27th February 2013

Telefónica Deutschland releases 2012 full year results

MUNICH. Telefónica Deutschland continued its good trend in both financial and operating performance in the fourth quarter of the year relative to the market with strong trading momentum in the postpaid segment and successful monetization of mobile data, thanks to its multi-brand approach. This has delivered profitable growth and consolidated its position as the third largest integrated telco operator in Germany, while strengthening its broadband access platforms with a focused investment in LTE mobile networks, also securing access to the most advanced VDSL platform in Germany.

"The strong financial and operational performance shown by Telefónica Deutschland in 2012 reflects a consistent execution of our strategy in the German market", said Rene Schuster (CEO), and Rachel Empey (CFO) added "we have the right assets to continue outperforming competitors in our core mobile business".

<u>Fourth quarter operational and financial highlights</u>:

- **Strong trading momentum maintained in the mobile postpaid segment** at 219 thousands, lower year-on-year churn at 1.5% and increased smartphone penetration (+6.3 p.p. year-on-year to 26.4%).
- **Solid wireless service revenue growth** at +4.8%[1] year-on-year, which is the result of a successful value management of the base¸ continuous growth of data revenues due to our consistent focus on smartphones with a data-centric portfolio and strong trading based on a differential multi-brand approach in a competitive mobile market.
- **Mobile data revenues** continued being the main growth lever for the business, with non-SMS data revenues sustaining a strong performance of 27.9% year-on-year.
- **Broady stable blended ARPU** at 13.8 Euros[1], which is the result from the right balance between customer growth and value management of the customer base.
- **Sustained strong OIBDA performance** (+8.5% year-on-year), reaching 25.5% margin (+1.8 percentage points, year-on-year), leveraging mobile data growth and increased efficiencies.

[1] Excluding the impact from mobile voice termination rates from December, 1st 2012

- **Accelerated deployment of LTE network**, with 15% German population coverage reached at year end.
- **Strong Operating Cash Flow generation** of 670 million Euros up to December, 2012 (+13.3% year-on-year) which translates into Free Cash Flow[2] of 676 million Euros and resulting net debt position of 842 million Euros at the end of the period.

Outlook for 2013 and shareholder remuneration:

Our strategy will remain focused around gaining scale in the telecommunications market, driven by our innovative multi-brand approach based on data services.

We expect the German telecommunication market to remain active and competitive, with significant impacts from mobile termination rate cuts, changing customers' communication behaviors, and the variability of device launches and replacement cycles.

We see the introduction of the LTE technology in mobile networks as one of our drivers for future revenues and performance during 2013 and in the future, with timing of impacts depending on the uptake of new LTE-centric devices in the German market.

As a challenger in the market we are, of course, impacted by the variability of these diverging trends. Thus, our goal for long term success is to maintain a consistent focus on gaining service revenue market share in our core wireless business and achieve further efficiencies of scale.

- For the financial year 2013, **we aim to continue outperforming the German wireless market and increase our wireless service revenue market share**.
- Our wireline business is not expected to be a driver of growth for us within the next year but will strengthen our wireless business through converged product offerings. Total wireline revenues are expected to decline.
- In the past periods, we have implemented a series of cost saving measures that, paired with strong revenue performance, has helped us to improve our margins. In the financial year 2013, **we aim for our OIBDA margin to sustain this trend on the back of scale effects and efficiency improvements**, driven by our focus on market share expansion.
- In terms of investments, we consider 2013 and 2014 as being key years for our LTE network roll-out. However, **we do not expect capital expenditures to exceed the levels reached in 2010 (680 million Euros)** when we were rolling out 3G capacity. Thereafter, we expect CapEx to decline to lower levels again.

[2] Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes. Adjustment of a rounding inaccuracy (EUR 1.8m) was made after release of preliminary results leading to a slightly higher Free Cash Flow pre dividends from continuing operations.

- We have a clearly stated financing policy to support a strongly funded and stable capital structure, aiming to **maintain the leverage ratio[3] below 1.0x** for the financial year 2013 and beyond.
- The management board of Telefónica Deutschland and the supervisory board have the intention to propose to the General Shareholders' Meeting a **cash dividend for the year ending December 31, 2012 of approximately 500 million Euros, and intend to increase the amount of dividends to be distributed in future years**, subject to specific solvency protection rules[4].

