MUNICH, 24 February 2015

Telefónica Deutschland releases preliminary results for January to December 2014 and provides financial outlook for the business

- **Operating and financial performance in the fourth quarter of 2014 achieved given outlook, confirming the successful start of the new Telefónica Deutschland**
- **Run rate synergies[1] for 2015 expected to be around 30% of the end target run rate; fully on track to deliver the best high-speed access and service experience to our customers**
- **We are well positioned to become the Leading Digital Telco in Germany leveraging strong focus on data monetisation and operational excellence**

Thorsten Dirks, CEO of Telefónica Deutschland, commented: "Our fourth quarter results confirm that the merged company has successfully kept its commercial momentum. We have achieved important milestones during the first five months of our integration and transformation program and set cornerstones for future success. 2015 will see us making further significant moves towards creating the Leading Digital Telco." Rachel Empey, CFO, added: "Our outlook reflects our continued focus on data monetisation from a strong position as a leader in the German mobile market and underpins a strong value proposition for our shareholders."

Fourth quarter 2014 operational & financial highlights[2]:

- **Net additions in the mobile postpaid segment** reached 318[3] thousand, following the successful start of the new Company across all brands with focus on data monetisation, leveraging strong demand for LTE. **Prepaid net additions** totalled 35 thousand on the back of strong performance from partners.
- **Smartphone penetration** at the end of December 2014 already surpassed the 75% mark for our premium brands in the consumer postpaid segment.
- **Revenue reached EUR 2,019 million,** largely stable year-on-year on a like-for-like basis, in line with the given outlook on the back of positive trends for mobile service revenues, the handset business and a better performance of the fixed business.

[1] Synergies defined in terms of Operating Cash Flow (OIBDA-CapEx) with a target annual run rate after year 5 from start of integration of EUR 800 million. OpEx savings are referred to 2014 combined financials excluding restructuring costs. CapEx is net of restructuring activities and excludes investments in spectrum.

[2] Unless indicated otherwise, like-for-like year-on-year comparisons are based on combined figures for 2013 and 2014. These are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material extraordinary effects, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management and resulting in combined figures we believe are more meaningful as a comparable basis.

[3] Excluding the impact from postpaid customer base adjustment in the former E-Plus Group (428 thousand) driven by the finalisation of harmonisation of criteria and the disconnection of a partner.

- **Mobile service revenue totalled EUR 1,391 million,** flat year-on-year on a like-for-like basis, and in line with the given outlook, leveraging strong contribution from premium brands. The increased adoption of mobile data bundles, already outweighing ongoing declines from traditional voice and messaging services, confirmed the improved year-on-year trends already seen in previous quarters.
- **Fixed revenue reached EUR 274 million** (-7.7% year-on-year), an improvement from -9.0% in the third quarter. The impact from a lower retail DSL customer base is partly compensated by a significant uptake of higher speed propositions (VDSL) from new and existing customers, leveraging our strong fixed network cooperation with Deutsche Telekom.
- **Underlying OIBDA[4] totalled EUR 354 million**, meeting the given quarter-on-quarter outlook on the back of a higher contribution from the mobile data business. Commercial expenses reflected ongoing activities that resulted in a sustained trading momentum, while the accrual of additional expenses related to integration activities were not yet compensated by synergies.
- **CapEx amounted to EUR 438 million,** a significant 53% increase over the combined third quarter (EUR 286 million), as anticipated. This marks the starting point of a new investment cycle for the new Telefónica Deutschland, maintaining a clear focus on the accelerated deployment of the LTE network (62% penetration at the end of December 2014) whilst integrating the two existing networks.
- **Reported Free Cash Flow pre dividends (FCF)[5] for the financial year 2014** reached EUR 719 million, higher than in 2013 (EUR 699 million). The strong conversion from underlying OIBDA[4] to FCF in 2014 was mainly driven by a positive EUR 511 million contribution from working capital (without extraordinary effects) during the year.
- **Consolidated net financial debt** was EUR 3 million at the end of December 2014, a significant decrease compared to EUR 468 million at the end of December 2013, increasing Telefonica Deutschland's financial flexibility ahead of 2015 requirements, such as dividend payment, spectrum auction and initial cash-out from restructuring activities.

[4] Excludes a EUR 401 million extraordinary effect from restructuring costs in the fourth quarter of 2014, respectively EUR 409 million in 2014.
[5] Free cash flow pre dividends (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities. In 2014 excluding payments related to the acquisition of E-Plus Group.

Telefónica Deutschland's financial outlook

Germany has emerged from 2014 as one of the most attractive telecommunication markets in Europe, particularly around the mobile data monetisation theme. In this new environment, improving the quality of service is key to facilitate the steady adoption of a more digital lifestyle by customers.

The merger of Telefónica Deutschland and the E-Plus Group from 1 October 2014 is the main catalyst for change of a more balanced market, with tangible benefits for our customers and shareholders.

Telefónica Deutschland's strategic framework is built around three key priorities:

- Keep the Momentum from a leading position in the mobile consumer and partner markets, while growing in customer segments, such as SMEs or digital households from a better quality platform.
- Integrate quickly and extract the full value of expected synergies from the integration of both infrastructures and organisations while progressing on the development of the LTE network.
- Transform the Company into a truly end-to-end digitally oriented Company, both from an internal and external perspective.

