

**O2 Telefónica Deutschland  
Finanzierungs GmbH  
Munich**

**Interim condensed financial statements and  
interim management report  
30 June 2015**

*Translation from the German language*

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Interim Statement of Financial Position as of 30 June 2015

Assets	30 June 2015 EUR	31 December 2014 EUR	Equity and liabilities	30 June 2015 EUR	31 December 2014 EUR
<b>A. Fixed assets</b>			<b>A. Equity</b>		
Financial assets			Nominal capital	25,000.00	25,000.00
Loans to affiliated companies	1,100,000,000.00	1,100,000,000.00		<b>25,000.00</b>	<b>25,000.00</b>
	<b>1,100,000,000.00</b>	<b>1,100,000,000.00</b>	<b>B. Provisions</b>		
			Other provisions	68,929.42	53,929.00
<b>B. Current assets</b>				<b>68,929.42</b>	<b>53,929.00</b>
Receivables and other assets			<b>C. Liabilities</b>		
Receivables from affiliated companies --thereof due from shareholders EUR 11,566,876.28 (PY: EUR 11,861,406.49)--	11,591,012.61	11,886,220.32	1. Bonds --thereof with a remaining term of 1 to 5 years EUR 600,000,000.00 (PY: EUR 600,000,000.00)-- --thereof with a remaining term more than 5 years EUR 500,000,000.00 (PY: EUR 500,000,000.00)--	1,100,000,000.00	1,100,000,000.00
	<b>11,591,012.61</b>	<b>11,886,220.32</b>	2. Trade payables --thereof with a remaining term of less than one year EUR 1,672.00 (PY: EUR 0.00)--	1,672.00	0.00
<b>C. Prepaid expenses</b>	<b>7,198,300.00</b>	<b>8,098,600.00</b>	3. Other liabilities --thereof with a remaining term of less than one year EUR 11,495,411.19 (PY: EUR 11,807,291.66)--	11,495,411.19	11,807,291.32
				<b>1,111,497,083.19</b>	<b>1,111,807,291.32</b>
			<b>C. Deferred income</b>	<b>7,198,300.00</b>	<b>8,098,600.00</b>
<b>Total assets</b>	<b>1,118,789,312.61</b>	<b>1,119,984,820.32</b>	<b>Total equity and liabilities</b>	<b>1,118,789,312.61</b>	<b>1,119,984,820.32</b>

**O2 Telefónica Deutschland Finanzierungs GmbH**

**Munich**

**Income Statement**

**for the Interim Financial Period from 1 January 2015 to 30 June 2015**

	<b>1 Jan - 30 Jun 2015</b>	<b>1 Jan - 30 Jun 2014</b>
	<b>EUR</b>	<b>EUR</b>
1. Other operating income	110,941.13	442,775.24
2. Other operating expenses	-110,941.13	-442,775.24
3. Other interest and similar income --thereof from affiliated companies EUR 12,549,342.92 (PY: EUR 11,036,151.93)--	12,549,342.92	11,036,151.93
4. Interest and similar expenses	-12,549,342.50	-11,035,995.90
<b>5. Result from ordinary business activities</b>	<b>0.42</b>	<b>156.03</b>
6. Expense from expected profit transfer	-0.42	-156.03
<b>7. Net result for the period</b>	<b>0.00</b>	<b>0.00</b>

**O2 Telefónica Deutschland Finanzierungs GmbH**

**Munich**

**Statement of Changes in Cash Flows  
for the Interim Financial Period from 1 January 2015 to 30 June 2015**

	1 Jan - 30 Jun 2015	1 Jan - 30 Jun 2014
	EUR	EUR
<b>1. Cash flow from operating activities</b>		
Net result for the period before profit transfer	0.42	156.03
Increase (-)/decrease (+) in inventories, trade accounts receivable and other assets	1,194,049.57	-14,635,270.55
Increase (+)/decrease (-) in trade accounts payable and other liabilities	-1,195,508.13	14,258,833.15
Costs of issuing bonds	0.00	-1,375,000.00
Cash flow from operating activities	<u>-1,458.14</u>	<u>-1,751,281.37</u>
<b>2. Cash flow from investing activities</b>		
Outflows (-) for investments in financial assets	0.00	-496,745,000.00
Cash flow from investing activities	<u>0.00</u>	<u>-496,745,000.00</u>
<b>3. Cash flow from financing activities</b>		
Inflows (+) from issuing bonds	0.00	498,120,000.00
Cash flow from financing activities	<u>0.00</u>	<u>498,120,000.00</u>
<b>4. Cash and cash equivalents at the end of the period</b>		
Net increase/(decrease) in cash and cash equivalents	-1,458.14	-376,281.37
Cash and cash equivalents at the beginning of the period	24,974.94	389,888.56
Cash and cash equivalents at the end of the period	<u>23,516.80</u>	<u>13,607.19</u>
<b>5. Breakdown of cash and cash equivalents</b>		
Cash	0.00	0.00
Cash equivalents	23,516.80	13,607.19
Current liabilities due to banks	0.00	0.00
Cash and cash equivalents at the end of the period	<u>23,516.80</u>	<u>13,607.19</u>

