Interim Report

as of January 1 to September 30, 2012

Telefónica

Deutschland

Strong in the stock market

To our shareholders

by René Schuster, Chief Executive Officer (CEO), Rachel Empey, Chief Financial Officer (CFO) and Markus Haas, Chief Strategy Officer (CSO), Telefónica Deutschland Holding AG

Dear Shareholder,

We are pleased to provide you with our first interim management report as a listed company. The Telefónica Deutschland shares have been listed on the Prime Standard of the Frankfurt Stock Exchange since October 30, 2012. The listing represents a special milestone in our company's history – one of which we are very proud.

The IPO was the next logical step for Telefónica Deutschland. Demand for our shares was strong. The issue was over-subscribed and the first few days of trading on the stock exchange were encouraging for Telefónica Deutschland. This successful floatation indicates that we are on the right track and that we have succeeded in convincing our new worldwide shareholders that our strategy promises excellent prospects for the future.

This investor's confidence is a proof of our strength, but also represents an obligation. We are determined to meet our shareholders' expectations and will ensure great transparency and manage the company with a focus on shareholder value.

We continued our successful business development in the period from January to September 2012 and delivered a very strong financial performance in the third quarter of 2012. Despite a competitive market, our key indicators showed continued positive momentum, driven by wireless data growth.

We saw a rise in contract customers and data revenues, while the operating result (OIBDA) continued on its positive trajectory. The significant OIBDA growth in the third quarter of 2012 resulted in an OIBDA margin of 25.7%. Our strong third-quarter results demonstrate that Telefónica Deutschland continues to be on a growth track, a performance record about which we are clearly delighted.

We would like to take this opportunity to thank everyone connected with our company – a successful growth story requires highly satisfied customers, efficient and trusting partners and a motivated workforce. Special thanks goes to our employees who contributed substantially to our success. Their confidence, dedication and commitment make us what we are today: the third-largest integrated telecommunications network operator in Germany and also the third largest mobile network operator based on Q3/2012 wireless service revenues. We express our appreciation and gratitude for their hard work.

We do not see our floatation as a final achievement but rather as a signal that we've taken the next step. We are confident that we are raising our profile further, and that we will continue the successful growth story of Telefónica Deutschland in the long term. We are very well positioned to achieve this in the German market. The wireless data business is one of our core strengths and we will continuously build upon that in the future.

We thank you for the confidence you have placed in our company!
The management board of Telefónica Deutschland Holding AG

René Schuster, CEO

Rachel Empey, CFO

Markus Haas, CSO

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The figures were subject to rounding adjustments that were carried out according to established commercial standards. As a result, the figures stated in a table may not exactly add up to the total values that may also be stated in the table.

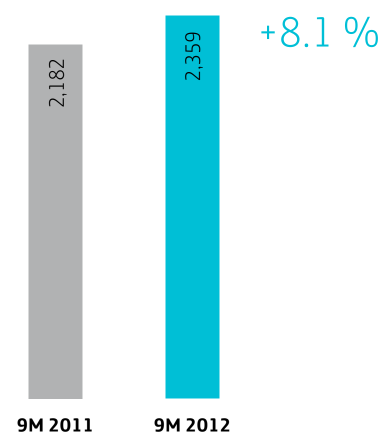
Financial Highlights

Key Data

Euros in millions

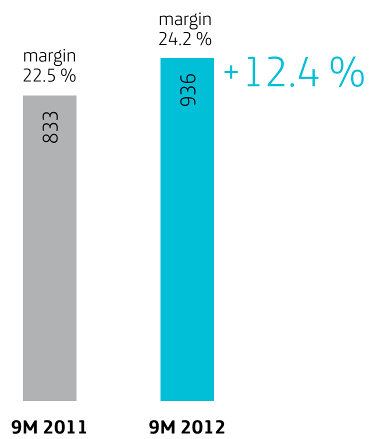
	January 1 to September 30		
	2012	**2011**	**Change**
Revenues	**3,871**	**3,705**	**4.5%**
Wireless service revenues	2,359	2,182	8.1%
Operating Income before D&A (OIBDA)	**936**	**833**	**12.4%**
OIBDA margin (%)	24.2	22.5	1.7%-p.
Operating Income (OI)	**104**	**35**	**n.m.**
Profit for the period	**108**	**37**	**n.m.**
Earnings per share (EUR)	**0.10**	**0.03**	**n.m.**
CapEx	**452**	**373**	**21.3%**
Operating Cash Flow (OIBDA-CapEx)	**484**	**461**	**5.1%**
Free Cash Flow pre dividends	**549**	**170**	**n.m.**
Net debt	**1,058**	**n.m.**	**n.m.**
Leverage ratio	0.85x	n.m.	n.m.
Total Accesses (in thousands)	**25,320**	**24,332**	**4.1%**
Wireless accesses	19,114	18,146	5.3%
Post-paid share (%)	**51.7**	**49.4**	**2.3%-p.**
Blended ARPU	**13.8**	**13.6**	**1.7%**
Post-paid churn (%)	**(1.5)**	**(1.7)**	**0.2%-p.**
% of non-SMS data over total data revenues	**55.6**	**49.8**	**5.8%-p.**
Headcount	**5,005**	**5,123**	**(2.3)%**

Wireless Service Revenues Euros in millions



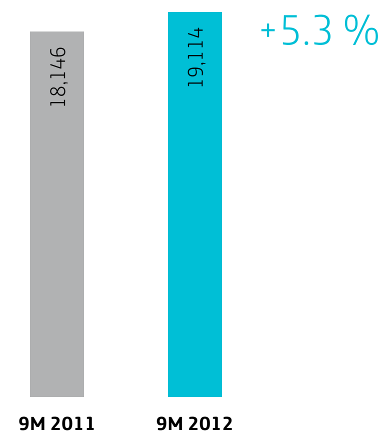
- Up EUR 177m or 8.1%
- Mainly driven by higher smartphone penetration and more wireless data service customers

OIBDA/OIBDA Margin Euros in millions



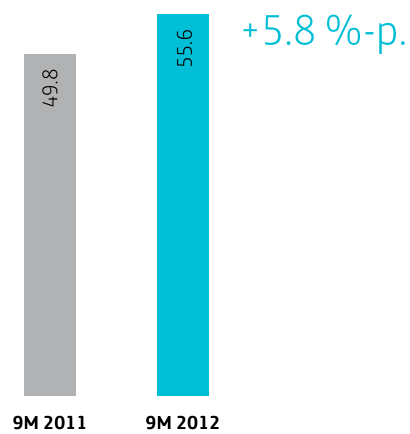
- Up EUR 103m or 12.4%
- Mainly driven by commercial growth in the post-paid segment, monetization of the data opportunity, scale and efficiency improvements

Wireless Accesses in thousands



- Up 5.3% (968 thousand) year-on-year
- Mainly driven by the post-paid segment

Non-SMS Data over Total Data Revenues in %



- Percentage to total data revenues 55.6% (increase of 5.8 percentage points)
- Mainly driven by increased penetration of smartphones and mobile data usage

Highlights
January – September 2012

We are very pleased with the business results of the first nine months of 2012. Our wireless data strategy, future-proof network infrastructure and ability to innovate are the right priorities to drive our growth. Below we would like to highlight some of the important milestones that contributed to our success to date this year, and some awards that recognize our efforts.

Wireless Data

Wireless data is the key driver of our growth. Increasing smartphone sales add to this momentum. We have continued to profit from the growing wireless data demand by balancing our tariffs between customer needs and monetization. As well, offering the most attractive smartphones available and marrying them with our tailored O_2 Blue tariffs positions us to keep benefitting from the smartphone boom. Currently we are rolling out LTE (Long Term Evolution), the new technology standard for wireless high-speed internet, so that we can manage future data traffic and provide access to the new technology for the mass market. We are in fact driving the wireless digital revolution.

New O_2 Blue tariff portfolio

Flexible, competitive customer-driven products like the O_2 Blue tariff portfolio are key to supporting our strategic objective of monetizing data opportunities. At the beginning of the year, Telefónica Deutschland turned its popular O_2 Blue tariffs into real smartphone tariffs by enhancing the data attractiveness. So we fulfilled customers' needs in having an integrated offer of wireless voice and data services. At the same time, the new portfolio enabled us to turn the strong data demand into revenue growth. Since 2012 Telefónica Deutschland offers LTE as an option to its existing O_2 Blue portfolio.

Next generation smartphone

In addition to attractive tariffs, Telefónica Deutschland sells top smartphones: from the iPhone 5 to the LTE-enabled Galaxy S3 or HTC One XL. We continue to profit from our attractive, transparent 'O_2 My Handy'-model. In the first nine months of the year, more than 90% of the mobile devices we sold were smartphones.

Commercial launch of LTE

In July, Telefónica Deutschland launched its new generation of wireless Internet with LTE 4G. Since then, customers have been able to use the new Internet for their LTE-capable smartphones and tablets, experiencing surf rates of up to 50 MBit/s.

Network

A reliable, state-of-the-art network is pivotal to success in the wireless data market. Telefónica Deutschland's continuous investments in its network enable the company to capture the growing demand for wireless data services.

Extension of capacities in the 3G network

While LTE 4G is the future technology standard, a major share of today's wireless data traffic is still managed using 3G networks. Over the past two years, the number of data requests in our network has grown by nearly 600 percent. To ensure a seamless user experience and to cope with the increasing traffic demand, we have implemented over 4,700 capacity-expansion actions and activated well over a hundred new base stations since the beginning of the year.

LTE rollout

Expanding LTE into major cities will further boost network capacities. The LTE rollouts in Munich, Berlin, Hamburg, Hanover, Leipzig, Frankfurt, and the Rhein-Ruhr-region are progressing at full speed. The high-speed areas Dresden and Nuremberg are already in place. With the 800 MHz frequencies, Telefónica Deutschland is able to provide large areas with LTE, while fewer locations for base stations are needed. Thus, Telefónica Deutschland uses the most efficient method to roll out LTE across Germany. Until the end of the year, we aim to cover 15%* of the German population with LTE.

* With an additional potential outdoor population coverage of c.7% with sites that are built but have not been connected, yet.

Network cooperation with Deutsche Telekom

In order to capture the strong growth in the wireless data market, Telefónica Deutschland has signed a long-term agreement with Deutsche Telekom. The collaboration provides Telefónica Deutschland with access to Deutsche Telekom's fiber transport network for 3G and 4G and will ensure network capacity in the long-term.

Innovation

Together with Telefónica Group, Telefónica Deutschland has established 'areas of innovation' that work on developing new business opportunities and technologies. In order to leverage the strong position in the German wireless services market and to monetize additional growth opportunities, Telefónica Deutschland recently launched the following digital innovations:

Financial services

To benefit from the increasing popularity of mobile payment, Telefónica Deutschland is installing a full eco-system around financial services. With 'direct to bill', Telefónica Deutschland customers can pay for digital goods such as games, virtual currencies or apps via their mobile phone bill. The service offers customers security and convenience as they don't have to transmit their data to different retailers.