Our aspiration is to become the Leading Digital Telco, which will be cemented in the future by three success factors:

1. Offer the best high speed access experience to our customers, with a flexible combination of the latest technologies for mobile and fixed broadband access.
2. Ensure a superior customer experience to customers across all channels and throughout their customer journey, with tailored offers per customer segment designed to monetise increased demand for mobile data and a more efficient and digital customer service.
3. Achieve Operational Excellence while the integration of both networks and organisations is taking place, with a progressive improvement of efficiencies while consistently delivering on customer expectations.

In 2015 (year one in the integration schedule), **we already expect to achieve a run rate of around EUR 250 million Operating Cash FLow (OIBDA minus CapEx) synergies**[6], which is approximately 30% of the target run rate of OpCF synergies (EUR 800 million) expected after five years.

CapEx synergies (from the avoidance of dual network roll-outs) are anticipated to represent around 50% of total run rate OpCF synergies expected for 2015.

We expect OpEx savings (ca. 40% of total OpCF synergies in 2015) to have an impact in financials mainly in the second half of the year from the initial execution of the headcount restructuring program, related reduction of facilities and shop footprint reduction. Thus, for OpEx synergies we anticipate a split of roughly 60% in commercial areas and 40% in SG&A (Selling, General and Administration) areas.

[6] Synergies defined in terms of Operating Cash Flow (OIBDA-CapEx) with a target run rate after year 5 from start of integration of EUR 800 million. OpEx savings are referred to 2014 combined financials excluding restructuring costs. CapEx is net of restructuring activities and excludes investment in spectrum.

Revenue and other synergies (less than 10% of total run rate synergies expected in the year) are expected to come from cross and up-selling activities, the increase of market share in the SME segment and the initial contribution from the Mobile Bitstream Access agreement to our wholesale business.

In line with our vision to become the Leading Digital Telco in Germany, in 2015 we will put an even stronger focus on the development of our customer base. We will continue to be the value-for-money choice for our customers and partners while keeping a strong view on data monetisation. As a result, we expect **mobile service revenue in 2015 to remain broadly stable over 2014 combined[7] figure** (EUR 5,528 million). The fixed business will continue to play an important role, leveraging increased demand for high-speed access and flexible propositions to facilitate our customers' digital journey.

We expect a gradual progression of improvement in OIBDA throughout 2015 driven by the capture of synergies from the integration of organisations and initial projects for the combination of networks, the focus on operational excellence with increased scale of the business and a higher contribution from mobile data. From a 2014 combined[7] base of EUR 1,461 million, we expect **Operating Income before Depreciation and Amortisation (OIBDA)[8] to grow more than 10% year-on-year in 2015**.

The fourth quarter of 2014 reflected the start of a new investment cycle for the new Telefónica Deutschland, and for 2015 we expect synergies to outweigh the additional investments to be made to accelerate the deployment of the LTE network and the initial works for the consolidation of the two networks. As a result, we expect that **CapEx[9] in 2015 to show a high single digit percentage decline year-on-year** from a combined[7] base of EUR 1,161 million.

With regards to shareholder remuneration, it is our intention to suggest to the general shareholders' meeting a **cash dividend of at least EUR 700 million for the year 2014**, payable in May 2015. In line with our publicly stated dividend policy[10], the Company intends to maintain a high pay-out ratio in relation to Free Cash Flow while keeping the leverage ratio[11] below 1.0x over the medium term. With regards to the integration of the E-Plus Group, synergies expected to be realised in the near future might be considered when making a dividend proposal.

[7] Combined figures for 2013 and 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material extraordinary effects, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management and resulting in combined figures we believe are more meaningful as a comparable basis.

[8] Excluding material extraordinary effects, such as capital gains or restructuring costs.

[9] CapEx excludes investments related with the renewal/acquisition of spectrum licenses

[10] Please refer to our dividend policy: https://www.telefonica.de/investor-relations-en/share/dividends.html .

[11] Leverage ratio is defined as the net financial debt divided by LTM (Last twelve months) OIBDA before extraordinary effects. Solely for purposes of calculating the leverage for any twelve month period which includes historical periods prior to the closing of the Transaction, a combined OIBDA will be applied. This combined OIBDA includes the OIBDA of the E-Plus Group under Telefonica Deutschland accounting policies for the entire twelve month period as if the closing of the Transaction had occurred at the beginning of such twelve month period.

Telefónica Deutschland's operating performance in 2014[12]

At the end of December 2014, Telefónica Deutschland's **access base reached 47.7 million**, an increase of 1.6% year-on-year on a like-for-like basis on the back of strong mobile trading. The mobile access base stood at 42.1 million (+2.4% year-on-year, like-for-like), while fixed accesses declined by 4.0% year-on-year to 5.5 million.