**O2 Telefónica Deutschland Finanzierungs GmbH, Munich**  
**Condensed Notes to the Interim Financial Statements**  
**for the reporting period from 1 January 2015 to 30 June 2015**

**I. GENERAL INFORMATION ABOUT THE INTERIM FINANCIAL STATEMENTS**

Telefónica Deutschland Finanzierungs GmbH, Munich, was established by notary deed on 26 February 2013 for the purpose of financing the Telefónica Deutschland Group. The nominal capital was paid in on 6 March 2013. Telefónica Deutschland Finanzierungs GmbH, Munich was renamed O2 Telefónica Deutschland Finanzierungs GmbH, Munich (referred to as “TDF” or the “Company”) with effect from 7 November 2013.

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

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

The interim financial statements of O2 Telefónica Deutschland Finanzierungs GmbH, Munich for the reporting period from 1 January 2015 to 30 June 2015 have been prepared in accordance with the accounting principles of the German Commercial Code (HGB) and the GmbH Act (Act relating to limited liability companies, GmbHG).

As of 30 June 2015, the Company is classified as a large corporation in accordance with section 264d in conjunction with section 267 (3) HGB.

The financial year of the Company corresponds to the calendar year (1 January to 31 December).

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

## **II. ACCOUNTING POLICIES**

The accounting policies used in the preparation of the interim financial statements for the interim period ending 30 June 2015 are in accordance with the provisions of sections 242 to 256a and sections 264 to 288 of the HGB as well as the relevant provisions of the GmbHG.

The interim statement of financial position presented in these interim financial statements relates to information as of 30 June 2015, which is compared against information as of the previous year-end, 31 December 2014. The income statement covers the interim six-month periods ended 30 June 2015 and 30 June 2014, respectively.

Effective 1 January 2015, the Company applies the provisions and requirements of DRS 21 'Cash flow statement' for the first time. DRS 21 replaces the former standard DRS 2 for the preparation of cash flow statements. The first-time application of DRS 21 has impacts on the separately disclosed cash flow statement and the financial position presented in the management report of TDF. As a result of the new regulations of DRS 21, these interim financial statements additionally comprise a separately disclosed cash flow statement.

Apart from the first-time application of DRS 21, the accounting policies remained unchanged in comparison to the prior period.

Based on the existing profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG, Munich, the result from ordinary business activities for the interim period is already presented as expected profit and loss transfer. The expense from an expected profit transfer is provided for and recognised as other provisions, the income from a loss compensation is presented as receivable from Telefónica Germany GmbH & Co. OHG, Munich.

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

#### **1. Financial assets**

The financial assets as of 30 June 2015 consist of two loans in the amount of EUR 600,000 thousand and EUR 500,000 thousand, respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying five- and seven-year bonds which TDF issued on 22 November 2013 and 10 February 2014, respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 22 November 2018 and 10 February 2021, respectively and are repayable in one amount on the due date, including all interest and costs which have not yet been paid. The underlying interest rates are 1.875% and 2.375%, respectively and are payable annually on 22 November and 10 February, respectively.

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

The receivables due from affiliated companies amount to EUR 11,591 thousand (31 Dec 2014: EUR 11,886 thousand), EUR 11,567 thousand (31 Dec 2014: EUR 11,861 thousand) are attributable to receivables due from the shareholder Telefónica Germany GmbH & Co. OHG, Munich. These comprise interest receivable from loans granted to the shareholders in the amount of EUR 11,508 thousand (31 Dec 2014: EUR 11,807 thousand). The maturity of these receivables is less than one year.

#### **3. Prepaid expenses**

This item includes two disagios from the issuance of the bonds originally amounting to EUR 5,028 thousand for the five-year bond issued in November 2013 and EUR 1,880 thousand for the seven-year bond issued in February 2014. Issuing fees of originally EUR 1,650 thousand for the five-year bond and EUR 1,375 thousand for the seven-year bond are also included. Both elements are released on a pro-rata basis over the terms of the underlying bonds until 22 November 2018 and 10 February 2021, respectively. As of 30 June 2015, EUR 4,563 thousand (31 Dec 2014: EUR 5,231 thousand) of these prepaid expenses relate to the five-year bond issued in November 2013 and EUR 2,635 thousand (31 Dec 2014: EUR 2,868 thousand) relate to the seven-year bond issued in February 2014.

#### **4. Nominal capital**

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

## **5. Provisions**

Other provisions in the amount of EUR 69 thousand (31 Dec 2014: EUR 54 thousand) mainly comprise audit and consultancy fees.

## **6. Liabilities**

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

The other liabilities include interest payable in relation to the bonds in the amount of EUR 11,495 thousand (31 Dec 2014: EUR 11,807 thousand).

