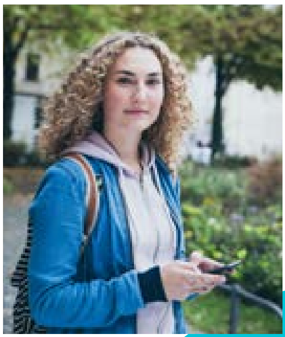
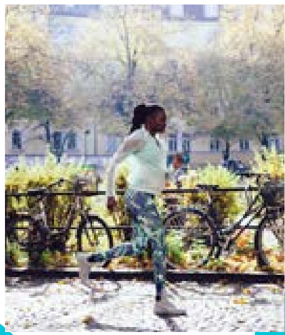
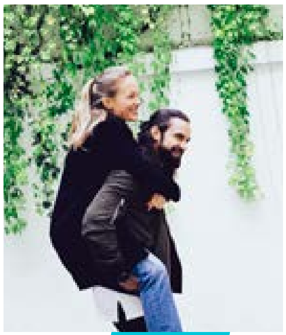
Name: Isabell
Job : Student
Age : 21



Name: Zoé
Job : Office manager
Age : 27

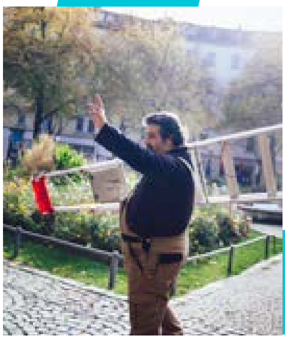


Name: Laura and Ben
Job : Banker and architect
Age : 27 and 31

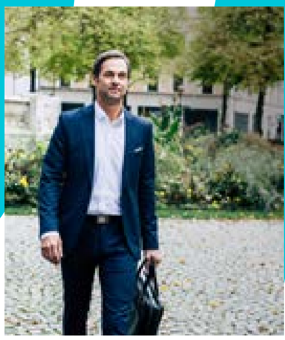


ONLIFE

Name: Marco
Job : Electrician
Age : 51



Name: Gregor
Job : Executive consultant
Age : 44



Name: Jasmin and Nils
Job : Educator and photographer
Age : 32 and 34

SHAPING DIGITAL LIVES

Name: Manuel
Job : Musician
Age : 35

Name: Christian
Job : Project manager in IT
Age : 42

Name: Angelika
Job : Artist
Age : 39

Name: Fritz and Leo
Job : Pensioner and scholar
Age : 65 and 12

Name: Vera
Job : Lawyer
Age : 55

Interim Group Report
1 January to 30 June 2017

Telefónica
Deutschland

Contents_

The figures below have been rounded in accordance with established commercial practice. This means that recalculations may differ slightly from the totals shown in the table.

Financial Highlights First Half of 2017_

At the end of June 2017, Telefónica Deutschland had 49.9 million customer accesses, up 2.7 % year-on-year driven mainly by an increase in mobile accesses (+4.1 % to 45.2 million) due to a solid operational momentum and the contribution of the partner business. In addition to existing customer metrics, Telefónica Deutschland introduced a customer access count based on market standards for calculation of inactive accesses in the first quarter. Based on this metric, Telefónica Deutschland had a total of 48.4 million mobile customer accesses by end of June 2017.

Mobile service revenues (MSR) declined 3.1 % year-on-year for the period January to June. Excluding regulatory effects from the cut in termination rates and the European roaming legislation, which totaled EUR 70 million, MSR were only 0.5 % lower year-on-year. A continuation of the positive trend in year-on-year MSR development. Telefónica Deutschland continued to face top-line headwinds from the retail to wholesale shift as well as legacy base effects in a dynamic competitive environment, which currently outweigh benefits from the successful marketing of O_2 Free to new and existing customers.

Operating Income before Depreciation and Amortisation (OIBDA) and before exceptional effects[1], underlying[2] increased 3.6 % year-on-year in the first half of 2017, with in-year savings from integration activities amounting to approx. EUR 75 million.

Capex rose 1.1 % in the first half of 2017 in comparison to the same period of the last year. Telefónica Deutschland invested mainly in network integration as well as in the continued rollout of the LTE network.

For a detailed view of the financial outlook for the first half of 2017, please refer to the (>**INTERIM GROUP MANAGEMENT REPORT, OUTLOOK 2017**).

Mobile service revenue
(Euros in millions)

−3.1 % / −0.5 %
(excluding regulatory effects)

OIBDA/OIBDA Margin
excluding exceptional effects[1], underlying[2]
(Euros in millions)

+3.6 %

Mobile accesses (postpaid/prepaid)
(in thousands)

+4.1 %

1 Exceptional effects as of 30 June 2017 include restructuring expenses of EUR 30 million and acquisition related consultancy costs amounting to EUR 2 million. Exceptional effects as of 30 June 2016 include restructuring expenses of EUR 37 million as well as the net capital gain from the sale of passive tower infrastructure to Telxius, which amounted to EUR 352 million.

2 "Underlying" reflects calculated OIBDA comparable for 2016, which includes the operating leaserelated effects from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016, as if it had occurred on 1 January 2016.

Financial Overview

(Euros in millions)	1 January to 30 June 2017	2016	% Change
Revenues	**3,542**	**3,691**	**(4.1)**
Mobile service revenues	2,610	2,694	(3.1)
Mobile service revenues (excl. regulatory effects 2017)	2,681	2,694	(0.5)
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects[1]	**873**	**854**	**2.2**
OIBDA before exceptional effects margin	24.6 %	23.1 %	1.5 %-p.
Operating income before depreciation and amortisation (OIBDA) and before exceptional effects, underlying[2]	**873**	**842**	**3.6**
OIBDA before exceptional effects margin, underlying	24.6 %	22.8 %	1.8 %-p.
Operating income before depreciation and amortisation (OIBDA)	**841**	**1,170**	**(28.1)**
OIBDA margin	23.8 %	31.7 %	(7.9 %-p.)
Operating income	**(123)**	**100**	**(222.2)**
Profit for the period	**(139)**	**83**	**(267.9)**
Basic earnings per share (in Euros)[3]	**(0.05)**	**0.03**	**(267.9)**
CapEx[4]	**(434)**	**(430)**	**1.1**
Operating cash flow (OIBDA-CapEx)	**407**	**740**	**(45.0)**
Free cash flow pre dividends and payments for spectrum[5]	**68**	**599**	**(88.6)**
Total accesses as of 30 June (in thousands)	**49,907**	**48,605**	**2.7**
Mobile accesses (in thousands)	45,194	43,417	4.1
Net additions mobile pre- and postpaids (in thousands)	873	355	146.2
Postpaid (%)	**46.3 %**	**45.2 %**	**1.1 %-p.**
Total ARPU (in EUR)	**9.7**	**10.3**	**(6.1)**
Postpaid churn excl. M2M (%)	**1.6 %**	**1.7 %**	**(0.1 %-p.)**
(%) **non-SMS data over total data revenues**	**80.6 %**	**76.1 %**	**4.5 %-p.**
Employees as of 30 June	**9,493**	**9,085**	**4.5**

	As of 30 June 2017	As of 31 December 2016	% Change
Net financial debt[6]	**1,575**	**798**	**97.3**
Leverage[7]	0.9x	0.4x	95.6

1 Exceptional effects as of 30 June 2017 include restructuring expenses of EUR 30 million and acquisition related consultancy costs amounting to EUR 2 million. Exceptional effects as of 30 June 2016 include restructuring expenses of EUR 37 million as well as the net capital gain from the sale of passive tower infrastructure to Telxius, which amounted to EUR 352 million.
2 "Underlying" reflects calculated OIBDA comparable for 2016, which includes the operating leaserelated effects from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016, as if it had occurred on 1 January 2016.
3 Basic earnings per share are calculated by dividing profit (loss) after taxes for the period by the weighted average number of ordinary shares of 2,975 million for the years 2017 and 2016.
4 Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum.
5 Free cash flow pre dividends and payments for spectrum is defined as the sum of cash flows from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum as well as related interest payments.
6 Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.
Note:
The pending payment for spectrum of EUR 111 million is presented in trade payables due to third parties on the Consolidated Statement of Financial Position and therefore excluded from the net financial debt calculation.
7 Leverage is defined as net financial debt divided by the OIBDA before exceptional effects for the last twelve months.

Interim Group Management Report_

for the period 1 January to 30 June 2017

Basic Information on the Group_

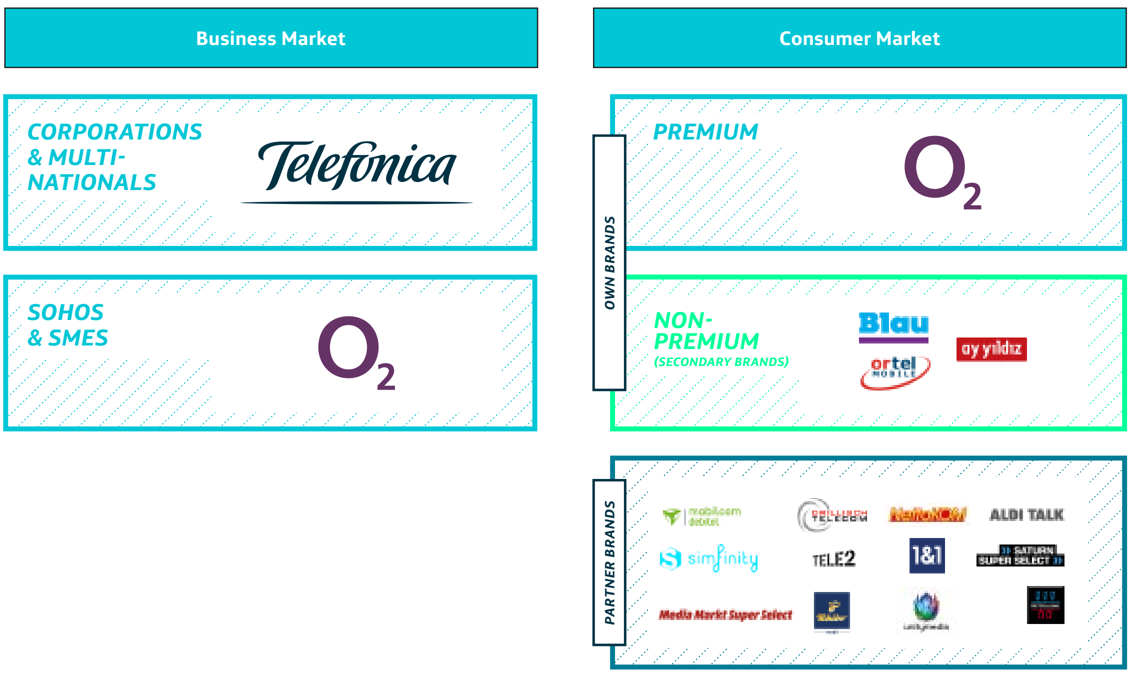
Business Activity

Telefónica Deutschland Group is one of the leading integrated network operators in Germany./We successfully address all market areas with a focused multi-brand strategy./Telefónica Deutschland Group offers a state-of-the-art mobile network especially in urban and suburban areas./We are a data-driven and data-focused company./We lead the mobile consumer and wholesale market in Germany./With Telefónica NEXT we drive innovation in advanced data analytics (ADA) and Internet of Things (IoT) space.

With over 49 million customer accesses as of 30 June 2017, Telefónica Deutschland Group is one of the three integrated network operators in Germany. We are leading the German mobile telecommunications market with a total of over 45 million mobile customer accesses as of 30 June 2017. We are a part of Telefónica, S.A. Group, one of the biggest telecommunications companies in the world.

Our brands: covering all market areas & needs

G 01 — Our brands

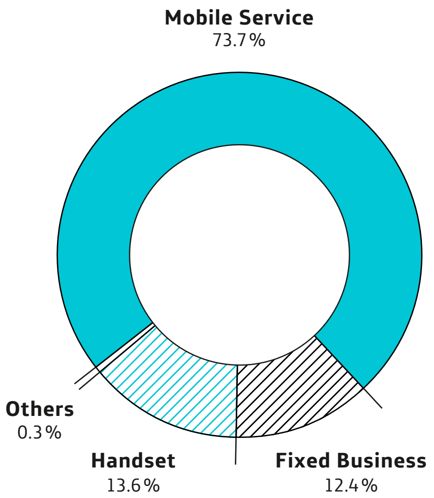


Our marketing and sales approach follows a consequent and focused multi-brand strategy in order to address the whole range of customer types with our products and services. With our premium brand O_2, we offer a broad range of high-value mobile and fixed-line communications products for both consumer and business customers. Large international businesses are addressed through the Telefónica brand.

With our secondary and partner brands and through our wholesale channels, we reach further large groups of customers that we do not target with our O_2 brand. Our secondary brands include Blau, AY YILDIZ and Ortel Mobile. We also count on brands from joint operations and strategic partnerships such as TCHIBO mobil and ALDI TALK in cooperation with MEDIONmobile. Our multi-brand approach enables us to address the whole spectrum of customers with tailored product offerings, sales and marketing, thereby increasing our potential revenue.

Mobile Service is the main revenue stream

G 02 — Revenue Structure H1 2017

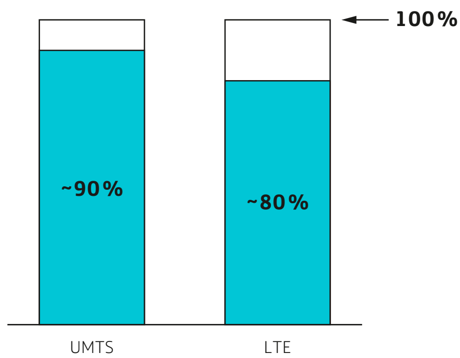


As the market leader for mobile services in Germany we operate a state-of-the-art network. We provide a high-quality network experience particularly in urban and suburban areas. Our customers benefit from the combined strength of the O_2 and E-Plus network and can make even better use of mobile data applications. The combined UMTS network infrastructure now reaches around 90 % of the population in Germany.

In order to improve the network experience beyond using mobile data on UMTS, Telefónica Deutschland Group has also further continued the deployment of its LTE network. By the end of June 2017, the company achieved a nation-wide LTE coverage rate over 80 %.

In the first half of 2017, the mobile service has been the main revenue stream for Telefónica Deutschland Group with EUR 2,610 million (73.7 % of total volume).

G 03 — Network Coverage
Outdoor population coverage in %



Fixed Business: Full service offers based on future proof infrastructure

We offer nationwide fixed services to complement our mobile services. The offer is based on our strategic partnership with Telekom Deutschland GmbH, Bonn. It grants us long-term access to future proof next generation of the fixed infrastructure, currently covering 28 million households with high-speed VDSL internet access.

In addition, Telefónica Deutschland Group benefits from all Deutsche Telekom's future network improvements such as an increase in VDSL coverage and higher speeds based on new technologies like vectoring.

With these assets, Telefónica Deutschland Group is in an excellent position to provide full service offerings to consumer as well as business customers.

Handset Business: State-of-the-art products, services & financing offers

We sell a large variety of mobile phones and other hardware to our customers independently of mobile communications contracts. The best example is our successful "O_2 My Handy" model. Here, the customer can choose whether to pay the entire price upfront or to make a down payment and pay the remaining purchase price in twelve or 24 monthly instalments. For the customer this approach provides price transparency with regards to the cost of both the mobile phone and the telecommunication services contract. Customers can choose from a large variety of mobile phones including the latest premium devices and benefit from attractive payment conditions and the possibility to replace their device outside the 24 months cycle of a mobile service contract.

Our main suppliers of mobile phones are the manufacturers Samsung, Apple, HTC, Sony and Huawei. We focus on the sale of LTE-enabled smartphones, as a result, the penetration of customers with LTE enabled handsets and LTE tariffs has grown by 5 percentage points reaching around 33 %[1] of our customer base. We are serving the growing demand for mobile data services among customers of our secondary brands via a large range of affordable entry-level smartphones.

In order to make our offers related to smartphone packages more attractive to customers, we also offer additional services and products. This includes smartphone insurance services, antivirus protection or state-of-the-art add-on products. Good examples are the commercialisation of virtual reality glasses (Samsung Gear VR) and smartwatches. To a minor extend smartwatches supporting the eSIM standard (e.g. Samsung Galaxy Gear S3) have been put on the market. The eSIM standard has been developed by the GSMA (Global System for Mobile Communications Association) in cooperation with Telefónica S.A. Group and other telecommunications companies. It enables smaller device sizes and a lower energy consumption. Furthermore, the eSIM standard increases flexibility for consumers and is an enabler for the future development of the IoT business.

In the first half of 2017, sales of smartphones and tablets slowed down and revenues declined slightly by 2.2 % versus the same period in the previous year in line with overall market trends of longer handset lifecycles and new customers using lower-priced handsets. The handset business contributed with EUR 482 million 13.6 % to Telefonica Deutschland Group revenues in the first half of 2017.

1 Based on mobile accesses excluding M2M accesses.

Our Market Areas

We are improving the market positioning of our premium brand O_2, particularly in order to gain high-value customers in the consumer and business customer market areas. In addition, Telefónica Deutschland Group is the leading wholesale provider in Germany. We offer our wholesale partners access to our infrastructure and to our services.

In order to maximise the advantage from scale, we market our products using a diversified sales approach. This includes direct sales channels such as our own shops, a nationwide network of independently operated franchise and premium partner shops, online and telesales plus indirect sales channels such as partnerships and cooperations with retailers in physical or online channels.

Private customer: Value Management & Sustain Leadership

The O_2 brand is market leader in the consumer postpaid market according to accesses in Germany. As a trailblazer in the German market, our strategic focus has been on the sale of data-centric mobile telecommunications contracts to smartphone users like our "O_2 Free" proposition and the promotional offer launched in May to celebrate the 15th anniversary of the O_2 brand "O_2 Free 15" (>GOALS AND STRATEGY). On the back of their growing use of mobile data services, together with an increasing uptake of LTE-capable devices, these customers generate higher revenues compared to users without a smartphone. We are also seeing rising interest in smartphones and the use of mobile data in the prepaid area, where we offer special prepaid tariffs for smartphone users.

Furthermore, we include in our offer portfolio innovative services like the O_2 Banking proposition, the O_2 TV & Video App and our partnership with Sky, which gives O_2 customers affordable access to exclusive sports events, movies and series since the beginning of 2017 (>GOALS AND STRATEGY).

Business Customer: Focus on small and medium-sized enterprises (SMEs)

We address SMEs as well as small office/home office (SoHo) through our premium brand O_2, for example with our innovative products like "O_2 Free Business" or "O_2 Unite". The "O_2 Unite" proposition offers our customers a drastic cost reduction by pooling SMS, minutes and data volumes for all employees of a company with flexible management.