Main recent **commercial highlights** and relevant announcements include:

- From 3 February 2015, the **O_2 Blue tariff portfolio** is further tailored to the digital needs of consumers. LTE is included in all tariffs and customers can take advantage from additional data volumes throughout the portfolio. The new data automatic top up feature guarantees carefree surfing at constant speed while attractive EU roaming options allows travellers to use services abroad in the same way as at home.
- **LTE initiative:** Starting 3 February 2015, LTE access will be enabled for all O_2 postpaid customers. This is part of the strategy of Telefónica Deutschland to deliver superior digital customer experience and to further encourage our customers the usage of mobile internet.
- As part of our **cross-and-upsell strategy** after the integration of the E-Plus Group, the O_2 Blue mobile portfolio, as well as the O_2 DSL portfolio – including the Kombivorteil – are now available in BASE shops. Sales activities for the business segment have been coordinated since October 2014. Moreover, E-Plus direct salesforce is addressing the SME segment with O_2 products and services, with a clear focus on the new digital products: "O_2 Unite", "Digital Phone" and "Digital Workplace".
- Since 27 December 2014, **Chromecast** has been added to O_2 DSL All-in L and XL fixed tariffs, so customers can experience high speed internet access at home and at the same time share it on the big TV-screen.
- As part of the integration process, Telefónica Deutschland has sold **yourfone GmbH** (a former E-Plus Group company) including all trademark rights, customers and staff to Drillisch AG with effect of 2 January 2015.

Postpaid mobile net additions in the fourth quarter of 2014 amounted to 318[13] thousand. This follows a successful start of the new Company with focus on data monetisation, leveraging strong demand for LTE. Total postpaid mobile base reached 18.8 million accesses at the end of December 2014, with their share over total mobile customer base ending at 44.6%.

[12] Like-for-like year-on-year comparisons are based on combined figures for 2013 and 2014. These are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group operating data according to Telefónica Deutschland Group accounting policies and resulting in combined figures we believe are more meaningful as a comparable basis.

[13] Excluding the impact from customer base adjustment in the former E-Plus Group (428 thousand) in the fourth quarter 2014 driven by the finalisation of harmonisation of criteria and the disconnection of a partner.

Telefónica Deutschland

Mobile prepaid net additions were 35 thousand in the fourth quarter of 2014 on the back of a good performance of the partner business. At the end of December 2014 mobile prepaid base was 23.4 million.

Postpaid churn[14] was 1.9% in the fourth quarter of 2014 before adjustments in the customer base.

Smartphone penetration[15] at the end of December 2014 already surpassed the 75% mark for our premium brands in the consumer postpaid segment as a result of the continued commercial focus on LTE and data monetisation.

Mobile ARPU in the fourth quarter of 2014 was EUR 10.9. Postpaid ARPU[14] was EUR 17.7 in the same period and reflects the new perimeter of the Company from 1 October 2014. Prepaid ARPU for the fourth quarter was EUR 5.6.

Retail fixed broadband access base declined by 4.5% year-on-year to 2.1 million at the end of December 2014, with the acceleration of the contribution from VDSL accesses in the fourth quarter (65 thousand, +34% over prior quarter) helping to improve the trend in net additions to -17 thousand in the fourth quarter (-31 thousand in the previous quarter).

Wholesale broadband fixed accesses registered 24 thousand net disconnections in the quarter and 12 thousand net disconnections for the full year of 2014 (from 37 thousand net additions in 2013), on the back of the overall demand of customers for high speed accesses also affecting partner brands.

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

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Telefónica Deutschland's financial performance in 2014[16]

Revenue for the financial year 2014 totalled EUR 5,522 million, consolidating E-Plus Group with effect of 1 October 2014. On a combined basis, 2014 revenues would have been EUR 7,793 million. In the fourth quarter, total revenue amounted to EUR 2,019 million, a largely stable performance over the previous year on a like-for-like basis (-0.2%), achieving the given quarter-on-quarter outlook.

Mobile service revenue for 2014 were EUR 3,580 million; EUR 5,528 million on a combined basis. In the fourth quarter, mobile service revenue amounted to EUR 1,391 million, flat year-on-year on a like-for-like basis (+0.3% if the impact from mobile termination rate cuts is also excluded), and in line with the given quarter-on-quarter outlook, leveraging strong contribution from premium brands. The increased adoption of mobile data bundles is already outweighing ongoing declines from traditional voice and messaging services, thus confirming the improved year-on-year trend already seen in previous quarters.

Mobile data revenue totalled EUR 1,793 million in 2014, consolidating E-Plus Group from the fourth quarter. The share of mobile data revenues over total mobile service revenues in the fourth quarter of 2014 was 52.0% or EUR 723 million and the share of non-SMS data revenues over total data revenues was 68.9% in the same period, totalling EUR 499 million. This was the result of the continued focus on data monetisation across brands and segments, leveraging the higher smartphone penetration in the base and the demand for LTE.

Handset revenues amounted to EUR 795 million in 2014 consolidating E-Plus Group from October onwards and to EUR 350 million in the fourth quarter, following the strong demand for smartphones and LTE-enabled devices in particular.

Fixed business revenues amounted to EUR 1,138 million in 2014, a decline of 7.8% year-on-year. In the fourth quarter, they decreased 7.7% year-on-year to EUR 274 million. This represents an improvement over the previous quarter as a result of the increased uptake of demand for higher speed accesses based on VDSL from new and existing customers.

