Telefónica Deutschland

MUNICH, 05 May 2015

Preliminary results for January to March 2015:

Telefónica Deutschland delivers on key integration milestones with a strong financial performance

- **Revenues +2.9% y-o-y[1] with mobile data-centric strategy driving MSR to +1.5% y-o-y**
- **Strong +5.7% y-o-y OIBDA[2] reflects focus on customer base development**
- **Network enhancement and new propositions provide tangible customer benefits**
- **Financial outlook and synergy target on track with key integration milestones achieved**

First quarter 2015 operational & financial highlights[1]:

- **Net additions in mobile postpaid** at 141 thousand driven by lower churn in the Consumer area and further contribution from partners. **Prepaid net additions** were seasonally negative with 87 thousand.
- **Smartphone penetration** at the end of March 2015 showed a year-on-year increase of 5 percentage points to 76% within the O_2 premium consumer base.
- **Mobile service revenues** positive performance at +1.5% year-on-year leveraging a favourable customer mix in acquisition and retention for premium brands adding to higher LTE-driven mobile data monetisation.
- **Revenues** reached EUR 1,901 million (+2.9% year-on-year), with mobile service revenues (+1.5% year-on-year) and handset sales (+28.8% year-on-year) outweighing a 10.9% year-on-year decline in fixed revenues.
- **OIBDA** excluding extraordinary effects[2] totalled EUR 378 million (+5.7% year-on-year) with improved flow-through from revenues and a commercial approach focused on customer base retention and a value-based handset sales model.
- **CapEx** amounted to EUR 221 million (+2.9% year-on-year). Investments continued to be focused on the development of one LTE network, with an outdoor coverage target of approximately 75% by the end of 2015.
- **Free Cash Flow pre dividends (FCF)[3] for the first quarter of 2015** reached EUR 100 million, a decrease of 8 million compared to 2014.

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[1] Unless indicated otherwise, year-on-year comparisons are based on combined figures for 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.

[2] Excludes a EUR 17 million extraordinary effect from a capital gain related to the sale of yourfone GmbH in the first quarter of 2015.

[3] Free cash flow pre dividends (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities.

- **Consolidated net financial debt**[4] was EUR 120 million at the end of March 2015, reaching a leverage ratio of 0.1x.

Progress of integration and transformation activities:

During the first quarter of 2015, Telefónica Deutschland achieved several important integration milestones which will help the Company to deliver on its EUR 250 million synergy target (OIBDA-CapEx) for the full year 2015, with a positive impact in profitability from the second half of the year:

- In February, the Company finalised its agreement with the Workers' Councils on the social framework for the announced redundancy program for 1,600 employees until 2018, with an immediate start of the communication process to the respective candidates. The Company is progressing well to achieve 50% of the full target already in the current year, with a tangible impact in personnel costs savings to be seen from the second half of the year.
- The consolidation of the Company's distribution footprint showed a significant progress with the takeover of 301 shops by Drillisch to be executed during the second half of the year, which is a significant portion of the Company's long term target.
- Telefonica Deutschland is further advancing in the vendor selection process for the consolidation of the two networks and to enable the expected benefits from increased scale and the investment focus in only one LTE network.
- Telefonica Deutschland new sales and service organisation has started to enable its distribution network to manage its whole customer base and improve the geographic reach of the different brands. This adds to the initial cross-selling activities, which included the introduction of O_2 mobile and fixed portfolio in BASE shops.

Recent developments in Telefónica Deutschland's commercial offer and network

Telefónica Deutschland is making some important steps to improve network quality and enhance mobile data consumption within the customer base, leveraging new commercial propositions to further monetise mobile data:

- In February 2015, the new postpaid O_2 Blue portfolio was launched, including access to LTE in every tariff as well as a customer-friendly data automatic upselling mechanism. At the same time, the Company opened the access to LTE to the whole O_2 postpaid customer base under their existing contract terms and conditions.
- With the introduction of 3G National Roaming from mid-April 2015, Telefónica Deutschland customers have already started to experience the first tangible benefits from the merger. By combining the strengths of the O_2 and E-Plus networks, the Company aims to offer the best 3G network experience in Germany. Since mid-April this customer benefit is the key element of an attention-grabbing advertising campaign.

[4] Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents

Telefónica Deutschland

- From mid-April 2015, Telefonica Deutschland activated the Voice over LTE feature in the whole O_2 LTE network. This functionality, which significantly improves the quality of voice calls, will be progressively available across the smartphone portfolio.

