

O<sub>2</sub> Telefónica Deutschland Finanzierungs  
GmbH  
München

**Interim Financial Statements for the period  
from January 1 to June 30, 2014**

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# Interim Financial Statements

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- Interim Statement of Financial Position
- Income Statement
- Condensed Notes

O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH

Munich

Interim Statement of Financial Position as of June 30, 2014

Assets	June 30, 2014 EUR	December 31, 2013 EUR	Equity and liabilities	June 30, 2014 EUR	December 31, 2013 EUR
<b>A. Fixed assets</b>			<b>A. Equity</b>		
Financial assets			Nominal capital	25.000,00	25.000,00
Loans to affiliated companies	1.100.000.000,00	600.000.000,00		<b>25.000,00</b>	<b>25.000,00</b>
	<b>1.100.000.000,00</b>	<b>600.000.000,00</b>	<b>B. Provisions</b>		
			Other provisions	156,03	0,00
				<b>156,03</b>	<b>0,00</b>
<b>B. Current assets</b>			<b>C. Liabilities</b>		
I. Receivables and other assets			1. Bonds	1.100.000.000,00	600.000.000,00
Receivables from affiliated companies	11.588.946,29	1.642.157,11	--thereof with a remaining term of 1 to 5 years EUR 600,000,000.00 (PY EUR 600,000,000.00)--		
--thereof due from shareholders EUR 11,575,339.10 (PY EUR 1,252,209.38)--			--thereof with a remaining term more than 5 years EUR 500,000,000.00 (PY EUR 500,000,000.00)--		
	<b>11.588.946,29</b>	<b>1.642.157,11</b>	2. Trade payables	24.963,36	429.657,11
			--thereof with a remaining term of less than one year EUR 24,963.36 (PY EUR 429,657.11)--		
			3. Other liabilities	11.538.826,90	1.187.500,00
			--thereof with a remaining term of less than one year EUR 11,538,826.90 (i.Vj. EUR 1,187,500.00)--		
				<b>1.111.563.790,26</b>	<b>601.617.157,11</b>
<b>C. Prepaid expenses</b>	<b>8.998.900,00</b>	<b>6.566.700,00</b>	<b>D. Deferred income</b>	<b>8.998.900,00</b>	<b>6.566.700,00</b>
<b>Total assets</b>	<b>1.120.587.846,29</b>	<b>608.208.857,11</b>	<b>Total equity and liabilities</b>	<b>1.120.587.846,29</b>	<b>608.208.857,11</b>

**O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH**

**Munich**

**Income Statement**

**for the Interim Financial Period from January 1 to June 30, 2014**

	<b>Jan 1 - Jun 31, 2014</b>	<b>Mar 6 - Jun 30, 2013</b>
	<b>EUR</b>	<b>EUR</b>
1. Other operating income	442.775,24	8.365,50
2. Other operating expenses	-442.775,24	-8.365,50
3. Other interest and similar income --thereof from affiliated companies EUR 1,298,810.41--	11.036.151,93	0,00
4. Interest and similar expenses	-11.035.995,90	0,00
<b>5. Result from ordinary business activities</b>	<b>156,03</b>	<b>0,00</b>
6. Expense from expected profit transfer	-156,03	0,00
<b>7. Net result of the period</b>	<b>0,00</b>	<b>0,00</b>

**O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH, Munich**  
**Condensed notes to the Interim Financial Statements**  
**for the reporting period from January 1<sup>st</sup>, 2014 to June 30, 2014**

**I. GENERAL INFORMATION ON INTERIM FINANCIAL STATEMENTS**

Telefónica Deutschland Finanzierungs GmbH, Munich, was by notary deed established on February 26, 2013 for the purpose of financing the Telefónica Deutschland Group. The nominal capital was paid in on March 6, 2013. Telefónica Deutschland Finanzierungs GmbH, Munich was renamed O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH, Munich (referred to in the following as “TDF” or the “Company”) with effect from November 7, 2013.

In November 2013, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of TEUR 600,000 and a maturity on November 22, 2018 in the regulated market of the Luxembourg Stock Exchange.