Another example of products that meet the needs of our business customers is the "Digital Phone". This is a cloud-based telephony system that offers the customer flexible usage (e.g. single telephone number independent of the location and hardware of the employee), high quality service (e.g. secure communications through German data centres) and savings (e.g. low infrastructure requirements, flatrates and flexible adaptation of number of licenses needed).

Our aim to increase our market share among business customers is based on the right products and services as well as the continuous improvement of our network quality. After finalising the business customer migration from E-Plus to O_2 we have put our focus on growth, especially among SME customers.

An important lever to increase our share among SME customers in fixed-line products is our All-IP offer. This is a scalable and flexible offer for Business customers. It is an opportunity especially for companies with their own in-company telephone systems that face the shut-down of Deutsche Telekom's ISDN infrastructure platform in 2018. O_2 offers a flexible product portfolio ensuring cost efficiency for the customer as they can keep their central equipment and obtain high quality services.

Within the business customer market area we offer our machine-to-machine-communication (M2M) managed connectivity services. This business line currently contributes to mobile service revenues to a minor extend however, in the future we want to further expand.

The managed connectivity, part of the IoT, is a very dynamic market with an expected double digit annual growth in customer base[2]. Telefónica Deutschland Group continues to successfully expand its customer base with significant customers in 2017, such as PAKETIN GmbH, who offers an M2M enabled service for secure parcel delivery and pick up at home even when the user is not present. We also offer our internally developed award winning platform Smart M2M to simplify the management of IoT devices.

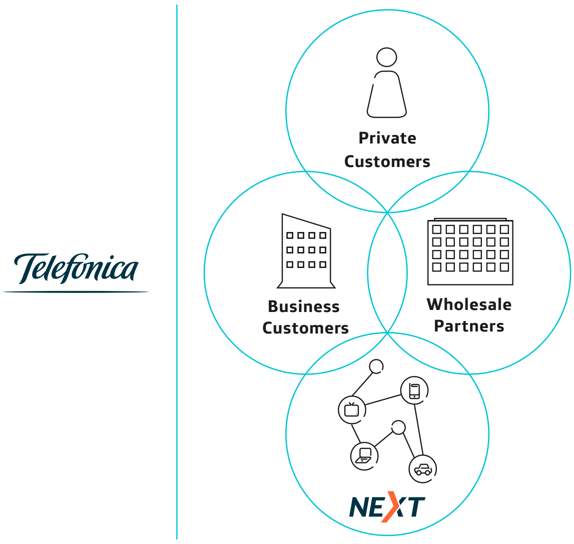
Wholesale Partners: Maintain Leadership

As part of the wholesale business, we offer mobile services for customers such as MEDIONmobile (ALDI TALK), United Internet (1&1), mobilcom/debitel, WhatsApp and cable providers. In addition, we have committed to selling 20 % of our mobile network capacity via mobile bitstream access (MBA) to MS Mobile Service GmbH (Drillisch), as part of the merger remedies. Drillisch also has the option to acquire up to 10 % of additional network capacity.

In the fixed line business, we offer our existing wholesale partners a range of “unbundled local loop” (ULL) services, including fixed line telephony and high-speed Internet. However, we will phase out this model by 2019 as part of the transition to the next generation fixed network of Telekom Deutschland GmbH.

In this context, we offer value added services, such as billing services or the administration of phone numbers as well as a network protocol to establish a network connection (e.g. voice over IP), known as SIP accounts. This comprehensive portfolio enables our wholesale partners to independently serve their consumers and, at the same time, gives us the opportunity to increase our range and leverage economies of scale.

G 04 — Our Market Areas



Telefónica NEXT: Internet of Things (IoT) and Advanced Data Analytics (ADA)

In 2016, we created Telefónica Germany Next GmbH (>GOALS AND STRATEGY) to drive innovation in the use of data analytics and the IoT space. The company combines the strengths of Telefónica Deutschland Group and the agility of a start-up company.

With Telefónica NEXT, we address the great economic and social potential of the IoT (with a focus on B2B2C solutions) and ADA. We develop solutions that contribute to the digital transformation of our economy by helping our partners to make their products smarter, to better understand and approach their customers, as well as to improve their internal processes.

With the takeover of the Berlin-based start-up Minodes in May 2017, Telefónica NEXT strengthens its competence in intelligent data analysis for brick and mortar retail. The core competency of Minodes is the analysis of anonymised customer flows within a shop. This provides offline retailers with the analytical and marketing possibilities of online retail. It allows them to better tailor their offers to the needs of their customers and to provide a better shopping experience. The applications will be integrated into the data anonymisation framework of Telefónica Deutschland.

2 Machina Research IoT Forecast May 2016

Furthermore, Telefónica NEXT has established a partnership with Synergic Partners S.L., a 100 % Telefónica, S.A. subsidiary specialised in consulting for big data strategies. Through the cooperation Telefónica NEXT is comprehensively expanding its consulting services in the area of advanced data analytics.

Goals and Strategies

Our vision is to become the leading digital "onlife" telco in Germany./ We are increasingly shifting the focus from integration to transformation./ We strive to deliver the best customer experience with innovative offers./ We keep market momentum on the back of successful data monetisation and an excellent price-value performance ratio./ We continue to improve our networks with the roll-out of LTE./ Innovation, digitalisation and cost efficiency are key enablers to achieve these goals.

From integration to transformation: Our path to become the leading digital "onlife" telco in Germany
During the first half of 2017, we have consistently pursued our vision to become the leading digital "onlife" telco in Germany by 2020: a telecommunications company that goes beyond the provision of connectivity but plays a central role in the digital lives of its customers. The achievement of major integration milestones in 2016 has enabled us to shift the focus increasingly to this fundamental transformation.

Integration milestones

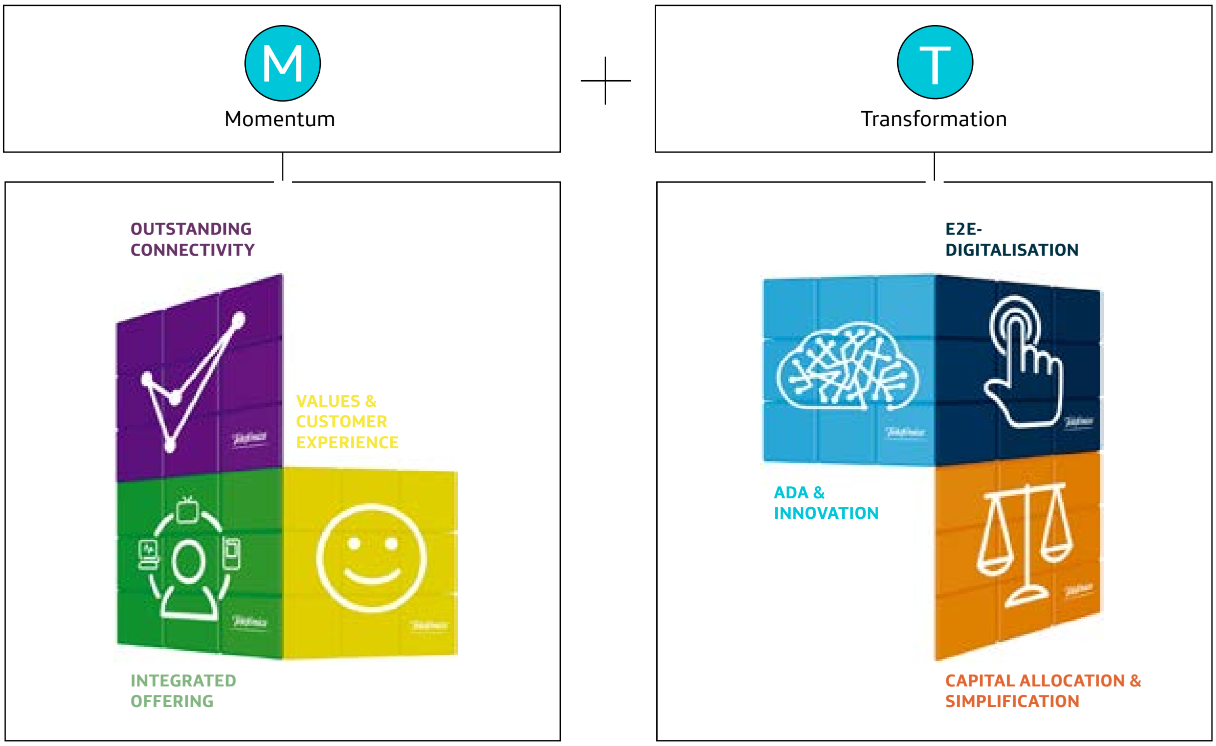
In 2016 we successfully finalised integration activities such as the completion of customer migrations, the optimisation of our brand portfolio, the simplification of our IT operation model or the creation of a common customer service and sales structure. Our core project in 2017, network consolidation, is progressing well. During the first half of the year, we have already finalised the consolidation in a number of areas in Southern Germany and are continually pushing ahead with the integration effort aiming for steady quality gains. Furthermore, we also continue to work towards completing the outstanding integration workstreams, such as the remaining FTE restructuring and shop/facility optimisation, where we are progressing according to plan.

Our corporate strategy so far has been based on three pillars: We keep the momentum, integrate quickly and transform the company. Due to the rapid integration process and the finalisation of major integration projects, our focus has now shifted to transforming the company while maintaining momentum in the market (M+T). The implementation of this strategy takes place in six dimensions: Values & Customer Experience, Integrated Offering and Outstanding Connectivity form cornerstones of 'Momentum', while End-to-End Digitalisation (E2E), ADA & Innovation and Capital Allocation & Simplification are key factors for 'Transformation'.

We are shaping our transformation towards the leading digital "onlife" telco. Our target organisation is based on a network and IT factory providing connectivity and data analytics, and on market units packaging these raw materials into attractive services and products for our customers. In addition to our existing B2C, B2B and B2P market units, we are also stepping up our efforts in the new growth areas ADA and IoT. The latter have been integrated into our subsidiary Telefónica Germany Next GmbH. We are also driving the E2E digitalisation of all company areas and processes in order to offer our customers the best services in the most efficient way.

The business model of the leading digital "onlife" telco is based on the provision of data connectivity as well as the intention to leverage insights on how these data services are used. These insights enable us to address the needs of our customers with attractive products and services in real time. This transformation will enable us to keep our momentum in a challenging and highly competitive market.

G 05 — Momentum and Transformation



We are keeping the Momentum ...

Values & Customer Experience

We strive for the best customer experience by continuously challenging the traditional mobile industry. This is reflected in innovative propositions such as our new premium proposition O_2 Free, our new prepaid and DSL portfolios, our commitment to our customers with the campaign pledge “Mehr O_2” and our principle of customer proximity through an excellent retail network and increasingly important online channels.

O_2 Free

The launch of O_2 Free has been a major milestone due to its disruptive approach to the market. O_2 Free offers customers unlimited data connectivity while also offering an excellent price-performance ratio for our customers. This proposition is available to both consumer and business customers and clearly differentiates Telefónica Deutschland Group from the competition. It also helps us to monetise our strong network assets. We work continuously into the evolution of our O_2 Free proposition. The best example is the offer to commemorate the 15th anniversiary of the O_2 brand. With O_2 Free 15 our customers profit from 15 GB per month at our LTE max speed for a monthly fee of EUR 29.99 before profiting from the unlimited 3G data at a speed up to 1 Mbit/s, sufficient for streaming, messaging or surfing the internet.

O_2 Prepaid

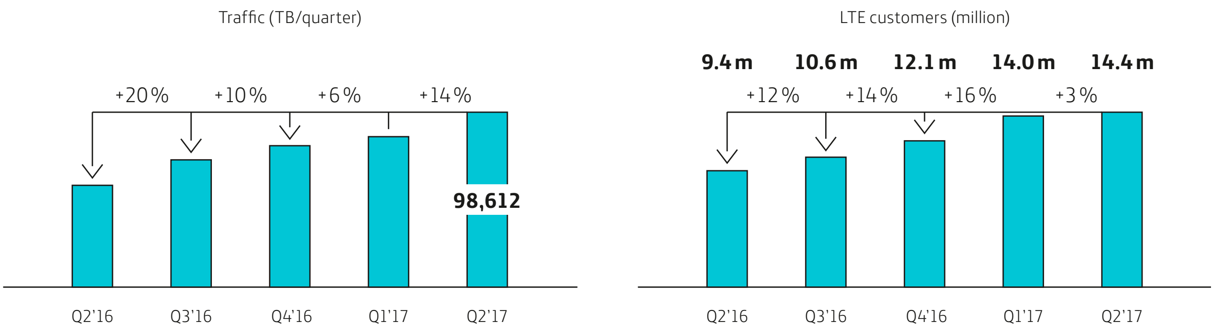
Since March 2017, our prepaid customers benefit from the new O_2 Prepaid Smart portfolio. This includes more data and EU Roaming and even voice & SMS flat rates depending on the selected tariff. Furthermore, with O_2 Prepaid All-in, our prepaid customers will also benefit from the promotional offers to celebrate the 15th anniversary of O_2.

Data Monetisation

The demand of our customers for data is constantly increasing. With these unique propositions, we continue to support our focus on stimulating data usage and data monetisation while at the same time providing better products and services to more customers.

Data traffic revenues are one of the key components of our mobile service revenue. Our successful data monetisation strategy is validated by the dynamic growth of data usage. We have compensated the decrease in SMS revenues with other data revenues. The share of non-SMS data traffic revenues has grown by 4.5 percentage points versus H1 2016.

G 06 — Data traffic/LTE Customer base



We have also expanded our LTE customer base (+ 53 % versus H1 2016) further to 14.4 million customers as of 30 June 2017.

O_2 DSL

In April 2017, we have also launched our new DSL portfolio that offers faster and more flexible services to our customers for example regarding the selection of hardware. Our entry tariffs have been upgraded with a significant increase in the offered bandwidth, for example the O_2 DSL S option includes now 25 Mbit/s in download instead of 16 Mbit/s offered in the older equivalent O_2 All-in S. With O_2 DSL L, our customers can profit from 100 Mbit/s in download speed thanks to VDSL for only EUR 24.99 per month during the first year.

Customer Loyalty

In the context of our focus on leveraging the existing customer base, we continue rewarding our customers for their loyalty with initiatives included in our programme "Mehr O_2" launched in mid-2016. These include from one-time drawing actions (including state of the art gadgets like the iRobot Roomba or wellness weekends) or special services like a Premium hotline or free SIM card replacements, depending on the status of the customer (bronze, silver or gold).

This focus on our customer experience has been reflected in a lower churn rate for postpaid and prepaid to an average of 1.9 % in 2017 (H1 2016: average 2.3 %) after the finalisation of a massive customer migration process.

Customer Proximity

We have further enhanced the customer experience by upgrading services in our nationwide retail network. During the first half of 2017, we have continued to increase the number of our concept stores. Our O_2 Gurus provide the customer with useful insights and workshops on digital lifestyle. In line with these efforts, we were awarded the first position in the category "shop advice" by the established consumer organisation "Stiftung Warentest" in 2016. We complement the retail store experience by expanding and enhancing the digital support for our customers. As an example, we offer access to our O_2 Gurus online by means of video chat or webinars on specific topics.

We also realise that a growing number of customers prefer enhanced digital interaction and self-care capabilities. Ensuring a seamless digital experience for our customers is therefore an important part of the transformation process. We are proactively increasing the share of digital customer contacts by improving our digital channels. We expect this to result in a significant reduction of our customer services cost over the next years. During the first half of 2017 we have continued to increase the share of O_2 postpaid customers acquired via digital channels compared to the same period in the previous year.

A key element of our strategy is the further roll-out of our omni-channel approach. It is our goal to ensure that all channels are closely interconnected. This will also ensure that customers can, for example, choose a smartphone or tablet online and then have it set up and collected from a store.

Furthermore, in order to offer our customers a top service experience, we have increased our resources for the hotline and chat service channels. This leads to clear improvements in KPIs such as waiting times and reachability of our customer service. In 2017, we will continue working on enhancing our service capabilities.

Integrated Offering

We go beyond the provision of fixed and mobile connectivity by offering relevant digital services which address the real needs and preferences of our customers such as the digital propositions around our digital business lines Mobile Video and Mobile Banking. Our fixed-mobile converged offer is marketed under our brand O_2.

O_2 TV & Video offers our customers access to live TV content from over 70 channels and to catch-up TV services from public broadcasters. Furthermore, the service includes HD channels as well as the recommendations and TV guide from TV Spielfilm, the leading electronic programme guide in Germany. With this innovative offering, we address our customers' preference to access TV content independently of their device (smartphone, tablet or TV) wherever and whenever they want. We have upgraded this service with a state-of-the-art recommendations engine and we will continue working on additional features

We continue our cooperation with Sky Deutschland to further enhance our attractive content offer. O_2 customers have special conditions to the flexible Sky Ticket offers. With the Sky Supersport daily, weekly or monthly ticket our customers will gain access to Bundesliga, UEFA Champions League and Europa League, as well as Formula 1, handball, golf and other exclusive live sport events. With the Sky Entertainment or Cinema monthly tickets the customers are able to enjoy during one month exclusive series, movies and entertainment at any time in the day. This cooperation reinforces our customer oriented offer with a unique proposition in the German market.

With O_2 Banking, the first mobile-only bank launched by a telecommunications company in Germany and launched in cooperation with Fidor Bank AG, we provide an outstanding digital experience. O_2 Banking enables the full usage of the smartphone as a bank account, e.g. by enabling money transfers using only the mobile number of the recipient instead of the IBAN. Further advantages are the quick and safe sign-up process, a free contactless Mastercard for ATM withdrawals and payments in shops or online, advanced security features and a personal finance manager. A smart and innovative feature of O_2 Banking is the additional data volume for O_2 customers who are actively using the linked Mastercard. During the first half of 2017, we have continued to expand the capabilities of O_2 Banking for example with the introduction of biometric authentication options for SecureCode based online payments or the possibility to share the generated volume also with friends and family.

O_2 Banking has received multiple awards since we launched it. For instance, it has recently been lauded as the "Best Mobile Banking 2017" by bankingcheck.de.

Outstanding Connectivity

Our network is the most important asset to achieve the best customer experience. Telefónica Deutschland Group utilises a strong network which we continue to develop. Our network strategy is focused on providing reliable, high-quality network connectivity to support the everyday digital lives of our customers. We are therefore pressing ahead with the consolidation of our networks, which we aim to largely complete by the end of 2018.