Operating expenses in 2014 totalled EUR 4,948 million, consolidating E-Plus Group from 1 October 2014. In the fourth quarter of 2014, operating expenses amounted to EUR 2,104 million (including restructuring costs of EUR 401 million).

- **Supplies** amounted to EUR 2,144 million in 2014 and EUR 762 million in the fourth quarter, mainly driven by handset purchases.

[16] Combined figures for 2013 and 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material extraordinary effects, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management and resulting in combined figures we believe are more meaningful as a comparable basis.

- **Personnel expenses** in 2014 amounted to EUR 828 million, while in the fourth quarter of the year they were EUR 498 million, which included a significant proportion (approx. 80%) of the above-mentioned EUR 401 million one-off restructuring costs.
- **Other operating expenses** amounted to EUR 1,976 million for the twelve months period and EUR 843 million in the fourth quarter. The remainder of the restructuring costs not related to personnel were booked under this category. This cost category was mainly driven by the continued commercial investments to enhance trading momentum and additional costs related to the acquisition and integration of the E-Plus Group.

Operating Income before Depreciation and Amortisation (OIBDA) for 2014 amounted to EUR 679 million (EUR 1,461 million on an underlying[17], combined basis). In the fourth quarter of 2014, OIBDA was negative by EUR 46 million, while underlying[17] OIBDA was EUR 354 million, thus meeting the given outlook.

OIBDA margin was 12.3% for the full year 2014, while underlying[17] OIBDA margin in the fourth quarter was 17.6%, in line with the given outlook, and 18.7% for the full year 2014 on an underlying[17], combined basis.

OIBDA excluding group fees amounted to EUR 733 million in 2014, while in the fourth quarter it was negative in EUR 38 million (positive EUR 363 million on an underlying[17] basis). In the fourth quarter underlying[17] OIBDA margin excluding group fees was 18.0%.

Depreciation & Amortisation totalled EUR 1,325 million in the financial year 2014 compared to EUR 1,132 million in 2013; primarily driven by the incorporation of E-Plus Group as of 1 October 2014. The amortisation of fair values allocated in the purchase price allocation (PPA) to intangible assets resulted into higher amortisation charges; partially offset by the write-off of assets in the software category no longer depreciated due to the end of their useful life.

As a result, **operating income** was negative in EUR 646 million for January to December 2014, while in 2013 was positive in EUR 105 million.

Net financial result as of December, 2014 was negative in the amount of EUR 41 million (EUR -27 million in 2013). This is mainly the effect from recent financing activities, e.g. the bonds issued in November 2013 and in February 2014.

The Company reported an **income tax expense** for January to December 2014 of EUR 34 million, mainly relating to the revaluation of deferred tax assets.

[17] Excluding an extraordinary effects from restructuring costs of EUR 401 million in the fourth quarter of 2014, and EUR 414 million for the full year on a combined basis.

As a result, **the result for the year 2014** was EUR -721 million.

CapEx in 2014 amounted to EUR 849 million (EUR 1,161 million on a combined basis). In the fourth quarter, on a combined basis it registered a significant 53% quarter-on-quarter increase to EUR 438 million. The fourth quarter of 2014 saw the starting point of a new investment cycle for the new Company, maintaining a clear focus on the accelerated deployment of the LTE network. Outdoor coverage of the LTE network increased to 62% at the end of December, 2014, up 20 percentage points from end of prior year. The integration of the two legacy networks was already initiated in the fourth quarter.

Operating cash flow (OIBDA minus CapEx) for 2014 was negative EUR 169 million. On an underlying[17] basis, it amounted to EUR 300 million.

Free Cash Flow pre dividends (FCF)[18] for the financial year 2014 reached EUR 719 million, higher than in 2013 (EUR 699 million). The strong conversion from underlying OIBDA to FCF in 2014 was mainly driven by a positive EUR 511 million contribution from working capital without extraordinary effects during the year. Working capital in 2014 was positively affected by silent factoring transactions with handset receivables executed during the year, the higher non-current deferred income from other advanced payments for future services to be received (already registered in the second quarter), and the phasing of payments for CapEx in the fourth quarter.

Telefonica Deutschland paid EUR 6 million taxes for prior periods in 2014. Net interest payments were higher year-on-year in EUR 9 million to EUR 30 million, owing to the debt funding activities executed in 2014 and 2013 and the impact in the fourth quarter from the incorporation of additional liabilities from the E-Plus Group.

Consolidated net financial debt was EUR 3 million at the end of December 2014, a significant decrease compared to EUR 468 million at the end of December 2013, due to the net positive impact from the opening balance sheet of the E-Plus Group as of 1 October 2014 (EUR 184 million) and the FCF[18] generated during the year (EUR 719 million) that offset the impact from the dividend payment in May 2014 (EUR 525 million). Additional effects, like the usage of available cash to partially fund the acquisition of E-Plus and others add up to the final net debt position.

The resulting liquidity position increases the Company's financial flexibility ahead of expected cash payments in 2015, such as the upcoming spectrum auction in the second quarter, the dividend for the financial year 2014 and the cash-out related to the restructuring measures to be executed in the year.

[17] Excluding an extraordinary effects from restructuring costs of EUR 401 million in the fourth quarter of 2014, and EUR 414 million for the full year on a combined basis.