## **7. Deferred income**

Deferred income results from the original differences of EUR 6,678 thousand and EUR 3,255 thousand, respectively between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred items are released over the term of the underlying five- and seven-year loan. As of 30 June 2015, EUR 4,563 thousand (31 Dec 2014: EUR 5,231 thousand) of deferred income relate to the five-year bond issued in November 2013 and EUR 2,635 thousand (31 Dec 2014: EUR 2.868 thousand) relate to the seven-year bond issued in February 2014.



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

### **Other operating income and expenses**

Other operating income amounting to EUR 111 thousand (30 Jun 2014: EUR 443 thousand) mainly results from cost transfers to Telefonica Germany GmbH & Co. OHG, Munich. Other operating expenses that relate to the transferred costs amount to EUR 111 thousand (30 Jun 2014: EUR 443 thousand) and mainly consist of bank charges, audit and consultancy fees.

### **Financial result**

Other interest and similar income in the amount of EUR 12,549 thousand (30 Jun 2014: EUR 11,036 thousand) mainly result from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich (EUR 11,648 thousand (30 Jun 2014: EUR 10,213 thousand)). Furthermore, EUR 901 thousand (30 Jun 2014: EUR 823 thousand) result from the release of the deferred income.

Interest and similar expenses in the amount of EUR 12,549 thousand (30 Jun 2014: EUR 11,036 thousand) include interest expense from the bonds of EUR 11,648 thousand (30 Jun 2014: EUR 10,213 thousand) and the release of prepaid expenses in relation to the two dis-agios of EUR 901 thousand (30 Jun 2014: EUR 823 thousand).

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

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

The result at the end of the financial year 2015 will be transferred to or taken over by Telefónica Germany GmbH & Co. OHG, Munich. The positive net result for the interim period ended 30 June 2015 has been recognised as other provision resulting from the expected profit transfer.

## **V. NOTES TO THE CASH FLOW STATEMENT**

The first-time application of DRS 21 effective as from 1 January 2015 has impacts on the presentation of the Company's cash flow statement and financial position. For the first time, cash and cash equivalents ("Finanzmittelfonds") comprise cash and cash equivalents. Cash includes cash in hand and deposits held at call with banks, whereas cash equivalents include other short-term highly liquid investments that can be converted into cash any time and that is held as a cash reserve. Cash equivalents with original maturities of three months or less relate to cash-pooling receivables due from Telfisa Global B.V, Amsterdam, the Netherlands that are recognised as receivables from affiliated companies. The comparative information for the period ended 30 June 2014 has been amended according to the new regulations of DRS 21.

Munich, 30 July 2015

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Rachel Clare Empey

Markus Haas

Albert Graf

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

# Interim Management Report

## O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Management Report for the interim reporting period from 1 January 2015 to 30 June 2015

### 1. Business and general conditions

O2 Telefónica Deutschland Finanzierungs GmbH, Munich (referred to as “TDF” or the “Company”) acts as the financing company for the Telefónica Deutschland Group and its operating entities. The following overall economic and legal conditions for the operating entities are thus indirectly also relevant for TDF.

#### *Overall economic environment in Germany*

The economic recovery that go underway in Germany at the end of 2014 continued after the new year began. As reported by the German Federal Statistical Office, gross domestic product (GDP) rose by 1.5% year-on-year in 2014, representing the German economy’s strongest growth since 2011. According to leading economic research institutes, the German economy held its ground in a difficult global economic environment. The first half of 2015 was characterized by robust economic growth. Domestic demand continued to rise vigorously. Private consumer spending continued the strong momentum of the second half of 2014 almost seamlessly. The general conditions that have been favourable for some time, which include rising employment on the labour market, declining unemployment and tangible increases in earnings, were joined by the boost to purchasing power entailed by the dramatic decline in crude oil prices at the end of 2014, the effects of which were still being felt at the beginning of 2015. The consumer spending climate is still at a high level, though consumers’ economic expectations are being muted slightly by the Greece crisis.<sup>1</sup>

#### GDP growth 2012-14 for Germany and the euro area

In %	2012	2013	2014
Germany	0.7	0.4	1.5
Euro area	(0.7)	(0.4)	0.8

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<sup>1</sup> Deutsche Bundesbank (German Central Bank), German Federal Statistical Office, GfK

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

Various trends can be observed in the German telecommunications sector in addition to continuing customer demand for more bandwidth.

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

In cloud computing, IT services are used as demanded via decentralised computers that are connected via data networks (in the “cloud”) instead of on local computers.

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

### *The German mobile telecommunications market*

With more than 112.3 million customers (SIM cards) at the end of March 2015, the German mobile telecommunications market is the largest in the EU. The notional wireless penetration rate was 140%, meaning that each German citizen has an average of 1.4 mobile SIM cards. Customer growth in the first quarter of 2015 was primarily attributable to the postpaid sector. Overall, postpaid customers made up 51% of total connections as at the end of March 2015. This share had been 50% at the end of March 2014.