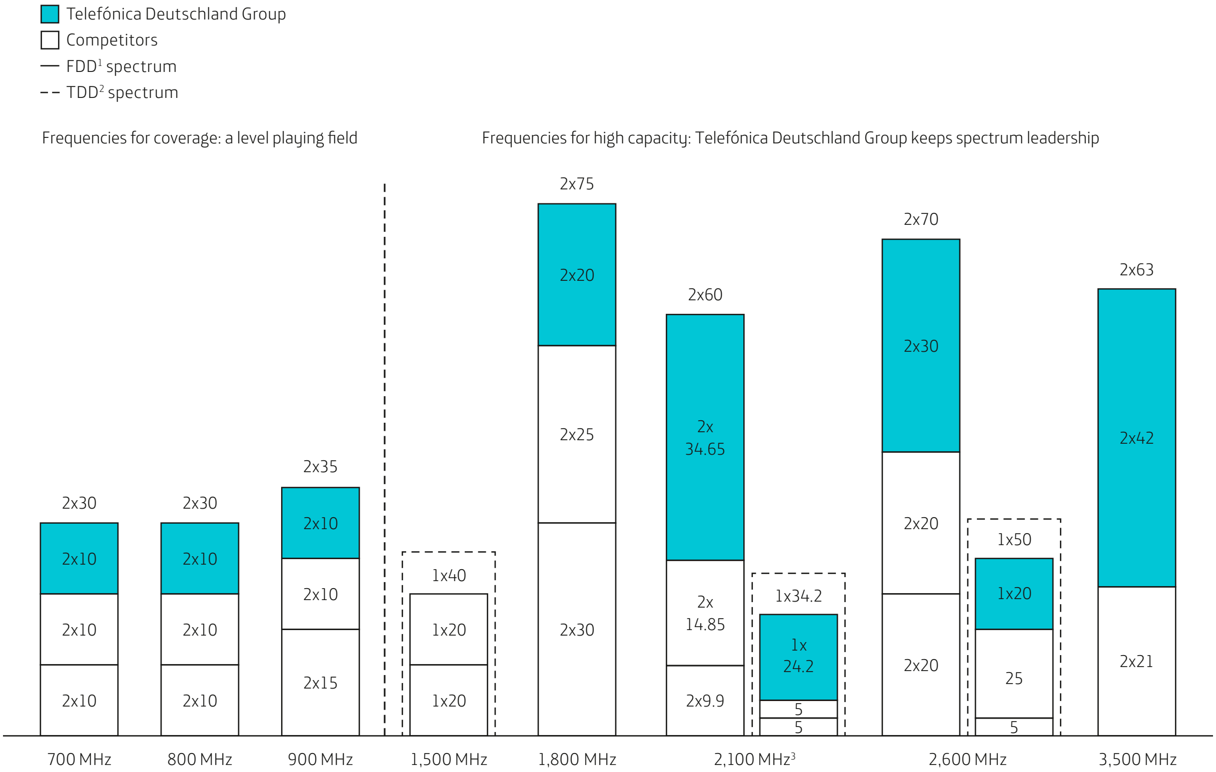
In line with this strategy, our network has received positive ratings in user-based network tests. According to the results of the Connect-"Netzwetter" test as of November 2016, based on direct user experience reported via app, Telefónica Deutschland Group offers the best combined 4G/3G coverage and shows the highest improvement in 4G amongst German mobile network operators.

We offer the customers of all our brands and partner brands the best UMTS network infrastructure in terms of coverage according to the Connect-"Netzwetter" test. This has improved the user experience for mobile data services even in areas where our customers did not yet have LTE.

As we continue to consolidate our networks, one of the largest projects of its kind in Europe, we are also further expanding our 4G network. It reached a coverage of the German population over 80 % at the end June 2017. Our strategy is to continue with this dual focus on network consolidation and LTE roll-out. In summary, we aim to operate an efficient network able to meet our customers' demands and to support our customer propositions. This means that in 2017 and 2018 we will continue to roll-out our LTE 800 MHz network and to accelerate the roll-out of LTE 1,800 MHz. Customers will therefore benefit from even better coverage and higher speeds.

We are also in an excellent position with our spectrum portfolio. Telefónica Deutschland has access to 357.5 MHz of spectrum with a good balance between frequencies providing coverage (low frequencies) and those providing capacity (high frequencies). Compared with our competitors, we are ideally positioned to drive future network developments.

G 07 — Frequency bands for mobile operators in Germany



1 FDD = Frequency Division Duplex.
2 TDD = Time Division Duplex.
3 So called "UMTS core band" also referred as 2 GHz band by the Federal Network Agency.

In 2017 we have launched a new software, SON – synonymous for Self-Organising Network – enabling flexible network capacity management with a focus on real-time capabilities. Our Service Operations Centre, which we set up in cooperation with Huawei, further supports our ability to react to customer demand fluctuations fast and effectively. Customer service is the key principle of our network development plan.

In terms of products, we are continuously increasing the number of devices supporting the native voice over wifi. With this feature, customers are able to automatically use the wifi network to which they are connected for outbound or inbound calls. The product also offers a seamless transition from wifi calling to the mobile network without interrupting the call. We have thus been able to significantly improve customer experience by increasing indoor coverage in a seamless and simplified way. We also cooperate with Huawei to define future communication networks. In April 2017, we have reached transmission speeds of 1.65 Gbit/s during the trials we are running in our testing environment 'TechCity' in Munich.

Furthermore, Telefónica S.A. Group is involved in the definition of the future 5G technology standards via its participation in international initiatives like NGMN (Next Generation Mobile Network), METIS2020 (a European Union research and development programme) and the 5GPPP Initiative allowing us to be at the forefront of technological innovation.

... and we are transforming the company

E2E Digitalisation

Digitalisation is a core lever to increase customer loyalty and satisfaction while sustaining our focus on cost leadership. This starts at the very beginning of the customer journey by enabling customers to manage their services via digital channels (e.g. online portal or application) and continues to the back office, where all processes need to be digitalised to ensure maximum flexibility and efficiency. An example is the continuous evolution of the "Mein O_2" application. In April 2017 we enabled the early selfcare functionalities for new DSL customers. This includes information on order status and hardware tracking across all channels. All in all, digitalisation is a key element for our transformation. It impacts all our internal processes and capabilities as well as the way we will interact with customers and what we will offer them.

During the 2017 Mobile World Congress, Telefónica, S.A. presented the 4th platform which makes cognitive sense of all the data flows generated by the networks and other physical assets of the company (1st platform, Telefónica's core asset), it's unified IT systems (2nd platform), as well as the products and services it offers to its users (3rd platform). These smart platforms will imply a major qualitative leap in the customers' experience with the company as well as higher efficiency.

This has also implications for the way the customer interacts with the company. Aura is the core of the 4th platform and a digital brain that also serves as the ground for customer interaction. Aura will enable users to manage their digital experiences with the company and control the data generated by using Telefónica's products and services in a transparent and secure manner. Furthermore, Aura will allow the customer to interact with Telefónica via voice-based customer interfaces.

Telefónica Deutschland Group works closely with Telefónica, S.A. to exploit the advantages of Aura for the interaction with our customers and to enhance our capabilities.

ADA & Innovation

A key enabler for our transformation to the leading digital "onlife" telco is the way we work, protect and manage the growing amounts of customer data in order to generate value for every member of society as well as to create new business opportunities.

Our focus on data is reflected in the creation of Telefónica NEXT. This is the main initiative to address the revenue potential in the areas of ADA and the IoT for business-to-business-to-consumer (B2B2C) solutions.

Telefónica NEXT provides businesses and public institutions with actionable consumer insights, helping to better address their customers' needs. In the area of *Transport Analytics* we leverage anonymised data from the largest mobile subscriber base in Germany to solve our partners' business needs. We completed projects for transport planning in Stuttgart and Hamburg and to measure air pollution in Nuremberg. In 2017, our pilot project for the city of Nuremberg has been awarded with the "German Award for Excellence" in the sustainability innovation category. The value of our data in traffic planning has been confirmed by Fraunhofer IAO in a study.

Furthermore, we help our partners approach their customers in more targeted ways, providing relevant offers when and where they are needed. Within our Smart Media area in Telefónica NEXT, we combine location-based mobile messaging and mobile display advertising solutions including O_2 GET, recently launched in cooperation with people.io. Users can decide for themselves which personal information they like to enter into their O_2 GET account, and also which companies and brands within the app they want to interact with. They can track how this data is used transparently and are rewarded for sharing data within the app. The partner brands profit from the capability to address well defined groups with relevant offers while the user is always in control of his information. Our O_2 GET-offer is oriented on the values of the 4th platform due to data ownership and transparency.

We are also making consumer products smarter, by removing existing barriers of complexity and lacking interoperability in current IoT ecosystems. Within our *Consumer IoT* area, we created the Geeny cloud platform. In combination with a trusted partner ecosystem, Geeny provides support with all components needed for innovative IoT solution development, from ideation and concept design through developing, market testing and rollout.

With *Retail Solutions*, we bundle ADA and IoT competencies to offer comprehensive solutions for retailers. We provide retailers with deep customer insights on in-store and out-of-store behaviour and enable targeted communication and customer interactions along the entire retail customer journey. The recently acquired start-up Minodes (>**BUSINESS ACTIVITY**) is strengthening this omni-channel approach further. Identifiying and comparing the best retail sites for individual target groups based on data is also part of the offer.

Telefónica NEXT offers solutions to make our partners' services more comfortable with *Data Innovations*. Our products can help to use online services with secure and simple sign-up processes.

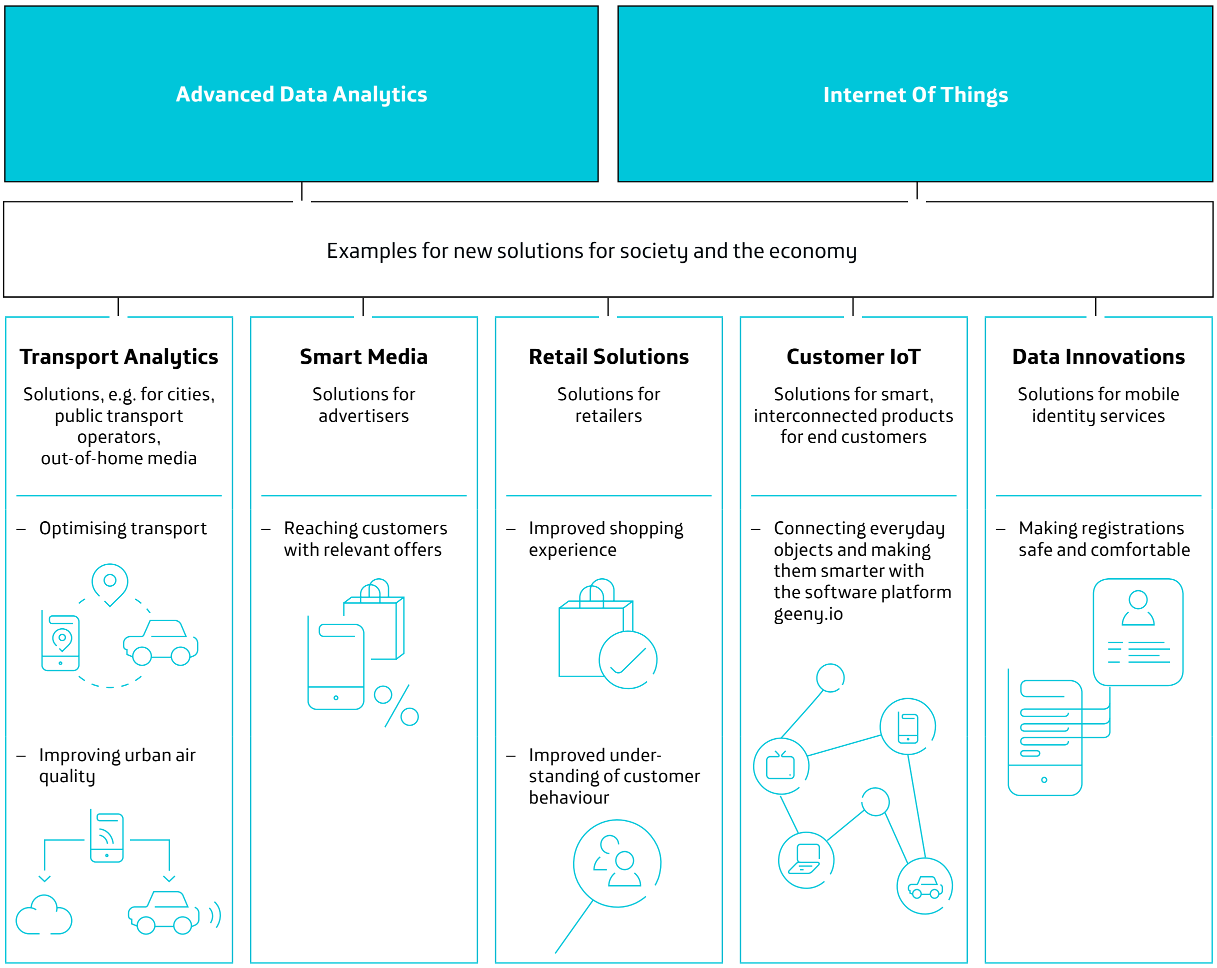
A prerequisite for the use of our customer data is ensuring data privacy and security. We ensure data security and privacy by various means such as our own developed Data Anonymisation Platform. Furthermore, our vision is to give data back to the customer. Our aim is to let our customers choose what data to share and ensure the highest possible transparency for the use of our customer data. For example, our customers can choose to book services like O_2 More Local (part of Smart Media), by which they receive special offers based on their location.

As part of the Telefónica, S.A. Group, innovation is at the heart of our core values. Both companies which in 2014 were merged in 2014 into the new Telefónica Deutschland were known for innovation and for setting new trends in the market. These included establishing multi-brand strategies and new types of tariff models, in addition to introducing and operating brands for partners from other industries. We expect to reinforce the role of innovation in our organisation. This is best exemplified by the launch of O_2 Free and O_2 Banking as well as by our cooperation with Huawei, our role in the definition of the eSIM standard or Telefónica NEXT's consumer IoT platform Geeny.

Furthermore, we leverage "open innovation" approaches to drive innovation, including the acceleration of start-ups and investments into growth companies. These activities are conducted as part of the global Telefónica, S.A. Group initiative 'Telefónica Open Future', which supports technological talent and entrepreneurship, helping to turn innovative ideas into successful businesses and thereby securing access to new business models.

Since 2012, Wayra Deutschland, based in Munich, accelerates start-ups by developing their business models and bringing them to market maturity. This includes cooperations and pilots with Telefónica Deutschland. Among the start-ups accelerated by Wayra are companies such as 5Analytics, which uses artificial intelligence to automate business processes. In 2017, the global enterprise IoT platform provider Relayr acquired Neokami, a Wayra backed start-up dedicated to data securiy for artificial intelligence. Furthermore, NFWare and Walletsaver, two start-ups accelerated in Wayra

G 08 — Telefónica NEXT: Data-based growth areas
Telefónica Germany Next GmbH



Deutschland, obtained additional funding from external investors.

In addition to Wayra, we use the venture capital company Shortcut Ventures to support more mature growth companies. Shortcut Ventures invests in young entrepreneurs with new ideas and visions for the markets of tomorrow. They are provided with risk capital and direct personal access to relevant business expertise and the experience of an expert team. Shortcut Ventures holds a stake in these companies of up to 29 %. Examples of Shortcut Ventures' investments include So1 GmbH, Berlin, and SumUp Payments Limited, Berlin. So1 GmbH is the first company that enables brands to offer programmatic price promotions within So1's retailer network, while SumUp is the leading mobile point of sale (mPOS) system in Europe and Brazil enabling businesses to accept credit and EC card payments via their mobile device.

Capital Allocation & Simplification

We can only strive for the best customer and network experiences if we operate in an efficient manner. This means we require a lean organisation that is agile enough to quickly react to changes in customer demands and technologies. Digitalisation is a main lever to achieve this but first we need to ensure we have optimised our processes. For that reason we have also set our focus on simplification measures in combination with digitalisation. This includes most of our integration initiatives, but also our focus on CRM and HR systems standardisation. For example, we have optimised our systems so that our new DSL customers will be managed from the same IT system as the mobile customers. This will support efficiency gains as well as better customer experience as the customer will have access to mobile and DSL products from the same account in our portal and application and will receive a single invoice for both services.

Altogether, we have set up a transformation programme that combines digitalisation, simplification and customer orientation. This will support our vision to become the "onlife" telco while providing an attractive return on investment for our investors and driving momentum in an attractive market.

Structure of the Telefónica Deutschland Group

Telefónica Deutschland Holding AG is a stock corporation (AG) under German law located in Munich, Germany.

Telefónica Deutschland Holding AG is the parent company of the Telefónica Deutschland Group. It is included in the Consolidated Financial Statements of the ultimate parent company, Telefónica, S.A., Madrid, Spain (Telefónica, S.A.; its group: the Telefónica, S.A. Group). The direct parent company of the Telefónica Deutschland Group is Telefónica Germany Holdings Limited, a wholly owned subsidiary of O2 (Europe) Limited, Slough, United Kingdom (O2 (Europe) Limited), and an indirect subsidiary of Telefónica, S.A.

The financial year is the calendar year (1 January to 31 December).

The company is listed on the Regulated Market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX, the International Securities Identification Number (ISIN) is DE000A1J5RX9.

The registered share capital of Telefónica Deutschland remains unchanged at EUR 2,974,554,993. The share capital is divided into the same number of no-par value registered shares, each accounting for a pro rata amount of the share capital of EUR 1.00 ("shares"). In general, each no-par value share grants one vote at the Annual General Meeting.

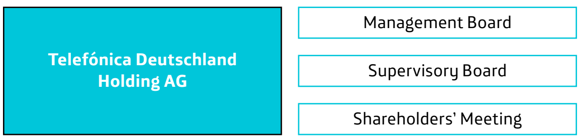
Telefónica Deutschland has an Authorised Capital 2016/I in the amount of EUR 1,487,277,496 as of 30 June 2017.

The share capital of Telefónica Deutschland Holding AG is conditionally increased by up to EUR 558,472,700 by issuing up to 558,472,700 new no-par value registered shares (Conditional Capital 2014/I).

Management and governing bodies

The company has the following management and governing bodies:

G 09 — Management and governing bodies



The powers of these bodies are established by the Aktiengesetz (AktG – German Stock Corporation Act), the articles of association of the company and the bylaws of the Management Board and the Supervisory Board.