'mpass' enables customers to transact online payments at online shops and pay via their mobile phones. New near field communication (NFC) technology allows users to make simple, secure and contactless payments in physical retail stores as well. In cooperation with MasterCard, we enable our customers to make contactless payments using all points of sale that use Paypass infrastructure. In Germany there are already several thousand points of acceptance, worldwide there are more than 500,000.

Wayra Academy opening in Germany

Wayra is a global initiative of Telefónica Digital and is set to become the world's largest start-up accelerator program. Wayra's invitation for Germany went out in July 2012. The start-ups have been selected and moved to the Wayra Academy in Munich, which started in September. At the Academy, the start-ups benefit not only from financing, but also from Telefónica's technical expertise. They also have access to the entire Wayra network and are given the opportunity to sell their products to the more than 300 million Telefónica customers worldwide. After the acceleration period, Telefónica receives an interest of up to ten percent in each start-up and the right of first refusal on products and services. The business ideas range from smart new social networks to machine-to-machine communication and clever smartphone apps.

Awards

Telefónica Deutschland and the products and services it provides are regularly reviewed and evaluated by independent experts. A list of some of the awards Telefónica Deutschland received in 2012 follows.

Connected fairly with Telefónica Deutschland

An independent study called 'Connected fairly' was conducted for the first time to evaluate the fairness of wireless service providers. Nearly 1,800 FOCUS MONEY readers provided the feedback. Among the network providers, Telefónica Deutschland received six times the best vote of 'very good' and received the prize for fairest wireless service provider in Germany. Telefónica Deutschland also received awards for fairness related to price-performance ratio, customer service, communication, sustainability and responsibility.

Connect readers choice 2012

Special interest magazine Connect conducted a Readers Choice survey in which Telefónica Deutschland was ranked number two in the category 'Network operator-prepaid for 2012'.

Telefónica Deutschland is a great place to work

Telefónica Deutschland was also chosen as one of the best employers in Germany in 2012 (rank 3). In an independent study on workplace culture by the Great Place to Work® Institute Germany, Telefónica Deutschland was once again placed near the top in the institute's ranking of companies.

TÜV Rheinland: Highest speed for ADSL

Telefónica Deutschland is one of the three major ADSL providers in Germany. The company's extensive network coverage guarantees very high line stability as demonstrated by the TÜV quality seal received from TÜV Rheinland for the third consecutive year.

Portrait of Telefónica Deutschland

Telefónica Deutschland is the third largest integrated telecom operator in Germany and, based on Q3/2012 wireless service revenues, also the third largest mobile network operator. For the year ended December 31, 2011, the company generated revenues of EUR 5bn and had a market share of 16.7% in the German wireless services market (on the basis of subscriber numbers as of September 30, 2012).

The company has been steadily growing its subscriber base across all business areas. As of September 30, 2012, Telefónica Deutschland served more than 25 million customer accesses.

Telefónica Deutschland offers wireless and wireline services providing voice, data and value-added services to consumer and business customers. The company is also one of Germany's leading wholesale providers, offering its wholesale partners access to its infrastructure and service capabilities. The company has built a competitive network infrastructure and a strong spectrum position.

Telefónica Deutschland uses a multi-brand strategy for its products but is focused on its core premium O_2 brand, through which it offers the majority of its wireless and wireline products and services. The company accesses additional customer groups through its secondary brands such as FONIC, netzclub, Tchibo mobil and Türk Telekom Mobile. Telefónica Deutschland targets Small offices/Home offices (SoHo) and small/medium enterprise business customers through its O_2 brand, and large, national companies and multinational corporations through its 'Telefónica Multinational Solutions'.

In its wholesale service business, Telefónica Deutschland offers wireless and wireline services to customers such as 1&1, mobilcom/debitel, Drillisch and the two major German cable operators Unitymedia/KabelBW and Kabel Deutschland. The company offers all products through a diversified distribution platform comprising direct and indirect sales channels.

Debut of the Telefónica Deutschland Shares

The IPO of Telefónica Deutschland Holding AG took place as scheduled on October 30, 2012. In total, 258.75 million shares were placed with investors (including 33.75 million over-allotted shares in connection with the fully exercised greenshoe option). The issue price was set at EUR 5.60. The free float is currently 23.17%.
On October 30, 2012, the Telefónica Deutschland shares were traded for the first time on the Frankfurt Stock Exchange in the Prime Standard segment. Trading opened at EUR 5.70 and thus 1.8% higher than the issue price.

The company's headquarter in Munich.

Interim Management Report

as of January 1 to September 30, 2012

Overview of the first nine months of the financial year 2012

- Strong financial performance despite a competitive market situation
- Total revenue growth of 4.5%
- Sound wireless service revenue performance at 8.1% year-on-year with non-SMS data revenues improving by 31.7% year-on-year
- Significant OIBDA growth of 12.4% and margin progression to 24.2% (plus 1.7 percentage points year-on-year)
- Increased investments in the network, improving 3G data capacity and accelerating LTE network rollout, targeting 15%* of German population coverage by end of 2012
- Strong Operating Cash Flow generation of EUR 484m translated into Free Cash Flow of EUR 549m and net debt position of EUR 1,058m
- Solid increase of wireless post-paid base of 10.3% year-on-year to account for 51.7% of the total base
- Strong year-on-year performance of wireless average revenue per user 'ARPU' at 1.7%

* With an additional potential outdoor population coverage of c.7% with sites that are built but have not been connected, yet.

1. Analysis of the business performance as of January 1 to September 30, 2012

1.1. Economic and legal environment

1.1.1. Economic environment

German macro environment
Germany is Europe's largest economy and has been relatively resilient throughout the recent economic crisis, experiencing consistent GDP growth over the last few years. Real GDP growth in 2011 was 3.1% compared to 1.6% across the EU. Current projections for real GDP growth in 2012 are 0.7% for Germany, higher than the EU average of minus 0.4% in 2012. Germany is one of the wealthiest countries in the EU with GDP per capita estimated at EUR 31,500 in 2011 and expected to increase to EUR 32,100 in 2012, higher than the EU average of EUR 25,200 in 2011 and EUR 25,900 forecasted for 2012.

(Source: Economist Intelligence Unit, European Commission, DataStream)

Real GDP Growth in %

	2010	2011	2012 (estimate)
Germany	3.6	3.1	0.7
EU Average	2.0	1.6	(0.4)

General trends in the German telecommunications market
The German telecommunications sector is experiencing a number of clear trends which are set to extend into the future. First, there is a strong movement towards convergence. Second, there is a strong push by all four mobile network operators to monetize wireless data. The symbiotic growth in wireless data usage and smartphone penetration presents upside opportunities for mobile network operators. Third, it is expected that there will be a move to cloud services, where services such as Customer Relationship Management systems and e-mail are hosted remotely rather than on dedicated servers within enterprises. Finally, the market for machine-to-machine communication is growing.

(Source: Yankee Group Research, EMEA ConnectedView Forecast, June 2012)

German wireless market
Germany is the EU's largest wireless market by number of subscribers with 114.2 million accesses (i.e. SIM cards) and a penetration rate of approximately 140% at the end of September 2012. There are currently 61.6 million pre-paid accesses in Germany, representing 54% of total accesses, while post-paid accesses account for 52.6 million, representing 46% of the total accesses.

(Source: Company data)

Wireless service revenue growth continued in the nine-month period ended September 30, 2012, growing by 2.5% compared to the same period last year. This increase in wireless services revenues is mainly driven by an increased penetration of smartphones and small screen devices such as tablets, as well as consumption of wireless data services.

The German mobile market is well developed, with four mobile network operators. Telefónica Deutschland is represented with 19.1 million accesses, holding a current market share of 16.7% as at September 30, 2012. At present, there are no signs of a fifth mobile network operator possibly entering the market based on the outcome of the recent spectrum auction that took place in 2010.

(Source: Company data)

German wireline market
The broadband services market in Germany is highly competitive. The major DSL service provider in Germany is Deutsche Telekom, the incumbent telecommunications service provider. Other major competitors in the broadband internet market are, for example, United Internet, and alternative network operators such as Vodafone and Telefónica Deutschland that rent the unbundled local loop (ULL) from Deutsche Telekom. In addition to this, DSL players and cable operators offer high speed internet connections as a result of the rapid modernization of cable networks in recent years.

1.1.2. Regulatory influences on Telefónica Deutschland Holding AG

Telefónica Deutschland and its subsidiaries are subject to regulation in Germany and Europe. Our operations are largely subject to state regulation. Besides sector-specific telecommunications regulations, Telefónica Deutschland is generally also subject to supervision by the Federal Cartel Office under competition law, as well as to a variety of other regulations, including but not limited to consumer protection provisions and data protection regulation.

The German Telecommunications Act (Telekommunikationsgesetz) imposes far-reaching regulation for many telecommunication services provided by Telefónica Deutschland. Under this Act, the Federal Network Agency (Bundesnetzagentur) can impose obligations on companies with 'significant market power' in individual markets regarding the services they offer on those markets.

For example, the Federal Network Agency regards Telefónica Deutschland as having 'significant market power' in the wholesale market for termination on its individual network and obliges Telefónica Deutschland to offer the respective wholesale product at prices (mobile termination rates – MTRs and fixed termination rates – FTRs) subject to prior approval by the Federal Network Agency.

The fundamental principles of the European telecommunications market regulation are defined by the European Union. The recent telecommunications reform package included far-reaching amendments to the directives and recommendations of the European regulatory framework and had to be transposed into national law by mid-2011. In other areas, the European Commission intervenes directly in the pricing policy. The 'Third' Roaming Regulation dated July 1, 2012 further reduces roaming rates for voice, text messaging and data on the wholesale as well as on retail level. With its recommendation on the regulatory treatment of fixed and mobile termination rates of May 2009, the European Commission is attempting to further harmonize the reduction of termination rates. The European Commission also supervises compliance with EU antitrust and competition law. Our current mobile termination rates expire on November 30, 2012. On November 16, 2012 the Federal Network Agency has taken a preliminary decision on MTRs (45% reduction to EUR 0.0185/min) which has first to be notified to the EU before the final decision will be taken.

1.2. Group organization, business activities and strategy

1.2.1. Legal structure of Telefónica Deutschland Holding AG

Telefónica Deutschland Holding AG is a German stock corporation (Aktiengesellschaft) organized and operating under German law. The Company's change of legal form from a German limited liability company (Gesellschaft mit beschränkter Haftung) into a German stock corporation (Aktiengesellschaft) was resolved upon the general shareholders' meeting on September 18, 2012 and was registered in the commercial register on September 26, 2012. Since that date, the Company has existed as a German stock corporation (Aktiengesellschaft).

The legal and business name (Firma) is 'Telefónica Deutschland Holding AG'. The registered office (Satzungssitz) is in Munich, Germany. Telefónica Deutschland Holding AG is registered in the commercial register (Handelsregister) of the local court (Amtsgericht) in Munich under registration number HRB 201055. The Company has its business address at Georg-Brauchle-Ring 23–25, 80992 Munich, Germany (telephone number: +49 (0) 89 2442–0; www.telefonica.de). Its financial year is the calendar year (January 1 through December 31). Telefónica Deutschland Holding AG was established for an unlimited period of time.