<u>Key strategic priorities for the business in 2013:</u>

- Capitalize on our **multi-brand portfolio & superior customer satisfaction**, driving **additional efficiencies** for the business.
- **Monetize the data opportunity** in all segments through innovative products, digital services & LTE network.
- Maintain a **competitive 3G network while delivering LTE technology** to urban areas.

[3] Leverage ratio defined as Net Financial Debt divided by last twelve month OIBDA excluding non-recurring factors.

[4] The Company will refrain from paying dividends, distributing capital or capital reserves in cash or buying back shares, if the ratio of Net Financial Debt/OIBDA materially and consistently exceeds the Target Leverage (1.0x) and will restrict the use of new debt to pay dividends, allowing it only if the ratio of Net Financial Debt/OIBDA complies with the Target Leverage.

Telefónica Deutschland operating performance:

At the end of December, 2012, Telefónica Deutschland had **25.4 million customer accesses**, a year-on-year increase of 3.6%.

Main **commercial highlights** for the fourth quarter of 2012 include:

- Enrichment of our smartphone tariff portfolio with the new "O_2 Blue Select" and "O_2 nxt" tariffs.
- Soft launch of VDSL-powered "Speed" option to 50 Mbps from 5th November, with first positive results in retail channels.
- First retail mobile payment launching by a mobile operator in Germany using "mpass" service and NFC technology from 9 October, with the opportunity to use thousands of retail shops in Germany, around 100,000 in Europe and around 500,000 worldwide.
- Launching of "O_2 credit card" in cooperation with the Barclaycard direct banking service.

As a result of our differential multi-brand approach in the German market and the increased adoption of integrated mobile tariffs and smartphones through "O_2 My Handy", **mobile postpaid** continued its strong trading performance, with 219 thousand net additions in the fourth quarter of 2012 to reach 10.1 million accesses.

The **mobile prepaid** segment registered 33 thousand net disconnections in the fourth quarter of 2012 after the positive figure achieved in the third quarter, mainly following previous years' seasonal trends in a strong competitive market. Prepaid customer base reached 9.2 million at the end of December, 2012.

Customer mix improved over the year, with growth in postpaid customer base penetration over total mobile base of 2 percentage points, year-on-year, to 52%.

Blended **churn** in the fourth quarter remained flat over the previous year at 2.5%, with continued good performance of postpaid churn at 1.5% (-0.4 percentage points, year-on-year), a reflection of our successful customer base management and focus on service quality.

Smartphone penetration reached 26.4%[5] at the end of December 2012, a continued improvement of 6.3 percentage points over the previous year, mainly due to the success of "O_2 My Handy" handset distribution model, with an increasing share of prepaid customers using smartphones, as handset prices are becoming more attractive to this segment.

Mobile ARPU, excluding the impact from mobile termination rate cut from December, remained broadly stable both quarter-on-quarter and year-over-year at 13.8 Euros (-1.3% year-on-year to 13.6 Euros in reported terms), which is the result from a conscious strategy of

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

balancing customer growth with the right value management of the base. Postpaid ARPU continued to show a similar trend as in the previous quarter at -2.7% year-on-year, excluding the impact of mobile termination rate cuts, reaching 21.3 Euros (21.0 Euros in reported terms). This performance reflects the positive impact in ARPU from the acquisition of new customers and churners in terms of value, which did not fully offset the effect from an early adoption of mobile integrated tariffs within our customer base and the usual renewal cycles after expiration of contracts.

Retail fixed broadband accesses declined by 54 thousand in the fourth quarter of 2012 from 61 thousand disconnections in the previous quarter, reflecting customer demand for higher speeds in a declining market. On the other hand, wholesale broadband accesses registered negative net additions of 17 thousands, from positive figures in previous quarters as a result of the usual trading activity with partners.

Telefónica Deutschland financial performance:

Telefónica Deutschland **revenues** reached 5,213 million Euros in 2012, a 3.5% year-on-year growth (+3.7% excluding mobile termination rate cuts from December). In the fourth quarter, total revenues totaled 1,342 million Euros (+0.9% year-on-year; +1.6% excluding mobile termination rate cuts).

Wireless service revenues continued showing a strong performance over the previous year (+7.0% year-on-year; +7.3% excluding mobile termination rate cuts) to 3,152 million Euros. In the fourth quarter, wireless service revenues reached 793 million Euros, (+3.6% year-on-year; +4.8% excluding mobile termination rate cuts), which is the result of the Company's strategy of carefully managing the value of the customer base. Year-on-year growth trends show the annualization of a particularly strong trading activity in 2011, as well as the annualization of wireless service revenue growth and integrated mobile tariffs' adoption, coupled with lower SMS activity levels in the market which is mainly affecting incoming revenues.