Management Board

The members of the Management Board may be appointed by the Supervisory Board for a period of no more than five years and re-appointed without limitation, in each case for no more than five years. As of 30 June 2017, the company's Management Board comprised two members:

- Markus Haas, CEO (Chief Executive Officer)
- Rachel Empey, CFO (Chief Financial and Strategy Officer)

Supervisory Board

In accordance with section 11 (1) of the articles of association of the company, sections 95 and 96 AktG and section 7 of the Mitbestimmungsgesetz (MitbestG – German Co-Determination Act), the Supervisory Board comprises 16 members, of which eight are shareholder representatives and eight are employee representatives.

All of the current shareholder representatives on the Supervisory Board were elected for a period with effect from the end of the Annual General Meeting on 9 May 2017 until the end of the Annual General Meeting resolving on the ratification of the Supervisory Board's actions for the fourth financial year after the start of their term, not taking into account the financial year in which their term commences.

Economic Report of the Group_

Overall Economic and Industry Conditions

The German economy is continuing to enjoy solid growth./ Growth opportunities are emerging from the rising demand for bandwidth./The German mobile market is the largest in the EU in terms of customer numbers./Our markets continue to be characterised by intense competition./The Telefónica Deutschland Group is exposed to numerous regulatory influences.

Solid economic development in Germany
The German economy remains on its growth path: According to calculations by the German Federal Statistical Office, gross domestic product (GDP) adjusted for calendar effects increased by 0.6 % in the first quarter of 2017 compared with Q4 2016. Positive effects on a quarter-on-quarter comparison came from both domestic and abroad. German consumers displayed extremely positive sentiment in the first months of 2017 despite global economic setbacks. In May 2017, the indicator of economic expectations improved for the third time in succession to reach the highest level for two years. Income expectations also continued to improve on the back of the extremely positive situation on the German labour market: According to the German Federal Statistical Office, 43.7 million people were employed in Germany in the first quarter of 2017.

Trends on the German telecommunications market bring growth potential
The telecommunications industry is a major trailblazer for digitalisation, a process that is advancing and changing the world for the long term. This is leading to various trends in the telecommunications market:

The use of mobile devices such as smartphones, tablet computers and wearables is extremely important. The smartphone has developed from a communications device into a universal mobile companion. 61 % of people cannot imagine life without a smartphone, and the figure for 14- to 29-year-olds is as high as 70 %. Numerous services and apps, such as messaging and surfing the Internet, are now considered to be indispensable by a majority of Germans. On the one hand, smartphones are replacing products like digital compact cameras, mobile navigation devices and mp3 players. On the other hand, they are driving development on the market as interconnection with other devices opens up new growth areas. The smartphone is establishing itself as the control centre for other networked devices, and the range of potential applications is growing with every passing year. For example, smartphones can be used for the wireless transfer of music to multi-room systems, or smart TVs can be operated using an app. Household devices can also be activated and controlled remotely by smartphone. Wearables introduce additional functions and intelligent sensors to the smartphone concept.

In addition to connecting people, the intelligent connection of things via the internet (IoT) offers numerous application and growth opportunities, such as Industry 4.0, connected cars, smart health, smart energy and smart cities. Another trend is data analytics, which is facilitating new insights as well as new business models.

Demand for mobile data services and increased competition drives market development
With 117.5 million customers (SIM cards) at the end of March 2017, the German mobile telecommunications market is the largest in the EU. The notional mobile penetration rate was 143 %, i.e. each German citizen has an average of 1.4 mobile SIM cards. The customer growth from January to March 2017 remained attributable primarily to the more valuable postpaid sector. Overall, postpaid customers made up 53.4 % of total connections as of the end of March 2017. This share had been 52.5 % at the end of March 2016.

The mobile telecommunications market continued to develop dynamically in the first half of 2017, driven primarily by the strong demand for attractive smartphones and smartphone tariffs. According to a survey by the industry association Bitkom, 78 % of German citizens aged 14 or older used a smartphone as of the start of 2017. However, a slowdown in the growth of the smartphone market can be observed, driven by its increasing saturation and the fact that smartphones are being used for longer. According to the German Association for Consumer and Communication Electronics (gfu), around 6.85 million smartphones were sold in the period from January to March 2017, equating to a drop of over 2 % compared with the same period of the previous year.

Mobile media use resulted in growing mobile data usage. According to the German Federal Network Agency (BNetzA), 918 million GB of data were transmitted on mobile networks in 2016, or 60 % more than in 2015 (575 million GB).

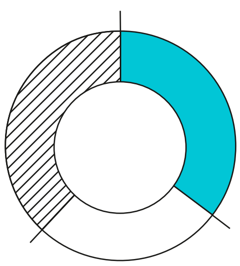
The increasing penetration of mobile end-devices with internet capability, such as smartphones or tablets, and the increasing use of mobile data services are also evident in the strong growth of revenues from mobile data in the German market: according to figures from Ovum, mobile data revenues increased by 10 % in 2016 compared with the previous year, with year-on-year growth of 13 % forecast for 2017. By contrast, revenues from mobile telephony and SMS have fallen, driven by price decline, regulatory effects and changes in customer behaviour (>OVERVIEW OF THE FIRST HALF OF 2017).

Sources: Company Data, Analysys Mason, Bundesbank, Bitkom, BMWI, Federal Statistical Office

The German mobile telecommunications market is an established market

Following the merger of the Telefónica Deutschland Group with the E-Plus Group, the German mobile telecommunications market consists of three network operators and several service providers and mobile virtual network operators (MVNO). As of the end of March 2017, the Telefónica Deutschland Group had a market share of 38.0 % with 44.7 million connections. It is therefore the largest German mobile telecommunications network operator in terms of number of customer connections.

G 10 — Market share in the mobile telecommunications market per customer (in %) at the end of March 2017



Source: Company Data/Quarterly Reports

German fixed line market characterised by strong competition

Intense competition also still prevails on the German market for fixed line broadband services. The number of connections increased by 3.1 % compared to the previous year; the customer base therefore grew to 31.5 million by the end of December 2016. This growth was driven in particular by cable and VDSL lines. Cable connections now account for more than 23 % of this figure. VDSL is also enjoying strong growth. According to BNetzA figures, around 7.2 million customers were using VDSL at the end of 2016, 50 % more than one year earlier. The increased customer demand for more bandwidth is also reflected in the data volume generated per broadband connection and month. According to BNetzA, this increased by 28 % compared with 2015 to 60 GB per connection.

Sources: Analysys Mason, BNetzA

Regulatory Influences on the Telefónica Deutschland Group

The following section shows the material new decisions and additions to the Group Management Report for the financial year ended 31 December 2016 in the section "Regulatory influences on the Telefónica Deutschland Group".

Frequencies

BNetzA continues procedure for the provision of new frequencies for the further expansion of digital infrastructures

In March 2017, the Telefónica Deutschland Group and other interested parties issued statements in good time on the points of reference for the provision of frequencies for the expansion of digital radio infrastructures that were opened up for commentary by BNetzA. Developing the points of reference, BNetzA published on 27 June 2017 a cornerstone paper and initiated a proceeding to evaluate the needs for frequencies with nationwide allocations in the bands of 2 GHz and 3.6 GHz. Inter alia, the cornerstones at 2 GHz adhere to the joint allocation of the frequencies expiring end of 2020 and end of 2025; at 3.6 GHz on the one side it is intended to allocate a part of the frequencies regionally and on the other side it is planned to implement reciprocal co-usage rights between nationwide and regional allocations as well as a demand-oriented coverage with 5G. The owners of nationwide allocations shall be obligated to allow co-usage of capacity and services for the provision of diverse business models in a non-discriminating way. For frequencies above 24 GHz, BNetzA intends to implement an application procedure for 26 GHz. The Telefónica Deutschland Group and other interested parties have the opportunity to register their frequency demand and to comment on the cornerstones by 30 September 2017. The Telefónica Deutschland Group will do so in good time.

Telecommunications market

BNetzA consults on specific details of transparency requirements under the Telecom-Single-Market-Regulation (TSM-R)

Since 30 April 2016, TSM-R has required provisions on the transparency of contracts with end customers to be taken into account, among other things. BEREC, a body of European regulators, published guidelines for implementing the provisions on 30 August 2016. In this context, BNetzA published a consultation on 12 April 2017 with the aim of specifying the details of unclear legal terms in TSM-R with regard to download speeds for fixed line broadband connections and making these terms easier to apply. In May 2017, several associations submitted a joint statement in good time; the Telefónica Deutschland Group was one of the parties to this statement.

Transparency regulation issued by BNetzA comes into force

The regulation issued by BNetzA to strengthen the position of consumers, which contains measures aimed at increasing the transparency of mobile and fixed line telephone and internet services, came into force to a large extent on 1 June 2017; the remaining provisions will follow on 1 December 2017. Among other things, the regulation includes provisions on cost control, the review and documentation of contractually agreed data transfer rates and the provision of information on contract content to customers prior to conclusion. The new provisions are applied by the Telefónica Deutschland Group.

Amendments to section 111 TKG under the Act for Better Information Sharing to Combat International Terrorism in force since 1 July 2017

Section 111 of the Telekommunikationsgesetz (TKG – German Telecommunications Act) stipulates which customer data must be collected and stored before a connection is activated. Since 1 July 2017, this standard requires the accuracy of the customer data collected to be checked by means of certain identification documents or other methods determined by the BNetzA in the meantime before a prepaid SIM card is activated. The Telefónica Deutschland Group has taken these amendments into account in its business processes.

Charges

Roaming surcharges in general abolished since 15 June 2017

The TSM-R, which came into force in November 2015, sets out changes to the existing roaming regulation. On 1 February 2017, the EU bodies agreed on the regulation of maximum wholesale charges. As a result, roaming surcharges for end customers on top of their domestic tariff (“roam like at home”) were in general abolished as of 15 June 2017; surcharges in the amount of the maximum wholesale charges that also came into force on 15 June 2017 may only be charged above a fair use threshold. The European Commission finally adopted the details of this fair use threshold in December 2016. On 27 March 2017, BEREC, a body of European regulators, published guidelines for implementing the roaming provisions that have been in force since 15 June 2017.

BNetzA issues final approval for MTR and preliminary approval for FTR

By way of a resolution dated 6 March 2017, BNetzA issued final approval for the mobile termination rates (MTR) for which preliminary approval had initially been granted on 30 November 2016. Rates of 1.1 euro cents per minute have been in force since 1 December 2016. These will be reduced further to 1.07 euro cents per minute from 1 December 2017 and 0.95 euro cents per minute from 1 December 2018. These rates were approved symmetrically for all mobile network operators. They will remain in force until 30 November 2019. The rates were approved on the basis of the new cost benchmark, pureLRIC. All in all, the reductions are less pronounced than initially anticipated.

The fixed termination rates (FTR) of 0.24 euro cents per minute expired at the end of December 2016. By way of a resolution dated 25 January 2017, BNetzA issued preliminary approval for rates of 0.1 euro cents per minute for the subsequent period. These rates were approved symmetrically for all regulated fixed network operators. They apply with preliminary effect from 1 January 2017 to 31 December 2018. In February 2017, the European Commission expressed doubts as to whether the preliminary rate approval granted for Telekom Deutschland in December 2016, is reconcilable with EU law, and therefore initiated more detailed proceedings in order to examine the rates and the cost calculation method in greater detail. The preliminary rates for the other network operators, including the Telefónica Deutschland Group, were determined on the basis of a comparison with the rates preliminarily approved for Telekom Deutschland.

BNetzA initiates consultation and market study on fibre optic infrastructures

On 14 March 2017, BNetzA launched a consultation entitled "Issues of rate regulation for FttH/B-based wholesale products in the context of the rollout of high-capacity fibre optic infrastructures" in order to determine how regulation can support the accelerated rollout of fibre optic networks. The consultation relates to the rate-related aspects of regulation. The outcome could involve a move away from the current cost-based regulation in future. Any changes to the regulatory benchmark are expected to be introduced at the end of 2018 at the earliest. In May 2017, BNetzA began a simultaneous market study to establish the need for regulation and the existence of significant market power. This study also encompasses the markets 3a (= wholesale local access provided at a fixed location) and 3b (= wholesale central access provided at a fixed location for mass-market products). The central point of this study will be the question of whether FttH/B-based wholesale products can still be allocated to the Germany-wide connection market that also includes copper-based connections and cable connections. This study is a prerequisite for any rate regulation. The first draft decisions are expected to be published in the fourth quarter of 2017 at the earliest, with the first decisions no earlier than the second quarter of 2018.

Overview of the First Half of 2017

Telefónica Deutschland Group maintained solid operating momentum in a dynamic competitive environment./Executing integration according to the plan./Mobile service revenue, OIBDA before exceptional effects, underlying and CapEx in line with guidance./We further increased profitability.

In the first six months of 2017, Telefónica Deutschland Group continued to drive solid operational momentum in a dynamic competitive environment in German mobile. Promotional activities across segments were mainly focussed on stimulating data growth. We leveraged our investments in the O_2 brand and thus the premium segment with a clear focus on retention and the development of the customer base. The launch of O_2 Free 15 at the end of May celebrated the 15 year anniversary of the O_2 brand and further enhanced our market positioning.

At the same time, we executed according to plan with the integration of E-Plus and delivered upon the synergies with total OIBDA relevant inyear savings of approx. EUR 75 million and additional Capex synergies of approx. EUR 20 million. We are progressing well with the integration of the two networks, targeting the completion of the consolidation by the end of 2018. While progressing well with the integration we have further pushed our agenda for the digital transformation of the company; both organically and inorganically with the acquisition of Minodes by Telefónica Next.

As of 30 June 2017, Telefónica Deutschland had 49.9 million customer accesses (+2.7 % year-on-year) driven by a 4.1 % year-on-year increase in the mobile base, which stood at 45.2 million. Using an alternative customer access count based on a market standard calculation for inactivity as introduced in Q1, mobile customer access stood at 48.4 million at the end of June.

Mobile postpaid continued to show good momentum in the market with 368 thousand net additions in the first half of 2017. Partner brands contributed 55 % of gross adds in the period, reflecting the improvement in the discount pricing environment. At the same time, Telefónica Deutschland maintained its strategic focus on customer base development and retention, leveraging the positive customer response to O_2 Free and in particular the anniversary offer O_2 Free 15. At the end of June, our mobile postpaid base was 20.9 million accesses, up +1.8 % in the first half of 2017. Mobile prepaid registered 505 thousend net additions in the period January to June with a strong performance from partners, bringing the customer base in the first half of 2017 up 2.1 % to 24.3 million.

Mobile service revenues were EUR 2,610 million, -3.1 % year-on-year on a reported basis. Excluding regulatory effects from termination and roaming of EUR 70 million, mobile service revenues sequentially improved their year-on-year trend to -0.5 % in the first half of the year. We continued to face top-line headwinds from the retail to wholesale mix-shift as well as legacy base effects in a dynamic competitive environment, which continued to outweigh the benefits from the successful marketing of O_2 Free to new and existing customers. This development is in line with expectations.

T 01 — Overview first half 2017

	Base line 2016 (EUR million)	Outlook 2017 (year-on-year)	H1/2017 (year-on-year)	Evaluation
Mobile Service Revenues underlying[1]	5,437	Slightly negative to flat	-0.5 %	As expected
OIBDA before exceptional effects[2], underlying[3]	1,793	Flat to mid-single-digit % growth	+3.6 %	As expected
CapEx[4]	1,102	Around EUR 1 billion	EUR 434 million	As expected

1 The impact from regulatory changes in form of the termination rate effects and the glide path of the European roaming legislation are excluded from the MSR guidance. Alltogether these effects will result in a drag on 2017 MSR of approx. 3–4 % year-on-year.
2 Exceptional effects as of 30 June 2017 include restructuring expenses of EUR 30 million and acquisition related consultancy costs amounting to EUR 2 million. Exceptional effects as of 30 June 2016 include restructuring expenses of EUR 37 million as well as the net capital gain from the sale of passive tower infrastructure to Telxius, which amounted to EUR 352 million.
3 "Underlying" reflects calculated OIBDA comparable for 2016, which includes the operating leaserelated effects from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016, as if it had occurred on 1 January 2016.
4 Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum.

Operating Income before Depreciation and Amortisation (OIBDA) amounted to EUR 841 million in the first half of 2017 compared to EUR 1,170 million in the prior year, which included the net gain on the sale of passive tower infrastructure to Telxius. OIBDA before exceptional effects[3] was EUR 873 million for the first half of 2017, compared to the 2016 OIBDA before exceptional effects, underlying[4] of EUR 842 million, which reflects an increase of 3.6 %. On this basis OIBDA margin increased by 1.8 % to 24.6 % compared to the same period in the prior year. This result is in line with our expectation. OIBDA benefitted from additional in-year savings of approx. EUR 75 million with regards to the integration activities; mainly driven by the network integration and FTE restructuring programme. At the same time, we continued to invert into the O_2 brand and our positioning in the market

3 Exceptional effects as of 30 June 2017 include restructuring expenses of EUR 30 million and acquisition related consultancy costs amounting to EUR 2 million. Exceptional effects as of 30 June 2016 include restructuring expenses of EUR 37 million as well as the net capital gain from the sale of passive tower infrastructure to Telxius, which amounted to EUR 352 million.
4 "Underlying" reflects calculated OIBDA comparable for 2016, which includes the operating leaserelated effects from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016, as if it had occurred on 1 January 2016.

As expected, CapEx[5] grew 1.1 % year-on-year up June 2017 to EUR 434 million and benefitted from synergy related savings of approx. EUR 20 million. Telefónica Deutschland Group executed according to plan with a focus on network consolidation and LTE-rollout. As expected, CapEx phasing across the year is back-end loaded.

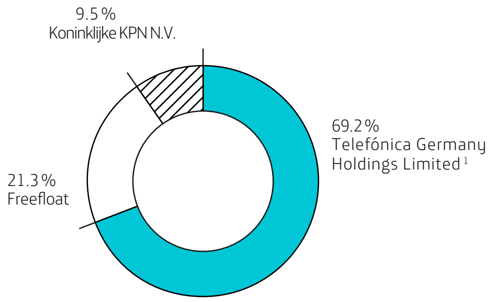
Business development is further detailed in the following sections.

5 Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum.

