26th February 2014

Telefónica Deutschland releases full year 2013 preliminary results

MUNICH. The operating and financial performance of Telefónica Deutschland in 2013 reflects the execution of its strategy in a very dynamic competitive environment, with a clear focus on mobile data monetisation. The strong conversion of operating results into Free Cash Flow exceeded the proposed dividend of 525 million Euro for financial year 2013.

"We are facing 2014 with renewed optimism for the future as we see significant value creation opportunities to be materialised with the envisaged transaction with E-Plus", said Markus Haas (CSO) and Rachel Empey (CFO) added, "We have been able to demonstrate our ability to increase Free Cash Flow in a particularly demanding environment while strengthening our financial profile".

Full year 2013 financial highlights:

- **Telefónica Deutschland total revenues amounted to 4,914 million Euro,** a decrease of 5.7% year-on-year, of which 2,989 million Euro were wireless service revenues (-5.2% year-on-year; -1.5% excluding mobile termination rate cuts).
- **OIBDA reached 1,237 million Euro,** 3.3% below 2012 and -9.2% year-on-year if adjusted for capital gains of 76.2 million Euro from the sale of assets[1] in the fourth quarter of 2013. As a result, OIBDA margin was 25.2% (23.6% if adjusted for capital gains, -0.9 percentage points year-on-year).
- **CapEx increased 9.4% year-on-year to 666 million Euro**, and after a net positive contribution of 127 million Euro from Working Capital and other effects, **Free Cash Flow pre-dividends[2] increased 3.3% year-on-year to 699 million Euro**.
- **Net debt decreased year-on-year by 375 million Euro** to reach 468 million Euro at the end of December, 2013, with a leverage ratio of 0.4x[3]. The Company successfully debuted in the debt capital market with a 600 million 5-year Eurobond issuance in Mid-November 2013, followed by a 500 million 7-year Eurobond at the beginning of February, 2014.

[1] 30 million Euro from the sale of Telefónica Online Services and 46.2 million Euro from the sale of fibre assets in Hamburg.

[2] Free cash flow pre dividends from continuing operations is defined as the sum of cash flow from operating activities from continuing operations and cash flow from investing activities from continuing operations.

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

Summary of achievements on 2013 Strategic Priorities for the business:

1. **Capitalise on our multi-brand portfolio & superior customer satisfaction, driving additional efficiencies for the business.**
   - Tariff portfolio updates for a more smartphone-centric customer demand: “O_2 Blue All-in” for the consumer postpaid segment; “O_2 Loop Smart” and “Fonic Smart S” tariffs for prepaid customers.
   - Development of new distribution channels and special propositions for digital customers: O_2 Facebook shop launch, online tariffs for specific segments (e.g. young people).
   - Further development of a fixed-mobile convergent approach, also leveraging Telefónica Deutschland’s strong partnership with Deutsche Telekom in fixed access: improved “Kombi-Vorteil”, new “O_2 DSL All-in” portfolio.
2. **Monetise the data opportunity in all segments through innovative products, digital services & LTE network.**
   - Consolidation of “O_2 My Handy” handset model with the design of specific bundles to foster LTE adoption (summer campaign “Alles Drin” and Christmas campaign “Hol alles raus” with one year access to LTE when selecting the “O_2 Blue M” tariff).
   - Key partnerships in the Digital space to foster penetration and usage of mobile data: “Games Flatrate”, “Napster Music-flat”, new “O_2 Protect”.
   - New financial services, such as “O_2 Wallet” and “O_2 Smartphone Insurance”, digital advertising solutions (“O_2 More”, “O_2 Pad”) and machine-to-machine developments, such as “Telefónica Insurance Telematics”.
3. **Maintain a competitive 3G network while delivering LTE technology to urban areas.**
   - Acceleration of LTE network deployment: All planned high speed areas on air, reaching more than 40% population coverage at the end of 2013, with a much focused investment approach in the areas where most O_2 customers live.
   - Delivering online, accurate information to customers on network quality and geographical network availability (“Live check” smartphone application): solid position in mobile data quality as per recent independent network tests (e.g. “Chip”, “Connect”).
   - Further densification of the 3G network with the enhancement of HSPA+ technology with Dual Cell deployment in selected areas (up to 42 Mbps downstream speed).

