

23rd July 2013

Telefónica Deutschland releases first half 2013 preliminary results

MUNICH. Telefónica Deutschland financial and operational performance in the first half of the year reflects the consistent execution of its strategy in a more complex competitive environment, with a significant impact in the top line from mobile termination rate cuts. The Company is very well positioned to lead the market in the transition process to better address a data-centric, digitally oriented customer base in order to create new business opportunities through a more agile and lean organisation.

“Amidst increased competition in the market, we are already seeing strong early indicators of improved monetisation of data services, with the next generation of high-speed services beginning to get traction”, said René Schuster (CEO), and Rachel Empey (CFO) added “Our performance in the first half of the year reflects the overall transition process that this Company is driving to sustain profitable growth in the future”.

Second quarter operational and financial highlights:

- **Net additions in mobile postpaid** at 60 thousands, reflecting the continuation of trends seen in previous quarters with increased focus on retention and customer base in the market. Telefónica Deutschland also traded well in this environment with a lower year-on-year and quarter-on-quarter churn rate of 1.3% and increased smartphone penetration (+14 p.p. year-on-year to 67% in core mass market postpaid O₂ brand).
- **Mobile prepaid** had a strong performance relative to previous quarters, with positive net additions of 27 thousands, already reflecting increased demand for smartphone tariffs from customers in this segment (+5 p.p. year-on-year to 14% in core mass market prepaid O₂ brand smartphone penetration).
- **Successful management of tariff renewals from customers after contract expirations** with the new O₂ Blue All-in portfolio, with improved data monetisation metrics.
- **Improved retail fixed broadband disconnections at 40 thousands** in the second quarter. In the VDSL-available regions ca. 28% of new customers are taking the VDSL “Speed” option.

- **Wireless service revenues declined** 1.3% year-on-year¹, which is a continuation of recent trends. Mobile data revenues continued being the main growth lever for the business, with non-SMS data revenues accelerating growth to 24.6% year-on-year.
- **Stable OIBDA margin performance** at 24.2% (-0.3 percentage points, year-on-year). This performance reflects both the positive contribution from mobile data services and focused commercial spend to improve the quality of the customer base and additional efficiencies across different units.
- **LTE network available in the High Speed metropolitan areas at the end of the quarter**, with top quality connectivity service ready for most of our O₂ mass market postpaid customer base, anticipating increasing demand for speed and volume in the medium term.
- **Strong Free Cash Flow² pre dividends year-on-year increase** to 345 million Euros. Net financial debt position at the end of June 2013 was 940 million Euros (leverage ratio³ of 0.7x).



¹ Excluding the impact from mobile voice termination rate cuts from December, 1st 2012

² Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes.

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

Telefónica Deutschland's operating performance:

At the end of June 2013, Telefónica Deutschland had **25.3 million customer accesses**, a year-on-year increase of 0.7%. Mobile accesses continued showing growth at 3.1% year-on-year to 19.4 million.

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

- New O₂ Loop smart and Fonic smart S prepaid tariffs, including very attractive 200 Mb data packages from just 9.99 Euros/month.
- LTE network deployment in all high speed metropolitan areas already completed, improving the attractiveness of the O₂ Blue All-in L and XL packages (top LTE speed, multi SIM and multi-Gb capacity from 39.99 Euros/month).
- O₂ Kombi-Vorteil refresh into a broader and progressive fixed-mobile convergent proposition, mainly addressed to digital households demanding seamless connectivity services and excellent customer service.

In the second quarter of 2013, the German mobile market continued to show a high commercial activity level around postpaid smartphone tariffs. Retention activities in the high end segment and a very dynamic discount/no-frills segment continued in the quarter, with an increased relevance of indirect online channels. As a result, **postpaid mobile** net additions in the quarter were 60 thousand, and total postpaid base reached 10.3 million customers (+5.6% year-on-year).

The **mobile prepaid** segment registered 27 thousand net additions in the second quarter of 2013, mainly reflecting positive trends from second brands (Fonic, Tchibo, Türk Telekom) and increased adoption of prepaid smartphone tariffs that more than compensated strong competition and migration to all-in postpaid propositions. Prepaid customer base reached 9.2 million at the end of June 2013 (+0.4% year-on-year).