Significant Events and Transactions during the Reporting Period

Shareholder structure
Our indirect majority shareholder, Telefónica, S.A., announced on 13 March 2017 that it had entered into an agreement with Koninklijke KPN N.V. ("KPN") to swap shares in Telefónica, S.A., for 6 % of the shares in Telefónica Deutschland previously held by KPN. Following the implementation of the agreement and based on the voting right notifications received, the shareholder structure of Telefónica is as follows as of 30 June 2017:

G 11 — Shareholder structure



1 Telefónica Germany Holdings Limited is a 100 % subsidiary of Telefónica, S.A.

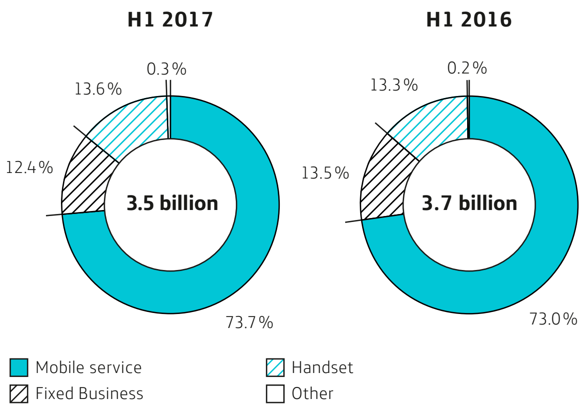
Annual General Meeting and dividends
The Annual General Meeting for the financial year 2016 was held on 9 May 2017. In addition to the submission of the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland and re-election of all the shareholder representatives on the Supervisory Board as of the start of the General Meeting, the resolutions adopted by the General Meeting included a dividend payment of EUR 0.25 per entitled share, EUR 743,638,748.25 in total. The dividend for the financial year 2016 was paid to the shareholders on 12 May 2017.

Results of Operations

Revenues declined to EUR 3,542 million./Mobile service revenues down slightly as expected./Expenses declined due to the realisation of synergies./OIBDA before exceptional effects increases to EUR 873 million.

Decline in revenues
In the first half of 2017, our revenues declined by EUR 150 million or 4.1 % to EUR 3,542 million compared to the same period of the previous year. This is due to the lower level of revenues from mobile business and particularly from mobile services, which were impacted by regulatory effects in connection with the reduction in termination rates and the European roaming legislation (>REGULATORY INFLUENCES). Furthermore, the reduction in mobile service revenues also reflects the increasingly competitive dynamics and the associated strength of the partner business, which resulted in a higher share of wholesale revenues. Handset revenues also decreased slightly due to the general saturation of the handset market. As a result of a smaller DSL customer base and the reduction in wholesale business related to the planned decommissioning of the ULL infrastructure, Fixed line/DSL business revenues were lower compared to the same period in the previous year.

G 12 — Revenues (in % and Euros in billions)



Mobile service revenues down slightly

Our mobile service revenues in the first half of 2017 amounted to EUR 2,610 million, down EUR 84 million or 3.1 % from the same period in the previous year. Excluding regulatory effects, however, the year-on-year decrease would have been in line with our expectations at just 0.5 %.

The downturn is attributable to the fact that the German market remains demanding and competitive whereby the focus increasingly shifts towards the stimulation of data usage. Telefónica Deutschland remains exposed to revenue effects from the retail-to-wholesale shift and the development of its customer base in a dynamic competitive environment, which overcompensate the benefits of the successful marketing of O_2 Free portfolio to new and existing customers. We recorded steady growth in customer numbers for our partner brands in particular. Accordingly, our postpaid mobile customer base grew by 368 thousand net adds to 20.9 million in the first half of 2017 (increase in the first half of 2016: 520 thousand), which resulted in an increase of the postpaid customers proportion to our mobile customer base of 1.1 percentage points to 46.3 %. Due to the low price level in our partner business and the regulatory effects, the average revenue per user (ARPU) declined accordingly to EUR 9.6 compared to the previous year (2016: EUR 10.3). Moreover, the increase in LTE network coverage is progressing continuously. Demand for data services (e.g. mobile internet, service applications and other data content) remained on the rise, boosted by the growing number of LTE-enabled mobile phones in connection with the increased usage of mobile audio and video applications. We have further intensified the monetisation of our mobile data business with our "O_2 Blue All-in" and "O_2 Free" portfolios and our customers' use of the data automatic and data upselling mechanisms (>GOALS AND STRATEGIES). Revenues from mobile data business amounted to EUR 1,488 million in the first half of 2017, a slight year-on-year increase of 0.7 %. Non-SMS data accounted for 80.6 % of total data revenues, an increase of 4.5 percentage points compared to the previous year. Total data revenues increased by 6.6 % year-on-year to EUR 1,199 million.

Handset revenues down slightly

Handset revenues are subject to fluctuation, as they depend on the launch of new mobile devices. In the first half of 2017, handset revenues were EUR 482 million and thus EUR 11 million or 2.2 % lower than in the previous year. Sales figures for mobile devices – including to mobile partners – declined, in particular due to increasing German handset market saturation and smartphones being used longer. This is consistent with the general development of the European markets (>OVERALL ECONOMIC AND INDUSTRY CONDITIONS).

Mobile revenues, comprising mobile service revenues and handset revenues, amounted to EUR 3,092 million in the first half of 2017. This corresponds to a year-on-year decline of EUR 95 million or 3.0 %.

Decline in revenues from fixed business/DSL

Revenues from fixed business/DSL declined by 11.6 % to EUR 440 million in the first half of 2017. As expected, the progressive decommissioning of obsolete wholesale DSL infrastructure led to a reduction in the overall customer base and hence the level of revenues from fixed business/DSL. Compared to the previous year, revenues from fixed business/DSL again benefited from the sustained positive development of VDSL despite a slight reduction in the number of net adds in DSL consumer retail.

T 02 — Revenue Breakdown

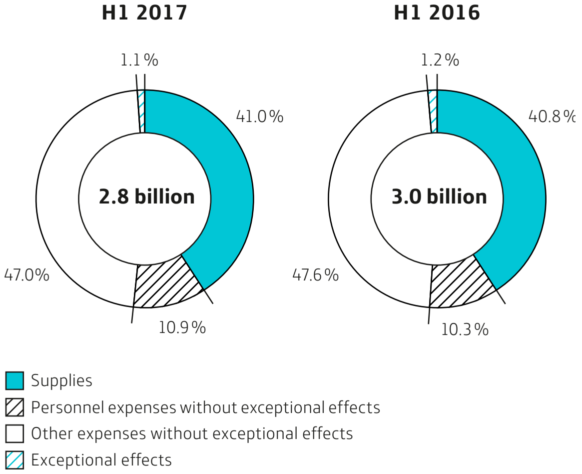
	1 January to 30 June			
(Euros in millions)	**2017**	2016	Change	% Change
Mobile business	**3,092**	**3,187**	**(95)**	**(3.0)**
Mobile service revenues	2,610	2,694	(84)	(3.1)
Handset revenues	482	493	(11)	(2.2)
Fixed business	**440**	**498**	**(58)**	**(11.6)**
Other revenues	**9**	**6**	**3**	**43.3**
Revenues	**3,542**	**3,691**	**(150)**	**(4.1)**

Other revenues increased slightly
In the first half of 2017, other revenues increased by EUR 3 million year-on-year to EUR 9 million.

Other income impacted by exceptional effects in previous year
In the first half of 2017, other income decreased by EUR 376 million or 86.4 % to EUR 59 million. This was due to the one-time exceptional effect from the sale of passive tower infrastructure to Telxius, S.A. in the amount of EUR 352 million in the first half of 2016 (>CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2016, SIGNIFICANT EVENTS).

Reduction in operating expenses
In the first half of 2017, operating expenses declined by 6.7 % year-on-year to EUR 2,760 million, largely as a result of savings from integration projects. Restructuring costs amounting to EUR 30 million related to the leaver programme, network consolidation as well as the optimisation of the presence of our retail shops.

G 13 — Operating expenses (in % and Euros in billions)



Decline in supplies driven by lower revenues
In the first half of 2017, supplies declined by 6.2 % year-on-year to EUR 1,132 million. The cost of sales declined as a result of the lower level of mobile termination rates in particular, whereas there was a slight increase in expenses for handsets sold.

Slight year-on-year decrease in personnel expenses
Personnel expenses declined by EUR 21 million or 6.3 % to EUR 313 million in the first half of 2017. Adjusted for restructuring costs (first half of 2017: EUR 13 million; first half of 2016: EUR 28 million), the decrease amounted to EUR 5 million, which reflects the successful implementation of the workforce restructuring programme despite a growth in the number of employees. The increased number of employees is rooted in the insource of external consultants, particularly in Customer Service as well as in the changed Group structure.

Decrease in other expenses
Other operating expenses amounted to EUR 1,315 million in the first half of 2017 (including restructuring costs of EUR 17 million; first half of 2016: EUR 8 million), down by 7.2 % compared to the same period of the previous year. The savings from the integration of the E-Plus Group were partially offset by higher commercial costs due to positioning O_2 in a premium segment, in a competitive market environment and special offers in connection with the anniversary of the O_2 brand (>GOALS AND STRATEGIES).

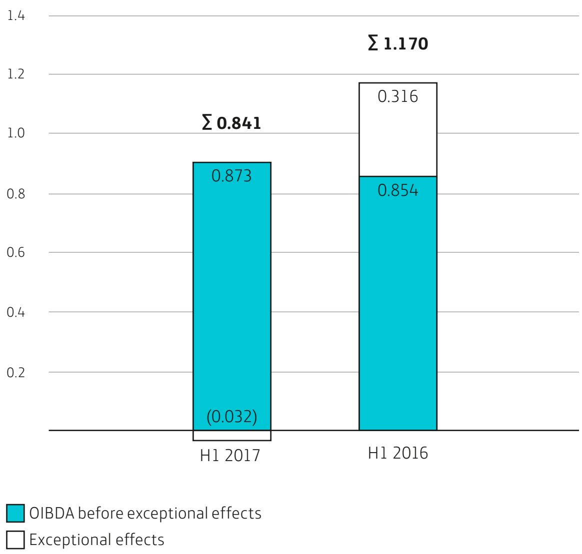
Progress in integration of the E-Plus Group reflected in positive development of adjusted OIBDA
We generated OIBDA for exceptional effects[6] of EUR 873 million in the first half of 2017, corresponding to growth of EUR 19 million or 2.2 %. This reflects the lower cost base as a result of the realisation of synergies, e.g. due to ongoing network integration and the workforce restructuring programme. This was partially offset by the commercial costs of market positioning for the O_2 premium brand. At 24.6 %, the resulting OIBDA margin before exceptional effects was up by 1.5 percentage points compared to the previous year.

The exceptional effects recognised include restructuring expenses of EUR 30 million in the period under review (first half of 2016: EUR 37 million) and acquisition-related consulting costs of EUR 2 million, as well as the net gain on the sale of passive tower infrastructure to Telxius S.A. in the amount of EUR 352 million which was realised in the first half of 2016.

The OIBDA amounted to EUR 841 million in the first half of 2017 and was 28.1 % below the OIBDA of the same period in the previous year. The decline is mainly triggered by the exceptional effects from the sale of the passive tower infrastructure in the previous year. The corresponding OIBDA margin is 23.8 % below the comparison period.

6 Exceptional effects as of 30 June 2017 include restructuring expenses of EUR 30 million and acquisition related consultancy costs amounting to EUR 2 million. Exceptional effects as of 30 June 2016 include restructuring expenses of EUR 37 million as well as the net capital gain from the sale of passive tower infrastructure to Telxius, which amounted to EUR 352 million.

G 14 — OIBDA (Euros in billions)



Reduction in depreciation and amortisation

Depreciation and amortisation decreased by EUR 105 million or 9.8 % to EUR 964 million during the reporting period (first half of 2016: EUR 1,069 million). This decrease was due to the accelerated amortisation of software systems in connection with the IT integration, as well as the expiration of various frequency licences in 2016.

Decrease in operating income

Operating income declined by EUR 223 million to EUR -123 million compared to the previous year (first half of 2016: EUR 100 million). This was primarily due to the net gain on the sale of passive tower infrastructure to Telxius S.A. in the amount of EUR 352 million that was realised in the first half of 2016. This gain was partially offset by the EUR 105 million reduction in depreciation and amortisation compared to the previous year.

Net financial expenses improved slightly due to lower interest rates

Net financial expense amounted to EUR -16 million in the period under review (first half of 2016: EUR -18 million) and improved as a result of refinancing with lower interest rates.

The aforementioned effects resulted in a net loss of EUR -139 million for the first six months of 2017 compared to the net profit of EUR 83 million in the same period of the previous year.

T 03 — Consolidated Income Statements

	1 January to 30 June			
(Euros in millions)	2017	2016	Change	% Change
Revenues	**3,542**	**3,691**	**(150)**	**(4.1)**
Other income	59	436	(376)	(86.4)
Operating expenses	(2,760)	(2,958)	198	(6.7)
Supplies	(1,132)	(1,206)	74	(6.2)
Personnel expenses	(313)	(333)	21	(6.3)
Other expenses	(1,315)	(1,418)	103	(7.2)
Operating income before depreciation and amortisation (OIBDA)	**841**	**1,170**	**(328)**	**(28.1)**
OIBDA margin	**23.8 %**	**31.7 %**		**(7.9 %-p.)**
Depreciation and amortisation	(964)	(1,069)	105	(9.8)
Operating income	**(123)**	**100**	**(223)**	**(222.2)**
Net financial income/(expense)	(16)	(18)	1	(6.0)
Profit/(loss) before tax	**(139)**	**83**	**(222)**	**(268.0)**
Income tax	0	0	0	146.6
Total profit/(loss) for the period	**(139)**	**83**	**(222)**	**(267.9)**

Financial Position

The net leverage ratio will be kept at or below 1.0x in the medium term. / Net financial debt amounts to EUR 1,575 million. / Net leverage ratio 0.9x. / Free cash flow of EUR 68 million down year-on-year due to exceptional effects in the first half of 2016.

Financing analysis

Growth in net financial debt due to the dividend payment among other factors
Table 5 shows the composition of net financial debt – i.e. the net amount of interest-bearing financial liabilities less any cash and cash equivalents and interest-bearing financial assets and receivables.

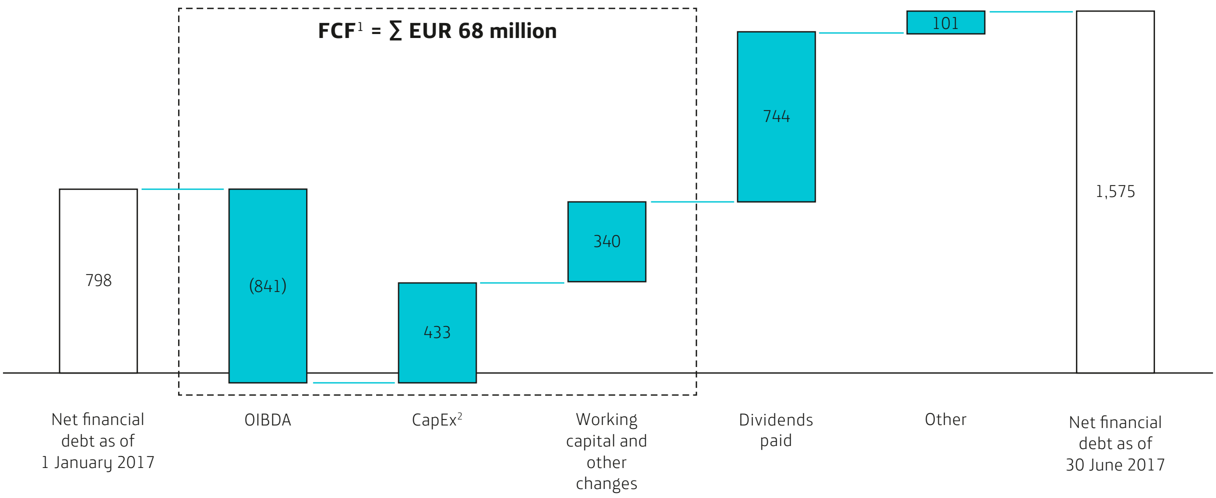
Net financial debt increased by EUR 777 million to EUR 1,575 million as of 30 June 2017, resulting in a leverage ratio[7] of 0.9x.

The increase in net financial debt in the first half of 2017 was primarily affected by the dividend payment for the financial year 2016 (EUR 744 million) and free cash flow before dividends and payments for spectrum of EUR 68 million.

The following chart shows the development of net financial debt in the first half of 2017.

7 Leverage is defined as the net financial debt divided by adjusted LTM (Last Twelve Months) OIBDA before exceptional effects (30 June 2017: EUR 1,824 million; 31 December 2016: EUR 1,828 million).

G 15 — Development of net financial debt (Euros in millions)



1 Free cash flow before dividends and payments for spectrum.
2 Excluding additions from capitalised finance leases and capitalised costs on borrowed capital for investments in spectrum.

T 04 — Development of consolidated financial debt

(Euros in millions)	As of 30 June 2017	As of 31 December 2016	Change	% Change
A Liquidity	673	613	60	9.8
B Current financial assets[1]	175	251	(75)	(30.0)
C Current financial debt[2]	29	31	(1)	(3.6)
D=C–A–B Current net financial debt	(819)	(833)	14	(1.7)
E Non-current financial assets[1]	62	89	(27)	(30.5)
F Non-current financial debt[2]	2,456	1,721	735	42.7
G=F–E Non-current net financial debt	2,394	1,631	763	46.8
H=D+G Net financial debt[3]	1,575	798	777	97.3

1 Current and non-current financial assets include handset receivables not yet due, positive fair value hedges for fixed interest financial liabilities as well as loans to third parties.
2 Current and non-current net financial debt includes bonds, promissory notes and registered bonds issued, other loans, as well as finance leases.
3 Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing financial liabilities as well as cash and cash equivalents.

Note:
Handset receivables are presented in trade and other receivables on the Consolidated Statement of Financial Position.
The pending payment for spectrum of EUR 111 million is presented in trade payables due to third parties on the Consolidated Statement of Financial Position and therefore excluded from the net financial debt calculation.

Liquidity analysis

T 05 — Consolidated Statements of Cash Flows

(Euros in millions)	1 January to 30 June 2017	2016
Cash and cash equivalents at the beginning of the period	**613**	**533**
Cash flow from operating activities	718	605
Cash flow from investing activities	(650)	(8)
Cash flow from financing activities	(8)	(854)
Net increase (decrease) in cash and cash equivalents	**60**	**(257)**
Cash and cash equivalents at the end of the period	**673**	**276**

Consolidated Statements of Cash Flows

The following is an analysis of the cash flow development of the Telefónica Deutschland Group in the first six months of the financial years 2017 and 2016.

Change in cash flows from operating activities up from previous year

Cash flows from operating activities amounted to EUR 718 million in the first half of 2017, up EUR 113 million or 18.7 % from the previous year (first half of 2016: EUR 605 million). This was primarily due to the change in working capital, which amounted to EUR -107 million in the period under review compared to EUR -193 million in the first half of 2016.