Furthermore TDF issued in February 2014 a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of TEUR 500,000 and a maturity on February 10, 2021 in the regulated market of the Luxembourg Stock Exchange.

The interim financial statements of O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH, Munich, for the reporting period from January 1st, 2014 to June 30, 2014 have been prepared in accordance with the accounting principles of the German Commercial Code (HGB) and the GmbH Act (Act relating to limited liability companies, GmbHG).

As of June 30, 2014, the Company is classified as a large corporation in accordance with section 264d in conjunction with section 267 (3) HGB.

The financial year of the Company corresponds to the calendar year.

The income statement has been prepared using the nature of expense method in accordance with section 275 (2) HGB.

## **II. ACCOUNTING POLICIES**

The accounting policies used in the preparation of the interim financial statements for the interim period ending June 30, 2014 are in accordance with the provisions of sections 242 to 256a and sections 264 to 288 of the HGB as well as the relevant provisions of the GmbHG.

Balance sheet related financial information presented in the condensed notes refers to financial information as of June 30, 2014, in comparison to year end 2013 financial information. Profit and loss related financial information covers the interim periods ending June 30, 2014 and 2013 respectively. The accounting principles and standards of valuation remained unchanged in comparison to the prior period.

Based on the existing profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG, Munich, the result from ordinary business activities is already presented for the interim period as expected profit and loss transfer. An interim profit is recognized as other provision, resulting from expected profit transfer, an interim loss is presented as receivable against Telefónica Germany GmbH & Co. OHG, Munich, from the loss transfer.

## **III. NOTES TO THE BALANCE SHEET**

### **1. Financial assets**

The financial assets as of June 30, 2014 consist of two loans of TEUR 600,000 and TEUR 500,000 respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying five- and seven-year bonds which TDF issued on November 22, 2013 and February 10, 2014 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on November 22, 2018 and February 10, 2021, and are repayable in one amount on the due date plus all interest and costs which have not yet been paid. The underlying interest rates are 1.875% and 2,375%, payable annually on November 22 and February 10.

The development of fixed assets is shown in the statement of changes in fixed assets. The statement of changes in fixed assets is enclosed as an appendix to the notes.

### **2. Receivables and other assets**

The receivables due from affiliated companies amount to TEUR 11,589 (31.12.2013: TEUR 1,642); thereof, TEUR 11,539 (31.12.2013: TEUR 1,252) mainly relate to interest receivables from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich. The maturity of all receivables is less than one year.

### **3. Prepaid expenses**

This item includes two disagios from the issuance of the bonds originally amounting to TEUR 5,028 for the five-year bond issued November 2013 and TEUR 1,880 for the seven-year bond issued February 2014. Issuing fees of originally TEUR 1,650 for the five-year bond and TEUR 1,375 for the seven-year bond are also included. Both elements are released on pro rata basis over the terms of the underlying bonds until November 22, 2018 and until February 10, 2021, respectively.

### **4. Nominal capital**

The nominal capital is unchanged EUR 25,000.00 and is fully paid up. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

### **5. Liabilities**

The liabilities include two bonds with a nominal value of TEUR 1,100,000 in total. Thereof the five-year bond amounts to TEUR 600,000, with a maturity on November 22, 2018. Besides the seven-year bond amounts to TEUR 500,000 with a maturity on February 10, 2021, constituting a liability with a remaining period of more than five years. Both bonds are guaranteed by Telefónica Deutschland Holding AG, Munich.

The other liabilities include TEUR 11,539 (31.12.2013: TEUR 1,188) for current interest liabilities relating to the bonds.

### **6. Deferred income**

Deferred income results from the original differences of TEUR 6,678 and TEUR 3,255 respectively between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred items are released over the term of the underlying five- and seven-year loan.

## **IV. NOTES TO THE INCOME STATEMENT**

### **Financial result**

The other interest and similar income of TEUR 11,036 results from interest income due of TEUR 10,213 from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich. Furthermore TEUR 823 result from the release of the differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich.

