

**O2 Telefónica Deutschland  
Finanzierungs GmbH  
Munich**

Interim condensed financial statements and  
interim management report  
30 June 2016

O2 Telefónica Deutschland Finanzierungs GmbH

Munich

Statement of Financial Position as of 30 June 2016

| Assets                                                                                 | 6/30/2016<br>EUR        | 12/31/2015<br>EUR       | Equity and liabilities                                                                                             | 6/30/2016<br>EUR        | 12/31/2015<br>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>                                                                                               |                         |                         |
| <b>B. Current assets</b>                                                               |                         |                         | Other provisions                                                                                                   | 44,128.00               | 48,888.00               |
| Receivables and other assets                                                           |                         |                         |                                                                                                                    | <b>44,128.00</b>        | <b>48,888.00</b>        |
|                                                                                        |                         |                         | <b>C. Liabilities</b>                                                                                              |                         |                         |
| Receivables from affiliated companies                                                  | 11,565,913.38           | 11,882,851.66           | 1. Bonds                                                                                                           | 1,100,000,000.00        | 1,100,000,000.00        |
| --thereof due from shareholders EUR 11,549,238.43 (previous year: EUR 11,848,929.37)-- |                         |                         | --thereof with a remaining term of less than one year EUR 0 (previous year: EUR 0)--                               |                         |                         |
|                                                                                        | <b>11,565,913.38</b>    | <b>11,882,851.66</b>    | --thereof with a remaining term of less than five years EUR 1,100,000,000.00 (previous year: EUR 500,000,000.00)-- |                         |                         |
|                                                                                        |                         |                         | 2. Trade payables                                                                                                  | 1,672.00                | 1,672.00                |
| <b>C. Prepaid expenses</b>                                                             | <b>5,397,700.00</b>     | <b>6,298,000.00</b>     | --thereof with a remaining term of less than one year EUR 1,672.00 (previous year: EUR 1,672.00)--                 |                         |                         |
|                                                                                        |                         |                         | 3. Other liabilities                                                                                               | 11,495,113.37           | 11,807,291.66           |
|                                                                                        |                         |                         | --thereof with a remaining term of less than one year EUR 11,495,113.37 (previous year: EUR 11,807,291.66)--       |                         |                         |
|                                                                                        |                         |                         |                                                                                                                    | <b>1,111,496,785.38</b> | <b>1,111,808,963.66</b> |
|                                                                                        |                         |                         | <b>D. Deferred income</b>                                                                                          | <b>5,397,700.00</b>     | <b>6,298,000.00</b>     |
| <b>Total assets</b>                                                                    | <b>1,116,963,613.38</b> | <b>1,118,180,851.66</b> | <b>Total equity and liabilities</b>                                                                                | <b>1,116,963,613.38</b> | <b>1,118,180,851.66</b> |

**O2 Telefónica Deutschland Finanzierungs GmbH****Munich****Income Statement****for the Reporting Period from 1 January 2016 to 30 June 2016**

|                                                                                                                                    | 01.01.2016 -<br>30.06.2016 | 01.01.2015 -<br>30.06.2015 |
|------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
|                                                                                                                                    | EUR                        | EUR                        |
| 1. Other operating income                                                                                                          | 120,401.56                 | 110,941.13                 |
| 2. Other operating expenses                                                                                                        | -120,401.56                | -110,941.13                |
| 3. Other interest and similar income<br>--thereof from affiliated companies EUR 12,549,820.67 (previous year: EUR 12,549,342.92)-- | 12,549,820.67              | 12,549,342.92              |
| 4. Interest and similar expenses                                                                                                   | -12,549,820.67             | -12,549,342.50             |
| <b>5. Result from ordinary business activities</b>                                                                                 | <b>0.00</b>                | <b>0.42</b>                |
| 6. Expense from expected profit transfer                                                                                           | 0.00                       | -0.42                      |
| <b>7. Net result of the year</b>                                                                                                   | <b>0.00</b>                | <b>0.00</b>                |