Change in cash flows from investing activities driven by lower cash inflows

Cash flows from investing activities amounted to EUR -650 million in the first half of 2017 (first half of 2016: EUR -8 million).

Cash inflows of EUR 14 million were EUR 577 million lower than in the prior year, which was largely influenced by the sale of passive tower infrastructure to Telxius, S.A., and for which a payment of EUR 587 million was received in the first half of 2016.

Cash outflows were up EUR 64 million year-on-year at EUR 664 million. This was primarily due to EUR 652 million of investments in property, plant and equipment and intangible assets, which were EUR 55 million higher than in the prior year.

Change in cash flows from financing activities influenced mainly by lower loan repayments

Cash flows from financing activities amounted to EUR -8 million in the first six months of 2017 (first half of 2016: EUR -854 million).

Cash outflows declined by EUR 596 million to EUR 858 million. This amount included repayments of the syndicated loan facility in the amount of EUR 100 million, finance lease payments of EUR 15 million and the dividend payment of EUR 744 million. By comparison, cash outflows in the first half of 2016 included the repayment of EUR 500 million of the loan from Telfisa Global B.V., as well as a dividend payment of EUR 714 million. Furthermore, EUR 119 million of liabilities with extended payment terms from 2015, were paid back in the first half of 2016.

Cash inflows due to proceeds from interest-bearing debt increased by EUR 250 million year-on-year to EUR 850 million; this amount was attributable to the utilisation of the syndicated loan facility in the amount of EUR 650 million and the financing agreement with EIB in the amount of EUR 200 million. By comparison, EUR 600 million of the syndicated loan facility was utilised in the first half of 2016.

Cash and cash equivalents increased

The cash inflows and outflows described above led to an increase in cash and cash equivalents of EUR 60 million. Cash and cash equivalents amounted to EUR 673 million as of 30 June 2017 (31 December 2016: EUR 613 million).

Lower free cash flow before dividends and payments for spectrum

Free cash flow before dividends and payments for spectrum decreased by EUR -530 million and amounted to EUR 68 million as of 30 June 2017 (first half of 2016: EUR 599 million).

This development was primarily due to the cash inflow from the purchase price receivable for the sale of passive tower infrastructure to Telxius S.A. in the first half of 2016 in the amount of EUR 587 million.

The change in working capital of EUR -326 million in the first half of 2017 was lower than in the first six months of 2016 (EUR -360 million). This development was primarily attributable to the increase in factoring transactions, which were partially offset by an increase in inventory levels.

T 06 — Reconciliation of cash flows and OIBDA minus CapEx

(Euros in millions)	1 January to 30 June 2017	2016	Change	% Change
OIBDA	**841**	**1,170**	**(328)**	**(28.1)**
- CapEx[1]	(433)	(430)	(3)	0.7
= Operating cash flow (OpCF)	**409**	**740**	**(332)**	**(44.8)**
+ Silent Factoring[2]	304	194	110	56.5
+/- Other working capital movements	(630)	(554)	(76)	13.6
Change in working capital	**(326)**	**(360)**	**34**	**(9.5)**
+/- Gains/(losses) from sale of assets	(1)	(353)	351	(99.7)
+/- Proceeds from sale of fixed assets and other effects	1	591	(590)	(99.8)
+ Net interest payments	(15)	(19)	5	(24.1)
+/- Proceeds/Payment on financial assets	9	(1)	10	(1,455.1)
+ Acquisition of companies net of cash acquired	(9)	–	(9)	–
= Free cash flow pre dividends and payments for spectrum[3]	**68**	**599**	**(530)**	**(88.6)**
- Payments for spectrum	–	(2)	2	(100.0)
- Dividends	(744)	(714)	(30)	4.2
= Free cash flow post dividends and payments for spectrum	**(675)**	**(117)**	**(558)**	**476.5**

1 Excluding additions from captalised finance leases and capitalised costs on borrowed capital for investments in spectrum.
2 Accumulated impact of silent factoring transactions for the reporting period in 2017 of EUR 304 million and EUR 194 million in 2016.
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 as well as related interest payments.

Net Assets

The following analysis of the asset and capital structure compares the assets and liabilities as of 30 June 2017 with the figures as of 31 December 2016.

As of 30 June 2017, the Group reported total assets of EUR 14,756 million (31 December 2016: EUR 15,301 million). This represents a change of -3.6 %.

Decrease in intangible assets mainly due to amortisation
Intangible assets including goodwill amounted to EUR 7,800 million as of 30 June 2017 (31 December 2016: EUR 8,146 million). This represents a decrease of EUR 347 million or -4.3 %, which resulted from the scheduled amortisation of intangible assets with a finite useful life in the amount of EUR 501 million in the first six months of the financial year 2017. This was offset by the additions to intangible assets of EUR 155 million, which primarily related to investments in software.

In the reporting period, EUR 858 million of the mobile frequencies acquired in 2015 were reclassified from construction in progress/prepayments on intangible assets to service concession arrangements and licences due to their active use.

Decrease in property, plant and equipment primarily due to depreciation
Property, plant and equipment amounted to EUR 4,042 million as of 30 June 2017 (31 December 2016: EUR 4,217 million). This represents a decrease of EUR 174 million or 4.1 % from the prior year end, which can be attributed to scheduled depreciation in the amount of EUR 463 million.

This decrease was offset by additions of EUR 291 million in the first six months of the financial year 2017, which primarily related to the expansion of a faster network, including an increased LTE coverage, more IP technology, as well as an increase of mobile data services with even faster download speeds.

T 07 — Consolidated Statements of Financial Position

(Euros in millions)	As of 30 June 2017	As of 31 December 2016	Change	% Change
Goodwill and other intangible assets	7,800	8,146	(347)	(4.3)
Property, plant and equipment	4,042	4,217	(174)	(4.1)
Trade and other receivables	1,199	1,537	(338)	(22.0)
Deferred tax assets	427	427	–	–
Other financial assets	73	85	(12)	(14.5)
Other non-financial assets	412	191	221	115.7
Inventories	131	85	46	53.9
Cash and cash equivalents	673	613	60	9.8
Total assets = Total equity and liabilities	**14,756**	**15,301**	**(545)**	**(3.6)**
Interest-bearing debt	2,492	1,758	734	41.8
Provisions	684	750	(66)	(8.8)
Trade and other payables	2,127	2,303	(176)	(7.7)
Other non-financial liabilities	58	79	(22)	(27.3)
Deferred income	852	1,002	(150)	(15.0)
Deferred tax liabilities	1	–	1	–
Equity	**8,542**	**9,408**	**(866)**	**(9.2)**

Investments (CapEx[8]) unchanged
The investments (CapEx) amounted to EUR 434 million in the first half of 2017 compared to EUR 430 million in the first half of 2016. The Telefónica Deutschland Group continued to primarily invest in network integration and the roll-out of the LTE network.

Reduction in trade and other receivables
Trade and other receivables amounted to EUR 1,199 million as of 30 June 2017, thereby declining compared to the previous year (31 December 2016: EUR 1,537 million). This decrease of EUR -338 million or -22.0 % is primarily due to the factoring transactions conducted.

Other financial assets declined
Other financial assets amounted to EUR 73 million as of 30 June 2017, representing a decrease of EUR -12 million or -14.5 % compared to the previous year (31 December 2016: EUR 85 million). This primarily reflects the reduced security deposit for silent factoring.

Rise in other non-financial assets due to advance payments made
Other non-financial assets amounted to EUR 412 million as of 30 June 2017 (31 December 2016: EUR 191 million). The increase of EUR 221 million or 115.7 % is mainly due to the increase in advance payments for rent of antenna sites and leased lines.

Inventories of mobile devices increased
Inventories amounted to EUR 131 million as of 30 June 2017, an increase of 46 million or 53.9 % (31 December 2016: EUR 85 million). Inventories were increased in preparation for sales activities for newly released handsets.

Increase in cash and cash equivalents
Cash and cash equivalents totalled EUR 673 million as of 30 June 2017 (31 December 2016: EUR 613 million). The increase of EUR 60 million or 9.8 % is due to several effects (>FINANCIAL POSITION).

Interest-bearing debt up on previous year
Interest-bearing debt increased by EUR 734 million or 41.8 % from EUR 1,758 million as of 31 December 2016 to EUR 2,492 million as of 30 June 2017. This was primarily due to the additional utilisation of the syndicated loan facility in the amount of EUR 550 million and the financing agreement with the EIB in the amount of EUR 200 million. This was offset by the lower level of finance lease obligations.

Decrease in provisions
Provisions declined by EUR -66 million or -8.8 % to EUR 684 million compared to 31 December 2016. This development is primarily attributable to the EUR 50 million reduction in restructuring obligations due to utilisation. Pension provisions also decreased by EUR 10 million due to the adjustment of the discount rate applied. In addition, asset retirement obligations fell by EUR 8 million largely as a result of utilisation.

Decrease in trade and other payables
Trade and other payables amounted to EUR 2,127 million as of 30 June 2017. The decrease of EUR -176 million or 7.7 %. compared to 31 December 2016 (EUR 2,303 million) was primarily due to the decrease in liabilities for investments made (EUR -219 million). This was partially offset by an increase in accruals for unbilled trade payables.

Decrease in deferred income
Deferred income decreased by EUR -150 million or -15.0 % compared to 31 December 2016 and amounted to EUR 852 million as of 30 June 2017. This development was mainly attributable to the utilisation of vouchers sold at the end of the year. Services rendered in connection with the Mobile Bitstream Access Mobile Virtual Network Operator (MBA MVNO) agreement also had an effect.

Equity declined
Equity declined by EUR -866 million or -9.2 % to EUR 8,542 million compared to 31 December 2016. The change in equity is primarily due to the dividend payment of EUR -744 million on 12 May 2017, the loss for the period of EUR -139 million and effects recognised in equity in relation to the remeasurement of post-employment benefits in the amount of EUR -15 million.

8 Including additions from capitalised finance leases and excluding borrowing costs for investments in spectrum.

Report on Risks and Opportunities_

In the combined management report for the 2016 financial year, we presented certain risks that could have a material adverse effect on our business, our net assets, financial position and results of operations and our reputation. Furthermore, in this report we described our main opportunities and the design of our risk management system.

In the reporting period, we did not identify any further significant risks or opportunities in addition to those already presented in the combined management report for the financial year 2016.

However, the following risks, which are discussed in greater detail in the combined management report for the financial year 2016, have seen changes in terms of their evaluation, impact or likelihood compared to the financial year 2016.

Termination fees in mobile and fixed communications
Termination fees in mobile and fixed communications have decreased substantially in recent years. In comparison to prior years, future decreases will become smaller so that the negative impact on revenues will be lower than before. Hence we see a lower potential impact and do not see the risk as moderate, but as minor.

Changes in the regulatory requirements for collecting and validating customer data
The draft of section 111 of the TKG had previously left some room for interpretation that has now become more concrete. The resulting change in our business processes and their acceptance by our customers could have an impact on acquiring new prepaid customers. Therefore, with an unchanged low potential impact we anticipate an increase in likelihood and now consider the resulting risk to be significant rather than moderate.

Regulatory requirements in connection with the acquisition of the E-Plus Group
With the duration of the project to meet the respective requirements and ensure strict compliance with the contracts concluded and hence prevent the possibility of significant fines, we have now taken all of the measures within our power to minimise any fines. As a result, we consider a low potential impact and have downgraded the resulting risk from significant to moderate.

Taxes
Based on the external tax audits conducted and our experience of participating in working groups and expert panels, we consider this risk to have a low likelihood. Accordingly, we have downgraded the risk from significant to moderate.

Other risks and opportunities not currently known to us or that we presently consider to be immaterial could also influence our business activities. We do not anticipate the occurrence of any risks that, individually or in combination with other risks, could endanger the future of our company as a going concern.

Financial Outlook_

Economic growth in Germany set to continue./The telecommunications industry as a trailblazer for digital change./Financial outlook for 2017 confirmed.

Economic Outlook

In their spring report, the economic institutes forecast growth in gross domestic product (GDP) of +1.5 % for 2017 (adjusted for calendar effects: +1.8 %). According to the economic institutes, private and public consumer spending will remain the pillars of the German economy in 2017. This will be driven in particular by growth in household purchasing power and the continued positive development of the labour market. The number of people in employment is expected to rise from 43.5 million at the end of 2016 to 44.1 million at the end of 2017.

Any escalation at international trouble spots still poses a risk to the consumer economy, and thus also to overall economic development in Germany. It also remains to be seen how the planned United Kingdom exit from the European Union (Brexit) will affect the European, and above all the German economy.

Growth in economic performance of 1.8 % is forecasted for the Euro area in 2017.
Sources: Gfk Konsumklima, Focus Economics, Bundesbank, BMWI

T 08 — GDP Growth 2015–2017
Germany and Euro area
(adjusted for calendar effects)

In %	2015	2016	2017
Germany	1.7	1.8	**1.8**
Euro area	1.5	1.7	**1.8**

Market Expectations

Growing digitalisation and the resulting interconnection of man and machine is a key trend that will shape the future of society and the economy./Digital technologies like the Internet of Things (IoT), big data and cloud computing are increasingly penetrating every area of society and the economy./This digital transformation process is fundamentally changing every aspect of our lives and will continue to do so in future./This trend is being driven by the increasing penetration of mobile internet and an "always-on" mentality.

In addition to connecting people, the intelligent connection of things via the internet (IoT) offers numerous application and growth opportunities, such as Industry 4.0, connected cars, smart health, smart energy and smart cities. Another trend is data analytics, which is facilitating new insights as well as new business models.

Smartphones and tablets are becoming the trailblazers for the digital revolution of an all-round digital lifestyle in Germany. At the same time, the growing proliferation of data-based communications services, i.e. "over-the-top" (OTT) applications such as WhatsApp, Skype, Facebook or Apple Facetime as well as music and video streaming providers, is increasing data usage.

This all means further growth in the transmitted data volume. This means that the monetisation of mobile data business will remain a strong focus of mobile telecommunications providers. Analysts expect data revenues to increase by 13 % in both 2017 and 2018.

At the same time, the negative trend for mobile voice and SMS in the "traditional telecommunications sector" will continue as a result of further price pressure and changing customer behaviour.
Sources: Ovum, Analysys Mason, Bitkom, BMWI

Outlook 2017

At present, there are no facts that the forecasts as published in the Group Management Report 2016 (Annual Report 2016, page 37 et seq.) have changed significantly. Financial outlook for the year 2017 remains unchanged, including cash flow savings of approximately EUR 160 million additional Opex-savings and revenue synergies as well as approximately EUR 80 million Capex-synergies.

The following chart shows a summary of the financial outlook for 2017:

T 09 — Summary of the financial outlook for 2017

	Base line 2016 (EUR million)	Outlook 2017 (year-on-year)	H1/2017 (year-on-year)
Mobile Service Revenues (MSR) underlying[1]	5,437	Slightly negative to flat	-0.5 %
OIBDA before exceptional effects[2], underlying[3]	1,793	Flat to mid-single-digit % growth	+3.6 %
CapEx[4]	1,102	Around EUR 1 billion	EUR 434 million

1 The impact from regulatory changes in the form of the termination rate effects and the glide path of the EU Roaming Regulation are excluded from the MSR outlook. This items are expected to impact 2017 MSR by approx. 3–4 % year-on-year.

2 Exceptional effects as of 30 June 2017 include restructuring expenses of EUR 30 million and acquisition related consultancy costs amounting to EUR 2 million. Exceptional effects as of 30 June 2016 include restructuring expenses of EUR 37 million as well as the net capital gain from the sale of passive tower infrastructure to Telxius, which amounted to EUR 352 million.

3 "Underlying" reflects calculated OIBDA comparable for 2016, which includes the operating leaserelated effects from the sale of Telefónica Deutschland's passive tower infrastructure in April 2016, as if it had occurred on 1 January 2016.

4 Including additions from capitalised finance leases and excluding capitalised costs on borrowed capital for investments in spectrum .