The Initial Public Offering on the regulated market of the Frankfurt Stock Exchange was successfully concluded with the first day of trading on October 30, 2012 and an initial issuing share price of EUR 5.60. The WKN is A1J5RX; the ISIN DE000A1J5RX9. The registered share capital of the Telefónica Deutschland Holding AG amounts to EUR 1,116,945,400. It is divided into 1,116,945,400 registered shares with no-par value and a notional amount of the registered share capital of EUR 1.00 each. While 23.17% of the shares are in free float the remaining 76.83% are in the possession of Telefónica Germany Holdings Limited. Each share confers one vote at the company's general shareholders' meeting (Hauptversammlung). There are no restrictions on voting rights. The major shareholder Telefónica Germany Holdings Limited does not have any different voting rights.

Telefónica Deutschland Holding AG has authorized capital allowing the management board of the company to increase the registered share capital until September 2017 by a total amount of up to EUR 558,472,700 by issuing new non-par value registered shares.

This management report of Telefónica Deutschland complements the interim condensed combined financial statements as of January 1 to September 30, 2012.

Management and governing bodies
The company's governing bodies are the management board (Vorstand), the supervisory board (Aufsichtsrat) and the general shareholders' meeting (Hauptversammlung). The power of these governing bodies is determined by the German Stock Corporation Act (Aktiengesetz), the company's articles of association and the by-laws of both the management board and the supervisory board.

Management board
Members of the management board are appointed by the supervisory board for a maximum term of five years and may be re-appointed an unlimited number of times, in each case for a maximum of five years. The supervisory board may revoke the appointment of a management board member prior to the expiration of his or her term for good reason, such as for gross breach of fiduciary duties or if the general shareholders' meeting adopts a no-confidence resolution in relation to the management board member in question. The supervisory board may appoint one management board member as chairman or spokesman and another member as deputy chairman or spokesman. The members of the management board of the company have been appointed until September 17, 2015.

The management board of the company currently comprises three members:

René Schuster – CEO (Chief Executive Officer)
Rachel Empey – CFO (Chief Financial Officer)
Markus Haas – CSO (Chief Strategy Officer)

Supervisory board
In accordance with the Company's Articles of Association and sections 95 and 96 of the German Stock Corporation Act, the supervisory board will consist of twelve members of which there are six shareholder representatives and – after the already initiated election process within Telefónica Deutschland – six employee representatives. Unless the general shareholders' meeting has set a shorter term, the term of each supervisory board member, as well as the term of each substitute member, if elected, expires at the end of the general shareholders' meeting discharging the members of the supervisory board for the fourth fiscal year following the commencement of the member's term of office, not including the fiscal year in which the term commences. All members of the supervisory board of the company have been appointed until the end of the ordinary general shareholders' meeting held in 2017 for the year ending December 31, 2016.

1.2.2. Business activities

We offer wireless and wireline services providing voice, data and value-added services to consumer and business customers. In addition, we are one of the leading wholesale providers in Germany, offering our wholesale partners access to our infrastructure and service capabilities.

We operate a nationwide mobile network with GSM coverage exceeding 99% of the German population, and a nationwide wireline network with DSL access covering approximately 67% of German households. Our mobile network operates on the technology standards GSM, UMTS, and, more recently, LTE.

We market our products under a multi-brand strategy, offering the majority of our post-paid and pre-paid wireless and wireline products and converged services through our core premium O_2 brand. We constantly seek to improve the positioning of O_2 to attract premium consumers and businesses. Our aspiration is to be one of the most loved brands with the most satisfied customers in the German telecommunications market.

Through our 'O_2 My Handy' model launched in May 2009, we sell handsets and other hardware to our customers for a fixed price either for immediate payment of the total purchase price or for an up-front payment of part of the total purchase price and 12 or 24 subsequent monthly installments. This provides the customer with price transparency with respect to the costs of the handset and the costs of the wireless services. Customers are able to acquire a wide range of mobile phones, including premium handsets, based on attractive payment terms. Our main suppliers of handsets are Samsung, Apple, Nokia, HTC and Sony Mobile Communications. Our focus for the 'O_2 My Handy' model has been and continues to be on smartphones, which comprise more than 90% of the handsets we sold in the nine-month period ended September 30, 2012. The 'O_2 My Handy' model is also used for our secondary brands, especially for a portfolio of low-budget smartphones, in order to meet the increasing demand for data services in these customer segments as well as, in part, for our wholesale partners.

We access additional customer groups through our secondary and partner brands as well as our wholesale channels. Secondary brands are fully-controlled brands, such as FONIC and netzclub or brands held through joint ventures and strategic partnerships, such as Tchibo mobil and Türk Telekom Mobile. We market high-speed internet access and wireline telephony via DSL. Our multi-brand approach enables us to target a broad range of consumers and to maximize our sales reach through tailored product offerings, marketing and distribution. We also provide wholesale mobile, fixed-line network and value-added services to customers such as 1&1, mobilcom/debitel, Drillisch and the two major German cable operators. We provide our wireline wholesale partners with a range of ULL services, including wireline telephony and high-speed internet access, as well as other add-on services, such as billing, the management of phone numbers and SIP-accounts. The extensive portfolio we offer to our wholesale partners which enables them to service their end-customers allows us to increase our reach and leverage scale.

We target our small and home offices (SoHos), small and medium-sized enterprises (SMEs) customers, and large, national companies through our O_2 brand and multinational corporations with our 'Telefónica Multinational Solutions'. We offer our products through a diversified distribution platform, including both direct sales channels, comprising our nationwide network of self-operated and franchised O_2 shops and premium partner shops, online and telesales, and indirect sales channels, such as retail/e-retail partnerships and dealers/cooperations.

1.2.3. Group strategy

We aim to leverage our existing assets to capture market share in the wireless services market and drive growth through the following strategic priorities:

Capitalize on multi-brand portfolio and superior customer satisfaction
We aim to use our core O_2 brand and our strong portfolio of secondary brands and partner brands to build on our position in the German telecommunications market. Additionally, our intention is to continuously explore strategic partnerships to add brands that target specific niches or consumer segments.

The aim of our customer service, retention and satisfaction programs is to continue to provide our customers with consistently high-quality service and maintain transparency, thereby earning our customers' trust. We believe that our high levels of customer satisfaction decrease churn and increase the rate at which our current customers recommend us to new potential customers. We intend to increase the use of direct distribution channels to optimize our acquisition process and costs.

Monetize data opportunities through innovative products and digital services
We aim to leverage the current strength of our core O_2 brand and to monetize the rise in data usage and smartphone users, especially through the ongoing roll-out of our LTE network and through increased convergence.

Expand our convergence strategy to increase share of customer spending and reduce churn
We intend to continue to focus on converged wireless and wireline service bundles in order to increase our share of customer spending, reduce wireless churn and reduce subscriber acquisition costs. One of our strategic aims is to cross-sell products and services to customers who currently use only wireless or wireline services, because this increases our share of customers' spending. We believe it also reduces our risk of churn. In addition, cross-selling allows for the acquisition of new accesses at comparatively low customer acquisition costs. To utilize the cross-selling potential in our customer base, we offer discounts to customers who purchase both wireless and wireline services.

(Source: Convergence study)*

Seize the opportunity in the SoHo, SME and wholesale markets
We target small, medium-sized and large national business customers with our core O_2 brand and larger international companies with our 'Telefónica Multinational Solutions' in partnership with the Telefónica Group. We intend to raise customers' perception of our core O_2 brand as a business brand. We aim to increase our market share by differentiating ourselves from our competitors by providing good value for money, tailored propositions and bundled benefits and focusing on customer service.

We aim to use innovation to improve services, profitability and competitiveness in our wholesale business to maintain and increase our market share.

Maintain competitive 3G and LTE networks
We believe demand for LTE technology in Germany will increase significantly in 2013 and 2014. During the initial roll-out, the German regulator Federal Network Agency required certain towns and districts with little or no broadband coverage (also known as 'white spots') to be prioritized. This requirement has been fulfilled for 15 of the 16 federal states. As a result, we are now able to develop our LTE network strategy based primarily on commercial considerations.

Drive profitable growth and efficiency to generate enhanced Cash Flow
We intend to drive profitable growth by maximizing operating efficiencies. This will entail actively managing our customer base and our ARPU levels, with a focus on data usage, including increasing our share of direct distribution channels, online and digital customer care. Efficiency initiatives to optimize processes, realize network efficiencies, and streamline our IT systems are also on the agenda.

1.3. Development of the business

1.3.1. Statement of the management board on business development

The management board is pleased with the performance of the business which clearly reflects the company's strategy of wireless data monetization in the post-paid segment. After the recent Initial Public Offering, we are convinced that we are raising our profile further and will continue the successful growth story of Telefónica Deutschland in Germany in the long term.

Wireless data is stimulating growth which is reflected in our continuous, strong financial performance in the nine-month period of 2012. Total revenue growth of 4.5% was especially driven by wireless service revenues. Data revenues improved by 14.2% benefitting from increased smartphone penetration. Additionally, significant OIBDA growth of 12.4% resulted in an OIBDA margin of 24.2%. The acceleration of capital expenditure will essentially support our LTE roll-out. The business developments are discussed in more detail in the following sections.

* The Company commissioned mm customer strategy GmbH to regularly produce a market study of our business and market position ('Convergence Study'), the key findings of which were published on September 19, 2012 at http://www.mm-strategy.com, and which we also cite in this Interim Management Report. All statistics and market data in this study are derived from third-party sources or are produced by mm customer strategy GmbH. We did not verify or modify any of the third-party statistics or other statistics provided by mm customer strategy GmbH.