**O2 Telefónica Deutschland Finanzierungs GmbH****Munich****Statement of Cash Flows****for the Financial Year from 1 January 2016 to 30 June 2016**

|                                                                                      | 01.01.2016-<br>6/30/2016<br>EUR | 01.01.2015-<br>6/30/2015<br>EUR |
|--------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| <b>1. Cash flow from operating activities</b>                                        |                                 |                                 |
| Result for period before profit transfer                                             | 0.00                            | 0.42                            |
| Increase (+)/decrease (-) in other provisions                                        | -4,760.00                       | 15,000.42                       |
| Increase (+)/decrease (-) in inventories, trade accounts receivable and other assets | 299,294.36                      | 1,194,049.57                    |
| Increase (+)/decrease (-) in trade accounts payable and other liabilities            | -312,178.28                     | -1,210,508.13                   |
| Interest income (+) / interest expense (-)                                           | 0.00                            | -0.42                           |
| Cash flow from operating activities                                                  | -17,643.92                      | -1,458.14                       |
| <b>2. Cash flow from investing activities</b>                                        |                                 |                                 |
| Interest received (+)                                                                | 11,875,000.00                   | 11,875,000.00                   |
| Cash flow from investing activities                                                  | 11,875,000.00                   | 11,875,000.00                   |
| <b>3. Cash flow from financing activities</b>                                        |                                 |                                 |
| Inflows (+) from issuing bonds                                                       | 0.00                            | 0.00                            |
| Interest paid (-)                                                                    | -11,875,000.00                  | -11,875,000.00                  |
| Cash flow from financing activities                                                  | -11,875,000.00                  | -11,875,000.00                  |
| <b>4. Cash and cash equivalents at the end of the period</b>                         |                                 |                                 |
| Cash-effective change in cash and cash equivalents                                   | -17,643.92                      | -1,458.14                       |
| Cash and cash equivalents at the beginning of the period                             | 33,875.21                       | 24,974.94                       |
| Cash and cash equivalents at the end of the period                                   | 16,231.29                       | 23,516.80                       |
| <b>5. Composition of cash and cash equivalents</b>                                   |                                 |                                 |
| Cash equivalents                                                                     | 16,231.29                       | 23,516.80                       |
| Cash and cash equivalents at the end of the period                                   | 16,231.29                       | 23,516.80                       |

**O2 Telefónica Deutschland Finanzierungs GmbH**

**Munich**

**Statement of Changes in Equity  
for the Financial Year from 1 January 2016 to 30 June 2016**

|                      | Nominal capital | Statutory<br>reserve | Other retained<br>earnings | Net income for<br>the year | Equity    |
|----------------------|-----------------|----------------------|----------------------------|----------------------------|-----------|
|                      | EUR             | EUR                  | EUR                        | EUR                        | EUR       |
| As of 1 January 2016 | 25,000.00       | 0.00                 | 0.00                       | 0.00                       | 25,000.00 |
| As of 30 June 2016   | 25,000.00       | 0.00                 | 0.00                       | 0.00                       | 25,000.00 |
| As of 1 January 2016 | 25,000.00       | 0.00                 | 0.00                       | 0.00                       | 25,000.00 |
| As of 30 June 2016   | 25,000.00       | 0.00                 | 0.00                       | 0.00                       | 25,000.00 |

## **O2 Telefónica Deutschland Finanzierungs GmbH, Munich**

### **Condensed Notes to the Interim Financial Statements for the reporting period from 1 January 2016 to 30 June 2016**

#### **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. The Company is registered in the commercial register of the local court in Munich under registration number HRB 204122.

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 2016 to 30 June 2016 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 2016, the Company is classified as a large corporation in accordance with section 264d in conjunction with section 267 (3) HGB.

