -26 million Euro, compared to -23 million Euro in 2013.

The Company did not report material **income tax expenses** for January to September 2014 nor in the same period of 2013.

Profit for the period in the first nine months of 2014 was -79 million Euro, compared to -1 million Euro for January to September 2013.

CapEx totaled 411 million Euro for the first nine months of 2014, lower 12.1% year-on-year. In the third quarter, CapEx amounted to 145 million Euro a decline of 15.6% year-on-year. This is reflecting the focused investments into LTE network deployment and a different year-on-year phasing of investments ahead of the E-Plus Group acquisition.

Operating cash flow (OIBDA minus CapEx) reached 315 million Euro for the January to September 2014 period, a decline of 20.6% year-on year.

Free cash flow pre dividends (FCF)[12] in the January to September period reached 529 million Euro, a moderate decline from the 543 million Euro registered in 2013 due to lower OIBDA, partially offset by a positive working capital development from higher non-current deferred income from other advanced payments for future service to be received.

Adjusted[13] consolidated net financial debt at the end of September 2014 stood at 539 million Euro (compared to 468 million Euro as of December 31, 2013), reaching an adjusted leverage ratio[14] of 0.5x (compared to 0.4x as of December 31, 2013), mainly impacted by the dividend payment in May 2014 that was compensated by positive FCF evolution.

[12] Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities.
[13] Adjusted by the cash component of the consideration to be paid to KPN for the acquisition of E-Plus included within cash and cash equivalents of 3,636 million Euro, which is restricted cash on an escrow account.
[14] Adjusted Leverage is defined as Adjusted Net Financial Debt divided by last twelve months OIBDA excluding non-recurring factors.

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP
SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

	July 1 to September 30			January 1 to September 30		
(Euros in millions)	2014	2013	% Change	2014	2013	% Chg
Revenues	1,219	1,225	(0.5)	3,503	3,671	(4.6)
Operating income before depreciation and amortization (OIBDA) and restructuring	248	292	(15.1)	733	864	(15.1)
OIBDA before restructuring-margin	*20.3%*	*23.8%*	*(3.5%-p.)*	*20.9%*	*23.5%*	*(2.6%-p.)*
Operating income before depreciation and amortization (OIBDA)	240	292	(17.8)	726	864	(16.0)
OIBDA margin	19.7%	23.8%	(4.1%-p.)	20.7%	23.5%	(2.8%-p.)
Group fees	15	23	(34.3)	45	54	(17.2)
Operating income before depreciation and amortization (OIBDA) and before group fees	255	315	(19.0)	770	918	(16.1)
OIBDA before group fees-margin	*20.9%*	*25.7%*	*(4.8%-p.)*	*22.0%*	*25.0%*	*(3.0%-p.)*
Operating income	(5)	16	> (100,0)	(53)	22	> (100,0)
Total profit (loss) for the period	(15)	9	> (100,0)	(79)	(1)	> 100,0
Basic earnings per share (in euros) (1)	(0.01)	0.01	> (100,0)	(0.07)	(0.00)	> 100,0
CapEx	(145)	(171)	(15.6)	(411)	(468)	(12.1)
Operating cash flow (OIBDA-CapEx)	95	120	(20.9)	315	396	(20.6)
Free cash flow pre dividends (2)	132	198	(33.4)	529	543	(2.7)

(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 1,166m for the nine month period 2014 and 1,117m for the nine month period 2013.

(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	% Change (YoY)
(In thousands)	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q3'14 vs. Q3'13	Q3'14 vs. Q3'13
Final clients accesses	23,876	23,964	24,113	24,219	24,216	24,306	24,042	(193)	(0.8)
Fixed telephony accesses	2,109	2,078	2,051	2,213	2,176	2,145	2,125	(94)	(4.4)
Internet and data accesses	2,492	2,450	2,413	2,630	2,583	2,543	2,516	(130)	(5.1)
Narrowband	266	259	253	295	288	277	272	(25)	(8.9)
Broadband	2,226	2,191	2,161	2,336	2,295	2,266	2,244	(105)	(4.7)
Mobile accesses	19,275	19,436	19,649	19,325	19,411	19,576	19,401	73	0.4
Prepaid	8,911	8,920	8,989	9,124	9,151	9,261	9,115	(271)	(2.9)
Postpaid	10,364	10,516	10,660	10,201	10,261	10,316	10,286	344	3.3
thereof M2M	*95*	*98*	*106*	*83*	*85*	*90*	*91*	*16*	*18.0*
Postpaid (%)	53.8%	54.1%	54.3%	52.8%	52.9%	52.7%	53.0%		1.6%-p.
Smartphone penetration (%) (1)	32.8%	33.1%	33.8%	27.9%	28.8%	29.8%	31.4%		4.0%-p.
Pay TV	–	–	–	51	46	42	–	(42)	(100.0)
Wholesale accesses (2)	1,128	1,152	1,138	1,113	1,127	1,130	1,125	7	0.6
Total accesses	25,004	25,116	25,251	25,332	25,343	25,437	25,167	(186)	(0.7)