The interest and similar expenses of TEUR 11,036 include the interest expense from the bonds of TEUR 10,213 and the release of the two disagios of TEUR 823.

### **Profit and loss transfer agreement**

On March 20, 2013, TDF signed a domination agreement with the controlling company Telefónica Germany GmbH & Co. OHG, Munich. In addition, on March 20, 2013, TDF also signed a profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG, Munich. This has been recorded in the Commercial Register at April 2, 2013.

The result at the end of the financial year 2014 will be transferred to respectively taken over by Telefónica Germany GmbH & Co. OHG, Munich as a result of the existing domination and profit and loss transfer agreement. The interim period result as of June 30, 2014 is recognized as other provision, resulting from expected profit transfer.

Munich, July 25, 2014

O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH

- Management -

Rachel Clare Empey

Markus Haas

Albert Graf

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The figures in the Interim Financial Statements have been rounded in accordance with established commercial practice. Figures or additions within a table may therefore result in sums different from those shown in the same table.



**O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH**

**Munich**

**Statement of Changes in Fixed Assets for the Interim Financial Period from January 1 to June 30, 2014**

	Acquisition costs				Accumulated depreciation				Carrying amounts	
	Jan 1, 2014	Additions	Disposals	June 30, 2014	Jan 1, 2014	Additions	Disposals	June 30, 2014	June 30, 2014	Jan 1, 2014
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>Financial assets</b>										
Loans to affiliated companies	600.000.000,00	500.000.000,00	0,00	1.100.000.000,00	0,00	0,00	0,00	0,00	1.100.000.000,00	600.000.000,00
	600.000.000,00	500.000.000,00	0,00	1.100.000.000,00	0,00	0,00	0,00	0,00	1.100.000.000,00	600.000.000,00

# Interim Management Report

## O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH, Munich

Management Report for the interim reporting period from January 1<sup>st</sup>, 2014 to June 30, 2014

### 1. Business and frame conditions

O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH, Munich (TDF) acts as the financing company for the Telefónica Deutschland Group and its operating entities. The following economic and legal framework conditions for the operating entities are thus indirectly also relevant for TDF.

The German economy recorded stable development in 2013 with stronger economic growth than in the other Euro countries. Real growth in German gross domestic product (GDP) amounted to 0.4% in 2013 considerably better than the negative growth of 0.4% throughout the European Union (EU) on average.

After a strong first quarter 2014 the German economy started more moderate into the second quarter of 2014 due to an unusual weaker spring economy after the bland climate of the winter. In total the revival of the German economy continued solidly. The driving force here is the continued healthy domestic demand.

Source: Deutsche Bundesbank (German Central Bank), German Federal Ministry for the Economy (BMWi)

#### *General trends on the German telecommunications market*

In the German telecommunications sector, alongside continuing customer demand for more bandwidth, various other trends can be observed. Thus convergent products and services are becoming ever more popular.

The strong demand for mobile data usage and the increasing smartphone and tablet penetration enable the mobile telecommunications network operators' further opportunities for growth, which will also continue into the future. Smartphones and tablets are becoming the trailblazers for the digital revolution in Germany. At the same time, the monetization of the mobile data business will continue to gain strongly in significance for mobile telecommunications providers. The increasing availability of cloud services is responsible, according to the industry association BITKOM, for a profound change in information technology.

With Cloud Computing the use of IT services occurs according to demand via decentralized computers that are connected via data networks (in the "Cloud") instead of on local computers.

A further trend is the growing market of machine-to-machine communication (M2M) with countless application possibilities.

The mobile telecommunications market was very dynamic in 2013 as well as in the first half year 2014 and characterized by intense competition, primarily driven by the strong demand for smartphones and the increasing number of smartphone tariffs. According to the industry association BITKOM, by May 2014 around 55% of all mobile phone owners aged 14 and older use a smartphone. At the same time, according to BITKOM, the number of tablets sold increased from 4.4m in 2012 to around 8m in 2013.