Reiteration of 2015 financial outlook and proposal for dividend on 2014 results:

	Base line for 2014[5] (EUR million)	**Outlook for 2015**[6] (y-o-y pct. growth)
Mobile Service Revenues	5,528	Broadly stable
OIBDA	1,461	>10%
CapEx	1,161	High single digit pct. decline

For the year ending 31 December 2014, the management suggested to the annual general shareholders' meeting (AGM), which will take place on 12 May 2015 in Munich, a cash dividend of approximately EUR 714 million, to be paid the day after the AGM takes a favourable resolution.

[5] Combined figures for 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 management and resulting in combined figures we believe are more meaningful as a comparable basis. Financials also exclude material one-offs, such as capital gains or restructuring costs (EUR 414 million in 2014).

[6] All expected regulatory effects (e.g. MTR cuts) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA Outlook and CapEx excludes investments in spectrum while integration CapEx are included in the outlook.

Telefónica Deutschland's operating performance in the first quarter of 2015[7]

At the end of March 2015, Telefónica Deutschland's **access base reached 47.7 million**, an increase of 1.6% year-on-year on the back of continued growth of the mobile base, which stood at 42.2 million (+2.5% year-on-year), while fixed accesses declined by 4.4% year-on-year to 5.5 million.

Postpaid mobile net additions in the first quarter of 2015 amounted to 141 thousand, lower than in the previous quarter (318 thousand[8]). This resulted from further contribution from partners and the Company focus on customer base development, especially in consumer premium brands. Total postpaid mobile base reached 18.9 million accesses at the end of March 2015, with their share over total mobile customer base ending at 44.8%.

Mobile prepaid net additions were seasonally negative with 87 thousand in the first quarter of 2015. At the end of March 2015, mobile prepaid base was 23.3 million.

Postpaid churn[9] was 1.7% at the end of March 2015, 0.2 percentage points better than the 1.9% registered in the fourth quarter of 2014. This was mainly driven by Telefónica Deutschland's focus on retention of its customer base.

Smartphone penetration[10] at the end of March 2015 reached 76% in the O_2 premium consumer postpaid base (5 percentage points year-on-year increase) as a result of the continued commercial focus on data monetisation and a value-based approach to handset sales from the beginning of the year.

LTE customer base[11] stood at 5.1 million at the end of March 2015, with a strong sequential improvement over previous quarters as a result of a conscious approach from the Company to maximise the usage of the LTE network via portfolio design, including handsets and the opening of the LTE network to the whole O_2 postpaid customer base.

Mobile ARPU in the first quarter of 2015 was EUR 10.6 (-1.0% year-on-year). Postpaid ARPU[9] was EUR 17.2 in the same period (-4.1% year-on-year), with new additions and renewals to O_2 core brand showing a better sequential ARPU performance on the back of the set of mobile data stimulation activities in place from February 2015. Prepaid ARPU for the first quarter of 2015 was EUR 5.6, stable over the previous quarter.

[7] Year-on-year comparisons are based on combined figures for 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.
[8] Excludes 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.
[9] Starting 1 January 2014 M2M SIM-cards are excluded from calculation for postpaid churn and ARPU.
[10] 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.
[11] LTE customer defined as customer with LTE enabled handset & LTE tariff

Retail fixed broadband access base declined by 4.4% year-on-year to 2.1 million at the end of March 2015, showing a similar number of net disconnections (-16 thousand) as seen in the previous quarter (-17 thousand), with VDSL contributing 66 thousand net additions.

Wholesale broadband fixed accesses registered 28 thousand net disconnections in the quarter, a sequential increase of 4 thousand net disconnections over the previous quarter.

Telefónica Deutschland's financial performance in the first quarter of 2015[12]

Revenues for the first three months of 2015 totalled EUR 1,901 million, an increase of 2.9% over the previous year.

Mobile service revenues showed a positive performance in the quarter of 1.5% year-on-year to EUR 1,354 million, leveraging the strong trading activity in previous quarters and a continued focus on mobile data monetisation, mainly in premium brands. Other effects, such as the lower usage of traditional text messaging and the renewal of expired long-term contracts to lower prices within the customer base of premium brands are having a less dilutive impact than seen in previous quarters.

Mobile data revenues totalled EUR 692 million in the first quarter of 2015. The share of mobile data revenues over total mobile service revenues was 51.1% and the share of non-SMS data revenues over total data revenues was 70.5% in the same period (68.9% in the fourth quarter of 2014).