Mobile data was the main driver for revenue growth at 1,391 million Euros in 2012 (+16.1% year-on-year in 2012; +10.9% in the fourth quarter), thanks to the increased penetration of mobile integrated tariffs in the base. The Company continued monetizing the data opportunity, with non-SMS data revenues growing by 30.7% year-on-year up to December 2012 (+27.9% year-on-year in the fourth quarter). Non-SMS data revenues as a percentage of total data revenues were 59.9% in the fourth quarter, 8.0 percentage points above the same period of last year.

Handset revenues reached 693 million Euros, an increase of 5.1% year-on-year (+6.4% in the fourth quarter), which is a reflection of the continued success of the "O_2 My Handy" distribution model.

Wireline revenues stood at 1,363 million Euros (-4.4% year-on-year; -8.1% in the fourth quarter). The quarterly trend is mainly influenced by the continued erosion of the retail fixed broadband business and lower upfront connection revenues associated with the wholesale broadband business.

Operating expenses amounted to 3,995 million Euros, a year-on-year increase of 1.2% (-1.5% in the fourth quarter).

Main drivers for the January-to-December 2012 period were:

- Growth in **supplies** of 4.1% year-on-year to 2,131 million Euros (-1.4% in the fourth quarter), driven by the increase seen in handset costs (mainly due to smartphone sales through "O_2 My Handy") and mobile interconnection expenses (total mobile traffic increasing 5.5% year-on-year). The lower mobile voice termination rate from 1st December and also lower activity in the fixed business were the main reasons behind the different year-on-year performance of this cost category in the fourth quarter vs. the full year.

- **Personnel expenses** increase of 6.1% year-on-year to 465 million Euros. The increase in the fourth quarter was +16.3%, due to general increase in salaries from July 1st, the change in the mix of our employee base towards the commercial areas, overtime payment and higher level of activity across the business made towards the end of the year.
- **Other expenses** decrease of 4.3% year-on-year (-7.1% in the fourth quarter) to 1,399 million Euros, with savings in administration expenses, bad debts and advertising compensating increases in network costs and higher commercial activity through partner channels.

As a result, **Operating Income before Depreciation and Amortization (OIBDA**) reached 1,279 million Euros for the full year 2012 (+11.3% year-on-year; + 8.5% in the fourth quarter). OIBDA margin for 2012 was 24.5% (25.5% in the fourth quarter), a year-on-year increase of 1.7 and 1.8 percentage points, respectively.

OIBDA excluding management fees totaled 1,351 million Euros in the January to December 2012 period (+10.8% year-on-year; +4.6% in the fourth quarter). OIBDA margins excluding management fees also showed a positive performance, reaching 25.9% as of 2012 (+1.7 percentage points, year-on-year) and 27.2% in the fourth quarter (+1.0 percentage points, year-on-year). The strong OIBDA performance in 2012 is the result of the increasing contribution from mobile data to the business, coupled with additional efficiencies in commercial and non-commercial areas, with performance in the fourth quarter mainly reflecting revenue trends and the annualization of the cost optimization program in 2011, with visible impacts in OIBDA performance in the second half of the year.

Depreciation & Amortization amounted to 1,133 million Euros in 2012, a year-on-year increase of 4.7% (+6.0% in the fourth quarter), mainly driven by the amortization of LTE spectrum licenses that were acquired in 2010, but activated for commercial service in the second half of 2011, as well as purchased software and past investments made in the network.

Operating income amounted to 146 million Euros in the January-December 2012 period (42 million Euros in the fourth quarter), which is a significant improvement over previous year's period at 67 million Euros (32 million Euros in the fourth quarter).

Net financial expenses for 2012 were 6.1 million Euros, from a positive income of 6.0 million Euros in 2011. This was the result of the new capital structure of the Company from September 2012 onwards.

Income Tax was positive by 168 million Euros for the full year 2012 as compared to the negative figure of 2.0 million Euros accrued in the same period of 2011, attributable to changes in deferred taxes driven by the additional recognition of tax losses carried forward.