[18] Free cash flow pre dividends (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities. In 2014 excluding capital measures and payments related to the acquisition of E-Plus Group.

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

	1 October to 31 December			1 January to 31 December		
(Euros in millions)	2014	2013	% Chg	2014	2013	% Chg
Revenues	2,019	1,243	62.4	5,522	4,914	12.4
Operating income before depreciation and amortisation (OIBDA) and restructuring	354	373	(5.0)	1,088	1,237	(12.1)
OIBDA before restructuring-margin	*17.6%*	*30.0%*	*(12.4%-p.)*	*19.7%*	*25.2%*	*(5.5%-p.)*
Operating income before depreciation and amortisation (OIBDA)	(46)	373	> (100,0)	679	1,237	(45.1)
OIBDA margin	*(2.3%)*	*30.0%*	*(32.3%-p.)*	*12.3%*	*25.2%*	*(12.9%-p.)*
Operating income before depreciation and amortisation (OIBDA) and before group fees	(38)	390	> (100,0)	733	1,308	(44.0)
OIBDA before group fees margin	*(1.9%)*	*31.4%*	*(33.2%-p.)*	*13.3%*	*26.6%*	*(13.4%-p.)*
Operating income	(593)	84	> (100,0)	(646)	105	> (100,0)
Total profit (loss) for the period	(642)	79	> (100,0)	(721)	78	> (100,0)
Basic earnings per share (in euros) [1]	(0.38)	0.07	> (100,0)	(0.45)	0.07	> (100,0)
CapEx	(438)	(198)	> 100,0	(849)	(666)	27.5
Operating cash flow (OIBDA-CapEx)	(484)	175	> (100,0)	(169)	571	> (100,0)
Free cash flow pre dividends [2] and pre-acquisition of E-Plus net of cash acquired	190	155	22.6	719	699	2.9
Free cash flow pre dividends [2]	(3,049)	155	> (100,0)	(2,521)	699	> (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 1,620m for the year 2014 and 1,117m for the year 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, OIBDA before group fees margin and OIBDA before restructuring-margin are calculated as percentage of total revenues, respectively.

TELEFÓNICA DEUTSCHLAND GROUP

ACCESSES

Unaudited (in thousands)

	2014				2013				% Chg (YoY)
Unaudited (in thousands)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4'14 vs. Q4'13
Final clients accesses	23,876	23,964	24,113	46,548	24,219	24,216	24,306	24,042	93.6
Fixed telephony accesses	2,109	2,078	2,051	2,036	2,213	2,176	2,145	2,125	(4.2)
Internet and data accesses	2,492	2,450	2,413	2,387	2,630	2,583	2,543	2,516	(5.1)
Narrowband	266	259	253	243	295	288	277	272	(10.5)
Broadband	2,226	2,191	2,161	2,144	2,336	2,295	2,266	2,244	(4.5)
Mobile accesses	19,275	19,436	19,649	42,125	19,325	19,411	19,576	19,401	> 100,0
Prepaid	8,911	8,920	8,989	23,351	9,124	9,151	9,261	9,115	> 100,0
Postpaid	10,364	10,516	10,660	18,774	10,201	10,261	10,316	10,286	82.5
thereof M2M	*95*	*98*	*106*	*414*	*83*	*85*	*90*	*91*	*> 100,0*
Postpaid (%)	53.8%	54.1%	54.3%	44.6%	52.8%	52.9%	52.7%	53.0%	*(8.5%-p.)*
Smartphone penetration (%) [1]	32.8%	33.1%	33.8%	29.0%	27.9%	28.8%	29.8%	31.4%	*(2.4%-p.)*
Pay TV	–	–	–	–	51	46	42	–	> (100,0)
Wholesale accesses [2]	1,128	1,152	1,138	1,113	1,113	1,127	1,130	1,125	(1.0)
Total accesses	25,004	25,116	25,251	47,662	25,332	25,343	25,437	25,167	89.4

(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			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ARPU (in euros)	12.1	12.5	12.7	10.9	12.5	12.7	12.9	12.5
Prepaid	5.0	5.2	5.3	5.6	5.0	5.1	5.4	5.1
Postpaid excl. M2M	18.5	18.8	19.1	17.7	19.5	19.6	19.8	19.3
Data ARPU (in euros)	6.0	6.1	6.2	5.7	6.1	6.2	6.2	6.2
% non-SMS over data revenues	72.0%	72.5%	73.8%	68.9%	63.4%	65.4%	67.6%	69.6%
Voice Traffic (m min)	7,572	7,775	7,398	18,441	7,444	7,691	7,497	7,520
Churn (%)	2.4%	1.9%	1.9%	2.9%	2.4%	2.1%	2.1%	2.8%
Postpaid churn (%) excl. M2M	1.6%	1.3%	1.5%	2.7%	1.5%	1.3%	1.4%	2.1%