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

The income statement has been prepared using the nature of expense method in accordance with section 275 (2) HGB. The figures in the half-year financial statements have been rounded in accordance with established commercial practice. Additions of the figures may therefore result in sums different from those shown in the tables.

## **II. ACCOUNTING POLICIES**

The accounting policies used in the preparation of the interim financial statements for the interim period ending 30 June 2016 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 accounting policies did not change year on year.

The interim statement of financial position presented in these interim financial statements relates to information as of 30 June 2016, which is compared against information as of the previous year-end, 31 December 2015. The income statement covers the interim six-month periods ended 30 June 2016 and 30 June 2015 respectively.

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 2016 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 11,566 thousand (31 December 2015: EUR 11,883 thousand), EUR 11,549 thousand (31 December 2015: EUR 11,849 thousand) are attributable to receivables due from the shareholder Telefónica Germany GmbH & Co. OHG, Munich. These comprise claims to interest from loans issued to the shareholder in the amount of EUR 11,495 thousand (31 December 2015: EUR 11,807 thousand). The maturity of these receivables is less than one year.

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

This item includes the updated disgios from the issuance of the bonds for the five-year bond issued in November 2013 and for the seven-year bond issued in February 2014. Issuing fees for the five-year bond and for the seven-year bond are also included. All elements are released on a pro-rata basis over the terms of the underlying bonds until 22 November 2018 and 10 February 2021 respectively.

#### **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 44 thousand (31 December 2015: EUR 49 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 less 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 December 2015: EUR 11,807 thousand).

## **7. Deferred income**

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

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

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

Other operating income amounting to EUR 120 thousand (30 June 2015: EUR 111 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 120 thousand (30 June 2015: EUR 111 thousand) and mainly consist of bank charges, audit and consultancy fees.

##### **Financial result**

Other interest and similar income in the amount of EUR 12,550 thousand (30 June 2015: EUR 12,549 thousand) mainly result from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, (EUR 11,650 thousand (30 June 2015: EUR 11,648 thousand)). Furthermore, EUR 900 thousand (30 June 2015: EUR 901 thousand) result from the release of the deferred income.

Interest and similar expenses in the amount of EUR 12,550 thousand (30 June 2015: EUR 12,549 thousand) include interest expense from the bonds of EUR 11,650 thousand (30 June 2015: EUR 11,648 thousand) and the release of prepaid expenses in relation to the two disagios of EUR 900 thousand (30 June 2015: EUR 901 thousand).

#### **V. REPORT ON EVENTS AFTER THE REPORTING PERIOD**

There were no notable events or changes affecting the net assets, financial position and results of operations of Telefónica Deutschland Finanzierungs GmbH, Munich, before the date this report was prepared. Neither the economic environment altered to such a degree as to materially impact business activities, nor was the industry situation significantly different than at 31 December 2015.

## **VI. ADDITIONAL DISCLOSURES ON THE NOTES**

### **Consolidated Financial Statements**

The company that prepares the Interim Group Report for the smallest group of companies in which the Company is included is Telefónica Deutschland Holding AG, Munich. The Interim Group Report is published in the Federal Gazette and can be viewed there and on the website [www.telefonica.de](http://www.telefonica.de). The Interim Group Report of Telefónica Deutschland AG, Munich, is included in the Interim Group Report of the Spanish parent company, Telefónica S.A., Madrid, Spain. Telefónica S.A., Madrid, Spain, prepares the Interim Group Report for the largest group of companies. These Interim Consolidated Financial Statements are available from Telefónica S.A., Madrid, Spain, and are published online at [www.telefonica.com](http://www.telefonica.com).

### **Cost reimbursement agreement**

There is an agreement between TDF and Telefónica Germany GmbH & Co. OHG, Munich, for costs to be transferred to the shareholder.

### **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 2016 will be transferred to or taken over by Telefónica Germany GmbH & Co. OHG, Munich. The profit or loss during the year is generally covered by the profit and loss transfer agreement.

