

MUNICH, 29 July 2015

**Preliminary results for January to June 2015:**

**Telefónica Deutschland already benefits from integration synergies in the second quarter of 2015**

- **Strong 9.8% y-o-y<sup>1</sup> OIBDA growth in the first half and +13.5% y-o-y in the second quarter from a focused commercial approach and the first benefits from integration synergies**
- **Revenue growth of 2.1% y-o-y<sup>1</sup> until June 2015 leveraging momentum in the market and focus on mobile data monetisation**
- **Tangible results from 3G national roaming and LTE expansion, paving the way for an enhanced network perception amongst customers**
- **Strong spectrum portfolio post June 2015 auction fully enables our long term aspiration to become the Leading Digital Telco in Germany**
- **Financial outlook for the year 2015 confirmed, including operating cash flow savings of approx. 30%<sup>2</sup> of expected run-rate of synergies in year five of integration**

**Second quarter 2015 operational & financial highlights<sup>1</sup>**

- **Net additions in mobile postpaid** reached 201 thousand, reflecting an increased contribution from business and partner brands to gross additions, while the rate of churn in the O<sub>2</sub> consumer brand further improved to 1.3%. **Prepaid** performance was strong with 237 thousand net additions.
- **LTE customer base** showed a strong progression until June 2015 to 6.093 million.
- **Mobile service revenues** were broadly stable year-on-year, which is a reflection of our strategy to drive value through the development of the customer base, particularly in premium brands.
- **Revenues** reached EUR 1,949 million (+1.3% year-on-year), with mobile service revenues (+0.2% year-on-year) and handset sales (+18.7% year-on-year) outweighing a 9.5% year-on-year decline in fixed revenues.

<sup>1</sup> 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 exceptional 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. In the first quarter of 2015 a EUR 17 million capital gain from the sale of yourfone GmbH is excluded, while in the second quarter, it excludes a EUR -3 million restructuring costs, mainly related to the shop rationalisation process.

<sup>2</sup> Synergy run-rate (OIBDA-CapEx) of approximately EUR 250 million in 2015 and EUR 800 million by year 5 of integration and excluding investments in spectrum.

- **OIBDA** excluding exceptional effects totalled EUR 453 million (+13.5% year-on-year), an acceleration over previous quarter performance, with more than 40% of the year-on-year evolution in the quarter already explained by savings from the integration.
- **CapEx (excluding investments in spectrum)** amounted to EUR 242 million (+8.2% year-on-year). Investments continued to be focused on the development of one LTE network, with a good progression towards the coverage target of approximately 75% by the end of 2015.
- **Free Cash Flow (FCF)<sup>3</sup> for the first half of 2015** amounted to EUR 94 million, mainly reflecting a good progression of the Operating Cash Flow (OIBDA-CapEx) and a contribution of EUR -306 million from changes in working capital, driven by prepayments, payments for CapEx from the fourth quarter of 2014 and other effects.
- **Consolidated net financial debt<sup>4</sup>** was EUR 1,778 million at the end of June 2015, reaching a leverage ratio of 1.2x. This increase in leverage mainly reflects the annual dividend payment of EUR 714 million after AGM approval in May 2015 and the one-off payment of EUR 976 million in June 2015 (out of a total consideration of EUR 1,198 million) for spectrum licenses with a 17 year term.

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<sup>3</sup> Free cash flow pre dividends and payments for spectrum as well as pre-acquisition of E-Plus (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities excluding spectrum payments as well as the acquisition of E-Plus.

<sup>4</sup> Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes the payables for the spectrum auction.

**Progress of integration and transformation activities**

During the second quarter of 2015, Telefónica Deutschland continued with the execution of the integration and transformation projects that are expected to release EUR 250 million run-rate savings (OIBDA-CapEx) for the full year 2015, with a visible impact in OIBDA from the second quarter of the year:

- At the end of June, around 750 full time equivalents (FTEs) had accepted the terms of the redundancy program for a total of 1,600 FTEs by 2018.
- As of 29 June 2015 the Company started the transfer of the 301 shops acquired by Drillisch, of which 102 were own shops and 199 partner shops. Drillisch is also taking over approximately 300 shop employees plus additional office and field staff. This transfer of shops will contribute significantly to the planned consolidation of the shop footprint of Telefónica Deutschland. The Company intends to further reduce overlaps with the divestiture of an additional number of more than 100 shops until year-end.
- In July 2015, Telefónica Deutschland agreed to transfer approx. 7,700 mobile sites to Deutsche Telekom as part of the planned network consolidation, helping the Company to drive a more efficient site dismantling process over time.
- As a result of the ongoing corporate structural simplification effort, at the end of June 2015, a number of operating companies were merged into Telefónica Germany GmbH & Co. OHG, with the respective transfer of contracts with employees and customers.
- Telefónica Deutschland is further progressing with the inner-city consolidation of its facilities and offices, setting Munich, Düsseldorf and Hamburg as the main activity centres of the Company.