Unaudited

	2014				2013			
	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec
ARPU (in euros)	12.1	12.3	12.4	11.8	12.5	12.6	12.7	12.7
Prepaid	5.0	5.1	5.2	5.4	5.0	5.0	5.2	5.1
Postpaid excl. M2M	18.5	18.6	18.8	18.4	19.5	19.6	19.6	19.5
Data ARPU (in euros)	6.0	6.1	6.1	5.9	6.1	6.2	6.2	6.2
% non-SMS over data revenues	72.0%	72.3%	72.8%	71.2%	63.4%	64.4%	65.5%	66.5%
Voice Traffic (m min)	7,572	15,347	22,745	41,186	7,444	15,135	22,632	30,152
Churn (%)	2.4%	2.1%	2.1%	2.4%	2.4%	2.2%	2.2%	2.4%
Postpaid churn (%) excl. M2M	1.6%	1.4%	1.5%	1.9%	1.5%	1.4%	1.4%	1.6%

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

	1 October to 31 December				1 January to 31 December			
(Euros in millions)	2014	2013	Change	% Chg	2014	2013	Change	% Chg
Revenues	2,019	1,243	776	62.4	5,522	4,914	608	12.4
Other income	38	106	(67)	(63.6)	106	169	(63)	(37.4)
Operating expenses	(2,104)	(976)	(1,128)	> 100,0	(4,948)	(3,846)	(1,102)	28.7
Supplies	(762)	(507)	(255)	50.4	(2,144)	(1,958)	(186)	9.5
Personnel expenses	(498)	(107)	(392)	> 100,0	(828)	(419)	(409)	97.7
Other expenses	(843)	(362)	(481)	> 100,0	(1,976)	(1,469)	(507)	34.5
Operating income before depreciation and amortisation (OIBDA)	**(46)**	**373**	**(419)**	**> 100,0**	**679**	**1,237**	**(558)**	**(45.1)**
OIBDA margin	*(2.3%)*	*30.0%*		*(32.3%-p.)*	*12.3%*	*25.2%*		*(12.9%-p.)*
Depreciation and amortisation	(546)	(289)	(257)	88.8	(1,325)	(1,132)	(194)	17.1
Operating income	**(593)**	**84**	**(676)**	**> (100,0)**	**(646)**	**105**	**(751)**	**> (100,0)**
Net financial income (expense)	**(15)**	**(4)**	**(11)**	**> 100,0**	**(41)**	**(27)**	**(14)**	**51.9**
Profit (loss) before tax for the period	**(608)**	**79**	**(687)**	**> (100,0)**	**(687)**	**78**	**(765)**	**> (100,0)**
Income tax	(34)	(1)	(33)	> 100,0	(34)	(1)	(33)	> 100,0
Total profit for the period	**(642)**	**79**	**(721)**	**> (100,0)**	**(721)**	**78**	**(799)**	**> (100,0)**
Number of shares in millions as of end of period date	**2,975**	**1,117**	**1,858**	**> 100,0**	**2,975**	**1,117**	**1,858**	**> 100,0**
Basic earnings per share (in euros) (1)	**(0.38)**	**0.07**	**(0.45)**	**> (100,0)**	**(0.45)**	**0.07**	**(0.52)**	**> (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 1,620m for the year 2014 and 1,117m for the year 2013.

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

REVENUE BREAKDOWN

Unaudited

(Euros in millions)	1 October to 31 December 2014	2013	Change	% Change	1 January to 31 December 2014	2013	Change	% Change
Revenues	**2,019**	**1,243**	**776**	**62.4**	**5,522**	**4,914**	**608**	**12.4**
Wireless business	**1,742**	**944**	**798**	**84.5**	**4,375**	**3,673**	**702**	**19.1**
Mobile service revenues	1,391	743	649	87.3	3,580	2,989	591	19.8
Handset revenues	350	201	149	74.0	795	684	111	16.2
Wireline business	**274**	**297**	**(23)**	**(7.7)**	**1,138**	**1,235**	**(97)**	**(7.8)**
Other revenues	**3**	**2**	**1**	**79.3**	**8**	**6**	**2**	**41.4**

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 31 December 2014	As of 31 December 2013	Change	% Change	thereof contribution from opening balance E-Plus as of 1 October 2014	% change minus the effect 'contribution from opening balance E-Plus'
NON-CURRENT ASSETS	**14,393**	**7,266**	**7,127**	**98.1**	**7,342**	**(3.0)**
Goodwill	1,629	706	924	> 100,0	928	(0.6)
Other intangible assets	6,726	2,884	3,842	> 100,0	4,328	(16.9)
Property, plant and equipment	5,029	2,896	2,134	73.7	1,931	7.0
Trade and other receivables	236	83	153	> 100,0	97	68.1
Other financial assets	49	16	33	> 100,0	19	94.0
Other non-financial assets	142	98	44	44.6	40	4.4
Deferred tax assets	581	584	(2)	(0.4)	–	(0.4)
CURRENT ASSETS	**3,494**	**1,755**	**1,739**	**99.1**	**1,051**	**39.2**
Inventories	104	89	15	16.3	21	(7.7)
Trade and other receivables	1,513	877	636	72.5	580	6.4
Other financial assets	19	21	(2)	(9.0)	0	(9.4)
Other non-financial assets	71	60	11	19.3	54	(70.7)
Cash and cash equivalents	1,702	709	994	> 100,0	396	84.3
Assets held for sale	85	0	85	> (100,0)	–	> (100,0)
Total assets = Total equity and liabilities	**17,887**	**9,021**	**8,866**	**98.3**	**8,394**	**5.2**
EQUITY	**11,380**	**5,999**	**5,381**	**89.7**	**6,706**	**(22.1)**
Common Stock	2,975	1,117	1,858	> 100,0	–	> 100,0
Additional paid-in capital & retained earnings	8,406	4,882	3,524	> 100,0	6,706	> 100,0
Equity attributable to owners of the company	11,380	5,999	5,381	89.7	6,706	(22.1)
NON-CURRENT LIABILITIES	**2,912**	**1,452**	**1,460**	**> 100,0**	**405**	**72.7**
Interest-bearing debt	1,800	1,344	456	34.0	151	22.7
Trade payables and other payables	19	3	16	> 100,0	0	> 100,0
Provisions	787	104	683	> 100,0	232	> 100,0
Deferred income	305	0	305	> (100,0)	22	> (100,0)
CURRENT LIABILITIES	**3,595**	**1,571**	**2,025**	**> 100,0**	**1,283**	**47.2**
Interest-bearing debt	615	104	511	> 100,0	354	> 100,0
Trade payables and other payables	2,283	1,271	1,012	79.6	703	24.3
Provisions	241	4	237	> 100,0	22	> 100,0
Other non-financial liabilities	18	23	(5)	(23.3)	6	(50.6)
Deferred income	400	170	230	> 100,0	198	18.7
Liabilities held for sale	40	0	40	> (100,0)	–	> (100,0)