Munich, 4 August 2016

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

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# Interim Management Report

## O2 Telefónica Deutschland Finanzierungs GmbH, Munich

Management Report for the Interim Reporting Period from 1 January 2016 to 30 June 2016

### 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 German economy held its ground in a difficult global economic environment in the first half of 2016 and continued to develop positively. The strongest stimuli came mostly from the country's domestic strengths. Private consumption ranks first here, having been boosted mainly by the positive development in employment, and the number of employed is still rising. According to the German Federal Employment Agency (Bundesagentur für Arbeit), it reached its highest level since reunification at 43.4 million. Consumers are very optimistic when it comes to their income development. The good employment situation means that collectively agreed incomes in many industries are rising rapidly. In addition, due to the inflation rate of close to 0%, nominal income growth means an almost equally sharp rise in purchasing power.

#### *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 mobile data usage and increasing smartphone and tablet penetration are opening up further opportunities for growth for mobile telecommunications network operators. This trend will continue in the future. Smartphones and tablets are trailblazers for the digital revolution in Germany. At the same time, the monetisation of the mobile data business will continue to be a top priority for mobile telecommunications providers.

Advancing digitalisation is changing the world forever. The telecommunications industry is a major trailblazer for digitalisation. Alongside the connection of people, the intelligent connection of things via the internet (IoT) also offers numerous application and growth possibilities. Another trend is data analysis, which as well as new knowledge is also enabling new business models.

### *Demand for mobile data services*

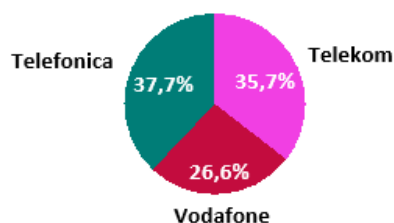
With 114 million customers (SIM cards) at the end of March 2016, the German mobile telecommunications market is the largest in the EU. The notional mobile penetration rate was 142%, i.e. each German citizen had an average of 1.4 mobile SIM cards. The customer growth from January to March 2016 remained attributable primarily to the more valuable postpaid sector. Overall, postpaid customers made up 52.5% of total connections as of the end of March 2016. This share had been 52.1% at the end of December 2015.

The mobile telecommunications market continued to develop dynamically in the first half of 2016 and was characterised by intense competition, driven primarily by the strong demand for attractive smartphones and smartphone tariffs. According to a survey by the industry association Bitkom, 76% of all Germans aged 14 and over currently use a smartphone. Two years ago, it was just 55%. However, a slowdown in the growth of the smartphone market can be observed, driven by its increasing saturation. Smartphones are also being used for longer. According to the German Association for Consumer and Communication Electronics (gfu), 5.4 million smartphones were sold in the first quarter of 2016, which equates to a drop of around 11% compared to the same quarter of the previous year.

Mobile media use resulted in growing mobile data use and rising sales volumes and revenues, particularly for smartphones and tablets. According to Dialog Consult, 510 million GB of data were transmitted on mobile networks in 2015, or 29% more than in 2014 (395 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 estimates by Analysys Mason, mobile data revenues increased by over 14% in 2015 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.

*Market shares in the mobile telecommunications market per customers (in %) by the end of March 2016*



Source: Company data, Analysys Mason, GfK Consumer Index, DIW, Bitkom

### *The German mobile telecommunications 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 MVNOs. As of the end of March 2016, the Telefónica Deutschland Group had a market share of 37.7% with more than 43 million connections. It is therefore the largest German mobile telecommunications network operator in terms of customer connections.

### *The German fixed line market*

Intense competition still prevails on the German market for fixed line broadband services as well. The number of connections increased by approximately 5% year on year; the customer base therefore grew to approximately 30.8 million by the end of December 2015. The share of DSL connections here is almost 80%. VDSL has continued to grow in significance. According to the German Federal Network Agency (BNetzA), around 20% of DSL customers used VDSL technology at the end of 2015. The increased customer demand for more bandwidth is also reflected in the data volume generated per broadband connection and month. According to Dialog Consult, this increased by nearly 20% compared to 2014 to 31.8 GB per connection.