### **Recent developments in Telefónica Deutschland's commercial offer and network**

Telefónica Deutschland has taken some important steps to enhance its network quality and stimulate mobile data consumption within the customer base, leveraging new commercial propositions to further monetise mobile data:

- As a result of the completion of the 3G national roaming project, our joint network infrastructure now reaches about 90% of the population in Germany. It also gives the densest 3G coverage in urban regions while further expanding coverage in rural areas with download speeds of up to 42 Mbps. This is a major step in our goal to provide our whole customer base with the best network experience.
- Telefónica Deutschland's new sales and service organisation has started to focus its distribution network under the O<sub>2</sub> brand, including the harmonisation of the consolidated shop footprint.
- Since mid-April 2015, the "blau" brand is offered as well throughout the full O<sub>2</sub> shop footprint, strengthening our product portfolio in the discount price range.
- Telefónica Deutschland secured a strong spectrum portfolio after June 2015 auction, particularly in the bands over 1 GHz, which are normally used to deploy high capacity mobile data network overlays. The Company acquired a 60 MHz package in the 700, 900 and 1,800 MHz bands for a total consideration of EUR 1,198 million.

### **Reiteration of 2015 financial outlook**

	<b>Base line for 2014<sup>5</sup></b> (EUR million)	<b>H1 2015<sup>6</sup></b> (y-o-y pct. growth)	<b>Outlook for 2015<sup>7</sup></b> (y-o-y pct. growth)
<b>Mobile Service Revenues</b>	5,528	+0.8%	Broadly stable
<b>OIBDA</b>	1,461	+9.8%	>10%
<b>CapEx</b>	1,161	+5.6%	High single digit pct. decline

<sup>5</sup> 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 exceptional 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.

<sup>6</sup> Year-on-year comparisons are based on combined figures for 2014. OIBDA in the first quarter of 2015 excludes EUR +17 million from a capital gain related to the sale of yourfone GmbH. In the second quarter of 2015, it excludes EUR -3 million restructuring costs, mainly related to the shop consolidation process. CapEx excludes investments in spectrum and includes specific restructuring investments.

<sup>7</sup> All expected regulatory effects (MTR cuts and others) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA Outlook. CapEx excludes investments in spectrum and includes specific restructuring investments.

**Telefónica Deutschland's operating performance in the second quarter of 2015<sup>8</sup>**

At the end of June 2015, Telefónica Deutschland's **access base reached 48.0 million**, an increase of 1.6% year-on-year on the back of continued growth of the mobile base, which stood at 42.6 million (+2.4% year-on-year), while fixed accesses declined by 4.5% year-on-year to 5.4 million.

**Postpaid mobile** net additions in the second quarter of 2015 amounted to 201 thousand, higher than in the previous quarter (141 thousand). This resulted from the higher contribution to gross additions from partners and Business connections, and the ongoing focus on customer base development, especially in consumer premium brands. Total postpaid mobile base reached 19.1 million accesses at the end of June 2015, with their share over total mobile customer base ending at 44.9%.

**Mobile prepaid** net additions were strong with 237 thousand in the second quarter of 2015 (-87 thousand in the first quarter), with a strong contribution from partner brands. At the end of June 2015, the mobile prepaid base was 23.5 million.

**Postpaid churn<sup>9</sup>** was 1.7% at the end of June 2015, a stable performance over the previous quarter. This was mainly driven by Telefónica Deutschland's focus on retention of its customer base, where the specific O<sub>2</sub> consumer brand reached a churn level of 1.3% at the end of June 2015.

**Smartphone penetration<sup>10</sup>** at the end of June 2015 reached 76% in the O<sub>2</sub> premium consumer postpaid base (4 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. Smartphone penetration, including prepaid brands, reached 51.3% (an increase of 1.5 percentage points over the previous quarter). This improvement was mainly driven by the stimulation of the adoption of smartphones and usage of mobile data within the prepaid customer base, particularly in partner brands.

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<sup>8</sup> 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.