Financial Data				
Net financial debt (1)	3	468	(464)	(99.3)
Leverage (2)	0.0x	0.4x	(0.4)	(99.2)

(1) Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.
* Current and non-current financial assets include handset-receivables (current: EUR 454m in 2014 and EUR 188m in 2013; non-current: EUR 236m in 2014 and EUR 83m in 2013), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 2m in 2014 and EUR 0m in 2013; non-current: EUR 12m in 2014 and EUR 0m in 2013) as well as loans to third parties (current: EUR 1m in 2014 and EUR 0m in 2013; non-current: EUR 1m in 2014 and EUR 0m in 2013)
* Current and non-current net financial debt include bonds issued (EUR 1,115m in 2014 and EUR 594m in 2013), other loans (EUR 726m in 2014 und EUR 851m in 2013) as well as finance lease payables (current: EUR 374m in 2014 und EUR 2m in 2013; non-current: EUR 197m in 2014 und EUR 1m in 2013)
Note: Handset-receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position.

(2) Leverage is defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 679m in 2014; EUR 1,237m in 2013) before extraordinary effects. Please note that solely for purposes of calculating the leverage for any twelve month period which includes historical periods prior to the closing of the Transaction, a combined* OIBDA will be applied. This combined OIBDA includes the OIBDA of the E-Plus Group under Telefonica Deutschland Group accounting policies for the entire twelve month period as if the closing of the Transaction had occurred at the beginning of such twelve month period.

**Combined figures for 2013 and 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland Group and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material extraordinary effects, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management and resulting in combined figures we believe are more meaningful as a comparable basis.*

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited

(Euros in million)	2014 Jan - Mar	2014 Jan - June	2014 Jan - Sept	2014 Jan - Dec	2013 Jan - Mar	2013 Jan - June	2013 Jan - Sept	2013 Jan - Dec
OIBDA	**234**	**486**	**726**	**679**	**278**	**572**	**864**	**1,237**
- CapEX	(132)	(266)	(411)	(849)	(146)	(296)	(468)	(666)
= Operating Cash Flow (OpCF)	**102**	**219**	**315**	**(169)**	**133**	**276**	**396**	**571**
+ Silent Factoring (1)	178	153	234	203	129	214	266	219
-/+ Other working capital movements	(161)	39	(8)	717	(146)	(123)	(89)	(87)
Change in working capital	17	191	226	**920**	(17)	91	177	**132**
+/- (Gains) losses from sale of companies, fixed assets and other effects	(0)	(0)	(0)	(0)	–	–	(0)	(76)
+/- Proceeds from sale of companies, fixed assets and other effects	1	1	1	1	–	–	–	107
+ Net interest payments	(4)	(7)	(10)	(30)	(4)	(10)	(15)	(21)
+ Taxes paid	–	–	–	(6)	–	–	–	–
+ /- Proceeds / Payments on financial assets	(8)	(7)	(3)	4	(7)	(12)	(15)	(14)
= Free cash flow pre dividends (2) and pre-acquisition of E-Plus net of cash acquired	**107**	**397**	**529**	**719**	**105**	**345**	**543**	**699**
+ Acquisition of E-Plus net of cash acquired	–	–	–	(3,239)	–	–	–	–
= Free cash flow pre dividends (2)	**107**	**397**	**529**	**(2,521)**	**105**	**345**	**543**	**699**
-/+ Dividends (3)	–	(525)	(525)	(525)	–	(503)	(503)	(503)
= Free cash flow post dividends	**107**	**(128)**	**4**	**(3,046)**	**105**	**(158)**	**40**	**196**
= Net financial debt at the beginning of the period	468	468	468	468	842	842	842	842
+ Increase of net financial debt due to acquisition E-Plus net of cash acquired	–	–	–	212	–	–	–	–
+ Other change in net financial debt	120	38	39	(132)	25	(60)	(64)	(178)
+ capital increase (less transaction costs of the period)	–	–	(3,599)	(3,595)	–	–	–	–
+ Increase of net financial debt due to held for sale (4)	–	–	–	4	–	–	7	–
= Net financial debt at the end of the period (incl. Restricted cash)	**481**	**634**	**(3,096)**	**3**	**762**	**940**	**745**	**468**
- Restricted cash	–	–	3,636	–	–	–	–	–
= Net financial debt at the end of the period (excl. Restricted cash)	**481**	**634**	**539**	**3**	**762**	**940**	**745**	**468**