Munich, 11 August 2017

Telefónica Deutschland Holding AG

The Management Board

Markus Haas
Markus Rolle

Valentina Daiber
Guido Eidmann

Nicole Gerhardt
Alfons Lösing

Cayetano Carbajo Martín
Wolfgang Metze

Interim Condensed Consolidated Financial Statements_

for the period 1 January to 30 June 2017

Consolidated Statements of Financial Position_

Assets (Euros in millions)		Notes	**As of 30 June 2017**	As of 31 December 2016
A)	**Non-current assets**		**12,525**	**13,055**
	Goodwill		1,939	1,932
	Other intangible assets	[5a]	5,861	6,215
	Property, plant and equipment	[5b]	4,042	4,217
	Trade and other receivables	[5c]	52	77
	Other financial assets		53	60
	Other non-financial assets	[5d]	152	128
	Deferred tax assets		427	427
B)	**Current assets**		**2,231**	**2,246**
	Inventories		131	85
	Trade and other receivables	[5c]	1,147	1,460
	Other financial assets		20	25
	Other non-financial assets	[5d]	259	63
	Cash and cash equivalents		673	613
Total assets (A+B)			**14,756**	**15,301**

Equity and Liabilities (Euros in millions)		Notes	**As of 30 June 2017**	As of 31 December 2016
A)	**Equity**		**8,542**	**9,408**
	Subscribed capital		2,975	2,975
	Additional paid-in capital		4,800	4,800
	Retained earnings		768	1,634
	Equity attributable to owners of the parent		8,542	9,408
B)	**Non-current liabilities**		**3,332**	**2,637**
	Interest-bearing debt	[5e]	2,456	1,721
	Trade and other payables	[5f]	17	17
	Provisions	[5g]	562	561
	Deferred income	[5f]	296	338
	Deferred tax liabilities		1	–
C)	**Current liabilities**		**2,881**	**3,256**
	Interest-bearing debt	[5e]	36	37
	Trade and other payables	[5f]	2,109	2,286
	Provisions	[5g]	122	190
	Other non-financial liabilities		58	79
	Deferred income	[5f]	556	664
Total equity and liabilities (A+B+C)			**14,756**	**15,301**

Consolidated Income Statements_

(Euros in millions)	Notes	1 April to 30 June 2017	1 April to 30 June 2016	1 January to 30 June 2017	1 January to 30 June 2016
Revenues	[6a]	1,771	1,834	3,542	3,691
Other income	[6b]	32	405	59	436
Supplies		(547)	(578)	(1,132)	(1,206)
Personnel expenses		(157)	(160)	(313)	(333)
Other expenses		(646)	(710)	(1,315)	(1,418)
Operating income before depreciation and amortisation (OIBDA)		**452**	**791**	**841**	**1,170**
Depreciation and amortisation	[6c]	(483)	(529)	(964)	(1,069)
Operating income		**(31)**	**262**	**(123)**	**100**
Finance income		1	2	2	4
Exchange gains		0	(0)	1	0
Finance costs		(10)	(11)	(19)	(21)
Exchange losses		0	0	(0)	(0)
Net financial income/(expense)		**(9)**	**(9)**	**(16)**	**(18)**
Profit/(loss) before tax		**(40)**	**252**	**(139)**	**83**
Income tax		0	(0)	0	0
Profit/(loss) for the period		**(40)**	**252**	**(139)**	**83**
Profit/(loss) for the period attributable to owners of the parent		**(40)**	**252**	**(139)**	**83**
Profit/(loss) for the period		**(40)**	**252**	**(139)**	**83**
Earnings per share					
Basic earnings per share in EUR		**(0.01)**	**0.08**	**(0.05)**	**0.03**
Diluted earnings per share in EUR		**(0.01)**	**0.08**	**(0.05)**	**0.03**

Consolidated Statements of Comprehensive Income_

	1 April to 30 June		1 January to 30 June	
(Euros in millions)	2017	2016	2017	2016
Profit/(loss) for the period	**(40)**	**252**	**(139)**	**83**
Total other comprehensive income/(loss)				
Items that will not be reclassified to profit/(loss)	**5**	**(24)**	**15**	**(59)**
Remeasurement of defined benefit plans	5	(24)	15	(59)
Total other comprehensive income/(loss)	**5**	**(24)**	**15**	**(59)**
Total comprehensive income/(loss)	**(35)**	**229**	**(124)**	**24**
Total comprehensive income/(loss) for the period attributable to owners of the parent	**(35)**	**229**	**(124)**	**24**
Total comprehensive income/(loss)	**(35)**	**229**	**(124)**	**24**

Consolidated Statements of Changes in Equity_

(Euros in millions)	Subscribed capital	Additional paid-in capital	Retained earnings	Equity attributable to owners of the parent	Equity
Financial position as of 1 January 2016	**2,975**	**4,800**	**2,546**	**10,321**	**10,321**
Profit/(loss) for the period	–	–	83	83	83
Total other comprehensive income/(loss)	–	–	(59)	(59)	(59)
Total comprehensive income/(loss)	**–**	**–**	**24**	**24**	**24**
Dividends	–	–	(714)	(714)	(714)
Other movements[1]	–	–	2	2	2
Financial position as of 30 June 2016	**2,975**	**4,800**	**1,859**	**9,633**	**9,633**
Financial position as of 1 January 2017	**2,975**	**4,800**	**1,634**	**9,408**	**9,408**
Profit/(loss) for the period	–	–	(139)	(139)	(139)
Total other comprehensive income/(loss)	–	–	15	15	15
Total comprehensive income/(loss)	**–**	**–**	**(124)**	**(124)**	**(124)**
Dividends	–	–	(744)	(744)	(744)
Other movements[1]	–	–	1	1	1
Financial position as of 30 June 2017	**2,975**	**4,800**	**768**	**8,542**	**8,542**

1 Share-based payments in accordance with IFRS 2. For further information, please refer to the consolidated financial statements for the year ended 31 December 2016 (Note 15, Share-Based Payments).

Consolidated Statements of Cash Flows_

(Euros in millions)	Notes	1 January to 30 June 2017	2016
Cash flows from operating activities			
Profit/(loss) for the period		**(139)**	**83**
Adjustments to profit/(loss)			
Net financial income/(expense)		16	18
Gain on disposals of assets		(1)	(353)
Net income tax expense		(0)	(0)
Depreciation and amortisation	[6c]	964	1,069
Change in working capital and others			
Other non-current assets	[5a], [5b], [5c]	2	61
Other current assets	[5a], [5b], [5c]	71	(166)
Other non-current liabilities and provisions	[5d], [5e], [5f]	(25)	(42)
Other current liabilities and provisions	[5d], [5e], [5f]	(155)	(46)
Others			
Interest received		5	6
Interest paid		(20)	(25)
Cash flows from operating activities		**718**	**605**
Cash flows from investing activities			
Proceeds from disposals of property, plant and equipment and intangible assets		1	591
Payments on investments relating to mobile phone frequency auctions		–	(2)
Payments on investments in property, plant and equipment and intangible assets	[5a]	(652)	(597)
Acquisition of companies, net of cash acquired		(9)	–
Proceeds from financial assets		12	–
Payments for financial assets		(3)	(1)
Cash flows from investing activities		**(650)**	**(8)**
Cash flows from financing activities			
Proceeds from interest-bearing debt	[5d]	850	600
Repayment of interest-bearing debt[1]	[5d]	(115)	(740)
Dividends paid		(744)	(714)
Cash flows from financing activities		**(8)**	**(854)**
Net increase/(decrease) in cash and cash equivalents		**60**	**(257)**
Cash and cash equivalents at the beginning of the period		**613**	**533**
Cash and cash equivalents at the end of the period		**673**	**276**

1 Repayments for the repayment of interest-bearing debt included payments related to finance leases of EUR 15 million for the six months ended 30 June 2017 and EUR 121 million for the six months ended 30 June 2016.

Condensed Notes to the Interim Consolidated Financial Statements_

for the period 1 January to 30 June 2017

1. Reporting Entity

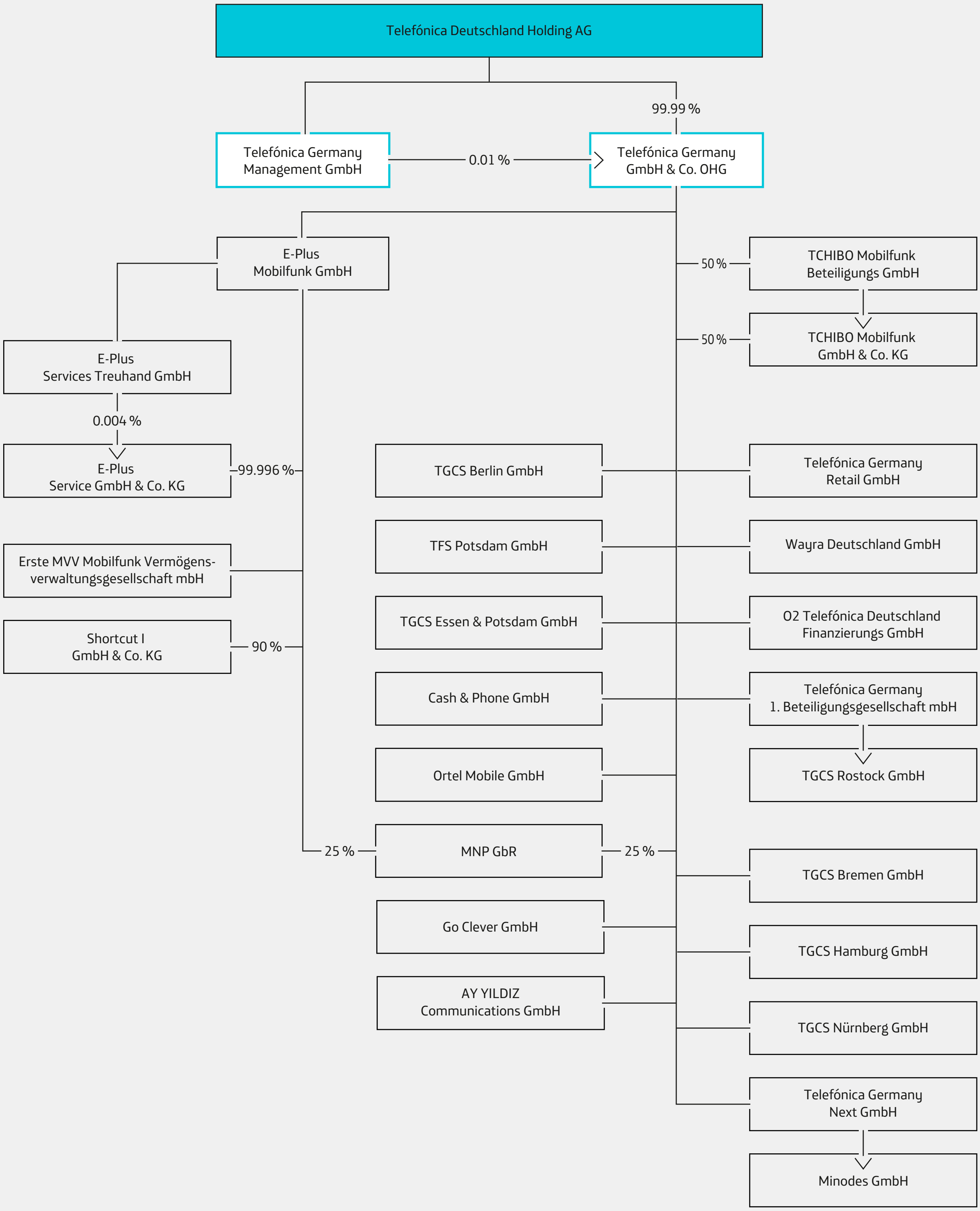
The interim condensed consolidated financial statements (hereinafter “interim consolidated financial statements”) of Telefónica Deutschland Holding AG have been prepared for the period from 1 January to 30 June 2017 and are comprised of Telefónica Deutschland Holding AG (also referred to as “Telefónica Deutschland”) and its subsidiaries as well as any joint operations (together referred to as “Telefónica Deutschland Group” or “Group”).

Telefónica Deutschland Holding AG is a stock corporation (AG) incorporated under German law.

The company is listed on the regulated market of the Frankfurt Stock Exchange. The German Securities Identification Number (WKN) is A1J5RX, the ISIN (International Securities Identification Number) is DE000A1J5RX9.

As of 30 June 2017, 21.3 % of the shares were in free float. 69.2 % were held by Telefónica Germany Holdings Limited, Slough, United Kingdom (Telefónica Germany Holdings Limited), an indirect wholly-owned subsidiary of Telefónica, S.A., Madrid, Spain (Telefónica, S.A.). The remaining 9.5 % were held by Koninklijke KPN N.V., The Hague, Netherlands (KPN).

As of 30 June 2017, the companies included in the interim consolidated financial statements of the Telefónica Deutschland Group were organised as shown in the following organisational chart:

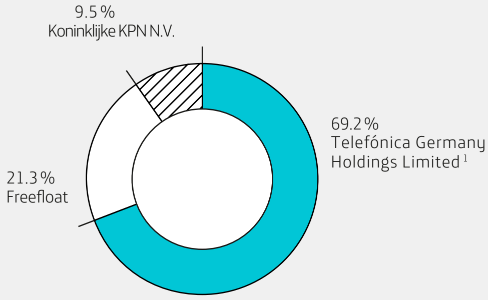


Unless otherwise stated, the ownership interests are 100 %.

Telefónica Germany Next GmbH acquired Minodes GmbH in the second quarter of the financial year 2017.

2. Significant Events and Transactions during the Reporting Period

Shareholder structure
Our indirect majority shareholder, Telefónica, S.A., announced on 13 March 2017 that it had entered into an agreement with Koninklijke KPN NV ("KPN") to swap shares in Telefónica, S.A., for 6 % of the shares in Telefónica Deutschland previously held by KPN. Following the implementation of the agreement and based on the voting right notifications received, the shareholder structure of Telefónica as of 30 June 2017 is as follows:



1 Telefónica Germany Holdings Limited is a 100 % subsidiary of Telefónica, S.A.

Annual General Meeting and dividends
The Annual General Meeting for the financial year 2016 was held on 9 May 2017. In addition to presenting the Annual Financial Statements and Consolidated Financial Statements of Telefónica Deutschland and re-electing all the shareholder representatives on the Supervisory Board as of the start of the Annual General Meeting, the resolutions adopted by the Annual General Meeting included a dividend payment of EUR 0.25 per entitled share or EUR 743,638,748.25 in total. The dividend for the financial year 2016 was paid to the shareholders on 12 May 2017.

3. Basis of Preparation

The interim consolidated financial statements of Telefónica Deutschland Holding AG are prepared in accordance with IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU. Accordingly, the interim condensed consolidated financial statements do not contain all of the information and disclosures required for a complete set of consolidated financial statements, and should therefore be read in conjunction with the consolidated financial statements for the year ended 31 December 2016 (see Note 3, Basis of Preparation).

These interim consolidated financial statements as of 30 June 2017 are unaudited.

Functional currency and presentation currency
The interim consolidated financial statements are presented in Euros, which is the functional currency of the Telefónica Deutschland Group.

Unless otherwise stated, the amounts in these interim consolidated financial statements are presented in millions of Euros (EUR million) and are rounded according to established commercial principles. Therefore, recalculations may slightly differ from the totals shown in the respective tables.

Other
The preparation of the interim consolidated financial statements requires management to establish accounting policies that contain estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. A significant change in the facts and circumstances on which these judgements, estimates and assumptions are based, could materially affect the Telefónica Deutschland Group's net assets, financial position and results of operations.

For further information, please refer to the consolidated financial statements for the year ended 31 December 2016 (see Note No. 4, Accounting Policies).

Comparative information
The consolidated statements of financial position presented in these interim consolidated financial statements relate to information as of 30 June 2017, which is compared to information as of 31 December 2016.

The consolidated income statements and the consolidated statements of comprehensive income relate to the six- and three-month periods ended 30 June 2017 and 30 June 2016. The consolidated statements of cash flows and the consolidated statements of changes in equity compare the first six-month periods of 2017 and 2016.

Seasonal business activity
Previous earnings performance has provided no indication that the business activity is subject to material seasonal fluctuations.

4. Accounting Policies

The significant estimates, assumptions and judgements made by the management in preparing the interim condensed consolidated financial statements of the Telefónica Deutschland Group do not significantly differ from those included in the consolidated financial statements for the year ended 31 December 2016 (see Note 4, Accounting Policies).

The Telefónica Deutschland Group has not applied the following new and revised standards and interpretations that have been issued but were not yet effective:

Standards, interpretations and amendments		Mandatory application for financial years beginning on or after
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017[1]
Amendments to IAS 7	Disclosure Initiative	1 January 2017[1]
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 12	1 January 2017[1]
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28	1 January 2018[1]
Amendments to IAS 40	Transfers of Investment Property	1 January 2018[1]
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018[1]
IFRS 15	Revenue from Contracts with Customers	1 January 2018
Clarifications to IFRS 15	Revenue from Contracts with Customers	1 January 2018[1]
IFRS 9	Financial Instruments	1 January 2018
Amendment to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018[1]
IFRS 16	Leases	1 January 2019[1]
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019[1]
IFRS 17	Insurance Contracts	1 January 2021[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	[2]

1 Endorsement by EU still outstanding, information for first-time adoption according to IASB.
2 First-time adoption postponed indefinitely according to IASB resolution of 17 December 2015.

As noted in the consolidated financial statements for the year ended 31 December 2016 (see Note 4, Accounting Policies), the introduction of IFRS 15 is significant for the Group. Contrary to the original plan, the Group has opted not to apply the fully retrospective method in light of the complexity that has emerged in the course of the project. Accordingly, a cumulative adjustment for the effects of IFRS 15 will be recognised in equity as of 1 January 2018.

The other standards or amendments to standards issued in the financial year 2017 that have not yet been endorsed by the EU are either not relevant for the Group or are currently being analysed. This relates to IFRS 17 Insurance Contracts and IFRIC 23 Uncertainty over Income Tax Treatments.

5. Selected Notes to the Consolidated Statements of Financial Position

Information on the changes in the following items can be found under Net Assets in the Management Report.

a) Other intangible assets

Other intangible assets are comprised of the following:

(Euros in millions)	Service concession arrange-ments and licences	Customer base	Software	Brand names	Others	Construction in progress/ prepayments on intangible assets	Other intan-gible assets
Net book value							
As of 31 December 2016	2,249	2,213	466	62	19	1,206	6,215
As of 30 June 2017	2,901	2,051	487	53	15	354	5,861

b) Property, plant and equipment

Property, plant and equipment included the following:

(Euros in millions)	Land and buildings	Plant and machinery	Furniture, tools and other items	PP&E in progress	Property, plant and equipment
Net book value					
As of 31 December 2016	174	3,841	87	114	4,217
As of 30 June 2017	149	3,690	83	121	4,042

c) Trade and other receivables

The breakdown of this item included in the consolidated statements of financial position is as follows:

	As of 30 June 2017		As of 31 December 2016	
(Euros in millions)	**Non-current**	**Current**	Non-current	Current
Trade receivables	58	1,254	84	1,591
Receivables from related parties	–	54	–	42
Other receivables	–	12	–	19
Allowances for bad debts	(6)	(173)	(7)	(192)
Trade and other receivables	**52**	**1,147**	**77**	**1,460**

d) Other non-financial assets

This item of the consolidated statements of financial position consists of:

	As of 30 June 2017		As of 31 December 2016	
(Euros in millions)	Non-current	Current	Non-current	Current
Prepayments	152	256	128	61
Prepayments to related parties	–	3	–	1
Tax receivables for indirect taxes	–	1	–	1
Other non-financial assets	**152**	**259**	**128**	**63**

The non-financial assets primarily relate to prepaid rent for antenna locations.

e) Interest-bearing debt

Interest-bearing debt consists of the following:

	As of 30 June 2017		As of 31 December 2016	
(Euros in millions)	Non-current	Current	Non-current	Current
Bonds	1,105	11	1,107	12
Promissory notes and registered bonds	299	1	299	4
Loans	1,048	1	298	0
Finance leases	3	16	17	15
Contribution and compensation obligations	–	6	–	6
Interest-bearing debt	**2,456**	**36**	**1,721**	**37**

Loans

The Group entered into a revolving syndicated loan facility (RCF) in the amount of EUR 750 million on 22 March 2016. The maturity of this syndicated loan facility was extended in February 2017 by one year to March 2022 and includes the option to renew for one additional year through March 2023. EUR 600 million of the revolving credit facility had been utilised as of 30 June 2017. The RCF bears a variable interest rate at Euribor money market conditions plus an agreed margin.

On 13 June 2016, a financing agreement in the amount of EUR 450 million was entered into with the European Investment Bank (EIB). As of 30 June 2017, this loan had been utilised in the form of two fixed-interest tranches totalling EUR 450 million. The funds provided by the EIB are due by December 2024 and May 2025 and will be repaid in equal instalments starting in December 2019 and May 2020 respectively. The interest rates for the fixed-interest tranches are determined according to the principles defined by the bodies of the EIB for loans of the same type.

f) Trade and other payables and deferred income

The composition of trade and other payables and deferred income is as follows:

	As of 30 June 2017		As of 31 December 2016	
(Euros in millions)	Non-current	Current	Non-current	Current
Trade payables to third parties	–	748	–	897
Accruals for unbilled trade payables	16	861	15	783
Payables to related parties	–	314	–	425
Trade payables	**16**	**1,923**	**15**	**2,105**
Other creditors non-trade	2	73	2	81
Other payables to related parties	–	42	–	41
Other payables	–	72	–	58
Other payables	**2**	**187**	**2**	**181**
Trade and other payables	**17**	**2,109**	**17**	**2,286**
Deferred income	**296**	**556**	**338**	**664**

Current trade payables to third parties include the outstanding payment obligations from the mobile phone frequency auction in the amount of EUR 111 million.