<sup>9</sup> Starting 1 January 2014 M2M SIM-cards are excluded from calculation for postpaid churn and ARPU.

<sup>10</sup> 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.

**LTE customer base**<sup>11</sup> stood at 6.093 million at the end of June 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 through a very focused commercial approach and the opening of the LTE network to the whole O<sub>2</sub> postpaid customer base.

**Mobile ARPU** in the second quarter of 2015 was EUR 10.8 (-2.2% year-on-year). Postpaid ARPU<sup>9</sup> was EUR 17.2 in the same period, stable over the previous quarter and lower by 4.7% year-on-year, with a higher weight of wholesale customers from partner brands added to the network. Prepaid ARPU for the second quarter of 2015 was EUR 5.9, showing 5.0% year-on-year growth and +4.7% over the previous quarter.

The **retail fixed broadband access base** declined by -3.5% year-on-year to 2.1 million at the end of June 2015, showing a lower number of net disconnections (-13 thousand) than in previous quarters. VDSL net additions continued to be strong at 58 thousand in the second quarter, similar to the 66 thousands added in the previous quarter.

Wholesale broadband fixed accesses registered 26 thousand net disconnections in the quarter in a context of progressive decommission of our unbundled local loop (ULL) broadband access infrastructure.

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<sup>11</sup> LTE customer defined as customer with LTE enabled handset & LTE tariff

## **Telefónica Deutschland's financial performance in the first half of 2015<sup>12</sup>**

**Revenues** for the first half of 2015 totalled EUR 3,849 million, an increase of 2.1% over the previous year, while in the second quarter they increased 1.3% year-on-year to EUR 1,949 million.

**Mobile service revenues** in the first half of 2015 showed a 0.8% year-on-year growth to EUR 2,735 million, while in the second quarter they maintained a positive momentum (+0.2% year-on-year) to EUR 1,382 million.

The evolution of mobile service revenues since the beginning of the year is the reflection of our conscious strategy to drive value through the development of our customer base, particularly in premium consumer brands. Almost two thirds of the growth rate deceleration seen from the first quarter (+1.5% year-on-year) is driven by a lower year-on-year postpaid trading in the retail business.

**Mobile data revenues** totalled EUR 1,400 million in the first half of 2015 (EUR 707 million in the second quarter). The share of mobile data revenues over total mobile service revenues in the first half of 2015 and in the second quarter was 51.2%, while the share of non-SMS data revenues over total data revenues was 71.0% in the same period and 71.5% in the second quarter.

Mobile data usage for LTE customers continued to show strong growth (+22% quarter-on-quarter to 959 Mb/month<sup>13</sup>), driven by the steady adoption of LTE-enabled handsets by customers and the growing usage of audio and video streaming applications.

The Company continued to see a sequential improvement in the adoption mix of tariffs under the new O<sub>2</sub> Blue portfolio, with approx. 35% of gross additions in the second quarter of 2015 taking a tariff with more than 1 Gb monthly allowance (approx. 32% in the previous quarter). The new data automatic feature, which provides an unrestrained mobile data experience for the customer, already consolidated as the market-leading tool for mobile data monetisation. Since February 2015, the rate of automatic extensions of monthly data allowance increased to 34% of the opted-in customer base.

**Handset revenues** amounted to EUR 586 million in the first half of 2015 (+23.4% year-on-year), while in the second quarter they reached EUR 303 million (+18.7% year-on-year), reflecting a good acceptance of the Company's value-based approach from the beginning of the year and the growing amount of handset sales to partners.

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<sup>12</sup> 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 exceptional 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.

<sup>13</sup> Average data monthly usage (in Mb) from O<sub>2</sub> consumer customers with a LTE-enabled smartphone (all tariffs).

**Fixed business revenues** amounted to EUR 521 million in the first half of 2015, a decline of 10.2% year-on-year, while in the second quarter they reached EUR 260 million (-9.5% year-on-year). The better revenue performance over the previous quarter reflects the ongoing balance between retail DSL dynamics and a declining fixed business for wholesale ADSL and voice carrier business, where the contribution from retail DSL revenues to year-on-year decline of fixed business revenues improved from -6.9 in the first quarter to -4.8 percentage points in the second quarter of 2015.