As a result, **net profit from continuing operations** for the year 2012 amounted to 308 million Euros, a significant improvement over the previous year at 71 million Euros. Total net profit (including results from discontinued operations) resulted in 1,335 million Euros (554 million Euros in 2011) as a result of the corporate restructuring activities performed prior to the listing of the Company at the end of October 2012.

CapEx in the year 2012 amounted to 609 million Euros, an increase of 9.2% year-on-year (-15.4% in the fourth quarter), supporting future growth with accelerated investment in the development of the LTE network and increase of capacity in the 3G network, and with a different phasing of investments than in 2011. The perceived quality of the network continued to improve as it was shown, for example, in the recent Connect Netztest published in November 2012 with a second rank position in terms of voice quality and a third position in terms of mobile data quality.

Operating Cash Flow (OIBDA-CapEx) increased 13.3% year-on-year to reach 670 million Euros, and this translated into Free Cash Flow pre dividends from continuing operations (FCF)[6] of 676 million Euros in the January-December 2012 period (-3.0% year-on-year). Working capital contributed positively to FCF with 19 million Euros in 2012 (93 million Euros in 2011) as a result of the three silent factoring deals of "O_2 My Handy" receivables executed in the fiscal year 2012. The Company did not pay taxes neither in 2012 nor 2011 and registered a collaterally provided security deposit in the amount of 15 million Euros in 2012 which will be released over time.

Consolidated net financial debt stood at 842 million Euros at the end of December, 2012, resulting in a leverage ratio of 0.7x.

[6] Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes. Adjustment of a rounding inaccuracy (EUR 1.8m) was made after release of preliminary results leading to a slightly higher Free Cash Flow pre dividends from continuing operations.

APPENDIX – DATA TABLES

TELEFÓNICA DEUTSCHLAND GROUP
SELECTED CONSOLIDATED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - December			October - December		
	2012	2011	% Chg	2012	2011	% Chg
Revenues	5.213	5.036	3,5	1.342	1.330	0,9
Operating income before Depreciation and Amortization (OIBDA)	1.279	1.149	11,3	343	316	8,5
OIBDA Margin	*24,5%*	*22,8%*	*1,7%-p.*	*25,5%*	*23,8%*	*1,8%-p.*
Group Fees	(72)	(70)	3,0	(22)	(33)	(32,6)
Operating income before Depreciation and Amortization (OIBDA) and before Group Fees	1.351	1.219	10,8	365	349	4,6
OIBDA before Group Fees Margin	*25,9%*	*24,2%*	*1,7%-p.*	*27,2%*	*26,2%*	*1,0%-p.*
Operating income (OI)	146	67	n.m.	42	32	30,4
Profit for the year from continuing operations	308	71	n.m.	199	35	n.m.
Total profit for the year	1.335	554	n.m.	691	155	n.m.
Basic earnings per share (EUR) from continuing operations (1)	0,28	0,06	n.m.	0,18	0,03	n.m.
CapEx	609	558	9,2	157	185	(15,4)
OpCF (OIBDA-CapEx)	670	592	13,3	186	131	42,1
Free Cash Flow pre dividends from continuing operations (2)	676	697	(3,0)	128	524	(75,6)

(1) For better comparability with future financial information, the current number of shares in the Company of 1,116,945,400 has been used and has been calculated considering the profit for the year from continuing operations.

(2) Free Cash flow pre dividends defined as OpCF minus working capital minus interest payments and taxes minus other changes. Adjustment of a rounding inaccuracy (EUR 1.8m) was made after release of preliminary results leading to a slightly higher Free Cash Flow pre dividends from continuing operations.

Note:

- OIBDA margin and OIBDA before Group Fees margin are calculated as percentage of total Revenues, respectively

TELEFÓNICA DEUTSCHLAND GROUP

ACCESSES

Unaudited figures (in thousand)