1.3.2. Results of operations and earnings position

Combined Income Statement

Euros in millions

	January 1 to September 30			
	2012	**2011**	**Change**	**% Change**
Revenues	**3,871**	**3,705**	**165**	**4.5**
Other income	45	45	0	0.0
Operating expenses	(2,980)	(2,917)	(62)	2.1
Supplies	(1,569)	(1,477)	(92)	6.2
Personnel expenses	(337)	(328)	(9)	2.7
Other expenses	(1,074)	(1,112)	38	(3.5)
Operating income before Depreciation and Amortization (OIBDA)	**936**	**833**	**103**	**12.4**
OIBDA margin (%)	**24.2**	**22.5**	**1.7%-p.**	**n.m.**
Depreciation and amortization	(832)	(798)	(34)	4.3
Operating income (OI)	**104**	**35**	**69**	**n.m.**
Net financial income (expense)	3	4	(1)	(20.0)
Income before taxes	**107**	**38**	**68**	**n.m.**
Income tax	2	(2)	3	n.m.
Profit for the period	**108**	**37**	**72**	**n.m.**

1.3.2.1. Revenues

Revenue Breakdown

Euros in millions

	January 1 to September 30			
	2012	**2011**	**Change**	**% Change**
Revenues	3,871	3,705	165	4.5
Wireless Business	**2,832**	**2,633**	**198**	**7.5**
Wireless Service Revenues	2,359	2,182	178	8.1
Handset Revenues	472	452	21	4.6
Wireline Business	**1,036**	**1,069**	**(34)**	**(3.1)**
Other	**3**	**3**	**1**	**22.7**

Revenues were EUR 3,871m for the nine-month period ended September 30, 2012, an increase of EUR 165m or 4.5% from EUR 3,705m for the nine-month period ended September 30, 2011. A solid increase of 0.9m wireless post-paid accesses (up 10.3% year-on-year) to 9.9m as of the end of September, 2012, stimulated revenue growth as wireless post-paid accesses have a significant leverage on trading momentum over all segments. These value driving post-paid customers now account for 51.7% of the wireless base. The growth of the post-paid customer base was due in part to containing churn, which improved by 0.2 percentage points to 1.5% for the nine-month period ended September 30, 2012. Revenue growth was supported by stable year-on-year ARPU performance resulting from the improved customer mix and successful data monetization. We successfully implemented our strategy to seize the wireless data opportunity, causing our data revenues to grow 14.2% and reach 43.7% of wireless service revenues.

Wireless business
Wireless business including wireless service revenues and handset revenues reached EUR 2,832m for the nine-month period ended September 30, 2012, an increase of EUR 198m or 7.5% from EUR 2,633m for the nine-month period ended September 30, 2011.

The vast majority of wireless service revenues comprise customer base and tariff fees charged for voice (including incoming and outgoing calls), text (including SMS and MMS) and wireless data services and revenues from service contracts. Access and interconnection fees paid by other operators for calls and SMS terminated on our network are also included in wireless service revenues, as well as visitor roaming revenues.

Wireless service revenues increased by EUR 178m or 8.1% from EUR 2,182m for the nine-month period ended September 30, 2011 to EUR 2,359m for the nine-month period ended September 30, 2012. Demand for data services such as wireless internet, service applications and other data content (e.g. file sharing) continues to grow significantly in the German market. By taking advantage of the momentum through our wireless integrated tariffs under the 'O_2 Blue' portfolio, which combine voice, SMS and data services non-SMS data revenues were boosted by 31.7% year-on-year in the nine-month period ended September 30, 2012.

Handset revenues comprise the sale of mobile devices under the 'O_2 My Handy' model as well as cash sales. Further revenue components, such as activation fees for the wireless business (primarily for post-paid), hardware for bundled pre-paid SIM and handset packages or post-paid contracts as well as accessories are included.

Handset revenues reached EUR 472m for the nine-month period ended September 30, 2012, up EUR 21m or 4.6% from EUR 452m for the nine-month period ended September 30, 2011. The increase was driven by the continued success of the 'O_2 My Handy' model, which satisfies the current high demand for smartphones. In the three-month period ended September 30, 2012 more than 95% of total handset sales were smartphones. Smartphone penetration (defined as number of active wireless data tariffs over total wireless customer base, excluding machine-to-machine and data only accesses) was a significant data revenue booster. The penetration rate reached 24.3% at the end of September 2012, a significant improvement of 5.7 percentage points.

Wireline business
Wireline business revenues primarily comprise retail DSL service revenues, wireline telephony revenues, retail DSL activation fees and revenues for DSL-related hardware. Additionally, wireline revenues refer to revenues from wholesale DSL services, carrier traffic trades and hosting services. We generated wireline business revenues of EUR 1,036m for the nine-month period ended September 30, 2012, which is EUR 34m or minus 3.1% less than the EUR 1,069m posted for the nine-month period ended September 30, 2011.

Other revenues
Other revenues refer to new growing businesses such as advertising services, financial services (e.g. mobile payment 'mpass'), communication and cloud services, M2M and security. These activities generated EUR 3.4m for the nine-month period ended September 30, 2012, up EUR 0.6m or 22.7% from EUR 2.8m for the nine-month period ended September 30, 2011.

1.3.2.2. Profit for the period
OIBDA amounted to EUR 936m, EUR 103m or 12.4% higher than the previous year. The higher profitability was mainly driven by commercial growth, especially in the post-paid segment, and the monetization of the data opportunity. OIBDA margin performance continued to be positive. It was up 1.7% percentage points in the first nine months of 2012 to reach 24.2%. This strong performance was mainly the result of wireless data revenue growth, which benefited from scale, as well as further efficiencies in the commercial area that offset higher growth-related costs in network and IT.

Corresponding to the increase of wireless business revenues, supplies represent the main driver of the increase in total operating expenses (EUR 62m or 2.1%) from EUR 2,917m to EUR 2,980m during the respective period.

Supplies include mainly interconnection costs related to charges for when connecting our subscribers to other mobile networks and the costs of sold devices, especially under the 'O_2 My Handy' model. Also included are costs for leased lines and ULL purchases, plus costs associated with housing rental for network equipment and the outsourcing of field personnel to maintain the network.

Supplies were posted at EUR 1,569m for the nine-month period ended September 30, 2012 EUR 92m or 6.2% higher than the previous year. The increase was mainly due to interconnection expenses driven by greater use of voice services.

Personnel expenses were EUR 337m for the nine-month period ended September 30, 2012, up EUR 9m or 2.7% from EUR 328m for the nine-month period ended September 30, 2011. The general pay increase of July 1, 2012 and a slight shift towards more specialized staff after outsourcing support functions are reflected here. Headcount remained largely stable and stood at 5,005 on September 30, 2012.

Other expenses primarily comprise commissions paid to dealers, marketing costs, customer service and administrative outsourcing, hardware and IT maintenance, equipment and premise lease expenses and energy costs. They were EUR 1,074m for the nine-month period ended September 30, 2012, down EUR 38m or 3.5% from EUR 1,112m for the nine-month period ended September 30, 2011. A more focused approach in our marketing activities led to lower commercial costs that were only partly offset by higher growth-driven infrastructure expenses.

Depreciation and amortization
Depreciation and amortization rose by EUR 34m from EUR 798m to EUR 832m for the reporting period, driven mainly by the amortization of LTE spectrum licenses that were acquired in 2010, but activated for commercial service as of July 1, 2011. For further details please refer to the explanation for intangible and fixed assets.

Net financial income/expense
Net financial income decreased by EUR 1m from EUR 4m for the nine-month period ended September 30, 2011 to EUR 3m for the nine-month period ended September 30, 2012, mainly due to two opposing effects.

First, an increase in interest income for the nine-month period ended September 30, 2012 compared to the nine-month period ended September 30, 2011, which is primarily related to the interest income from the higher cash balances and deposits made under the cash pooling arrangements with Telefónica's financing entity (Telfisa Global B.V.).

Second, an increase in interest expenses for the respective periods is related to higher interest expenses associated with asset retirement provisions for dismantling equipment in the future, as well as higher financing costs related to the arrangement of the external and internal credit facilities for the Initial Public Offering.

Taxes
Due to deductable temporary differences Telefónica Deutschland is not expecting positive taxable income for the year 2012 and therefore will not be exposed to income tax payments. As a result, income tax expenses included within the nine-month period ended September 30, 2012 are completely related to changes in deferred taxes.

1.4. Financial position

1.4.1. Statement of financial position

Combined Statement of Financial Position – Structured

Euros in millions

	As at September 30, 2012	As at December 31, 2011	Change	% Change
Intangible assets	4,079	4,364	(285)	(6.5)
Fixed assets	3,024	3,119	(95)	(3.0)
Trade and other receivables	1,142	1,010	132	13.0
Other assets	1,376	4,522	(3,146)	(69.6)
Total Assets = Total Equity and Liabilities	**9,621**	**13,015**	**(3,395)**	**(26.1)**
Non-current interest-bearing debt	1,000	0	1,000	100.0
Current interest-bearing debt	953	0	953	100.0
Provisions	100	111	(10)	(9.3)
Trade and other payables	1,883	979	904	92.4
Deferred income	152	170	(18)	(10.8)
Equity	5,533	11,756	(6,223)	(52.9)

Intangible assets
Intangible assets including goodwill went from EUR 4,364m as of December 31, 2011 to EUR 4,079m as of September 30, 2012. During the nine-month period, additions to software totaling EUR 109m and amortization in the amount of EUR 388m were recognized, which resulted in a decrease of EUR 285m.

Fixed assets
Fixed assets decreased by EUR 95m from EUR 3,119m for the year ended 2011 to EUR 3,024m as of September 30, 2012. The change mainly reflects additions of EUR 343m, the biggest part of which relates to technical installations and machinery (EUR 318m) and computer equipment (EUR 18m). Depreciation totaled EUR 445m, including EUR 353m for technical installations and machinery and EUR 22m for computer equipment.

Trade and other receivables
The increase in trade and other receivables of EUR 132m from EUR 1,010m as of December 31, 2011 to EUR 1,142m as of September 30, 2012 reflects normal business activity.

Other assets
Other assets comprising deferred tax assets, inventories, other current and non-current financial assets and cash and cash equivalents were down EUR 3,146m from EUR 4,522m for the year ended 2011 to EUR 1,376m as of September 30, 2012. This decrease is mainly based on the cancellation of the capital promise receivable amounting to EUR 2,886m. For further explanation please refer to the description of net financial debt.

Provisions
Provisions declined EUR 10m from EUR 111m for the year ended 2011 to EUR 100m as of September 30, 2012. The change reflects a decrease in current provisions of EUR 22m, which is caused by the usage of a restructuring provision, and an increase of non-current provisions of EUR 12m due to higher dismantling obligations connected to the network roll-out.

Trade and other payables/Deferred income
Trade and other payables/Deferred income rose EUR 886m, from EUR 1,149m as of December 31, 2011 up to EUR 2,035m as of September 30, 2012. The change was mainly driven by EUR 703m in advance payments received from the sale of all of the shares in Telefónica Global Activities Holdings B.V. (former Telefónica Chile Holding B.V.). In addition, trade payables rose by EUR 199m during the normal course of business and trade payables at the end of the year were generally lower.

Equity

The change in equity of minus EUR 6,223m is mainly the result of three factors: First, the pre-IPO dividend transferred to O2 (Europe) Limited amounting to EUR 7,186m, consisting of EUR 4,300m cash with the remainder of EUR 2,886m offset against a receivable from O2 (Europe) Limited. Second, an increase caused by other movements amounting to EUR 854m. These other movements comprise cash received related to profit and loss transfer agreements with subsidiaries, which are not included in the combined scope. Third, increase of equity by the total comprehensive income of the period amounting to EUR 108m. Detailed information is enclosed in the Interim Condensed Combined Financial Statements as of January 1 to September 30, 2012.

Net financial debt

The table below illustrates the components of net financial debt:

The table on the right illustrates the development of the components of net financial debt as of September 30, 2012. The components are displayed in columns while the lines represent the reasons for additions and reductions of these components during the nine-month period.

The main changes in the financial indebtedness result from financing measures undertaken in the three-month period ended September 30, 2012. From the nine-month effect of EUR 5,630m, EUR 5,628m result from steps taken in the third quarter.