Fourth quarter 2013 operational and financial highlights:

- **Sustained net additions in mobile postpaid O_2 consumer segment**, with approx. 100% of new customers taking data-centric tariffs, while total postpaid net additions were negative in 30 thousand, due to the disconnection of lines in the business segment and a change of platform in some partners. Smartphone penetration continued its positive trend in both postpaid and prepaid segments, with a significant quarter-on-quarter increase in LTE-enabled devices sold (approx. 80% off total).
- **Operating improvement in the fixed broadband business,** with 22 thousand retail DSL net disconnections (vs. -29 thousand in the previous quarter), reflecting the success of the new "O_2 DSL All-in" portfolio.
- **Continuation of trends for wireless service revenue performance** (-3.4% year-on-year vs. -1.8% in the previous quarter, excluding the impact from mobile termination rate cuts), with an acceleration of the decrease in SMS volume in the quarter. Mobile data continued to be the main growth lever for the business (+18.6% year-on-year in non-SMS data revenues), leveraging increased demand of mobile data from customers.
- **OIBDA increased 8.8% year-on-year, mainly due to a capital gain from the sale of assets in the quarter.** The underlying OIBDA performance (excluding the capital gain) of -13.4% year-on-year and 23.9% margin (-1.7 percentage points, year-on-year) continued to reflect the flow through from revenues and sustained commercial investments in the second half of the year.
- **CapEx increased 26.6% year-on-year**, with strong performance in the quarter due to a different year-on-year phasing of investments and a continued focus on the deployment of the LTE-based network, while maintaining the quality of mobile data services through the densification of the 3G network.

Telefónica Deutschland's operating performance:

At the end of December 2013, Telefónica Deutschland had **25.2 million customer accesses**, a year-on-year decrease of 0.8%. Mobile access base remained stable (+0.5% year-on-year) to reach 19.4 million.

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

- New "O_2 DSL All-in" portfolio; the first all-net offer in the market with speed as main differentiator, further facilitating a converged approach in combination with the new "Kombi-Vorteil".
- Christmas campaign "Hol alles raus", offering a combination of the newest smartphones (e.g. "Samsung Galaxy S4 mini" or "HTC One mini") with the "O_2 Blue All-in M" tariff and one-year access to LTE from 29.99 Euro/month.
- Launching of value added digital services: "O_2 Protect", "Napster Music-flat" and the new O_2 Facebook shop, a full-dedicated space to deal with customers in their own digital environment.

In the fourth quarter of 2013, Telefónica Deutschland continued executing its strategy in a very dynamic market, with commercial activities designed around bundles of smartphones and related tariffs, especially the ones introducing LTE to new and existing customers. The demand for higher speeds was also prevalent in the fixed business, with initial encouraging results from the new "O_2 DSL All-in" portfolio.

Postpaid mobile net additions in 2013 were 178 thousand, while in the fourth quarter they were negative in 30 thousand, mainly due to the disconnection of lines in the business segment and a change of platform in some partners. The O_2 consumer segment progressed well in the fourth quarter, with a sustained number of net additions over the previous quarter. Close to 100% of new customers in that segment took one data-centric tariff in 2013. Total postpaid base reached 10.3 million customers (+1.8% year-on-year) and its penetration over total mobile base grew 0.6 percentage points year-on-year, to 53.0%.

The **mobile prepaid** segment registered 76 thousand net disconnections in 2013, with 146 thousand net disconnections in the fourth quarter due to the usual seasonal behaviour of prepaid customers in both O_2 consumer and partner segments. Prepaid customer base reached 9.1 million at the end of December 2013 (-0.8% year-on-year).

Blended **churn** in 2013 was 2.4%, while in the fourth quarter it reached 2.8% (+0.1 and +0.3 percentage points over the previous year, respectively). Postpaid churn in 2013 was 1.6% (+0.1 percentage points, year-on-year) while in the fourth quarter, it reached 2.1% (+0.6 percentage points, year-on-year), due to the effects mentioned before, and the intense competition seen in the German mobile market.