	2011				2012				%Chg (YoY)
	March	June	September	December	March	June	September	December	Dec'11 vs Dec'1
Final Clients Accesses	22,383	22,850	23,220	23,441	23,943	24,070	24,215	24,285	3.6
Fixed telephony accesses	1,989	2,045	2,042	2,055	2,403	2,353	2,296	2,249	9.4
Internet and data accesses	2,958	2,977	2,949	2,922	2,866	2,811	2,740	2,679	(8.3)
Narrowband	368	357	347	335	319	320	310	303	(9.6)
Broadband	2,591	2,620	2,603	2,588	2,547	2,491	2,430	2,376	(8.2)
Mobile accesses	17,357	17,748	18,146	18,380	18,595	18,834	19,114	19,300	5.0
Prepay	8,897	9,035	9,181	9,144	9,066	9,116	9,225	9,191	0.5
Postpaid	8,460	8,713	8,965	9,236	9,529	9,718	9,889	10,109	9.5
Postpaid (%)	48.7%	49.1%	49.4%	50.2%	51.2%	51.6%	51.7%	52.4%	*2.1%-p.*
Smartphone penetration (%) (1)	16.1%	17.6%	18.5%	20.1%	21.1%	22.7%	24.3%	26.4%	*6.3%-p.*
Pay TV	79	80	83	83	79	73	65	57	(31.3)
Wholesale Accesses (2)	1,128	1,118	1,112	1,042	1,059	1,089	1,105	1,088	4.4
Total Accesses	**23,511**	**23,968**	**24,332**	**24,483**	**25,002**	**25,159**	**25,320**	**25,373**	**3.6**

(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 fixed–line telephony and high–speed Internet access.

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED OPERATIONAL DATA

Unaudited figures

	2011				2012				%Chg (QoQ)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4'11 vs Q4'12
ARPU (EUR)	13.1	13.6	14.0	13.8	13.5	13.9	14.0	13.6	(1.3)
Prepay	5.4	5.7	5.8	5.8	5.3	5.5	5.7	5.5	(4.5)
Postpaid	21.3	21.8	22.5	21.8	21.4	21.7	21.8	21.0	(3.7)
Data ARPU (EUR)	5.2	5.6	5.8	5.9	6.0	6.1	6.2	6.2	5.6
% non-SMS over data revenues	47.5%	50.2%	51.6%	52.0%	53.9%	54.9%	57.9%	59.9%	*8.0%-p.*
Voice Traffic (m min)	6,859	7,018	6,907	7,208	7,365	7,399	7,228	7,528	4.4
Churn (%)	-2.3%	-2.1%	-2.1%	-2.5%	-2.4%	-2.0%	-2.1%	-2.5%	*0.0%-p.*
Postpaid churn (%)	-1.9%	-1.5%	-1.6%	-1.8%	-1.6%	-1.4%	-1.4%	-1.5%	*0.4%-p.*

	2011				2012				%Chg (YoY)
	Jan - Mar	Jan - June	Jan - Sep	Jan - Dec	Jan - Mar	Jan - June	Jan - Sep	Jan - Dec	Jan - Dec
ARPU (EUR)	13.1	13.4	13.6	13.6	13.5	13.7	13.8	13.8	0.9
Prepay	5.4	5.6	5.7	5.7	5.3	5.4	5.5	5.5	(3.0)
Postpaid	21.3	21.5	21.9	21.9	21.4	21.6	21.7	21.5	(1.6)
Data ARPU (EUR)	5.2	5.4	5.5	5.6	6.0	6.1	6.1	6.2	9.3
% non-SMS over data revenues	47.5%	48.9%	49.8%	50.4%	53.9%	54.6%	55.6%	56.7%	*6.3%-p.*
Voice Traffic (m min)	6,859	13,877	20,785	27,993	7,365	14,763	21,991	29,519	5.5
Churn (%)	-2.3%	-2.2%	-2.2%	-2.2%	-2.4%	-2.2%	-2.2%	-2.2%	*0.0%-p.*
Postpaid churn (%)	-1.9%	-1.7%	-1.7%	-1.7%	-1.6%	-1.5%	-1.5%	-1.5%	*0.3%-p.*

Notes:

- ARPU calculated as monthly quarterly average.

- 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 figures (Euros in millions)