The increasing penetration of wireless end-devices with internet capability such as smartphones or tablets and the increasing use of mobile data services also showed itself in the strong growth of revenues from mobile data on the German market: In 2013, according to Analysys Mason, mobile data revenues increased by about 19% in comparison to the previous year. By contrast, revenues from mobile telephony and SMS declined, driven by price decline, regulatory effects and changed customer behavior.

The German mobile telecommunications market is an established market with four mobile telecommunications network operators. As of March 31, 2014, the Telefónica Deutschland Group held, with 19.3m connections, a market share of 16.6%.

(Source: Corporate data, Analysys Mason, Bitkom)

## **2. Areas of operation**

TDF was established as a wholly owned subsidiary of Telefónica Germany GmbH & Co. OHG, Munich, on February 26, 2013. It is thus part of the Telefónica Deutschland Group. TDF handles major financing activities of the Telefónica Deutschland Group. The necessary resources can be financed and procured by way of issuing bonds eligible for trading on the capital market. The Company is authorized to carry out all activities and measures which appear to be appropriate for directly or indirectly serving the business purpose of the entire company. In particular, it is permitted to establish and acquire other companies, to obtain equity participations in other companies, to manage such companies or restrict its activities to managing such participations.

In November 2013, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of TEUR 600,000 and a maturity on November 22, 2018 in the regulated market of the Luxembourg Stock Exchange. The annual nominal interest of the bond is 1.875 %. Furthermore as of February 10, 2014 and in the same market place TDF issued a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of TEUR 500,000, an annual nominal interest of 2,375 % and a maturity on February 10, 2021.

The bonds represent unsecured and senior liabilities of TDF, which are of equal ranking with each other and with all other unsecured and senior liabilities of TDF, unless these liabilities enjoy priority as a result of mandatory stipulations. Each bond is repaid on the due date in the amount of its specified denomination unless it has been previously repaid or purchased and invalidated.

The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich.

The net proceeds from each bond were directly passed from TDF to Telefónica Germany GmbH &

Co. OHG, München, based on loan agreements with concurrent terms and conditions.

### 3. Net assets, results of operations and financial position

#### Net assets

*The assets are presented in the following table:*

<b>Line items</b>	<b>06/30/2014</b>	<b>12/31/2013</b>	<b>Development</b>
	<b>TEUR</b>	<b>TEUR</b>	<b>TEUR</b>
Financial assets	1,100,000	600,000	500,000
Receivables and other assets	11,589	1,642	9,947
Prepaid expenses	8,999	6,567	2,432
<b>Total assets</b>	<b>1,120,588</b>	<b>608,209</b>	<b>512,379</b>

The increase of financial assets results from a second loan granted by TDF to Telefónica Germany GmbH & Co. OHG, Munich as of February 10, 2014, amounting to TEUR 500,000.

The financial assets as of June 30, 2014 consist of two loans of TEUR 600,000 and TEUR 500,000 respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying five- and seven-year bonds which TDF issued on November 22, 2013 and February 10, 2014 respectively. The loans have fixed terms until the date of maturity of the underlying bonds on November 22, 2018 and February 10, 2021, and are repayable in a lump sum on the due date plus all interest and costs which have not yet been paid.

The increase of receivables due from affiliated companies from TEUR 1,642 as of December 31, 2013 to TEUR 11,589 as of June 30, 2014 mainly results from increased interest receivables from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, amounting to TEUR 11,539 (31.12.2013: TEUR 1,252). The underlying interest rates are 1.875 % and 2.375%, payable annually on November 22 and February 10. Besides cash pooling receivables with Telfisa Global B.V, Amsterdam, the Netherlands decreased from TEUR 390 at December 31, 2013 to TEUR 14 as of June 30, 2014.