Components of Net Financial Debt

Euros in millions

	As at September 30, 2012	As at December 31, 2011	Change	% Change
Cash and cash equivalents	905	1,149	(244)	(21.2)
Liquidity	**905**	**1,149**	**(244)**	**(21.2)**
Current financial receivables	**–**	**2,886**	**(2,886)**	**(100.0)**
Current interest-bearing debt	703	–	703	n.m.
Current portion of non-current interest bearing debt	250	–	250	n.m.
Current other payables	5	5	(1)	(13.7)
Current financial debt	**958**	**5**	**952**	**n.m.**
Current net financial debt	**53**	**(4,029)**	**4,082**	**n.m.**
Non-current interest-bearing debt	1,000	–	1,000	n.m.
Non-current other payables	6	6	(1)	(11.5)
Non-current financial debt	**1,006**	**6**	**999**	**n.m.**
Net financial debt	**1,058**	**(4,023)**	**5,081**	**n.m.**

Net Financial Debt Evolution

Euros in millions

January 1 to September 30

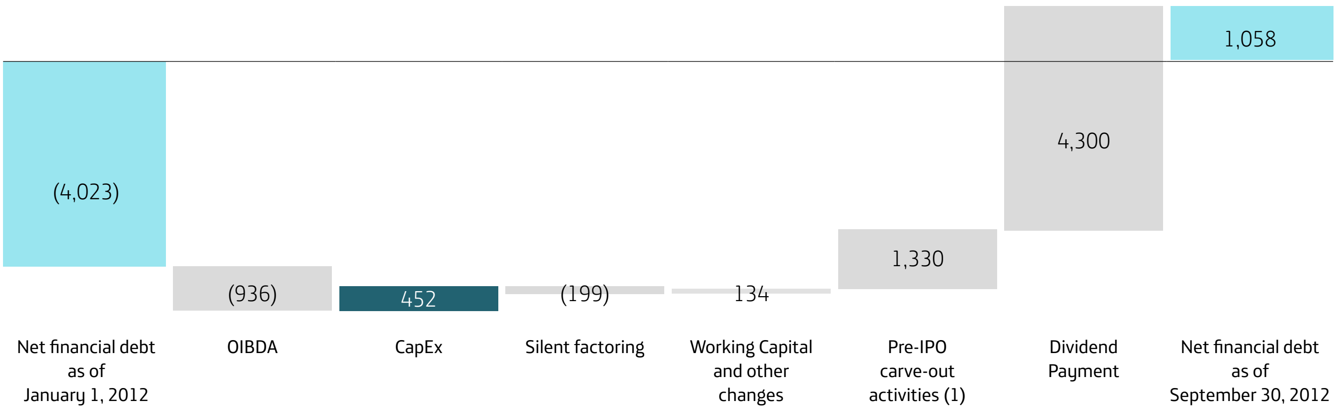
		Assets		Liabilities		Net Financial Debt (1), (2)
		Cash & Cash Equivalents	Capital Promise	Intercompany Loans	Finance Lease Liabilities	
Net financial debt as of January 1, 2012		**1,149**	**2,886**	**0**	**12**	**(4,023)**
OIBDA	**936**					
- CapEx	(452)					
= Cash Contribution (OpCF)	**484**					
+ Silent factoring (3)	199					
+/- Other working capital movements	(137)					
Change Working Capital	**62**					
+/- Gains/losses from the sale of fixed assets and other effects	(1)					
+ Net interest proceeds	3					
= Free Cash Flow pre dividends	**549**	**549**				**(549)**
Financing Measures						
- Withdrawal of capital promise			(2,886)			2,886
- Pre-IPO dividend payments		(4,300)				4,300
+ Shareholder loan 1 (long-term)		1,000		1,000		0
+ Shareholder loan 1 (short-term)		250		250		0
+ Shareholder loan 2 (short-term)		703		703		0
+ Shareholder contribution (Sale of company)		703				(703)
+ Shareholder contribution (existing profit and loss transfer agreements)		854				(854)
+/- Change in finance lease liabilites		(3)			(1)	1
Financing measures		**(793)**	**(2,886)**	**1,953**	**(1)**	**5,630**
Net financial debt as of September 30, 2012		**905**	**0**	**1,953**	**10**	**1,058**

(1) Net financial debt is presented with a negative sign as an asset and with a positive sign as a liability.
(2) Net financial debt defined as Intercompany loans plus financial lease liabilities minus cash & cash equivalents minus capital promise.
(3) Full impact of silent factoring of EUR 199m (EUR 48m from silent factoring deal in March 2012 and EUR 151m from silent factoring deal in September).

The following illustration explains the change of net financial debt during the nine-month period:

Reconciliation of Net Financial Debt

Euros in millions



(1) Pre-IPO carve-out activities consist of the set-off of an existing capital promise, net proceeds from payments in connection with the termination of profit and loss transfer agreements with the carve out entities G3G, Quam, TGS and TGR and the sale of Telefónica Global Activities Holding B.V.

Cash and cash equivalents

Cash and cash equivalents was reduced by the outflow of EUR 4,300 for the pre-IPO dividend to the shareholder in the third quarter and the repayment of EUR 3m for finance lease liabilities. It was augmented by the Free Cash Flow of EUR 549m for the nine-month period, by cash inflow of EUR 1,000m, EUR 250m, EUR 703m from an increase in shareholder loans in the third quarter, an advance payment of EUR 703m received in the third quarter from the sale of an entity and a shareholder contribution of EUR 854m in the third quarter.

Capital promise

The item 'current financial receivables' as of December 31, 2011 comprises the capital promise receivable of EUR 2,886m. This receivable was reduced to EUR 0 based on a non-cash offset against the pre-IPO dividend liability of EUR 7,186m in the third quarter.

Intercompany loans

Telefónica Germany GmbH & Co. OHG has entered into loan agreements dated as of September 12, 2012 with the Telefónica financing entity (Telfisa Global B.V.) as the lender in the amount of EUR 703m (already repaid in October) and EUR 1,250m. The balance sheet item 'current bank debt' comprises the first loan of EUR 703m, while EUR 1,000m of the second loan is recognized under 'non-current bank loans' and EUR 250m under 'current portion of non-current debt'. As debt and cash rose in tandem, there is no impact on net financial debt.

Financial lease liabilities

The financial lease liabilities are part of the balance sheet items 'other current and other non-current liabilities'. The financial lease liabilities decreased by EUR 1.5m.

1.4.2. Free Cash Flow

Reconciliation of Cash Flow

Euros in millions

	January 1 to September 30			
	2012	2011	Change	% Change
OIBDA	**936**	**833**	**103**	**12.4**
- CapEx (1)	(452)	(373)	(79)	21.3
= Cash Contribution (OpCF)	**484**	**461**	**24**	**5.1**
+ Silent factoring (2)	199	–	199	n.m.
+/- Other working capital movements	(137)	(300)	164	(54.5)
Change Working Capital (3)	**62**	**(300)**	**362**	**n.m.**
+/- Gains/losses from sale of fixed assets and other effects	(1)	3	(4)	n.m.
+ Net interest proceeds	3	6	(3)	(50.4)
= Free Cash Flow pre dividends	**549**	**170**	**379**	**n.m.**
+/- Equity movements	(3,446)	(1)	(3,445)	n.m.
= Free Cash Flow post dividends	**(2,897)**	**169**	**(3,066)**	**n.m.**

(1)	CapEx (= additions property, plant and equipment (PPE) + additions intangible assets)	(452)	(373)
	Change CapEx creditors	42	(14)
	Change CapEx accruals	(33)	(49)
	minus non cash addition of leased PPE/intangible assets	0	(1)
	= Payments on investments in property, plant and equipment and intangible assets (Cash Flow statement IAS 7)	**= (443)**	**= (437)**
(2)	Full impact of silent factoring of EUR 199m (EUR 48m from silent factoring deal in March 2012 and EUR 151m from silent factoring deal in September)		
(3)	Change in Working Capital	62	(300)
	Change CapEx creditors	(42)	14
	Change CapEx accruals	33	49
	minus non cash addition of leased PPE/intangible assets	(0)	1
	= Change in Working Capital (Cash Flow statement IAS 7)	**= 53**	**= (236)**

The Free Cash Flow pre dividends rose EUR 379m to EUR 549m in the first nine months of fiscal 2012, driven by two factors. First, by an increase of EUR 103m in OIBDA, which rose to EUR 936m, and second, by a positive contribution from working capital generated by more effective working capital management. Among other things, this included silent factoring of EUR 199m.

The net payment related equity movements of EUR 3,446m result from the EUR 4,300m dividend payment to O2 (Europe) Limited and from the cash inflow of EUR 854m from profit and loss transfer agreements with subsidiaries which are not in the combined group.

2. Risk and opportunity management

2.1. The risks

Of all risks identified, the following section examines those risks that could materially affect our financial or competitive position or the ability to meet the set targets. Our business might be impacted by other or additional risks that we are currently not aware of or we did not consider being significant.

Recessionary conditions in the Eurozone

The Eurozone debt crisis and general economic slowdown in parts of Europe from, among other factors, lower consumer confidence, decreasing gross domestic product, rising unemployment and uncertainty, may adversely impact macroeconomic conditions in Germany. As we exclusively operate in Germany, the success of our business is closely tied to the market environment and stability of the German economy and cannot be offset by developments in other markets.

Macroeconomic factors may impair growth prospects in the German telecommunications market in terms of the penetration of new value-added services and traffic, ARPU and number of customers and, in particular, the volume of business customers. Recessionary conditions may also increase the number of defaults and/or delays in payments from our customers, increase churn and prevent us from attracting new customers. Reduced German consumer spending, including on telecommunications services and products, could adversely affect our customer numbers and revenues as customers may no longer deem critical the services we offer.

Highly competitive markets and changes in customer demand

We operate in markets that are highly competitive and subject to constant technological development. Our company is facing increasing competition from alternative telecommunications providers such as cable providers, MVNOs (virtual operators) and consumer electronic companies as well as from alternative telecommunication services such as OTT (Over the Top). To effectively compete with these providers we need to successfully market and deliver our products and services. We need to respond to both commercial actions by competitors and anticipate technological changes, changes in consumer preferences and general economic, political and social conditions. Failure to do so appropriately could have a negative impact on our ability to attract and maintain customers and might influence our financial position, operating results and Cash Flow.

Mobile Termination Rates (MTR)

Federal Network Agency's preliminary decision on mobile termination rates from November 16, 2012 might be changed by the European Commission and even lower rates might be decided. The decision could also be challenged by third parties.

Technology operations

Sustained or repeated disruptions or damage to our mobile or fixed-line networks and technical systems may lead to the loss of customers or a decrease in revenues and require costly repairs.

Other business risks

Our business success depends on our ability to anticipate and adapt to technological changes and customer preferences. This also relates to our ability to ensure the constant availability of handsets and smartphones as well as those handsets and smartphones being compatible with our mobile network. Constraints or prohibitions imposed on handset supplies or incompatibilities with our network could negatively affect our ability to achieve the expected customer and revenue growth.