Customer mix improved over the year, with growth in postpaid customer base penetration over total mobile base of 1.3 percentage points, year-on-year, to 53%.

Blended **churn** in the second quarter remained flat over the previous year at 2.1%, with continued good performance of postpaid churn at 1.3% (-0.1 percentage points, year-on-year), which is a reflection of the successful management of our high value customer base, including retention and focused tariff migration activities.

Smartphone penetration reached 29%⁴ at the end of June 2013, a continued improvement of 6 percentage points over the previous year. In the specific segment of O₂ branded consumer postpaid, smartphone penetration reached 67%; +14 percentage points year-on-year, with also a positive progression in the O₂ branded consumer prepaid segment of 5 percentage points to 14%. The adoption of LTE-enabled handsets from our new and existing customers is increasing (approximately 40% of total sales in the second quarter), which is an encouraging trend for further data monetisation.

Mobile ARPU, excluding the impact from mobile termination rate cut from December 2012, declined 4.5% year-on-year to reach 13.3 Euros in the second quarter of 2013 (-8.4% year-on-year to 12.7 Euros in reported terms).

Postpaid ARPU, excluding mobile termination rate cuts, declined 6.9% year-on-year to reach 20.2 Euros in the second quarter (-10.4% to 19.5 Euros in reported terms). The year-on-year decline was mainly the result of the ongoing process of long-term contract renewals within the customer base to lower market pricing levels and the general market trend of traditional SMS usage substitution by social media and messaging applications (mostly affecting incoming revenues).

After the launch of the new O₂ Blue All-in tariff portfolio at the beginning of March 2013, the mix of adoption from new customers and tariff renewals continued its positive progression relative to the previous portfolio, with "O₂ Blue All-in M" being the most contracted tariff.

Retail fixed broadband accesses declined by 40 thousand in the second quarter of 2013, a continued improvement over the previous quarters which shows the increased traction of demand for speed amongst customers. In regions where VDSL is available, ca. 28% of gross additions in retail broadband during the second quarter were taking the VDSL "Speed" option. On the other hand, wholesale broadband accesses registered positive net additions of 14 thousand in the quarter.



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

Telefónica Deutschland's financial performance:

Telefónica Deutschland's **revenues** reached 2,445 million Euros in the first half of 2013, a 4.2% year-on-year decline (-1.9% excluding mobile termination rate cuts from December 2012). Revenues in the second quarter were 1,216 million Euros, a decline of 6.2% over the same period of last year (-3.8% excluding mobile termination rate cuts).

Wireless service revenues amounted to 1,481 million Euros in the first half of 2013 (-4.3% year-on-year; -0.4% excluding mobile termination rate cuts), while in the second quarter they amounted to 748 million Euros (-5.2% year-on-year; -1.3% excluding the impact from mobile termination rate cuts). The postpaid segment was the biggest driver for the year-on-year performance of wireless service revenues. The main factors behind this performance were, on the one side, the different trading activity seen vs. same period 2012, and on the other, the increase of tariff renewals in the base and the lower contribution to revenues from incoming SMS traffic due to customer behaviour change.

Relative to the first quarter of 2013, the second quarter saw a less positive contribution from trading that did not fully offset the lower sequential negative impacts from tariff renewals and incoming SMS revenues.

Mobile data continued to be the main driver for revenue performance, reaching 714 million Euros in the first half and 359 million Euros in the second quarter (+5.0% and 4.5% year-on-year, respectively). As a result of the continued increase of smartphone-centric tariffs in the base, non-SMS data revenues accelerated in the second quarter to 24.6% year-on-year, 3.6 percentage points higher than associated growth in data traffic, resulting in a ratio of non-SMS data over total data revenues of 65.4% in the second quarter, 10.5 percentage points above the same period of last year.

Handset revenues, mainly through "O₂ My Handy" distribution model, reached 335 million Euros in the first half of 2013, an increase of 9.2% year-on-year. The different performance seen in the second quarter (-3.8% year-on-year) compared to the first quarter (+23.5% year-on-year) is due to the inherent seasonality of handset sales during the year.

