

May 8, 2014

Telefónica Deutschland releases preliminary results for January to March 2014

MUNICH. In the first quarter of 2014, the German mobile market remained very dynamic and competitive, with a strong focus on LTE from core network brands. Against this background, Telefónica Deutschland continued executing its strategy of monetising data, leveraging a strong set of assets and brands.

"With the refresh of our "O₂ Blue All-in" portfolio for the consumer segment and the launch of "O₂ Unite" for SMEs we have again successfully demonstrated that Telefónica Deutschland remains at the forefront of data monetisation in the German mobile market", said Rachel Empey (CFO). With regards to the planned acquisition of E-Plus by Telefónica Deutschland, CSO Markus Haas stated: "We are building a strong foundation on data monetisation today and with the planned integration of E-Plus, German consumers will benefit from a faster and accelerated 4G network roll out and more innovative and attractive offers for all segments in the market."

First quarter 2014 operational & financial highlights:

- **Net additions in the mobile postpaid segment** at 78 thousand compared to 30 thousand net disconnections registered in the previous quarter.
- **Smartphone penetration continued its positive trend** reaching 32.8% (70.7% in the O₂ consumer postpaid segment and 21.2% in the O₂ consumer prepaid segment) with an encouraging share of LTE-enabled devices sold over total (approx. 78%).
- **Fixed broadband business further improving its operating performance**, with 18 thousand retail DSL net disconnections (vs. -22 thousand in the fourth quarter and -29 thousand in the third quarter of 2013, respectively), reflecting the success of the new "O₂ DSL All-in" portfolio and increased demand for higher speeds on VDSL technology.
- **Telefónica Deutschland total revenues totalled 1,122 million Euro** (-8.8% year-on-year), driven by a continuation of trends in mobile and fixed service revenues and declining handset revenues.

- **Wireless service revenue excluding the impact from mobile termination rate cuts decreased by 3.4% year-on-year** (-3.6% year-on-year in reported terms), a similar performance as in the previous quarter, with increasing LTE adoption in the postpaid segment being offset by the impact from tariff renewals to lower price levels, acceleration of SMS declines and lower performance of the prepaid segment.
- **OIBDA margin showed a moderate decline (-1.8 percentage points year-on-year)**, mainly driven by increased commercial spend to drive commercial performance. OIBDA reached 234 million Euro, a decline of 15.8% year-on-year.
- **CapEx was lower year-on-year by 9.3%**, totalling to 132 million Euro, reflecting the focused investments into LTE network deployment and a different year-on-year phasing of investments.
- **Free Cash Flow pre dividends (FCF)¹ reached 107 million Euro** (from 105 million Euro in 2013), with silent factoring transactions playing a major role in the positive evolution of working capital in both years.
- **Consolidated net financial debt** increased moderately by 13 million Euro to 481 million Euro at the end of March 2014, reaching a leverage ratio² of 0.4x.



¹ Free cash flow pre dividends is defined as the sum of cash flow from operating activities and cash flow from investing activities.

² Leverage is defined as Net Financial Debt divided by last twelve months OIBDA excluding non-recurring factors.

Telefónica Deutschland's operating performance

At the end of March 2014, Telefónica Deutschland had **25.0 million customer accesses**, a year-on-year decrease of 1.3%. The mobile access base remained stable year-on-year at 19.3 million, while fixed line accesses declined by 4.6% year-on-year to 5.7 million.

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

- On March 25, the Company announced a complete refresh of its “O₂ Blue All-in” portfolio, including access to LTE in all tariffs and attractive data roaming packages starting April 8, plus the introduction of the “O₂ Blue All-in Premium” – a carefree tariff for high usage customers. Attractive bundles with the latest LTE enabled smartphones complete the new offer, which is already gaining traction in the market.
- Launch of a revolutionary new proposition for the business segment from March 10: “O₂ Unite”, a single tariff proposition with a pool of minutes, SMS and data volume that can be shared by all employees of the firm with an easy to use self-management digital interface.
- New “O₂ DSL” high-speed offers for young people (O₂ DSL Young), families (O₂ DSL All-in), and self-employed (O₂ DSL Professional) available from March 13, extending VDSL into tariffs specifically tailored to new customer segments. The NGA cooperation with Telekom Deutschland GmbH allows Telefónica Deutschland to reach almost 15 million households all over Germany with speeds of up to 50 Mbit/s.