**Operating expenses** in the first half of 2015 totalled EUR 3,087 million (flat year-on-year) while in the second quarter they amounted to EUR 1,535 million (an improvement of 2.1% year-on-year); including restructuring costs of EUR -3 million:

- **Supplies** amounted to EUR 1,306 million. In the second quarter, they were EUR 646 million, of which 45% were hardware costs of sales and 46% connectivity cost of sales.
- **Personnel expenses** amounted to EUR 345 million. In the second quarter, personnel expenses were EUR 166 million, with base salaries making up 77% of total.
- **Other operating expenses** amounted to EUR 1,436 million. In the second quarter they were EUR 723 million, of which commercial and non-commercial costs represented 58% and 38%, respectively.

**Operating Income before Depreciation and Amortisation (OIBDA)** improved significantly throughout the first half of 2015 to EUR 845 million, registering EUR 450 million in the second quarter. Excluding EUR -3 million restructuring costs, OIBDA before exceptional effects and after group fees would have grown 9.8% year-on-year in the first half of 2015 and by 13.5% in the second quarter. The better performance seen over the previous quarter (+5.7% year-on-year) is the result from our focused commercial approach and the first benefits from integration synergies, the latter driving more than 40% of the OIBDA year-on-year development in the second quarter.

OIBDA margin was 22.0% for the first half of 2015, and 21.6% before exceptional effects<sup>14</sup>, with an improvement of 1.5 percentage points over the previous year. In the second quarter of 2015, OIBDA margin before restructuring costs and after group fees was 23.3%, a sequential improvement over the previous quarters mainly related to the increased sales of handset with a significant turnaround in hardware margin.

OIBDA excluding group fees amounted to EUR 869 million in the first half of 2015 (22.6% margin) and EUR 461 million in the second quarter (23.6% margin). Before exceptional effects, it was EUR 854 million (22.2% margin), and EUR 464 million in the second quarter, reaching a margin of 23.8%.

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<sup>14</sup> Exceptional effects in the first half of 2015 include a capital gain of EUR 17 million from the sale of yourfone GmbH in the first quarter and restructuring costs of EUR -3 million in the second quarter.



**Depreciation & Amortisation** totalled EUR 1,087 million in the first half of 2015, compared to EUR 534 million reported in the same period of 2014. Depreciation & amortisation in the second quarter 2015 was EUR 532 million, similar to previous quarter's figure (EUR 555 million). The strong increase over last year's reported numbers is mainly driven by the incorporation of E-Plus Group in 2014 and the first impacts from the consolidation of both networks.

With respect to the spectrum assets acquired in the auction (with a book value of EUR 1,194 million at the end of June 2015), the renewed licenses in the 900 and 1800 MHz bands will begin to be amortised from January 2017, while the newly acquired spectrum in the 700 MHz band will contribute to amortisation expenses after its final release by the Authorities.

**Operating income** was EUR -242 million for January to June 2015 (EUR -82 million in the second quarter), as depreciation & amortisation charges still exceeded OIBDA.

**Net financial result** for the first half of 2015 was negative in the amount of EUR 34 million (EUR -18 million in the second quarter). This was mainly the effect from the different financing activities executed in the past (the bonds issued in November 2013 and February 2014), the promissory note executed in March 2015 as well as interest expenses from finance lease obligations.

The Company did not pay significant current **income taxes** for January to June 2015.

**The result** for the first half of 2015 was EUR -276 million (EUR -100 million in the second quarter), mainly due to the above-mentioned performance of the operating income.

**CapEx** (excluding investments in spectrum)<sup>15</sup> in the first half of 2015 amounted to EUR 463 million (+5.6% year-on-year) while in the second quarter, it reached EUR 242 million (+8.2% year-on-year). Investments continued to be focused on the development of one LTE network, with a good progression into our coverage target of approximately 75% by the end of 2015.

**Operating cash flow** (OIBDA minus CapEx excluding investments in spectrum)<sup>15</sup> for the first half of 2015 was EUR 383 million (EUR 208 million in the second quarter). Before exceptional effects, operating cash flow showed strong year-on-year growth rates of 15.7% and 20.4%<sup>15</sup>, respectively for the first half and second quarter of 2015.

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<sup>15</sup> 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.

**Free Cash Flow (FCF)**<sup>16</sup> for the first half of 2015 reached EUR 94 million, of which EUR 61 million were proceeds from the sale of yourfone GmbH in the first quarter.

Working capital movements of EUR -306 million were mainly driven by the prepayments (mainly rents) of EUR -158 million until June, a CapEx reversal of EUR -136 million from the fourth quarter of 2014, as well as the usual working capital movements which included silent factoring transactions for O<sub>2</sub> myHandy receivables.