The increase of prepaid expenses also results from the issuance of the second bond. As of June, 30 2014 the prepaid expenses include two disgios from the issuance of the bonds originally amounting to TEUR 5,028 for the five-year bond issued November 2013 and TEUR 1,880 for the seven-year bond issued February 2014. Issuing fees of originally TEUR 1,650 for the five-year bond and TEUR 1,375 for the seven-year bond are also included. Both elements are released on pro rata basis over the terms of the underlying bonds, until November 22, 2018 and February 10, 2021 respectively

Shareholder`s equity and liabilities are presented in the following table:

<b>Line items</b>	<b>06/30/2014</b>	<b>12/31/2013</b>	<b>Development</b>
	<b>TEUR</b>	<b>TEUR</b>	<b>TEUR</b>
Equity	25	25	0
Non-current interest bearing debt	1,100,000	600,000	500,000
Other provisions	0	0	0
Trade payables	25	430	-405
Other payables	11,539	1,188	10,351
Deferred income	8,999	6,567	2,432
<b>Total equity and liabilities</b>	<b>1,120,588</b>	<b>608,209</b>	<b>512,379</b>

The nominal capital of the Company amounts still to EUR 25,000.00, and is fully paid up. It is held entirely by Telefónica Germany GmbH & Co. OHG, Munich.

The liabilities include two bonds with a nominal value of TEUR 1,100,000 in total. Both bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. The increase results from a five-year bond, issued as of February 10, 2014, amounting to TEUR 500,000.

The other liabilities include TEUR 11,539 (31.12.2013: TEUR 1,188) for current interest liabilities relating to the bonds.

The deferred income results from the original differences of TEUR 6,678 and TEUR 3,255 respectively between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred items are released over the term of the underlying five- and seven-year loan.

## **Results of operations**

In the interim financial reporting period ending June 30, 2014, TDF reported a positive result from ordinary business activities of EUR 156.03. Based on the profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG the interim period result is recognized as expense from expected profit transfer.

The main profit and loss items are as follows:

Line items	01/01/2014	03/06/2013	Development
	06/30/2014	06/30/2013	
	TEUR	TEUR	TEUR
Other operating income	443	8	435
Other operating expenses	-443	-8	-435
Other interest and similar income	11,036	0	11,036
Other interest and similar expenses	-11,036	0	-11,036
<b>Result from ordinary business activities</b>	<b>0</b>	<b>0</b>	<b>0</b>
Expense from expected profit transfer	0	0	0
<b>Net result of the period</b>	<b>0</b>	<b>0</b>	<b>0</b>

The other operating income of TEUR 443 is attributable to costs charged on to Telefónica Germany GmbH & Co. OHG, Munich. The other operating expenses of TEUR 443 which are charged on mainly comprise consultancy and audit fees.

The other interest and similar income of TEUR 11,036 relate essentially to interest income of TEUR 10,213 from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich as further outlined under financial assets. Furthermore included is the release of TEUR 823 from the difference between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich.

The interest and similar expenses of TEUR 11,036 mainly comprise interest expense of TEUR 10,213 from the bonds, as well as expenses of TEUR 823 from the release of the disgios over the term of the underlying bonds.

## Financial position

Cash and cash equivalents contain cash-in-hand as well as bank deposits, which are available at any time. Overall, as a result of a cash pooling agreement with Telfisa Global B.V., Amsterdam, The Netherlands, there were no cash and cash equivalents at TDF, neither on January 1st, 2014, nor as of June 30, 2014. Receivables from the cash pooling agreement with Telfisa Global B.V, Amsterdam, the Netherlands are not classified as cash or cash equivalents, but as receivables against affiliates, presented under cash flows from financing activities.

As of June 30, 2014 TDF does not have any unused credit lines.

In the first six months 2014 TDF reported a negative cash flow from operating activities of TEUR 1,751 (30.06.2013: cash flow of TEUR 8), resulting mainly from costs amounting to TEUR

1,375 related to the issuance of the second bond (previous period: TEUR 0).

The negative cash flow from investing activities of TEUR -496,745 (30.06.2013: TEUR 0) results from the loan granted from TDF to Telefónica Germany GmbH & Co. OHG, Munich, as of February 10, 2014.

In the first half of 2014 the cash flow from financing activities amounted to TEUR 498,496 (30.06.2013: TEUR 8), resulting mainly from the issuance of the second bond as of February 10, 2014 as well as from the decrease in cash pooling receivables to Telfisa Global B.V., Amsterdam, The Netherlands of TEUR 376.