Smartphone penetration reached 31.4%[4] at the end of December 2013, an improvement of 5.0 percentage points over the previous year. In the specific segment of O_2 consumer postpaid, smartphone penetration reached 68.8%; +7.1 percentage points year-on-year. In the prepaid segment, penetration is also improving to 17.3% in O_2 consumer and 22.7% in Fonic (+5.8 and +11.2 percentage points year-on-year increases, respectively). The adoption rate of LTE-enabled handsets from new and existing customers showed a remarkable improvement to make up approximately 80% of total sales in the fourth quarter vs. 55% in the previous quarter, which is a leading indicator for future monetisation of mobile data.

Mobile ARPU, excluding the impact from mobile termination rate cuts, declined 4.3% year-on-year in 2013 and 5.1% in the fourth quarter (-7.9% year-on-year in 2013 and -8.0% in the quarter to 12.7 Euro and 12.5 Euro, respectively, in reported terms).

Postpaid ARPU in the fourth quarter, excluding mobile termination rate cuts, registered a similar performance over the previous quarter (-6.6% year-on-year, also in the full year). In reported terms, postpaid ARPU declined 9.8% year-on-year in 2013 and -9.2% in the fourth quarter to 19.4 Euro and 19.1 Euro, respectively. This performance was a continuation of trends seen in previous quarters, as tariff migrations, plus the acceleration in the quarter of SMS substitution by IP messaging within the customer base, was not fully compensated by the positive contribution from the addition of new customers. The increased share of online channels in trading activity, with their associated discounts, and the stronger commercial focus on bundles of selected handsets with tariffs from the "O_2 Blue All-in" portfolio is also having an impact in postpaid ARPU.

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

Prepaid ARPU, excluding the impact from mobile termination rate cuts, was down 1.8% year-on-year in 2013 and -3.1% in the fourth quarter (-0.6% in the third quarter), as the higher adoption of data tariffs from prepaid customers is also reducing the usage of traditional voice and messaging services. Prepaid ARPU declined 6.8% year-on-year in 2013 and -7.1% in the fourth quarter to 5.1 Euro for both periods, in reported terms.

Retail fixed broadband accesses declined by 132 thousand in 2013 and by 22 thousand in the fourth quarter, a continued improvement over the previous quarters (-29 and -40 thousand in the third and second quarter, respectively), showing the increased traction of demand for speed amongst customers and the good acceptance of the new "O_2 DSL All-in" portfolio. On the other hand, wholesale broadband accesses registered net disconnections of 5 thousand in the fourth quarter.

Telefónica Deutschland's financial performance:

Telefónica Deutschland's **revenues** reached 4,914 million Euro in 2013, a 5.7% year-on-year decline (-3.5% excluding the impact from mobile termination rate cuts). Revenues in the fourth quarter were 1,243 million Euro, a decline of 7.4% over the same period of last year (-5.7% excluding the impact from mobile termination rate cuts).

Wireless service revenues amounted to 2,989 million Euro in 2013 (-5.2% year-on-year; -1.5% excluding the impact from mobile termination rate cuts), while in the fourth quarter they amounted to 743 million Euro (-6.3% year-on-year; -3.4% excluding the impact from mobile termination rate cuts).

The year-on-year performance in the fourth quarter relative to the previous quarter continued to be dominated by the O_2 consumer postpaid segment. This was mainly the result from a lower ARPU performance and a combination of a stable quarter-on-quarter number of net additions with an increasing number of tariff renewals in the base. The share of bundled revenues over total wireless service revenues in the fourth quarter continued to grow by 9 percentage points over the previous year to reach 66% in the O_2 consumer postpaid segment.

Mobile data continued to be the main driver for revenue performance, reaching 1,443 million Euro in 2013 and 364 million Euro in the fourth quarter (+3.7% and +2.1% year-on-year, respectively). Non-SMS data revenues registered growth of 21.7% year-on-year in the full year 2013 (+18.6% in the fourth quarter), resulting in a ratio of non-SMS data over total data revenues of 69.6% in the fourth quarter, 9.7 percentage points above the same period of last year.

Handset revenues, mainly through "O_2 My Handy" distribution model, reached 684 million Euro in 2013, a decline of 1.4% year-on-year. In the fourth quarter, handset revenues were 8.9% lower than in the same period of last year, due to lower number of devices sold over the previous year, and the increase of more affordable handsets in the mix.