**Consolidated net financial debt**<sup>17</sup> was EUR 1,778 million at the end of June 2015, reaching a leverage ratio of 1.2x. This was mainly due to the effect from the EUR 714 million dividend for the financial year 2014 paid in May 2015, and the payment in June for long-term investments in spectrum licenses (EUR 976 million out of a total consideration of EUR 1,198 million) with a 17 year term.

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<sup>16</sup> Free cash flow pre dividends and payments for spectrum as well as pre-acquisition of E-Plus (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities.

<sup>17</sup> Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes payables for the spectrum auction.

## APPENDIX – DATA TABLES

**TELEFÓNICA DEUTSCHLAND GROUP**  
**SELECTED CONSOLIDATED FINANCIAL DATA**
*Unaudited*

(Euros in millions)	1 April to 30 June			1 January to 30 June		
	2015	2014	% Chg	2015	2014	% Chg
Revenues	1,949	1,162	67.8	3,849	2,284	68.6
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects (1)	453	252	80.1	831	486	71.0
<i>OIBDA before exceptional effects-margin</i>	<i>23.3%</i>	<i>21.7%</i>	<i>1.6%-p.</i>	<i>21.6%</i>	<i>21.3%</i>	<i>0.3%-p.</i>
Exceptional effects (1)	(3)	0	(>100,0)	15	0	>100,0
Operating income before depreciation and amortisation (OIBDA)	450	252	78.9	845	486	74.0
<i>OIBDA margin</i>	<i>23.1%</i>	<i>21.7%</i>	<i>1.4%-p.</i>	<i>22.0%</i>	<i>21.3%</i>	<i>0.7%-p.</i>
Group fees	11	13	(19.0)	23	30	(22.0)
Operating income before depreciation and amortisation (OIBDA) and before group fees	461	265	74.1	869	515	68.5
<i>OIBDA before group fees margin</i>	<i>23.6%</i>	<i>22.8%</i>	<i>0.9%-p.</i>	<i>22.6%</i>	<i>22.6%</i>	<i>(0.0%-p.)</i>
Operating income	(82)	(15)	>100,0	(242)	(48)	>100,0
Total profit (loss) for the period	(100)	(24)	>100,0	(276)	(64)	>100,0
Basic earnings per share (in euros) (2)	(0.03)	(0.02)	56.02	(0.09)	(0.06)	61.30
CapEx (4)	(242)	(134)	79.8	(463)	(266)	73.6
Operating cash flow (OIBDA-CapEx) (4)	208	117	77.9	383	219	74.6
Free cash flow pre dividends and payments for spectrum (3) and pre-acquisition of E-Plus net of cash acquired	(6)	289	(>100,0)	94	397	(76.4)
Free cash flow pre dividends and payments for spectrum (3)	16	289	(94.3)	116	397	(70.8)

(1) Exceptional effects as of 30 June 2015 include restructuring expenses amounting to EUR 3m as well as 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 and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum amounting to EUR 976m.

(4) Excluding investments in spectrum in June 2015 amounting to EUR 1,194m.

Note: OIBDA margin, OIBDA before group fees margin and OIBDA before exceptional 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		2014			
	Q1	Q2	Q1	Q2	Q3	Q4
Final clients accesses	46,573	46,981	23,876	23,964	24,113	46,548
Fixed telephony accesses	2,022	2,010	2,109	2,078	2,051	2,036
Internet and data accesses	2,372	2,355	2,492	2,450	2,413	2,387
Narrowband	243	240	266	259	253	243
Broadband	2,128	2,115	2,226	2,191	2,161	2,144
Mobile accesses	42,179	42,617	19,275	19,436	19,649	42,125
Prepaid	23,264	23,501	8,911	8,920	8,989	23,351
Postpaid	18,915	19,116	10,364	10,516	10,660	18,774
<i>thereof M2M</i>	<i>443</i>	<i>506</i>	<i>95</i>	<i>98</i>	<i>106</i>	<i>414</i>
Postpaid (%)	44.8%	44.9%	53.8%	54.1%	54.3%	44.6%
Smartphone penetration (%) (1)	49.8%	51.3%	32.8%	33.1%	33.8%	29.0%
LTE customers (2)	5,146	6,093	464	667	963	3,098
Wholesale accesses (3)	1,085	1,059	1,128	1,152	1,138	1,113
<b>Total accesses</b>	<b>47,658</b>	<b>48,041</b>	<b>25,004</b>	<b>25,116</b>	<b>25,251</b>	<b>47,662</b>