#### **4. Opportunity and risk report**

The activities of TDF are currently restricted exclusively to the financing of the Telefónica Deutschland Group. The main elements of the assets of TDF are the loans granted to Telefónica Germany GmbH & Co. OHG, Munich. The economic existence of TDF is thus primarily dependent on whether Telefónica Germany GmbH & Co. OHG, Munich is able to meet its obligations in relation to these loans. All interest and capital payments relating to all debt securities currently issued by TDF are provided with a full and unlimited guarantee by the guarantor Telefónica Deutschland Holding AG, Munich. These guarantees are enforceable in accordance with the law of the Federal Republic of Germany.

Accordingly, the risks and opportunities of TDF as well as the measures and processes for handling these risks and opportunities are essentially the same as those applicable for the Telefónica Deutschland Group. The main Group risks are summarized in the following.

Based on this background and as of the time of preparing this report, according to the assessment of the management, there are no material changes to the risks and opportunities presented in the financial year ended December 31, 2013, except for the change described below.

##### *Wireline termination fees*

At the end of February 2014 a provisional decision by the Federal Network Agency was issued against Telefónica Germany GmbH & Co. OHG regarding the local FTR application from November 20, 2013 with a duration to November 30, 2014. As expected, the fee corresponds to the fee of Telekom Deutschland AG. Currently, the decisions against some other, alternative operators and the commercial implementation of the decision relating to the interconnection agreements with the respective network operator are outstanding; therefore, the economic effects of the decision cannot be finally assessed. Based on the volume of traffic affected and assuming that a significant lower termination rate is unlikely Telefónica Deutschland Group management recognizes a moderate risk.

##### *Changes in regulation with regard to consumer protection*

Recently regulative initiatives on national and European level took place in order to strengthen the

rights of consumers. Beside the potential impact of those initiatives especially on the roaming and termination fees, these initiatives also include additional requirements with regard to transparency on costs and terms of contract about telecommunication services. If Telefónica Deutschland Group is unable to fulfill these requirements completely or not in time some distribution channels might face restrictions inheriting a high risk that Telefónica Deutschland Group might not reach its customer and revenue growth targets. To mitigate that risk technical changes were already initiated and manual processes for Telefónica Deutschland Group and the outsourcers prepared. Given the status of the mitigating actions Telefónica Deutschland Group assumes the risk to be low.

Hence, there have been no relevant changes to the internally recorded risks and opportunities since the last Group Management Report as of December 31, 2013, except for the change relating to wireline termination fees and the increased requirements for consumer protection.

## **5. Events after the reporting period**

As already outlined above events at Telefónica Deutschland Group could potentially also have an impact on the future development of TDF. Therefore corresponding events after the interim reporting period are summarized as follows:

### *Merger approval with conditions precedent*

On July 2, 2014, Telefónica Deutschland has received the European Commission's conditional clearance to acquire the E-Plus group from KPN.

In the course of the merger clearance process, Telefónica Deutschland Group has agreed a set of remedies which fully address the European commission's competition concerns. In this regard, Telefónica Deutschland Group has committed to sell upfront 20% of its mobile network capacity via Mobile Bitstream Access to a Mobile Virtual Network Operator (MVNO) and give the opportunity to acquire up to 10% additional network capacity. Bitstream Access is a product where the MNO provides network capacity in the form of data throughput and data volume. This enables an MVNO to offer its own mobile services to customers.

Telefónica Deutschland Group has already signed a corresponding contract with Drillisch with the purpose to implement relevant measures to be taken before the closing of the transaction. This will contract will only become effective when the European Commission confirms that the agreement with Drillisch contract complies with the conditions and obligations which have to be fulfilled before the closing of the transaction and which are attached to the approval of the transaction and that the transaction will be completed.