Legal risks

We may be subject to claims that we infringe the intellectual property rights of others and may be unable to adequately protect our own intellectual property rights.

We collect and process subscriber and other personal data as part of our business. Undue use or leakage of such data could breach laws and regulations which could result in fines, loss of reputation and customer churn.

Financial risks

Our business is capital intensive and requires significant amounts of investments. We have implemented an extensive capital expenditure program that will continue to require significant cash outlays in the foreseeable future, including the maintenance and optimization of our mobile and fixed-line network as well as further investments in the High-Speed Package Access (HSPA) coverage and LTE technology. In addition, costs associated with frequency usage rights needed in order to operate our existing networks and technologies, and costs and rental expenses related to their deployment as well as costs associated with our fixed-line network, are a significant portion of our cost base and subject to increases.

We believe that we will be able to meet our financial obligations for the next 12 months. Currently, we have negotiated favorable payment and delivery terms with our suppliers and have in place cash pooling arrangements and factoring agreements to support our working capital. However, there can be no assurance that such arrangements or agreements will be available in the future or on satisfactory terms. Furthermore, we may not be able to generate sufficient Cash Flows in the future to meet our capital expenditure needs. Therefore, we may require additional sources of working capital in connection with our continued growth, our strategy, market developments or the development of new technologies. Consequently, we may need to raise additional debt or equity financing in amounts that could be substantial.

Our ability to raise additional capital to fund our operations can be further influenced by factors such as changing market interest rates, restrictive covenants in our debt instruments or negative changes in our credit rating or the credit rating of our majority shareholder. Future debt agreements we may enter into may include provisions restricting our ability to raise financing or to make certain business changes. Our exposure to the credit risks of our customers could also make it difficult for us to collect accounts receivables and thus impact our working capital position.

Supplier failures

As a mobile and fixed-line telephony operator and provider of telecommunications services and products, we, like other companies in the industry, depend upon a small number of major suppliers for essential products and services, mainly IT and network infrastructure. If these suppliers fail to deliver products and services to us on a timely basis, it could jeopardize network deployment and expansion plans, what might have an adverse impact on our business and the results of its operations.

The materialization of any of the above mentioned risks could have a material adverse effect on our business, financial condition and results of operations.

Unexpected events may result in financial damages if our insurance coverage would turn out to be insufficient.

2.2. The opportunities

Growth of the German market

Germany is one of Europe's largest telecommunications markets, with revenues from telecommunications services reaching EUR 47.9 billion in 2011. We believe our market position and size, serving approximately 25.3 million accesses as of September 30, 2012, enable us to capitalize on the anticipated growth opportunities presented by one of Europe's largest telecommunications markets, in particular for wireless data services.

Rising consumer spending in the German mobile telecommunication market is being driven partly by increased smartphone use and partly by digital trends. Germany holds significant market catch-up and growth potential for data, with a relatively low smartphone penetration of 32.7% and blended data ARPU of EUR 5.6 in 2011 compared to other developed western European telecommunications markets.

(Source: Yankee Group Research)

Data opportunity

In order to sustain our wireless services growth, which we expect to be our main growth driver over the next few years, we intend to maintain our strategic focus on the provision of wireless services to smartphone users who generally generate sustainable, above average ARPU.

Our initial focus in the wireless data area has already enabled us to successfully monetize data traffic growth. We believe there is significant growth potential in this area in Germany due to low smartphone penetration and a marked increase in the demand for newly developed digital media. We intend to leverage our large and growing smartphone customer base to monetize wireless data revenues, as smartphone users are increasingly accessing the internet and a range of digital media through their devices.

Furthermore, we believe that we have the right assets to participate in the future growth of the wireless data business. After having acquired additional spectrum, particularly in the 800 MHz band, we have started to build a next-generation network based on the new LTE technology. This investment will open us up further opportunities in the data segment.

Demand for converged products

We anticipate greater customer demand for converged product offerings, and we therefore plan to continue to attract customers by maximizing the potential of bundled offerings. This shall be realized through base fee discounts and tariff community options offering free voice and messaging services between a wireline access and all mobile devices of an entire household. We believe that our convergence strategy will allow us to protect our growth in wireless services, increase the profitability of our wireline services and reduce churn. We see additional opportunities to provide high-speed broadband to our customers based on competitors' platforms wholesale offers.

Corporate segments and wholesale markets

We intend to raise customers' perception of our core O_2 brand as a business brand. Opportunities to gain market share among larger business customers include providing managed services, which we see as a key growth driver in the German telecommunications market. Such managed services include WAN and LAN, and PBX management. We also intend to expand our product offerings to business customers to include selective cloud, security and IT consulting services.

Through specialized and tailored service offerings to wholesale partners, we aim to increase revenues and improve margins. We offer an extensive portfolio of wireless and wireline services to our wholesale partners to enable them to service their end customers, which allow us to increase our reach and leverage scale.

Digital innovation

In order to leverage our strong position in the German wireless services market and monetize additional growth opportunities, we either recently have launched or intend to launch digital innovations in the financial services (e.g. mobile payment), advertising services, communications (e.g. TU Me), M2M (e.g. fleet management) and security area (e.g. smartphone protection). These innovations have been or are primarily developed together with the Telefónica Digital division.

3. Events after the reporting period

For information on events after the reporting period please refer to the section of 'Events after the reporting period' in the Interim Condensed Combined Financial Statements as of January 1 to September 30, 2012.

4. Outlook for Telefónica Deutschland Holding AG until December 31, 2012

4.1. Economic outlook

We expect German economic development to remain robust until the end of 2012. For 2013, we anticipate that positive German economic growth will continue (around 0.6% GDP growth in 2013). Willingness to buy is on a high level and according to Germany's GfK research company, consumer climate keeps on strengthening. Stable labor market data, a positive overall trend in wages and salaries and modest inflation reinforce the indications. Ongoing uncertainty about further developments in the banking industry, combined with a historically low interest rate level, are not the best conditions for saving. Consumers are thus tending to consume rather than deposit their money at the bank.

(Source: Economist Intelligence Unit, European Commission, DataStream and GfK Consumer climate press release, October 2012)

4.2. Market expectations

Germany is one of Europe's largest telecommunications markets, with revenues from telecommunications services expected to reach EUR 48.5 billion in 2012.

(Source: Yankee Group Research)

Market growth was mainly driven by wireless business, strongly benefitting from wireless data including increasing smartphone and tablet usage. We expect that the upcoming Christmas season will be a further growth driver of these devices and thus wireless data. Wireless market service revenue growth in 2012 compared to 2011 is expected to be around 2%.

(Source: Yankee, published financial information of Deutsche Telekom, Vodafone and E-Plus)

4.3. Expectations for the Group

Our core business is and will continue to be wireless business (refer to section 1.2.3. on strategic priorities). For the coming years we aim to outperform the market and increase our wireless service revenue market share. We expect our wireless hardware revenues to continue to grow in the short term with a high degree of variability due to factors such as the launch of new devices and mix of devices. Our wireline business is not a driver of growth for us but strengthens our wireless business through converged product offerings.

We have implemented a series of cost saving measures that, paired with strong revenue performance, has helped us to improve our margins. In the medium-term, we aim for our OIBDA margins to keep improving on the back of scale effects and efficiency improvements.

In terms of investments, we consider 2013 and 2014 as being key years for our LTE network roll-out. However, we do not expect capital expenditures to exceed the levels reached in 2010 when we were rolling out 3G capacity. Thereafter, we expect CapEx to decline to lower levels again.

In the next three months to December 2012, we expect revenue performance to be affected by the mobile voice termination rate cut of 45% from December 1, 2012, as was pre-announced by the Federal Network Agency on November 16, 2012. Business exposure to incoming mobile voice termination rates was around 7% of wireless service revenues for the January to September period of 2012, with a slightly lower exposure in terms of interconnection costs. Therefore, we expect this impact to be neutral to slightly negative in terms of profitability.

5. Major related party transactions

For information regarding major related party transactions please refer to the section of 'Related parties' in the Interim Condensed Combined Financial Statements as of January 1 to September 30, 2012.

Interim Condensed Combined Financial Statements

as of January 1 to September 30, 2012

Combined Income Statement

Euros in thousands

		January 1 to September 30,		July 1 to September 30,	
	Note	**2012**	**2011**	**2012**	**2011**
Revenues	7	3,870,768	3,705,369	1,316,970	1,265,615
Other income		45,256	45,244	14,978	13,306
Supplies		(1,568,561)	(1,476,746)	(542,959)	(500,776)
Personnel expenses		(337,187)	(328,246)	(110,977)	(103,838)
Other expenses		(1,074,074)	(1,112,481)	(338,959)	(372,913)
Operating income before Depreciation and Amortization (OIBDA)		**936,202**	**833,140**	**339,053**	**301,394**
Depreciation and amortization		(832,196)	(798,219)	(284,448)	(288,544)
Operating income (OI)		**104,006**	**34,921**	**54,605**	**12,850**
Finance income		13,097	9,866	3,271	3,977
Exchange gains		590	585	266	(1)
Finance expenses		(9,633)	(6,577)	(5,031)	(2,519)
Exchange losses		(1,247)	(352)	(157)	(29)
Net financial result		**2,807**	**3,522**	**(1,651)**	**1,428**
Profit before tax		**106,813**	**38,443**	**52,954**	**14,278**
Income tax		1,537	(1,813)	254	(236)
Profit for the period		**108,350**	**36,630**	**53,208**	**14,042**
Earnings per share					
Basic earnings per share (Euro)	8	0.10	0.03	0.05	0.01

Combined Statement of Financial Position

Euros in thousands

Assets		Note	As at September 30, 2012	As at December 31, 2011
A)	**Non-current assets**		**7,521,635**	**7,900,175**
	Goodwill		705,576	705,576
	Intangible assets		3,373,020	3,658,137
	Property, plant and equipment		3,023,909	3,118,869
	Other non-current financial assets		5,560	5,560
	Deferred tax assets		413,570	412,033
B)	**Current assets**		**2,099,162**	**5,115,173**
	Inventories		52,217	70,429
	Trade and other receivables		1,142,002	1,010,279
	Other current financial assets		–	2,885,897
	Cash and cash equivalents	5	904,943	1,148,568
Total assets (A+B)			**9,620,797**	**13,015,348**

Equity and Liabilities		Note	As at September 30, 2012	As at December 31, 2011
A)	**Equity**		**5,533,101**	**11,756,290**
	Net assets attributable to Telefónica Germany Group		5,531,756	11,754,945
	Other components of equity		1,345	1,345
	Total equity attributable to Telefónica Germany Group		5,533,101	11,756,290
B)	**Non-current liabilities**		**1,086,115**	**75,289**
	Non-current interest-bearing debt	5	1,000,000	–
	Other payables	6	5,613	6,342
	Non-current provisions		80,502	68,947
C)	**Current liabilities**		**3,001,581**	**1,183,769**
	Current interest-bearing debt	5	953,000	–
	Trade payables	6	984,449	785,580
	Other payables	6	892,792	186,714
	Current provisions		19,767	41,609
	Deferred income		151,573	169,866
Total equity and liabilities (A+B+C)			**9,620,797**	**13,015,348**