In the specific O_2 consumer area, the Company saw a sequential improvement in the adoption mix of tariffs under the new O_2 Blue portfolio, with 32% of gross additions in the first quarter of 2015 taking a tariff with more than 1 Gb monthly allowance (25% in the previous quarter). The new data automatic feature, which provides an unrestrained mobile data experience for the customer and a clear upselling path from increased usage, proved very popular amongst customers from its launch date (3rd Feb).

Handset revenues amounted to EUR 282 million in the first three months of 2015 (+28.8% year-on-year increase) reflecting continued strong demand from customers and the Company's value-based approach to handset sales from the beginning of the year.

Fixed business revenues amounted to EUR 261 million in the first quarter of 2015, a decline of 10.9% year-on-year. This reflects the ongoing balance between retail DSL dynamics (contribution of -6.9 percentage points to the year-on-year evolution) and a declining fixed business (contribution of -4.0 percentage points to the year-on-year evolution) for wholesale ADSL and voice carrier.

[12] Unless indicated otherwise, year-on-year comparisons are based on combined figures for 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.

Operating expenses in the first quarter of 2015 totalled EUR 1,552 million:

- **Supplies** amounted to EUR 659 million, of which 45% are hardware costs of sales and 47% connectivity cost of sales.
- **Personnel expenses** amounted to EUR 179 million, with base salaries making up 77% of total.
- **Other operating expenses** amounted to EUR 713 million, of which commercial costs and non-commercial costs represent 57% and 38%, respectively.

Operating Income before Depreciation and Amortisation (OIBDA) for the first quarter of 2015 amounted to EUR 395 million. Excluding the EUR 17 million capital gain from the sale of yourfone GmbH, OIBDA in the quarter would have been EUR 378 million, which represents a 5.7% year-on-year growth on improved flow-through from revenues and a commercial approach focused on customer base retention and a value-based handset sales model.

OIBDA margin was 20.8% for the first quarter of 2015. Before extraordinary effects, it reached 19.9%, an improvement of 0.5 percentage points over the previous year and 2.3 percentage points over the previous quarter.

OIBDA excluding group fees amounted to EUR 408 million in the first quarter of 2015 (21.5% margin). Before extraordinary effects, it was EUR 390 million, which represents a 20.5% margin.

Depreciation & Amortisation totalled EUR 555 million in the first quarter of 2015, compared to EUR 267 million as reported in 2014. This is mainly driven by the incorporation of E-Plus Group in 2014 and first impacts from the consolidation of both networks.

Operating income was negative in EUR 160 million for January to March 2015 on higher depreciation & amortisation charges.

Net financial result for the first quarter of 2015 was negative in the amount of EUR 16 million. This was mainly the effect from the different financing activities executed in the past e.g. the bonds issued in November 2013 and February 2014 as well as interest expenses from finance lease obligations.

The Company did not report material **income tax expense** for January to March 2015.

The result for the first quarter of 2015 was EUR -176 million as a result of the depreciation and amortisation expenses not being compensated by OIBDA.

CapEx in the first quarter of 2015 amounted to EUR 221 million (+2.9% year-on-year). Investments continued to be focused on the development of one LTE network, with an outdoor coverage target of approximately 75% by the end of 2015.

Operating cash flow (OIBDA minus CapEx) for the first quarter of 2015 was EUR 175 million. Before extraordinary effects, it amounted to EUR 157 million, which compares positively to the combined figure of EUR 143 million in the first quarter of 2014.

Free Cash Flow pre dividends (FCF)[13] for the first quarter of 2015 reached EUR 100 million, of which EUR 68 million were proceeds from the sale of yourfone GmbH.

Working capital movements of EUR -107 million were mainly driven by the usual prepayments (mainly rents) of EUR -230 million at the beginning of the year, a CapEx reversal of EUR -87 million from the fourth quarter of 2014, as well as the usual working capital movements which included silent factoring transactions for O_2 myHandy receivables.

Consolidated net financial debt[14] was EUR 120 million at the end of March 2015, reaching a leverage ratio of 0.1x. The resulting strong liquidity position increases the Company's financial flexibility ahead of expected cash payments in 2015, such as the upcoming spectrum auction, the dividend for the financial year 2014 and the cash-out related to the restructuring measures to be executed in the year.