Wireline revenues stood at 1,235 million Euro in 2013 (-9.4% year-on-year; -9.2% in the fourth quarter), mainly as a result of 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 2013 amounted to 3,846 million Euro, a year-on-year decrease of 3.7% (-3.9% in the fourth quarter to 976 million Euro, a stable year-on-year performance over the previous quarter).

Main drivers for expenses evolution were:

- Decline in **supplies** of 8.1% year-on-year to 1,958 million Euro (-9.5% in the fourth quarter), driven by a reduction in mobile voice and SMS interconnection expenses (voice rates were cut in December, 2012 by 45% and in 2013 by 3%), and lower costs associated with the fixed business offsetting higher costs from handsets sold in the period.
- **Personnel expenses** decreased by 0.7% year-on-year to 419 million Euro (-7.5% in the fourth quarter) as a result of a different phasing of activities compared to the fourth quarter of 2012 (overtime payments and increase of activities in the business towards the end of the year).
- **Other expenses** increased by 1.9% year-on-year to 1,469 million Euro (+6.6% in the fourth 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 second half of the year.

Operating Income before Depreciation and Amortisation (OIBDA) reached 1,237 million Euro in 2013 and 373 million Euro in the fourth quarter (-3.3% and +8.8% year-on-year, respectively). OIBDA in the fourth quarter registered capital gains from the sale of assets amounting to 76.2 million Euro[5]. Underlying performance of 2013 OIBDA (excluding capital gains) was -9.2% year-on-year (-13.4% in the fourth quarter).

OIBDA margin was up 0.6 percentage points year-on-year in 2013 to 25.2% (-0.9 percentage points to 23.6% excluding capital gains). OIBDA margin in the fourth quarter, excluding capital gains, amounted to 23.9% (-1.7 percentage points, year-on-year), a similar performance over the previous quarter.

OIBDA excluding group fees totalled 1,308 million Euro in 2013 (-3.2% year-on-year; +6.8% in the fourth quarter). If in addition, capital gains in the fourth quarter were also excluded, full year performance would have been -8.8% year-on-year (-14.1% in the fourth quarter) and OIBDA margin would have gone down 0.9 percentage points year-on-year in 2013 to reach 25.1% (-2.0 percentage points to 25.2% in the fourth quarter).

[5] 30 million Euro from the sale of Telefónica Online Services and 46.2 million Euro from the sale of fibre assets in Hamburg.

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 was stable year-on-year (-0.1%), and amounted to 1.132 million Euro for the full-year 2013. In 2013, the Company increased its investments in the rollout of 4G network and in the capacity of the 3G network throughout the year.

Operating income amounted to 105 million Euro in 2013 (146 million Euro in the previous year), while in the fourth quarter it was 84 million Euro (42 million Euro in the previous year).

Net financial result in 2013 was -27 million Euro (-6 million Euro in the previous year). This was the result of the new capital structure of the Company from September 2012 onwards. In the fourth quarter the net financial result amounted to -4 million Euro (-9 million Euro in the fourth quarter of 2012), mainly due to the partial redemption of a loan.

In 2013, a minimal deferred **tax expense** was registered (1 million Euro), while in the same period of 2012 the Company registered a positive income of 168 million Euro from deferred taxes.

Profit after taxes from continuing operations in 2013 was 78 million Euro (79 million Euro in the fourth quarter), which compares with a positive figure of 308 million Euro in the same period of the previous year (199 million Euro in the fourth quarter of 2012).

CapEx in 2013 amounted to 666 million Euro, an increase of 9.4% year-on-year, supporting future growth with accelerated investments in the development of the LTE network, which more than doubled compared to the same period of 2012 and allowed LTE network coverage over the total German population to exceed 40% (ca. 15% at the end of December 2012). CapEx in the fourth quarter increased by 26.6% year-on-year due to a different year-on-year phasing of investments while maintaining the quality of mobile data services through the densification of the 3G network.

Operating Cash Flow (OIBDA-CapEx) reached 571 million Euro in the full-year 2013, a year-on-year decline of 14.8% (-6.2% year-on-year in the fourth quarter). Underlying performance of 2013 Operating Cash flow (excluding capital gains) was -26.2% year-on-year (-47.4% in the fourth quarter).