Furthermore, to enable a potential entry into the German market, Telefónica Deutschland Group will make available to an interested party a package of 2.1 and 2.6. GHz frequencies, mobile sites, national roaming and a passive network sharing. In addition, existing contracts with wholesale partners will be extended until 2025 and the transition to a different guest network operator will be



facilitated.

#### *Decision of Federal Network agency regarding return of frequencies of 900MHz and 1800MHz*

In the telecommunications law decision on the merger process of Telefónica Deutschland and E-Plus Mobilfunk GmbH & Co. KG on July 4, 2014, the President's Chamber of the Federal Network Agency has decided, in the event of the completion of the transaction, that Telefónica Deutschland and E-Plus Mobilfunk GmbH & Co. KG are obligated to return frequencies of 900MHz and 1800MHz until December 31, 2015, for which they do not have an assignment at this time beyond the year 2016 (early return of 900/1800-MHz-Spectrum), and that the Federal Network agency will examine in the context of an overall consideration, taking into account the future frequency equipment in the ranges of 900MHz and 1800MHz if any action are required concerning the merger-related frequency spectrum, particularly in the area 2GHz (frequency distribution analysis).

#### *Announcement of designated new CEO of combined Telefónica Deutschland and E-Plus*

On July 2, 2014, the Supervisory Board of Telefónica Deutschland Holding AG has resolved to nominate Thorsten Dirks as future CEO. He will take over his office with the closing of the acquisition of the E-Plus group by Telefónica Deutschland Holding AG. The future Management Board consisting of Thorsten Dirks, Markus Haas and Rachel Empey will lead the company after the merger, which is expected during the third quarter of 2014. Markus Haas as COO will be in charge for joint operations and Rachel Empey as CFO will take responsibility for finance and strategy.

#### *Increase in the share capital by up to EUR 3.7bn against cash*

The resolution passed by the General Meeting on the authorization to increase the share capital by up to EUR 3.7bn on May 20, 2014 was registered in the commercial register on July 10, 2014.

No other reportable events occurred in the period after the reporting date.

## **6. Forecast report for the interim reporting period**

The forecast report describes the probable development of TDF in the course of the second half year 2014. The report contains comments and information regarding future events. Forward looking comments and information are based on expectations and assumptions of the Company at the point at which this management and forecast report is published, on the basis of known and unknown opportunities and risks. The success of the Company, the business strategy and also the results of the Company are influenced by a wide range of factors outside the control of the Company.

If such opportunities or risks occur or if uncertain factors materialize, or if it becomes apparent that one of the underlying assumptions was not correct, the actual development of the Company may differ (positively as well as negatively) from the expectations and assumptions in the forward-looking comments and information set out in this forecast report. Forecasts available in the public domain regarding the development of the overall economy and the sector only have to be detailed to the

extent which is relevant for understanding the comments regarding the probable development of the Group. They must not impair the perception of the comments regarding the probable development of the Group.

As a result of the close personnel and economic links between TDF and the Telefónica Deutschland Group, TDF is subject to the same business and framework conditions as well as the same regulatory environment as the Telefónica Deutschland Group. The future development of TDF is very much dependent on the capital requirement and the financing form chosen by the Telefónica Deutschland Group. The assessment of the future development of TDF is therefore based on forecasts of the business developments of the Telefónica Deutschland Group, which is summarized in the following.

#### *Economic outlook for Germany until December 31, 2014*

The most recent prognoses regarding the development of the Euro area indicate that the upward trend will continue in 2014. For the Euro area a rise in economic output by 1.0% is forecast for 2014.

For 2014, the outlook for the German economy, according to the German Central Bank, continues to be positive and it expects a growth in the gross domestic product of 1.9%. Private consumption should remain an important driver considering continuing favorable general conditions for employment and income.

(Source: German Central Bank, Federal Ministry for the Economy (Bundesministerium für Wirtschaft – BMWi))

#### *Market expectations*

In 2014, the market development in Germany, one of the biggest telecommunications markets in Europe, will again be driven by rising customer demand for broadband services, in wireless telecommunications and also in the fixed network. The boom in smartphones and tablets as well as a growing demand for LTE are driving the growth in mobile data services. Thus the market for mobile internet will soon supersede mobile telephone calls as the most important driver of revenues for German mobile telecommunications service providers. At the same time the negative trend for mobile voice and SMS will continue through further price pressure and changed customer behavior.