	January - December			October - December		
	2012	2011	% Chg	2012	2011	% Chg
Revenues	5,213	5,036	3.5	1,342	1,330	0.9
Other income	61	61	(0.3)	16	16	(1.2)
Operating expenses	(3,995)	(3,947)	1.2	(1,015)	(1,030)	(1.5)
Supplies	(2,131)	(2,047)	4.1	(562)	(570)	(1.4)
Personnel expenses	(465)	(438)	6.1	(127)	(110)	16.3
Other expenses	(1,399)	(1,462)	(4.3)	(325)	(350)	(7.1)
Operating income before Depreciation and Amortization (OIBDA)	1,279	1,149	11.3	343	316	8.5
OIBDA Margin	*24.5%*	*22.8%*	1.7%-p.	*25.5%*	*23.8%*	1.8%-p.
Depreciation and amortization	(1,133)	(1,082)	4.7	(301)	(284)	6.0
Operating income (OI)	146	67	n.m.	42	32	30.4
Net financial income (expense)	(6)	6	n.m.	(9)	3	n.m.
Profit before tax from continuing operations	140	73	91.3	33	35	(4.9)
Income tax	168	(2)	n.m.	166	0	n.m.
Profit for the year from continuing operations	308	71	n.m.	199	35	n.m.
Profit after taxes from discontinued operations	1,027	483	n.m.	492	120	n.m.
Total profit for the year	1,335	554	n.m.	691	155	n.m.
Assumed number of shares in millions (1)	1,117	1,117	-	1,117	1,117	-
Basic earnings per share from continuing operations (euros)	0.28	0.06	n.m.	0.18	0.03	n.m.

(1) For better comparability with future financial information, the current number of shares in the Company of 1,116,945,400 has been used and has been calculated considering the profit for the year from continuing operations.

TELEFÓNICA DEUTSCHLAND GROUP
REVENUE BREAKDOWN

Unaudited figures (Euros in millions)

	January - December			October - December		
	2012	2011	% Chg	2012	2011	% Chg
Revenues	5,213	5,036	3.5	1,342	1,330	0.9
Wireless Business	3,845	3,606	6.6	1,014	973	4.2
Wireless Service Revenues	3,152	2,946	7.0	793	765	3.6
Handset Revenues	693	659	5.1	221	208	6.4
Wireline Business	1,363	1,426	(4.4)	327	356	(8.1)
Other	5	4	12.7	1	1	(9.0)

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures (Euros in millions)

	December 2012 Consolidated	December 2011 Consolidated	December 2011 Combined
Non-current assets	7,652	7,997	7,900
Goodwill	706	706	706
Other intangible assets	3,277	3,662	3,658
Property, plant and equipment	2,973	3,119	3,119
Investments in associates	0	2	0
Financial and other non-current assets	115	95	6
Deferred tax assets	581	412	412
Current assets	1,417	5,657	5,115
Inventories	85	70	70
Trade and other receivables	1,009	1,349	1,010
Other current financial assets (1)	0	2,887	2,886
Cash and cash equivalents	324	1,351	1,149
Total Assets = Total Equity and Liabilities	9,070	13,654	13,015
Equity	6,429	12,283	11,756
Common Stock, no par value	1,117	1,117	1,117
Retained earnings	5,310	11,164	10,638
Other components of equity	1	1	1
Equity attributtable to owners of the Company	6,429	12,283	11,756
Non-current liabilities	1,092	75	75
Non-current interest-bearing debt (2)	1,000	0	0
Other payables	9	6	6
Non-current provisions	82	69	69
Current liabilities	1,549	1,296	1,184
Current interest-bearing debt (2)	251	0	0
Trade payables	918	891	786
Other payables	219	189	187
Other current financial liabilities	0	5	0
Current provisions	7	42	42
Deferred income	154	170	170
Financial Data			
Net Financial Debt (3)	842	(4,316)	(4,113)
Leverage (4)	0.7x	(3.8x)	(3.6x)

(1) In 2012 as part of the pre-IPO dividend payment claim of €7.2bn an existing capital promise in the amount of €2.9bn has been set-off.

(2) Pre-IPO dividend payment in 2012 has been funded through a withdrawal of capital reserves of Telefónica Germany GmbH & Co. OHG ("OHG"). To this end, OHG, inter alia, used available cash and intra–group loan granted and paid out by TGB.V., an entity of the Telefónica S.A. Group, in the amount of €1.25bn.

(3) 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 other payables (€4,985k in 2012 and €6,342k in 2011) + current interest-bearing debt + other current payables (€3,964k in 2012 and €5,444k in 2011) - financial and other non-current assets (€93,770k in 2012 and €89,889k in 2011) - other current financial assets - cash and cash equivalents.