Free Cash Flow pre dividends from continuing operations (FCF)[6] reached 699 million Euro (from 676 million Euro in 2012). The strong conversion from Operating Cash Flow to FCF was the result of a positive working capital development of 132 million Euro, with different silent factoring transactions executed in both years having a major role, as well as a net effect of 31 million Euro from the sale of assets made in the fourth quarter 2013. In 2013 the Company registered a net interest payment of 21 million Euro (1 million Euro receipt in the same period of 2012) and a contribution to a term deposit in the amount of 14 million Euro which will be released over time.

In the fourth quarter of 2013, FCF amounted to 155 million Euro (vs. 123 million Euro registered in the same period of 2012).

The Company did not pay income taxes neither in 2013 nor in the same period of 2012.

With a debut issuance of a 600 million Euro 5-Year Eurobond in November, 2013 and a subsequent 500 million Euro 7-Year Eurobond in February, 2014, Telefónica Deutschland established itself successfully in the debt capital market and achieved very attractive funding and spread levels, leading to a 1.875% coupon in the 5-Year issuance and a 2.375% coupon in the 7-Year issuance. These transactions strengthened the Company's liquidity position, extending its maturity profile while diversifying its investor base.

Consolidated **net financial debt** decreased year-on-year by 375 million Euro to 468 million Euro at the end of December 2013, reaching a leverage ratio[7] of 0.4x.

[6] Free cash flow pre dividends from continuing operations is defined as the sum of cash flow from operating activities from continuing operations and cash flow from investing activities from continuing operations. In 2012, an adjustment of a rounding inaccuracy (EUR 1.8m) was made after release of preliminary results leading to a slightly higher Free Cash Flow pre dividends from continuing operations in 2012.

[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 (Euros in millions)

	January 1 to December 31			October 1 to December 31		
	2013	2012	% Chg	2013	2012	% Chg
Revenues	4,914	5,213	(5.7)	1,243	1,342	(7.4)
Operating income before depreciation and amortization (OIBDA)	1,237	1,279	(3.3)	373	343	8.8
OIBDA margin	*25.2%*	*24.5%*	*0.6%-p.*	*30.0%*	*25.5%*	*4.5%-p.*
Group fees	(71)	(72)	(1.9)	(17)	(22)	(24.3)
Operating income before depreciation and amortization (OIBDA) and before group fees	1,308	1,351	(3.2)	390	365	6.8
OIBDA before group fees margin	*26.6%*	*25.9%*	*0.7%-p.*	*31.4%*	*27.2%*	*4.2%-p.*
Operating income	105	146	(27.8)	84	42	99.6
Profit (loss) after taxes for the period from continuing operations	78	308	(74.7)	79	199	(60.5)
Profit (loss) for the period	78	1,335	(94.2)	79	691	(88.6)
Basic earnings per share from continuing operations (in euros) (1)	0.07	0.28	(74.7)	0.07	0.18	(60.5)
CapEx	(666)	(609)	9.4	(198)	(157)	26.6
Operating cash flow (OIBDA-CapEx)	571	670	(14.8)	175	186	(6.2)
Free cash flow pre dividends from continuing operations (2)	699	676	3.3	155	123	26.0

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

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

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	Q4	Q4'13 vs. Q4'12
Final clients accesses	23,943	24,070	24,215	24,285	24,219	24,216	24,306	24,042	(1.0)
Fixed telephony accesses	2,403	2,353	2,296	2,249	2,213	2,176	2,145	2,125	(5.5)
Internet and data accesses	2,866	2,811	2,740	2,679	2,630	2,583	2,543	2,516	(6.1)
Narrowband	319	320	310	303	295	288	277	272	(10.2)
Broadband	2,547	2,491	2,430	2,376	2,336	2,295	2,266	2,244	(5.6)
Mobile accesses	18,595	18,834	19,114	19,300	19,325	19,411	19,576	19,401	0.5
Prepaid	9,066	9,116	9,225	9,191	9,124	9,151	9,261	9,115	(0.8)
Postpaid	9,529	9,718	9,889	10,109	10,201	10,261	10,316	10,286	1.8
Postpaid (%)	51.2%	51.6%	51.7%	52.4%	52.8%	52.9%	52.7%	53.0%	*0.6%-p.*
Smartphone penetration (%) (1)	21.1%	22.7%	24.3%	26.4%	27.9%	28.8%	29.8%	31.4%	*5.0%-p.*
Pay TV	79	73	65	57	51	46	42	0	(100.0)
Wholesale accesses (2)	1,059	1,089	1,105	1,088	1,113	1,127	1,130	1,125	3.4
Total accesses	**25,002**	**25,159**	**25,320**	**25,373**	**25,332**	**25,343**	**25,437**	**25,167**	**(0.8)**