The mobile telecommunications market continued to be dynamic in the first half of 2015 and was characterised by intense competition, primarily driven by the strong demand for smartphones and the increasing number of attractive smartphone tariffs. Wireless media use is leading to further increases in wireless data use and rising sales volumes and revenues, particularly for smartphones and tablet PCs. 393 million gigabytes of data were transferred on mobile networks in 2014 (2013: 267 million gigabytes). According to the German Association for Consumer and Communication Electronics (gfu), around 7.8 million tablet PCs (an increase of 10.3% year-on-year) and around 25 million smartphones (an increase of 4.8% year-on-year) were sold in 2014.

The increasing penetration of wireless end-devices with Internet capability such as smartphones or tablets and the increasing use of wireless data services is also evident in the strong growth of revenues from wireless data on the German market: In 2014, according to estimates by Analysys Mason, wireless data revenues increased by over 20% compared to the previous year. By contrast, revenues from mobile telephony and SMS were down, driven by price decline, regulatory effects and changes in customer behaviour.

The German mobile telecommunications market is an established market. Following the merger of the Telefónica Deutschland Group with the E-Plus Group, it consists of three network operators and several service providers. As at the end of June 2015, the Telefónica Deutschland Group had a market share of 37.6% with approximately 43 million connections in total, making it the largest German mobile telecommunications network operator in terms of customers.<sup>2</sup>

#### *The German wireline market*

Intense competition still prevails on the German market for wireline broadband services as well. The number of subscriber lines increased by approximately 4% year-on-year and the customer base grew to approximately 29.6 million by the end of December 2014. The share of DSL connections here is almost 80%. The significance of VDSL continued to gain in significance in 2014. According to the Federal Network Agency, around 12% of all DSL connections use VDSL technology.<sup>3</sup>

The largest DSL provider in Germany is Deutsche Telekom AG, Bonn. The Telefónica Deutschland Group and other significant players on the broadband Internet market rent the unbundled subscriber lines (unbundled local loop, ULL) from Deutsche Telekom AG.

#### *Regulatory influences on the Telefónica Deutschland Group*

##### Development of the GSM licences

On 28 January 2015, the Federal Network Agency reached and published the presidential chamber's decision on the arrangement and selection of the allocation procedure and on the allocation conditions and auction regulations for the allocation of frequencies in the ranges 700 MHz, 900 MHz, 1.5 GHz and 1.8 GHz. Following this, the Telefónica Deutschland Group submitted an application for admission to the auction to the Federal Network Agency on 5 March 2015. The admission of the Telefónica Deutschland Group to the auction has been granted on 22 April 2015 together with Telekom Deutschland GmbH and Vodafone GmbH. The auction began on 27 May 2015 and ended on 19 June 2015. At the mobile phone frequency auction, Telefónica Deutschland Group acquired two paired blocks in the 700 MHz range, two paired blocks in the 900 MHz range and two paired blocks in the 1.8 GHz range each with a term until the end of 2033 for a total price of EUR 1,198 million.

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<sup>2</sup> Source: Company data, German Association for Consumer and Communication Electronics (gfu), Annual Report of the Federal Network Agency

<sup>3</sup> Source: Analysys Mason: Telecoms Market Matrix Western Europe Q4 2014, German Federal Network Agency annual report

On 29 April 2015 and according to our request, the Administrative Court of Cologne (Verwaltungsgericht Köln) has decided in a summary proceeding that Telefónica Deutschland Group's main claims against the Federal Network Agency's merger ruling of 4 July 2014 for an earlier handback of GSM spectrum have suspensive effect. In the main claims, after the hearing on 10 June 2015, the Administrative Court of Cologne upheld the summary proceeding ruling and reversed the Federal Network Agency's ruling. The decision is not yet final and the Federal Network Agency appealed against this in July 2015.

#### Decisions on mobile termination rates (MTR)

For the period starting from 1 December 2014, the Federal Network Agency has taken its final decision on 24 April 2015 and definitively confirmed its provisional decision with rates in the amount of 1.72 Euro cents per minute for the period from 1 December 2014 to 30 November 2015 and 1.66 Euro cents per minute for the period from 1 December 2015 to 30 November 2016. The rates are symmetrical for all German mobile network operators.

#### Decisions on fixed termination rates (FTR)

Following the provisional decision by the Federal Network Agency released on 28 November 2014 for alternative local exchange carriers and thus for the Telefónica Deutschland Group as well regarding local FTRs of 0.24 Euro cents per minute (peak and off-peak) from 1 December 2014 to 31 December 2016 and the EU Commission's notification of these decisions on 18 January 2015, the EU Commission has since expressed serious doubts regarding the rate method and the rate level. A final decision by the Federal Network Agency is expected in the second half of 2015.

#### Transparency regulation of the Federal Network Agency

This regulation is not expected to enter into effect before September 2015. Parts of the regulation will not take effect before 2016 owing to extended implementation periods.

## "Digital Single Market" initiative of the European Commission

In 2013, the EU Commission published the draft Digital Single Market Regulation. Following the elections to the European Parliament and the constitution of a new EU Commission in 2014, the legislative project was divided into two parts.