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

TELEFÓNICA DEUTSCHLAND GROUP
RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited figures (Euros in millions)

	2012 Jan - Dec	2011 Jan - Dec	2012 Oct - Dec	2011 Oct - Dec
OIBDA	**1.279**	**1.149**	**343**	**316**
- CapEx	(609)	(558)	(157)	(185)
= Cash Contribution (OpCF)	**670**	**591**	**186**	**131**
+ Silent factoring (1)	302	229	103	229
-/+ Working capital movements	(283)	(136)	(146)	164
Change in Working Capital	19	93	(43)	393
+/- Gains/losses from sale of fixed assets and other effects	1	3	2	(3)
- Taxes paid	0	0	0	0
+ Net interest payments	1	10	(2)	4
+ Payment on financial investments	(15)	0	(15)	0
= Free Cash Flow pre dividends from continuing operations	**676**	**697**	**128**	**525**
-/+ Equity movements (2)	(4.300)	(5)	0	(4)
= Free Cash Flow post dividends from continuing operations	**(3.624)**	**692**	**128**	**521**
+ Free Cash Flow post dividends from discontinued operations (3)	907	354	(147)	153
= Total Free Cash Flow post dividends	**(2.717)**	**1.046**	**(19)**	**674**
Net financial debt at beginning of period	(4.316)	(3.282)	1.272	(3.636)
- Other change in net financial debt (4)	2.886	13	(4)	(6)
- Decrease of net financial debt due to deconsolidation (5)	(445)	0	(445)	0
= Net financial debt at end of period	842	(4.315)	842	(4.316)

(1) Full impact (YTD) of silent factoring transacation in the current year of EUR 302m (1st transaction in March 2012: EUR 36m, 2nd transaction in September 2012: EUR 135m, 3rd transaction in December 2012: EUR 131m); one silent factoring transaction in the 4th quarter 2011 with a net

(2) Net payment as of December 2012 consists of the pre-IPO dividend of EUR 4.3bn.

(3) Free cash flow from discontinued operations of EUR 349m (2011: EUR 354m) plus net cash cash flow from the sale of discontinued operations of EUR 703m minus cash & cash equivalents of EUR 145m.

(4) In 2012 as part of the pre-IPO dividend payment claim of EUR 7.2bn an existing capital promise in the amount of EUR 2.9bn has been set-off.

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

	2012 Jan - Dec	2011 Jan - Dec	2012 Oct - Dec	2011 Oct - Dec
= Free Cash Flow pre dividends from continuing operations	676	697	128	525
Assumed number of shares (millions)	1.117	1.117	1.117	1.117
= Free Cash Flow per share (EUR) (1)	0,61	0,62	0,11	0,47

(1) For better comparability with future financial information, the current number of shares in the Company of 1,116,945,400 has been used and has been calculated considering the Free Cash Flow pre dividends from continuing operations.

Telefónica Deutschland

TELEFÓNICA DEUTSCHLAND GROUP
CONSOLIDATED NET FINANCIAL DEBT EVOLUTION

Unaudited figures (Euros in millions)

	January - December			
	2012	2011	Amount	% Chg
Cash and cash equivalents (1)	324	1,351	(1,027)	(76.0)
A Liquidity	**324**	**1,351**	**(1,027)**	**(76.0)**
B Current financial assets (2)	**-**	**2,887**	**(2,887)**	**n.m.**
Current interest-bearing debt	251	-	251	n.m.
Current other payables	4	5	(1)	(27.2)
C Current financial debt	**255**	**5**	**249**	**n.m.**
D=C-A-B Current net financial debt	**(69)**	**(4,232)**	**4,163**	**(98.4)**
E Non-current financial assets	**94**	**90**	**4**	**4.3**
Non-current interest-bearing debt	1,000	-	1,000	n.m.
Non-current other payables	5	6	(1)	(21.4)
F Non-current financial debt	**1,005**	**6**	**999**	**n.m.**
G=F-E Non-current net financial debt	**911**	**(84)**	**995**	**n.m.**
H=D+G Net financial debt (3)	**842**	**(4,316)**	**5,158**	**n.m.**

(1) Including €203m cash & cash equivalents of Group 3G UMTS Holding GmbH, Quam GmbH and Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L. in 2011.
(2) Including €1m financial derivates of Group 3G UMTS Holding GmbH, Quam GmbH and Telefónica Global Services GmbH, Telefónica Global Roaming GmbH, Telefónica Compras Electronicas S.L. in 2011.
(3) 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 other payables (€4,985k in 2012 and €6,342k in 2011) + current interest-bearing debt + other current payables (€3,964k in 2012 and €5,444k in 2011) - financial and other non-current assets (€93,770k in 2012 and €89,889k in 2011) - other current financial assets - cash and cash equivalents.

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