Wireline revenues stood at 626 million Euros in the first half of the year (-10.2% year-on-year), with 311 million Euros in the second quarter (-9.6% year-on-year), which is a continuation of the impacts from a lower retail DSL base and further reduction of revenues from the low margin voice transit business.

Operating expenses in the January-June 2013 period amounted to 1,911 million Euros, a year-on-year decrease of 3.8% (-5.0% in the second quarter to 944 million Euros).

Main drivers for expenses evolution were:

- Decline in **supplies** of 5.2% year-on-year to 974 million Euros (-9.4% in the second quarter), driven by a reduction in mobile voice and SMS interconnection expenses (voice rates were cut in December, 2012) and the lower costs associated with the fixed business. Quarter-on-quarter performance was mainly due to lower handset sales in the second quarter.
- **Personnel expenses** increase of 0.6% year-on-year to 208 million Euros (+0.5% in the second quarter) as a result of the general increase in salaries from July, 2012 compensated by different year-on-year phasing of variable payroll expenses.
- **Other expenses** decrease of 3.1% year-on-year to 729 million Euros (-0.4% in the second quarter), mainly leveraging reductions in bad debt provisions and commercial costs that are compensating increases in network and customer care expenses. Quarter-on-quarter performance was mainly due to higher commercial costs in wireless, as customer base management activities increased in the second quarter.

Operating Income before Depreciation and Amortisation (OIBDA) reached 572 million Euros in the first half of 2013 and 294 million Euros in the second quarter (-4.1% and -7.2% year-on-year, respectively). OIBDA margin was flat year-on-year in the first half at 23.4%, with a slight year-on-year decline of 0.3 percentage points in the second quarter to reach 24.2%.

OIBDA excluding management fees totaled 603 million Euros in the January to June 2013 period (-4.0% year-on-year; -7.2% in the second quarter). OIBDA margin excluding management fees was flat year-on-year in the first half to reach 24.7% (-0.3 percentage points to 25.5% in the second quarter).

The year-on-year OIBDA performance was mainly influenced by revenue evolution and focused spend in growth-related areas, partially compensated by evolution of direct costs (such as mobile termination and handset costs) and additional efficiencies from ongoing transformation of the business to a more data-centric and agile organisation.

Depreciation & Amortisation in the first half of 2013 amounted to 566 million Euros (286 million Euros in the second quarter), a year-on-year increase of 3.4% (+2.5% in the second quarter), mainly driven by the increased trend of investments in the network.

Operating income amounted to 6 million Euros in the January-June 2013 period (49 million Euros in the previous year), while in the second quarter it was 8 million Euros (38 million Euros in the previous year).

Net financial expenses result in the first half of 2013 were -16 million Euros (-5 million Euros in the second quarter), from a positive income of 4 million Euros in the previous year (+2 million Euros in the second quarter of 2012). This was the result of the new capital structure of the Company from September 2012 onwards.

As a result of the above and a nil **Tax** expense in the quarter, **net profit from continuing operations** in the first half of 2013 was negative in 10 million Euros (+3 million Euros in the second quarter), which compares with a positive figure of 55 million Euros in the same period of the previous year (+40 million Euros in the second quarter of 2012).

CapEx in the first half of 2013 amounted to 296 million Euros, an increase of 9.4% year-on-year, supporting future growth with accelerated investments in the development of the LTE network. At the end of June, LTE is available in the High Speed metropolitan areas and ready to support the upcoming acceleration of demand for speed and capacity foreseen amongst smartphone users.

Operating Cash Flow (OIBDA-CapEx) reached 276 million Euros in the first half of 2013, a year-on-year decline of 15.4%, and this translated into **Free Cash Flow** pre dividends from continuing operations (FCF)⁵ of 345 million Euros (from 152 million Euros in 2012). This was the result of an improved working capital contribution of 267 million Euros amongst others caused from a silent factoring transaction in June.

The Company did not pay income taxes either in the first half of 2013 nor in the same period of 2012, registered a net interest payment of 10 million Euros (3 million Euros income in the first half of 2012) and a collaterally provided security deposit in the amount of 12 million Euros which will be released over time.

Consolidated **net financial debt** stood at 940 million Euros at the end of June 2013, resulting in a leverage ratio⁶ of 0.7x.