Accruals relate mainly to outstanding invoices for goods and services and for non-current assets.

Other creditors non-trade primarily consist of liabilities due to personnel.

The other liabilities are mainly comprised of debtors with credit balances.

Deferred income primarily includes advanced payments received for prepaid credits and other advance payments received for future service performance. It further includes the payment received from Drillisch in connection with the Mobile Bitstream Access Mobile Virtual Network Operator (MBA MVNO) agreement.

Other advance payments received for future service performance and the payment received from Drillisch are presented by maturity according to their expected utilisations. Advance payments received for prepaid credits are exclusively classified as current.

g) Provisions

Provisions are recorded at the following amounts:

	As of 30 June 2017		As of 31 December 2016	
(Euros in millions)	Non-current	Current	Non-current	Current
Pension obligations	96	–	106	–
Restructuring	40	58	20	127
Asset retirement obligations	394	56	400	57
Other provisions	33	8	35	5
Provisions	**562**	**122**	**561**	**190**

6. Selected Explanatory Notes to the Consolidated Income Statements

Information on the changes in the following items can be found under Results of Operations in the Management Report.

a) Revenues

Revenues are comprised of the following:

	1 April to 30 June		1 January to 30 June	
(Euros in millions)	**2017**	2016	**2017**	2016
Rendering of services	1,535	1,603	3,051	3,192
Other revenues	235	231	491	499
Revenues	**1,771**	**1,834**	**3,542**	**3,691**

Revenues from the rendering of services include mobile service revenues as well as revenues from fixed DSL business. Other revenues consist of revenues from the sale of handsets and other revenues.

None of the Telefónica Deutschland Group's customers account for more than 10 % of total revenues.

The breakdown of revenues from mobile business and fixed DSL business is shown in the following table:

	1 April to 30 June		1 January to 30 June	
(Euros in millions)	**2017**	2016	**2017**	2016
Mobile business	1,548	1,584	3,092	3,187
Mobile service revenues	1,318	1,358	2,610	2,694
Handset revenues	229	226	482	493
Fixed DSL business	217	245	440	498
Other revenues	6	5	9	6
Revenues	**1,771**	**1,834**	**3,542**	**3,691**

b) Other income

The other income of the Telefónica Deutschland Group for the first six months of the current financial year amounted to EUR 59 million (first half of 2016: EUR 436 million).

c) Depreciation and amortisation

Depreciation and amortisation are as follows:

	1 April to 30 June		1 January to 30 June	
(Euros in millions)	**2017**	2016	**2017**	2016
Depreciation of property, plant and equipment	232	232	463	467
Amortisation of intangible assets	251	297	501	602
Depreciation and amortisation	**483**	**529**	**964**	**1,069**

7. Measurement Categories of Financial Assets and Financial Liabilities

In the following tables, the fair values of all financial assets and financial liabilities of the Telefónica Deutschland Group are disclosed in accordance with the measurement categories from IAS 39 considering the requirements of IFRS 13.

As of 30 June 2017, the carrying amounts of the financial assets and financial liabilities represent an appropriate approximation for their fair values (with the exception of the portion of the bonds that is not hedged, see below).

For further information, please refer to the consolidated financial statements for the year ended 31 December 2016 (see Note 10, Measurement Categories of Financial Assets and Financial Liabilities).

In addition, the tables show the categorisation of the financial assets and financial liabilities in accordance with the importance of the input factors that were used for their respective measurement. The fair value hierarchy prioritises the inputs into three levels that may be used to measure fair value:
— Level 1: Primary market value: quoted prices (unadjusted) in active markets for identical assets and liabilities;
— Level 2: Significant other observable input parameters: inputs observable, either directly or indirectly, which are subject to certain limitations;
— Level 3: Significant unobservable input parameters: all unobservable inputs, which might include the entity's own data as a starting point and which should be adjusted if reasonably available information indicates that other market participants would use different data.

	As of 30 June 2017									
	Financial assets									
					Measurement hierarchy					
(Euros in millions)	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity financial assets**	**Loans and receiva-bles**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	**Not in the scope of IFRS 7**
Non-current trade and other receivables (Note 5c)	–	–	–	52	–	–	–	52	52	–
Other non-current financial assets	10	23	–	11	–	10	23	43	43	10
Current trade and other receivables (Note 5c)	–	–	–	1,145	–	–	–	1,145	1,145	1
Current other financial assets	2	–	–	18	–	2	–	20	20	–
Cash and cash equivalents	–	–	–	673	–	–	–	673	673	–
Total	**12**	**23**	**–**	**1,899**	**–**	**12**	**23**	**1,933**	**1,933**	**11**

	As of 31 December 2016									
	Financial assets									
					Measurement hierarchy					
(Euros in millions)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current trade and other receivables (Note 5c)	–	–	–	77	–	–	–	77	77	–
Other non-current financial assets	12	21	–	18	–	12	21	51	51	9
Current trade and other receivables (Note 5c)	–	–	–	1,458	–	–	–	1,458	1,458	1
Current other financial assets	2	–	–	23	–	2	–	25	25	–
Cash and cash equivalents	–	–	–	613	–	–	–	613	613	–
Total	**14**	**21**	**–**	**2,189**	**–**	**14**	**21**	**2,224**	**2,224**	**11**

As of 30 June 2017, EUR 10 million of the non-current financial assets and EUR 2 million of the current financial assets are classified as financial assets at fair value through profit or loss. These relate to swap agreements in connection with the bonds.

In addition, EUR 23 million of the non-current financial assets are classified as available-for-sale financial assets. These relate to investments in start-ups. These assets were classified as level 3 due to the absence of quoted market prices. These entities generate start-up losses, and the existing business plans contain numerous unpredictable assumptions. Therefore, measurements are based on amortised cost in accordance with IAS 39.46c.

All other financial assets as of 30 June 2017 are categorised as loans and receivables.

(Euros in millions)	As of 30 June 2017								
	Financial liabilities								
	Measurement hierarchy								
	Liabilities at fair value through profit or loss	**Liabilities at amortised cost**	**Finance leases**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Total carrying amount**	**Total fair value**	**Not in the scope of IFRS 7**
Non-current interest-bearing debt (Note 5e)	358	2,095	3	–	358	–	2,456	2,501	–
Non-current trade and other payables (Note 5f)	–	16	–	–	–	–	16	16	2
Current interest-bearing debt (Note 5e)	–	20	16	–	–	–	36	36	–
Current trade and other payables (Note 5f)	–	2,050	–	–	–	–	2,050	2,050	59
Total	**358**	**4,181**	**19**	**–**	**358**	**–**	**4,558**	**4,603**	61

(Euros in millions)	As of 31 December 2016								
	Financial liabilities								
	Measurement hierarchy								
	Liabilities at fair value through profit or loss	Liabilities at amortised cost	Finance leases	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Total carrying amount	Total fair value	Not in the scope of IFRS 7
Non-current interest-bearing debt (Note 5e)	360	1,343	17	–	360	–	1,721	1,778	–
Non-current trade and other payables (Note 5f)	–	15	–	–	–	–	15	15	2
Current interest-bearing debt (Note 5e)	–	22	15	–	–	–	37	37	–
Current trade and other payables (Note 5f)	–	2,218	–	–	–	–	2,218	2,218	68
Total	**360**	**3,599**	**32**	**–**	**360**	**–**	**3,991**	**4,048**	**70**

As of 30 June 2017, EUR 358 million of the non-current interest-bearing debt is classified as liabilities at fair value through profit or loss. The fair value hedges include one interest rate swap each.

The fair values of the bonds (non-current interest-bearing debt) are determined based on primary market values (unadjusted quoted prices in active markets).

In addition to the bonds, the non-current and current interest-bearing debt as of 30 June 2017 contains promissory notes and registered bonds with a total nominal value of around EUR 300 million and the utilisation of two credit facilities totalling EUR 1,050 million. These debts are classified as financial liabilities measured at amortised cost.

The non-current and current trade and other payables are classified as financial liabilities at amortised cost.

8. Contingent Assets and Liabilities

The Telefónica Deutschland Group could be subject to claims or other proceedings arising in the ordinary course of business. As of 30 June 2017, the items listed in the consolidated financial statements for the year ended 31 December 2016 (see Note 18, Contingent Assets and Liabilities) were unchanged with the exception of the following change.

Proceedings were pending in the first instance before the finance court in connection with the VAT treatment of roaming revenues in third countries. They related to the assessment of whether telecommunications services to private customers are subject to German VAT, even if these services are agreed on and billed separately for telephone calls to third countries. The proceedings with the finance court were concluded in the second quarter of 2017 in favour of the Telefónica Deutschland Group. As a result, there were no VAT consequences for the Telefónica Deutschland Group.

For further information, please refer to the consolidated financial statements as of 31 December 2016 (see Note 18, Contingent Assets and Liabilities).

9. Business Combinations

One transaction affecting the basis of consolidation was conducted by the Telefónica Deutschland Group in the period under review. This change in the basis of consolidation did not have a material effect on the interim condensed consolidated financial statements of the Telefónica Deutschland Group.

10. Disposal Groups

Disposal groups in 2016:
Sale of passive tower infrastructure to Telxius

Telxius Telecom S.A., a wholly-owned subsidiary of Telefónica S.A., acquired all of the shares in Telxius Towers Germany GmbH (formerly Telefónica Germany Vermögensverwaltungsgesellschaft mbH), a formerly wholly-owned subsidiary of E-Plus Mobilfunk GmbH, in accordance with a share purchase and transfer agreement dated 21 April 2016.

Telxius Towers Germany GmbH was formed as part of the spin-off of cellular towers and the corresponding assets and liabilities and lease agreements. The purpose of the company was the leasing of passive tower infrastructure for the operation of mobile communications networks.

The disposal of Telxius Towers Germany GmbH had the following impact on the Group's net assets and financial position in the financial year 2016:

(Euros in millions)	As of 21 April 2016
Intangible assets	(23)
Property, plant and equipment	(277)
Trade and other receivables	(0)
Prepaid expenses	(4)
Provisions	83
Trade and other payables	0
Deferred income	8
Net assets and liabilities	**(214)**
Service receivables from Telxius	1
Liabilities to Telxius	(17)
Effect on net assets before cash and cash equivalents	**(231)**
Fee included in cash and cash equivalents	587
Cash and cash equivalents disposed of	(0)
Net cash inflow	**587**

Subsequent to the spin-off, the Telefónica Deutschland Group leased the infrastructure back from Telxius Towers Germany GmbH under the terms of a corresponding lease. Furthermore, the parties agreed that the Group will be able to charge certain service fees to Telxius Towers Germany GmbH during a transitional phase.

A net gain of EUR 352 million was reported in the consolidated income statements in connection with this disposal in the financial year 2016. The gain on the disposal of the interest, which was reported in other operating income, was offset by consulting fees reported in other operating expenses.

11. Subsequent Events

The Supervisory Board of the Telefónica Deutschland has resolved to appoint Markus Rolle as CFO of Telefónica Deutschland, effective as of 1 August 2017 in the meeting on 20 July 2017. The Supervisory Board agreed with Markus Rolle a term of office of 3 years until 31 July 2020.

Markus Rolle replaces Rachel Empey, who has left the company upon her own request and as mutually agreed with the Supervisory Board as of 31 July 2017.

The Supervisory Board of Telefónica Deutschland has also decided in the meeting on 20 July 2017 to eliminate the Internal Corporate Board and elevate selected members to extend the Management Board, effective as of 1 August 2017, as follows:

Wolfgang Metze was appointed as Chief Consumer Officer responsible for the retail business. Alfons Lösing was appointed as Chief Partner and Business Officer, also responsible for Telefónica NEXT. Cayetano Carbajo Martin was appointed as Chief Technology Officer. Guido Eidmann was appointed as Chief Information Officer. Valentina Daiber was appointed as Chief Officer for Legal and Corporate Affairs. Nicole Gerhardt was appointed as Chief Human Resources Officer.

On 31 July 2017, Telefónica Deutschland Group entered into a EUR 500 million bilateral revolving line of credit with Telfisa Global B.V. This line of credit is to be used in the normal course of business and has a term of one year.

There were no other reportable events subsequent to the reporting period.

Munich, 11 August 2017

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze

Telefónica Deutschland Holding AG
Responsibility Statement

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 Condensed Consolidated Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Interim Condensed Group Management Report includes a fair review of the development and performance of the business, and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Munich, 11 August 2017

Telefónica Deutschland Holding AG

The Management Board

Markus Haas

Markus Rolle

Valentina Daiber

Guido Eidmann

Nicole Gerhardt

Alfons Lösing

Cayetano Carbajo Martín

Wolfgang Metze

Review Report

To Telefónica Deutschland Holding AG, Munich

We have reviewed the Interim Condensed Consolidated Financial Statements comprising the Consolidated Statements of Financial Position, the Consolidated Income Statements, the Consolidated Statements of Comprehensive Income, the Consolidated Statements of Changes in Equity, the Consolidated Statements of Cash Flows, the Condensed Notes to the Interim Consolidated Financial Statements and the Interim Group Management Report of Telefónica Deutschland Holding AG, Munich, for the period from January 1, 2017 to June 30, 2017 which are part of the half-year financial report pursuant to § (Article) 37 WpHG ("Wertpapierhandelsgesetz" or German Securities Trading Act). The preparation of the Interim Condensed Consolidated Financial Statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the Interim Group Management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the Interim Condensed Consolidated Financial Statements and on the Interim Group 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 or IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the Interim Condensed Consolidated Financial Statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to Interim Group Management Reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statements audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the Interim Condensed Consolidated Financial Statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

We issue this report on the basis of the engagement agreed with the company, which comprises the attached General Terms of Engagement for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften as of January 1, 2017 which are also applicable to third parties.

Munich, 11 August 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Klaus Bernhard	Stefano Mulas
German public auditor	German public auditor

Glossary_

The glossary also contains abbreviations as used in the Group Management Report.

ADA	Advanced Data Analytics
AktG	Aktiengesetz (German Stock Corporation Act)
ARPU	Average Revenue per User
BEREC	Body of European Regulators for Electronic Communication
BIP	Gross domestic product
Bitkom	German Federal Association for Information Technology, Telecommunications and New Media
BNetzA	Bundesnetzagentur (Federal Network Agency)
bp	Basis points
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
Brexit	British Exit –act of leaving by the United Kingdom from the European Union
CapEx	Capital expenditures: additions to property, plant and equipment and intangible assets excluding investments in licences for mobile phone frequency usage rights
Carrier	Telecommunication network operator authorised by the federal network agency
CF	Cashflow
cloud services	A dynamic infrastructure, software and platform services, which are available online
CO_2	Carbon dioxide
data upselling	Additional data volume available for purchase for customers
DSL	Digital Subscriber Line: technology to transmit data in the local loop to private end-customers
EU	European Union
Euribor	Euro Interbank Offered Rate
ExComm	Executive Committee
FCF	Free Cashflow
FTR	Fixed Network Termination Rates
GfK	Gesellschaft für Konsumforschung (Consumer research association)
GHG	Greenhouse Gas
GSM	Global System for Mobile Communications

GSMA	Global System for Mobile Communications Association
GWh	Gigawatt hours
HGB	Handelsgesetzbuch (German Commercial Code)
IFRS	International Financial Reporting Standards
IoT	Internet of Things
ISIN	International Securities Identification Number
IT	Information Technology
Joint Venture	Two or more companies founding a new enterprise for cooperation
KPN	Koninklijke KPN N.V., The Hague, Netherlands
Leaver Programm	Severance payment programme for the planned downsizing in the context of the merger of E-Plus
LTE	Long Term Evolution: further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication, automatic exchange of information between machines
MBA	Mobile Bitstream Access
MTR	Mobile Termination Rates
MVNO	Mobile Virtual Network Operator
Net Adds	New customers for the period less those customers leaving are designated as net additional customers
O2 (Europe) Limited	O2 (Europe) Limited, Slough, United Kingdom
O_2 Free	The “O_2 Free” data plan allows customers to remain online with speeds of up to 1 Mbit/s even after they have used all of their high-speed data
O_2 My Handy	Monthly payment model for mobile phones and other devices
OIBDA	Operating Income before Depreciation and Amortisation
Opex	Operating expenses
OTT	Over The Top
OTT services	Over-the-top- services (e.g. WhatsApp, Facebook)
PIP	Performance and Investment Plan
Prepaid/Postpaid	In contrast to postpaid contracts, prepaid communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations
PureLRIC	Pure Long Run Incremental Costs – Benchmark to regulate costs associated with interconnection fees
Retail	Sale of goods and services to end users; as opposed to resale or wholesale business
Roaming	Using a communication device or subscriber identity in a different network other than one’s home network

SIM	Subscriber Identity Module: a chip card to insert into a mobile phone, which identifies the user within the network
SIP	Session Initiation Protocol: an Internet Engineering Task Force (IETF) standard protocol for initiating an interactive user session that involves multimedia elements such as video, voice, chat, gaming, and virtual reality
Smartphone	Mobile handset that can be used as a wireless phone, a web browser, and an e-mail reader simultaneously
SME	Small- and Medium-sized Enterprises
SMS	Short Message Service
SoHos	Small offices/Home offices
Tablet	A wireless, portable personal computer with a touch screen interface
Telefónica Deutschland	Telefónica Deutschland Holding AG, Munich
Telefónica, S.A.	Telefónica , S.A., Madrid/Spain
Telefónica Deutschland Group	The companies included in the Consolidated Financial Statements of Telefónica Deutschland
Telefónica NEXT	Telefónica Germany Next GmbH, Munich
Telxius S.A.	Telxius Telecom S.A., the infrastructure entity of Telefonica
TKG	Telekommunikationsgesetz (Telecommunications Act)
TSM-VO	Telecom Single Market Regulation
ULL	Unbundled Local Loop: bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile"
UMTS	Universal Mobile Telecommunications Service: international mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2GHz.
VDSL	Very High Data Rate Digital Subscriber Line (see DSL)
VoLTE	Voice over LTE
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing
WLAN	Wireless Local Area Network

#ShapingDigitalLives

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