Postpaid mobile net additions in the first quarter of 2014 were 78 thousand, compared to the negative figure reported in the previous quarter (-30 thousand³) with an improving trend of gross additions on the back of increased commercial investments. Total postpaid base increased to 10.4 million customers (+1.6% year-on-year) and its share over total mobile base grew by 1.0 percentage points year-on-year, to reach 53.8%.

The **mobile prepaid** segment registered 204 thousand net disconnections in the quarter driven by the O₂ consumer segment, main reasons being disconnection of inactive customers and more targeted acquisitions across channels. Prepaid customer base declined by 2.3% year-on-year to reach 8.9 million at the end of March 2014.



³ Includes disconnection of lines in the business segment and a change of platform in some partners.

Blended churn in the first quarter was stable year-on-year at 2.4%. Postpaid churn excluding M2M⁴ stood at 1.6% (+0.1 percentage points, year-on-year) reflecting the intense competition seen in the German mobile market.

Smartphone penetration reached 32.8%⁵ at the end of March 2014, an improvement of 5.0 percentage points over the previous year. In the specific segment of O₂ consumer postpaid, smartphone penetration reached 70.7%; +5.7 percentage points year-on-year. In the prepaid segment, penetration further improved to 21.2% in O₂ consumer segment (+8.0 percentage points year-on-year) and 28.4% in Fonic (+15.2 percentage points year-on-year).

The share of LTE-enabled handsets as a percentage of total handsets sold, stood almost stable compared to prior quarter at 78%, with the overall number of LTE-enabled handsets sold to customers in the O₂ consumer postpaid segment having exceeded the mark of 1 million at the end of April.

Mobile ARPU in the first quarter of 2014 was 12.1 Euro, a decline of 3.3% year-on-year (-3.1% excluding the impact from mobile termination rate cuts).

Postpaid ARPU excluding M2M⁴ declined 5.0% year-on-year to 18.5 Euro (-4.8% excluding mobile termination rate cuts), showing a better year-on-year performance over previous quarters. The positive contribution from new customers driven by the uplift in LTE and the increasing data consumption did not yet offset the impact from the repositioning of the current customer base and the acceleration of declines of SMS usage. The ARPU performance is further impacted by the increasing usage of discounted online channels from our customers and a stronger commercial focus on selective bundles of handsets with tariffs from the “O₂ Blue All-in” portfolio.

Prepaid ARPU reached 5.0 Euro in the first quarter, an increase of 0.4% year-on-year excluding the impact from mobile termination rate cuts. The higher adoption of data tariffs from prepaid customers is offsetting the reduction of traditional voice and messaging services which also applies to this segment.



⁴ Starting January 1, 2014, M2M SIM-cards are excluded from calculation for postpaid churn and ARPU

⁵ Defined as the number of active mobile data tariffs over total mobile customer base, excluding M2M and data-only accesses.

Retail fixed broadband accesses continued the improving trend over prior quarters, declining by 18 thousand in the first quarter (-22 thousand in the last quarter of 2013), leveraging the increased demand for the VDSL speed option and the good acceptance of the new "O₂ DSL All-in" portfolio, leading to lower churn. Wholesale broadband accesses registered net additions of 3 thousand in the quarter.

Telefónica Deutschland's financial performance

Telefónica Deutschland's **revenues** totalled 1,122 million Euro in the first quarter of 2014, a year-on-year decline of 8.8% (-8.7% excluding the impact from mobile termination rate cuts).