⁵ Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes.

⁶ Leverage defined as Net Financial Debt divided by LTM OIBDA excluding non-recurring factors.

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP
SELECTED CONSOLIDATED FINANCIAL DATA
Unaudited (Euros in millions)

	January 1 to June 30			April 1 to June 30		
	2013	2012	% Chg	2013	2012	% Chg
Revenues	2,445	2,554	(4.2)	1,216	1,295	(6.2)
Operating income before depreciation and amortization (OIBDA)	572	597	(4.1)	294	317	(7.2)
<i>OIBDA margin</i>	23.4%	23.4%	0.0%-p.	24.2%	24.5%	(0.3%-p.)
Group fees	(31)	(32)	(1.5)	(16)	(17)	(8.0)
Operating income before depreciation and amortization (OIBDA) and before group fees	603	629	(4.0)	310	334	(7.2)
<i>OIBDA before group fees margin</i>	24.7%	24.6%	0.1%-p.	25.5%	25.8%	(0.3%-p.)
Operating income	6	49	(87.8)	8	38	(79.0)
Profit or loss for the period from continuing operations	(10)	55	n.m.	3	40	(93.4)
Profit or loss for the period	(10)	299	n.m.	3	179	(98.5)
Basic earnings per share from continuing operations (in euros) (1)	(0.01)	0.05	n.m.	0.00	0.04	(93.4)
CapEx	296	271	9.4	151	138	9.5
Operating cash flow (OIBDA-CapEx)	276	326	(15.4)	143	179	(20.0)
Free cash flows pre dividends from continuing operations (2)	345	152	n.m.	239	64	n.m.

(1) Basic earnings per share from continuing operations for 2012 are calculated as profit or loss for the period from continuing operations divided by weighted average number of ordinary shares (excluding treasury shares) in the amount of 1,117,001. For comparability purposes the 2012 weighted average number of ordinary shares (excluding treasury shares) also has been used for the year 2013.

(2) Free cash flows pre dividends defined as Operating cash flow minus working capital minus interest payments and taxes minus other changes.

Note:

- OIBDA margin and OIBDA before group fees margin are calculated as percentage of total revenues, respectively

TELEFÓNICA DEUTSCHLAND GROUP
ACCESSES

Unaudited figures (in thousand)

	2012				2013		%Chg (YoY) Q2'13 vs Q2'12
	Q1	Q2	Q3	Q4	Q1	Q2	
Final clients accesses	23,943	24,070	24,215	24,285	24,219	24,216	0.6
Fixed telephony accesses	2,403	2,353	2,296	2,249	2,213	2,176	(7.5)
Internet and data accesses	2,866	2,811	2,740	2,679	2,630	2,583	(8.1)
Narrowband	319	320	310	303	295	288	(9.9)
Broadband	2,547	2,491	2,430	2,376	2,336	2,295	(7.9)
Mobile accesses	18,595	18,834	19,114	19,300	19,325	19,411	3.1
Prepay	9,066	9,116	9,225	9,191	9,124	9,151	0.4
Postpaid	9,529	9,718	9,889	10,109	10,201	10,261	5.6
Postpaid (%)	51.2%	51.6%	51.7%	52.4%	52.8%	52.9%	1.3%-p.
Smartphone penetration (%) (1)	21.1%	22.7%	24.3%	26.4%	27.9%	28.8%	6.1%-p.
Pay TV	79	73	65	57	51	46	(36.7)
Wholesale accesses (2)	1,059	1,089	1,105	1,088	1,113	1,127	3.5
Total accesses	25,002	25,159	25,320	25,373	25,332	25,343	0.7

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

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

TELEFÓNICA DEUTSCHLAND GROUP SELECTED OPERATIONAL DATA

Unaudited figures

	2012				2013		% Chg (QoQ)
	Q1	Q2	Q3	Q4	Q1	Q2	Q2'12 vs Q2'13
ARPU (euros)	13.5	13.9	14.0	13.6	12.5	12.7	(8.4)
Prepay	5.3	5.5	5.7	5.5	5.0	5.1	(7.7)
Postpaid	21.4	21.7	21.8	21.0	19.3	19.5	(10.4)
Data ARPU (euros)	6.0	6.1	6.2	6.2	6.1	6.2	1.0
% non-SMS over data revenues	53.9%	54.9%	57.9%	59.9%	63.4%	65.4%	10.5%-p.
Voice Traffic (m min)	7,365	7,399	7,228	7,528	7,444	7,691	3.9
Churn (%)	2.4%	2.0%	2.1%	2.5%	2.4%	2.1%	0,1%-p.
Postpaid churn (%)	1.6%	1.4%	1.4%	1.5%	1.5%	1.3%	(0,1%-p.)