[13] Free cash flow pre dividends (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities.
[14] Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents

Telefónica Deutschland

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited

	1 January to 31 March		
(Euros in millions)	2015	2014	% Chg
Revenues	1.901	1.122	69,4
Operating income before depreciation and amortisation (OIBDA) and before extraordinary effects (1)	378	234	61,3
OIBDA before extraordinary effects-margin	*19,9%*	*20,9%*	*(1,0%-p.)*
Extraordinary effects (1)	17	0	>100,0
Operating income before depreciation and amortisation (OIBDA)	395	234	68,8
OIBDA margin	*20,8%*	*20,9%*	*(0,1%-p.)*
Group fees	13	17	(24,4)
Operating income before depreciation and amortisation (OIBDA) and before group fees	408	251	62,6
OIBDA before group fees margin	*21,5%*	*22,3%*	*(0,9%-p.)*
Operating income	(160)	(33)	>100,0
Total profit (loss) for the period	(176)	(40)	>100,0
Basic earnings per share (in euros) (2)	(0,06)	(0,04)	64,44
CapEx	(221)	(132)	67,3
Operating cash flow (OIBDA-CapEx)	175	102	70,8
Free cash flow pre dividends (3)	100	107	(7,2)

(1) Extraordinary effects as of 31 March 2015 include one-off gains from the sale of yourfone GmbH in the amount of EUR 17m which was closed on 2 January 2015.

(2) Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 2,975m for the year 2015 and 1,117m for the year 2014.

(3) 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 extraordinary effects-margin are calculated as percentage of total revenues, respectively.

Please note that financial data published in this document represents actual consolidated figures under the relevant group perimeter at the respective time.

TELEFÓNICA DEUTSCHLAND GROUP

ACCESSES

Unaudited

(in thousands)	2015 Q1	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Final clients accesses	46.573	23.876	23.964	24.113	46.548
Fixed telephony accesses	2.022	2.109	2.078	2.051	2.036
Internet and data accesses	2.372	2.492	2.450	2.413	2.387
Narrowband	243	266	259	253	243
Broadband	2.128	2.226	2.191	2.161	2.144
Mobile accesses	42.179	19.275	19.436	19.649	42.125
Prepaid	23.264	8.911	8.920	8.989	23.351
Postpaid	18.915	10.364	10.516	10.660	18.774
thereof M2M	*443*	*95*	*98*	*106*	*414*
Postpaid (%)	44,8%	53,8%	54,1%	54,3%	44,6%
Smartphone penetration (%) (1)	49,8%	32,8%	33,1%	33,8%	29,0%
LTE customers (2)	5.146	464	667	963	3.098
Wholesale accesses (3)	1.085	1.128	1.152	1.138	1.113
Total accesses	**47.658**	**25.004**	**25.116**	**25.251**	**47.662**

(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). The increase of smartphone penetration in Q1 2015 is due to the harmonisation of criteria for all segments and brands in Q1 2015.

(2) LTE customer defined customer with LTE enabled handset & LTE tariff

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

Please note that financial data published in this document represents actual consolidated figures under the relevant group perimeter at the respective time.

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

Unaudited

	2015	2014			
	Q1	Q1	Q2	Q3	Q4
ARPU (in euros) (1)	10,6	12,1	12,5	12,7	10,9
Prepaid	5,6	5,0	5,2	5,3	5,6
Postpaid excl. M2M	17,2	18,5	18,8	19,1	17,7
Data ARPU (in euros)	5,5	6,0	6,1	6,2	5,7
% non-SMS over data revenues (2)	70,5%	72,0%	72,5%	73,8%	68,9%
Voice Traffic (m min) (3)	15.837	7.572	7.775	7.398	18.441
Data Traffic (TB) (4)	40.172	10.569	11.247	12.894	37.159
Churn (%)	2,4%	1,6%	1,9%	1,9%	2,9%
Postpaid churn (%) excl. M2M	1,7%	1,6%	1,3%	1,5%	2,7%

Notes:

(1) ARPU (average revenue per user) is calculated as monthly average of the quarter.

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

(3) 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.

(4) Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10^12 bytes). 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 also included. Traffic volume non-rounded.