(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	Q2	Q1	Q2	Q3	Q4
ARPU (in euros) (1)	10.6	10.8	12.1	12.5	12.7	10.9
Prepaid	5.6	5.9	5.0	5.2	5.3	5.6
Postpaid excl. M2M	17.2	17.2	18.5	18.8	19.1	17.7
Data ARPU (in euros)	5.5	5.6	6.0	6.1	6.2	5.7
% non-SMS over data revenues (2)	70.5%	71.5%	72.0%	72.5%	73.8%	68.9%
Voice Traffic (m min) (3)	15,837	15,492	7,572	7,775	7,398	18,441
Data Traffic (TB) (4)	40,172	42,255	10,569	11,247	12,894	37,159
Churn (%)	2.4%	2.1%	2.4%	1.9%	1.9%	2.9%
Postpaid churn (%) excl. M2M	1.7%	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<sup>12</sup> 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.

**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**
**CONSOLIDATED INCOME STATEMENT**
*Unaudited*

(Euros in millions)	April 1 to June 30				January 1 to June 30			
	2015	2014	Change	% Chg	2015	2014	Change	% Chg
Revenues	1,949	1,162	787	67.8	3,849	2,284	1,566	68.6
Other income	36	22	14	61.9	83	43	40	92.1
Operating expenses	(1,535)	(932)	(603)	64.6	(3,087)	(1,841)	(1,246)	67.7
Supplies	(646)	(455)	(191)	42.0	(1,306)	(883)	(423)	47.9
Personnel expenses	(166)	(105)	(60)	57.2	(345)	(213)	(131)	61.6
Other expenses	(723)	(372)	(351)	94.5	(1,436)	(745)	(691)	92.8
Operating income before depreciation and amortization (OIBDA)	450	252	199	78.9	845	486	360	74.0
OIBDA margin	23.1%	21.7%	1.4%-p.		22.0%	21.3%	0.7%-p.	
Depreciation and amortisation	(532)	(267)	(265)	99.3	(1,087)	(534)	(553)	>100,0
Operating income	(82)	(15)	(67)	>100,0	(242)	(48)	(194)	>100,0
Net financial income (expense)	(18)	(8)	(9)	>100,0	(34)	(16)	(18)	>100,0
Profit (loss) before tax for the period	(100)	(24)	(76)	>100,0	(276)	(64)	(212)	>100,0
Income tax	0	(0)	0	(>100,0)	0	0	0	>100,0
Total profit for the period	(100)	(24)	(76)	>100,0	(276)	(64)	(212)	>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)	(0.03)	(0.02)	(0.01)	56.0	(0.09)	(0.06)	(0.04)	61.3

(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.

**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  
REVENUE BREAKDOWN

Unaudited

(Euros in millions)	April 1 to June 30				January 1 to June 30			
	2015	2014	Change	% Change	2015	2014	Change	% Change
<b>Revenues</b>	<b>1,949</b>	<b>1,162</b>	<b>787</b>	<b>67.8</b>	<b>3,849</b>	<b>2,284</b>	<b>1,566</b>	<b>68.6</b>
<b>Mobile business</b>	<b>1,685</b>	<b>872</b>	<b>813</b>	<b>93.2</b>	<b>3,321</b>	<b>1,699</b>	<b>1,622</b>	<b>95.5</b>
Mobile service revenues	1,382	728	654	89.8	2,735	1,435	1,301	90.7
Handset revenues	303	144	159	>100,0	586	264	321	>100,0
<b>Wireline business</b>	<b>260</b>	<b>287</b>	<b>(27)</b>	<b>(9.5)</b>	<b>521</b>	<b>581</b>	<b>(59)</b>	<b>(10.2)</b>
<b>Other revenues</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>76.7</b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>85.2</b>

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  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited

(Euros in millions)	As of 30 June	As of 31 December	Change	% Change
	2015	2014		
<b>NON-CURRENT ASSETS</b>	<b>14,883</b>	<b>14,393</b>	<b>490</b>	<b>3.4</b>
Goodwill	1,607	1,629	(22)	(1.4)
Other intangible assets	7,529	6,726	803	11.9
Property, plant and equipment	4,771	5,029	(259)	(5.1)
Trade and other receivables	181	236	(56)	(23.6)
Other financial assets	52	49	3	6.2
Other non-financial assets	163	142	21	14.7
Deferred tax assets	581	581	–	–
<b>CURRENT ASSETS</b>	<b>2,059</b>	<b>3,494</b>	<b>(1,435)</b>	<b>(41.1)</b>
Inventories	166	104	62	60.1
Trade and other receivables	1,460	1,513	(54)	(3.6)
Other financial assets	13	19	(6)	(31.9)
Other non-financial assets	207	71	136	>100,0
Cash and cash equivalents	214	1,702	(1,488)	(87.4)
Assets held for sale	0	85	(85)	(100.0)
<b>Total assets = Total equity and liabilities</b>	<b>16,942</b>	<b>17,887</b>	<b>(945)</b>	<b>(5.3)</b>
<b>EQUITY</b>	<b>10,401</b>	<b>11,380</b>	<b>(979)</b>	<b>(8.6)</b>
Common Stock	2,975	2,975	–	–
Additional paid-in capital & retained earnings	7,427	8,406	(979)	(11.6)
Equity attributable to owners of the company	10,401	11,380	(979)	(8.6)
<b>NON-CURRENT LIABILITIES</b>	<b>3,146</b>	<b>2,912</b>	<b>235</b>	<b>8.1</b>
Interest-bearing debt	1,985	1,800	185	10.3
Trade payables and other payables	237	19	217	>100,0
Provisions	623	787	(165)	(20.9)
Deferred income	302	305	(3)	(0.8)
<b>CURRENT LIABILITIES</b>	<b>3,395</b>	<b>3,595</b>	<b>(201)</b>	<b>(5.6)</b>
Interest-bearing debt	520	615	(94)	(15.3)
Trade payables and other payables	2,126	2,283	(157)	(6.9)
Provisions	292	241	52	21.5
Other non-financial liabilities	28	18	10	58.4
Deferred income	428	400	29	7.2
Liabilities held for sale	0	40	(40)	(100.0)
<b>Financial Data</b>				
Net financial debt (1)	1,778	3	1,775	>100,0
Leverage (2)	1.2x	0.0x	1.2	>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 317m in 2015 and EUR 454m in 2014; non-current: EUR 181m in 2015 and EUR 236m in 2014), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 2m in 2015 and EUR 2m in 2014; non-current: EUR 10m in 2015 and EUR 12m in 2014) as well as loans to third parties (current: EUR 1m 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 1,414m in 2015 and EUR 1,115m in 2014), other loans (EUR 726m in 2015 and EUR 726m in 2014) as well as finance lease payables (current: EUR 279m in 2015 and EUR 374m in 2014; non-current: EUR 84m in 2015 and EUR 197m in 2014).

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

Pending payments for spectrum amounting to EUR 218m are shown under accruals in the Consolidated Statement of Financial Position and are therefore not included in the net financial debt calculation.

(2) Leverage is defined as net financial debt divided by the OIBDA (EUR 845m in 2015; EUR 679m in 2014) for the last twelve months before exceptional 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 Telefonica Deutschland Group and E-Plus Group financials according to Telefonica Deutschland Group accounting policies. The combined figures are further adjusted by exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefonica 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		2014			
	Jan - Mar	Jan - June	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
<b>OIBDA</b>	<b>395</b>	<b>845</b>	<b>234</b>	<b>486</b>	<b>726</b>	<b>679</b>
- CapEX <sup>(1)</sup>	(221)	(463)	(132)	(266)	(411)	(849)
<b>= Operating Cash Flow (OpCF) <sup>(1)</sup></b>	<b>175</b>	<b>383</b>	<b>102</b>	<b>219</b>	<b>315</b>	<b>(169)</b>
+ Silent Factoring <sup>(2)</sup>	314	367	178	153	234	203
-/+ Other working capital movements	(421)	(672)	(161)	39	(8)	717
<b>Change in working capital</b>	<b>(107)</b>	<b>(306)</b>	<b>17</b>	<b>191</b>	<b>226</b>	<b>920</b>
+/- (Gains) losses from sale of companies	(17)	(17)	-	-	-	-
+/- Proceeds from sale of companies	68	61	-	-	-	-
+/- Proceeds from sale of companies, fixed assets and other effects	-	-	1	1	1	1
+ Net interest payments	(19)	(27)	(4)	(7)	(10)	(30)
+ Taxes paid	-	-	-	-	-	(6)
+/- Proceeds / Payments on financial assets	-	-	(8)	(7)	(3)	4
<b>= Free cash flow pre dividends and payments for spectrum <sup>(3)</sup> as well as pre-acquisition of E-Plus net of cash acquired</b>	<b>100</b>	<b>94</b>	<b>107</b>	<b>397</b>	<b>529</b>	<b>719</b>
+ Acquisition of E-Plus net of cash acquired	-	22	-	-	-	(3,239)
<b>= Free cash flow pre dividends and payments for spectrum <sup>(3)</sup></b>	<b>100</b>	<b>116</b>	<b>107</b>	<b>397</b>	<b>529</b>	<b>(2,521)</b>
- Payments for spectrum	-	(976)	-	-	-	-
- Dividends <sup>(4)</sup>	-	(714)	-	(525)	(525)	(525)
<b>= Free cash flow post dividends</b>	<b>100</b>	<b>(1,574)</b>	<b>107</b>	<b>(128)</b>	<b>4</b>	<b>(3,046)</b>
= Net financial debt at the beginning of the period	3	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	195	120	38	39	(132)
+ capital increase (less transaction costs of the period)	5	6	-	-	(3,599)	(3,595)
+ Increase of net financial debt due to held for sale <sup>(5)</sup>	-	-	-	-	-	4
<b>= Net financial debt at the end of the period (incl. Restricted cash)</b>	<b>120</b>	<b>1,778</b>	<b>481</b>	<b>634</b>	<b>(3,096)</b>	<b>3</b>
- Restricted cash	-	-	-	-	3,636	-
<b>= Net financial debt at the end of the period (excl. Restricted cash)</b>	<b>120</b>	<b>1,778</b>	<b>481</b>	<b>634</b>	<b>539</b>	<b>3</b>