	2012				2013		% Chg (YoY)
	Jan - Mar	Jan - June	Jan - Sep	Jan - Dec	Jan - Mar	Jan - June	Jan - June
ARPU (euros)	13.5	13.7	13.8	13.8	12.5	12.6	(7.7)
Prepay	5.3	5.4	5.5	5.5	5.0	5.0	(7.0)
Postpaid	21.4	21.6	21.7	21.5	19.3	19.4	(10.0)
Data ARPU (euros)	6.0	6.1	6.1	6.2	6.1	6.2	1.1
% non-SMS over data revenues	53.9%	54.6%	55.6%	56.7%	63.4%	64.4%	9.9%-p.
Voice Traffic (m min)	7,365	14,763	21,991	29,519	7,444	15,135	2.5
Churn (%)	2.4%	2.2%	2.2%	2.2%	2.4%	2.2%	(0,1%-p.)
Postpaid churn (%)	1.6%	1.5%	1.5%	1.5%	1.5%	1.4%	(0,1%-p.)

Notes:

- ARPU calculated as monthly quarterly average.

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

- Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

TELEFÓNICA DEUTSCHLAND GROUP CONSOLIDATED INCOME STATEMENT

Unaudited (Euros in millions)

	January 1 to June 30			April 1 to June 30		
	2013	2012	% Chg	2013	2012	% Chg
Revenues	2,445	2,554	(4.2)	1,216	1,295	(6.2)
Other income	38	30	26.1	23	15	47.1
Operating expenses	(1,911)	(1,987)	(3.8)	(944)	(994)	(5.0)
Supplies	(974)	(1,028)	(5.2)	(473)	(522)	(9.4)
Personnel expenses (1)	(208)	(206)	0.6	(103)	(102)	0.5
Other expenses (1)	(729)	(752)	(3.1)	(369)	(370)	(0.4)
Operating income before depreciation and amortization (OIBDA)	572	597	(4.1)	294	317	(7.2)
OIBDA margin	23.4%	23.4%	0.0%-p.	24.2%	24.5%	(0.3%-p.)
Depreciation and amortization	(566)	(548)	3.4	(286)	(279)	2.5
Operating income	6	49	(87.8)	8	38	(79.0)
Net financial income (expense)	(16)	4	n.m.	(5)	2	n.m.
Profit or loss before tax from continuing operations	(10)	54	n.m.	3	40	n.m.
Income tax	0	1	n.m.	0	0	n.m.
Profit or loss for the period from continuing operations	(10)	55	n.m.	3	40	n.m.
Profit or loss for the period from discontinued operations (2)	0	244	n.m.	0	139	n.m.
Profit or loss for the period	(10)	299	n.m.	3	179	n.m.
Assumed number of shares in millions (3)	1,117	1,117	-	1,117	1,117	-
Basic earnings per share from continuing operations (in euros)	(0.01)	0.05	n.m.	0.00	0.04	n.m.

(1) Reclassification of external personnel expenses into other expenses.

(2) No discontinued operations in 2013.

(3) Basic earnings per share from continuing operations for 2012 are calculated as profit or loss for the year from continuing operations divided by weighted average number of ordinary shares (excluding treasury shares) in the amount of 1,117,001. For comparability purposes the 2012 weighted average number of ordinary shares (excluding treasury shares) also has been used for the year 2013.