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Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED INCOME STATEMENT

Unaudited

(Euros in millions)	1 January to 31 March			
	2015	2014	Change	% Chg
Revenues	1.901	1.122	779	69,4
Other income	46	21	26	>100,0
Operating expenses	(1.552)	(909)	(643)	70,8
Supplies	(659)	(427)	(232)	54,3
Personnel expenses	(179)	(108)	(71)	65,8
Other expenses	(713)	(373)	(340)	91,1
Operating income before depreciation and amortisation (OIBDA)	**395**	**234**	**161**	**68,8**
OIBDA margin	*20,8%*	*20,9%*		*(0,1%-p.)*
Depreciation and amortisation	(555)	(267)	(288)	>100,0
Operating income	**(160)**	**(33)**	**(127)**	**>100,0**
Net financial income (expense)	**(16)**	**(8)**	**(9)**	**>100,0**
Profit (loss) before tax for the period	**(176)**	**(40)**	**(136)**	**>100,0**
Income tax	–	–	–	(99,9)
Total profit for the period	**(176)**	**(40)**	**(136)**	**>100,0**
Number of shares in millions as of end of period date	**2.975**	**1.117**	**1.858**	**>100,0**
Basic earnings per share (in euros) (1)	**(0,06)**	**(0,04)**	**(0,02)**	**64,4**

(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 2,975m for the year 2015 and 1,117m for the year 2014.

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TELEFÓNICA DEUTSCHLAND GROUP

REVENUE BREAKDOWN

Unaudited

(Euros in millions)	1 January to 31 March			
	2015	2014	Change	% Change
Revenues	**1.901**	**1.122**	**779**	**69,4**
Mobile business	**1.636**	**827**	**809**	**97,8**
Mobile service revenues	1.354	707	647	91,6
Handset revenues	282	120	162	>100,0
Wireline business	**261**	**293**	**(32)**	**(10,9)**
Other revenues	**3**	**2**	**2**	**94,6**

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Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 31 March 2015	As of 31 December 2014	Change	% Change
NON-CURRENT ASSETS	**14.062**	**14.393**	**(331)**	**(2,3)**
Goodwill	1.629	1.629	–	–
Other intangible assets	6.554	6.726	(172)	(2,6)
Property, plant and equipment	4.924	5.029	(105)	(2,1)
Trade and other receivables	159	236	(77)	(32,6)
Other financial assets	52	49	3	6,5
Other non-financial assets	163	142	21	14,5
Deferred tax assets	581	581	–	–
CURRENT ASSETS	**3.824**	**3.494**	**330**	**9,4**
Inventories	134	104	30	28,8
Trade and other receivables	1.409	1.513	(105)	(6,9)
Other financial assets	16	19	(3)	(17,0)
Other non-financial assets	269	71	198	>100,0
Cash and cash equivalents	1.997	1.702	295	17,3
Assets held for sale	0	85	(85)	(100,0)
Total assets = Total equity and liabilities	**17.886**	**17.887**	**(1)**	**–**
EQUITY	**11.167**	**11.380**	**(213)**	**(1,9)**
Common Stock	2.975	2.975	–	–
Additional paid-in capital & retained earnings	8.192	8.406	(213)	(5,9)
Equity attributable to owners of the company	11.167	11.380	(213)	(1,9)
NON-CURRENT LIABILITIES	**3.242**	**2.912**	**331**	**11,4**
Interest-bearing debt	2.047	1.800	246	13,7
Trade payables and other payables	19	19	(1)	(3,5)
Provisions	873	787	85	10,8
Deferred income	305	305	–	–
CURRENT LIABILITIES	**3.477**	**3.595**	**(119)**	**(3,3)**
Interest-bearing debt	562	615	(52)	(8,5)
Trade payables and other payables	2.227	2.283	(56)	(2,4)
Provisions	244	241	3	1,4
Other non-financial liabilities	26	18	8	46,1
Deferred income	418	400	18	4,5
Liabilities held for sale	0	40	(40)	(100,0)

Financial Data				
Net financial debt (1)	120	3	117	>100,0
Leverage (2)	0,1x	0,0x	0,1	>100,0

(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.
* Current and non-current financial assets include handset - receivables (current: EUR 313m in 2015 and EUR 454m in 2014; non-current: EUR 159m in 2015 and EUR 236m in 2014), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 1m in 2015 and EUR 2m in 2014; non-current: EUR 14m in 2015 and EUR 12m in 2014) as well as loans to third parties (current: EUR 0m in 2015 and EUR 1m in 2014; non-current: EUR 1m in 2015 and EUR 1m in 2014)
* Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,410m in 2015 and EUR 1,115m in 2014), other loans (EUR 725m in 2015 and EUR 726m in 2014) as well as finance lease payables (current: EUR 328m in 2015 and EUR 374m in 2014; non-current: EUR 142m in 2015 and EUR 197m in 2014)
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 the OIBDA (EUR 395m in 2015; EUR 679m in 2014) for the last twelve months 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 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 management and resulting in combined figures we believe are more meaningful as a comparable basis.