Wireless service revenues reached 707 million Euro , declining 3.4% year-on-year excluding the impact from mobile termination rate cuts (-3.6% in reported terms), a similar performance to the previous quarter. The O₂ consumer segment continued to be the main driver: continuous decline of SMS usage, lower trading momentum for new customers and declining prices for tariff renewals in the postpaid base added to the negative year-on-year performance seen in the prepaid segment from a lower customer base. The share of bundled revenues over total wireless service revenues in the first quarter continued to grow by 7 percentage points year-on-year to reach 68% in the specific O₂ consumer postpaid segment.

Mobile data continued to be a main driver for revenue performance, reaching 350 million Euro in the first quarter, with the accelerated decline of SMS revenues (-24.6% year-on-year) being the reason for an overall decline of data revenues of 1.3% year-on-year. Non-SMS data revenues registered growth of 12.1% year-on-year in the first quarter, representing 72.0% of total data revenues in the quarter, an increase of 8.6 percentage points compared to prior year.

Handset revenues, mainly through "O₂ My Handy" distribution model, reached 120 million Euro in the first quarter of 2014, a decline of 33.2% year-on-year, mainly driven by overall lower volumes of handsets sold and selective hardware campaigns.

Wireline revenues reached 293 million Euro in the quarter, already showing a better sequential trend (-7.0% year-on-year, vs -9.2% in the previous quarter), reflecting a lower retail DSL base which is partly mitigated by the uptake of VDSL.

Operating expenses amounted to 909 million Euro, a year-on-year decrease of 6.1% year-on-year. This performance was mainly driven by:

- Decline in **supplies** of 14.8% year-on-year to 427 million Euro in the first quarter as a result of lower handset sales and lower termination cost from outgoing SMS.
- **Personnel expenses** increased by 2.8% year-on-year to 108 million Euro as a consequence of general increases in salaries from July 2013.
- **Other expenses** increased by 3.5% year-on-year to 373 million Euro mainly driven by the increase in both mobile acquisition and retention cost from intensified commercial activities.

Operating Income before Depreciation and Amortisation (OIBDA) totalled 234 million Euro in the first quarter of 2014 (-15.8% year-on-year).

OIBDA margin was down 1.8 percentage points year-on-year to 20.9%, a largely stable year-on-year performance relative to the underlying performance in the previous quarter.

OIBDA excluding group fees reached 251 million Euro in the quarter (-14.6% year-on-year) with an OIBDA margin of 22.3% (down 1.5 percentage points year-on-year).

The year-on-year OIBDA performance was driven by the negative flow-through effect from service revenues as well as focused commercial investments to gain trading momentum, including selected offers with discounted devices.

Depreciation & Amortisation in the first quarter 2014 totalled 267 million Euro, a decrease of 4.7% year-on-year, driven by the year-on-year impact of full depreciation of assets, mainly within the software category.

Operating income amounted to -33 million Euro in the first quarter of 2014, compared to -2 million Euro in the same period of prior year.

Net financial result as of March 31, 2014 stood at -8 million Euro (-11 million Euro in the previous year).

In the first quarter of 2014 the Company registered a positive income from prior year **income taxes** of 14 thousand Euro (18 thousand in the previous year).

Profit for the period in the first quarter 2014 was -40 million Euro compared to -13 million Euro in the same quarter of previous year.

CapEx was lower year-on-year by 9.3%, totalling to 132 million Euro, reflecting the focused investments into LTE network deployment and a different year-on-year phasing of investments. LTE outdoor coverage already reached approximately 50% mark at the end of April, 2014.

Operating Cash Flow (OIBDA minus CapEx) reached 102 million Euro in the first quarter of 2014 compared to 133 million in the same period of 2013.

Free Cash Flow pre dividends (FCF)⁶ reached 107 million Euro (from 105 million Euro in 2013). The conversion from Operating Cash Flow to FCF was the result of a positive working capital development of 17 million Euro, with silent factoring transactions executed in both years having a major role. In 2014 the Company registered a net interest payment of 4 million Euro (4 million Euro also in the same period of prior year) and a contribution to a term deposit in the amount of 8 million Euro which will be released over time.

The Company did not pay **income taxes** neither in the first quarter of 2014 nor in the same period of 2013.