Source: Analysys Mason, Dialog Consult/VATM analyses and forecasts, German Federal Network Agency

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*

#### BNetzA prepares decision on MTR

The current mobile termination rates (MTR) of 1.66 euro cents per minute expire at the end of November 2016. For the new round of fee approval, the German Federal Network Agency (BNetzA) consulted nationally on a draft of a new regulation on market definition and analysis regarding the market for call termination in individual mobile networks and informed the European Commission in early July 2016. The draft provides for pureLRIC (LRIC = long-run incremental costs), a new cost benchmark for calculating the MTR. The Telefónica Deutschland Group participated in the consultation process.

### BNetzA presents draft decision on local loop access for local vectoring to the European Commission

The BNetzA notified the European Commission of the draft decision. After a review process, the latter expressed concerns and initiated a phase-two process. Shortly before a working group of the Body of European Regulators for Electronic Communications (BEREC) could comment on the decision-making procedure, the BNetzA withdrew the notification and on 17 June 2016 presented a revised draft decision that was again consulted upon nationally in parallel up to 15 July 2016. On 19 July 2016, the EU Commission announced its decision not to initiate another phase-two process due to serious concerns regarding the BNetzA's revised draft. A final decision by the BNetzA is expected in August 2016.

### BNetzA to issue transparency regulation

To strengthen the position of consumers, the BNetzA will issue a regulation containing measures aimed at increasing the transparency of mobile and fixed line telephone and internet services. After further discussion, the current draft of 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. On 15 June 2016, the cabinet of the German Federal Government approved the BNetzA's transparency regulation. As a result, the German Federal Parliament (Bundestag) will now consider the transparency regulation. The regulation is expected to enter into force in the third quarter of 2016. However, parts of the regulation will not take effect until the first half of 2017 or, in some cases, in the second half of 2017 owing to the implementation periods provided for in the regulation.

### The Telefónica Deutschland Group adjusts roaming tariffs

On 29 November 2015, a regulation came into force following publication in the official journal of the European Commission that provides for an end to roaming charges for end customers from 15 June 2017 and the consistent regulation of net neutrality throughout Europe.

There were discussions between the BNetzA and the Telefónica Deutschland Group regarding the interpretable requirements of the regulation. In order to settle these discussions, the Telefónica Deutschland Group voluntarily declared itself willing to adjust its own tariffs.

In November 2015, the European Commission initiated a review of the wholesale roaming market in order to assess what measures are required to enable the elimination of roaming charges for consumers by 15 June 2017. The Commission submitted a report and a legislative proposal on this in June 2016, which is currently being consulted on.

#### New telecommunications transparency requirements under the Telecoms Single Market Regulation (TSM-R) specified

TSM-R, which includes regulations on net neutrality, took effect on 30 November 2015; the transparency requirements have been applicable since 30 June 2016. So far, however, it has not been determined how the individual rules of the regulation are to be implemented. On 6 June 2016, BEREC submitted draft guidelines for consultation, which could be commented upon until 18 July 2016. The final guidelines are expected to be published at the end of August 2016.

#### Section 111 TKG amended under the Act for Better Information Sharing to Combat International Terrorism

On 24 June 2016, the German parliament passed the *Gesetz zum besseren Informationsaustausch bei der Bekämpfung des internationalen Terrorismus* (German Act for Better Information Sharing to Combat International Terrorism). This also amends section 111 of the *Telekommunikationsgesetz* (TKG – German Telecommunications Act), which stipulates which customer data must be collected before activating the connection. In the future, this standard will require the identity of customers to be checked by means of certain identification documents or other methods yet to be determined by the BNetzA before prepaid SIM cards are activated. It cannot be ruled out that these regulations will entail considerable complexity in data collection and restrictions in sales opportunities for the industry. However, the scope cannot be predicted until the requirements of the BNetzA are known.