Combined Statement of Comprehensive Income

Euros in thousands

	January 1 to September 30	
	2012	**2011**
Profit for the period	**108,350**	**36,630**
Other comprehensive income/expense		
(Losses) gains on measurement of available-for-sale investments	–	169
Income tax impact	–	(54)
	–	**115**
Actuarial gains (losses) and impact of limit on assets for defined benefit pension plans	–	(3,116)
Income tax impact	–	996
	–	**(2,120)**
Total other comprehensive income/expense	**–**	**(2,005)**
Total comprehensive income/expense recognized in the period	**108,350**	**34,625**

Combined Statement of Changes in Equity

Euros in thousands

	Net assets attributable to Telefónica Germany Group	Other components of equity Available-for-sale investments	Total equity
Balance at January 1, 2012	**11,754,945**	**1,345**	**11,756,290**
Result for the nine-month period	108,350	–	108,350
Total comprehensive income	**108,350**	–	**108,350**
Pre-IPO dividends	(7,185,897)	–	(7,185,897)
Other movements	854,358	–	854,358
Balance at September 30, 2012	**5,531,756**	**1,345**	**5,533,101**
Balance at January 1, 2011	**11,420,119**	**1,192**	**11,421,311**
Result for the nine-month period	36,630	–	36,630
Other comprehensive income/expense	(2,120)	115	(2,005)
Total comprehensive income	**34,510**	**115**	**34,625**
Other movements	(1,114)	–	(1,114)
Balance at September 30, 2011	**11,453,515**	**1,307**	**11,454,822**

Combined Statement of Cash Flows

Euros in thousands

	January 1 to September 30	
	2012	**2011**
Profit for the nine-month period	**108,350**	**36,630**
Adjustments to profit for the period		
Net finance result	(3,464)	(3,289)
Losses on disposal of assets	(4)	(272)
Net income tax result	(1,537)	1,813
Depreciation and amortization	832,196	798,219
Change in Working Capital		
Trade and other receivables	(131,723)	31,688
Inventories	18,211	19,063
Other current assets	262	(3,160)
Trade and other payables	194,626	(132,083)
Other current liabilities and provisions	(40,135)	(118,784)
Other non current assets and liabilities	11,554	(32,279)
Interest received	9,901	7,667
Interest paid	(6,700)	(1,218)
Cash Flow from Operating Activities	**991,537**	**603,995**
Proceeds on disposals of property, plant and equipment and intangible assets	4	3,230
Payments on investments in property, plant and equipment and intangible assets	(442,571)	(437,196)
Cash Flow from Investing Activities	**(442,567)**	**(433,966)**
Proceeds from payments to capital reserves	922,386	–
Repayment of capital reserves	(68,028)	(1,114)
Proceeds from borrowing/debt	2,656,000	–
Repayment of borrowing/debt	(2,953)	(2,799)
Dividends paid	(4,300,000)	–
Cash Flow from Financing Activities	**(792,595)**	**(3,913)**
Net increase/decrease in cash and cash equivalents	**(243,625)**	**166,116**
Cash and cash equivalents at beginning of period	**1,148,568**	**188,965**
Cash and cash equivalents at end of period	**904,943**	**355,081**

Selected explanatory notes

to the Interim Condensed Combined Financial Statements
as of January 1 to September 30, 2012

I. Significant Events and Transactions

Change of legal form

As of September 26, 2012 Telefónica Germany Verwaltungs GmbH located in Georg-Brauchle-Ring 23-25, 80992 München has changed its name and legal form into Telefónica Deutschland Holding AG.

Establishment of a new company

Telefónica Germany GmbH & Co. OHG founded Wayra Deutschland GmbH with the shareholder contract dated July 2012. The company was officially entered in the commercial register on July 24, 2012 with a share capital of kEUR 25.

Capital Promise

On March 28, 2003 and April 30, 2004 O2 (Europe) Limited issued a declaration of obligation to Telefónica Deutschland Holding AG (former 'Telefónica Germany Verwaltungs GmbH'; former 'O_2 Germany Verwaltungs GmbH') under which O2 (Europe) Limited obliged itself to provide Telefónica Deutschland Holding AG by way of voluntary shareholder's contribution with an amount of kEUR 4,650,000 and kEUR 500,000 respectively. These amounts were to be remitted on first demand of Telefónica Deutschland Holding AG and obligations have been unlimited in time. As of December 31, 2011 O2 (Europe) Limited contributed kEUR 2,264,104 of cash under the declarations of obligation.

On September 13, 2012 O2 (Europe) Limited and Telefónica Deutschland Holding AG cancelled the declarations of obligation. The outstanding receivable of Telefónica Deutschland Holding AG against O2 (Europe) Limited resulting from the declaration of obligation amounting to kEUR 2,885,897 was set off against equity and presented as a distribution to shareholders in the combined statement of changes in equity.

Capital increase resolution

On September 18, 2012 O2 (Europe) Limited has increased the share capital of Telefónica Deutschland Holding AG from EUR 1,116,945,300 by EUR 100 to EUR 1,116,945,400 in return for a contribution in kind. The increase of the share capital was made through the issue of new shares with a total nominal value of EUR 100, which was subscribed by O2 (Europe) Limited. The capital increase in kind was made in full through the contribution of all shares of Telefónica Germany Management GmbH into Telefónica Deutschland Holding AG.

Authorized share capital

Telefónica Deutschland Holding AG has authorized capital allowing the company to increase the registered share capital until September 2017 by a total amount of up to EUR 558,472,700 by issuing new non-par value registered shares.

Financing Agreements

Telefónica Germany GmbH & Co. OHG has undrawn committed credit lines with maturity beyond one year in a total amount of EUR 710m. In August and September 2012, Telefónica Germany GmbH & Co. OHG, as borrower, entered into revolving credit facility agreements with several banks.

Pre-IPO dividend

On September 14, 2012 Telefónica Deutschland Holding AG declared a pre-IPO dividend to O2 (Europe) Limited amounting to EUR 7,186m, of which EUR 4,300m has been considered as cash payments and EUR 2,886m as cancellation of declarations of obligation.

Loan with Telfisa Global B.V.

Telefónica Germany GmbH & Co. OHG has entered into loan agreements dated as of September 12, 2012 with Telfisa Global B.V. as lender in the amount of EUR 703m and EUR 1,250m.

Payment and cancellation of profit and loss transfer agreements

As of September 30, 2012, all existing profit and loss transfer agreements between Telefónica Germany GmbH & Co. OHG and Group3G UMTS Holding GmbH, Quam GmbH, Telefónica Global Services GmbH and Telefónica Global Roaming GmbH were terminated. Prior to termination, payments on profits or loss were made as follows:

On September 12, 2012, Telefónica Global Services GmbH paid EUR 317,098,145 as profit transfer for the year ended December 31, 2011 to Telefónica Germany GmbH & Co. OHG. For the year 2012, prepayments in the amount of EUR 233,746,354 on expected profits were made to Telefónica Germany GmbH & Co. OHG.

On September 12, 2012, Telefónica Global Roaming GmbH transferred profit in the amount of EUR 146,372,899 to Telefónica Germany GmbH & Co. OHG for the year 2012.

On August 23, 2012 Telefónica Germany GmbH & Co. OHG paid EUR 67,529,724 as loss compensation to Group3G UMTS Holding GmbH.

On August 23, 2012 Quam GmbH transferred EUR 20,928,712 of profit to Telefónica Germany GmbH & Co. OHG.

On August 9, 2012 Telefónica Global Services GmbH transferred EUR 40,000,000 of profit to Telefónica Germany GmbH & Co. OHG for the year ended December 31, 2010.

On August 9, 2012 Telefónica Global Roaming GmbH transferred EUR 163,836,038 of profit to Telefónica Germany GmbH & Co. OHG for the year ended December 31, 2011.

The total net amount of kEUR 854,452 arising of the cancellation of profit and loss transfer agreements has been presented as 'other movements' in the Combined Statement of Changes in Equity.

Transfer of companies

Effective as of September 14, 2012 Telefónica Germany GmbH & Co. OHG contributed its shares in the Group3G UMTS Holding GmbH and its subsidiary to its subsidiary Telefónica Global Activities Holdings B.V. (former: Telefónica Chile Holding B.V.).

On September 18, 2012 Telefónica Germany GmbH & Co. OHG contributed its shares in Telefónica Global Services GmbH and its subsidiaries to Telefónica Global Activities Holdings B.V..

II. Other disclosures

1. Background and purpose

As at end of May, 2012 Telefónica, S.A., Madrid, Spain ('Telefónica') announced its plans to publicly list the Telefónica Germany Group, which comprises Telefónica's operations in Germany. In compliance the European Prospectus Regulation No. 809/2004, the prospectus issued by Telefónica Germany Group included historical financial information covering the latest three financial years, i.e. the year ended December 31, 2011 and the two prior years ended December 31, 2010 and 2009. Furthermore, due to the intended floating date in connection with the European Prospectus Regulation No. 809/2004 Annex I 20.6.2, additional Interim Condensed Combined Financial Statements were prepared for the six-month period ended June 30, 2012. At the date of release of this document, the admission to the regulated market was granted and public trading already started. For companies listed in the Prime Standard regulation (FWB Frankfurter Wertpapier Börse) requires quarterly financial reporting using the same principles as for half-yearly financial reporting.

The purpose of these Interim Condensed Combined Financial Statements is to provide insights in recent significant events that occurred in the reporting period.

Telefónica Deutschland Holding AG (former 'Telefónica Germany Verwaltungs GmbH') together with its combined subsidiaries as described within the notes to the Combined Financial Statements for the year ended December 31, 2011 are part of Telefónica Germany Group.

2. Presentation of the Interim Condensed Combined Financial Statements

Taking into account the specifics to be considered in preparing Interim Condensed Combined Financial Statements as of January 1 to September 30, 2012, which are explained in the Combined Financial Statements for the year ended December 31, 2011, the Interim Condensed Combined Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. Therefore, they do not contain all the information and disclosures required in complete annual Combined Financial Statements and for adequate interpretation, should be read in conjunction with the Combined Financial Statements for the year ended December 31, 2011.

The accompanying Interim Condensed Combined Financial Statements were approved by the management board of Telefónica Deutschland Holding AG (former 'Telefónica Germany Verwaltungs GmbH') on November 26, 2012.

Unless indicated otherwise, the figures in these Interim Condensed Combined Financial Statements are expressed in thousands of Euros and rounded. For further information concerning the basis of preparation see also the Combined Financial Statements for the year ended December 31, 2011.

Preparing the Interim Condensed Combined Financial Statements requires Management to make judgement, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results might differ from these estimates.

In preparing these Interim Condensed Combined Financial Statements, significant judgements made by the Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Combined Financial Statements for the years ended December 31, 2011.