(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

	2012				2013				%Chg (YoY)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4'13 vs. Q4'12
ARPU (euros)	13.5	13.9	14.0	13.6	12.5	12.7	12.9	12.5	(8.0)
Prepaid	5.3	5.5	5.7	5.5	5.0	5.1	5.4	5.1	(7.1)
Postpaid	21.4	21.7	21.8	21.0	19.3	19.5	19.6	19.1	(9.2)
Data ARPU (euros)	6.0	6.1	6.2	6.2	6.1	6.2	6.2	6.2	0.3
% non-SMS over data revenues	53.9%	54.9%	57.9%	59.9%	63.4%	65.4%	67.6%	69.6%	*9.7%-p.*
Voice Traffic (m min)	7,365	7,399	7,228	7,528	7,444	7,691	7,497	7,520	(0.1)
Churn (%)	2.4%	2.0%	2.1%	2.5%	2.4%	2.1%	2.1%	2.8%	*0.3%-p.*
Postpaid churn (%)	1.6%	1.4%	1.4%	1.5%	1.5%	1.3%	1.3%	2.1%	*0.6%-p.*

	2012				2013				%Chg (YoY)
	Jan - Mar	Jan - June	Jan - Sep	Jan - Dec	Jan - Mar	Jan - June	Jan - Sep	Jan - Dec	Jan - Dec
ARPU (euros)	13.5	13.7	13.8	13.8	12.5	12.6	12.7	12.7	(7.9)
Prepaid	5.3	5.4	5.5	5.5	5.0	5.0	5.2	5.1	(6.8)
Postpaid	21.4	21.6	21.7	21.5	19.3	19.4	19.5	19.4	(9.8)
Data ARPU (euros)	6.0	6.1	6.1	6.2	6.1	6.2	6.2	6.2	0.7
% non-SMS over data revenues	53.9%	54.6%	55.6%	56.7%	63.4%	64.4%	65.5%	66.5%	*9.8%-p.*
Voice Traffic (m min)	7,365	14,763	21,991	29,519	7,444	15,135	22,632	30,152	2.1
Churn (%)	2.4%	2.2%	2.2%	2.2%	2.4%	2.2%	2.2%	2.4%	*0.1%-p.*
Postpaid churn (%)	1.6%	1.5%	1.5%	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. 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 December 31			October 1 to December 31		
	2013	2012	% Chg	2013	2012	% Chg
Revenues	4,914	5,213	(5.7)	1,243	1,342	(7.4)
Other income	169	61	>100,0	106	16	>100,0
Operating expenses	(3,846)	(3,995)	(3.7)	(976)	(1,015)	(3.9)
Supplies	(1,958)	(2,131)	(8.1)	(507)	(560)	(9.5)
Personnel expenses (1)	(419)	(422)	(0.7)	(107)	(115)	(7.5)
Other expenses (1)	(1,469)	(1,442)	1.9	(362)	(340)	6.6
Operating income before depreciation and amortization (OIBDA)	1,237	1,279	(3.3)	373	343	8.8
OIBDA margin	*25.2%*	*24.5%*	0.6%-p.	*30.0%*	*25.5%*	4.5%-p.
Depreciation and amortization	(1,132)	(1,133)	(0.1)	(289)	(301)	(3.8)
Operating income	105	146	(27.8)	84	42	99.6
Net financial income (expense)	(27)	(6)	>100,0	(4)	(9)	(50.9)
Profit (loss) before tax for the period from continuing operations	78	140	(43.9)	79	33	>100,0
Income tax	(1)	168	>100,0	(1)	166	>100,0
Profit (loss) after taxes for the period from continuing operations	78	308	(74.7)	79	199	(60.5)
Profit (loss) after taxes for the period from discontinued operations (2)	0	1,027	(100.0)	0	492	(100.0)
Profit (loss) for the period	78	1,335	(94.2)	79	691	(88.6)
Number of shares in millions (3)	1,117	1,117	-	1,117	1,117	-
Basic earnings per share from continuing operations (in euros) (3)	0.07	0.28	(74.7)	0.07	0.18	(60.5)

(1) Reclassification of external personnel expenses into other expenses in 2013 and 2012. For further details we refer to the Consolidated Financial Statements as of December 31, 2013.