## **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                   | 30 Jun 2016<br>(Euros in<br>thousands) | 31 Dec 2015<br>(Euros in<br>thousands) | Development<br>(Euros in<br>thousands) |
|------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|
| Financial assets             | 1,100,000                              | 1,100,000                              | -                                      |
| Receivables and other assets | 11,566                                 | 11,883                                 | -317                                   |
| Prepaid expenses             | 5,398                                  | 6,298                                  | -900                                   |
| <b>Total assets</b>          | <b>1,116,964</b>                       | <b>1,118,181</b>                       | <b>-1,217</b>                          |

The financial assets as of 30 June 2016 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. The loans 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 11,566 thousand (31 December 2015: EUR 11,883 thousand) mainly derive from decreased interest receivables from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, in the amount of EUR 11,495 thousand (31 December 2015: 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 34 thousand as of 31 December 2015 to EUR 16 thousand as of 30 June 2016.

As of 30 June 2016, prepaid expenses included the updated disgios from the issuance of the bonds for the five-year bond issued in November 2013 and for the seven-year bond issued in February 2014. The updated issuing fees are also included. The change in prepaid expenses resulted from the release of these elements on a pro-rata basis over the terms of the underlying bonds until 22 November 2018 and 10 February 2021 respectively.

Equity and liabilities are presented in the following table:

| Line items                          | 30 Jun 2016<br>(Euros in thousands) | 31 Dec 2015<br>(Euros in thousands) | Development<br>(Euros in thousands) |
|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Nominal capital                     | 25                                  | 25                                  | -                                   |
| Other provisions                    | 44                                  | 49                                  | -5                                  |
| Bonds                               | 1,100,000                           | 1,100,000                           | -                                   |
| Trade payables                      | 2                                   | 2                                   | -                                   |
| Other liabilities                   | 11,495                              | 11,807                              | -312                                |
| Deferred income                     | 5,398                               | 6,298                               | -900                                |
| <b>Total equity and liabilities</b> | <b>1,116,964</b>                    | <b>1,118,181</b>                    | <b>-1,217</b>                       |

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.

Other provisions in the amount of EUR 44 thousand (31 December 2015: EUR 49 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. Both bonds had a remaining term of less than five years as of 30 June 2016 and 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 updated differences between the nominal values of the underlying loans and the amounts paid out to Telefónica Germany GmbH & Co. OHG, Munich. The deferred items are released over the term of the underlying five- and seven-year loan.

## Results of operations

For the interim financial reporting period ended 30 June 2016, TDF reported a result from ordinary business activities of EUR 0 (30 June 2015: EUR 0).

The main profit and loss items are as follows:

| Line items                                      | 1 Jan 2016<br>30 Jun 2016 | 1 Jan 2015<br>30 Jun 2015 | Development             |
|-------------------------------------------------|---------------------------|---------------------------|-------------------------|
|                                                 | (Euros in<br>thousands)   | (Euros in<br>thousands)   | (Euros in<br>thousands) |
| Other operating income                          | 120                       | 111                       | 9                       |
| Other operating expenses                        | -120                      | - 111                     | -9                      |
| Other interest and similar income               | 12,550                    | 12,549                    | 1                       |
| Interest and similar expenses                   | -12,550                   | -12,549                   | -1                      |
| <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 120 thousand (30 June 2015: EUR 111 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 120 thousand (30 June 2015: EUR 111 thousand) and mainly consist of bank charges, audit and consultancy fees which have increased marginally in comparison to the previous period.

Other interest and similar income in the amount of EUR 12,550 thousand (30 June 2015: EUR 12,549 thousand) mainly result from interest income from the loans granted to Telefónica Germany GmbH & Co. OHG, Munich, (EUR 11,650 thousand (30 June 2015: EUR 11,648 thousand)). Furthermore, EUR 900 thousand (30 June 2015: EUR 901 thousand) result from the release of the deferred income over the term of the underlying loan.