TELEFÓNICA DEUTSCHLAND GROUP REVENUES BREAKDOWN

Unaudited (Euros in millions)

	January 1 to June 30			April 1 to June 30		
	2013	2012	% Chg	2013	2012	% Chg
Revenues	2,445	2,554	(4.2)	1,216	1,295	(6.2)
Wireless business	1,816	1,854	(2.1)	903	950	(5.0)
Wireless service revenues	1,481	1,548	(4.3)	748	789	(5.2)
Handset revenues	335	307	9.2	155	161	(3.8)
Wireline business	626	697	(10.2)	311	344	(9.6)
Other revenues	3	2	33.4	2	1	70.2

**TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
Unaudited (Euros in millions)

	As of June 30, 2013	As of December 31, 2012	% Chg
Non-current assets	7,358	7,652	(3.9)
Goodwill	706	706	-
Intangible assets	3,076	3,277	(6.1)
Property, plant and equipment	2,905	2,973	(2.3)
Other non-current financial assets	90	115	(21.6)
Deferred tax assets	581	581	-
Current assets	1,241	1,417	(12.5)
Inventories	71	85	(16.0)
Trade and other receivables	1,006	1,009	(0.3)
Other current financial assets	0	0	n.m.
Cash and cash equivalents	163	324	(49.5)
Total assets = Total equity and liabilities	8,598	9,070	(5.2)
Equity	5,906	6,429	(8.1)
Common stock	1,117	1,117	-
Retained earnings & additional paid-in capital	4,788	5,310	(9.8)
Other components of equity	1	1	-
Equity attributable to owners of the parent	5,906	6,429	(8.1)
Non-current liabilities	1,090	1,092	(0.1)
Non-current interest-bearing debt	1,000	1,000	-
Other payables	8	9	(17.1)
Non-current provisions	83	82	0.2
Current liabilities	1,602	1,549	3.4
Current interest-bearing debt	251	251	-
Trade payables	1,006	918	9.6
Other current liabilities	176	219	(19.6)
Current provisions	5	7	(32.4)
Deferred Income	163	154	6.1
Financial Data			
Net financial debt (1)	940	842	11.6
Leverage (2)	0.7x	0.7x	13.8

(1) Net financial debt includes current and non-current interest-bearing financial assets and liabilities which are immediately available for the group without any restrictions. Net financial debt is calculated as follows: non-current interest-bearing debt + non-current finance leasing payables (EUR 3,778k in 2013 and EUR 4,985k in 2012) + current interest-bearing debt + other current finance leasing payables (EUR 2,986k in 2013 and EUR 3,964k in 2012) - the non-current "O₂ My Handy" receivables (EUR 56,434k in 2013 and EUR 93,770k in 2012) and since June 2013 the current portion of "O₂ My Handy" receivables (EUR 97,199k in 2013 and EUR 0k in 2012) - other current financial assets (EUR 352k in 2013 and EUR 101k in 2012) - cash and cash equivalents.

Current portion of "O₂ My Handy" receivables in the amount of EUR 196,830k in 2012 has not been considered in the calculation of the net

(2) Leverage defined as net financial debt divided by LTM (Last Twelve Months) OIBDA (EUR 1,254m in 2013; EUR 1,279m in 2012) excluding non-recurring factors.

TELEFÓNICA DEUTSCHLAND GROUP RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited (Euros in millions)

	2013		2012		
	Jan - Mar	Jan - June	Jan - Dec	Jan - Mar	Jan - June
OIBDA	278	572	1,279	280	597
- CapEx	(146)	(296)	(609)	(133)	(271)
= Cash contribution (OpCF)	133	276	670	147	326
+ Silent factoring (1)	129	214	302	74	61
-/+ Other working capital movements	(146)	(123)	(284)	(136)	(237)
Change in working capital	(17)	91	19	(61)	(176)
+/- Gains/losses from sale of fixed assets and other effects	0	0	1	(1)	(1)
- Taxes paid	0	0	0	0	0
+ Net interest payments	(4)	(10)	1	3	3
+ Payment on financial investments	(7)	(12)	(15)	0	0
= Free cash flows pre dividends from continuing operations	105	345	676	88	152
-/+ Equity movements (3)	0	(503)	(4,300)	0	0
= Free cash flows post dividends from continuing operations	105	(158)	(3,624)	88	152
+ Free cash flows post dividends from discontinued operations (2,4)	0	0	907	93	192
= Total free cash flows post dividends	105	(158)	(2,717)	181	344
Net financial debt at beginning of period	842	842	(4,316)	(4,316)	(4,316)
+ Other change in net financial debt	25	(60)	2,886	3	(15)
+ Decrease of net financial debt due to deconsolidation (5)	0	0	(445)	0	0
= Net financial debt at end of period	762	940	842	(4,493)	(4,675)

(1) Full impact (YTD) of silent factoring in the first half year in 2013 of EUR 214m and EUR 61m in the first half year in 2012 (transactions have been executed in March and June 2013 and in March of the year 2012)

(2) No discontinued operations in 2013.