3. Accounting policies

The accounting policies applied in the preparation of the Interim Condensed Combined Financial Statements as of January 1 to September 30, 2012 are consistent with those used in the preparation of the Combined Financial Statements for the year ended December 31, 2011.

4. Comparison of Information

Comparisons in the accompanying Interim Condensed Combined Financial Statements refer to the nine month periods ended September 30, 2012 and 2011, except in the Combined Statement of Financial Position, which compares information at September 30, 2012 and at December 31, 2011.

There has been no change concerning the combined entities and the combination methods.

With respect to seasonality, the historical performance of combined results does not indicate that the operations, taken as a whole, are subject to significant variations during the year.

The main events affecting comparability of the combined information for the nine-months ended September 30, 2012 are described below.

5. Related parties

Transactions with Telefónica Group

The Interim Condensed Combined Financial Statements include transactions between Telefónica Germany Group and Telefónica Group (Telefónica, S.A. and its direct and indirect subsidiaries excluding Telefónica Germany Group), Telefónica Group's associated companies and joint ventures as well as Telefónica Germany Group's joint ventures. Transactions of Telefónica Germany Group with 'Other Telefónica entities in Germany' are classified as related party transactions. A list of companies which are to be considered as 'Other Telefónica entities in Germany' is defined in the Combined Financial Statements for the year ended December 31, 2011 for the Telefónica Germany Group. Material transactions for the nine months ended September 30, 2012 and September 30, 2011 are as follows:

	Sales of goods and services, other income and other transactions		Purchases of goods and services, other expenses and other transactions	
	January 1 to September 30		January 1 to September 30	
Euros in thousands	2012	2011	2012	2011
Telefónica Group	1,110,960	36,125	(101,740)	(75,264)

The increase in sales of goods and services, other income and other transactions from related parties is mainly due to profit transfers with Telefónica Global Services GmbH and Telefónica Global Roaming GmbH.

As at the respective balance sheet dates, receivables and liabilities from related parties were recognized with the following amounts:

	As at September 30,	As at December 31,
Euros in thousands	2012	2011
Receivables from Telefónica Group	**894,385**	**4,031,433**
therein:		
from cash pooling	884,913	1,141,097
from financial assets	–	2,885,897
from other items	9,472	4,439
Liabilities to Telefónica Group	**2,859,519**	**143,460**
therein:		
from trade payables	203,519	143,460
from other items	703,000	–
from borrowing debt	1,953,000	–

The amounts from cash pooling are related to the cash pooling agreement between Telefónica Germany Group and the Telfisa Global, B.V..

Liabilities from other items comprise the payment received in advance during the reporting period for the sale of shares in Telefónica Global Activities Holdings B.V. to Telfisa Global B.V. which is effective as of October 1, 2012.

Liabilities from borrowing debt with the amount of EUR 1,953m comprise the loans with Telfisa Global B.V. as described above in 'I. Significant Events and Transactions'.

Transactions with related individuals

During the period to which these accompanying Interim Condensed Combined Financial Statements refer, neither the managing directors nor members of the supervisory board, which was established at the point of the change in the legal form of Telefónica Deutschland Holding AG, did perform any transactions with Telefónica Germany Group other than those in Telefónica Germany Group's normal trading activity and business.

Compensation and other benefits paid to members of the managing directors are detailed as follows:

	January 1 to September 30	
Euros in thousands	2012	2011
Compensation	**4,951**	**6,694**
thereof:		
Short-term Employee benefits	1,428	1,374
Termination benefits	–	600
Share-based payments	3	1,056
Defined Benefit Obligation	**18,458**	**15,120**

6. Trade and other payables

The composition of Trade and other payables is as follows:

	As at September 30,		As at December 31,	
		2012		2011
Euros in thousands	Non-current	Current	Non-current	Current
Trade payables to third parties	–	341,727	–	259,293
Accruals	–	439,203	–	382,827
Payables to related parties	–	203,519	–	143,460
Trade payables	**–**	**984,449**	**–**	**785,580**
Other payables	5,613	892,792	6,342	186,714
Deferred income	–	151,573	–	169,866
Total	**5,613**	**2,028,814**	**6,342**	**1,142,160**

The detail of Other payables is as follows:

	As at September 30,	As at December 31,
Euros in thousands	2012	2011
Current Other payables		
Other creditors non trade	784,985	59,644
Capital creditors	67,649	100,606
Other taxes and social security	35,459	21,020
Finance Leasing	4,699	5,444
Total Current	**892,792**	**186,714**
Non-Current Other payables		
Finance Leasing	5,613	6,342
Total Non-Current	**5,613**	**6,342**
Total Other payables	**898,405**	**193,056**

Other creditors non trade mainly comprise of the payment received in advance during the reporting period for the sale of shares in Telefónica Global Activities Holdings B.V. to Telfisa Global B.V. which is effective as of October 1, 2012.

7. Revenues

The breakdown of Revenues is as follows:

	January 1 to September 30	
Euros in thousands	2012	2011
Rendering of Services	3,395,075	3,251,027
Net Sales	475,693	454,342
Total	**3,870,768**	**3,705,369**

Revenues breakdown by Wireless Business and Wireline Business is as follows:

	January 1 to September 30	
Euros in thousands	2012	2011
Revenues		
Wireline Business	**1,035,810**	**1,069,397**
Wireless Business	**2,831,542**	**2,633,189**
Wireless Service Revenues	2,359,264	2,181,630
Handset Revenues	472,278	451,559
Other	**3,415**	**2,783**
Total Revenues	**3,870,768**	**3,705,369**

8. Earnings per share

During the financial years presented in the Combined Financial Statements for the year ended December 31, 2011, the respective parent company had the legal form of a GmbH (German limited liability company). As part of the transformation of the parent company into an Aktiengesellschaft (German stock corporation) 1,116,945,400 non-par value shares were issued with an imputed interest of EUR 1 per share in the subscribed capital of the group parent company. Therefore, the calculation of the weighted average of the shares outstanding was based on the existing subscribed capital in the nine month period ended September 30, 2012. During the financial period presented, there were no dilutive instruments outstanding and, thus, diluted earnings per share is not presented. Telefónica Deutschland AG has authorized capital allowing the company to increase the registered share capital until September 2017 by a total amount of up to EUR 558,472,700 by issuing new non-par value registered shares. Shares included in authorized capital of a stock corporation are not subject of the EPS calculation since they are contingently issuable shares.

Basic earnings per share is calculated in accordance with IAS 33.

		January 1 to September 30	
		2012	**2011**
Profit attributable to the owners of the parent (profit for the period)	Euros in thousands	108,350	36,630
Number of ordinary shares issued	Thousands	1,116,945	1,117,023
Adjusted weighted average number of ordinary shares outstanding (basic)	Thousands	1,117,020	1,117,023
Basic earnings per share	Euros	**0.10**	**0.03**

9. Events after the reporting period

Transfer of companies

Effective as of October 1, 2012 Telefónica Germany GmbH & Co. OHG sold its shares in Telefónica Global Activities Holdings B.V. to Telfisa Global B.V., a subsidiary of Telefónica S.A., at arm's length. The sales price of Telefónica Global Activities Holdings B.V. and its subsidiaries was EUR 703m. The profit and loss transfer agreements between Telefónica Germany GmbH & Co. OHG and Telefónica Global Services GmbH, respectively Group3G UMTS Holding GmbH had been cancelled at the time of the sale of Telefónica Global Activities Holdings B.V..

Listing

Telefónica Germany Holding AG applied for admission of its entire share capital, consisting of 1,116,945,400 shares, to trading on the regulated market of the Frankfurt Stock Exchange and on the sub-segment of the regulated market with additional post-admission obligations (Prime Standard). An admission to trading on the Frankfurt Stock Exchange was granted on October 29, 2012 and the trading in the shares commenced on October 30, 2012.

Repayment of loan with Telfisa Global B.V.

The loan facility between Telefónica Germany GmbH & Co. OHG and Telfisa Global B.V. as lender in the amount of EUR 703m as granted on September 12, 2012, was repaid in full on October 1, 2012.

Glossary

3G	Third generation mobile communications standard supporting higher transmission rates (see UMTS)
4G	Fourth generation mobile communications standard (see LTE)
ADSL	Asymmetrical Digital Subscriber Line (see DSL)
ARPU	Average Revenue per User
Broadband	Refers to telecommunication in which a wide band of frequencies is available to transmit information
CapEx	Capital Expenditure: Additions in fixed and intangible assets (without goodwill)
Carrier	Telecommunication network operator authorized by the Federal Network Agency
Cloud Service	Cloud services are dynamic infrastructure, software or platform services provided online
Cross-selling	Marketing term denoting the sale of related or complementary products or services
DSL	Digital Subscriber Line, technology to transmit data in the local loop to private end-customers
FCF	Free Cash Flow
FNA	Federal Network Agency: Bundesnetzagentur
FTR	Fixed Termination Rates
GSM	Global System for Mobile Communications: This is the global standard for digital mobile communications.
Hosting	Providing storage capacity via the Internet
Internet	Worldwide network of computers on the basis of an IP (Internet Protocol) without any central network management
IPO	Initial Public Offering
IT	Information Technology
Joint venture	Two or more companies founding a new enterprise for cooperation
LAN	Local Area Network: A group of computers and associated devices that share a common communications line or wireless link
LTE	Long Term Evolution: Further development of the UMTS/HSPA mobile communications standard
M2M	Machine-to-Machine communication, automatic exchange of information between machines
MMS	Multimedia Messaging Service

mpass	Mobile payment service
MTR	Mobile Termination Rates
MVNO	Mobile Virtual Network Operator
NFC	Near Field Communication: a short-range wireless connectivity standard
n.m.	not measured or not meaningful
OIBDA	Operating Income before Depreciation and Amortization
PBX	Private Branch Exchange: A telephone system within an enterprise that switches calls between enterprise users on local lines while allowing all users to share a certain number of external phone lines
POS	Point of Sale
Pre-paid/ Post-paid	In contrast to post-paid contracts, pre-paid communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations
Retail	Sale of goods and services to end users; as opposed to resale or wholesale business
Roaming	Using a communication device or subscriber identity in a different network other than one's home network
SIP	Session Initiation Protocol: an Internet Engineering Task Force (IETF) standard protocol for initiating an interactive user session that involves multimedia elements such as video, voice, chat, gaming, and virtual reality
SIM	Subscriber Identity Module, a chip card to insert into a mobile phone and identifies the user within the network
Smartphone	Wireless handset that can be used as a mobile phone, a web browser, and an e-mail reader simultaneously
SMS	Short Message Service
TU Me	VoIP- and Messaging-App
ULL	Unbundled Local Loop, bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the 'last mile'
UMTS	Universal Mobile Telecommunications Service: International mobile communications standard of the third generation which unites mobile multimedia and telematics service under the frequency spectrum of 2 GHz
WAN	Wide Area Network: a geographically dispersed telecommunications network
Wholesale	Selling services to third parties who sell them to their own end customers either directly or after further processing

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