(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

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

Unaudited

	2014			2013				% Change (YoY)
	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q3'14 vs. Q3'13
ARPU (in euros)	12.1	12.5	12.7	12.5	12.7	12.9	12.5	(1.4)
Prepaid	5.0	5.2	5.3	5.0	5.1	5.4	5.1	(0.9)
Postpaid excl. M2M	18.5	18.8	19.1	19.5	19.6	19.8	19.3	(3.3)
Data ARPU (in euros)	6.0	6.1	6.2	6.1	6.2	6.2	6.2	0.1
% non-SMS over data revenues	72.0%	72.5%	73.8%	63.4%	65.4%	67.6%	69.6%	6.1%-p.
Voice Traffic (m min)	7,572	7,775	7,398	7,444	7,691	7,497	7,520	(1.3)
Churn (%)	2.4%	1.9%	1.9%	2.4%	2.1%	2.1%	2.8%	(0.2%-p.)
Postpaid churn (%) excl. M2M	1.6%	1.3%	1.5%	1.5%	1.3%	1.4%	2.1%	0.1%-p.

Unaudited

	2014			2013				% Change (YoY)
	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec	Jan - Sep
ARPU (in euros)	12.1	12.3	12.4	12.5	12.6	12.7	12.7	(2.2)
Prepaid	5.0	5.1	5.2	5.0	5.0	5.2	5.1	0.5
Postpaid excl. M2M	18.5	18.6	18.8	19.5	19.6	19.6	19.5	(4.2)
Data ARPU (in euros)	6.0	6.1	6.1	6.1	6.2	6.2	6.2	(0.9)
% non-SMS over data revenues	72.0%	72.3%	72.8%	63.4%	64.4%	65.5%	66.5%	7.3%-p.
Voice Traffic (m min)	7,572	15,347	22,745	7,444	15,135	22,632	30,152	0.5
Churn (%)	2.4%	2.1%	2.1%	2.4%	2.2%	2.2%	2.4%	(0.1%-p.)
Postpaid churn (%) excl. M2M	1.6%	1.4%	1.5%	1.5%	1.4%	1.4%	1.6%	0.1%-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

	July 1 to September 30				January 1 to September 30			
(Euros in millions)	2014	2013	Change	% Chg	2014	2013	Change	% Chg
Revenues	1,219	1,225	(6)	(0.5)	3,503	3,671	(168)	(4.6)
Other income	24	25	(1)	(3.3)	67	64	4	6.3
Operating expenses	(1,004)	(959)	(45)	4.7	(2,844)	(2,870)	26	(0.9)
Supplies	(499)	(477)	(22)	4.7	(1,382)	(1,451)	70	(4.8)
Personnel expenses	(116)	(105)	(11)	11.0	(329)	(312)	(17)	5.5
Other expenses	(389)	(378)	(11)	2.9	(1,134)	(1,107)	(27)	2.4
Operating income before depreciation and amortization (OIBDA)	**240**	**292**	**(52)**	**(17.8)**	**726**	**864**	**(138)**	**(16.0)**
OIBDA margin	19.7%	23.8%		*(4.1%-p.)*	20.7%	23.5%		*(2.8%-p.)*
Depreciation and amortization	(245)	(276)	31	(11.2)	(779)	(842)	63	(7.5)
Operating income	**(5)**	**16**	**(21)**	**> (100,0)**	**(53)**	**22**	**(75)**	**> (100,0)**
Net financial income (expense)	**(10)**	**(6)**	**(3)**	**53.1**	**(26)**	**(23)**	**(3)**	**14.0**
Profit (loss) before tax for the period	**(15)**	**9**	**(24)**	**> (100,0)**	**(79)**	**(1)**	**(78)**	**> 100,0**
Income tax	(0)	0	(0)	> (100,0)	0	0	(0)	(23.4)
Total profit for the period	**(15)**	**9**	**(24)**	**> (100,0)**	**(79)**	**(1)**	**(78)**	**> 100,0**
Number of shares in millions	**2,234**	**1,117**	**1,117**	**100.0**	**2,234**	**1,117**	**1,117**	**100.0**
Basic earnings per share (in euros) (1)	**(0.01)**	**0.01**	**(0.02)**	**> (100,0)**	**(0.07)**	**(0.00)**	**(0.07)**	**> 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 1,166m for the nine month period 2014 and 1,117m for the nine month period 2013.