Consolidated net financial debt at the end of March 2014 increased moderately from December 2013 by 13 million Euro to 481 million Euro due to a 500 million second Eurobond issuance in February 2014. The effect was largely compensated by an increase in liquidity of 477 million Euro, while financial assets declined by 116 million Euro mainly due to lower "O₂ My Handy receivables". The Company further early redeemed 125 million Euros of its inter-company loan. The leverage ratio⁷ remained constant at 0.4x.

Telefónica Deutschland continued its successful positioning in the debt capital market and achieved a very attractive funding and spread levels, with a 2.375% coupon in the 7-Year issuance in February. This transaction strengthened the Company's liquidity position, extending its maturity profile while diversifying its investor base.



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

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

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

(Euros in millions)	January 1 to March 31		
	2014	2013	% Chg
Revenues	1,122	1,230	(8.8)
Operating income before depreciation and amortization (OIBDA)	234	278	(15.9)
<i>OIBDA margin</i>	20.9%	22.6%	(1.8%-p.)
Group fees	17	15	7.6
Operating income before depreciation and amortization (OIBDA) and before group fees	251	294	(14.6)
<i>OIBDA before group fees margin</i>	22.3%	23.9%	(1.5%-p.)
Operating income	(33)	(2)	–
Profit (loss) after taxes for the period from continuing operations	(40)	(13)	213.2
Profit (loss) for the period	(40)	(13)	213.5
Basic earnings per share from continuing operations (in euros) (1)	(0.04)	(0.01)	213.5
CapEx	(132)	(146)	(9.3)
Operating cash flow (OIBDA-CapEx)	102	133	(23.0)
Free cash flow pre dividends from continuing operations (2)	107	105	1.8

(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 1.116.945 Tsd.

(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)	2014	2013				Chg (YoY)		% Chg (YoY)
	Q1	Q1	Q2	Q3	Q4	Q1'14 vs. Q1'13	Q1'14 vs. Q1'13	
Final clients accesses	23,876	24,219	24,216	24,306	24,042	(343)	(1.4)	
Fixed telephony accesses	2,109	2,213	2,176	2,145	2,125	(104)	(4.7)	
Internet and data accesses	2,492	2,630	2,583	2,543	2,516	(138)	(5.3)	
Narrowband	266	295	288	277	272	(29)	(9.8)	
Broadband	2,226	2,336	2,295	2,266	2,244	(110)	(4.7)	
Mobile accesses	19,275	19,325	19,411	19,576	19,401	(50)	(0.3)	
Prepaid	8,911	9,124	9,151	9,261	9,115	(213)	(2.3)	
Postpaid	10,364	10,201	10,261	10,316	10,286	163	1.6	
<i>thereof M2M</i>	95	83	85	90	91	12	14.1	
Postpaid (%)	53.8%	52.8%	52.9%	52.7%	53.0%		1.0%-p.	
Smartphone penetration (%) (1)	32.8%	27.9%	28.8%	29.8%	31.4%		5.0%-p.	
Pay TV	–	51	46	42	–	(51)	(100.0)	
Wholesale accesses (2)	1,128	1,113	1,127	1,130	1,125	15	1.4	
Total accesses	25,004	25,332	25,343	25,437	25,167	(328)	(1.3)	

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

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

**TELEFÓNICA DEUTSCHLAND GROUP
SELECTED OPERATIONAL DATA**
Unaudited

	2014	2013				% Chg (YoY)
	Q1	Q1	Q2	Q3	Q4	Q1'14 vs. Q1'13
ARPU (euros)	12.1	12.5	12.7	12.9	12.5	(3.3)
Prepaid	5.0	5.0	5.1	5.4	5.1	0.1
Postpaid excl. M2M	18.5	19.5	19.6	19.8	19.3	(5.0)
Data ARPU (euros)	6.0	6.1	6.2	6.2	6.2	(1.3)
% non-SMS over data revenues	72.0%	63.4%	65.4%	67.6%	69.6%	8.6%-p.
Voice Traffic (m min)	7,572	7,444	7,691	7,497	7,520	1.7
Churn (%)	2.4%	2.4%	2.1%	2.1%	2.8%	0.0%-p.
Postpaid churn (%) excl. M2M	1.6%	1.5%	1.3%	1.4%	2.1%	0.1%-p.