The increasing demand for speed in wireless telecommunications and fixed networks with the strong demand for convergent solutions on the part of German consumers will similarly be a driver of growth.

(Source: Company data)

#### *Expectations for Telefónica Deutschland Group*

As the closing of the E-plus transaction will likely change the scope of operations, the ability to provide a precise outlook for the remainder of 2014 is very limited at this moment due to a number of uncertainties. These uncertainties comprise the exact point in time at which the change of control over the E-Plus Group occurs which will trigger the commencement of consolidation of both organizations and of key decisions to be taken about the initial setup of the business of the New Group while at the same time ensuring the continuity of operations.

As a direct consequence of the consolidation of the E-Plus Group into Telefónica Deutschland Group, a significant increase in wireless service revenue and OIBDA for the second half of 2014 compared to the first half of 2014 is expected.

Moreover, the OIBDA margin for the second half of 2014 is likely to show a moderate decline compared to the first half of 2014. This is expected as a result of continued commercial investments in the market to capture additional opportunities from increased demand for LTE-enabled smartphones and corresponding tariffs, in addition to the impact of the consolidation of E-Plus Group business before any potential effects of integration activities.

In terms of investments, the LTE network rollout will continue to be the main priority of Telefónica Deutschland Group, also after the closing of the Transaction. Considering the LTE network rollout, investments from other areas, the current investment planning as well as the integration of the E-Plus Group, Telefónica Deutschland Group expects Capital Expenditures in the second half of 2014 to show a significant increase compared to the first half of 2014.

## **7. Management summary**

Currently, TDF in its capacity as a financing company, restricts its activities exclusively to financing the Telefónica Deutschland Group. In 2013 as well as in the six month ended June 2014 and in line with its business purpose, TDF successfully issued two bonds with a nominal value of TEUR 600,000 and TEUR 500,000 and a maturity on November 22, 2018 and February 10, 2021 respectively. TDF transferred the proceeds based on the same conditions in the form of two loans to Telefónica Germany GmbH & Co. OHG, Munich. The bonds are guaranteed by Telefónica Deutschland Holding AG, Munich. TDF does not employ any own employees currently. Due to the close personnel and economic links, the probable business development of the Company as well as the main opportunities and risks correspond to those applicable for Telefónica Deutschland Holding AG. On the basis of the issuances which have been carried out, management of TDF overall considers that the business development is positive.

Munich, July 25, 2014

O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH

- Management -

Rachel Clare Empey

Markus Haas

Albert Graf

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The figures in the Interim Financial Statements have been rounded in accordance with established commercial practice. Figures or additions within a table may therefore result in sums different from those shown in the same table.

# Declaration of the Statutory Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting and with generally accepted accounting principles, the Interim Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH, München, and the Interim Management Report includes a fair review of the development and performance of the business and the position of the entity, together with a description of the material opportunities and risks associated with the expected development of the entity for the remaining months of the financial year.

München,

O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH

- Management -

Rachel Clare Empey

Markus Haas

Albert Graf

Review Report

To O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH, Munich

We have reviewed the interim condensed financial statements, comprising the interim statement of financial position, the income statement and the condensed notes, and the interim management report of O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH, Munich, for the period from 1 January 2014 to 30 June 2014, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]. The preparation of the interim condensed financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the WpHG applicable to interim management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the interim condensed financial statements and the interim management report based on our review.

We conducted our review of the interim condensed consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed financial statements are not prepared, in all material respects, in accordance with German commercial law and that the interim management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements are not prepared, in all material respects, in accordance with the provisions of German commercial law or that the interim management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports.

Munich, 31 July 2014

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

*[signed]*  
Dahmen  
Wirtschaftsprüfer  
[German Public Auditor]

*[signed]*  
Vogel  
Wirtschaftsprüferin  
[German Public Auditor]