Interest and similar expenses in the amount of EUR 12,550 thousand (30 June 2015: EUR 12,549 thousand) include interest expense from the bonds of EUR 11,650 thousand (30 June 2015: EUR 11,648 thousand) and the release of prepaid expenses in relation to the two disgios of EUR 900 thousand (30 June 2015: EUR 901 thousand).

## **Financial position**

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

Cash and cash equivalents include the cash in hand and deposits held at call with banks and the cash-pooling receivables due from Telfisa Global B.V, Amsterdam, the Netherlands.

During the interim reporting period from 1 January 2016 to 30 June 2016, TDF reported a negative cash flow from operating activities in the amount of EUR 18 thousand (30 June 2015: EUR 1 thousand). The development towards a negative cash flow in the comparative period mainly resulted from the decrease in provisions for consulting costs of EUR 25 thousand.

During the reporting period as well as the comparative period, TDF reported a positive cash flow from investing activities in the amount of EUR 11,875 thousand that resulted from the interest payments from the borrower Telefónica Germany GmbH & Co. OHG, Munich.

The outgoing payments in the cash flow from financing activities amounted to EUR 11,875 thousand, which are unchanged as of 30 June 2016 and resulted from the interest payments for the bonds issued.

As of 30 June 2016, TDF had an unused credit facility amounting to EUR 6 thousand (previous year: EUR 6 thousand).

## **4. Opportunity and Risk Report**

TDF currently restricts its activities exclusively to financing 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. 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 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 2015.

In view of the above and as of the time of preparing this report, management has identified no further significant risks or opportunities in the reporting period in addition to those already presented in the combined management report for the 2015 financial year. 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.

## **5. Report on Events after the Reporting Period**

As already outlined in section 4, significant events at the Telefónica Deutschland Group after the end of the first half of 2016 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:

### *Change in the Supervisory Board of Telefónica Deutschland*

Christoph Braun is a member of the Supervisory Board of Telefónica Deutschland as the successor to Imke Blumenthal with effect from 1 July. Christoph Braun was elected Deputy Chairperson of the Supervisory Board at the meeting of 18 July 2016.

### *Dividend proposal for the 2016 financial year*

On 26 July 2016, the Management Board of Telefónica Deutschland resolved its intention to propose a cash dividend of EUR 0.25 per share to the next Annual General Meeting.

There were no other reportable events after the end of the reporting period.

## **6. Forecast Report for the Interim Reporting Period 2016**

The forecast report describes the probable development of TDF in the course of the second half year of 2016. 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 2016*

The leading economic research institutes expect economic growth in Germany to continue in 2016. They are forecasting a 1.6% increase in gross domestic product. Private consumer spending will remain the pillar of the German economy in 2016. According to the GfK (Gesellschaft für Konsumforschung, consumer research association), consumer spending will rise by 2% in 2016. At the same time, the favourable conditions of the labour market and the sustained positive income expectations among private households are creating considerable scope for purchases, while the incentive to save remains low within the low-interest environment.

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 United Kingdom's planned exit from the European Union (Brexit) will affect the European and above all the German economy.

A rise in economic performance of 1.5% is forecast for the euro area in 2016.

Source: GfK Consumer Index, Focus Economics, Bundesbank

#### GDP growth 2014-16 for Germany and the euro area

| In %             | 2014 | 2015 | 2016 |
|------------------|------|------|------|
| <b>Germany</b>   | 1.5  | 1.7  | 1.6  |
| <b>Euro area</b> | 0.8  | 1.5  | 1.5  |

### *Market expectations*

Market developments in Germany, one of Europe's largest telecommunications markets, will again be driven by rising customer demand for mobile and fixed line broadband and data services. The increasing use of smartphones and tablets and the growing demand for LTE are driving growth in mobile data services. 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, is increasing data usage. This means that the monetisation of mobile data business will remain a strong focus of mobile telecommunications providers.