(1) Excluding investments in spectrum in June 2015 amounting to EUR 1,194m.

(2) Full impact (YTD) of silent factoring in the six month period in 2015 of EUR 367m and of EUR 153m in the six month period 2014 (transactions have been executed in January, March and June 2015 respectively in March, June and September of the year 2014).

(3) Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum amounting to EUR 976m.

(4) Dividend payment of EUR 714m in May 2015. Dividend payment of EUR 525m in May 2014.

(5) Assets and Liabilities 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		2014			
	Jan - Mar	Jan - June	Jan - Mar	Jan - June	Jan - Sept	Jan - Dec
= Free cash flow pre dividends and payments for spectrum (millions)	100	116	107	397	529	(2,521)
Number of shares (millions)	2,975	2,975	1,117	1,117	2,234	2,975
= Free cash flow per share (in euros) <sup>(6)</sup>	0.03	0.04	0.10	0.36	0.24	(0.85)

(6) Free Cash flow per share as of December 2014 calculated on the basis of the free cash flow pre dividends and payments for spectrum as well as pre acquisition of E-Plus net of cash acquired (719 Mio. EUR) amounts to 0.24 EUR per share.

TELEFÓNICA DEUTSCHLAND GROUP  
 CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited

(Euros in millions)	As of 30 June	As of 31 December	Change %
	2015	2014	
<b>A Liquidity</b>	<b>214</b>	<b>1,702</b>	<b>(87.4)</b>
<b>B Current financial assets</b>	<b>319</b>	<b>456</b>	<b>(30.1)</b>
<b>C Current financial debt</b>	<b>517</b>	<b>612</b>	<b>(15.4)</b>
<b>D=C-A-B Current net financial debt</b>	<b>(16)</b>	<b>(1,547)</b>	<b>(99.0)</b>
<b>E Non-current financial assets</b>	<b>191</b>	<b>250</b>	<b>(23.6)</b>
<b>F Non-current financial debt</b>	<b>1,985</b>	<b>1,800</b>	<b>10.3</b>
<b>G=F-E Non-current net financial debt</b>	<b>1,794</b>	<b>1,550</b>	<b>15.7</b>
<b>H=D+G Net financial debt (1)</b>	<b>1,778</b>	<b>3</b>	<b>&gt;100,0</b>

(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 317m in 2015 and EUR 454m in 2014; non-current: EUR 181m in 2015 and EUR 236m in 2014), positive Fair value Hedge for fixed interest financial liabilities (current: EUR 2m in 2015 and EUR 2m in 2014; non-current: EUR 10m in 2015 and EUR 12m in 2014) as well as loans to third parties (current: EUR 1m 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 1,414m in 2015 and EUR 1,115m in 2014), other loans (EUR 726m in 2015 and EUR 726m in 2014) as well as finance lease payables (current: EUR 279m in 2015 and EUR 374m in 2014; non-current: EUR 84m in 2015 and EUR 197m in 2014).

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

Pending payments for spectrum amounting to EUR 218m are shown under accruals in the Consolidated Statement of Financial Position and are therefore not included in the net financial debt calculation.



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