TELEFÓNICA DEUTSCHLAND GROUP

RECONCILIATION OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited

(Euros in million)	2015 Jan - Mar	2014 Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
OIBDA	**395**	**234**	**486**	**726**	**679**
- CapEX	(221)	(132)	(266)	(411)	(849)
= Operating Cash Flow (OpCF)	**175**	**102**	**219**	**315**	**(169)**
+ Silent Factoring (1)	314	178	153	234	203
-/+ Other working capital movements	(421)	(161)	39	(8)	717
Change in working capital	**(107)**	17	191	226	**920**
+/- (Gains) losses from sale of companies	(17)	–	–	–	–
+/- Proceeds from sale of companies	68	–	–	–	–
+/- Proceeds from sale of companies, fixed assets and other effects	–	1	1	1	1
+ Net interest payments	(19)	(4)	(7)	(10)	(30)
+ Taxes paid	–	–	–	–	(6)
+ /- Proceeds / Payments on financial assets	–	(8)	(7)	(3)	4
= Free cash flow pre dividends (2) and pre-acquisition of E-Plus net of cash acquired	**100**	**107**	**397**	**529**	**719**
+ Acquisition of E-Plus net of cash acquired	–	–	–	–	(3.239)
= Free cash flow pre dividends (2)	**100**	**107**	**397**	**529**	**(2.521)**
-/+ Dividends (3)	–	–	(525)	(525)	(525)
= Free cash flow post dividends	**100**	**107**	**(128)**	**4**	**(3.046)**
= Net financial debt at the beginning of the period	3	468	468	468	468
+ Increase of net financial debt due to acquisition E-Plus net of cash acquired	–	–	–	–	212
+ Other change in net financial debt	212	120	38	39	(132)
+ capital increase (less transaction costs of the period)	5	–	–	(3.599)	(3.595)
+ Increase of net financial debt due to held for sale (4)	–	–	–	–	4
= Net financial debt at the end of the period (incl.. Restricted cash)	**120**	**481**	**634**	**(3.096)**	**3**
- Restricted cash	–	–	–	3.636	–
= Net financial debt at the end of the period (excl. Restricted cash)	**120**	**481**	**634**	**539**	**3**

(1)Full impact (YTD) of silent factoring in the three month period in 2015 of EUR 314m and of EUR 178m in the three period 2014 (transactions have been executed in January and March 2015 respectively in March, June and September of the year 2014).

(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.

(4) Assets and Liablilities of yourfone GmbH were classified as held for sale as of 31 December 2014. The sale took place in the first quarter 2015.

Please note that financial data published in this document represents actual consolidated figures under the relevant group perimeter at the respective time.

	2015 Jan - Mar	2014 Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
= Free cash flow pre dividends (millions) (5)	100	107	397	529	(2.521)
Number of shares (millions)	2.975	1.117	1.117	2.234	2.975
= Free cash flow per share (in euros)	0,03	0,10	0,36	0,24	(0,85)

(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 (719 Mio. EUR) amounts to 0.24 EUR per share.

TELEFÓNICA DEUTSCHLAND GROUP

CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

	As of 31 March	As of 31 December	
(Euros in millions)	2015	2014	Change %
A Liquidity	**1.997**	**1.702**	**17,3**
B Current financial assets	**315**	**456**	**(31,0)**
C Current financial debt	**559**	**612**	**(8,5)**
D=C-A-B Current net financial debt	**(1.752)**	**(1.547)**	**13,3**
E Non-current financial assets	**174**	**250**	**(30,4)**
F Non-current financial debt	**2.047**	**1.800**	**13,7**
G=F-E Non-current net financial debt	**1.872**	**1.550**	**20,8**
H=D+G Net financial debt (1)	**120**	**3**	**>100,0**

(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 313m in 2015 and EUR 454m in 2014; non-current: EUR 159m in 2015 and EUR 236m in 2014), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 1m in 2015 and EUR 2m in 2014; non-current: EUR 14m in 2015 and EUR 12m in 2014) as well as loans to third parties (current: EUR 0m in 2015 and EUR 1m in 2014; non-current: EUR 1m in 2015 and EUR 1m in 2014)

C + F Current and non-current net financial debt include bonds, promissory notes and registered bonds issued (EUR 1,410m in 2015 and EUR 1,115m in 2014), other loans (EUR 725m in 2015 and EUR 726m in 2014) as well as finance lease payables (current: EUR 328m in 2015 and EUR 374m in 2014; non-current: EUR 142m in 2015 and EUR 197m in 2014)

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

Telefónica
Deutschland

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