(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 by the weighted average number of ordinary shares of 1,117m.

TELEFÓNICA DEUTSCHLAND GROUP
REVENUE BREAKDOWN

Unaudited (Euros in millions)

	January 1 to December 31			October 1 to December 31		
	2013	2012	% Chg	2013	2012	% Chg
Revenues	4,914	5,213	(5.7)	1,243	1,342	(7.4)
Wireless business	3,673	3,845	(4.5)	944	1,014	(6.8)
Wireless service revenues	2,989	3,152	(5.2)	743	793	(6.3)
Handset revenues	684	693	(1.4)	201	221	(8.9)
Wireline business	1,235	1,363	(9.4)	297	327	(9.2)
Other revenues	6	5	28.3	2	1	30.5

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited (Euros in millions)

	As of December 31, 2013	As of December 31, 2012	% Chg
Non-current assets	**7,168**	**7,652**	**(6.3)**
Goodwill	706	706	-
Intangible assets	2,884	3,277	(12.0)
Property, plant and equipment	2,896	2,973	(2.6)
Other non-current financial assets	99	115	(13.9)
Deferred tax assets	584	581	0.4
Current assets	**1,854**	**1,417**	**30.8**
Inventories	89	85	5.3
Trade and other receivables	1,035	1,009	2.6
Other current financial assets	21	0	>100
Cash and cash equivalents	709	324	>100
Total assets = Total equity and liabilities	**9,021**	**9,070**	**(0.5)**
Equity	**5,999**	**6,429**	**(6.7)**
Common stock	1,117	1,117	-
Retained earnings & addtional paid-in capital	4,880	5,310	(8.1)
Other components of equity	2	1	13.6
Equity attributable to owners of the parent	5,999	6,429	(6.7)
Non-current liabilities	**1,452**	**1,092**	**33.0**
Non-current interest-bearing debt	1,343	1,000	34.3
Other payables	5	9	(47.7)
Non-current provisions	104	82	26.7
Current liabilities	**1,571**	**1,549**	**1.4**
Current interest-bearing debt	102	251	(59.3)
Trade payables	1,074	918	16.9
Other payables	222	219	1.1
Current provisions	4	7	(49.8)
Deferred Income	170	154	10.1
Financial Data			
Net financial debt (1)	468	842	(44.5)
Leverage (2)	0.4x	0.7x	(42.6)

(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 1,342,584k in 2013 and EUR 1,000,000k in 2012) + non-current finance lease payables (EUR 1,340k in 2013 and EUR 4,985k in 2012) + current interest-bearing debt (EUR 102,060k in 2013 and EUR 251,000k in 2012) + current finance lease payables (EUR 1,649k in 2013 and EUR 3,964k in 2012) minus the non-current "O_2 My Handy" receivables (EUR 83,209k in 2013 and EUR 93,770k in 2012) and since June 2013 the current portion of "O_2 My Handy" receivables (EUR 188,013k in 2013 and EUR 0k in 2012) minus loan to third parties included in other current financial assets (EUR 458k in 2013 and EUR 101k in 2012) and minus cash and cash equivalents (EUR 708,545k in 2013 and EUR 323,666k in 2012) .*
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 Position.

(2) *Leverage is defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1,237m in 2013; EUR 1,279m in 2012) excluding non-recurring factors.*