One part concerns the regulation of the telecommunications market, the Telecom Single Market Package. The EU Commission and Member States of the European Union intend that this will be completed before the end of 2015. It contains plans for consistent regulations on net neutrality and roaming throughout Europe. On 30 June 2015, the EU Commission presented the compromise it reached with the European Council and EU Parliament. According to this, the new roaming regulations provide for an end to roaming charges for consumers from 15 June 2017, whereby fair use restrictions should be possible. From April 2016 current roaming charges are then to be capped at 5 Euro cents net per call minute, 2 Euro cents net for sent SMS and 5 Euro cents net per MB for data connections. Wholesale roaming charges are to be reviewed in the coming months. The compromise also includes regulations for an open internet guaranteeing equal and non-discriminatory access to the internet (net neutrality), whereby it should be possible to offer special services. The compromise reached must now go through the formal legislative process at European level. It is expected to come into effect before the end of 2015.

The other part focuses on more detailed regulatory issues of the European information and telecommunications market. The EU Commission presented its five key points for this package of laws, again called the Digital Single Market Package, in June 2015. The regulations on the standardisation of the market, the harmonisation of spectrum management, the incentivisation of network investment, the regulation of new digital services and the regulatory authorities are to undergo closer examination. Work on this is to continue in the coming months.

## **2. Areas of operation**

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

On 22 November 2013, TDF issued a five-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 600,000 thousand and a maturity on 22 November 2018 in the regulated market of the Luxembourg Stock Exchange. The annual nominal interest of the bond is 1.875%. Furthermore, as of 10 February 2014 and in the same regulated market of the Luxembourg Stock Exchange, TDF issued a seven-year unsecured bond (Senior Unsecured Bond) with a nominal value of EUR 500,000 thousand, an annual nominal interest of 2.375% and a maturity on 10 February 2021.

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

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

The net proceeds from each bond were directly passed from TDF to Telefónica Germany GmbH & Co. OHG, Munich, based on loan agreements with concurrent terms and conditions.



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

#### Net assets

The assets are presented in the following table:

Line items (Euros in thousands)	30 Jun 2015	31 Dec 2014	Development
Financial assets	1,100,000	1,100,000	-
Receivables and other assets	11,591	11,886	-295
Prepaid expenses	7,198	8,099	-901
<b>Total assets</b>	<b>1,118,789</b>	<b>1,119,985</b>	<b>-1,196</b>

The financial assets as of 30 June 2015 consist of two loans in the amount of EUR 600,000 thousand and EUR 500,000 thousand, respectively, granted by TDF to its shareholder Telefónica Germany GmbH & Co. OHG, Munich. The terms of both loans correspond to the terms of the underlying five- and seven-year bonds which TDF issued on 22 November 2013 and 10 February 2014, respectively. The loans have fixed terms until the date of maturity of the underlying bonds on 22 November 2018 and 10 February 2021, respectively and are repayable in one amount on the due date, including all interest and costs which have not yet been paid.

The decrease in receivables due from affiliated companies to EUR 11,591 thousand (31 Dec 2014: EUR 11,886 thousand) mainly derive from decreased interest receivables from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich in the amount of EUR 11,508 thousand (31 Dec 2014: EUR 11,807 thousand). The underlying interest rates are 1.875% and 2.375%, respectively and are payable annually on 22 November and 10 February, respectively. The decrease in accumulated interest receivables is attributable to different payment dates and different interest rates of both loans.

Furthermore, cash-pooling receivables due from Telfisa Global B.V, Amsterdam, the Netherlands decreased from EUR 25 thousand as of 31 December 2014 to EUR 24 thousand as of 30 June 2015.

Prepaid expenses include two disgios from the issuance of the bonds originally amounting to EUR 5,028 thousand for the five-year bond issued in November 2013 and EUR 1,880 thousand for the seven-year bond issued in February 2014. Issuing fees of originally EUR 1,650 thousand for the five-year bond and EUR 1,375 thousand for the seven-year bond are also included. Both elements are released on a pro-rata basis over the terms of the underlying bonds until 22 November 2018 and 10 February 2021, respectively. As of 30 June 2015, EUR 4,563 thousand (31 Dec 2014: EUR 5,231 thousand) of these prepaid expenses relate to the five-year bond issued in November 2013 and EUR 2,635 thousand (31 Dec 2014: EUR 2,868 thousand) relate to the seven-year bond issued in February 2014.

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

<b>Line items (Euros in thousands)</b>	<b>30 Jun 2015</b>	<b>31 Dec 2014</b>	<b>Development</b>
Nominal capital	25	25	-
Bonds	1,100,000	1,100,000	-
Other provisions	69	54	15
Trade payables	2	0	2
Other liabilities	11,495	11,807	-312
Deferred income	7,198	8,099	-901
<b>Total equity and liabilities</b>	<b>1,118,789</b>	<b>1,119,985</b>	<b>-1,196</b>

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

Other provisions in the amount of EUR 69 thousand (31 Dec 2014: EUR 54 thousand) mainly comprise audit and consultancy fees.