TELEFÓNICA DEUTSCHLAND GROUP

REVENUE BREAKDOWN

Unaudited

	July 1 to September 30				January 1 to September 30			
(Euros in millions)	2014	2013	Change	% Change	2014	2013	Change	% Change
Revenues	**1,219**	**1,225**	**(6)**	**(0.5)**	**3,503**	**3,671**	**(168)**	**(4.6)**
Wireless business	**934**	**912**	**21**	**2.3**	**2,633**	**2,729**	**(96)**	**(3.5)**
Mobile service revenues	754	765	(11)	(1.5)	2,189	2,246	(58)	(2.6)
Handset revenues	180	147	33	22.1	444	482	(38)	(7.9)
Wireline business	**283**	**311**	**(28)**	**(9.0)**	**864**	**938**	**(74)**	**(7.9)**
Other revenues	**2**	**2**	**0**	**14.5**	**6**	**4**	**1**	**28.2**

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of September 30 2014	As of December 31 2013	Change	% Chg.
NON-CURRENT ASSETS	**6,851**	**7,168**	**(317)**	**(4.4)**
Goodwill	706	706	–	–
Intangible assets	2,637	2,884	(247)	(8.6)
Property, plant and equipment	2,810	2,896	(85)	(3.0)
Other non-current financial assets	114	99	16	15.9
Deferred tax assets	584	584	–	–
CURRENT ASSETS	**5,952**	**1,854**	**4,098**	**> 100,0**
Inventories	78	89	(12)	(13.0)
Trade and other receivables	1,113	1,035	78	7.5
Other current financial assets	21	21	(0)	(0.3)
Cash and cash equivalents (1)	4,741	709	4,032	> 100,0
Total assets = Total equity and liabilities	**12,803**	**9,021**	**3,782**	**41.9**
EQUITY	**8,955**	**5,999**	**2,956**	**49.3**
Common Stock	2,234	1,117	1,117	100.0
Additional paid-in capital	2,470	0	2,470	> 100,0
Retained earnings	4,249	4,880	(631)	(12.9)
Other components of equity	2	2	–	–
Equity attributable to owners of the company	8,955	5,999	2,956	49.3
NON-CURRENT LIABILITIES	**2,056**	**1,452**	**604**	**41.6**
Non-current interest-bearing debt	1,588	1,343	245	18.3
Other payables	47	5	42	> 100,0
Non-current provisions	159	104	55	52.7
Deferred income	262	0	262	> (100,0)
CURRENT LIABILITIES	**1,792**	**1,571**	**222**	**14.1**
Current interest-bearing debt	243	102	141	> 100,0
Trade payables	1,106	1,074	32	3.0
Other payables	244	222	22	9.9
Current provisions	11	4	7	> 100,0
Deferred income	189	170	19	11.4
Financial Data				
Net financial debt (2)	(3,096)	468	(3,564)	> (100)
Leverage (3)	(2.8x)	0.4x	(3.2)	> (100)
Adjusted net financial debt (3)	539	468	72	15.3
Adjusted leverage (4)	0.5x	0.4x	0.1	29.9

(1) Cash and cash equivalents as of September 30, 2014 include EUR 3,636m restricted cash on an escrow account. This amount represents the cash component of the consideration to be paid to KPN for the acquisition of E-Plus.

(2) Net financial debt includes 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 1.588m in 2014 and EUR 1.343m in 2013) + non-current finance lease payables (EUR 44m in 2014 and EUR 1m in 2013) + current interest-bearing debt (EUR 243m in 2014 and EUR 102m in 2013) + current finance lease payables (EUR 15m in 2014 and EUR 2m in 2013) minus the non-current "O2 My Handy" receivables (EUR 96m in 2014 and EUR 83m in 2013) and since June 2013 the current portion of "O2 My Handy" receivables (EUR 149m in 2014 and EUR 188m in 2013) minus loans to third parties included in other current financial assets (EUR 1m in 2014 and EUR 0m in 2013) and minus cash and cash equivalents (EUR 4.741m in 2014 and EUR 709m 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.

(3) Leverage is defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1.099m in 2014; EUR 1.237m in 2013) excluding non-recurring factors.

(4) Adjusted net financial debt is defined as net financial debt excluding restricted cash on an escrow account amounting to EUR 3,636m.

(5) Adjusted leverage is defined as adjusted net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1.099m in 2014; EUR 1.237m in 2013) excluding non-recurring factors.