Telefónica Deutschland

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

	2013				2012			
	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec	Jan - Mar	Jan - June	Jan - Sep	Jan - Dec
OIBDA	**278**	**572**	**864**	**1,237**	**280**	**597**	**936**	**1,279**
- CapEx	(146)	(296)	(468)	(666)	(133)	(271)	(452)	(609)
= Operating cash flow (OpCF)	**133**	**276**	**396**	**571**	**147**	**326**	**484**	**670**
+ Silent factoring (1)	129	214	266	219	74	61	199	302
-/+ Other working capital movements	(146)	(123)	(89)	(87)	(136)	(237)	(133)	(284)
Change in working capital	(17)	91	177	132	(61)	(176)	66	19
+/- (Gains) losses from sale of companies, fixed assets and other effects	0	0	0	(76)	(1)	(1)	(1)	1
+/- Proceeds from from sale of companies, fixed assets and other effects	0	0	0	107	0	0	0	0
+ Net interest payments	(4)	(10)	(15)	(21)	3	3	3	1
+ Payment on financial investments	(7)	(12)	(15)	(14)	0	0	0	(15)
= Free cash flow pre dividends from continuing operations (7)	**105**	**345**	**543**	**699**	**88**	**152**	**553**	**676**
-/+ Equity movements (3)	0	(503)	(503)	(503)	0	0	(4,300)	(4,300)
= Free cash flow post dividends from continuing operations	**105**	**(158)**	**40**	**196**	**88**	**152**	**(3,747)**	**(3,624)**
+ Free cash flow post dividends from discontinued operations (2,4)	0	0	0	0	93	192	907	907
= Total free cash flow post dividends	**105**	**(158)**	**40**	**196**	**181**	**344**	**(2,840)**	**(2,717)**
Net financial debt at beginning of period	842	842	842	842	(4,316)	(4,316)	(4,316)	(4,316)
+ Other change in net financial debt	25	(60)	(64)	(178)	3	(15)	2,894	2,886
+ Decrease of net financial debt due to deconsolidation (5)	0	0	0	0	0	0	0	(445)
+ Decrease of net financial debt due to discontinued operations (5)	0	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	0
= Net financial debt at end of period	**762**	**940**	**745**	**468**	**(4,493)**	**(4,675)**	**973**	**842**

(1) Full impact (YTD) of silent factoring in the twelve month period in 2013 of EUR 219m and EUR 302m 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 flow post dividends from discontinued operations in 2012 consists of EUR 349m plus net cash flow 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 were classified as held for sale as of September 30, 2013.The sale was completed on October 31, 2013.

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

	2013				2012			
	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec	Jan - Mar	Jan - June	Jan - Sep	Jan - Dec
= Free cash flow pre dividends from continuing operations	105	345	543	699	88	152	553	676
Number of shares (millions)	1,117	1,117	1,117	1,117	1,117	1,117	1,117	1,117
= Free cash flow per share (in euros)	0.09	0.31	0.49	0.63	0.08	0.14	0.50	0.61

O2

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited (Euros in millions)

	As of December 31	As of December 31		
	2013	2012	Amount	% Chg
Cash and cash equivalents	709	324	385	>100,0
A Liquidity	**709**	**324**	**385**	**>100,0**
B Current financial assets (2)	**188**	**-**	**188**	**100.0**
Current interest-bearing debt	102	251	(149)	(59.3)
Other current liabilities	2	4	(2)	(58.4)
C Current financial debt	**104**	**255**	**(151)**	**(59.3)**
D=C-A-B Current net financial debt	**(793)**	**(69)**	**(724)**	**>100,0**
E Non-current financial assets	**83**	**94**	**(11)**	**(11.3)**
Non-current interest-bearing debt	1,343	1,000	343	34.3
Other non-current payables	1	5	(4)	(73.1)
F Non-current financial debt	**1,344**	**1,005**	**339**	**33.7**
G=F-E Non-current net financial debt	**1,261**	**911**	**350**	**38.4**
H=D+G Net financial debt (1)	**468**	**842**	**(375)**	**(44.5)**

(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 1,342,584k in 2013 and EUR 1,000,000k in 2012) + non-current finance lease payables (EUR 1,340k in 2013 and EUR 4,985k in 2012) + current interest-bearing debt (EUR 102,060k in 2013 and EUR 251,000k in 2012) + current finance lease payables (EUR 1,649k in 2013 and EUR 3,964k in 2012) minus the non-current "O2 My Handy" receivables (EUR 83,209k in 2013 and EUR 93,770k in 2012) and since June 2013 the current portion of "O2 My Handy" receivables (EUR 188,013k in 2013 and EUR 0k in 2012) minus loan to third parties included in other current financial assets (EUR 458k in 2013 and EUR 101k in 2012) and minus cash and cash equivalents (EUR 708,545k in 2013 and EUR 323,666k in 2012) .*
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.*

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