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

The decrease in other liabilities by EUR 312 thousand derives entirely from the decrease in interest payable in relation to the bonds. The decrease in accumulated interest payables is attributable to different payment dates and different interest rates of both bonds.

Deferred income results from the original differences of EUR 6,678 thousand and EUR 3,255 thousand, respectively between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred items are released on a pro-rata basis over the term of the underlying five- and seven-year loan. As of 30 June 2015, EUR 4,563 thousand (31 Dec 2014: EUR 5,231 thousand) of deferred income relate to the five-year bond issued in November 2013 and EUR 2,635 thousand (31 Dec 2014: EUR 2.868 thousand) relate to the seven-year bond issued in February 2014.

## Results of operations

For the interim financial reporting period ended 30 June 2015, TDF reported a slightly positive result from ordinary business activities of EUR 0 (31 Dec 2014: EUR 156). Based on the profit and loss transfer agreement with Telefónica Germany GmbH & Co. OHG, the net result for the interim period is recognised as an expense from expected profit transfer.

The main profit and loss items are as follows:

<b>Line items (Euros in thousands)</b>	<b>1 Jan 2015 – 30 Jun 2015</b>	<b>1 Jan 2014 – 30 Jun 2014</b>	<b>Development</b>
Other operating income	111	443	-332
Other operating expenses	- 111	-443	332
Other interest and similar income	12.549	11.036	1.513
Interest and similar expenses	-12.549	-11.036	-1.513
<b>Result from ordinary business activities</b>	<b>0</b>	<b>0</b>	<b>0</b>
Expense from expected profit transfer	0	0	0
<b>Net result for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>

Other operating income amounting to EUR 111 thousand (30 Jun 2014: EUR 443 thousand) mainly results from cost transfers to Telefonica Germany GmbH & Co. OHG, Munich. Other operating expenses that relate to the transferred costs amount to EUR 111 thousand (30 Jun 2014: EUR 443 thousand) and mainly consist of bank charges, audit and consultancy fees which have decreased marginally in comparison to the previous period.

Other interest and similar income in the amount of EUR 12,549 thousand (30 Jun 2014: EUR 11,036 thousand) mainly result from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich (EUR 11,648 thousand (30 Jun 2014: EUR 10,213 thousand)). Furthermore, EUR 901 thousand (30 Jun 2014: EUR 823 thousand) result from the release of the deferred income over the term of the underlying loan. The increase in interest income from the loans granted for the period ended 30 June 2015 in comparison to the previous period ended 30 June 2014 is due to the seven-year loan in the amount of EUR 500,000 thousand having been granted on 10 February 2014.

Interest and similar expenses in the amount of EUR 12,549 thousand (30 Jun 2014: EUR 11,036 thousand) include interest expense from the bonds of EUR 11,648 thousand (30 Jun 2014: EUR 10,213 thousand) and the release of prepaid expenses in relation to the two disagios of EUR 901 thousand (30 Jun 2014: EUR 823 thousand). The increase in interest expenses from the bonds issued for the period ended 30 June 2015 in comparison to the previous period ended 30 June 2014 is due to the seven-year bond in the amount of EUR 500,000 thousand having been issued on 10 February 2014.

## Financial position

As a result of the first-time application of DRS 21 effective as from 1 January 2015, cash and cash equivalents (“Finanzmittelfonds”) comprise cash and cash equivalents. Cash includes cash in hand and deposits held at call with banks, whereas cash equivalents include other short-term highly liquid investments with original maturities of three months or less readily convertible into cash. As of 30 June 2015, cash equivalents amount to EUR 24 thousand (31 Dec 2014: EUR 25 thousand) and relate to receivables from the cash pooling agreement with Telfisa Global B.V, Amsterdam, the Netherlands.

### *Breakdown of cash and cash equivalents*

<b>(Euros in thousands)</b>	<b>30 Jun 2015</b>	<b>31 Dec 2014</b>	<b>Development</b>
Cash	-	-	-
Cash equivalents	24	25	-1
Short-term bank overdrafts	-	-	-
<b>Cash and cash equivalents</b>	<b>24</b>	<b>25</b>	<b>-1</b>

As of 30 June 2015, TDF does not have any unused credit lines.

The development of cash and cash equivalents as well as the corresponding cash flows are presented in the separately disclosed cash flow statement.

During the interim reporting period from 1 January 2015 to 30 June 2015, TDF reported a marginally negative cash flow from operating activities in the amount of EUR 1 thousand (30 Jun 2014: EUR 1,751 thousand). The development towards a negative cash flow in the comparative period ended 30 June 2014 have mainly resulted from costs in relation to the issuance of the second bond in the amount of EUR 1,375 thousand.

During the comparative period ended 30 Jun 2014, TDF reported a negative cash flow from investing activities in the amount of EUR 496,745 thousand that resulted from the loan granted from TDF to Telefónica Germany GmbH & Co. OHG, Munich, on 10 February 2014.