Unaudited

	2014	2013				% Chg (YoY)
	Jan - Mar	Jan - März	Jan - Juni	Jan - Sep	Jan - Dez	Jan - Mar
ARPU (euros)	12.1	12.5	12.6	12.7	12.7	(3.3)
Prepaid	5.0	5.0	5.0	5.2	5.1	0.1
Postpaid excl. M2M	18.5	19.5	19.6	19.6	19.5	(5.0)
Data ARPU (euros)	6.0	6.1	6.2	6.2	6.2	(1.3)
% non-SMS over data revenues	72.0%	63.4%	64.4%	65.5%	66.5%	8.6%-p.
Voice Traffic (m min)	7,572	7,444	15,135	22,632	30,152	1.7
Churn (%)	2.4%	2.4%	2.2%	2.2%	2.4%	0.0%-p.
Postpaid churn (%) excl. M2M	1.6%	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
INTERIM CONSOLIDATED INCOME STATEMENT

Unaudited

(Euros in millions)	January 1 to March 31			
	2014	2013	Change	% Chg
Revenues	1,122	1,230	(108)	(8.8)
Other income	21	16	5	32.3
Operating expenses	(909)	(967)	59	(6.1)
Supplies	(427)	(502)	74	(14.8)
Personnel expenses	(108)	(105)	(3)	2.8
Other expenses	(373)	(361)	(13)	3.5
Operating income before depreciation and amortization (OIBDA)	234	278	(44)	(15.8)
<i>OIBDA margin</i>	20.9%	22.6%		(1.8%-p.)
Depreciation and amortization	(267)	(280)	13	(4.7)
Operating income	(33)	(2)	(31)	1,673.9
Net financial income (expense)	(8)	(11)	3	(31.5)
Profit (loss) before tax for the period from continuing operations	(40)	(13)	(27)	213.2
Income tax	-	-	-	(22.3)
Profit (loss) after taxes for the period from continuing operations	(40)	(13)	(27)	213.5
Profit (loss) for the period	(40)	(13)	(27)	213.5
Number of shares in millions	1,117	1,117	-	-
Basic earnings per share from continuing operations (in euros) (1)	(0.04)	(0.01)	(0.02)	213.5

(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 1.116.945 Tsd.

TELEFÓNICA DEUTSCHLAND GROUP
REVENUE BREAKDOWN

Unaudited

(Euros in millions)	January 1 to March 31			
	2014	2013	Veränderung	% Chg
Revenues	1,122	1,230	(108)	(8.8)
Wireless business	827	914	(86)	(9.5)
Wireless service revenues	707	733	(27)	(3.6)
Handset revenues	120	180	(60)	(33.2)
Wireline business	293	315	(22)	(7.0)
Other revenues	2	1	1	64.9

TELEFÓNICA DEUTSCHLAND GROUP
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of March 31	As of December 31	Veränderung	% Veränd.
	2014	2013		
NON-CURRENT ASSETS	7,012	7,168	(156)	(2.2)
Goodwill	706	706	-	-
Intangible assets	2,801	2,884	(84)	(2.9)
Property, plant and equipment	2,847	2,896	(48)	(1.7)
Other non-current financial assets	75	99	(24)	(24.4)
Deferred tax assets	584	584	-	-
CURRENT ASSETS	2,405	1,854	551	29.7
Inventories	89	89	(1)	(0.6)
Trade and other receivables	1,104	1,035	69	6.7
Other current financial assets	26	21	5	25.2
Cash and cash equivalents	1,186	709	477	67.4
Total assets = Total equity and liabilities	9,417	9,021	395	4.4
EQUITY	5,956	5,999	(43)	(0.7)
Common Stock	1,117	1,117	-	-
Additional paid-in capital & retained earnings	4,837	4,880	(43)	(0.9)
Other components of equity	2	2	-	-
Equity attributable to owners of the company	5,956	5,999	(43)	(0.7)
NON-CURRENT LIABILITIES	1,929	1,452	477	32.9
Non-current interest-bearing debt	1,813	1,343	471	35.1
Other payables	4	5	(1)	(10.8)
Non-current provisions	111	104	7	6.6
CURRENT LIABILITIES	1,531	1,571	(39)	(2.5)
Current interest-bearing debt	7	102	(96)	(93.6)
Trade payables	1,136	1,074	62	5.8
Other payables	208	222	(13)	(6.1)
Current provisions	3	4	-	(4.5)
Deferred income	177	170	7	4.4
Financial Data				
Net financial debt (1)	481	468	13.0	2.8
Leverage (2)	0.4	0.4	-	65.8