(1) Full impact (YTD) of silent factoring in the twelve month period in 2014 of EUR 203m and EUR 219m in the twelve month period 2013 (transactions have been executed in January, March and September 2014 respectively in March, June and September of the year 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 Liablilities of yourfone GmbH were classified as held for sale as of 31 December 2014. The sale will take place in the first quarter 2015.
Assets and Liablilities of Telefonica Online Services GmbH were classified as held for sale as of 30 September 2013. The sale was completed on 31 October 2013.

	2014 Jan - Mar	2014 Jan - June	2014 Jan - Sept	2014 Jan - Dec	2013 Jan - Mar	2013 Jan - June	2013 Jan - Sept	2013 Jan - Dec
= Free cash flow pre dividends (millions) (5)	107	397	529	(2,521)	105	345	543	699
Number of shares (millions)	1,117	1,117	2,234	2,975	1,117	1,117	1,117	1,117
= Free cash flow per share (in euros)	0.10	0.36	0.24	(0.85)	0.09	0.31	0.49	0.63

(5) Free Cash flow per share as of December 2014 calculated on the basis of the free cash flow pre dividends and pre payment of the purchase price for E-Plus (EUR 719m) amounts to 0.24 EUR per share.

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

(Euros in millions)	As of 31 December 2014	2013	% Chg	thereof contribution from opening balance E-Plus as of 1 October 2014	% change minus the effect 'contribution from opening balance E-Plus'
A Liquidity	**1,702**	**709**	**> 100,0**	**396**	**84.3**
B Current financial assets	**456**	**188**	**> 100,0**	**192**	**40.4**
C Current financial debt	**612**	**104**	**> 100,0**	**350**	**> 100,0**
D=C-A-B Current net financial debt	**(1,547)**	**(793)**	**95.0**	**(237)**	**65.1**
E Non-current financial assets	**250**	**83**	**> 100,0**	**98**	**83.1**
F Non-current financial debt	**1,800**	**1,344**	**34.0**	**151**	**22.7**
G=F-E Non-current net financial debt	**1,550**	**1,261**	**22.9**	**54**	**18.7**
H=D+G Net financial debt [(1)]	**3**	**468**	**(99.3)**	**(184)**	**(60.0)**

(1) Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.

B + E Current and non-current financial assets include handset-receivables (current: EUR 454m in 2014 and EUR 188m in 2013; non-current: EUR 236m in 2014 and EUR 83m in 2013), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 2m in 2014 and EUR 0m in 2013; non-current: EUR 12m in 2014 and EUR 0m in 2013) as well as loans to third parties (current: EUR 1m in 2014 and EUR 0m in 2013; non-current: EUR 1m in 2014 and EUR 0m in 2013)

C + F Current and non-current net financial debt include bonds issued (EUR 1,115m in 2014 and EUR 594m in 2013), other loans (EUR 726m in 2014 und EUR 851m in 2013) as well as finance lease payables (current: EUR 374m in 2014 und EUR 2m in 2013; non-current: EUR 197m in 2014 und EUR 1m in 2013)

Note: Handset-receivables are shown under trade and other receivables in the Consolidated Statement of Financial Position.

Financials (Euros in millions)	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 FY
Revenues	**2.022**	**1.847**	**1.925**	**2.002**	**2.019**	**7.793**
Mobile service revenues	**1.391**	**1.333**	**1.380**	**1.424**	**1.391**	**5.528**
OIBDA post Group fees	**462**	**357**	**399**	**350**	**354**	**1.461**
CapEx	**471**	**215**	**224**	**286**	**438**	**1.161**

Accesses (EoP) (in k)	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 FY
Total Accesses	**46.899**	**46.897**	**47.303**	**47.803**	**47.662**	**47.662**
o/w mobile	**41.133**	**41.168**	**41.623**	**42.201**	**42.125**	**42.125**
Prepay	22.876	22.680	22.940	23.316	23.351	**23.351**
Postpay	18.257	18.489	18.683	18.885	18.774	**18.774**

- Combined figures for 2014 and 2013 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by material extraordinary effects if any, such as capital gains or restructuring costs based on estimates made by Telefónica Deutschland management and resulting in combined figures we believe are more meaningful as a comparable basis.

- The combined financials are not necessarily indicative of results that would have occurred if the business had been a separate standalone entity during the year presented or of future results of the business. The presentation of the combined consolidated financial information is based on certain assumptions and is intended for illustrative purposes only. The combined information describes a hypothetical situation and thus, due to its nature, the presentation does not reflect the actual results of operations. The assumed acquisition date had been the beginning of the annual period.

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