The positive cash flow from financing activities in the amount of EUR 498,120 thousand of the comparative period ended 30 June 2014 further results from the issuance of the second bond as of 10 February 2014.

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

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

Accordingly, the risks and opportunities of O2 Telefónica Deutschland Finanzierungs GmbH, Munich as well as the measures and processes for handling these risks and opportunities are essentially the same as those applicable for the Telefónica Deutschland Group, which are detailed in the management report as of 31 December 2014.

In view of the above and as of the time of preparing this report, management does not anticipate any material changes to the risks and opportunities presented in the financial year ended 31 December 2014, except for the changes described below.

In June 2015 public press released that Airdata AG, Stuttgart, and 1&1 Internet SE, Montabaur, filed suit against the European Union regarding the clearance of the acquisition of the E-Plus Group by Telefónica Deutschland Group. At the date of this report, the claims have not yet been formally published. Therefore, the content of such suits is not known. Given its potential financial impact on the group, the theoretical risk this entails could be classed as considerable.

As a result of the presentation by the EU Commission on 30 June 2015 of the compromise it reached with the European Council and EU Parliament on the gradual abolishment of roaming charges for international calls within the EU by 15 June 2017, the probability of the risk of a lowering of roaming fees described under the heading "Other regulatory influences on fees" has increased significantly. As the formal legislative procedure has not yet been concluded, the exact extent of the regulations is still uncertain, hence the risk continues for this reporting period.

The Federal Network Agency's mobile phone frequency auction in the ranges of 700 MHz, 900 MHz, 1.5 GHz and 1.8 GHz ended on 19 June 2015. At the mobile phone frequency auction, Telefónica Deutschland Group acquired two paired blocks in the 700 MHz range, two paired blocks in the 900 MHz range and two paired blocks in the 1.8 GHz range with a term until the end of 2033. Together with the frequencies for UMTS and LTE services until 2020 respectively 2025 acquired in previous frequency auctions, Telefónica Deutschland Group now has sufficient frequencies for the long term to achieve the services offered and its strategic goals. Furthermore, on 10 June 2015, the Administrative Court of Cologne ruled that the Federal Network Agency's ruling on Telefónica Deutschland Group handing back GSM frequencies is to be reversed, hence these frequencies can still be used according to their runtimes. The decision is not yet final and the Federal Network Agency appealed against this in July 2015. As a result of this, the risk described in the Group Management Report under the heading "Licences and frequencies" has been reduced.

In addition, the risk described under the same heading, that frequencies may only be acquired at auction at higher costs than expected, has been resolved as the necessary frequencies were acquired at a total price of EUR 1,198 million.

Furthermore, the risk concerning another network provider entering the market in the context of the allocation of frequencies no longer applies.

However, in connection with the significant reduction in the risk situation in relation to frequency resources, it should be added that according to our knowledge the company Airdata AG, Stuttgart, und Liquid Broadband AG, Frankfurt am Main, had appealed against the decision of the presidential chamber of the Federal Network Agency that set out the conditions for the auction. In the event of a positive ruling, this could lead to the frequency auction having to be repeated under changed conditions. This would lead to the risks described above applying again.

## **5. Report on events after the reporting period**

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

### *Transfer of mobile network sites*

In the course of its network integration, Telefónica Deutschland is transferring 7,700 mobile network sites to Deutsche Telekom. A corresponding agreement was signed on 17 July 2015. As planned the company realizes part of the announced synergies from the network integration with this transaction. Furthermore, Telefónica Deutschland can utilize resources which would have been required to dismantle these redundant sites, to accelerate the roll-out of its LTE network. Telefónica Deutschland Group can continue to use these sites without restriction until they are no longer needed in the course of the integration of the O<sub>2</sub> and E-Plus networks. The implementation of the transaction is expected to result in restructuring expenses for network optimisation in the mid-double digit millions. Financial impacts from the transfer have already been included within the communicated synergy expectations related to the network integration. .

### *Start of use of network capacity by Drillisch*

As part of the merger with the E-Plus Group and the antitrust approval process, Telefónica Deutschland Group committed to divulge some of its network capacity. In 2014 Telefonica Deutschland Group had signed an MBA MVNO (“Mobile Bitstream Access Mobile Virtual Network Operator”) agreement on this with Drillisch. Since 1 July 2015 Drillisch can now access the network capacity of Telefónica Deutschland Group as planned according to the agreed mobile bitstream access model.

There were no other reportable events after the end of the reporting period at neither group level nor TDF.

## **6. Forecast report for the interim reporting period 2015**

The forecast report describes the probable development of TDF in the course of the second half year of 2015. The report contains comments and information regarding future events. Forward looking comments and information are based on expectations and assumptions of the Company at the time when this management and forecast report is published, on the basis of known and unknown opportunities and risks. The success of the Company, the business strategy and also the results of the Company are influenced by a wide range of factors outside the control of the Company.