(3) Pre-IPO dividend in 2012 of EUR 4.3bn. Dividend payment of EUR 503m in May 2013.

(4) Free cash flows post dividends from discontinued operations in FY 2012 of EUR 349m plus net cash cash flows from the sale of discontinued operations of EUR 703m minus cash and cash equivalents of EUR 145m. Free cash flows post dividends from discontinued operations in the first half year of 2012 consists of OIBDA from discontinued operations of EUR 250m minus change in working capital of discontinued operations of EUR 60m plus other changes of EUR 2m. Free cash flow post dividends from discontinued operations in Q1 2012 consists of OIBDA from discontinued operations of EUR 106m minus change in working capital of discontinued operations of EUR 14m plus other changes of EUR 1m.

(5) Loan liabilities of EUR 445m of Group 3G UMTS Holding GmbH, Quam GmbH and Telefonica Global Services GmbH, Telefonica Global Roaming GmbH, Telefonica Compras Electronicas, S.L.

	2013		2012		
	Jan - Mar	Jan - June	Jan - Dec	Jan - Mar	Jan - June
= Free cash flows pre dividends from continuing operations	105	345	676	88	152
Assumed number of shares (millions)	1,117	1,117	1,117	1,117	1,117
= Free cash flows per share (in euros) (1)	0.09	0.31	0.61	0.08	0.14

(1) For better comparability purposes with future financial information, the 2012 weighted average number of ordinary shares (excluding treasury shares) in the amount of 1,117,001 has been used and has been calculated considering the free cash flows pre dividends from continuing operations in 2012 and 2013.

**TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED NET FINANCIAL DEBT EVOLUTION**
Unaudited (Euros in millions)

	As of June 30,	As of December 31,	Amount	% Chg
	2013	2012		
Cash and cash equivalents	163	324	(160)	(49.5)
A Liquidity	163	324	(160)	(49.5)
B Current financial assets (1)	98	-	97	n.m.
Current interest-bearing debt	251	251	0	-
Other current liabilities	3	4	(1)	(24.7)
C Current financial debt	254	255	(1)	(0.4)
D=C-A-B Current net financial debt	(7)	(69)	62	(89.6)
E Non-current financial assets	56	94	(37)	(39.8)
Non-current interest-bearing debt	1,000	1,000	0	-
Other non-current payables	4	5	(1)	(24.2)
F Non-current financial debt	1,004	1,005	(1)	(0.1)
G=F-E Non-current net financial debt	947	911	36	4.0
H=D+G Net financial debt (2)	940	842	98	11.6

(1) Current portion of "O₂ My Handy" receivables in the amount of EUR 196,830k in 2012 has not been considered in the calculation of the net financial debt in the year 2012.

(2) Net financial debt includes current and non-current interest-bearing financial assets and liabilities which are immediately available for the group without any restrictions. Net financial debt is calculated as follows: non-current interest-bearing debt + non-current finance leasing payables (EUR 3,778k in 2013 and EUR 4,985k in 2012) + current interest-bearing debt + other current finance leasing payables (EUR 2,986k in 2013 and EUR 3,964k in 2012) - the non-current "O₂ My Handy" receivables (EUR 56,434k in 2013 and EUR 93,770k in 2012) and since June 2013 the current portion of "O₂ My Handy" receivables (EUR 97,199k in 2013 and EUR 0k in 2012) - other current financial assets (EUR 352k in 2013 and EUR 101k in 2012) - cash and cash equivalents.

Note:

Current "O₂ My Handy" receivables shown under trade and other receivables in the financial position and non-current "O₂ My Handy" receivables shown under other non-current financial assets in the financial position.

Further information

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Disclaimer:

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