At the same time, the negative trend for mobile voice and SMS will continue as a result of further price pressure and changing customer behaviour. Analysts expect revenues in the market for mobile services in Germany to remain more or less stable until 2016.

Advancing digitalisation is changing the world forever. The telecommunications industry is a major trailblazer for digitalisation here. Alongside the connection of people, the intelligent connection of things via the internet (IoT) also offers numerous application and growth possibilities. Another trend is data analysis, which as well as new knowledge is also enabling new business models.

Source: Analysys Mason, Bitkom

### *Expectations for Telefónica Deutschland Finanzierungs GmbH*

As of 30 June 2016, there were no material changes in the net assets, financial position and results of operations compared to the end of 2015. For the period from 1 July to 31 December 2016, the management of TDF does not expect any material changes in the net assets, financial position and results of operations compared to the reporting period.

### *Expectations for the Telefónica Deutschland Group*

We reiterate our full-year outlook for MSR, but are narrowing the range from 'slightly negative to broadly stable' year on year to 'slightly negative' year-on-year on the back of increased dynamics, especially in the non-premium end of the market. As expected, we also continue to see MSR headwinds from legacy customer base effects and regulatory effects in contrast, data usage and our LTE customer base continue to grow, and we still expect this data growth to drive an inflection point in our MSR trajectory in the future.

At the same time we are reiterating our OIBDA outlook of 'low to mid single-digit' year on year OIBDA percentage growth (before exceptional and special effects<sup>1</sup>). The narrowing of the MSR outlook range has no impact on our OIBDA outlook, as we continue to benefit from the roll-over effects of the successful integration initiatives in 2015, as well as pushing ahead with employee restructuring, customer migration and network integration efforts in 2016. We thus continue to expect incremental OpEx and revenue-related in-year savings and from synergies of approximately EUR 150 million, as well as a cumulated savings level of approximately EUR 430 million (>50% of total operating cash flow target of EUR 800 million) by year-end 2016.

We are also adjusting our CapEx outlook (excluding spectrum) from 'percentage growth in the low tens to mid' to 'high single-digit growth' in year on year terms in 2016. This is largely the result of more efficient CapEx spend as well as phasing topics related to the network integration.

We reiterate our general dividend policy. We view ourselves as a dividend-paying company with the intention to support a high payout ratio in relation to Free cash flow. More specifically, over the next 3 years we intend to grow our dividend annually, starting with a dividend proposal of EUR 0.25 per share in 2016. The company leverage<sup>2</sup> target of 'at or below 1.0x net debt/OIBDA over the medium term' remains unchanged and will be continually reviewed.

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<sup>1</sup> Exceptional and non-recurring effects are excluded from our forecast. Exceptional effects include the gain on disposal from the Telefónica Deutschland Group's sale of passive radio tower infrastructure in the second quarter of 2016. The OIBDA effects are chiefly attributable to higher operating lease expenses between May and December 2016 and are treated as non-recurring effects for 2016, so they are not included in the forecast.

<sup>2</sup> Leverage is defined as net financial debt divided by the OIBDA of the last twelve months before exceptional effects.

## 7. Management Summary

In its capacity as a financing company, TDF currently 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 Holding AG, Munich. The management of TDF considers the overall business development to be favourable.

Munich, 4 August 2016

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

Rachel Empey

Markus Haas

Albert Graf

# Declaration of Statutory Representatives

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

Munich,

O2 Telefónica Deutschland Finanzierungs GmbH

- Management -

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Chief Financial Officer  
Mrs. Rachel Empey

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Chief Operating Officer  
Mr. Markus Haas

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Chief Executive Officer  
Mr. Albert Graf

## **Review Report**

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

We have reviewed the interim condensed financial statements, comprising the interim statement of financial position, the income statement, 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 2016 to 30 June 2016, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG [“Wertpapierhandelsgesetz”: German 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, 4 August 2016

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

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

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