If such opportunities or risks occur or if uncertain factors materialise, or if it becomes apparent that one of the underlying assumptions was not correct, the actual development of the Company may differ (positively as well as negatively) from the expectations and assumptions in the forward-looking comments and information set out in this forecast report. Forecasts available in the public domain regarding the development of the overall economy and the sector have only been detailed to an extent which is relevant for understanding the comments regarding the probable development of the Company. They must not impair the perception of the comments regarding the probable development of the Company.

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

### *Economic outlook for Germany until 31 December 2015*

The leading economic research institutes expect economic growth in Germany to continue in 2015. In spring, they further raised their growth expectations and for 2015 as a whole, the institutes are now forecasting a growth of 1.8% in gross domestic product. Economic momentum in Germany is expected to benefit from factors such as the low price of oil and the weaker euro exchange rate. The sharp decline in the price of oil is currently having an effect similar to that of a tax cut for companies and consumers in the German economy. For companies, the falling costs of energy are causing profits to rise. Private consumer spending will also play an important role in the forecast recovery in the German economy in 2015. Chiefly due to the lower energy prices, commodities such as heating oil and petrol have become considerably cheaper. At the same time, the favourable general conditions on the labour market and the clear rise in earnings for private households are creating significant scope for other acquisitions.



A risk to the consumer economy, and thus also to the overall economic development in Germany, is still posed by any escalation at international crisis hotspots.

A rise in economic performance of 1.5% is forecast for the euro area in 2015.<sup>4</sup>

GDP growth 2013-15 for Germany and the euro area

In %	2013	2014	2015
Germany	0.4	1.5	1.8
Euro area	(0.4)	0.8	1.5

### *Market expectations*

Market developments in Germany, one of the biggest telecommunications markets in Europe, will again be driven by rising customer demand for wireless and wireline broadband and data services. The boom in smartphones and tablets, in addition to growing demand for LTE, are driving growth in wireless data services. Smartphones and tablets are becoming the trailblazers for the digital revolution for an all-round “digital lifestyle” in Germany. At the same time, the growing proliferation of data-based communications services, so-called over-the-top (“OTT”) applications such as WhatsApp, Skype, Facebook or Apple FaceTime, are increasing data usage. Thus, the monetisation of the wireless data business will continue to gain strongly in significance for mobile telecommunications providers. A further trend is a growing market of M2M communication with countless application possibilities and cloud services.

At the same time, the negative trend for wireless voice and SMS will continue as a result of further price pressure and changing customer behaviour. The market for wireless services in Germany is expected to report negative growth overall in the coming years, with a decline in mobile service revenues of around 2% per year until 2016.<sup>5</sup>

### *Expectations for the Telefónica Deutschland Group and TDF*

At present, there are no facts that the forecasts as of 31 December 2014 have changed significantly. Financial outlook for the year 2015 remains unchanged, including operating cash flow savings of ca. 30% of the expected run-rate of synergies in year five of integration.

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<sup>4</sup> Source: GfK Consumer Index, German Central Bank, FocusEconomics Euro Area Consensus Forecast

<sup>5</sup> Source: Company data, Analysys Mason

The following chart shows a summary of the financial outlook for 2015:

	<b>Base line for 2014<sup>6</sup> (EUR million)</b>	<b>Half year 1 2015<sup>7</sup> (year-on-year percentage growth)</b>	<b>Outlook for 2015<sup>8</sup> (year-on-year percentage growth)</b>
<b>Mobile Service Revenues</b>	5,528	+0.8%	Broadly stable
<b>OIBDA</b>	1,461	+9.8%	>10%
<b>CapEx</b>	1,161	+5.6%	Highly single digit percentage decline

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<sup>6</sup> Combined figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies. The combined figures are further adjusted by exceptional effects, such as capital gains or restructuring costs based on estimates made by Telefónica management and resulting in combined figures we believe are more meaningful as a comparable basis.

<sup>7</sup> Year-on-year comparisons are based on combined figures for 2014. OIBDA in the first quarter of 2015 excludes EUR +17 million from a capital gain related to the sale of yourfone GmbH. In the second quarter of 2015, it excludes EUR -3 million restructuring costs, mainly related to the shop consolidation process. CapEx excludes investments in spectrum and includes specific restructuring investments.

<sup>8</sup> All expected regulatory effects (MTR cuts and others) are included in the outlook. Restructuring costs from the integration of E-Plus Group are excluded from OIBDA Outlook. CapEx excludes investments in spectrum and includes specific restructuring investments.

## 7. Management summary

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

Munich, 30 July 2015

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Rachel Clare Empey

Markus Haas

Albert Graf

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

## **Review Report**

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

We have reviewed the interim condensed financial statements, comprising the interim statement of financial position, the income statement, the cash flow statement and the condensed notes, and the interim management report of O<sub>2</sub> Telefónica Deutschland Finanzierungs GmbH, Munich, for the period from 1 January 2015 to 30 June 2015, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]. The preparation of the interim condensed financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the WpHG applicable to interim management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the interim condensed financial statements and the interim management report based on our review.

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

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

Munich, 30 July 2015

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

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

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