(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 1.813.396k in 2014 and EUR 1.342.584k in 2013) + non-current finance lease payables (EUR 1.004k in 2014 and EUR 1.340k in 2013) + current interest-bearing debt (EUR 6.547k in 2014 and EUR 102.059k in 2013) + current finance lease payables (EUR 1.454k in 2014 and EUR 1.649k in 2013) minus the non-current "O2 My Handy" receivables (EUR 56.507k in 2014 and EUR 83.209k in 2013) and since June 2014 the current portion of "O2 My Handy" receivables (EUR 98.943k in 2014 and EUR 188.013k in 2013) minus loans to third parties included in other current financial assets (EUR 504k in 2014 and EUR 458k in 2013) and minus cash and cash equivalents (EUR 1.185.937k in 2014 and EUR 708.545k in 2013). Note: The current portion of "O2 My Handy" receivables is shown under trade and other receivables in the Consolidated Statement of Financial Position and the non-current portion of "O2 My Handy" receivables is shown under other non-current financial assets in the Consolidated Statement of Financial Position.

(2) Leverage is defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1.193m in 2014; EUR 1.277m in 2013) excluding non-recurring factors.

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited

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

(1) Full impact (YTD) of silent factoring in the three month period in 2014 of EUR 178m and EUR 219m in 2013 (transactions have been executed in January and March 2014 respectively in March, June and September 2013).

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

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

(4) Free cash flow pre dividends 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

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

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

(Euros in millions)	As of March 31	As of December 31	Change	% Chg
	2014	2013		
Cash and cash equivalents	1,186	709	477	67.4
A Liquidity	1,186	709	477	67.4
B Current financial assets	99	188	(89)	(47.2)
Current interest-bearing debt	7	102	(96)	(93.6)
Other current liabilities	1	2	-	(11.8)
C Current financial debt	8	104	(96)	(92.3)
D=C-A-B Current net financial debt	(1,277)	(793)	(484)	61.0
E Non-current financial assets	57	83	(27)	(32.1)
Non-current interest-bearing debt	1,813	1,343	471	35.1
Other non-current payables	1	1	-	(25.1)
F Non-current financial debt	1,814	1,344	470	35.0
G=F-E Non-current net financial debt	1,758	1,261	497	39.4
H=D+G Net financial debt (1)	481	468	13	2.8

(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 1.813.396k in 2014 and EUR 1.342.584k in 2013) + non-current finance lease payables (EUR 1.004k in 2014 and EUR 1.340k in 2013) + current interest-bearing debt (EUR 6.547k in 2014 and EUR 102.059k in 2013) + current finance lease payables (EUR 1.454k in 2014 and EUR 1.649k in 2013) minus the non-current "O2 My Handy" receivables (EUR 56.507k in 2014 and EUR 83.209k in 2013) and since June 2014 the current portion of "O2 My Handy" receivables (EUR 98.943k in 2014 and EUR 188.013k in 2013) minus loans to third parties included in other current financial assets (EUR 504k in 2014 and EUR 458k in 2013) and minus cash and cash equivalents (EUR 1.185.937k in 2014 and EUR 708.545k in 2013).

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

Further information

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