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited

(Euros in million)	2014 Jan - Mar	2014 Jan - June	2014 Jan - Sept	2013 Jan - Mar	2013 Jan - June	2013 Jan - Sept	2013 Jan - Dec
OIBDA	**234**	**486**	**726**	**278**	**572**	**864**	**1,237**
- CapEX	(132)	(266)	(411)	(146)	(296)	(468)	(666)
= Operating Cash Flow (OpCF)	**102**	**219**	**315**	**133**	**276**	**396**	**571**
+ Silent Factoring (1)	178	153	234	129	214	266	219
-/+ Other working capital movements	(161)	39	(8)	(146)	(123)	(89)	(87)
Change in working capital	17	191	**226**	(17)	91	177	**132**
+/- (Gains) losses from sale of companies, fixed assets and other effects	(0)	(0)	(0)	–	(0)	–	(76)
+/- Proceeds from sale of companies, fixed assets and other effects	1	1	1	–	–	–	107
+ Net interest payments	(4)	(7)	(10)	(4)	(10)	(15)	(21)
+ Payment on financial investments	(8)	(7)	(3)	(7)	(12)	(15)	(14)
= Free cash flow pre dividends (2)	**107**	**397**	**529**	**105**	**345**	**543**	**699**
-/+ Dividends (3)	–	(525)	(525)	–	(503)	(503)	(503)
= Free cash flow post dividends	**107**	**(128)**	**4**	**105**	**(158)**	**40**	**196**
Net financial debt at the beginning of the period	468	468	468	842	842	842	842
+ Other change in net financial debt	120	38	39	25	(60)	(64)	(178)
+ capital increase (less transaction costs of the period)	–	–	(3,599)	–	–	–	–
+ Increase of net financial debt due to held for sale (4)	–	–	–	–	–	7	–
= Net financial debt at the end of the period (incl. Restricted cash)	**481**	**634**	**(3,096)**	**762**	**940**	**745**	**468**
- Increase in restricted cash	–	–	3,636	–	–	–	–
= Adjusted Net financial debt at the end of the period (excl. Restricted cash)	**481**	**634**	**539**	**762**	**940**	**745**	**468**

(1) Full impact (YTD) of silent factoring in the nine month period in 2014 of EUR 234m and EUR 266m in the nine month period in 2013 (transactions have been executed in January, March and September 2014 respectively in March, June and September 2013).

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

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

(4) 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.

	2014 Jan - Mar	2014 Jan - June	2014 Jan - Sept	2013 Jan - Mar	2013 Jan - June	2013 Jan - Sept	2013 Jan - Dec
= Free cash flow pre dividends (millions)	107	397	529	105	345	543	699
Number of shares (millions)	1,117	1,117	2,234	1,117	1,117	1,117	1,117
= Free cash flow per share (in euros)	0.10	0.36	0.24	0.09	0.31	0.49	0.63

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

(Euros in millions)	As of September 30 2014	As of December 31 2013	% Change
Cash and cash equivalents (1)	4,741	709	> 100,0
A Liquidity	**4,741**	**709**	**> 100,0**
B Current financial assets	**149**	**188**	**(20.8)**
Current interest-bearing debt	243	102	> 100,0
Other current liabilities	15	2	> 100,0
C Current financial debt	**258**	**104**	**> 100,0**
D=C-A-B Current net financial debt	**(4,632)**	**(793)**	**> 100,0**
E Non-current financial assets	**96**	**83**	**15.4**
Non-current interest-bearing debt	1,588	1,343	18.3
Other non-current payables	44	1	> 100,0
F Non-current financial debt	**1,631**	**1,344**	**21.4**
G=F-E Non-current net financial debt	**1,535**	**1,261**	**21.8**
H=D+G Net financial debt (2)	**(3,096)**	**468**	**> (100,0)**
I Restricted cash	**3,636**	**–**	**> (100,0)**
J=H+I Adjusted net financial debt (excl. restricted cash)	**539**	**468**	**15.3**

(1) Cash and cash equivalents as of September 30, 2014 include EUR 3,636m restricted cash on an escrow account. This amount represents the cash component of the consideration to be paid to KPN for the acquisition of E-Plus.

(2) Net financial debt includes 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 1.588m in 2014 and EUR 1.343m in 2013) + non-current finance lease payables (EUR 44m in 2014 and EUR 1m in 2013) + current interest-bearing debt (EUR 243m in 2014 and EUR 102m in 2013) + current finance lease payables (EUR 15m in 2014 and EUR 2m in 2013) minus the non-current "O2 My Handy" receivables (EUR 96m in 2014 and EUR 83m in 2013) and since June 2013 the current portion of "O2 My Handy" receivables (EUR 149m in 2014 and EUR 188m in 2013) minus loans to third parties included in other current financial assets (EUR 1m in 2014 and EUR 0m in 2013) and minus cash and cash equivalents (EUR 4.741m in 2014 and EUR 709m in 2013).
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